2nd Quarter GDP (Preliminary)

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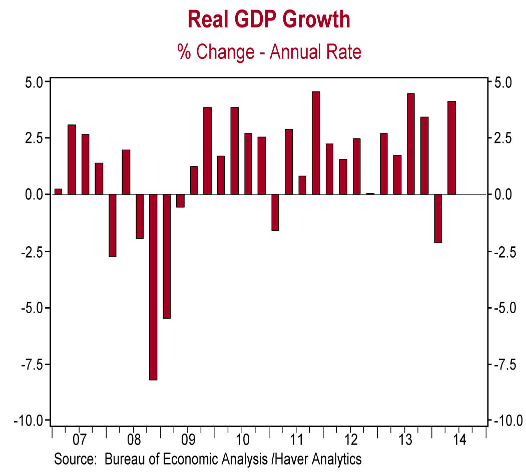
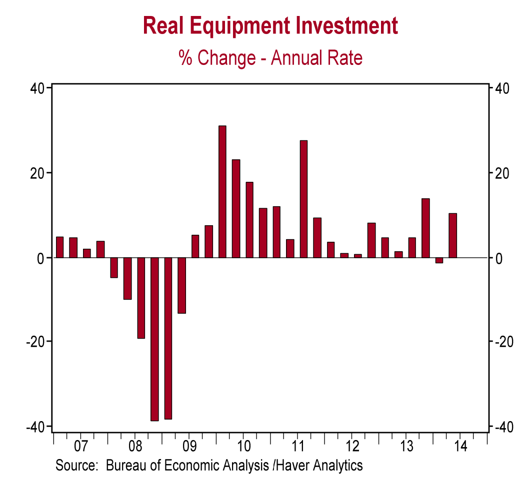
- Real GDP was revised to a 4.2% annual growth rate in Q2 from a prior estimate of 4.0%. The consensus had expected 3.9%.
- The largest source of the upward revision was business investment, with net exports also revised up. Inventories were revised down.
- The largest positive contributions to the real GDP growth rate in Q2 were personal consumption and inventories. The weakest component was net exports.
- The GDP price index was revised up to a 2.1% annual rate of change from a prior estimate of 2.0%. Nominal GDP growth – real GDP plus inflation – was revised up to a 6.4% annual rate from a prior estimate of 6.0%.

Implications: Real GDP is at an all-time record high. It already was before today's upward revision, but it's at a new high now after being revised from an original estimate of 4.0% to 4.2% annualized growth. The "mix' of growth in Q2 is now slightly better, with more business investment and net exports, while inventories were revised down, leaving more room for future growth. Most importantly, after declining in Q1, nominal GDP (real growth plus inflation) snapped back at a 6.4% rate in Q2, the fastest pace for any quarter since 2006. Nominal GDP is now up 4.2% from a year ago and up at a 3.7% annual rate in the past two years. These figures continue to signal that a federal funds rate of essentially zero makes monetary policy too loose. Also in today's GDP report was our first glimpse at economy-wide corporate profits, which rebounded 8% in Q2 after falling 9.4% in Q1. These profits numbers are calculated by government statisticians and include "capital consumption and inventory valuation adjustments." In the past two quarters, the BEA capital consumption adjustment, which converts depreciation from historical cost to replacement cost, has subtracted massively from profits. Excluding this adjustment, which doesn't affect cash flow, corporate profits are at a record high. And if you want to understand why inversions are the rage these days, with the exception of only one other quarter, taxes on corporate profits are the highest share of GDP since the 1970s. In other news this morning, new claims for jobless benefits declined 1,000 last week to 298,000. Continuing claims rose 25,000 to 2.53 million. Eight days away from the official Labor report, our payroll models are signaling an August gain of 202,000 nonfarm, 190,000 private, with upward revisions likely over subsequent months. The last piece of good news reported this morning was a 3.3% gain in pending homes sales in July after a 1.3% decline in June. Pending home sales are contracts on existing homes and these figures suggest existing home sales, which are counted at closing are up again in August.





2nd Quarter GDP Seasonally Adjusted Annual Rates	Q2-14	Q1-14	Q4-13	Q3-13	4-Quarter Change
Real GDP	**4.2%**	-2.1%	3.5%	4.5%	2.5%
GDP Price Index	**2.1%**	1.3%	1.5%	1.7%	1.7%
Nominal GDP	**6.4%**	-0.8%	5.0%	6.2%	4.2%
PCE	**2.5%**	1.2%	3.7%	2.0%	2.3%
Business Investment	**8.4%**	1.6%	10.4%	5.5%	6.4%
Structures	**9.5%**	2.9%	12.8%	11.1%	9.0%
Equipment	**10.7%**	-1.0%	14.1%	4.7%	7.0%
Intellectual Property	**4.5%**	4.7%	3.6%	2.8%	3.9%
Contributions to GDP Growth (p.pts.)	**Q2-14**	**Q1-14**	**Q4-13**	**Q3-13**	**4Q Avg.**
PCE	**1.7**	0.8	2.5	1.4	1.6
Business Investment	**1.0**	0.2	1.2	0.7	0.8
Residential Investment	**0.2**	-0.2	-0.3	0.3	0.0
Inventories	**1.4**	-1.2	-0.3	1.5	0.3
Government	**0.3**	-0.2	-0.7	0.0	-0.1
Net Exports	**-0.4**	-1.7	1.1	0.6	-0.1