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Dr. Joe Webb on economics, strategy, marketing, and other random thoughts

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Q1 GDP Disappoints, but No One is Surprised

By [Dr. Joe Webb](#) on April 28th, 2011

GDP was reported as +1.8% by the Bureau of Economic Analysis, a disappointment compared to Q4's +3.1%. The economy began its recovery at the end of the second quarter of 2009. In Q4-2010, it finally surpassed the level it was at when the recession began in Q4-2007. So both the recession, and the recovery, are over. Recoveries are usually highlighted by about two quarters of very high growth of between +5 and +8% or so, and that has not happened.

Even the best export subsidy of them all, supposedly, the weaker and weaker dollar, could not help this quarter. They were up +4.9%, which was a little more than half the rate it was in Q4-2010. No one seems to think of the flip side of the weak dollar, the increase in raw materials prices that are not otherwise available here. Yes, that Montana coffee bean crop is still flat with last year (ummm..... zero) but we may end up giving it a shot if import prices keep rising to supposedly remind us to "buy domestic."

(For those worried about Chinese imports, I recommend these two articles. [One is from the Cato Institute](#) that also appeared in the *Wall Street Journal* explains how one-third to half of the value of Chinese imports value are produced in other countries, including the US, and my favorite from 2004, ["We Think, They Sweat"](#) by Andy Kessler, which contends that where the value is realized is far more important than where certain parts of the supply chain are. Both show how intertwined global trade is and how it has so many transactions back and forth that manipulating currencies to support particular agendas cause more problems than they claim to cure. They're both good, thought-provoking articles.)

Below is the latest macroeconomic chart that we keep; click to enlarge. I get +1.7% for GDP; I suspect it's a minor rounding error in the way that I annualize the data compared to BEA. The flat economy can be plainly seen.

Macroeconomic Snapshot (04/28/11)	Year/ Year	Last 6 mo., annual rate	Last 3 mo., annual rate
Real GDP (Q1-11) Advance 4/28/2011 report	2.3%	2.4%	1.7%
Productivity* (Q4-10) 3/3/11 revised report	3.6%	3.9%	4.0%
Real earnings (3/11)	-0.4%	-2.5%	-4.4%
CPI (3/11)	2.7%	4.6%	7.8%
PPI (3/11) Finished Goods	5.8%	10.4%	14.0%

*Total output, nonfarm business

Productivity is greater than GDP, so employment will be depressed. This may be one reason why the weekly jobless claims four-week moving average has been creeping up again above the 400,000 level (it was 408,400 this morning). As the economic outlook is being revised downward, companies are revising their sales and staffing plans accordingly.

I'm surprised that I have not been hearing the word "stagflation" yet. We certainly have it: slow growth, stubborn unemployment, and rising inflation. Keep an ear out: the talking heads may start mentioning it in coming days as they discuss the GDP report.

Next week is a busy one for economic data. We'll get the latest data we use in our recovery indicators, printing shipments, and the unemployment report. We'll update as we go along in this blog and in Twitter.

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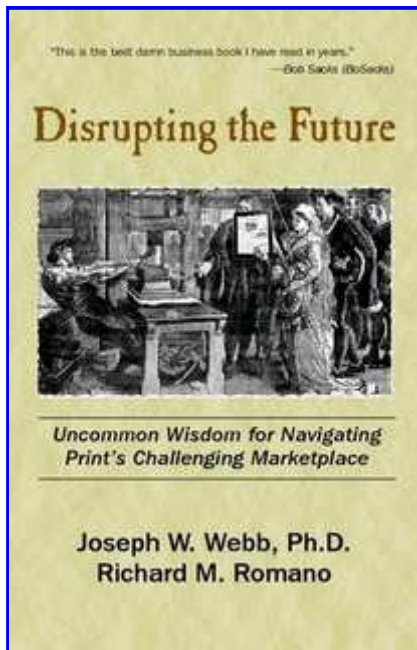
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