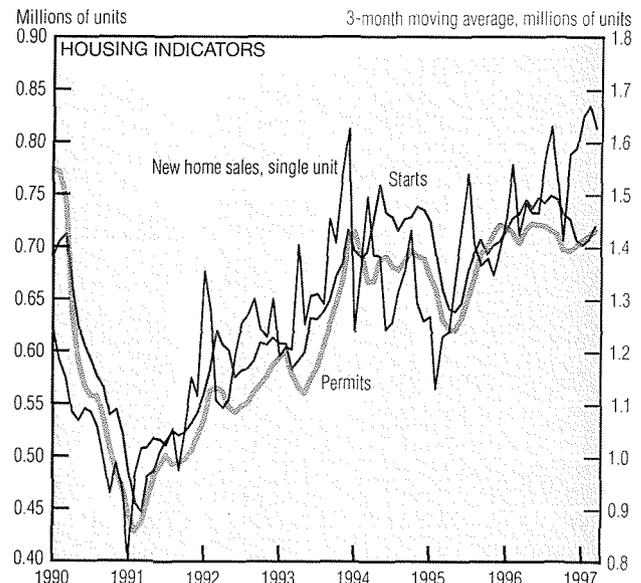
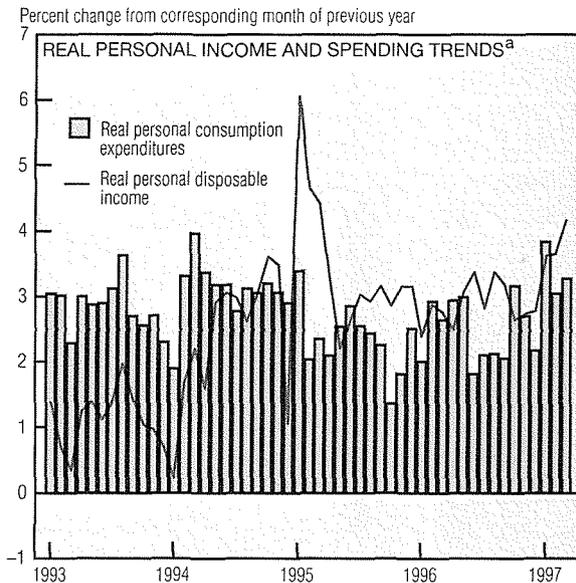
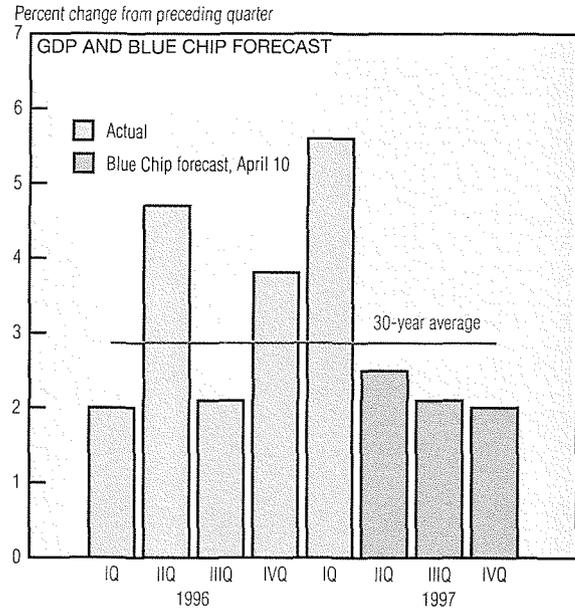


Economic Activity

	Change, billions of 1992 \$	Percent change, last:	
		Quarter	Four quarters
Real GDP and Components, 1997:IQ^a (Advance estimate)			
Real GDP	96.1	5.6	4.0
Consumer spending	73.5	6.4	3.4
Durables	28.8	19.9	8.1
Nondurables	22.3	6.3	2.4
Services	23.4	3.6	2.8
Business fixed investment	22.6	11.9	9.6
Equipment	18.2	12.8	9.6
Structures	4.6	9.5	9.5
Residential investment	3.7	5.5	3.4
Government spending	-1.8	-0.6	1.3
National defense	-8.1	-10.1	-3.4
Net exports	-31.9	—	—
Exports	17.0	8.1	9.1
Imports	48.8	21.9	10.9
Change in business inventories	29.0	—	—



a. Chain-weighted data in billions of 1992 dollars.
 NOTE: All data are seasonally adjusted.
 SOURCES: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; and *Blue Chip Economic Indicators*, April 10, 1997.

Advance estimates released by the Commerce Department in late April show real GDP rising 5.6% in the first quarter—the largest gain in nearly 10 years and one that substantially exceeded expectations. Economists participating in April's Blue Chip survey were anticipating a 3.1% growth rate. Although the Commerce Department's advance estimates are constructed with preliminary and incomplete data, an analysis of past GDP revisions sug-

gests that the reestimate of the first-quarter growth rate (to be released in May and June) will not fall below 5.0%.

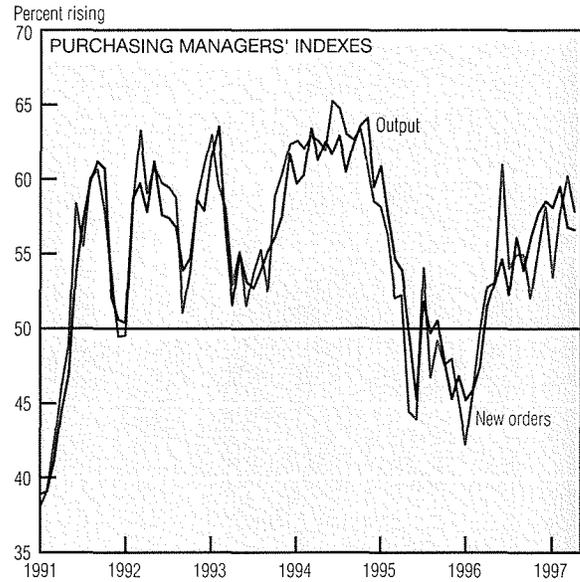
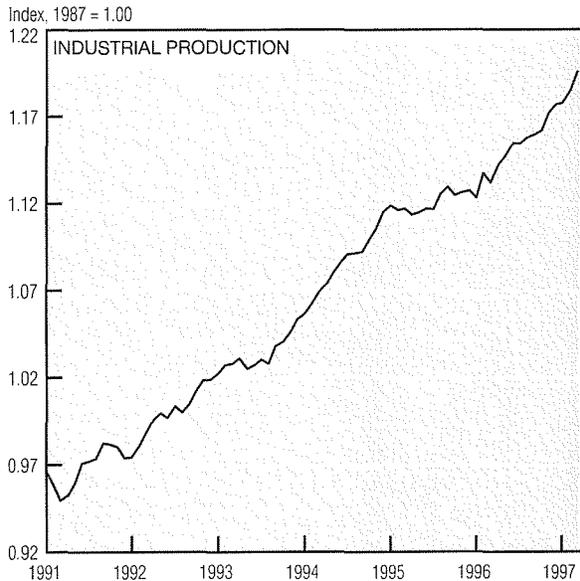
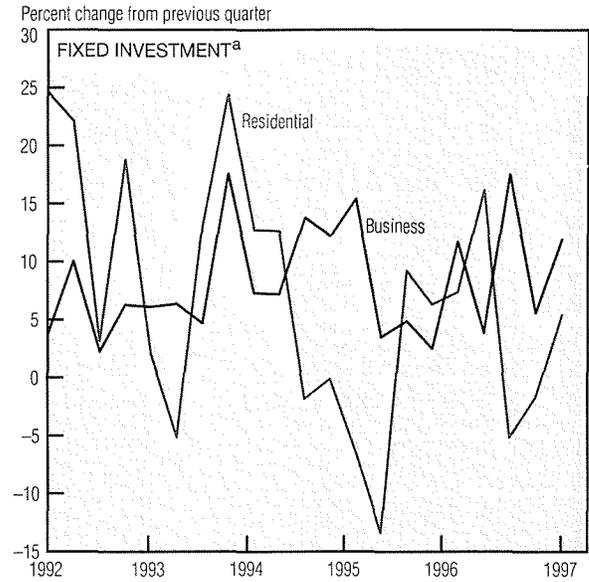
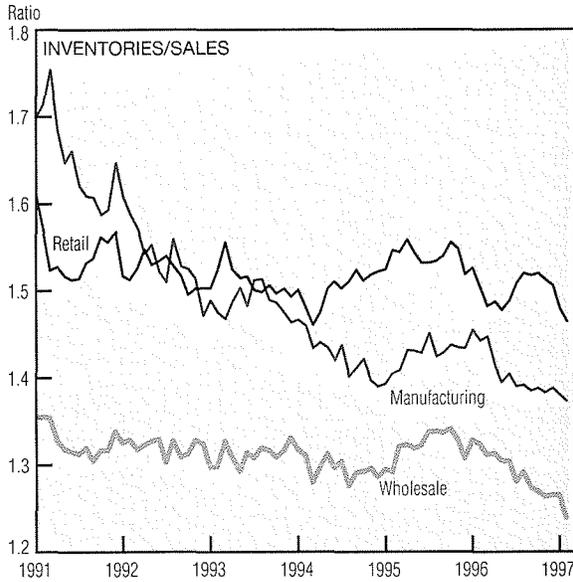
Consumer spending, inventory accumulation, and business fixed investment led the first-quarter advance. Although exports rose sharply, imports increased at an even faster rate, and the trade deficit widened. Government spending continued to contract.

Looking ahead, most analysts

now expect the economy's growth rate to slow to 2.0% by the end of the year. Forecasts tend to revert to that rate because many economists believe it is consistent with patterns of U.S. labor force participation, capital accumulation, and productivity gains over the past decade or so. Some observers, however, are beginning to question whether these estimates of the economy's growth potential are too low.

(continued on next page)

Economic Activity (cont.)



a. Chain-weighted data in billions of 1992 dollars.
 NOTE: All data are seasonally adjusted.
 SOURCES: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; Board of Governors of the Federal Reserve System; and the National Association of Purchasing Management.

Consumer outlays accounted for most of the first-quarter surge. Real personal disposable income increased at a healthy year-over-year clip during the winter months, fueling strong expenditure growth as well as some improvement in household balance sheets. New home sales declined slightly in March, but remain at high levels and continue to show strong year-over-year gains (9.4%). Housing starts and building permits also remain at healthy levels.

Another major component of the

first quarter's favorable growth performance was inventory accumulation. February's inventory-to-sales ratios (the latest available data) appeared low at the manufacturing, wholesale, and retail levels. Any subsequent buildup is likely to have been intended and should not hamper near-term growth.

Business fixed investment bounded ahead in the first quarter at twice the rate of total GDP, continuing the investment boom that started in 1991. Computers and related products accounted for most of this gain.

Residential investment reversed a two-quarter decline.

Industrial production jumped approximately 0.9% in April, with gains in every component. The industrial sector, which has demonstrated particularly strong growth since early 1996, is operating at 84.1% of capacity, a two-year high. The latest purchasing managers' survey also confirms the strength of the nation's industries. More than 54% of the respondents reported higher output and orders growth in April, marking the eleventh consecutive monthly reading above 50%.