The Commerce Department’s final GDP estimate for 1996:IIQ put real economic growth at 4.7%, substantially above the first quarter’s 2.0% rate. Anticipating a slowdown in personal consumption expenditures, residential construction, and federal government spending, economists responding to September’s Blue Chip survey see the economy expanding 2.5% in the third quarter and 2.2% in the final quarter of this year.

For all of next year, the mean prediction is a 2.2% growth rate, but a substantial number of respondents anticipate a slightly faster pace. Many economists view long-term growth of 2%—or slightly faster—as sustainable indefinitely at high levels of resource usage.

Real personal consumption spending stalled over the summer months, with actual declines spread through many purchase categories. On a year-over-year basis, consumer spending grew at an average pace of 2% in June, July, and August, compared with 2.7% over the first five months of 1996. Despite this apparent slowdown in spending, overall consumer confidence in the economy remains bright, and real disposable income growth continues above 3%. Consumers may be attempting to improve their balance sheets.

(continued on next page)
Economic Activity (cont.)

When smoothed to eliminate month-to-month volatility, the trajectories of housing starts and building permits suggest some slowing in the pace of residential construction. Nevertheless, sales of new homes were very strong in July and August, and consumers’ attitudes toward home buying remain favorable.

Industrial production increased 0.5% in August, following on the solid 5.3% average annual pace it has maintained since January. Production of business equipment and defense and space equipment was especially strong in August, but production of consumer goods and motor vehicles and parts fell. The nation’s industrial sector operated at 83.5% of measured capacity in August. While this rate of utilization is below 1995’s peak, it remains well above the 10-year average.

The UAW reached a tentative three-year agreement with Ford and Chrysler whereby the automakers provide job guarantees for 95% of their workforce over the life of the contract, unless there is an industry-wide downturn. The UAW and its Canadian counterpart must still reach an agreement with General Motors, which is trying to increase the outsourcing of its production by selling its parts plants. Although auto production declined somewhat in August, it remained at high levels. Dealers held 56 days’ supply of cars and 64 days’ supply of light trucks.