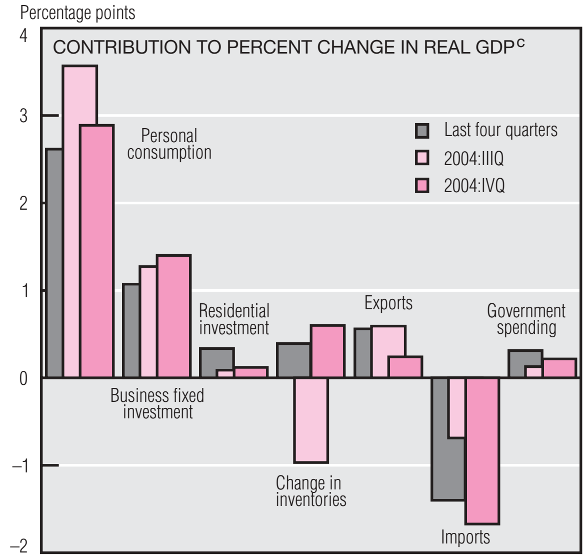
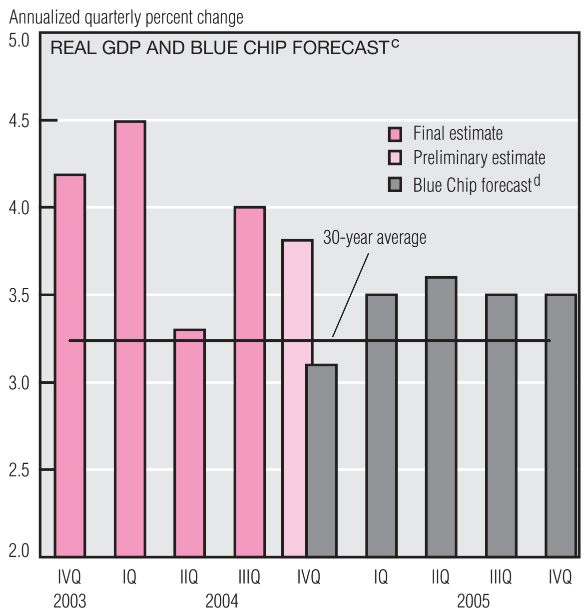
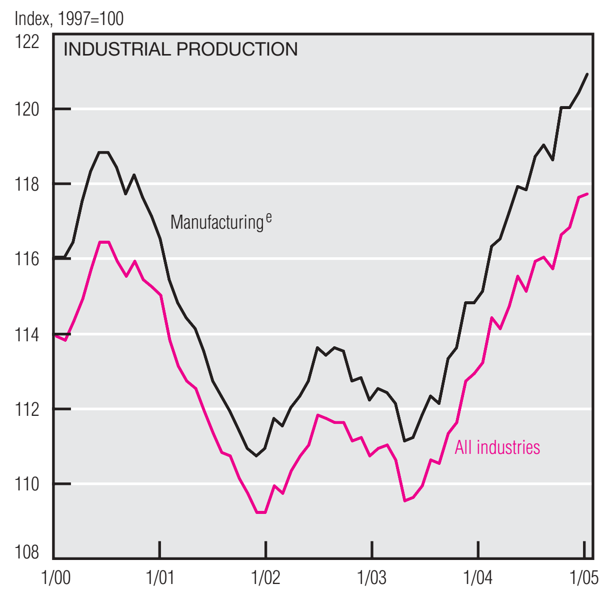
Economic Activity

Real GDP and Components, 2004:IVQ[a,b]
(Preliminary estimate)

	Change, billions of 2000 $	Annualized percent change: Current quarter	Annualized percent change: Four quarters
Real GDP	102.3	3.8	3.9
Personal consumption	78.4	4.2	3.7
Durables	8.7	3.1	5.4
Nondurables	32.8	6.1	4.4
Services	36.9	3.4	3.1
Business fixed investment	41.4	14.0	10.8
Equipment	42.9	18.0	14.4
Structures	0.8	1.3	–0.2
Residential investment	3.0	2.1	1.7
Government spending	5.7	1.2	1.7
National defense	–0.4	–0.3	5.5
Net exports	–40.2	—	—
Exports	6.7	2.4	5.7
Imports	46.9	11.4	9.8
Change in business inventories	16.5	—	—







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.
e. Uses the NAICS definition of manufacturing.
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics; Board of Governors of the Federal Reserve System; National Bureau of Economic Research; and *Blue Chip Economic Indicators*, February 10, 2004.

The U.S. Commerce Department's preliminary estimate of real GDP growth in 2004:IVQ is 3.8%, substantially higher than the advance estimate of 3.1%. This brought 2004:IVQ growth within 0.2 percentage point (pp) of 2004:IIIQ growth of 4.0% and only 0.1 pp below the 2004 average. Just three subcomponents were revised downward in the preliminary estimate: durables consumption, services consumption, and national defense spending. The largest upward revision was to exports ($17.8 billion).

From 2004:IIIQ to 2004:IVQ, the contribution to real GDP from change in private inventories increased 1.6 pp. However, this increase was partly offset by decreases from personal consumption (0.7 pp) and net exports (1.4 pp).

With the preliminary estimate's upward revision to GDP, 2004:IVQ growth remained above its 30-year average of 3.2%. It also surpassed the Blue Chip forecasters' February estimate for both the current quarter and all of 2005.

In October 2004, the Industrial Production Index topped its June 2000 peak and has continued to rise since then. Currently, it is 1.3 pp above its June 2000 peak. Manufacturing production, defined by the NAICS code, has been even stronger and now is 2.1 pp above its previous peak.

As manufacturing production has rebounded, its labor productivity growth has been quite strong. After slowing to a near-zero average around the end of 2000 and the beginning of 2001, labor productivity growth has

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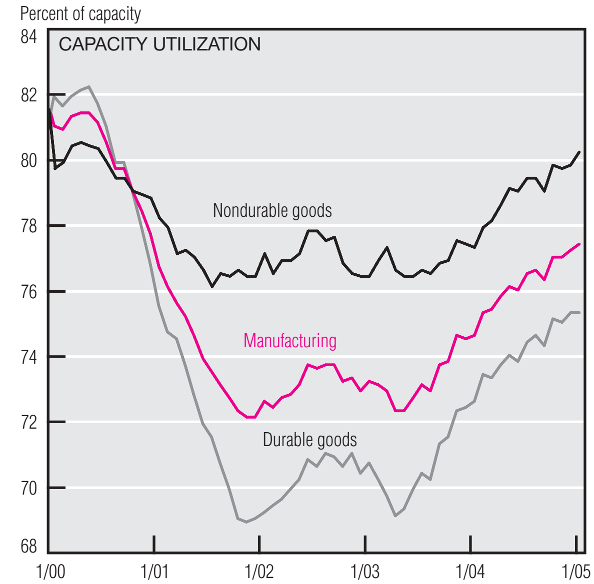
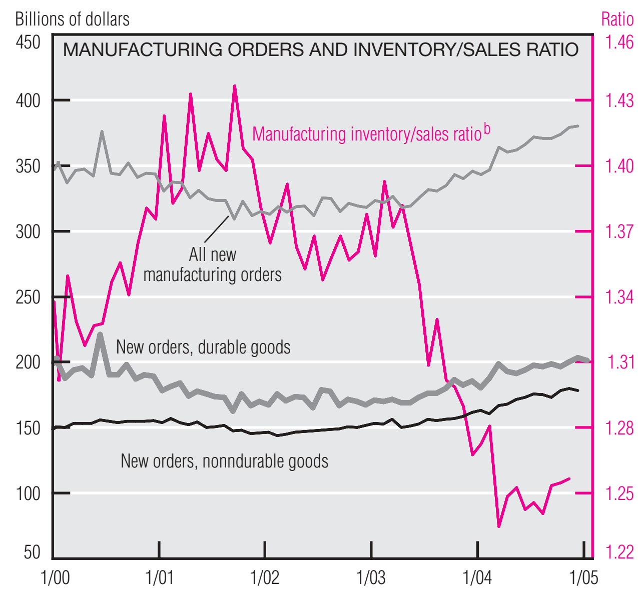
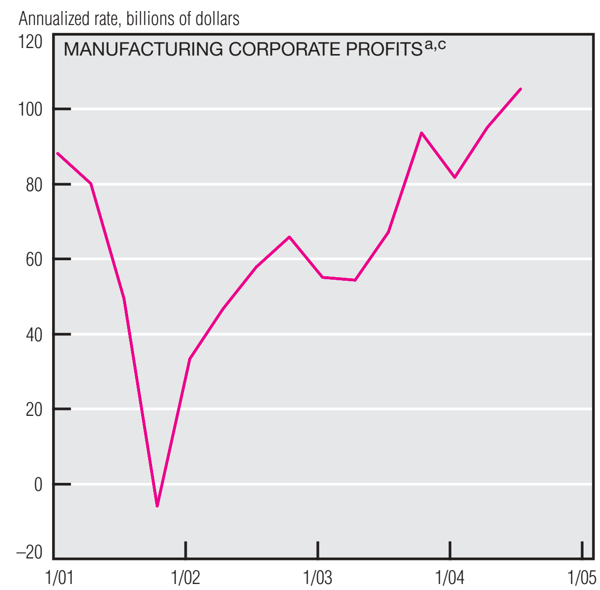
Economic Activity *(cont.)*







NOTE: All data are seasonally adjusted and use the NAICS definition of manufacturing.
a. Annualized rate.
b. Chained 2000 dollars.
c. Corporate profits before tax with inventory valuation adjustment.
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.

averaged about 6%. Given the rapid labor productivity growth relative to output growth, employers shed a lot of manufacturing jobs over the last five years. Manufacturing employment for January 2004 stands 3 million below that of January 2000. Only in the last year did employment levels firm somewhat.

Manufacturing capacity utilization, a measure of how intensively capital is used, followed a pattern like that of employment through early 2003; however, it has continued to increase over the past year while employment has leveled off. At 77.4, overall capacity utilization in manufacturing remains significantly below its previous peak of 81.4 in May 2000. This is because durable goods utilization remains far below its previous peak, whereas nondurable goods utilization has rebounded almost to its previous peak in May 2001.

A positive indicator for future manufacturing activity is that growth in new orders has been robust for both durable and nondurable goods. Inventory-to-sales ratios declined quickly from the 2001 recession's highs before stabilizing in 2002. The ratio plummeted in 2003, hitting a record low of 1.23 in March 2004 and stabilizing near this level.

Finally, after plunging in the first three quarters of 2001, manufacturing's corporate profits have rebounded fairly steadily since 2001:IVQ. Although growing profits and increasing orders, capacity utilization, and productivity bode well for manufacturing firms and their shareholders over the next few quarters, significant employment growth in this sector appears unlikely.