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Second Quarter GDP (Advance)

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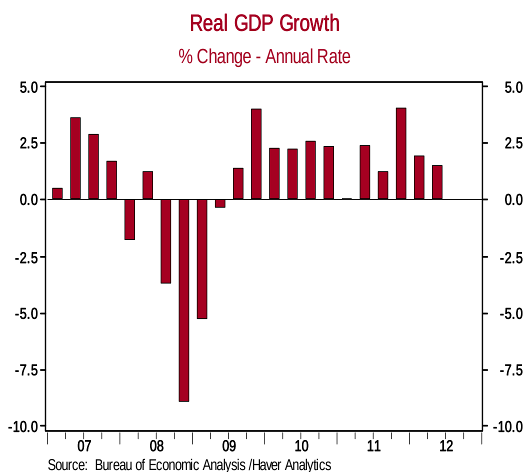
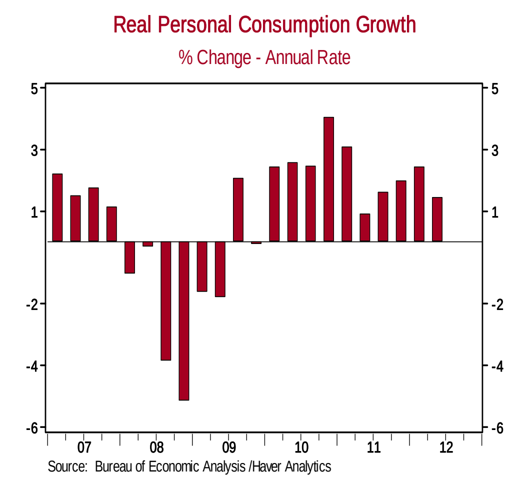
- The first estimate for Q2 real GDP growth is 1.5% at an annual rate, almost exactly the 1.4% the consensus expected.
- The largest positive contribution to the real GDP growth rate was personal consumption, followed by business investment in equipment & software.
- The weakest components of real GDP were net exports and government purchases, each of which reduced the real GDP growth rate by 0.3 points.
- The GDP price index increased at a 1.6% annual rate in Q2. Nominal GDP – real GDP plus inflation – rose at a 3.1% rate in Q2 and is up 3.9% from a year ago.

Implications: The plow horse economy rolls on, with real GDP growth still hovering in a tepid limbo, rather than strong growth or recession. Real GDP grew at a 1.5% annual rate in the second quarter, right in-line with consensus expectations. We've been tracking real "private" GDP (real GDP excluding government purchases), which grew at a 2.2% annual rate in Q2 and is up 3.3% in the past year. The brightest spot in the report was that home building increased at a 9.7% annual rate in Q2, the fifth consecutive quarterly increase. Today's report included "benchmark" revisions to GDP data over the past few years, including upward revisions to the pace of growth in 2009 and 2011 and a downward revision to 2010. So for example, as of yesterday the government was saying real GDP only grew 2% in the year ending in the first quarter; now it shows growth of 2.4% in the same period. Corporate profits were revised down for the past few years, all due to domestic firms. However, the growth rate of profits in the past year was revised upward. Meanwhile, labor compensation, particularly fringe benefits, were revised upward. In terms of income, about 0.5% of the economy was shifted from corporate profits to worker compensation. More immediately relevant to policymakers, we find no justification for a third round of quantitative easing in today's report. The benchmark revisions moved nominal GDP slightly upward and that figure is up 3.9% in the past year and up at a 4% annual rate in the past two years. These are not that far from the Federal Reserve's long-run outlook of a 4.5% growth rate for nominal GDP and much too fast for a short-term interest rate target near zero percent. Getting the economy growing faster requires changes to fiscal and regulatory policy, not monetary policy.





2nd Quarter GDP Seasonally Adjusted Annual Rates	Q2-12	Q1-12	Q4-11	Q3-11	4-Quarter Change
Real GDP	**1.5%**	2.0%	4.1%	1.3%	2.2%
GDP Price Index	**1.6%**	2.0%	0.4%	3.0%	1.7%
Nominal GDP	**3.1%**	4.2%	4.2%	4.3%	3.9%
PCE	**1.5%**	2.4%	2.0%	1.7%	1.9%
Business Investment	**5.4%**	7.5%	9.5%	19.0%	10.2%
Structures	**0.9%**	12.8%	11.5%	20.7%	11.3%
Equipment and Software	**7.2%**	5.4%	8.8%	18.3%	9.8%
Contributions to GDP Growth (p.pts.)	**Q2-12**	**Q1-12**	**Q4-11**	**Q3-11**	**4Q Avg.**
PCE	**1.1**	1.7	1.5	1.2	1.4
Business Investment	**0.5**	0.7	0.9	1.7	1.0
Residential Investment	**0.2**	0.4	0.3	0.0	0.2
Inventories	**0.3**	-0.4	2.5	-1.1	0.3
Government	**-0.3**	-0.6	-0.4	-0.6	-0.5
Net Exports	**-0.3**	0.1	-0.6	0.0	-0.2

Source: Commerce Department