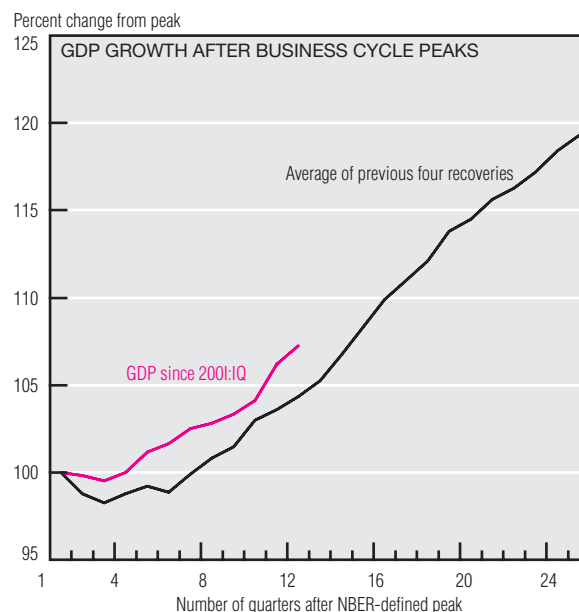
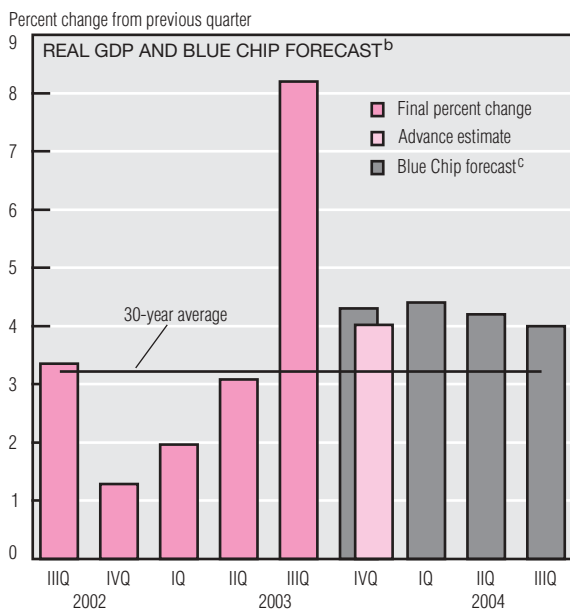
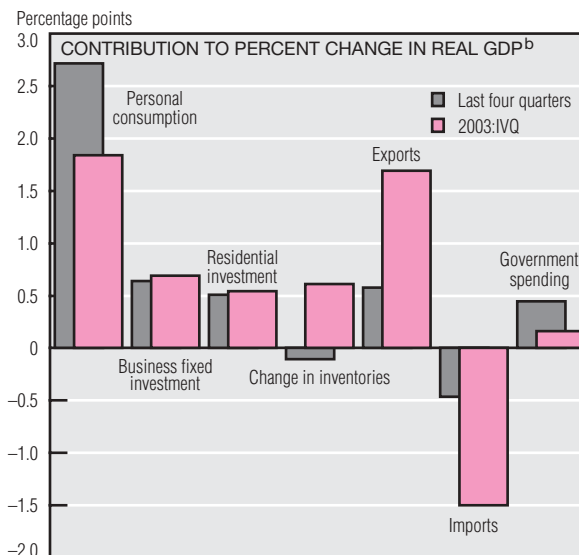


Economic Activity

| | Change, billions of 2000 \$ | Annualized percent change, last: | |
|--------------------------------|-----------------------------|----------------------------------|---------------|
| | | Quarter | Four quarters |
| Real GDP | 104.0 | 4.0 | 4.3 |
| Personal consumption | 47.6 | 2.6 | 3.8 |
| Durables | 2.3 | 0.9 | 11.2 |
| Nondurables | 23.3 | 4.4 | 4.6 |
| Services | 21.8 | 2.1 | 2.0 |
| Business fixed investment | 32.9 | 6.9 | 6.4 |
| Equipment | 21.9 | 10.0 | 8.9 |
| Structures | -1.8 | -3.0 | -1.3 |
| Residential investment | 13.1 | 10.6 | 8.9 |
| Government spending | 3.9 | 0.8 | 2.4 |
| National defense | 2.2 | 1.8 | 7.7 |
| Net exports | 4.5 | — | — |
| Exports | 46.2 | 19.1 | 6.1 |
| Imports | 41.7 | 11.3 | 3.4 |
| Change in business inventories | 15.2 | — | — |



a. Chain-weighted data in billions of 2000 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.

c. Blue Chip panel of economists.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and *Blue Chip Economic Indicators*, January 10, 2004.

The advance estimate from the national income and product accounts revealed that real gross domestic product (GDP) rose at a 4.0% annual rate during the fourth quarter of 2003, a little less than most forecasters had expected. Major contributors to the increase in real GDP included personal consumption expenditures, exports, equipment and software, inventory investment, and residential fixed investment. Personal consumption expenditures rose 2.6%, less

than the third quarter's 6.9% increase and less than 2003 as a whole. Exports posted substantial growth of 19.1% (annualized) and contributed 1.69 percentage points to total output growth. In an encouraging sign for business activity, equipment and software rose 17.6% in the third quarter and 10% in the fourth.

Government spending added 0.16 percentage point to output growth in 2003:IVQ, down from the previous quarter and below the 2003 average.

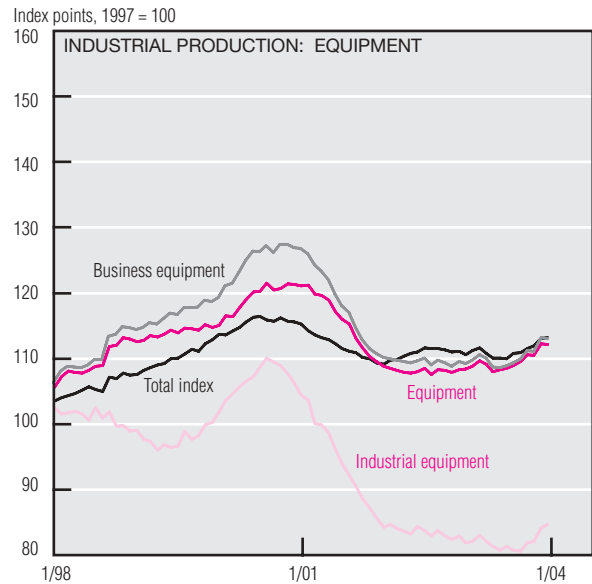
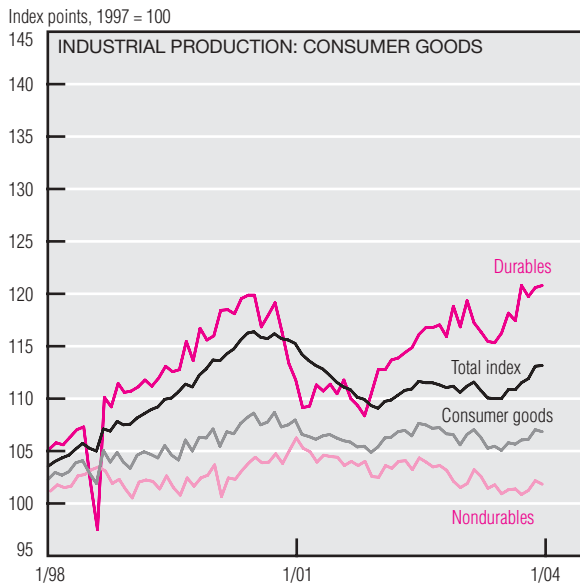
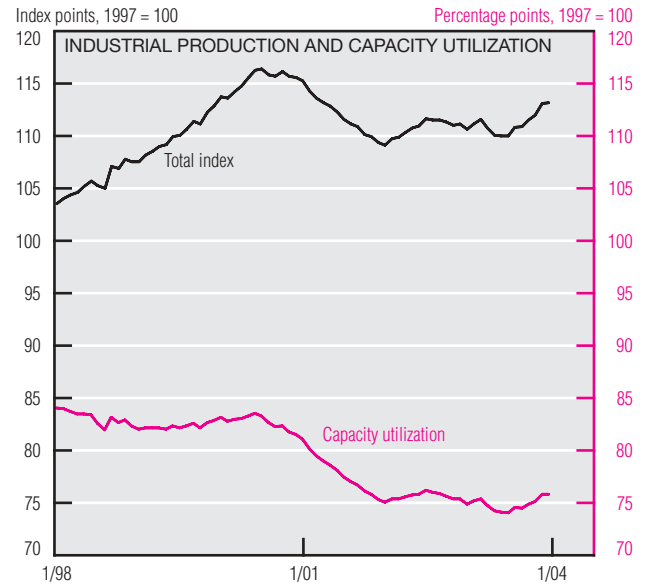
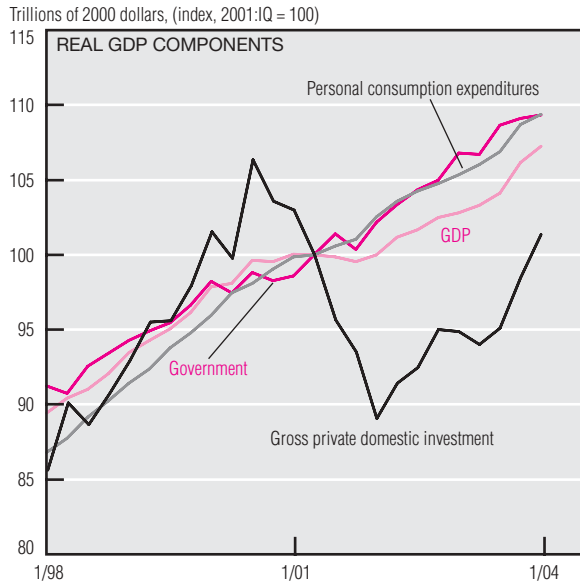
About half of the government contribution came from growth in national defense, which ticked up 1.8%, contributing 0.08% to output growth.

Residential fixed investment rose 10.6% and business fixed investment posted a 6.9% gain in 2003:IVQ, pushing fixed investment to an 8.1% increase.

Blue Chip forecasters expect that output growth in the next four quarters will be slightly higher than in 2003:IVQ.

(continued on next page)

Economic Activity (cont.)



NOTE: All data are seasonally adjusted.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and Board of Governors of the Federal Reserve System.

Gross investment increased markedly in 2003, but the investment-intensive aggregates of the industrial production index do not reflect this improvement. During the 2001 downturn, GDP consumption and government spending remained steady, whereas gross investment suffered large losses. As total GDP output improved in 2003, so did investment. Over the course of 2003, business fixed investment posted gains of 2.8%, reversing the negative changes of the previous two years.

Although GDP has surpassed the peak levels set in March 2001, total industrial production has not broken the highs established in June of 2000. Last December, the industrial production index rose only 0.1%. Moreover, the rate of capacity utilization was unchanged at 75.8% in December and is running well below the 30-year average of 81.3%.

The industrial production series related to the consumer portions of GDP have grown steadily, but equipment and other investment-

related aggregates have not performed as well. Consumer durable goods, which account for about 8% of the industrial production index, have grown at a higher rate than the index as a whole: Consumer durables are up 6.8% from March 2001, but the total index rose only 1.7%. Industrial equipment, which represents about 5% of the index, fell about 15% over the same period.