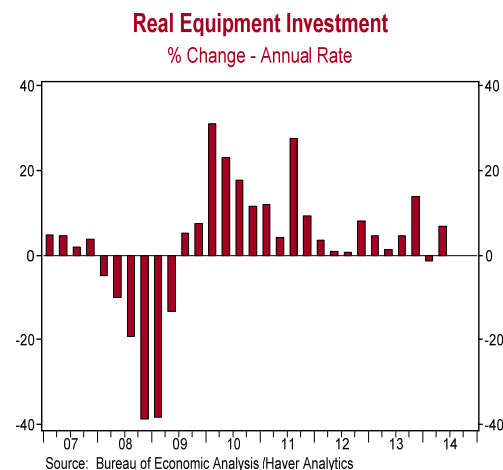
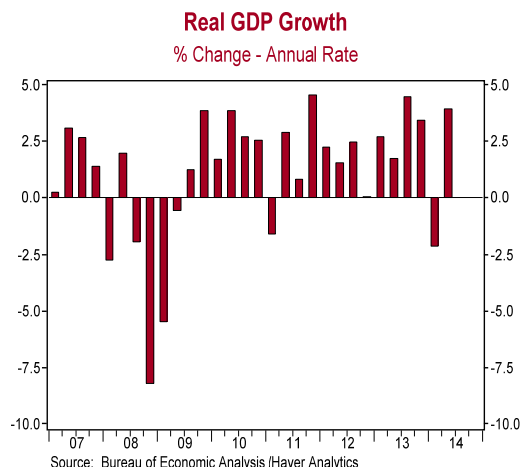


Second Quarter GDP (Advance)

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- The first estimate for Q2 real GDP growth is 4.0% at an annual rate, easily beating the 3.0% rate expected by the consensus. Real GDP is up 2.4% from a year ago.
- The largest positive contributions to real GDP growth in Q2 were from consumer spending and inventories. The largest drag was net exports.
- Personal consumption, business investment, and home building were all positive in Q2, growing at a combined rate of 3.1% annualized. Combined, they are up 2.8% in the past year.
- The GDP price index increased at a 2.0% annual rate in Q2. Nominal GDP (real GDP plus inflation) rose at a 6.0% rate in Q2, is up 4.1% from a year ago and up at a 3.7% annual rate from two years ago.

Implications: What a difference one report makes. Real GDP came in higher than the consensus expected for Q2, growing at a 4% annual rate. The rebound more than offset the weather-related hit in Q1, when real GDP fell at a (revised) 2.1% annual rate. Today's report includes revisions to the GDP data going back several years and shows an economy that was a little weaker in 2010-12, but stronger than originally reported in 2013. New figures show real GDP grew 3.1% in 2013 versus a prior estimate of 2.6%. The one drawback in today's data was that much of the growth in Q2 came from faster inventory accumulation, which will be tough to duplicate for the rest of the year. We still expect growth between 2% and 3%, but wouldn't be surprised if it continued to come in at the lower end of that range. Nominal GDP grew at a 6% annual rate in Q2, is up 4.1% versus a year ago and is up at a 3.7% annual rate in the past two years. Nominal GDP is a good proxy for the level of interest rates over time and suggests that the Fed is falling behind the curve. Even though we think they should move faster, the Fed will stick to ending QE by Halloween and then start lifting rates in the first half of 2015. The BEA also released its first estimate of GDO - Gross Domestic Output for Q1 last Friday. GDO attempts to measure "all" economic activity. In other words it includes more business-to-business sales along the value-added chain of production. GDO shows that rather than steeply declining in Q1, the economy was roughly flat. This is not surprising given brutal winter weather and it suggests that the drop in Q1 real GDP was not as sinister as many wanted to believe. In other news today, the ADP index says private payrolls increased 218,000 in July. Plugging this into our models suggests the official Labor report (released Friday) will show a nonfarm gain of 220,000. On the housing front, the Case-Shiller index, which measures home prices in 20 key metro areas, dipped 0.3% in May, the first decline in 28 months, although prices are still up 9.3% from a year ago. The dip in May was led by Atlanta, Chicago, and Detroit. Look for price gains in the year ahead, but not as fast as in the past couple of years. Pending home sales, which are contracts on existing homes, declined 1.1% in June after rising 6% in May. Combined, these figures suggest a 2.4% gain in existing home sales in July. After all that, it's still the Plow Horse.



2nd Quarter GDP Seasonally Adjusted Annual Rates	Q2-14	Q1-14	Q4-13	Q3-13	4-Quarter Change
Real GDP	4.0%	-2.1%	3.5%	4.5%	2.4%
GDP Price Index	2.0%	1.3%	1.5%	1.7%	1.6%
Nominal GDP	6.0%	-0.8%	5.0%	6.2%	4.1%
PCE	2.5%	1.2%	3.7%	2.0%	2.3%
Business Investment	5.5%	1.6%	10.4%	5.5%	5.7%
Structures	5.3%	2.9%	12.8%	11.1%	7.9%
Equipment	7.0%	-1.0%	14.1%	4.7%	6.1%
Intellectual Property	3.5%	4.7%	3.6%	2.8%	3.6%
Contributions to GDP Growth (p.pts.)	Q2-14	Q1-14	Q4-13	Q3-13	4Q Avg.
PCE	1.7	0.8	2.5	1.4	1.6
Business Investment	0.7	0.2	1.2	0.7	0.7
Residential Investment	0.2	-0.2	-0.3	0.3	0.0
Inventories	1.7	-1.2	-0.3	1.5	0.4
Government	0.3	-0.2	-0.7	0.0	-0.1
Net Exports	-0.6	-1.7	1.1	0.6	-0.2