

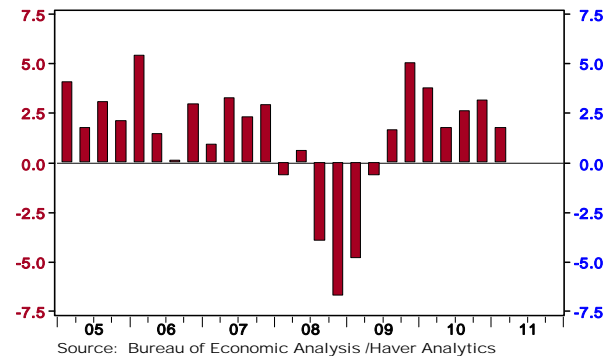
1ST QUARTER GDP (ADVANCE)

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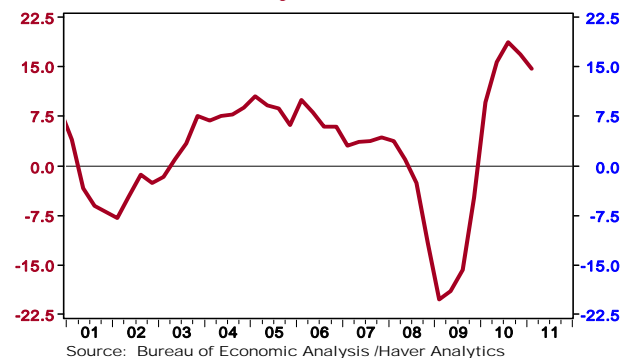
- The first estimate for Q1 real GDP growth is 1.8% at an annual rate, almost exactly the consensus expected 2.0%.
- The largest positive contributions to the real GDP growth rate were personal consumption, which added 1.9 points to the real GDP growth rate, inventories, which added 0.9 points, and business investment in equipment and software, which added 0.8 points.
- The weakest component of real GDP was government purchases, which reduced the real GDP growth rate by 1.1 point.
- The GDP price index increased at a 1.9% annual rate in Q1. Nominal GDP – real GDP plus inflation – rose at a 3.7% rate in Q1 and is up 3.9% versus a year ago.

Implications: Real GDP came in almost exactly as the consensus expected for the first quarter. Nonetheless, a 1.8% real GDP growth rate in Q1 is nothing to write home about. And while we aren't writing home, we are finding it very hard to listen to claims by the perma-pessimists that this is some sort of "Soft Patch II" that requires a third round of quantitative easing. The composition of the growth was much better than we had anticipated and bodes well for the future. In particular, consumer purchases and net exports beat our forecast, while inventories and gov't purchases did worse. The Federal Reserve has already done its job: real final demand in the domestic private sector is back to consistently healthy levels. Consumer spending, business investment, and home building – combined – are up 3.4% in the past year, the best performance since 2005-06, and that's with home building still in the doldrums. In other news this morning, new claims for unemployment insurance increased 25,000 to 429,000 last week. We think this is probably due to the transitory effect of Japanese part deliveries on the auto industry. Also, Easter was unusually late this year, making it tough to seasonally adjust. Continuing claims for regular state benefits declined 68,000 in the prior week to 3.64 million, the lowest since September 2008. That happens to be the "survey week" for the monthly payroll numbers, suggesting payrolls rose about 200,000 in April. In other news this morning, pending home sales, contracts on existing homes, increased 5.1% in March, suggesting existing home sales will increase again in April.

Real Gross Domestic Product
% Change - Annual Rate



Business Investment: Equipment and Software
% Change - Year to Year



4th Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q1-11	Q4-10	Q3-10	Q2-10	4-Quarter Change
Real GDP	1.8%	3.1%	2.6%	1.7%	2.3%
GDP Price Index	1.9%	0.4%	2.1%	1.9%	1.6%
Nominal GDP	3.7%	3.5%	4.6%	3.7%	3.9%
PCE	2.7%	4.0%	2.4%	2.2%	2.8%
Business Investment	1.8%	7.7%	10.0%	17.2%	9.0%
Structures	-21.8%	7.7%	-3.6%	-0.5%	-5.2%
Equipment and Software	11.6%	7.7%	15.4%	24.8%	14.7%
Contributions to GDP Growth (p.pts.)	Q1-11	Q4-10	Q3-10	Q2-10	4Q Avg.
PCE	1.9	2.8	1.7	1.5	2.0
Business Investment	0.2	0.7	0.9	1.5	0.8
Residential Investment	-0.1	0.1	-0.8	0.6	-0.1
Inventories	0.9	-3.4	1.6	0.8	0.0
Government	-1.1	-0.3	0.8	0.8	0.0
Net Exports	-0.1	3.3	-1.7	-3.5	-0.5

Source: Commerce Department