Nominal GDP crossed the $10 trillion threshold in 2000:IIIQ, according to the advance estimate released late in October. Since 1969, when nominal GDP was at $1 trillion, increases in real GDP have contributed less to reaching the $10 trillion mark than have price level increases. Of course, some of this may be an illusion created by the oft-noted upward bias in measures of inflation. More certain is the decade-by-decade slowing in nominal GDP’s rate of increase. Slowing inflation more than offset increases in real GDP’s growth rate.

Real GDP’s annual rate of increase was only 2.7% in the advance estimate for 2000:IIIQ, considerably slower than in the recent past. The final estimate, when released near year’s end, could be higher or lower than this, though advance estimates tend to be conservative and the final estimate is more often higher than lower. Taken at face value, the substantial reduction of GDP growth in the past quarter may have resulted more from special factors than from any underlying weakness in the economy. In fact, consumption expenditures contributed 3 percentage points to growth in the third quarter, up from only 2.1 percentage points in the second quarter. Nonresidential business investment, while dampened from its second-quarter pace, still added another 0.9 percentage point to GDP growth, representing a small increase in spending on structures and a moderate increase in spending on equipment and software.

The combined 3.9 percentage points that consumption and business fixed investment contributed to (continued on next page)
GDP growth were offset by a small decline in residential housing investment and a somewhat larger and unlikely-to-be-repeated decline in government expenditures, mostly at the federal level. The government sector typically contributes about half a percentage point to GDP growth rates, so this quarter’s decline dragged GDP growth down about one full percentage point. On the other hand, because the contribution of exports increased more than that of imports, net exports’ dampening influence on GDP growth was less than it has been over much of the current expansion. This, too, seems unlikely to continue unless the U.S. economic expansion slows dramatically relative to expansions in countries that demand our exports. Inventory accumulation was essentially unchanged from the previous quarter—an unusual event in itself.

There is some question whether farmers have shared in the prosperity of the last two economic expansions. Price margins in farm production have shrunk nearly 30% over the last 15 years as the ratio of output to input prices declined. Paradoxically, the value of farm land has soared during the same period. Government subsidies have helped to offset bad years, but the general trend in assistance has been down. Just as in other industries, reduced margins have put pressure on small operators. The corporate share of farm income has risen as growing numbers of farmers find it more profitable to sell their land than to farm it.