The advance estimates for the national income and product accounts, released January 30, have led many to ask whether the current recession may be over. According to the advance estimate, real GDP growth was 0.2% (annualized rate) in 2001:IVQ. Spending on personal consumption grew at a whopping 5.4% (annualized rate) from the previous quarter, its highest growth rate since 2000:IQ. Much of this spending was spurred by durable goods, especially October’s surge in auto sales. Government spending also posted an extraordinary gain of 9.2% (annualized), based in large part on strong spending for the war in Afghanistan.

Change in inventories was the greatest drag on GDP growth for 2001:IVQ. Without this drag, real GDP growth would have been 2.2 percentage points higher in 2001:IVQ and 1.5 percentage points higher over the last four quarters.

Blue Chip forecasters predict continued growth in real GDP over the next four quarters. By 2002:IIIQ, the current period of slow growth is expected to be over, with the Blue Chip forecast exceeding the 30-year average of GDP growth.

The recent strength in real GDP is still somewhat surprising, considering the Blue Chip forecasts. Before the terrorist attacks, Blue Chip forecasters had predicted 2.8% (annualized) growth in real GDP for 2001:IVQ; by October, they had modified their prediction to -1.3% (annualized). As late as January, forecasters were still expecting real GDP growth of -1.0% (annualized) for 2001:IVQ.
Both existing and new homes posted record sales in 2001, a remarkable feat considering that the U.S. has officially been in a recession since March 2001. Typically, home sales fall sharply before a recession or at its beginning, then rise near its end. Similarly, housing inventories typically peak during recessions. During the current downturn, however, inventories have barely budged, and they remain near-record lows.

New home prices also surged relative to trend during the first half of the year. All these indicators point to unusually robust demand for housing. The source of this strength is, of course, near-record-low home mortgage rates, the likes of which have not been seen since the 1960s.

To a large extent, housing’s strength reflects two facets of monetary policy, which has been especially proactive during this downturn: The federal funds rate was first lowered in January, although the recession did not officially begin until March, and real GDP did not decline until 2001:IIQ. Yet the central bank is expected to take back these decreases when necessary, so long-term inflation remains subdued. Mortgage rates, however, may be bottoming out and the housing market may finally be slowing. New home sales declined from their 2001:IQ level, and their prices fell in the second half of the year. Their prices relative to trend likewise dropped precipitously after 2001:IIQ.