



The Daily Dish

First Quarter GDP Growth

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The Commerce Department [released](#) yesterday its initial estimate of the growth in gross domestic product (GDP) and the result was a shocker: GDP declined by 1.4 percent. But a closer look indicates that the report reveals exactly what one should have expected to find: strong demand for goods and services and high inflation.

There were good reasons to expect a weak number. GDP growth in the final quarter of 2021 was 6.9 percent, but 5.3 percentage points of that growth was due to a run-up in inventories. It was easy to expect inventory decumulation that would subtract from GDP in the first quarter; indeed, inventory declines subtracted 0.8 percentage points from growth. But an even bigger downdraft came from declining net exports, which subtracted a full 3.2 percentage points from the top-line GDP growth.

An easy way to strip out the noise of these transitory influences is to focus on domestic demand - namely final sales to domestic purchasers (see table below). Doing so tells a different story. While GDP growth bounces up and down over the past several quarters, final sales growth has strengthened since the third quarter of 2021.

	20 20				20 21				2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
GDP	-5.10%	-31.20%	33.80%	4.50%	6.30%	6.70%	2.30%	6.90%	-1.40%
Final Sales to domestic purchasers	-4.40%	-27.30%	29.90%	5.00%	10.40%	8.00%	1.30%	1.70%	2.60%

Inflation, in contrast, was hardly a surprise. The monthly reports for January, February, and March had shown high and rising inflation. The GDP report echoed this with a top-line inflation rate of 8.0 percent. The Federal Reserve's preferred measure of prices is the personal consumption index based on market transactions and excluding food and energy. That measure weighed in at 6.0 percent, or three times the Fed's target inflation rate.

The bottom line is that there is neither any reason to panic over the outlook for continued growth nor any reason that the Fed should not continue its strategy of rate hikes and portfolio reductions to fight inflation.