First Quarter Growth Was Weird, Just Weird

DOUGLAS HOLTZ-EAKIN | APRIL 30, 2019

Eakinomics: First Quarter Growth Was Weird, Just Weird

This past Thursday, the Bureau of Economic Analysis (BEA) released the initial estimates of gross domestic product (GDP) for the first quarter of 2019. BEA reported that GDP grew at an annualized rate of 3.2 percent in Q1 of 2019; conveniently, it also grew 3.2 percent since the first quarter of 2018.

That growth is pretty good, continues the uninterrupted acceleration of year-over-year growth since the low of 1.3 percent in the second quarter of 2016, and should quiet the silly chatter of a 2019 recession. But economists exist to find the dark cloud for any silver lining, so let's look a little closer.

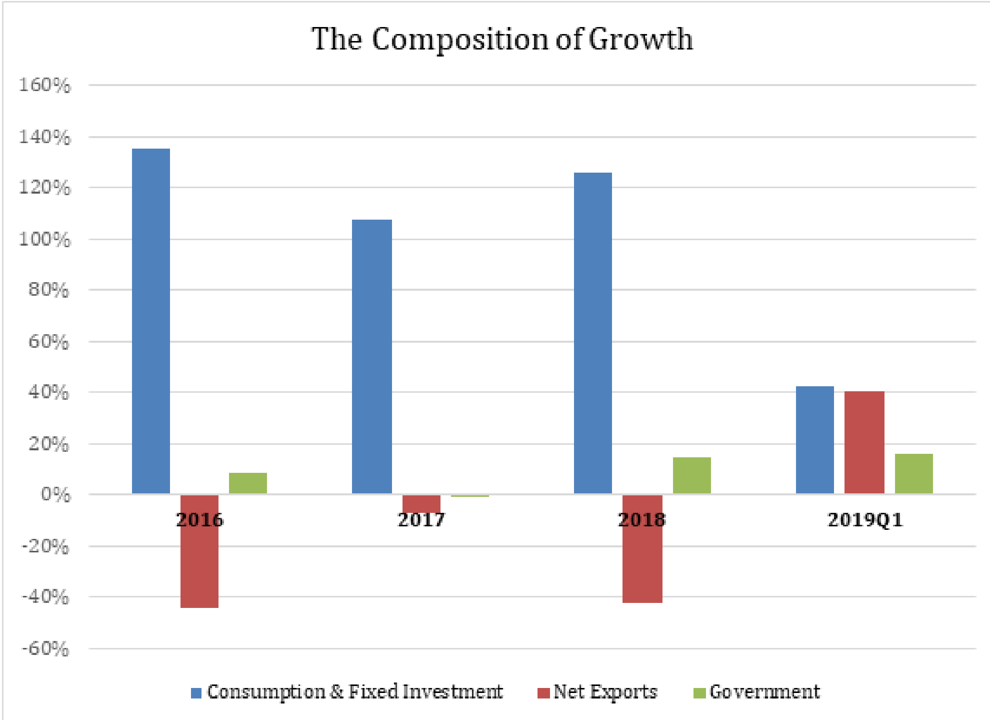
The first thing that jumps out of the data is that inventory accumulation contributed 0.65 percentage points of the 3.2 percent total. Rapidly rising inventories are usually reversed in short order; one would expect inventories to subtract from growth moving forward. It makes sense to focus on the growth of GDP minus inventory changes – production for final sales only, instead of production for final sales and additional inventories. That growth was 2.6 percent in the first quarter.

The second thing that jumps out of the data is weak household spending – labelled personal consumption expenditures (PCE) in the data. PCE grew at an annual rate of only 1.2 percent, dragged down by a decline in purchases of durable goods at an annual rate of 5.3 percent. This is weird, because PCE has been a solidly growing component of GDP for years, unemployment is very low, wages are rising, and there is no readily identifiable problem with household balance sheets. PCE should simply keep growing.

The weirdness may be due to the government shutdown, a downward blip in consumer confidence in January, bad weather, or some other anomaly. But it makes the data harder to reconcile with recent trends. As a result, I was curious about where the growth was coming from. To investigate this, I added together the contributions of PCE and fixed investment and divided by growth of final sales to get the percentage of final sales growth from those two categories. I then repeated the exercise for net exports (exports minus imports) and government (federal plus state and local).

The result is displayed in the chart below. In 2016, 2017, and 2018 the dominant source of growth was households and businesses, which had contributed more than 100 percent of growth on average (the blue bars). In contrast, governments contributed a small share (green bars) and net exports (red bars) actually subtracted from overall growth on average.

But the first quarter was remarkably different. The contribution by households and businesses tailed off sharply, while strong exports (up at a 3.7 percent rate) and weaker imports (down at a 3.7 percent rate) put net exports on par with them. And a bump in state-local spending raised the government share.



An economy the size of the United States' does not reinvent itself overnight, so this shift is just weird. But that happens with any single quarter or month of economic data, so I look forward to seeing what the second quarter will bring and the overall trends produced in the first half of 2019.