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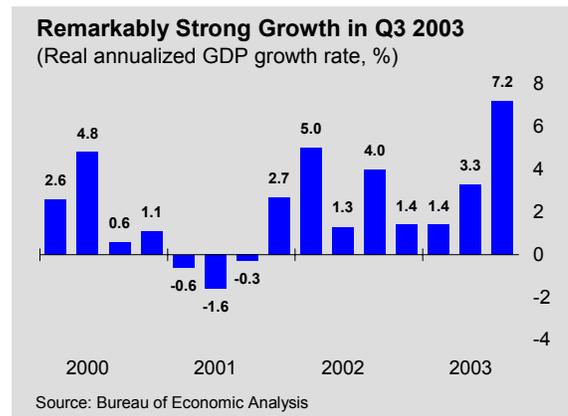
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Economic Growth Jumped 7.2% in 3rd Quarter

The Bureau of Economic Analysis (BEA) reported today that real gross domestic product (GDP) grew at an estimated 7.2 percent annual rate in the third quarter of 2003, the largest increase since 1984. Today's report significantly exceeded expectations. Many economists this week had predicted roughly 6 percent growth, and earlier this month the Blue Chip consensus forecast was just 4.9 percent.

Highlights

- **Business fixed investment increased at an 11.1 percent annual rate.** This is two quarters in a row of investment growth.
- **Consumer spending increased at a 6.6 percent annual rate, the fastest since 1997.** Recent tax relief helped fuel a strong increase in disposable income, boosting consumer spending.
- **Exports increased at a 9.3 percent annual rate.** Imports were essentially flat, so the trade deficit declined.



Why did GDP grow so fast in the third quarter?

Consumer spending accounted for nearly two-thirds of the GDP growth. Large gains in disposable income – individuals' after-tax incomes – boosted the growth in consumer spending. Both the across-the-board reductions in personal income taxes and child tax credit refunds that Congress passed earlier this year helped increase disposable income.

Business investment and net exports were also large contributors to GDP growth. Business purchases of equipment and software led the strengthening of business investment. At the same time, exports grew rapidly while imports were essentially flat. Third quarter growth was surprisingly strong despite the fact that businesses drew down their inventories to meet a surge in demand. Inventories are at low levels and businesses are likely to add to future GDP growth as they replenish their shelves. GDP also grew despite government spending leveling off. For example, defense spending was flat after a 45.8 percent increase in the second quarter.

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 third quarter of 2003 is an "advance" report that will be revised later with a "preliminary" report on November 25th and a "final" report on December 23rd. You can access the GDP reports on-line at www.bea.gov.

Committee Publications

JEC reports issued this month:

- “Recent Economic Developments: Most Recent Data Confirm Strengthening Economy,” October 15, 2003. Reviews economic indicators released in the past month and prospects for future economic growth.
- “2003 Deficit Lower Than Projected,” October 15, 2003. Explains the new budget deficit estimate from the Congressional Budget Office for the fiscal year that ended on September 30th.
- “A Portrait of the Personal Income Tax Burden in 2001,” October 14, 2003. Discusses how federal tax revenues are dependent on a small group of high income earners and other issues about new tax distribution data from the IRS.
- “A Tale of Two Employment Surveys,” October 14, 2003. Update of previous report that explains how two employment surveys from the same monthly report paint a surprisingly different picture – one survey shows job losses, while the other shows job gains.

Other recent JEC reports include:

- “Constant Change: A History of Federal Taxes”
- “The Tax Reform Act of 1986: A Primer”
- “Understanding Today’s Deficits”
- “10 Facts about Today’s Economy”
- “Prescription Drugs Are Only One Reason Why Medicare Needs Reform”

Recent JEC hearings and events include:

- “Reshaping the Future of America’s Health,” October 1, 2003.
- “The Employment Situation,” September 9, 2003.
- “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.