

Continued Growth in Q1

The economy continued to grow in the first quarter at what we estimate is a 2.6% annual rate. That’s a slowdown from the 3.1% rate in 2023, but still good compared to the past couple of decades when the average growth rate has been 2.0%.

However, we think a chunk of recent growth is artificial, and temporary, the by-product of too much government. Directly, this includes “real” (inflation-adjusted) government purchases that grew 4.6% in 2023 and we estimate grew at a 2.3% annual rate in the first quarter.

It also includes the indirect effects of the expansion in the budget deficit in FY 2023. The official deficit didn’t expand much, but that’s because President Biden announced a plan to forgive student loans in 2022 and then the Supreme Court struck it down in 2023. Neither of these affected the government’s cash flow but they did change official government accounting. Taking them out means the deficit expanded to 7.5% of GDP in FY 2023 from 3.9% in FY 2022.

In addition, and as we explained recently ([MMO, April 8](#)), if monetary policy were really tight, inflation would be persistently declining. But CPI prices were up 3.0% in the year ending in June 2023 and are now up 3.5% in the past year. This suggests residual effects of past monetary looseness are still boosting the economy.

We estimate that Real GDP expanded at a 2.6% annual rate in the first quarter, mostly accounted for by an increase in consumer spending.

Consumption: “Real” (inflation-adjusted) retail sales outside the auto sector declined at a 3.0% annual rate in Q1 while auto sales declined at an 8.7% rate. However, it looks like real services, which makes up most of consumer spending, soared at a 4.7% pace. That’s the fastest pace for service growth since the re-opening from COVID in 2020-21. Excluding that re-opening, when all the data were whacky, it’s the fastest pace for service growth since the peak of the Internet Bubble in 2000. Putting it all together, we estimate

that real consumer spending on goods and services, combined, increased at a 3.1% rate, adding 2.1 points to the real GDP growth rate (3.1 times the consumption share of GDP, which is 68%, equals 2.1).

Business Investment: We estimate a 2.4% growth rate for business investment, with gains in intellectual property leading the way, while commercial construction declined. A 2.4% growth rate would add 0.3 points to real GDP growth. (2.4 times the 14% business investment share of GDP equals 0.3).

Home Building: Residential construction is showing some resilience in spite of some lingering pain from higher mortgage rates. Home building looks like it grew at a 5.0% rate, which would add 0.2 points to real GDP growth. (5.0 times the 4% residential construction share of GDP equals 0.2).

Government: Only direct government purchases of goods and services (not transfer payments) count when calculating GDP. We estimate these purchases were up at a 2.3% rate in Q1, which would add 0.4 points to the GDP growth rate (2.3 times the 17% government purchase share of GDP equals 0.4).

Trade: Looks like the trade deficit expanded in Q1, as exports grew but imports grew even faster. In government accounting, a larger trade deficit means slower growth, even if exports and imports both grew. We’re projecting net exports will subtract 0.5 points from real GDP growth.

Inventories: Inventory accumulation looks like it picked up in Q1, but only slightly versus Q4, translating into what we estimate will be a 0.1 point addition to the growth rate of real GDP.

Add it all up, and we get a 2.6% annual real GDP growth rate for the first quarter. Solid for now, but we expect slower growth later this year as the temporary effects of government deficit spending wear off.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-23 / 9:00 am	New Home Sales – Mar	0.670 Mil	0.667 Mil		0.662 Mil
4-24 / 7:30 am	Durable Goods – Mar	+2.5%	+4.5%		+1.3%
7:30 am	Durable Goods (Ex-Trans) – Mar	+0.2%	+0.2%		+0.3%
4-25 / 7:30 am	Initial Claims – April 20	215K	214K		212K
7:30 am	Q1 GDP Advance Report	+2.5%	+2.6%		+3.4%
7:30 am	Q1 GDP Chain Price Index	+3.0%	+3.3%		+1.6%
4-26 / 7:30 am	Personal Income – Mar	+0.5%	+0.6%		+0.3%
7:30 am	Personal Spending – Mar	+0.6%	+0.6%		+0.8%