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Statement of

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before the

Joint Economic Committee

UNITED STATES CONGRESS

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Mr. Chairman and Members of the Committee:

Thank you for inviting me to discuss the gross domestic product (GDP) accounts, including the data we released this morning. I will present highlights from this morning's release to the Committee, Mr. Chairman. I ask that the GDP release be included as part of my statement for the record.

In the third quarter of 2008, real GDP decreased 0.3 percent at an annual rate. By comparison, in the second quarter real GDP increased 2.8 percent. The decrease in third-quarter GDP reflected declines in consumer spending, residential investment, and business nonresidential fixed investment (which consists of investment in durable equipment, software, and structures). In contrast, government spending, net exports, and business inventory investment increased. The price index for gross domestic purchases, which measures the prices

paid by U.S. residents, increased 4.8 percent, following an increase of 4.2 percent in the second quarter.

Consumer spending decreased 3.1 percent in the third quarter, following an increase of 1.2 percent in the second. The third-quarter decline in consumer spending was the largest decline since the second quarter of 1980. Consumer spending on durable goods fell 14.1 percent, with motor vehicles accounting for most of the decline. Consumer spending on nondurable goods fell 6.4 percent. In contrast, spending on services grew 0.6 percent.

Spending on residential investment fell 19.1 percent in the third quarter, compared with a decline of 13.3 percent in the second. This was the eleventh consecutive quarter in which residential investment has declined. Since its peak in the fourth quarter of 2005, residential investment has fallen 42.2 percent.

Business nonresidential fixed investment fell 1.0 percent in the third quarter, compared with an increase of 2.5 percent in the second. Third-quarter business spending on durable equipment and software fell 5.5 percent, whereas spending on nonresidential structures increased 7.9 percent.

Business inventory investment contributed +0.56 percentage point to the change in real GDP, compared to -1.50 percentage points in the second quarter.

Exports of goods and services increased 5.9 percent in the third quarter, compared with an increase of 12.3 percent in the second. Exports have now increased for twenty-one consecutive quarters. Imports of goods and services decreased 1.9 percent in the third quarter, compared with a decrease of 7.3 percent in the second.

Spending on goods and services by the federal government increased 13.8 percent in the third quarter, compared with an increase of 6.6 percent in the second. Most of the increase was in

defense spending. Spending by state and local governments increased 1.4 percent in the third quarter, compared with 2.5 percent in the second.

During the third quarter, hurricanes Gustav and Ike struck the Gulf Coast region, especially impacting coastal Texas and Louisiana. Because the effects of these storms are not separately identified in our source data, it is not possible to estimate their overall effect on GDP, but their impact is included in the GDP estimates. In particular, disruptions to oil and gas extraction and to petroleum and petrochemical producers are reflected in BEA's estimates for inventory change in the nondurable manufacturing and wholesale trade industries.

As I mentioned earlier, the price index for gross domestic purchases increased 4.8 percent in the third quarter, after increasing 4.2 percent in the second. Excluding food and energy prices, the price index for gross domestic purchases increased 3.1 percent in the third quarter, after increasing 2.2 percent in the second. The personal consumption expenditures price index increased 5.4 percent in the third quarter, after increasing 4.3 percent in the second. Excluding food and energy prices, the personal consumption expenditures price index increased 2.9 percent in the third quarter, after increasing 2.2 percent in the second.

Turning to the household sector, real disposable personal income fell 8.7 percent in the third quarter, after increasing 11.9 percent in the second. The third quarter personal saving rate was 1.3 percent, compared with 2.7 percent in the second quarter and 0.2 percent in the first. The second-quarter increase in real disposable personal income was boosted by tax rebate payments to individuals as authorized by the Economic Stimulus Act of 2008. Excluding these payments, real disposable income increased 0.3 percent in the third quarter after decreasing 0.4 percent in the second.

My colleagues and I now would be glad to answer your questions.