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2nd Quarter GDP (Final)

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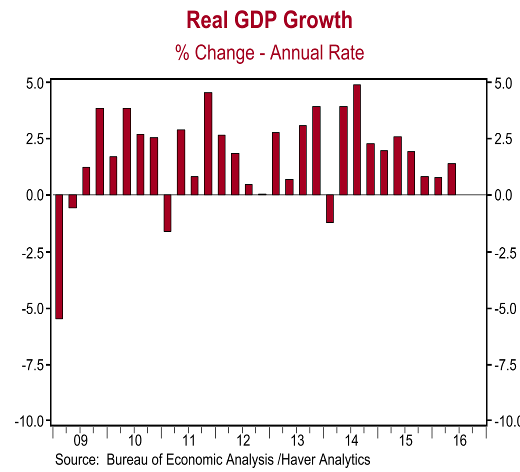
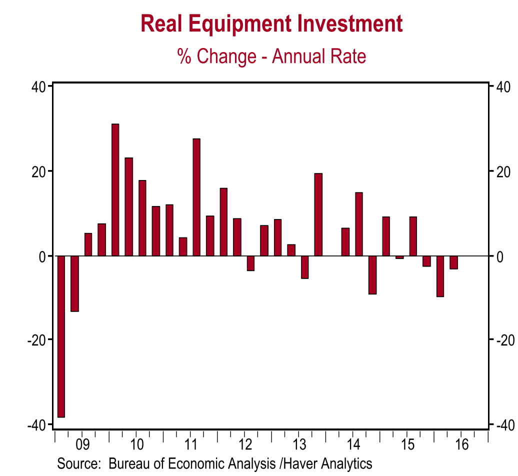
- Real GDP growth in Q2 was revised up to a 1.4% annual rate versus a prior estimate of 1.1%. The consensus expected 1.3%.
- The largest upward revisions were for business investment, inventories, and net exports.
- The largest positive contribution to the real GDP growth rate in Q2 came from consumer spending. The weakest component was business inventories.
- The GDP price index was unchanged at a 2.3% annual rate. Nominal GDP growth – real GDP plus inflation – rose to 3.7% from the prior estimate of 3.4%. Nominal GDP is up 2.5% versus a year ago.





Implications: Today's final GDP report for the second quarter showed a slightly faster pace of growth and a smaller decline in corporate profits compared to prior readings. Real GDP grew at a 1.4% annual rate in Q2 versus last month's estimate of 1.1% and the initial Q2 reading (from two months ago) of 1.2% annualized growth. The mix of revisions was positive as well, with business investment rising at a 1% annual rate, up from the 0.9% decline previously reported. Inventories and net exports were also revised higher in today's report, though they are less reliable contributors to long-term growth. "Core" real GDP, which strips out inventories, net exports, and government purchases rose at a healthy 3.2% annual rate in the second quarter and is up at a 2.9% annual rate in the past two years. And with just one day left in the third quarter, we're estimating that real GDP grew at around a 2.5% annual rate in Q3. Despite continued GDP growth, with unemployment under 5%, core inflation near 2%, and accelerating wage growth, the Fed keeps allowing market fluctuations and global factors to spook it away from taking the next step towards raising rates. This is a mistake that could cost the economy over time, just like low interest rates eventually caused problems in the housing sector in the previous decade. Nominal GDP growth – real GDP growth plus inflation – is up 2.5% from a year ago and up 3.3% annualized in the past two years, much too high for a short-term interest rates at or below 0.5%. A December rate hike looks likely, and today's report strengthens the case for a hike. In addition to the faster growth rate in the economy, today's report also provided a second look at overall corporate profits, and just like real GDP, the headline was revised higher. Corporate profits fell 0.6% in Q2, better than the originally reported decline of 1.2%. Although corporate profits fell in the second quarter and are down 4.3% from a year ago, this movement has been led by the energy sector and we expect these profits to rebound in the quarters ahead. In other news this morning, new claims for unemployment benefits rose 3,000 last week to 254,000, marking the 82nd consecutive week below 300,000. Continuing claims declined 46,000 to 2.06 million. Plugging these figures into our models suggests a September payroll gain in the 175,000 to 200,000 range, more than enough to keep the Fed on target for a December rate hike. On the housing front, pending home sales, which are contracts on existing homes, declined 2.4% in August after rising 1.2% in July. With declines in three of the past four months, don't be surprised if existing home sales, which are counted at closing, remain subdued in September.

2nd Quarter GDP Seasonally Adjusted Annual Rates	Q2-16	Q1-16	Q4-15	Q3-15	4-Quarter Change
Real GDP	**1.4%**	0.8%	0.9%	2.0%	1.3%
GDP Price Index	**2.3%**	0.5%	0.8%	1.3%	1.2%
Nominal GDP	**3.7%**	1.3%	1.8%	3.2%	2.5%
PCE	**4.3%**	1.6%	2.3%	2.7%	2.7%
Business Investment	**1.0%**	-3.4%	-3.3%	3.9%	-0.5%
Structures	**-2.1%**	0.1%	-15.2%	-4.3%	-5.6%
Equipment	**-3.0%**	-9.5%	-2.6%	9.1%	-1.7%
Intellectual Property	**9.0%**	3.8%	4.5%	2.1%	4.8%
Contributions to GDP Growth (p.pts.)	**Q2-16**	**Q1-16**	**Q4-15**	**Q3-15**	**4Q Avg.**
PCE	**2.9**	1.1	1.5	1.8	1.8
Business Investment	**0.1**	-0.4	-0.4	0.5	-0.1
Residential Investment	**-0.3**	0.3	0.4	0.4	0.2
Inventories	**-1.2**	-0.4	-0.4	-0.6	-0.6
Government	**-0.3**	0.3	0.2	0.3	0.1
Net Exports	**0.2**	0.0	-0.5	-0.5	-0.2