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2nd Quarter GDP (Final)

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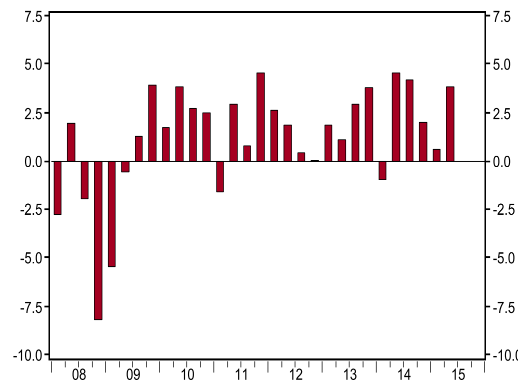
- Real GDP growth in Q2 was revised to a 3.9% annual rate from a prior estimate of 3.7%, beating the consensus expected 3.7%.
- The upward revision was due to stronger consumer spending and business investment. Inventories were revised lower.
- The largest positive contribution to the real GDP growth rate in Q2 came from consumer spending. The weakest component of real GDP was inventories, although even that category added 0.02% to growth.
- The GDP price index was unchanged at a 2.1% annualized rate of change. Nominal GDP growth – real GDP plus inflation – was revised up to a 6.1% annual rate versus a prior estimate of 5.9%. Nominal GDP is up 3.7% versus a year ago.

Implications: Economic growth was revised upward in the second quarter, beating consensus expectations and leaving a little more room for growth in the year ahead. Real GDP grew at a 3.9% annual rate in Q2 versus a prior estimate and consensus expected 3.7%. Remember, only two months ago, the original report for the second quarter was that the economy grew at only a 2.3% rate, which shows why investors should not over-react to the first glimpse of data for a particular month or quarter. In addition, the revisions show the “mix” of growth was also more favorable in Q2, as consumer spending and business investment were revised higher, while inventories were revised lower. That leaves more room for growth in future quarters. Real GDP is up 2.7% in the past year and the same annualized rate in the past two years. Meanwhile, nominal GDP (real growth plus inflation) rose at a 6.1% annual rate in Q2, is up 3.7% from a year ago and up at a 4.1% annual rate in the past two years. These figures show that short-term interest rates should be higher than essentially zero and bolster the case of those at the Fed who want to raise rates this year. It will be at least a couple of years before the Fed gets “tight” rather than “less loose.” The other piece of good news today was that economy-wide corporate profits were revised up and climbed 3.5% in Q2. This profit number is calculated by government statisticians and includes “capital consumption and inventory valuation adjustments.” (Sorry for the jargon, but that’s what they call it.) The important thing to recognize is that these adjustments don’t affect cash flow. Excluding the adjustments, corporate cash flow climbed 6.3% in Q2 to a new record high. These figures support the case for optimism for equities in general as well as business investment.

Real GDP Growth

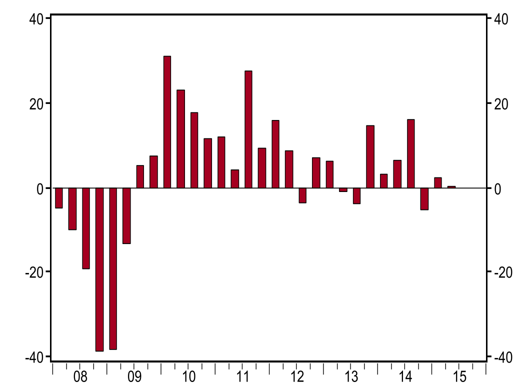
% Change - Annual Rate



Source: Bureau of Economic Analysis /Haver Analytics

Real Equipment Investment

% Change - Annual Rate



Source: Bureau of Economic Analysis /Haver Analytics

2nd Quarter GDP Seasonally Adjusted Annual Rates	Q2-15	Q1-15	Q4-14	Q3-14	4-Quarter Change
Real GDP	**3.9%**	0.6%	2.1%	4.3%	2.7%
GDP Price Index	**2.1%**	0.1%	0.1%	1.6%	1.0%
Nominal GDP	**6.1%**	0.8%	2.2%	6.0%	3.7%
PCE	**3.6%**	1.7%	4.3%	3.5%	3.3%
Business Investment	**4.1%**	1.6%	0.7%	9.0%	3.8%
Structures	**6.3%**	-7.4%	4.2%	-1.8%	0.2%
Equipment	**0.3%**	2.3%	-4.9%	16.5%	3.3%
Intellectual Property	**8.3%**	7.4%	6.9%	6.5%	7.3%
Contributions to GDP Growth (p.pts.)	**Q2-15**	**Q1-15**	**Q4-14**	**Q3-14**	**4Q Avg.**
PCE	**2.4**	1.2	2.9	2.3	2.2
Business Investment	**0.5**	0.2	0.1	1.1	0.5
Residential Investment	**0.3**	0.3	0.3	0.1	0.3
Inventories	**0.0**	0.9	0.0	0.0	0.2
Government	**0.5**	0.0	-0.3	0.3	0.1
Net Exports	**0.2**	-1.9	-0.9	0.4	-0.6