U.S. Data Review

- Revised Q2 GDP: downward adjustment
- Price indexes: GDP price index and PCE price indexes revised lower
- International trade: wider goods deficit in July

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Revised Q2 GDP

- U.S. GDP advanced 2.1 percent (annual rate) in Q2, slower than the preliminary estimate of 2.4 percent. The latest results suggest a still-solid underlying performance in the economy in Q2, although one that is a bit less favorable than suggested by the preliminary GDP report.

- Business fixed investment contributed importantly to the downward revision with growth of 6.1 percent rather than 7.7 percent (a contribution of 0.8 percentage point to growth rather than 1.0 percentage point). Investment in structures was adjusted higher (growth of 11.2 percent rather than 9.7 percent), but equipment spending and intellectual property investment were revised lower (growth of 7.7 and 2.2 percent, respectively, versus 10.8 and 3.9 percent).

GDP and Related Items*

		23-Q1	23-Q2 (a)	23-Q2 (p)
1.	**Gross Domestic Product**	2.0	2.4	2.1
2.	**Personal Consumption Expenditures**	4.2	1.6	1.7
3.	**Nonresidential Fixed Investment**	0.6	7.7	6.1
3a.	**Nonresidential Structures**	15.8	9.7	11.2
3b.	**Nonresidential Equipment**	-8.9	10.8	7.7
3c.	**Intellectual Property Products**	3.1	3.9	2.2
4.	**Change in Business Inventories (Contribution to GDP Growth)**	-2.1	0.1	-0.1
5.	**Residential Construction**	-4.0	-4.2	-3.6
6.	**Total Government Purchases**	5.0	2.6	3.3
6a.	**Federal Government Purchases**	6.0	0.9	1.2
6b.	**State and Local Govt. Purchases**	4.4	3.6	4.7
7.	**Net Exports (Contribution to GDP Growth)**	0.6	-0.1	-0.2
7a.	**Exports**	7.8	-10.8	-10.6
7b.	**Imports**	2.0	-7.8	-7.0
	Additional Items			
8.	**Final Sales**	4.2	2.3	2.2
9.	**Final Sales to Domestic Purchasers**	3.5	2.3	2.3
10.	**Gross Domestic Income**	-1.8	--	0.5
11.	**Average of GDP & GDI**	0.1	--	1.3
12.	**GDP Chained Price Index**	4.1	2.2	2.0
13.	**Core PCE Price Index**	4.9	3.8	3.7

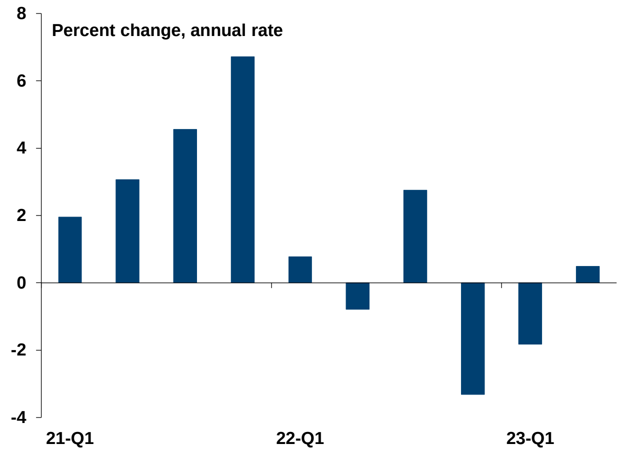
** Percent change SAAR, except as noted. (a) = advance estimate, (p) = preliminary estimate.*
Source: Bureau of Economic Analysis via Haver Analytics

- Inventory investment also contributed to the downward revision to Q2 GDP, subtracting 0.09 percentage point from growth rather than adding 0.14 percentage point. The shift, which followed a drag of 2.14 percentage points in Q1, suggests that firms are managing inventories cautiously amid an anticipated slowdown in demand. We are inclined to view this development positively, as inventories had gotten a bit heavy relative to sales, and the adjustment by firms in H1 will likely prevent a substantial inventory overhang in coming quarters even if demand were to deteriorate meaningfully.

- Net exports, already a drag on growth, were revised negatively (0.22 percentage point rather than 0.12 percentage point). Exports and imports both contracted less than previously projected, with the larger revision to imports (0.8 percentage point versus 0.2 percentage point for exports) leading to the larger negative contribution from net exports.

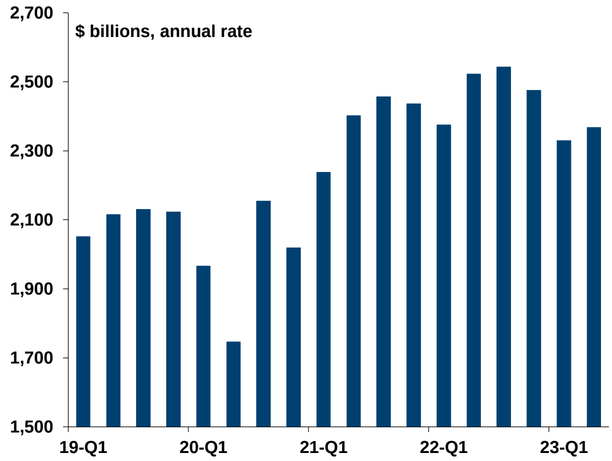
- Revisions were not all negative. Consumer spending registered slightly firmer growth (1.7 rather than 1.6 percent), as did government spending (3.3 versus 2.6 percent, with both federal and state & local investment adjusted higher). Moreover, the decline in residential construction was less than previously believed (a contraction of 3.6 rather than 4.2 percent).

Gross Domestic Income



Source: Bureau of Economic Analysis via Haver Analytics

After-Tax Corporate Profits



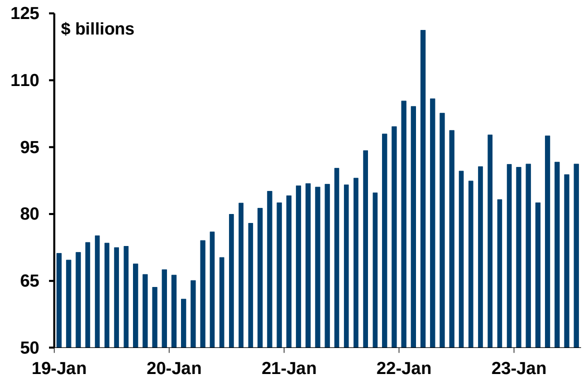
Source: Bureau of Economic Analysis via Haver Analytics

- Key inflation metrics were more favorable than previously believed. The GDP price index was revised lower by 0.2 percentage point to 2.0 percent. The headline and core price indexes for personal consumption expenditures increased 2.5 and 3.7 percent, respectively, down from 2.6 and 3.8 percent first reported.
- The second estimate of Q2 GDP included another growth metric, Gross Domestic Income (GDI), which tallies incomes earned (wages, corporate profits, rents) rather than output. GDI grew 0.5 percent, annual rate, in Q2 after contracting in the previous two quarters (declines of 1.8 percent in Q1 and 3.3 percent in 22-Q4; chart, above left). The Commerce Department suggests averaging GDP and GDI to get a broader view of economic activity. Readings in the past three quarters of -0.4 percent (22-Q4), 0.1 percent (23-Q1) and 1.3 percent in the latest quarter are less concerning than the GDI data alone, but they suggest a softer economic performance than implied by just looking at GDP.
- Preliminary data on aggregate corporate profits for Q2 were released with today's report. Pre-tax profits slipped 0.4 percent (not annualized) but rose 1.6 percent on an after-tax basis (chart, above right). The decline in domestic pre-tax profits reflected slippage at financial firms (-$47.9 billion, annual rate), which was driven by a drop reported by the Federal Reserve Banks. Profits of nonfinancial firms rose. (+$17.1 billion). Profits earned abroad rose by $20.2 billion.
- The revised Q2 GDP report was a bit disappointing, but keep in mind that data thus far for Q3 have tilted on the firm side. Consumer spending appears to have accelerated from the Q2 pace, and additional support from residential construction and government spending could push GDP growth well above three percent.

International Trade in Goods

- The nominal trade deficit in goods widened by $2.3 billion in July to $91.2 billion, a sharper deterioration than the expected increase of $1.2 billion to $90.0 billion (chart).
- Both U.S. exports and imports of goods increased in the latest month, with the jump of 1.9 percent in imports ($4.7 billion) exceeding growth of 1.5 percent ($2.4 billion) in U.S. exports.
- We hesitate to draw broad conclusions from this early report for Q3, but the data in hand suggest a modest positive contribution from net exports on GDP growth. After adjusting the goods deficit for inflation, we would be looking for a contribution of 0.2 to 0.3 percentage point. However, the picture could evolve appreciably within the coming months.

Nominal Trade Deficit in Goods



Source: U.S. Census Bureau via Haver Analytics