First Trust DATAWATCH

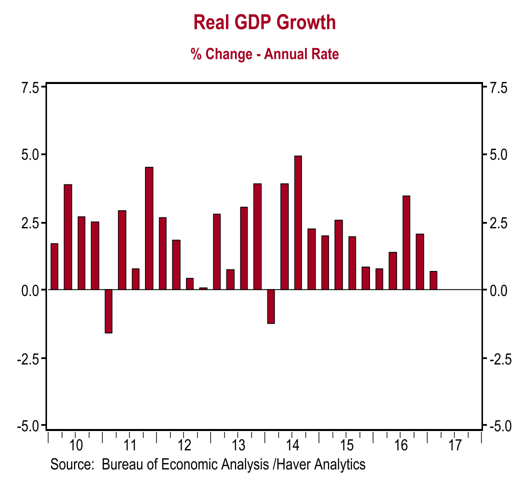
April 28, 2017 • 630.517.7756 • www.ftportfolios.com

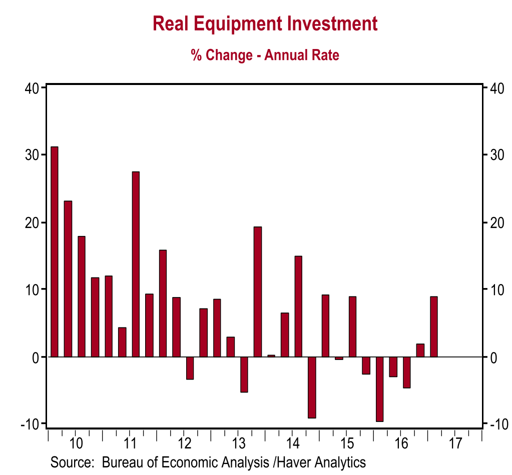
First Quarter GDP (Advance)

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

- The first estimate for Q1 real GDP growth is 0.7% at an annual rate, slightly below the consensus expected 1.0%. Real GDP is up 1.9% from a year ago.
- Business investment in equipment and structures were the largest positive contributions to Q1 real GDP growth. Slower growth in inventories was the largest drag on real GDP.
- Personal consumption, business investment, and home building, what could be called "core private GDP," grew at a 2.2% annual rate in Q1 and is up 2.8% from a year ago.
- The GDP price index increased at a 2.3% annual rate in Q1. Nominal GDP – real GDP plus inflation – rose at a 3.0% rate in Q1 and is up 4.0% from a year ago.

Implications: Nothing in today's report should shift the Federal Reserve away from raising short-term rates at least twice more this year and starting to trim its balance sheet. Although real GDP expanded at only a 0.7% annual rate in the first quarter, the soft headline was dragged down by slower inventory accumulation, which we expect to pick back up in the quarters ahead. To check the underlying trend in real GDP growth, we like to take out inventories, international trade, and government spending, none of which can be relied on for long-term growth. What's left are consumer spending, business investment, and home building, what we also call "core GDP." That grew at a 2.2% annual rate in Q1, is up 2.8% from a year ago, and is up at a 2.6% annual rate in the past two years. Business fixed investment soared in the first quarter, growing at a 9.4% annual rate, the fastest pace since 2013. Business investment slowed after oil prices collapsed but is now turning as those prices recover and fiscal policies improve. Meanwhile, home building grew at a 13.7% annual rate, the fastest pace since 2015. We expect gains in housing to continue as builders are still not constructing enough homes to keep up with population growth and scrappage. Consumer spending grew at only a 0.3% annual rate in Q1, but was held down by auto sales, which are often volatile, and low utility use (due to relatively warm winter weather in January and February). This report suggests that the Federal Reserve should remain on course to raise rates in June. Nominal GDP (real GDP growth plus inflation) grew at a 3.0% annual rate in Q1, is up 4.0% from a year ago, and is up at a 3.4% annual rate in the past two years. All of these figures suggest the Fed can raise rates without hurting the economy. In other recent news, pending home sales, which are contracts on existing homes, slipped 0.8% in March after a 5.5% surge in February. These figures suggest a modest increase in existing home sales in April, to a new high for the recovery.





1st Quarter GDP Seasonally Adjusted Annual Rates	Q1-17	Q4-16	Q3-16	Q2-16	4-Quarter Change
Real GDP	0.7%	2.1%	3.5%	1.4%	1.9%
GDP Price Index	2.3%	2.1%	1.4%	2.3%	2.0%
Nominal GDP	3.0%	4.2%	5.0%	3.7%	4.0%
PCE	0.3%	3.5%	3.0%	4.3%	2.8%
Business Investment	9.4%	0.9%	1.4%	1.0%	3.1%
Structures	22.1%	-1.9%	12.0%	-2.1%	7.1%
Equipment	9.1%	2.0%	-4.5%	-3.0%	0.8%
Intellectual Property	2.0%	1.3%	3.2%	9.0%	3.8%
Contributions to GDP Growth (p.pts.)	**Q1-17**	**Q4-16**	**Q3-16**	**Q2-16**	**4Q Avg.**
PCE	0.2	2.4	2.0	2.9	1.9
Business Investment	1.1	0.1	0.2	0.1	0.4
Residential Investment	0.5	0.4	-0.2	-0.3	0.1
Inventories	-0.9	1.0	0.5	-1.2	-0.1
Government	-0.3	0.0	0.1	-0.3	-0.1
Net Exports	0.1	-1.8	0.9	0.2	-0.2