



DAILY ECONOMIC COMMENTARY

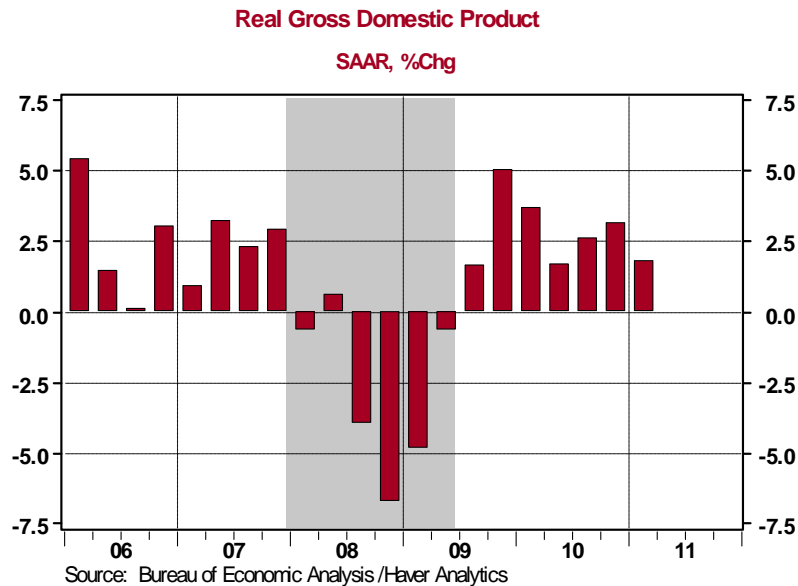
2011:Q1 Real GDP Growth – One of the Three Smallest Gains in the Recovery

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Asha G. Bangalore
agb3@ntrs.com

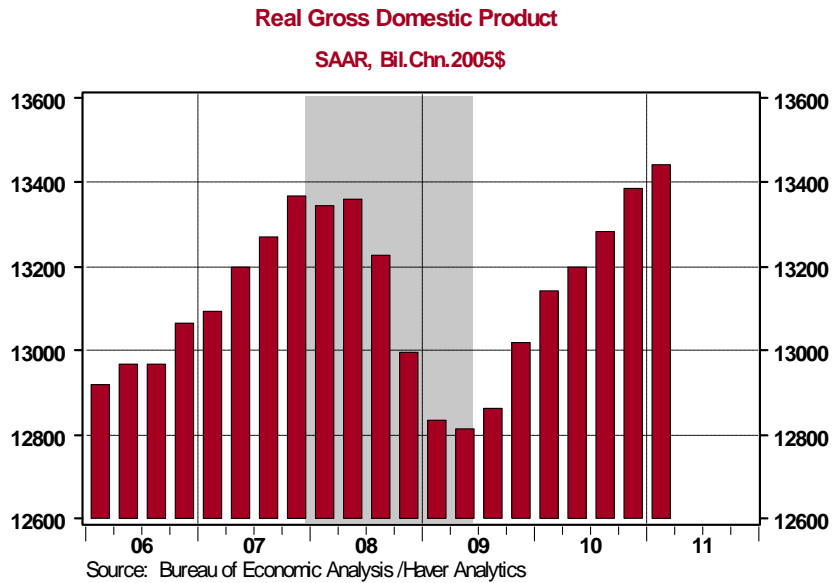
Real GDP of the U.S. economy grew at an annual rate of 1.8% in the first quarter of 2011, after a 3.1% increase in the prior quarter. Of the seven quarters of economic growth recorded in the current recovery, the first quarter's performance is one of the three readings which have been below 2.0% (see Chart 1).

Chart 1



In the first quarter, consumer spending (+2.7%) and equipment and software spending (+11.6%), and exports (+4.9%) and inventories (\$43.8 billion vs. \$16.2 billion) made positive contributions to real GDP growth, while residential investment expenditures (-4.1%), non-residential structures (-21.8%), and government spending (-5.2%) partially offset these gains. It is noteworthy that real GDP in the first quarter crossed the peak reading in the fourth quarter of 2007 by a significant measure (see Chart 2) and the U.S. economy is most certainly on the path of expansion

Chart 2

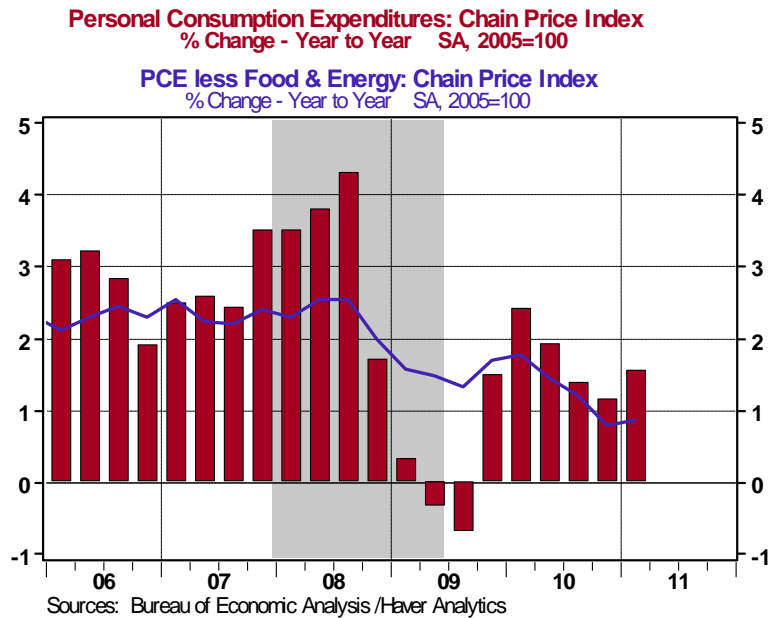


Stronger growth is predicted for the second quarter of 2011 and a more moderate pace is likely in the second-half of the year, which puts the Q4-to-Q4 increase in 2011 around 2.9%. The FOMC's projections show the central tendency for real GDP growth as 3.1%-3.3% in 2011.

Overall inflation measures reflect higher oil and commodity prices, with the personal consumption expenditure prices index showing a 3.8% increase in the first quarter vs. a 0.8% gain in the prior month. The core personal consumption expenditure price index moved up 1.5%, the largest increase in the past five quarters. On a year-to-year basis, it has bottomed out in the fourth quarter (0.81%), with the latest year-to-year gain at 0.86% (see Chart 3). The Fed's forecast for this core inflation price index for 2011 on Q4-to-Q4 basis is 1.4% to 2.0%.

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Chart 3



Chairman Bernanke’s remarks at the press conference indicate that the Fed is focused on meeting its dual mandate of price stability and full-employment. He stressed on several occasions, during the press conference, the Fed’s strong commitment to prevent a serious inflationary situation from taking hold in the economy. Bernanke zeroed in on “medium term inflation expectations” as an important trigger that would lead to tighter monetary policy even in the event of an elevated unemployment rate. The unemployment rate in March was 8.8% and the latest 5-year inflation expectations reading (derived from the difference between 5-year nominal Treasury note yield and the yield on the 5-year inflation protected security) stood at 2.37% on April 27, which has moved up from 2.09% on March 15 (the date of the last FOMC meeting) and 1.27% on August 27 when Chairman Bernanke indicated that the Fed is likely to embark on the second round of large asset purchases, referred to as QE2. The recent peak of this measure is 2.94% in March 2005 when the Fed was on a monetary policy tightening path (see Chart 4). This could be viewed as a threshold reading that would prompt considerations of a tightening of monetary policy.

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Chart 4



In other related news, initial jobless claims increased 20,000 to 429,000 during the week ended April 23, which is the highest since January 2011 (see Chart 5). Continuing claims, which lag initial jobless claims by one week, fell 68,000 to 3.64 million. The latest initial jobless claims reading is disappointing and raises expectations of an increase in payrolls that is less than the 216,000 gain posted in March.

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Chart 5

Unemployment Insurance: Initial Claims, State Programs

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Real Gross Domestic Product 2011:Q1 Advance Estimate

	2005 dollars				percent change (SAAR) from prior quarter			
	10:2 Final	10:3 Final	10:4 Final	11:1 Advance	From 10:1 to 10:2	From 10:2 to 10:3	From 10:3 to 10:4	From 10:4 to 11:1
GDP	13194.9	13278.5	13380.7	13438.8	3.7	1.7	2.6	1.8
CONSUMPTION	9275.7	9330.6	9422.9	9486.4	1.9	2.2	2.4	2.7
DURABLE GOODS	1157.8	1179.3	1237.2	1268.8	8.8	6.8	7.6	10.6
NONDURABLE GOODS	2063.4	2076.2	2097.4	2108.2	4.2	1.9	2.5	2.1
SERVICES	6053.4	6076.9	6099.2	6124.9	0.1	1.6	1.6	1.7
INVESTMENT	1791.5	1855.1	1761.3	1797.5	29.1	26.2	15.0	8.5
FIXED INVESTMENT	1702.5	1708.8	1737.3	1740.2	3.3	18.9	1.5	0.7
NONRESIDENTIAL	1355.3	1388.0	1413.9	1420.2	7.8	17.2	10.0	1.8
STRUCTURES	318.9	316.0	321.9	302.7	-17.8	-0.5	-3.5	-21.7
EQUIPMENT & SOFTWARE	1046.0	1084.2	1104.5	1135.2	20.4	24.8	15.4	11.6
RESIDENTIAL	350.1	323.3	325.9	322.5	-12.3	25.7	-27.3	-4.1
CHG. BUS. INVENT.	68.8	121.4	16.2	43.8				
NET EXPORTS	-449.0	-505.0	-397.7	-399.7				
EXPORTS	1652.1	1679.3	1714.3	1735.2	11.4	9.1	6.8	4.9
IMPORTS	2101.1	2184.3	2112.0	2134.8	11.2	33.5	16.8	4.4
GOVERNMENT (Cons. & Invest.)	2564.9	2589.6	2578.8	2544.3	-1.6	3.9	3.9	-5.2
FEDERAL	1071.5	1094.3	1093.4	1071.1	1.8	9.1	8.8	-7.9
DEFENSE	717.1	731.8	727.7	705.4	0.4	7.4	8.5	-11.7
OTHER	354.5	362.6	365.9	366.0	5.0	12.8	9.5	0.1
STATE AND LOCAL	1499.1	1501.7	1491.9	1479.3	-3.8	0.6	0.7	-3.3
DISP. PERS. INC.	10251.9	10276.6	10323.8	10399.1	1.3	5.6	1.0	2.9
FINAL SALES	13114.7	13145.3	13361.2	13388.5	1.1	0.9	0.9	0.8
FINAL SALES TO DOM. PURCHASERS	13557.7	13644.6	13752.0	13781.8	1.3	4.3	2.6	0.9
PRICE DEFLATORS:								
GDP CHAIN TYPE	110.5	111.1	111.2	111.7	1.0	1.9	2.1	1.9
GDP EX. FOOD & ENERGY					1.7	1.0	0.6	2.4
PCE CHAIN TYPE	110.9	111.1	111.6	112.6	2.1	0.0	0.8	3.8
PCE EX. FOOD & ENERGY	110.2	110.3	110.4	110.8	1.2	1.0	0.5	1.5

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