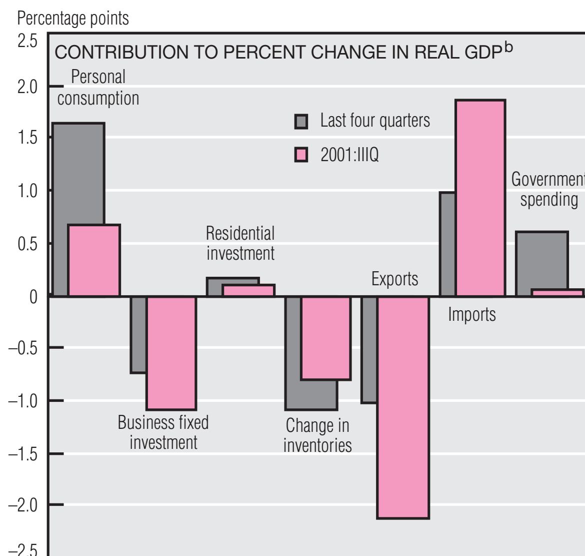
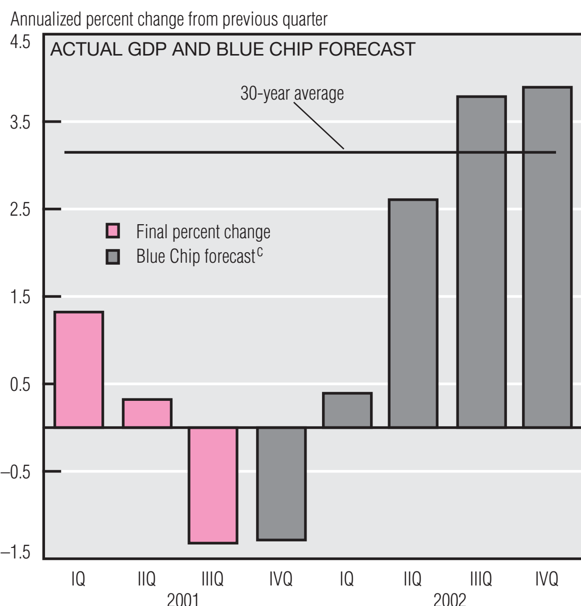
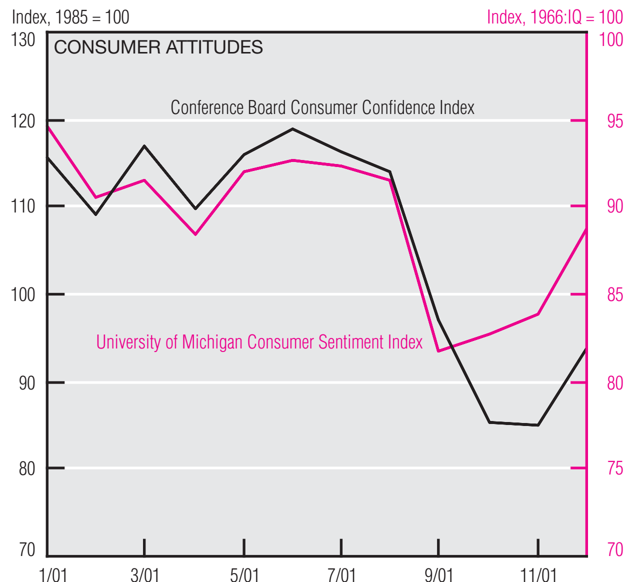
Economic Activity

Real GDP and Components, 2001:IIIQ[a,b]
(Final estimate)

	Change, billions of 1996 $	Percent change, last: Quarter	Percent change, last: Four quarters
Real GDP	–31.3	–1.3	0.5
Personal consumption	15.5	1.0	2.4
Durables	2.1	0.9	4.0
Nondurables	2.6	0.6	1.0
Services	10.6	1.2	2.8
Business fixed investment	–28.9	–8.5	–5.8
Equipment	–23.8	–8.8	–7.5
Structures	–5.5	–7.5	–0.5
Residential investment	2.2	2.4	3.9
Government spending	1.1	0.3	3.4
National defense	2.9	3.2	5.8
Net exports	–4.3	—	—
Exports	–56.1	–18.8	–9.2
Imports	–51.8	–13.0	–6.8
Change in business inventories	–23.6	—	—







a. Chain-weighted data in billions of 1996 dollars. Components of real GDP need not add to totals because current dollar values are deflated at the most detailed level for which all required data are available.
b. All data are seasonally adjusted and annualized.
c. Blue Chip panel of economists.
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; *Blue Chip Economic Indicators*, December 10, 2001; Conference Board; and University of Michigan.

Gross domestic product (GDP) decreased at an annual rate of 1.3% in 2001:IIIQ. The final estimate, released late in December, represents an additional downward revision of 0.2 percentage point from preliminary estimates. Business fixed investment, exports, and inventory investment were the largest contributors to the decrease in GDP. Personal consumption increased 1.0% from 2001:IIQ and contributed a very modest 0.7 percentage point to GDP growth. This is less than half the 1.7 percentage points it contributed to GDP growth over the last four quarters. As the table shows, the decline in exports was nearly 6% greater than the decline in imports, leading to a second consecutive quarter of deterioration in the trade balance.

Quarterly real GDP growth for 2001:IIIQ marked the first contraction in output since January 1993 as well as the most significant decrease in real GDP since January 1991. Blue Chip forecasters expect continued weakness in 2001:IVQ before GDP growth becomes positive in 2002:IQ; they do not predict GDP growth to surpass its long-term average until 2002:IIIQ.

In recent months, many analysts and news headlines have focused on consumers' attitudes as a measure of the economy's response to the terrorist attacks. Although the Conference Board's Consumer Confidence Index and the University of Michigan's Consumer Sentiment Index experienced fluctuations earlier in the year, both showed a sharp drop after the September 11 attacks. In the following months, consumer sentiment began

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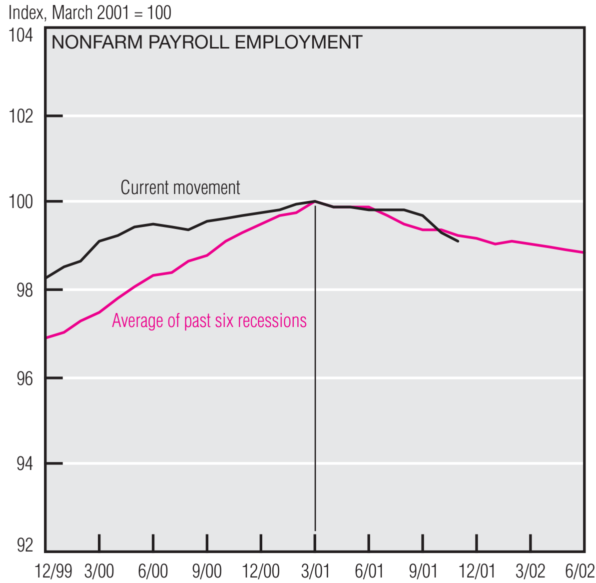
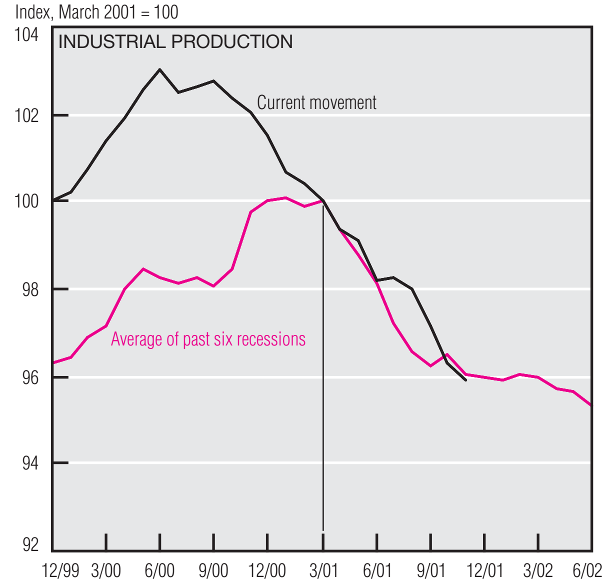
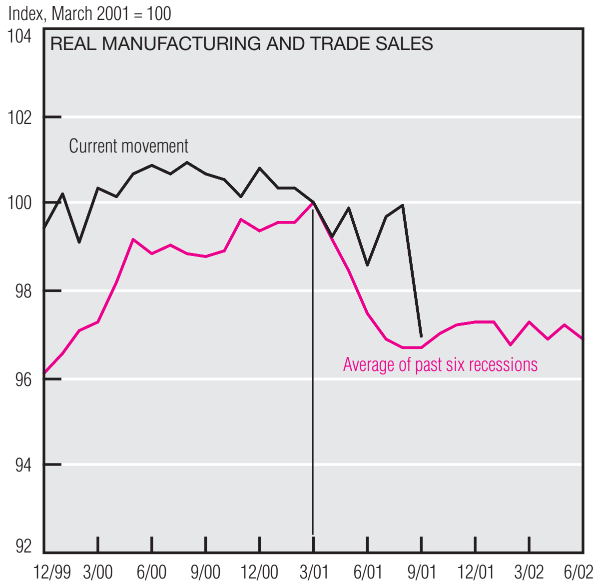
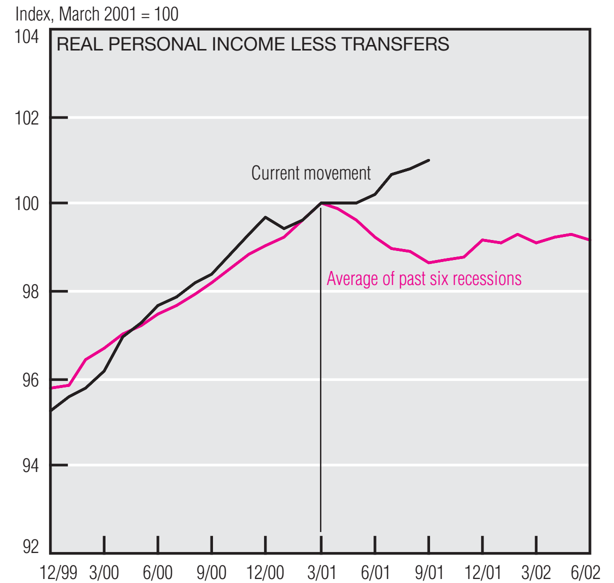
Economic Activity (cont.)









SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; Board of Governors of the Federal Reserve System; Conference Board; and National Bureau of Economic Research, Inc.

to rebound immediately, while consumer confidence continued to decline until December. This can most likely be attributed to the fact that the Consumer Confidence Index places much greater emphasis on the current employment situation than the Consumer Sentiment Index does.

The financial press considers the economy to be in a recession if real GDP growth is negative for at least two consecutive quarters, but this definition is not universally accepted. The National Bureau of Economic Research (NBER) uses monthly indicators of economic activity to determine when the economy slips into a recession. Their most important indicator is employment. Three other important indicators are industrial production, real manufacturing and trade sales, and personal income less transfers. The NBER recently determined that the economy slipped into a recession in March 2001. It dates the beginning of a recession by comparing the current movement of each important indicator of economic activity with an average of each of those indicators over the past six recessions. The chart at the upper left shows the recent movement in employment (the black line) and the average of movement in employment over the past six recessions (the magenta line). The average movement series is positioned so that a recession begins in March 2001. This chart indicates that recent employment peaked in March 2001. Two of the other three series—industrial production and real manufacturing and trade sales—peaked well before March 2001; one of them—real personal income less transfers—has yet to peak.