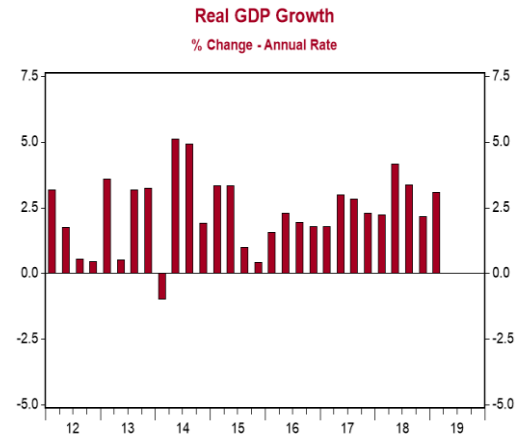


# 1st Quarter GDP (Preliminary)

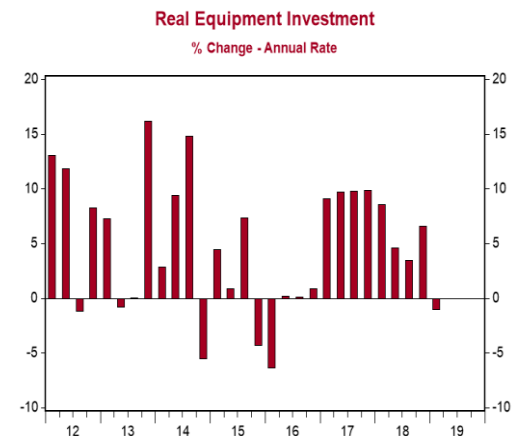
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- Real GDP growth in Q1 was revised to a 3.1% annual rate from a prior estimate of 3.2%, coming in slightly above the consensus expected 3.0%.
- Business investment and net exports were revised down slightly. Personal consumption was revised up slightly.
- The largest positive contribution to the real GDP growth rate in Q1 came from net exports. The weakest component was residential investment.
- The GDP price index was revised slightly lower to a 0.8% annual rate from a prior estimate of 0.9%. Nominal GDP growth – real GDP plus inflation – was revised down to a 3.6% annual rate from a prior estimate of 3.8%.

**Implications:** Real GDP growth was revised modestly lower for the first quarter, but the “mix” of growth is now slightly more favorable for a pickup in future quarters. The second reading for Q1 real GDP growth was revised ever so slightly to a 3.1% annual rate from a prior estimate of 3.2%. The downward revision was due to slower growth in business investment, net exports, inventories, and residential investment. Meanwhile, personal consumption was revised higher, now growing at a 1.3% annual rate in Q1. Compared to a year ago, real GDP is up 3.2%. The most disappointing news in today’s report was that economy-wide corporate profits slipped 2.8% in Q1. However, they’re still up 3.1% in the past year. The drop in Q1 was due to declines in profits at domestic nonfinancial companies, as well as profits from the rest of the world. Although some analysts are saying profits have peaked, we think the story of 2019-20 will be that profit *growth* peaked in 2018, but the *level* of profits will continue to trend higher. Our capitalized profits model suggests US equities remain cheap, not only at today’s interest rates but even using a 10-year Treasury yield of 3.5%. Today’s report is also a reminder that the Federal Reserve has no reason to cut short-term interest rates. Nominal GDP growth (real growth plus inflation), was revised slightly lower to a 3.6% annual growth rate in Q1 versus a prior estimate of 3.8%. Still, nominal GDP is up 5.0% from a year ago and is up at a 4.8% annual rate in the past two years. These figures suggest no need for rate cuts. In other news this morning, new claims for unemployment insurance rose 3,000 last week to 215,000. Continuing claims fell 26,000 to 1.657 million. These claims figures are both at very low levels, suggesting solid payroll growth in May. On the housing front today, pending home sales, which are contracts on existing homes, declined 1.5% in April after a 3.9% surge in March. Combined, these figures suggest an increase in existing home closings in May. In other housing news from earlier this week, two measures of prices show national average home prices continue to rise, but at a slower rate. The national Case-Shiller index rose 0.3% in March and is up 3.7% from a year ago, a significant slowdown from the 6.5% gain in the year ending in March 2018. In the past twelve months, price gains were led by Las Vegas, Phoenix, and Tampa, while the slowest price gains have been in San Francisco, Los Angeles, and San Diego. The FHFA index, which measures prices for homes financed with conforming mortgages, increased 0.1% in March, and is up 5.0% from a year ago, a deceleration from the 7.3% gain in the year ending in March 2018. On the manufacturing front, the Richmond Fed index, which measures mid-Atlantic factory sentiment, rose to 5 in May from 3 in April. This gain, as well as readings from other regional surveys, suggests an increase in the national ISM Manufacturing index, out Monday.



Source: Bureau of Economic Analysis/Haver Analytics



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| 1st Quarter GDP                             | Q1-19        | Q4-18        | Q3-18        | Q2-18        | 4-Quarter Change |
|---|--------------|--------------|--------------|--------------|------------------|
| <i>Seasonally Adjusted Annual Rates</i>     |              |              |              |              |                  |
| <b>Real GDP</b>                             | <b>3.1%</b>  | 2.2%         | 3.4%         | 4.2%         | 3.2%             |
| <b>GDP Price Index</b>                      | <b>0.8%</b>  | 1.7%         | 1.8%         | 3.0%         | 1.8%             |
| <b>Nominal GDP</b>                          | <b>3.6%</b>  | 4.1%         | 4.9%         | 7.6%         | 5.0%             |
| <b>PCE</b>                                  | <b>1.3%</b>  | 2.5%         | 3.5%         | 3.8%         | 2.8%             |
| <b>Business Investment</b>                  | <b>2.3%</b>  | 5.4%         | 2.5%         | 8.7%         | 4.7%             |
| <b>Structures</b>                           | <b>1.7%</b>  | -3.9%        | -3.4%        | 14.5%        | 2.0%             |
| <b>Equipment</b>                            | <b>-1.0%</b> | 6.6%         | 3.4%         | 4.6%         | 3.3%             |
| <b>Intellectual Property</b>                | <b>7.2%</b>  | 10.7%        | 5.6%         | 10.5%        | 8.5%             |
| <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>0.9</b>   | 1.7          | 2.4          | 2.6          | 1.9              |
| <b>Business Investment</b>                  | <b>0.3</b>   | 0.7          | 0.4          | 1.2          | 0.6              |
| <b>Residential Investment</b>               | <b>-0.1</b>  | -0.2         | -0.1         | -0.1         | -0.1             |
| <b>Inventories</b>                          | <b>0.6</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