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2ND QUARTER GDP (ADVANCE)

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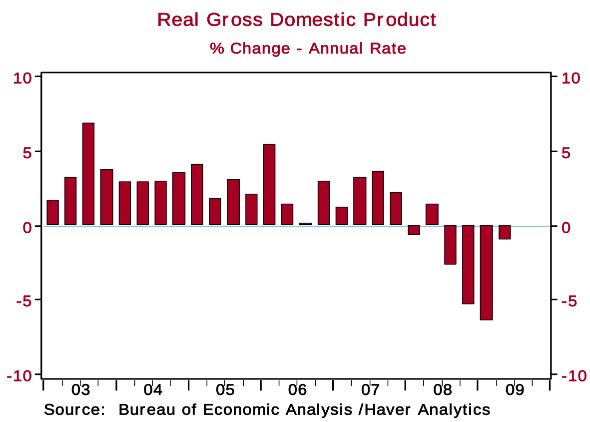
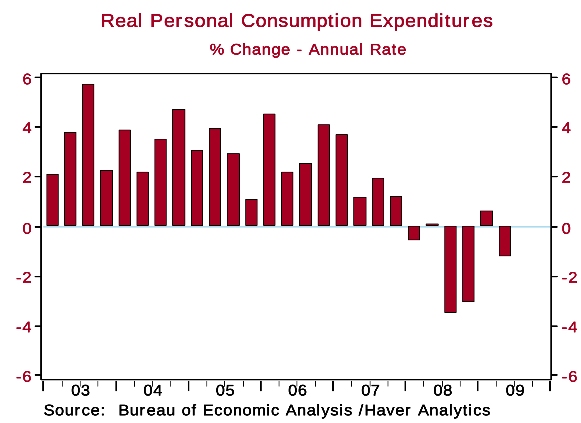
- The first estimate for Q2 real GDP growth is -1.0% at an annual rate versus a consensus expected -1.5%. Real GDP is down 3.9% versus last year, the largest decline for any year in the post-WWII era.

- The largest negative drags on the real GDP growth rate, in order, were business investment, personal consumption, home building, and inventories.

- The strongest components of real GDP were international trade, which added 1.4 percentage points to the real GDP growth rate, and government spending, which added 1.1 points to the growth rate.

- The GDP price index increased at a 0.2% annual rate in Q2 and is up 1.5% versus last year. Nominal GDP – real GDP plus inflation – dropped at a 0.8% rate in Q2 and is down 2.4% versus a year ago.





Implications: There were two big stories in today's GDP report: first, the drop in GDP has been deeper and longer than previously estimated; second, the recovery will be stronger than the consensus expects. New figures show that real GDP peaked a year ago and has declined in all four quarters since then, the deepest contraction in the post-WWII era. This helps explain why the unemployment rate moved up even faster than previously reported GDP numbers suggested it should have. Also, notice the absence of an impact from "stimulus" legislation earlier this year, as real personal consumption fell at a 1.2% annual rate in Q2 after rising slightly in Q1. Part of the reason for greater recessionary weakness was that inventory reductions were even more forceful than previously thought. As a result, as companies slow down inventory liquidation in the quarters ahead, real GDP will quickly accelerate. Boosting growth further will be the continued decline in the trade deficit and a turnaround in home building, which is now a record low 2.4% of GDP, roughly half the norm. In other recent news, the Chicago PMI, a measure of manufacturing in that area, increased to 43.4 in July, the highest since September 2008. The increase in the Chicago PMI was led by a 6.4 point increase in the new orders index to 48.0. Yesterday it was reported that new claims for unemployment insurance increased 25,000 last week to 584,000. However, the four-week moving average of new claims fell to 559,000, the lowest since January and 100,000 below the peak in April. Meanwhile, continuing claims fell 54,000 to 6.197 million.

2nd Quarter GDP *Seasonally Adjusted Annual Rates*	Q2-09	Q1-09	Q4-08	Q3-08	4-Quarter Change
Real GDP	**-1.0%**	-6.4%	-5.4%	-2.7%	-3.9%
GDP Price Index	**0.2%**	1.9%	0.1%	4.0%	1.5%
Nominal GDP	**-0.8%**	-4.6%	-5.4%	1.4%	-2.4%
PCE	**-1.2%**	0.6%	-3.1%	-3.5%	-1.8%
Business Investment	**-8.9%**	-39.2%	-19.4%	-6.1%	-19.6%
Structures	**-8.8%**	-43.6%	-7.2%	-0.1%	-16.9%
Equipment and Software	**-9.0%**	-36.4%	-25.9%	-9.4%	-21.0%
Contributions to GDP Growth (p.pts.)	**Q2-09**	**Q1-09**	**Q4-08**	**Q3-08**	**4Q Avg.**
PCE	**-0.9**	0.4	-2.2	-2.5	-1.3
Business Investment	**-0.9**	-5.3	-2.5	-0.7	-2.4
Residential Investment	**-0.9**	-1.3	-0.8	-0.6	-0.9
Inventories	**-0.8**	-2.4	-0.6	0.3	-0.9
Government	**1.1**	-0.5	0.2	1.0	0.4
Net Exports	**1.4**	2.6	0.5	-0.1	1.1

Source: Commerce Department