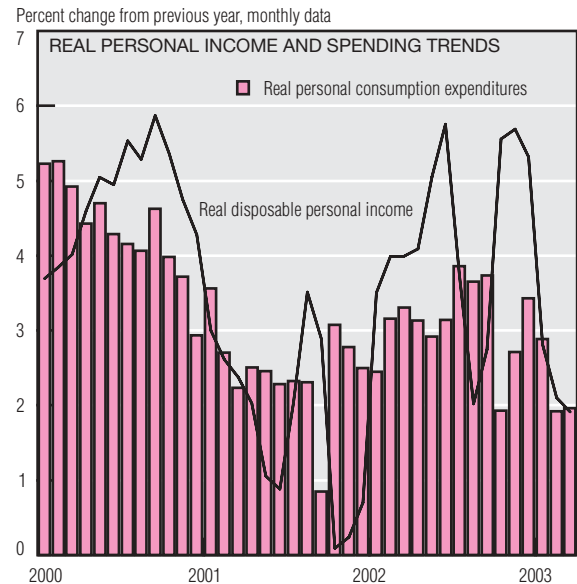
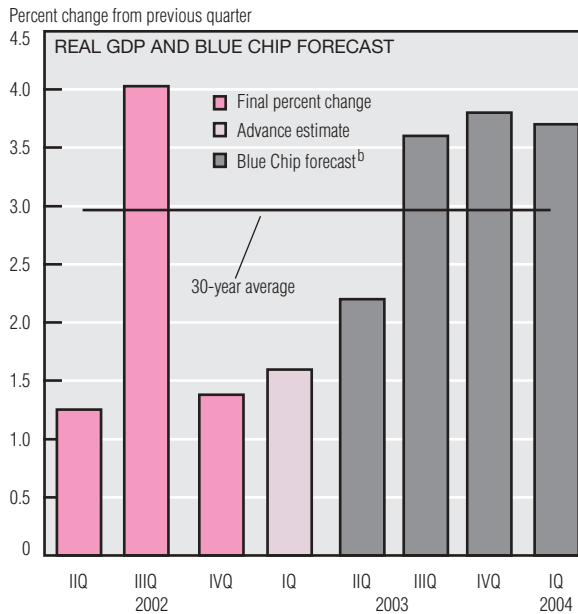
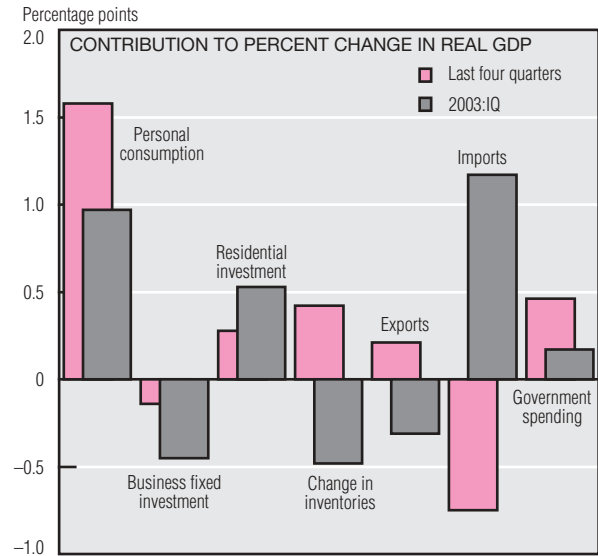


Economic Activity

Real GDP and Components, 2003:IQ ^a (Advance estimate)	Change, billions of 1996 \$	Annualized percent change, last:	
		Quarter	Four quarters
Real GDP	37.8	1.6	2.1
Personal consumption	22.6	1.4	2.3
Durables	-2.9	-1.1	3.3
Nondurables	19.9	4.1	2.5
Services	4.8	0.5	1.9
Business fixed investment	-12.6	-4.2	-1.3
Equipment	-11.2	-4.4	2.8
Structures	-1.9	-3.4	-13.4
Residential investment	11.4	12.0	6.2
Government spending	3.8	0.9	2.4
National defense	-1.6	-1.5	5.9
Net exports	24.0	—	—
Exports	-8.6	-3.2	2.2
Imports	-32.5	-7.9	5.7
Change in business inventories	-13.0	—	—



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*, April 10, 2003.

The advance estimate of the national income and product accounts puts real GDP growth at a sluggish 1.6% (annual rate) in 2003:IQ, less than many forecasters had hoped. Consumer spending, which increased 2.3% over the past year, rose only 1.4% for the quarter (annual rate). Expenditures on motor vehicles and parts decreased for the second straight quarter, hampering durable goods spending, and the growth of services spending slowed considerably. In a discouraging development for capital spending, business fixed

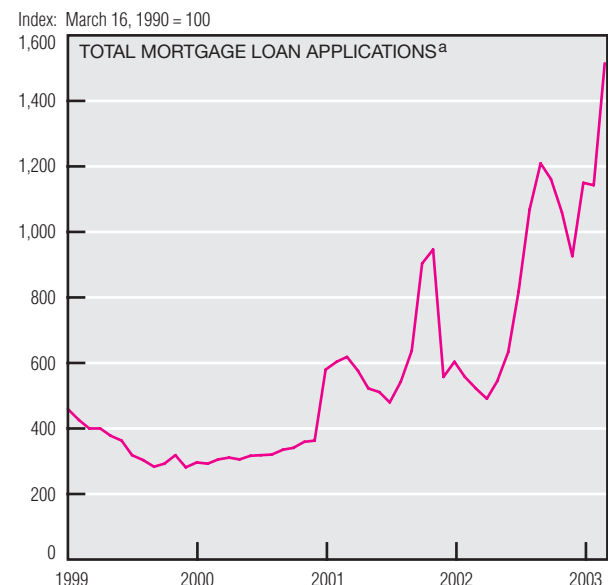
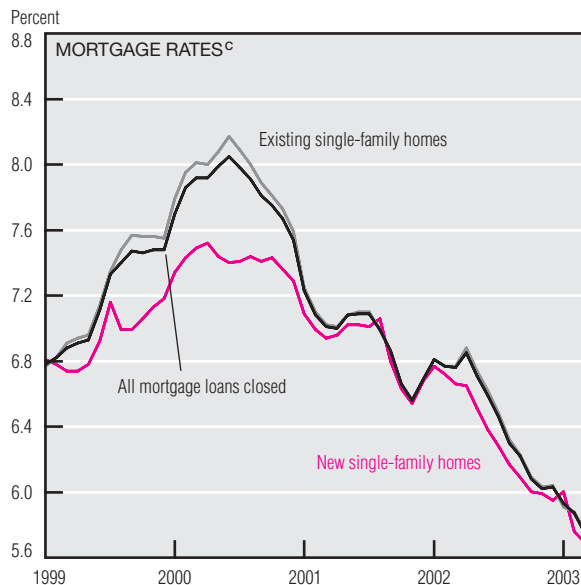
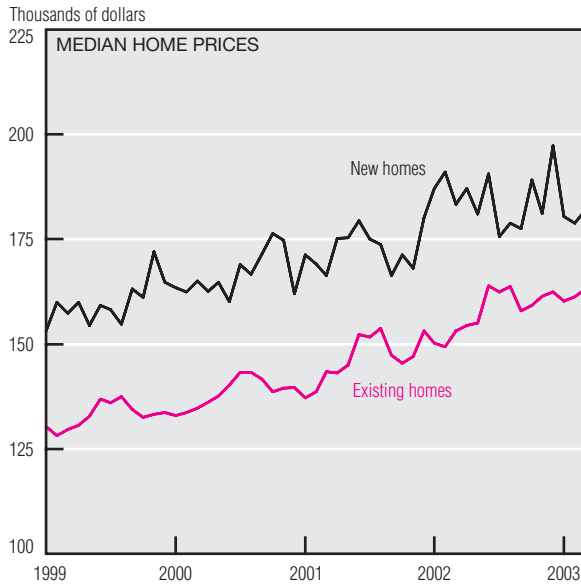
investment fell 4.2% (annual rate), its ninth decrease in the past 10 quarters. Although the uptick in this category in 2002:IVQ inspired hope that recovery was on the horizon, the most recent decline could foretell another delay. Businesses also cut back on their inventories. Inventory changes and business fixed investment combined subtracted 0.9 percentage point from real GDP growth in 2003:IQ. Exports also made a negative contribution to output growth, but this was overbalanced by the positive contribution of decreased import spending.

Real GDP growth in 2003:IQ barely exceeded last quarter's 1.4% growth (annual rate) and fell far short of the long-term average. Nonetheless, Blue Chip forecasters predict robust increases by the latter half of the year and into 2004.

Growth in real personal disposable income has been decelerating since last November. Although real income growth was substantially larger than real consumer spending during 2002:IVQ, the increase in personal consumption expenditures outpaced

(continued on next page)

Economic Activity (cont.)



a. Seasonally adjusted.

b. Annual rates.

c. Contract interest rate.

SOURCES: U.S. Department of Commerce, Bureau of the Census; Federal Housing Finance Board; Mortgage Bankers Association of America; and National Association of Realtors.

the increase in income by January 2003 and again in March.

Although some economic observers have expressed concern that the housing market is softening, the latest data releases provide little evidence for this view. Median prices for both new and existing homes were up last month; more important, their underlying trend remains unchanged. Because short-term changes in the physical characteristics and location of homes sold introduce a fair amount of noise, these series must be looked at over a period of time.

Existing home sales did drop in each of the four regions last month—and by 5.6% overall—but remained at a historically high level. In addition, these data are based on closings, and so may have been affected by wintry weather earlier in the year. More forward-looking data suggest that the housing sector continued strong. Sales of new single-family homes, defined as signed contracts for sale, rose 7.3%. Building permits were off their January peak, but remained at a high level of about 1.8 million units.

Housing starts, a very volatile indicator, fell sharply in March, but they, too, stayed at a high level.

Rates for all mortgage loans closed reached their lowest level (5.75%) since the Federal Housing Finance Board started tracking interest rates in 1963. Low rates not only fueled sales of new and existing homes, but also induced many homeowners to refinance their existing mortgages—some for the second or third time in the last three years.