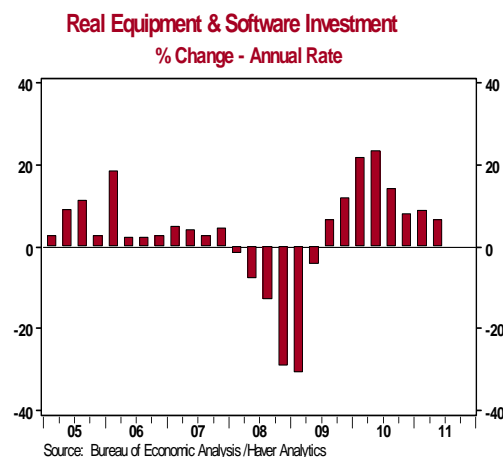
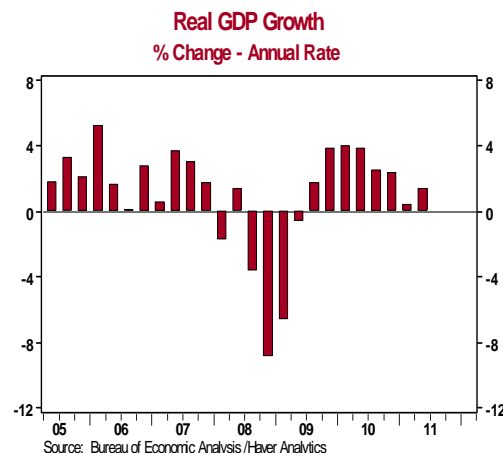


## 2<sup>nd</sup> Quarter GDP (Final)

**Brian S. Wesbury** – Chief Economist  
**Robert Stein, CFA** – Senior Economist  
**Andrew Hull** – Economic Analyst  
**Strider Elass** – Economic Analyst

- Real GDP growth in Q2 was revised up slightly to a 1.3% annual rate from a prior estimate of 1.0%, slightly beating consensus expectations of 1.2%.
- The largest upward revision *versus last month's estimate* of Q2 real GDP growth was for consumer spending. Commercial construction and net exports were also revised upward. The largest downward revision was for business investment in equipment & software. Inventories were also revised downward.
- The largest positive contributions to the real GDP growth rate in Q2 were from business investment and consumer spending. The weakest component of real GDP was inventories.
- The GDP price index was revised to a 2.5% annualized rate of change from a prior estimate of 2.4%. Nominal GDP growth – real GDP plus inflation – was revised up to a 4.0% annual rate in Q2 versus a prior estimate of 3.5%. Nominal GDP is up 3.8% versus a year ago.

**Implications:** Forget about the GDP report for a moment, which came in very close to consensus expectations. The big news this morning was that initial claims for unemployment benefits fell 37,000 to 391,000, the lowest level in almost six months. Although the Labor Department said technical problems seasonally-adjusting the data may have caused the large drop, unadjusted claims were 325,000, which is 13% lower than a year ago. Meanwhile, continuing claims for regular state benefits fell 20,000 to 3.73 million. In other words, we take Labor's explanation with a grain of salt and think today's claims report is a clear sign the US is not in recession. On GDP, there is not much "news" in today's report, showing the economy expanded at a 1.3% annual rate in the second quarter, which ended three months ago. Real GDP growth was almost exactly as the consensus expected. However, the composition of growth was slightly more favorable for the future, with upward revisions to consumer spending and commercial construction while inventories were revised down a little, leaving more room for future production. Corporate profits were also revised up slightly, to a new all-time record high. Profits were up at a 13.7% annual rate in Q2 and are up 8.5% versus a year ago. Upward revisions to both real GDP growth and GDP inflation mean that nominal GDP was revised up to a 4% annual growth rate from a prior estimate of 3.5%. Nominal GDP is up 3.8% from a year ago, which means that the Fed is being too loose when it holds short-term interest rates at essentially zero percent and promises to keep them there through at least mid-2013.



<b>2nd Quarter GDP</b> <i>Seasonally Adjusted Annual Rates</i>	<b>Q2-11</b>	<b>Q1-11</b>	<b>Q4-10</b>	<b>Q3-10</b>	<b>4-Quarter Change</b>
<b>Real GDP</b>	<b>1.3%</b>	0.4%	2.3%	2.5%	1.6%
<b>GDP Price Index</b>	<b>2.5%</b>	2.5%	1.9%	1.4%	2.1%
<b>Nominal GDP</b>	<b>4.0%</b>	3.1%	4.2%	3.9%	3.8%
<b>PCE</b>	<b>0.7%</b>	2.1%	3.6%	2.6%	2.2%
<b>Business Investment</b>	<b>10.3%</b>	2.1%	8.7%	11.3%	8.0%
<b>Structures</b>	<b>22.6%</b>	-14.4%	10.6%	4.2%	4.9%
<b>Equipment and Software</b>	<b>6.3%</b>	8.7%	8.0%	14.2%	9.2%
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q2-11</b>	<b>Q1-11</b>	<b>Q4-10</b>	<b>Q3-10</b>	<b>4Q Avg.</b>
<b>PCE</b>	<b>0.5</b>	1.5	2.5	1.9	1.6
<b>Business Investment</b>	<b>1.0</b>	0.2	0.8	1.0	0.8
<b>Residential Investment</b>	<b>0.1</b>	-0.1	0.1	-0.8	-0.2
<b>Inventories</b>	<b>-0.3</b>	0.3	-1.8	0.9	-0.2
<b>Government</b>	<b>-0.2</b>	-1.2	-0.6	0.2	-0.4
<b>Net Exports</b>	<b>0.2</b>	-0.3	1.4	-0.7	0.1

Source: Commerce Department