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Data Watch

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1st Quarter GDP (Prelim)

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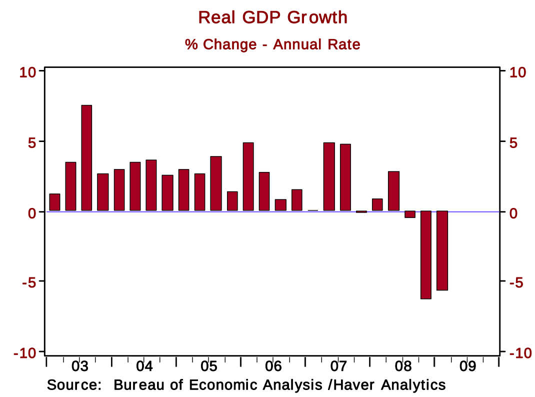
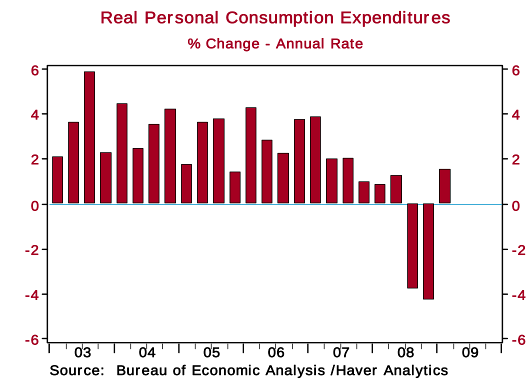
- Real GDP was revised up slightly to a -5.7% annual growth rate in Q1, about as the consensus expected, versus the -6.1% rate reported last month. Real GDP is down 2.5% in the past year.
- The largest positive contribution to the revision in overall real GDP was from inventories, with net exports also providing a noticeable boost. Personal consumption was revised downward, mostly due to non-durable goods.
- The largest drags on real GDP in Q1 were still business investment and inventories. The largest positive contributors to GDP were net exports and personal consumption.
- The GDP price index was revised to a 2.8% annual rate of increase from a prior estimate of 2.9%. Nominal GDP growth – real GDP plus inflation – was revised up to a -3.1% annual rate in Q1 versus an original estimate of -3.5%.





Implications: Real GDP growth was little revised for the first quarter and the story for Q1 remains the same: businesses cut inventories and investment to deal with the huge decline in consumption in late 2008. Much more important than the slight upward revision to real GDP was that corporate profits increased at a 14.2% annual rate in Q1, the first increase in almost two years. All the rise was in the domestic financial sector. Consumption increased in Q1 and is likely to continue rising in the quarters ahead. These increases, along with the completion of the inventory correction by mid-year, will pave the way for surprisingly robust economic growth in the second half of 2009. The key issue for real GDP growth in Q2 is how much further the inventory reductions go. Real final sales (real GDP excluding inventories) will be roughly flat in Q2, versus contractions at a 6.2% annual rate in Q4 2008 and 3.4% in Q1 2009, an improvement consistent with our view that the economy is experiencing a "V" shaped recovery. In other news this morning, the Chicago Purchasing Managers index, a measure of manufacturing in the Chicago region, declined to 34.9 in May from 40.1 in April. This contrasts with most other regional manufacturing surveys showing improvement in May, including the Empire State, Philly Fed, Milwaukee PMI, and Richmond Fed surveys. Most likely, the relative weakness in the Chicago PMI is due to unusually early auto production shutdowns in the region.

1st Quarter GDP Seasonally Adjusted Annual Rates	Q1-09	Q4-08	Q3-08	Q2-08	4-Quarter Change
Real GDP	-5.7%	-6.3%	-0.5%	2.8%	-2.5%
GDP Price Index	2.8%	0.5%	3.9%	1.1%	2.1%
Nominal GDP	-3.1%	-5.8%	3.4%	4.1%	-0.4%
PCE	1.6%	-4.3%	-3.8%	1.2%	-1.4%
Business Investment	-36.9%	-21.7%	-1.7%	2.5%	-16.0%
Structures	-42.3%	-9.4%	9.6%	18.4%	-9.3%
Equipment and Software	-33.5%	-28.1%	-7.5%	-5.0%	-19.5%
Contributions to GDP Growth (p.pts.)	**Q1-09**	**Q4-08**	**Q3-08**	**Q2-08**	**4Q Avg.**
PCE	1.1	-3.0	-2.8	0.9	-0.9
Business Investment	-4.5	-2.6	-0.2	0.3	-1.8
Residential Investment	-1.4	-0.8	-0.6	-0.5	-0.8
Inventories	-2.3	-0.1	0.8	-1.5	-0.8
Government	-0.7	0.3	1.1	0.8	0.4
Net Exports	2.2	-0.2	1.1	2.9	1.5

Source: Commerce Department