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Second Quarter GDP (Advance)

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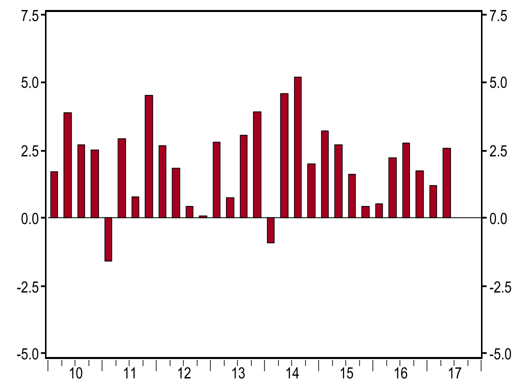
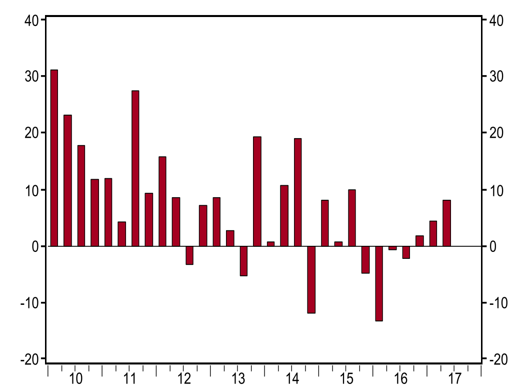
- The first estimate for Q2 real GDP growth is 2.6% at an annual rate, almost exactly the consensus expected 2.7%. Real GDP is up 2.1% from a year ago.
- The largest positive contribution to real GDP growth in Q2 was consumer spending. The largest drag was home building.
- Personal consumption, business investment, and home building, combined, grew at a 2.7% annual rate in Q2 and are up 2.8% in the past year.
- The GDP price index increased at a 1.0% annual rate in Q2. Nominal GDP (real GDP plus inflation) rose at a 3.6% annual rate in Q2, is up 3.7% from a year ago, and up at a 3.1% annual rate from two years ago.

Implications: Nothing in today's GDP report, which includes our first look at economic growth in the second quarter as well as quarterly revisions dating back to 2014, alters our view that the economy remains a Plow Horse. Real GDP grew at a 2.6% annual rate in the second quarter of the year, not much different from the average growth rate of 2.1% dating back to the start of the economic recovery in mid-2009. The best news in today's report was that for the second straight quarter, we had an increase in each major part of business investment – investment in equipment, commercial construction, *and* intellectual property. That change signals greater business optimism about the future and, if it's sustained, will translate into faster measured productivity growth and economic growth in the next few years. 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 solid 2.7% annual pace in Q2, and that includes a drop in home building at a 6.8% rate that's likely to reverse in the quarters to come, given strong fundamentals in that sector. In the past year, core GDP is up 2.8%. In terms of the Federal Reserve, nothing in today's report should alter the likely path of monetary policy over the next year or so. Nominal GDP (real GDP growth plus inflation) rose at a 3.6% annual rate in Q2, is up 3.7% in the past year, and up at a 3.1% annual rate in the past two years. All of these figures suggest short-term interest rates should be higher than the roughly 1% where they are today. Look for the Fed to stay on the path to raising rates again by December and initiating reductions to the size of the balance sheet at the next meeting in late September. Although investors have their doubts about another rate hike later this year, we think those doubts will recede in the next couple of months. Slow inventory investment has been holding back the economy in the first half of 2017. We expect inventories to grow in the second half and for real GDP to grow faster as well. It's early, but right now we're penciling in a real GDP growth rate of 3%+ in the second half.



Source: Bureau of Economic Analysis /Haver Analytics



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2nd Quarter GDP Seasonally Adjusted Annual Rates	Q2-17	Q1-17	Q4-16	Q3-16	4-Quarter Change
Real GDP	**2.6%**	1.2%	1.8%	2.8%	2.1%
GDP Price Index	**1.0%**	2.0%	2.0%	1.4%	1.6%
Nominal GDP	**3.6%**	3.3%	3.8%	4.2%	3.7%
PCE	**2.8%**	1.9%	2.9%	2.8%	2.6%
Business Investment	**5.2%**	7.1%	0.2%	3.4%	3.9%
Structures	**4.9%**	14.8%	-2.2%	14.3%	7.7%
Equipment	**8.2%**	4.4%	1.8%	-2.1%	3.0%
Intellectual Property	**1.4%**	5.8%	-0.4%	4.2%	2.7%
Contributions to GDP Growth (p.pts.)	**Q2-17**	**Q1-17**	**Q4-16**	**Q3-16**	**4Q Avg.**
PCE	**1.9**	1.3	2.0	1.9	1.8
Business Investment	**0.6**	0.9	0.0	0.4	0.5
Residential Investment	**-0.3**	0.4	0.3	-0.2	0.1
Inventories	**0.0**	-1.5	1.1	0.2	-0.1
Government	**0.1**	-0.1	0.0	0.1	0.0
Net Exports	**0.2**	0.2	-1.6	0.4	-0.2