August 26, 2016

TD Economics

Data Release: Real GDP growth revised down, but household spending revised up in the second quarter

- The American economy grew by 1.1% (annualized) according to the BEA's second estimate, a notch below its preliminary estimate (1.2%), but on par with the consensus expectation.

- Despite the downward revision to the headline, the details were generally positive on the state of private domestic demand. Consumer spending was revised up to 4.4% (from 4.2%) with upward revisions to all major components. Business fixed investment was revised up to -2.5% (from -3.2%) on a strong upward revision to intellectual property products (+8.6% from 3.5%).

- The main downward revisions came from government, which subtracted 0.3 percentage points (p.p.) from the headline (up from -0.2 p.p.), net-exports, whose positive contribution was revised down to +0.1 p.p. (from +0.2 p.p.), and inventory investment, which subtracted a whopping 1.3 p.p. (from -1.2 p.p.).

- Inflation was revised up on the quarter, with the GDP price index revised to 2.3% (from 2.2%) quarter-over-quarter annualized. Consumer price indexes were also revised up, with the headline hitting 2.0% quarter-on-quarter (from 1.9%) and the core up 1.8% (from 1.7%).

- Also included in the release, corporate profits declined 1.2% (non-annualized) following a 3.4% increase in the first quarter according to the preliminary estimate. On a year-over-year basis profits were down 4.9% in the quarter, an improvement from the 6.6% decline in Q1.

Key Implications

- Look past the headline number in this report. The upward revision to private domestic demand growth (now estimated at 3.0% from 2.7%) is the real story. This report adds to our confidence that real GDP will accelerate to 3.0% in the third quarter.

- Inventory drawdowns are rare outside of recessions, but not unheard of. The magnitude of the pullback in the second quarter suggests little downside risk from this category in the third quarter and given the strength in domestic demand, some potential upside.

- The downturn in business investment is the fly in the ointment in terms of the health of the American economy. The good news is that recent high frequency data such as capital goods orders and regional manufacturing surveys, suggest a rebound in investment in the third quarter. Still, with a generally downbeat corporate profit environment, we would not expect any miracles. Continued softness on the investment front will not go unnoticed by the Federal Reserve and will ensure that the path of policy normalization remains extremely gradual.

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