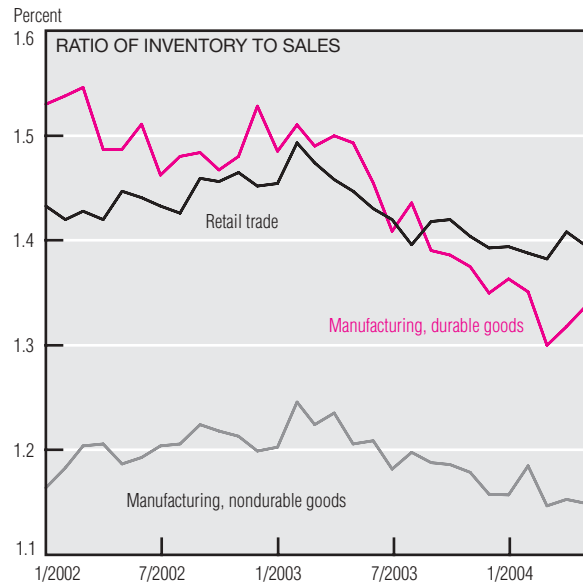
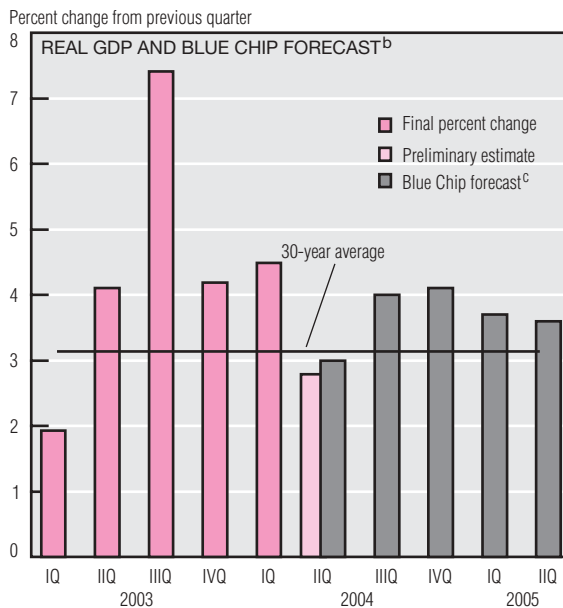
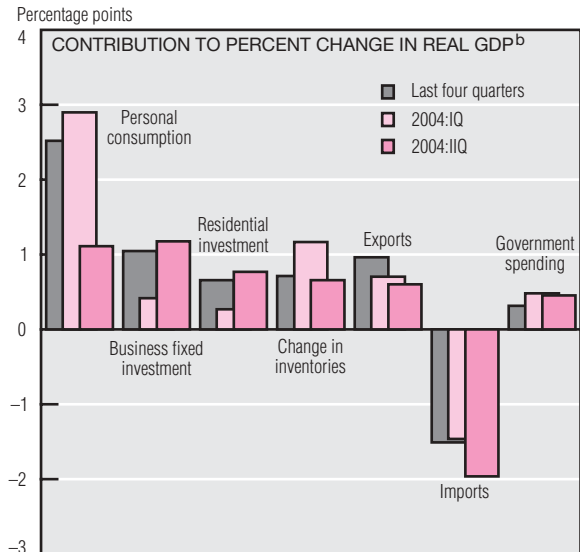


Economic Activity

	Change, billions of 2000 \$	Annualized percent change, last:	
		Quarter	Four quarters
Real GDP	73.9	2.8	4.7
Personal consumption	29.7	1.6	3.6
Durables	-0.1	0.0	5.4
Nondurables	2.5	0.5	4.8
Services	26.2	2.5	2.6
Business fixed investment	34.0	12.1	10.7
Equipment	30.7	13.7	13.7
Structures	4.1	7.1	1.3
Residential investment	19.0	14.8	12.8
Government spending	11.6	2.4	1.7
National defense	2.3	1.9	3.8
Net exports	-38.6	—	—
Exports	16.5	6.2	10.5
Imports	55.1	14.1	11.0
Change in business inventories	17.7	—	—



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*, August 10, 2004.

The preliminary estimate for 2004:IIQ revised GDP growth down from the 3.0% advance estimate to 2.8%, which was slightly higher than the Blue Chip forecast for the quarter. This downward revision did nothing to calm concerns over the slowdown in economic activity relative to 2004:IQ.

The big changes occurred in exports and imports. Export growth was revised down from 13.2% to 6.2%, while import growth was revised up from 9.3% to 14.1%. Both

revisions reduced GDP growth for the quarter.

On the plus side, consumption growth was revised up from 1.0% to 1.6% owing to a revised figure of no change for durables (compared to the -2.5% reported previously). Business fixed investment was also revised up from 8.8% to 12.1%.

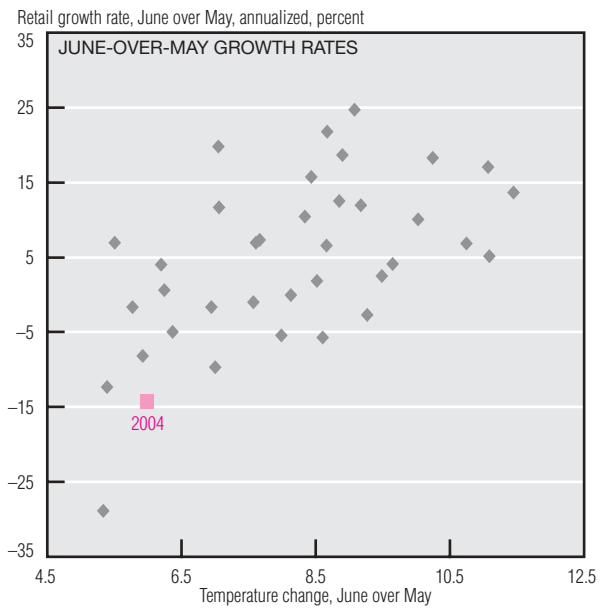
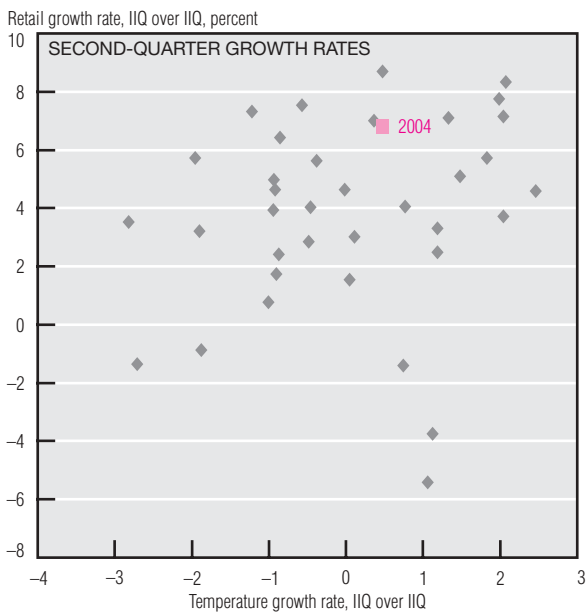
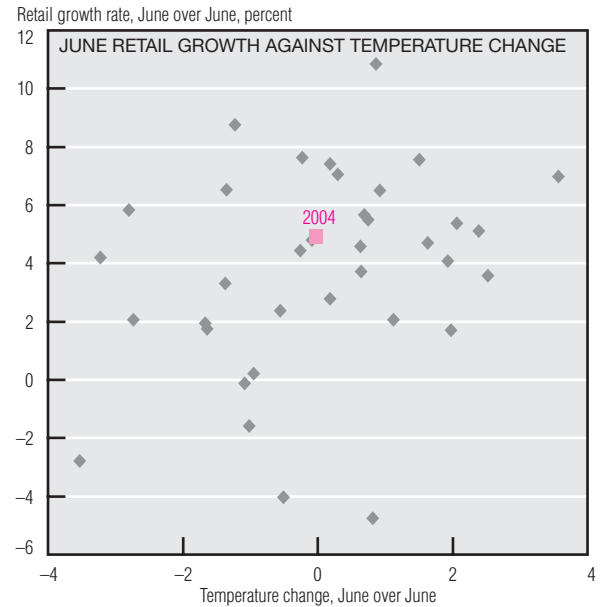
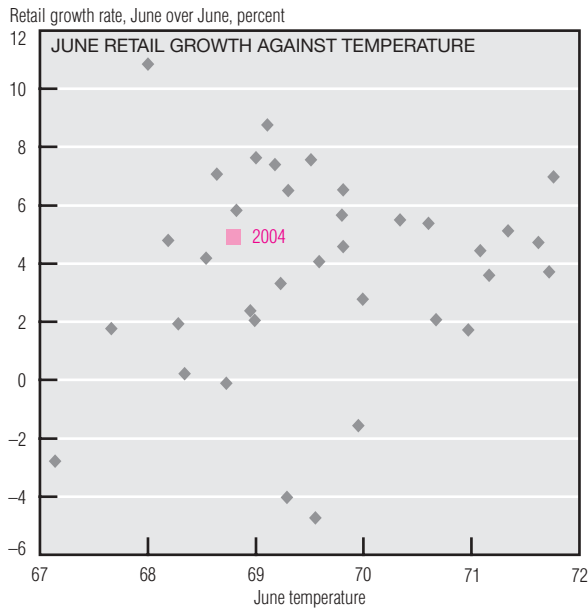
One indicator of the economy's health is the inventory-to-sales ratio. A fall in this ratio generally means that sales are outstripping production, a situation that cannot continue

indefinitely. Inventory-to-sales ratios have generally fallen since the start of 2003, particularly in the durables sector. These ratios are expected to start rising when the recovery becomes entrenched.

Retail sales were weak in June, which some analysts ascribe to lower-than-average temperatures. What do the data show about the connection between retail sales and temperature? While the temperature was $\frac{3}{4}$ degree below average, retail sales growth was 1.1 percentage points above average.

(continued on next page)

Economic Activity (cont.)



NOTE: The retail data come from two different series. The data for 1967 to 1991 are based on SIC industry codes, while the data for 1992 to the present use NAICS. All retail data are seasonally adjusted.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and National Climate Data Center.

If the temperature–sales story were correct, low temperatures should be associated with low retail sales growth; this pattern is not seen in the data.

Perhaps it is the level of retail sales that is affected by temperature. In this case, low retail sales growth should be associated with low *changes* in temperature: A year of uncommonly low temperatures and sales following an average year should have a negative change in temperature and low growth in sales.

If the following year brings a return to average, then we should subsequently see a large positive change in temperature and above-average sales growth. Once more, the data reveal no systematic relationship between these variables.

When we look at quarterly variations, we see no systematic relationship between retail sales growth and the change in temperature relative to the previous year.

Consider the change in temperature between May and June and the

one-month growth in retail sales. In this case, the data do show a positive relationship. For example, 2004 had a smaller-than-average increase in temperature and a decline in retail sales.

However, a below-average increase in temperature could result from an exceptionally warm May followed by an average (or even above-average) June. In this case, May retail sales, boosted by the uncommonly warm temperatures, could come at the expense of lower June retail sales.