# 1st Quarter GDP (Preliminary)

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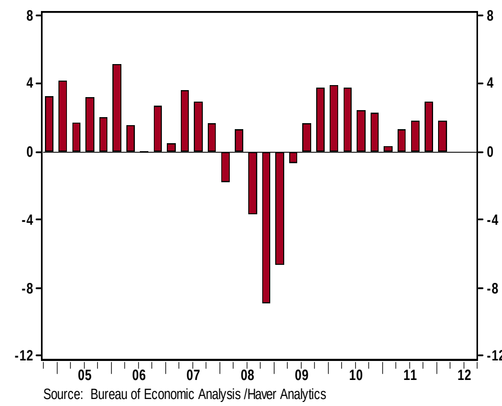
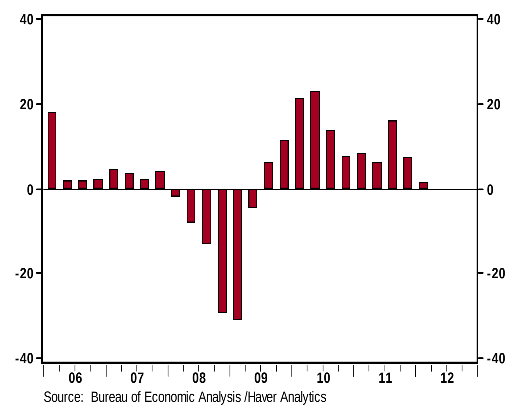
- Real GDP was revised down to a 1.9% annual growth rate in Q1, exactly as the consensus expected. The original report from last month showed a 2.2% growth rate.
- Inventories, government spending, and personal consumption were revised down, but business investment – both commercial construction and equipment & software – were revised up.
- The largest positive contribution to the real GDP growth rate in Q1 was personal consumption. By far, the weakest component was government.
- The GDP prices index was revised up to a 1.7% annual rate of change versus an original estimate of 1.5%. Nominal GDP growth – real GDP plus inflation – was revised down to a 3.6% annual rate from a prior estimate of 3.8%.




**Implications:** Real GDP growth in Q1 was revised down slightly, but we would take the new report over the last one, anytime. A downward revision to inventories subtracted 0.4 percentage points from growth - this leaves more room for future production. Meanwhile, government continues to be a drag on GDP growth, which is a longer-term positive for the private sector. Real final sales in the private sector (GDP excluding inventories and government) increased at a solid 3% annual rate. This growth was buttressed by a large upward revision to business investment, from a decline of 2.1% in the original report to a 1.9% annual growth rate. (Nice!) Meanwhile, corporate profits hit a new record high and are up 6.5% from a year ago. All of the increase in profits in Q1 came from domestic earnings, not earnings from the rest of the world. Today's report also included the first reading on gross domestic income, an alternative measure of the overall strength of the economy. That grew at a 2.7% annual rate in Q1, suggesting future benchmark revisions to Q1 are likely to be upward. With nominal GDP (real growth plus inflation) up at a 3.6% annual rate in Q1 and up 3.9% from a year ago, there is no reason for further Fed easing. In other news this morning, new claims for jobless benefits increased 10,000 last week to 383,000. Continuing claims dropped 36,000 to 3.24 million. The ADP Employment index, which measures private sector payrolls, increased 133,000 in May. This is consistent with our forecast that tomorrow morning's jobs report will show a 145,000 increase in private payrolls. The bad news was that the Chicago PMI, a measure of manufacturing in that region, fell to 52.7 in May from 56.2 in April. This still indicates growth, just slower growth than last month. But the Milwaukee ISM factory index rose to 57.7 from 52.9. On the housing front, pending home sales, which are contracts on existing homes, were down in April, but the Case-Shiller index, a measure of home prices in the 20 largest metro areas, was up 0.1% (seasonally-adjusted) in March.

| 1st Quarter GDP<br>Seasonally Adjusted Annual Rates | Q1-12 | Q4-11 | Q3-11 | Q2-11 | 4-Quarter Change |
|---|---|---|---|---|---|
| Real GDP | **1.9%** | 3.0% | 1.8% | 1.3% | 2.0% |
| GDP Price Index | **1.7%** | 0.9% | 2.6% | 2.5% | 1.9% |
| Nominal GDP | **3.6%** | 3.8% | 4.4% | 4.0% | 3.9% |
| PCE | **2.7%** | 2.1% | 1.7% | 0.7% | 1.8% |
| Business Investment | **1.9%** | 5.2% | 15.7% | 10.3% | 8.2% |
| Structures | **-3.3%** | -1.0% | 14.4% | 22.6% | 7.6% |
| Equipment and Software | **3.9%** | 7.5% | 16.2% | 6.3% | 8.4% |
| **Contributions to GDP Growth (p.pts.)** | **Q1-12** | **Q4-11** | **Q3-11** | **Q2-11** | **4Q Avg.** |
| PCE | **1.9** | 1.5 | 1.2 | 0.5 | 1.3 |
| Business Investment | **0.2** | 0.5 | 1.5 | 1.0 | 0.8 |
| Residential Investment | **0.4** | 0.3 | 0.0 | 0.1 | 0.2 |
| Inventories | **0.2** | 1.8 | -1.4 | -0.3 | 0.1 |
| Government | **-0.8** | -0.8 | 0.0 | -0.2 | -0.5 |
| Net Exports | **-0.1** | -0.3 | 0.4 | 0.2 | 0.1 |

Source: Commerce Department