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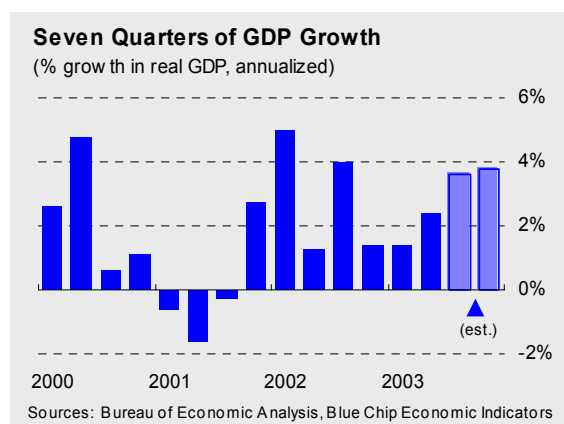
JULY 31, 2003

Economy Grew 2.4% in 2nd Quarter

The Bureau of Economic Analysis (BEA) announced this morning that real gross domestic product (GDP) grew at an estimated 2.4 percent annual rate in the second quarter of 2003, exceeding expectations; many economists had forecast growth of less than 2.0 percent. GDP was up broadly across the key components of aggregate demand: consumption, investment, and government spending, and down only in net exports. In the first quarter of 2003, GDP increased at a 1.4 percent rate.

Highlights

- **Business fixed investment increased at a 6.9 percent annual rate.** This is the strongest growth in investment since the second quarter of 2000.
- **Consumer spending increased at a 3.3 percent annual rate.** Consumers have been a consistent source of growth throughout the economic recovery.
- **Personal incomes grew at a 3.3 percent annual rate.** Growth in personal incomes has provided key support for growth in consumer spending.



Why did today's report exceed expectations?

GDP growth in the second quarter exceeded expectations for two primary reasons. First, *business investment* rebounded more quickly than many economists had predicted (investment is the most important indicator of long-term growth in the economy). Business spending on equipment and software increased at a 7.5 percent annualized rate, the largest increase in three years. In addition, investment in offices, factories, and other structures increased at a 4.8 percent rate; this increase ends a streak of six straight quarters of declines. Second, *government spending* increased significantly, reflecting a sharp increase in *defense spending*.

These areas of strength were partly offset by the weak *trade balance*—imports increased sharply, while exports fell—and a decline in *business inventories*.

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 nonpartisan Bureau of Economic Analysis (BEA) in the Department of Commerce measures GDP on a quarterly basis. Today's announcement for the second quarter of 2003 is an "advance" report that will be revised later with a "preliminary" report on August 28th and a "final" report on September 26th. You can access the GDP reports at www.bea.gov.

Committee Publications

JEC publications released in the past month:

- “Economy Grew 2.4% in 2nd Quarter,” July 31, 2003. Gives a snapshot of the latest estimate of the gross domestic product (GDP).
- “Understanding Today’s Deficits,” July 23, 2003. Puts budget deficits into perspective with the size of the economy, and provides evidence for why economic growth and spending restraint is the solution for reducing the deficits.
- “Recent Economic Developments: Poised for a Pickup in Growth,” July 8, 2003. Summarizes economic data from June and prospects for future economic growth.
- “New Possibilities for Financing Roads,” July 7, 2003. Discusses proposals to allow states to expand their use of tolls and to take advantage of the benefits of congestion pricing.
- “Putting the U.S. Economy in Global Context,” June 24, 2003. Compares economic growth – as measured by GDP – in the U.S. and other major economies.

Other recent JEC publications include:

- “Prescription Drugs Are Only One Reason Why Medicare Needs Reform”
- “Health Insurance Spending Growth – How Does Medicare Compare?”
- “Medicare Beneficiaries’ Links to Drug Coverage”
- “A Primer on Deflation”
- “Economics of the Debt Limit”

Recent JEC hearings include:

- “Technology, Innovation, and the Costs of Health Care,” July 9, 2003.
- “Transforming Iraq’s Economy,” June 11, 2003.

Copies of the above publications can be found on-line at the committee’s website at jec.senate.gov. Publications issued by the vice-chair and ranking member can be accessed via the same website.