Daiwa Capital Markets

U.S. Data Review

- Q1 GDP: expansion on track

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GDP

The U.S. economy grew at an annual rate of 6.4 percent in the first quarter, quite close to the consensus estimate of 6.6 percent. The economy has now regained 91.5 percent of the ground lost in the first half of last year. Activity should easily exceed its pre-pandemic level in the second quarter. Growth of 3.5 percent in Q2 would put the economy on par with 2019-Q4, and the strength in recent economic indicators points to a much faster pace (seven to nine percent is the reasonable range at this point).

GDP and Related Items*

		20-Q3	20-Q4	21-Q1
1.	Gross Domestic Product	33.4	4.3	6.4
2.	Personal Consumption Expenditures	41.0	2.3	10.7
3.	Nonresidential Fixed Investment	22.9	13.1	9.9
3a.	Nonresidential Structures	-17.4	-6.2	-4.8
3b.	Nonresidential Equipment	68.2	25.4	16.7
3c.	Intellectual Property Products	8.4	10.5	10.1
4.	Change in Business Inventories (Contribution to GDP Growth)	6.6	1.4	-2.6
5.	Residential Construction	63.0	36.6	10.8
6.	Total Government Purchases	-4.8	-0.8	6.3
6a.	Federal Government Purchases	-6.2	-0.9	13.9
6b.	State and Local Govt. Purchases	-3.9	-0.8	1.7
7.	Net Exports (Contribution to GDP Growth)	-3.2	-1.5	-0.9
7a.	Exports	59.6	22.3	-1.1
7b.	Imports	93.1	29.8	5.7
	Additional Items			
8.	Final Sales	25.9	2.9	9.2
9.	Final Sales to Domestic Purchasers	29.8	4.4	9.8
10.	Gross Domestic Income	24.1	15.7	--
11.	Average of GDP & GDI	28.7	9.9	--
12.	GDP Chained Price Index	3.5	2.0	4.1
13.	Core PCE Price Index	3.4	1.3	2.3

* *Percent change SAAR, except as noted*
Source: Bureau of Economic Analysis via Haver Analytics

Consumer spending stood out in Q1, with growth totaling 10.7 percent. Outlays for goods accounted for most of the advance, but individuals also were active in the service area, where growth totaled 4.6 percent. Residential construction also posted brisk results, with growth totaling 10.8 percent. Construction of new homes was quite strong (25.4 percent), but this was partially offset by a drop in brokerage commissions (off 15.8 percent, reflecting a drop of 19.6 percent, annual rate, in sales of existing homes in Q2). Businesses also provided support with growth of 9.9 percent in capital expenditures. Firms remained reluctant to invest in new structures (off 4.8 percent, the sixth consecutive decline), but they were active in acquiring equipment (up 16.7 percent). Outlays by the federal government jumped 13.9 percent despite a drop in defense expenditures. Most of the fiscal support from the government was in the form of transfer payments (not a direct component of GDP), but direct spending also was firm.

While not surprising, two areas stood out on the soft side. Investment in inventories declined in Q1, which subtracted 2.64 percentage points from GDP growth. Inventories are not at troubling levels, and thus this drag probably reflected random volatility that often occurs in this area. Net exports also constrained the economy, subtracting 0.87 percentage point from growth. Imports advanced 5.7 percent in Q1 while exports fell 1.1 percent.

The GDP price index jumped 4.1 percent in Q1. Higher energy prices played a role, but the index excluding food and energy also posted a high-side increase (3.2 percent). The situation with the price index for personal consumption expenditures was similar, with the headline measure increasing 3.5 percent and the core component advancing 2.3 percent. Both headline and core readings were above the Fed’s target, but officials most likely will dismiss the pickup as transitory.