GDP increased at a surprisingly robust 6.9% rate in 1999:IVQ, according to the preliminary estimate released late in February. This was 1.1 percentage points more than the advance estimate released just one month earlier. Such a sizeable increase is outside the range of more than two-thirds of all revisions from advance to preliminary values observed between 1978 and 1998. Values of all major GDP components increased. The smallest revision was to the volume of imports that is subtracted from exports in calculating GDP; the largest was to the already high contribution of personal consumption expenditures.

GDP growth has been on a high plateau since 1996. Personal consumption expenditures (PCE) have made an increasing contribution to GDP growth, and the Blue Chip consensus forecast does not foresee a reversal of this pattern until 2000:IVQ. Government expenditures also have increased their contribution to the GDP growth rate. Declining contributions from other sectors have made room for these expanding sectors. Slowing growth of inventory investment, as well as last year’s slowdown in residential and nonresidential fixed investment, have played only a small role. Increasing imports and the resulting substantial decline in net exports have provided most of the room for growth in PCE and government spending.

Growth of the capital stock and labor force, plus a modest decline in the unemployment rate, provided a basis for continued brisk GDP growth. In addition, productivity increases in the nonfarm business sector remain about one full percentage point above the average for the...
30 years ending in 1991 and about half a percentage point above the average since 1991. Manufacturing clearly is a major source of this splendid productivity performance. The growth rate of productivity in the manufacturing sector took another upward leap in 1999, rising 6.9% between 1998:IVQ and 1999:IVQ.

Memories of cartel-induced petroleum price increases and escalating inflation in the 1970s make current fuel-price hikes a matter of widespread concern. How has the role of motor-vehicle fuel in GDP changed since that earlier experience? Total fuel consumption has grown at an average annual rate of 2.1% since 1970, about one percentage point slower than GDP growth. Passenger cars’ share of annual fuel use declined markedly, but a rising share of fuel consumption in light trucks (a category that includes the increasingly popular sport-utility vehicles) offset about three-quarters of this decline. Combined, the share of fuel that is used in these two categories has dropped from 86% to 79%. The share used by heavy trucks and buses has risen correspondingly.

Fuel efficiency has changed in a similar way. Passenger cars and light trucks averaged 13.3 miles per gallon (mpg) in 1970. Since then, efficiency has increased at an average annual rate of 1.3%, reaching 19.7 mpg in 1998. The 5.5 mpg averaged by heavy trucks and buses in 1970, on the other hand, crept up at an average annual rate of only ½ percent through 1998, to 6.4 mpg. Still, because these industrial and commercial gas-guzzlers account for little more than 20% of all fuel used, fuel consumption relative to GDP has declined by one-fourth since 1970, from more than 24 gallons to just over 18 gallons per $1,000 of GDP (both in 1996 prices).