https://www.wsj.com/articles/us-economy-gdp-growth-q1-11651108351

U.S. ECONOMY

U.S. GDP Falls 1.4% as Economy Shrinks for First Time Since Early in Pandemic

Supply disruptions weighed on the economy, but consumers and businesses continue to spend

While inflation is cutting into households' purchasing power, businesses are boosting wages.

PHOTO: FREDERIC J. BROWN/AGENCE FRANCE-PRESSE/GETTY IMAGES

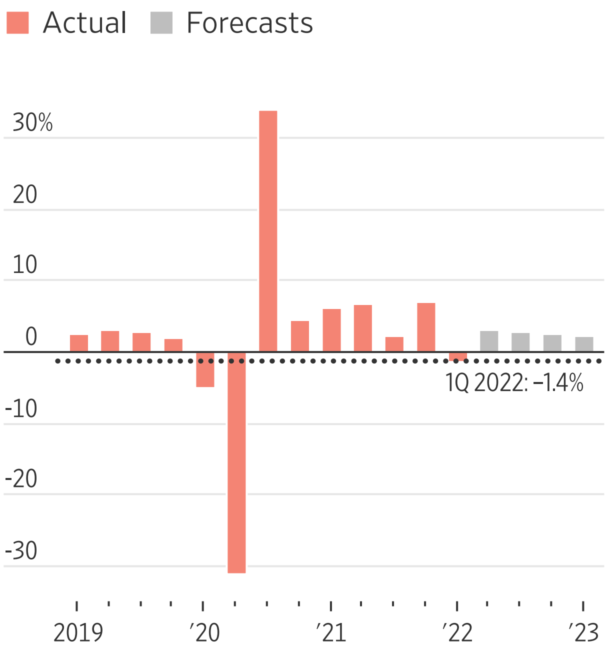
By Sarah Chaney Cambon Follow

Updated April 28, 2022 11:24 am ET

U.S. gross domestic product shrank at a 1.4% annual rate in the first quarter as supply disruptions weighed on the economy, though solid consumer and business spending suggest growth will resume.

The decline in U.S. gross domestic product marked a sharp reversal from a 6.9% annual growth rate in the fourth quarter, the Commerce Department said Thursday. The first quarter was the weakest since spring 2020, when the Covid-19 pandemic and related shutdowns drove the U.S. economy into a deep—albeit short—recession.

U.S. GDP, change from previous quarter*



*Seasonally adjusted at annual rates
Sources: Commerce Department (actual); Wall Street Journal Economic Forecasting Survey (forecasts)

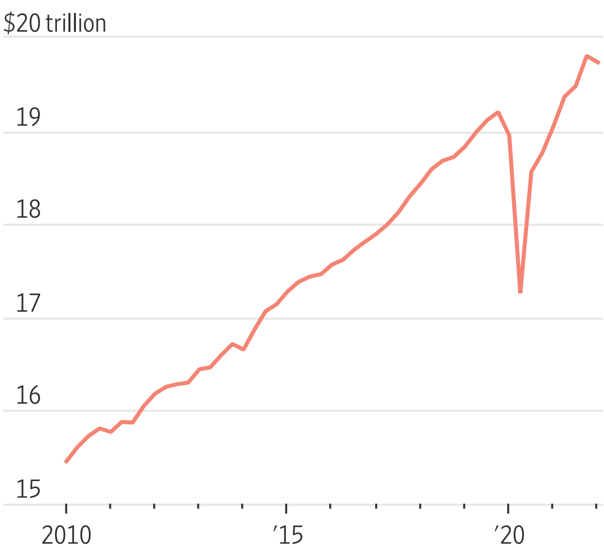
The drop stemmed from a widening trade deficit, with the U.S. importing far more than it exports. A slower pace of inventory investment by businesses in the first quarter—compared with a rapid buildup of inventories at the end of last year—also pushed growth lower. In addition, fading government stimulus spending related to the pandemic weighed on GDP.

Consumer spending, the economy's main driver, rose at a 2.7% annual rate in the first quarter, a slight acceleration from the end of last year. Businesses also poured more money into equipment and research and development, triggering a 9.2% rise in business spending.

"The most important aspects of the domestic economy held up better than they did at the end of 2021, when growth was soaring," said Diane Swonk, chief economist at Grant Thornton, in a note.

Two years after the pandemic struck, the U.S. economy faces challenges, including supply disruptions related to the pandemic and Ukraine war, labor shortages and high inflation. Central bank officials lifted their benchmark rate in March by a quarter percentage point from near zero to tame inflation, and they have signaled more increases are likely to follow.

Quarterly U.S. GDP level*

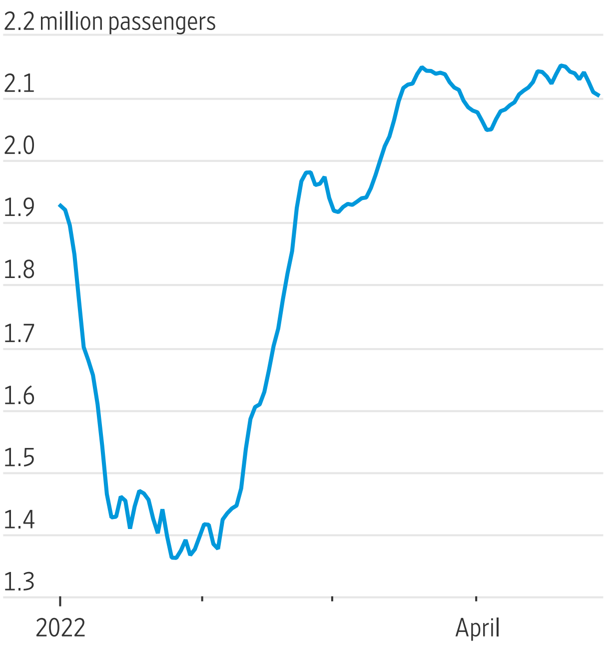


*Seasonally and inflation adjusted at annual rates
Source: Commerce Department

Many economists think that the economy can withstand higher interest rates and return to modest growth in the second quarter and beyond, in part because consumers and businesses are continuing to spend.

Americans are spending more on services amid lower Covid-19 case totals and the lifting of remaining pandemic restrictions. Travel is one key example: Hotel occupancy rates are up from January, and more people are also boarding planes.

Number of travelers passing through TSA checkpoints, seven-day rolling average



Source: Transportation Security Administration

George Lewis, co-owner of Brass Lantern Inn in Stowe, Vt., is seeing a surge in demand. Visits to his bed-and-breakfast on Maple Street are running strong with rooms selling out some weekends this spring, a sharp shift from earlier in the pandemic when the inn relied on small-business aid to survive.

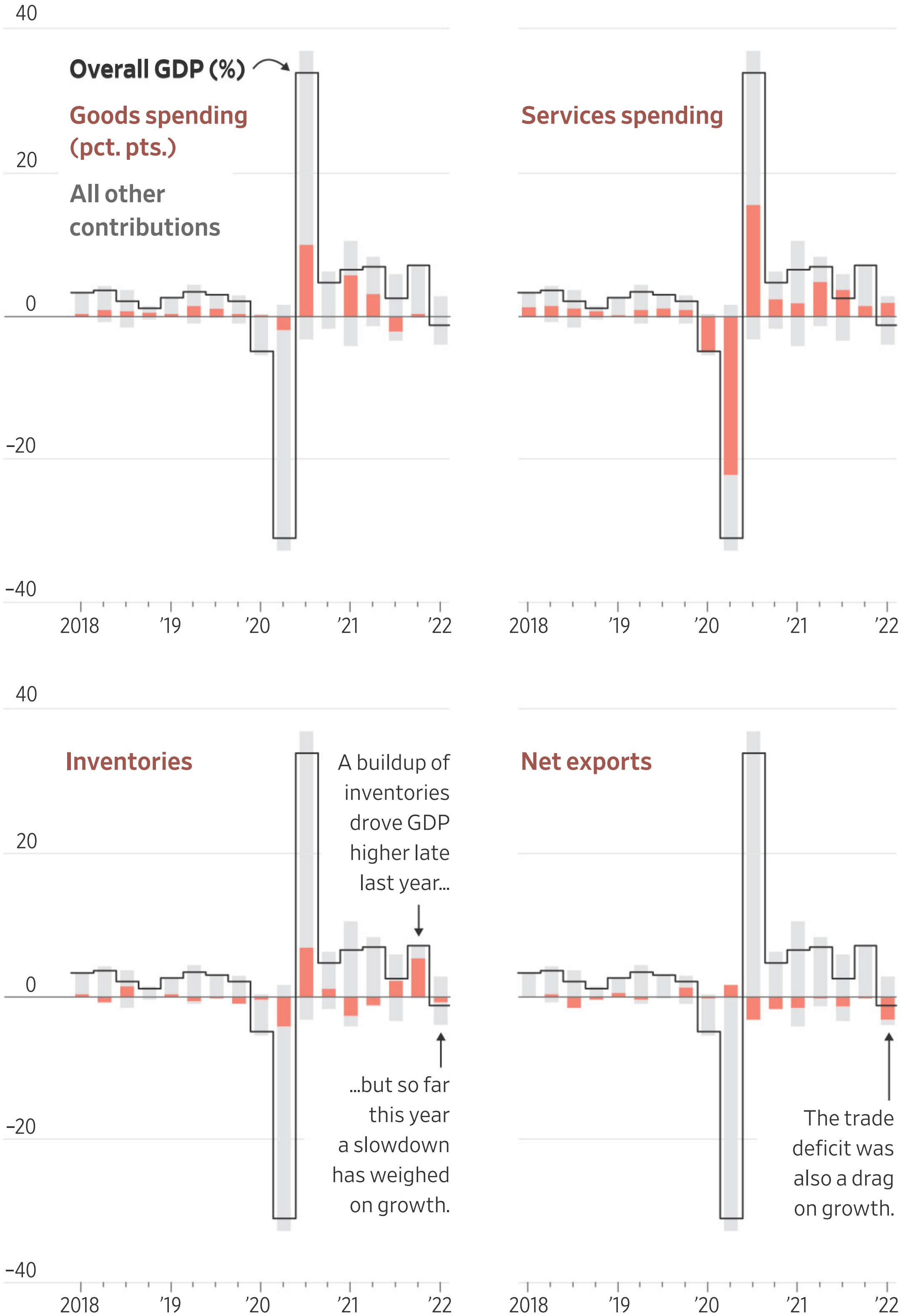
“People have called up: ‘Are you really sold out?’ ” Mr. Lewis said. “I’m like, ‘Yeah, yeah, we’re really sold out.’ ”

Still, Mr. Lewis is more concerned about business next year. For one, it isn’t clear where inflation will be, he said. Prices have already risen briskly for heating oil to warm rooms, as well as for the cheddar cheese Mr. Lewis uses in egg strata, a breakfast casserole he serves up on Saturdays.

Consumer spending is another wild card, he added.

“We don’t know what people’s pocketbooks can accommodate after this year,” he said. “Some people are spending...independent of what the cost is.”

GDP growth, percentage-point contributions of select categories



Note: GDP growth is percentage change from the previous quarter, seasonally adjusted at annual rates.
Source: Commerce Department
Peter Santilli/THE WALL STREET JOURNAL

Looking ahead, economists surveyed by The Wall Street Journal estimate GDP rising 2.6% in the fourth quarter of 2022 from a year earlier, matching 2019 annual growth, but logging in well below 5.5% growth recorded last year.

The labor market is a key source of economic strength right now. Jobless claims—a proxy for layoffs—have been near historic lows and fell last week to 180,000 as employers clung to employees amid a shortage of available workers. Businesses are hiring and ramping up wages, supporting consumer spending.

High inflation, though, is cutting into households' purchasing power. Consumer prices rose 8.5% in March from a year earlier, a four-decade high. Elevated inflation is wiping away pay gains for many workers: average hourly earnings were up 5.6% over the same period.

Fast-rising prices are also challenging many businesses.

Cratex Manufacturing Co., a 100-person manufacturer, makes and sells industrial abrasives for other manufacturers to use in the production of steel mills, jet-engine blades and metal castings. The San Diego-based company has seen prices for materials it buys—such as resin and rubber—rise between 5% and 30% since last fall, said Ricker McCasland, president of Cratex.

At the same time, Cratex has had to ramp up wages to retain workers.

"It's a race to stay ahead of all of those increasing costs," Mr. McCasland said. He added that price increases for raw materials have outpaced Cratex's ability to recoup them through its own price increases.

Write to Sarah Chaney Cambon at sarah.chaney@wsj.com