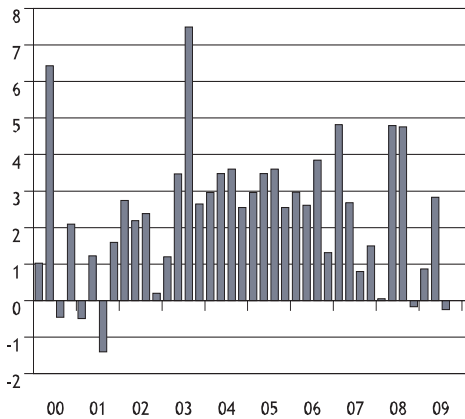


## U.S. NATIONAL GDP ACCOUNTS

October 30, 2008

### U.S. real GDP

Quarter-over-quarter %change, annualized



### Economy contracted modestly in third quarter

The U.S. economy contracted modestly in the third quarter at a 0.3% annualized pace. However, the report showed a sharp deceleration in consumer spending, which contracted at a 3.1% annualized pace — the sharpest drop in 28 years — and a hefty 19.1% annualized decline in residential investment. The sharp drop in consumer spending trimmed 2.25 percentage points from the quarterly growth rate.

Export growth slowed to a 5.9% annualized pace, albeit from a rapid 12.3% rate in the second quarter. Net exports contributed 1.13 percentage points to the quarterly growth rate, down from 2.93 percentage points in the second quarter.

Businesses pulled back with spending on non-residential structures slowing to a 7.9% increase, while investment in equipment and software slumped again, falling by 5.5% (at an annualized rate).

Annualized quarterly growth in the third-quarter core PCE deflator, the key inflation measure in the GDP report, rose to a 2.9% from 2.2% in the second quarter.

The data support the notion that the fiscal stimulus package provided only a very temporary boost to the economy in the second quarter that was fully unwound in the third quarter as households contended with the tightening in lending standards that made borrowing more difficult, deteriorating balance sheets and growing job losses.

A heftier decline in real GDP is likely in the fourth quarter, which will confirm that the U.S. economy is in recession. For policymakers, initial signs that the seized-up funding markets are starting to thaw are encouraging news but, until there is evidence that financial institutions are willing and able to make loans to businesses and households, downside risks to the economy will remain.

### Q3 national accounts

Annualized % change from previous quarter

	Q1/07	Q2/07	Q3/07	Q4/07	Q1/08	Q2/08
Consumer spending	2.0	2.0	1.0	0.9	1.2	-3.1
Durables	5.0	2.3	0.4	-4.3	-2.8	-14.1
Non-durables	1.9	1.2	0.3	-0.4	3.9	-6.4
Services	1.4	2.4	1.4	2.4	0.7	0.6
Business fixed investment	6.2	3.5	-11.9	-5.8	-11.5	-1.9
Residential	-11.6	-20.6	-27.0	-25.0	-13.3	-19.1
Non-residential structures	18.3	20.6	8.6	8.7	18.4	7.9
Equipment and software	6.9	3.6	1.0	-0.5	-5.0	-5.5
Government spending	3.9	3.8	0.8	1.9	3.9	5.8
Inventory change (\$ bn)	0.0	0.0	0.0	0.0	0.0	0.0
Final domestic demand	2.5	1.9	-0.1	0.1	1.3	-1.8
Exports	8.8	23.0	4.4	5.1	12.3	5.9
Imports	-3.7	3.0	-2.3	-0.8	-7.3	-1.9
<b>Real GDP</b>	<b>4.8</b>	<b>4.8</b>	<b>-0.2</b>	<b>0.9</b>	<b>2.8</b>	<b>-0.3</b>

**Dawn Desjardins**

Assistant Chief Economist  
dawn.desjardins@rbc.com