ECONOMIC NOTES

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MORE OF THE SAME

Revised second quarter (Q-2) data indicate that Gross Domestic Product (GDP) grew less than initially estimated, as expected. The downward revision, which is based on more complete information, reflects a hefty increase in imports that surpassed gains in other components, including a robust increase in business investment.

After-tax corporate profits increased in Q-2, the sixth consecutive quarterly gain, but the rate of increase (2.9%) slowed considerably. Corporate taxes were 9.9% above Q-1's total and more than double the recession low in 2008's final quarter.

Early readings on the current quarter (Q-3) suggest more of the same: continued growth at a sluggish pace.

In July, consumer spending rose a bit as households supplemented a marginal increase in after-tax incomes by reducing savings 3.8%.

Formal numbers on August's retail sales will not be available until mid-month, but preliminary indications suggest a modest over-the-month increase, unlike autos, which slipped.

Although consumer sentiment was weak in July, its improvement in August may sustain—but not propel—household spending.

Manufacturing growth was relatively robust early in the recovery, but the rise in new orders stalled over the past few months. This may be a temporary lull, however. The forward-looking manufacturing index of the Institute for Supply Management, which has a strong predictive track record, indicates continued growth for the remainder of the year.

Construction weakened further in July and is unlikely to improve much for the remainder of the year. Homebuilding's Q-2 spurt in response to the Federal homebuyer tax credit will come at the expense of the current quarter number, while nonresidential construction will languish well into next year.

While the goods-producing sectors are a mixed bag,the services sector, which accounts for the bulk of GDP and employment, grew in July. The improvement has been fairly steady, but it has also been modest. Year-on-year, consumer spending on services has increased by 2.9% (adjusted for inflation, 0.9%).

On the available data, the economy appears to be growing in Q-3 at about the same pace as in Q-2. But there is little to suggest that things will change in short order. In other words, plan for more of the same.

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