Q1 GDP is Solid, but Short of the Whisper

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The initial reading of first quarter GDP came in at a quarter-over-quarter, annualized rate of +6.4%, a bit below the +6.7% median forecast, but well off whisper numbers above +7.0%. Headline GDP may have missed the mark, but the underlying numbers tell a more compelling story. In particular, the volatile inventory component *subtracted* 2.6 percentage points from the headline as business stockpiles were unable to keep pace with the boom in consumer spending. Today's depleted inventories translate into tomorrow's increased production, suggesting the inventory contribution will be positive in future quarters. Net exports were another drag on growth, as imports far exceeded exports, shaving another 0.9 percentage points from the overall number. If inventories and net exports are excluded, the GDP print would be closer to +10.0%.

Personal consumption, which historically accounts for around two-thirds of economic growth, rose a seasonally-adjusted, annualized +10.7% after rising +2.3% in the previous quarter. Discounting the Q3 2020 economic snapback, *it was the biggest consumer contribution to GDP since 1965*. Residential investment (housing) increased +10.8%, business spending was up +9.9% and government spending rose +6.3%.

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The first quarter strength pushed overall GDP back above pre-pandemic levels on an unadjusted basis, a feat few could have anticipated a year ago. However, the destruction and recovery was uneven, with the service sector lagging behind.

On the inflation side, the GDP price index climbed by a seasonally-adjusted annualized +4.1%, more than double the previous quarter and the biggest price increase in 14 years. Whereas this apparent inflation surge would normally jolt the markets, it was telegraphed well in advance with several contributing factors that Fed officials hope will be temporary.

The equity markets are up in early trading as solid growth, anticipated future production and little expectation of near-term Fed tightening create a favorable environment for U.S. companies. Bond prices, on the other hand, are lower in early trading, dragging yields higher. Apparently, investors aren't able to completely ignore the sharp rise in the inflation measure.

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It was a very good quarter, while continued vaccine progress, trillions of stimulus dollars in the pipeline adding to piles of sidelined cash, and expectations of widespread summer travel signal even better days ahead.

Market Indications as of 9:25 A.M. Central Time

DOW	Up 47 to 33,867 (HIGH: 34,201)
NASDAQ	Up 28 to 14,079 (HIGH: 14,139)
S&P 500	Up 21 to 4,204 (NEW HIGH)
1-Yr T-bill	current yield 0.05%; opening yield 0.05%
2-Yr T-note	current yield 0.17%; opening yield 0.16%
3-Yr T-note	current yield 0.35%; opening yield 0.34%
5-Yr T-note	current yield 0.90%; opening yield 0.87%
10-Yr T-note	current yield 1.68%; opening yield 1.63%
30-Yr T-bond	current yield 2.34%; opening yield 2.31%