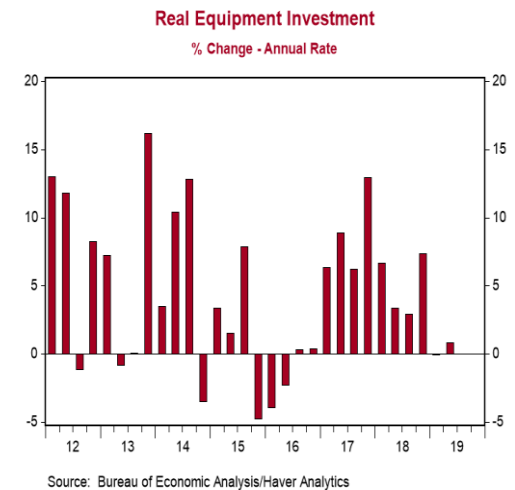
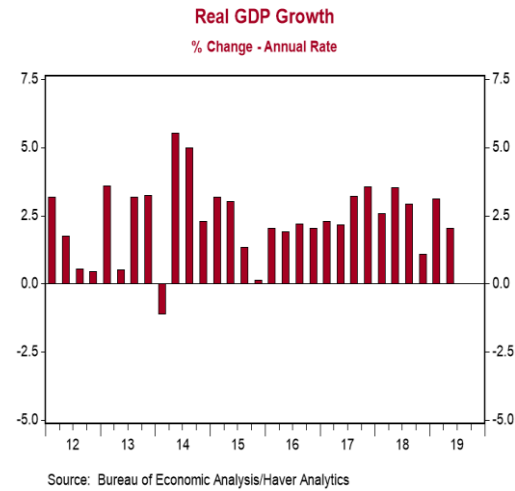


2nd Quarter GDP (Final)

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- Real GDP growth in Q2 was unrevised, coming in at a 2.0% annual rate, matching consensus expectations.
- Small downward revisions to consumer spending and business investment were offset by small upward revisions to government spending and net exports.
- The largest positive contribution to the real GDP growth rate in Q2 came from consumer spending. The weakest component was inventories.
- The GDP price index was unrevised at a 2.4% annual rate. Nominal GDP growth – real GDP plus inflation – rose at a 4.7% annual rate, up from the prior estimate of 4.6%. Nominal GDP is up 4.0% versus a year ago.

Implications: Today’s final GDP report for the second quarter showed the same moderate 2.0% annualized pace of growth that was estimated last month, but with a smaller increase in corporate profits compared to prior readings. The mix of revisions from the previous estimate were slightly less positive, as consumer spending and business investment on structures were revised slightly lower, while government spending and net exports were revised slightly higher. “Core” real GDP, which strips out inventories, net exports, and government purchases, rose at a healthy 3.3% annual rate in the second quarter and is up at a 3.0% annualized rate in the past two years. And with just a few days left in September, we’re estimating that real GDP again grew at around a 2.0% annual rate in Q3. Today’s reading on growth, an unemployment rate at 3.7%, and inflation readings hovering over 2% all show that the market’s signaling of an additional rate cut most likely in December is unwarranted. Nominal GDP growth – real GDP growth plus inflation – is up 4.0% from a year ago, and up 5.0% annualized in the past two years, much too high for short-term interest rates below 2.0%. In addition to the solid growth rate in the economy, today’s report also provided a second look at economy-wide corporate profits. But unlike the GDP reading, corporate profits were revised lower. Profits rose 3.8% in Q2 compared to the previously estimated increase of 5.3%. Still, profits are up 1.3% in the past year. Plugging this data into our capitalized profits model suggests that, even with 10-year Treasury rates at 3.0% (compared to sub-1.7% rates today), stocks are still cheap. As a whole, economic growth in Q2 was solid, and Q3 looks likely to continue this trend. In other news this morning, new claims for unemployment benefits rose 3,000 last week to 213,000, while continuing claims declined 15,000 to 1.65 million. With a few days left in September, we are expecting a payroll gain of around 150,000 for the month.



2nd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	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	4.7%	3.9%	2.9%	4.8%	4.0%
PCE	4.6%	1.1%	1.4%	3.5%	2.6%
Business Investment	-1.0%	4.4%	4.8%	2.1%	2.6%
Structures	-11.1%	4.0%	-9.0%	-2.1%	-4.8%
Equipment	0.8%	-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	3.0	0.8	1.0	2.3	1.8
Business Investment	-0.1	0.6	0.6	0.3	0.3
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