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2nd Quarter GDP (Initial)

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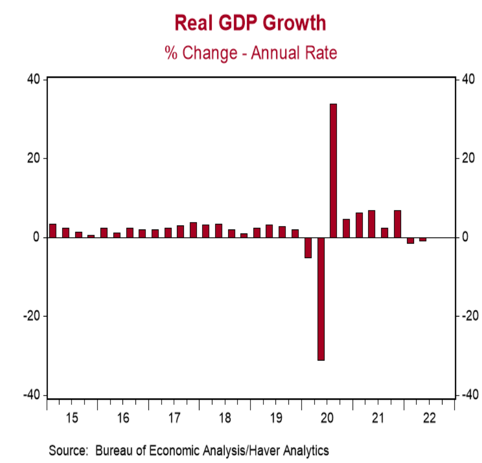
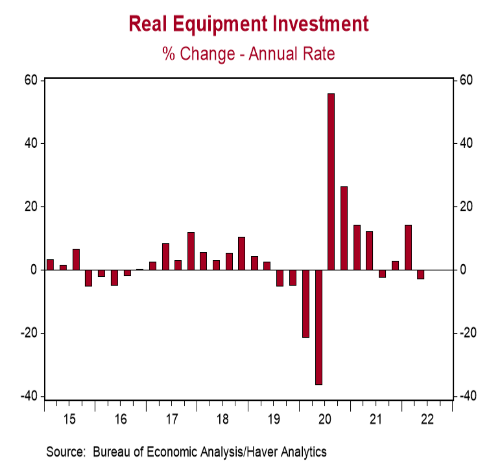
- Real GDP declined at a 0.9% annual rate in Q2, lagging the consensus expected +0.4% rate.
- The largest negative drag on the real GDP growth rate in Q2, by far, was inventories, with home building, commercial construction, business investment in equipment, and government purchases also holding real GDP down. Net exports, consumer spending, and business investment in intellectual property all increased in Q1.
- Personal consumption, business fixed investment, and home building, combined, was unchanged (0.0%) in Q2.
- The GDP price index increased at an 8.7% annual rate in Q2 and is up 7.5% from a year ago. Nominal GDP (real GDP plus inflation) rose at a 7.8% annual rate in Q2 and is up 9.3% from a year ago.





Implications: Stagflation, yes, official recession, not yet. We understand that people think (and some feel) that this is a recession, but the first half of the year included payrolls growing 457,000 per month, lower unemployment, and industrial production up at 5.0%+ annual rate. These things don't happen during recessions and we would not be surprised if at least one of the first two quarters of the year is later revised positive. For now, however, the government estimates that real GDP declined at a 0.9% annual rate in the second quarter after falling at a 1.6% rate in Q1. The big drag in the second quarter was a slowdown in the pace of inventory accumulation, which, all by itself, reduced real GDP growth by two percentage points; excluding inventories, real GDP would have grown in Q2. However, inventories were not the only soft part of the economy. On an inflation-adjusted basis, home building dropped at a 14% annual rate while commercial construction fell at an 11.8% rate. Business investment in equipment also declined, as did consumer spending on goods. Meanwhile, consumer spending on services rose as did net exports, and business investment in intellectual property. Although we do not believe the economy entered a recession in the first half of 2022, we are certainly not saying the GDP report was good news. "Core" GDP, which includes consumer spending, business investment, and home building, was unchanged in Q2, the softest showing since the COVID shutdowns. And the economy is also being ravaged by inflation, with the GDP deflator up at an 8.7% annual rate in Q2, the fastest pace for any quarter since 1981. What does this all mean for the Federal Reserve? Likely nothing compared to where it was yesterday after its meeting. Today's GDP report is a rearview of April through June; before its next meeting in September the Fed will be focused on new information about jobs, consumption, and inflation. In that regard, it's still a mixed bag. Initial claims for unemployment insurance declined 5,000 last week to 256,000. Continuing claims fell 25,000 to 1.359 million. Yes, consumption of goods is slowing as government checks have stopped, but services spending from reopening is growing. Pending home sales dropped 8.6% in June as rate hikes impact the economy, but corporate earnings are still rising. The economy must pay a price for the mistakes of COVID policy and we think a recession is inevitable, just not quite yet.

2nd Quarter GDP Seasonally Adjusted Annual Rates	Q2-22	Q1-22	Q4-21	Q3-21	4-Quarter Change
Real GDP	**-0.9%**	-1.6%	6.9%	2.3%	1.6%
GDP Price Index	**8.7%**	8.2%	7.1%	6.0%	7.5%
Nominal GDP	**7.8%**	6.6%	14.5%	8.4%	9.3%
PCE	**1.0%**	1.8%	2.5%	2.0%	1.8%
Business Investment	**-0.1%**	10.0%	2.9%	1.6%	3.5%
Structures	**-11.8%**	-0.9%	-8.3%	-4.1%	-6.4%
Equipment	**-2.7%**	14.1%	2.8%	-2.4%	2.7%
Intellectual Property	**9.2%**	11.2%	8.9%	9.1%	9.6%
Contributions to GDP Growth (p.pts.)	**Q2-22**	**Q1-22**	**Q4-21**	**Q3-21**	**4Q Avg.**
PCE	**0.7**	1.2	1.8	1.4	1.3
Business Investment	**0.0**	1.3	0.4	0.2	0.5
Residential Investment	**-0.7**	0.0	0.1	-0.4	-0.2
Inventories	**-2.0**	-0.4	5.3	2.2	1.3
Government	**-0.3**	-0.5	-0.5	0.2	-0.3
Net Exports	**1.4**	-3.2	-0.2	-1.3	-0.8

Source: Bureau or Economic Analysis