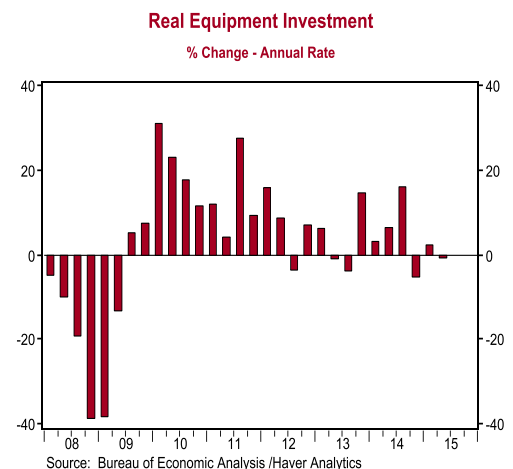
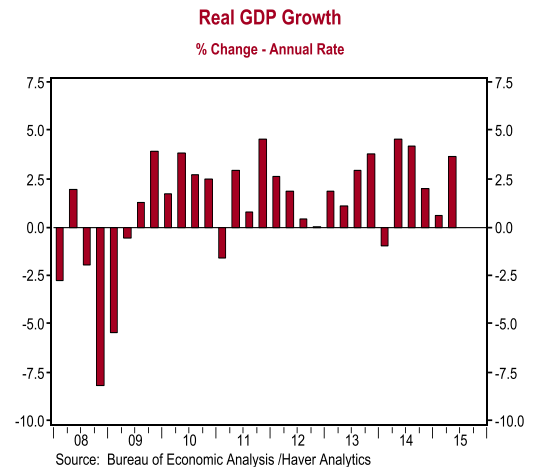


## 2<sup>nd</sup> Quarter GDP (Preliminary)

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- Real GDP was revised to a 3.7% annual growth rate in Q2 from a prior estimate of 2.3%, easily beating the consensus expected 3.2%.
- The largest source of the upward revision was business investment, but all major categories were revised higher.
- The largest positive contribution to the real GDP growth rate in Q2 was personal consumption, but almost all major components were up. The only negative component was business investment in equipment.
- 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 5.9% annual rate from a prior estimate of 4.4%.

**Implications:** If the Fed thinks the recent stock market correction makes the case for a September rate hike “less compelling”, then today’s GDP report should make it more compelling again. 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 to a 3.7% annualized growth rate in Q2 from an original estimate of 2.3%. Growth in Q2 beat even the highest estimate of all 79 economists who were surveyed. Nominal GDP (real growth plus inflation) snapped back at a 5.9% rate in Q2, is up 3.7% from a year ago and up at a 4.1% 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. We think the Fed should raise rates in September and still believe the Fed may pull the trigger on rate hikes as long as the stock market shows signs of recovery from the recent correction. All major categories for GDP were revised higher, with business investment leading the way. Business investment was originally reported down at a 0.6% annual rate but was revised to a growth rate of 3.2%. Also in today’s GDP report was our first glimpse at economy-wide corporate profits, which rose 2.4% in Q2 after falling 5.8% in Q1. These profits numbers are calculated by government statisticians and include “capital consumption and inventory valuation adjustments,” neither of which affect cash flow. 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 these adjustments, corporate profits are at a record high, both on a pre-tax basis and after-tax. That’s the fuel which is going to keep the Plow Horse economy moving along despite the growth in the size of government. In other news this morning, new claims for jobless benefits declined 6,000 last week to 271,000. Continuing claims rose 13,000 to 2.27 million. Plugging these figures into our models suggests August payrolls are up about 195,000. The last piece of news reported this morning was a 0.5% gain in pending homes sales in July after a 1.7% decline in June. Pending home sales are contracts on existing homes and these figures suggest existing home sales, which are counted at closing may slip a little in August after surging almost 10% in the prior three months.



<b>2nd Quarter GDP</b>	<b>Q2-15</b>	<b>Q1-15</b>	<b>Q4-14</b>	<b>Q3-14</b>	<b>4-Quarter Change</b>
<i>Seasonally Adjusted Annual Rates</i>					
<b>Real GDP</b>	<b>3.7%</b>	0.6%	2.1%	4.3%	<b>2.7%</b>
<b>GDP Price Index</b>	<b>2.1%</b>	0.1%	0.1%	1.6%	<b>1.0%</b>
<b>Nominal GDP</b>	<b>5.9%</b>	0.8%	2.2%	6.0%	<b>3.7%</b>
<b>PCE</b>	<b>3.1%</b>	1.7%	4.3%	3.5%	<b>3.1%</b>
<b>Business Investment</b>	<b>3.2%</b>	1.6%	0.7%	9.0%	<b>3.6%</b>
<b>Structures</b>	<b>3.2%</b>	-7.4%	4.2%	-1.8%	<b>-0.6%</b>
<b>Equipment</b>	<b>-0.4%</b>	2.3%	-4.9%	16.5%	<b>3.1%</b>
<b>Intellectual Property</b>	<b>8.6%</b>	7.4%	6.9%	6.5%	<b>7.3%</b>
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q2-15</b>	<b>Q1-15</b>	<b>Q4-14</b>	<b>Q3-14</b>	<b>4Q Avg.</b>
<b>PCE</b>	<b>2.1</b>	1.2	2.9	2.3	<b>2.1</b>
<b>Business Investment</b>	<b>0.4</b>	0.2	0.1	1.1	<b>0.5</b>
<b>Residential Investment</b>	<b>0.3</b>	0.3	0.3	0.1	<b>0.2</b>
<b>Inventories</b>	<b>0.2</b>	0.9	0.0	0.0	<b>0.3</b>
<b>Government</b>	<b>0.5</b>	0.0	-0.3	0.3	<b>0.1</b>
<b>Net Exports</b>	<b>0.2</b>	-1.9	-0.9	0.4	<b>-0.5</b>