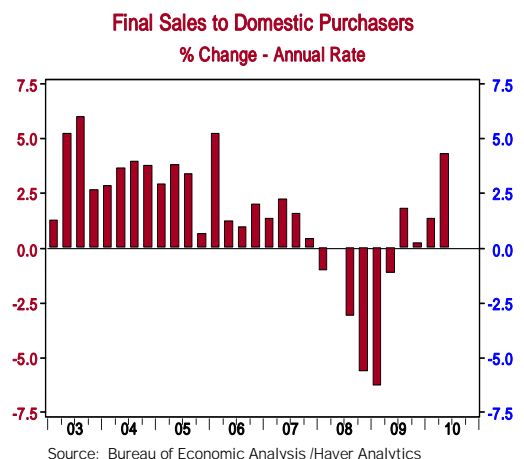
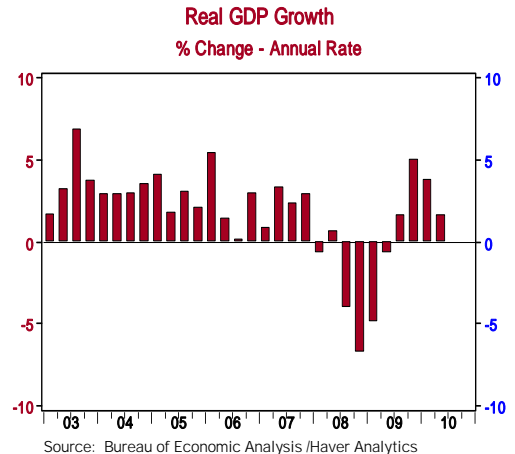


2ST QUARTER GDP (PRELIM)

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- Real GDP was revised down to a 1.6% annual growth rate in Q2 from an original estimate of 2.4%. The consensus had expected 1.4%.
- The largest downward revisions were for net exports and inventories. Personal consumption and business investment in equipment/software were revised upward.
- The largest positive contributions to the real GDP growth rate in Q2 were personal consumption and business investment in equipment/software. The weakest component, by far, was net exports.
- The GDP price index was revised to a 1.9% annual rate of change from a prior estimate of 1.8%. Nominal GDP growth – real GDP plus inflation – was revised to a 3.6% annual rate from a prior estimate of 4.1%.

Implications: Real GDP was revised down for Q2, but at a 1.6% annual growth rate, still came in above where the consensus expected. Although slower growth is never good by itself, the “mix” of growth in Q2 looks better than it previously did. Personal spending and business investment were both revised upward, showing that monetary policy is gaining traction. The downward revision to overall GDP was due to inventories – leaving more room for future growth – and trade. In particular, a huge spike in imports of goods subtracted more from GDP growth than in any quarter on record (dating back to 1947). Meanwhile, domestic purchases were revised *upward*. Real (inflation-adjusted) final sales to domestic purchasers increased at a 4.3% annual rate. The “new” news in today’s report was on corporate profits, which continued to show rapid growth. Overall, profits increased at a 20% annual rate and are up 39% versus a year ago. The rise in profits in Q2 was powered by domestic non-financial companies, whose profits increased at a 36% rate. Overall, gross domestic income (GDI) grew at a 2.4% inflation-adjusted pace in Q2. This is the third straight quarter where GDI has grown faster than GDP, suggesting potential upward revisions to the GDP numbers a year from now. In other recent news, initial unemployment claims fell 31,000 last week to 473,000, a welcome decline after a recent surge. Continuing claims for regular state benefits declined 62,000 to 4.46 million.



2nd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q2-10	Q1-10	Q4-09	Q3-09	4-Quarter Change
Real GDP	1.6%	3.7%	5.0%	1.6%	3.0%
GDP Price Index	1.9%	1.0%	-0.2%	0.7%	0.8%
Nominal GDP	3.6%	4.8%	4.7%	2.3%	3.9%
PCE	2.0%	1.9%	0.9%	2.0%	1.7%
Business Investment	17.6%	7.8%	-1.4%	-1.7%	5.3%
Structures	0.4%	-17.8%	-29.2%	-12.4%	-15.4%
Equipment and Software	24.9%	20.5%	14.6%	4.2%	15.8%
Contributions to GDP Growth (p.pts.)	Q2-10	Q1-10	Q4-09	Q3-09	4Q Avg.
PCE	1.4	1.3	0.7	1.4	1.2
Business Investment	1.5	0.7	-0.1	-0.1	0.5
Residential Investment	0.6	-0.3	0.0	0.3	0.1
Inventories	0.6	2.6	2.8	1.1	1.8
Government	0.9	-0.3	-0.3	0.3	0.1
Net Exports	-3.4	-0.3	1.9	-1.4	-0.8

Source: Commerce Department

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