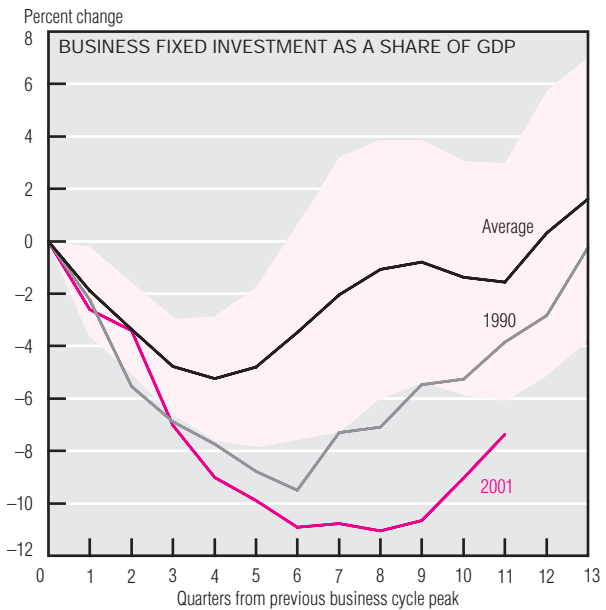
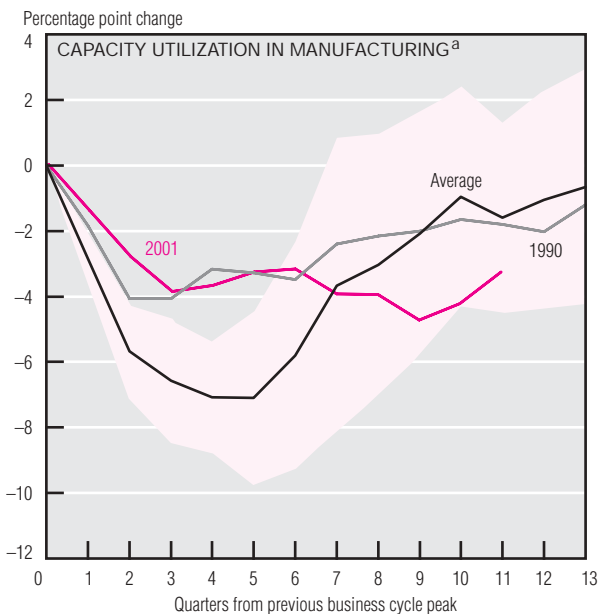
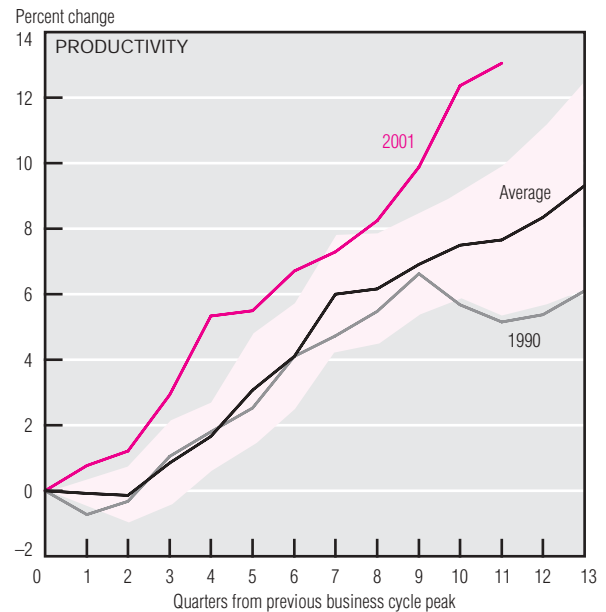
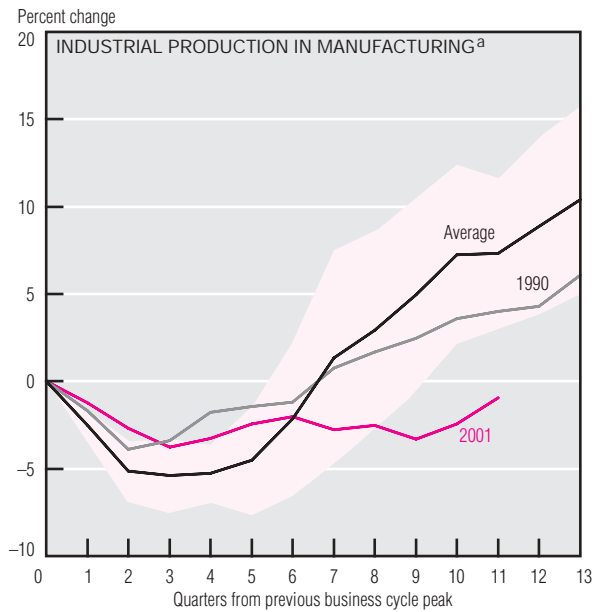


# GDP Growth



NOTE: Shaded bands represent the average for the nine previous business cycles, plus or minus two standard errors.

a. Standard Industrial Code categories.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and Board of Governors of the Federal Reserve System.

Although GDP growth has exceeded 4% over the last year, manufacturing is still in the doldrums. For the first six quarters after the most recent business cycle peak in March 2001, manufacturing industrial production fell slightly less than the historical average for business cycles. Since then it has stalled, and now lags significantly below the typical level. In fact, its above-average performance early on is a bit misleading because by the time of the last official business cycle peak, manufacturing

industrial production had already declined almost 3% from its own peak in June 2000.

On a brighter note, the current cycle has been distinguished by remarkably strong growth in labor productivity. Strong as GDP growth has been, the economy has yet to experience strong employment growth because firms have been able to boost output without hiring additional workers. Rapid productivity growth has put a damper on the employment of capital as well. At first glance, manufacturing capacity

utilization, a measure of the employment rate of capital, appears to have followed its typical cyclical pattern closely, but this series also peaked before the official peak.

New investment has also been affected. Business fixed investment's share of GDP has dropped significantly below the cyclical average. In a positive development, investment's share of GDP has rebounded sharply over the last two quarters, although it still has quite a way to go before regaining its March 2001 level.