The 4.3% final GDP estimate for 1999:IQ fell midway between the 4.5% advance estimate and the 4.1% preliminary estimate. The upward revision to the preliminary estimate resulted mostly from an upward revision to exports and a downward revision to imports.

Although the pace of economic growth in 1999:IQ slowed from the breakneck speed of 6.0% seen in 1998:IVQ, the 4.3% estimate is still quite strong and is considerably above our historic average growth rate of around 3.0%. The brisk pace of growth is even more impressive considering that we are in our eighth year of economic expansion and that many economists had expected growth to slow this year (as is evident in the January Blue Chip forecasts). Since January, growth forecasts have been steadily climbing, and the most recent June predictions show the average growth rate for 1999 above 3% (whereas January’s prediction average was closer to a 2% annual growth rate).

A driving factor behind the recent economic growth has been an acceleration in consumer spending, a component that most economists had expected to slow in 1999, according to Blue Chip consensus forecasts of consumer spending. In 1998:IVQ, spending grew at a strong 5.0%; in 1999:IQ, the pace strengthened to 6.7%. In 1999:IIQ, retail sales showed a solid gain in April and a strong increase in May. Therefore, strong consumer spending numbers are also likely to be present in the forthcoming advance GDP estimate for 1999:IIQ, to be released at the end of July.

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

What are consumers buying? Auto sales have shown the largest gains in the retail sector. May auto sales were up 2.5% (35.3% annualized) from April and 8% over the same month last year. Furniture is also selling quite well, up 1.1% (14% annualized) from April to May and 9% over May 1998. General merchandise stores have seen sales gains similar to those in furniture sales, and consumers are also spending heavily in restaurants and pubs.

Home sales (both new and existing) were quite strong in the latter half of 1998, as low interest rates made financing affordable for many people. Recently, however, home sales have slowed, particularly sales of new homes. It is not clear whether this is a temporary pause to allow builders to catch up on residential construction projects or whether activity is slowing in the residential real estate markets.

The consumer confidence index advanced again in June to the level it had reached at this time last year, before the financial crisis. Confident consumers are likely to keep spending, propelling economic growth in upcoming months.

This spending spree has been accompanied by a decline in the personal saving rate, which has remained negative throughout 1999, implying that consumers are spending more disposable income than they have. This measure of savings, however, does not take into account the appreciation in equity holdings. Movements in equity prices, when expressed as a percent of disposable personal income, have averaged 10% since the first quarter of 1992. The strong consumer spending of late is likely attributable to this appreciation.