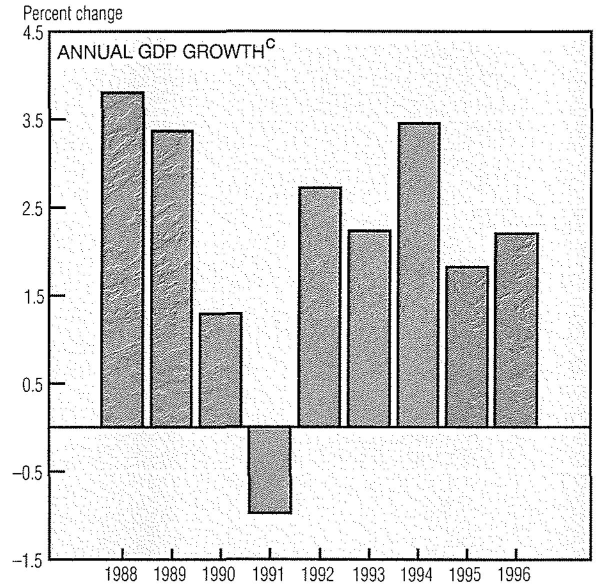
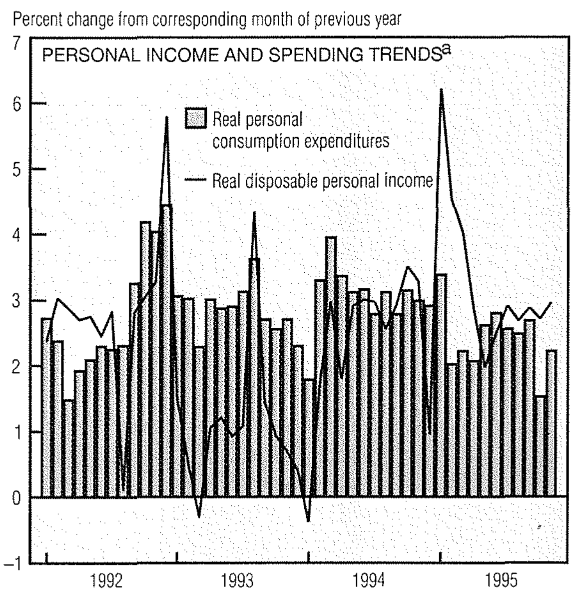
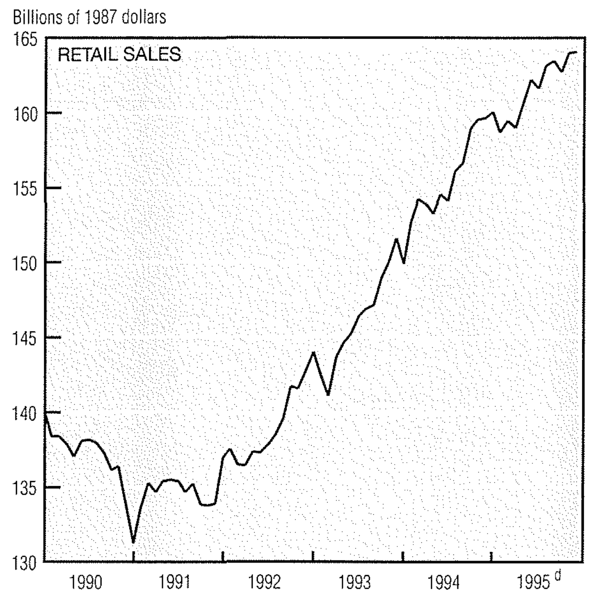
Economic Activity

Real GDP and Components, 1995:IIIQ[a]
(Advance estimate, s.a.a.r.[b])

	Change, billions of 1992 $	Percent change, last: Quarter	Four quarters
Real GDP	53.8	3.2	1.9
Consumer spending	32.3	2.9	2.6
Durables	13.2	9.5	4.8
Nondurables	1.8	0.5	2.0
Services	17.3	2.7	2.4
Business fixed investment	9.2	5.3	9.0
Equipment	6.7	5.1	9.4
Structures	2.4	5.4	7.9
Residential investment	5.2	8.4	−3.1
Government spending	−1.4	−0.4	−0.5
National defense	−6.3	−7.5	−7.6
Net exports	12.7	—	—
Exports	15.4	8.3	7.6
Imports	2.7	1.2	6.7
Change in business inventories	−3.5	—	—







a. Chain-weighted data in 1992 dollars.
b. Seasonally adjusted annual rate.
c. 1995 and 1996 estimates are from *Blue Chip Economic Indicators,* January 16, 1996.
d. October, November, and December data are estimated by deflating nominal retail sales by the Consumer Price Index for commodities.
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and *Blue Chip Economic Indicators.*

Recent data—though sketchy and tentative—and anecdotal accounts indicate that economic activity weakened in the last months of 1995. The final numbers are expected to put growth for all of last year at approximately 1.8%. Nevertheless, contributing factors, including severe weather and the federal government shutdown, generally seem isolated or transitory. Viewing the recent evidence of downside risks against the backdrop of a very strong investment sector, the Blue Chip panel of economists currently foresees 2.2% growth in 1996. None of the members anticipates a recession.

Much of the uncertainty about economic activity has centered on the consumer sector. Real consumer spending grew a moderate 2.2% in November following a 1.5% advance in October, despite relatively strong and steady gains in real disposable income. Moderate consumption patterns, together with high levels of credit card debt, raised concerns about holiday spending. Many retailers reported disappointing December sales, with heavy discounting and some inventory accumulation.

Advance estimates of real retail sales for December—adjusted for price changes —registered virtually no increase. Unit sales of motor vehicles rose sharply in December, but sales at general merchandise stores

(continued on next page)

Economic Activity (cont.)

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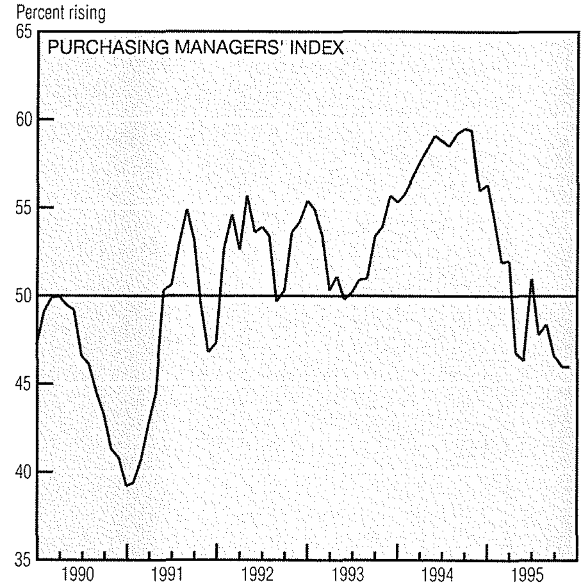
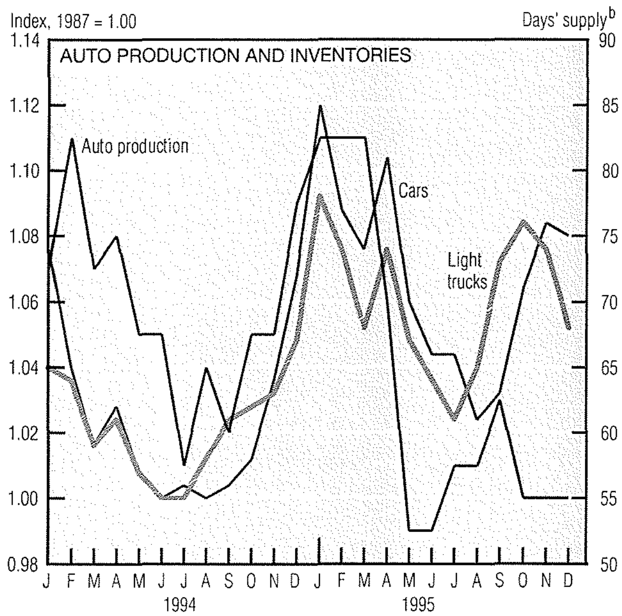
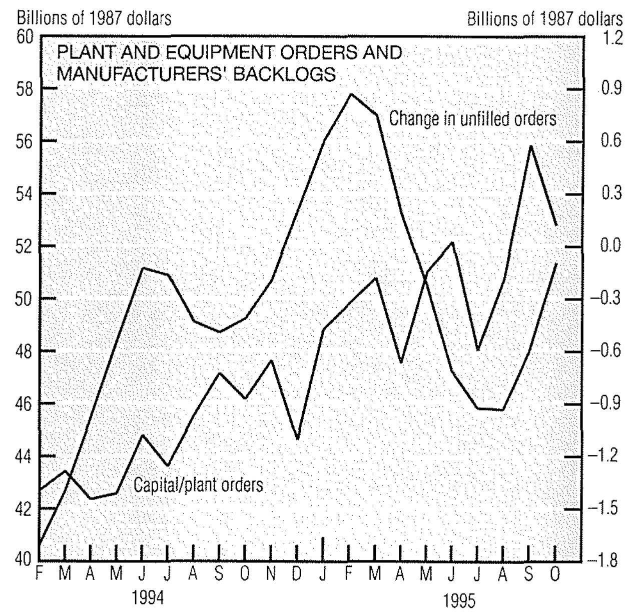
Industrial Production
(Percent change, s.a.a.r.[a])

	1994:IVQ–1995:IVQ	Sept. 1995–Dec. 1995
Total index	1.6	0.0
Consumer goods	0.4	–2.1
Durables	–0.9	2.2
Nondurables	0.8	–3.5
Business equipment	4.8	1.5
Defense and space equipment	–8.8	–15.6
Intermediate products	–0.2	0.4
Materials	2.6	1.6







a. Fourth-quarter data are preliminary estimates; seasonally adjusted annual rate.
b. U.S. dealers' current stock as a share of daily average sales (includes domestic and imported vehicles).
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Board of Governors of the Federal Reserve System; National Association of Purchasing Management; and *Ward's Automotive Reports.*

and apparel stores fell slightly. Nevertheless, the continued tightness of labor markets bodes well for the consumer sector, and despite high levels of credit card debt, evidence of liquidity problems is lacking.

The near-term outlook for the industrial sector, which accounts for approximately 20% of total GDP, remains a second area of concern. Industrial production was flat in 1995:IVQ. Production of nondurable consumer goods fell, as did output of defense-related goods. Business-equipment production slowed in the fourth quarter, but remains strong relative to a year ago.

Factory operating rates, while still generally high, have declined somewhat over the year. In October (latest available data), factory orders fell as backlogs increased. Anecdotal evidence about factory orders, while mixed and inconclusive, suggests some pockets of weakness and inventory correction. In December, the purchasing managers' index of overall manufacturing activity stood at 46, its fifth consecutive reading below 50—a point generally consistent with a flat industrial performance.

Dealers' supplies of cars and light trucks rose sharply in the late summer and early fall, but strong incentive programs and reduced orders to producers have helped lower inventories somewhat. Automotive production, which was flat in 1995:IVQ, is likely to remain weak in the early months of 1996.