



US Gross Domestic Product: Q3'2008

Economic activity in the third quarter of 2008 contracted by -0.3% on the back of a -3.1% decline in personal consumption. Gross private investment fell -1.9%, government consumption increased 5.8%. Exports increased 5.9%, while imports contracted at a rate of -1.9%

Inside the data, the contraction in personal consumption was driven by a -14.1% decline in demand for durable goods and a -6.4% fall in the purchase of non-durables. The fall in those two categories overwhelmed the anemic 0.6% increase in demand for services. The declines of -5.6% in fixed investment and -19.1% drop in non-residential investment were the primary catalysts behind the -1.9% decline in gross private investment. Federal spending increased 13.8% primarily due to an 18.1% increase in defense spending and a 4.8% rise in non-defense spending. Real final sales dropped -0.8%, gross domestic purchased declined -1.3% and final sales to domestic purchasers fell -1.8%.



Overall output declined at the weakest pace in nearly 7 years, while the -3.1% contraction in personal consumption was the worst performance seen out of the consumer since 1980. Excluding the 1.13% positive contribution to overall growth due to demand from the external sector and a smaller than anticipated decline in inventories, the economy would have contracted at a rate of 1.8%. The data imply that just about all sectors of the economy are in the process of a serious contraction with the capitulation of the consumer the primary catalyst behind what is clearly the first consumer driven recession in three decades. And what was behind that? A -8.7% decline in real disposable personal income in the third quarter in contrast with the 11.9% increase observed in the second quarter of 2008. The advance estimate of gross domestic product sets the stage for an operatic end to the recent business cycle in what looks to be a significant contraction in Q4'08 in excess of 4.0%