

# U.S. Data Review

- Q1 GDP: headline restrained by drag from inventory investment; solid final demand
- Inflation remained brisk

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## Q1 GDP

- U.S. GDP increased 1.1 percent (annual rate) in the first quarter (versus an expected advance of 1.9 percent). While GDP growth was slower than anticipated, the internals of the report suggested a solid underlying performance of the economy, albeit with several soft spots.
- Consumer spending stood out on the firm side with growth of 3.7 percent. Outlays for goods rose 6.5 percent, led by a 16.9 percent surge in spending on consumer durables. Spending on services advanced 2.3 percent.
- Government spending increased 4.7 percent. Growth in outlays at the federal level (+7.8 percent) reflected increases in both nondefense and defense-related expenditures (up 10.3 percent and 5.9 percent, respectively). Spending by state and local governments rose 2.9 percent.
- Business fixed investment rose modestly (0.7 percent). Outlays for structures jumped 11.2 percent after an advance of 15.8 percent in Q4. The recent performance suggests that investment in structures may be turning a corner after acting as a drag on growth for most of the past three years. Firms also remained committed to research and development efforts, as investment in intellectual property grew 3.8 percent. Equipment spending, in contrast contracted 7.3 percent.
- The trade sector made a small contribution to growth (0.1 percentage point), with growth of 4.8 percent in exports exceeding a pickup of 2.9 percent in imports.
- Tight financial conditions and sluggish demand for new single-family housing continued to constrain residential construction, which eased 4.2 percent. Although residential construction declined for the eighth consecutive quarter, the change in Q1 was notably smaller than last year's drop of 18.8 percent (Q4/Q4 basis).
- Inventory investment made a large negative contribution to growth in Q1 (2.3 percentage points) after a positive contribution of 1.5 percentage points in 22-Q4. While we anticipated a negative contribution from inventory investment, the magnitude of the latest change suggests that firms are attempting to control inventories ahead of a projected slowdown in the economy.
- Inflation pressure remained firm, with the GDP price index accelerating to 4.0 percent from 3.9 percent in the prior quarter. The core price index for personal consumption expenditures rose 4.9 percent, up from 4.4 percent in Q4.
- While the GDP report for Q1 indicated that the economy remained on a growth track, challenges could emerge over the course of the year. The effects of restrictive monetary policy to slow entrenched inflation have yet to take full force, and Fed officials have indicated that a pivot to easier policy is still unlikely in 2023. Moreover, recent banking stress could lead to additional tightening in financial conditions, as institutions stem the flow of credit to businesses and households in coming months. We suspect that these factors will ultimately tip the economy into recession later in 2023.

## GDP and Related Items\*

	22-Q3	22-Q4	23-Q1
<b>1. Gross Domestic Product</b>	3.2	2.6	1.1
<b>2. Personal Consumption Expenditures</b>	2.3	1.0	3.7
<b>3. Nonresidential Fixed Investment</b>	6.2	4.0	0.7
<b>3a. Nonresidential Structures</b>	-3.6	15.8	11.2
<b>3b. Nonresidential Equipment</b>	10.6	-3.5	-7.3
<b>3c. Intellectual Property Products</b>	6.8	6.2	3.8
<b>4. Change in Business Inventories (Contribution to GDP Growth)</b>	-1.2	1.5	-2.3
<b>5. Residential Construction</b>	-27.1	-25.1	-4.2
<b>6. Total Government Purchases</b>	3.7	3.8	4.7
<b>6a. Federal Government Purchases</b>	3.7	5.8	7.8
<b>6b. State and Local Govt. Purchases</b>	3.7	2.6	2.9
<b>7. Net Exports (Contribution to GDP Growth)</b>	2.9	0.4	0.1
<b>7a. Exports</b>	14.6	-3.7	4.8
<b>7b. Imports</b>	-7.3	-5.5	2.9
<b>Additional Items</b>			
<b>8. Final Sales</b>	4.5	1.1	3.4
<b>9. Final Sales to Domestic Purchasers</b>	1.5	0.7	3.2
<b>10. Gross Domestic Income</b>	2.8	-1.1	--
<b>11. Average of GDP &amp; GDI</b>	3.0	0.7	--
<b>12. GDP Chained Price Index</b>	4.4	3.9	4.0
<b>13. Core PCE Price Index</b>	4.7	4.4	4.9

\* Percent change SAAR, except as noted

Source: Bureau of Economic Analysis via Haver Analytics