The Commerce Department’s final reading of 4.1% real GDP growth for 2005:IIIQ was 0.8 percentage point (pp) higher than the 3.3% estimate for the second quarter. In the preliminary reading, GDP growth was 4.3%; the downward revision to the final estimate was primarily the result of a downward revision to durable goods, as well as several smaller revisions that were partly offset by an upward revision to exports.

Compared to 2005:IIQ, only two components significantly increased their contribution to the change in real GDP: Changes in inventories contributed an additional 1.7 pp, and personal consumption expenditures (PCE) contributed 0.5 pp more. Exports, however, subtracted 0.8 pp from the change in real GDP.

Real GDP growth was at its highest level since 2004:IQ, when it reached 4.3%; it was also significantly higher than the 30-year average of 3.3%. Although the Blue Chip economists’ December forecast said that growth would slow to 3.2%, this is nonetheless an upward revision from the 3.0% growth they predicted in November.

PCE accounts for roughly 70% of total GDP, making it an important indicator of the economy’s overall health. On a year-over-year basis, PCE grew at a fairly steady rate of 3%–4% in 2004. Since July 2005, however, the pace has slowed to less than 3%. The annual growth rate of real personal disposable income has been declining even more sharply and is currently less than 1%. So far, consumers have been able to increase their consumption faster.
than their income by taking on more
debt. By the end of 2005:IIIQ, 
consumer credit outstanding was up 
an annualized 3.3%.

How concerned should policy-
makers be about this increased debt 
load? One measure of households’ 
financial health is the number of per-
sonal bankruptcy filings. That statistic 
is likely to be distorted this year 
because of the new bankruptcy act, 
which passed in April and took effect 
October 17. Currently, data are avail-
able only through June 2005; they are 
likely to be very volatile for the rest of 
the year because some households 
pushed their filings forward in order to 
file under the old law.

Other measures suggest that 
households’ financial health remains 
relatively stable. Delinquency rates 
for consumer loans have been trend-
down since September 2001. The 
delinquency rate for loans secured by 
real estate has tended to fall over the 
same period, although it has ticked 
up slightly since 2005:IQ.

Financial obligation ratios are 
arguably a better measure of overall 
financial health because they include 
information from all households, not 
just those filing for bankruptcy or 
falling behind in their payments. For 
renters, this ratio has been trending 
down since 2001:IVQ, whereas it has 
increased slightly for homeowners.

To fully assess households’ finan-
cial health, one must consider not 
only their incomes and liabilities but 
also their assets. On average, house-
holds’ asset-to-debt ratio has been 
fairly flat since 2002, another sign 
that overall household financial 
health is stable.