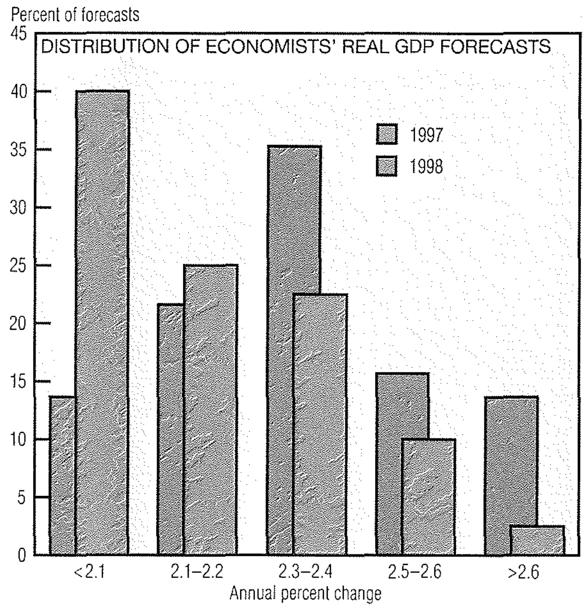
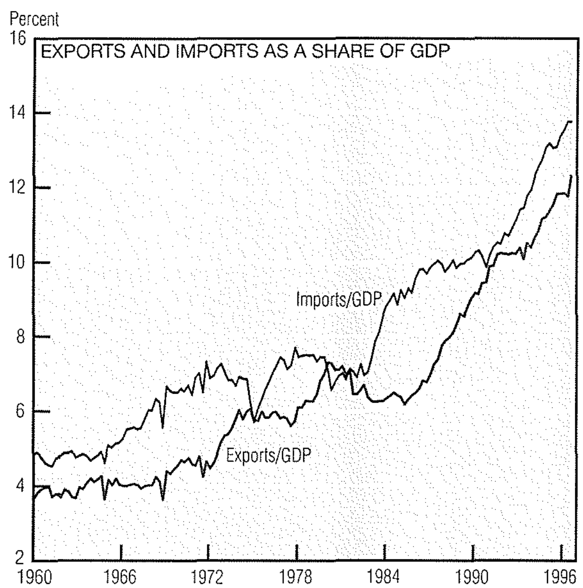
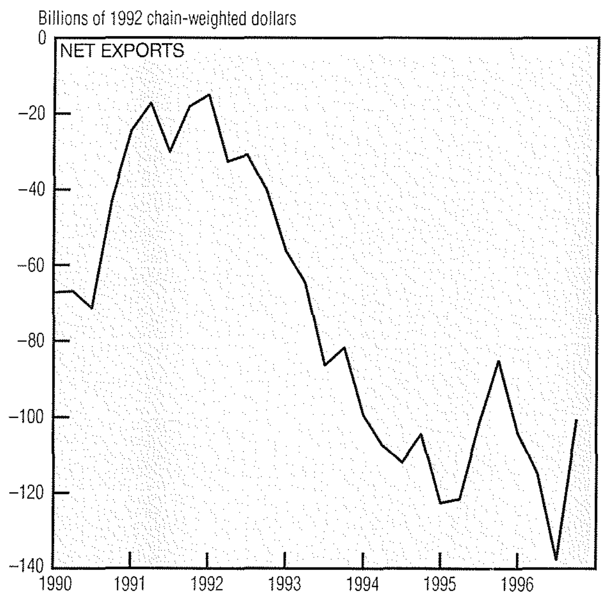
Economic Activity

Real GDP and Components, 1996:IVQ
(Advance estimate)

	Change, billions of 1992 $	Percent change, last: Quarter	Four quarters
Real GDP	80.3	4.7	3.4
Consumer spending	38.8	3.3	2.7
Durables	8.1	5.4	5.5
Nondurables	6.0	1.7	1.8
Services	24.6	3.8	2.5
Business fixed investment	8.0	4.2	9.1
Equipment	−2.5	−1.7	9.4
Structures	9.9	22.7	8.4
Residential investment	−0.9	−1.3	4.0
Government spending	2.2	0.7	2.3
National defense	−1.4	−1.8	1.5
Net exports	36.7	—	—
Exports	47.7	25.5	7.6
Imports	11.0	4.7	8.6
Change in business inventories	−2.6	—	—







NOTE: All data are in chain-weighted 1992 dollars, seasonally adjusted annual rate.
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and *Blue Chip Economic Indicators*, January 10, 1997.

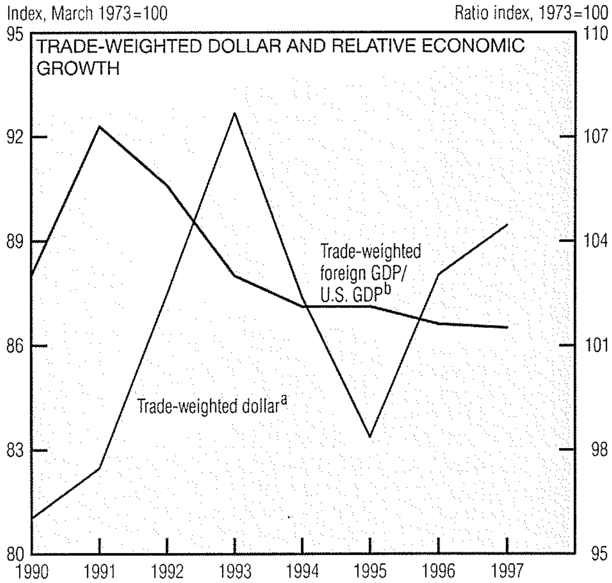
In like a lamb, out like a lion. According to advance estimates, real GDP grew an exceptionally fast 4.7% in 1996:IVQ, with gains in exports and personal consumption expenditures leading the way. Inventory accumulation slowed slightly. Last quarter's growth rate compares with 2.1% in 1996:IIIQ, 4.7% in 1996:IIQ, and 2.0% in 1996:IQ. The fourth-quarter figure, however, is subject to revision as more complete data become available.

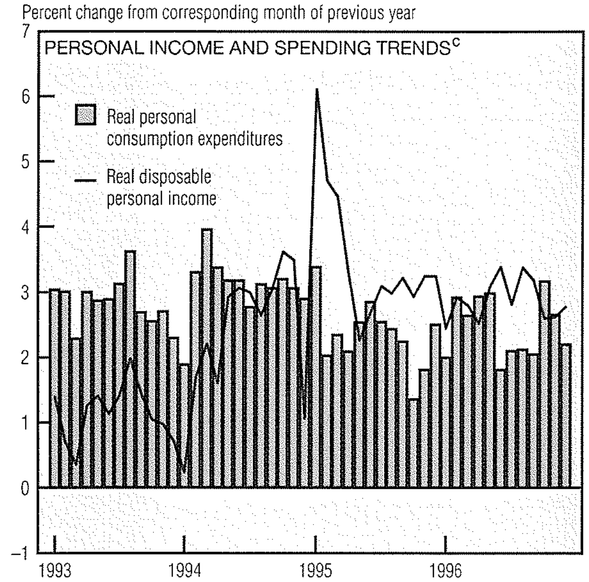
In the sixth year of the current business expansion, output grew 2.5%, up from 2.0% in 1995 and well above last winter's pessimistic projections of 2.0%. Future prospects also seem good. On average, economists participating in the January Blue Chip survey, which preceded the release of the most recent GDP numbers, forecast real economic growth of 2.3% in 1997 and 2.1% in 1998.

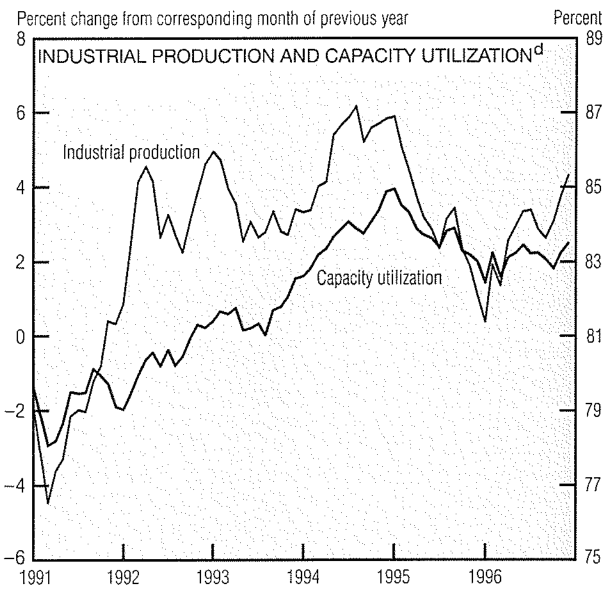
The recent GDP release highlights the growing importance of trade to the U.S. economy. Exports and imports together now equal approximately 26% of GDP, up from 9% in the early 1960s. Last quarter's export gains accounted for 59% ($47.7 billion) of the rise in total output. Although the data are incomplete, this sharp increase in exports seems to have come primarily from shipments of computers, aircraft, semiconductors, and telecommunications equipment. Imports increased $11 billion,

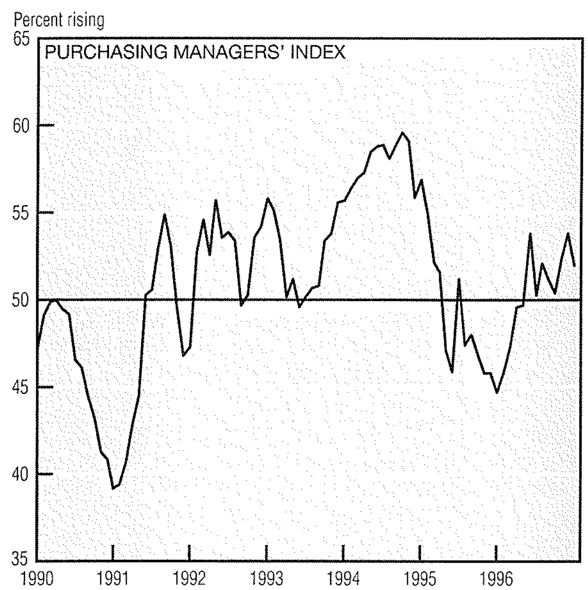
(continued on next page)

Economic Activity (cont.)









a. December data, except for 1997, which covers only January.
b. 1996 and 1997 data are based on *The Economist* poll of forecasters.
c. Chain-weighted data in 1992 dollars, seasonally adjusted annual rate.
d. Seasonally adjusted.
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Board of Governors of the Federal Reserve System; International Monetary Fund, *International Financial Statistics*; the National Association of Purchasing Management; and *The Economist*, January 18-24, 1997.

substantially off the pace that prevailed earlier this year.

Despite the fourth-quarter improvements, our overall net export position worsened in 1996. This follows a trend toward growing trade deficits that began in 1990. During the current business expansion, U.S. output growth has exceeded that of most of our major trading partners. In addition, the dollar's exchange rate index—adjusted for inflation differentials among countries—has appreciated 10.4% since 1990. These relative growth and exchange rate patterns seem likely to persist throughout 1997, suggesting that our net export position will not improve before 1998.

Approximately half of the 1996:IVQ rise in real GDP stemmed from stronger consumer spending, much of it for nonautomotive durable goods. Real disposable personal income rose 2.8% in December from 12 months earlier, and real personal consumption expenditures increased 2.2%. Although consumer debt burdens have gone up in recent years, the current level is actually below that of 1989.

Industrial production increased 4.3% on a year-over-year basis in December, and capacity utilization rose to 83.5%. The National Association of Purchasing Management's index indicates that 52% of managers are reporting growth in their firms.