

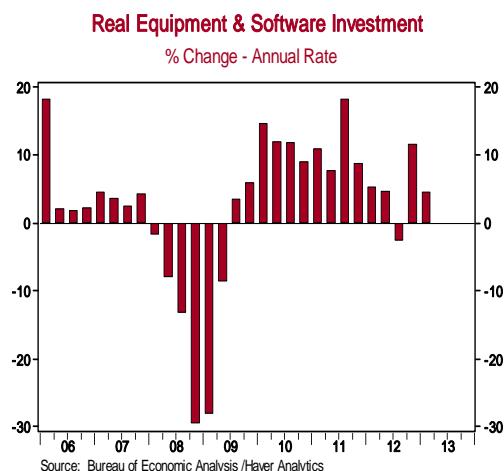
1st Quarter GDP (Preliminary)

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- Real GDP was revised to a 2.4% annual growth rate in Q1 from a prior estimate of 2.5%. The consensus had expected no change.
- Inventories and government purchases were revised lower, while net exports and personal consumption were revised up.
- The largest positive contributions to the real GDP growth rate in Q1 were personal consumption and inventories. The weakest component, by far, was government purchases.
- The GDP price index was revised lower to a 1.1% annual rate of change from a prior estimate of 1.2%. Nominal GDP growth – real GDP plus inflation – was revised down to a 3.6% annual rate from a prior estimate of 3.7%.

Implications: Another plow horse report. Real GDP was revised down slightly to a growth rate of 2.4% for Q1 from an original estimate of 2.5%, but the “mix” of GDP was better than the original estimate. Personal consumption and net exports were revised upward while inventories and government purchases were revised lower. Lower inventories mean more room on shelves and showrooms for the quarters ahead; less government purchases mean more room for private sector growth. Excluding government purchases, real GDP grew at a 4.1% annual rate in Q1, the fastest rate since Q4 2011. Nothing in today’s news changes our forecast that real GDP is growing at a 2.5% annual rate in Q2 and will grow in the 2.5% - 3% range in 2013. Nominal GDP (real growth plus inflation) is up 3.4% from a year ago and up at a 3.9% annual rate in the past two years. Nominal GDP excluding government purchases is up 4.5% from a year ago. These figures continue to signal that a federal funds rate of essentially zero makes monetary policy too loose. Regardless, don’t look for the Federal Reserve to ease off on quantitative easing until at least the second half of the year. Today’s report provided the first glimpse at overall corporate profits, which declined 2.2% in Q1, mainly due to the rest of the world. Domestic profits fell slightly too. Still, corporate profits are up 3.6% from a year ago and we think the upward trend in corporate profits remains intact. In other news this morning, new claims for jobless benefits rose 10,000 last week to 354,000. The four-week average is 347,000. Continuing claims for regular state benefits increased 63,000 to 2.99 million. These data and other reports so far are consistent with a nonfarm payroll increase of 166,000 for May. Earlier this week, the Richmond Fed index, a survey of mid-Atlantic manufacturers, rose to -2 in May from -6 in April.

Also earlier this week the Case-Shiller index, a measure of home prices in 20 major metro areas, showed a 1.1% gain in March (seasonally-adjusted) and is up 10.9% in the past year. Recent price gains are led by San Francisco, Seattle, Las Vegas and Portland. All 20 cities in the index showed monthly gains for a fifth consecutive month. In other news today, pending home sales, which are contracts on existing homes, rose 0.3% in April and are up 13.9% from a year ago. Look for higher existing home sales in the coming month.



1st Quarter GDP Seasonally Adjusted Annual Rates	Q1-13	Q4-12	Q3-12	Q2-12	4-Quarter Change
Real GDP	2.4%	0.4%	3.1%	1.3%	1.8%
GDP Price Index	1.1%	1.0%	2.7%	1.6%	1.6%
Nominal GDP	3.6%	1.4%	5.9%	2.8%	3.4%
PCE	3.4%	1.8%	1.6%	1.5%	2.1%
Business Investment	2.2%	13.1%	-1.8%	3.6%	4.1%
Structures	-3.5%	16.7%	0.0%	0.6%	3.2%
Equipment and Software	4.6%	11.8%	-2.6%	4.8%	4.5%
Contributions to GDP Growth (p.pts.)	Q1-13	Q4-12	Q3-12	Q2-12	4Q Avg.
PCE	2.4	1.3	1.1	1.1	1.5
Business Investment	0.2	1.3	-0.2	0.4	0.4
Residential Investment	0.3	0.4	0.3	0.2	0.3
Inventories	0.6	-1.5	0.7	-0.5	-0.2
Government	-1.0	-1.4	0.8	-0.1	-0.4
Net Exports	-0.2	0.3	0.4	0.2	0.2

Source: Commerce Department

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