Real GDP increased at an annual rate of 4.8% in 2006:IQ, according to the Commerce Department’s advance estimate; this was 3.1 percentage points (pp) higher than the final estimate of 1.7% for growth in 2005:IVQ. The acceleration in 2006:IQ resulted primarily from faster growth in personal consumption and exports, and an increase in government spending. These gains were partly offset by a downturn in private inventory investment.

Almost all components made significantly higher contributions to the change in real GDP in 2006:IQ than in the previous quarter. The two exceptions were changes in private inventories and imports, which subtract from GDP. After adding only 0.6 pp to real GDP in 2005:IVQ, personal consumption added 3.8 pp this quarter, its largest contribution since 2003:IIIQ.

This was only the sixth time since the beginning of 2000 that GDP growth has topped 4.0%. Blue Chip forecasters were off by only 0.2 pp, after predicting 4.6% growth in their April 10 report. They expect growth in the remaining three quarters of 2006 to slow to 3.4%, 3.0%, and 2.8%. In the past 30 years, GDP growth has averaged 3.2%.

Total industrial production was up 3.6% from March 2005. Its annual growth has averaged 3.0% over the past 12 months. Over the same period, average growth was 3.8% in manufacturing, –3.0% in mining, and 2.3% in utilities. Capacity utilization has been increasing fairly steadily since June 2003, and now exceeds 81% of capacity, which is still below the average for the late 1990s.

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With oil prices topping $70 per barrel, energy policy is once again commanding the attention of decision-makers and the public. Although oil prices are still below the 1980 historic high of nearly $78 in real terms, they show little sign of abating before the end of the summer driving season.

Higher oil prices will cause consumers to conserve and switch to other fuels but, short-run alternatives are limited. The U.S. obtains over 40% of its energy from petroleum. Coal and natural gas each account for about 22%, with nuclear at 8% and renewable energy (hydroelectric, geothermal, biomass, solar, and wind) at 6%.

Energy policy issues arise because various energy sources have different impacts on the environment and only 70% of U.S. energy consumption is supplied by domestic production. Nearly all the shortfall comes from petroleum: Domestic production supplies only 28% of U.S. consumption. This is problematic because much of the world’s oil is located in politically unstable regions, and thus is at a higher risk for disruptions.

Getting as much as is economically feasible out of each BTU is one way to address energy policy issues. Since 1980, the U.S. has become much more efficient in its overall energy consumption, with the amount of energy used per dollar of real GDP declining 40%. Petroleum consumed per dollar of GDP has fallen even more, about 45%. As impressive as these declines are, measured as consumption per capita, far less progress has been made. Overall energy use per capita has been flat since 1980. Per capita petroleum use has fallen about 10% since 1980, but has been relatively flat since the mid-1980s.