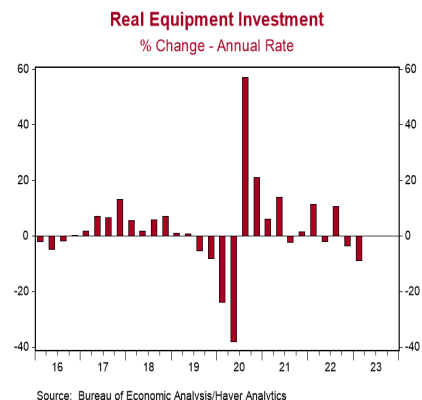
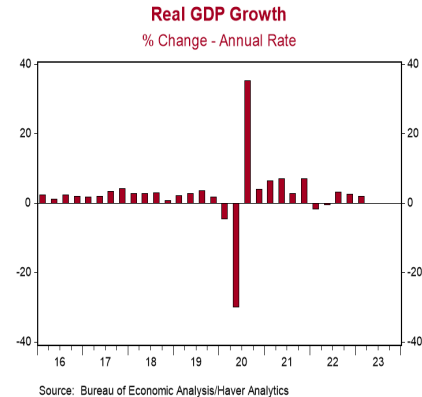


# 1<sup>st</sup> Quarter GDP (Final)

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- Real GDP growth in Q1 was revised higher to a 2.0% annual rate from a prior estimate of 1.3%, beating the consensus expected 1.4%.
- Upward revisions to net exports, consumer spending, and home building more than offset downward revisions to business investment, government purchases, and inventories.
- The largest positive contributions to the real GDP growth rate in Q1 were consumer spending, government purchases, and net exports. The weakest component by far was inventories.
- The GDP price index was revised slightly lower to a 4.1% annual growth rate from a previous reading of 4.2%. Nominal GDP growth – real GDP plus inflation – was revised up to a 6.1% annualized rate from a prior estimate of 5.4%.

**Implications:** The final reading for real GDP growth in the first quarter ended up being much better than expected, revised higher to a 2.0% annual rate from a prior estimate of 1.3%. The upward revision to the overall number was net exports (exports were revised higher while imports were revised lower), consumer spending, and home building which more than offset small downward revisions to business investment, government purchases, and inventories. Today we also got our second look at economy-wide corporate profits for Q1, which were revised higher, now down 4.1% from Q4 versus the 5.1% decline reported last month, and down 1.8% from a year ago versus the -2.8% reported a month ago. The government includes Federal Reserve profits in this data, and the Fed is making losses. So, we follow profits excluding those earned (or lost) by the Fed, which are still up 8.1% from a year ago. However, profits excluding the Fed declined 1.7% in Q1, the largest drop for any quarter since Q4 2020. Excluding the Fed, domestic non-financial companies’ profits fell the most. Moving forward, we expect further declines in corporate profits as the economy continues to re-normalize after the massive fiscal and monetary stimulus of 2020-21. In turn, this will be a headwind for equities. In addition to corporate profits, we also got a second look at the Q1 total for Real Gross Domestic Income, an alternative to GDP that is just as accurate. Real GDI was revised higher, but still fell at a 1.8% annual rate in Q1 and is down 0.8% versus a year ago, consistent with underlying economic weakness. These are figures that are normally seen in and around recessions. Regarding monetary policy, inflation remains stubbornly high. GDP inflation was revised slightly lower to a still elevated 4.1% annual rate in Q1 versus a prior estimate of 4.2%. GDP prices are up 5.3% from a year ago, nowhere near the Fed’s 2.0% target. Meanwhile, nominal GDP (real GDP growth plus inflation) rose at a 6.1% annual rate in Q1 and is up 7.2% from a year ago. In employment news this morning, initial claims for jobless benefits declined 26,000 last week to 239,000. Continuing claims declined 19,000 to 1.742 million. As for other economy-wide news, the Fed recently reported that the M2 measure of the money supply increased 0.6% in May, the first increase in 10 months. But M2 still remains down 4.0% from a year ago, and is down at a 4.9% annualized rate from the peak in July 2022. Not only have we never experienced a Fed trying to fight an inflation problem under an abundant reserve regime, we’ve never seen M2 grow so fast for so long, or decline so rapidly, at least since the Great Depression.



<b>1st Quarter GDP</b> <i>Seasonally Adjusted Annual Rates</i>	<b>Q1-23</b>	<b>Q4-22</b>	<b>Q3-22</b>	<b>Q2-22</b>	<b>4-Quarter Change</b>
<b>Real GDP</b>	<b>2.0%</b>	2.6%	3.2%	-0.6%	1.8%
<b>GDP Price Index</b>	<b>4.1%</b>	3.9%	4.4%	9.0%	5.3%
<b>Nominal GDP</b>	<b>6.1%</b>	6.6%	7.7%	8.5%	7.2%
<b>PCE</b>	<b>4.2%</b>	1.0%	2.3%	2.0%	2.4%
<b>Business Investment</b>	<b>0.6%</b>	4.0%	6.2%	0.1%	2.7%
<b>Structures</b>	<b>15.8%</b>	15.7%	-3.6%	-12.7%	3.1%
<b>Equipment</b>	<b>-8.9%</b>	-3.5%	10.6%	-2.1%	-1.2%
<b>Intellectual Property</b>	<b>3.1%</b>	6.2%	6.8%	8.9%	6.2%
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q1-23</b>	<b>Q4-22</b>	<b>Q3-22</b>	<b>Q2-22</b>	<b>4Q Avg.</b>
<b>PCE</b>	<b>2.8</b>	0.7	1.5	1.4	1.6
<b>Business Investment</b>	<b>0.1</b>	0.5	0.8	0.0	0.4
<b>Residential Investment</b>	<b>-0.2</b>	-1.2	-1.4	-0.9	-0.9
<b>Inventories</b>	<b>-2.1</b>	1.5	-1.2	-1.9	-0.9
<b>Government</b>	<b>0.9</b>	0.7	0.7	-0.3	0.5
<b>Net Exports</b>	<b>0.6</b>	0.4	2.9	1.2	1.3

Source: Bureau of Economic Analysis