First Trust DATAWATCH

April 29, 2020 • 630.517.7756 • www.ftportfolios.com

First Quarter GDP (Advance)

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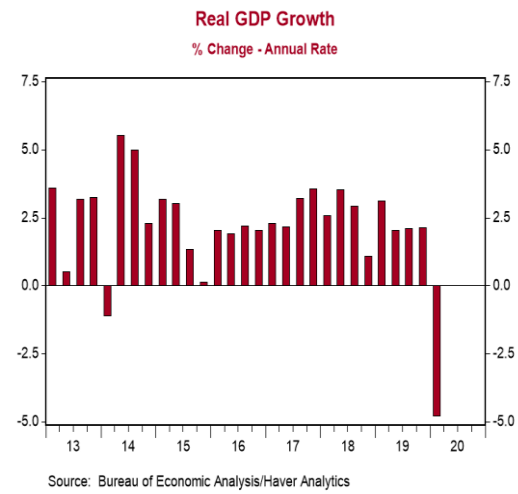
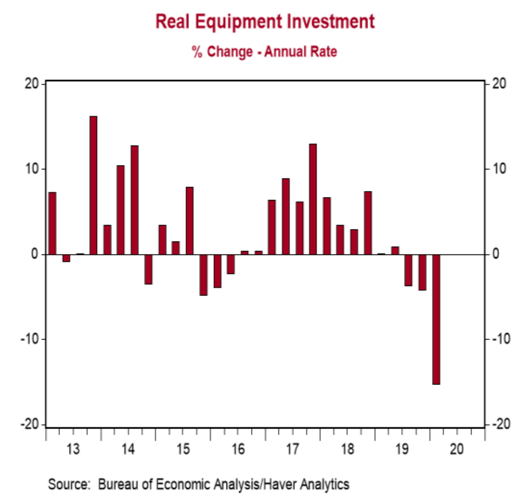
- The first estimate for Q1 real GDP growth is -4.8% at an annual rate, lagging the consensus expected -4.0%. Real GDP is up only 0.3% from a year ago.
- Consumer spending was, by far, the largest drag on Q1 real GDP growth, with business investment in equipment, commercial construction, and inventories down, as well. Net exports and home building made large positive contributions to real GDP growth.
- Personal consumption, business investment, and home building, what could be called "core private GDP," fell at a 6.6% annual rate in Q1 and is unchanged from a year ago.
- The GDP price index increased at a 1.3% annual rate in Q1. Nominal GDP – real GDP plus inflation – dropped at a 3.5% rate in Q1 and is up 2.1% in the past year.





Implications: Real GDP fell at 4.8% annual rate in the first quarter, the largest drop since late 2008. Considering that the economy was cruising along at moderate growth through February, this signals an unprecedented monthly drop in economic activity in March. This drop obviously continued through April and therefore suggests an even deeper plunge in real GDP growth in Q2. We are penciling-in -30%, but the key factors determining the plunge are outside the realm of normal economics, including the pace of the spread of COVID19, the easing of legal restrictions on activity, as well as the development of therapies for the illness. To put -30% in perspective, the worst quarter since the winddown from World War II was -10% in the first quarter of 1958 on the heels of the Asian Flu. In the meantime, the drop in real GDP in Q1 this year was led by consumer spending, particularly spending on services, which fell at a 10.2% annual rate. The largest drops for services were for health care, restaurants & bars, recreation, and transportation. The slide in health care may seem odd, but many people are staying away from hospitals as well as the offices of doctors and dentists unless they have a very serious condition. Real (inflation-adjusted) spending on goods declined 1.3% overall, including large drops for autos and apparel, while food and beverages purchased for off-premise consumption rose at the fastest pace on record. Some observers may take heart in the reduction in the trade deficit in Q1. But the decline wasn't because of an increase in exports, which would have been good news, it was because imports fell faster than exports. Total trade declined at a 12.6% annual rate; not a good sign. One odd part of the report was that inventories only declined at a $16.3 billion annual rate in Q1, suggesting a bigger inventory reduction may be waiting in Q2. On the inflation front, the GDP deflator rose at a 1.3% annual rate in Q1, but we expect a negative print for Q2 based on the drop in commodity prices. In other recent news, the Richmond Fed index, a measure of mid-Atlantic factory sentiment, fell to -53 in April from +2 in March. That figure is the lowest on record. For perspective, the lowest during the Great Recession was -44 in February 2009. On the housing front, the Case-Shiller national home price index rose 0.5% in February and was up 4.2% from a year ago. Our best guess is that COVID19 will not greatly affect housing prices in the short run as both buyers and sellers flee the market.

4th Quarter GDP Seasonally Adjusted Annual Rates	Q1-20	Q4-19	Q3-19	Q2-19	4-Quarter Change
Real GDP	-4.8%	2.1%	2.1%	2.0%	0.3%
GDP Price Index	1.3%	1.3%	1.8%	2.4%	1.7%
Nominal GDP	-3.5%	3.5%	3.8%	4.7%	2.1%
PCE	-7.6%	1.8%	3.1%	4.6%	0.4%
Business Investment	-8.6%	-2.5%	-2.3%	-1.0%	-3.6%
Structures	-9.7%	-7.3%	-9.9%	-11.1%	-9.5%
Equipment	-15.3%	-4.2%	-3.8%	0.8%	-5.8%
Intellectual Property	0.4%	2.8%	4.6%	3.6%	2.9%
Contributions to GDP Growth (p.pts.)	**Q1-20**	**Q4-19**	**Q3-19**	**Q2-19**	**4Q Avg.**
PCE	-5.3	1.2	2.1	3.0	0.3
Business Investment	-1.2	-0.3	-0.3	-0.1	-0.5
Residential Investment	0.7	0.2	0.2	-0.1	0.3
Inventories	-0.5	-1.0	0.0	-0.9	-0.6
Government	0.1	0.4	0.3	0.8	0.4
Net Exports	1.3	1.5	-0.1	-0.7	0.5

Source: Bureau or Economic Analysis