

BUSINESS SITUATION

This article was prepared by Daniel Larkins, Ralph W. Morris, and Jennifer S. Argueta.

ECONOMIC growth picked up in the first quarter of 2001 after slowing in the two preceding quarters, and income accelerated. At the same time, domestic purchases slowed for the third consecutive quarter, and prices increased more than in the previous quarter.

According to the “advance” estimates of the national income and product accounts (NIPAs):

- Real gross domestic product (GDP)—a measure of domestic production of goods and services—increased 2.0 percent in the first quarter of 2001, twice the growth rate in the fourth quarter of 2000 and about the same as in the third quarter of 2000 (table 1 and chart 1).¹ Despite the step-up, growth in the first quarter was well below the 3.6-percent average rate for the current-expansion (which began in the second quarter of 1991).

- Gross domestic purchases—a measure of domestic demand for goods and services regardless of where they were produced—increased 0.6 percent, less than half the growth rate in the fourth quarter.² The smaller increase in gross domestic purchases than in GDP in the first quarter is unusual: In the preceding 8 quarters and in 15 of

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 quarterly weights for all quarters; real estimates are expressed both as index numbers (1996=100) and as chained (1996) dollars. Price indexes (1996=100) are also calculated using a chain-type Fisher formula.

2. Gross domestic purchases is calculated as the sum of personal consumption expenditures, gross private domestic investment, and government consumption expenditures and gross investment; thus, gross domestic purchases includes imports of goods and services, which are subtracted in the calculation of GDP, and does not include exports of goods and services, which are added in the calculation of GDP.

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

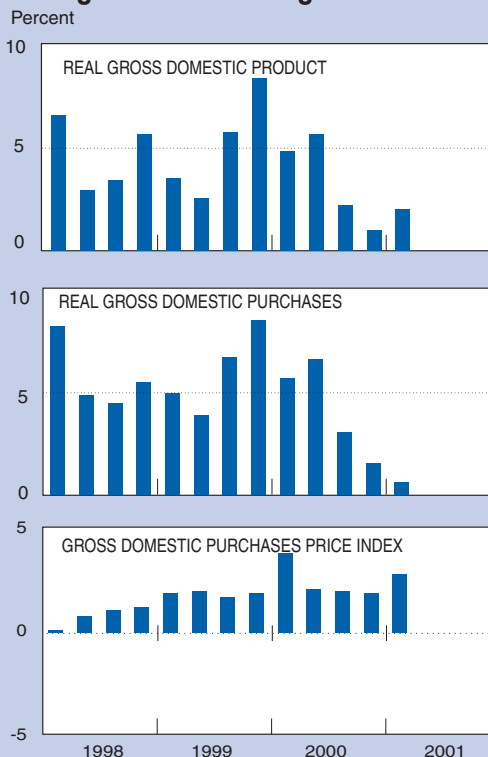
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				2000		2001	
						II	III	IV	I
		2001	2000						
	I	II	III	IV	I				
Gross domestic product	9,439.9	127.1	50.6	24.2	46.2	5.6	2.2	1.0	2.0
Less: Exports of goods and services	1,133.6	37.0	37.0	-19.0	-6.2	14.3	13.9	-6.4	-2.2
Plus: Imports of goods and services	1,538.5	63.5	61.2	-4.9	-43.0	18.6	17.0	-1.2	-10.4
Equals: Gross domestic purchases	9,817.0	150.7	71.7	37.2	13.8	6.5	3.0	1.5	.6
Less: Change in private inventories	-7.1	42.0	-6.1	-16.8	-62.8				
Nonfarm	-13.1	39.3	-4.9	-16.9	-63.6				
Farm	5.9	2.6	-1.2	.3	.6				
Equals: Final sales to domestic purchasers	9,811.2	110.6	76.8	51.6	72.3	4.7	3.2	2.1	3.0
Personal consumption expenditures	6,422.6	47.1	69.2	43.5	49.3	3.1	4.5	2.8	3.1
Durable goods	921.5	-11.5	16.5	-7.2	25.5	-5.0	7.6	-3.1	11.9
Nondurable goods	1,899.6	16.3	21.5	4.8	12.2	3.6	4.7	1.0	2.6
Services	3,617.6	39.5	32.6	43.2	15.1	4.6	3.7	4.9	1.7
Private fixed investment	1,794.2	46.7	13.7	-4.2	7.1	11.2	3.1	-9	1.6
Nonresidential	1,442.2	47.2	26.3	-5	3.9	14.6	7.7	-1	1.1
Structures	301.6	3.0	9.6	7.2	7.8	4.4	14.6	10.4	11.0
Equipment and software	1,146.7	46.2	15.8	-9.7	-6.0	17.9	5.6	-3.3	-2.1
Residential	361.9	1.2	-10.3	-3.3	2.9	1.3	-10.6	-3.6	3.3
Government consumption expenditures and gross investment	1,605.1	18.6	-5.5	11.4	15.5	4.8	-1.4	2.9	4.0
Federal	558.6	21.7	-13.0	5.1	7.7	17.2	-9.0	3.8	5.7
National defense	357.9	13.6	-8.9	7.5	4.2	16.9	-9.7	8.9	4.9
Nondefense	200.5	8.2	-4.2	-2.3	3.4	17.8	-7.9	-4.6	7.0
State and local	1,046.0	-2.8	7.3	6.2	7.9	-1.1	2.9	2.5	3.1
Addendum: Final sales of domestic product	9,433.9	87.3	55.6	38.6	104.4	3.9	2.4	1.7	4.6

NOTE.—Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 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 (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1. (See “Selected NIPA Tables,” which begins on page D-2 in this issue.)

CHART 1

**Selected Measures:
Change From Preceding Quarter**



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

the preceding 16 quarters, purchases increased more than GDP.

• Both consumer spending and government spending contributed substantially to the increase in real GDP in the first quarter, as they had in the fourth (see NIPA table S.2). The largest offset in the first quarter was a sharp drop in inventory investment that subtracted 2.5 percentage points from GDP growth.³ Final sales of domestic product—GDP less inventory investment—accelerated to its biggest increase in a year.

• The production of goods increased slightly after decreasing, and the production of structures stepped up; the production of services slowed somewhat (table 2). The fourth-quarter decrease in the production of goods and the first-quarter uptick represent the weakest back-to-back quarters of the current expansion.

3. In the NIPA's, consumer spending is shown as personal consumption expenditures, government spending is shown as government consumption expenditures and gross investment, and inventory investment is shown as change in private inventories.

First-Quarter 2001 Advance GDP Estimate: Source Data and Assumptions

The "advance" GDP estimate for the first quarter is based on preliminary and incomplete source data; as more and better data become available, the estimate will be revised. The advance estimate is based on the following major source data. (The number of months for which data were available is shown in parentheses.)

Personal consumption expenditures: Sales of retail stores (3) and unit auto and truck sales (3);

Nonresidential fixed investment: Unit auto and truck sales (3), construction put in place (2), manufacturers' shipments of machinery and equipment other than aircraft (3), shipments of civilian aircraft (2), and exports and imports of machinery and equipment (2);

Residential investment: Construction put in place (2) and single-family housing starts (3);

Change in private inventories: Manufacturing and trade inventories (2) and unit auto and truck inventories (3);

Net exports of goods and services: Exports and imports of goods and services (2);

Government consumption expenditures and gross investment: Some Federal outlays were available for 2 months, others for 3, State and local construction put in place (2), State and local employment (3), and the employment cost index for the quarter;

GDP prices: Consumer price index (3), producer price index (3), U.S. import and export price indexes (3), and values and quantities of petroleum imports (2).

BEA made assumptions for source data that were not available. Table A shows the assumptions for key series; a more comprehensive list is available on BEA's Web site at <www.bea.doc.gov> and on STAT-USA's Web site at <www.stat-usa.gov>.

Table A.—Summary of Major Data Assumptions for Advance Estimates, 2001:I

[Billions of dollars, seasonally adjusted at annual rates]

	2000			2001		
	October	November	December	January	February	March ¹
Private fixed investment:						
Nonresidential structures:						
Buildings:						
Value of new nonresidential construction put in place	222.1	224.5	219.7	231.6	231.9	225.0
Equipment and software:						
Manufacturers' shipments of complete aircraft	34.9	35.4	31.3	33.5	45.5	32.1
Residential structures:						
Value of new residential construction put in place:						
1-unit structures	226.1	227.1	229.1	233.5	238.7	236.0
2-unit-or-more	27.2	28.3	28.6	29.8	30.7	30.6
Change in private inventories, nonfarm:						
Change in inventories for manufacturing and trade (except nonmerchandise wholesalers) for industries other than motor vehicles and equipment in trade	80.1	38.0	-4	31.4	-10.0	.8
Net exports: ²						
Exports of goods:						
U.S. exports of goods, international-transactions-accounts basis	795.9	790.2	769.4	774.9	782.9	776.7
Excluding gold	790.3	783.5	762.0	769.2	776.1	769.6
Imports of goods:						
U.S. imports of goods, international-transactions-accounts basis	1,275.4	1,259.7	1,244.2	1,248.8	1,183.2	1,213.3
Excluding gold	1,269.0	1,252.6	1,237.5	1,242.6	1,177.2	1,206.2
Net exports of goods	-479.4	-469.5	-474.8	-473.9	-400.2	-436.6
Excluding gold	-478.7	-469.1	-475.5	-473.4	-401.0	-436.6
Government:						
State and local:						
Structures:						
Value of new construction put in place	170.1	171.0	172.8	175.2	172.2	171.3

1. Assumption.

2. Nonmonetary gold is included in balance-of-payments-basis exports and imports but is not used directly in the estimation of NIPA exports and imports.

• The step-up in GDP growth from the fourth quarter to the first reflected a smaller decrease in exports, upturns in residential and nonresidential fixed investment, and an acceleration in consumer spending. (The fourth-quarter deceleration reflected downturns in exports and nonresidential fixed investment and a slowdown in consumer spending.)

• Real disposable personal income increased 2.0 percent in the first quarter after increasing 0.7 percent in the fourth, and the personal saving rate fell to -1.0 percent from -0.7 percent.⁴

• Real final sales of computers posted below-average growth for the second quarter in a row, and real motor vehicle output decreased substantially for the third consecutive quarter (table 2). However, even if these components are excluded, GDP decelerated about 1 percentage point in the fourth quarter and accelerated about 1 percentage point in the first.

Computers.—Real final sales of computers increased 21.2 percent in the first quarter and 17.9 percent in the fourth—the smallest increases since the fourth quarter of 1997 and the smallest

two-quarter growth since the second and third quarters of 1994. Consumers and businesses contributed to the softening in the fourth quarter; in the first quarter, consumer purchases bounced back, but the softness in business purchases became more pronounced.

Computer prices decreased sharply in the first quarter after five quarters in which price drops were smaller than usual. Software prices increased slightly in both the first and fourth quarters after increasing substantially for several quarters.

Motor vehicles.—Consumer purchases of motor vehicles turned up. Manufacturers continued to offer attractive sales-incentive programs on a broad selection of car and truck models, interest rates on new-car loans at commercial banks decreased (to 9.2 percent from 9.6 percent), and motor-vehicle prices held relatively steady after decreasing.

Business purchases of motor vehicles also turned up, perhaps partly reflecting an increase in purchases by companies with commercial and rental fleets.

Motor vehicle inventories decreased sharply—the biggest decrease in 5 years. The inventory-sales ratio for new domestic autos, which is calculated from units data, dropped to 2.4 at the end of the first quarter after jumping to 2.9 at the end of the fourth.

4. The personal saving rate is measured as personal saving as a percentage of current-dollar disposable personal income. The first-quarter estimate of the national saving rate (which is measured as gross saving as a percentage of gross national product) will be released at the end of May with the "preliminary" estimate of first-quarter GDP.

Table 2.—Real Gross Domestic Product by Type of Product

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				2000			2001
	2001	2000			2001				
	I	II	III	IV	I	II	III	IV	I
Gross domestic product	9,439.9	127.1	50.6	24.2	46.2	5.6	2.2	1.0	2.0
Goods	3,827.8	76.9	39.0	-31.7	1.7	8.5	4.1	-3.2	.2
Services	4,810.8	59.5	14.8	46.0	31.2	5.2	1.3	3.9	2.6
Structures	8,14.1	-6.1	-1.2	5.3	11.2	-3.0	-0.6	2.7	5.7
Addenda:									
Motor vehicle output	303.9	-4.1	-16.1	-19.9	-15.3	-4.5	-16.9	-21.5	-17.8
Gross domestic product less motor vehicle output	9,132.4	130.6	65.5	42.6	60.0	6.0	3.0	1.9	2.7
Final sales of computers						55.4	40.6	17.9	21.2
Gross domestic product less final sales of computers						5.2	1.8	.8	1.8

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals for most items are shown in NIPA table 1.4. Detail on motor vehicle output is shown in NIPA table 8.9B.

Prices

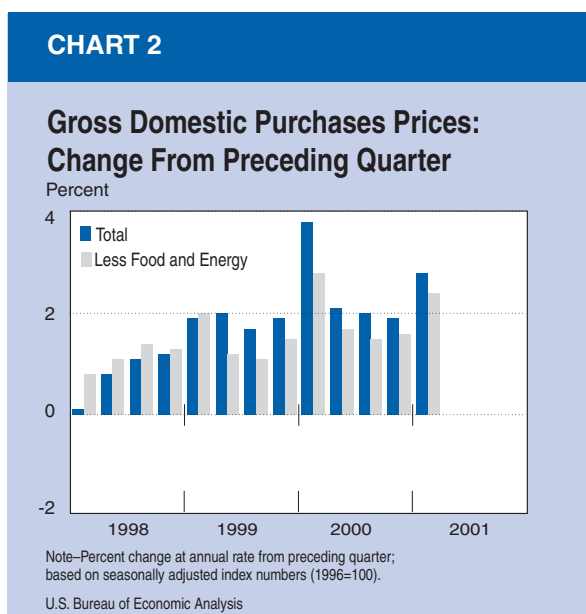
The price index for gross domestic purchases, which measures the prices paid for goods and services purchased by U.S. residents, increased 2.8 percent in the first quarter after increasing 1.9 percent in the fourth (table 3). The acceleration partly reflected the effect of a pay raise for Federal employees on the prices of Federal Government consumption expenditures, but it mainly reflected step-ups in the prices of several categories of personal consumption expenditures (PCE) for services. Prices of gross domestic purchases less food and energy increased 2.4 percent after increasing 1.6 percent (chart 2).

Prices of PCE increased 3.3 percent after increasing 1.9 percent. The acceleration was mainly accounted for by services and largely reflected step-ups in the prices of financial services, electricity and gas, and medical care (mainly in physician and "other professional" services).⁵ Food prices also picked up, reflecting an acceleration in the prices of food purchased for consumption away from home.

Prices of private nonresidential fixed investment decreased after edging up. The downturn was accounted for by equipment and software prices, mainly by computer prices, which declined more in the first quarter than in the fourth.

5. Financial services include brokerage charges, investment counseling, bank service charges, trust services, safe deposit, services furnished without payment by financial intermediaries except life insurance carriers, and expense of handling life insurance and pension plans.

Other professional services includes medical laboratories, eye examinations, and all other professional medical services.



Prices of government consumption expenditures and gross investment increased more than in the fourth quarter. Prices paid by the Federal Government increased 5.4 percent after increasing 1.5 percent. The step-up reflected the pay raise for civilian and military personnel; excluding the pay raise, prices paid by the Federal Government increased 1.3 percent in the first quarter.⁶ Prices paid by State and local governments increased slightly less than in the fourth quarter.

The GDP price index, which measures the prices paid for goods and services produced in United States, increased 3.2 percent after increasing 2.0 percent. Unlike the price index for gross domestic purchases, the GDP price index includes the prices of exports and excludes the prices of imports. Both import prices and export prices decreased after increasing, but the downturn in import prices was more pronounced. The decrease in import prices primarily reflected a sharp drop in the price of imported petroleum.

6. In the NIPAs an increase in the rate of Federal employee compensation is treated as an increase in the price of employee services purchased by the Federal Government.

Table 3.—Price Indexes

[Percent change at annual rates; based on seasonally adjusted index numbers (1996=100)]

	2000			2001
	II	III	IV	I
Gross domestic product	2.4	1.6	2.0	3.2
Less: Exports of goods and services	1.9	.7	.5	-.4
Plus: Imports of goods and services .....	.2	3.8	.2	-2.1
Equals: Gross domestic purchases	2.1	2.0	1.9	2.8
Less: Change in private inventories .....	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	2.1	2.0	1.9	2.8
Personal consumption expenditures	2.1	1.8	1.9	3.3
Durable goods	-.6	-2.3	-1.1	-.7
Nondurable goods	3.3	2.2	2.0	1.9
Services	2.0	2.5	2.5	4.8
Private fixed investment	1.9	2.0	1.1	.2
Nonresidential	1.6	1.8	.1	-1.3
Structures	3.7	5.0	5.4	6.6
Equipment and software	1.0	.8	-1.6	-3.8
Residential	2.6	2.7	4.4	5.4
Government consumption expenditures and gross investment	2.7	2.9	2.8	3.8
Federal .....	.6	2.6	1.5	5.4
National defense .....	.8	2.9	1.4	4.3
Nondefense .....	.4	2.1	1.7	7.3
State and local	3.8	3.1	3.5	3.0
Addenda:				
Gross domestic purchases:				
Food	2.3	3.5	1.8	4.0
Energy	11.2	11.1	10.3	8.1
Less food and energy	1.7	1.5	1.6	2.4
Personal consumption expenditures:				
Food	2.3	3.7	1.6	4.0
Energy goods and services ¹	13.0	8.6	8.9	10.8
Less food and energy	1.4	1.1	1.6	2.7

1. Consists of gasoline, fuel oil, and other energy goods and of electricity and gas.
NOTE.—Percent changes in major aggregates are shown in NIPA table 8.1. Index numbers are shown in tables 7.1, 7.2, and 7.4.

Personal Income

Income growth stepped up in the first quarter after a small increase in the fourth (chart 3):

- Real disposable personal income (DPI) increased 2.0 percent after increasing 0.7 percent.
- Current-dollar DPI increased 5.3 percent after increasing 2.6 percent.

The smaller pickup in real DPI than in current-dollar DPI reflected the acceleration in PCE prices.

The personal saving rate continued its downward trend, reaching -1.0 percent in the first quarter, its lowest quarterly level since the beginning of the series in 1946. A negative saving rate indicates that outlays are being financed by the sale of assets, by borrowing, or by using savings from previous periods. Incomplete data suggest that growth in consumer credit accelerated in the first quarter.

Although stock market prices dropped last year, they had risen substantially for an extended period before that, and the resulting gains have contributed to consumers' ability to spend in excess of current income.

Personal income increased \$121.2 billion in the first quarter after increasing \$80.7 billion in the fourth (table 4). The step-up mainly reflected accelerations in transfer payments and in government wages and salaries and an upturn in farm proprietors' income.

- The acceleration in transfer payments primarily reflected cost-of-living adjustments to benefits under social security and other Federal programs.

Table 4.—Personal Income and Its Disposition

[Billions of dollars; seasonally adjusted at annual rates]

	Level	Change from preceding quarter			
	2001	2000			2001
		I	II	III	IV	I
Wage and salary disbursements	4,948.9	79.7	64.8	67.1	76.9
Private industries	4,165.7	69.5	59.5	64.4	61.8
Goods-producing industries	1,183.8	16.2	14.3	11.9	10.5
Manufacturing	823.0	10.3	8.3	5.0	-3.4
Distributive industries	1,165.7	24.8	22.4	26.3	21.3
Service industries	1,816.3	28.6	22.9	26.1	30.1
Government	783.2	10.3	5.2	2.8	15.0
Other labor income	541.1	6.5	7.1	6.4	7.1
Proprietors' income with IVA and CCAj	723.4	15.6	15.3	-11.6	10.2
Farm	20.9	2.4	10.2	-13.7	2.9
Nonfarm	702.5	13.3	5.0	2.1	7.3
Rental income of persons with CCAj	138.0	-4.8	-2.7	-2.7	2.6
Personal dividend income	414.2	5.7	7.1	7.5	7.0
Personal interest income	1,047.0	19.7	11.6	8.6	-4.5
Transfer payments to persons	1,115.3	19.2	8.1	9.8	31.3
Less: Personal contributions for social insurance	376.9	5.4	4.3	4.5	9.3
Personal income	8,550.9	136.3	106.9	80.7	121.2
Less: Personal tax and nontax payments	1,371.6	37.9	30.9	34.6	28.9
Equals: Disposable personal income	7,179.2	98.4	76.0	46.1	92.2
Less: Personal outlays	7,253.6	88.7	110.4	83.9	115.0
Equals: Personal saving	-74.3	9.6	-34.4	-37.8	-22.7
Addenda: Special factors in personal income:					
In wages and salaries:					
Federal pay raise	5.5	0	0	0	5.5
In farm proprietors' income:					
Federal subsidies ¹	4.7	.4	13.0	-14.2	1.7
In rental income of persons with CCAj:					
Federal subsidies ¹	1.0	0	2.9	-3.1	.3
In transfer payments to persons:					
Elimination of social security earnings test	0	9.2	-9.2	0	0
Social security retroactive payments	0	0	.6	.5	-1.1
Cost-of-living adjustments in Federal transfer programs	16.6	0	0	.3	16.3
In personal tax and nontax payments:					
Federal tax law changes	-4.4	0	0	0	-4.4
Refunds and State tax law changes	-1.8	1.9	-5	2.7	-7

1. Payments authorized by the Agricultural Risk Protection Act of 2000.

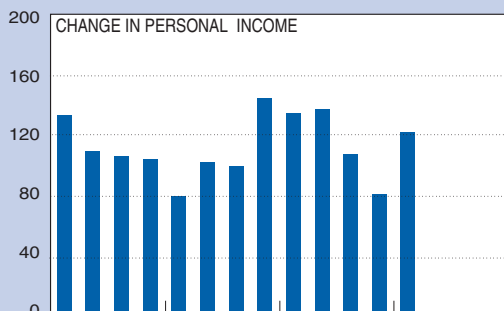
NOTE.—Most dollar levels are in NIPA table 2.1.

IVA Inventory valuation adjustment
CCAj Capital consumption adjustment

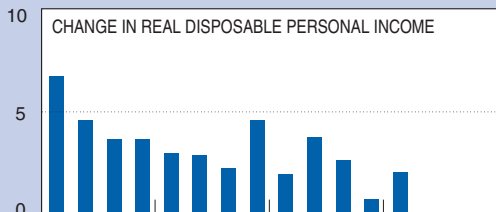
CHART 3

Selected Personal Income and Saving Measures

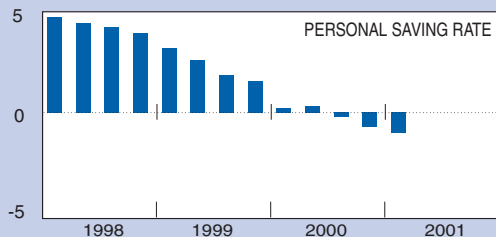
Billion \$



Percent



Percent



Note—Changes are from preceding quarter; based on seasonally adjusted annual rates.

- The acceleration in government wages and salaries reflected the pay raises for Federal civilian and military personnel.

- The upturn in farm proprietors' income reflected the quarterly pattern of Federal farm subsidy payments, which increased \$1.7 billion in the first quarter after decreasing \$14.2 billion in the fourth; excluding these subsidies, farm proprietors' income increased \$1.2 billion after increasing \$0.5 billion.⁷


BEA Estimates of Wages and Salaries for 2000

The annual change from 1999 to 2000 in the national income and product accounts (NIPA) estimate of wage and salary disbursements is about \$75 billion less than the change in the U.S. total of the State estimates of wage and salary disbursements that appears elsewhere in this issue. As explained in the "Note on the Estimates of State Personal Income" on page 24, the State estimates incorporate newly available Bureau of Labor Statistics tabulations of wages and salaries of employees covered by unemployment insurance for 2000. These and other data will be incorporated into the NIPA estimates in the upcoming annual NIPA revision, which is scheduled for release July 27, 2001.

Nonfarm proprietors' income also stepped up in the first quarter, reflecting an upturn in single-family construction (the part of the construction industry in which proprietorships and partnerships are concentrated).

These developments were partly offset by a downturn in personal interest income that mainly reflected the pattern of falling interest rates.

Personal contributions for social insurance—which is subtracted in calculating personal income—increased \$9.3 billion after increasing \$4.5 billion. The step-up reflected an increase in the social security taxable earnings base for employees and the self-employed (from \$76,200 to \$80,400) and an increase in the monthly premium for Medicare supplementary medical insurance.

Personal tax and nontax payments increased \$28.9 billion after increasing \$34.6 billion. The deceleration primarily reflected the indexation provisions of the Federal income tax law. 

7. Federal farm subsidy payments also affected rental income of persons, which increased \$2.6 billion after decreasing \$2.7 billion. Excluding subsidy payments to owners of leased farmland (nonoperator landlords), rental income increased \$2.3 billion after increasing \$0.4 billion.