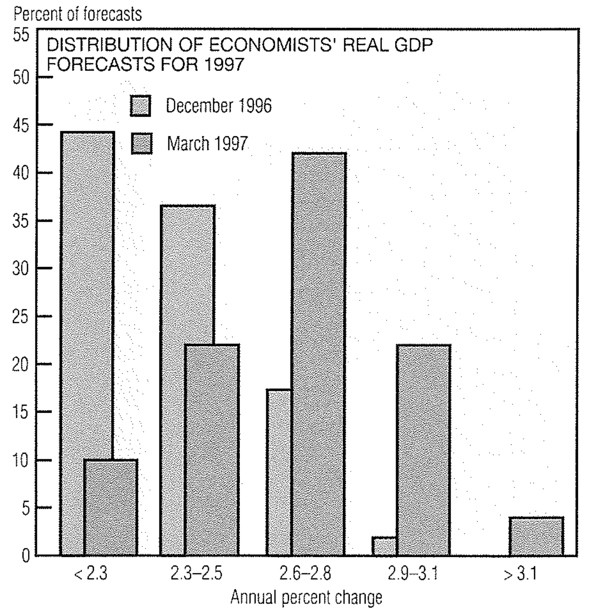
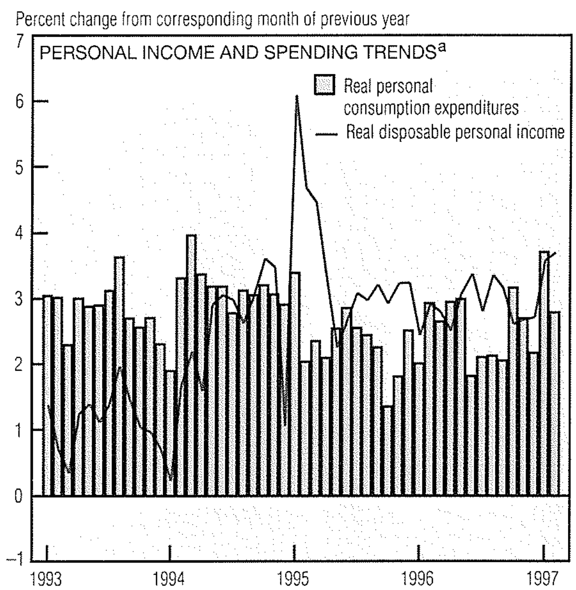
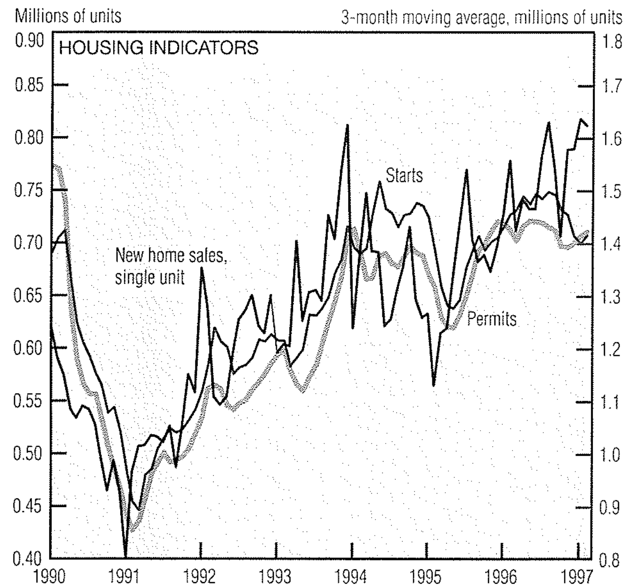
# Economic Activity

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

| | Change, billions of 1992 $ | Percent change, last: Quarter | Four quarters |
|---|---|---|---|
| Real GDP | 65.2 | 3.8 | 3.1 |
| Consumer spending | 39.0 | 3.4 | 2.7 |
| Durables | 7.5 | 5.0 | 5.4 |
| Nondurables | 6.4 | 1.8 | 1.8 |
| Services | 25.0 | 3.8 | 2.6 |
| Business fixed investment | 10.6 | 5.5 | 9.5 |
| Equipment | −1.3 | −0.9 | 9.7 |
| Structures | 11.2 | 26.0 | 9.1 |
| Residential investment | −1.2 | −1.7 | 3.9 |
| Government spending | −2.7 | −0.8 | 1.9 |
| National defense | −5.5 | −6.8 | 0.2 |
| Net exports | 39.0 | — | — |
| Exports | 46.8 | 25.0 | 7.4 |
| Imports | 7.8 | 3.3 | 8.3 |
| Change in business inventories | −17.2 | — | — |




a. Chain-weighted data in billions of 1992 dollars.
NOTE: All data are seasonally adjusted.
SOURCES: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; and *Blue Chip Economic Indicators,* December 10, 1996 and March 10, 1997.

The nineteenth-century historian Thomas Carlyle once suggested that economics was simply a matter of supply and demand. Although this may be true, determining whether economic changes reflect supply or demand is no simple matter. The distinction is crucial, however, because demand pressures raise output and lift prices, whereas supply pressures raise output and lower prices. The fact that recent strength in actual (and projected) output growth was not accompanied by accelerating inflation suggests that supply effects may be especially important. The difficulty, of course, lies in assessing their future strength and contribution to growth.

With a strong push from exports and consumer spending, real GDP advanced 3.8% in 1996:IVQ, raising last year's overall GDP growth to 2.4% (year over year) from 2.0% in 1995. Despite the faster pace of output growth, the GDP price index increased only 2.1% in 1996, compared with 2.4% in 1995. Continued strength in the consumer and manufacturing sectors, together with low inventory levels, have prompted economists participating in March's Blue Chip survey to revise their outlook for 1997 economic growth upward, without raising their inflation projections.

Real disposable personal income continued to climb in February, advancing 3.7% on a year-over-year basis, while consumer outlays, slowing slightly, were up 2.8%. Consumer attitudes remain positive, as sales of new and existing homes attest. Housing starts climbed 12.2% in

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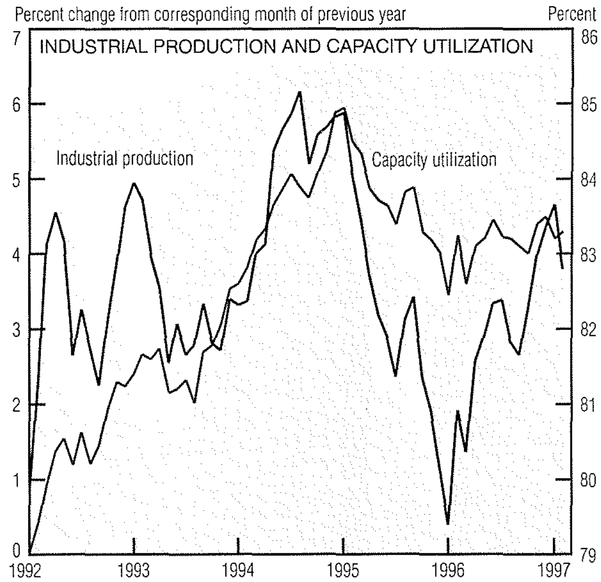
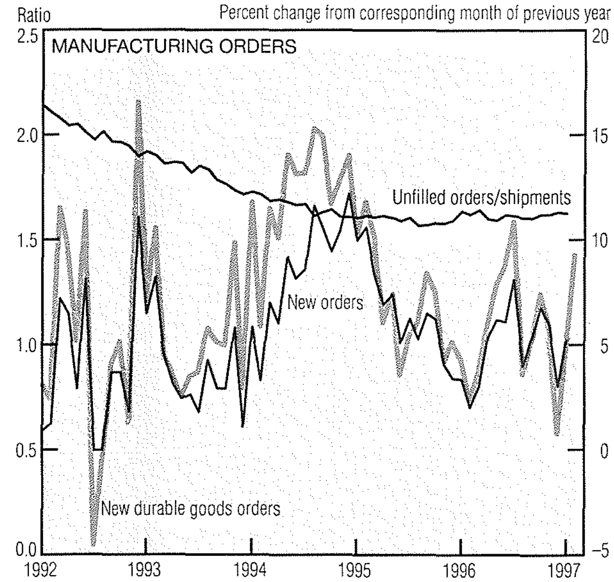
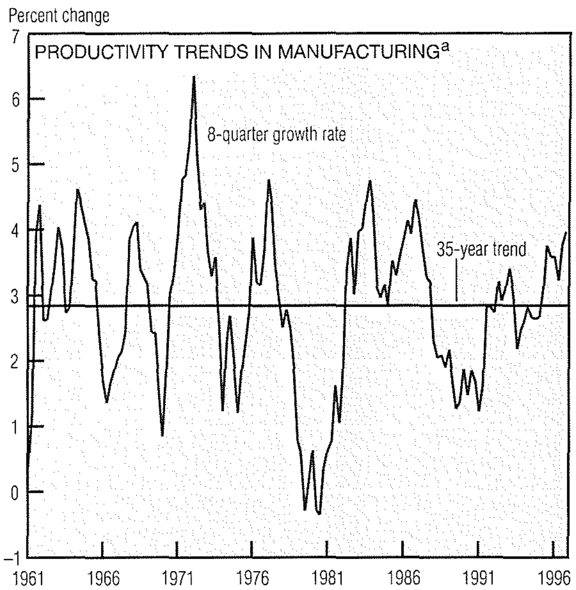
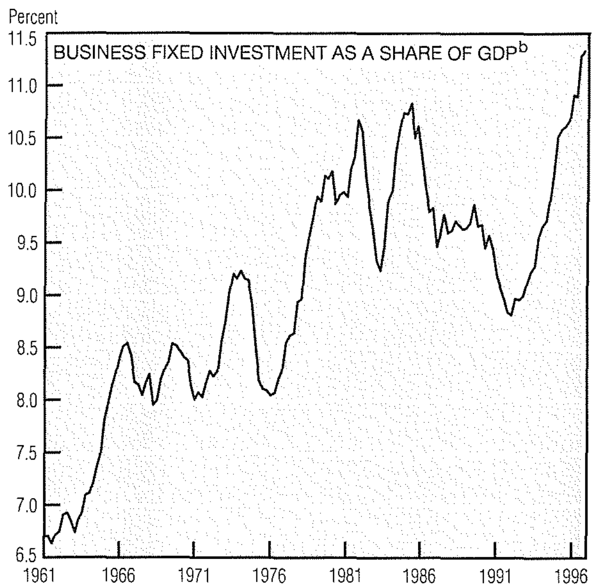
# Economic Activity (cont.)




a. Output per hour.
b. Chain-weighted data in 1992 dollars.
NOTE: All data are seasonally adjusted.
SOURCES: U.S. Department of Commerce, Bureau of the Census; U.S. Department of Labor, Bureau of Labor Statistics; and Board of Governors of the Federal Reserve System.

February, their highest level in almost three years, while permits grew 3%, reversing January's decline.

Industrial output continued to show surprising strength in February, rising 3.8% on a year-over-year basis. New orders for durable goods were up 1.5%, following January's 4.1% gain. Factory orders for all manufactured products increased 2.5% in January. The ratio of unfilled orders to shipments remains low, giving little evidence that bottlenecks are developing. Indeed, capacity utilization remains under 85%, a level often associated with capacity constraints.

The economy's ability to accommodate growing demand without price increases depends largely on the pace of labor productivity and the accumulation of capital. Overall nonfarm productivity growth has been a lackluster 1.1% per year over the current business expansion. The nonfarm sector, however, includes a growing service component, in which productivity is notoriously difficult to measure and probably understated. Productivity in the manufacturing sector, which is easier to gauge, has grown at a healthy 3.4% annual rate over the same period.

In addition, the U.S. is experiencing an unprecedented boom in business fixed investment. Most of this is attributable to computers, which should enhance workers' productivity, especially in many service industries. In view of these developments, many economists now wonder whether we accurately capture supply-side contributions to the economic outlook.