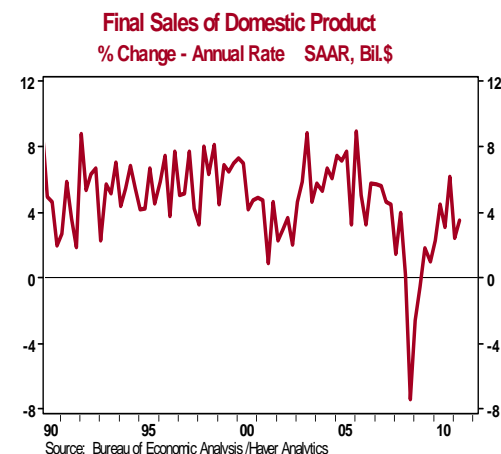
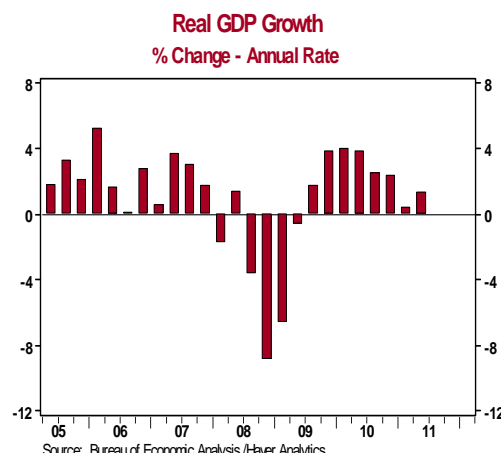


2nd Quarter GDP (Advance)

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- The first estimate for Q2 real GDP growth is 1.3% at an annual rate, slightly less than the consensus expected.
- The largest positive contributions to the real GDP growth rate were net exports, which added 0.6 points to the real GDP growth rate, and business investment which added 0.6 points.
- The weakest component of real GDP was government purchases, which reduced the real GDP growth rate by 0.2 points.
- The GDP price index increased at a 2.3% annual rate in Q2. Nominal GDP – real GDP plus inflation – rose at a 3.7% rate in Q2 and is up 3.7% versus a year ago.

Implications: Real GDP growth came in a bit slower than the consensus expected for the second quarter and growth in the first quarter was revised down to only a 0.4% annual rate. However, First Trust had anticipated a slower than consensus report for Q2 and we still believe in a marked acceleration in the second half as the economy gets over supply-chain disruptions from Japan. Also, most of the downward revision for the first quarter was due to slower inventory accumulation, which leaves more room for future growth. In other words, today's revisions are not a sign of a double-dip recession. Reinforcing this view is that today's numbers include an 8.7% upward revision to corporate profits in the first quarter. Going back further with the revisions, new data show the economic panic in late 2008 and early 2009 was even worse than previously estimated but that growth in 2010 was faster. Today's data do not support the case for keeping short-term interest rates at near zero. Nominal GDP – real GDP growth plus inflation – is up at a 4.1% annual rate in the past two years. More timely reports show the economy is accelerating out of the first half slog. New claims for unemployment insurance dropped 24,000 last week to 398,000. Continuing claims for regular state benefits fell 17,000 to 3.70 million. On the housing front, pending home sales, which are contracts on existing homes, increased 2.4% in June after an 8.2% surge in May. These figures strongly suggest existing home sales (counted at closing) will rise in July.



1st Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q2-11	Q1-11	Q4-10	Q3-10	4-Quarter Change
Real GDP	1.3%	0.4%	2.3%	2.5%	1.6%
GDP Price Index	2.3%	2.5%	1.9%	1.4%	2.0%
Nominal GDP	3.7%	3.1%	4.2%	3.9%	3.7%
PCE	0.1%	2.1%	3.6%	2.6%	2.1%
Business Investment	6.3%	2.1%	8.7%	11.3%	7.0%
Structures	8.2%	-14.4%	10.6%	4.2%	1.7%
Equipment and Software	5.7%	8.7%	8.0%	14.2%	9.1%
Contributions to GDP Growth (p.pts.)	Q2-11	Q1-11	Q4-10	Q3-10	4Q Avg.
PCE	0.1	1.5	2.5	1.9	1.5
Business Investment	0.6	0.2	0.8	1.0	0.7
Residential Investment	0.1	-0.1	0.1	-0.8	-0.2
Inventories	0.2	0.3	-1.8	0.9	-0.1
Government	-0.2	-1.2	-0.6	0.2	-0.5
Net Exports	0.6	-0.3	1.4	-0.7	0.2

Source: Commerce Department