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1st Quarter GDP (Final)

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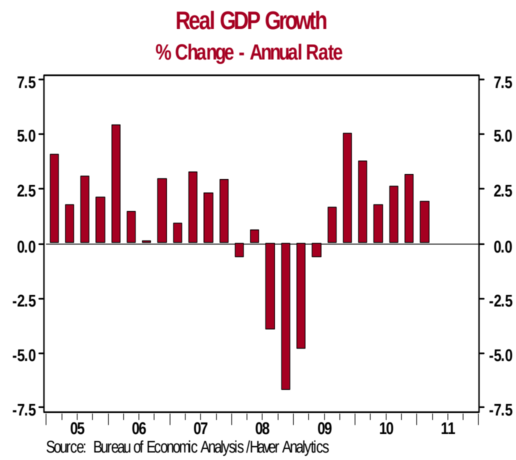
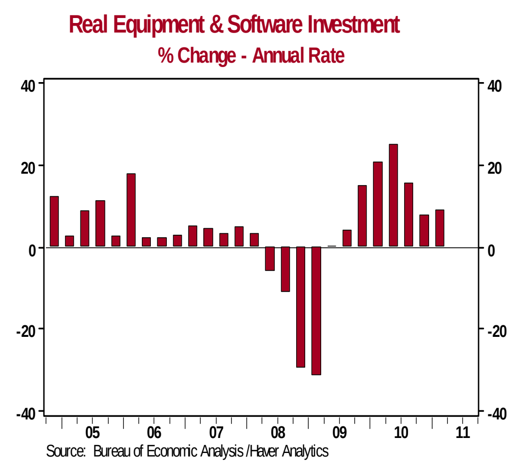
- Real GDP growth in Q1 was revised up slightly, exactly as the consensus expected, to a 1.9% annual rate from a prior estimate of 1.8%.
- The largest upward revision *versus last month's estimate* of Q1 real GDP growth was for net exports. Business investment was revised downward. However, even these changes were relatively small.
- The largest positive contributions to the real GDP growth rate in Q1 were from consumer spending and inventories. The weakest component of real GDP, by far, was government.
- The GDP price index was revised to a 2.0% annualized rate of change from a prior estimate of 1.9%. Nominal GDP growth – real GDP plus inflation – was revised up to a 4.0% annual rate in Q1 versus a prior estimate of 3.8%. Nominal GDP is also up 4.0% versus a year ago.



Implications: Not much "news" in today's report on GDP, showing the economy expanded at a 1.9% annual rate in the first quarter, which ended almost three months ago. The growth rate was exactly as the consensus expected and there were no major changes to any of the components of real GDP. Nominal GDP – real GDP plus inflation – was revised up to a 4% annual rate, which adds to the case that the Federal Reserve, by keeping short-term interest rates near zero, is too loose. The most important news in today's GDP report was on corporate profits, which were revised up for the first quarter, particularly for domestic non-financial companies. Corporate profits are at a record high, having traced out a full-blown V-shaped recovery from the financial panic and recession. Profits were up at a 12.1% annual rate in Q1 and are up 10.2% versus a year before. Based on information out so far, we expect a growth rate in the 2% to 3% range for Q2 despite the disasters in Japan and related supply-chain disruptions, particularly in the auto industry. The full recovery from those disruptions in the second half of the year will send the real GDP growth rate north of 4%, perhaps substantially higher. For example, auto industry projections suggest output should increase at about a 100% annual rate in Q3, which translates into an added 2.5 points to the real GDP growth rate in that quarter.



1st Quarter GDP Seasonally Adjusted Annual Rates	Q1-11	Q4-10	Q3-10	Q2-10	4-Quarter Change
Real GDP	**1.9%**	3.1%	2.6%	1.7%	2.3%
GDP Price Index	**2.0%**	0.4%	2.1%	1.9%	1.6%
Nominal GDP	**4.0%**	3.5%	4.6%	3.7%	4.0%
PCE	**2.2%**	4.0%	2.4%	2.2%	2.7%
Business Investment	**2.0%**	7.7%	10.0%	17.2%	9.1%
Structures	**-14.8%**	7.7%	-3.6%	-0.5%	-3.1%
Equipment and Software	**8.7%**	7.7%	15.4%	24.8%	14.0%
Contributions to GDP Growth (p.pts.)	**Q1-11**	**Q4-10**	**Q3-10**	**Q2-10**	**4Q Avg.**
PCE	**1.5**	2.8	1.7	1.5	1.9
Business Investment	**0.2**	0.7	0.9	1.5	0.8
Residential Investment	**-0.1**	0.1	-0.8	0.6	0.0
Inventories	**1.3**	-3.4	1.6	0.8	0.1
Government	**-1.2**	-0.3	0.8	0.8	0.0
Net Exports	**0.1**	3.3	-1.7	-3.5	-0.4

Source: Commerce Department