

Business Situation

Preliminary Estimates for the Fourth Quarter of 2004

IN the fourth quarter of 2004, the growth of real gross domestic product (GDP) decelerated slightly, according to the “preliminary” estimates of the national income and product accounts (NIPAs) (chart 1 and table 1).¹ The GDP growth rate for the fourth quarter was 0.7 percentage point higher than had been reported in the “advance” estimates released in January. Inflation accelerated in the fourth quarter. Despite

the larger-than-usual revision to GDP, the picture shown by the preliminary estimates is similar to that shown by the advance estimates (see “Revisions”).

- Real GDP increased 3.8 percent in the fourth quarter after increasing 4.0 percent in the third quarter. The fourth-quarter advance estimate had shown a 3.1-percent increase. Net exports, nonresidential fixed investment, and inventory investment were

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized. “Real” estimates are in chained (2000) dollars, and price indexes are chain-type measures.

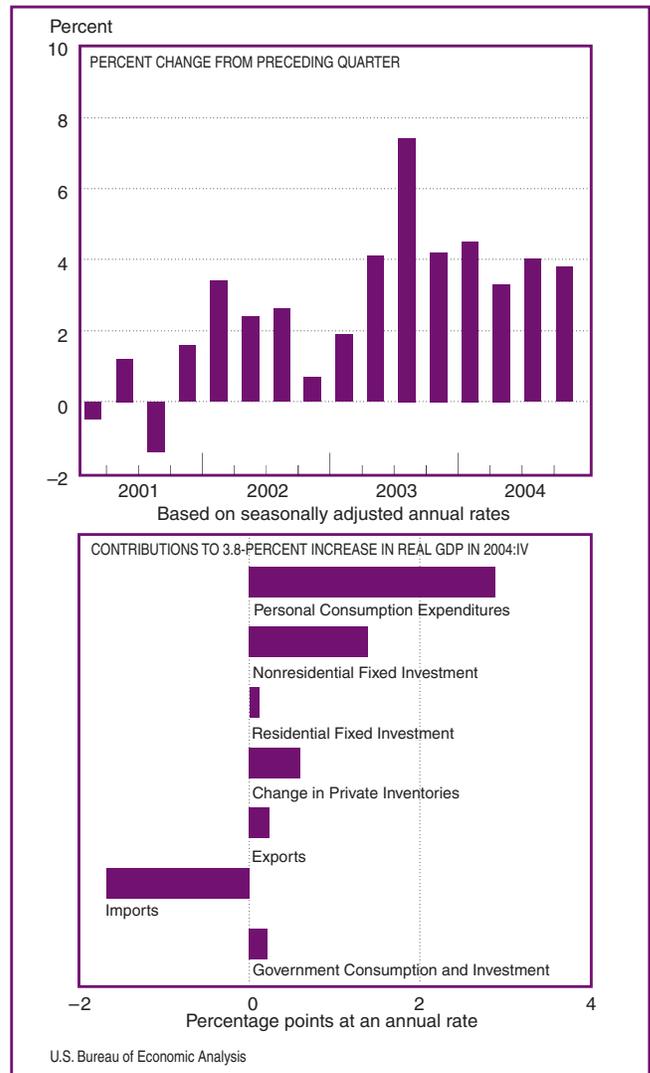
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Table 1. Real Gross Domestic Product and Components
[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)				Share of current-dollar GDP (percent)
	2004				2004				2004
	I	II	III	IV	I	II	III	IV	IV
Gross domestic product	4.5	3.3	4.0	3.8	4.5	3.3	4.0	3.8	100.0
Personal consumption expenditures	4.1	1.6	5.1	4.2	2.90	1.10	3.57	2.89	70.2
Durable goods.....	2.2	-0.3	17.2	3.1	0.19	-0.02	1.37	0.27	8.5
Nondurable goods.....	6.7	0.1	4.7	6.1	1.33	0.03	0.94	1.21	20.4
Services.....	3.3	2.7	3.0	3.4	1.39	1.10	1.26	1.41	41.3
Gross private domestic investment	12.3	19.0	2.4	13.4	1.86	2.85	0.40	2.13	16.9
Fixed investment.....	4.5	13.9	8.8	9.7	0.69	2.07	1.37	1.52	16.4
Nonresidential.....	4.2	12.5	13.0	14.0	0.42	1.21	1.27	1.40	10.7
Structures.....	-7.6	6.9	-1.1	1.2	-0.19	0.16	-0.03	0.03	2.4
Equipment and software...	8.0	14.2	17.5	18.0	0.61	1.05	1.30	1.37	8.3
Residential.....	5.0	16.5	1.6	2.1	0.27	0.86	0.09	0.12	5.7
Change in private inventories.....					1.17	0.78	-0.97	0.60	0.4
Net exports of goods and services					-0.76	-1.06	-0.10	-1.43	-5.7
Exports.....	7.3	7.3	6.0	2.4	0.70	0.70	0.59	0.24	10.1
Goods.....	9.1	6.0	9.5	1.9	0.60	0.41	0.64	0.13	7.1
Services.....	3.4	10.2	-1.8	3.5	0.10	0.30	-0.06	0.11	3.0
Imports.....	10.6	12.6	4.6	11.4	-1.46	-1.77	-0.69	-1.67	15.7
Goods.....	12.7	13.0	5.0	15.3	-1.43	-1.52	-0.62	-1.85	13.3
Services.....	1.2	10.6	2.8	-7.0	-0.03	-0.25	-0.07	0.18	2.5
Government consumption expenditures and gross investment	2.5	2.2	0.7	1.2	0.48	0.41	0.13	0.22	18.6
Federal.....	7.1	2.7	4.8	1.7	0.48	0.18	0.33	0.12	6.9
National defense.....	10.6	1.9	10.1	-0.3	0.47	0.09	0.45	-0.02	4.7
Nondefense.....	0.2	4.4	-5.3	6.3	0.00	0.10	-0.12	0.14	2.2
State and local.....	0.0	1.9	-1.7	0.8	0.00	0.23	-0.20	0.10	11.7

NOTE: Percent changes are from NIPA table 1.1.1, and contributions to percent change are from NIPA table 1.1.2. Shares are from NIPA table 1.1.10.

Chart 1. Real Gross Domestic Product



revised up, and consumer spending was revised down.²

- Prices of goods and services purchased by U.S. residents increased 2.8 percent, 0.1 percentage point more than in the advance estimate, after increasing 1.9 percent in the third quarter.
- Real disposable personal income increased 8.1 percent after increasing 2.9 percent. The fourth-quarter advance estimate had shown an 8.4-percent increase. The fourth-quarter increase largely reflected a special dividend payment by the Microsoft Corporation.³

The slight fourth-quarter deceleration in real GDP growth mainly reflected an increase in the trade deficit and a deceleration in consumer spending for durable goods that were partly offset by an upturn in inventory investment. The trade deficit subtracted 1.43 percentage points from fourth-quarter growth after subtracting 0.10 percentage point from third-quarter growth. Exports slowed in the fourth quarter, adding 0.24 percentage point to fourth-quarter growth after adding 0.59 percentage point to third-quarter growth. The slowdown was due to exports of goods, which increased 1.9 percent after increasing 9.5 percent; exports of services turned up.

Imports, which are subtracted in the calculation of GDP, accelerated and subtracted 1.67 percentage points from GDP growth after subtracting 0.69 percentage point. The acceleration was due to imports of goods, which increased 15.3 percent after increasing 5.0 percent; imports of services turned down.

Consumer spending increased 4.2 percent in the fourth quarter, 0.9 percentage point less than in the third quarter, and contributed 2.89 percentage points to GDP growth after contributing 3.57 percentage points.

Inventory investment added 0.60 percentage point to GDP growth after subtracting 0.97 percentage point. Real inventory stocks increased more in the fourth quarter (\$51.0 billion) than in the third quarter (\$34.5 billion).

The preliminary estimates for the fourth quarter also show the following:

- Nonresidential fixed investment increased 14.0 percent after increasing 13.0 percent and contributed

2. In this article, “inventory investment” is shorthand for the NIPA term “change in private inventories,” “consumer spending” is shorthand for “personal consumption expenditures,” “trade deficit” is shorthand for “net exports of goods and services,” and “government spending” is shorthand for “government consumption expenditures and gross investment.”

3. During the fourth quarter, the Microsoft Corporation paid its shareholders a special dividend of \$3.00 per share that boosted personal income by \$99.4 billion (annual rate). For more information, see “The Microsoft Special Dividend” on BEA’s Web site at <www.bea.gov/bea/faq/national/FAQ.htm>.

1.40 percentage points to GDP growth after contributing 1.27 percentage points. The moderate acceleration reflected an upturn in structures and a slight acceleration in equipment and software. Residential investment increased 2.1 percent after increasing 1.6 percent.

- Government spending increased 1.2 percent after increasing 0.7 percent and contributed 0.22 percentage point to GDP growth after contributing 0.13 percentage point.
- Real final sales of domestic product (GDP less the change in private inventories) increased 3.2 percent after increasing 5.0 percent.
- Real gross domestic purchases (real GDP less net exports of goods and services) increased 5.0 percent after increasing 3.9 percent.
- The production of goods slowed. The production of services accelerated slightly, and the production of structures turned up (table 2).
- Motor vehicle output picked up in the fourth quarter, contributing 0.84 percentage point to real GDP growth after contributing 0.34 percentage point.
- Final sales of computers (sales of domestically produced computers less inventory change) picked up sharply, contributing 0.56 percentage point to real GDP growth after contributing 0.18 percentage point.
- The personal saving rate increased from 0.7 percent (revised) to 1.6 percent.⁴

4. The personal saving rate is measured as personal saving as a percentage of current-dollar disposable personal income. An estimate of the *national* saving rate (measured as gross saving as a percentage of gross national income), along with the “final” estimates of the NIPAs for the fourth quarter, will be available at the end of March.

Table 2. Real Gross Domestic Product by Type of Product

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)				Share of current-dollar GDP (percent)
	2004				2004				2004
	I	II	III	IV	I	II	III	IV	IV
Gross domestic product (GDP)	4.5	3.3	4.0	3.8	4.5	3.3	4.0	3.8	100.0
Final sales of domestic product.....	3.3	2.5	5.0	3.2	3.32	2.52	4.97	3.20	99.6
Change in private inventories.....	.....	.....	.....	.....	1.17	0.78	-0.97	0.60	0.4
Goods.....	8.2	2.5	8.3	6.2	2.65	0.82	2.67	2.01	32.8
Services.....	3.0	2.3	2.8	3.0	1.76	1.30	1.59	1.70	57.2
Structures.....	0.7	12.7	-2.5	0.9	0.07	1.19	-0.25	0.09	10.1
Addenda:									
Motor vehicle output.....	8.8	-15.2	10.4	27.2	0.30	-0.58	0.34	0.84	3.6
GDP excluding motor vehicle output.....	4.3	4.0	3.8	3.0	4.18	3.88	3.66	2.96	96.4
Final sales of computers.....	0.1	0.1	20.7	74.0	0.00	0.00	0.18	0.56	1.0
GDP excluding final sales of computers.....	4.5	3.3	3.9	3.3	4.48	3.30	3.82	3.25	99.0

NOTE: Percent changes are from NIPA table 1.2.1, and contributions to percent change are from NIPA table 1.2.2. Shares are calculated from NIPA table 1.2.5.

Personal Consumption Expenditures

In the fourth quarter of 2004, real personal consumption expenditures decelerated to a 4.2-percent increase from a 5.1-percent increase in the third quarter (chart 2 and table 3). (Over the past 10 years, consumer spending has increased at an average annual rate of 3.8 percent.⁵) The deceleration in the fourth quarter was due to a slowdown in spending for durable goods; spending for nondurable goods and for services accelerated.

In durable goods, purchases of motor vehicles and parts decreased 0.7 percent after increasing 28.7 percent in the third quarter. Purchases of new light trucks—pickups, vans, and sport utility vehicles—turned down sharply, and net purchases of used autos and of used light trucks decelerated. In contrast, purchases of new autos turned up. Purchases of furniture

and household equipment also decelerated; in the fourth quarter, “other” durable house furnishings turned down, and slowdowns were posted by furniture and by video and audio goods. “Other” durable goods (which includes ophthalmic products and orthopedic appliances and jewelry and watches) accelerated.

In nondurable goods, purchases of food, of gasoline, fuel oil, and other energy goods, and of clothing and shoes accelerated. Purchases of “other” nondurable goods (which includes semidurable house furnishings and prescription drugs) decelerated.

In services, the acceleration reflected an upturn in spending on electricity and gas and step-ups in spending on “other” services (which includes brokerage charges and investment counseling) and on transportation. In contrast, spending on recreation turned down, and spending on medical care decelerated.

5. The rate of change was calculated from the fourth quarter of 1994 to the fourth quarter of 2004.

Table 3. Real Personal Consumption Expenditures

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real PCE (percentage points)				Share of current-dollar PCE (percent)
	2004				2004				2004
	I	II	III	IV	I	II	III	IV	IV
Personal consumption expenditures (PCE).....	4.1	1.6	5.1	4.2	4.1	1.6	5.1	4.2	100.0
Durable goods.....	2.2	-0.3	17.2	3.1	0.27	-0.03	1.97	0.38	12.1
Motor vehicles and parts.....	-5.8	-6.0	28.7	-0.7	-0.33	-0.34	1.40	-0.04	5.5
Furniture and household equipment.....	11.1	7.4	11.6	6.2	0.45	0.31	0.48	0.26	4.2
Other ¹	6.2	-0.2	3.5	7.0	0.15	-0.01	0.08	0.16	2.3
Nondurable goods.....	6.7	0.1	4.7	6.1	1.90	0.04	1.35	1.74	29.1
Food.....	8.1	2.3	4.4	6.3	1.10	0.32	0.61	0.88	14.0
Clothing and shoes.....	16.3	-5.3	6.0	8.6	0.62	-0.22	0.24	0.33	3.9
Gasoline, fuel oil, and other energy goods.....	-2.3	-13.2	2.6	9.8	-0.06	-0.42	0.08	0.29	3.2
Other ²	3.1	4.5	5.3	2.9	0.25	0.35	0.43	0.23	7.9
Services.....	3.3	2.7	3.0	3.4	1.98	1.56	1.82	2.03	58.8
Housing.....	2.1	2.0	2.4	2.3	0.33	0.30	0.37	0.34	15.0
Household operation.....	3.2	-0.9	1.3	5.7	0.18	-0.05	0.07	0.31	5.5
Electricity and gas.....	3.5	-8.0	-0.9	13.4	0.08	-0.18	-0.02	0.28	2.2
Other household operation.....	3.1	4.0	2.7	0.9	0.10	0.13	0.09	0.03	3.3
Transportation.....	2.0	2.9	1.7	4.2	0.07	0.11	0.06	0.15	3.6
Medical care.....	3.2	4.4	5.0	4.2	0.55	0.74	0.85	0.71	16.9
Recreation.....	5.9	0.3	2.7	-1.2	0.24	0.01	0.11	-0.05	4.0
Other ³	4.4	3.3	2.5	4.1	0.61	0.45	0.35	0.57	13.8

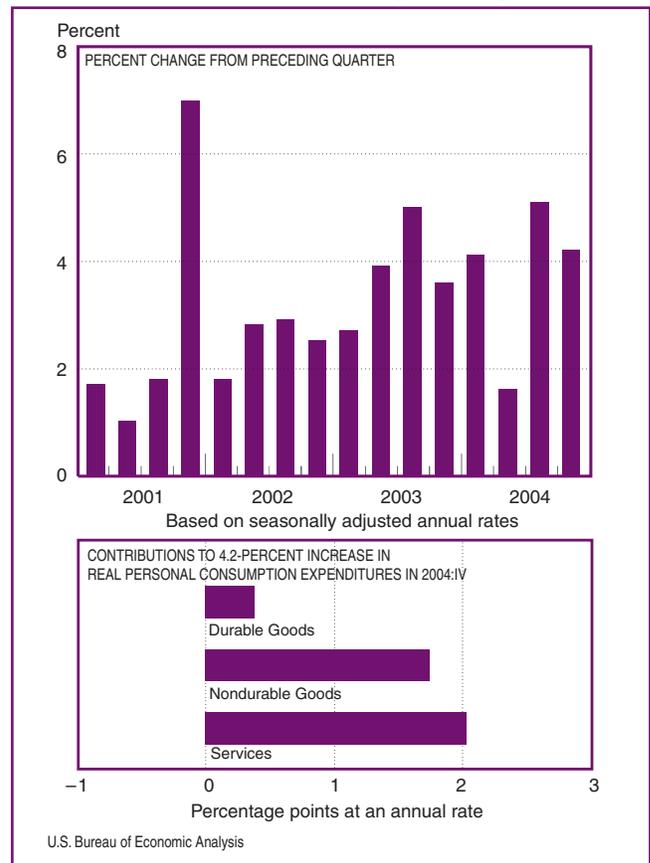
1. Includes jewelry and watches, ophthalmic products and orthopedic equipment, books and maps, bicycles and motorcycles, guns and sporting equipment, photographic equipment, boats, and pleasure aircraft.

2. Includes tobacco, toilet articles, drug preparations and sundries, stationery and writing supplies, toys, film, flowers, cleaning preparations and paper products, semidurable house furnishings, and magazines and news papers.

3. Includes personal care, personal business, education and research, religious and welfare activities, and net foreign travel.

NOTE: Percent changes are from NIPA table 2.3.1, and contributions to percent change are from NIPA table 2.3.2. Shares are calculated from NIPA table 2.3.5.

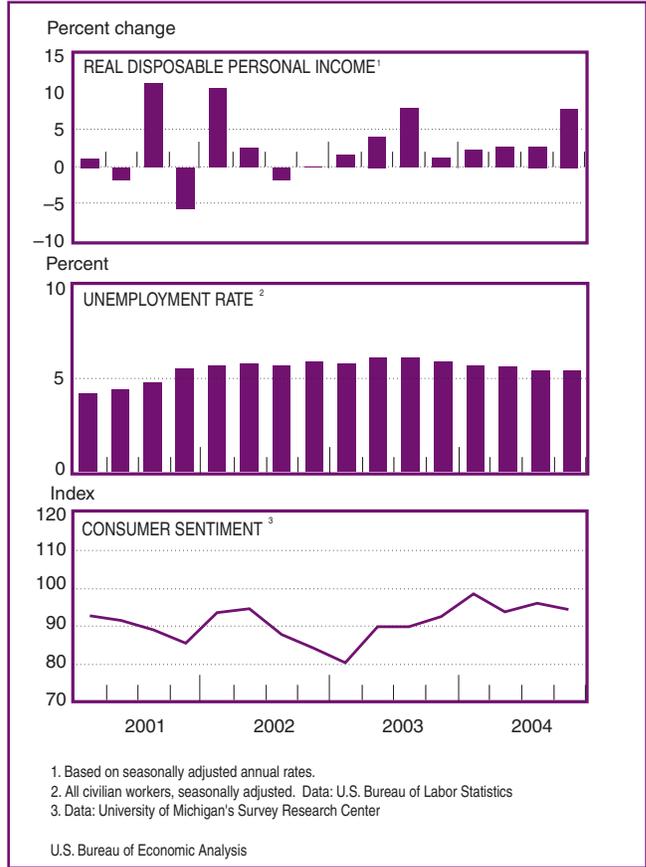
Chart 2. Real Personal Consumption Expenditures



Factors frequently considered in the analysis of consumer spending were mixed in the fourth quarter (chart 3). The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) decreased after increasing in the third quarter, and the unemployment rate remained unchanged at 5.4 percent. In contrast, real disposable personal income registered a strong fourth-quarter increase.⁶

6. Real disposable personal income increased 8.1 percent in the fourth quarter. From the fourth quarter of 1994 to the fourth quarter of 2004, it increased at an average annual rate of 3.4 percent.

Chart 3. Selected Factors Affecting Consumer Spending



Private Fixed Investment

Real private fixed investment increased 9.7 percent in the fourth quarter after increasing 8.8 percent in the third quarter (chart 4 and table 4).⁷

Nonresidential. Real private nonresidential fixed investment increased 14.0 percent in the fourth quarter after increasing 13.0 percent in the third quarter. Investment in structures turned up, and investment in equipment and software accelerated slightly.

Investment in structures increased 1.2 percent after decreasing 1.1 percent, reflecting an upturn in investment in power and communication structures that followed three consecutive quarterly declines. In the fourth quarter, mining exploration, shafts, and wells and manufacturing structures accelerated. In contrast,

commercial and health care structures decreased more than in the third quarter, and “other” structures (which includes lodging, and amusement and recreational structures) turned down in the fourth quarter.

Investment in equipment and software increased 18.0 percent after increasing 17.5 percent, reflecting a sharp step-up in information processing equipment and an acceleration in transportation equipment that were partly offset by slowdowns in industrial equipment and in “other” equipment. In information processing equipment, computers and peripheral equipment and software accelerated. In transportation equipment, the acceleration reflected an upturn in aircraft that was partly offset by a deceleration in light trucks. In industrial equipment, the slowdown primarily reflected slowdowns in special industry machinery and in metalworking machinery. In “other” equipment, the slowdown primarily reflected a downturn in mining and oilfield machinery and slowdowns in agricultural machinery and in miscellaneous machinery.

Conditions that are frequently considered in the analysis of investment spending have generally been

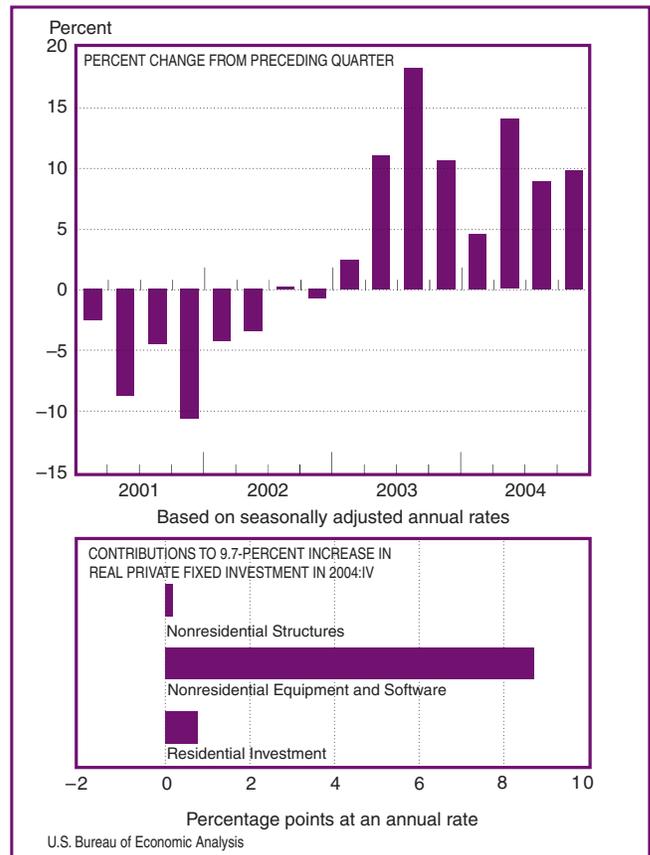
7. From the fourth quarter of 1994 to the fourth quarter of 2004, real private fixed investment increased at an average annual rate of 5.6 percent.

Table 4. Real Private Fixed Investment
[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real PFI (percentage points)				Share of current-dollar PFI (percent)
	2004				2004				2004
	I	II	III	IV	I	II	III	IV	IV
Private fixed investment (PFI)	4.5	13.9	8.8	9.7	4.5	13.9	8.8	9.7	100.0
Nonresidential.....	4.2	12.5	13.0	14.0	2.73	8.11	8.21	8.90	65.3
Structures.....	-7.6	6.9	-1.1	1.2	-1.19	1.07	-0.16	0.19	14.7
Commercial and health care	-9.1	21.3	-1.8	-8.5	-0.60	1.24	-0.11	-0.55	6.0
Manufacturing.....	-16.8	-14.2	25.4	50.4	-0.15	-0.12	0.17	0.33	0.8
Power and communication	-13.4	-37.0	-20.9	13.7	-0.35	-1.03	-0.48	0.26	2.0
Mining exploration, shafts, and wells	6.7	20.0	9.5	16.9	0.14	0.42	0.21	0.38	2.5
Other structures ¹	-7.0	16.8	1.6	-6.6	-0.25	0.55	0.05	-0.23	3.3
Equipment and software.....	8.0	14.2	17.5	18.0	3.92	7.05	8.37	8.71	50.6
Information processing equipment and software	16.4	14.1	7.5	17.0	4.01	3.67	1.92	4.19	25.4
Computers and peripheral equipment	6.5	26.5	20.7	52.3	0.37	1.47	1.14	2.61	6.1
Software ²	16.8	8.7	6.8	20.0	1.54	0.87	0.66	1.83	9.6
Other ³	22.1	12.7	1.1	-2.6	2.10	1.33	0.11	-0.25	9.7
Industrial equipment.....	6.6	2.1	27.7	7.1	0.52	0.17	2.03	0.58	8.1
Transportation equipment.....	-15.0	26.1	38.1	40.8	-1.26	1.88	2.64	2.96	8.5
Other equipment ⁴	8.3	16.1	22.6	11.6	0.66	1.32	1.78	0.98	8.5
Residential	5.0	16.5	1.6	2.1	1.75	5.76	0.59	0.77	34.7
Structures.....	4.9	16.7	1.5	2.1	1.70	5.74	0.55	0.74	34.3
Permanent site	6.7	9.0	2.7	-1.8	1.43	1.99	0.60	-0.39	21.2
Single family	7.1	8.9	3.0	-1.9	1.37	1.78	0.60	-0.37	19.2
Multifamily.....	2.8	9.8	0.2	-1.2	0.06	0.21	0.00	-0.02	2.0
Other structures ⁵	2.1	30.5	-0.4	8.8	0.27	3.75	-0.05	1.13	13.1
Equipment.....	11.9	3.7	9.1	6.3	0.05	0.02	0.04	0.03	0.4

1. Consists primarily of religious, educational, vocational, lodging, railroads, farm, and amusement and recreational structures, net purchases of used structures, and brokers' commissions on the sale of structures.
 2. Excludes software "embedded" or bundled, in computers and other equipment.
 3. Includes communication equipment, nonmedical instruments, medical equipment and instruments, photocopy and related equipment, and office and accounting equipment.
 4. Consists primarily of furniture and fixtures, agricultural machinery, construction machinery, mining and oilfield machinery, service industry machinery, and electrical equipment not elsewhere classified.
 5. Consists primarily of manufactured homes, improvements, dormitories, net purchases of used structures, and brokers' commissions on the sale of residential structures.
 NOTE: Percent changes are from NIPA table 5.3.1, and contributions to percent change are from NIPA table 5.3.2. Shares are calculated from NIPA table 5.3.5.

Chart 4. Real Private Fixed Investment

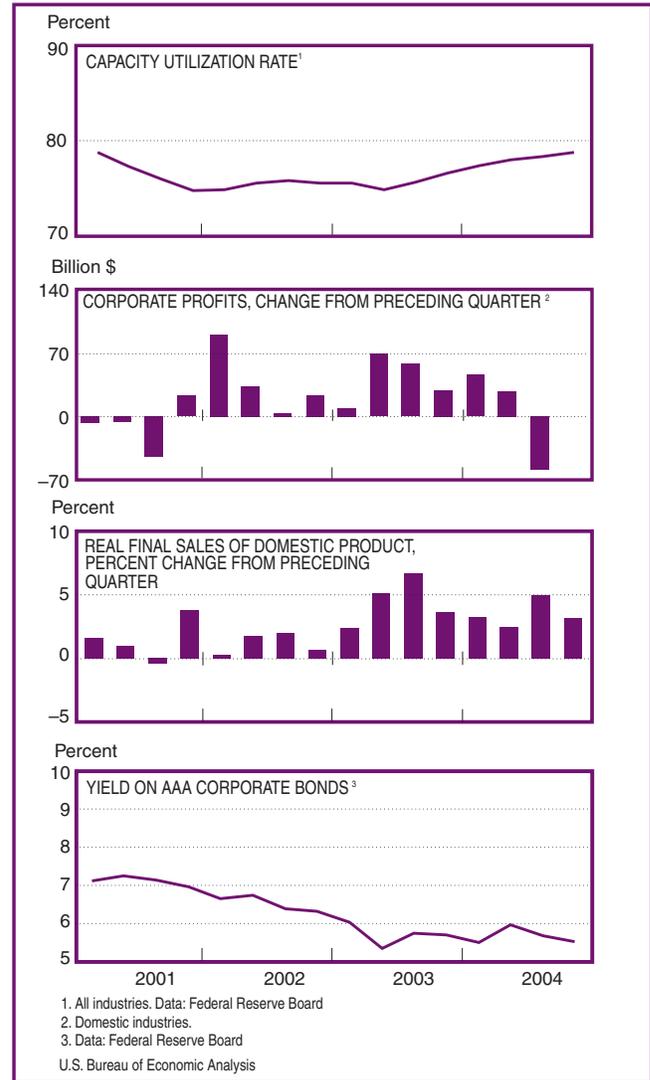


favorable in recent quarters (chart 5). The capacity utilization rate for manufacturing, mining, and utilities increased for the sixth consecutive quarter, to 78.7 percent, the highest rate since the first quarter of 2001. The yield on AAA corporate bonds decreased for the second consecutive quarter. Real final sales of domestic product increased 3.2 percent after increasing 5.0 percent; the fourth-quarter increase was slightly higher than the average increase over the last 3 years.⁸ However, domestic corporations' profits from current production decreased in the third quarter (the latest quarter for which data are available), but the decrease reflected the effects of the hurricanes that struck the southern and eastern portions of the United States in the third quarter and that reduced third-quarter profits by about \$80 billion. Profits increased for the preceding 11 consecutive quarters.

Residential. Real private residential investment increased 2.1 percent in the fourth quarter after increasing 1.6 percent in the third quarter. "Other" structures (which includes brokers' commissions on the sale of residences) turned up in the fourth quarter, but both single-family and multifamily construction turned down.

8. Real final sales of domestic product increased at an average annual rate of 3.1 percent from the fourth quarter of 2001 to the fourth quarter of 2004.

Chart 5. Selected Factors Affecting Nonresidential Investment



Inventory Investment

Real inventory investment turned up in the fourth quarter. It increased \$16.5 billion, to \$51.0 billion, after decreasing \$26.6 billion in the third quarter (chart 6 and table 5).

Retail trade inventories turned up in the fourth quarter. The upturn reflected a smaller decrease in the inventories of retail motor vehicle dealers in the fourth quarter than in the third and larger increases in the inventories of “other” retail stores and of general merchandise stores in the fourth quarter than in the third.

Manufacturing inventories posted about the same increase as in the third quarter. Inventories of nondurable-goods industries increased after decreasing; the upturn was in chemical manufacturing inventories. Inventories of durable-goods industries increased less than in the third quarter.

Wholesale trade inventories increased less in the fourth quarter than in the third. The deceleration was primarily accounted for by merchant wholesalers; the biggest contributors to the deceleration were downturns in inventories of miscellaneous durable-goods wholesalers and of motor vehicle wholesalers.

Farm inventories increased less in the fourth quarter than in the third. Crop inventories increased less, and livestock inventories decreased more than in the third quarter.

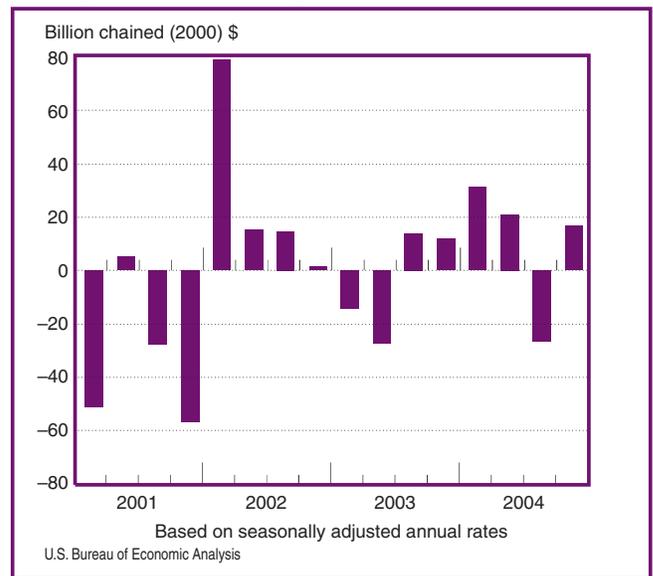
The ratio of real private nonfarm inventories to final sales of goods and structures was unchanged at 3.50. A ratio that includes all final sales of domestic businesses in the denominator was unchanged at 2.20.⁹ Both ratios have been trending down for decades.

Table 5. Real Change in Private Inventories by Industry
(Billions of chained (2000) dollars; seasonally adjusted at annual rates)

	Level					Change from preceding quarter			
	2003	2004				2004			
	IV	I	II	III	IV	I	II	III	IV
Change in private inventories	8.6	40.0	61.1	34.5	51.0	31.4	21.1	-26.6	16.5
Farm	3.5	5.1	3.0	3.8	1.7	1.6	-2.1	0.8	-2.1
Mining, utilities, and construction	3.5	-4.5	-1.7	4.5	2.3	-8.0	2.8	6.2	-2.2
Manufacturing	-13.1	3.0	9.1	7.0	7.3	16.1	6.1	-2.1	0.3
Durable-goods industries	-1.8	-2.2	5.9	7.8	5.6	-0.4	8.1	1.9	-2.2
Nondurable-goods industries	-10.9	5.0	3.3	-0.6	1.7	15.9	-1.7	-3.9	2.3
Wholesale trade	4.0	8.5	20.0	33.2	22.2	4.5	11.5	13.2	-11.0
Durable-goods industries	9.7	11.1	16.4	27.2	14.9	1.4	5.3	10.8	-12.3
Nondurable-goods industries	-5.2	-2.0	4.0	6.6	7.5	3.2	6.0	2.6	0.9
Retail trade	9.4	25.6	29.9	-20.1	14.8	16.2	4.3	-50.0	34.9
Motor vehicle and parts dealers	-0.9	18.7	17.1	-23.1	-7.0	19.6	-1.6	-40.2	16.1
Food and beverage stores	-2.1	0.3	1.6	-0.1	1.0	2.4	1.3	-1.7	1.1
General merchandise stores	3.3	3.0	2.7	0.3	6.9	-0.3	-0.3	-2.4	6.6
Other retail stores	9.2	4.3	8.9	1.6	13.1	-4.9	4.6	-7.3	11.5
Other industries	0.8	2.8	2.3	4.1	3.2	2.0	-0.5	1.8	-0.9
Residual ¹	-0.5	-1.6	-2.4	2.4	0.1	-1.1	-0.8	4.8	-2.3
Addenda: Ratios of private inventories to final sales of domestic business:									
Private inventories to final sales	2.42	2.42	2.43	2.40	2.40	.....	.....	.....	.....
Nonfarm inventories to final sales	2.22	2.22	2.22	2.20	2.20	.....	.....	.....	.....
Nonfarm inventories to final sales of goods and structures	3.55	3.54	3.55	3.50	3.50	.....	.....	.....	.....

1. The residual is the difference between the first line and the sum of the most detailed lines. It reflects the fact that chained-dollar estimates are usually not additive, because the quantity indexes on which they are based embody weights of more than one period.
Note: Real change in private inventories is from NIPA table 5.6.6B, and ratios of private inventories to final sales of domestic business are from NIPA table 5.7.6B.

Chart 6. Real Private Inventory Investment: Change from Preceding Quarter



9. Using the ratio that includes all final sales of domestic businesses in the denominator implies that the production of services results in a demand for inventories that is similar to that generated in the production of goods and structures. In contrast, using the “goods and structures” ratio implies that the production of services does not generate demand for inventories. Both implications are extreme. Production of some services may require substantial inventories, while production of other services may not.

Exports and Imports

Real exports of goods and services decelerated in the fourth quarter, and real imports of goods and services accelerated (table 6).

Real exports of goods and services increased 2.4 percent after increasing 6.0 percent (chart 7). The slowdown was due to exports of goods, which increased

only 1.9 percent after increasing 9.5 percent. The slowdown was driven by downturns in “other” exports of goods and in automotive goods and by a deceleration in nonautomotive capital goods. In contrast, exports of nonautomotive consumer goods turned up.

Exports of services turned up, increasing 3.5 percent after decreasing 1.8 percent. The largest contributors

Table 6. Real Exports and Imports of Goods and Services

[Seasonally adjusted at annual rates]

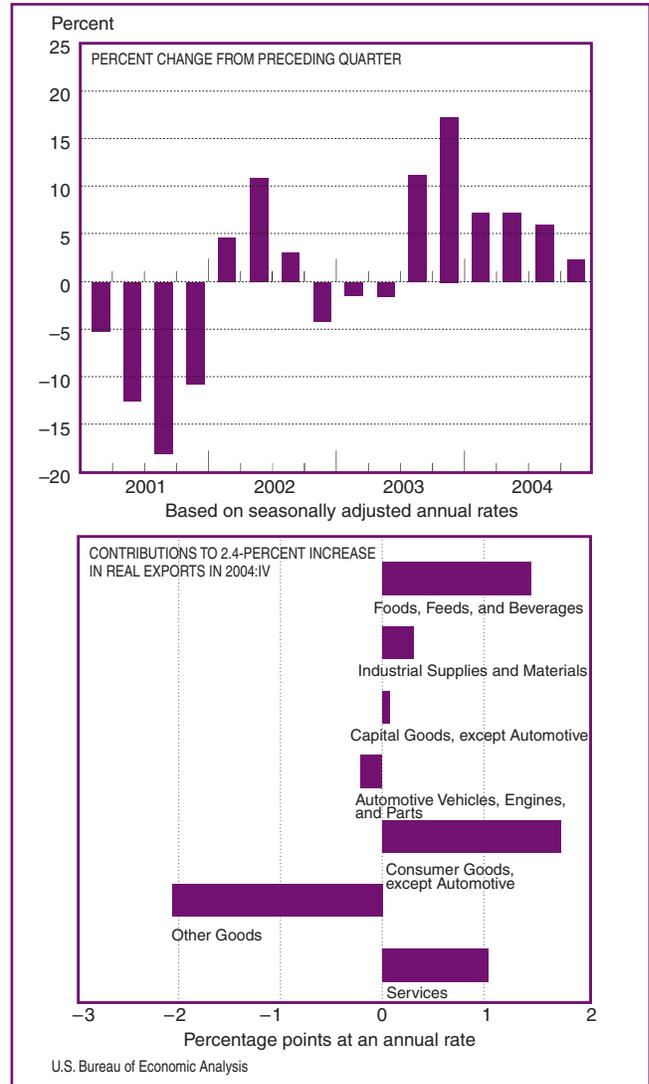
	Change from preceding period (percent)				Contribution to percent change in real exports and imports (percentage points)				Share of current-dollar exports and imports (percent)	
	2004				2004					2004
	I	II	III	IV	I	II	III	IV		IV
Exports of goods and services	7.3	7.3	6.0	2.4	7.3	7.3	6.0	2.4	100.0	
Exports of goods ¹	9.1	6.0	9.5	1.9	6.30	4.19	6.52	1.32	70.0	
Foods, feeds, and beverages	-30.0	-24.3	28.6	36.7	-1.83	-1.35	1.21	1.46	4.7	
Industrial supplies and materials	14.4	6.9	-0.1	1.8	2.23	1.14	-0.02	0.31	17.4	
Capital goods, except automotive	13.1	6.2	6.2	0.3	3.61	1.75	1.73	0.07	27.8	
Automotive vehicles, engines, and parts	5.1	8.2	34.8	-2.8	0.38	0.60	2.31	-0.22	7.6	
Consumer goods, except automotive	18.6	18.2	-0.7	22.1	1.50	1.49	-0.06	1.76	8.9	
Other	11.4	16.1	39.9	-42.1	0.41	0.57	1.35	-2.07	3.5	
Exports of services ¹	3.4	10.2	-1.8	3.5	1.04	3.06	-0.54	1.05	30.0	
Imports of goods and services	10.6	12.6	4.6	11.4	10.6	12.6	4.6	11.4	100.0	
Imports of goods ¹	12.7	13.0	5.0	15.3	10.41	10.82	4.15	12.53	84.3	
Foods, feeds, and beverages	2.3	7.4	-10.1	17.4	0.08	0.27	-0.37	0.57	3.4	
Industrial supplies and materials, except petroleum and products ..	16.9	38.2	23.6	-0.2	1.87	3.97	2.76	0.00	12.9	
Petroleum and products	39.1	-33.1	2.0	57.8	3.13	-3.88	0.19	5.10	11.6	
Capital goods, except automotive	13.4	30.6	14.0	9.6	2.55	5.43	2.59	1.84	19.0	
Automotive vehicles, engines, and parts	6.0	10.1	3.2	-3.3	0.82	1.33	0.42	-0.42	12.2	
Consumer goods, except automotive	9.6	20.5	-9.8	28.6	2.08	4.21	-2.13	5.39	20.7	
Other	-2.2	-10.7	16.5	0.9	-0.11	-0.51	0.70	0.04	4.4	
Imports of services ¹	1.2	10.6	2.8	-7.0	0.21	1.78	0.47	-1.15	15.7	
Addenda:										
Exports of agricultural goods ²	-23.2	-19.1	24.6	26.8	.....	.....	.....	.....	5.1
Exports of nonagricultural goods	12.7	8.5	8.4	0.1	.....	.....	.....	.....	64.9
Imports of nonpetroleum goods	9.8	20.9	5.4	10.1	.....	.....	.....	.....	72.7

1. Exports and imports of certain goods, primarily military equipment purchased and sold by the Federal Government, are included in services.

2. Includes parts of foods, feeds, and beverages, of nondurable industrial supplies and materials, and of nondurable nonautomotive consumer goods.

Note. Percent changes are from NIPA table 4.2.1, and contributions to percent change are from NIPA table 4.2.2. Shares are calculated from NIPA table 4.2.5.

Chart 7. Real Exports

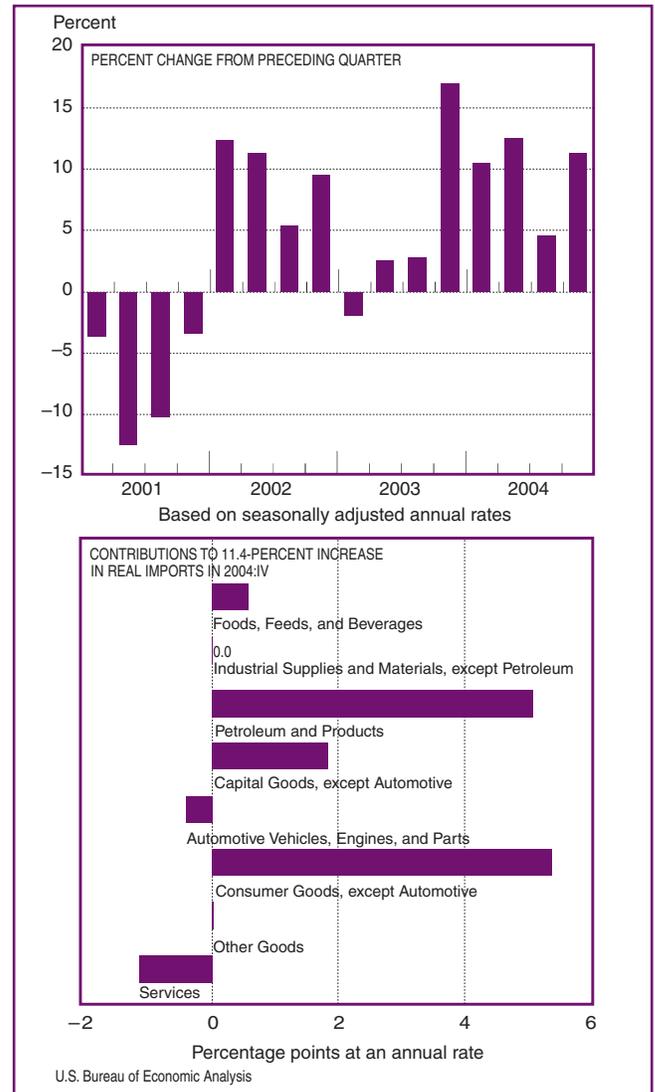


to the upturn were an upturn in “other” private services and an acceleration in travel.

Real imports of goods and services increased 11.4 percent after increasing 4.6 percent (chart 8). The acceleration reflected a pickup in imports of goods, which increased 15.3 percent after increasing 5.0 percent. Imports of nonautomotive consumer goods turned up sharply, and petroleum imports surged. In contrast, imports of industrial supplies and materials turned down.

Imports of services turned down, decreasing 7.0 percent after increasing 2.8 percent. The downturn primarily reflected a downturn in royalties and license fees, which had been boosted in the third quarter by payments to the International Olympic Committee for broadcast rights to the 2004 Summer Olympic Games. In addition, travel decreased more than in the third quarter.

Chart 8. Real Imports



Government Spending

Government spending increased 1.2 percent in the fourth quarter after increasing 0.7 percent in the third quarter (table 7 and chart 9). Upturns in state and local government spending and in Federal nondefense spending were partly offset by a downturn in spending on national defense.

State and local government spending increased 0.8 percent after decreasing 1.7 percent. The upturn was largely attributable to gross investment, which was unchanged in the fourth quarter after decreasing 12.5 percent in the third quarter. Investment in structures decreased 2.3 percent in the fourth quarter after decreasing 15.9 percent; equipment and software increased 10.3 percent after increasing 3.7 percent. Consumption expenditures increased at about the same rate in the fourth quarter as in the third.

Federal nondefense spending increased 6.3 percent after decreasing 5.3 percent; both consumption expenditures and gross investment turned up. In consump-

tion expenditures, nondurable goods and compensation turned up. In gross investment, the upturn was attributable to investment in equipment and software, notably a much smaller decrease in vehicles in the fourth quarter than in the third.

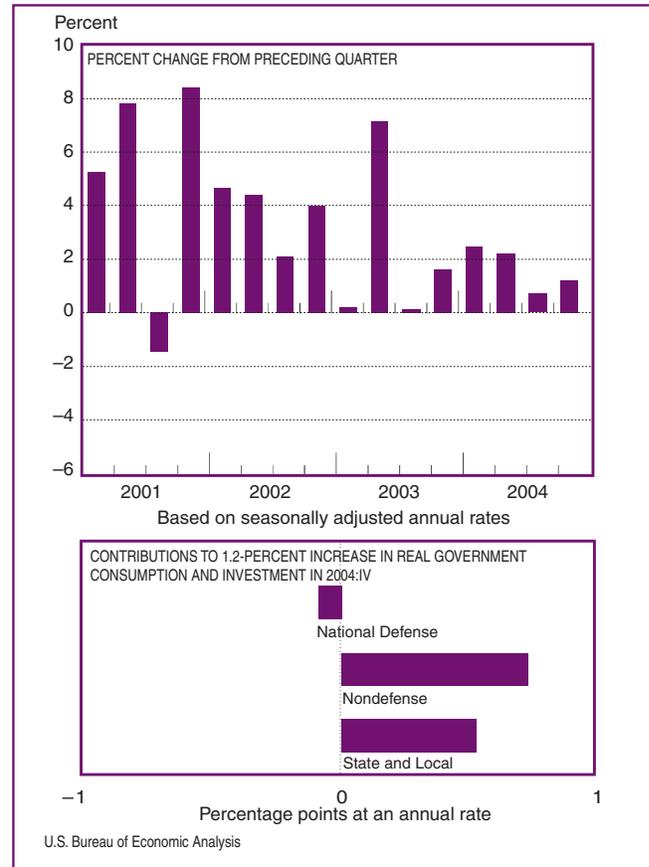
National defense spending decreased 0.3 percent after increasing 10.1 percent. A downturn in consumption expenditures was partly offset by an acceleration in gross investment; the downturn was attributable to a downturn in intermediate services, and the acceleration was in equipment and software, reflecting upturns in aircraft and in "other" equipment.

Table 7. Real Government Consumption Expenditures and Gross Investment
[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real CEGI (percentage points)				Share of current-dollar CEGI (percent)
	2004				2004				2004
	I	II	III	IV	I	II	III	IV	IV
Government consumption expenditures and gross investment (CEGI).....	2.5	2.2	0.7	1.2	2.5	2.2	0.7	1.2	100.0
Consumption expenditures.....	1.9	1.0	2.9	0.0	1.61	0.81	2.39	0.01	82.5
Gross investment.....	5.5	8.3	-9.2	6.9	0.94	1.41	-1.69	1.17	17.5
Federal.....	7.1	2.7	4.8	1.7	2.56	0.99	1.75	0.65	37.1
National defense.....	10.6	1.9	10.1	-0.3	2.53	0.47	2.41	-0.09	25.1
Consumption expenditures...	7.2	4.1	9.6	-4.5	1.53	0.87	2.02	-1.01	21.8
Gross investment.....	37.2	-12.0	13.1	32.5	1.00	-0.40	0.39	0.92	3.4
Nondefense.....	0.2	4.4	-5.3	6.3	0.03	0.52	-0.66	0.73	11.9
Consumption expenditures...	-0.3	-0.7	-2.6	4.9	-0.03	-0.07	-0.27	0.49	10.3
Gross investment.....	3.9	44.0	-21.1	16.2	0.06	0.59	-0.38	0.24	1.6
State and local.....	0.0	1.9	-1.7	0.8	-0.01	1.23	-1.05	0.53	62.9
Consumption expenditures.....	0.2	0.0	1.3	1.0	0.12	0.01	0.64	0.53	50.4
Gross investment.....	-1.0	10.0	-12.5	0.0	-0.12	1.22	-1.69	0.00	12.5

NOTE. Percent changes are from NIPA table 3.9.1, and contributions to percent change are from NIPA table 3.9.2. Shares are calculated from NIPA table 3.9.5.

Chart 9. Real Government Consumption and Investment



Prices

Inflation as measured by the price index for gross domestic purchases was 2.8 percent in the fourth quarter; in the third quarter, inflation was 1.9 percent (table 8). The acceleration primarily reflected a sharp acceleration in energy prices. Food prices accelerated only slightly. Excluding energy and food prices, the price index increased 1.9 percent after increasing 1.7 percent (chart 10).

Prices of goods and services purchased by consumers increased 2.5 percent after increasing 1.3 percent.

The price of gasoline and oil turned up sharply, and the price of fuel oil and coal accelerated. In contrast, the price of electricity turned down and the price of natural gas decelerated somewhat. Food prices increased at the same rate in the fourth quarter as in the third quarter. Excluding energy and food, prices paid by consumers increased 1.6 percent after increasing 0.9 percent.

Prices of private nonresidential fixed investment increased 1.8 percent after increasing 0.9 percent. Prices of equipment and software decreased less in the fourth quarter than in the third, and prices of structures accelerated.

Prices paid by government increased 4.2 percent after increasing 3.6 percent, reflecting accelerations at both the Federal level and the state and local level.

The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 2.1 percent, 0.7 percentage point less than the price index for gross domestic purchases. The smaller increase in the GDP price index reflected a smaller increase in export prices (which are included in the GDP price index) than in import prices (which are included in the price index for gross domestic purchases).

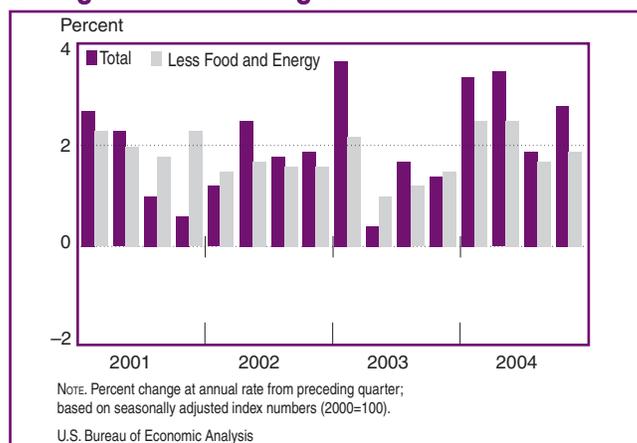
Table 8. Prices for Gross Domestic Purchases

[Percent change at annual rates; based on seasonally adjusted index numbers (2000=100)]

	Change from preceding period (percent)				Contribution to percent change in gross domestic purchases prices (percentage points)			
	2004				2004			
	I	II	III	IV	I	II	III	IV
Gross domestic purchases ...	3.4	3.5	1.9	2.8	3.4	3.5	1.9	2.8
Personal consumption expenditures (PCE)	3.3	3.1	1.3	2.5	2.19	2.08	0.84	1.70
Durable goods	0.0	-0.1	-3.1	0.1	0.00	-0.01	-0.25	0.01
Nondurable goods	5.3	6.6	0.9	4.7	1.00	1.25	0.18	0.90
Services	3.0	2.1	2.3	2.0	1.20	0.84	0.92	0.79
Gross private domestic investment	2.1	4.4	2.9	2.0	0.32	0.68	0.46	0.31
Fixed investment	2.0	4.3	3.0	1.9	0.30	0.64	0.45	0.30
Nonresidential	0.3	1.7	0.9	1.8	0.03	0.17	0.09	0.18
Structures	4.8	7.6	9.8	10.8	0.10	0.17	0.21	0.24
Equipment and software ..	-1.1	0.1	-1.6	-0.7	-0.08	0.01	-0.12	-0.06
Residential	5.4	9.1	6.8	2.3	0.28	0.47	0.36	0.12
Change in private inventories ..					0.02	0.04	0.01	0.02
Government consumption expenditures and gross investment	5.1	4.3	3.6	4.2	0.89	0.77	0.62	0.74
Federal	6.6	3.0	1.7	2.3	0.42	0.20	0.11	0.15
National defense	5.7	3.5	1.9	2.4	0.25	0.15	0.08	0.11
Nondefense	8.3	1.9	1.3	2.1	0.18	0.04	0.03	0.04
State and local	4.2	5.2	4.7	5.4	0.47	0.57	0.51	0.59
Addenda:								
Gross domestic purchases:								
Food	2.8	4.2	2.1	2.5	0.27	0.40	0.20	0.24
Energy goods and services	27.0	24.9	6.4	22.1	0.98	0.94	0.26	0.88
Excluding food and energy	2.5	2.5	1.7	1.9	2.16	2.19	1.47	1.63
Personal consumption expenditures:								
Food	2.6	3.9	2.6	2.6				
Energy goods and services	26.7	26.5	4.0	18.2				
Excluding food and energy	2.1	1.7	0.9	1.6				
"Market-based" PCE	3.2	3.7	1.4	2.7				
Excluding food and energy	1.8	2.1	1.0	1.6				
Gross domestic product	2.8	3.2	1.4	2.1				

NOTE: Most percent changes are from NIPA table 1.6.7; percent changes for personal consumption expenditures on food and on energy goods and services and for personal consumption expenditures excluding food and energy are calculated from index numbers in NIPA table 2.3.4. Contributions to percent change are from NIPA table 1.6.8.

Chart 10. Gross Domestic Purchases Prices: Change From Preceding Quarter



Revisions

The preliminary estimate of a 3.8-percent increase in real GDP in the fourth quarter is 0.7 percentage point more than the advance estimate released in January (table 9). In the past 20 years, the average revision, without regard to sign, from the advance estimate to the preliminary estimate has been 0.5 percentage point.

The upward revision to fourth-quarter real GDP reflected upward revisions to exports, to investment in equipment and software, and to inventory investment that were partly offset by a downward revision to consumer spending and by an upward revision to imports, which are subtracted in the calculation of GDP.

In the preliminary estimate, exports added 0.24 percentage point to GDP growth; in contrast, exports subtracted 0.40 percentage point from the advance estimate of GDP growth. The revisions to exports mainly reflected the incorporation of newly available Census Bureau data on trade in goods for December and revised data for November.¹⁰

Nonresidential fixed investment added 0.35 percentage point more to the GDP growth rate than in the advance estimate. The revision reflected the incorporation of newly available and revised Census Bureau data on the value of new construction put-in-place, newly available and revised trade source data on truck registrations, and newly available Census Bureau data on aircraft shipments.

Inventory investment added 0.18 percentage point more to the GDP growth rate than in the advance estimate. The revision primarily reflected the incorporation of newly available data on inventories for December and revised data for November.

Consumer spending contributed 0.33 percentage point less to GDP growth in the preliminary estimate than in the advance estimate. The downward revision was mostly to motor vehicles, primarily reflecting the incorporation of the newly available and revised data on truck registrations.

Imports subtracted 0.33 percentage point more from GDP growth than in the advance estimate. The revision to imports mainly reflected the incorporation of newly available Census Bureau data on trade in goods for December and revised data for November.

In addition to these revised estimates for the fourth quarter, estimates of wages and salaries and of related series for the third quarter have been revised. These revisions reflect the incorporation of newly available tab-

ulations of wages and salaries of employees covered by state unemployment insurance from the Bureau of Labor Statistics. Wage and salary accruals are now estimated to have increased \$91.6 billion in the third quarter, an upward revision of \$28.0 billion, and real disposable personal income (DPI) is now estimated to have increased 2.9 percent in the third quarter, an upward revision of 0.9 percentage point. Real DPI in the fourth quarter is now estimated to have increased 8.1 percent, a downward revision of 0.3 percentage point.

Table 9. Preliminary and Advance Estimates for the Fourth Quarter of 2004

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter			Contribution to percent change in real GDP		
	Preliminary estimate	Advance estimate	Preliminary minus advance	Preliminary estimate	Advance estimate	Preliminary minus advance
Gross domestic product (GDP)	3.8	3.1	0.7	3.8	3.1	0.7
Personal consumption expenditures	4.2	4.6	-0.4	2.89	3.22	-0.33
Durable goods	3.1	6.7	-3.6	0.27	0.56	-0.29
Nondurable goods	6.1	5.8	0.3	1.21	1.16	0.05
Services	3.4	3.7	-0.3	1.41	1.50	-0.09
Gross private domestic investment	13.4	9.2	4.2	2.13	1.48	0.65
Fixed investment	9.7	6.7	3.0	1.52	1.06	0.46
Nonresidential	14.0	10.3	3.7	1.40	1.05	0.35
Structures	1.2	-4.1	5.3	0.03	-0.10	0.13
Equipment and software	18.0	14.9	3.1	1.37	1.15	0.22
Residential	2.1	0.3	1.8	0.12	0.01	0.11
Change in private inventories				0.60	0.42	0.18
Net exports of goods and services				-1.43	-1.73	0.30
Exports	2.4	-3.9	6.3	0.24	-0.40	0.64
Goods	1.9	-6.9	8.8	0.13	-0.50	0.63
Services	3.5	3.4	0.1	0.11	0.10	0.01
Imports	11.4	9.1	2.3	-1.67	-1.34	-0.33
Goods	15.3	12.2	3.1	-1.85	-1.49	-0.36
Services	-7.0	-6.0	-1.0	0.18	0.15	0.03
Government consumption expenditures and gross investment	1.2	0.9	0.3	0.22	0.18	0.04
Federal	1.7	1.6	0.1	0.12	0.11	0.01
National defense	-0.3	0.0	-0.3	-0.02	0.00	-0.02
Nondefense	6.3	5.1	1.2	0.14	0.11	0.03
State and local	0.8	0.6	0.2	0.10	0.07	0.03
Addenda:						
Final sales of domestic product	3.2	2.7	0.5	3.20	2.73	0.47
Gross domestic purchases price index	2.8	2.7	0.1			
GDP price index	2.1	2.0	0.1			

NOTE: The preliminary estimates for the fourth quarter of 2004 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

Personal consumption expenditures: Retail sales for November and December (revised). Truck registration data for October and November (revised) and December (newly available).

Nonresidential fixed investment: Construction put-in-place data for October and November (revised) and for December (newly available), manufacturers' shipments of machinery and equipment for November and December (revised) and of complete civilian aircraft for December (newly available). Truck registration data for October and November (revised) and December (newly available).

Residential fixed investment: Construction put-in-place data for October and November (revised) and for December (newly available).

Change in private inventories: Manufacturers' and trade inventories for November (revised) and for December (newly available).

Exports and imports of goods and services: International transactions accounts data for November (revised) and for December (newly available).

Government consumption expenditures and gross investment: State and local government construction put-in-place data for October and November (revised) and for December (newly available).

Wages and salaries: Employment, average hourly earnings, and average weekly hours for October through December (revised), and tabulations of wages and salaries for the third quarter of employees covered by state unemployment insurance.

GDP prices: Export and import prices for October through December (revised), unit-value index for petroleum imports for November (revised) and December (newly available), seasonally adjusted consumer price indexes for October through December (revised), and prices of single-family houses under construction for the quarter (newly available).

10. The revisions to exports reflect the incorporation of a corrected estimate of Canadian imports from the United States for November that Statistics Canada provided after the "advance" NIPA estimates were released. For more information on U.S. exports to Canada, go to BEA's Web site at <www.bea.gov/bea/di/canada.htm>.