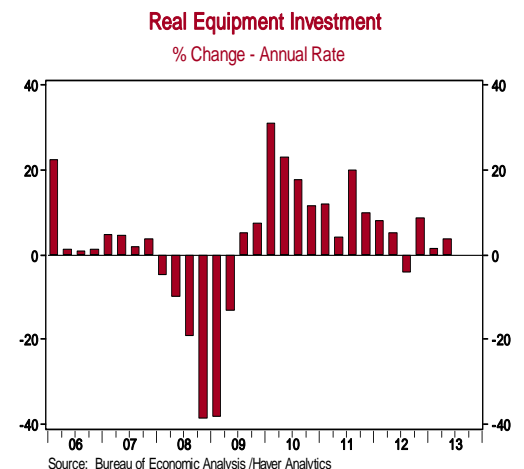


Second Quarter GDP (Advance)

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- The first estimate for Q2 real GDP growth is 1.7% at an annual rate, beating the 1.0% the consensus expected. Real GDP is up 1.4% from a year ago.
- The largest positive contributions to the Q2 real GDP growth rate were consumer spending and business investment. The largest drag, by far, was net exports.
- Personal consumption, business investment, and home building were all positive in Q2, growing at a combined rate of 2.6% annualized. Combined, they are up 2.4% in the past year.
- The GDP price index increased at a 0.7% annual rate in Q2. Nominal GDP – real GDP plus inflation – rose at a 2.4% rate in Q2 and is up 2.9% from a year ago and up at a 3.7% annual rate from two years ago.

Implications: Real GDP grew at a 1.7% annual rate in Q2, beating consensus expectations, but staying at a Plow Horse pace. We like to focus on real GDP growth outside of government, trade, and inventories and that measure grew at a moderate 2.6% pace in Q2. The more interesting news came from “benchmark revisions” some of which went back to 1929. Those revisions show the Great Recession was still big, but not quite as steep. New data also show the economy has grown slightly faster in the past three years (2010-12): 2.2% versus 2.0%. We’re now estimating real GDP growth will pick up in the second half of the year and grow about 3% in 2014. The Federal Reserve meets later today and nothing in the GDP report supports the case for aggressive monetary ease. Nominal GDP – real GDP plus inflation – is up at a 3.7% annual rate in the past two years, very close to the average of 3.9% per year over the past 10 years. This is too fast for a short-term interest rate target near zero and suggests a quick end to quantitative easing would not hurt the economy. We expect the Fed to announce tapering in September and announce the end of quantitative easing in March. In other news today, the ADP employment index says private payrolls increased 200,000 in July. Plugging this data into our models suggests the official Labor report (released Friday) will show a gain of 155,000 nonfarm and 159,000 private. The Chicago PMI, a regional measure of manufacturing sentiment, increased to 52.3 in July from 51.6 in June. Recent news on housing has been very good. The Case-Shiller index, which measures home prices in 20 key metro areas, showed a gain of 1% in May and 12.2% from a year ago. Recent gains have been led by San Francisco, Las Vegas, San Diego, and Detroit (yes, Detroit!). Pending home sales which are contracts to buy existing homes, declined 0.4% in June after rising 5.8% in May. These figures, combined, suggest a rebound in existing home closings in July.



2nd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q2-13	Q1-13	Q4-12	Q3-12	4-Quarter Change
Real GDP	1.7%	1.1%	0.1%	2.8%	1.4%
GDP Price Index	0.7%	1.3%	1.1%	2.3%	1.4%
Nominal GDP	2.4%	2.8%	1.6%	4.9%	2.9%
PCE	1.8%	2.3%	1.7%	1.7%	1.8%
Business Investment	4.6%	-4.6%	9.8%	0.3%	2.4%
Structures	6.8%	-25.7%	17.5%	5.9%	-0.3%
Equipment	4.0%	1.6%	8.9%	-3.9%	2.6%
Intellectual Property	3.9%	3.8%	5.7%	2.8%	4.0%
Contributions to GDP Growth (p.pts.)	Q2-13	Q1-13	Q4-12	Q3-12	4Q Avg.
PCE	1.2	1.5	1.1	1.2	1.3
Business Investment	0.6	-0.6	1.1	0.0	0.3
Residential Investment	0.4	0.3	0.5	0.4	0.4
Inventories	0.4	0.9	-2.0	0.6	0.0
Government	-0.1	-0.8	-1.3	0.7	-0.4
Net Exports	-0.8	-0.3	0.7	0.0	-0.1