

BUSINESS SITUATION

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ACCORDING TO the “preliminary” estimates of the national income and product accounts (NIPA’s), the fixed-weighted measure of real gross domestic product (GDP) increased 1.1 percent in the second quarter of 1995; the “advance” estimate of real GDP, reported in the July “Business Situation,” had shown a 0.5-percent increase. An alternative measure of real GDP—the chain-type annual-weighted measure—increased 0.5 percent, according to the preliminary estimates; the advance estimates had shown a 0.2-percent decrease (see the section “Alternative measures”).¹

The fixed-weighted measure of the change in real gross domestic purchases was revised up to a 1.7-percent increase from a 1.0-percent increase reported a month ago. The fixed-weighted price index for gross domestic purchases increased 3.0 percent, 0.1 percentage point more than reported

a month ago. (The sources of the revisions are discussed in the section “Revisions.”)

The 1.1-percent increase in the fixed-weighted measure of real GDP in the second quarter was markedly lower than the increases in the past few quarters (chart 1). The slowdown from a

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, or constant-dollar, estimates are expressed in 1987 dollars.

In the next comprehensive revision of the NIPA’s, which is scheduled for the end of 1995, the featured measure of real GDP growth will be calculated using chain-type annual-weighted indexes similar to those presently published as an alternative measure. For more information, see “Preview of the Comprehensive Revision of the National Income and Product Accounts: BEA’s New Featured Measures of Output and Prices” in the July 1995 SURVEY OF CURRENT BUSINESS.

Table 1.—Real Gross Domestic Product, by Major Type of Product

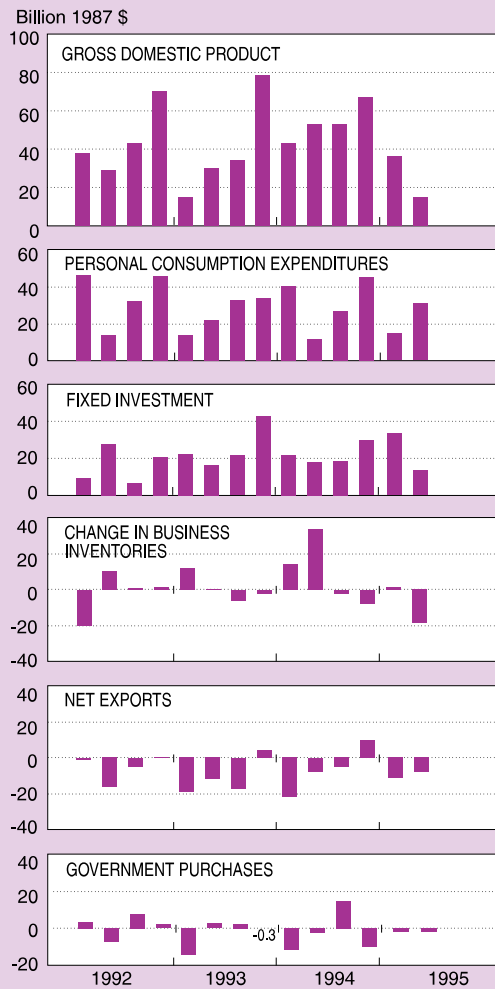
(Seasonally adjusted at annual rates)

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1994		1995	
		1994		1995		III	IV	I	II
		1995:II	III	IV	I					II
Gross domestic product	5,485.2	52.9	66.8	36.3	15.1	4.0	5.1	2.7	1.1
Goods	2,314.4	34.2	51.4	32.5	-5.0	6.4	9.5	5.8	-9
Motor vehicles	215.6	4.8	7.1	-3.3	-16.4	8.9	13.0	-5.5	-25.4
Other	2,098.8	29.4	44.3	35.8	11.4	6.1	9.1	7.2	2.2
Services	2,687.9	18.1	8.5	1.3	24.2	2.8	1.3	.2	3.7
Structures	482.9	.7	6.9	2.5	-4.1	.6	5.9	2.1	-3.3
Addenda:									
Final sales of domestic product	5,452.5	55.1	74.4	34.6	33.5	4.3	5.7	2.6	2.5
Change in business inventories	32.7	-2.1	-7.7	1.7	-18.4				

NOTE.—Most series are found in NIPA table 1.4. Output of motor vehicles is the sum of auto output and truck output (from tables 8.4 and 8.6, respectively).

CHART 1

Real Product: Change from Preceding Quarter



Based on Seasonally Adjusted Annual Rates
U.S. Department of Commerce, Bureau of Economic Analysis

2.7-percent increase in the first quarter reflected downturns in the output of goods and of structures; in contrast, the output of services stepped up substantially (table 1).

Inventory investment—which turned down sharply, as inventory accumulation decreased after a small increase—bore the brunt of the slowdown in GDP. In contrast, final sales of domestic product hardly slowed at all, as a 2.5-percent increase followed a 2.6-percent increase. Within final sales, a step-up in personal consumption expenditures nearly offset a weakening in residential and nonresidential investment (table 2).

Imports and exports account for the difference between GDP (the goods and services produced in the United States) and gross domestic purchases (the goods and services purchased by U.S. residents). In the second quarter, gross domestic purchases again increased more than GDP, as imports continued to increase more than exports.

Personal consumption expenditures

Real personal consumption expenditures (PCE) increased 3.4 percent in the second quarter after increasing 1.6 percent in the first (table 3).

Table 2.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1994		1995	
		1994		1995		III	IV	I	II
		1995:II	III	IV	I					II
Gross domestic product	5,485.2	52.9	66.8	36.3	15.1	4.0	5.1	2.7	1.1
Less: Exports of goods and services	716.8	22.6	31.4	8.3	10.6	14.8	20.2	4.8	6.1
Plus: Imports of goods and services	843.6	27.9	21.5	19.6	19.0	15.6	11.4	10.1	9.5
Equals: Gross domestic purchases	5,612.0	58.2	56.9	47.7	23.4	4.4	4.2	3.5	1.7
Less: Change in business inventories	32.7	-2.1	-7.7	1.7	-18.4	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	5,579.3	60.3	64.6	46.0	41.8	4.6	4.8	3.4	3.1
Personal consumption expenditures	3,674.3	26.9	44.9	14.3	30.4	3.1	5.1	1.6	3.4
Nonresidential fixed investment	764.7	22.1	28.2	35.4	21.1	14.1	17.6	21.5	11.8
Residential investment	221.5	-3.6	1.3	-2.0	-8.0	-6.0	2.3	-3.4	-13.2
Government purchases	918.7	14.9	-9.8	-1.7	-1.8	6.7	-4.1	-7.7	-8.8

NOTE.—Dollar levels are found in NIPA tables 1.2 and 1.6. Percent changes are found in table 8.1.

Table 3.—Real Personal Consumption Expenditures

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1994		1995	
		1994		1995		III	IV	I	II
		1995:II	III	IV	I				
Personal consumption expenditures	3,674.3	26.9	44.9	14.3	30.4	3.1	5.1	1.6	3.4
Durable goods	553.9	7.4	25.2	-4.8	3.9	5.8	20.4	-3.4	2.9
Motor vehicles and parts	201.9	-3.3	9.9	-8.7	-1.3	-6.3	21.1	-15.4	-2.5
New autos	75.7	-4.9	5.4	-8.1	-5	-21.4	30.3	-33.2	-2.6
New trucks	43.1	-2.7	5.9	-2.7	-2.7	-21.8	68.0	-20.5	-21.6
Other	83.1	4.3	-1.4	2.1	1.9	24.6	-6.8	11.0	9.7
Furniture and household equipment	261.7	9.2	12.8	2.1	5.1	16.8	22.9	3.3	8.2
Other	90.3	1.6	2.4	1.9	0	7.8	11.6	8.9	0
Nondurable goods	1,133.9	9.1	8.5	6.3	5.7	3.3	3.1	2.3	2.0
Food	541.0	-4	2.8	2.6	-1	-3	2.1	1.9	-1
Clothing and shoes	219.5	5.3	6.2	.2	2.9	10.8	12.3	.4	5.5
Energy ¹	103.3	1.6	-4	2.5	1.5	6.7	-1.6	10.5	6.0
Other	270.1	2.7	-2	1.1	1.4	4.1	-3	1.7	2.1
Services	1,986.4	10.4	11.1	12.8	20.7	2.2	2.3	2.6	4.3
Housing	509.5	2.6	2.4	2.4	2.1	2.1	1.9	1.9	1.7
Household operation	238.0	-1.0	-1.0	2.6	8.3	-1.7	-1.7	4.7	15.3
Energy ²	103.1	-3.0	-2.7	2.1	6.5	-11.4	-10.7	9.2	29.8
Other household operation	134.9	2.0	1.7	.5	1.8	6.4	5.3	1.5	5.5
Transportation	137.0	.6	3.3	1.3	0	1.8	10.3	3.9	0
Medical care	489.3	3.6	3.4	2.5	2.4	3.1	2.9	2.1	2.0
Other	612.8	4.6	3.0	4.0	8.1	3.1	2.0	2.7	5.5

1. Gasoline and oil, and fuel oil and coal.
2. Electricity and gas.

NOTE.—Dollar levels are found in NIPA table 2.3. New auto and truck purchases are found in tables 8.4 and 8.6, respectively. Percent changes in major aggregates are found in table 8.1.

Expenditures on durable goods and on services contributed about equally to the step-up; expenditures on nondurable goods increased a little less than in the first quarter.

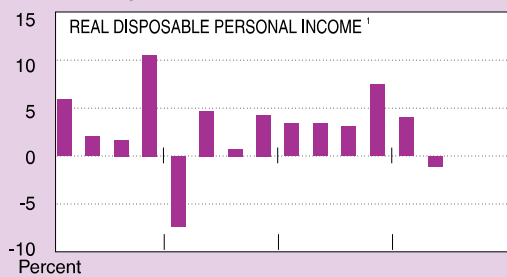
The step-up in consumer spending is not easily explained in terms of several of the factors usually considered in analyses of PCE (chart 2). Real disposable personal income turned down after decelerating. The unemployment rate increased to 5.7 percent from 5.5 percent. The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) decreased.

Expenditures for durable goods increased 2.9 percent after decreasing 3.4 percent. The upturn was accounted for by motor vehicles and parts and by furniture and household equipment. Motor vehicles and parts decreased much less than in the first quarter; new autos accounted for the improvement. Furniture and household equipment increased more than twice as much as in the first quarter.

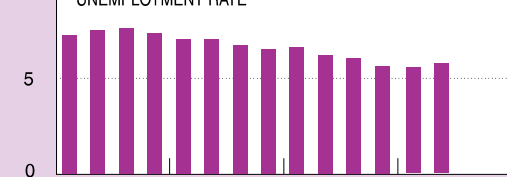
CHART 2

Selected Factors Affecting Consumer Spending

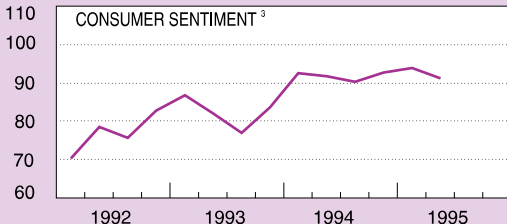
Percent change



UNEMPLOYMENT RATE²



CONSUMER SENTIMENT³



1. Disposable personal income in 1987 dollars; seasonally adjusted annual rates.

2. All civilian workers, seasonally adjusted.

Data: U.S. Department of Labor, Bureau of Labor Statistics

3. Data: University of Michigan's Survey Research Center.

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

Expenditures for services increased 4.3 percent after increasing 2.6 percent. The step-up was accounted for by energy and by "other" services, both of which increased more than twice as much as in the first quarter. The step-up in energy reflected a response to colder-than-usual springtime weather following warmer-than-usual winter weather in much of the Nation. In contrast to the step-ups in energy and "other" services, housing and medical care services increased a little less than in the first quarter, and transportation services were unchanged after increasing.

Expenditures for nondurable goods increased 2.0 percent after increasing 2.3 percent. Food edged down after increasing, and energy slowed. Clothing and shoes increased after little change, and "other" nondurable goods increased a little more than in the first quarter.

Nonresidential fixed investment

Real nonresidential fixed investment increased 11.8 percent in the second quarter after increasing 21.5 percent in the first (table 4). Most of the slowdown was accounted for by producers' durable equipment (PDE), which increased half as much as in the first quarter.

Financial factors were more favorable to investment in the second quarter, but other factors were less so. Among the financial factors, profits posted its largest increase in a year, and cash flow increased for the second consecutive quarter. In addition, borrowing costs—as measured by the yield on new high-grade corporate bonds—decreased for the second consecutive quarter; at 7.73 percent, the rate was more than a full percentage point lower than in the fourth quarter of 1994. Among the nonfinancial factors, the capacity utilization rate in manufacturing posted its first quarterly decrease in 2 years, dropping to 83.1 percent from 84.7 percent, and real final sales of domestic product increased only modestly for the second consecutive quarter.

Structures increased 10.1 percent after increasing 11.5 percent. Nonresidential buildings increased less than in the first quarter; a downturn in commercial construction more than offset a step-up in industrial construction. Mining exploration, shafts, and wells—mainly oilwell drilling—decreased slightly after an increase. Construction by utilities turned up, and "other" structures increased more than in the first quarter.

PDE increased 12.3 percent after increasing 24.5 percent. The slowdown reflected downturns in

transportation equipment and in "other" PDE that were partly offset by a step-up in information processing equipment, mainly computers. The downturn in transportation equipment was accounted for by aircraft and trucks; autos was unchanged after decreasing.

Residential investment

Real residential investment decreased 13.2 percent in the second quarter after decreasing 3.4 percent in the first. Single-family structures decreased much more than in the first quarter, and multifamily structures increased somewhat less than in the first quarter; "other" residential investment decreased less than in the first quarter.²

Single-family construction decreased 25.9 percent after decreasing 6.8 percent. Single-family construction in a quarter is largely determined by single-family housing starts in that quarter and in the preceding quarter. Thus, construction in the second quarter of 1995 reflected starts in the first and second quarters. In these two quarters, single-family starts averaged 1.02 million units (seasonally adjusted annual rate), down from an average of 1.12 million units in the fourth quarter of 1994 and the first quarter of 1995 (chart 3).

Multifamily construction increased for the sixth consecutive quarter. The increase occurred

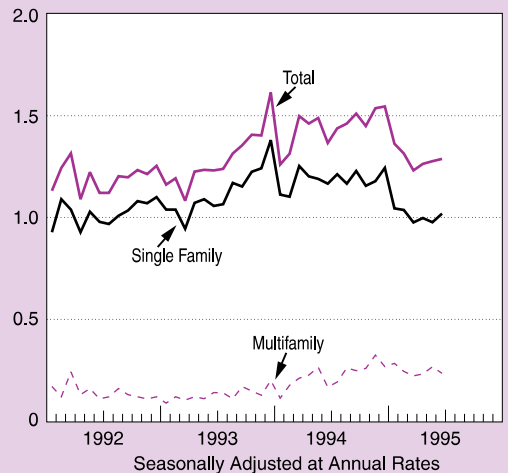
despite a rise in the rental vacancy rate to 7.7 percent, its highest rate since the first quarter of 1993.

"Other" residential investment decreased 1.2 percent after decreasing 4.5 percent. Brokers' commissions were flat, as house sales increased little even though the commitment rate on 30-year fixed-rate mortgages dropped to 7.95 percent from 8.81 percent (chart 4).

CHART 3

Housing Starts

Millions of units



Data: Bureau of the Census

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

Table 4.—Real Gross Private Domestic Fixed Investment

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1994		1995	
		1994		1995		III	IV	I	II
	1995:II	III	IV	I	II				
Gross private domestic fixed investment	986.2	18.5	29.5	33.3	13.2	8.6	13.6	14.9	5.5
Nonresidential	764.7	22.1	28.2	35.4	21.1	14.1	17.6	21.5	11.8
Structures	163.8	.6	4.0	4.3	3.9	1.6	11.0	11.5	10.1
Nonresidential buildings, including farm	115.2	-3	4.4	3.6	2.1	-1.1	17.8	13.8	7.6
Utilities	31.8	.7	1.0	-2	1.3	10.0	14.2	-2.6	18.2
Mining exploration, shafts, and wells	9.3	-5	-8	.9	-1	-18.9	-30.2	49.6	-4.2
Other	7.6	.5	-5	.2	.6	32.8	-24.7	12.3	39.0
Producers' durable equipment	600.9	21.5	24.2	31.1	17.2	18.1	19.6	24.5	12.3
Information processing and related equipment	309.3	9.0	18.7	15.4	24.0	15.7	33.3	24.9	38.1
Computers and peripheral equipment	175.5	4.8	11.4	10.7	18.3	15.6	38.3	32.6	55.3
Other	133.8	4.3	7.3	4.6	5.8	16.3	27.6	15.8	19.4
Industrial equipment	101.8	3.2	1.5	5.3	2.9	15.2	6.7	24.6	12.3
Transportation and related equipment	101.1	6.8	4.3	6.2	-8.5	32.9	18.5	26.2	-27.6
Motor vehicles	89.0	5.8	3.1	.5	-4.7	30.5	14.5	2.2	-18.6
Other	12.1	1.0	1.2	5.7	-3.8	60.2	65.0	490.5	-66.5
Other	88.7	2.5	-4	4.3	-1.3	12.5	-1.8	21.6	-5.7
Residential	221.5	-3.6	1.3	-2.0	-8.0	-6.0	2.3	-3.4	-13.2
Single-family structures	110.3	-3.8	-2.8	-2.1	-8.6	-11.4	-8.7	-6.8	-25.9
Multifamily structures	15.5	.8	1.4	1.2	.8	31.5	55.0	40.6	23.6
Other	95.6	-6	2.6	-1.1	-3	-2.5	11.5	-4.5	-1.2

NOTE.—Dollar levels are found in NIPA table 5.5. Motor vehicles include new and used autos (from table 8.4) and new trucks (from table 8.6). Percent changes in major aggregates are found in table 8.1.

Inventory investment

Real inventory investment—that is, the change in business inventories—decreased \$18.4 billion in the second quarter after increasing \$1.7 billion in the first. The decrease mainly reflected a slowdown in nonfarm inventory accumulation to \$31.9 billion in the second quarter from \$49.1 billion in the first (table 5).

Retail and wholesale trade accounted for most of the slowdown in nonfarm accumulation. At the retail level, inventories held by auto dealers decreased after an increase. At the wholesale level, most of the slowdown was accounted for by inventories of durable goods, which increased about half as much as in the first quarter.

In contrast to the weakness in trade inventories, manufacturing inventories increased even more than in the first quarter, when they had posted their biggest increase in almost 6 years. Two-thirds of the step-up in the second quarter was accounted for by durable goods.

Farm inventories increased \$0.9 billion after increasing \$2.0 billion. Inventories of livestock increased after a decrease. Inventories of crops decreased slightly after an increase.

The constant-dollar ratio of nonfarm inventories to all final sales of domestic businesses was unchanged at 2.49. A ratio in which final sales are limited to goods and structures rose to 4.25 from 4.23. Both ratios are low by historical standards.

Exports and imports of goods and services

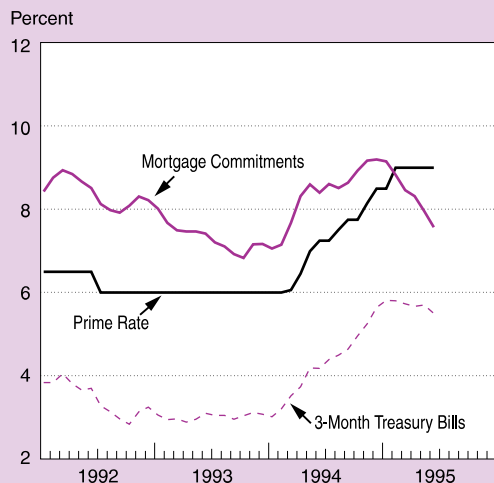
Real exports increased 6.1 percent in the second quarter after increasing 4.8 percent in the first. Real imports increased 9.5 percent after increasing 10.1 percent (table 6).

Exports of goods increased 8.5 percent after increasing 7.4 percent. Exports of agricultural products decreased after no change, but exports of nonagricultural products stepped up. Exports of civilian aircraft turned up sharply, and exports of nonautomotive consumer goods turned up moderately. In contrast, exports of autos, of industrial supplies and materials, and of “other” goods turned down. Exports of services decreased less than in the first quarter.

Imports of goods increased 11.7 percent after increasing 9.3 percent. Imports of petroleum turned up, and imports of nonpetroleum products increased more than in the first quarter. Among nonpetroleum products, the biggest step-up was in nonautomotive capital goods, mainly

CHART 4

Selected Interest Rates



Data: Federal Reserve Board
U.S. Department of Commerce, Bureau of Economic Analysis

Table 5.—Change in Real Business Inventories

[Billions of 1987 dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter			
	1994			1995		1994		1995	
	II	III	IV	I	II	III	IV	I	II
Change in business inventories	59.2	57.1	49.4	51.1	32.7	-2.1	-7.7	1.7	-18.4
Farm	7.5	9.7	7.7	2.0	.9	2.2	-2.0	-5.7	-1.1
Nonfarm	51.7	47.4	41.7	49.1	31.9	-4.3	-5.7	7.4	-17.2
Manufacturing .....	.7	4.5	4.1	12.0	14.8	3.8	-4	7.9	2.8
Wholesale trade	17.7	16.9	15.8	22.1	13.6	-8	-1.1	6.3	-8.5
Retail trade	22.3	19.9	15.6	9.7	1.6	-2.4	-4.3	-5.9	-8.1
Automotive	-1.9	7.9	11.8	8.9	-3.7	9.8	3.9	-2.9	-12.6
Other retail trade	24.2	12.0	3.8	.8	5.3	-12.2	-8.2	-3.0	4.5
Other	11.0	6.1	6.2	5.2	1.9	-4.9	.1	-1.0	-3.3
Addenda:									
Motor vehicles	3.5	7.9	11.0	14.1	1.6	4.4	3.1	3.1	-12.5
Nonfarm less motor vehicles	48.2	39.5	30.7	35.0	30.3	-8.7	-8.8	4.3	-4.7

NOTE.—Dollar levels for change in real business inventories are found in NIPA table 5.11. Motor vehicles are found in tables 8.4 (autos) and 8.6 (trucks).

computers; industrial supplies and materials also stepped up, and "other" goods turned up. In contrast, imports of autos and of foods, feeds, and beverages turned down, and imports of nonautomotive consumer goods slowed. Imports of services decreased after a sharp increase.

Government purchases

Real government purchases decreased 0.8 percent in the second quarter after decreasing 0.7 percent in the first (table 7). Federal Government purchases decreased somewhat more than in the first quarter, and State and local government purchases increased somewhat more.

Federal nondefense purchases decreased 8.6 percent after increasing 3.6 percent. All categories except employee compensation contributed to the downturn. Commodity Credit Corporation inventory change made the biggest contribution.

Federal defense purchases decreased 2.9 percent after decreasing 7.5 percent. Purchases of services turned up, though compensation of employ-

ees decreased for the 17th consecutive quarter. Purchases of military hardware turned down.

State and local government purchases increased 1.6 percent after increasing 1.0 percent. The slight pickup reflected a rebound in structures.

Revisions

The preliminary estimate of a 1.1-percent increase in the fixed-weighted measure of real GDP in the second quarter is 0.6 percentage point higher than the advance estimate (table 8).³ Preliminary estimates of the increases in the fixed-weighted price indexes for gross domestic purchases (3.0 percent) and for GDP (2.8 percent) are 0.1 percentage point higher than the advance estimates.

The revision to GDP reflected upward revisions to consumer spending and to inventory investment that were partly offset by downward revisions to net exports and to government

3. Over the past 10 years, the average revision to the change in real GDP from the advance to the preliminary estimate, without regard to sign, has been 0.5 percentage point.

Table 6.—Real Exports and Imports of Goods and Services

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1994		1995	
		1994		1995		III	IV	I	II
	1995:II	III	IV	I	II				
Exports of goods and services	716.8	22.6	31.4	8.3	10.6	14.8	20.2	4.8	6.1
Goods	554.4	20.5	28.5	9.6	11.2	18.0	24.6	7.4	8.5
Agricultural products	43.3	3.2	5.2	0	-2.6	38.8	61.8	0	-20.8
Nonagricultural products	511.2	17.3	23.2	9.7	13.9	16.4	21.5	8.2	11.7
Services	162.4	2.1	3.0	-1.3	-6	5.4	7.6	-3.1	-1.5
Imports of goods and services	843.6	27.9	21.5	19.6	19.0	15.6	11.4	10.1	9.5
Goods	731.4	26.3	21.3	15.6	19.9	17.2	13.2	9.3	11.7
Petroleum and products	56.3	4.0	-7.2	-1.7	.9	29.3	-37.8	-11.4	6.7
Nonpetroleum products	675.1	22.4	28.6	17.2	19.0	16.1	20.1	11.2	12.1
Services	112.3	1.5	.2	4.1	-9	5.7	.7	15.9	-3.1
Addendum:									
Net exports of goods and services	-126.8	-5.2	9.9	-11.4	-8.3				

NOTE.—Dollar levels are found in NIPA tables 4.2 and 4.4, and percent changes in major aggregates are found in table 8.1.

Table 7.—Real Government Purchases

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1994		1995	
		1994		1995		III	IV	I	II
	1995:II	III	IV	I	II				
Government purchases	918.7	14.9	-9.8	-1.7	-1.8	6.7	-4.1	-0.7	-0.8
Federal	323.1	8.8	-13.1	-3.2	-4.1	10.9	-14.4	-3.8	-4.9
National defense	213.3	6.9	-13.9	-4.2	-1.6	12.8	-21.8	-7.5	-2.9
Nondefense	109.8	1.8	.8	1.0	-2.5	6.8	2.9	3.6	-8.6
State and local	595.6	6.1	3.3	1.5	2.3	4.3	2.3	1.0	1.6
Structures	91.9	2.5	1.1	-7	.9	11.8	4.9	-3.0	4.0
Other	503.7	3.6	2.2	2.2	1.4	2.9	1.8	1.8	1.1

NOTE.—Dollar levels are found in NIPA table 3.B, and percent changes are found in table 8.1.

spending. The upward revision to personal consumption expenditures mainly reflected the incorporation of revised Census Bureau data on retail sales for May and June; it also reflected new source data on components of household operation (telephone usage and energy consumption). The upward revision to inventory investment was more than accounted for by the incorporation of newly available data on livestock inventories from the Department of Agriculture. In nonfarm inventories, a downward revision that was based on revised Census Bureau data on the book value of inventories more than offset an upward revision to the inventory val-

uation adjustment that was based on newly available data on prices from the U.S. Department of Energy and from the Bureau of Labor Statistics.

The downward revision to net exports reflected the incorporation of revised data on exports and imports of goods and services for May and newly available data for June. The downward revision to government purchases was mostly in Federal nondefense purchases and reflected the incorporation of newly available source data on detailed Federal outlays for June and newly available source data on construction put in place for June.

Table 8.—Revisions to Real Gross Domestic Product and Prices, Second Quarter 1995

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Preliminary estimate minus advance estimate	
	Advance estimate	Preliminary estimate	Percentage points	Billions of 1987 dollars
Gross domestic product	0.5	1.1	0.6	7.9
Less: Exports of goods and services ..	7.2	6.1	-1.1	-1.7
Goods	9.8	8.5	-1.3	-1.6
Services	-1.5	-1.5	0	0
Plus: Imports of goods and services ..	9.4	9.5	.1	.2
Goods	11.5	11.7	.2	.2
Services	-3.1	-3.1	0	0
Equals: Gross domestic purchases¹	1.0	1.7	.7	9.7
Personal consumption expenditures ...	2.5	3.4	.9	7.8
Durable goods .....	.4	2.9	2.5	3.4
Nondurable goods	1.3	2.0	.7	2.0
Services	3.8	4.3	.5	2.3
Fixed investment	5.2	5.5	.3	.8
Nonresidential	11.8	11.8	0	.1
Structures	8.5	10.1	1.6	.6
Producers' durable equipment ...	12.7	12.3	-.4	-.5
Residential	-14.2	-13.2	1.0	.6
Change in business inventories				2.3
Nonfarm				-1.0
Farm				3.4
Government purchases	-3	-8	-5	-1.2
Federal	-3.1	-4.9	-1.8	-1.5
National defense	-2.0	-2.9	-.9	-.5
Nondefense	-5.2	-8.6	-3.4	-1.0
State and local	1.4	1.6	.2	.2
Addenda:				
Final sales of domestic product	2.1	2.5	.4	5.6
Gross domestic purchases price index (fixed weights) ¹	2.9	3.0	.1	
GDP price index (fixed weights) ¹ ..	2.7	2.8	.1	

1. Based on 1987 weights.

NOTE.—Preliminary estimates for the second quarter of 1995 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared a month ago.

Personal consumption expenditures: Revised retail sales for May and June, and consumers' share of new car purchases for May.

Nonresidential fixed investment: Construction put in place for April and May (revised) and June, revised manufacturers' shipments of machinery and equipment for May and June, and business' share of new car purchases for May.

Residential investment: Construction put in place for April and May (revised) and June.

Change in business inventories: Manufacturing and trade inventories for May (revised) and June.

Net exports of goods and services: Merchandise exports and merchandise imports for May (revised) and June.

Government purchases: Federal outlays for January through May (revised) and June, State and local construction put in place for April and May (revised) and June, and revised State and local government employment for May and June.

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

GDP prices: Detailed merchandise export and import price indexes for April through June, values and quantities of petroleum imports for June, and housing prices for the quarter.

Alternative measures

Like the fixed-weighted measure of real GDP, BEA's alternative measures show the economy growing slowly in the second quarter (table 9). According to the fixed-weighted measure, real GDP increased 1.1 percent; according to the alternative measures—the chain-type annual-weighted measure and the benchmark-years-weighted measure—real GDP increased 0.5 percent. A decrease in inventory investment was the major cause of the sluggish growth in all these measures. Final sales of domestic product—GDP less inventory investment—increased 2.5 percent with fixed weights, 1.6 percent with chain-type weights, and 1.7 percent with benchmark-years weights.

Table 9.—Fixed-Weighted and Alternative Quantity and Price Indexes

[Percent change at annual rates; based on seasonally adjusted index numbers (1987=100)]

	1994		1995	
	III	IV	I	II
Gross domestic product:				
Quantity indexes:				
Fixed 1987 weights	4.0	5.1	2.7	1.1
Chain-type annual weights	3.6	4.0	1.7	.5
Benchmark-years weights	3.6	4.1	1.8	.5
Price indexes:				
Fixed 1987 weights	3.0	2.6	3.3	2.8
Chain-type annual weights	2.8	2.5	3.2	2.6
Benchmark-years weights	2.7	2.6	3.3	2.7
Final sales of domestic product:				
Quantity indexes:				
Fixed 1987 weights	4.3	5.7	2.6	2.5
Chain-type annual weights	3.9	4.6	1.7	1.6
Benchmark-years weights	3.9	4.7	1.8	1.7
Price indexes:				
Fixed 1987 weights	3.0	2.7	3.3	2.8
Chain-type annual weights	2.7	2.5	3.2	2.6
Benchmark-years weights	2.7	2.6	3.3	2.6
Gross domestic purchases:				
Price indexes:				
Fixed 1987 weights	3.5	2.6	3.0	3.0
Chain-type annual weights	3.2	2.4	2.9	2.8
Benchmark-years weights	3.2	2.5	2.9	2.8

NOTE.—Percent changes are found in NIPA table 8.1. Index number levels are found in tables 7.1 and 7.2.

The difference between the change in the featured measure of GDP and the change in the alternative measures was more than accounted for by a strong increase in business purchases of computers, a product whose prices have decreased steadily since 1987. The decrease in inventory investment reduced the difference between the featured and the alternative measures from what it otherwise would have been; inventory prices have increased less than overall prices since 1987.

In the first quarter, both alternative measures of GDP had increased about 1 percentage point less than the fixed-weighted measure. About four-fifths of this difference was accounted for by computers.

Both alternative price indexes for gross domestic purchases increased 2.8 percent in the second quarter, 0.2 percentage point less than the featured fixed-weighted price index. In the first quarter, both alternative price measures increased 2.9 percent, 0.1 percentage point less than the featured measure.

The preliminary estimates of the change in the alternative measures of real GDP are 0.7 percentage point higher than the advance estimates published last month. For prices of gross domestic purchases, the chain-type measure was revised up 0.1 percentage point, and the benchmark-years measure was unrevised.

Corporate Profits

Profits from current production increased \$15.5 billion in the second quarter after increasing \$9.4 billion in the first (table 10).⁴

The step-up reflected an upturn in profits from domestic operations of nonfinancial corporations, as unit profits of these corporations rebounded from a first-quarter drop; real gross product of nonfinancial corporations increased less than in the first quarter. Changes in unit labor costs, which decreased in the second quarter after increasing in the first, were primarily responsible for the changes in unit profits; unit prices were unchanged in both quarters.

In contrast to the improvement in profits of nonfinancial corporations, profits from domestic operations of financial corporations changed little after increasing, and profits from the rest of the world slowed.

4. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment (IVA), and the capital consumption adjustment (CCAdj); it is shown in NIPA tables 1.14, 1.16, and 6.16C as "corporate profits with IVA and CCAdj."

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$21.5 billion after increasing \$9.1 billion. 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 76.9 percent from 75.4 percent; the increase followed six consecutive decreases.

Industry profits.—Industry profits increased \$18.3 billion after increasing \$10.2 billion.⁵ Profits of nonfinancial industries increased \$11.5 billion after decreasing \$6.8 billion. The upturn appears to have been in manufacturing and, to a lesser extent, in the transportation and public utilities group; in contrast, profits in trade appear to have decreased more than in the first quarter, and

5. Industry profits are estimated as the sum of profits before tax and the inventory valuation adjustment (IVA); it is shown in NIPA table 6.16C as "corporate profits with IVA." Estimates of the capital consumption adjustment by industry do not exist.

Table 10.—Corporate Profits

[Seasonally adjusted at annual rates]

	Level		Change from preceding quarter	
	1995:II		1995:I	1995:II
	Billions of dollars			
Profits from current production	585.2	9.4	15.5	
Domestic industries	511.0	.4	10.0	
Financial	97.9	7.2	-1	
Nonfinancial	413.0	-6.8	10.0	
Rest of the world	74.3	9.0	5.6	
IVA	-26.4	-6.9	12.6	
CCAdj	35.3	-7	-2.8	
Profits before tax	576.3	17.1	5.7	
Profits tax liability	220.5	4.4	.5	
Profits after tax	355.8	12.8	5.1	
Cash flow from current production	599.4	9.1	21.5	
Profits by industry:				
Corporate profits with IVA	549.9	10.2	18.3	
Domestic industries	475.6	1.2	12.7	
Financial	116.4	8.0	1.2	
Nonfinancial	359.2	-6.8	11.5	
Manufacturing			-7.0	
Trade			-2.5	
Transportation and public utilities			-6	
Other			3.3	
Rest of the world	74.3	9.0	5.6	
Receipts (inflows)	104.2	9.4	4.8	
Payments (outflows)	29.9	.4	-8	
	Dollars			
Unit price, costs, and profits of domestic non-financial corporations:				
Unit price	1.175	0	0	
Unit labor cost .....	.767	.003	-.004	
Unit nonlabor cost .....	.281	.001	.001	
Unit profits from current production .....	.127	-.003	.002	

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

IVA Inventory valuation adjustment
CCAdj Capital consumption adjustment

profits in "other nonmanufacturing" appear to have slowed. Profits of financial industries increased \$1.2 billion after increasing \$8.0 billion; the slowdown appears to reflect a downturn in profits of commercial banks.

Profits from the rest of the world increased \$5.6 billion after increasing \$9.0 billion. This component of profits measures receipts of profits from foreign affiliates of U.S. corporations less payments of profits by U.S. affiliates of foreign corporations. Receipts increased about half as much as in the first quarter, and payments decreased slightly after a small increase.

Government Sector

The fiscal position of the government sector continued to improve in the second quarter of 1995, as the combined deficit of the Federal Government and of State and local governments decreased \$18.7 billion, to \$101.9 billion (table 11). An improvement in the Federal Government deficit was partly offset by a decrease in the surplus of State and local governments.

Federal

The Federal Government deficit fell \$20.8 billion in the second quarter after decreasing \$12.3 billion in the first. At \$128.0 billion, the second-quarter deficit was the lowest since the second quarter of 1982.

Receipts.—Receipts increased \$34.5 billion in the second quarter after increasing \$32.1 billion in the first. Personal tax and nontax receipts again increased strongly, and indirect business tax and nontax accruals increased after a decrease; corporate profits tax accruals and contributions for social insurance both increased less than in the first quarter.

Personal tax and nontax receipts increased \$28.6 billion after increasing \$20.6 billion. Net nonwithheld personal income taxes increased \$18.4 billion after increasing \$10.4 billion; the acceleration reflected provisions of the Omnibus Budget Reconciliation Act of 1993 that allowed certain retroactive taxes to be paid in three annual installments, the second of which was due in April 1995. Withheld personal income taxes increased \$8.7 billion after increasing \$10.4 billion, reflecting a slowdown in wages and salaries.

Indirect business tax and nontax accruals increased \$1.8 billion after decreasing \$2.8 billion. This turnaround reflected a partial rebound in collections of customs duties, which had dropped

in the first quarter as a result of reduced tariffs under the General Agreement on Trade and Tariffs and the North American Free Trade Agreement.

Contributions for social insurance increased \$3.4 billion after increasing \$10.5 billion. First-quarter contributions were boosted by an increase in the social security taxable wage base and by an increase in monthly premiums for supplemental medical insurance, both of which became effective in January 1995.

Table 11.—Government Sector Receipts and Expenditures

[Billions of dollars, seasonally adjusted]

	Level 1995: II	Change from preceding quarter				
		1994			1995	
		II	III	IV	I	II
Government sector						
Receipts	2252.5	55.4	17.0	32.1	40.1	41.4
Expenditures	2354.4	22.4	29.0	34.3	28.4	22.7
Surplus or deficit (–)	–101.9	33.0	–12.0	–2.2	11.7	18.7
Social insurance funds	139.4	4.3	0	1.2	17.4	1.4
Other	–241.3	28.6	–11.9	–3.4	–5.7	17.3
Federal Government						
Receipts	1475.4	43.2	8.1	20.0	32.1	34.5
Personal tax and nontax receipts	623.4	20.9	–4.2	7.3	20.6	28.6
Corporate profits tax accruals	182.6	14.5	6.1	5.7	3.8	.7
Indirect business tax and nontax accruals	90.9	0	1.5	0	–2.8	1.8
Contributions for social insurance	578.5	7.9	4.6	7.0	10.5	3.4
Expenditures	1603.4	12.2	16.9	27.1	19.8	13.7
Purchases	432.9	–2.7	9.2	–12.4	2.5	–1.5
National defense	284.8	0	8.8	–15.2	–1.6	1.1
Nondefense	148.1	–2.6	.3	2.8	4.0	–2.5
Transfer payments (net)	716.1	4.7	6.8	16.2	8.9	8.0
To persons	703.7	3.6	5.0	6.0	20.7	8.5
To rest of the world	12.4	1.1	1.7	10.3	–11.8	–5
Grants-in-aid to State and local governments	215.7	4.4	5.9	5.2	5.5	4.7
Net interest paid	218.4	9.5	5.6	9.1	5.5	9.4
Subsidies less current surplus of government enterprises	20.3	–3.8	–10.4	8.9	–2.6	–6.9
Subsidies	29.5	–3.1	–8.7	8.3	2.0	–6.7
Of which: Agricultural subsidies	6.0	–3.4	–8.4	8.3	2.7	–5.5
Less: Current surplus of government enterprises	9.2	.7	1.7	–6	4.7	.1
Less: Wage accruals less disbursements	0	0	0	0	0	0
Surplus or deficit (–)	–128.0	31.1	–8.9	–7.1	12.3	20.8
Social insurance funds	74.5	4.2	.6	1.4	17.4	1.6
Other	–202.5	26.8	–9.4	–8.5	–5.1	19.2
State and local governments						
Receipts	992.8	16.5	14.7	17.4	13.5	11.6
Personal tax and nontax receipts	183.5	2.4	2.0	3.3	2.2	.7
Corporate profits tax accruals	37.9	3.1	.8	1.3	.5	–1
Indirect business tax and nontax accruals	482.0	5.8	5.3	6.7	4.5	5.5
Contributions for social insurance	73.6	.8	.8	.8	.9	.6
Federal grants-in-aid	215.7	4.4	5.9	5.2	5.5	4.7
Expenditures	966.7	14.7	17.8	12.5	14.2	13.6
Purchases	774.1	9.5	13.0	9.3	10.5	9.8
Of which: Structures	110.5	2.3	4.4	2.6	0	2.0
Transfer payments to persons	289.7	6.4	6.1	4.5	4.3	4.1
Net interest paid	–55.8	–5	–5	–5	0	–2
Less: Dividends received by government	11.7	.1	.1	.4	.3	.1
Subsidies less current surplus of government enterprises	–29.6	–6	–6	–4	–3	0
Subsidies .....	.4	0	0	0	0	0
Less: Current surplus of government enterprises	30.0	.6	.5	.5	.3	0
Less: Wage accruals less disbursements	0	0	0	0	0	0
Surplus or deficit (–)	26.1	1.8	–3.1	4.9	–6	–2.1
Social insurance funds	64.9	0	–6	–2	0	–2
Other	–38.8	1.8	–2.5	5.1	–7	–18

NOTE.—Dollar levels are found in tables 3.2 and 3.3 of the "Selected NIPA Tables."

Corporate profits tax accruals increased \$0.7 billion after increasing \$3.8 billion. This deceleration reflected a downturn in domestic pretax profits excluding profits of Federal Reserve banks.

Expenditures.—Expenditures increased \$13.7 billion in the second quarter after increasing \$19.8 in the first. The deceleration was mainly attributable to a downturn in purchases and to slowdowns in subsidies less current surplus of government enterprises, transfer payments, and grants-in-aid to State and local governments.

Subsidies less current surplus of government enterprises decreased \$6.9 billion after decreasing \$2.6 billion. Subsidies decreased \$6.7 billion after increasing \$2.0 billion; the deceleration primarily reflected agricultural subsidies, which decreased \$5.5 billion after increasing \$2.7 billion. The current surplus of government enterprises increased \$0.1 billion after increasing \$4.7 billion. The Postal Service accounted for most of this deceleration; in the first quarter, the Postal Service surplus increased as a result of a postal-rate increase that went into effect in January.

Purchases decreased \$1.5 billion after increasing \$2.5 billion. This downturn was accounted for by nondefense purchases, which decreased \$2.5 billion after increasing \$4.0 billion. Compensation of employees decreased \$0.3 billion after increasing \$2.4 billion: Incentive payments (“buyouts”) for civilian employees who voluntarily leave Federal service had boosted compensation by \$1.5 billion in the first quarter but by only \$0.1 billion in the second; a pay raise had boosted compensation by \$1.3 billion in the first quarter. Defense spending increased \$1.1 billion after decreasing \$1.6 billion. An upturn in purchases of services was largely offset by a downturn in purchases of durable goods.

Transfer payments increased \$8.0 billion after increasing \$8.9 billion. Transfer payments to persons increased much less than in the first quarter, while transfer payments to the rest of the world decreased much less than in the first quarter. Transfer payments to persons increased \$8.5 billion in the second quarter after increasing \$20.7 billion in the first. In the first quarter, transfer payments to persons were boosted \$10.2 billion by 2.8-percent cost-of-living adjustments for social security benefits (old-age, survivors, and disability insurance), railroad retirement, and veterans compensation and pensions and for supplement-

tal security income, which became effective in January; transfer payments were also boosted \$5.1 billion by an expansion of eligibility and higher benefits for the earned income tax credit, which also became effective in January. Transfer payments to the rest of the world decreased \$0.5 billion after decreasing \$11.8 billion. The first-quarter decrease followed a large fourth-quarter increase that included \$12.0 billion (annual rate) in economic support and other payments to Israel.

Grants-in-aid to State and local governments increased \$4.7 billion after increasing \$5.5 billion. This deceleration reflected slowdowns in grants for highways and downturns in grants for mass transit, environmental protection, community development, and health care.

Net interest paid increased \$9.4 billion after increasing \$5.5 billion. This acceleration was largely attributable to gross interest paid, which increased \$8.7 billion after increasing \$5.9 billion.

State and local

The State and local government surplus decreased \$2.1 billion, to \$26.1 billion, in the second quarter after decreasing \$0.6 billion in the first.

Receipts increased \$11.6 billion in the second quarter after increasing \$13.5 billion in the first. All the components of receipts except indirect business taxes contributed to the deceleration. Personal tax and nontax receipts increased \$0.7 billion after increasing \$2.2 billion; slower growth in income tax receipts accounted for the deceleration. As noted above, Federal grants-in-aid increased \$4.7 billion after increasing \$5.5 billion. Indirect business tax and nontax accruals increased \$5.5 billion after increasing \$4.5 billion; the acceleration was primarily in “other” indirect business taxes and property taxes.

Expenditures increased \$13.6 billion in the second quarter after increasing \$14.2 billion in the first. The deceleration was more than accounted for by a slowdown in purchases, which increased \$9.8 billion after increasing \$10.5 billion. The deceleration in purchases was primarily in compensation of employees, reflecting a slowdown in State and local employment, and in “other services,” reflecting a turnaround in prices of these services. Structures accelerated, largely reflecting a turnaround in highway construction. 