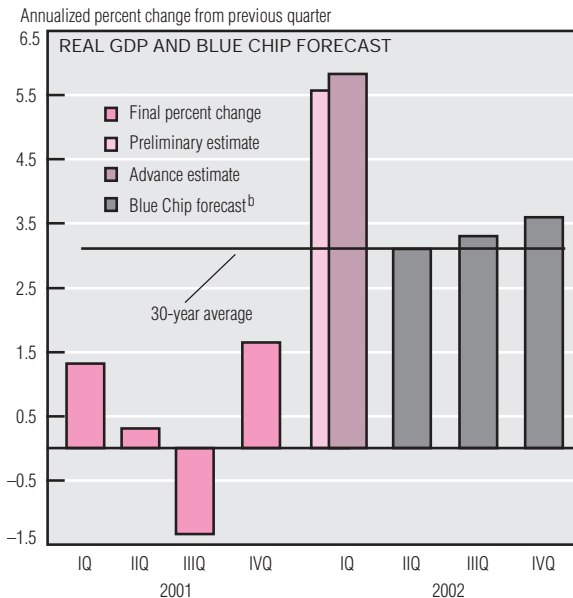
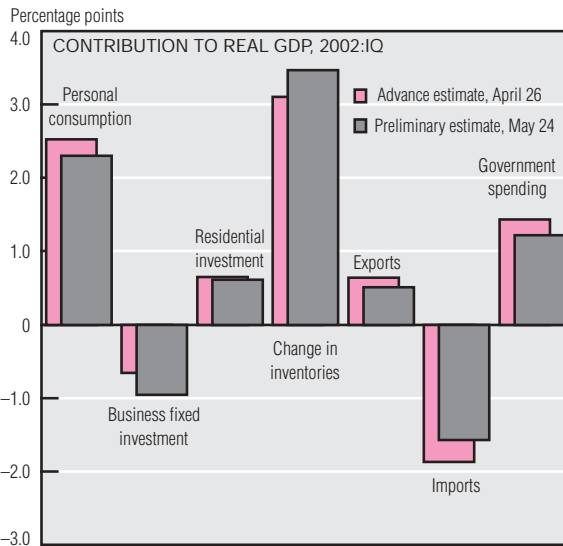
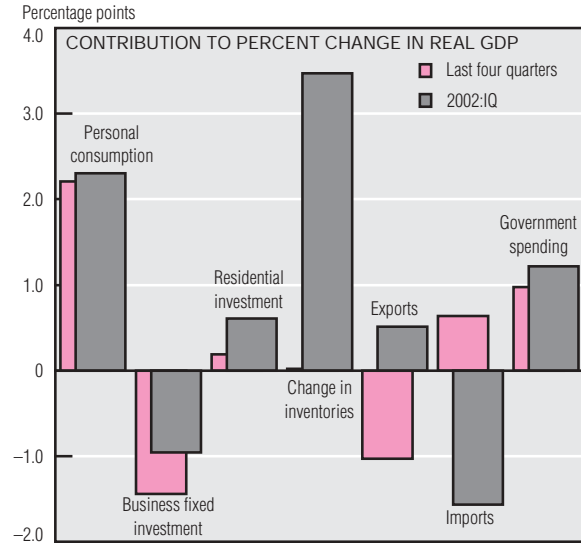


Economic Activity

	Change, billions of 1996 \$	Percent change, last:	
		Quarter	Four quarters
Real GDP	127.7	5.6	1.5
Personal consumption	51.8	3.2	3.2
Durables	-25.6	-9.6	8.0
Nondurables	38.3	8.3	2.9
Services	32.9	3.7	2.4
Business fixed investment	-26.3	-8.2	-11.3
Equipment	-5.9	-2.3	-8.1
Structures	-16.4	-23.8	-19.9
Residential investment	13.0	14.6	4.3
Government spending	27.1	6.7	5.5
National defense	16.0	18.3	8.0
Net exports	-31.0	—	—
Exports	13.2	5.3	-9.5
Imports	44.1	12.9	-4.5
Change in business inventories	93.6	—	—



NOTE: All data are seasonally adjusted and annualized.
 a. Chain-weighted data in billions of 1996 dollars. Components of real GDP need not add to the total because the total and all components are deflated using independent chain-weighted price indexes.
 b. Blue Chip panel of economists.
 SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and *Blue Chip Economic Indicators*, May 10, 2002.

The preliminary estimate from the national income and product accounts revealed that real gross domestic product (GDP) grew at an annual rate of 5.6% during 2002:IQ. Consumer spending, which increased a respectable 3.2%, was a primary contributor to real GDP growth. The 9.6% decline in durable goods spending was somewhat expected because incentives to buy automobiles had boosted the numbers for 2001:IVQ. Residential investment grew nearly 15%, reflecting the extraordinarily

robust housing market of 2002:IQ. In addition, both exports and imports increased for the first time since 2000:IIIQ, signaling stronger foreign and domestic demand.

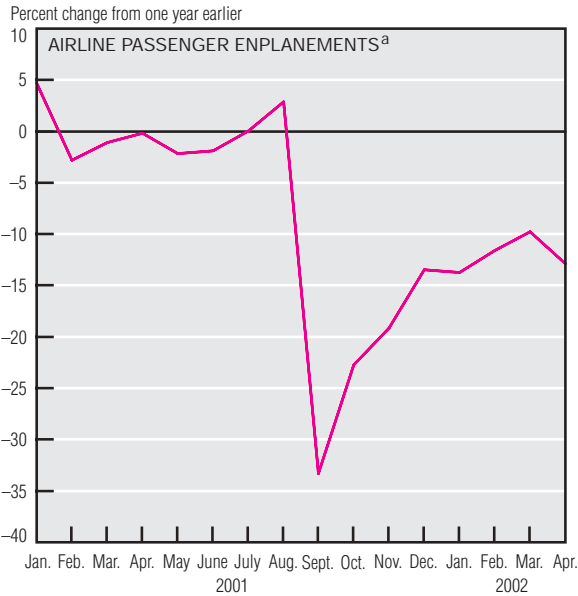
May's preliminary estimate of real GDP growth marked a slight (0.2%) decline from the advance estimate issued in April. This resulted mainly from downward revisions in personal consumption expenditures, business fixed investment, and government spending. Real GDP growth in 2002:IQ was largely fueled by a decline in the rate of inventory liquidation.

This became even more apparent after the revision. In the advance estimate, changes in inventories contributed 3.1 percentage points to real GDP growth; in the preliminary estimate, they contributed 3.5 percentage points to the 5.6% growth rate.

Blue Chip forecasters expect real GDP growth to moderate substantially in the coming quarters. However, they predict that it will remain considerably higher than the growth levels of 2001 and will hover near its long-term average for the remainder of 2002.

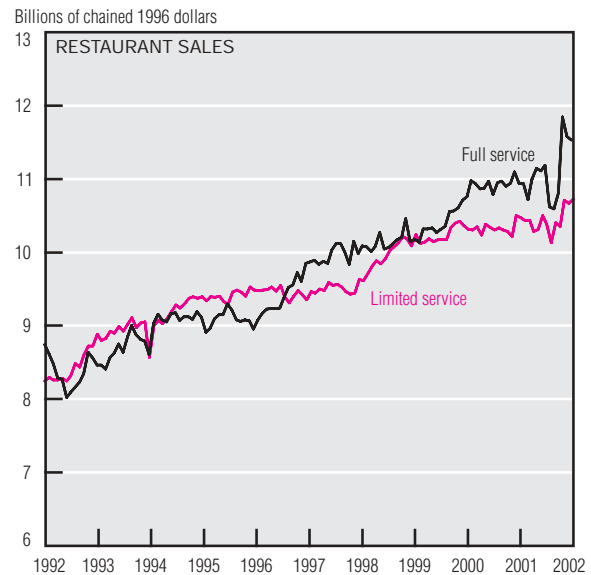
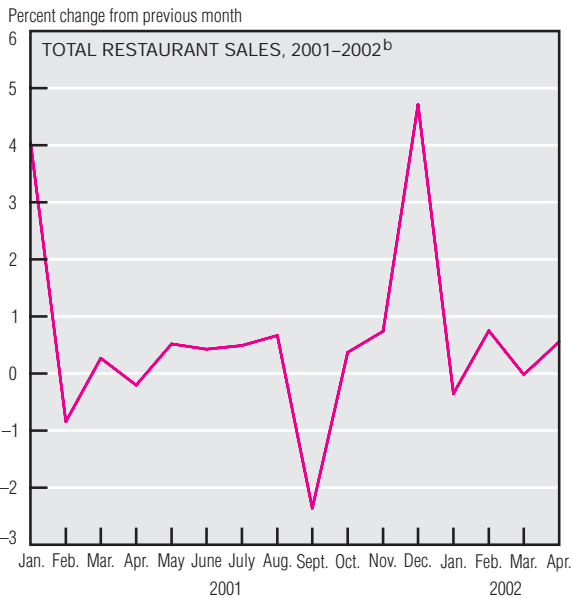
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Economic Activity (cont.)



	2001		2002	
	October forecast	Actual	October forecast	May forecast
U.S. total	-10.0	-9.8	-1.4	-2.6
Upper upscale	-15.7	-14.0	-0.8	-2.6
Upscale	-10.2	-10.2	-4.6	-3.9
Midscale with food and beverage	-9.6	-8.8	-1.1	-4.2
Midscale without food and beverage	-4.8	-4.1	1.5	-1.0
Economy	-6.5	-5.9	-1.5	-4.0

	2001	2002
U.S. total	60.7	60.0



a. One passenger enplanement represents one paying customer boarding an aircraft in scheduled service, including originations, stopovers, and connections.
 b. Adjusted for seasonal, holiday, and trading-day differences. Total restaurant sales include full- and limited-service restaurants as well as special food services and drinking establishments.
 SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis, Bureau of the Census, and Bureau of Labor Statistics; Air Transport Association; PricewaterhouseCoopers; and Smith Travel Research.

The terrorist attacks last September worsened the recession, which had been dated as beginning March 2001. Three interconnected sectors—airline travel, lodging, and restaurants—were hit especially hard. Airlines got the lion’s share of media coverage because the attacks involved them directly. In September, air travel fell a whopping 33% from September 2000, which is especially remarkable considering that the attacks occurred less than halfway through the month. October remained bleak, with travel down nearly 23% from the same month one year earlier. The sector has improved slowly since then but

is still down nearly 13% from one year earlier. The harm spilled over into other industries such as lodging. Revenue per available hotel room in 2001 was down nearly 10% from 2000 levels. The outlook for 2002, a decline of 2.6%, is not much rosier. In fact, the 2002 forecast has been revised down further since October, when it was radically lowered after the terrorist attacks. The upscale chains were the industry’s worst casualties last year, but their 2002 contraction levels now are expected to resemble those of midscale chains and all lodgings in the U.S. Because they are already

severely depressed, however, this is no great consolation. Restaurants also were hit hard, but the damage was transitory. Overall sales dropped 2.4% from August to September, with declines at full-service restaurants almost double those at limited-service restaurants. This trend has completely reversed since then, with full-service restaurants showing exceptional strength. In fact, the industry had mostly recovered by October, suggesting that September’s numbers reflected the “CNN effect” from people who stayed at home to watch the latest news.