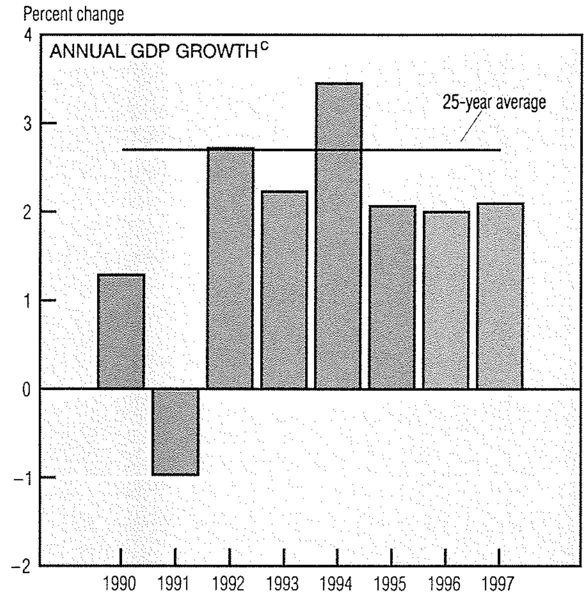
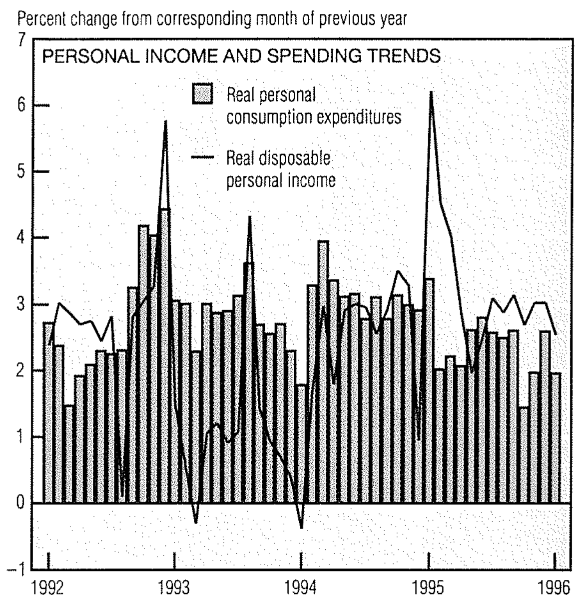
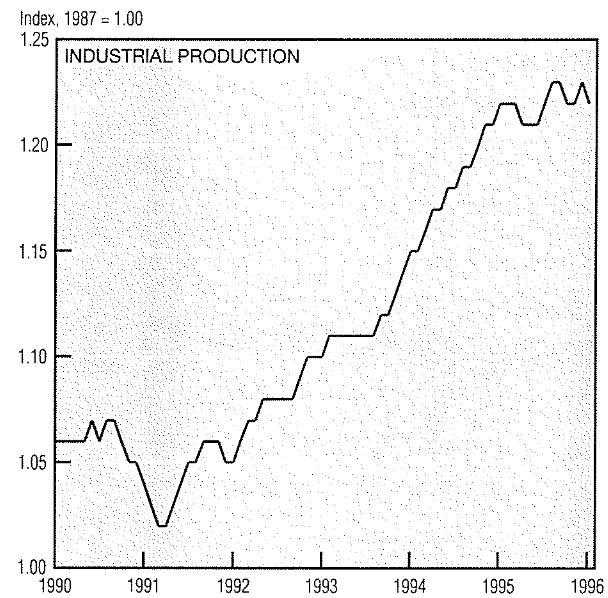
Economic Activity

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

	Change, billions of 1992 $	Percent change, last: Quarter	Percent change, last: Four quarters
Real GDP	15.5	0.9	1.4
Consumer spending	9.3	0.8	1.9
Durables	1.5	1.0	1.9
Nondurables	−5.1	−1.4	0.8
Services	12.5	1.9	2.5
Business fixed investment	11.0	6.3	7.5
Equipment	9.0	6.9	8.1
Structures	2.1	4.7	6.0
Residential investment	2.9	4.5	−1.9
Government spending	−11.9	−3.7	−1.2
National defense	−9.7	−11.6	−6.5
Net exports	20.2	—	—
Exports	20.5	10.9	6.5
Imports	0.3	0.1	4.3
Change in business inventories	−12.8	—	—







a. Chain-weighted data in 1992 dollars.
b. Seasonally adjusted annual rate.
c. 1996 and 1997 estimates are from *Blue Chip Economic Indicators*, February 10, 1996.
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Board of Governors of the Federal Reserve System; and *Blue Chip Economic Indicators.*

Real GDP grew 0.9% in 1995:IVQ, substantially off the pace set in 1995:IIIQ. The fourth quarter witnessed a slowing in consumer spending, with purchases of nondurables actually falling. Businesses ran down inventories, and federal purchases continued to decline. Export growth accelerated, while imports were nearly flat.

The economy expanded 2.1% for all of 1995. Economists surveyed for *Blue Chip Economic Indicators* project real economic growth of approximately 2% for this year and next. Although some economists have warned of a possible recession, none of the *Blue Chip* respondents did so. A 2% rate of expansion is consistent with some estimates of the economy's potential—a sustainable rate of growth at full resource utilization. Nevertheless, 2% is clearly below historical U.S. growth norms. Over the past 25 years, real growth has averaged 2.7%. Over longer time frames, a 3.2% growth rate has prevailed.

Consumer spending fell in January, reflecting weather-related distortions in the data. Personal income rose slightly, largely on the strength of transfer payments. On a year-over-year basis, however, real personal income increased 2.5% in January, a rate consistent with moderate real economic growth.

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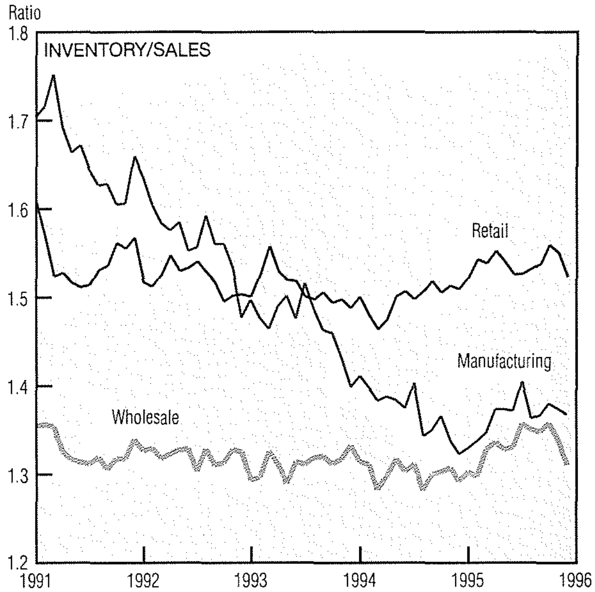
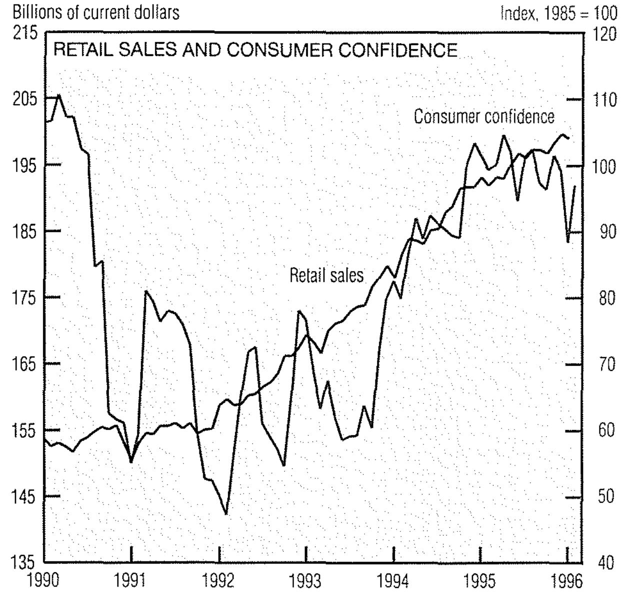
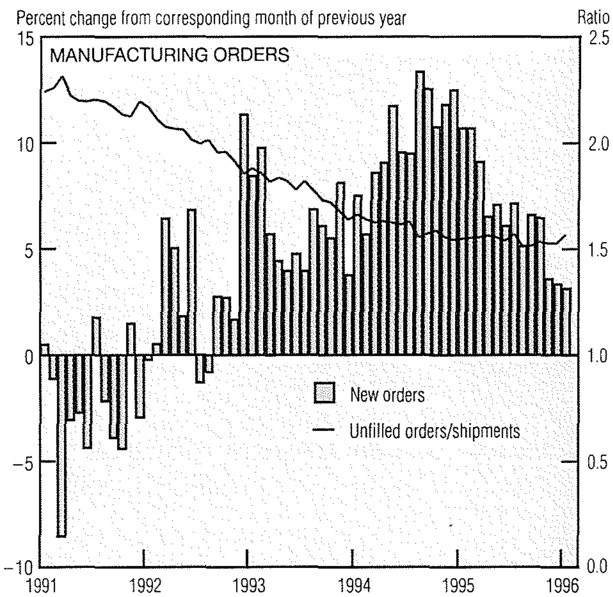
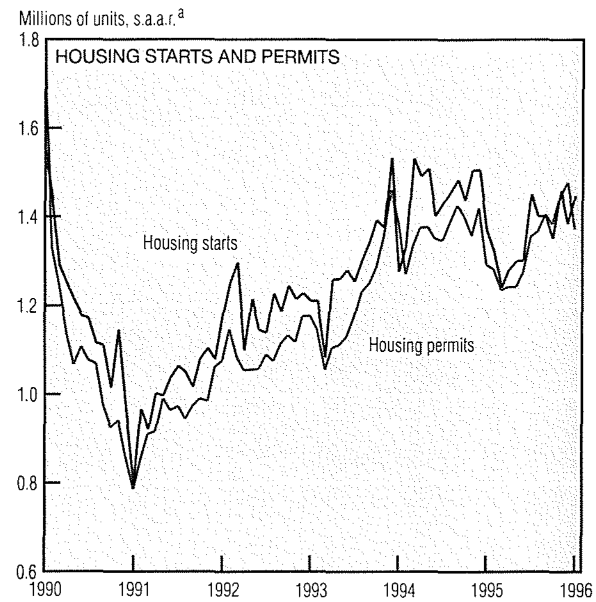
Economic Activity (cont.)









a. Seasonally adjusted annual rate.
SOURCES: U.S. Department of Commerce, Bureau of the Census; and The Conference Board.

Indexes of overall consumer confidence advanced sharply in February, reversing January's steep decline. Large swings in this series are common. Retail sales (nominal) fell 0.3% in January, but retail sales excluding automobiles remained flat. Sales of cars and light trucks rose 5.6% in February after January's decline. Over the past year, the Big Three automakers gained market share relative to imports.

The manufacturing slowdown continued in January, with industrial production falling 0.6%. Industrial production has remained essentially flat since early 1995. As the year progressed, analysts became concerned about the buildup of inventories, particularly at the manufacturing and wholesale levels. Manufacturers, retailers, and wholesalers have been trimming excess stocks, and their inventory-to-sales ratios have recently declined. It is not clear that further cuts in manufacturers' and wholesalers' inventories are imminent. The purchasing managers' index rose in February after five months of decline, but remains at a level that implies a slowdown in industrial performance. Factory orders increased 0.5% in January, with the gains fairly broad-based across durable and nondurable components. On a year-over-year basis, however, orders remain weak. Order backlogs rose sharply in January.