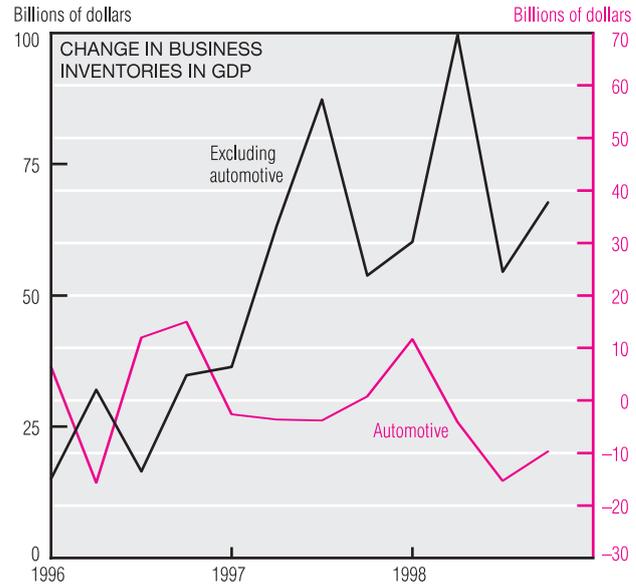
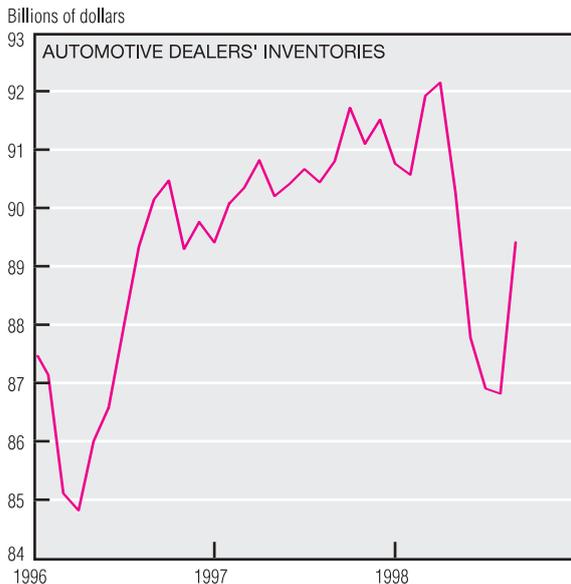
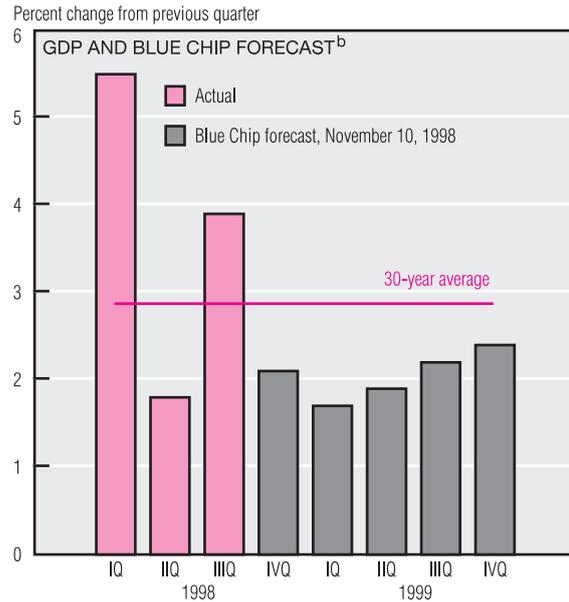


Economic Activity

	Change, billions of 1992 \$	Percent change, last:	
		Quarter	Four quarters
Real GDP	71.4	3.9	3.5
Consumer spending	51.7	4.1	4.7
Durables	4.2	2.3	7.9
Nondurables	8.0	2.1	3.6
Services	38.2	5.4	4.7
Business fixed investment	-3.0	-1.2	8.5
Equipment	-2.2	-1.1	12.7
Structures	-0.7	-1.4	-1.9
Residential investment	6.4	8.5	11.8
Government spending	5.2	1.6	0.9
National defense	3.3	4.5	-2.1
Net exports	-8.7	—	—
Exports	-4.7	-1.9	-2.1
Imports	4.0	1.3	8.0
Change in business inventories	18.4	—	—



a. Data in billions of chained 1992 dollars. Changes over time in chained-type detailed components of GDP need not sum to changes in more aggregated values.
 b. Blue Chip panel of economists.
 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*, November 10, 1998.

Real gross domestic product increased at a 3.9% annual rate in 1998:IIIQ, according to preliminary estimates released in late November. This was stronger than both the 3.3% advance estimates released a month earlier and the 2.1% Blue Chip forecast of sluggish-but-strengthening growth through the end of next year. Consumption spending and inventory investment accounted for the bulk of the increase, with smaller additions to residential investment and government spending. Expenditures on producers' durable equipment

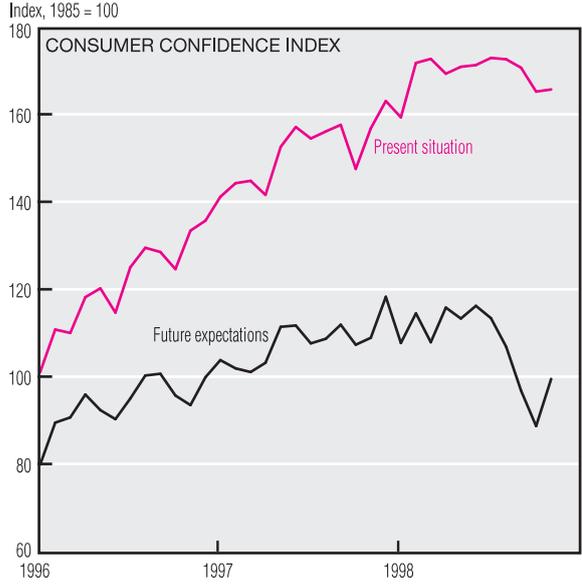
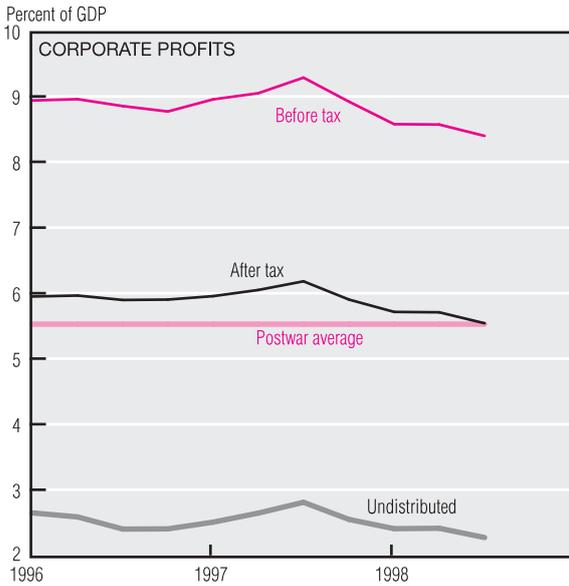
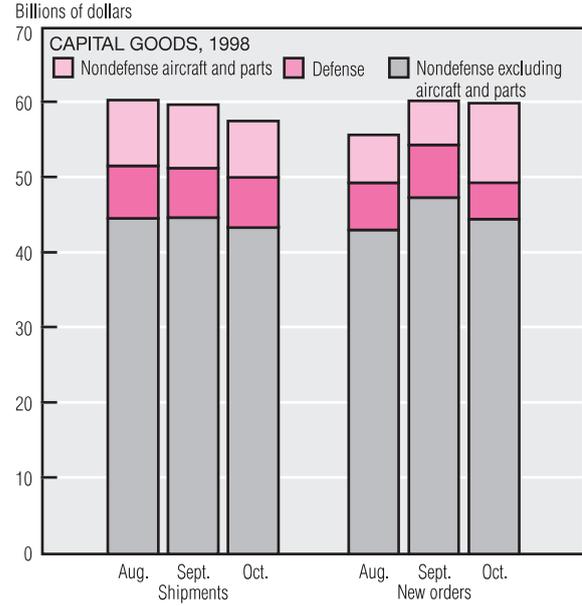
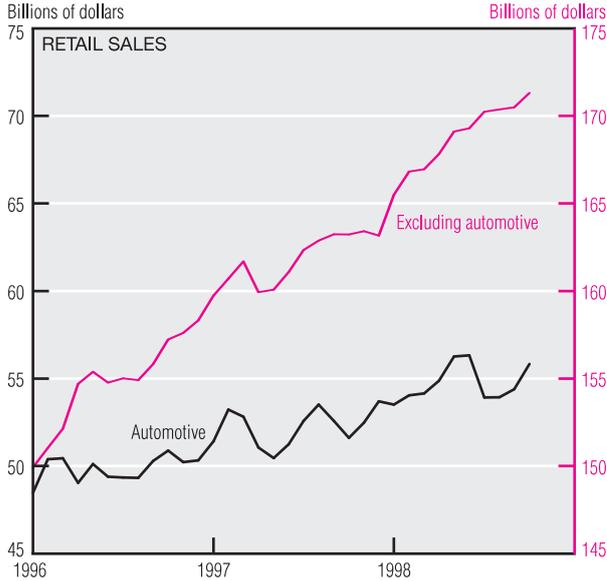
declined very slightly, business investment in structures fell for the third consecutive quarter, and net exports continued to recede.

The substantial amount of inventory investment could have included unintended accumulations if aggregate demand were waning because of uncertainties surrounding foreign and financial market disturbances. Alternatively, accumulations in 1998:IIIQ could have been intended to offset the previous quarter's low level, which reflected strikes at some General Motors parts plants in June and July. Dealers' inventory levels

dropped sharply from April through July before rebounding in September. Unfortunately, changes in these monthly observations don't reconcile with the record of quarterly inventory changes in the GDP accounts, which show continued decumulation in the third quarter. In any case, automotive-related inventory investment does not dominate recent inventory behavior. Nonautomotive inventories showed an identical, but larger, swing in the second and third quarters.

(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 The Conference Board, Inc.

Strength in consumption spending apparently has continued into the current quarter. Retail sales, both automotive and nonautomotive, rose smartly in October. Consistent with this spending increase, personal saving out of disposable personal income (not shown here) was negative for the second consecutive month. Households financed purchases with even more borrowing and asset drawdowns than in September.

Weakness in business fixed investment seems persistent. Capital goods shipments and new orders showed no sign of strengthening in October.

Shipments of nondefense capital goods declined in both the nonaircraft and the more volatile aircraft sectors. New orders, which increased more than 40% in the nondefense aircraft sector, were offset by declines in the remaining nondefense and defense sectors.

Profitability plays a critical role in investment, of course. The preliminary GDP release included the first estimate of corporate profits for 1998:IIIQ. In current dollars, profits (including inventory valuation adjustment and capital consumption allowance) declined somewhat, both before and after taxes, as well as

after distributions. As a share of GDP, after-tax profits have dropped about 10% from a year ago to the level of their long-run average for the years since World War II.

Consumer confidence seemed to have been battered by the summer stock market sell-off and the Russian financial collapse. Despite September's hedge fund difficulties, however, consumers expressed no less confidence about the present situation in October than they had a month earlier, while their confidence in the future was considerably stronger.