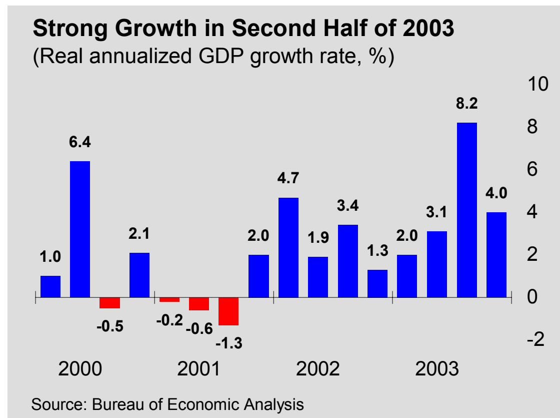
JOINT ECONOMIC COMMITTEE
ROBERT F. BENNETT, CHAIRMAN JANUARY 30, 2004

4% Economic Growth in the 4th Quarter

The Bureau of Economic Analysis (BEA) reported today that real gross domestic product (GDP) grew at an estimated 4.0% annual rate in the 4th quarter of 2003, on the heels of remarkable 8.2% growth in the 3rd quarter. During the year, GDP grew at a robust average rate of 4.3%. By way of comparison, the economy grew at an average rate of 3.7% during the expansion of the 1990s.

Highlights

- **2003 ended with very strong growth.** Growth averaged 6.1% in the second half, the fastest growth in consecutive quarters since 1984.
- **Business investment has grown for three quarters,** increasing at a 6.9% rate in Q4.
- **Inventory investment boosted growth.** Businesses began to restock shelves, after two quarters of inventory declines, lifting growth.
- **The housing market also helped lift growth.** Residential investment grew at a 10% annual rate.



What is behind fourth quarter GDP growth?

Consumer spending grew at a 2.6% annual pace, an expected slowdown from the 3rd quarter when tax cuts and the child tax credit boosted incomes. After-tax incomes will also increase in the first half of 2004 as taxpayers receive higher refunds.

The *housing market* continued assist growth, fueled by low mortgage rates. *Residential investment*—spending on the construction of new houses and apartments—increased at a 10.0% annual pace in the 4th quarter. Recent data suggest that the housing market may cool off soon, but activity remains strong.

Business investment grew at a 6.9% annual rate, as double-digit growth in equipment and software spending more than offset declines in commercial and industrial construction. *Inventory investment* also added to growth; future growth will likely get a continued boost as businesses add to inventories.

Exports showed healthy gains in the 4th quarter, growing at a 19% annual pace as the dollar weakened and economies of our trading partners strengthened. Imports also grew, but at a slower rate, causing the trade deficit narrowed over the quarter.

Inflation, as measured by the *personal consumption expenditure (PCE) price index* excluding the often-volatile food and energy prices, was slower in the 4th quarter than in any quarter since the 1960s. Continuing low PCE inflation is a primary reason that the Federal Reserve has been holding short-term interest rates at five-decade lows of 1%.