The final release of statistics on first-quarter real GDP growth confirmed that 2000 started with a bang. The revised figure came in 0.1 percentage point higher than the May estimate, indicating that U.S. output expanded at a healthy annualized rate of 5.5%.

All consumer spending categories grew briskly over the first three months of the year. Consumer durable spending was particularly strong, with the June revision showing that expenditures in this category expanded at a 24.3% clip. Business fixed investment also posted large gains, increasing at an annual rate of 18.7% in the quarter.

June’s revisions revealed a narrower U.S. trade gap over the January–March period than had been thought. The change reflected both higher-than-estimated exports and lower-than-estimated imports.

Blue Chip forecasts continue to predict GDP growth rates above the 30-year average through the next two quarters. The consensus among professional prognosticators, however, has the pace of economic expansion returning to normal long-run levels by year’s end.

In fact, the slight upward revision from May’s estimate does not alter the assessment that economic growth, though still hot, has cooled substantially from its torrid pace in late 1999. Accumulated evidence (continued on next page)
that the fall-off toward more normal growth rates continued into the second quarter has led some observers to surmise that the succession of recent federal funds rate increases are beginning to bite. Although it is far too early for any firm conclusion about this conjecture, there is scant evidence thus far that the setting of the funds rate has been very helpful in projecting GDP growth over the course of this expansion.

Others have focused on the moderating—if not restrictive—influence of the recent rise in crude oil and gasoline prices. The current real price of oil is far below its historical 1981 peak, but some have argued the economy is more sensitive to large, sudden spikes in real oil prices than to the level of those prices per se. Here the case is stronger, as the recent run-up in prices has been large by historical standards.

One notable characteristic of this expansion has been the increasing share of corporate profits in national income. This development corresponds to a shift in the share of profits accounted for by industries classified as “other” in the national income accounts. This category includes general services, which contains many “new economy” enterprises related to information technology. It will be interesting to see whether these trends reverse, if the economy does in fact revert to a historically typical growth trajectory.