

# B U S I N E S S S I T U A T I O N

Larry R. Moran prepared the first section of this article, and Daniel Larkins prepared the section on corporate profits.

**T**HE "FINAL" estimate of growth in real gross domestic product (GDP) for the first quarter of 1997 is 5.9 percent, 0.1 percentage point higher than the "preliminary" estimate reported in the June "Business Situation" (table 1 and chart 1); for 1981-96, the average revision from the pre-

liminary to the final estimate, without regard to sign, was 0.3 percentage point.<sup>1</sup>

The general picture of the economy that is indicated by the final estimates of the national income and product accounts (NIPA's) is little changed from that shown by the preliminary estimates. GDP increased more in the first quarter than in the fourth quarter of 1996, and the larger increase was more than accounted for by an upturn in the change in business inventories, by an acceleration in consumer spending, and by an upturn in business investment in equipment. In addition, small upturns in residential investment and in government spending also contributed to the step-up in GDP. In contrast, exports and business investment in structures increased less in the first quarter than in the fourth, and imports increased more.

**Table 1.—Revisions to Real Gross Domestic Product and Prices, First Quarter 1997**

[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
<b>Gross domestic product</b> .....	<b>5.8</b>	<b>5.9</b>	<b>0.1</b>	<b>2.3</b>
<i>Less:</i> Exports of goods and services .....	11.2	10.8	-.4	-7
Goods .....	12.8	14.4	1.6	2.3
Services .....	6.6	1.2	-5.4	-2.9
<i>Plus:</i> Imports of goods and services .....	23.2	19.9	-3.3	-6.9
Goods .....	24.9	19.1	-5.8	-10.4
Services .....	14.4	24.7	10.3	3.3
<b>Equals: Gross domestic purchases</b> .....	<b>7.3</b>	<b>7.1</b>	<b>-.2</b>	<b>-3.6</b>
Personal consumption expenditures .....	5.7	5.6	-.1	-7
Durable goods .....	19.3	18.8	-.5	-7
Nondurable goods .....	4.9	4.6	-.3	-1.1
Services .....	3.3	3.4	.1	1.0
Fixed investment .....	10.0	9.8	-.2	-3
Nonresidential .....	11.5	11.0	-.5	-8
Structures .....	6.5	6.6	.1	.1
Producers' durable equipment .....	13.4	12.7	-.7	-9
Residential .....	6.0	6.7	.7	5
Change in business inventories .....	.....	.....	.....	-2.8
Nonfarm .....	.....	.....	.....	-2.8
Farm .....	.....	.....	.....	.1
Government consumption expenditures and gross investment .....	.1	.1	0	.2
Federal .....	-3.1	-3.2	-.1	-1
National defense .....	-10.0	-10.1	-.1	-1
Nondefense .....	11.7	11.3	-.4	-2
State and local .....	2.0	2.1	.1	.4
<b>Addenda:</b>				
Final sales of domestic product .....	3.8	4.1	.3	5.0
Gross domestic purchases price index (chain-type weights) <sup>1</sup> .....	2.2	2.2	0	.....
GDP price index (chain-type weights) <sup>1</sup> .....	2.8	2.7	-.1	.....

1. Based on chained (1992) weights.

NOTE.—The final estimates for the first quarter of 1997 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 March.

*Nonresidential fixed investment:* Revised construction put in place for February and March and revised manufacturers' shipments of machinery and equipment for March.

*Residential fixed investment:* Revised construction put in place for February and March.

*Change in business inventories:* Revised manufacturing and trade inventories for February and March.

*Exports and imports of goods and services:* Revised exports and imports for October 1996 through March; revised balance of payments data on exports and imports of services for the first quarter; and revised seasonal factors.

*Government consumption expenditures and gross investment:* Revised State and local construction put in place for February and March and revised State and local government employment for January, February, and March.

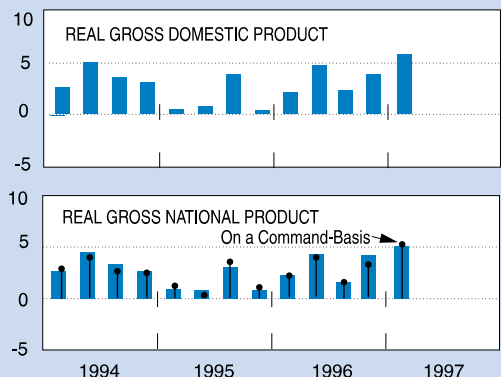
*Wages and salaries:* Revised employment, average hourly earnings, and average weekly hours for October 1996 through March and revised seasonal factors.

*GDP prices:* Revised values and quantities of petroleum imports for March and revised prices of single-family homes under construction for the first quarter.

**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

Revisions to the components of GDP were small. A downward revision to imports, which are subtracted from final expenditures in the calculation of GDP, more than offset a downward revision to the change in business inventories. The revision to imports was to goods and primarily reflected the incorporation of the annual revisions of Census Bureau and BEA data for U.S. international trade in goods and services, and the revision to the change in business inventories primarily reflected the incorporation of revised Census Bureau data for manufacturing and trade inventories for March.<sup>2</sup>

Real final sales of domestic product increased 4.1 percent in the first quarter, 0.3 percentage point more than the preliminary estimate. Real gross domestic purchases increased 7.1 percent, 0.2 percentage point less than the preliminary estimate.

The price index for gross domestic purchases increased 2.2 percent, the same as the preliminary estimate, and the price index for GDP increased 2.7 percent, 0.1 percentage point less than the preliminary estimate.

Real disposable personal income increased 4.0 percent, 0.2 percentage point less than the pre-

2. For additional information on the annual revisions to the U.S. international trade in goods and services estimates, see "U.S. International Transactions, Revised Estimates for 1974-96" in this issue.

**Table 2.—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	1996	1997	1996	1997
	I	IV	I	IV	I
<b>Gross domestic product</b> .....	<b>7,094.4</b>	<b>65.2</b>	<b>101.1</b>	<b>3.8</b>	<b>5.9</b>
<i>Plus:</i> Receipts of factor income from the rest of the world .....	219.7	14.0	-1.3	30.0	-2.4
<i>Less:</i> Payments of factor income to the rest of the world .....	243.2	7.6	14.2	14.5	27.3
<b>Equals: Gross national product</b> .....	<b>7,070.4</b>	<b>71.7</b>	<b>85.4</b>	<b>4.2</b>	<b>5.0</b>
<i>Less:</i> Exports of goods and services and receipts of factor income from the rest of the world .....	1,105.8	61.0	20.8	26.0	7.9
<i>Plus:</i> Command-basis exports of goods and services and receipts of factor income .....	1,126.8	53.1	30.6	22.0	11.6
<b>Equals: Command-basis gross national product</b> .....	<b>7,091.4</b>	<b>63.7</b>	<b>95.2</b>	<b>3.7</b>	<b>5.6</b>
<b>Addendum:</b>					
Terms of trade <sup>1</sup> .....	101.9	-9	.9	-3.5	3.6

1. 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 found in NIPA tables 1.10 and 1.11.

liminary estimate. The personal saving rate was 4.7 percent, 0.1 percentage point less than the preliminary estimate.

**Gross national product (GNP).**—Real GNP increased 5.0 percent in the first quarter, 0.9 percentage point less than the increase in real GDP (chart 1 and table 2).<sup>3</sup> Receipts of factor income from the rest of the world decreased, and payments of factor income increased sharply; corporate profits more than accounted for the decrease in receipts, and interest income accounted for a little more of the increase in payments than did profits.

Real GNP on a command basis increased more than real GNP in the first quarter—5.6 percent, compared with 5.0 percent—reflecting an improvement in the terms of trade.<sup>4</sup> In the fourth quarter, command-basis GNP increased less than real GNP—3.7 percent, compared with 4.2 percent—reflecting a deterioration in the terms of trade.

## Corporate Profits

Profits from current production jumped \$42.4 billion in the first quarter after decreasing \$7.2 billion in the fourth (table 3).<sup>5</sup>

Profits of domestic industries increased \$52.5 billion after decreasing \$20.5 billion. Profits of both financial and nonfinancial corporations rebounded strongly. For nonfinancial corporations, the first-quarter increase in profits reflected increases in both real output and in unit profits. Profits from the rest of the world decreased

3. GNP—goods and services produced by labor and property supplied by U.S. residents—equals GDP plus receipts of factor income from the rest of the world less payments of factor income to the rest of the world.

4. In the estimation of command-basis GNP—a measure of the goods and services produced by the U.S. economy in terms of their purchasing power—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 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 implicit price deflator for the sum of exports of goods and services and of receipts of factor income; in the denominator, the implicit price deflator 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, adjustment lags, 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.

5. 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 as "corporate profits with inventory valuation and capital consumption adjustments."

\$10.2 billion after increasing \$13.3 billion; receipts turned down, and payments picked up.<sup>6</sup>

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$24.9 billion

6. 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.

**Table 3.—Corporate Profits**  
[Seasonally adjusted at annual rates]


	Level	Change from preceding quarter	
		1996	1997
	1997:1	IV	I
Billions of dollars			
<b>Profits from current production</b> .....	<b>712.5</b>	<b>-7.2</b>	<b>42.4</b>
Domestic industries .....	632.7	-20.5	52.5
Financial .....	123.7	-14.4	28.0
Nonfinancial .....	509.0	-6.1	24.5
Rest of the world .....	79.7	13.3	-10.2
Receipts (inflows) .....	134.3	14.1	-2.7
Payments (outflows) .....	54.5	.8	7.4
IVA .....	-4	-11.2	8.8
CCAadj .....	44.4	2.5	2.2
Profits before tax .....	668.5	1.5	31.4
Profits tax liability .....	246.2	-4.5	17.3
Profits after tax .....	422.3	6.0	14.1
Cash flow from current production .....	683.5	-1.1	24.9
<b>Profits by industry:</b>			
Corporate profits with IVA .....	668.0	-9.7	40.1
Domestic industries .....	588.3	-23.0	50.3
Financial .....	149.9	-13.7	28.6
Nonfinancial .....	438.4	-9.4	21.7
Manufacturing .....	168.1	-1.2	-1.3
Transportation and public utilities .....	102.2	-9.3	9.0
Wholesale trade .....	44.8	7.0	3.3
Retail trade .....	45.7	-7.8	9.0
Other .....	77.6	2.0	1.7
Rest of the world .....	79.7	13.3	-10.2
Dollars			
<b>Unit price, costs, and profits of nonfinancial corporations:</b>			
Unit price .....	1.069	0	0.003
Unit labor cost .....	.709	.002	.001
Unit nonlabor cost .....	.234	0	0
Unit profits from current production .....	.127	-.003	.004

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  
CCAadj Capital consumption adjustment

after decreasing \$1.1 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, increased to 82.3 percent from 80.9 percent. These levels are near the low end of the range in which the ratio has fluctuated during most of this decade, but they are substantially higher than its average level, 73.5 percent, in the 1980's.

**Industry profits.**—Industry profits increased \$40.1 billion after decreasing \$9.7 billion.<sup>7</sup> For domestic financial corporations, a sharp first-quarter increase followed a fourth-quarter decrease that had reflected a special assessment on thrift institutions to recapitalize the Savings Association Insurance Fund. For domestic nonfinancial corporations, an upturn in profits reflected upturns in the transportation and public utilities group and in retail trade; in contrast, profits in manufacturing and in "other" nonfinancial corporations posted relatively small changes, as they had in the fourth quarter, and profits in wholesale trade increased less than in the fourth quarter.

**Related measures.**—Profits before tax (PBT) increased \$31.4 billion after increasing \$1.5 billion. The difference between the \$29.9 billion step-up in PBT and the \$49.6 billion upturn in profits from current production was accounted for by inventory profits, which decreased after increasing.<sup>8</sup>

*A box on the upcoming annual revision of the NIPA's follows.* 

7. Industry profits, which are estimated as the sum of corporate profits before tax and the inventory valuation adjustment, are shown in NIPA table 6.16C. 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.

8. In periods of changing prices, 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, results from an increase in inventory prices, and inventory losses, a capital-loss-like element in profits, results from a decrease in inventory prices. Inventory profits or losses are recorded in the national income and product accounts as the inventory valuation adjustment with the sign reversed.

### Annual Revision of the NIPA's

On July 31, 1997, BEA will release summary results from an annual revision of the national income and product accounts (NIPA's). This year's revision, which covers the estimates beginning with the first quarter of 1993, consists of the usual incorporation of better source data and improved methodology, including an improvement in the calculation of real output and prices for recent periods (see below).

#### ***Publication of the revised NIPA estimates***

The August SURVEY OF CURRENT BUSINESS will feature an article that presents the revised NIPA estimates and discusses the major sources of the revisions. The issue will contain the summary accounts of the NIPA's for 1996; the summary historical NIPA tables; a complete list of the NIPA tables; and most of the full set of NIPA tables. Tables 7.5, 7.7, 7.8, 7.12, and 7.13 (detailed components of the annual estimates of personal consumption expenditures, private purchases of structures and producers' durable equipment, national defense spending, and government investment), which currently show only price indexes, will be expanded to include quantity indexes and reorganized into separate panels for the quantity indexes and the price indexes. Tables 7.4, 7.6, 7.9, 7.10, 7.11B, and 7.14 (quarterly quantity and price indexes for the major components of gross domestic product) will also be reorganized into this easier-to-use format. In addition, the following quantity-index tables will be added: 7.17 (GDP by type of product), 7.18 (auto output), 7.19 (truck output), and 7.20 (gross and net investment).

The September SURVEY will include an article that describes the major methodologies and source data used to prepare the NIPA estimates and that features the two tables that summarize the methodology for preparing the estimates of GDP (these tables were last presented beginning on page 84 of the August 1996 SURVEY). The September SURVEY will also contain the new and revised

estimates of fixed reproducible tangible wealth in the United States (tables 1-15) that are consistent with the revised NIPA estimates.

The October SURVEY will contain the NIPA tables that were not published in the August issue—the government expenditures by type and function tables and the government reconciliation tables (3.15-3.20) and the seasonally unadjusted tables (9.1-9.6).

In the November SURVEY, revised estimates of gross product originating by industry for 1993-96 will be presented.

The estimates associated with the annual revision will be made available from STAT-USA on the Economic Bulletin Board and on their Internet site (<http://www.stat-usa.gov>). (For more information, call STAT-USA at (202) 482-1986.) Selected estimates will also be posted on the BEA Internet site (<http://www.bea.doc.gov>). In addition, the published estimates will be available on computer diskettes; to order, write to the Bureau of Economic Analysis, BEA Order Desk (BE-53), Washington, DC 20230 or call 1-800-704-0415.

#### ***Improved estimates of real output and prices***

As indicated in the May 1997 SURVEY, this year's annual revision will introduce an improvement in the calculation of real output and prices for recent periods when prices and quantities for the 2 adjacent years are not yet available. BEA's current procedure would have used the prices and quantities from the most recently completed year (1996) as fixed weights in the calculation of the estimates beginning with the third quarter of 1996; instead, BEA will introduce a new procedure that uses the prices and quantities from the two adjacent quarters as weights to calculate Fisher chain-type measures for these estimates.