Real GDP increased at an annualized rate of 1.6% in 2006:IIIQ, according to the Commerce Department’s advance estimate. This was roughly one full percentage point lower than last quarter’s final estimate of 2.56% and 1.6% below the 30-year average of 3.17%. The third-quarter slowdown resulted primarily from cooling in the housing market and the cumulative effects of past monetary policy rate increases.

Large negative changes in residential investment, inventories, and imports were the heaviest drags on GDP growth. Residential investment was down 10% from 2005:IIIQ.

In its October 10 report, the Blue Chip panel of economists forecasted annualized real GDP growth at 2.3% for 2006:IIIQ. It was off by 0.7%. The panel forecasts an upward trend over the next three quarters of 2.4%, 2.6%, and 2.7%, respectively. Intriguingly, the advance estimate of GDP growth was right in line with a derivatives auction held by the Chicago Mercantile Exchange just prior to the release.

Energy issues have received increased attention in the last four years. Oil, which cost less than $20 per barrel as recently as February 2002, soared to its most recent high of more than $77 on August 7, 2006. Since then, with the ending of the summer driving season and the slowing of the economy, prices have fallen to around $60. There is some good news: The economy’s energy efficiency has improved, so the U.S. is less affected by energy price fluctuations than it formerly was. Since 1973,
the energy required to produce a dollar of real GDP fell by almost half, mostly because of economizing on the use of petroleum and natural gas.

The Organization of Petroleum Exporting Countries (OPEC), in an attempt to stem further price declines, announced on October 11, 2006 its decision to cut back production by 1.2 million barrels of oil per day, roughly 4% of its output. Because OPEC members currently produce 42% of the world’s oil, their actions have an impact on oil markets; however, the problem with all producer cartels is agreeing to and carrying through on quota reductions. Differences in their financial health and production capabilities cause OPEC members’ interests to diverge. In any case, the still relatively high price of oil gives non-OPEC producers plenty of incentive to boost their output as much as possible.

Even though the U.S. economy needs less energy to produce a dollar of GDP than it used to, its dependence on foreign oil has increased. Since 1993, U.S. consumption of oil has risen nearly 20%, whereas its oil production fell more than 25%. Currently, OPEC supplies 41% of U.S. petroleum imports, down from 51% in 1993. However, because the world market sets the price of oil, this does not give the U.S. any shelter from market forces.

Saudi Arabia formerly was the biggest exporter of oil to the U.S. but Canada now holds that title, supplying 16% of U.S. oil imports. Mexico, another non-OPEC country, supplies 12%, and Venezuela, a country with which the U.S. has an increasingly shaky relationship, is tied for third place with Saudi Arabia at 11%.