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Economic Activity

According to the U.S. Commerce Department’s final estimate, the annualized growth rate of real GDP in 2004:IQ was 3.9%, down from the preliminary estimate of 4.4%. Excepting nondurables, services, and changes in inventories, all components either decreased or remained unchanged from their previous four-quarter average.

The 0.5% downward revision to GDP growth was attributed primarily to a sharp upward revision to imports of $17 billion. In the preliminary estimate, imports dragged GDP down 0.8 percentage point; in the final estimate, imports decreased GDP by 1.4 percentage points. Other sources of the downward revision were business fixed investment and personal consumption. However, these were partially offset by upward revisions to exports and residential investment. Government spending was the only component that remained unchanged from the preliminary estimate.

The largest positive contribution to GDP’s 3.9% growth rate was personal consumption at 2.64 percentage points, while exports accounted for 0.72 percentage point and changes in inventories added 0.65 percentage point. For 2004:IQ, inventories’ contribution to the change in real GDP increased from annual levels, the only category to do so.

In the final estimate, 2004:IQ growth was slightly lower than 2003:IVQ growth, although Blue Chip forecasters expect brisker growth in the second quarter. Even with the downward revisions from May’s forecast, the Blue Chip expectations for the remainder of the year are still (continued on next page)
far higher than the U.S. economy’s 30-year average.

After bottoming out in March, the interest rate on 30-year fixed-rate mortgages began to rise, averaging 6.28% in April and May. Although this rate is higher than the 5.24% posted in the same period last year, it is still considerably lower than its 30-year average (9.75%). Contract interest rates for mortgages on new and existing single-family homes have also been increasing.

Since mortgage rates began to rise in March, housing starts and mortgage applications have been declining. Housing starts have decreased by 100,000 (4.8%) since December, although May’s starts were still 219,000 (12.5%) above the same period last year. Mortgage applications were also down from March, matching the number posted in December 2003.

Nevertheless, sales of both new and existing homes climbed to record highs in May. Sales of existing homes increased 2.6%, reaching 6.8 million, as the result of continued growth in the South and West; numbers for the Northeast and Midwest remained relatively flat. In addition, new home sales increased 14.8%, although this series is often revised substantially in later releases.

Median home price results for May were mixed. New single-family home prices fell to their lowest level since December, although existing home prices have been rising since February. The median existing home price for the U.S. was $184,000 in May, 10.3% higher than in the same month last year.