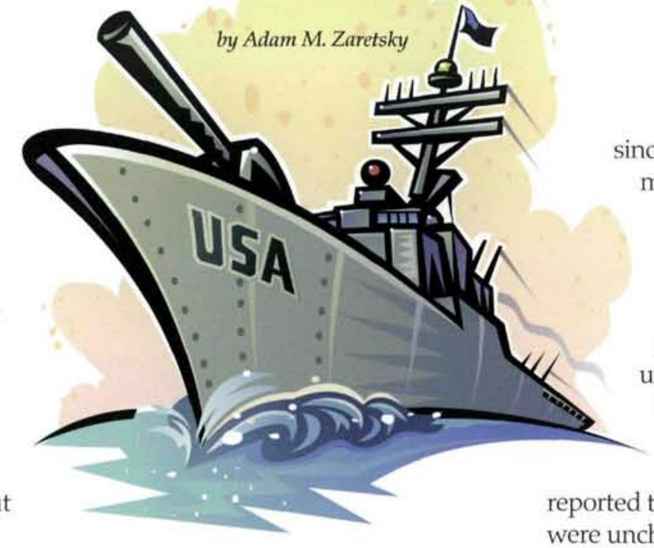
National and District Overview

Forward Deployed...Fully Engaged!

The State of the U.S. and District Economies

by Adam M. Zaretsky



The order came—"Damn the torpedoes! Full speed ahead!"—and the U.S. economy has, so far, carried it out brilliantly.

The economy continues to tear through the channel, leaving what at first appeared to be formidable obstacles in its wake. Concerns about a substantial slowdown in output growth—to below trend—proved unwarranted. Fears of reawakening sharp inflation seem to have been a bit premature, for now. By almost all measures, the U.S. economy continues to rule the seas.

Output on Target

Real GDP grew at a 4.1 percent annual rate in the first quarter of 1999, well above the 10-year average growth rate indicated in the chart on the facing page. Although this rate was down from the previous quarter's 6 percent, it was still more than half a percentage point above the forecasters' consensus prediction of 3.4 percent. As is normally the case during strong U.S. economic expansions, consumer spending has been producing the most propulsion. It currently accounts for roughly 70 percent of all spending in the U.S. economy, and was up at a 6.8 percent annual rate. Americans certainly like their stuff. But expectations are that real output growth slowed in the second quarter, with the June consensus forecast predicting only a 3.1 percent annualized growth rate. Recent history, however, has shown these consensus forecasts to fall short of true performance.

Landlubbers

Americans also like their houses. Spending on newly constructed houses was up substantially in the first quarter, prolonging the housing boom. In fact, it appears that sales of new and existing homes are on record pace so far this year, carrying new construction along with them. As shown in the chart on the bottom of Page 17, first-quarter U.S. housing permit levels were up almost 11 percent, off just slightly from a year earlier. Eighth District states, however, are viewing a slightly different landscape. Housing permit growth in four of the District states was well below last year's pace. Anecdotal accounts, however, suggest that part of this falloff is due to building contractors' inability to keep up with orders because of a severe shortage of skilled workers. District home sales are still reportedly strong, though.

Warning Shot 'Cross the Bow

The warning shot was fired in May when the Bureau of Labor Statistics reported that consumer prices rose 0.7 percentage points in April—the highest monthly gain since October 1990. This meant that CPI inflation through April was running at a 3.3 percent annual rate—more than double the 1.6 percent in 1998. Completely unexpected? No. Bigger than expected? Yes. Ongoing? Apparently not. In June, the BLS reported that May consumer prices were unchanged. Consequently, CPI inflation through May retreated to a 2.6 percent annual rate. The one-month blip appeared because energy prices shot up in April. By May, however, they had turned around moderately. Will there be more blips? Possibly, so markets are watching Fed actions closely.

Swabbin' the Deck

More people—more than 133 million, or 64 percent of the population—are working in the United States than ever before. The U.S. unemployment rate, at 4.2 percent, remains the lowest it has been since 1970. The same is also true for the District: The seven District states continue to experience their lowest unemployment rates in almost 30 years. Employment growth, however, is slower here than in the rest of the nation, as revealed in the table on Page 17. Much of this slower growth, though, is due to firms' inability to fill vacancies because of a dearth of qualified workers—a situation that has been ongoing and, unfortunately, is still not showing any signs of noticeable easing soon.

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