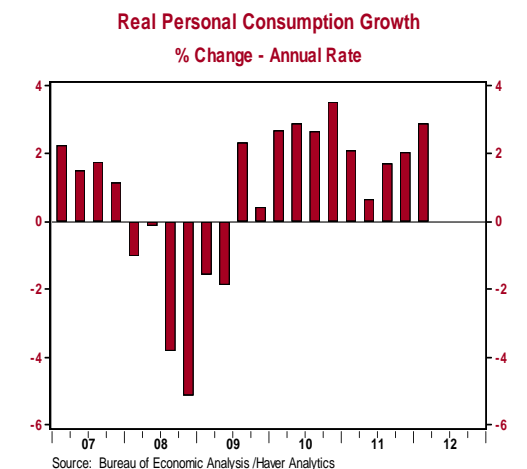
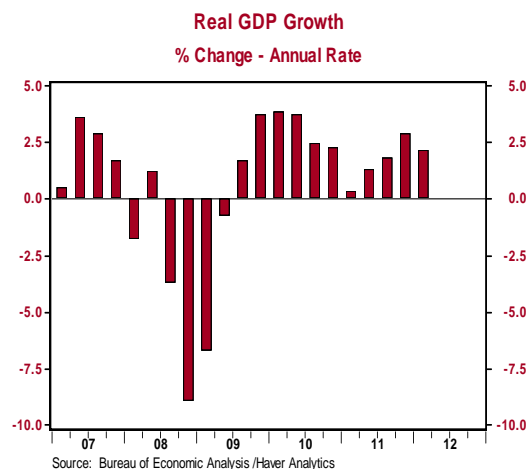


First Quarter GDP (Advance)

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- The first estimate for Q1 real GDP growth is 2.2% at an annual rate, slightly less than the consensus expected 2.5% rate.
- The largest positive contribution to the real GDP growth rate was personal consumption. Inventories and home building were also positive.
- The weakest component of real GDP was government purchases, which reduced the real GDP growth rate by 0.6 points.
- The GDP price index increased at a 1.5% annual rate in Q1. Nominal GDP – real GDP plus inflation – rose at a 3.8% rate in Q1 and is up 4.0% from a year ago.

Implications: Real GDP grew at a 2.2% annual rate in the first quarter. The headline is a disappointment, considering that it's slower than the 3% rate in Q4 and at the low end of estimates (including ours). We believe this initial report will be revised upward over the next couple of months. For example, the government estimates that commercial construction was a drag of about a third of a point on the GDP growth rate, which simply doesn't fit with the unusually good winter weather in most of the country. It's also important to note that even without future revisions, real "private" GDP (real GDP excluding government purchases) grew at a 3.4% annual rate in Q1 and is up 3% from a year ago. The brightest spot in the report was that home building increased at a 19% annual rate in Q1, the fourth consecutive quarterly increase. Obviously, some of the strength in Q1 was due to the mild winter, but hard data and anecdotal reports all suggest home building is on the mend (see [WSJ story](#) today). We find no justification for a third round of quantitative easing in today's report. Nominal GDP grew at a 3.8% annual rate in Q1 and is up 4% from a year ago. These are not that far from the Federal Reserve's long-run outlook of a 4.5% growth rate for nominal GDP and much too fast for a short-term interest rate target near zero percent. In other recent news, new claims for unemployment insurance declined 1,000 last week to 388,000. Continuing claims for regular state benefits rose 3,000 to 3.32 million. These figures are consistent with a respectable rise of 175,000 in private sector payrolls in April. Claims came down more rapidly than anticipated this winter, due to good weather, and are up slightly reflecting a return to the norm, which is still below the psychologically important 400K level. On the housing front, pending home sales, which are contracts on existing homes, increased 4.1% in March and are up 10.8% from a year ago. Another sign of improvement for housing.



4th Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q1-12	Q4-11	Q3-11	Q2-11	4-Quarter Change
Real GDP	2.2%	3.0%	1.8%	1.3%	2.1%
GDP Price Index	1.5%	0.9%	2.6%	2.5%	1.9%
Nominal GDP	3.8%	3.8%	4.4%	4.0%	4.0%
PCE	2.9%	2.1%	1.7%	0.7%	1.9%
Business Investment	-2.1%	5.2%	15.7%	10.3%	7.1%
Structures	-12.0%	-1.0%	14.4%	22.6%	5.2%
Equipment and Software	1.7%	7.5%	16.2%	6.3%	7.8%
Contributions to GDP Growth (p.pts.)	Q1-12	Q4-11	Q3-11	Q2-11	4Q Avg.
PCE	2.0	1.5	1.2	0.5	1.3
Business Investment	-0.2	0.5	1.5	1.0	0.7
Residential Investment	0.4	0.3	0.0	0.1	0.2
Inventories	0.6	1.8	-1.4	-0.3	0.2
Government	-0.6	-0.8	0.0	-0.2	-0.4
Net Exports	0.0	-0.3	0.4	0.2	0.1

Source: Commerce Department