ECONOMIC UPDATE
REGIONS
August 26, 2026

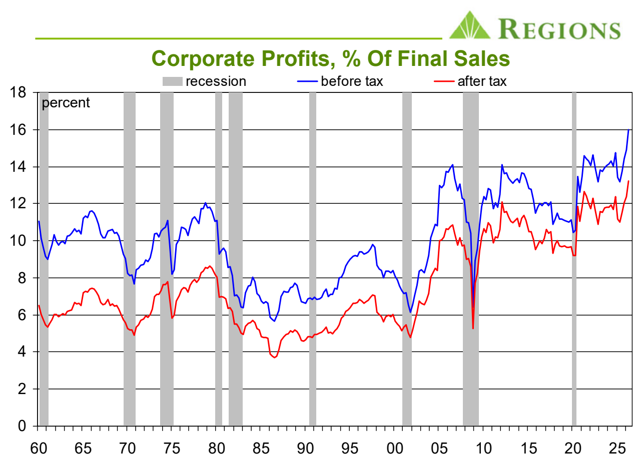
Data Summary: GDP, Income & Spending, Durable Goods, Q2 Corporate Profits

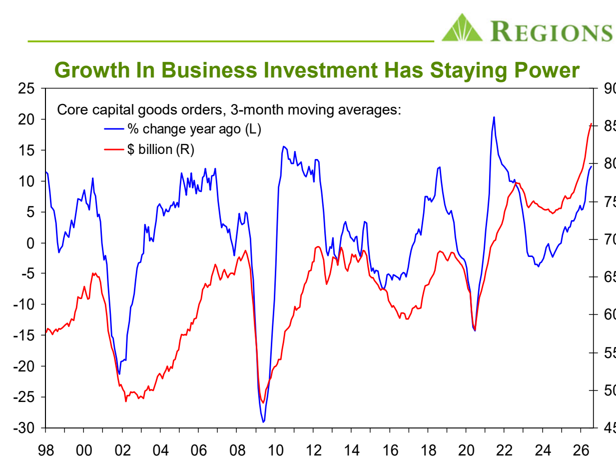
Revised and more complete source data leave **Q2 real GDP** growth at an annual rate of 1.5 percent, matching the BEA's initial estimate, with some shuffling of the underlying details amounting to a wash in terms of the headline growth rate. Real consumer spending is now reported to have grown at an annual rate of 3.4 percent, up from the initial estimate of 3.2 percent. Much of that upward revision, however, reflects growth in spending on health care being revised meaningfully higher, while at the same time growth in spending on goods was revised downward. Growth in real business fixed investment was revised modestly higher, but this mainly reflects a smaller contraction in business spending on structures than initially estimated while real outlays on equipment and machinery grew at a slower pace than initially estimated. The revisions yield growth in real private domestic demand, combined business and residential fixed investment and consumer spending adjusted for price changes, of 4.2 percent on an annualized basis, up from the initial estimate of 3.9 percent, which is the fastest quarterly growth rate since Q1 2023.

Today's release includes the BEA's initial look at **Q2 corporate profits**. Keep in mind that the GDP measure of profits covers a much wider universe of firms than the more commonly cited S&P 500 measure and using the GDP measure most consistent how profits are estimated in the S&P 500 measure shows before-tax corporate profits increased by 9.6 percent in Q2, with after-tax profits up 8.9 percent, yielding year-on-year increases of 29.4 percent and 28.2 percent, respectively. This leaves pre-tax profit margins at the widest since 1951 while after tax margins are wider than at any point in the life of the data. Note we use final sales, i.e., GDP excluding inventories, as our proxy for total sales revenue. To be sure, robust revenue growth is in part a reflection of the pace at which prices have been rising over recent years, but healthy profit growth is freeing up cash that is, in turn, helping support business capital spending, with cap-ex growth extending beyond AI related investment.

To that point, orders for **core capital goods**, i.e., nondefense capital goods excluding aircraft and parts, rose by only 0.2 percent in July, well below what we (1.1 percent) and the consensus (0.7 percent) expected. While this might suggest the run of torrid growth in business investment in equipment and machinery is running out of steam, July's meager gain comes after a hefty upward revision to the June estimate yields a June increase of 1.7 percent. Note that while core capital goods orders are a very early indicator of business investment in equipment and machinery as reported in the GDP data, shipments of core capital goods feed right into the GDP data, and shipments were up by 1.4 percent in July after a 2.4 percent increase in June. In short, even with a smaller than expected July increase, our view remains that the run of robust growth in core capital goods orders has further to go, and business investment will remain a support for real GDP growth for some time to come.

Total **personal income** rose by 0.4 percent in July, double the gain we and the consensus expected, while **total personal spending** rose by 0.2 percent, matching our above-consensus forecast. Growth in private sector wage and salary earnings was firmer than our forecast anticipated, but July's 0.3 percent increase nonetheless yields a year-on-year increase of 3.8 percent, leaving a narrower gap between growth in private sector labor earnings, the largest block of personal income, and inflation than has been the case. In our preview of the July data, we cited transfer payments as being one source of forecast uncertainty, and the 0.8 percent increase in July was well larger than our forecast anticipated. That said, higher outlays on Medicaid and Medicare were the main drivers of July's increase in transfer payments. As we routinely note, the bulk of transfer payments reflect payments to third party service providers as opposed to cash in consumers' pockets, which is why we think ex-transfers personal income to be the relevant measure of income on which to gauge consumers' ability to spend and service debt. While real ex-transfers personal income was up 0.2 percent in July, it was nonetheless down 0.4 percent year-on-year and is down on a year-to-date basis through July, mainly reflecting decelerating growth in labor earnings coupled with elevated inflation. While spending growth was somewhat muted in July, gasoline was a significant drag while a sizable portion of online spending was pulled forward into June by an early Amazon Prime Day(s) event, and various spending trackers show spending growth picked back up in August. The **PCE Deflator** and the core **PCE Deflator** each rose by 0.2 percent in July, yielding year-on-year increases of 3.6 percent and 3.3 percent, respectively. The core PCE Deflator continues to be biased higher by imputed measures, such as portfolio management fees, and the market based core PCE deflator was up 3.0 percent year-on-year in July.





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