

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

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ECONOMIC GROWTH and the rate of inflation slowed in the second quarter of 1997, according to the "advance" estimates of the national income and product accounts (NIPAs). Real gross domestic product (GDP) increased 2.2 percent after increasing 4.9 percent in the first quarter, and real final sales of domestic product increased 1.9 percent after increasing 3.0 percent (chart 1 and table 1).¹ The price index for gross domestic purchases increased 0.6 percent after increasing 1.9 percent.

The deceleration in real GDP growth was more than accounted for by decelerations in

personal consumption expenditures (PCE) and in inventory investment. PCE increased 0.8 percent after increasing 5.3 percent; downturns in durable and nondurable goods were mainly responsible for the slowdown. Inventory investment—that is, change in business inventories—increased \$3.1 billion, as inventory stocks increased \$66.8 billion after increasing \$63.7 billion; in the first quarter, inventory investment had jumped \$30.8 billion.

The largest contributions to the 2.2-percent increase in real GDP were made by exports of goods and services and by nonresidential fixed investment; smaller contributions were made by

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter dollar changes are differences between these published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data. Real estimates are expressed in chained (1992) dollars. Price indexes are chain-type measures.

Estimates for the first quarter of 1993 through the first quarter of 1997 have been revised as part of the annual revision of the NIPAs; see "Annual Revision of the National Income and Product Accounts: Annual Estimates, 1993-96, and Quarterly Estimates, 1993:1-1997:1" in this issue.

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

[Seasonally adjusted at annual rates]

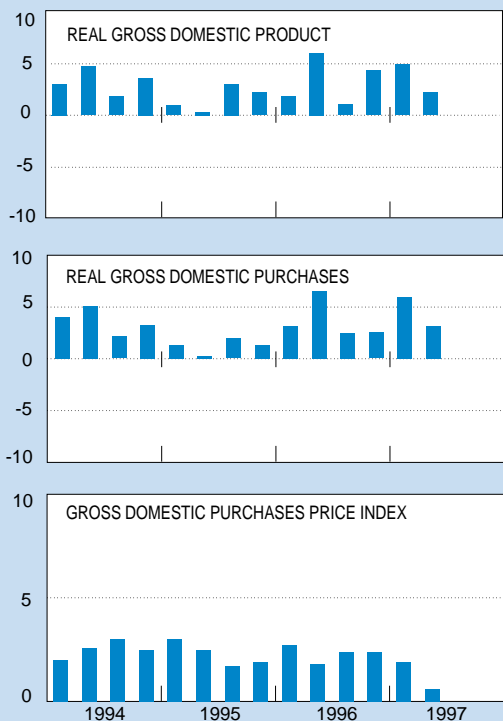
	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1996		1997	
		1997	1996		1997		III	IV	I
	II	III	IV	I	II	III	IV	I	II
Gross domestic product	7,139.7	17.8	73.6	84.2	38.1	1.0	4.3	4.9	2.2
Less: Exports of goods and services	954.1	4.0	49.7	21.6	31.4	1.9	25.5	9.9	14.4
Plus: Imports of goods and services	1,102.0	30.2	16.4	42.3	53.1	13.2	6.8	17.9	21.8
Equals: Gross domestic purchases	7,276.9	41.7	43.1	102.5	56.0	2.4	2.5	5.9	3.1
Less: Change in business inventories	66.8	16.6	-5.0	30.8	3.1				
Equals: Final sales to domestic purchasers	7,204.9	26.5	46.3	70.4	51.8	1.5	2.7	4.0	2.9
Personal consumption expenditures	4,827.9	6.0	38.2	61.7	9.8	.5	3.3	5.3	.8
Durable goods	628.5	-2.9	5.2	20.7	-9.3	-1.9	3.5	14.1	-5.7
Nondurable goods	1,450.1	2.3	7.3	16.6	-7.7	.6	2.1	4.7	-2.1
Services	2,748.8	6.3	25.4	25.7	24.9	1.0	3.9	3.9	3.7
Private nonresidential fixed investment	837.8	29.6	11.5	8.1	28.9	16.5	5.9	4.1	15.1
Structures	197.0	4.4	6.9	-1.0	1.1	10.0	15.3	-2.1	2.3
Producers' durable equipment	645.9	25.8	3.8	9.9	29.3	19.1	2.6	6.7	20.4
Private residential investment	277.1	-3.1	-3.0	2.2	3.8	-4.5	-4.3	3.3	5.6
Government consumption expenditures and gross investment	1,272.3	-3.6	.3	-1.3	11.8	-1.1	.1	-4	3.8
Federal	462.0	-5.0	-6.1	-6.8	9.2	-4.2	-5.2	-5.8	8.4
State and local	810.4	1.5	6.4	5.4	2.7	.7	3.3	2.7	1.3
Addendum: Final sales of domestic product	7,068.0	2.7	76.7	52.4	33.9	.2	4.5	3.0	1.9

NOTE.—Chained (1992) dollar series are calculated as the product of the chain-type quantity index and the 1992 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1992) dollar levels and residuals, which measure the extent of nonadditivity in each table, are found in NIPA tables 1.2, 1.4, and 1.6. Percent changes are found in table 8.1.

CHART 1

Selected Measures: Change From Preceding Quarter

Percent



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

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

government spending and PCE. The increase in real GDP was moderated by a jump in imports of goods and services. Exports increased 14.4 percent; virtually the entire increase was accounted for by nonautomotive capital goods.² Nonresidential fixed investment increased 15.1 percent; most of the increase was

in producers' durable equipment (PDE). The increase in government spending was mainly at the Federal level and was concentrated in national defense. In PCE, services more than accounted for the increase.

Motor vehicles.—Real motor vehicle output decreased 11.8 percent in the second quarter after increasing 19.9 percent in the first, and final sales of motor vehicles to domestic purchasers decreased 13.0 percent after increasing

2. Exports and imports of nonautomotive capital goods include both parts and equipment. In contrast, parts are not included in the producers' durable equipment component of business fixed investment or in the equipment component of government investment.

Second-Quarter 1997 Advance GDP Estimate: Source Data and Assumptions

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

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

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

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

Change in business inventories: Manufacturing and trade inventories (2) and unit auto and truck inventories (3);

Net exports of goods and services: Exports and imports of goods and services (2);

Government consumption expenditures and gross investment: Department of Defense outlays (3), other Federal outlays (3), State and local construction put in place (2), and State and local employment (3);

GDP prices: Consumer Price Index (3), Producer Price Index (3), U.S. Import and Export Price Indexes (3), and values and quantities of petroleum imports (2).

BEA made assumptions for source data that were not available. Table A shows the assumptions for key series; a more comprehensive listing of assumptions is available on the Department of Commerce's Economic Bulletin Board or from BEA.

Table A.—Summary of Major Data Assumptions for Advance Estimates, 1997:II

[Billions of dollars, seasonally adjusted at annual rates]

	1997					
	January	February	March	April	May	June ¹
Fixed investment:						
Nonresidential structures:						
Buildings, utilities, and farm:						
Value of new nonresidential construction put in place	161.0	163.7	160.5	161.4	160.4	164.1
Producers' durable equipment:						
Manufacturers' shipments of complete civilian aircraft	22.8	23.7	29.0	33.5	38.8	28.0
Residential structures:						
Value of new residential construction put in place:						
1-unit structures	158.3	160.2	161.5	161.6	159.8	157.9
2-or-more-unit structures	20.0	23.3	22.6	22.6	23.5	22.2
Change in business inventories nonfarm:						
Change in inventories for manufacturing and trade (except nonmerchant wholesalers) for industries other than motor vehicles and equipment in trade	36.5	46.1	10.0	46.8	35.4	31.1
Net exports: ²						
Exports of goods:						
U.S. exports of goods, balance-of-payments basis	620.2	644.2	685.9	685.9	676.2	665.2
Excluding nonmonetary gold	617.5	639.8	672.8	675.0	668.5	655.3
Imports of goods:						
U.S. imports of goods, balance-of-payments basis	838.0	845.4	864.4	872.3	880.7	884.5
Excluding nonmonetary gold	835.3	840.7	845.7	860.2	870.0	874.4
Net exports of goods (exports less imports)	-217.8	-201.2	-178.5	-186.4	-204.5	-219.3
Excluding nonmonetary gold	-217.8	-200.9	-172.9	-185.2	-201.5	-219.1
Government consumption expenditures and gross investment:						
State and local:						
Structures:						
Value of new construction put in place	118.0	124.4	126.3	124.5	116.9	126.8

1. Assumed.

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

13.4 percent. Both autos and trucks contributed to both downswings (table 2).

Most of the downswing in final sales was accounted for by consumers. Factors frequently considered in analyses of consumer spending were mixed in the second quarter. Growth of real disposable personal income slowed to 3.0 percent from 4.6 percent, but the Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) increased from 99.0 to 103.0, its highest level in more than 30 years, and the unemployment rate decreased from 5.3 percent to 4.9 percent. Factors specific to motor vehicle purchases were also mixed. Interest rates on new-car loans at commercial banks increased, and used-car prices decreased; both changes made new cars relatively more expensive. In contrast, manufacturers offered more attractive sales-incentive programs than in the first quarter.

Imports of motor vehicles decreased after increasing sharply. Exports increased after a decrease; autos more than accounted for the increase.

Motor vehicle inventory investment increased much less than in the first quarter; both autos and trucks contributed to the slowdown. For new domestic autos, the inventory-sales ratio

(calculated from units data) increased to 2.3 at the end of the second quarter from 2.2 at the end of the first; the traditional industry target is 2.4.

Prices

As noted above, the price index for gross domestic purchases, which measures the prices paid for goods and services purchased by U.S. residents, increased 0.6 percent in the second quarter—its smallest increase since 1961—after increasing 1.9 percent in the first quarter (table 3). The deceleration largely reflected a sharp downturn in energy prices. Excluding the relatively volatile food and energy components, prices of gross domestic purchases increased 1.4 percent after increasing 1.8 percent (chart 2).

Prices of PCE increased 1.0 percent after increasing 2.2 percent. The deceleration was more than accounted for by energy prices, which decreased 15.8 percent after increasing 7.7 percent; prices of fuel oil and coal, of gasoline and oil, and of electricity and gas all turned down. Food prices increased 1.6 percent after increasing 1.4 percent, reflecting an acceleration in the prices of nonalcoholic beverages (mainly coffee) and upturns in the prices of beef and veal and of processed dairy products. "Other" PCE prices increased 2.0 percent, the same as in the first

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

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1996		1997	
	1997	1996		1997					
	II	III	IV	I	II	III	IV	I	II
Output	239.9	-6.0	-10.3	11.0	-7.6	-9.1	-15.7	19.9	-11.8
Autos	116.1	-1.7	-14.2	6.0	-3.6	-5.3	-37.5	22.5	-11.3
Trucks	123.6	-4.2	3.9	5.0	-4.0	-13.0	13.8	17.6	-12.2
Less: Exports	25.7	.1	1.3	-3	.4	2.6	23.4	-4.5	6.3
Autos	16.6	.6	-3	-2	1.0	17.5	-7.4	-5.0	28.3
Trucks	9.1	-5	1.6	0	-7	-20.8	108.0	-3.6	-23.3
Plus: Imports	79.9	3.0	-3.7	10.4	-1.9	17.5	-18.4	72.6	-9.1
Autos	66.4	2.4	-2.6	8.4	-1.2	16.6	-15.3	69.9	-6.9
Trucks	13.5	.7	-1.3	2.1	-7	21.9	-31.7	86.5	-18.9
Equals: Gross domestic purchases	294.1	-3.2	-15.1	21.4	-9.8	-4.2	-18.9	34.1	-12.4
Autos	165.8	-1	-16.3	14.3	-5.7	-1	-32.7	41.8	-12.6
Trucks	128.0	-3.1	1.2	7.1	-4.2	-9.5	3.9	24.8	-12.1
Less: Change in business inventories	2.2	-1.9	-14.5	12.5	.5				
Autos	0.5	2.2	-11.9	6.1	2.3				
Trucks	1.7	-4.2	-2.6	6.5	-1.9				
Equals: Final sales to domestic purchasers	291.7	-1.3	-1.1	9.4	-10.4	-1.8	-1.5	13.4	-13.0
Autos	165.1	-2.3	-4.7	-8.4	-8.0	-5.1	-10.7	21.8	-17.1
Trucks	126.4	.9	3.6	1.0	-2.4	2.9	12.2	3.2	-7.4
Addenda:									
Personal consumption expenditures	168.9	-5.0	-1.9	4.8	-9.2	-10.6	-4.2	11.5	-19.2
Producers' durable equipment	116.0	4.6	.1	3.9	-7	18.4	.3	14.5	-2.3
Gross government investment	8.3	-7	.8	.7	-2	-28.8	49.1	43.3	-9.7

NOTE.—See note to table 1 for an explanation of chained (1992) dollars. Truck output includes new trucks only; auto output includes new cars and used cars. Chained (1992) dollar levels for motor vehicle output, auto and truck output, and residuals, which measure the extent of nonadditivity in each table, are found in NIPA tables 1.4, 8.5, and 8.7.

quarter; prices of durable goods turned down or decreased more than in the first quarter, while prices of nondurable goods and of most services stepped up. However, prices of medical services slowed to a 1.5-percent increase, the smallest in 11 years.

Prices of nonresidential fixed investment decreased 1.8 percent after decreasing 2.0 percent; prices of structures increased about the same as in the first quarter, and prices of

PDE decreased about the same as in the first quarter. In PDE, prices of information processing, industrial, transportation, and "other" PDE all posted changes similar to those in the first quarter. Prices of private residential investment increased 1.1 percent after increasing 2.0 percent.

Prices of government consumption expenditures and gross investment increased 1.3 percent after increasing 3.5 percent. Prices paid by the Federal Government increased 1.0 percent after increasing 4.9 percent; the first-quarter increase reflected a pay increase for civilian and military personnel.³ Prices paid by State and local governments increased 1.4 percent after increasing 2.7 percent; nondurable goods, services, and gross investment all contributed to the slowdown.

The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 1.4 percent after increasing 2.4 percent. This measure, unlike the price index for gross domestic purchases, includes the prices of exports and excludes the prices of imports. Export prices decreased 2.2 percent after decreasing 1.8 percent; prices of agricultural exports turned down sharply, while prices of nonagricultural exports decreased the same amount as in the first quarter. Import prices decreased 7.6 percent after decreasing 5.3 percent; petroleum prices decreased much more than in the first quarter.

Personal income

Real disposable personal income (DPI) increased 3.0 percent in the second quarter after increasing 4.6 percent in the first (chart 3). Current-dollar DPI increased 4.0 percent after increasing 6.8 percent. The personal saving rate (saving as a percentage of current-dollar DPI) increased to 4.2 percent from 3.7 percent, reflecting a smaller increase in outlays than in DPI.

Personal income increased \$83.8 billion after increasing \$127.8 billion (table 4). About half the slowdown was accounted for by wages and salaries; the other half was accounted for by transfer payments and by personal dividend income.

Wage and salary disbursements increased \$50.0 billion after increasing \$74.6 billion. All major industries contributed to the slowdown. In private industries, the slowdown was accounted for by the average workweek, which was unchanged after increasing, and by average hourly

Table 3.—Price Indexes

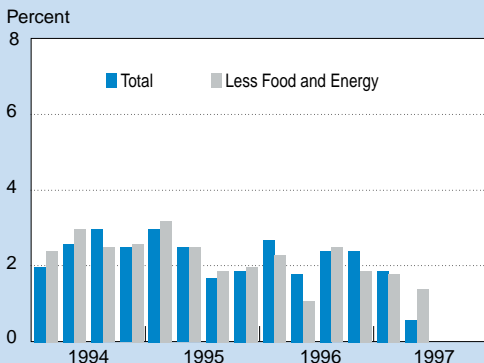
[Percent change at annual rates; based on seasonally adjusted index numbers (1992=100)]

	1996		1997	
	III	IV	I	II
Gross domestic product	2.7	1.9	2.4	1.4
Less: Exports of goods and services	-2.6	-4.3	-1.8	-2.2
Plus: Imports of goods and services	-4.2	0	-5.3	-7.6
Equals: Gross domestic purchases	2.4	2.4	1.9	.6
Less: Change in business inventories				
Equals: Final sales to domestic purchasers	2.4	2.4	2.0	.7
Personal consumption expenditures	2.5	3.0	2.2	1.0
Food	4.6	3.9	1.4	1.6
Energy	-4.3	9.5	7.7	-15.8
Other personal consumption expenditures	2.5	2.4	2.0	2.0
Private nonresidential fixed investment	-3	-1.5	-2.0	-1.8
Structures	3.9	2.5	2.8	3.0
Producers' durable equipment	-1.9	-3.0	-3.8	-3.6
Private residential investment	5.7	2.6	2.0	1.1
Government consumption expenditures and gross investment:	3.1	2.5	3.5	1.3
Federal	2.1	2.5	4.9	1.0
National defense	2.1	2.8	4.3	.9
Nondefense	2.2	1.7	6.1	1.4
State and local	3.6	2.5	2.7	1.4
Addendum:				
Gross domestic purchases less food and energy	2.5	1.9	1.8	1.4

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

CHART 2

Gross Domestic Purchases Prices: Change From Preceding Quarter



3. In the NIPA's, an increase in the rate of government employee compensation is treated as an increase in the price of employee services purchased by government.

earnings, which increased less than in the first quarter. In contrast, employment increased more than in the first quarter.

Transfer payments to persons increased \$10.3 billion after increasing \$25.7 billion. The large first-quarter increase primarily reflected two factors—first, cost-of-living adjustments to benefits under social security and several other Federal retirement and income support programs, and second, changes in the Earned Income Tax Credit program (which is administered through the Federal income tax system and which provides payments to low-income workers).

Personal dividend income increased \$5.8 billion after increasing \$17.3 billion. The large first-quarter increase reflects the expectation of high levels in 1997 of dividend payments by mutual funds that are derived from capital gains incomes of the funds, and a change in methodology for recording the dividend payments of these funds

on a monthly and quarterly basis. (See page 30 for additional information.)

Nonfarm proprietors' income and other labor income increased less than in the first quarter, and rental income of persons decreased slightly more than in the first quarter. In contrast, farm proprietors' income increased after decreasing, and personal interest income increased more than in the first quarter.


Personal contributions for social insurance, which is subtracted in the calculation of personal income, increased \$3.1 billion after increasing \$6.7 billion. The large first-quarter increase reflected the growth in wages and salaries, an increase in the social security taxable earnings base for employees and for the self-employed, and an increase in the monthly premium for supplementary medical insurance. 

Table 4.—Personal Income and Its Disposition

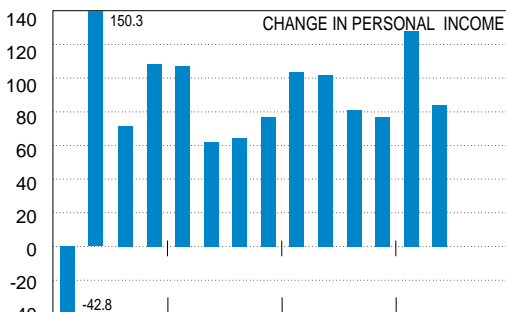
[Billions of dollars; seasonally adjusted at annual rates]

	Level	Change from preceding quarter				
		1996		1997		
	1997	II	III	IV	I	II
Wage and salary disbursements	3,841.5	51.6	54.1	74.6	50.0	
Private industries	3,179.8	46.4	50.6	65.8	46.1	
Goods-producing industries	953.3	10.9	10.6	15.1	10.4	
Manufacturing	700.7	6.0	5.5	8.5	6.6	
Distributive industries	866.8	9.8	11.6	16.2	10.0	
Service industries	1,359.6	25.8	28.4	34.6	25.5	
Government	661.7	5.2	3.4	8.9	3.9	
Other labor income	415.1	.5	.7	3.2	2.8	
Proprietors' income with IVA and CCAj:	543.6	3.8	4.5	6.3	9.0	
Farm	44.5	3.6	.3	-.2	4.3	
Nonfarm	499.1	.2	4.2	6.5	4.7	
Rental income of persons with CCAj	148.6	3.4	1.2	-.2	-.4	
Personal dividend income	318.3	2.0	3.2	17.3	5.8	
Personal interest income	766.8	14.9	7.1	7.4	9.6	
Transfer payments to persons	1,117.5	7.6	9.1	25.7	10.3	
Less: Personal contributions for social insurance	321.3	3.2	3.3	6.7	3.1	
Personal income	6,830.0	80.6	76.5	127.8	83.8	
Less: Personal tax and nontax payments	982.0	9.5	25.3	33.1	26.3	
Equals: Disposable personal income	5,848.0	71.1	51.2	94.7	57.5	
Less: Personal outlays	5,600.1	42.8	84.8	99.2	25.5	
Equals: Personal saving	247.9	28.3	-33.6	-4.5	32.0	
Addenda: Special factors in personal income:						
In wages and salaries:						
Federal Government and Postal Service pay adjustments, including "buyouts"	4.4	0	0	4.4	-.2	
Strike in motor vehicle industry	0	0	-.2	.2	0	
In transfer payments to persons:						
Social security retroactive payments	0	0	1.1	-1.1	0	
Cost-of-living adjustments in Federal transfer programs	13.5	0	0	13.5	0	
Earned Income Tax Credit payments	21.2	0	0	4.3	0	
In personal contributions for social insurance:						
Social security base changes and increase in premium for supplementary medical insurance	2.1	0	0	2.1	0	
In personal tax and nontax payments:						
Recent tax law changes	-9.2	-16.6	-.1	-4.1	0	

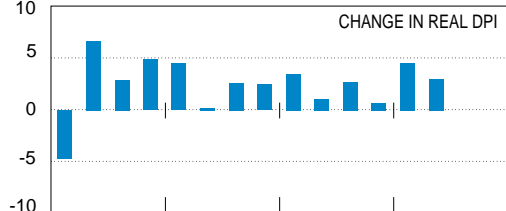
CHART 3

Selected Personal Income and Saving Measures

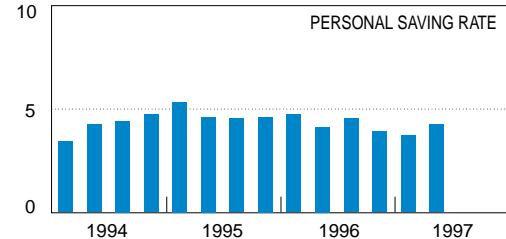
Billions \$



Percent



Percent



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