

## ECONOMIC ALERT

### U.S. REAL GDP – Q2 2018 (ADVANCE ESTIMATE)

Released Friday, July 27, 2018

**Real GDP:** +4.1% quarter-over-quarter (annualized rate) (Cons: +4.2%), +2.8% year-over-year

**Real Final Sales:** +5.1% quarter-over-quarter (annualized rate), +3.0% year-over-year

#### **Quick Take:**

The advance estimate of Q1 real GDP growth was 4.1%, slightly lower than economists' estimates for 4.2% growth. The report also featured revisions dating back to 1929. Revisions resulted in a cumulative upward revision of GDP by 5.5% over that time period, although the impact on any single quarter or year was de minimis. On a year-over-year basis, Q2 real GDP grew 2.8%, the fastest pace of year-over-year growth since Q2 2015.

Growth in Q2 was largely driven by personal consumption expenditure (PCE), which contributed 2.69 percentage points (ppt) to quarter-over-quarter growth. Personal consumption was atypically soft in Q1 and Q2's strong personal consumption growth partly reflected a rebound effect.

Quarter-to-quarter GDP growth can be volatile and, while we acknowledge the strength in Q2 GDP, we view the underlying trend in U.S. economic growth as likely to remain on a slow-to-moderate pace. We point to 2014 when real GDP growth reached 5.1% in Q2 and 4.9% in Q3, however full-year GDP growth measured a more subdued 2.5%. Year-over-year growth of 2.8% as of Q2 2018 tells a similar story. In addition, the current economic cycle has aged another 3+ years since 2014, meaning there are even fewer sources of fuel for a sustained economic reacceleration moving forward.

#### **Notable Data:**

Q2 2018 marked the fifth consecutive quarter in which quarterly growth exceeded 2% at an annualized rate.

PCE growth was 4.0% quarter-over-quarter in Q2, up from 0.5% growth in Q1 2018. As mentioned earlier, PCE contributed 2.69 ppt to real GDP growth, the highest contribution since Q4 of 2014. Goods consumption rose 5.9%, up from a 0.6% decline in Q1. Motor vehicles and parts were up 8.4% in Q2, rebounding from -12.7% growth in Q1 2018.

# WESTEND

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## ADVISORS

Fixed Investment contributed 0.94 ppt to Q2 real GDP growth, down from 1.34 ppt in Q1. Equipment investment added 0.2 ppt to growth, down from 0.5 ppt in the prior quarter.

Change in Private Inventories detracted -1.0 ppt from real GDP growth in Q2. Real Final Sales, which excludes the inventories component and is a less volatile version of economic growth, grew 5.1% in Q2, the highest pace of quarter-over-quarter growth since Q1 2006.