

## Prepare for Q2 GDP Surge

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

Economic data is volatile. Weather, seasonal adjustments, calendar flukes, and measurement errors all affect the data. Nonetheless, those with a political axe to grind, or an economic forecast of recession or boom, will grab one piece of data and act as if they have discovered the Holy Grail.

This happened with Q1 real GDP, which grew just 0.7%. Pessimists went into a tizzy, but they shouldn't have. We think the Plow Horse economy, with all its features, both good and bad, is still fully intact.

Despite the soft Q1 report, real GDP was up 1.9% from a year ago, very close to the trend. The pace of inventory accumulation fell, pulling down the number. This is unlikely to continue. "Core" GDP, which excludes inventories, government spending, and trade with the rest of the world - none of which can be counted on for sustainable growth - grew at a 2.2% pace in Q1 and is up 2.8% from a year ago.

In fact, there were some key signs of a pick-up in growth ahead. Business fixed investment soared in the first quarter, growing at a 9.4% annual rate, the fastest pace for any quarter since 2013. And corporate profits are accelerating. With roughly 60% of the S&P 500 having reported for Q1 so far, earnings are up about 15.6% from a year ago.

Meanwhile, home building grew at a 13.7% annual rate in Q1, the fastest pace for any quarter since 2015. Although the recovery in home building is about seven years old, we expect gains in housing to continue for at least the next couple of years as builders battle pent-up demand from population growth, scrappage, and years of under-building.

Yes, consumer spending grew at only a 0.3% annual rate in Q1, but a few extenuating circumstances suggest a hearty rebound in Q2. First, autos sales were unusually weak in Q1, in part a reflection of an unusually late March snowstorm in the East. (We get April auto sales data tomorrow, and we expect a pickup in pace.) Second, unusually warm weather in January and February suppressed utility (heating) output. Third, that same warm weather may have suppressed winter clothing sales.

As these patterns reverse, growth will bounce. Although it's still early, we are looking for real GDP to grow at a 3.5% annual rate in Q2. That would put the first half of the year at a growth rate of 2.1%, right at the Plow Horse trend.

Even more important, the Trump Administration looks serious about supply-side tax cuts that will boost the economy's long-term growth potential. If and when these policies get enacted, that's when GDP will finally accelerate.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
5-1 / 7:30 am	Personal Income – Mar	+0.3%	<b>+0.3%</b>	+0.2%	+0.3%
7:30 am	Personal Spending – Mar	+0.2%	<b>+0.1%</b>	0.0%	0.0%
9:00 am	ISM Index – Apr	56.5	<b>56.7</b>	54.8	57.2
9:00 am	Construction Spending – Mar	+0.4%	<b>+0.5%</b>	-0.2%	+1.8%
5-2 / Afternoon	Total Car/Truck Sales – Apr	17.1 Mil	<b>17.1 Mil</b>		16.5 Mil
Afternoon	Domestic Car/Truck Sales – Apr	13.4 Mil	<b>13.3 Mil</b>		13.0 Mil
5-3 / 9:00 am	ISM Non Mfg Index – Apr	55.8	<b>56.0</b>		55.2
5-4 / 7:30 am	Initial Claims – April 29	249K	<b>245K</b>		257K
7:30 am	Q1 Non-Farm Productivity	0.0%	<b>+0.1%</b>		+1.3%
7:30 am	Q1 Unit Labor Costs	+2.7%	<b>+2.6%</b>		+1.7%
7:30 am	Int'l Trade Balance – Mar	-\$44.5 Bil	<b>-\$43.6 Bil</b>		-\$43.6 Bil
9:00 am	Factory Orders – Mar	+0.4%	<b>-0.3%</b>		+1.0%
5-5 / 7:30 am	Non-Farm Payrolls – Apr	190K	<b>206K</b>		98K
7:30 am	Private Payrolls – Apr	190K	<b>200K</b>		89K
7:30 am	Manufacturing Payrolls – Apr	10K	<b>17K</b>		11K
7:30 am	Unemployment Rate – Apr	4.6%	<b>4.5%</b>		4.5%
7:30 am	Average Hourly Earnings – Apr	+0.3%	<b>+0.2%</b>		+0.2%
7:30 am	Average Weekly Hours – Apr	34.4	<b>34.4</b>		34.3
2:00 pm	Consumer Credit – Mar	\$14.0 Bil	<b>\$20.8 Bil</b>		\$15.2 Bil