Gross domestic product (GDP) grew at a 1.0% annual rate in 2000:IVQ. Consumer spending was revised downward but remained healthy, with nearly 3% growth. Business fixed investment fell only slightly this quarter, the drop in equipment and software purchases being offset by strong growth in business structures. Residential investment and exports were also off modestly, while greater government spending added to fourth-quarter growth.

The final estimate for 2000:IVQ, released late in March, is 0.1 percentage point below the preliminary estimate of a month earlier and 0.4 percentage point below the advance estimate. The most recent revision resulted primarily from business inventory accumulations that were slower than originally estimated. Adjustments to inventory accumulation can account for the entire –0.4 percentage point revision in quarterly GDP growth, with revisions in the other components offsetting one another.

Despite much slower inventory accumulation, inventory-to-sales ratios remain above their recent lows. Ratios for both trade and manufacturing broke trend and began to rise in 2000:IQ. While the trade ratio has begun to fall again, manufacturers’ inventories continue to accumulate faster than sales.

Quarterly real GDP growth is slower than at any time since 1995:IQ, and Blue Chip forecasters...
expect it to slow further before rebounding later this year. Forecasts predict that real GDP growth for 2001:IQ will be less than 1% but expect it to reach its long-term average by 2001:IVQ.

Over the last 30 years, the U.S. has undergone four periods of economic contraction. By comparing current patterns of consumption and investment with historical trends, one may gain insight about the likelihood of a recession.

Some argue that the risk of a recession is minimal because services growth has accelerated over the last three quarters. If history is any teacher, however, this does not necessarily mean that a recession can be avoided. Personal consumption of services has remained strong going into each contraction, particularly the last one.

Personal consumption of goods has proven a better predictor of looming contractions. In each of the last four, goods consumption fell in the quarter immediately preceding a drop in real GDP. Thus far, goods consumption has remained flat, suggesting that a recession is not necessarily imminent.

Past inventory changes may also provide some insight into the current situation. Changes in inventory usually spike one quarter before a drop in GDP and then decline the following quarter. Changes in inventory spiked during 2000:IIQ and then fell slightly in 2000:IIIQ. That spike probably portended the slow growth that occurred in 2000:IVQ rather than the beginning of an actual recession.