

## Economic Highlights

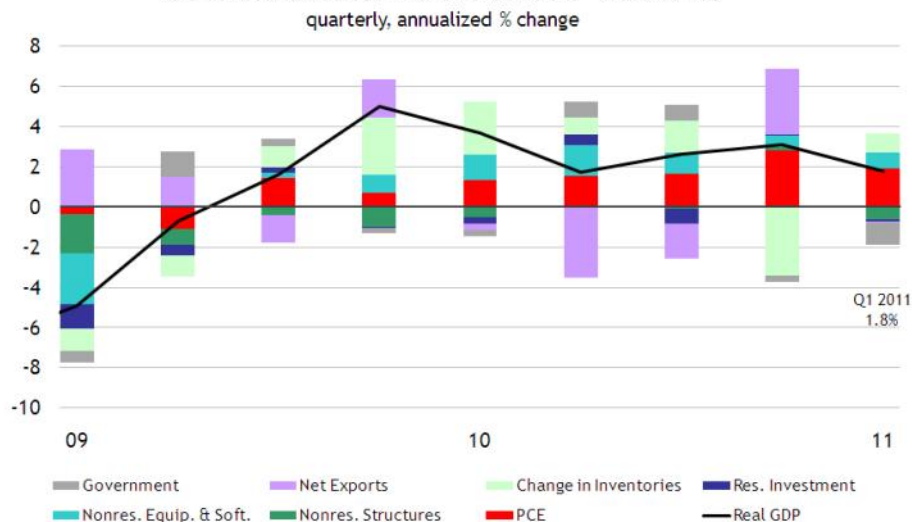
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## Summary

According to the U.S. Bureau of Economic Analysis's first release, real gross domestic product grew 1.8% in the first quarter of 2011 amid a drag from government spending and a slowing in consumer and business spending.

## Contributions to Real GDP Growth



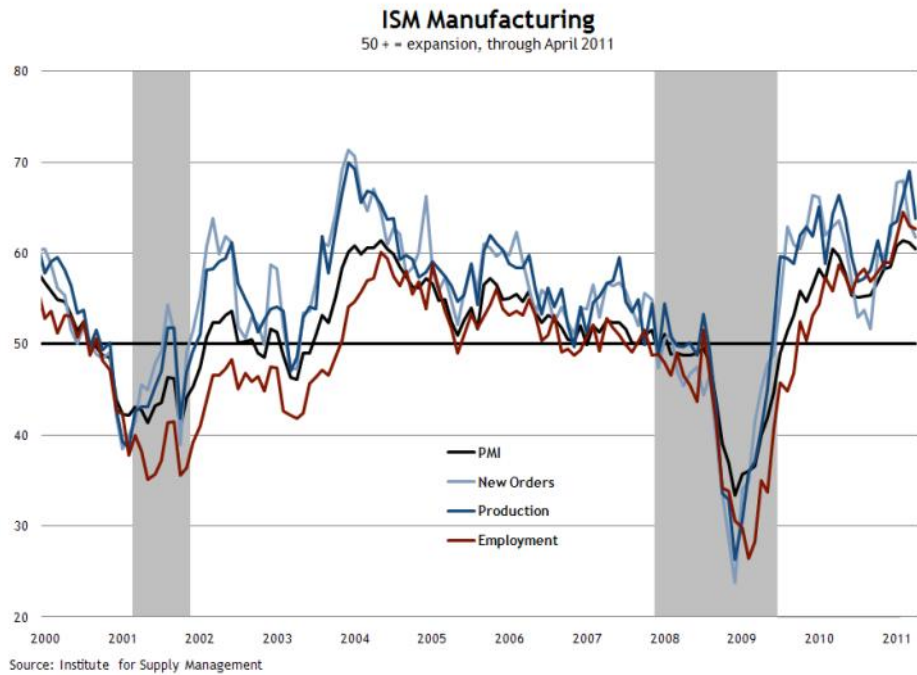
Source: U.S. Bureau of Economic Analysis

- Real gross domestic product (GDP) grew 1.8% in the first quarter of 2011 following 3.1% growth in the fourth quarter of 2010. The slowdown reflected a drag from government spending, a slowing in consumer spending and business investment in structures, and an upturn in imports.
- **Real personal consumption expenditures (PCE)** increased 2.7% in the first quarter of 2011, below the robust 4% seen in the fourth quarter of 2010 and the average rate over the last expansion of 3%.
- **Business investment in structures** fell 21.7% in Q1 2011, following a 7.6% increase in the fourth quarter of 2010. Meanwhile, **business investment in equipment and software** grew 11.6% in the first quarter of 2011, following 7.7% in the fourth quarter of 2010.
- **Government spending** declined 5.2% in the first quarter of 2011, of which defense spending fell 11.7% and state and local government spending fell 3.3%.
- **Net exports** was a small drag on growth in the first quarter, reflecting a moderate increase in imports, up 4.4%, and a slowing in exports, up 4.9% over the quarter, marking the lowest rate since the second quarter of 2009.
- **Inventories** contributed 0.93 percentage points to real GDP in the first quarter of 2011, following a large drag of 3.4 percentage points in the fourth quarter of 2010.

# Manufacturing

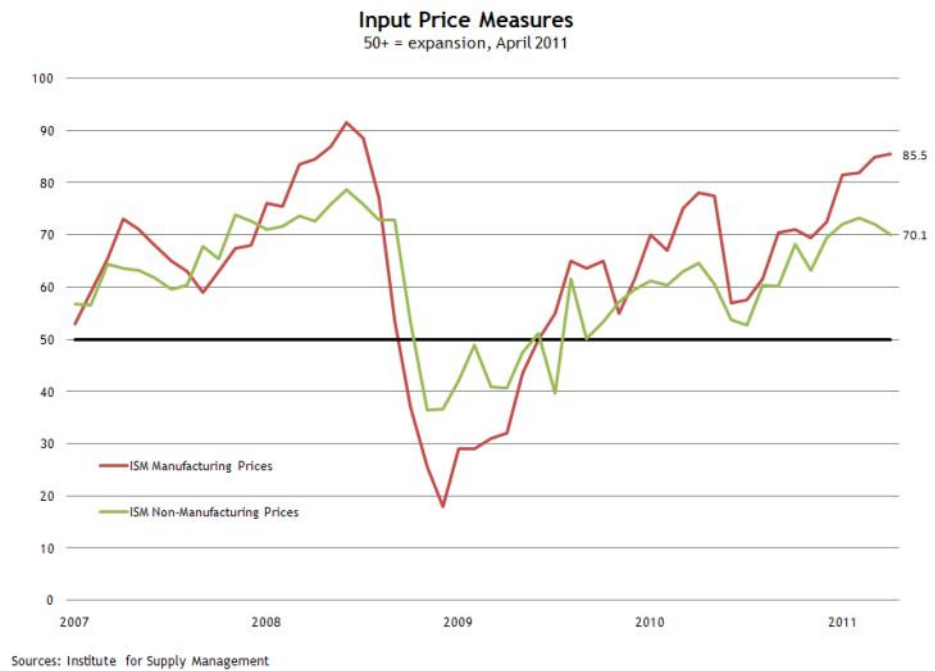
## Summary

The overall Purchasing Managers Index (PMI) from the Institute for Supply Management dipped 0.8 index points in April but remains at an elevated level of 60.4.



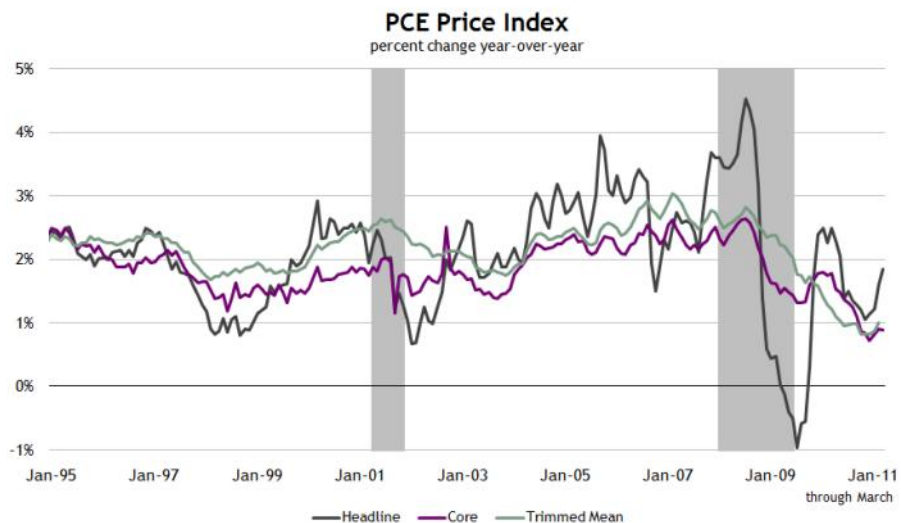
- The ISM manufacturing PMI dipped 0.8 points in March to reach 60.4.
- The new orders component dropped 1.6 index points in April to reach 61.7.
- The production index had the largest decrease in April but remains elevated. Production lost 5.2 index points to reach 63.8
- The employment index slipped 0.3 points to reach 62.7

Input prices rose at a slightly faster pace in April for manufacturers. Input prices increased for nonmanufacturers as well but at a slower rate than in March.



## Summary

Core personal consumption expenditure (PCE) inflation decelerated slightly in March.

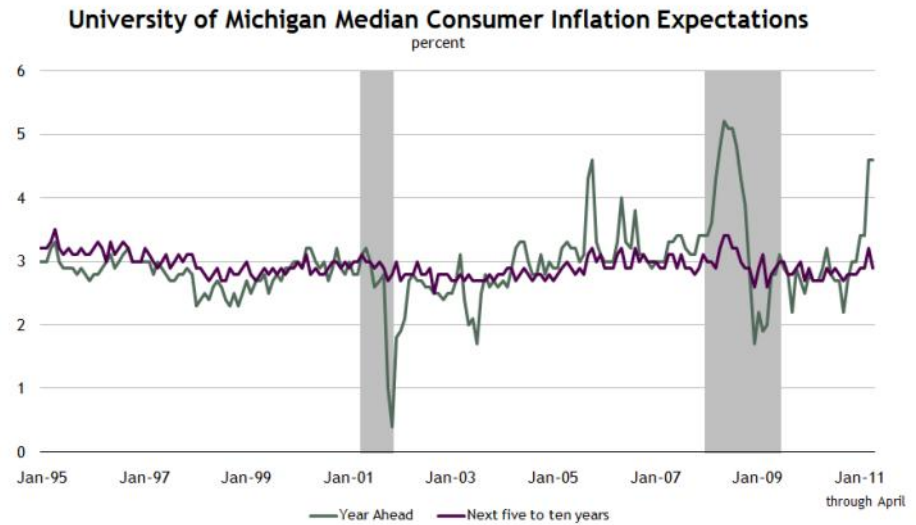


Source: Bureau of Economic Analysis, FRB Dallas

- March headline inflation, as measured by the consumer spending deflator, was up 4.9% on an annualized monthly basis, following a 5.1% gain in February, as food and energy inflation measures continue to rise. Headline PCE prices were up 1.9% year over year, the largest 12-month gain since May 2010.
- Core (less food and energy) PCE prices increased by 1.6% (annual rate) in March. Twelve-month core PCE inflation was 0.9%, an acceleration from the December 2010 low, though still very low by historical standards.
- The market-based PCE price index increased 2.1% year-over-year, up from 1.7% in February.
- The Dallas Fed trimmed mean PCE inflation rose 1.6% (annual rate) in March following a 2.1% jump in February. The inflation statistic moved up one-tenth of a percentage point on both a 12- and a six-month basis, rising to 1.1% and 1.3%, respectively.

## Summary

Long-term inflation expectations retraced month-earlier gains in April, according to the University of Michigan.



Source: University of Michigan

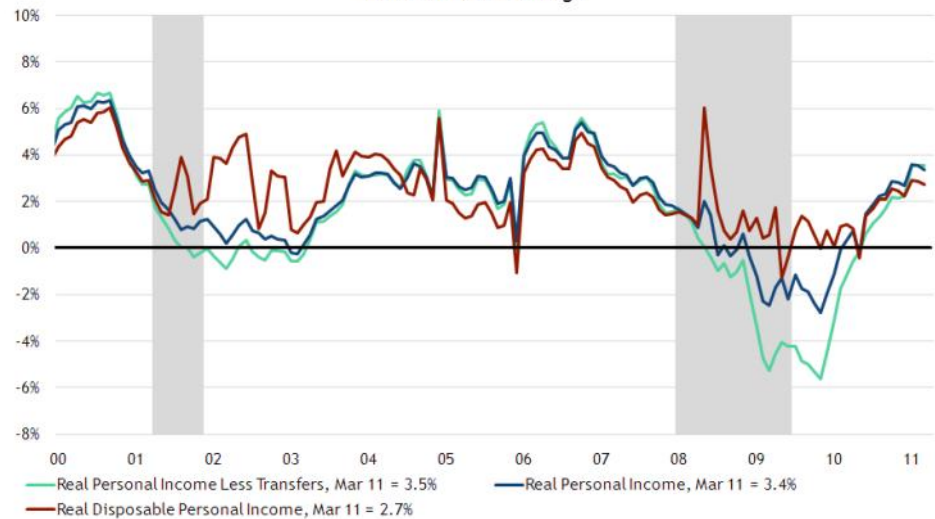
- According to a University of Michigan survey, the median inflation rate expected by consumers 12 months out was unchanged at 4.6% in April, the highest rate since August 2008 and well above the series' 10-year average of 3%. The expectation for inflation in five to 10 years fell three-tenths of one percent to 2.9% in April (median).

# Consumer Spending

## Summary

Real income measures increased slightly in March and, compared with a year earlier, are within the range of prerecession averages.

**Real Personal Income**  
Year over Year % Change



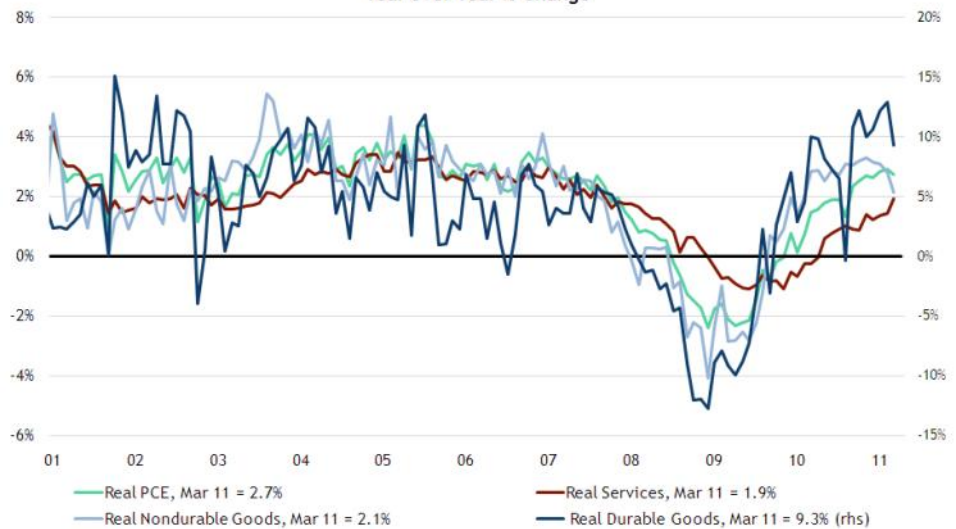
Source: BEA, Haver

- Real personal income increased 0.1% in March following no change in February and a 0.8% increase in January.
- On an annual basis, measures of real personal income notched down in March but are within the average range of 2% to 4% seen during the last expansion.

Real PCE increased over the month, led by spending on services.

However, on a year-over-year basis, PCE decelerated and is still below the prerecession average.

**Real Personal Consumption Expenditures**  
Year over Year % Change



Source: BEA, Haver

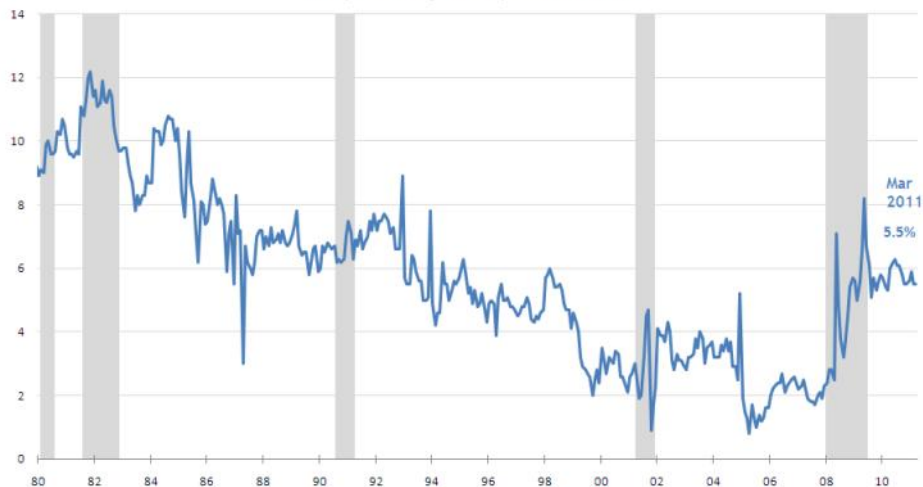
- In March, real PCE rose 0.2%, led by a 0.4% increase in services consumption while spending on goods declined 0.2% over the month.
- Despite the monthly increase, on a year-over-year basis, real PCE notched down from 2.9% in February to 2.7% in March and is still below the prerecession average pace of about 3%.

# Consumer Spending

## Summary

The savings rate remained high in March at 5.5%.

**Personal Savings Rate**  
As a percentage of disposable income

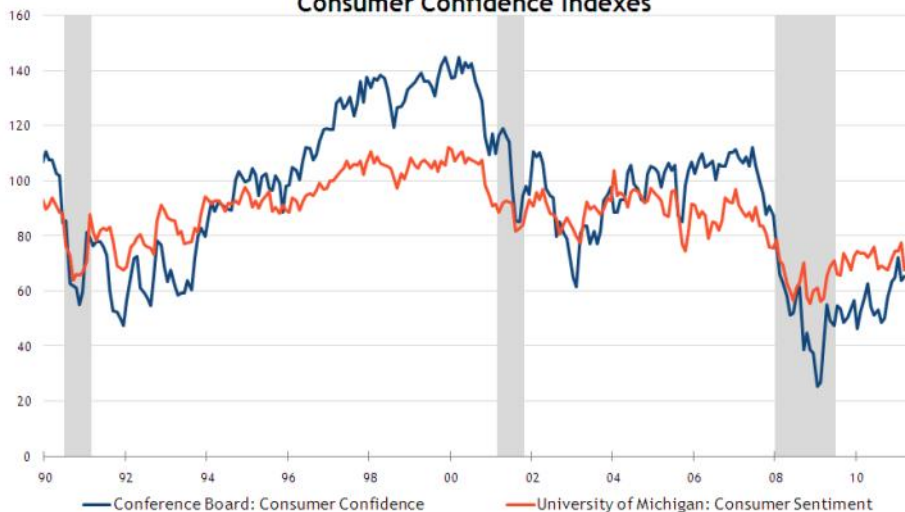


Source: Bureau of Economic Analysis

- The savings rate remained at 5.5% in March for the second consecutive month and has remained in a narrow range since the end of the recession.
- The savings rate has not dropped below 5% in the past two years, following rates below 3% during the five years before the recession.

Both measures of consumer confidence inched up in April but still remain low compared with past expansions.

**University of Michigan and The Conference Board Consumer Confidence Indexes**

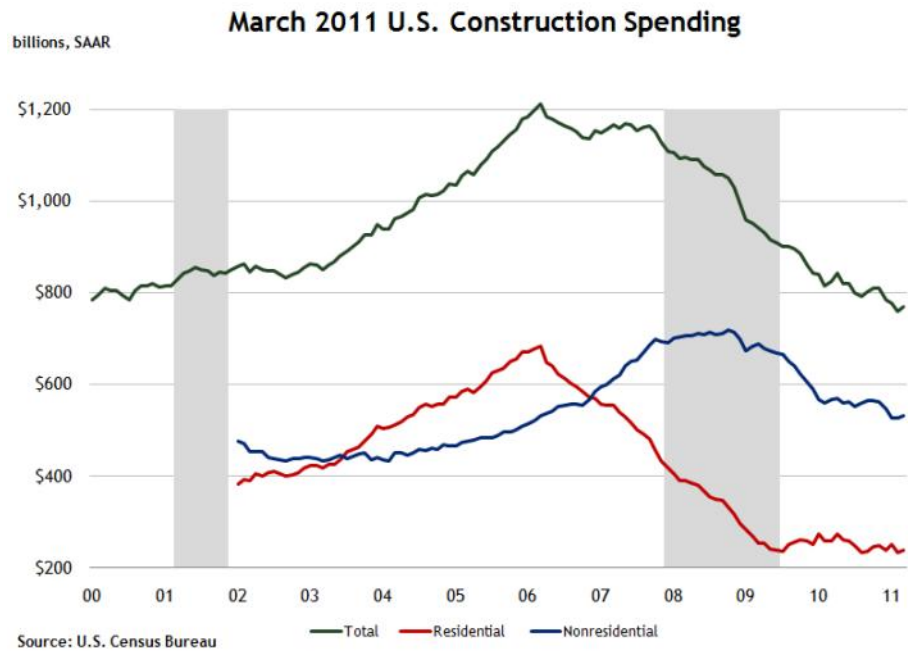


Source: The Conference Board, Reuters/University of Michigan

- The University of Michigan's consumer sentiment index increased 2.3 points in April to 69.8 points, the increase stemmed from the expectations component.
- The Conference Board's consumer confidence index increased 1.6 points in April to 65.4 points. Both the expectations component and present situation components rose over the month.

## Summary

The U.S. Census Bureau reported that construction spending edged up slightly in March but remained at low levels.



### March 2011 Construction Spending Put in Place

	billions, SAAR	yr/yr change	mo/mo change
Total:	768.9	-6.7%	1.4%
Total Private:	476.1	-9.2%	2.2%
Total Public:	292.8	-2.3%	0.1%
Total Nonresidential:	531.1	-6.1%	0.9%
Private Nonresidential:	247.0	-10.2%	1.8%
Public Nonresidential:	284.1	-2.3%	0.2%
Total Residential:	237.8	-8.0%	2.4%
Private Residential:	229.1	-8.1%	2.6%

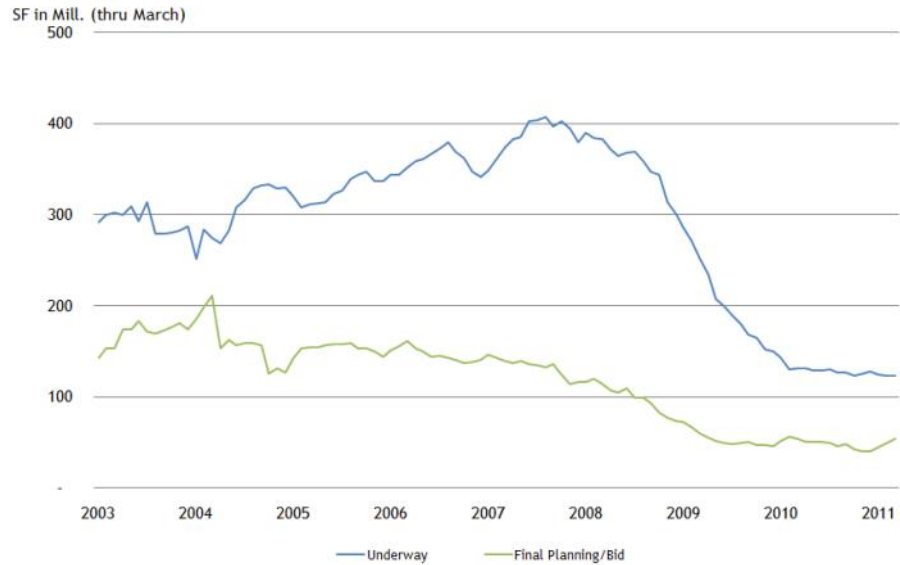


## Summary

TWR/Dodge Pipeline data in March indicated that commercial construction activity under way continued to hold steady from February while space in the final planning or bid phase increased 10%.

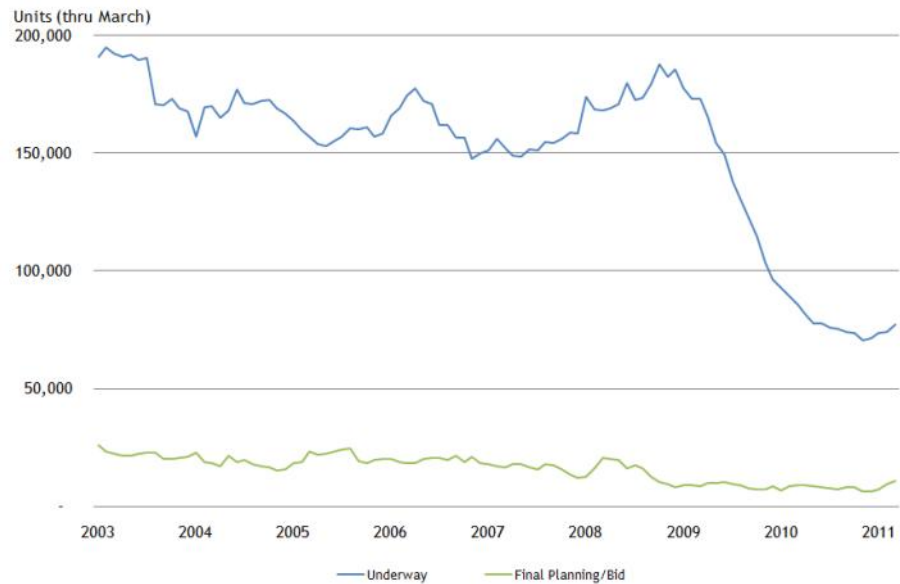
TWR/Dodge Pipeline data indicated that the number of apartment units under way and in the final planning or bid phase in March continued to rise compared with the previous month.

### U.S. Office, Retail & Warehouse Construction Activity



Source: McGraw-Hill/TWR Pipeline

### U.S. Apartment Construction Activity



Source: McGraw-Hill/TWR Pipeline

**Note:** TWR/Dodge Pipeline tracks commercial real estate projects through development phases.

**Final planning**—projects moving toward final approvals with a high probability that construction contract will be awarded within the next six months

**Bid**—projects that have been finalized, are put out to bid by general contractors, are very close to being awarded, and have a very high probability of coming to market

**Under way**—projects that are under construction

## Summary

The National Association of Realtors reported that pending home sales in March rose slightly from the prior month but were 11% below the year-earlier level, when the housing stimulus was in play.

