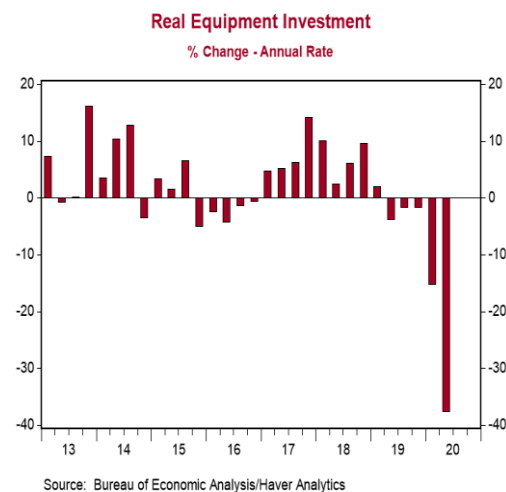
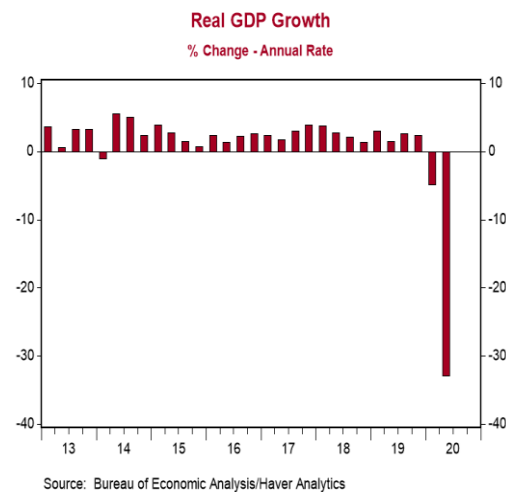


Second Quarter GDP (Advance)

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- The first estimate for Q2 real GDP growth is -32.9% at an annual rate, slightly better than the consensus expected -34.5%. Real GDP is down 9.5% from a year ago.
- The largest negative contribution to real GDP growth in Q2 was consumer spending on services. Government purchases and net exports made positive contributions to real GDP.
- Personal consumption, business investment, and home building, combined, shrank at a 33.7% annual rate in Q2 and are down 10.2% in the past year.
- The GDP price index declined at a 1.8% annual rate in Q2. Nominal GDP (real GDP plus inflation) dropped at a 34.3% annual rate in Q2, is down 9.0% from a year ago, and is down at a 2.8% annual rate versus two years ago.

Implications: Like pretty much everyone expected, real GDP plunged in the second quarter at the fastest pace since the Great Depression. The initial tally is that real GDP fell at a 32.9% annual rate. To put this in perspective, previously, the worst quarter since the immediate military wind-down following World War II was the first quarter of 1958, when real GDP fell at a 10.0% annual rate, and when, not by coincidence, the US was hit by the Asian Flu. The weakest sector of the economy in Q2, by far, was consumer spending on services, with recreation down at a 93.5% annual rate, transportation down at an 83.9% rate, food services and hotels down at a 81.2% rate, and health care down at a 62.7% rate. But that's not all! Business fixed investment (equipment, structures, and intellectual property, combined) dropped at a 27.0% annual rate while home building fell at a 38.7% annual rate. Inventories fell steeply, too, although not as much as expected. However, it's important to recognize that all of this is in the rearview mirror and we anticipate real GDP growth at around a 15% annual rate for Q3, which would be the fastest quarterly pace in more than 40 years. Note that we will get a very rapid pace of recovery for Q3 even if the pace of growth falters on monthly basis moving forward. Why? Because the level of economic activity was so much higher at the end of Q2 (in June) than it was on average in Q2. Because of the rebound in May and June, for example, if industrial production is unchanged in July, August and September, the Q3 average will still be up at a 17.2% annual rate versus the Q2 average. Still, a full economic recovery is a long way off; we don't anticipate an unemployment rate below 4.0% until 2023 or 2024. In other recent news, initial jobless claims rose 12,000 last week to 1.434 million; continuing claims for regular benefits rose 867,000 to 17.02 million. These figures suggest the pace of recovery has slowed but still suggest positive job creation in July as well as a lower unemployment rate. For the factory sector, the Richmond Fed index rose to 10 in July, the highest since January, from zero in June. On the housing front, the national Case-Shiller home price index rose 0.1% in May and is up 4.5% from a year ago, an acceleration from the 3.4% gain in the year ending in May 2019. In the past twelve months, prices were up the most in Phoenix and Seattle, up the least in Chicago. Pending home sales, which are contracts signed on existing homes, increased 16.6% in June after a 44.3% gain in May, suggesting a massive gain in existing home closings in July. All is not well with the US economy; far from it. But it is generally headed in a better direction.



2nd Quarter GDP Seasonally Adjusted Annual Rates	Q2-20	Q1-20	Q4-19	Q3-19	4-Quarter Change
Real GDP	-32.9%	-5.0%	2.4%	2.6%	-9.5%
GDP Price Index	-1.8%	1.4%	1.4%	1.5%	0.6%
Nominal GDP	-34.3%	-3.4%	3.9%	4.0%	-9.0%
PCE	-34.6%	-6.9%	1.6%	2.7%	-10.7%
Business Investment	-27.0%	-6.7%	-0.3%	1.9%	-8.8%
Structures	-34.9%	-3.7%	-5.3%	3.6%	-11.5%
Equipment	-37.7%	-15.2%	-1.7%	-1.7%	-15.5%
Intellectual Property	-7.2%	2.4%	4.7%	5.3%	1.2%
Contributions to GDP Growth (p.pts.)	Q2-20	Q1-20	Q4-19	Q3-19	4Q Avg.
PCE	-25.1	-4.8	1.1	1.8	-6.7
Business Investment	-3.6	-0.9	0.0	0.3	-1.1
Residential Investment	-1.8	0.7	0.2	0.2	-0.2
Inventories	-4.0	-1.3	-0.8	-0.1	-1.6
Government	0.8	0.2	0.4	0.4	0.5
Net Exports	0.7	1.1	1.5	0.0	0.8

Source: Bureau of Economic Analysis