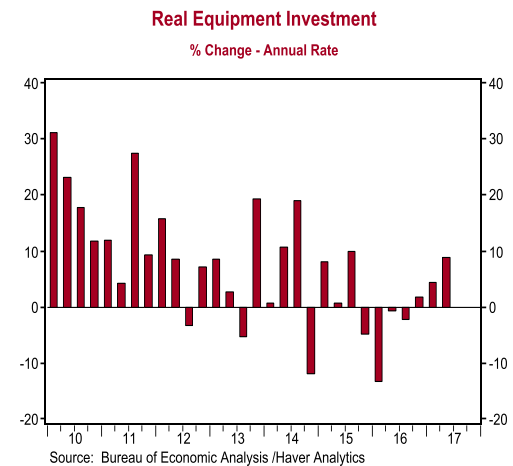
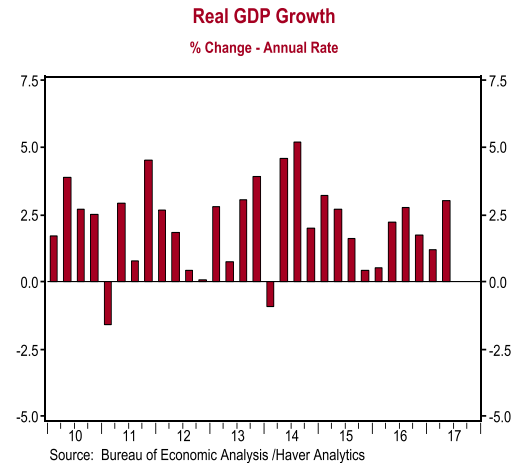


## 2nd Quarter GDP (Final)

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- Real GDP growth in Q2 was revised up to a 3.1% annual rate versus a prior estimate of 3.0%. The consensus expected 3.0%.
- The upward revision was mainly due to faster growth in inventories and government purchases, which more than offset minor downward revisions to personal consumption and business investment.
- The largest positive contribution to the real GDP growth rate in Q2 came from consumer spending. The weakest component was residential investment.
- The GDP price index was unchanged at a 1.0% annual rate. Nominal GDP growth – real GDP plus inflation – rose to 4.1% from the prior estimate of 4.0%. Nominal GDP is up 3.8% versus a year ago.



**Implications:** Today’s final GDP report for the second quarter showed a slightly faster pace of growth and a smaller increase in corporate profits compared to prior readings. Real GDP grew at a 3.1% annual rate in Q2 versus last month’s estimate of 3.0% and the initial Q2 reading (from two months ago) of 2.6% annualized growth. The mix of revisions from the previous estimate were a bit less positive, with inventories and government purchases leading the revisions higher. While we would prefer to see upward revisions coming from consumer spending and business investment, those categories still led the overall growth in GDP for the second quarter. “Core” real GDP, which strips out inventories, net exports, and government purchases rose at a healthy 3.2% annual rate in the second quarter and is up at a 2.6% annual rate in the past two years. And with just two days left in the third quarter, we’re estimating that real GDP grew in the 2.5% to 3.0% annual rate range in Q3. The impacts of Hurricanes Harvey and Irma will begin to be felt in the Q3 GDP data, but it is too early to tell the full extent of their impact. It’s not unusual to see a bump in real GDP following major storms as rebuilding and replacement of damage property begins, though, [as we mentioned after Harvey](#), that doesn’t mean the short-term pickup in growth is good news. Regardless, today’s reading on growth, the current unemployment rate at 4.4%, and inflation readings hovering near 2% show that the Fed’s signaling of an additional rate hike in 2017 is clearly warranted. Nominal GDP growth – real GDP growth plus inflation – is up 3.8% from a year ago and up 3.1% annualized in the past two years, much too high for short-term interest rates at or below 1.25%. In addition to the faster growth rate in the economy, today’s report also provided a second look at overall corporate profits, but unlike the GDP reading, corporate profits were revised modestly lower. Profits rose 0.7% in Q2 compared to an originally reported increase of 1.3%, but are still up a healthy 6.4% in the past year. Plugging this data into our capitalized profits model suggests that, even with 10-year Treasury rates at 3.5% (compared to sub-2.4% rates today), stocks are still cheap. As a whole, economic growth in Q2 was nothing to scoff at, while Q3 looks likely to continue this trend. And if Washington can take action on tax reform, growth should pick up the pace in the years ahead. In other news this morning, new claims for unemployment benefits rose 12,000 last week to 272,000, while continuing claims declined 45,000 to 1.95 million. Expect Hurricane Irma to temporarily depress payroll growth in September, followed by a rebound for October.

2nd Quarter GDP					
Seasonally Adjusted Annual Rates					
Real GDP	3.1%	1.2%	1.8%	2.8%	2.2%
GDP Price Index	1.0%	2.0%	2.0%	1.4%	1.6%
Nominal GDP	4.1%	3.3%	3.8%	4.2%	3.8%
PCE	3.3%	1.9%	2.9%	2.8%	2.7%
Business Investment	6.7%	7.1%	0.2%	3.4%	4.3%
Structures	7.0%	14.8%	-2.2%	14.3%	8.3%
Equipment	8.8%	4.4%	1.8%	-2.1%	3.1%
Intellectual Property	3.7%	5.8%	-0.4%	4.2%	3.3%
Contributions to GDP Growth (p.pts.)	Q2-17	Q1-17	Q4-16	Q3-16	4Q Avg.
PCE	2.2	1.3	2.0	1.9	1.9
Business Investment	0.8	0.9	0.0	0.4	0.5
Residential Investment	-0.3	0.4	0.3	-0.2	0.0
Inventories	0.1	-1.5	1.1	0.2	0.0
Government	0.0	-0.1	0.0	0.1	0.0
Net Exports	0.2	0.2	-1.6	0.4	-0.2

Source: Commerce Department