The preliminary estimate of GDP growth for 2000:IIQ, at 5.3% (annualized), is 0.1 percentage point higher than the advance estimate, according to the August release. The increase reflects upward revisions to inventory investment and exports, offsetting an upward revision to imports and downward revisions to consumer spending (especially durable goods) and nonresidential fixed investment. Residential investment remained unchanged. These revisions hint that economic growth may be tapering off; Blue Chip forecasters are predicting a quick decline to about 3%.

A sharp increase in inventory investment could signal a future slowdown. Whereas the previous trend of increasing inventories has not kept up with strong demand and sales, the second-quarter increase outpaced sales. If demand remains moderate, retailers might cut back on new orders, prompting a manufacturing slowdown and easing labor markets. Sectoral data show the inventory-to-sales ratio rising notably in retail trade rather than in wholesale or manufacturing, though their levels are still extremely low by historical standards. Unfilled manufacturing orders are substantial; even if demand eases, they could keep manufacturers and workers busy into the near future.

Employment has grown steadily during the current expansion. In fact, since mid-1997, total employment has remained above the level that some analysts believe triggers accelerating inflation. From this perspective, policies that succeeded in preventing (continued on next page)
unemployment from falling below the estimated nonaccelerating inflation rate of unemployment (NAIRU) would have reduced current employment by more than 1,600,000 jobs. During the same period, real GDP has exceeded an analogous estimate of the trend level of potential U.S. economic output. Again, if policies had tried to keep output rising along its estimated potential level—and had succeeded—the cumulative real output forgone would have been just over $450 billion in 1996 dollars. Despite the suggestion that inflationary pressures should accompany recent levels of employment and output, the personal consumption price index measure of inflation is near 2.5%.

The election year and recent debate over budget surpluses have called attention to the role of government receipts and expenditures. As a share of GDP, state and local spending and receipts more than doubled between the Korean War and the early 1970s, but have changed little since then. Federal spending increased irregularly during the late 1960s and 1970s, but the past decade has erased most of that increase. Likewise, federal government receipts have grown by nearly as much as expenditures have decreased—so much that, for the first time since 1966, federal receipts exceeded expenditures for two consecutive years. Patterns in the combined expenditures of all governments show that the share of federal nondefense expenditures has risen slightly over the past half-century. Most notably, the share of state and local expenditures has doubled and the share of federal defense expenditures has declined by half.