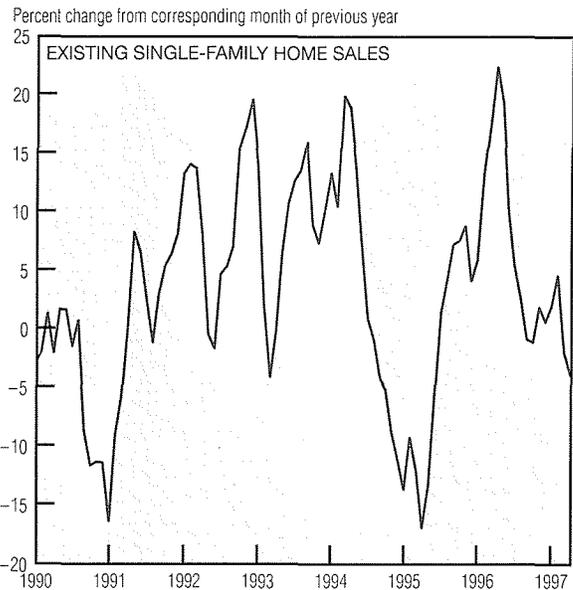
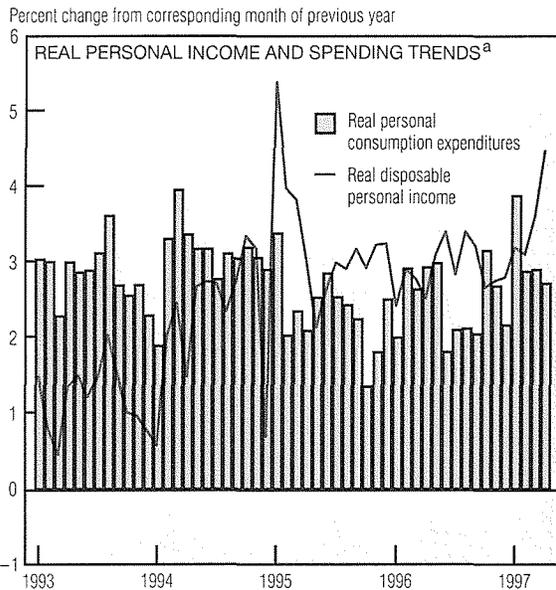
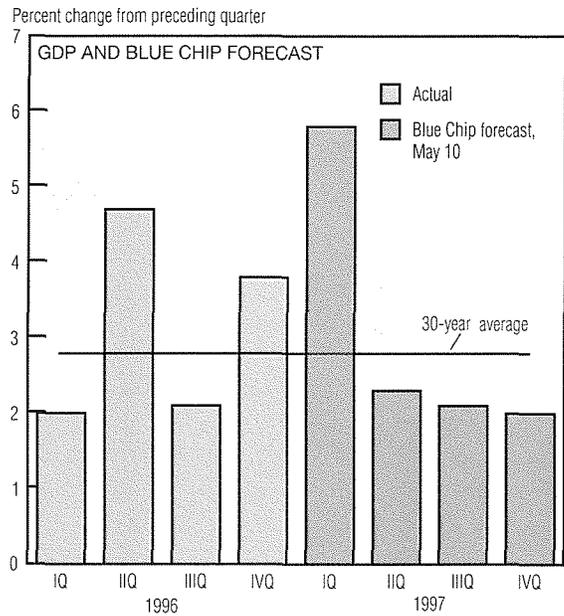


Economic Activity

	Change, billions of 1992 \$	Percent change, last:	
		Quarter	Four quarters
Real GDP and Components, 1997:IQ^a (Preliminary estimate)			
Real GDP	98.8	5.8	4.1
Consumer spending	66.2	5.7	3.2
Durables	28.0	19.4	8.0
Nondurables	17.4	4.9	2.1
Services	21.6	3.3	2.8
Business fixed investment	21.8	11.5	9.5
Equipment	18.9	13.4	9.7
Structures	3.1	6.4	8.7
Residential investment	4.0	5.9	3.5
Government spending	0.2	0.1	1.5
National defense	-8.1	-10.1	-3.4
Net exports	-28.4	—	—
Exports	23.1	11.1	9.8
Imports	51.6	23.3	11.2
Change in business inventories	34.3	—	—



a. Chain-weighted data in billions of 1992 dollars.

NOTE: All data are seasonally adjusted.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; National Association of Realtors; and *Blue Chip Economic Indicators*, May 10, 1997.

Preliminary estimates show that the economy grew 5.8% in the first quarter, slightly faster than previously reported. Upward revisions to inventory accumulation and exports partially offset a small downward adjustment to consumer spending. The first quarter's overall strength reflects advances in personal consumption, inventory accumulation, exports, and producers' durable equipment.

Economists participating in the

Blue Chip survey anticipate growth will be approximately 2.3% in the current quarter and will taper off to 2.0% by year's end. Forecasts of economic growth usually revert to a 2% trend—a rate that many believe reflects the economy's underlying growth potential. Recent evidence on labor force participation, capital accumulation, and productivity growth, however, suggests that 2% may be an underestimate. In fact, U.S. economic growth has averaged

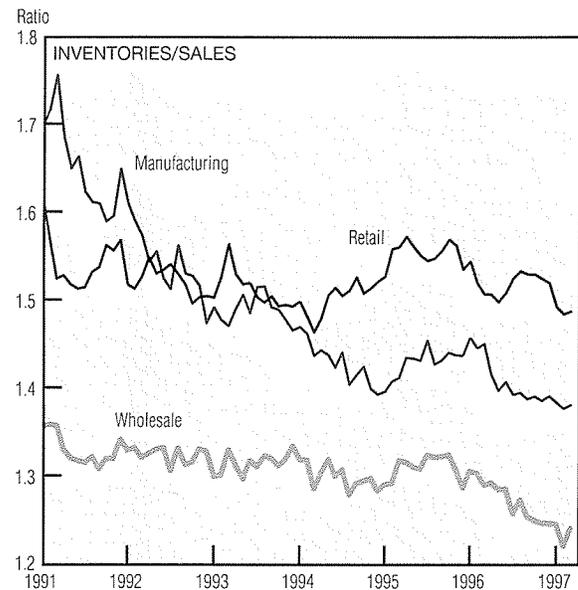
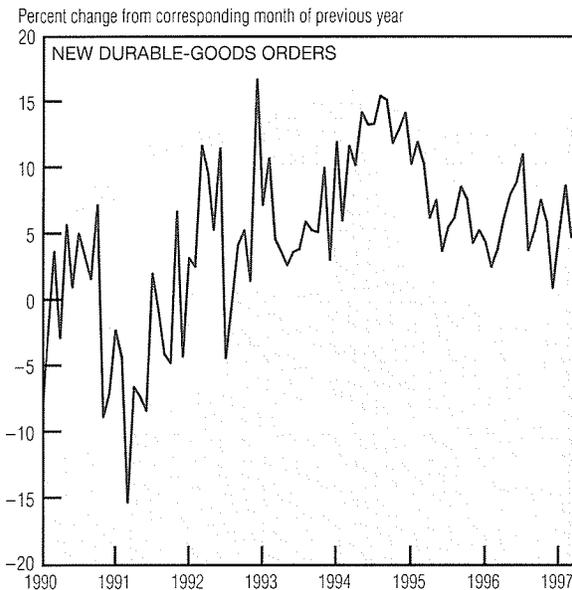
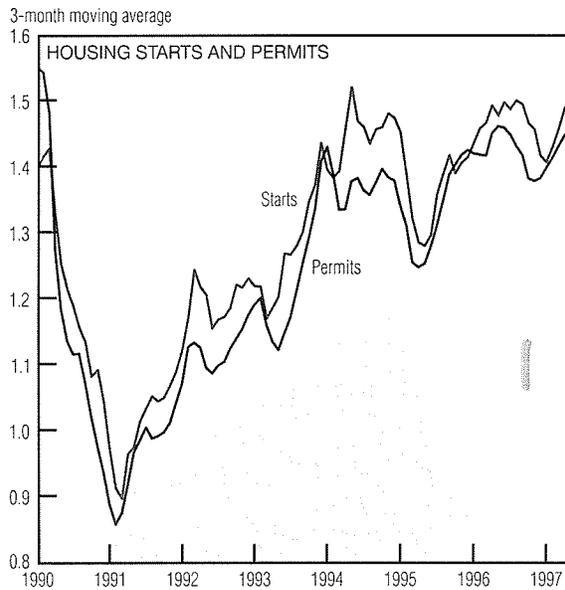
2.8% over the past 30 years.

The consumer sector remained robust in April. Real disposable personal income grew at its fastest year-over-year pace since January 1995 (up 4.5%), while real personal consumption expenditures continued to be healthy.

New single-family home sales plunged 7.7% in April, the biggest drop in six months. Much of this decline came from a 16.5% fall in

(continued on next page)

Economic Activity (cont.)



NOTE: All data are seasonally adjusted.

SOURCES: U.S. Department of Commerce, Bureau of the Census; and Board of Governors of the Federal Reserve System.

the West. Sales fell 6% in the South and 2.9% in the Midwest, but the Northeast held steady. Sales of existing homes also slipped in April (down 2.4%). In contrast, a surge in construction of multifamily homes pushed housing starts up 2.6% for the month. Both starts and permits have advanced fairly steadily this year and remain vigorous.

Industrial production was unchanged in April because of a sharp decline in motor vehicle and parts production, more than half of which

was attributable to strikes. Excluding autos, the index advanced 0.3% for the month, following a 0.5% gain in the overall March index. On a year-over-year basis, industrial production continues to advance at a good clip, with especially strong gains in business equipment. Since December 1996, production of business equipment has advanced 10.2% (annual rate), three times the rate of the overall index. A rebound in transportation helped push April orders for durable goods up 1.3%, slightly

more than many observers expected. This was the third advance in orders in the past four months.

Business inventories grew 0.3% in March, with most of the gains coming at the wholesale level. Contrary to some recent news accounts, an inventory correction does not seem imminent. Inventory-to-sales ratios at the manufacturing, wholesale, and retail levels remain favorable and substantially below the levels of a year ago.