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2nd Quarter GDP (Preliminary)

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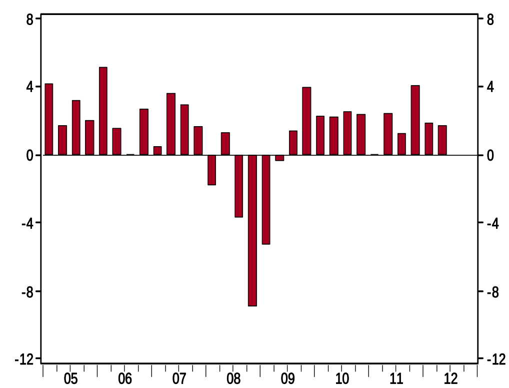
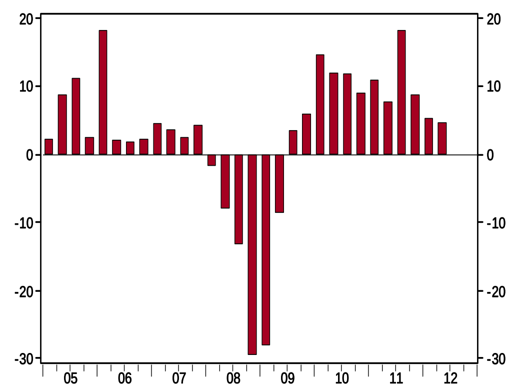
- Real GDP was revised up to a 1.7% annual growth rate in Q2, exactly as the consensus expected. The original report from last month showed 1.5%.
- The largest upward revision was net exports. Personal consumption was also revised up. The largest downward revision was for inventories. Commercial construction was also revised down.
- The largest positive contribution to the real GDP growth rate in Q2 was personal consumption. The weakest components were inventories and government.
- The GDP price index was unrevised at a 1.6% annual rate of change. Nominal GDP growth – real GDP plus inflation – was revised up to a 3.3% annual rate from a prior estimate of 3.1%.





Implications: The first revision to the Q2 real GDP growth rate shows a slightly faster economy, but a much better "mix." Real GDP growth was revised up to 1.7% rate from an original estimate of 1.5%, so little change. But inventories, which were originally estimated as boosting Q2 real GDP, are now seen as a drag, which leaves more room for extra output in the future to fill shelves and showrooms. Meanwhile, government continues to be a drag, which is a longer-term positive for the private sector. Real final sales in the private sector (GDP excluding inventories and government) increased at a respectable 2.6% annual rate. This growth was supported by a large upward revision to net exports, suggesting that weakness abroad is not yet hurting the US. The one negative in today's report is that business investment in equipment & software was revised down to a 4.7% annual growth rate from a prior estimate of 7.2%. That's the slowest growth in this part of GDP since late 2009. We believe some firms are postponing investment until after the election. Perhaps the most important news in today's report was that corporate profits increased at a 2.2% annual rate in Q2 and are up 6.1% from a year ago. The gain in profits in Q2 was led by domestic non-financial firms. Profits from abroad also rose, but domestic financial profits declined. In terms of measuring the stance of monetary policy, nominal GDP (real growth plus inflation) was up at a 3.3% annual rate in Q2 and is up 4% from a year ago, almost exactly matching the 4.1% gain from the prior year. Given this trend, there is no reason for further Fed easing. In other recent news, the Richmond Fed index, a survey of mid-Atlantic manufacturers, got less negative in August, rising to -9 from -17 in July. The best news so far this week is from the Case-Shiller index, a measure of home prices in the 20 largest metro areas, which showed a 0.9% gain (seasonally-adjusted) in home prices in June. Prices were up in 18 of 20 areas and were up in all 20 in the past three months, led by Phoenix and San Francisco. Case-Shiller now shows prices up 0.5% versus a year ago.

2nd Quarter GDP Seasonally Adjusted Annual Rates	Q2-12	Q1-12	Q4-11	Q3-11	4-Quarter Change
Real GDP	**1.7%**	2.0%	4.1%	1.3%	2.3%
GDP Price Index	**1.6%**	2.0%	0.4%	3.0%	1.7%
Nominal GDP	**3.3%**	4.2%	4.2%	4.3%	4.0%
PCE	**1.7%**	2.4%	2.0%	1.7%	2.0%
Business Investment	**4.2%**	7.5%	9.5%	19.0%	9.9%
Structures	**2.9%**	12.8%	11.5%	20.7%	11.8%
Equipment and Software	**4.7%**	5.4%	8.8%	18.3%	9.2%
Contributions to GDP Growth (p.pts.)	**Q2-12**	**Q1-12**	**Q4-11**	**Q3-11**	**4Q Avg.**
PCE	**1.2**	1.7	1.5	1.2	1.4
Business Investment	**0.4**	0.7	0.9	1.7	1.0
Residential Investment	**0.2**	0.4	0.3	0.0	0.2
Inventories	**-0.2**	-0.4	2.5	-1.1	0.2
Government	**-0.2**	-0.6	-0.4	-0.6	-0.5
Net Exports	**0.3**	0.1	-0.6	0.0	-0.1

Source: Commerce Department