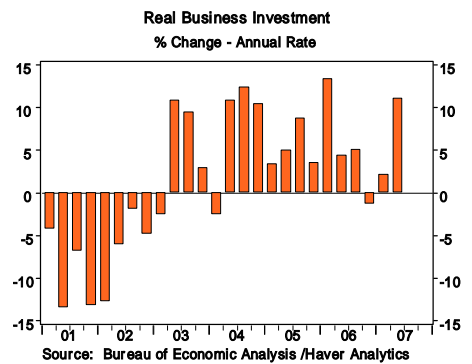
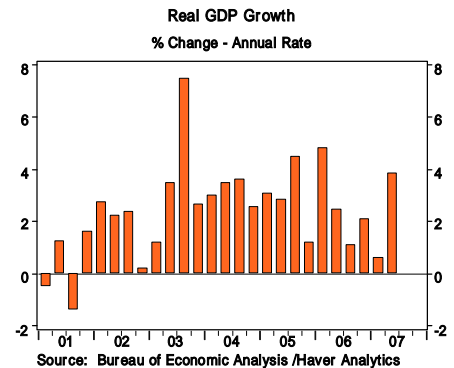


2ND QUARTER GDP (FINAL)

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA
Economic Research Analyst – Trevor D. Scott

- Real GDP in Q2 was revised slightly downward to show 3.8% growth at an annual rate versus the 4.0% reported last month. The consensus expected 3.8%.
- Net exports were the key source of the revision to the top line number, contributing 1.3 percentage points to real GDP growth rather than the 1.4 points reported a month ago. The housing sector was still the largest drag on GDP growth in Q2. Without housing, real GDP grew at a 4.6% rate in Q2.
- The GDP price index was revised to a 2.6% annual growth rate from the 2.7% reported last month. Nominal GDP growth – real GDP plus inflation – grew at a 6.6% rate.



Implications: Today's GDP report contains minimal new information. Economic growth was strong in the second quarter, led by exports and business investment. Corporate profits increased at a 26.8% annual rate in Q2, the fastest since early 2006, mostly due to a rebound in profits at domestic financial companies. The more important economic report released earlier this morning showed initial claims for jobless benefits dropped to 298,000 last week, the lowest since May. Although continuing claims rose 11,000 to 2.551 million, this level of claims is 22,000 lower than last month, suggesting a solid jobs report for September (to be released Friday, October 5) with payroll growth well over 100,000.

2nd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q2-07	Q1-07	Q4-06	Q3-06	4 Quarter Change
Real GDP	3.8%	0.6%	2.1%	1.1%	1.9%
GDP Price Index	2.6%	4.2%	1.7%	2.4%	2.7%
Nominal GDP	6.6%	4.9%	3.8%	3.4%	4.7%
PCE	1.4%	3.7%	3.9%	2.7%	2.9%
Business Investment	11.0%	2.1%	-1.4%	5.1%	4.1%
Structures	26.2%	6.3%	7.5%	10.8%	12.4%
Equipment and Software	4.7%	0.3%	-4.9%	2.9%	0.7%
Contributions to GDP Growth (p.pts.)	Q2-07	Q1-07	Q4-06	Q3-06	4Q Avg.
PCE	1.0	2.6	2.7	1.9	2.0
Business Investment	1.1	0.2	-0.2	0.5	0.4
Residential Investment	-0.6	-0.9	-1.0	-1.3	-1.0
Inventories	0.2	-0.7	-1.3	0.1	-0.4
Government	0.8	-0.1	0.7	0.1	0.4
Net Exports	1.3	-0.5	1.3	-0.3	0.5