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Q1's 2.2% GDP Stronger Than Q4's 3.0%

Bob McTeer **April 27, 2012**

This morning's initial first-quarter real GDP increase at a 2.2 percent annual rate was stronger than the fourth quarter's 3.0 percent after adjustment for volatile inventory fluctuations. An inventory buildup accounted for two-thirds of the fourth-quarter increase. Real Final Sales—GDP minus inventories—grew only 1.1 percent in the first quarter versus 1.6 percent in the first quarter. I would argue that the first quarter was a bit stronger than the fourth. Of course, there will be two more estimates before the final numbers are established for the first quarter, and the fourth-quarter estimate will be included in the annual revisions in July.

The price index for gross domestic purchases increased at a rate of 2.4 percent, compared with only 1.1 percent in the fourth quarter—not overly large, but headed in the wrong direction.

Personal consumption expenditure increased faster in the first quarter than overall GDP. PCE grew at an annual rate of 2.9 percent in the first quarter, up from 2.1 percent in the fourth. Unfortunately, real nonresidential fixed investment declined at a 2.1 rate in the first quarter after increasing at a 5.2 percent rate in the fourth. A healthier balance would have been more investment and less consumption (more saving). Perhaps this is made up by the declines in real federal government spending in both quarters–5.6 percent in the first quarter after a decline of 6.9 percent in the fourth.

External trade was a mild positive to GDP growth in the first quarter after having been a mild negative in the fourth. Real exports of goods and services increased 5.4 percent in the first quarter, double the 2.7 increase in the fourth, while real imports increased 4.3 percent after increasing 3.7 percent.

All in all, the first quarter will be reported as weaker than the fourth, but I would argue it was actually stronger—but, of course, not nearly strong enough.