BUSINESS SITUATION

Ralph W. Morris prepared the first section of this article, and Daniel Larkins prepared the section on corporate profits.

The general picture of the U.S. economy in the first quarter of 2001 that is indicated by the “final” estimates of the national income and product accounts (NIPA’s) is little changed from that shown by the “preliminary” estimates. The final estimates reflect the incorporation of revised and newly available source data.

According to the final estimates,

- The pace of U.S. economic growth picked up a little. Real gross domestic product (GDP) increased 1.2 percent in the first quarter, 0.1 percentage point less than was shown in last month’s preliminary estimate. GDP had increased 1.0 percent in the fourth quarter of 2000 and 2.2 percent in the third (table 1 and chart 1).[1]
- Real final sales of domestic product—GDP less the change in private inventories—increased 4.3 percent, substantially more than GDP.
- For the third consecutive quarter, GDP growth was considerably below its 3.6-percent average annual growth rate for the current expansion, which began in the second quarter of 1991.
- The major contributors to the first-quarter increase in real GDP were consumer spending and government spending; they had also contributed substantially to the fourth-quarter increase (table 2).[2]
- The largest offset in real GDP growth in the first quarter was a sharp drop in private inventory investment.[3] The drop reflected a swing in inven-

1. Quarterly estimates in the NIPA’s 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.

2. In the NIPA’s, consumer spending is shown as personal consumption expenditures, and government spending is shown as government consumption expenditures and gross investment.

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

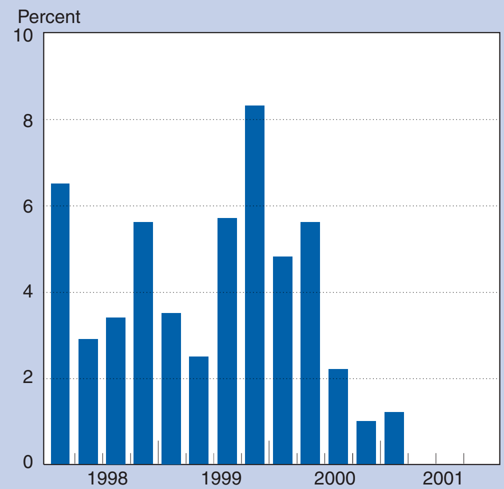
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				2000			2001
	2001	2000			2001				
	I	II	III	IV	I	II	III	IV	I
Gross domestic product	**9,422.8**	**127.1**	**50.6**	**24.2**	**29.1**	**5.6**	**2.2**	**1.0**	**1.2**
Less: Exports of goods and services	1,137.1	37.0	37.0	–19.0	–2.7	14.3	13.9	–6.4	–.9
Plus: Imports of goods and services	1,559.8	63.5	61.2	–4.9	–21.7	18.6	17.0	–1.2	–5.4
***Equals*: Gross domestic purchases**	**9,815.5**	**150.7**	**71.7**	**37.2**	**12.3**	**6.5**	**3.0**	**1.5**	**.5**
Less: Change in private inventories	–19.2	42.0	–6.1	–16.8	–74.9	....	....	....	....
Nonfarm	–25.1	39.3	–4.9	–16.9	–75.6	....	....	....	....
Farm	5.8	2.6	–1.2	.3	.5	....	....	....	....
***Equals*: Final sales to domestic purchasers**	**9,821.2**	**110.6**	**76.8**	**51.6**	**82.3**	**4.7**	**3.2**	**2.1**	**3.4**
Personal consumption expenditures	6,426.6	47.1	69.2	43.5	53.3	3.1	4.5	2.8	3.4
Durable goods	923.2	–11.5	16.5	–7.2	27.2	–5.0	7.6	–3.1	12.7
Nondurable goods	1,901.6	16.3	21.5	4.8	14.2	3.6	4.7	1.0	3.0
Services	3,618.2	39.5	32.6	43.2	15.7	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	1,445.1	47.2	26.3	–.5	6.8	14.6	7.7	–.1	1.9
Structures	304.5	3.0	9.6	7.2	10.7	4.4	14.6	10.4	15.3
Equipment and software	1,146.1	46.2	15.8	–9.7	–6.6	17.9	5.6	–3.3	–2.3
Residential	362.1	1.2	–10.3	–3.3	3.1	1.3	–10.6	–3.6	3.5
Government consumption expenditures and gross investment	1,608.2	18.6	–5.5	11.4	18.6	4.8	–1.4	2.9	4.8
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	1,050.1	–2.8	7.3	6.2	12.0	–1.1	2.9	2.5	4.7
Addendum: Final sales of domestic product	**9,428.2**	**87.3**	**55.6**	**38.6**	**98.7**	**3.9**	**2.4**	**1.7**	**4.3**

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



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

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tory stocks from accumulation to liquidation, the first liquidation in 9 ½ years.

● Investment in equipment and software and exports decreased in both the first and fourth quarters.

● Real gross domestic purchases—a measure of domestic demand for goods and services regardless of where they were produced—increased 0.5 percent after increasing 1.5 percent. For the first time in nine quarters, gross domestic purchases increased less than GDP.

● The prices of gross domestic purchases—a measure of prices paid by U.S. residents—increased 2.7 percent after increasing 1.9 percent.

● Real disposable personal income (DPI) accelerated, and the personal saving rate—saving as a percentage of current-dollar DPI—was -1.0 percent, the lowest quarterly rate since the beginning of the series in 1946.

3. In the NIPA's, inventory investment is shown as change in private inventories.

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	1.2
Percentage points at annual rates:				
Personal consumption expenditures	2.14	2.99	1.87	2.28
Durable goods	−.42	.61	−.26	.97
Nondurable goods	.74	.93	.21	.61
Services	1.83	1.46	1.92	.69
Gross private domestic investment	3.66	.33	−.78	−2.57
Fixed investment	1.93	.55	−.17	.40
Nonresidential	1.87	1.02	−.02	.26
Structures	.14	.44	.33	.49
Equipment and software	1.73	.58	−.35	−.24
Residential	.06	−.47	−.15	.14
Change in private inventories	1.73	−.22	−.62	−2.97
Net exports of goods and services	−1.00	−.90	−.55	.71
Exports	1.48	1.45	−.74	−.10
Goods	1.37	1.54	−.84	−.19
Services	.11	−.09	.10	.08
Imports	−2.48	−2.35	.19	.82
Goods	−2.26	−1.90	.28	.84
Services	−.22	−.44	−.09	−.02
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.

Incorporation of NAICS-based Census Bureau Data

Most of the Census Bureau's monthly data that are used in the calculation of GDP were recently converted from the Standard Industrial Classification (SIC) system to the North American Industry Classification System (NAICS). The revised estimates of consumer spending for goods incorporated revised retail sales data, which are now reported on a NAICS basis. There are also small, largely offsetting revisions to business investment in equipment and software, based on revised Census NAICS-based shipments data. However, the estimate of nonfarm inventory investment is based on the same SIC-based inventory data that were used for the preliminary estimate; thus, the estimate is unrevised.

The full set of newly released NAICS-based monthly data for retail sales, manufacturers' shipments, and inventories for 1998 through the first quarter of 2001 will be incorporated as part of the annual NIPA revision, which is scheduled for release on July 27, 2001, along with the advance estimate of GDP for the second quarter of 2001.

Revisions

In general, the revisions to the first-quarter estimates were small. The final estimate of a 1.2-percent increase in GDP is 0.1 percentage point lower than the preliminary estimate (table 3); for 1981–2000, the average revision, without regard to the sign, from the preliminary estimate to the final estimate was 0.3 percentage point. (For information on the incorporation of recently released Census Bureau data, see the box on the facing page.)

The largest contributor to the downward revision to real GDP was imports (-0.59 percentage point). Its contribution was partly offset by upward revisions to personal consumption expenditures for nondurable goods (0.31 percentage point) and to exports (0.20 percentage point).

The revisions to exports and imports reflected the incorporation on a "best-change" basis of data on international trade in goods and services from the annual revision of BEA's international transactions accounts (ITA's).[4] Imports and exports were both revised up; the revisions were mostly to goods.[5]

The upward revision to consumer spending for nondurable goods was widespread; it reflected the incorporation on a best-change basis of retail sales data for October 2000 through March 2001 that reflected the results of the 1999 Annual Retail Trade Survey.

The final estimate of a 2.2-percent increase in real DPI is 0.1 percentage point less than the preliminary estimate, reflecting a downward revision to personal interest income. The revision to personal interest income primarily reflected the incorporation on a best-change basis of revised fourth-quarter data and newly available first-quarter data from the Federal Reserve Board's flow-of-funds accounts and newly available first-quarter data from the Federal Deposit Insurance Corporation. The downward revision to personal interest income was partly offset by an upward revision to wages and salaries that mainly reflected the incorporation on a best-change basis of the benchmark revisions to the establishment survey payroll data from the Bureau of Labor Statistics.

4. Incorporating the source data on a best-change basis provides accurate measures of the change in the estimates for all periods, but results in levels of the estimates that are not fully consistent with the source data. In general, BEA incorporates source data on best-change basis in order to preserve accurate estimates of growth and consistent time series. (For more information, see the box "Incorporating Source Data on the Basis of Best Change," in Eugene P. Seskin and David F. Sullivan, "Annual Revision of the National Income and Product Accounts," SURVEY OF CURRENT BUSINESS 80 (August 2000): 16.)

5. The final estimates of exports and imports in the first quarter incorporate the quarterly *change* (from the fourth quarter of 2000 to the first quarter of 2001) implied by the revised ITA estimates. The quarterly *levels* of the revised ITA estimates will be incorporated in the annual revision of the NIPA's that is scheduled for release at the end of July. For further information, see "U.S. International Transactions Accounts, Revised Estimates for 1989–2000" in this issue.

Table 3.—Revisions to Change in Real Gross Domestic Product and Prices, First Quarter 2001

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Final estimate minus preliminary estimate	
	Preliminary estimate	Final estimate	Percentage points	Billions of chained (1996) dollars
Gross domestic product	**1.3**	**1.2**	**–0.1**	**–1.7**
Less: Exports	–2.7	–.9	1.8	5.0
Goods	–4.6	–2.3	2.3	4.9
Services	2.3	2.7	.4	.3
Plus: Imports	–9.1	–5.4	3.7	15.8
Goods	–10.2	–6.5	3.7	13.7
Services	–2.8	.9	3.7	2.1
***Equals*: Gross domestic purchases**	**.2**	**.5**	**.3**	**7.6**
Less: Change in private inventories	....	....	....	–.3
Farm	....	....	....	–.4
Nonfarm	....	....	....	0
***Equals*: Final sales to domestic purchasers**	**3.1**	**3.4**	**.3**	**7.9**
Personal consumption expenditures	2.9	3.4	.5	7.8
Durable goods	12.2	12.7	.5	.9
Nondurable goods	1.5	3.0	1.5	7.2
Services	1.8	1.8	0	–.3
Fixed investment	2.3	2.3	0	0
Nonresidential	2.1	1.9	–.2	–.7
Structures	17.2	15.3	–1.9	–1.2
Equipment and software	–2.6	–2.3	.3	.9
Residential	2.9	3.5	.6	.6
Government consumption expenditures and gross investment	4.7	4.8	.1	.1
Federal	4.9	4.9	0	0
National defense	5.4	5.4	0	0
Nondefense	3.9	3.9	0	0
State and local	4.7	4.7	0	.1
Addenda:				
Final sales of domestic product	4.4	4.3	–.1	–1.5
Gross domestic purchases price index	2.8	2.7	–.1	....
GDP price index	3.2	3.2	0	....

NOTE.—The final estimates for the first quarter of 2001 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 October 2000 through March 2001 that include the incorporation (on a "best-change" basis) of data that reflect the results of the 1999 Annual Retail Trade Survey.

Nonresidential fixed investment: Revised construction put-in-place for February and March and revised manufacturers' shipments data (on a "best-change" basis) for October 2000 through March 2001.

Residential fixed investment: Revised construction put in-place for February and March, revised sales of new houses for January through March, and revised sales of existing houses for February.

Exports and imports of goods and services: Revised data on exports and imports of goods and services for October 2000 through March 2001 that include the incorporation (on a "best-change" basis) of the results of the annual revision of BEA's international transactions accounts.

Government consumption expenditures and gross investment: Revised State and local construction put-in-place for February and March and revised State and local employment, hours, and wages for October 2000 through March 2001.

Wages and salaries: Revised employment, average hourly earnings, and average weekly hours for October 2000 through March 2001 that include the incorporation (on a "best-change" basis) of revised seasonal factors that reflect the Bureau of Labor Statistics annual benchmark revisions to the establishment payroll survey.

GDP prices: Revised export and import prices for January through March, revised unit-value index for petroleum imports for March, and revised prices of single-family houses under construction for the quarter.

Gross National Product, next page

Gross National Product

The growth of real gross national product (GNP) in the first quarter was the slowest in 8 years. Real GNP—goods and services produced by labor and property supplied by U.S. residents—increased 0.7 percent, 0.5 percentage point less than real GDP (table 4).[6] Income receipts from the rest of the world decreased more than twice as much as income payments to the rest of the world. The decrease in receipts was accounted for by decreases in interest income and in corporate profits, and the decrease in payments was more than accounted for by a decrease in interest income.

Real GNP on a command basis—which measures the purchasing power of goods and services produced by the U.S. economy—increased 0.3 percentage point more than real GNP, reflecting an improvement in the terms of trade (chart 2).[7] In the fourth quarter, real GNP on a command basis increased the same as real GNP—1.7 percent—reflecting little change in the terms of trade.

The national saving rate—gross saving as a percentage of GNP—decreased to 17.3 percent in the first quarter from 18.0 percent in the fourth. The first-quarter rate was the lowest since the second quarter of 1996.

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

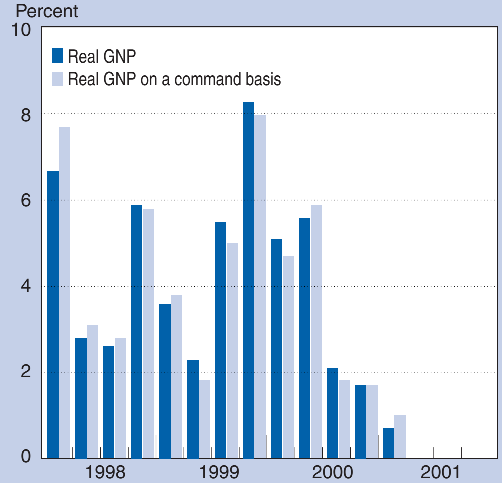
7. In the estimates of command-basis GNP, the current-dollar value of the sum of exports of goods and services and income receipts is deflated by the implicit price deflator (IPD) for the sum of imports of goods and services and income payments.

The terms of trade is a measure of the relationship between the prices that are received by U.S. producers for exports of goods and services and the prices that are paid by U.S. purchasers for imports of goods and services. It is measured by the following ratio, with the decimal point shifted two places to the right: In the numerator, the IPD for the sum of exports of goods and services and of income receipts; in the denominator, the IPD for the sum of imports of goods and services and of income payments.

Changes in the terms of trade reflect the interaction of several factors, including movements in exchange rates, changes in the composition of the traded goods and services, and changes in producers' profit margins. For example, if the U.S. dollar depreciates against a foreign currency, a foreign manufacturer may choose to absorb this cost by reducing the profit margin on the product it sells to the United States, or it may choose to raise the price of the product and risk a loss in market share.

CHART 2

Real Gross National Product



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

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Table 4.—Relation of Real Gross Domestic Product, Real Gross National Product, and Real Command-Basis Gross National 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				
	I	II	III	IV	I	II	III	IV	I
Gross domestic product	**9,422.8**	**127.1**	**50.6**	**24.2**	**29.1**	**5.6**	**2.2**	**1.0**	**1.2**
Plus: Income receipts from the rest of the world	333.0	21.2	–4.5	8.0	–23.7	28.1	–5.0	9.6	–24.0
Less: Income payments to the rest of the world	337.7	22.1	–3.1	–7.1	–10.0	29.1	–3.4	–7.8	–11.1
***Equals*: Gross national product**	**9,417.8**	**126.0**	**49.1**	**39.4**	**15.6**	**5.6**	**2.1**	**1.7**	**.7**
Less: Exports of goods and services and income receipts from the rest of the world	1,470.8	58.9	31.4	–9.9	–28.2	17.7	8.8	–2.6	–7.3
Plus: Command-basis exports of goods and services and income receipts from the rest of the world [1]	1,502.9	65.5	23.9	–8.9	–21.0	19.4	6.5	–2.3	–5.4
***Equals*: Command-basis gross national product**	**9,449.9**	**132.6**	**41.6**	**40.4**	**22.8**	**5.9**	**1.8**	**1.7**	**1.0**
Addendum: Terms of trade [2]	**102.2**	**.4**	**–.5**	**.1**	**.5**	**1.6**	**–1.9**	**.4**	**2.0**

1. Exports of goods and services and income receipts deflated by the implicit price deflator for imports of goods and services and income payments.

2. Ratio of the implicit price deflator for exports of goods and services and income receipts to the corresponding implicit price deflator for imports divided by 100.

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Levels of these series are shown in NIPA tables 1.10 and 1.11.

Corporate Profits

Profits decreased again in the first quarter. The current production measure decreased $45.7 billion (or 5.0 percent at a quarterly rate) after decreasing $55.6 billion (5.7 percent) in the fourth quarter (table 5).[8] 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 by tobacco companies. Fourth-quarter profits were reduced by a $14.2 billion adjustment.

The revised estimate of corporate profits for the first quarter is $24.4 billion lower than the preliminary estimate. Profits from the rest of the world accounted for almost half of the revision and reflected the incorporation of results from the annual revision of the ITA's. Profits of domestic financial corporations were revised down substantially, mainly reflecting revised and newly available source data from the Federal Deposit Insurance Corporation. Profits of domestic nonfinancial corporations were also revised down.

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 for the second quarter in a row. The real output of domestic nonfinancial corporations increased slightly after a small decrease.[9]

The drop in rest-of-world profits mainly reflected both lower receipts from foreign affiliates of U.S. corporations and higher payments of earnings by U.S. affiliates of foreign corporations.[10]

In contrast, profits of domestic financial corporations changed little.

8. 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.

9. 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 both the first and fourth quarters.

Table 5. Corporate Profits

[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change (quarterly rate)			
	Level	Change from preceding quarter				2000			2001
	2001	2000			2001				
	I	II	III	IV	I	II	III	IV	I
Profits from current production	**869.0**	**27.3**	**6.7**	**–55.6**	**–45.7**	**2.9**	**0.7**	**–5.7**	**–5.0**
Domestic industries	726.3	21.9	–1.2	–72.8	–29.0	2.7	–.1	–8.8	–3.8
Financial	177.9	–5.5	6.1	2.8	–.1	–3.2	3.6	1.6	–.1
Nonfinancial	548.4	27.3	–7.1	–75.7	–28.9	4.3	–1.1	–11.6	–5.0
Rest of the world	142.7	5.4	7.8	17.3	–16.7	4.2	5.8	12.1	–10.4
Receipts (inflows)	198.7	12.0	–3.9	5.0	–9.2	6.2	–1.9	2.5	–4.5
Payments (outflows)	55.9	6.5	–11.7	–12.2	7.3	10.0	–16.2	–20.1	15.1
IVA	–3.5	11.4	9.1	–4.0	5.0	....	....	....	....
CCAdj	30.7	–5.9	–5.0	–.6	1.6	....	....	....	....
Profits before tax	841.8	21.8	2.6	–51.0	–52.3	2.4	.3	–5.4	–5.8
Profits tax liability	254.4	5.7	–1.4	–22.9	–13.3	2.0	–.5	–7.9	–5.0
Profits after tax	587.4	16.0	4.0	–28.0	–39.0	2.5	.6	–4.3	–6.2
Cash flow from current production	978.4	35.3	20.1	–25.1	–26.1	3.6	2.0	–2.4	–2.6
Domestic industry profits:									
Corporate profits of domestic industries with IVA	695.6	27.7	3.9	–72.2	–30.6	3.6	.5	–9.0	–4.2
Financial	198.5	–3.8	7.4	3.4	–.4	–2.0	4.0	1.7	–.2
Nonfinancial	497.1	31.6	–3.6	–75.6	–30.2	5.5	–.6	–12.5	–5.7
Manufacturing	131.6	8.1	–9.7	–39.7	–20.8	4.2	–4.8	–20.7	–13.6
Transportation and public utilities	92.1	2.0	–.8	–8.8	–2.2	2.0	–.8	–8.5	–2.3
Wholesale trade	43.7	8.5	1.4	–12.5	–14.9	14.0	1.9	–17.6	–25.5
Retail trade	91.8	2.2	–.6	–8.3	8.3	2.4	–.6	–9.0	9.9
Other	138.0	10.8	6.2	–6.4	–.5	8.4	4.5	–4.4	–.4
	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	.254	.002	0	.007	0	....	....	....	....
Unit profits from current production	.103	.004	–.003	–.014	–.006	....	....	....	....

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

Cash flow from current production, a profits-related measure of internally generated funds available for investment, decreased $26.1 billion after decreasing $25.1 billion.[11] 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 70.3 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 $30.6 billion after plunging $72.2 billion.[12] The first-quarter decrease was mainly concentrated in manufacturing and in wholesale trade (chart 3). Within manufacturing, the biggest decreases were in chemicals, electronic equipment, and motor vehicles.

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.[13]

10. 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 ITA's.

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

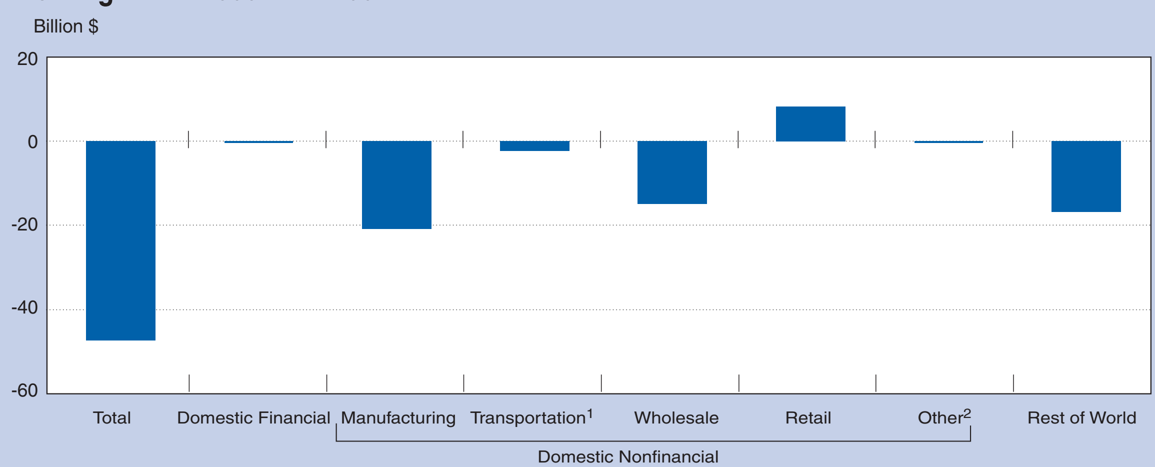
12. Domestic industry profits are estimated as the sum of corporate profits before tax and the inventory valuation adjustment; they are shown in NIPA table 6.16C (on page D-17 of this issue). Estimates of the capital consumption adjustment do not exist at a detailed industry level; they are available only for total financial and total nonfinancial industries.

13. 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 77 (May 1997): 69–92.

CHART 3

Corporate Profits with Inventory Valuation Adjustment: Change from 2000:IV to 2001:I



1. Also includes communications and public utilities.
2. "Other" nonfinancial corporations includes the agriculture, mining, construction, and services industries, along with some activities included in the "finance, insurance, and real estate" group.
Note.–Based on seasonally adjusted estimates.

U.S. Bureau of Economic Analysis