



Economics Group

Jay H. Bryson, Acting Chief Economist
jay.bryson@wellsfargo.com • (704) 410-3274
Shannon Seery, Economic Analyst
shannon.seery@wellsfargo.com • (704) 410-1681

Revised Data Show 2.0% GDP Growth in Q2-2019

GDP growth in Q2 was revised down a tad to 2.0%. Profit growth generally remains solid, but it could slow in coming quarters.

Q2 GDP Growth Revised Down a Tad

Revised data this morning showed real GDP grew at an annualized rate of 2.0% in Q2-2019, only a tenth lower than the initial estimate (top chart). Personal consumption expenditures were revised higher to a whopping 4.7% annualized pace, which is the fastest pace in four years. The gain in consumption offset minor downward revisions in other areas. Business fixed investment and net exports were both revised lower, which is at least in part a reflection of the ongoing trade war with China.

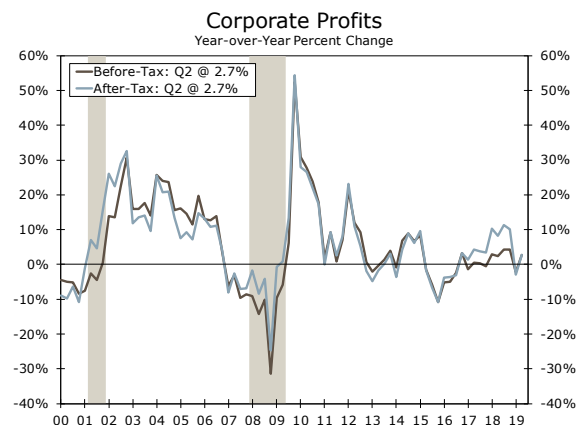
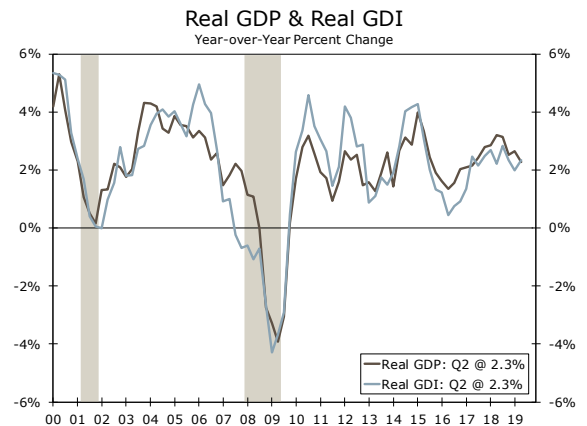
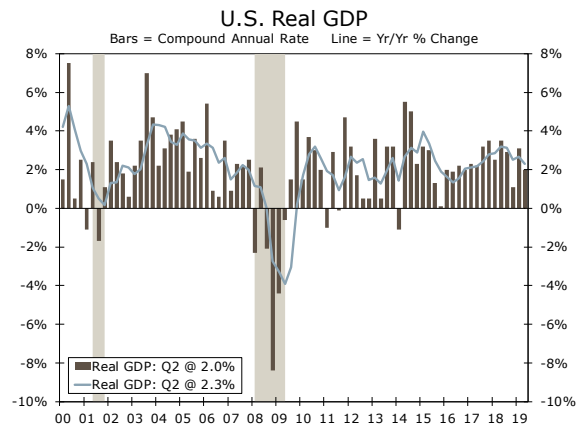
Profit Growth Solid, For Now

With this second release of Q2 GDP we also received data on how the income side of the economy fared in the second quarter. Real gross domestic income (GDI) rose at an annualized pace of 2.1%, pushing the year-over-year growth rate a bit higher to 2.3% (middle chart).

We also got a first look at the economy-wide corporate profit measure for the second quarter. After seeing profits decline in the first quarter, corporations' profits rose at a solid year-over-year rate of 2.7% in the second quarter. After-tax profits also rose 2.7% (bottom chart). Profits remained strong in Q2, but will likely face headwinds this year.

In that regard, the tight labor market should continue to add to firms' labor costs, while the most recent escalation in the trade war will leave more firms—or perhaps more aspects of firms' supply chains—exposed to tariffs. Elevated profit margins have given corporations scope to absorb higher costs, but margins have receded in recent quarters and levies on imports from China are set to rise 5% in October. Whereas previous bouts of the trade fight have been aimed at input items, the new round of tariffs (those that go into effect in September and December) will directly affect consumer products. As more products come under tariffs, firms may have a more plausible justification to raise prices. But, anchored inflation expectations and battles for market share will likely limit the extent of any increase.

Slower growth abroad also has the potential to weigh on corporate profit growth this year. The annual revisions to the National Income and Product Accounts, which accompanied the first release of Q2 GDP, revised corporate profits lower since 2014. The downward revision to the series came entirely at the expense of domestic profits, or the earnings that American corporations made from sales in the United States. Foreign profits, or remittances from foreign subsidiaries less remittances of American subsidiaries to foreign parents, drove profit growth through most of the past two years. That means strong global growth played a larger role in profit growth than previously thought. With the global economy slowing, and a more moderate pace of economic growth at home, there is even less scope for a renewed increase in profit growth this year.



Wells Fargo Securities Economics Group

Jay H. Bryson, Ph.D.	Acting Chief Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Macro Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Erik Nelson	Macro Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	Macro Strategist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Matthew Honnold	Economic Analyst	(704) 410-3059	matthew.honnold@wellsfargo.com
Jen Licis	Economic Analyst	(704) 410-1309	jennifer.licis@wellsfargo.com
Hop Mathews	Economic Analyst	(704) 383-5312	hop.mathews@wellsfargo.com
Coren Burton	Administrative Assistant	(704) 410-6010	coren.burton@wellsfargo.com

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