April 28, 2017

Economics Group

John E. Silvia, Chief Economist
john.silvia@wellsfargo.com • (704) 410-3275
Sam Bullard, Senior Economist
sam.bullard@wellsfargo.com • (704) 410-3280

Another Sluggish GDP Growth Print to Start the Year

Reflecting, in part, significantly slower consumer spending growth and a sizeable inventory drag, U.S. real GDP growth increased at a sub-par annual rate of just 0.7 percent in Q1. A strong Q2 rebound is still expected.

Following Trend, Q1 Produces a Soft Growth Print

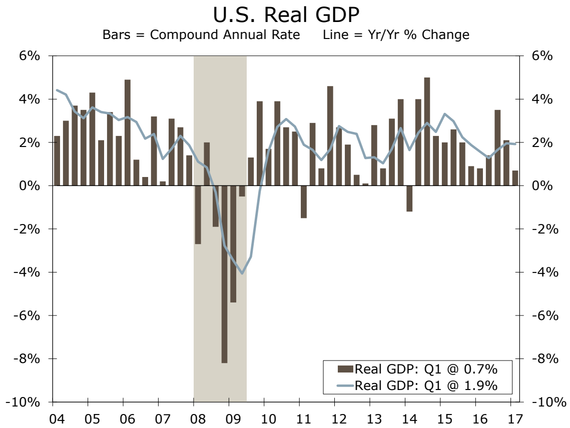
Hampered by perennial residential seasonality issues and one-off items, which have materially factored into the calculation, the first quarter of each year in this expansion cycle has more times than not resulted in a lower-than-trend GDP growth performance. That turns out to be the case this year as U.S. real GDP increased at a modest 0.7 percent annualized rate in Q1, down from the 2.1 percent gain registered in Q4 2016.

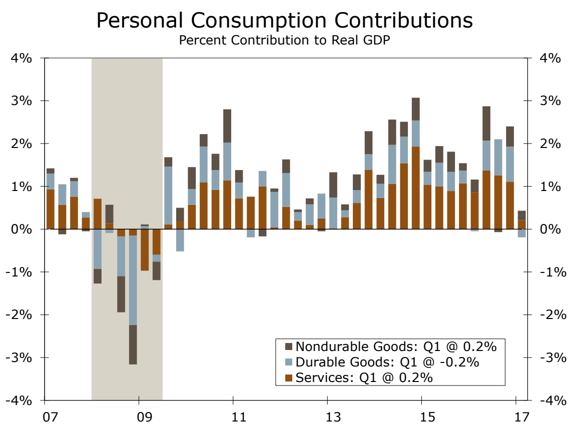
Weakness was primarily centered on a much slower pace of consumer spending. After registering a strong 3.5 percent gain in Q4, real consumer spending advanced just 0.3 percent in Q1, the weakest annualized pace of growth since Q4-2009. This quarter's one-off factor turned out to be milder-than-usual winter weather that blanketed much of the country during the first two months of the year. As a result, consumers did not spend as much on utility services, reflected in the modest 0.4 percent rise in Q1 services spending–which had averaged 2.7 percent growth over the past three quarters. Moreover, consumers did not take that extra savings and spend it elsewhere as goods spending was essentially unchanged on the quarter. Instead, they have banked it as the saving rate has risen from 5.2 percent in December to 5.6 percent as of February. Also a headwind to overall growth, inventories gave back all of its Q4 contribution, slicing a full percentage point off the top line.

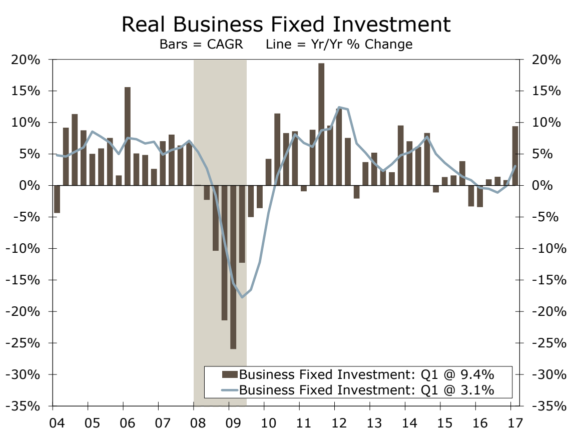
On the positive front, business fixed investment (BFI) posted a strong quarterly performance, up 9.4 percent. Within BFI, business equipment investment increased at a 9.1 percent annual pace, while intellectual property products rose 2.0 percent and structures investment surged 22.1 percent. Core capital goods shipments and orders have been on an improving track, and with business leaders still optimistic that a deal can get done on the tax policy front, the outlook for business investment remains constructive. Residential construction, which was also impacted by the weather, increased at its strongest quarterly pace since Q4 2015 at 13.7 percent. While some activity was clearly pulled forward, the outlook for residential construction remains constructive as long as the labor market, including wage & salary growth, continues to show improvement.

Trend Also Points to a Strong Second Quarter Rebound

With the Q1 growth performance unfolding largely as expected, we remain confident with our rebound call for Q2. Since 2000, Q1 U.S. GDP has averaged 1.0 percent, followed by an average growth print of 2.6 percent in Q2. Business/consumer sentiment continues to suggest the weakness in Q1 was not the start of a new trend. On early signs of strengthening consumer spending, resilient BFI and residential construction activity, and incorporating a modest drag from trade, conditions continue to suggest U.S. GDP will rebound solidly in Q2–our current call stands at 2.9 percent.







Source: U.S. Department of Commerce and Wells Fargo Securities

Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Anika R. Khan	Senior Economist	(212) 214-8543	anika.khan@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloria, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Misa Batcheller	Economic Analyst	(704) 410-3060	misa.n.batcheller@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Julianne Causey	Economic Analyst	(704) 410-3281	julianne.causey@wellsfargo.com
E. Harry Pershing	Economic Analyst	(704) 410-3034	edward.h.pershing@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com