

The GDP Derby is in full swing, and we will have a winner on April 30 when the Commerce Department releases its advance estimate of first quarter economic growth. Forecasters have made their entries, which range from a modest decline – the first since the summer of 2001 – to a modest increase. Combined with the interest rate announcement from the Fed on April 30, the report will set the tone for days or weeks to come.

Based on the monthly readings on employment and hours, retail sales, inflation, and industrial production, real GDP appears to have expanded at an annual rate of approximately 0.8% in the first quarter. That's about the heart of the range among forecasters.

Global Insight predicted -0.1% at the beginning of the month, before all of the monthly observations were available for the key indicators for the quarter, with a -0.7% decline in the second quarter. Bank of America's more updated forecast is for +1.2%, followed by a -0.7% decline in the second quarter. The just-released May *Blue Chip Financial Forecasts* consensus is for +0.2% in the first quarter and -0.3% in the second quarter.

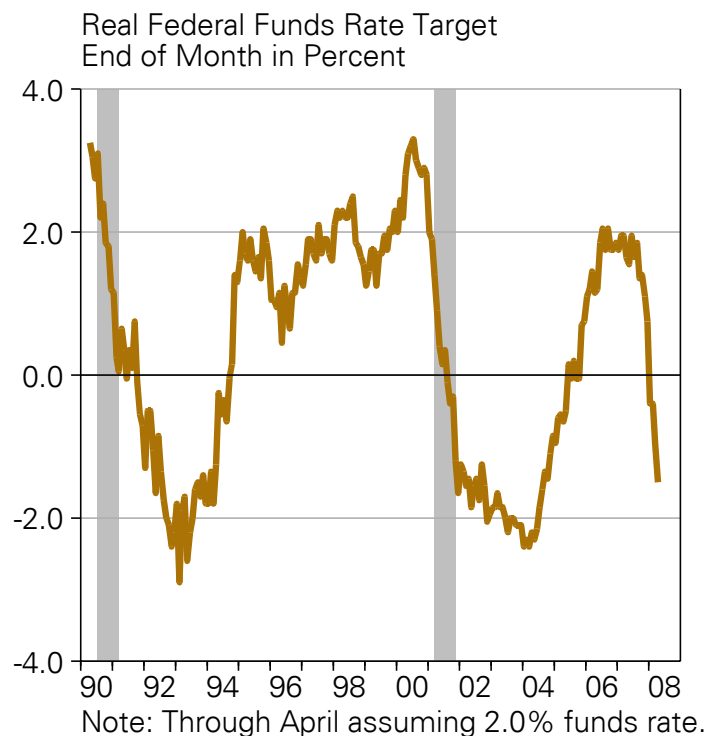
Whatever their numerical forecasts, most prognosticators arrive at their estimates for the first quarter roughly the same way – a decline in domestic demand is mostly or a little bit more than offset by a rebound in inventories and continued strong growth in exports. The more negative expectations for the second quarter and beyond rest on the anticipated effects of high energy prices and the still-present credit crunch on employment and earnings.

Our view remains that the standard business cycle indicators, which have clearly flashed a recession warning this year, are correct, and that a strong recovery in economic growth and employment will be preceded by further declines this year.

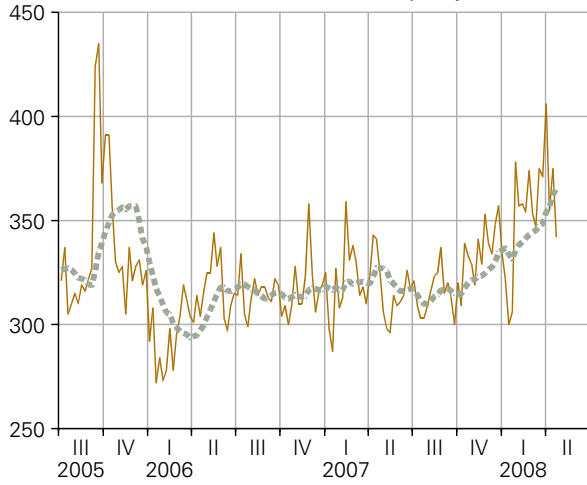
The Federal Reserve's policy-making committee will wrap up a two-day meeting on Wednesday, April 30. Analysts expect the Fed to announce a 25 basis point reduction in the target federal funds rate. The accompanying statement is expected to indicate that the committee intends to assess the effects of the 325 basis point reduction since last September on financial markets, the economy,

The GDP Derby is in full swing, and we will have a winner on April 30 when the Commerce Department releases its advance estimate for first quarter economic growth. Analyst estimates range from modestly negative to modestly positive.

and inflation before considering further changes. A 25 basis point reduction would take the real federal funds rate target to about -1.5%, using the University of Michigan survey of 5-year inflation expectations. In what officials then considered the final move of the 2000-01 rate cycle, the Fed reduced the funds rate in December 2001 to 1.75% in nominal terms and about -1.0% in real terms. The Fed did go on to cut another 75 basis points in two steps in 2002 and 2003, but now seems to see those moves as a mistake that it will not repeat in this cycle.



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

