Q1 GDP: Not as Strong as it Looks

- At 3.2%, the advanced GDP print was major beat vs consensus. We were expecting something closer to 1.5%
- Real Final Sales to Private Domestic Purchasers (the best single measure of aggregate demand) was only 1.3%, the lowest observation since mid-2013
- A massive inventory build and a small trade deficit flattered the headline number; underlying sub-aggregates suggest deeper weakness

At 3.2%, (we had expected something closer to 1.5%) the advanced Q1 GDP print beat expectations by a seemingly astonishing margin. However, a look at the underlying data should give some pause.

1. Domestic demand - Final sales to Domestic Private Purchasers, which is the best measure of final domestic demand was 1.3%, the lowest since 2013. This measure strips out government spending, net trade, and inventories. In other words, it measures what was sold and consumed in the US by the US. At 1.3% it’s the lowest measure of domestic demand in over five years.
2. **Inventories** – Total inventory build was $128 billion dollars. That's current production that takes away from future production. One reason bonds are rallying is that this makes Q2 GDP look like it's already on the back-foot statistically. Stuff produced today but not sold essentially borrows from future sales. The inventory build in the US has been massive in the last three quarters: $89.8bn; $96.8bn; and now $128.4bn. The contribution to GDP just from the inventory build was 0.65%.

3. **Trade** - Falling imports (down 3.7%) count as a positive in the GDP accounting methodology. This is due to falling domestic demand: personal consumption in the GDP release was only 1.2%. Remember those shockingly weak retail sales in previous months? The perverse result is that falling consumption wound up making a positive contribution to GDP growth. Net exports made a 0.45% contribution to the headline number.

4. **Business Spending** - Nonresidential Fixed Investment in Structures and Equipment was -0.8% and 0.2% respectively. That's quite weak. (The wooly “intellectual property” line was strong at 8.6%.) Overall, Fixed Investment was paltry at just 1.5%, the second weakest print since 2016. Investment in Nonresidential Structures was down 0.8%. Combined with weak residential investment, the construction and housing sectors are having a rough time.

5. **Housing** - Residential Investment (i.e. houses) was down for the fifth consecutive quarter. Combined with weaker data across a raft of housing market data series, this important sector remains under pressure. Our own measure of the housing market shows the sector has been weakening since the end of 2017.

Click here for a chartbook analyzing the GDP release.