



Joint Economic Committee

Chairman Robert F. Bennett

Economic Update

April 25, 2003

ECONOMY GREW 1.6% IN 1ST QUARTER OF 2003

The Bureau of Economic Analysis (BEA) announced this morning that real gross domestic product (GDP) grew at a sluggish 1.6 percent annual rate in the first quarter of 2003, slightly less than what many economists had expected. In the last quarter of 2002, GDP increased 1.4 percent.

A Closer Look at the 1st Quarter:

Business investment dropped 4.2 percent, when measured as nonresidential fixed investment. It has declined nine out of the last ten quarters. Business investment includes items like building a plant or buying equipment.

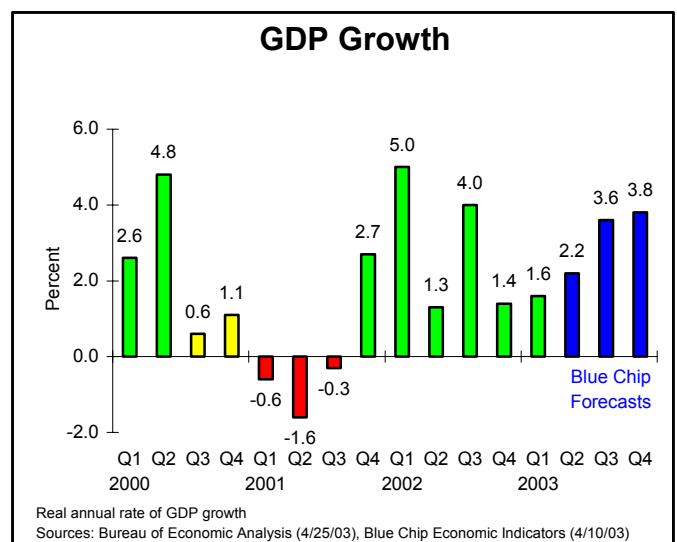
Consumer spending increased slightly at 1.4 percent, the lowest increase since the second quarter of 2001.

Net exports contributed to half of the increase in GDP because the trade deficit shrank. Both exports and imports declined, but imports declined even more.

What is GDP?

The Gross Domestic Product (GDP) is the most common measurement of overall activity in the U.S. economy. It combines dozens of measurements covering consumption spending, investment spending, government spending and net exports. Real GDP growth is the increase in GDP when adjusted for inflation. The non-partisan Bureau of Economic Analysis (BEA) in the Department of Commerce measures GDP on a quarterly basis. Today's announcement for the first quarter of 2003 is an "advance" report that will be revised later with a "preliminary" report on May 29th and a "final" report on June 26th.

You can access the GDP reports at www.bea.gov.



Does today's report reflect recent developments in Iraq?

Not really. It's important to keep in mind that the first quarter is the months of January, February and March. Operation Iraqi Freedom did not begin until March 19th. Therefore, today's report mostly reflects some of the build-up to the conflict and the uncertainty that surrounded it.

For example, national defense spending actually fell in the first quarter. The decline in defense spending occurred despite increases in government expenditures on reservists and transportation activities prior to the conflict. The BEA notes that expenditures on munitions show up in GDP when the items are produced and delivered to the military, not when they are used.