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1st Quarter GDP (Final)

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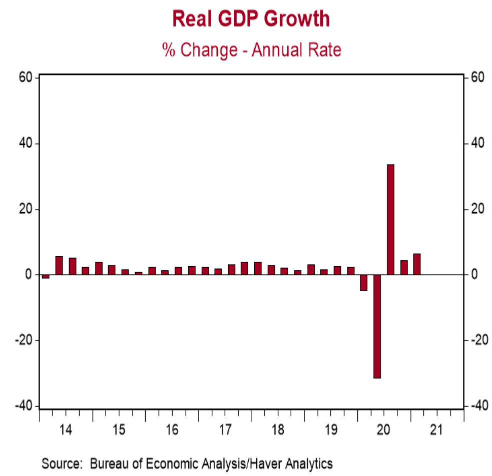
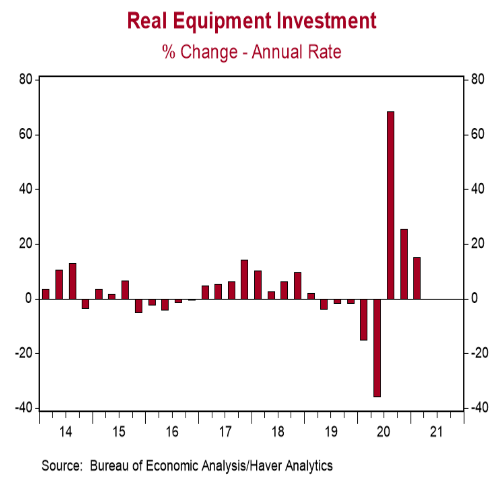
- Real GDP growth remained at an unrevised 6.4% annual rate in Q1, matching consensus expectations.
- The largest positive contributions to the real GDP growth rate in Q1 were personal consumption, business fixed investment, and government purchases. The weakest component, by far, was inventories.
- Personal consumption, business investment, and home building, combined, grew at a 11.5% 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 third report on Q1 real GDP was unrevised from the 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, small upward revisions to business fixed investment, inventories, and personal consumption were offset by downward revisions to net exports. Consumer spending was the biggest driver of growth in Q1, with spending on durable goods rising at a 49.2% annual rate, and purchases of motor vehicles and parts up at a 65.1% 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 26.4% annual rate after slowing in Q4, signaling that virus fears began dissipating as the vaccine became available early this year. Expect service consumption to continue to pick up rapidly in the quarters ahead. Meanwhile, businesses ramped up investment in equipment and intellectual property products (think software), which rose at annual rates of 15.0% and 15.3%, respectively, and which should help spur future growth in productivity. 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 in their 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 a revised look at economy-wide Q1 corporate profits, which hit a record high, now showing an increase of 2.4% from the fourth quarter and up 15.5% from a year ago. Profits were led by gains at domestic non-financial corporations, which were revised up 4.3% versus the reading a month ago. 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. With COVID data continuing to improve, widespread access to a vaccine, and consumers flush with purchasing power, in part due to government stimulus money, expect profits to keep growing and hitting new record highs.

1st Quarter GDP Seasonally Adjusted Annual Rates	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	**11.4%**	2.3%	41.0%	-33.2%	1.8%
Business Investment	**11.7%**	13.1%	22.9%	-27.2%	3.1%
Structures	**-2.0%**	-6.2%	-17.4%	-33.6%	-15.7%
Equipment	**15.0%**	25.4%	68.2%	-35.9%	11.7%
Intellectual Property	**15.3%**	10.5%	8.4%	-11.4%	5.2%
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	**1.5**	1.7	3.2	-3.7	0.7
Residential Investment	**0.6**	1.4	2.2	-1.6	0.6
Inventories	**-2.7**	1.4	6.6	-3.5	0.4
Government	**1.0**	-0.1	-0.8	0.8	0.2
Net Exports	**-1.5**	-1.5	-3.2	0.6	-1.4

Source: Bureau or Economic Analysis