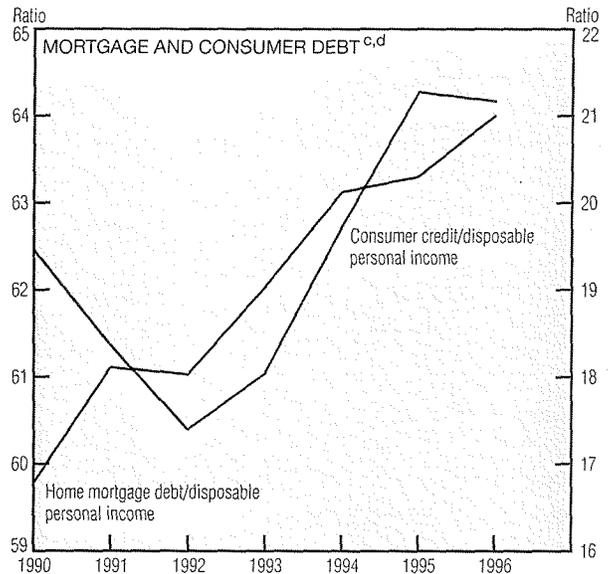
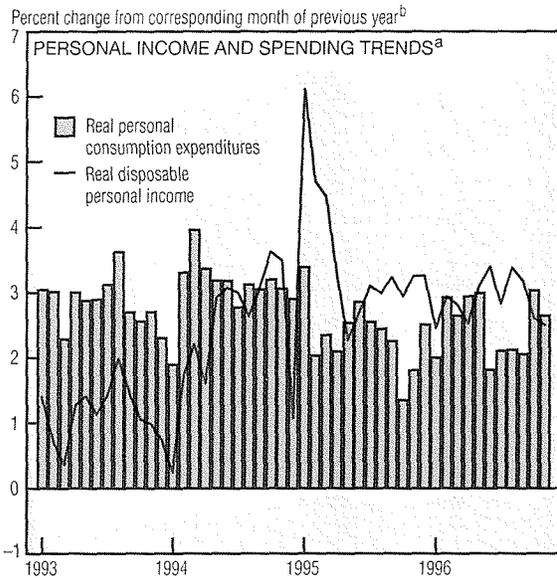
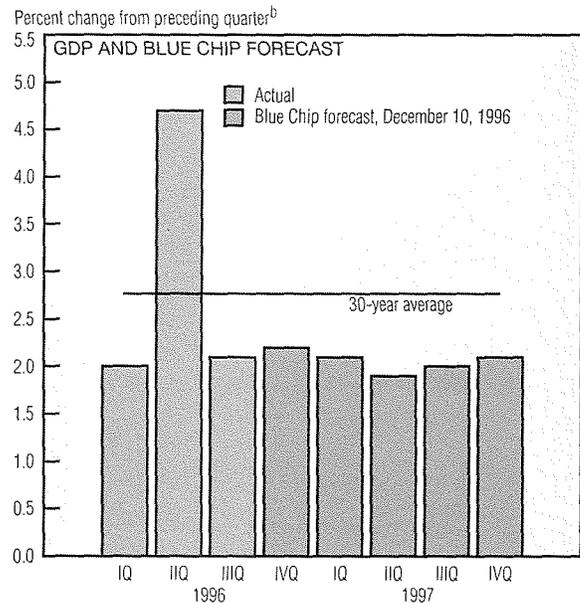


# Economic Activity

Real GDP and Components, 1996:IIIQ <sup>a</sup> (Final estimate <sup>b</sup> )	Change, billions of 1992 \$	Percent change, last:	
		Quarter	Four quarters
Real GDP	35.8	2.1	2.2
Consumer spending	5.9	0.5	2.1
Durables	-4.0	-2.6	3.8
Nondurables	1.3	0.4	1.2
Services	8.3	1.3	2.2
Business fixed investment	30.9	17.5	8.7
Equipment	27.5	20.8	10.7
Structures	3.7	8.2	3.2
Residential investment	-3.7	-5.2	5.9
Government spending	-2.1	-0.7	1.0
National defense	-4.5	-5.5	-1.3
Net exports	-22.7	—	—
Exports	-1.8	-0.9	4.2
Imports	20.9	9.3	7.8
Change in business inventories	27.4	—	—



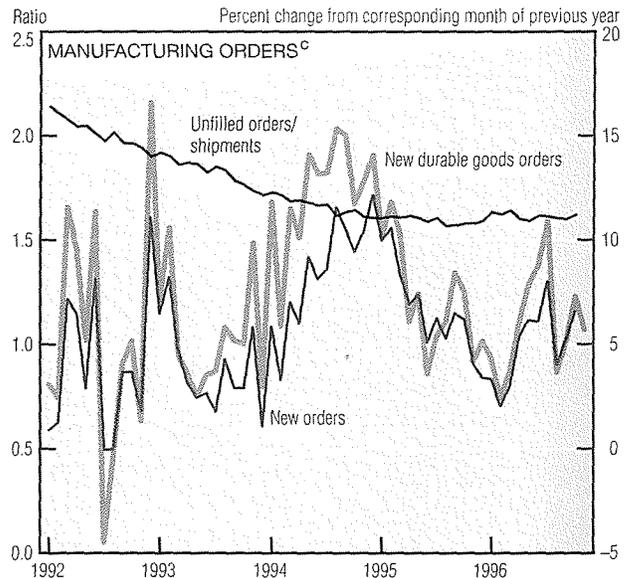
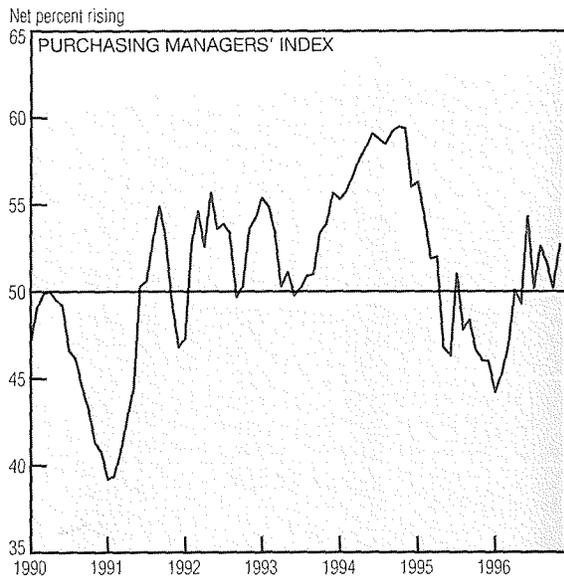
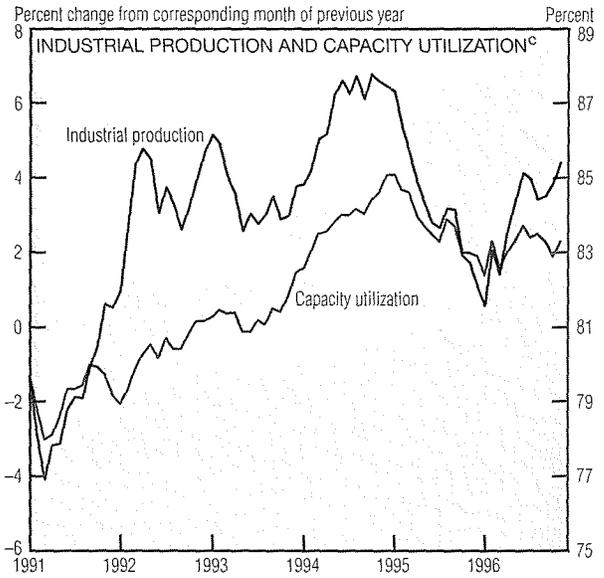
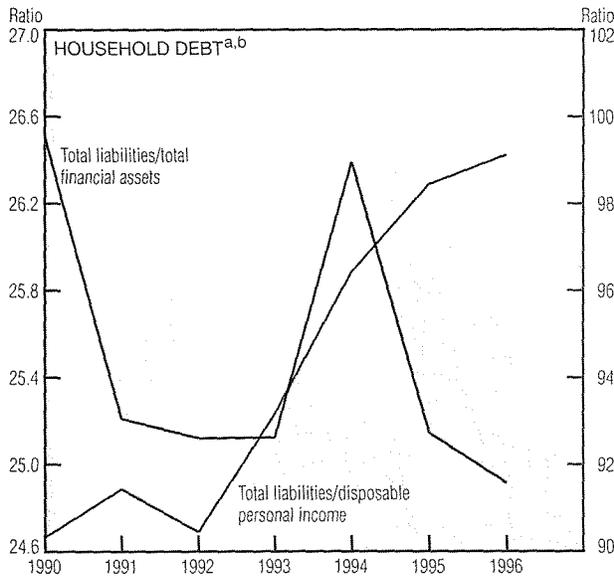
a. Chain-weighted data in 1992 dollars.  
 b. Seasonally adjusted annual rate.  
 c. All data include households and nonprofit organizations and are measured at year end.  
 d. Disposable personal income data are through November 1996; home mortgage debt and consumer credit are through 1996:IIIQ.  
 SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Board of Governors of the Federal Reserve System; and *Blue Chip Economic Indicators*, December 10, 1996.

Revised Commerce Department estimates indicate that real GDP grew 2.1% in 1996:IIIQ, down from an atypically high 4.7% the previous quarter. Advances in producers' durable equipment (mainly computers) and inventory accumulation more than accounted for the third-quarter increase. Economists participating in December's Blue Chip survey expect continued economic growth of approximately 2.0% throughout 1997. Although lower

than the historical norm, this figure is consistent with current estimates of U.S. potential economic growth. Consumer outlays, which slowed during the third quarter, have since picked up. Real personal consumption expenditures increased a solid 2.6% (year over year) in November, following a 3.0% advance the month before. Both of these increases exceeded gains in real disposable personal income, which has moderated somewhat in recent months but remains healthy. Anec-

dotal evidence suggests that holiday spending was fair. Concern that high levels of household debt may crimp consumer spending and weaken the overall economy persists, but may be overblown. Household debt as a share of disposable personal income has generally risen over the last 30 years, with most of the runup reflecting higher levels of mortgage debt. The upward trend in consumer debt  
*(continued on next page)*

# Economic Activity (cont.)



a. All data include households and nonprofit organizations and are measured at year end.  
 b. Disposable personal income data are through November 1996; total liabilities and total financial assets are through 1996:IIIQ.  
 c. Seasonally adjusted.  
 SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Board of Governors of the Federal Reserve System; and the National Association of Purchasing Management.

has been quite modest. At 21.2%, consumers' recent debt-to-income ratio is only slightly above its previous peak of 20.4% in 1986. Moreover, the ratio of consumer debt to financial assets suggests that households' balance sheets are healthier now than in 1990. Perhaps reflecting favorable balance sheets, measures of consumers' overall confidence in the economy remain strong.

Recent data show a surprisingly large surge in industrial production.

The total index increased more than 0.9% in November. Analysts expected a post-strike rebound in the automotive industry, but non-automotive industries accounted for much of the overall gain. Measured on a year-over-year basis, industrial production has grown at a healthy pace this year, with U.S. mines, utilities, and manufacturing plants continuing to operate at high levels of capacity utilization. The National Association of Purchasing Manage-

ment's index indicates that a slight majority of managers are reporting growth in their firms. The industrial sector accounts for only about 20% of national output, but it is a pivotal component of the business cycle.

New orders for durable goods increased a substantial 5.7% (year over year) in November, and new orders for all manufactured goods advanced 6.6% in October (latest data). The ratio of unfilled orders to shipments has remained steady.