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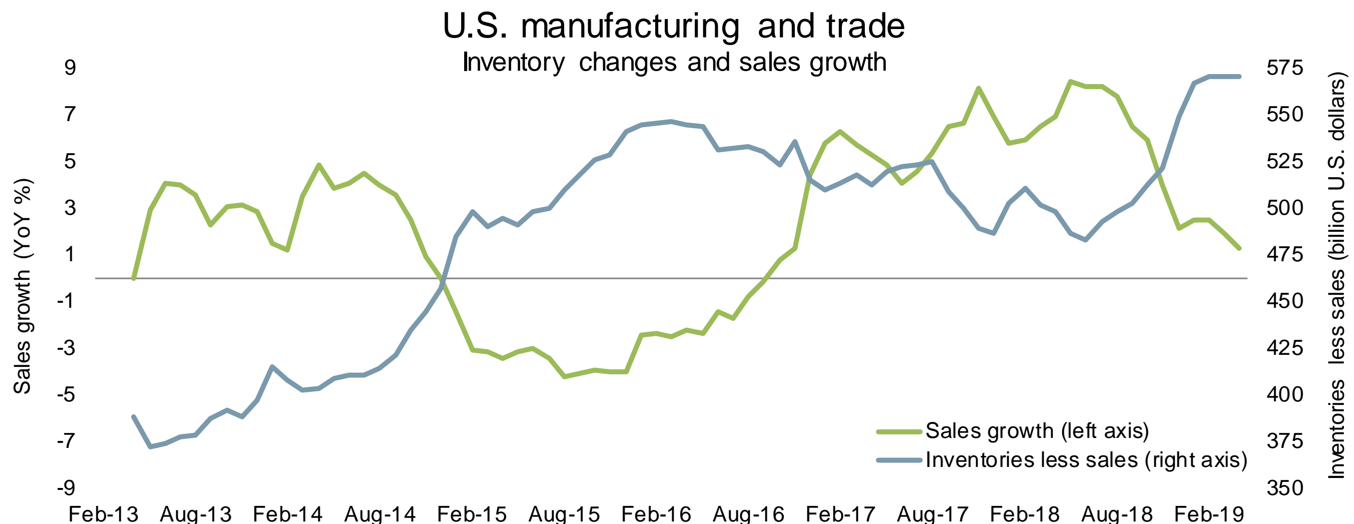
Chart of the Week

INVESTMENT TOPICS AND MARKET TRENDS USING CURRENT AND HISTORICAL ECONOMIC DATA

May 15, 2019

What We Found When We Dug Deeper into U.S. GDP Growth



Sources: Wells Fargo Investment Institute, U.S. Census Bureau, Bloomberg, May 2, 2019. YoY = year-over-year.

Inventories may have been building for the wrong reason

In the first quarter of 2019, U.S. gross domestic product (GDP) growth was 3.2%, the fastest growth rate since 2015. While the blockbuster headline number attracted attention, our dive deeper into first quarter economic data reveals that activity remains soft.

- First, an outsized change in a small line item—private inventories—notably contributed to the upside surprise. This inventory rise (blue line) comes at a time when sales growth (green line) is slowing. As sales weaken, elevated inventory levels could cause firms to postpone purchases to work down stocks, putting downward pressure on future economic activity.
- The trade balance also contributed to GDP growth, but not for the right reasons. U.S. imports slowed to their lowest pace in six years and arrived amid generally weaker consumer confidence and retail sales. Weaker industrial production and softer export orders for manufactured goods suggest the global trade environment remains soft.

What it may mean for investors

We believe momentum in the U.S. economy remains soft and growth is likely to slow from current levels. So long as business and consumer confidence remain subdued, we expect lower levels of domestic demand to persist.

Peter Donisanu*, Investment Strategy Analyst*

This chart was excerpted from the Global Perspectives report dated May 7, 2019.

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