The 2000:IQ preliminary GDP estimate confirmed the 5.4% growth rate of the advance estimate as well as the broad contours of the continuing economic expansion. Consumer spending, especially on durable goods, continued to grow at a very brisk rate. Business fixed investment spending was particularly strong, reversing a slowdown of several quarters in equipment spending and outright declines in expenditures on structures. Revisions to advance-estimate components were offsetting and not substantial. Business fixed investment spending was even stronger than initially estimated, while exports seem to have increased rather than decreased, though only slightly more than the increase in the estimate of imports. The Blue Chip forecast of GDP growth for the remainder of 2000 maintains that growth will taper off to the 30-year average of just over 3%.

The developed nations experienced strong growth in 1999. In the U.S., growth continued above 4.5%; in Western Europe, it picked up to about 3%; and in Japan, economic decline may have ceased, although there is some uncertainty about the reliability of the available estimate. This represents a joint performance better than any since 1996.

In the U.S., the GDP price index advanced sharply in both of the last (continued on next page)...
two quarters, more than doubling from little more than a 1% annual rate of increase to over 2.5%. Food and energy have added to the index’s growth for most of the last five years, but their impact was especially large in 2000:IQ. Even so, as GDP growth has picked up around the world, so too has the rate of increase of the adjusted GDP price index in the U.S. Of course, domestic purchasers have increased spending more quickly than domestic production has grown; the widening difference can be attributed mostly to net exports, with imports sold to domestic purchasers rising more rapidly than exports sold to the rest of the world.

Corporate profits (without inventory and capital-consumption adjustments) declined significantly between 1997:IIIQ and 1999:IQ. For the past year, however, profits have grown rapidly, an occurrence unrelated to tax considerations. Domestic nonfinancial corporations’ profits (with inventory and capital-consumption adjustments) have increased sharply over the past two quarters after more than two years of little change. Profit growth in the financial sector has not been as strong, either recently or over the current expansion. Taking an even longer-term view, however, the case is reversed, with the financial sector outperforming the nonfinancial sector.