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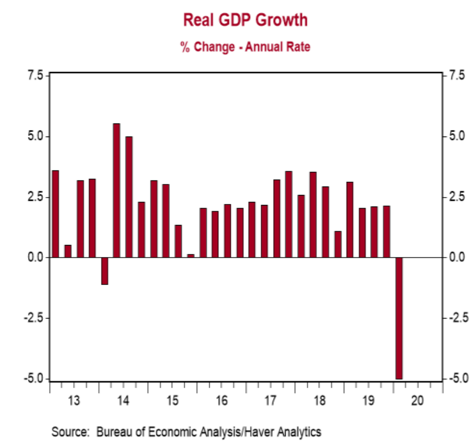
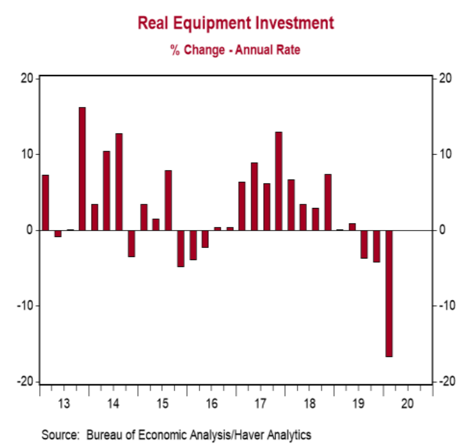
May 28, 2020 • 630.517.7756 • www.ftportfolios.com

1st Quarter GDP (Preliminary)

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

- Real GDP growth in Q1 was revised to a -5.0% annual rate from a prior estimate of -4.8%, narrowly lagging the consensus expected -4.8.
- The largest downward revision, by far, was inventories. Most other categories were revised upward, particularly consumer spending.
- Even with the upward revisions, the weakest component of real GDP in Q1 was consumer spending, followed by inventories and business investment in equipment. The largest positive contribution to Q1 real GDP came from net exports, followed by home building.
- The GDP price index was revised slightly higher to a 1.4% annual rate from a prior estimate of 1.3%. Nominal GDP growth – real GDP plus inflation – remained at a 3.5% annual rate.





Implications: First quarter real GDP was revised lower to a -5.0% annual rate from a prior estimate of -4.8%, with the downward revisions mainly due to much lower inventory accumulation. That leaves more room for future replenishment of shelves and showrooms, but probably not until late this year or early next year. Real consumer spending was also revised up, particularly purchases of food & beverages as well as light trucks, although personal spending still declined at a 6.8% annual rate in Q1; so still bad news but less bad than previously thought. The economic hit caused by the Coronavirus and related shutdowns started in March, which was only one month of Q1; the second quarter will take a much more significant hit, which we're currently estimating at a -35% annual rate. To put -35% 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. It will be historic, but states are opening, and it looks like there's a good chance the economy will start to resume growth in June, with April being the worst month of the short, but steep, recession. Today we also got our first look at economy-wide corporate profits in the first quarter and it's as ugly as could be expected. Overall profits declined 13.9% in Q1 and are now down 8.5% in the past year. Expect further significant declines in corporate profits in the second quarter as the economy contracted further. Even with the drop in profits, 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 1.25%. On the housing front, pending home sales, which are contracts on existing homes, fell 21.8% in April after a 20.8% drop in March. This suggests another steep decline in existing home closings in May.

4th Quarter GDP Seasonally Adjusted Annual Rates	Q1-20	Q4-19	Q3-19	Q2-19	4-Quarter Change
Real GDP	**-5.0%**	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	**-6.8%**	1.8%	3.1%	4.6%	0.6%
Business Investment	**-7.9%**	-2.5%	-2.3%	-1.0%	-3.4%
Structures	**-3.9%**	-7.3%	-9.9%	-11.1%	-8.1%
Equipment	**-16.7%**	-4.2%	-3.8%	0.8%	-6.2%
Intellectual Property	**1.0%**	2.8%	4.6%	3.6%	3.0%
Contributions to GDP Growth (p.pts.)	**Q1-20**	**Q4-19**	**Q3-19**	**Q2-19**	**4Q Avg.**
PCE	**-4.7**	1.2	2.1	3.0	0.4
Business Investment	**-1.1**	-0.3	-0.3	-0.1	-0.5
Residential Investment	**0.7**	0.2	0.2	-0.1	0.2
Inventories	**-1.4**	-1.0	0.0	-0.9	-0.8
Government	**0.2**	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