

July 31, 2017

**GDP Review (Second Quarter 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](https://www.bea.gov/newsreleases/national/gdp/2017/pdf/gdp2q17_adv.pdf) that real gross domestic product (RGDP) grew at a 2.6% annual rate[[1]](#endnote-1) 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%.

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|  | Actual | Blue Chip Consensus Forecast |
| Component/Quarter |  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.

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| **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](https://www.jec.senate.gov/public/index.cfm/republicans/2017/2/weekly-economic-update-february-13-february-17-2017). 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](https://www.bea.gov/national/pdf/2017-NIPA-AnnualUpdate-Results.pdf) 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. [↑](#endnote-ref-1)