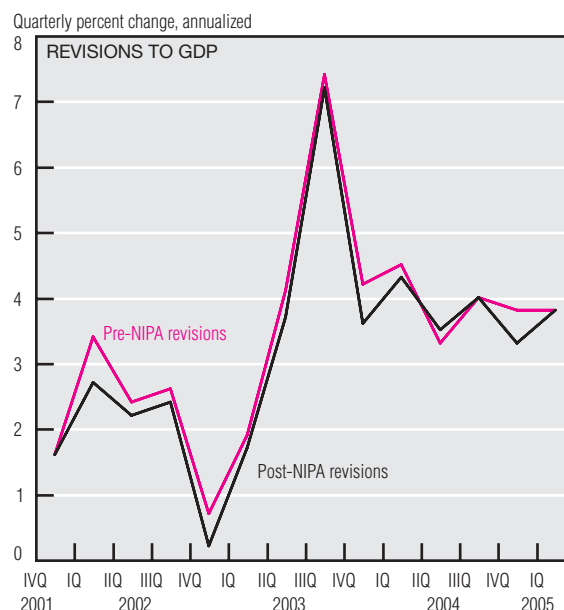
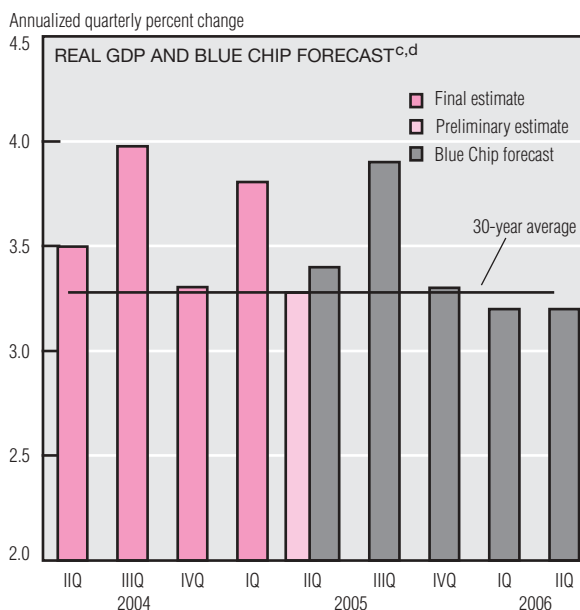
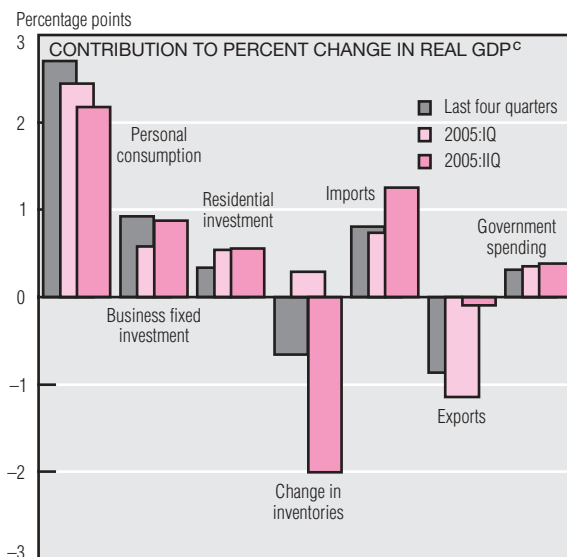


# Economic Activity

Real GDP and Components, 2005:IIQ <sup>a,b</sup> (Preliminary estimate)	Change, billions of 2000 \$	Annualized percent change	
		Current quarter	Four quarters
Real GDP	89.3	3.3	3.6
Personal consumption	58.3	3.0	3.8
Durables	21.0	7.7	6.6
Nondurables	19.5	3.5	4.5
Services	20.7	1.9	2.9
Business fixed investment	25.6	8.4	9.1
Equipment	25.4	10.4	11.6
Structures	1.7	2.7	1.7
Residential investment	13.8	9.8	5.8
Government spending	13.1	2.7	1.8
National defense	2.9	2.4	2.7
Net exports	34.2	—	—
Exports	36.6	13.2	8.3
Imports	2.4	0.5	5.9
Change in business inventories	-55.6	—	—



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; and *Blue Chip Economic Indicators*, August 10, 2005.

On August 31, the Department of Commerce released its preliminary estimate of GDP and its components for 2005:IIQ. Compared to the advance estimate, real GDP growth was revised down from 3.4% to 3.3% for the quarter. These revisions, based on more complete data than the earlier estimate, were largest for imports, personal consumption expenditures, and inventory investment. According to the revisions, imports exerted a small negative drag on GDP of -0.05 percentage point (pp), rather than the positive effect of 0.33 pp reported

in the advance estimate. Personal consumption expenditures contributed 2.12 pp to GDP growth, compared to the advance estimate of 2.30 pp. Inventory investment was a drag of -1.99 pp on GDP growth, revised up from -2.32 pp.

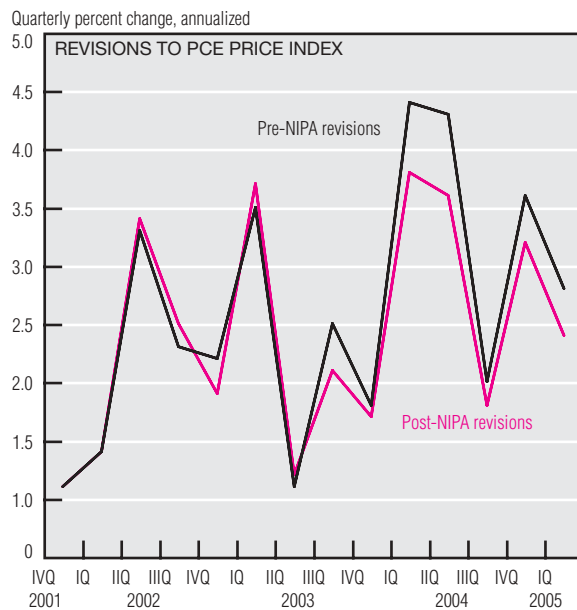
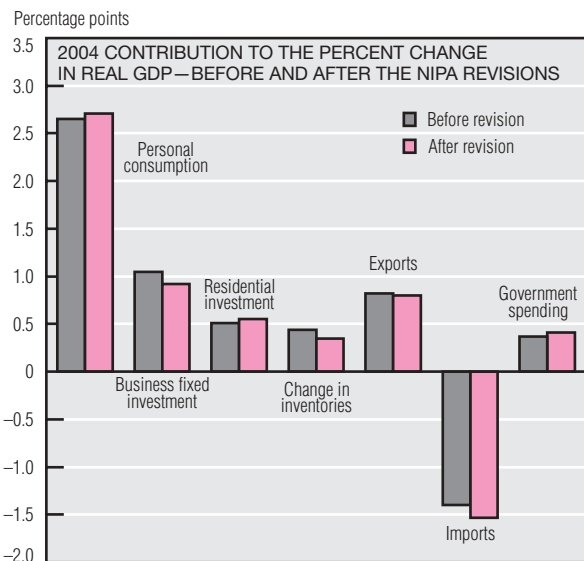
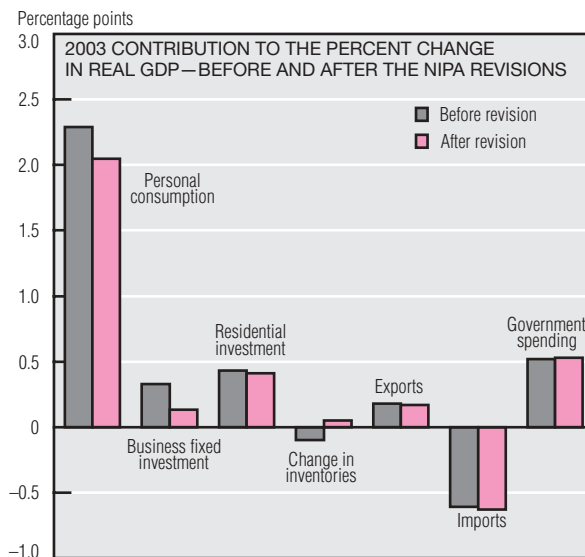
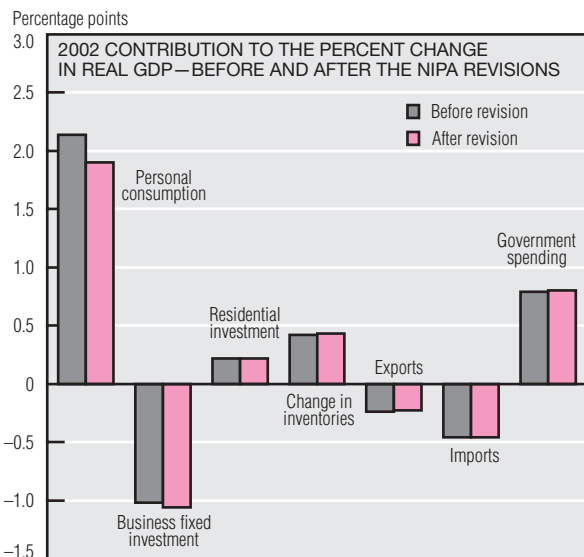
Real GDP growth for 2005:IIQ was down from the 3.8% pace recorded in 2005:IQ. The largest factor in this 0.5 pp reduction was inventory investment, which exerted a slight positive effect on growth in 2005:IQ and a large negative effect in 2005:IIQ. The contribution of personal consumption

expenditures also fell between the quarters. These negative influences were offset by a larger positive contribution for exports and government spending, and a smaller negative contribution for imports.

GDP growth for 2005:IIQ is now estimated to be virtually the same as its 30-year average. At 3.3%, the growth rate was slightly below the Blue Chip forecast of 3.4% for 2005:IIQ that was given on August 10; this forecast was revised up 0.2 pp relative to July. The Blue Chip forecast for 2005:IIIQ was

(continued on next page)

# Economic Activity (cont.)



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

revised up 0.6 pp, from 3.3% to 3.9%. Forecasts for the subsequent quarters were unchanged.

Late in July, the Commerce Department released its annual revision of the national income and product accounts. Substantial revisions to real GDP growth were made as far back as 2001, the largest being the 0.7 pp downward revision in 2001:IQ.

How much did the annual revision change the various components' contributions to the percent change in real GDP? In the annual data, the largest changes occurred in personal

consumption and business fixed investment. For 2002 and 2003, personal consumption contributed roughly 0.2 pp less to GDP growth, and it added an extra 0.05 pp in 2004. Business fixed investment accounted for an additional 0.05 pp drag in 2002; its contributions to growth were marked down 0.2 pp in 2002 and 0.1 pp in 2004. Changes in the contributions of GDP's other components were modest in 2002 and 2003. Even the differences in 2004 were fairly modest: The contribution of inventory investment was reduced 0.1 pp, the drag caused by imports increased by

0.1 pp, and the contributions of residential investment and government spending grew less than 0.05 pp.

The annual revision also affected price deflators. For the personal consumption expenditure (PCE) price deflator, large upward revisions were made in 2004 and 2005. For 2004 as a whole, the PCE Price Index was revised up 0.5 pp, from 2.6% to 3.1%. It posted upward revisions of 0.4 pp for each of the first two quarters of 2005, rising from 2.7% to 3.1% in the first quarter and from 1.9% to 2.3% in the second.