The long predicted slowdown is more forecast than fact. The economy performed better during the summer than had been originally reported and consumer confidence bounced back in the fall. Along with other signs of buoyancy, in jobs, retail sales and housing, the data suggests that growth remains surprisingly solid.

Despite financial turmoil abroad and tremblings at home, the nation's gross domestic product grew at an annual rate of 3.9 percent in the third quarter, revised upward from an initial estimate of 3.3 percent. The growth did not reflect goods piling up in warehouses but stronger demand in most parts of the economy. Inflation, meanwhile was less than 1 percent.

Consumer confidence rose in November after four consecutive declines that brought it to an 18 month low in October. Growth in the current quarter could run as high as 3 percent but cool sometime in the New Year. The slow-down simply did not happen.. Barring a bolt from the blue, the current economic expansion should, by January, overtake the 92 month boom experienced during the Reagan Administration and close in on the Kennedy-Johnson expansion, the longest ever.

However, this is not familiar forecasting territory. There has been three interest rate cuts made by the Federal Reserve in the last two months. It is not usual to think of an economy with a 4.6 percent unemployment rate that's growing at a rate of 2.5 percent to 3 percent as requiring three Fed rate cuts.

All this does not mean that the economy is not suffering some visible strains that presage slower growth. Despite healthy growth in sales, American industry is suffering a profit squeeze. Excess capacity at home and intense competition from abroad are making it nearly impossible for manufactures to pass along rising labor and other costs to customers.

The most accurate and broadest measure of corporate profits rose only marginally this summer compared with results from the spring, and it is down 2 percent compared with figures from the quarter a year earlier. Despite optimistic forecasts from analysts, few economists expect the corporate-profit picture to brighten much, though the recent surge in the stock market's main gauges indicates that investors think the companies in those indexes will do better than the average business.

What is more, the cash flow that corporations had for retooling and expansion was flat in the third quarter, explaining why spending on plants and equipment, which was rising at double-digit percentile rates in the first half of the year, has also stopped growing. And while shipments of business equipment jumped sixth-tenths of a percent last month, orders that prefigure spending a few months down the road dropped 1.7 percent after rising 1.3 percent in September. That probably reflected Asia's woes and those of American producers.

But businesses might have reined in new investment anyway, since capacity growth has been phenomenal in key industries. In the computer and office equipment business, for example, production capacity soared 58 percent in the last year alone.
A reduction in capital spending by itself does not necessarily indicate slower growth. Half of the equipment American businesses buy come from abroad, thus less capital spending means fewer imports, a smaller trade gap and more domestic production than would otherwise be the case. Indeed, imports as a whole rose less than initially reported during the summer, at a 1.3 percent annual rate compared with 3.4 percent while exports also fell less than first reported.

Manufacturing, of course, is the sector where the economy has been weak, though not as weak as previously thought. In the last two years, industrial output has grown nearly a percentage point more than originally reported. Still, growth has fallen off sharply: only 1.9 percent this year compared with 6.6 percent last year. And forward-looking indicators, like the monthly reports by purchasing managers, suggest that the weakness in manufacturing is deepening.

Manufacturing, though, is not the whole story. American households, whose purchases of consumer goods and services and new homes account for almost three-fourths of the nations gross domestic product, have been living up to their reputation as big spenders. Spending on goods and services rose at an annual rate of more than 4.1 percent in the third quarter. That is slower than the more than 6 percent annual rate of the first half, but not much.

Meanwhile, home buying in the third quarter jumped at an annual rate of 9.6 percent. Low interest rates, fatter household balance sheets and healthy income gains combined with a surge of consumer confidence to keep home and car sales near record highs.

Consumers cannot keep spending faster than they earn. During the last year, the percentage by which consumption has outpaced income has risen to a 4.7 percent from 3.2 percent. As a result, saving out of current income has slipped to practically zero. The stock market's rebound has repaired some of the damage to household balance sheets, but few economists expect that stock market gains from here on can provide fuel for big spending gains.

In contrast to the positive consumer confidence index, consumers' assessment of job-market conditions has dropped. Just 40.6 percent rated jobs as plentiful in December compared with 45.2 percent in September.

In summary, while the economy continues to exhibit both strengths and weaknesses, economists generally agree that growth will continue however at a somewhat slower pace.
Business, Consumers indicate Caution

A summary of reports for the six weeks ended Oct. 26 by the 12 Federal Reserve district banks:

Boston: Companies reported increasingly cautious outlooks. Retailers reported moderate to strong sales growth; manufacturers were less upbeat. Prices remained steady and labor markets were tight.

New York: Growth slowed as retail sales fell and consumer confidence slipped. Housing markets remained firm, while commercial property sales and prices fell. Local loan demand rose and delinquency rates fell.

Philadelphia: Mostly steady business conditions, although some industries indicated a slowdown. Demand among manufacturers slipped. Some banks boosted business lending.

Cleveland: The industrial sector softened but business activity remained good. Employers raised wages and allowed more flexible work hours. Price increases were small.

Richmond, Va.: Service and retail sectors grew, but manufacturing remained slow because of foreign competition. Retail wage growth moderated. Lending remained strong, although bankers showed more caution.

Atlanta: Economic activity softened, but outlook remained positive. Merchants' sales grew, while factory orders and production weakened. Commercial construction remained strong, residential building and sales moderated. Prices were stable.

Chicago: Some industries reported a slight slowdown. Consumer spending was mixed. Manufacturing activity continued at high levels. Lenders tightened standards on some loans.

St. Louis: International sales fell, domestic sales were steady. Labor markets were tight, and some firms reported a narrowing of profit margins. Dry conditions hurt crop yields.

Minneapolis: The construction sector boosted the broader economy. Though generally strong, manufacturing showed some slowing. Labor markets remained tight, banking was profitable. Tourist revenues were strong.

Kansas City, Mo.: Some signs of easing. Manufacturing activity slowed, while retail and construction remained solid. Labor markets still tight amid moderate wage pressures. Retail prices edged up, while manufacturing-materials prices fell.

Dallas: Growth slowed, amid declines in the manufacturing and energy industries and "difficult" conditions in agriculture. Lending standards tightened, and several industries reported difficulty obtaining credit.

San Francisco: Moderate growth following recent slowdowns. Retail sales volumes were solid, but growth was slower. Manufacturing was flat, and residential and commercial real estate activity remained high. Commercial borrowers faced tighter terms and lenders became more cautious.