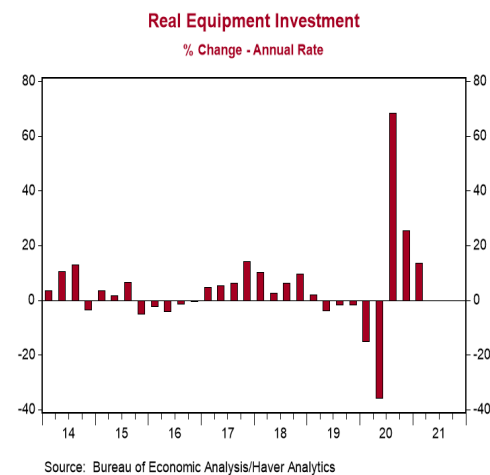
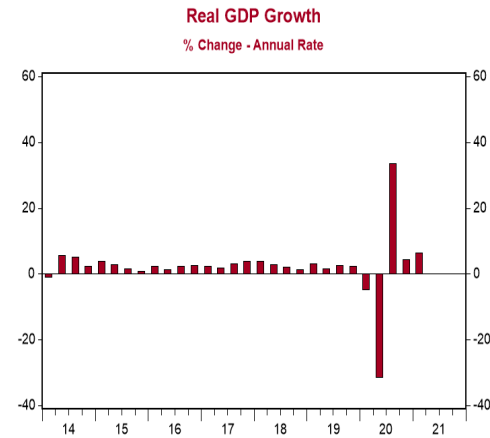


1st Quarter GDP (Preliminary)

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- Real GDP growth remained at an unrevised 6.4% annual rate in Q1, very close to the consensus expected 6.5%.
- The largest positive contributions to the real GDP growth rate in Q1 were personal consumption, business fixed investment, and government purchases. The weakest component, by far, was inventories.
- Personal consumption, business investment, and home building, combined, grew at a 11.3% annual rate in Q1 and are up 2.5% from a year ago.
- The GDP price index increased at a 4.3% annual rate in Q1 and is up 2.0% from a year ago. Nominal GDP (real GDP plus inflation) rose at a 11.0% annual rate in Q1 and is up 2.3% from a year ago.

Implications: Today’s second report on Q1 real GDP was largely unrevised from the first reading a month ago, showing a 6.4% annualized surge in growth largely due to the rollout of vaccines, fewer restrictions on business activity, and massive government stimulus. Looking at the details on revisions, both personal consumption and business investment in intellectual property were revised higher, while inventories and net exports were revised lower. Consumer spending was the biggest driver of growth in Q1, with spending on durable goods rising at a 48.7% annual rate, and purchases of motor vehicles and parts up at a 66.2% rate, in spite of supply-chain issues like a lack of semiconductors holding back supply. Meanwhile, spending on food services and accommodations rose at a 26.6% annual rate after slowing in Q4, signaling that virus fears began dissipating as the vaccine became available early this year. Meanwhile, businesses ramped up investment in equipment and intellectual property products (think software), which rose at annual rates of 13.4% and 16.9% respectively, and which should help spur future growth in productivity. Home building was another strong sector that was revised up, with residential construction now up at a 12.7% annual rate in Q1. The largest drags on real GDP growth in Q1 remained inventories and net exports. Inventories fell as businesses with supply-chain issues met increased demand by lightening up on goods on their shelves and showrooms. In turn, this leaves more room for future growth as companies strive to replenish inventories in the year ahead. Net exports mostly fell because of a surge in imports as the US economy recovers more quickly than many of our advanced-economy trading partners. Today we also got our first look at economy-wide Q1 corporate profits, which remained unchanged from the fourth quarter and are up 12.7% from a year ago. An increase in profits at domestic non-financial corporations was offset by a drop in profits at domestic financial corporations and profits from operations abroad. 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 2.0%. Notably, corporate profits have already made a V-shaped recovery from the plunge last year as the pandemic was first erupting in the US, and with COVID data continuing to improve, widespread access to a vaccine, and consumers flush with government stimulus money as lockdowns end, expect profits to grow and hit new record highs in 2021 as the economy continues to return to normal.



1st Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q1-21	Q4-20	Q3-20	Q2-20	4-Quarter Change
Real GDP	6.4%	4.3%	33.4%	-31.4%	0.4%
GDP Price Index	4.3%	2.0%	3.5%	-1.8%	2.0%
Nominal GDP	11.0%	6.3%	38.4%	-32.8%	2.3%
PCE	11.3%	2.3%	41.0%	-33.2%	1.8%
Business Investment	10.8%	13.1%	22.9%	-27.2%	2.9%
Structures	-5.7%	-6.2%	-17.4%	-33.6%	-16.6%
Equipment	13.4%	25.4%	68.2%	-35.9%	11.3%
Intellectual Property	16.9%	10.5%	8.4%	-11.4%	5.5%
Contributions to GDP Growth (p.pts.)	Q1-21	Q4-20	Q3-20	Q2-20	4Q Avg.
PCE	7.4	1.6	25.4	-24.0	2.6
Business Investment	1.4	1.7	3.2	-3.7	0.6
Residential Investment	0.6	1.4	2.2	-1.6	0.6
Inventories	-2.8	1.4	6.6	-3.5	0.4
Government	1.0	-0.1	-0.8	0.8	0.2
Net Exports	-1.2	-1.5	-3.2	0.6	-1.3

Source: Bureau of Economic Analysis