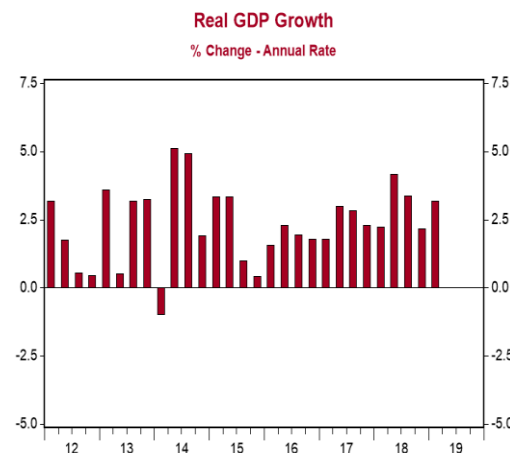


# First Quarter GDP (Advance)

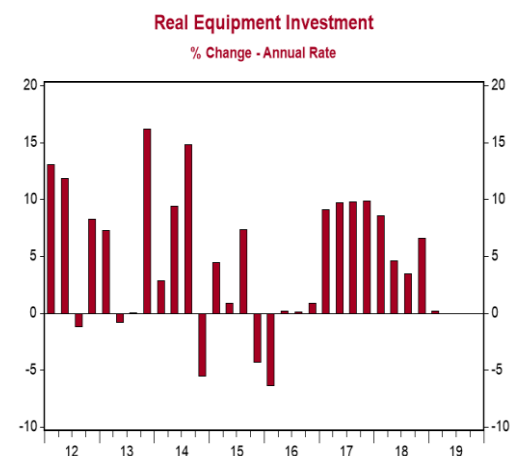
**Brian S. Wesbury** – Chief Economist  
**Robert Stein, CFA** – Dep. Chief Economist  
**Strider Elass** – Economist

- The first estimate for Q1 real GDP growth is 3.2% at an annual rate, beating the consensus expected 2.3%. Real GDP is also up 3.2% from a year ago.
- Net exports, consumer spending, and inventories made the largest positive contributions to Q1 real GDP growth. The largest drag on GDP growth was home building.
- Personal consumption, business investment, and home building, what could be called "core private GDP," grew at a 1.3% annual rate in Q1 and is up 2.8% from a year ago.
- The GDP price index increased at a 0.9% annual rate in Q1. Nominal GDP – real GDP plus inflation – rose at a 3.8% rate in Q1 and is up 5.1% in the past year.

**Implications:** Real GDP grew at a 3.2% annual rate in the first quarter, beating the forecast from every economics group and crushing forecasts from as recently as a couple of months ago that the economy would start the year by barely growing at all. What's impressive about this is that in recent years the first quarter has tended to be slower than the rest of the year; from 2010 through 2018, Q1 real GDP growth averaged 1.7% annualized versus 2.5% for the other three quarters. The 3.2% annualized gain this year in the first quarter is 1.5 percentage points above the average from 2010-18. The largest positive contributions to Q1 real GDP came from net exports, consumer spending, and inventories, while home building was the largest drag. One issue for the next few quarters, which may cut against the usual pattern of the next three quarters being faster than the first quarter, is that businesses accumulated inventories at a very rapid pace in Q1. A return to a more average pace of inventory accumulation later this year could be a temporary drag on growth. That's why we also like to follow "core GDP," which is the growth rate of real GDP excluding net exports, inventories, and government purchases. Core GDP grew at a 1.3% rate in Q1 and is up 2.8% from a year ago while overall real GDP is up 3.2% in the past year. Putting all this information together, and considering the ongoing positive effects of the tax cut and deregulation, we think real GDP will grow at a about a 3.0% annual rate in 2019, which would be the third year in a row above the Plow Horse pace of roughly 2.0% growth from the start of the expansion through early 2017. Meanwhile, nothing in today's report suggests the Federal Reserve should deliver a rate cut later this year. Nominal GDP – real GDP growth plus inflation – grew at a 3.8% annual rate in Q1, is up 5.1% from a year ago, and up at a 4.8% pace in the past two years, all figures comfortably above the federal funds rate of 2.375% and signaling that the economy could handle a rate hike, instead. That said, due to undue fears of an inverted yield curve, don't expect a rate hike until the yield on the 10-year Treasury Note is at least 3.00%.



Source: Bureau of Economic Analysis/Haver Analytics



Source: Bureau of Economic Analysis/Haver Analytics

1st Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q1-19	Q4-18	Q3-18	Q2-18	4-Quarter Change
<b>Real GDP</b>	<b>3.2%</b>	2.2%	3.4%	4.2%	3.2%
<b>GDP Price Index</b>	<b>0.9%</b>	1.7%	1.8%	3.0%	1.9%
<b>Nominal GDP</b>	<b>3.8%</b>	4.1%	4.9%	7.6%	5.1%
<b>PCE</b>	<b>1.2%</b>	2.5%	3.5%	3.8%	2.7%
<b>Business Investment</b>	<b>2.7%</b>	5.4%	2.5%	8.7%	4.8%
<b>Structures</b>	<b>-0.8%</b>	-3.9%	-3.4%	14.5%	1.3%
<b>Equipment</b>	<b>0.2%</b>	6.6%	3.4%	4.6%	3.7%
<b>Intellectual Property</b>	<b>8.6%</b>	10.7%	5.6%	10.5%	8.9%
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q1-19</b>	<b>Q4-18</b>	<b>Q3-18</b>	<b>Q2-18</b>	<b>4Q Avg.</b>
<b>PCE</b>	<b>0.8</b>	1.7	2.4	2.6	1.9
<b>Business Investment</b>	<b>0.4</b>	0.7	0.4	1.2	0.7
<b>Residential Investment</b>	<b>-0.1</b>	-0.2	-0.1	-0.1	-0.1
<b>Inventories</b>	<b>0.7</b>	0.1	2.3	-1.2	0.5
<b>Government</b>	<b>0.4</b>	-0.1	0.4	0.4	0.3
<b>Net Exports</b>	<b>1.0</b>	-0.1	-2.0	1.2	0.0

Source: Bureau of Economic Analysis

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.