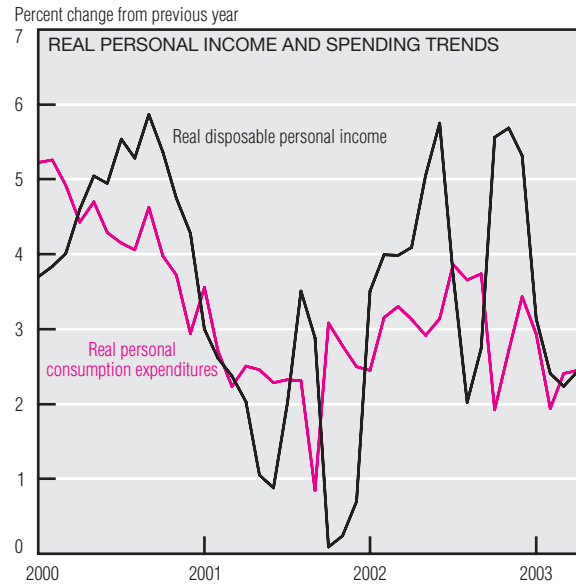
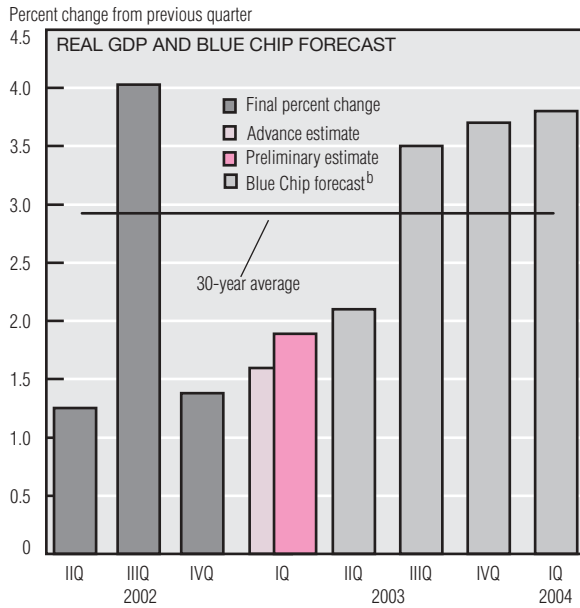
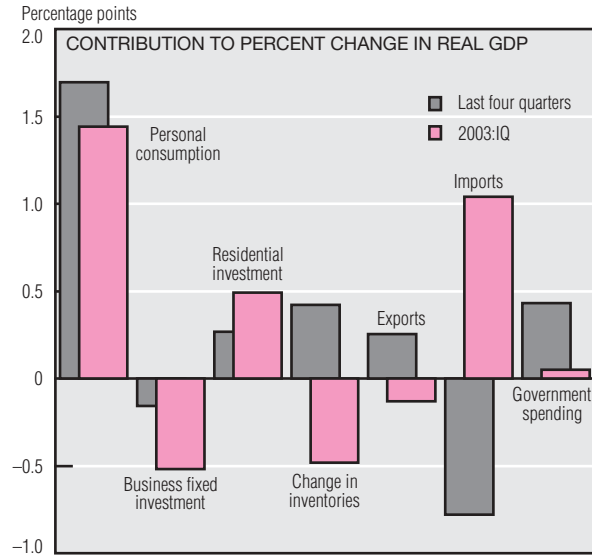


Economic Activity

	Change, billions of 1996 \$	Annualized percent change, last:	
		Quarter	Four quarters
Real GDP	44.7	1.9	2.1
Personal consumption	33.7	2.0	2.4
Durables	-4.6	-1.8	3.1
Nondurables	30.3	6.4	3.1
Services	6.8	0.7	2.0
Business fixed investment	-14.5	-4.8	-1.5
Equipment	-16.1	-6.3	2.3
Structures	0.1	0.4	-12.5
Residential investment	10.5	11.0	6.0
Government spending	1.2	0.3	2.3
National defense	-3.6	-3.4	5.4
Net exports	25.3	—	—
Exports	-3.7	-1.4	2.6
Imports	-29.0	-7.1	5.9
Change in business inventories	-12.6	—	—



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 indices.

b. Blue Chip panel of economists.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and *Blue Chip Economic Indicators*, May 10, 2003.

The preliminary estimate showed real GDP growing at a modest annual rate of 1.9% in 2003:IQ, largely a result of consumer spending and residential investment. Despite the 1.8% decline in durable goods spending caused by lower sales of motor vehicles and parts, personal consumption grew 2.0% and contributed 1.4 percentage points to real GDP growth (annual rates). Although its positive effect was lower than over the course of the last four quarters, personal consumption's contribution was especially welcome when businesses seemed reluctant to

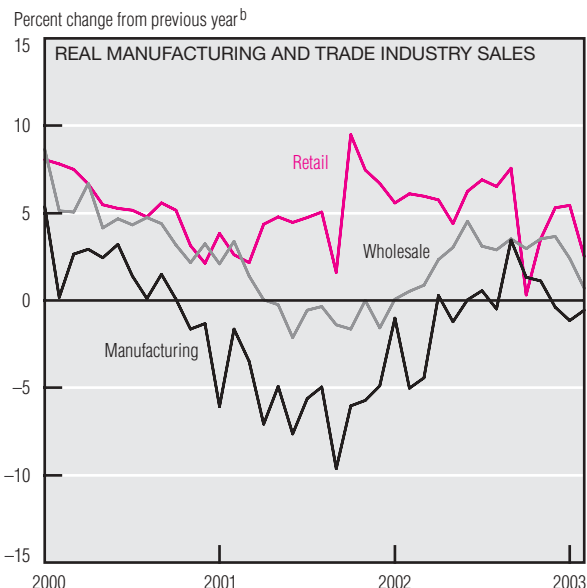
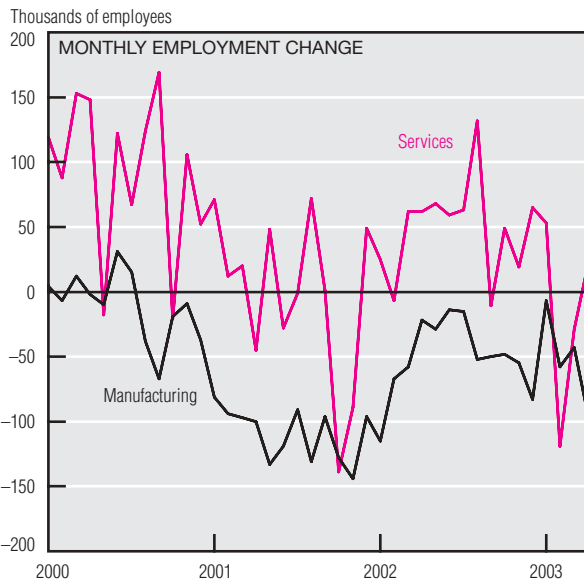
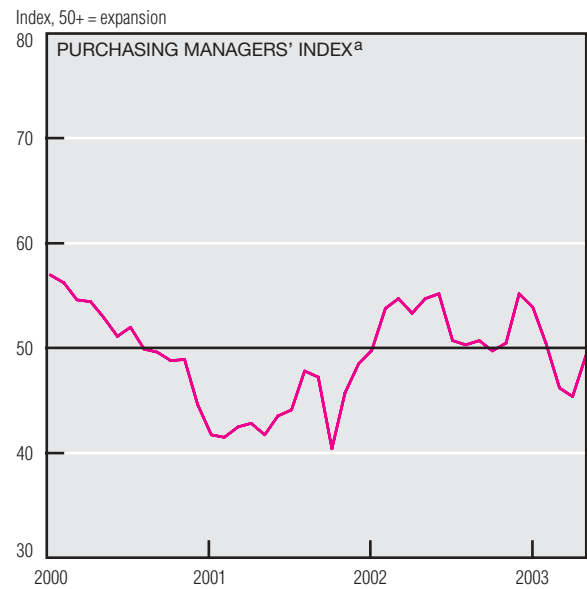
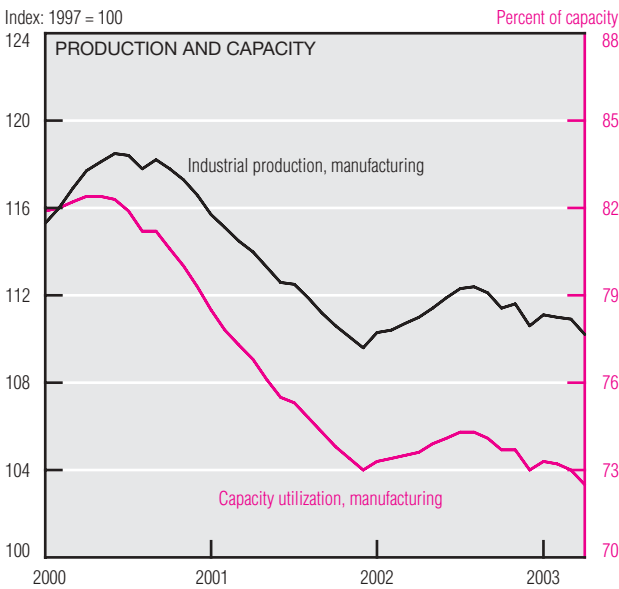
invest in the first quarter of 2003. Business fixed investment fell \$14.5 billion (chained 1996 dollars) because of decreased spending on equipment and software. Consequently, business spending had the greatest negative impact on real GDP growth, subtracting 0.5 percentage point. The housing market continued to boom, with residential investment increasing a strong 11.0% for the quarter and 6.0% (annual rates) over the past year. Exports for the quarter fell \$3.7 billion, but this number was eclipsed by a \$29.0 billion decline in imports (chained 1996 dollars).

In the preliminary estimate, real GDP growth was slightly higher than reported in the advance estimate—1.9% compared to 1.6% (annual rates)—but was still one full percentage point shy of its long-term average. Blue Chip forecasters anticipate more robust output growth in the latter half of 2003 and into early 2004.

In a rare occurrence, yearly growth in real disposable personal income matched that of real consumer spending in April—2.4%. However, recent growth in real income is less than half the rate of 5.3% posted at the end of

(continued on next page)

Economic Activity (cont.)



NOTE: Data are seasonally adjusted, except where otherwise noted.

a. Refers to the Institute for Supply Management's composite index, which is based on five seasonally adjusted diffusion indexes.

b. Calculates the change using millions of chain-weighted 1996 dollars.

SOURCES: U.S. Department of Commerce, 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.

2002. Although real spending also decreased at the start of 2003, its decline has been less substantial.

Manufacturing activity, which seemed poised to rebound at certain points in 2002, continues to be lethargic. According to the Industrial Production Index, total manufacturing output fell for the third straight month in April. Furthermore, the overall factory operating rate dropped to 72.5% of capacity, its lowest level since May 1983. Manufacturing output and capacity utilization, which slipped into troughs in December 2001, seemed to be gaining momentum in

early 2002. But after peaking in August, both measures declined once again. In early 2002, the Institute for Supply Management's Composite Index seemed to indicate an expansion. But this May, although the index rose from 45.4 to 49.5, it remained under 50 for the third straight month, indicating continued contraction within the manufacturing sector.

Manufacturing's malaise may be most apparent in employment figures. The sector has shed jobs every month starting with August 2000. The deceleration of job losses in early 2002 prompted hope that manufacturing

might have begun to recover. In the past three months, however, its employment has posted sharp declines (totaling nearly 200,000 jobs). It has languished even relative to other sectors operating in the same economic environment. Real sales growth in manufacturing has been outpaced by both the retail and wholesale sectors in all but one month since January 2000. Real manufacturing sales growth was declining much of this time, where the retail and wholesale sectors often posted positive sales growth for the same period.