

Q2 GDP Falls Short, but the Recovery Story Remains Intact

The initial reading of second quarter GDP missed the +8.4% median forecast with a +6.5% quarter-over-quarter annualized print. However, this number was somewhat deceptive as housing, business inventories and government spending combined to shave nearly two full percentage points off the headline. If supply chain issues and labor and materials shortages weren't so prevalent, the overall number would have likely met or exceeded expectations. Inventories of . . . *just about everything*, are lean and will eventually be restocked. If demand remains brisk, future growth should get a boost.

Personal consumption exceeded forecasts with a robust +11.8% gain. If the reopening bounce-back of Q3 2020 is tossed, last quarter's consumer spending was the highest since 1952. An elevated savings rate and record household net worth hint at strong consumer spending for quarters to come. Capital spending was also solid last quarter, posting its fourth straight increase and adding nearly a full percentage point to the overall number.

The Inflation-adjusted overall GDP value climbed back above the pre-pandemic high at \$19.4 trillion. Thus, the U.S. economy has technically recovered. The GDP price index climbed from +4.3% to a 30-year high of +6.0%, but this matched the median forecast and is generally expected to recede in subsequent quarters.

Also this morning, jobless claims for the week ending July 24th were higher than expected as 400k Americans filed for state unemployment benefits. The previous week's count was revised upward from 419k to 424k. The last two periods have bucked a downward trend in claims and highlight concerns over the spread of the Delta variant.

As dramatic as this morning's GDP and claims numbers might appear, they don't really change the narrative. Demand is booming and supply can't maintain the pace. The virus is in transition and uncertainty has risen. Although the economy is back on track, the Fed will remain patient. A patient Fed bodes well for equities, and rising stock values will only add to household net worth, creating more capacity for future spending. Stocks are up in early trading.

Bonds prices are down (yields up) this morning, which could indicate inflation concerns, but also suggest investors are able to look beyond the weak headline numbers and see continued recovery ahead.

Last week, the National Bureau of Economic Research quietly declared the U.S. was no longer in recession as of April 2020. This extremely tardy announcement sets the official duration of the shortest contraction in history at two months.

On the housing front, the U.S. Census Bureau announced on Monday that new home sales fell by -6.6% in June to a 676k unit annual rate, well below the median forecast

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of 796k and the lowest in 14 months. New home sales have nose-dived since January when the sales pace was at a 14-year high of 993k, and are now -19% below the pace from a year ago. The months' supply climbed from 5.5 to 6.3 in June as the sales pace dropped and inventories increased. The average price of a new home sold in June was \$428,700, up +12.2% year-over-year, while the median price climbed +6.1% to \$361,800.

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Another measure of home prices that focuses on larger cities showed even more substantial gains. The S&P CoreLogic Case-Chiller 20-City composite index indicated a record +16.99% year-over-year increase in May. Obviously, much of this should be transitory as the housing market was rudderless 12-months earlier. Housing demand didn't start to surge until months later.

Market Indications as of 9:38 A.M. Central Time

DOW	Up 161 to 35,091 (HIGH: 35,144)
NASDAQ	Up 55 to 14,818 (HIGH: 14,841)
S&P 500	Up 18 to 4,418 (HIGH: 4,422)
1-Yr T-bill	current yield 0.07%; opening yield 0.06%
2-Yr T-note	current yield 0.21%; opening yield 0.20%
3-Yr T-note	current yield 0.38%; opening yield 0.36%
5-Yr T-note	current yield 0.74%; opening yield 0.72%
10-Yr T-note	current yield 1.27%; opening yield 1.24%
30-Yr T-bond	current yield 1.91%; opening yield 1.89%

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