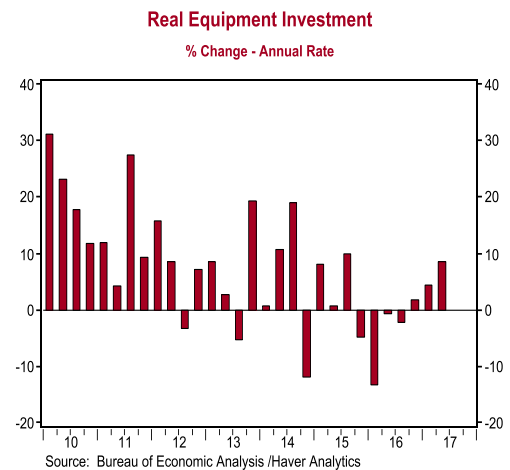
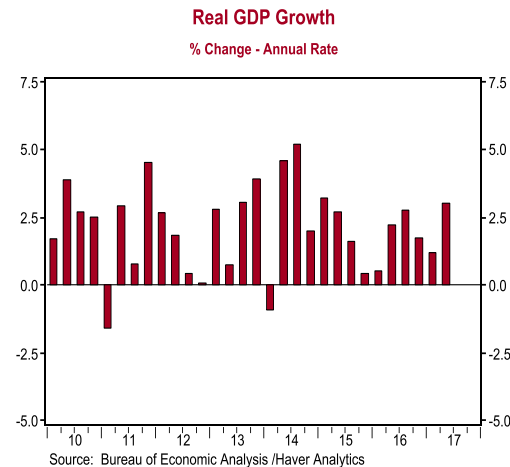


2nd Quarter GDP (Preliminary)

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- Real GDP was revised to a 3.0% annual growth rate in Q2 from a prior estimate of 2.6%, beating the consensus expected 2.7%.
- The upward revision was mainly due to faster growth in personal consumption and business investment, which more than offset the downward revision to government purchases.
- The largest positive contribution to the real GDP growth rate in Q2 was personal consumption. The largest drag was residential investment.
- The GDP price index was unchanged at a 1.0% annual rate of change. Nominal GDP growth – real GDP plus inflation – was revised higher to a 4.0% annual rate from a prior estimate of 3.6%.

Implications: A very solid report on economic growth today as overall real GDP growth was revised higher for the second quarter and almost every major category of GDP, with the exception of government purchases, was revised higher as well. Real GDP grew at a 3.0% annual rate in Q2, beating the consensus expected 2.7% pace. Stronger consumer spending and business investment in R&D coupled with small gains in most other categories pushed the revisions higher. We like to follow “core” real GDP, which excludes inventories, government purchases, and international trade. Inventories and government are not representative of long-term growth, while the way trade is counted does a bad job of demonstrating that rising imports signal strong spending. Core GDP grew at a 3.3% annual rate in Q2 versus a prior report of 2.7% and is up at a 2.6% annual rate in the past two years. Nominal GDP growth (real growth plus inflation) was revised to 4.0% annual rate in Q2 from a prior estimate of 3.6%. Nominal GDP is up 3.8% in the past year and up at a 3.1% annual rate in the past two years. All of these figures suggest the economy can sustain higher short-term interest rates, which is why we think the Fed will still raise rates in December despite the markets putting the odds at more like a one-in-three chance. Also in today’s GDP report was our first glimpse at economy-wide corporate profits in the second quarter. Profits rose 1.3% in Q2 and are up 7.0% versus a year ago. Moreover, corporate cash flow with an adjustment for inventory valuation, which is a measure of the funds companies have available to invest, hit an all-time record high. Plugging economy-wide profits into our capitalized profits models suggest that, even at higher interest rates (such as a 10-year Treasury yield of 3.5% - 4%), stocks are still relatively cheap. In other news this morning, ADP private payrolls increased 237,000 in August. Plugging this into our models suggests Friday’s official Labor report will show a nonfarm increase of about 194,000 (versus a consensus 180,000), although we may tweak this forecast slightly based on tomorrow’s report on unemployment claims. On the housing front, the Case-Shiller price index increased 0.4% in June and was up 5.8% from a year ago. That’s an acceleration from the 4.9% gain in the year ending in June 2016. The metro area with the fastest growing prices, by far, was Seattle, with a 13.4% gain in the past year. However, all of the top 20 metro areas in the country had gains in the past twelve months, with Cleveland’s increase of 2.9% pulling up the rear.



2nd Quarter GDP Seasonally Adjusted Annual Rates	Q2-17	Q1-17	Q4-16	Q3-16	4-Quarter Change
Real GDP	3.0%	1.2%	1.8%	2.8%	2.2%
GDP Price Index	1.0%	2.0%	2.0%	1.4%	1.6%
Nominal GDP	4.0%	3.3%	3.8%	4.2%	3.8%
PCE	3.3%	1.9%	2.9%	2.8%	2.7%
Business Investment	6.9%	7.1%	0.2%	3.4%	4.4%
Structures	6.2%	14.8%	-2.2%	14.3%	8.1%
Equipment	8.8%	4.4%	1.8%	-2.1%	3.1%
Intellectual Property	4.9%	5.8%	-0.4%	4.2%	3.6%
Contributions to GDP Growth (p.pts.)	Q2-17	Q1-17	Q4-16	Q3-16	4Q Avg.
PCE	2.3	1.3	2.0	1.9	1.9
Business Investment	0.9	0.9	0.0	0.4	0.5
Residential Investment	-0.3	0.4	0.3	-0.2	0.1
Inventories	0.0	-1.5	1.1	0.2	-0.1
Government	-0.1	-0.1	0.0	0.1	0.0
Net Exports	0.2	0.2	-1.6	0.4	-0.2