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1ST QUARTER GDP (ADVANCE)

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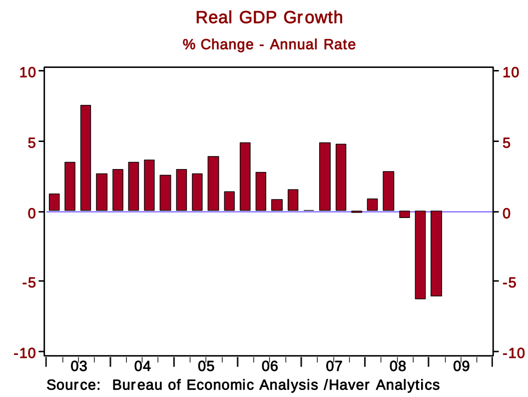
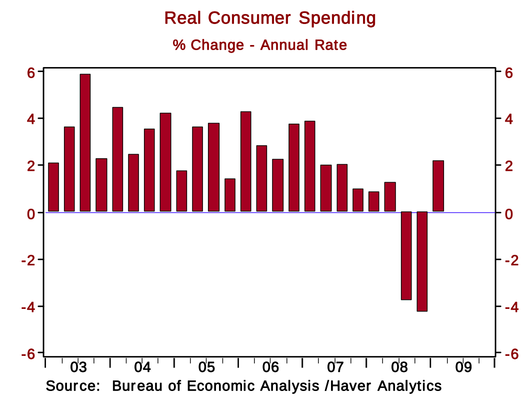
- The first estimate for Q1 real GDP growth is -6.1% at an annual rate versus a consensus expected -4.7%. Real GDP is down 2.6% versus last year.
- The largest negative drags on the real GDP growth rate, in order, were business investment, inventories, home building, and government spending.
- The strongest components of real GDP were international trade, which added 2 percentage points to the real GDP growth rate, and consumer spending, which added 1.5 points to the growth rate.
- The GDP price index increased at a 2.9% annual rate in Q1 and is up 2.1% versus last year. Nominal GDP – real GDP plus inflation – dropped at a 3.5% rate in Q1 and is down 0.5% versus a year ago.





Implications: You can't tell the Q1 GDP report by its cover. Real GDP dropped at a 6.1% annual rate in Q1, which was worse than the consensus expected. However, the components of GDP show the economy is positioned for significant improvement in the quarters ahead. Real consumer spending grew at a 2.2% rate in Q1, the fastest in two years. The weakness in Q1 was concentrated on the business side, where both business investment (equipment/structures) and inventories fell at the fastest rates in the post-WWII era. The weakness in investment/inventories is a reaction to the very steep decline in consumer spending in late 2008 as well as the troubles in the credit markets. With consumer spending reviving and credit markets thawing, the worst contractions on the business side are behind us. In addition, with home building now only 2.7% of GDP (the lowest on record, versus a normal 4.5%) and excess home inventories falling rapidly, residential construction will no longer be a major drag on real GDP growth. Government spending was also an unusually large drag on real GDP growth in Q1 and that is unlikely to continue. On the inflation front, GDP prices increased at a 2.9% annual rate in Q1 even though the CPI fell at a 2.4% rate. In other words, prices for what we make were going up much faster than prices for the things we buy. Note that back in early 2008, when the CPI was going up faster than GDP prices, some analysts said real GDP was being reported artificially high. If these analysts applied the same argument now they would have to suggest real GDP is being held artificially low.

1st Quarter GDP *Seasonally Adjusted Annual Rates*	*Q1-09*	*Q4-08*	*Q3-08*	*Q2-08*	*4-Quarter Change*
Real GDP	**-6.1%**	-6.3%	-0.5%	2.8%	-2.6%
GDP Price Index	**2.9%**	0.5%	3.9%	1.1%	2.1%
Nominal GDP	**-3.5%**	-5.8%	3.4%	4.1%	-0.5%
PCE	**2.2%**	-4.3%	-3.8%	1.2%	-1.2%
Business Investment	**-37.9%**	-21.7%	-1.7%	2.5%	-16.3%
Structures	**-44.1%**	-9.4%	9.6%	18.4%	-10.0%
Equipment and Software	**-33.8%**	-28.1%	-7.5%	-5.0%	-19.6%
Contributions to GDP Growth (p.pts.)	**Q1-09**	**Q4-08**	**Q3-08**	**Q2-08**	**4Q Avg.**
PCE	**1.5**	-3.0	-2.8	0.9	-0.8
Business Investment	**-4.7**	-2.6	-0.2	0.3	-1.8
Residential Investment	**-1.4**	-0.8	-0.6	-0.5	-0.8
Inventories	**-2.8**	-0.1	0.8	-1.5	-0.9
Government	**-0.8**	0.3	1.1	0.8	0.3
Net Exports	**2.0**	-0.2	1.1	2.9	1.5

Source: Commerce Department