

United States

Economy stagnates in first quarter

- **GDP shows mere 0.1% annualised increase after 2.6% in Q4**
- **Consumer spending shows some resilience, contrasting with falling exports and investment**
- **The weak data were already factored in by FOMC**

The US economy slowed to a standstill in the first quarter, according to preliminary [official estimates](#). GDP rose at an annualised rate of just 0.1%, down from 2.6% in the final quarter of last year. The quarterly rate of increase rounds down to zero compared to 0.7% in the prior quarter.

The slowdown was driven primarily by a 2.1% annualised fall in nonresidential fixed investment and a 7.6% drop in exports.

However, in a sign that the domestic economy is faring better than the overall GDP number suggests, consumer spending grew at an annualised rate of 3.0%, down from 3.3% in the fourth quarter but still one of the strongest expansion seen since the recession¹.

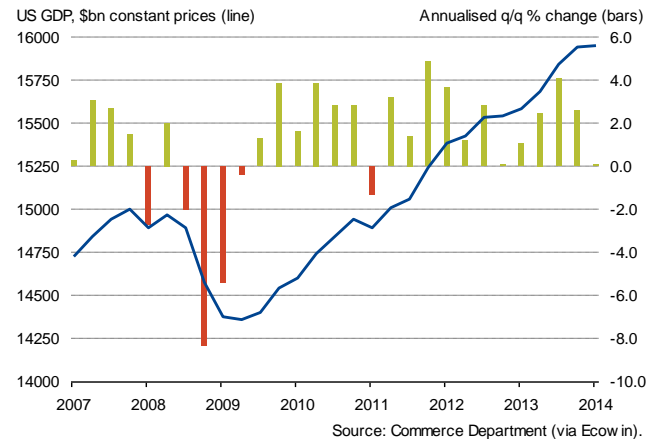
Some of the weakness is also likely to have been due to the weather, notably the extreme conditions having hit construction of residential property (which comes under the investment category).

Survey data such as the [PMI](#) and official data on retail sales, which jumped 1.2% in March after a 0.7% rise in February, suggest any weather related disruptions were temporary. The PMI has also been more resilient than the GDP number so far this year, suggesting the underlying trend in business activity remains firmer than this initial consumption-based GDP estimate indicates. Some upward revision to the first quarter GDP data looks possible in future updates.

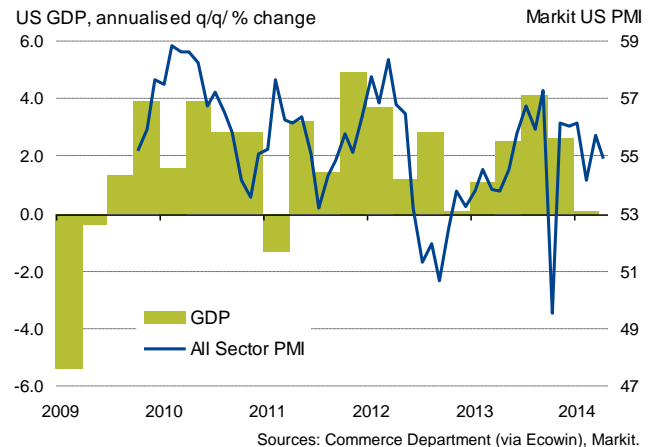
Fed policymakers had already been pencilling in weak weather-hit numbers in the first few months of the year, so the lacklustre GDP performance is unlikely to deter

¹ Spending on Obamacare is thought to have boosted the consumption figures though, suggesting the underlying trend is weaker than the top-line figure suggests

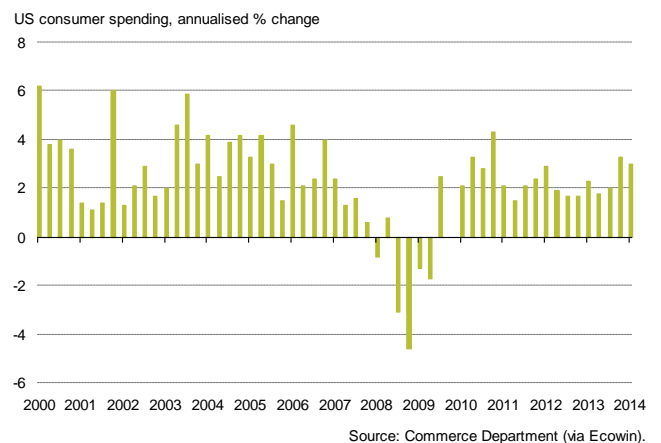
Gross domestic product



GDP and the PMI™ compared



US consumer spending



policymakers from continuing with their current plan of tapering of asset purchases.

More important will be the extent to which the economic data flow rebound. While remaining in positive territory, the composite PMI data (including flash readings for April) have signalled an underlying cooling in the rate of economic growth since late last year. The weather may be responsible for some of the weakness in the first quarter, but probably not all of it.

Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

[Click here](#) for more PMI and economic commentary.

For further information, please visit www.markit.com