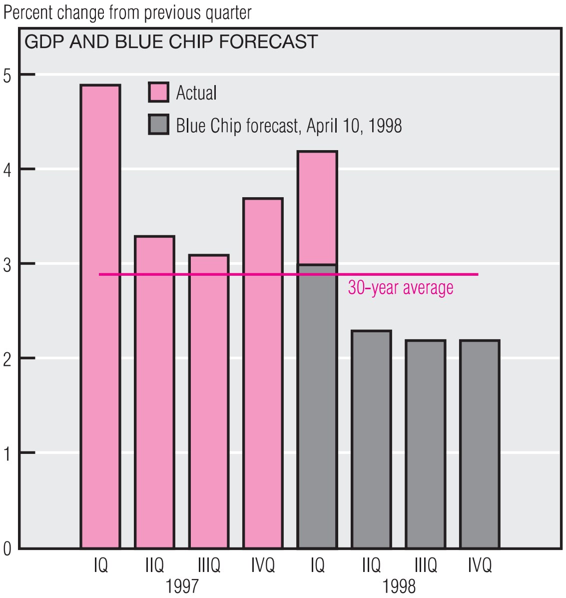
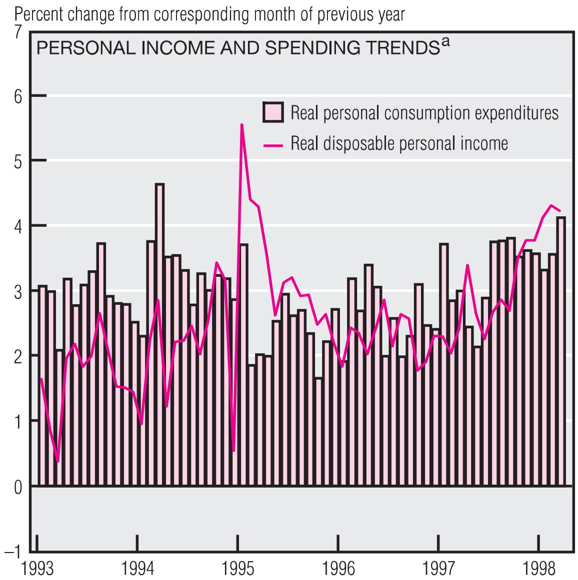
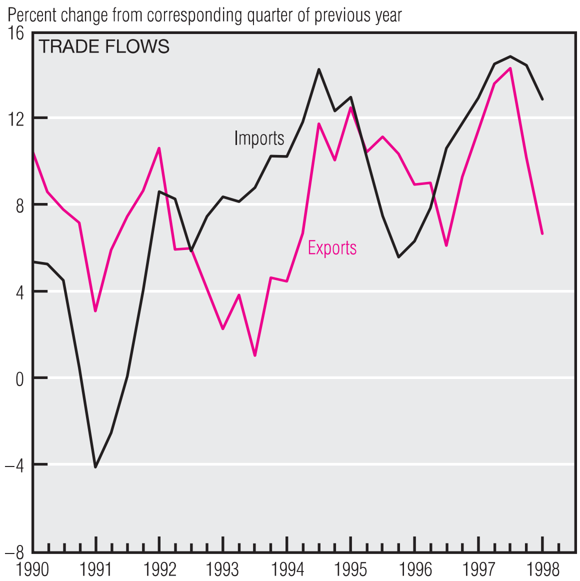
Economic Activity

Real GDP and Components, 1998:IQ
(Advance estimate[a,b])

	Change, billions of 1992 $	Percent change, last: Quarter	Four quarters
Real GDP	76.0	4.2	3.6
Consumer spending	68.5	5.7	3.7
Durables	28.4	18.4	7.8
Nondurables	18.7	5.2	1.5
Services	24.1	3.5	3.9
Business fixed investment	36.0	17.5	12.3
Equipment	44.7	28.8	18.3
Structures	–4.5	–8.9	–2.5
Residential investment	11.9	17.7	9.1
Government spending	–6.3	–2.0	0.6
National defense	–13.9	–16.7	–2.2
Net exports	–40.6	—	—
Exports	-8.6	–3.4	6.7
Imports	32.0	11.6	12.9
Change in business inventories	3.0	—	—







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*, April 10, 1998.

The U.S. economy grew much faster in the first quarter than most analysts anticipated. According to the Commerce Department's advance estimates, real GDP rose an annualized 4.2%, primarily because of increased residential investment, solid spending on business equipment, and continued growth in consumer spending. Most economists participating in the April 10 Blue Chip survey were anticipating growth of about 3.0%.

Real personal consumption expenditures jumped 4.1% in March, the steepest gain since 1994. One reason Americans relaxed their grip on their wallets was a hefty 4.2% gain in real disposable personal income. Consumer confidence continued to climb in April, indicating that households expect the economy to remain strong in the months ahead.

Signs of the Asian crisis were evident in the first-quarter GDP report. Exports slipped 3.4%, while imports were up 11.6%. Forecasters expect the decline in net exports to continue over the next few quarters, dampening real economic growth. The National Association of Purchasing Management (NAPM) index of new export orders suggests that foreign demand for U.S.-manufactured goods contracted in April for the fourth consecutive month. (NAPM indexes indicate expansion when their value exceeds 50% and contraction when

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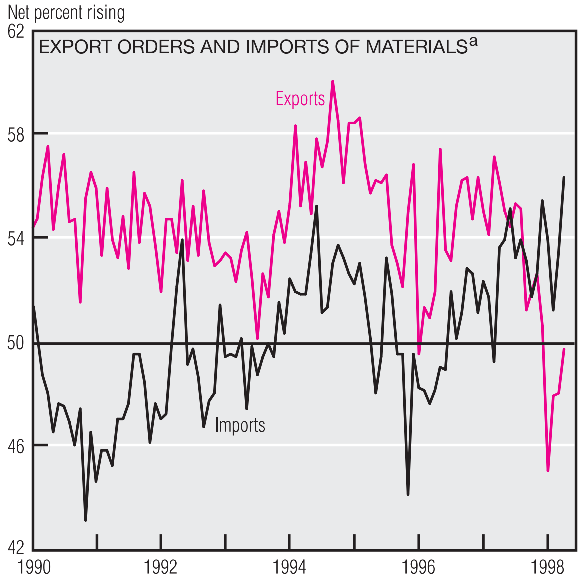
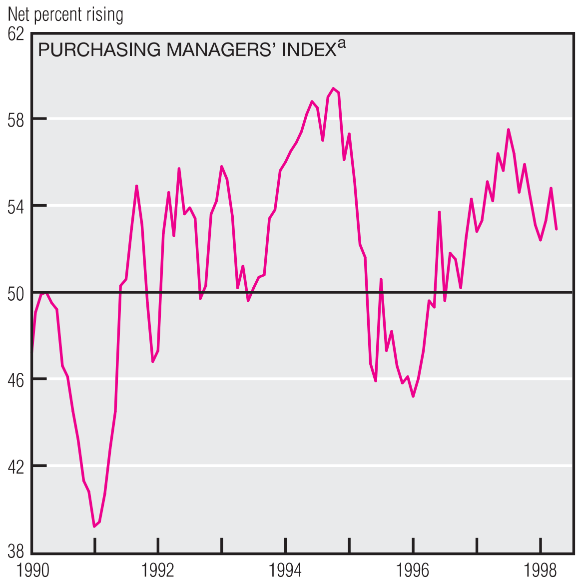
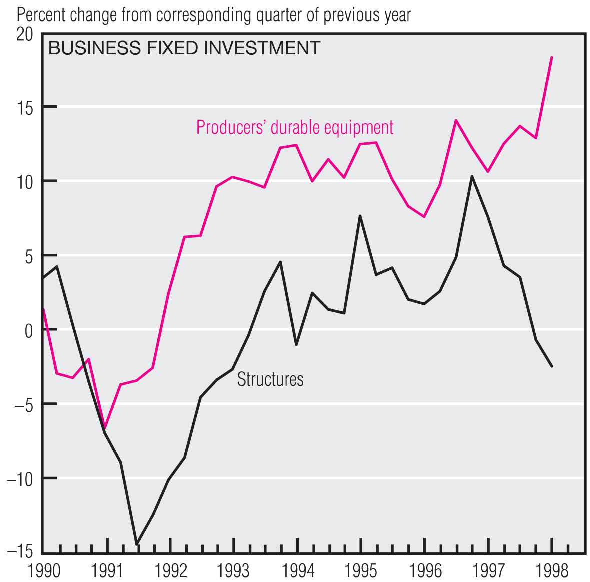
Economic Activity (cont.)



Industrial Production Index
(Annual percent change[b])

	1997 IIIQ	1997 IVQ	1998 Jan.	1998 Feb.	1998 Mar.
Total index	6.8	7.3	–1.9	–1.9	1.9
Manufacturing	6.0	9.0	0.9	–2.7	–2.8
Durable goods	9.0	11.5	–3.2	0.0	–2.4
Computer and office equipment	41.3	25.0	39.4	28.9	25.6
Motor vehicles and parts	26.5	15.4	–67.9	–5.2	–7.0
Nondurable goods	2.9	6.1	3.2	4.3	–5.3
Excluding motor vehicles and parts	5.1	8.4	4.6	–1.8	–2.8
Mining	3.0	–3.0	19.3	–1.1	2.2
Utilities	15.1	–2.7	–45.1	1.1	57.8





a. National Association of Purchasing Management indexes.
b. Seasonally adjusted annual rate.
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Board of Governors of the Federal Reserve System; and National Association of Purchasing Management.

they fall below that figure.) Imports of materials grew faster in April than in March.

The industrial production index gained some ground in March after edging down in the first two months of the year. A return to more normal weather led to a strong jump in the utilities component, and computer and office equipment production remained exceptionally strong. Manufacturing activity declined for the second month in a row, however, with sharp reductions in motor vehicle and parts production. Capacity utilization also fell, slipping 0.1 percentage point to 82.2%.

A foreign capital inflow must accompany any expansion in the nation's trade deficit, with positive effects for U.S. investment. The interest-sensitive sectors were indeed strong performers in the first quarter. Business investment in new equipment shot up 28.8%, the biggest gain since 1983, and residential investment soared 17.7%. Spending on consumer durables—expensive items often purchased on credit—jumped 18.4%. One notable exception to this pattern was business investment in structures, which shrank 8.9%.