Q1 GDP is Negative as Imports Surge

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

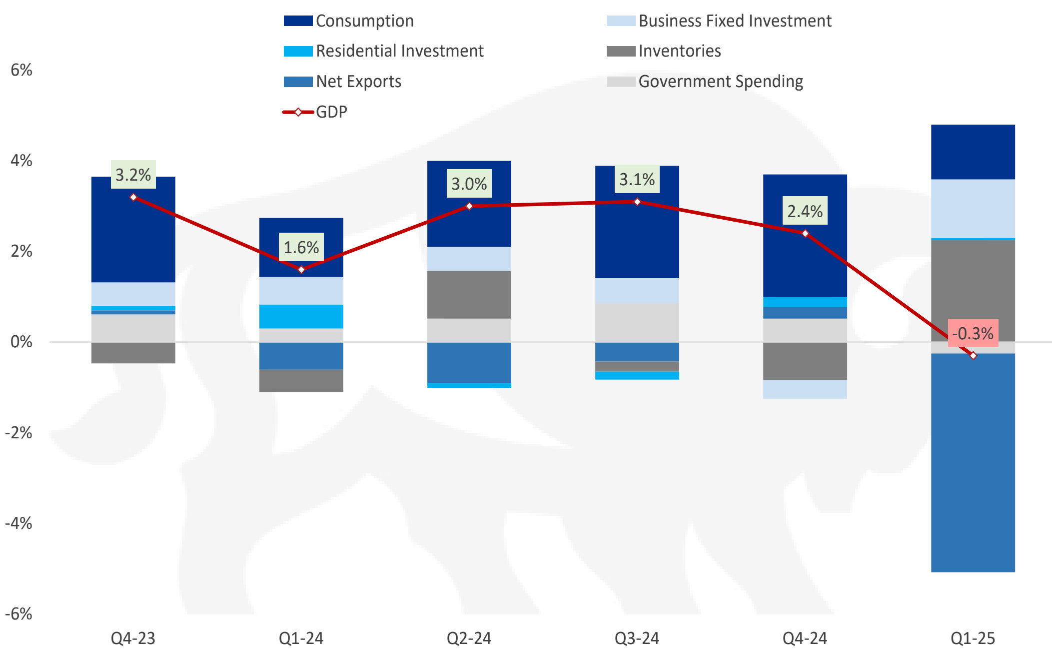
The U.S. economy contracted for the first time since June 2022 as businesses and consumers braced for the impact of global tariffs. Inflation-adjusted GDP fell -0.3% in the first quarter of 2025, after rising +2.4% in the final quarter of 2024. Net exports (the trade deficit) subtracted nearly five percentage points as imports soared over 40%, while exports rose by just +1.8%. *Because imported goods are not produced in the U.S., their value is subtracted from GDP.*

The other major contributor to Q1 weakness was personal consumption expenditures (consumer spending). This component, which historically accounts for about two-thirds of U.S. economic growth, was up a lackluster +1.8% after a +4.0% increase in the previous quarter, adding just 1.2 percentage points to the overall number.

Business fixed investment was a bright spot, up +7.8% during the quarter, adding 1.2 percentage points. Residential investment (housing) was slightly positive with its contribution to overall GDP essentially flat, while government spending was down -1.4%, subtracting 0.25 percentage points.

Business inventories added 2.25 points to the overall number, the most since Q4 2021 as companies restocked after the holidays. Real final sales, which exclude the often volatile business inventory and net trade components, climbed +3.0% following a +2.9% increase in the previous quarter.

Gross Domestic Product (Quarter-over-Quarter Annualized Percent Change)



Source: Bureau of Economic Analysis

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The GDP price index rose +3.7%, up from +2.3% in Q4 and the highest in over two years. The combination of higher prices and slower growth has rattled the equity markets in early trading, although this report is tough to interpret. Clearly, businesses and consumers made heavy purchases in anticipation of tariffs, but since most of those purchases represented imported goods, the economic effect of the spending was negative.

Going forward, imported goods are likely to fall dramatically which should significantly lower the net export drag in Q2. However, if recent confidence measures are any indication, businesses and consumers are likely to significantly reduce spending in the coming months.

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The FOMC meets next week. Fed officials will see the April employment data on Friday. Committee members seem less concerned about overall economic growth and more focused on the labor market, so softer payroll gains and rising unemployment could increase the odds of a June rate cut.

There is virtually no chance that the Fed eases next week. Although President Trump dialed back his criticism of Fed Chairman Powell last week, it remains to be seen if he'll be able to hold back if Powell doesn't signal lower rates in the coming months. In the past, financial markets have reacted poorly to Trump weighing-in on monetary policy.

Market Indications as of 9:13 A.M. Central Time

DOW	Down -607 to 39,920 (HIGH: 45,014)
NASDAQ	Down -400 to 17,062 (HIGH: 20,174)
S&P 500	Down -125 to 5,436 (HIGH: 6,144)
1-Yr T-bill	current yield 3.89%; opening yield 3.89%
2-Yr T-note	current yield 3.62%; opening yield 3.65%
3-Yr T-note	current yield 3.62%; opening yield 3.63%
5-Yr T-note	current yield 3.75%; opening yield 3.76%
10-Yr T-note	current yield 4.18%; opening yield 4.16%
30-Yr T-bond	current yield 4.68%; opening yield 4.63%