

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

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ACCORDING TO the “preliminary” estimates of the national income and product accounts (NIPA’s), real gross domestic product (GDP) increased 2.3 percent in the first quarter of 1996 (chart 1 and table 1); the “advance” estimate of real GDP, reported in the May “Business Situation,” had shown a 2.8-percent increase.<sup>1</sup> The downward revision in real GDP growth was more than accounted for by a downward revision in inventories.

The change in real final sales of domestic product was revised up to a 3.7-percent increase from the 3.3-percent increase reported a month ago, as most of the components of final demand were revised up. (The sources of the revisions are discussed in the section “Revisions.”)

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. For more information on chain-type measures, see “Improved Estimates of the National Income and Product Accounts for 1959–95: Results of the Comprehensive Revision,” SURVEY OF CURRENT BUSINESS 76 (January/February 1996): 20.

**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				1995			1996
						II	III	IV	I
		1996:I	II	III	IV	I	II	III	IV
<b>Gross domestic product</b> .....	<b>6,815.5</b>	<b>7.8</b>	<b>58.9</b>	<b>8.2</b>	<b>39.0</b>	<b>0.5</b>	<b>3.6</b>	<b>0.5</b>	<b>2.3</b>
Less: Exports of goods and services ..	809.3	8.5	14.8	20.7	9.5	4.6	8.0	11.0	4.9
Plus: Imports of goods and services ..	919.9	16.3	2.2	3.0	23.5	7.7	1.0	1.3	10.9
<b>Equals: Gross domestic purchases</b> .....	<b>6,922.7</b>	<b>15.1</b>	<b>47.4</b>	<b>-8.9</b>	<b>52.2</b>	<b>.9</b>	<b>2.8</b>	<b>-5</b>	<b>3.1</b>
Less: Change in business inventories	-5.7	-23.9	2.6	-16.7	-22.2				
<b>Equals: Final sales to domestic purchasers</b> .....	<b>6,928.9</b>	<b>37.2</b>	<b>44.5</b>	<b>10.1</b>	<b>74.4</b>	<b>2.2</b>	<b>2.6</b>	<b>.6</b>	<b>4.4</b>
Personal consumption expenditures	4,655.1	37.9	31.6	13.7	41.0	3.4	2.8	1.2	3.6
Nonresidential fixed investment .....	746.6	6.2	9.1	5.6	21.3	3.6	5.2	3.1	12.3
Residential investment .....	270.7	-9.3	5.7	4.1	4.3	-13.3	9.2	6.4	6.6
Government consumption expenditures and gross investment .....	1,258.6	2.8	-2.2	-13.2	8.2	.9	-7	-4.1	2.6
Federal .....	466.2	-1.4	-7.2	-15.9	9.4	-1.1	-5.9	-12.8	8.5
State and local .....	793.0	4.1	5.2	2.9	-1.4	2.1	2.7	1.5	-7
<b>Addendum: Final sales of domestic product</b> .....	<b>6,821.7</b>	<b>29.9</b>	<b>55.9</b>	<b>27.2</b>	<b>61.2</b>	<b>1.8</b>	<b>3.4</b>	<b>1.6</b>	<b>3.7</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 are usually not additive. Chained (1992) dollar levels and residuals, which measure the extent of nonadditivity in each table, are found in NIPA tables 1.2 and 1.6. Percent changes in major aggregates are found in table 8.1.

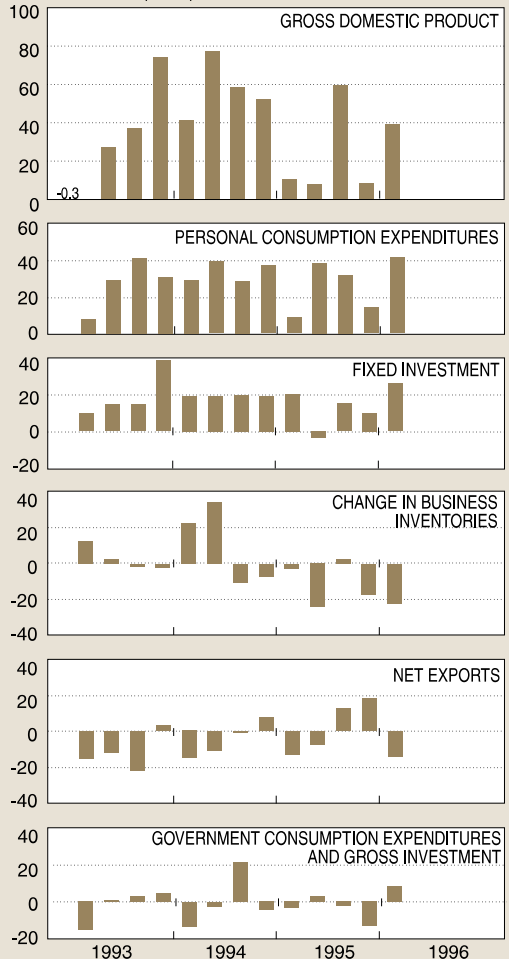
The price index for gross domestic purchases increased 2.4 percent, 0.1 percentage point less than reported a month ago.

The 2.3-percent increase in real GDP was higher than the 0.5-percent increase in the fourth quarter of 1995 but lower than the 3.6-percent increase in the third quarter. Personal consumption expenditures, nonresidential fixed investment, and

**CHART 1**

## Real Product: Change from Preceding Quarter

Billion chained (1992) \$



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

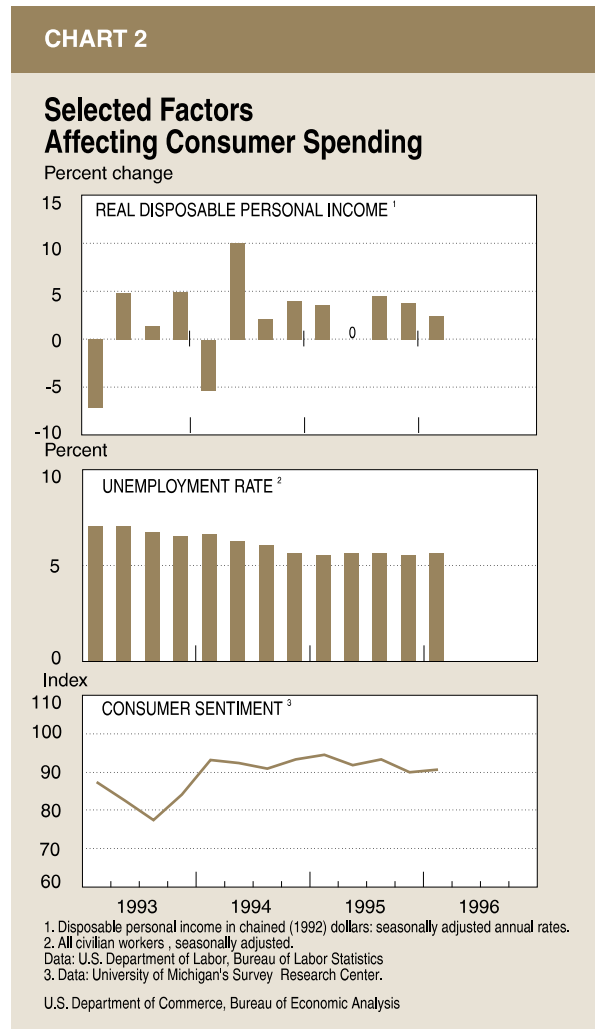
Federal Government consumption expenditures and gross investment more than accounted for the step-up. Residential investment increased about the same amount in the first quarter as in the fourth; net exports and State and local government consumption expenditures and gross investment decreased after increasing; and inventory investment decreased more in the first quarter than in the fourth.

Real gross domestic purchases increased 3.1 percent in the first quarter after decreasing 0.5 percent in the fourth. Unlike GDP, gross domestic purchases includes imports and excludes exports; thus, it represents purchases by U.S. residents regardless of where the goods and services were produced. Exports of goods and services increased much less than in the fourth quarter, and imports increased much more than in the fourth quarter.

**Personal consumption expenditures**

Real personal consumption expenditures (PCE) increased 3.6 percent in the first quarter after increasing 1.2 percent in the fourth (table 2). Most of the acceleration was accounted for by goods; services increased about the same amount in both quarters.

Factors usually considered in analyses of PCE were mixed in the first quarter (chart 2). The unemployment rate edged up to 5.6 percent from 5.5 percent. Real disposable personal income increased moderately, 2.5 percent, in the first



**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				1995			1996
		1995			1996	II	III	IV	I
	1996:I	II	III	IV	I	II	III	IV	I
<b>Personal consumption expenditures</b> .....	<b>4,655.1</b>	<b>37.9</b>	<b>31.6</b>	<b>13.7</b>	<b>41.0</b>	<b>3.4</b>	<b>2.8</b>	<b>1.2</b>	<b>3.6</b>
Durable goods .....	601.6	9.7	13.1	4	11.5	7.0	9.3	.3	8.0
Motor vehicles and parts .....	224.1	4.5	5.2	-5.0	3.2	8.6	9.7	-8.6	5.9
Of which: New autos .....	77.0	-4	-7	3.2	-3.2	-1.9	-3.7	17.4	-14.7
New trucks .....	52.5	.2	-4	1.5	.6	1.5	-2.6	11.6	4.8
Furniture and household equipment .....	266.0	4.2	7.4	6.6	4.5	7.1	12.5	10.8	7.0
Other .....	113.8	1.0	.6	-6	3.9	3.8	2.2	-2.3	14.9
Nondurable goods .....	1,437.3	6.7	1.9	-1.2	13.1	1.9	.5	-3	3.7
Food .....	710.0	.9	2.3	-6	6.7	.5	1.3	-3	3.9
Clothing and shoes .....	262.5	3.4	.9	-1.6	5.2	5.3	1.4	-2.4	8.3
Gasoline and oil .....	112.8	.2	-1.1	1.2	-9	.6	-4.0	4.5	-3.2
Fuel oil and coal .....	10.7	.7	-6	.7	0	30.8	-21.2	30.1	2.0
Other .....	341.5	1.7	.3	-9	2.1	1.9	.4	-1.0	2.5
Services .....	2,617.0	21.5	16.7	14.1	16.6	3.4	2.6	2.2	2.6
Housing .....	689.9	2.6	3.2	3.1	3.6	1.6	1.9	1.8	2.1
Household operation .....	283.7	7.2	3.5	-1.8	4.7	11.0	5.2	-2.6	6.9
Electricity and gas .....	118.3	4.9	2.8	-3.6	4.8	19.0	10.3	-12.0	18.3
Other household operation .....	165.3	2.3	.8	1.8	-2	5.9	1.9	4.4	-3
Transportation .....	182.6	.2	.5	3.6	2.6	.6	1.1	8.4	5.8
Medical care .....	691.0	3.5	4.8	5.2	-3	2.1	2.8	3.1	-2
Other .....	770.3	8.0	4.7	3.9	6.4	4.4	2.5	2.1	3.4

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

quarter after increasing strongly, 3.8 percent, in the fourth. After falling sharply in the fourth quarter, the Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) increased only modestly in the first quarter to a level that was the second lowest in 2 years.

Expenditures for durable goods jumped 8.0 percent after edging up 0.3 percent. The acceleration was primarily accounted for by upturns in motor vehicles and parts and in "other" durable goods. Within motor vehicles, used autos increased in the first quarter after dropping sharply in the fourth, and both trucks and parts increased more in the first quarter than in the fourth; in contrast, new autos turned down after increasing in the fourth quarter.<sup>2</sup> Furniture and household equipment increased less than in the fourth quarter, primarily reflecting a slowdown in consumer electronics and a continued weakness in furniture and in other durable household furnishings.

Expenditures for nondurable goods increased 3.7 percent after edging down 0.3 percent. Clothing and shoes, food, and "other" nondurable

goods each increased after decreasing. In contrast, gasoline and oil turned down and fuel oil and coal slowed.

Expenditures for services increased 2.6 percent after increasing 2.2 percent. Household operation turned up as electricity and gas increased sharply, reflecting heating demands in response to the colder-than-normal temperatures in the first quarter. "Other" services increased more than in the fourth quarter, primarily reflecting a sharp jump in brokerage commissions—the sixth consecutive quarterly increase. Housing services increased about the same in the both quarters. Transportation increased somewhat less in the first quarter than in the fourth, and medical care edged down after increasing; the first-quarter decrease in medical care was mainly in hospitals.

### Nonresidential fixed investment

Real private nonresidential fixed investment increased 12.3 percent in the first quarter after increasing 3.1 percent in the fourth (table 3). Both structures and producers' durable equipment (PDE) contributed to the step-up.

Several factors that affect investment spending have been mixed in recent quarters. Domestic corporate profits increased substantially in two of the past four quarters but decreased in the other two. Over the same period, real final sales of domestic product twice increased by about 3.5 percent but twice by only about

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				1995			1996
		1995		1996		II	III	IV	I
	1996:I	II	III	IV	I	II	III	IV	I
<b>Gross private domestic fixed investment</b> .....	<b>1,016.2</b>	<b>-3.5</b>	<b>14.9</b>	<b>9.7</b>	<b>25.5</b>	<b>-1.4</b>	<b>6.3</b>	<b>4.0</b>	<b>10.7</b>
Nonresidential .....	746.6	6.2	9.1	5.6	21.3	3.6	5.2	3.1	12.3
Structures .....	187.3	1.5	2.7	.4	4.2	3.4	6.2	.9	9.6
Nonresidential buildings, including farm .....	131.9	1.4	2.4	1.1	1.6	4.7	7.8	3.5	5.0
Utilities .....	36.9	1.1	1.0	.2	.9	13.5	12.5	1.8	10.2
Mining exploration, shafts, and wells .....	12.5	-1.8	.3	-5	2.0	-44.7	9.0	-17.1	102.1
Other .....	5.9	.7	-1.0	-4	-3	44.9	-42.8	-21.8	-16.0
Producers' durable equipment .....	560.6	4.8	6.3	5.3	17.1	3.7	4.9	4.0	13.2
Information processing and related equipment .....	227.7	10.7	2.0	14.2	11.6	24.5	4.1	31.3	23.2
Computers and peripheral equipment .....	117.6	8.0	3.8	14.1	11.5	46.2	18.1	77.3	51.1
Other .....	118.0	3.6	-1.0	2.2	1.7	13.6	-3.5	7.9	6.2
Industrial equipment .....	117.8	4.2	-1.7	-1.2	2.3	15.5	-5.7	-4.0	8.5
Transportation and related equipment .....	116.9	-6.9	5.6	-5.3	1.8	-20.9	21.2	-16.5	6.4
Of which: Motor vehicles .....	101.5	-2.0	6.9	-7.0	1.2	-7.6	30.5	-23.7	4.9
Other .....	101.4	-2.3	.4	-1.3	2.0	-8.5	1.5	-4.9	8.0
Residential .....	270.7	-9.3	5.7	4.1	4.3	-13.3	9.2	6.4	6.6
Single-family structures .....	132.2	-10.0	2.8	3.3	3.1	-26.9	9.4	10.6	10.0
Multifamily structures .....	18.9	.6	.4	.7	.4	14.3	10.2	15.6	9.6
Other .....	120.0	.4	2.5	.1	.7	1.4	8.8	.3	2.4

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

1.5 percent. Moody's "Baa" bond yield, for example, increased more than half a percentage point from December to March after having dropped almost that much from September to December. In contrast to the erratic behavior of these factors, the capacity utilization rate in manufacturing has maintained a downward trend; it decreased to 81.6 percent in the first quarter from 82.0 percent in the fourth, the fifth consecutive decrease.

Structures increased 9.6 percent after edging up 0.9 percent. Mining exploration, shafts, and

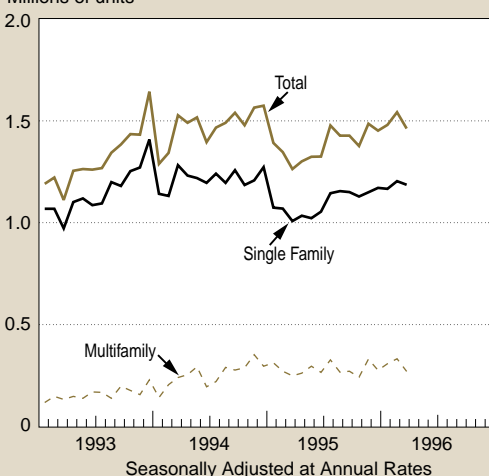
wells posted its biggest increase since 1987 after decreasing in the fourth quarter. Construction by utilities and nonresidential buildings increased more than in the fourth quarter.

PDE increased 13.2 percent after increasing 4.0 percent. Transportation equipment (specifically, motor vehicles) increased after a large drop. Industrial equipment and "other" PDE also turned up, though less sharply. Information processing equipment (mainly computers) increased substantially in the first quarter, but not as much as in the fourth.

CHART 3

### Housing Starts

Millions of units

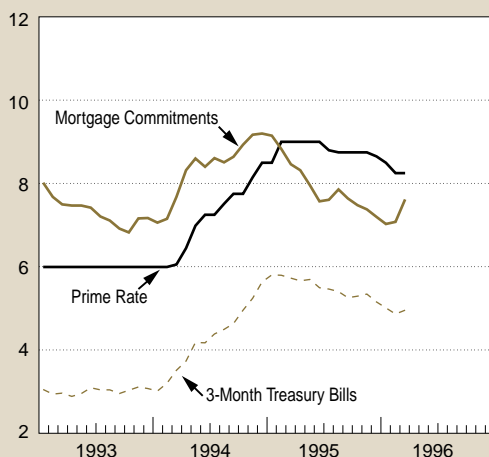


Data: Bureau of the Census  
U.S. Department of Commerce, Bureau of Economic Analysis

CHART 4

### Selected Interest Rates

Percent



Data: Federal Reserve Board  
U.S. Department of Commerce, Bureau of Economic Analysis

### Residential investment

Real residential investment increased 6.6 percent in the first quarter, about the same as in the fourth (table 3). A modest step-up in "other" residential investment more than offset slowdowns in both single-family and multifamily construction.<sup>3</sup>

"Other" residential investment increased 2.4 percent after increasing 0.3 percent. The step-up was primarily accounted for by brokers' commissions, which reflected an 87,000-unit increase (seasonally adjusted annual rate) in sales of new and existing residences. The increase in sales may have partly reflected a decline in mortgage interest rates; the commitment rate on 30-year fixed-rate mortgages dropped to 7.24 percent, its lowest rate since the third quarter of 1993 (chart 3).

Single-family construction increased 10.0 percent after increasing 10.6 percent. Housing starts is a major determinant in estimating single-family construction; the increase in starts reflected in the first-quarter construction estimate was about half as much as the increase in starts reflected in the fourth-quarter construction estimate (chart 4).<sup>4</sup>

Multifamily construction increased 9.6 percent after increasing 15.6 percent. The first-quarter increase was the ninth consecutive quarterly increase.

### Inventory investment

Real inventory investment—that is, the change in business inventories—decreased \$22.2 billion in

3. "Other" residential investment includes improvements (major replacements and additions and alterations), sales of new mobile homes, brokers' commissions on house sales, and residential equipment.

4. Single-family construction in a quarter largely reflects single-family housing starts in the first 2 months of that quarter and the last 2 months of the previous quarter. Hence, construction in the first quarter of 1996 reflected starts that occurred in November through February; housing starts in those months averaged 1.15 million units, up only slightly from an average of 1.13 million units for August through November, the months reflected in fourth-quarter construction estimates.

the first quarter after decreasing \$16.7 billion in the fourth (table 4). The first-quarter decrease reflected a shift from inventory accumulation to liquidation; the fourth-quarter decrease reflected a slowdown in accumulation.

Nonfarm inventories were virtually unchanged, down \$0.1 billion, in the first quarter after increasing \$19.5 billion in the fourth. In the first quarter, a substantial decrease in retail trade inventories, which was more than accounted for by a reduction in the inventories of motor vehicle dealers, was offset by increases in manufacturing, wholesale trade, and "other" inventories.

Retail trade inventories decreased much more in the first quarter than in the fourth. Motor vehicle dealers' inventories plummeted in the first quarter after edging up in the fourth; the sharp first-quarter drop largely reflected a reduction in output that was due to a strike by workers of a motor vehicle manufacturer. Inventories of retailers other than motor vehicle dealers increased after decreasing; the first-quarter increase was more than accounted for by turnarounds in lumber and building materials, "other durable goods," and "other nondurable goods."

Wholesale trade inventories increased less than in the fourth quarter. The slowdown was accounted for by professional and commercial equipment, machinery, "other durable goods," and "other nondurable goods."

Manufacturing inventories increased slightly more in the first quarter than in the fourth. The pickup was in durable goods, primarily in transportation equipment.

"Other" nonfarm inventories increased less in the first quarter than in the fourth. (The "other" component consists mainly of inventories held by the mining, construction, public utilities, transportation, communication, and service industries.)

Farm inventories decreased \$6.1 billion in the first quarter after decreasing \$3.5 billion in the fourth; the first-quarter decrease marked the fifth consecutive quarter of inventory reduction. Inventories of both crops and livestock decreased in the first quarter.

The ratio of real nonfarm business inventories to real final sales of domestic business moved down to 2.25 after four consecutive quarters at 2.28. The inventory-sales ratio in which final sales are limited to goods and structures moved down from 4.09 in the fourth quarter to 4.04 in the first, the lowest level in 2 years.

### Exports and imports of goods and services

Real exports increased 4.9 percent in the first quarter after increasing 11.0 percent in the fourth quarter (table 5). Real imports increased 10.9 percent after increasing 1.3 percent.

Exports of goods increased 3.1 percent after increasing 14.1 percent. Exports of agricultural goods turned up, but exports of nonagricultural goods slowed sharply, largely reflecting a slowdown in exports of nonautomotive capital goods. Among capital goods, exports of "other" capital goods decreased after a sharp increase, and exports of civilian aircraft and of computers increased a little more than in the fourth quarter.<sup>5</sup> Exports of services stepped up, largely reflecting upturns in royalties and license fees and in transfers under U.S. military agency sales contracts.

Imports of goods increased 10.2 percent after edging up 0.3 percent. Imports of petroleum decreased substantially, as in the fourth quarter, but imports of nonpetroleum goods increased much more than in the fourth quarter. The step-up in imports of nonpetroleum goods largely

5. This category of capital goods includes parts. However, PDE only reflects exports and imports of equipment.

**Table 4.—Change in Real Business Inventories**  
(Billions of chained (1992) dollars; seasonally adjusted at annual rate)

	Level					Change from preceding quarter			
	1995				1996	1995			1996
	I	II	III	IV	I	II	III	IV	I
<b>Change in business inventories</b> .....	<b>54.5</b>	<b>30.6</b>	<b>33.2</b>	<b>16.5</b>	<b>-5.7</b>	<b>-23.9</b>	<b>2.6</b>	<b>-16.7</b>	<b>-22.2</b>
Farm .....	-4.4	-3.8	-5.8	-3.5	-6.1	.6	-2.0	2.3	-2.6
Nonfarm .....	58.1	33.8	38.3	19.5	-1	-24.3	4.5	-18.8	-19.6
Manufacturing .....	8.6	11.3	16.4	11.2	12.5	2.7	5.1	-5.2	1.3
Wholesale trade .....	24.7	15.4	12.9	4.8	2.4	-9.3	-2.5	-8.1	-2.4
Retail trade .....	12.7	5.6	3.0	-7.0	-21.3	-7.1	-2.6	-10.0	-14.3
Of which: Motor vehicle dealers .....	9.4	-5	-6.2	4	-24.2	-9.9	-5.7	6.6	-24.6
Other .....	12.3	1.5	6.0	10.6	6.4	-10.8	4.5	4.6	-4.2

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

reflected upturns in imports of autos, nonauto-motive consumer goods, and industrial supplies and materials. Imports of services also stepped up. Most categories of services contributed to the step-up; one that did not was travel abroad by U.S. residents, which increased less than in the fourth quarter.

### *Government consumption expenditures and gross investment*

Real government consumption expenditures and gross investment (government spending) increased 2.6 percent in the first quarter after decreasing 4.1 percent in the fourth (table 6). State and local government spending decreased after increasing, but Federal Government spending turned up sharply.

Federal Government spending increased 8.5 percent after decreasing 12.8 percent. The first-quarter increase was mostly in consumption expenditures, partly due to compensation, which was affected less in the first quarter than in the fourth by the Federal Government shutdowns—in November, December, and January due to the prolonged budget negotiations and during the week of January 8 due to the blizzard that struck the East Coast.<sup>6</sup>

6. Based on information on employee hours lost, BEA estimated the loss of real Federal Government output due to the shutdowns associated with budget negotiations at \$4.6 billion at an annual rate in the fourth quarter and \$1.0 billion in the first quarter. (In estimating the cost of the Federal Government shutdowns associated with the budget negotiations, BEA used Office of Management and Budget data that showed about 258,000 civilian defense employees and about 489,000 nondefense employees were affected by the first furlough, which began November 14 and ended November 19, and about 284,000 nondefense employees were affected by the second furlough, which began December 18 and ended January 5.)

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

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1995			1996
		1995			1996	II	III	IV	I
	1996:I	II	III	IV	I	II	III	IV	I
<b>Exports of goods and services</b> .....	<b>809.3</b>	<b>8.5</b>	<b>14.8</b>	<b>20.7</b>	<b>9.5</b>	<b>4.6</b>	<b>8.0</b>	<b>11.0</b>	<b>4.9</b>
Goods .....	594.4	8.9	12.9	19.1	4.6	6.6	9.6	14.1	3.1
Agricultural goods .....	50.6	-3.1	1.8	-6	1.2	-21.8	15.8	-5.0	10.1
Nonagricultural goods .....	544.1	12.2	11.1	19.9	3.3	10.2	9.0	16.2	2.5
Services .....	216.0	-2	2.0	1.7	4.9	-4	3.9	3.4	9.6
<b>Imports of goods and services</b> .....	<b>919.9</b>	<b>16.3</b>	<b>2.2</b>	<b>3.0</b>	<b>23.5</b>	<b>7.7</b>	<b>1.0</b>	<b>1.3</b>	<b>10.9</b>
Goods .....	771.2	17.7	1.7	.6	18.4	10.0	.9	.3	10.2
Petroleum and products .....	55.2	.9	3.3	-2.8	-2.7	6.9	24.7	-17.2	-17.7
Nonpetroleum products .....	713.5	16.6	.5	3.0	18.9	10.2	.3	1.8	11.3
Services .....	149.0	-1.3	.5	2.3	5.1	-3.5	1.5	6.6	15.0
<b>Addendum: Net exports of goods and services</b> .....	<b>-110.6</b>	<b>-7.8</b>	<b>12.5</b>	<b>17.7</b>	<b>-14.0</b>	.....	.....	.....	.....

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA table 4.4. Percent changes in major aggregates are found in 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				1995			1996
		1995			1996	II	III	IV	I
	1996:I	II	III	IV	I	II	III	IV	I
<b>Government consumption expenditures and gross investment</b> .....	<b>1,258.6</b>	<b>2.8</b>	<b>-2.2</b>	<b>-13.2</b>	<b>8.2</b>	<b>0.9</b>	<b>-0.7</b>	<b>-4.1</b>	<b>2.6</b>
Federal .....	466.2	-1.4	-7.2	-15.9	9.4	-1.1	-5.9	-12.8	8.5
National defense .....	314.9	.8	-6.8	-10.0	5.6	.9	-8.1	-12.0	7.4
Consumption expenditures .....	275.7	-6	-4.4	-3.4	.3	-9	-6.0	-4.8	.4
Gross investment .....	39.2	1.3	-2.4	-6.4	5.1	13.7	-20.5	-50.2	76.2
Nondefense .....	151.0	-2.0	-.5	-5.9	3.8	-5.2	-1.2	-14.6	10.8
Consumption expenditures .....	131.9	-1.2	.1	-6.2	3.3	-3.3	.2	-17.0	10.5
Gross investment .....	19.0	-1.0	-.5	.2	.6	-18.0	-11.7	6.0	12.6
State and local .....	793.0	4.1	5.2	2.9	-1.4	2.1	2.7	1.5	-7
Consumption expenditures .....	641.2	1.8	2.6	1.6	-9	1.1	1.6	1.0	-6
Gross investment .....	151.9	2.4	2.6	1.3	-4	6.7	7.2	3.4	-1.0

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

Federal nondefense spending increased 10.8 percent after decreasing 14.6 percent. The first-quarter increase was mostly in consumption expenditures, mostly employee compensation and research and development; however, an increase in investment, which was more than accounted for by vehicles, also contributed to the first-quarter increase.

Federal defense spending increased 7.4 percent after decreasing 12.0 percent. Investment increased substantially after decreasing; the first-quarter increase was in equipment—particularly aircraft, which reflected the delivery of two B2 bombers. Consumption expenditures increased slightly after decreasing; the increase was more than accounted for by nondurable goods, mostly petroleum products and ammunition.

State and local government spending decreased 0.7 percent after increasing 1.5 percent. The first-quarter decrease was primarily attributable to a decrease in employee compensation, which reflected the closing of many government offices for several days as a result of the blizzard, but it was also attributable to a decrease in investment in structures.

### Revisions

As noted earlier, the preliminary estimate of a 2.3-percent increase in real GDP in the first quarter is 0.5 percentage point lower than the advance estimate (table 7); for 1981–92, the average revision, without regard to sign, from the advance to the preliminary estimates of real GDP was 0.6 percentage point. The preliminary estimate of the increase in the price index for gross domestic purchases—2.4 percent—is 0.1 percentage point lower than the advance estimate.

The downward revision to real GDP was more than accounted for by a downward revision to the change in business inventories. Most other major components of GDP were revised up.

The downward revision to the change in business inventories was more than accounted for by revisions to nonfarm inventories and reflected newly available Census Bureau data for March on the book value of manufacturing and trade inventories and an upward revision to inventory prices, mainly due to newly available Department of Energy (DOE) data on refiners' acquisition costs of petroleum.

Among other components, the upward revision to government spending was primarily in Fed-

eral nondefense spending and mainly reflected the incorporation of detailed Treasury Department data on outlays. The upward revision to fixed investment mainly reflected newly available and revised Census Bureau data on the value of construction put in place and revised DOE data and new trade source data on petroleum drilling. The upward revision to consumer spending primarily reflected revised Census Bureau data on retail trade sales for February and March. The upward revision to exports primarily reflected an upward revision to goods for February, based on revised Census Bureau data, that more than offset a downward revision to goods for March, based on new Census Bureau data; however, the revision in exports also partly reflected an upward revision to services for March, based on new BEA

**Table 7.—Revisions to Real Gross Domestic Product and Prices, First Quarter 1996**  
(Seasonally adjusted at annual rates)

	Percent change from preceding quarter		Preliminary estimate minus advance estimate	
	Advance estimate	Preliminary estimate	Percentage points	Billions of chained (1992) dollars
<b>Gross domestic product</b> .....	<b>2.8</b>	<b>2.3</b>	<b>-0.5</b>	<b>-8.1</b>
Less: Exports of goods and services .....	2.7	4.9	2.2	4.1
Goods .....	1.6	3.1	1.5	2.3
Services .....	5.9	9.6	3.7	1.8
Plus: Imports of goods and services .....	9.2	10.9	1.7	3.7
Goods .....	8.3	10.2	1.9	3.2
Services .....	13.4	15.0	1.6	.5
<b>Equals: Gross domestic purchases</b> .....	<b>3.6</b>	<b>3.1</b>	<b>-0.5</b>	<b>-8.5</b>
Personal consumption expenditures .....	3.5	3.6	.1	1.6
Durable goods .....	7.0	8.0	1.0	1.4
Nondurable goods .....	3.1	3.7	.6	2.1
Services .....	2.9	2.6	-.3	-1.9
Fixed investment .....	10.0	10.7	.7	1.7
Nonresidential .....	12.1	12.3	.2	.3
Structures .....	5.8	9.6	3.8	1.6
Producers' durable equipment .....	14.5	13.2	-1.3	-1.6
Residential .....	4.4	6.6	2.2	1.4
Change in business inventories .....				-13.6
Nonfarm .....				-12.9
Farm .....				-.7
Government consumption expenditures and gross investment .....	1.8	2.6	.8	2.5
Federal .....	6.7	8.5	1.8	1.9
National defense .....	7.5	7.4	-.1	0
Nondefense .....	5.2	10.8	5.6	2.0
State and local .....	-1.0	-.7	.3	.5
<b>Addenda:</b>				
Final sales of domestic product .....	3.3	3.7	.4	6.2
Gross domestic purchases price index (chain-type weights) <sup>1</sup> .....	2.5	2.4	-.1	
GDP price index (chain-type weights) <sup>1</sup> .....	2.5	2.4	-.1	

1. Based on chained (1992) weights.

NOTE.—Preliminary estimates for the first quarter of 1996 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 February and March, and consumers' share of new car and 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 and trade inventories for February (revised) and March.

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

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

*Wages and salaries:* Revised employment, average hourly earnings, and average weekly hours for February and March.

*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.

BEA estimated the first-quarter loss of real government output due to the shutdowns associated with the January 8 blizzard at \$2.1 billion to the Federal Government and \$4.0 billion to State and local government.

data. An upward revision to imports primarily reflected new Census Bureau data on goods for March.

The increase in real disposable personal income was revised down 0.7 percentage point to 2.5 percent; the revision primarily reflected an upward revision to personal tax and nontax payments that was based on newly available information on tax receipts. The personal saving rate was revised down 0.2 percentage point to 4.6 percent.

### Corporate Profits

Profits from current production increased \$24.2 billion in the first quarter after increasing \$3.7 billion in the fourth (table 8).<sup>7</sup>

Profits from domestic operations increased \$31.9 billion after decreasing \$11.6 billion. Profits of financial corporations rebounded from a sharp fourth-quarter decrease that largely reflected losses incurred by insurance companies in connection with Hurricane Opal. Profits of nonfinancial corporations increased after a small

7. Profits from current production are estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; they are shown in NIPA tables 1.14, 1.16, and 6.16C as "corporate profits with inventory valuation and capital consumption adjustments."

**Table 8.—Corporate Profits**  
[Seasonally adjusted at annual rates]

	Level	Change from preceding quarter	
	1996:I	1995:IV	1996:I
Billions of dollars			
<b>Profits from current production</b> .....	<b>642.8</b>	<b>3.7</b>	<b>24.2</b>
Domestic industries .....	562.0	-11.6	31.9
Financial .....	142.3	-10.8	16.5
Nonfinancial .....	419.7	-7	15.4
Rest of the world .....	80.8	15.3	-7.7
IVA .....	-16.1	.5	-7.3
CCAdj .....	20.2	1.9	3.7
Profits before tax .....	638.7	1.4	27.7
Profits tax liability .....	233.0	-5.8	14.3
Profits after tax .....	405.8	7.2	13.5
Cash flow from current production .....	635.7	10.0	6.9
Corporate profits with IVA .....	622.6	1.9	20.4
Domestic industries .....	541.8	-13.4	28.1
Financial .....	135.5	-11.1	16.2
Nonfinancial .....	406.3	-2.3	11.9
Rest of the world .....	80.8	15.3	-7.7
Receipts (inflows) .....	122.8	12.7	0
Payments (outflows) .....	42.0	-2.6	7.7
Dollars			
<b>Unit price, costs, and profits of domestic non-financial corporations:</b>			
Unit price .....	1.060	.001	.005
Unit labor cost .....	.699	.001	.003
Unit nonlabor cost .....	.250	.001	-.001
Unit profits from current production .....	.111	-.001	.003

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

IVA Inventory valuation adjustment  
CCAdj Capital consumption adjustment

decrease; most of the increase was accounted for by unit profits, as an increase in unit price and a decrease in unit nonlabor cost more than offset a rise in unit labor cost.

Profits from the rest of the world turned down, decreasing \$7.7 billion after increasing \$15.3 billion.

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$6.9 billion after increasing \$10.0 billion. The ratio of cash flow to nonresidential fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, decreased to 82.6 percent from 83.9 percent. These levels are near the low end of the range in which the ratio has fluctuated during most of this decade but are substantially higher than the levels typically posted in the 1980's.

*Industry profits.*—Industry profits increased \$20.4 billion in the first quarter after increasing \$1.9 billion in the fourth.<sup>8</sup>

The first-quarter increase was more than accounted for by profits from domestic operations. As already mentioned, profits of financial corporations rebounded from a fourth-quarter decrease that largely reflected claims arising from Hurricane Opal, which caused destruction from the Florida panhandle to North Carolina in early October; the resulting losses for property, casualty, and life insurance carriers are currently estimated at \$7.8 billion (annual rate). Profits of nonfinancial corporations also increased; on the basis of preliminary and incomplete information, it appears that the rise was in wholesale trade, retail trade, and manufacturing.

In manufacturing, sizable increases appear to have been recorded by motor vehicles, by industrial machinery, and by "other" durable and nondurable manufacturing. Despite a strike at one motor vehicle manufacturer in March, profits in the industry increased, as pension contributions returned to more normal levels from an unusually high level in the fourth quarter. Sizable decreases in manufacturing profits appear to have been recorded by petroleum refining, by electronic equipment, and by chemical manufacturing. Despite a recent runup in petroleum prices, profits in the industry decreased, reflecting an adjustment included in BEA's profit estimates

8. Industry profits are estimated as the sum of profits before tax and the inventory valuation adjustment; they are shown in NIPA table 6.16C as "corporate profits with inventory valuation adjustment." 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.



that converts inventory withdrawals to a current replacement-cost valuation; for the first quarter, this adjustment removed inventory profits, which had surged in response to the runup in prices.

Profits from the rest of the world decreased. This component of profits measures receipts of profits from foreign affiliates of U.S. corporations less payments of profits by U.S. affiliates of foreign corporations. Preliminary and incomplete information suggests that receipts were unchanged in the first quarter and that payments increased sharply.

*Related measures.*—Profits before tax (PBT) increased \$27.7 billion in the first quarter after increasing \$1.4 billion in the fourth. The difference between the step-up in PBT and the somewhat smaller step-up in profits from current production was more than accounted for by inventory profits (especially in petroleum refining). Inventory profits are represented in the NIPA's (with the sign reversed) by the inventory valuation adjustment; they increased in the first quarter, raising PBT but not current-production profits (from which they are excluded).

## Government Sector

The fiscal position of the government sector deteriorated in the first quarter of 1996, as the combined current deficit of the Federal Government and State and local governments increased \$2.2 billion, to \$69.1 billion (table 9). The deterioration was attributable to a slight increase in the Federal Government deficit and to a somewhat larger decrease in the State and local government current surplus.

### Federal

The Federal Government current deficit increased \$0.8 billion, to \$155.7 billion, in the first quarter after decreasing \$6.7 billion in the fourth quarter. The surplus in Federal social insurance funds turned down, as benefits paid out increased more than receipts. The remaining Federal Government deficit decreased \$7.5 billion, to \$208.1 billion, and was the lowest since the first quarter of 1991.

*Current expenditures.*—Current expenditures increased \$27.7 billion in the first quarter after increasing \$1.6 billion in the fourth. The acceleration was more than accounted for by transfer payments and by consumption expenditures, and it was moderated by a downturn in net interest paid.

Transfer payments (net) increased \$25.3 billion after increasing \$4.0 billion. The pickup was accounted for by an acceleration in transfer payments to persons and by an upturn in payments to the rest of the world. Transfer payments to persons increased \$18.2 billion after increasing \$6.3 billion. Most of this acceleration was accounted for by social security benefits (old-age, survivors, and disability insurance), which increased \$9.8 billion after increasing \$0.9 billion; the first-quarter increase reflected a 2.6-percent

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

(Billions of dollars, seasonally adjusted at annual rates)

	Level	Change from preceding quarter					
		1996: I	1995				1996
			I	II	III	IV	I
<b>Government sector</b>							
Receipts .....	2,337.6	40.0	42.2	17.6	14.3	39.1	
Current expenditures .....	2,406.7	23.1	29.4	23.6	13.6	41.3	
Current surplus or deficit(-) .....	-69.1	16.9	12.8	-6.1	.8	-2.2	
Social insurance funds .....	109.3	-5.1	-4.0	1.9	.9	-9.0	
Other .....	-178.3	22.0	16.8	-8.0	-1	6.9	
<b>Federal Government</b>							
Receipts .....	1,521.8	33.0	33.9	3.4	8.1	27.1	
Personal tax and nontax receipts .....	639.3	20.1	29.8	-7.1	6.0	16.0	
Corporate profits tax accruals .....	196.1	3.1	-2.4	8.4	-4.8	11.8	
Indirect business tax and nontax accruals .....	84.4	-1.5	1.8	-5.1	2.9	-6.9	
Contributions for social insurance .....	602.0	11.3	4.7	7.2	4.1	6.1	
Current expenditures .....	1,677.4	15.7	21.1	4.4	1.6	27.7	
Consumption expenditures .....	457.2	-5	1.3	-2.6	-2.1	5.8	
National defense .....	302.4	-1.9	2.3	-4.0	-1.2	2.3	
Nondefense .....	154.8	1.4	-1.0	1.4	-9	3.5	
Transfer payments (net) .....	756.3	7.3	6.6	11.9	4.0	25.3	
To persons .....	737.5	21.5	9.0	7.8	6.3	18.2	
To the rest of the world .....	18.7	-14.2	-2.4	4.1	-2.2	6.9	
Grants-in-aid to State and local governments .....	204.0	8.9	5.5	-7.5	-5	.7	
Net interest paid .....	230.8	6.3	8.0	3.5	1.4	-3.3	
Subsidies less current surplus of government enterprises ..	29.1	-6.3	-3	-9	-1.2	-8	
Subsidies .....	30.6	-3	-8	-1.2	-1.3	-7	
Of which: Agricultural subsidies .....	5.4	-4	-6	-8	-7	.3	
Less: Current surplus of government enterprises .....	1.4	6.0	-5	-2	-2	0	
Less: Wage accruals less disbursements .....	0	0	0	0	0	0	
Current surplus or deficit (-) .....	-155.7	17.3	12.8	-1.1	6.7	-8	
Social insurance funds .....	52.4	-4.0	-3.3	1.9	1.4	-8.3	
Other .....	-208.1	21.3	16.1	-3.0	5.3	7.5	
<b>State and local governments</b>							
Receipts .....	1,019.9	15.9	13.8	6.7	5.7	12.8	
Personal tax and nontax receipts .....	185.2	1.9	1.5	4.2	2.6	1.4	
Corporate profits tax accruals .....	36.9	.6	-7	1.9	-1.0	2.5	
Indirect business tax and nontax accruals .....	520.4	4.0	7.0	7.6	3.9	7.6	
Contributions for social insurance .....	73.4	.5	.5	.6	.6	.6	
Federal grants-in-aid .....	204.0	8.9	5.5	-7.5	-5	.7	
Current expenditures .....	933.3	16.3	13.8	11.7	11.5	14.3	
Consumption expenditures .....	701.4	10.2	8.0	6.1	5.7	9.5	
Transfer payments to persons .....	303.7	6.4	5.4	5.3	5.1	4.3	
Net interest paid .....	-45.7	.6	.8	.7	.6	.7	
Less: Dividends received by government .....	13.3	.4	.2	.3	.3	.3	
Subsidies less current surplus of government enterprises ..	-12.8	-5	-2	0	.2	.2	
Subsidies .....	.4	0	0	0	0	0	
Less: Current surplus of government enterprises .....	13.1	.5	.2	0	-2	-3	
Less: Wage accruals less disbursements .....	0	0	0	0	0	0	
Current surplus or deficit (-) .....	86.6	-4	0	-5.0	-5.8	-1.5	
Social insurance funds .....	56.8	-1.1	-7	0	-5	-8	
Other .....	29.8	.7	.7	-5.0	-5.3	-7	

NOTE.—Dollar levels are found in tables 3.1, 3.2, and 3.3 of the "Selected NIPA Tables."

cost-of-living adjustment that went into effect in January. The acceleration in transfer payments to persons also reflected a \$2.9 billion increase in refunds of earned income tax credits. Transfer payments to the rest of the world increased \$6.9 billion after decreasing \$2.2 billion. The upturn was more than accounted for by payments to Israel to finance military purchases, which increased \$9.6 billion (annual rate) in the first quarter after increasing \$2.4 billion in the fourth; the first-quarter payment was the remainder of the annual payment that is usually made in the fourth quarter, but because of this year's protracted Federal budget negotiations, only a portion was paid in December. The first-quarter increase in payments to Israel was partly offset by a decrease in other foreign transfers made through the Agency for International Development and the Department of Defense.

Consumption expenditures increased \$5.8 billion after decreasing \$2.1 billion. Nondefense consumption expenditures increased \$3.5 billion after decreasing \$0.9 billion; the upturn was attributable mainly to compensation of employees, which increased as a result of a Federal civilian pay raise that went into effect in January, and to research and development contracted out by the National Aeronautics and Space Administration. Expenditures for national defense increased \$2.3 billion after decreasing \$1.2 billion. The upturn was more than accounted for by a turnaround in military compensation, reflecting a military pay raise that also went into effect in January, a turnaround in petroleum, and an acceleration in civilian compensation.

Grants-in-aid to State and local governments increased \$0.7 billion after decreasing \$0.5 billion. The upturn was more than accounted for by grants for highways, which increased \$3.0 billion after decreasing \$0.4 billion, and it was moderated by a downturn in aid to families with dependent children, which decreased \$1.5 billion after increasing \$0.9 billion.

Subsidies less current surplus of government enterprises decreased \$0.8 billion after decreasing \$1.2 billion. In the first quarter, housing and other subsidies continued to trend downward, but agricultural subsidies turned up, increasing \$0.3 billion after decreasing \$0.7 billion.

Net interest paid decreased \$3.3 billion after increasing \$1.4 billion. The downturn, the first since the first quarter of 1994, was more than accounted for by gross interest paid to persons and business, which decreased \$4.3 billion after increasing \$0.7 billion.

*Receipts.*—Receipts increased \$27.1 billion in the first quarter after increasing \$8.1 billion in the fourth. The acceleration was more than accounted for by an upturn in corporate profits tax accruals and by accelerations in personal tax and nontax receipts and in contributions for social insurance. The acceleration in receipts was moderated by a downturn in indirect business tax and nontax accruals.

Corporate profits tax accruals increased \$11.8 billion after decreasing \$4.8 billion. The upturn reflected the pattern of domestic corporate profits.

Personal tax and nontax receipts increased \$16.0 billion after increasing \$6.0 billion. The acceleration was attributable to estimated income tax payments less refunds, which increased \$13.1 billion after decreasing \$0.2 billion.

Contributions for social insurance increased \$6.1 billion after increasing \$4.1 billion. The acceleration was primarily attributable to an increase in the social security taxable wage base and to an upturn in Federal contributions to the military retirement trust fund. The first-quarter increase in military retirement contributions was due to the military pay raise in January, and it followed a fourth-quarter drop, which resulted from the lowering of the agency contribution rate in October. The acceleration in contributions for social insurance was moderated by a decrease in the monthly premium for supplemental medical insurance, which resulted from a rate decrease that went into effect in January.

Indirect business tax and nontax accruals decreased \$6.9 billion after increasing \$2.9 billion. The downturn was largely attributable to air transport excise taxes, which decreased \$5.9 billion after increasing \$0.8 billion; these taxes were allowed to expire at the end of 1995 as a result of the Federal budget impasse in December and have not been reinstated. The downturn was also attributable to premiums paid by banks to the Bank Insurance Fund (BIF), which decreased \$0.8 billion after increasing \$2.0 billion. The decrease resulted from a further lowering of bank assessment rates that took effect in January.<sup>9</sup> The fourth-quarter increase in premiums, which occurred despite lower assessment rates, was largely a rebound from the third quarter, when refunds for earlier overpayments had reduced net premiums.

9. Since the BIF became fully capitalized in May 1995, average assessment rates have fallen from 23.2 percent in May 1995 to 4.4 percent in June 1995 (retroactively) to 0.4 percent in January 1996.

### *State and local*

The State and local government surplus decreased \$1.5 billion, to \$86.6 billion, in the first quarter after decreasing \$5.8 billion in the fourth. Current expenditures continued to increase more than receipts. The smaller first-quarter decrease in the surplus was more than accounted for by an acceleration in receipts, which was moderated by an acceleration in current expenditures.

Current expenditures increased \$14.3 billion after increasing \$11.5 billion. The acceleration was more than accounted for by consumption expenditures, which increased \$9.5 billion after increasing \$5.7 billion. An acceleration in expenditures for employee compensation reflected a pickup in State and local government employment; a large upturn in expenditures

for petroleum reflected much higher petroleum prices.

Receipts increased \$12.8 billion after increasing \$5.7 billion. The pickup was more than accounted for by an acceleration in indirect business tax and nontax accruals and by an upturn in corporate profits tax accruals. Indirect business tax and nontax accruals increased \$7.6 billion after increasing \$3.9 billion; sales taxes and other tax and nontax accruals contributed to the acceleration. Corporate profits tax accruals increased \$2.5 billion after decreasing \$1.0 billion. Federal grants-in-aid increased \$0.7 billion after decreasing \$0.5 billion. Personal tax and nontax receipts increased \$1.4 billion after increasing \$2.6 billion; the deceleration reflected lower personal income tax rates and indexation for inflation in several States. 