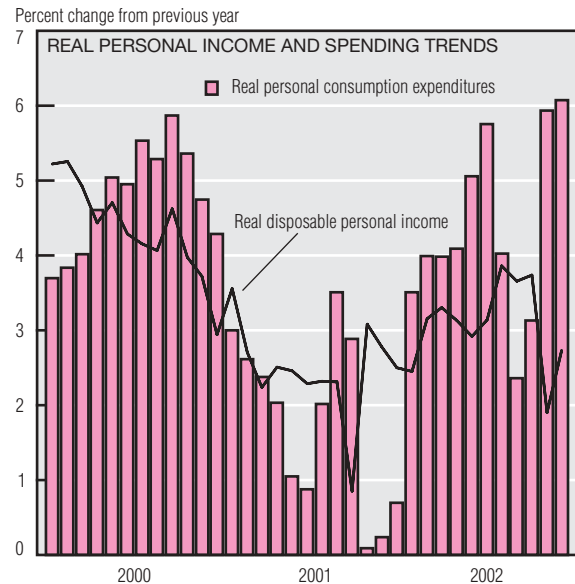
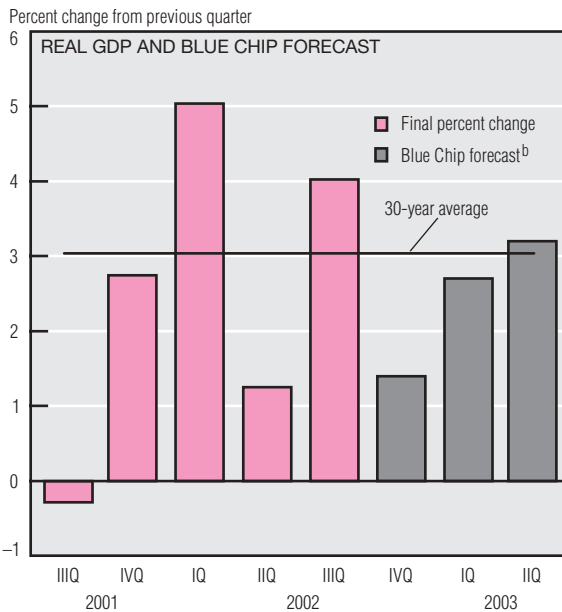
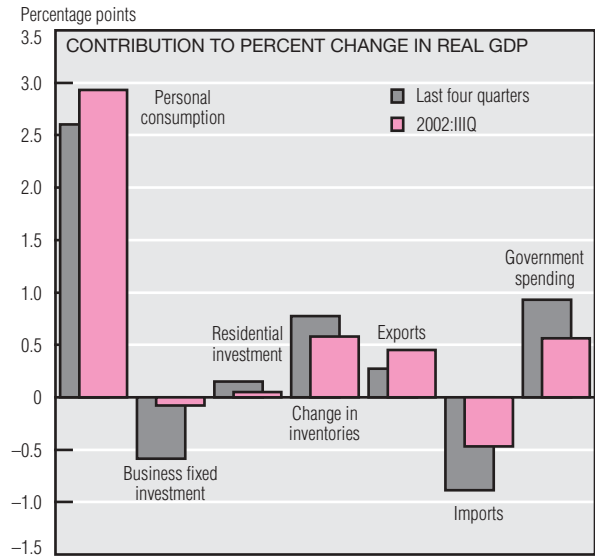


Economic Activity

Real GDP and Components, 2002:IIIQ ^a (Final estimate)	Change, billions of 1996 \$	Annualized percent change, last:	
		Quarter	Four quarters
Real GDP	93.2	4.0	3.3
Personal consumption	67.5	4.2	3.8
Durables	51.7	22.8	11.9
Nondurables	4.9	1.0	3.1
Services	20.8	2.3	2.5
Business fixed investment	-2.4	-0.8	-5.1
Equipment	15.8	6.7	1.1
Structures	-13.5	-21.3	-21.0
Residential investment	1.0	1.0	3.4
Government spending	12.3	2.9	5.0
National defense	6.7	6.9	10.1
Net exports	-0.6	—	—
Exports	12.2	4.7	2.8
Imports	12.8	3.3	6.7
Change in business inventories	13.9	—	—



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*, December 10, 2002.

The final estimate of real gross domestic product (GDP) for 2002:IIIQ contained no surprises; the estimate of overall growth held at an annual rate of 4.0%. The personal consumption expenditures category, which rose 4.2% (annual rate), was once again the largest contributor to real GDP growth. In particular, consumers snapped up durable goods, increasing expenditures at a 22.8% annual rate.

After personal consumption, the biggest positive contributors to real GDP growth were government spending and change in inventories. Government spending rose 2.9% (annual

rate), with national defense spending rising even faster at 6.9% (annual rate). The biggest drag on overall economic growth was business fixed investment, where expenditures fell at an annual rate of 0.8%, largely because of a 21.3% (annual rate) decline in expenditures on structures.

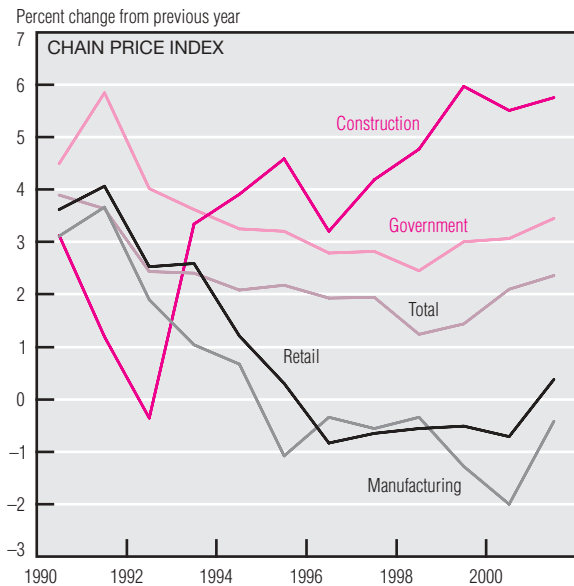
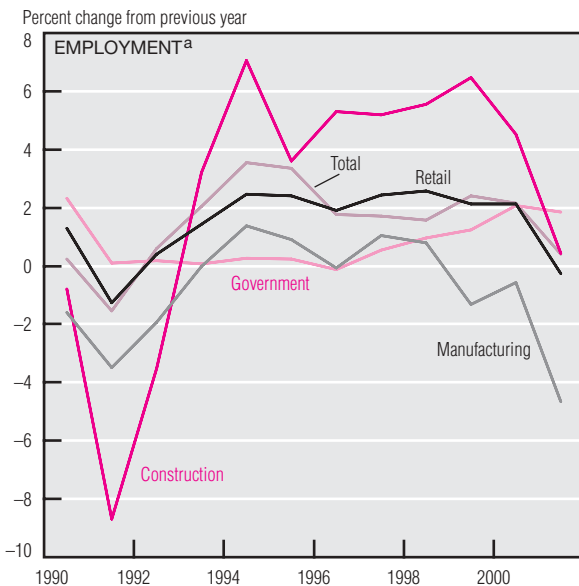
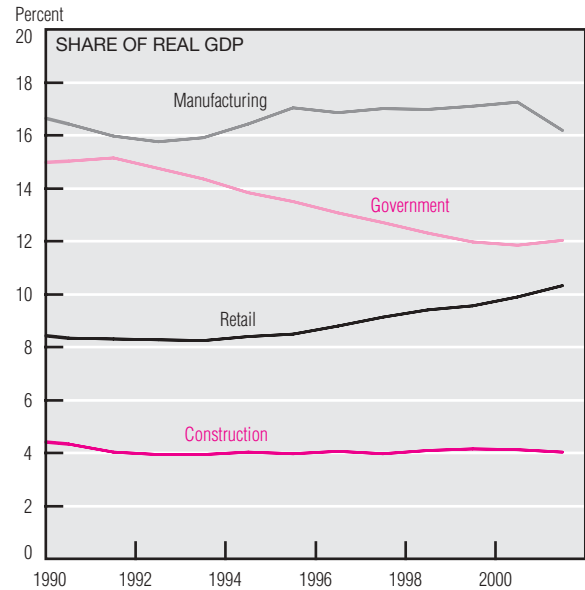
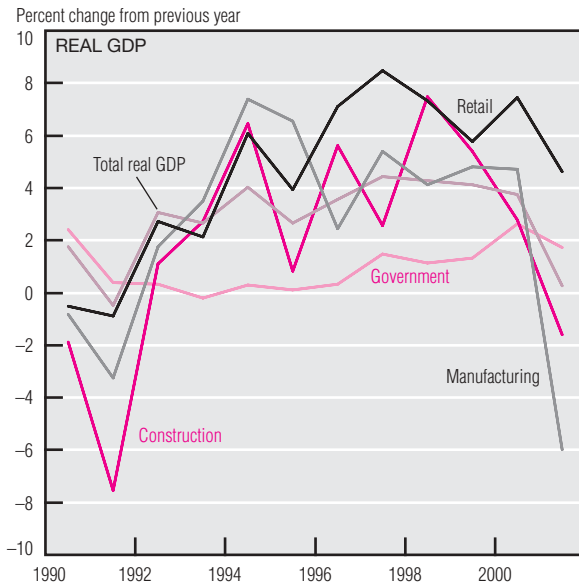
Although third-quarter real GDP growth came in a full percentage point above its long-term average of 3% (annual rate), Blue Chip forecasters nonetheless lowered their estimates slightly to 1.4% for 2002:IVQ and 2.7% for 2003:IQ (annual rates). This results partly from their expect-

tation that manufacturing will prove to have weakened in the fourth quarter of 2002. Nonetheless, on average, these forecasters continue to anticipate a rebound of about 3.0% in 2003:IIQ.

Real consumer spending remained strong in November, with year-over-year growth of 6.1%. Of course, this outsized gain was caused by the low figure for November 2001. Growth in real disposable personal income was slower, up 2.7% from the previous year.

(continued on next page)

Economic Activity (cont.)



a. Includes full- and part-time jobs.

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

Some interesting industry trends emerged in the years spanning the last two recessions. From 1990 to 2001, real GDP growth averaged almost 3% but varied greatly among sectors. Retail sales had the highest average growth rate over this period and government the lowest. Construction and manufacturing experienced the most volatility, but their average growth rates were about equal to that of overall real GDP. Consequently, manufacturing and construction's share of real GDP remained roughly constant from 1990 to 2001.

Retail sales' rising share nearly offset the decline in government's share.

Growth in full- and part-time employment followed a pattern similar to that of industry output; the correspondence is not exact because labor productivity growth varies among sectors. Productivity growth was most rapid in manufacturing; this was reflected in the industry's slow employment growth. In fact, manufacturing productivity growth was so rapid relative to output growth that employment grew in only four of the years during this period. Even in its best year, 1994,

manufacturing employment grew only 1.4%. Government employment growth was also slow during this period. By contrast, construction and retail grew vigorously.

Price movements reflect another side of the economy's evolution. While the chain price index for GDP rose an average of 2.2% annually over the 1990–2001 period, robust manufacturing productivity growth allowed its price to rise only 0.1%. The electronic equipment and instruments industry, a key component of manufacturing, fell a remarkable 6.8%.