Economic Activity

The Bureau of Economic Analysis has now released its second, and for this year final, revision of estimated growth in gross domestic product (GDP) for 2006:IIQ. The surprises were minimal. As was already apparent in the initial second-quarter release, the economy did in fact slow substantially from the very robust pace of the first quarter. At 2.56%, the annualized rate of change turned out to be about one-third of a percentage point lower than the preliminary and final estimates.

The housing story is by now familiar. Through August, existing home sales fell by almost 6% and new home sales by more than 16%, and it is clear that the weakness evident in the second quarter has continued into the third.

Despite the housing market’s travails, growth in both consumption and investment has held up reasonably well. Although new orders for durable goods—an indicator of growth in business investment—softened in August, the year-to-date rate of increase was still quite healthy. Because most current forecasts anticipate that nonresidential investment spending will grow at a pace consistent with continued moderate expansion in economic activity, the behavior of this growth component will give important clues about whether the economy is evolving as expected.

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a. Data are seasonally adjusted and annualized.
b. Blue Chip panel of economists.
c. Components of real GDP need not add to the total because the total and all components are deflated using independent chain-weighted price indexes.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Blue Chip Economic Indicators, September 10, 2006; and the National Association of Realtors.