



# Economics Group

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## 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

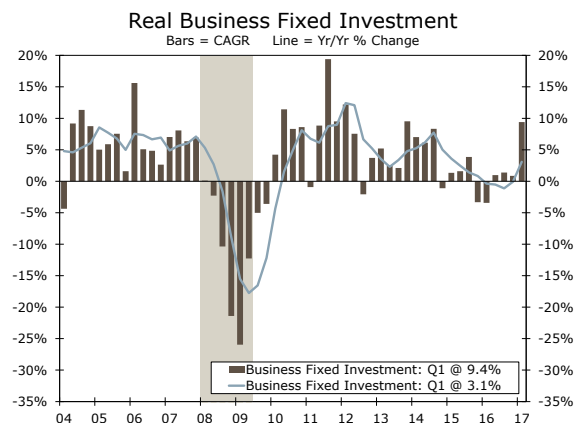
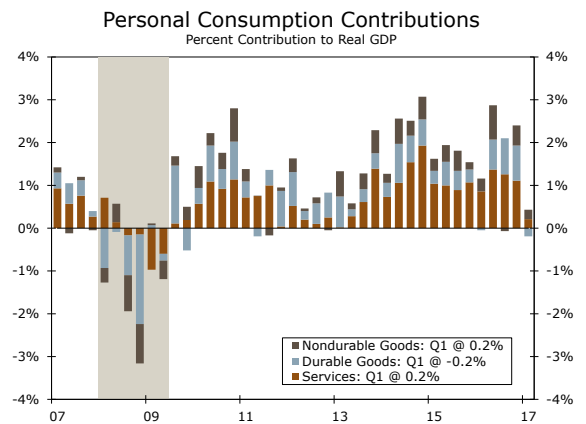
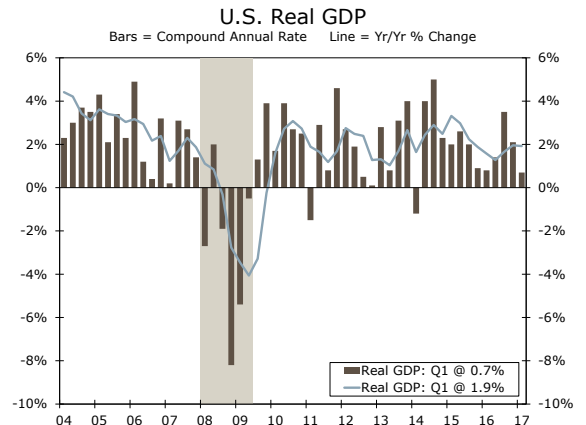
Hampered by perennial residential seasonality issues and one-off items, which have materially factored into the calculation, the first quarter of each year in this expansion cycle has more times than not resulted in a lower-than-trend GDP growth performance. That turns out to be the case this year as 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.



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