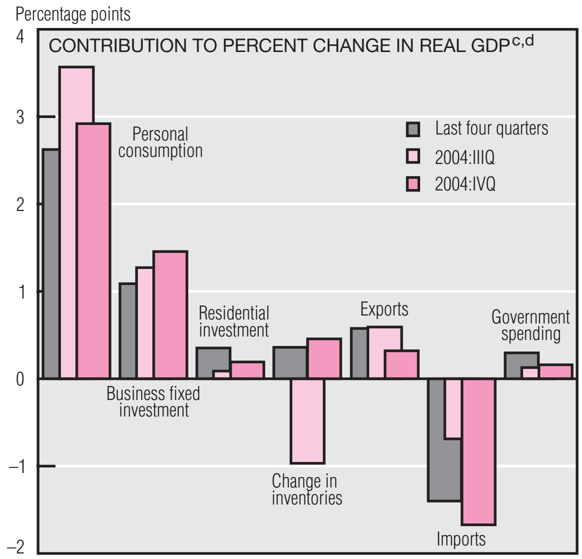
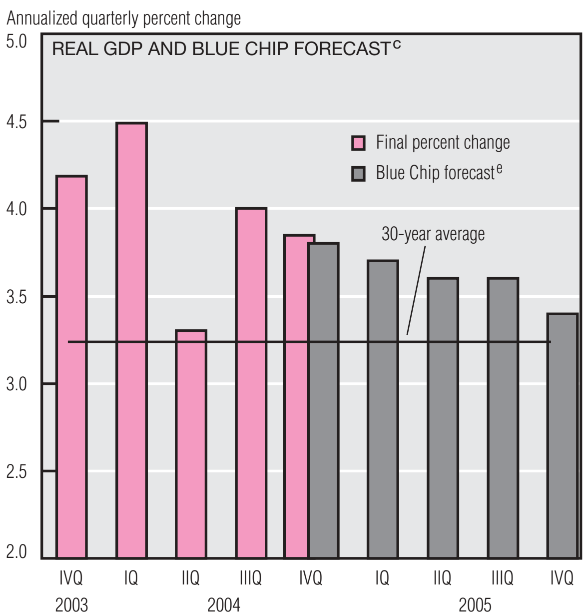
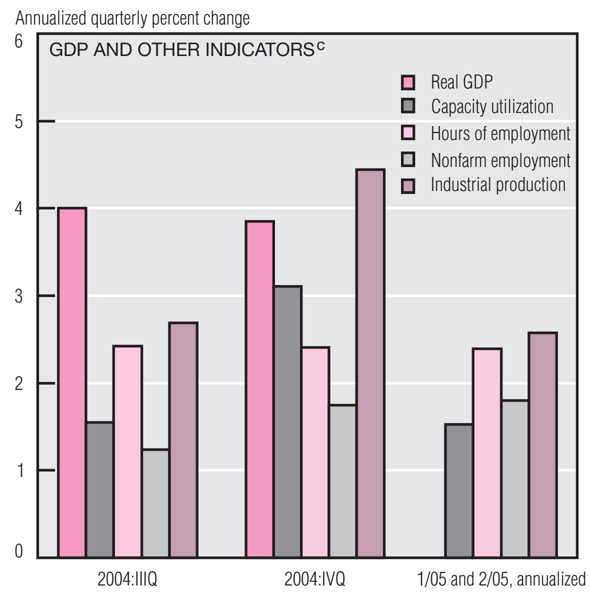
# Economic Activity

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

| | Change, billions of 2000 $ | Annualized percent change: Current quarter | Annualized percent change: Four quarters |
|---|---|---|---|
| Real GDP | 103.3 | 3.8 | 3.9 |
| Personal consumption | 79.2 | 4.2 | 3.8 |
| Durables | 10.7 | 3.9 | 5.5 |
| Nondurables | 32.1 | 5.9 | 4.3 |
| Services | 36.8 | 3.4 | 3.1 |
| Business fixed investment | 43.0 | 14.5 | 11.0 |
| Equipment | 43.9 | 18.4 | 14.5 |
| Structures | 1.3 | 2.2 | 0.0 |
| Residential investment | 4.7 | 3.4 | 6.5 |
| Government spending | 4.1 | 0.8 | 1.6 |
| National defense | –0.8 | –0.6 | 5.4 |
| Net exports | –37.9 | — | — |
| Exports | 8.9 | 3.2 | 5.9 |
| Imports | 46.9 | 11.4 | 9.8 |
| Change in business inventories | 12.7 | — | — |




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.
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, March 10, 2004.

The U.S. Commerce Department's final estimate of the real GDP growth rate in 2004:IVQ is 3.8%, unchanged from the preliminary estimate. Exports and personal consumption expenditures had minor upward revisions, but these were offset by a downward revision to private inventory investment. In 2004:IIIQ, GDP grew at a 4.0% rate.

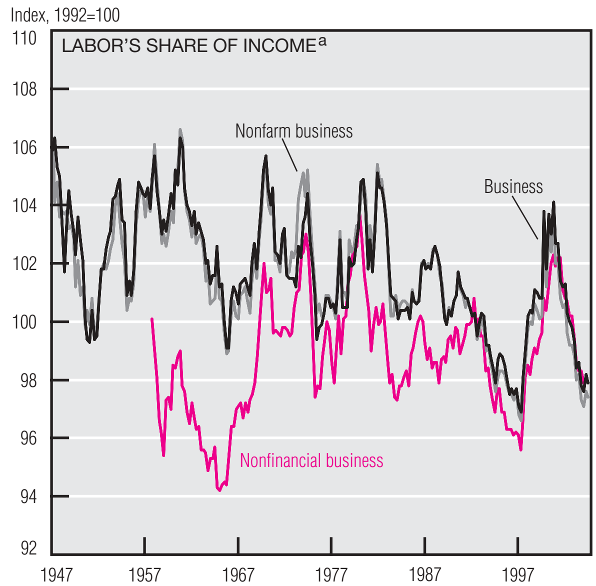
In terms of contribution to real GDP growth, only three components showed large changes from 2004:IIIQ. Personal consumption's contribution decreased 0.7 percentage point (pp) in 2004:IVQ, and imports' negative contribution increased 1.0 pp. On the positive side, private inventories contributed an additional 1.4 pp. Other components' contributions remained relatively unchanged.

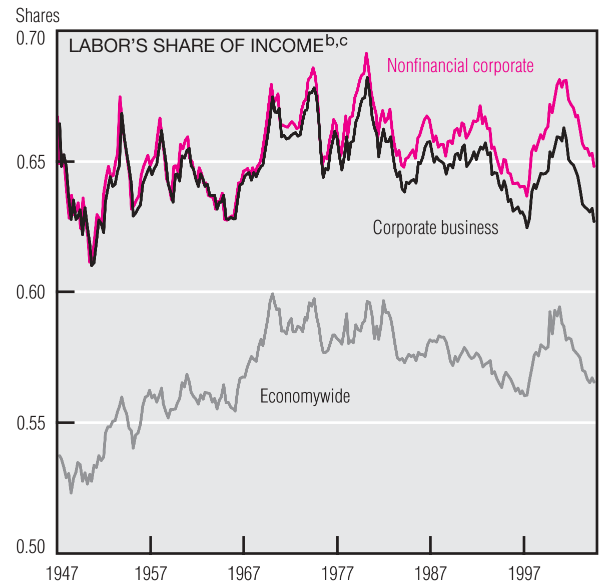
GDP growth averaged 3.9% last year, only 0.1 pp higher than in 2004:IVQ. Growth was stronger than the 3.2% average of the last 30 years; it is expected to remain above this average throughout 2005. Blue Chip forecasters predict that GDP in 2005 will peak in the second quarter at 3.7% and finish the year slightly lower at 3.4%.

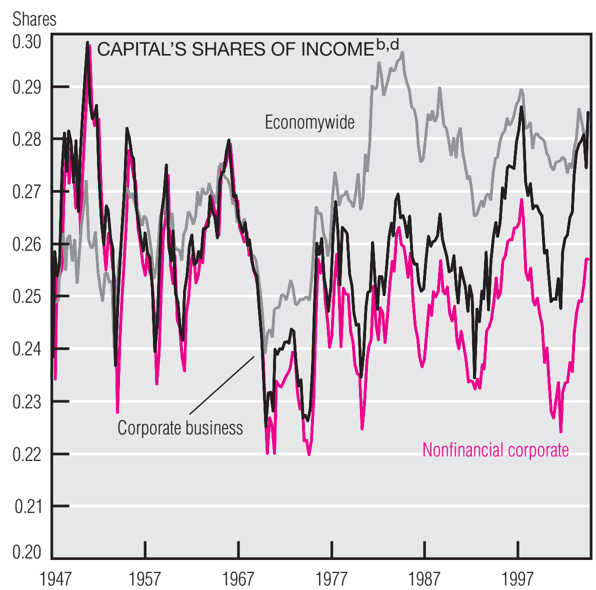
While real GDP growth has remained relatively stable, both capacity utilization and industrial production spurted in 2004:IVQ before slowing in January–February 2005 to rates similar to those of 2004:IIIQ. On an annualized basis, capacity utilization increased significantly to a 3.1% rate in 2004:IVQ; industrial production grew at 4.4%, its highest rate since 2004:IQ. Like GDP, hours of employment remained fairly flat throughout all periods. Total nonfarm employment grew slightly in

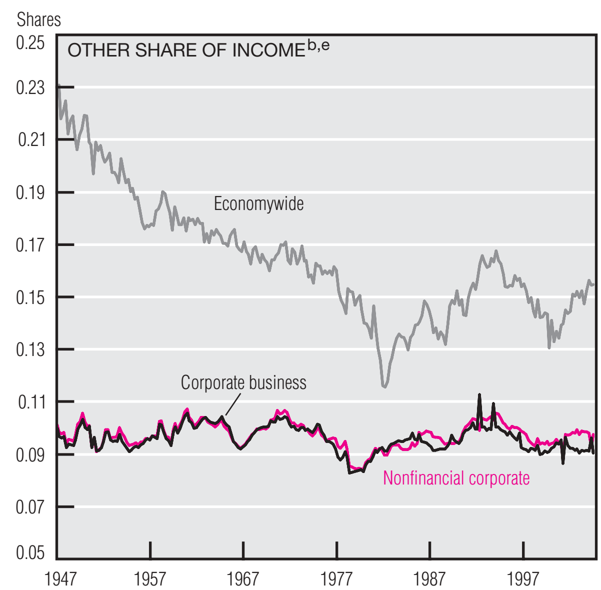
*(continued on next page)*

# Economic Activity (cont.)




a. Data are from the U.S. Department of Labor, Bureau of Labor Statistics.
b. Data are from the U.S. Department of Commerce, Bureau of Economic Analysis. They represent seasonally adjusted shares of gross value added.
c. Labor's share is computed as compensation of employees divided by gross value added for the sector.
d. Capital's share is computed as the sum of corporate profits, net interest income, rental income, and depreciation divided by gross value added.
e. The "other" share is computed as indirect taxes less subsidies plus proprietors' income (where applicable) divided by gross value added.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and U.S. Department of Commerce, Bureau of Economic Analysis.

2004:IVQ and has maintained that growth rate thus far in 2005.

Labor's share of income is often taken as an indicator of pricing pressures in the U.S. economy. The premise is that when labor's share is low, capital's share must be high which, in turn, implies that the margin of price over cost is large. Consequently, when labor's share is low, slack is available for firms to absorb increased input prices rather than pass them along to their customers. The Bureau of Labor Statistics' labor share series suggests that labor's current share is indeed low.

Further analysis gives a different picture. Labor's share has been falling and is relatively low in the nonfinancial corporate and total corporate sectors as well as economywide. Capital's share, however, shows a mixed pattern: It has been rising in the nonfinancial corporate and total corporate business sectors over the past few years but the economywide measure of its share has been relatively flat, suggesting that a third factor, an "other" share, must be at work.

This share for the economy as a whole includes proprietors' income and indirect taxes less subsidies; it has been fairly flat for the nonfinancial corporate and total corporate business sectors. In the economy as a whole, however, the other share declined throughout the early 1980s and subsequently rose and fell in a pattern similar to that of proprietors' income. More recently, the marked increase in the other share can be attributed to the remainder, principally to net indirect taxes.