First Trust DATAWATCH

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2nd Quarter GDP (Preliminary)

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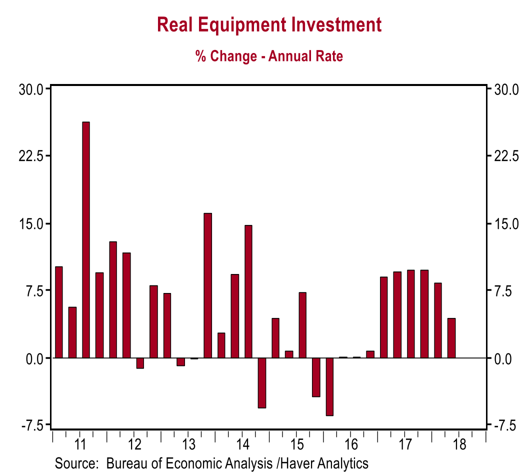
- Real GDP was revised to a 4.2% annual growth rate in Q2 from a prior estimate of 4.1%, beating the consensus expected 4.0%.
- The upward revision was mainly due to faster growth in business investment in intellectual property as well as net exports.
- The largest positive contribution to the real GDP growth rate in Q2 was personal consumption. The largest drag was inventories.
- The GDP price index was revised to a 2.2% annual rate of change. Nominal GDP growth – real GDP plus inflation – was revised higher to a 7.6% annual rate from a prior estimate of 7.4%.



Implications: Hold off on GDP for a moment. The most important data this morning was that corporate profits grew 3.3% in the second quarter and are up 7.7% in the past year, hitting a new all-time record high. This is the key reason for the continued bull market in US equities and, with tax cuts, is likely to continue. Meanwhile, real GDP growth was revised up a tick to a 4.2% annual rate in Q2, beating the consensus expected 4.0%. The largest upward revisions to growth came from business investment in intellectual property as well as net exports, although all the revisions to various components of GDP were small. We like to follow "core" real GDP, which excludes inventories, government purchases, and international trade. (Inventories and government are not helpful for long-term growth, while the way trade is counted does a bad job of demonstrating that rising imports signal strong spending.) Core GDP grew at an unrevised 4.3% annual rate in Q2 and is up at a 3.1% annual rate in the past two years. Nominal GDP growth (real growth plus inflation) was revised to a 7.6% annual rate in Q2 from a prior estimate of 7.4%. Nominal GDP is up 5.4% in the past year and up at a 4.6% 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 still think the Fed will raise rates in September and December, as well as four times next year. By contrast, the futures market in federal funds is putting less than 2% odds on six or more rate hikes (a total of 150 basis points) from now through the end of 2019. As the market moves toward our view, long-term Treasury yields should move up as well. In other recent economic news, the Richmond Fed index, which measures mid-Atlantic factory sentiment, increased to 24 in August from 20 in July. On the housing front, the national Case-Shiller home price index, rose 0.3% in June and is up 6.2% from a year ago. That's an acceleration from the 5.7% gain in home prices in the year ending in June 2017. In the past twelve months, price gains have been led by Las Vegas, Seattle, and San Francisco, although all 20 major metropolitan areas around the country have shown gains. In other housing news, pending home sales, which are contracts on existing homes, slipped 0.7% in July after gaining 1.0% in June. These figures suggest a slight gain in existing home sales in August.

1st Quarter GDP *Seasonally Adjusted Annual Rates*	**Q2-18**	**Q1-18**	**Q4-17**	**Q3-17**	**4-Quarter Change**
Real GDP	**4.2%**	2.2%	2.3%	2.8%	2.9%
GDP Price Index	**2.2%**	2.3%	2.1%	1.0%	1.9%
Nominal GDP	**7.6%**	4.3%	5.1%	4.8%	5.4%
PCE	**3.8%**	0.5%	3.9%	2.2%	2.6%
Business Investment	**8.5%**	11.5%	4.9%	3.4%	7.0%
Structures	**13.2%**	13.9%	1.3%	-5.8%	5.3%
Equipment	**4.4%**	8.5%	9.9%	9.8%	8.1%
Intellectual Property	**11.0%**	14.1%	0.7%	1.7%	6.7%
Contributions to GDP Growth (p.pts.)	**Q2-18**	**Q1-18**	**Q4-17**	**Q3-17**	**4Q Avg.**
PCE	**2.6**	0.4	2.6	1.5	1.8
Business Investment	**1.1**	1.5	0.6	0.5	0.9
Residential Investment	**-0.1**	-0.1	0.4	0.0	0.0
Inventories	**-1.0**	0.3	-0.9	1.0	-0.1
Government	**0.4**	0.3	0.4	-0.2	0.2
Net Exports	**1.2**	0.0	-0.9	0.0	0.1