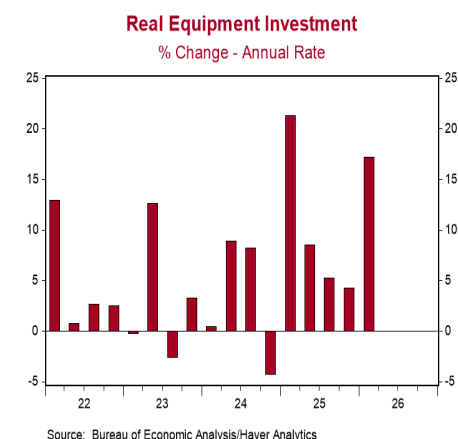
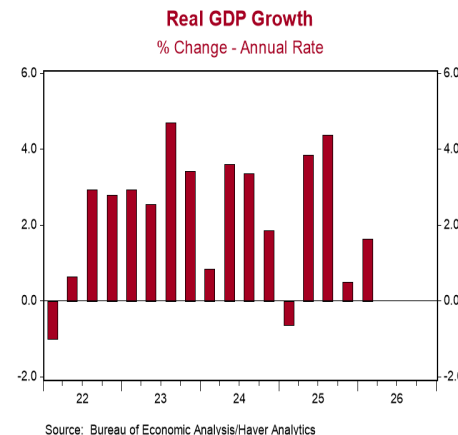


1st Quarter GDP (Preliminary)

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- Real GDP growth in Q1 was revised lower to a 1.6% annual rate, lagging the prior reported and consensus expected 2.0%.
- Downward revisions to inventories and personal consumption more than offset an upward revision to homebuilding and net exports.
- Personal consumption, business investment, and home building, combined, rose at a 2.4% annual rate in Q1. We refer to this as “core” GDP.
- The GDP price index was revised lower to 3.5% from a prior estimate of 3.6%. Nominal GDP growth – real GDP plus inflation – was revised downward to a 5.2% annualized rate from a prior estimate of 5.6%.

Implications: Hold off on GDP for a moment. The most important data in this morning’s report was on economy-wide corporate profits, which rose 0.9% in the first quarter and are up 12.0% from a year ago. The Federal Reserve, after posting massive losses for three consecutive years, finally returned to profitability in Q4 and eked out another small profit in Q1. Excluding the Fed, corporate profits were up 0.9% in Q1 and 11.0% from a year ago – the fastest growth for any four-quarter period since 2023. The increase in Q1 was entirely due to profits from domestic non-financial industries, which rose 3.7%. Profits from domestic financial companies declined 0.3%, while profits from the rest of the world fell 9.8%. Plugging in these profits into our Capitalized Profits Model suggests stocks remain overvalued. Now back to our regularly scheduled programming...Real GDP for the first quarter was revised lower to a 1.6% annualized rate, with downward revisions to inventories and personal consumption more than offsetting an upward revision to homebuilding 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 slightly lower to a 2.4% annual rate from the initial 2.5%. The revision lower was driven by weaker consumer spending on services as well as slightly less business investment in intellectual property. So why did headline GDP grow more slowly than Core GDP? Primarily because trade continues to move in volatile swings, shaving off 1.3 percentage points from the headline in Q1. Given the Supreme Court’s order rolling back much of the Trump administration’s 2025 tariffs along with ongoing war in the Middle East, we expect volatility in this category to persist. The most worrisome part of the report was that inflation remains far from the Fed’s 2.0% target, with GDP prices rising at a 3.5% rate in Q1 and up 3.3% from a year ago. Nominal GDP rose at a 5.2% rate in the first quarter and is up 5.9% 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 still filtering through the data, don’t expect rate cuts in the near term. However, recent [M2 growth](#) suggests lower inflation on the other side of the Iran conflict.



1st Quarter GDP Seasonally Adjusted Annual Rates	Q1-26	Q4-25	Q3-25	Q2-25	4-Quarter Change
Real GDP	1.6%	0.5%	4.4%	3.8%	2.6%
GDP Price Index	3.5%	3.7%	3.8%	2.1%	3.3%
Nominal GDP	5.2%	4.2%	8.3%	6.0%	5.9%
PCE	1.4%	1.9%	3.5%	2.5%	2.3%
Business Investment	10.1%	2.4%	3.2%	7.3%	5.7%
Structures	-5.4%	-6.6%	-5.0%	-7.5%	-6.1%
Equipment	17.2%	4.3%	5.2%	8.5%	8.7%
Intellectual Property	11.6%	5.4%	5.6%	15.0%	9.3%
Contributions to GDP Growth (p.pts.)	Q1-26	Q4-25	Q3-25	Q2-25	4Q Avg.
PCE	1.0	1.3	2.3	1.7	1.6
Business Investment	1.4	0.3	0.4	1.0	0.8
Residential Investment	-0.2	-0.1	-0.3	-0.2	-0.2
Inventories	0.1	0.1	-0.1	-3.4	-0.8
Government	0.7	-1.0	0.4	0.0	0.0
Net Exports	-1.3	-0.2	1.6	4.8	1.2

Source: Bureau of Economic Analysis