

## Markets Looks Past Negative GDP Headline

This morning's initial estimate of first quarter gross domestic product (GDP) showed the U.S. economy contracted by -1.4%, a sharp decline from the prior quarter's +6.9% advance. A headline like that might normally set off recession alarm bells and talk of rate cuts. However, today's negative GDP headline doesn't tell the full story.

Wednesday morning's release of preliminary trade data for March showed the U.S. trade deficit widening significantly from \$106.3 billion in February to \$125.3 billion in March. In the weird world of GDP math, the trade deficit subtracts from GDP, so a larger deficit means a larger reduction in GDP. Yesterday's trade data gave investors ample warning that the GDP headline could be negative. In fact, today's release revealed that trade subtracted 3.2 percentage points from the headline. Combine that with softer growth in inventories, which subtracted a little more than 0.8 percentage points, and you have a couple of statistical oddities stripping 4 points away. Government spending was also negative, subtracting almost -0.5%.

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