

Business Situation

Final Estimates for the Second Quarter of 2004

ACCORDING to the “final” estimates of the national income and product accounts (NIPAs), real gross domestic product (GDP) increased 3.3 percent in the second quarter of 2004 (table 1 and chart 1).¹ The “preliminary” estimates released in August (which were described in detail in last month’s SURVEY OF CURRENT BUSINESS) showed a 2.8-percent increase for the quarter. The upward revision to GDP mainly reflected revisions to imports, to private inventory investment, and to exports (table 2).²

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter dollar changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized. “Real” estimates are in chained (2000) dollars, and price indexes are chain-type measures.

2. In this article, “inventory investment” is shorthand for the NIPA series “change in private inventories,” “consumer spending” is shorthand for “personal consumption expenditures,” and “government spending” is shorthand for “government consumption expenditures and gross investment.”

This article was prepared by Daniel Larkins.

Table 1. Real Gross Domestic Product and Components

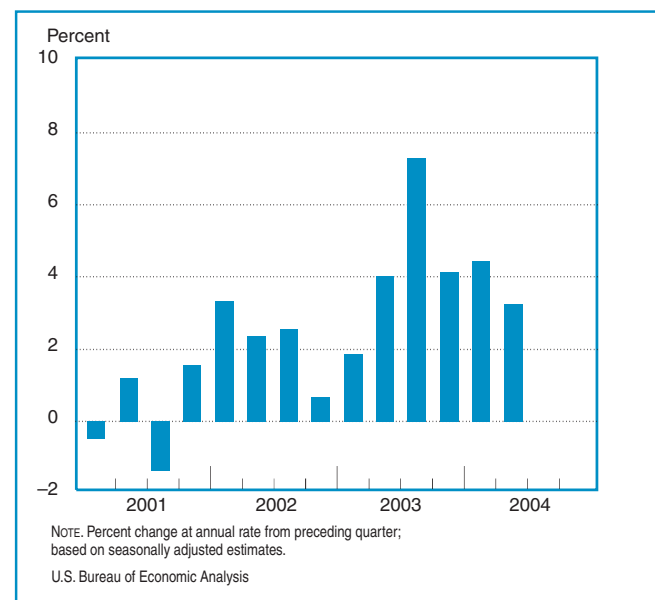
[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)				Share of current-dollar GDP (percent)
	2003		2004		2003		2004		2004
	III	IV	I	II	III	IV	I	II	II
Gross domestic product (GDP)	7.4	4.2	4.5	3.3	7.4	4.2	4.5	3.3	100.0
Personal consumption expenditures	5.0	3.6	4.1	1.6	3.58	2.50	2.90	1.10	69.9
Durable goods.....	16.5	3.9	2.2	-0.3	1.38	0.33	0.19	-0.02	8.4
Nondurable goods.....	6.9	5.1	6.7	0.1	1.38	1.01	1.33	0.03	20.2
Services.....	1.9	2.8	3.3	2.7	0.83	1.15	1.39	1.10	41.4
Gross private domestic investment	22.4	13.9	12.3	19.0	3.16	2.04	1.86	2.85	16.5
Fixed investment.....	18.0	10.5	4.5	13.9	2.59	1.57	0.69	2.07	16.0
Nonresidential.....	15.7	11.0	4.2	12.5	1.50	1.07	0.42	1.21	10.3
Structures.....	-1.3	7.9	-7.6	6.9	-0.03	0.18	-0.19	0.16	2.4
Equipment and software.....	21.7	12.0	8.0	14.2	1.53	0.89	0.61	1.05	7.9
Residential.....	22.4	9.6	5.0	16.5	1.09	0.50	0.27	0.86	5.7
Change in private inventories.....	.....	.....	.....	.....	0.57	0.47	1.17	0.78	0.5
Net exports of goods and services ..	.....	.....	.....	.....	0.64	-0.66	-0.76	-1.06	-5.1
Exports.....	11.3	17.5	7.3	7.3	1.02	1.55	0.70	0.70	10.0
Goods.....	10.1	16.1	9.1	6.0	0.64	1.00	0.60	0.41	7.0
Services.....	14.1	20.6	3.4	10.2	0.39	0.56	0.10	0.30	3.0
Imports.....	2.8	17.1	10.6	12.6	-0.39	-2.22	-1.46	-1.77	15.1
Goods.....	0.0	18.4	12.7	13.0	0.00	-1.96	-1.43	-1.52	12.6
Services.....	17.9	11.1	1.2	10.6	-0.39	-0.26	-0.03	-0.25	2.5
Government consumption expenditures and gross investment	0.1	1.6	2.5	2.2	0.03	0.31	0.48	0.41	18.7
Federal.....	-3.3	4.8	7.1	2.7	-0.23	0.33	0.48	0.18	6.9
National defense.....	-7.7	11.6	10.6	1.9	-0.36	0.50	0.47	0.09	4.6
Nondefense.....	5.8	-7.5	0.2	4.4	0.13	-0.18	0.00	0.10	2.3
State and local.....	2.2	-0.1	0.0	1.9	0.26	-0.02	0.00	0.23	11.8

NOTE: Percent changes are from NIPA table 1.1.1, and contributions to percent change are from NIPA table 1.1.2. Shares are from NIPA table 1.1.10.

- The second-quarter increase in real GDP was smaller than the increase in the first quarter, but it is above the 2.5-percent average annual rate of growth from 2001 to 2003.
 - Prices of goods and services purchased by U.S. residents increased 3.5 percent, the same as in the preliminary estimate. In the first quarter, prices had increased 3.4 percent.
 - Real disposable personal income (DPI) increased 2.4 percent, 0.1 percentage point less than in the preliminary estimate and the same as in the first quarter.
- Most major components of GDP contributed to the 3.3-percent second-quarter increase.
- Nonresidential fixed investment increased 12.5 percent, about three times as much as in the first quarter, and contributed 1.21 percentage points to GDP growth. Investment in equipment and software accelerated, and investment in structures turned up.
 - Consumer spending increased 1.6 percent, substantially less than in the first quarter, and contributed

Chart 1. Real Gross Domestic Product



1.10 percentage points to GDP growth. The slowdown from the first quarter to the second was mainly accounted for by a deceleration in purchases of nondurable goods.

- Residential investment increased 16.5 percent, about three times more than in the first quarter, and it contributed 0.86 percentage point to GDP growth. The step-up mainly reflected a step-up in brokers' commissions on house sales.

Table 2. Final and Preliminary Estimates for the Second Quarter of 2004

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter			Contribution to percent change in real GDP		
	Final estimate	Preliminary estimate	Final minus preliminary	Final estimate	Preliminary estimate	Final minus preliminary
Gross domestic product (GDP)	3.3	2.8	0.5	3.3	2.8	0.5
Personal consumption expenditures	1.6	1.6	0.0	1.10	1.11	-0.01
Durable goods.....	-0.3	0.0	-0.3	-0.02	0.00	-0.02
Nondurable goods.....	0.1	0.4	-0.3	0.03	0.09	-0.06
Services.....	2.7	2.5	0.2	1.10	1.02	0.08
Gross private domestic investment	19.0	17.3	1.7	2.85	2.60	0.25
Fixed investment.....	13.9	13.0	0.9	2.07	1.95	0.12
Nonresidential.....	12.5	12.1	0.4	1.21	1.18	0.03
Structures.....	6.9	7.1	-0.2	0.16	0.16	0.00
Equipment and software.....	14.2	13.6	0.6	1.05	1.01	0.04
Residential.....	16.5	14.7	1.8	0.86	0.77	0.09
Change in private inventories.....	.....	.....	.....	0.78	0.66	0.12
Net exports of goods and services.....	.....	.....	.....	-1.06	-1.37	0.31
Exports.....	7.3	6.1	1.2	0.70	0.60	0.10
Goods.....	6.0	5.0	1.0	0.41	0.34	0.07
Services.....	10.2	8.7	1.5	0.30	0.25	0.05
Imports.....	12.6	14.1	-1.5	-1.77	-1.96	0.19
Goods.....	13.0	13.6	-0.6	-1.52	-1.58	0.06
Services.....	10.6	16.4	-5.8	-0.25	-0.38	0.13
Government consumption expenditures and gross investment	2.2	2.4	-0.2	0.41	0.45	-0.04
Federal.....	2.7	2.7	0.0	0.18	0.19	-0.01
National defense.....	1.9	1.9	0.0	0.09	0.09	0.00
Nondefense.....	4.4	4.5	-0.1	0.10	0.10	0.00
State and local.....	1.9	2.2	-0.3	0.23	0.26	-0.03
Addenda:						
Final sales of domestic product.....	2.5	2.1	0.4	2.52	2.14	0.38
Gross domestic purchases price index.....	3.5	3.5	0.0	.....	.....	.....
GDP price index.....	3.2	3.2	0.0	.....	.....	.....

NOTE: The final estimates for the second quarter of 2004 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

Personal consumption expenditures: Retail sales for June (revised).

Nonresidential fixed investment: Construction put-in-place data for May and June (revised) and manufacturers' shipments of machinery and equipment for June (revised).

Residential fixed investment: Construction put-in-place data for May and June (revised).

Change in private inventories: Manufacturers' and trade inventories for June (revised) and data on used vehicle inventories for June (new).

Exports and imports of goods and services: International transactions data for the first and second quarters (revised).

Government consumption expenditures and gross investment: State and local construction put-in-place data for May and June (revised).

Wages and salaries: Employment, average hourly earnings, and average weekly hours for June (revised), and data on employer costs for employee compensation for the second quarter (new).

GDP prices: Export and import prices for April through June (revised), unit-value index for petroleum imports for June (revised), and prices of single-family houses under construction for the quarter (revised).

- Investment in private inventories increased (though not as much as in the first quarter) and contributed 0.78 percentage point to GDP growth.
- Exports increased 7.3 percent, the same as in the first quarter, and contributed 0.70 percentage point to GDP growth. A slowdown in exports of goods (especially nonautomotive capital goods and industrial supplies and materials) was offset by a step-up in exports of services.
- Government spending increased 2.2 percent, a little less than in the first quarter, and contributed 0.41 percentage point to GDP growth. A slowdown in spending by the Federal Government was largely offset by state and local spending, which increased in the second quarter after essentially no change in the first.

The contributions that these components made to GDP growth were partly offset by an increase in imports. (Imports are subtracted in the calculation of GDP.)

- Imports increased 12.6 percent after increasing 10.6 percent and subtracted 1.77 percentage points from second-quarter GDP growth. Step-ups and upturns in many components were partly offset by a downturn in petroleum imports.

The final estimates for the second quarter also show the following:

- Real final sales of domestic product (GDP less the change in private inventories) increased 2.5 percent after increasing 3.3 percent.
- Real gross domestic purchases increased 4.2 percent after increasing 5.0 percent.
- Real gross national product (GNP) increased 1.9 percent.³ The smaller second-quarter increase in GNP than in GDP reflected a much smaller increase in income receipts from the rest of the world than in income payments to the rest of the world.
- Motor vehicle output turned down. Excluding motor vehicles, real GDP increased 4.0 percent after increasing 4.3 percent.

3. GNP is a measure of the goods and services produced by labor and property supplied by U.S. residents regardless of where they are located; in contrast, GDP is a measure of the goods and services produced by labor and property in the United States, regardless of nationality. The two measures are related as follows: GNP equals GDP *plus* income receipts from the rest of the world *minus* income payments to the rest of the world.

Corporate Profits

Profits from current production increased \$8.3 billion (0.7 percent at a quarterly rate) in the second quarter of 2004 after increasing \$36.5 billion (3.2 percent) in the first quarter (table 3).⁴ The slowdown mainly reflected a downturn in profits of domestic financial corporations; in addition, profits from the rest of the world decreased more than in the first quarter. In contrast, profits of domestic nonfinancial corpora-

4. 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 as "corporate profits with inventory valuation and capital consumption adjustments" in NIPA tables 1.7.5, 1.10-1.12, 1.14-1.16, and 6.16D. Percent changes in profits are shown at quarterly, not annual, rates.

Table 3. Corporate Profits

[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change from preceding quarter (quarterly rate)			
	Level	Change from preceding quarter							
		2004	2003		2004		2003		2004
	II	III	IV	I	II	III	IV	I	II
Current production measures:									
Corporate profits	1,173.9	70.9	72.0	36.5	8.3	7.2	6.8	3.2	0.7
Domestic industries	988.6	58.8	29.6	47.0	28.3	7.1	3.3	5.1	2.9
Financial	347.8	12.6	-0.5	19.8	-7.9	3.9	-0.1	5.9	-2.2
Nonfinancial	640.8	46.2	30.0	27.3	36.2	9.2	5.5	4.7	6.0
Rest of the world	185.3	12.0	42.4	-10.5	-20.0	7.5	24.4	-4.9	-9.7
Receipts from the rest of the world	305.6	22.6	40.3	5.6	6.6	9.8	15.9	1.9	2.2
Less: Payments to the rest of the world	120.3	10.6	-2.2	16.2	26.6	15.2	-2.7	20.8	28.4
Less: Taxes on corporate income	271.2	14.1	13.6	4.2	14.7	6.3	5.7	1.6	5.7
Equals: Profits after tax	902.7	56.7	58.4	32.3	-6.4	7.4	7.1	3.7	-0.7
Net dividends	413.2	-0.6	2.3	7.0	9.8	-0.1	0.6	1.8	2.4
Undistributed profits from current production	489.5	57.2	56.2	25.3	-16.2	15.6	13.2	5.3	-3.2
Net cash flow	1,273.4	64.0	63.2	5.9	-5.7	5.6	5.2	0.5	-0.4
Industry profits:									
Profits with IVA	940.6	53.7	64.7	-16.5	15.2	6.5	7.4	-1.8	1.6
Domestic industries	755.2	41.6	22.3	-6.1	35.2	6.3	3.2	-0.8	4.9
Financial	306.4	10.7	-0.8	8.4	-7.3	3.6	-0.3	2.7	-2.3
Nonfinancial	448.8	30.8	23.1	-14.3	42.4	8.4	5.8	-3.4	10.4
Utilities	21.5	3.3	5.7	-1.1	-1.7	21.7	30.6	-4.8	-7.1
Manufacturing	94.8	12.7	26.6	-11.9	13.3	23.3	40.0	-12.8	16.4
Wholesale trade	52.2	8.0	-3.0	-4.1	6.2	17.6	-5.6	-8.3	13.7
Retail trade	73.1	-3.7	-4.2	5.3	-6.9	-4.6	-5.3	7.2	-8.6
Transportation and warehousing	15.5	-0.5	0.5	-0.7	3.8	-3.7	4.1	-6.1	33.0
Information	16.5	8.5	-7.7	-5.6	23.1	.....	.....	.....	.....
Other nonfinancial	175.1	2.6	5.1	3.9	4.4	1.6	3.1	2.3	2.6
Rest of the world	185.3	12.0	42.4	-10.5	-20.0	7.5	24.4	-4.9	-9.7
Addenda:									
Profits before tax (without IVA and CCAdj)	988.3	56.5	85.2	-3.8	25.9	6.8	9.7	-0.4	2.7
Profits after tax (without IVA and CCAdj)	717.1	42.3	71.6	-8.0	11.2	7.1	11.2	-1.1	1.6
IVA	-47.8	-2.8	-20.5	-12.7	-10.8	.....	.....	.....	.....
CCAdj	233.3	17.2	7.3	53.0	-6.9	10.6	4.1	28.3	-2.9

NOTE: Levels of these and other profits series are shown in NIPA tables 1.12, 1.14, 1.15, and 6.16D.
IVA Inventory valuation adjustment
CCAdj Capital consumption adjustment

tions increased more than in the first quarter.⁵

Profits of domestic financial corporations decreased \$7.9 billion (2.2 percent).

A \$20.0 billion second-quarter decrease in rest-of-the-world profits reflected a larger increase in payments by domestic affiliates to foreign parents than in receipts from foreign affiliates of domestic parents.

Profits of domestic nonfinancial corporations increased \$36.2 billion (6.0 percent). The increase was mainly accounted for by an increase in profits per unit, as unit prices increased more than unit costs.

Taxes on corporate income increased \$14.7 billion in the second quarter. After-tax profits from current production decreased \$6.4 billion (0.7 percent).

Net cash flow from current production, a profits-related measure of internally generated funds available for investment, decreased \$5.7 billion.⁶ The ratio of cash flow to nonresidential fixed investment, an indicator of the extent to which the current level of investment could be financed by internally generated funds, decreased from 110.4 to 106.3; the ratio has been above 100 for seven consecutive quarters.

Revisions. The revised second-quarter estimate of profits from current production is \$6.7 billion higher than the preliminary estimate released a month ago. Profits of domestic nonfinancial corporations were revised up \$7.5 billion, and profits from the rest of the world were revised up \$3.5 billion. These upward revisions were partly offset by a downward revision of \$4.3 billion to the profits of domestic financial corporations.

Industry profits. The current-production measure of profits is not available at the detailed industry level, because estimates of the capital consumption adjustment (CCAdj) are not available at this level (CCAdj is only available for total financial industries and for total nonfinancial industries). Consequently, industry

5. Profits from the rest of the world is the difference between (1) receipts by U.S. residents of earnings from foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations and (2) payments by U.S. affiliates of earnings to 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.

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

profits are best measured by profits with inventory valuation adjustment (IVA).

In the second quarter, domestic industry profits with IVA increased \$35.2 billion. For domestic nonfinancial corporations, profits with IVA increased \$42.4 billion. More than half of the increase was accounted for by the information industry (chart 2). Manufacturing profits also increased, partly reflecting smaller

losses that were posted by manufacturers of electrical equipment and appliances. Among the major categories of nonfinancial corporations, retail trade registered the largest decline in profits.

For domestic financial industries, profits with IVA decreased \$7.3 billion. The decrease was more than accounted for by corporations that provide security and commodity investment services.

Chart 2. Corporate Profits with Inventory Valuation Adjustment: Change from 2004:I to 2004:II

