

The economy contracted at a 5.7% annualized pace in the first quarter, according to the revised report on GDP. The composition of activity points toward a much better level of activity in the second quarter.

All major categories, except for personal consumption expenditures and net exports, contributed to the decline in real GDP. Consumption increased 1.5% – down from an initial report of 2.2% but the first gain since the second quarter of 2008 and the largest since the third quarter of 2007. Net exports added 2.2 percentage points, as imports fell by more than exports.

Business investment in equipment and software and structures subtracted 4.5 percentage points from the change in real GDP. The change in business inventories subtracted 2.3 points. Investment in residential structures subtracted 1.4 percentage points – as severe as in any quarter during this cycle. Government spending subtracted 0.7 points due to declines in national defense spending and outlays by financially strapped state and local governments.

The improvement in personal consumption expenditures was broad-based. The decline in capital spending accelerated in the first quarter, due largely to a record pace of decline in investment in nonresidential structures.

Business inventories decreased at a record annual rate of \$91.4 billion (revised up from an initial report of \$103.7 billion) during the first quarter, as production cutbacks finally overtook decreases in demand. As a percent of prior-quarter real GDP, the drop was close to the largest declines associated with previous recessions and which occurred close to the end of those downturns. The large draw-down in inventories during the first quarter will provide a strong positive contribution to growth in the second and/or third quarters.

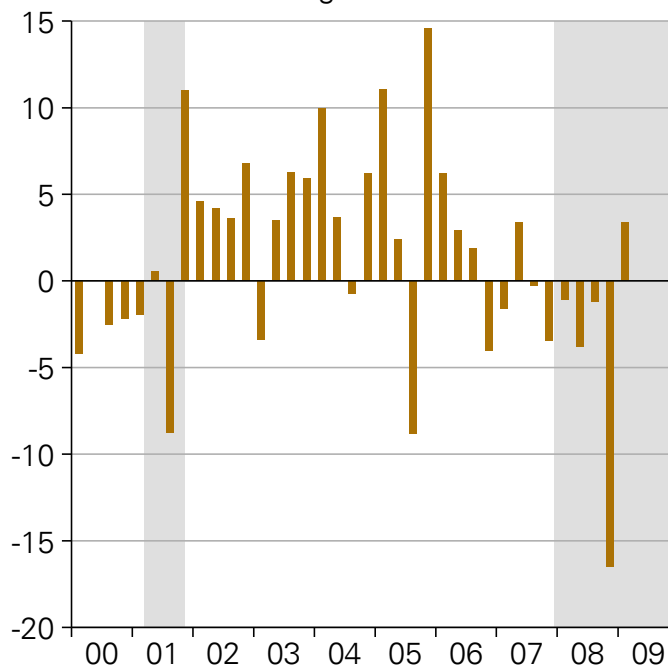
The first look at corporate profits for the quarter revealed significant improvement due to a surge in profits of financial firms from extremely depressed levels in the fourth quarter. On an operating basis, profits swung to a gain of 3.4% in the first quarter after six straight quarters of decline. Profits of financial firms increased 94.9% as profits of nonfinancial corporations declined by 8.6%.

The economy contracted at a somewhat slower, but still rapid, pace of 5.7% in the first quarter. More recent indicators point to a much better second quarter, including the first increase in corporate profits since the second quarter of 2007.

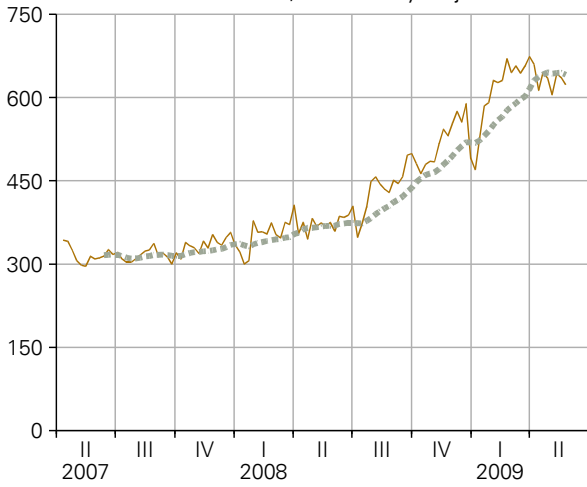
Leading economic indicators continue to point toward a near-term upturn in the economy. The Weekly Leading Index from the Economic Cycle Research Institute has increased for ten consecutive weeks on a four-week moving average basis. The rate of change has improved from a low of -29.7% in early December to -9.3%. Past recessions have ended near the time that the growth rate of the index has reached a trough.

Jim Coons

Corporate Operating Profits
1-Quarter % Change



Initial Claims for Unemployment Insurance
Thousands Per Week, Seasonally Adjusted



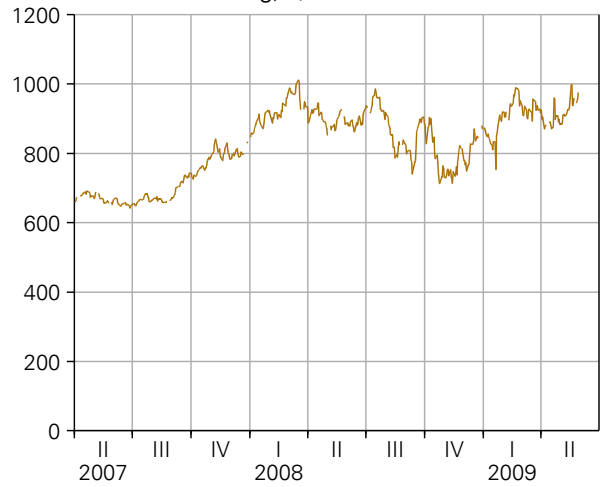
U. S. Dollar Exchange Rate
FRB Major Currency Index, 1973 = 100



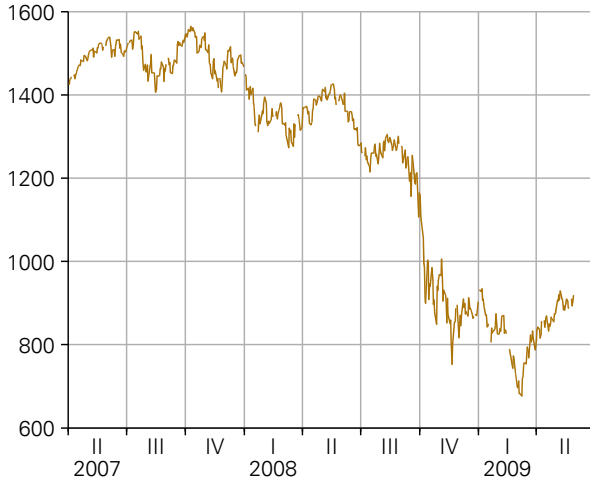
Price of Oil
West Texas Int, \$/bbl



Price of Gold
London PM Fixing, \$/oz



S&P 500 Stock Prices
Daily Close, Index 1941-43 = 10



Mortgage Loan Originations
MBA Purchase Index 3/16/90=100 SA

