While the S&P500 continues to rise to the highest levels since 2008 thanks to excellent corporate results, the news coming out from the US is mixed. While first quarter GDP growth fell to 1.8%, as compared to 3.1% in the previous quarter, the fact that inflation is rising could complicate matters—from a hike of 0.4% in the previous quarter, overall inflation is up to around 1.9% now, and that for personal consumption expenditure is up to 3.8%, its highest level in the last 10 quarters. While much of the hike in inflation is due to the global spurt in commodity prices, especially oil, it lowers the Fed's room for manoeuvre. New applications for unemployment benefits also rose, underlining the fragility of any recovery that is not based on employment rising significantly. Some part of the problem is, no doubt, due to the legislative logjam in the US and is, therefore, transitory—defence expenditure in the quarter fell 11.7% and accentuated the fall in government expenditure. The fall in defence expenditure shaved off around 0.7 percentage points from the quarter's growth.

The larger problem, which doesn't look transitory, is that while private consumption expenditure has slowed, a large part of Q1's growth came from an increase in inventories (change in inventories contributed 0.93 percentage points to overall Q1 growth). A high contribution of inventory accumulation to GDP growth suggests the growth push in the next quarter will be muted to this extent. A Reuters Breakingviews columnist, Martin Hutchinson, points out that the bipartisan December stimulus included a one-year reduction in employee social security contributions, as a result of which around $112 bn extra was put into January pay packets—the reduction in growth in personal spending suggests this never got spent. Curiously, despite the dollar losing value, net exports grew by under 5% as compared to 8.6% in the previous quarter. Given the S&P change in outlook on US debt was a result of no credible plan to reduce government expenditure and debt levels, the US's future outlook looks a bit more cloudy than it did a while back.