

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

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**R**EAL GROSS domestic product (GDP) increased 3.3 percent in the third quarter of 1997, according to the "preliminary" estimates of the national income and product accounts (NIPA's) (table 1 and chart 1); the "advance" estimate of real GDP, reported in the November "Business Situation," had shown a 3.5-percent increase.<sup>1</sup> The small downward revision was accounted for by downward revisions to exports of goods, to nonresidential structures, and to nonfarm business inventory investment. (The sources of these revisions are discussed in the "Revisions" section.)

The picture of the economy presented by the preliminary estimates is little changed from that presented by the advance estimates. Real GDP grew at the same pace in both the second and third quarters. Consumer spending and business fixed investment were the major contributors to

the third-quarter increase in GDP.<sup>2</sup> Government spending and residential investment increased modestly, and the change in business inventories

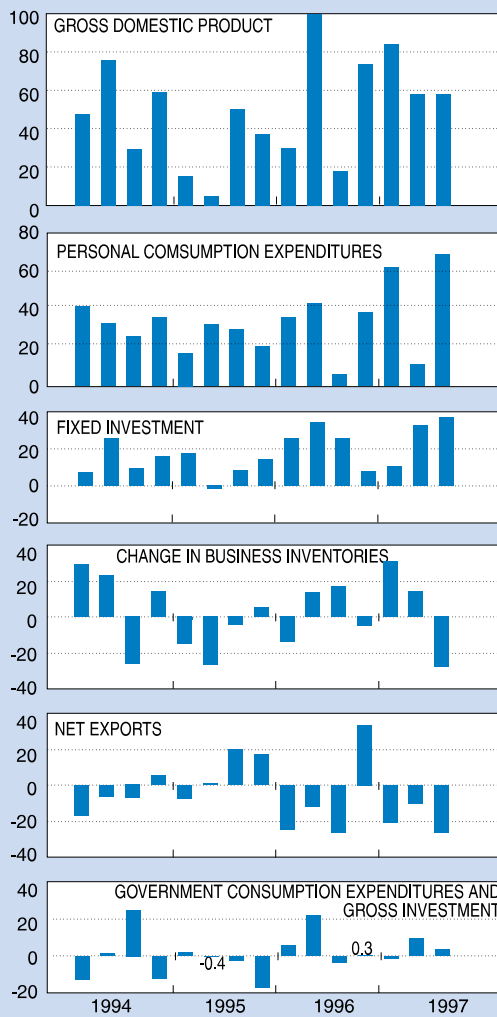
1. Quarterly estimates in the NIPA's are expressed at seasonally adjusted annual rates unless otherwise specified. Quarter-to-quarter dollar changes are differences between published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded index numbers. Real estimates are expressed in chained (1992) dollars. Price indexes are chain-type measures.

2. NIPA table 8.2 (on page D-25 in this issue) shows the contributions of the major components to the quarter-to-quarter percent change in real GDP.

CHART 1

### Real Product: Change from Preceding Quarter

Billion chained (1992) \$



Based on Seasonally Adjusted Annual Rates

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

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				1996		1997	
		1997	1996	1997		IV	I	II	III
	III	IV	I	II	III				
<b>Gross domestic product</b> .....	<b>7,217.6</b>	<b>73.6</b>	<b>84.2</b>	<b>58.0</b>	<b>58.0</b>	<b>4.3</b>	<b>4.9</b>	<b>3.3</b>	<b>3.3</b>
Less: Exports of goods and services .....	972.7	49.7	21.6	39.8	10.2	25.5	9.9	18.4	4.3
Plus: Imports of goods and services .....	1,135.7	16.4	42.3	50.2	36.6	6.8	17.9	20.5	14.0
<b>Equals: Gross domestic purchases</b> .....	<b>7,367.2</b>	<b>43.1</b>	<b>102.5</b>	<b>66.0</b>	<b>80.3</b>	<b>2.5</b>	<b>5.9</b>	<b>3.7</b>	<b>4.5</b>
Less: Change in business inventories .....	49.5	-5.0	30.8	13.9	-28.1	.....	.....	.....	.....
<b>Equals: Final sales to domestic purchasers</b>	<b>7,311.7</b>	<b>46.3</b>	<b>70.4</b>	<b>51.6</b>	<b>107.0</b>	<b>2.7</b>	<b>4.0</b>	<b>2.9</b>	<b>6.1</b>
Personal consumption expenditures .....	4,897.9	38.2	61.7	11.3	68.5	3.3	5.3	.9	5.8
Nonresidential fixed investment .....	872.5	11.5	8.1	28.1	35.5	5.9	4.1	14.6	18.1
Residential investment .....	280.8	-3.0	2.2	4.9	2.6	-4.3	3.3	7.4	3.7
Government consumption expenditures and gross investment .....	1,273.6	.3	-1.3	9.6	3.5	.1	-4	3.1	1.1
Federal .....	458.9	-6.1	-6.8	7.3	-1.2	-5.2	-5.8	6.6	-1.0
State and local .....	814.7	6.4	5.4	2.4	4.6	3.3	2.7	1.2	2.3
<b>Addendum: Final sales of domestic product</b>	<b>7,162.1</b>	<b>76.7</b>	<b>52.4</b>	<b>43.6</b>	<b>84.4</b>	<b>4.5</b>	<b>3.0</b>	<b>2.5</b>	<b>4.9</b>

NOTE.—Chained (1992) dollar series are calculated as the product of the chain-type quantity index and the 1992 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1992) dollar levels and residuals, which measure the extent of nonadditivity in each table, are found in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are found in NIPA table 8.1.

and net exports of goods and services decreased substantially.

Real final sales of domestic product—GDP less the change in business inventories—increased 4.9 percent in the third quarter after increasing 2.5 percent in the second.

Real gross domestic purchases—GDP less exports of goods and services plus imports of goods and services—increased 4.5 percent in the third quarter after increasing 3.7 percent in the second.<sup>3</sup> Consumer spending more than accounted for the step-up.

The price index for gross domestic purchases increased 1.3 percent in the third quarter after increasing 0.8 percent in the second. The acceleration was mainly accounted for by a step-up in food prices and an upturn in energy prices; the price index for gross domestic purchases less food and energy decelerated to a 1.1-percent increase from a 1.6-percent increase. The price index for GDP increased 1.5 percent after increasing 1.8 percent. The primary reason that gross domestic purchases prices accelerated while GDP prices decelerated is that prices of imports, which are included in gross domestic purchases but not in GDP, decreased less in the third quarter than in the second.

### Personal consumption expenditures

Real personal consumption expenditures (PCE) increased 5.8 percent in the third quarter after

3. Gross domestic purchases is a measure of purchases by U.S. residents regardless of where the purchased goods and services are produced.

increasing 0.9 percent in the second (table 2). The step-up was primarily accounted for by upturns in expenditures for both durable goods and nondurable goods; expenditures for services increased slightly more than in the second quarter.

Two of the factors usually considered in analyses of PCE showed strength in the third quarter (chart 2). The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) jumped to a record level, and the unemployment rate remained at 4.9 percent, the lowest level in 24 years. In contrast, real disposable personal income decelerated somewhat to a 2.7-percent increase in the third quarter from a 3.1-percent increase in the second.

Expenditures for durable goods jumped 18.2 percent after decreasing 5.4 percent. All major components contributed to the upturn, but motor vehicles and parts accounted for more than two-thirds of it. The sharp upturn in expenditures for motor vehicles and parts was accounted for by new cars and trucks. Expenditures for furniture and household equipment increased more than in the second quarter; the step-up primarily reflected an upturn in "other durable house furnishings" (which includes clocks, lamps, and floor coverings) and an acceleration in consumer electronics. "Other" durable goods (which includes jewelry, books, sporting goods, pleasure boats, and pleasure aircraft) turned up.

Expenditures for nondurable goods increased 4.4 percent after decreasing 2.1 percent. Upturns

Table 2.—Real Personal Consumption Expenditures

[Seasonally adjusted at annual rates]

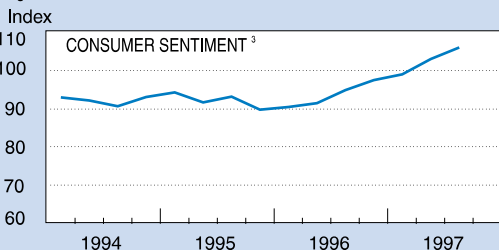
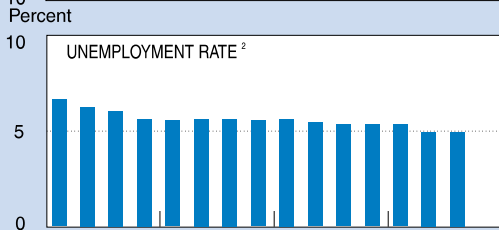
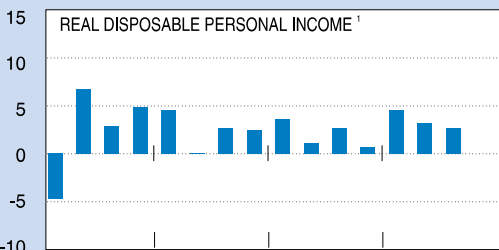
	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1996		1997	
	1997	1996	1997			1996	1997		
	III	IV	I	II	III	IV	I	II	III
<b>Personal consumption expenditures</b> .....	<b>4,897.9</b>	<b>38.2</b>	<b>61.7</b>	<b>11.3</b>	<b>68.5</b>	<b>3.3</b>	<b>5.3</b>	<b>0.9</b>	<b>5.8</b>
Durable goods .....	655.9	5.2	20.7	-8.8	26.9	3.5	14.1	-5.4	18.2
Motor vehicles and parts .....	238.0	-1.7	5.4	-10.3	14.9	-3.1	9.9	-16.6	29.6
Of which: New autos .....	82.3	.3	2.6	-5.9	8.6	1.7	13.8	-26.6	55.7
New trucks .....	57.7	1.2	-8	-2.7	5.8	9.1	-5.6	-18.1	52.9
Furniture and household equipment .....	301.5	4.5	10.6	4.9	9.2	6.8	16.1	7.0	13.3
Other .....	121.8	3.1	5.1	-1.7	2.1	11.3	18.6	-5.3	7.3
Nondurable goods .....	1,465.9	7.3	16.6	-7.8	15.9	2.1	4.7	-2.1	4.4
Food .....	689.6	1.7	5.6	-6.4	1.4	1.0	3.3	-3.6	.8
Clothing and shoes .....	281.5	-8	7.1	-3.3	7.7	-1.2	10.9	-4.7	11.7
Gasoline and oil .....	116.6	.7	-1	1.4	.5	2.6	-5	5.3	1.6
Fuel oil and coal .....	10.4	-3	-9	.7	.3	-8.4	-31.3	32.5	13.2
Other .....	369.9	5.8	5.4	-3	6.5	6.7	6.2	-3	7.4
Services .....	2,777.5	25.4	25.7	25.9	27.7	3.9	3.9	3.9	4.1
Housing .....	715.6	3.1	3.5	3.7	3.6	1.8	2.0	2.1	2.0
Household operation .....	296.0	5.9	-3.7	6.2	1.8	8.5	-5.0	8.9	2.6
Electricity and gas .....	116.0	2.9	-3.9	4.0	-1.8	10.5	-12.6	14.7	-5.9
Other household operation .....	179.7	3.0	.1	2.2	3.5	7.2	.3	5.3	8.2
Transportation .....	203.8	1.6	2.3	1.6	2.9	3.3	4.8	3.3	5.9
Medical care .....	716.4	7.3	7.3	4.4	7.6	4.3	4.2	2.5	4.4
Other .....	846.1	7.6	15.9	10.2	11.6	3.8	8.1	5.1	5.7

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

CHART 2

**Selected Factors Affecting Consumer Spending**

Percent change



1. Disposable personal income in chained (1992) dollars; seasonally adjusted annual rates.  
 2. All civilian workers, seasonally adjusted.  
 Data: U.S. Department of Labor, Bureau of Labor Statistics  
 3. Data: University of Michigan's Survey Research Center.  
 U.S. Department of Commerce, Bureau of Economic Analysis

in clothing and shoes, in food, and in "other" nondurable goods (which includes tobacco, prescription drugs, cosmetics, cleaning products, and newspapers and magazines) more than offset slowdowns in gasoline and oil and in fuel oil and coal.

Expenditures for services increased 4.1 percent after increasing 3.9 percent. Accelerations in medical care, in transportation, and in "other" services more than offset a slowdown in household operation; housing services increased about the same in each quarter. The acceleration in "other" services was more than accounted for by an upturn in brokerage and investment counseling. The slowdown in household operation was more than accounted for by electricity and gas—a downturn in gas primarily reflected a decrease in the demand for heating from a high level in the second quarter that was due to cooler-than-normal spring temperatures.

**Nonresidential fixed investment**

Real private nonresidential fixed investment increased 18.1 percent in the third quarter after increasing 14.6 percent in the second (table 3). The increases in both quarters were mainly accounted for by producers' durable equipment (PDE).

Factors that affect investment spending have been generally favorable over the past four quarters. Over that four-quarter period, real final

**Table 3.—Real Gross Private Domestic Fixed Investment**

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1997			
	1997	1996	1997			1996	1997		
	III	IV	I	II	III	IV	I	II	III
<b>Gross private domestic fixed investment</b> .....	<b>1,148.2</b>	<b>7.8</b>	<b>10.3</b>	<b>32.4</b>	<b>36.8</b>	<b>3.0</b>	<b>3.9</b>	<b>12.6</b>	<b>13.9</b>
Nonresidential .....	872.5	11.5	8.1	28.1	35.5	5.9	4.1	14.6	18.1
Structures .....	195.1	6.9	-1.0	-2.4	1.6	15.3	-2.1	-4.7	3.3
Nonresidential buildings, including farm .....	148.6	6.7	1.7	-3.0	1.5	20.3	4.4	-7.6	4.1
Utilities .....	28.0	.8	-2.0	1.2	-7	12.2	-24.7	17.4	-9.2
Mining exploration, shafts, and wells .....	13.4	-3	-2	-6	.4	-9.6	-4.1	-18.3	14.8
Other .....	5.0	-3	-5	.1	.3	-19.3	-33.1	11.3	28.5
Producers' durable equipment .....	685.3	3.8	9.9	32.7	36.0	2.6	6.7	23.0	24.1
Information processing and related equipment .....	321.2	6.1	11.0	15.5	24.3	9.6	17.2	24.0	37.0
Computers and peripheral equipment .....	240.9	12.4	13.4	20.3	24.8	32.5	32.9	48.4	54.5
Other .....	131.8	-1.0	2.2	2.9	7.4	-3.2	7.6	9.8	26.3
Industrial equipment .....	125.7	-7	-1	6.7	2.2	-2.2	-3	24.8	7.3
Transportation and related equipment .....	146.5	.2	-2.2	8.5	10.5	.8	-6.8	29.5	34.9
Of which: Motor vehicles .....	120.1	.1	3.9	-2.1	5.5	-4.2	11.5	-18.8	34.3
Other .....	111.8	-3	3.6	3.0	2.7	-9	12.5	12.1	10.4
Residential .....	280.8	-3.0	2.2	4.9	2.6	-4.3	3.3	7.4	3.7
Single-family structures .....	136.6	-2.1	0	.3	.1	-5.9	0	.7	.5
Multifamily structures .....	19.4	.5	1.6	.8	-1.0	12.8	41.1	17.6	-19.1
Other .....	125.4	-1.4	.7	4.0	3.5	-4.8	2.3	14.4	11.9

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA tables 5.5, 8.5 (autos), and 8.7 (trucks). Percent changes in major aggregates are found in NIPA table 8.1.

sales of domestic product increased 3.7 percent; domestic corporate profits increased 12.2 percent; the capacity utilization rate in manufacturing increased from 82.1 at the beginning of the period to 83.1 at its end; and long-term interest rates stayed relatively low—for example, the yield on high-grade corporate bonds fluctuated in the 7.0–8.0-percent range.

PDE increased 24.1 percent in the third quarter, a little more than in the second. Information processing equipment increased sharply, largely because of another surge in computers and peripheral equipment. Transportation equipment also increased substantially; aircraft increased (though less than in the second quarter), and motor vehicles increased after a decrease. Industrial and “other” equipment (which includes agricultural and construction machinery) increased modestly.

Structures increased 3.3 percent after decreasing 4.7 percent. Investment in nonresidential buildings increased after decreasing; industrial and commercial buildings both turned up. Investment in mining exploration, shafts, and wells also increased after decreasing. In contrast, investment in utilities turned down.

**Residential investment**

Real residential investment increased 3.7 percent in the third quarter after increasing 7.4 percent in the second (table 3). The slowdown was primarily accounted for by multifamily structures,

which decreased 19.1 percent after increasing 17.6 percent.

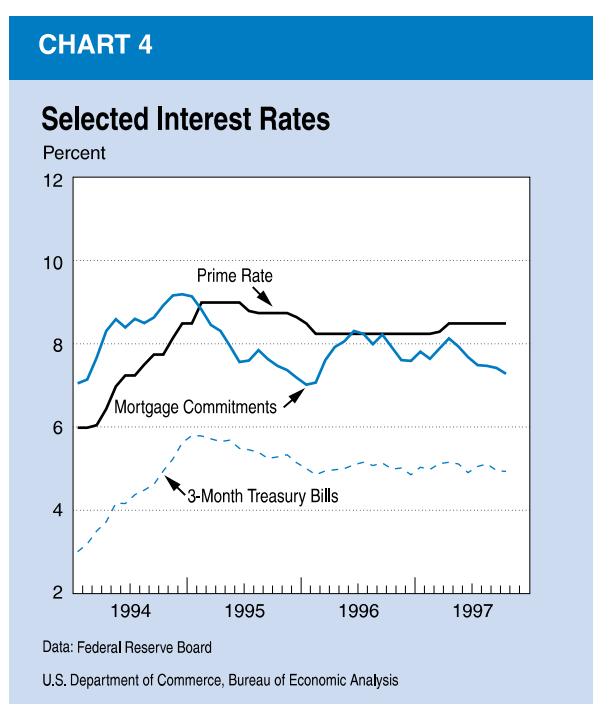
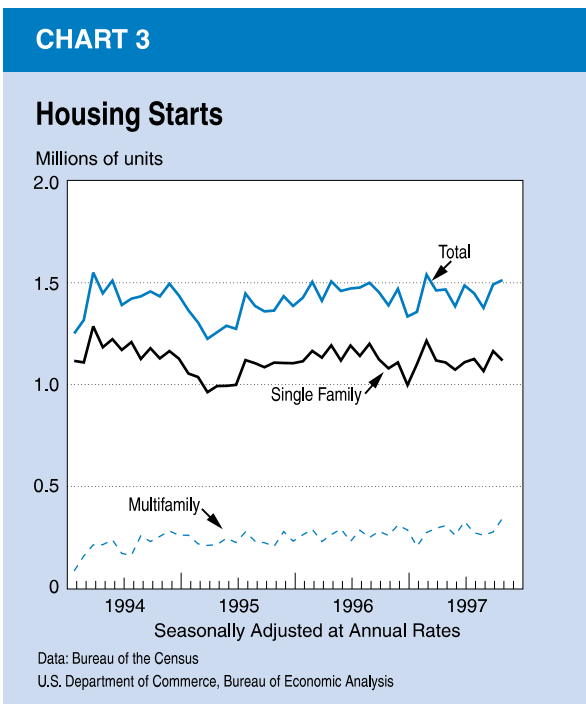
Single-family structures increased 0.5 percent after increasing 0.7 percent. New single-family housing starts have changed little over the past 6 months (chart 3).

“Other” residential investment increased 11.9 percent after increasing 14.4 percent.<sup>4</sup> Slowdowns in both home improvements and mobile homes more than offset an acceleration in brokers’ commissions. The acceleration in brokers’ commissions reflected a step-up in the increase in home sales. The third-quarter increase in home sales of 198,000 units (at a seasonally adjusted annual rate) was the largest increase since the second quarter of 1996 and consisted of a 167,000-unit increase in sales of existing residences and a 31,000-unit increase in sales of new residences. The increase in home sales may have partly reflected a drop in the commitment rate on 30-year fixed-rate mortgages from 7.92 percent to 7.47 percent (chart 4).

**Inventory investment**

Real inventory investment—that is, the change in business inventories—decreased \$28.1 billion in the third quarter, as inventory accumulation slowed to \$49.5 billion from \$77.6 billion

4. “Other” residential investment includes home improvements, new mobile home sales, brokers’ commissions on home sales, residential equipment, and other residential structures (which consists primarily of dormitories, fraternity and sorority houses, and nurses’ homes).



(table 4). In contrast, inventory investment had increased \$13.9 billion in the second quarter, as accumulation had stepped up from \$63.7 billion in the first quarter.

Nonfarm inventories increased \$40.6 billion after increasing \$70.1 billion. The slowdown was accounted for by widespread decelerations in inventory accumulation.

In manufacturing, inventories in both the durable and nondurable goods industries increased less in the third quarter than in the second. In the durable goods industries, the slowdown was primarily accounted for by decelerations in transportation equipment other than motor vehicles and in industrial machinery. In the nondurable goods industries, the slowdown was primarily accounted for by a downturn in petroleum products and a deceleration in chemical products.

In wholesale trade, a slowdown in the accumulation of inventories in the durable goods industries more than offset an acceleration in inventory accumulation in nondurable goods industries. In the durable goods industries, the slowdown was mostly accounted for by downturns in machinery equipment and in hardware and plumbing equipment and by a deceleration in professional and commercial equipment.

In retail trade, inventories in both the durable goods and nondurable goods industries increased less than in the second quarter. In the durable goods industries, the slowdown was more than accounted for by inventories other than those held by motor vehicle dealers; inventories of motor vehicle dealers decreased for the fourth consecutive quarter, but the third-quarter decrease was smaller than the second-quarter decrease.

In "other" nonfarm inventories, the slowdown was more than accounted for by inventories in the nondurable goods industries.<sup>5</sup>

Farm inventories increased \$9.2 billion after increasing \$7.5 billion. Inventories of crops increased more than in the second quarter, and inventories of livestock decreased less.

The ratio of real nonfarm inventories to all real final sales of domestic businesses edged down to 2.27 in the third quarter from 2.28 in the second. A different ratio, in which final sales are limited to goods and structures, decreased to 4.10 from 4.13.

### Exports and imports

Real exports of goods and services increased 4.3 percent in the third quarter after increasing 18.4 percent in the second (table 5). Real imports of goods and services increased 14.0 percent after increasing 20.5 percent.

Real exports of goods increased 3.8 percent after increasing 25.1 percent. Agricultural exports turned up, but nonagricultural exports increased much less than in the second quarter. Most categories of nonagricultural exports contributed to the slowdown; nonautomotive capital goods—the largest component of nonagricultural exports—contributed the most, largely reflecting a downturn in exports of civilian aircraft.<sup>6</sup> Nonautomotive consumer goods also turned down, and industrial supplies and materials increased less than in the second quarter. Exports of autos and trucks changed little after

5. "Other" nonfarm inventories includes inventories held by mining; construction; public utilities; transportation; communication; finance, insurance, and real estate; and service industries.

6. Exports and imports of nonautomotive capital goods include both parts and equipment. However, parts are not included either in the producers' durable equipment component of business fixed investment or in the equipment component of government investment.

**Table 4.—Real Change in Business Inventories**

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

	Level					Change from preceding quarter			
	1996		1997			1996		1997	
	III	IV	I	II	III	IV	I	II	III
<b>Change in business inventories</b> .....	<b>37.9</b>	<b>32.9</b>	<b>63.7</b>	<b>77.6</b>	<b>49.5</b>	<b>-5.0</b>	<b>30.8</b>	<b>13.9</b>	<b>-28.1</b>
Farm .....	6.5	6.4	5.3	7.5	9.2	-1	-1.1	2.2	1.7
Nonfarm .....	31.6	26.5	58.3	70.1	40.6	-5.1	31.8	11.8	-29.5
Manufacturing .....	14.3	12.3	20.9	29.0	16.9	-2.0	8.6	8.1	-12.1
Wholesale trade .....	-5.0	9.4	22.9	24.6	14.7	14.4	13.5	1.7	-9.9
Retail trade .....	20.0	.9	.6	7.7	3.1	-19.1	-3	7.1	-4.6
Of which: Motor vehicle dealers .....	10.6	-4.7	-2.5	-3.7	-1.1	-15.3	2.2	-1.2	2.6
Other .....	2.3	3.9	13.7	8.9	5.8	1.6	9.8	-4.8	-3.1

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

a modest increase. Exports of services increased 5.7 percent after increasing 3.2 percent, as travel and passenger fares turned up.

Real imports of goods increased 14.8 percent after increasing 22.9 percent. All categories of imports except autos and trucks contributed to the slowdown. Imports of both petroleum and non-petroleum products slowed. In nonpetroleum products, nonautomotive consumer goods and nonautomotive capital goods slowed the most. Despite these slowdowns, nonpetroleum products increased 15.8 percent, its seventh consecutive double-digit increase. Imports of services increased 9.5 percent after increasing 8.9 percent.

### Government spending

Real government consumption expenditures and gross investment increased 1.1 percent in the third quarter after increasing 3.1 percent in the second

(table 6). A downturn in Federal Government spending more than offset a small acceleration in State and local government spending.

Federal defense spending increased 1.3 percent after increasing 7.5 percent. Consumption expenditures decreased slightly after increasing; the downturn was accounted for by durable goods, mainly aircraft parts. Investment increased less than in the second quarter; the slowdown was attributable to equipment.

Federal nondefense spending decreased 5.4 percent after increasing 4.9 percent. The downturn was mostly attributable to a downturn in investment in equipment. Consumption expenditures decreased slightly after increasing.

State and local government spending increased 2.3 percent after increasing 1.2 percent. Compensation of employees increased more than in the second quarter, and investment increased

**Table 5.—Real Exports and Imports of Goods and Services**

[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		
	III	IV	I	II	III	IV	I	II	III
<b>Exports of goods and services</b> .....	<b>972.7</b>	<b>49.7</b>	<b>21.6</b>	<b>39.8</b>	<b>10.2</b>	<b>25.5</b>	<b>9.9</b>	<b>18.4</b>	<b>4.3</b>
Goods .....	732.5	43.2	20.0	39.6	6.7	30.7	12.6	25.1	3.8
Agricultural goods .....	49.5	4.9	-4.0	-5	2.3	49.2	-27.6	-4.2	20.8
Nonagricultural goods .....	686.8	37.9	25.6	41.2	4.0	29.0	17.7	28.2	2.4
Services .....	244.2	7.4	2.1	1.9	3.4	13.5	3.7	3.2	5.7
<b>Imports of goods and services</b> .....	<b>1,135.7</b>	<b>16.4</b>	<b>42.3</b>	<b>50.2</b>	<b>36.6</b>	<b>6.8</b>	<b>17.9</b>	<b>20.5</b>	<b>14.0</b>
Goods .....	971.5	15.8	33.8	47.1	33.1	7.7	16.7	22.9	14.8
Petroleum and products .....	69.0	-3.5	-1.8	5.9	.9	-19.6	-10.8	44.5	4.8
Nonpetroleum products .....	902.7	20.4	37.0	40.6	32.4	11.0	20.0	21.1	15.8
Services .....	165.6	.7	8.4	3.4	3.8	2.1	24.2	8.9	9.5
<b>Addendum: Net exports of goods and services</b> .....	<b>-162.9</b>	<b>33.3</b>	<b>-20.7</b>	<b>-10.3</b>	<b>-26.3</b>	.....	.....	.....	.....

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

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

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	1997	1996	1997			1996	1997		
	III	IV	I	II	III	IV	I	II	III
<b>Government consumption expenditures and gross investment</b> .....	<b>1,273.6</b>	<b>0.3</b>	<b>-1.3</b>	<b>9.6</b>	<b>3.5</b>	<b>0.1</b>	<b>-0.4</b>	<b>3.1</b>	<b>1.1</b>
Federal .....	458.9	-6.1	-6.8	7.3	-1.2	-5.2	-5.8	6.6	-1.0
National defense .....	310.4	-5.8	-9.7	5.5	1.0	-7.1	-11.8	7.5	1.3
Consumption expenditures .....	273.6	-3.7	-4.1	3.6	-3	-5.2	-5.8	5.4	-5
Gross investment .....	36.8	-2.2	-5.7	1.9	1.4	-19.4	-46.9	25.3	16.1
Nondefense .....	148.2	-.3	2.8	1.7	-2.0	-1.0	8.0	4.9	-5.4
Consumption expenditures .....	128.0	.5	2.6	.5	-2	1.6	8.5	1.7	-7
Gross investment .....	20.1	-1.0	.2	1.4	-2.1	-16.8	4.0	29.8	-33.2
State and local .....	814.7	6.4	5.4	2.4	4.6	3.3	2.7	1.2	2.3
Consumption expenditures .....	668.6	2.1	3.3	3.2	4.3	1.3	2.0	1.9	2.6
Gross investment .....	146.2	4.4	2.1	-8	.4	13.1	6.0	-2.4	1.1

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

after decreasing, reflecting a small upturn in structures.

### Revisions

As noted earlier, the preliminary estimate of a 3.3-percent increase in real GDP in the third quarter is 0.2 percentage point lower than the advance estimate (table 7); for 1976-96, the average revision, without regard to sign, was 0.5 percentage point from the advance estimate of real GDP to the preliminary estimate. The small downward revision to GDP in the third quarter reflected downward revisions to exports of goods, to nonresidential structures, and to nonfarm business inventory investment.

The downward revision to exports of goods reflected the incorporation of revised Census Bureau data for August and newly available data for September.

The downward revision to nonresidential structures primarily reflected the incorporation of newly available Census Bureau data on the value of new construction put in place for September.

The downward revision to nonfarm business inventory investment reflects the incorporation of newly available Department of Defense data on deliveries of military aircraft for the third quarter and newly available information on the average value of cars in inventories for September.

The preliminary estimates of the increases in the price indexes for gross domestic purchases and for GDP were 1.3 percent and 1.5 percent, respectively; each was 0.1 percentage point higher than the advance estimate.

The preliminary estimate of real disposable personal income increased 2.7 percent in the third quarter, 0.2 percentage point lower than the advance estimate; current-dollar personal income was revised down. The preliminary estimate of the personal saving rate was 3.5 percent, 0.1 percentage point lower than the advance estimate.

## Corporate Profits

Profits from current production increased \$21.1 billion in the third quarter after increasing \$15.5 billion in the second (table 8).<sup>7</sup> Profits of domestic industries increased \$32.4 billion after

increasing \$12.2 billion. Profits of domestic nonfinancial corporations increased much more than in the second quarter; the third-quarter increase reflected increases both in real output and in unit profits. Profits of domestic financial corporations increased a little in both quarters. Profits from the rest of the world decreased \$11.4 billion after increasing \$3.4 billion; receipts turned down, and payments increased almost as much as in the second quarter.<sup>8</sup>

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.

**Table 7.—Revisions to Real Gross Domestic Product and Prices,  
Third Quarter 1997**

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Preliminary estimate minus advance estimate	
	Advance estimate	Preliminary estimate	Percentage points	Billions of chained (1992) dollars
<b>Gross domestic product</b> .....	<b>3.5</b>	<b>3.3</b>	<b>0.2</b>	<b>-4.2</b>
Less: Exports of goods and services .....	5.6	4.3	-1.3	-3.0
Goods .....	5.6	3.8	-1.8	-3.2
Services .....	5.5	5.7	.2	.1
Plus: Imports of goods and services .....	4.0	14.0	0	.1
Goods .....	5.4	14.8	-6	-1.2
Services .....	6.6	9.5	2.9	1.1
<b>Equals: Gross domestic purchases</b> .....	<b>4.6</b>	<b>4.5</b>	<b>-1</b>	<b>-1.6</b>
Personal consumption expenditures .....	5.7	5.8	.1	.8
Durable goods .....	6.7	18.2	1.5	2.1
Nondurable goods .....	4.7	4.4	-.3	-.9
Services .....	4.1	4.1	0	-.3
Fixed investment .....	4.1	13.9	-2	-.4
Nonresidential .....	8.7	18.1	-6	-1.2
Structures .....	0.1	3.3	-6.8	-3.1
Producers' durable equipment .....	2.1	24.1	2.0	2.7
Residential .....	2.8	3.7	.9	.6
Change in business inventories .....				-2.0
Nonfarm .....				-2.0
Farm .....				.1
Government consumption expenditures and gross investment .....	1.0	1.1	.1	.3
Federal .....	1.2	-1.0	.2	.1
National defense .....	1.1	1.3	.2	.2
Nondefense .....	5.5	-5.4	.1	.1
State and local .....	2.2	2.3	.1	.2
<b>Addenda:</b>				
Final sales of domestic product .....	5.0	4.9	-.1	-1.9
Gross domestic purchases price index <sup>1</sup> .....	1.2	1.3	.1	
GDP price index <sup>1</sup> .....	1.4	1.5	.1	

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

NOTE.—The preliminary estimates for the third quarter of 1997 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

*Personal consumption expenditures:* Revised retail sales for August and September, consumers' share of new-car purchases for September, revised average unit value for domestic new autos for July through September, consumers' share of new-truck purchases for September, hospital expenses for July, and residential electricity usage for July.

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

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

*Change in business inventories:* Manufacturing inventories for August (revised) and September, and retail trade and wholesale trade inventories for August (revised) and September; Department of Defense data on deliveries of military aircraft for the third quarter; and information on the average value of cars in inventories for September.

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

*Government consumption expenditures and gross investment:* Monthly Treasury Statement detailed data for September, Department of Defense detailed financial reports for the quarter, State and local government construction put in place for July and August (revised) and September, and State and local government employment for August and September (revised).

*Wages and salaries:* Employment, average hourly earnings, and average weekly hours for August and September (revised).

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

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" that begin on page D-2 of this issue) as "corporate profits with inventory valuation and capital consumption adjustments."

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$7.2 billion after increasing \$11.3 billion. The ratio of cash flow to nonresidential fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, decreased to 80.2 percent from 82.5 percent. The third-quarter ratio is in the lower part of the range in which the ratio has fluctuated during most of this decade.

**Industry profits.**—Industry profits increased \$20.1 billion after increasing \$13.8 billion.<sup>9</sup> For domestic financial corporations, profits increased slightly, as they had in the second quarter. For domestic nonfinancial corporations, profits increased three times as much as in the second quarter. More than half of the step-up was accounted for by manufacturing, primarily reflecting upturns in petroleum and in motor

corporations to unaffiliated foreign residents. These estimates are derived from BEA's international transactions accounts.

9. 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 (on page D-16 of this issue). Estimates of the capital consumption adjustment do not exist at a detailed industry level; they are available only for total financial and total nonfinancial industries.

**Table 8.—Corporate Profits**

[Seasonally adjusted at annual rates]

	Level		Change from preceding quarter		
	1997	1996	1997		
	III	IV	I	II	III
	Billions of dollars				
<b>Profits from current production</b> .....	<b>816.2</b>	<b>8.2</b>	<b>31.8</b>	<b>15.5</b>	<b>21.1</b>
Domestic industries .....	726.8	-7.5	41.9	12.2	32.4
Financial .....	108.9	-16.1	28.3	.9	1.2
Nonfinancial .....	617.9	8.4	13.7	11.3	31.2
Rest of the world .....	89.4	15.7	-10.1	3.4	-11.4
Receipts (inflows) .....	141.2	9.2	-2.7	8.4	-7.1
Payments (outflows) .....	51.8	-6.6	7.5	5.0	4.3
IVA .....	4.9	6.0	.2	2.4	-1.0
CCAdj .....	70.4	1.2	3.3	1.7	1.0
Profits before tax .....	740.8	.9	28.4	11.4	21.0
Profits tax liability .....	257.4	-5.6	15.2	3.3	12.9
Profits after tax .....	483.4	6.5	13.2	8.1	8.1
Cash flow from current production .....	697.4	16.8	4.3	11.3	7.2
<b>Corporate profits with IVA</b> .....	<b>745.8</b>	<b>7.0</b>	<b>28.5</b>	<b>13.8</b>	<b>20.1</b>
Domestic industries .....	656.4	-8.8	38.7	10.4	31.5
Financial .....	119.0	-15.9	28.4	1.0	1.5
Nonfinancial .....	537.4	7.1	10.2	9.4	30.0
Rest of the world .....	89.4	15.7	-10.1	3.4	-11.4
	Dollars				
<b>Unit price, costs, and profits of nonfinancial corporations:</b>					
Unit price .....	1.072	0.001	0.004	0.003	0
Unit labor cost .....	.694	.002	.004	.001	-.004
Unit nonlabor cost .....	.228	-.001	-.001	0	-.001
Unit profits from current production .....	.149	.001	.001	.001	.005

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

IVA Inventory valuation adjustment

CCAdj Capital consumption adjustment

vehicle manufacturing. Wholesale and retail trade both increased after little change, and “other” nonfinancial corporations increased after a decrease.

**Related measures.**—Profits before tax (PBT) increased \$21.0 billion after increasing \$11.4 billion. The difference between the \$9.6 billion step-up in PBT and the \$5.6 billion step-up in profits from current production was mainly accounted for by inventory profits, which increased a little after decreasing.<sup>10</sup>

## Government Sector

The combined current surplus of the Federal Government and State and local governments increased \$30.7 billion in the third quarter, to \$98.8 billion (table 9).<sup>11</sup> In the third quarter, the surplus as a share of gross national product was at its highest level in more than 18 years. The increase in the current surplus was attributable to a decrease in the Federal Government deficit and to an increase in the State and local government surplus.

### Federal

The Federal Government current deficit decreased \$24.3 billion, to \$12.5 billion, in the third quarter after decreasing \$18.7 billion in the second quarter. The third-quarter deficit was the smallest since the second quarter of 1979.

**Receipts.**—Federal receipts increased \$30.9 billion in the third quarter after increasing \$34.0 billion in the second. The deceleration resulted from decelerations in personal tax and nontax receipts and in indirect business tax and nontax accruals that were nearly offset by a step-up in corporate profits tax accruals.

Personal tax and nontax receipts increased \$13.2 billion after increasing \$21.0 billion. The deceleration was mostly accounted for by “estimated income tax payments and final settlements, less refunds,” which increased \$4.3 billion

10. 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 shown as adjustments to business income (corporate profits and proprietors' income); they are shown as the inventory valuation adjustment with the sign reversed.

11. The NIPA estimates for the government sector are derived from financial statements for the Federal Government and for State and local governments but differ from them in several respects. The major differences are shown in NIPA tables 3.18B and 3.19, which reconcile the NIPA estimates with government financial statements; these tables were published in the October 1997 SURVEY OF CURRENT BUSINESS on pages 11-13.



after increasing \$9.4 billion. In addition, estate and gift taxes decreased \$0.4 billion after increasing \$1.8 billion.

Indirect business tax and nontax accruals increased \$0.2 billion after increasing \$4.0 billion. The deceleration was attributable to air transport excise taxes, which increased \$0.3 billion after increasing \$2.7 billion; the second-quarter increase resulted from the reinstatement in March of these taxes. Customs duties increased \$0.4 billion after increasing \$1.9 billion.

Corporate profits tax accruals increased \$10.9 billion after increasing \$2.8 billion. The acceleration reflected the pattern of domestic corporate profits.

**Current expenditures.**—Current expenditures increased \$6.7 billion in the third quarter after increasing \$15.2 billion in the second. The deceleration reflected slowdowns in consumption expenditures, transfer payments (net), and grants-in-aid to State and local governments.

Consumption expenditures increased \$0.8 billion after increasing \$6.2 billion. Expenditures for national defense increased \$0.4 billion after increasing \$4.9 billion; a deceleration in services and a downturn in durable goods more than offset an upturn in nondurable goods. Within services, the deceleration was mostly accounted for by research and development and by personnel support services. The downturn in durable goods was mostly attributable to aircraft parts and other durable goods. Nondefense consumption expenditures increased \$0.4 billion after increasing \$1.2 billion. The deceleration was mostly attributable to services, which increased \$0.6 billion after increasing \$1.3 billion. Within services, compensation of employees increased \$0.1 billion after increasing \$0.8 billion, reflecting a decrease in employment.

Transfer payments (net) increased \$3.2 billion after increasing \$5.5 billion. Transfer payments to persons increased \$4.2 billion after increasing \$5.0 billion; the deceleration was more than accounted for by military pensions and social security benefits (old-age, survivors, and disability insurance). Transfer payments to the rest of the world decreased \$0.9 billion after increasing \$0.3 billion.

Grants-in-aid to State and local governments increased \$1.7 billion after increasing \$2.9 billion. The deceleration was more than accounted for by decelerations in grants for health care, medicaid, and highways that were only partly offset by accelerations in mass transit and "other grants-in-aid."

**State and local**

The State and local government current surplus increased \$6.4 billion, to \$111.3 billion, in the third quarter after increasing \$0.2 billion in the second. The acceleration was attributable to an acceleration in receipts.

Receipts increased \$19.1 billion after increasing \$9.1 billion. Accelerations in most major categories of receipts were partly offset by a deceleration in Federal grants-in-aid.

**Table 9.—Government Sector Receipts and Current Expenditures**

[Billions of dollars, seasonally adjusted at annual rates]

	Level		Change from preceding quarter				
	1997		1996		1997		
	III	III	IV	I	II	III	
<b>Government sector</b>							
Receipts .....	2615.1	19.1	52.3	47.6	40.2	48.3	
Current expenditures .....	2516.3	18.8	32.2	21.6	21.3	17.6	
Current surplus or deficit(-) .....	98.8	.3	20.1	26.0	18.9	30.7	
Social insurance funds .....	135.5	5.0	2.3	-2.1	2.1	3.5	
Other .....	-36.8	-4.7	17.8	28.1	16.8	27.2	
<b>Federal Government</b>							
Receipts .....	1740.2	14.8	43.0	33.7	34.0	30.9	
Personal tax and nontax receipts .....	781.1	6.9	21.8	29.4	21.0	13.2	
Corporate profits tax accruals .....	218.6	-5	-4.7	12.9	2.8	10.9	
Indirect business tax and nontax accruals .....	92.4	1.5	18.7	-22.0	4.0	.2	
Contributions for social insurance .....	648.1	7.0	7.2	13.3	6.2	6.6	
Current expenditures .....	1752.7	2.8	20.6	12.0	15.2	6.7	
Consumption expenditures .....	465.0	.3	-4	4.4	6.2	.8	
National defense .....	311.7	1.5	-1.7	-1.2	4.9	.4	
Nondefense .....	153.3	-1.3	1.4	5.7	1.2	.4	
Transfer payments (net) .....	794.6	4.0	15.8	8.6	5.5	3.2	
To persons .....	784.7	3.4	4.7	21.1	5.0	4.2	
To the rest of the world .....	9.9	.7	11.0	-12.4	.3	-9	
Grants-in-aid to State and local governments .....	224.2	-4.5	-1.2	2.1	2.9	1.7	
Net interest paid .....	230.9	3.1	5.2	-2.9	.9	1.1	
Subsidies less current surplus of government enterprises .....	38.0	-1	1.1	-1	-3	-1	
Subsidies .....	34.3	.1	.3	.4	.5	0	
Of which: Agricultural subsidies .....	7.5	0	.1	0	.1	0	
Less: Current surplus of government enterprises .....	-3.6	.3	-9	.4	.8	.3	
Less: Wage accruals less disbursements .....	0	0	0	0	0	0	
Current surplus or deficit (-) .....	-12.5	12.1	22.4	21.6	18.7	24.3	
Social insurance funds .....	64.1	4.9	2.4	-1.9	1.7	3.7	
Other .....	-76.6	7.2	20.1	23.5	17.0	20.6	
<b>State and local governments</b>							
Receipts .....	1099.1	-2	8.2	16.0	9.1	19.1	
Personal tax and nontax receipts .....	215.9	2.8	3.4	3.6	2.6	4.6	
Corporate profits tax accruals .....	38.8	-1	-9	2.4	.4	2.0	
Indirect business tax and nontax accruals .....	533.4	.5	5.7	6.9	2.0	9.4	
Contributions for social insurance .....	86.8	1.1	1.1	1.1	1.2	1.4	
Federal grants-in-aid .....	224.2	-4.5	-1.2	2.1	2.9	1.7	
Current expenditures .....	987.9	11.7	10.3	11.6	9.0	12.8	
Consumption expenditures .....	766.6	8.9	7.4	8.4	5.7	9.2	
Transfer payments to persons .....	314.0	3.9	4.0	4.5	4.4	4.5	
Net interest paid .....	-65.9	-1.0	-8	-1.0	-9	-1.0	
Less: Dividends received by government .....	14.7	.1	.3	.3	.4	0	
Subsidies less current surplus of government enterprises .....	-12.1	-1	-1	.2	.1	.1	
Subsidies .....	.3	0	0	0	0	0	
Less: Current surplus of government enterprises .....	12.5	.1	0	-1	-2	0	
Less: Wage accruals less disbursements .....	0	0	0	0	0	0	
Current surplus or deficit (-) .....	111.3	-11.8	-2.2	4.3	.2	6.4	
Social insurance funds .....	71.4	.2	-1	-1	.3	-2	
Other .....	39.9	-12.0	-2.2	4.6	-2	6.6	

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

Indirect business tax and nontax accruals increased \$9.4 billion after increasing \$2.0 billion; the acceleration was more than accounted for by an acceleration in "other tax and nontax accruals" and an upturn in sales taxes. "Other tax and nontax accruals" increased \$4.8 billion after increasing \$1.0 billion; this pickup was attributable to a \$3.7 billion (annual rate) payment to two States from tobacco companies as a result of out-of-court settlements of lawsuits. Sales taxes increased \$3.0 billion after decreasing \$0.6 billion, reflecting an upturn in retail sales.

Personal tax and nontax receipts increased \$4.6 billion after increasing \$2.6 billion. The acceleration was primarily attributable to income taxes.

Corporate profits tax accruals increased \$2.0 billion after increasing \$0.4 billion, reflecting the pattern of domestic corporate profits.

Current expenditures increased \$12.8 billion after increasing \$9.0 billion. The acceleration was mostly accounted for by consumption expenditures. Consumption expenditures increased \$9.2 billion after increasing \$5.7 billion; the acceleration was mostly accounted for by an upturn in nondurable goods and an acceleration in services. The upturn in nondurable goods resulted from increases in petroleum prices. The acceleration in services was in compensation of employees, reflecting an acceleration in State and local government employment, and in "other services." 