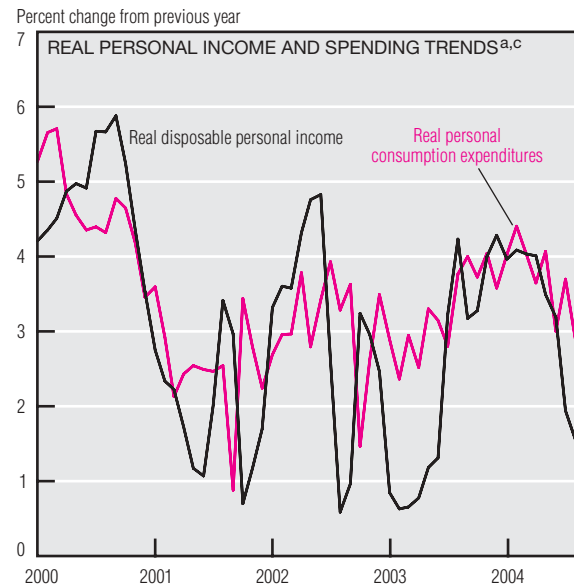
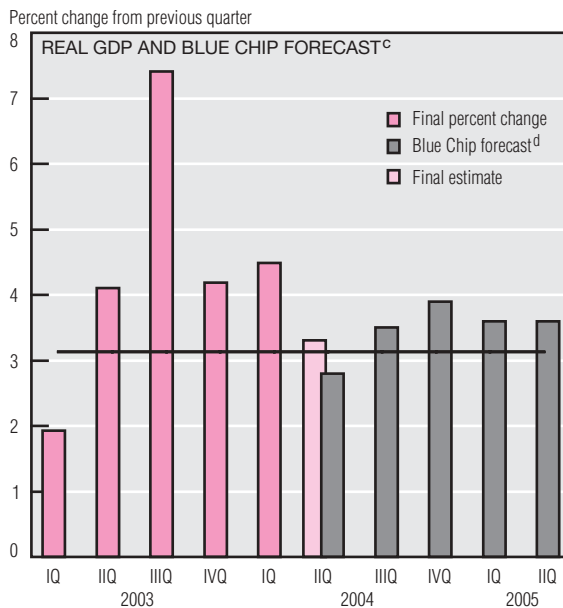
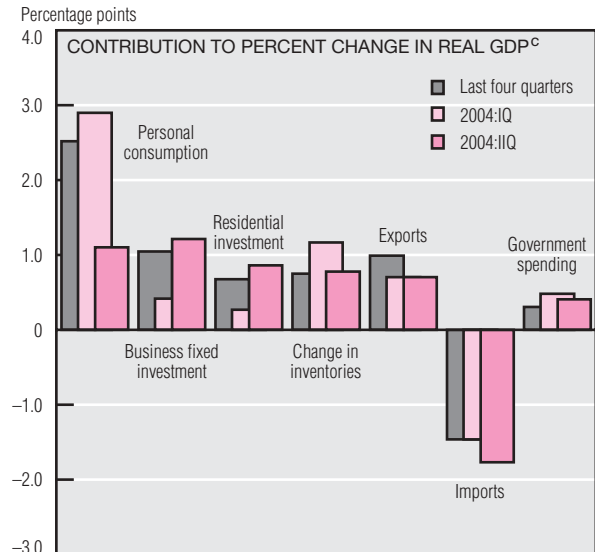


Economic Activity

	Change, billions of 2000 \$	Annualized percent change, last:	
		Quarter	Four quarters
Real GDP	87.2	3.3	4.8
Personal consumption	29.4	1.6	3.6
Durables	-0.8	-0.3	5.4
Nondurables	0.7	0.1	4.7
Services	28.3	2.7	2.7
Business fixed investment	34.9	12.4	10.8
Equipment	31.8	14.2	13.9
Structures	4.0	6.9	1.3
Residential investment	21.1	16.5	13.2
Government spending	10.7	2.2	1.6
National defense	2/3	1.9	3.8
Net exports	-30.2	—	—
Exports	19.4	7.3	10.8
Imports	49.6	12.6	10.7
Change in business inventories	21.1	—	—



a. Chain-weighted data in billions of 2000 dollars.

b. Components of real GDP need not add to the total because the total and all components are deflated using independent chain-weighted price indexes.

c. Data are seasonally adjusted and annualized.

d. 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*, September 10, 2004.

According to the U.S. Commerce Department's final estimate, the annualized growth rate of real GDP in 2004:IIQ was 3.3%, up from the preliminary estimate of 2.8%. This increase resulted partly from upward revisions to business inventories, residential investment, and business fixed investment. In addition, exports were higher and imports were lower than originally reported, with the revision increasing the change in net exports by \$8.4 billion.

Given its larger share, personal consumption is usually the component

with the largest positive contribution to GDP. In 2004:IIQ, however, business fixed investment's contribution was the largest (1.2 percentage points), while personal consumption's was 1.1 percentage points (pp). Exports were unchanged from 2004:IQ, although imports' negative impact increased 0.31 pp.

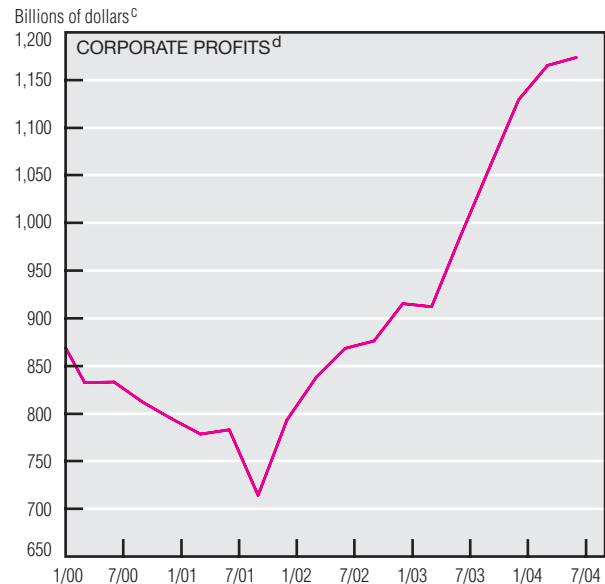
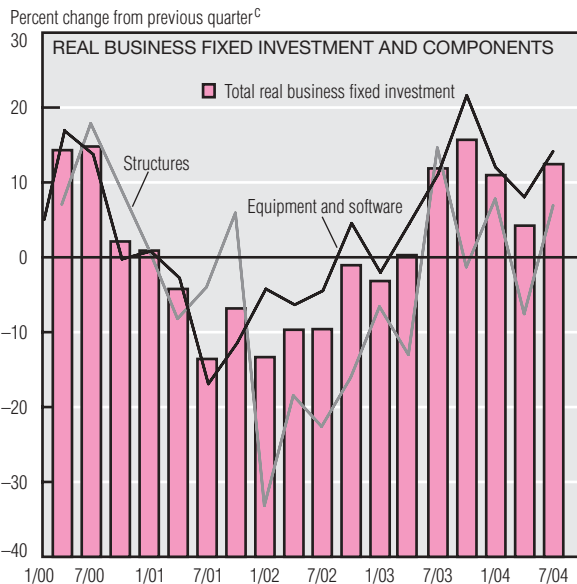
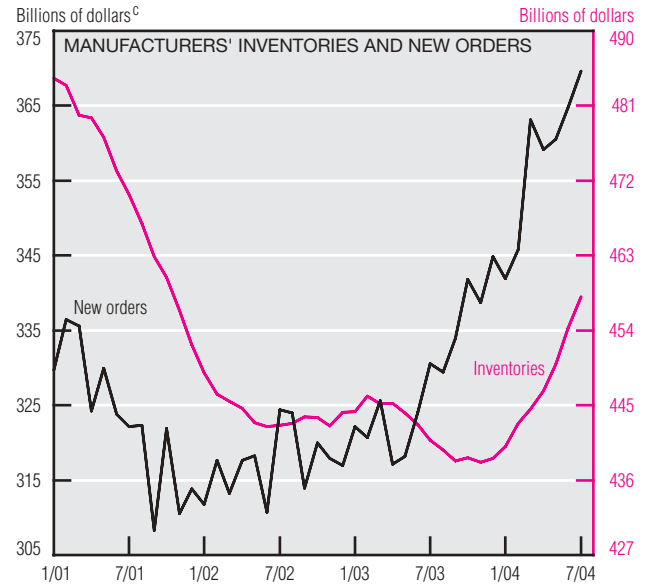
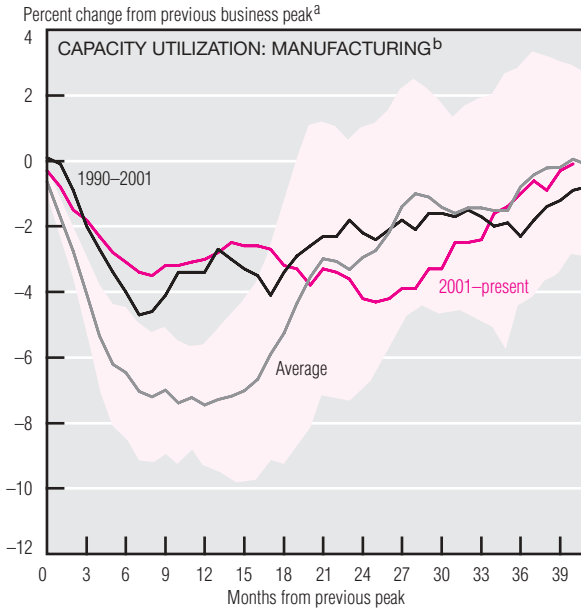
The final growth estimate for 2004:IIQ was slightly higher than Blue Chip forecasters' prediction. They expect growth to be slightly higher over the next four quarters, with estimates

coming in at or above 3.5% for each quarter. If these predictions are correct, the economy should perform well above the 30-year average in the upcoming quarters.

Since the beginning of 2004, year-over-year-growth in both real disposable personal income and real personal consumption expenditures has slowed. Real disposable personal income growth slowed by 2.7 pp from August 2003 to August 2004, while growth in real personal consumption expenditures slowed by

(continued on next page)

Economic Activity (cont.)



a. Seasonally adjusted.

b. The shading represents a 95% confidence interval (the 1948–2000 average, plus or minus two times the standard error).

c. Seasonally adjusted annual rates.

d. Corporate profits with inventory valuation and capital consumption adjustments.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics; and Federal Reserve Board.

a more modest 0.9 pp in the same period.

Conditions in manufacturing have improved markedly over the last year. At 76.8%, manufacturing capacity utilization has now rebounded to the level last recorded at the beginning of the most recent economic downturn in March 2001. Because manufacturing capacity utilization peaked in April 2000, earlier than the economy as a whole, capacity utilization has not yet reached the 82.2% level observed then. During the current business cycle, this indicator

performed better than average in the period right after the last peak, but over the past two years its performance has been fairly typical.

Another sign of health in manufacturing is that new orders increased 11.8%, or \$39 billion, from July 2003 to July 2004, with inventories rising a more modest 3.9% over that period to support the higher level of sales. Bolstered by the inflow of orders, business fixed investment has also continued to rebound, up 12.4% at a seasonally adjusted annual rate (SAAR) in 2004:IIQ and 10.8% from

2003:IIQ to 2004:IIQ. Investment in equipment and software has grown even more strongly, up 14.2% SAAR and 13.9% over the last year. Investment in structures has been less steady, rising 6.9% SAAR in 2004:IIQ but only 1.3% since 2003:IIQ.

In a further reflection of improved performance, corporate profits have surged 19% (\$188 billion) from 2003:IIQ to 2004:IIQ. Something to watch, however, is that the pace did slacken from the first to the second quarter, rising only 2.9% SAAR.