According to the preliminary estimate, real gross domestic product (GDP) grew at an annual rate of 1.4% during 2002:IVQ. A decline of 8.5% (annual rate) in durable goods spending dampened quarterly personal consumption growth. Business fixed investment, however, reversed its trend of the past four quarters, increasing 2.5% (annual rate). Although government spending boosted output growth by $20.7 billion (1996 chained dollars), the decline in net exports was nearly twice that amount.

February’s preliminary estimate doubled the 0.7% annual rate of real GDP growth reported in January’s advance estimate. Personal consumption, business investment, residential investment, and government spending all contributed more to real GDP growth than initially estimated. Contributions from exports and imports were both revised downward. Among the major components, inventory change showed the most substantial revision. The contribution from changes in inventories increased from –0.6 percentage points to 0.2 percentage points. During the first half of 2002, inventories declined in all sectors compared to the previous year, but retail inventory growth began to pick up in the latter half of the year. In 2002:IVQ, retailers posted solid year-over-year inventory growth, and manufacturers and wholesalers decelerated their inventory cuts.

After the revision, the real GDP growth rate for 2002:IVQ was still only about half of its long-term average of 3.0% (annual rate). However, the Blue Chip forecast calls for improved growth throughout 2003.

Business fixed investment’s nominal share of GDP has fluctuated around 10% over time, but its real
Economic Activity (cont.)

The 2001 recession is unusual in that capacity utilization, which typically is much higher than its long-run average when a downturn begins, was close to its postwar average. The same phenomenon occurred in the 1990 downturn; it may be related to managers having better information, which enables them to time investment according to their capital needs. However, unlike the previous downturn, this time better information did not prevent capacity utilization from dropping to a low similar to other postwar recessions.

Changes in the investment rate are correlated with the level of capacity utilization. When capacity utilization is high, the investment rate tends to pick up; low levels of capacity utilization are associated with a slowdown in the investment rate. An anomaly of this recovery is that the rate of change in investment appears to be reviving much earlier than capacity utilization, which remains near the cycle’s low.

One way to measure the severity of the recent recession is to compare capacity utilization’s performance since the last business cycle peak with its performance in previous cycles. Capacity utilization started out relatively strong in the latest downturn, but lately has approached its average level for this stage in a cycle. In that respect, it has behaved like the unemployment rate, which also did better than average shortly after the last peak but has since fallen much closer to its average.

NOTE: All data are seasonally adjusted. Shaded bands indicate NBER-defined recessions. The most recent recession is assumed to have ended in December 2001.

a. Nominal and real business fixed investment are taken as ratios of nominal and real GDP, respectively.
b. Standardized index values equal the series’ actual value minus their average over the timeframe, divided by their standard deviation. The standardized average of each series over the timeframe is zero.
c. Represents a centered, three-quarter moving average of the percent change in the proportion of real business fixed investment to real GDP.
d. Boundaries within the upper and lower ranges represent a 95% confidence interval (the average plus or minus two times the standard error).