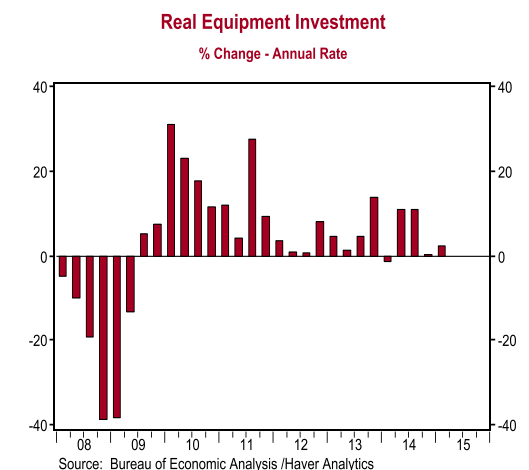


# 1<sup>st</sup> Quarter GDP (Final)

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- Real GDP growth in Q1 was revised up to a -0.2% annual rate versus a prior estimate of -0.7%, matching consensus expectations.
- The upward revision in real GDP growth was due to small upward revisions to almost all categories of GDP, led by consumer spending and inventories, and with the lone exception of business investment in equipment.
- The largest positive contribution to the real GDP growth rate in Q1 came from consumer spending. The weakest component of real GDP, by far, was net exports.
- The GDP price index was revised slightly higher to no change in Q1 from last month's reading of a -0.1% annual rate. Nominal GDP growth – real GDP plus inflation – was revised up to a -0.2% annual rate versus a prior estimate of -0.9%. Nominal GDP is up 3.8% versus a year ago.

**Implications:** Today's final GDP report for the first quarter showed a smaller contraction than previously reported, but still only provides a distorted "rearview mirror" picture of the economy. Real GDP growth declined at a -0.2% annual rate in Q1 versus last month's estimate of -0.7%. However, "final" never really means "final" when it comes to government reports – it will be revised many times in the years ahead. The most recent issue with GDP data is the realization that over recent decades there has been a persistent underestimation of growth in Q1 because of faulty seasonal adjustments. In July, the BEA will attempt to fix this and we expect these revisions to show that real GDP actually increased in Q1, probably at a pace of about 1%. That's still below the roughly 2.5% trend of the past two years, but it will show that port strikes, collapsing oil prices and harsh winter weather didn't undermine growth completely. And, just like last year, we expect growth in Q2 and Q3 to rebound. This supports our view that the Federal Reserve will start raising short-term interest rates by September. We think a rate hike is already overdue. Nominal GDP growth – real GDP growth plus inflation – is up 3.8% from a year ago and up 3.5% annualized in the past two years, much too high for a short-term interest rate near zero. Today's report also provided a second look at overall corporate profits, and just like GDP, the headline was revised higher. Corporate profits declined 5.2% in Q1, better than the originally reported 5.8% decline. The drop in both real GDP and profits resembles what happened in the first quarter of last year, after which profits rebounded sharply. Keep in mind that despite the drop in Q1, corporate profits are still up 4.5% from a year ago.



<b>1st Quarter GDP</b> <i>Seasonally Adjusted Annual Rates</i>	<b>Q1-15</b>	<b>Q4-14</b>	<b>Q3-14</b>	<b>Q2-14</b>	<b>4-Quarter Change</b>
<b>Real GDP</b>	<b>-0.2%</b>	2.2%	5.0%	4.6%	2.9%
<b>GDP Price Index</b>	<b>0.0%</b>	0.1%	1.4%	2.1%	0.9%
<b>Nominal GDP</b>	<b>-0.2%</b>	2.4%	6.4%	6.8%	3.8%
<b>PCE</b>	<b>2.1%</b>	4.4%	3.2%	2.5%	3.1%
<b>Business Investment</b>	<b>-2.0%</b>	4.7%	8.9%	9.7%	5.2%
<b>Structures</b>	<b>-18.8%</b>	5.9%	4.8%	12.6%	0.4%
<b>Equipment</b>	<b>2.6%</b>	0.6%	11.0%	11.2%	6.3%
<b>Intellectual Property</b>	<b>4.9%</b>	10.3%	8.8%	5.5%	7.3%
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q1-15</b>	<b>Q4-14</b>	<b>Q3-14</b>	<b>Q2-14</b>	<b>4Q Avg.</b>
<b>PCE</b>	<b>1.4</b>	3.0	2.2	1.8	2.1
<b>Business Investment</b>	<b>-0.3</b>	0.6	1.1	1.2	0.7
<b>Residential Investment</b>	<b>0.2</b>	0.1	0.1	0.3	0.2
<b>Inventories</b>	<b>0.5</b>	-0.1	0.0	1.4	0.4
<b>Government</b>	<b>-0.1</b>	-0.4	0.8	0.3	0.2
<b>Net Exports</b>	<b>-1.9</b>	-1.0	0.8	-0.3	-0.6

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