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Second Quarter GDP (Advance)

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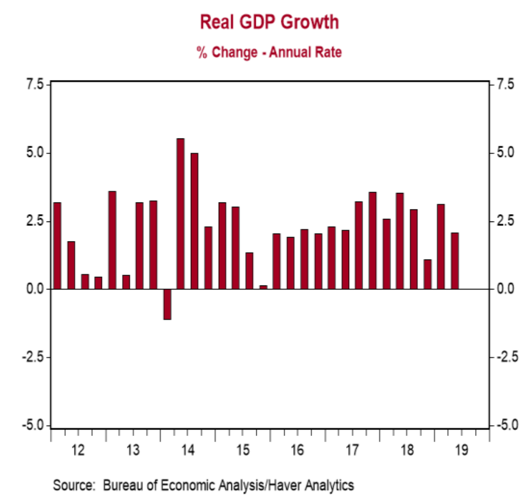
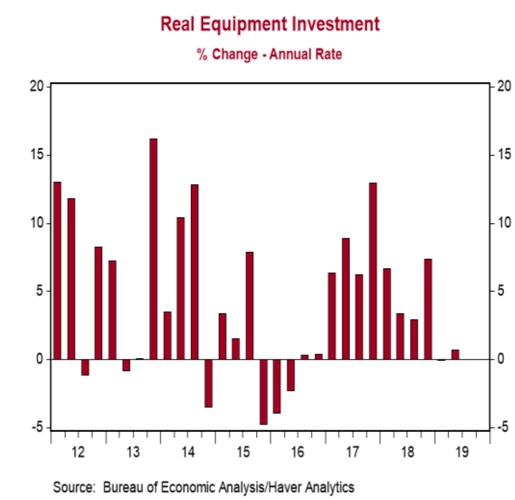
- The first estimate for Q2 real GDP growth is 2.1% at an annual rate, beating the consensus expected 1.8%. Real GDP is up 2.3% from a year ago.
- The largest positive contributions to real GDP growth in Q2 were consumer spending and government purchases. The largest drags were inventories and net exports.
- Personal consumption, business investment, and home building, combined, grew at a 3.2% annual rate in Q2 and are up 2.3% in the past year.
- The GDP price index increased at a 2.4% annual rate in Q2. Nominal GDP (real GDP plus inflation) rose at a 4.6% annual rate in Q2, is up 4.0% from a year ago, and up at a 5.0% annual rate from two years ago.

Implications: Real GDP was stronger than the consensus expected in the second quarter, growing at a 2.1% annual rate. This is consistent with our projection that real GDP will grow at close to a 3.0% annual rate in 2019 (Q4/Q4). The details on the second quarter were stronger than the headline, showing that what we call 'core GDP" – real growth in personal consumption, business investment, and home building, combined, grew at a 3.2% annual rate. Notably, inventories grew at a much slower pace in the second quarter, which was a temporary drag on real economic growth. Inventories may continue to be a drag on growth into the third quarter but should stop slowing GDP growth by late this year. In addition, today's report made mincemeat of the idea that the Federal Reserve needs to cut rates or should cut rates at next week's meeting. Nominal GDP – real GDP growth plus inflation – grew at a 4.6% annual rate in Q2, is up 4.0% from a year ago, and up at a 5.0% annual rate in the past two years, all figures well above the current federal funds rate of 2.375%. In particular, the GDP deflator, which measures prices for all components of GDP, increased at a 2.4% annual rate in Q2, adding to the list of data that have exceeded expectations since the last Fed meeting in June, including job growth, industrial production, and retail sales. If the Fed were really data dependent, it wouldn't be discussing a rate cut. Today's report on GDP was the one time every year that the government goes back and revises data for multiple years. The most interesting part of this year's changes were a significant downward revision to corporate profits and a similar upward revision to workers' incomes. However, our capitalized profits models still show that US equities are very cheap and don't suggest a reason to deviate from our year-end projection that the S&P 500 will hit 3250. The US economy is in excellent shape. Deregulation and lower tax rates have boosted economic growth and we expect continued healthy growth in the year ahead.





2nd Quarter GDP *Seasonally Adjusted Annual Rates*	**Q2-19**	**Q1-19**	**Q4-18**	**Q3-18**	**4-Quarter Change**
Real GDP	**2.1%**	3.1%	1.1%	2.9%	2.3%
GDP Price Index	**2.4%**	1.1%	1.6%	2.0%	1.8%
Nominal GDP	**4.6%**	3.9%	2.9%	4.8%	4.0%
PCE	**4.3%**	1.1%	1.4%	3.5%	2.6%
Business Investment	**-0.6%**	4.4%	4.8%	2.1%	2.7%
Structures	**-10.5%**	4.0%	-9.0%	-2.1%	-4.6%
Equipment	**0.7%**	-0.1%	7.4%	2.9%	2.7%
Intellectual Property	**4.6%**	10.9%	11.7%	4.1%	7.8%
Contributions to GDP Growth (p.pts.)	**Q2-19**	**Q1-19**	**Q4-18**	**Q3-18**	**4Q Avg.**
PCE	**2.9**	0.8	1.0	2.3	1.7
Business Investment	**-0.1**	0.6	0.6	0.3	0.4
Residential Investment	**-0.1**	0.0	-0.2	-0.2	-0.1
Inventories	**-0.9**	0.5	0.1	2.1	0.5
Government	**0.9**	0.5	-0.1	0.4	0.4
Net Exports	**-0.7**	0.7	-0.4	-2.1	-0.6

Source: Bureau or Economic Analysis