

28.Apr.2022

## 1Q22 GDP: Down But Not Out

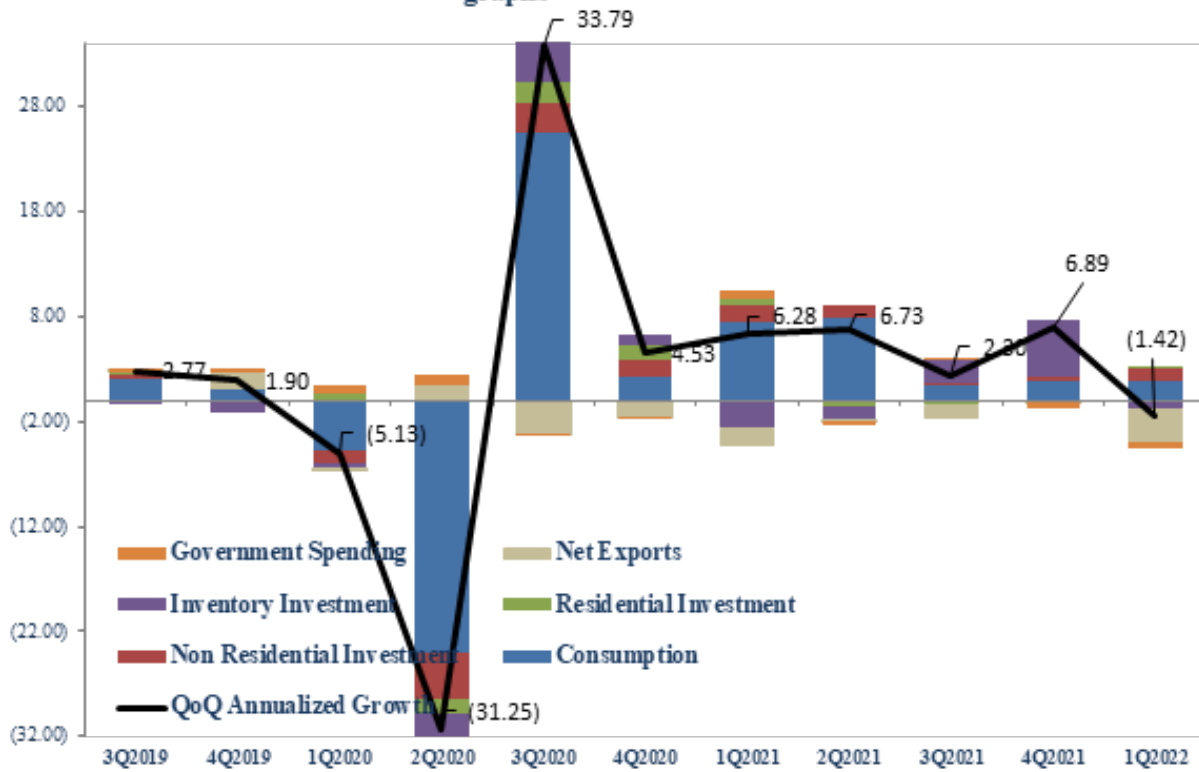
**Bottom Line:** The advanced reading of 1st Quarter GDP showed a surprise decline of 1.4% annualized, well below the street consensus, 1.0%, and even the Atlanta Fed GDP Model, 0.4%. While the report is concerning, the details of this report and the broader trend still suggest modest economic growth.

Recall that the 4th Quarter showed nearly 7% annualized gains, primarily because of outsized inventory builds, some of which reversed in the 1st Quarter. Over time inventories aren't a contributor to sustainable economic growth, and we broadly look through such volatility when assessing trend growth. Moreover, trade was a notably large drag on growth, mostly due to volatility from supply chain disruptions. In our view, there has yet to be any major shift in the trade trend. Government purchases were also notably weak amid continued volatile spending patterns in the aftermath of the pandemic.

Real final sales were down 0.6%, as consumers struggled with higher prices, but final domestic demand was still up 2.6% annualized in the quarter, stronger than in the 2nd half of 2021.

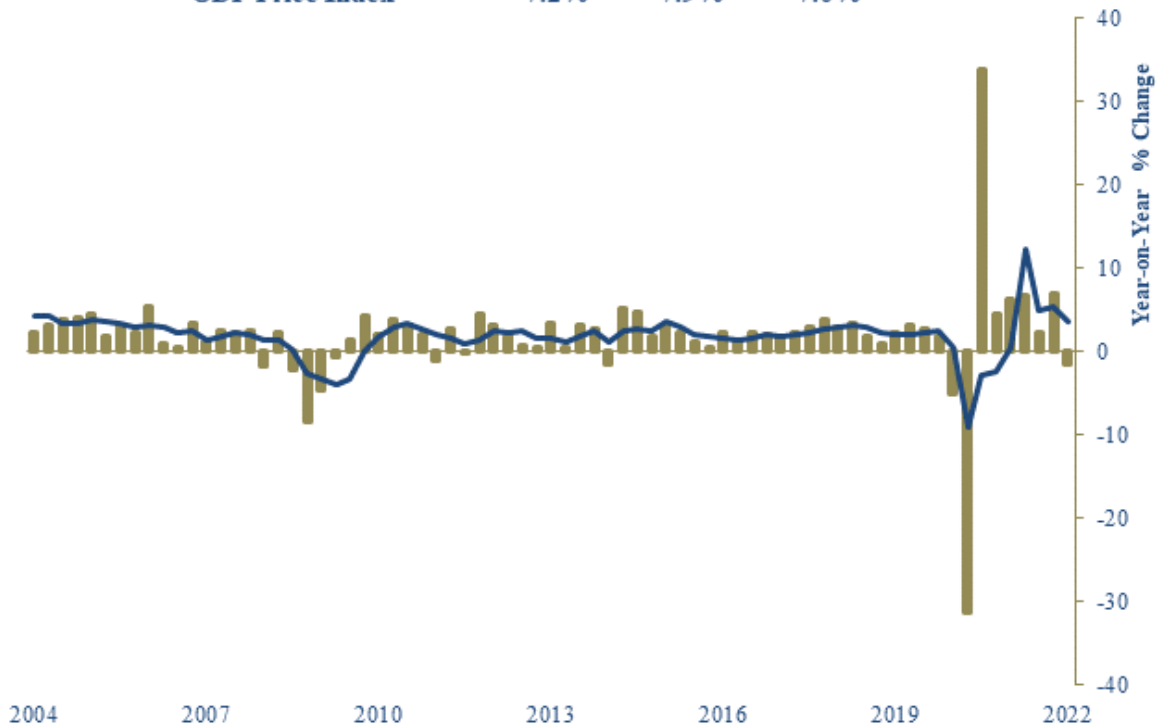
**Overall, this report nudges our expected trajectory of the economy down only slightly. Growth will likely remain modest to moderate over the next several quarters, before returning to a pace below pre-pandemic trends of 1.5% - 2.25%.**

## US Quarterly GDP (seas. adj. ann rate) with contributions in bar graphs



## GDP

	Cons.	Actual	Prior
GDP	1.0%	-1.4%	6.9%
GDP Price Index	7.2%	7.9%	7.0%



**Gross Domestic Product** FELL by 1.4% in the 1st Quarter, lower than market expectations for an increase of 7.2%. Economic activity was 3.6% ABOVE its year-ago level.

**Inventory Investment** FELL by \$34.5 billion, subtracting 0.84 percentage points from overall economic activity. Consequently, **Real Final Sales** FELL by 0.6% and was 2.2% ABOVE its year-ago level.

**Imports** ROSE by 17.7% and Exports FELL by 5.9% so Net Exports FELL by \$191.6 billion. This implies that **Real Final Domestic Demand** ROSE by 2.6% and was 3.3% ABOVE its year-ago level.

**Consumer Spending** ROSE by 2.7%, contributing 1.83 percentage points to economic growth.

**Business Investment** ROSE by 9.2%, adding 1.17 percentage points to GDP. Intellectual property products increased by 8.1% while non-residential structures declined by 0.9%.

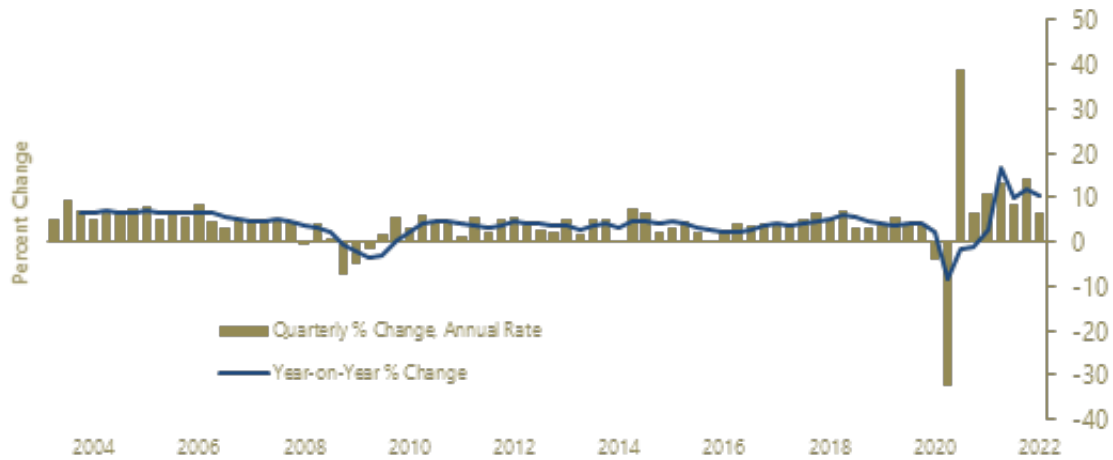
**Residential Investment** ROSE by 2.1%, adding 0.10 percentage points to economic growth.

Finally, **Government Purchases** FELL by 2.7%, subtracting 0.48 percentage points to GDP. This was its 5th negative contribution in the last 12 quarters.

**The GDP Price Index** ROSE by 7.9%, compared with market expectations of 7.2%. This is also 6.9% ABOVE its year-ago level.



## Nominal GDP



## GDP - by annual % Change

	% Change at Annual Rate (unless noted as \$)									
	Quarterly Averages						Annual Averages			
	Q1-22 Advance	Q4-21	Q3-21	Q2-21	Q1-21	Q4-20	2020	2019	Five Year	Ten Year
<b>Real GDP</b>	-1.4	6.9	2.3	6.7	6.3	4.5	-3.4	2.3	1.1	1.6
<b>Consumption</b>	2.7	2.5	2.0	12.0	11.4	3.4	-3.8	2.2	1.2	1.7
<b>Business Fixed Investment</b>	9.2	2.9	1.6	9.2	12.9	12.5	-5.3	4.3	2.0	4.1
<b>Residential Investment</b>	2.1	2.1	-7.7	-11.7	13.3	34.4	6.8	-0.9	3.1	5.4
<b>Inventory Investment (\$ Chg)</b>	-34.5	260.0	101.7	-80.2	-177.1	63.5	-117.4	9.4	-36.0	-10.0
<b>Net Exports (\$ Change)</b>	-191.6	-33.5	-72.1	-18.4	-93.3	-111.5	-37.4	-41.1	-44.2	-35.3
<b>Exports</b>	-5.9	22.4	-5.3	7.6	-2.9	22.5	-13.6	-0.1	-1.5	1.0
<b>Imports</b>	17.7	17.9	4.7	7.1	9.3	31.3	-8.9	1.1	0.3	2.0
<b>Government Purchases</b>	-2.7	-2.6	0.9	-2.0	4.2	-0.5	2.5	2.2	1.7	0.2
<b>Addendum:</b>										
<b>Real Final Sales</b>	-0.6	1.5	0.1	8.1	9.1	3.4	-2.9	2.2	1.3	1.7
<b>Final Domestic Demand</b>	2.6	1.7	1.3	8.0	10.4	5.0	-2.5	2.4	1.5	1.8
<b>Price Index (final sales)</b>	7.9	7.1	6.1	6.3	4.5	2.2	1.3	1.8	1.7	1.7

Source: Bureau of Economic Analysis, Department of Commerce via Bloomberg. Our calculations.