

U.S. Data Review

- Revised GDP: headline unrevised; small shifts in components
- International trade in goods: modest widening in monthly deficit

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Revised Q2 GDP

Revised GDP growth of 2.0 percent in Q2 was unchanged from the preliminary tally (first revision) and in line with the consensus forecast. In addition, the sources of adjustment were largely in line with expectations. Government spending (both federal and state and local) was revised higher. However, downward adjustments to business-related construction and residential construction provided offsets. In addition, consumer spending was revised lower, providing a mild downside surprise. Despite the downward revision, reported growth of 4.6 percent (versus 4.7 percent) was still robust.

The downward adjustment to business investment in structures added an accent to an already soft performance in Q2 (-11.1 percent versus -9.4 percent). Business investment in structures has softened considerably in the past four quarters after a firm increase in activity in the first half of 2018. The downward revision to residential construction (-3.0 percent versus -2.9 percent) was modest, but the sector has been uniformly soft, declining in six consecutive quarters and in eight of the past nine. Exports were firmer than previously reported (-5.7 percent versus -5.8 percent), but imports were a bit softer (growth of 0.1 percent versus 0.3 percent), leaving little net revision to net exports (-0.68 percent contribution to GDP growth versus -0.72 percent contribution). Inventory investment was unrevised.

Today's report included revised estimates for corporate profits in Q2. Growth of 3.7 percent in after-tax profits (not annualized) was revised lower from the preliminary tally of 5.1 percent. The recent pickup mostly offset declines in the prior two quarters and left a modest downward drift in profits over the past four quarters. From a longer-term perspective, profits have trended gently higher over the past few years.

GDP and Related Items*

	19-Q1	19-Q2 (p)	19-Q2 (r)
1. Gross Domestic Product	3.1	2.0	2.0
2. Personal Consumption Expenditures	1.1	4.7	4.6
3. Nonresidential Fixed Investment	4.4	-0.6	-1.0
3a. Nonresidential Structures	4.0	-9.4	-11.1
3b. Nonresidential Equipment	-0.1	0.7	0.8
3c. Intellectual Property Products	10.8	3.7	3.6
4. Change in Business Inventories (Contribution to GDP Growth)	0.5	-0.9	-0.9
5. Residential Construction	-1.0	-2.9	-3.0
6. Total Government Purchases	2.9	4.5	4.8
6a. Federal Government Purchases	2.2	8.1	8.3
6b. State and Local Govt. Purchases	3.3	2.3	2.7
7. Net Exports (Contribution to GDP Growth)	0.7	-0.7	-0.7
7a. Exports	4.1	-5.8	-5.7
7b. Imports	-1.5	0.1	0.0
Additional Items			
8. Final Sales	2.6	3.0	3.0
9. Final Sales to Domestic Purchasers	1.8	3.6	3.6
10. Gross Domestic Income	3.2	2.1	1.8
11. Average of GDP & GDI	3.2	2.1	1.9
12. GDP Chained Price Index	1.1	2.4	2.4
13. Core PCE Price Index	1.1	1.7	1.9
14. After-tax Corp. Profits (not annualized)	-4.1	5.1	3.7

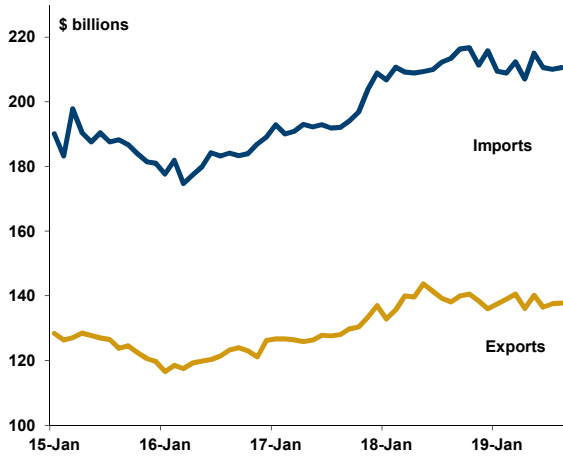
* Percent change SAAR, except as noted
(p) = preliminary (2nd estimate of GDP); (r) = revised (3rd estimate of GDP)
Source: Bureau of Economic Analysis via Haver Analytics

International Trade in Goods

Preliminary trade data for August showed small changes in the flow of goods, as an increase of 0.3 percent in imports outpaced an upward wiggle of 0.1 percent in exports and led to a modest widening of \$0.4 billion in the monthly trade deficit. The increase in exports was encouraging in that it followed a pickup in July, but it did not meaningfully alter the downward drift in the series present since the middle of last year. The increase in imports offset a similar-sized decline last month, but imports also are drifting lower (chart, left).

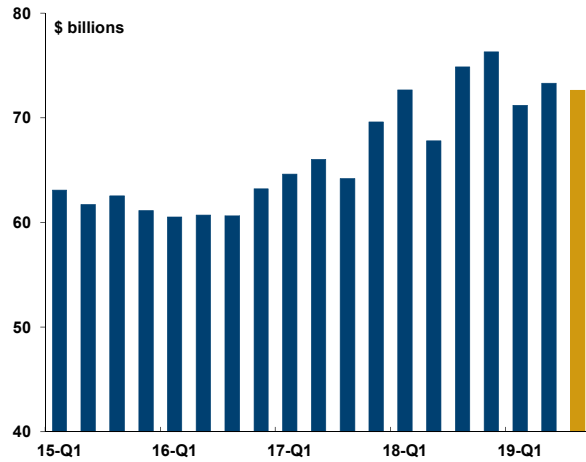
The August results on goods trade provide only limited insight into the influence of net exports on GDP growth in Q3. The available figures for August are not price-adjusted, and they do not provide data on trade in services. In addition, results for September could alter the picture further. The available figures on the nominal deficit in goods suggest a modest narrowing versus Q2; however, the services surplus for July (latest available) narrowed slightly, suggesting an offset. On balance, that trade data thus far in Q3 imply a neutral effect 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 average of results for July and August 2019.

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