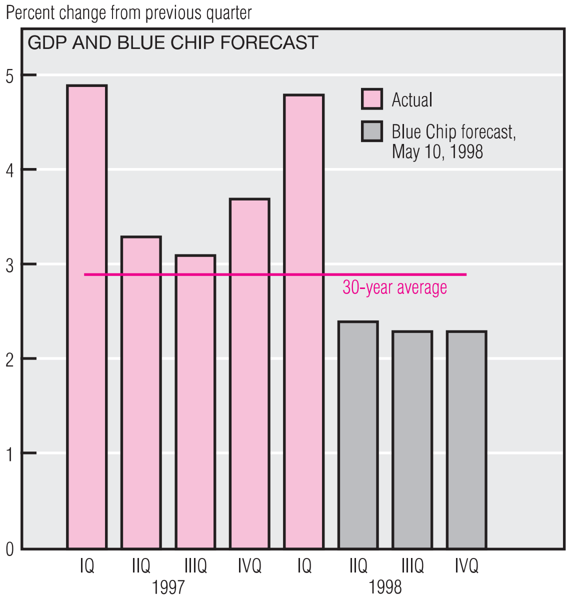
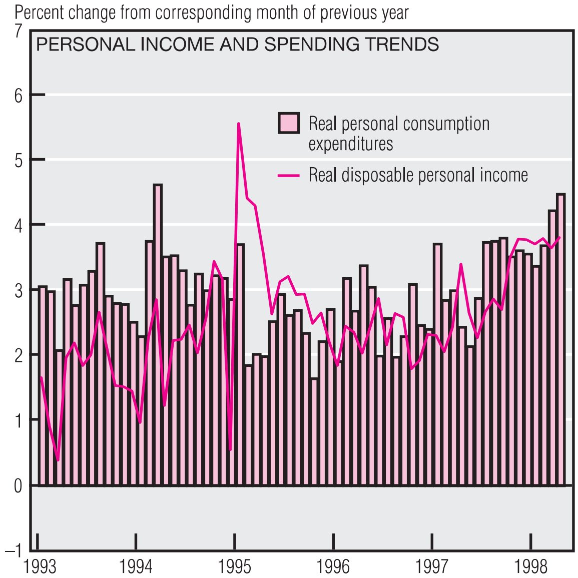
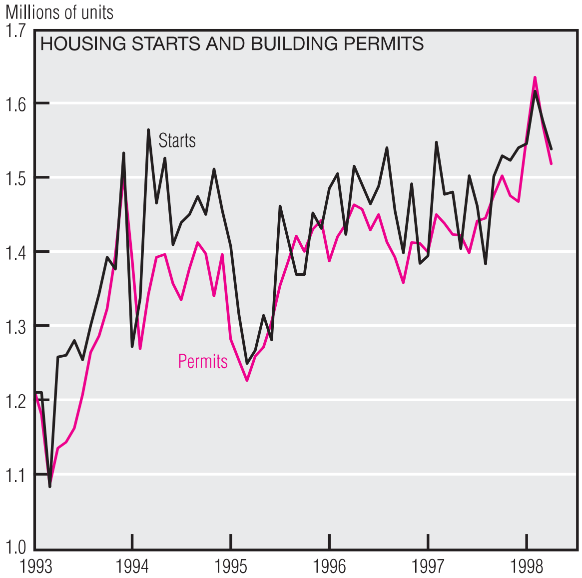
Economic Activity

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

	Change, billions of 1992 $	Percent change, last: Quarter	Four quarters
Real GDP	85.6	4.8	3.7
Consumer spending	73.4	6.1	3.8
Durables	24.8	15.9	7.3
Nondurables	23.3	6.5	1.8
Services	27.6	4.0	4.0
Business fixed investment	35.3	17.2	12.3
Equipment	42.9	27.5	18.0
Structures	–3.7	–7.4	–2.1
Residential investment	10.9	16.1	8.7
Government spending	–9.8	–3.0	0.3
National defense	–15.5	–18.5	–2.7
Net exports	–55.6	—	—
Exports	–7.7	–3.1	6.8
Imports	48.0	17.7	14.4
Change in business inventories	26.7	—	—







a. Chain-weighted data in billions of 1992 dollars.
NOTE: All data are seasonally adjusted.
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and *Blue Chip Economic Indicators*, May 10, 1998.

Revised GDP estimates, recently released by the Department of Commerce, show that the economy grew 4.8% in the first quarter, more than a half-point higher than was reported earlier. The bulk of the revision can be attributed to a substantial upward revision to business inventories. Consumer spending also grew faster than previously estimated. A large downward revision to net exports, caused by higher-than-expected imports, partially offset these increases. Economists participating in the May 10 Blue Chip survey expect economic growth to slow to around 2.4% during the current quarter, and to 2.3% for the rest of the year.

The consumer sector continues to exhibit strength. In April, real personal consumption expenditures rose a robust 4.5% on a year-over-year basis. Real disposable personal income also continued to show healthy growth. Consumer confidence remains strong, reflecting optimistic expectations for the economy in coming months.

Although housing starts and building permits slipped somewhat in April, their levels continue to indicate a vigorous housing sector. These series are quite volatile, and data for the year have been affected by unusual seasonal factors. Mild

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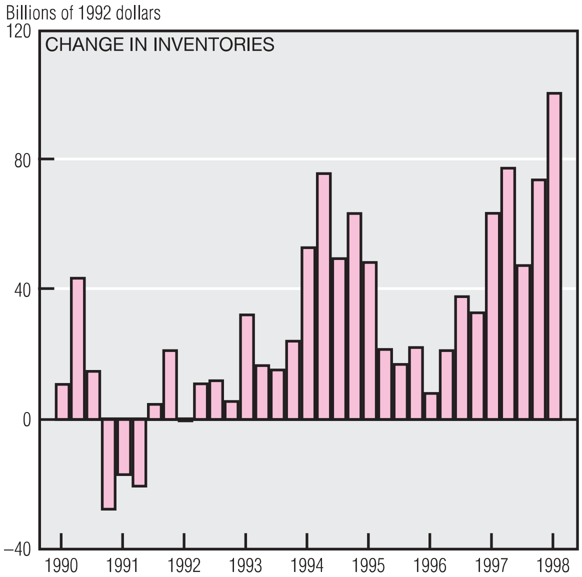
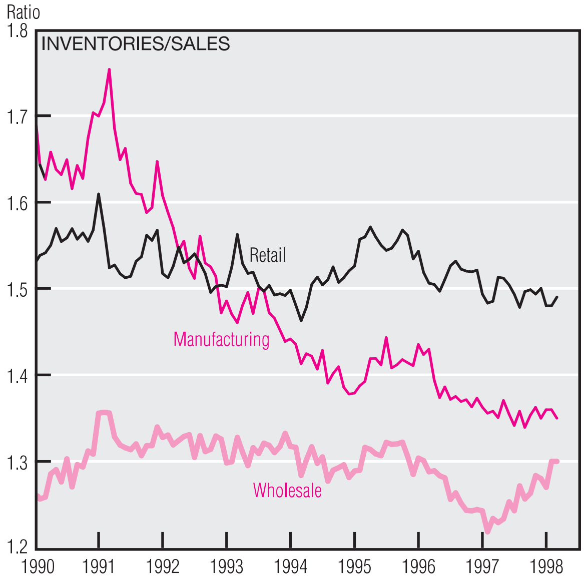
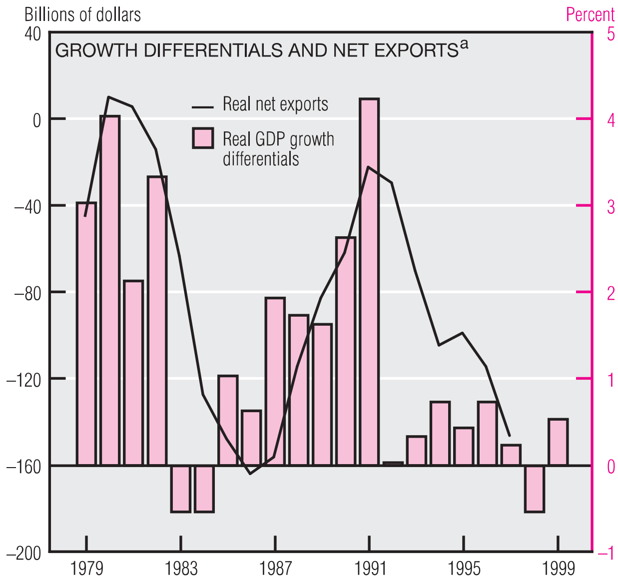
Economic Activity (cont.)







a. Growth differential equals the trade-weighted average growth rate for the U.S.'s top 15 trading partners minus the U.S. growth rate. Estimates for 1997 through 1999 are from various sources.

NOTE: All data are seasonally adjusted.

SOURCES: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; Organisation for Economic Co-operation and Development, *Economic Outlook*; and *Blue Chip Economic Indicators*, May 10, 1998.

weather in January and February allowed construction activity to begin early, moving forward projects that normally would have been started in the spring. So, the slip in the spring building statistics may reflect no more than a reallocation of activity from spring to winter.

Inventories surged $100.7 million in the first quarter. Stockpiling of goods is often an indicator of sluggish future growth. However, high inventory levels may be justified if they are accompanied by a correspondingly high level of sales. Inventory/sales ratios have remained low, with the only significant increases in the last few months occurring at the wholesale level.

The U.S. trade deficit in goods and services soared to a record high of $13 billion in March, marking its fourth straight monthly increase. Many forecasters warn that the U.S. trade balance will continue to deteriorate over the next year or so. Since 1991, real U.S. net exports have declined, largely in response to relatively fast growth at home. Typically, our trade deficit narrows when the growth differential between the U.S. and its trading partners exceeds approximately two percentage points. Recent growth projections imply a differential of less than that amount, suggesting that there will be no improvement in the trade deficit in the near term.