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# JOINT ECONOMIC COMMITTEE

Senator Sam Brownback, Ranking Republican

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January 30, 2009

## GDP Declined at a 3.8% Annualized Rate in the 4<sup>th</sup> Quarter

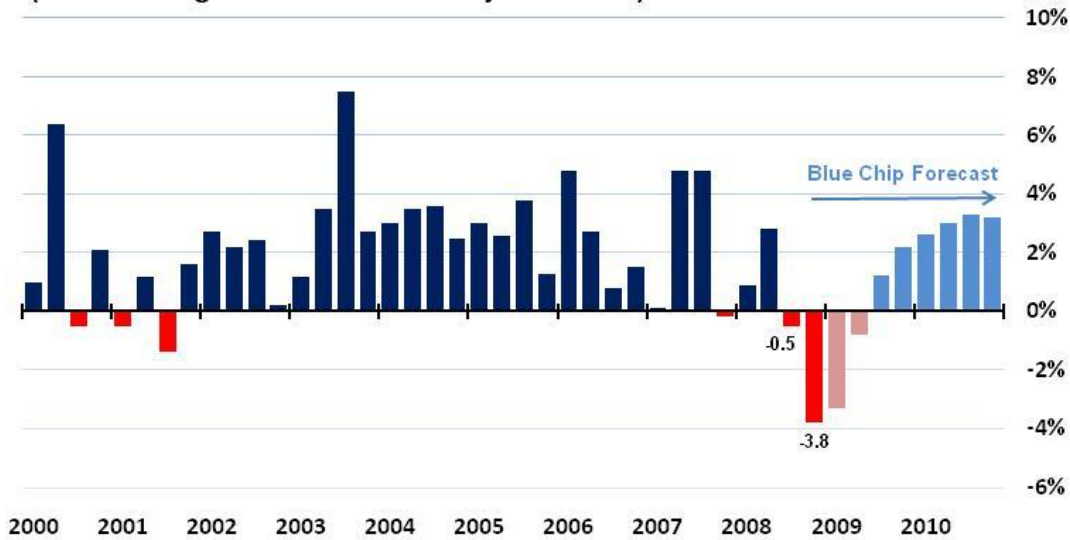
The Bureau of Economic Analysis (BEA) released its “advance” estimate of -3.8% annualized growth in the inflation-adjusted (“real”) gross domestic product (GDP) for the 4<sup>th</sup> quarter (<http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>). In the 3<sup>rd</sup> quarter, real GDP declined at a 0.5% annualized rate.

Highlights of today’s GDP report:

- The decline in real GDP in the 4<sup>th</sup> quarter primarily reflected a decline in exports (down 19.7%—the first decline since the 2<sup>nd</sup> quarter of 2003—vs. a 3% increase in the 3<sup>rd</sup> quarter), declining consumer spending (down 3.5% vs. a decline of 3.8% in the 3<sup>rd</sup> quarter), declining residential investment (down 23.6% vs. a 16.0% decline in the 3<sup>rd</sup> quarter), and declining equipment and software spending (down 27.8% vs. a 7.5% decline in the 3<sup>rd</sup> quarter).
- Those declines were partly offset by positive contributions from inventory investment (the real change in inventories added 1.32 percentage points to the 4<sup>th</sup> quarter change in real GDP after adding 0.84 percentage point to the 3<sup>rd</sup> quarter change) and federal government spending (up 5.8% vs. a 13.8% increase in the 3<sup>rd</sup> quarter). Imports, which are a subtraction in the calculation of GDP, declined at a 15.7% annualized rate (vs. a decline of 3.5% in the 3<sup>rd</sup> quarter).
- The acceleration of the decline in GDP relative to the 3<sup>rd</sup> quarter mostly reflected a downturn in exports a much larger decrease in equipment and software.
- Residential investment has declined for 12 consecutive quarters, reducing real GDP growth over that period by an average of 0.91 percentage point.
  - Over that same period, export growth has added to real GDP growth by an average of 0.68 percentage points.
  - However, exports pulled growth in the 4<sup>th</sup> quarter down by 2.84 percentage points, after having added to growth in each prior quarter growth beginning in the 2<sup>nd</sup> quarter of 2003.
- Consumer prices, as measured by the personal consumption expenditure (PCE) price index, fell at a 5.5% annualized rate in the 4<sup>th</sup> quarter, after rising 5.0% in the 3<sup>rd</sup> quarter.
  - Excluding volatile food and energy, prices rose 0.6% in the 4<sup>th</sup> quarter, after a 2.4% increase in the 3<sup>rd</sup> quarter.

# Gross Domestic Product Growth

(Annualized growth in inflation-adjusted GDP)



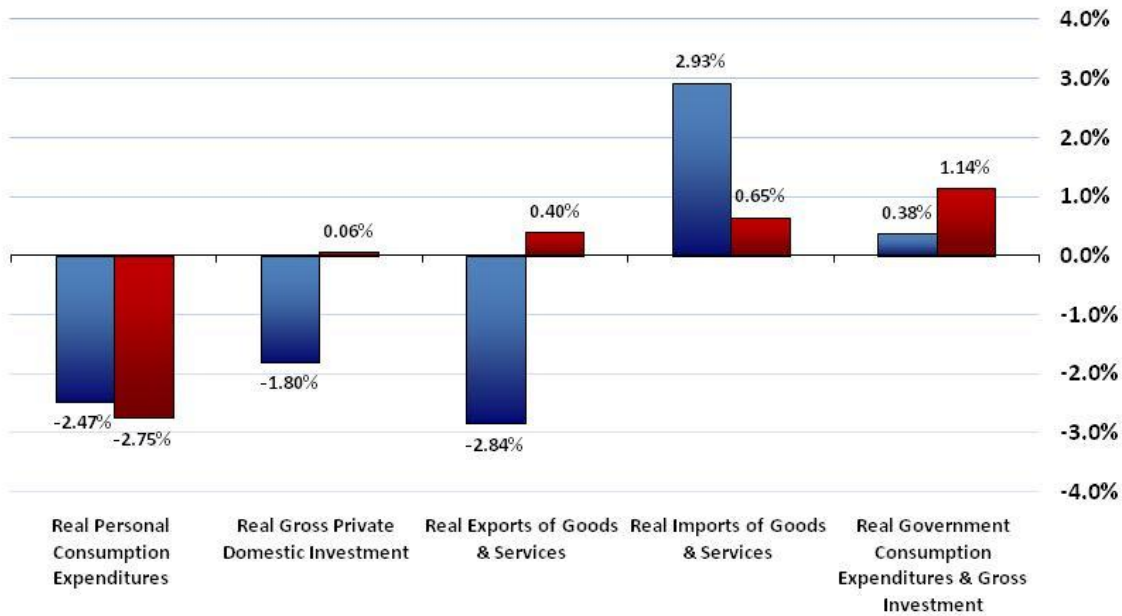
Sources: Bureau of Economic Analysis; *Blue Chip* Economic Indicators  
Prepared by Republican Staff, Joint Economic Committee

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# Contribution to Percentage Change in Real GDP

(Seasonally Adjusted Annualized Rates)

■ Q4:2008 ■ Q3:2008

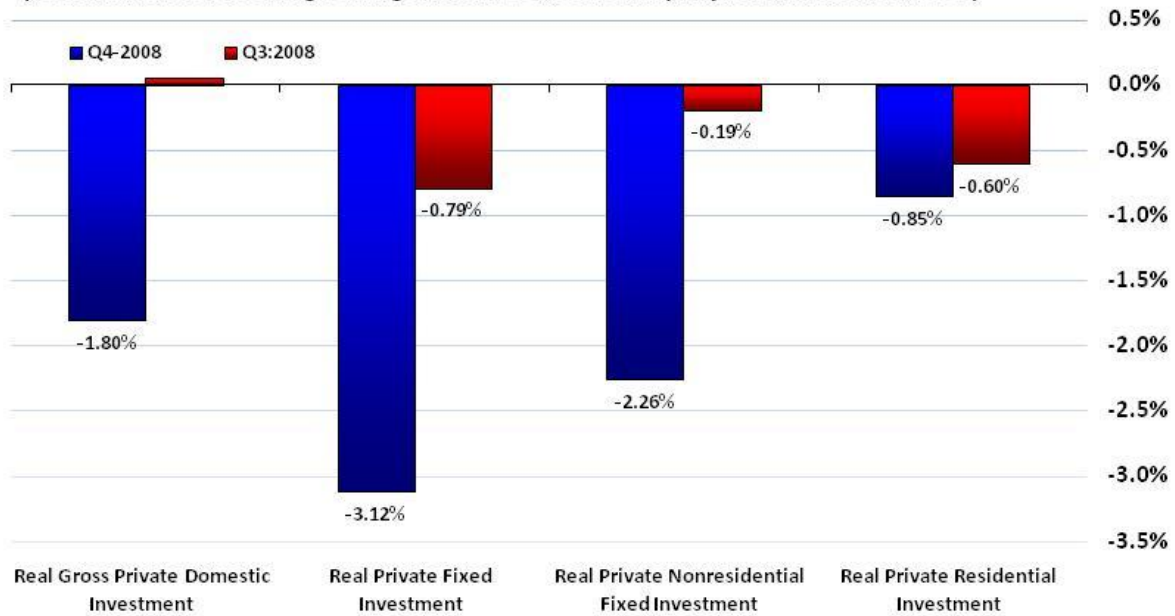


Sources: Bureau of Economic Analysis  
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# Gross Private Domestic Investment

(Contribution to Percentage Change in Real GDP, Seasonally Adjusted Annualized Rates)

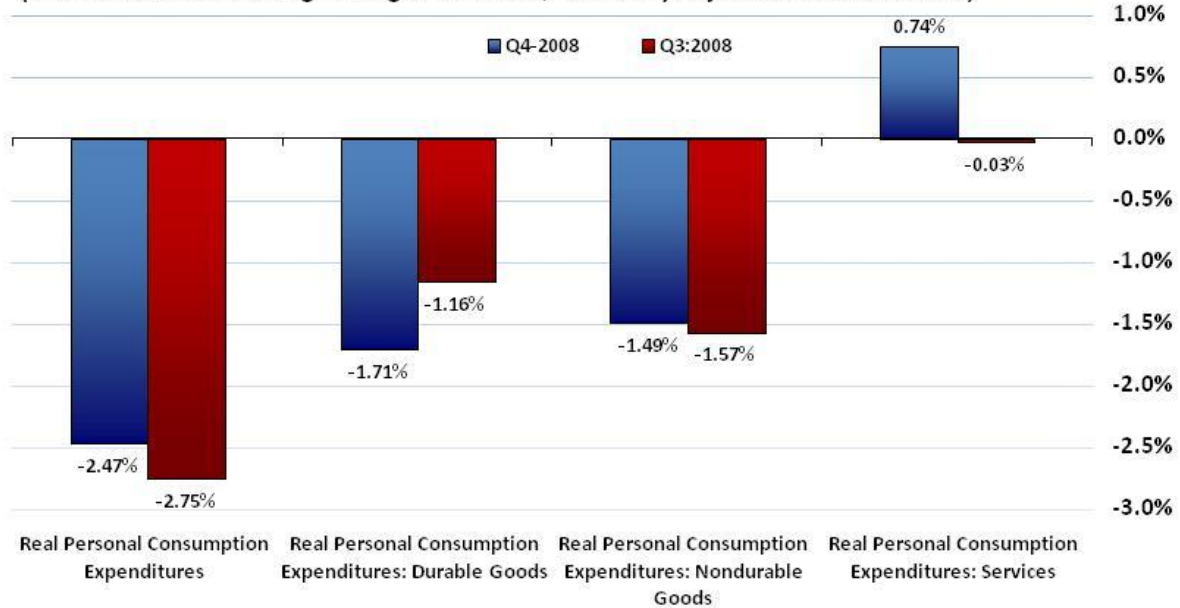


Sources: Bureau of Economic Analysis  
Prepared by Republican Staff, Joint Economic Committee

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# Personal Consumption Expenditures

(Contribution to Percentage Change in Real GDP, Seasonally Adjusted Annualized Rates)



Sources: Bureau of Economic Analysis  
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