

Analyst:

Kevin B. Skislock
949.651.9053
skislock@lrp-bi.net

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Based in the United States in southern California, LRP/bi provides its suite of high-impact business intelligence services to public companies, pre-public companies, investment portfolio and fund managers, and investment bankers worldwide.

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Research Brief

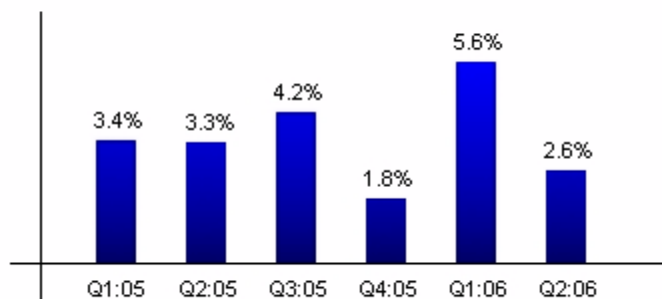
United States: Q2:06 GDP Growth Revised Downward to 2.6% Business Spending, Consumer Demand, Homebuilding Disappoint

September 29, 2006

The US Department of Commerce's Bureau of Economic Analysis (BEA) announced yesterday that its estimate of US real gross domestic product (GDP) growth for Q2:06 has been revised downward to a 2.6% seasonally adjusted annual rate from the previous 2.9%. LRP/bi continues to view the most likely direction of surprise in US real GDP growth as being to the downside.

- The BEA's final estimate of Q2:06 growth in real GDP—the output of goods and services produced by labor and property located in the US—represents an even sharper deceleration than originally thought from the 5.6% final growth estimate for Q1:06.

Table I
United States Real GDP Growth
(seasonally adjusted annual rate)



Source: US Department of Commerce, Bureau of Economic Analysis.

- In dollar terms, the downward revision in Q2:06 real GDP growth represents a cut of US\$9.5 billion from the BEA's previous estimate of the quarter's real GDP.

The slowdown in US economic activity in Q2:06 was broad-based. In our opinion, business spending, consumer demand, and homebuilding were areas of particular disappointment.

- **Real non-residential fixed investment**—this consists of purchases of non-residential structures as well as capital account purchases of equipment (new machinery, equipment, furniture, and vehicles) and software—increased at a

seasonably adjusted annual rate of 4.4% in Q2:06, compared with an increase of 13.7% in Q1:06. Breaking that investment down into its constituent parts, growth in real fixed investment in non-residential structures jumped to 20.3% in Q2 from 8.7% in Q1. However, real fixed investment in equipment and software actually declined 1.4% in Q2, compared with a growth rate of 15.6% in Q1. (We note that the equipment and software account is approximately 3.8x the size of the structures account.) Within the equipment and software account, investment in information processing equipment and software was particularly weak, as was investment in transportation equipment.

- **Real personal consumption expenditures**—this consists of goods and services purchased by individuals—increased 2.6% in Q2:06, compared with an increase of 4.8% in Q1:06. Growth in real durable goods purchases plummeted to 0.1% in Q2 versus a surge of 19.8% in Q1, while growth in real non-durable goods purchases fell to 1.4% in Q2 versus 5.9% in Q1. Growth in real services purchases actually accelerated to 3.7% in Q2 versus 1.6% in Q1.
- **Real residential fixed investment**—this is comprised of purchases of private residential structures as well as residential equipment that is owned by landlords and rented to tenants—decreased 11.1% in Q2:06, compared with a decrease of 0.3% in Q1:06.

Notably, growth in **real gross domestic purchases**—these are purchases made by US residents of goods and services produced anywhere in the world—decelerated to 2.0% in Q2:06 from 5.3% in Q1:06.

As always, our clients are welcome to contact us for additional information.

LRP/bi

Laguna Research Partners LLC
Irvine, California 92614

Telephone: 949.651.9053
Fax: 949.651.9054

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