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March 1997
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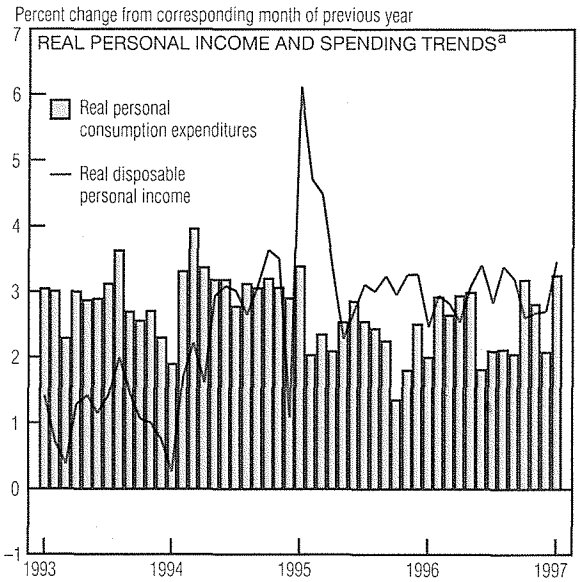
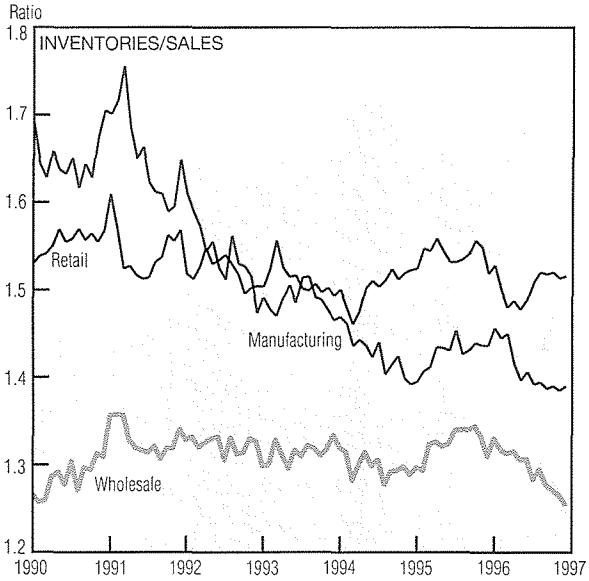
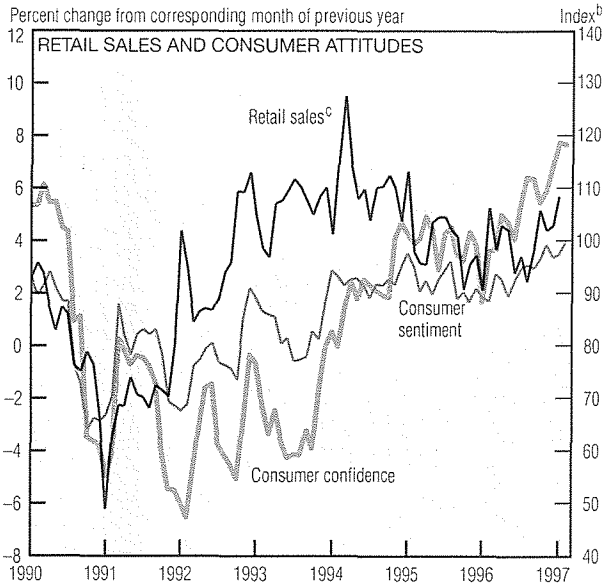
Economic Activity

Real GDP and Components, 1996:IVQ[a]
(Preliminary estimate)

	Change, billions of 1992 $	Percent change, last: Quarter	Percent change, last: Four quarters
Real GDP	66.0	3.9	3.2
Consumer spending	39.8	3.4	2.7
Durables	6.2	4.1	5.2
Nondurables	5.2	1.5	1.7
Services	28.1	4.3	2.7
Business fixed investment	10.4	5.4	9.5
Equipment	–1.2	–0.8	9.7
Structures	10.9	25.2	8.9
Residential investment	–0.2	–0.3	4.2
Government spending	–1.3	–0.4	2.0
National defense	–5.7	–7.0	0.1
Net exports	37.4	—	—
Exports	46.4	24.8	7.4
Imports	9.0	3.8	8.4
Change in business inventories	–18.1	—	—







a. Chain-weighted data in billions of 1992 dollars.
b. 1985 = 100 for consumer confidence; February 1966 = 100 for consumer sentiment.
c. Data since March 1996 are estimated by deflating nominal retail sales by the Consumer Price Index for commodities.
NOTE: All data are seasonally adjusted except for consumer sentiment.
SOURCES: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics; The Conference Board; and the University of Michigan.

The U.S. Commerce Department recently lowered its estimate of fourth-quarter real GDP growth from 4.7% to 3.9%. Still, the economy's end-of-year performance remained well above the third-quarter's 2.1% pace.

Small business inventories accounted for most of the downward revision, suggesting that the economy may be better poised for growth in the coming months than originally thought. Despite small downward adjustments, exports and personal consumption expenditures continued to post substantial gains last quarter. The rise in exports, however, did not prevent the trade deficit for 1996 from reaching an eight-year high.

Businesses added $16.6 billion to their inventories in 1996:IVQ, compared with $34.5 billion in the previous quarter. (Advance estimates put the fourth-quarter inventory accumulation at $31.9 billion.) Recently released data for December show that overall inventories remain low relative to sales. The inventory-to-sales ratio for manufacturing has been hovering below 1.4% in recent months, reaching its lowest point this decade. At the wholesale level, the ratio has actually been falling over the course of the past year. Although retail inventories rose sharply in December (largely because of autos), they are not out of line with sales.

The latest Blue Chip survey of economists predicts real economic

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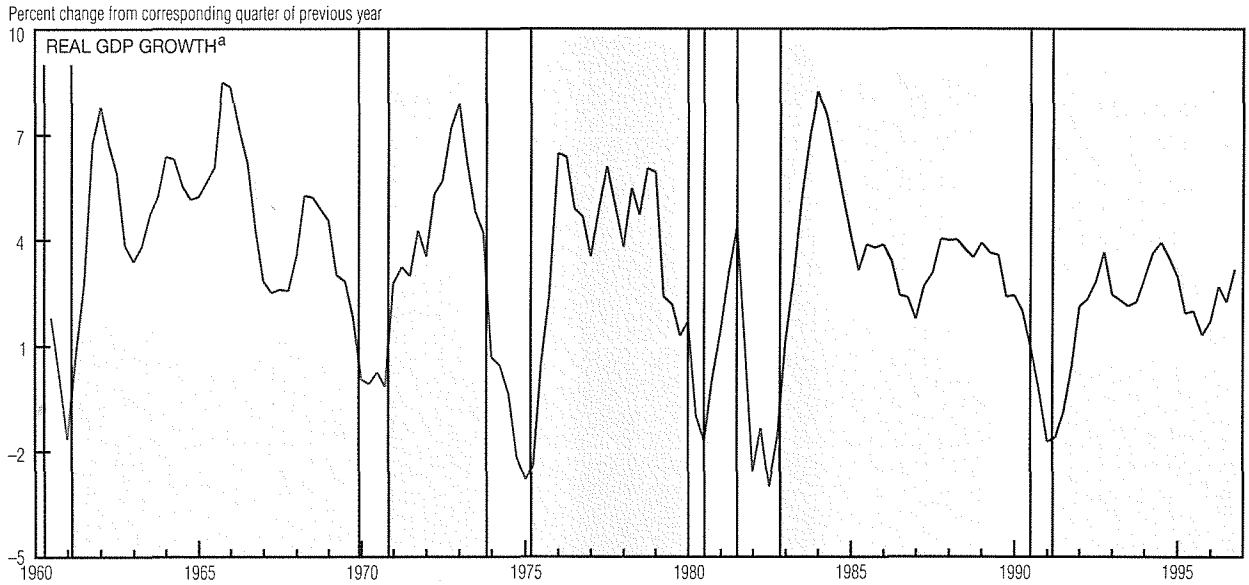
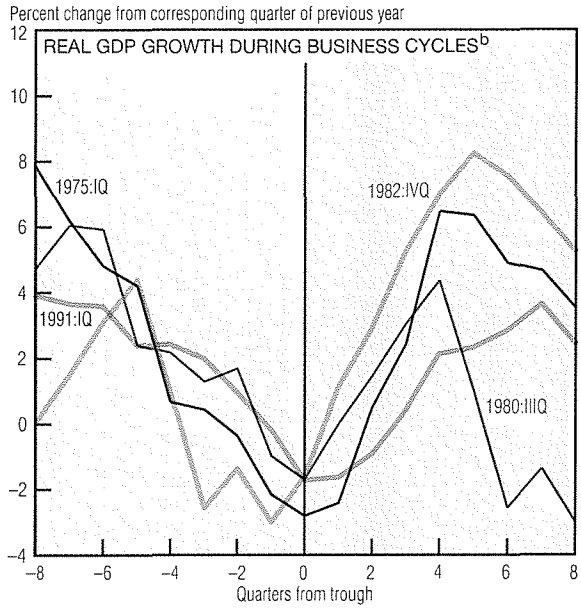
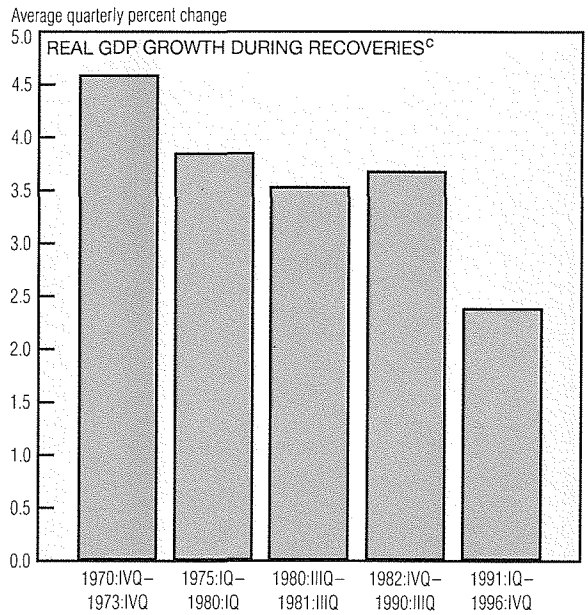
Economic Activity (cont.)







a. Shaded areas indicate recessions.
b. Dates are business cycle troughs.
c. Defined as period from business cycle trough to peak.
NOTE: All data are in chain-weighted 1992 dollars.
SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

growth of approximately 2% in each quarter of 1997. A strong consumer sector figures prominently in the forecast. Real disposable personal income grew 3.4% in January (year over year), while consumer outlays jumped 3.2%. Retail sales in constant dollars rose a healthy 5.7%, a spending pattern that is consistent with strong consumer confidence readings in recent months. Indeed, the Conference Board's consumer confidence index peaked at 118.7 in January, its highest level since the summer of 1989. Although the index dipped slightly in February, the University of Michigan's index of consumer sentiment rose to 99.7.

As the current expansion heads into its seventh year, some observers have asked whether its longevity implies anything about its sustainability. Economists have no standard for a *typical* expansion. Comparisons with recent business cycles indicate that the current upswing is by no means the longest. The 1982–90 expansion lasted approximately 92 months, almost one year longer than our present experience, and the 1961–69 episode lasted 106 months.

Some have attributed the duration of the current expansion to its relatively slow pace—2.4% (average annual rate) since 1991:IQ. The average growth rate from 1961 to 1969 was twice as large. Although such comparisons are natural, they provide little evidence for predicting the next downturn.