US GDP growth slows sharply to 1.6% in Q1

Downshift could mean Fed cuts interest rates sooner than anticipated

REUTERS
25 April

The US economy grew at its slowest pace in nearly two years as a jump in imports to meet still-strong consumer spending widened the trade deficit. The downshift could mean the Federal Reserve cuts interest rates sooner than had been expected.

The slowdown in growth reported by the Commerce Department in a snapshot of first-quarter gross domestic product on Thursday also reflected a slower pace of inventory accumulation by businesses and downshift in government spending. Domestic demand remained strong last quarter.

"This report comes in with mixed messages," said Olu Sonola, head of economic research at Fitch. "If growth continues to slowly decelerate, but inflation strongly takes off again in the wrong direction, the expectation of a Fed interest rate cut in 2024 is starting to look increasingly more out of reach." Gross domestic product increased at a 1.6 per cent annualised rate last quarter, the Commerce Department's Bureau of Economic Analysis said. Growth was largely supported by consumer spending. Economists polled by *Reuters* had forecast GDP rising at a 2.4 per cent rate, with estimates ranging from a 1.0 per cent pace to a 3.1 per cent rate.

The economy grew at a 3.4 per cent rate in the fourth quarter. The first quarter growth's pace was below what US central bank officials regard as the non-inflationary growth rate of 1.8 per cent.

Inflation surged, with the personal consumption expenditures (PCE) price index excluding food and energy increasing at a 3.7 per cent rate after rising at 2.0 per cent pace in the fourth quarter.

The so-called core PCE price index is one of the inflation measures tracked by the Fed for its 2 per cent target. The central bank has kept its policy rate in the 5.25-5.50 per cent range since July. It has raised the benchmark overnight interest rate by 525 basis points since March of 2022.