First Trust
Monday Morning OUTLOOK

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630-517-7756 • www.ftportfolios.com July 22, 2024

Moderate Growth in Q2

There are signs US economic growth is slowing down. In particular, jobless claims, perhaps the best high-frequency economic indicator, have averaged 235,000 per week in the last four weeks versus 211,000 in the first quarter. Meanwhile, continuing jobless claims are creeping up while overall retail sales are up a meager 0.2% in the past six months, slower than the pace of inflation.

The US is not in a recession at this point but higher claims and soft sales, along with a renewed deceleration in inflation (consumer prices ticked down 0.1% in June), suggest that the drop in the M2 measure of the money supply from early 2022 through late 2023 is finally gaining traction.

We may also be witnessing the end of the temporary and artificial impact of last year's surge in the budget deficit. In the absence of the Supreme Court's decision to overturn much of President's Biden's plan to forgive student loans, the budget deficit would have been 7.5% of GDP last year. That's well larger than any year on record when the US was not engaged in a World War and the unemployment rate was below 4.0%.

We estimate that Real GDP expanded at a 2.1% annual rate in the second quarter, mostly accounted for by an increase in consumer spending. (This estimate is not yet set in stone; reports Wednesday about international trade and inventories might lead to an adjustment.)

Consumption: "Real" (inflation-adjusted) retail sales outside the auto sector grew at only a 0.3% annual rate in Q2 but auto sales rebounded at a 9.8% rate. Meanwhile, it looks like real services, which makes up most of consumer spending, grew at a 2.1% pace. Putting it all together, we estimate that real consumer spending on goods and services, combined, increased at a 2.1% rate, adding 1.4 points to the real GDP growth rate (2.1 times the consumption share of GDP, which is 68%, equals 1.4).

Business Investment: We estimate a 1.7% growth rate for business investment, with gains in intellectual property leading the way, while commercial construction declined slightly. A 1.7% growth rate would add 0.2 points to real GDP growth. (1.7 times the 14% business investment share of GDP equals 0.2).

Home Building: Residential construction grew in the second quarter in spite of some lingering pain from higher mortgage rates. Home building looks like it grew at a 4.9% rate, which would add 0.2 points to real GDP growth. (4.9 times the 4% residential construction share of GDP equals 0.2).

Government: Only direct government purchases of goods and services (not transfer payments) count when calculating GDP. We estimate these purchases were up at a 1.7% rate in Q2, which would add 0.3 points to the GDP growth rate (1.7 times the 17% government purchase share of GDP equals 0.3).

Trade: Looks like the trade deficit expanded in Q2, as exports grew but imports grew much faster. In government accounting, a larger trade deficit means slower growth, even if exports and imports both grew. We're projecting net exports will subtract 0.8 points from real GDP growth.

Inventories: Inventory accumulation looks like it picked up in Q2 relative to Q1, translating into what we estimate will be a 0.8 point addition to the growth rate of real GDP.

Add it all up, and we get a 2.1% annual real GDP growth rate for the second quarter. Good news compared to a recession but not a great starting point if a tighter monetary policy starts to bite harder.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
7-23 / 9:00 am	Existing Home Sales – Jun	3.990 Mil	**3.950 Mil**		4.110 Mil
7-24 / 9:00 am	New Home Sales – Jun	0.640 Mil	**0.632 Mil**		0.619 Mil
7-25 / 7:30 am	Initial Claims – Jul 22	238K	**239K**		243K
7:30 am	Q2 GDP Advance Report	+1.9%	**+2.1%**		+1.4%
7:30 am	Q2 GDP Chain Price Index	+2.6%	**+2.5%**		+3.1%
7:30 am	Durable Goods – Jun	+0.5%	**-3.5%**		+0.1%
7:30 am	Durable Goods (Ex-Trans) – Jun	+0.2%	**+0.3%**		-0.1%
7-26 / 7:30 am	Personal Income – Jun	+0.4%	**+0.4%**		+0.5%
7:30 am	Personal Spending – Jun	+0.3%	**+0.3%**		+0.2%