First Trust DATAWATCH

August 26, 2011 • 630.517.7756 • www.ftportfolios.com

2nd Quarter GDP (Preliminary)

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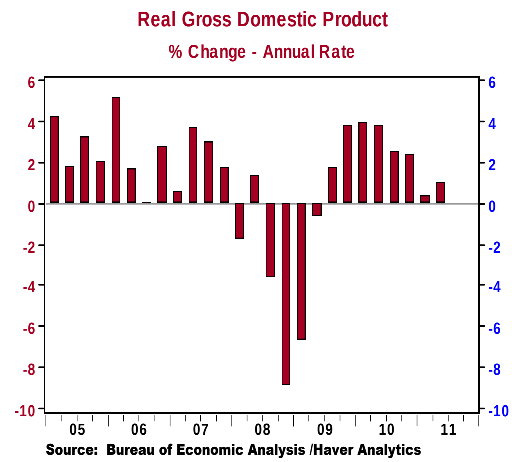
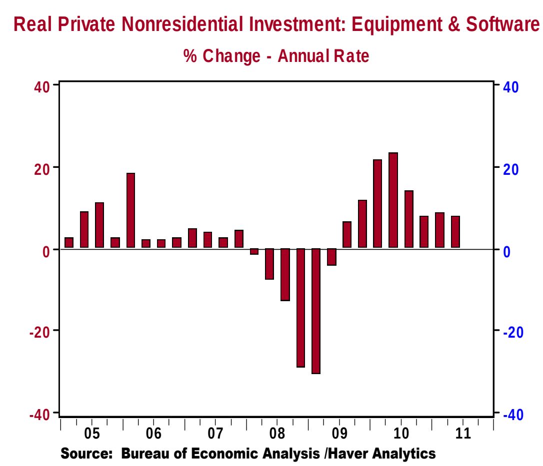
- Real GDP was revised to a 1.0% annual growth rate in Q2 from a prior estimate of 1.3%. The consensus had expected 1.1%.
- Net exports and inventories were revised downward while business investment in equipment/software, commercial construction, and personal consumption was revised up.
- The largest positive contributions to the real GDP growth rate in Q2 were business investment in equipment/software and commercial construction. The weakest component was inventories.
- The GDP price index was revised up to a 2.4% annual rate of change. Nominal GDP growth – real GDP plus inflation – was revised down slightly to a 3.5% annual rate from a prior estimate of 3.7%.





Implications: Real GDP growth in the second quarter was revised down slightly and came in very close to consensus expectations. However, the composition of growth was more promising for the economy in the second half of the year. Business investment was revised upward, increasing the production potential of US companies, and inventories were revised down, leaving more room for future re-stocking of shelves and showrooms. It should be obvious at this point that the expansion of government spending to "stimulate" the economy hasn't worked. The government expansion is helping create inflation, not real GDP growth. GDP prices increased at a 2.4% annual rate in Q2 and are up 2.1% in the past year. Meanwhile, real GDP is up 1.5% from a year ago. Nominal GDP – real GDP growth plus inflation – is up 3.7% from a year ago, signaling that the Fed's zero interest rate policy is too loose and the inflation trend will continue upward. The best news from today's report is that corporate profits increased at a 12.8% annual rate in Q2 and are up 8.3% versus a year ago. Most of the increase is due to domestic non-financial companies, among which profits increased at a 38.6% rate in Q2 and are up 14.2% versus a year ago. Profits are at an all-time record high and are the highest share of GDP since 1950. In other recent news, new claims for unemployment insurance increased 5,000 last week to 417,000. The strike at Verizon, which is now over, added at least 8,500. Continuing claims for regular state benefits declined 80,000 to 3.64 million, the lowest level since September 2008. We also have some good news on the housing market. The FHFA index, which measures prices for homes financed by conforming mortgages, increased 0.9% in June, the third straight monthly rise and the largest gain for any month since 2005. Still, the index remains 4.3% below where it was a year ago.

1st Quarter GDP *Seasonally Adjusted Annual Rates*	*Q2-11*	*Q1-11*	*Q4-10*	*Q3-10*	*4-Quarter Change*
Real GDP	**1.0%**	0.4%	2.3%	2.5%	1.5%
GDP Price Index	**2.4%**	2.5%	1.9%	1.4%	2.1%
Nominal GDP	**3.5%**	3.1%	4.2%	3.9%	3.7%
PCE	**0.4%**	2.1%	3.6%	2.6%	2.2%
Business Investment	**9.9%**	2.1%	8.7%	11.3%	7.9%
Structures	**15.8%**	-14.4%	10.6%	4.2%	3.4%
Equipment and Software	**7.8%**	8.7%	8.0%	14.2%	9.7%
Contributions to GDP Growth (p.pts.)	**Q2-11**	**Q1-11**	**Q4-10**	**Q3-10**	**4Q Avg.**
PCE	**0.3**	1.5	2.5	1.9	1.5
Business Investment	**0.9**	0.2	0.8	1.0	0.8
Residential Investment	**0.1**	-0.1	0.1	-0.8	-0.2
Inventories	**-0.2**	0.3	-1.8	0.9	-0.2
Government	**-0.2**	-1.2	-0.6	0.2	-0.4
Net Exports	**0.1**	-0.3	1.4	-0.7	0.1

Source: Commerce Department