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2nd Quarter GDP (Initial)

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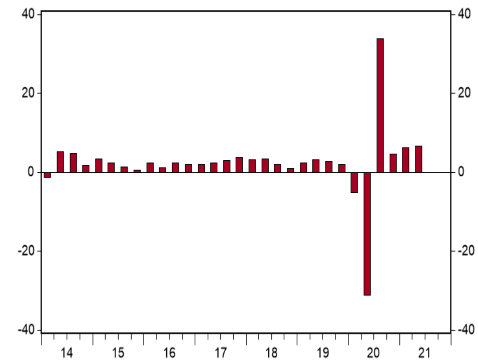
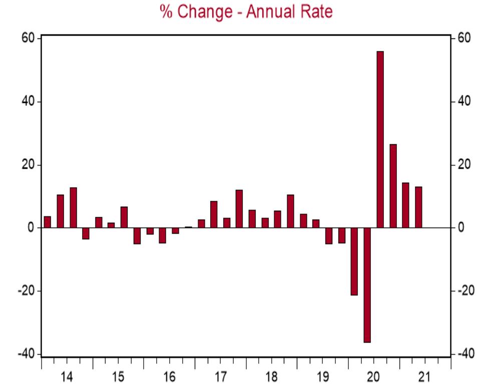
- Real GDP grew at a 6.5% annual rate in Q2, lagging the consensus expected 8.4%.
- The largest positive contribution to the real GDP growth rate in Q2 was personal consumption, with business investment in equipment and intellectual property also making positive contributions. The largest drag on growth was inventories, with home building, net exports, government purchases, and commercial construction also slowing.
- Personal consumption, business investment, and home building, combined, grew at a 9.9% annual rate in Q2.
- The GDP price index increased at a 6.0% annual rate in Q2 and is up 4.0% from a year ago. Nominal GDP (real GDP plus inflation) rose at a 13.0% annual rate in Q2 and is up 16.7% from a year ago.





Implications: Normally, if the economy grows at a 6.5% annual rate, everyone would be ecstatic. But, given the COVID disaster and rebound, as well as massive fiscal stimulus coming from the federal government and very loose monetary policy, today's report that real GDP grew at a 6.5% rate in the second quarter is a disappointment, falling short of the consensus expected 8.4%. Consumer spending grew at an 11.8% annual rate in Q2, while business investment in equipment and intellectual property were up at a 13.0% rate and 10.7% rate, respectively. But inventories were a huge drag on growth, as businesses, hampered by supply-chain disruptions and a lack of people willing to work, had to dip even deeper into stockpiles to meet consumer demand. Some analysts will highlight that real GDP is now at a new all-time record high. However, real GDP has grown at only a 0.5% annual rate since the prior peak in late 2019 and, in the absence of COVID, would almost certainly have grown much faster. In other words, the economy is bigger than ever but is still not as big as it would have been right now in the absence of COVID. Notably, ***nominal*** GDP (which includes real GDP plus inflation) is right about where it would be if COVID shutdowns never happened. In other words, the overall period looks like stagflation: less growth, more inflation. The best news in today's report was a substantial upward revision in corporate profits the past several years, with corporate profits in Q1 (the latest data available) 8.6% above the prior estimate from last month. This supports our view that stocks remain relatively cheap. Meanwhile, there were plenty of signs in today's report that monetary policy is too easy and the Federal Reserve shouldn't wait to start tapering its asset purchases. GDP prices rose at a 6.0% annual rate in Q2, the fastest pace since 1981. Notably, GDP prices are up at a 2.7% annual rate since late 2019, including the deflation in early 2020 during the onset of COVID, which shows that monetary policy is already loose enough to exceed the Fed's long-run 2.0% inflation target. In other news this morning, initial unemployment claims fell 24,000 last week to 400,000. Continuing claims rose 7,000 to 3.269 million. On the housing front, pending home sales, which are contracts on existing homes, declined 1.9% in June after soaring 8.3% in May. Combined, these figures suggest a modest gain in existing home sales (counted at closing) for July.

2nd Quarter GDP Seasonally Adjusted Annual Rates	Q2-21	Q1-21	Q4-20	Q3-20	4-Quarter Change
Real GDP	6.5%	6.3%	4.5%	33.8%	12.2%
GDP Price Index	6.0%	4.3%	2.2%	3.6%	4.0%
Nominal GDP	13.0%	10.9%	6.6%	38.7%	16.7%
PCE	11.8%	11.4%	3.4%	41.4%	16.2%
Business Investment	8.0%	12.9%	12.5%	18.7%	13.0%
Structures	-6.9%	5.4%	-8.2%	-15.3%	-6.6%
Equipment	13.0%	14.1%	26.5%	55.9%	26.3%
Intellectual Property	10.7%	15.6%	10.2%	8.0%	11.1%
Contributions to GDP Growth (p.pts.)	**Q2-21**	**Q1-21**	**Q4-20**	**Q3-20**	**4Q Avg.**
PCE	7.8	7.4	2.3	25.5	10.7
Business Investment	1.1	1.7	1.6	2.7	1.8
Residential Investment	-0.5	0.6	1.3	2.2	0.9
Inventories	-1.1	-2.6	1.1	6.8	1.0
Government	-0.3	0.8	-0.1	-0.2	0.1
Net Exports	-0.4	-1.6	-1.7	-3.3	-1.7

Source: Bureau or Economic Analysis