

US Economic Comment

Broad weakness in Q1

Economics

Americas

0.5% GDP on slow consumption, weak biz investment, inventory & trade drags

Slow consumer spending growth, stalled business investment, and a drag from ongoing inventory correction held Q1 real GDP growth back to a 0.5% q/q annual rate (consensus 0.6%, UBS 0.9%, after 1.4%). Real consumption slowed to a 1.9% q/q annual rate in Q1, ½ point slower than its Q4 pace and its y/y pace. Business fixed investment, -5.9%, included a significant drag from energy structures (0.6 pt off of GDP) but was weak elsewhere as well, with equipment spending down 8.6%. However, there was some contrasting reacceleration in nonenergy business structures spending, which rose at a 14.8% annual rate in Q1.

Inventories and net exports were also negatives, each subtracting 0.3 pct pt from growth. Weaker foreign demand led into an export drag of 0.3 pct pt; imports were about neutral for growth as imports stalled.

Despite slow growth, price pressures continue to build. The core PCE price index rose at a 2.1% annual rate in Q1, its fastest pace since mid 2014. Headline PCE prices (+0.3%q/q a.r.), at 1.0%/y/y, were at their fastest pace since late 2014.

Should Q1 GDP have been reported at 2% instead of 0.5%?

The downward bias to Q1 GDP prints is well documented. Since 1980, real GDP growth rates have been, on average, 0.8 pct pt lower in Q1 than in Q2-Q4. The downward bias has become more pronounced recently, with a -1.3 pt deviation since 2000. Fed research, based on a second seasonal adjustment of real GDP growth comes to a similar conclusion. Correcting for the residual seasonality "pushes up published first-quarter real GDP growth ... by about 1½ percentage points in the past several years."

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GDP (C) (8:30 am)

% ch., a.r. unless noted	15Q2	15Q3	15Q4	16Q1
Real GDP	3.9	2.0	1.4	0.5
Final sales	3.9	2.7	1.6	0.9
Domestic final sales	3.7	2.9	1.7	1.2
Net exp. (contr. % pts.)	0.2	-0.3	-0.1	-0.3
Inventories (contr. % pts.)	0.0	-0.7	-0.2	-0.3
Inventories (ch, bil, \$09)	114	86	78	61
Nonfarm	111	79	76	63
Consumption	3.6	3.0	2.4	1.9
Business fixed investment	4.1	2.6	-2.1	-5.8
Structures	6.3	-7.2	-5.1	-10.6
Equipment	0.3	9.9	-2.1	-8.6
Intellectual property	8.3	-0.8	-0.1	1.7
Residential investment	9.4	8.2	10.1	14.9
Exports	5.1	0.7	-2.0	-2.6
Imports	3.0	2.3	-0.7	0.2
Government	2.6	1.8	0.1	1.2

GDP continued...

% ch., a.r. unless noted	15Q2	15Q3	15Q4	16Q1
Nominal GDP	6.1	3.3	2.3	1.2
Chain price index	2.1	1.3	0.9	0.7
Core GDP price index	1.5	1.4	1.1	1.5
PCE price index	2.2	1.3	0.3	0.3
Core PCE price index	1.9	1.4	1.3	2.1
Market-based core	1.8	1.2	1.3	1.9
Implicit deflator	2.1	1.3	0.9	0.7
Nominal wage income	5.8	4.1	4.2	3.9
4-quarter % change				
Real GDP	2.7	2.1	2.0	1.9
Nominal GDP	3.7	3.1	3.1	3.2
Chain price index	1.0	0.9	1.1	1.3
Core GDP prices	1.1	1.1	1.1	1.4
PCE price index	0.3	0.3	0.5	1.0
Core PCE prices	1.3	1.3	1.4	1.7
Nominal wage income	5.1	4.7	4.2	4.5

Source: Bureau of Economic Analysis and UBS

**UBS US GDP 1Q Conference Call on April 28, 2016 at 10:00 am ET Host: Maury HarrisParticipant
Dial in: Toll Free: 800 706 4417; Toll: +1 303 223 4394; Passcode: 21810401**

Jobless Claims (L) (8:30 am)

Seasonally adj	New claims (000s)		Continuing claims (000s)	
	Wkly	4-wk avg	Wkly	%
Mar 26	276	263	2189	1.6
Apr 2	266	267	2176	1.6
Apr 9	253	265	2135	1.6
Apr 16*	248	261	2130	1.6
Apr 23	257	256		

* Sample week. Source: Labor Dept. and UBS

Note: To the extent possible, we identified reports as coincident (C), leading (L), and lagging (Lg) indicators of economic growth

Another quarter of falling productivity and spiking unit labor cost

Labor productivity probably fell again in Q1 for the second consecutive quarter. The 1.6% decline (q/q, annual rate) that we project for Q1 is similar to that of Q4 (-1.7% est). It would leave Q1 productivity up just 0.5%y/y—little changed from 0.7%y/y a year earlier or 0.4%y/y two years earlier. Unit labor cost probably accelerated to a 4.0% annual rate from a revised 2.7% pace in Q4 (currently reported at 3.3%). The y/y pace in Q1, at an estimated 2.6%, continues to trend up gradually and suggests a bit of a cost squeeze for businesses: nonfarm business prices rose at only a 0.5% q/q annual rate and 1.2%y/y in Q1.

Some further inventory cutback?

Private inventories rose less quickly in Q116 than Q415, up 2.7% q/q a.r. after 3.5%; they have slowed from a y/y change of 3.9%. However, on a q/q a.r. and y/y basis, their growth remains higher than that of final goods demand (1.2% q/q a.r. and 2.6% y/y).

Surprises relative to our inputs

The household sector was a bit stronger than we anticipated, but the business and foreign sectors were weaker. Consumer spending, at a 1.9% q/q annual rate, exceeded our expectations for a 1.6% pace; and residential investment at 14.8% was above our 8.0% estimate. Those gains were more than offset by weakness in business fixed investment (-5.9% vs our -2.2%) and a 0.3pt drag from net exports rather than the 0.1pt drag we had allowed for.

Implications for later in 2016 and 2017

Looking beyond Q1(16), there remain reasons for gradually improving growth, which we have been forecasting at 1.3% in the current Q2(16), 2.0% in H2(16) and 2.5% in 2017. Specifically, three factors limiting recent growth—oil prices, the dollar and inventories—should exert a diminishing drag. Oil prices have been recovering from their winter swoon, the dollar is off from its highs earlier in 2016 and purchasing agents in February and March were no longer reporting their customers' inventories being too high.

However, while we expect an improved quarterly growth profile in 2016, our 1.5% forecast for the growth of calendar average real GDP in 2016 has been 50 basis points under the April Blue Chip consensus forecast. Our 2.4% projection for real consumer spending growth has been just 20 basis points beneath consensus.

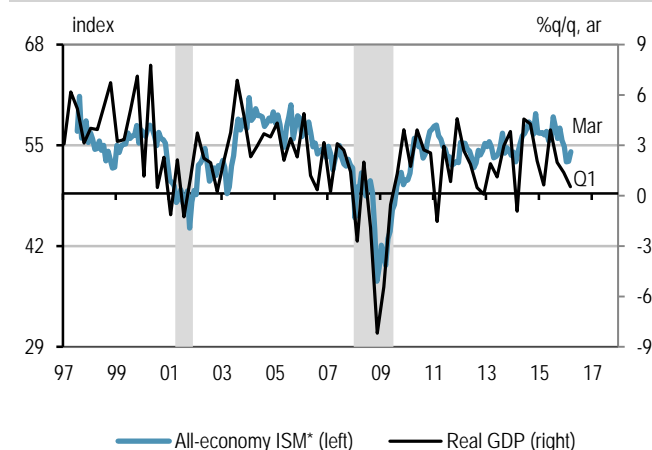
But our 0.3% forecast for real business fixed investment has been 130 basis points below consensus. For 2017, though, our 2.5% forecast is 20 basis points over consensus.

Real GDP expanded at only a 0.5% annual rate in Q1. Soft consumer spending and weak capex were compounded by drags from inventories and imports. However, measurement error may have exaggerated the weakness: Since 2000, real GDP growth has been 1.3 pts below average in Q1, with final sales typically 0.5pt below average.

Average growth in Q1 minus average growth in Q2-Q4	Real GDP	Consumption	Nonresidential structures	Equipment	Intellectual property	Residential investment	Government spending	Net exports contrib.	Inventories contribution	Real GDI
since 80	-0.8	-0.3	-3.4	-1.5	0.5	-0.6	-1.3	-0.1	0	0.2
since 90	-1.2	-0.2	-3.8	-0.2	0.5	-1.4	-1.5	-0.3	-0.3	0.1
since 00	-1.3	-0.1	-4.7	0.3	0.5	-1.2	-1.5	-0.3	-0.5	0.5
Contribution to growth (since 00)	-1.3	-0.1	-0.1	0.0	0.0	0.0	-0.3	-0.3	-0.5	

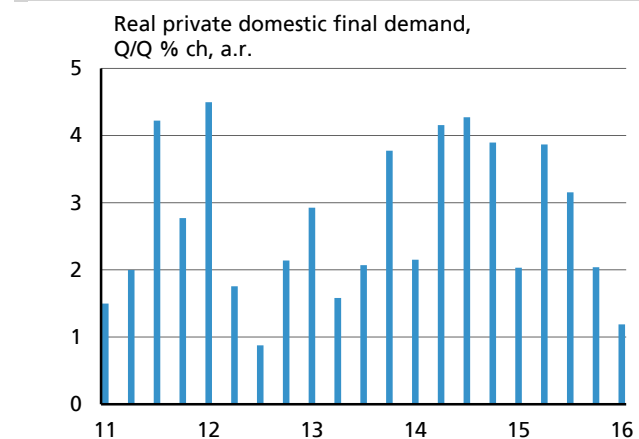
Source: Bureau of Economic Analysis and UBS

ISM surveys have suggested some slowing but not as much as appeared in Q1 GDP.



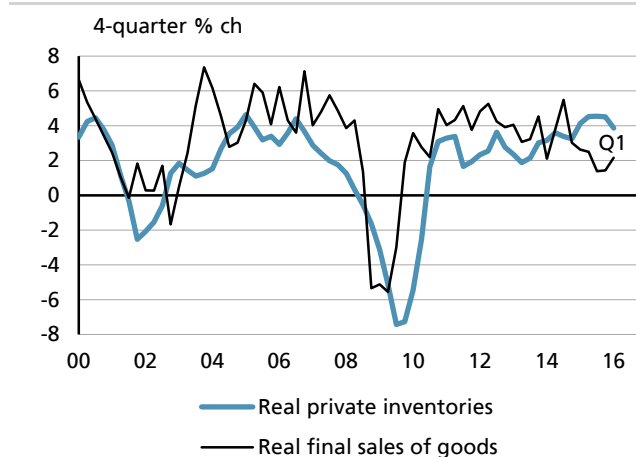
Note: Shaded areas mark recessions. * Economy-weighted average of manufacturing ISM index (12% weight) and nonmanufacturing ISM index (88%).
Source: Institute of Supply Management, Bureau of Economic Analysis and UBS

Growth in real private final domestic demand has been slowing since a year ago.



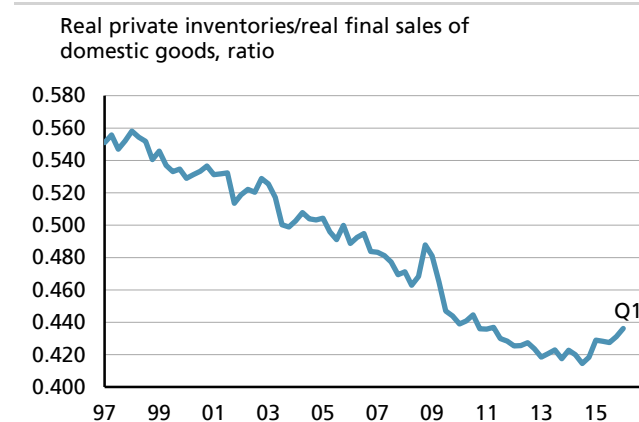
Source: Bureau of Economic Analysis and UBS

Inventories have been building faster than goods demand has been rising.



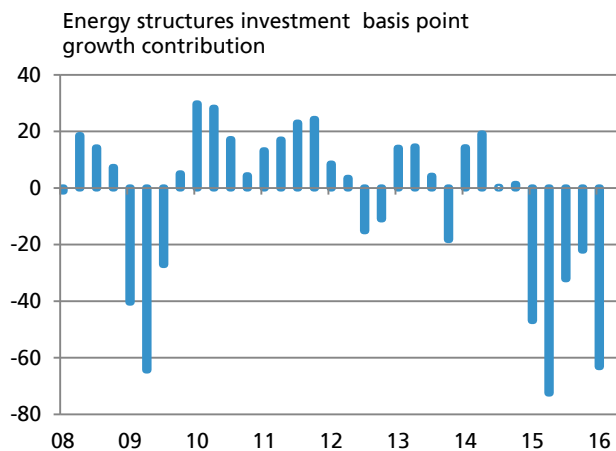
Source: Bureau of Economic Analysis and UBS

Inventory/sales ratios up despite inventory cutbacks.



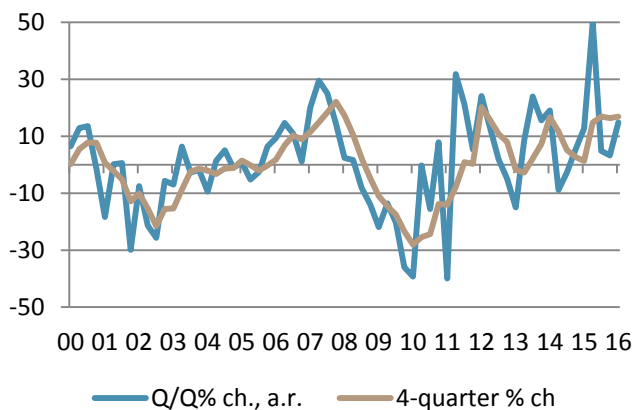
Source: Bureau of economic Analysis and UBS

A 0.6 pct pt drag on Q1 growth from energy structures



Source: Bureau of Economic Analysis and UBS

Business nonenergy structures spending staged a bit of a turnaround—reaccelerating in Q1 in contrast to the weak tone of other capex.



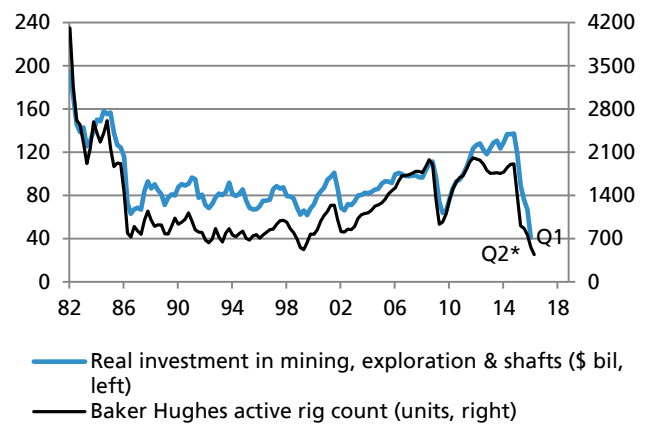
Source: Bureau of Economic Analysis and UBS

Personal income growth: some slight slowing in Q1

	Q1(16) \$ bil, annual rate	q/q% ch, ar						
		Q3 (14)	Q4 (14)	Q1 (15)	Q2 (15)	Q3 (15)	Q4 (15)	Q1 (16)
Personal income	15691.9	6.1	5.1	4.5	5.0	3.4	5.3	4.4
Wage and salary disbursements	8027.7	7.2	3.6	5.5	6.5	2.6	5.8	4.1
Proprietors' income	1413.0	6.5	13.3	3.5	6.1	-2.4	2.2	6.9
Rental income of persons	684.9	8.3	10.2	8.8	6.6	5.6	11.2	5.9
Personal interest income	1321.0	12.8	-3.1	-6.5	0.5	-2.2	10.0	6.7
Personal dividend income	873.5	-1.6	15.9	7.5	6.9	11.0	0.9	1.3
Personal current transfer receipts	2731.2	4.9	6.1	7.1	2.3	8.8	3.9	3.7

Source: Bureau of Economic Analysis and UBS

Rig count has continued to decline so far in Q2—suggesting a continued drag on business investment. Energy price stabilization may eventually neutralize that drag but apparently not as soon as Q2.



*Quarter to-date. Source: Baker Hughes, Bureau of Economic Analysis and UBS

Real structures spending: a rebound outside of energy

	Q1(16) real \$, bil annual rate	q/q% ch, ar							
		Q2 (14)	Q3 (14)	Q4 (14)	Q1 (15)	Q2 (15)	Q3 (15)	Q4 (15)	Q1 (16)
Private nonresidential structures	438.2	-0.2	-1.9	4.3	-7.4	6.2	-7.2	-5.1	-10.7
Commercial & health care	146.9	15.5	22.6	29.8	-4.9	31.1	-0.7	1.2	28.0
Manufacturing	82.4	1.4	39.8	57.5	94.8	64.4	6.1	9.3	3.1
Power & Communication	81.2	-38.5	-42.2	-48.0	15.3	41.8	2.8	2.6	-6.1
Mining Exploration/Shafts/Wells	41.0	25.3	0.2	1.4	-44.5	-68.0	-47.0	-39.6	-86.0
Other	79.8	11.0	6.4	25.1	-14.8	60.3	9.6	-3.0	11.6
Private residential structures	554.8	10.3	3.4	10.0	10.2	9.4	8.2	10.2	14.9
Permanent site structures	255.1	13.7	2.8	25.6	8.9	9.7	17.1	13.7	12.2
Single-family	198.9	7.9	-2.0	25.2	8.8	4.8	12.9	12.4	6.3
Multifamily	57.3	46.3	27.9	27.5	9.8	33.5	35.9	19.1	38.6
Other structures	300.6	7.8	3.9	-0.9	11.2	9.2	1.4	7.4	17.2
Government structures	265.3	11.2	-0.2	5.0	-9.8	30.2	8.5	-8.4	14.6

Source: Bureau of Economic Analysis and UBS

Capex: broad weakness in equipment investment

	Chn 2009\$, bil Q1 (16) , annual rate	q/q%ch, annual rate							
		Q2 (14)	Q3 (14)	Q4 (14)	Q1 (15)	Q2 (15)	Q3 (15)	Q4 (15)	Q1 (16)
Real business fixed investment	2179.9	4.4	9.0	0.7	1.6	4.1	2.6	-2.1	-5.8
Structures	438.2	-0.2	-1.8	4.2	-7.4	6.3	-7.2	-5.1	-10.6
Equipment	1042.7	6.5	16.5	-4.9	2.3	0.3	9.9	-2.1	-8.6
Info processing equipment	347.2	17.2	-7.3	19.6	-4.0	-4.4	27.2	2.2	-6.3
Industrial equipment	223.3	14.6	8.5	-5.0	-1.5	22.4	-3.4	11.2	-2.8
Transportation equipment	279.0	5.0	43.6	-8.2	11.4	-4.1	19.0	-10.1	-14.3
Other equipment	200.6	-11.0	31.6	-26.6	3.9	-6.9	-7.9	-10.2	-10.3
Intellectual property products	702.4	4.9	6.5	6.9	7.4	8.3	-0.8	-0.1	1.7
Software	337.9	7.8	10.0	5.5	9.2	5.9	-1.0	1.4	2.5
Research & development	284.3	2.6	4.0	8.8	6.9	12.5	-1.8	-1.8	1.7
Entertainment, literary, & artistic orig	80.6	2.6	2.6	4.7	2.5	1.5	4.6	0.5	-2.0

Source: Bureau of Economic Analysis and UBS

Real government spending contribution to real GDP growth: Stronger state and local spending

	Q414	Q115	Q215	Q315	Q415	Q116
Total	-0.26	-0.01	0.46	0.32	0.02	0.20
Federal	-0.41	0.08	0.00	0.02	0.15	-0.11
Defense	-0.47	0.04	0.01	-0.06	0.11	-0.15
Nondefense	0.06	0.03	-0.01	0.08	0.04	0.04
State & Local	0.15	-0.09	0.46	0.30	-0.13	0.31

Source: Bureau of Economic Analysis and UBS

Inventory investment slowed in Q1 but the y/y pace remains well above that of goods demand (which has been running at about 2%y/y)

	Change, 2005\$bil						% change, annual rate						4-qr % ch
	Q414	Q115	Q215	Q315	Q415	Q116	Q414	Q115	Q215	Q315	Q415	Q116	Q116
Private inventories	78.2	112.8	113.5	85.5	78.3	60.9	3.7	5.3	5.3	3.9	3.5	2.7	3.9
Farm	4.2	7.0	4.1	6.6	3.1	-0.9	2.7	4.1	2.4	4.0	1.6	-0.5	1.9
Construction, mining, util	5.6	5.4	8.0	2.1	11.2	19.4	7.1	6.5	9.9	2.8	13.7	23.4	12.2
Manufacturing	10.1	20.6	30.2	1.4	15.7	-8.8	1.6	3.2	4.7	0.2	2.4	-1.3	1.5
Durable	23.8	19.1	17.7	-0.1	9.8	1.1	6.2	4.7	4.5	-0.1	2.4	0.2	1.7
Nondurable	-12.0	1.9	12.6	1.5	5.9	-9.8	-4.7	0.8	5.3	0.5	2.4	-3.9	1.0
Wholesale	37.4	48.7	40.1	22.2	16.2	5.6	6.5	8.4	6.7	3.7	2.6	0.9	3.5
Durable	12.4	29.8	16.1	0.9	4.8	-4.6	3.6	8.9	4.6	0.2	1.3	-1.2	1.2
Nondurable	23.9	19.2	23.5	20.2	11.2	9.7	10.2	7.9	9.6	8.0	4.3	3.6	6.3
Retail	12.6	21.0	31.4	46.4	24.3	41.4	2.4	4.1	6.1	9.0	4.6	7.7	6.8
Motor veh.	3.7	4.5	13.1	26.8	10.1	26.7	2.2	2.9	7.7	16.3	5.9	15.2	11.2
Food and Bev.	1.0	2.8	-0.3	1.5	-0.1	2.5	1.9	6.6	0.0	3.7	-0.9	5.5	2.0
Gen'l merchandise	-0.9	0.3	8.9	0.8	1.4	2.0	-1.5	0.5	11.2	1.0	1.9	2.4	4.0
Other	8.9	13.3	9.8	17.7	13.2	10.4	4.0	6.0	4.2	8.0	5.7	4.4	5.6
Other	8.9	11.2	1.3	7.6	9.5	7.2	6.0	7.5	1.0	5.0	6.0	4.6	4.1
Private inventories	78.2	112.8	113.5	85.5	78.3	60.9	3.7	5.3	5.3	3.9	3.5	2.7	3.9
Durable goods	43.5	57.9	55.4	35.1	28.8	29.3	4.4	5.8	5.5	3.4	2.8	2.8	3.6
Nondurable goods	35.6	55.9	58.9	50.5	49.5	31.9	3.1	4.9	5.1	4.3	4.2	2.7	4.1
Nonfarm	74.9	106.8	111.0	79.2	76.0	62.7	3.8	5.4	5.6	3.9	3.7	3.0	4.1
Wholesale	37.4	48.7	40.1	22.2	16.2	5.6	6.5	8.4	6.7	3.7	2.6	0.9	3.5
Merchant wholesale	40.0	41.3	37.8	21.9	6.9	9.0	8.2	8.3	7.5	4.1	1.4	1.6	3.6
Durable	14.0	26.7	15.7	1.7	-1.6	-5.2	4.7	9.0	5.1	0.5	-0.5	-1.6	0.8
Nondurable	25.1	15.0	21.6	19.2	8.0	13.3	13.3	7.4	10.8	9.3	3.7	6.3	7.5
Non merchant wholesale	-2.4	7.4	2.3	0.3	9.6	-3.6	-2.7	8.5	2.7	0.4	11.2	-3.9	2.5

Source: Bureau of Economic Analysis and UBS

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