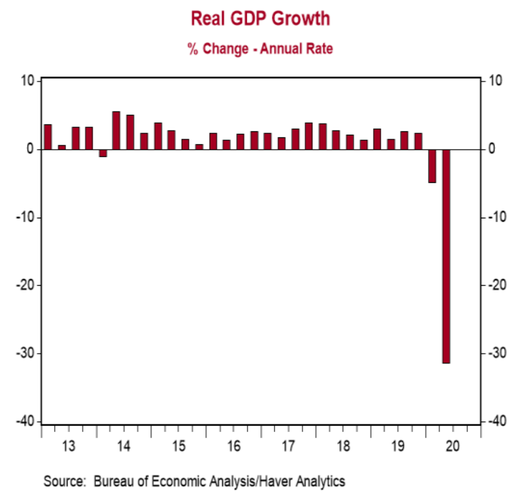
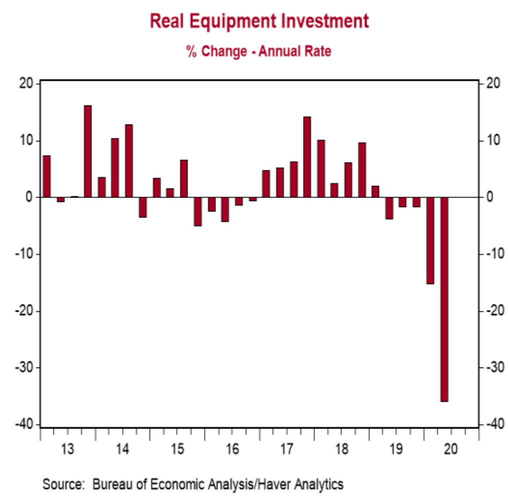
2nd Quarter GDP (Final)

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist

- Real GDP was revised to a -31.4% annual growth rate in Q2 from a prior estimate of -31.7%, slightly better than the consensus expected -31.7%.
- Small upward revisions to consumer spending, residential investment, and state and local government spending were partly offset by downward revisions to exports and to business investment in intellectual property.
- The largest negative contribution to the real GDP growth rate in Q2 was consumer spending on services. Government purchases and net exports made positive contributions to real GDP.
- The GDP price index was revised higher to a -1.8% annual rate of change. Nominal GDP growth – real GDP plus inflation – was revised slightly higher to a -32.8% annual rate. Nominal GDP is down 8.5% versus a year ago.





Implications: Today's final GDP report for the second quarter was revised slightly higher to a -31.4% annual rate from -31.7%, but was still easily the worst quarter since the Great Depression. To put this in perspective, previously, the worst quarter since the immediate military wind-down following World War II was the first quarter of 1958, when real GDP fell at a 10.0% annual rate. Today's report primarily reflected an upward revision to consumer spending that was partly offset by downward revisions to exports and business investment in intellectual property. Today we also got updated data for economy-wide corporate profits, which were a little better than originally thought. Still, profits declined 10.3% in Q2 and are down 19.3% in the past year. The decline in Q2 was due to lower profits at domestic nonfinancial companies, as well as lower profits from the rest of the world; profits at domestic financial companies grew in Q2. In spite of the decline in profits, our capitalized profits model suggests US equities remain cheap at today's interest rates. It's important to recognize that all of this is in the rearview mirror and we anticipate real GDP growth at around a 25-30% annual rate for Q3, which would be the fastest quarterly pace post WWII. Still, a full economic recovery is a long way off; we don't anticipate an unemployment rate below 4.0% until 2023. In other news this morning, the ADP employment report showed 749,000 jobs gained in September. The consensus was expecting a smaller gain of 649,000. On the manufacturing front today, the Chicago PMI boomed to 62.4 in September from 51.2 in August, the highest reading since December 2018. On the housing front today, pending home sales, which are contracts signed on existing homes, increased 8.8% in August, suggesting that strong gains in existing home closings continued in September. Yesterday, the national Case-Shiller home price index rose 0.4% in July and is up 4.8% from a year ago, an acceleration from the 3.2% gain in the year ending in July 2019. In the past twelve months, prices were up the most in Phoenix and up the least in Chicago.

2nd Quarter GDP Seasonally Adjusted Annual Rates	Q2-20	Q1-20	Q4-19	Q3-19	4-Quarter Change
Real GDP	-31.4%	-5.0%	2.4%	2.6%	-9.0%
GDP Price Index	-1.8%	1.4%	1.4%	1.5%	0.6%
Nominal GDP	-32.8%	-3.4%	3.9%	4.0%	-8.5%
PCE	-33.2%	-6.9%	1.6%	2.7%	-10.2%
Business Investment	-27.2%	-6.7%	-0.3%	1.9%	-8.9%
Structures	-33.6%	-3.7%	-5.3%	3.6%	-11.0%
Equipment	-35.9%	-15.2%	-1.7%	-1.7%	-14.9%
Intellectual Property	-11.4%	2.4%	4.7%	5.3%	0.0%
Contributions to GDP Growth (p.pts.)	**Q2-20**	**Q1-20**	**Q4-19**	**Q3-19**	**4Q Avg.**
PCE	-24.0	-4.8	1.1	1.8	-6.5
Business Investment	-3.7	-0.9	0.0	0.3	-1.1
Residential Investment	-1.6	0.7	0.2	0.2	-0.1
Inventories	-3.5	-1.3	-0.8	-0.1	-1.4
Government	0.8	0.2	0.4	0.4	0.4
Net Exports	0.6	1.1	1.5	0.0	0.8

Source: Bureau of Economic Analysis