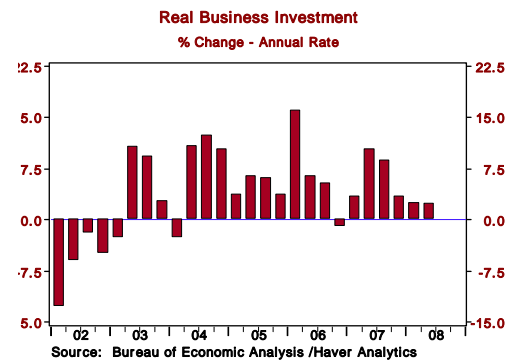
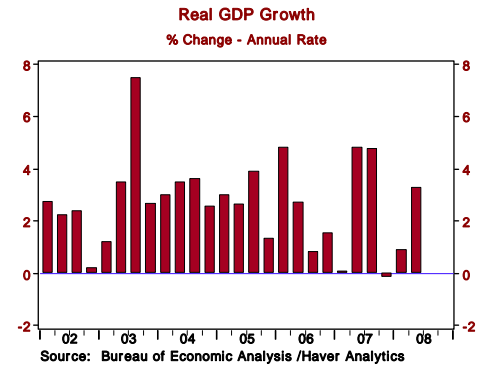


2ND QUARTER GDP (PRELIM)

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- Real GDP was revised up to a 3.3% annual growth rate in Q2 versus an originally estimated 1.9%. The upward revision exceeded consensus expectations. Real GDP is up 2.2% versus a year ago.
- The largest upward revisions were for net exports, which added 3.1 points to real GDP growth rather than the original estimate of 2.4, and inventories, which subtracted 1.4 points from the growth rate rather than the original estimate of -1.9. No major component of real GDP was revised downward.
- The largest drag on real GDP continues to be home building, which subtracted 0.6 points from the growth rate. Excluding housing, real GDP grew at a 4.0% rate in Q2 and is up 3.2% versus last year.
- The GDP price index was revised up to a 1.2% annual rate in Q2 versus an original estimate of 1.1%. Nominal GDP growth – real GDP plus inflation – was revised up to a 4.6% growth rate in Q1 versus an original estimate of 3.0%.

Implications: The government’s original estimate of a 1.9% real GDP growth rate in Q2 was dominated by absurdly pessimistic assumptions about the export sector and inventories. New information shows the economy was much stronger in Q2, growing at a 3.3% annual rate – a mark-up of about 75% in the real GDP growth rate. Excluding home building, real GDP was up at a 4% rate in Q2 and is up 3.2% since last year. Americans’ impressions about the economy are influenced by these major data reports. As a result, pessimistic assumptions by the government’s statistical bureaucrats have undermined consumer confidence. Today’s report also includes fresh data on corporate profits. Pre-tax profits (with inventory and capital consumption adjustments) declined at a 9.2% annual rate in Q2 and are down 7% since last year, the worst since 2001. However, corporate net cash flow (without inventory/capital adjustments) rose at a 0.6% rate in Q2 and is up 2.1% versus last year. We believe the healthy 3.3% real GDP growth in Q2 is not the last of its kind. While the current consensus suggests the economy will grow at only a 1.2% rate in Q3, we are forecasting a growth rate of 2.5%+. Meanwhile, despite a headline GDP deflator that appears benign, the gross domestic purchases deflator (prices for what we buy) rose at a 4.2% rate in Q2 and is up 3.5% versus a year ago. In other news today, new claims for unemployment insurance declined 10,000 to 425,000 last week. These claims are down 32,000 in the last three weeks, as the impact of extended unemployment benefits continues to wane. Continuing claims increased 64,000 to 3.423 million.



2nd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q2-08	Q1-08	Q4-07	Q3-07	4-Quarter Change
Real GDP	3.3%	0.9%	-0.2%	4.8%	2.2%
GDP Price Index	1.2%	2.6%	2.8%	1.5%	2.0%
Nominal GDP	4.6%	3.5%	2.3%	6.4%	4.2%
PCE	1.7%	0.9%	1.0%	2.0%	1.4%
Business Investment	2.2%	2.4%	3.4%	8.7%	4.2%
Structures	13.6%	8.7%	8.6%	20.6%	12.7%
Equipment and Software	-3.2%	-0.5%	1.0%	3.6%	0.2%
Contributions to GDP Growth (p.pts.)	Q2-08	Q1-08	Q4-07	Q3-07	4Q Avg.
PCE	1.2	0.6	0.7	1.4	1.0
Business Investment	0.3	0.3	0.4	0.9	0.4
Residential Investment	-0.6	-1.1	-1.3	-1.1	-1.0
Inventories	-1.4	0.0	-1.0	0.7	-0.4
Government	0.8	0.4	0.2	0.8	0.5
Net Exports	3.1	0.8	0.9	2.0	1.7

Source: Commerce Department