



US: Q1 GDP A Stinker, But Not A Shocker

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The US Q1 GDP numbers released yesterday were, bluntly put, a horror show. They were not, however, wholly unexpected by yours truly -- I had expected a slightly better but still dismal outturn compared with Q408's -6.3% q-o-q annualised number. And that's basically what we got: a -6.1% reading.

Have a look at the underlying numbers. First, the category of expenditure, second, the quarterly annualised rate of change (%), and third, the percentage point (pp) contribution to the overall -6.1% number.

Personal consumption expenditures. Up 2.2% q-o-q annualised; contributed 1.50pp to the headline figure. My comment: after two quarters of the consumer rolling over, this quarter spelled relief, as expected. Notably, durable goods orders were up. But demonstrating the fact that Americans are truly tightening their belts, food consumption fell for the third straight quarter. Anyway, the pickup in consumer activity may have helped contribute to yesterday's stock market rally.

Gross private domestic investment (e.g. Gross fixed capital formation). Down 51.8% q-o-q annualised; subtracted 8.83pp from the headline figure. My comment: this was the true horror show, and there was weakness across the board, from residential and non-residential investment to software and computers. Importantly, inventories subtracted 2.8pp from the headline figure as well, indicating that if there is a rebuilding of stocks in H209, this could help out the 2009 annual number a bit. Still, a total disaster.

Net exports. Contributed 1.99pp to the headline figure. My comment: given plummeting exports, this contribution was about imports contracting, as the rest of the world has found out. Expect this to continue next quarter, although probably not as dramatically.

Government consumption. Down 3.9% q-o-q annualised; subtracted 0.81pp from the headline figure. My comment: did this surprise you, given that the massive increase in fiscal spending was supposed to be the only good news in this otherwise dire economy? If so, I point you to the subtraction of 0.49pp from the overall number due to a contraction in state and local investment. The states aren't doing so well in this economy, given that many of them derive substantial revenues from things like property taxes (e.g. the nearly bankrupted California). And even at the federal level, the contribution from non-defense areas was just 0.03pp. Sorry, Keynes.

The good news, if there is any, is that the Q1 number may offer further support to my theory that Q408 marked the worst quarter of the recession in the US. While there are still some revisions to come to the Q109 figure, I'm happy to stick to that view. Mind you, it's a dark day for the US economy when I'm celebrating a -6.1% real GDP growth figure because it was slightly better than the previous one.