Economic Activity

The economy continues to show signs of vigor. Advance estimates from the Commerce Department indicate that real GDP grew at an annualized rate of 3.5% in 1997:IIIQ, following an increase of 3.3% in the previous quarter. For the four quarters just ended, GDP was up an average of 4.0%—the best showing since 1984. Strong increases in business fixed investment and consumer spending, especially on durable goods, outweighed declines in net exports and inventory investment.

Economists participating in October's Blue Chip survey expect the current pace of expansion to moderate toward its historical trend of 2.8% in 1997:IVQ. This would result in a 3.6% growth rate for the year—much stronger than 1996's 2.8% posting.

Consumer spending, which accounts for approximately three-fourths of GDP, rose 5.7% in the third quarter after a modest 0.9% uptick in 1997:IIQ. This gain, the largest in more than five years, was led by a 16.7% increase in spending on durable goods, fueled largely by a surge in auto sales that may be due to incentive programs offered by manufacturers.

While retailers hope for continued consumer spending growth, it is (continued on next page)
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uncertain that this active pace will be maintained. The Michigan Survey of Consumer Sentiment decreased 0.8 point from September to October, and the Conference Board’s consumer confidence index fell about seven points to 123.3. However, both indexes remain substantially higher than last year’s levels, and it is too early to tell if the low October numbers are more than temporary blips.

Manufacturers are planning for continued consumer spending, with output of consumer goods rising 0.7% in September. Total industrial production advanced 0.7%, well above market expectations of a 0.3% rise. The increase in manufacturing output reflects widespread gains. Light trucks, computers, aircraft, and semiconductors all recorded substantial production increases. The capacity utilization rate, 84.4%, is the highest since February 1995.

The National Association of Purchasing Management also reported expanding activity. Its index went up to 56.0 in October, the fifteenth straight month indicating growth.

Investment in nonresidential structures increased 2.4% in the third quarter. Investment in producers’ durable equipment was up 5.1%, following an even larger gain (5.3%) in the second quarter. The increased investment was led by purchases of computers and transportation equipment. With corporate profits remaining strong, business fixed investment should continue to grow.