

GDP Data – Better than the Spin Suggests

Think back a month. Remember when first quarter real GDP was downwardly revised from a 3.0% growth rate to 2.7%? The pessimistic punditry had a field day.

Well...guess what? On Friday, when second quarter GDP was released showing a 2.4% growth rate, the celebration was so raucous that the pessimists totally missed a huge upward revision to the first quarter. The Commerce Department raised first quarter growth to 3.7%.

But, rather than back off the negativity a little bit, the pessimists use the faster growth of the first quarter to show how the economy slowed in the second quarter. A talking head on one of the most popular cable news talk shows told the audience Friday night, “there is absolutely no growth out there.” This was hyperbole, and hopefully she knew that, but we think not. It’s a race to see who sounds most dour.

All of this is nothing new. Back in 2008, Barron’s decided that the GDP deflator was a lousy indicator of inflation. They said the CPI should be used instead. Using the CPI showed that real GDP growth in the second quarter of 2008 would have been negative 1.4%, instead of positive 0.6%. We argued that this was a misuse of the CPI, but Barron’s stuck to its guns.

Now that the tables are turned – the CPI fell 0.7% in the second quarter, while the GDP deflator rose 1.8% - shouldn’t Barron’s be consistent and make the opposite argument. *Real GDP would have grown 4.9% at an annual rate in the second quarter of 2010 if the CPI was used - twice as fast as the*

reported rate of 2.4% using the deflator. Unfortunately, there was no mention of this in Barron’s over the weekend.

Don’t take this in the wrong way. We were disappointed in the GDP report. But our miss was mostly caused by a surge in imports, which are subtracted from GDP growth even though they represent domestic demand. In the second quarter, rising imports reduced real GDP growth by 4%, the largest negative impact on record. Real domestic purchases grew 5.1% at an annual rate in the second quarter – a far cry from a new normal.

Nominal consumer spending and nominal business investment (in information equipment and software) reached all-time record highs in the second quarter. The same is true of total nominal GDP minus government spending. After peaking at \$11.602 trillion in Q2-2008, *private GDP* fell sharply during the panic and now has come all the way back to \$11.604 trillion – a perfect V over eight quarters.

Even though the economy should be growing faster, to say it’s not growing at all is just wrong. Nor is it responsible to be overtly political about it and say it’s all Obama’s fault. We argued against the Bush stimulus, TARP and the Obama stimulus. All of it was wrong. Some are trying to say that the Bush stimulus and TARP were good, but what Democrats have done is bad. What a bunch of partisan malarkey!

We know it’s hard to do, but investors need to separate their politics from their economics. Staying positive is as important as fighting for what you believe in.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-2 / 9:00 am	ISM Index - Jul	54.5	54.8	55.5	56.2
9:00 am	Construction Spending - Jun	-0.5%	-0.9%	+0.1%	-0.2%
8-3 / 7:30 am	Personal Income - Jun	+0.2%	+0.3%		+0.4%
7:30 am	Personal Spending - Jun	+0.1%	-0.1%		+0.2%
9:00 am	Factory Orders -Jun	-0.5%	-0.6%		-1.4%
<i>sometime</i>	Domestic Auto Sales - Jul	3.8 Mil	3.9 Mil		3.8 Mil
<i>during the day</i>	Domestic Truck Sales - Jul	4.8 Mil	4.9 Mil		4.7 Mil
8-4 / 9:00 am	ISM Non-Man. - Jul	53.0	53.5		53.8
8-5 / 7:30 am	Initial Claims – Jul 31	455K	444K		457K
8-6 / 7:30 am	Non-Farm Payrolls - Jul	-63K	-55K		-125K
7:30 am	Manufacturing Payrolls - Jul	+10K	+15K		+9K
7:30 am	Unemployment Rate - Jul	9.6%	9.5%		9.5%
7:30 am	Average Hourly Earnings - Jul	+0.1%	+0.1%		-0.1%
7:30 am	Average Weekly Hours - Jul	34.1	34.2		34.1
2:00 pm	Consumer Credit – Jun	-\$5.6 Bil	-\$5.5 Bil		-\$9.1 Bil