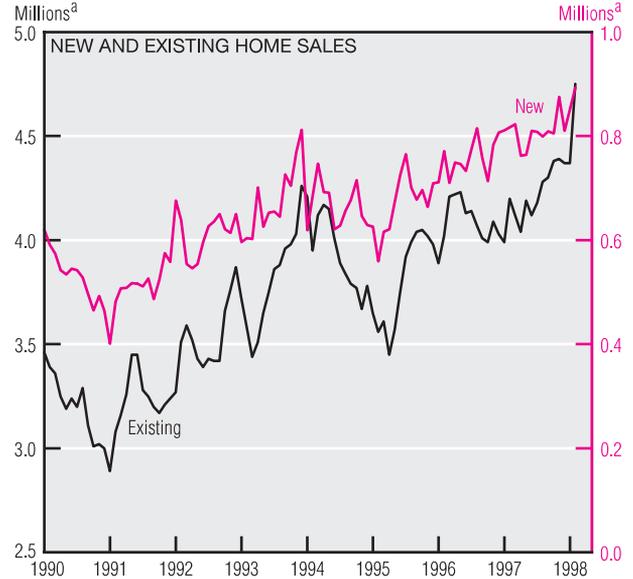
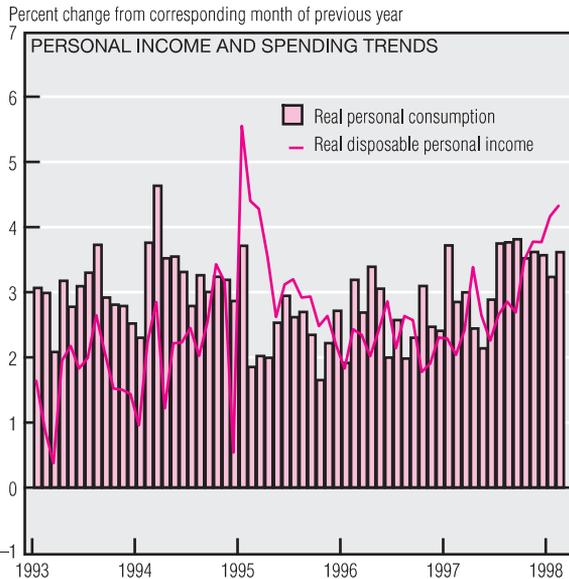
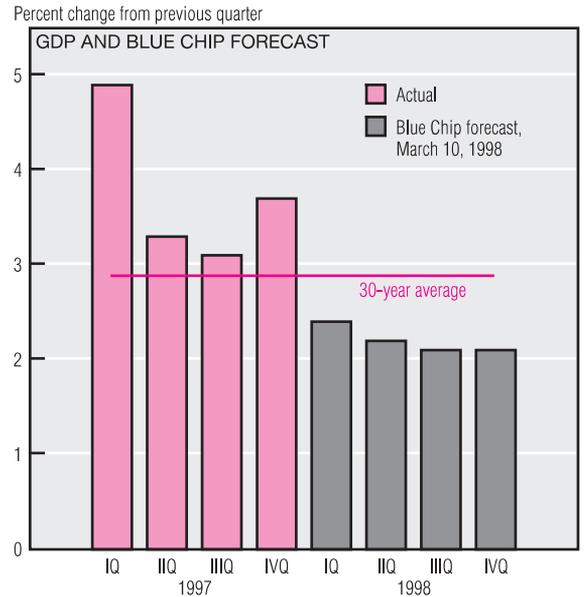


# Economic Activity

	Change, billions of 1992 \$	Percent change, last:	
		Quarter	Four quarters
<b>Real GDP and Components, 1997:IVQ</b> (Final estimate <sup>a, b</sup> )			
Real GDP	66.0	3.7	3.7
Consumer spending	29.9	2.5	3.6
Durables	3.2	2.0	6.8
Nondurables	-4.6	-1.2	1.4
Services	30.3	4.4	4.0
Business fixed investment	-1.8	-0.8	9.0
Equipment	-0.5	-0.3	12.9
Structures	-1.2	-2.4	-0.7
Residential investment	6.2	9.2	5.6
Government spending	1.0	0.3	1.0
National defense	0.8	1.0	-0.8
Net exports	5.0	—	—
Exports	19.7	8.3	10.2
Imports	14.7	5.3	14.4
Change in business inventories	26.5	—	—



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 Bureau of the Census; National Association of Realtors; and *Blue Chip Economic Indicators*, March 10, 1998.

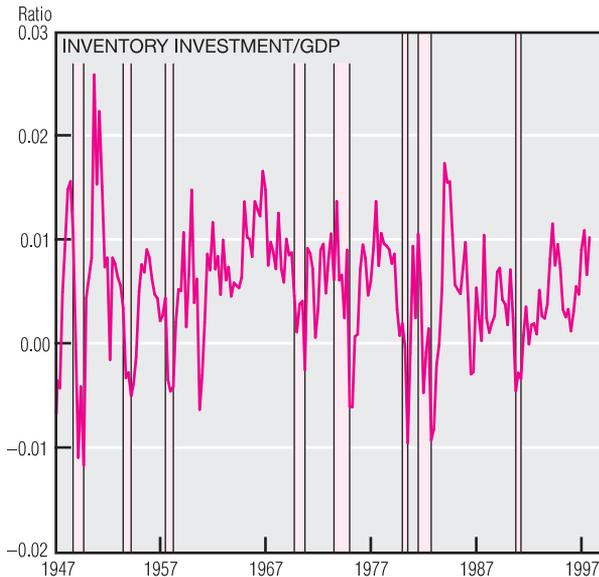
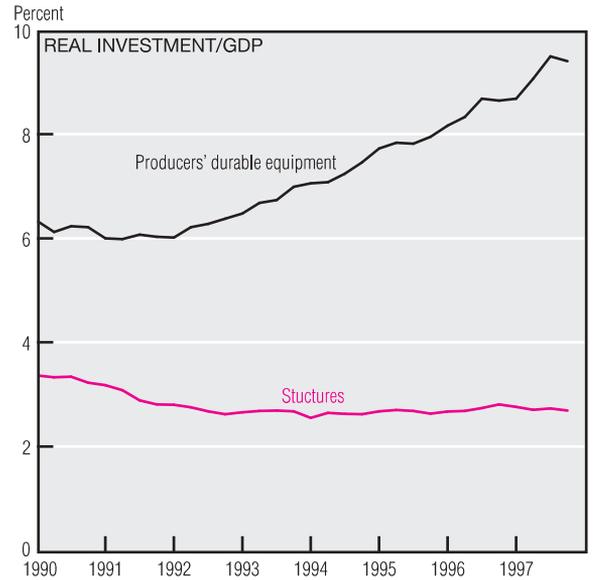
Economic activity remains solid. The median forecast of economists participating in the Blue Chip survey is that real economic growth will slow from 3.7% in 1997:IVQ to a still healthy 2.4% in 1998:IQ. Expectations of further declines in net exports and slower inventory accumulation generally underlie forecasts of weaker near-term growth. Domestic demand is likely to remain brisk. Moreover, 86% of the Blue Chip participants anticipate that real economic growth

for all of 1998 will exceed 2.5%, a rate associated with more sanguine estimates of the economy's long-term growth potential. Buoyed by strong gains in real disposable personal income, advances in net worth, and historical highs for favorable consumer sentiment, real consumer spending has continued at a brisk pace this year. On a year-over-year-basis, February saw real disposable personal income increase 4.3% and real consumer

spending increase 3.6%. Sales of automobiles and light trucks have maintained their 1997:IVQ level of 15 million units. Single-family housing starts progressed at an annualized 1.27 million units in February, well above last year's average. February sales of new and existing homes achieved new records of 893,000 and 4.75 million units, respectively. In addition to factors supporting consumer *(continued on next page)*

Economic Activity (cont.)

Industrial Production Index (Annual percent change)	1997		1998	
	IIIQ	IVQ	Jan.	Feb.
Total index	6.8	7.3	0.9	0.9
Manufacturing	6.0	9.0	3.7	0.0
Durables	9.0	11.0	3.2	0.8
Computer and office equipment	41.3	19.5	36.6	21.8
Motor vehicles and parts	26.5	15.4	-13.9	-25.7
Nondurables	2.9	5.7	5.3	-2.1
Excluding motor vehicles and parts	5.1	8.1	5.5	1.8
Utilities	15.1	-0.6	-37.6	10.8
Mining	3.0	-3.8	18.2	-3.4



NOTE: Shaded areas indicate recessions.  
 SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and Board of Governors of the Federal Reserve System.

spending in general, warm weather and low mortgage rates have boosted starts. The average 30-year fixed mortgage rate is currently 7.01%, down from 8.11% one year ago.

Industrial production slowed during the first two months of 1998 from its rapid pace in the second half of last year, largely because of a sharp weather-related decline in utility output and a drop in auto output. The weakness in manufacturing production, however, extended beyond

motor vehicles. Nondurable production fell in February, and the torrid pace of computer and office equipment cooled somewhat.

Although the pace of business fixed investment dipped in 1997:IVQ, economists generally expect it to remain strong throughout this year. Acquisitions of computer and other information processing equipment, which have accounted for most of the investment boom since 1992, should continue to be robust.

Many of the economists who project a slower rate of growth this year believe businesses will trim their pace of inventory accumulation. Although inventories typically drop relative to output during recessions, neither a high level of inventories nor an inventory correction necessarily presages a slowdown. Similarly, although inventory-to-sales ratios generally rise during a recession, high ratios do not seem to augur a recession.