

BUSINESS SITUATION

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REAL GROSS domestic product (GDP) increased 6.0 percent in the fourth quarter of 1998, according to the "final" estimates of the national income and product accounts (NIPA's) (chart 1).¹ The step-up from a 3.7-percent increase in the third quarter was attributable to a sharp turnaround in motor vehicle output; motor vehicle output increased almost 90 percent after falling almost 11 percent, partly reflecting a rebound from a midsummer strike at a major

manufacturer. GDP less motor vehicles increased 3.8 percent after increasing 4.2 percent.

Exports of goods and services and business fixed investment turned up, and consumer spending for goods accelerated in the fourth quarter. In contrast, inventory investment turned down, imports of goods and services increased more than in the third quarter, and consumer spending for services increased less than in the third quarter (table 1).²

The largest contributors to the fourth-quarter increase in real GDP were exports of goods and services, consumer spending for durable goods, and business fixed investment (table 2). The increase in GDP was moderated by an increase in imports of goods and services and by a decrease in inventory investment.

The "final" estimate of the change in real GDP is 0.1 percentage point less than the 6.1-percent increase indicated by the "preliminary" estimate reported in the March "Business Situation" (table 3). The average revision is 0.3 percentage point—without regard to sign—from

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 quarters except those in the most recent year, which are calculated using quarterly weights; real estimates are expressed both as index numbers (1992=100) and as chained (1992) dollars. Price indexes (1992=100) are also calculated using a chain-type Fisher formula.

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

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1998			
		1998				I	II	III	IV
	IV	I	II	III	IV				
Gross domestic product	7,677.7	100.1	33.9	67.9	111.2	5.5	1.8	3.7	6.0
Less: Exports of goods and services	1,009.6	-6.9	-19.8	-6.8	44.3	-2.8	-7.7	-2.8	19.7
Plus: Imports of goods and services	1,259.6	42.6	26.9	7.0	35.3	15.7	9.3	2.3	12.0
Equals: Gross domestic purchases	7,901.3	142.8	73.7	80.2	102.5	7.8	3.9	4.2	5.4
Less: Change in business inventories	44.2	24.9	-53.2	17.5	-11.5	.....	.....	.....	.....
Nonfarm	37.5	23.2	-56.0	17.1	-9.5	.....	.....	.....	.....
Farm	7.2	1.6	3.4	.4	-1.9	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	7,852.5	120.1	124.2	63.4	112.7	6.6	6.7	3.3	6.0
Personal consumption expenditures	5,246.0	74.1	75.1	51.6	64.2	6.1	6.1	4.1	5.0
Durable goods	775.0	25.5	19.1	4.3	41.3	15.8	11.2	2.4	24.5
Nondurable goods	1,565.1	26.9	19.7	8.2	16.0	7.4	5.3	2.1	4.2
Services	2,917.2	24.5	37.5	38.0	12.4	3.5	5.4	5.4	1.7
Gross private domestic fixed investment	1,311.0	55.4	39.2	6.8	40.1	20.4	13.4	2.2	13.2
Nonresidential fixed investment	991.9	45.7	28.5	-1.7	33.2	22.2	12.8	-7	14.6
Structures	205.0	-2.6	-1.2	.1	3.0	-4.9	-2.3	.2	6.0
Producers' durable equipment	801.5	52.4	32.5	-2.0	32.2	34.3	18.8	-1.0	17.8
Residential investment	324.1	10.6	10.6	7.4	7.6	15.6	15.0	9.9	10.0
Government consumption expenditures and gross investment	1,310.3	-6.2	11.8	4.8	10.7	-1.9	3.7	1.5	3.3
Federal	460.6	-10.4	8.0	-1.6	8.1	-8.8	7.3	-1.4	7.3
National defense	304.6	-15.4	7.0	3.2	1.1	-18.5	9.9	4.3	1.3
Nondefense	155.2	4.6	1.0	-4.5	6.8	13.1	2.6	-11.5	19.8
State and local	850.0	4.2	3.8	6.4	2.7	2.1	1.8	3.1	1.3
Addendum: Final sales of domestic product	7,628.9	77.7	83.9	51.2	121.3	4.3	4.6	2.8	6.6

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 in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are in NIPA table 8.1.

2. Imports are subtracted in the calculation of GDP.

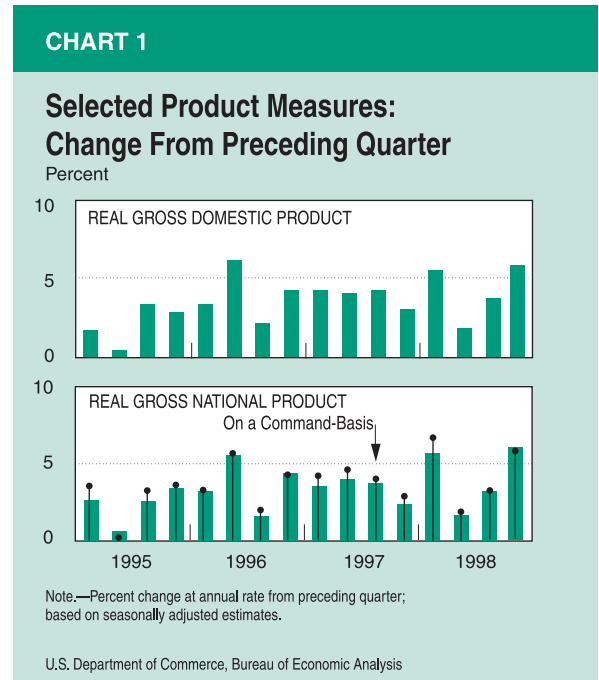


Table 2.—Contributions to Percent Change in Real Gross Domestic Product

[Seasonally adjusted at annual rates]

	1998			
	I	II	III	IV
Percent change at annual rate:				
Gross domestic product	5.5	1.8	3.7	6.0
Percentage points at annual rates:				
Personal consumption expenditures	4.09	4.09	2.78	3.53
Durable goods	1.23	.91	.20	1.90
Nondurable goods	1.41	1.01	.42	.85
Services	1.40	2.14	2.15	.79
Gross private domestic investment	4.07	-.75	1.22	1.41
Fixed investment	2.82	1.95	.33	1.95
Nonresidential	2.21	1.35	-.08	1.50
Structures	-.15	-.07	.01	.16
Producers' durable equipment	2.36	1.42	-.09	1.34
Residential .....	.60	.60	.41	.44
Change in business inventories	1.22	-2.66	.89	-.54
Net exports of goods and services	-2.24	-2.08	-.62	.52
Exports	-.33	-.92	-.32	2.04
Goods	-.29	-.98	.04	1.78
Services	-.04	.06	-.36	.26
Imports	-1.94	-1.18	-.30	-1.53
Goods	-1.75	-1.19	-.32	-1.48
Services	-.19	.01	.01	-.05
Government consumption expenditures and gross investment	-.34	.64	.27	.56
Federal	-.57	.44	-.09	.47
National defense	-.84	.38	.17	.11
Nondefense .....	.26	.06	-.26	.36
State and local .....	.24	.20	.35	.09

NOTE.—NIPA table 8.2 also shows contributions for 1997:III and 1997:IV.

the preliminary estimate to the final estimate for 1978–97.

In general, revisions to the components of GDP were small. Downward revisions to inventory investment, business fixed investment, and State and local government spending offset an upward revision to consumer spending for durable goods. In inventory investment, the downward revision reflected newly available trade source data on used car stocks for the quarter. In business fixed investment, the downward revision was mostly to producers' durable equipment, reflecting the incorporation of revised December Census Bureau data for shipments of aircraft. In State and local government spending, the downward revision reflected the incorporation of revised Census Bureau data on the value of nonresidential construction put in place for November and December. In consumer spending, the upward revision reflected the incorporation of newly available trade source data on used car sales for the quarter.

Table 3.—Revisions to Change in Real Gross Domestic Product and Prices, Fourth Quarter 1998

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Final estimate minus preliminary estimate		
	Preliminary estimate	Final estimate	Percentage points	Billions of chained (1992) dollars	Contribution to percent change in real GDP
					Percentage points
Gross domestic product	6.1	6.0	-0.1	-0.8	.....
Less: Exports of goods and services	20.2	19.7	-.5	-1.0	-.01
Goods	25.0	24.6	-.4	-.6	-.03
Services	9.0	8.3	-.7	-.4	-.04
Plus: Imports of goods and services	12.6	12.0	-.6	-1.5	.06
Goods	14.5	14.1	-.4	-1.0	.06
Services	3.0	2.0	-1.0	-.4	.01
Equals: Gross domestic purchases	5.4	5.4	0	-1.2	.....
Change in business inventories .....	.....	.....	.....	-3.6	-.18
Nonfarm .....	.....	.....	.....	-3.2	.....
Farm .....	.....	.....	.....	-.4	.....
Equals: Final sales to domestic purchasers	5.8	6.0	.2	2.1	.....
Personal consumption expenditures	4.5	5.0	.5	6.5	.33
Durable goods	20.1	24.5	4.4	7.0	.31
Nondurable goods	4.1	4.2	.1	.6	.01
Services	1.7	1.7	0	-.1	.01
Fixed investment	14.4	13.2	-1.2	-3.4	-.20
Nonresidential	16.0	14.6	-1.4	-2.9	-.19
Structures	7.4	6.0	-1.4	-.7	-.07
Producers' durable equipment	19.2	17.8	-1.4	-2.3	-.12
Residential	10.6	10.0	-.6	-.4	-.02
Government consumption expenditures and gross investment	3.8	3.3	-.5	-1.4	-.05
Federal	7.3	7.3	0	0	0
National defense	1.3	1.3	0	.1	0
Nondefense	20.0	19.8	-.2	-.1	0
State and local	1.9	1.3	-.6	-1.3	-.06
Addenda:					
Final sales of domestic product	6.5	6.6	.1	2.3	.....
Gross domestic purchases price index ¹ .....	.8	.9	.1	.....	.....
GDP price index ¹ .....	.7	.8	.1	.....	.....

1. Based on chain-type annual (1992) weights.

NOTE.—The final estimates for the fourth quarter of 1998 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 December, hospital expenses for the quarter, residential gas usage for November, brokerage services for the quarter, and used car sales for the quarter.

Nonresidential fixed investment: Revised construction put in place for November and December and revised manufacturers' shipments of machinery and equipment for December.

Residential fixed investment: Revised construction put in place for November and December.

Change in business inventories: Revised manufacturing and trade inventories for December and

used car stocks for the quarter.

Exports and imports of goods and services: Revised data on exports and imports of goods for December and revised balance-of-payments data on exports and imports of services for the third and fourth quarters.

Government consumption expenditures and gross investment: Revised State and local construction put in place for November and December.

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

GDP prices: Revised export and import prices for October through December, revised values and quantities of petroleum imports for December, revised prices of single-family homes under construction for the fourth quarter, and prices of medical care services for the fourth quarter.

Real gross domestic purchases increased 5.4 percent, the same as the preliminary estimate; in the third quarter, it increased 4.2 percent.³ Real final sales of domestic product increased 6.6 percent, 0.1 percentage point more than the preliminary estimate; in the third quarter, it increased 2.8 percent.⁴

The price index for gross domestic purchases increased 0.9 percent, 0.1 percentage point more than the preliminary estimate; in the third quarter, the index increased 0.7 percent. The price index for GDP increased 0.8 percent, 0.1 percentage point more than the preliminary estimate; in the third quarter, the index increased 1.0 percent.

Real disposable personal income (DPI) increased 4.3 percent, 0.1 percentage point more than the preliminary estimate. The upward revision to real DPI reflected an upward revision to personal income. The personal saving rate—personal saving as a percentage of current-dollar DPI—was 0.0 percent, 0.1 percentage point lower than the preliminary estimate; in the third quarter, the rate was 0.2 percent. These rates are the lowest since the quarterly series began in 1946; for additional information, see “[Note on the Personal Saving Rate](#)” in the February 1999 SURVEY OF CURRENT BUSINESS.

Gross national product (GNP).—In the fourth quarter, real GNP—goods and services produced by labor and property supplied by U.S. residents—increased 6.3 percent, 0.3 percentage

point more than real GDP (chart 1 and table 4).⁵ Receipts of factor income from the rest of the world increased, and payments of factor income decreased; corporate profits more than accounted for the increase in receipts, and interest income accounted for the decrease in payments.

Real GNP on a command basis, which measures the goods and services produced by the U.S. economy in terms of their purchasing power, increased the same as real GNP—6.3 percent—reflecting little change in the terms of trade.⁶ In the third quarter, real GNP on a command-basis increased more than real GNP—3.5 percent, compared with 3.3 percent—reflecting an improvement in the terms of trade.

Corporate Profits

Profits from current production decreased \$5.3 billion (or 0.6 percent at a quarterly rate) in the fourth quarter after increasing \$6.4 billion in the

5. 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.

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

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 receipts of factor income; in the denominator, the IPD for the sum of imports of goods and services and of payments of factor income. 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.

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 (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	1998	1998				1998			
	IV	I	II	III	IV	I	II	III	IV
Gross domestic product	7,677.7	100.1	33.9	67.9	111.2	5.5	1.8	3.7	6.0
Plus: Receipts of factor income from the rest of the world	240.4	3.4	0	-5.3	4.7	5.9	0	-8.5	8.1
Less: Payments of factor income to the rest of the world	253.9	-9	3.2	1.8	-7	-1.4	5.2	2.9	-1.1
Equals: Gross national product	7,663.3	104.5	30.7	60.8	116.6	5.8	1.7	3.3	6.3
Less: Exports of goods and services and receipts of factor income from the rest of the world	1,249.2	-3.0	-19.1	-12.6	48.1	-1.0	-6.1	-4.1	17.0
Plus: Command-basis exports of goods and services and receipts of factor income	1,324.2	16.3	-13.1	-8.3	49.1	5.2	-4.0	-2.5	16.3
Equals: Command-basis gross national product	7,738.2	123.8	36.7	65.1	117.5	6.9	2.0	3.5	6.3
Addendum:									
Terms of trade ¹	106.0	1.6	.5	.5	-2	6.3	1.9	1.9	-8

1. Calculated as the ratio of the implicit price deflator for the sum of exports of goods and services and of 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 in NIPA tables 1.10 and 1.11.

third (table 5).⁷ A decrease in profits of domestic nonfinancial corporations more than offset a slight increase in profits of domestic financial corporations and an increase in profits from the rest of the world. Profits of domestic nonfinancial corporations decreased \$12.7 billion (2.1 percent) after increasing \$14.3 billion; the decrease was more than accounted for by a \$13.5 billion (annual rate) adjustment to reflect payments by tobacco companies to States under the terms of various settlement agreements. (For more information, see the box "State Tobacco Settlements" on page 12 in this issue.) Unit profits of domestic nonfinancial corporations decreased, reflecting a decrease in unit prices and an increase in unit costs. Profits of domestic financial corporations increased \$0.6 billion (0.5 percent) after decreasing \$0.6 billion. Profits from the rest of the world increased \$6.9 billion (7.6 percent) after decreasing \$7.4 billion; the increase was more than

accounted for by receipts of earnings from foreign affiliates.⁸

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$4.9 billion after increasing \$9.2 billion.⁹ 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 84.9 percent from 86.7 percent. The ratio has decreased in five of the last six quarters; its average level for 1991–97 was 91.9 percent.

Domestic industry profits and related measures.—Domestic industry profits decreased \$17.5 billion after increasing \$8.3 billion.¹⁰ Profits of domestic nonfinancial corporations decreased \$17.3 billion

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

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

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

9. Cash flow from current production is estimated as the sum of undistributed profits with inventory valuation adjustments and the consumption of fixed capital.

10. Domestic industry profits are estimated as the sum of corporate profits before tax and the inventory valuation adjustment; they are shown in NIPA table 6.16C (on page D-16 of this issue). Estimates of the capital consumption

Table 5.—Corporate Profits
[Quarterly estimates seasonally adjusted]

	Billions of dollars (annual rate)						Percent change from preceding period ¹				
	Level		Change from preceding period				1997	1998	1998		
	1998	1998 IV	1997	1998	1998				III	IV	
					III	IV					
Profits from current production	824.6	821.7	67.5	6.7	6.4	-5.3	9.0	0.8	0.8	-0.6	
Domestic industries	729.0	724.9	64.9	10.1	13.7	-12.1	9.9	1.4	1.9	-1.6	
Financial	130.3	130.1	19.2	5.6	-6	.6	18.2	4.5	-4	.5	
Nonfinancial	598.7	594.8	45.7	4.5	14.3	-12.7	8.3	.8	2.4	-2.1	
Rest of the world	95.7	96.8	2.6	-3.3	-7.4	6.9	2.7	-3.4	-7.6	7.6	
Receipts (inflows)	145.8	150.6	15.0	-3.7	-5.5	10.1	11.1	-2.5	-3.8	7.2	
Payments (outflows)	50.1	53.8	12.3	-3	1.8	3.3	32.4	-6	3.9	6.4	
IVA	14.5	13.4	8.1	7.6	3.9	1.7	.....	.....	.....	.....
CCAadj	92.3	100.2	5.2	15.7	5.4	5.4	.....	.....	.....	.....
Profits before tax	717.8	708.1	54.2	-16.6	-3.0	-12.4	8.0	-2.3	-4	-1.7	
Profits tax liability	240.1	235.6	20.0	-6.0	1.6	-7.6	8.8	-2.4	.6	-3.1	
Profits after tax	477.7	472.5	34.2	-10.6	-4.5	-4.8	7.5	-2.2	-1.0	-1.0	
Cash flow from current production	806.0	812.8	59.7	31.9	9.2	4.9	8.3	4.1	1.2	.6	
Domestic industry profits:											
Corporate profits of domestic industries with IVA	636.6	624.7	59.6	-5.6	8.3	-17.5	10.2	-9	1.3	-2.7	
Financial	134.2	133.0	19.3	4.2	-1.2	-2	17.4	3.3	-9	-1	
Nonfinancial	502.4	491.7	40.5	-9.9	9.5	-17.3	8.6	-1.9	1.9	-3.4	
Manufacturing	192.8	184.5	18.8	-21.6	.4	-10.5	9.6	-10.1	.2	-5.4	
Transportation and public utilities	90.4	89.7	-4.3	2.0	5.2	-3.0	-4.6	2.2	6.0	-3.2	
Wholesale trade	51.3	46.3	11.9	1.5	.4	-7.6	31.3	3.1	.7	-14.1	
Retail trade	67.2	66.8	9.4	6.0	-3	-3	18.2	9.8	-4	-6	
Other	100.7	104.4	4.7	2.2	3.7	4.2	5.0	2.3	3.9	4.2	
	Dollars										
Unit price, costs, and profits of nonfinancial corporations:											
Unit price	1.061	1.060	0.007	-0.002	0.001	-0.002	.....	.....	.....	.....
Unit labor cost .....	.699	.700	.006	.008	0	.001	.....	.....	.....	.....
Unit nonlabor cost .....	.226	.228	-.003	-.002	-.001	-.003	.....	.....	.....	.....
Unit profits from current production .....	.136	.133	.003	-.007	.002	-.005	.....	.....	.....	.....

1. Quarterly percent changes are not annualized.

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

IVA Inventory valuation adjustment
CCAadj Capital consumption adjustment

after increasing \$9.5 billion, reflecting downturns in manufacturing, in the transportation and public utility group (which includes communications), and in wholesale trade. In manufacturing, the downturn was more than accounted for by the adjustment for payments under the various tobacco settlement agreements; excluding the adjustment, manufacturing profits increased after little change. Profits of domestic financial corporations decreased \$0.2 billion after decreasing \$1.2 billion.

Profits before tax decreased \$12.4 billion after decreasing \$3.0 billion. Most of the difference between the fourth-quarter decrease and the \$5.3 billion decrease in profits from current production was accounted for by a \$5.4 billion increase in the capital consumption adjustment.¹¹ The rest of the difference was accounted for by somewhat larger inventory losses, as reflected in a \$1.7 billion increase in the inventory valuation adjustment.¹²

The year 1998.—For the year 1998, profits from current production increased \$6.7 billion (or 0.8 percent), to \$824.6 billion; in 1997, the increase was \$67.5 billion (9.0 percent). Profits of domestic corporations increased less than in 1997, and profits from the rest of the world turned down. Profits of nonfinancial domestic corporations increased \$4.5 billion after increasing \$45.7 billion; profits per unit turned down, reflecting a downturn in unit prices and a step-up in unit labor costs. Profits of domestic financial corporations increased \$5.6 billion after increasing \$19.2 billion. Profits from the rest of the world decreased \$3.3 billion after increasing \$2.6 billion, as receipts turned down more sharply than payments.

Domestic industry profits decreased \$5.6 billion after increasing \$59.6 billion, as profits of domestic nonfinancial corporations turned down, and profits of domestic financial corporations increased less than in 1997. In nonfinancial corporations, the downturn mainly reflected a

downturn in manufacturing profits and a sharp slowdown in wholesale trade profits.

Profits before tax decreased \$16.6 billion after increasing \$54.2 billion.

Government Sector

The current surplus of the Federal Government and of State and local governments—the NIPA measure of net saving by government—decreased \$4.4 billion, to \$236.3 billion, in the fourth quarter after increasing \$25.0 billion in the third (table 6).¹³ The downturn was attributable to a downturn in the Federal Government current surplus. The State and local government current surplus accelerated.¹⁴

Federal

The Federal Government current surplus decreased \$26.2 billion, to \$65.8 billion, in the fourth quarter after increasing \$17.6 billion in the third. The downturn resulted from a sharp acceleration in current expenditures and a deceleration in receipts.

Receipts.—Federal receipts increased \$11.6 billion in the fourth quarter after increasing \$20.5 billion in the third. The deceleration was more than accounted for by downturns in corporate profits tax accruals and in indirect business tax and nontax accruals. In contrast, personal tax and nontax receipts and contributions for social insurance accelerated.

Corporate profits tax accruals decreased \$6.5 billion after increasing \$1.3 billion, reflecting the pattern of domestic corporate profits before tax.

Indirect business tax and nontax accruals decreased \$2.3 billion after increasing \$3.1 billion. The downturn was partly accounted for by customs duties, which decreased \$1.5 billion after increasing \$1.4 billion. Excise taxes increased \$0.2 billion after increasing \$1.9 billion; within excise taxes, taxes on gasoline were unchanged after increasing \$0.7 billion, and taxes on alcoholic beverages were unchanged after increasing \$0.8 billion.

Personal tax and nontax receipts increased \$12.1 billion after increasing \$8.1 billion. Within personal taxes, estate and gift taxes increased \$3.0 billion after decreasing \$2.4 billion.

13. Net saving equals gross saving less consumption of fixed capital (CFC); the estimates of government gross saving, CFC, and net saving are shown in NIPA table 5.1.

14. The NIPA estimates for the government sector are based on financial statements for the Federal Government and for State and local governments, but they differ from them in several respects. For the major differences, see NIPA tables 3.18B on page 10 and 3.19 on page 11 of the October 1998 SURVEY.

adjustment do not exist at a detailed industry level; they are available only for total financial and total nonfinancial industries.

11. 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 replacement cost and based on empirical evidence on the prices of used equipment and structures in resale markets. For information on depreciation in the NIPA's, see Arnold J. Katz and Shelby W. Herman, "Improved Estimates of Fixed Reproducible Tangible Wealth, 1929-95," SURVEY OF CURRENT BUSINESS 77 (May 1997):69-92.

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

Contributions for social insurance increased \$8.3 billion after increasing \$8.0 billion.

Current expenditures.—Current expenditures increased \$37.9 billion in the fourth quarter after increasing \$2.8 billion in the third.¹⁵ The acceleration was mostly accounted for by an upturn in consumption expenditures and by accelerations in subsidies less the current surplus of government enterprises and in transfer payments (net).

15. For information on the definition of current expenditures and other major NIPA components, see Eugene P. Seskin and Robert P. Parker, "A Guide to the NIPAs," SURVEY 78 (March 1998): 26–36.

Table 6.—Government Sector Receipts and Current Expenditures

[Billions of dollars, seasonally adjusted at annual rates]

	Level		Change from preceding quarter			
	1998	1997	1998			
	IV	IV	I	II	III	IV
Receipts	2,816.2	34.3	53.3	41.6	34.5	36.5
Current expenditures	2,579.8	26.9	-2.1	24.9	9.4	40.9
Current surplus or deficit (-)	236.3	7.4	55.4	16.7	25.0	-4.4
Social insurance funds	173.3	7.7	3.5	6.3	5.5	9.5
Other	63.0	-3	51.9	10.4	19.5	-13.9
Federal Government						
Receipts	1,870.4	25.9	43.6	29.2	20.5	11.6
Personal tax and nontax receipts	875.9	21.7	37.9	19.2	8.1	12.1
Corporate profits tax accruals	201.0	-4.2	-8.0	1.4	1.3	-6.5
Indirect business tax and nontax accruals	96.0	-1.3	.1	1.3	3.1	-2.3
Contributions for social insurance	697.5	9.7	13.6	7.3	8.0	8.3
Current expenditures	1,804.6	23.5	-13.1	13.6	2.8	37.9
Consumption expenditures	470.6	.1	-9.2	13.1	-5.3	11.9
National defense	306.7	-1.2	-11.5	9.7	-1	3.8
Nondefense	164.0	1.3	2.3	3.3	-5.1	8.2
Transfer payments (net)	829.8	14.7	2.6	2.6	5.9	12.8
To persons	807.2	3.2	14.2	3.5	3.7	1.4
To the rest of the world	22.6	11.6	-11.6	-9	2.2	11.4
Grants-in-aid to State and local governments	237.4	7.4	-3.1	-1.8	4.5	6.0
Net interest paid	221.4	-1	-3.0	-5	-2.6	-4.3
Subsidies less current surplus of government enterprises	45.4	1.2	-3	.1	.5	11.4
Subsidies	42.4	-5	-9	-5	-4	11.8
Of which: Agricultural subsidies	19.4	-1	-2	-1	-1	11.8
Less: Current surplus of government enterprises	-3.0	-1.8	-5	-6	-9	.4
Less: Wage accruals less disbursements	0	0	0	0	0	0
Current surplus or deficit (-)	65.8	2.5	56.6	15.6	17.6	-26.2
Social insurance funds	105.4	8.0	3.6	6.1	5.8	9.0
Other	-39.6	-5.4	53.0	9.5	11.8	-35.2
State and local governments						
Receipts	1,183.1	15.7	6.8	10.5	18.5	30.8
Personal tax and nontax receipts	248.9	4.8	3.5	6.8	7.4	4.3
Corporate profits tax accruals	34.5	-8	-1.4	.3	.3	-1.2
Indirect business tax and nontax accruals	579.1	3.8	7.3	4.5	5.7	20.9
Contributions for social insurance	83.2	.4	.5	.6	.7	.8
Federal grants-in-aid	237.4	7.4	-3.1	-1.8	4.5	6.0
Current expenditures	1,012.6	10.8	7.9	9.5	11.1	9.0
Consumption expenditures	801.2	9.3	5.2	8.0	9.2	7.3
Transfer payments to persons	322.5	3.1	4.0	3.0	3.2	3.7
Net interest paid	-85.3	-1.3	-1.2	-1.5	-1.5	-1.6
Less: Dividends received by government	16.6	.4	.5	.3	0	.6
Subsidies less current surplus of government enterprises	-9.1	.2	.4	.3	.2	.3
Subsidies .....	.4	0	0	0	0	0
Less: Current surplus of government enterprises	9.5	-2	-4	-3	-2	-3
Less: Wage accruals less disbursements	0	0	0	0	0	0
Current surplus or deficit (-)	170.5	4.8	-1.2	1.1	7.4	21.8
Social insurance funds	67.9	-3	-1	.2	-3	.5
Other	102.6	5.1	-1.1	.9	7.7	21.3

NOTE.—Levels of these series are in NIPA tables 3.1-3.3.

Consumption expenditures increased \$11.9 billion after decreasing \$5.3 billion. The upturn was primarily accounted for by nondefense consumption expenditures, which increased \$8.2 billion after decreasing \$5.1 billion. Defense consumption expenditures increased \$3.8 billion after decreasing \$0.1 billion.

The upturn in nondefense spending was primarily accounted for by durable goods, which increased \$5.8 billion after decreasing \$6.1 billion. In the third quarter, the sale of the United States Enrichment Corporation reduced durable goods \$5.8 billion.¹⁶ Services increased \$2.0 billion after increasing \$0.5 billion; the acceleration was mostly accounted for by a step-up in employee compensation that reflected additional hiring for the 2000 decennial census.

The upturn in defense spending was more than accounted for by services, which increased \$4.6 billion after decreasing \$2.0 billion. Within services, other services increased \$5.8 billion after decreasing \$1.8 billion, primarily reflecting upturns in personnel support, weapon support, and installation support. The upturn in services was partly offset by downturns in nondurable goods, mainly in ammunition, and in durable goods, mainly in missiles and other parts.

Subsidies less current surplus of government enterprises increased \$11.4 billion after increasing \$0.5 billion. The acceleration was more than accounted for by subsidies, which increased \$11.8 billion after decreasing \$0.4 billion. Within subsidies, agricultural subsidies increased \$11.8 billion after decreasing \$0.1 billion; the upturn reflected special payments to farmers after the enactment of the 1999 Omnibus Consolidated and Emergency Supplemental Appropriations Act that provided two forms of relief to the farmers who were already enrolled in the Federal farm program.

Transfer payments (net) increased \$12.8 billion after increasing \$5.9 billion. The acceleration was more than accounted for by transfer payments to the rest of the world, which increased \$11.4 billion after increasing \$2.2 billion; these payments were boosted by the yearly payment of \$3.0 billion (\$12.0 billion at an annual rate) to Israel for economic support and other payments. Transfer payments to persons increased \$1.4 billion after increasing \$3.7 billion. The deceleration was more than accounted for by a deceleration in social security (old-age, survivors, and dis-

16. Sales except those by government enterprises for goods and services that are similar to those provided by the private sector are treated as deductions from government consumption expenditures.

ability insurance) and by a downturn in Federal employee pensions.

Grants-in-aid to State and local governments increased \$6.0 billion after increasing \$4.5 billion. The acceleration was more than accounted for by upturns in grants for medicaid and community development. Grants for education turned down, and grants for highways decelerated.

Net interest paid decreased \$4.3 billion after decreasing \$2.6 billion. Gross interest paid decreased \$3.8 billion after decreasing \$2.6 billion.

State and local

The State and local government current surplus increased \$21.8 billion, to \$170.5 billion, in the fourth quarter after increasing \$7.4 billion in the third. The acceleration was more than accounted for by an acceleration in receipts.

Receipts.—State and local government receipts increased \$30.8 billion after increasing \$18.5 billion. The acceleration was more than accounted for by accelerations in indirect business tax and nontax accruals and in Federal grants-in-aid.

Indirect business tax and nontax accruals increased \$20.9 billion after increasing \$5.7 billion. The acceleration reflected the settlement payments to the States by tobacco companies: In the fourth quarter, these payments amounted to \$3.4 billion (\$13.5 billion at an annual rate), including “up front” payments to 46 States of \$2.4 billion (\$9.6 billion at an annual rate); in the third quarter, these payments amounted to \$0.4 billion (\$1.7 billion at an annual rate).¹⁷ Sales taxes increased \$5.5 billion after increasing \$0.7 billion; the acceleration was mostly attributable to general retail sales taxes.

Personal tax and nontax receipts increased \$4.3 billion after increasing \$7.4 billion. The deceleration was mostly accounted for by personal income taxes, which increased \$3.2 billion after increasing \$6.2 billion.

Corporate profits tax accruals decreased \$1.2 billion after increasing \$0.3 billion.

Current expenditures.—Current expenditures increased \$9.0 billion after increasing \$11.1 billion. A deceleration in consumption expenditures and an upturn in dividends received by government were partly offset by an acceleration in transfer payments.

Consumption expenditures increased by \$7.3 billion after increasing \$9.2 billion. The deceleration was mainly attributable to a deceleration in

services and to a downturn in expenditures for nondurable goods. Dividends received by government, which are deducted in the calculation of current expenditures, increased \$0.6 billion after remaining unchanged. Transfer payments to persons increased \$3.7 billion after increasing \$3.2 billion. The acceleration was mostly accounted for by an acceleration in payments for public assistance. Family assistance, which consists primarily of Aid to Families with Dependent Children and Temporary Assistance to Needy Families, decreased \$0.3 billion after a decrease of \$0.9 billion. In contrast, medical care increased \$2.0 billion after increasing \$2.4 billion.

The Government Sector in 1998

The combined current surplus of the Federal Government and State and local governments increased \$109.9 billion, to \$223.0 billion, in 1998. The increase was mostly accounted for by a shift in the Federal fiscal position from a current deficit to a current surplus.¹⁸

The Federal fiscal position increased \$93.9 billion in 1998, from a current deficit of \$21.1 to a current surplus of \$72.8 billion. The increase in receipts was greater than the increase in expenditures.¹⁹

Federal receipts increased \$124.3 billion, to \$1,844.2 billion, in 1998. The increase was more than accounted for by personal tax and nontax receipts, which increased \$88.9 billion, and by contributions for social insurance, which increased \$38.4 billion. Indirect business tax and nontax accruals increased \$2.1 billion. These increases were partly offset by a decrease of \$5.1 billion in corporate profits tax accruals.

Federal current expenditures increased \$30.4 billion, to \$1,771.4 billion, in 1998. The increase was mainly attributable to transfer payments, which increased \$24.7 billion. Grants-in-aid to State and local governments increased \$6.1 billion, and subsidies less current surplus of government enterprises increased \$4.1 billion. Consumption expenditures increased \$0.6 billion; nondefense current expenditures increased \$5.4 billion, but defense current expenditures decreased \$4.8 billion. These increases were partly offset by a decrease of \$5.1 billion in net interest paid.


18. For NIPA estimates of government receipts and current expenditures for 1997 and 1998, see NIPA tables 3.1, 3.2, and 3.3 in this issue.

19. The NIPA budget estimates differ from the official Federal budget estimates in several respects, including the timing of transactions, the treatment of investment, and other coverage differences. For more information, see Kurt S. Bersani and Laura M. Bilenki, “Federal Budget Estimates, Fiscal Year 2000,” SURVEY 79 (March 1999): 12–21.

17. For more information, see the box “State Tobacco Settlements” on page 12 in this issue.

The State and local government current surplus increased \$16.1 billion, to \$150.2 billion, in 1998.²⁰ Increases in receipts exceeded increases in expenditures.

Receipts increased \$53.8 billion, to \$1,148.1 billion; the increase was mostly accounted for by indirect business tax and nontax accruals, which increased \$26.0 billion, and by personal tax and nontax payments, which increased \$20.4 billion. Federal grants-in-aid increased \$6.1 billion, and contributions for social insurance increased \$2.2 billion. In contrast, corporate profits tax accruals decreased \$0.8 billion.

State and local current expenditures increased \$37.8 billion, to \$997.9 billion, in 1998. The increase was more than accounted for by consumption expenditures, which increased \$30.3 billion, and by transfer payments to persons, which increased \$13.3 billion. Subsidies less current surplus of government enterprises increased \$1.1 billion. These increases were partly offset by a \$5.6 billion decrease in net interest paid and by a \$1.3 billion increase in dividends received by government; dividends received by government are deducted in the calculation of current expenditures. 

20. For more information, see Janet H. Kmitch and Bruce E. Baker, "State and Local Government Fiscal Position in 1998" in this issue.