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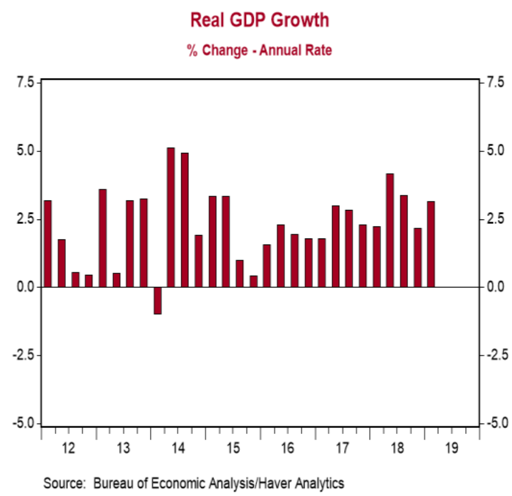
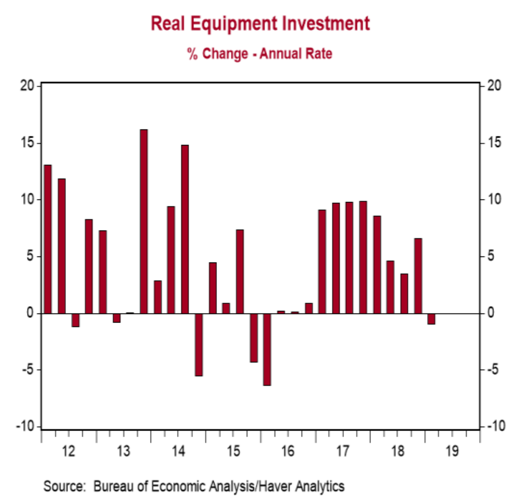
1st Quarter GDP (Final)

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

- Real GDP growth in Q1 was unrevised, coming in at a 3.1% annual rate, slightly below the consensus expected 3.2%.
- Upward revisions to business investment roughly offset downward revisions to personal consumption, with minor revisions to inventories and net exports.
- The largest positive contribution to the real GDP growth rate in Q1 came from net exports.
- The GDP price index was revised higher to a 0.9% annual rate. Nominal GDP growth – real GDP plus inflation – was revised higher to 3.8% at an annual rate from the prior estimate of 3.6%. Nominal GDP is up 5.1% versus a year ago.





Implications: Today's "final" GDP report for the first quarter showed the same strong pace of growth that was estimated last month, and slightly higher corporate profits compared to prior readings. Real GDP grew at a 3.1% annual rate in Q1 unchanged from last month, but the "mix" of growth changed a bit. Personal consumption was revised lower, along with slight downward revisions to net exports and inventories, while business investment, residential investment and government spending were revised higher than previously thought. And with just a few days left in June, we're estimating that real GDP grew at around a 2.0% annual rate in Q2. Meanwhile, economy-wide corporate profits were revised higher, and now show a smaller 2.6% decline in Q1 from Q4. Corporate profits are up 3.4% from a year ago. 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, although they are highly likely to in July. Nominal GDP growth (real growth plus inflation), was revised slightly higher to a 3.8% annual growth rate in Q1 versus a prior estimate of 3.6%. Nominal GDP is now up 5.1% 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 10,000 last week to 227,000. Initial claims have now been at or below 250,000 for a record ninety consecutive weeks. Continuing claims increased 22,000 to 1.688 million. These claims figures are both at very low levels, suggesting solid payroll growth in June. On the housing front today, pending home sales, which are contracts on existing homes, rose 1.1% in May, suggesting an increase in existing home closings in June.

1st Quarter GDP *Seasonally Adjusted Annual Rates*	Q1-19	Q4-18	Q3-18	Q2-18	4-Quarter Change
Real GDP	**3.1%**	2.2%	3.4%	4.2%	3.2%
GDP Price Index	**0.9%**	1.7%	1.8%	3.0%	1.9%
Nominal GDP	**3.8%**	4.1%	4.9%	7.6%	5.1%
PCE	**0.9%**	2.5%	3.5%	3.8%	2.7%
Business Investment	**4.4%**	5.4%	2.5%	8.7%	5.3%
Structures	**4.4%**	-3.9%	-3.4%	14.5%	2.6%
Equipment	**-1.0%**	6.6%	3.4%	4.6%	3.4%
Intellectual Property	**12.0%**	10.7%	5.6%	10.5%	9.7%
Contributions to GDP Growth (p.pts.)	**Q1-19**	**Q4-18**	**Q3-18**	**Q2-18**	**4Q Avg.**
PCE	**0.6**	1.7	2.4	2.6	1.8
Business Investment	**0.6**	0.7	0.4	1.2	0.7
Residential Investment	**-0.1**	-0.2	-0.1	-0.1	-0.1
Inventories	**0.6**	0.1	2.3	-1.2	0.5
Government	**0.5**	-0.1	0.4	0.4	0.3
Net Exports	**0.9**	-0.1	-2.0	1.2	0.0

Source: Bureau or Economic Analysis