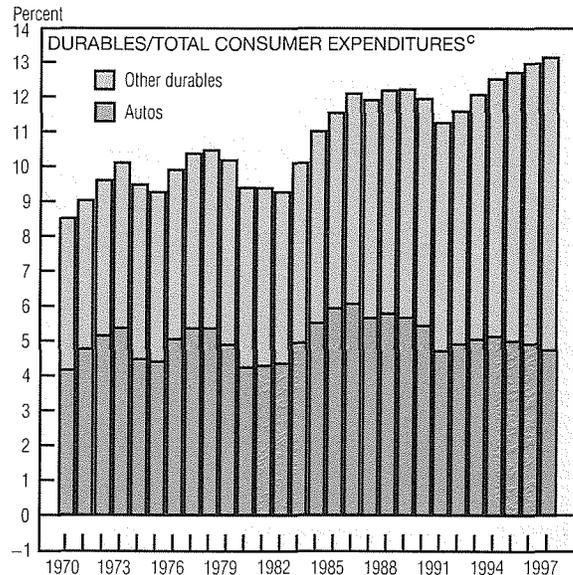
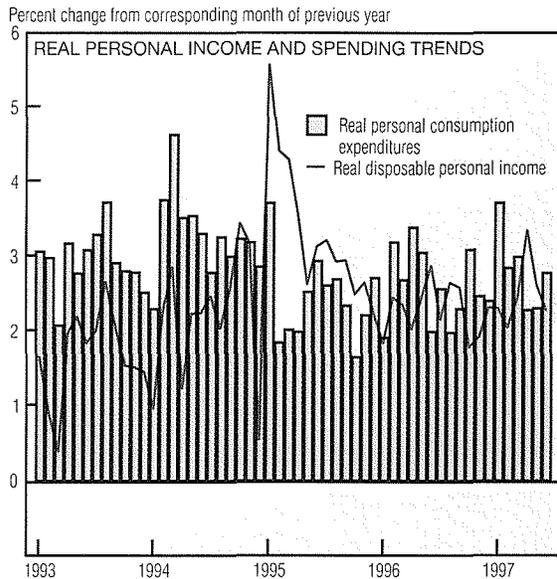
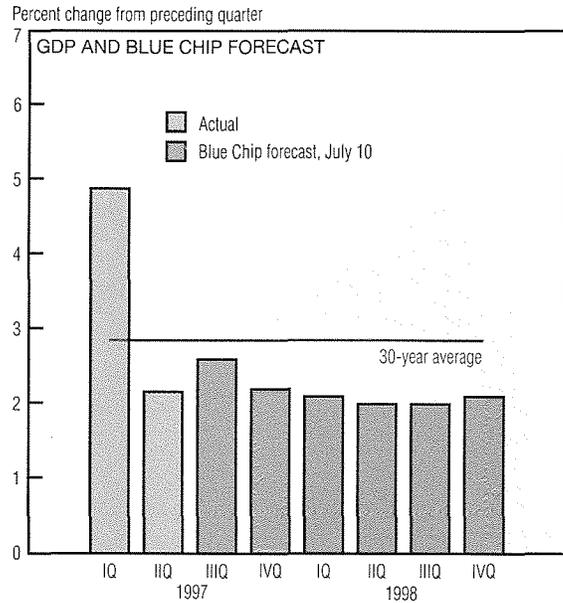


Economic Activity

| | Change, billions of 1992 \$ | Percent change, last: | |
|--------------------------------|-----------------------------|-----------------------|---------------|
| | | Quarter | Four quarters |
| Real GDP | 38.1 | 2.2 | 3.1 |
| Consumer spending | 9.8 | 0.8 | 2.5 |
| Durables | -9.3 | -5.7 | 2.2 |
| Nondurables | -7.7 | -2.1 | 1.3 |
| Services | 24.9 | 3.7 | 3.1 |
| Business fixed investment | 31.9 | 12.4 | 7.3 |
| Equipment | 29.3 | 20.4 | 11.9 |
| Structures | 1.1 | 2.3 | 6.1 |
| Residential investment | 3.8 | 5.7 | 0.0 |
| Government spending | 11.8 | 3.8 | 0.6 |
| National defense | 7.5 | 10.2 | -3.7 |
| Net exports | -21.6 | — | — |
| Exports | 31.4 | 14.3 | 12.6 |
| Imports | 53.1 | 21.8 | 14.8 |
| Change in business inventories | 3.1 | — | — |



a. Chain-weighted data in billions of 1992 dollars.
 b. Seasonally adjusted annual rate.
 c. 1997 data represent the average of the first two quarters.
 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*, July 10, 1997.

As expected, the pace of economic activity slowed in 1997:IIQ. Preliminary estimates show that the economy grew 2.2% in the second quarter (down from a revised 4.9% the previous quarter). Second-quarter growth was led by investment in producers' durable equipment, exports, and federal government spending. Offsetting these effects was a decline in consumer spending for motor vehicles and parts and an increase in imports. Over the

four quarters ended in 1997:IIQ, the economy grew at a strong 3.1% clip.

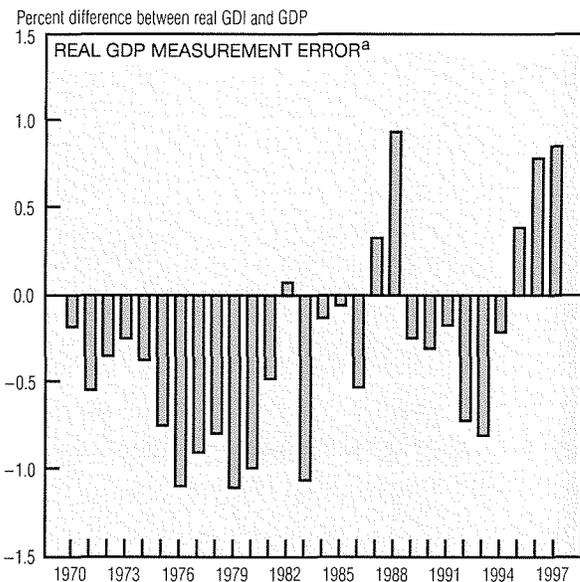
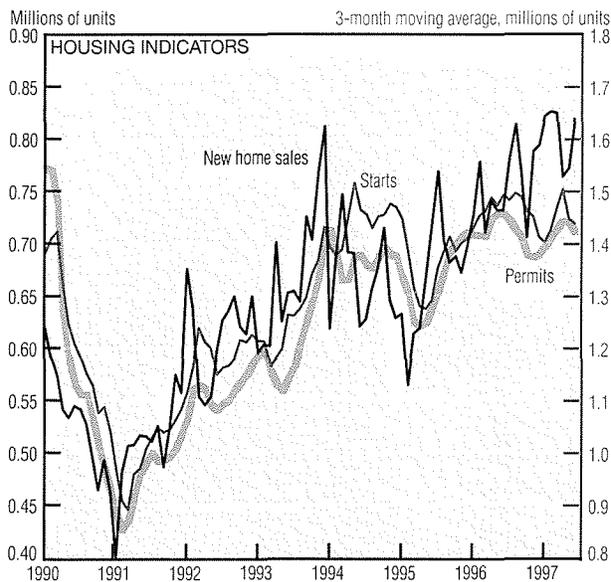
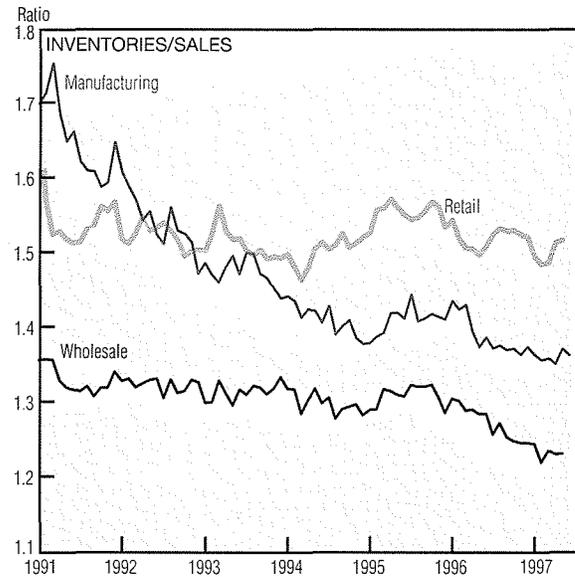
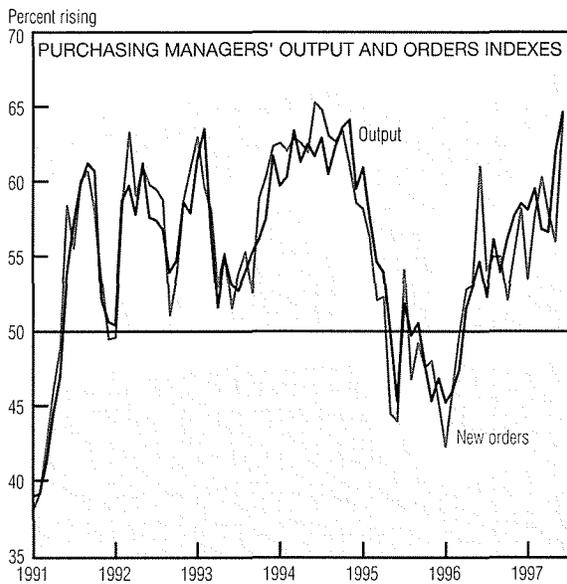
The moderate second-quarter growth rate was in line with the consensus of economists participating in the Blue Chip survey. They foresee that a rebound in consumer spending could produce an uptick in 1997:IIIQ growth, but they expect a return to the 2% GDP growth range through 1988.

Real personal consumption expenditures were flat in the second

quarter. Strong advances in services spending offset sharp declines in purchases of motor vehicles and nondurables. Labor disputes that limited supplies of popular vehicles may have affected car sales. Real disposable personal income growth was healthy in the second quarter, the employment situation stayed strong in July, and consumer sentiment remains upbeat.

(continued on next page)

Economic Activity (cont.)



a. 1997 data refer to first quarter only.

NOTE: All data are seasonally adjusted.

SOURCES: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; and the National Association of Purchasing Management.

Consumers continue to devote a growing share of their total spending to durables. The proportion has risen from approximately 8.5% in 1970 to more than 13% in the first half of 1997. The percentage spent on motor vehicles and parts, however, has remained fairly stationary (around 5%). The relative gain in durables has come at the expense of nondurable goods sales. Service's share of total consumer spending has also grown.

Industrial production continued to post strong gains in June, led by high-tech durables and commercial aircraft. Production of motor vehicles and parts also advanced in June, but was off sharply for the quarter. The National Association of Purchasing Management's July indexes of output and new orders continued to reveal a strong manufacturing sector. Inventory-to-sales ratios picked up in May, but are still low by historic standards.

The value of a nation's output (GDP) should equal the income paid to all who produced it (gross domestic income or GDI). Since 1995, U.S. GDI has exceeded GDP, leading some to speculate that the Commerce Department may be underestimating output. The magnitude of the recent discrepancy, however, is not unparalleled, and persistence in the signs of errors (albeit negative) is not uncommon.