

Business Situation

Advance Estimates for the First Quarter of 2005

THE U.S. economy slowed somewhat in the first quarter of 2005, according to the “advance” estimates of the national income and product accounts (NIPAs) (chart 1).¹ Prices increased at about the same rate as in the fourth quarter of 2004.

The advance estimates for the first quarter of 2005 show the following:

- Real gross domestic product (GDP) increased 3.1 percent after increasing 3.8 percent in the fourth quarter of 2004 (table 1). During the current expansion period, GDP growth has averaged 3.4 percent.²
- Prices of goods and services purchased by U.S. residents increased 3.0 percent in the first quarter after increasing 2.9 percent.

The deceleration in real GDP growth reflected a

slowdown in business investment in equipment and software, a slowdown in consumer spending, and a widening of the trade balance that were moderated by a pickup in inventory investment.³

Business investment in equipment and software slowed in the first quarter, increasing 6.9 percent after increasing 18.4 percent. Investment in motor vehicles and in aircraft turned down.

Consumer spending slowed, increasing 3.5 percent after increasing 4.2 percent. Spending on motor vehicles decreased more than in the fourth quarter, and spending on food decelerated. In contrast, spending on services accelerated slightly, increasing 3.6 percent after increasing 3.4 percent.

The trade balance widened, reflecting an acceleration in imports that was partly offset by an acceleration in exports. The acceleration in imports, which are subtracted in the calculation of GDP, reflected an upturn in services imports and an acceleration in goods imports. The acceleration in exports was accounted for by

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter dollar changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized.

2. The current expansion period is measured from the cyclical trough in the third quarter of 2001 through the first quarter of 2005.

3. In this article, “consumer spending” is shorthand for the NIPA series “personal consumption expenditures,” “trade balance” is shorthand for “net exports of goods and services,” “inventory investment” is shorthand for “change in private inventories,” and “government spending” is shorthand for “government consumption expenditures and gross investment.”

This article was prepared by Brian C. Moyer, Shelly Smith, and David F. Sullivan.

Table 1. Real Gross Domestic Product and Components

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)				Share of current-dollar GDP (percent)
	2004			2005	2004			2005	2005
	II	III	IV	I	II	III	IV	I	I
Gross domestic product	3.3	4.0	3.8	3.1	3.3	4.0	3.8	3.1	100.0
Personal consumption expenditures	1.6	5.1	4.2	3.5	1.10	3.57	2.92	2.45	70.1
Durable goods.....	-0.3	17.2	3.9	0.0	-0.02	1.37	0.33	0.00	8.4
Nondurable goods.....	0.1	4.7	5.9	4.9	0.03	0.94	1.19	0.98	20.4
Services.....	2.7	3.0	3.4	3.6	1.10	1.26	1.41	1.46	41.3
Gross private domestic investment	19.0	2.4	13.3	12.5	2.85	0.40	2.11	2.03	17.2
Fixed investment.....	13.9	8.8	10.5	5.0	2.07	1.37	1.65	0.82	16.5
Nonresidential.....	12.5	13.0	14.5	4.7	1.21	1.27	1.46	0.49	10.8
Structures.....	6.9	-1.1	2.1	-2.6	0.16	-0.03	0.05	-0.06	2.4
Equipment and software.....	14.2	17.5	18.4	6.9	1.05	1.30	1.41	0.56	8.3
Residential.....	16.5	1.6	3.4	5.7	0.86	0.09	0.19	0.32	5.8
Change in private inventories.....					0.78	-0.97	0.46	1.21	0.7
Net exports of goods and services					-1.06	-0.10	-1.35	-1.49	-5.9
Exports.....	7.3	6.0	3.2	7.0	0.70	0.59	0.32	0.69	10.2
Goods.....	6.0	9.5	1.9	9.3	0.41	0.64	0.14	0.64	7.2
Services.....	10.2	-1.8	6.2	1.8	0.30	-0.06	0.18	0.06	3.0
Imports.....	12.6	4.6	11.4	14.7	-1.77	-0.69	-1.67	-2.19	16.1
Goods.....	13.0	5.0	14.9	16.1	-1.52	-0.62	-1.80	-2.00	13.6
Services.....	10.6	2.8	-5.2	7.5	-0.25	-0.07	0.13	-0.18	2.5
Government consumption expenditures and gross investment	2.2	0.7	0.9	0.6	0.41	0.13	0.16	0.10	18.6
Federal.....	2.7	4.8	1.2	0.6	0.18	0.33	0.09	0.04	6.9
National defense.....	1.9	10.1	-0.6	0.2	0.09	0.45	-0.03	0.01	4.7
Nondefense.....	4.4	-5.3	5.3	1.3	0.10	-0.12	0.11	0.03	2.2
State and local.....	1.9	-1.7	0.6	0.5	0.23	-0.20	0.07	0.06	11.7

NOTE: Percent changes are from NIPA table 1.1.1, and contributions to percent change are from NIPA table 1.1.2. Shares are from NIPA table 1.1.10.

a sharp acceleration in goods exports.

Businesses added \$80.2 billion to first-quarter inventories after adding \$47.2 billion in the fourth quarter and \$34.5 billion in the third quarter. The first-quarter buildup reflected continued accumulations of manufacturing and wholesale trade inventories.

The advance estimates for the first quarter also show the following:

- Business investment in structures decreased 2.6 percent in the first quarter, in contrast to a 2.1-percent increase in the fourth quarter. The downturn primarily reflected a downturn in mining exploration, shafts, and wells.
- Government spending increased 0.6 percent after increasing 0.9 percent. Spending both by the Federal Government and by state and local governments slowed.
- Residential investment increased 5.7 percent after increasing 3.4 percent. A sharp acceleration in single-family structures was partly offset by a downturn in “other” structures, primarily brokers’ commissions.
- Real final sales of domestic product (GDP less the change in private inventories) increased 1.9 percent after increasing 3.4 percent.
- Real gross domestic purchases (real GDP less net exports of goods and services) increased 4.4 percent after increasing 5.0 percent.
- The production of goods decelerated, the production of services slowed slightly, and the production of structures accelerated (table 2).
- Motor vehicle output slowed, contributing 0.17 percentage point to real GDP growth after contributing 0.86 percentage point.
- Final sales of computers added 0.56 percentage point to real GDP growth, the same as in the fourth quarter.
- Real disposable personal income decreased 0.3 percent in contrast to an 8.3-percent increase in the

fourth quarter; the increase had largely reflected a special dividend payment by the Microsoft Corporation (see “Personal Income”).

- The personal saving rate was 0.6 percent; in the fourth quarter, the rate was 1.6 percent.⁴

4. The personal saving rate is measured as personal saving as a percentage of current-dollar disposable personal income. An estimate of the *national* saving rate (measured as gross saving as a percentage of gross national income), along with the “preliminary” NIPA estimates for the first quarter, will be available at the end of May.

Chart 1. Selected Measures: Change From Preceding Quarter

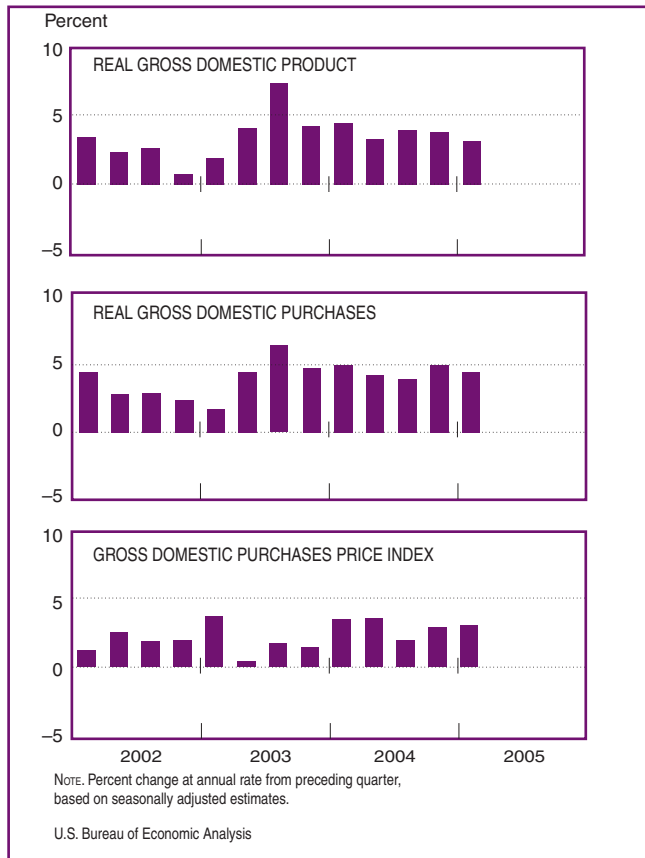


Table 2. Real Gross Domestic Product by Type of Product

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)				Share of current-dollar GDP (percent)
	2004			2005	2004			2005	2005
	II	III	IV	I	II	III	IV	I	I
Gross domestic product (GDP)	3.3	4.0	3.8	3.1	3.3	4.0	3.8	3.1	100.0
Final sales of domestic product.....	2.5	5.0	3.4	1.9	2.52	4.97	3.38	1.87	99.3
Change in private inventories.....					0.78	-0.97	0.46	1.21	0.7
Goods.....	2.5	8.3	6.1	3.7	0.82	2.67	1.99	1.23	32.6
Services.....	2.3	2.8	3.0	2.9	1.30	1.59	1.71	1.67	57.2
Structures.....	12.7	-2.5	1.4	1.8	1.19	-0.25	0.14	0.19	10.1
Addenda:									
Motor vehicle output.....	-15.2	10.4	27.6	4.9	-0.58	0.34	0.86	0.17	3.6
GDP excluding motor vehicle output.....	4.0	3.8	3.1	3.0	3.88	3.66	2.99	2.91	96.4
Final sales of computers.....	0.1	20.7	74.6	68.0	0.00	0.18	0.56	0.56	1.1
GDP excluding final sales of computers.....	3.3	3.9	3.3	2.5	3.30	3.82	3.28	2.53	98.9

NOTE: Percent changes are from NIPA table 1.2.1, and contributions to percent change are from NIPA table 1.2.2. Shares are calculated from NIPA table 1.2.5.

First-Quarter 2005 Advance NIPA Estimates: Source Data and Assumptions

The "advance" estimates for the first quarter are based on the following major source data; as more and better data become available, the estimates will be revised. (The number of months for which data were available is shown in parentheses.)

Personal consumption expenditures: Sales of retail stores (3), unit auto and truck sales (3), and consumers' shares of auto and truck sales (2);

Nonresidential fixed investment: Unit auto and truck sales (3), construction put in place (2), manufacturers' shipments of machinery and equipment other than aircraft (3), shipments of civilian aircraft (2), and exports and imports of machinery and equipment (2);

Residential investment: Construction put in place (2), single-family housing starts (3), sales of new homes (3), and sales of existing houses (3);

Change in private inventories: Trade and nondurable manufacturing inventories (2), durable manufacturing inventories (3), and unit auto and truck inventories (3);

Net exports of goods and services: Exports and imports of goods and services (2);

Government consumption expenditures and gross investment: Federal outlays (3), state and local construction put in place (2), and state and local employment (3);

GDP prices: Consumer price indexes (3), producer price indexes (3), U.S. import and export price indexes (3), and values and quantities of petroleum imports (2).

BEA made assumptions for source data that were not available. Table A shows the assumptions for key series; a more comprehensive list is available on BEA's Web site at <www.bea.gov/bea/dn/home/gdp.htm>.

Table A. Summary of Major Source Data and Assumptions for Advance Estimates, 2005:1

[Billions of dollars, seasonally adjusted at annual rates]

	2004			2005		
	October	November	December	January	February	March ¹
Private fixed investment:						
Nonresidential structures:						
Value of new total private construction put in place less residential (including improvements)	228.0	227.9	228.5	231.5	228.7	230.1
Equipment and software:						
Manufacturers' shipments of complete aircraft	29.9	20.6	30.7	27.2	19.3	26.2
Residential structures:						
Value of new residential construction put in place:						
Single family	380.3	381.4	386.1	390.2	395.9	394.6
Multifamily	39.0	40.6	41.3	41.9	41.8	41.6
Change in private inventories:						
Change in inventories for nondurable manufacturing	23.1	23.9	-3.0	29.8	12.1	23.2
Change in inventories for merchant wholesale and retail industries other than motor vehicles and equipment	63.6	80.1	54.1	58.8	40.9	66.3
Net exports:²						
Exports of goods:						
U.S. exports of goods, international-transactions-accounts basis	831.8	817.3	853.6	853.3	854.1	867.0
Excluding gold	826.6	812.7	848.6	847.5	849.8	862.8
Imports of goods:						
U.S. imports of goods, international-transactions-accounts basis	1,554.3	1,579.0	1,571.9	1,602.9	1,630.9	1,648.7
Excluding gold	1,549.4	1,575.0	1,566.4	1,599.3	1,627.1	1,645.0
Net exports of goods	-722.5	-761.7	-718.3	-749.6	-776.8	-781.7
Excluding gold	-722.7	-762.2	-717.8	-751.9	-777.2	-782.2
State and local government structures:						
Value of new construction put in place	215.9	218.3	217.9	220.4	222.5	221.4

1. Assumption.

2. Nonmonetary gold is included in balance-of-payments exports and imports but is not used directly in the estimation of national income and product account exports and imports.

Prices, next page.

Prices

Inflation as measured by the price index for gross domestic purchases accelerated slightly to 3.0 percent in the first quarter of 2005 from 2.9 percent in the fourth quarter of 2004 (table 3). Both food and energy prices decelerated in the first quarter; excluding prices for food and energy, the price index increased 3.1 percent after increasing 2.0 percent (chart 2).

Prices of goods and services purchased by consumers increased 2.1 percent after increasing 2.7 percent. The prices paid for nondurable goods decelerated, but the prices paid for services and for durable goods accelerated.

The prices paid by consumers for gasoline and oil and for food decelerated in the first quarter. The price index for consumer purchases excluding food and energy, which is sometimes viewed as an indicator of the underlying or core rate of inflation, increased 2.2 percent after increasing 1.7 percent. The largest contributors to this acceleration were the prices of medical care services and of housing services.

Table 3. Prices for Gross Domestic Purchases

[Percent change at annual rates; based on seasonally adjusted index numbers (2000=100)]

	Change from preceding period (percent)				Contribution to percent change in gross domestic purchases prices (percentage points)			
	2004			2005	2004			2005
	II	III	IV	I	II	III	IV	I
Gross domestic purchases	3.5	1.9	2.9	3.0	3.5	1.9	2.9	3.0
Personal consumption expenditures (PCE)	3.1	1.3	2.7	2.1	2.08	0.84	1.78	1.42
Durable goods	-0.1	-3.1	0.1	0.9	-0.01	-0.25	0.01	0.07
Nondurable goods	6.6	0.9	4.7	1.2	1.25	0.18	0.89	0.24
Services	2.1	2.3	2.2	2.9	0.84	0.92	0.87	1.12
Gross private domestic investment	4.4	2.9	2.4	3.3	0.68	0.46	0.38	0.53
Fixed investment	4.3	3.0	2.4	3.3	0.64	0.45	0.37	0.52
Nonresidential	1.7	0.9	1.6	2.8	0.17	0.09	0.16	0.28
Structures	7.6	9.8	10.9	10.7	0.17	0.21	0.24	0.24
Equipment and software	0.1	-1.6	-0.9	0.6	0.01	-0.12	-0.07	0.05
Residential	9.1	6.8	3.8	4.4	0.47	0.36	0.20	0.24
Change in private inventories					0.04	0.01	0.01	0.01
Government consumption expenditures and gross investment	4.3	3.6	4.2	6.1	0.77	0.62	0.73	1.05
Federal	3.0	1.7	2.3	7.7	0.20	0.11	0.15	0.49
National defense	3.5	1.9	2.4	7.8	0.15	0.08	0.11	0.34
Nondefense	1.9	1.3	2.2	7.5	0.04	0.03	0.05	0.15
State and local	5.2	4.7	5.3	5.1	0.57	0.51	0.58	0.56
Addenda:								
Gross domestic purchases:								
Food	4.2	2.1	2.5	1.0	0.40	0.20	0.24	0.09
Energy goods and services	24.9	6.4	22.2	5.3	0.94	0.26	0.87	0.23
Excluding food and energy	2.5	1.7	2.0	3.1	2.19	1.47	1.77	2.68
Personal consumption expenditures:								
Food	3.9	2.6	2.6	0.9				
Energy goods and services	26.5	4.0	18.2	3.7				
Excluding food and energy	1.7	0.9	1.7	2.2				
Market-based PCE	3.7	1.4	2.7	2.1				
Excluding food and energy	2.1	1.0	1.7	2.2				
Gross domestic product	3.2	1.4	2.3	3.3				

NOTE: Most percent changes are from NIPA table 1.6.7; percent changes for personal consumption expenditures on food and on energy goods and services and for personal consumption expenditures excluding food and energy are calculated from index numbers in NIPA table 2.3.4. Contributions to percent change are from NIPA table 1.6.8.

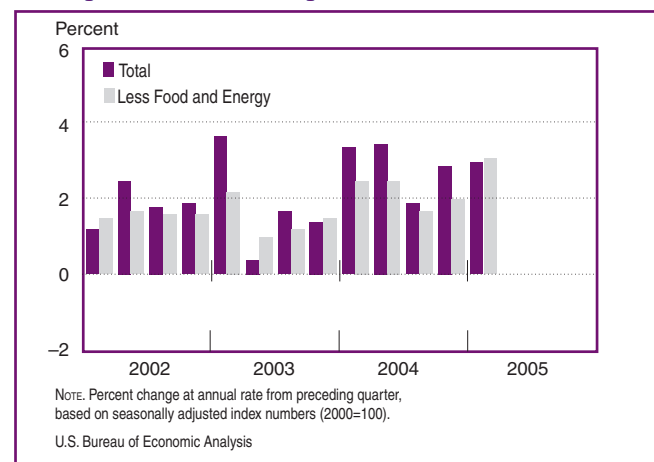
Prices of private nonresidential fixed investment increased 2.8 percent after increasing 1.6 percent. Prices of equipment and software turned up, mainly reflecting an upturn in the prices of software and an acceleration in the prices of "other" equipment. Prices of structures decelerated slightly.

Prices paid by government increased 6.1 percent after increasing 4.2 percent. The step-up was accounted for by prices paid by the Federal Government; these prices reflected a pay raise for civilian and military personnel.⁵ Prices paid by state and local governments decelerated slightly.

The GDP price index increased 3.3 percent, 0.3 percentage point more than the price index for gross domestic purchases. (The GDP price index measures the prices paid for goods and services produced in the United States. The price index for gross domestic purchases measures the prices paid for goods and services purchased by U.S. residents, regardless of where those goods and services were produced.) The larger increase in the GDP price index reflected a larger increase in export prices (which are included in the GDP price index) than in import prices (which are included in the price index for gross domestic purchases). In the fourth quarter, a smaller increase in export prices than in import prices had resulted in an increase in gross domestic purchases prices that was larger than the increase in GDP prices.

5. In the NIPAs, an increase in the rate of Federal employee compensation is treated as an increase in the price of employee services purchased by the Federal Government.

Chart 2. Gross Domestic Purchases Prices: Change From Preceding Quarter



Personal Income

Real disposable personal income (DPI) decreased 0.3 percent in the first quarter of 2005, in contrast to an 8.3-percent increase in the fourth quarter of 2004 (chart 3). The downturn reflected a sharp deceleration in current-dollar DPI (table 4).⁶ The implicit price deflator for personal consumption expenditures (which is used to deflate DPI) decelerated in the first quarter.

Personal income, which is only measured in current dollars, increased \$58.7 billion (or 2.4 percent) in the first quarter after increasing \$253.4 billion (or 10.9

6. Current-dollar DPI is defined as personal income less personal current taxes.

Table 4. Personal Income and Its Disposition

[Billions of dollars; quarterly estimates are seasonally adjusted at annual rates]

	Level		Change from preceding period			
	2005		2004		2005	
	I	II	III	IV	I	
Compensation of employees, received	6,868.7	92.1	107.4	85.1	96.2	
Wage and salary disbursements	5,539.8	73.6	90.2	64.8	72.0	
Private industries	4,593.5	67.5	85.4	59.9	58.9	
Goods-producing industries	1,079.6	15.9	23.5	11.0	10.2	
Manufacturing	706.8	10.6	16.5	4.2	5.6	
Services-producing industries	3,513.9	51.5	61.9	48.9	48.7	
Trade, transportation, and utilities	920.4	13.8	13.4	7.3	13.5	
Other services-producing industries	2,593.5	37.8	48.4	41.6	35.2	
Government	946.3	6.2	4.7	5.1	13.0	
Supplements to wages and salaries	1,328.9	18.4	17.2	20.3	24.2	
Proprietors' income with IVA and CCAAdj	961.8	29.3	1.5	32.0	26.9	
Farm	26.5	1.0	-5.3	8.8	4.1	
Nonfarm	935.3	28.3	6.8	23.2	22.8	
Rental income of persons with CCAAdj	151.5	-0.2	-18.8	7.5	-9.8	
Personal income receipts on assets	1,416.3	15.2	15.5	124.1	-75.6	
Personal interest income	976.2	5.5	4.8	14.0	15.7	
Personal dividend income	440.1	9.7	10.7	110.1	-91.3	
Personal current transfer receipts	1,469.6	21.4	15.0	13.5	40.7	
Less: Contributions for government social insurance	855.4	10.1	12.9	8.8	19.7	
Equals: Personal income	10,012.5	147.7	107.7	253.4	58.7	
Less: Personal current taxes	1,087.1	24.0	18.3	20.6	17.6	
Equals: Disposable personal income	8,925.4	123.7	89.4	232.7	41.2	
Less: Personal outlays	8,873.5	97.1	139.4	151.2	134.2	
Equals: Personal saving	52.0	26.6	-50.0	81.6	-93.0	
Addenda: Special factors in personal income						
In government wages and salaries:						
Federal pay raise	12.1	0.3	0.0	0.0	6.6	
Federal civilian retroactive pay	0.0	1.2	-1.5	0.0	0.0	
Reservists' pay	9.1	-0.9	-0.3	1.0	0.3	
In supplements to wages and salaries:						
Employer contributions for social insurance	11.3	0.0	0.0	0.0	4.1	
In nonfarm proprietors' income:						
Hurricane-related destruction of uninsured business property	0.0	0.0	-4.0	4.0	0.0	
In rental income of persons:						
Hurricane-related destruction of uninsured residential property	0.0	0.0	-13.6	13.6	0.0	
In personal dividend income:						
Microsoft "special" dividend payments	0.0	0.0	0.0	99.4	-99.4	
In personal current transfer receipts:						
Social security retroactive payments	0.0	0.0	0.0	2.5	-2.5	
Cost-of-living adjustments under Federal transfer programs	27.7	0.0	0.0	0.5	15.3	
Hurricane-related net insurance settlements (excluding owner-occupied housing)	0.0	0.0	13.7	-13.7	0.0	
In contributions for government social insurance:						
Increase in taxable wage base	13.7	0.0	0.0	0.0	5.2	
Changes in premium for supplementary medical insurance	8.6	0.0	0.0	0.0	5.4	
In personal current taxes:						
Federal tax law changes	-6.4	0.0	0.0	0.0	-3.2	
Refunds, settlements, and other	-10.2	0.0	0.0	0.0	-1.4	

NOTE: Dollar levels are from NIPA tables 2.1 and 2.2B.
IVA Inventory valuation adjustment
CCAAdj Capital consumption adjustment

percent) in the fourth quarter. The deceleration reflected a sharp downturn in personal dividend income, which, in turn, reflected the effect of the special dividend payment in the fourth quarter by the Microsoft Corporation.⁷ Excluding the Microsoft special dividend, personal income increased \$158.1 billion (6.6 percent) in the first quarter after increasing \$154.0

7. On December 2, 2004, Microsoft paid a special dividend of \$3.00 per share to shareholders of record as of November 17, 2004. The total dividend payout was about \$32 billion (at a quarterly rate). BEA estimates that about three-fourths of the total dividend payout (or \$24.9 billion) was paid to persons; this amount has been converted to an annual rate (\$99.4 billion) and recorded as personal dividend income for the fourth quarter in December.

Quarterly NIPA estimates are presented at annual rates, which show the value that would be registered if the rate of activity that is measured for a quarter were maintained for a full year. These annual rates are determined simply by multiplying the estimated rate of activity by 4.

For more information on the treatment of dividends in the national accounts, see "The Microsoft Special Dividend" at <www.bea.gov/bea/faq/national/FAQ.htm> on BEA's Web site.

Chart 3. Selected Personal Income and Saving Measures



billion (6.5 percent) in the fourth quarter.

Among the other components of personal income, personal current transfer receipts, compensation of employees, and personal interest income increased more in the first quarter than in the fourth quarter. Proprietors' income increased less in the first quarter than in the fourth quarter, and rental income of persons turned down.

Personal current transfer receipts increased \$40.7 billion after increasing \$13.5 billion. Government social benefits to persons increased \$41.1 billion after increasing \$27.2 billion. The step-up was both in Federal benefits, reflecting cost-of-living adjustments to social security payments, and in state and local benefits, primarily Medicaid payments. Returning to a typical pattern of net insurance settlements, "other current transfer receipts" decreased \$0.3 billion after decreasing \$13.7 billion; the large fourth-quarter decrease reflected the third-quarter net insurance settlements for damage to motor vehicles and to other consumer durable goods that was caused by the four hurricanes that struck the southern and eastern United States in the third quarter.⁸

Compensation of employees increased \$96.2 billion after increasing \$85.1 billion. In wage and salary dis-

bursements, the step-up was primarily in government wages and salaries, which increased \$13.0 billion after increasing \$5.1 billion. The Federal pay raise contributed \$6.6 billion to the step-up. Private wages and salaries increased at about the same rate in the first quarter as in the fourth; a pickup in trade, transportation, and utilities industries was offset by a slowdown in other services-producing industries.

Supplements to wages and salaries increased \$24.2 billion after increasing \$20.3 billion. The pickup was in employer contributions for government social insurance and primarily reflected an increase in premiums for supplementary medical insurance.⁹

Proprietors' income increased \$26.9 billion after increasing \$32.0 billion. The slowdown was primarily due to a slowdown in farm proprietors' income that reflected a downturn in farm output.

Rental income of persons decreased \$9.8 billion, in contrast to an increase of \$7.5 billion. The decrease resulted because expenses (which are subtracted in the calculation of rental income) increased more than space rent. The fourth-quarter increase in rental income had reflected a rebound from third-quarter, hurricane-related losses of uninsured residential property.

8. For more information on the effects of the third-quarter hurricanes, go to <www.bea.gov/bea/dn/hurricane.htm>.

9. Employer contributions for government social insurance do not affect personal income. In the calculation of personal income, they are added in "supplements to wages and salaries" and subtracted in "contributions for government social insurance."