

THE BUSINESS SITUATION

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THE "FINAL" estimate of growth in real gross domestic product (GDP) for the third quarter of 1994 is 4.0 percent, 0.1 percentage point higher than the "preliminary" estimate reported in the November SURVEY OF CURRENT BUSINESS (table 1).¹ The general picture of economic activity was little changed from that reported in

November: Personal consumption expenditures (PCE), producers' durable equipment, and government purchases more than accounted for the third-quarter increase in real GDP; nonresidential structures changed little, and residential investment, inventory investment, and net exports of goods and services declined.

1. Quarterly estimates in the national income and product accounts 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 and are based on 1987 weights.

Table 1.—Revisions in Real Gross Domestic Product and Prices, Third Quarter 1994

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Final estimate minus preliminary estimate	
	Preliminary estimate	Final estimate	Percentage points	Billions of 1987 dollars
Gross domestic product	3.9	4.0	0.1	2.0
<i>Less:</i> Exports of goods and services	12.2	14.8	2.6	3.8
Goods	17.9	18.0	.1	.1
Services	-3.7	5.4	9.1	3.6
<i>Plus:</i> Imports of goods and services	15.6	15.6	0	0
Goods	17.1	17.2	.1	.2
Services	6.9	5.7	-1.2	-3
Equals: Gross domestic purchases	4.5	4.4	-1	-1.9
Personal consumption expenditures	3.3	3.1	-2	-1.7
Durables	6.3	5.8	-5	-6
Nondurables	3.3	3.3	0	.2
Services	2.4	2.2	-2	-1.2
Fixed investment	8.6	8.6	0	-1
Nonresidential	14.4	14.1	-3	-4
Structures	2.9	1.6	-1.3	-5
Producers' durable equipment	18.0	18.1	.1	.1
Residential	-6.5	-6.0	.5	.3
Change in business inventories				1.0
Nonfarm				1.1
Farm				-1
Government purchases	7.1	6.7	-4	-1.0
Federal	12.5	10.9	-1.6	-1.2
National defense	13.6	12.8	-8	-4
Nonddefense	9.5	6.8	-2.7	-7
State and local	4.2	4.3	.1	.1
Gross domestic purchases price index (fixed weights) ¹	3.4	3.5	.1	
GDP price index (fixed weights) ¹	2.8	3.0	.2	

1. Based on 1987 weights.

NOTE.—Final estimates for the third quarter of 1994 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

Personal consumption expenditures: Revised retail sales for September.

Nonresidential fixed investment: Revised construction put in place for August and September, revised manufacturers' shipments of equipment for September, and revised shipments of complete civilian aircraft for September.

Residential investment: Revised construction put in place for August and September.

Change in business inventories: Revised manufacturing and trade inventories for September.

Net exports of goods and services: Revised merchandise exports and imports for September; revised exports and imports of services for the quarter; and territorial adjustments for the quarter.

Government purchases: Revised State and local government construction put in place for August and September.

Net interest: Financial assets held by households for the quarter and revised net interest from the rest of the world for the quarter.

Corporate profits: Revised domestic profits before tax and profits from the rest of the world for the quarter.

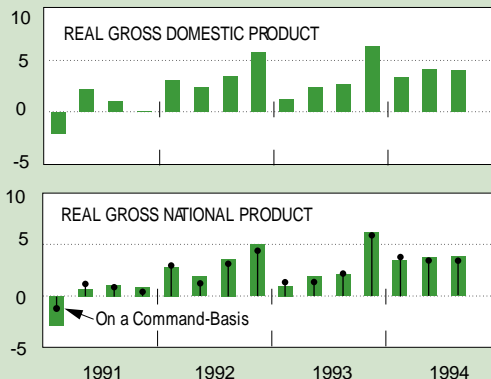
GDP prices: Revised housing prices for the quarter and revised export and import prices for the quarter.

The largest upward revisions were to exports (\$3.8 billion) and to the change in business inventories (\$1.0 billion); the largest downward revisions were to PCE (\$1.7 billion) and to government purchases (\$1.0 billion). In exports, the largest revisions were to services, mainly to receipts from foreign travel in the United States and to royalty and license fees. The upward revision to foreign travel receipts (spending by foreign residents on hotels, meals, entertainment, transportation and other items in the United States) was offset by a downward revision to the net foreign travel component of PCE. These offsetting revisions reflected revised balance of payments data that indicated that a larger share of consumer spending was accounted for by foreign residents than had previously been estimated. (The source data used to measure consumer

CHART 1

Selected Product 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

spending in the United States do not distinguish between purchases made by U.S. residents and those by foreign residents.) In inventories, the upward revision was to nonfarm business inventories, reflecting revised Census Bureau data. The downward revision to government purchases was largely to Federal nondefense spending.

The final estimate of real gross domestic purchases shows a 4.4-percent increase, 0.1 percentage point lower than the preliminary estimate.

The final estimates of the fixed-weighted price indexes for gross domestic purchases and for GDP show increases of 3.5 percent and 3.0 percent, respectively, slightly higher than the preliminary estimates.

The increase in real disposable personal income (DPI) was revised up 0.2 percentage point to 3.1 percent. Current-dollar DPI was revised up \$3.8 billion, largely reflecting upward revisions to personal interest income (which in turn reflected newly available flow-of-funds data on household assets from the Federal Reserve Board). The personal saving rate was revised up 0.1 percentage point to 4.1 percent.

Gross national product (GNP).—Real GNP increased 3.8 percent in the third quarter, somewhat less than the increase in real GDP (chart 1 and

table 2).² Payments of factor income to the rest of the world increased more than receipts of factor income. Profits accounted for a little more than half of the third-quarter increase in payments and for three-fourths of the increase in receipts.

Real GNP on a command basis increased less than real GNP in the third quarter—3.4 percent, compared with 3.8 percent—reflecting a deterioration in the terms of trade.³ In the second quarter, command-basis GNP also increased less than GNP—3.5 percent, compared with 3.7 percent.

Corporate Profits

Profits from current production increased \$9.6 billion (revised) in the third quarter after increasing \$38.2 billion in the second (table 3).⁴ The large second-quarter increase primarily reflected a rebound from the effect of the Northridge, California, earthquake, which had reduced first-quarter profits by about \$30 billion.

The third-quarter increase reflected increases in domestic operations of both financial and nonfinancial corporations. For nonfinancial corporations, the increase reflected a rise in real gross product; unit profits were unchanged, as an increase in unit price was offset by an increase in unit costs.

Cash flow from current production, a profits-related measure of internally generated funds available to corporations for investment, increased \$3.9 billion after increasing \$8.3 billion. The ratio of cash flow to nonresidential fixed investment—a measure of the share of current levels of investment that could be financed by internally generated funds—decreased from 83.2 percent in the second quarter to 80.7 percent in the third—its lowest level in almost 4 years, but still substantially higher than its average, 72.1 percent, in the 1980's.

Table 2.—Relation of Gross Domestic Product, Gross National Product, and Command-Basis Gross National Product in Constant Dollars

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars				
	Level	Change from preceding quarter		Percent change from preceding quarter	
	1994:III	1994:II	1994:III	1994:II	1994:III
Gross domestic product	5,367.0	53.0	52.9	4.1	4.0
<i>Plus:</i> Receipts of factor income from the rest of the world	137.8	12.3	10.7	50.3	38.2
<i>Less:</i> Payments of factor income to the rest of the world	144.9	17.5	14.2	77.7	51.1
Equals: Gross national product	5,359.9	47.8	49.4	3.7	3.8
<i>Less:</i> Exports of goods and services and receipts of factor income from the rest of the world	804.3	36.5	33.3	21.4	18.4
<i>Plus:</i> Command-basis exports of goods and services and receipts of factor income	818.6	34.4	28.0	19.5	14.9
Equals: Command-basis gross national product	5,374.2	45.6	44.1	3.5	3.4
Addendum:					
Terms of trade ¹	101.8	−.5	−.7	−1.9	−2.7

1. Ratio of the implicit price deflator for exports of goods and services and receipts of factor income to the corresponding implicit price deflator for imports with the decimal point shifted two places to the right.

NOTE.—Levels of these series are found in NIPA tables 1.10 and 1.11.

2. GNP equals GDP plus receipts of factor income from the rest of the world less payments of factor income to the rest of the world.

3. In estimating real GNP, the current-dollar value of exports of goods and services is deflated by export prices, the current-dollar value of imports of goods and services is deflated by import prices, and the current-dollar values of receipts and payments of factor income are deflated primarily by the implicit price deflator for net domestic product. In estimating command-basis GNP—a measure of U.S. production in terms of its purchasing power—the current-dollar value of exports of goods and services and receipts of factor income is deflated by the implicit price deflator for imports of goods and services and payments of factor income. The terms of trade is measured by the ratio of the implicit price deflator for exports of goods and services and receipts of factor income to the corresponding implicit price deflator for imports, with the decimal point shifted two places to the right.

4. 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 1.14, 1.16, and 6.16C as "Corporate profits with inventory valuation and capital consumption adjustments."

Related measures.—Industry profits increased \$9.5 billion after increasing \$37.8 billion.⁵ Among financial industries, a third-quarter increase in profits was more than accounted for by commercial and mutual depository institutions; profits of insurance carriers decreased.

A third-quarter increase in domestic profits of nonfinancial industries reflected increases in transportation and public utilities and in "other" nonfinancial industries; profits in manufacturing changed little, and profits in trade decreased. Both transportation and public utilities contributed to the third-quarter increase in that group, while communications, which is also included in the group, decreased. In "other" nonfinancial industries, mining and services more than accounted for the third-quarter increase. In manufacturing, increased profits of electronic equipment manufacturers and of petroleum refiners were largely offset by decreased profits of most other industries. In trade, wholesale profits decreased more than retail profits increased. The increase in retail profits reflected earnings of auto dealers and food stores.

Profits from the rest of the world decreased \$0.4 billion, the same as in the second quarter. 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. Both receipts and payments increased sharply in the third quarter. About half the increase in receipts was accounted for by manufacturing affiliates. The increase in payments was more widespread; banking, wholesale trade, manufacturing, and petroleum affiliates all made substantial contributions.

5. Industry profits are estimated as the sum of profits before tax and the inventory valuation adjustment; they are shown in NIPA table 6.16c. Estimates of the capital consumption adjustment by industry do not exist.

Table 3.—Corporate Profits

[Seasonally adjusted at annual rates]

	Level		Change from preceding quarter
	1994:III		
		1994:II	1994:III
Billions of dollars			
Profits from current production	556.0	38.2	9.6
Domestic	495.7	38.6	10.0
Financial	96.6	16.0	5.7
Nonfinancial	399.1	22.5	4.4
Rest of the world	60.3	−4	−4
IVA	−19.6	−1.8	−5.5
CCAdj	37.5	.4	.1
Profits before tax	538.1	39.6	15.0
Profits tax liability	208.6	17.6	6.9
Profits after tax	329.5	22.0	8.1
Cash flow from current production	572.1	8.3	3.9
Profits by industry:			
Profits before tax with IVA	518.5	37.8	9.5
Domestic	458.1	38.1	9.9
Financial	112.6	16.8	6.2
Nonfinancial	345.5	21.3	3.7
Manufacturing	143.3	−2.1	.3
Trade	70.1	13.0	−1.9
Transportation and public utilities	74.4	9.8	1.2
Other	57.7	.6	4.1
Rest of the world	60.3	−4	−4
Receipts (inflows)	89.9	1.5	10.8
Payments (outflows)	29.6	1.8	11.2
Dollars			
Unit price, costs, and profits of domestic nonfinancial corporations:			
Unit price	1.175	.005	.005
Unit labor cost768	.003	.002
Unit nonlabor cost280	−.003	.003
Unit profits from current production127	.005	0

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 before tax increased \$15.0 billion. The difference between this increase and the \$9.6 billion increase in profits from current production reflects a decrease in the inventory valuation adjustment; the capital consumption adjustment changed little. 