Preliminary estimates of the national income and product accounts showed that real gross domestic product increased at an annual rate of 1.1% in 2002:IIQ. August’s preliminary estimate of real GDP growth was essentially unchanged from July’s advance estimate. Personal consumption, residential investment, and government spending all increased. However, the growth rate for each of these categories was lower than in the previous four quarters. On a somewhat positive note, business fixed investment decreased only 2.6%—less than half its rate of decrease over the past year. The increase of $77.9 billion (chained 1996 dollars) in imports was more than double the increase in exports. Imports, the greatest drag on the economy, reduced real GDP growth by 2.8%. Changes in inventories gave GDP growth its biggest boost (1.4%).

Forecasters and consumers have reassessed their outlook in recent months. After July’s modest advance estimate of real GDP growth in 2002:IIQ, Blue Chip forecasters changed their projections. Now they do not expect quarterly real GDP growth to surpass its long-term average until 2003:IIQ (previously they had forecasted 2002:IIIQ). Consumer confidence measures likewise have remained depressed. In July, the Conference Board noted that falling stock prices, coupled with reports of corporate scandals, were damaging the Consumer Confidence Index. That index, as well as the University of Michigan’s Consumer Sentiment Index, declined further in August. They have moved in tandem throughout 2002.
After 2001, when sales of new and existing homes reached record highs, many observers expected the housing sector to cool off considerably, but events have not justified their fears. In July, new home sales rose nearly 7% to a record high of 1.02 million units (annual rate). Although existing home sales have retreated from the record high of 1.02 million units (annual rate) in January 2002, forecasters remain optimistic. Noting that existing home sales rose 4.5% in July, the National Association of Realtors projected that 2002 sales of existing homes would top the record set in 2001.

Overall, home prices have gained momentum in recent months. The median price of existing homes rose between February and June. Even after July’s modest decline, their price was $11,100 higher than a year earlier. The median price of new homes rose to a record $191,900 in February 2002; however, after a series of staggered declines, by July the price level was $170,500—lower than in July 2001. But remember that there are only about one-fifth as many new home sales as existing home sales. High prices have prompted talk of a “housing bubble,” but whether recent prices warrant that label remains to be seen.

As vigorous demand drove overall home sales up in July, housing inventories declined. Since January 2002, inventories of existing homes have risen and those of new homes have fallen. The level of housing starts appears more volatile in 2002 than in the previous year. Even after the most recent decline, July’s annualized rate of housing starts surpassed all but two months in 2000–2001.