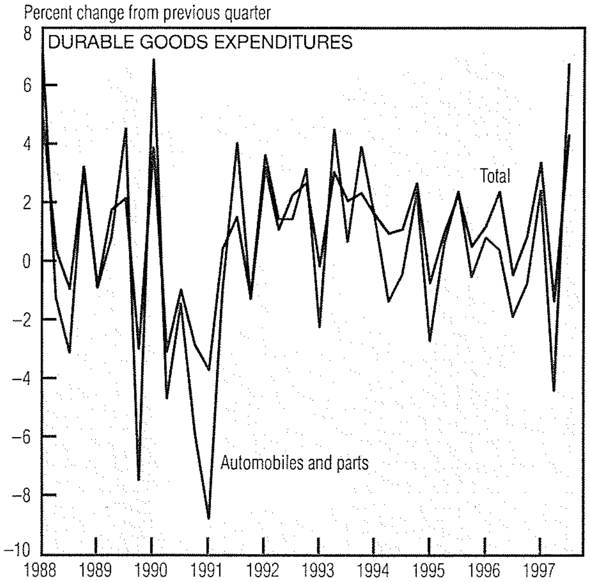
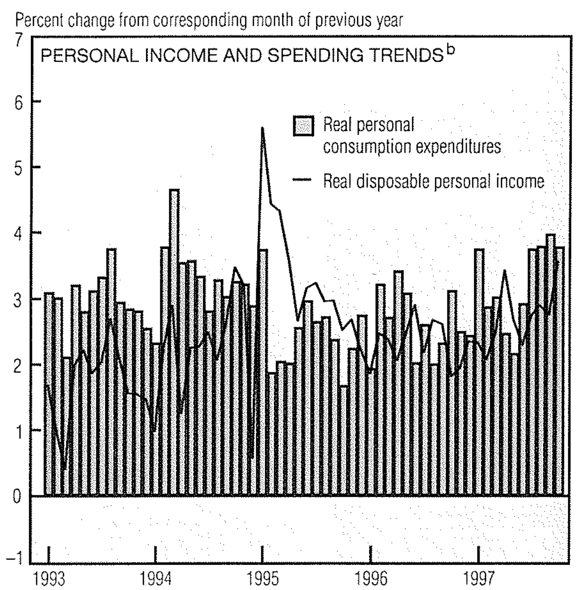
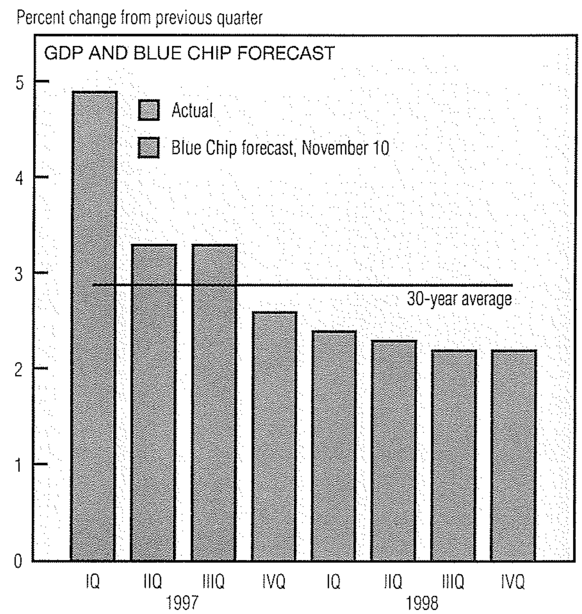
Economic Activity

Real GDP and Components, 1997:IIIQ
(Preliminary estimate[a])

	Change, billions of 1992 $	Percent change, last: Quarter	Four quarters
Real GDP	58.0	3.3	3.9
Consumer spending	68.5	5.8	3.8
Business fixed investment	35.5	18.1	10.5
Equipment	36.0	24.1	13.7
Structures	2.0	4.2	2.9
Residential investment	2.6	3.8	2.4
Government spending	3.5	1.1	1.0
National defense	1.0	1.3	−2.8
Net exports	−26.3	—	—
Exports	10.2	4.3	14.2
Imports	36.6	14.0	14.7
Change in business inventories	−28.1	—	—







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

The Commerce Department lowered its estimate of real GDP growth from 3.5% to 3.3% in 1997:IIIQ. Downward revisions to exports, business inventories, and spending on nonresidential structures more than offset further gains in producers' durable equipment and personal spending on durable goods.

Much of the third quarter's robust growth is traceable to the strength of durable goods spending, which reached its highest point (4.3%) since the beginning of 1988. Expenditures for automobiles led the advance, jumping 6.7%—the biggest gain in seven and a half years and a welcome reversal of the second quarter's 4.4% decline. Overall consumption rose 5.8%, its highest rate in more than five years.

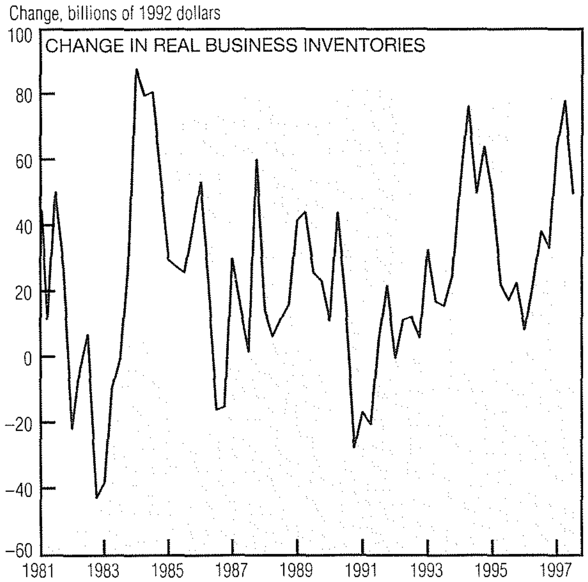
The brisk pace of consumer spending seems to be continuing. On a year-over-year basis, real personal consumption spending in October mirrored the third-quarter gain. Real disposable personal income growth also remained brisk.

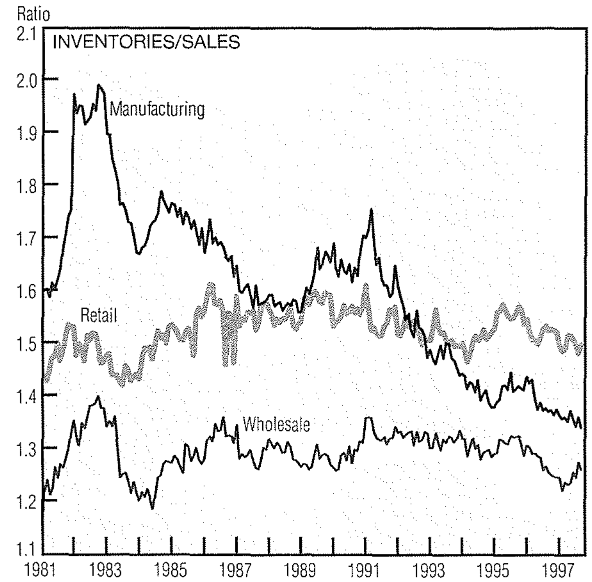
The consensus of economists participating in November's Blue Chip survey is that economic growth will moderate to 2.6% in the

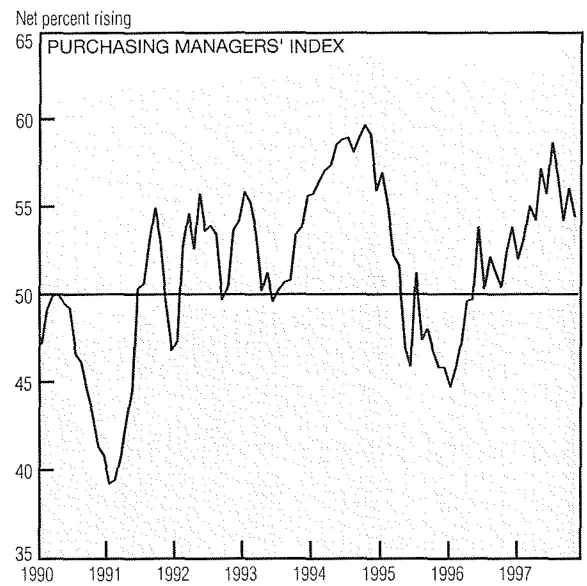
(continued on next page)

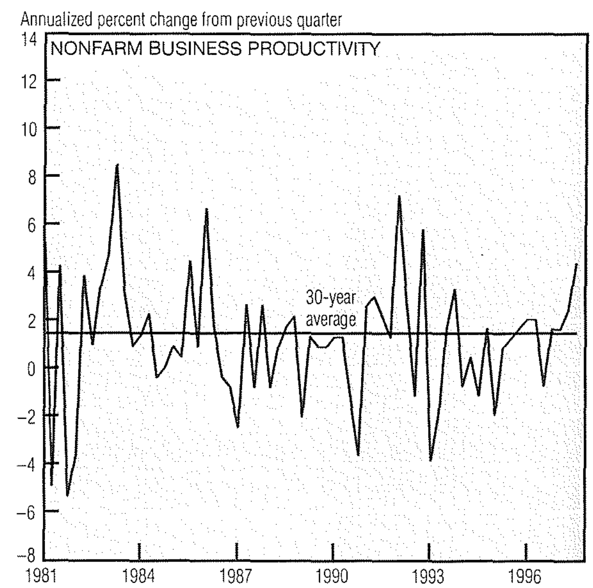
http://clevelandfed.org/research/trends
December 1997
Best available copy

Economic Activity (cont.)









SOURCES: U.S. Department of Commerce, Bureau of the Census; U.S. Department of Labor, Bureau of Labor Statistics; Board of Governors of the Federal Reserve System; and National Association of Purchasing Management.

fourth quarter. This implies a full-year growth rate of 3.5%. Most of the respondents are projecting slower growth in 1998.

As expected, businesses curbed inventory accumulation in 1997:IIIQ. The $49.5 billion (1992 dollars) addition to stocks last quarter, although down from $77.6 billion in 1997:IIQ, still seems substantial. Nevertheless, the overall inventory-to-sales ratio decreased slightly (to 1.36) in September. No imbalances are apparent at the manufacturing, wholesale, or retail level.

Economic activity within the industrial sector continues to be solid. The National Association of Purchasing Management's November index remained above 50, where it has been for the past year and a half. A reading below 50 indicates contraction.

Productivity, the ratio of output produced to labor hours worked, continues to advance. Nonfarm business productivity grew at a 4.3% annual rate in the third quarter, a five-year high.

Productivity has an important effect on a nation's standard of living. When workers increase their hourly output, real wages rise. Many analysts have downplayed the recent productivity gains, however, regarding them as largely cyclical and transitory rather than sustainable.