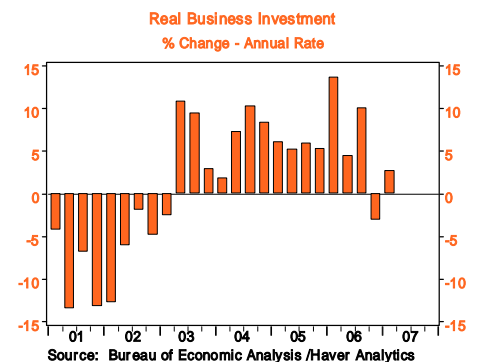
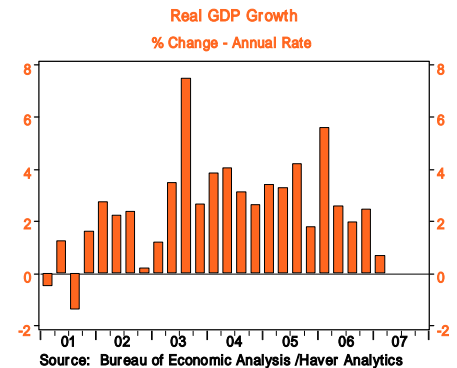


## 1ST QUARTER GDP (FINAL)

**Chief Economist – Brian S. Wesbury**  
**Senior Economist – Robert Stein, CFA**  
**Economic Research Analyst – Trevor D. Scott**

- The government revised first quarter real GDP growth to 0.7% at an annual rate, versus the 0.6% growth rate reported last month. The consensus expected 0.8%.
- Almost all of the upward revision to real GDP growth was due to higher net exports than previously estimated. Most other major components of GDP were revised downward, although very slightly, including consumption, business investment, and residential construction.
- The GDP price index rose at a 4.2% rate, the fastest increase since 1991. Nominal GDP growth (real GDP plus inflation) grew at a 4.9% rate.



**Implications:** Today's GDP report was almost all old news. We already knew the first quarter had weak growth due to a housing dip, which has since started to ease, and a negative inventory cycle, which has already run its course. However, today's report also included revisions to corporate profits data for Q1, originally released last month. Overall, profit growth was revised upward with a big upward revision to profits earned from foreign operations plus an upward revision to profits from domestic non-financial firms offsetting a downward revision to earnings by domestic financial firms. Today's report also showed higher inflation in Q1 than previously estimated, with the GDP price index up at a 4.2% rate (previously 4%) and the core PCE (personal consumption excluding food and energy) price index up at a 2.4% rate (previously 2.2%). In other news, initial claims for unemployment insurance dropped 13,000 to 313,000 last week and continuing claims declined 27,000 to 2.49 million. The labor market is still strong and look for much higher real GDP growth in Q2, at around 4%.

<b>1st Quarter GDP</b> <i>Seasonally Adjusted Annual Rates</i>	<b>Q1-07</b>	<b>Q4-06</b>	<b>Q3-06</b>	<b>Q2-06</b>	<b>4 Quarter Change</b>
<b>Real GDP</b>	<b>0.7%</b>	2.5%	2.0%	2.6%	1.9%
<b>GDP Price Index</b>	<b>4.2%</b>	1.7%	1.9%	3.3%	2.8%
<b>Nominal GDP</b>	<b>4.9%</b>	4.1%	3.9%	5.9%	4.7%
<b>PCE</b>	<b>4.2%</b>	4.2%	2.8%	2.6%	3.5%
<b>Business Investment</b>	<b>2.6%</b>	-3.1%	10.0%	4.4%	3.4%
<b>Structures</b>	<b>4.8%</b>	0.9%	15.7%	20.3%	10.1%
<b>Equipment and Software</b>	<b>1.7%</b>	-4.8%	7.7%	-1.4%	0.7%
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q1-07</b>	<b>Q4-06</b>	<b>Q3-06</b>	<b>Q2-06</b>	<b>4Q Avg.</b>
<b>PCE</b>	<b>2.9</b>	2.9	2.0	1.8	2.4
<b>Business Investment</b>	<b>0.3</b>	-0.3	1.0	0.5	0.3
<b>Residential Investment</b>	<b>-0.9</b>	-1.2	-1.2	-0.7	-1.0
<b>Inventories</b>	<b>-1.0</b>	-1.2	0.1	0.4	-0.4
<b>Government</b>	<b>0.2</b>	0.6	0.3	0.2	0.3
<b>Net Exports</b>	<b>-0.8</b>	1.6	-0.2	0.4	0.3

Source: Commerce Department