Gross domestic product (GDP) grew at a 5.6% annual rate in 2000:IIQ. This final estimate, released late in September, is 0.3 percentage point above the preliminary estimate of a month earlier. Most of the revision reflects a significant upward adjustment to net exports. U.S. exports rose 14.4%, compared to the preliminary estimate of 13.5%. Import growth was revised down from 19.5% to 18.5%. Consumer spending and residential investment were revised up modestly, while government spending was adjusted down marginally. Despite the upward revision, inventory accumulation still accounts for more than 30% of GDP growth. Blue Chip forecasters expect a quick deceleration of GDP growth to a rate below the 30-year average.

Mounting trade deficits have caused some concern during the current expansion. Accelerating domestic growth and demand for goods over the last year have helped to push import growth above the average for the expansion. However, over the same period export growth only returned to its average rate, after two years of virtually no growth. Maintaining this export growth rate will depend largely on the continuation of economic expansions abroad, and on exchange rate developments.

Social service and welfare expenditures have changed markedly in the last 10 years. When the expansion began, private and government expenditures on welfare activities were virtually the same. Although not entirely tied to poverty relief, expenditures as a percent of GDP rose in tandem with the poverty rate through 1993. Then, as the poverty rate began to fall, private welfare expenditures continued to rise while government expenditures (continued on next page)
Economic Activity (cont.)

spending followed the decline in poverty. Most recently, private expenditures have leveled off, while decreases in government spending have outpaced poverty’s decline.

A correlation between oil prices and GDP growth is well recognized. Consumption of petroleum and energy reveals a similar correlation. One might have expected energy prices to rise along with demand during the current economic expansion, with higher prices tempering consumption growth. However, an actual cutback in supply, as in 1991, would push prices up while consumption drops. In the last 30 years, U.S. annual consumption fell on three occasions. In each case, the sudden cut in the oil supply preceded a recession. Quarterly data show that consumption of energy goods fell sharply in 2000:IIQ, but a continuation of the 2000:IIQ rebound should prevent this from becoming a fourth occasion.

The expected slowdown in GDP growth, however, has led to hopes for a “soft landing,” in which the expansion slows to a sustainable pace without overshooting into recession. The 1960s might provide a model, but conditions then were quite different from the most recent decade. GDP growth during the first half of the 1960s was much faster and more volatile than in the 1990s. Labor productivity trended down rather than up, and the last half of the decade saw productivity growth decelerate while inflation pressure intensified. By 1967, employment growth had leveled off and, by the end of the decade, GDP growth was at zero. The last half of the 1990s, by contrast, showed unemployment continuing to fall, no signs of rapid price inflation, and productivity trending higher.

b. Chain-weighted quantity index of gasoline, fuel oil, and other energy goods.
c. CPI, all items less food and energy.
d. Corporate nonfinancial sector output per hour of all employees, cubic trend.