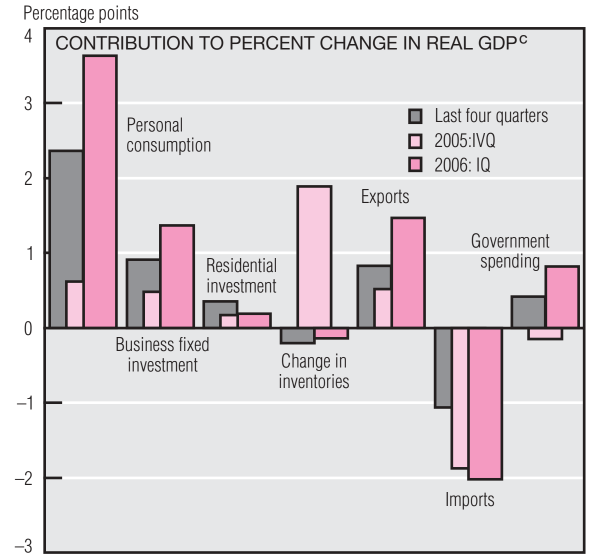
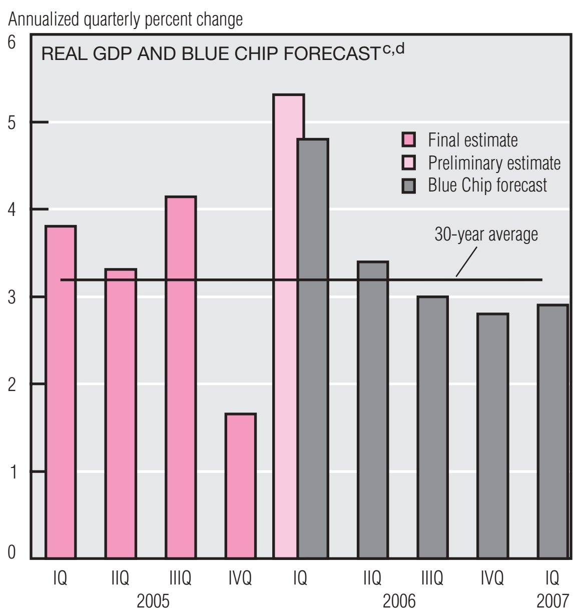
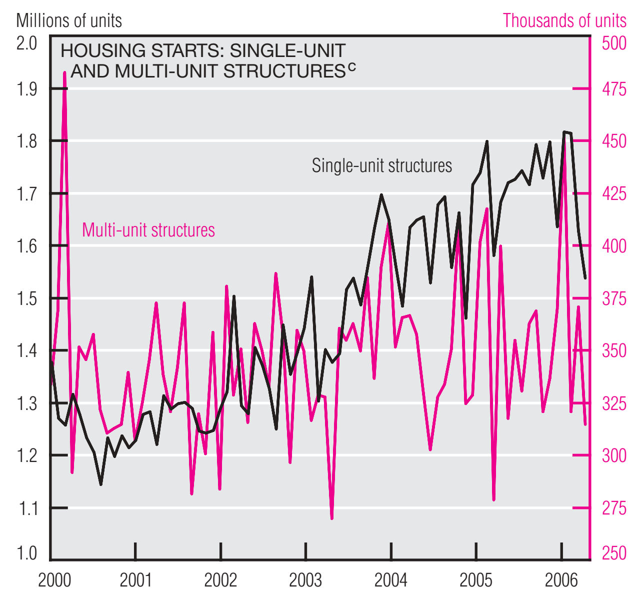
Economic Activity

Real GDP and Components, 2006:IQ[a,b]
(Preliminary estimate)

	Change, billions of 2000 $	Annualized percent change: Current quarter	Annualized percent change: Four quarters
Real GDP	146.4	5.3	3.6
Personal consumption	101.3	5.2	3.4
Durables	53.4	20.5	4.3
Nondurables	32.8	5.7	4.5
Services	25.0	2.2	2.6
Business fixed investment	41.3	13.1	8.7
Equipment	35.4	13.8	10.0
Structures	7.0	11.4	4.8
Residential investment	4.6	3.0	5.9
Government spending	21.1	4.3	2.2
National defense	11.3	9.5	3.3
Net exports	–14.7	—	—
Exports	42.6	14.7	8.1
Imports	57.2	12.8	6.6
Change in business inventories	–5.6	—	—







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*, May 10, 2005.

Real GDP increased at an annual rate of 5.3% in 2006:IQ, according to the preliminary estimate released by the Commerce Department. This was 0.5 percentage point (pp) higher than the advance estimate of 4.8%. The upward revision resulted primarily from stronger exports and an increase in private inventory investment, which was partly offset by a downward revision to personal consumption expenditures. In 2005:IVQ, real GDP increased 1.7%.

Compared to the previous quarter, most components made significantly higher contributions to the change in real GDP in 2006:IQ. Personal consumption expenditures contributed 3.6 pp, compared to only 0.6 pp in 2005:IVQ. Exports added 1.0 pp more, bringing that component's total contribution to 1.5 pp. The exception was changes in private inventories, which subtracted 0.1 pp in 2006:IQ after adding 1.9 pp the previous quarter.

GDP growth has topped 5.0% only twice since the beginning of 2000. During that time, GDP averaged 2.7%. Growth in 2006:IQ was 2.6 pp above that average and 2.1 pp above the 30-year average of 3.2%. However, in their April and May publications, Blue Chip forecasters predicted that growth will slow in the remaining three quarters of 2006 to 3.4%, 3.0%, and 2.8%.

The housing market is often seen as an early warning signal for the economy. In this context, the sharp fall in housing starts since the start of the year is disconcerting. Following 6% declines in both February and March, housing starts fell a further 7.4% in April to the lowest level since November 2004. Single-unit starts, which accounted for 83% of total

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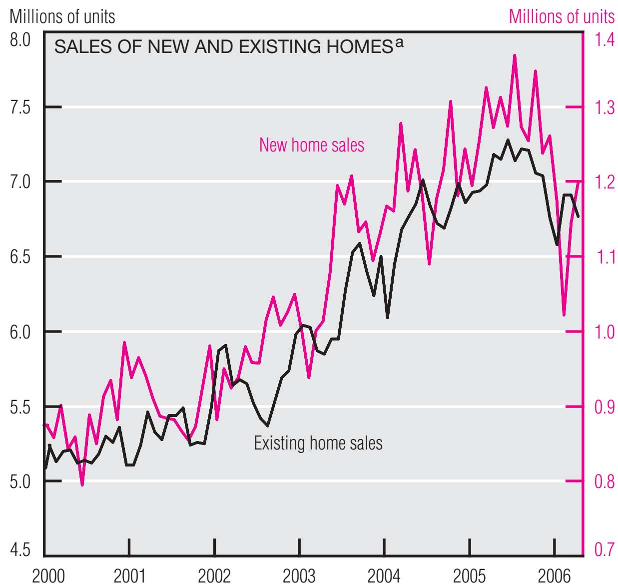
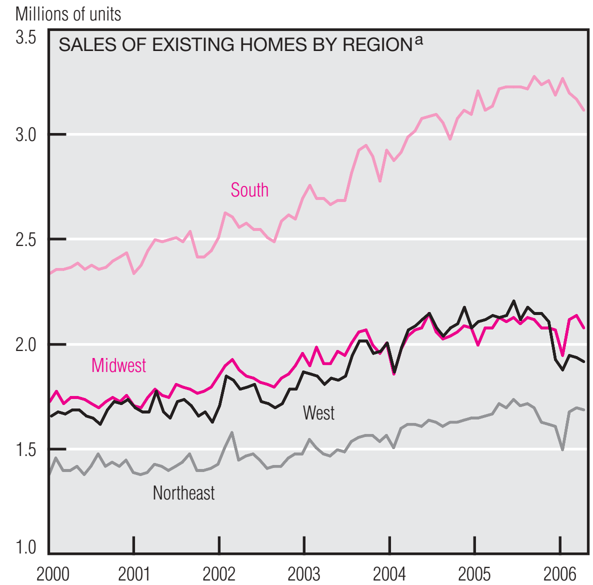
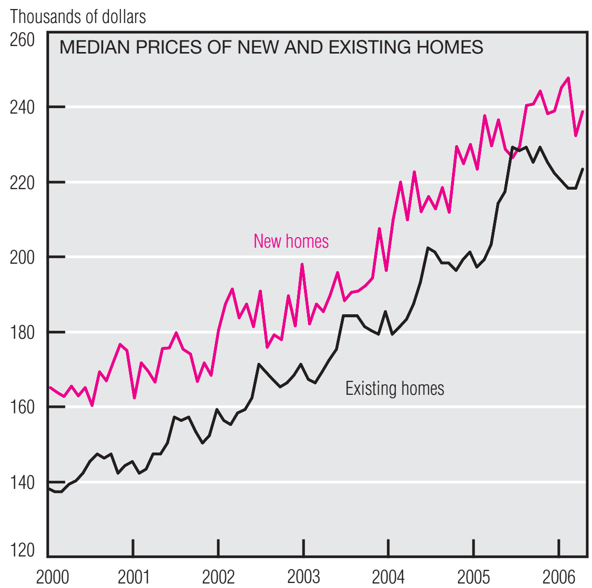
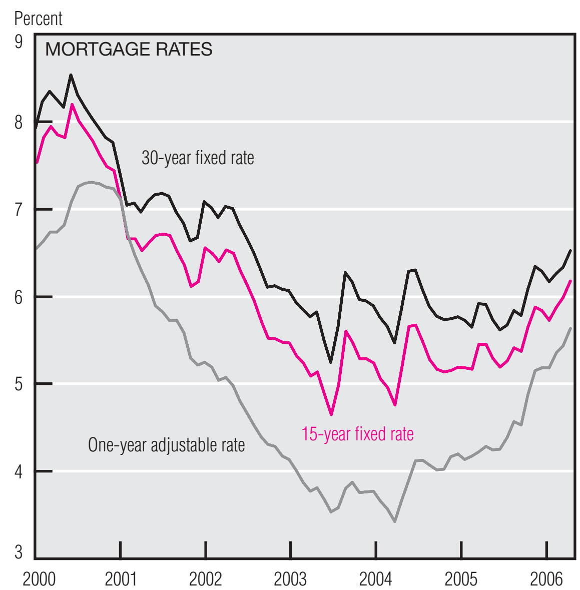
Economic Activity *(cont.)*









a. Data are seasonally adjusted and annualized.
SOURCES: U.S. Department of Commerce, Bureau of the Census; Federal Home Loan Mortgage Corporation; and National Association of Realtors.

starts, also reached a 17-month low. The volatile multi-unit starts dropped 15% in April, but they remained within 32,000 of the five-year average of 346,000 units.

April starts were down 18.4% from January, with single-family dwellings down 15.4% and multiple-unit structures down 30.4%. Although mild weather has been credited with the large number of starts in January, it is difficult to imagine that all of the subsequent fall is catch-up after the strong January figures.

New home sales for April recovered to their January level, having dropped considerably in February. Existing home sales in April were down 7% relative to August 2005 and were at roughly the same level as in December 2005. The South has been the big contributor to the run-up in sales of existing homes since 2000. The more recent fall-off in existing home sales came in the South and West, with the Midwest and Northeast holding fairly steady.

Since 2000, home prices have trended up. Some of the surprising numbers for new home sales in April came from the rise in prices relative to March, along with increasing sales. Prices of existing homes also rose in April, despite a drop in the number of units sold.

Over the past couple of years, mortgage rates have gradually crept up. In April, a typical 30-year fixed rate mortgage was 6.51%, up from 5.89% a year earlier. The 15-year fixed rate also rose, to 6.16% from 5.44% a year earlier. The one-year adjustable rate rose more rapidly; it stood at 5.62% in April, up from 4.27% a year earlier. These higher mortgage rates may be behind the flattening in home sales as well as the deceleration in home-price appreciation.