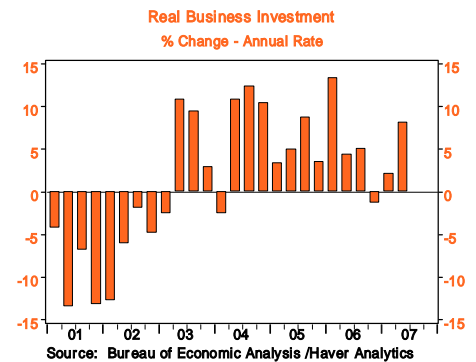
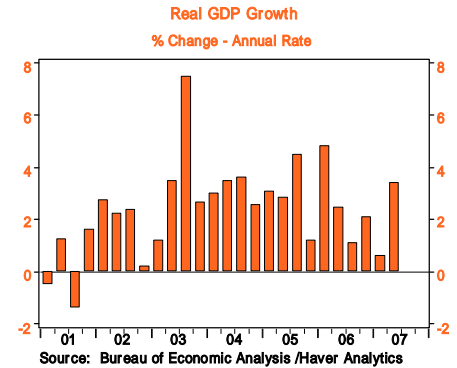


2ND QUARTER GDP (ADVANCE)

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- The first estimate for Q2 GDP growth is 3.4% at an annual rate, slightly more than the consensus expected and the strongest since early 2006.
- Business investment was healthy as investment in structures contributed more to real GDP growth (0.7 points) than in any quarter since 1985. Investment in equipment and software was positive but not strong. Net exports contributed an unusually high 1.2 points to real GDP growth. Government spending contributed 0.8 points as national defense spending reversed a drop in Q1.
- Housing lopped off 0.5 percentage points from real GDP growth, versus an average drag of a full percentage point in the previous year. Excluding housing, real GDP grew at a 4% annual rate in the second quarter.
- The GDP price index rose at a 2.7% annual rate in the second quarter. Nominal GDP growth – real GDP plus inflation – grew at a 6.2% rate.



Implications: Today's GDP report showed a return to solid 3%+ economic growth following a year of real GDP growing at a 1.5% annual rate. We expect real growth to continue at a healthy pace. Revisions to personal income and spending data going back the past few years show that the portion of after-tax income that consumers do not need to service their debts and other monthly obligations (mortgages, property taxes, homeowners' insurance, rent, auto payments, credit card debt...etc.) has grown 3.4% (adjusted for inflation) in the past year. Meanwhile, business investment has revived and net exports have become a contributor to real GDP growth due to dollar depreciation and strong growth abroad. Net exports have added 0.4 points to the growth rate in the past year, the most since 1991. Our main concern remains inflation. Although the core consumption (PCE) deflator increased at only a 1.4% annual rate in Q2, the smallest increase in four years, the overall PCE deflator increased at a 4.3% rate, the fastest since 1990.

2nd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q2-07	Q1-07	Q4-06	Q3-06	4 Quarter Change
Real GDP	3.4%	0.6%	2.1%	1.1%	1.8%
GDP Price Index	2.7%	4.2%	1.7%	2.4%	2.7%
Nominal GDP	6.2%	4.9%	3.8%	3.4%	4.6%
PCE	1.3%	3.7%	3.9%	2.7%	2.9%
Business Investment	8.1%	2.1%	-1.4%	5.1%	3.4%
Structures	22.2%	6.3%	7.5%	10.8%	11.5%
Equipment and Software	2.3%	0.3%	-4.9%	2.9%	0.1%
Contributions to GDP Growth (p.pts.)	Q2-07	Q1-07	Q4-06	Q3-06	4Q Avg.
PCE	0.9	2.6	2.7	1.9	2.0
Business Investment	0.8	0.2	-0.2	0.5	0.4
Residential Investment	-0.5	-0.9	-1.0	-1.3	-0.9
Inventories	0.2	-0.7	-1.3	0.1	-0.4
Government	0.8	-0.1	0.7	0.1	0.4
Net Exports	1.2	-0.5	1.3	-0.3	0.4

Source: Commerce Department