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GDP

First-quarter GDP rises an in-line 1.8% (Consensus: +1.8%; Decision Economics: +2.0%), but in a very jumbled manner probably, on net, stronger than expected.

Final sales to domestic purchasers rose a relatively mild 0.9%, but would have risen a more-decent 2.0% were it not for a -5.2% drop in government spending. Meanwhile, in domestic private-sector final sales categories, consumer spending rose 2.7% (with the savings rate actually rising 0.1-point) and business equipment spending 11.6%, while there was weakness in the business structures total (-21.7%, subtracting 0.6 point from GDP growth) highlighted by Chairman Bernanke yesterday, and in housing (-4.1%).

The news in all that is the firmness of the consumer and of business equipment. Construction has long been fated to show weakness, and will eventually bottom.

There was also a pleasant surprise in the trade sector, with the net export balance deteriorating just marginally--only enough to subtract 0.1-point from overall GDP growth. Exports--highlighted as a likely area of weakness by Bernanke--actually rose 4.9%, while imports grew 4.4%.

Meanwhile, there was a not-unexpected pickup in inventory building, amounting to a 0.9-point contribution to overall growth. The actual quarterly total was at $43.8 billion--probably a long-run sustainable pace.

This all amounts to a decent showing, relative to what might have been feared, and--in particular--will not be read by the Fed as a threatening deviation from the baseline scenario. There is no adverse setting-of-the-stage for difficulties in the second quarter, and no longer-run imbalances are developing.

Fed doves are given no new reason for worries, while hawks will be yet more convinced that the economy is in, or very near-to, natural self-sustaining growth--needing less support from the Fed.

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