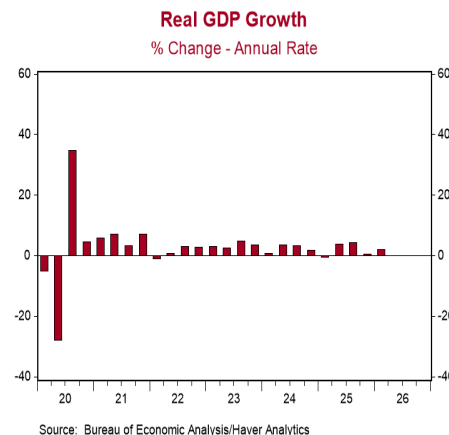


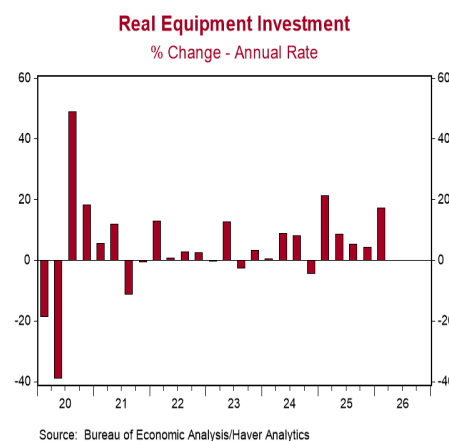
# 1<sup>st</sup> Quarter GDP (Initial)

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- Real GDP increased at a 2.0% annual rate in Q1, lagging the consensus expected +2.3%.
- The largest positive contributions to real GDP growth in Q1 came from business investment in equipment and intellectual property as well as personal consumption. Other positive contributors were government purchases and inventories. Net exports were the largest drag on real GDP growth, while home building and commercial construction were small drags as well.
- 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 increased at a 3.6% annual rate in Q1 and is up 3.3% from a year ago. Nominal GDP (real GDP plus inflation) rose at a 5.6% annual rate in Q1 and is up 6.0% from a year ago.



**Implications:** The US economy is not in recession, but it is not in a boom either. Real GDP grew at a 2.0% annual rate in the first quarter of 2026, slightly below the consensus expected +2.3%, matching the average annualized pace of growth since the peak back in late 2007, right before the Financial Panic and so-called Great Recession. First, the good news: growth in Q1 was driven by a surge in business investment as companies continue to spend on the Artificial Intelligence buildout. This category – covering investment in equipment, commercial construction, and intellectual property – rose at a 10.4% rate, the fastest pace in nearly three years. Real consumer spending also contributed, growing at a 1.6% rate, exactly as we expected. The bad news is that government purchases rose at a 4.4% rate in the first quarter, a rebound from contraction in the first quarter when the federal government shutdown artificially held down purchases. Excluding government at all levels (federal, state, and local), real GDP growth would have been around 1.5% in Q1, which is the epitome of mediocre growth. Meanwhile, trade continues to move in volatile swings, with net exports subtracting 1.3 percentage points from growth. We like to follow Core Real GDP, which includes consumer spending, business fixed investment, and home building, and excludes more volatile categories like government purchases, inventories, and international trade. Core Real GDP grew at a 2.5% annual rate in the first quarter, matching its change versus a year ago. In other words, we don’t think first quarter GDP signals some sort of change in the trend for growth, partly because without AI spending GDP was much weaker. The most worrisome part of the report was that GDP prices rose at a 3.6% rate in Q1 and are up 3.3% from a year ago. Nominal GDP rose at a 5.6% rate in the first quarter and is up 6.0% versus a year ago, both figures well higher than the current 3.625% target on short-term rates. With the full impact of higher energy prices from the outbreak of war in Iran still making its way into the data, don’t expect rate cuts anytime soon.



1st Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q1-26	Q4-25	Q3-25	Q2-25	4-Quarter Change
<b>Real GDP</b>	<b>2.0%</b>	0.5%	4.4%	3.8%	2.7%
<b>GDP Price Index</b>	<b>3.6%</b>	3.7%	3.8%	2.1%	3.3%
<b>Nominal GDP</b>	<b>5.6%</b>	4.2%	8.3%	6.0%	6.0%
<b>PCE</b>	<b>1.6%</b>	1.9%	3.5%	2.5%	2.4%
<b>Business Investment</b>	<b>10.4%</b>	2.4%	3.2%	7.3%	5.8%
<b>Structures</b>	<b>-6.7%</b>	-6.6%	-5.0%	-7.5%	-6.4%
<b>Equipment</b>	<b>17.2%</b>	4.3%	5.2%	8.5%	8.7%
<b>Intellectual Property</b>	<b>13.0%</b>	5.4%	5.6%	15.0%	9.7%
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q1-26</b>	<b>Q4-25</b>	<b>Q3-25</b>	<b>Q2-25</b>	<b>4Q Avg.</b>
<b>PCE</b>	<b>1.1</b>	1.3	2.3	1.7	1.6
<b>Business Investment</b>	<b>1.4</b>	0.3	0.4	1.0	0.8
<b>Residential Investment</b>	<b>-0.3</b>	-0.1	-0.3	-0.2	-0.2
<b>Inventories</b>	<b>0.4</b>	0.1	-0.1	-3.4	-0.8
<b>Government</b>	<b>0.7</b>	-1.0	0.4	0.0	0.0
<b>Net Exports</b>	<b>-1.3</b>	-0.2	1.6	4.8	1.2

Source: Bureau of Economic Analysis