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Research Brief

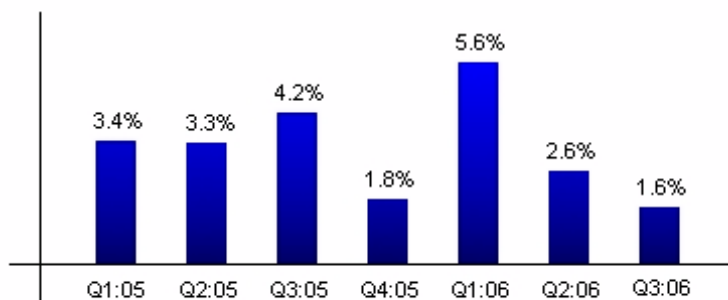
United States: Q3:06 GDP Growth Reported at 1.6% Slowest Advance in More than Three Years

October 30, 2006

The US Department of Commerce's Bureau of Economic Analysis (BEA) announced on Friday, October 27 that US real gross domestic product (GDP) grew at a seasonally adjusted annual rate of 1.6% during Q3:06. This is the BEA's "advance" estimate of growth in the quarter.

- The BEA's estimate of Q3:06 growth in real GDP—the output of goods and services produced by labor and property located in the US—represents a further slide in US economic activity. The seasonally adjusted annual rates of growth in Q1:06 and Q2:06 were 5.6% and 2.6%, respectively.

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



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

- Further, the Q3:06 growth rate is the slowest registered since Q1:03 when the US economy crawled forward at a 1.2% pace.

The continued deceleration in GDP growth in Q3:06 reflects sluggish personal consumption expenditures (PCE) for services, a continued slide in homebuilding, and a drop in non-residential structure growth. These negative factors were only partially offset by faster growth in PCE for durable goods and accelerated investment in equipment and software.

- *Real personal consumption expenditures*—this consists of goods and services purchased by individuals—increased 3.1% in Q3:06, up slightly from the 2.6% increase in Q2:06. The key factor in this improvement was a jump in the

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durable goods growth rate to 8.4% in Q3, compared to the decline of 0.1% in Q2. Growth in PCE for non-durables was essentially unchanged in Q3 versus Q2 at 1.6% versus 1.4%. PCE for services, though, grew only 2.8% in Q3, compared with a growth rate of 3.7% in Q2. The current profile of real PCE is approximately 15.0%, 29.0%, and 56.0%, durables, non-durables, and services, respectively.

- ***Real non-residential fixed investment***—this consists of purchases of non-residential structures as well as capital account purchases of equipment and software—was up 8.6% in Q3:06, compared with an increase of 4.4% in Q2:06. Investment in non-residential structures increased 14.0% in Q3, a sharp deceleration from the 20.3% rate of gain achieved in Q2. Equipment and software, though, increased 6.4% in Q3, a solid improvement over the Q2 decline of 1.4%. The equipment and software account represents roughly 80.0% of real non-residential fixed investment.
- ***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—dropped 17.4% in Q3. This represented an accelerated decline following the drop of 11.1% registered in Q2.

Our clients should note that the ripple effect of continued declines in real residential fixed investment could continue to result in sluggish US GDP performance through the winter holiday period.

The BEA's "advance" GDP estimates are followed by "preliminary" and "final" estimates. Currently, the BEA expects to release its preliminary estimate of Q3:06 US GDP on November 29, 2006.

As always, clients of Laguna Research Partners are welcome to contact our firm for additional information.

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