Economic Flash!

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US Q1 GDP Leaves Year's Outlook on Track

Summary of Gross Domestic Product from the Commerce Department

Ann Qtrly Chg	181Q	174Q	173Q	172Q	171Q	164Q	163Q
Real GDP	2.3%	2.9%	3.2%	3.1%	1.2%	1.8%	2.8%
YOY percent	2.9%	2.6%	2.3%	2.2%	2.0%	1.8%	1.5%
Personal consumption	1.1%	4.0%	2.2%	3.3%	1.9%	2.9%	2.8%
Goods	-1.1%	7.8%	4.5%	5.4%	0.7%	4.7%	3.2%
Durable goods	-3.3%	13.7%	8.6%	7.6%	-0.1%	9.2%	9.4%
Nondurable goods	0.1%	4.8%	2.3%	4.2%	1.1%	2.5%	0.1%
Services	2.1%	2.3%	1.1%	2.3%	2.5%	2.1%	2.7%
Gross private investment	7.3%	4.7%	7.3%	3.9%	-1.2%	8.5%	2.4%
Fixed investment	4.6%	8.2%	2.4%	3.2%	8.1%	1.7%	1.5%
Nonresidential	6.1%	6.8%	4.7%	6.7%	7.2%	0.2%	3.4%
Structures	12.3%	6.3%	-7.0%	7.0%	14.8%	-2.2%	14.3%
Equipment	4.7%	11.6%	10.8%	8.8%	4.4%	1.8%	-2.1%
Intellectual Property	3.6%	0.8%	5.2%	3.7%	5.7%	-0.4%	4.2%
Residential	0.0%	12.8%	-4.7%	-7.3%	11.1%	7.1%	-4.5%
Exports	4.8%	7.0%	2.1%	3.5%	7.3%	-3.8%	6.4%
Goods	6.1%	11.6%	1.8%	2.2%	10.8%	-3.4%	8.1%
Services	2.4%	-1.4%	2.5%	6.2%	1.0%	-4.6%	3.2%
Imports	2.6%	14.1%	-0.7%	1.5%	4.3%	8.1%	2.7%
Goods	2.1%	17.3%	-0.2%	1.3%	4.7%	9.2%	1.2%
Services	4.8%	1.1%	-2.6%	2.2%	2.5%	3.2%	9.0%
Government consumption	1.2%	3.0%	0.7%	-0.2%	-0.6%	0.2%	0.5%
Federal	1.7%	3.2%	1.3%	1.9%	-2.4%	-0.5%	1.6%
National defense	1.8%	5.5%	2.4%	4.7%	-3.3%	-3.2%	2.5%
Nondefense	1.6%	-0.1%	-0.2%	-1.9%	-1.2%	3.6%	0.3%
State and local	0.8%	2.9%	0.2%	-1.5%	0.5%	0.6%	-0.2%

Source: Bloomberg

- The US economy edged past expectations in the first quarter but the details have us leaving our annual forecast unchanged. The two positive surprises, inventories and net trade, are likely to revert back to more normal levels in Q2. With consumption likely to firm up, we're still on target for 2.7% growth for 2018 as a whole.
- Economic activity grew by 2.3% annualized in Q1, a few ticks above expectations for a 2.0% advance, and bucking the weaker Q1 trend that has frequently plagued post-recession growth. Inventories contributed a solid 0.4%-pts to growth, something that isn't likely to persist if shipping backlogs are at least partially resolved in Q2. Net trade added a small 0.2%-pts to growth, but that isn't likely to last as capital equipment orders and consumption lift import growth.

- The low contribution to growth from personal consumption (0.7%-pts) was anticipated after spending was elevated in Q4 by replacement purchases of goods destroyed by hurricanes. Household spending is ripe for a rebound as tax cuts feed through to consumers' wallets this year. Income growth was strong during the first quarter and a tightening labour market will support wage growth this year.
- The weakness in residential investment (0.1% ann. growth) was expected as rebuilding following the hurricanes started to taper off at the beginning of the year. Recent strength in housing starts suggests that the multi-family segment is becoming increasingly important to expansion in this component, something that should continue while limiting the value-added per unit to GDP. A lowering of the mortgage interest deduction will also limit investment in the higher-priced segment of the single-family market, while rising mortgage costs and demographics also act as headwinds.
- Business investment decelerated slightly but favourable tax changes including the immediate expensing of equipment should support momentum in capital spending going forward. That said, core capital goods orders disappointed at the end of Q1 which isn't a good near-term indicator.
- Core PCE grew at 2.5% annualized in Q1, the first print above 2% since Q3 2016, but that was no stronger than what the consensus was looking for. Indeed, the year-over-year rate is still a bit below the Fed's target.

Implications & Actions

Re: Economic Forecast — Today's slightly higher than expected print doesn't have us altering our forecast for 2.7% annual growth this year, as we've pared our inventory levels in Q2 after the first-quarter bump. As tax cuts help consumption re-gain its footing over the remainder of the year, the American economy should be the only major advanced economy to see growth pick up relative to last year.

Re: Markets — Bond yield and currency movements were muted.