The economy grew 3.1% in the third quarter, according to the Commerce Department’s final estimates. Economists participating in December’s Blue Chip survey currently anticipate real growth of 2.7% in the fourth quarter. Given November’s strong labor report, this estimate may be low. The Blue Chip forecasters predict that economic activity will slow in 1998 to a rate consistent with current estimates of the country’s long-term growth potential.

The ramifications of the Asian financial crisis for the U.S. economic outlook are fairly straightforward, but their magnitude is anybody’s guess. As capital flows from Asia to the U.S., the dollar should appreciate and the U.S. trade deficit should expand. Anecdotal evidence currently suggests that U.S. firms are delaying plans to increase exports and investments into Asia and are bracing for more intense competition from that continent. U.S. imports and exports equal 15.8% and 13.5% of GDP, respectively. The developing Asian economies account for only about one-fifth of U.S. trade.

Any inflow of foreign capital should also lower real U.S. interest rates, thereby boosting investment and consumption spending here. However, the prospects for lower interest rates may hinge on the exposure of U.S. financial institutions both to Asia and to U.S. firms that are weakened through trade.
While unknown, these risks do not seem overwhelming.

Real personal consumption expenditures (measured on a year-over-year basis) increased a healthy 3.5% in October and 3.8% in November. Real disposable personal income gains were equally strong. Consumer sentiment weakened a bit in early December, perhaps reflecting the recent declines in stock prices, but the index remains at an extraordinarily high level.

Industrial production rose a very respectable 0.8% in November. Production gains were broad-based throughout the manufacturing sector, with noteworthy advances in automobile assemblies, information processing equipment, and semiconductors. An anticipated slowing in motor vehicle production in December and recent orders data suggest a more moderate—but still favorable—pace of industrial production over the coming months.

The housing sector remains solid, with total starts reaching 1.53 million units in November. Since 1994, most of the growth in starts has been attributable to multifamily units, whose construction soared in October. Vacancy rates for these dwellings have been falling, but remain high. Starts of single-family homes have remained fairly stable at high levels since 1994. Although sales of new homes slipped a bit in October, overall sales of new and existing homes remain brisk. Consumer attitudes about home buying are favorable, and mortgage applications are strong.