

# U.S. Data Review

- Q1 GDP: net exports and inventory investment weigh on headline growth
- Domestic demand: business investment firm; consumer spending moderate; a drag from government spending

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## Q1 GDP

U.S. GDP contracted 1.4 percent in the first quarter of 2022, shockingly different than expected growth of 1.0 percent. However, the consensus estimate was based on projections made before yesterday's report on international trade for March, which showed marked deterioration in net exports and raised the prospect of an outright decline in Q1 GDP. The expectation for Q1 was already soft, reflecting weak trade results for January and February and a likely drag from inventory investment. The added weakness from March trade undoubtedly would have pushed many forecasts into negative territory.

Thus, a decline is not surprising relative to up-to-date forecasts, but the retreat of 1.4 percent should still be viewed as light. So-called final domestic demand (GDP less net exports and inventory investment) rose 2.6 percent, shy of our expectation of 3.0 to 3.5 percent growth. Consumer spending advanced at an annual rate of 2.7 percent, a respectable performance but lighter than our projection of 3.5 percent. Government spending provided a downside surprise with a contraction of 2.7 percent. Government spending sometimes moves erratically, and the Q1 results probably involved a sizeable degree of noise (suggested by a contraction of 8.5 percent in defense spending). Residential construction rose 2.1 percent, lighter than our view of 6.0 percent. Construction of new homes grew briskly (11.9 percent), but improvements to existing homes slipped 1.9 percent and brokerage commissions tumbled 11.9 percent.

We would not downplay recession risks in light of the headwinds from Covid and the Russia-Ukraine conflict and the tightening in monetary policy that is likely to unfold, but we would not view the Q1 results as a signal that a sustained downturn is now underway. Government spending, while not likely to be a major source of growth, will probably shift to the plus column in the quarters ahead, especially state and local governments. We also would look for consumers to be more active than they were in Q1. Business investment was a bright spot in Q1, up 9.2 percent, led by a double digit advance in equipment spending. We look for continued support in this area, although probably lighter than the support in Q1.

The two soft spots in Q1, net exports and inventory investment, remain a concern. Exports of U.S. goods could face continued headwinds from slowing growth abroad and a firm foreign exchange value of the dollar, and firm demand from consumers and businesses could continue to pull in imports. Businesses most likely will be adding to inventories in the quarters ahead, but the rate of stock building (which determines the influence on growth) easily could slow from that in Q1.

The GDP report for Q1 again showed brisk inflation, as the GDP price index rose 8.0 percent after an advance of 7.1 percent in Q4. The change exceeded the jump of 7.0 percent in the headline personal consumption expenditures (PCE) price index, signaling that all economic entities (consumers, businesses, governments, foreign buyers) were experiencing price pressure.

## GDP and Related Items\*

	21-Q3	21-Q4	22-Q1
<b>1. Gross Domestic Product</b>	2.3	6.9	-1.4
<b>2. Personal Consumption Expenditures</b>	2.0	2.5	2.7
<b>3. Nonresidential Fixed Investment</b>	1.7	2.9	9.2
<b>3a. Nonresidential Structures</b>	-4.1	-8.3	-0.9
<b>3b. Nonresidential Equipment</b>	-2.3	2.8	15.3
<b>3c. Intellectual Property Products</b>	9.1	8.9	8.1
<b>4. Change in Business Inventories (Contribution to GDP Growth)</b>	2.2	5.3	-0.8
<b>5. Residential Construction</b>	-7.7	2.2	2.1
<b>6. Total Government Purchases</b>	0.9	-2.6	-2.7
<b>6a. Federal Government Purchases</b>	-5.1	-4.3	-5.9
<b>6b. State and Local Govt. Purchases</b>	4.9	-1.6	-0.8
<b>7. Net Exports (Contribution to GDP Growth)</b>	-1.3	-0.2	-3.2
<b>7a. Exports</b>	-5.3	22.4	-5.9
<b>7b. Imports</b>	4.7	17.9	17.7
<b>Additional Items</b>			
<b>8. Final Sales</b>	0.1	1.5	-0.6
<b>9. Final Sales to Domestic Purchasers</b>	1.3	1.7	2.6
<b>10. Gross Domestic Income</b>	6.4	5.1	--
<b>11. Average of GDP &amp; GDI</b>	4.3	6.0	--
<b>12. GDP Chained Price Index</b>	6.0	7.1	8.0
<b>13. Core PCE Price Index</b>	4.6	5.0	5.2

\* Percent change SAAR, except as noted

Source: Bureau of Economic Analysis via Haver Analytics

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