Daiwa Capital Markets

U.S. Data Review

- Q2 Revised GDP: modest changes in both rate and sources of growth

Michael Moran
Daiwa Capital Markets America
212-612-6392
michael.moran@us.daiwacm.com

Revised GDP

The revised estimate of second quarter GDP was little changed from the initial tally published one month ago (6.6 percent versus 6.5 percent, table). The consensus estimate called for growth of 6.7 percent. The sources of growth also did not change meaningfully from the initial estimate: the economy in Q2 was powered by consumer spending and business fixed investment, and these components showed even better results than initially believed. Other components (inventory investment, residential construction, government spending, and net exports) were soft, with most of them showing even weaker results (net exports were a tad firmer).

The picture is likely to change in the third quarter. Overall growth is likely to ease somewhat (we are currently thinking of growth near 5.5 percent), with the slower pace led by a deceleration in consumer spending. Constraints from residential construction, inventory investment and government spending are likely to be less forceful.

GDP and Related Items*

		21-Q1	21-Q2(a)	21-Q2(p)
1.	**Gross Domestic Product**	6.3	6.5	6.6
2.	**Personal Consumption Expenditures**	11.4	11.8	11.9
3.	**Nonresidential Fixed Investment**	12.9	8.0	9.3
3a.	**Nonresidential Structures**	5.4	-7.0	-5.4
3b.	**Nonresidential Equipment**	14.1	13.0	11.6
3c.	**Intellectual Property Products**	15.6	10.7	14.6
4.	**Change in Business Inventories (Contribution to GDP Growth)**	-2.62	-1.1	-1.3
5.	**Residential Construction**	13.3	-9.8	-11.5
6.	**Total Government Purchases**	4.2	-1.5	-1.9
6a.	**Federal Government Purchases**	11.3	-5.0	-5.2
6b.	**State and Local Govt. Purchases**	-0.1	0.8	0.3
7.	**Net Exports (Contribution to GDP Growth)**	-1.56	-0.4	-0.2
7a.	**Exports**	-2.9	6.0	6.6
7b.	**Imports**	9.3	7.8	6.7
	Additional Items			
8.	**Final Sales**	9.1	7.7	7.9
9.	**Final Sales to Domestic Purchasers**	10.4	7.9	7.9
10.	**Gross Domestic Income**	6.3	--	1.6
11.	**Average of GDP & GDI**	6.3	--	4.0
12.	**GDP Chained Price Index**	4.3	6.0	6.1
13.	**Core PCE Price Index**	2.7	6.1	6.1

** Percent change SAAR, except as noted*
(a) = advance (1st estimate of GDP); (p) = preliminary (2nd estimate of GDP)
Source: Bureau of Economic Analysis via Haver Analytics

Today's report included the first estimate of corporate profits for the second quarter, and results were strong. So-called economic profits (adjustments added to achieve uniform inventory and depreciation accounting) jumped 9.7 percent (not annualized). Only seven quarters in the past 30 years showed firmer results. The strong gains were partially the result of solid economic growth, but wider profit margins had a stronger influence. Improved profit margins, in turn, were influenced by pandemic-related subsidy payments from the federal government. For example, loan forgiveness under the Paycheck Protection Program would bolster profits, as would tax credits for paid sick leave.

Today's report also included the first estimate of gross domestic income, which showed surprisingly soft results (up 1.6 percent at an annual rate). The subsidies that helped fuel corporate profits had an influence, as subsidies are subtracted in the calculation of gross domestic income. Theoretically, gross domestic income and gross domestic product should be equal (incomes earned in production should equal the total value of production), but different data sources often lead to discrepancies, sometimes large ones.