



GDP Review (Second Quarter 2017)

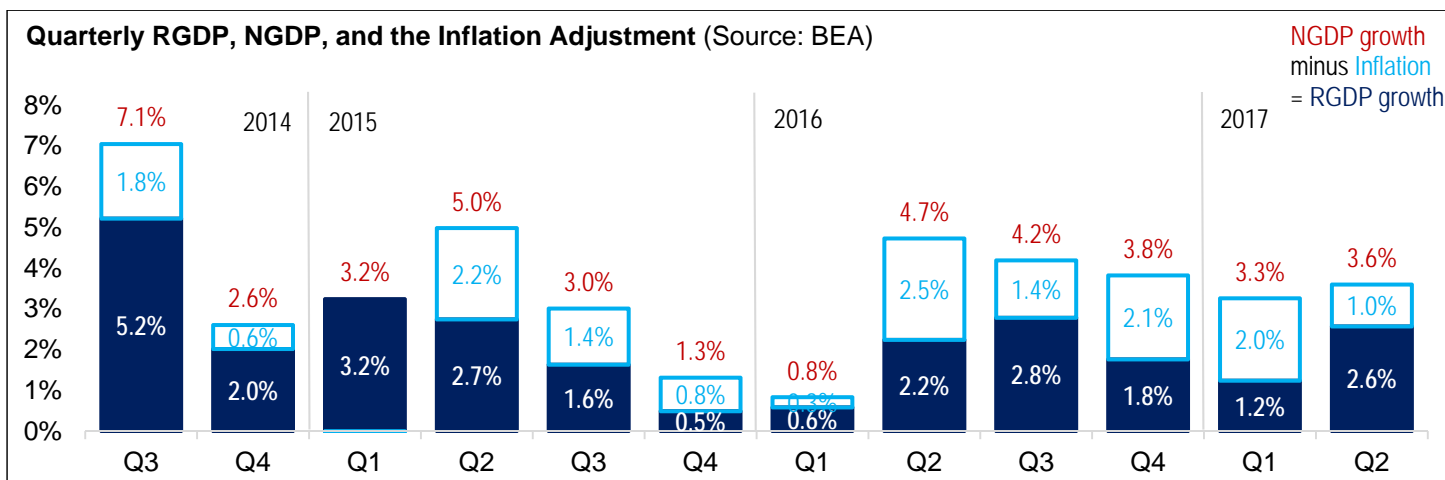
July 31, 2017

GDP Review Snapshot

- The first estimate of second quarter 2017 real GDP growth was 2.6% at an annualized rate.
- The acceleration from last quarter was driven primarily by a larger increase in consumer spending.
- BEA issued its annual three-year comprehensive update (2014-2016).

Details

The [Bureau of Economic Analysis \(BEA\) reported](#) that real gross domestic product (RGDP) grew at a 2.6% annual rate¹ in the second quarter of 2017. This compares to 1.2% for the previous quarter, and 1.8%, 2.8%, and 2.2% in the fourth, third, and second quarters of 2016, respectively. Nominal GDP (NGDP), which measures total spending in the economy without adjusting for inflation, increased by 3.6%. After adjusting for 1.0% inflation—as measured by the GDP deflator—RGDP growth was 2.6%.

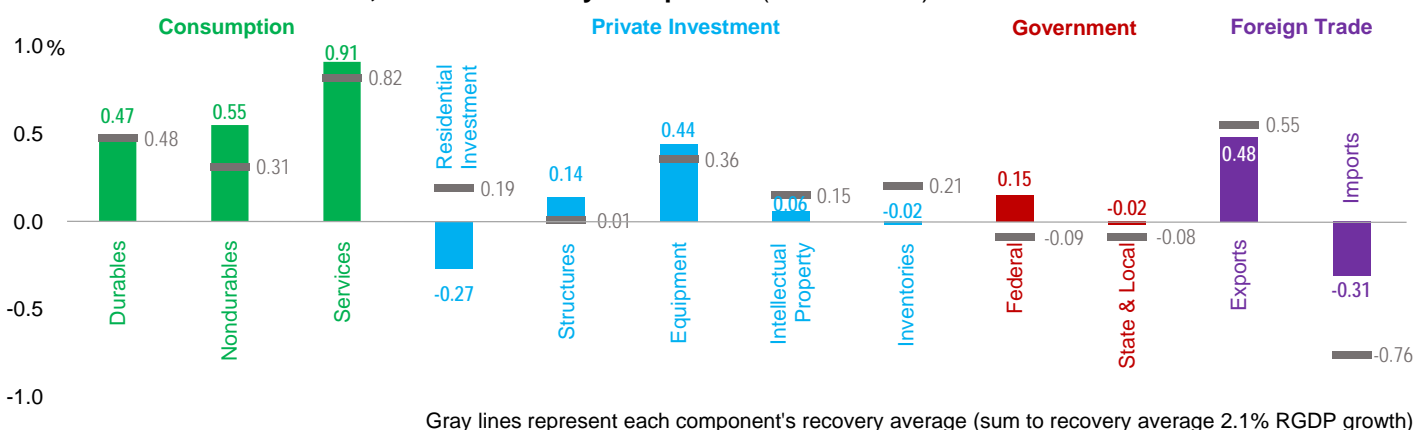


Component/Quarter	Actual		Blue Chip Consensus Forecast			
	Q1-2017	Q2-2017	Q2-2017	Q3-2017	Q4-2017	Q1-2018
Real GDP (RGDP) growth	1.2%	2.6%	2.8%	2.5%	2.3%	2.3%
Nominal GDP (NGDP) growth	3.3%	3.6%	4.1%	4.3%	4.3%	4.4%
GDP deflator (inflation rate)	2.0%	1.0%	1.3%	1.8%	2.0%	2.1%

Consumer spending was the strongest contributor to RGDP growth, accounting for 1.9 percentage points. Business investment in equipment and structures was also strong the last two quarters. While last quarter's low RGDP growth was primarily due to reductions of business inventories, this quarter's inventories were little changed. Reduced spending on home improvements led residential investment to partially offset RGDP growth by about 0.3 percentages.

Two updates to BEA's initial GDP report are scheduled for August 30 and September 28. The third quarter GDP report is scheduled for October 27 at 8:30am.

Q2-2017 2.6% RGDP Growth, Contributions by Component (Source: BEA)



Second Quarter Economic Indicators	Apr-17	May-17	Jun-17
ISM Manufacturing Index (>50, expansion)	54.8	54.9	57.8
ISM Non-Manufacturing Index	57.5	56.9	57.4
U.S. Trade Balance (millions)	-47,585	-46,507	#N/A
Retail Sales	0.3%	-0.1%	-0.2%
Business Inventory-to-Sales Ratio	1.37	1.38	#N/A
Housing Starts	-2.9%	-2.8%	8.3%
Durable Goods Orders	-0.8%	-0.1%	6.5%
Personal Income	0.3%	0.4%	#N/A
Personal Outlays	0.4%	0.1%	0.4%
Nonfarm Payroll Job Growth	207,000	152,000	222,000
Private Payroll Job Growth	194,000	159,000	187,000
PCE Inflation (12-month change)	1.7%	1.4%	#N/A
Core PCE Inflation (12-month change)	1.5%	1.4%	#N/A
Consumer Confidence	119.4	117.6	117.3

Context

The initial estimate of Q2 2.6% RGDP growth came in slightly below expectations, but is an improvement over the previous quarter's 1.2% (its first estimate was 0.7%).

The part that has been [missing from the economic recovery is business investment](#). In the last two quarters, business investment in structures and equipment made their largest contributions to RGDP growth since 2014.

Noteworthy

The BEA conducted its annual [comprehensive updates](#) to its 2014-2016 National Income and Product Accounts on which GDP estimates are based. These updates reflected the use of new and revised source data and methodology improvements. As a result, RGDP growth for 2014 was revised up from 2.4 to 2.6% (mostly due to greater investment growth). For 2015, it was revised up from 2.6 to 2.9% (mostly due to greater consumer spending growth). For 2016, it was revised down from 1.6 to 1.5% (mostly attributable to reduced export growth).

¹ Quarterly numbers are reported here at annual rates unless stated otherwise. An annual rate for a quarter means BEA calculated the change from the previous quarter as if it occurred throughout a year.