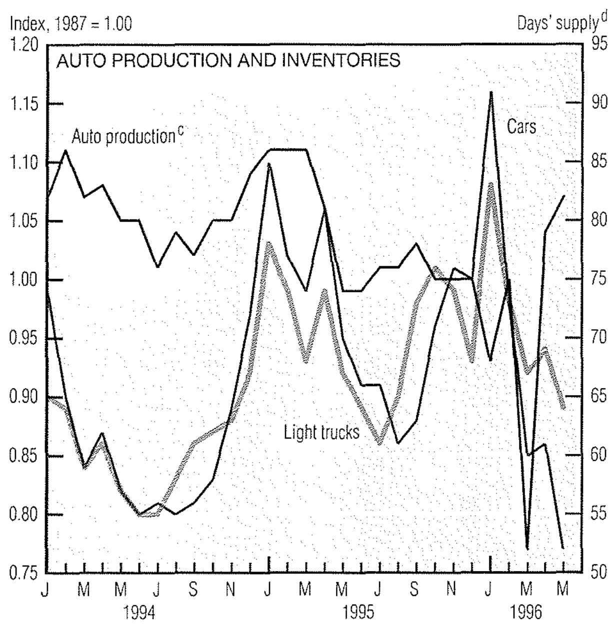
Economic Activity

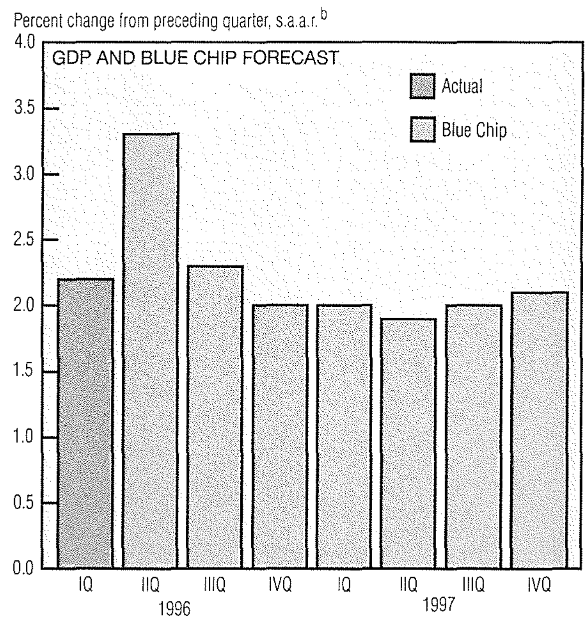
Real GDP and Components, 1996:IQ[a]
(Final estimate, s.a.a.r.[b])

	Change, billions of 1992 $	Percent change, last: Quarter	Four quarters
Real GDP	36.2	2.2	1.7
Consumer spending	40.9	3.6	2.7
Durables	12.1	8.5	6.2
Nondurables	12.7	3.6	1.4
Services	16.4	2.5	2.7
Business fixed investment	21.5	12.4	6.0
Equipment	18.2	14.1	6.6
Structures	3.5	7.9	4.5
Residential investment	4.8	7.4	2.0
Government spending	4.9	1.6	−0.6
National defense	2.9	3.8	−4.0
Net exports	−18.0	—	—
Exports	4.0	2.0	6.4
Imports	22.0	10.2	5.0
Change in business inventories	−18.6	—	—

Revision to Real GDP and Components, 1996:IQ[a]
(Billions of 1992 dollars, s.a.[c])

	Final level	Revisions: Second	First
Real GDP	6,812.7	−2.8	−8.1
Consumer spending	4,655.0	−0.1	1.6
Durables	602.2	0.6	1.4
Nondurables	1,436.9	−0.4	2.1
Services	2,616.8	−0.2	−1.9
Business fixed investment	746.8	0.2	0.3
Equipment	561.7	1.1	−1.6
Structures	186.6	−0.7	1.6
Residential investment	271.2	0.5	1.4
Government spending	1,255.3	−3.3	2.5
National defense	312.2	−2.7	0.0
Net exports	−114.6	−4.0	0.4
Exports	803.8	−5.5	4.1
Imports	918.4	−1.5	3.7
Change in business inventories	−2.1	3.6	−13.6





a. Chain-weighted data in 1992 dollars.
b. Seasonally adjusted annual rate.
c. Seasonally adjusted.
d. 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; *Blue Chip Economic Indicators*, June 10, 1996; and *Ward's Automotive Reports.*

According to the Commerce Department's final figures, the economy expanded at a 2.2% annual rate in 1996:IQ. The initial estimate of 2.8% was revised downward primarily because of a massive drawdown of inventories.

In the first quarter, nearly all broad sectors of the economy registered faster growth than they did over the past year. The most notable exception was inventories. After a $16.5 billion increase in 1995:IVQ, businesses drew down their stockpiles at a $2.1 billion annual rate in the first quarter. Much of this reflected a strike-induced reduction in automobile stocks.

Although the drop in inventories was a drag on first-quarter GDP, it also represents brightened prospects for near-term growth. Much of the anticipated acceleration in second-quarter output reflects an expected rebound in motor vehicle production as manufacturers attempt to rebuild stocks and meet strong sales demand.

Most economists participating in the June Blue Chip survey look for a temporary surge in second-quarter activity, largely based on the rebuilding of inventories. Through the remainder of 1996 and in 1997, they foresee the economy expanding at about a 2% clip. This moderation is consistent with recent estimates of the nation's potential growth—a

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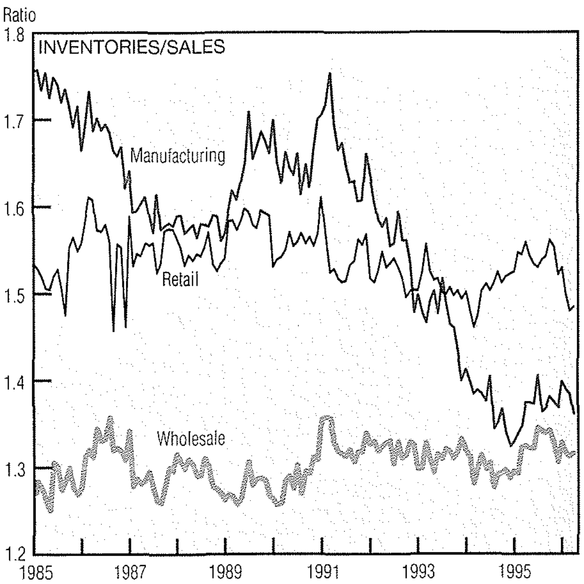
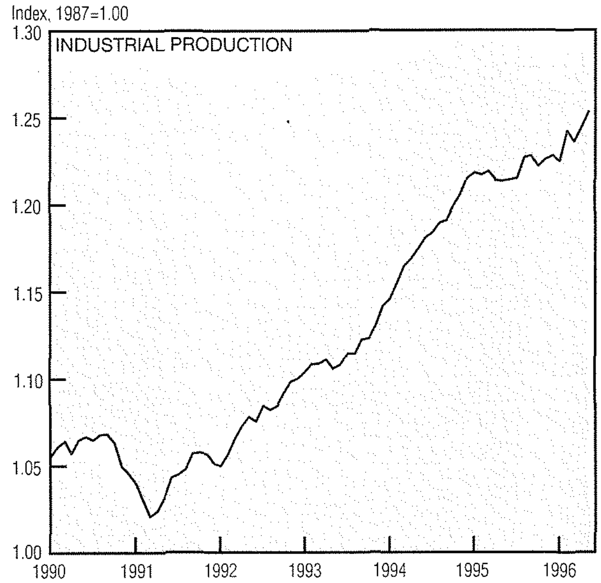
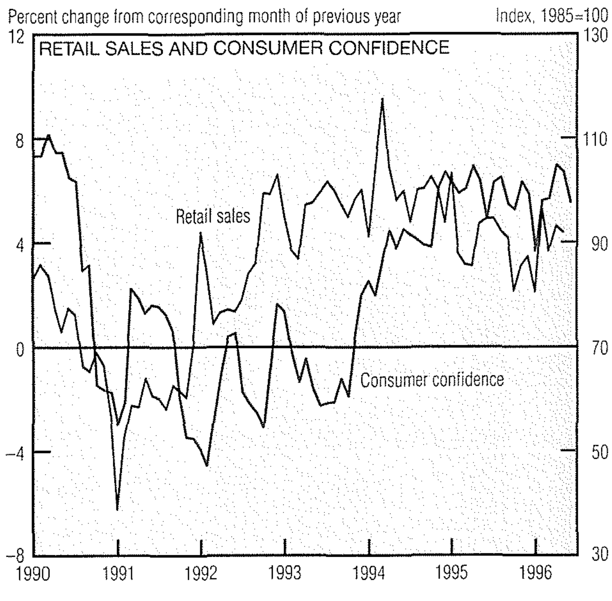
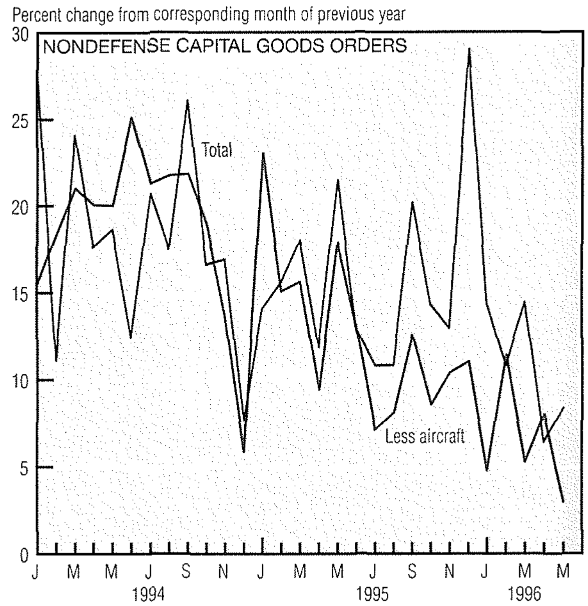
Economic Activity (cont.)









NOTE: All data are seasonally adjusted.
SOURCES: U.S. Department of Commerce, Bureau of the Census; Board of Governors of the Federal Reserve System; and The Conference Board.

rate that is sustainable at high levels of resource utilization.

Businesses at all stages of production and trade have managed to lower their inventory-to-sales ratios, even exclusive of automobiles. Further trimming of stocks seems unlikely, and in some sectors, inventories appear lean. Industrial production increased 0.7% in May for the second consecutive month, but whereas April's gains were largely concentrated in autos, May's were more broadly based. The nation's manufacturers, utilities, and mines operated at 83.2% of capacity in May, somewhat higher than in 1995:IVQ.

On a year-over-year basis, retail sales (adjusted for inflation) have been increasing at a healthy 4% rate. Revised figures for personal consumption expenditures, a broader measure of consumer outlays, have also shown moderately strong growth since February, often exceeding advances in real disposable income. However, while consumption rose about 3% in May, real disposable income increased slightly faster, at about 3.1%. Although consumer attitudes appear fairly erratic on a month-to-month basis, they remain at a favorable level. While debt-servicing burdens and delinquency rates have picked up, gains in stock and housing prices have bolstered household wealth.

Business fixed investment spending, though still strong, may soon begin to moderate. New orders for nondefense capital goods jumped 9.6% in May, due mainly to an increase in expenditures for commercial aircraft. However, even excluding this volatile sector, orders have recently been declining on a year-over-year basis.