Final GDP estimates for 1998:IVQ are little changed from the preliminary estimates of a month earlier. Personal consumption expenditures, particularly on motor vehicles and parts, are a bit stronger; nonresidential fixed investment and inventories are a bit weaker. Both consumption and business and residential investment were about as strong in 1998:IVQ as in the year as a whole. Exports provided the extra force, adding about two percentage points to fourth-quarter GDP growth relative to preceding quarters. Clearly, the strong fourth-quarter growth was unexpected as recently as January. Successive GDP releases have confirmed that strength, prompting upward revisions for all four quarters of 1999.

Corporate profits (before tax with inventory valuation and capital consumption adjustment) declined at a 0.6% annual rate in 1998:IVQ, bringing them to a level 0.1% above that of a year earlier. For 1998, profits were only 0.8% higher than in 1997 and, after tax, 2.2% lower. Forecasts of 1999 corporate profits have been declining for over a year. They fell sharply after the financial market disruptions of 1998:IIIQ, but most of that effect was erased when profits forecasts were revised upward, in parallel with GDP forecasts, to a level about 1.7% above 1998's.

The desire to anticipate forthcoming GDP estimates provides employment (and enjoyment) to many analysts who track incoming data about parts of the economy. Rarely, however, do the accumulated data yield an unambiguous view of economic activity, and now is no exception. January's trade deficit showed the largest monthly increase on record. Both housing starts and housing permits fell sharply in February. Weak exports (continued on next page)
and housing demand might cast doubt on the strength of continued economic expansion, except that both series are notably volatile on a monthly basis. Moreover, orders for all manufactured goods, durable goods, and nondefense capital goods declined sharply in February, after several months of healthy growth.

Other recent data carry a different implication about 1999:1Q. Despite weakness in housing starts, the value of all construction spending rose 3% in February, 7.8% above a year earlier. Retail sales have grown very fast so far this year, consistent with continued growth in consumption spending, a key factor in the current economic expansion. In March, estimated January sales growth was revised up from 0.2% to 1.0%, and February sales were estimated to be up 0.9% from that higher level.

One result of strong consumption spending has been a personal saving rate of about zero. This seeming improvidence is thought to be offset by additions to household wealth through appreciation in the value of corporate stock holdings. The Federal Reserve’s “Flow of Funds Accounts” release chronicles how changing stock prices affect savings through the appreciation and depreciation of personal equities holdings. An erratic upward drift in appreciation as a percent of disposable personal income has offset some of the downward drift of the personal saving rate. The effect of collapsing stock prices in 1998:IIIQ is plainly visible in a negative saving rate through appreciation, just as the stock market’s more recent recovery will probably be reflected in another large positive rate of saving through appreciation.