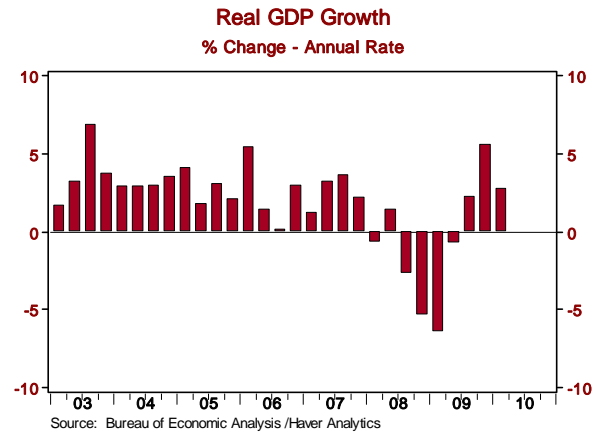


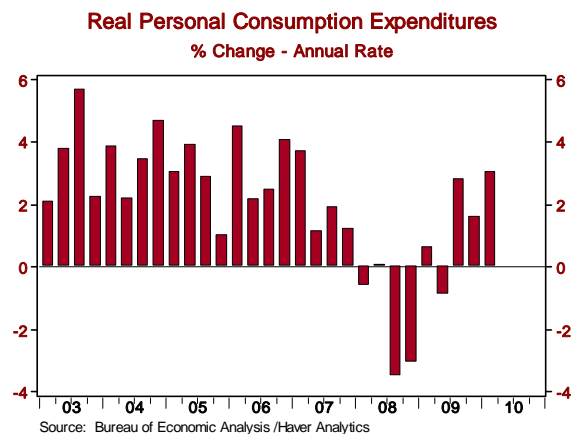
1ST QUARTER GDP (FINAL)

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- Real GDP growth in Q1 was revised down to a 2.7% annual rate from a previous estimate and consensus expected 3.0%.
- The largest downward revisions *versus last month's estimate* of Q1 real GDP growth were for consumer spending and net exports. Inventories were revised upward.
- The largest positive contributions to the real GDP growth rate in Q1 were from consumer spending and inventories. The weakest components of real GDP were net exports, commercial construction, and government spending.
- The GDP price index was revised to a 1.1% annual rate of change from a prior estimate of 1.0%. Nominal GDP growth – real GDP plus inflation – was revised to a 3.9% annual rate in Q1 versus a prior estimate of 4.1%.



Implications: Despite record East Coast snow, real GDP grew at a 2.7% annual rate in Q1. 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. We are not likely to get as dramatic a snapback this time around, but so far in Q2 the data indicate real GDP has grown at a 5% rate (with 4% growth in final sales, which is GDP excluding inventories). The biggest news in today's GDP report was not on the production side, but on the income side, where corporate profits in Q1 were revised up substantially, particularly for domestic companies outside the financial sector. Corporate profits increased at a 36% annual rate in Q1 and are up 34% versus a year ago. These profits will help boost business investment and private payrolls in the months ahead. Because of the strength in profits, real gross domestic income (GDI) – a companion to the real GDP numbers – grew at a 4.2% rate in Q1. Over time, GDP and GDI are roughly equal, but annual GDP revisions (like at the end of July) often get revised in the direction of GDI. On the inflation front, GDP prices increased at only a 1.1% annual rate in Q1. Nominal GDP (real GDP growth plus inflation) is up 2.9% versus last year and will be going up quickly in the near future. This means zero percent interest rates from the Fed are too low.



1st Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q1-10	Q4-09	Q3-09	Q2-09	4-Quarter Change
Real GDP	2.7%	5.6%	2.2%	-0.7%	2.4%
GDP Price Index	1.1%	0.5%	0.4%	0.0%	0.5%
Nominal GDP	3.9%	6.1%	2.6%	-0.8%	2.9%
PCE	3.0%	1.6%	2.8%	-0.9%	1.6%
Business Investment	2.2%	5.3%	-5.9%	-9.6%	-2.2%
Structures	-15.5%	-18.1%	-18.4%	-17.3%	-17.3%
Equipment and Software	11.4%	19.0%	1.5%	-4.9%	6.4%
Contributions to GDP Growth (p.pts.)	Q1-10	Q4-09	Q3-09	Q2-09	4Q Avg.
PCE	2.1	1.2	2.0	-0.6	1.2
Business Investment	0.2	0.5	-0.6	-1.0	-0.2
Residential Investment	-0.3	0.1	0.4	-0.7	-0.1
Inventories	1.9	3.8	0.7	-1.4	1.2
Government	-0.4	-0.3	0.6	1.3	0.3
Net Exports	-0.8	0.3	-0.8	1.7	0.1

Source: Commerce Department

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