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2nd Quarter GDP (Final)

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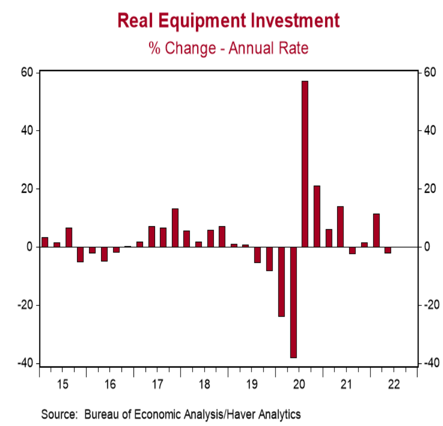
- Real GDP growth in Q2 remained at a -0.6% annual rate, matching consensus expectations.
- An upward revision to personal consumption offset downward revisions to net exports, residential investment, and inventories.
- The largest positive contributions to the real GDP growth rate in Q2 were personal consumption and net exports. The weakest component, by far, was inventories.
- The GDP price index was revised up to an 9.0% annual growth rate from a prior estimate of 8.9%. Nominal GDP growth – real GDP plus inflation – was revised up to an 8.5% annual rate from a prior estimate of 8.4%.



Implications: The third report on second quarter real GDP growth was unchanged at a -0.6% annual rate. An upward revision to personal consumption offset downward revisions to net exports, residential investment (mainly reflecting a decline in brokers' commissions), and inventories. Today we also get our second look at corporate profits for the second quarter, and they were revised lower. Still, corporate profits rose 4.6% versus Q1, are up 7.7% from a year ago, and up 23.3% versus the pre-COVID level. Profits in Q2 rose at domestic non-financial companies as well as from operations abroad, but declined at domestic financial corporations. Our capitalized profits model suggests US equities are roughly fairly to slightly overvalued today at current interest rates, although we believe equities will remain range bound until we eventually hit a recession starting sometime in 2023-24. Although some investors think a recession has already started, given two straight quarters of negative real GDP growth, we don't think that's right. Real Gross Domestic Income (real GDI), an alternative measure of GDP that is just as accurate, remained positive for the first two quarters, growing at a revised 0.1% annual rate in Q2 after growing at a revised 0.8% rate in Q1. In addition, so far this year the unemployment rate has dropped, payrolls have expanded 438,000 per month and industrial production is up at a 4.0% annual rate through August. These are just not numbers we'd get in a recession. Where does this all leave the Federal Reserve? Still behind the curve. GDP inflation was revised higher to an 9.0% annual rate in Q2, the fastest pace for any quarter since 1981. GDP prices are up 7.6% from a year ago, nowhere near the Fed's 2.0% target. Meanwhile, nominal GDP (real GDP growth plus inflation) rose at an 8.5% annual rate in Q2 and is up 9.6% from a year ago. The US economy recovered rapidly from re-opening in 2021. That period of rapid growth is now over. But that doesn't mean we should take the headline from today's report at face value and that the US is in a recession. The Fed has a lot more work to do before monetary policy is tight enough to induce a recession. Other news this morning is consistent with continued economic growth. Initial claims for unemployment insurance declined 16,000 last week to 193,000, a five-month low. Continuing claims declined 29,000 to 1.347 million. These figures suggest another solid month of job growth in September. On the housing front, pending home sales, which are contracts on existing homes, declined 2.0% in August, suggesting another month of tepid existing home sales in September. Earlier this week, we also got some welcomed news on future inflation. The M2 measure of money was essentially unchanged in August and is up at only a 1.5% annualized rate in the first eight months of 2022. M2 is up 4.1% vs a year ago, compared to a 13.6% gain in the year ending August 2021. It remains to be seen whether M2 growth remains slow. The Treasury Department has been piling up its own savings at the Fed and this may be a reason for the sudden slowdown in M2 growth.

2nd Quarter GDP Seasonally Adjusted Annual Rates	Q2-22	Q1-22	Q4-21	Q3-21	4-Quarter Change
Real GDP	**-0.6%**	-1.6%	7.0%	2.7%	1.8%
GDP Price Index	**9.0%**	8.3%	6.8%	6.2%	7.6%
Nominal GDP	**8.5%**	6.6%	14.3%	9.0%	9.6%
PCE	**2.0%**	1.3%	3.1%	3.0%	2.4%
Business Investment	**0.1%**	7.9%	1.1%	0.6%	2.4%
Structures	**-12.7%**	-4.4%	-12.7%	-6.7%	-9.2%
Equipment	**-2.1%**	11.4%	1.6%	-2.2%	2.0%
Intellectual Property	**8.9%**	10.8%	8.1%	7.4%	8.8%
Contributions to GDP Growth (p.pts.)	**Q2-22**	**Q1-22**	**Q4-21**	**Q3-21**	**4Q Avg.**
PCE	**1.4**	0.9	2.1	2.0	1.6
Business Investment	**0.0**	1.0	0.2	0.1	0.3
Residential Investment	**-0.9**	-0.2	-0.1	-0.3	-0.4
Inventories	**-1.9**	0.2	5.0	2.0	1.3
Government	**-0.3**	-0.4	-0.2	0.0	-0.2
Net Exports	**1.2**	-3.1	-0.2	-1.1	-0.8

Source: Bureau or Economic Analysis