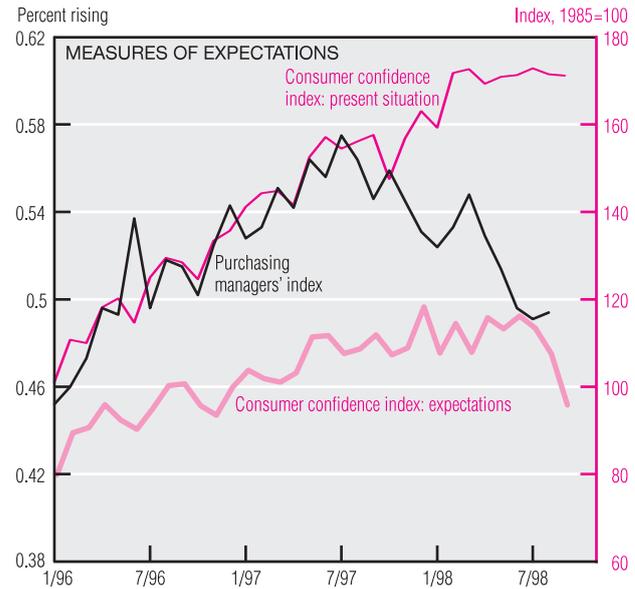
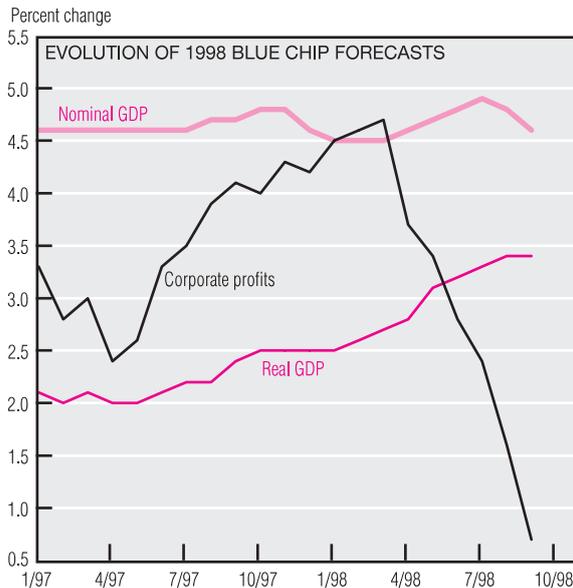
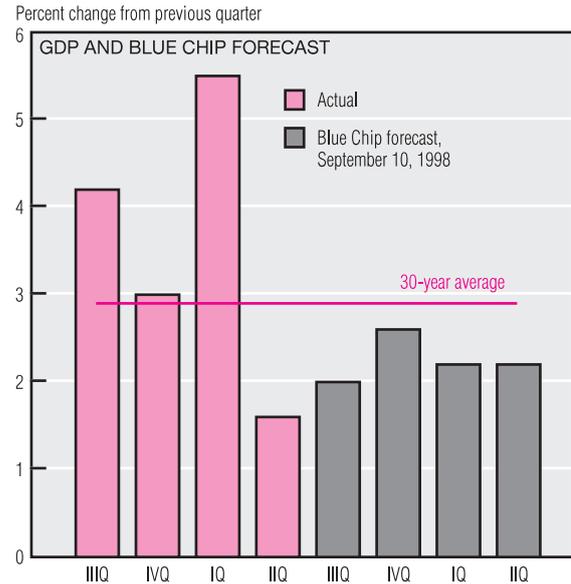


Economic Activity

	Change, billions of 1992 \$	Percent change, last:	
		Quarter	Four quarters
Real GDP	33.9	1.8	3.6
Consumer spending	75.1	6.1	5.3
Durables	19.1	11.2	11.6
Nondurables	19.7	5.3	4.3
Services	37.5	5.4	4.5
Business fixed investment	28.5	12.8	13.2
Equipment	32.5	18.8	18.0
Structures	-1.2	-2.3	1.3
Residential investment	10.6	15.0	9.4
Government spending	11.8	3.7	0.8
National defense	7.0	9.9	-3.7
Net exports	-46.7	—	—
Exports	-19.8	-7.7	0.9
Imports	26.9	9.4	11.1
Change in business inventories	-53.2	—	—



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; The Conference Board, Inc.; National Association of Purchasing Management; and *Blue Chip Economic Indicators*, September 10, 1998.

The revised estimate of real gross domestic product (GDP) for the second quarter was only 0.2 percentage point higher than last month's preliminary estimate. The resulting annualized growth rates of GDP (1.8%) and real final sales (4.6%) contained no surprises.

Forecasters expect growth in future quarters to be somewhat higher, but below the 30-year average. For 1998 as a whole, however, they anticipate that real GDP will be almost 3.5% above last year's level. Their estimates of 1998 growth have increased almost continuously over the past two years to a level that is cur-

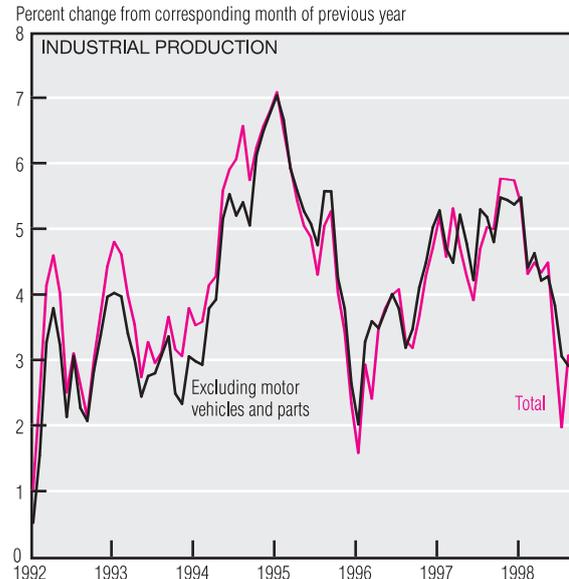
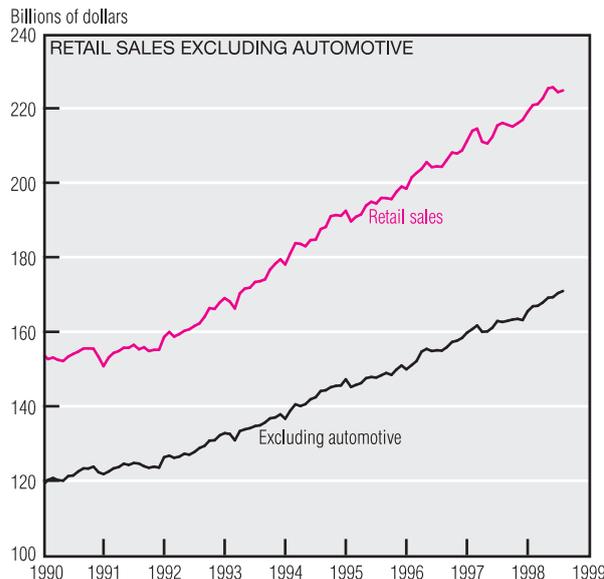
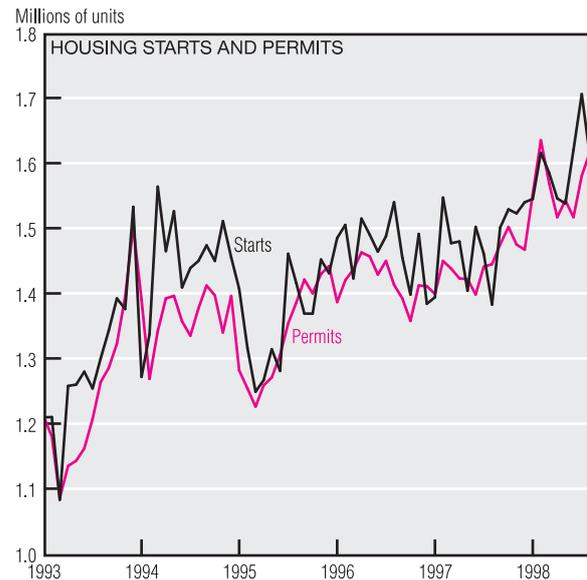
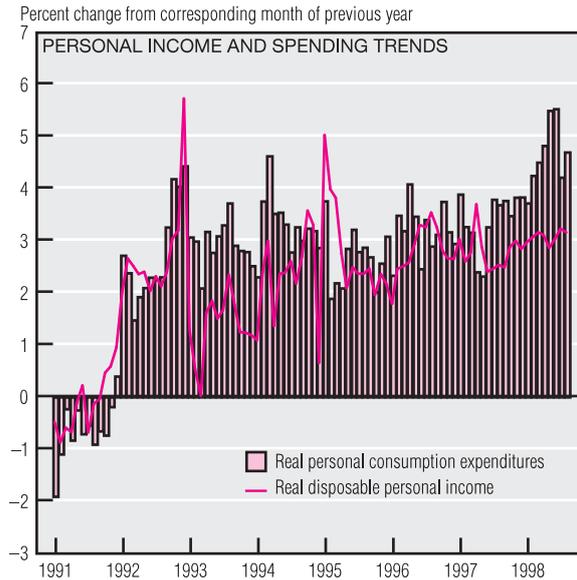
rently more than 60% higher than it was at the beginning of last year. In contrast, the forecast of nominal GDP growth is exactly the same as it was then. The entire difference is accounted for by forecasters' recognition of the surprising slowdown in the measured rate of inflation. Downward pressure on prices also shows up in persistent reductions in the forecast growth rate of corporate profits, now expected to be less than 1% above last year's level.

Deterioration of economic and financial conditions abroad has led to concern for the continuation of economic expansion at home, especially

in the wake of the August break in stock prices and the subsequent exposure of financial difficulties at a huge eastern investment fund. Indexes of producer and consumer sentiment might provide the most timely, though probably not the most reliable, indications of movements in the economy, but they send no clear message. What is plain is that consumers are becoming more worried about the future. The expectations portion of the September consumer confidence index dropped sharply and at an even faster rate than in the

(continued on next page)

Economic Activity (cont.)



NOTE: All data are seasonally adjusted.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis and Bureau of the Census; and Board of Governors of the Federal Reserve System.

previous two months. Worries are not apparent, however, in the present-conditions portion of the index, which declined only slightly. A more positive view of the situation came from the purchasing managers' index, which stabilized in August after declining throughout most of the year.

No slowing is evident in consumers' incomes. Real disposable personal income grew at a 4.3% annualized rate in August, above its 3.1% rate for the most recent 12 months. Consumption growth has receded from the high rates seen earlier in 1998, but consumers continue to in-

crease spending by more than the increase in their real disposable personal incomes, a pattern that has prevailed for over a decade.

Housing permits increased sharply over July and August, with the number of permits only 3,000 lower than the number of starts in the latter month. Over the past five years, starts typically have exceeded permits, suggesting a gradual reduction in the backlog of intended construction. So far in 1998, however, the number of new housing starts has been only 7,000 above the number of new housing permits. This may indicate stabilization of the backlog and por-

tend increased sensitivity of housing starts and construction activity to the number of new permits.

Retail sales moved up in August toward their previous peak. Non-automotive retail sales have maintained a steady pace of growth, unlike the automotive-related sector, where sales have rebounded slowly since the General Motors strike.

Industrial production increased sharply in September from its low August level, as settlement of the GM strike renewed automotive activity. Growth of nonautomotive production, however, continued to moderate.