BUSINESS SITUATION

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REAL gross domestic product (GDP) increased 7.3 percent in the fourth quarter of 1999, according to the "final" estimates of the national income and product accounts (NIPA's), after increasing 5.7 percent in the third quarter (table 1 and chart 1).[1] (NIPA estimates beginning with the first quarter of 1959 have been revised; see "Improved Estimates of the National Income and Product Accounts for 1929–99: Results of the Comprehensive Revision" in this issue.)

1. Quarterly estimates in the NIPA's are expressed at seasonally adjusted annual rates. Quarter-to-quarter dollar changes are the differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data unless otherwise specified.

Real estimates are calculated using a chain-type Fisher formula with annual weights for all years and quarterly weights for all quarters; real estimates are expressed both as index numbers (1996=100) and as chained (1996) dollars. Price indexes (1996=100) are also calculated using a chain-type Fisher formula.

Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers

[Seasonally adjusted at annual rates]

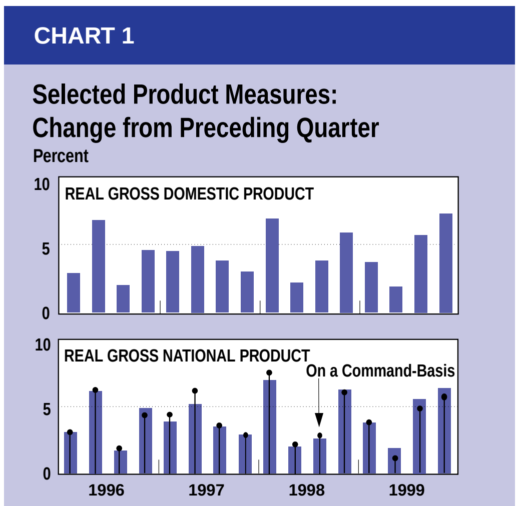
	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1999			
	1999	1999							
	IV	I	II	III	IV	I	II	III	IV
Gross domestic product	**9,037.2**	**78.1**	**40.7**	**121.5**	**157.4**	**3.7**	**1.9**	**5.7**	**7.3**
Less: Exports of goods and services	1,078.2	–14.4	10.0	28.3	25.6	–5.5	4.0	11.5	10.1
Plus: Imports of goods and services	1,422.3	37.8	44.5	47.6	29.3	12.5	14.4	14.9	8.7
***Equals*: Gross domestic purchases**	**9,358.6**	**125.1**	**70.7**	**138.3**	**160.8**	**5.8**	**3.2**	**6.2**	**7.2**
Less: Change in private inventories	66.7	–20.6	–36.1	24.0	28.7	....	....	....	....
Nonfarm	72.3	–15.1	–30.0	28.1	31.1	....	....	....	....
Farm	–6.7	–5.4	–6.5	–4.7	–2.9	....	....	....	....
***Equals*: Final sales to domestic purchasers**	**9,286.0**	**143.5**	**102.8**	**114.1**	**132.9**	**6.7**	**4.7**	**5.1**	**5.9**
Personal consumption expenditures	6,102.9	92.0	73.2	71.2	87.2	6.5	5.1	4.9	5.9
Durable goods	846.7	22.8	17.3	15.1	25.5	12.4	9.1	7.7	13.0
Nondurable goods	1,812.0	36.9	14.2	15.6	32.7	8.9	3.3	3.6	7.6
Services	3,454.7	33.9	42.5	41.1	31.3	4.2	5.2	5.0	3.7
Private fixed investment	1,617.8	33.4	25.1	26.3	10.5	9.1	6.6	6.8	2.6
Nonresidential	1,243.2	21.9	20.2	31.4	8.9	7.8	7.0	10.9	2.9
Structures	245.8	–3.8	–3.4	–2.4	–.3	–5.8	–5.3	–3.8	–.5
Equipment and software	1,006.4	27.2	25.2	35.7	9.8	12.5	11.2	15.7	4.0
Residential	376.8	11.1	5.1	–3.7	1.7	12.9	5.5	–3.8	1.8
Government consumption expenditures and gross investment	1,569.6	18.7	4.9	17.0	34.3	5.1	1.3	4.5	9.3
Federal	558.3	–.7	2.9	5.4	18.8	–.5	2.1	4.1	14.7
National defense	362.4	–3.5	–2.2	9.1	14.1	–4.0	–2.6	11.2	17.2
Nondefense	195.9	2.8	5.0	–3.6	4.8	6.1	10.9	–7.1	10.3
State and local	1,011.1	19.2	2.2	11.5	15.6	8.2	.9	4.8	6.4
Addendum: Final sales of domestic product	**8,964.6**	**96.3**	**72.5**	**97.5**	**129.6**	**4.6**	**3.4**	**4.5**	**6.0**

NOTE.—Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1. (See "National Income and Product Accounts Tables" in this issue.)

The "final" estimate of the change in real GDP is 0.4 percentage point more than the 6.9-percent increase indicated by the "preliminary" estimate reported in the March "Business Situation" (table 2). The revision is slightly larger than the average revision—0.3 percentage point, without regard to sign—from the preliminary estimate to the final estimate for 1978–99. However, the general picture of the economy that is indicated by the final estimates is little changed from that shown by the preliminary estimates.

The 7.3-percent increase was the largest increase since the first quarter of 1984 and was well above the 3.6-percent average annual growth rate for real GDP over the current expansion, which began in the second quarter of 1991.

The largest contributors to the fourth-quarter increase in real GDP were consumer spending, government spending, private inventory investment, and exports of goods and services (table 3). The increase in GDP was moderated by an increase in imports of goods and services, which are subtracted in the calculation of GDP.



Note.–Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

U.S. Department of Commerce, Bureau of Economic Analysis

The acceleration in real GDP was primarily accounted for by accelerations in government spending and consumer spending and by a deceleration in imports of goods. These changes were partly offset by decelerations in private nonresidential fixed investment and in exports of goods.

The upward revision to real GDP primarily reflected a downward revision to imports of services and upward revisions to private nonresidential structures and to exports of services. In imports of services, the downward revision was largely to "other" private services and to direct defense expenditures, reflecting the incorporation of revised data from the BEA'S international transactions accounts (ITA's). In private nonresidential structures, the upward revision was primarily to mining exploration, shafts, and wells, reflecting the incorporation of revised Department of Energy data on petroleum footage drilled. In exports of services, the downward revision was widespread, reflecting revised data from the ITA's.

Real gross domestic purchases increased 7.2 percent, 0.1 percentage point more than the preliminary estimate; in the third quarter, this measure increased 6.2 percent.[2] Real final sales of domestic product increased 6.0 percent, 0.4 percentage point more than the preliminary estimate; in the third quarter, this measure increased 4.5 percent.[3]

The price index for gross domestic purchases increased 2.3 percent, the same as the preliminary estimate; in the third quarter, the index

2. Gross domestic purchases—a measure of purchases by U.S. residents regardless of where the purchased goods and services were produced—is calculated as the sum of personal consumption expenditures, gross private domestic investment, and government consumption expenditures and gross investment.

3. Final sales of domestic product is calculated as GDP less change in private inventories.

Table 2.—Revisions to Change in Real Gross Domestic Product and Prices, Fourth Quarter 1999

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Final estimate of change minus preliminary estimate of change	
	Preliminary estimate	Final estimate	Percentage points	Billions of chained (1996) dollars
Gross domestic product	**6.9**	**7.3**	**0.4**	**7.1**
Less: Exports of goods and services	8.7	10.1	1.4	3.4
Goods	10.5	11.1	.6	1.1
Services	4.5	7.6	3.1	2.1
Plus: Imports of goods and services	10.0	8.7	–1.3	–4.4
Goods	9.3	9.7	.4	1.2
Services	13.9	3.4	–10.5	–5.1
***Equals*: Gross domestic purchases**	**7.2**	**7.2**	**0**	**.2**
Less: Change in private inventories	....	....	....	–2.0
Farm	....	....	....	–.3
Nonfarm	....	....	....	–1.7
***Equals*: Final sales to domestic purchasers**	**5.8**	**5.9**	**.1**	**2.2**
Personal consumption expenditures	5.9	5.9	0	.2
Durable goods	13.0	13.0	0	.1
Nondurable goods	7.2	7.6	.4	1.4
Services	3.8	3.7	–.1	–1.1
Private fixed investment	2.1	2.6	.5	2.0
Nonresidential	2.5	2.9	.4	1.2
Structures	–4.3	–.5	3.8	2.4
Equipment and software	4.7	4.0	–.7	–1.6
Residential	1.0	1.8	.8	.7
Government consumption expenditures and gross investment	9.2	9.3	.1	0
Federal	14.2	14.7	.5	.6
National defense	16.7	17.2	.5	.4
Nondefense	9.9	10.3	.4	.2
State and local	6.6	6.4	–.2	–.5
Addenda:				
Final sales of domestic product	5.6	6.0	.4	9.1
Gross domestic purchases price index	2.3	2.3	0	....
GDP price index	2.0	2.0	0	....

NOTE.—The final estimates for the fourth quarter of 1999 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

Personal consumption expenditures: Revised retail sales for December.

Nonresidential fixed investment: Revised construction put in place for November and December, revised manufacturers' shipments of machinery and equipment for December, and revised petroleum drilling footage for the quarter.

Residential fixed investment: Revised construction put in place for November and December, revised housing starts for December, and revised sales of new homes for October through December.

Change in private inventories: Revised manufacturing and trade inventories for December.

Exports and imports of goods and services: Revised data on exports and imports of goods for December and revised international transactions accounts data on exports and imports of services for the quarter.

Government consumption expenditures and gross investment: Revised State and local construction put in place for November and December.

Wages and salaries: Revised employment, average hourly earnings, and average weekly hours for December.

GDP prices: Revised export and import prices for October through December, revised unit-value index for petroleum imports for December, and revised prices of single-family homes under construction for the quarter.

Table 3.—Contributions to Percent Change in Real Gross Domestic Product

[Seasonally adjusted at annual rates]

	1999			
	I	II	III	IV
Percent change at annual rate:				
Gross domestic product	3.7	1.9	5.7	7.3
Percentage points at annual rates:				
Personal consumption expenditures	4.28	3.36	3.33	4.07
Durable goods	.96	.71	.62	1.03
Nondurable goods	1.69	.64	.73	1.51
Services	1.63	2.00	1.98	1.53
Gross private domestic investment	.64	–.36	2.26	1.72
Fixed investment	1.49	1.10	1.16	.48
Nonresidential	.95	.86	1.33	.39
Structures	–.18	–.16	–.11	–.01
Equipment and software	1.13	1.02	1.44	.40
Residential	.54	.24	–.17	.09
Change in private inventories	–.85	–1.46	1.09	1.24
Net exports of goods and services	–2.13	–1.35	–.73	–.12
Exports	–.61	.42	1.19	1.08
Goods	–.74	.32	1.19	.83
Services	.13	.10	0	.24
Imports	–1.53	–1.77	–1.92	–1.20
Goods	–1.28	–1.59	–1.84	–1.12
Services	–.24	–.19	–.08	–.08
Government consumption expenditures and gross investment	.88	.23	.81	1.61
Federal	–.03	.13	.26	.87
National defense	–.16	–.10	.42	.65
Nondefense	.13	.23	–.16	.22
State and local	.91	.10	.55	.75

NOTE—More detailed contributions to percent change in real gross domestic product are shown in NIPA table 8.2. Contributions to percent change in major components of real gross domestic product are shown in tables 8.3 through 8.6.

increased 1.7 percent. The price index for GDP increased 2.0 percent, also the same as the preliminary estimate; in the third quarter, the index increased 1.1 percent.

Real disposable personal income (DPI) increased 4.7 percent in the fourth quarter, 0.2 percentage point more than the preliminary estimate; in the third quarter, real DPI increased 2.9 percent. The upward revision to the fourth-quarter estimate was primarily accounted for by an upward revision to personal income. The upward revision to personal income was largely to personal interest income and reflected newly available and revised flow-of-funds data from the Federal Reserve Board.

The personal saving rate—personal saving as a percentage of current-dollar DPI—was 1.8 percent, the same as the preliminary estimate; in the third quarter, the rate was 2.1 percent.

Gross national product (GNP).—In the fourth quarter, real GNP—goods and services produced by labor and property supplied by U.S. residents—increased 6.4 percent, 0.9 percentage point less than real GDP (table 4).[4] Income receipts from the rest of the world increased much less than income payments to the rest of the world; interest income accounted for about two-thirds of the increase in receipts and accounted for more than one-half of the increase in payments.

Real GNP on a command basis, which measures the purchasing power of goods and services produced by the U.S. economy, increased less than real GNP—6.1 percent, compared with 6.4 percent—reflecting a deterioration in the terms of trade.[5] In the third quarter, real GNP on a command basis also increased less than real GNP—5.0 percent, compared with 5.6 percent.

The national saving rate—gross saving as a percentage of GNP—was 18.3 percent in the fourth quarter, down slightly from 18.4 percent in the third quarter; the rate remained higher than the average rate over the current expansion.

Corporate Profits

Profits from current production increased $35.3 billion (or 4.0 percent at a quarterly rate) in the fourth quarter of 1999 after increasing $3.6 billion (0.4 percent) in the third (table 5).[6] These estimates reflect payments by tobacco companies related to out-of-court settlements, which reduced fourth-quarter profits by $11.2 billion and third-quarter profits by $1.0 billion; profits in the third quarter had also been reduced by about

4. GNP equals GDP plus income receipts from the rest of the world less income payments to the rest of the world.

5. In the estimates of command-basis GNP, the current-dollar value of the sum of exports of goods and services and income receipts is deflated by the implicit price deflator (IPD) for the sum of imports of goods and services and income payments.

The terms of trade is a measure of the relationship between the prices that are received by U.S. producers for exports of goods and services and the prices that are paid by U.S. purchasers for imports of goods and services. It is measured by the following ratio, with the decimal point shifted two places to the right: In the numerator, the IPD for the sum of exports of goods and services and of income receipts; in the denominator, the IPD for the sum of imports of goods and services and of income payments.

Changes in the terms of trade reflect the interaction of several factors, including movements in exchange rates, changes in the composition of the traded goods and services, and changes in producers' profit margins. For example, if the U.S. dollar depreciates against a foreign currency, a foreign manufacturer may choose to absorb this cost by reducing the profit margin on the product it sells to the United States, or it may choose to raise the price of the product and risk a loss in market share.

6. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown in NIPA tables 1.9, 1.14, 1.16, and 6.16C (see "National Income and Product Accounts Tables" in this issue) as corporate profits with inventory valuation and capital consumption adjustments.

Percent changes in profits are shown at quarterly, not annual, rates.

Table 4.—Relation of Real Gross Domestic Product, Real Gross National Product, and Real Command-Basis Gross National Product

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1999			
	1999	1999							
	IV	I	II	III	IV	I	II	III	IV
Gross domestic product	**9,037.2**	**78.1**	**40.7**	**121.5**	**157.4**	**3.7**	**1.9**	**5.7**	**7.3**
Plus: Income receipts from the rest of the world	308.2	2.0	10.6	9.9	11.7	3.0	16.3	14.5	16.7
Less: Income payments to the rest of the world	340.1	–.6	10.3	10.6	30.7	–.9	15.1	15.0	45.8
***Equals*: Gross national product**	**9,005.2**	**80.7**	**40.9**	**120.8**	**138.4**	**3.8**	**1.9**	**5.6**	**6.4**
Less: Exports of goods and services and income receipts from the rest of the world	1,386.9	–12.0	21.1	38.4	37.5	–3.6	6.7	12.2	11.6
Plus: Command-basis exports of goods and services and income receipts from the rest of the world[1]	1,421.6	–5.8	10.2	26.4	32.1	–1.7	3.0	8.0	9.6
***Equals*: Command-basis gross national product**	**9,040.0**	**87.0**	**30.0**	**108.9**	**133.0**	**4.1**	**1.4**	**5.0**	**6.1**
Addendum: Terms of trade[2]	**102.5**	**.5**	**–.9**	**–1.0**	**–.5**	**1.9**	**–3.4**	**–3.8**	**–1.9**

1. Exports of goods and services and income receipts deflated by the implicit price deflator for imports of goods and services and income payments.

2. Ratio of the implicit price deflator for exports of goods and services and income receipts to the corresponding implicit price deflator for imports divided by 100.

NOTE. See note to table 1 for an explanation of chained (1996) dollar series. Levels of these series are shown in NIPA tables 1.10 and 1.11.

$10 billion, reflecting benefits paid by insurance companies and uninsured corporate losses associated with Hurricane Floyd.

In the fourth quarter, increases in the profits of domestic nonfinancial corporations and of domestic financial corporations more than offset a decrease in profits from the rest of the world. Profits of domestic nonfinancial corporations increased $26.3 billion (4.4 percent) after decreasing $5.5 billion (0.9 percent). Unit profits of domestic nonfinancial corporations increased, reflecting an increase in unit prices and a decrease in unit costs. Profits of domestic financial corporations increased $19.5 billion (10.7 percent) after increasing $4.4 billion (2.5 percent). Profits from the rest of the world decreased $10.6 billion (9.8 percent) after increasing $4.8 billion (4.6 percent); the decrease was more than accounted for by payments of earnings by U.S. affiliates of foreign corporations.[7]

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased $20.9 billion after increasing $12.3 billion.[8] The ratio of cash flow to nonresidential fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, increased to 79.8 percent from 78.6 percent (its lowest value since the third quarter of 1990). During 1991–98, the ratio fluctuated between 78.8 percent and 94.0 percent; it averaged 85.7 percent.

Domestic industry profits and related measures.— Domestic industry profits increased $44.9 billion after increasing $0.1 billion.[9] Profits of domestic nonfinancial corporations increased $23.9 billion after decreasing $5.5 billion. The upturn reflected upturns in retail and wholesale trade profits, step-

7. Profits from the rest of the world is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA's international transactions accounts.

8. Cash flow from current production is undistributed profits with inventory valuation and capital consumption adjustments plus the consumption of fixed capital.

9. Domestic industry profits are estimated as the sum of corporate profits before tax and the inventory valuation adjustment; they are shown in NIPA table 6.16C. Estimates of the capital consumption adjustment do not exist at a detailed industry level; they are available only for total financial and total nonfinancial industries. (See, however, the methodology used to develop industry-level estimates of the capital consumption adjustment for foreign-owned U.S. companies described in Raymond J. Mataloni, Jr., "An Examination of the Low Rates of Return of Foreign-Owned U.S. Companies," SURVEY OF CURRENT BUSINESS 80 (March 2000):55–73.)

Table 5.—Corporate Profits

[Quarterly estimates seasonally adjusted]

	Billions of dollars (annual rate)						Percent change from preceding period [1]			
	Level		Change from preceding period						1999	
	1999	1999 IV	1998	1999	1999 III	1999 IV	1998	1999	III	IV
Profits from current production	**892.7**	**919.4**	**9.9**	**44.3**	**3.6**	**35.3**	**1.2**	**5.2**	**0.4**	**4.0**
Domestic industries	789.4	821.9	18.0	41.0	–1.1	45.9	2.5	5.5	–.1	5.9
Financial	186.6	201.5	4.4	14.9	4.4	19.5	2.6	8.7	2.5	10.7
Nonfinancial	602.8	620.3	13.6	26.1	–5.5	26.3	2.4	4.5	–.9	4.4
Rest of the world	103.3	97.5	–8.1	3.3	4.8	–10.6	–7.5	3.3	4.6	–9.8
Receipts (inflows)	166.2	174.0	–11.3	17.8	5.4	4.5	–7.1	11.9	3.3	2.7
Payments (outflows)	62.8	76.5	–3.2	14.4	.6	15.1	–6.3	29.9	1.0	24.6
IVA	–13.0	–24.9	13.5	–33.9	–13.1	1.8	....	....	....	....
CCAdj	57.2	58.0	10.3	11.6	–1.2	1.0	....	....	....	....
Profits before tax	848.5	886.3	–14.0	66.6	18.0	32.5	–1.8	8.5	2.1	3.8
Profits tax liability	259.4	275.7	1.9	19.2	5.0	16.3	.8	8.0	2.0	6.3
Profits after tax	589.1	610.6	–15.9	47.4	12.9	16.3	–2.9	8.8	2.2	2.7
Cash flow from current production	929.7	949.9	31.2	53.2	12.3	20.9	3.7	6.1	1.3	2.2
Domestic industry profits:										
Corporate profits of domestic industries with IVA	732.2	763.9	7.7	29.4	.1	44.9	1.1	4.2	0	6.2
Financial	208.1	224.9	7.1	16.8	5.6	21.0	3.8	8.8	2.8	10.3
Nonfinancial	524.2	539.0	.6	12.7	–5.5	23.9	.1	2.5	–1.1	4.6
Manufacturing	165.6	160.3	–17.2	–2.8	–4.7	–2.8	–9.3	–1.7	–2.8	–1.7
Transportation and public utilities	116.3	128.0	4.3	7.3	9.4	10.7	4.0	6.7	8.8	9.1
Wholesale trade	42.4	42.8	.4	–4.8	–5.2	3.7	1.0	–10.2	–11.9	9.5
Retail trade	72.9	72.6	6.1	3.1	–7.7	4.9	9.5	4.5	–10.2	7.2
Other	127.1	135.3	7.0	10.0	2.7	7.4	6.3	8.5	2.2	5.7
	Dollars									
Unit price, costs, and profits of nonfinancial corporations:										
Unit price	1.012	1.014	0.000	0.006	0.000	0.002	....	....	....	....
Unit labor cost	.658	.657	.008	.006	.000	–.002	....	....	....	....
Unit nonlabor cost	.234	.236	–.003	.002	.003	.001	....	....	....	....
Unit profits from current production	.120	.121	–.005	–.002	–.003	.003	....	....	....	....

1. Quarterly percent changes are not annualized.

NOTE.—Levels of these and other profits series are shown in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

IVA Inventory valuation adjustment
CCAdj Capital consumption adjustment

ups in profits of "other" nonfinancial corporations and of the transportation and public utilities group, and a smaller decrease in manufacturing profits. Profits of domestic financial corporations increased $21.0 billion after increasing $5.6 billion.

Profits before tax (PBT) increased $32.5 billion after increasing $18.0 billion. The small difference between the fourth-quarter increase in PBT and the increase in profits from current production reflected small increases in the inventory valuation adjustment and the capital consumption adjustment.[10]

The year 1999.—For the year 1999, profits from current production increased $44.3 billion (or 5.2 percent), to $892.7 billion; in 1998, the increase was $9.9 billion (1.2 percent).[11] Profits of domestic corporations increased more than in 1998, and profits from the rest of the world turned up. Profits of nonfinancial domestic corporations increased $26.1 billion after increasing $13.6 billion; profits per unit decreased less than in 1998, and real gross product of nonfinancial corporations stepped up. Profits of domestic financial corporations increased $14.9 billion after increasing $4.4 billion. Profits from the rest of the world increased $3.3 billion after decreasing $8.1 billion, as receipts turned up more sharply than payments.

Domestic industry profits increased $29.4 billion after increasing $7.7 billion, as profits of domestic nonfinancial corporations and domestic financial corporations stepped up. In nonfinancial corporations, profits of manufacturing corporations decreased much less than in 1998, and profits of the transportation and public utilities group and of "other" nonfinancial corporations increased more than in 1998.

Profits before tax increased $66.6 billion in 1999 after decreasing $14.0 billion in 1998. The difference between the increase in PBT and the smaller increase in profits from current production reflected a decrease in the inventory valuation adjustment that was only partly offset by an increase in the capital consumption adjustment.

10. As prices change, companies that value inventory withdrawals at original acquisition (historical) costs may realize inventory profits or losses. Inventory profits—a capital-gains-like element in profits—result from an increase in inventory prices, and inventory losses—a capital-loss-like element in profits—result from a decrease in inventory prices. In the NIPA's, inventory profits or losses are removed from business incomes by the inventory valuation adjustment (IVA); a negative IVA removes inventory profits, and a positive IVA removes inventory losses.

The capital consumption adjustment converts depreciation valued at historical cost and based on service lives and depreciation patterns specified in the tax code to depreciation valued at replacement cost and based on empirical evidence on the prices of used equipment and structures in resale markets. For more information on depreciation in the NIPA's, see "Fixed Assets and Consumer Durable Goods: Revised Estimates for 1925–98," in this issue.

11. Changes for 1998 and 1999 are calculated from annual levels for 1997, 1998, and 1999.

Government Sector

The combined current surplus of the Federal Government and of State and local governments—the NIPA measure of net saving by government—decreased $1.8 billion, to $180.9 billion, in the fourth quarter after increasing $27.0 billion in the third (table 6).[12] The downturn was attributable to a downturn in the Federal Government current surplus. The State and local government current surplus accelerated.[13]

Federal

The Federal Government current surplus decreased $21.6 billion, to $112.2 billion, in the fourth quarter

Table 6.—Government Sector Current Receipts and Expenditures

[Billions of dollars, seasonally adjusted at annual rates]

	Level	Change from preceding quarter				
	1999	1998	1999			
	IV	IV	I	II	III	IV
Current receipts	2872.6	44.9	36.4	37.8	46.1	72.1
Current expenditures	2691.7	40.4	4.0	28.4	19.1	73.9
Current surplus or deficit (–)	180.9	4.4	32.4	9.4	27.0	–1.8
Social insurance funds	81.9	7.4	5.7	3.7	3.3	2.2
Other	99.0	–3.0	26.7	5.7	23.7	–4.0
Federal Government						
Current receipts	1922.3	23.0	33.2	26.6	30.0	39.2
Personal tax and nontax receipts	922.7	20.8	9.8	14.2	15.9	14.7
Corporate profits tax accruals	236.7	–7.3	10.0	5.5	4.3	14.3
Indirect business tax and nontax accruals	105.0	1.9	–.1	.5	1.5	3.5
Contributions for social insurance	657.9	7.7	13.4	6.4	8.3	6.7
Current expenditures	1810.2	22.8	–4.6	6.1	14.3	60.9
Consumption expenditures	491.9	8.6	7.0	–1.8	9.8	16.9
National defense	325.5	.9	1.2	–3.8	11.3	13.4
Nondefense	166.5	7.5	5.9	2.0	–1.5	3.6
Transfer payments (net)	770.1	11.1	1.3	6.3	5.1	15.3
To persons	752.4	1.6	13.1	3.9	5.9	6.0
To the rest of the world	17.7	9.6	–11.9	2.4	–.7	9.2
Grants-in-aid to State and local governments	235.6	–6.0	5.7	–4.2	14.9	5.0
Net interest paid	260.6	–5.3	–8.3	–1.2	–4.9	.7
Subsidies less current surplus of government enterprises	51.8	14.4	–10.3	6.9	–10.5	22.8
Subsidies	57.0	14.1	–8.4	6.9	–10.3	22.9
Of which: Agricultural subsidies	35.3	14.6	–8.0	7.3	–10.1	22.5
Less: Current surplus of government enterprises	5.2	–.3	1.8	.1	.2	.1
Less: Wage accruals less disbursements	0	0	0	0	0	0
Current surplus or deficit (–)	112.2	.1	37.9	20.5	15.7	–21.6
Social insurance funds	80.9	7.7	5.9	3.4	3.3	2.0
Other	31.3	–7.6	32.0	17.1	12.4	–23.6
State and local governments						
Current receipts	1185.9	15.8	8.9	7.0	31.0	37.9
Personal tax and nontax receipts	261.1	3.9	2.0	.4	5.1	8.7
Corporate profits tax accruals	39.1	–1.3	2.3	1.0	.6	2.1
Indirect business tax and nontax accruals	638.6	19.2	–1.1	9.7	10.0	21.8
Contributions for social insurance	11.5	0	0	.2	.3	.3
Federal grants-in-aid	235.6	–6.0	5.7	–4.2	14.9	5.0
Current expenditures	1117.1	11.5	14.3	18.2	19.7	18.0
Consumption expenditures	882.4	8.4	10.2	16.0	18.1	15.9
Transfer payments to persons	247.8	2.8	3.4	1.7	1.7	2.5
Net interest paid	–.6	.4	.8	.3	.1	0
Less: Dividends received by government	.3	0	0	0	0	0
Subsidies less current surplus of government enterprises	–12.2	0	0	0	–.1	–.5
Subsidies	.5	0	0	0	0	0
Less: Current surplus of government enterprises	12.7	.1	0	0	.1	.5
Less: Wage accruals less disbursements	0	0	0	0	0	0
Current surplus or deficit (–)	68.8	4.3	–5.5	–11.1	11.3	19.9
Social insurance funds	1.0	–.2	–.1	.2	0	.2
Other	67.7	4.5	–5.2	–11.4	11.3	19.6

after increasing $15.7 billion in the third. The downturn resulted from a sharp acceleration in current expenditures that exceeded the acceleration in current receipts.

Current receipts.—Federal current receipts increased $39.2 billion in the fourth quarter after increasing $30.0 billion in the third. The acceleration was more than accounted for by a step-up in corporate profits tax accruals and by a small acceleration in indirect business tax and nontax accruals. In contrast, personal tax and nontax receipts and contributions for social insurance decelerated.

Corporate profits tax accruals increased $14.3 billion after increasing $4.3 billion. The acceleration reflected an acceleration in domestic corporate profits before tax.

Indirect business tax and nontax accruals increased $3.5 billion after increasing $1.5 billion. The acceleration was mostly accounted for by nontaxes, which increased $1.3 billion after no change, and by excise taxes, which increased $1.2 billion after no change. Within excise taxes, taxes on gasoline increased $0.4 billion after decreasing $0.5 billion

Personal tax and nontax receipts increased $14.7 billion after increasing $15.9 billion. Income taxes increased $14.5 billion after increasing $15.6 billion, reflecting a deceleration in wage and salary disbursements.

Contributions for social insurance increased $6.7 billion after increasing $8.3 billion. The deceleration was mostly accounted for by contributions for social security (old-age, survivors, disability, and health insurance), which increased $6.1 billion after increasing $7.6 billion, reflecting the deceleration in wage and salary disbursements.

Current expenditures.—Current expenditures increased $60.9 billion in the fourth quarter after increasing $14.3 billion in the third. The acceleration was accounted for by upturns in "subsidies less the current surplus of government enterprises" and in net interest paid and by accelerations in "transfer payments (net)" and in consumption expenditures. In contrast, current expenditures for grants-in-aid to State and local governments decelerated.

"Subsidies less current surplus of government enterprises" increased $22.8 billion after decreasing $10.5 billion. The upturn was mostly accounted for by agricultural subsidies, which increased $22.5 billion after decreasing $10.1 billion. The upturn reflected special payments to farmers under the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriation Act.

"Transfer payments (net)" increased $15.3 billion after increasing $5.1 billion. The acceleration was accounted for by transfer payments to the rest of the world, which increased $9.2 billion after decreasing $0.7 billion; these payments were boosted by the yearly payment of $2.4 billion ($9.6 billion at an annual rate) to Israel for economic support and other payments. Transfer payments to persons increased $6.0 billion after increasing $5.9 billion.

Consumption expenditures increased $16.9 billion after increasing $9.8 billion. The acceleration was primarily accounted for by nondefense consumption expenditures, which increased $3.6 billion after decreasing $1.5 billion; the turnaround was primarily accounted for by expenditures for services, which increased $3.2 billion after decreasing $1.7 billion. Within services, expenditures for research and development and for employee compensation turned up.

Defense consumption expenditures increased $13.4 billion after increasing $11.3 billion. The acceleration in defense spending was more than accounted for by services, which increased $14.9 billion after increasing $7.6 billion. Within services, "other services" increased $15.4 billion after increasing $6.8 billion. The acceleration in services was partly offset by a downturn in nondurable goods, mainly in petroleum products, and by a downturn in durable goods.

Net interest paid increased $0.7 billion after decreasing $4.9 billion. The upturn was more than accounted for by a smaller decrease in interest paid to persons and business, which decreased $2.7 billion after decreasing $8.5 billion.

Grants-in-aid to State and local governments increased $5.0 billion after increasing $14.9 billion. The deceleration was accounted for by decelerations in grants for medicaid and for "welfare and social services" and by a downturn in grants for natural resources.

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12. Net saving equals gross saving less consumption of fixed capital (CFC); the estimates of gross saving, CFC, and net saving are shown in NIPA table 5.1.

For NIPA estimates of government current receipts, current expenditures, and the current surplus or deficit for 1998 and 1999, see NIPA tables 3.1, 3.2, and 3.3 in this issue. These tables also present "net lending or borrowing," which is conceptually similar to "net financial investment" in the flow-of-funds accounts prepared by the Board of Governors of the Federal Reserve System. The two measures differ primarily because government net lending or borrowing is estimated from data for transactions, whereas net financial investment is estimated from data for financial assets. There are also small conceptual differences, such as the classification of the Federal Government's railroad retirement and veterans life insurance programs.

13. The NIPA estimates for the government sector are based on financial statements for the Federal Government and for State and local governments, but they differ from them in several respects. For the major differences, see NIPA tables 3.18B and 3.19 in this issue.

State and local

The State and local government current surplus increased $19.9 billion, to $68.8 billion, in the fourth quarter after increasing $11.3 billion in the third. The acceleration was mostly accounted for by an acceleration in current receipts.

Current receipts.—State and local government current receipts increased $37.9 billion after increasing $31.0 billion. The acceleration was more than accounted for by an acceleration in indirect business tax and nontax accruals. Personal tax and nontax receipts and corporate tax also accelerated. In contrast, Federal grants-in-aid decelerated. (See Federal discussion earlier.)

Indirect business tax and nontax accruals increased $21.8 billion after increasing $10.0 billion. The acceleration reflected the “out-of-court settlement payments to the States by tobacco companies: In the fourth quarter, these payments amounted to $2.8 billion ($11.2 billion at an annual rate); in the third quarter, these payments amounted to $0.3 billion ($1.0 billion at an annual rate). Sales taxes increased $7.5 billion after increasing $5.8 billion.

Personal tax and nontax receipts increased $8.7 billion after increasing $5.1 billion. The acceleration was mostly accounted for by personal income taxes, which increased $7.9 billion after increasing $4.5 billion.

Corporate profits tax accruals increased $2.1 billion after increasing $0.6 billion, reflecting the acceleration in domestic corporate profits before tax.

Current expenditures.—Current expenditures increased $18.0 billion after increasing $19.7 billion. The deceleration was more than accounted for by a deceleration in consumption expenditures and by a larger decrease in “subsidies less current surplus of government enterprises.” In contrast, transfer payments to persons accelerated.

Consumption expenditures increased $15.9 billion after increasing $18.1 billion. The deceleration was mainly attributable to decelerations in nondurable goods and in services; within services, compensation increased $8.1 billion after increasing $9.5 billion.

“Subsidies less current surplus of government enterprises” decreased $0.5 billion after decreasing $0.1 billion. Transfer payments to persons increased $2.5 billion after increasing $1.7 billion.

The Government Sector in 1999

The combined current surplus of the Federal Government and of State and local governments increased $77.7 billion, to $166.4 billion, in 1999. The increase was mostly accounted for by an increase in the Federal Government current surplus.

The Federal Government current surplus increased $68.5 billion, to $115.4 billion, in 1999.[14] The increase in current receipts exceeded the increase in current expenditures.

Federal current receipts increased $120.6 billion, to $1,871.3 billion, in 1999. The increase was mostly accounted for by increases in personal tax and nontax receipts, which increased $64.5 billion, and in contributions for social insurance, which increased $35.9 billion. Corporate profits tax accruals increased $15.9 billion, and indirect business taxes increased $4.2 billion.

Federal current expenditures increased $52.0 billion, to $1,755.8 billion, in 1999. The increase was mostly accounted for by increases in “transfer payments (net),” which increased $24.1 billion, and in consumption expenditures, which increased $21.3 billion. Grants-in-aid to State and local governments increased $16.2 billion and “subsides less current surplus of government enterprises” increased $6.2 billion. These increases were partly offset by a sharp decrease in net interest paid, which decreased $15.6 billion, the first decrease since 1961. The decrease was more than accounted for by a sharp decrease in domestic interest payments to persons and business, which decreased $16.3 billion. In contrast, interest payments to the rest of the world increased $4.0 billion.

The State and local government current surplus increased $9.3 billion, to $51.0 billion, in 1999. The increase in current receipts exceeded the increase in current expenditures.

Current receipts increased $69.8 billion, to $1,140.2 billion; the increase was mostly accounted for by indirect business tax and nontax accruals, which increased $35.2 billion. Federal grants-in-aid increased $16.2 billion, and personal tax and nontax payments increased $15.0 billion. Corporate profits tax accruals increased

14. The NIPA estimates differ from the official Federal budget estimates in several respects, including the timing of transactions, the treatment of investment, and other coverage differences. For more information, see Laura M. Beall and Sean P. Keehan, “Federal Budget Estimates, Fiscal Year 2001,” Survey 80 (March 2000): 16–25.

$3.2 billion, and contributions for social insurance increased $0.4 billion.

State and local current expenditures increased $60.5 billion, to $1,089.2 billion, in 1999. The increase was mostly accounted for by consumption expenditures, which increased $49.9 billion, and by transfer payments to persons, which increased $9.9 billion. Net interest paid increased $1.3 billion. These increases were partly offset by a $0.5 billion decrease in "subsidies less current surplus of government enterprises."