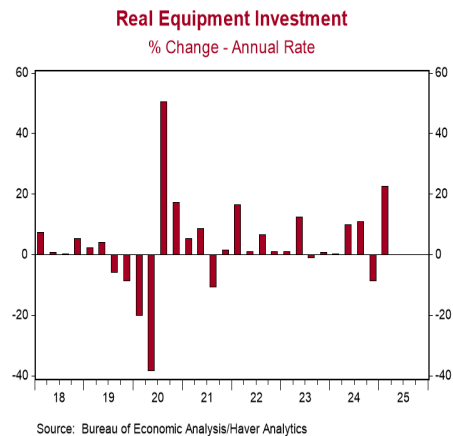
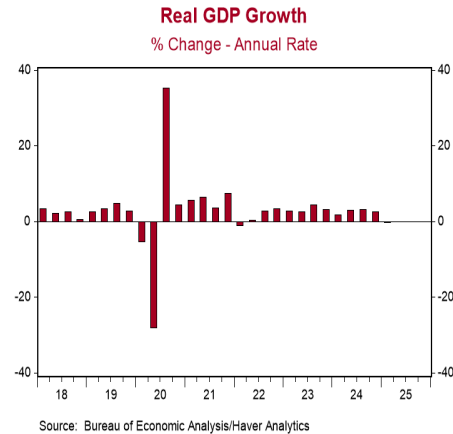


1st Quarter GDP (Initial)

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- Real GDP declined at a 0.3% annual rate in Q1, narrowly lagging the consensus expected -0.2%.
- The largest drag on real GDP growth in Q1 came from net exports, due to a huge increase in imports of goods. Government purchases also declined. The largest positive contributions came from inventories (which were boosted by the surge in imports), personal consumption, and business investment in equipment.
- Personal consumption, business fixed investment, and home building, combined, rose at a 3.0% annual rate in Q1. We refer to this as “core” GDP.
- The GDP price index increased at a 3.7% annual rate in Q1 and is up 2.6% from a year ago. Nominal GDP (real GDP plus inflation) rose at a 3.5% annual rate in Q1 and is up 4.7% from a year ago.

Implications: Real GDP declined at a 0.3% annual rate in the first quarter and we believe a recession is overdue...but that doesn't mean we are in a recession yet. The slight drop in real GDP in Q1 was almost all due to the trade sector, as businesses were front-running tariffs by focusing on getting goods into the country as fast as possible. As a result, trade (net exports) dragged down the real GDP growth figure by 4.8 percentage points, with all of that (on net) attributable to greater imports of goods. To put this in perspective, trade's drag on GDP was larger than in any quarter since at least 1947. So why don't we think the US is already in a recession? We like to follow what we call “Core” Real GDP, which is consumer spending, business fixed investment, and home building, and excludes the most volatile categories like government purchases, inventories, and international trade. Core GDP grew at a 3.0% annual rate in Q1, exactly matching the growth rate of the past year. In particular, business investment in equipment was strong, growing at a 22.5% annual rate. These are not recessionary numbers. Instead, given that the drag from trade is almost certain to unwind in the second quarter, it is likely that Q2 real GDP rebounds as well. Instead of being concerned about the lack of economic growth in the first quarter, investors should be more concerned about higher inflation, with GDP prices up at a 3.7% annual rate and up 2.6% from a year ago, which is higher than the 2.4% increase in GDP prices in the year ending in the first quarter of 2024. In turn, nominal GDP (real GDP growth plus inflation) increased at a 3.5% rate in Q1 and is up 4.7% from a year ago. Monetary policymakers should note that is down from the 5.4% increase in nominal GDP in the year ending in the first quarter of 2024, which, along with slow growth in the M2 measure of the money supply, suggests the Federal Reserve has room for a modest cut in short-term rates by mid-year. After two years of growing federal budget deficits that masked the pain of tighter money, fiscal policy has now gone in reverse, with measures to raise revenue (tariffs) and reduce spending (DOGE, et.al.) As a result, monetary policy has some modest room to adjust. In other news this morning, ADP reported private payrolls up 62,000 in April. We are forecasting that Friday's official Labor Department report will show a nonfarm gain of 145,000, a slowdown from the average pace of 181,000 in the prior six months.



1st Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q1-25	Q4-24	Q3-24	Q2-24	4-Quarter Change
Real GDP	-0.3%	2.4%	3.1%	3.0%	2.1%
GDP Price Index	3.7%	2.3%	1.9%	2.5%	2.6%
Nominal GDP	3.5%	4.8%	5.0%	5.6%	4.7%
PCE	1.8%	4.0%	3.7%	2.8%	3.1%
Business Investment	9.8%	-3.0%	4.0%	3.9%	3.6%
Structures	0.4%	2.9%	-5.0%	0.2%	-0.4%
Equipment	22.5%	-8.7%	10.8%	9.9%	8.0%
Intellectual Property	4.1%	-0.5%	3.1%	0.7%	1.8%
Contributions to GDP Growth (p.pts.)	Q1-25	Q4-24	Q3-24	Q2-24	4Q Avg.
PCE	1.2	2.7	2.5	1.9	2.1
Business Investment	1.3	-0.4	0.6	0.5	0.5
Residential Investment	0.1	0.2	-0.2	-0.1	0.0
Inventories	2.3	-0.8	-0.2	1.1	0.6
Government	-0.3	0.5	0.9	0.5	0.4
Net Exports	-4.8	0.3	-0.4	-0.9	-1.5

Source: Bureau of Economic Analysis