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1st Quarter GDP (Preliminary)

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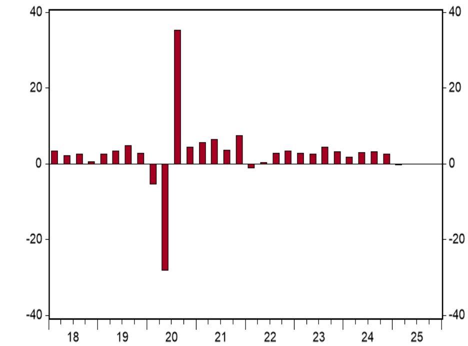
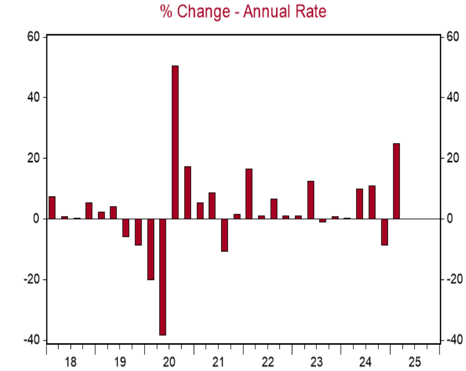
- Real GDP growth in Q1 was revised slightly higher to a -0.2% annual rate, coming in better than the prior estimate and consensus expected -0.3%.

- Upward revisions to inventories, government purchases, and business investment more than offset downward revisions to personal consumption, home building, and net exports.

- Personal consumption, business fixed investment, and home building, combined, rose at a 2.5% annual rate in Q1. We refer to this as "core" GDP.

- The GDP price index was unrevised from a prior estimate of 3.7%. Nominal GDP growth – real GDP plus inflation – was revised lower to a 3.4% annualized rate from a prior estimate of 3.5%.





Implications: Hold off on GDP for a moment. The most important data in this morning's report was on economy-wide corporate profits, which declined 2.9% in the first quarter and fell 3.4% excluding the profits/losses of the Federal Reserve. Excluding the Fed, profits are still up 3.6% from a year ago, but that is the slowest growth for any four-quarter period since 2020. Leading the decline in Q1 were profits from domestic non-financial industries, which fell 3.5%. Profits from the rest of the world fell as well. Plugging in profits into our Capitalized Profits Model suggests stocks remain overvalued. Real GDP for the first quarter was revised slightly higher to a -0.2% annualized rate, as upward revisions to inventories, government spending, and business investment more than offset downward revisions to consumer spending (especially services), home building, and net exports. For a clearer picture of underlying growth, we focus on "core" GDP—consumer spending, business fixed investment, and residential construction—excluding more volatile components like inventories, government outlays, and trade. Core GDP was revised down to a still-solid 2.5% annual rate from the initial 3.0%, though still marks the slowest pace in nearly two years. The downgrade was driven largely by weaker consumer spending, now estimated to have grown just 1.2%, down from 1.8%—also the slowest in almost two years. On the inflation front, the Fed's fight isn't over: the GDP price index held steady at a 3.7% annualized rate in Q1, with prices up 2.6% from a year ago, slightly higher than the 2.4% year-over-year increase in Q1 2024. In other news this morning, initial jobless claims rose by 14,000 last week to 240,000, while continuing claims rose 26,000 to 1.919 million. These figures are consistent with continued job growth in May, but at a slower pace than last year. In other recent news, the M2 measure of the money supply hit a new record high growing 0.7% in April and is up 4.4% from a year ago. This remains below the 6% growth that has been normal over the past few decades, and in combination with recent inflation reports, we think the Fed has room for modest rate cuts later this year. Finally, on the manufacturing front, the Richmond Fed index, a measure of mid-Atlantic factory activity, increased to -9 in May from a reading of -13 in April.

1st Quarter GDP Seasonally Adjusted Annual Rates	Q1-25	Q4-24	Q3-24	Q2-24	4-Quarter Change
Real GDP	-0.2%	2.4%	3.1%	3.0%	2.1%
GDP Price Index	3.7%	2.3%	1.9%	2.5%	2.6%
Nominal GDP	3.4%	4.8%	5.0%	5.6%	4.7%
PCE	1.2%	4.0%	3.7%	2.8%	2.9%
Business Investment	10.4%	-3.0%	4.0%	3.9%	3.7%
Structures	-1.5%	2.9%	-5.0%	0.2%	-0.9%
Equipment	24.7%	-8.7%	10.8%	9.9%	8.5%
Intellectual Property	4.6%	-0.5%	3.1%	0.7%	2.0%
Contributions to GDP Growth (p.pts.)	**Q1-25**	**Q4-24**	**Q3-24**	**Q2-24**	**4Q Avg.**
PCE	0.8	2.7	2.5	1.9	2.0
Business Investment	1.4	-0.4	0.6	0.5	0.5
Residential Investment	0.0	0.2	-0.2	-0.1	0.0
Inventories	2.6	-0.8	-0.2	1.1	0.7
Government	-0.1	0.5	0.9	0.5	0.4
Net Exports	-4.9	0.3	-0.4	-0.9	-1.5

Source: Bureau of Economic Analysis