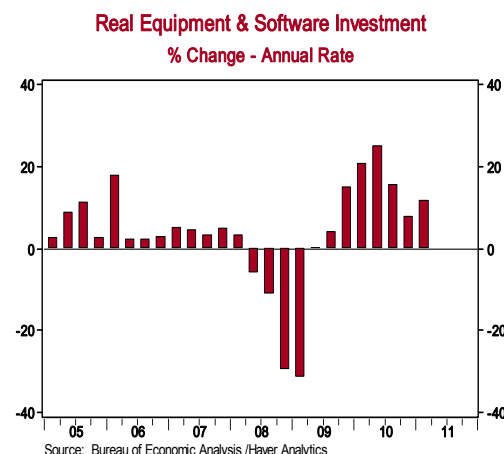
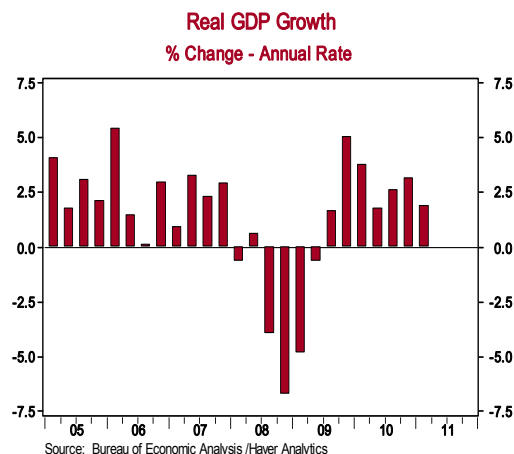


# 1<sup>st</sup> Quarter GDP (Preliminary)

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- Real GDP was unrevised at a 1.8% annual growth rate in Q1. The consensus had expected 2.2%.
- Inventories and commercial construction were revised upward while personal consumption was revised down.
- The largest positive contributions to the real GDP growth rate in Q1 were personal consumption, inventories, and business investment in equipment and software. The weakest components were government and commercial construction.
- The GDP price index was unrevised at a 1.9% annual rate of change. Nominal GDP growth – real GDP plus inflation – was revised up slightly to a 3.8% annual rate from a prior estimate of 3.7%.

**Implications:** Real GDP growth was unrevised at a 1.8% annual growth rate in Q1. This was less than the consensus expected but almost exactly what First Trust was forecasting. As a result, it does not change our view of where the economy is heading. We anticipate faster economic growth for the remainder of the year, particularly in the second half. The “news” in today’s report is the first glimpse of economy-wide corporate profits and those hit a new record high in Q1, up at a 5.3% annual rate and up 8.5% versus a year ago. The profits of domestic financial firms fell in Q1 but profit gains for non-financials and the rest of the world offset that decline. On the inflation front, GDP prices increased at a 1.9% annual rate in Q1. That’s inflation for the things we *produce*. However, inflation for gross domestic purchases, the things we *buy*, was running at a 3.8% annual rate. In the past year, nominal GDP – real GDP growth plus GDP price inflation – is up at a 3.9% annual rate. With nominal GDP growing at this rate, the Federal Reserve should no longer be holding short-term interest rates near zero. In other news this morning, new claims for unemployment insurance increased 10,000 last week to 424,000. Continuing claims for regular state benefits declined 46,000 to 3.69 million.



<b>1st Quarter GDP</b> <i>Seasonally Adjusted Annual Rates</i>	<b>Q1-11</b>	<b>Q4-10</b>	<b>Q3-10</b>	<b>Q2-10</b>	<b>4-Quarter Change</b>
<b>Real GDP</b>	<b>1.8%</b>	3.1%	2.6%	1.7%	2.3%
<b>GDP Price Index</b>	<b>1.9%</b>	0.4%	2.1%	1.9%	1.6%
<b>Nominal GDP</b>	<b>3.8%</b>	3.5%	4.6%	3.7%	3.9%
<b>PCE</b>	<b>2.2%</b>	4.0%	2.4%	2.2%	2.7%
<b>Business Investment</b>	<b>3.4%</b>	7.7%	10.0%	17.2%	9.5%
<b>Structures</b>	<b>-16.8%</b>	7.7%	-3.6%	-0.5%	-3.7%
<b>Equipment and Software</b>	<b>11.6%</b>	7.7%	15.4%	24.8%	14.7%
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q1-11</b>	<b>Q4-10</b>	<b>Q3-10</b>	<b>Q2-10</b>	<b>4Q Avg.</b>
<b>PCE</b>	<b>1.5</b>	2.8	1.7	1.5	1.9
<b>Business Investment</b>	<b>0.3</b>	0.7	0.9	1.5	0.9
<b>Residential Investment</b>	<b>-0.1</b>	0.1	-0.8	0.6	-0.1
<b>Inventories</b>	<b>1.2</b>	-3.4	1.6	0.8	0.1
<b>Government</b>	<b>-1.1</b>	-0.3	0.8	0.8	0.0
<b>Net Exports</b>	<b>-0.1</b>	3.3	-1.7	-3.5	-0.5

Source: Commerce Department