According to the final estimate from the national income and product accounts, real gross domestic product (GDP) increased at a 1.3% annual rate in 2002:IIQ, substantially lower than its vigorous showing in 2002:IQ. Personal consumption expenditures rose a moderate 1.8%; this category alone contributed 1.2 percentage points to GDP growth. Exports and changes in inventories also contributed significantly to the second-quarter increase in real GDP. Exports increased almost $35 billion (chained 1996 dollars). This reversed the trend of the last four quarters and contributed 1.3 percentage points to real GDP growth. But import spending increased more than twice as much as export spending. Imports were the heaviest drag, subtracting 2.7 percentage points from GDP growth.

The final estimate of real GDP growth in 2002:IIQ barely surpassed the advance and preliminary estimates. However, Blue Chip forecasters do not expect real GDP growth to exceed its long-term average until 2003:IQ.

Spending on business fixed investment has shown signs of weakness for nearly two years. This weakness is evident in its failure to post a quarterly gain since 2000. Some encouragement comes from spending on equipment and software (one of the major sub-indexes of business fixed investment); in 2002:IIQ, it showed an increase of 3.3% (annual rate), its first quarterly gain since 2000:IIIQ. In another favorable development, overall business fixed investment fell only 2.4% (annual rate) in 2002:IIQ, rather than the 6.3% decrease it posted over the last four quarters.

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In the 1990s, productivity accelerated from the anemic 1.3% growth rate it posted for much of the 1970s and throughout the 1980s. Since 1991, productivity has increased at an average annual rate of 2.11%. But this is still less than productivity’s average 2.9% advance before the slowdown of the mid-1970s.

Some worry that the past decade’s strong productivity gains may prove ephemeral. Productivity has recently rebounded, but it slowed to a crawl, advancing only 0.2% between 2000:I:Q and 2001:I:Q. Certainly, 0.2% is a slow growth rate, but it is robust considering that the economy slipped into a recession in March 2001. In fact, productivity held up far better during the latest recession than in earlier downturns.

Where does this strong productivity growth come from? Simply, it is the result of information technology, whose contribution to growth leaped from 0.68% in 1974–90 to 1.70% in 1996–2001. This increase of 1.02 percentage point is more than the 0.89 percentage point increase in total labor productivity between the same two periods.

The IT revolution’s responsibility for recent productivity gains explains the widespread belief that we have passed into a “new economy.” Dissenters from this view fear that strong productivity growth is concentrated in certain high-tech sectors, but this fear seems unwarranted because 38 of 61 industries showed an uptick in productivity between 1987–95 and 1995–2000.