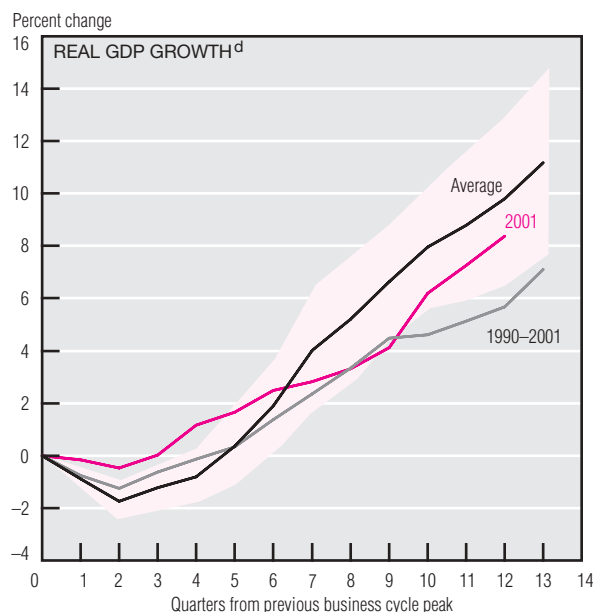
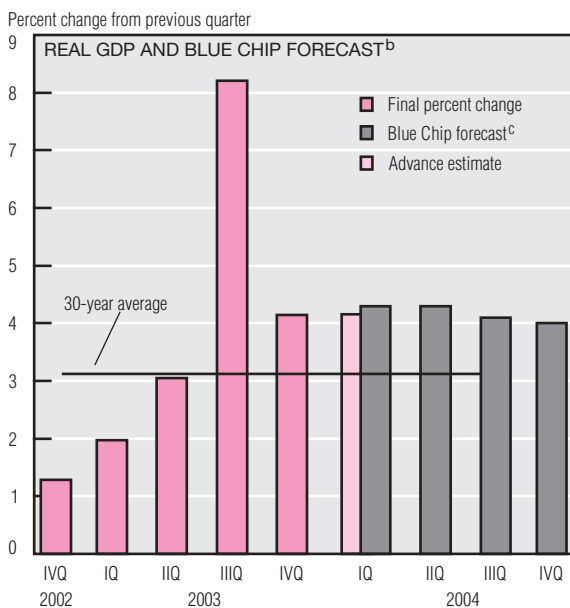
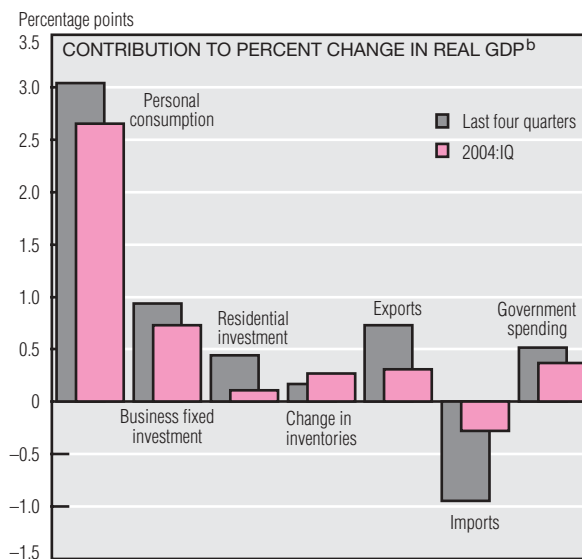


# Changes in the GDP

Real GDP and Components, 2004:IQ <sup>a</sup> (Advance estimate)	Change, billions of 2000 \$	Annualized percent change, last:	
		Quarter	Four quarters
Real GDP	108.5	4.2	4.9
Personal consumption	69.4	3.8	4.3
Durables	-12.7	-4.7	9.6
Nondurables	34.1	6.5	5.1
Services	44.7	4.3	2.9
Business fixed investment	20.4	7.2	9.4
Equipment	25.8	11.4	12.9
Structures	-4.0	-6.6	-1.5
Residential investment	2.7	2.1	8.8
Government spending	9.6	2.0	2.7
National defense	17.0	15.1	13.5
Net exports	0.6	—	—
Exports	8.5	3.2	7.8
Imports	7.9	2.0	6.9
Change in business inventories	6.3	—	—



a. Chain-weighted data in billions of 2000 dollars. Components of real GDP need not add to the total because the total and all components are deflated using independent chain-weighted price indexes.

b. Data are seasonally adjusted and annualized.

c. Blue Chip panel of economists.

d. The shaded band represents the average for the nine previous business cycles, plus or minus two standard errors.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; National Bureau of Economic Research; and *Blue Chip Economic Indicators*, April 10, 2004

The advance estimate for real GDP growth in 2004:IQ was 4.2%, slightly above the previous quarter's 4.1% final estimate but below the Blue Chip economists' forecast of 4.3%. Nonetheless, most observers remain upbeat because the growth was fairly broad based. Personal consumption expenditures, the largest contributor to real GDP growth in 2003:IVQ, rose 3.8%, led by nondurables (up 6.5%) and services (up 4.3%). Spending on durables dipped 4.7%, but was still up 9.6% from the previous four quarters.

Business fixed investment, the second largest contributor to growth, was up 7.2%. Investment in equipment rose 11.4%, but investment in structures fell 6.6%. Residential investment also slowed, up only 2.1%, far less than the 8.8% of the previous four quarters.

Net exports improved for the third straight quarter; although exports grew only 3.2%, imports slowed even more, increasing just 2.0%. Government spending growth slowed to 2.0% overall, but growth in national defense spending continued at a strong clip,

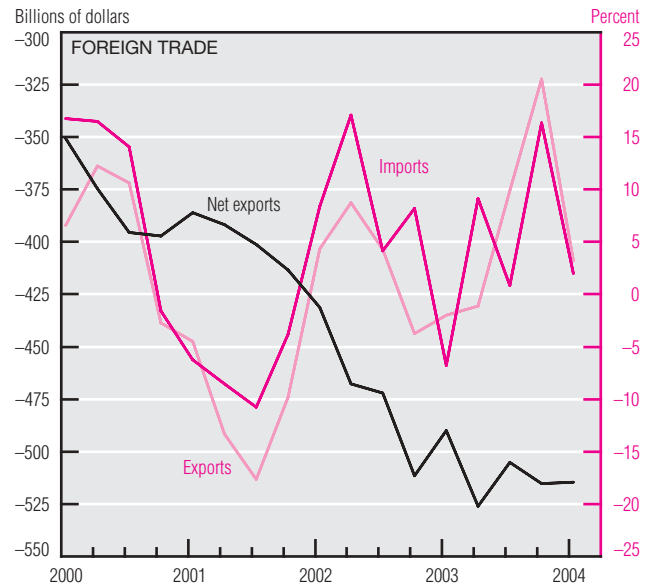
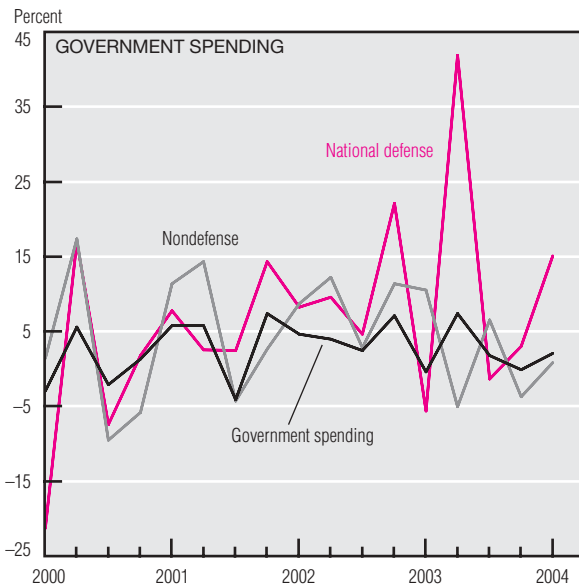
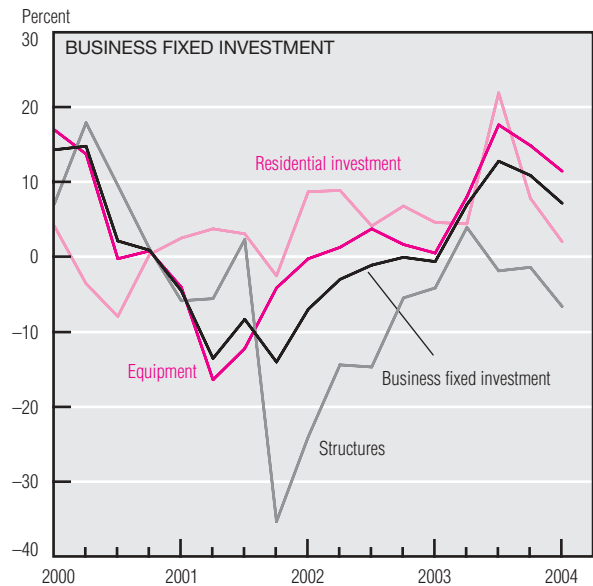
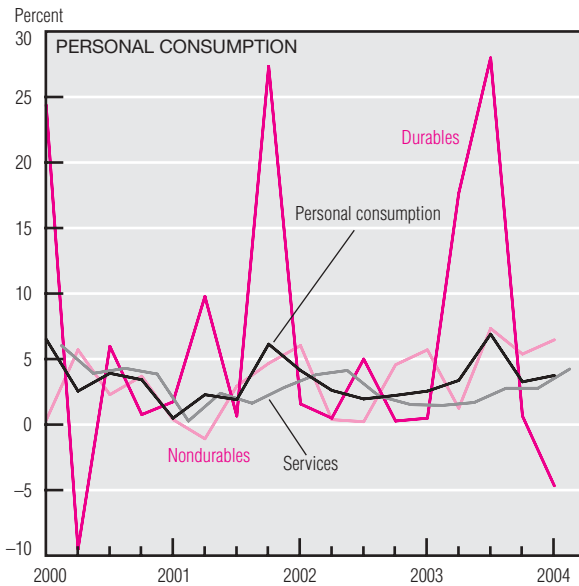
up 15.1%. The 2.5% increase in the implicit GDP deflator and the 2.0% rise in core CPI caused concern for some.

Looking forward, Blue Chip forecasters expect that real GDP growth will stay close its the current rate, well above the 30-year average of 3.1%, through the end of the year. If that occurs, the current expansion will continue to be fairly typical of expansions of similar duration.

The beginning of the economy's third year of expansion is a good time

(continued on next page)

## Changes in the GDP (cont.)



NOTE: All data are seasonally adjusted and annualized.  
SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis

to ask how the GDP's components have been performing. Since 2001:IIIQ, when real GDP began growing again, higher personal consumption expenditures, currently comprising about 71% of GDP, have accounted for much of its 3.5% average annual growth. About 57% of personal consumption came from services, its most stable component, which has grown at an annual average rate of 2.7%. Nondurable spending, about 29% of consumption and its next most stable component, grew at a brisker 4.2%

rate over the same period. The smallest component (14%) of consumption was durable goods, which grew at the highest rate (7.1%), but was by far the most volatile.

Investment, 16% of GDP, grew at an annual rate of 4.2% over this period. Growth in equipment and software (5.3%) and residential investment (6.5%) were both fairly strong. Investment in structures suffered most in the last downturn; even in the current recovery period, when overall real GDP was growing, this component still fell at an annualized rate of 11.1%.

Federal, state, and local government expenditures account for about 18% of GDP. Overall government spending has grown 3.6% since 2001:IIIQ; national defense spending, currently 26% of government spending, grew 10.5%. In contrast, nondefense government spending grew a mere 1.5%.

Over the same period, net exports seem to have stabilized at around -\$515 billion. Growth rates for exports and imports have tracked each other quite closely, but the trade deficit persists because the level of imports is so much higher than that of exports.