

in 2008 after contributing 0.58 percentage points in 2007. Exports of both goods and services slowed in 2008. Imports of goods turned down, adding 0.65 percentage points to real GDP growth in 2008 after subtracting 0.25 percentage points in 2007. Imports of services slowed. Government spending picked up, reflecting an acceleration in national defence spending and an upturn in non-defence spending, while state and local government spending slowed.

Performance was weak over much of the first half of 2008, before turning negative in the second half of the year. Real GDP fell 0.5 percent in the third quarter and then plunged 6.3 percent in the fourth quarter as the full force of the recession took hold. This decline was the largest since the first quarter of 1982.

For the final quarter of 2008, consumer spending registered the largest decrease since the second quarter of 1980, shaving 3.0 percentage points off real GDP growth. U.S. households have been hit by large financial and housing wealth losses, lower earnings prospects, and elevated uncertainty about job security, all of which have driven consumer confidence to record lows and have depressed consumption. Non-residential fixed investment recorded its largest decrease since the first quarter of 1975, falling 21.7 percent while residential investment decreased 22.8 percent over the quarter after having decreased 16.0 percent the previous quarter. It was the twelfth consecutive quarter of decline for residential fixed investment.

Exports also turned down sharply, the first decrease since the second quarter of 2003 and the largest decrease since the fourth quarter of 1971. The downturn reflected widespread downturns in exports of goods. Exports of services also fell over the quarter. The downturn in exports of goods reflected large downturns in capital goods, industrial supplies and materials, automotive vehicles and parts, and non-automotive consumer goods. Imports decreased sharply in the fourth quarter, down 17.5 percent compared to a 3.5 percent decline in the third quarter. It was the fifth consecutive quarterly decline

in imports and the largest decrease since the third quarter of 1980. Federal government spending slowed over the quarter, reflecting a deceleration in national defence spending that was partly offset by an acceleration in federal non-defence spending.

Recent data suggest another substantial drop in economic activity in the first quarter of 2009. Although there have been some tentative signs of improving business sentiment and firming consumer demand, employment has continued to fall rapidly—5.1 million jobs have been lost since December 2007—pushing the unemployment rate to 8.5 percent in March 2009. Monetary policy was eased quickly in response to deteriorating economic conditions, and policy rates are now close to zero.

The economy is now projected to contract by 2.8 percent in 2009. The rate of decline is expected to moderate in the second quarter and beyond as fiscal easing supports consumer demand. The U.S. economy is projected to start recovering by the middle of 2010, contingent on fiscal stimulus (equivalent to about 5 percent of GDP) over 2009–11, a continued easy monetary policy stance, as well as on measures to stabilize house prices and stem the tide of foreclosures, and new policies to heal the financial sector. Average GDP growth in 2010 is projected to be zero, but is projected to reach 1.5 percent on a fourth-quarter-to-fourth-quarter basis.

Japan

Japan was one of the few advanced economies to contract in 2008, as real growth fell 0.6 percent following 2.4 percent growth the previous year. In the wake of the global financial crisis, exports and business investment have plummeted, while the yen has appreciated substantially and equity prices have fallen by half.

For the year as a whole, consumer spending decelerated, increasing by 0.5 percent, compared to 0.7 percent in 2007. Non-residential fixed investment contracted—falling 3.7 percent after having increased 5.8 percent the year before—which removed 0.6 percentage points from real GDP growth