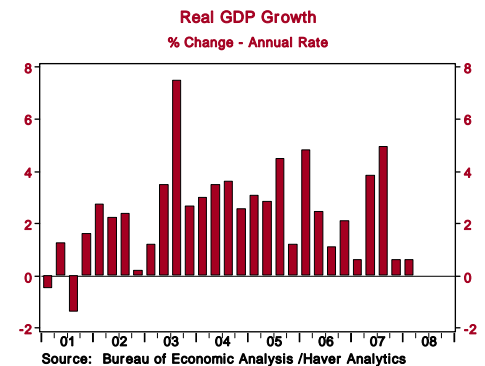


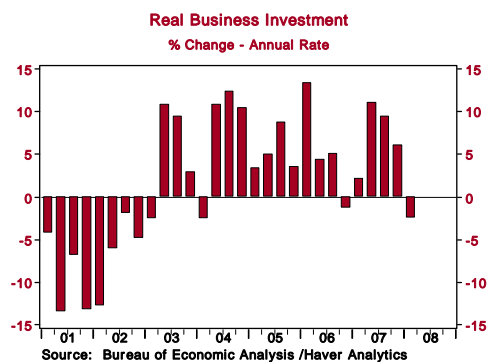
1ST QUARTER GDP (ADVANCE)

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- The first estimate for Q1 real GDP growth is 0.6% at an annual rate versus a consensus expected 0.5%. Real GDP is up 2.5% versus a year ago.
- The strongest components of real GDP were inventories and consumption. Inventories added 0.8 points to the real GDP growth rate. Consumption added 0.7 points to the growth rate, all due to strong growth in services.
- The largest drag on real GDP continues to be home building, which subtracted 1.2 points from the real GDP growth rate. Excluding housing, real GDP grew at a 1.8% rate in Q1 and is up 3.6% versus last year.
- The GDP price index rose at a 2.6% annual rate in Q1 and is up 2.2% versus last year. Nominal GDP – real GDP plus inflation – grew at a 3.2% rate in Q1 and is up 4.7% versus a year ago.



Implications: The initial estimate of 0.6% real GDP growth in the first quarter is slightly better than the consensus expected. More importantly, we expect this estimate to be revised upward in the next couple of months as the government appears to have made cautious assumptions about inventories and exports in March, where they have to make guesses because of a lack of data at this point in the quarter. Home building continues to be a drag on growth but will be less of a drag for the rest of 2008 as the sector is a shrinking share of the economy and new home inventories are falling. Excluding housing, real GDP was up at a 1.8% rate in Q1 and is up 3.6% since last year. We continue to expect that the real GDP growth rate will average about 1% in the first half of 2008 and 4% in the second half, as the end of the Federal Reserve's rate cutting cycle unleashes the full force of the Fed's loose monetary policy. Meanwhile, the inflation news remains bad. In Q1, prices were up at a 2.6% rate for GDP (what we produce) but up at a 3.5% rate for Gross Domestic Purchases (what we buy). In other news today, the ADP employment measure had private sector payrolls *up* 10,000 in April. At present, we expect Friday's Labor Department report to show a payroll decline of 25,000, consistent with sluggish growth but not recession.



4th Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q1-08	Q4-07	Q3-07	Q2-07	4-Quarter Change
Real GDP	0.6%	0.6%	4.9%	3.8%	2.5%
GDP Price Index	2.6%	2.4%	1.0%	2.6%	2.2%
Nominal GDP	3.2%	3.0%	6.0%	6.6%	4.7%
PCE	1.0%	2.3%	2.8%	1.4%	1.9%
Business Investment	-2.5%	6.0%	9.4%	11.0%	5.8%
Structures	-6.2%	12.4%	16.4%	26.2%	11.5%
Equipment and Software	-0.7%	3.1%	6.2%	4.7%	3.3%
Contributions to GDP Growth (p.pts.)	Q1-08	Q4-07	Q3-07	Q2-07	4Q Avg.
PCE	0.7	1.6	2.0	1.0	1.3
Business Investment	-0.3	0.6	1.0	1.1	0.6
Residential Investment	-1.2	-1.3	-1.1	-0.6	-1.0
Inventories	0.8	-1.8	0.9	0.2	0.0
Government	0.4	0.4	0.7	0.8	0.6
Net Exports	0.2	1.0	1.4	1.3	1.0

Source: Commerce Department