

Business Situation

Advance Estimates for the Fourth Quarter of 2004 and for 2004

IN 2004, real gross domestic product (GDP) increased 4.4 percent, the largest increase since the 4.5-percent increase in 1999; GDP increased 3.0 percent in 2003 (table 1).¹ Inflation, though higher than in 2003, remained moderate. (See “Real GDP for 2004.”)

In the fourth quarter of 2004, real GDP increased 3.1 percent—0.9 percentage point less than in the third quarter, and inflation accelerated (chart 1).²

The Fourth Quarter of 2004

The advance estimates for the fourth quarter show the following:

- Real GDP increased 3.1 percent after increasing 4.0 percent in the third quarter and 3.3 percent in

the second quarter. The fourth-quarter deceleration in real GDP growth mainly reflected an increase in the trade deficit and a deceleration in consumer spending for durable goods.³ These developments were partly offset by an upturn in inventory investment.

- Prices of goods and services purchased by U.S. residents increased 2.7 percent in the fourth quarter after increasing 1.9 percent in the third quarter and 3.5 percent in the second quarter. The acceleration in the fourth quarter (and the deceleration in the third quarter) mainly reflected the pattern of energy prices.
- Real disposable personal income increased 8.4 percent in the fourth quarter after increasing 2.0 percent in the third quarter; the fourth-quarter increase largely reflected a special dividend payment

1. “Real” estimates are in chained (2000) dollars, and price indexes are chain-type measures.

2. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter dollar changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized.

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

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)
	2003	2004	2004				2003	2004	2004				2004
			I	II	III	IV			I	II	III	IV	
Gross domestic product (GDP)	3.0	4.4	4.5	3.3	4.0	3.1	3.0	4.4	4.5	3.3	4.0	3.1	100.0
Personal consumption expenditures	3.3	3.8	4.1	1.6	5.1	4.6	2.29	2.67	2.90	1.10	3.57	3.22	70.4
Durable goods.....	7.4	6.9	2.2	-0.3	17.2	6.7	0.63	0.58	0.19	-0.02	1.37	0.56	8.6
Nondurable goods.....	3.7	4.5	6.7	0.1	4.7	5.8	0.73	0.91	1.33	0.03	0.94	1.16	20.5
Services.....	2.2	2.8	3.3	2.7	3.0	3.7	0.93	1.18	1.39	1.10	1.26	1.50	41.4
Gross private domestic investment	4.4	12.9	12.3	19.0	2.4	9.2	0.66	1.96	1.86	2.85	0.40	1.48	16.7
Fixed investment.....	5.1	10.0	4.5	13.9	8.8	6.7	0.76	1.52	0.69	2.07	1.37	1.06	16.4
Nonresidential.....	3.3	10.3	4.2	12.5	13.0	10.3	0.33	1.02	0.42	1.21	1.27	1.05	10.7
Structures.....	-5.6	1.0	-7.6	6.9	-1.1	-4.1	-0.15	0.02	-0.19	0.16	-0.03	-0.10	2.4
Equipment and software.....	6.4	13.4	8.0	14.2	17.5	14.9	0.48	1.00	0.61	1.05	1.30	1.15	8.3
Residential.....	8.8	9.5	5.0	16.5	1.6	0.3	0.43	0.50	0.27	0.86	0.09	0.01	5.7
Change in private inventories.....							-0.10	0.44	1.17	0.78	-0.97	0.42	0.4
Net exports of goods and services							-0.43	-0.61	-0.76	-1.06	-0.10	-1.73	-5.7
Exports.....	1.9	8.1	7.3	7.3	6.0	-3.9	0.18	0.77	0.70	0.70	0.59	-0.40	9.9
Goods.....	2.2	8.2	9.1	6.0	9.5	-6.9	0.14	0.54	0.60	0.41	0.64	-0.50	6.9
Services.....	1.4	7.8	3.4	10.2	-1.8	3.4	0.04	0.23	0.10	0.30	-0.06	0.10	3.0
Imports.....	4.4	9.8	10.6	12.6	4.6	9.1	-0.61	-1.38	-1.46	-1.77	-0.69	-1.34	15.7
Goods.....	4.7	10.6	12.7	13.0	5.0	12.2	-0.54	-1.25	-1.43	-1.52	-0.62	-1.49	13.2
Services.....	3.1	5.7	1.2	10.6	2.8	-6.0	-0.07	-0.14	-0.03	-0.25	-0.07	0.15	2.5
Government consumption expenditures and gross investment	2.8	2.0	2.5	2.2	0.7	0.9	0.52	0.37	0.48	0.41	0.13	0.18	18.6
Federal.....	6.6	4.7	7.1	2.7	4.8	1.6	0.43	0.32	0.48	0.18	0.33	0.11	6.9
National defense.....	9.0	7.4	10.6	1.9	10.1	0.0	0.38	-0.33	0.47	0.09	0.45	0.00	4.7
Nondefense.....	2.4	-0.5	0.2	4.4	-5.3	5.1	0.06	-0.01	0.00	0.10	-0.12	0.11	2.2
State and local.....	0.7	0.4	0.0	1.9	-1.7	0.6	0.09	0.05	0.00	0.23	-0.20	0.07	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.

by the Microsoft Corporation (see “Personal Income”).

Among the contributors to the deceleration in real GDP growth, the trade deficit subtracted 1.73 percentage points in the fourth quarter after subtracting 0.10 percentage point in the third. Exports turned down in the fourth quarter, decreasing 3.9 percent after increasing 6.0 percent. The downturn was due to exports of goods, which decreased 6.9 percent after increasing 9.5 percent; exports of services turned up. The downturn was attributable to all the major categories of goods exports except nonautomotive consumer goods, which turned up.

Imports, which are subtracted in the calculation of

GDP, accelerated and subtracted 1.34 percentage points from GDP growth after subtracting 0.69 percentage point. Imports of goods accelerated, and imports of services turned down. Imports of both durable and nondurable nonautomotive consumer goods turned up, and imports of petroleum products surged, increasing 56.4 percent; these changes were partly offset by a downturn in industrial supplies and materials. The downturn in imports of services 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.

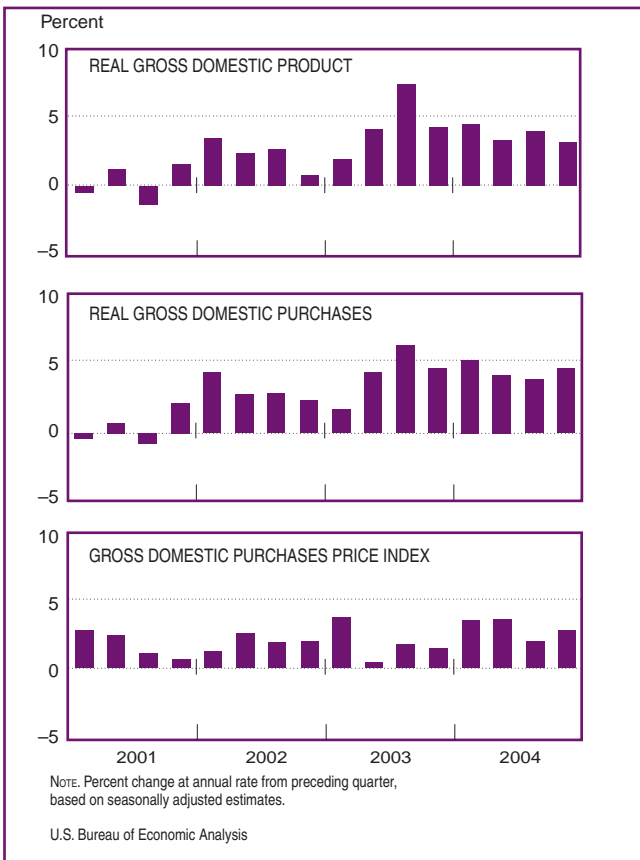
Consumer spending increased 4.6 percent in the fourth quarter—0.5 percentage point less than in the third quarter—and contributed 3.22 percentage points to GDP growth after contributing 3.57 percentage points in the third quarter. The deceleration was due to a slowdown in spending for durable goods, which increased 6.7 percent after increasing 17.2 percent; the slowdown mainly reflected a slowdown in purchases of motor vehicles.

Inventory investment added 0.42 percentage point to GDP growth after subtracting 0.97 percentage point. Real inventory stocks increased more in the fourth quarter (\$45.8 billion) than in the third quarter (\$34.5 billion), mainly reflecting a smaller decrease in retail motor vehicle dealer inventories.

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

- Nonresidential fixed investment increased 10.3 percent after increasing 13.0 percent and contributed 1.05 percentage points to GDP growth after contributing 1.27 percentage points. The deceleration reflected a slowdown in equipment and software and a larger decrease in structures in the fourth quarter than in the third quarter.
- Residential investment increased 0.3 percent after increasing 1.6 percent and contributed 0.01 percentage point to GDP growth after contributing 0.09 percentage point. The slight deceleration was primarily accounted for by structures.
- Government spending increased 0.9 percent after increasing 0.7 percent and contributed 0.18 per-

Chart 1. Selected Measures: Change From Preceding Quarter



centage point to GDP growth after contributing 0.13 percentage point. Upturns in Federal nondefense spending and in state and local government spending were largely offset by a slowdown in spending on national defense.

- Real final sales of domestic product—GDP less the change in private inventories—increased 2.7 percent after increasing 5.0 percent.
- Real gross domestic purchases—real GDP less net exports of goods and services—increased 4.7

Fourth-Quarter 2004 Advance NIPA Estimates: Source Data and Assumptions

The “advance” estimates for the fourth quarter are based on the following major source data; as more and better data become available, the estimates will be revised.¹ (The number of months for which data were available is shown in parentheses.)

Personal consumption expenditures: Sales of retail stores (3), unit auto and truck sales (3), and consumers’ shares of auto and truck sales (2);

Nonresidential fixed investment: Unit auto and truck sales (3), construction put in place (2), manufacturers’ shipments of machinery and equipment other than air-

craft (3), shipments of civilian aircraft (2), and exports and imports of machinery and equipment (2);

Residential investment: Construction put in place (2), single-family housing starts (3), sales of new homes (2), and sales of existing houses (3);

Change in private inventories: Trade and nondurable manufacturing inventories (2), durable manufacturing inventories (3), and unit auto and truck inventories (3);

Net exports of goods and services: Exports and imports of goods and services (2);

Government consumption expenditures and gross investment: Federal outlays (3), state and local construction put in place (2), and state and local employment (3);

GDP prices: Consumer price indexes (3), producer price indexes (3), U.S. import and export price indexes (3), and values and quantities of petroleum imports (2).

BEA made assumptions for source data that were not available. Table A shows the assumptions for key series; a more comprehensive list is available on BEA’s Web site at <www.bea.gov/bea/dn/home/gdp.htm>.

1. After the “advance” NIPA estimates were released, Statistics Canada announced that Canadian imports from the United States for November were underestimated and provided a corrected estimate. That data revision, as well as other newly available and revised source data, will be incorporated into the “preliminary” NIPA estimates that BEA will release on February 25, 2005. The overall revision to U.S. exports and to GDP between the advance and preliminary estimates cannot be determined at this time. For more information on U.S. exports to Canada, go to <www.bea.gov/bea/di/canada.htm> on BEA’s Web site.

Table A. Summary of Major Source Data and Assumptions for Advance Estimates, 2004:IV

[Billions of dollars, seasonally adjusted at annual rates]

	2004					
	July	August	September	October	November	December ¹
Private fixed investment:						
Nonresidential structures:						
Value of new total private construction put in place less residential (including improvements)	223.8	224.3	224.9	225.0	222.3	223.6
Equipment and software:						
Manufacturers’ shipments of complete aircraft	22.2	28.9	27.4	29.9	20.6	23.3
Residential structures:						
Value of new residential construction put in place:						
Single family	371.9	380.3	378.9	378.9	376.1	380.0
Multifamily	39.8	39.2	39.1	38.8	38.9	39.3
Change in private inventories:						
Change in inventories for nondurable manufacturing	16.6	12.1	-5.9	23.1	14.8	12.0
Change in inventories for merchant wholesale and retail industries other than motor vehicles and equipment	49.6	50.9	30.4	67.0	74.6	37.2
Net exports: ²						
Exports of goods:						
U.S. exports of goods, international-transactions-accounts basis	809.5	816.1	829.7	830.2	798.6	813.1
Excluding gold	804.9	812.2	823.4	825.0	794.0	809.0
Imports of goods:						
U.S. imports of goods, international-transactions-accounts basis	1,466.7	1,499.9	1,489.5	1,551.5	1,568.1	1,558.6
Excluding gold	1,462.3	1,496.5	1,485.2	1,546.6	1,564.0	1,554.5
Net exports of goods	-657.1	-683.8	-659.8	-721.4	-769.5	-745.5
Excluding gold	-657.5	-684.3	-661.8	-721.6	-770.0	-745.5
State and local government structures:						
Value of new construction put in place	220.3	213.1	214.1	218.2	218.7	218.5

1. Assumption.

2. Nonmonetary gold is included in balance-of-payments exports and imports but is not used directly in the estimation of national income and product account exports and imports.

- percent after increasing 3.9 percent.
- The production of goods slowed. The production of services picked up somewhat, and the production of structures decreased somewhat less than in the third quarter (table 2).
- Motor vehicle output picked up in the fourth quarter, contributing 0.87 percentage point to real GDP growth after contributing 0.34 percentage point.
- Final sales of computers picked up sharply, contributing 0.48 percentage point to real GDP growth after contributing 0.18 percentage point.

- The personal saving rate increased from 0.5 percent to 1.3 percent.⁴

Prices

Inflation as measured by the price index for gross domestic purchases stepped up to 2.7 percent in the

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)	
	2003	2004	2004				2003	2004	2004					2004
			I	II	III	IV			I	II	III	IV		
Gross domestic product (GDP)	3.0	4.4	4.5	3.3	4.0	3.1	3.0	4.4	4.5	3.3	4.0	3.1	100.0	
Final sales of domestic product.....	3.1	4.0	3.3	2.5	5.0	2.7	3.14	3.95	3.32	2.52	4.97	2.73	99.6	
Change in private inventories.....							-0.10	0.44	1.17	0.78	-0.97	0.42	0.4	
Goods.....	4.3	7.3	8.2	2.5	8.3	4.7	1.41	2.35	2.65	0.82	2.67	1.54	32.7	
Services.....	2.3	2.7	3.0	2.3	2.8	3.2	1.35	1.55	1.76	1.30	1.59	1.81	57.3	
Structures.....	3.0	5.1	0.7	12.7	-2.5	-2.1	0.29	0.49	0.07	1.19	-0.25	-0.21	10.0	
Addenda:														
Motor vehicle output.....	4.2	5.6	8.8	-15.2	10.4	28.0	0.19	0.20	0.30	-0.58	0.34	0.87	3.6	
GDP excluding motor vehicle output.....	3.0	4.3	4.3	4.0	3.8	2.3	2.85	4.19	4.18	3.88	3.66	2.28	96.4	
Final sales of computers.....	41.0	22.1	0.1	0.1	20.7	61.7	0.31	0.20	0.00	0.00	0.18	0.48	1.0	
GDP excluding final sales of computers.....	2.8	4.2	4.5	3.3	3.9	2.7	2.73	4.19	4.48	3.30	3.82	2.66	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.

Table 3. 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)					
	2003	2004	2004				2003	2004	2004			
			I	II	III	IV			I	II	III	IV
Gross domestic purchases	2.0	2.4	3.4	3.5	1.9	2.7	2.0	2.4	3.4	3.5	1.9	2.7
Personal consumption expenditures (PCE)	1.9	2.2	3.3	3.1	1.3	2.5	1.28	1.47	2.19	2.08	0.84	1.64
Durable goods.....	-3.4	-2.0	0.0	-0.1	-3.1	0.2	-0.29	-0.17	0.00	-0.01	-0.25	0.01
Nondurable goods.....	2.0	3.3	5.3	6.6	0.9	4.4	0.38	0.64	1.00	1.25	0.18	0.85
Services.....	3.0	2.5	3.0	2.1	2.3	2.0	1.19	1.00	1.20	0.84	0.92	0.77
Gross private domestic investment	1.1	2.5	2.1	4.4	2.9	2.1	0.16	0.38	0.32	0.68	0.46	0.34
Fixed investment.....	1.2	2.5	2.0	4.3	3.0	2.1	0.17	0.37	0.30	0.64	0.45	0.32
Nonresidential.....	-0.4	0.8	0.3	1.7	0.9	1.7	-0.04	0.08	0.03	0.17	0.09	0.18
Structures.....	2.1	4.9	4.8	7.6	9.8	10.3	0.05	0.11	0.10	0.17	0.21	0.22
Equipment and software.....	-1.2	-0.4	-1.1	0.1	-1.6	-0.6	-0.09	-0.03	-0.08	0.01	-0.12	-0.05
Residential.....	4.4	5.6	5.4	9.1	6.8	2.7	0.21	0.29	0.28	0.47	0.36	0.15
Change in private inventories.....							-0.02	0.01	0.02	0.04	0.01	0.02
Government consumption expenditures and gross investment	3.2	3.2	5.1	4.3	3.6	4.0	0.58	0.57	0.89	0.77	0.62	0.71
Federal.....	3.6	2.9	6.6	3.0	1.7	2.0	0.23	0.19	0.42	0.20	0.11	0.13
National defense.....	4.2	2.8	5.7	3.5	1.9	2.1	0.17	0.12	0.25	0.15	0.08	0.09
Nondefense.....	2.6	2.9	8.3	1.9	1.3	1.9	0.06	0.06	0.18	0.04	0.03	0.04
State and local.....	3.0	3.4	4.2	5.2	4.7	5.2	0.35	0.38	0.47	0.57	0.51	0.57
Addenda:												
Gross domestic purchases:												
Food.....	1.9	3.2	2.8	4.2	2.1	2.5	0.18	0.30	0.27	0.40	0.20	0.24
Energy goods and services.....	13.1	11.6	27.0	24.9	6.4	19.8	0.47	0.46	0.98	0.94	0.26	0.79
Excluding food and energy.....	1.6	1.9	2.5	2.5	1.7	1.9	1.36	1.66	2.16	2.19	1.47	1.65
Personal consumption expenditures:												
Food.....	1.9	3.1	2.6	3.9	2.6	2.6						
Energy goods and services.....	12.5	11.4	26.7	26.5	4.0	16.0						
Excluding food and energy.....	1.3	1.5	2.1	1.7	0.9	1.6						
"Market-based" PCE.....	1.9	2.3	3.2	3.7	1.4	2.6						
Excluding food and energy.....	1.2	1.5	1.8	2.1	1.0	1.7						
Gross domestic product.....	1.8	2.1	2.8	3.2	1.4	2.0						

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.

fourth quarter from 1.9 percent in the third quarter (table 3). The step-up primarily reflected an acceleration in energy prices; excluding prices for food and energy, the price index increased 1.9 percent after increasing 1.7 percent (chart 2).

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 prices of electricity and gas decelerated. Food prices increased at the same rate as in the third quarter. In the fourth quarter, the price index for consumer purchases excluding food and energy, which is sometimes viewed as an indicator of the underlying or core rate of inflation, increased 1.6 percent after increasing 0.9 percent.

Prices of private nonresidential fixed investment increased 1.7 percent after increasing 0.9 percent. Prices of equipment and software decreased less than in the third quarter, mainly reflecting an upturn in the prices of transportation equipment, specifically trucks; prices of structures accelerated slightly.

Prices paid by government increased 4.0 percent after increasing 3.6 percent. The step-up was evident at both the Federal level and at the state and local government level.

The GDP price index, which measures the prices paid for goods and services produced in the United

States, increased 2.0 percent, 0.7 percentage point less than the price index for gross domestic purchases, which measures the prices paid for goods and services by U.S. residents regardless of where those goods and services were produced. 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).

Personal Income

Real disposable personal income (DPI) surged in the fourth quarter, increasing 8.4 percent, after increasing 2.0 percent in the third (chart 3). This surge primarily reflected a sharp acceleration in current-dollar DPI

Chart 2. Gross Domestic Purchases Prices: Change From Preceding Quarter

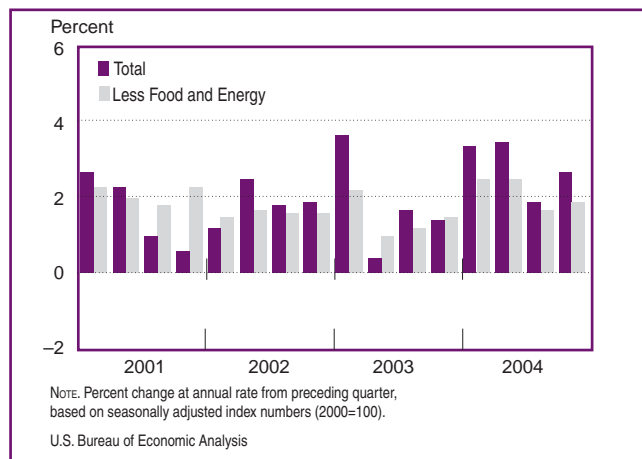
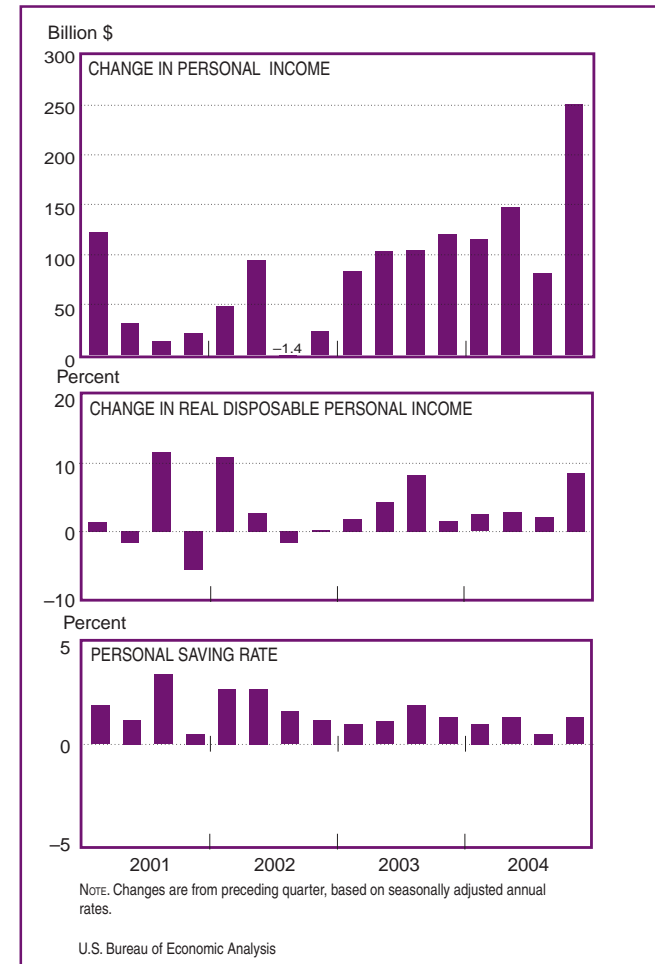


Chart 3. Selected Personal Income and Saving Measures



(table 4).⁵ The implicit price deflator for personal consumption expenditures (which is used to deflate DPI) accelerated.

Personal income, which is only measured in current dollars, increased \$250.3 billion (or 10.8 percent) after increasing \$81.6 billion (or 3.4 percent). The acceleration reflected accelerations in personal dividend income and in proprietors' income and an upturn in rental income. Current transfer receipts increased at about the same rate as in the third quarter.

In the fourth quarter, the acceleration in dividend income reflected a special dividend payment by the Microsoft Corporation, which boosted fourth-quarter

personal dividend income by \$99.4 billion (annual rate).⁶

The fourth-quarter changes in proprietors' income, rental income, and current transfer receipts largely reflected the effects of the four hurricanes that struck

6. On December 2, 2004, Microsoft paid a special dividend of \$3.00 per share to shareholders of record as of November 17, 2004. The total dividend payout was about \$32 billion. BEA estimates that about three-fourths of the total dividend payout (or \$24.9 billion) was paid to persons; this amount has been converted to an annual rate (\$99.4 billion) and recorded as personal dividend income for the fourth quarter in December.

Quarterly NIPA estimates are presented at annual rates, which show the value that would be registered if the rate of activity that is measured for a quarter were maintained for a full year. These annual rates are determined simply by multiplying the estimated rate of activity by 4.

For more information on the treatment of dividends in the national accounts, see "The Microsoft Special Dividend" at <www.bea.gov/bea/faq/national/FAQ.htm> on BEA's Web site.

5. Current-dollar DPI is defined as personal income less personal current taxes.

Table 4. Personal Income and Its Disposition

[Billions of dollars; quarterly estimates are seasonally adjusted at annual rates]

	Level		Change from preceding period					
	2004	2004	2003	2004	2004			
		IV			I	II	III	IV
Compensation of employees, received.....	6,616.6	6,741.1	219.5	327.6	81.2	92.1	77.4	83.7
Wage and salary disbursements.....	5,342.6	5,443.2	127.3	239.0	50.3	73.6	62.2	68.2
Private industries.....	4,416.7	4,508.9	91.9	211.1	37.9	67.5	57.5	62.1
Goods-producing industries.....	1,039.5	1,057.6	-2.5	31.8	-6.6	15.9	11.4	11.3
Manufacturing.....	682.5	691.8	-6.4	13.7	-10.2	10.6	7.4	3.9
Services-producing industries.....	3,377.3	3,451.3	94.5	179.3	44.6	51.5	46.1	50.8
Trade, transportation, and utilities.....	891.4	908.3	15.0	32.8	0.4	13.8	12.7	9.4
Other services-producing industries.....	2,485.8	2,543.0	79.5	146.4	44.1	37.8	33.3	41.4
Government.....	925.8	934.3	35.3	27.9	12.3	6.2	4.7	6.1
Supplements to wages and salaries.....	1,274.1	1,297.9	92.3	88.6	31.0	18.4	15.1	15.6
Proprietors' income with IVA and CCAAdj.....	902.4	933.1	64.5	68.3	7.4	29.3	1.5	30.2
Farm.....	18.0	21.6	12.1	-3.8	-6.8	1.0	-5.3	8.0
Nonfarm.....	884.4	911.6	52.4	72.1	14.2	28.3	6.8	22.3
Rental income of persons with CCAAdj.....	165.6	163.1	-17.1	11.8	5.7	-0.2	-18.8	9.3
Personal income receipts on assets.....	1,386.6	1,489.3	-11.9	63.9	11.3	15.2	15.5	121.5
Personal interest income.....	945.6	957.9	-16.8	15.7	4.2	5.5	4.8	11.4
Personal dividend income.....	441.1	531.4	4.9	48.3	7.1	9.7	10.7	110.1
Personal current transfer receipts.....	1,406.3	1,430.2	52.7	70.9	28.3	21.4	15.0	14.8
Less: Contributions for government social insurance.....	818.3	832.3	24.9	45.1	18.9	10.1	9.0	9.3
Equals: Personal income.....	9,659.1	9,924.6	282.9	497.3	115.0	147.7	81.6	250.3
Less: Personal current taxes.....	1,036.4	1,064.5	-49.3	34.5	-2.8	24.0	13.1	20.8
Equals: Disposable personal income.....	8,622.8	8,860.0	332.2	462.9	117.9	123.7	68.6	229.3
Less: Personal outlays.....	8,532.8	8,742.8	380.8	483.5	142.2	97.1	139.4	154.7
Equals: Personal saving.....	90.0	117.2	-48.6	-20.6	-24.3	26.6	-70.8	74.6
Addenda: Special factors in personal income								
In government wages and salaries:								
Federal pay raise.....		5.5			5.2	0.3	0.0	0.0
Federal civilian retroactive pay.....		0.0			0.3	1.2	-1.5	0.0
Reservists' pay.....		8.8			0.9	-0.9	-0.3	1.0
In supplements to wages and salaries:								
Employer contributions for social insurance.....		7.2			7.2	0.0	0.0	0.0
In nonfarm proprietors' income:								
Hurricane-related destruction of uninsured business property.....		0.0			0.0	0.0	-4.0	4.0
In rental income of persons:								
Hurricane-related destruction of uninsured residential property.....		0.0			0.0	0.0	-13.6	13.6
In personal dividend income:								
Microsoft "special" dividend payments.....		99.4			0.0	0.0	0.0	99.4
In personal current transfer receipts:								
Social security retroactive payments.....		2.5			-2.5	0.0	0.0	2.5
Cost-of-living adjustments under Federal transfer programs.....		12.4			11.4	0.0	0.0	0.5
Earned-income tax credit.....		2.7			2.7	0.0	0.0	0.0
Hurricane-related net insurance settlements (excluding owner-occupied housing).....		0.0			0.0	0.0	13.7	-13.7
In contributions for government social insurance:								
Changes in premium for supplementary medical insurance.....		3.2			3.2	0.0	0.0	0.0
In personal current taxes:								
Federal tax law changes.....		-3.2			-3.2	0.0	0.0	0.0
Refunds, settlements, and other.....		-8.8			-8.8	0.0	0.0	0.0

NOTE: Dollar levels are from NIPA tables 2.1 and 2.2B.
IVA Inventory valuation adjustment
CCAAdj Capital consumption adjustment

the southern and eastern United States in the third quarter.⁷ The acceleration in proprietors' income reflected an acceleration in nonfarm proprietors' income and an upturn in farm proprietors' income. In the third quarter, nonfarm proprietors' income was reduced \$4.0 billion by the loss of uninsured business property due to the hurricanes. The income of security brokers turned up in the fourth quarter. The upturn in farm proprietors' income reflected an upturn in farm output and a smaller decrease in the prices received by farmers.

Rental income increased \$9.3 billion after decreasing \$18.8 billion. In the third quarter, rental income was reduced \$13.6 billion by the loss of uninsured residential property due to the hurricanes.

Current transfer receipts increased about the same in the fourth quarter as in the third quarter. A fourth-quarter downturn in "other current transfer receipts" was offset by an acceleration in government social benefits. The downturn reflected a downturn in net insurance settlements; payments for hurricane-related damage to motor vehicles and to other consumer durable goods added \$13.7 billion to third-quarter net settlements. The acceleration in government social benefits reflected an upturn in Medicaid payments by states and an acceleration in Federal social security payments.

Real GDP for 2004

Real GDP increased 4.4 percent in 2004 after increasing 3.0 percent in 2003 (table 1). Real gross domestic purchases increased 4.8 percent after increasing 3.3 percent.⁸ (In the expansion of the 1990s, real GDP growth averaged 3.5 percent at an annual rate, and the growth of real gross domestic purchases averaged 4.0 percent.⁹)

The acceleration in real GDP in 2004 reflected accelerations in nonresidential fixed investment and in exports, an upturn in inventory investment, and an acceleration in consumer spending that were partly offset by an acceleration in imports and by a deceleration in government spending.

Nonresidential fixed investment increased 10.3

percent in 2004 and contributed 1.02 percentage points to GDP growth; in 2003, it increased 3.3 percent and contributed 0.33 percentage point. In 2004, investment in equipment and software picked up, and investment in structures turned up. The pickup reflected accelerations in information processing equipment and software and in "other" equipment and an upturn in transportation equipment.

Exports increased 8.1 percent in 2004 and contributed 0.77 percentage point to GDP growth; in 2003, exports increased 1.9 percent and contributed 0.18 percentage point (in 2002, exports decreased). In 2004, exports of both goods and services accelerated.

Businesses added to their inventories in 2004 after drawing down inventories in 2003. The swing from liquidation to accumulation added 0.44 percentage point to GDP growth in 2004. In 2003, the swing from accumulation to liquidation subtracted 0.10 percentage point from GDP growth.

Consumer spending increased 3.8 percent in 2004 and contributed 2.67 percentage points to GDP growth; in 2003, it increased 3.3 percent and contributed 2.29 percentage points. Spending on services and on nondurable goods accelerated in 2004; in contrast, spending on big-ticket consumer goods (such as motor vehicles) slowed.

Imports increased 9.8 percent in 2004 and subtracted 1.38 percentage points from GDP growth; in 2003, imports increased 4.4 percent and subtracted 0.61 percentage point. The acceleration primarily reflected an acceleration in imports of goods.

Government spending increased 2.0 percent in 2004 and contributed 0.37 percentage point to GDP growth; in 2003, it increased 2.8 percent and contributed 0.52 percentage point. The deceleration reflected a downturn in Federal nondefense spending and slight decelerations in national defense spending and in state and local government spending. In Federal nondefense spending, both compensation and intermediate services turned down in 2004.

The price index for gross domestic purchases increased 2.4 percent after increasing 2.0 percent (table 3). The price index for gross domestic purchases excluding food and energy increased 1.9 percent after increasing 1.6 percent.

Real DPI increased 3.4 percent after increasing 2.3 percent. The acceleration mainly reflected an acceleration in current-dollar personal income that was partly offset by an upturn in personal current taxes.

7. For more information on the effects of the third-quarter hurricanes, go to <www.bea.gov/bea/dn/hurricane.htm>.

8. All the 2004 changes are calculated from annual levels for 2003 and 2004. From the fourth quarter of 2003 to the fourth quarter of 2004, real GDP increased 3.7 percent, real gross domestic purchases increased 4.5 percent, real DPI increased 3.9 percent, and the price index for gross domestic purchases increased 2.9 percent.

9. Growth rates are calculated from the trough of real GDP in the first quarter of 1991 to the peak of real GDP in the fourth quarter of 2000.