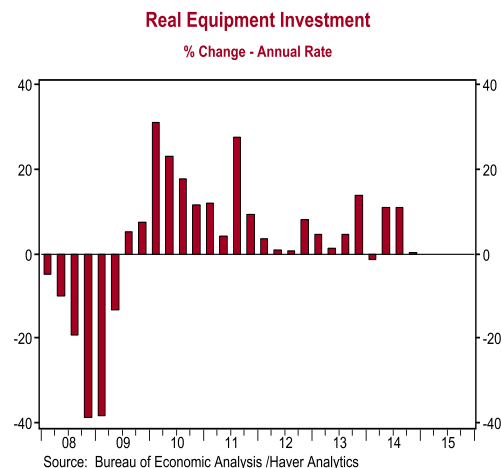


4th Quarter GDP (Final)

Brian S. Wesbury – Chief Economist
 Robert Stein, CFA – Dep. Chief Economist
 Strider Elass – Economist

- Real GDP growth in Q4 was unchanged at a 2.2% annual rate. The consensus had expected 2.4%.
- The largest positive revisions were for consumer spending and net exports, which were offset by a downward revision for inventories.
- The largest positive contributions to the real GDP growth rate in Q4 came from consumer spending and business investment. The weakest component of real GDP, by far, was net exports.
- The GDP price index was unrevised at a 0.1% annualized rate of change. Nominal GDP growth – real GDP plus inflation – was revised up to a 2.4% annual rate versus a prior estimate of 2.3%. Nominal GDP is up 3.7% versus a year ago.

Implications: It’s hard to get more mediocre than the top-line number on Q4 GDP. Real GDP growth for Q4 was unchanged from last month’s reading, up at a 2.2% annual rate. That fell slightly short of the consensus expected 2.4% rate. However, the “mix” of GDP was slightly more favorable for future quarters as inventories were revised down, leaving more room for re-stocking on shelves and in showrooms in future quarters. Personal consumption also rose 4.4% at an annual rate in Q4, the best since the first quarter of 2006. Today was our first glimpse on economy-wide corporate profits for Q4 - they declined 1.4% and are down 0.2% from a year ago. The decline was all due to profits from the “Rest of the World” which fell 8.8%, most likely due to the stronger US dollar. Excluding those, “Domestic Profits” rose 0.3% in Q4 and are up 2.7% from a year ago. Nothing in today’s report changes our view that the Federal Reserve has plenty of reason to start raising short-term interest rates. Nominal GDP (real growth plus inflation) is up 3.7% from a year ago and up at a 4.1% annual rate in the past two years. For comparison, the average annual growth for nominal GDP is 3.5% in the past ten years and 4.4% in the past twenty years. In other words, we’re not that far from normal growth in nominal GDP, but short-term interest rates remain far below normal. Look for a temporary slowdown in real GDP growth in Q1 due to the unusually harsh winter weather in February along with the delays from the west coast port strikes. Right now, we’re forecasting real GDP to grow about 1% at an annual rate in the first quarter. Yet, like last year, real GDP growth should rebound in Q2 and beyond. In other news yesterday, new claims for unemployment insurance declined 9,000 last week to 282,000. Continuing claims for regular state benefits fell 6,000 to 2.42 million. Plugging these figures into our models suggests nonfarm payrolls grew 241,000 in March, another solid month.



4th Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q4-14	Q3-14	Q2-14	Q1-14	4-Quarter Change
Real GDP	2.2%	5.0%	4.6%	-2.1%	2.4%
GDP Price Index	0.1%	1.4%	2.1%	1.3%	1.2%
Nominal GDP	2.4%	6.4%	6.8%	-0.8%	3.7%
PCE	4.4%	3.2%	2.5%	1.2%	2.9%
Business Investment	4.7%	8.9%	9.7%	1.6%	6.2%
Structures	5.9%	4.8%	12.6%	2.9%	6.5%
Equipment	0.6%	11.0%	11.2%	-1.0%	5.3%
Intellectual Property	10.3%	8.8%	5.5%	4.7%	7.3%
Contributions to GDP Growth (p.pts.)	Q4-14	Q3-14	Q2-14	Q1-14	4Q Avg.
PCE	3.0	2.2	1.8	0.8	1.9
Business Investment	0.6	1.1	1.2	0.2	0.8
Residential Investment	0.1	0.1	0.3	-0.2	0.1
Inventories	-0.1	0.0	1.4	-1.2	0.0
Government	-0.4	0.8	0.3	-0.2	0.2
Net Exports	-1.0	0.8	-0.3	-1.7	-0.6

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