U.S. Data Review

- GDP: solid growth in Q1
- Inflation: brisk advances in the PCE price indexes
- Unemployment claims: dips in initial and continuing claims

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Q1 GDP

- The first estimate of GDP growth for the first quarter of 2024 was solid at 1.6 percent, annual rate, although it lagged the Bloomberg median expectation of an advance of 2.5 percent. Although the headline print was softer than anticipated, we interpret the data as suggesting that domestic demand remains solid. On that point, final sales to domestic purchasers, which excludes the influences of net exports and inventory investment on growth and acts serves as a reasonable proxy for domestic demand, increased 2.8 percent. The Q1 pace slowed from the 3.5 percent rate in the second half of last year, but it suggests that demand may still be too firm to bring about additional progress on inflation (see below).

GDP and Related Items*

		23-Q3	23-Q4	24-Q1
1.	**Gross Domestic Product**	4.9	3.4	1.6
2.	**Personal Consumption Expenditures**	3.1	3.3	2.5
3.	**Nonresidential Fixed Investment**	1.4	3.7	2.9
3a.	**Nonresidential Structures**	11.2	10.9	-0.1
3b.	**Nonresidential Equipment**	-4.4	-1.1	2.1
3c.	**Intellectual Property Products**	1.8	4.3	5.4
4.	**Change in Business Inventories (Contribution to GDP Growth)**	1.3	-0.5	-0.4
5.	**Residential Construction**	6.7	2.8	13.9
6.	**Total Government Purchases**	5.8	4.6	1.2
6a.	**Federal Government Purchases**	7.1	2.4	-0.2
6b.	**State and Local Govt. Purchases**	5.0	6.0	2.0
7.	**Net Exports (Contribution to GDP Growth)**	0.0	0.3	-0.9
7a.	**Exports**	5.4	5.1	0.9
7b.	**Imports**	4.2	2.2	7.2
	Additional Items			
8.	**Final Sales**	3.6	3.9	2.0
9.	**Final Sales to Domestic Purchasers**	3.5	3.5	2.8
10.	**Gross Domestic Income**	1.9	4.8	- -
11.	**Average of GDP & GDI**	3.4	4.1	- -
12.	**GDP Chained Price Index**	3.3	1.6	3.1
13.	**Core PCE Price Index**	2.0	2.0	3.7

** Percent change SAAR, except as noted.*
Source: Bureau of Economic Analysis via Haver Analytics

- Consumer spending again contributed importantly to economic activity in Q1 with growth of 2.5 percent. While the pace of activity was respectable, spending across categories were mixed. On the firm side, outlays for services jumped 4.0 percent. In contrast, outlays for goods dipped 0.4 percent. Spending on durable goods eased 1.2 percent, led by a drop in outlays for motor vehicles and parts, while spending on nondurable items was flat.

- Business fixed investment grew moderately (+2.9 percent). Equipment spending rose 2.1 percent in Q1 after a Q4/Q4 decline of 0.6 percent in 2023. On the other hand, investment in structures dipped 0.1 percent in the latest quarter, but the pause followed a Q4/Q4 burst of 16.9 percent in 2023. The CHIPS Act and Inflation Reduction Act have stirred significant investment in new manufacturing facilities in recent quarters, and maintaining that pace of spending without at least a near-term breather would be challenging in most circumstances. Investment in intellectual property products (research and development, software, etc.) remained brisk with growth of 5.4 percent in Q1 after recording Q4/Q4 growth of 3.1 percent in 2023.

- Residential construction registered a favorable performance in Q1 (+13.9 percent) after a modest increase in 2023 (Q4/Q4 growth of 0.4 percent).

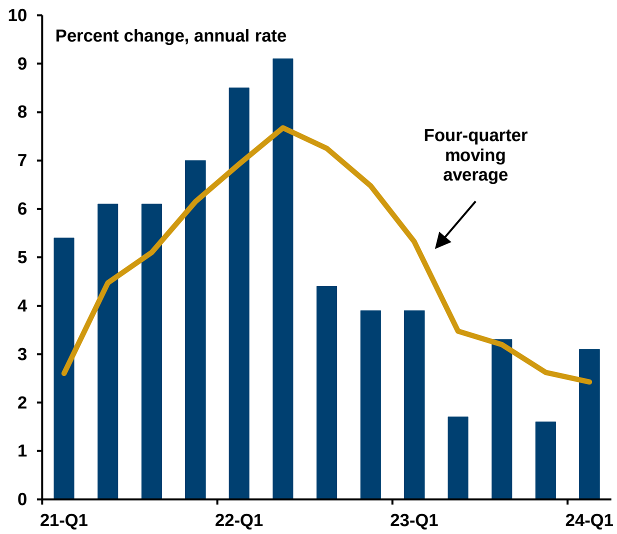
- Government spending rose 1.2 percent in 2024-Q1, as growth of 2.0 percent at the state and local level offset a dip of 0.2 percent in federal outlays.

- Inventory investment subtracted 0.35 percentage point from GDP growth after a drag of 0.47 percentage point in Q4, contrasting with our expectation of a modest positive contribution to growth. The latest results suggest that firms are managing inventories cautiously amid an uncertain demand outlook.

- Net exports were a substantial drag on growth in the latest quarter, subtracting 0.86 percentage point from GDP growth. Import growth of 7.2 percent far exceeded a pickup of 0.9 percent in exports. In one sense, the results are unfavorable in that domestic demand is in part being satisfied by imports rather than domestically produced goods and services. Alternatively, it can be cast in a more favorable light, as import flows suggest that domestic demand remains strong.

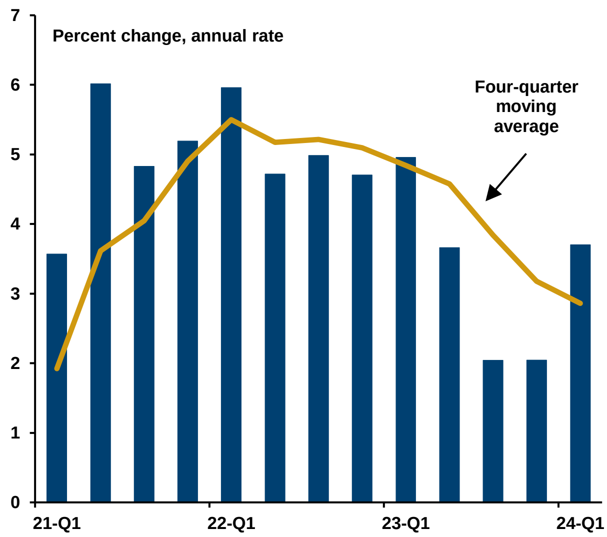
- Inflation data were unfavorable and raise the distinct possibility of a hawkish shift by the FOMC at next week's meeting. The GDP price index increased 3.1 percent, one tick faster than the median Bloomberg expectation, but the price indexes for personal consumption expenditures suggested even faster inflation. The headline PCE price index increased 3.4 percent in Q1 versus 1.8 percent in 2023-Q4; the change in the core index accelerated to 3.7 percent from 2.0 percent in 2023-Q4 (and exceeded the expectation of an advance of 3.4 percent). In other words, the latest results suggest that progress on inflation has stalled (charts).

GDP Chained Price Index



Source: Bureau of Economic Analysis via Haver Analytics

Core PCE Price Index



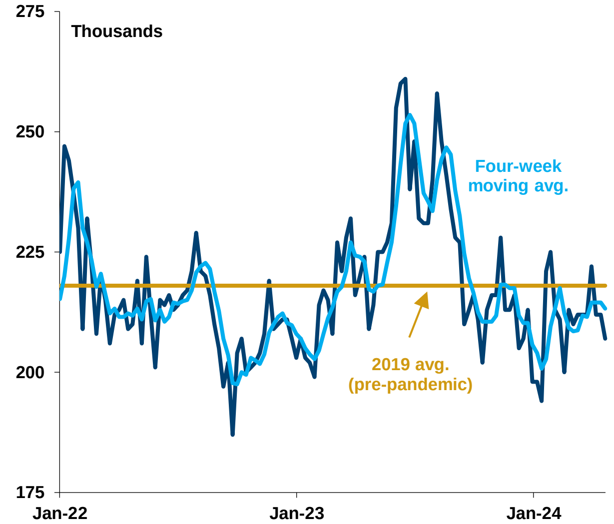
Source: Bureau of Economic Analysis via Haver Analytics

Unemployment Claims

- Initial claims for unemployment insurance fell by 5,000 to 207,000 in the week ending April 20, the lowest observation since the reading of 200,000 in the week ending February 17. The four-week moving average, which helps smooth out short-term fluctuations in claims, decreased by 1,250 to 213,250 (chart, below left). With initial claims essentially range-bound at a low level (and holding below the 2019 pre-pandemic average of 218,000, a period when the labor market was viewed as firm), demand for labor appears to remain on solid footing.

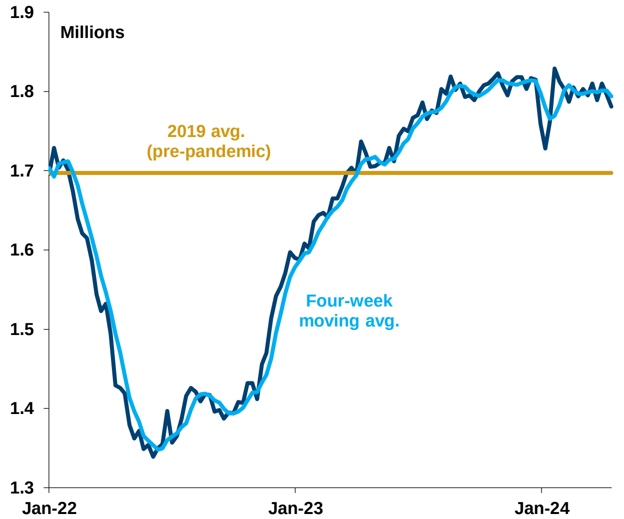
- Continuing claims for unemployment insurance dropped 15,000 to 1.781 million in the week ending April 13. The four-week moving average followed suit, decreasing by 7,250 to 1.794 million (chart, below right). While claims are in the upper end of the range of the past two years, they've shown little meaningful movement since February (range of 1.781 million to 1.810 million). If the economy were slowing significantly, or entering recession, continuing claims would be moving steadily higher.

Initial Claims for Unemployment Insurance



Source: U.S. Department of Labor via Haver Analytics

Continuing Claims for Unemployment Insurance



Source: U.S. Department of Labor via Haver Analytics