



May 26, 2017

## TD Economics

### Data Release: Once again, Q1 growth upgraded in second estimate

- The second estimate of U.S. real GDP growth for the first quarter of 2017 was revised up to 1.2%(annualized), from 0.7% in the advance estimate. This reflected upward revisions to business investment, consumer spending, and state and local government spending that were partly offset by downward revision to private inventories.
- Consumer spending growth was upgraded, but was still weak at only 0.6% (prev. 0.3%), a marked deceleration from the 3.5% pace recorded in Q4. Both spending on services was slightly stronger, and the decline in durable goods was smaller.
- Business investment was already a bright spot in Q1, and was revised up to 11.4%, reflecting even stronger spending on structures (+28.4%) and intellectual property (+6.7%). Residential investment was largely unchanged.
- Offsetting all this good news, weaker inventory investment subtracted 1.1 percentage points from growth, slightly more than in the advance estimate (-0.9 p.p.).

### Key Implications

- Today's growth upgrade continues the pattern of upward revisions to GDP estimates between the first and third release. While this provides some encouragement that the weakness in Q1 was not as bad as previously thought, it doesn't really change the story of another soft start to the year, followed by a rebound in Q2. Many of the factors depressing growth in Q1 were temporary, and a reversal in Q2 is expected to drive a rebound of greater than 3% growth.
- Looking through the noisy quarter-to-quarter swings in GDP (as discussed in our recent [report](#)), we judge underlying growth in the U.S. economy to be running slightly better than 2%. With an aging population, this is a decent pace of growth relative to the economy's potential (see our recent [report](#)) and strong enough to generate a modest pickup in inflation.
- The Fed has already indicated it is looking through [the](#) Q1 GDP disappointment, and will take its cue more from what the revisions mean for growth in the second quarter and beyond. Moreover, it will likely be more focused on whether job market strength continues in next week's payrolls report and how that squares with the cooler core inflation readings we have seen in March and April. We expect that the Fed will stick to its gradual pace of rate hikes and hike in June, if the data cooperates.

**Leslie Preston, Senior Economist**  
**416-983-7053**

 [@TD\\_Economics](#)

#### DISCLAIMER

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains

economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.