

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

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ECONOMIC GROWTH accelerated in the first quarter of 1996, according to the "advance" estimates of the national income and product accounts (NIPA's), as real gross domestic product (GDP) increased 2.8 percent after increasing 0.5 percent in the fourth quarter of 1995 (chart 1 and table 1).¹ Real gross domestic purchases increased 3.6 percent after decreasing 0.5 percent, and the price index for gross domestic purchases increased 2.5 percent after increasing 2.1 percent.

The acceleration in GDP growth is attributable to personal consumption expenditures, nonresidential fixed investment, Federal Government consumption expenditures and gross investment, and inventory investment. Personal consumption expenditures stepped up sharply; three-fourths of the step-up reflected upturns in expenditures

for motor vehicles and parts, for clothing and shoes, and for food. Nonresidential fixed investment also stepped up substantially, largely on the strength of purchases of producers' durable equipment other than computers. (Business purchases of computers increased sharply in the first quarter, but they had also increased sharply in the fourth and, therefore, did not contribute to the first-quarter acceleration.) Federal Government consumption and investment increased after a fourth-quarter decrease; the upturn reflected turnarounds in national defense equipment (gross investment) and in compensation of employees (consumption expenditures).

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.

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

[Seasonally adjusted at annual rates]

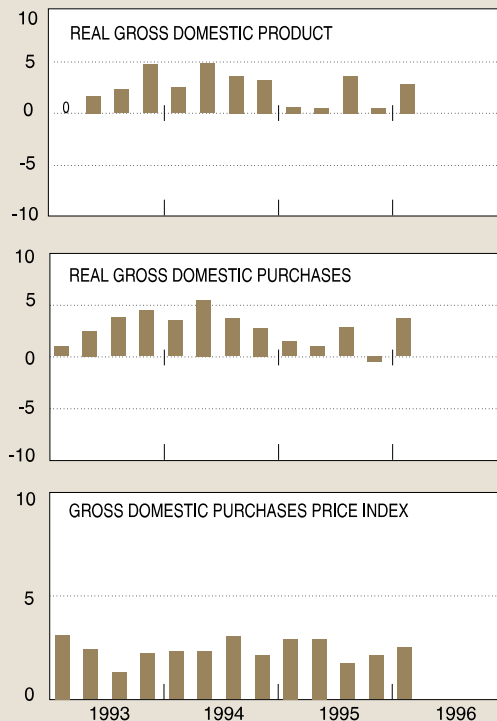
	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				Percent change from preceding quarter			
		1995			1996	1995			1996
	1996:I	II	III	IV	I	II	III	IV	I
Gross domestic product	6,823.6	7.8	58.9	8.2	47.1	0.5	3.6	0.5	2.8
Less: Exports of goods and services ..	805.2	8.5	14.8	20.7	5.4	4.6	8.0	11.0	2.7
Plus: Imports of goods and services ..	916.2	16.3	2.2	3.0	19.8	7.7	1.0	1.3	9.2
Equals: Gross domestic purchases	6,931.2	15.1	47.4	-8.9	60.7	.9	2.8	-5	3.6
Less: Change in business inventories	7.9	-23.9	2.6	-16.7	-8.6				
Equals: Final sales to domestic purchasers	6,923.2	37.2	44.5	10.1	68.7	2.2	2.6	.6	4.1
Personal consumption expenditures	4,653.5	37.9	31.6	13.7	39.4	3.4	2.8	1.2	3.5
Private nonresidential fixed investment	746.3	6.2	9.1	5.6	21.0	3.6	5.2	3.1	12.1
Private residential investment	269.3	-9.3	5.7	4.1	2.9	-13.3	9.2	6.4	4.4
Government consumption expenditures and gross investment	1,256.1	2.8	-2.2	-13.2	5.7	.9	-7	-4.1	1.8
Federal	464.3	-1.4	-7.2	-15.9	7.5	-1.1	-5.9	-12.8	6.7
State and local	792.5	4.1	5.2	2.9	-1.9	2.1	2.7	1.5	-1.0
Addendum: Final sales of domestic product	6,815.5	29.9	55.9	27.2	55.0	1.8	3.4	1.6	3.3

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.

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

Inventory investment (that is, change in business inventories) decreased, but only about half as much as in the fourth quarter. In contrast to the positive contributions these components made to the acceleration in GDP growth, State and local government consumption and investment turned down, exports slowed, and imports stepped up. Residential investment increased a little less than in the fourth quarter.

GDP growth in the first quarter was affected by several special factors, including a strike by workers at a motor vehicle manufacturer, shutdowns of the Federal Government, and a blizzard on the East Coast. For the most part, the effects of special factors cannot be quantified, because they are embedded in the source data used to estimate the components of GDP.

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

The "advance" GDP estimate for the first quarter is based on preliminary and incomplete source data; as more and better data become available, the estimate will be revised. The advance estimate was based on the following major source data. (The number of months for which data were available 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: Military 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 listing 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, 1996:1

[Billions of dollars, seasonally adjusted at annual rates]

	1995			1996		
	October	November	December	January	February	March ¹
Fixed investment:						
Nonresidential structures:						
Buildings, utilities, and farm:						
Value of new nonresidential construction put in place	113.3	111.9	114.8	116.1	114.7	116.0
Producers' durable equipment:						
Manufacturers' shipments of complete civilian aircraft	12.0	21.1	18.6	12.1	19.9	17.1
Residential structures:						
Value of new residential construction put in place:						
1-unit structures	146.9	146.8	146.4	146.6	148.5	154.1
2-or-more-unit structures	18.7	19.1	20.6	20.0	19.6	18.4
Change in business inventories nonfarm:						
Change in inventories for manufacturing and trade (except nonmerchant wholesalers) for industries other than motor vehicles and equipment in trade	63.0	6.6	-24.9	51.3	16.1	38.9
Net exports: ²						
Exports of goods:						
U.S. exports of goods, balance-of-payments basis	587.0	594.3	604.8	588.1	596.6	606.8
Excluding nonmonetary gold	581.8	591.0	602.0	584.7	592.4	593.6
Imports of goods:						
U.S. imports of goods, balance-of-payments basis	751.3	739.7	752.4	769.0	762.1	765.7
Excluding nonmonetary gold	746.4	736.6	750.2	766.2	758.6	752.4
Net exports of goods (exports less imports)	-164.3	-145.4	-147.6	-180.9	-165.5	-158.9
Excluding nonmonetary gold	-164.6	-145.6	-148.2	-181.5	-166.2	-158.8
Government consumption expenditures and gross investment:						
State and local:						
Structures:						
Value of new construction put in place	131.9	129.4	129.6	132.1	128.4	129.7

1. Assumed.

2. Nonmonetary gold is included in balance-of-payments basis exports and imports but is not used directly in the estimation of NIPA exports and imports. Thus, this table shows

balance-of-payments basis exports and imports excluding nonmonetary gold. (In March, exports and imports of nonmonetary gold increased sharply.)

One component for which the effects were not embedded in the source data is government consumption expenditures; the source data (primarily data on employment) do not reflect the reduction in real Federal Government services caused by the Federal shutdowns and the reduction in real Federal, State, and local government services caused by the blizzard. BEA estimated the loss of real government output associated with the shutdowns and the blizzard by estimating the number of employee-hours lost. These estimates reduced the estimates of real government services by \$7.5 billion in the first quarter and by \$4.6 billion in the fourth (annual rates). These adjustments reduced the growth rate of real GDP about 0.2 percentage point in the first quarter and added about the same amount to the increase in the price index for gross domestic purchases. (A decrease in real government services with no corresponding decrease in current-dollar services is treated as a price increase.)

Motor vehicles.—Real motor vehicle output dropped 30.5 percent in the first quarter after increasing 6.0 percent in the fourth (table 2). The drop was largely accounted for by new autos. According to data on units, domestic auto production decreased to 5.4 million (seasonally adjusted annual rate) in the first quarter from 6.3 million in the fourth.

In contrast to the drop in output, final sales of motor vehicles to domestic purchasers increased

2.4 percent after decreasing 8.2 percent. Trucks more than accounted for the increase; sales of sport-utility vehicles, minivans, and pickup trucks remained strong.

Sales to consumers changed little after decreasing; sales of new autos decreased, but sales of trucks and used autos increased. General factors frequently considered in analyses of consumer spending, including spending on motor vehicles, did not change substantially in the first quarter: The unemployment rate edged up to 5.6 percent from 5.5 percent, and real disposable personal income growth slowed to 3.2 percent from 3.8 percent, but the Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) increased slightly to 90.5 percent from 89.8 percent. Factors specific to motor vehicle purchases were mixed: Interest rates on new-vehicle loans declined for the third consecutive quarter, and the number of sales-incentive programs offered by manufacturers increased, but some popular models of light trucks were in short supply.

Sales to businesses turned up; trucks accounted for nearly all of the increase.

Motor vehicle inventory investment decreased substantially in the first quarter; nearly three-fourths of the decrease was accounted for by new autos. For new domestic autos, the inventory-sales ratio, which is calculated from units data, decreased from 2.5 at the end of the fourth quarter to 2.1 at the end of the first, its lowest level in

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
						II	III	IV	I
	1996:I	II	III	IV	I	II	III	IV	I
Output	213.7	-13.6	0	3.4	-20.4	-20.5	0	6.0	-30.5
Autos	99.7	-13.4	4.3	-2.0	-18.0	-35.5	15.9	-6.5	-48.4
Trucks	113.7	-3	-4.3	5.3	-2.5	-1.0	-14.0	20.7	-8.3
Less: Exports	25.3	-2.3	1.9	-1.8	2.6	-32.1	38.2	-26.5	55.4
Autos	17.5	-1.8	1.7	-1.7	2.2	-35.7	52.7	-34.6	71.8
Trucks	7.8	-5	.2	-1	.4	-23.7	11.0	-5.0	24.8
Plus: Imports	70.4	-8	-4.7	-4.5	5.3	-4.2	-22.9	-23.5	37.0
Autos	57.9	-1	-4.9	-4.3	4.4	-5	-27.7	-26.6	37.4
Trucks	12.5	-7	.2	-2	.9	-21.5	8.5	-6.2	35.1
Equals: Gross domestic purchases	258.9	-12.2	-6.4	.7	-17.6	-15.6	-8.7	1.0	-23.1
Autos	140.2	-11.7	-2.1	-4.6	-15.7	-24.3	-5.2	-11.0	-34.5
Trucks	118.6	-5	-4.2	5.2	-2.0	-1.7	-13.4	19.5	-6.5
Less: Change in business inventories	-21.4	-11.5	-13.4	6.9	-19.0	.....	.....	.....	.....
Autos	-16.9	-14.3	-9.7	7.3	-14.1	.....	.....	.....	.....
Trucks	-4.5	2.7	-3.4	-9	-4.7	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	280.6	-5	7.1	-6.0	1.6	-7	10.6	-8.2	2.4
Autos	157.3	2.8	7.6	-11.8	-1.4	7.1	20.1	-24.9	-3.6
Trucks	123.2	-3.2	-6	5.7	3.1	-10.5	-1.9	21.4	10.6

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, autos and trucks output, and residuals, which measure the extent of nonadditivity in each table, are found in NIPA tables 1.4, 8.5, and 8.7.

almost 10 years; the traditional industry target is about 2.4.

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 2.5 percent in the first quarter after increasing 2.1 percent in the fourth (chart 2 and table 3). Prices of gross domestic purchases less food and energy, which is sometimes viewed as an indicator of the underlying rate of inflation, increased 2.0 percent after increasing 2.3 percent.

Prices of personal consumption expenditures (PCE) increased 2.5 percent after increasing 1.7 percent. The step-up was more than accounted for by energy prices, which increased 12.9 percent after decreasing 4.9 percent; sharp upturns were registered by gasoline and oil and by fuel oil and coal. Food prices and "other" PCE prices increased at about the same rate as in the fourth quarter. In food, moderate downturns were posted by prices of fresh fruits and of beef and veal; moderate upturns were posted by prices of processed fruits and vegetables. In "other" PCE, prices of housing and medical care slowed, but prices of motor vehicles and parts accelerated.

Prices of nonresidential fixed investment increased 0.5 percent after increasing 0.1 percent. Prices of structures increased at about the same rate as in the fourth quarter, and prices of producers' durable equipment (PDE) were unchanged after a slight decrease. In PDE, prices

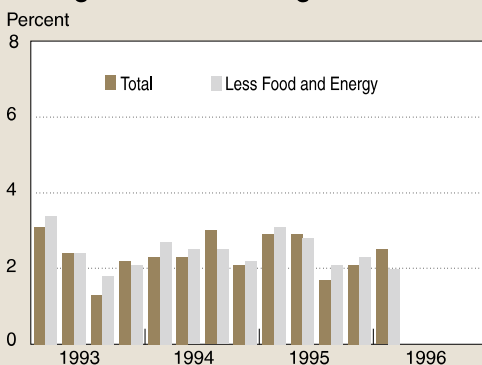
of information processing equipment decreased a little less than in the fourth quarter, and prices of "other" equipment increased a little less. Prices of residential investment increased 1.2 percent after increasing 2.2 percent.

Prices of government consumption expenditures and gross investment increased 4.0 percent after increasing 4.4 percent. Prices paid by the Federal Government slowed, and prices paid by State and local governments accelerated. Federal Government prices increased 1.3 percent after increasing 7.6 percent. The fourth-quarter increase reflected the impact of the two Federal shutdowns. In the first-quarter, the second of these shutdowns and a blizzard on the East Coast had a smaller impact, which tended to reduce prices; however, this tendency was offset by a pay raise for civilian and military employees. Prices paid by State and local governments increased 5.7 percent after increasing 2.3 percent; the first-quarter increase reflected the effect of the blizzard.

The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 2.5 percent after increasing 2.2 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 0.4 percent after decreasing 0.8 percent. Import prices increased 0.6 percent after decreasing 1.6 percent; petroleum accounted for the upturn.

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
	II	III	IV	I
Gross domestic product	2.5	2.2	2.2	2.5
Less: Exports of goods and services	5.3	.8	-.8	.4
Plus: Imports of goods and services	8.9	-2.2	-1.6	.6
Equals: Gross domestic purchases	2.9	1.7	2.1	2.5
Less: Change in business inventories				
Equals: Final sales to domestic purchasers	2.9	1.7	2.1	2.5
Personal consumption expenditures	2.8	1.5	1.7	2.5
Food	3.0	2.0	2.5	2.3
Energy	2.6	-5.5	-4.9	12.9
Other personal consumption expenditures	2.7	1.9	2.0	1.9
Private nonresidential fixed investment	2.8	2.0	.1	.5
Structures	2.9	3.8	1.8	1.9
Producers' durable equipment	2.7	1.4	-.5	0
Private residential investment	2.6	2.9	2.2	1.2
Government consumption expenditures and gross investment	3.3	2.1	4.4	4.0
Federal	3.2	1.7	7.6	1.3
National defense	4.4	1.0	3.5	2.3
Nondefense .....	.7	3.2	17.0	-7
State and local	3.3	2.3	2.3	5.7

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.

Personal income

Real disposable personal income (DPI) increased 3.2 percent in the first quarter after increasing 3.8 percent in the fourth (chart 3). Current-dollar DPI increased 5.4 percent after increasing 5.3 percent. The personal saving rate (saving as a percentage of current-dollar DPI) edged down to 4.8 percent from 4.9 percent. Personal income increased \$77.4 billion, virtually the same as in the fourth quarter (table 4).

Wage and salary disbursements increased \$34.4 billion after increasing \$39.2 billion. Manufacturing decreased after an increase, and the service and distributive industries increased less than in the fourth quarter; in contrast, government increased more than in the fourth quarter. The downturn in manufacturing was due to declines in employment and in average weekly hours that reflected the effects of winter storms early in the

quarter and a strike in the motor vehicle industry late in the quarter. (The strike reduced wages and salaries in the motor vehicle industry about \$3 billion at an annual rate.) The acceleration in government was largely accounted for by the pay raise for Federal civilian and military employees.

Other labor income decreased \$1.1 billion after increasing \$4.3 billion. The first-quarter decrease reflected a reduction in private employer contributions to pension funds; because of large contributions by several firms, these contributions were unusually high during 1995, and the decrease reflects a return to a more usual level.

Rental income of persons increased \$1.1 billion after increasing \$4.9 billion; the slowdown was due to a step-up in housing expenses, such

Table 4.—Personal Income and Its Disposition

[Billions of dollars; seasonally adjusted at annual rates]

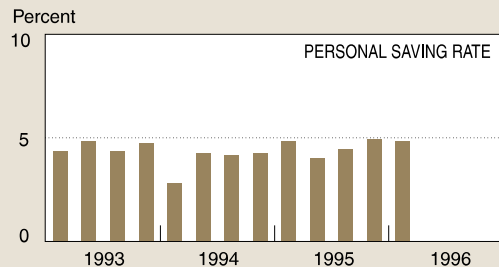
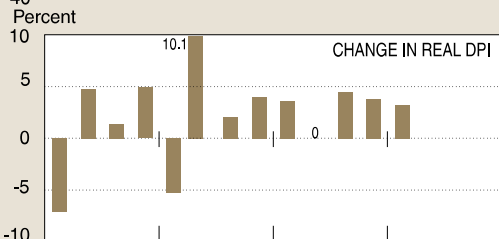
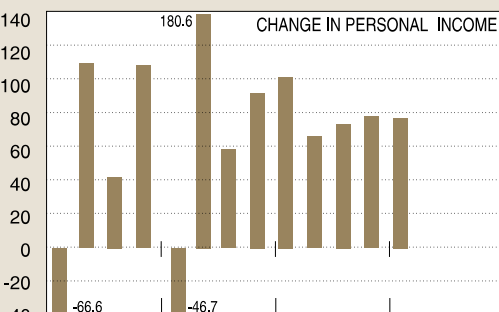
	Level	Change from preceding quarter			
		1995			1996
		II	III	IV	I
	1996: I				
Wage and salary disbursements	3,515.9	31.7	49.0	39.2	34.4
Private industries	2,882.6	28.4	44.6	36.5	27.9
Commodity-producing industries	865.2	-1.2	4.9	3.6	1.7
Manufacturing	641.7	-2.9	2.4	1.6	-2.8
Other	223.5	1.7	2.5	2.0	4.5
Distributive industries	819.9	9.8	16.8	13.5	11.0
Service industries	1,197.5	19.8	22.8	19.4	15.3
Government	633.3	3.3	4.5	2.8	6.4
Other labor income	429.1	4.3	3.9	4.3	-1.1
Proprietors' income with IVA and CCAAdj	498.6	2.7	4.9	7.1	11.9
Farm	38.6	-9	.5	3.7	6.8
Nonfarm	460.0	3.6	4.4	3.4	5.1
Rental income of persons with CCAAdj	126.9	1.0	-7	4.9	1.1
Personal dividend income	226.6	2.7	3.6	5.9	4.9
Personal interest income	730.8	12.0	3.6	7.7	5.6
Transfer payments to persons	1,064.2	14.4	13.1	11.5	22.8
Less: Personal contributions for social insurance	300.8	2.5	3.5	2.6	2.0
Personal income	6,291.3	66.4	73.7	78.3	77.4
Less: Personal tax and nontax payments	812.4	31.5	-3.1	8.8	5.2
Equals: Disposable personal income	5,478.9	34.9	76.8	69.5	72.2
Less: Personal outlays	5,214.7	76.8	55.6	36.3	73.8
Equals: Personal saving	264.2	-41.9	21.2	33.2	-1.6
Addenda: Special factors in personal income:					
In wages and salaries:					
Federal Government and Postal Service pay adjustments, including "buyouts"		-1.1	0	-1	3.3
Strike in motor vehicle industry		0	0	0	-2.9
In other labor income: Employer pension contributions		0	0	0	-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 .....		.3	-1	1.0	-1.2
Cost-of-living adjustments in Federal transfer programs		0	0	0	9.7
Earned Income Tax Credit payments		0	0	0	2.9
In personal tax and nontax payments:					
Recent tax law changes		17.2	-16.7	-1	-5.3

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.

as mortgage interest payments and fees associated with mortgage refinancings. (Housing expenses are deducted in the derivation of rental income.) Personal interest income and personal dividend income also increased less than in the fourth quarter. Transfer payments to persons increased \$22.8 billion after increasing \$11.5 billion. Almost \$10 billion of the step-up was accounted for by a 2.6-percent cost-of-living adjustment (effective January 1) for social security benefits and for several other transfer payment programs; changes in the Earned Income Credit program also contributed to the step-up.

Proprietors' income increased \$11.9 billion after increasing \$7.1 billion. Farm proprietors' income increased \$6.8 billion after increasing \$3.7 billion, as production and crop prices accelerated. Non-farm proprietors' income increased \$5.1 billion after increasing \$3.4 billion.

Personal contributions for social insurance, which is subtracted in the calculation of personal income, increased \$2.0 billion after increasing \$2.6 billion.

Personal tax and nontax payments increased \$5.2 billion after increasing \$8.8 billion; the smaller first-quarter increase reflected changes in the Federal income tax law. 