The 4.1% preliminary (second) estimate of real GDP growth in 1999:IQ was only slightly lower than the 4.5% advance (first) estimate released in April. A revision of 0.4 is not unusual. Past experience suggests that 90% of the time the revision is between –0.9 and +1.4 of the advance estimate. Factors contributing to the downward revision included a stronger drag from increased net imports (–0.12), and slightly lower estimates of consumption spending (–0.1) and inventory investment (–0.16). The Blue Chip consensus forecast of GDP for the rest of 1999 increased once again, and now indicates an expectation of above-average growth for the year.

Preliminary GDP data included the first estimates of 1999:IQ corporate profits, which showed a 3.7% annualized increase over 1998:IVQ and a 3.1% gain over the same period last year. These increases, however, were not sufficient to raise the level of profits to the peak reached in 1997.

Data showing a sharp increase in the March current dollar value of business inventories were released after the advance GDP estimates were prepared. This led some analysts to expect an increase in the preliminary GDP estimate rather than the slight decrease actually observed. Just as the March inventory-to-sales ratio declined because sales grew faster than inventories, so too the actual ratio of inventories to GDP fell short of the level implicit in the advance GDP release.

(continued on next page)
Nondefense capital goods orders are sometimes cited as an indicator of future business fixed investment in equipment. Total capital goods orders dropped sharply in April, as the volatile defense component declined by more than one-third. Nondefense orders also declined sharply, reflecting a substantial reduction in the aircraft component that was sensitive to a cutback in orders at a single manufacturer of large airplanes. A comparison of nondefense orders with and without the private aircraft component shows that a single firm in a single industry may have a substantial impact on this indicator. Growth rates of the two series typically move in the same direction, but have been close together only for a few months at a time, and then only intermittently.

Continued above-average growth of real GDP and reductions in the unemployment rate without inflation are attributed at least partly to significant productivity increases. Nowhere is this more evident than in the manufacturing sector of the economy. Manufacturing output has been growing almost without interruption since 1992, although the growth rate has slowed over the past two years. Manufacturing employment, however, has declined over the same two years. In fact, manufacturing employment in April 1999 was identical to that in October 1994. Thus, the same level of employment now produces 23.6% more output than in 1994.

A hint that economic growth may be cooling comes from the housing market, where annual growth rates of housing starts and housing permits, two volatile data series, have plummeted in recent months. However, more subjective measures of consumer and business sentiment betray no signs of doubt that economic expansion will continue.