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Data Watch

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1st Quarter GDP (Advance)

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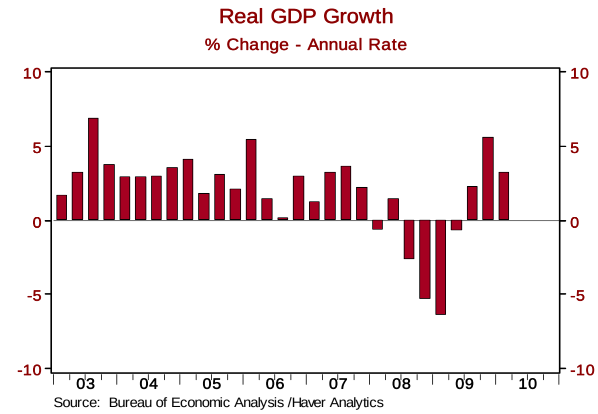
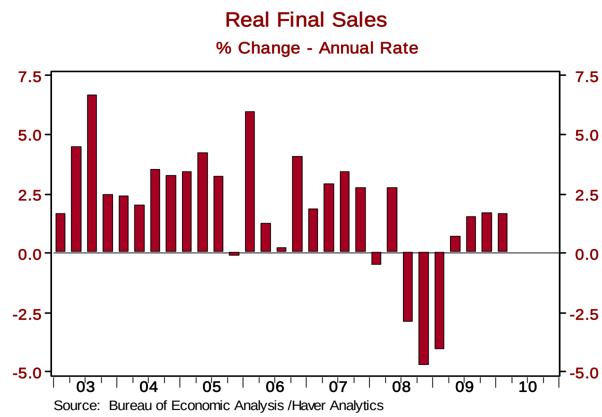
- The first estimate for Q1 real GDP growth is 3.2% at an annual rate, almost exactly as the consensus expected.
- The largest positive contributions to the real GDP growth rate, in order, were personal consumption, inventories, and business investment in equipment and software.
- The weakest components of real GDP were net exports, business investment in structures (like offices and retail space), and government spending.
- The GDP price index increased at a 0.9% annual rate in Q1. Nominal GDP – real GDP plus inflation – rose at a 4.1% rate in Q1 and is now up 3.0% versus a year ago.





Implications: Despite record East Coast snows, real GDP grew at a 3.2% annual rate in Q1, faster than the "new normal" crowd says we should be growing. To put this in perspective, the last time the East Coast was hit by similar storms, in 1996, real GDP grew at a 2.8% rate in Q1 and then surged at a 7.1% rate in Q2. Given this pattern and incoming data, we expect real GDP to grow at a 6% rate in Q2. The V-shaped recovery is being driven by a natural cyclical recovery from the panic, an end to mark-to-market accounting (which has helped heal the financial sector), and low interest rates from the Federal Reserve. Although inventories accounted for about half the growth in Q1 and will likely count for much of the growth in Q2, we think final sales (GDP excluding inventories) are accelerating in Q2 and this will continue in the second half of the year, just as the growth contribution from inventories goes away. In the next three quarters (Q2-Q4), we expect final sales to grow at around a 4% pace, as commercial construction nears the end of its decline, home building returns to growth, and consumer spending plus business equipment investment remain healthy. On the inflation front, GDP prices increased at only a 0.9% annual rate in Q1. However, prices for the things we buy (gross domestic *purchases*) increased at a 1.7% rate. Nominal GDP (real GDP growth plus inflation) is now up 3% versus last year and will be going up quickly in the near future. In other news this morning, the Chicago PMI, a measure of manufacturing in the Midwest, increased to 63.8 in April versus 58.8 in March. The order backlog index is at the second highest level since the early 1990s. In the manufacturing sector, the recovery is not a "V," it's a checkmark!

4th Quarter GDP *Seasonally Adjusted Annual Rates*	*Q1-10*	*Q4-09*	*Q3-09*	*Q2-09*	*4-Quarter Change*
Real GDP	**3.2%**	5.6%	2.2%	-0.7%	2.5%
GDP Price Index	**0.9%**	0.5%	0.4%	0.0%	0.4%
Nominal GDP	**4.1%**	6.1%	2.6%	-0.8%	3.0%
PCE	**3.6%**	1.6%	2.8%	-0.9%	1.8%
Business Investment	**4.0%**	5.3%	-5.9%	-9.6%	-1.7%
Structures	**-14.0%**	-18.1%	-18.4%	-17.3%	-17.0%
Equipment and Software	**13.4%**	19.0%	1.5%	-4.9%	6.9%
Contributions to GDP Growth (p.pts.)	**Q1-10**	**Q4-09**	**Q3-09**	**Q2-09**	**4Q Avg.**
PCE	**2.6**	1.2	2.0	-0.6	1.3
Business Investment	**0.4**	0.5	-0.6	-1.0	-0.2
Residential Investment	**-0.3**	0.1	0.4	-0.7	-0.1
Inventories	**1.6**	3.8	0.7	-1.4	1.2
Government	**-0.4**	-0.3	0.6	1.3	0.3
Net Exports	**-0.6**	0.3	-0.8	1.7	0.1

Source: Commerce Department