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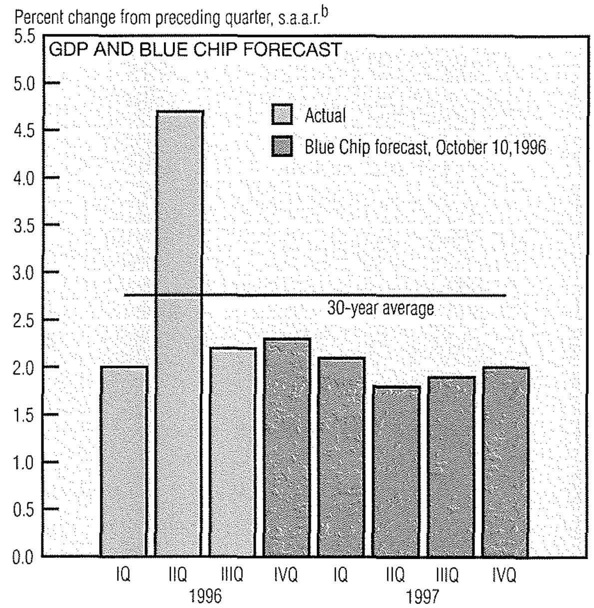
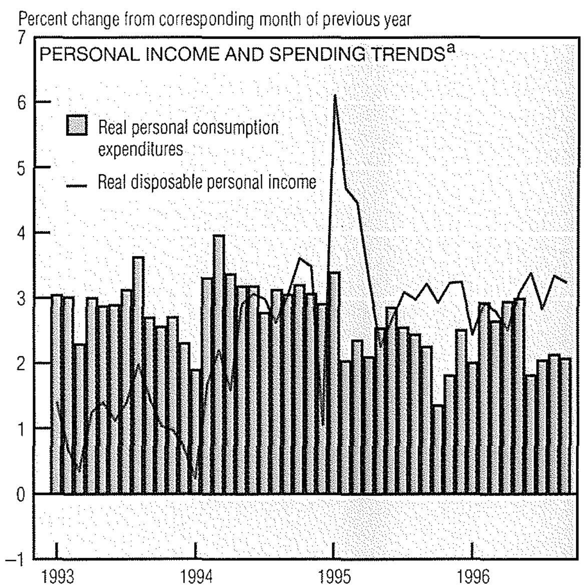
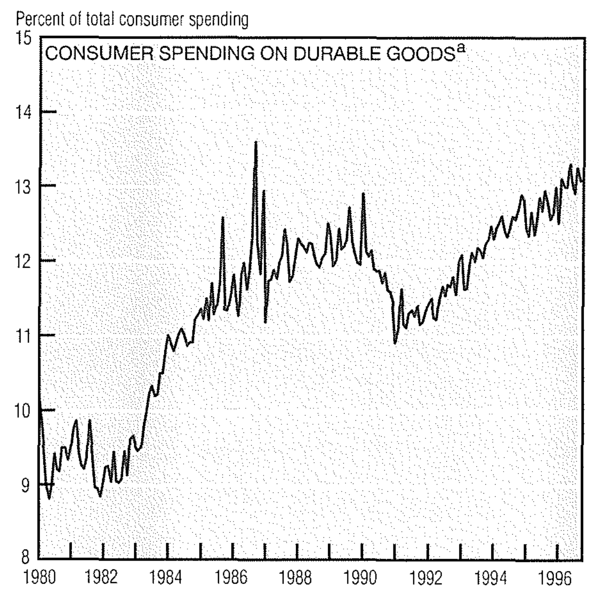
Real GDP and Components, 1996:IIIQ[a]
(Advance estimate, s.a.a.r.[b])

	Change, billions of 1992 $	Percent change, last: Quarter	Four quarters
Real GDP	37.1	2.2	2.3
Consumer spending	5.2	0.4	2.1
Durables	−1.2	−0.8	4.3
Nondurables	−1.3	−0.4	1.0
Services	7.4	1.1	2.1
Business fixed investment	26.1	14.7	8.0
Equipment	25.1	18.9	10.3
Structures	1.5	3.3	2.0
Residential investment	−4.1	−5.7	5.8
Government spending	−4.5	−1.4	0.8
National defense	−4.1	−5.0	−1.2
Net exports	−17.5	—	—
Exports	1.2	0.6	4.6
Imports	18.7	8.3	7.6
Change in business inventories	32.5	—	—







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

According to initial Commerce Department estimates, the economy slowed to a 2.2% rate of growth in the third quarter, down from 4.7% in 1996:IIQ. Except for business fixed investment and the pace of inventory accumulation, most sectors weakened. Consumer spending was flat, while residential investment and federal government spending declined. Net exports continued to fall, a result of the relative strength of the U.S. economy.

Economists generally expected this slowdown. Although growth of approximately 2.0% to 2.3% is below historical norms, it does not seem unusual given that the economy is operating at high levels of resource utilization and that productivity growth has declined over the past decade or so. Through 1997, forecasters expect output to remain in the 1.8% to 2.3% range.

Judging the economy's performance on a year-over-year rather than a quarter-to-quarter basis probably gives a clearer picture of how various sectors are faring. From this perspective, the growth of consumer spending has matched the overall pace of the economy during the past four quarters. Consumers have tilted their purchases toward durable goods since 1991, with about 13% of their total expenditures now going for these items. Because durables

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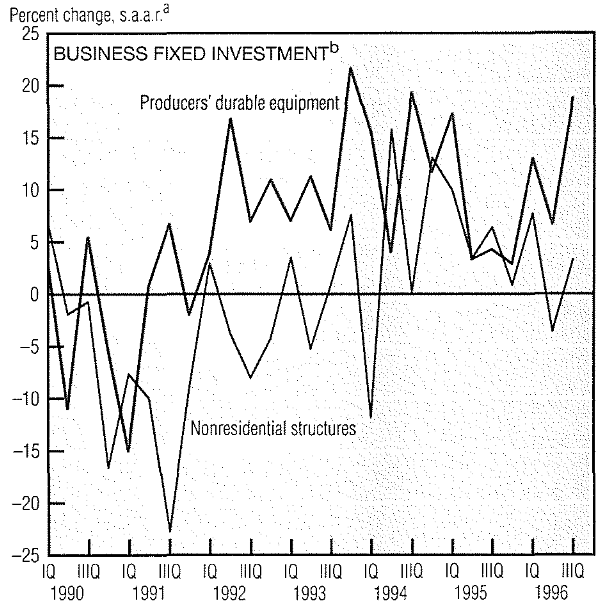
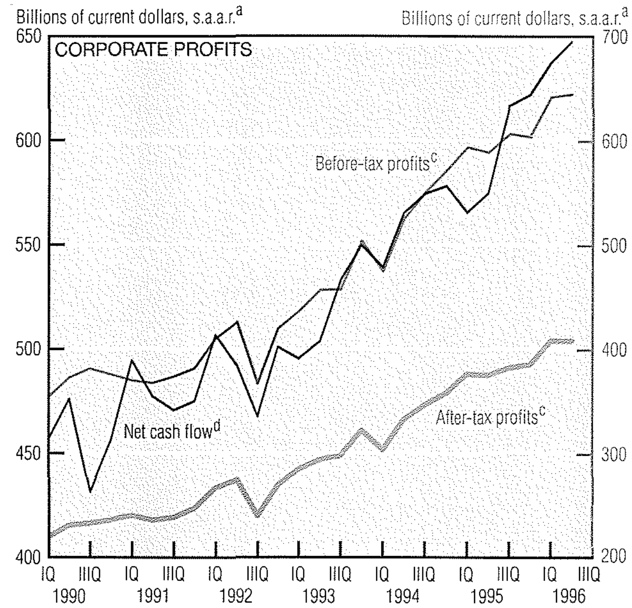
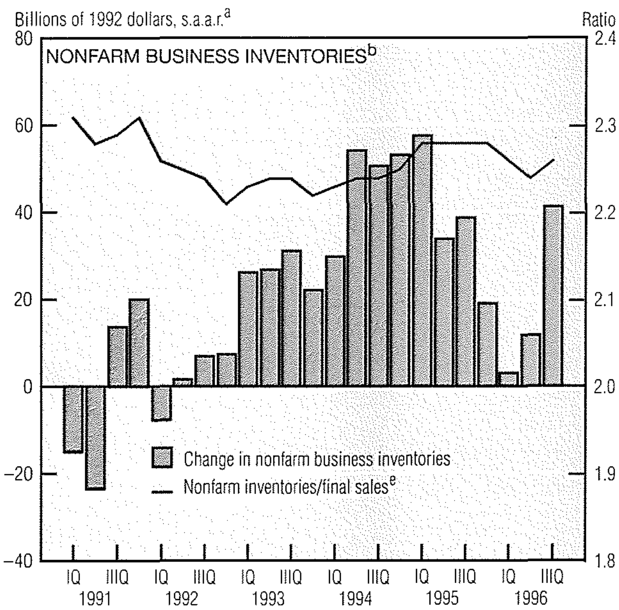
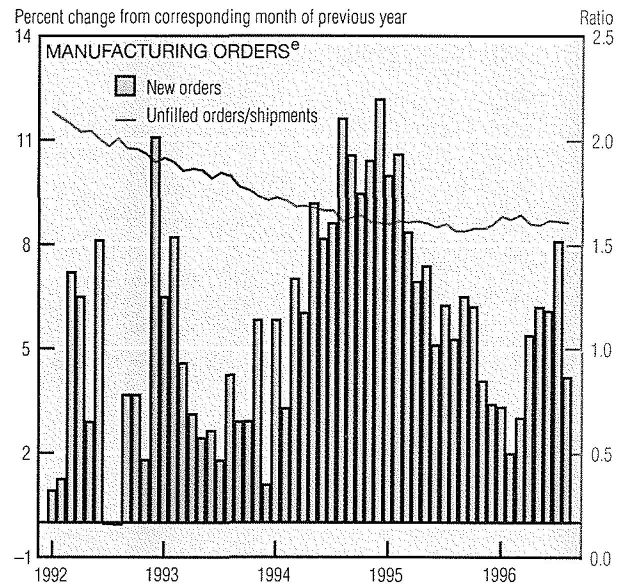
Economic Activity (cont.)









a. Seasonally adjusted annual rate.
b. Chain-weighted data in 1992 dollars, seasonally adjusted.
c. Excludes inventory valuation adjustment.
d. Includes inventory valuation and capital consumption adjustment.
e. Seasonally adjusted.
SOURCE: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis.

typically provide households with a stream of services over many years, their purchase is somewhat analogous to savings. With real disposable personal income growing at a 3% clip and with consumer confidence holding steady, the outlook for this sector is favorable. Consumers may have pared their spending over the summer months to improve their balance sheets.

Business fixed investment remains strong, particularly in computers and transportation equipment, and healthy corporate profits and cash flow should continue to bolster this area. Residential investment also remains solid, notwithstanding the third-quarter downturn.

Despite an accelerated accumulation of nonfarm business inventories in 1996:IIIQ, stockpiling does not seem excessive. The ratio of total inventories to shipments has remained fairly flat over the past two years.

The industrial production index, which tracks output among the nation's manufacturers, utilities, and mines, has risen at a 5.7% annualized rate since January, with especially large gains in business equipment production. Although new orders for manufacturing declined in August, they increased a healthy 4.8% over last year. Advance estimates indicate that durable goods orders grew 5.9% on a year-over-year basis in September.