

Chart of the Day

US Q1 GDP contracted (-1.4%) y/y, well below consensus expectations of +1%. While US growth is expected to decelerate in 2022, upon closer examination, the economy is far more resilient than the headline GDP number implies.

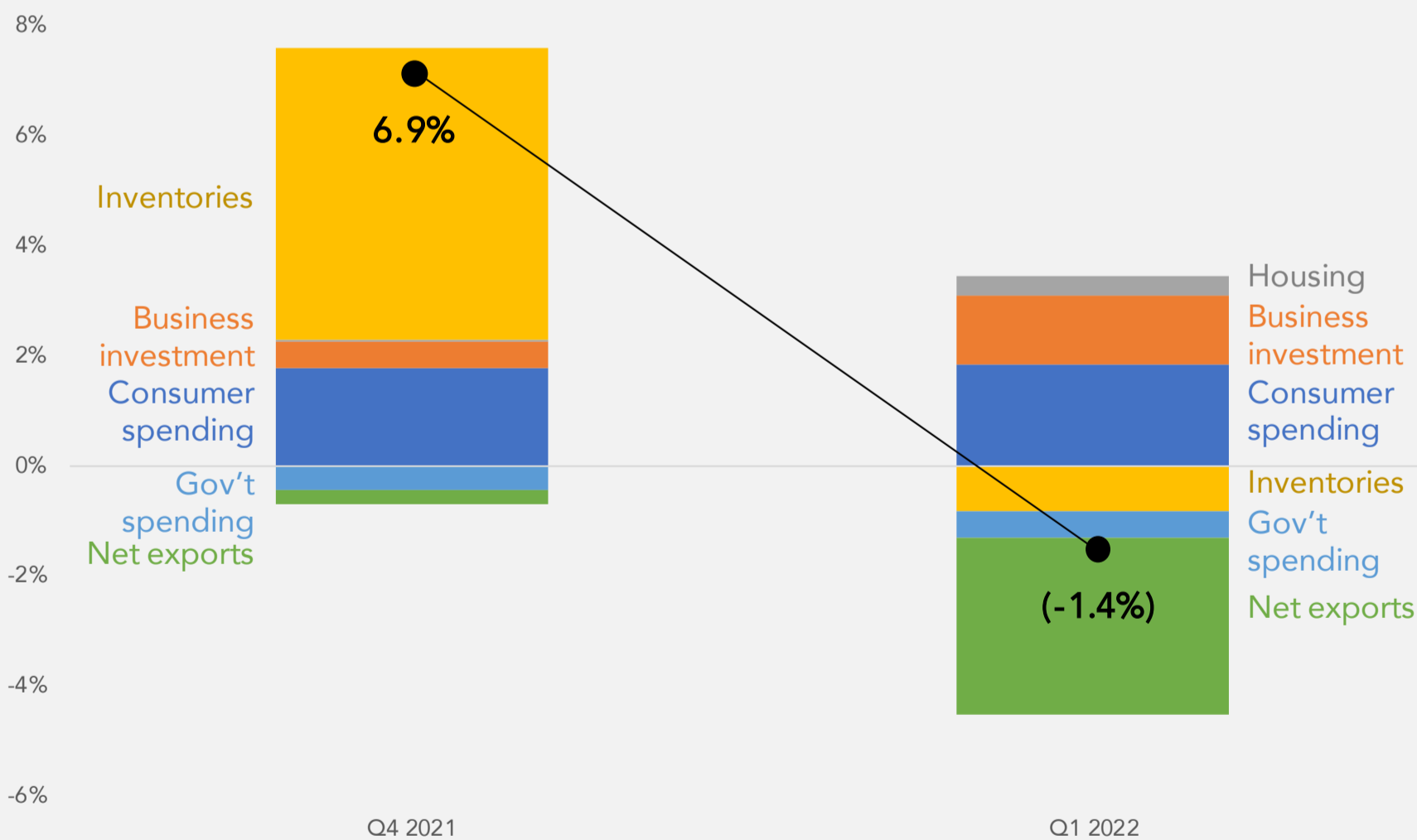
The first quarter's GDP miss was driven by a larger trade deficit, slower inventory build and decreased public spending. Specifically, net trade represented a (-3.2 ppt) drag on GDP as a strong US dollar and slower global growth weighted on US exports (-5.9%) and US imports increased 17.7%. Similarly, after being a key driver of Q4's +6.9% growth, slower inventory build in Q1 caused a (-0.8 ppt) drag on GDP. Looking at an average of the artificially stronger Q4 and weaker Q1 figures, US GDP appears to be growing closer to 2.5–3% today.

Meanwhile, consumer spending, the engine of US growth, increased 2.7% on an annualized basis, indicating positive momentum vs. the 2.5% increase in Q4. Specifically, services spending increased 4.3% as consumers shifted purchases away from durable goods and towards eating out, travel, and recreational activities.

Business investment also increased at a robust 9.2% pace, driven by strong equipment (+15.3%) and IP (+8.1%) spending. Overall, business investment added 1.2 pts to GDP growth in the quarter. Business investment is expected to remain well supported this year through resilient domestic demand and continued inventory replenishment.

Q1's (-1.4%) GDP contraction was a result of a larger trade deficit, slower inventory build and decreased public spending. On closer examination, US economic activity is more resilient than headline GDP implies with robust consumer and business spending.

Contribution to real GDP by sector (%)



Source: (1) Bureau of Economic Analysis. Gross Domestic Product, First Quarter 2022.

Global Corporate & Investment Banking Capital Markets Strategy Team



Tom Joyce
Managing Director

Tom.Joyce@mufgsecurities.com
(212) 405-7472



Hailey Orr
Director

Hailey.Orr@mufgsecurities.com
(212) 405-7429



Stephanie Kendal
Associate

Stephanie.Kendal@mufgsecurities.com
(212) 405-7443