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1st Quarter GDP (Initial)

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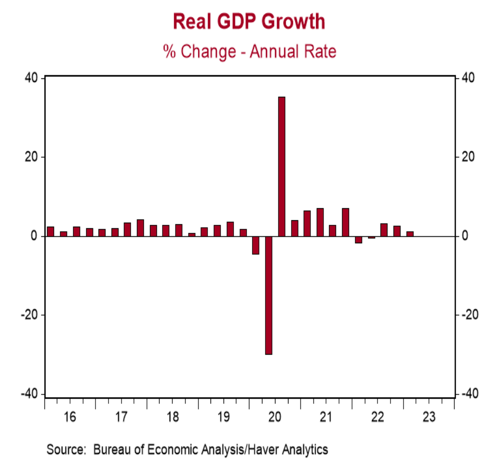
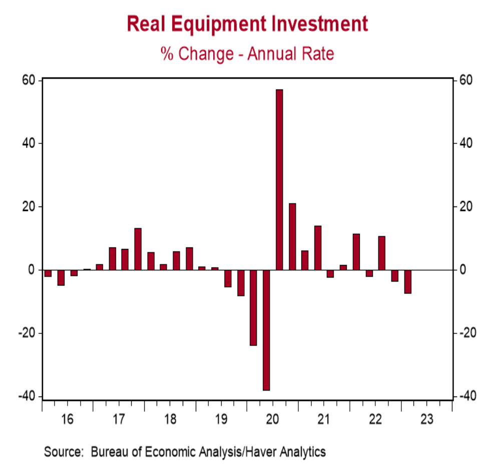
- Real GDP increased at a 1.1% annual rate in Q1, lagging the consensus expected 1.9%.
- The largest positive contribution to real GDP growth in Q1, by far, came from personal consumption, followed by government purchases. The largest drag on Q1 GDP growth, by far, was inventories.
- Personal consumption, business fixed investment, and home building, combined, rose at a 2.9% annual rate in Q1. We refer to this as "core" GDP.
- The GDP price index increased at a 4.0% annual rate in Q1 and is up 5.3% from a year ago. Nominal GDP (real GDP plus inflation) rose at a 5.1% annual rate in Q1 and is up 7.0% from a year ago.

Implications: Real GDP growth was a mixed bag in the first quarter and we still think we're headed for a recession. First the bad news: real GDP grew at a soft 1.1% annual rate in Q1, lagging consensus expectations. Moreover, the growth was almost entirely due to consumer spending, with a 45.3% annualized gain in purchases of motor vehicles and parts, which is unlikely to be repeated later this year. Government purchases also grew rapidly, which is not a good sign for sustainable long-term growth; more spending by the government leads to less purchasing power in the private sector. Meanwhile, business investment in equipment, which is a harbinger of future productivity growth, declined at a 7.3% annual rate in Q1, the fastest drop since COVID started. Home building also declined, although not as much as in recent quarters. On the inflation front, GDP prices rose at a 4.0% annual rate in the first quarter and are up 5.3% from a year ago, well higher than the Federal Reserve's 2.0% target. What's the good news in today's report? That the biggest drag on GDP growth, by far, was from inventories, which went from surging late last year to a slight decline in the first quarter. That inventory turnaround, all by itself, accounted for about 2.3 fewer percentage points off the real GDP growth rate. With inventories already shrinking, that leaves less need to reduce the amount of goods in showrooms and on shelves when we hit a recession, which could help prevent the recession from being a deep one. We like to focus on "Core" GDP, which includes consumer spending, business fixed investment, and home building, while excluding government purchases, inventories, and international trade, all of which are very volatile from quarter to quarter. Core GDP increased at a healthy 2.9% annual rate in Q1 following no change in Q4. The problem is that Core GDP is up only 1.1% in the past year, which is a pace we usually only see around recessions. In other news this morning, new claims for jobless benefits declined 16,000 last week to 230,000. Continuing claims slipped 3,000 to 1.858 million. These figures are consistent with continued job growth in April, but not as fast as in recent months.





1st Quarter GDP Seasonally Adjusted Annual Rates	Q1-23	Q4-22	Q3-22	Q2-22	4-Quarter Change
Real GDP	1.1%	2.6%	3.2%	-0.6%	1.6%
GDP Price Index	4.0%	3.9%	4.4%	9.0%	5.3%
Nominal GDP	5.1%	6.6%	7.7%	8.5%	7.0%
PCE	3.7%	1.0%	2.3%	2.0%	2.3%
Business Investment	0.7%	4.0%	6.2%	0.1%	2.7%
Structures	11.2%	15.7%	-3.6%	-12.7%	2.0%
Equipment	-7.3%	-3.5%	10.6%	-2.1%	-0.8%
Intellectual Property	3.8%	6.2%	6.8%	8.9%	6.4%
Contributions to GDP Growth (p.pts.)	**Q1-23**	**Q4-22**	**Q3-22**	**Q2-22**	**4Q Avg.**
PCE	2.5	0.7	1.5	1.4	1.5
Business Investment	0.1	0.5	0.8	0.0	0.4
Residential Investment	-0.2	-1.2	-1.4	-0.9	-0.9
Inventories	-2.3	1.5	-1.2	-1.9	-1.0
Government	0.8	0.7	0.7	-0.3	0.5
Net Exports	0.1	0.4	2.9	1.2	1.1

Source: Bureau or Economic Analysis