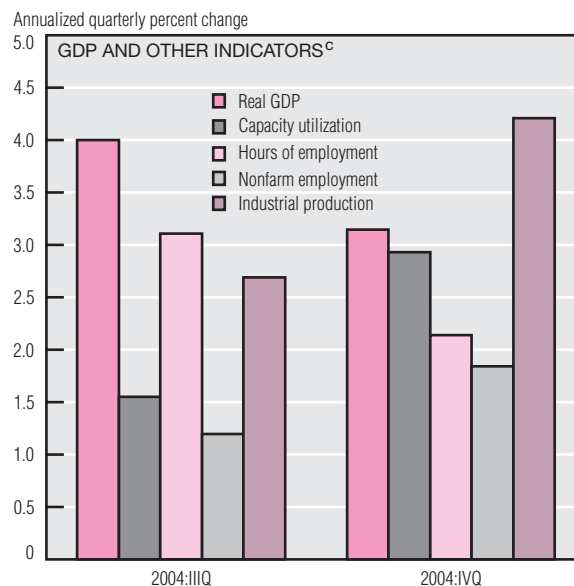
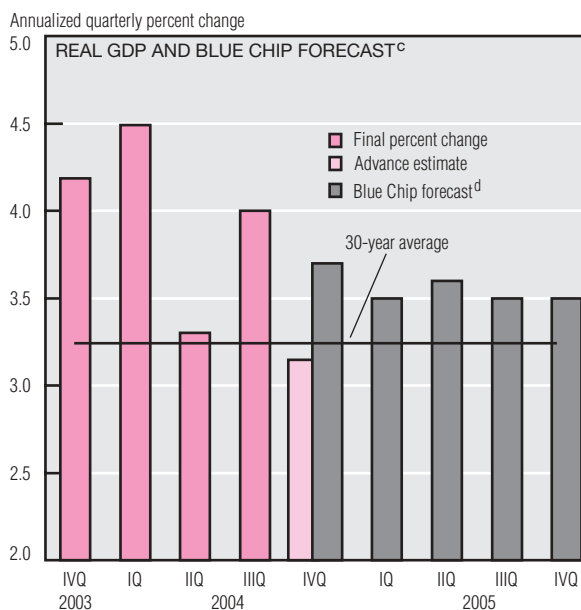
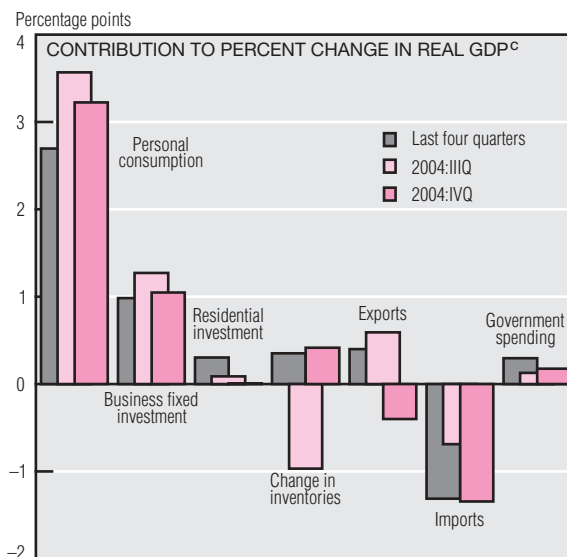


Economic Activity

	Change, billions of 2000 \$	Annualized percent change	
		Current quarter	Four quarters
Real GDP		3.1	3.7
Personal consumption	84.7	4.6	3.9
Durables	18.3	6.7	6.3
Nondurables	31.5	5.8	4.3
Services	39.4	3.7	3.2
Business fixed investment		10.3	9.9
Equipment	35.9	14.9	13.6
Structures	-2.5	-4.1	-1.6
Residential investment	0.4	0.3	5.7
Government spending	4.6	0.9	1.6
National defense	0.0	0.0	5.5
Net exports	-48.7	—	—
Exports	-11.1	-3.9	4.1
Imports	37.6	9.1	9.2
Change in business inventories	11.3	—	—



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; U.S. Department of Labor, Bureau of Labor Statistics; National Bureau of Economic Research, National Income and Product Accounts; and *Blue Chip Economic Indicators*, January 10, 2004.

Real GDP grew at an annual rate of 3.1% in 2004:IVQ, according to the U.S. Commerce Department's advance estimate. This was 0.9 percentage point (pp) lower than the 2004:IIIQ growth rate of 4.0%. The growth rate slowed for most subcomponents, most notably exports, which decreased at an annualized rate of 3.9% in the fourth quarter after increasing 6.0% in the third. Durable goods increased 6.7% in 2004:IVQ, compared with an increase of 17.2% the previous quarter, and

national defense spending was unchanged after growing at an annualized rate of 10.0%.

Unlike 2004:IIIQ, when changes in private inventories subtracted 1.0 pp (pp), they contributed 0.4 pp to real GDP growth in 2004:IVQ. However, this was offset by net exports, which subtracted 1.7 pp.

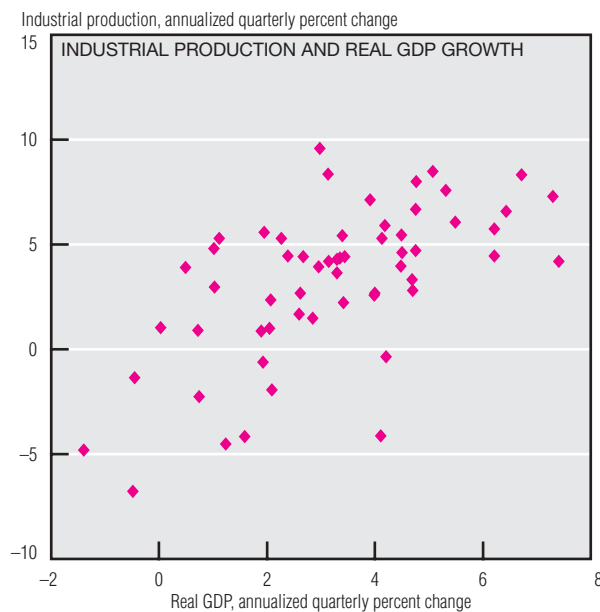
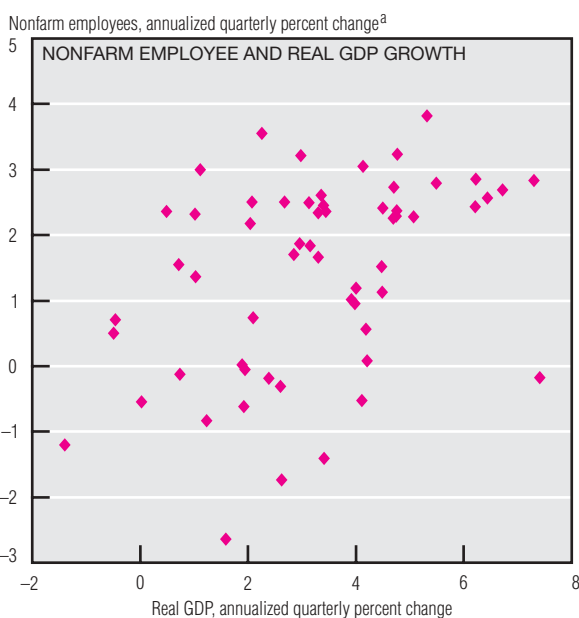
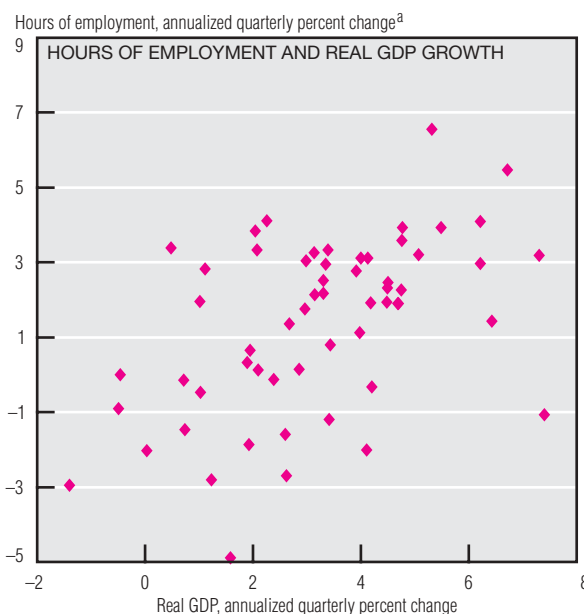
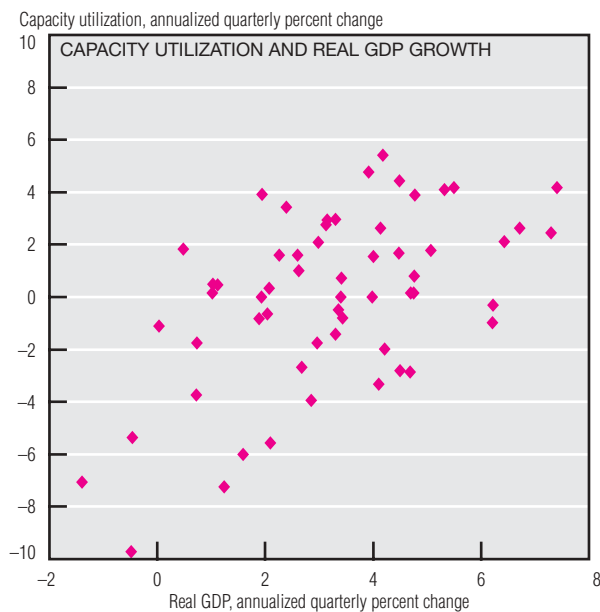
Blue Chip forecasters had predicted growth of 3.7% for 2004:IVQ, 0.6 pp higher than the advance estimate of 3.1%. It was also 0.1 pp lower than the 30-year average and the

lowest annual growth rate since 2003:IQ, when the economy grew at 1.9%. However, Blue Chip forecasters estimate that growth will average 3.5% in 2005.

There are often substantial revisions to the National Income and Product Accounts between the advance and final estimates. Supply-side components give some hint of the likely direction of these revisions. Growth in capacity utilization was up 1.4 pp. Hours were down 1.0 pp, while employment was up more than 0.6 pp.

(continued on next page)

Economic Activity (cont.)



NOTE: All data are seasonally adjusted and annualized.

a. Establishment survey.

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

Given capital and labor shares for the U.S. economy, this evidence suggests a more modest fall in GDP than the advance estimate. The increase in industrial production lends further support to this conclusion.

A relationship between GDP and inputs (which generally are measured more frequently) allows inferences about what the final GDP might be. There is a positive correlation of 0.63 between growth in capacity utilization and real GDP growth. Capacity utilization refers to how intensively capital is

being used. Capital's share of income is roughly 30%, so an increase of 1 pp in capacity utilization should raise GDP 0.3 pp.

Labor input is probably best measured by hours of work. The correlation between growth in hours and growth in real GDP is 0.57, showing that these series are also positively associated. Labor's share of income is around 70%, so a 1 pp increase in the growth of hours should translate into a 0.7 pp increase in the growth of real GDP.

Employment is an alternative measure of the labor input. Employment growth is also positively correlated with real GDP (0.50), although less closely than hours.

Industrial production is an output measure that is less inclusive than GDP. An advantage of looking at this series is that it is available monthly, whereas GDP is available only on a quarterly basis. The correlation between the growth in these two series is relatively strong at 0.69.