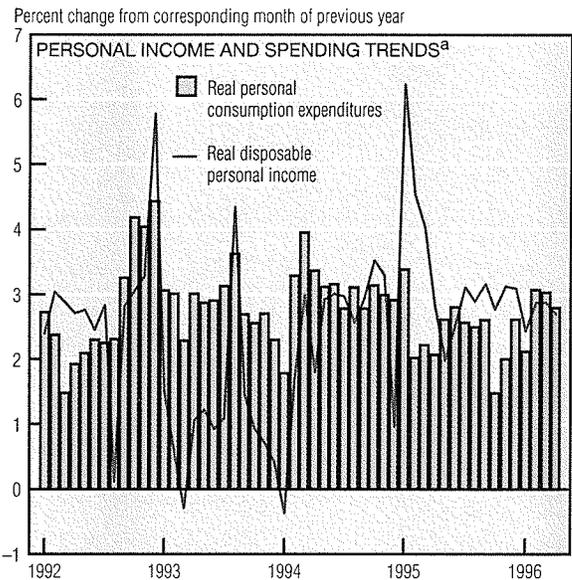
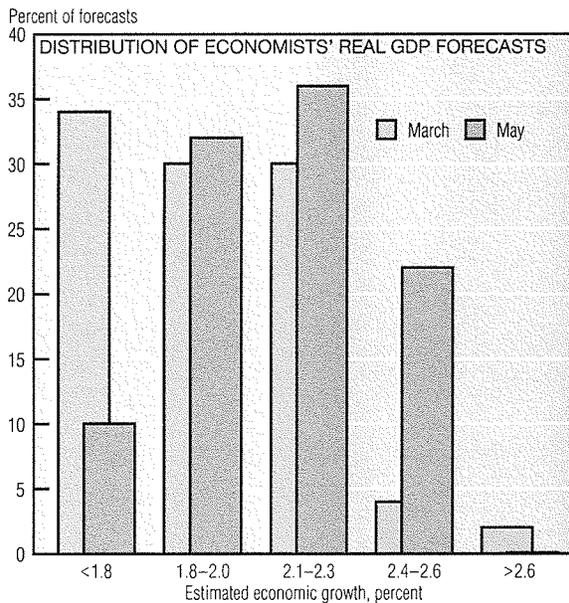
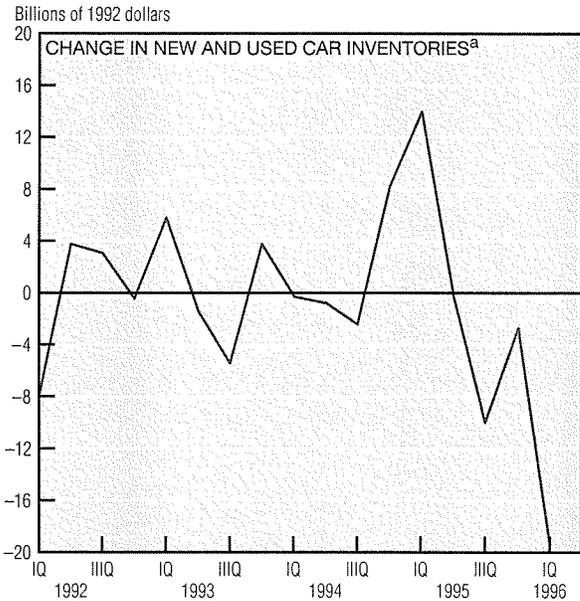


Economic Activity

	Change, billions of 1992 \$	Percent change, last:	
		Quarter	Four quarters
Real GDP	39.0	2.3	1.7
Consumer spending	41.0	3.6	2.7
Durables	11.5	8.0	6.1
Nondurables	13.1	3.7	1.4
Services	16.6	2.6	2.7
Business fixed investment	21.3	12.3	6.0
Equipment	17.1	13.2	6.4
Structures	4.2	9.5	4.9
Residential investment	4.3	6.6	1.8
Government spending	8.2	2.6	-0.3
National defense	5.6	7.4	-3.2
Net exports	-14.0	—	—
Exports	9.5	4.8	7.1
Imports	23.5	10.9	5.1
Change in business inventories	-22.2	—	—



a. Chain-weighted data in 1992 dollars, seasonally adjusted.
 b. Seasonally adjusted annual rate.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and *Blue Chip Economic Indicators*, March 10 and May 10, 1996.

Recent economic data, including downward revisions in first-quarter GDP estimates, suggest continued moderate growth with high levels of resource utilization. The Commerce Department lowered its 1996:IQ growth estimates from 2.8% to 2.3% due to downward revisions in business inventories. Estimates of both consumer spending and business fixed investment were revised upward. The sharp decline in business inventories, the first in four years,

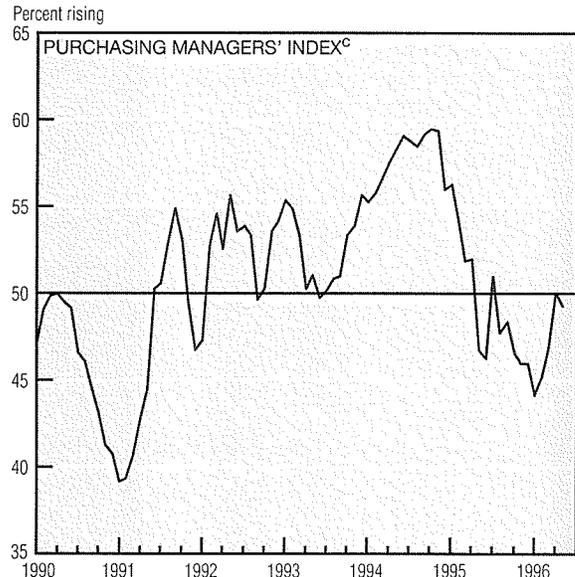
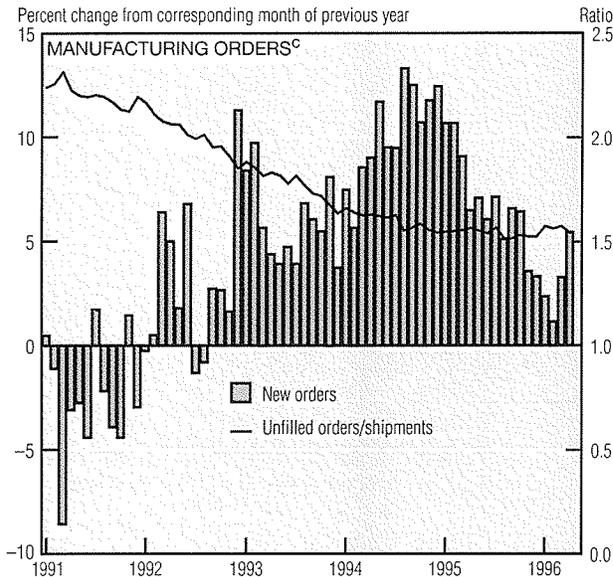
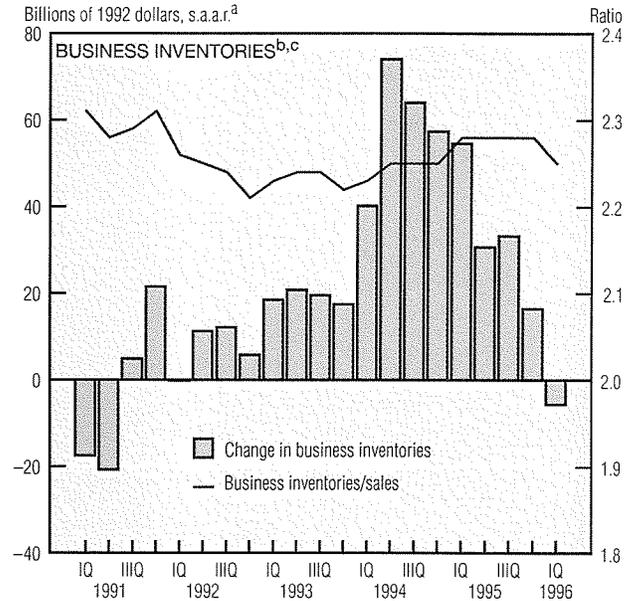
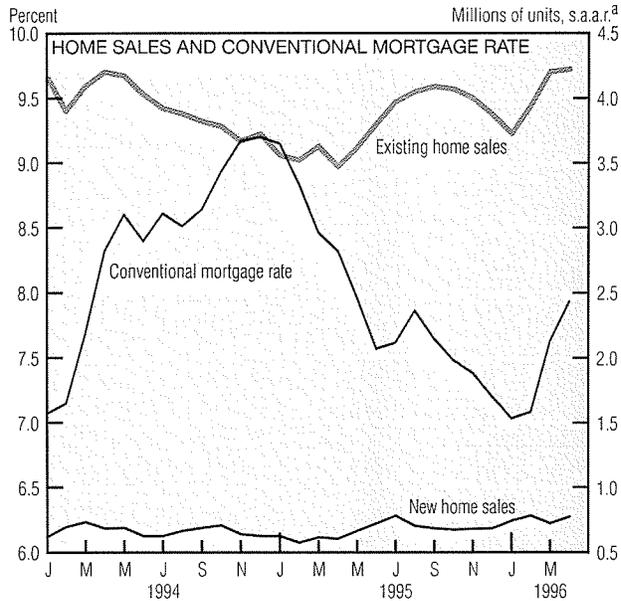
primarily reflects a strike-induced drop in automobile stocks. Stronger consumer and business spending, together with lower inventories, favor continued growth.

The median forecast of economists participating in the most recent Blue Chip survey anticipates economic growth of 2.1% this year. Although the median forecast is little changed since March, when confidence was on the ebb, the distribution of forecasts shifted upward with

the release of stronger first-quarter GDP estimates. (The most recent Blue Chip forecast, however, precedes first-quarter GDP revisions.)

Consumer spending slowed in April as households cut back on purchases of durables, particularly automobiles. However, on a 12-month basis, consumer spending was up a solid 2.8%. Since February, year-over-year consumer spending has outpaced income growth, which
(continued on next page)

Economic Activity (cont.)



a. Seasonally adjusted annual rate.
 b. Chain-weighted data in 1992 dollars.
 c. Seasonally adjusted.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis and Bureau of the Census; the National Association of Purchasing Management; the National Association of Realtors; and the Federal Home Loan Mortgage Corporation.

suggests a decline in the savings rate. Although consumers' debt burdens continue to generate concern, the asset side of household balance sheets and consumers' net worth seem healthy.

Sales of existing homes rose 0.5% in April, up 22% over the past year. New home sales also increased, up 6.7% in April and 28% over year-ago levels. The recent pattern of home

sales and mortgage rates cautions against an uncritical acceptance of the notion that high mortgage rates diminish housing activity. Instead, strong housing markets can raise mortgage rates.

The recent weakness in manufacturing activity is abating. An improved relationship between inventories and sales at all levels of business favors increased produc-

tion. New orders were up 5.5% in April over the last year, while the ratio of unfilled orders to shipments remained little changed. The National Association of Purchasing Management's index of manufacturing activity stood at 49.3% in May. The ratio has generally improved in recent months, but at 50% still indicates neither strengthening nor declining manufacturing activity.