



## Whither the “New Economy”?

Economic analysts now generally agree that the rate of growth of potential output in the United States accelerated after 1995. But, there remains considerable uncertainty regarding the size and timing of the acceleration. This uncertainty has been magnified somewhat by this year’s revisions to the National Income and Product Accounts (NIPA). Each year, the Bureau of Economic Analysis (BEA) revises the NIPA to include updated or more complete data not previously available. Typically, these annual revisions affect the last three years of data. This year’s revisions for the period 1998:Q1 to 2001:Q1 were important in several respects. First, the growth of real GDP was revised down: for 2000, from 5.0 percent to 4.1 percent; for the entire three-year period, from 4.1 percent to 3.8 percent. Second, the Bureau of Labor Statistics, which produces estimates of productivity and costs from NIPA data, subsequently reported that the revisions had reduced the growth of average labor productivity (output per hour) in the nonfarm business sector from 2.94 percent to 2.48 percent over the three-year period. The revisions, especially large for 1999 and 2000, fully reverse the previously estimated 1999 acceleration of productivity growth. Certainly, the average is higher than the 1973-95 trend, as shown in the Figure, but the revisions suggest that some significant part of the 1999-2000 “new economy” was an artifact of imperfect data.

This year’s annual revisions were nearly a mirror opposite of last year’s revisions in one key aspect. Last year, the BEA reported that the growth of real business fixed investment in equipment and software (E&S) was about 1.25 percentage points faster than initial estimates suggested. This development was crucial, since several econometric studies had recently found that the recent rapid rates of investment in these types of capital goods had increased the growth rate of labor productivity by an appreciable amount. In response to these revisions, many

forecasters and economists accordingly boosted their estimates of the economy’s potential rate of output growth.

What a difference a year makes. The 2001 NIPA revisions indicate appreciably slower growth of real E&S investment and its major components. More significantly, the revised data show a substantially slower pace of business purchases of computers, peripherals, software, and communications equipment (albeit the pace remains rapid relative to historical experience). Growth of real software spending, for example, was reduced from 20.5 percent to just under 13 percent. Last year’s upward revisions to E&S investment strengthened many economists’ beliefs in the new economy; this year’s sizable downward revisions may cause some to reassess their previous estimates of future productivity growth.

Accurate estimates of the economy’s potential rate of growth are essential to policymakers. For fiscal policy, these estimates underpin medium-term (10-year) projections of the federal government’s unified budget surplus and of the Social Security program’s long-term solvency. For monetary policy, these estimates help to determine whether the current growth rate of real GDP is sustainable relative to the growth rate of potential output.

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