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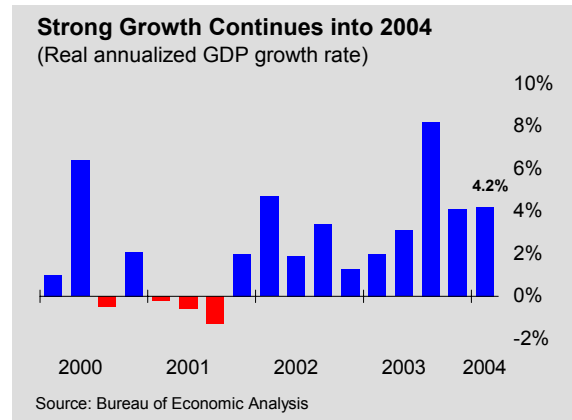
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4.2% Economic Growth in the 1st Quarter

The Bureau of Economic Analysis (BEA) reported today that real gross domestic product (GDP) grew at an estimated 4.2% annual rate in the 1st quarter, a slight acceleration from 4.1% growth in the 4th quarter of last year. Growth averaged an annualized 5.5% pace over the last three quarters, the strongest three-quarter performance in twenty years.

Highlights

- **2004 began with robust growth.** GDP growth was sustained at over 4% in the 1st quarter, marking the 10th straight quarter of growth.
- **Consumers remained resilient,** increasing spending at a 3.8% annual rate in the 1st quarter.
- **Business investment has grown for four straight quarters,** increasing at a 7.2% rate in the 1st quarter.
- **Federal government spending accelerated.**
- **Price indexes show accelerating inflation,** even outside of energy and food prices.



What was responsible for growth in GDP and prices in the first quarter?

Consumer spending growth accelerated to 3.8% in the 1st quarter from 3.2% in the previous quarter. Gains in *wages and salaries* and in *disposable (after-tax) personal income* helped fuel consumer spending. Disposable income was boosted by lower taxes.

Business investment grew at a 7.2% annual rate. Double-digit growth in equipment and software spending continued to offset declines in commercial and industrial construction. *Inventory investment* also contributed to growth, but less than some private forecasters had expected.

The *housing market* continued to boost the economy, but *residential investment*—spending on construction of new homes and apartments—showed its smallest gain in over 2 years.

Government spending added to 1st quarter growth, as large gains in federal defense spending more than offset declines in state and local spending.

Exports and *imports* both continued to grow in the 1st quarter, but at sharply slower rates than in the 4th quarter. On balance, trade added to 1st quarter growth in GDP.

There was a marked acceleration in inflation, only partly due to large increases in energy prices. Inflation in the price index for *personal consumption expenditures* (PCE), the Federal Reserve's preferred measure of consumer inflation, was an annual 3.2% in the 1st quarter, up from 1.0% in the previous quarter. Excluding the significant contributions from increased energy and food prices, the "core" PCE index registered 2.0% inflation in the 1st quarter, up from 1.2% in the prior quarter.