

U.S. Data Review

- Q2 GDP: shy of expectations, but a respectable performance

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GDP

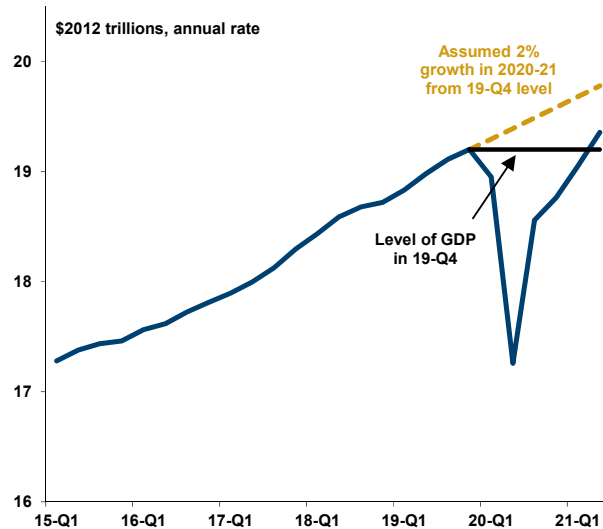
U.S. real GDP grew at an annual rate of 6.5 percent in the second quarter, shy of the consensus estimate of 8.5 percent but fast enough to confirm that the economy remained on a solid recovery path. In fact, the advance pushed the economy above the level in place before the onset of the pandemic. The economy remains below the pre-pandemic trend, but this level will be reached in Q4 if the economy is able to grow at an annual rate of 6.5 percent in the second half of the year (chart).

Consumer spending was not part of the downside surprise in the second quarter, as real outlays jumped at an annual rate of 11.8 percent, faster than our expectation of 10.5 percent (table, p. 2). Business investment spending also posted favorable results with growth of 8.0 percent. Outlays for new business structures fell for the sixth time in the past seven quarters, but investment in new equipment and intellectual property was firm. Residential construction fell 9.8 percent in Q2, but this was not a major surprise. The drop was driven primarily by brokerage commissions, as returns to realtors fell because of a drop in home sales. Improvements to existing homes also contracted, with these two items offsetting growth of 4.8 percent in the construction of new homes.

Some of the surprise occurred in the trade sector, where net exports subtracted 0.4 percentage point from growth. The trade report for June (published yesterday) was weak and pointed to a drag from net exports, but GDP forecasts were assembled before the release of these figures. Inventory investment was a major drag on GDP again, subtracting 1.1 percentage points from GDP growth after a constraint of 2.6 percentage points in the prior quarter. Government spending fell 1.5 percent, led by a retreat of 5.0 percent at the federal level. Normal volatility in the defense category played a small role (off 0.8 percent), but a drop of 10.4 percent in nondefense spending was a bigger factor. Some of this decline was associated with the pandemic (processing fees paid to commercial banks under the Paycheck Protection Program), but other activity was also apparently light. (Most of the federal spending associated with the pandemic takes the form of transfer payments, which are not recorded as government outlays in the GDP accounts. These payments affect GDP when they are spent by the recipients.)

The GDP price index rose at an annual rate of 6.0 percent in Q2. Much of this increase was the result of a jump in the index for personal consumption expenditures (up 6.4 percent overall and 6.1 percent excluding food and energy), but pressures also were evident elsewhere (residential construction 14.5 percent, exports 19.5 percent, state and local government spending 7.1 percent).

Real GDP



Source: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Today's report included benchmark revisions to results in prior years, but the adjustments were small. Quarterly growth rates varied, but the average rate of growth in the previous expansion and the recent two-quarter recession were the same. The average rate of advance so far in the current recovery is now approximately 0.1 percentage point firmer.

GDP and Related Items*

	20-Q1	20-Q2	20-Q3	20-Q4	21-Q1	21-Q2
1. Gross Domestic Product	-5.1	-31.2	33.8	4.5	6.3	6.5
1a. Gross Domestic Product (Pre-Benchmark)	-5.0	-31.4	33.4	4.3	6.4	--
2. Personal Consumption Expenditures	-6.9	-33.4	41.4	3.4	11.4	11.8
3. Nonresidential Fixed Investment	-8.1	-30.3	18.7	12.5	12.9	8.0
3a. Nonresidential Structures	-0.9	-46.8	-15.3	-8.2	5.4	-7.0
3b. Nonresidential Equipment	-21.3	-36.2	55.9	26.4	14.1	13.0
3c. Intellectual Property Products	3.8	-10.6	8.1	10.2	15.6	10.7
4. Change in Business Inventories	-0.5	-4.0	6.8	1.1	-2.6	-1.1
(Contribution to GDP Growth)						
5. Residential Construction	20.4	-30.7	59.9	34.4	13.3	-9.8
6. Total Government Purchases	3.7	3.9	-2.1	-0.5	4.2	-1.5
6a. Federal Government Purchases	2.4	20.6	-5.4	-3.1	11.3	-5.0
6b. State and Local Govt. Purchases	4.4	-5.5	0.1	1.2	-0.1	0.8
7. Net Exports	-0.1	1.5	-3.3	-1.7	-1.6	-0.4
(Contribution to GDP Growth)						
7a. Exports	-16.3	-59.9	54.5	22.5	-2.9	6.0
7b. Imports	-13.1	-53.1	89.2	31.3	9.3	7.8
Additional Items						
8. Final Sales	-4.6	-27.6	25.9	3.4	9.1	7.7
9. Final Sales to Domestic Purchasers	-4.4	-27.3	29.9	5.0	10.4	7.9
10. Gross Domestic Income	-0.8	-32.7	24.4	19.6	6.3	--
11. Average of GDP & GDI	-3.0	-32.0	29.0	11.9	6.3	--
12. GDP Chained Price Index	1.6	-1.5	3.6	2.2	4.3	6.0
13. Core PCE Price Index	1.7	-0.8	3.5	1.2	2.7	6.1

* Percent change SAAR, except as noted

Source: Bureau of Economic Analysis via Haver Analytics