Daiwa Capital Markets

U.S. Data Review

- GDP: lockdown constrains growth

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Q1 GDP

The U.S. economy contracted at an annual rate of 4.8 percent in the first quarter, a bit softer than the consensus estimate of -4.0 percent. The economy dipped a few times during the course of the expansion, but those changes were modest. One has to go back to the financial crisis to find softer performances than that in Q1. The worst quarter during the financial crisis showed a drop of 8.4 percent (2008-Q4), while the second worst registered a decline of 4.4 percent (2009-Q1).

GDP and Related Items*

		19-Q3	19-Q4	20-Q1
1.	**Gross Domestic Product**	2.1	2.1	-4.8
2.	**Personal Consumption Expenditures**	3.2	1.8	-7.6
3.	**Nonresidential Fixed Investment**	-2.3	-2.4	-8.6
3a.	**Nonresidential Structures**	-9.9	-7.2	-9.7
3b.	**Nonresidential Equipment**	-3.8	-4.3	-15.2
3c.	**Intellectual Property Products**	4.7	2.8	0.4
4.	**Change in Business Inventories (Contribution to GDP Growth)**	0.0	-1.0	-0.5
5.	**Residential Construction**	4.6	6.5	21.0
6.	**Total Government Purchases**	1.7	2.5	0.7
6a.	**Federal Government Purchases**	3.3	3.4	1.7
6b.	**State and Local Govt. Purchases**	0.7	2.0	0.1
7.	**Net Exports (Contribution to GDP Growth)**	-0.1	1.5	1.3
7a.	**Exports**	1.0	2.1	-8.7
7b.	**Imports**	1.8	-8.4	-15.3
	Additional Items			
8.	**Final Sales**	2.1	3.1	-4.3
9.	**Final Sales to Domestic Purchasers**	2.2	1.6	-5.4
10.	**Gross Domestic Income**	1.2	2.6	--
11.	**Average of GDP & GDI**	1.7	2.4	--
12.	**GDP Chained Price Index**	1.8	1.3	1.3
13.	**Core PCE Price Index**	2.1	1.3	1.8

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

Consumer spending and business fixed investment led the downturn with declines of 7.6 percent and 8.6 percent, respectively. Consumer outlays for durable goods were quite weak (-16.1 percent), led by the pronounced drop in sales of new motor vehicles in March, but other durable goods also contributed to the retreat. The virus-related lockdown had a strong influence on service consumption (-10.2 percent, think travel, restaurants). In the business investment sector, outlays for equipment accounted for much of the drop (-15.2 percent), but investment in new business structures were off as well (-9.7 percent). The normally brisk intellectual property component of business investment posted growth of only 0.4 percent. Businesses also constrained activity in Q1 by trimming inventories, which subtracted 0.5 percentage point from GDP growth.

Two areas stood out on the firm side: residential construction jumped at an annual rate of 21.0 percent, and net exports made a positive contribution to GDP growth of 1.3 percentage points. Construction of single-family homes accounted for most of the advance in residential construction, but improvements to existing homes also were strong, and brokerage commissions were up as well. It is difficult to be excited about the contribution from net exports, because it was a decidedly “weak” positive contribution. That is, both exports and imports declined (off 8.7 percent and 15.3 percent, respectively), with the sharper decline in imports leading to the positive contribution.

The drop in Q1 was notable, but the degree of constraint in Q2 and beyond is the more important issue. With much of the economy closed, it is difficult to imagine a contraction of less than 20 percent in Q2, and a retreat approaching 50 percent is not fanciful, although with state governments now starting to open certain sectors of the economy, we are hopeful that the most extreme estimates will not be realized. Sluggishness will probably continue into Q3, but we will be looking for recovery in Q4 if the spread of the virus continues to diminish.