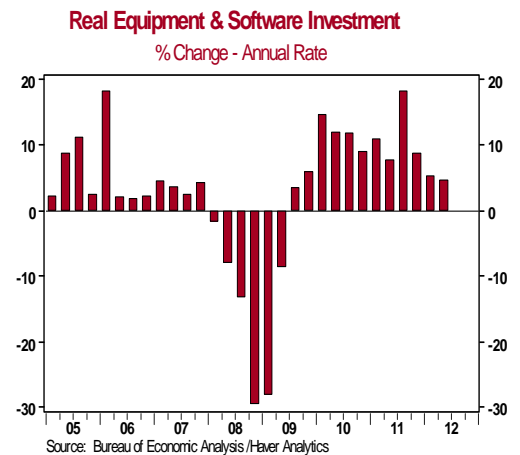


2nd Quarter GDP (Final)

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

- Real GDP growth in Q2 was revised down to a 1.3% annual rate versus a prior estimate of a 1.7% rate. The consensus had expected no change at 1.7%.
- Inventories, consumer spending, and net exports were each revised down slightly. Other components of GDP showed almost zero change.
- The largest positive contribution to the real GDP growth rate in Q2 came from consumer spending. The weakest component of real GDP was inventories.
- The GDP price index was unrevised at a 1.6% annualized rate of change. Nominal GDP growth – real GDP plus inflation – was revised down to a 2.8% annual rate versus a prior estimate of 3.3%. Nominal GDP is up 3.9% versus a year ago.

Implications: Real GDP growth in Q2 was revised down to a 1.3% annual rate from a prior estimate of 1.7%. Small downward revisions to inventories and consumer spending were the primary reasons for the change. We're still in a plow horse economy, with real GDP up 2.1% from a year ago. Real *private* final sales (real GDP excluding inventories and government) was up at a 2.3% annual rate in Q2 and up 3% from a year ago. The good news in today's report was that, due to profits from outside the US, overall corporate profits were revised up for Q2 and are now estimated to have grown at a 4.7% annual rate instead of a prior estimate of 2.2%. Because of the downward revision in real GDP growth, nominal GDP came in at a 2.8% annual growth rate in Q2, the slowest in more than a year. However, nominal GDP is still up 3.9% from a year ago and up at a 4% annual rate from two years ago, which means the Federal Reserve is too loose. In other news this morning, two good reports on the labor market. New claims for jobless benefits dropped 26,000 last week to 359,000. Continuing claims for regular state benefits declined 4,000 to 3.27 million. These and other figures suggest September nonfarm payrolls will be up 110,000 and private payrolls up 145,000. (Data next week from Intuit and ADP may alter these forecasts.) In addition, like it does every year, the BLS released a preliminary estimate of payroll revisions it will make in February 2013. The revisions show that the level of nonfarm payrolls in March 2012 will be revised up 386,000 while private payrolls will be revised up 453,000. New figures are based on more detailed data from state unemployment offices. At present, the old data show nonfarm payrolls were up 162,000/mnth in the year ending in March 2012. Today's revisions suggest this will be revised up to 194,000/mnth. Similarly, private payrolls, now estimated at 179,000/mnth, should be revised up to around 217,000/mnth. Note, however, that these revisions only change the pace of job creation for the year ending in March 2012, not recent months.



2nd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q2-12	Q1-12	Q4-11	Q3-11	4-Quarter Change
Real GDP	1.3%	2.0%	4.1%	1.3%	2.1%
GDP Price Index	1.6%	2.0%	0.4%	3.0%	1.7%
Nominal GDP	2.8%	4.2%	4.2%	4.3%	3.9%
PCE	1.5%	2.4%	2.0%	1.7%	1.9%
Business Investment	3.6%	7.5%	9.5%	19.0%	9.7%
Structures	0.6%	12.8%	11.5%	20.7%	11.2%
Equipment and Software	4.8%	5.4%	8.8%	18.3%	9.2%
Contributions to GDP Growth (p.pts.)	Q2-12	Q1-12	Q4-11	Q3-11	4Q Avg.
PCE	1.1	1.7	1.5	1.2	1.4
Business Investment	0.4	0.7	0.9	1.7	0.9
Residential Investment	0.2	0.4	0.3	0.0	0.2
Inventories	-0.5	-0.4	2.5	-1.1	0.2
Government	-0.1	-0.6	-0.4	-0.6	-0.4
Net Exports	0.2	0.1	-0.6	0.0	-0.1

Source: Commerce Department