

## GDP: Mediocre Top-Line, Weaker Details

For all the chatter about Artificial Intelligence lifting economic growth, GDP isn't showing it yet. We are projecting that real GDP grew at a 2.0% annual rate in the first quarter, matching the average annualized pace of growth since the peak back in late 2007, right before the Financial Panic and so-called Great Recession. In other words, mediocre growth.

But the details for the first quarter are likely to be worse than the headline. Real GDP grew at a slow 0.5% rate in the fourth quarter of 2025 in some part because it was artificially held down by a lack of purchases by the federal government during a prolonged shutdown. Excluding government, Real GDP grew at a 1.7% rate in Q4. For the first quarter, this process should work in reverse. Purchases by the federal government went back to normal in Q1, which should artificially boost GDP growth for the quarter.

We are estimating that although overall real GDP grew at a 2.0% pace in Q1, excluding government purchases it grew at about a weak 1.1% pace. Robust growth, this is not.

The US economy is not in recession, but it is not in a boom either. Remember, the size of government boomed during COVID and has not fully returned to its pre-COVID level. In the meantime, government spending has been roughly flat the past year or so. In time, this will help boost economic growth. But in the short-term it can cause some indignation.

**Consumption:** Auto sales declined at a 2.1% annual rate in Q1 while “real” (inflation-adjusted) retail sales excluding autos rose at a 1.8% rate and real service spending appears up at a 2.6% pace. Combined, this brings our estimate of real consumer spending to a 1.6% rate, adding 1.1 points to the real GDP growth rate (1.6 times the consumption share of GDP, which is 68%, equals 1.1).

**Business Investment:** We estimate a 2.4% growth rate for business investment, with gains in equipment and intellectual property leading the way and commercial construction a continuing drag on growth. A 2.4% growth rate would add 0.3 points to real GDP growth. (2.4 times the 14% business investment share of GDP equals 0.3).

**Home Building:** Residential construction is still weak and appears to have declined at about an 11.0% rate in the first quarter, possibly reflecting a lack of workers to build homes while strict immigration enforcement makes more units available for rent. An 11.0% annualized drop would be a 0.4 point drag on real GDP growth. (-11.0 times the 4% residential construction share of GDP equals -0.4).

**Government:** The shutdown of the federal government in the fourth quarter artificially held down purchases for that quarter but should result in a rebound in Q1. We estimate these purchases rose at a 6.5% rate in Q1. The rebound in Q1 should add 1.1 points to the GDP growth rate (6.5 times the 17% government purchase share of GDP equals 1.1).

**Trade:** It looks like the trade deficit grew slightly in the first quarter, although this forecast may change when the trade report arrives Wednesday morning. For now we're projecting net exports will reduce the Q1 real GDP growth rate by 0.3 percentage points.

**Inventories:** It looks like businesses added to inventories at a faster pace in the first quarter than late last year, which should add what we estimate to be 0.2 percentage points to real GDP growth.

Add it all up, and we get a 2.0% annual real GDP growth rate for the first quarter. Without government, annualized growth would be around 1.1% in Q1 after 1.7% in Q4, which is the epitome of mediocre growth.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-29 / 7:30 am	Housing Starts – Mar	1.380 Mil	<b>1.410 Mil</b>		1.487 Mil
7:30 am	Durable Goods – Mar	+0.5%	<b>+0.4%</b>		-1.3%
7:30 am	Durable Goods (Ex-Trans) – Mar	+0.4%	<b>+0.3%</b>		+0.9%
4-30 / 7:30 am	Initial Claims – Apr 25	212K	<b>212K</b>		214K
7:30 am	Q1 GDP Advance Report	+2.2%	<b>+2.0%</b>		+0.5%
7:30 am	Q1 GDP Chain Price Index	+3.9%	<b>+3.3%</b>		+3.7%
7:30 am	Q1 Employment Cost Index	+0.8%	<b>+0.8%</b>		+0.7%
7:30 am	Personal Income – Mar	+0.3%	<b>+0.3%</b>		-0.1%
7:30 am	Personal Spending – Mar	+0.9%	<b>+0.8%</b>		+0.5%
8:45 am	Chicago PMI – Apr	55.2	<b>55.7</b>		52.8
5-1 / 9:00 am	ISM Index – Apr	53.2	<b>52.8</b>		52.7
afternoon	Total Car/Truck Sales – Apr	16.0 Mil	<b>16.0 Mil</b>		16.3 Mil