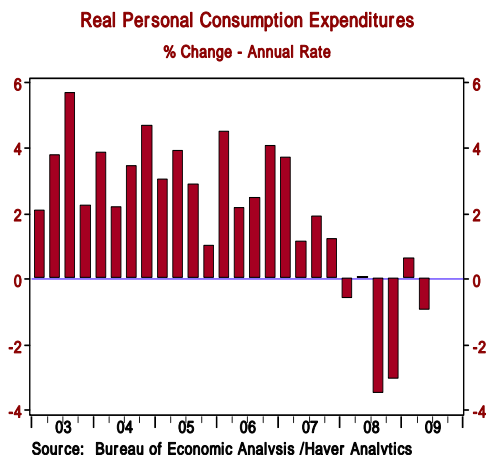
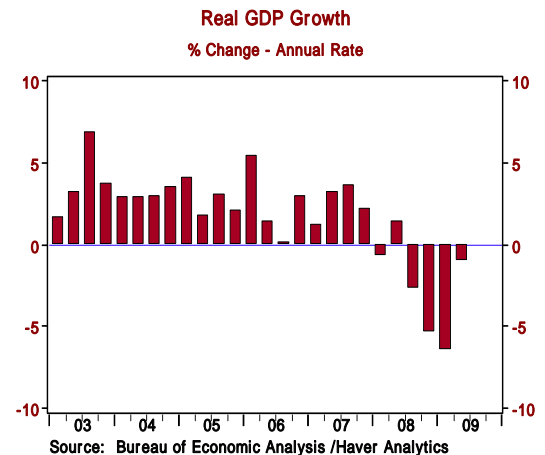


2ND QUARTER GDP (PRELIM)

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- Real GDP was unrevised at a -1.0% annual growth rate in Q2, beating the census expected rate of -1.5%. Real GDP is down 3.9% in the past year.
- Personal consumption and home building were both revised up in Q2; inventories were revised downward.
- The largest drags on real GDP in Q2 were still business investment and inventories. The largest positive accounts for GDP were net exports and government spending.
- The GDP price index was revised to a 0.0% annual rate of change from a prior estimate of 0.2%. Nominal GDP growth – real GDP plus inflation – was revised to a -1.0% annual rate in Q2 versus an original estimate of -0.8%.

Implications: Real GDP growth was unrevised for the second quarter, but the details of the report suggest even better growth ahead than we had previously expected. The first reason is that inventories were even leaner than previously reported, meaning companies have more room to re-stock shelves and showrooms in the months ahead. Second, corporate profits jumped at a 24.9% annual rate in Q2 on top of a 22.8% rate of increase in Q1. Notably, all the increase in profits in Q2 was due to domestic operations, not earnings generated abroad. Soon, these profits are going to translate into more business investment and more hiring in the US. In other news this morning, new claims for unemployment insurance fell 10,000 to 570,000. Continuing claims for jobless benefits dropped 119,000 to 6.13 million. Given the improved details in the Q2 GDP report and the decline in claims so far this quarter, we are raising our forecast for the Q3 real GDP growth rate to 4%. We had been forecasting a 3% growth rate for Q3 since the start of this year. We maintained this forecast even as many other economists became hysterically pessimistic, claiming zero positive growth until 2010. Now we are finding that even our forecast for the early stages of this V-shaped recovery was not strong enough.



2nd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	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	0.0%	1.9%	0.1%	4.0%	1.5%
Nominal GDP	-1.0%	-4.6%	-5.4%	1.4%	-2.4%
PCE	-1.0%	0.6%	-3.1%	-3.5%	-1.8%
Business Investment	-10.9%	-39.2%	-19.4%	-6.1%	-20.0%
Structures	-15.1%	-43.6%	-7.2%	-0.1%	-18.4%
Equipment and Software	-8.4%	-36.4%	-25.9%	-9.4%	-20.9%
Contributions to GDP Growth (p.pts.)	Q2-09	Q1-09	Q4-08	Q3-08	4Q Avg.
PCE	-0.7	0.4	-2.2	-2.5	-1.2
Business Investment	-1.2	-5.3	-2.5	-0.7	-2.4
Residential Investment	-0.7	-1.3	-0.8	-0.6	-0.8
Inventories	-1.4	-2.4	-0.6	0.3	-1.0
Government	1.3	-0.5	0.2	1.0	0.5
Net Exports	1.6	2.6	0.5	-0.1	1.1

Source: Commerce Department