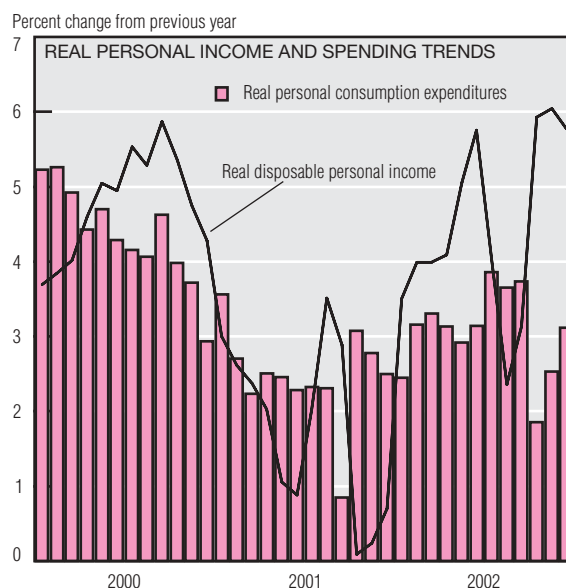
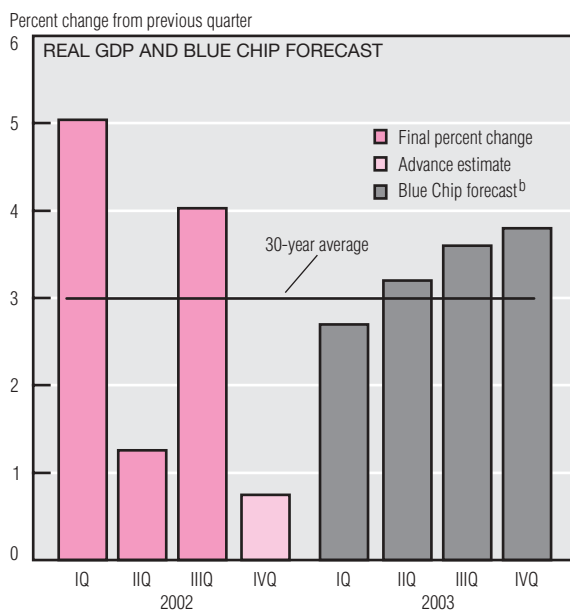
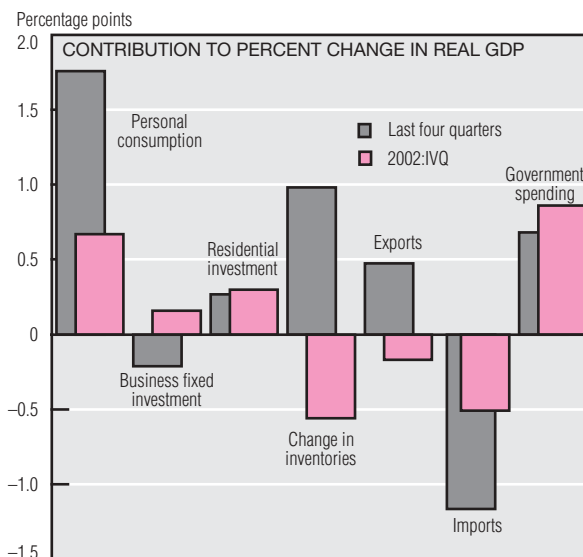


Economic Activity

Real GDP and Components, 2002:IVQ ^a (Advance estimate)	Quarterly change, billions of 1996 \$	Annualized percent change, last:	
		Quarter	Four quarters
Real GDP	17.6	0.7	2.8
Personal consumption	15.8	1.0	2.5
Durables	-19.5	-7.3	2.1
Nondurables	18.4	3.9	3.1
Services	12.1	1.3	2.3
Business fixed investment	4.5	1.5	-1.9
Equipment	12.1	5.0	3.0
Structures	-5.3	-9.3	-15.7
Residential investment	6.5	6.8	6.1
Government spending	19.5	4.6	3.6
National defense	10.8	11.2	9.4
Net exports	-18.9	—	—
Exports	-4.7	-1.7	5.0
Imports	14.2	3.7	9.2
Change in business inventories	-15.5	—	—



NOTE: All data are seasonally adjusted and annualized.

a. Chain-weighted data in billions of 1996 dollars. Components of real GDP need not sum 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*, January 10, 2003.

The advance estimate from the national income and product accounts shows that growth in real gross domestic product (GDP) slowed from 4.0% in 2002:IIIQ to 0.7% in 2002:IVQ (annual rates). Consumer spending increased at a modest 1.0% annual rate during the quarter. Declining sales in motor vehicles and parts accounted for a reduction of \$19.5 billion (chained 1996 dollars) in durable goods spending. On a brighter note, real business fixed investment rose 1.5% (annual rate), marking the first increase in the

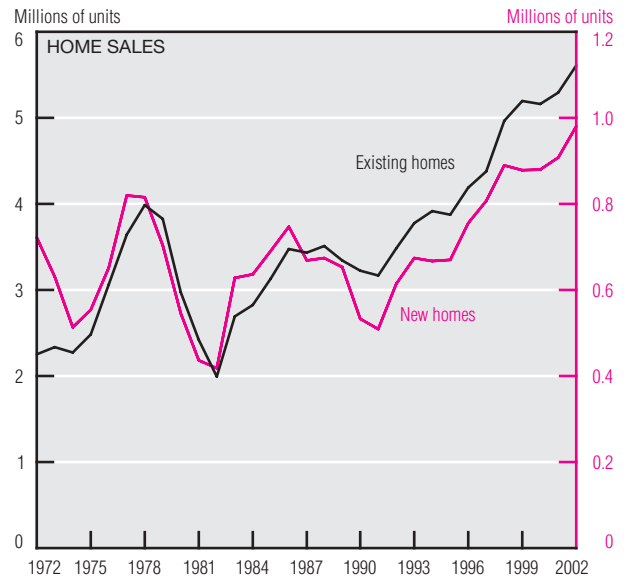
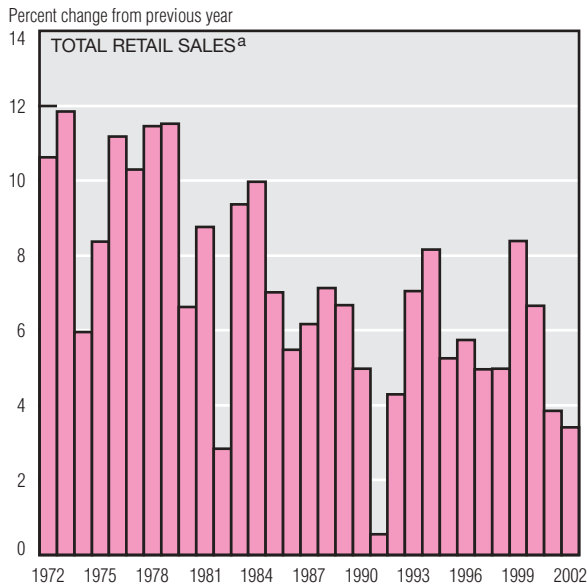
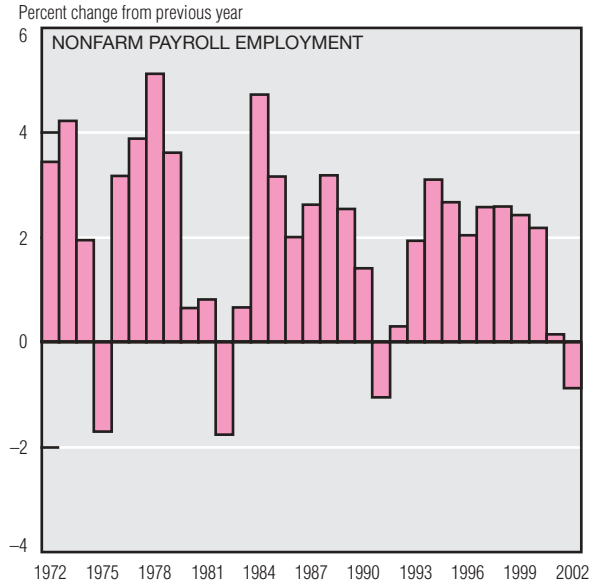
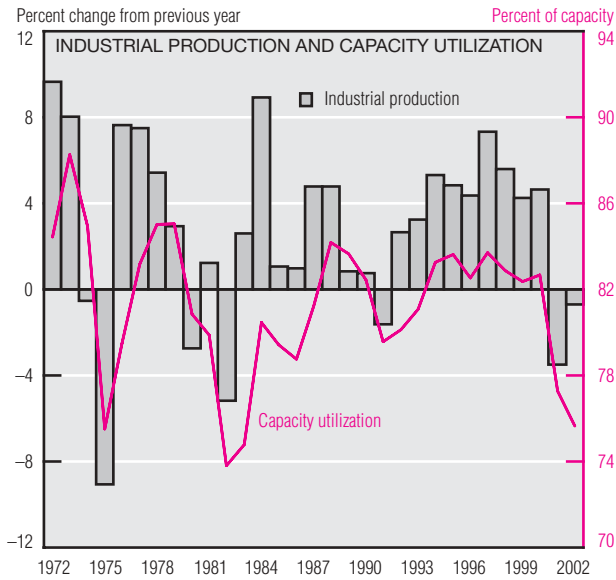
series since 2000:IIIQ. Business fixed investment contributed 0.2 percentage point to real GDP growth—a reversal from the 0.2 percentage point it took away over the previous four quarters. Government spending, which added 0.9 percentage point, was the largest contributor to real GDP growth in 2002:IVQ. Business inventories were the heaviest drag on overall economic growth: they fell \$15.5 billion (chained 1996 dollars) from the previous quarter, subtracting 0.6 percentage point from GDP growth.

Total output growth fell far short of its long-term average of 3.0% (annual rate). However, Blue Chip forecasters predict that real GDP growth will increase progressively throughout 2003 and will surpass its long-term average by the second quarter.

Real disposable personal income increased a robust 5.8% (year over year) in December 2002, exceeding the year-over-year growth of 3.1% in real consumer spending. After increasing more slowly than consumer spending for much of 2001,

(continued on next page)

Economic Activity (cont.)



NOTE: All data are seasonally adjusted.

a. Includes retail sales and food services.

SOURCES: U.S. Department of Commerce, Bureau of the Census; U.S. Department of Labor, Bureau of Labor Statistics; Board of Governors of the Federal Reserve System; and National Association of Realtors.

income growth surpassed it in all but two months of 2002.

The National Bureau of Economic Research put the beginning of the recent recession at March 2001 and has not yet declared the date in 2001 or 2002 when it ended. Trends in industrial production, nonfarm payroll employment, and retail sales for 2002 resemble those of earlier recessions. Industrial production declined a slight 0.7% in 2002, but this drop, coupled with a 3.5% decrease in 2001, marked the first time since 1974–75 that industrial production contracted for

two consecutive years. (The economy was in a recession from November 1973 to March 1975.) Capacity utilization also declined in 2001 and 2002. At 75.6% in 2002, it stood at its lowest level since 1984 and nearly 6% below its 1972–2001 average of 81.5%.

Nonfarm payroll employment's 0.9% contraction in 2002 appeared quite modest when viewed by itself. However, since 1972, growth in this series has decreased only three other times—1975, 1982, and 1991. The previous contractions all occurred in years in which recessions were taking

place. Patterns in the retail sector in 2002 also looked like past recessions. Although retail sales grew 3.4% in 2002, this represented the smallest annual increase since 1991.

In contrast to industrial production, nonfarm payroll employment, and retail sales, the housing sector offered a positive sign for the economy in 2002, when sales rose to historic highs. During the year, nearly 1 million new homes and 5.6 million existing homes were sold. Housing sales support most economists' belief that the recession ended in January 2002.