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2nd Quarter GDP (Preliminary)

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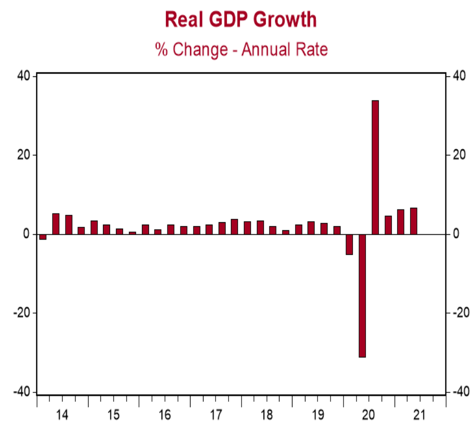
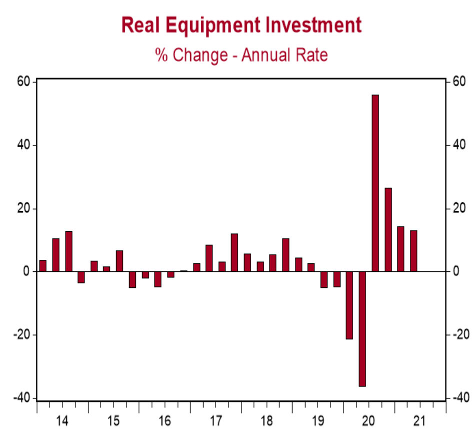
- Real GDP growth in Q2 was revised up to a 6.6% annual rate from a prior estimate of 6.5%, narrowly missing the consensus expected revision to 6.7%.
- Upward revisions to net exports and business investment more than offset downward revisions to inventories and residential investment.
- The largest 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 revised up slightly to a 6.1% annual growth rate from a prior estimate of 6.0%. Nominal GDP growth – real GDP plus inflation – was revised up to a 13.2% annual rate from a prior estimate of 13.0%.





Source: Bureau of Economic Analysis/Haver Analytics

Implications: Today's second report on Q2 real GDP was largely unrevised from the first reading a month ago, showing a 6.6% annualized surge in growth largely due to the rollout of vaccines, fewer restrictions on business activity, and massive government stimulus. Looking at the details on revisions, goods consumption, net exports and business investment in intellectual property were revised higher, while inventories, services consumption, business investment in equipment and software, and government purchases were all revised slightly lower. Consumer spending was the biggest driver of growth in Q2, with spending rising at an 11.9% annual rate. Meanwhile, businesses ramped up investment in intellectual property, which rose at an annual rate of 14.6% and which should help spur future growth in productivity. The largest drag on real GDP growth in Q2 remained inventories. Inventories 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 getting our first look at economy-wide Q2 corporate profits, which rose 9.2% from the first quarter and are up 43.4% from a year ago. Profits rose at both domestic non-financial corporations and domestic financial corporations as well as profits 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. With widespread access to a vaccine, the economy growing, and consumers flush with government stimulus money, expect profits to grow and to continue to hit new record high later in 2021. In other news this morning, initial unemployment claims rose 4,000 last week to 353,000. Continuing claims declined 3,000 to 2.862 million. These figures are consistent with strong job growth in August as excess unemployment benefits near their end.

2nd Quarter GDP Seasonally Adjusted Annual Rates	Q2-21	Q1-21	Q4-20	Q3-20	4-Quarter Change
Real GDP	**6.6%**	6.3%	4.5%	33.8%	12.2%
GDP Price Index	**6.1%**	4.3%	2.2%	3.6%	4.1%
Nominal GDP	**13.2%**	10.9%	6.6%	38.7%	16.7%
PCE	**11.9%**	11.4%	3.4%	41.4%	16.2%
Business Investment	**9.3%**	12.9%	12.5%	18.7%	13.3%
Structures	**-5.4%**	5.4%	-8.2%	-15.3%	-6.2%
Equipment	**11.6%**	14.1%	26.5%	55.9%	25.9%
Intellectual Property	**14.6%**	15.6%	10.2%	8.0%	12.1%
Contributions to GDP Growth (p.pts.)	**Q2-21**	**Q1-21**	**Q4-20**	**Q3-20**	**4Q Avg.**
PCE	**7.8**	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	**-0.3**	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

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