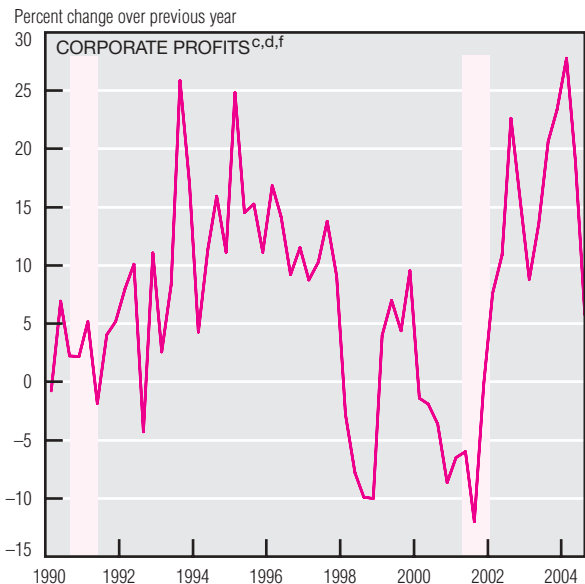
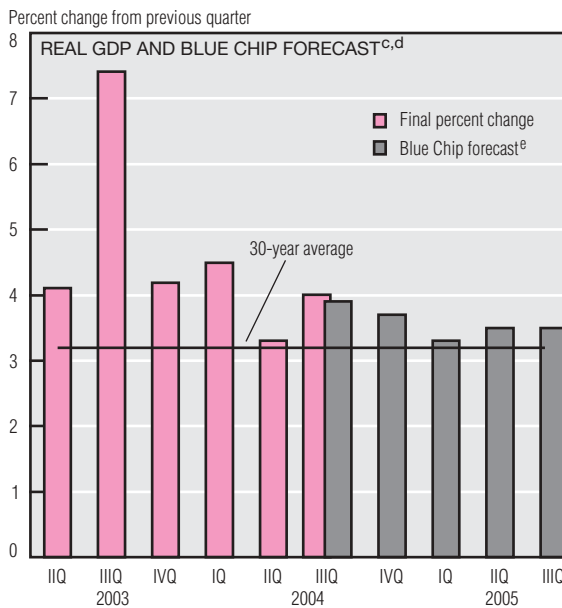
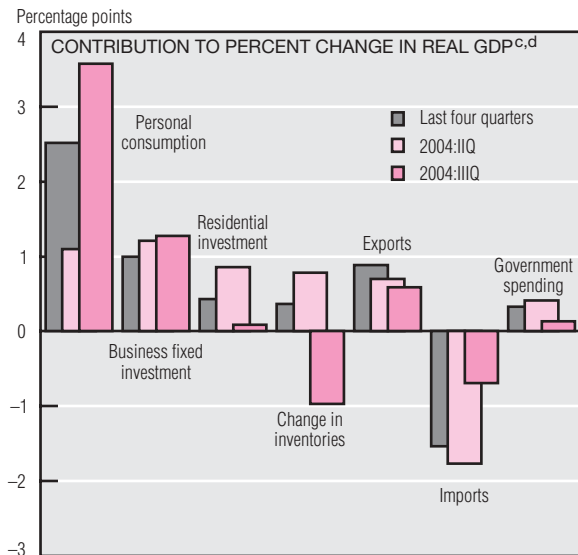


Economic Activity

Real GDP and Components, 2004:IIIQ ^{a,b} (Final estimate)	Change, billions of 2000 \$	Annualized percent change	
		Current quarter	Since 2003:IIIQ
Real GDP	106.3	4.0	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 bars indicate recessions.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; National Bureau of Economic Research; and *Blue Chip Economic Indicators*, December 10, 2004.

According to the U.S. Commerce Department's final estimate, the annualized growth rate of real GDP in 2004:IIIQ was 4.0%, up from the preliminary estimate of 3.9% and the final 2004:IIQ estimate of 3.3%. Most of the revisions were minor; the dollar change in real GDP is now estimated to be \$106.3 billion, whereas the preliminary estimate put the change at \$105.0 billion.

Personal consumption was up sharply, contributing 3.6 percentage points (pp), or 2.5 pp more than in

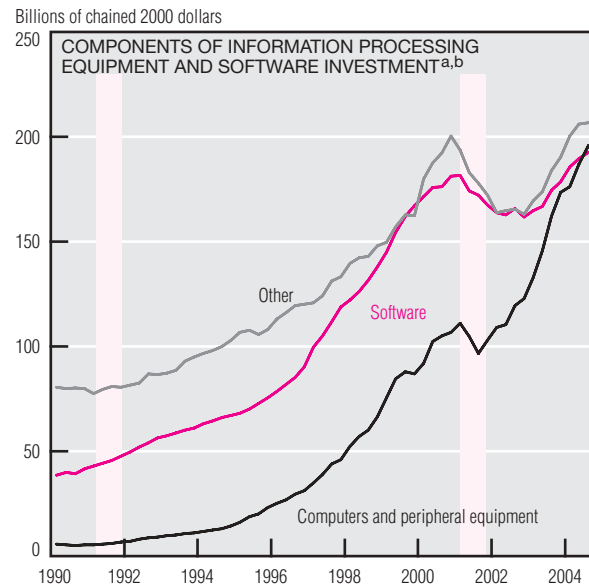
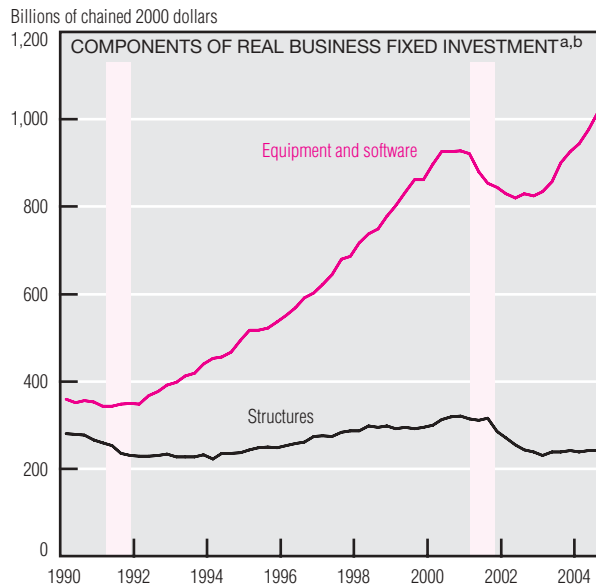
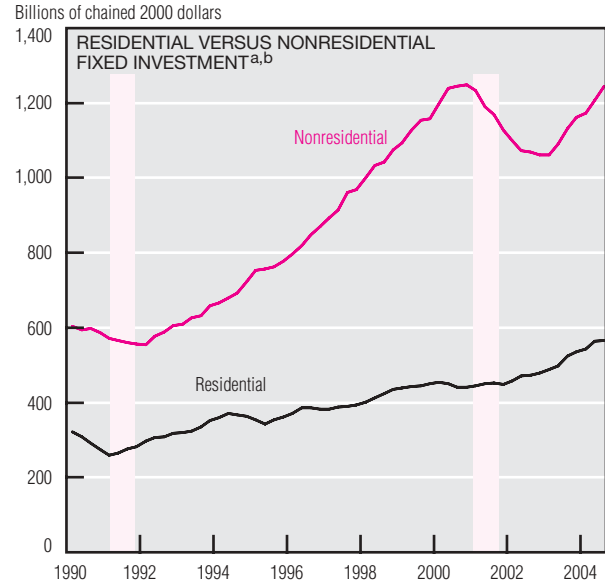
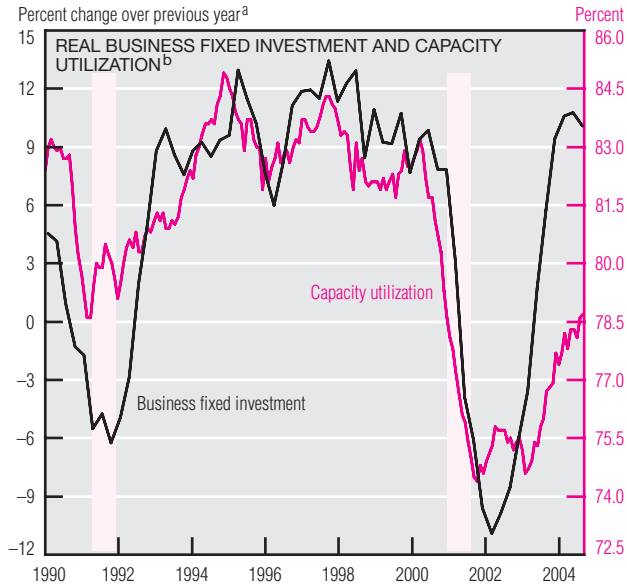
2004:IIQ, whereas residential investment's contribution fell 0.8 pp to 0.1 pp in 2004:IIIQ. A decline in private inventory investment made it a drag on GDP; its contribution to growth dropped from 1.8 pp in the second quarter to -1.0 pp in the third. This is the first time since 2003:IIQ that private inventories have subtracted more from GDP than imports have.

With the final estimate of GDP growth at 4.0%, 0.8 pp above the 30-year average of 3.2%, Blue Chip forecasters expect it to decelerate

somewhat but to stay above that average throughout 2005. They estimate that GDP growth will fall in 2004:IVQ to 3.7%, and again in 2005:IQ to 3.3%. After that, however, they expect GDP growth to level off at 3.5%.

Corporate profits with inventory valuation and capital consumption adjustments decreased \$55.9 billion in 2004:IIIQ after increasing \$8.3 billion the previous quarter. The severity of the hurricane season was a major factor: Benefits paid by insurance
(continued on next page)

Economic Activity (cont.)



NOTE: Shaded bars indicate recessions.

a. Annual rate.

b. Seasonally adjusted.

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

companies reduced profits by \$79.7 billion, and uninsured losses lowered it another \$10.4 billion.

Although corporate profits had an off quarter, their 5.8% year-over-year increase was enough to keep business fixed investment at the relatively high level of 10.1% between 2003:IIIQ and 2004:IIIQ. This solid investment rate is all the more remarkable given the relatively low rate of capacity utilization, which averaged 82.9% from 1995 to 2000. Even after the recently released annual revision, November's total capacity utilization stood at only

78.7%, about 1 pp higher than the figure first released.

Although residential investment slowed only modestly after the last business cycle peak, nonresidential investment declined sharply from late 2000 to early 2003 and has only just surpassed its previous peak. In sharp contrast to residential investment, nonresidential investment in structures remains fairly weak, leaving equipment and software accountable for most of the gains.

Within this latter category, computers and peripheral equipment

showed the strongest gains since 2001:IIIQ. Its dollar value became slightly larger than software investment and not much smaller than other information processing equipment. Given the strong rate of GDP growth expected over the next year, investment is likely to remain fairly robust because, even with the low rate of capacity utilization, a large proportion of investment is being made in high-tech, computer-related equipment where new products are more productive and frequently cheaper than the equipment they replace.