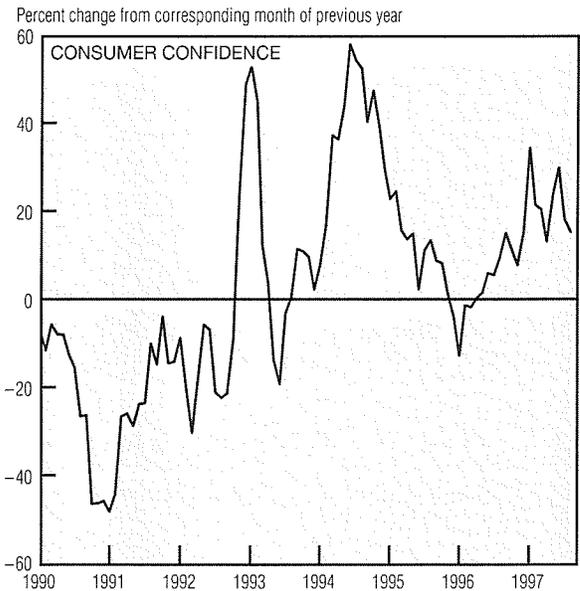
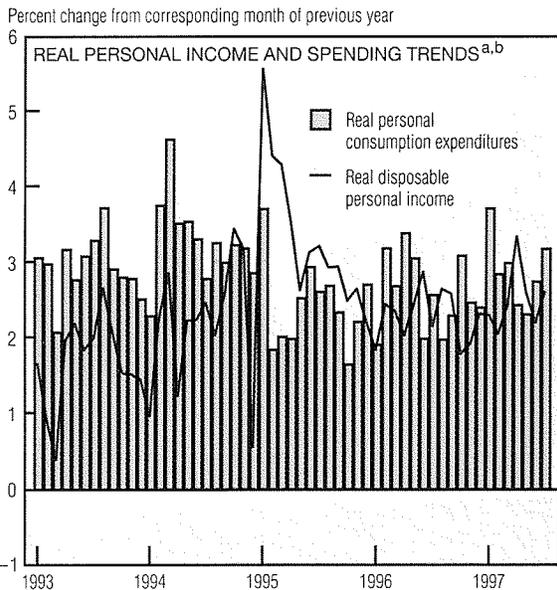
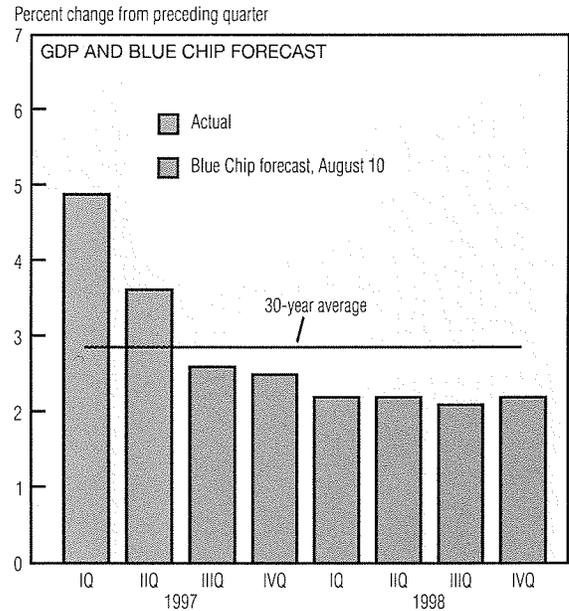


Economic Activity

Real GDP and Components, 1997:IIQ ^a (Preliminary estimate ^b)			
	Change, billions of 1992 \$	Percent change, last:	
		Quarter	Four quarters
Real GDP	63.5	3.6	3.5
Consumer spending	11.9	1.0	2.5
Durables	-8.8	-5.4	2.3
Nondurables	-8.3	-2.3	1.3
Services	27.0	4.0	3.2
Business fixed investment	33.6	13.0	7.4
Equipment	33.8	23.8	12.7
Structures	-2.0	-4.0	4.5
Residential investment	4.7	7.1	0.3
Government spending	9.5	3.0	0.4
National defense	5.6	7.6	-4.2
Net exports	-6.4	—	—
Exports	42.3	19.6	13.9
Imports	48.8	19.9	14.3
Change in business inventories	14.0	—	—



a. Chain-weighted data in billions of 1992 dollars.
 b. Seasonally adjusted annual rate.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; The Conference Board; and *Blue Chip Economic Indicators*, August 10, 1997.

Although the major indicators of U.S. economic activity continue to point upward, analysts are keeping a wary eye on inventories. Last month, the Commerce Department released a revised estimate of second-quarter real GDP growth showing that the economy expanded at an annualized rate of 3.6%—1.4% higher than previously reported. The revision was attributed to higher-than-expected

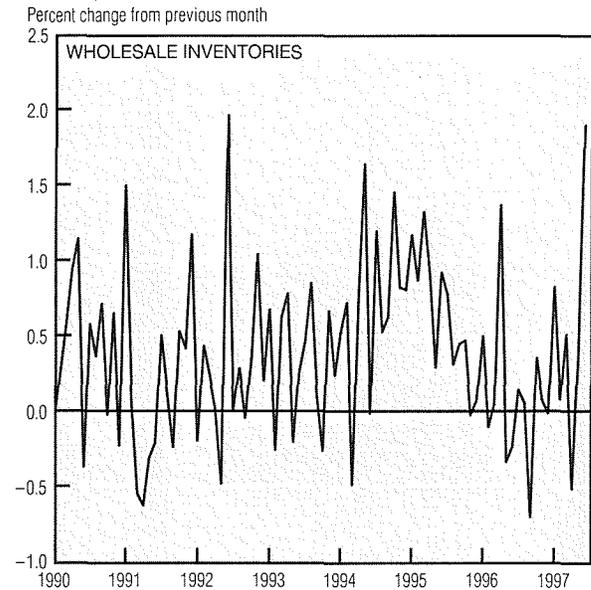
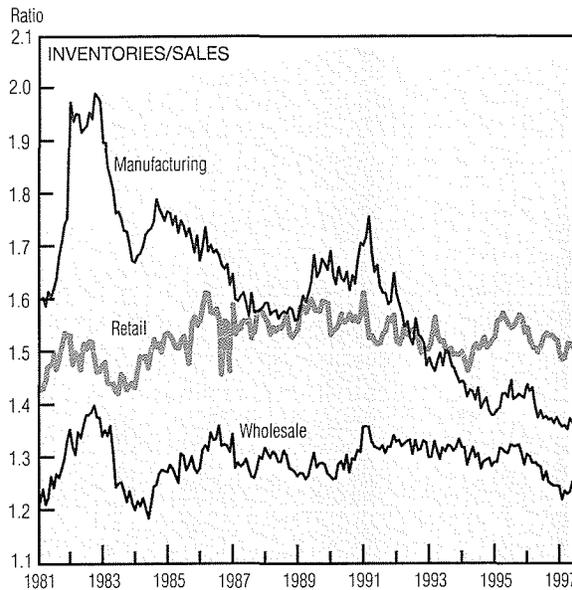
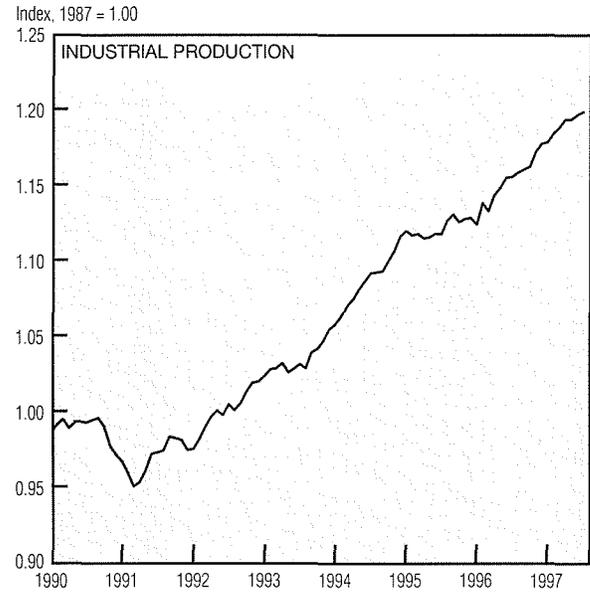
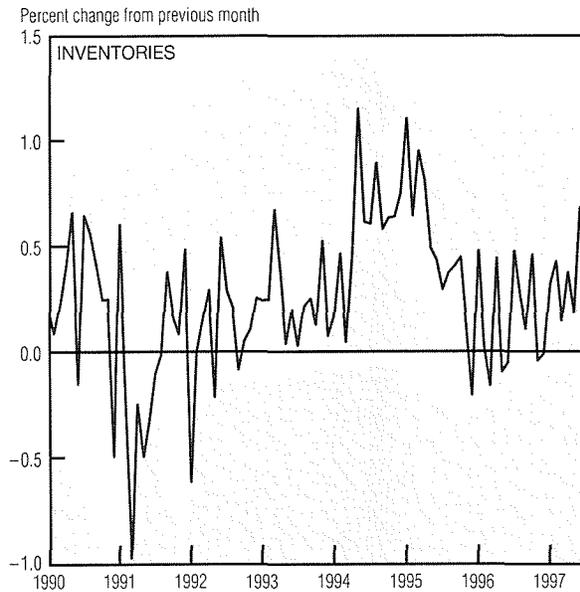
growth in both exports and June inventories.

Overall, the second quarter's favorable performance was led by increases in inventory investment, exports, producers' durable equipment, and services spending. Economists participating in August's Blue Chip survey expect the first half's above-average growth to be offset by a slowdown during the remainder of 1997. Their consensus forecast places GDP at 3.4% for the year.

The consumer sector rebounded in July after heading down in the second quarter. Fueled by increased outlays on durables, real personal consumption spending rose a healthy 0.6% for the month. Retail store sales also climbed 0.6%, following a 0.7% gain in June. The Conference Board reported that consumers remain upbeat about the state of the economy, with confi-

(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.

dence levels holding close to June's 28-year high.

The Commerce Department's upward revision of second-quarter output was widely anticipated because of June's unusually high inventory numbers, but interpreting this rise is somewhat difficult. Inventories surged a nonannualized 0.7% in June, their steepest advance in more than two years. However, it is still unclear how much of this reflects an intentional stockpiling

versus an unanticipated drop-off in demand (which implies future production cuts).

For now, industrial production continues to pick up, rising 0.2% in July and 0.3% in June. Sales are also increasing. The overall inventory-to-sales ratio stood unchanged at 1.37 in July, with no obvious imbalance at either the manufacturing, wholesale, or retail level.

Taking into account these current sales and production numbers,

June's inventory surge does not appear to be a cause for alarm. The vast majority of the stockpiling came in the wholesale sector (up 1.9%, the largest rise in five years)—specifically, in the automotive area. Some analysts believe that a marked increase in auto imports, spurred by the strong dollar, may be responsible. Indeed, auto imports in the second quarter were up 8.4% from a year ago and followed a first-quarter advance of 14.7%.