The economy shot up 5.9% in the first quarter, according to the Commerce Department’s final appraisal. The slight uptick from the previous estimate resulted from weaker-than-expected growth in imports. The exceptional first-quarter performance—the best in nine years—reflected advances in personal consumption, inventory accumulation, exports, and producers’ durable equipment.

Economists participating in the June 10 Blue Chip survey expect the expansion to ease back into a pace more consistent with the economy’s underlying growth potential. They foresee real GDP expanding 2.3% in the current quarter and throughout the remainder of 1997, then tapering off to 2.0% by the last half of 1998.

Forecasters believe that consumers will tighten their belts somewhat in the current quarter. Consumer spending typically accounts for about two-thirds of GDP. During April and May, real personal consumption expenditures rose at a 2.3% annual rate—somewhat off the first-quarter pace, but still relatively strong. Growth in real disposable personal income remains solid, although it also ratcheted down a bit in May.

Month-to-month changes in standard housing indicators usually contain more noise than information, and individual series often move in opposite directions. May’s 4.8% decline in housing starts is not particularly noteworthy when compared with the recent behavior of this index, but it did mark the third consecutive monthly decline. While an extended drop in starts is not unprecedented in an expansion, it is relatively rare. Nevertheless, both

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Economic Activity (cont.)

Building permits and starts remain at relatively high levels, and anecdotal evidence suggests that the housing sector remains strong. Builders report that new home sales are rising, mortgage applications continue to stream in, and consumers' attitudes about home buying are widely characterized as upbeat.

Business fixed investment, particularly for computers and other information equipment, has increased at a rapid clip throughout the current expansion. More recently, investment in nonresidential structures also seems to have fallen in line. Business investment helps boost worker productivity, which is necessary if workers are to see their real wages rise. Moreover, productivity advances are an important source of long-term economic growth. Since 1991, productivity gains in the manufacturing sector have accelerated. In fact, they have exceeded their 35-year trend since 1995. The continued strong performance of corporate profits, relatively high levels of capacity utilization, low interest rates, and the booming stock market all bode well for continued strength in plant and equipment spending.

Production of motor vehicles and parts rebounded somewhat in May, as the strike against Chrysler ended. Although inventories of cars and light trucks increased sharply in April, they do not appear to be at unusually high levels.