Economic Activity

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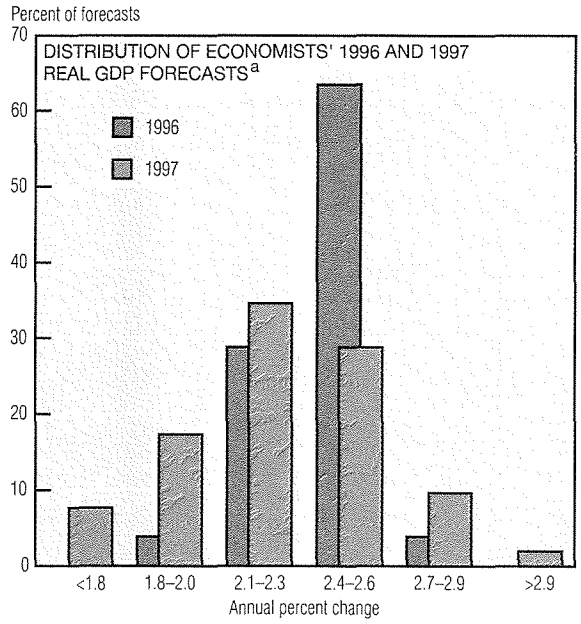
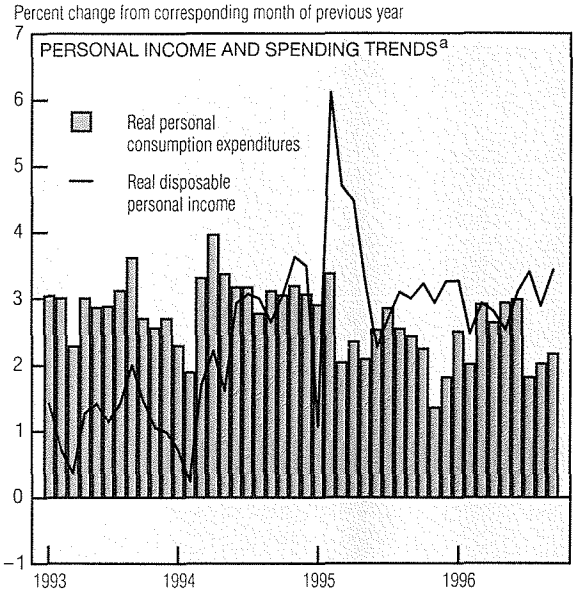
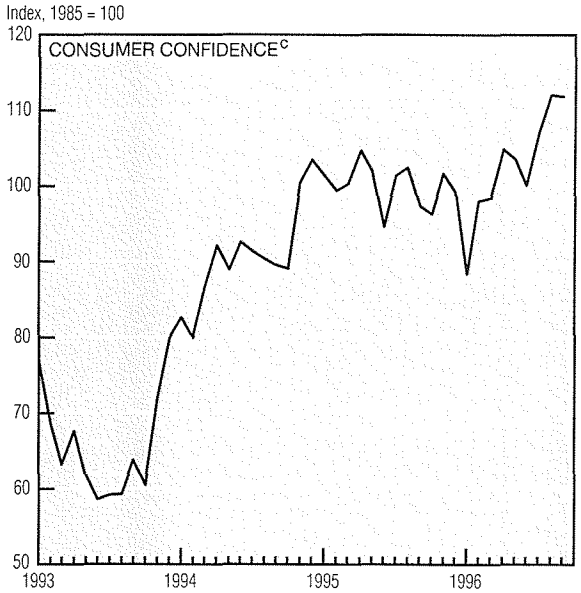
Real GDP and Components, 1996:IIQ[a]
(Final estimate, s.a.a.r.[b])

	Change, billions of 1992 $	Percent change, last: Quarter	Percent change, last: Four quarters
Real GDP	78.3	4.7	2.7
Consumer spending	38.5	3.4	2.6
Durables	16.4	11.4	6.8
Nondurables	4.8	1.3	1.3
Services	17.6	2.7	2.4
Business fixed investment	7.0	3.8	5.6
Equipment	9.2	6.8	6.7
Structures	−1.7	−3.6	2.7
Residential investment	10.4	16.3	9.7
Government spending	23.5	7.7	1.0
National defense	7.5	10.0	−1.9
Net exports	−10.7	—	—
Exports	11.2	5.7	7.2
Imports	21.9	10.0	5.4
Change in business inventories	10.1	—	—







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 Economic Analysis; The Conference Board; and *Blue Chip Economic Indicators*, September 10, 1996.

The Commerce Department's final GDP estimate for 1996:IIQ put real economic growth at 4.7%, substantially above the first quarter's 2.0% rate. Anticipating a slowdown in personal consumption expenditures, residential construction, and federal government spending, economists responding to September's Blue Chip survey see the economy expanding 2.5% in the third quarter and 2.2% in the final quarter of this year.

For all of next year, the mean prediction is a 2.2% growth rate, but a substantial number of respondents anticipate a slightly faster pace. Many economists view long-term growth of 2%—or slightly faster—as sustainable indefinitely at high levels of resource usage.

Real personal consumption spending stalled over the summer months, with actual declines spread through many purchase categories. On a year-over-year basis, consumer spending grew at an average pace of 2% in June, July, and August, compared with 2.7% over the first five months of 1996. Despite this apparent slowdown in spending, overall consumer confidence in the economy remains bright, and real disposable income growth continues above 3%. Consumers may be attempting to improve their balance sheets.

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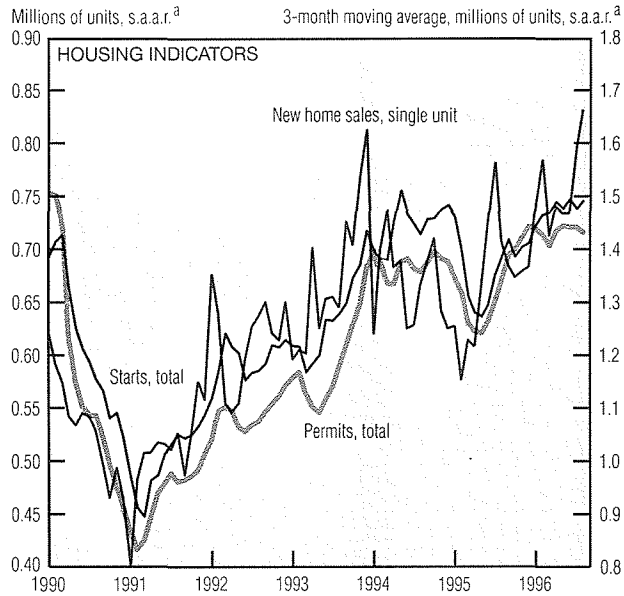
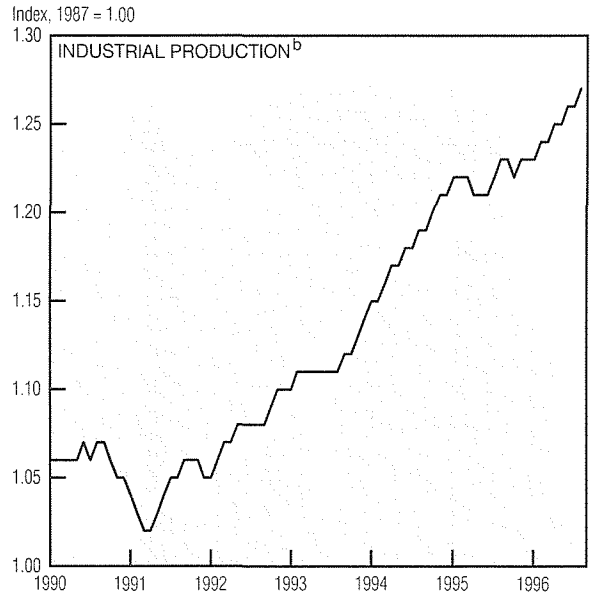
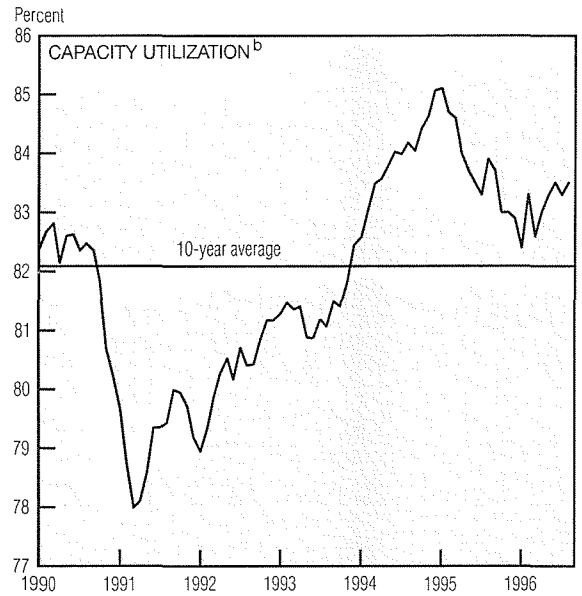
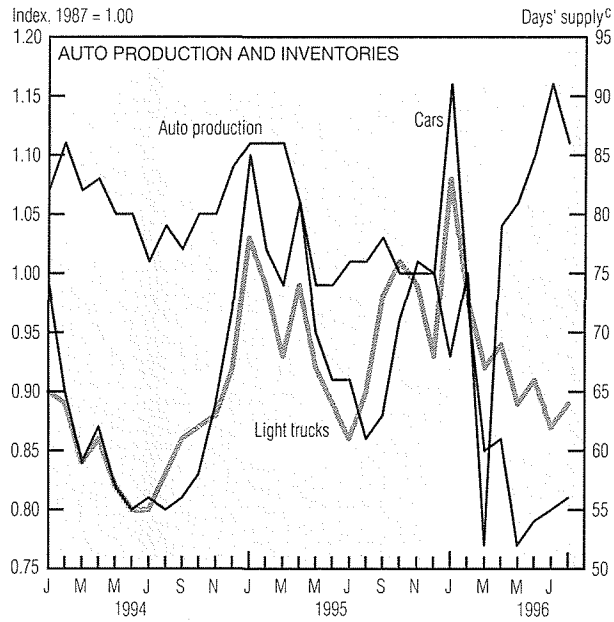
Economic Activity (cont.)









a. Seasonally adjusted annual rate.
b. Seasonally adjusted.
c. 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 the Census; Board of Governors of the Federal Reserve System; and *Ward's Automotive Reports*.

When smoothed to eliminate month-to-month volatility, the trajectories of housing starts and building permits suggest some slowing in the pace of residential construction. Nevertheless, sales of new homes were very strong in July and August, and consumers' attitudes toward home buying remain favorable.

Industrial production increased 0.5% in August, following on the solid 5.3% average annual pace it has maintained since January. Production of business equipment and defense and space equipment was especially strong in August, but production of consumer goods and motor vehicles and parts fell. The nation's industrial sector operated at 83.5% of measured capacity in August. While this rate of utilization is below 1995's peak, it remains well above the 10-year average.

The UAW reached a tentative three-year agreement with Ford and Chrysler whereby the automakers provide job guarantees for 95% of their workforce over the life of the contract, unless there is an industry-wide downturn. The UAW and its Canadian counterpart must still reach an agreement with General Motors, which is trying to increase the outsourcing of its production by selling its parts plants. Although auto production declined somewhat in August, it remained at high levels. Dealers held 56 days' supply of cars and 64 days' supply of light trucks.