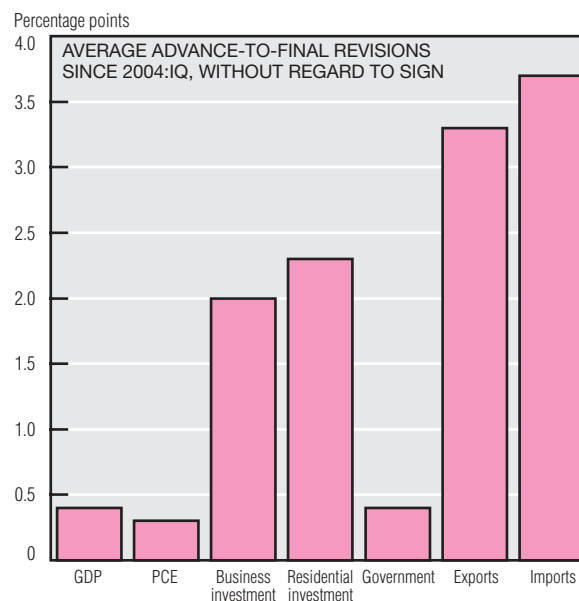
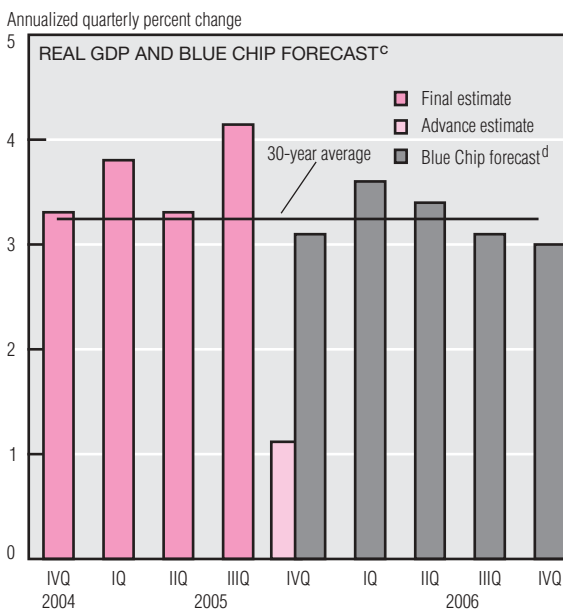
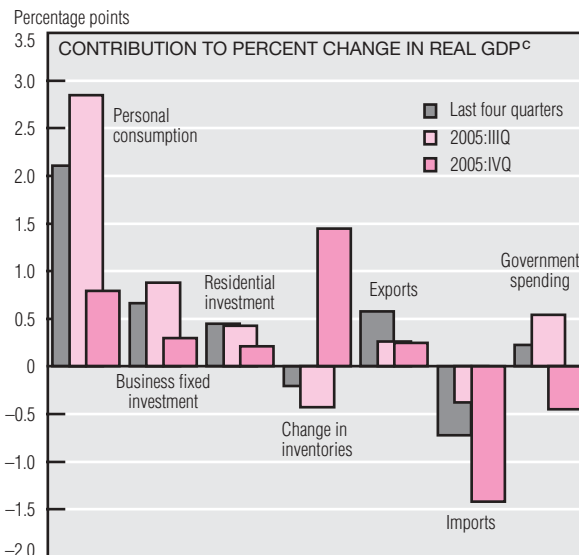


Economic Activity

	Change, billions of 2000 \$	Annualized percent change	
		Current quarter	Four quarters
		(Advance estimate)	
Real GDP	31.2	1.1	3.1
Personal consumption	22.3	1.1	3.0
Durables	-55.0	-17.5	0.0
Nondurables	28.9	5.1	4.4
Services	35.6	3.2	2.9
Business fixed investment	9.0	2.8	6.4
Equipment	9.3	3.5	8.3
Structures	0.4	0.6	0.9
Residential investment	5.2	3.5	7.7
Government spending	-11.9	-2.4	1.2
National defense	-17.4	-13.1	0.5
Net exports	-32.8	—	—
Exports	7.1	2.4	5.7
Imports	39.9	9.1	4.6
Change in business inventories	39.0	—	—



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*, January 10, 2006.

The Commerce Department's advance reading of real GDP growth for 2005:IVQ was 1.1%, well below expectations. GDP growth was 3.0 percentage points (pp) lower than the final 2005:IIIQ growth of 4.1%. The deceleration resulted primarily from slower growth in personal consumption expenditures (PCE), business fixed investment, and residential investment. In addition, government spending decreased, whereas imports, which subtract from GDP, increased.

Almost every component's contribution to the change in real GDP

decreased in 2005:IVQ. The only exception was changes in private inventories, which contributed 1.9 pp more than in 2005:IIIQ. PCE, which traditionally makes the largest positive contribution to GDP, added only 0.8 pp, compared to 2.9 pp the previous quarter.

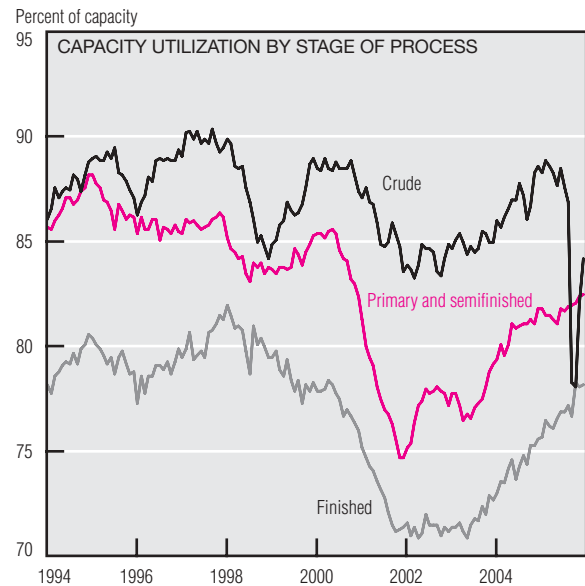
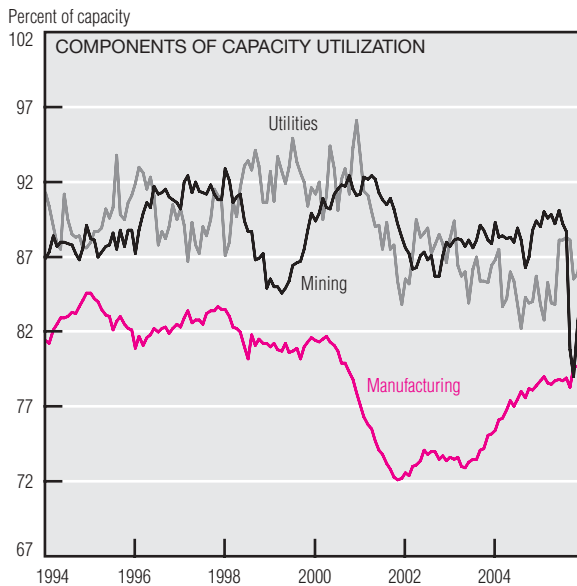
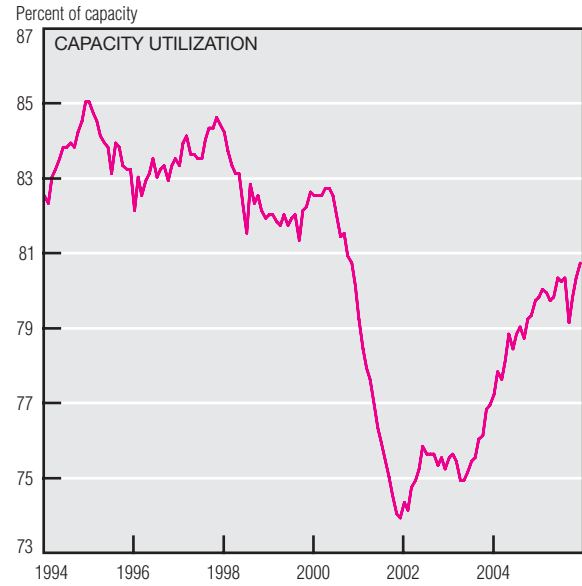
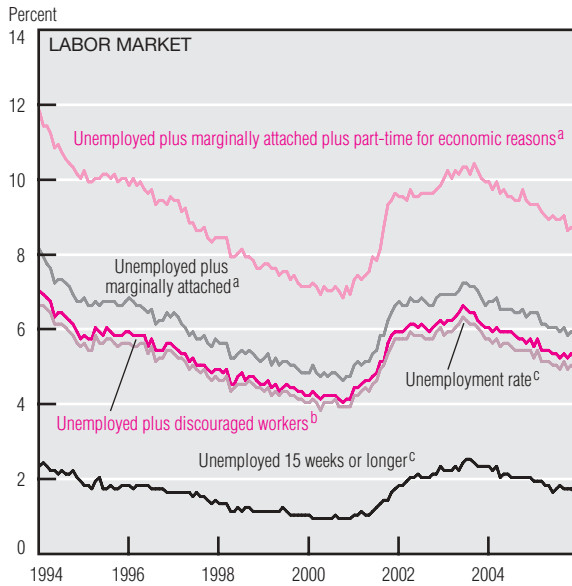
January's advance estimate of GDP growth was the slowest since 2002:IVQ, when the economy was only one year removed from the 2001 recession. The January 10 Blue Chip forecast predicted growth of 3.1% for 2005:IVQ and between 3.0% and 3.6%

for each quarter in 2006. This forecast is in line with the previous 30-year average of 3.2%.

Although the GDP reading was disquieting, it is not uncommon for significant revisions to occur between the advance and final estimates. Imports, in particular, surged 6.7 pp in the 2005:IVQ advance report. Of all the GDP's main components in the last two years, imports have had the largest average advance-to-final revision (3.7 pp). So it is very possible that the final GDP estimate will be considerably higher than the current 1.1%.

(continued on next page)

Economic Activity (cont.)



a. Percent of the civilian labor force and marginally attached workers.
 b. Percent of the civilian labor force and discouraged workers.
 c. Percent of the civilian labor force.
 NOTE: All data are seasonally adjusted.
 SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

As the expansion continues, the availability of resources to fuel it becomes an issue. Consider labor utilization. A conventional measure of labor market tightness is the unemployment rate, which has fallen from its recessionary peak to a level not seen since the middle of the last expansion. Some may think that at 5%, the unemployment rate is quite low and the pool of available workers is becoming small. An alternative measure of unemployment adds discouraged workers (people who have looked for a job within the past 12 months but have ceased actively looking because

they perceive that they will not find a job). Another measure adds marginally attached workers (those who have sought employment in the past 12 months but not in the last four weeks). Both measures present much the same picture. Adding part-time workers who would prefer to work full time brings the rate to 8.6%.

Capital utilization (CU) has risen sharply since the recession. However, industrial CU is still below the levels seen in the previous expansion. All of CU's constituent components fell during the recession, although the manufacturing sector

clearly dominated developments in the aggregate. Electric and gas utilities' CU has dropped relative to the previous expansion, whereas mining's is little changed (apart from a recent downward spike).

Another way to slice the utilization data is with respect to stage of process. CU in the crude sector follows that in the mining sector; more capacity is available at later stages of processing. The overall decrease in industrial CU is reflected across all levels of processing, but most markedly at the more advanced ones.