First Trust Data Watch

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2ND QUARTER GDP (FINAL)

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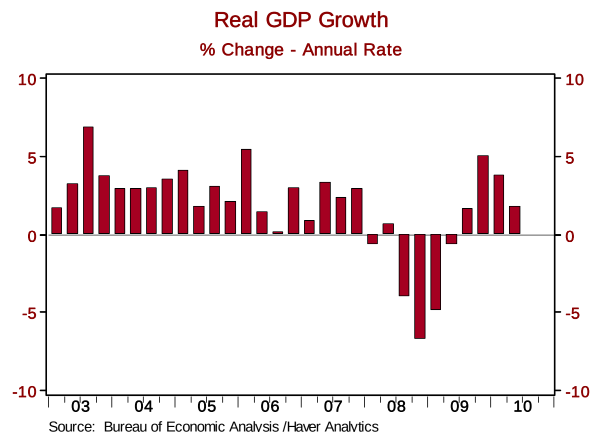
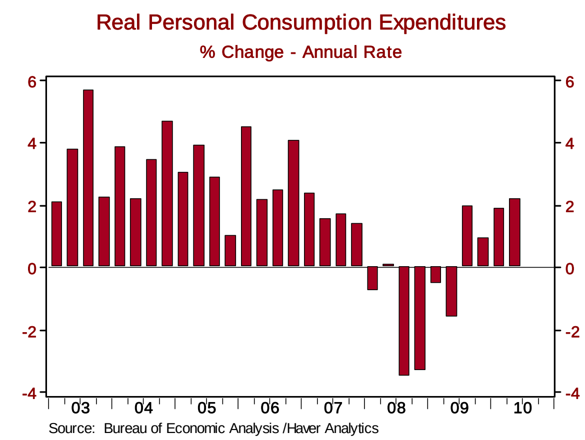
- Real GDP growth in Q2 was revised up a tick to a 1.7% annual rate from a previous estimate and consensus expected 1.6%.
- The largest upward revisions *versus last month's estimate* of Q2 real GDP growth were for inventories and consumer spending on services. Net exports were revised downward.
- The largest positive contributions to the real GDP growth rate in Q2 were from consumer spending and business investment in equipment. The weakest component of real GDP, by far, was net exports.
- The GDP price index was unrevised at a 1.9% annual rate of change. Nominal GDP growth – real GDP plus inflation – was revised up a tick to a 3.7% annual rate in Q2 versus a prior estimate of 3.6%.





Implications: The double-dip is dead. Real GDP growth was revised up slightly in Q2, narrowly beating consensus expectations. As we noted last month, were it not for a record-breaking spike in goods imports, real GDP growth would have been very strong in Q2. Real (inflation-adjusted) gross domestic *purchases* – what we bought, not what we produced – grew at a 5.2% annual rate in Q2, the second fastest pace in the past decade. This should put to bed the idea that domestic demand needs additional government "stimulus," whether from the Fed or through government spending. With nominal GDP growing at a 3.7% annual rate, zero percent interest rates are already stimulative enough. The "negative" news from today's GDP report was that corporate profits were revised downward. However, profits still increased at a 13% annual rate in Q2 and are up 37% in the past year. So, we do not see the revision as a problem. In other news this morning, new claims for unemployment insurance fell 16,000 last week to 453,000. The four-week moving average is 458,000, down 30,000 since late August. Continuing claims for regular state benefits declined 83,000 to 4.46 million. The Chicago Purchasing Managers index, a measure of manufacturing, increased to 60.4 in September from 56.7 in August, easily beating the consensus expected decline. In other recent news, the Case-Shiller index, a measure of home prices in the 20 largest metro areas, slipped 0.1% in July (seasonally-adjusted), a small dip considering the end of the homebuyer tax credit at the end of June. Prices are still up 3.1% versus a year ago.

2nd Quarter GDP *Seasonally Adjusted Annual Rates*	*Q2-10*	*Q1-10*	*Q4-09*	*Q3-09*	*4-Quarter Change*
Real GDP	**1.7%**	3.7%	5.0%	1.6%	3.0%
GDP Price Index	**1.9%**	1.0%	-0.2%	0.7%	0.8%
Nominal GDP	**3.7%**	4.8%	4.7%	2.3%	3.9%
PCE	**2.2%**	1.9%	0.9%	2.0%	1.7%
Business Investment	**17.2%**	7.8%	-1.4%	-1.7%	5.2%
Structures	**-0.5%**	-17.8%	-29.2%	-12.4%	-15.6%
Equipment and Software	**24.8%**	20.5%	14.6%	4.2%	15.7%
Contributions to GDP Growth (p.pts.)	**Q2-10**	**Q1-10**	**Q4-09**	**Q3-09**	**4Q Avg.**
PCE	**1.5**	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	**0.8**	2.6	2.8	1.1	1.8
Government	**0.8**	-0.3	-0.3	0.3	0.1
Net Exports	**-3.5**	-0.3	1.9	-1.4	-0.8

Source: Commerce Department