Winter's recession fears have melted away, but forecasted growth rates—approximately 2% this year and next—remain below historic norms. Many economists, however, regard this rate as compatible with sustained expansion in an economy operating at high levels of industrial capacity and employment.

Downward adjustments in business fixed investment, smaller inventory accumulation, and higher imports pared real GDP growth in 1995:IVQ to 0.5% from 0.9%. The revisions, however, included higher estimates of consumer spending. Real GDP grew 2.0% for all of 1995.

The outlook for consumers is cautiously optimistic. Real disposable income increased 3.1% in February and supported a rise in real personal consumption expenditures. With income generally growing faster than consumption last year, consumers were able to improve their balance sheets. Household financial net worth showed a sharp rise, largely on the strength of equity market gains (see page 10). Overall consumer confidence, which sagged in late 1995, seems to be recovering. Estimates suggest that real retail sales generally growing faster than (continued on next page)
sales rose 0.8% in February.

Industrial production surged in February, with growth in many categories offsetting January declines. Strong gains in the production of business equipment have led the index since December, but could diminish during the year if businesses follow through with plans to trim capital spending. The General Motors strike, which ended on March 22, will have some short-term ripple effects on output, but should have no lasting impact on the pace of economic activity.

Sales of light vehicles (at 15.8 million units) advanced 7.8% in February from year-ago levels, and the industry trimmed its inventories and increased production. Although production remains relatively weak, it could get a boost in April from strike-related inventory reductions in March.

New home sales fell 1.3% in February following three consecutive monthly gains. All of the decline was concentrated in the Midwest. Sales of existing homes jumped 6.5%, however—the first increase since September. Housing starts continued to rise in February. Although multi-unit housing starts improved, high vacancy rates seem to be holding them at low levels.