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Instant Analysis of Today's GDP Report for Q1 2015

U.S. Q1 Real GDP Growth Stalls, Worse Than Advertised; +0.2% Annualized in Q1
Business investment, Exports, and Government Spending All Declined
Consumer Spending Was As Weak As Expected (+1.9%) Down From +4.4% growth in Q4
Goods Exports Plunge (-13.3%) and Structures Drop (-23.1%)
GDP Price Index Falls (-0.1%)
Not Enough Growth to Make Fed "Reasonably Confident"
Market Reaction to Report; USD Falls; S&P 500 -0.4%; 10-Yr Treasury Yield +6 bps 2.03%

The U.S. economy stumbled badly in the first quarter of 2015. Modest GDP growth in the fourth quarter (+2.2%) turned to virtually no growth in the first quarter of 2015 (+0.2%). The fingerprints of a strong U.S. dollar and worse than expected winter weather were all over the report. Business investment, exports, and government spending all contracted during the quarter. The construction components of investment were particularly weak, perhaps reflecting negative weather impacts. Structures investment dropped (-23.1%) and residential investment increased at a modest (1.3%) annualized pace. However, equipment spending stalled as well, increasing only (+0.1%) at an annualized pace, suggesting that the drop in oil prices and strong dollar is also weighing on business investment.

U.S. exports dropped (-7.2%) with goods exports falling a whopping (-13.3%) at an annualized pace. The West Coast port slowdown obviously had an impact on U.S. exports and imports, implying a one-off event that could fade in the quarters ahead. But I suspect the strong dollar is also weighing on U.S. exports, suggesting the drag from net exports could linger well beyond the first quarter. If there is one area of hope, if not strength, it comes from real consumer spending, which came in close to expectations, up +1.9% annualized. With that said, consumer spending growth in the first quarter was far weaker than the 4.4 percent pace that held sway in the fourth quarter.

Inventories also built up during the quarter, the change in inventories increased to $110.3 B in the first quarter about $20 billion more than we saw during the fourth quarter of last year. Real final sales, a measure of Real GDP less the change in inventories, actually contracted 0.5% during the first quarter. Some find real final sales a better measure of economic strength than the GDP estimate. Bottom-line, GDP and manufacturing growth could continue to disappoint in the second quarter as bloated inventories need to get worked off. Lastly, the GDP price index contracted 0.1% in the first quarter, which means that nominal GDP growth (+0.1%) was even weaker than real growth GDP during the quarter.

All around this was a weak GDP report that will likely keep the Federal Reserve data dependent and cautious about normalizing interest rates. We still expect the first rate hike from the Fed to come in September, but the risk of an even later liftoff date is on the rise. The extent and depth of the weakness in today's GDP report, sets the U.S. up for another disappointing though somewhat better GDP report in the second quarter. We are not ready to throw in the towel for the year, but the weak first half will not do much to make the FOMC "reasonably confident" in their economic and interest rate forecasts.