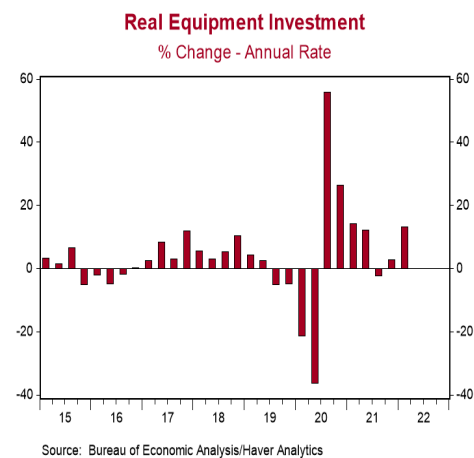
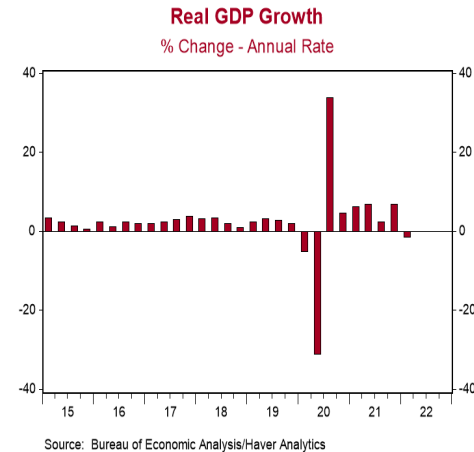


1st Quarter GDP (Preliminary)

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist
Andrew Opdyke, CFA – Senior Economist

- Real GDP growth in Q1 was revised slightly lower to a -1.5% annual rate from a prior estimate of -1.4%, missing the consensus expected revision to -1.3%.
- Downward revisions to inventories and home building more than offset an upward revision to consumer spending.
- The largest positive contributions to the real GDP growth rate in Q1 were consumer spending and business investment. The weakest components were net exports and inventories.
- The GDP price index was revised up to an 8.1% annual growth rate from a prior estimate of 8.0%. Nominal GDP growth – real GDP plus inflation – remained at a 6.5% annual rate.

Implications: Today’s second report on Q1 real GDP was revised slightly lower from the initial reading a month ago, declining at a 1.5% annual rate. The slight downward revision to the overall number was mostly due to downward revisions for inventories and home building, which more than offset an upward revision for consumer spending. Do today’s data mean we are heading into a recession? No. Consumer spending (+3.1% annual rate), business fixed investment (+9.2% rate), and home building (+0.4% rate) all increased in the first quarter, which is not something you’d see during a recession. These components make up what we call “core” GDP, which rose at a 3.9% annual rate. So why did real GDP drop in Q1? A host of factors that are likely temporary. First, a massive surge in imports, which resulted in a drag of 3.2 percentage points on growth. Second, inventories rose at a slower pace than in the last quarter of 2021, bringing real GDP growth down another 1.1 percentage points. Third, government purchases declined, accounting for a further drag of 0.5 points. Going back to 1947 there have been 18 times when real GDP was negative and “core” GDP was positive. Only six of these were during recessions, five of which were not at the beginning, while there have been 25 quarters where real GDP and “core” GDP were both negative, 23 of which were in a recession. Regarding inflation, GDP inflation was revised slightly higher to an 8.1% annual rate in Q1, the fastest pace for any quarter since 1981. GDP prices are up 6.8% from a year ago, nowhere near the Fed’s 2.0% target. Nominal GDP (real GDP growth plus inflation) rose at a 6.5% annual rate in Q1 and is up 10.6% from a year ago. The US economy recovered rapidly from re-opening in 2021, with real GDP up 5.5%. That period of rapid growth is now over. But that doesn’t mean we should take the headline from today’s report at face value and that a recession has already started. The Fed has a lot more work to do before monetary policy is tight enough to induce a recession. Today we also get the first look at economy-wide Q1 corporate profits, which declined 2.3% versus the fourth quarter, but remain up 12.5% from a year ago. Profits in the first quarter declined at both domestic non-financial companies and domestic financial corporations, as well as from operations abroad. Our capitalized profits model suggests US equities are roughly fairly valued today at current interest rates, although we believe equities should rally in the months ahead given too much pessimism about a recession this year. Other news this morning is consistent with continued moderate economic growth. Initial claims for unemployment insurance declined 8,000 last week to 210,000. Continuing claims rose 31,000 to 1.346 million.



1st Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q1-22	Q4-21	Q3-21	Q2-21	4-Quarter Change
Real GDP	-1.5%	6.9%	2.3%	6.7%	3.5%
GDP Price Index	8.1%	7.1%	6.0%	6.1%	6.8%
Nominal GDP	6.5%	14.5%	8.4%	13.4%	10.6%
PCE	3.1%	2.5%	2.0%	12.0%	4.8%
Business Investment	9.2%	2.9%	1.6%	9.2%	5.7%
Structures	-3.6%	-8.3%	-4.1%	-3.0%	-4.8%
Equipment	13.2%	2.8%	-2.4%	12.2%	6.2%
Intellectual Property	11.6%	8.9%	9.1%	12.5%	10.5%
Contributions to GDP Growth (p.pts.)	Q1-22	Q4-21	Q3-21	Q2-21	4Q Avg.
PCE	2.1	1.8	1.4	7.9	3.3
Business Investment	1.2	0.4	0.2	1.2	0.7
Residential Investment	0.0	0.1	-0.4	-0.6	-0.2
Inventories	-1.1	5.3	2.2	-1.3	1.3
Government	-0.5	-0.5	0.2	-0.4	-0.3
Net Exports	-3.2	-0.2	-1.3	-0.2	-1.2

Source: Bureau of Economic Analysis