

# ECONOMIC DATA ANALYSIS

## Real GDP (08Q2 advance)

- Real GDP increased 1.9% in the second quarter, while there were downward revisions to growth in the prior two quarters. Notably, real GDP growth in the fourth quarter of last year is now reported at -0.2% versus +0.6%. The increase was below expectations and, from a conventional accounting perspective, the weaker growth was a product of a much larger-than-expected drawdown in inventories, which subtracted 1.9% points from real GDP growth.
- The GDP deflator rose only 1.1%, which was below consensus expectations, although the deflator for gross domestic purchases surged 4.3%. The difference between the two was accounted for by a 28.6% surge in import prices, which subtracted from the GDP deflator. The Fed's preferred inflation measure, core PCE prices, rose 2.1% in the second quarter and has been revised upwards in prior quarters. The four-quarter inflation rate in this measure has now run at 2.2% for three consecutive quarters.
- Nominal GDP growth was a mere 3.0% and has grown by only 3.8% over the last year.
- Consumer spending grew at only 1.5% in real terms in the quarter despite an 11.3% jump in real disposable income, which was fueled by tax rebates. Business investment rose 2.3%, which residential investment fell 15.6%, subtracting 0.6% points from growth. The narrowing in the real trade gap added 2.4% points to GDP.

	<u>Q2adv</u>	<u>Q1</u>	<u>Q4</u>	<u>4-Quarter Change</u>
Real GDP	1.9%	0.9%	-0.2%	1.8%
<i>Previous</i>	<i>n.a.</i>	<i>1.0%</i>	<i>0.6%</i>	<i>n.a.</i>
PCE	1.5%	0.9%	1.0%	1.3%
Residential Investment	-15.6%	-25.1%	-27.0%	-22.2%
Bus. Fixed Investment	2.3%	2.4%	3.4%	4.2%
-Bus. Equipment	-3.4%	-0.6%	1.0%	0.1%
-Non-Res. Structures	14.4%	8.6%	8.5%	12.9%
Inventory Change	\$-62.2bn	\$-10.2bn	\$-8.1bn	\$-16.1bn*
Government	3.4%	1.9%	0.8%	2.5%
Exports	9.2%	5.1%	4.4%	10.2%
Imports	-6.6%	-0.8%	-2.3%	-1.7%
Gross Dom. Purchases	-0.5%	0.1%	-1.0%	0.3%
Final Sales	3.9%	0.9%	0.8%	2.4%
Domestic final sales	1.3%	0.1%	-0.1%	0.8%
GDP Deflator	1.1%	2.6%	2.5%	1.9%
Nominal GDP	3.0%	3.5%	2.3%	3.8%
GDP chain-price index	1.1%	2.6%	2.8%	2.0%
Domestic purch. deflator	4.3%	3.4%	3.7%	3.4%
Core PCE deflator	2.1%	2.3%	2.5%	2.2%

\*4-qtr average

**BOTTOM LINE:** From our perspective this is a weak report. The inventory and trade swings largely canceled each other out and our focus is on the weak growth in nominal spending at a time of rising inflation pressures. With the decline in real GDP in the fourth quarter, GDP now has a more recessionary feel.

**John Ryding**  
ryding@rdqeconomics.com  
(212) 521-4326

**Conrad DeQuadros**  
dequadros@rdqeconomics.com  
(212) 521-4327

July 31, 2008