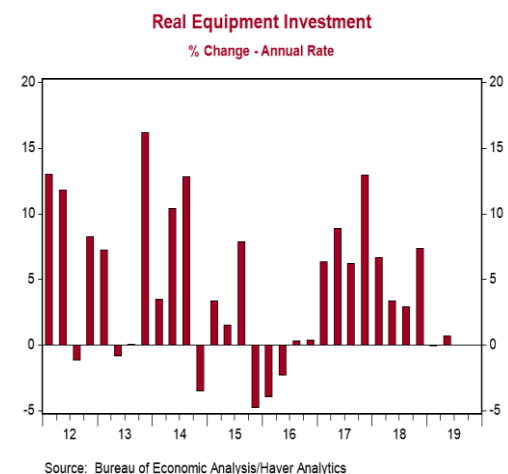
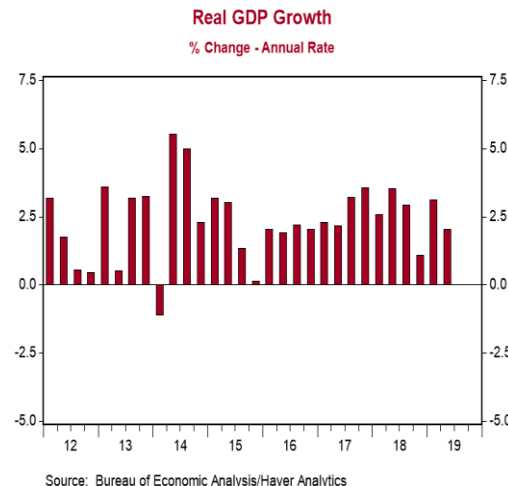


## 2<sup>nd</sup> Quarter GDP (Preliminary)

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- Real GDP was revised to a 2.0% annual growth rate in Q2 from a prior estimate of 2.1%, matching consensus expectations.
- The slight change was due to minor downward revisions in almost all major categories, which narrowly offset an upward revision to personal consumption.
- The largest positive contribution to the real GDP growth rate in Q2 was personal consumption. The largest drags were inventories and net exports.
- The GDP price index was unrevised at a 2.4% annual rate of change. Nominal GDP growth – real GDP plus inflation – was unrevised at a 4.6% annual rate.

**Implications:** Real GDP growth was revised modestly lower for the second quarter, but the “mix” of growth is now slightly more favorable for growth in future quarters. The second reading for Q2 real GDP growth was revised to a 2.0% annual rate from a prior estimate of 2.1%. Most major categories of GDP were revised lower, while personal consumption was revised higher to a 4.7% annual growth rate, the fastest pace since the fourth quarter of 2014. The mix of growth was more favorable for the future because “core” GDP was revised higher, to a 3.5% annual rate from a prior estimate of 3.2%. The best news in today’s report was that economy-wide corporate profits grew 5.3% in Q2 and are up 2.7% in the past year. The gain in Q2 was due to higher profits at domestic financial and nonfinancial companies, as well as profits from the rest of the world. Our capitalized profits model suggests US equities remain cheap, not only at today’s interest rates but even using a 10-year Treasury yield of 3.0%. Today’s report is also a reminder that the Federal Reserve has no reason to cut short-term interest rates. Nominal GDP growth (real growth plus inflation), was unchanged at a 4.6% annual growth rate in Q2. Nominal GDP is up 4.0% from a year ago and is up at a 5.0% annual rate in the past two years. These figures suggest no need for rate cuts. Nevertheless, expect at least a 25 basis point cut in September. In other news this morning, new claims for unemployment insurance rose 4,000 last week to 215,000. Continuing claims rose 22,000 to 1.698 million. These claims figures are both at very low levels, suggesting solid payroll growth in August. On the housing front today, pending home sales, which are contracts on existing homes, declined 2.5% in July after rising 2.8% in June. These figures suggest existing home sales, which are counted at closing, will be roughly unchanged in August. In other housing news from earlier this week, we continue to see a trend of rising prices, but more slowly than a year ago. The FHFA home price index increased 0.1% in June and is up 4.7% from a year ago, a deceleration from the 6.9% gain in the twelve months ending in June 2018. The Case-Shiller index of home prices increased 0.2% in June and is up 3.1% from a year ago, a notable deceleration from the 6.2% gain the year ending in June 2018. In the past twelve months the largest gains have been in Phoenix and Las Vegas, while Seattle was the only metro area with a drop in prices (-1.3%). On the manufacturing front, the Richmond Fed index, which measures mid-Atlantic factory sentiment, rose to +1 in August from -12 in July, moving back into growth territory.



2nd Quarter GDP Seasonally Adjusted Annual Rates	Q2-19	Q1-19	Q4-18	Q3-18	4-Quarter Change
Real GDP	2.0%	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	4.7%	1.1%	1.4%	3.5%	2.7%
Business Investment	-0.6%	4.4%	4.8%	2.1%	2.6%
Structures	-9.4%	4.0%	-9.0%	-2.1%	-4.3%
Equipment	0.7%	-0.1%	7.4%	2.9%	2.7%
Intellectual Property	3.6%	10.9%	11.7%	4.1%	7.5%
Contributions to GDP Growth (p.pts.)	Q2-19	Q1-19	Q4-18	Q3-18	4Q Avg.
PCE	3.1	0.8	1.0	2.3	1.8
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	0.8	0.5	-0.1	0.4	0.4
Net Exports	-0.7	0.7	-0.4	-2.1	-0.6

Source: Bureau of Economic Analysis