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U.S. GDP growth decelerated in Q1, but price growth ticked higher

- U.S. GDP grew by another 1.6% (annualized rate) in Q1/24, slowing from the 3.4% in the last quarter. The growth was mainly supported by strong consumer spending on services and surging residential investment with offset from a wider international trade deficit.

- Personal consumption continued to climb higher (+2.5%) at the beginning of 2024, albeit at a slower rate than in the last quarter (+3.3%). Service spending jumped another 4.0% after a 3.4% increase in Q4/23. But goods consumption declined 0.4%, after expanding in all four quarters in 2023.

- But price growth also showed further signs of reacceleration after slowing broadly last year. The core PCE deflator (the Federal Reserve's preferred inflation measure) rose 3.7% at an annualized rate in Q1, which was the fastest quarter-over-quarter increase in a year.
- Residential investment surged by 13.9% in Q1/24, extending the positive trajectory from the second half of 2023, that also marked the third consecutive quarterly growth. The boost in residential investment was in line with the 8% (non-annualized) growth in existing home sales, but housing starts slowed by 5% in that quarter.
- Business investment in structures edged lower by 0.1% in the first quarter of 2024, after spiking 13% in 2023 as a whole. Equipment investment, on the other hand, bounced back in Q1/24, consistent with higher imports of capital equipment in both January (+3.9%) and February (+0.8%).
- With domestic demand growth in the U.S. outpacing activities in the rest of the world, imports grew at a faster rate (+7.2%) than exports (+0.9%) as the trade deficit continued to widen.

US GDP Growth by Expenditure Composition

ppt contribution to q/q annualized percent change



Source: Bureau of Economic Analysis, RBC Economics

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- Household income was up again in Q1/24, by 1.1%, but not keeping up pace with the still solid consumer spending growth, and the saving rate also inched lower from last quarter (3.6% vs. 4.0%).
- Bottom line:** The U.S. economy grew at a slower pace at the beginning of 2024 than in the second half of 2023. But price growth continues to show worrying signs of reacceleration – particularly in the service sector where consumer demand remains exceptionally strong despite high interest rates. Recent labour market data indicated solid employment gains, and the unemployment rate remained low. However, there has been a slowdown in job openings and wage growth, signaling a shift toward a more balanced labour market. We continue to expect the economic growth to slow, but the Fed needs to see further evidence that inflation is sustainably slowing to the 2% objective before considering to a rate cut. As of now, our base case assumptions have the first rate cut to arrive in December this year.

US Quarterly GDP Summary					
	Q2-23	Q3-23	Q4-23	Q1-24	Q1-24
	y/y %				
GDP	2.1	4.9	3.4	1.6	3.0
Consumer spending	0.8	3.1	3.3	2.5	2.4
Business investment	7.4	1.5	3.8	2.9	3.9
Residential investment	-2.2	6.7	2.8	13.9	5.1
Exports	-9.3	5.4	5.0	0.9	0.3
Imports	-7.6	4.2	2.2	7.2	1.3
Net exports (q/q annl contribution)	0.0	0.0	0.3	-0.9	
Inventories (q/q annl contribution)	0.0	1.3	-0.5	-0.4	
Household disposable income (q/q %)	1.4	0.8	0.9	1.1	4.3
Saving rate (%)	5.1	4.3	4.0	3.6	

Source: Bureau of Economic Analysis, RBC Economics