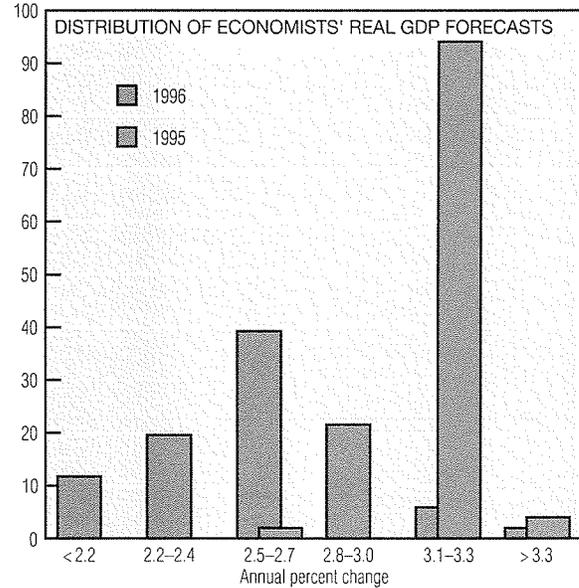


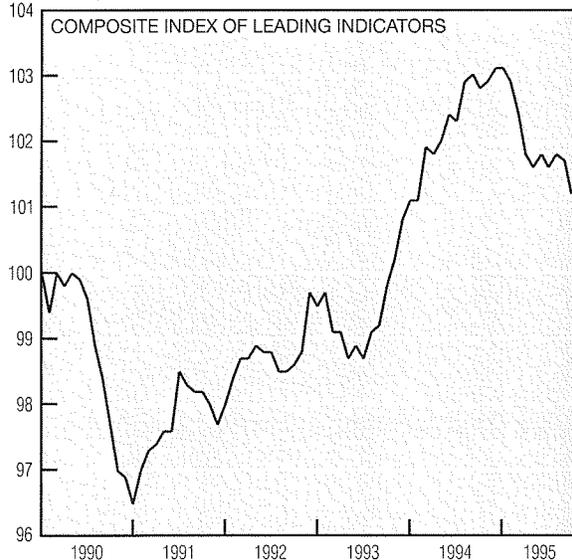
Economic Activity

	Change, billions of 1987 \$	Percent change, last:	
		Quarter	Four quarters
Real GDP	56.8	4.2	3.3
Consumer spending	26.8	2.9	3.2
Durables	15.6	11.7	7.7
Nondurables	0.2	0.1	1.8
Services	11.0	2.2	2.8
Business fixed investment	15.3	8.3	14.6
Equipment	14.0	9.7	16.3
Structures	1.4	3.5	8.7
Residential investment	5.8	10.9	-1.4
Government spending	7.0	3.1	-0.4
National defense	1.1	2.1	-7.3
Net exports	0.9	—	—
Exports	18.3	10.6	10.4
Imports	17.5	8.6	10.0
Change in business inventories	1.0	—	—

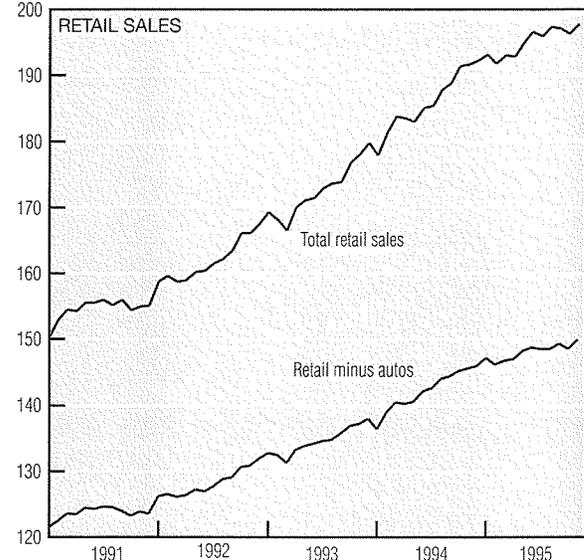
Percent of forecasts



Index, January 1990 = 100



Billions of dollars, seasonally adjusted



a. Seasonally adjusted annual rate.

SOURCES: Blue Chip Economic Indicators, December 10, 1995; and U.S. Department of Commerce, Bureau of Economic Analysis and Bureau of the Census.

According to the Blue Chip panel of economists, U.S. economic activity is likely to slow this year from an anticipated 3.3% increase in 1995. Growth forecasts for 1996 center on a range of 2.5% to 2.7%, but exhibit a fairly wide dispersion.

The slower growth forecast is based largely on an expected softening in the consumer sector, which accounts for approximately two-thirds of total output. Despite

a sharp increase in the preliminary data for November, retail sales appear to have dropped off in recent months. Total retail sales have advanced at a 2.9% annual rate since last May, compared with 6.5% over the previous 12 months. Early (and sketchy) evidence suggests that December's holiday spending was weaker than anticipated.

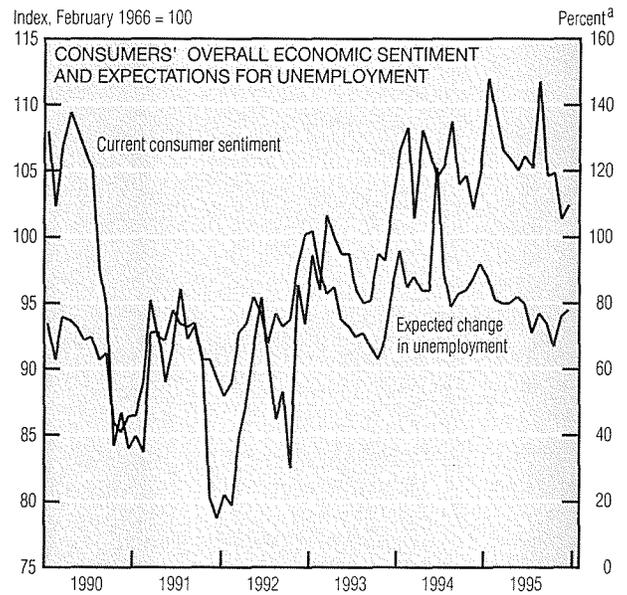
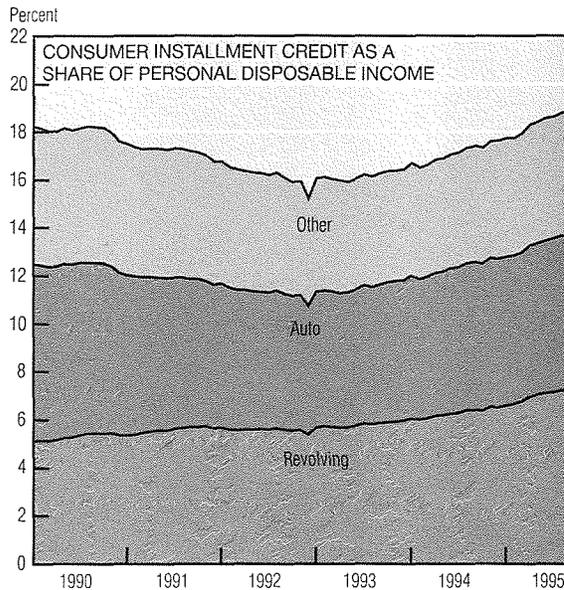
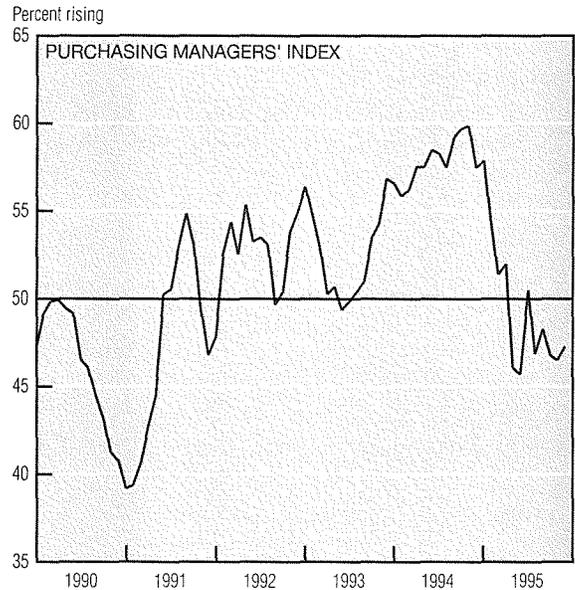
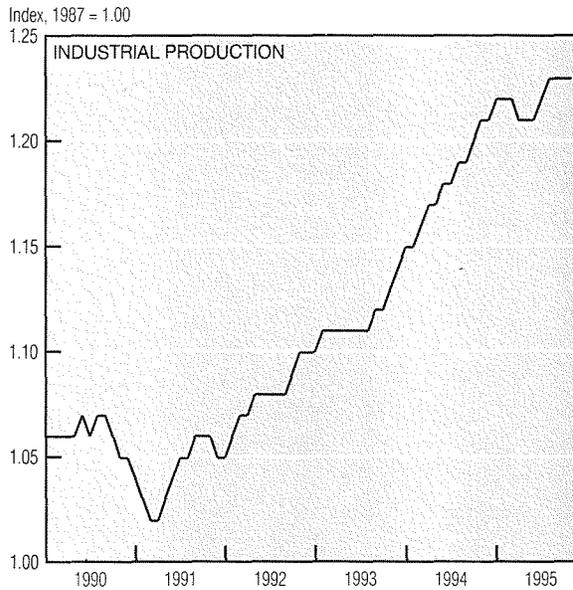
In assessing household spending patterns, analysts frequently cite consumers' sentiment about both

the overall economy and future job prospects. Each measure showed a general deterioration over 1995, but both tend to be rather volatile. Actual employment growth slowed, but the employment-to-population ratio remained near its record peak.

Most of the recent concern about consumers has focused on their debt burdens—particularly that portion associated with credit

(continued on next page)

Economic Activity (cont.)



a. Percent of respondents expecting improvement less percent expecting worsening, plus 100.

SOURCES: Board of Governors of the Federal Reserve System; National Association of Purchasing Management; U.S. Department of Commerce, Bureau of Economic Analysis; and the University of Michigan.

cards. Although the ratio of consumer installment debt to disposable income has picked up since late 1992, there is little evidence that consumers' liquidity is constrained. The delinquency rate on consumer installment debt has risen, but it remains extremely low by historic standards.

The industrial sector also shows some signs of softening, but no evidence of an overall decline. Industrial production, while generally up

for the year, has remained flat in recent months. The purchasing managers' index came in at just under 50% last year, implying about equal proportions of managers reporting growth and declines. The industrial sector accounts for only about 20% of national output, but it is a pivotal component of the business cycle.

Despite the chance for some near-term slowing in U.S. economic activity, evidence increasingly suggests that our long-range growth

potential is strengthening. Business fixed investment as a share of GDP reached record levels in 1994 and 1995, and productivity growth is above trend. The Standard & Poor's 500 advanced more than 30% in 1995, compared with an average increase of 3.4% over the previous two years. These strong gains—far in excess of the inflation rate—imply that the market may be raising its expectations for future real earnings and economic growth.