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September 30, 2021 • 630.517.7756 • www.ftportfolios.com

2nd Quarter GDP (Final)

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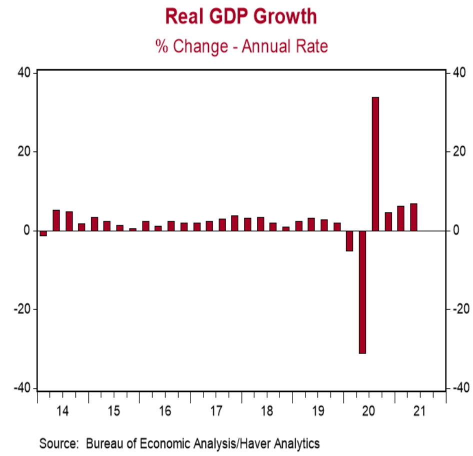
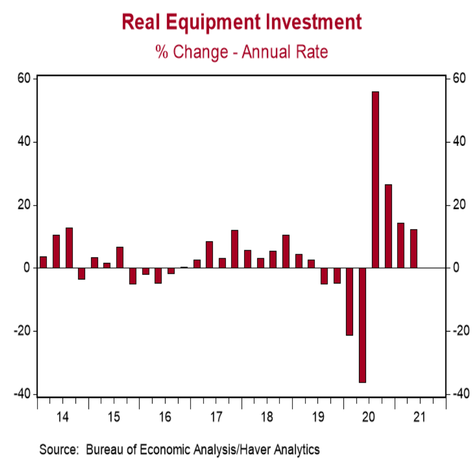
- Real GDP growth in Q2 was revised up to a 6.7% annual rate from a prior estimate of 6.6%, coming in slightly better than the consensus expected 6.6%.
- Slight upward revisions to consumer spending, net exports, and inventories more than offset slight downward revisions to business investment, residential investment, and government purchases.
- The largest positive contributions to the real GDP growth rate in Q2 were consumer spending and business investment. The weakest component was inventories.
- The GDP price index was unrevised at a 6.1% annual growth rate. Nominal GDP growth – real GDP plus inflation – was revised up to a 13.4% annual rate from a prior estimate of 13.2%.





Implications: Today's third report on Q2 real GDP was largely unrevised from the second reading a month ago, showing a 6.7% annualized surge in growth. Looking at the details on revisions, personal consumption, business investment in equipment, commercial construction, net exports, and inventories were revised slightly higher, while business investment in intellectual property, home building, and government purchases were all revised slightly lower. Consumer spending was the biggest driver of growth in Q2, with spending rising at a 12.0% annual rate. Meanwhile, businesses ramped up investment in intellectual property and equipment, which rose at annual rates of 12.5% and 12.2%, respectively. This should help spur future growth in productivity. The largest drag on real GDP growth in Q2 remained inventories, which fell as businesses with supply-chain issues met increased demand by lightening up on goods on their shelves and in their showrooms. In turn, this leaves more room for future growth as companies strive to replenish inventories in the year ahead. The best news today was on economy-wide Q2 corporate profits, which were revised slightly higher as well to a record high. Profits rose 10.5% from the first quarter and are now up 45.1% from a year ago. Profits rose at both domestic non-financial corporations and domestic financial corporations, but were down slightly from operations abroad. 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 2.0%. Notably, corporate profits have already made a V-shaped recovery from the plunge last year as the pandemic was first erupting in the US. In other news this morning, initial unemployment claims rose 11,000 last week to 362,000. Continuing claims declined 18,000 to 2.802 million. In other recent news, on the housing front, the national Case-Shiller index rose 1.5% in July and is up 19.7% versus a year ago, once again the fastest 12-month increase on record (dating back to 1975). Price gains were led by Phoenix and San Diego, with the slowest gains in Chicago and Minneapolis. The FHFA index, which tracks homes financed by conforming mortgages, rose 1.4% in July and is up 19.2% in the past year, the largest twelve-month increase since records began in 1991. Finally, pending home sales, which are contracts on existing homes, increased 8.1% in August after a 2.0% drop in July, signaling an increase in existing home sales (counted at closing) in September. In manufacturing news, the Richmond Fed Manufacturing Index, which measures mid-Atlantic manufacturing sentiment, fell unexpectedly to -3 in September from 9 in August. Meanwhile, the Chicago PMI – a measure of factory sentiment in that region – declined to a still-solid 64.7 in September versus 66.8 in August. Plugging these figures into our models suggests tomorrow's national ISM index will show a modest decline, but still signal solid growth.

2nd Quarter GDP Seasonally Adjusted Annual Rates	Q2-21	Q1-21	Q4-20	Q3-20	4-Quarter Change
Real GDP	**6.7%**	6.3%	4.5%	33.8%	12.2%
GDP Price Index	**6.1%**	4.3%	2.2%	3.6%	4.1%
Nominal GDP	**13.4%**	10.9%	6.6%	38.7%	16.8%
PCE	**12.0%**	11.4%	3.4%	41.4%	16.2%
Business Investment	**9.2%**	12.9%	12.5%	18.7%	13.3%
Structures	**-3.0%**	5.4%	-8.2%	-15.3%	-5.6%
Equipment	**12.2%**	14.1%	26.5%	55.9%	26.0%
Intellectual Property	**12.5%**	15.6%	10.2%	8.0%	11.6%
Contributions to GDP Growth (p.pts.)	**Q2-21**	**Q1-21**	**Q4-20**	**Q3-20**	**4Q Avg.**
PCE	**7.9**	7.4	2.3	25.5	10.8
Business Investment	**1.2**	1.7	1.6	2.7	1.8
Residential Investment	**-0.6**	0.6	1.3	2.2	0.9
Inventories	**-1.3**	-2.6	1.1	6.8	1.0
Government	**-0.4**	0.8	-0.1	-0.2	0.0
Net Exports	**-0.2**	-1.6	-1.7	-3.3	-1.7

Source: Bureau or Economic Analysis