First Trust DATAWATCH

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2nd Quarter GDP (Preliminary)

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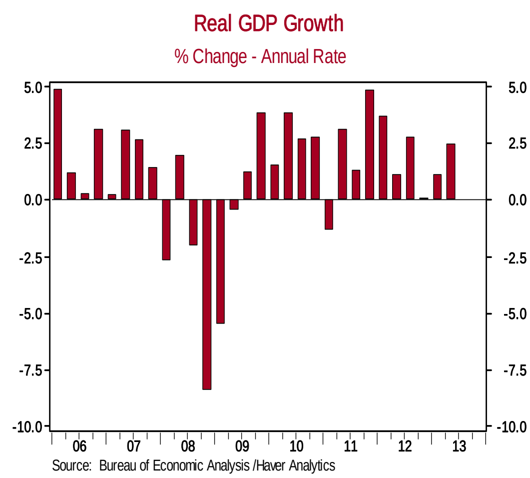
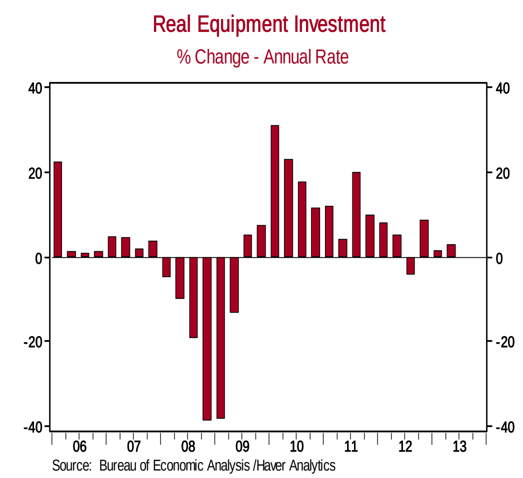
- Real GDP was revised to a 2.5% annual growth rate in Q2 from a prior estimate of 1.7%. The consensus had expected 2.2%.
- The largest source of the upward revision was net exports, with commercial construction and inventories also revised up. Business investment in intellectual property and government purchases were revised down.
- The largest positive contributions to the real GDP growth rate in Q2 were personal consumption and inventories. The weakest component was government purchases.
- The GDP price index was revised up to a 0.8% annual rate of change from a prior estimate of 0.7%. Nominal GDP growth – real GDP plus inflation – was revised up to a 3.2% annual rate from a prior estimate of 2.4%.





Implications: Upward revisions for net exports pushed the government's estimate of real GDP growth noticeably higher in Q2, to 2.5% from an original report of 1.7%. But the best news today was that corporate profits grew at a 16.4% annual rate in Q2 and are up 5% from a year ago. The one negative signal in the GDP revisions was that inventories were revised higher in Q2, which suggests slower overall growth in Q3, in the 1% - 1.5% range. Either way, today's report is consistent with continued plow horse economic growth. Excluding government purchases, real GDP grew at a healthy 3.3% annual rate in Q2. Nominal GDP (real growth plus inflation) is up 3.1% from a year ago and up at a 3.8% annual rate in the past two years. These figures continue to signal that a federal funds rate of essentially zero makes monetary policy too loose. In other news this morning, new claims for jobless benefits declined 6,000 last week to 331,000. Continuing claims slipped 14,000 to 2.99 million. Eight days away from the official Labor report, our payroll models are signaling an August gain of 157,000 nonfarm, 160,000 private (with upward revisions over subsequent months). Earlier this week, the Richmond Fed index, a survey of mid-Atlantic manufacturers, spiked up to +14 in August from -11 in July. On the housing front, the Case-Shiller index, a measure of home prices in 20 major metro areas, rose 0.9% in June (seasonally-adjusted) and is up 12.1% in the past year. Recent gains have been led by San Diego, Las Vegas, San Francisco, Los Angeles, and Miami. Pending home sales, which are contracts on existing homes, declined 1.3% in July. Recent data on pending home sales suggest existing home sales, which are counted at closing, will drop about 2.5% in August. But this follows a 6.5% surge in July and sales would still be at very high levels relative to the last few years. As a result, we don't see it as a sign that the recent rise in mortgage rates is going to generate a "double-dip" in housing.

2nd Quarter GDP Seasonally Adjusted Annual Rates	Q2-13	Q1-13	Q4-12	Q3-12	4-Quarter Change
Real GDP	2.5%	1.1%	0.1%	2.8%	1.6%
GDP Price Index	0.8%	1.3%	1.1%	2.3%	1.4%
Nominal GDP	3.2%	2.8%	1.6%	4.9%	3.1%
PCE	1.8%	2.3%	1.7%	1.7%	1.8%
Business Investment	4.4%	-4.6%	9.8%	0.3%	2.3%
Structures	16.2%	-25.7%	17.5%	5.9%	1.8%
Equipment	2.9%	1.6%	8.9%	-3.9%	2.3%
Intellectual Property	-0.9%	3.8%	5.7%	2.8%	2.8%
Contributions to GDP Growth (p.pts.)	**Q2-13**	**Q1-13**	**Q4-12**	**Q3-12**	**4Q Avg.**
PCE	1.2	1.5	1.1	1.2	1.3
Business Investment	0.5	-0.6	1.1	0.0	0.3
Residential Investment	0.4	0.3	0.5	0.4	0.4
Inventories	0.6	0.9	-2.0	0.6	0.0
Government	-0.2	-0.8	-1.3	0.7	-0.4
Net Exports	0.0	-0.3	0.7	0.0	0.1