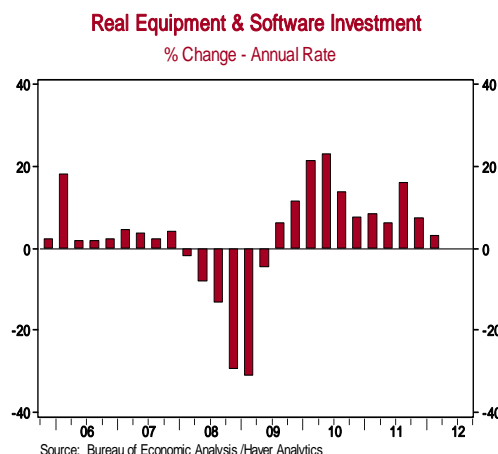


1st Quarter GDP (Final)

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- Real GDP growth in Q1 was unrevised at a 1.9% annual rate, exactly as the consensus expected.
- Net exports and commercial construction were revised up, while consumer spending and inventories were revised down.
- The largest positive contribution to the real GDP growth rate in Q1 came from consumer spending. The weakest component of real GDP, by far, was government purchases.
- The GDP price index was revised up to a 2.0% annualized rate of change from a prior estimate of 1.7%. Nominal GDP growth – real GDP plus inflation – was revised up to a 3.9% annual rate versus a prior estimate of 3.6%. Nominal GDP is up 4.0% versus a year ago.

Implications: Real GDP growth in the first quarter was not revised at all from the prior estimate of a 1.9% annual rate. However, the mix of growth was a bit more favorable, with lower inventories and more commercial construction. More business investment means more productive capacity for the future; lower inventories means more room on shelves to fill in future quarters. Profits were revised lower for Q1 but all of the downward revision was due to profits from the rest of the world; profits at domestic non-financial firms were revised up to a new all-time high. Gains in profits and worker income suggest the economy is growing faster than the GDP numbers show. What we produce adds up to GDP, which is the report most analysts focus on. But the government also calculates *gross domestic income (GDI)*, which is supposed to equal GDP. When there is a discrepancy, the government tends to later revise GDP toward GDI. Real GDI grew at a 3.1% annual rate in Q1, suggesting growth was probably better than the GDP headline of 1.9%. Meanwhile, nominal GDP was up at a 3.9% rate in Q1 and up 4% in the past year, which means the Federal Reserve is already loose enough even without quantitative easing. In other news this morning, new claims for jobless benefits declined 6,000 last week to 386,000. Continuing claims for regular state benefits fell 15,000 to 3.30 million. These figures and other figures suggest June nonfarm payrolls will be up 55,000 and private payrolls up 65,000. (Data next week from Intuit and ADP may alter these forecasts.) Pending home sales, which are contracts on existing homes, increased 5.9% in May after dropping 5.5% in April. These figures suggest a slight rebound in existing home sales in June.



1st Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q1-12	Q4-11	Q3-11	Q2-11	4-Quarter Change
Real GDP	1.9%	3.0%	1.8%	1.3%	2.0%
GDP Price Index	2.0%	0.9%	2.6%	2.5%	2.0%
Nominal GDP	3.9%	3.8%	4.4%	4.0%	4.0%
PCE	2.5%	2.1%	1.7%	0.7%	1.7%
Business Investment	3.1%	5.2%	15.7%	10.3%	8.5%
Structures	1.9%	-1.0%	14.4%	22.6%	9.1%
Equipment and Software	3.5%	7.5%	16.2%	6.3%	8.3%
Contributions to GDP Growth (p.pts.)	Q1-12	Q4-11	Q3-11	Q2-11	4Q Avg.
PCE	1.7	1.5	1.2	0.5	1.2
Business Investment	0.3	0.5	1.5	1.0	0.8
Residential Investment	0.4	0.3	0.0	0.1	0.2
Inventories	0.1	1.8	-1.4	-0.3	0.1
Government	-0.8	-0.8	0.0	-0.2	-0.5
Net Exports	0.1	-0.3	0.4	0.2	0.1

Source: Commerce Department