According to the U.S. Commerce Department’s final estimate, the annualized growth rate of real GDP in 2004:IIQ was 3.3%, up from the preliminary estimate of 2.8%. This increase resulted partly from upward revisions to business inventories, residential investment, and business fixed investment. In addition, exports were higher and imports were lower than originally reported, with the revision increasing the change in net exports by $8.4 billion.

Given its larger share, personal consumption is usually the component with the largest positive contribution to GDP. In 2004:IIQ, however, business fixed investment’s contribution was the largest (1.2 percentage points), while personal consumption’s was 1.1 percentage points (pp). Exports were unchanged from 2004:IQ, although imports’ negative impact increased 0.31 pp.

The final growth estimate for 2004:IIQ was slightly higher than Blue Chip forecasters’ prediction. They expect growth to be slightly higher over the next four quarters, with estimates coming in at or above 3.5% for each quarter. If these predictions are correct, the economy should perform well above the 30-year average in the upcoming quarters.

Since the beginning of 2004, year-over-year-growth in both real disposable personal income and real personal consumption expenditures has slowed. Real disposable personal income growth slowed by 2.7 pp from August 2003 to August 2004, while growth in real personal consumption expenditures slowed by

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a more modest 0.9 pp in the same period.

Conditions in manufacturing have improved markedly over the last year. At 76.8%, manufacturing capacity utilization has now rebounded to the level last recorded at the beginning of the most recent economic downturn in March 2001. Because manufacturing capacity utilization peaked in April 2000, earlier than the economy as a whole, capacity utilization has not yet reached the 82.2% level observed then. During the current business cycle, this indicator performed better than average in the period right after the last peak, but over the past two years its performance has been fairly typical.

Another sign of health in manufacturing is that new orders increased 11.8%, or $39 billion, from July 2003 to July 2004, with inventories rising a more modest 3.9% over that period to support the higher level of sales. Bolstered by the inflow of orders, business fixed investment has also continued to rebound, up 12.4% at a seasonally adjusted annual rate (SAAR) in 2004:IIQ and 10.8% from 2003:IIQ to 2004:IIQ. Investment in equipment and software has grown even more strongly, up 14.2% SAAR and 13.9% over the last year. Investment in structures has been less steady, rising 6.9% SAAR in 2004:IIQ but only 1.3% since 2003:IIQ.

In a further reflection of improved performance, corporate profits have surged 19% ($188 billion) from 2003:IIQ to 2004:IIQ. Something to watch, however, is that the pace did slacken from the first to the second quarter, rising only 2.9% SAAR.