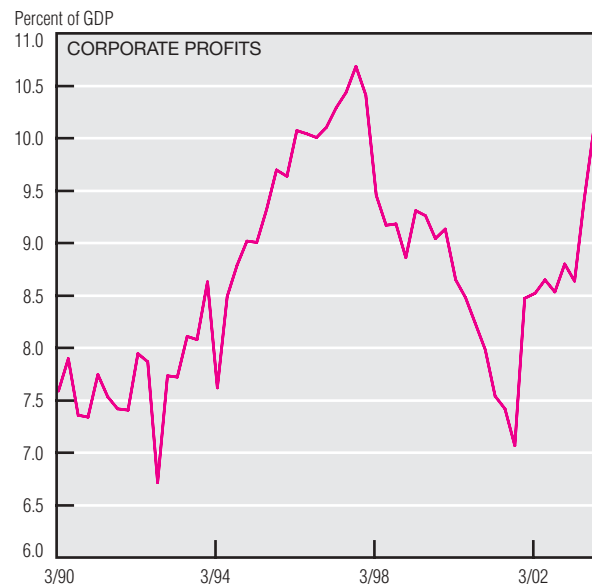
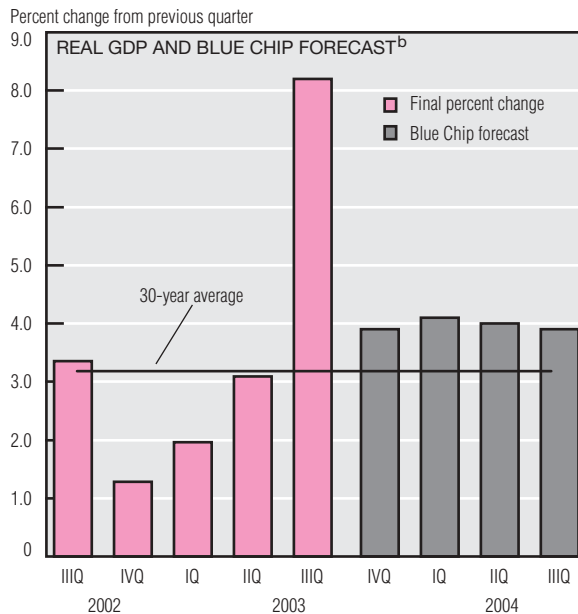
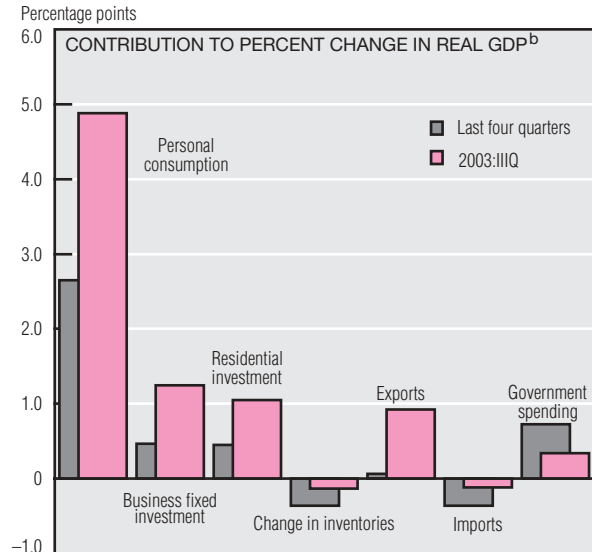


Economic Activity

	Change, billions of 1996 \$	Annualized percent change, last:	
		Quarter	Four quarters
Real GDP	204.8	8.2	3.6
Personal consumption	122.6	6.9	3.7
Durables	64.0	28.0	11.0
Nondurables	37.4	7.3	4.7
Services	28.8	2.8	1.9
Business fixed investment	33.7	12.8	4.6
Equipment	36.1	17.6	6.8
Structures	-1.1	-1.8	-1.9
Residential investment	25.0	21.9	9.2
Government spending	8.3	1.8	3.9
National defense	-1.6	-1.3	12.7
Net exports	20.8	—	—
Exports	24.1	9.9	0.6
Imports	3.2	0.8	2.6
Change in business inventories	4.6	—	—



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. Data are seasonally adjusted and annualized.

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

Even with a benchmark revision, the final real gross domestic product (GDP) for 2003:IIIQ contained no surprises. Real GDP surged ahead 8.2%, the same as in the last estimate. The only changes worth mentioning are that final sales were revised up slightly and inventory investment was revised down.

Real personal consumption accounted for 4.9 percentage points of the total increase in real GDP, far above the average increase of 2.6 percentage points over the last four quarters.

Business fixed investment was the next-largest contributor, adding another 1.25 percentage points. The only negatives were inventories and imports, each subtracting about 0.1 percentage point, but this was far less than the 0.4 percentage point drag that each exerted over the last four quarters.

Although Blue Chip forecasters do not expect the third quarter's out-sized real GDP growth to continue, they do predict that real growth will average nearly 4% over the next four

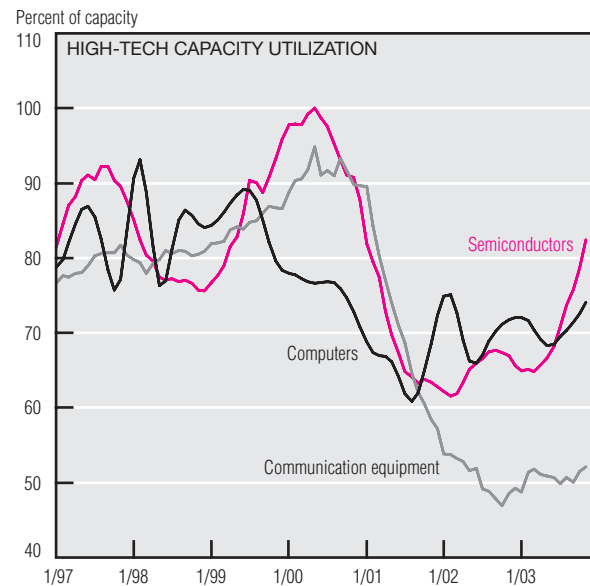
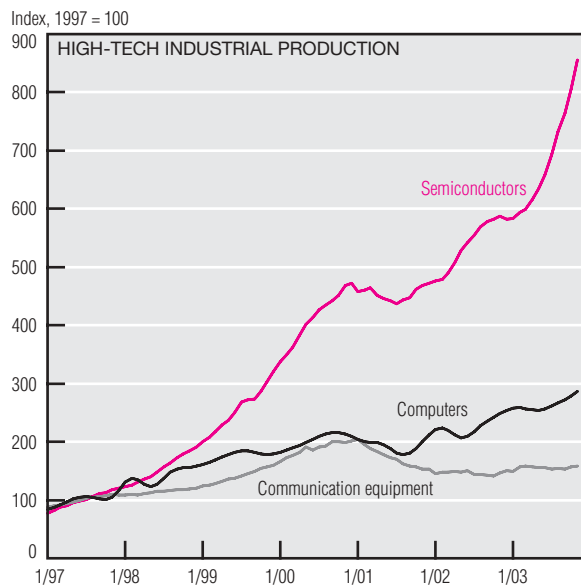
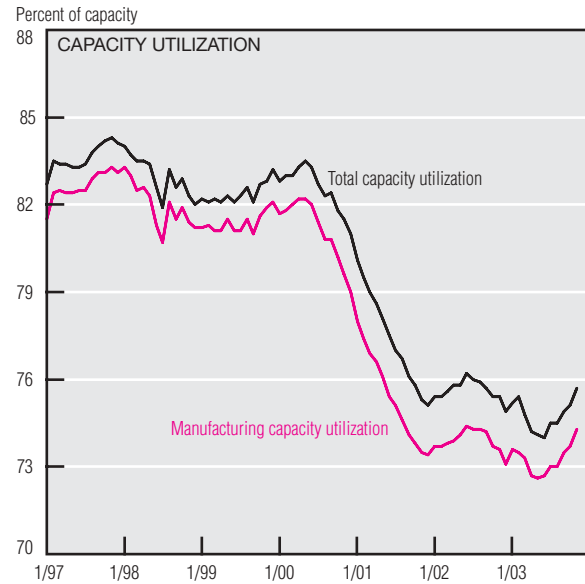
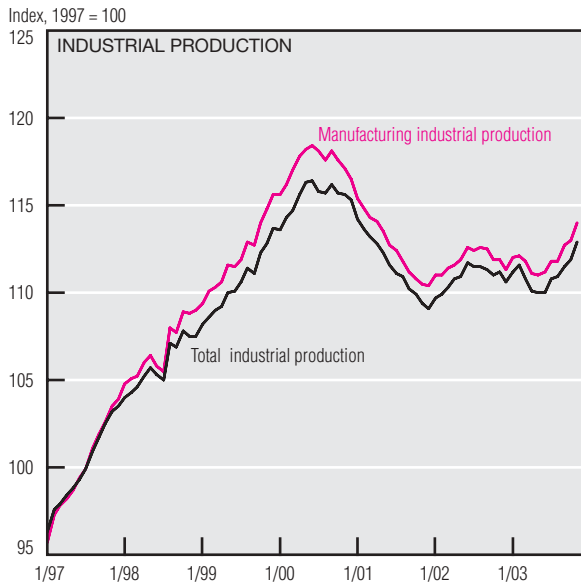
quarters. This is well above the 3.2% average growth of the last 30 years.

Investors will be very pleased with corporate profits' strong rebound. As a percent of GDP, corporate profits are at the highest level since 1997:IIIQ. Pretax earnings adjusted for inventory earnings and depreciation rose 9.9% in the third quarter of 2003, after pushing forward 10.3% in the second quarter.

Strong GDP growth in the second half of 2003 has boosted industrial

(continued on next page)

Economic Activity (cont.)



SOURCE: Board of Governors of the Federal Reserve System.

production and manufacturing production to their highest levels since March 2001, yet they remain about 3% below their respective June 2000 peaks. Mirroring this improvement in production, their rates of capacity utilization have also rebounded from the most recent lows. After falling as far as 74.0% for industrial production and 72.6% for manufacturing late last spring, in November they recovered to 75.7% and 74.3%, respectively. Nonetheless, they remain far below

the roughly 80% they tended toward in the late 1990s.

Performance for some high-tech industries has been a bit brighter. Semiconductor production is up more than 150% from January 2000. Although its capacity utilization is down from the remarkable 100% achieved in May 2000, the current 82.4% is much more sustainable, close to the 83.3% it averaged in the 1990s. Production of computers and peripheral equipment is up a still-impressive 57%, although its capacity

utilization of 74.4% is significantly below its 1990s average of 79.4%

Communication equipment manufacturers have recovered somewhat from the aftereffects of their boom around the turn of the millennium, but have not yet recovered fully. Production in this sector is still down about 5% from its January 2000 level, and capacity utilization remains at only 52.1%, which is higher than its 46.9% nadir but far lower than its 1990s average of 81.4%.