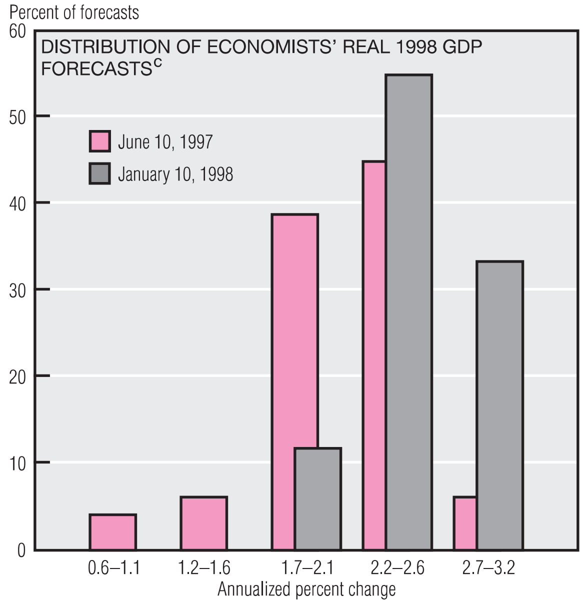
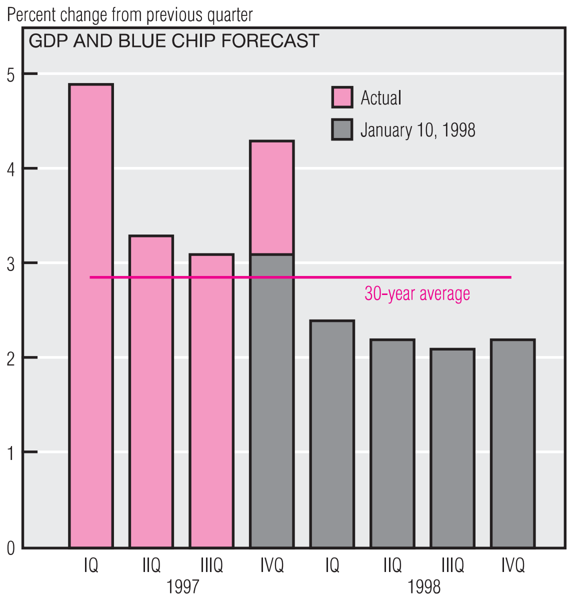
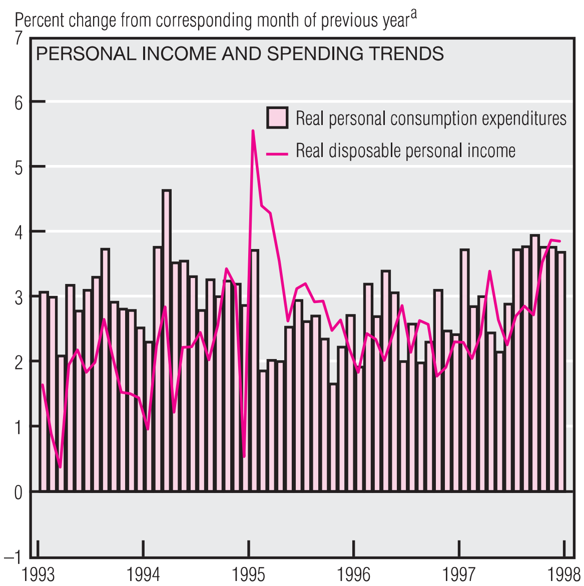
Economic Activity

Real GDP and Components, 1997:IVQ
(Advance estimate[a,b])

	Change, billions of 1992 $	Percent change, last: Quarter	Four quarters
Real GDP	76.3	4.3	3.9
Consumer spending	38.8	3.2	3.8
Durables	4.2	2.6	7.0
Nondurables	–1.4	–0.4	1.6
Services	34.9	5.1	4.2
Business fixed investment	–8.0	–3.6	8.2
Equipment	–6.8	–3.9	11.8
Structures	–1.4	–2.8	–0.8
Residential investment	7.0	10.4	5.9
Government spending	5.1	1.6	1.3
National defense	2.3	3.0	–0.3
Net exports	22.7	—	—
Exports	26.3	11.3	10.9
Imports	3.7	1.3	13.3
Change in business inventories	12.4	—	—







a Seasonally adjusted annual rate.
b. Chain-weighted data in billions of 1992 dollars.
c. Blue Chip panel of economists.
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and *Blue Chip Economic Indicators*, June 10, 1997 and January 10, 1998.

According to the Commerce Department's preliminary estimate, the economy grew 4.3% in the fourth quarter—substantially above expectations. Most economists participating in the January 10, 1998 Blue Chip survey, for example, were anticipating a 3.1% growth rate. The unexpected, but welcome, news reflects faster inventory accumulation, reduced imports, and increased exports. Personal consumption spending slowed but remained strong. Business fixed investment spending fell.

The Asian crisis, which continues to dominate the financial headlines, will have mixed effects on the U.S. economy. Firms that export and those that compete against imports will bear the brunt, while consumers who buy imports and businesses that sell or use imports in their production process will benefit. Interest-sensitive sectors of the economy may also gain from capital inflows. The net impact, however, is not likely to be overwhelming. Confirming this, the outlook for real growth over 1998 now seems more favorable than it did last June, before the Asian crisis erupted.

Approximately 90% of economists participating in the latest Blue Chip survey anticipate that real economic growth in 1998 will maintain a pace consistent with, or faster than, current estimates of the economy's long-term growth potential (approximately 2.2%). Last June, fully 50% of the respondents expected real economic growth in 1998 to fall below that rate.

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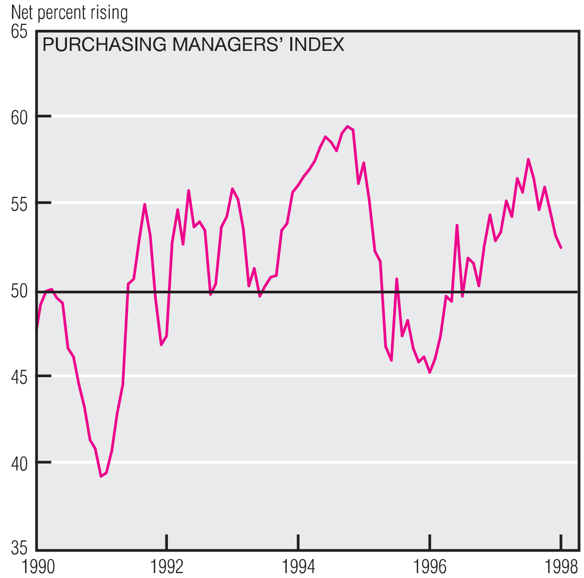
Economic Activity (cont.)

Growth in Selected Components of Industrial Production, 1997
(Percent change from previous quarter[a])

	IQ	IIQ	IIIQ	IVQ
Total	5.2	4.6	6.0	7.4
Consumer goods	.9	1.4	2.6	6.4
Durables	9.1	–2.1	6.6	11.6
Nondurables	–1.2	2.4	1.6	5.1
Business equipment	10.7	8.3	13.5	9.4
Information processing	10.5	12.6	16.4	10.1
Industrial	2.5	4.5	9.0	6.7
Transit	21.6	3.0	21.4	17.4
Other	20.4	13.6	3.4	1.7
Construction supplies	3.4	3.3	–2.0	3.3
Materials	7.2	6.1	8.4	8.7
Durables	9.9	10.8	12.1	13.7
Nondurables	5.8	0.1	2.8	3.9



Change in Value of Business Inventories, 1997[b]

	IQ	IIQ	IIIQ	IVQ
Total	63.7	77.6	47.5	59.9
Nonfarm	58.3	70.1	38.3	49.7
Manufacturing	20.9	29.0	14.8	21.1
Wholesale	22.9	24.6	14.9	14.1
Retail	20.0	7.7	2.8	8.9
Auto	10.6	–3.7	–0.6	7.5

a. Seasonally adjusted annual rate.
b. Chain-weighted data in billions of 1992 dollars.
SOURCES: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; and National Association of Purchasing Management.

Real personal consumption spending moderated in the fourth quarter, but increased at a healthy clip on a year-over-year basis. The prospects for the consumer sector remain good. Real disposable personal income demonstrated strong fourth-quarter gains, consumer sentiment continues to be upbeat, and households have experienced substantial gains in their net worth since early 1995.

Industrial production increased 7.4% in 1997:IVQ, with motor vehicles and parts, aircraft and parts, information processing equipment, and semiconductors showing especially large gains. The nation's mines, manufacturing plants, and utilities operated at 83.4% of capacity in December, below the recent peak of 84.6%. Purchasing managers' January index showed further advances in the manufacturing sector.

U.S. businesses added to their inventories at a faster pace in the fourth quarter than in the third, with much of the increase attributable to stocks of automobiles on dealers' lots. (Dealers had been trimming stocks during the second and third quarters.) Nevertheless, the pace of inventory accumulation was not excessive, and inventories-to-sales ratios at the manufacturing, wholesale, and retail levels do not appear high.