

BUSINESS SITUATION

This article was prepared by Daniel Larkins, Ralph W. Morris, Jennifer S. Argueta, and Peter G. Beall.

PRODUCTION in the first quarter of 2001 stepped up less than previously estimated, as inventories were drawn down more than previously estimated. (The source data underlying these revisions are discussed in the section "Revisions.") According to the "preliminary" estimates of the national income and product accounts (NIPAs),

- Real gross domestic product (GDP)—a measure of domestic production of goods and services—increased 1.3 percent in the first quarter, 0.7 percentage point less than last month's "advance" estimate (table 1 and chart 1).¹ GDP had increased 1.0 percent in the fourth quarter of

2000 and 2.2 percent in the third quarter. (The average rate of growth in the current expansion, which began in the second quarter of 1991, is 3.6 percent.)

- Real private inventories decreased \$18.9 billion, more than twice as much as the \$7.1 billion reported last month. The rundown in stocks was the first in 9 1/2 years.

- Growth of final sales of domestic product—GDP less inventory investment—was revised

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

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

Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers
[Seasonally adjusted at annual rates]

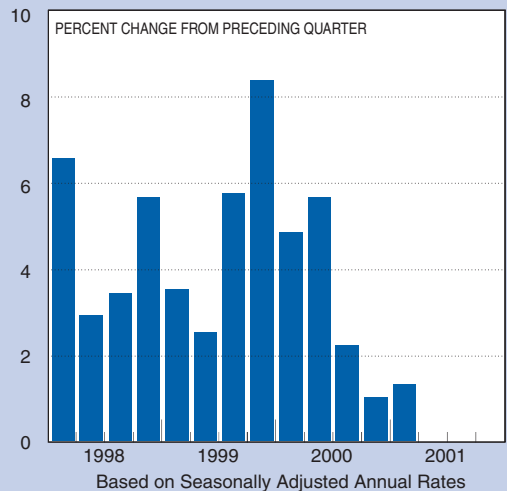
	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				2000			2001
		2001	2000			II	III	IV	I
		I	II	III	IV	I			
Gross domestic product	9,424.5	127.1	50.6	24.2	30.8	5.6	2.2	1.0	1.3
Less: Exports of goods and services	1,132.1	37.0	37.0	-19.0	-7.7	14.3	13.9	-6.4	-2.7
Plus: Imports of goods and services	1,544.0	63.5	61.2	-4.9	-37.5	18.6	17.0	-1.2	-9.1
Equals: Gross domestic purchases	9,807.9	150.7	71.7	37.2	4.7	6.5	3.0	1.5	2.2
Less: Change in private inventories	-18.9	42.0	-6.1	-16.8	-74.6				
Nonfarm	-25.1	39.3	-4.9	-16.9	-75.6				
Farm	6.2	2.6	-1.2	.3	.9				
Equals: Final sales to domestic purchasers	9,813.3	110.6	76.8	51.6	74.4	4.7	3.2	2.1	3.1
Personal consumption expenditures	6,418.8	47.1	69.2	43.5	45.5	3.1	4.5	2.8	2.9
Durable goods	922.3	-11.5	16.5	-7.2	26.3	-5.0	7.6	-3.1	12.2
Nondurable goods	1,894.4	16.3	21.5	4.8	7.0	3.6	4.7	1.0	1.5
Services	3,618.5	39.5	32.6	43.2	16.0	4.6	3.7	4.9	1.8
Private fixed investment	1,797.1	46.7	13.7	-4.2	10.0	11.2	3.1	-9	2.3
Nonresidential	1,445.8	47.2	26.3	-5	7.5	14.6	7.7	-1	2.1
Structures	305.7	3.0	9.6	7.2	11.9	4.4	14.6	10.4	17.2
Equipment and software	1,145.2	46.2	15.8	-9.7	-7.5	17.9	5.6	-3.3	-2.6
Residential	361.5	1.2	-10.3	-3.3	2.5	1.3	-10.6	-3.6	2.9
Government consumption expenditures and gross investment	1,608.1	18.6	-5.5	11.4	18.5	4.8	-1.4	2.9	4.7
Federal	557.5	21.7	-13.0	5.1	6.6	17.2	-9.0	3.8	4.9
National defense	358.4	13.6	-8.9	7.5	4.7	16.9	-9.7	8.9	5.4
Nondefense	199.0	8.2	-4.2	-2.3	1.9	17.8	-7.9	-4.6	3.9
State and local	1,050.0	-2.8	7.3	6.2	11.9	-1.1	2.9	2.5	4.7
Addendum: Final sales of domestic product	9,429.7	87.3	55.6	38.6	100.2	3.9	2.4	1.7	4.4

NOTE.—Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1. (See "Selected NIPA Tables," which begins on page D-2 in this issue.)

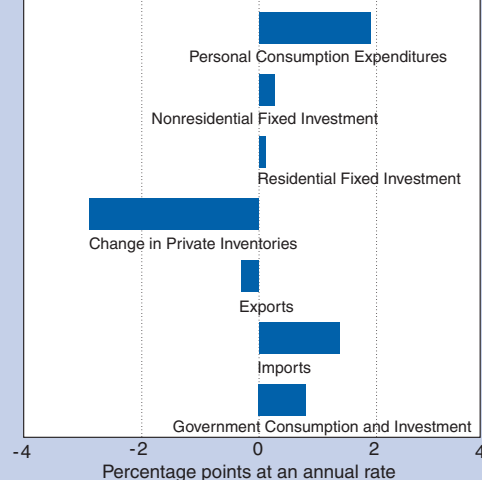
CHART 1

Real Gross Domestic Product

Percent



CONTRIBUTIONS TO 1.3-PERCENT INCREASE IN REAL GDP IN 2001:1



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down much less than that of GDP, only 0.2 percentage point, to 4.4 percent.

- Growth of gross domestic purchases—a measure of domestic demand for goods and services regardless of where they were produced—was revised down 0.4 percentage point, to 0.2 percent.² Gross domestic purchases had increased 1.5 percent in the fourth quarter and twice that in the third.

Table 2.—Contributions to Percent Change in Real Gross Domestic Product

[Seasonally adjusted at annual rates]

	2000			2001
	II	III	IV	I
Percent change at annual rate:				
Gross domestic product	5.6	2.2	1.0	1.3
Percentage points at annual rates:				
Personal consumption expenditures	2.14	2.99	1.87	1.95
Durable goods	-.42	.61	-.26	.94
Nondurable goods .....	.74	.93	.21	.30
Services	1.83	1.46	1.92	.71
Gross private domestic investment	3.66	.33	-.78	-2.56
Fixed investment	1.93	.55	-.17	.40
Nonresidential	1.87	1.02	-.02	.28
Structures .....	.14	.44	.33	.55
Equipment and software	1.73	.58	-.35	-.27
Residential .....	.06	-.47	-.15	.12
Change in private inventories	1.73	-.22	-.62	-2.96
Net exports of goods and services	-1.00	-.90	-.55	1.11
Exports	1.48	1.45	-.74	-.30
Goods	1.37	1.54	-.84	-.37
Services .....	.11	-.09	.10	.07
Imports	-2.48	-2.35	.19	1.41
Goods	-2.26	-1.90	.28	1.34
Services	-.22	-.44	-.09	.06
Government consumption expenditures and gross investment .....	.85	-.24	.50	.82
Federal .....	.97	-.57	.22	.29
National defense .....	.60	-.38	.32	.20
Nondefense .....	.37	-.18	-.10	.08
State and local	-.12	.33	.28	.53

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

- Growth of real disposable personal income was revised up 0.3 percentage point, to 2.3 percent. It was 0.7 percent in the fourth quarter and 2.6 percent in the third.

- Production of goods was revised down. As a result, the preliminary estimate shows a second consecutive quarterly decrease, the first back-to-back decreases since the last recession; the advance estimate had shown an upturn in goods production.

Despite these revisions, the preliminary and advance estimates paint pictures of the economy that are similar in many important respects.

- Both consumer spending and government spending contributed substantially to the increase in real GDP in the first quarter; they had also contributed substantially to the fourth-quarter increase (table 2).³

- The largest offset to GDP growth in the first quarter was a sharp drop in inventory investment. (In the preliminary estimate, it subtracted almost 3 percentage points from GDP growth; in the advance, about 2 1/2 percentage points.) The drop reflected a swing from accumulation to liquidation of inventory stocks.

- Final sales of domestic product accelerated, posting its biggest increase in a year.

2. Gross domestic purchases is calculated as the sum of personal consumption expenditures, gross private domestic investment, and government consumption expenditures and gross investment; thus, gross domestic purchases includes imports of goods and services, which are subtracted in the calculation of GDP, and does not include exports of goods and services, which are added in the calculation of GDP.

3. In the NIPA's, consumer spending is shown as personal consumption expenditures, government spending is shown as government consumption expenditures and gross investment, and inventory investment is shown as change in private inventories.

- Imports fell much more than exports; as a result, the increase in gross domestic purchases was smaller than that in GDP for only the second time in 4 years.

- Real disposable personal income accelerated, and the personal saving rate, at -0.9 percent, was at its lowest quarterly level since the beginning of the series in 1946. The national saving rate decreased to 17.5 percent, its third consecutive decrease.⁴

- Real final sales of computers posted below-average growth for the second quarter in a

row, and real motor vehicle output decreased substantially for the third consecutive quarter (table 3). Excluding computers, real GDP would have increased 1.1 percent in the first quarter after having increased 0.8 percent in the fourth. Excluding motor vehicles, real GDP would have increased 1.9 percent in each quarter.

4. The personal saving rate is measured as personal saving as a percentage of current-dollar disposable personal income. The national saving rate is measured as gross saving as a percentage of gross national product.

Table 3.—Real Gross Domestic Product by Type of Product
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				2000			2001
	2001	2000			2001	2000			2001
	I	II	III	IV	I	II	III	IV	I
Gross domestic product	9,424.5	127.1	50.6	24.2	30.8	5.6	2.2	1.0	1.3
Goods	3,800.5	76.9	39.0	-31.7	-25.6	8.5	4.1	-3.2	-2.7
Services	4,812.3	59.5	14.8	46.0	32.7	5.2	1.3	3.9	2.8
Structures	821.9	-6.1	-1.2	5.3	19.0	-3.0	-6	2.7	9.8
Addenda:									
Motor vehicle output	307.1	-4.1	-16.1	-19.9	-12.1	-4.5	-16.9	-21.5	-14.3
Gross domestic product less motor vehicle output	9,114.3	130.6	65.5	42.6	41.9	6.0	3.0	1.9	1.9
Final sales of computers						55.4	40.6	17.9	18.7
Gross domestic product less final sales of computers						5.2	1.8	.8	1.1

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals for most items are shown in NIPA table 1.4. Detail on motor vehicle output is shown in NIPA table 8.9B.

Personal Consumption Expenditures

Real personal consumption expenditures (PCE) increased 2.9 percent in the first quarter, about the same as in the fourth. An upturn in durable goods and a modest acceleration in nondurable goods were offset by a deceleration in services (table 4 and chart 2). For the current expansion, real PCE has increased at an average annual rate of 3.8 percent.

Expenditures for durable goods increased 12.2 percent after decreasing 3.1 percent. Motor vehicles and parts turned up, primarily reflecting upturns in new light trucks and in new and used

autos. Furniture and household equipment and "other" durable goods accelerated.

Expenditures for services slowed to a 1.8-percent increase after increasing 4.9 percent. "Other" services edged down after increasing, partly reflecting a downturn in brokerage and investment counseling. Household operation declined after increasing, reflecting a downturn in electricity and gas.

Expenditures for nondurable goods increased 1.5 percent after increasing 1.0 percent. Clothing and shoes turned up; "other" nondurable goods

Table 4.—Real Personal Consumption Expenditures

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				2000			2001
	2001	2000			2001				
	I	II	III	IV	I	II	III	IV	I
Personal consumption expenditures	6,418.8	47.1	69.2	43.5	45.5	3.1	4.5	2.8	2.9
Durable goods	922.3	-11.5	16.5	-7.2	26.3	-5.0	7.6	-3.1	12.2
Motor vehicles and parts	349.8	-15.9	6.1	-9.7	17.5	-16.9	7.5	-10.9	22.8
<i>Of which:</i> New autos	101.9	-3.7	-4.0	-3.2	3.8	-13.0	-14.4	-11.9	16.2
New light trucks	114.0	-7.8	7.0	-3.7	10.1	-25.7	30.7	-13.1	45.0
Furniture and household equipment	395.5	5.2	7.9	2.7	5.6	5.6	8.6	2.8	5.9
Other ¹	180.5	1.0	2.6	1.0	1.9	2.3	6.1	2.4	4.4
Nondurable goods	1,894.4	16.3	21.5	4.8	7.0	3.6	4.7	1.0	1.5
Food	880.1	4.3	2.6	2.3	-1.3	2.0	1.2	1.1	-6
Clothing and shoes	352.1	4.6	7.9	-2	2.1	5.6	9.5	-2	2.4
Gasoline, fuel oil, and other energy goods	150.7	1.7	2.0	0	1.2	4.5	5.7	0	3.1
Other ²	513.7	5.9	9.4	2.7	5.1	4.9	7.8	2.1	4.0
Services	3,618.5	39.5	32.6	43.2	16.0	4.6	3.7	4.9	1.8
Housing	861.5	5.6	4.7	5.1	4.7	2.7	2.3	2.4	2.2
Household operation	377.1	10.1	.4	5.1	-3.2	11.6	.4	5.6	-3.3
Electricity and gas	134.6	6.5	-2.6	4.6	-3.9	21.4	-7.4	14.6	-10.9
Other household operation	242.5	3.7	3.0	.3	1.1	6.4	5.2	.5	1.7
Transportation	254.2	2.4	.9	1.6	1.8	3.9	1.5	2.5	2.9
Medical care	923.2	6.4	5.3	7.8	6.3	2.9	2.4	3.5	2.8
Recreation	248.7	4.9	4.5	5.7	6.3	9.0	7.9	10.1	10.8
Other	951.9	10.6	16.3	17.8	-2	4.8	7.3	7.9	-1

1. Includes jewelry and watches, ophthalmic products and orthopedic equipment, books and maps, bicycles and motorcycles, guns and sporting equipment, photographic equipment, boats, and pleasure aircraft.

2. Includes tobacco, toilet articles, drug preparations and sundries, stationery and writing supplies, toys, film, flowers, cleaning preparations and paper products, semidurable house furnishings,

and magazines and newspapers.

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 2.3 and 8.9B (motor vehicles). Percent changes in major aggregates are shown in NIPA table S.1.

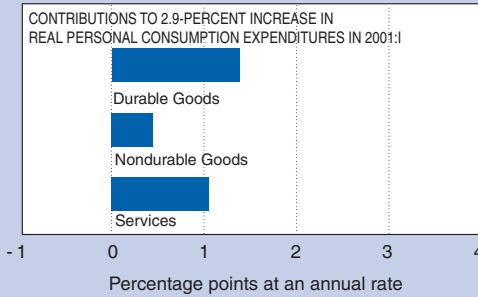
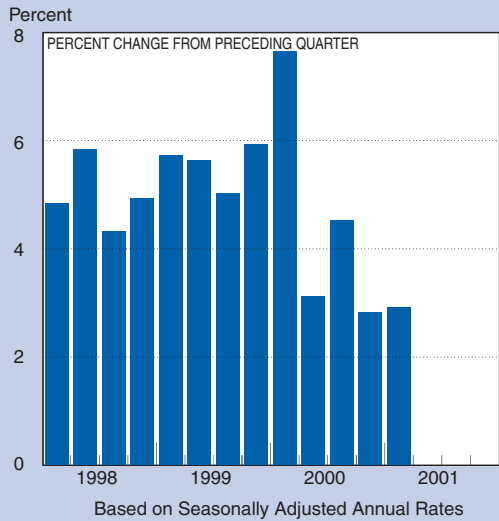
and gasoline, fuel oil, and other energy products accelerated. In contrast, food turned down.

Some of the factors frequently considered in analyses of consumer spending were less favorable (chart 3). The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Re-

search Center) decreased for the fourth consecutive quarter, and the unemployment rate increased to 4.2 percent. In contrast, real disposable personal income rebounded in the first quarter after slowing sharply in the fourth.

CHART 2

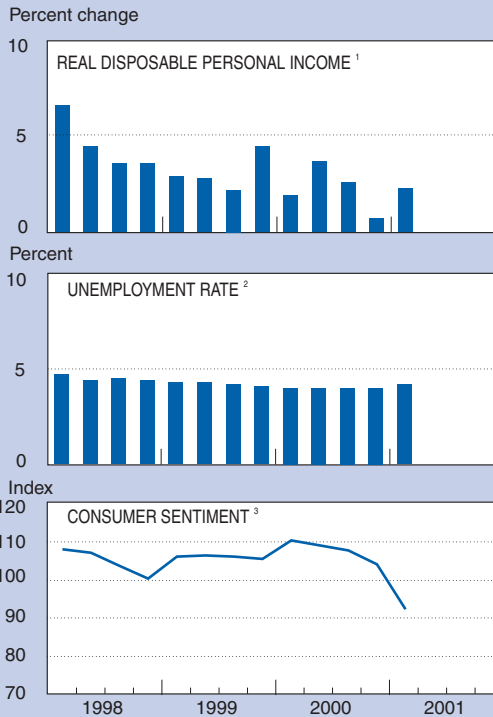
Real Personal Consumption Expenditures



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CHART 3

Selected Factors Affecting Consumer Spending



1. Based on 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

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Private Fixed Investment

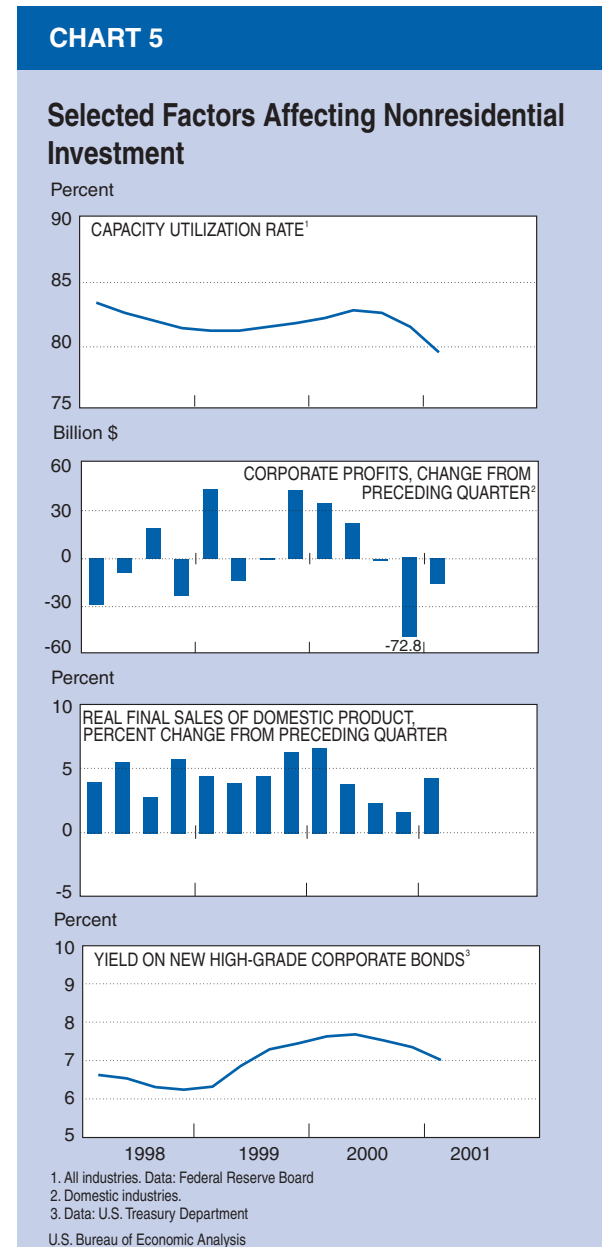
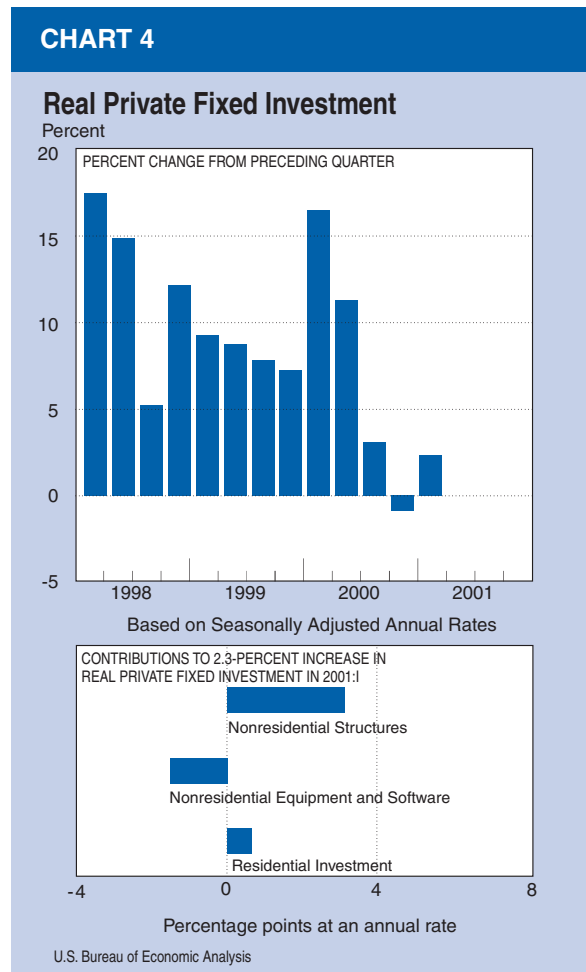
In the first quarter, real fixed investment rebounded from a fourth-quarter decrease—its first drop in 5 1/2 years (table 5 and chart 4). Nonresidential investment increased after changing little; residential investment increased after decreasing.

Nonresidential fixed investment.—Real private nonresidential fixed investment increased 2.1 percent after slipping 0.1 percent. Spending on structures accelerated, while spending on equipment and software decreased almost as much as in the fourth quarter.

Information processing equipment and software fell. By component, communications equipment posted the largest decrease; computers decreased for the first time since 1991, and software decreased for the first time since 1982. Industrial equipment decreased modestly for the second

straight quarter. Transportation equipment turned up after two quarterly decreases; the upturn reflected the pattern of motor vehicles.

The investment climate has been mixed in recent quarters. Domestic corporate profits has decreased in the last three quarters, and the capacity utilization rate edged down in the third quarter and dropped in the fourth and first quarters. Real final sales of domestic product posted subpar growth in the last two quarters of 2000, but it in-



creased 4.4 percent in the first quarter of 2001. Long-term interest rates have trended down; for example, the yield on high-grade corporate bonds decreased from 7.85 percent in May 2000 to 6.87 percent in March 2001 (chart 5).

3.6 percent. Single-family structures turned up, and multifamily structures increased more than in the fourth quarter. In contrast, "other" residential structures decreased a little more than in the fourth quarter; the first-quarter decrease largely reflected a drop in brokers' commissions on home sales.

Residential investment.—Real private residential investment increased 2.9 percent after decreasing

Table 5.—Real Private Fixed Investment

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				2000			2001
	2001	2000			2001				
	I	II	III	IV	I	II	III	IV	I
Private fixed investment	1,797.1	46.7	13.7	-4.2	10.0	11.2	3.1	-0.9	2.3
Nonresidential	1,445.8	47.2	26.3	-5	7.5	14.6	7.7	-1	2.1
Structures	305.7	3.0	9.6	7.2	11.9	4.4	14.6	10.4	17.2
Nonresidential buildings, including farm	211.8	3.0	3.2	1.9	7.2	6.2	6.6	3.9	14.9
Utilities	49.3	-2.1	2.8	3.8	-1	-17.4	28.6	37.8	-1.2
Mining exploration, shafts, and wells	37.4	2.3	2.1	2.0	4.9	40.9	33.3	27.7	76.7
Other structures	7.0	-4	1.6	-3	-8	-24.3	147.1	-16.1	-34.0
Equipment and software	1,145.2	46.2	15.8	-9.7	-7.5	17.9	5.6	-3.3	-2.6
Information processing equipment and software	698.9	39.7	26.5	16.7	-13.4	27.7	16.8	10.0	-7.3
Computers and peripheral equipment ¹	327.8	33.2	27.0	6.9	-3.4	60.5	41.6	8.7	-4.0
Software ²	238.4	9.5	9.8	6.5	-2.4	18.9	18.6	11.6	-3.9
Other	194.5	9.3	.9	4.2	-7.2	21.4	1.7	8.8	-13.4
Industrial equipment	165.9	5.1	3.4	-4	-1.1	13.5	8.5	-8	-2.6
Transportation equipment	176.1	1.9	-8.6	-18.6	4.1	3.9	-16.1	-33.7	10.0
Of which: Motor vehicles	141.8	-8.0	-4.4	-18.7	6.1	-17.8	-10.6	-40.4	19.4
Other	138.2	3.4	-1.1	-2.6	.5	10.2	-3.3	-7.1	1.4
Residential	361.5	1.2	-10.3	-3.3	2.5	1.3	-10.6	-3.6	2.9
Structures	351.8	1.1	-10.3	-3.4	2.6	1.3	-10.9	-3.8	2.9
Single-family	187.1	-2.3	-8.6	-1.7	3.9	-4.5	-16.7	-3.6	8.7
Multifamily	24.0	-2	-1.8	.7	1.5	-2.5	-27.7	13.4	31.1
Other structures ³	140.5	3.7	.3	-2.5	-3.0	10.6	.9	-6.6	-8.3
Equipment	9.9	0	.1	.1	0	1.9	1.2	3.6	0

1. Includes new computers and peripheral equipment only.

2. Excludes software "embedded," or bundled, in computers and other equipment.

3. Includes home improvements, new manufactured home sales, brokers' commissions on home sales, net purchases of used structures, and other residential structures (which consists primarily

of dormitories and of fraternity and sorority houses).

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 5.5 and 6.9B (motor vehicles). Percent changes in major aggregates are shown in NIPA table S.1.

Inventory Investment

Real inventory investment (that is, change in private inventories) was -\$18.9 billion in the first quarter, as the stock of inventories decreased for the first time since the third quarter of 1991 (table 6 and chart 6). This liquidation followed an accumulation of \$55.7 billion in the fourth quarter. The resulting \$74.6 billion decrease in inventory investment was substantially larger than any other decrease during the current expansion.

Retail trade, manufacturing, and wholesale trade all contributed to the first-quarter decrease in inventory investment. In contrast, investment in "other" nonfarm inventories and in farm inventories increased.

Retail inventories decreased \$18.6 billion after increasing \$22.7 billion. Inventories of dura-

ble-goods retailers decreased after increasing; inventories of motor vehicle dealers accounted for about three-fourths of the downturn. Inventories of nondurable-goods retailers increased less than in the fourth quarter.

Manufacturing inventories decreased \$11.4 billion after increasing \$12.2 billion. Inventories of durable-goods manufacturers turned down. Inventories of electronic machinery and transportation equipment other than motor vehicles decreased after increasing, and inventories of primary metals and motor vehicles decreased more than in the fourth quarter. Inventories of nondurable-goods manufacturers decreased less than in the fourth quarter.

Table 6.—Real Change in Private Inventories

[Billions of chained (1996) dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter			
	2000				2001	2000			2001
	I	II	III	IV	I	II	III	IV	I
Change in private inventories	36.6	78.6	72.5	55.7	-18.9	42.0	-6.1	-16.8	-74.6
Farm	3.6	6.2	5.0	5.3	6.2	2.6	-1.2	.3	.9
Nonfarm	33.0	72.3	67.4	50.5	-25.1	39.3	-4.9	-16.9	-75.6
Manufacturing	10.3	17.6	22.6	12.2	-11.4	7.3	5.0	-10.4	-23.6
Durable goods	6.5	11.3	15.4	17.9	-7.8	4.8	4.1	2.5	-25.7
Nondurable goods	3.8	6.4	7.2	-5.0	-3.6	2.6	.8	-12.2	1.4
Wholesale trade	21.5	32.5	22.3	13.2	-2.8	11.0	-10.2	-9.1	-16.0
Durable goods	17.3	23.8	10.6	7.7	-4.9	6.5	-13.2	-2.9	-12.6
Nondurable goods	4.4	8.9	11.4	5.4	1.9	4.5	2.5	-6.0	-3.5
Retail trade	-4.4	21.5	20.0	22.7	-18.6	25.9	-1.5	2.7	-41.3
Durable goods	-3.6	16.0	13.9	14.8	-22.6	19.6	-2.1	.9	-37.4
Of which: Motor vehicle dealers	-6.4	9.7	10.5	7.4	-20.6	16.1	.8	-3.1	-28.0
Nondurable goods	-8	5.7	6.2	8.1	3.3	6.5	.5	1.9	-4.8
Other ¹	6.1	.9	2.8	2.3	7.1	-5.2	1.9	-5	4.8
Durable goods	1.3	-1.5	.2	1.0	2.0	-2.8	1.7	.8	1.0
Nondurable goods	4.8	2.5	2.6	1.3	5.2	-2.3	.1	-1.3	3.9
Addenda:									
Motor vehicles	-2.0	14.7	6.4	9.1	-24.8	16.7	-8.3	2.7	-33.9
Autos .....	.4	2.3	8.9	5.0	-8.0	1.9	6.6	-3.9	-13.0
Trucks	-2.1	11.2	-1.8	4.0	-15.5	13.3	-13.0	5.8	-19.5

1. Includes inventories held by establishments in the following industries: Mining; construction; public utilities; transportation; communication; finance, insurance, and real estate; and services.

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 5.11 and 8.9B (motor vehicles).

Wholesale inventories decreased \$2.8 billion after increasing \$13.2 billion. Inventories of durable goods turned down; about half of the downturn was accounted for by motor vehicles. Inventories of nondurable goods increased less than in the fourth quarter; the slowdown reflected a downturn in paper products.

Farm inventories increased \$6.2 billion after increasing \$5.3 billion. Livestock inventories accounted for the step-up.

The ratio of real private nonfarm inventories to final sales of goods and structures decreased to 3.58 from 3.65 (see NIPA table 5.13). A ratio that includes all final sales of domestic businesses de-

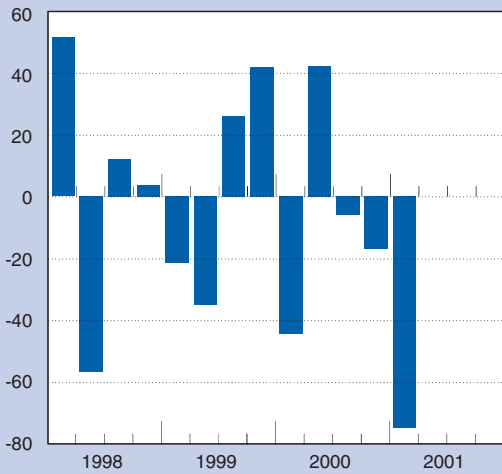
creased to 2.06 from 2.09.⁵ For both ratios, the decreases followed three quarters of increases and brought them back down to virtually the same levels as a year ago—the lowest levels in the current expansion.

5. Using the ratio that includes all final sales of domestic businesses in the denominator implies that the production of services results in a demand for inventories that is similar to that generated in the production of goods and structures. In contrast, using the "goods and structures" ratio implies that the production of services does not generate demand for inventories. Both implications are extreme. Production of some services may require substantial inventories, while production of other services may not.

CHART 6

**Real Private Inventory Investment:
Change from Preceding Quarter**

Billion chained (1996) \$



Based on Seasonally Adjusted Annual Rates

U.S. Bureau of Economic Analysis

Exports and Imports

Both exports and imports decreased for the second consecutive quarter—exports after 6 consecutive increases, and imports after 38 consecutive increases.

Real exports of goods decreased 4.6 percent, about half as much as in the fourth quarter (table 7 and chart 7). Nonautomotive capital goods de-

creased less than in the fourth quarter, largely because of an upturn in civilian aircraft. Non-automotive consumer goods and foods, feeds, and beverages also turned up.

Exports of services increased less than in the fourth quarter. Downturns in passenger fares and in transfers under U.S. military agency sales con-

Table 7.—Real Exports and Imports of Goods and Services

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				2000			2001
	2001	2000			2001				
	I	II	III	IV	I	II	III	IV	I
Exports of goods and services	1,132.1	37.0	37.0	-19.0	-7.7	14.3	13.9	-6.4	-2.7
Exports of goods ¹	841.9	35.4	40.7	-22.4	-9.9	19.0	21.0	-9.9	-4.6
Foods, feeds, and beverages	62.0	-5	5.8	-4.6	1.9	-3.3	45.7	-25.7	13.2
Industrial supplies and materials	168.6	3.7	8.1	-1.2	-3.7	9.4	21.0	-2.7	-8.4
Capital goods, except automotive	402.4	34.3	20.8	-11.0	-2.9	43.6	22.9	-10.1	-2.9
Automotive vehicles, engines, and parts	69.4	-4	.6	-2.7	-6.7	-2.1	3.2	-13.2	-30.6
Consumer goods, except automotive	93.0	1.2	3.0	-2.7	4.9	5.7	14.8	-11.6	24.3
Other	48.7	-1.7	3.2	-9	-2.6	-12.5	28.2	-6.2	-18.9
Exports of services ¹	293.0	2.5	-2.1	2.5	1.6	3.5	-2.8	3.4	2.3
Imports of goods and services	1,544.0	63.5	61.2	-4.9	-37.5	18.6	17.0	-1.2	-9.1
Imports of goods ¹	1,320.5	58.6	50.1	-7.3	-36.2	20.0	16.2	-2.1	-10.2
Foods, feeds, and beverages	49.4	1.5	2.3	-6	-1.1	13.0	20.0	-4.6	-8.1
Industrial supplies and materials, except petroleum and products	166.2	-1.3	4.6	-3.5	-3	-3.0	11.6	-8.0	-8
Petroleum and products	91.3	6.5	-1.1	-1.0	5.2	35.3	-4.9	-4.3	26.6
Capital goods, except automotive	463.1	33.7	27.4	4.8	-22.7	36.2	26.5	4.1	-17.4
Automotive vehicles, engines, and parts	180.6	1.4	6.8	-8.6	-9.6	3.1	14.9	-16.3	-18.7
Consumer goods, except automotive	293.5	17.7	4.2	5.2	-4.1	28.9	5.9	7.4	-5.4
Other	81.9	2.0	10.0	-1.2	-9.1	10.0	58.7	-5.2	-34.3
Imports of services ¹	225.4	5.3	11.1	2.2	-1.6	10.6	22.3	4.0	-2.8

1. Exports and imports of certain goods, primarily military equipment purchased and sold by the Federal Government, are included in services.

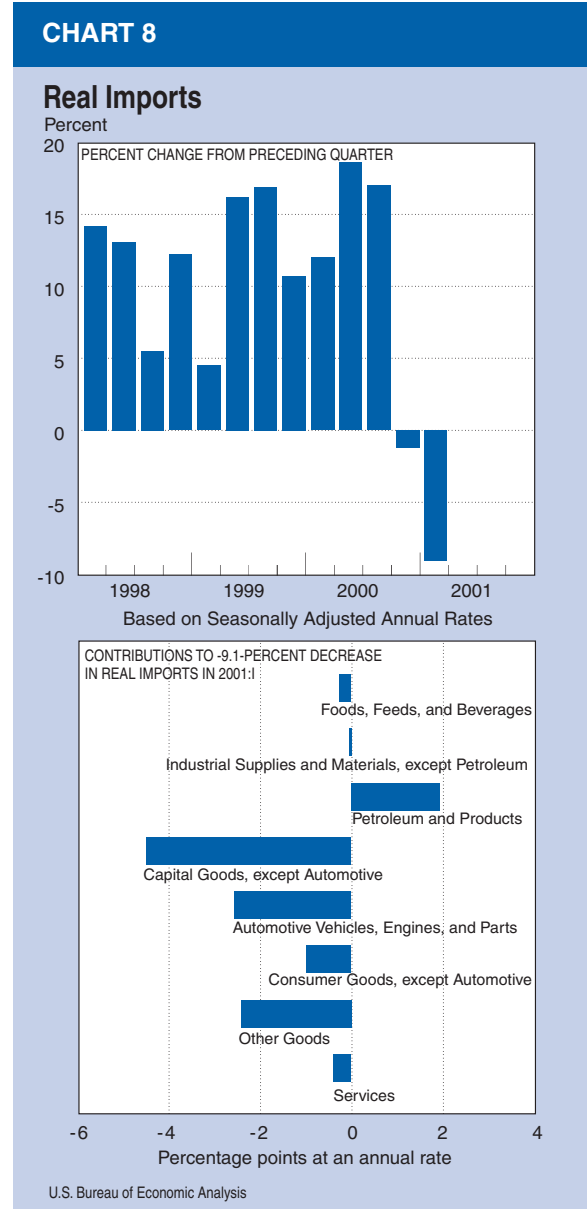
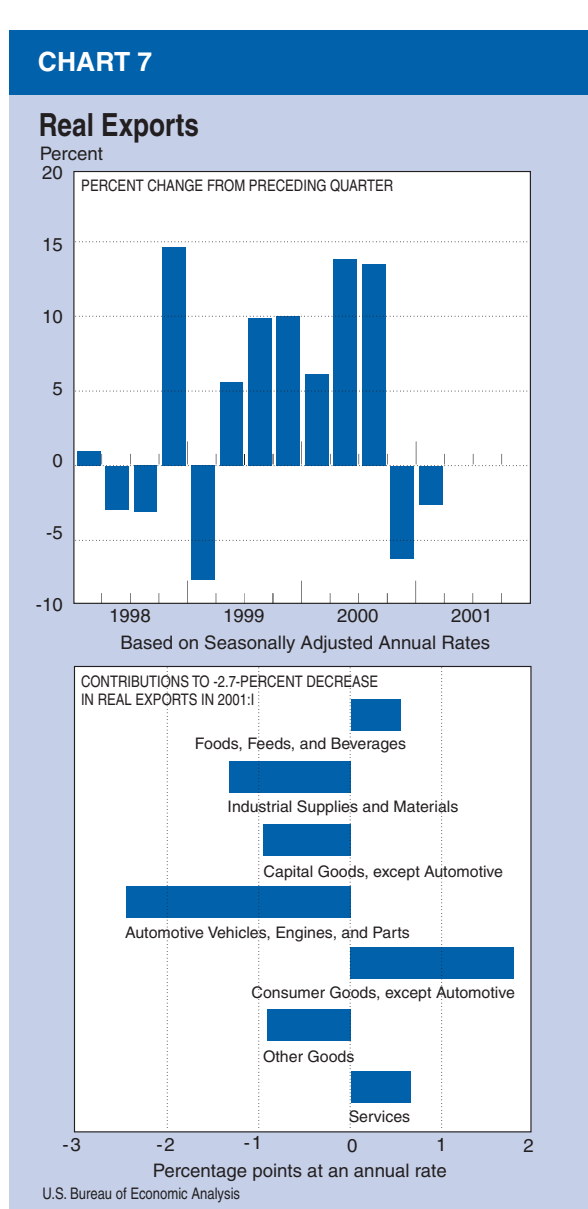
NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA table 4.4. Percent changes in major aggregates are shown in NIPA table S.1.

tracts were mainly responsible for the small slow-down.

Real imports of goods decreased 10.2 percent, much more than in the fourth quarter (chart 8). Nonautomotive capital goods and nonautomotive consumer goods turned down; "other" goods decreased more than in the fourth quarter. In con-

trast, petroleum and products increased after a small decrease.

Imports of services decreased after increasing. Travel and direct defense expenditures turned down, while "other transportation" decreased after no change. In contrast, royalties and license fees turned up, and "other private services" accelerated.



Government Spending

Government spending picked up in the first quarter. Real spending increased 4.7 percent after increasing 2.9 percent in the fourth quarter (table 8 and chart 9). Spending by both the Federal Government and State and local governments increased more than in the fourth quarter.

Federal nondefense spending increased 3.9 percent after decreasing 4.6 percent. Consumption spending, especially for nondurable goods, was responsible for the upturn. A downturn in investment was accounted for by equipment and software.

Federal defense spending increased less than in the fourth quarter. Investment turned down, primarily reflecting a downturn in equipment and software. In contrast, consumption spending increased considerably more than in the fourth quarter; the acceleration was more than accounted for by a step-up in services other than compensation of employees.

State and local government spending increased 4.7 percent after increasing 2.5 percent. Consumption spending increased twice as much as in the fourth quarter, reflecting an upturn in compensation of employees. A pickup in investment spending was attributable to structures.

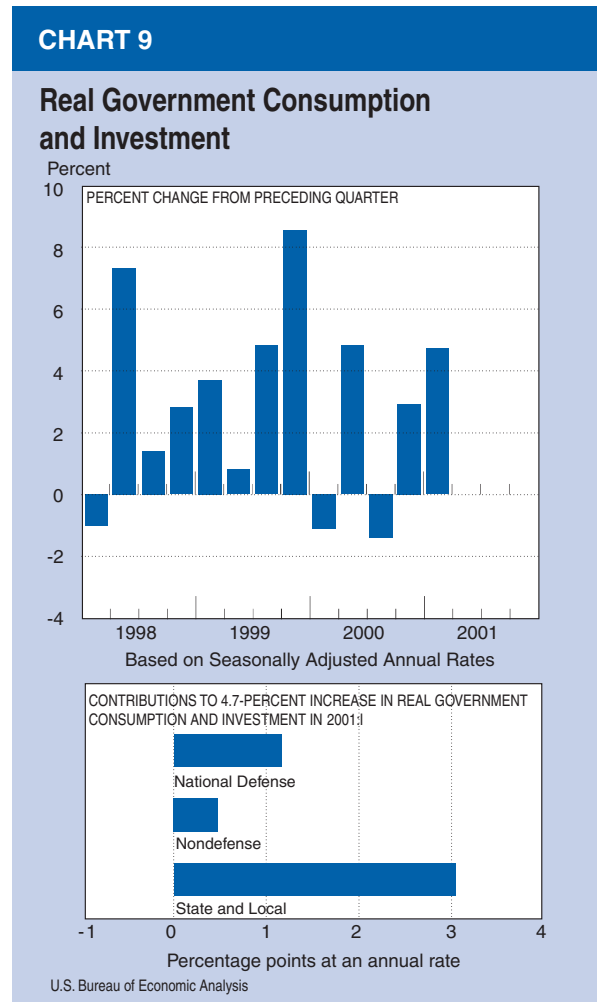


Table 8.—Real Government Consumption Expenditures and Gross Investment
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				2000			2001
	2001	2000		2001		2000			2001
	I	II	III	IV	I	II	III	IV	I
Government consumption expenditures and gross investment¹	1,608.1	18.6	-5.5	11.4	18.5	4.8	-1.4	2.9	4.7
Federal	557.5	21.7	-13.0	5.1	6.6	17.2	-9.0	3.8	4.9
National defense	358.4	13.6	-8.9	7.5	4.7	16.9	-9.7	8.9	5.4
Consumption expenditures	298.9	12.7	-7.9	1.4	7.0	19.0	-10.1	2.0	9.9
Gross investment	60.0	.7	-1.0	6.6	-2.6	5.4	-7.0	56.3	-15.6
Nondense	199.0	8.2	-4.2	-2.3	1.9	17.8	-7.9	-4.6	3.9
Consumption expenditures	150.6	5.4	-3.5	-3.8	2.5	15.1	-8.6	-9.8	6.8
Gross investment	49.4	3.0	-7	1.7	-6	27.7	-5.4	15.4	-5.2
State and local	1,050.0	-2.8	7.3	6.2	11.9	-1.1	2.9	2.5	4.7
Consumption expenditures	832.1	5.3	5.7	3.6	7.7	2.6	2.9	1.8	3.8
Gross investment	218.4	-8.4	1.5	2.8	4.3	-14.5	2.9	5.3	8.3

1. Gross government investment consists of general government and government enterprise expenditures for fixed assets; inventory investment is included in government consumption expenditures.

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA table 3.8. Percent changes in major aggregates are shown in NIPA table S.1.

Prices

The price index for gross domestic purchases, which measures the prices paid for goods and services purchased by U.S. residents, increased 2.8 percent in the first quarter after increasing about 2.0 percent in each of the preceding three quarters (table 9 and chart 10). Prices of gross domestic purchases less food and energy increased 2.4 percent after increasing 1.6 percent. The acceleration reflected step-ups in the prices of PCE and Federal Government spending; in contrast, prices of private nonresidential fixed investment turned down.

The step-up in PCE prices reflected pickups in the prices of services and of food. Prices paid by

the Federal Government increased 5.3 percent, reflecting a pay raise for Federal employees; excluding the pay raise, prices paid by the Federal Government increased 1.3 percent, a little less than in the fourth quarter.⁶ The downturn in the prices of private nonresidential fixed investment reflected equipment and software prices, mainly computer prices, which declined more than in the fourth quarter.

6. In the NIPAs, an increase in the rate of Federal employee compensation is treated as an increase in the price of employee services purchased by the Federal Government.

Table 9.—Percent Changes in Prices

[Annual rates; based on seasonally adjusted index numbers (1996=100)]

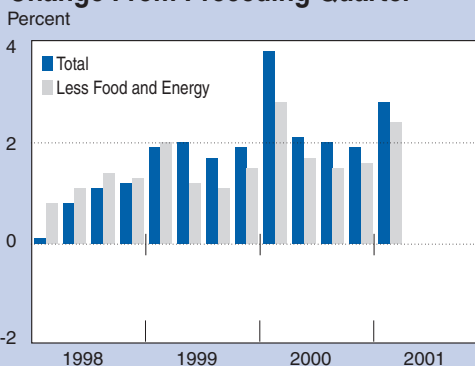
	2000			2001
	II	III	IV	I
Gross domestic product	2.4	1.6	2.0	3.2
Less: Exports of goods and services	1.9	.7	.5	-4
Plus: Imports of goods and services .....	.2	3.8	.2	-2.7
Equals: Gross domestic purchases	2.1	2.0	1.9	2.8
Less: Change in private inventories				
Equals: Final sales to domestic purchasers	2.1	2.0	1.9	2.8
Personal consumption expenditures	2.1	1.8	1.9	3.2
Durable goods	-6	-2.3	-1.1	-7
Nondurable goods	3.3	2.2	2.0	1.9
Services	2.0	2.5	2.5	4.7
Private fixed investment	1.9	2.0	1.1	.3
Nonresidential	1.6	1.8	.1	-1.3
Structures	3.7	5.0	5.4	6.7
Equipment and software	1.0	.8	-1.6	-3.8
Residential	2.6	2.7	4.4	5.7
Government consumption expenditures and gross investment	2.7	2.9	2.8	3.9
Federal .....	.6	2.6	1.5	5.3
National defense .....	.8	2.9	1.4	4.3
Nondefense .....	.4	2.1	1.7	7.2
State and local	3.8	3.1	3.5	3.2
Addenda:				
Gross domestic purchases:				
Food	2.3	3.5	1.8	4.0
Energy	11.2	11.1	10.3	8.2
Less food and energy	1.7	1.5	1.6	2.4
Personal consumption expenditures:				
Food	2.3	3.7	1.6	4.0
Energy goods and services ¹	13.0	8.6	8.9	10.8
Less food and energy	1.4	1.1	1.6	2.6

1. Consists of gasoline, fuel oil, and other energy goods and of electricity and gas.

NOTE.—Percent changes in major aggregates are shown in NIPA table 8.1. Index numbers are shown in tables 7.1, 7.2, and 7.4.

CHART 10

Gross Domestic Purchases Prices: Change From Preceding Quarter



Note—Percent change at annual rate from preceding quarter; based on seasonally adjusted index numbers (1996=100).

U.S. Bureau of Economic Analysis

Revisions

The 0.7-percentage point downward revision to real GDP was larger than usual (table 10). Over the past 20 years, the average revision (without regard to sign) from the advance estimate to the preliminary estimate was 0.5 percentage point.

The major contributors to the revision in the first quarter were change in private nonfarm inventories (-0.48 percentage point), PCE for nondurable goods (-0.22 percentage point), and imports of goods (-0.20 percentage point). The negative contributions of those components were partly offset by positive contributions from non-

residential structures (0.19 percentage point) and State and local government spending (0.18 percentage point).

The downward revision to private nonfarm investment was primarily to manufacturing inventories. It reflected the incorporation of newly available Census Bureau data on inventories for March and revised data for February.

The downward revision to PCE for nondurable goods was primarily to food and to clothing and shoes. It reflected the incorporation of revised Census Bureau data on retail sales for February and March.

The upward revision to imports of goods, notably to nonautomotive consumer goods and to industrial supplies and materials, mainly reflected the incorporation of newly available Census Bureau data on trade in goods for March.

The upward revisions to private nonresidential structures and to State and local government spending reflected newly available Census Bureau data on construction put in place for March and revised data for January and February.

Table 10.—Revisions to Change in Real Gross Domestic Product and Prices, First Quarter 2001

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Preliminary estimate minus advance estimate	
	Advance estimate	Preliminary estimate	Percentage points	Billions of chained (1996) dollars
Gross domestic product	2.0	1.3	-0.7	-15.4
Less: Exports	-2.2	-2.7	-.5	-1.5
Goods	-3.7	-4.6	-.9	-1.9
Services	1.8	2.3	.5	.3
Plus: Imports	-10.4	-9.1	1.3	5.5
Goods	-11.7	-10.2	1.5	5.3
Services	-3.2	-2.8	.4	.2
Equals: Gross domestic purchases .....	.6	.2	-4	-9.1
Less: Change in private inventories				-11.8
Farm .....				.3
Nonfarm				-12.0
Equals: Final sales to domestic purchasers	3.0	3.1	.1	2.1
Personal consumption expenditures	3.1	2.9	-.2	-3.8
Durable goods	11.9	12.2	.3	.8
Nondurable goods	2.6	1.5	-1.1	-5.2
Services	1.7	1.8	.1	.9
Fixed investment	1.6	2.3	.7	2.9
Nonresidential	1.1	2.1	1.0	3.6
Structures	11.0	17.2	6.2	4.1
Equipment and software	-2.1	-2.6	-.5	-1.5
Residential	3.3	2.9	-.4	-.4
Government consumption expenditures and gross investment	4.0	4.7	.7	3.0
Federal	5.7	4.9	-.8	-1.1
National defense	4.9	5.4	.5	.5
Nondefense	7.0	3.9	-3.1	-1.5
State and local	3.1	4.7	1.6	4.0
Addenda:				
Final sales of domestic product	4.6	4.4	-.2	-4.2
Gross domestic purchases price index	2.8	2.8	0	.....
GDP price index	3.2	3.2	0	.....

NOTE.—The preliminary estimates for the first quarter of 2001 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

Personal consumption expenditures: Retail sales for February and March (revised), consumers' share of new-car purchases for March, average unit value for domestic new autos for March (revised), and consumers' share of new-truck purchases for March.

Nonresidential fixed investment: Construction put-in-place for January and February (revised) and March, manufacturers' shipments of machinery and equipment for February and March (revised), manufacturers' shipments of complete civilian aircraft for February (revised) and March, and exports and imports of machinery and equipment for February (revised) and March.

Residential fixed investment: Construction put-in-place for January and February (revised) and March.

Change in private inventories: Manufacturing and trade inventories for February (revised) and March.

Exports and imports of goods and services: Exports and imports of goods for February (revised) and March.

Government consumption expenditures and gross investment: Monthly Treasury Statement detailed data for March, Department of Defense detailed financial reports for the first quarter, and State and local government construction put-in-place for January and February (revised) and March.

Wages and salaries: Employment, average hourly earnings, and average weekly hours for February and March (revised).

GDP prices: Detailed merchandise export and import price indexes for January through March (revised), unit-value index for petroleum imports for February (revised) and March, and housing prices for the first quarter.

Corporate Profits

Profits decreased again in the first quarter. The current-production measure decreased \$21.3 billion (or 2.3 percent at a quarterly rate) after decreasing \$55.6 billion (5.7 percent) in the fourth quarter (table 11).⁷ In percentage terms, the back-to-back decreases represent the biggest two-quarter drop since mid-1992.

First-quarter profits were reduced by a \$7.1 billion adjustment (annual rate) for settlement payments made by tobacco companies; fourth-quarter profits had been reduced by a \$14.2 billion adjustment. Excluding these adjustments, profits from current production decreased 3.1 percent (quarterly rate) in the first quarter after decreasing 4.9 percent in the fourth.

The first-quarter decrease in profits reflected drops in profits of domestic nonfinancial corporations and in profits from the rest of the world. Unit profits of domestic nonfinancial corporations fell,

as unit labor costs surged again after a large increase in the fourth quarter. The real output of domestic nonfinancial corporations increased slightly after a small decrease—the first since early 1993.⁸

The drop in rest-of-world profits mainly reflected lower receipts from foreign affiliates of U.S. corporations. Payments of earnings by U.S. affiliates of foreign corporations increased slightly.⁹

In contrast, profits of domestic financial corporations increased for the third consecutive quarter.

Cash flow from current production, a profits-related measure of internally generated funds

7. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown in NIPA tables 1.9, 1.14, 1.16, and 6.16C (see "Selected NIPA Tables," which begins on page D-2 of this issue) as corporate profits with inventory valuation and capital consumption adjustments.

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

8. Output is defined here as nonfinancial corporate gross product. It is a measure of the contribution, or value added, of nonfinancial corporations to the Nation's output and is measured as the sum of income generated by these businesses. Consequently, the fourth-quarter decrease in nonfinancial corporate gross product partly reflected the difference between the growth of gross domestic income (GDI), which is a measure of output calculated as the sum of incomes earned in production, and GDP, which is calculated as the sum of expenditures for final goods and services. GDI grew more slowly than GDP in the fourth quarter.

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

Table 11.—Corporate Profits

[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change (quarterly rate)			
	Level	Change from preceding quarter				2000			2001
	2001	2000		2001	II	III	IV	I	
	I	II	III	IV					I
Profits from current production	893.4	27.3	6.7	-55.6	-21.3	2.9	0.7	-5.7	-2.3
Domestic industries	739.4	21.9	-1.2	-72.8	-15.9	2.7	-1	-8.8	-2.1
Financial	186.4	-5.5	6.1	2.8	8.4	-3.2	3.6	1.6	4.7
Nonfinancial	553.0	27.3	-7.1	-75.7	-24.3	4.3	-1.1	-11.6	-4.2
Rest of the world	154.0	5.4	7.8	17.3	-5.4	4.2	5.8	12.1	-3.4
Receipts (inflows)	202.8	12.0	-3.9	5.0	-5.1	6.2	-1.9	2.5	-2.5
Payments (outflows)	48.8	6.5	-11.7	-12.2	.2	10.0	-16.2	-20.1	.5
IVA	-3.5	11.4	9.1	-4.0	5.0	.....	.....	.....	.....
CCAdj	30.7	-5.9	-5.0	-6	1.6	.....	.....	.....	.....
Profits before tax	866.2	21.8	2.6	-51.0	-27.9	2.4	.3	-5.4	-3.1
Profits tax liability	259.0	5.7	-1.4	-22.9	-8.7	2.0	-.5	-7.9	-3.3
Profits after tax	607.2	16.0	4.0	-28.0	-19.2	2.5	.6	-4.3	-3.1
Cash flow from current production	998.2	35.3	20.1	-25.1	-6.3	3.6	2.0	-2.4	-6
Domestic industry profits:									
Corporate profits of domestic industries with IVA	708.7	27.7	3.9	-72.2	-17.5	3.6	.5	-9.0	-2.4
Financial	207.0	-3.8	7.4	3.4	8.1	-2.0	4.0	1.7	4.1
Nonfinancial	501.7	31.6	-3.6	-75.6	-25.6	5.5	-6	-12.5	-4.9
	Dollars								
Unit price, costs, and profits of nonfinancial corporations:									
Unit price	1.040	0.006	0.001	0.003	0.005	.....	.....	.....	.....
Unit labor cost .....	.683	.001	.002	.012	.010	.....	.....	.....	.....
Unit nonlabor cost .....	.253	.002	0	.007	-.001	.....	.....	.....	.....
Unit profits from current production .....	.104	.004	-0.003	-0.014	-.005	.....	.....	.....	.....

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

IVA Inventory valuation adjustment
CCAdj Capital consumption adjustment

available for investment, decreased \$6.3 billion after decreasing \$25.1 billion.¹⁰ 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, decreased from 72.2 percent to 71.7 percent, its lowest value since the second quarter of 1982. During 1991–99, the ratio fluctuated between 74 percent and 94 percent; it averaged 84 percent.

Domestic industry profits and related measures.—Domestic industry profits decreased \$17.5 billion after plunging \$72.2 billion.¹¹ The first-quarter

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

11. Domestic industry profits are estimated as the sum of corporate profits before tax and the inventory valuation adjustment; they are shown in NIPA table 6.16C (on page D-16 of this issue). Estimates of the capital consumption adjustment do not exist at a detailed industry level; they are available only for total financial and total nonfinancial industries.

Government Sector

The combined current surplus of the Federal Government and of State and local governments—the NIPA measure of net saving by government—decreased \$20.4 billion, to \$319.7 billion, in the first quarter after increasing \$23.5 billion in the fourth (table 12).¹³ The State and local government current surplus decreased in the first quarter after little change in the fourth, and the Federal Government current surplus increased less in the first quarter than in the fourth.

Federal

The Federal Government current surplus increased \$2.4 billion, to \$279.4 billion, in the first quarter after increasing \$23.7 billion in the fourth. An upturn in current expenditures more than offset an acceleration in current receipts.

Current receipts.—Federal current receipts increased \$34.6 billion in the first quarter after increasing \$17.2 billion in the fourth. The acceler-

13. Net saving equals gross saving less consumption of fixed capital (CFC); the estimates of gross saving, CFC, and net saving are shown in NIPA table 5.1. For NIPA estimates of government current receipts, current expenditures, and the current surplus or deficit for 1999 and 2000, see NIPA tables 3.1, 3.2, and 3.3 in this issue.

decrease appears to have been concentrated in manufacturing and in wholesale trade.

Profits before tax decreased somewhat more than profits from current production. The difference between the two measures mainly reflected an increase in the inventory valuation adjustment, but the capital consumption adjustment also contributed.¹²

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

The capital consumption adjustment converts depreciation valued at historical cost and based on service lives and depreciation patterns specified in the tax code to depreciation valued at current cost and based on empirical evidence on the prices of used equipment and structures in resale markets. For information on depreciation in the NIPA's, see Arnold J. Katz and Shelby W. Herman, "Improved Estimates of Fixed Reproducible Tangible Wealth, 1929-95," *SURVEY OF CURRENT BUSINESS* 77 (May 1997):69–92.

ation was more than accounted for by a smaller decrease in corporate profits tax accruals and by an acceleration in contributions for social insurance. In contrast, personal tax and nontax receipts decelerated.

Corporate profits tax accruals decreased \$7.7 billion after decreasing \$19.1 billion. The smaller decrease reflected the less steep decline in domestic corporate profits before tax.

Contributions for social insurance increased \$16.9 billion after increasing \$8.8 billion. The acceleration primarily reflected an increase in the social security taxable wage base that boosted contributions by employers, employees, and the self-employed to the old-age, survivors, disability, and health insurance trust funds.

Personal tax and nontax receipts increased \$24.7 billion after increasing \$27.5 billion. Income taxes increased \$24.5 billion after increasing \$27.3 billion.

Current expenditures.—Current expenditures increased \$32.2 billion in the first quarter after decreasing \$6.4 billion in the fourth. The turnaround was accounted for by upturns in "subsidies

less the current surplus of government enterprises,” in consumption expenditures, and in grants-in-aid to State and local governments.

“Subsidies less current surplus of government enterprises” increased \$2.2 billion after decreasing \$20.0 billion. The upturn was mostly accounted for by agricultural subsidies, which increased \$1.4 billion after decreasing \$19.4 billion, reflecting the pattern of the special payments to farmers under the Agricultural Risk Protection Act of 2000.

Consumption expenditures increased \$18.4 billion after decreasing \$0.7 billion. The upturn was the result of a turnaround in nondefense consumption expenditures and an acceleration in defense consumption expenditures.

Nondefense consumption expenditures increased \$6.5 billion after decreasing \$3.6 billion. Nondurable goods increased \$3.3 billion after decreasing \$4.1 billion. The upturn largely reflected a decrease in sales from the Strategic Petroleum Reserve, which are treated as deductions from consumption expenditures; under the “Exchange 2000” program, the Strategic Petroleum Reserve released 30 million barrels of crude oil, with an estimated value of \$3.9 billion (annual rate), to private business in the fourth quarter.¹⁴ Nondefense services increased \$3.2 billion after increasing \$0.4 billion. Within services, compensation of employees increased \$3.3 billion after decreasing \$0.6 billion; compensation was boosted \$2.4 billion by the January 2001 pay raise.

Defense consumption expenditures increased \$12.0 billion after increasing \$2.8 billion. The acceleration was more than accounted for by services, which increased \$13.6 billion after increasing \$1.7 billion. Within services, “other services”—which includes spending for research and development, for personnel support, for installation support, and for weapon support—increased \$10.4 billion after increasing \$1.6 billion. Also within services, compensation of employees increased \$3.1 billion after decreasing \$0.3 billion; compensation was boosted \$3.6 billion by the January 2001 pay raise.

Grants-in-aid to State and local governments increased \$11.6 billion after no change. Grants for medicaid, for education, for health and hospitals, and for unemployment insurance all turned up.

“Transfer payments (net)” increased \$9.4 billion after increasing \$16.8 billion. The deceleration was more than accounted for by transfer payments to the rest of the world, which decreased \$17.2 billion after increasing \$12.0 billion; these payments

had been boosted in the fourth quarter by the annual payment of \$2.8 billion (\$11.2 billion at an annual rate) to Israel for economic support. In contrast, transfer payments to persons increased \$26.7 billion after increasing \$4.8 billion. The step-up mainly reflected a 3.5-percent cost-of-living adjustment in January that boosted benefits \$16.3 billion for social security (old-age, survivors, disability, and health insurance), veterans pensions, supplemental security income, and other programs.

Table 12.—Government Sector Current Receipts and Expenditures

[Billions of dollars, seasonally adjusted at annual rates]

	Level	Change from preceding quarter				
	2001	2000				2001
	I	I	II	III	IV	I
Current receipts	3,151.5	83.0	62.8	45.4	34.4	36.1
Current expenditures	2,831.8	5.1	49.6	29.9	10.9	56.5
Current surplus or deficit (-)	319.7	77.9	13.2	15.5	23.5	-20.4
Social insurance funds	113.3	3.4	-2.5	7.6	7.2	-5.1
Other	206.4	74.6	15.6	7.9	16.4	-15.3
Federal Government						
Current receipts	2,141.2	70.9	42.9	34.6	17.2	34.6
Personal tax and nontax receipts	1,083.1	39.8	25.6	27.3	27.5	24.7
Corporate profits tax accruals	222.6	13.4	4.8	-1.1	-19.1	-7.7
Indirect business tax and nontax accruals	109.6	2.9	2.1	0	.1	.6
Contributions for social insurance	725.9	14.9	10.3	8.4	8.8	16.9
Current expenditures	1,861.8	-21.7	37.9	22.1	-6.4	32.2
Consumption expenditures	507.6	-8.3	20.3	-9.1	-7	18.4
National defense	334.4	-13.5	14.5	-6.1	2.8	12.0
Nondefense	173.2	5.2	5.8	-3.0	-3.6	6.5
Transfer payments (net)	811.4	5.5	15.8	6.2	16.8	9.4
To persons	805.3	16.1	15.0	3.9	4.8	26.7
To the rest of the world	6.2	-10.6	.8	2.3	12.0	-17.2
Grants-in-aid to State and local governments	262.8	-3.8	5.9	10.3	0	11.6
Net interest paid	245.5	3.2	-4.7	-3.1	-2.3	-9.4
Subsidies less current surplus of government enterprises	34.6	-18.2	5	17.8	-20.0	2.2
Subsidies	41.1	-16.9	.8	17.5	-19.3	1.8
Of which: Agricultural subsidies	17.7	-16.8	.8	17.4	-19.4	1.4
Less: Current surplus of government enterprises	6.5	1.3	.3	-4	.7	-3
Less: Wage accruals less disbursements	0	0	0	0	0	0
Current surplus or deficit (-)	279.4	92.5	5.1	12.4	23.7	2.4
Social insurance funds	113.6	3.3	-2.5	7.5	7.2	-5.2
Other	165.8	89.3	7.6	4.8	16.5	7.6
State and local governments						
Current receipts	1,273.1	8.3	25.8	21.1	17.1	13.2
Personal tax and nontax receipts	288.7	2.2	12.2	3.6	7.2	4.3
Corporate profits tax accruals	36.3	2.1	.9	-3	-3.7	-1.2
Indirect business tax and nontax accruals	675.1	7.6	6.5	7.5	13.6	-1.7
Contributions for social insurance	10.2	.2	.2	.1	.1	.1
Federal grants-in-aid	262.8	-3.8	5.9	10.3	0	11.6
Current expenditures	1,232.8	22.9	17.7	18.0	17.3	35.9
Consumption expenditures	954.6	20.1	13.8	13.9	12.7	16.7
Transfer payments to persons	278.9	3.1	4.0	4.0	4.8	4.5
Net interest paid	-4.9	-6	-4	.2	-3	-2
Less: Dividends received by government .....	.4	0	0	0	0	0
Subsidies less current surplus of government enterprises	4.6	.3	.2	-1	.1	15.0
Subsidies	15.7	0	0	0	0	15.2
Less: Current surplus of government enterprises	11.1	-3	-2	.1	-1	.2
Less: Wage accruals less disbursements	0	0	0	0	0	0
Current surplus or deficit (-)	40.3	-14.6	8.1	3.1	-1	-22.8
Social insurance funds	-4	.1	.1	0	0	0
Other	40.6	-14.7	8.1	3.0	-1	-22.9
Addendum:						
Net lending or net borrowing (-) ¹	231.0	70.3	20.5	15.7	16.3	-13.5
Federal government	267.8	92.7	2.6	13.6	17.2	10.1
State and local government	-36.8	-22.4	17.9	2.1	-9	-23.6

1. “Net lending or borrowing” is conceptually similar to “net financial investment” in the flow-of-funds accounts prepared by the Board of Governors of the Federal Reserve System. The two measures differ primarily because government net lending or borrowing is estimated from data for transactions, whereas net financial investment is estimated from data for financial assets. There are also small conceptual differences, such as the classification of the Federal Government’s railroad retirement and veterans life insurance programs.

14. For more information, see page 10 in the April 2001 SURVEY.

Net interest paid decreased \$9.4 billion after decreasing \$2.3 billion. Gross interest paid decreased \$8.5 after decreasing \$2.2, reflecting larger decreases in interest paid to persons and business and in interest paid to the rest of the world. In addition, gross interest received increased \$0.9 billion after increasing \$0.1 billion, reflecting an upturn in interest received from the rest of the world.

State and local

The State and local government current surplus decreased \$22.8 billion, to \$40.3 billion, in the first quarter after decreasing \$0.1 billion in the fourth. Current expenditures accelerated, and current receipts decelerated.

Current receipts.—State and local government current receipts increased \$13.2 billion in the first quarter after increasing \$17.1 billion in the fourth. The deceleration was more than accounted for by a downturn in indirect business tax and nontax accruals and a deceleration in personal tax and nontax receipts. In contrast, Federal grants-in-aid turned up, and the decline in corporate profits tax accruals slowed.

Indirect business tax and nontax accruals decreased \$1.7 billion after increasing \$13.6 billion. The downturn reflected “out-of-court” settlement payments to the States by tobacco companies, which fell \$7.1 (annual rate) after increasing \$8.0 billion (annual rate). In contrast, sales taxes accelerated to a \$3.3 billion increase from a \$1.8 billion increase.

Personal tax and nontax receipts increased \$4.3 billion after increasing \$7.2 billion. The deceleration was mostly accounted for by a deceleration in personal income taxes, which increased \$3.7 billion after increasing \$6.5 billion, primarily reflecting an increase in refunds issued by Colorado for tax year 2000.

Corporate profits tax accruals decreased \$1.2 billion after decreasing \$3.7 billion, reflecting the smaller decrease in domestic corporate profits before tax.

Current expenditures.—Current expenditures increased \$35.9 billion in the first quarter after increasing \$17.3 billion in the fourth. The acceleration was accounted for by accelerations in “subsidies less current surplus of government enterprises” and in consumption expenditures.

“Subsidies less current surplus of government enterprises” increased \$15.0 billion after increasing \$0.1 billion. Subsidies increased \$15.2 billion after no change; the increase was the result of electricity purchases of \$3.8 billion (\$15.2 billion annual rate) by the State of California.

Consumption expenditures increased \$16.7 billion after increasing \$12.7 billion. The acceleration was more than attributable to a step-up in services, which increased \$6.1 billion after increasing \$2.2 billion. Within services, compensation of employees increased \$3.8 billion after decreasing \$0.1 billion, mostly as a result of increased employment.

