BUSINESS SITUATION

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REAL GROSS domestic product (GDP) increased 4.8 percent in the first quarter of 1998, according to the "preliminary" estimates of the national income and product accounts (NIPA's), after increasing 3.7 percent in the fourth quarter (table 1 and chart 1); the "advance" NIPA estimate of real GDP, reported in the May "Business Situation," had shown a 4.2-percent first-quarter increase.[1] The upward revision to real GDP reflected a sharp upward revision to inventory investment that was partly offset by an upward revision to imports, which are subtracted in the calculation of GDP. (The sources of the revisions are discussed in the "Revisions" section.)

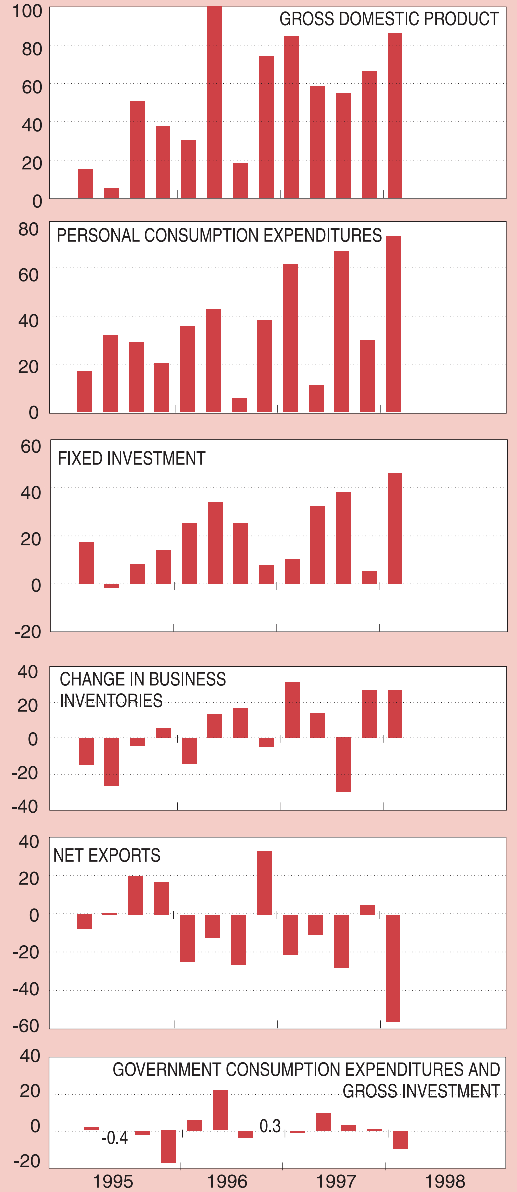
The picture of the economy presented by the preliminary estimates is somewhat changed from

1. Quarterly estimates in the NIPA's are expressed at seasonally adjusted annual rates, and quarterly changes are differences between these rates. Quarter-to-quarter percent changes are annualized. Real estimates are expressed in chained (1992) dollars. Price indexes are chain-type indexes.

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				1997			1998
	1998	1997			1998				
	I	II	III	IV	I	II	III	IV	I
Gross domestic product	**7,365.6**	**58.0**	**54.4**	**66.0**	**85.6**	**3.3**	**3.1**	**3.7**	**4.8**
Less: Exports of goods and services	985.0	39.8	10.5	19.7	−7.7	18.4	4.4	8.3	−3.0
Plus: Imports of goods and services	1,199.8	50.2	38.0	14.7	48.0	20.5	14.6	5.3	17.7
***Equals*: Gross domestic purchases**	**7,558.8**	**66.0**	**77.7**	**61.5**	**132.7**	**3.7**	**4.3**	**3.4**	**7.3**
Less: Change in business inventories	100.7	13.9	−30.1	26.5	26.7	....	....	....	....
***Equals*: Final sales to domestic purchasers**	**7,453.4**	**51.6**	**106.2**	**36.0**	**106.5**	**2.9**	**6.0**	**2.0**	**5.9**
Personal consumption expenditures	4,999.5	11.3	66.8	29.9	73.4	.9	5.6	2.5	6.1
Nonresidential fixed investment	908.0	28.1	37.5	−1.8	35.3	14.6	19.2	−.8	17.2
Residential investment	297.2	4.9	1.9	6.2	10.9	7.4	2.7	9.1	16.1
Government consumption expenditures and gross investment	1,264.6	9.6	3.3	1.0	−9.8	3.1	1.1	.3	−3.0
Federal	444.5	7.3	−1.3	−2.7	−11.6	6.6	−1.1	−2.3	−9.8
State and local	820.2	2.4	4.6	3.6	1.9	1.2	2.3	1.8	.9
Addendum: Final sales of domestic product	**7,260.9**	**43.6**	**82.6**	**40.8**	**59.8**	**2.5**	**4.7**	**2.3**	**3.4**

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 in NIPA table 8.1. Contributions of the major components to the quarter-to-quarter percent change in real GDP are in table 8.2.

that presented by the advance estimates. As in the advance estimates, real GDP growth accelerated in the first quarter, and the acceleration was more than accounted for by a sharp step-up in consumer spending and by an upturn in business spending for equipment.[2] However, the "preliminary" estimates show faster accelerations in real GDP and in real gross domestic purchases and a slower acceleration in real final sales of domestic product than were shown by the advance estimates.[3] According to the preliminary estimates, real gross domestic purchases increased 7.3 percent after increasing 3.4 percent, and real final sales of domestic product increased 3.4 percent after increasing 2.3 percent; the advance first-quarter estimates had indicated a 6.1-percent increase in real gross domestic purchases and a 4.1-percent increase in real final sales of domestic product.

The price index for gross domestic purchases was unchanged in the first quarter after increasing 1.4 percent in the fourth. The price index for GDP increased 1.0 percent after increasing 1.4 percent. The major reason for the difference in the first-quarter changes in these price measures was a large decrease in the prices for imports of goods and services, which are included in gross domestic purchases prices but not in GDP prices.

Personal consumption expenditures

Real personal consumption expenditures (PCE) increased 6.1 percent in the first quarter after increasing 2.5 percent in the fourth (table 2). The large first-quarter increase continues a pattern of strong growth that began in the first quarter of 1997 after modest growth in 1995 and 1996. Over the past five quarters, real PCE increased at an annual rate of 4.1 percent, compared with a 2.4-percent rate over the preceding 2 years.

The recent strength in real PCE reflects strength in several of the factors usually considered in analyses of PCE. Since the fourth quarter of 1996, real disposable personal income has increased at an annual rate of 3.9 percent, compared with a 2.2-percent rate over the preceding 2 years. The unemployment rate fell to 4.7 percent in the first quarter of 1998—the lowest rate in more than 25 years—from 5.3 percent in the fourth quarter of 1996; 2 years earlier, the unemployment rate was 5.6 percent. The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) has increased at an annual rate of 8.4 percent since the fourth quarter of 1996, compared with a 2.3-percent rate over

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.

3. Gross domestic purchases—a measure of purchases by U.S. residents regardless of where the purchased goods and services are produced—is calculated as GDP less exports of goods and services plus imports of goods and services. Final sales of domestic product is calculated as GDP less the change in business inventories.

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							
	1998	1997			1998	1997			1998
	I	II	III	IV	I	II	III	IV	I
Personal consumption expenditures	**4,999.5**	**11.3**	**66.8**	**29.9**	**73.4**	**0.9**	**5.6**	**2.5**	**6.1**
Durable goods	684.1	–8.8	27.1	3.2	24.8	–5.4	18.4	1.9	15.9
Motor vehicles and parts	241.9	–10.3	15.6	–1.4	4.6	–16.6	31.2	–2.4	8.0
Of which: New autos	79.4	–5.9	8.6	–3.0	.1	–26.6	55.7	–13.6	.4
New trucks	62.0	–2.7	5.8	3.5	.8	–18.1	52.9	25.8	5.8
Furniture and household equipment	324.5	4.9	8.8	3.8	19.6	7.0	12.7	5.1	28.3
Other	125.5	–1.7	2.0	1.4	2.4	–5.3	6.7	4.7	8.2
Nondurable goods	1,484.2	–7.8	15.5	–4.6	23.3	–2.1	4.3	–1.2	6.5
Food	690.7	–6.4	1.3	–2.9	4.1	–3.6	.8	–1.7	2.4
Clothing and shoes	291.6	–3.3	7.5	–1.7	12.0	–4.7	11.5	–2.4	18.3
Gasoline and oil	118.1	1.4	.1	.8	1.1	5.3	.4	2.6	3.7
Fuel oil and coal	9.1	.7	.3	–.5	–.8	32.5	13.4	–17.9	–30.0
Other	377.6	–.3	6.6	–.2	7.8	–.3	7.5	–.2	8.7
Services	2,834.0	25.9	26.3	30.3	27.6	3.9	3.9	4.4	4.0
Housing	723.4	3.7	3.6	3.7	4.1	2.1	2.0	2.1	2.3
Household operation	297.1	6.2	1.5	4.4	–3.0	8.9	2.1	6.1	–3.9
Electricity and gas	111.4	4.0	–2.1	1.2	–5.5	14.7	–6.9	4.2	–17.5
Other household operation	185.1	2.2	3.5	3.2	2.2	5.3	8.2	7.2	5.0
Transportation	209.3	1.6	3.0	2.9	2.5	3.3	6.1	5.6	5.0
Medical care	722.0	4.4	5.4	2.7	5.1	2.5	3.1	1.5	2.9
Other	882.4	10.2	12.6	16.9	18.4	5.1	6.2	8.2	8.8

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.

the preceding 2 years (chart 2). In addition, consumer spending may have been stimulated by the large increases in stock market prices that have increased consumer wealth.

In the first quarter of 1998, expenditures for durable goods accelerated sharply, and expenditures for nondurable goods turned up; in contrast, expenditures for services increased somewhat less than in the fourth quarter. Expenditures for durable goods jumped 15.9 percent in the first quarter after increasing 1.9 percent in the fourth. Motor vehicles and parts increased after decreasing; the upturn mainly reflected upturns in used and new autos, as trucks increased less than in the fourth quarter. Furniture and household equipment increased substantially more than in the fourth quarter; most of the acceleration was accounted for by consumer electronics, including computers.

Expenditures for nondurable goods increased 6.5 percent after decreasing 1.2 percent. The upturn mainly reflected an upturn in clothing and shoes, but "other" nondurable goods and food also turned up.

Expenditures for services increased 4.0 percent after increasing 4.4 percent. The deceleration reflected a downturn in household operation, particularly in electricity and gas; the decrease in electricity and gas reflected a decrease in demand for heating services due to warmer-than-normal winter weather. In contrast, medical care and "other" services, primarily brokerage and investment counseling, increased more than in the fourth quarter.

Nonresidential fixed investment

Real private nonresidential fixed investment jumped 17.2 percent in the first quarter after edging down 0.8 percent in the fourth (table 3). Producers' durable equipment (PDE) more than accounted for the upturn; structures decreased more than in the fourth quarter.

Factors that affect investment spending have been generally favorable over the past four quarters: Real final sales of domestic product increased 3.2 percent; long-term interest rates decreased—for example, the yield on high-grade corporate bonds decreased to 6.64 percent from 7.67 percent; domestic corporate profits increased 6.1 percent; and the capacity utilization rate in manufacturing was little changed at 81.5 percent.

PDE jumped 27.5 percent in the first quarter after edging down 0.3 percent in the fourth. All components except trucks, buses, and truck trailers contributed to the upturn, but by far the largest contribution was from computers and peripheral equipment, which accelerated sharply to a record quarterly increase.

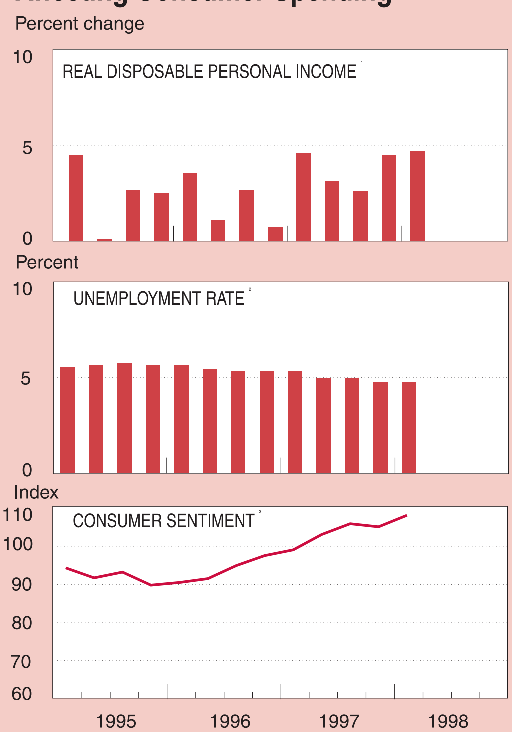
Structures decreased 7.4 percent after decreasing 2.3 percent. The larger first-quarter decrease was more than accounted for by a downturn in "other" structures that reflected the fourth-quarter sale of the Naval Petroleum Reserve at Elk Hills, California, by the Federal Government to a private business. (For more information on this sale, see the "Business Situation" in the March 1998 SURVEY OF CURRENT BUSINESS.) Nonresidential buildings and mining exploration, shafts, and wells decreased less than in the fourth quarter, and utilities increased more than in the fourth quarter.

Residential investment

Real residential investment increased 16.1 percent in the first quarter after increasing 9.1 percent in the fourth (table 3). The acceleration was accounted for by single-family structures and by

CHART 2

Selected Factors Affecting Consumer Spending



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 "other" residential investment, both of which increased more than in the fourth quarter.[4]

Single-family structures increased 22.2 percent after increasing 8.4 percent. Single-family housing starts increased more than in the fourth quarter, to a level of 1.20 million units (seasonally adjusted annual rate) (chart 3).[5]

"Other" residential investment increased 9.4 percent after increasing 6.3 percent. The acceleration was accounted for by step-ups in home

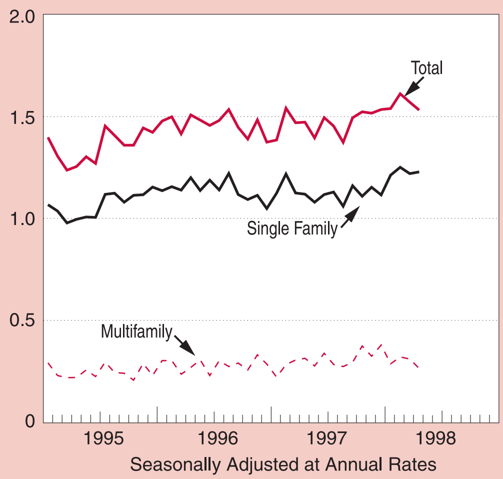
4. "Other" residential investment includes home improvements, new mobile home sales, brokers' commissions on home sales, residential equipment, and other residential structures (which consists primarily of dormitories, fraternity and sorority houses, and nurses' homes).

5. The estimate of single-family structures for a quarter largely reflects starts in the first 2 months of that quarter and in the last 2 months of the preceding quarter; therefore, structures in the first quarter largely reflected starts from November 1997 through February 1998, and structures in the fourth quarter largely reflected starts from August 1997 through November 1997.

CHART 3

Housing Starts

Millions of units



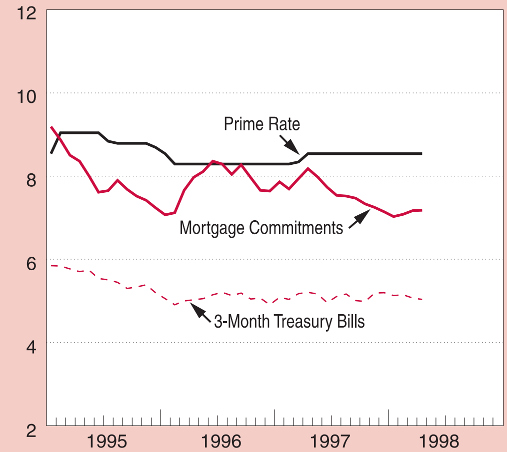
Data: Bureau of the Census

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

CHART 4

Selected Interest Rates

Percent



Data: Federal Reserve Board

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

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							
	1998	1997			1998	1997			1998
	I	II	III	IV	I	II	III	IV	I
Gross private domestic fixed investment	**1,200.5**	**32.4**	**37.9**	**5.3**	**45.9**	**12.6**	**14.4**	**1.8**	**16.9**
Nonresidential	908.0	28.1	37.5	–1.8	35.3	14.6	19.2	–.8	17.2
Structures	191.8	–2.4	3.2	–1.2	–3.7	–4.7	6.7	–2.3	–7.4
Nonresidential buildings, including farm	144.9	–3.0	3.0	–3.2	–2.0	–7.6	8.3	–8.1	–5.4
Utilities	29.2	1.2	–.7	.2	1.0	17.4	–8.2	2.8	14.8
Mining exploration, shafts, and wells	12.6	–.6	.4	–.6	–.2	–18.3	13.9	–15.8	–6.5
Other	5.0	.1	.4	2.4	–2.5	11.3	34.0	372.9	–80.0
Producers' durable equipment	727.7	32.7	36.0	–.5	42.9	23.0	24.1	–.3	27.5
Information processing and related equipment	357.9	15.5	23.6	5.4	32.0	24.0	35.8	6.9	45.5
Computers and peripheral equipment	299.8	20.3	24.4	9.0	50.3	48.4	53.3	16.0	108.4
Other	136.2	2.9	7.1	.4	4.3	9.8	25.0	1.2	13.8
Industrial equipment	129.4	6.7	2.1	1.0	2.8	24.8	7.2	3.2	8.9
Transportation and related equipment	151.1	8.5	10.8	–3.7	8.0	29.5	35.8	–9.6	24.4
Of which: Motor vehicles	123.5	–2.1	5.4	0	3.5	–7.0	20.5	–.2	12.3
Other	117.0	3.0	3.0	–1.1	6.0	12.1	11.4	–3.6	23.2
Residential	297.2	4.9	1.9	6.2	10.9	7.4	2.7	9.1	16.1
Single-family structures	145.5	.3	–.8	2.7	7.1	.7	–2.3	8.4	22.2
Multifamily structures	21.9	.8	–.8	1.5	.8	17.6	–15.6	34.8	17.0
Other	130.3	4.0	3.6	1.9	2.9	14.4	12.4	6.3	9.4

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.

improvements and in brokers' commissions. The step-up in brokers' commissions reflected an acceleration in home sales to a level of 5.42 million units (seasonally adjusted annual rate)—4.57 million-unit sales of existing residences and 0.85 million-unit sales of new residences. The commitment rate on 30-year, fixed-rate mortgages decreased slightly to 7.10 percent from 7.20 percent (chart 4).

Multifamily construction increased 17.0 percent after increasing 34.8 percent.

Inventory investment

Real inventory investment—that is, the change in business inventories—increased $26.7 billion in the first quarter, as inventory accumulation picked up to $100.7 billion from $74.0 billion (table 4). Inventory investment had increased virtually the same amount in the fourth quarter, as accumulation had picked up from $47.5 billion in the third quarter.

Manufacturing inventories increased $38.3 billion in the first quarter after increasing $21.5 billion in the fourth. Most of the step-up was in durable goods industries, reflecting an upturn in motor vehicles and step-ups in fabricated metals, in electronic machinery, and in industrial machinery. In the nondurable goods industries, the largest step-ups were in petroleum and in chemicals.

Wholesale trade inventories increased $29.3 billion after increasing $19.7 billion. Among merchant wholesalers, a sharp step-up in durable goods was partly offset by a slowdown in nondurable goods. In durable goods, sizable increases followed relatively small decreases in professional and commercial equipment (which includes computers), in motor vehicles, and in electrical goods. In nondurable goods, inventories turned down in farm products, in apparel, and in "other nondurables." Among nonmerchant wholesalers, a step-up was mainly accounted for by an upturn in durable goods.[6]

Retail trade inventories increased $16.3 billion after increasing $17.0 billion, as a slowdown in durable goods was nearly offset by a step-up in nondurable goods. The slowdown in durable goods was dominated by inventories of motor vehicle dealers. The step-up in nondurable goods was widespread.

"Other" nonfarm inventories increased somewhat more than in the fourth quarter.[7]

Farm inventories increased $8.9 billion after increasing $9.8 billion. As in the fourth quarter, an increase in crop inventories more than offset a small decrease in livestock inventories.

The ratio of real nonfarm inventories to real final sales of domestic businesses increased from 2.29 in the fourth quarter to 2.31 in the first, its highest level since the fourth quarter of 1991; the ratio has trended up over the past six quarters, increasing 0.06 over that time. A ratio in which final sales include only goods and structures increased to 4.17 from 4.14. This ratio has also trended up over the past six quarters, increasing 0.10 over that time; however, this ratio was no higher in the first quarter than it had been in the second quarter of 1995.

Exports and imports

Real exports of goods and services decreased 3.0 percent in the first quarter after increasing 8.3 percent in the fourth (table 5). Real imports

6. Nonmerchant wholesalers, in contrast to merchant wholesalers, do not take title to the goods they sell; nonmerchant wholesalers include sales offices and branches of manufacturing, refining, or mining enterprises that are separate from their plants and mines, as well as agents, brokers, and commission merchants.

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

Table 4.—Real Change in Business Inventories

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

	Level					Change from preceding quarter			
	1997				1998	1997			1998
	I	II	III	IV	I	II	III	IV	I
Change in business inventories	**63.7**	**77.6**	**47.5**	**74.0**	**100.7**	**13.9**	**–30.1**	**26.5**	**26.7**
Farm	5.3	7.5	9.5	9.8	8.9	2.2	2.0	.3	–.9
Nonfarm	58.3	70.1	38.3	64.5	91.8	11.8	–31.8	26.2	27.3
Manufacturing	20.9	29.0	14.8	21.5	38.3	8.1	–14.2	6.7	16.8
Wholesale trade	22.9	24.6	14.9	19.7	29.3	1.7	–9.7	4.8	9.6
Retail trade	.6	7.7	2.8	17.0	16.3	7.1	–4.9	14.2	–.7
Of which: Motor vehicle dealers	–2.5	–3.7	–.6	10.6	–5.2	–1.2	3.1	11.2	–15.8
Other	13.7	8.9	5.7	6.3	8.1	–4.8	–3.2	.6	1.8

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

of goods and services jumped 17.7 percent after increasing 5.3 percent.

Real exports of goods decreased 5.4 percent after jumping 14.1 percent; exports of both nonagricultural and agricultural goods turned down. The weakness in nonagricultural exports was widespread among all goods except computers, peripherals, and parts. Exports of services increased 3.3 percent after decreasing 5.1 percent; most of the upturn was accounted for by upturns in transfers under U.S. military agency sales contracts and in "other private services" (which includes education, financial, and telecommunications services).

Real imports of goods jumped 17.3 percent after increasing 6.2 percent; imports of nonpetroleum products accelerated, and imports of petroleum and products turned up. Most of the acceleration in nonpetroleum products was accounted for by computers, peripherals, and parts; by automotive vehicles, engines, and parts; and by industrial supplies and materials. Imports of services jumped 20.0 percent after edging up 0.3 percent; most of the acceleration was accounted for by upturns in "other private services" and in royalties and license fees, primarily reflecting payments for the Winter Olympics.

Government spending

Real government consumption expenditures and gross investment decreased 3.0 percent in the first quarter after edging up 0.3 percent in the fourth (table 6). Federal Government spending decreased more than in the fourth quarter, and State and local government spending increased less.

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			1998
	1998	1997			1998				
	I	II	III	IV	I	II	III	IV	I
Exports of goods and services	**985.0**	**39.8**	**10.5**	**19.7**	**–7.7**	**18.4**	**4.4**	**8.3**	**–3.0**
Goods	745.8	39.6	6.0	24.5	–10.5	25.1	3.4	14.1	–5.4
Agricultural goods	49.8	–.5	2.3	3.5	–3.2	–4.2	20.6	31.9	–21.7
Nonagricultural goods	699.9	41.2	3.3	20.6	–6.8	28.2	1.9	12.5	–3.8
Services	243.8	1.9	4.2	–3.2	2.0	3.2	7.2	–5.1	3.3
Imports of goods and services	**1,199.8**	**50.2**	**38.0**	**14.7**	**48.0**	**20.5**	**14.6**	**5.3**	**17.7**
Goods	1,027.8	47.1	34.3	14.9	40.2	22.9	15.4	6.2	17.3
Petroleum and products	68.4	5.9	1.1	–1.7	.9	44.5	6.3	–9.5	5.4
Nonpetroleum products	959.9	40.6	33.4	16.8	39.4	21.1	16.2	7.7	18.2
Services	173.6	3.4	4.0	.1	7.7	8.9	10.1	.3	20.0
Addendum: Net exports of goods and services	**–214.7**	**–10.3**	**–27.5**	**5.0**	**–55.6**	....	....	....	....

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 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			1998
	1998	1997			1998				
	I	II	III	IV	I	II	III	IV	I
Government consumption expenditures and gross investment	**1,264.6**	**9.6**	**3.3**	**1.0**	**–9.8**	**3.1**	**1.1**	**.3**	**–3.0**
Federal	444.5	7.3	–1.3	–2.7	–11.6	6.6	–1.1	–2.3	–9.8
National defense	295.6	5.5	.9	.8	–15.5	7.5	1.2	1.0	–18.4
Consumption expenditures	261.0	3.6	–.3	.3	–12.9	5.4	–.4	.4	–17.5
Gross investment	34.6	1.9	1.3	.5	–2.6	25.3	15.3	5.2	–25.2
Nondefense	148.3	1.7	–2.2	–3.2	3.5	4.9	–5.7	–8.6	10.1
Consumption expenditures	127.7	.5	–.4	–1.2	1.1	1.7	–1.5	–3.7	3.5
Gross investment	20.7	1.4	–1.9	–2.5	2.9	29.8	–31.1	–39.9	80.8
State and local	820.2	2.4	4.6	3.6	1.9	1.2	2.3	1.8	.9
Consumption expenditures	676.4	3.2	4.3	3.9	3.9	1.9	2.6	2.3	2.3
Gross investment	143.8	–.8	.3	–.3	–2.0	–2.4	.9	–.6	–5.4

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

Federal defense spending fell 18.4 percent after increasing 1.0 percent. Both consumption expenditures and investment decreased after increasing. The downturn in consumption expenditures was mostly accounted for by contractual services other than compensation of employees. The downturn in investment spending was accounted for by equipment, primarily aircraft.

Federal nondefense spending increased 10.1 percent after decreasing 8.6 percent. Both consumption expenditures and investment increased after decreasing. The upturn in investment spending was attributable to structures.

State and local government spending increased 0.9 percent after increasing 1.8 percent. Investment spending decreased more than in the fourth quarter, reflecting a larger decrease in structures in the first quarter than in the fourth. Consumption expenditures increased the same amount in both quarters.

Revisions

As noted earlier, the preliminary estimate of a 4.8-percent increase in real GDP in the first quarter is 0.6 percentage point higher than the advance estimate (table 7); for 1976–97, the average revision, without regard to sign, from the advance estimate to the preliminary estimate was 0.5 percentage point. The upward revision to GDP in the first quarter reflected a sharp upward revision to inventory investment that was partly offset by an upward revision to imports. Revisions to other components of GDP were relatively small.

The upward revision to inventory investment primarily reflected the incorporation of newly available Census Bureau inventory data for February (revised) and March, which showed a large increase; for the advance estimates, BEA had assumed a small decrease. In addition, the revision reflected the incorporation of revised Census Bureau inventory data for wholesale and retail trade that are based on annual surveys for 1996; BEA incorporates data from such surveys on a "best-change" basis, which allows the use of newly available data for the preceding quarter in the calculation of change from that quarter to the current quarter. The revised Census Bureau data for 1995–97 will be incorporated at the time of the annual NIPA revision at the end of July.

The upward revision to imports reflected the incorporation of newly available Census Bureau data for imports of goods for March, which showed a large increase; for the advance estimates, BEA had assumed little change.

The preliminary estimate of the price index for gross domestic purchases shows no change from the fourth quarter, the same as the advance estimate, and the preliminary estimate of the increase in the GDP price index was 1.0 percent, 0.1 percentage point higher than the advance estimate.

The preliminary estimate of the increase in real disposable personal income (DPI) was 4.7 percent, 2.1 percentage points lower than the advance estimate. Current-dollar personal income was revised down slightly; current-dollar DPI was revised down more, reflecting a large upward revision to personal tax and nontax payments that reflected the incorporation of newly available data from the *Monthly Treasury Statement* on

Table 7.—Revisions to Real Gross Domestic Product and Prices, First Quarter 1998

[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
Gross domestic product	**4.2**	**4.8**	**0.6**	**9.6**
Less: Exports of goods and services	–3.4	–3.0	.4	.9
Goods	–6.1	–5.4	.7	1.2
Services	3.7	3.3	–.4	–.3
Plus: Imports of goods and services	11.6	17.7	6.1	16.0
Goods	10.2	17.3	7.1	16.0
Services	19.2	20.0	.8	.3
***Equals*: Gross domestic purchases**	**6.1**	**7.3**	**1.2**	**22.1**
Personal consumption expenditures	5.7	6.1	.4	4.9
Durable goods	18.4	15.9	–2.5	–3.6
Nondurable goods	5.2	6.5	1.3	4.6
Services	3.5	4.0	.5	3.5
Fixed investment	17.6	16.9	–.7	–1.7
Nonresidential	17.6	17.2	–.4	–.7
Structures	–8.9	–7.4	1.5	.8
Producers' durable equipment	28.8	27.5	–1.3	–1.8
Residential	17.6	16.1	–1.5	–1.0
Change in business inventories	....	....	....	23.7
Nonfarm	....	....	....	24.8
Farm	....	....	....	–1.4
Government consumption expenditures and gross investment	–2.0	–3.0	–1.0	–3.5
Federal	–8.3	–9.8	–1.5	–1.9
National defense	–16.7	–18.4	–1.7	–1.6
Nondefense	11.0	10.1	–.9	–.3
State and local	1.7	.9	–.8	–1.7
Addenda:				
Final sales of domestic product	4.1	3.4	–.7	–12.5
Gross domestic purchases price index [1]	0	0	0	....
GDP price index [1]	.9	1.0	.1	....

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

NOTE.—The preliminary estimates for the first quarter of 1998 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 January through March, consumers' share of new-car purchases for March, revised average unit value for domestic new autos for March, consumers' share of new-truck purchases for March, and residential electricity usage for January.

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 inventories for February (revised) and March; and retail trade and wholesale trade inventories for October 1997 through 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: Monthly Treasury Statement detailed data for March, Department of Defense detailed financial reports for the quarter, 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), values and quantities of petroleum imports for February (revised) and March, and housing prices for the first quarter.

Federal nonwithheld income taxes through April. The preliminary estimate of the personal saving rate—personal savings as a percentage of current-dollar DPI—was 3.7 percent, 0.5 percentage point lower than the advance estimate.

Corporate Profits

Profits from current production increased $4.4 billion in the first quarter after decreasing $9.2 billion in the fourth (table 8).[8] Profits of domestic industries increased $1.7 billion after decreasing $5.7 billion. Profits of domestic nonfinancial corporations edged up $0.7 billion after decreasing $10.7 billion, as an increase in real product offset a decrease in unit profits; the decrease in unit profits resulted from an increase in unit labor costs, while unit prices changed little. Profits of domestic financial corporations increased $1.0 billion after increasing $5.0 billion. Profits from the rest of the world increased $2.7 billion after decreasing $3.6 billion; receipts turned up, while payments decreased about as much as in the fourth quarter.[9]

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased $11.2 billion after decreasing $4.5 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 for the fourth consecutive quarter, to 79.7 percent from 81.0 percent. This ratio, which averaged 84.7 percent in 1990–97, was last below 80 percent in the first quarter of 1995.

Industry profits and related measures.—Industry profits increased $2.1 billion after decreasing $10.6 billion.[10] Profits of domestic nonfinancial corporations decreased less than in the fourth quarter, largely reflecting an upturn in trade profits. In contrast, profits of domestic financial corporations increased less than in the fourth quarter. As already noted, profits from the rest of the world turned up.

Profits before tax (PBT) decreased $18.9 billion after decreasing $16.1 billion. The difference between the $18.9 billion decrease in PBT and the $4.4 billion increase in profits from current production mainly reflected a $21.0 billion decrease in inventory profits.[11]

Table 8.—Corporate Profits

[Seasonally adjusted at annual rates]

	Level	Change from preceding quarter			
	1998	1997			1998
	I	II	III	IV	I
	Billions of dollars				
Profits from current production	**822.5**	**15.5**	**32.2**	**–9.2**	**4.4**
Domestic industries	723.5	12.2	33.1	–5.7	1.7
Financial	115.3	.9	1.6	5.0	1.0
Nonfinancial	608.2	11.3	31.5	–10.7	.7
Rest of the world	99.0	3.4	–.9	–3.6	2.7
Receipts (inflows)	146.0	8.4	2.2	–5.5	1.0
Payments (outflows)	47.0	5.0	3.1	–1.9	–1.7
IVA	30.2	2.4	–2.3	5.6	21.0
CCAdj	73.9	1.7	.9	1.3	2.3
Profits before tax	718.4	11.4	33.6	–16.1	–18.9
Profits tax liability	245.4	3.3	13.7	–4.6	–8.2
Profits after tax	473.0	8.1	19.9	–11.5	–10.7
Cash flow from current production	714.6	11.3	17.7	–4.5	11.2
Corporate profits with IVA	748.6	13.8	31.4	–10.6	2.1
Domestic industries	649.7	10.4	32.3	–7.0	–.5
Financial	125.7	1.0	1.9	5.1	1.2
Nonfinancial	524.0	9.4	30.4	–12.1	–1.7
Rest of the world	99.0	3.4	–.9	–3.6	2.7
	Dollars				
Unit price, costs, and profits of nonfinancial corporations:					
Unit price	1.073	0.003	0	0.001	0
Unit labor cost	.705	.001	–.003	.007	.003
Unit nonlabor cost	.226	0	–.001	–.001	–.001
Unit profits from current production	.142	.001	.005	–.004	–.003

NOTE.—Levels of these and other profits series are in NIPA tables 1.14, 1.16, 6.18C, and 7.15.
IVA Inventory valuation adjustment
CCAdj Capital consumption adjustment

Rates of Return for Domestic Nonfinancial Corporations, 1960–97

For domestic nonfinancial corporations, property income's rate of return increased to 9.8 percent in 1997 from 9.5 percent in 1996, and property income's share of domestic income edged up to 19.2 percent from 19.1 percent (chart 5 and table 9). For both measures, the 1997 levels were the highest in almost 30 years.

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

9. 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 are derived from BEA's international transactions accounts.

10. 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 are available only for total financial and total nonfinancial industries.

11. 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 nonfarm proprietors' income), as reported on tax returns of businesses; they are shown as the inventory valuation adjustment with the sign reversed.

The rate of return is defined here as the ratio of property income to the stock of net reproducible tangible assets—the replacement-cost value of structures, equipment, and inventories. For purposes of this article, property income is defined as the sum of profits from current production—corporate profits with inventory valuation and capital consumption adjustments—and net interest payments (table 10).[12] In other contexts, different definitions may be appropriate. For example, in "Foreign Direct Investment in the United States" in this issue, rates of return for nonfinancial U.S. affiliates are calculated on the basis of all assets, not just reproducible tangible assets, and in "Gross State Product, 1977–96," property income is defined to include proprietors' income, rent, and consumption of fixed capital.

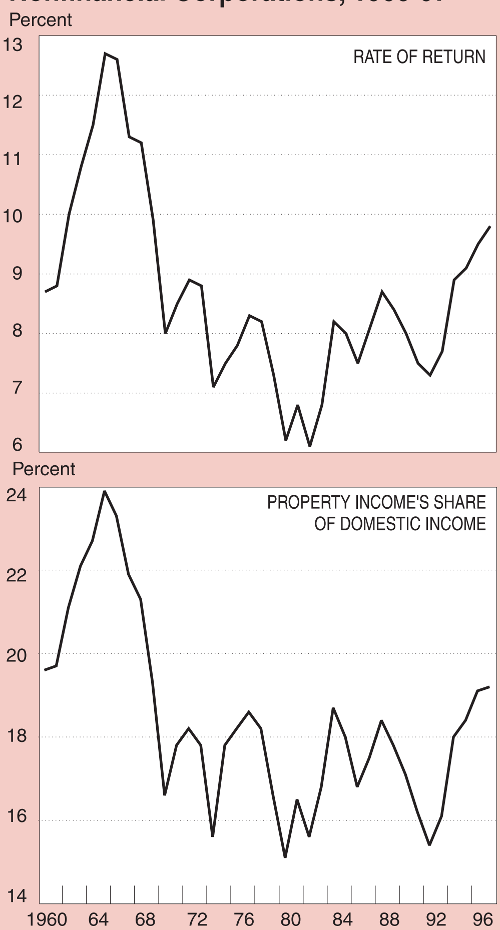
This measure of rate of return has several useful features. First, it captures the total return to investment, regardless of the mix of equity and debt used to finance the investment. Second,

12. Corporate profits and net interest are based on tabulations of "company" data rather than "establishment" data. As a result, property income for domestic nonfinancial corporations may include income earned by financial establishments of those corporations; similarly, it may exclude income earned by nonfinancial units of financial corporations.

For a discussion of the industrial distribution of NIPA series, see Eugene P. Seskin and Robert P. Parker, "A Guide to the NIPA's," SURVEY 78 (March 1998): 42–43. For a discussion of the wealth estimates, which are on an establishment basis, see Arnold J. Katz and Shelby W. Herman, "Improved Estimates of Fixed Reproducible Tangible Wealth, 1929–95," SURVEY 77 (May 1997): 69–92.

CHART 5

Rate of Return and Property Income's Share of Domestic Income, Domestic Nonfinancial Corporations, 1960-97



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

Table 9.—Rate of Return and Income Share, Domestic Nonfinancial Corporations, 1960–97

[Percent]

Year	Rate of return: Property income: Total (1)	Rate of return: Profits from current production: Total (2)	Rate of return: Profits tax liability (3)	Rate of return: Profits after tax (4)	Rate of return: Net interest (5)	Share of domestic income: Property income: Total (6)	Share of domestic income: Profits from current production (7)	Share of domestic income: Net interest (8)
1960	8.7	8.0	3.8	4.2	0.7	19.6	18.1	1.5
1961	8.8	8.0	3.8	4.3	.8	19.7	18.0	1.7
1962	10.0	9.2	3.9	5.3	.9	21.1	19.3	1.8
1963	10.8	9.9	4.1	5.8	.9	22.1	20.3	1.8
1964	11.5	10.6	4.2	6.5	.9	22.7	20.9	1.8
1965	12.7	11.7	4.4	7.2	1.0	23.9	22.0	1.9
1966	12.6	11.5	4.5	7.0	1.1	23.3	21.3	2.1
1967	11.3	10.1	3.9	6.3	1.2	21.9	19.5	2.3
1968	11.2	9.9	4.3	5.6	1.3	21.3	18.9	2.5
1969	9.9	8.4	3.9	4.5	1.5	19.3	16.3	3.0
1970	8.0	6.2	2.9	3.3	1.8	16.6	12.8	3.8
1971	8.5	6.7	2.9	3.8	1.8	17.8	14.1	3.7
1972	8.9	7.2	3.0	4.2	1.7	18.2	14.7	3.5
1973	8.8	7.0	3.2	3.8	1.8	17.8	14.2	3.7
1974	7.1	5.1	2.9	2.2	1.9	15.6	11.3	4.3
1975	7.5	5.8	2.5	3.3	1.7	17.8	13.8	4.1
1976	7.8	6.4	2.8	3.5	1.5	18.2	14.7	3.4
1977	8.3	6.8	2.9	3.9	1.5	18.6	15.3	3.4
1978	8.2	6.7	2.9	3.8	1.6	18.2	14.8	3.5
1979	7.3	5.6	2.6	2.9	1.7	16.6	12.7	3.9
1980	6.2	4.3	2.2	2.1	1.9	15.1	10.4	4.7
1981	6.8	4.7	1.9	2.8	2.1	16.5	11.4	5.1
1982	6.1	3.9	1.3	2.6	2.2	15.6	9.9	5.7
1983	6.8	4.8	1.6	3.2	2.0	16.8	11.8	5.0
1984	8.2	6.0	1.9	4.2	2.2	18.7	13.7	5.0
1985	8.0	5.8	1.7	4.2	2.2	18.0	13.1	4.9
1986	7.5	5.2	1.7	3.5	2.3	16.8	11.7	5.1
1987	8.1	5.7	2.1	3.7	2.3	17.5	12.4	5.1
1988	8.7	6.2	2.1	4.0	2.5	18.4	13.0	5.4
1989	8.4	5.5	2.0	3.5	2.9	17.8	11.7	6.2
1990	8.0	5.2	1.8	3.4	2.8	17.1	11.1	6.0
1991	7.5	5.0	1.6	3.4	2.5	16.2	10.8	5.4
1992	7.3	5.4	1.7	3.7	1.9	15.4	11.4	4.0
1993	7.7	6.1	1.8	4.2	1.7	16.1	12.7	3.5
1994	8.9	7.3	2.1	5.1	1.6	18.0	14.8	3.3
1995	9.1	7.5	2.2	5.3	1.6	18.4	15.2	3.3
1996	9.5	8.2	2.3	5.9	1.3	19.1	16.5	2.7
1997	9.8	8.6	2.4	6.2	1.2	19.2	16.8	2.4
Average:								
1960–69	10.8	9.7	4.1	5.7	1.0	21.5	19.5	2.0
1970–79	8.0	6.4	2.9	3.5	1.7	17.5	13.8	3.7
1980–89	7.5	5.2	1.9	3.4	2.3	17.1	11.9	5.2
1990–97	8.5	6.7	2.0	4.7	1.8	17.4	13.7	3.8

Source: Table 10.

NOTE.—Columns 1–5 are percentages of the stock of net reproducible assets (averages of end-of-year values for adjacent years) valued at current-replacement cost. (Rates of return shown in the June 1997 SURVEY, which are generally 0.1 or 0.2 percentage point lower than shown here, were inadvertently based on end-of-year values.) Columns 6–8 are percentages of domestic income.

the numerator is not affected by inventory profits or by depreciation schedules used in preparing the underlying tax returns; rather, it reflects the current-replacement costs of inventory withdrawals and of capital used up in production. Third, because assets in the denominator are also measured at current-replacement cost, the ratio is an estimate of the current average profitability of investment. (Alternative measures of rate of return were described in the June 1997 SURVEY, page 10.)

The ratio of property income to domestic income is property income's "share"—that is, the portion of domestic income that is not used to compensate labor.

Table 10.—Property Income and Related Series, Domestic Nonfinancial Corporations, 1960–97

[Billions of dollars]

Year	Property income					Domestic income	Net reproducible tangible assets [1]
	Total	Profits from current production			Net interest		
		Total	Profits tax liability	Profits after tax			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1960	44.1	40.7	19.2	21.5	3.5	225.3	512.8
1961	45.6	41.6	19.5	22.2	4.0	230.9	524.6
1962	53.6	49.1	20.6	28.4	4.5	253.7	542.5
1963	59.7	54.9	22.8	32.1	4.8	270.8	561.2
1964	66.5	61.2	24.0	37.2	5.3	293.2	590.5
1965	77.5	71.4	27.2	44.2	6.1	324.0	632.2
1966	83.4	76.1	29.5	46.6	7.4	357.4	692.0
1967	81.8	73.0	27.8	45.2	8.8	374.1	750.6
1968	87.6	77.5	33.6	43.9	10.1	410.8	819.6
1969	85.6	72.5	33.3	39.1	13.2	444.5	902.8
1970	75.4	58.3	27.2	31.1	17.1	454.0	983.7
1971	86.9	68.8	29.9	38.8	18.1	488.9	1,067.8
1972	99.5	80.4	33.8	46.6	19.2	546.6	1,164.7
1973	109.6	87.1	40.2	46.9	22.5	615.5	1,327.6
1974	103.1	74.8	42.2	32.6	28.3	659.9	1,597.4
1975	126.0	97.3	41.5	55.8	28.7	706.3	1,772.7
1976	145.9	118.4	53.0	65.4	27.5	803.3	1,950.1
1977	170.1	139.4	59.9	79.5	30.6	912.6	2,170.7
1978	190.3	154.0	67.1	86.9	36.3	1,043.2	2,457.9
1979	192.3	147.2	69.6	77.6	45.1	1,160.4	2,825.3
1980	188.3	130.1	67.0	63.1	58.2	1,246.8	3,223.9
1981	232.3	160.3	63.9	96.4	71.9	1,403.7	3,589.1
1982	224.6	142.1	46.3	95.8	82.5	1,441.6	3,764.8
1983	258.1	181.5	59.4	122.0	76.6	1,538.6	3,860.3
1984	326.9	239.0	73.7	165.4	87.8	1,748.6	4,085.0
1985	334.1	243.5	69.9	173.6	90.6	1,856.0	4,264.1
1986	324.1	226.0	75.6	150.5	98.1	1,927.3	4,388.8
1987	363.8	258.6	93.5	165.1	105.3	2,079.3	4,619.9
1988	415.3	294.3	101.7	192.6	121.0	2,262.0	4,902.6
1989	422.7	276.7	98.8	178.0	145.9	2,372.7	5,149.6
1990	422.8	275.3	95.7	179.6	147.5	2,478.8	5,377.0
1991	403.4	269.7	85.4	184.3	133.7	2,493.9	5,439.4
1992	399.8	295.6	91.1	204.5	104.2	2,595.1	5,574.7
1993	441.0	346.4	105.0	241.4	94.5	2,731.6	5,845.2
1994	533.4	437.1	128.8	308.3	96.3	2,960.1	6,178.6
1995	576.6	474.6	139.4	335.2	102.0	3,132.1	6,506.1
1996	634.3	545.8	154.8	391.0	88.5	3,317.2	6,810.6
1997	683.1	596.9	165.4	431.5	86.2	3,549.9	7,130.0

1. Structures, equipment, and inventories, valued at current-replacement cost at end of year. Structures and equipment are from U.S. Departmentof Commerce, Bureau of Economic Analysis, *Fixed Reproducible Tangible Wealth of the United States, 1925–96*, CD-ROM (Washington, DC: Bureau of Economic Analysis, 1998). Inventories are from legal-form and industry detail underlying NIPA table 5.13.

NOTE.—Property income is profits from current production plus net interest. Profits from current production is corporate profits with inventory valuation adjustment and capital consumption adjustment. Profits after tax is also shown with inventory valuation adjustment and capital consumption adjustment.

Q-type ratios

A related ratio of analytical interest is "Tobin's-Q," or simply "Q," which compares the valuation of assets in financial markets with the replacement cost of assets.

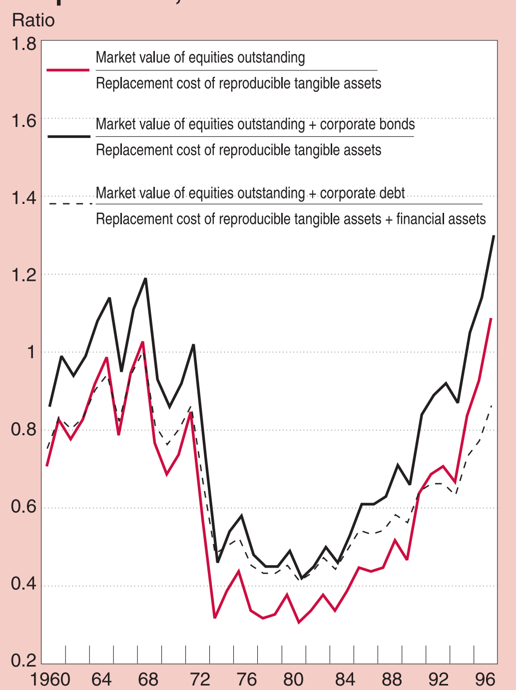
> In principle, the par value of the q-ratio is 1. At that value, financial markets would simply be reflecting the current prices of the assets to which stocks and bonds are titles. Values above 1 would encourage, and values below 1 discourage, companies' acquisitions of newly produced physical assets, especially assets similar to the existing ones the markets are evaluating.[13]

The precise formula for calculating Q varies from analyst to analyst (but the general pattern of the ratio over time is relatively insensitive to the fine points of measurement). All analysts would include the market value of equities outstanding in the numerator; estimates for these

13. James Tobin, "Clinton's Bull Market," *Wall Street Journal*, November 30, 1993, page A16. Q was developed in a series of articles in professional journals; see especially the following: William C. Brainard and James Tobin, "Pitfalls in Financial Model Building," *American Economic Review* 58 (2), May 1968: 99–122; James Tobin, "A General Equilibrium Approach to Monetary Theory," *Journal of Money, Credit, and Banking* 1 (1), February 1969: 15–29; James Tobin, "Monetary Policies and the Economy: The Transmission Mechanism," *Southern Economic Journal* 44 (1), January 1978: 421–31.

CHART 6

Q-type Ratios, Domestic Nonfinancial Corporations, 1960-97



U.S. Department of Commerce, Bureau of Economic Analysis data are readily available in the flow of funds accounts maintained by the Federal Reserve Board. Many analysts (Tobin included) would also include the value of corporate bond obligations in the numerator; including bonds makes the ratio invariant to shifts in the mix of equity and debt used to finance investment. Alternatively, the numerator could include all corporate debt, not just bonds.[14]

The denominator of Q should certainly include reproducible tangible assets valued at replacement cost; estimates for this series were used in calculating the rate of return.[15] The denominator might also include other assets, such as land and financial assets; it might also include intellectual property (including software), which is not, in general, capitalized.

However, these additional series, which might be used to augment the market value of equities (in the numerator) and the replacement-cost value of reproducible tangible assets (in the denominator), are generally available only on a historical-cost basis. The use of historical-cost estimates is obviously inconsistent with the underlying rationale for Q—a comparison of market valuation and replacement costs. However, analysts may differ on whether it is preferable to use some historical-cost components or to omit them and thereby exclude some potentially important variables.

Fortunately, ratios constructed from various definitions all display quite similar patterns, and, in light of measurement problems for both numerators and denominators, the patterns of movement may be more important than the levels of the ratios. Three variants of the measure for domestic nonfinancial corporations are shown in chart 6; others could be added without changing the overall picture. All the ratios drop sharply in the early 1970's, stay relatively low until the early 1980's, and then increase more or less rapidly through 1997. In 1997, two of the ratios were at historic highs, and all three describe dramatic improvements in recent years in the climate for business investment in newly produced tangible assets.

14. The market value of equities outstanding and other financial measures mentioned in this paragraph are available from the Federal Reserve Board, Flow of Funds, release z.1.

15. In calculating Q, it is appropriate to use yearend estimates of the stock of assets because the numerator consists of stocks at the end of the year. In contrast, in calculating rate of return, it is appropriate to use the average stock of assets for the year (approximated by the average of yearend estimates) because the numerator consists of income flows over entire years.

Government Sector

The combined current surplus, which measures the net saving of the Federal Government and State and local governments, grew $58.6 billion, to a record $156.6 billion, in the first quarter after declining $2.6 billion in the fourth (table 11).[16] The strong first-quarter rebound was attributable to the Federal sector, which also registered a record surplus [17]. The State and local government current surplus decreased slightly.

Federal

Fueled by a sharp downturn in current expenditures and an acceleration in receipts, the fiscal position of the Federal Government shifted from a current deficit of $12.1 billion to a current surplus of $49.0 billion—the first current surplus since the first quarter of 1969. In the fourth quarter, the deficit had edged up $1.3 billion.

Receipts.—Federal receipts increased $43.0 billion in the first quarter after increasing $25.6 billion in the fourth. The acceleration resulted from accelerations in personal tax and nontax receipts and in contributions for social insurance that more than offset a larger decrease in corporate profits tax accruals in the first quarter than in the fourth.

Personal tax and nontax receipts increased $34.8 billion after increasing $19.1 billion. Receipts from income taxes increased $32.9 billion after increasing $18.4 billion; the acceleration was attributable to a pickup in "estimated income tax payments and final settlements, less refunds" that more than offset a deceleration in withheld income taxes.[18] "Estimated income tax payments and final settlements, less refunds" increased $22.5 billion after increasing $1.5 billion; the pickup was tempered only slightly by the effect of provisions of the Taxpayer Relief Act of 1997—primarily the provision that modified the estimated-tax requirements for high-income taxpayers. The deceleration in withheld income taxes mainly reflected the effect of the annual

16. Net government saving equals gross saving, less consumption of fixed capital. Estimates of gross saving are shown in NIPA table 5.1.

17. 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 on pages 11–13.

18. The first-quarter estimate for "estimated income tax payments and final settlements, less refunds" is based on data for January through April from the Department of the Treasury in conjunction with projections for the rest of 1998 that are based on historical relationships between monthly and annual collections. Earlier first-quarter estimates were largely based on information from the Executive Office of the President, Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1999* (Washington, DC; U.S. Government Printing Office, 1998).

indexation for inflation on the 1998 withholding tables and the effect of certain provisions of the Taxpayer Relief Act of 1997—primarily the provisions that established child tax credits.

Contributions for social insurance increased $15.0 billion after increasing $10.4 billion. The acceleration primarily reflected the effect of 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.

Corporate profits tax accruals decreased $6.8 billion after decreasing $3.8 billion, reflecting a larger decrease in domestic corporate profits before tax.

Table 11.—Government Sector Receipts and Current Expenditures

[Billions of dollars, seasonally adjusted at annual rates]

	Level	Change from preceding quarter				
	1998	1997				1998
	I	I	II	III	IV	I
Receipts	2,703.5	47.6	40.2	49.9	31.8	55.0
Current expenditures	2,546.9	21.6	21.3	17.4	34.4	–3.6
Current surplus or deficit (–)	156.6	26.0	18.9	32.5	–2.6	58.6
Social insurance funds	147.2	–2.1	2.1	3.8	7.0	4.4
Other	9.4	28.1	16.8	28.8	–9.7	54.2
Federal Government						
Receipts	1,810.4	33.7	34.0	32.5	25.6	43.0
Personal tax and nontax receipts	835.8	29.4	21.0	14.0	19.1	34.8
Corporate profits tax accruals	208.7	12.9	2.8	11.6	–3.8	–6.8
Indirect business tax and nontax accruals	92.3	–22.0	4.0	.2	–.1	0
Contributions for social insurance	673.6	13.3	6.2	6.7	10.4	15.0
Current expenditures	1,761.4	12.0	15.2	6.6	26.9	–18.1
Consumption expenditures	456.6	4.4	6.2	.5	3.7	–11.8
National defense	301.4	–1.2	4.9	.3	2.8	–13.0
Nondefense	155.2	5.7	1.2	.2	.9	1.2
Transfer payments (net)	812.1	8.6	5.5	3.1	15.7	1.9
To persons	802.3	21.1	5.0	4.0	4.1	13.7
To the rest of the world	9.8	–12.4	.3	–.8	11.6	–11.8
Grants-in-aid to State and local governments	225.9	2.1	2.9	1.7	6.4	–4.7
Net interest paid	228.1	–2.9	.9	1.4	.1	–3.2
Subsidies less current surplus of government enterprises	38.7	–.1	–.3	–.2	1.1	–.3
Subsidies	34.8	.4	.5	0	.2	.3
Of which: Agricultural subsidies	8.3	0	.1	0	.5	.3
Less: Current surplus of government enterprises	–4.0	.4	.8	.3	–.9	.5
Less: Wage accruals less disbursements	0	0	0	0	0	0
Current surplus or deficit (–)	49.0	21.6	18.7	26.0	–1.3	61.1
Social insurance funds	75.4	–1.9	1.7	4.0	6.9	4.1
Other	–26.4	23.5	17.0	22.0	–8.2	57.0
State and local governments						
Receipts	1,119.0	16.0	9.1	19.1	12.6	7.3
Personal tax and nontax receipts	223.8	3.6	2.6	4.8	5.0	2.7
Corporate profits tax accruals	36.8	2.4	.4	2.1	–.8	–1.3
Indirect business tax and nontax accruals	542.5	6.9	2.0	9.0	.5	9.0
Contributions for social insurance	90.0	1.1	1.2	1.4	1.6	1.6
Federal grants-in-aid	225.9	2.1	2.9	1.7	6.4	–4.7
Current expenditures	1,011.4	11.6	9.0	12.6	13.8	9.9
Consumption expenditures	782.7	8.4	5.7	8.7	10.3	6.3
Transfer payments to persons	323.5	4.5	4.4	4.5	4.7	4.8
Net interest paid	–67.0	–1.0	–.9	–.7	–.7	–.7
Less: Dividends received by government	15.3	.3	.4	0	.2	.4
Subsidies less current surplus of government enterprises	–12.5	.2	.1	.1	–.3	–.1
Subsidies	.3	0	0	0	0	0
Less: Current surplus of government enterprises	12.8	–.1	–.2	–.1	.3	.1
Less: Wage accruals less disbursements	0	0	0	0	0	0
Current surplus or deficit (–)	107.6	4.3	.2	6.5	–1.3	–2.5
Social insurance funds	71.8	–.1	.3	–.2	.1	.3
Other	35.8	4.6	–.2	6.7	–1.4	–2.8

Current expenditures.—Current expenditures fell $18.1 billion in the first quarter after increasing $26.9 billion in the fourth.[19] The downswing was accounted for by downturns in consumption expenditures, in grants-in-aid to State and local governments, and in net interest paid and by a deceleration in transfer payments (net).

Consumption expenditures dropped $11.8 billion, the largest decrease since the fourth quarter of 1995, after increasing $3.7 billion. The downturn was accounted for by defense consumption expenditures, which dropped $13.0 billion after increasing $2.8 billion, reflecting a downturn in "other" services. Within "other" services, defense expenditures for research and development turned down. Compensation of employees increased $2.1 billion after decreasing $1.0 billion; it was boosted by the January 1998 pay raise for defense employees. In contrast, consumption expenditures for nondefense increased $1.2 billion after increasing $0.9 billion. The slight acceleration mainly resulted from an upturn in compensation for nondefense employees, who also received a pay raise in January.

Transfer payments (net) increased $1.9 billion after increasing $15.7 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 $11.8 billion after increasing $11.6 billion; the fourth-quarter increase was attributable to the yearly payment to Israel of $3.0 billion—$12.0 billion at an annual rate—in economic support and other payments. Transfer payments to persons increased $13.7 billion after increasing $4.1 billion. The step-up mainly reflected a 2.1-percent cost-of-living adjustment in January that boosted social security (old-age, survivors, and disability insurance), Federal employee pension, veterans pension, and supplemental security income benefits by $9.9 billion.

Grants-in-aid to State and local governments fell $4.7 billion after increasing $6.4 billion. The downturn was mostly accounted for by grants for medicaid, which decreased $4.0 billion after increasing $6.1 billion. Grants for family assistance and health care also turned down, and grants for highways decreased more in the first quarter than in the fourth. In contrast, grants for education and other programs turned up.

19. For information on the definition of current expenditures as well as of other major NIPA components, see "A Guide to the NIPA's," SURVEY 78 (March 1998): 27–36.

Net interest paid decreased $3.2 billion after increasing $0.1 billion. The downturn mainly reflected a downturn in gross interest paid, which decreased $3.8 billion after increasing $0.3 billion.

State and local

The State and local government current surplus decreased $2.5 billion, to $107.6 billion, in the first quarter after decreasing $1.3 billion in the fourth. The larger decrease was accounted for by a larger deceleration in receipts than in current expenditures.

Receipts increased $7.3 billion after increasing $12.6 billion. The deceleration was more than accounted for by the downturn in Federal grants-in-aid; indirect business tax and nontax accruals accelerated sharply.

Federal grants-in-aid fell $4.7 billion after increasing $6.4 billion. Personal tax and nontax receipts increased $2.7 billion after increasing $5.0 billion; the deceleration was primarily attributable to State tax law changes that reduced income taxes in several States. Corporate profits tax accruals decreased $1.3 billion after decreasing $0.8 billion; the larger decrease reflected the pattern of domestic corporate profits before tax. Indirect business tax and nontax accruals increased $9.0 billion after increasing $0.5 billion; the pickup was largely attributable to an upturn in "other tax and nontax accruals" and to an acceleration in sales taxes. "Other tax and nontax accruals" increased $2.6 billion after decreasing $2.8 billion; the turnaround was partly caused by out-of-court settlement payments of $1.4 billion (annual rate) by tobacco companies to three States. Settlement payments of $3.7 billion were made in the third quarter, but none were made in the fourth. Sales taxes increased $3.8 billion after increasing $0.9 billion; the acceleration primarily reflected an acceleration in retail sales.

Current expenditures increased $9.9 billion after increasing $13.8 billion; the deceleration was accounted for by a slowdown in consumption expenditures. Consumption expenditures increased $6.3 billion after increasing $10.3 billion; the deceleration reflected a downturn in nondurable goods, mainly in petroleum, and a deceleration in services. Transfer payments to persons increased $4.8 billion after increasing $4.7 billion.