ECONOMIC UPDATE

REGIONS

May 30, 2024

Q1 2024 GDP – 2nd Estimate: Lower Headline Print Changes Little

- The BEA's second estimate shows real GDP grew at an annualized rate of 1.3 percent in Q1 2024, down from the initial estimate of 1.6 percent
- Before-tax profits fell by 0.6 percent in Q1 (up 7.2 percent year-on-year); after-tax profits fell by 1.7 percent (up 6.4 percent year-on-year)

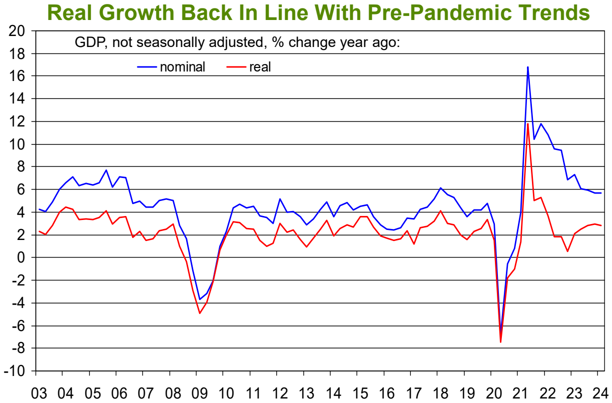
Revised and more complete source data put Q1 real GDP growth at 1.3 percent, in line with expectations but slower than the 1.6 percent growth initially estimated by the BEA. Growth in real consumer spending was revised lower, while the trade deficit was wider and the pace of inventory accumulation was slower than initially estimated, all as expected, which more than offset an upward revision to growth in fixed investment and a modest upward revision to growth in government spending. One element of the initial estimate that survived revision is that growth in real private domestic demand, though a bit slower than first reported, easily outpaced top-line real GDP growth. The second estimate of the Q1 GDP data comes in tandem with the initial estimate of Q1 corporate profits. Both before-tax and after-tax profits fell sequentially in Q1, but both were up sharply compared to Q1 2023. That Q1 real GDP growth is shown to have been slower than initially estimated does not change our view of the state of the U.S. economy. We'll make the same point here that we made in our analysis of the initial estimate, which is that growth in real private domestic demand is a more meaningful gauge of the underlying health of the economy than is top-line real GDP growth, and, yes, we make that same point even when the latter grows faster than the former.

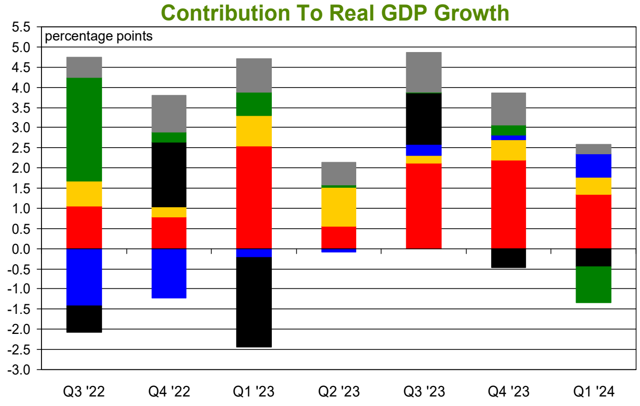
The revised data show real consumer spending grew at an annual rate of 2.0 percent in Q1, adding 1.34 percent to top-line real GDP growth. This is, however, a downward revision from the initial estimate of 2.5 percent growth, reflecting a much more pronounced contraction in spending on goods than initially reported, which was pretty much a given after the report on April retail sales showed downward revisions to Q1 control retail sales, a direct input into the GDP data. Real spending on consumer durable goods is now reported to have declined at a 4.1 percent annual rate rather than the initial estimate of a 1.2 percent rate of decline. There was a modest downward revision to growth in real spending on services.

Total fixed investment adjusted for price changes is now reported to have grown at an annual rate of 6.0 percent in Q1, compared to the initial estimate of 5.3 percent. As we expected, growth in business outlays on equipment and machinery was revised lower, now put at an annual rate of 0.3 percent, but this was more than offset by upward revisions to business spending on intellectual property products and investment in business structures. Despite what has for more than a year now been an up-and-down pattern of spending in this category, we've noted that at some point we do expect to see a run of sustained growth in spending on equipment and machinery with businesses casting an eye toward sustaining faster labor productivity growth. Rather than the 13.9 percent annual rate first reported, real residential fixed investment is now reported to grown at a 15.4 percent rate in Q1. The pace of growth in single family residential investment was revised higher, and this component has now logged three straight quarters of double-digit annualized growth, higher mortgage rates notwithstanding.

The revised data show real private domestic demand grew at an annual rate of 2.8 percent in Q1, down from the initial estimate of 3.1 percent growth but, again, easily ahead of top-line real GDP growth. The wider trade gap and slower pace of inventory accumulation in the nonfarm business sector teamed up to knock 1.3 percentage points off top-line real GDP growth. Though growth in U.S. exports was revised higher, that was offset by an upward revision in growth of imports into the U.S., thus yielding the wider trade deficit. We'll reiterate a point we've made upon the release of the initial estimate of Q1 GDP, which is that imports of capital goods excluding motor vehicles accounted for much of the growth in total imports. Such imports go toward current and/or future production here in the states, and it's not possible to concoct a plausible case for that being a negative for the U.S. economy, the implications for the GDP math notwithstanding. A slower rate of inventory accumulation – recall that for GDP growth, it is the change in the change in inventories that matters – knocked five-tenths of a point from top-line real GDP growth. That this marks a second straight quarter of deceleration is a sign that businesses have mostly right-sized inventories after scrambling to make up for pandemic-related disruptions in production and inventories.

As noted above, the revised Q1 GDP data do not change our view of the state of the U.S. economy. Consumer spending is settling into a slower pace, but we look for business investment to help fill that gap. That swap is much more constructive for longer-term real GDP growth.





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