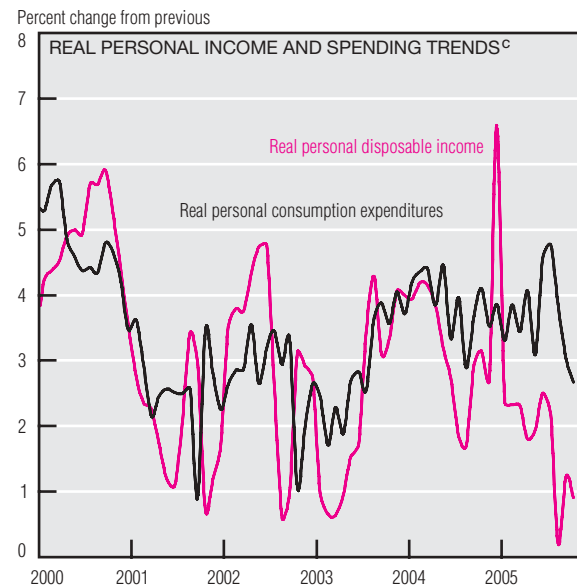
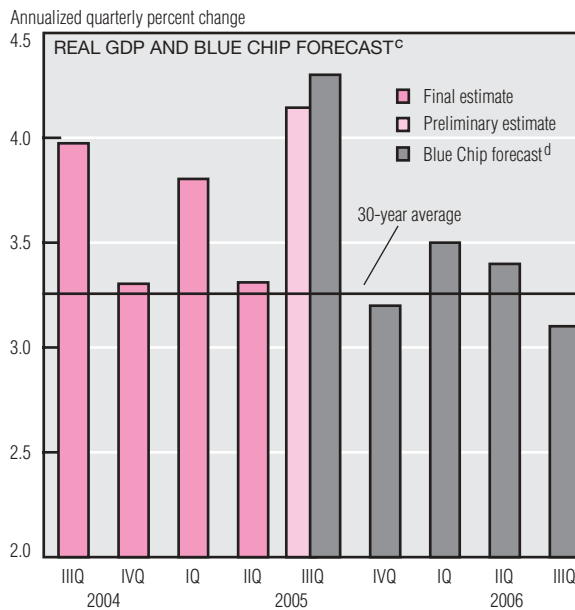
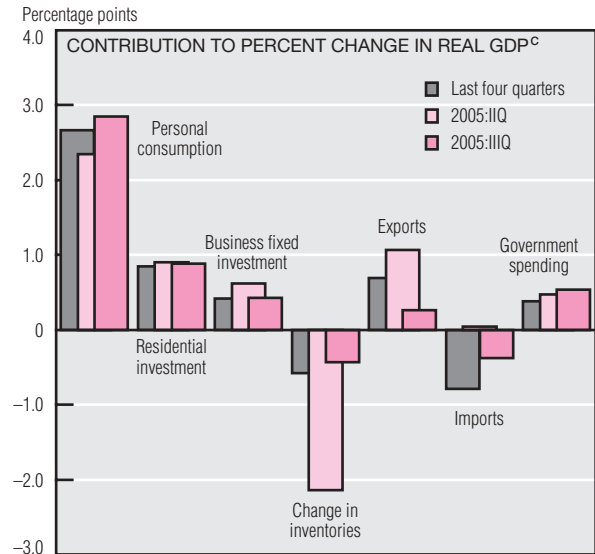


Economic Activity

	Change, billions of 2000 \$	Annualized percent change	
		Current quarter	Four quarters
Real GDP	113.1	4.1	3.6
Personal consumption	78.4	4.1	3.8
Durables	25.8	9.3	6.3
Nondurables	19.9	3.5	4.5
Services	35.9	3.3	3.0
Business fixed investment	26.2	8.4	8.3
Equipment	26.6	10.6	10.6
Structures	1.4	2.2	1.9
Residential investment	10.7	7.3	7.2
Government spending	14.0	2.9	2.0
National defense	11.9	10.0	3.3
Net exports	-3.3	—	—
Exports	7.3	2.5	6.9
Imports	10.6	2.4	5.1
Change in business inventories	-11.6	—	—



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*, December 10, 2005.

The Commerce Department's final reading of 4.1% real GDP growth for 2005:IIIQ was 0.8 percentage point (pp) higher than the 3.3% estimate for the second quarter. In the preliminary reading, GDP growth was 4.3%; the downward revision to the final estimate was primarily the result of a downward revision to durable goods, as well as several smaller revisions that were partly offset by an upward revision to exports.

Compared to 2005:IIQ, only two components significantly increased

their contribution to the change in real GDP: Changes in inventories contributed an additional 1.7 pp, and personal consumption expenditures (PCE) contributed 0.5 pp more. Exports, however, subtracted 0.8 pp from the change in real GDP.

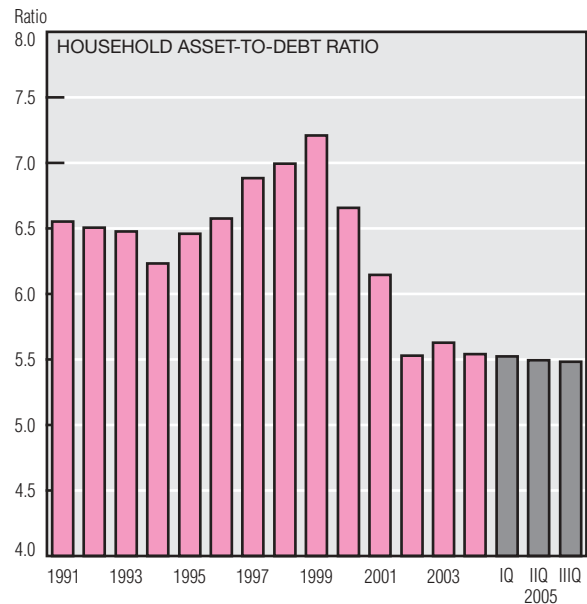
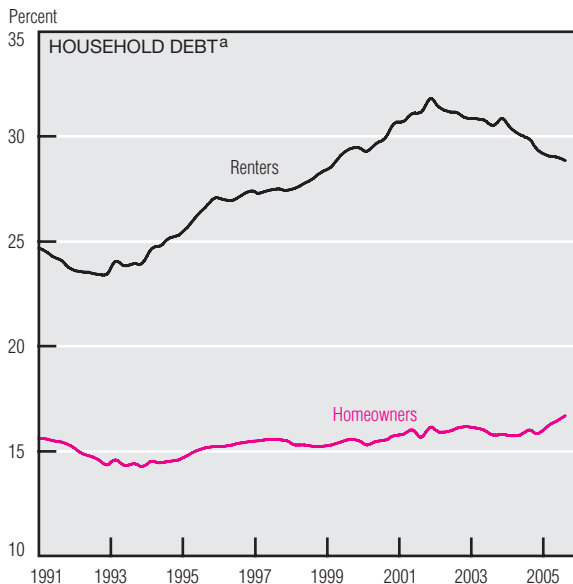
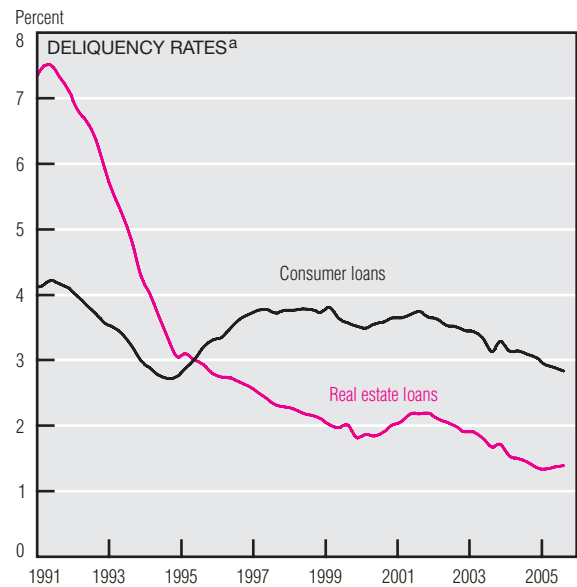
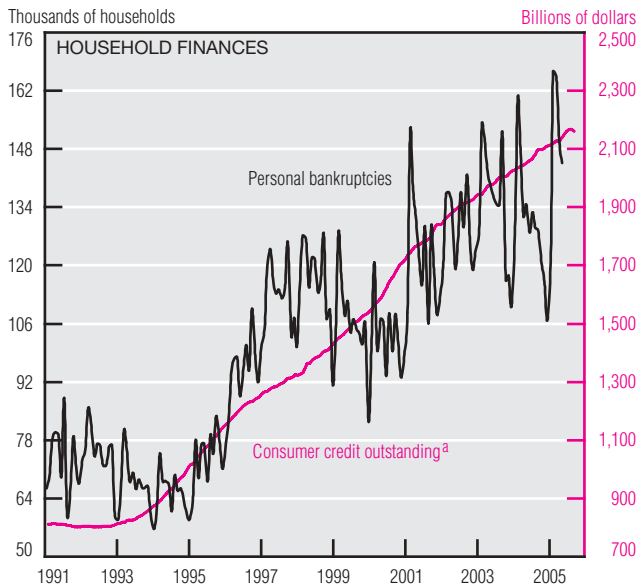
Real GDP growth was at its highest level since 2004:IQ, when it reached 4.3%; it was also significantly higher than the 30-year average of 3.3%. Although the Blue Chip economists' December forecast said that growth would slow to 3.2%, this is nonetheless

an upward revision from the 3.0% growth they predicted in November.

PCE accounts for roughly 70% of total GDP, making it an important indicator of the economy's overall health. On a year-over-year basis, PCE grew at a fairly steady rate of 3%–4% in 2004. Since July 2005, however, the pace has slowed to less than 3%. The annual growth rate of real personal disposable income has been declining even more sharply and is currently less than 1%. So far, consumers have been able to increase their consumption faster

(continued on next page)

Economic Activity (cont.)



a. Data are seasonally adjusted.

SOURCES: Administrative Office of the U.S. Courts; and Board of Governors of the Federal Reserve System.

than their income by taking on more debt. By the end of 2005:IIIQ, consumer credit outstanding was up an annualized 3.3%.

How concerned should policymakers be about this increased debt load? One measure of households' financial health is the number of personal bankruptcy filings. That statistic is likely to be distorted this year because of the new bankruptcy act, which passed in April and took effect October 17. Currently, data are available only through June 2005; they are likely to be very volatile for the rest of

the year because some households pushed their filings forward in order to file under the old law.

Other measures suggest that households' financial health remains relatively stable. Delinquency rates for consumer loans have been trending down since September 2001. The delinquency rate for loans secured by real estate has tended to fall over the same period, although it has ticked up slightly since 2005:IQ.

Financial obligation ratios are arguably a better measure of overall financial health because they include

information from all households, not just those filing for bankruptcy or falling behind in their payments. For renters, this ratio has been trending down since 2001:IVQ, whereas it has increased slightly for homeowners.

To fully assess households' financial health, one must consider not only their incomes and liabilities but also their assets. On average, households' asset-to-debt ratio has been fairly flat since 2002, another sign that overall household financial health is stable.