Gross domestic product (GDP) increased at a 5.8% annual rate in 1999:IVQ, according to the advance (first) estimate, released late in January. Most analysts were surprised at the strength of this measure of domestic real output, although many had raised their forecasts ahead of the release. Also, the back-to-back 5.7% and 5.8% growth rates of the past two quarters intensified the anxiety of those who suspect that, in this unprecedented ninth year of continuous economic expansion, the U.S. economy might soon be pushing the unknown limits of non-inflationary output growth.

Advance estimates often change significantly—upward or downward—as more complete information is incorporated into the preliminary and final estimates released over the succeeding two months. However, 90% of the time, changes fall within a range of –1.0 to +1.6 percentage points, so revisions are unlikely to alter the perception that strong economic growth persisted through the end of 1999.

Some of the apparent sources of GDP strength in 1999:IVQ are probably one-time events. In their absence, growth should ease off to a less sizzling pace in 2000, as forecasts now suggest. For example, the nondurable component of personal consumption expenditures, in which food plays a prominent part, is unlikely to continue contributing more than 1 percentage point to GDP growth rates. Likewise, inventory accumulation may not persistently
contribute more than 1¼ percentage points to growth as it has in the past two quarters, although the aggregate inventory/sales ratio does not seem particularly high. In addition, both defense and nondefense spending by the federal government happened to hit high quarterly levels, providing almost 1 percentage point of GDP growth.

Of course, anomalies in other sectors of the economy may have dampened growth, and their reversal will contribute to continued strength in 2000. Computer sales are a frequently cited example of this. Growth in personal consumption expenditures on computers and peripherals fell by half between the first and fourth quarters of 1999, although retail holiday spending on personal computers was reportedly very strong. Also, fixed investment expenditures on computers and peripherals weakened in 1999:IVQ, with businesses said to have postponed computer expenditures in order to focus on Y2K preparedness.

Firming price conditions also may have played a role. The price index for fixed investment in computers and peripherals declined at only a 12% annual rate in 1999:IVQ, less than half the rate of decline registered between 1994 and early 1999. A similar pattern is apparent for the analogous component of personal consumption expenditures.