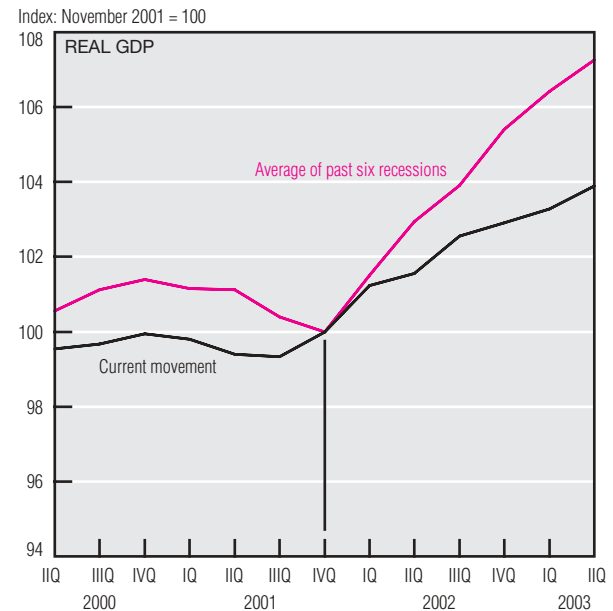
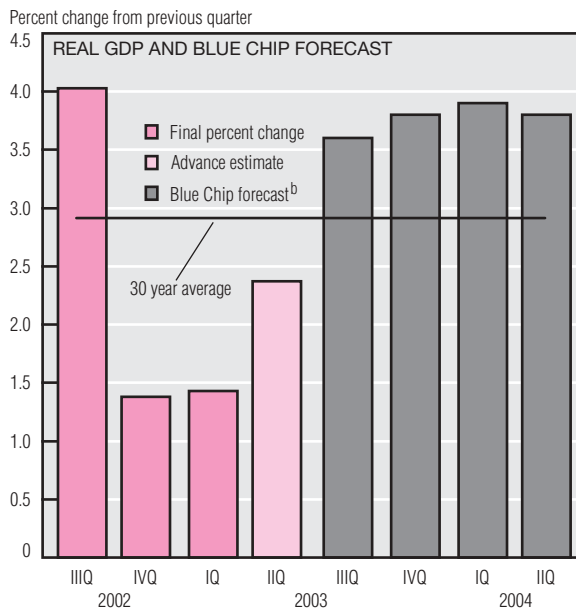
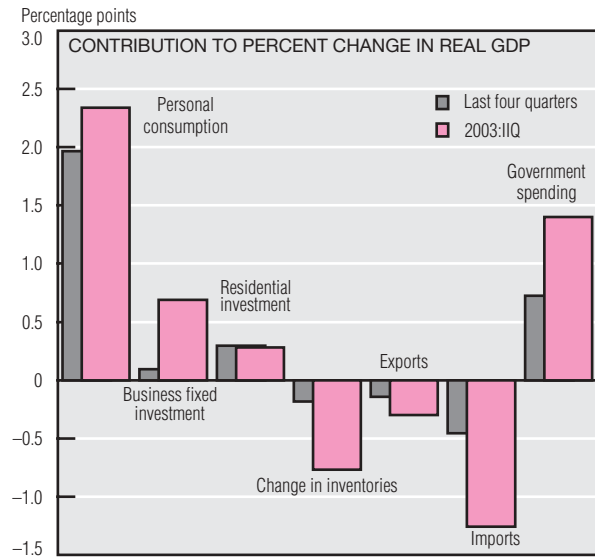


Economic Activity

	Change, billions of 1996 \$	Annualized percent change, last:	
		Quarter	Four quarters
Real GDP	56.1	2.4	2.3
Personal consumption	55.1	3.3	2.8
Durables	52.5	22.6	7.9
Nondurables	0.3	0.1	3.0
Services	14.1	1.5	1.7
Business fixed investment	19.6	6.9	0.9
Equipment	17.7	7.5	3.8
Structures	2.5	4.8	-7.8
Residential investment	6.0	6.0	6.6
Government spending	31.7	7.5	3.8
National defense	39.2	44.1	13.4
Net exports	-43.3	—	—
Exports	-8.4	-3.1	-1.5
Imports	34.9	9.2	3.2
Change in business inventories	-22.7	—	—



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*, July 10, 2003.

The advance estimate from the national income and product accounts revealed that real gross domestic product (GDP) rose at an annual rate of 2.4% during 2003:IIQ. Personal consumption expenditures boosted output growth; government spending also contributed substantially because of a 44.1% annualized increase in federal defense spending. In an encouraging sign for business activity, business fixed investment posted its strongest growth since 2000:IIQ. Increases in spending on equipment and software as well as business structures raised total output growth by

0.7 percentage point, a significant increase from its contribution during the last four quarters. However, inventory reductions dampened real GDP growth by nearly 0.8 percentage point. Falling exports and rising imports also subtracted from total output growth.

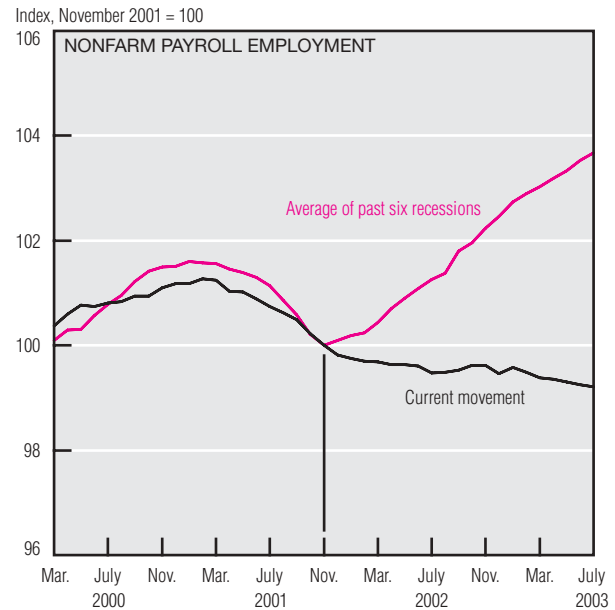
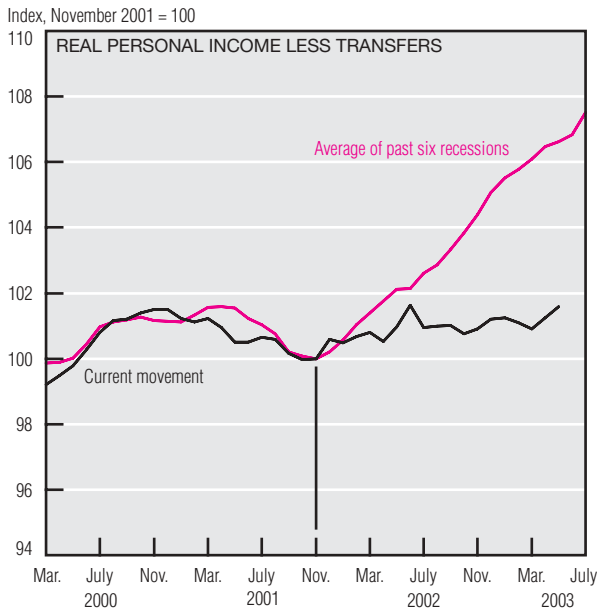
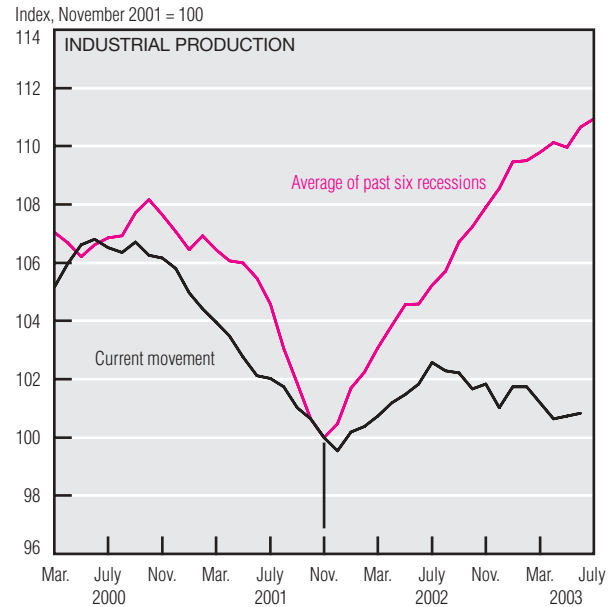
Real GDP growth in 2003:IIQ was the largest since 2002:IIIQ. Blue Chip forecasters expect the coming quarters to bring even stronger output growth—at a rate higher than the long-term average.

On July 17, the National Bureau of Economic Research announced that the recession that began in March 2001 ended in November 2001. Their

most recent memo noted that they put “considerable weight” on real GDP. Thus, real GDP growth played a major role in the official dating of the trough in economic activity. Following three consecutive quarters of negative output growth, real GDP increased at an annual rate of 2.7% during 2001:IVQ. In our current “expansionary” stage, total output growth has followed a slower trend than in the previous six business cycles, but it has grown fairly steadily since the end of this recession. It also has surpassed its pre-recession peak of 2000:IVQ.

(continued on next page)

Economic Activity (cont.)



NOTE: Vertical lines indicate the NBER-defined end of the 2001 recession.

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 National Bureau of Economic Research.

The task of dating the recession's end was complicated by evidence from other monthly indicators (especially employment) that diverged from output growth. Two of these indicators—real manufacturing and trade sales; and industrial production—receive less emphasis because they focus primarily on manufacturing and goods-producing sectors. Still, the NBER believes that the behavior of these series is consistent with a November 2001 trough. Although total sales bottomed out in September 2001, “extreme events” (in this case, the terrorist attacks) were downplayed in determining the cycle's turning

point. Sales recovered immediately after the attacks, only to decline again in November 2001. Since then, sales generally have been growing. Industrial production rose steadily during the first seven months of 2002, although it has once again tapered off.

Because the NBER believes that real personal income less transfers and nonfarm payroll employment reflect economy-wide activity, they emphasize these indicators. Until the trough date, real income closely followed the trend it displayed in past recessions. Since then, although it has surpassed its pre-recession peak, real income is still well below its normal trajectory.

Nonfarm payroll employment has shown even greater weakness. Indeed, it has continued a fairly steady downward slide since November 2001, and its divergence from recent output growth was largely responsible for the delay in assessing an end to the recession. The NBER judged that the recession was over because, even though employment declined, real GDP—the “single best measure of aggregate economic activity”—increased during the period (presumably from productivity gains). However, this does not preclude the possibility that a new, altogether separate, recession may have begun after November 2001.