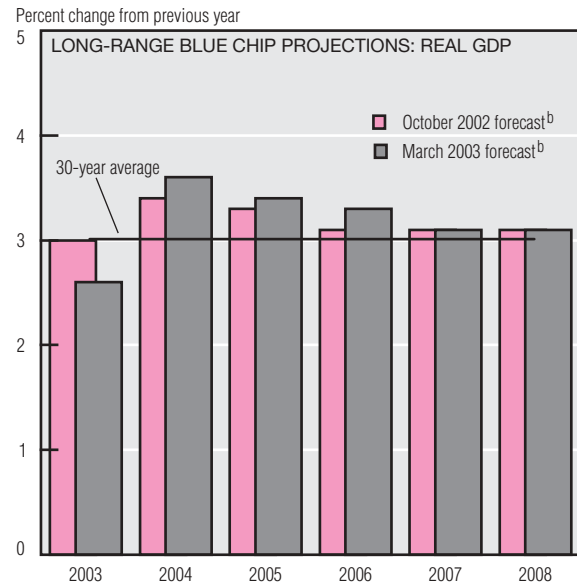
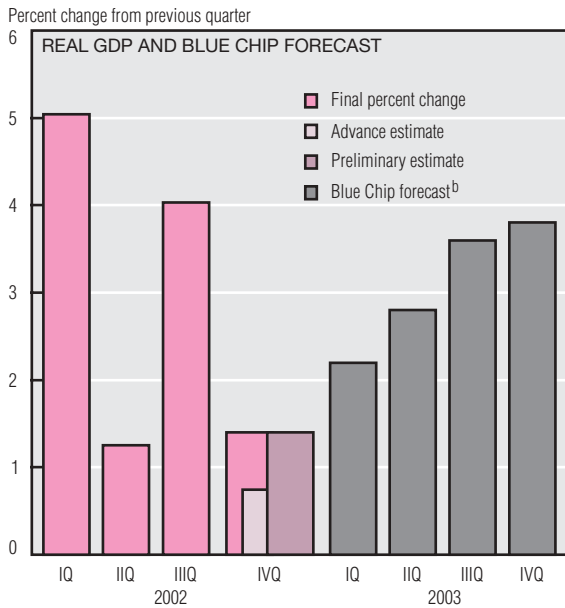
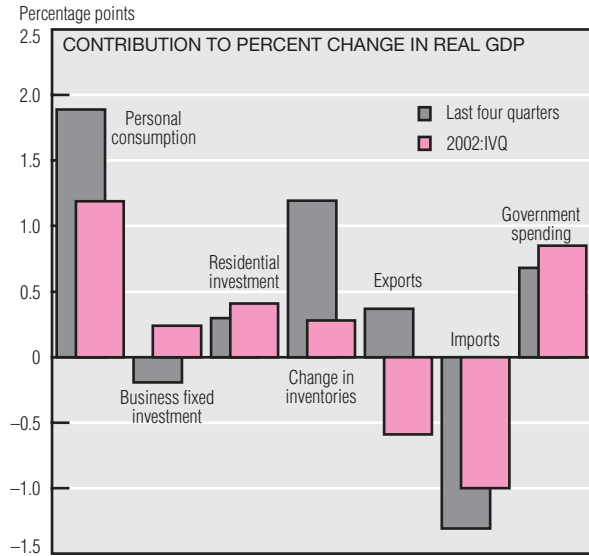


Economic Activity

	Change, billions of 1996 \$	Annualized percent change, last:	
		Quarter	Four quarters
Real GDP	32.6	1.4	2.9
Personal consumption	28.0	1.7	2.7
Durables	-21.8	-8.2	1.9
Nondurables	24.2	5.1	3.4
Services	20.0	2.2	2.5
Business fixed investment	6.6	2.3	-1.7
Equipment	14.9	6.2	3.3
Structures	-5.6	-9.9	-15.9
Residential investment	8.8	9.4	6.7
Government spending	19.4	4.6	3.6
National defense	10.7	11.0	9.3
Net exports	-44.2	—	—
Exports	-16.1	-5.8	3.9
Imports	28.1	7.4	10.1
Change in business inventories	7.0	—	—



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*, October 10, 2002 and March 10, 2003.

In the national income and product accounts' final estimate for 2002:IVQ, real GDP grew at a 1.4% annual rate. Consumer spending increased \$28 billion (chained 1996 dollars) but was constrained by an 8.2% decline in durable goods expenditures. Still, personal consumption was the leading contributor to the increase in real GDP, adding 1.2 percentage points. Business and residential investment also advanced output growth, contributing nearly 0.7 percentage point between them. Government expenditures, boosted by robust national

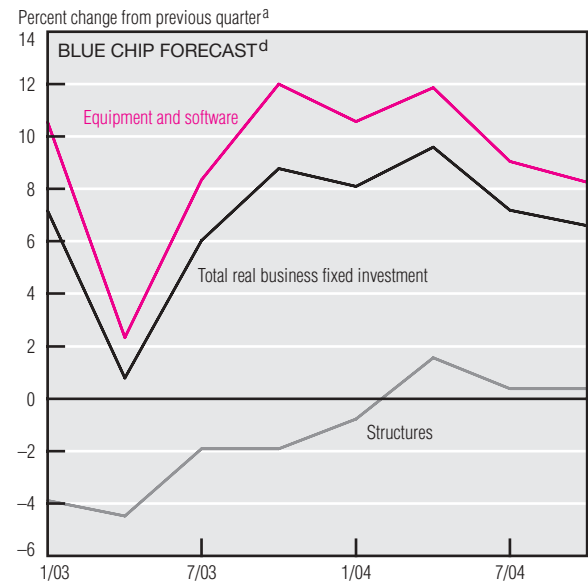
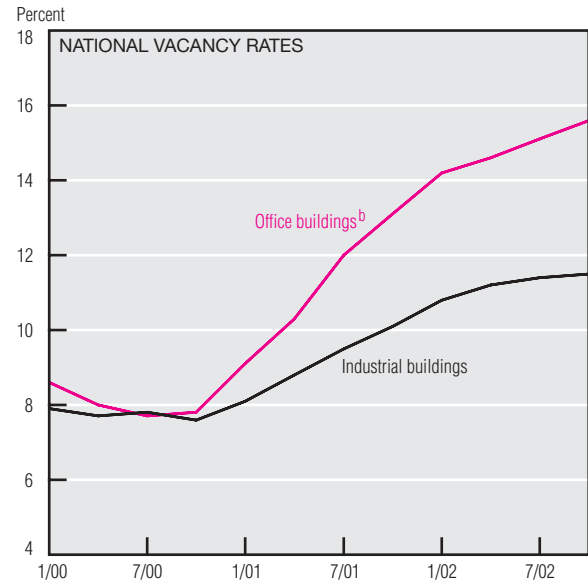
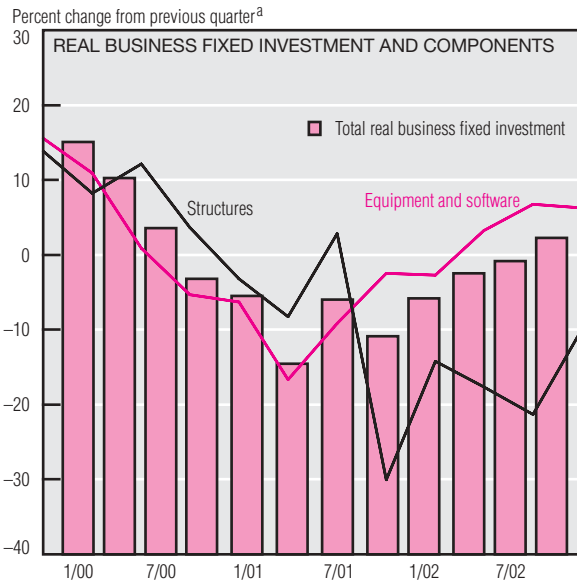
defense spending, provided another output stimulus. Although inventory investment rose \$7.0 billion, its 2002:IVQ contribution to real GDP growth was far below that of the previous four quarters. Exports fell 5.8%, reversing the trend of the past year.

After doubling from the advance to the preliminary estimate, 2002:IVQ real GDP growth remained unchanged in the final estimate. The four quarters of 2002 alternated between vigorous and sluggish real GDP growth. However, Blue Chip forecasters predict that output will increase progressively

throughout 2003. According to long-range projections conducted twice a year, Blue Chip forecasters have become more pessimistic, revising 2003 real GDP growth downward since last October, but they now expect stronger growth in 2004–06 than they previously anticipated. While forecasters' perceptions of the near-term may have shifted, their projections of real output growth five years from now have not; they still see the growth rate approaching its long-term average.

(continued on next page)

Economic Activity (cont.)



- a. Seasonally adjusted annual rates.
 b. For metropolitan areas.
 c. Corporate profits with inventory valuation and capital consumption adjustments.
 d. Blue Chip panel of economists.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; CB Richard Ellis; and *Blue Chip Econometric Detail*, March 10, 2003.

Real business fixed investment (BFI) is likely to be closely monitored in 2003 because increased spending in this category could boost economic growth substantially. The 2.3% (annual rate) rise in real BFI in 2002:IVQ was the first increase since 2000:IIIQ. Its main source was spending on equipment and software, which accounted for the lion's share of real BFI. The decline in spending on structures decelerated in 2002:IVQ, but this component of real BFI has been falling for more than a year.

In addition to decreasing their spending on new structures, businesses appear to be moving out of existing structures, as rising vacancy rates indicate. The trend is more pronounced for office than industrial buildings; in 2002:IVQ, 15.6% of office buildings and 11.5% of industrial buildings were reportedly vacant.

Profits from current production were a bright spot for businesses in 2002:IVQ, rising \$25.1 billion (annual rate). This was the first increase in corporate profits since late 2001 and only the third increase in the past

three years. But because the other two increases in corporate profits were immediately followed by retrenchments, it remains to be seen whether profit growth can be sustained. If it can, it may bode well for future real BFI. Blue Chip forecasters anticipate that real BFI will enjoy brisk growth during the next two years. They predict some sharp increases in equipment and software spending and believe that even spending on structures will begin to increase by 2004:IIQ.