Advance estimates of real GDP suggest that the economy rebounded in the third quarter from its lackluster performance in 1995:IIQ. The 6% increase in hours worked for October is equally encouraging and is indicative of continued strides in output growth in the coming months. Increases in government spending and consumer durables, up 3.1% and 11.7%, respectively, were major sources of strength. Investment activity, particularly in equipment, also improved. Residential investment, while still off slightly for the year, maintained the strong advances observed in recent months.

The index of coincident indicators rose an annualized 2% in September, continuing the trend that started at the beginning of the expansion. The flat movements in the composite index of leading indicators, however, suggest a possible leveling off in overall economic activity in the months ahead.

By contrast, real nondefense capital goods orders made solid gains in September, increasing at an annual rate of 29%. This bodes well for future business activity.

Improvement in the economy’s growth rate was evident across various sectors. Real final sales, a good proxy for aggregate demand,
(continued on next page)
advanced an annualized 4.2% in the third quarter, up nearly 1½ percentage points from its 30-year average. This suggests that the increase in activity resulted from underlying demand and not from any significant inventory accumulation. Businesses accumulated over $35 billion in inventories last quarter (1987 dollars), $1 billion more than in 1995:IIQ. The second-quarter slowdown appears to have been a temporary adjustment. Moreover, businesses have maintained a relatively constant inventory/sales ratio this year, with only slight increases over 1994 levels.

Consumer activity remained healthy in September, due in part to solid gains in real disposable personal income (up 3.5%). This rise helped to spur a 3.3% increase in consumer spending for the month. Real net exports made equally strong gains in the third quarter, with exports increasing at a 10.6% annual rate while imports rose 8.6%. Strength in real exports stemmed mostly from merchandise trade, which rose nearly 15% in the July-September period, while exports of services were relatively flat. Overall, however, real imports exceeded real exports by $125.8 billion, an improvement of less than $1 billion.