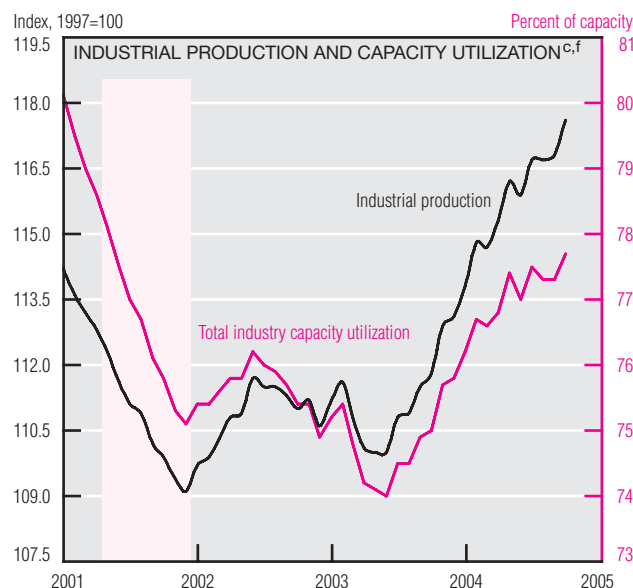
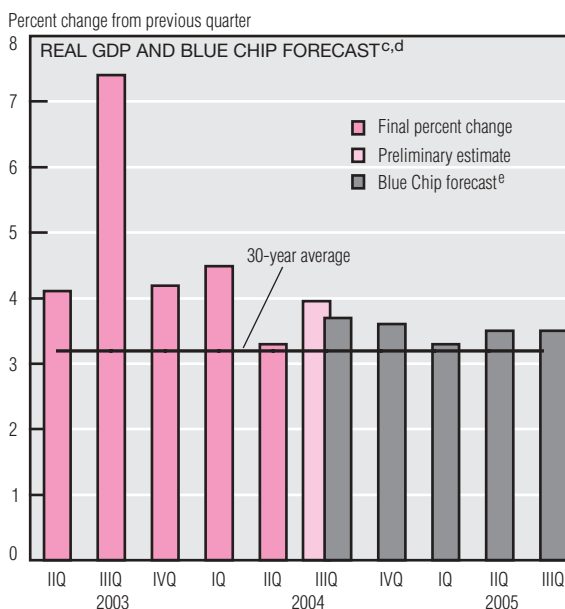
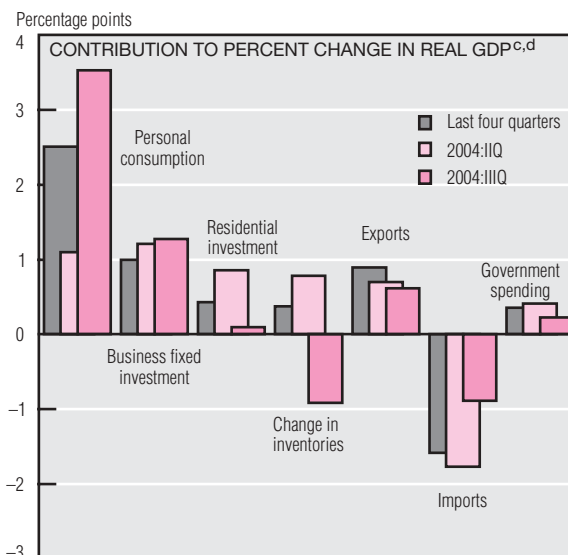


Economic Activity

	Change, billions of 2000 \$	Annualized percent change, last:	
		Current quarter	Four quarters
Real GDP	105.0	3.9	4.0
Personal consumption	94.4	5.1	3.6
Durables	43.5	17.2	5.5
Nondurables	25.7	4.8	4.2
Services	31.0	2.9	2.9
Business fixed investment	37.4	13.0	10.1
Equipment	39.5	17.2	12.8
Structures	-0.2	-0.3	1.5
Residential investment	2.5	1.8	8.1
Government spending	5.9	1.2	1.9
National defense	11.3	9.8	8.4
Net exports	7.7	—	—
Exports	17.3	6.4	9.5
Imports	25.0	6.0	11.5
Change in business inventories	-25.2	—	—



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.

d. Data are annualized.

e. Blue Chip panel of economists.

f. Shaded areas indicate recessions.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Board of Governors of the Federal Reserve System; National Bureau of Economic Research; and *Blue Chip Economic Indicators*, November 10, 2004.

According to the preliminary estimate for 2004:IIIQ, real GDP rose at an annual rate of 3.9%, up from the advance estimate of 3.7%. The upward revision was primarily a reflection of downward revision to imports of 1.7 percentage points (pp) and upward revisions of 0.8 pp to personal consumption expenditures for nondurable goods and 2.3 pp to equipment and software. These were partly offset by a downward revision to private nonfarm inventory investment (1.3 pp).

Unlike the previous quarter, personal consumption in 2004:IIIQ returned to its usual position as the largest contributor to the percent change in real GDP. Imports' negative contribution to real GDP lessened in 2004:IIIQ, while changes in business inventories, which made positive contributions to GDP over the last four quarters, became a drag this quarter.

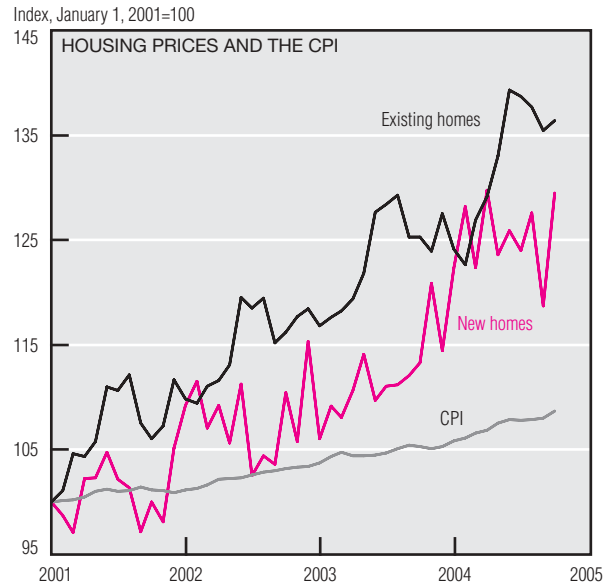
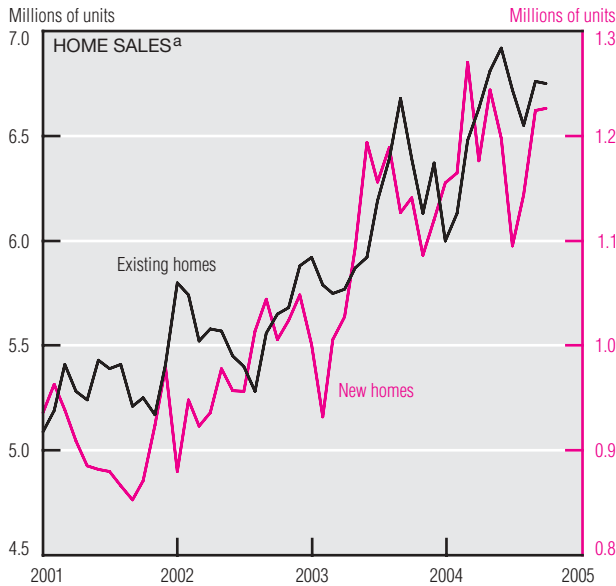
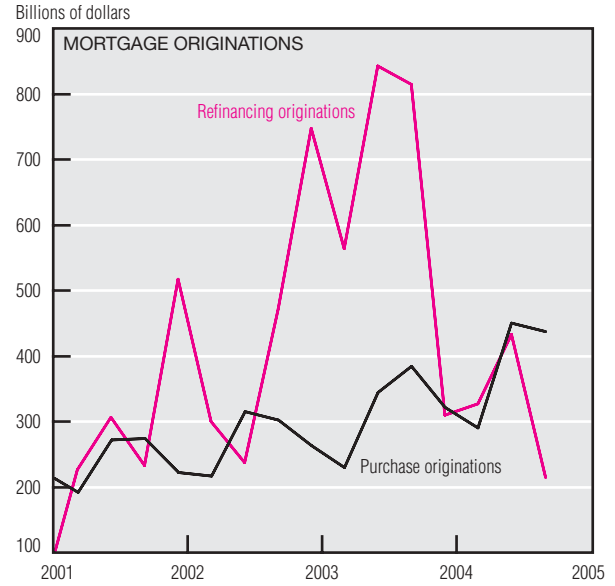
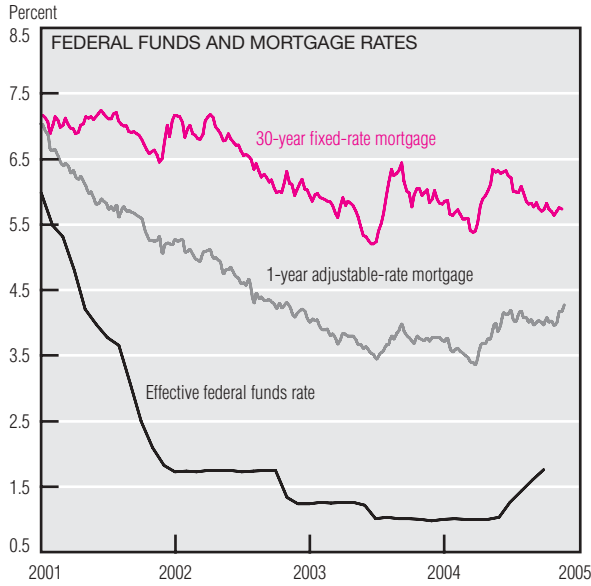
Blue Chip forecasters remain confident that growth will stay on track, predicting 3.6% real GDP growth in 2004:IVQ, only slightly slower than the previous quarter. With the exception

of 2005:IQ, revised downward 0.2 pp from October's forecast, they expect that growth in the next year will remain close to 3.5%.

The industrial sector continues to show signs of strength. At 117.6, industrial production has increased 7.8% since its low at the end of the 2001 recession; it is now slightly above its previous peak of 116.4 in June 2000. Total industrial capacity utilization has also rebounded during this period but, at 77.7%, it remains well below its June 2000 level of 83.3%.

(continued on next page)

Economic Activity (cont.)



a. Seasonally adjusted annual rates.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Commerce, Bureau of the Census; Board of Governors of the Federal Reserve System; Mortgage Bankers Association; National Association of Realtors; and Freddie Mac.

The federal funds rate is now 100 basis points (bp) higher than it was at the end of June, but mortgage rates have not increased as much. The 30-year fixed-rate mortgage has increased about 34 bp from its low of 5.4% in 2004, while the average one-year adjustable-rate mortgage, which is much more sensitive to federal funds rate movements, is up about 90 bp from its low for the year.

While not dampening purchase originations, which are driven by home sales, these modestly higher mortgage rates have helped to reduce

sharply the number of homeowners with a financial incentive to refinance their existing mortgages. The large number of mortgage holders who have already refinanced at this rate also plays a role. Refinancing originations in 2004:IIIQ fell to \$215 billion, the lowest level since 2001:IQ. Purchase originations have remained high because sales of both new and existing homes have remained near their historic peaks. In October, sales of existing homes decreased 0.1% to 6.75 million, still 5.6% higher than October 2003, while new home sales

increased 0.2% to 1.2 million, up 7.4% from the previous year.

Driven by high demand, housing prices continue to rise at a much faster pace than inflation, although prices are slightly off the record highs set earlier in the year. Existing homes, with a median price of \$187,000, experienced the greatest price growth, soaring 36.4% since the beginning of 2001. The median new home now costs \$221,800, up 29.5%. In contrast, consumer prices including food and energy have risen only 8.7% over this period.