

BUSINESS SITUATION

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ACCORDING TO the “preliminary” estimates of the national income and product accounts (NIPA’s), real gross domestic product (GDP) increased 2.0 percent in the third quarter of 1996 (table 1 and chart 1); the “advance” estimate of real GDP, reported in the November “Business Situation,” had shown a 2.2-percent increase.¹ The small downward revision was more than accounted for by downward revisions to change in business inventories and to net exports. (The sources of the revisions are discussed in the “Revisions” section.)

The price index for gross domestic purchases increased 1.8 percent, the same as reported a month ago.

The 2.0-percent increase in real GDP, followed a 4.7-percent increase in the second quarter. Three-fourths of the third-quarter increase was accounted for by inventory investment (that is, change in

business inventories). Final sales of domestic product increased only 0.4 percent.

The deceleration in GDP growth from the second quarter to the third was attributable to personal consumption expenditures, government spending, residential fixed investment, and exports. Personal consumption expenditures increased much less in

1. Quarterly estimates in the NIPA’s are expressed at seasonally adjusted annual rates, and quarterly changes are differences between these rates. Quarter-to-quarter percent changes are annualized. Real estimates are expressed in chained (1992) dollars. Price indexes are chain-type indexes.

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

[Seasonally adjusted at annual rates]

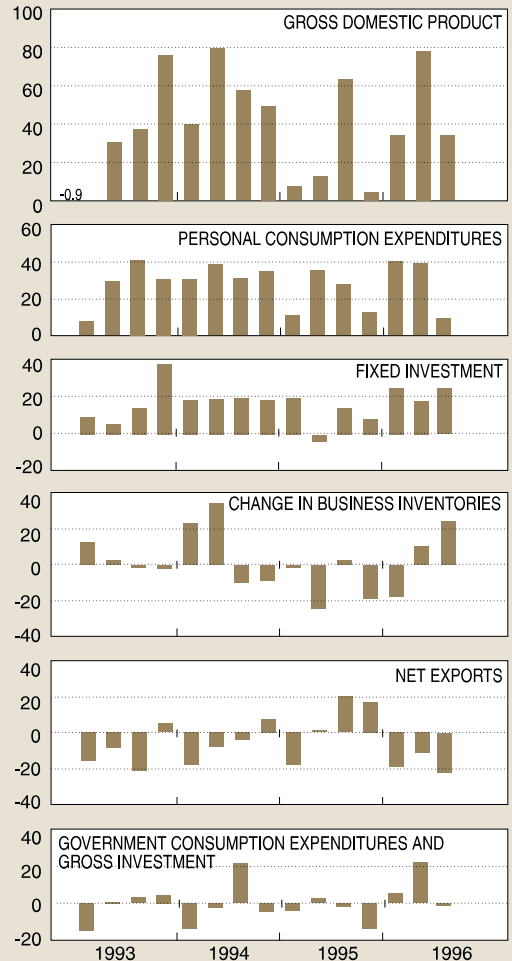
	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1995		1996	
		1996	1995	1996		IV	I	II	III
	III	IV	I	II	III				
Gross domestic product	6,926.2	4.3	33.6	78.3	33.6	0.3	2.0	4.7	2.0
Less: Exports of goods and services	816.1	20.1	3.6	11.2	-1.8	10.7	1.8	5.6	-9
Plus: Imports of goods and services	954.8	3.5	22.7	21.9	22.2	1.6	10.6	9.9	9.9
Equals: Gross domestic purchases	7,059.7	-11.9	51.7	88.4	56.7	-7	3.0	5.2	3.3
Less: Change in business inventories	32.8	-18.4	-17.6	10.1	25.7	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	7,025.6	6.7	69.1	79.7	30.4	.4	4.1	4.7	1.7
Personal consumption expenditures	4,694.3	12.1	39.7	38.5	6.7	1.1	3.5	3.4	.6
Nonresidential fixed investment	780.4	4.3	20.2	7.0	29.9	2.5	11.6	3.8	16.9
Residential investment	277.3	4.1	4.8	10.4	-4.2	6.4	7.4	16.3	-5.9
Government consumption expenditures and gross investment	1,277.4	-13.8	5.1	23.5	-8	-4.3	1.6	7.7	-2
Federal	469.3	-16.3	6.7	10.5	-4.1	-13.2	6.0	9.4	-3.4
State and local	809.0	2.9	-1.8	12.9	3.5	1.5	-9	6.7	1.7
Addendum: Final sales of domestic product	6,892.1	22.8	51.0	69.5	7.4	1.4	3.0	4.1	.4

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 and 1.6. Percent changes in major aggregates are found in NIPA table 8.1.

CHART 1

Real Product: Change from Preceding Quarter

Billion chained (1992) \$



Based on Seasonally Adjusted Annual Rates

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

the third quarter than in the second, and government spending, residential fixed investment, and exports each turned down in the third quarter. In contrast, nonresidential fixed investment and inventory investment increased more in the third quarter than in the second, and imports increased about the same in each quarter.

Real gross domestic purchases increased 3.3 percent in the third quarter after increasing 5.2 percent in the second. Unlike GDP, gross domestic purchases includes imports and excludes exports; thus, it represents purchases by U.S. residents regardless of where the goods and services were produced. As mentioned above, exports turned down in the third quarter, and imports increased about the same in each quarter.

The price index for gross domestic purchases increased 1.8 percent in the third quarter after increasing 2.1 percent in the second. The price index for GDP increased 1.9 percent after increasing 2.2 percent.

Personal consumption expenditures

Real personal consumption expenditures (PCE) increased 0.6 percent in the third quarter after increasing 3.4 percent in the second (table 2). All three major components contributed to the sharp slowdown: Durable goods turned down in the third quarter, and nondurable goods and services each increased less than in the second quarter.

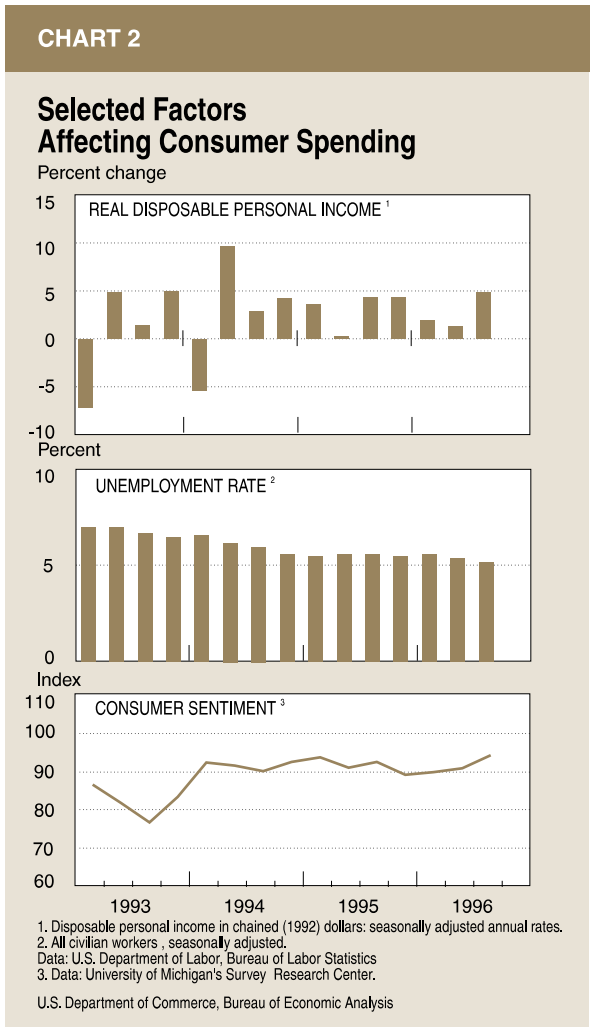


Table 2.—Real Personal Consumption Expenditures

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	1996	1995	1996			1995	1996		
	III	IV	I	II	III	IV	I	II	III
Personal consumption expenditures	4,694.3	12.1	39.7	38.5	6.7	1.1	3.5	3.4	0.6
Durable goods	612.5	-1.6	11.7	16.4	-3.1	-1.0	8.2	11.4	-2.0
Motor vehicles and parts	221.0	-5.8	3.6	1.7	-4.9	-9.8	6.6	3.0	-8.4
Of which: New autos	69.3	3.2	-2.3	-2.7	-5.9	17.4	-10.6	-13.3	-27.9
New trucks	49.4	1.5	.6	-1.8	-1.3	11.6	4.8	-12.6	-10.4
Furniture and household equipment	278.8	5.8	4.2	11.9	2.8	9.4	6.6	19.4	4.1
Other	117.0	-6	4.0	3.5	-4	-2.2	15.1	13.2	-1.5
Nondurable goods	1,442.0	-1.5	12.9	4.8	1.1	-4	3.7	1.3	.3
Food	700.9	-6	6.2	-4.3	-4.0	-3	3.5	-2.4	-2.2
Clothing and shoes	271.2	-1.5	5.2	6.4	2.3	-2.4	8.4	10.1	3.5
Gasoline and oil	114.0	1.2	-1.1	1.7	-3	4.5	-3.8	6.2	-1.0
Fuel oil and coal	10.0	.7	0	-6	-1	30.1	.8	-20.2	-4.6
Other	346.9	-1.2	2.8	1.9	3.4	-1.4	3.3	2.3	4.0
Services	2,640.7	14.7	15.4	17.6	8.4	2.3	2.4	2.7	1.3
Housing	694.0	3.1	2.7	2.6	2.4	1.8	1.6	1.5	1.4
Household operation	282.7	-1.9	1.9	4.8	-2.9	-2.6	2.7	7.1	-4.0
Electricity and gas	114.9	-3.8	2.0	2.5	-3.0	-12.2	7.3	8.9	-9.7
Other household operation	167.6	1.8	-1	2.3	0	4.4	-3	5.9	0
Transportation	185.2	3.6	2.5	.8	1.9	8.3	5.6	1.8	4.2
Medical care	699.7	5.2	-1	5.0	3.6	3.1	-1	2.9	2.1
Other	779.3	4.6	8.8	4.3	3.2	2.4	4.7	2.3	1.6

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA tables 2.3, 8.5 (new autos), and 8.7 (new trucks). Percent changes in major aggregates are found in NIPA table 8.1.

In contrast to the sharp third-quarter slowdown in *PCE*, several of the factors usually considered in analyses of *PCE* improved (chart 2). The unemployment rate declined to 5.2 percent from 5.4 percent. Real disposable personal income increased 4.8 percent—the largest increase in 2 years—after increasing 1.3 percent in the second quarter. The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) jumped to its highest level in 7 years, following a modest increase in the second quarter.

Expenditures for durable goods decreased 2.0 percent after increasing 11.4 percent. Motor vehicles and parts and "other" durable goods turned down, and furniture and household equipment increased much less than in the second quarter. The downturn in motor vehicles and parts was more than accounted for by car purchases; purchases of new cars decreased more in the third quarter than in the second, and purchases of used cars increased less in the third quarter than in the second. Purchases of trucks decreased less than in the second quarter, and purchases of parts increased more than in the second quarter. The slowdown in furniture and household equipment was primarily due to a downturn in furniture.

Expenditures for nondurable goods increased 0.3 percent after increasing 1.3 percent. The slowdown was more than accounted for by clothing and shoes, which increased less than in the second quarter, and by gasoline and oil, which turned down. The

slowdown in clothing and shoes was primarily in women's and girls' clothing. The downturn in gasoline and oil may have reflected reduced vacation travel during the summer. Food decreased at about the same rate in both quarters; fuel oil and coal changed little after a small decrease; and "other" nondurable goods increased more than in the second quarter.

Expenditures for services increased 1.3 percent after increasing 2.7 percent in the second quarter. A downturn in household operations accounted for most of the slowdown; however, slowdowns in medical care and "other" services also contributed. More than two-thirds of the downturn in household operations was accounted for by a downturn in electricity and gas, which reflected reduced demand for air conditioning reflecting cooler-than-normal summer temperatures.

Nonresidential fixed investment

Real private nonresidential fixed investment jumped 16.9 percent in the third quarter after increasing 3.8 percent in the second (table 3). Both producers' durable equipment (*PDE*) and structures contributed to the jump.

Factors that affect investment spending have been lackluster recently. Although domestic corporate profits increased 7.0 percent over the past four quarters, real final sales of domestic product increased only 2.2 percent, and the capacity utilization rate in manufacturing changed little. In addition, long-term interest rates increased; for

Table 3.—Real Gross Private Domestic Fixed Investment

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1995	1996		
	1996	1995	1996				IV	I	II
	III	IV	I	II	III				
Gross private domestic fixed investment	1,056.0	8.5	24.8	17.8	24.9	3.5	10.4	7.2	10.0
Nonresidential	780.4	4.3	20.2	7.0	29.9	2.5	11.6	3.8	16.9
Structures	188.3	.4	3.4	-1.7	3.4	1.0	7.7	-3.7	7.7
Nonresidential buildings, including farm	133.3	1.1	1.1	-1.7	3.6	3.5	3.3	-5.0	11.4
Utilities	36.4	.2	.4	.4	-4	2.2	4.4	4.3	-4.5
Mining exploration, shafts, and wells	12.9	-5	2.3	.1	0	-17.0	119.4	4.2	-7
Other	5.6	-4	-3	-6	.3	-21.8	-16.2	-37.1	29.3
Producers' durable equipment	594.3	4.0	16.9	9.2	26.8	3.0	13.1	6.7	20.3
Information processing and related equipment	251.1	13.0	11.1	8.6	17.0	28.5	22.3	16.3	32.4
Computers and peripheral equipment	139.4	13.7	11.6	9.1	13.1	74.3	51.8	34.7	48.3
Other	125.8	2.2	1.9	1.6	6.1	7.9	6.7	5.2	22.0
Industrial equipment	117.5	-1.2	2.4	2.8	-3.1	-4.1	8.4	9.9	-9.9
Transportation and related equipment	126.2	-4.9	2.1	-2.6	11.3	-15.4	7.7	-8.5	45.3
Of which: Motor vehicles	109.0	-6.5	1.3	2.1	4.6	-22.2	5.1	8.4	19.0
Other	105.4	-1.3	2.1	1.1	2.8	-5.0	8.7	4.1	11.6
Residential	277.3	4.1	4.8	10.4	-4.2	6.4	7.4	16.3	-5.9
Single-family structures	136.5	3.3	3.4	5.1	-1.1	10.6	11.0	16.5	-3.3
Multifamily structures	17.9	.7	.7	1.8	-3.1	15.6	16.7	42.5	-46.9
Other	123.4	.2	.6	3.5	-1	.6	2.0	12.2	-4

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA tables 5.3, 8.5 (new and used autos), and 8.7 (new trucks). Percent changes in major aggregates are found in NIPA table 8.1.

example, the yield on high-grade corporate bonds, at 7.84 percent, was 27 basis points higher at the end of the third quarter than a year earlier.

PDE jumped 20.3 percent after increasing 6.7 percent. The acceleration was more than accounted for by an upturn in transportation and related equipment—primarily aircraft—and an acceleration in information processing and related equipment. “Other” PDE increased somewhat more in the third quarter than in the second, but industrial equipment turned down.

Structures increased 7.7 percent after decreasing 3.7 percent. Most of the upturn in structures was accounted for by an upturn in nonresidential buildings; industrial buildings decreased much less in the third quarter than in the second, and commercial buildings, primarily other than office buildings, increased much more than in the second quarter.

Residential investment

Real residential investment decreased 5.9 percent in the third quarter after jumping 16.3 percent in the second (table 3). All three major components—single-family structures, multifamily structures, and “other” residential investment—turned down after large second-quarter increases.

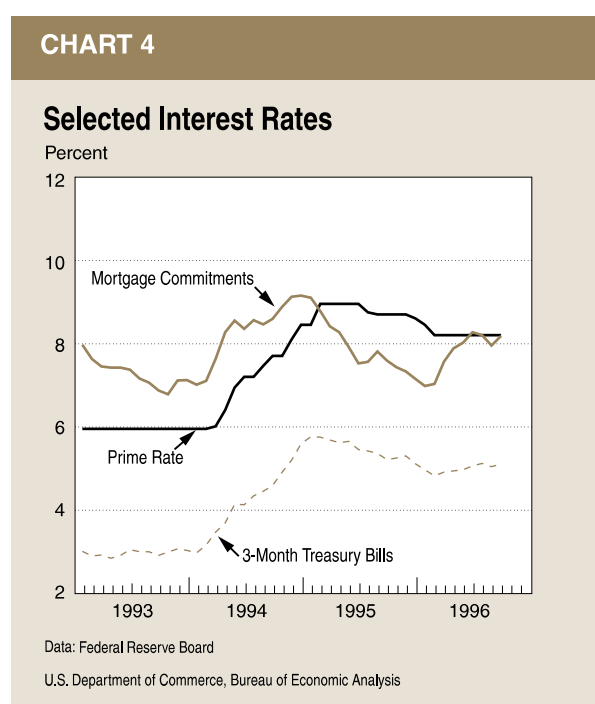
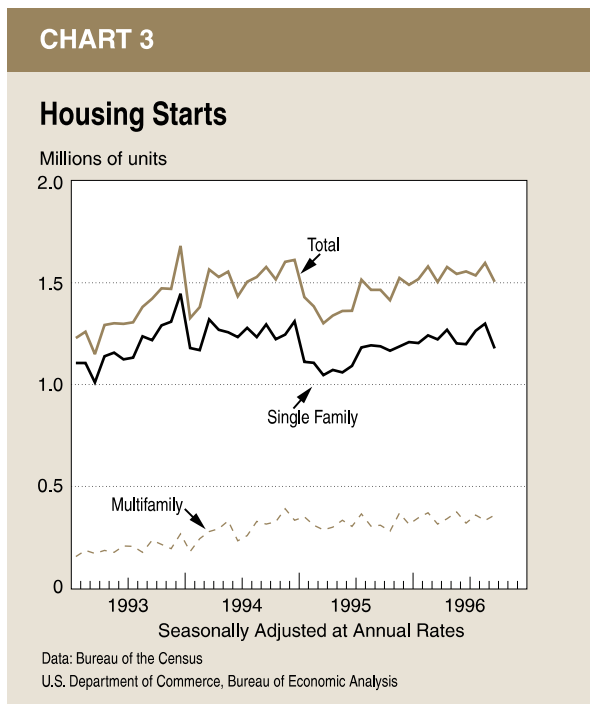
Single-family structures decreased 3.3 percent after jumping 16.5 percent. The third-quarter decrease occurred despite little change in housing starts (chart 3). Single-family construction for a quarter largely reflects single-family housing starts

in the first 2 months of that quarter and in the last 2 months of the preceding quarter. Therefore, construction in the third quarter reflected starts that occurred from May through August; for that period, starts averaged 1.19 million units, up only 11,000 units from the February-May period, which was reflected in the second-quarter construction estimates. The difference between the third-quarter movements in the NIPA estimates and in the housing starts reflected a change in the “value” (that is, size, location, or amenities) of the new homes. The average sales price for a new home was \$165,667 for the third quarter, down from \$166,600 in the second.

Multifamily construction fell 46.9 percent after jumping 42.5 percent.

“Other” residential investment decreased 0.4 percent after increasing 12.2 percent.² The downturn was more than accounted for by mobile homes, which turned down, and by brokers’ commissions on sales of structures, which increased less than in the second quarter; home improvements decreased less in the third quarter than in the second. The slowdown in brokers’ commissions reflected a decrease in home sales of 17,000 units (seasonally adjusted annual rate); a drop in sales of existing residences of 88,000 units more than offset a jump in the sales of new residences of 71,000 units. The decrease in home sales may have reflected recent movements in the commitment

2. “Other” residential investment includes improvements, new mobile home sales, brokers’ commissions on home sales, and residential equipment.



interest rate for 30-year fixed-rate mortgages: The rate jumped from 7.24 percent in the first quarter to 8.11 percent in the second and increased to 8.16 percent in the third (chart 4).

Inventory investment

Real inventory investment—that is, the change in business inventories—increased \$25.7 billion in the third quarter after increasing \$10.1 billion in the second (table 4). The third-quarter increase mainly reflected a step-up in nonfarm inventory accumulation.

Nonfarm inventories increased \$33.0 billion in the third quarter after increasing \$11.7 billion in the second. The larger third-quarter increase was attributable to faster accumulation of retail trade inventories and to an upturn in manufacturing inventories.

Retail trade inventories increased substantially more in the third quarter than in the second. Inventories of durable goods increased more than in the second quarter; more than one-half of the third-quarter increase was accounted for by inventories of motor vehicle dealers. Inventories of nondurable goods increased after decreasing for three consecutive quarters; although nearly all types of nondurable goods increased, department stores accounted for more than one-half of the increase.

Manufacturing inventories increased in the third quarter after decreasing in the second. Inventories of durable goods increased substantially more in the third quarter than in the second; the third-quarter increase was widespread; the largest increases were in primary metals, fabricated metals, transportation equipment, and instruments. Inventories of nondurable goods increased after decreasing; the increase was accounted for by food and by paper products.

Wholesale trade inventories decreased after increasing. The downturn was primarily accounted for by a downturn in inventories of nondurable goods; inventories of durable goods increased about as much as in the second quarter.

Farm inventories decreased \$0.5 billion in the third quarter after decreasing \$5.1 billion in the second; the third quarter marked the seventh consecutive quarter of inventory reduction. Inventories of crops accounted for the third-quarter decrease.

The ratio of real nonfarm business inventories to real final sales of domestic business edged up to 2.26 in the third quarter from 2.24 in the second. The inventory-sales ratio in which final sales are limited to goods and structures increased to 4.04 from 4.01, which was the lowest level in 8 years.

Exports and imports

Real exports of goods and services decreased 0.9 percent in the third quarter after increasing 5.6 percent in the second (table 5). Real imports of goods and services increased 9.9 percent in each quarter.

Exports of goods edged down 0.3 percent after increasing 6.7 percent. A downturn in exports of nonagricultural goods more than offset an upturn in exports of agricultural goods. The downturn in exports of nonagricultural goods was more than accounted for by a downturn in civilian aircraft, engines, and parts; however, exports of nonautomotive consumer goods and of industrial supplies and materials also turned down; in contrast, exports of automotive vehicles, engines, and parts increased more in the third quarter than in the second. Exports of services turned down, primarily reflecting a decline in foreign travelers.

Imports of goods increased 10.8 percent after increasing 11.7 percent. The slight slowdown was more than accounted for by a sharp slowdown

Table 4.—Real Change in Business Inventories

[Billions of chained (1992) dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter			
	1995		1996			1995	1996		
	III	IV	I	II	III	IV	I	II	III
Change in business inventories	33.0	14.6	-3.0	7.1	32.8	-18.4	-17.6	10.1	25.7
Farm	-6.4	-4.7	-6.5	-5.1	-5	1.7	-1.8	1.4	4.6
Nonfarm	38.6	19.0	2.9	11.7	33.0	-19.6	-16.1	8.8	21.3
Manufacturing	16.3	11.2	12.0	-3.9	12.5	-5.1	.8	-15.9	16.4
Wholesale trade	13.2	4.4	6.4	7.3	-8.5	-8.8	2.0	.9	-15.8
Retail trade	3.0	-7.1	-21.7	5.2	25.5	-10.1	-14.6	26.9	20.3
Of which: Motor vehicle dealers	-6.2	.4	-23.6	2.0	10.8	6.6	-24.0	25.6	8.8
Other	6.0	10.6	6.1	3.1	3.6	4.6	-4.5	-3.0	.5

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA table 5.11.

in petroleum imports. Imports of nonpetroleum goods increased more than in the second quarter; the step-up was accounted for by "other" nonautomotive capital goods, which changed little after decreasing, and by nonautomotive consumer goods, which increased more than in the second quarter. Imports of services increased more than in the second quarter; the step-up was more than accounted for by royalties and license fees, reflecting activities associated with the 1996 Olympic games.

Government spending

Real government consumption expenditures and gross investment edged down 0.2 percent in the third quarter after increasing 7.7 percent in the second (table 6). Federal Government spending turned down, and State and local government spending increased less than in the second quarter.

Federal defense spending decreased 5.2 percent after increasing 10.0 percent. Consumption expenditures decreased after increasing substantially; the decrease was in "other" services. Investment decreased more in the third quarter than in the second; the larger third-quarter decrease was almost entirely accounted for by equipment, mainly aircraft and ships.

Federal nondefense spending increased 0.3 percent after increasing 8.3 percent. The slowdown was attributable to a downturn in consumption expenditures, primarily compensation of employees.

State and local government spending increased 1.7 percent after increasing 6.7 percent. The slowdown was attributable to compensation of employees and to investment in structures.

Table 5.—Real Net Exports of Goods and Services

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	1996	1995	1996			1995	1996		
	III	IV	I	II	III	IV	I	II	III
Exports of goods and services	816.1	20.1	3.6	11.2	-1.8	10.7	1.8	5.6	-0.9
Goods	600.2	20.6	2.1	9.7	-4	15.3	1.5	6.7	-3
Agricultural goods	46.5	-6	1.1	-5.0	1.0	-4.9	9.3	-33.7	9.0
Nonagricultural goods	554.6	21.5	.9	15.5	-1.6	17.7	.7	11.9	-1.1
Services	216.9	-1	1.4	1.6	-1.4	-3	2.7	2.8	-2.4
Imports of goods and services	954.8	3.5	22.7	21.9	22.2	1.6	10.6	9.9	9.9
Goods	810.3	4.4	18.4	21.5	20.4	2.4	10.2	11.7	10.8
Petroleum and products	63.1	-2.9	-3.5	6.8	1.1	-17.2	-22.2	59.9	7.0
Nonpetroleum products	745.7	6.9	21.5	15.1	19.3	4.1	13.0	8.7	11.0
Services	145.1	-9	4.3	4	1.9	-2.4	13.0	1.3	5.4
Addendum: Net exports of goods and services	-138.8	16.7	-19.1	-10.7	-24.1				

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA table 4.4. Percent changes in major aggregates are found in NIPA table 8.1.

Table 6.—Real Government Consumption Expenditures and Real Gross Investment by Type

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	1996	1995	1996			1995	1996		
	III	IV	I	II	III	IV	I	II	III
Government consumption expenditures and gross investment	1,277.4	-13.8	5.1	23.5	-0.8	-4.3	1.6	7.7	-0.2
Federal	469.3	-16.3	6.7	10.5	-4.1	-13.2	6.0	9.4	-3.4
National defense	315.1	-10.3	3.1	7.5	-4.3	-12.3	4.1	10.0	-5.2
Consumption expenditures	276.7	-3.8	-3.5	8.0	-2.9	-5.3	-5.0	12.2	-4.0
Gross investment	38.5	-6.5	6.5	-4	-1.4	-50.6	102.6	-4.0	-13.4
Nondefense	153.8	-6.1	3.6	3.1	.1	-14.8	10.1	8.3	.3
Consumption expenditures	134.6	-6.2	3.0	3.1	-.1	-17.2	9.9	9.6	-.2
Gross investment	19.0	.3	.5	0	.1	6.8	12.1	-1.3	3.9
State and local	809.0	2.9	-1.8	12.9	3.5	1.5	-9	6.7	1.7
Consumption expenditures	652.5	1.6	-1.2	8.8	2.8	1.0	-8	5.6	1.7
Gross investment	156.5	1.3	-6	4.1	.7	3.3	-1.5	11.2	1.8

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA table 3.8B. Percent changes in major aggregates are found in NIPA table 8.1.

Revisions

As noted earlier, the preliminary estimate of a 2.0-percent increase in real GDP in the third quarter is 0.2 percentage point lower than the advance estimate (table 7); for 1976–95, the average revision, without regard to sign, from the advance estimate of real GDP to the preliminary estimate was 0.5 percentage point. The preliminary estimate of the increase in the price index for gross domestic purchases is 1.8 percent in the third quarter, the same as the advance estimate.

The small downward revision to real GDP was more than accounted for by downward revisions to change in nonfarm business inventories and to net exports. Partly offsetting these downward revisions were upward revisions to nonresidential fixed investment, to State and local government spending, and to nondurable personal consumption expenditures.

The downward revision to change in nonfarm business inventories was more than accounted for by a downward revision to merchant wholesale inventories and reflected Census Bureau data on inventory book values—revised for August and newly available for September.

The downward revision to net exports was accounted for by a downward revision to exports of goods and an upward revision to imports of goods and reflected Census Bureau data on exports and imports of goods—revised for August and newly available for September.

The upward revision to nonresidential fixed investment was both in structures, primarily reflecting revised and newly available Census Bureau data on the value of construction put in place, and in producers' durable equipment, primarily reflecting newly available Census Bureau data on aircraft exports.

The upward revision to State and local government spending was to structures and primarily reflected Census Bureau data on the value of new construction put in place—newly available for September.

The increase in real disposable personal income was revised down 0.1 percentage point to 4.8 percent; current-dollar personal income was revised down slightly, and personal tax and nontax payments were revised up slightly. The personal saving rate was revised down 0.1 percentage point to 5.3 percent.

Corporate Profits

Profits from current production decreased \$1.1 billion in the third quarter after increasing \$10.7 billion in the second (table 8).³

Profits from domestic operations increased \$2.5 billion after increasing \$15.3 billion. Profits of financial corporations decreased after a small increase. Profits of nonfinancial corporations increased considerably less than in the second quarter. Profits from the rest of the world decreased \$3.6 billion after decreasing \$4.8 billion.

3. Profits from current production are estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; they are shown in NIPA tables 1.14, 1.16, and 6.16c as "corporate profits with inventory valuation and capital consumption adjustments."

**Table 7.—Revisions to Real Gross Domestic Product and Prices,
Third Quarter 1996**

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Preliminary estimate minus advance estimate	
	Advance estimate	Preliminary estimate	Percentage points	Billions of chained (1992) dollars
Gross domestic product	2.2	2.0	-0.2	-3.5
Less: Exports of goods and services .....	.6	-.9	-1.5	-3.0
Goods	1.9	-.3	-2.2	-3.3
Services	-2.9	-2.4	.5	.2
Plus: Imports of goods and services	8.3	9.9	1.6	3.5
Goods	9.1	10.8	1.7	3.1
Services	4.2	5.4	1.2	.4
Equals: Gross domestic purchases	3.1	3.3	.2	2.8
Personal consumption expenditures .....	.4	.6	.2	1.5
Durable goods	-.8	-2.0	-1.2	-1.9
Nondurable goods	-.3	.3	.6	2.4
Services	1.1	1.3	.2	1.0
Fixed investment	8.5	10.0	1.5	3.7
Nonresidential	14.7	16.9	2.2	3.8
Structures	3.3	7.7	4.4	1.9
Producers' durable equipment	18.9	20.3	1.4	1.7
Residential	-5.8	-5.9	-.1	-.1
Change in business inventories .....	.....	.....	.....	-6.8
Nonfarm .....	.....	.....	.....	-8.2
Farm .....	.....	.....	.....	1.7
Government consumption expenditures and gross investment	-1.4	-.2	1.2	3.7
Federal	-4.0	-3.4	.6	.6
National defense	-5.1	-5.2	-.1	-.2
Nondefense	-1.7	.3	2.0	.8
State and local .....	.2	1.7	1.5	3.1
Addenda:				
Final sales of domestic product .....	.3	.4	.1	2.5
Gross domestic purchases price index (chain-type weights) ¹	1.8	1.8	0	.....
GDP price index (chain-type weights) ¹	1.9	1.9	0	.....

1. Based on chained (1992) weights.

NOTE.—Preliminary estimates for the third quarter of 1996 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

Personal consumption expenditures: Revised retail sales for August and September, consumers' share of new-car purchases for September, and consumers' share of new-truck purchases for September.

Nonresidential fixed investment: Construction put in place for July and August (revised) and September, manufacturers' shipments of machinery and equipment for August and September (revised), and exports and imports of machinery and equipment for August (revised) and September.

Residential fixed investment: Construction put in place for July and August (revised) and September.

Change in business inventories: Manufacturing and trade inventories for August (revised) and September.

Exports and imports of goods and services: Exports and imports of goods for August (revised) and September.

Government consumption expenditures and gross investment: State and local government construction put in place for July and August (revised) and September.

Wages and salaries: Revised employment, average hourly earnings, and average weekly hours for August and September.

GDP prices: Detailed merchandise export and import price indexes for July through September (revised), values and quantities of petroleum imports for August (revised) and September, and housing prices for the third quarter.

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$7.8 billion after increasing \$9.9 billion. The ratio of cash flow to nonresidential fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, decreased to 81.3 percent from 83.7 percent. These levels are near the low end of the range in which the ratio has fluctuated during most of the 1990's, but they are substantially higher than the levels typically posted in the 1980's.

Industry profits.—Industry profits decreased \$2.5 billion in the third quarter after increasing \$8.7 billion in the second.⁴ The downturn reflected a sharp deceleration in profits of nonfinancial corporations and a downturn in profits of financial corporations. For nonfinancial corporations, preliminary and incomplete data suggest that third-quarter increases were small in most major

4. Industry profits are estimated as the sum of profits before tax and the inventory valuation adjustment; they are shown in NIPA table 6.16C as "corporate profits with inventory valuation adjustment." 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.

Table 8.—Corporate Profits
[Seasonally adjusted at annual rates]

	Level		Change from preceding quarter
	1996		
	III	1996	
II		III	
Billions of dollars			
Profits from current production	654.7	10.7	-1.1
Domestic industries	579.8	15.3	2.5
Financial	141.3	1.8	-2.2
Nonfinancial	438.5	13.5	4.7
Rest of the world	74.8	-4.8	-3.6
IVA	2.1	6.4	13.1
CCAdj	23.7	1.9	1.4
Profits before tax	628.9	2.4	-15.7
Profits tax liability	231.4	3.0	-5.0
Profits after tax	397.5	-7	-10.6
Cash flow from current production	655.1	9.9	7.8
Corporate profits with IVA	631.0	8.7	-2.5
Domestic industries	556.2	13.5	1.1
Financial	134.5	1.7	-2.1
Nonfinancial	421.7	11.8	3.2
Rest of the world	74.8	-4.8	-3.6
Receipts (inflows)	118.3	.4	-4.3
Payments (outflows)	43.5	5.2	-7
Dollars			
Unit price, costs, and profits of nonfinancial corporations:			
Unit price	1.065	0.003	0
Unit labor cost .....	.707	.004	.001
Unit nonlabor cost .....	.247	-.001	0
Unit profits from current production .....	.113	.002	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

industry groups; profits in the transportation and utilities group appear to have decreased.

Profits from the rest of the world decreased less than in second quarter. Preliminary and incomplete information suggests that the third-quarter decrease was accounted for by a larger decrease in receipts than in payments.⁵

Related measures.—Profits before tax (PBT) decreased \$15.7 billion in the third quarter after increasing \$2.4 billion in the second. Inventory profits decreased \$13.1 billion in the third quarter after decreasing \$6.4 billion in the second; the larger third-quarter decrease reflected a downturn in prices of inventoried goods; inventory profits are represented in the NIPA's by the inventory valuation adjustment (with the sign reversed).

Government Sector

The combined current deficit of the Federal Government and State and local governments increased \$5.5 billion, to \$31.2 billion, in the third quarter (table 9). The increase was more than accounted for by a decrease in the State and local government current surplus.

Federal

The Federal Government current deficit decreased \$6.4 billion, to \$120.3 billion, in the third quarter after decreasing \$28.5 billion in the second. The third-quarter current deficit was the smallest since the second quarter of 1989.

Receipts.—Receipts increased \$6.7 billion in the third quarter after increasing \$52.5 billion in the second. The deceleration was mostly accounted for by a downturn in personal tax and nontax receipts.

Personal tax and nontax receipts decreased \$0.1 billion after increasing \$41.8 billion. The downturn was attributable to income taxes. Payments of estimated income taxes less refunds decreased \$11.5 billion after increasing \$25.9 billion; the increase in the second quarter reflected provisions of the Omnibus Budget Reconciliation Act of 1993 that allowed certain retroactive taxes to be paid in three annual installments, the last of which was due in April 1996. Withheld income taxes increased \$10.9 billion after increasing \$13.2 billion, reflecting the deceleration in wages and salaries.

Corporate profits tax accruals decreased \$4.2 billion after increasing \$2.6 billion, reflecting the downturn in corporate profits before tax.

5. Profits from the rest of the world are receipts of profits from foreign affiliates of U.S. companies less payments of profits by U.S. affiliates of foreign companies.

Contributions for social insurance increased \$8.4 billion after increasing \$9.4 billion, reflecting a deceleration in wages and salaries.

Indirect business tax and nontax accruals increased \$2.5 billion after decreasing \$1.2 billion. The upturn was attributable to customs duties, which increased \$1.3 billion after decreasing \$0.6 billion, and to air transport excise taxes, which increased \$0.9 billion after decreasing \$0.9 billion. The air transport excise taxes that had expired at the end of December 1995 as a result of the Federal budget impasse were reinstated in late August.

Current expenditures.—Current expenditures increased \$0.3 billion in the third quarter after increasing \$24.0 billion in the second. The deceleration was more than accounted for by downturns in grants-in-aid to State and local governments and in Federal consumption expenditures.

Grants-in-aid to State and local governments decreased \$4.8 billion after increasing \$11.7 billion. The downturn was accounted for by grants for medicaid, which decreased \$4.5 billion after increasing \$10.6 billion.

Consumption expenditures decreased \$1.9 billion after increasing \$9.9 billion. The downturn was accounted for by national defense expenditures, which decreased \$2.5 billion after increasing \$8.7 billion. Within defense expenditures, the downturn was mostly accounted for by services, which decreased \$3.1 billion after increasing \$5.1 billion, but durable and nondurable goods also contributed. Within services, expenditures for research and development decreased \$1.7 billion after increasing \$2.2 billion.

Transfer payments (net) increased \$4.7 billion after increasing \$1.7 billion. The acceleration was more than accounted for by transfer payments to the rest of the world, which decreased \$0.3 billion after decreasing \$7.2 billion; the second-quarter decrease followed a large first-quarter increase that included a \$9.6 billion (annual rate) payment to Israel. Transfer payments to persons increased \$5.1 billion after increasing \$8.8 billion. Most of the deceleration was accounted for by Federal civilian pensions and by social security. Federal civilian pensions decreased \$0.3 billion after increasing \$1.5 billion; most of the second-quarter increase was attributable to a \$1.0 billion cost-of-living adjustment. Social security payments increased \$0.9 billion after increasing \$2.3 billion.

State and local

The State and local government current surplus decreased \$11.9 billion, to \$89.1 billion, in the third

quarter after increasing \$10.0 billion in the second. The downturn was accounted for by a deceleration in receipts.

Receipts increased \$2.0 billion after increasing \$22.7 billion. The deceleration was mostly accounted for by Federal grants-in-aid, which decreased \$4.8 billion after increasing \$11.7 billion. Indirect business tax and nontax accruals increased \$3.5 billion after increasing \$5.8 billion; the deceleration was mostly accounted for by sales taxes. Corporate profits tax accruals decreased \$0.8 billion after increasing \$0.5 billion, reflecting the

Table 9.—Government Sector Receipts and Current Expenditures


[Billions of dollars, seasonally adjusted at annual rate]

	Level		Change from preceding quarter			
	1996	1995	1996			
	III	III	IV	I	II	III
Government sector						
Receipts	2,415.5	17.6	14.3	40.0	63.5	13.5
Current expenditures	2,446.7	20.6	16.2	37.7	24.9	19.1
Current surplus or deficit(-)	-31.2	-3.0	-1.8	2.1	38.6	-5.5
Social insurance funds	115.5	1.9	.9	-8.4	1.8	3.8
Other	-146.7	-4.9	-2.7	10.6	36.7	-9.3
Federal Government						
Receipts	1,582.3	3.4	8.1	28.4	52.5	6.7
Personal tax and nontax receipts	681.3	-7.1	6.0	16.3	41.8	-1
Corporate profits tax accruals	194.8	8.4	-4.8	12.1	2.6	-4.2
Indirect business tax and nontax accruals	85.7	-5.1	2.9	-6.9	-1.2	2.5
Contributions for social insurance	620.4	7.2	4.1	6.7	9.4	8.4
Current expenditures	1,702.6	1.3	4.3	29.0	24.0	.3
Consumption expenditures	461.6	-2.5	-2.2	2.2	9.9	-1.9
National defense	304.9	-3.9	-1.3	-1.4	8.7	-2.5
Nondefense	156.7	1.4	-9	3.6	1.2	.6
Transfer payments (net)	762.6	9.1	6.7	25.3	1.7	4.7
To persons	751.1	7.8	6.3	17.9	8.8	5.1
To the rest of the world	11.5	1.4	.3	7.4	-7.2	-3
Grants-in-aid to State and local governments	214.5	-7.5	-5	4.3	11.7	-4.8
Net interest paid	233.7	3.1	1.6	-3.4	.3	2.9
Subsidies less current surplus of government enterprises	30.3	-9	-1.2	.5	.4	-5
Subsidies	31.7	-1.2	-1.3	0	.1	.3
Of which: Agricultural subsidies	5.7	-8	-7	.3	.2	.1
Less: Current surplus of government enterprises	1.4	-2	-2	-5	-3	.8
Less: Wage accruals less disbursements	0	0	0	0	0	0
Current surplus or deficit (-)	-120.3	2.0	4.0	-7	28.5	6.4
Social insurance funds	60.1	1.9	1.4	-7.7	2.2	4.9
Other	-180.5	.1	2.6	6.9	26.4	1.4
State and local governments						
Receipts	1,047.7	6.7	5.7	15.9	22.7	2.0
Personal tax and nontax receipts	192.6	4.2	2.6	1.5	3.9	3.4
Corporate profits tax accruals	36.6	1.9	-1.0	2.5	.5	-8
Indirect business tax and nontax accruals	529.0	7.6	3.9	6.9	5.8	3.5
Contributions for social insurance	75.0	.6	.6	.6	.8	.8
Federal grants-in-aid	214.5	-7.5	-5	4.3	11.7	-4.8
Current expenditures	958.6	11.7	11.5	13.0	12.7	13.9
Consumption expenditures	719.3	6.1	5.7	9.4	8.9	9.1
Transfer payments to persons	311.0	5.3	5.1	3.5	3.7	4.4
Net interest paid	-44.5	.7	.6	.7	.6	.6
Less: Dividends received by government	13.7	.3	.3	.3	.4	0
Subsidies less current surplus of government enterprises	-13.4	0	.2	-1	-2	-1
Subsidies .....	.4	0	0	0	0	0
Less: Current surplus of government enterprises	13.8	0	-2	.1	.1	.2
Less: Wage accruals less disbursements	0	0	0	0	0	0
Current surplus or deficit (-)	89.1	-5.0	-5.8	2.9	10.0	-11.9
Social insurance funds	55.4	0	-5	-8	-4	-1.0
Other	33.7	-5.0	-5.3	3.6	10.5	-10.9

NOTE.—Dollar levels are found in NIPA tables 3.1, 3.2, and 3.3.

downturn in corporate profits before tax. Personal tax and nontax receipts increased \$3.4 billion after increasing \$3.9 billion; the deceleration was attributable to income taxes.

Current expenditures increased \$13.9 billion after increasing \$12.7 billion. Transfer payments to persons increased \$4.4 billion after increasing \$3.7 billion. Consumption expendi-

tures increased \$9.1 billion after increasing \$8.9 billion; an acceleration in services was nearly offset by a deceleration in nondurable goods. The acceleration in services was largely in compensation, reflecting an acceleration in employment. The deceleration in nondurable goods reflected decreases in prices, primarily for petroleum products. 

Availability of the Remaining NIPA-Related Estimates From the Comprehensive Revision

The release of the revised estimates of reproducible tangible wealth for 1925–95 and of the revised national income and product accounts (NIPA) estimates for 1929–58, which will reflect the definitional and statistical improvements introduced into the NIPA estimates from 1959 forward in the comprehensive revision, has been delayed until spring 1997. Publication of *National Income and Product Accounts of the United States, Volume 2, 1959–92* will follow shortly thereafter. (NIPA data beginning with 1959 have been published in the SURVEY OF CURRENT BUSINESS and are available in a variety of electronic formats; see the headnote to the “Selected NIPA Tables” on page D-2.) *National Income and Product Accounts, Volume 1, 1929–58* will be published later in 1997.

BEA had hoped to reduce the timespan for the release of the complete results of this comprehensive revision to 9 months, compared with 14 months for the preceding comprehensive revision, but production problems relating to the incorporation of the new methodology for calculating the consumption of fixed capital and the chain-type measures of wealth have slowed work on the estimates.