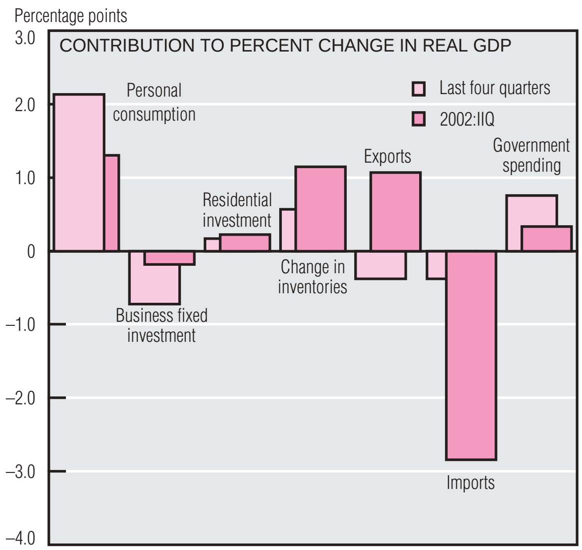
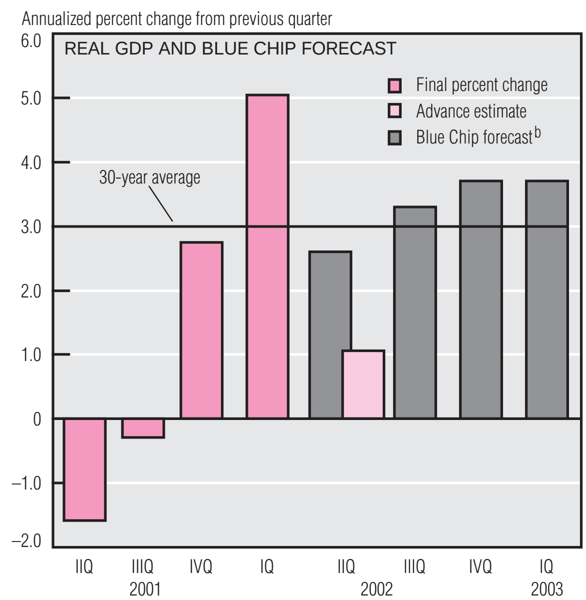
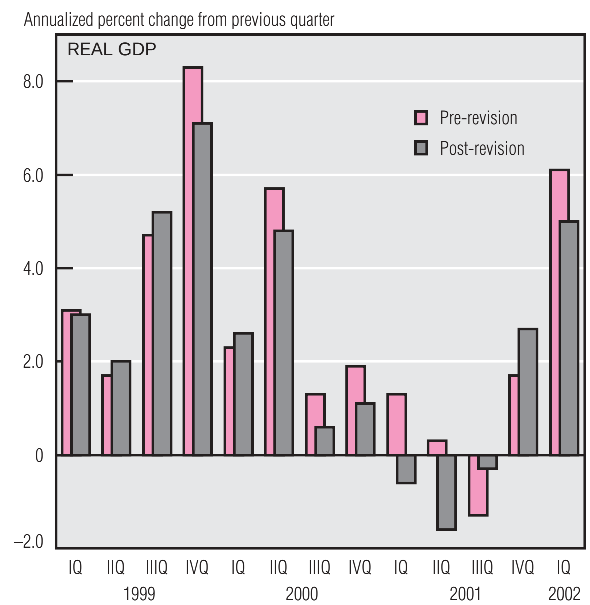
Economic Activity

Real GDP and Components, 2002:IIQ[a]
(Advance estimate)

	Change, billions of 1996 $	Percent change, last: Quarter	Percent change, last: Four quarters
Real GDP	24.7	1.1	2.1
Personal consumption	30.4	1.9	3.1
Durables	5.8	2.4	7.6
Nondurables	–2.8	–0.6	3.0
Services	27.0	3.0	2.2
Business fixed investment	–4.8	–1.6	–6.1
Equipment	6.9	2.9	–3.0
Structures	–9.0	–14.0	–14.6
Residential investment	4.6	5.0	3.8
Government spending	7.5	1.8	4.1
National defense	7.5	8.0	9.6
Net exports	–50.9	—	—
Exports	28.9	11.7	–3.6
Imports	80.0	23.5	2.9
Change in business inventories	29.9	—	—







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*, July 10, 2002.

The advance estimate from the national income and product accounts shows that real gross domestic product (GDP) grew at a 1.1% annualized rate during 2002:IIQ. Consumer spending for the quarter rose 1.9%, which was considerably less than the 3.1% growth rate of the last four quarters. Even so, it remained the strongest contributor to real GDP growth. On a somewhat more positive note, business fixed investment fell only 1.6%, a marked improvement on the 6.1% decline of the last year. The change in inventories contributed 1.2 percentage points of real GDP growth as the economy began to accumulate inventory for the first time since 2000:IVQ. Exports' increase of nearly 12% was dwarfed by a 23.5% surge in imports, which created the greatest economic drag by lowering real output growth 2.8 percentage points.

Blue Chip forecasters had predicted that real GDP would grow 2.6% in 2002:IIQ—more than double the advance estimate of 1.1%. As of July 10, they also expected real GDP growth to surpass its long-term average by 2002:IIIQ; however, the discrepancy between the 2002:IIQ forecast and the advance estimate may modify their expectations.

Every July, national income and product account estimates are revised, beginning with data three years prior (the most recent revision, reported July 31, covers 1999:IQ onward). One of the most significant findings of July's revision was that real GDP growth seems to have declined during the first three quarters of 2001, not 2001:IIIQ alone.

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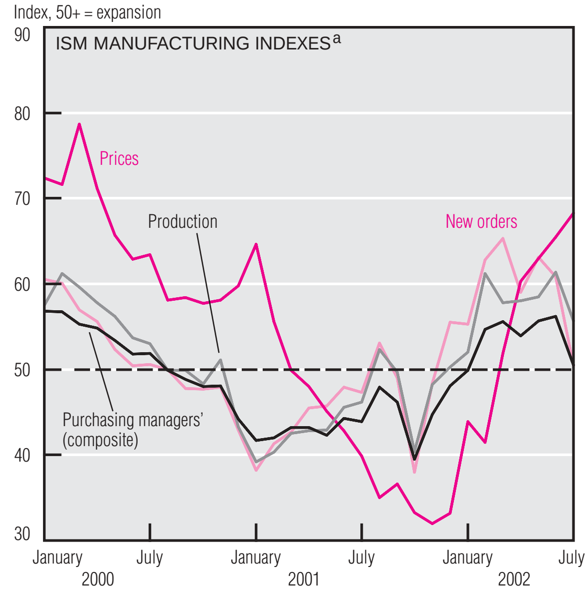
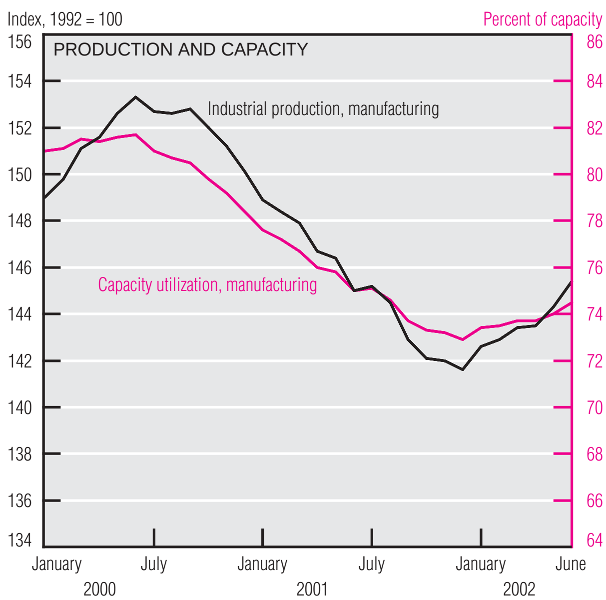
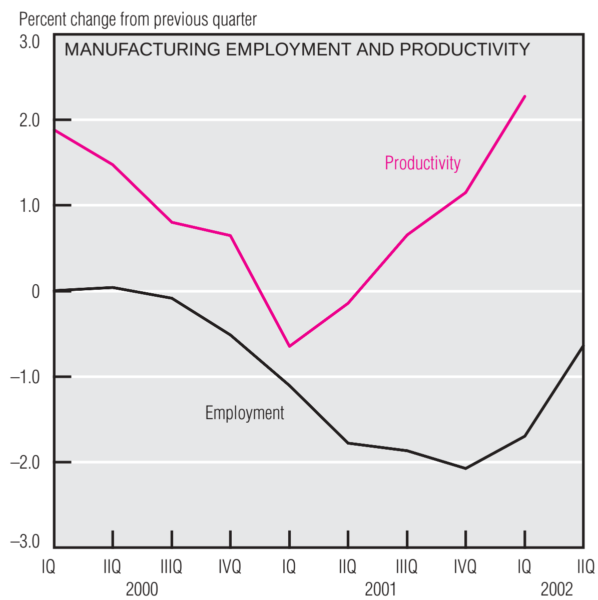
Economic Activity (cont.)







a. Refers to the Institute for Supply Management (formerly the National Association of Purchasing Management).
SOURCES: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics; Board of Governors of the Federal Reserve System; and Institute for Supply Management.

Manufacturing's road to recovery has been far from smooth. The Institute for Supply Management's composite index fell to 50.5 in July from June's 56.2. Although technically indicating an expansion, the figure was weaker than expected. New orders led the decline, falling to 50.4 in July from 60.8 in June. The production component also fell, but was still a relatively high 55.7. The price component rose sharply to 68.3, partly because the dollar weakened.

Further evidence of turbulence is the disappointing 4.1% fall in June orders for durable goods. Even without transportation, including the extremely volatile aircraft component, orders were still down more than 3%. Of course, considering the large fluctuations this series is subject to, one should not overemphasize one month's figure.

Manufacturing has some bright spots. Capacity utilization and industrial production have been rising steadily since December 2001. Both of these series show far less month-to-month fluctuation than durable goods orders, and so may be more reliable indicators of manufacturing's health. Manufacturing output has now recovered more than a third of the decline experienced since July 2000.

Another positive indicator is that manufacturing employment declines have been slowing since 2001:IVQ. Even in the best of times, manufacturing employment has grown slowly because productivity has increased so fast that employers have not needed to hire many new workers to meet demand. This state of affairs is likely to continue because annual productivity growth averaged about 4% for the four quarters ending 2002:IQ.