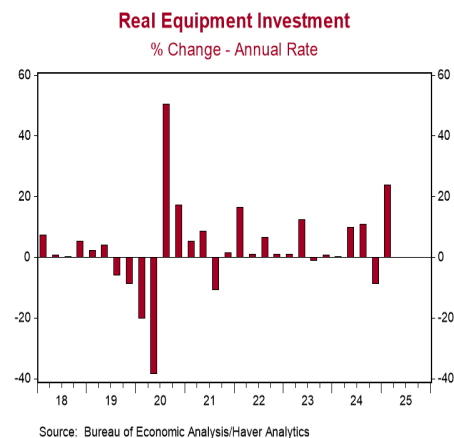
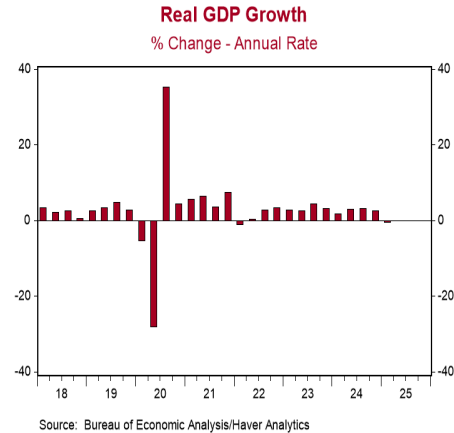


1st Quarter GDP (Final)

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

- Real GDP growth in Q1 was revised lower to a -0.5% annualized rate from a prior estimate and consensus expected -0.2%.
- Downward revisions to consumer spending and inventories more than offset an upward revision to net exports.
- The largest positive contributions to the real GDP growth rate in Q1 were inventories and business investment. The weakest component by far was net exports.
- The GDP price index was revised slightly higher to a 3.8% annual growth rate. Nominal GDP growth – real GDP plus inflation – was revised lower to a 3.2% annualized rate.

Implications: Hold off on GDP itself for a moment. The most important part of this morning's report was on economy-wide corporate profits, which declined 2.3% in the first quarter vs. the fourth quarter but are up 6.3% from a year ago. Profits from domestic non-financial industries declined by 2.5%, while profits from domestic financial firms grew 2.3%. Profits from the rest of the world fell by 7.3% for the quarter. Financial industry data include the Federal Reserve (either profits, or losses) and because the Fed pays private banks interest on reserves, and has raised interest rates, it has been generating unprecedented losses in recent quarters. Excluding the losses at the Fed (because we want to accurately count profits in the private sector), overall corporate profits were down 2.7% in the first quarter but up 4.4% from a year ago. However, plugging in non-Fed profits into our Capitalized Profits Model suggests stocks remain overvalued. Looking at the other details of today's report, the final reading for real GDP growth in the fourth quarter was revised lower from last month's estimate, coming in at a -0.5% annual rate, and the underlying components showed a weaker mix. Downward revisions in consumer spending (specifically services) and inventories easily offset a larger increase in net exports (imports grew slightly less while exports grew slightly more than originally estimated). For a more accurate measure of sustainable growth, we focus on "core" GDP, which includes consumer spending, business fixed investment, and home building, but excludes the more volatile categories like government purchases, inventories, and international trade. "Core" GDP grew at a 1.9% annual rate in Q4, lower than the prior estimate of 2.5% and the slowest pace in more than two years. Today we also got revisions to Q1 Real Gross Domestic Income (GDI), an alternative measure of economic activity. Real GDI was revised higher to a 0.2% annual rate in Q1 and up 2.2% from a year ago. GDP inflation was revised slightly higher to a 3.8% annual rate in Q1, and is up 2.6% over the past year, both still higher than the Fed's 2.0% target. Meanwhile, nominal GDP (real growth plus inflation) increased at a 3.2% annual rate in Q1 and is up 4.7% year-over-year.



1st Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q1-25	Q4-24	Q3-24	Q2-24	4-Quarter Change
Real GDP	-0.5%	2.4%	3.1%	3.0%	2.0%
GDP Price Index	3.8%	2.3%	1.9%	2.5%	2.6%
Nominal GDP	3.2%	4.8%	5.0%	5.6%	4.7%
PCE	0.5%	4.0%	3.7%	2.8%	2.7%
Business Investment	10.3%	-3.0%	4.0%	3.9%	3.7%
Structures	-2.4%	2.9%	-5.0%	0.2%	-1.1%
Equipment	23.7%	-8.7%	10.8%	9.9%	8.3%
Intellectual Property	6.0%	-0.5%	3.1%	0.7%	2.3%
Contributions to GDP Growth (p.pts.)	Q1-25	Q4-24	Q3-24	Q2-24	4Q Avg.
PCE	0.3	2.7	2.5	1.9	1.8
Business Investment	1.4	-0.4	0.6	0.5	0.5
Residential Investment	-0.1	0.2	-0.2	-0.1	0.0
Inventories	2.6	-0.8	-0.2	1.1	0.6
Government	-0.1	0.5	0.9	0.5	0.5
Net Exports	-4.6	0.3	-0.4	-0.9	-1.4

Source: Bureau of Economic Analysis