Recent data—though sketchy and tentative—and anecdotal accounts indicate that economic activity weakened in the last months of 1995. The final numbers are expected to put growth for all of last year at approximately 1.8%. Nevertheless, contributing factors, including severe weather and the federal government shutdown, generally seem isolated or transitory. Viewing the recent evidence of downside risks against the backdrop of a very strong investment sector, the Blue Chip panel of economists currently foresees 2.2% growth in 1996. None of the members anticipates a recession.

Much of the uncertainty about economic activity has centered on the consumer sector. Real consumer spending grew a moderate 2.2% in November following a 1.5% advance in October, despite relatively strong and steady gains in real disposable income. Moderate consumption patterns, together with high levels of credit card debt, raised concerns about holiday spending. Many retailers reported disappointing December sales, with heavy discounting and some inventory accumulation.

Advance estimates of real retail sales for December—adjusted for price changes—registered virtually no increase. Unit sales of motor vehicles rose sharply in December, but sales at general merchandise stores (continued on next page)
and apparel stores fell slightly. Nevertheless, the continued tightness of labor markets bodes well for the consumer sector, and despite high levels of credit card debt, evidence of liquidity problems is lacking.

The near-term outlook for the industrial sector, which accounts for approximately 20% of total GDP, remains a second area of concern. Industrial production was flat in 1995:IVQ. Production of nondurable consumer goods fell, as did output of defense-related goods. Business equipment production slowed in the fourth quarter, but remains strong relative to a year ago.

Factory operating rates, while still generally high, have declined somewhat over the year. In October (latest available data), factory orders fell as backlogs increased. Anecdotal evidence about factory orders, while mixed and inconclusive, suggests some pockets of weakness and inventory correction. In December, the purchasing managers' index of overall manufacturing activity stood at 46, its fifth consecutive reading below 50—a point generally consistent with a flat industrial performance.

Dealers' supplies of cars and light trucks rose sharply in the late summer and early fall, but strong incentive programs and reduced orders to producers have helped lower inventories somewhat. Automotive production, which was flat in 1995:IVQ, is likely to remain weak in the early months of 1996.