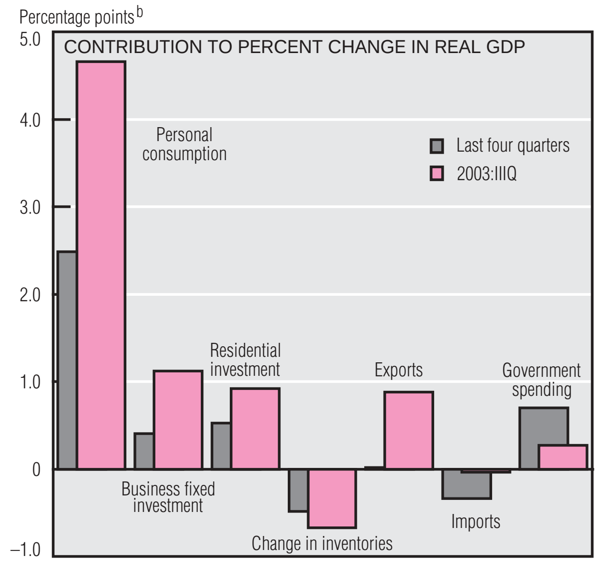
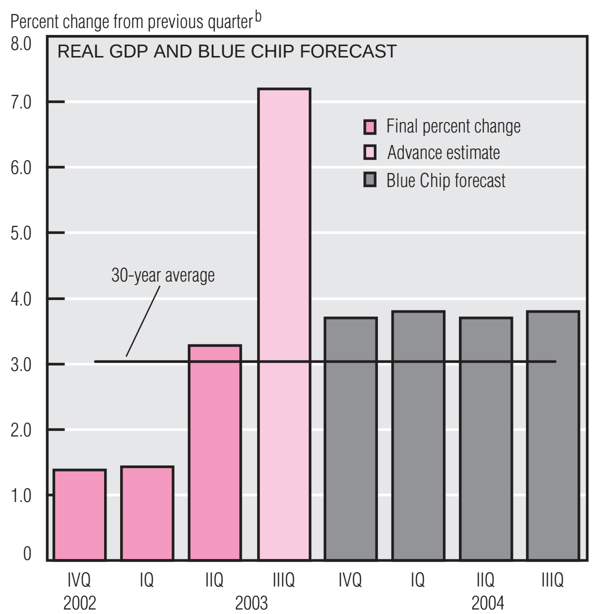
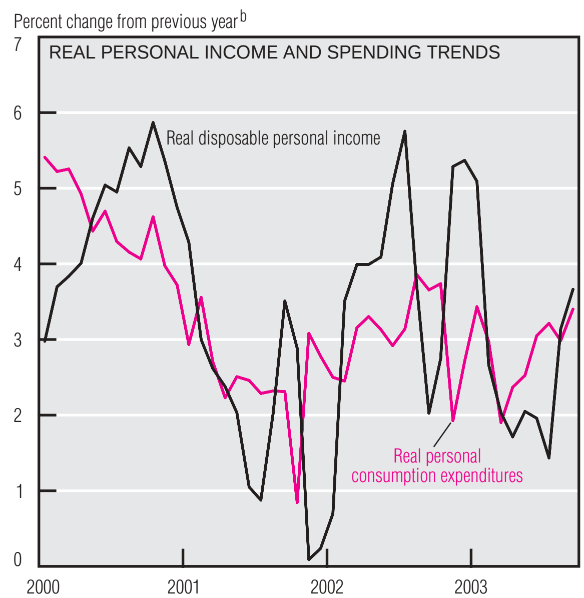
Economic Activity

Real GDP and Components, 2003:IIIQ[a]
(Advance estimate)

	Change, billions of 1996 $	Annualized percent change, last: Quarter	Annualized percent change, last: Four quarters
Real GDP	167.8	7.2	3.3
Personal consumption	108.2	6.6	3.5
Durables	65.1	26.9	9.1
Nondurables	38.1	7.9	5.1
Services	20.5	2.2	1.7
Business fixed investment	53.8	14.0	6.2
Equipment	36.5	15.4	6.0
Structures	–1.3	–2.4	–2.9
Residential investment	19.6	20.4	11.5
Government spending	5.7	1.3	3.7
National defense	0.0	0.0	11.9
Net exports	23.5	—	—
Exports	23.8	9.3	0.1
Imports	0.3	0.1	2.3
Change in business inventories	–18.2	—	—







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. Data are seasonally adjusted and annualized.
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and *Blue Chip Economic Indicators*, October 10, 2003.

Real gross domestic product (GDP) skyrocketed to an advance estimate of 7.2%, the highest growth rate since 1984:IQ and a full percentage point higher than most forecasters had expected. (One caution: This number will be subject to more than the usual amount of revision because the series will be re-benchmarked in December.) Consumer spending (6.6%), business fixed investment (14.0%), and residential investment (20.4%) led the way. Foreign trade statistics were also encouraging: Exports surged 9.3%, whereas imports grew a scanty 0.1%. Government spending was up only 1.3%, partly because defense spending was flat. Inventories (down $18.2 billion, the largest decline since 2001:IVQ) and investment in structures (down 2.4%) were the only negative components.

Personal consumption expenditures alone contributed 4.7 percentage points to real GDP growth. Business fixed investment, residential investment, and exports each added about one percentage point. Inventories were the most significant drag, reducing real GDP growth by almost 0.7 percentage points.

While Blue Chip forecasters are optimistic about the outlook for GDP growth in the next few quarters, most expect the rate to fall back toward earth. On average, they anticipate that real GDP growth will be in the range of 3.7%–3.8% over the next four quarters, still well above the 3.1% average observed over the last 30 years. Income and spending numbers appear to support this strong outlook. Over the last year, real disposable personal income rose 3.7%, outpacing real personal consumption expenditures' 3.4% growth rate.

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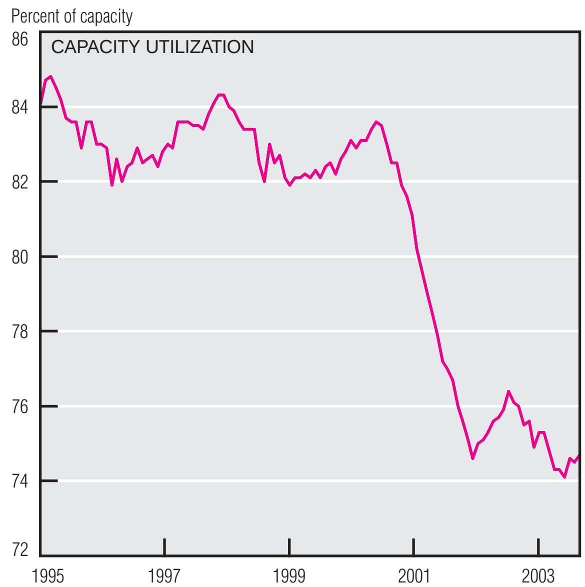
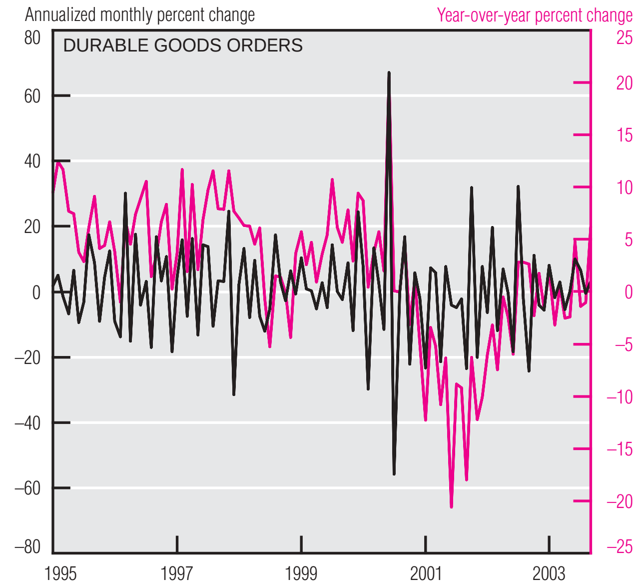
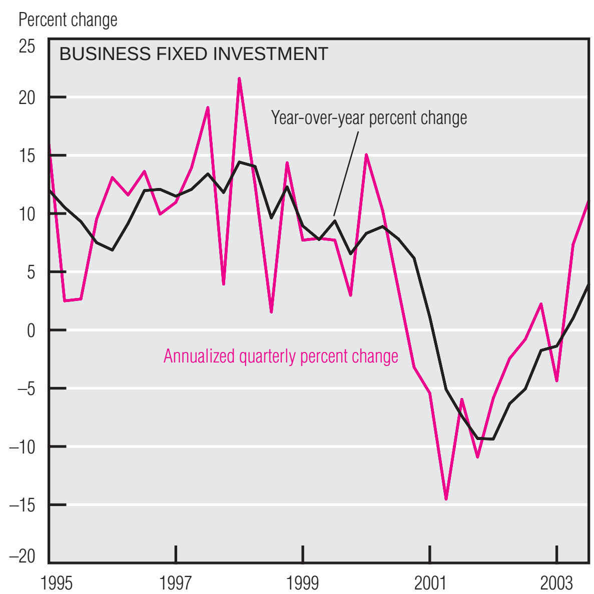
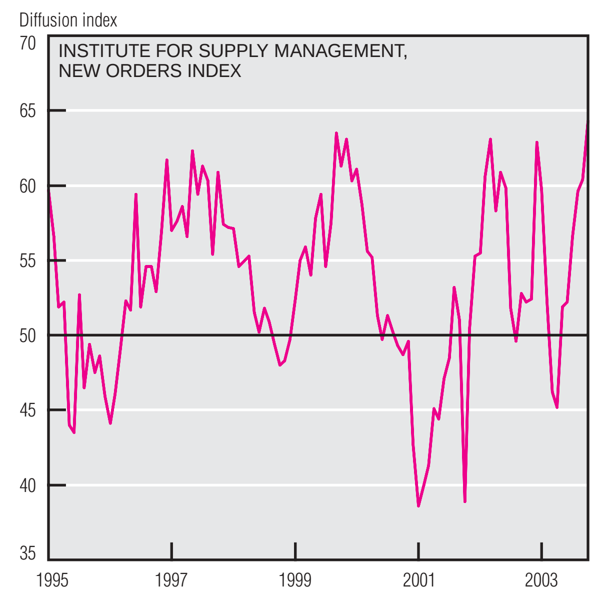
Economic Activity *(cont.)*









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

Now that the blockbuster GDP growth of 2003:IIIQ is history, the question is how much of it can be sustained. Many economists believe that the key is whether businesses finally gain enough confidence in the recovery to boost capital spending and hiring. Capacity utilization crawled up to 74.7% after bottoming out at 74.1% last June, but still remains very low.

Durable goods orders yield more promising numbers. This is a very volatile series, but an upward trend is apparent in the year-over-year growth rates. This series has rebounded fairly steadily and now stands at 6.2% after bottoming out at –20.6% in June 2001.

Further positive news can be found in business fixed investment. Fixed private nonresidential investment was up 11.1% last quarter, led by spending on equipment and software. On a year-over-year basis, this series grew 3.9%, its first positive change since April 2001.

Moreover, the Institute for Supply Management's New Orders Index soared to 64.3 from an already robust 60.4 and has been above 50 since last May. By construction, this diffusion index is bounded by zero and one, with a number greater than 50 indicating growth. The index is calculated from a monthly survey that asks purchasing managers about the general direction of orders. The survey includes roughly 400 manufacturing firms representing 20 industries and all 50 states.

Altogether, it seems likely that the expansion will continue, albeit with real GDP growth in the next few quarters closer to 4% than to last quarter's 7.2%.