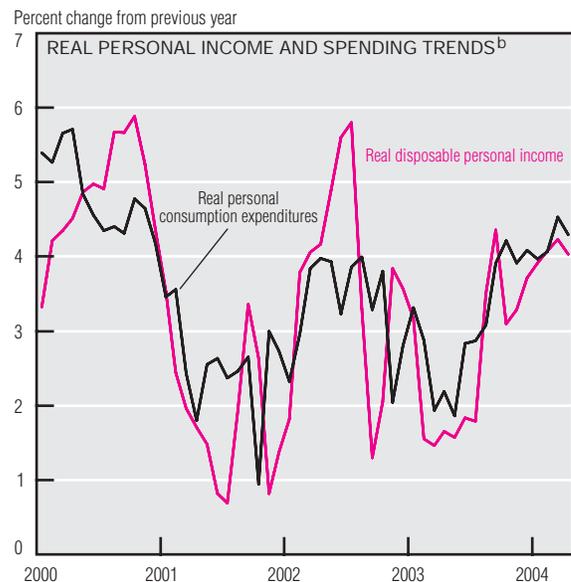
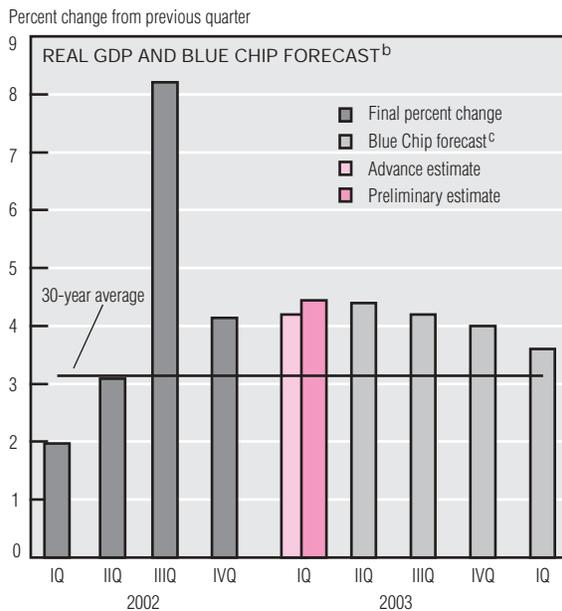
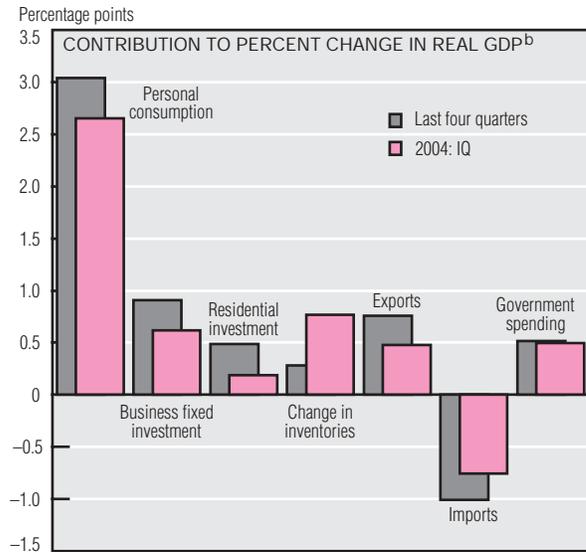


GDP Growth and Household Finances

	Change, billions of 2000 \$	Annualized percent change, last:	
		Quarter	Four quarters
Real GDP	115.9	4.4	5.0
Personal consumption	71.1	3.9	4.3
Durables	-11.4	-4.2	9.8
Nondurables	35.0	6.6	5.1
Services	44.5	4.2	2.9
Business fixed investment	16.6	5.8	9.1
Equipment	22.2	9.8	12.5
Structures	-4.3	-7.1	-1.6
Residential investment	4.9	3.8	9.3
Government spending	13.7	2.9	3.0
National defense	15.0	13.3	13.0
Net exports	-10.0	—	—
Exports	13.0	4.9	8.3
Imports	23.0	5.9	7.9
Change in business inventories	19.2	—	—



a. Chain-weighted data in billions of 2000 dollars. Components of real GDP need not add to the total because the total and all components are deflated using independent chain-weighted price indexes.

b. Data are seasonally adjusted and annualized.

c. Blue Chip panel of economists.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; National Bureau of Economic Research; and *Blue Chip Economic Indicators*, May 10, 2004

According to the preliminary estimate from the U.S. Commerce Department's Bureau of Economic Analysis, real gross domestic product (GDP) rose at an annual rate of 4.4% for 2004:1Q, up from the advance estimate of 4.2%. Most of the revisions were minor; the most significant were modest increases in inventories and imported goods.

Because of its larger share, the major contributor to real GDP growth was personal consumption. Contributions from business fixed investment, change in inventories,

and government spending were similar to one another.

Blue Chip forecasters expect solid economic growth to continue at an annual rate of about 4%, well above the 3.1% averaged over the last 30 years.

Because personal consumption accounts for roughly 70% of GDP and about 60% of the change in real GDP over the last year, the household sector's health is an important concern for policymakers. One positive sign is that real personal disposable income has grown at an annual rate of at about 4% since last September; however, it

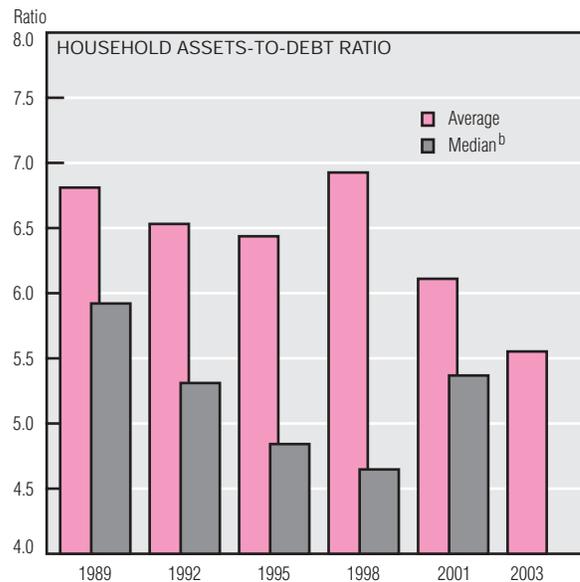
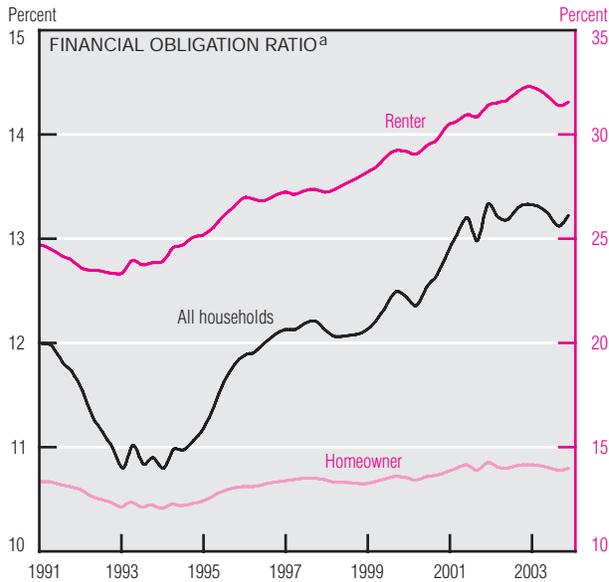
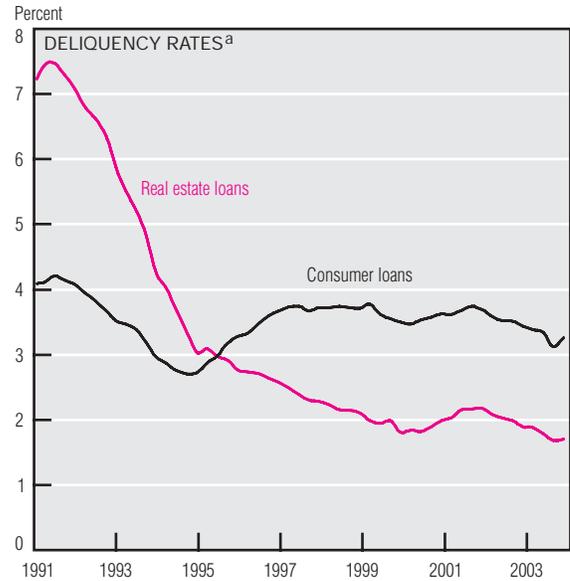
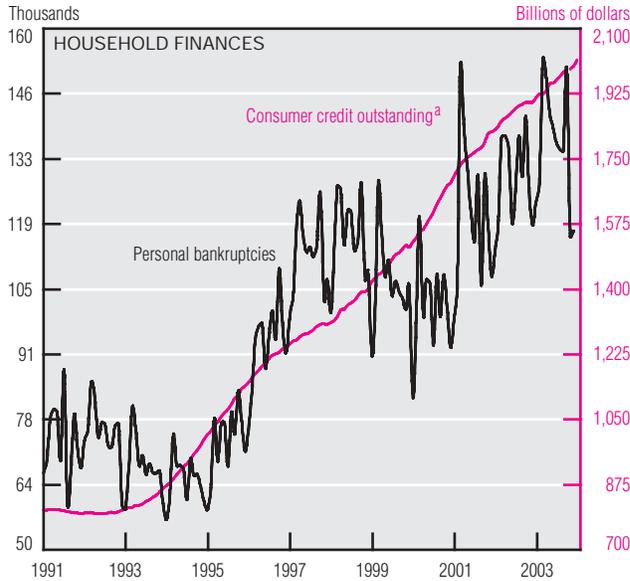
has been more than matched by growth in real personal consumption expenditures. These expenditures have been fueled partly by rising levels of consumer credit outstanding, which topped \$2 trillion for the first time at the beginning of the year.

Is this high debt load cause for concern? Bankruptcy filings have been down in the last two months but they remain at a fairly high level despite a significant decline late last year.

Some analysts consider the level of personal bankruptcies to be a

(continued on next page)

GDP Growth and Household Finances (cont.)



a. Data are seasonally adjusted.
 b. Median data are from the *Survey of Consumer Finances*, which is published every three years.
 SOURCES: Administrative Office of the U.S. Courts; and Board of Governors of the Federal Reserve System.

flawed measure of household financial health because it is affected by changes in lender practices and the law. Delinquency rates, another measure of consumers' ability to keep up with debt obligations, have been on a downward trend for real estate loans and fairly flat for consumer loans. Many observers prefer to look at debt service ratios because they include information from all households, not just those filing for bankruptcy or falling behind in their payments. This ratio has risen only modestly for

homeowners since the early 1990s but much more sharply for renters. Since the beginning of 2003, the ratio for both groups has been flat or declining.

Of course, to assess the financial health of households fully, one must look not only at their incomes and liabilities but also at their assets. Before the stock market drop that followed the dot-com collapse, the average ratio of household assets to debts was fairly flat going back to 1989. Because a relatively few

households hold a majority of shares, the median is better than the average as a gauge of the typical household. The median fell from 1989 until 1998 but rose in 2001. Unfortunately, it is only available every three years, but it is likely to be up further. More of the median household's wealth is tied up in a home than in stocks, so the price of its home matters more than the value of its shares. Although share prices have not performed very well since 2001, real estate is up sharply.