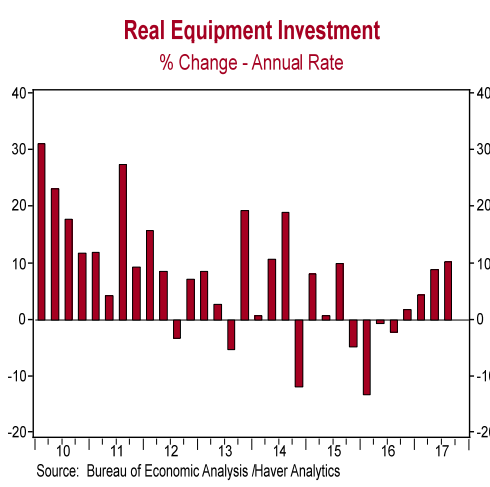
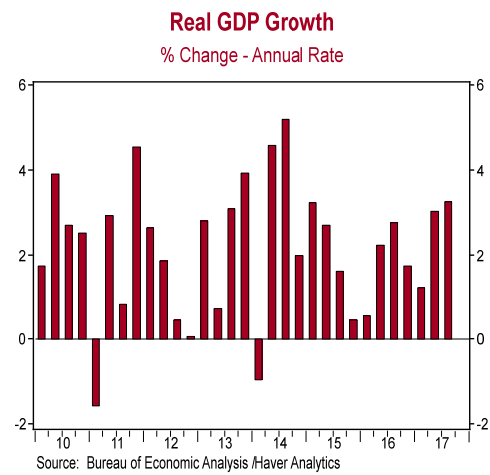


3rd Quarter GDP (Preliminary)

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- Real GDP was revised up to a 3.3% annual growth rate in Q3, versus a consensus expected 3.2% and a prior estimate of 3.0%.
- The upward revision was led by business investment, inventories, and government spending, which offset a slight downward revision to consumer spending.
- The largest positive contribution to the real GDP growth rate in Q3 was personal consumption. The largest drag was home building.
- The GDP price index was revised down to a 2.1% annual growth rate from a prior estimate of 2.2%. Nominal GDP growth – real GDP plus inflation – was revised up to a 5.5% rate from a prior estimate of 5.2%.

Implications: Real GDP growth in the third quarter was revised up to a 3.3% annual rate, the fastest pace in three years. The increase from the prior estimate of 3.0% was largely due to a pickup in business investment. Equipment spending grew at a 10.4% annual rate in Q3, the fastest pace since 2014. Every major category of equipment spending showed healthy growth in Q3. Inventories and government spending were also revised higher with today’s estimate. We like to follow “core” real GDP, which excludes inventories, government purchases, and international trade. Inventories and government don’t generate long-term growth, while the way trade is counted does a bad job of showing that rising imports signal strong spending. Core GDP grew at a 2.3% annual rate in Q3 versus a prior report of 2.2% and is up at a respectable 2.5% annual rate in the past two years. Nominal GDP growth (real growth plus inflation) was revised to 5.5% annual rate in Q3 from a prior estimate of 5.2%. Nominal GDP is up 4.2% in the past year and up at a 3.5% annual rate in the past two years. All of these figures suggest the economy can sustain higher short-term interest rates, which is why we think the Fed will raise rates in December followed by three or four hikes in 2018. Also in today’s GDP report was our first glimpse at economy-wide corporate profits in the third quarter. Profits rose 4.3% in Q3 and are up 5.4% versus a year ago. Plugging economy-wide profits into our capitalized profits models suggest that, even at higher interest rates (such as a 10-year Treasury yield of 3.5%), stocks are still relatively cheap. In other recent news, the Richmond Fed index, a measure of mid-Atlantic manufacturing sentiment, soared to a record high of 30 in November, a big increase from an already healthy 12 in October. On the housing front, prices keep rising. The national Case-Shiller index increased 0.7% in September and is up 6.2% from a year ago. That outstrips the 5.1% gain in the year ending September 2016. The FHFA index, which measures prices for home financed with conforming loans, rose 0.3% in September and is up 6.4% from a year ago, close to the 6.5% gain in the year ending September 2016. Pending home sales, which are contracts on existing homes, rose 3.5% in October after a 0.4% decline in September. These figures suggest existing home sales, which are counted at closing, will be up slightly in November.



3rd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q3-17	Q2-17	Q1-17	Q4-16	4-Quarter Change
Real GDP	3.3%	3.1%	1.2%	1.8%	2.3%
GDP Price Index	2.1%	1.0%	2.0%	2.0%	1.8%
Nominal GDP	5.5%	4.1%	3.3%	3.8%	4.2%
PCE	2.3%	3.3%	1.9%	2.9%	2.6%
Business Investment	4.7%	6.7%	7.1%	0.2%	4.6%
Structures	-6.8%	7.0%	14.8%	-2.2%	2.9%
Equipment	10.4%	8.8%	4.4%	1.8%	6.3%
Intellectual Property	5.8%	3.7%	5.8%	-0.4%	3.7%
Contributions to GDP Growth (p.pts.)	Q3-17	Q2-17	Q1-17	Q4-16	4Q Avg.
PCE	1.6	2.2	1.3	2.0	1.8
Business Investment	0.6	0.8	0.9	0.0	0.6
Residential Investment	-0.2	-0.3	0.4	0.3	0.0
Inventories	0.8	0.1	-1.5	1.1	0.1
Government	0.1	0.0	-0.1	0.0	0.0
Net Exports	0.4	0.2	0.2	-1.6	-0.2

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