First Trust Portfolios Canada
Monday Morning OUTLOOK

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Near Zero Q1, Uncertainty Ahead

We've expected a recession for more than a year now. Simply put…the Era of Easy Everything is Over. Expanding deficits and easy money (that have lifted the economy since COVID) are no longer with us. At the same time, tariff negotiations have created an unbelievable amount of uncertainty. Add it all up and we expect 0.3% real GDP growth in the first quarter.

Consumers and businesses were front-running tariffs in Q1, trying to get as many goods into the country as soon as possible before higher tariffs took effect. But if a business is thinking of systematically maneuvering around higher tariffs, by moving operations into the US, they need more certainty about what those tariffs will be and how long those tariffs will last. Once the rules are set, business will accommodate them.

As a result, it remains to be seen whether economic growth will pick back up in the second quarter. If not, worse may be ahead.

In the meantime, after two years of artificially boosting growth by expanding the budget deficit to unprecedented peacetime levels when the unemployment rate has hovered near 4%, fiscal policy has suddenly become contractionary, with discretionary spending cuts related to DOGE and otherwise, while tariffs boost tax revenue.

Hence, our forecast of near zero growth in Q1, with one big caveat, which is that the day before the government releases the official GDP report it provides new data on inventories and international trade for March. Given the volatility of the trade figures, it's possible we update our forecast substantially that day.

Consumption: Auto sales declined at a 3.0% annual rate in Q1 while "real" (inflation-adjusted) retail sales excluding autos slipped at a 1.3% rate. However, most of consumer spending is services and real service spending appears up a slow 1.3% pace, bringing our estimate of real consumer spending on goods and services, combined, to a 0.7% rate, adding 0.5 points to the real GDP growth rate (0.7 times the consumption share of GDP, which is 68%, equals 0.5).

Business Investment: We estimate a 3.6% growth rate for business investment, with gains in equipment leading the way. A 3.6% growth rate would add 0.5 points to real GDP growth. (3.6 times the 14% business investment share of GDP equals 0.5).

Home Building: Residential construction was roughly unchanged in the first quarter, buffeted between a lack of housing supply (which should boost growth) and higher mortgage rates (which should dampen construction). Home building looks like it was flat, which would mean it neither added to nor subtracted from real GDP growth.

Government: DOGE and other Trump Administration efforts are cutting back on federal payrolls and transfers to NGOs, but only direct government purchases of goods and services (not government salaries or transfer payments) count when calculating GDP. We estimate these purchases were up at a 1.2% rate in Q4, which would add 0.2 points to the GDP growth rate (1.2 times the 17% government purchase share of GDP equals 0.2).

Trade: The trade deficit soared in the first quarter as businesses were busy front-running tariffs. However, some of the increase in the trade deficit was due to imports of non-monetary gold, which won't influence GDP. The remainder, caused by other goods, will be counted. This forecast may change a great amount when the "advance" report on trade arrives the morning of Tuesday April 29, but for now we're projecting net exports will reduce the Q1 real GDP growth rate by 0.9 percentage points.

Inventories: Inventory accumulation looks like it ran at the same slow pace as in Q4, translating into zero net effect on the growth rate of real GDP.

Add it all up, and we get a 0.3% annual real GDP growth rate for the first quarter. Barely positive, and we will revisit the forecast when we get that crucial report on trade and inventories in eight days.

We do expect government spending to slow in the quarters ahead. At the same time, monetary policy is no longer easy. In other words, the jury is out on whether the first quarter is a sign of things to come. We still think the US has to experience economic pain in order to move to a more sustainable long-term policy environment. Getting there is creating a great deal of uncertainty. Stay cautious.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-23 / 9:00 am	New Home Sales – Mar	0.683 Mil	**0.687 Mil**		0.676 Mil
4-24 / 7:30 am	Initial Claims – April 19	220K	**218K**		215K
7:30 am	Durable Goods – Mar	+2.0%	**+2.8%**		+1.0%
7:30 am	Durable Goods (Ex-Trans) – Mar	+0.3%	**+0.4%**		+0.7%
9:00 am	Existing Home Sales – Mar	4.130 Mil	**4.110 Mil**		4.260 Mil