By November’s preliminary estimate, gross domestic product grew at an annualized rate of 5.5% in 1999:IIIQ. This was stronger than expected and stronger than October’s 4.8% estimate. Most of the upward revision can be traced to reduced estimates of imports and increased estimates of private inventory accumulation. The overall shape of the economy did not change, however; it showed very robust growth of both nonresidential investment in equipment and software and consumer spending on durables. These were offset only partially by reduced expenditures on residential and nonresidential structures and by more rapid growth of imports than exports.

Estimated GDP growth was 3.6 percentage points higher in 1999:IIIQ than in 1999:IIQ. Fully two-thirds of that increase can be attributed to a strong swing toward more rapid inventory accumulation. This was substantially underestimated in last month’s advance GDP estimate, especially at the wholesale level. The significance of the change should not be exaggerated, however; for inventories’ contribution to GDP growth was well within the normal range of experience.

Preliminary GDP data include first estimates of corporate profits for 1999:IIIQ. These indicate that corporate profits (both before- and after-tax) grew at an annualized rate of nearly 3% in the third quarter, reaching levels about 10% higher than (continued on next page)
those of a year earlier. Dividend payouts increased more slowly than this, however, so undistributed profits rose 5% to a level more than 20% higher than a year earlier.

Residential construction expenditures declined in 1999:IIIQ. The impetus for the slowdown comes from the market for single-family homes, both traditional and mobile. Sales of existing homes declined over the three months ending in September, bringing sales 3% below the level of the previous quarter. Only in the West did sales continue to increase. Similarly, sales of new homes declined in the third quarter at a rate of 16.5% before rebounding in October. The number of new single-family homes for sale has been increasing at about an 8% rate for the past two quarters. Completed houses for sale declined during the summer, but those under construction increased, while those not yet started increased very rapidly. Mobile-home sales have been declining since February.

Vacancy rates for rental housing are relatively high, particularly for single-family homes. The inventory of new single-family homes for sale has been increasing for about two years. The number of mobile homes on dealers’ lots has reached an all-time high, after extraordinarily rapid increases. As a whole, the evidence points to a slowdown in the residential housing industry.