

U.S. Data Review

- GDP: modest revision to growth in Q2
- International trade in goods: surprisingly firm exports

Michael Moran

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

Revised Q2 GDP

GDP growth of 2.0 percent in Q2 was close to the initial estimate of 2.1 percent and in line with the consensus estimate. In addition, the sources of the adjustment were in line with expectations. Consumer spending was already quite strong in Q2, and revised data showed an even faster pace of growth (4.7 percent versus 4.3 percent). However, small or moderate downward adjustments to state and local government spending, residential construction, net exports, and inventory investment provided offsets.

The downward revision to spending by state and local governments, while noticeable (2.3 percent versus 3.2 percent), still added to a sizeable increase in Q1 (3.3 percent) and left a firm pace of activity in the past two quarters. Residential construction, in contrast, remained soft, with the drop of 2.9 percent rather than 1.5 percent) representing the sixth consecutive quarterly decline and the eighth drop in the past nine quarters. Exports were softer than first reported (off 5.8 percent versus 5.2 percent), accounting for the downward adjustment to net exports. Net exports represented a drag on growth for the third time in the past four quarters. Inventory investment has been following a choppy pattern in recent quarters, with ups and downs subtracting 0.4 percentage point from growth in the first half of the year after adding 1.1 percentage points over the four quarters of last year.

Today's report provided the first look at corporate profits in Q2. Growth was strong at 5.1 percent (not annualized), but the jump merely offset declines in the prior two quarters and did not meaningfully alter the gentle upward trend of the past few years.

GDP and Related Items*

	19-Q1	19-Q2 (a)	19-Q2 (p)
1. Gross Domestic Product	3.1	2.1	2.0
2. Personal Consumption Expenditures	1.1	4.3	4.7
3. Nonresidential Fixed Investment	4.4	-0.6	-0.6
3a. Nonresidential Structures	4.0	-10.6	-9.4
3b. Nonresidential Equipment	-0.1	0.7	0.7
3c. Intellectual Property Products	10.8	4.7	3.7
4. Change in Business Inventories	0.5	-0.9	-0.9
(Contribution to GDP Growth)			
5. Residential Construction	-1.0	-1.5	-2.9
6. Total Government Purchases	2.9	5.0	4.5
6a. Federal Government Purchases	2.2	7.9	8.1
6b. State and Local Govt. Purchases	3.3	3.2	2.3
7. Net Exports	0.7	-0.7	-0.7
(Contribution to GDP Growth)			
7a. Exports	4.1	-5.2	-5.8
7b. Imports	-1.5	0.1	0.1
Additional Items			
8. Final Sales	2.6	3.0	3.0
9. Final Sales to Domestic Purchasers	1.8	3.5	3.6
10. Gross Domestic Income	3.2	—	2.1
11. Average of GDP & GDI	3.2	—	2.1
12. GDP Chained Price Index	1.1	2.4	2.4
13. Core PCE Price Index	1.1	1.8	1.7
14. After-tax Corp. Profits (not annualized)	-4.1	—	5.1

* Percent change SAAR, except as noted

(a) = advanced (1st estimate of GDP); (p) = preliminary (2nd estimate of GDP)

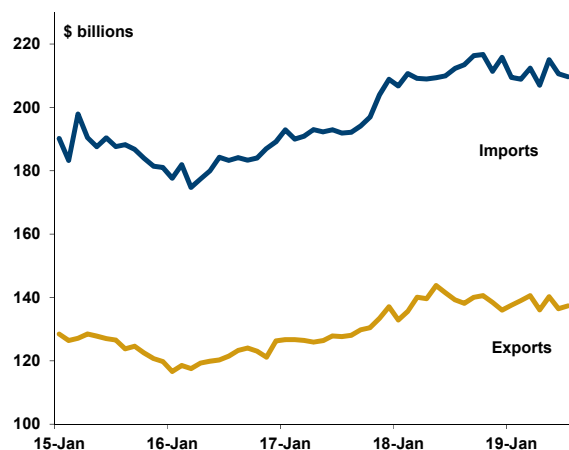
Source: Bureau of Economic Analysis via Haver Analytics

International Trade in Goods

Trade data provided a positive surprise in July, as exports rose 0.7 percent and imports fell 0.4 percent, leaving the trade deficit \$1.8 billion narrower than the reading in June. The increase in exports, while welcome, did not meaningfully alter the downward drift that has been in place since the middle of last year. Imports also are drifting lower (chart, left).

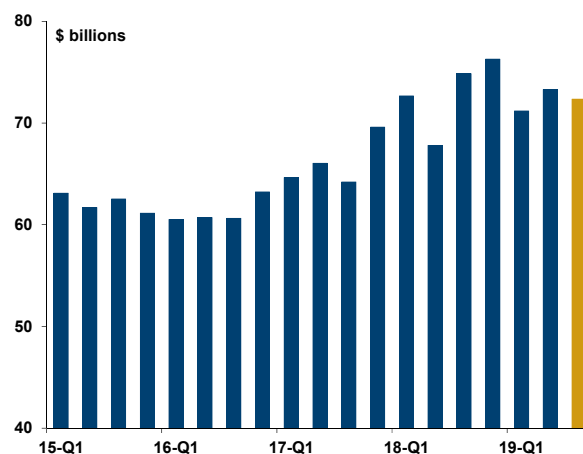
The July results on goods trade provide only modest insight into the implications of net exports for GDP growth in Q3 (the figures are not price adjusted, they exclude trade in services, and results for August and September could alter the picture). The figures in hand suggest that the trade deficit will be close to that in the second quarter, which would leave a neutral influence on GDP growth from net exports.

Nominal Imports & Exports of Goods



Source: U.S. Census Bureau via Haver Analytics

Nominal Goods Trade Deficit*



* Quarterly averages of monthly data. The reading for 2019-Q3 (gold bar) is the deficit for July 2019.

Source: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America