As of January 10, the Blue Chip consensus forecast was a solid growth rate of 3.1% in 1998:IVQ. However, advance estimates released at the end of January indicate that GDP grew at a 5.6% annual rate, far above Blue Chip analysts’ expectations. The 5.6% advance estimate is remarkably strong, amounting to double the U.S. economy’s 30-year average growth rate.

A major growth source in the fourth quarter was motor vehicle production, which accounted for 2.1 percentage points of the 5.6% GDP increase. This was reflected in a rebound in the motor-vehicle-related components of personal consumption expenditures for durable goods, producers’ purchases of durable equipment, and by exports and imports. Last summer’s General Motors strike had held down those sectors in the second and third quarters because its effects were focused in June and July. Much of the fourth-quarter strength in automotive components probably reflects production to satisfy backlogs in addition to resumption of normal production.

Last summer’s events—the strike as well as financial turmoil abroad—are frequently cited as causes of a weakening manufacturing sector, indicated by the slower growth of industrial production in 1998. The overall slowing, however, obscures the strong performance of some sectors. A breakdown of the manufacturing sector is included in the following pages.
Economic Activity (cont.)

The fourth-quarter surge in automotive production corresponded with a flood of steel imports from countries affected by last summer's financial turmoil. A sharp decline in steel prices, resulting from the large amount of imported steel, was associated with a decline in U.S. raw steel production. Thus, despite the surge in auto-related production, growth in industrial production as a whole continued to slow through December.

Purchasing managers also were indicating softness in the manufacturing sector. The Purchasing Managers’ Index (in which executives indicate whether business has slowed, picked up, or remained the same) dropped precipitously in the latter months of 1998. In January, however, the Index recovered all the ground it had lost, a sign that business was improving.

Construction and real estate activity continue to be very strong. Residential investment has been a consistently vigorous component of GDP growth throughout 1998. Construction activity continues to show healthy growth levels. A revival in housing starts and permits since September points toward continued growth in 1999 residential construction. This seems to be confirmed by evidence of lively demand in the real estate market. New home sales are growing very strongly, while sales of existing homes broke records in December.