

Early Q1 GDPNow Hints at (Still Unlikely) Recession

The Atlanta Fed's real time measure of first quarter GDP, which plunged from a robust +3.9% on February 3rd to -2.8% over a span of four weeks, is still signaling *negative growth* as of yesterday with a *GDPNow* reading of -2.4%. Much of this apparent weakness has to do with a sharp rise in the trade deficit, which primarily reflects U.S. companies front-running tariffs by importing necessary goods before prices rise.

Imports are subtracted from economic growth calculations, while exports are added. Waning foreign demand for U.S. goods is also contributing to the weakness, to a lesser degree.

In theory, higher domestic production would eventually increase GDP, although onshoring also implies higher domestic prices.

Still, the negative growth signaled by the Atlanta Fed model serves to validate investor concerns that have mostly centered on deteriorating confidence measures. Although a significant amount of input data has yet to be collected, the *GDPNow* model will become more and more reliable as the quarter progresses. Few (if any) analysts expect the U.S. economy to shrink in the first quarter, but it's becoming increasingly likely that growth will be softer than anticipated when the year began.

Real personal spending was negative in January, which has also impacted the growth model. Storms and the fires in California reduced consumption. An expected bounce in February spending will go a long way in determining how much growth resumes. The February retail sales report is scheduled for release in 10 days.

Market Indications as of 12:16 P.M. Central Time

DOW	Up 104 to 42,683 (HIGH: 45,014)
NASDAQ	Up 7 to 18,076 (HIGH: 20,174)
S&P 500	Down -24 to 5,714 (HIGH: 6,144)
1-Yr T-bill	current yield 4.04%; opening yield 4.02%
2-Yr T-note	current yield 3.98%; opening yield 3.96%
3-Yr T-note	current yield 3.99%; opening yield 3.97%
5-Yr T-note	current yield 4.07%; opening yield 4.06%
10-Yr T-note	current yield 4.30%; opening yield 4.28%
30-Yr T-bond	current yield 4.60%; opening yield 4.58%

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