Real gross domestic product (GDP) growth was revised down 0.7 percentage point from the advance estimate to an annualized rate of 1.3% in 2001:IQ. The estimate of personal consumption growth was lowered slightly but remains healthy at nearly 3%. Business fixed investment growth was revised up a full percentage point to 2.1%, primarily because stronger growth in structures more than offset a slight drop in equipment investment. Residential investment and exports were also off modestly, while government spending growth was higher than originally estimated. Private inventories made the biggest contribution to the difference between the advance and the preliminary estimate. During 2001:IQ, changes in private inventories contributed –2.9 percentage points to real GDP growth, nearly 0.5 point less than the advance estimate of –2.4%.

The large, sudden drop in inventory accumulation and levels may offer hope for the still-ailing manufacturing sector. In 2001:IQ, retailers and wholesalers cleared much of the inventory they had accumulated when the economy weakened last year. Manufacturers were slower to start reducing inventories but made aggressive cuts in the last part of the quarter. Many left their plants idle in February and March. With excess inventory cleared out, plants may start ramping up production again if consumer spending stays healthy.

This was the third consecutive quarter to post real GDP growth below the 30-year average of 3.2%. Blue Chip forecasters expect GDP growth to increase slightly in 2001:IIQ, with more substantial recovery coming in the third and fourth quarters, but they do not expect quarterly growth to surpass the 30-year average before year’s end.

(continued on next page)
Since the economy began slowing last year, housing and residential investment have been consistently strong sectors; in fact, they were unusually strong throughout the most recent expansion. New and existing home sales have trended upward since 1991 and now stand at near-record levels, despite last summer’s slowdown and higher mortgage rates. The result has been record rates of home ownership. After falling in the first half of the 1980s and staying flat for nearly a decade, home ownership took off after 1995. The record of nearly 66%, set in 1980, was broken; the rate currently stands near 68%. While this sudden jump is unprecedented, ownership rates also rose rapidly in the late 1960s.

Some have credited the rise in ownership rates during the 1990s to years of stable inflation and low mortgage rates. The sudden rise in mortgage rates during the early 1980s clearly slowed home sales and probably contributed to the decrease in home ownership. Mortgage rates have been more stable since 1990, though the rapid rise in ownership did not occur until 1995. Furthermore, in the 1965–70 period of rapidly rising ownership, mortgage rates, though stable, were not necessarily falling or unusually low.

Real family income seems more directly correlated with home ownership. Median real family income grew rapidly between 1965 and 1973, just as ownership rates were rising. As income growth faltered in the late 1970s and became erratic during the 1980s and early 1990s, growth in home ownership slowed. Once family incomes began rising steadily and consistently after 1993, ownership growth took off again.