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Second Quarter GDP (Advance)

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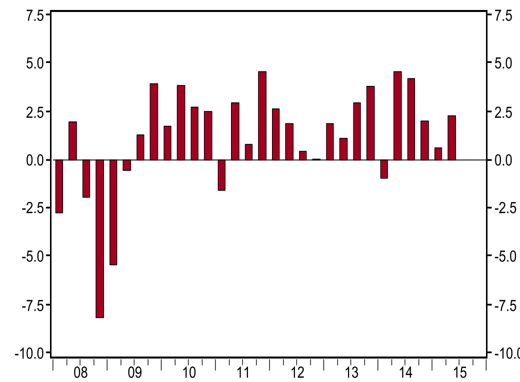
- The first estimate for Q2 real GDP growth is 2.3% at an annual rate, very close to a consensus expected 2.5%. Real GDP is up 2.3% from a year ago.
- The largest positive contribution to real GDP growth in Q2 was from consumer spending. The largest drag was business investment in equipment, while other categories were little changed.
- Personal consumption, business investment, and home building, combined, grew at a 2.6% annual rate in Q2 and are up 3.2% 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 4.4% rate in Q2, is up 3.3% from a year ago, and up at a 3.9% annual rate from two years ago.

Implications: Nothing in today's GDP report should slow the path for the Federal Reserve to start raising rates in September. Real GDP grew very close to consensus expectations in the second quarter, up at a 2.3% annual rate, the same growth rate the economy has had for the past year. We like to follow "core" real GDP, which excludes inventories, international trade, and government purchases, none of which can generate long-term economic growth. Core real GDP grew at a 2.6% pace in Q2 and is up a solid 3.2% from a year ago. Some analysts will fret that GDP was revised downwardly over the past 3 years, this was all due to slower growth in 2012-13. Interestingly that's during QE3. In spite of tapering and the end of QE, real growth was revised up slightly for 2014 and for Q1 this year, turning the negative quarter that started 2015 into positive growth. Also, the downward revisions to real GDP in 2012-13 did not noticeably affect nominal GDP, which is real GDP growth plus inflation. The government lowered real GDP but raised its estimate of inflation over the same timeframe. Nominal GDP grew at a 4.4% annual rate in Q2 and is up at a 3.9% rate in the past two years, much too high to keep short-term rates near zero. One big issue going into today's report was whether the government would fix a problem with seasonal adjustments and it looks like a partial fix was made. Every first quarter going back to 2012 was revised up while every third quarter was revised down. Plugging the new data into our models supports the case for real growth in the 2.5% - 3.0% range in the next couple of years with continued declines in the jobless rate. In other news this morning, initial unemployment claims rose 12,000 last week to 267,000 while continuing claims increased 46,000. Plugging these into our models suggest payrolls increased a solid 210,000 in July. In other recent news, the Richmond Fed Index, a measure of mid-Atlantic manufacturing sentiment, rose to 13 in July, the highest so far this year, from 7 in June. The national Case-Shiller Index shows no change in home prices in May. Home prices are up 4.4% in the past year versus a 7.1% gain in the twelve months ending May 2014. Expect more of the same in the next year, with prices still trending up, but at a slower pace. In the past year, prices are up the most in Denver, San Fran, Dallas, and Miami. Also, pending home sales, which are contracts on existing homes, declined 1.8% in June, suggesting some slippage in existing home closings in July. All-in-all, look for more Plow Horse growth in the year ahead.

Real GDP Growth

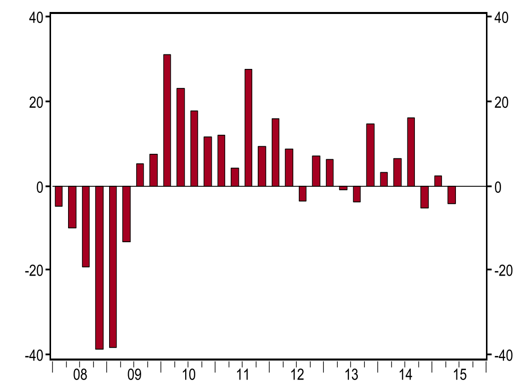
% Change - Annual Rate



Source: Bureau of Economic Analysis /Haver Analytics

Real Equipment Investment

% Change - Annual Rate



Source: Bureau of Economic Analysis /Haver Analytics

2nd Quarter GDP *Seasonally Adjusted Annual Rates*	Q2-15	Q1-15	Q4-14	Q3-14	4-Quarter Change
Real GDP	**2.3%**	0.6%	2.1%	4.3%	2.3%
GDP Price Index	**2.0%**	0.1%	0.1%	1.6%	1.0%
Nominal GDP	**4.4%**	0.8%	2.2%	6.0%	3.3%
PCE	**2.9%**	1.7%	4.3%	3.5%	3.1%
Business Investment	**-0.6%**	1.6%	0.7%	9.0%	2.6%
Structures	**-1.6%**	-7.4%	4.2%	-1.8%	-1.7%
Equipment	**-4.1%**	2.3%	-4.9%	16.5%	2.1%
Intellectual Property	**5.5%**	7.4%	6.9%	6.5%	6.6%
Contributions to GDP Growth (p.pts.)	**Q2-15**	**Q1-15**	**Q4-14**	**Q3-14**	**4Q Avg.**
PCE	**2.0**	1.2	2.9	2.3	2.1
Business Investment	**-0.1**	0.2	0.1	1.1	0.3
Residential Investment	**0.2**	0.3	0.3	0.1	0.2
Inventories	**-0.1**	0.9	0.0	0.0	0.2
Government	**0.1**	0.0	-0.3	0.3	0.1
Net Exports	**0.1**	-1.9	-0.9	0.4	-0.6