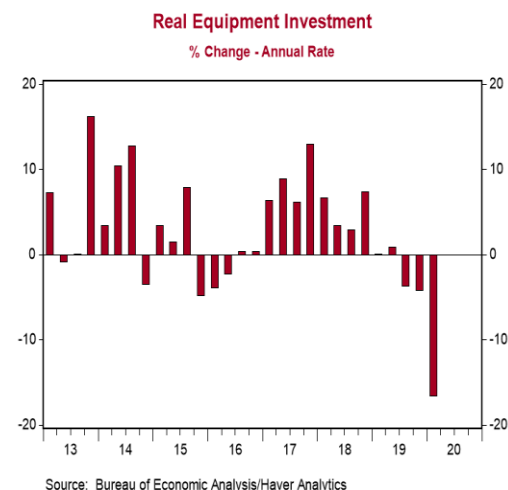
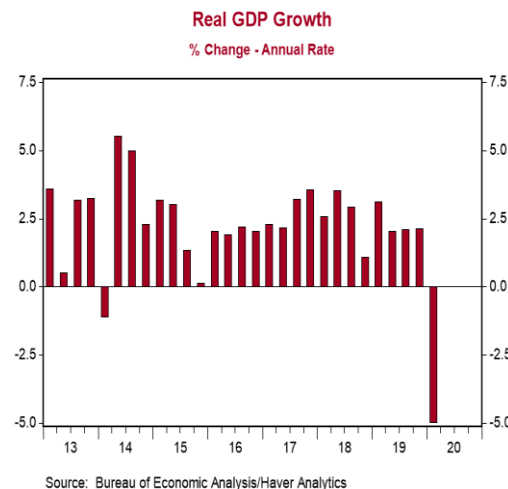


# 1<sup>st</sup> Quarter GDP (Final)

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- Real GDP growth in Q1 was unrevised, coming in at a -5.0% annual rate, matching consensus expectations.
- Upward revisions to business investment and government spending offset downward revisions to inventories, personal consumption, residential investment, and net exports.
- The largest positive contribution to the real GDP growth rate in Q1 came from net exports.
- The GDP price index was unrevised at a 1.4% annual rate. Nominal GDP growth – real GDP plus inflation – was revised higher to -3.4% at an annual rate from the prior estimate of -3.5%. Nominal GDP is up 2.1% versus a year ago.

**Implications:** Today’s “final” GDP report for the first quarter showed the same dismal pace of contraction that was estimated last month, but higher corporate profits compared to the prior reading. Real GDP declined at a 5.0% annual rate in Q1, unrevised from last month. The more important news was that economy-wide corporate profits were revised higher, although they are still down 12.3% versus the fourth quarter of 2019 and down 6.9% from a year ago. Expect further significant declines in corporate profits in the second quarter as the economy contracts further, with a rebound starting in Q3. However, even with the drop in profits, our capitalized profits model suggests US equities remain cheap, not only at today’s interest rates but even using a 10-year Treasury yield of 1.25%. Nominal GDP growth (real growth plus inflation), was revised slightly higher to a -3.4% annual rate in Q1 versus a prior estimate of -3.5%. Nominal GDP is up 2.1% from a year ago and is up at a 3.4% annual rate in the past two years. With just a few days left in June, we’re estimating that real GDP contracted at around a 30 - 35% annual rate in Q2. To put that in perspective, the worst quarter since the wind-down from World War II was -10% in the first quarter of 1958 on the heels of the Asian Flu. It will be historic, but states have re-opened, and it looks like the economy started to resume growth in May, with April being the worst month of the short, but steep, recession. Expect positive real GDP growth to resume in the third quarter.



1st Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q1-20	Q4-19	Q3-19	Q2-19	4-Quarter Change
<b>Real GDP</b>	<b>-5.0%</b>	2.1%	2.1%	2.0%	0.3%
<b>GDP Price Index</b>	<b>1.4%</b>	1.3%	1.8%	2.4%	1.7%
<b>Nominal GDP</b>	<b>-3.4%</b>	3.5%	3.8%	4.7%	2.1%
<b>PCE</b>	<b>-6.8%</b>	1.8%	3.1%	4.6%	0.6%
<b>Business Investment</b>	<b>-6.4%</b>	-2.5%	-2.3%	-1.0%	-3.1%
<b>Structures</b>	<b>2.7%</b>	-7.3%	-9.9%	-11.1%	-6.5%
<b>Equipment</b>	<b>-16.6%</b>	-4.2%	-3.8%	0.8%	-6.2%
<b>Intellectual Property</b>	<b>1.4%</b>	2.8%	4.6%	3.6%	3.1%
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q1-20</b>	<b>Q4-19</b>	<b>Q3-19</b>	<b>Q2-19</b>	<b>4Q Avg.</b>
<b>PCE</b>	<b>-4.7</b>	1.2	2.1	3.0	0.4
<b>Business Investment</b>	<b>-0.9</b>	-0.3	-0.3	-0.1	-0.4
<b>Residential Investment</b>	<b>0.7</b>	0.2	0.2	-0.1	0.2
<b>Inventories</b>	<b>-1.6</b>	-1.0	0.0	-0.9	-0.9
<b>Government</b>	<b>0.2</b>	0.4	0.3	0.8	0.4
<b>Net Exports</b>	<b>1.3</b>	1.5	-0.1	-0.7	0.5

Source: Bureau of Economic Analysis