Economic Update

May 30, 2024

Small Downward Revision to Q1 GDP Growth; Profits Down

- **Real GDP growth was revised slightly lower in the second estimate to 1.3%, from 1.6% in the advance estimate. Inflation in the first quarter was also revised slightly lower.**
- **Profits fell slightly in the first quarter.**
- **Real gross domestic income increased 1.5% in the first quarter.**
- **Consumer demand remains solid.**
- **Real GDP growth will slow in 2024, but the economy will remain in expansion. Lower inflation will allow the Fed to cut its policy rate later this year.**

Real GDP growth in the first quarter of 2024 was revised slightly lower in the second estimate from the Bureau of Economic Analysis, to 1.3% at an annual rate, from 1.6% growth in the advance estimate. Real GDP growth was 3.4% in the fourth quarter of 2023.

The downward revision came from downward revisions to consumer spending, investment in inventories, and federal government spending, somewhat offset by upward revisions to state and local government spending, business fixed investment, and exports. Imports were revised higher; higher imports are a drag on GDP growth.

Inflation was revised slightly lower in the second estimate. The personal consumption expenditures price index increased 3.3% at an annual rate in the first quarter, down from 3.4% in the advance estimate. Core PCE inflation, excluding food and energy, was also revised lower, to 3.6% from 3.7%. Core PCE inflation is the Federal Reserve's preferred inflation metric.

The second estimate provided the first read on corporate profits in the first quarter; they fell $21.1 billion annualized in the first quarter, without adjusting for inflation. This was a 0.6% decline (unannualized). Profits rose 4.1% in the fourth quarter of 2023. Nominal profits were up more than 7% in the first quarter from a year earlier.

Profits from domestic industries fell $40 billion in the first quarter, with a decline of $114 billion for nonfinancial corporations. Profits from the rest of the world increased by $19 billion.

Real after-tax incomes increased 1.9% in the first quarter, an upward revision from 1.1% growth in the advance estimate.

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Real gross domestic income, an alternative measure of the size of the economy based on incomes going to households and businesses from economic activity, increased 1.5% annualized in the first quarter. Real gross domestic income growth was 3.6% in the fourth quarter of last year.

On a year-over-year basis real GDP growth was 2.9%, while real gross domestic income growth was 1.9%. Overall PCE inflation was 2.5% year-over-year, while core PCE inflation was 2.8%.

The second estimate for GDP in the first quarter does little to change the outlook. GDP growth slowed in the first quarter after an annualized increase of better than 4% in the second half of 2023. Growth is slowing to a more sustainable pace of around 2% over the long run, based on growth in the labor force and productivity growth (output per worker). Slower economic growth will reduce inflationary pressures in the US economy, helping bring inflation back to the Federal Reserve's 2% objective.

Much of the slowing in economic growth in the first quarter came from reduced investment in inventories and a larger trade deficit. Demand remained strong, with consumer spending up 2.0%. Business fixed investment and investment in housing were also positive for growth in the first quarter. Real final sales of domestic product—real minus the change in inventories, which measures demand within the US—increased 1.7% in the first quarter, annualized.

The US economy should continue to expand throughout 2024, but at a slower pace than last year as high interest rates remain a drag. Consumer fundamentals are good thanks to strong job gains and wages that are increasing more quickly than inflation. Real GDP growth will be below 2% in 2024, close to the economy's long-run potential. The Federal Reserve tightened monetary policy in 2022 and 2023 to slow economic growth and cool off inflation, and is maintaining that tight monetary policy in the first half of 2024.

Inflation, after picking up somewhat in the first quarter, should slow again through the rest of this year. That will allow for the Federal Open Market Committee to cut the federal funds rate a couple of times in the second half of 2024 and again a few times in 2025, contributing to a slight acceleration in economic growth next year.

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