

# 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 4.1 percent in the first quarter of 1999, according to the “preliminary” estimates of the national income and product accounts (NIPAs), after increasing 6.0 percent in the fourth quarter of 1998 (table 1 and chart 1); the “advance” first-quarter estimate of real GDP, reported in the May “Business Situation,” had shown a 4.5-percent increase.<sup>1</sup> The downward revision to real GDP reflected an upward revision to

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates. Quarter-to-quarter dollar changes are the differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data unless otherwise specified.

Real estimates are calculated using a chain-type Fisher formula with annual weights for all years and quarters except those for the most recent year, which are calculated using quarterly weights; real estimates are expressed both as index numbers (1992=100) and as chained (1992) dollars. Price indexes (1992=100) are also calculated using a chain-type Fisher formula.

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

[Seasonally adjusted at annual rates]

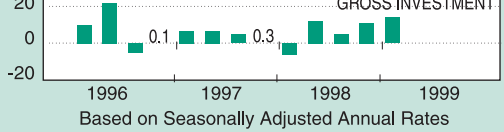
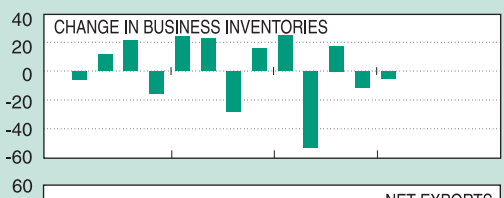
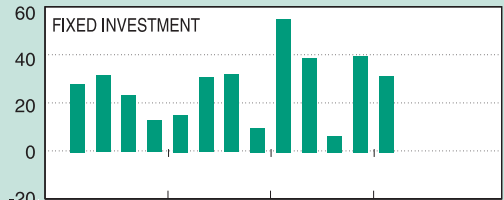
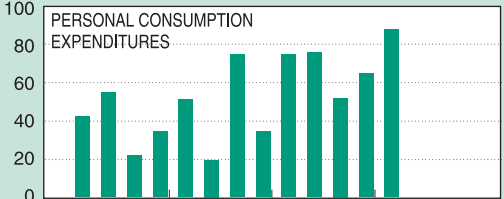
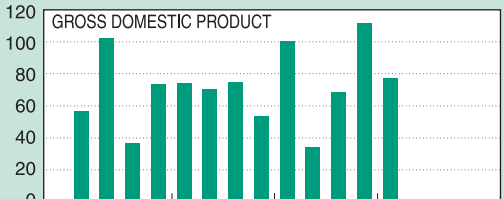
	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1998			1999
		1998				II	III	IV	I
	1999	II	III	IV	I				
<b>Gross domestic product</b> .....	<b>7,754.7</b>	<b>33.9</b>	<b>67.9</b>	<b>111.2</b>	<b>77.0</b>	<b>1.8</b>	<b>3.7</b>	<b>6.0</b>	<b>4.1</b>
Less: Exports of goods and services .....	992.0	-19.8	-6.8	44.3	-17.6	-7.7	-2.8	19.7	-6.8
Plus: Imports of goods and services .....	1,302.1	26.9	7.0	35.3	42.5	9.3	2.3	12.0	14.2
<b>Equals: Gross domestic purchases</b> .....	<b>8,028.3</b>	<b>73.7</b>	<b>80.2</b>	<b>102.5</b>	<b>127.0</b>	<b>3.9</b>	<b>4.2</b>	<b>5.4</b>	<b>6.6</b>
Less: Change in business inventories .....	39.0	-53.2	17.5	-11.5	-5.2				
Nonfarm .....	34.7	-56.0	17.1	-9.5	-2.8				
Farm .....	4.4	3.4	.4	-1.9	-2.8				
<b>Equals: Final sales to domestic purchasers</b> .....	<b>7,983.8</b>	<b>124.2</b>	<b>63.4</b>	<b>112.7</b>	<b>131.3</b>	<b>6.7</b>	<b>3.3</b>	<b>6.0</b>	<b>6.9</b>
Personal consumption expenditures .....	5,333.1	75.1	51.6	64.2	87.1	6.1	4.1	5.0	6.8
Durable goods .....	798.8	19.1	4.3	41.3	23.8	11.2	2.4	24.5	12.9
Nondurable goods .....	1,600.6	19.7	8.2	16.0	35.5	5.3	2.1	4.2	9.4
Services .....	2,948.2	37.5	38.0	12.4	31.0	5.4	5.4	1.7	4.3
Gross private domestic fixed investment .....	1,342.7	39.2	6.8	40.1	31.7	13.4	2.2	13.2	10.0
Nonresidential fixed investment .....	1,010.8	28.5	-1.7	33.2	18.9	12.8	-7	14.6	7.9
Structures .....	206.4	-1.2	.1	3.0	1.4	-2.3	.2	6.0	2.9
Producers' durable equipment .....	820.3	32.5	-2.0	32.2	18.8	18.8	-1.0	17.8	9.7
Residential investment .....	335.9	10.6	7.4	7.6	11.8	15.0	9.9	10.0	15.4
Government consumption expenditures and gross investment .....	1,324.2	11.8	4.8	10.7	13.9	3.7	1.5	3.3	4.3
Federal .....	458.6	8.0	-1.6	8.1	-2.0	7.3	-1.4	7.3	-1.7
National defense .....	299.4	7.0	3.2	1.1	-5.2	9.9	4.3	1.3	-6.6
Nondefense .....	158.3	1.0	-4.5	6.8	3.1	2.6	-11.5	19.8	8.1
State and local .....	865.9	3.8	6.4	2.7	15.9	1.8	3.1	1.3	7.7
<b>Addendum: Final sales of domestic product</b> .....	<b>7,710.2</b>	<b>83.9</b>	<b>51.2</b>	<b>121.3</b>	<b>81.3</b>	<b>4.6</b>	<b>2.8</b>	<b>6.6</b>	<b>4.3</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 in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are in NIPA table 8.1.

**CHART 1**

**Real Product:  
Change from Preceding Quarter**

Billion chained (1992) \$



Based on Seasonally Adjusted Annual Rates  
U.S. Department of Commerce, Bureau of Economic Analysis

imports, which are subtracted in the calculation of GDP, and a downward revision to inventory investment; these revisions were partly offset by upward revisions to exports and to consumer spending. (The sources of the revisions are discussed in the section "Revisions.")

The 4.1-percent increase in the first quarter was above the 3.2-percent average annual growth rate for real GDP over the current expansion, which began in the second quarter of 1991.

The picture of the economy in the first quarter presented by the preliminary estimates is little changed from that presented by the advance estimates. Like the advance estimates, the preliminary estimates showed the following:

- Real GDP growth decelerated in the first quarter. The deceleration was more than accounted for by a downturn in exports.
- Motor vehicle output decreased in the first quarter, following a fourth-quarter increase that largely reflected a rebound from a midsummer strike at a major manufacturer.
- Real final sales of domestic product decelerated slightly more than GDP, as inventory investment decreased less in the first quarter than in the fourth.<sup>2</sup>
- Real gross domestic purchases accelerated; consumer spending accounted for most

2. Final sales of domestic product is calculated as GDP less change in business inventories.

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

[Seasonally adjusted at annual rates]

	1998			1999
	II	III	IV	I
<b>Percent change at annual rate:</b>				
Gross domestic product .....	1.8	3.7	6.0	4.1
<b>Percentage points at annual rates:</b>				
Personal consumption expenditures .....	4.09	2.78	3.48	4.58
Durable goods .....	.91	.20	1.90	1.07
Nondurable goods .....	1.01	.42	.84	1.78
Services .....	2.14	2.15	.74	1.73
Gross private domestic investment .....	-.75	1.22	1.42	1.28
Fixed investment .....	1.95	.33	1.95	1.51
Nonresidential .....	1.35	-.08	1.52	.85
Structures .....	-.07	.01	.17	.08
Producers' durable equipment .....	1.42	-.09	1.35	.76
Residential .....	.60	.41	.43	.66
Change in business inventories .....	-2.66	.89	-.53	-.23
Net exports of goods and services .....	-2.08	-.62	.52	-2.53
Exports .....	-.92	-.32	2.02	-.78
Goods .....	-.98	.04	1.76	-.95
Services .....	.06	-.36	.26	.18
Imports .....	-1.18	-.30	-1.50	-1.76
Goods .....	-1.19	-.32	-1.46	-1.58
Services .....	.01	.01	-.04	-.18
Government consumption expenditures and gross investment .....	.64	.27	.60	.75
Federal .....	.44	-.09	.44	-.10
National defense .....	.38	.17	.06	-.27
Nondefense .....	.06	-.26	.38	.17
State and local .....	.20	.35	.16	.85

NOTE.—NIPA table 8.2 also shows contributions for 1997:IV and 1998:I.

of the acceleration, but imports, private residential investment, and government spending and investment also contributed.<sup>3</sup>

- The largest contributors to the first-quarter increase in real GDP were consumer spending and private fixed investment (table 2). The increase in GDP was moderated by an increase in imports and by a decrease in exports.

The price index for gross domestic purchases increased 1.1 percent in the first quarter after increasing 0.9 percent in the fourth (table 3). This index had decreased slightly in the first quarter of 1998 and then increased at modestly accelerating rates in each quarter thereafter; however, the increase in the first quarter was considerably below the quarterly increases in the first 6 years of the current expansion. The step-up in the first quarter of 1999 was more than accounted for by a Federal pay increase for civilian and military personnel.

GDP prices increased 1.5 percent in the first quarter after increasing 0.8 percent in the fourth. The step-up in GDP prices was larger than that in gross domestic purchases prices primarily because import prices—which are subtracted in the calculation of GDP prices—decreased more in the

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

**Table 3.—Percent Changes in Prices**

[Annual rates; based on seasonally adjusted index numbers (1992=100)]

	1998			1999
	II	III	IV	I
<b>Gross domestic product</b> .....	<b>0.9</b>	<b>1.0</b>	<b>0.8</b>	<b>1.5</b>
Less: Exports of goods and services .....	-1.8	-2.8	-.9	-.7
Plus: Imports of goods and services .....	-4.5	-4.8	-.2	-3.4
<b>Equals: Gross domestic purchases</b> .....	<b>.4</b>	<b>.7</b>	<b>.9</b>	<b>1.1</b>
Less: Change in business inventories .....				
<b>Equals: Final sales to domestic purchasers</b> .....	<b>.5</b>	<b>.7</b>	<b>.9</b>	<b>1.1</b>
Personal consumption expenditures .....	.9	1.0	1.1	1.1
Food .....	1.3	2.8	2.0	1.8
Energy .....	-7.5	-5.8	-6.8	-2.4
Other personal consumption expenditures .....	1.3	1.1	1.3	1.1
Private nonresidential fixed investment .....	-3.1	-3.6	-2.5	-2.1
Structures .....	3.1	1.2	1.8	.8
Producers' durable equipment .....	-5.2	-5.3	-4.0	-3.1
Private residential investment .....	1.7	3.7	4.2	2.0
Government consumption expenditures and gross investment .....	.8	1.5	1.5	3.0
Federal .....	0	.4	1.5	6.5
National defense .....	.3	.4	1.8	6.0
Nondefense .....	-.6	.5	1.1	7.4
State and local .....	1.2	2.1	1.5	1.2
<b>Addendum: Gross domestic purchases less food and energy</b> .....	<b>.7</b>	<b>.7</b>	<b>1.1</b>	<b>1.1</b>

NOTE.—Percent changes in major aggregates are in NIPA table 8.1. Index number levels are in tables 7.1, 7.2, and 7.4.

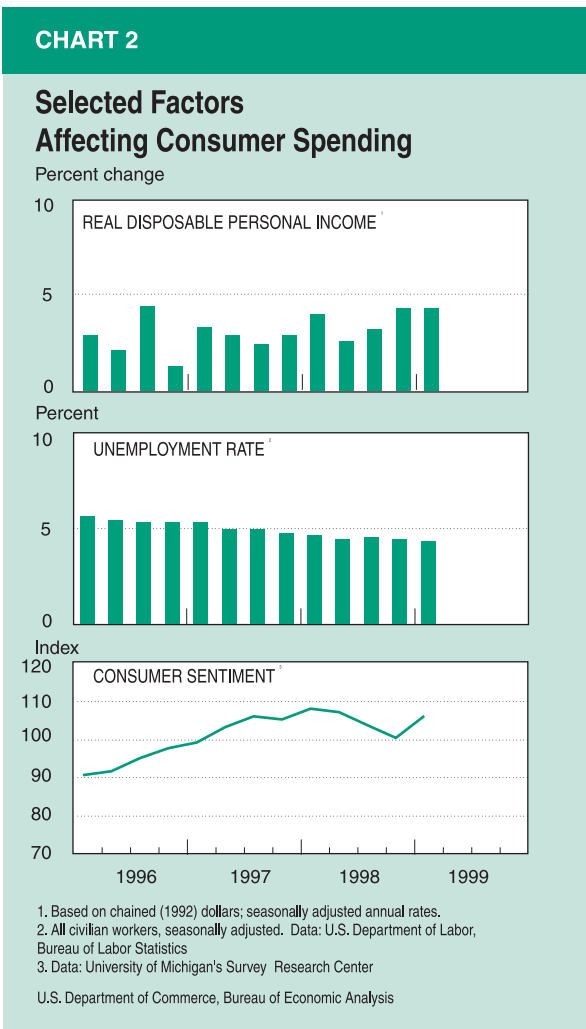
first quarter than in the fourth, largely reflecting petroleum prices.

Real disposable personal income (DPI) increased 4.3 percent in the first quarter, the same rate of increase as in the fourth quarter; these increases were the largest in more than 2 years. The personal saving rate—personal savings as a percentage of current-dollar DPI—decreased to negative 0.6 percent, the first negative rate since the quarterly series began in 1946; in the fourth quarter, the rate was 0.0 percent. (For additional information, see “[Note on the Personal Saving Rate](#)” on page 8 of the February 1999 SURVEY OF CURRENT BUSINESS.)

**Personal consumption expenditures**

Real personal consumption expenditures (PCE) increased 6.8 percent in the first quarter after increasing 5.0 percent in the fourth (table 4). Expenditures for nondurable goods and for services increased more than twice as much as in the fourth quarter; expenditures for durable goods increased strongly but only about half as much as in the fourth quarter.

Many of the factors usually considered in analyses of PCE remained strong in the first quarter (chart 2). As mentioned earlier, real DPI increased at the same high rate as in the fourth quarter. The unemployment rate edged down to 4.3 percent from 4.4 percent. The Index of



**Table 4.—Real Personal Consumption Expenditures**

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1998			1999
		1999	1998			I	II	III	IV
		I	II	III	IV	I	II	III	IV
<b>Personal consumption expenditures</b> .....	<b>5,333.1</b>	<b>75.1</b>	<b>51.6</b>	<b>64.2</b>	<b>87.1</b>	<b>6.1</b>	<b>4.1</b>	<b>5.0</b>	<b>6.8</b>
Durable goods .....	798.8	19.1	4.3	41.3	23.8	11.2	2.4	24.5	12.9
Motor vehicles and parts .....	278.8	11.1	-6.3	26.7	-5	19.1	-9.3	49.6	-8
Of which: New autos .....	85.1	5.3	-6.5	6.8	-9	29.1	-27.2	38.9	-3.8
New trucks .....	76.3	6.7	-4.4	11.2	-1.6	48.4	-22.5	86.1	-7.9
Furniture and household equipment .....	381.8	3.5	12.7	10.1	19.7	4.3	15.7	12.1	23.5
Other .....	148.6	3.5	.5	1.9	7.6	10.5	1.6	5.6	23.4
Nondurable goods .....	1,600.6	19.7	8.2	16.0	35.5	5.3	2.1	4.2	9.4
Food .....	733.6	9.5	2.6	11.2	3.5	5.5	1.4	6.4	1.9
Clothing and shoes .....	333.0	4.0	-1.6	2.7	20.5	5.3	-2.0	3.5	29.0
Gasoline and oil .....	122.2	-1	2.7	.4	.7	-3	9.3	1.4	2.4
Fuel oil and coal .....	10.7	.5	.2	-4	1.2	23.6	9.4	-17.5	63.0
Other .....	407.1	5.7	4.2	1.8	11.9	6.0	4.4	1.9	12.6
Services .....	2,948.2	37.5	38.0	12.4	31.0	5.4	5.4	1.7	4.3
Housing .....	746.8	4.0	4.4	4.4	5.3	2.2	2.4	2.4	2.9
Household operation .....	326.7	10.2	9.8	-8.1	8.5	14.0	13.1	-9.6	11.1
Electricity and gas .....	118.1	6.9	6.4	-10.9	5.2	27.4	24.0	-30.8	19.5
Other household operation .....	208.4	3.3	3.5	2.6	3.4	7.1	7.2	5.1	6.8
Transportation .....	223.7	3.5	-9	1.3	1.9	6.7	-1.7	2.5	3.4
Medical care .....	734.6	6.7	3.7	5.5	3.8	3.9	2.1	3.1	2.1
Other .....	918.6	13.8	21.5	8.1	12.3	6.5	10.2	3.6	5.6

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

Consumer Sentiment (prepared by the University of Michigan's Survey Research Center as a measure of consumer attitudes and expectations) increased to 105.9 from 100.2; the increase followed three consecutive decreases from the record of 107.8 in the first quarter of 1998.

Expenditures for nondurable goods increased 9.4 percent after increasing 4.2 percent. The acceleration reflected sharp step-ups in clothing and shoes and in "other" nondurable goods.<sup>4</sup> In contrast, food increased substantially less than in the fourth quarter.

Expenditures for services increased 4.3 percent after increasing 1.7 percent. The step-up mainly reflected an upturn in electricity and gas. "Other" services increased somewhat more than in the fourth quarter; the step-up was more than accounted for by net foreign travel—as expenditures by U.S. residents traveling abroad turned up and as expenditures by foreigners traveling in the United States slowed—and by brokerage commissions and investment counseling.<sup>5</sup>

Expenditures for durable goods increased 12.9 percent after jumping 24.5 percent. The deceleration was more than accounted for by motor vehicles and parts, which slipped slightly after a sharp increase. In contrast, furniture and

household equipment increased more than in the fourth quarter; most of the acceleration was accounted for by a step-up in consumer electronics.<sup>6</sup> "Other" durable goods also stepped up.<sup>7</sup>

### Nonresidential fixed investment

Real private nonresidential fixed investment increased 7.9 percent in the first quarter after jumping 14.6 percent in the fourth (table 5). Spending on both equipment and structures slowed.

Over the past four quarters, nonresidential fixed investment has increased at an average annual rate of 8.5 percent. The strength in recent quarters partly reflected strength in some of the factors that affect investment spending (chart 3). Over the past four quarters, real final sales of domestic product increased 4.6 percent, and long-term interest rates decreased; for example, the yield on high-grade corporate bonds decreased to 6.33 percent from 6.64 percent. In contrast, the capacity utilization rate declined to 80.3 percent from 82.7 percent, and domestic corporate profits increased at a modest annual rate of 3.2 percent.

4. "Other" nondurable goods includes tobacco, toilet articles, stationery and writing supplies, toys, film, flowers, cleaning preparations and paper products, and magazines and newspapers.

5. "Other" services includes personal care, personal business, recreational, education and research, religious and welfare activities, and net foreign travel.

6. Consumer electronics includes goods such as computers; televisions; video and audio equipment; records, tapes, and disks; and musical instruments.

7. "Other" durable goods includes jewelry and watches, ophthalmic products and orthopedic equipment, books and maps, bicycles and motorcycles, guns and sporting equipment, photographic equipment, boats, and pleasure aircraft.

Table 5.—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				1998			1999
	1999	1998			1999				
	I	II	III	IV	I	II	III	IV	I
<b>Gross private domestic fixed investment</b> .....	<b>1,342.7</b>	<b>39.2</b>	<b>6.8</b>	<b>40.1</b>	<b>31.7</b>	<b>13.4</b>	<b>2.2</b>	<b>13.2</b>	<b>10.0</b>
Nonresidential .....	1,010.8	28.5	-1.7	33.2	18.9	12.8	-7	14.6	7.9
Structures .....	206.4	-1.2	.1	3.0	1.4	-2.3	.2	6.0	2.9
Nonresidential buildings, including farm .....	157.3	-3	.3	3.7	3.5	-9	.8	10.4	9.2
Utilities .....	29.8	.3	.2	0	.1	4.2	2.1	.2	1.1
Mining exploration, shafts, and wells .....	13.8	-9	-6	-1.1	-1.5	-19.3	-12.3	-23.9	-34.2
Other .....	5.4	-1	.3	.2	-6	-9.2	21.0	18.6	-34.5
Producers' durable equipment .....	820.3	32.5	-2.0	32.2	18.8	18.8	-1.0	17.8	9.7
Information processing and related equipment .....	447.4	23.4	22.8	22.9	24.9	29.2	26.4	25.0	25.7
Computers and peripheral equipment .....	450.3	39.3	39.0	42.5	37.3	65.7	56.1	54.4	41.4
Other .....	151.1	3.0	3.1	2.8	5.5	8.9	9.3	8.1	16.0
Industrial equipment .....	131.1	1.0	.6	.4	-2.4	3.0	1.7	1.4	-7.0
Transportation and related equipment .....	167.0	8.3	-16.2	17.0	-1.7	22.4	-33.4	53.0	-4.1
Of which: Motor vehicles .....	135.7	6.3	-11.3	11.6	3.2	21.3	-29.9	43.9	10.1
Other .....	129.0	4.4	1.2	-3.3	6.5	15.3	3.6	-9.5	22.3
Residential .....	335.9	10.6	7.4	7.6	11.8	15.0	9.9	10.0	15.4
Single-family structures .....	167.3	6.1	4.3	4.1	7.6	17.8	11.8	10.9	20.4
Multifamily structures .....	23.0	-1.4	.1	.9	1.3	-23.6	1.6	19.6	25.2
Other <sup>1</sup> .....	146.2	6.0	3.0	2.5	2.9	19.4	8.9	7.4	8.2

1. "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 and fraternity and sorority houses).

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

Producers' durable equipment (PDE) increased 9.7 percent after jumping 17.8 percent. The slow-down was mostly accounted for by a downturn in transportation and related equipment, but industrial equipment also turned down; within transportation and related equipment, autos and aircraft each turned down, and trucks, buses, and trailers slowed. "Other" PDE turned up.<sup>8</sup> Information processing and related equipment increased a little more than in the fourth quarter; a step-up in communications equipment more than offset a slowdown in computers and peripheral equipment.

8. "Other" PDE includes construction and agricultural equipment, mining and oilfield equipment, electrical equipment not included in other categories, furniture and fixtures, and service industry machinery.

Structures increased 2.9 percent after increasing 6.0 percent; in the preceding four quarters, structures had either increased less than 1.0 percent or decreased. In the first quarter, "other" structures turned down; mining exploration, shafts, and wells decreased more than in the fourth quarter.<sup>9</sup> Utilities edged up.

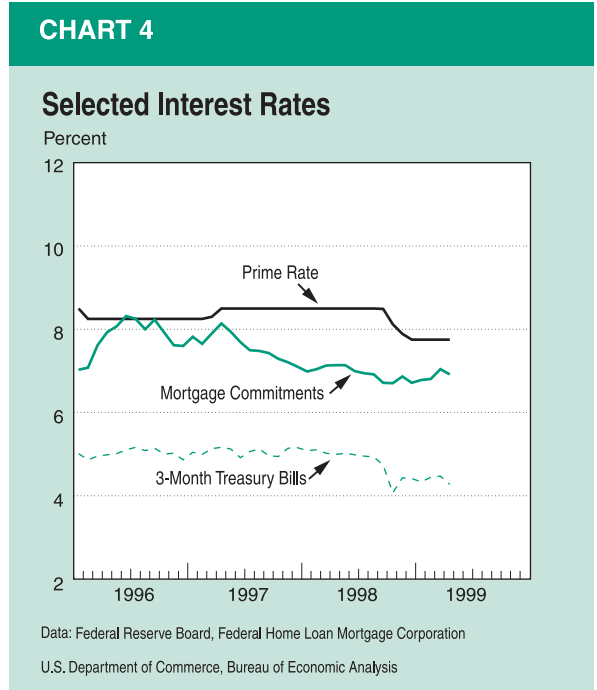
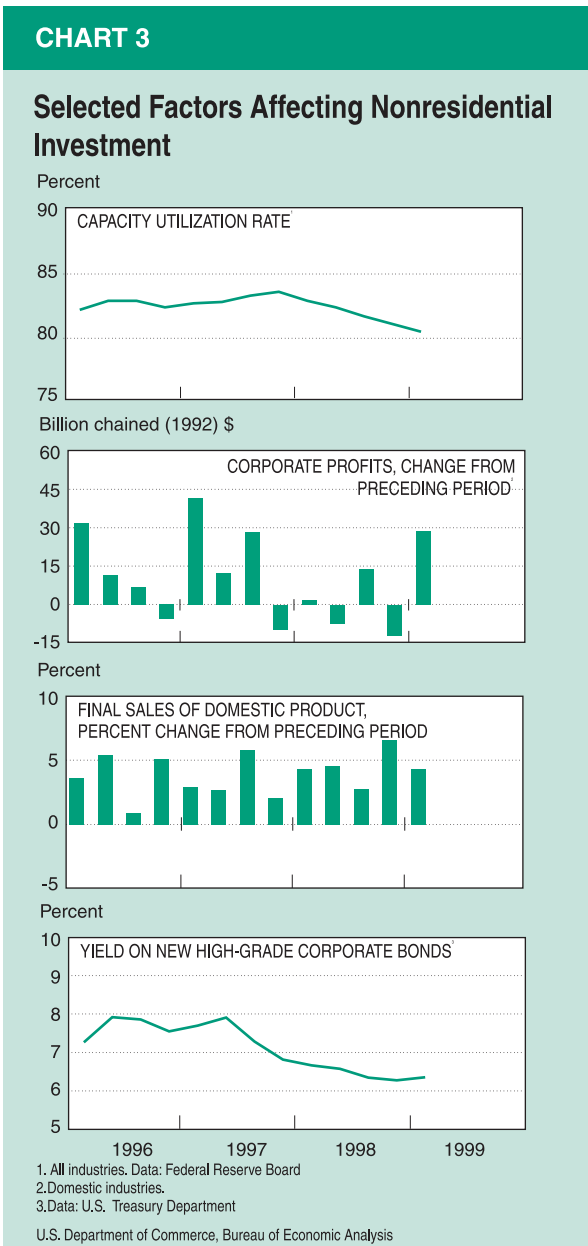
**Residential investment**

Real private residential investment jumped 15.4 percent in the first quarter after increasing 10.0 percent in the fourth (table 5). The acceleration was mostly accounted for by a step-up in single-family structures, but multifamily structures and "other" residential investment also increased more than in the fourth quarter.<sup>10</sup>

Investment in single-family structures jumped 20.4 percent after increasing 10.9 percent. Over the past four quarters, single-family structures have increased at an annual rate of 15.2 percent. This increase partly reflected the strength in some of the factors usually considered in analyses of consumer spending. These factors include strong increases in real disposable personal income, low unemployment rates, and substantial increases in consumer wealth that were bolstered by large

9. "Other" structures includes streets, dams and reservoirs, sewer and water facilities, parks, airfields, brokerage commissions on the sale of structures, and net purchases of used structures.

10. "Other" residential investment includes investment such as home improvements, new mobile home sales, brokers' commissions on home sales, residential equipment, net purchases of used structures, and other residential structures (which consists primarily of dormitories and fraternity and sorority houses).





increases in stock market prices. In addition, the commitment rate on 30-year, fixed-rate mortgages has declined over the past four quarters, though it edged up in the first quarter to 6.9 percent from 6.8 percent (chart 4).

Investment in multifamily structures jumped 25.2 percent after jumping 19.6 percent. "Other" residential investment increased 8.2 percent after increasing 7.4 percent; the acceleration was accounted for by a step-up in home improvements.

### Inventory investment

Real inventory investment—that is, the change in business inventories—decreased \$5.2 billion in the first quarter, as inventory accumulation slowed to \$39.0 billion from \$44.2 billion; inventory investment had decreased \$11.5 billion in the fourth quarter (table 6). The small first-quarter slowdown in inventory accumulation mainly reflected a swing from accumulation to liquidation in manufacturing inventories, but a slowdown in wholesale trade inventories also contributed.

Manufacturing inventories decreased \$4.9 billion after increasing \$6.2 billion. Inventories of both durable goods and nondurable goods industries turned down. The downturn in the durable goods industries was accounted for by transportation equipment and by primary metals; in contrast, inventories in the industrial machinery and electronic machinery industries increased more than in the fourth quarter. In the non-

durable goods industries, the downturn mainly reflected inventories of apparel and tobacco industries; food industries inventories increased more than in the fourth quarter.

Wholesale trade inventories increased \$10.4 billion after increasing \$13.7 billion. The slowdown was more than accounted for by durable goods industries; a downturn in the metals and minerals industry and a slowdown in the motor vehicles industry more than offset an upturn in the professional and commercial equipment industry (which includes computers).<sup>11</sup>

Retail trade inventories increased \$18.8 billion after increasing \$10.9 billion. Inventories of nondurable goods industries increased after a slight decrease; department stores accounted for about half of the upturn. Inventories of durable goods industries increased less than in the fourth quarter.

"Other" nonfarm inventories increased more than in the fourth quarter.<sup>12</sup>

Farm inventories increased \$4.4 billion after increasing \$7.2 billion. Crop and livestock inventories both contributed to the slowdown.

The ratio of real nonfarm inventories to real final sales of domestic businesses decreased to 2.24

11. In contrast to the preliminary estimate of a slowdown in wholesale inventories, the advance estimate showed a slight step-up; according to the preliminary estimates, the downturn in the metals and minerals industry is more pronounced, and the upturn in the professional and commercial equipment industry is less pronounced.

12. "Other" nonfarm inventories includes inventories held by the following industries: Mining; construction; public utilities; transportation; communication; finance, insurance, and real estate; and services.

**Table 6.—Real Change in Business Inventories**

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

	Level					Change from preceding quarter				
	1998				1999	1998				1999
	I	II	III	IV	I	II	III	IV	I	
<b>Change in business inventories</b> .....	<b>91.4</b>	<b>38.2</b>	<b>55.7</b>	<b>44.2</b>	<b>39.0</b>	<b>-53.2</b>	<b>17.5</b>	<b>-11.5</b>	<b>-5.2</b>	
Farm .....	5.3	8.7	9.1	7.2	4.4	3.4	.4	-1.9	-2.8	
Nonfarm .....	85.9	29.9	47.0	37.5	34.7	-56.0	17.1	-9.5	-2.8	
Manufacturing .....	30.2	23.9	19.2	6.2	-4.9	-6.3	-4.7	-13.0	-11.1	
Durable goods .....	21.0	19.1	12.0	3.8	-2.4	-1.9	-7.1	-8.2	-6.2	
Nondurable goods .....	9.2	4.9	7.2	2.4	-2.6	-4.3	2.3	-4.8	-5.0	
Wholesale trade .....	27.0	7.6	29.6	13.7	10.4	-19.4	22.0	-15.9	-3.3	
Durable goods .....	25.1	1.6	15.2	12.3	8.4	-23.5	13.6	-2.9	-3.9	
Nondurable goods .....	2.3	5.9	14.3	1.5	2.1	3.6	8.4	-12.8	.6	
Retail trade .....	17.3	-11.9	-5.3	10.9	18.8	-29.2	6.6	16.2	7.9	
Durable goods .....	1.6	-16.3	-7.7	11.4	7.9	-17.9	8.6	19.1	-3.5	
Of which: Motor vehicle dealers .....	-3.7	-13.8	-9.1	3.3	2.5	-10.1	4.7	12.4	-8	
Nondurable goods .....	16.1	4.9	2.6	-7	10.9	-11.2	-2.3	-3.3	11.6	
Other .....	11.5	10.4	4.0	6.6	9.9	-1.1	-6.4	2.6	3.3	
Durable goods .....	.4	.7	-.1	-1.7	2.9	.3	-.8	-1.6	4.6	
Nondurable goods .....	11.5	10.0	4.3	8.8	7.0	-1.5	-5.7	4.5	-1.8	
<b>Addenda:</b>										
Motor vehicles .....	2.6	-22.6	-9.2	7.0	1.9	-25.2	13.4	16.2	-5.1	
Autos .....	-.1	-12.3	-3.0	1.9	-3.4	-12.2	9.3	4.9	-5.3	
Trucks .....	2.5	-10.2	-6.0	4.9	4.9	-12.7	4.2	10.9	0	

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels for most series are in NIPA table 5.11; chained (1992) dollar levels for autos (new and used) and trucks (new only) are in NIPA tables 8.5 and 8.7, respectively.

in the first quarter from 2.25 in the fourth; the first-quarter level was close to the average level of the ratio in the past few years. The inventory-sales ratio that includes only final sales of goods and structures decreased to 3.94—the lowest in more than 25 years—from 3.97.<sup>13</sup>

**Exports and imports**

Real exports of goods and services decreased 6.8 percent in the first quarter after jumping 19.7 percent in the fourth (table 7). Real imports of goods and services increased 14.2 percent after increasing 12.0 percent.

13. The use of the ratio that includes all final sales of domestic businesses in the denominator implies that the production of services results in a demand for inventories that is similar to that generated in the production of goods and structures. In contrast, the use of the "goods and structures" ratio implies that the production of services does not generate demand for inventories. Both implications are extreme. The production of some services (for example, utilities and transportation) may require substantial inventories, while the production of others (such as legal and counseling services) may not.

Real exports of goods fell 11.5 percent after jumping 24.6 percent. Most major categories of exports contributed to the downturn; the largest contributor was capital goods, primarily civilian aircraft, engines, and parts.

Real exports of services increased 5.5 percent after increasing 8.3 percent. A slowdown in travel accounted for most of the slowdown, but other transportation and royalties and license fees also contributed, changing little after increasing.

Real imports of goods increased 15.2 percent after increasing 14.1 percent. Imports of consumer goods except automobiles, of "other" capital goods, of computers, peripherals, and parts, and of foods, feeds, and beverages increased more in the first quarter than in the fourth; in addition, imports of industrial supplies and materials and of petroleum and products decreased less than in the fourth quarter. In contrast, automotive vehicles, engines, and parts increased less than in the

**Table 7.—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				1998			1999
	1999	1998				1998			1999
	I	II	III	IV	I	II	III	IV	I
<b>Exports of goods and services</b> .....	<b>992.0</b>	<b>-19.8</b>	<b>-6.8</b>	<b>44.3</b>	<b>-17.6</b>	<b>-7.7</b>	<b>-2.8</b>	<b>19.7</b>	<b>-6.8</b>
Goods .....	745.4	-22.2	1.0	41.1	-23.0	-11.3	.6	24.6	-11.5
Agricultural goods .....	47.0	-3.3	-1.8	5.8	-4.6	-23.4	-14.5	61.3	-31.1
Nonagricultural goods .....	703.0	-18.6	3.2	35.0	-18.1	-10.2	1.9	22.0	-9.7
Services .....	250.3	1.0	-6.7	4.9	3.3	1.7	-10.4	8.3	5.5
<b>Imports of goods and services</b> .....	<b>1,302.1</b>	<b>26.9</b>	<b>7.0</b>	<b>35.3</b>	<b>42.5</b>	<b>9.3</b>	<b>2.3</b>	<b>12.0</b>	<b>14.2</b>
Goods .....	1,131.0	27.8	7.5	35.4	39.3	11.4	2.9	14.1	15.2
Petroleum and products .....	69.9	6.2	-1.1	-2.6	-9	41.4	-5.7	-13.2	-5.1
Nonpetroleum products .....	1,058.6	22.4	8.2	36.6	39.2	9.7	3.4	15.7	16.3
Services .....	175.3	-3	-2	.8	3.7	-6	-6	2.0	8.9
<b>Addendum: Net exports of goods and services</b> .....	<b>-310.1</b>	<b>-46.7</b>	<b>-13.8</b>	<b>9.0</b>	<b>-60.1</b>				

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

**Table 8.—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				1998			1999
	1999	1998				1998			1999
	I	II	III	IV	I	II	III	IV	I
<b>Government consumption expenditures and gross investment</b> .....	<b>1,324.2</b>	<b>11.8</b>	<b>4.8</b>	<b>10.7</b>	<b>13.9</b>	<b>3.7</b>	<b>1.5</b>	<b>3.3</b>	<b>4.3</b>
Federal .....	458.6	8.0	-1.6	8.1	-2.0	7.3	-1.4	7.3	-1.7
National defense .....	299.4	7.0	3.2	1.1	-5.2	9.9	4.3	1.3	-6.6
Consumption expenditures .....	261.0	8.2	-1.0	2.2	-6.3	13.3	-1.4	3.3	-9.0
Gross investment .....	38.5	-1.3	4.4	-1.3	1.3	-13.7	62.4	-12.4	13.7
Nondefense .....	158.3	1.0	-4.5	6.8	3.1	2.6	-11.5	19.8	8.1
Consumption expenditures .....	135.3	2.9	-4.5	6.2	.7	9.1	-12.8	20.8	2.0
Gross investment .....	23.4	-2.3	0	.6	2.9	-35.1	-2	12.3	68.8
State and local .....	865.9	3.8	6.4	2.7	15.9	1.8	3.1	1.3	7.7
Consumption expenditures .....	701.2	4.5	4.3	4.0	5.6	2.7	2.6	2.3	3.3
Gross investment .....	164.6	-7	2.1	-1.3	10.3	-1.9	5.6	-3.3	29.3

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

fourth quarter, and imports of civilian aircraft, engines, and parts turned down.

Real imports of services increased 8.9 percent after increasing 2.0 percent. Most of the step-up was accounted for by an upturn in travel.

### Government spending

Real government consumption expenditures and gross investment increased 4.3 percent in the first quarter after increasing 3.3 percent in the fourth (table 8). An acceleration in State and local gov-

ernment spending more than offset a downturn in Federal Government spending.

State and local government spending and investment increased 7.7 percent after increasing 1.3 percent. Investment turned up, reflecting an upturn in investment in structures. Consumption expenditures increased more than in the fourth quarter, largely reflecting an acceleration in compensation of employees.

Federal defense spending decreased 6.6 percent after increasing 1.3 percent. Consumption expenditures turned down, largely reflecting a downturn in spending for research and development and for personnel support. Investment spending increased after decreasing; equipment accounted for most of the upturn, but structures also contributed.

Federal nondefense spending increased 8.1 percent after jumping 19.8 percent. The slowdown was more than accounted for by consumption expenditures. Investment increased more than in the fourth quarter; the acceleration was primarily accounted for by equipment.

**Table 9.—Revisions to Change in Real Gross Domestic Product and Prices, First Quarter 1999**

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Preliminary estimate minus advance estimate		
	Advance estimate	Preliminary estimate	Change in real GDP		Contribution to percent change in real GDP
			Percentage points	Billions of chained (1992) dollars	
<b>Gross domestic product</b> .....	<b>4.5</b>	<b>4.1</b>	<b>-0.4</b>	<b>-7.8</b>	<b>-0.4</b>
Less: Exports of goods and services .....	-7.7	-6.8	.9	2.5	.11
Goods .....	-12.0	-11.5	.5	1.0	.05
Services .....	3.4	5.5	2.1	1.3	.07
Plus: Imports of goods and services .....	11.7	14.2	2.5	7.1	-.30
Goods .....	12.7	15.2	2.5	6.3	-.25
Services .....	6.8	8.9	2.1	.8	-.04
<b>Equals: Gross domestic purchases</b> .....	<b>6.8</b>	<b>6.6</b>	<b>-.2</b>	<b>-4.5</b>	.....
Less: Change in business inventories .....	.....	.....	.....	-6.2	-.29
Nonfarm .....	.....	.....	.....	-5.5	.....
Farm .....	.....	.....	.....	-.8	.....
<b>Equals: Final sales to domestic purchasers</b> .....	<b>6.8</b>	<b>6.9</b>	<b>.1</b>	<b>1.1</b>	.....
Personal consumption expenditures .....	6.7	6.8	.1	1.2	.06
Durable goods .....	11.5	12.9	1.4	2.4	.11
Nondurable goods .....	9.2	9.4	.2	.7	.03
Services .....	4.5	4.3	-.2	-1.5	-.09
Fixed investment .....	9.9	10.0	.1	.3	.02
Nonresidential .....	7.6	7.9	.3	.5	.03
Structures .....	-1	2.9	3.0	1.5	.08
Producers' durable equipment .....	10.5	9.7	-.8	-1.4	-.07
Residential .....	15.6	15.4	-.2	-.2	-.01
Government consumption expenditures and gross investment .....	4.4	4.3	-.1	-.4	-.02
Federal .....	-7	-1.7	-1.0	-1.2	-.06
National defense .....	-4.2	-6.6	-2.4	-1.9	-.10
Nondefense .....	6.3	8.1	1.8	.7	.04
State and local .....	7.3	7.7	.4	.9	.04
<b>Addenda:</b>					
Final sales of domestic product .....	4.5	4.3	-.2	-2.3	.....
Gross domestic purchases price index <sup>1</sup> .....	1.0	1.1	.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 first quarter of 1999 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 February and March (revised), consumers' share of new-car purchases for March, average unit value for domestic new autos for March (revised), and consumers' share of new-truck purchases for March.

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

*Residential fixed investment:* Construction put in place for January and February (revised) and March.

*Change in business inventories:* Manufacturing, retail trade, and wholesale trade inventories for February (revised) and March.

*Exports and imports of goods and services:* Exports and imports of goods for February (revised) and March.

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

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

*GDP prices:* Detailed merchandise export and import price indexes for January through March (revised), unit-value index for petroleum imports for February (revised) and March, and housing prices for the first quarter.

### Revisions

As noted earlier, the preliminary estimate of a 4.1-percent increase in real GDP in the first quarter is 0.4 percentage point lower than the advance estimate (table 9); for 1978–98, the average revision, without regard to sign, from the advance estimate to the preliminary estimate was 0.5 percentage point.

The downward revision to real GDP reflected an upward revision to imports, which are subtracted in the calculation of GDP, and a downward revision to inventory investment; these revisions were partly offset by upward revisions to exports and to consumer spending.

The revisions to imports and to exports were mostly in goods and reflected the incorporation of newly available Census Bureau data on international trade in goods for March.

The revision to inventory investment reflected the incorporation of revised February and newly available March data on change in inventories for manufacturing and trade from the Census Bureau.

The revision to PCE was mostly in durable goods and mainly reflected the incorporation of revised Census Bureau data on retail sales for March.

The preliminary estimates of the increases in the price indexes for gross domestic purchases (1.1 percent) and for GDP (1.5 percent) were



0.1 percentage point higher than the advance estimates.

The preliminary estimate of the increase in real DPI was 4.3 percent, 0.3 percentage point lower than the advance estimate. Current-dollar DPI increased 5.4 percent, 0.2 percentage point lower than the advance estimate. The downward revision to DPI was more than accounted for by a downward revision to current-dollar personal income, which, in turn, was accounted for by downward revisions to farm proprietors' income and to wages and salaries; about half of the downward revision to farm proprietors' income was accounted for by a downward revision to live-stock output. The downward revision to personal income was partly offset by a downward revision to personal tax and nontax payments, which are subtracted in the calculation of DPI. The preliminary estimate of the personal saving rate was -0.6 percent, 0.1 percentage point lower than the advance estimate.

### Corporate Profits

In the first quarter of 1999, profits from current production increased \$31.8 billion (or 3.9 percent at a quarterly rate) after decreasing \$5.3 billion

(0.6 percent) in the fourth quarter (table 10).<sup>14</sup> Profits of domestic nonfinancial corporations increased \$19.7 billion (3.3 percent) after decreasing \$12.7 billion (2.1 percent); in the first quarter, unit profits increased, reflecting an increase in unit prices and a decrease in unit costs. (Related information on nonfinancial corporations is discussed in "Note on Rates of Return for Domestic Nonfinancial Corporations, 1960-98," beginning on page 13.) Profits of domestic financial corporations increased \$9.1 billion (6.9 percent) after increasing \$0.6 billion (0.5 percent). Profits from the rest of the world increased \$3.0 billion (3.1 percent) after increasing \$6.9 billion (7.6 percent); the first-quarter increase was more than accounted for by receipts of earnings from foreign affiliates.<sup>15</sup>

14. 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 (see "Selected NIPA Tables," which begins on page D-2 of this issue) as corporate profits with inventory valuation and capital consumption adjustments.

Percent changes in profits are shown at quarterly, not annual, rates.

15. Profits from the rest of the world is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA'S international transactions accounts.

Table 10.—Corporate Profits

[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change (quarterly rate)				
	Level	Change from preceding quarter				1998			1999	
	1999	1998			1999	II	III	IV	I	
	I	II	III	IV	I					
<b>Profits from current production</b> .....	<b>853.5</b>	<b>-8.6</b>	<b>6.4</b>	<b>-5.3</b>	<b>31.8</b>	<b>-1.0</b>	<b>0.8</b>	<b>-0.6</b>	<b>3.9</b>	
Domestic industries .....	753.7	-7.3	13.7	-12.1	28.8	-1.0	1.9	-1.6	4.0	
Financial .....	139.2	-1.2	-6	.6	9.1	-1.0	-4	.5	6.9	
Nonfinancial .....	614.5	-6.1	14.3	-12.7	19.7	-1.0	2.4	-2.1	3.3	
Rest of the world .....	99.8	-1.3	-7.4	6.9	3.0	-1.3	-7.6	7.6	3.1	
Receipts (inflows) .....	157.5	-1	-5.5	10.1	6.9	-1	-3.8	7.2	4.6	
Payments (outflows) .....	57.7	1.2	1.8	3.3	3.9	2.4	3.9	6.4	7.3	
IVA .....	10.4	-17.5	3.9	1.7	-3.0					
CCAadj .....	104.7	4.5	5.4	5.4	4.5					
Profits before tax .....	738.4	4.4	-3.0	-12.4	30.3	.6	-4	-1.7	4.3	
Profits tax liability .....	245.8	1.7	1.6	-7.6	10.2	.7	.6	-3.1	4.4	
Profits after tax .....	492.6	2.6	-4.5	-4.8	20.1	.6	-1.0	-1.0	4.3	
Cash flow from current production .....	837.0	-5.8	9.2	4.9	24.2	-7	1.2	.6	3.0	
<b>Domestic industry profits:</b>										
Corporate profits of domestic industries with IVA .....	649.0	-11.9	8.3	-17.5	24.3	-1.8	1.3	-2.7	3.9	
Financial .....	141.8	-1.9	-1.2	-2	8.8	-1.4	-9	-1	6.6	
Nonfinancial .....	507.2	-9.9	9.5	-17.3	15.5	-1.9	1.9	-3.4	3.2	
		Dollars								
<b>Unit price, costs, and profits of nonfinancial corporations:</b>										
Unit price .....	1.061	0	0.001	-0.002	0.001					
Unit labor cost .....	.701	.002	0	.001	.001					
Unit nonlabor cost .....	.225	.000	-.001	.003	-.003					
Unit profits from current production .....	.135	-.003	.002	-.005	.002					

NOTE.—Levels of these and other profits series are in NIPA tables 1.14, 1.16, 6.16C, and 7.15.  
 IVA inventory valuation adjustment  
 CCAadj Capital consumption adjustment

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$24.2 billion after increasing \$4.9 billion.<sup>16</sup> 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 86.2 percent from 84.9 percent but remains below its average level of 91.9 percent for 1991–97.

*Domestic industry profits and related measures.*—Domestic industry profits increased \$24.3 billion after decreasing \$17.5 billion.<sup>17</sup> Profits of domestic nonfinancial corporations increased \$15.5 billion after decreasing \$17.3 billion. The upturn in domestic nonfinancial profits reflected the pattern of payments by tobacco companies to States under the terms of various settlement agreements. To reflect these payments, a downward adjustment of \$13.5 billion (annual rate) was made to profits in the fourth quarter; in the first quarter, the adjustment was much smaller—\$0.9 billion. (For more information, see the box “[State Tobacco Settlements](#)” on page 12 of the April 1999 SURVEY.) Profits of domestic financial corporations increased \$8.8 billion after decreasing \$0.2 billion.

Profits before tax (PBT) increased \$30.3 billion after decreasing \$12.4 billion. The small difference between the \$30.3 billion increase in PBT and the \$31.8 billion increase in profits from current production reflected nearly offsetting changes in the inventory valuation adjustment and the capital consumption adjustment.<sup>18</sup> In the first quarter, inventory losses decreased \$3.0 billion, and

the capital consumption adjustment increased \$4.5 billion.

## Government Sector

The combined current surplus of the Federal Government and of State and local governments—the NIPA measure of net saving by government—increased \$43.2 billion, to \$279.5 billion, in the first quarter after decreasing \$4.4 billion in the fourth (table 11).<sup>19</sup> The upturn was attributable to an upturn in the Federal Government current surplus. The State and local government current surplus turned down.<sup>20</sup>

### Federal

The Federal Government current surplus increased \$45.6 billion, to \$111.4 billion, in the first quarter after decreasing \$26.2 billion in the fourth. The upturn resulted from a sharp acceleration in receipts and a downturn in current expenditures.

*Receipts.*—Federal receipts increased \$31.8 billion in the first quarter after increasing \$11.6 billion in the fourth. The acceleration was more than accounted for by an upturn in corporate profits tax accruals and by an acceleration in contributions for social insurance.

Corporate profits tax accruals increased \$8.6 billion after decreasing \$6.5 billion, reflecting an upturn in domestic corporate profits before tax. The settlement payments to the States by tobacco companies had dampened corporate profits and thus corporate profits tax accruals in the fourth quarter.

Contributions for social insurance increased \$16.2 billion after increasing \$8.3 billion. The acceleration primarily reflected an increase in the social security taxable wage base that boosted contributions by employers, employees, and the self-employed to the old-age, survivors, and disability insurance trust funds.

Indirect business tax and nontax accruals decreased \$0.3 billion after decreasing \$2.3 billion. The smaller decrease was partly accounted for by customs duties, which decreased \$0.1 billion after decreasing \$1.5 billion, and by nontaxes, which decreased \$0.2 billion after decreasing \$0.9 billion.

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

17. Domestic industry profits are estimated as the sum of corporate profits before tax and the inventory valuation adjustment; they 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.

18. The inventory valuation adjustment removes inventory profits and losses from business income; 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 removed from business incomes by the inventory valuation adjustment (IVA); a negative IVA removes inventory profits, and a positive IVA removes inventory losses.

The capital consumption adjustment converts depreciation that is valued at historical cost and that is based on service lives and on the depreciation patterns specified in the tax code to depreciation that is valued at replacement cost and that is based on empirical evidence on the prices of used equipment and structures in resale markets. For information on depreciation in the NIPA's, see Arnold J. Katz and Shelby W. Herman, “Improved Estimates of Fixed Reproducible Tangible Wealth, 1929–95,” SURVEY 77 (May 1997): 69–92 and Barbara M. Fraumeni, “The Measurement of Depreciation in the U.S. National Income and Product Accounts,” SURVEY 77 (July 1997): 7–23.

19. Net saving equals gross saving less consumption of fixed capital (CFC); the estimates of government gross saving, CFC, and net saving are shown in NIPA table 5.1.

20. The NIPA estimates for the government sector are based on financial statements for the Federal Government and for State and local governments, but they differ from them in several respects. For the major differences, see NIPA tables 3.18B on page 10 and 3.19 on page 11 of the October 1998 SURVEY.

Personal tax and nontax receipts increased \$7.3 billion after increasing \$12.1 billion. The deceleration was accounted for by estate and gift taxes, which increased \$0.3 billion after increasing \$3.0 billion, and by income taxes, which increased \$7.0 billion after increasing \$9.2 billion, reflecting a deceleration in withheld income taxes.

**Current expenditures.**—Current expenditures decreased \$13.8 billion in the first quarter after increasing \$37.9 billion in the fourth.<sup>21</sup> The downturn reflected downturns in subsidies less the current surplus of government enterprises and in transfer payments (net) and a deceleration in consumption expenditures.

Subsidies less current surplus of government enterprises decreased \$11.0 billion after increasing \$11.4 billion. The downturn was mainly accounted for by subsidies, which decreased \$8.0 billion after increasing \$11.8 billion. Within subsidies, agricultural subsidies decreased \$8.0 billion after increasing \$11.8 billion; subsidies were boosted in the fourth quarter by special payments to farmers after the enactment of the 1999 Omnibus Consolidated and Emergency Supplemental Appropriations Act that provided two forms of relief to the farmers who were already enrolled in the Federal farm program.

Transfer payments (net) decreased \$0.3 billion after increasing \$12.8 billion. A sharp downturn in transfer payments to the rest of the world more than offset an acceleration in transfer payments to persons. Transfer payments to the rest of the world fell \$13.6 billion after increasing \$11.4 billion; the fourth-quarter increase was attributable to the yearly payment to Israel of \$3.0 billion—\$12.0 billion at an annual rate—for economic support and other payments. Transfer payments to persons increased \$13.3 billion after increasing \$1.4 billion. The step-up mainly reflected a 1.3-percent cost-of-living adjustment in January that boosted social security (old-age, survivors, and disability insurance), Federal employee pension benefits, veterans pension benefits, and supplemental security income benefits by \$6.3 billion. In addition, payments for the Earned Income Tax Credit and the Child Tax Credit boosted transfer payments \$3.4 billion.

Consumption expenditures increased \$1.4 billion after increasing \$11.9 billion.<sup>22</sup> The deceleration was partly accounted for by national defense

consumption expenditures, which decreased \$3.0 billion after increasing \$3.8 billion. The downturn in defense spending was primarily accounted for by services, which decreased \$1.9 billion after increasing \$4.6 billion. Within services, “other services” decreased \$4.3 billion after increasing \$5.8 billion, primarily reflecting downturns in expenditures for research and development and for personnel support. The downturn in “other services” was partly offset by an upturn in compensation of employees, which increased \$3.0 billion after decreasing \$1.4 billion; compensation

**Table 11.—Government Sector Receipts and Current Expenditures**  
(Billions of dollars, seasonally adjusted at annual rates)

	Level	Change from preceding quarter				
	1999	1998				1999
	I	I	II	III	IV	I
Receipts .....	2853.4	53.3	41.6	34.5	36.5	37.2
Current expenditures .....	2574.0	-2.1	24.9	9.4	40.9	-5.8
Current surplus or deficit(-) .....	279.5	55.4	16.7	25.0	-4.4	43.2
Social insurance funds .....	182.7	3.5	6.3	5.5	9.5	9.4
Other .....	96.7	51.9	10.4	19.5	-13.9	33.7
<b>Federal Government</b>						
Receipts .....	1902.2	43.6	29.2	20.5	11.6	31.8
Personal tax and nontax receipts .....	883.2	37.9	19.2	8.1	12.1	7.3
Corporate profits tax accruals .....	209.6	-8.0	1.4	1.3	-6.5	8.6
Indirect business tax and nontax accruals .....	95.7	.1	1.3	3.1	-2.3	-3
Contributions for social insurance .....	713.7	13.6	7.3	8.0	8.3	16.2
Current expenditures .....	1790.8	-13.1	13.6	2.8	37.9	-13.8
Consumption expenditures .....	472.0	-9.2	13.1	-5.3	11.9	1.4
National defense .....	303.7	-11.5	9.7	-1	3.8	-3.0
Nondefense .....	168.2	2.3	3.3	-5.1	8.2	4.2
Transfer payments (net) .....	829.5	2.6	2.6	5.9	12.8	-3
To persons .....	820.5	14.2	3.5	3.7	1.4	13.3
To the rest of the world .....	9.0	-11.6	-9	2.2	11.4	-13.6
Grants-in-aid to State and local governments .....	241.1	-3.1	-1.8	4.5	6.0	3.7
Net interest paid .....	213.9	-3.0	-5	-2.6	-4.3	-7.5
Subsidies less current surplus of government enterprises .....	34.4	-3	.1	.5	11.4	-11.0
Subsidies .....	34.4	-9	-5	-4	11.8	-8.0
Of which: Agricultural subsidies .....	11.4	-2	-1	-1	11.8	-8.0
Less: Current surplus of government enterprises .....	0	-5	-6	-9	.4	3.0
Less: Wage accruals less disbursements .....	0	0	0	0	0	0
Current surplus or deficit (-) .....	111.4	56.6	15.6	17.6	-26.2	45.6
Social insurance funds .....	114.9	3.6	6.1	5.8	9.0	9.5
Other .....	-3.5	53.0	9.5	11.8	-35.2	36.1
<b>State and local governments</b>						
Receipts .....	1192.3	6.8	10.5	18.5	30.8	9.2
Personal tax and nontax receipts .....	252.7	3.5	6.8	7.4	4.3	3.8
Corporate profits tax accruals .....	36.2	-1.4	.3	.3	-1.2	1.7
Indirect business tax and nontax accruals .....	578.1	7.3	4.5	5.7	20.9	-1.0
Contributions for social insurance .....	84.2	.5	.6	.7	.8	1.0
Federal grants-in-aid .....	241.1	-3.1	-1.8	4.5	6.0	3.7
Current expenditures .....	1024.2	7.9	9.5	11.1	9.0	11.6
Consumption expenditures .....	810.6	5.2	8.0	9.2	7.3	9.4
Transfer payments to persons .....	326.2	4.0	3.0	3.2	3.7	3.7
Net interest paid .....	-86.9	-1.2	-1.5	-1.5	-1.6	-1.6
Less: Dividends received by government .....	16.7	.5	.3	0	.6	.1
Subsidies less current surplus of government enterprises .....	-9.0	.4	.3	.2	.3	.1
Subsidies .....	.4	0	0	0	0	0
Less: Current surplus of government enterprises .....	9.4	-4	-3	-2	-3	-1
Less: Wage accruals less disbursements .....	0	0	0	0	0	0
Current surplus or deficit (-) .....	168.1	-1.2	1.1	7.4	21.8	-2.4
Social insurance funds .....	67.9	-1	.2	-3	.5	0
Other .....	100.2	-1.1	.9	7.7	21.3	-2.4

NOTE.—Levels of these series are in NIPA tables 3.1–3.3.

21. For information on the definition of current expenditures and other major NIPA components, see Eugene P. Seskin and Robert P. Parker, “A Guide to the NIPA’s,” SURVEY 78 (March 1998): 26–36.

22. This discussion of consumption expenditures covers the current-dollar estimates; the earlier discussion of consumption expenditures and gross investment covered the chained (1992) dollar estimates.

was boosted \$3.3 billion by the January 1999 pay raise. Durable goods decreased \$0.6 billion after decreasing \$0.2 billion; a downturn in aircraft was mostly offset by upturns in missiles, other durable goods, and electronics. Nondurable goods decreased \$0.4 billion after decreasing \$0.7 billion.

Nondefense consumption expenditures increased \$4.2 billion after increasing \$8.2 billion. The deceleration was more than accounted for by durable goods, which remained unchanged after increasing \$5.9 billion; the fourth-quarter increase followed the sale of the United States Enrichment Corporation in the third quarter.<sup>23</sup> The deceleration in durable goods was partly offset by an acceleration in services, which increased \$4.0 billion after increasing \$2.0 billion. The acceleration was primarily attributable to compensation of employees, which increased \$3.7 billion after increasing \$1.7 billion; compensation was boosted \$2.4 billion by the January 1999 pay raise.

Net interest paid decreased \$7.5 billion after decreasing \$4.3 billion. Gross interest paid decreased \$7.8 billion after decreasing \$3.8 billion.

Grants-in-aid to State and local governments increased \$3.7 billion after increasing \$6.0 billion. The deceleration was more than accounted for by a deceleration in grants for medicaid and by a downturn in grants for highways and for other programs. In contrast, grants for cash assistance and for education turned up.

### *State and local*

The State and local government current surplus decreased \$2.4 billion, to \$168.1 billion, in the first quarter after increasing \$21.8 billion in the fourth. The downturn was accounted for by a deceleration in receipts.

23. Sales except those by government enterprises for goods and services that are similar to those provided by the private sector are subtracted in the calculation of government consumption expenditures.


*Receipts.*—State and local government receipts increased \$9.2 billion after increasing \$30.8 billion. The deceleration was accounted for by a downturn in indirect business tax and nontax accruals.

Indirect business tax and nontax accruals decreased \$1.0 billion after increasing \$20.9 billion. The downturn was more than accounted for by State nontax accruals, which decreased \$12.5 billion after increasing \$12.0 billion. In the fourth quarter, nontaxes were boosted by the settlement payments to the States by tobacco companies: These payments amounted to \$3.4 billion (\$13.5 billion at an annual rate), including up-front payments to 46 States of \$2.4 billion (\$9.6 billion at an annual rate).<sup>24</sup> Sales taxes increased \$7.4 billion after increasing \$5.5 billion; the acceleration was mostly attributable to general retail sales taxes.

Personal tax and nontax receipts increased \$3.8 billion after increasing \$4.3 billion. The deceleration was accounted for by personal income taxes, which increased \$2.7 billion after increasing \$3.2 billion.

Corporate profits tax accruals increased \$1.7 billion after decreasing \$1.2 billion.

*Current expenditures.*—Current expenditures increased \$11.6 billion after increasing \$9.0 billion, primarily reflecting an acceleration in consumption expenditures.

Consumption expenditures increased \$9.4 billion after increasing \$7.3 billion. The acceleration was mainly attributable to an acceleration in services and to an upturn in nondurable goods. Within services, compensation of employees increased \$7.5 billion after increasing \$6.1 billion, reflecting an acceleration in compensation for education workers as a result of a step-up in education employment. 

24. For more information, see the box "State Tobacco Settlements" on page 12 in the April 1999 SURVEY.