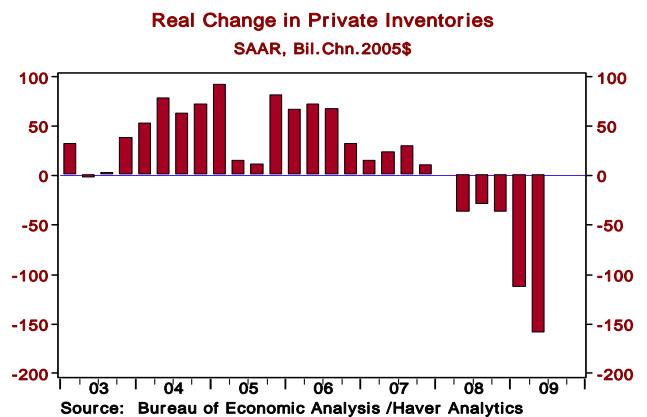
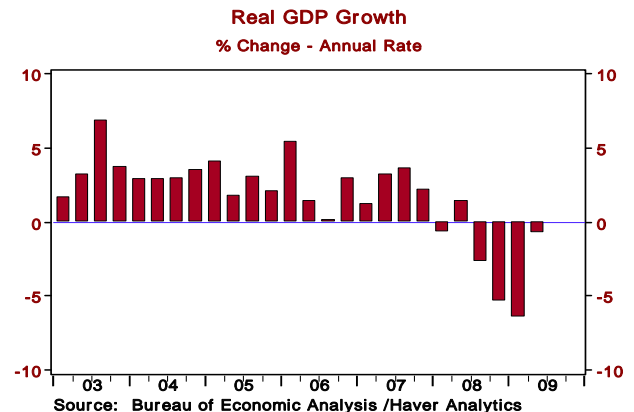


2ND QUARTER GDP (FINAL)

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- Real GDP growth in Q2 was revised up slightly to a -0.7% annual rate from a previous estimate of -1.0%. The consensus expected -1.2%. Real GDP is down 3.8% versus a year ago.
- The largest drags on real GDP in Q2 were inventories (down at a \$160.2 billion annual rate) and business investment (down at a 9.6% annual rate). The largest positive contributors to real GDP growth were international trade (the trade deficit declined at a \$56.1 billion annual rate) and government purchases (up 6.7% annualized).
- The upward revision versus last month's estimate of Q2 real GDP growth was mostly due to better investment in equipment and software.
- The GDP price index was unrevised at unchanged (0.0%) in Q2. Nominal GDP growth – real GDP plus inflation – was revised to a -0.8% annual rate from a previously estimated -1.0%.

Implications: The decline in real GDP in the second quarter was not as bad as previously estimated and better than the consensus expected. Notably, final sales (GDP excluding inventories) increased 0.7% in Q2, the first gain in a year. Although corporate profits were revised downward in Q2, profits in the domestic non-financial sector, which help drive domestic investment, were revised upward. However, Q2 ended three months ago, so this is all old news. Given recent data, we think real GDP grew at a 4% annual rate in Q3 and is likely to grow at least that rate in Q4, led by much slower declines in inventories. Next year, we expect roughly 4.5% real GDP growth, as a shrinking trade deficit, continued improvement to inventories, and a turnaround in both home building and business investment lead the way. In other news this morning, the ADP National Employment Report suggests private-sector payrolls declined 254,000 in September, the smallest drop since July 2008 (pre-Lehman). In recent months, the ADP report has consistently over-estimated actual private-sector job losses. This makes us comfortable with our forecast that total nonfarm payrolls fell 135,000 in September (including government jobs). The Labor Department will release the official data Friday morning.



2nd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q2-09	Q1-09	Q4-08	Q3-08	4-Quarter Change
Real GDP	-0.7%	-6.4%	-5.4%	-2.7%	-3.8%
GDP Price Index	0.0%	1.9%	0.1%	4.0%	1.5%
Nominal GDP	-0.8%	-4.6%	-5.4%	1.4%	-2.4%
PCE	-0.9%	0.6%	-3.1%	-3.5%	-1.7%
Business Investment	-9.6%	-39.2%	-19.4%	-6.1%	-19.7%
Structures	-17.3%	-43.6%	-7.2%	-0.1%	-18.9%
Equipment and Software	-4.9%	-36.4%	-25.9%	-9.4%	-20.2%
Contributions to GDP Growth (p.pts.)	Q2-09	Q1-09	Q4-08	Q3-08	4Q Avg.
PCE	-0.6	0.4	-2.2	-2.5	-1.2
Business Investment	-1.0	-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	1.7	2.6	0.5	-0.1	1.2

Source: Commerce Department