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TRENDMACRO LIVE!

On Q1 GDP

Wednesday, April 30, 2014

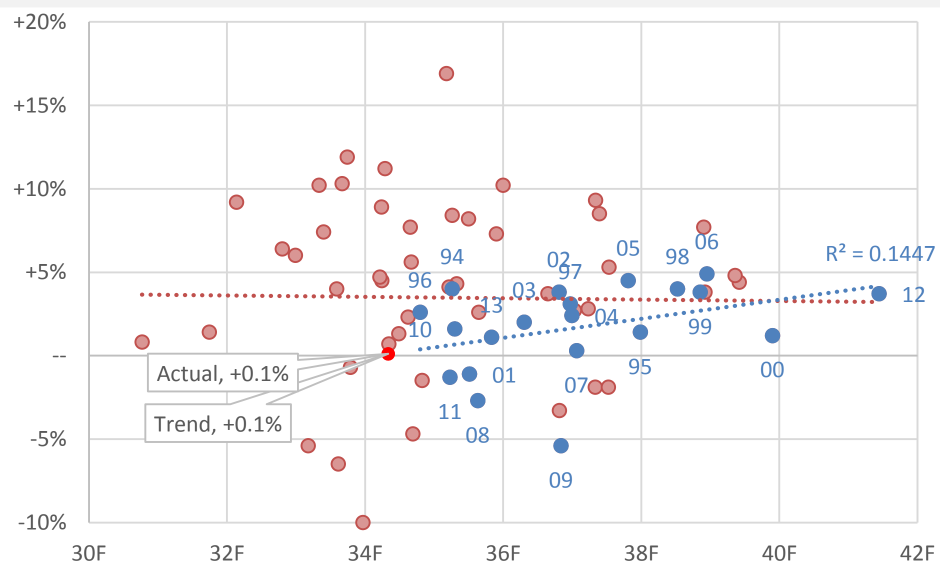
Donald Luskin

Perfectly in line with our climate model -- but should have beat like the rest of the data.

Q1 2014 gross domestic product reported this morning came in well below expectations -- with real growth at 0.1%, versus the consensus of 1.2%.

- It was a miss despite the fact that the consensus surely had a large discount built in for the quarter's harsh winter weather.
- *But 0.1% is precisely in line with the prediction of our climate model based on temperate-versus-growth over the last two decades* (please see the chart below).
- That is, 0.1% is what we'd expect if we thought that this was a perfectly ordinary quarter in all respects *except the weather* -- knowing that the mean national temperature of 34.3 degrees was the coldest since 1985, and that it included a January/February that were virtually tied for coldest in the post-war era.
- *All that said, we do see this as a miss, or at least an anomaly.*
- *We think GDP should be showing faster growth than weather alone would lead us to predict.* We say that because in the first

Q1 real GDP versus Q1 mean national temperature
● 1948 to 1993 ● 1994 to 2013 ● 2014



Source: BEA, National Climactic Data Center, TrendMacro calculations

Update to strategic view

US MACRO: Q1 GDP was perfectly in line with the prediction of our climate model -- exactly what you'd expect given the harsh weather. But that puts it out of line with other macro data that have all outperformed our model, such as payroll jobs and manufacturing PMI. We're going to treat GDP as the odd man out, and continue to expect that when the winter weather rolls out of the data, we'll see an attractive economy revealed.

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quarter other data series have significantly outperformed our climate model.

- Net non-farm payrolls in Q1 grew by 553,000. Yet out climate model predicted that, based on the severity of the weather, job gains should only have been 82,000 (see "On the March Jobs Report" April 4, 2014).
- The Purchasing Managers Index for manufacturing registered 52.7 on average over the quarter. Yet out climate model predicted that, based on the severity of the weather, PMI should only have averaged 50.4.
- *These data-points have led us to think that the weather has been an ugly mask hiding an attractive economy -- and to expect that when the weather clears, the true attractive reality will stand revealed.*
- Today's GDP data is the outlier, and we're going to treat it as the odd man out. GDP is an especially stylized mode of analysis, and highly subject to large revisions -- especially in net exports, the area of today's most significant reported weakness (see "Data Insights: GDP" April 30, 2014).

Bottom line

Q1 GDP was perfectly in line with the prediction of our climate model -- exactly what you'd expect given the harsh weather. But that puts it out of line with other macro data that have all outperformed our model, such as payroll jobs and manufacturing PMI. We're going to treat GDP as the odd man out, and continue to expect that when the winter weather rolls out of the data, we'll see an attractive economy revealed.

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