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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.

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By [Sarah Chaney Cambon](#) [Follow](#)

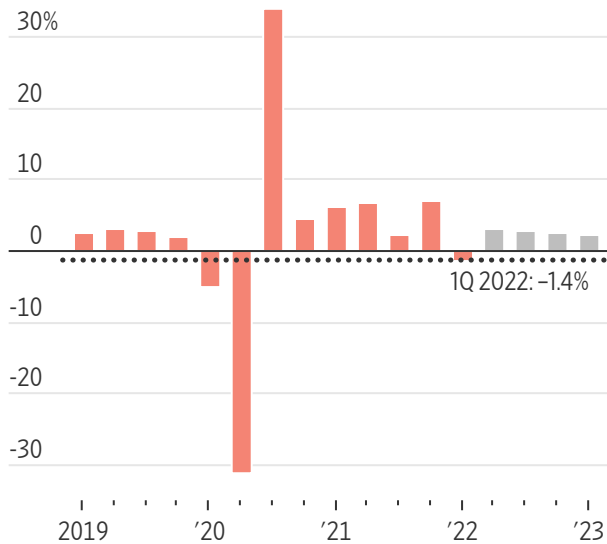
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U.S. gross domestic product shrank at a 1.4% annual rate in the first quarter as supply disruptions weighed on the economy, though solid consumer and business spending suggest growth will resume.

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*

■ Actual ■ Forecasts



*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.

The graph illustrates the U.S. federal debt over a 12-year period. The y-axis represents the debt in trillions of dollars, ranging from \$15 to \$20. The x-axis shows the years from 2010 to 2022. The debt shows a general upward trend with some fluctuations, including a significant dip in early 2020 followed by a sharp recovery.

Year	Debt (Trillion Dollars)
2010	15.3
2011	15.6
2012	15.7
2013	16.1
2014	16.5
2015	17.1
2016	17.4
2017	17.8
2018	18.5
2019	19.1
2020	17.1
2021	18.4
2022	19.6

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.

The chart displays the monthly passenger numbers for the airline industry. The y-axis represents the number of passengers in millions, ranging from 1.3 to 2.2. The x-axis shows the timeline from 2022 to April 2023. The data shows a significant drop in passenger numbers during 2022, reaching a low of approximately 1.35 million in early 2023. Following this, there is a strong recovery, with passenger numbers rising to over 2.1 million by April 2023.

Month	Passenger Numbers (Millions)
Jan 2022	1.90
Feb 2022	1.68
Mar 2022	1.42
Apr 2022	1.40
May 2022	1.45
Jun 2022	1.40
Jul 2022	1.35
Aug 2022	1.38
Sep 2022	1.35
Oct 2022	1.40
Nov 2022	1.42
Dec 2022	1.58
Jan 2023	1.60
Feb 2023	1.70
Mar 2023	1.85
Apr 2023	1.95
May 2023	1.90
Jun 2023	1.92
Jul 2023	1.95
Aug 2023	2.00
Sep 2023	2.05
Oct 2023	2.10
Nov 2023	2.12
Dec 2023	2.10
Jan 2024	2.08
Feb 2024	2.05
Mar 2024	2.08
Apr 2024	2.10
May 2024	2.12
Jun 2024	2.10
Jul 2024	2.12
Aug 2024	2.10
Sep 2024	2.12
Oct 2024	2.10
Nov 2024	2.12
Dec 2024	2.10

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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.

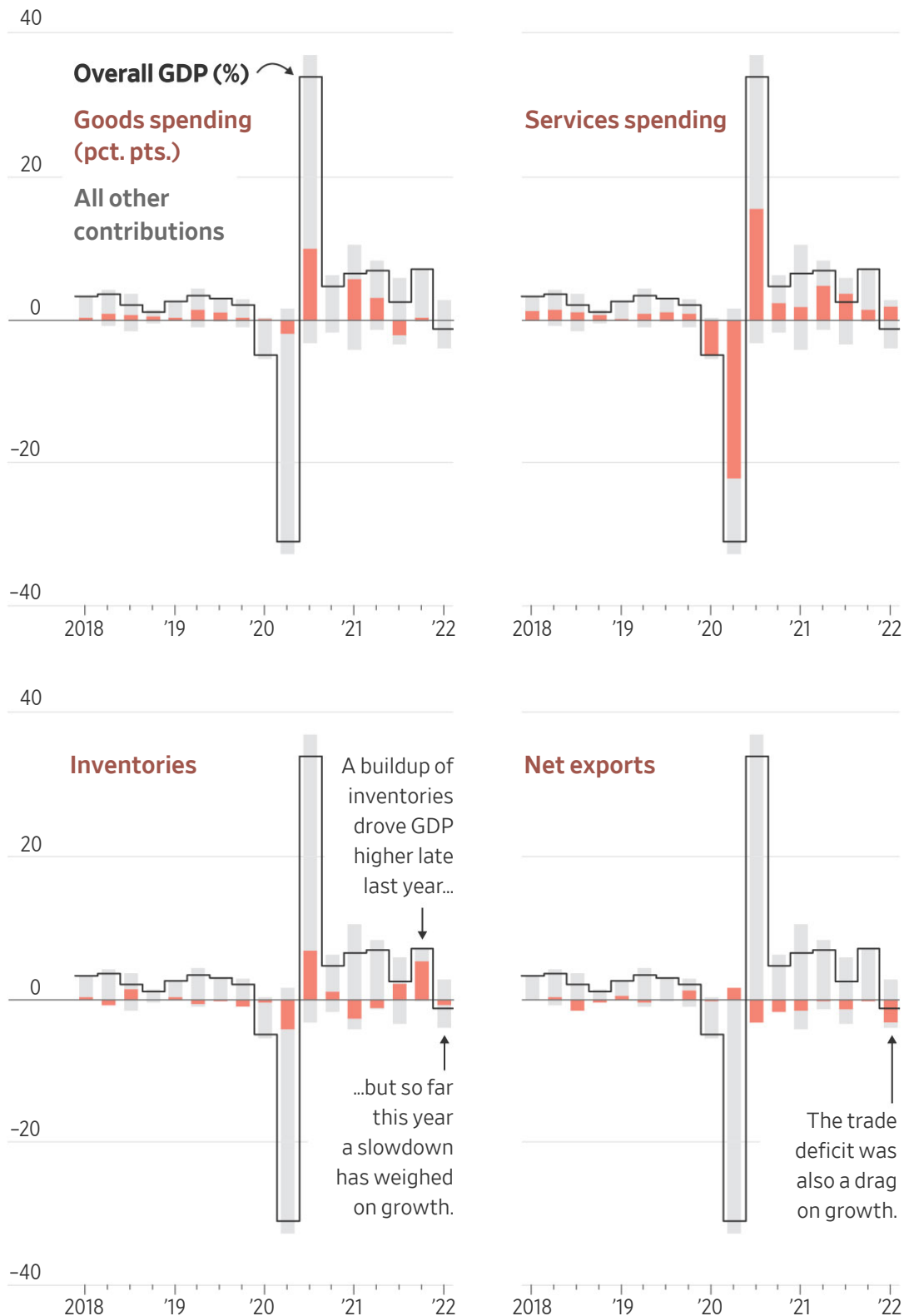
“People have called up: ‘Are you really sold out?’ ” Mr. Lewis said. “I’m like, ‘Yeah, yeah, we’re really sold out.’ ”

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.

SHARE YOUR THOUGHTS

What is your outlook for the U.S. economy in 2022? Join the conversation below.

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.

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