MarketWatch

Details of first-quarter GDP report strong despite disappointing headline number

By Joseph Adinolfi

Thursday's initial estimate of U.S. first-quarter GDP missed economists' expectations and reflected the weakest quarterly growth in nearly two years, but details of the report were stronger than the headline number let on.

Weak readings on inventories and net exports weighed on the headline growth figure, with net exports subtracting 0.9 percentage points from the headline number, while inventories caused a further 0.4 percentage-point drag, according to Capital Economics.

Otherwise, it was a fairly encouraging report. The Capital Economics team cited the 6.1% surge in final sales to private domestic purchasers, the strongest quarterly gain in 12 months, as a particular highlight.

Consumption growth was also solid at 2.5%, although a slowdown in real personal disposable income growth to only 1.1% suggests it may slow further.

Headline real GDP growth came in at 1.6% annualized, according to data by the Bureau of Economic Analysis. Investors initially appeared to focus on the quarterly core PCE reading included in the data. This number rose by 3.7% annualized, which doesn't bode well for Friday's PCE Price Index for March.

Looking ahead, strength of the consumption figures and other details in the GDP report will likely limit any further deceleration in inflation, according to Phillip Colmar, global strategist at MRB Partners.

"I think the market is very attuned to inflation because Powell has basically said we don't have enough evidence of inflation easing," Colmar said during a phone interview with MarketWatch. "The components that drive inflation, those things were above trend. He's not going to have the confidence he needs to cut rates."

That doesn't bode well for stocks. Treasury yields climbed to their highest levels since November following the data, sending Dow futures down 400 points.