Economic Activity

The Commerce Department’s final reading of real GDP for 2005:IIQ was 3.3%, unchanged from the preliminary estimate. This was 0.5 percentage point (pp) lower than the final 2005:IQ growth of 3.8%. The deceleration was attributed primarily to a downturn in inventories, partly offset by deceleration in imports and acceleration in exports. Imports, which subtract from GDP, grew at an annual rate of only 0.5%, compared to 5.9% over the last four quarters. Exports, which contribute positively to GDP, grew at an annual rate of 13.2%, compared to 8.3%.

Personal consumption was the largest positive contributor to the change in real GDP, adding 2.1 pp. Exports contributed 1.3 pp, compared with only 0.7 pp in 2005:IQ. However, inventories subtracted 2.0 pp from real GDP, its heaviest drag since 2001:IVQ. Real GDP growth as low as 3.3% was last observed in 2004:IVQ. Before that, 2003:IQ was the last time real GDP growth was less than in 2005:IIQ. The economy is currently growing at exactly its 30-year average rate. But except for 2005:IVQ, Blue Chip forecasters do not expect this to continue. Their September 10, 2005, publication predicted that growth in 2005:IIIQ would be 3.6%, 0.3 pp lower than the August prediction of 3.9%. They also lowered their 2005:IVQ prediction by 0.3 pp to 3.0%.

Compared to previous recessions, real GDP growth since the 2001 event still lags the post-1949 average. However, it is slightly higher than the 1990 recession and within the average range for all recessions in the last 56 years.