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Economic Indicator Insights

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GDP: Investment Hesitation?

Second-quarter GDP grows an in-line 1.5% (Consensus: +1.4%; Decision Economics: +1.6%) with no gross surprises in the demand-side breakdown. However, Fed doves may see a further nudge towards easing.

The main news is that, while overall domestic final demand is roughly as expected in Q2, at +1.5%, upward revisions to recent-quarter growth rates show that to represent a more dramatic slowdown that might have been assumed earlier--with Q1 growth now at +2.2%, instead of +1.6%, and Q4 at +2.1% instead of +1.3%.

The main factor in those revisions is business investment, now shown growing 7.5% in Q1, instead of 3.1%, and 9.5% in Q4, instead of 5.2%. Accordingly, the in-line Q2 increase of 5.3% represents a slowdown, instead of an acceleration.

The most dramatic component of the investment revisions was business structures, where the 0.9% growth in Q2 now comes against the backdrop of 12.9% growth in Q1, instead of 1.9% (yes, 1.9%), and 11.5% in Q4, instead of -0.9% (yes).

The now evident very abrupt Q2 slowdown in structures investment will surely be read as reflecting the impact of newly intensified uncertainties--Eurozone, November elections, fiscal cliff--on business willingness to commit for the long term. FOMC doves will see further reason to ease, while hawks will see a strong argument that present weakness has nothing to do with inadequate Fed action.

Revisions going back to Q1 2009 are interesting in detail, and do show some net re-weighting of growth to the most recent quarters, but have little net effect on the Q1 constant-dollar level, which is revised by only 0.1%, upward. That level is now shown being attained by 2.4% growth over the year-ago level, instead of 2.0%, 1.8% year-over-year in Q1 2011, instead of 2.2%, and 1.9% Y/Y in Q1 2010, instead of 2.2%.

Importantly, revisions to price indexes for both overall GDP and core PCE are inconsequential--so there is no impact on the inflation/slack debate either from the perspective of the extent of "slack," since the recent level of GDP is unaffected, as would be estimates of potential GDP growth, or from the perspective of actual inflation.