

## Business Situation

### Final Estimates for the Fourth Quarter of 2004

ACCORDING to the final estimates of the national income and product accounts (NIPAs), real gross domestic product (GDP) increased 3.8 percent in the fourth quarter of 2004 after increasing 4.0 percent in the third quarter (table 1 and chart 1).<sup>1</sup> The “preliminary” estimates of fourth-quarter GDP released in February also showed a 3.8-percent increase. In the final estimates, upward revisions to exports of services and to consumer spending on durable goods

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 are annualized. “Real” estimates are presented in chained (2000) dollars, and price indexes are chain-type measures.

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**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				2004				2004
	I	II	III	IV	I	II	III	IV	IV
<b>Gross domestic product</b> .....	<b>4.5</b>	<b>3.3</b>	<b>4.0</b>	<b>3.8</b>	<b>4.5</b>	<b>3.3</b>	<b>4.0</b>	<b>3.8</b>	<b>100.0</b>
<b>Personal consumption expenditures</b> .....	<b>4.1</b>	<b>1.6</b>	<b>5.1</b>	<b>4.2</b>	<b>2.90</b>	<b>1.10</b>	<b>3.57</b>	<b>2.92</b>	<b>70.2</b>
Durable goods.....	2.2	-0.3	17.2	3.9	0.19	-0.02	1.37	0.33	8.5
Nondurable goods.....	6.7	0.1	4.7	5.9	1.33	0.03	0.94	1.19	20.4
Services.....	3.3	2.7	3.0	3.4	1.39	1.10	1.26	1.41	41.3
<b>Gross private domestic investment</b> .....	<b>12.3</b>	<b>19.0</b>	<b>2.4</b>	<b>13.3</b>	<b>1.86</b>	<b>2.85</b>	<b>0.40</b>	<b>2.11</b>	<b>16.9</b>
Fixed investment.....	4.5	13.9	8.8	10.5	0.69	2.07	1.37	1.65	16.5
Nonresidential.....	4.2	12.5	13.0	14.5	0.42	1.21	1.27	1.46	10.7
Structures.....	-7.6	6.9	-1.1	2.1	-0.19	0.16	-0.03	0.05	2.4
Equipment and software.....	8.0	14.2	17.5	18.4	0.61	1.05	1.30	1.41	8.3
Residential.....	5.0	16.5	1.6	3.4	0.27	0.86	0.09	0.19	5.7
Change in private inventories.....	.....	.....	.....	.....	1.17	0.78	-0.97	0.46	0.4
<b>Net exports of goods and services</b> .....	<b>.....</b>	<b>.....</b>	<b>.....</b>	<b>.....</b>	<b>-0.76</b>	<b>-1.06</b>	<b>-0.10</b>	<b>-1.35</b>	<b>-5.6</b>
Exports.....	7.3	7.3	6.0	3.2	0.70	0.70	0.59	0.32	10.1
Goods.....	9.1	6.0	9.5	1.9	0.60	0.41	0.64	0.14	7.0
Services.....	3.4	10.2	-1.8	6.2	0.10	0.30	-0.06	0.18	3.0
Imports.....	10.6	12.6	4.6	11.4	-1.46	-1.77	-0.69	-1.67	15.7
Goods.....	12.7	13.0	5.0	14.9	-1.43	-1.52	-0.62	-1.80	13.2
Services.....	1.2	10.6	2.8	-5.2	-0.03	-0.25	-0.07	0.13	2.5
<b>Government consumption expenditures and gross investment</b> .....	<b>2.5</b>	<b>2.2</b>	<b>0.7</b>	<b>0.9</b>	<b>0.48</b>	<b>0.41</b>	<b>0.13</b>	<b>0.16</b>	<b>18.5</b>
Federal.....	7.1	2.7	4.8	1.2	0.48	0.18	0.33	0.09	6.9
National defense.....	10.6	1.9	10.1	-0.6	0.47	0.09	0.45	-0.03	4.7
Nondefense.....	0.2	4.4	-5.3	5.3	0.00	0.10	-0.12	0.11	2.2
State and local.....	0.0	1.9	-1.7	0.6	0.00	0.23	-0.20	0.07	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.

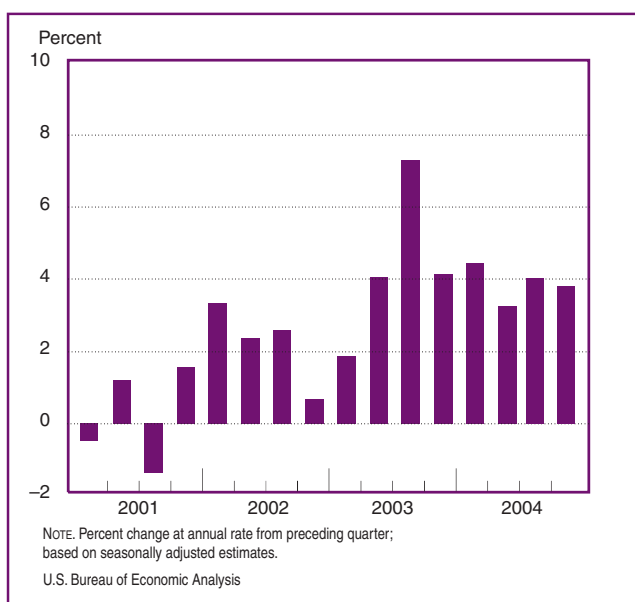
were offset by a downward revision to inventory investment (table 2).<sup>2</sup>

- Prices of goods and services purchased by U.S. residents increased 2.9 percent, 0.1 percentage point more than in the preliminary estimate. In the third quarter, prices increased 1.9 percent. The acceleration mainly reflected an acceleration of energy prices.
- Real disposable personal income (DPI) increased 8.3 percent, 0.2 percentage point more than in the preliminary estimate, after increasing 2.9 percent in the third quarter. The fourth-quarter increase largely reflected a special dividend payment by the Microsoft Corporation.<sup>3</sup>

2. In this article, “consumer spending” is shorthand for the NIPA series “personal consumption expenditures,” “inventory investment” is shorthand for “change in private inventories,” and “government spending” is shorthand for “government consumption expenditures and gross investment.”

3. During the fourth quarter, the Microsoft Corporation paid its shareholders a special dividend that boosted personal income by \$99.4 billion (at an annual rate). For information on the effects of the special dividend on other NIPA estimates, see “Corporate Profits.”

**Chart 1. Real Gross Domestic Product**



The slight deceleration in fourth-quarter GDP growth mainly reflected an acceleration in imports and a deceleration in consumer spending.

- Imports increased 11.4 percent after increasing 4.6 percent in the third quarter. The acceleration primarily reflected an upturn in imports of nonautomotive consumer goods and a sharp acceleration in petroleum imports.
- Consumer spending increased 4.2 percent after increasing 5.1 percent in the third quarter. The deceleration was mainly accounted for by a downturn in spending on motor vehicles.

The contributions of these components to the deceleration in GDP growth were partly offset by an upturn in inventory investment, which added 0.46 percentage point to fourth-quarter GDP growth after subtracting

0.97 percentage point from third-quarter growth. The upturn was mainly accounted for by a smaller decrease in motor vehicle dealers' inventories.

Among the remaining components of GDP, exports slowed in the fourth quarter, government spending increased slightly more than in the third quarter, and private fixed investment accelerated somewhat.

- Exports increased 3.2 percent after increasing 6.0 percent. A deceleration in exports of goods was partly offset by an upturn in exports of services.
- Government spending increased 0.9 percent after increasing 0.7 percent.
- Private fixed investment increased 10.5 percent after increasing 8.8 percent. Business investment in equipment and software and residential investment accelerated, and business investment in structures turned up.

The final estimates for the fourth quarter also show the following:

- Real final sales of domestic product (GDP less the change in private inventories) increased 3.4 percent after increasing 5.0 percent.
- Real gross domestic purchases (GDP less net exports) increased 5.0 percent after increasing 3.9 percent.
- Real gross national product (GNP) increased 3.5 percent after increasing 4.0 percent.<sup>4</sup> The fourth-quarter increase in GNP is 0.3 percentage point less than the increase in GDP; an increase in income payments to the rest of the world was partly offset by an increase in income receipts from the rest of the world.
- The gross saving rate—saving from all sources as a percentage of gross national income—was 13.9 percent, little changed from the third quarter. The net saving rate increased to 2.2 percent from 1.1 percent in the third quarter. Net saving is a measure of the saving that is available for augmenting the stock of fixed assets; it equals gross saving less consumption of fixed capital (CFC). The small third-quarter net saving rate reflected the large increase in CFC that resulted from the estimated damage to the stock of private assets that was caused by the hurricanes that struck portions of the southern and eastern United States.
- The personal saving rate increased from 0.7 percent to 1.6 percent (see the box "Saving, Wealth, Investment, and the Current-Account Deficit").

**Table 2. Final and Preliminary Estimates for the Fourth Quarter of 2004**  
[Seasonally adjusted at annual rates]

	Percent change from preceding quarter			Contribution to percent change in real GDP		
	Final estimate	Preliminary estimate	Final minus preliminary	Final estimate	Preliminary estimate	Final minus preliminary
<b>Gross domestic product (GDP)</b> .....	<b>3.8</b>	<b>3.8</b>	<b>0.0</b>	<b>3.8</b>	<b>3.8</b>	<b>0.0</b>
<b>Personal consumption expenditures</b> .....	<b>4.2</b>	<b>4.2</b>	<b>0.0</b>	<b>2.92</b>	<b>2.89</b>	<b>0.03</b>
Durable goods.....	3.9	3.1	0.8	0.33	0.27	0.06
Nondurable goods.....	5.9	6.1	-0.2	1.19	1.21	-0.02
Services.....	3.4	3.4	0.0	1.41	1.41	0.00
<b>Gross private domestic investment</b> .....	<b>13.3</b>	<b>13.4</b>	<b>-0.1</b>	<b>2.11</b>	<b>2.13</b>	<b>-0.02</b>
Fixed investment.....	10.5	9.7	0.8	1.65	1.52	0.13
Nonresidential.....	14.5	14.0	0.5	1.46	1.40	0.06
Structures.....	2.1	1.2	0.9	0.05	0.03	0.02
Equipment and software.....	18.4	18.0	0.4	1.41	1.37	0.04
Residential.....	3.4	2.1	1.3	0.19	0.12	0.07
Change in private inventories.....				0.46	0.60	-0.14
<b>Net exports of goods and services</b> .....				<b>-1.35</b>	<b>-1.43</b>	<b>0.08</b>
Exports.....	3.2	2.4	0.8	0.32	0.24	0.08
Goods.....	1.9	1.9	0.0	0.14	0.13	0.01
Services.....	6.2	3.5	2.7	0.18	0.11	0.07
Imports.....	11.4	11.4	0.0	-1.67	-1.67	0.00
Goods.....	14.9	15.3	-0.4	-1.80	-1.85	0.05
Services.....	-5.2	-7.0	1.8	0.13	0.18	-0.05
<b>Government consumption expenditures and gross investment</b> .....	<b>0.9</b>	<b>1.2</b>	<b>-0.3</b>	<b>0.16</b>	<b>0.22</b>	<b>-0.06</b>
Federal.....	1.2	1.7	-0.5	0.09	0.12	-0.03
National defense.....	-0.6	-0.3	-0.3	-0.03	-0.02	-0.01
Nondefense.....	5.3	6.3	-1.0	0.11	0.14	-0.03
State and local.....	0.6	0.8	-0.2	0.07	0.10	-0.03
<b>Addenda:</b>						
Final sales of domestic product ..	3.4	3.2	0.2	3.38	3.20	0.18
Gross domestic purchases price index ..	2.9	2.8	0.1			
GDP price index.....	2.3	2.1	0.2			

NOTE: The final estimates for the fourth quarter of 2004 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 data for November and December and revised manufacturers' shipments of machinery and equipment for December.  
*Residential fixed investment:* Revised construction put-in-place data for November and December.  
*Change in private inventories:* Revised manufacturers' and trade inventories for December.  
*Exports and imports of goods and services:* Revised international transactions accounts data for the third and fourth quarters.  
*Government consumption expenditures and gross investment:* Revised state and local government construction put-in-place data for November and December.  
*Wages and salaries:* Revised employment, average hourly earnings, and average weekly hours for December and new data on employer costs for employee compensation for the fourth quarter.  
*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 houses under construction for the quarter.

4. GNP is a measure of the goods and services produced by labor and property supplied by U.S. residents regardless of where they are located; in contrast, GDP is a measure of the goods and services produced by labor and property in the United States, regardless of nationality. The two measures are related as follows: GNP equals GDP plus income receipts from the rest of the world minus income payments to the rest of the world.

### Saving, Wealth, Investment, and the Current-Account Deficit

In the national income and product accounts (NIPAs), personal saving as a percentage of disposable personal income has trended downward since peaking at 11.2 percent in 1982 (chart A). In 2004, the personal saving rate was 1.2 percent, or \$102.1 billion out of \$8,634.0 billion in disposable personal income.<sup>1</sup> The declining saving rate has spawned much concern among economists and policymakers about the consequences of such low saving, which, in the view of some, include reliance on unsustainable levels of external financing for the Nation's investment needs and increased exposure of domestic financial markets to external factors.

Personal saving is the portion of personal income that is not spent on current consumption but that is instead used to provide funds to capital markets or invested in real assets such as residences. It is a component of gross national saving, along with undistributed corporate profits (business saving), government saving, and consumption of fixed capital (a depreciation charge). Net national saving represents the amount of net income from current-period production that is left over after all consumption-related expenditures. This amount is available to finance net domestic investment in fixed capital assets (such as structures, equipment, and software) or in inventories. Economic growth and rising productivity are possible only with adequate levels of investment, and investment must be financed by saving from some source.

Capital gains and losses, which reflect changes in the prices of already existing assets, are excluded from the NIPA definition of saving. Clearly, unrealized capital gains provide no funds for investment. Realized capital gains are also not a source of fund-

ing for investment, because the funds that the seller adds to the pool of saving are offset by the funds that the buyer has withdrawn from that pool.

In contrast to the persistently downward trend of personal saving, in 2002–2004, saving by business grew strongly (table A). Saving by government fell in 2001–2003. In aggregate, net national saving fell to 2.1 percent of national income in 2004 from a peak of 7.3 percent in 1998. However, net domestic investment rebounded from a cyclical trough in 2002 to a level near its 20-year average in 2004; therefore, the gap between U.S. saving and U.S. domestic investment widened. This gap was bridged by net national borrowing, which represents saving by the rest of the world that is used to finance domestic investment.<sup>2</sup> The excess of the Nation's spending over the Nation's income can also be measured by the current-account deficit, which equals the combined deficit with the rest of the world on trade, income, and current transfers.

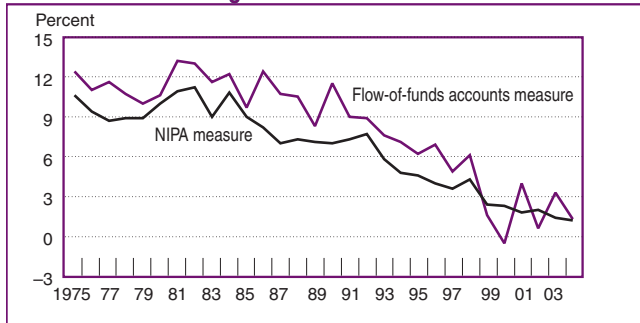
The downward trend in personal saving in the NIPAs is confirmed by a measure of personal saving in the Federal Reserve Board's flow-of-funds accounts that is conceptually consistent with the NIPA measure (chart A). This measure estimates personal saving as the difference between net purchases of financial assets and real estate by persons, plus net amounts invested in business partnerships and sole proprietorships, less net increases in personal debt.

The decline in personal saving has led to much discussion of the "wealth effect," the tendency of consumers to spend more when their assets appreciate. In 2004, personal net worth rebounded to 5.6 times disposable personal income as a result of realized and unrealized capital gains on real estate, corporate equities, and mutual funds. Some of the capital gains on real estate in recent years have been used to support additional mortgage borrowing, which may have reduced personal saving, and some capital gains on pension plan assets have been used to pay pension benefits, which also may have reduced the NIPA measure of personal saving.<sup>3</sup> The Bureau of Economic Analysis is working on integrated saving and wealth accounts that will include information on capital gains and losses.

*Marshall B. Reinsdorf*

1. Personal saving in 2004 was buoyed by the Microsoft special dividend, but it was diminished by uninsured hurricane losses. Excluding these two items, the personal saving rate was less than 1 percent in 2004.

**Chart A. Personal Saving Rate**



**Table A. National Saving, Investment, and Borrowing**

[As a percent of national income]

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Personal saving (with accrued wages) .....	6.9	5.8	6.0	5.9	5.9	6.2	6.4	5.0	4.4	4.1	3.4	3.0	3.6	2.0	1.9	1.5	1.7	1.1	1.0
Plus: Business saving .....	2.7	3.0	3.5	2.5	2.4	2.5	2.6	2.9	2.8	3.5	3.8	3.9	2.6	3.1	2.0	2.1	3.3	4.0	4.5
Equals: Net private saving .....	9.5	8.8	9.5	8.5	8.3	8.7	8.9	7.9	7.2	7.6	7.1	6.9	6.2	5.1	3.9	3.6	5.0	5.2	5.5
Plus: Net government saving .....	-4.4	-3.2	-2.6	-2.3	-3.2	-4.2	-5.4	-4.7	-3.3	-2.9	-1.7	-0.2	1.2	1.9	2.7	0.6	-3.0	-3.8	-3.5
Equals: Net national saving .....	5.2	5.6	7.0	6.2	5.1	4.6	3.6	3.2	3.9	4.7	5.5	6.7	7.3	7.0	6.6	4.2	2.0	1.4	2.1
Net national saving plus statistical discrepancy .....	6.4	6.1	6.5	7.0	6.4	5.9	5.4	5.6	6.2	6.3	6.8	7.6	7.1	6.5	5.2	3.2	1.8	1.6	2.6
Less: Net domestic investment .....	10.0	9.8	9.0	8.9	7.7	5.7	6.1	6.9	7.9	7.7	8.3	9.2	9.6	9.8	9.7	7.3	6.7	6.9	8.7
Equals: Balance on current account .....	-3.6	-3.6	-2.5	-1.8	-1.4	-0.3	-0.7	-1.2	-1.7	-1.4	-1.5	-1.5	-2.4	-3.3	-4.5	-4.1	-5.0	-5.3	-6.2
Less: Capital-account transactions .....	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Equals: Net lending or net borrowing (-) .....	-3.6	-3.6	-2.5	-1.8	-1.5	0.2	-0.7	-1.2	-1.7	-1.4	-1.5	-1.5	-2.4	-3.4	-4.5	-4.1	-5.0	-5.3	-6.2

2. Net lending or net borrowing shown in NIPA table 5.1 includes net purchases of assets from the rest of the world; it is not limited to debt instruments.

3. The aging of plan participants has also contributed to the decline in saving by defined benefit pension plans; see Marshall B. Reinsdorf, "Alternative Measures of Personal Saving," SURVEY OF CURRENT BUSINESS 84 (September 2004): 17–27.

## Corporate Profits

Profits from current production increased \$150.8 billion (13.5 percent at a quarterly rate) in the fourth quarter; in contrast, profits decreased \$55.9 billion (4.8 percent) in the third quarter (table 3).<sup>5</sup> The increase reflected an increase in profits of domestic corporations; profits from the rest of the world were unchanged.<sup>6</sup> A third-quarter decrease in profits of domestic corporations reflected the effects of Hurricanes Charley, Frances, Ivan, and Jeanne, which reduced profits by \$79.7 billion (annual rate).<sup>7</sup> Excluding the effects of the hurricanes, profits from current production increased 5.9 percent in the fourth quarter after increasing 2.0

percent in the third quarter.

Profits of financial corporations increased \$84.1 billion (30.1 percent) in the fourth quarter. In contrast, profits of these corporations decreased \$68.7 billion (19.7 percent) in the third quarter, reflecting the effects of the hurricanes on the profits of insurance companies.

Profits of nonfinancial corporations increased \$66.7 billion (10.3 percent) after increasing \$9.4 billion (1.5 percent). The fourth-quarter increase was mainly accounted for by an increase in profits per unit; unit prices increased, and labor and nonlabor costs per unit decreased.

In the fourth quarter, profits from the rest of the world were unchanged, reflecting offsetting changes in receipts and payments. Receipts from foreign affiliates of domestic parents increased \$30.8 billion (9.8 percent) after increasing \$7.5 billion (2.5 percent). Payments by domestic affiliates to their foreign parents that are deducted in the calculation of profits from the rest of the world also increased \$30.8 billion (24.7 percent) after increasing \$4.2 billion (3.5 percent). In the third quarter, profits from the rest of the world had increased \$3.4 billion (1.8 percent).

Taxes on corporate income increased \$42.4 billion

5. 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 as "corporate profits with inventory valuation and capital consumption adjustments" in NIPA tables 1.7.5, 1.10–1.12, 1.14–1.16, and 6.16D.

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

6. Profits from the rest of the world is the difference between (1) receipts by U.S. residents of earnings from foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations and (2) payments by U.S. affiliates of earnings to 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.

7. For additional information on the effects of the hurricanes on corporate profits and other NIPA income measures, see <[www.bea.gov/bea/dn/hurricane.htm](http://www.bea.gov/bea/dn/hurricane.htm)> on BEA's Web site.

**Table 3. Corporate Profits**  
[Quarterly estimates are seasonally adjusted]

	Billions of dollars (annual rate)							Percent change from preceding period <sup>1</sup>												
	Level		Change from preceding period				2003	2004	2004											
	2004	2004	2003	2004	2004				2003	2004	II	III	IV							
		IV			II	III	IV													
<b>Current production measures:</b>																				
Corporate profits .....	1,181.6	1,268.8	146.5	160.5	8.3	-55.9	150.8	16.8	15.7	0.7	-4.8	13.5								
Domestic industries .....	989.6	1,080.1	127.4	145.4	28.3	-59.3	150.8	17.8	17.2	2.9	-6.0	16.2								
Financial .....	336.4	363.2	29.4	8.6	-7.9	-68.7	84.1	9.8	2.6	-2.2	-19.7	30.1								
Nonfinancial .....	653.1	716.9	98.0	136.7	36.2	9.4	66.7	23.4	26.5	6.0	1.5	10.3								
Rest of the world .....	192.0	188.7	19.1	15.1	-20.0	3.4	0.0	12.1	8.5	-9.7	1.8	0.0								
Receipts from the rest of the world .....	315.4	343.9	44.7	64.7	6.6	7.5	30.8	21.7	25.8	2.2	2.5	9.8								
Less: Payments to the rest of the world .....	123.4	155.3	25.6	49.6	26.6	4.2	30.8	53.1	67.2	28.4	3.5	24.7								
Less: Taxes on corporate income .....	269.2	295.7	51.1	34.3	14.7	-17.9	42.4	27.8	14.6	5.7	-6.6	16.8								
Equals: Profits after tax .....	912.4	973.0	95.5	126.2	-6.4	-38.0	108.3	13.8	16.0	-0.7	-4.2	12.5								
Net dividends .....	443.9	534.7	5.3	48.6	9.8	10.8	110.7	1.4	12.3	2.4	2.6	26.1								
Undistributed profits .....	468.5	438.3	90.2	77.6	-16.2	-48.8	-2.4	30.0	19.9	-3.2	-10.0	-0.5								
Net cash flow .....	1,264.6	1,234.1	114.9	91.2	-5.7	-1.6	-37.7	10.9	7.8	-0.4	-0.1	-3.0								
<b>Industry profits:</b>																				
Profits with IVA .....	942.4	1,008.8	103.6	82.0	15.2	-45.6	113.8	13.7	9.5	1.6	-4.8	12.7								
Domestic industries .....	750.4	820.1	84.4	67.0	35.2	-48.9	113.8	14.1	9.8	4.9	-6.5	16.1								
Financial .....	294.0	318.2	23.6	-5.8	-7.3	-68.8	80.6	8.6	-2.0	-2.3	-22.5	33.9								
Nonfinancial .....	456.4	501.9	60.8	72.8	42.4	19.9	33.2	18.8	19.0	10.4	4.4	7.1								
Utilities .....	23.3	27.5	7.4	4.5	-1.7	-0.4	6.4	65.9	23.9	-7.1	-2.0	30.6								
Manufacturing .....	105.9	142.4	16.6	38.6	13.3	10.2	37.4	32.8	57.5	16.4	10.7	35.6								
Wholesale trade .....	54.6	59.0	-3.1	6.7	6.2	8.9	-2.1	-6.2	14.0	13.7	17.0	-3.5								
Retail trade .....	72.2	70.8	-0.4	-5.5	-6.9	-8.4	6.1	-0.5	-7.1	-8.6	-11.5	9.3								
Transportation and warehousing .....	9.7	4.5	11.8	-0.8	3.8	-8.2	-2.8	.....	.....	.....	.....	.....								
Information .....	9.5	6.6	10.5	10.2	23.1	5.1	-15.0	.....	.....	.....	.....	.....								
Other nonfinancial .....	181.2	191.2	17.9	19.1	4.4	12.8	3.3	12.4	11.8	2.6	7.3	1.7								
Rest of the world .....	192.0	188.7	19.1	15.1	-20.0	3.4	0.0	12.1	8.5	-9.7	1.8	0.0								
<b>Addenda:</b>																				
Profits before tax (without IVA and CCAadj) .....	985.3	1,057.9	116.5	110.8	25.9	-55.5	125.1	15.4	12.7	2.7	-5.6	13.4								
Profits after tax (without IVA and CCAadj) .....	716.2	762.1	65.4	76.6	11.2	-37.6	82.6	11.4	12.0	1.6	-5.3	12.2								
IVA .....	-42.9	-49.1	-12.9	-28.8	-10.8	10.0	-11.3	.....	.....	.....	.....	.....								
CCAadj .....	239.1	260.0	43.0	78.3	-6.9	-10.3	37.0	36.5	48.7	-2.9	-4.4	16.6								

1. Quarterly percent changes are not annualized.

NOTE: Levels of these and other profits series are shown in NIPA tables 1.12, 1.14, 1.15, and 6.16D.

IVA Inventory valuation adjustment  
CCAadj Capital consumption adjustment

(16.8 percent) in the fourth quarter. After-tax corporate profits from current production increased \$108.3 billion (12.5 percent).

Net dividends increased \$110.7 billion (26.1 percent) after increasing \$10.8 billion (2.6 percent). The fourth-quarter increase reflected the special dividend payment by the Microsoft Corporation.<sup>8</sup> The large increases in net dividends and in after-tax profits were roughly offsetting, so that undistributed corporate profits—a measure of corporate net saving that equals after-tax profits less net dividends—decreased \$2.4 billion (0.5 percent) after decreasing \$48.8 billion (10.0 percent) in the third quarter.

Net cash flow from current production, a profits-related measure of internally generated funds available for investment, decreased \$37.7 billion in the fourth quarter after decreasing \$1.6 billion in the third quarter. The fourth-quarter decrease in net cash flow—undistributed profits plus consumption of fixed capital—reflected the large increase in net dividends that resulted from the Microsoft special dividend payment.

8. On December 2, 2004, the Microsoft Corporation 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).

GDP and profits of domestic corporations were not affected by the special dividend. The estimate of net dividends reflects the total dividend payout less the dividends received by U.S. corporations and by foreign residents. Because BEA's estimates of corporate profits and of income payments to, and receipts from, the rest of the world are partly based on confidential survey data, BEA cannot provide estimates of the effects of the special dividend on these components.

For more information, see "The Microsoft Special Dividend" at <[www.bea.gov/bea/faq/national/FAQ.htm](http://www.bea.gov/bea/faq/national/FAQ.htm)>.

The ratio of cash flow to nonresidential fixed investment, an indicator of the extent to which the current level of investment could be financed by internally generated corporate funds, decreased to 95.9 in the fourth quarter from 102.7 in the third quarter. The ratio was over 100 in the eight preceding quarters.

**Industry profits.** The current-production measure of profits is not available at the detailed industry level, because estimates of the capital consumption adjustment (CCAdj) are not available at this level.<sup>9</sup> (CCAdj is only available for total financial industries and for total nonfinancial industries). Consequently, industry profits are best measured by profits with inventory valuation adjustment (IVA).<sup>10</sup>

In the fourth quarter, total domestic industry profits with IVA increased \$113.8 billion.

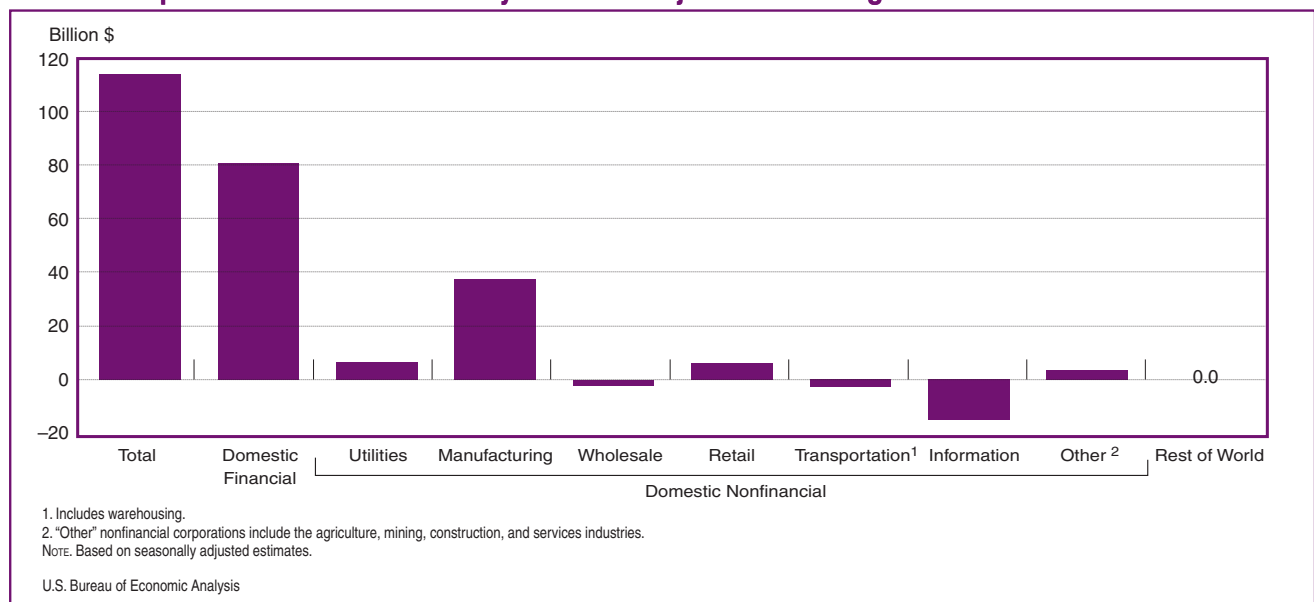
For domestic financial industries, profits with IVA increased \$80.6 billion in the fourth quarter (chart 2). The increase was largely accounted for by profits of property and casualty insurance carriers, which had been reduced in the third quarter because of the effects of the third-quarter hurricanes.

For domestic nonfinancial corporations, profits with IVA increased \$33.2 billion in the fourth quarter. Increases in the profits of the manufacturing, utilities,

9. The CCAdj is the difference between consumption of fixed capital (the decline in the value of the stock of assets due to wear and tear, obsolescence, accidental damage, and aging) and capital consumption allowances (tax-return-based depreciation).

10. The IVA adjusts the NIPA estimates of business income for inventory profits or losses; the IVA is the difference between the cost of inventory withdrawals valued at acquisition cost and the cost of inventory withdrawals valued at replacement cost.

**Chart 2. Corporate Profits with Inventory Valuation Adjustment: Change From 2004:III to 2004:IV**



retail trade, and “other” nonfinancial industries were partly offset by decreases in the profits of the information, transportation and warehousing, and wholesale trade industries. Within manufacturing, a large increase in durable-goods industries was accounted for by electrical equipment and by “other” durable-goods manufacturing, and a large increase in nondurable-goods industries was accounted for by petroleum manufacturing.

**The year 2004.** Profits from current production increased \$160.5 billion (15.7 percent), to \$1,181.6 billion, in 2004; they had increased \$146.5 billion (16.8 percent) in 2003. Profits of domestic corporations increased \$145.4 billion after increasing \$127.4 billion. Profits of domestic nonfinancial corporations increased \$136.7 billion after increasing \$98.0 billion;

prices and profits per unit posted solid increases, and unit nonlabor costs turned down. Profits of domestic financial corporations increased \$8.6 billion after increasing \$29.4 billion.

Profits from the rest of the world increased \$15.1 billion after increasing \$19.1 billion, as payments by domestic affiliates to foreign parents stepped up.

Domestic profits with inventory valuation adjustment increased \$67.0 billion after increasing \$84.4 billion. Financial profits turned down, and nonfinancial profits increased somewhat more than in 2003. Among nonfinancial industries, the manufacturing and wholesale trade industries showed marked improvement in 2004, and the retail trade and transportation industries posted lower profits. The information industry posted a profit, following four consecutive annual losses.

## Government Sector

Net government saving, the difference between current receipts and expenditures, was -\$320.6 billion in the fourth quarter of 2004, increasing \$49.9 billion from -\$370.5 billion in the third quarter (table 4).<sup>11</sup> Net Federal Government saving accelerated in the fourth quarter, and net state and local government saving turned up considerably.

### Federal

Net Federal Government saving was -\$356.2 billion in the fourth quarter of 2004, increasing \$18.8 billion from -\$375.0 billion in the third quarter. Both current receipts and current expenditures accelerated.

**Current receipts.** Federal Government current receipts increased \$66.7 billion in the fourth quarter after increasing \$16.7 billion in the third quarter. The acceleration was more than accounted for by accelerations in current tax receipts, current transfer receipts, and income receipts on assets that were partly offset by a deceleration in contributions for government social insurance.

Current tax receipts increased \$55.7 billion after increasing \$3.4 billion. The acceleration was more than accounted for by upturns in taxes on corporate income, taxes on production and imports, and taxes from the rest of the world. Taxes on corporate income increased \$35.3 billion after decreasing \$14.6 billion; the third quarter decrease mainly reflected the effects of Hurricanes Charlie, Frances, Ivan, and Jeanne. Taxes on production and imports increased \$3.5 billion after decreasing \$0.1 billion; the acceleration was primarily attributable to an acceleration in customs duties and to an upturn in air transport excise taxes that was due to an acceleration in fees for passenger security and air carriers. Taxes from the rest of the world increased \$2.1 billion after decreasing \$0.1 billion, reflecting taxes paid on Microsoft dividends. In contrast, personal current taxes decelerated, increasing \$14.7 billion after increasing \$18.1 billion and reflecting the pattern of wages and salaries.

Current transfer receipts increased \$1.8 billion after increasing \$0.4 billion. Income receipts on assets increased \$0.8 billion after increasing \$0.7 billion.

Contributions for government social insurance increased \$8.7 billion after increasing \$12.5 billion. The deceleration was mostly accounted for by contributions for social security (old-age, survivors, disability, and health insurance trust funds), which increased \$7.7 billion after increasing \$11.2 billion, reflecting a deceleration in wage and salaries.

**Current expenditures.** Federal Government current

expenditures increased \$47.9 billion after increasing \$11.7 billion. The acceleration was more than accounted for by accelerations in current transfer payments and subsidies and by an upturn in interest payments that were partly offset by a deceleration in

**Table 4. Government Sector Current Receipts and Expenditures**

[Billions of dollars, seasonally adjusted at annual rates]

	Level	Change from preceding quarter				
	2004	2004				
	IV	I	II	III	IV	
Current receipts .....	3302.9	30.8	61.1	17.4	104.4	
Current expenditures .....	3623.5	66.2	43.6	26.1	54.6	
<b>Net government saving .....</b>	<b>-320.6</b>	<b>-35.3</b>	<b>17.5</b>	<b>-8.8</b>	<b>49.9</b>	
Social insurance funds .....	68.3	12.1	6.7	6.2	-5.1	
Other .....	-389.0	-47.4	10.7	-14.9	54.9	
<b>Federal</b>						
<b>Current receipts .....</b>	<b>2032.5</b>	<b>14.7</b>	<b>33.8</b>	<b>16.7</b>	<b>66.7</b>	
Current tax receipts .....	1157.6	-1.0	24.6	3.4	55.7	
Personal current taxes .....	814.3	-4.2	13.2	18.1	14.7	
Taxes on production and imports .....	92.7	-0.6	0.3	-0.1	3.5	
Taxes on corporate income .....	240.2	3.0	11.6	-14.6	35.3	
Taxes from the rest of the world .....	10.3	0.7	-0.3	-0.1	2.1	
Contributions for government social insurance .....	818.8	18.4	9.7	12.5	8.7	
Income receipts on assets .....	23.7	-2.6	-0.7	0.7	0.8	
Current transfer receipts .....	28.4	0.5	0.1	0.4	1.8	
Current surplus of government enterprises .....	4.1	-0.4	-0.1	-0.2	-0.2	
<b>Current expenditures .....</b>	<b>2388.7</b>	<b>26.5</b>	<b>22.8</b>	<b>11.7</b>	<b>47.9</b>	
Consumption expenditures .....	713.6	19.8	9.2	12.7	0.6	
National defense .....	484.0	15.0	8.4	13.5	-3.1	
Nondefense .....	229.5	4.8	0.7	-0.7	3.6	
Current transfer payments .....	1409.4	15.3	2.0	0.9	40.6	
Government social benefits .....	1022.3	13.7	6.8	11.3	18.0	
To persons .....	1019.2	13.7	6.8	11.2	17.9	
To the rest of the world .....	3.1	0.0	0.0	0.1	0.1	
Other current transfer payments .....	387.1	1.7	-4.8	-10.4	22.6	
Grants-in-aid to state and local governments .....	361.6	-11.2	5.9	-9.8	19.5	
To the rest of the world .....	25.5	12.9	-10.7	-0.6	3.1	
Interest payments .....	224.2	-3.6	9.6	-0.7	4.2	
Subsidies .....	41.6	-3.5	-1.0	0.3	2.6	
Less: Wage accruals less disbursements .....	0.0	1.5	-3.0	1.5	0.0	
<b>Net Federal Government saving .....</b>	<b>-356.2</b>	<b>-11.8</b>	<b>11.0</b>	<b>5.0</b>	<b>18.8</b>	
Social insurance funds .....	67.0	12.0	6.7	6.1	-5.0	
Other .....	-423.2	-23.8	4.3	-1.0	23.7	
<b>State and local</b>						
<b>Current receipts .....</b>	<b>1632.0</b>	<b>4.8</b>	<b>33.3</b>	<b>-9.2</b>	<b>57.3</b>	
Current tax receipts .....	1068.7	12.3	24.9	5.0	27.7	
Personal current taxes .....	255.2	1.4	10.8	0.2	5.9	
Taxes on production and imports .....	769.4	9.9	12.2	7.5	15.5	
Taxes on corporate income .....	44.0	0.9	2.0	-2.8	6.3	
Contributions for government social insurance .....	17.0	0.5	0.4	0.4	0.2	
Income receipts on assets .....	84.6	0.5	0.4	0.9	1.1	
Current transfer receipts .....	460.1	-8.2	8.1	-14.7	28.8	
Federal grants-in-aid .....	361.6	-11.2	5.9	-9.8	19.5	
Other .....	98.6	3.0	2.2	-4.9	9.4	
Current surplus of government enterprises .....	1.6	-0.2	-0.6	-0.7	-0.6	
<b>Current expenditures .....</b>	<b>1596.4</b>	<b>28.3</b>	<b>26.9</b>	<b>4.5</b>	<b>26.2</b>	
Consumption expenditures .....	1121.6	13.5	12.0	13.7	16.1	
Government social benefits .....	380.5	14.0	14.7	-9.9	9.4	
Interest payments .....	93.6	1.3	0.1	0.8	0.7	
Subsidies .....	0.7	-0.5	0.0	0.0	0.0	
Less: Wage accruals less disbursements .....	0.0	0.0	0.0	0.0	0.0	
<b>Net state and local government saving .....</b>	<b>35.6</b>	<b>-23.5</b>	<b>6.5</b>	<b>-13.8</b>	<b>31.1</b>	
Social insurance funds .....	1.4	0.1	0.1	0.1	-0.1	
Other .....	34.2	-23.5	6.3	-13.9	31.2	
<b>Addenda:</b>						
Net lending or net borrowing (-) <sup>1</sup> .....	-472.9	-38.4	7.7	-0.8	41.6	
Federal .....	-410.8	-14.8	12.3	-3.4	17.7	
State and local .....	-62.0	-23.6	-4.6	2.6	24.0	

1. "Net lending or borrowing" is similar to "net financial investment" in the flow-of-funds accounts prepared by the Federal Reserve Board. 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.

11. Net government saving is shown in NIPA tables 3.1-3.3.

consumption expenditures.

Current transfer payments increased \$40.6 billion after increasing \$0.9 billion. The acceleration was more than accounted for by an upturn in "other current transfer payments" and by an acceleration in government social benefits.

"Other current transfer payments" increased \$22.6 billion after decreasing \$10.4 billion. The upturn was mostly accounted for by grants-in-aid to state and local governments, which increased \$19.5 billion after decreasing \$9.8 billion, primarily reflecting an upturn in grants for Medicaid and disaster relief. The upturn was also attributable to accelerations in grants for "other income support" and for education and to an upturn in grants for welfare and social services. "Other current transfer payments" to the rest of the world also turned up.

Government social benefits increased \$18.0 billion after increasing \$11.3 billion. The acceleration was accounted for by government social benefits to persons, which increased \$17.9 billion after increasing \$11.2 billion, primarily reflecting an acceleration in social security benefits (old-age, survivors, disability, and health insurance trust funds). The acceleration was also attributable to accelerations in Medicare benefits and food stamp benefits; the acceleration in food stamp benefits was partly due to a 5.8-percent cost-of-living adjustment that took effect in October. Tempering the acceleration, "other government social benefits" to persons decelerated, increasing \$0.1 billion after increasing \$2.6 billion.

Interest payments increased \$4.2 billion after decreasing \$0.7 billion. The upturn was mostly accounted for by a smaller decrease in interest paid to persons and business, which decreased \$1.2 billion after decreasing \$4.8 billion.

Consumption expenditures increased \$0.6 billion after increasing \$12.7 billion. The deceleration was more than accounted for by a downturn in defense consumption expenditures. Nondefense consumption expenditures turned up.

Defense consumption expenditures decreased \$3.1 billion after increasing \$13.5 billion. Expenditures for defense services turned down, decreasing \$7.9 billion after increasing \$10.9 billion (these expenditures consist of expenditures for research and development, for transportation of materials, for travel, and for other services).

In contrast, nondefense consumption expenditures increased \$3.6 billion after decreasing \$0.7 billion. The upturn was mostly accounted for by spending for nondurable goods, which increased \$2.3 billion after

decreasing \$1.3 billion. Compensation of general government employees increased \$0.5 billion after decreasing \$0.6 billion, reflecting increases in employment in nondefense agencies.

### State and local

Net state and local government saving was \$35.6 billion in the fourth quarter of 2004, increasing \$31.1 billion from \$4.5 billion in the third quarter. Current receipts turned up dramatically, and current expenditures accelerated considerably.

**Current receipts.** State and local government current receipts increased \$57.3 billion after decreasing \$9.2 billion. The upturn was mostly accounted for by an upturn in current transfer receipts and by an acceleration in current tax receipts

Current transfer receipts increased \$28.8 billion after decreasing \$14.7 billion. The upturn was mostly accounted for by an upturn in Federal grants-in-aid, which increased \$19.5 billion after decreasing \$9.8 billion mainly because of an upturn in grants for Medicaid and disaster relief. The upturn was also attributable to an upturn in transfer receipts from business, which increased \$7.8 billion after decreasing \$6.4 billion; the third-quarter receipts were reduced as a result of the effects of the hurricanes on the transactions of state-owned insurance enterprises in Florida and Louisiana.

Current tax receipts increased \$27.7 billion after increasing \$5.0 billion. The acceleration was partly accounted for by an upturn in taxes on corporate income, which increased \$6.3 billion after decreasing \$2.8 billion. Both taxes on production and imports and personal current taxes accelerated. Taxes on production and imports increased \$15.5 billion after increasing \$7.5 billion, mostly as a result of an acceleration in state sales taxes. Personal current taxes increased \$5.9 billion after increasing \$0.2 billion, reflecting an upturn in personal income taxes.

**Current expenditures.** State and local government current expenditures increased \$26.2 billion after increasing \$4.5 billion. Government social benefit payments turned up, and consumption expenditures accelerated.

Government social benefit payments increased \$9.4 billion after decreasing \$9.9 billion. The upturn was mainly attributable to an upturn in Medicaid payments.

Consumption expenditures increased \$16.1 billion after increasing \$13.7 billion. The acceleration was more than accounted for by an acceleration in the purchases of nondurable goods.



**Net lending or net borrowing**

“Net lending or net borrowing (–)” is an alternative measure of the government fiscal position. “Net lending or net borrowing (–)” is the financing requirement of the government sector, and it is derived as net government saving plus the consumption of fixed capital and “capital transfers received (net)” less gross investment and net purchases of nonproduced assets.<sup>12</sup>

Net borrowing was \$472.9 billion in the fourth quarter, decreasing \$41.6 billion from \$514.5 billion in the third quarter. Federal Government net borrowing was \$410.8 billion in the fourth quarter, decreasing \$17.7 from \$428.5 billion in the third quarter. Net Federal government saving increased \$18.8 billion after in-

creasing \$5.0 billion. State and local government net borrowing was \$62.0 billion in the fourth quarter, decreasing \$24.0 billion from \$86.0 billion in the third quarter.

Gross government investment turned up, increasing \$10.6 billion after decreasing \$3.5 billion.<sup>13</sup> Federal Government gross investment increased \$6.6 billion after increasing \$0.3 billion; defense gross investment accelerated, and nondefense gross investment turned up. State and local government gross investment increased \$4.0 billion after decreasing \$3.7 billion; the upturn was mostly accounted for by an upturn in gross investment for structures, which increased \$2.8 billion after decreasing \$4.1 billion.

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12. These estimates are also shown in NIPA tables 3.1–3.3.

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13. See the addenda to NIPA tables 3.1–3.3.