

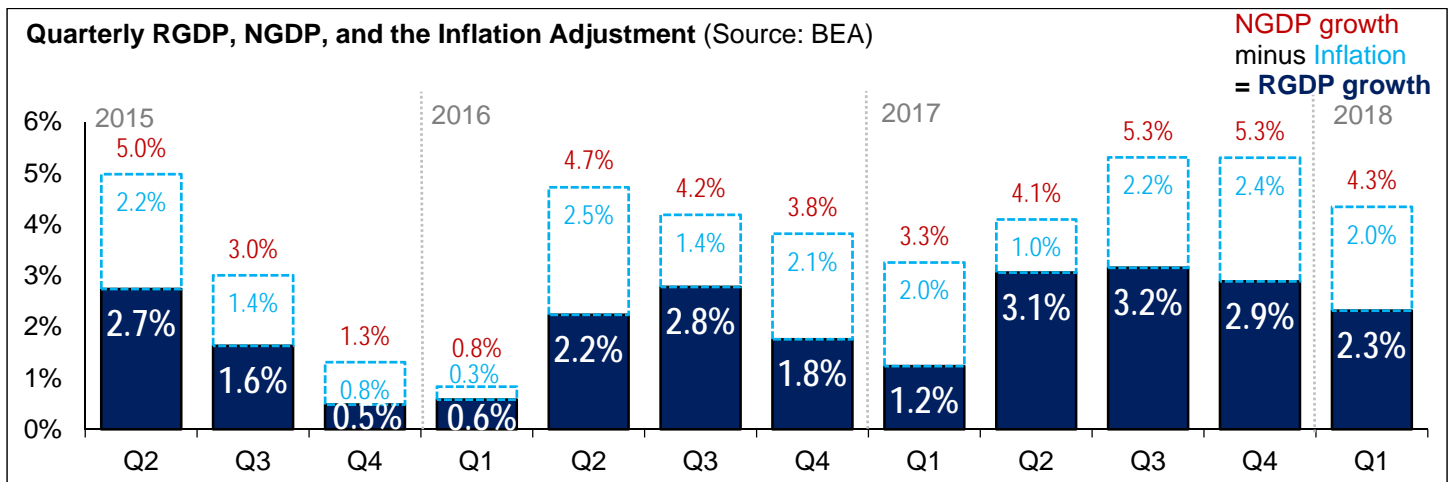
First Quarter 2018 GDP Review

GDP Review Snapshot

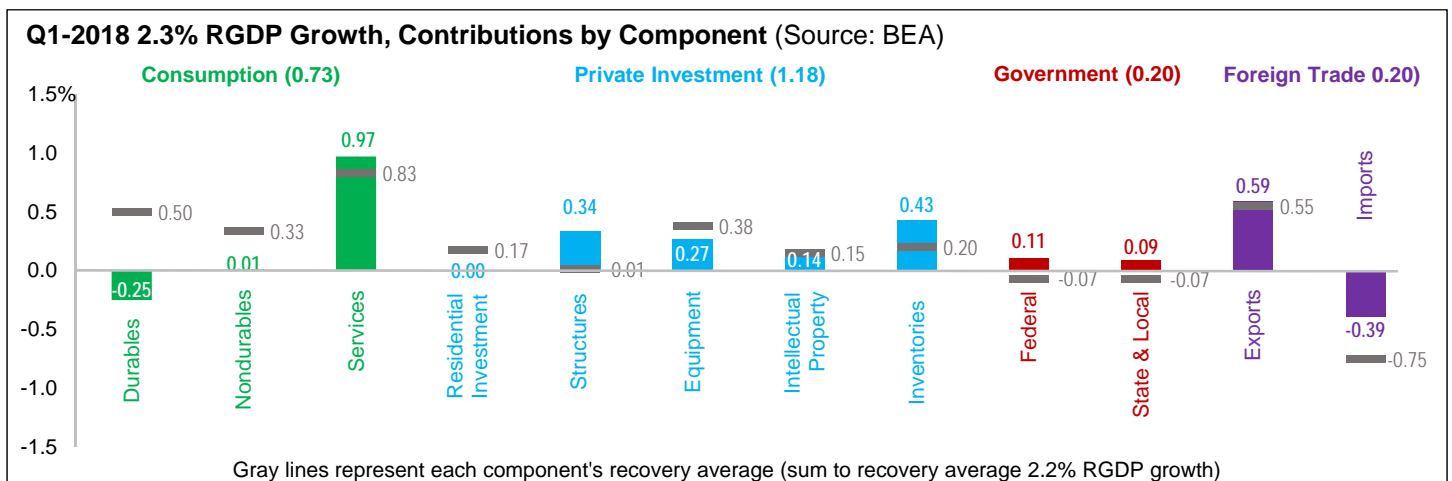
- Real GDP grew at an annual rate of 2.3% in the first quarter of 2018, exceeding expectations.
- Business nonresidential fixed investment was particularly strong this quarter, likely spurred by TCJA.
- BEA specifically credits TCJA for growth in personal disposable income, personal savings, and wages.

Details

The [Bureau of Economic Analysis \(BEA\) reported](#) that real gross domestic product (RGDP) grew at a 2.3% annual rate¹ in Q1-2018. Nominal GDP (NGDP), which measures total spending in the economy without adjusting for inflation, increased by 4.3%. After adjusting for 2.0% inflation—as measured by the GDP deflator—RGDP growth was 2.3%.



| Component/Quarter | Actual | | Blue Chip Consensus Forecast | | | |
|-------------------------------|---------|-------------|------------------------------|---------|---------|---------|
| | Q4-2017 | Q1-2018 | Q1-2018 | Q2-2018 | Q3-2018 | Q4-2018 |
| Real GDP (RGDP) growth | 2.9% | 2.3% | 2.1% | 3.1% | 3.0% | 2.8% |
| Nominal GDP (NGDP) growth | 5.3% | 4.3% | 4.4% | 5.0% | 5.2% | 4.9% |
| GDP deflator (inflation rate) | 2.4% | 2.0% | 2.3% | 1.9% | 2.2% | 2.1% |



Consumer spending contributed +0.73 (+1.66²) percentage points to the measured RGDP growth rate of 2.3 percent. Business non-residential fixed investment, which excludes inventories, contributed +0.75 (+0.54) percentage points. Residential investment did not contribute or subtract from growth (+0.17), while business inventory investment added 0.43 (+0.20) percentage points. Increased federal government spending (mostly in defense) added +0.11 (-0.07) percentage points, while spending by state and local governments contributed +0.09 (-0.07) percentage points. Net exports added +0.20 (-0.20) percentage points from RGDP growth.

| First Quarter Economic Indicators | Jan-18 | Feb-18 | Mar-18 |
|--|---------------|---------------|---------------|
| ISM Manufacturing Index (>50, expansion) | 59.1 | 60.8 | 59.3 |
| ISM Non-Manufacturing Index | 59.9 | 59.5 | 58.8 |
| U.S. Trade Balance (millions) | -56,665 | -57,591 | #N/A |
| Retail Sales | -0.2% | -0.1% | 0.6% |
| Business Inventory-to-Sales Ratio | 1.35 | 1.35 | #N/A |
| Housing Starts | 10.9% | -3.3% | 1.9% |
| Durable Goods Orders | -3.6% | 3.5% | 2.6% |
| Personal Income | 0.4% | 0.4% | #N/A |
| Personal Outlays | 0.1% | 0.2% | #N/A |
| Nonfarm Payroll Job Growth | 176,000 | 326,000 | 103,000 |
| Private Payroll Job Growth | 188,000 | 320,000 | 102,000 |
| PCE Inflation (12-month change) | 1.7% | 1.8% | #N/A |
| Core PCE Inflation (12-month change) | 1.5% | 1.6% | #N/A |
| Consumer Confidence | 124.3 | 130.0 | 127.0 |

Context

Since the last recession's end, Q1 RGDP growth has been unusually soft, averaging only 1.2%. Forecasters anticipated 2.1% growth. Thus, the reported 2.3% RGDP growth was a very positive result. Furthermore, given the general softness of Q1 numbers, nonresidential business fixed investment was robust, contributing 0.75 percentage points to growth.

The personal consumption expenditures (PCE) price index—the Fed's main inflation indicator—rose to an annualized rate of 2.5% net of energy and food prices. In its 2018 [annual report](#) (p. 86) JEC Republicans suggested a near-term acceleration of inflation was likely. We continue to anticipate that inflationary pressures should abate in the long term as supply-side effects of tax and regulatory reform gain more traction. Overall, the inflation picture gives no cause for concern. The GDP deflator registered an annualized growth rate of only 2.0% (compared to the 2.3% anticipated by forecasters). Year-over-year, which is the typical way inflation numbers are reported, the PCE price index excluding food and energy prices is up only 1.7% and the GDP deflator 1.9%.

Furthermore, real disposable personal income (inflation-adjusted household incomes after deducting taxes) grew 3.4% in Q1, reflecting both higher wages and lower taxes through the Tax Cuts and Jobs Act (TCJA). In comparison, growth during the Obama Administration after the recession averaged only 1.9%.

Noteworthy

Two updates to BEA's initial GDP report are scheduled for May 30 and June 28. The Q2-2018 GDP report is scheduled for July 27 at 8:30am, in which BEA will release its comprehensive revisions, which will affect data going back to 1929. In addition, the real estimates will be converted from 2009 dollars to 2012 dollars.

¹ 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.

² A component's average contribution to RGDP growth during this economic expansion, which began Q3-2009, is shown inside the parentheses.