

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF RESEARCH AND STATISTICS

Date: May 14, 2010
To: BOARD OF GOVERNORS
From: Division of Research and Statistics
Subject: Forecast Update

This week, we adjusted our estimate of real GDP in the first quarter and our forecast of real GDP in the second quarter based largely on incoming information on retail sales and motor vehicle production in April and on inventory data for March. The new data now suggest a slightly faster increase in real GDP in the first quarter and a slightly slower rate of increase in the second quarter than we reported last week.

On balance, the retail sales report was in line with our expectations. Spending in the control category dropped back in April after increases in February and March that are now reported to have been even stronger than previously estimated. In addition, manufacturers' inventories in the first quarter came in above our expectations. Taken together, these data suggest that real GDP increased at an annual rate of $3\frac{3}{4}$ percent in the first quarter compared with the 2.9 percent shown in the April Greenbook.

For the second quarter, the retail sales data put real PCE on a slightly slower trajectory than we assumed last week. In addition, motor vehicle assemblies for April were lower than we anticipated. As a result, we now project that real GDP will increase at an annual rate of slightly more than $3\frac{1}{2}$ percent in the current quarter—down a bit from last week, but in line with the April Greenbook forecast.

We did not make any changes to our forecast for core prices this week. We continue to estimate that core PCE inflation was 0.6 percent in the first quarter and forecast it to be 0.9 percent in the current quarter—essentially unchanged from the April Greenbook. However, because of a further decline in the spot price of crude oil, we again steepened the projected decline in consumer energy prices this quarter. As a result,

we now forecast total PCE prices will be unchanged in the second quarter compared with our Greenbook forecast of 0.7 percent.