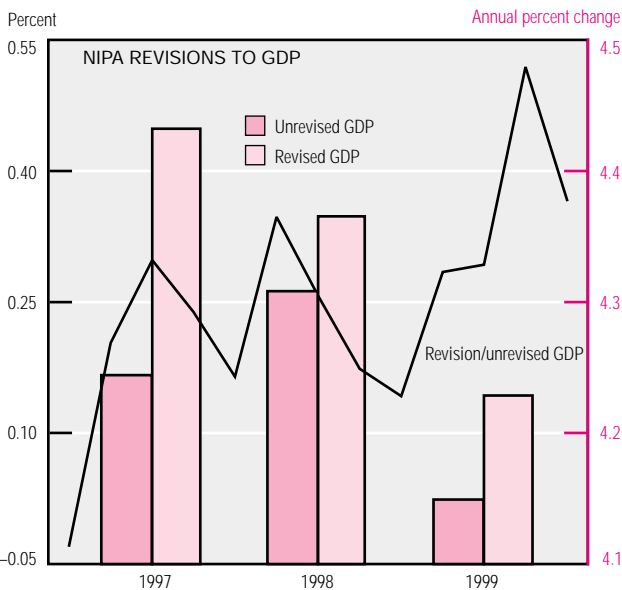
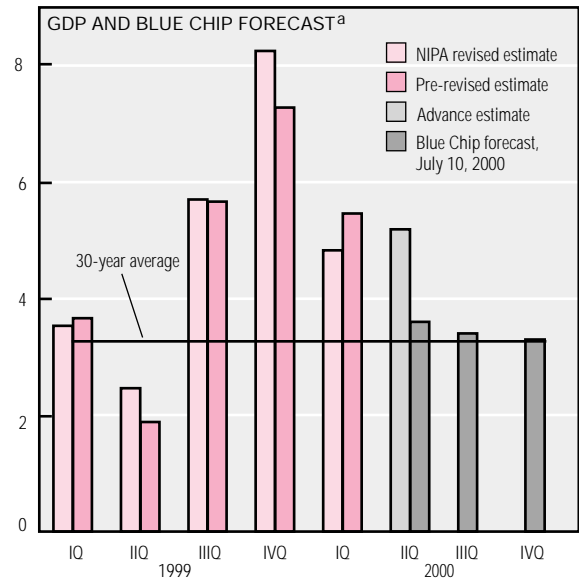


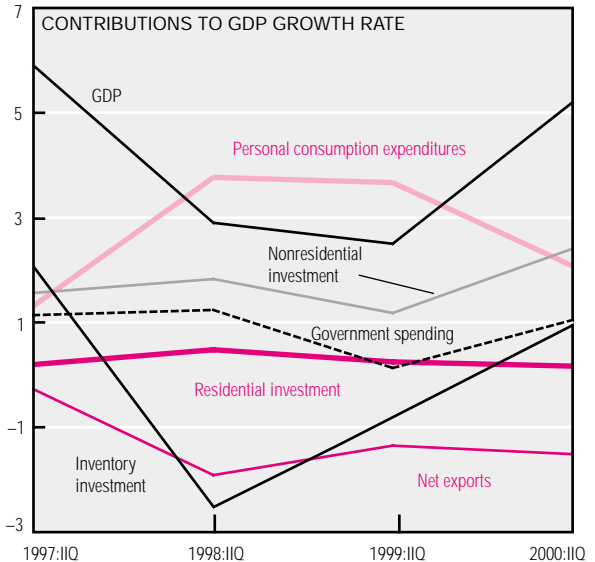
Economic Activity

	Change, billions of 1996 \$	Percent change, last:	
		Quarter	Four quarters
Real GDP	117.0	5.2	6.0
Consumer spending	46.1	3.0	5.4
Durables	-8.8	-3.9	9.7
Nondurables	16.1	3.5	5.4
Services	36.4	4.2	4.5
Business fixed investment	62.7	15.3	11.6
Equipment	53.8	21.0	17.2
Structures	8.5	13.0	9.2
Residential investment	3.6	3.9	1.1
Government spending	23.1	6.0	4.5
National defense	13.8	17.2	4.4
Net exports	-39.3	—	—
Exports	19.4	7.3	8.5
Imports	58.6	17.0	14.1
Change in private inventories	23.7	—	—

Annualized percent change from previous quarter



Portion of GDP growth rate (percentage points)



a. Chain-weighted data in billions of 1996 dollars.

b. Components of real GDP need not add to totals because current dollar values are deflated at the most detailed level for which all required data are available.

NOTE: All data are seasonally adjusted and annualized.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and *Blue Chip Economic Indicators*, July 10, 2000.

Gross domestic product increased at a surprisingly strong 5.2% annual rate in 2000:IIQ, according to the advance estimate. The Blue Chip median forecast had been only 3.6%, and it continues to predict growth in the 3% range for the second half of the year.

The July GDP release also reflects revisions to national income and product account (NIPA) estimates from 1997:IQ onward. Economic growth for 2000:IQ is now placed at 4.8% (annualized), down from the

5.4% annualized rate previously reported. However, the 1999:IVQ rate after revision is almost a full point higher, at 8.25%. On the whole, the revision increased GDP \$43 billion. The lion's share of the increase came from nonresidential fixed investment, which was matched by a net increase in income going to capital.

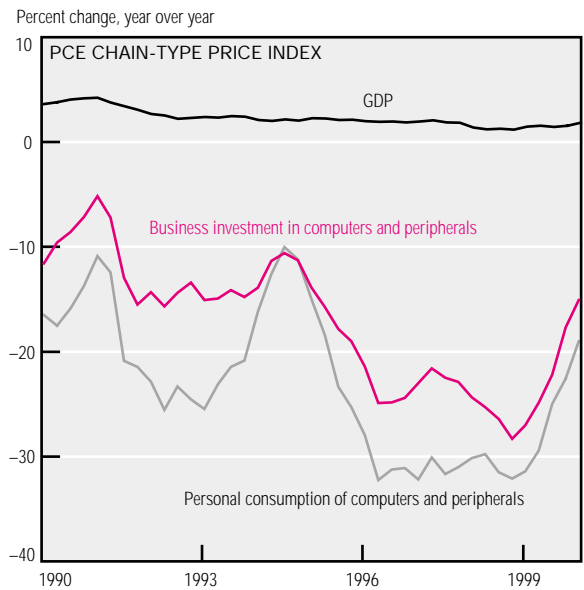
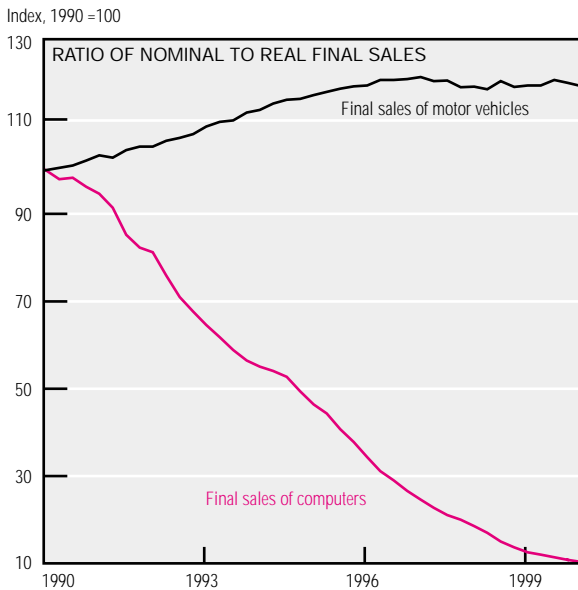
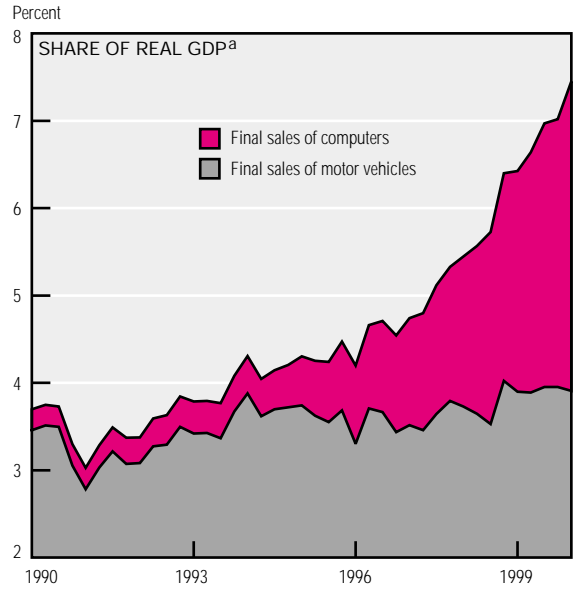
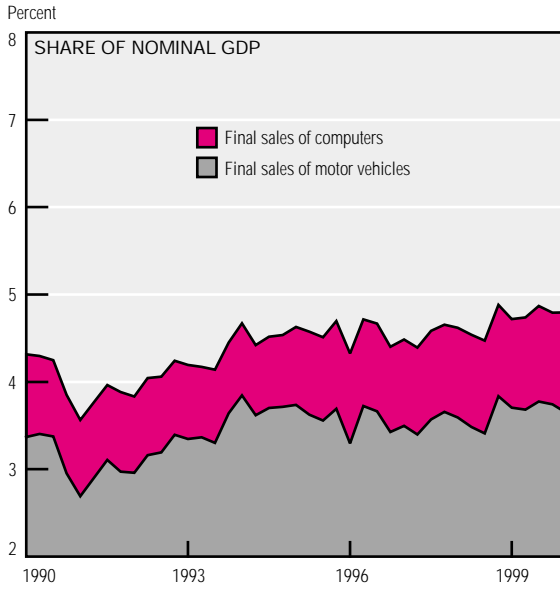
As expected, consumer spending moderated significantly in the second quarter, contributing only two percentage points to GDP growth

—three full percentage points less than in the first quarter. Net exports showed a half-percentage-point reduction. These two weaknesses were offset by volatile government spending and inventory accumulation, which together contributed about two percentage points. Residential and nonresidential fixed investment continued to grow at a nearly unchanged pace.

Much has been made of the computer revolution and its impact on economic conditions over the

(continued on next page)

Economic Activity (cont.)



a. Chain-weighted data in billions of 1996 dollars.
SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

last 10 years. Final sales of computers have doubled in nominal terms over the decade; however, computer expenditures are still less than one-third of motor vehicle expenditures. In real terms, though, the pattern is drastically different. While nominal expenditures on computers grew modestly, the real value of these purchases has increased dramatically. In real terms, final computer sales are virtually equal to final motor vehicle sales.

As the ratio of nominal to real expenditures shows, the real price of computing has continued to drop precipitously for the past decade, primarily because of computers' increased quality or ability rather than nominal price declines. The typical computer chip could process 25 million instructions per second in 1990, whereas today it can process more than 500 million ips.

The chain-weighted price deflators for personal and investment

expenditures on computers and peripherals confirm this trend: While the GDP price index has grown more than 2% annually over the decade, the personal-consumption and business-investment computer price indexes have dropped 23% and 17% on average, respectively. Perhaps most intriguing is the cyclical trend found in the computer price deflation: Two spikes, in 1991 and 1994, may mark innovations in computer-processing speed.