Economic Activity

In early January, the Blue Chip consensus forecast of GDP for 1998:IVQ was a solid annualized growth rate of 3.1%. The advance estimate, released soon after, more than exceeded that expectation with a remarkably strong 5.6% growth rate, which may be one reason for February’s upward revision in the Blue Chip consensus forecasts of GDP for every quarter of 1999.

By February, the preliminary estimate of GDP growth in 1998:IVQ was an even higher 6.1%, largely because of a much lower trade-deficit estimate. While the level of imports was revised downward only slightly, a surprising uptick in exports far surpassed expectations. U.S. exports declined in each of the first three quarters of 1998; however, that entire 3.4% drop was erased in 1998:IVQ, when exports reached a height that exceeded their 1997:IVQ level by 1.2%. Moreover, most of the jump in exports came from nonautomotive capital goods, which were 5.6% higher than the previous year’s level. It remains to be seen whether this increased demand for U.S.-made equipment reflects an improvement in economic conditions abroad or a depreciation of the dollar in 1998.

Another highlight of the economy’s performance in 1998:IVQ was a 3.7% increase in productivity. As compensation levels have risen more rapidly, faster productivity growth has allowed the economy to motor along at a brisk pace with minimal inflation—the deflator increased at an annual rate of only 0.7%. Productivity gains occur when output increases faster than hours worked. Through the 1990s’ expansion, annual productivity growth rates have varied from 0.1% (1993) to a strong 3.4% (1992). In 1998, nonfarm business productivity grew at a rate of

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2.3%, while manufacturing productivity grew at 4.3%.

The important question is whether the GDP strength shown late in 1998 was merely ephemeral or was sustained by strong monthly data early in 1999. Preliminary measures of the current dollar value of January retail sales seemed weak. Their increase of only 0.2% from December lagged 1998’s 0.5% average monthly increase. Substantial outright declines were registered at both food stores and gasoline service stations, where weak prices may have compounded any drop in sales volume. However, these declines were offset by very strong increases at general merchandise, apparel, and drug stores. Industrial production was unchanged from December to January, below the 0.2% average monthly increases of the past year. Small increases in manufacturing and utilities production were offset by another substantial decline in mining output.

On the other hand, durable goods orders rose 3.9% in January, the seventh increase in the last eight months and the biggest jump since November 1997’s 4.4% increase. Nondefense capital goods orders, which might serve as an indicator of investment spending, rose 11.2% in January.

February polls of consumer confidence also seemed to reflect economic strength. The Present Situation Index (from surveys of consumer sentiment about present economic conditions) rose 5.5 points to reach the highest level observed since the Conference Board began its survey 32 years ago. The Expectations Index (from surveys of sentiment about future conditions) rose 1.6 points, continuing the recovery from last year’s precipitous decline. Similarly, the February composite Purchasing Managers’ Index of new orders, production, supplier deliveries, inventories, and employment rose 2.9 points. This raised its level to 52.4, breaking 50 for the first time since May 1998 and signaling a general expansion in manufacturing.