

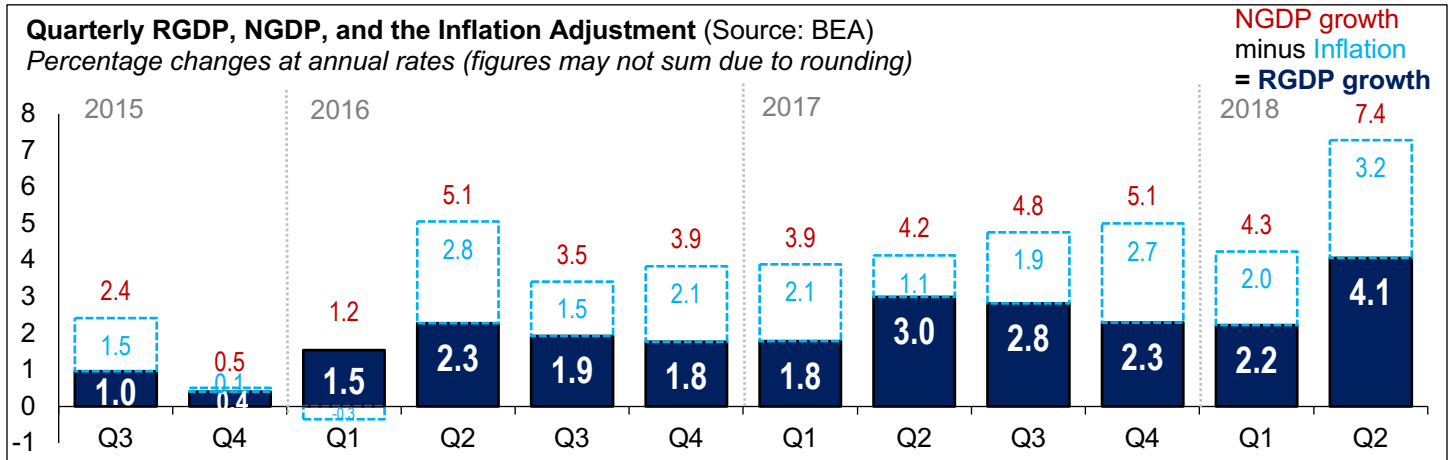
Q2-2018 GDP Review

GDP Review Snapshot

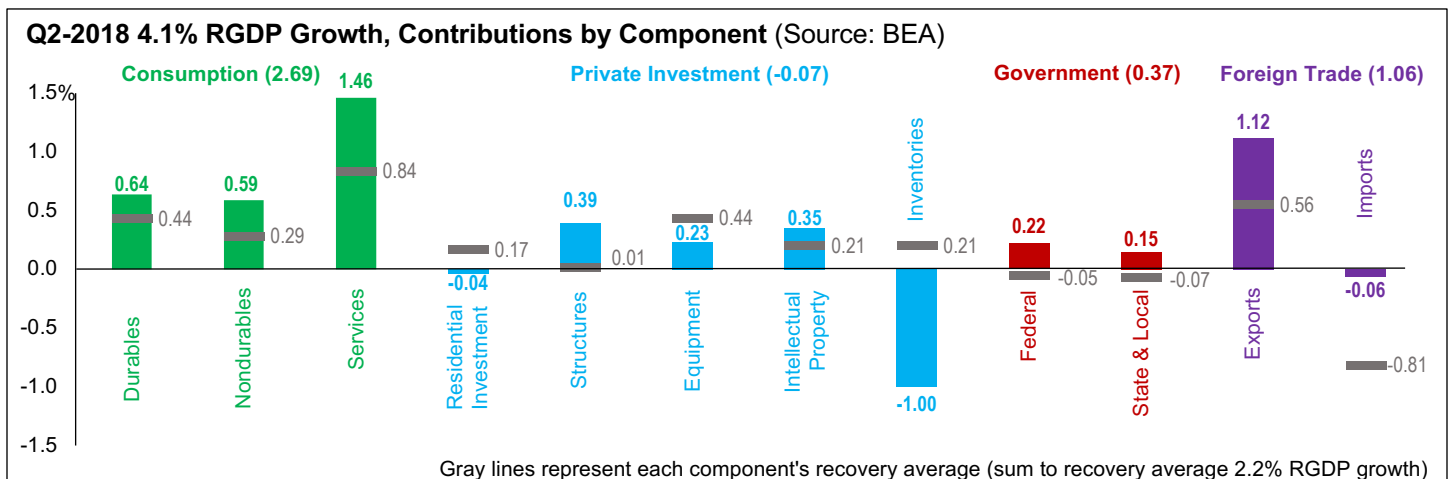
- Real GDP grew at an annual rate of 4.1% in the second quarter of 2018, exceeding expectations.
- Consumer spending was the largest contributor to real GDP growth.
- Thanks to TCJA, business nonresidential fixed investment showed continued strength this quarter.
- Q1-2018 real GDP was revised up to 2.2% as part of BEA's comprehensive update back to 1929.
- Real disposable income grew at an average annual rate of 3.5% in the first half of 2018.

Details

The [Bureau of Economic Analysis \(BEA\) reported](#) that real gross domestic product (RGDP) grew at a 4.1% annual rate¹ in Q2-2018. Nominal GDP (NGDP), which measures total spending in the economy without adjusting for inflation, increased by 7.4%. The difference between NGDP and RGDP growth is the GDP deflator.



| Component/Quarter | Actual | | Blue Chip Consensus Forecast | | | |
|-------------------------------|---------|---------|------------------------------|---------|---------|---------|
| | Q1-2018 | Q2-2018 | Q2-2018 | Q3-2018 | Q4-2018 | Q1-2019 |
| Real GDP (RGDP) growth | 2.2% | 4.1% | 3.9% | 2.9% | 2.8% | 2.4% |
| Nominal GDP (NGDP) growth | 4.3% | 7.4% | 6.0% | 5.2% | 5.0% | 4.7% |
| GDP deflator (inflation rate) | 2.0% | 3.2% | 2.1% | 2.3% | 2.2% | 2.3% |



Consumer spending contributed +2.69 (+1.56²) percentage points to the measured RGDP growth rate of 4.1 percent. Business non-residential fixed investment, which excludes inventories, contributed +0.97 (+0.66) percentage points. Residential investment subtracted -0.04 (+0.17) and business inventory investment -1.00 (+0.21) percentage points. Increased federal government spending added +0.22 (-0.05) percentage points, while spending by state and local governments contributed +0.15 (-0.07) percentage points. Net exports added +1.06 (-0.26) percentage points to RGDP growth.

| Second Quarter Economic Indicators | Apr-18 | May-18 | Jun-18 |
|---|---------------|---------------|---------------|
| ISM Manufacturing Index (>50, expansion) | 57.3 | 58.7 | 60.2 |
| ISM Non-Manufacturing Index | 56.8 | 58.6 | 59.1 |
| U.S. Trade Balance (millions) | -46,081 | -43,053 | N/A |
| Retail Sales | 0.3% | 1.3% | 0.5% |
| Business Inventory-to-Sales Ratio | 1.35 | 1.34 | N/A |
| Housing Starts | -3.8% | 4.8% | -12.3% |
| Durable Goods Orders | -1.0% | -0.3% | 1.0% |
| Personal Income | 0.2% | 0.4% | N/A |
| Personal Outlays | 0.5% | 0.2% | N/A |
| Nonfarm Payroll Job Growth | 175,000 | 244,000 | 213,000 |
| Private Payroll Job Growth | 174,000 | 239,000 | 202,000 |
| PCE Inflation (12-month change) | 2.0% | 2.3% | N/A |
| Core PCE Inflation (12-month change) | 1.8% | 2.0% | N/A |
| Consumer Confidence | 125.6 | 128.8 | 126.4 |

Context

RGDP growth averaged 2.9% over the last five quarters compared to the Obama Administration's 2.2% recovery average despite its predictions that faster growth was no longer attainable. For the first half of 2018 real disposable income grew 3.5% compared with a 2.3% Obama recovery average. The improved economic outlook reaffirms that curtailing excessive regulation and pro-growth tax reform can jumpstart a stagnating economy, as the Reagan Administration demonstrated in the 1980s.

Some claim that workers' real wages are stagnating, but a more careful [analysis](#) shows employee compensation—measured in full and properly adjusted for inflation—continues to rise. Workers are keeping more of their paychecks thanks to lower tax rates and more people are working. Burgeoning economic growth is leading people who had relied on disability insurance for their livelihood to [reenter the workforce in droves](#).

Noteworthy

Large movement *within* the GDP numbers was attributed to soybean inventories being drawn down significantly for export. This partly accounts for the large decrease in private inventories and the large increase in exports.

This GDP report included BEA's comprehensive update, which occurs about every 5 years. BEA addressed "residual seasonality" in its data, which allowed some regular seasonal fluctuations in various components of spending to affect GDP estimates. This was especially acute in post-2010 Q1 numbers. New seasonal adjustments led to an average upward revision of Q1 numbers since 2010 of 0.4 percentage points.

Two updates to this Q2 GDP estimate are scheduled by BEA for August 29 and September 27. The Q3-2018 GDP report is scheduled for release on October 26 at 8:30am.

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.

² A component's average contribution to RGDP growth during this economic expansion, which began Q3-2009, is shown inside the parentheses.