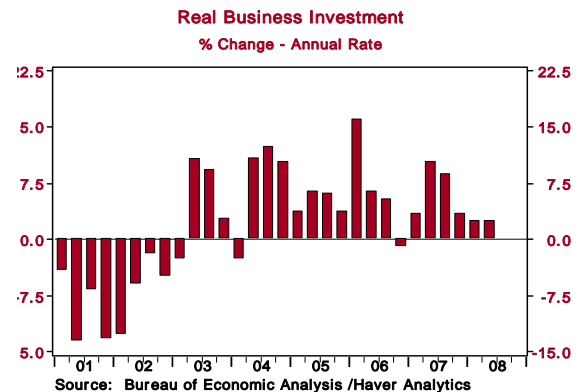
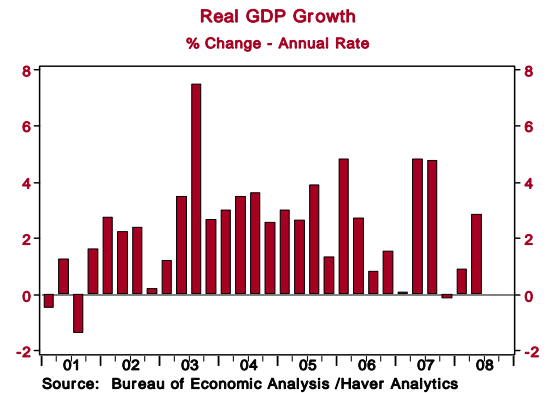


2ND QUARTER GDP (FINAL)

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- Real GDP was revised down to a 2.8% annual growth rate in Q2 versus a previously estimated (and consensus expected) 3.3%. Real GDP is up 2.1% versus a year ago.
- The largest downward revision was for consumption, which grew at a 1.2% annual rate versus a prior estimate of 1.7%. Business investment was unrevised overall, but with less investment in equipment and software and more investment in structures.
- The largest drag on real GDP continues to be home building, but the annualized rate of decline in residential construction was revised to -13.3% versus a previous estimate of -15.7%. Excluding housing, real GDP grew at a 3.4% rate in Q2 and is up 3.1% versus last year.
- The GDP price index was revised to a 1.1% annual rate in Q2 versus a previous estimate of 1.2%. Nominal GDP growth – real GDP plus inflation – was revised down to a 4.1% growth rate in Q2 versus a prior estimate of 4.6%.

Implications: Real GDP growth in Q2 was revised down to 2.8% versus a previous estimate of 3.3%, mostly due to a downward revision to the growth of consumption. Outside the housing sector, economic growth remained healthy, up at a 3.4% annual rate, with an export boom leading the way. Meanwhile, inflation remains a growing threat. Despite a headline GDP deflator that appears benign, the gross domestic purchases deflator (prices for what we buy) rose at a 4.2% rate in Q2 and is up 3.5% versus a year ago. Today's GDP report also showed downward revisions to corporate profits and cash flow, mostly due to financial companies. Pre-tax profits (with inventory and capital consumption adjustments) declined at a 14.8% annual rate versus a prior estimate of 9.2%; corporate net cash flow (without inventory/capital adjustments) declined at a 4.3% annual rate versus a previous estimate of a 0.6% rate of increase.



2nd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q2-08	Q1-08	Q4-07	Q3-07	4-Quarter Change
Real GDP	2.8%	0.9%	-0.2%	4.8%	2.1%
GDP Price Index	1.1%	2.6%	2.8%	1.5%	2.0%
Nominal GDP	4.1%	3.5%	2.3%	6.4%	4.1%
PCE	1.2%	0.9%	1.0%	2.0%	1.3%
Business Investment	2.5%	2.4%	3.4%	8.7%	4.2%
Structures	18.4%	8.7%	8.6%	20.6%	13.9%
Equipment and Software	-5.0%	-0.5%	1.0%	3.6%	-0.3%
Contributions to GDP Growth (p.pts.)	Q2-08	Q1-08	Q4-07	Q3-07	4Q Avg.
PCE	0.9	0.6	0.7	1.4	0.9
Business Investment	0.3	0.3	0.4	0.9	0.5
Residential Investment	-0.5	-1.1	-1.3	-1.1	-1.0
Inventories	-1.5	0.0	-1.0	0.7	-0.4
Government	0.8	0.4	0.2	0.8	0.5
Net Exports	2.9	0.8	0.9	2.0	1.7

Source: Commerce Department