

When Strong is Weak

May 29, 2006

The 1st Quarter GDP numbers were revised upward from 4.8% to 5.3%. The question one must answer is what caused the increase and how might it effect the Economy in the future?

Good News

- Trade deficit narrowed - exports better
- Wage income improved

Bad News

- Inventories increased \$32.3 Billion, \$10.4 Billion higher than first reported
- Capital spending increased less than thought
- Consumer spending decreased
- Government spending increased more than anticipated
- Home construction improved adding to the glut
- Real disposable income was not as strong as first compiled

What on a macro basis seemed bullish (5.3% to 4.8%), became bearish on a micro basis. Why?

1. Consumer spending was not as strong forecasted.
2. Capital spending, which is counted on to take up the slack, was revised downward.
3. Inventories, which will hopefully be used to fill future sales to consumers and business's, may have been over done.

All-in-all, not such a good showing, maybe 4.8% would actually been better.