



# Economics Group

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## Economic Activity Slows Substantially in the Second Quarter

Reflecting softer-than-expected spending on consumer services, nonresidential construction and inventory investment, the third estimate of second quarter GDP was revised down to 1.3 percent from 1.7 percent.

### Inventories Adversely Impact Q2 Growth...

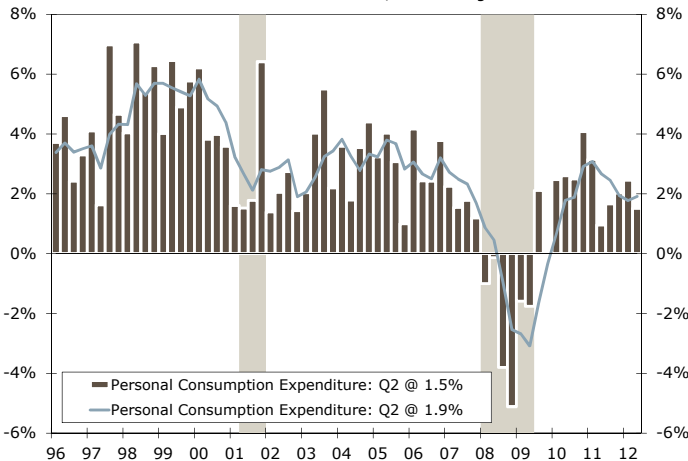
- Historically, we do not see large movements between the second and third revisions of GDP. That was certainly not the case today as real GDP slowed to a 1.3 percent annualized pace in the second quarter from the prior 1.7 percent estimate and the 2.0 percent pace recorded in the first quarter.
- Downward revisions to both nonfarm and farm inventories accounted for half of the 0.4 percentage point revision.

### But Also Set Q3 GDP for a Modest Rebound

- Other notable downward revisions included lower-than-expected consumption in household services as well as softer nonresidential structures spending. Government spending, however, proved to be a lesser drag on overall growth.
- While we expect inventory investment to rebound in the current quarter, prospects for GDP growth in Q4 and beyond are likely to remain soft and therefore keep the Fed on edge.

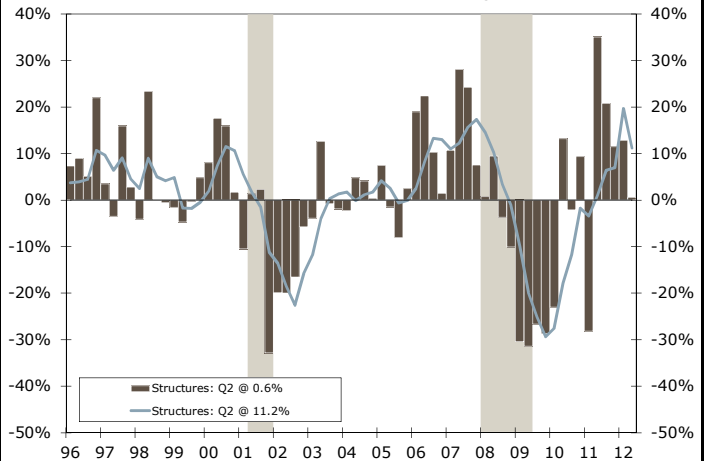
Real Personal Consumption Expenditures

Bars = SAAR Line = Yr/Yr % Change



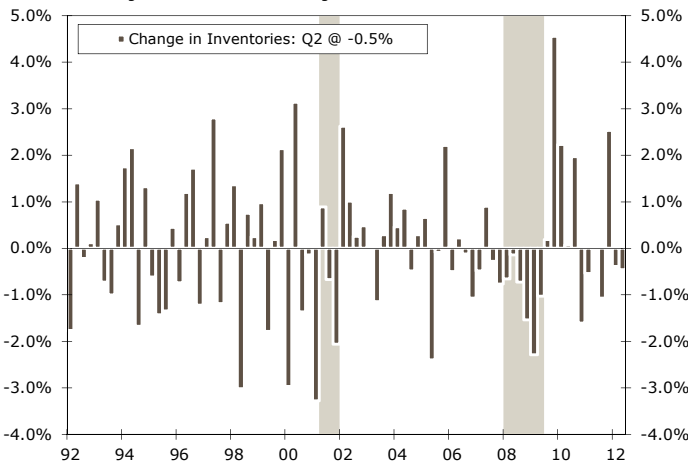
Real NonResidential Business Structures

Bars = CAGR Line = Yr/Yr % Change



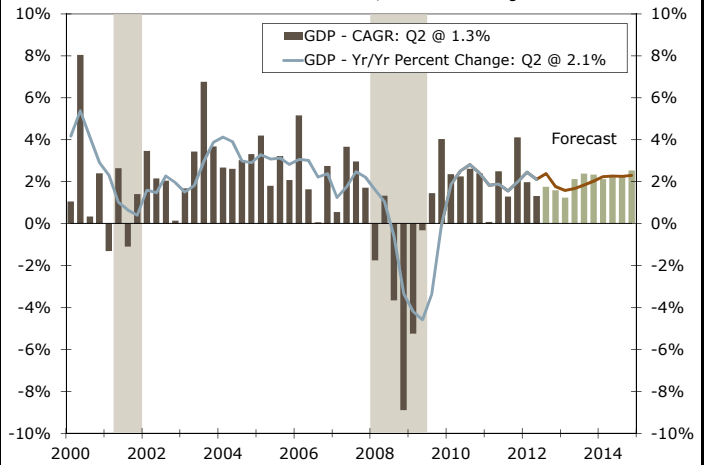
Real Gross Private Domestic Investment

Change in Inventories-Percentage Point Contribution to GDP Growth



U.S. Real GDP

Bars = CAGR Line = Yr/Yr Percent Change



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