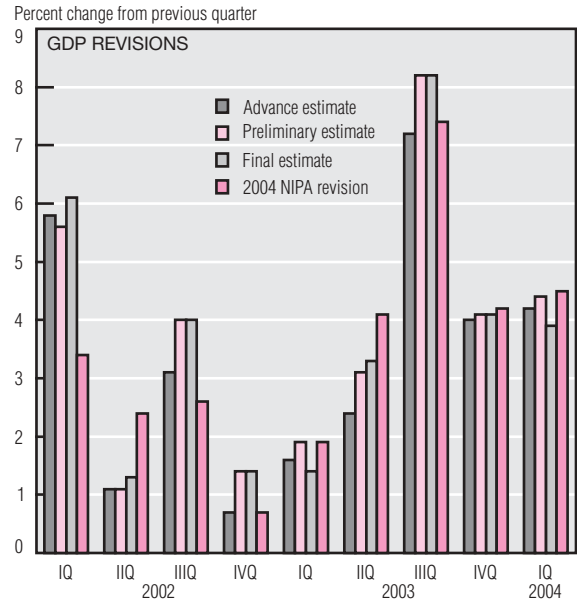
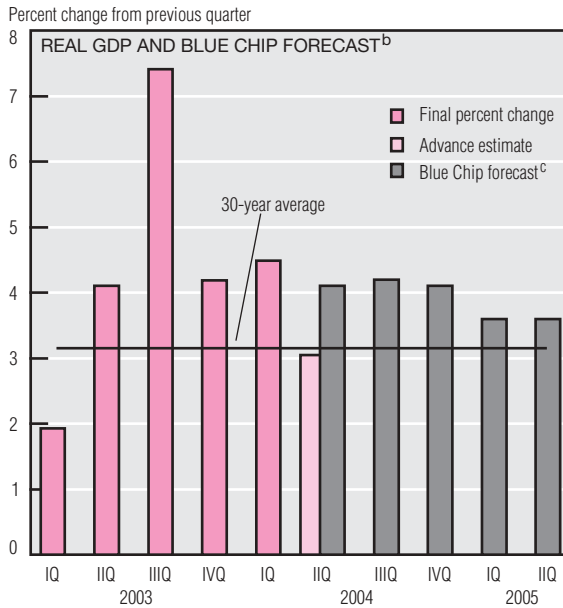
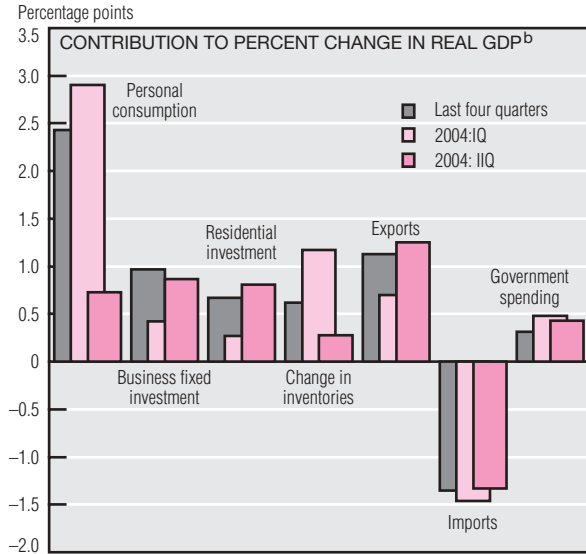


Economic Activity

	Change, billions of 2000 \$	Annualized percent change, last:	
		Quarter	Four quarters
Real GDP	80.5	3.0	4.8
Personal consumption	19.5	1.0	3.4
Durables	-6.8	-2.5	4.8
Nondurables	-0.3	-0.1	4.6
Services	24.6	2.3	2.6
Business fixed investment	25.1	8.8	9.9
Equipment	22.7	10.0	12.8
Structures	3.0	5.1	0.8
Residential investment	19.8	15.4	12.9
Government spending	11.0	2.3	1.6
National defense	2.3	1.9	3.8
Net exports	-2.7	—	—
Exports	34.5	13.2	12.3
Imports	37.1	9.3	9.9
Change in business inventories	7.5	—	—



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; National Bureau of Economic Research; and *Blue Chip Economic Indicators*, July 10, 2004.

The advance (initial) GDP estimate for 2004:IIQ, released July 30 by the Commerce Department, revealed that annualized real output growth was 3.0%. This is considerably lower than the 4.1% Blue Chip forecast for the quarter.

Personal consumption expenditures were fairly soft in 2004:IIQ, growing at an annual rate of 1.0%. Retailers blame June's unusually cool weather for the month's low consumption expenditures. Expenditures on durables

fell 2.5%, which came on the heels of a decline in durables spending in 2004:IQ. In contrast, residential investment was up smartly, rising at an annual rate of 15.4%. Business fixed investment continues to exhibit robust growth.

Given the slowdown in consumption growth, it should not be surprising that consumption's contribution to overall output growth fell sharply in 2004:IIQ. Inventory investment also made a smaller relative contribution.

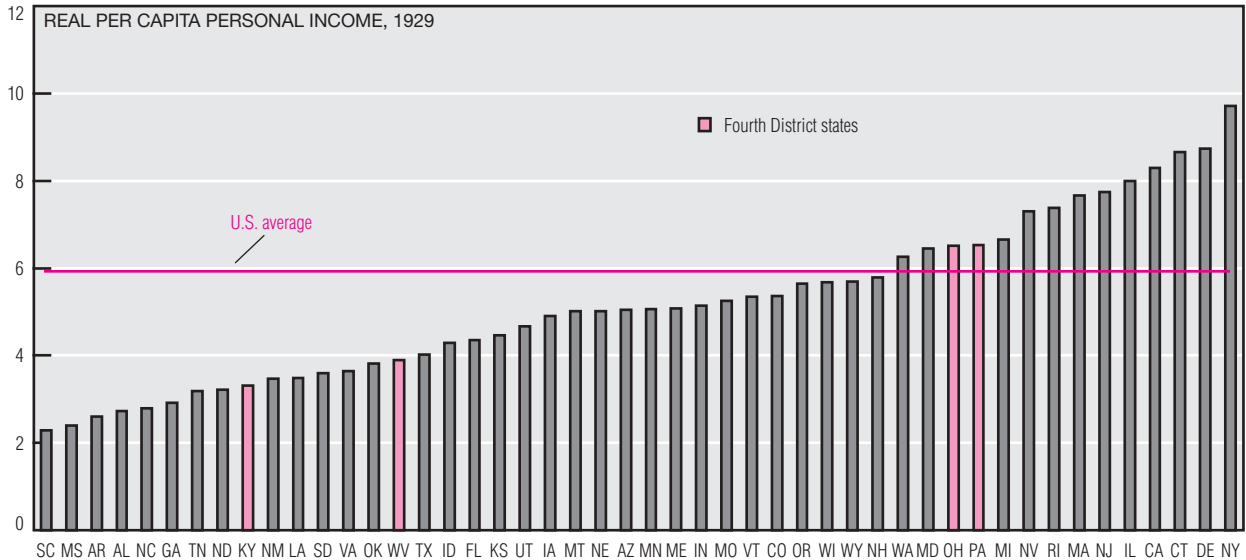
Exports contributed 1.25 points to output growth, but this was more than offset by imports' -1.3 point contribution.

Recent history cautions against reading too much into an advance GDP estimate. Preliminary and final estimates have been as much as 1 percentage point higher than the advance estimate. Annual revisions to the data can take their toll: The "final" estimate for 2002:IQ was revised down from 6.1% to 3.4% in the 2004 annual revision.

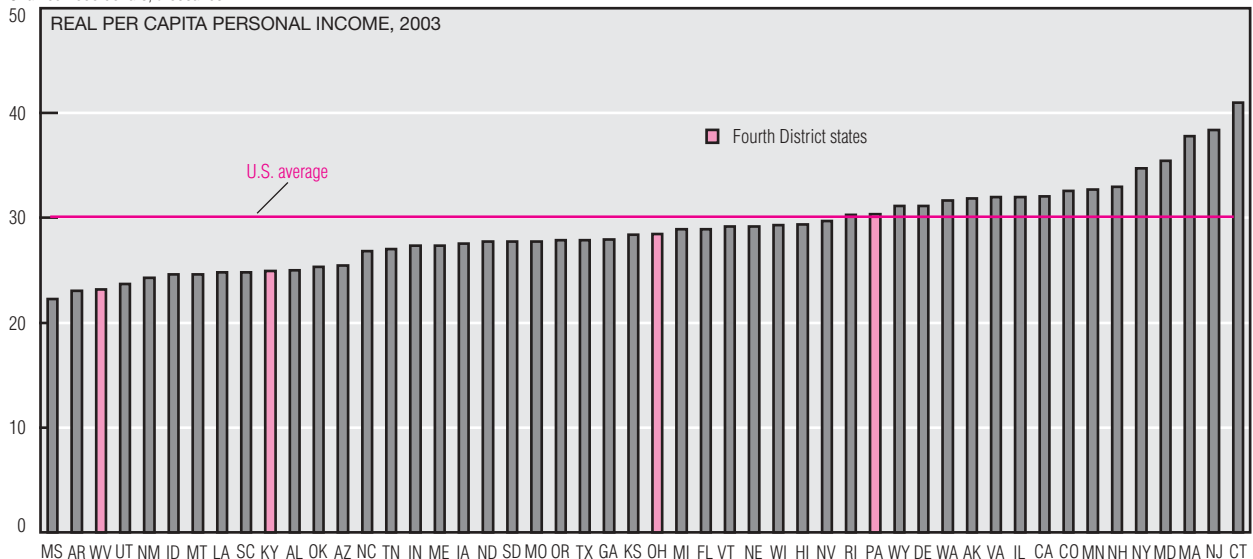
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Economic Activity (cont.)

Chained 2000 dollars, thousands



Chained 2000 dollars, thousands



SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

Real per capita income differs both across states and over time. In 1929, average income in the richest state, New York, was 4.3 times that of the poorest, South Carolina. While only 14 of the 48 states had per capita incomes above the U.S. average, these 14 included most of the heavily populated states.

As a rising tide raises all boats, so economic growth has benefited all regions. Moreover, disparities among states' per capita incomes are becoming relatively smaller over time. In

2003, per capita income in the richest state, Connecticut, was not 4.3 (as in 1929), but only 1.8 times that of the poorest state, Mississippi. The reason is that per capita income in a poor state like Mississippi grew at an annual rate of 3.1% between 1929 and 2003, while Connecticut experienced an annual growth rate of 2.1%.

Yet another indication of the convergence in per capita incomes is that in 1929, Mississippi earned 41% of the national average; by 2003, this figure had risen to 74%. Whereas

Connecticut earned 47% more than the national average in 1929, it earned 36% more in 2003.

Some states have benefited relatively more from growth than others have. For example, South Carolina moved from last place in 1929 to ninth from last in 2003. Of the Fourth District states, only Kentucky rose in the relative rankings, up one place. Ohio and Pennsylvania exceeded the U.S. average in 1929, but only Pennsylvania was still above the average in 2003.