

U.S. Economy: Uneven But Grinding Ahead

U.S. real GDP rose a somewhat less-than-expected 2.4% annualized in Q2, slowing from an upwardly-revised 3.7% in Q1. The mixed report had a little something for both optimists (including us) who believe the recovery will continue at a modest rate, and pessimists who are warning of a double dip. Forget about a V-shaped recovery. On the plus side, final domestic demand rose at the fastest rate in over four years (4.1%), led by a second straight 20%-plus gain in business capex, strength in exports and federal government spending, and a surprising (correction, unbelievable) upturn in commercial building and state/local spending. Residential construction was boosted by the home buyer tax credit, but will fall back in Q3. Personal disposable income expanded 4.4%, with some lift from census hiring, and the savings rate was revised sharply higher, now 6.2% versus 1.4% in 2005. Now the bad news. Final sales rose just 1.3%, meaning that inventory investment added 1.1 ppts to GDP growth, a boost that will fade soon. Consumer spending slowed to 1.6% and shows little sign of strengthening, even though savings have been partly rebuilt. Imports soared the most in 16 years, swamping the gain in exports and allowing trade to subtract 2.8 ppts from GDP growth. Rubbing salt in the wound, the recession was revised deeper, with GDP contracting 4.1% instead of 3.7% from 2007Q4 to 2009Q2--as if the 8.4 million workers who lost their jobs and the 14.6 million currently unemployed need reminding.

	(quarter/quarter % change : s.a.a.r.)			(year/year % change)
	10Q2 A	10Q1	09Q4	
Real GDP	2.4	3.7	5.0	3.2
Consumer Spending	1.6	1.9	0.9	1.6
Residential Investment	27.8	-12.3	-0.8	5.3
Nonresidential Fixed Investment	17.0	7.8	-1.4	5.2
Business Equipment Structures	21.9	20.5	14.6	15.1
Government	5.1	-17.8	-29.2	-14.4
Exports	4.4	-1.6	-1.4	0.7
Imports	10.4	11.4	24.4	14.4
Net Exports (2005 US\$bln)	28.8	11.2	4.9	16.4
Inventory Change (2005 US\$bln)	-425.9	-338.4	-330.1	
Final Sales	75.7	44.1	-36.7	
Chain Price Index	1.3	1.1	2.1	1.2
Domestic Purchases Prices	1.8	1.0	-0.2	0.8
Nominal GDP	0.1	2.1	2.1	1.4
	4.3	4.8	4.7	4.0

The Bottom Line: The U.S. economic recovery remains patchy and heavily reliant on government support and inventory rebuilding. Expect softer 2% growth in H2. Optimism would improve if companies shifted spending towards hiring from machines, helping consumers overcome their rut.

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