JOINT ECONOMIC COMMITTEE
ROBERT F. BENNETT, CHAIRMAN JULY 30, 2004

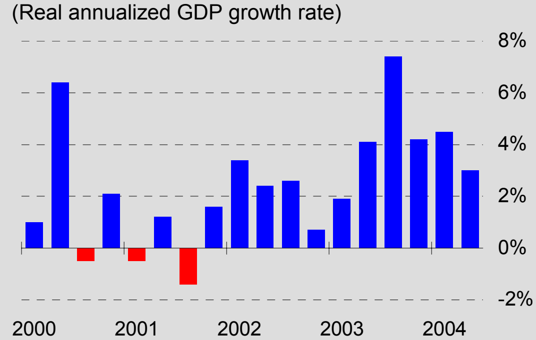
3.0% Economic Growth in the 2nd Quarter

The Bureau of Economic Analysis (BEA) reported today that real gross domestic product (GDP) grew at an estimated 3.0% annual rate in the 2nd quarter of 2004, the 11th straight quarter of growth. The moderation of growth from an upwardly revised 4.5% growth in the 1st quarter was due largely to a pause in consumer spending. The BEA also released annual revisions to past data to incorporate more complete data than previously available. After adjusting for inflation, GDP has increased at a robust 4.8% pace over the past year. The annual revisions suggest that growth over the past year has been steadier than initially estimated.

Highlights

- **2nd Quarter Growth Moderated to 3.0%.** The 2nd quarter marks the 11th straight quarter of growth.
- **Consumer Spending Slowed.** Consumer spending grew 1.0% in the 2nd quarter following the rapid 4.1% pace of advance in the 1st quarter.
- **Business Investment Has Grown for Five Straight Quarters,** increasing at a robust 8.9% rate in the 2nd quarter. Business spending to restock inventories added to the growth of GDP, but by less than in the 1st quarter.
- **Price Indexes Showed Reduced Inflation Pressures.** Inflation eased, even outside of increases in energy and food prices.

Strong and Steady Growth Continues into 2004
(Real annualized GDP growth rate)



Sources: Bureau of Economic Analysis

What was responsible for growth in GDP in the 2nd quarter?

Consumer spending growth moderated from 4.1% in the 1st quarter to 1.0% in the 2nd quarter. Swings in motor vehicle sales have amplified recent movements in consumer spending measures.

Business investment increased 8.9% in the 2nd quarter, contributing to growth in the overall gross domestic product. Business investment has now grown for five consecutive quarters. *Inventory investment* slowed in the 2nd quarter.

The *housing market* continued to boost the economy, as homebuyers acted ahead of expected future rises in mortgage interest rates. *Residential investment*—spending on construction of new homes and apartments—showed robust annualized growth of 15.4%.

Exports and *imports* both continued to grow in the 2nd quarter, but export growth sharply outstripped import growth. Exports add to GDP growth while imports represent a subtraction. Given the strength of 2nd quarter export growth, trade added to GDP on net.

Inflation in the core price index for *personal consumption expenditures* (PCE), the Federal Reserve's preferred measure of consumer inflation which excludes the often volatile food and energy prices, was an annual 1.8% in the 2nd quarter, down from 2.1% in the previous quarter.