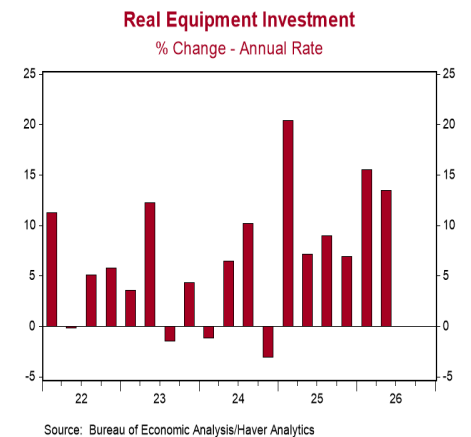
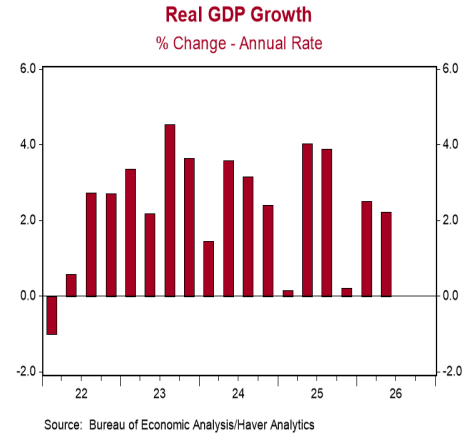


2nd Quarter GDP (Final)

Nate Gerze, CFA – Economist
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist

- Real GDP growth in Q2 was revised higher to a 2.2% annual rate, beating the prior estimate and consensus expected 1.5%.
- There were upward revisions to all major categories, led by personal consumption, inventories, and government spending.
- The largest positive contributions to the real GDP growth rate in Q2 were personal consumption and business investment. The weakest component was net exports.
- The GDP price index was revised lower to a 6.1% annual rate from a prior estimate of 6.4%. Nominal GDP growth – real GDP plus inflation – was revised upward to an 8.5% annualized rate from a prior estimate of 8.0%.

Implications: The final reading for Real GDP growth in the second quarter was revised upward to a 2.2% rate from a prior estimate of 1.5%. The Bureau of Economic Analysis also released its comprehensive annual update, revising data from the past several years, which showed modest upward revisions to GDP and more substantial revisions to incomes (more on that later). Looking at the details of today's report, the stronger headline in Q2 reflected upward revisions to every major category, led by personal consumption, inventories, and government purchases. For a better gauge of sustainable growth, we look at "core" GDP – consumer spending, business fixed investment, and home building – while excluding the more volatile categories like government, inventories, and trade. Core GDP grew at a 4.6% annual rate in Q2, above the prior estimate of 4.2%, marking the fastest growth rate for the category since 2023. Personal consumption led the way, rising at a solid 3.8% rate, followed by a 9.0% annualized increase for business investment as firms continue to spend on the data center buildout for Artificial Intelligence. However, it's important to remember that domestic firms import a significant share of the chips and equipment needed for the AI buildout, which offsets some of the boost to GDP from that investment. That was likely a factor behind the broader drag from trade, as net exports shaved off 1.1 percentage points of growth in Q2, marking their third consecutive quarterly drag. We also got a second look at Q2 corporate profits, which now show an 8.9% gain from Q1 (slightly down from the prior estimate of +9.1%) and an incredible 20.8% increase from a year ago. Meanwhile, Real Gross Domestic Income, an alternative to Real GDP that is just as accurate over time, rose at a 2.6% rate in Q2 and is up 2.7% from a year ago. On the inflation front, GDP Prices rose at a 6.1% annual rate in Q2, down from a prior estimate of 6.4%, and are up 4.0% from a year ago. Finally, annual revisions from the BEA show that average real GDP growth from Q1 2021 through Q1 2026 was 2.84%, compared to the previously reported 2.78%. Large revisions to personal income lifted the second quarter personal saving rate to 4.4%, up from the 2.8% initially reported. In recent housing news, the FHFA index and the national Case-Shiller index both increased 0.3% in July and are now up 2.6% and 1.9% in the past year, respectively.



2nd Quarter GDP <i>Seasonally Adjusted Annual Rates</i>	Q2-26	Q1-26	Q4-25	Q3-25	4-Quarter Change
Real GDP	2.2%	2.5%	0.2%	3.9%	2.2%
GDP Price Index	6.1%	3.2%	3.4%	3.4%	4.0%
Nominal GDP	8.5%	5.8%	3.7%	7.4%	6.3%
PCE	3.8%	0.7%	1.9%	3.7%	2.5%
Business Investment	9.0%	9.9%	2.1%	3.8%	6.2%
Structures	0.1%	-9.4%	-9.8%	-7.7%	-6.8%
Equipment	13.4%	15.5%	6.9%	8.9%	11.1%
Intellectual Property	9.2%	15.6%	4.4%	5.7%	8.6%
Contributions to GDP Growth (p.pts.)	Q2-26	Q1-26	Q4-25	Q3-25	4Q Avg.
PCE	2.5	0.5	1.3	2.5	1.7
Business Investment	1.3	1.4	0.3	0.5	0.9
Residential Investment	0.1	-0.3	-0.1	-0.3	-0.1
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