

Negative GDP Explained

Ladenburg Asset Management

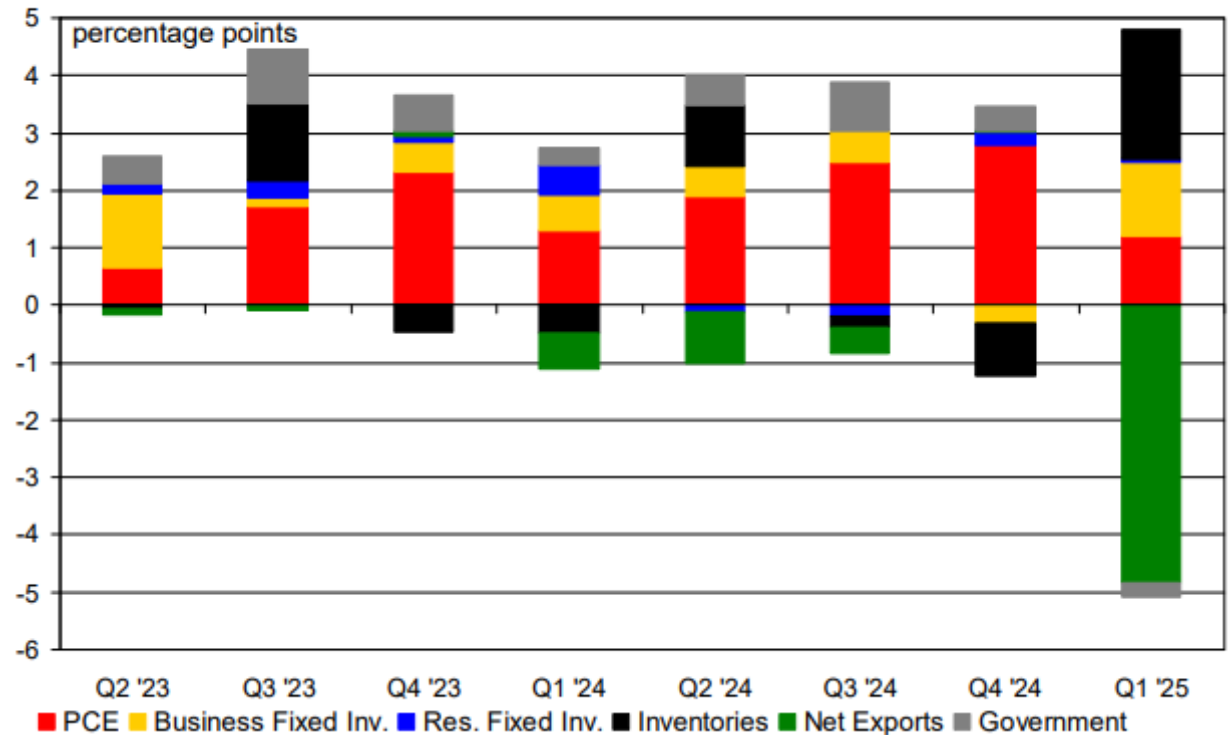
Growth Gripes – Reading Between the Lines

Gross Domestic Product (GDP) is a measure of economic activity within a country. A positive figure signals economic growth, and a negative number signals contraction. On Wednesday, the Bureau of Economic Analysis (BEA) reported that U.S. GDP declined 0.3% in the first quarter (Q1). The chart¹ on the right shows the different components that make up the overall GDP measure going back two years.

The green bar represents total exports minus total imports, and a negative reading implies that imports into the country significantly outweighed exports in Q1. The black bar represents total inventories, or the build-up of intermediate goods that will contribute to the production of final goods down the line. Outside of an increase in imports and inventory, this quarter's GDP resembles previous readings.

The gain in both areas can be explained by companies importing goods to front-run potentially higher costs of increasing tariffs and, subsequently, storing them as inventory. Although this reading is negative, the decline in Q1 GDP can be almost entirely explained by this trade imbalance rather than a decline in economic activity. Companies imported more than they sold, leading to negative GDP growth for this quarter.

Contribution To Real GDP Growth



Economic Definitions

GDP: Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

Inventory: Inventory is the raw materials and finished goods a company holds for production and sale.

Imports: An import is a product or service that is produced in one country and purchased in another, thus playing a role in international trade and affecting a country's balance of trade.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

Disclosures

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

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¹ [Microsoft Word - GDP.docx](#)