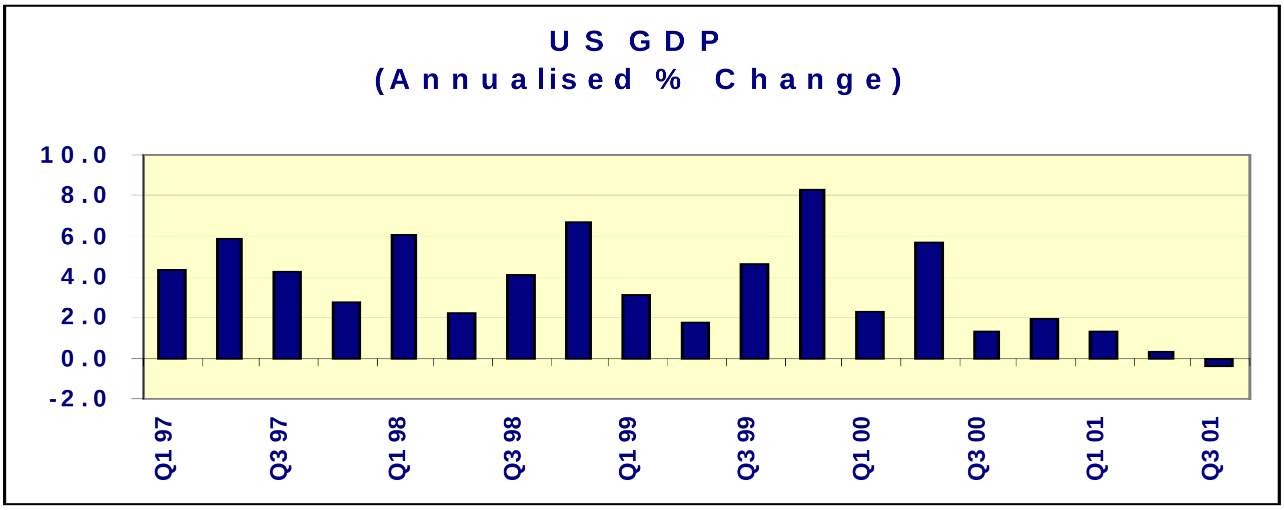
AIB Group Treasury
Economic Services Unit

US Economy Contracts 0.4% in Q3



	Q3 '01	Q2 '01	Q1'01	2000	1999	1998
GDP	-0.4	0.3	1.3	4.1	4.1	4.3
Consumer Spending	1.2	2.5	3.0	4.8	5.0	4.8
Business Investment	-11.9	-14.6	-0.2	9.9	8.2	12.5
Housing Investment	1.9	5.9	8.5	0.8	6.7	8.0
Exports	-16.6	-11.9	-1.2	9.5	3.2	2.1
Imports	-15.2	-8.4	-5.0	13.4	10.5	11.8
Government Purchases	1.8	5.0	5.3	2.7	3.3	1.9
Inventory Change (US$ bln)	-50.4	-38.3	-27.1	50.6	62.1	76.7

According to provisional estimates, US Q3 GDP came in better than expected but still showed a 0.4% contraction (on an annualised basis) for the three months July-September. A drop of 1.0% had been expected. A modest rise in consumer spending once again offset plunging inventories and falling business investment. Personal consumption growth was roughly in line with expectations at 1.2%. Business investment fell a further 11.9%. However, this was better than the previous quarter when investment fell 14.6%. Business spending on equipment and software dropped $32 billion, or 13.4% annualized. This was broadly in line with expectations.

After a fall of US$38.3bln in Q2, inventories dropped another $50 billion. This was much worse than expected. If the pace of inventory correction had not quickened, the overall growth rate would have been slightly positive. However, given that the inventory correction must run its course this should not be viewed too negatively. Government spending still made a positive contribution but growth declined from 5.0% in Q2 to 1.8%. The net trade impact was not as negative as in the previous period.

While the numbers were better than expected, the report was not based on complete data and will be subject to revisions, more than likely downward. Also, there are only three weeks of post September 11th covered in the data. There is no real change in the underlying trend and it is still the first step towards recession. Given the scale of job losses since September and the sharp correction in consumer confidence a bigger contraction in growth is likely in Q4. The numbers will be only mildly positive for the dollar and do not change our view that the Fed will cut interest rates again next week.

Geraldine Concagh
31 October 2001

The Bureau of Economic Analysis pointed out in its GDP report that the September 11 terrorist attacks likely impacted the data in the same way that natural disasters such as hurricanes and earthquakes would. The BEA noted that while most of the effects of disasters are captured by the source data, including monthly retail sales numbers, the BEA "prepares adjustments to account for the effects of a disaster not captured in the source data." However, the BEA made no attempt to back out the effects of the attacks from the figures.

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