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US economy regained momentum in 1Q26, with real GDP expanding at 2.0% SAAR, a notable acceleration from 0.5% in 4Q25, driven by investment and government spending

The U.S. economy entered 2026 with renewed momentum, as real GDP expanded by 2.0% (SAAR) in 1Q26, marking a significant acceleration from the subdued 0.5% growth recorded in 4Q25. The rebound reflects stronger contributions from investment, exports, and government spending, partially offset by a moderation in consumer spending dynamics and strong imports (Figure 1). For its part, the GDP deflator (or inflation measure) grew at a 3.6% rate in 1Q26 vs. 3.37% in 4Q25. The persistence of the GDP deflator above 3.5% suggests that underlying price pressures remain entrenched, limiting the scope for near-term monetary easing.

A key feature of first quarter is the increasing importance of investment as a growth driver. Capital formation accelerated, supported by gains in equipment -particularly information processing equipment- and intellectual property products such as software. This trend is consistent with a broader structural shift toward digital infrastructure, artificial intelligence, and data center investment, which continues to underpin productivity gains and supports medium-term growth prospects. At the same time, the decline in both residential and nonresidential structures highlight ongoing weakness in interest rate-sensitive sectors, suggesting that tighter financial conditions are still exerting a drag on parts of the economy.

It is also important to note that part of the improvement in 1Q26 growth reflects technical and temporary factors. Government spending rebounded following distortions related to the federal government shutdown in late 2025, suggesting that some of the observed acceleration represents a normalization effect.

External sector dynamics also played a significant role in 1Q26, with both exports and imports expanding. Notably, the sharp increase in imports (while mathematically subtracting from headline GDP) appears to be primarily linked to capital formation rather than consumption. This is evidenced by the composition of domestic demand, where goods consumption declined (-0.1% SAAR) while investment, particularly in equipment (17.2% SAAR) and technology-related categories (13.0% SAAR) meaningfully accelerated. In this context, higher imports likely reflect increased demand for capital goods, including information processing equipment, consistent with ongoing investment in digital infrastructure. As such, the widening of imports should be interpreted as a signal of strengthening supply side expansion rather than weakening domestic demand. Furthermore, the strong level of



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investment should sustain the robust productivity improvements that have supported GDP growth in recent quarters. We estimate that productivity growth over the last four quarters has been around 2.0%.

Figure 1. US Real Gross Domestic Product

	Billions of USD (2017)				Annualized change			
	Jun-25	Sep-25	Dec-25	Mar-26	Jun-25	Sep-25	Dec-25	Mar-26
Gross Domestic Product (GDP)	23,771	24,027	24,056	24,175	3.8%	4.4%	0.5%	2.0%
Personal consumption expenditures	16,446	16,586	16,665	16,731	2.5%	3.5%	1.9%	1.6%
Goods	5,628	5,671	5,675	5,673	2.2%	3.0%	0.3%	-0.1%
Services	10,842	10,940	11,012	11,076	2.6%	3.6%	2.7%	2.4%
Gross private domestic investment	4,383	4,383	4,408	4,501	-13.7%	0.0%	2.3%	8.7%
Fixed investment	4,381	4,389	4,406	4,473	4.4%	0.8%	1.5%	6.2%
Nonresidential	3,659	3,688	3,710	3,802	7.3%	3.2%	2.4%	10.4%
Structures	661	653	642	631	-7.5%	-5.0%	-6.6%	-6.7%
Equipment	1,415	1,433	1,448	1,507	8.5%	5.2%	4.3%	17.2%
Intellectual property products	1,594	1,616	1,637	1,688	15.0%	5.6%	5.4%	13.0%
Residential	779	764	761	745	-5.1%	-7.1%	-1.7%	-8.0%
Change in private inventories	-18	-24	-16	-8	n.a.	n.a.	n.a.	n.a.
Net exports of goods and services*	-1,058	-956	-969	-1,068	-65.5%	-33.5%	5.6%	47.5%
Exports	2,647	2,709	2,687	2,769	-1.8%	9.6%	-3.2%	12.9%
Imports	3,705	3,664	3,655	3,837	-29.3%	-4.4%	-1.0%	21.4%
Government consumption & investment	3,993	4,015	3,957	4,000	-0.1%	2.2%	-5.6%	4.4%
Federal	1,517	1,527	1,459	1,492	-5.3%	2.7%	-16.7%	9.4%
National defense	874	886	862	866	0.9%	5.7%	-10.8%	2.3%
Nondefense	642	640	597	625	-13.0%	-1.4%	-24.3%	20.3%
State and local	2,475	2,487	2,497	2,507	3.1%	2.0%	1.5%	1.6%
GDP less change in inventories	23,789	24,051	24,071	24,182	7.3%	4.5%	0.3%	1.9%
Aggregate Demand	27,476	27,691	27,711	28,011	-1.6%	3.2%	0.3%	4.4%
LTM GDP	23,596	23,733	23,850	24,007	2.3%	2.2%	2.1%	2.3%
Deflator	1.28	1.29	1.31	1.32	2.1%	3.7%	3.7%	3.6%

Source: HR Ratings with data from the Bureau of Economic Analysis (BEA).

*A negative figure reduces GDP.

From a domestic demand perspective, personal consumption expenditure on services increased 2.4% SAAR, down from 2.7% in the previous quarter, signaling that underlying demand is softening. Monthly data for March reinforce this trend, while nominal personal consumption expenditures (PCE) rose by 0.9% m/m, real consumption increased by only 0.2%, reflecting the impact of elevated price pressures on household purchasing power.

As shown in Figure 2, a growing divergence between income and spending dynamics represents a key vulnerability. In March, disposable personal income increased by 0.6% m/m, below the pace of consumption growth, contributing to a decline in the personal savings rate to 3.6% from the previous 3.9%. This suggests that households are increasingly relying on reduced savings to sustain consumption, raising concerns about the consumer-driven growth going forward. Moreover, inflation dynamics in early 2026 present additional challenges. According to monthly data, headline PCE inflation was 3.5% year-over-year (y/y) in March (vs. 2.8% y/y in February) and core inflation showed a 3.2% y/y increase (vs. 3.0% in February).

Overall, the latest data points to a resilient but more imbalanced economic expansion. Growth is being supported by strong investment activity and in the quarter by government spending and service consumption, while goods consumption remains



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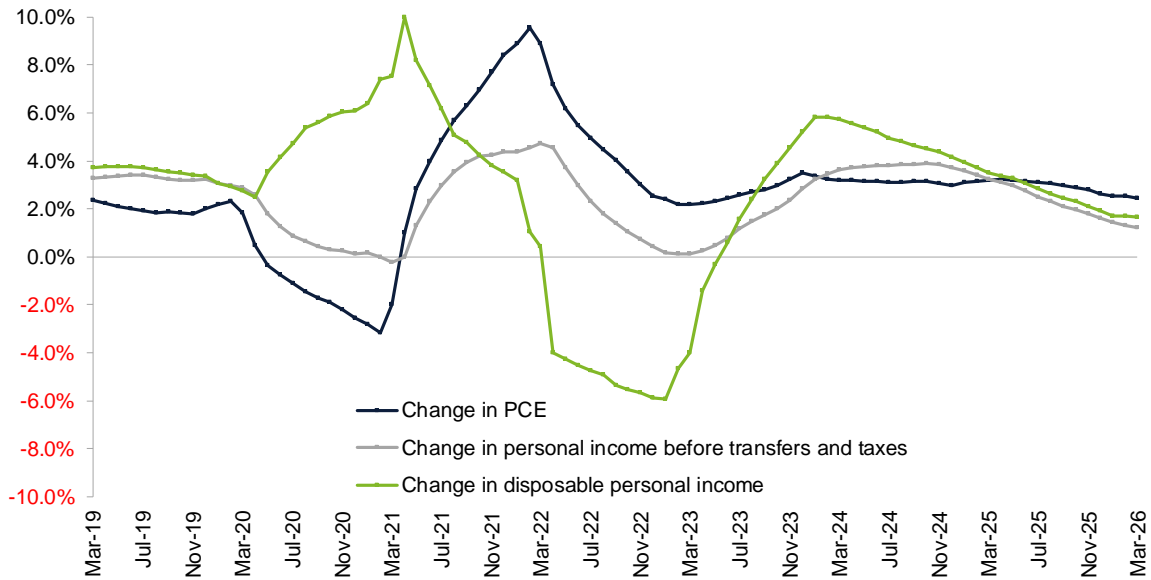
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positive but shows signs of moderation and is increasingly financed through a decline in savings. As for the external sector, exports also advanced strongly in the quarter (12.9%) while imports grew at an even faster pace (21.9%). The impact of imports on growth is seen in the difference between the 4.4% increase in aggregate demand and the lesser 2.0% advance in GDP itself. At the same time, inflationary pressures persist, complicating the macroeconomic outlook and limiting the scope for monetary easing in the near term. Looking ahead, we expect the US economy to maintain moderate growth, supported by continued investment in strategic sectors and stable labor market conditions.

Figure 2. Real annual change in Personal Income and Expenditures (LTM)



Source: HR Ratings, with twelve month moving average data from the BEA, converted into real USD by HR Ratings using PCE inflation deflators.



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