The advance estimate for the National Income and Product Accounts, released April 27, reported output growth of 2.0% in 2000:IQ—much stronger than had been expected. (The Blue Chip forecast for the first quarter was for less than 1% growth.) Some might interpret this surprising strength as a sign that further reductions in the Federal Open Market Committee’s intended federal funds rate will be unnecessary, or even that the target should be raised. More realistically, only time will tell whether the quarter was merely a pause or in fact was the floor of the recent economic slowdown.

Given the unexpected strength of the first quarter, it will be interesting to see whether the Blue Chip forecast for the rest of the year is revised upward. The path previously projected was a gradual rise over the rest of the year to a trend growth rate of just over 3%. The first-quarter growth rate of 2% was higher than expected. It also was higher than in 2000:IVQ, but a year ago the economy was growing robustly at about 5% in 2000:IQ. Three major factors account for this year’s slowdown: personal consumption, business investment, and imports. Growth rates for all categories of consumer spending have declined relative to a year ago, while the decline in business investment growth is concentrated primarily in equipment and software.

A widespread drop in inventories (negative inventory investment) also contributed to the economy’s weak performance over the past couple of quarters. Retail inventory investment
Economic Activity (cont.)

has been on a downward path for several months.

The assertion that “what’s good for General Motors is good for the U.S.A.” has been scoffed at for many years. Nonetheless, it remains true that the automotive industry is an important feature of the U.S. economy. For example, the drop in auto inventories and production is responsible for a substantial proportion of the fall in output growth over the past two quarters.

While the auto industry’s share of total U.S. nonfarm employment has fallen since the 1970s, it is still about 2.5%. For the states of the Fourth District, the auto industry is somewhat more important; in Ohio and Kentucky, for example, automotive jobs account for about 3.5% of the total. Moreover, employment share may underestimate the importance of this sector, since automotive jobs tend to pay better than average. In Ohio and Kentucky, around 5% of total earnings, compared to 3.5% of all jobs, are due to the motor vehicle industry.

Likewise, for the U.S. as a whole, the auto industry’s share of output is higher than its employment share. In the mid-1990s, the motor vehicle sector generated around 3.5% of total GDP, compared to 2.5% of total employment.

For many communities, like the Toledo area, these figures underestimate the industry’s importance. Furthermore, these figures measure only the direct effects of the automotive sector, missing the indirect effects of autoworkers’ spending in their local communities.

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a. Industrial production of motor vehicles and parts.
b. Corporate profits, adjusted for inventory valuation and capital consumption.
c. Employment by motor vehicle manufacturers and retailers as a share of total nonfarm employment.

NOTE: All data are seasonally adjusted and annualized.