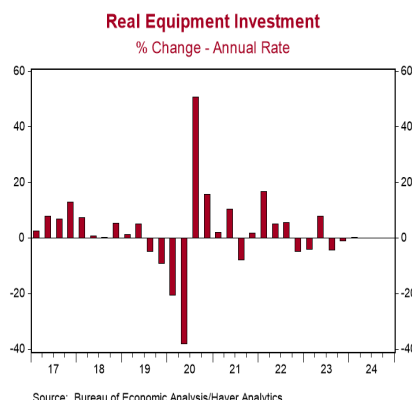


1st Quarter GDP (Preliminary)

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- Real GDP growth in Q1 was revised lower to a consensus expected 1.3% annual rate from a prior estimate of 1.6%.
- Downward revisions to personal consumption and inventories more than offset upward revisions to business investment, home building, and government purchases.
- Personal consumption, business fixed investment, and home building, combined, rose at a 2.8% annual rate in Q1. We refer to this as “core” GDP.
- The GDP price index was revised slightly lower to a 3.0% annual growth rate from a prior estimate of 3.1%. Nominal GDP growth – real GDP plus inflation – was revised lower to a 4.3% annualized rate from a prior estimate of 4.8%.



Implications: Hold off on GDP for a moment. The most important data in this morning’s report was on economy-wide corporate profits, which declined 0.6% in the first quarter vs. the fourth quarter but are up 7.2% from a year ago. Leading the decline were profits from domestic non-financial industries, which fell 4.7%. Profits from domestic financial firms as well as profits from the rest of the world increased in the first quarter. Financial industry data include the Federal Reserve (either profits, or losses) and because the Fed pays private banks interest on reserves, and has raised interest rates, it has been generating unprecedented losses in recent quarters. Excluding the losses at the Fed (because we want to accurately count profits in the private sector), overall corporate profits were down 0.4% in the first quarter but up 7.1% from a year ago. Plugging in non-Fed profits into our Capitalized Profits Model suggests stocks remain overvalued. Looking at the other details of today’s report, first quarter real GDP was revised lower to a 1.3% annual rate versus a prior estimate of 1.6%. The downward revision was due to less personal consumption for goods along with slower growth in inventories. These declines offset upward revisions to business investment for intellectual property, home building, and government purchases. To focus on sustainable growth drivers, we follow “core” GDP, which includes consumer spending, business fixed investment, and home building, while excluding government purchases, inventories, and international trade, which are too volatile for long-term growth. “Core” GDP increased at a 2.8% annual rate in Q1, lower than the prior estimate of 3.1%. On the inflation front, today’s report showed the GDP price index revised slightly lower to a 3.0% annual rate in Q1 versus a prior estimate of 3.1% and up 2.4% from a year ago, both above the Fed’s 2.0% target. In other news this morning, initial claims for unemployment insurance rose 3,000 to 219,000 last week, while continuing claims increased 4,000 to 1.791 million. These figures are consistent with continued job growth in May. On the housing front, home prices rose modestly in March. The Case-Shiller index increased 0.3% for the month and is up 6.5% from a year ago; the FHFA index ticked up 0.1% in March and is up 6.8% from a year ago. In the manufacturing sector, the Richmond Fed index, a measure of factory activity in the mid-Atlantic, rose to zero in May from -7 in April. Also earlier this week, the Federal Reserve released monthly figures on the money supply showing M2 up 0.1% in April and up 0.6% in the past year. After surging in the first two years of COVID, M2 declined from early 2022 through early 2023 and has since been close to flat. This recent history should eventually put downward pressure on the growth rate of nominal GDP.

1st Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q1-24	Q4-23	Q3-23	Q2-23	4-Quarter Change
Real GDP	1.2%	3.4%	4.9%	2.1%	2.9%
GDP Price Index	3.0%	1.6%	3.3%	1.7%	2.4%
Nominal GDP	4.3%	5.1%	8.3%	3.8%	5.4%
PCE	2.0%	3.3%	3.1%	0.8%	2.3%
Business Investment	3.3%	3.8%	1.5%	7.4%	4.0%
Structures	0.4%	10.9%	11.2%	16.1%	9.5%
Equipment	0.3%	-1.1%	-4.4%	7.7%	0.5%
Intellectual Property	7.9%	4.3%	1.8%	2.7%	4.2%
Contributions to GDP Growth (p.pts.)	Q1-24	Q4-23	Q3-23	Q2-23	4Q Avg.
PCE	1.3	2.2	2.1	0.6	1.6
Business Investment	0.4	0.5	0.2	1.0	0.5
Residential Investment	0.6	0.1	0.3	-0.1	0.2
Inventories	-0.5	-0.5	1.3	0.0	0.1
Government	0.2	0.8	1.0	0.6	0.6
Net Exports	-0.9	0.3	0.0	0.0	-0.1

Source: Bureau of Economic Analysis