Economic Activity

The Commerce Department’s preliminary reading of 2005:IIIQ real GDP growth was 4.3%, up from the advance reading of 3.8%. The upward revision to the preliminary estimate resulted from upward revisions to residential fixed investment, nondurable consumption, and business spending on equipment and software.

Most components’ contributions to the percent change in real GDP were similar to their average for the previous four quarters. However, the components with the largest contributions did shift from 2005:IIQ to 2005:IIIQ. Personal consumption contributed 2.7 percentage points (pp) to the change in real GDP compared to only 2.4 pp in 2005:IIQ; private inventories subtracted only 0.6 pp from the change in real GDP, compared to 2.1 pp in 2005:IIQ. Conversely, exports contributed a modest 0.1 pp in the third quarter, after adding 1.1 pp to the change in real GDP in 2005:IIQ.

Real GDP growth of 4.3% or higher has not been achieved since 2004:IQ. This is significantly higher than the 30-year average of 3.3%. However, according to the November report, the Blue Chip panel of economists predicts that growth will slow to 3.0% in 2005:IVQ and then remain between 3.1% and 3.5% in 2006.

Although real GDP growth increased in the third quarter, other important indicators of the economy’s health faltered. Industrial production and capacity utilization decreased between 2005:IIQ and 2005:IIIQ, and data from the first two months of the fourth quarter suggest that they will continue to drop. However, monthly data from both hours of employment and nonfarm employment currently indicate that these numbers will increase in 2005:IVQ.