The Commerce Department’s final reading of real GDP growth for 2005:IVQ was 1.7%, up 0.1 percentage point (pp) from February’s preliminary reading. This was down substantially from the 2005:IIIQ estimate of 4.1%. The deceleration resulted primarily from slower growth in personal consumption and residential fixed investment, decreased government spending, and acceleration in imports. These factors were partly offset by growth in inventories and exports.

Most components’ contributions to the change in real GDP decreased in 2005:IVQ. The two exceptions were changes in private inventories, which contributed an additional 2.3 pp, and exports, which added 0.3 pp more than in 2005:IIIQ. Imports subtracted 1.9 pp from GDP, after deducting only 0.4 pp in 2005:IIIQ. PCE, the component that traditionally makes the largest positive contribution to GDP, added only 0.6 pp, compared to 2.9 pp the previous quarter.

Over the past 30 years, GDP growth has averaged 3.2%, nearly twice the fourth quarter’s final reading of 1.7%. However, real GDP growth is expected to rebound. The March 10 edition of Blue Chip Economic Indicators predicts that 2006:IQ growth will be 4.7%, up 0.6 pp from its February estimate. For the remainder of 2006, they expect growth between 3.3% and 2.9%.

Business inventories have been growing at an annual rate of nearly 4.0% since July 2005. Manufacturing inventories, which tend to be more volatile than total inventories, have shown signs of leveling off at 4.0%. Although wholesalers’ inventory

(continued on next page)
growth has been slowing, its 5.9% year-over-year increase has continued to outpace all other businesses.

The economy’s relatively tepid growth in 2005:IVQ has intensified the interest in incoming data for 2006:IQ. Industrial production fell in January and was below expectations. This drop resulted from declining production in the utilities sector, which can be attributed to the month’s record-setting warm weather. The sector’s capital utilization declined as well. February saw a rebound in utilities and resumed growth in industrial production. Manufacturing, the largest sector, seems to have been unaffected by temperature. The mining sector also took a big hit in 2005:IVQ, but it has since recovered most of its losses.

Housing starts are attracting attention because of recent conjectures of a housing price bubble. Increased housing starts in January have been widely attributed to the month’s unseasonably high temperatures. Housing starts were up across all regions in January but fell in February, with the exception of the West. These data supply scant evidence of a housing market slowdown that might foretell the end of a possible housing price bubble.

Another gauge of the economy’s health is retail sales, which fell in February after growing vigorously in January, another change that was chalked up to the weather. The exception to this pattern in retail sales was the motor vehicles industry, which has been considerably strengthened by automotive companies’ rebates and by gasoline prices. Averaging across January and February suggests that retail sales have picked up from 2005:IVQ.