

Statement of

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before the

Joint Economic Committee

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Madame Chairman and other Members of the Committee:

Thank you for inviting me to describe the third-quarter gross domestic product (GDP) and related statistics that the Bureau of Economic Analysis released this morning. These “advance” statistics are -- as always -- based on incomplete and preliminary source data that will be revised as more complete and accurate data become available. Tracking an economy that is changing as rapidly as the U.S. economy is changing right now is a challenging task, but we are committed to producing advance estimates that provide an accurate general picture of economic activity. That picture will become clearer as more comprehensive source data become available in the months to come. These early snapshots are designed to provide public and private decision makers with a reliable early read on the

evolving U.S. economy. Let me walk you through the details of today's release, and then I'll be happy to answer any questions that you may have.

The advance estimates that we released this morning show that in the third quarter of 2009, real GDP increased 3.5 percent at an annual rate. In the second quarter, the rate of decline in real GDP moderated, decreasing 0.7 percent, following a sharp 6.4 percent decrease in the first quarter. Real GDP declined in 5 out of the 6 quarters from the fourth quarter of 2007, which NBER determined was the start of this recession, to the second quarter of 2009.

As you know, GDP is comprised of many different components, and I would like to discuss highlights of the major components. In the third quarter, consumer spending, inventory investment by businesses, residential investment, exports, and government spending all rose. These increases were partly offset by a rise in imports.

The price index for gross domestic purchases, which is the broadest measure of inflation confronted by U.S. consumers, businesses, and government, increased 1.6 percent, following an increase of 0.5 percent in the second quarter. After falling for the first two quarters of the year, energy prices rose sharply in the third quarter. Excluding food and energy prices, the price index for gross domestic purchases increased 0.5 percent in the third quarter after increasing 0.8 percent in the second.

Motor vehicles, which show up in all the components of GDP -- consumer spending on autos and trucks, business and government investment in autos and trucks, investment in inventories by motor vehicle manufacturers and dealers, and exports and imports -- raised real GDP growth in the third quarter by 1.7 percentage points. Excluding the effects of motor vehicles, real GDP increased 1.9 percent in the third quarter after decreasing 0.9 percent in the second quarter.

Consumer spending, which accounts for over two-thirds of GDP, increased 3.4 percent in the third quarter, following a decrease of 0.9 percent in the second. Consumer spending on durable goods increased 22.3 percent. Motor vehicle purchases, spurred by “cash for clunkers” rebates in July and August, accounted for most of this increase, although, real spending on other durable goods, nondurable goods, and services also increased in the third quarter.

Residential construction rose by 23.4 percent in the third quarter, the first increase in 15 quarters. Prior to the third quarter increase, residential investment fell at an average annual rate of 20.9 percent since the fourth quarter of 2005.

Business nonresidential fixed investment -- investments in new plants, office buildings, equipment, and software -- fell 2.5 percent in the third quarter, compared with a decrease of 9.6 percent in the second. Business spending on durable equipment and software rose 1.1 percent in the third quarter after falling 4.9 and 36.4 percent in the second and first quarters of 2009, respectively. The rate

of decline in investment in nonresidential structures decreased 9.0 percent after decreasing 17.3 and 43.6 percent in the second and first quarters, respectively.

Business inventory investment provided a positive contribution to the change in real GDP, as businesses drew down their inventories at a slower rate than they had in the second quarter. Therefore, more sales were of goods and services produced in the third quarter and less out of inventories. Inventories fell about \$131 billion in the third quarter, compared with a decrease of about \$160 billion in the second quarter and a decrease of about \$114 billion in the first.

Real exports of goods and services increased 14.7 percent in the third quarter, in contrast to a decrease of 4.1 percent in the second. This is the first increase in real exports in 5 quarters. Real imports of goods and services increased more than exports, rising 16.4 percent in the third quarter, in contrast to a decrease of 14.7 percent in the second.

Spending on goods and services by the federal government increased 7.9 percent in the third quarter, compared with an increase of 11.4 percent in the second. The slowdown in federal spending was accounted for by defense spending. Spending by state and local governments fell 1.1 percent in the third quarter, in contrast to an increase of 3.9 percent in the second quarter.

Turning to the American household, real disposable personal income, that is personal income less personal taxes adjusted for inflation, declined 3.4 percent in

the third quarter after increasing 3.8 percent in the second. The third-quarter decline reflected the pattern of tax reductions and government social benefits provided for by the American Recovery and Reinvestment Act (ARRA) of 2009, including the Making Work Pay Credit and the one-time payments of \$250 to recipients of social security and other benefits. Excluding these tax reductions and government social benefits from ARRA, real disposable personal income decreased 2.0 percent in the third quarter after decreasing 0.9 percent in the second. The third-quarter personal saving rate was 3.3 percent, compared with 4.9 percent in the second quarter and 3.7 percent in the first.

Since the second panel at this morning's hearing will address the effect of the ARRA, let me conclude by describing how it is reflected in GDP and the national accounts. BEA's national accounts include the effects of the federal outlays and tax cuts included in the ARRA. Because most of the outlays and tax reductions from ARRA during the last three quarters were in the form of grants to state and local governments, tax reductions for individuals and businesses, and one-time payments to retirees, their effects on GDP show up indirectly through the effects on GDP components such as consumer spending, residential investment, and state and local government spending. Thus, BEA's accounts do not directly identify the portion of GDP expenditures that is funded by ARRA. During each of the second and third quarters, the Making Work Pay Credit lowered personal taxes

and raised disposable personal income about \$50 billion (annual rate). During the second quarter, ARRA provided payments of \$250 to beneficiaries of social security and other programs that raised disposable personal income about \$55 billion. ARRA also provided special government benefits for unemployment assistance, for student aid, and for nutritional assistance; these special benefits raised disposable income about \$49 billion in the third quarter and about \$35 billion in the second quarter. ARRA also funded grants (such as Medicaid) and capital grants (such as highway construction) to state and local governments of about \$75 billion in the third quarter and \$85 billion in the second quarter.

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