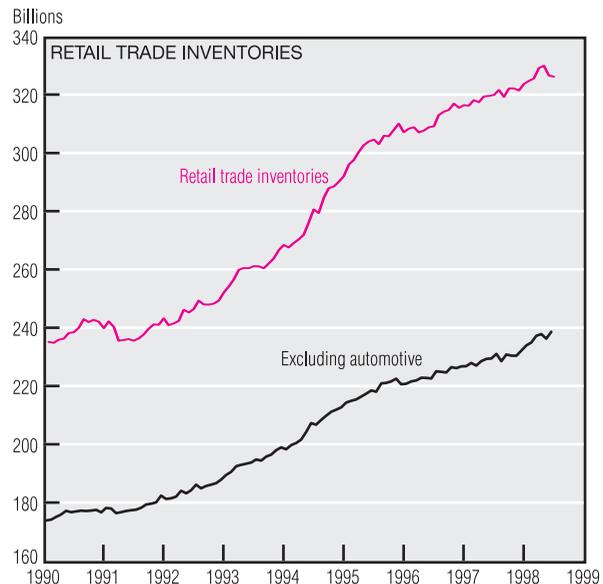
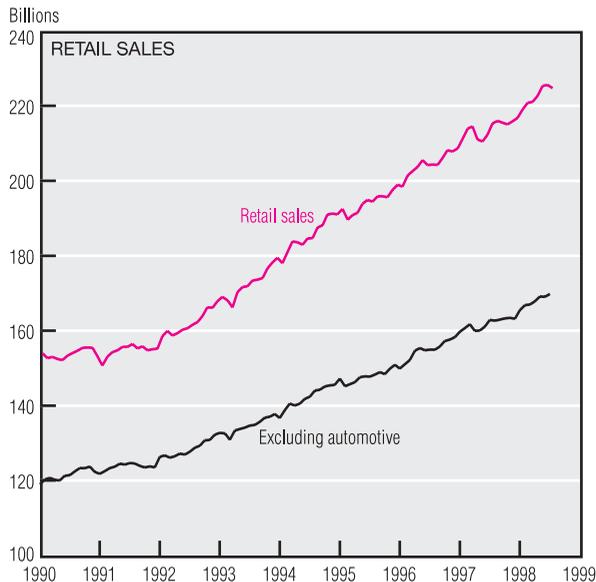
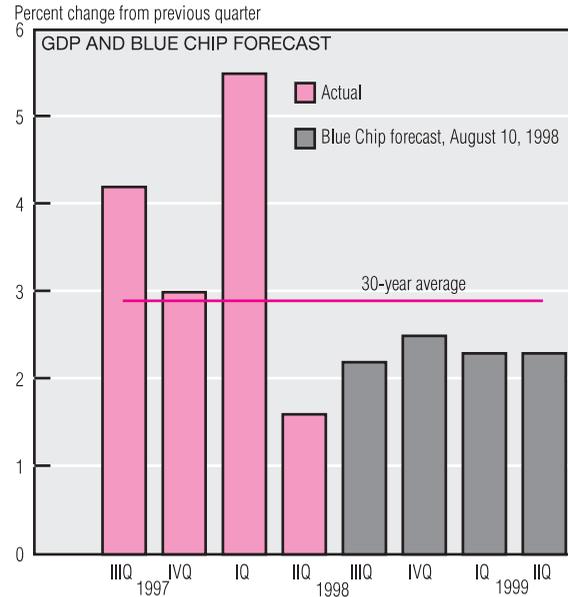


Economic Activity—Past and Present

Real GDP and Components, 1998:IIQ ^a (Preliminary estimate)	Change, billions of 1992 \$	Percent change, last:	
		Quarter	Four quarters
		Real GDP	30.2
Consumer spending	72.2	5.8	5.2
Durables	18.8	11.0	11.5
Nondurables	18.5	5.0	4.2
Services	36.0	5.2	4.4
Business fixed investment	28.0	12.6	13.2
Equipment	31.4	18.1	17.8
Structures	-2.3	-4.5	0.8
Residential investment	10.5	14.8	9.4
Government spending	11.6	3.7	0.8
National defense	6.8	9.6	-3.7
Net exports	-47.8	—	—
Exports	-19.0	-7.4	1.0
Imports	28.8	10.0	11.3
Change in business inventories	-52.3	—	—



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 Bureau of the Census; and *Blue Chip Economic Indicators*, August 10, 1998.

New estimates of gross domestic product for 1998:IIQ revealed nothing new about the economy. Preliminary real GDP growth was 0.2% higher than in the advance estimate. This reflected slight upward adjustments in a number of components, largely offset by small downward adjustments to imports and inventory investment. It remains the case that GDP growth declined sharply from the 5.5% pace of the first quarter to 1.6% in the second. Two-thirds of this reduction can be attributed to slower inventory accumulation, which increased less than half the

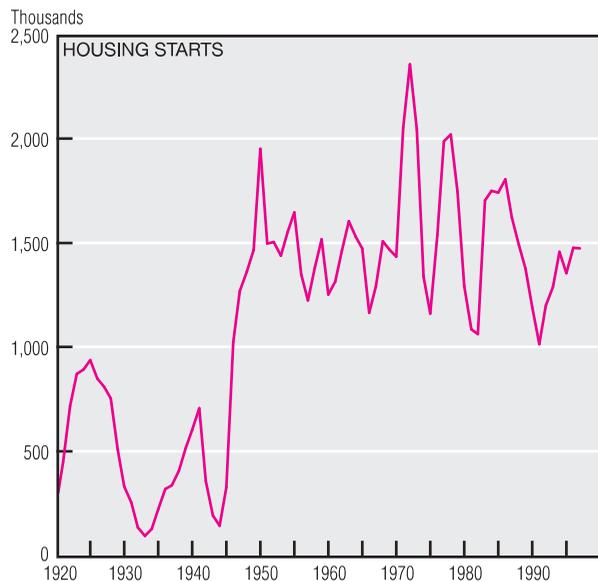
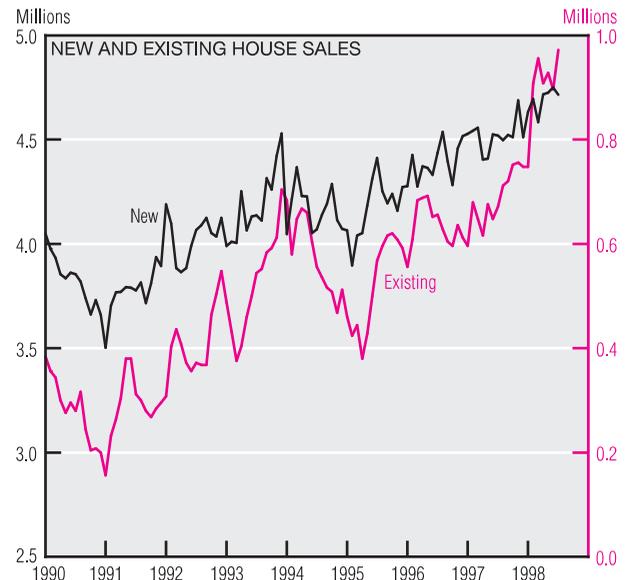
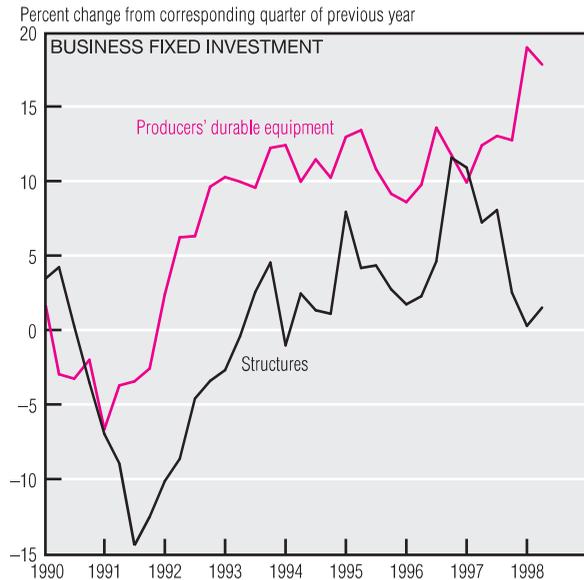
first-quarter amount. The rest of the slowing in GDP can be traced to less rapid increases in investment spending for producers' durable equipment, including information-processing equipment. Forecasters expect some pickup in GDP growth through this year and next, but only at a subdued pace.

Consistent with these forecasts, real final demand (GDP minus inventories) remained strong, growing 0.1% more than the 4.3% first-quarter annual rate, despite the drop in GDP growth. More recently, both retail sales and retail trade inventories

have declined, but this probably reflects the influence on the automotive sector of the now-settled General Motors strike, not any slowing in consumer demand. For the third consecutive quarter, business investment in structures grew more slowly than final demand. While producers' durable equipment expenditures increased less rapidly than in the first quarter, they remain quite strong at four times the growth rate of final demand. Residential construction showed a similar pattern, increasing more than three times more rapidly than final demand.

(continued on next page)

Economic Activity—Past and Present (cont.)



NOTE: All data are seasonally adjusted.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis and Bureau of the Census; U.S. Department of Commerce, Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1970*, part 2. Washington, D.C., 1975; and National Association of Realtors.

Sales of new houses remained strong in July. Moreover, exuberant sales (and purchases) of existing homes continued to show evidence of shifts in housing asset portfolios analogous to those evident in financial markets. In July, sales of existing homes reached a new all-time peak.

The U.S. economy hit a business-cycle peak in May of 1923, the year this Bank's main building was dedicated. That peak was followed by a short, mild contraction that ended in July of the next year. Still, the U.S. was in the midst of a construction boom. Downtown areas of many

cities were undergoing major expansion of office space. Cleveland was in the forefront of U.S. industrial development, building on a base of petroleum refining, iron and steel production, automobiles and parts, and machine tools.

The site chosen for the Cleveland Bank adjoined a massive planned development of splendid governmental structures grouped around a huge public esplanade. Nearby was the Terminal Tower project, a gigantic complex that included large office buildings, a hotel, and a department store, all atop the new railroad and interurban trolley terminal.

In the mid-1920s, housing starts in the nation shot up to levels that were unequaled until the release of pent-up demand created by the Great Depression and World War II. Suburban housing developments like Shaker Heights epitomized inner-ring suburbs, catering to a growing upper-middle class that appreciated third-floor maid's quarters and two-car garages. The economic contraction of 1924 produced a slight dip in the level of GNP, but the "new era" of "permanent prosperity" soon seemed to have resumed.