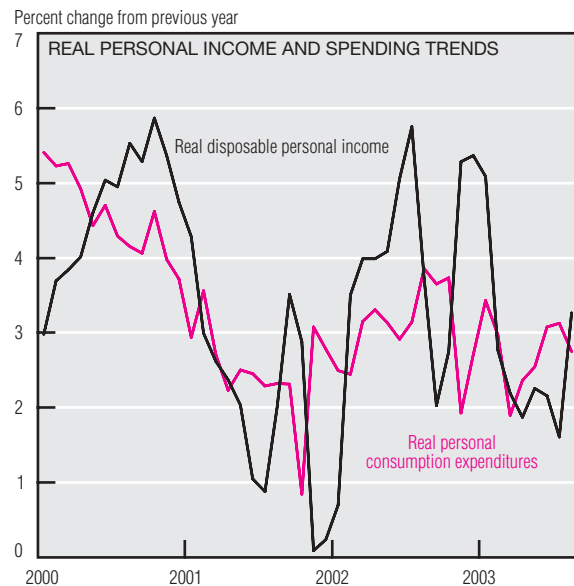
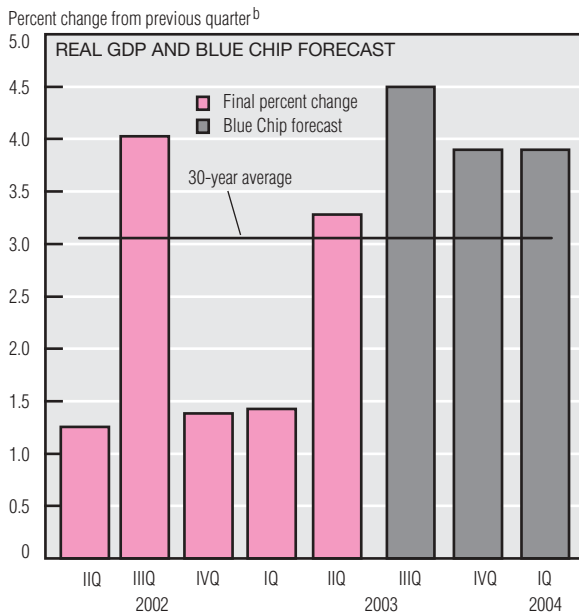
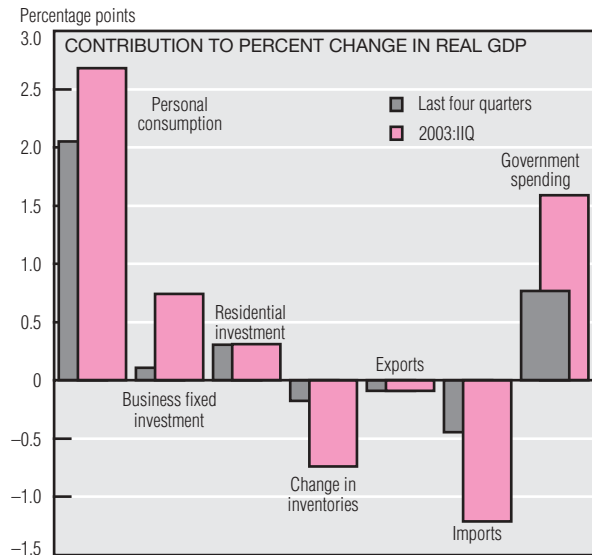


# Economic Activity

	Change, billions of 1996 \$	Annualized percent change, last:	
		Quarter	Four quarters
Real GDP	77.4	3.3	2.5
Personal consumption	63.0	3.8	2.9
Durables	56.1	24.3	8.2
Nondurables	6.7	1.4	3.4
Services	13.1	1.4	1.7
Business fixed investment	20.9	7.3	1.0
Equipment	19.6	8.2	4.0
Structures	2.2	4.2	-8.0
Residential investment	6.5	6.6	6.7
Government spending	35.9	8.5	4.1
National defense	40.5	45.8	13.7
Net exports	-35.8	—	—
Exports	-2.6	-1.0	-0.9
Imports	33.3	8.8	3.1
Change in business inventories	-22.4	—	—



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-weight indexes.

b. Blue Chip panel of economists.

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

The final estimate of real gross domestic product (GDP) for 2003:IIQ was 3.3%, revised up 0.2 percentage point from the preliminary release, with modest boosts in some sectors offsetting slight declines in others. Housing, inventories, and government spending contributed more to growth than was previously reported, whereas capital spending and net exports contributed less. Spending on durable goods, the strongest component of personal consumption

expenditures, rose 24.3% for the quarter. Leading the way for government spending, defense spending went up \$46 billion, an annualized increase of 45.8% over the previous quarter and 13.7% over the past year. Residential investment remained strong, up 6.6%.

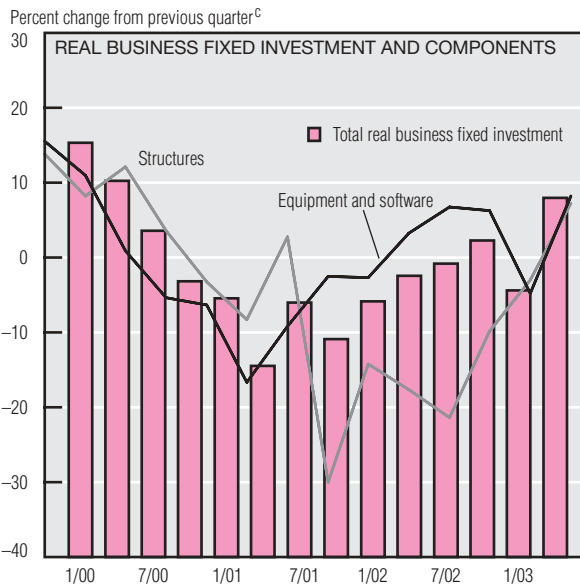
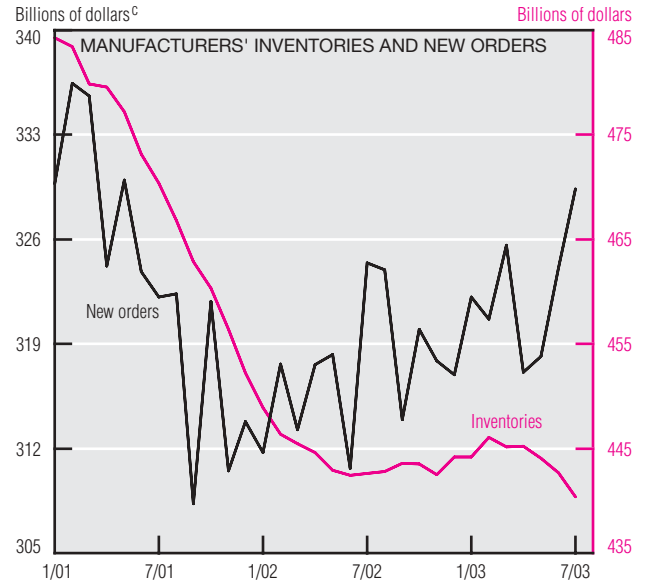
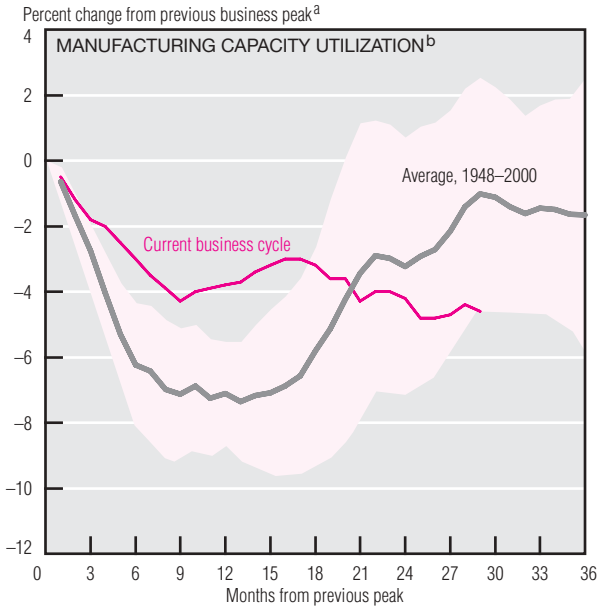
The revisions did not affect which categories contributed most to the 2003:IIQ increase in real GDP. These remained personal consumption expenditures (2.7 percentage points),

government spending (1.6), and non-residential fixed investment (0.3). Inventory investment (-0.7) and imports (-1.2) continued to constitute a significant drag on real output growth.

Blue Chip forecasters are optimistic about the outlook for GDP growth in the next few quarters. They forecast growth of 4.5% in 2003:IIIQ and 3.9% in each of the two quarters after that, well above the 3.1% average growth rate of the last 30 years. Supporting this optimistic

(continued on next page)

## Economic Activity (cont.)



a. Seasonally adjusted.

b. The shaded area represents a 95% confidence interval (the 1948–2000 average, plus or minus two times the standard error).

c. Seasonally adjusted at annual rates.

d. Corporate profits with inventory valuation and capital consumption adjustments.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and U.S. Department of Labor, Bureau of Labor Statistics.

view, real disposable income rose almost 3.3% over the last year, outpacing the 2.7% posted by real personal consumption expenditures.

Observers seeking confirmation that the economy continues to improve must look beyond August's 72.7% reading for manufacturing capacity utilization. Although this series performed better than usual in the six quarters since the last business cycle peak, its performance relative to previous business cycles

worsened over the last few months and is now in the lower range of the average postwar experience.

Fortunately, there are also several positive signs for future economic activity. Even though manufacturers have continued to economize by trimming their inventories, new orders have trended up for the last two years.

Another positive sign is that overall business fixed investment rebounded nearly 8% in 2003:IIQ. In fact, investment in equipment and software grew

8.2% and has risen in four of the last five quarters. Investment in structures grew 7.2%, its first increase since 2001:IIQ.

Finally, corporate profits have continued their comeback, rising 10.8% between 2003:IQ and 2003:IIQ. If corporate profits remain strong, firms will be in a good position to take advantage of new opportunities and perhaps raise employment.