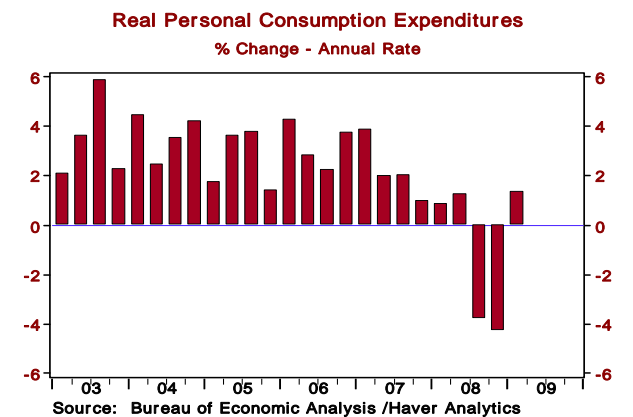
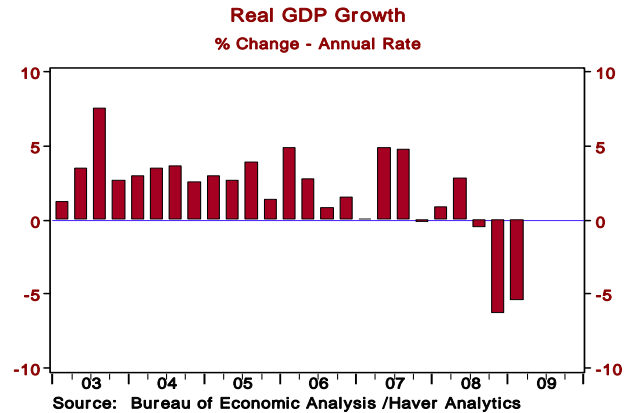


# 1<sup>ST</sup> QUARTER GDP (FINAL)

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- Real GDP growth in Q1 was revised up slightly to a -5.5% annual rate from a previous estimate of -5.7%. The consensus expected -5.7%. Real GDP is down 2.5% versus a year ago.
- The largest drags on real GDP in Q1 were business investment (down at a 37.3% annual rate), inventories (down at an \$87.1 billion annual rate), and home building (-38.8% annualized). The largest positive contributors to real GDP growth in Q1 were international trade (the trade deficit declined at a \$67.7 billion annual rate) and personal consumption (up 1.4% annualized).
- The slight upward revision versus last month's estimate of Q1 real GDP growth was mostly due to higher net exports and a smaller inventory drawdown than previously reported.
- The GDP price index was unrevised at a 2.8% annualized increase in Q1. Nominal GDP growth – real GDP plus inflation – was revised to a -2.9% annual rate from a previously estimated -3.1%.



**Implications:** Only slight revisions to first quarter figures leave intact the rapid plunge in real GDP in early 2009. However, this is old news and getting more stale by the week. Given recent data, final sales (which is everything in GDP except for inventories) was likely unchanged in the second quarter, a huge turnaround from large declines in late 2008 and early 2009. In Q3 and Q4, we are likely to see surprisingly healthy increases in both final sales and overall GDP, as consumer spending picks up, net exports keep growing, and the inventory correction comes to an end. In other news this morning, new claims for jobless benefits increased 15,000 last week to 627,000. Continuing claims increased 29,000 to 6.738 million. Both of these figures are still off the highs set earlier this year. One interesting point about continuing claims is that the most recent data are for the week when the Labor Department does its monthly survey on payroll jobs. For the first time in 17 months, continuing claims for a survey week were below where they were the previous month. As a result, although we are forecasting that payrolls declined 225,000 in June (the most bullish forecast among economists polled by Bloomberg!), we would not be shocked by a small payroll increase.

1st Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q1-09	Q4-08	Q3-08	Q2-08	4-Quarter Change
<b>Real GDP</b>	-5.5%	-6.3%	-0.5%	2.8%	-2.5%
<b>GDP Price Index</b>	2.8%	0.5%	3.9%	1.1%	2.1%
<b>Nominal GDP</b>	-2.9%	-5.8%	3.4%	4.1%	-0.4%
<b>PCE</b>	1.4%	-4.3%	-3.8%	1.2%	-1.4%
<b>Business Investment</b>	-37.3%	-21.7%	-1.7%	2.5%	-16.1%
Structures	-42.9%	-9.4%	9.6%	18.4%	-9.5%
Equipment and Software	-33.7%	-28.1%	-7.5%	-5.0%	-19.6%
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q1-09</b>	<b>Q4-08</b>	<b>Q3-08</b>	<b>Q2-08</b>	<b>4Q Avg.</b>
<b>PCE</b>	1.0	-3.0	-2.8	0.9	-1.0
<b>Business Investment</b>	-4.6	-2.6	-0.2	0.3	-1.8
<b>Residential Investment</b>	-1.4	-0.8	-0.6	-0.5	-0.8
<b>Inventories</b>	-2.2	-0.1	0.8	-1.5	-0.7
<b>Government</b>	-0.6	0.3	1.1	0.8	0.4
<b>Net Exports</b>	2.4	-0.2	1.1	2.9	1.6

Source: Commerce Department