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1ST QUARTER GDP (PRELIM)

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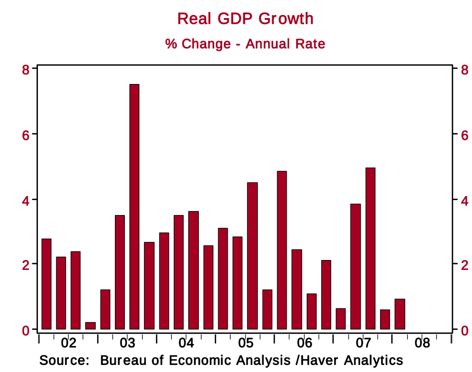
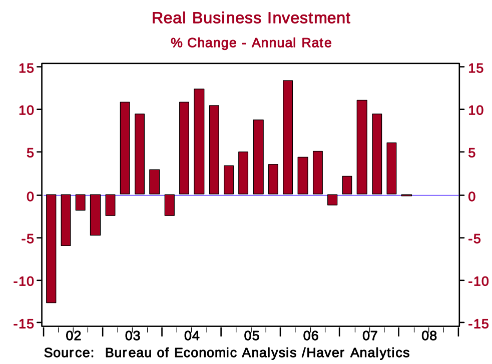
- Real GDP was revised up to a 0.9% annual growth rate in Q1 versus an originally estimated 0.6%. The upward revision met consensus expectations. Real GDP is up 2.5% versus a year ago.
- The largest upward revisions were for net exports, which added 0.8 points to real GDP growth rather than the original estimate of 0.2, and business construction, which was flat in Q1 versus an original estimate that it subtracted 0.2 points from growth. The largest downward revision was to inventories, which subtracted 0.8 points from growth rather than the original estimate of 0.2.
- The largest drag on real GDP continues to be home building, which subtracted 1.2 points from the growth rate. Excluding housing, real GDP grew at a 2.0% rate in Q1 and is up 3.6% versus last year.
- The GDP price index was left unrevised at a 2.6% annual rate in Q1. Nominal GDP growth – real GDP plus inflation – was revised up to a 3.5% growth rate in Q1 versus an original estimate of 3.2%.





Implications: Real GDP was revised upward for the first quarter and the "mix" of growth was more favorable for the economy in the second quarter and beyond. The mix of growth is better because inventories were revised downward, meaning businesses have more room to produce. 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 2% rate in Q1 and is up 3.6% since last year. Today's report includes fresh data on corporate profits. Pre-tax profits increased at a 1.3% annual rate in Q1, despite problems in the financial sector. Due to a decline in taxes, after-tax profits increased at a 15.9% annual rate. We still expect real GDP will grow at a 1.5% rate in Q2 and at a 4% rate in the second half of 2008, as the end of the Federal Reserve's rate cutting cycle unleashes the full force of 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, initial claims for unemployment insurance increased 4,000 to 372,000 last week, still well below recession levels. Continuing claims for jobless benefits increased 36,000 to 3.104 million.

4th Quarter GDP *Seasonally Adjusted Annual Rates*	Q1-08	Q4-07	Q3-07	Q2-07	4-Quarter Change
Real GDP	**0.9%**	0.6%	4.9%	3.8%	2.5%
GDP Price Index	**2.6%**	2.4%	1.0%	2.6%	2.2%
Nominal GDP	**3.5%**	3.0%	6.0%	6.6%	4.7%
PCE	**1.0%**	2.3%	2.8%	1.4%	1.9%
Business Investment	**-0.3%**	6.0%	9.4%	11.0%	6.4%
Structures	**1.1%**	12.4%	16.4%	26.2%	13.7%
Equipment and Software	**-0.9%**	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	**0.0**	0.6	1.0	1.1	0.7
Residential Investment	**-1.2**	-1.3	-1.1	-0.6	-1.0
Inventories	**0.2**	-1.8	0.9	0.2	-0.1
Government	**0.4**	0.4	0.7	0.8	0.6
Net Exports	**0.8**	1.0	1.4	1.3	1.1

Source: Commerce Department