

BUSINESS SITUATION

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

REAL GROSS domestic product (GDP) increased 3.7 percent in the third quarter of 1998, according to the "final" estimates of the national income and product accounts (NIPAs), after increasing 1.8 percent in the second quarter (table 1 and chart 1).¹ The acceleration was more than accounted for by an upturn in inventory investment.

The largest contributors to the third-quarter increase in real GDP were personal consumption

1. Quarterly estimates in the NIPAs 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]

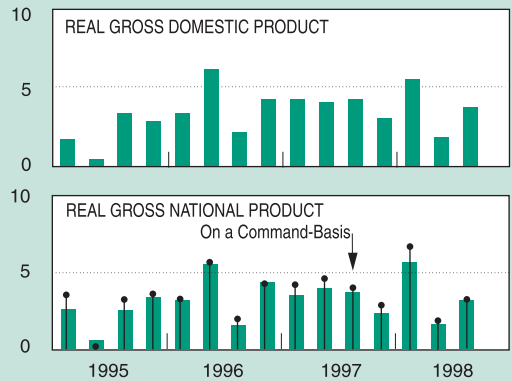
	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
		1998	1997	1998					
	III	IV	I	II	III	IV	I	II	III
Gross domestic product	7,566.5	53.4	100.1	33.9	67.9	3.0	5.5	1.8	3.7
Less: Exports of goods and services	965.3	10.7	-6.9	-19.8	-6.8	4.4	-2.8	-7.7	-2.8
Plus: Imports of goods and services	1,224.3	17.3	42.6	26.9	7.0	6.3	15.7	9.3	2.3
Equals: Gross domestic purchases	7,798.8	59.0	142.8	73.7	80.2	3.2	7.8	3.9	4.2
Less: Change in business inventories	55.7	15.5	24.9	-53.2	17.5				
Nonfarm	47.0	18.7	23.2	-56.0	17.1				
Farm	9.1	-3.6	1.6	3.4	.4				
Equals: Final sales to domestic purchasers	7,739.8	44.1	120.1	124.2	63.4	2.4	6.6	6.7	3.3
Personal consumption expenditures	5,181.8	34.0	74.1	75.1	51.6	2.8	6.1	6.1	4.1
Durable goods	733.7	5.2	25.5	19.1	4.3	3.1	15.8	11.2	2.4
Nondurable goods	1,549.1	-1.4	26.9	19.7	8.2	-4	7.4	5.3	2.1
Services	2,904.8	29.4	24.5	37.5	38.0	4.3	3.5	5.4	5.4
Gross private domestic fixed investment	1,270.9	10.2	55.4	39.2	6.8	3.6	20.4	13.4	2.2
Nonresidential fixed investment	958.7	4.0	45.7	28.5	-1.7	1.8	22.2	12.8	-7
Structures	202.0	.5	-2.6	-1.2	.1	.9	-4.9	-2.3	.2
Producers' durable equipment	769.3	3.8	52.4	32.5	-2.0	2.2	34.3	18.8	-1.0
Residential investment	316.5	5.6	10.6	10.6	7.4	8.2	15.6	15.0	9.9
Government consumption expenditures and gross investment	1,299.6	.3	-6.2	11.8	4.8	.1	-1.9	3.7	1.5
Federal	452.5	-2.4	-10.4	8.0	-1.6	-2.1	-8.8	7.3	-1.4
National defense	303.5	-1.5	-15.4	7.0	3.2	-2.0	-18.5	9.9	4.3
Nondefense	148.4	-.9	4.6	1.0	-4.5	-2.3	13.1	2.6	-11.5
State and local	847.3	2.8	4.2	3.8	6.4	1.3	2.1	1.8	3.1
Addendum: Final sales of domestic product	7,507.6	38.5	77.7	83.9	51.2	2.1	4.3	4.6	2.8

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.

CHART 1

**Selected Product Measures:
Change From Preceding Quarter**

Percent



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

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

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

[Seasonally adjusted at annual rate]

	1997				1998			
	IV	I	II	III	IV	I	II	III
Percent change at annual rate:								
Gross domestic product	3.0	5.5	1.8	3.7				
Percentage points at annual rates:								
Personal consumption expenditures	1.88	4.09	4.09	2.78				
Durable goods .....	.26	1.23	.91	.20				
Nondurable goods	-.08	1.41	1.01	.42				
Services	1.70	1.40	2.14	2.15				
Gross private domestic investment	1.34	4.07	-.75	1.22				
Fixed investment .....	.48	2.82	1.95	.33				
Nonresidential .....	.16	2.21	1.35	-.08				
Structures .....	.03	-.15	-.07	.01				
Producers' durable equipment .....	.13	2.36	1.42	-.09				
Residential .....	.32	.60	.60	.41				
Change in business inventories .....	.85	1.22	-2.66	.89				
Net exports of goods and services	-.30	-2.24	-2.08	-.62				
Exports .....	.53	-.33	-.92	-.32				
Goods .....	.67	-.29	-.98	.04				
Services	-.14	-.04	.06	-.36				
Imports	-.83	-1.94	-1.18	-.30				
Goods	-.71	-1.75	-1.19	-.32				
Services	-.12	-.19	.01	.01				
Government consumption expenditures and gross investment .....	.02	-.34	.64	.27				
Federal	-.14	-.57	.44	-.09				
National defense	-.09	-.84	.38	.17				
Nondefense	-.05	.26	.06	-.26				
State and local .....	.15	.24	.20	.35				

NOTE.—Contributions to percent change in major aggregates are in NIPA table 8.2.

expenditures for services and inventory investment (table 2). The increase in GDP was moderated by decreases in exports of services and in Federal nondefense spending and by an increase in imports of goods.²

The "final" estimate of the change in real GDP is 0.2 percentage point less than the 3.9-percent increase indicated by the "preliminary" estimate reported in the December "Business Situation" (table 3). The revision is close to the average revision—0.3 percentage point, without regard to sign—from the preliminary estimate to the final estimate for 1978–97.

2. Imports are subtracted from final expenditures in the calculation of GDP.

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

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Final estimate minus preliminary estimate		
	Preliminary estimate	Final estimate	Change in real GDP		Contribution to percent change in real GDP
			Percentage points	Billions of chained (1992) dollars		Percentage points
Gross domestic product	3.9	3.7	-0.2	-3.5	-0.20
Less: Exports of goods and services	-1.9	-2.8	-.9	-2.1	-.10
Plus: Imports of goods and services	1.3	2.3	1.0	3.0	-.13
Equals: Gross domestic purchases	4.2	4.2	0	.7	.....
Less: Change in business inventories .....	.....	.....	.....	-.9	-.05
Nonfarm .....	.....	.....	.....	-1.4	.....
Farm .....	.....	.....	.....	.4	.....
Equals: Final sales to domestic purchasers	3.3	3.3	0	1.6	.....
Personal consumption expenditures	4.1	4.1	0	-.1	0
Durable goods	2.4	2.4	0	.1	0
Nondurable goods	2.1	2.1	0	.2	-.01
Services	5.4	5.4	0	-.2	-.02
Gross private domestic fixed investment	1.4	2.2	.8	2.2	.11
Nonresidential	-1.2	-.7	.5	1.3	.06
Structures	-1.5	.2	1.7	.8	.05
Producers' durable equipment	-1.1	-1.0	.1	.2	0
Residential	8.6	9.9	1.3	1.0	.05
Government consumption expenditures and gross investment	1.6	1.5	-.1	-.4	-.02
Federal	-1.6	-1.4	.2	.3	.01
National defense	4.3	4.3	0	-.1	0
Nondefense	-12.2	-11.5	.7	.4	-.01
State and local	3.4	3.1	-.3	-.7	-.04
Addenda:					
Final sales of domestic product	2.9	2.8	-.1	-2.6	.....
Gross domestic purchases price index ¹ .....	.5	.7	.2	.....	.....
GDP price index ¹ .....	.8	1.0	.2	.....	.....

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

NOTE.—The final estimates for the third 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 September, hospital expenses for August, and residential gas usage for July.

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

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

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

Exports and imports of goods and services: Revised data on exports and imports of goods for September and revised balance-of-payments data on exports and imports of goods and services for the third quarter.

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

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

GDP prices: Revised export and import prices for July through September, revised values and quantities of petroleum imports for September, revised prices of single-family homes under construction for the third quarter, and airline transportation prices paid by consumers for the third quarter.

Revisions to the components of GDP were small. A downward revision to net exports more than offset an upward revision to business fixed investment. In net exports, a downward revision to exports and an upward revision to imports reflected the incorporation of revised Census Bureau and Bureau of Economic Analysis (BEA) data on international trade in goods and services. In business fixed investment, the upward revision was primarily to residential and nonresidential structures and reflected the incorporation of revised Census Bureau data on the value of residential and nonresidential construction put in place for August and September.

Real gross domestic purchases increased 4.2 percent, the same as the preliminary estimate; in the second quarter, it increased 3.9 percent.³ Real final sales of domestic product increased 2.8 percent, 0.1 percentage point less than the preliminary estimate; in the second quarter, it increased 4.6 percent.⁴

The price index for gross domestic purchases increased 0.7 percent, 0.2 percentage point more than the preliminary estimate; in the second quarter, the index increased 0.4 percent. The price index for GDP increased 1.0 percent, 0.2 percentage point more than the preliminary estimate; in the second quarter, the index increased 0.9 percent. The larger third-quarter increase in GDP prices than in gross domestic purchases prices was due to a larger decrease in the prices of imports than in the prices of exports.⁵ The upward revisions to third-quarter prices mainly reflected the incorporation of newly available Department of Transportation price data on airline transportation services purchased by consumers and of newly available Census Bureau price data on single-family structures.

Real disposable personal income (DPI) increased 3.2 percent in the third quarter, 0.1 percentage point more than the preliminary estimate. The upward revision was accounted for by an upward revision to personal income. The personal saving rate—personal saving as a percentage of current-dollar DPI—was 0.2 percent, the same as the preliminary estimate.

3. Gross domestic purchases—a measure of purchases by U.S. residents regardless of where the purchased goods and services were produced—is calculated as GDP less exports of goods and services plus imports of goods and services.

4. Final sales of domestic product equals GDP less change in business inventories.

5. Import prices are included in gross domestic purchases prices but not in GDP prices, and export prices are included in GDP prices but not in gross domestic purchases prices.

Corporate Profits

Profits from current production increased \$6.4 billion (0.8 percent at a quarterly rate) in the third quarter after decreasing \$8.6 billion in the second (table 5).⁸ An increase in profits of domestic nonfinancial corporations more than offset a decrease in profits from the rest of the world. Profits of domestic nonfinancial corporations increased \$14.3 billion (2.4 percent) after decreasing \$6.1 billion, as unit profits and real product increased; the increase in unit profits, in turn, reflected a small increase in unit prices and a small decrease in unit costs. Profits of domestic financial corporations decreased \$0.6 billion (0.4 percent) after decreasing \$1.2 billion. Profits from the rest of the world decreased \$7.4 billion (7.6 percent) after decreasing \$1.3 billion; the third-quarter decrease mainly reflected a drop in receipts of earnings from foreign affiliates.⁹

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$9.2 billion after decreasing \$5.8 billion. The ratio of cash flow to nonresidential fixed investment, an indicator of the share of the current level of investment that

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 (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.

9. 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.

Gross national product (GNP).—In the third quarter, real GNP—goods and services produced by labor and property supplied by U.S. residents—increased 3.3 percent, 0.4 percentage point less than real GDP (chart 1 and table 4).⁶ Receipts of factor income from the rest of the world decreased, and payments of factor income increased; corporate profits accounted for most of the decrease in receipts and more than accounted for the increase in payments. The revised estimate of the growth in GNP is the same as the preliminary estimate; in the second quarter, GNP had increased 1.7 percent.

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 more than real GNP—3.5 percent, compared with 3.3 percent—reflecting an improvement in the terms of trade.⁷ In the second quarter, real GNP on a command-basis also increased more than real GNP—2.0 percent, compared with 1.7 percent.

6. 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.

7. 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				1997			
	1998	1997	1998						
	III	IV	I	II	III	IV	I	II	III
Gross domestic product	7,566.5	53.4	100.1	33.9	67.9	3.0	5.5	1.8	3.7
Plus: Receipts of factor income from the rest of the world	235.7	-8.0	3.4	0	-5.3	-12.4	5.9	0	-8.5
Less: Payments of factor income to the rest of the world	254.6	1.6	-9	3.2	1.8	2.6	-1.4	5.2	2.9
Equals: Gross national product	7,546.7	43.7	104.5	30.7	60.8	2.4	5.8	1.7	3.3
Less: Exports of goods and services and receipts of factor income from the rest of the world	1,201.1	1.6	-3.0	-19.1	-12.6	.5	-1.0	-6.1	-4.1
Plus: Command-basis exports of goods and services and receipts of factor income	1,275.1	3.0	16.3	-13.1	-8.3	.9	5.2	-4.0	-2.5
Equals: Command-basis gross national product	7,620.7	45.0	123.8	36.7	65.1	2.5	6.9	2.0	3.5
Addendum:									
Terms of trade ¹	106.2	.1	1.6	.5	.5	.4	6.3	1.9	1.9

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.

