# U.S. Data Review

- Q2 GDP: upward adjustments to consumer spending and business investment spur positive revision
- GDI: alternate measure of economic activity suggests firm Q2 performance
- Corporate profits: solid, if unspectacular, performance after decline Q1

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## Revised Q2 GDP

- The second estimate of Q2 GDP was firmer than the preliminary tally (+3.3 percent, annual rate, versus +3.0 percent previously) with the internals of the report indicating a notably better performance for the U.S. economy than initially believed. On the point, upward adjustments to consumer spending and business investment contributed to growth of real final sales to private domestic purchasers (a metric often cited by Chair Powell as a superior measure of underlying demand versus topline growth) of 1.9 percent versus 1.2 percent published last month. The results matched the pace in Q1, and while slower than the 2.8 percent growth rate in 2024, they were far less concerning than previously assumed. Thus, the U.S. economy remains on track despite notable headwinds from trade policy.

### GDP and Related Items*

| | | 25-Q1 | 25-Q2(a) | 25-Q2(p) |
|---|---|---|---|---|
| 1. | **Gross Domestic Product** | -0.5 | 3.0 | 3.3 |
| 2. | **Personal Consumption Expenditures** | 0.5 | 1.4 | 1.6 |
| 3. | **Nonresidential Fixed Investment** | 10.3 | 1.9 | 5.7 |
| 3a. | **Nonresidential Structures** | -2.4 | -10.3 | -8.9 |
| 3b. | **Nonresidential Equipment** | 23.7 | 4.8 | 7.4 |
| 3c. | **Intellectual Property Products** | 6.0 | 6.4 | 12.8 |
| 4. | **Change in Business Inventories (Contribution to GDP Growth)** | 2.6 | -3.2 | -3.3 |
| 5. | **Residential Construction** | -1.3 | -4.6 | -4.7 |
| 6. | **Total Government Purchases** | -0.6 | 0.4 | -0.2 |
| 6a. | **Federal Government Purchases** | -4.6 | -3.7 | -4.7 |
| 6b. | **State and Local Govt. Purchases** | 2.0 | 3.0 | 2.6 |
| 7. | **Net Exports (Contribution to GDP Growth)** | -4.6 | 5.0 | 5.0 |
| 7a. | **Exports** | 0.4 | -1.8 | -1.3 |
| 7b. | **Imports** | 37.9 | -30.3 | -29.8 |
| | **Additional Items** | | | |
| 8. | **Final Sales** | -3.1 | 6.3 | 6.8 |
| 9. | **Final Sales to Domestic Purchasers** | 1.5 | 1.1 | 1.6 |
| 10. | **Gross Domestic Income** | 0.2 | -- | 4.8 |
| 11. | **Average of GDP & GDI** | -0.1 | -- | 4.0 |
| 12. | **GDP Chained Price Index** | 3.8 | 2.0 | 2.0 |
| 13. | **Core PCE Price Index** | 3.5 | 2.5 | 2.5 |

** Percent change SAAR, except as noted. (a) = advance (1st estimate of GDP), (p) = preliminary (2nd estimate of GDP)*
*Source: Bureau of Economic Analysis via Haver Analytics*

- As noted above, consumer spending was a key source of the upward revision (+1.6 percent, annual rate, versus +1.4 percent first reported; a contribution of 1.07 percentage points to growth versus 0.98 percentage point). Outlays for nondurable goods (growth of 2.3 percent versus 1.3 percent) and services (1.2 percent versus 1.1 percent previously) were revised, with the results influenced importantly by revised estimates of outlays for pharmaceutical products, health care services and food services and accommodations. Contrastingly, spending on durable goods was softer than first reported (+2.6 percent versus +3.7 percent previously).

- Business fixed investment also contributed positively to the Q2 revision (+5.7 percent, annual rate, versus +1.9 percent; a contribution of 0.78 percentage point to growth versus 0.27 percentage point). Intellectual property investment was stronger than first reported (+12.8 percent, annual rate, versus +6.4 percent), reflecting stronger outlays for software and expenditures on research and development. Equipment spending was adjusted higher as well (growth of 7.4 percent versus 4.8 percent), as firms spent more aggressively on transportation equipment (primarily light trucks). Moreover, outlays for structures were less of a drag than previously assumed (-8.9 percent versus -10.3 percent).

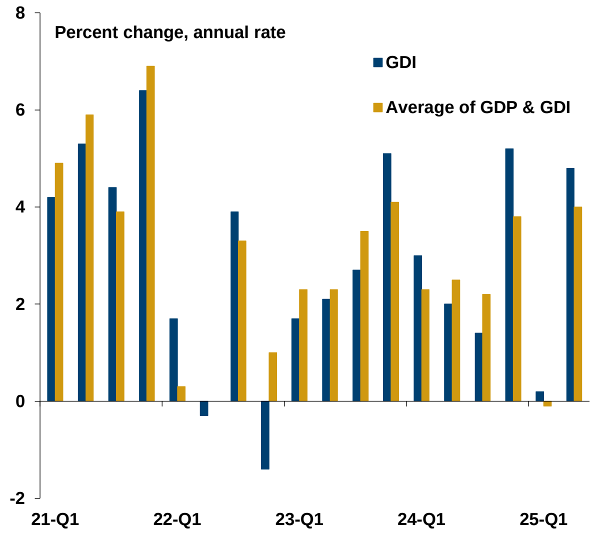
- Revisions to other areas were relatively modest, although contributions/constraints from net exports and inventories were still large on account of disruptions introduced by tariffs (i.e., a surge in imports in Q1 and associated inventory build and offsets in Q2). Net exports still made an outsized contribution to growth but a bit less than first reported (4.95 percentage points versus 4.99 percentage points), as both exports and imports contracted less than initially believed. In the negative column, inventory investment acted as a larger constraint on activity than first thought (-3.29 percentage points versus -3.17 previously reported). Of less consequence in the overall composition of GDP, residential construction contracted 4.7 percent rather than 4.6 percent (with an approximately unchanged constraint of 0.19 percentage point on growth), and government spending flipped from a modest net positive to a drag on activity (-0.2 percent, annual rate, versus +0.4 percent; a contribution of -0.03 percentage point versus +0.08 in the prior report).

- An alternate measure to economic activity, Gross Domestic Income (GDI), was released today with the second estimate of GDP. This metric, which measures income earned in the economy (e.g., wages, profits, etc.), jumped 4.8 percent, annual rate, in the second quarter – outpacing the advance in GDP. This measure, which can often deviate significantly from GDP results given differences in sampling, suggested a better performance in the economy than the more widely tracked output metric. Resultantly, the average of the two, a measure used by the Bureau of Economic Analysis to provide an even more complete view of the economy, came in at a still-firm 4.0 percent (chart, below left).

- Price indexes released with today's report were mostly unchanged from the first tally. While Q2 estimates for the GDP and core PCE price indexes were unchanged at 2.0 percent and 2.5 percent, respectively, the headline PCE price index was revised 0.1 percentage point lower to 2.0 percent.

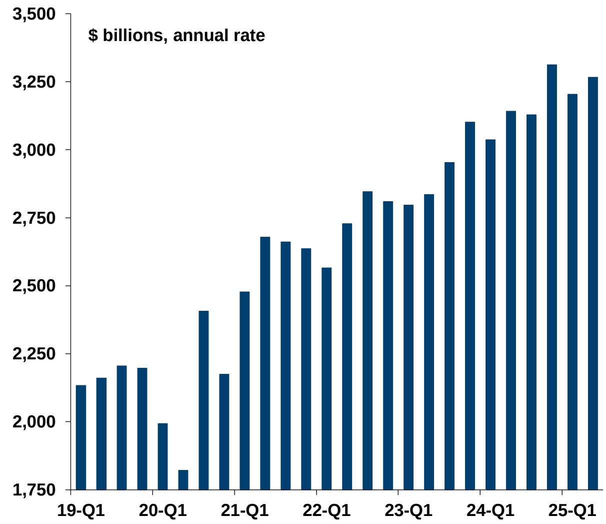
- A view on broad corporate profits in Q2 showed an improvement after contracting in Q1, with pretax earnings rising 1.7 percent (not annualized) versus a drop of 2.3 percent in Q1 and post-tax profits rising 2.0 percent after slipping 3.3 percent previously (chart, below right). All told, profits in the aggregate have been strong in the post-pandemic period.

## Gross Domestic Income (GDI)




*Source: Bureau of Economic Analysis via Haver Analytics*

## After-Tax Corporate Profits




*Source: Bureau of Economic Analysis via Haver Analytics*