

U.S. Data Review

- GDP: solid growth in 26-Q1 led by consumer spending and capex; data yet to reflect the full force of spike in energy prices
- Consumer spending: respectable, but recent declines in real income and household saving suggest a slowdown ahead
- March inflation: surge in headline led by energy prices; core stuck above 3 percent
- Employment cost index: compensation growth faster than expected in Q1 but still indicative of slack labor demand

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Q1 GDP

- Economic growth was solid in Q1 at 2.0 percent, annual rate, as households and businesses maintained recent momentum and federal government spending rebounded after a shutdown last fall contributed to a sharp contraction in 2025-Q4 that shaved 1.16 percentage points from GDP growth (chart, next page, left, and table). Importantly, private domestic final demand – which excludes often volatile government spending, net exports, and inventory investment and gives a clearer view on underlying momentum in the economy – rose 2.5 percent, faster than the average of 2.4 percent in 2025 (chart, next page, right). Even so, reverberations from the Iran conflict have yet to register meaningfully in the data beyond inflation. Absent a rapid resolution, which appears increasingly unlikely given recent developments, downside risks to economic activity are likely to intensify in the months ahead, although the ultimate impact at this point remains highly uncertain.

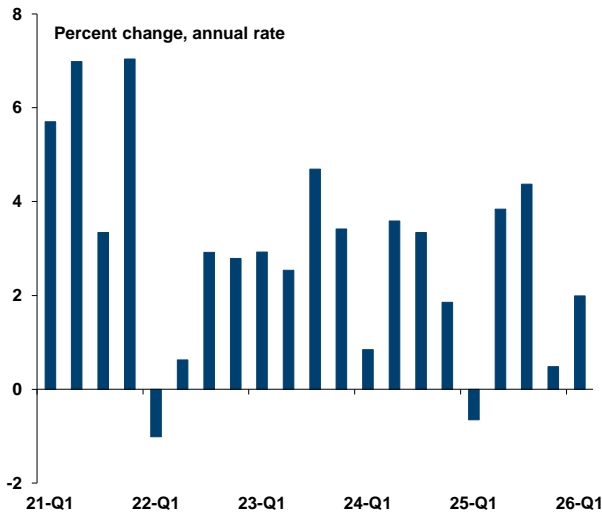
GDP and Related Items*

	25-Q3	25-Q4	26-Q1(a)
1. Gross Domestic Product	4.4	0.5	2.0
2. Personal Consumption Expenditures	3.5	1.9	1.6
3. Nonresidential Fixed Investment	3.2	2.4	10.4
3a. Nonresidential Structures	-5.0	-6.5	-6.7
3b. Nonresidential Equipment	5.2	4.3	17.2
3c. Intellectual Property Products	5.6	5.4	13.0
4. Change in Business Inventories	-0.1	0.1	0.4
(Contribution to GDP Growth)			
5. Residential Construction	-7.1	-1.7	-8.0
6. Total Government Purchases	2.2	-5.6	4.4
6a. Federal Government Purchases	2.7	-16.6	9.3
6b. State and Local Govt. Purchases	2.0	1.5	1.6
7. Net Exports	1.6	-0.2	-1.3
(Contribution to GDP Growth)			
7a. Exports	9.6	-3.2	12.9
7b. Imports	-4.4	-1.0	21.4
Additional Items			
8. Final Sales	4.5	0.3	1.6
9. Final Sales to Domestic Purchasers	2.8	0.6	2.8
10. Gross Domestic Income	2.4	2.6	--
11. Average of GDP & GDI	3.4	1.5	--
12. GDP Chained Price Index	3.8	3.7	3.6
13. Core PCE Price Index	2.9	2.7	4.3

* Percent change SAAR, except as noted. (a) = advance estimate
 Source: Bureau of Economic Analysis via Haver Analytics

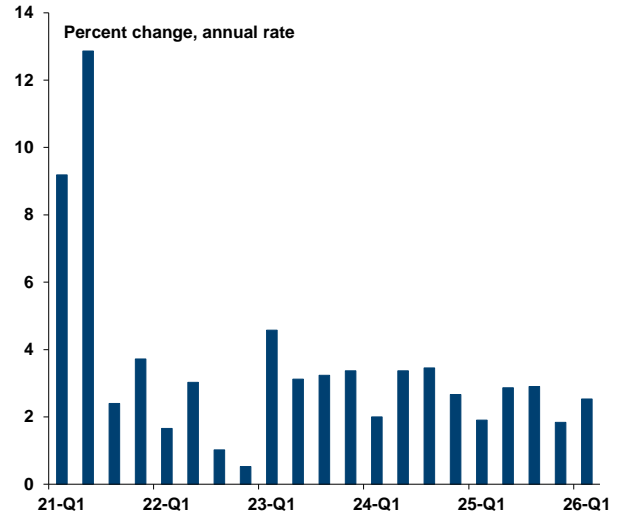
- Turning to consumer spending, outlay growth of 1.6 percent (contribution of +1.08 percentage point to GDP) lagged the average of 2.1 percent over the four quarters of last year. The household sector has remained resilient amid multiple challenges in recent years, but spending may finally be decelerating. Relatedly, key determinants of consumer spending are softening: wage growth has eased as the job market continues to soften (see the discussion of the ECI, below), while real incomes moderated for the third time in the past four months and the saving rate slipped. (See charts below from the monthly Personal Income and Outlays Report for March, released today alongside Q1 GDP; real personal income dipped 0.1 percent in the latest month, and the personal saving rate declined 0.3 percentage point to 3.6 percent, well below pre-pandemic norms.)

GDP



Source: Bureau of Economic Analysis via Haver Analytics

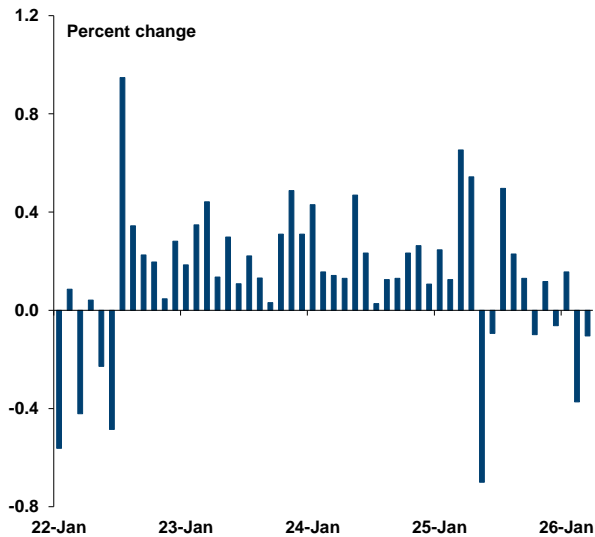
Private Domestic Final Demand*



* Excludes the contributions of government spending, net exports, and inventory investment.

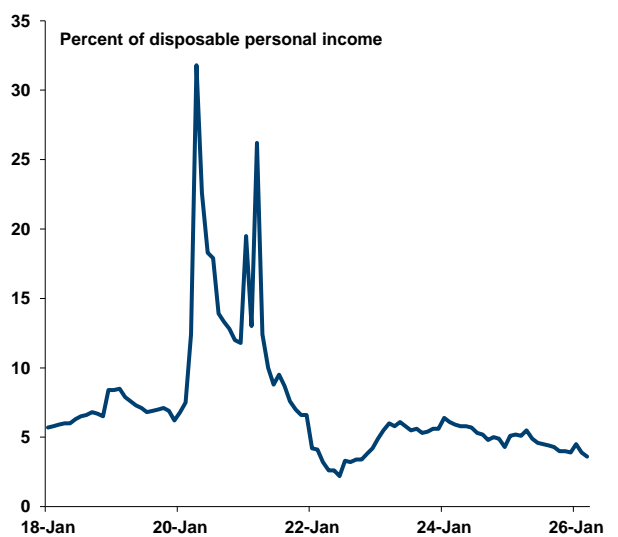
Source: Bureau of Economic Analysis via Haver Analytics

Real Personal Income Growth



Source: Bureau of Economic Analysis via Haver Analytics

Personal Saving Rate



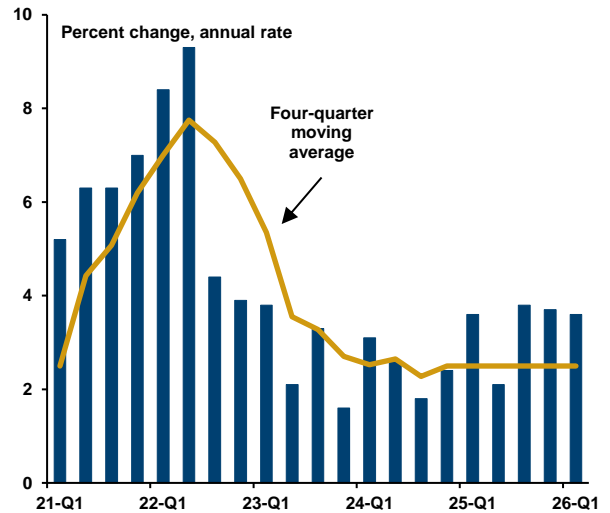
Source: Bureau of Economic Analysis via Haver Analytics

- Business fixed investment was again a bright spot for the U.S., in part reflecting significant ongoing investment in artificial intelligence. Total BFI surged 10.4 percent (a contribution of 1.39 percentage points to growth) versus average growth of 5.6 percent in the prior four quarters. Outlays for equipment surged 17.2 percent (+0.88 percentage point contribution) – including a burst of 43.4 percent (+0.83 percentage point contribution) in information processing equipment, which captures AI-related spending. Furthermore, investment in intellectual property products jumped 13.0 percent (a contribution of +0.70 percentage point), including a surge of 22.6 percent in the software subcategory (which was responsible for more than 70 percent of the contribution from IPP). Contrastingly, outlays for structures were again soft, with a contraction of 6.7 percent shaving 0.19 percentage point from growth.
- Results across other components varied widely. Total government spending advanced 4.4 percent (+0.73 percentage point contribution), in part influenced by growth of 9.3 percent at the federal level (+0.56 percentage point) – a rebound after the aforementioned contraction of 16.6 percent in Q4. Also in the plus column, a smaller drop in inventories than in Q4 equated to a positive contribution of 0.40 percentage point. Elsewhere, residential construction remained soft (-8.0 percent, annual rate, or a constraint of 0.31

percentage point), and net exports were a drag on activity (-1.30 percentage points, with an increase of 21.4 percent in real imports dwarfing an increase of 12.9 percent in exports).

- On the price front, the GDP deflator increased 3.6 percent – the third consecutive advance in the upper-three-percent area, in part reflecting brisk price increases at the consumer level (chart, right). On the point, the price index for personal consumption expenditures rose 4.5 percent, annual rate, while the core measure increased 4.3 percent (see monthly data for March, which came from the report on Personal Income and Outlays, below).

GDP Price Index

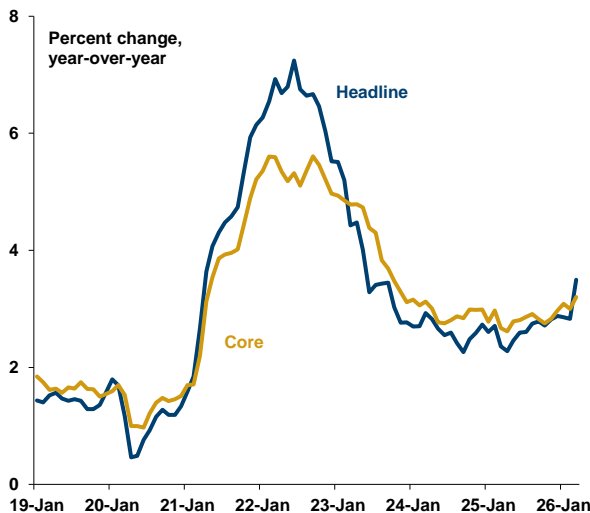


Source: Bureau of Economic Analysis via Haver Analytics

Consumer Prices in March

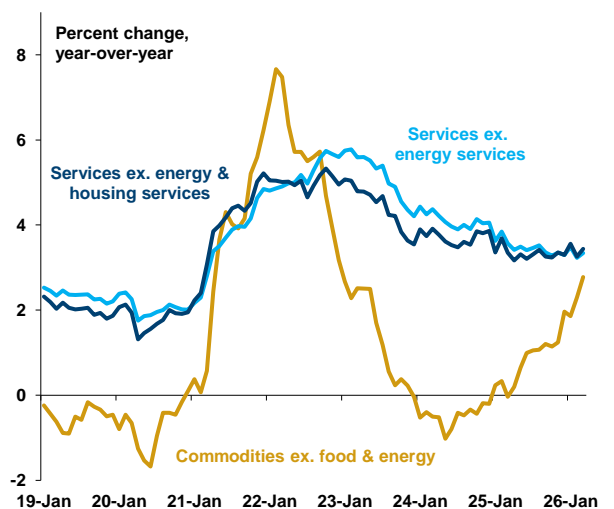
- Inputs from the CPI and PPI allow analysts to dial in expectations for the price index for personal consumption expenditures and thus the March results were essentially in line with market expectations (+0.664 percent and +0.293 percent, respectively, for the headline and core measures). The results translated to year-over-year advances of 3.5 percent for the headline (versus 2.8 percent in February) and 3.2 percent (versus 3.0 percent previously). Factoring importantly into the monthly advance in the headline index, which was the largest since June 2022, was an 11.6 percent surge in the energy category – the largest since September 2005 and reflective of a dramatic move in energy prices in response to current tensions in the Middle East (+14.4 percent year-over-year). Contrastingly, food prices were behaved in March, easing 0.1 percent after showing hints of pressure in recent months (+1.7 percent year-over-year).

PCE Price Index: Headline & Core



Source: Bureau of Economic Analysis via Haver Analytics

PCE Price Index: Decomposition of Core

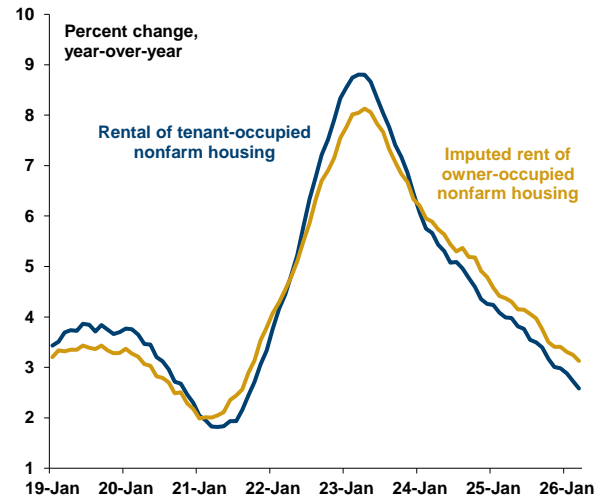


Source: Bureau of Economic Analysis via Haver Analytics

- Turning to core, we have yet to see significant pass-through from the latest shock – although inflation had been trending sideways (well above 2 percent) in no small part because of the Trump administration’s previous tariff regime. Observing the core goods metric, which captures the effects of tariffs, prices rose 0.2 percent in March. Although the month-to-month move lagged the 0.8 percent increase in the prior month, the year-over-year advance firmed up to 2.8 percent from 2.3 percent previously – an indication that price pressure from tariffs has yet to fully pass-through inflation metrics. Concurrently, core services increased 0.3 percent last month (+3.3 percent year-over-year versus +3.2 percent previously). Encouragingly, advances of 0.2 percent and 0.3 percent, respectively, in the rental of tenant-occupied nonfarm housing and imputed rent

of owner-occupied nonfarm housing components left the year-over-year changes approximately in-line or slightly lower than pre-pandemic trends (primary rent and imputed rent rose 2.6 and 3.1 percent year-over-year, respectively, both 0.1 percentage point slower than the February observation), which is currently providing a key disinflationary impulse. Core services excluding housing, meanwhile, posted a rangebound increase of 0.3 percent, with the year-over-year advance inching up 0.1 percentage point to 3.4 percent – still well above pre-pandemic trends. All told, lack of recent meaningful progress toward the Federal Reserve’s 2 percent inflation objective, along with increased risks associated with the ongoing Iran conflict, likely prompted the three hawkish dissents at yesterday’s FOMC meeting. Thus, while we do not anticipate the FOMC pivoting to rate increases, we suspect that the bar to further rate cuts has been raised significantly.

PCE Price Index Shelter

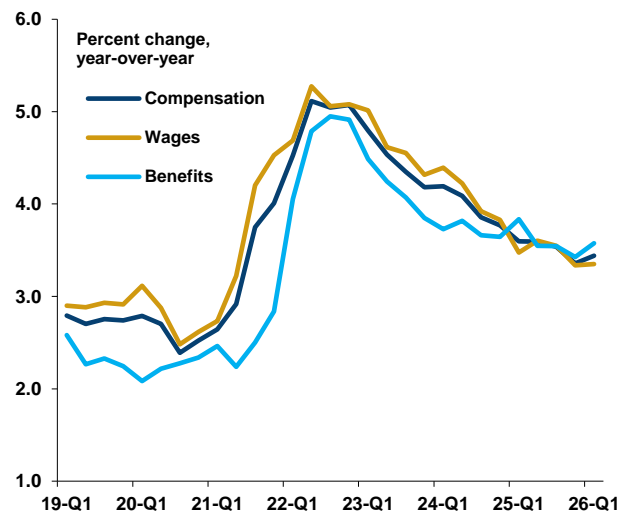


Source: Bureau of Economic Analysis via Haver Analytics

Employment Cost Index

- Total compensation costs increased 0.9 percent (not annualized) in the first quarter of 2026 – one tick firmer than the Bloomberg survey median forecast of +0.8 percent. While the latest reading was a bit faster than that in the prior quarter (+0.903 percent, with less rounding, versus +0.750 percent in 25-Q4), compensation costs have moderated notably over the past few years as previously tight labor market conditions have unwound (chart, right). On a year-over-year basis, the headline ECI rose 3.4 percent, up slightly from the Q4 pace (3.439 percent versus 3.358 percent previously) but well off the recent high of 5.1 percent in 2022-Q2.
- Wages and salaries rose a smaller 0.8 percent in Q1 -- marginally faster than the read in 2025-Q4 (+0.755 percent versus +0.745 percent previously) but notably below the cycle peak of +1.4 percent in 2022-Q2. On a year-over-year basis, wage growth just rounded up to 3.4 percent from 3.3 percent in the prior quarter (+3.350 percent versus +3.336 percent). The latest observation, however, is still markedly off the recent yearly high of +5.3 percent in 2022-Q2.
- Meanwhile, benefits costs surprised to the upside, advancing 1.2 percent in Q1 – the largest quarter-to-quarter increase since 2022-Q1 (+1.5 percent). Year-over-year growth, in turn, firmed to 3.6 percent from 3.4 percent in the prior quarter but, similarly, remained well below the recent high of 4.9 percent in 2022-Q3.
- On balance, the ECI report, which is viewed by Fed officials as a more reliable assessment of overall compensation growth on account of it being a fixed-weight measure (versus average hourly earnings, which is influenced by compositional shifts in hiring), still supports the view that moderating demand for labor has curtailed previously unsustainable wage growth inconsistent with 2 percent inflation. Benefit costs registered a high-side advance in Q1, but the move is nonthreatening in the context of the broader trend in labor costs.

Employment Cost Index



Source: Bureau of Labor Statistics via Haver Analytics