In the national income and product accounts’ final estimate for 2002:IVQ, real GDP grew at a 1.4% annual rate. Consumer spending increased $28 billion (chained 1996 dollars) but was constrained by an 8.2% decline in durable goods expenditures. Still, personal consumption was the leading contributor to the increase in real GDP, adding 1.2 percentage points. Business and residential investment also advanced output growth, contributing nearly 0.7 percentage point between them. Government expenditures, boosted by robust national defense spending, provided another output stimulus. Although inventory investment rose $7.0 billion, its 2002:IVQ contribution to real GDP growth was far below that of the previous four quarters. Exports fell 5.8%, reversing the trend of the past year.

After doubling from the advance to the preliminary estimate, 2002:IVQ real GDP growth remained unchanged in the final estimate. The four quarters of 2002 alternated between vigorous and sluggish real GDP growth. However, Blue Chip forecasters predict that output will increase progressively throughout 2003. According to long-range projections conducted twice a year, Blue Chip forecasters have become more pessimistic, revising 2003 real GDP growth downward since last October, but they now expect stronger growth in 2004–06 than they previously anticipated. While forecasters’ perceptions of the near-term may have shifted, their projections of real output growth five years from now have not; they still see the growth rate approaching its long-term average.

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Real business fixed investment (BFI) is likely to be closely monitored in 2003 because increased spending in this category could boost economic growth substantially. The 2.3% (annual rate) rise in real BFI in 2002:IVQ was the first increase since 2000:IIIQ. Its main source was spending on equipment and software, which accounted for the lion’s share of real BFI. The decline in spending on structures decelerated in 2002:IVQ, but this component of real BFI has been falling for more than a year.

In addition to decreasing their spending on new structures, businesses appear to be moving out of existing structures, as rising vacancy rates indicate. The trend is more pronounced for office than industrial buildings; in 2002:IVQ, 15.6% of office buildings and 11.5% of industrial buildings were reportedly vacant.

Profits from current production were a bright spot for businesses in 2002:IVQ, rising $25.1 billion (annual rate). This was the first increase in corporate profits since late 2001 and only the third increase in the past three years. But because the other two increases in corporate profits were immediately followed by retrenchments, it remains to be seen whether profit growth can be sustained. If it can, it may bode well for future real BFI. Blue Chip forecasters anticipate that real BFI will enjoy brisk growth during the next two years. They predict some sharp increases in equipment and software spending and believe that even spending on structures will begin to increase by 2004:IIQ.