

B U S I N E S S S I T U A T I O N

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U. S. ECONOMIC growth accelerated in the second quarter of 1996, according to the “advance” estimates of the national income and product accounts (NIPA’s), as real gross domestic product (GDP) increased 4.2 percent after increasing 2.0 percent in the first quarter (chart 1 and table 1).¹ Real final sales of domestic product—GDP less the change in business inventories—accelerated substantially less; it increased 3.5 percent after increasing 3.0 percent. The price index for gross domestic purchases increased 2.0 percent after increasing 2.3 percent.

The acceleration in real GDP reflected an upturn in the output of motor vehicles, which partly reflected a rebound from a strike at a major

manufacturer in March. Excluding motor vehicles, GDP increased 3.1 percent after increasing 3.2 percent.

By major component, the acceleration in real GDP was mainly attributable to upturns in inventory investment and in State and local government spending. Most of the other major components registered small to moderate step-ups; an exception was business fixed investment, which increased little after a sharp rise.

Inventory investment increased \$13.3 billion in the second quarter, as stocks increased \$10.3 billion after being reduced \$3.0 billion; in the first

1. Quarterly estimates in the NIPA’s are expressed at seasonally adjusted annual rates, and quarterly changes are differences between these rates. Quarter-to-quarter percent changes are annualized. Real estimates are expressed in chained (1992) dollars. Price indexes are chain-type indexes.

Estimates for the first quarter of 1993 through the first quarter of 1996 have been revised as part of a “limited” annual revision of the NIPA’s; see “Annual Revision of the National Income and Product Accounts” in this issue.

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

[Seasonally adjusted at annual rates]

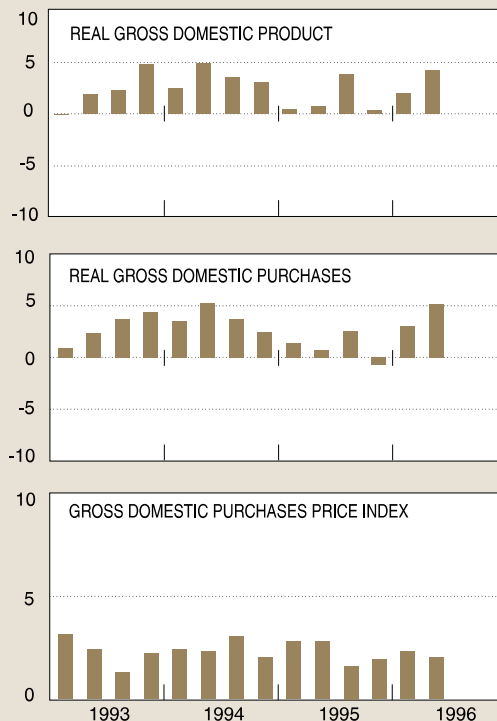
	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter			1995		1996	
	1996		1995			III	IV	I	II
	II	III	IV	I	II				
Gross domestic product	6,885.1	62.9	4.3	33.6	70.8	3.8	0.3	2.0	4.2
Less: Exports of goods and services	817.0	19.8	20.1	3.6	10.3	10.7	10.7	1.8	5.2
Plus: Imports of goods and services	938.7	-1	3.5	22.7	28.0	0	1.6	10.6	12.9
Equals: Gross domestic purchases	7,002.3	43.9	-11.9	51.7	87.7	2.6	-7	3.0	5.2
Less: Change in business inventories	10.3	2.5	-18.4	-17.6	13.3				
Equals: Final sales to domestic purchasers	6,991.3	39.8	6.7	69.1	75.8	2.4	.4	4.1	4.5
Personal consumption expenditures	4,692.0	27.4	12.1	39.7	42.9	2.4	1.1	3.5	3.7
Private nonresidential fixed investment	744.5	8.5	4.3	20.2	1.0	4.9	2.5	11.6	.5
Private residential investment	280.8	5.7	4.1	4.8	9.7	9.2	6.4	7.4	15.2
Government consumption expenditures and gross investment	1,276.3	-1.7	-13.8	5.1	21.6	-6	-4.3	1.6	7.1
Federal	472.4	-6.9	-16.3	6.7	9.5	-5.6	-13.2	6.0	8.4
State and local	804.8	5.2	2.9	-1.8	12.2	2.7	1.5	-9	6.3
Addendum: Final sales of domestic product	6,874.2	59.0	22.8	51.0	59.0	3.6	1.4	3.0	3.5

NOTE.—Chained (1992) dollar series are calculated as the product of the chain-type quantity index and the 1992 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 (1992) dollar levels and residuals, which measure the extent of nonadditivity in each table, are found in NIPA tables 1.2, 1.4, and 1.6. Percent changes are found in table 8.1.

CHART 1

**Selected Measures:
Change From Preceding Quarter**

Percent



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

quarter, inventory investment had decreased \$17.6 billion. The upturn in inventory investment was more than accounted for by motor vehicles. Excluding motor vehicles, inventory investment decreased \$13.5 billion, as stocks increased \$12.3 billion after increasing \$25.8 billion; in the first quarter, inventory investment excluding motor vehicles had increased \$4.3 billion.

State and local government consumption expenditures and gross investment increased 6.3

percent after decreasing 0.9 percent. Most of the upturn was accounted for by services of employees. In the first quarter, the Blizzard of 1996 had caused many schools and government offices on the East Coast to close for several days; as a result, a substantial amount of employee services was lost. In the second quarter, many of the education services that had been lost were made up.

Second-Quarter 1996 Advance GDP Estimate: Source Data and Assumptions

The "advance" GDP estimate for the second quarter is based on preliminary and incomplete source data; as more and better data become available, the estimate will be revised. The advance estimate is based on the following major source data. (The number of months for which data were available at the time the estimates were made is shown in parentheses.)

Personal consumption expenditures: Sales of retail stores (3) and unit auto and truck sales (3);

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

Residential investment: Construction put in place (2) and single-family housing starts (3);

Change in business inventories: Manufacturing and trade inventories (2) 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: Department of Defense outlays (3), other Federal outlays (3), State and local construction put in place (2), and State and local employment (3);

GDP prices: Consumer Price Index (3), Producer Price Index (3), price indexes for nonpetroleum merchandise exports and imports (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 of assumptions is available on the Department of Commerce's Economic Bulletin Board or from BEA.

Table A.—Summary of Major Data Assumptions for Advance Estimates, 1996:II

[Billions of dollars, seasonally adjusted at annual rates]

	1996					
	January	February	March	April	May	June ¹
Fixed investment:						
Nonresidential structures:						
Buildings, utilities, and farm:						
Value of new nonresidential construction put in place	137.4	134.9	134.3	135.1	131.9	129.9
Producers' durable equipment:						
Manufacturers' shipments of complete civilian aircraft	12.1	17.8	22.7	18.3	22.4	22.9
Residential structures:						
Value of new residential construction put in place:						
1-unit structures	149.8	147.7	153.8	156.0	155.1	155.8
2-or-more-unit structures	19.4	19.2	20.0	22.6	20.1	19.4
Change in business inventories, nonfarm:						
Change in manufacturing and trade inventories (excluding nonmerchant wholesalers and motor vehicles and equipment in trade)	47.5	11.9	15.8	50.7	-17.4	8.3
Net exports: ²						
Exports of goods:						
U.S. exports of goods, balance-of-payments basis	584.1	610.5	605.7	608.8	615.5	620.2
Excluding nonmonetary gold	580.7	606.2	594.4	593.4	603.8	611.1
Imports of goods:						
U.S. imports of goods, balance-of-payments basis	769.7	764.0	779.3	795.9	817.8	805.3
Excluding nonmonetary gold	766.9	760.5	765.4	777.1	802.7	795.0
Net exports of goods (exports less imports)	-185.6	-153.5	-173.7	-187.2	-202.3	-185.1
Excluding nonmonetary gold	-186.2	-154.3	-171.0	-183.7	-198.9	-183.9
Government consumption expenditures and gross investment:						
State and local:						
Structures:						
Value of new construction put in place	124.4	117.1	122.0	126.1	128.0	124.2

1. Assumed.

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

Motor vehicles

Real motor vehicle output jumped 40.7 percent in the second quarter after decreasing 27.6 percent in the first; the jump was largely accounted for by autos (table 2). According to data on units, domestic auto production increased to 6.4 million (seasonally adjusted annual rate) from 5.4 million.

Motor vehicle inventory investment increased substantially in the second quarter; the increase reflected a sharp slowdown in the liquidation of auto inventories and a swing from liquidation to accumulation in truck inventories, as motor vehicle production recovered from the strike. For new domestic autos, the inventory-sales ratio calculated from units data decreased from 2.1 at the end of the first quarter to 2.0 at the end of the second, the lowest level in almost 10 years; the traditional industry target is 2.4.

Final sales of motor vehicles to domestic purchasers increased 1.0 percent after increasing 5.9 percent; an increase in auto sales was largely offset by a decrease in truck sales.

An increase in motor vehicle sales to consumers was more than accounted for by used autos.² Factors frequently considered in anal-

yses of overall consumer spending were mixed in the second quarter: The unemployment rate decreased to 5.4 percent from 5.6 percent, but growth of real disposable personal income slowed to 1.5 percent from 2.0 percent; the Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) showed little change. Among factors specific to motor vehicle purchases, interest rates on new-vehicle loans decreased for the fourth consecutive quarter, and manufacturers' sales-incentive programs remained about as attractive as in the first quarter.

Sales to businesses increased slightly in the second quarter; new autos more than accounted for the increase. Sales to government decreased; both autos and trucks contributed.

Prices

As noted earlier, the price index for gross domestic purchases, which measures the prices paid for goods and services purchased by U.S. residents, increased 2.0 percent in the second quarter after increasing 2.3 percent in the first (chart 2 and table 3). Prices of gross domestic purchases excluding the relatively volatile food and energy components increased 1.2 percent after increasing 1.8 percent; however, excluding the price effects

are offset by changes in the opposite direction in nonresidential producers' durable equipment, the change in business inventories, and government gross investment.

Table 2.—Motor Vehicle Output, Sales, and Inventories

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1995		1996	
	1996	1995		1996		III	IV	I	II
	II	III	IV	I	II				
Output	234.6	0.3	1.5	-18.2	19.2	0.6	2.6	-27.6	40.7
Autos	115.7	4.2	-3.9	-16.9	15.6	15.3	-12.1	-46.4	78.2
Trucks	118.8	-3.9	5.4	-1.2	3.6	-12.9	20.7	-4.2	13.3
Less: Exports	23.1	1.7	-8	1.0	-1.2	33.0	-12.1	19.0	-18.5
Autos	14.6	1.4	-8	.6	-1.8	43.4	-18.8	15.6	-36.7
Trucks	8.6	.2	.1	.5	.6	13.0	4.3	26.3	31.2
Plus: Imports	74.9	-5.1	-1.9	4.2	4.6	-25.3	-10.9	27.6	28.9
Autos	61.8	-5.1	-1.8	4.3	2.9	-29.2	-12.2	35.7	21.0
Trucks	13.1	-1	-1	-2	1.7	-1.8	-4.6	-6.3	77.0
Equals: Gross domestic purchases	286.4	-6.3	.3	-15.0	24.8	-8.6	.4	-20.0	43.8
Autos	162.8	-2.1	-4.8	-13.2	20.0	-5.1	-11.5	-29.7	69.1
Trucks	123.5	-4.1	5.1	-1.8	4.8	-13.2	19.1	-6.0	17.3
Less: Change in business inventories	2.8	-13.4	6.9	-19.0	24.1	.....	.....	.....	.....
Autos	-1.6	-9.8	7.3	-14.1	15.3	.....	.....	.....	.....
Trucks	4.3	-3.6	-4	-5.0	8.9	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	283.5	7.1	-6.5	4.0	.7	10.6	-8.8	5.9	1.0
Autos	164.3	7.7	-12.2	.9	4.7	20.2	-25.6	2.4	12.3
Trucks	119.1	-5	5.7	3.1	-4.0	-1.9	21.3	10.6	-12.4

NOTE.—Chained (1992) dollar series are calculated as the product of the chain-type quantity index and the 1992 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 correspond-

ing chained-dollar estimates usually are not additive. Chained (1992) dollar levels for motor vehicle output, auto and truck output, and residuals, which measure the extent of nonadditivity in each table, are found in NIPA tables 1.4, 8.5, and 8.7.

of the government closings caused by the blizzard, discussed below, this measure of prices accelerated slightly.

Prices of personal consumption expenditures (PCE) increased 3.1 percent after increasing 2.4 percent. Energy prices increased 18.7 percent after increasing 12.9 percent; a sharp step-up in the price of gasoline and oil and a smaller step-up in the price of electricity and gas more than offset a deceleration in the price of fuel oil and coal. Food prices increased 3.7 percent after increasing 2.4 percent, as prices of fresh fruit and vegetables turned up; prices of beef and veal decreased more than in the first quarter, and poultry prices increased less than in the first quarter. "Other" PCE prices increased 2.1 percent after increasing 1.7 percent; prices of most services contributed to the small step-up, but prices of durable goods and of clothing and shoes turned down.

Prices of nonresidential fixed investment changed little for the third consecutive quarter. Prices of structures increased 2.0 percent after increasing 1.2 percent, and prices of producers' durable equipment (PDE) decreased 0.5 percent—about the same as in the first quarter. In PDE, prices of transportation equipment increased after no change, but prices of industrial equipment and of "other" equipment increased less than in the first quarter; prices of information processing equipment decreased a little more than in the first quarter. Prices of residential investment increased 1.5 percent after no change.

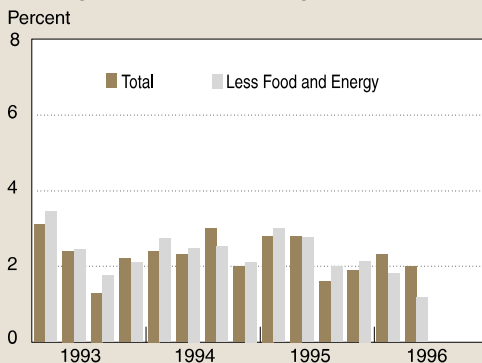
Prices of government consumption expenditures and gross investment decreased 0.5 percent after increasing 4.1 percent. The large first-

quarter increase had reflected the impact of the Blizzard of 1996: As a result of the school and government closings caused by the storm, the hours worked by government employees were reduced but their compensation was not; therefore, the price of government employee services increased. Prices paid by the Federal Government decreased 1.3 percent after increasing 2.0 percent. In addition to the impact of the blizzard, the first-quarter increase had reflected a government shutdown (associated with budget negotiations) and a pay raise for civilian and military employees; in the second quarter, national defense prices decelerated, and nondefense prices decreased after little change. Prices paid by State and local governments were unchanged after increasing 5.4 percent; a decrease in the price of employee services—partly reflecting an increase in employee services to makeup for services lost because of the blizzard—was offset by increases in the prices of other goods and services.

The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 2.1 percent after increasing 2.3 percent. The GDP price index, unlike the price index for gross domestic purchases, includes the prices of exports and excludes the prices of imports. Export prices increased 1.6 percent after increasing 0.2 percent. Import prices increased 1.1 percent after increasing 0.1 percent; excluding im-

CHART 2

Gross Domestic Purchases Prices: Change From Preceding Quarter



Note—Percent change at annual rate from preceding quarter, based on seasonally adjusted index numbers (1992=100).

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

Table 3.—Price Indexes

[Percent change at annual rates; based on seasonally adjusted index numbers (1992=100)]

	1995		1996	
	III	IV	I	II
Gross domestic product	2.1	2.1	2.3	2.1
Less: Exports of goods and services .....	.5	-1.0	.2	1.6
Plus: Imports of goods and services	-2.7	-2.3	.1	1.1
Equals: Gross domestic purchases	1.6	1.9	2.3	2.0
Less: Change in business inventories				
Equals: Final sales to domestic purchasers	1.7	1.9	2.3	2.1
Personal consumption expenditures	1.5	1.6	2.4	3.1
Food	2.0	2.5	2.4	3.7
Energy	-5.6	-4.9	12.9	18.7
Other personal consumption expenditures	1.8	1.9	1.7	2.1
Private nonresidential fixed investment ...	1.7	-3	-2	.2
Structures	3.7	1.8	1.2	2.0
Producers' durable equipment .....	.9	-1.0	-.7	-.5
Private residential investment	2.9	2.2	0	1.5
Government consumption expenditures and gross investment	2.1	4.2	4.1	-.5
Federal	1.6	7.4	2.0	-1.3
National defense .....	.9	3.2	3.0	1.0
Nondefense	3.1	16.2	.1	-5.6
State and local	2.3	2.3	5.4	0

NOTE.—Percent changes in major aggregates are found in NIPA table 8.1. Most index number levels are found in tables 7.1 and 7.2.

ported petroleum prices, which increased more than 50 percent in both quarters, import prices decreased in both quarters.

Personal income

Real disposable personal income (DPI) increased 1.5 percent in the second quarter after increasing 2.0 percent in the first (chart 3). Current-dollar DPI increased 4.5 percent after increasing 4.2 percent. The personal saving rate (saving as a percentage of current-dollar DPI) decreased to 4.3 percent from 4.8 percent.

Personal income increased \$102.8 billion after increasing \$74.0 billion (table 4). The step-up was accounted for by wage and salary disbursements, which increased \$68.1 billion after increasing \$38.0 billion. Disbursements in commodity-producing industries (primarily manufacturing) and in service industries stepped up sharply; in the distributive industries, they

stepped up modestly. The step-up in manufacturing partly reflected a rebound from the effects of the blizzard and the strike in the motor vehicle industry; manufacturing average weekly hours, average hourly earnings, and employment all increased in the second quarter. Government wage and salary disbursements increased less than in the first quarter, when they had been boosted by the pay raise for Federal civilian and military employees.

Other labor income increased \$4.9 billion after decreasing \$1.1 billion. The first-quarter decrease had reflected a return to more-normal levels of private employer contributions to pension funds from unusually high levels in 1995.

Table 4.—Personal Income and Its Disposition

[Billions of dollars; seasonally adjusted at annual rates]

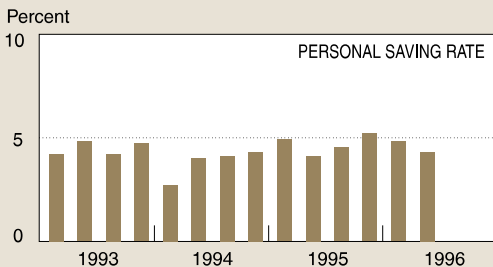
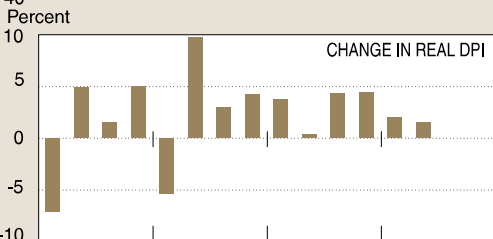
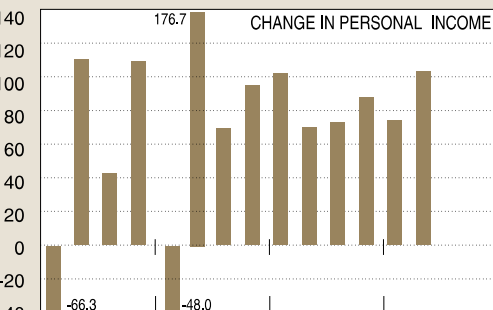
	Level	Change from preceding quarter				
	1996	1995		1996		
		II	III	IV	I	II
Wage and salary disbursements	3,606.3	48.1	49.0	38.0	68.1	
Private industries	2,967.3	43.6	46.2	30.9	63.1	
Commodity-producing industries	900.2	8.0	7.2	4.8	21.5	
Manufacturing	671.6	4.8	4.6	.1	16.8	
Distributive industries	822.1	12.0	11.4	9.8	11.6	
Service industries	1,245.0	23.6	27.5	16.5	29.9	
Government	639.0	4.5	2.8	7.1	5.0	
Other labor income	434.0	3.9	4.3	-1.1	4.9	
Proprietors' income with IVA and CCAAdj	515.8	4.9	7.1	12.8	16.3	
Farm	45.7	.5	3.7	6.6	7.3	
Nonfarm	470.1	4.4	3.4	6.2	9.0	
Rental income of persons with CCAAdj	122.6	-.7	4.9	1.1	-4.3	
Personal dividend income	229.3	3.6	5.9	4.9	2.7	
Personal interest income	733.1	3.3	7.3	-1.1	7.0	
Transfer payments to persons	1,076.0	13.1	11.5	21.6	13.0	
Less: Personal contributions for social insurance	305.8	3.5	2.6	2.2	4.8	
Personal income	6,411.3	72.5	87.6	74.0	102.8	
Less: Personal tax and nontax payments	867.4	-3.1	8.8	17.7	42.5	
Equals: Disposable personal income	5,544.0	75.6	78.8	56.2	60.5	
Less: Personal outlays	5,304.4	52.2	38.1	73.4	86.3	
Equals: Personal saving	239.6	23.4	40.7	-17.2	-25.8	
Addenda: Special factors in personal income:						
In wages and salaries:						
Federal Government and Postal Service pay adjustments, including "buyouts"		0	-1	3.3	.2	
Strike in motor vehicle industry				-2.9	2.9	
In other labor income: Employer pension contributions						
				-6.0		
In rental income of persons with CCAAdj:						
Due to Hurricane Opal			-1.6	1.6		
In transfer payments to persons:						
Social security retroactive payments		-1	1.0	-1.2		
Cost-of-living adjustments in Federal transfer programs				9.7	1.7	
Earned Income Tax Credit payments				2.9		
In personal tax and nontax payments:						
Recent tax law changes		-16.7	-1	-5.3	16.4	

NOTE.—Most dollar levels are found in NIPA table 2.1.
IVA Inventory valuation adjustment
CCAAdj Capital consumption adjustment

CHART 3

Selected Personal Income and Saving Measures

Billions \$



Note.—Changes are from preceding quarter, based on seasonally adjusted annual rates.

Personal interest income increased \$7.0 billion after decreasing \$1.1 billion. The step-up reflected generally higher interest rates.

Proprietors' income increased \$16.3 billion after increasing \$12.8 billion. Nonfarm proprietors' income accounted for most of the step-up.

Transfer payments to persons increased \$13.0 billion after increasing \$21.6 billion. The large first-quarter increase reflected 2.6-percent cost-of-living adjustments that became effective January 1 for social security benefits and for several other transfer payment programs; the first-quarter increase also reflected changes in the Earned Income Credit program (a program administered through the Federal income tax system that provides payments to low-income workers).

Personal contributions for social insurance, which is subtracted in the calculation of personal income, increased \$4.8 billion after increasing \$2.2 billion.

Personal tax and nontax payments increased \$42.5 billion after increasing \$17.7 billion. The step-up was largely accounted for by provisions of the Omnibus Budget Reconciliation Act of 1993 that retroactively increased tax rates for high-income taxpayers for tax year 1993 but allowed them to pay the additional tax in three annual installments, the last of which was due in the second quarter of 1996. Two other factors also contributed to the step-up in personal tax and nontax payments: The tax base increased more in the second quarter than in the first, and changes in Federal income tax law had reduced payments in the first quarter. 