To Our Valued Clients,

Last week provided us with an initial glimpse of U.S. economic growth for the first quarter of the year, with real GDP increasing at a lukewarm 1.6% annualized rate. The cooler-than-expected reading was the lowest print in two years and prompted some initial worries around the health of the U.S. economy, however, a look under the hood would prove the headline number a tad deceiving.

Coming off last quarter's reading of 3.4% and a consensus forecast of 2.2% for this release, last week's real GDP announcement was initially met with disappointment. Stocks quickly traded lower, treasury yields dropped, and the market immediately priced in three rate cuts for the rest of this year as opposed to two. Expectations were for economic growth to moderate, but not be chopped by more than half. In looking at the underlying data, however, the largest detractors in Q1 came from two of GDP's more volatile components; net exports which fell by 0.9%, and an inventory drawdown of 0.4%[1]. Conversely, other drivers of the economy showed to be quite healthy, consumer spending grew at a 2.5% rate and private domestic investments rose 3.2%[2]. These "core" drivers point towards a significantly stronger economy than the headline number would suggest. Early estimates for second-quarter growth have tended to agree, the GDPNow forecast is currently sitting at 3.3%[3]. Of course, a healthy economy is always the preferred standing, but it does come with a cost, in this current landscape that cost is firmer inflation and continued upward pressure on interest rates. This was affirmed on Wednesday of this week when the Federal Reserve held interest rates steady for the sixth consecutive meeting.

There has been an ongoing debate in economic circles as to what's been driving economic resiliency. A popular notion is that technological advances, namely AI, have boosted the supply side of our economy and increased capacity, others still point towards years of loose monetary policy and COVID-related fiscal stimulus. As is often the case, the most likely answer is it's a little bit of both. Thanks for reading, and as always, if you have any questions or if we can help in any way, please don't hesitate to give our office a call.

[1] Bureau of Economic Analysis
[2] Bureau of Economic Analysis
[3] Federal Reserve Bank of Atlanta

With My Best Regards,

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