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2nd Quarter GDP (Preliminary)

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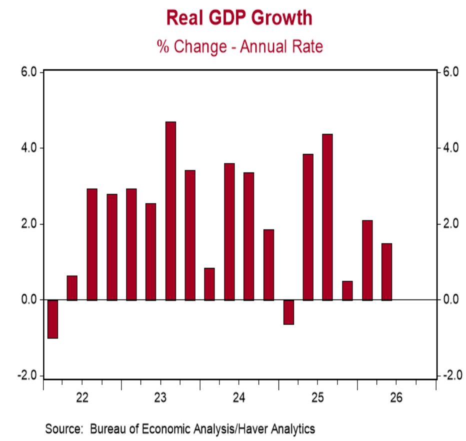
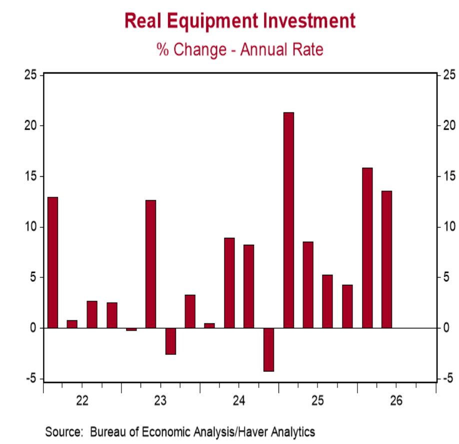
- Real GDP growth in Q2 was unrevised at a 1.5% annual rate, matching consensus expectations.
- Upward revisions to personal consumption and business investment were offset by small downward revisions to net exports, inventories, and government purchases.
- Personal consumption, business investment, and home building, combined, rose at a 4.2% annual rate in Q2. We refer to this as "core" GDP.
- The GDP price index was revised higher to 6.4% from a prior estimate of 6.2%. Nominal GDP growth – real GDP plus inflation – was revised upward to a 8.0% annualized rate from a prior estimate of 7.9%.





Implications: Hold off on GDP for a moment. The most important data in this morning's report was on economy-wide corporate profits, which posted the largest increase in five years with a 9.1% jump in the second quarter and are now up 22.8% from a year ago. The Federal Reserve, after posting massive losses for three consecutive years, finally returned to profitability at the end of 2025 and eked out its third consecutive profit in Q2. Excluding the Fed, corporate profits were up 8.4% in Q2 and 20.6% from a year ago – the fastest growth for any four-quarter period since late 2021. The increase in Q2 was led by a 10.4% jump in profits earned from domestic non-financial industries, boosted by strong earnings in the technology and energy sectors. Profits from domestic financial companies increased 8.0%, while profits from the rest of the world rose 3.5%. Despite the rapid growth in Q2, plugging these profits into our Capitalized Profits Model suggests stocks remain overvalued. In addition, the SpaceX IPO and tariff refunds may have boosted profits artificially. Now back to GDP and the rest of this morning's report. Real GDP for the second quarter was unrevised at a 1.5% annualized rate, but reflected a slightly better mix, as upward revisions to personal consumption and business investment were offset by small downward revisions to net exports, inventories, and government purchases. For a clearer picture of underlying growth, we focus on "core" GDP – consumer spending, business fixed investment, and residential construction – excluding more volatile components like inventories, government outlays, and trade. Core GDP was revised higher to a 4.2% annual rate from an initial 3.9%, the fastest pace since early 2023, and is now up 2.7% from a year ago. So why did headline GDP grow much slower than Core GDP? Primarily because trade continues to move in volatile swings, shaving off 1.1 percentage points from the headline in Q2. The most worrisome part of the report was that inflation remains far from the Fed's 2.0% target, with GDP prices rising at an upwardly revised 6.4% rate in Q2 and are now up 4.4% from a year ago. Nominal GDP rose at an 8.0% rate in the second quarter and is up 6.6% versus a year ago, both figures well higher than the current 3.625% target on short-term rates. That said, much of the inflation pick-up in the second quarter can be traced to the surge in energy prices following the war in Iran and temporary closure of the Strait of Hormuz, and we expect the Federal Reserve to remain on pause as they wait for a better picture of sustained inflation pressures to come into view.

2nd Quarter GDP Seasonally Adjusted Annual Rates	Q2-26	Q1-26	Q4-25	Q3-25	4-Quarter Change
Real GDP	1.5%	2.1%	0.5%	4.4%	2.1%
GDP Price Index	6.4%	3.6%	3.7%	3.8%	4.4%
Nominal GDP	8.0%	5.8%	4.2%	8.3%	6.6%
PCE	3.4%	0.5%	1.9%	3.5%	2.3%
Business Investment	8.5%	10.6%	2.4%	3.2%	6.1%
Structures	-1.8%	-4.7%	-6.6%	-5.0%	-4.5%
Equipment	13.6%	15.8%	4.3%	5.2%	9.6%
Intellectual Property	8.8%	13.8%	5.4%	5.6%	8.3%
Contributions to GDP Growth (p.pts.)	**Q2-26**	**Q1-26**	**Q4-25**	**Q3-25**	**4Q Avg.**
PCE	2.3	0.4	1.3	2.3	1.6
Business Investment	1.2	1.4	0.3	0.4	0.8
Residential Investment	0.1	-0.3	-0.1	-0.3	-0.2
Inventories	-0.7	0.2	0.1	-0.1	-0.1
Government	-0.2	0.7	-1.0	0.4	0.0
Net Exports	-1.1	-0.4	-0.2	1.6	0.0

Source: Bureau of Economic Analysis