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September 1996
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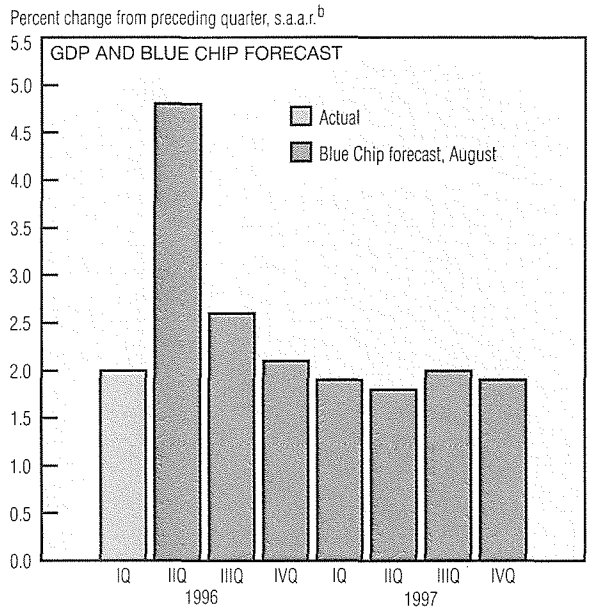
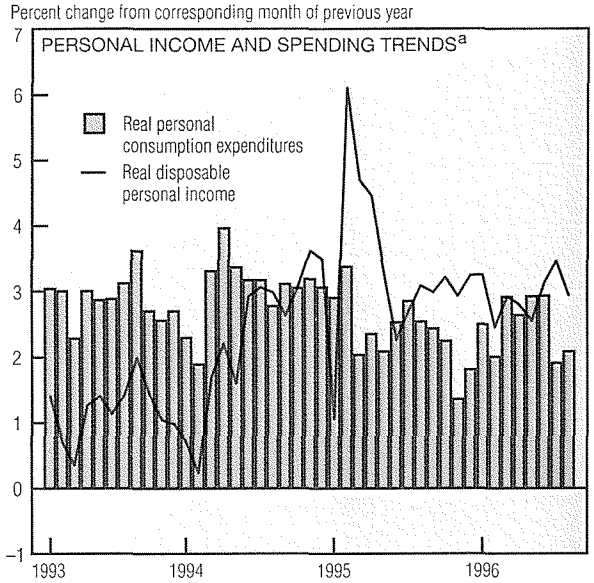
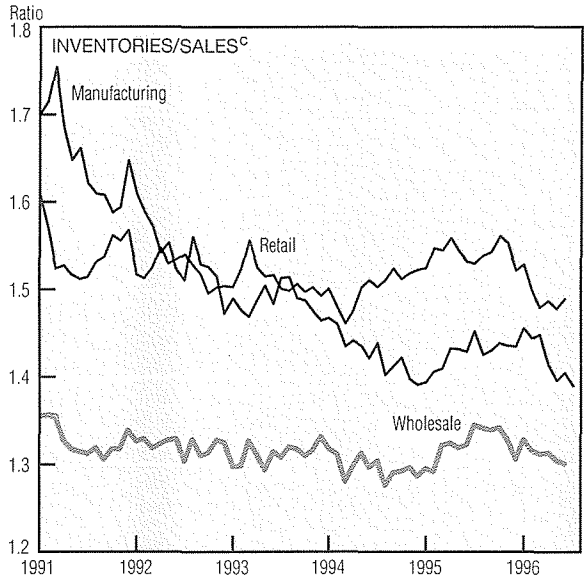
Real GDP and Components, 1996:IIQ[a]
(Preliminary estimate, s.a.a.r.[b])

	Change, billions of 1992 $	Percent change, last: Quarter	Percent change, last: Four quarters
Real GDP	80.2	4.8	2.7
Consumer spending	39.0	3.4	2.6
Durables	16.9	11.8	6.9
Nondurables	5.9	1.7	1.3
Services	16.5	2.5	2.3
Business fixed investment	7.4	4.0	5.7
Equipment	8.2	6.0	6.5
Structures	−0.5	−1.1	3.4
Residential investment	10.2	15.9	9.7
Government spending	25.1	8.2	1.2
National defense	8.6	11.5	−1.5
Net exports	−11.2	—	—
Exports	9.5	4.8	6.9
Imports	20.7	9.4	5.3
Change in business inventories	10.2	—	—







a. Chain-weighted data in 1992 dollars, seasonally adjusted.
b. Seasonally adjusted annual rate.
c. Seasonally adjusted.
SOURCES: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; and *Blue Chip Economic Indicators,* August 10, 1996.

The Commerce Department increased its second-quarter GDP estimate by $9.4 billion, lifting the quarterly growth rate from 4.2% to 4.8%. Upward adjustments to business fixed investment and government spending, and a downward reappraisal of imports, dominated the revisions. The Department also lowered its estimates of consumer spending and the rate at which businesses added to their inventories.

The second-quarter growth rate was markedly better than the 2.0% posted in the first three months of the year. Much of the improvement resulted from a rebuilding of automobile inventories, government spending at all levels, consumer spending on durables, and investment in residential structures.

Most economists do not see the second-quarter growth spurt continuing. Those responding to the Blue Chip survey, for example, expect the economy to expand approximately 2.6% in the third quarter, 2.1% in the final quarter, and 1.9% in 1997. According to many economists, a long-term growth rate of 2% (or slightly faster) is consistent with trends in U.S. investment, work hours, and productivity over the last decade or so.

Real personal consumption spending increased approximately 2% in June and July on a year-over-year basis, slowing from a 2.6% average clip over the first five months of the

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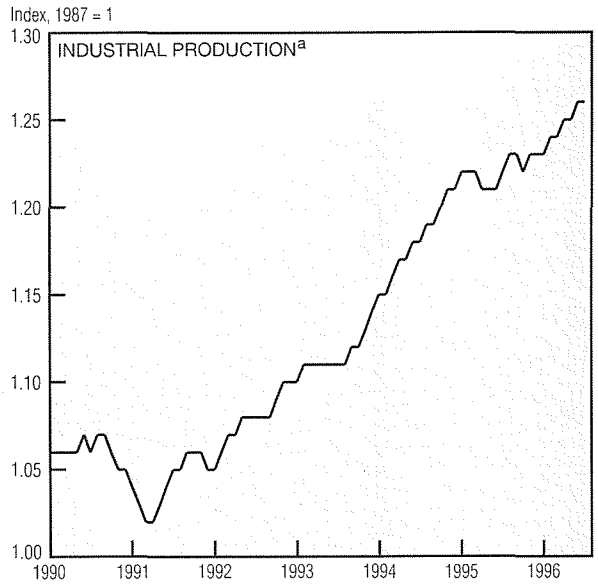
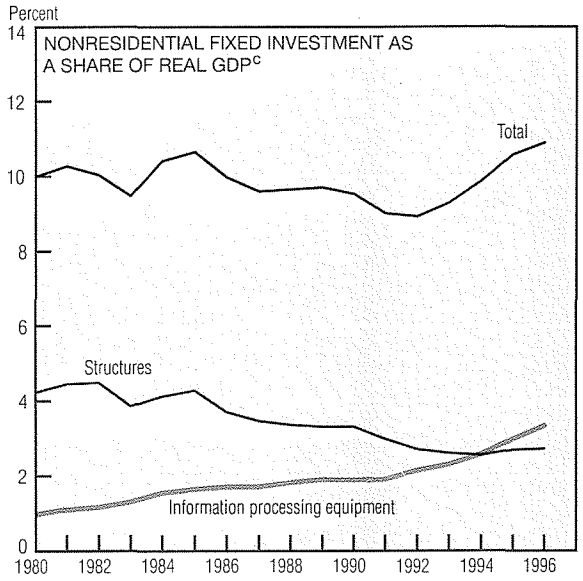
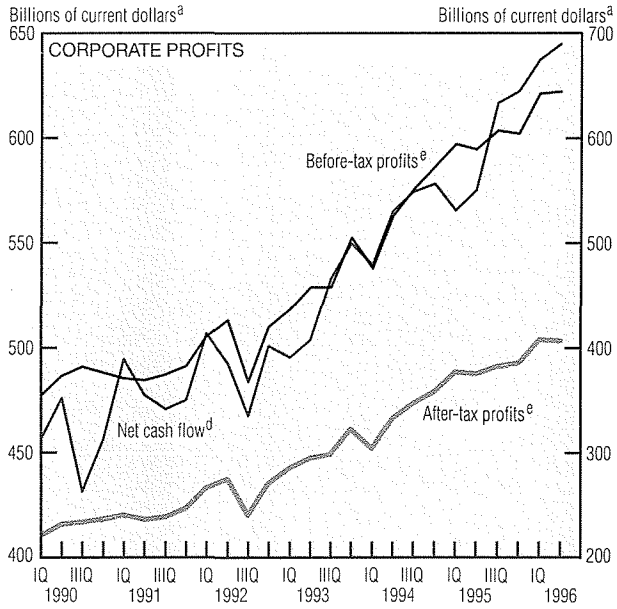
Economic Activity (cont.)



U.S. Housing Indicators[a]

	July 1996 level, thousands	Percent change since June 1996[b]	Percent change since July 1995
Housing starts, total	1,455	–1.3	0.3
Housing starts, single unit	1,133	–5.7	0.7
Permits, total	1,457	3.0	7.3
Permits, single unit	1,073	–1.1	5.5
New homes sold, single unit	783	7.9	0.1
Existing homes sold, single unit	4,140	–0.5	4.3





a. Seasonally adjusted.
b. Not annualized.
c. Chain-weighted data in 1992 dollars, seasonally adjusted.
d. Includes inventory valuation and capital consumption adjustment.
e. Excludes inventory valuation and capital consumption adjustment.
SOURCES: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; Board of Governors of the Federal Reserve System; and the National Association of Realtors.

year. Real disposable income growth continues to hold steady near 3%. The difference between consumption and income growth suggests that consumers may be attempting to adjust their debt positions.

Inventories were also weaker than expected in June, but inventory-to-sales ratios looked favorable at all levels. Retailers were holding only 1.49 months' worth of stock in June, and manufacturers' inventory-to-shipments ratio reached a low of 1.39 in July. Further inventory trimming is unlikely; in fact, many economists are expecting some rebuilding.

Although housing starts fell 1.3% in July, total starts remained at a respectable 1.46 million units and permits increased. Sales of new and existing homes in recent months suggest some moderate slackening in demand, but consumer attitudes about home buying are holding steady.

Business fixed investment has accounted for 10.9% of GDP this year, the highest share since at least 1980. Much of this investment reflects acquisition of information equipment, mainly computers. Investment in business structures has slowed since the early 1980s.

Despite slackening in the second quarter, after-tax corporate profits have demonstrated relatively strong growth over the last year. Corporate cash flow, which exerts a stronger influence on near-term investment decisions, has shown even higher growth.