Joint Economic Committee

Representative Pat Tiberi, Chairman | Senator Mike Lee, Vice Chairman

April 28, 2017

GDP Review (First Quarter 2017)

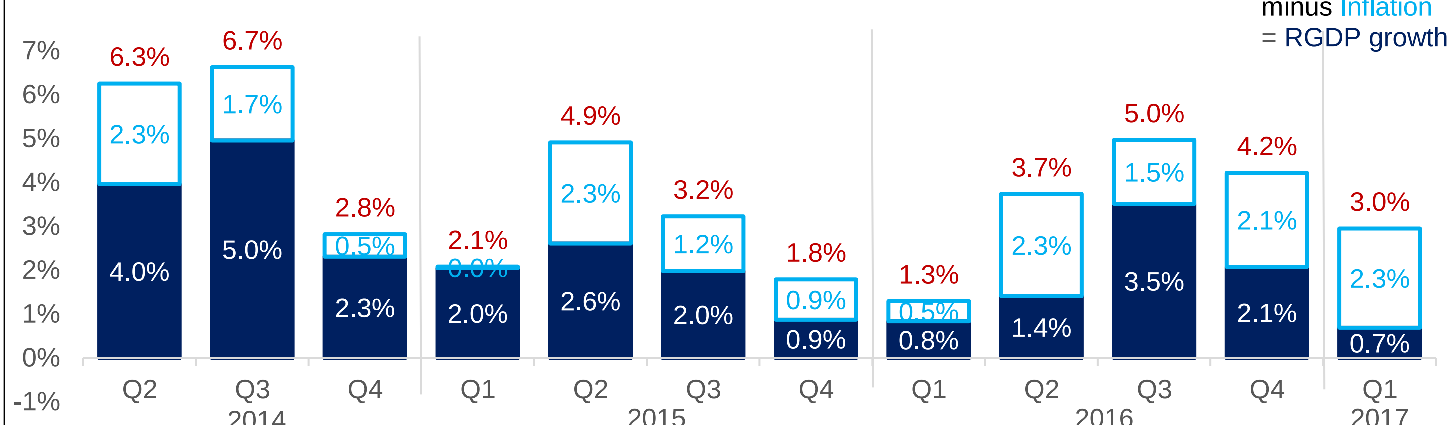
Snapshot

- First quarter 2017 real GDP growth was 0.7% at an annualized rate.
- Lower consumer spending (from higher savings) and a drawdown of business inventories caused weakness.
- Fixed investment (excludes inventories) was very strong. This was largely due to energy-related investment.

First Estimate of 2017 First Quarter Data

The Bureau of Economic Analysis (BEA) reported that real gross domestic product (RGDP), which is adjusted for inflation, grew at a 0.7% annual rate* in the first quarter of 2017. This compares to 2.1%, 3.5%, 1.4%, and 0.8% in the fourth, third, second, and first quarters of 2016, respectively. Nominal GDP (NGDP), which measures total spending in the economy in current dollars, increased by 3.0%. After adjusting for 2.3% inflation—as measured by the GDP deflator—RGDP growth was 0.7%.

Quarterly RGDP, NGDP, and the Inflation Adjustment



Source: BEA

	Actual		Blue Chip Consensus Forecast			
Component/Quarter	Q4-2016	**Q1-2017**	**Q1-2017**	Q2-2017	Q3-2017	Q4-2017
Real GDP (RGDP) growth	2.1%	**0.7%**	**1.4%**	2.7%	2.4%	2.4%
Nominal GDP (NGDP) growth	4.2%	**3.0%**	**3.7%**	4.5%	4.5%	4.6%
GDP deflator (inflation rate)	2.1%	**2.3%**	**2.3%**	1.8%	2.1%	2.2%

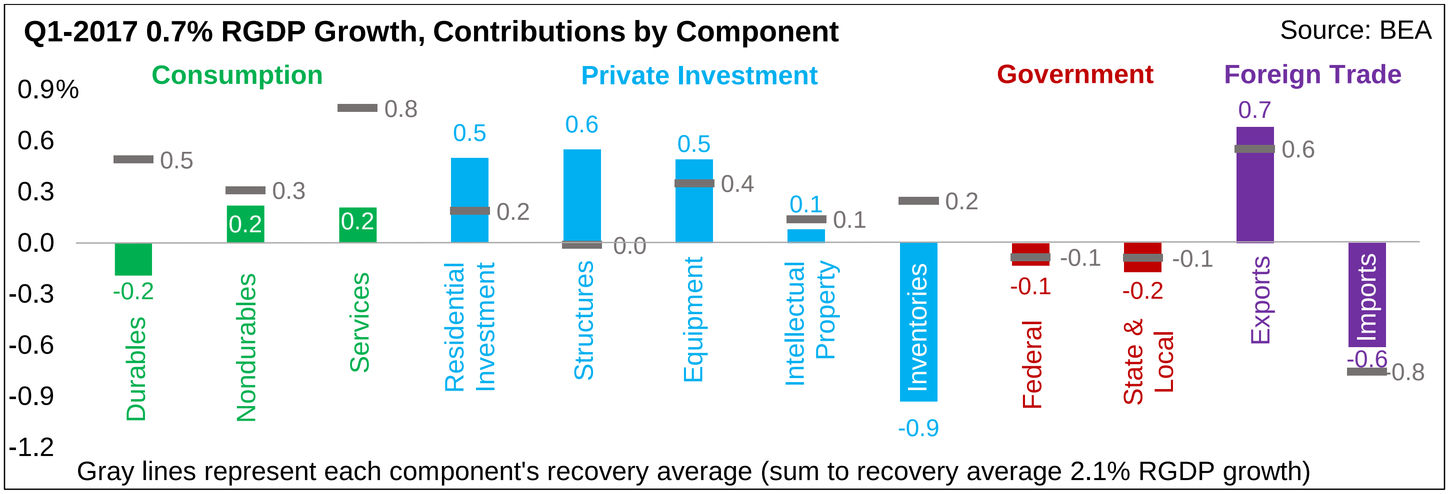
Weak RGDP growth arose from lower-than-normal consumption spending growth. Purchases of motor vehicles and parts were the largest drag on consumption spending. Increased household saving is contributing to the tempered consumption spending. RGDP growth was also reduced by a decrease in business inventories. Sales were greater than businesses anticipated, leading them to draw down inventories to meet greater-than-expected demand. Excluding the inventory component from RGDP growth results in 1.6% inflation-adjusted sales of final goods and services for the quarter. This quarter's weak RGDP growth number may also be the result of

* Quarterly numbers are reported here at annual rates unless stated otherwise. An annual rate for a quarter means BEA calculated the change from the previous quarter as if it occurred throughout a year.

seasonality issues with the data; during the recovery, Q1 RGDP growth has averaged 1%, while Q2, Q3, and Q4 has averaged 2.5%, 2.5%, and 2.3%, respectively. Furthermore, March's bad weather may have contributed to a slowdown in economic activity.

One bright spot was in fixed investment (e.g., the production of factories, construction equipment, residential housing). This was the component's largest contribution to RGDP growth since Q1-2012. The key drivers were investment in energy-related mining exploration, shafts, and wells, as well as increased residential investment and production of construction equipment.

The aforementioned information is based on the BEA first estimate of GDP. Two revisions to BEA's preliminary GDP report are scheduled for May 26 and June 29. The second quarter GDP report is scheduled for July 28 at 8:30am.



First Quarter Economic Indicators	Jan-17	Feb-17	Mar-17
ISM Manufacturing Index (>50, expansion)	56.0	57.7	57.2
ISM Non-Manufacturing Index	56.5	57.6	55.2
U.S. Trade Balance (millions)	-48,173	-43,557	#N/A
Retail Sales	0.5%	-0.2%	-0.2%
Business Inventory-to-Sales Ratio	1.35	1.35	#N/A
Housing Starts	-2.7%	5.0%	-6.8%
Durable Goods Orders	2.4%	2.3%	0.7%
Personal Income	0.5%	0.4%	#N/A
Personal Outlays	0.2%	0.1%	#N/A
Nonfarm Payroll Job Growth	216,000	219,000	98,000
Private Payroll Job Growth	204,000	221,000	89,000
PCE Inflation (12-month change)	1.9%	2.1%	#N/A
Core PCE Inflation (12-month change)	1.8%	1.8%	#N/A
Consumer Confidence	111.6	116.1	124.9

Context

Although the 0.7% RGDP growth was disappointing, this quarter's slowdown of consumer spending is not troubling because it is the consequence of increased saving by households rather than a decrease forced by slow income growth. The growth of fixed investment was encouraging as this leads to increased future production, worker productivity, and incomes. Nonetheless, the weak headline RGDP growth numbers and March's low jobs number is a stark reminder that our economy remains constrained after 8 years of unimpeded growth in regulations and a burdensome, antiquated tax code, and it needs pro-growth policies to get it going again.