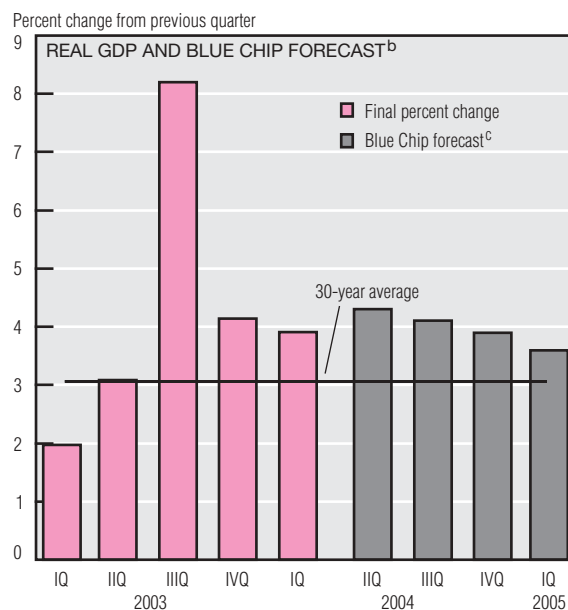
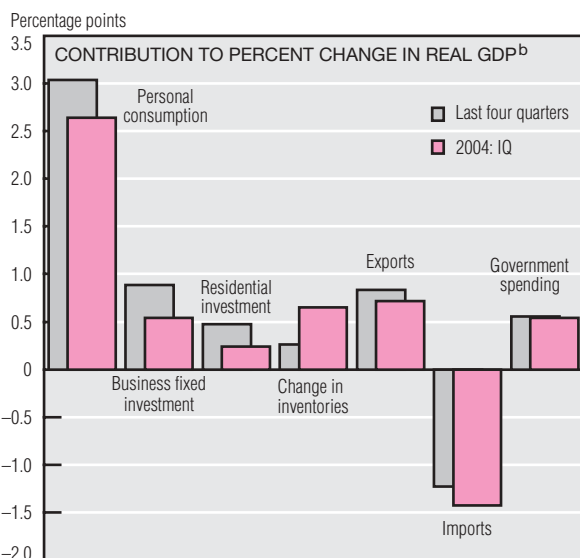
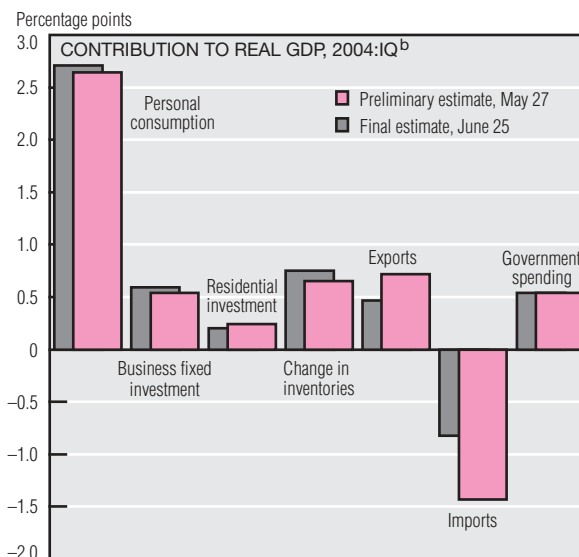


Economic Activity

	Change, billions of 2000 \$	Annualized percent change, last:	
		Quarter	Four quarters
Real GDP	102.0	3.9	4.8
Personal consumption	69.6	3.8	4.3
Durables	-10.1	-3.7	9.9
Nondurables	36.2	6.9	5.2
Services	40.8	3.9	2.8
Business fixed investment	15.2	5.3	8.9
Equipment	21.0	9.2	12.4
Structures	-4.5	-7.4	-1.7
Residential investment	5.9	4.6	9.5
Government spending	14.0	3.0	3.0
National defense	14.9	13.2	13.0
Net exports	-20.4	—	—
Exports	19.7	7.5	8.9
Imports	40.1	10.4	9.0
Change in business inventories	16.5	—	—



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.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Conference Board; University of Michigan; and *Blue Chip Economic Indicators*, June 10, 2004.

According to the U.S. Commerce Department's final estimate, the annualized growth rate of real GDP in 2004:IQ was 3.9%, down from the preliminary estimate of 4.4%. Excepting nondurables, services, and changes in inventories, all components either decreased or remained unchanged from their previous four-quarter average.

The 0.5% downward revision to GDP growth was attributed primarily to a sharp upward revision to imports of \$17 billion. In the preliminary estimate, imports dragged GDP down

0.8 percentage point; in the final estimate, imports decreased GDP by 1.4 percentage points. Other sources of the downward revision were business fixed investment and personal consumption. However, these were partially offset by upward revisions to exports and residential investment. Government spending was the only component that remained unchanged from the preliminary estimate.

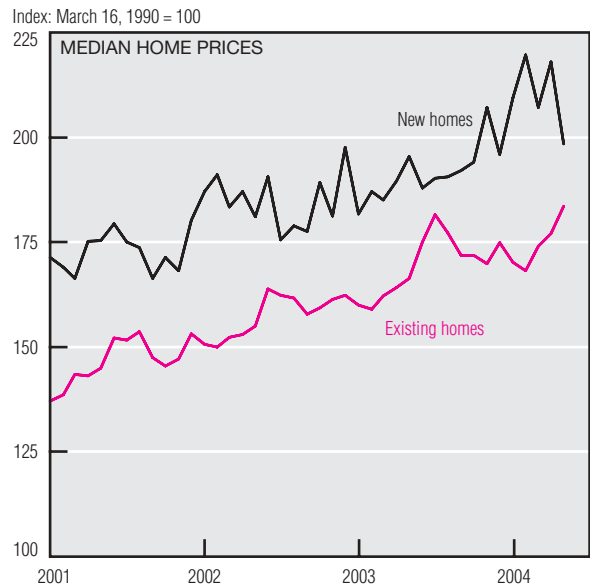
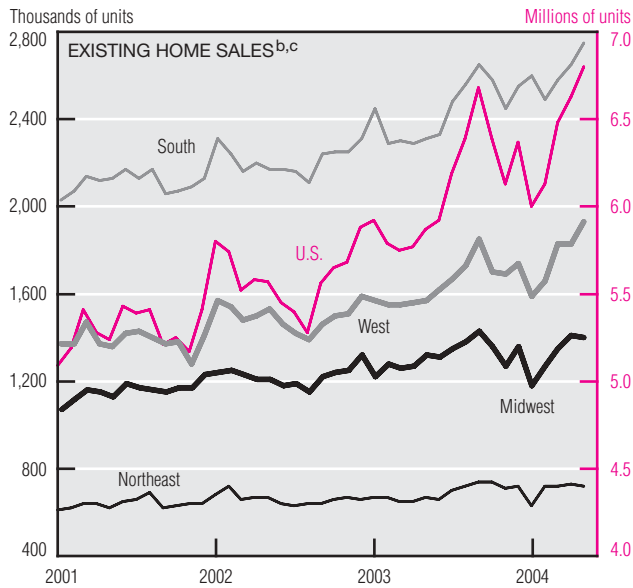
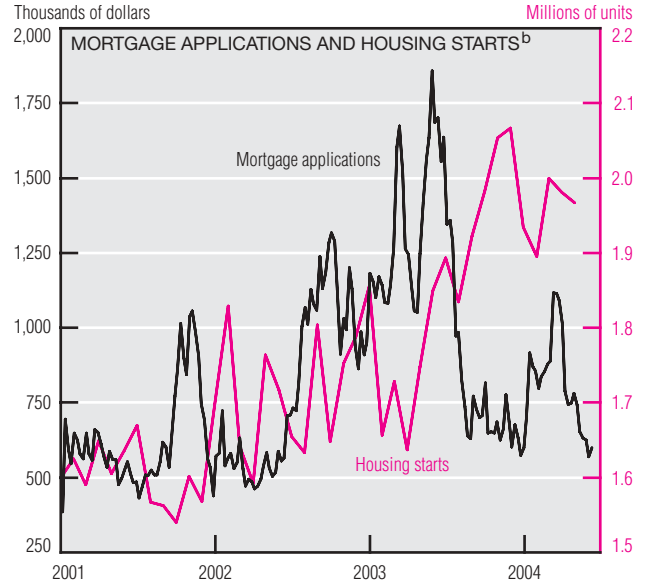
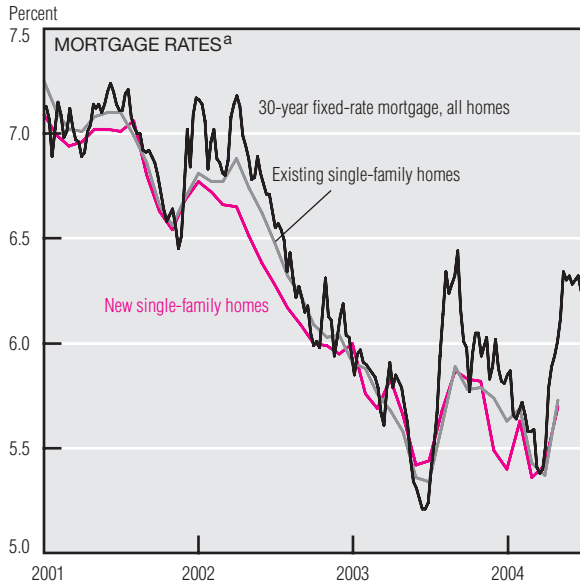
The largest positive contribution to GDP's 3.9% growth rate was personal consumption at 2.64 percentage points, while exports accounted

for 0.72 percentage point and changes in inventories added 0.65 percentage point. For 2004:IQ, inventories' contribution to the change in real GDP increased from annual levels, the only category to do so.

In the final estimate, 2004:IQ growth was slightly lower than 2003:IVQ growth, although Blue Chip forecasters expect brisker growth in the second quarter. Even with the downward revisions from May's forecast, the Blue Chip expectations for the remainder of the year are still

(continued on next page)

Economic Activity (cont.)



a. Seasonally adjusted.
 b. Annual rates.
 c. Contract interest rate.

SOURCES: U.S. Department of Commerce, Bureau of the Census; Federal Housing Finance Board; Mortgage Bankers Association of America; and National Association of Realtors.

far higher than the U.S. economy's 30-year average.

After bottoming out in March, the interest rate on 30-year fixed-rate mortgages began to rise, averaging 6.28% in April and May. Although this rate is higher than the 5.24% posted in the same period last year, it is still considerably lower than its 30-year average (9.75%). Contract interest rates for mortgages on new and existing single-family homes have also been increasing.

Since mortgage rates began to rise in March, housing starts and

mortgage applications have been declining. Housing starts have decreased by 100,000 (4.8%) since December, although May's starts were still 219,000 (12.5%) above the same period last year. Mortgage applications were also down from March, matching the number posted in December 2003.

Nevertheless, sales of both new and existing homes climbed to record highs in May. Sales of existing homes increased 2.6%, reaching 6.8 million, as the result of continued growth in the South and West; numbers for the

Northeast and Midwest remained relatively flat. In addition, new home sales increased 14.8%, although this series is often revised substantially in later releases.

Median home price results for May were mixed. New single-family home prices fell to their lowest level since last December, while existing home prices have been rising since February. The median existing home price for the U.S. was \$184,000 in May, 10.3% higher than in the same month last year.