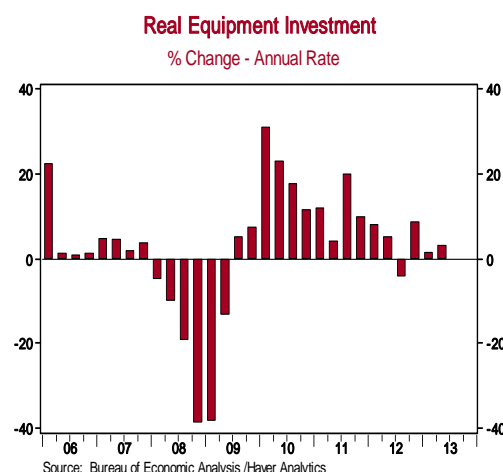


2nd Quarter GDP (Final)

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- Real GDP growth in Q2 was unrevised at a 2.5% annual rate, slightly below the consensus expected 2.6%.
- An upward revision for government purchases was offset by downward revisions for inventories and net exports. Other components of GDP were little revised.
- The largest positive contribution to the real GDP growth rate in Q2 came from consumer spending. The weakest components of real GDP were government purchases and net exports.
- The GDP price index was revised lower to a 0.6% annualized rate of change. Nominal GDP growth – real GDP plus inflation – was revised down to a 3.1% annual rate versus a prior estimate of 3.2%. Nominal GDP is up 3.1% versus a year ago.

Implications: Hold off on the GDP report for a moment. The biggest news today was that new claims for unemployment insurance declined 5,000 last week to 305,000. At 308,000, the four-week average of claims is now the lowest since mid-2007. So, a few weeks after a very large drop in claims was attributed to a computer glitch in two states, it now looks like much of the drop was actually due to greater strength in the labor market. The latest data also show continuing claims rose 35,000 to 2.82 million. Plugging all these figures into our payroll models suggests a September nonfarm gain of 210,000, which would be the largest increase in seven months. For GDP, we got another plow horse report for the second quarter, with the pace of real economic growth left unrevised at 2.5%, very close to the average annualized growth rate of 2.2% over the past two years. The best part of the report was that inventories were revised down slightly, leaving the “mix” of growth slightly better for future quarters. As a result, we’re raising our real GDP growth forecast for the third quarter to 1.5% (previously 1%). Beyond Q3, we expect the economy to pick up to an average growth rate of 3%. The worst part of today’s report was a downward revision to corporate profits. However, profits were still up at a 14% annual rate in Q2, the revision was small (-0.5%), and profits are still at a record high. Nominal GDP – real GDP growth plus inflation – grew at a 3.1% annual rate in Q2 and is up 3.1% from a year ago. In the past two years, nominal GDP is up at a 3.8% annual rate. All of these figures suggest the Federal Reserve does not need to keep the federal funds rate at zero and does not need to continue quantitative easing. In other news this morning, pending home sales, which are contracts on existing homes, declined 1.6% in August. This suggests existing home sales will decline a little in September after surging more than 8% in July/August.



2nd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q2-13	Q1-13	Q4-12	Q3-12	4-Quarter Change
Real GDP	2.5%	1.1%	0.1%	2.8%	1.6%
GDP Price Index	0.6%	1.3%	1.1%	2.3%	1.3%
Nominal GDP	3.1%	2.8%	1.6%	4.9%	3.1%
PCE	1.8%	2.3%	1.7%	1.7%	1.9%
Business Investment	4.7%	-4.6%	9.8%	0.3%	2.4%
Structures	17.6%	-25.7%	17.5%	5.9%	2.1%
Equipment	3.2%	1.6%	8.9%	-3.9%	2.4%
Intellectual Property	-1.5%	3.8%	5.7%	2.8%	2.7%
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	-0.1	-0.3	0.7	0.0	0.1