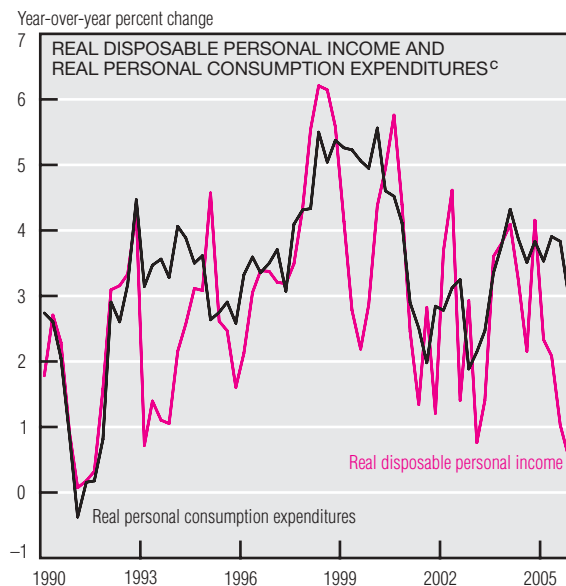
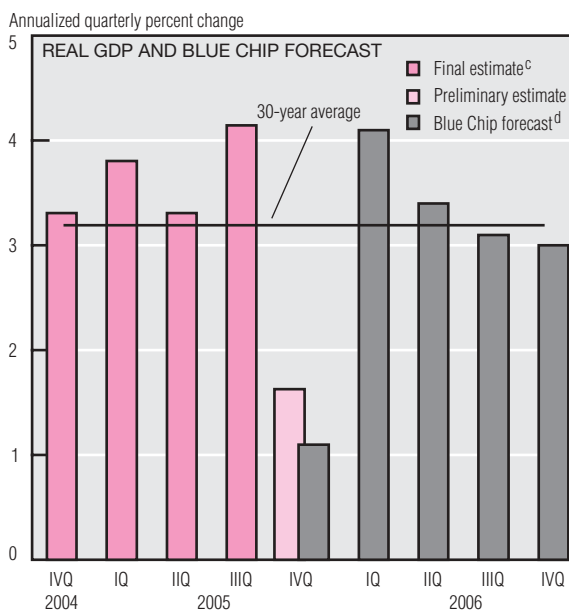
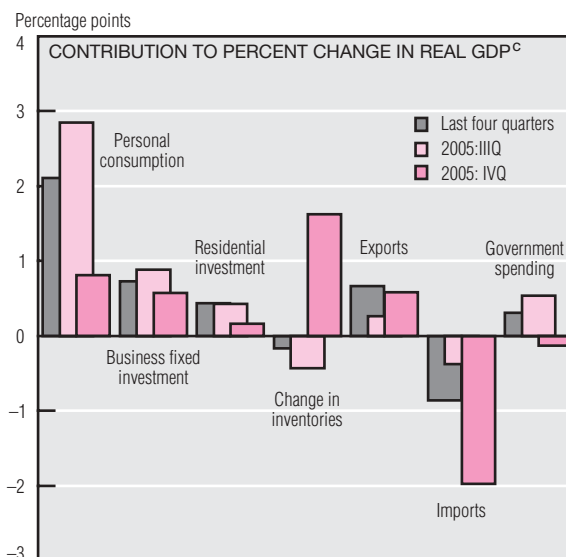


# Economic Activity

	Change, billions of 2000 \$	Annualized percent change	
		Current quarter	Four quarters
Real GDP	45.3	1.6	3.2
Personal consumption	22.7	1.2	3.0
Durables	-51.9	-16.6	0.2
Nondurables	29.0	5.1	4.4
Services	33.5	3.0	2.9
Business fixed investment	17.3	5.4	7.1
Equipment	16.0	6.1	9.0
Structures	2.1	3.3	1.5
Residential investment	3.9	2.6	7.5
Government spending	-3.4	-0.7	1.6
National defense	-11.8	-9.0	1.7
Net exports	-38.7	—	—
Exports	16.7	5.7	6.5
Imports	55.5	12.8	5.5
Change in business inventories	43.7	—	—



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 and annualized.

d. Blue Chip panel of economists.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and *Blue Chip Economic Indicators*, February 10, 2006.

The Commerce Department's preliminary reading of real GDP growth for 2005:IVQ was 1.6%, up 0.5 percentage point (pp) from January's advance reading. The final 2005:IIIQ growth was 4.1%. The preliminary report's upward revision resulted primarily from upward revisions to exports, government spending, equipment and software, and change in inventories, partly offset by an upward revision to imports.

Most components' contributions to the change in real GDP decreased in 2005:IVQ. The two exceptions were change in inventories, which

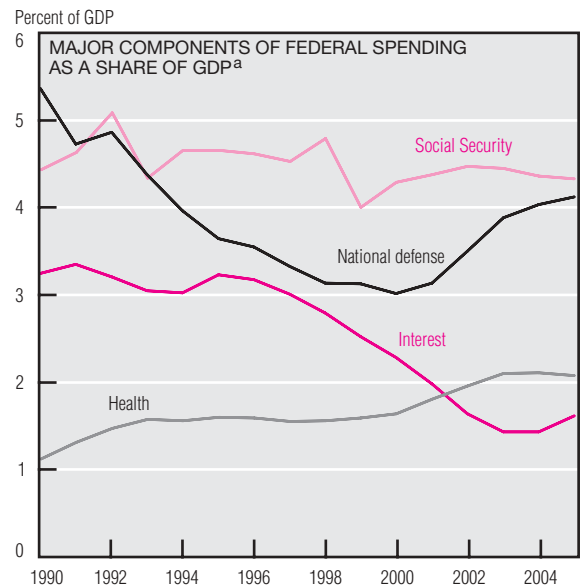
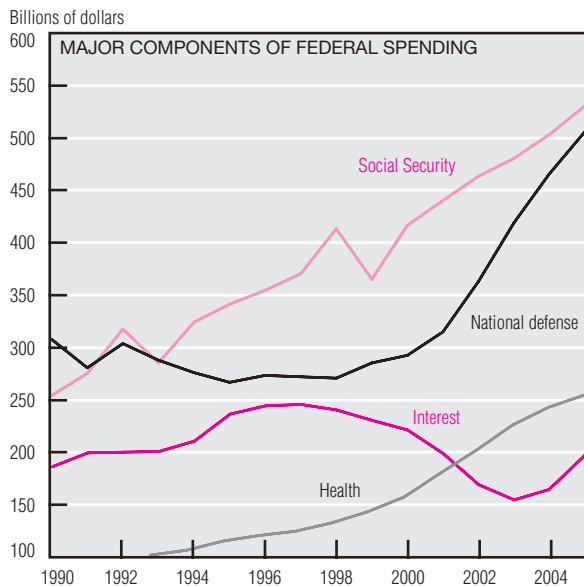
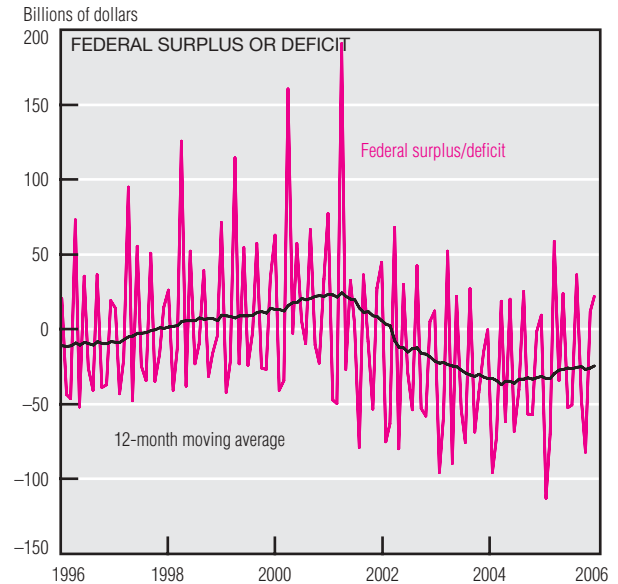
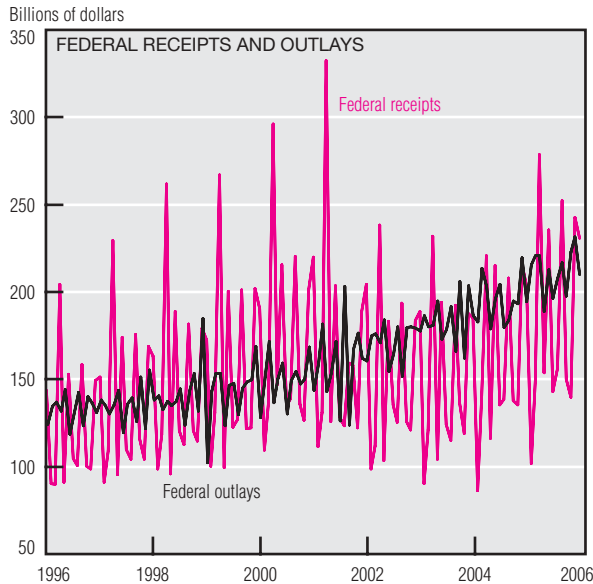
added 2.1 pp, and exports, which added 0.3 pp, compared to 2005:IIIQ. Imports subtracted 2.0 pp after deducting only 0.4 pp last quarter. Personal consumption expenditures, which traditionally makes the largest positive contribution to GDP, added only 0.8 pp, versus 2.9 pp the previous quarter.

The GDP growth rate has averaged 3.2% over the past 30 years, twice as high as the 2005:IVQ preliminary reading of 1.6%. In fact, the preliminary estimate was the lowest since 2002:IVQ. However, as of February 10, the Blue Chip panel of economists

predicted that 2006:IQ growth will be 4.1%, up 0.5 pp from their January estimate. For the rest of 2006, they expect growth between 3.0% and 3.4%.

Since personal consumption is typically the largest component of GDP, its trends are important for the overall economy. Although real personal consumption expenditures are growing, the year-over-year annual growth rate has slowed to 3.0%. In fact, it is a bit surprising that consumers have not reined in spending more, considering that year-over-year growth in the more variable real *(continued on next page)*

## Economic Activity (cont.)



a. Fiscal year GDP.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Department of the Treasury; and Office of Management and Budget.

disposable personal income slowed from 4.1% in 2004:IVQ to only 0.5% in 2005:IVQ.

Growth in federal receipts for January 2006 has increased 13.7% on a year-over-year basis. Outlays over the same period were only up 7.9%, easing the budget deficit by about 21%. Nonetheless, the deficit's 12-month moving average is still \$25.6 billion per month.

In 2005, all the major spending categories increased faster than GDP's 3.5%. The fastest-growing category was federal outlays on interest, up 20.3% from 2004 to 2005, the result of

the one-two punch of rising deficits and interest rates. National defense, at 8.7%, was the next fastest. Social Security and health grew at slower rates, 5.6% and 4.7%, respectively.

While these growth rates can seem alarming, as a percent of GDP the trends look a bit less so. Social Security has been roughly 4.4% of GDP since 1990. National defense, which increased to 4.1% in 2005, remains below its level at the end of the Cold War. Even the fast-growing interest outlay category, currently 1.6% of GDP, is far below the 3.2% it averaged in the first half of the 1990s. An exception to

this more benign view is outlays on health, 2.1%, which has nearly doubled since 1990, but the bottom line is that last year's deficit declined a full percentage point, from 3.6% to 2.6%.

Before one becomes too complacent, it is important to note that, although federal receipts have increased from 16.5% to 17.5% of GDP over the last year, federal outlays remain firmly rooted at 20%. In addition, policymakers need to keep a wary eye on a buildup of budgetary pressures caused by the aging of the baby boomers and the continuing costs of conflicts abroad.