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October 1997
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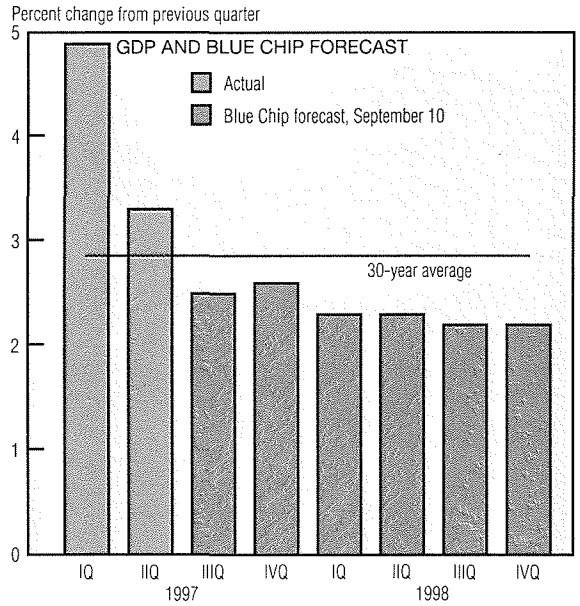
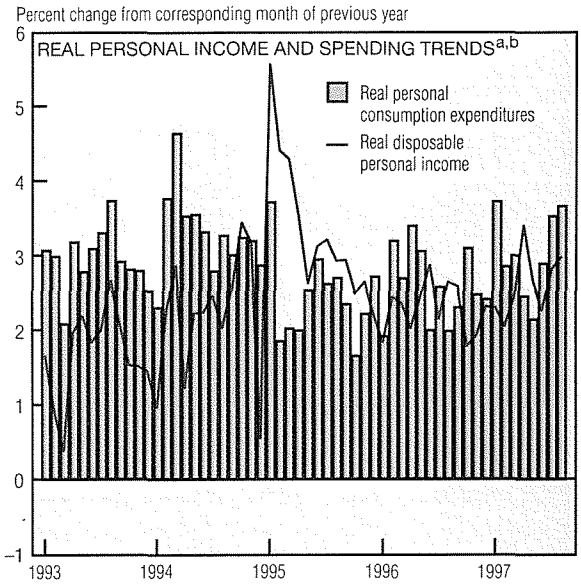
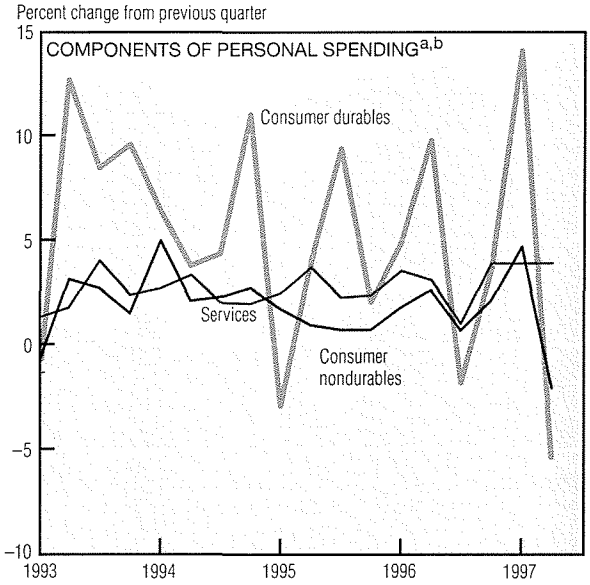
Economic Activity

Real GDP and Components, 1997:IIQ[a]
(Final estimate[b])

	Change, billions of 1992 $	Percent change, last: Quarter	Percent change, last: Four quarters
Real GDP	58.0	3.3	3.4
Consumer spending	11.3	0.9	2.5
Durables	−8.8	−5.4	2.3
Nondurables	−7.8	−2.1	1.3
Services	25.9	3.9	3.1
Business fixed investment	32.4	12.6	7.3
Equipment	32.7	23.0	12.5
Structures	−2.4	−4.8	4.3
Residential investment	4.9	7.4	0.4
Government spending	9.6	3.1	0.4
National defense	5.5	7.4	−4.3
Net exports	−10.3	—	—
Exports	39.8	18.4	13.6
Imports	50.2	20.6	14.5
Change in business inventories	13.9	—	—







a. Chain-weighted data in billions of 1992 dollars.
b. Seasonally adjusted annual rate.
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and *Blue Chip Economic Indicators*, September 10, 1997.

The Commerce Department's final estimate places second-quarter real GDP growth at 3.3%, down a bit from the preliminary estimate of 3.6%. This downward revision primarily reflects adjustments to personal consumption expenditures and net exports.

Overall, the U.S. economy remains strong, and economists participating in the Blue Chip survey now expect real GDP for 1997 to come in at about 3.6%—the fastest clip since 1988. Many analysts believe that the U.S. currently has the potential, in terms of resource availability and productivity trends, to sustain growth of about 2%, or slightly faster. Consequently, most output projections tend to revert toward this rate over the forecast horizon. The economy's strong advance since 1996:IVQ, however, has led many to suspect that current estimates of potential growth are too low.

What happens throughout the remainder of this year will depend heavily on inventories and consumer spending. Although inventory-to-sales ratios are not out of line at present, most economists expect the rate of inventory accumulation to slow. The prognosis for consumers remains favorable. Although consumer spending stalled in the second quarter, the year-over-year pace has remained brisk. The recent decline in nondurables spending may be a bit troubling, but sharp swings in outlays for durable goods are not uncommon. A 16.5% drop-off in automobile purchases led the decline in consumer durables in 1997:IIQ.

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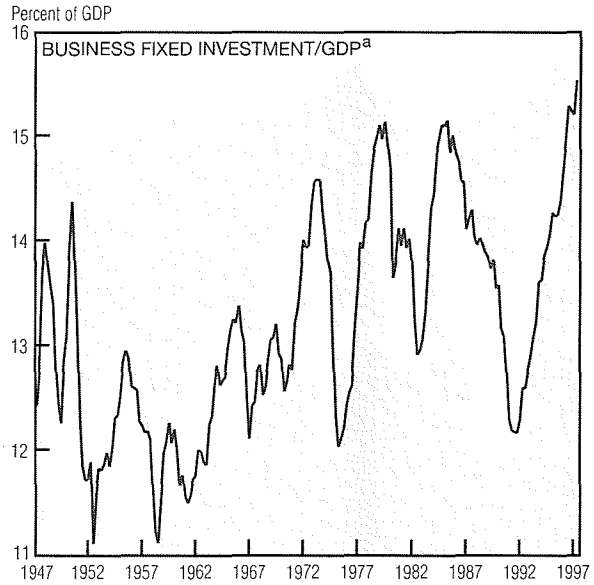
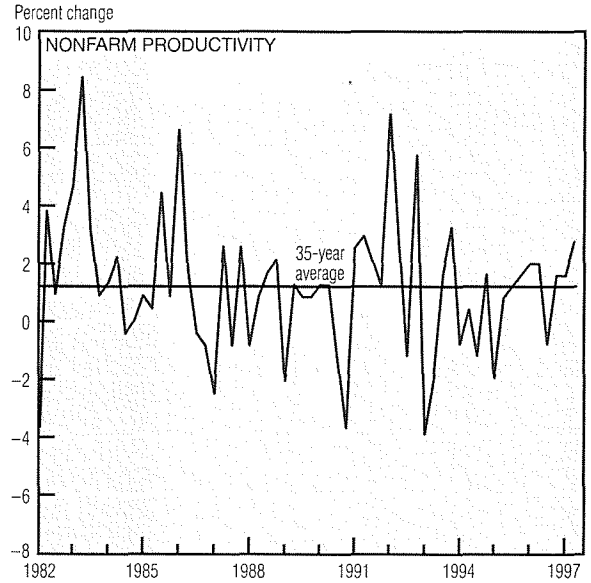
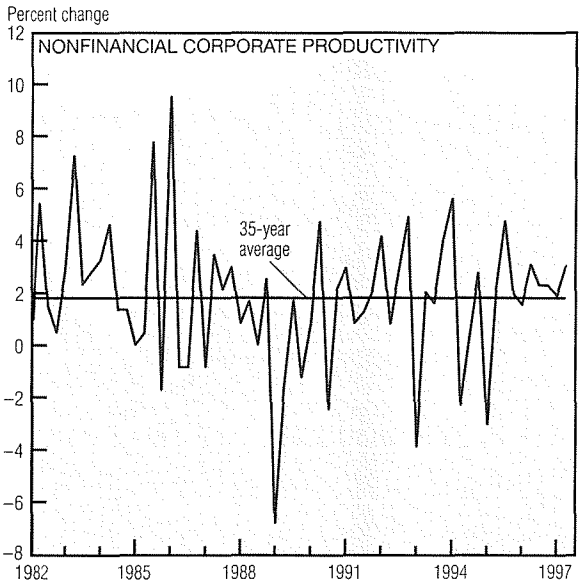
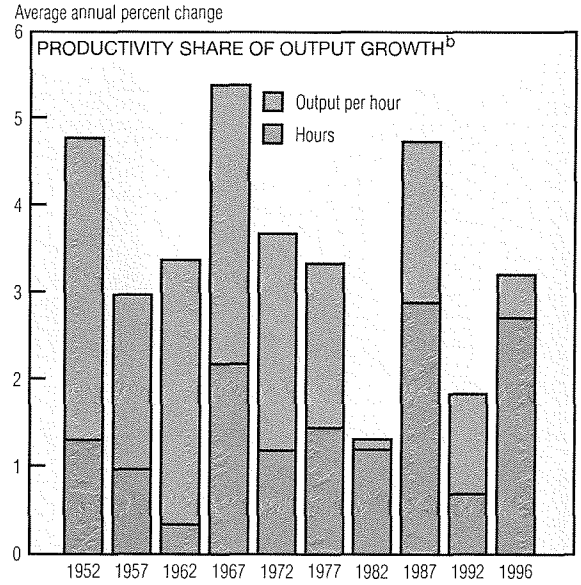
Economic Activity (cont.)









a. 1997 data are for the first two quarters.
b. For the five-year period ended as shown.
NOTE: All data are seasonally adjusted.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and U.S. Department of Commerce, Bureau of Economic Analysis.

The nation continued to experience a strong capital spending boom in the second quarter. Since 1991, business fixed investment has risen from 12.3% of GDP to 15.5%. This rapid expansion is particularly welcome after the torpid pace of capital accumulation in the 1980s. Increases in capital investment should enhance labor productivity, defined as the output that each worker can produce in a given period. Over the long term, the pace of labor productivity determines the rate at which workers' real compensation grows. Moreover, prior to the mid-1970s, productivity growth accounted for the largest share of overall output growth.

Nonfarm productivity increased 2.7% in 1997:IIQ, the biggest advance since 1993. Since 1991, however, it has grown just 1.2%, below the 1.5% pace of the previous business expansion. Given the strong advances in business fixed investment, the generally slow pace of productivity growth has led many to question the accuracy of the productivity data. Many suspect that the numbers understate the contribution of services to output growth. An alternative measure that is not so susceptible to services bias—nonfinancial corporate-sector productivity—rose 3.2% in the second quarter and has averaged 1.9% over the current expansion, roughly the same pace as in the previous upturn.