US Q1 GDP (Advance Estimate)

The steep drop in economic activity in the US in the first quarter is just a fraction of the losses that will be seen next quarter, reflecting stricter social distancing and an expected unprecedented rise in the unemployment rate. The first estimate of GDP showed that the economy contracted at a 4.8% annualized pace in Q1, with almost every component contributing to the fall apart from residential investment and government spending. Consumer spending, the largest part of the economy, plummeted by 7.6% annualized, with spending on durable goods and services seeing the most pronounced drops, and set to fall further in the second quarter reflecting further job losses and business closures. Business investment fell by 8.6% annualized, with investment in equipment particularly weak. Forward looking data on core capital goods orders suggest another weak quarter for equipment investment in Q2. Exports slumped 8.7% annualized as trading partners entered recessions, and imports were down by almost twice that magnitude reflecting factory closures and weaker domestic demand. The impressive 21% annualized gain in residential investment won’t be repeated in Q2 given the weaker readings received on housing starts and sales lately amidst social distancing.

The BEA noted that since this is the first estimate of Q1 GDP, in cases where data was only available for the first two months of the quarter, alternative sources were used to try and capture fully the impact of the virus on the economy - including credit card transactions and unemployment claims data. That could limit the risk of seeing a large downside revision in the second release as other data rolls in. Even once social distancing measures start to be relaxed in the coming months, demand is expected to remain relatively weak as the unemployment rate will only fall gradually, while open capacity will limit business investment.