

ECONOMIC NEWS

United States: International Trade Tanks Real GDP

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HIGHLIGHTS

- ▶ According to the US Commerce Department's advance estimate, real GDP contracted at an annualized rate of 1.4% in the first quarter. This comes after a 6.9% advance in the fourth quarter of 2021.
- ▶ Real consumer spending rose at an annualized pace of 2.7% in the first three months of the year. Spending on durable goods climbed 4.1%, while spending on nondurable goods fell 2.5%. Service spending was up at a 4.3% annualized rate.
- ▶ Nonresidential fixed investment soared 9.2%. However, nonresidential construction declined 0.9%. Equipment investment posted a strong 15.3% gain. Investment in intellectual property products was up 8.1% and residential investment rose 2.1%.
- ▶ Private inventory investment fell from +US\$193.2B to +US\$158.7B, shaving 0.84 points off headline GDP.
- ▶ The biggest negative contributor was international trade, which took a 3.20-point bite out of real GDP. Real exports fell 5.9% as real imports surged 17.7%.
- ▶ Government spending was down 2.7%.

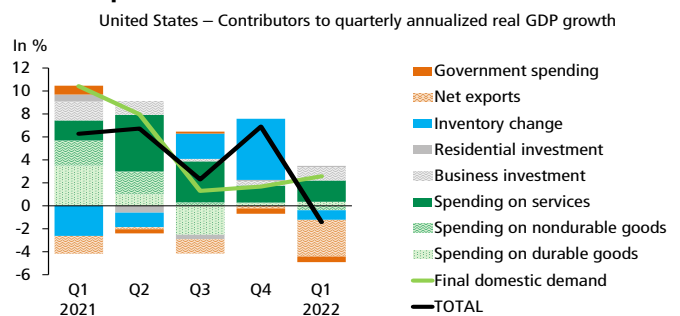
COMMENTS

After six straight quarters of growth, the US economy shrank in the first three months of the year. Real GDP ended 2021 3.1% above its pre-pandemic level. It's now up 2.8%. Analysts had expected a 1.1% quarterly advance in real GDP, so today's decline came as a surprise. But yesterday's advance estimate for the March goods trade balance hinted at a big pullback in international trade. The quarterly decline in inventory investment wasn't as bad as expected, however.

Though international trade and inventory investment weighed on GDP growth, final domestic demand was up 2.6%. That measure provides a better snapshot of the health of the US economy,

GRAPH

Growth in final domestic demand remained relatively strong in the first quarter



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

which continues to post big job gains and generate inflation. Yet there were some disappointing numbers as well. Nonresidential construction was down for the fourth straight quarter. Growth in durable goods spending was also weaker than expected. And all three components of government spending (federal military spending, federal non-military spending and state and local spending) were lower.

IMPLICATIONS

Today's weak GDP report isn't good news, but higher domestic demand is a bright spot. Despite this backslide, we expect the Federal Reserve to continue picking up the pace of monetary tightening to tame inflation.