In 2000:IIIQ, gross domestic product (GDP) grew at a 2.2% annual rate, its slowest in four years. This final estimate, released late in December, is 0.2 percentage point below the preliminary estimate of a month earlier and fully 0.5 percentage point lower than October’s advance estimate. Downward revisions were common to all sectors except imports and government, with a major contribution (–0.15 percentage point) from a lower export estimate. The slowdown in real GDP from the second quarter to the third primarily reflected lower inventory investment and less federal government spending, as well as deceleration in nonresidential fixed investment. These negative changes were partly offset by a noticeable rebound in personal consumption expenditures. After slowing markedly in the second quarter, personal consumption spending rose at a healthy 4.5% annualized rate in the third. Disposable personal income is still growing more slowly than consumption expenditures, and the personal saving rate dipped below zero in the third quarter.

Blue Chip forecasters expect GDP growth to rebound only slightly and to remain below the 30-year average throughout 2001. Of course, Blue Chip forecasters have a history of underprediction. December Blue Chip median forecasts of the next year’s annual GDP growth rate underestimated actual GDP growth in eight of the past 11 years; in each of the last five years, they were more than a full percentage point too low. Despite ever-smaller personal saving rates over the last decade, the household sector’s ratio of net worth
Economic Activity (cont.)

Net worth/disposable income

PERSONAL SAVINGS AND NET WORTHA

CHANGES IN NET WORTHA

NONFINANCIAL CORPORATE PROFITSB

Percent change from previous quarter

PERSONAL CONSUMPTION AND DISPOSABLE INCOME

Disposable income

PERSONAL SAVINGS AND NET WORTHa

Percent of disposable income

NOTE: All data are seasonally adjusted and annualized.
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and Board of Governors of the Federal Reserve System.

a. Annual data excluding the last observation, which is for 2000:IIIQ.
b. Profits with inventory valuation and capital consumption adjustments.
c. Billions of current dollars.

to disposable income has increased dramatically. The National Income and Product Account’s measure of personal savings is simply the difference between disposable personal income and total personal consumption of all outputs except residential construction. By this measure, personal savings have fallen significantly over the decade. However, if consumers’ purchases of durable investment-type goods such as automobiles and household appliances are included, the drop in personal savings is less pronounced. But even this would not account for the rapid increase in household net worth. Holding gains on investments in equities and real estate reached extraordinary levels between 1994 and 1999. These capital gains, whether realized or not, are responsible for the swift rise in the net worth/disposable income ratio. The stock market retrenchment of the past year may eliminate holding gains as a dominant source of increased net worth in 2000, but the level of the net worth ratio is likely to remain high. There should be little question why consumers have had no apparent qualms about choosing negative personal saving rates.

Growth in nonfinancial corporate profits (with inventory valuation and capital consumption adjustments) came to a halt during the third quarter. While profit growth rates typically are volatile, declining profits were widespread. Profits fell in transportation, nondurable goods, and four of five durable-goods sectors. Only the machinery sector showed an increase in profits. Such a widespread drop has not occurred since the first quarter of 1997.