

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

Larry R. Moran prepared the first section of this article, and Ralph W. Morris prepared the section on corporate profits.

THE "FINAL" estimate of growth in real gross domestic product (GDP) for the first quarter of 1996 is 2.2 percent, 0.1 percentage point lower than the "preliminary" estimate reported in the June "Business Situation" (table 1 and chart 1).¹

1. Quarterly estimates in the national income and product accounts (NIPAs) 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: "Preview of the Comprehensive Revision of the National Income and Product Accounts: BEA's New Featured Measures of Output and Prices," SURVEY OF

Revisions to the components of GDP were small; consequently, the general picture of the economy is little changed from that reported in June: GDP increased more in the first quarter than in the fourth, and the step-up was mainly accounted for by consumer spending, business fixed investment, and government spending. Personal consumption expenditures and private nonresidential fixed investment increased much more in the first quarter than in the fourth; private residential fixed investment increased somewhat more than in the fourth quarter; and Federal Government consumption expenditures and gross investment increased in the first quarter after decreasing in the fourth. In contrast, net exports of goods and services and State and local government consumption expenditures and gross investment decreased in the first quarter after increasing in the fourth, and change in business inventories decreased slightly more in the first quarter than in the fourth.

CURRENT BUSINESS 75 (July 1995): 31; "Improved Estimates of the National Income and Product Accounts for 1959-95: Results of the Comprehensive Revision," SURVEY 76 (January/February 1996): 20; and "A Look at How BEA Presents the National Income and Product Accounts," SURVEY 76 (May 1996): 33.

Table 1.—Revisions to Real Gross Domestic Product and Prices, First Quarter 1996
[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Final estimate minus preliminary estimate	
	Preliminary estimate	Final estimate	Percentage points	Billions of chained (1992) dollars
Gross domestic product	2.3	2.2	-0.1	-2.8
<i>Less:</i> Exports of goods and services	4.9	2.0	-2.9	-5.5
Goods	3.1	2.1	-1.0	-1.5
Services	9.6	1.9	-7.7	-3.9
<i>Plus:</i> Imports of goods and services	10.9	10.2	-.7	-1.5
Goods	10.2	9.8	-.4	-.6
Services	15.0	12.3	-2.7	-.9
Equals: Gross domestic purchases	3.1	3.1	0	1.0
Personal consumption expenditures	3.6	3.6	0	-.1
Durable goods	8.0	8.5	.5	.6
Nondurable goods	3.7	3.6	-.1	-.4
Services	2.6	2.5	-.1	-.2
Fixed investment	10.7	11.0	.3	.7
Nonresidential	12.3	12.4	.1	.2
Structures	9.6	7.9	-1.7	-.7
Producers' durable equipment	13.2	14.1	.9	1.1
Residential	6.6	7.4	.8	.5
Change in business inventories				3.6
Government consumption expenditures and gross investment	2.6	1.6	-1.0	-3.3
Federal	8.5	5.8	-2.7	-2.9
National defense	7.4	3.8	-3.6	-2.7
Nondefense	10.8	10.1	-.7	-.2
State and local	-.7	-.9	-.2	-.4
Addenda:				
Final sales of domestic product	3.7	3.3	-.4	-6.4
Gross domestic purchases price index (chain-type weights) ¹	2.4	2.4	0	
GDP price index (chain-type weights) ¹	2.4	2.4	0	

1. Based on chained (1992) weights.

NOTE.—Final estimates for the first quarter of 1996 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

Personal consumption expenditures: Revised retail sales for March.

Nonresidential fixed investment: Revised construction put in place for February and March, and revised manufacturers' shipments of machinery and equipment for March.

Residential fixed investment: Revised construction put in place for February and March.

Change in business inventories: Revised manufacturing and trade inventories for March.

Exports and imports of goods and services: Revised exports and imports of goods for January through March, and revised balance of payments data on services for the first quarter.

Government consumption expenditures and gross investment: Revised State and local construction put in place for February and March.

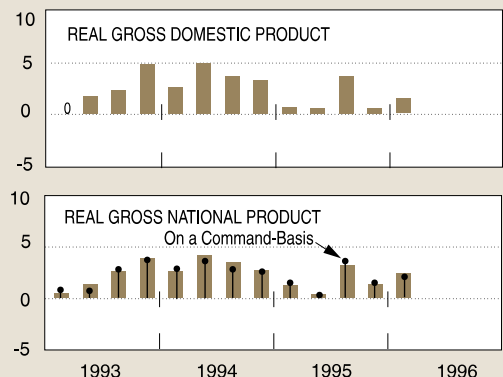
Wages and salaries: Revised employment, average hourly earnings, and average weekly hours for January through March.

GDP prices: Revised detailed price indexes for exports and imports of goods for January through March, revised values and quantities of petroleum imports for January through March, and revised housing prices for February and March.

CHART 1

Selected Product Measures: Change From Preceding Quarter

Percent



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

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

The largest downward revisions to the first-quarter estimates were to exports of goods and services, \$5.5 billion, and to Federal Government national defense spending, \$2.7 billion. The largest upward revision was to change in business inventories, \$3.6 billion. In exports, the downward revision reflected methodological improvements and updates to source data in the balance of payments accounts.² In Federal Government national defense spending, the downward revision reflected the incorporation of detailed financial reports for the military services that were not previously available. In change in business inventories, the upward revision reflected revised Census Bureau data for March on merchant wholesale trade inventories.

Real final sales of domestic product increased 3.3 percent, 0.4 percentage point less than the preliminary estimate. Real gross domestic purchases increased 3.1 percent, unchanged from the preliminary estimate.

The price indexes for gross domestic purchases and for GDP both increased 2.4 percent, the same as the preliminary estimates.

2. Each June, the estimates of the balance of payments accounts (BPA's) are revised to incorporate updated source data and to improve methodologies; see "U.S. International Transactions, Revised Estimates for 1986-95," in this issue. The final NIPA estimates for the first quarter of 1996 reflect the fourth-quarter-1995-to-first-quarter-1996 change implied by the revised BPA estimates. However, the quarterly levels of the revised BPA estimates will not be incorporated until the revision of the NIPA's to be released August 1; see the box on page 4.

Table 2.—Relation of Real Gross Domestic Product, Real Gross National Product, and Real Command-Basis Gross National Product

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars			Percent change from preceding quarter	
	Level	Change from preceding quarter			
	1996	1995	1996	1995	1996
	I	IV	I	IV	I
Gross domestic product	6,812.7	8.2	36.2	0.5	2.2
<i>Plus:</i> Receipts of factor income from the rest of the world	212.2	15.3	5.3	35.8	10.6
<i>Less:</i> Payments of factor income to the rest of the world	206.0	1.4	-4	2.7	-9
Equals: Gross national product	6,818.6	22.1	41.9	1.3	2.5
<i>Less:</i> Exports of goods and services and receipts of factor income from the rest of the world	1,017.2	36.3	9.4	15.8	3.8
<i>Plus:</i> Command-basis exports of goods and services and receipts of factor income	1,052.2	42.5	10.4	18.1	4.0
Equals: Command-basis gross national product	6,853.5	28.4	42.7	1.7	2.5
Addendum:					
Terms of trade ¹	101.0	.3	-2	1.2	-8

1. Ratio of the implicit price deflator for the sum of exports of goods and services and of receipts of factor income to the corresponding implicit price deflator for imports with the decimal point shifted two places to the right.

NOTE.—Levels of these series are found in NIPA tables 1.10 and 1.11.

Real disposable personal income increased 2.1 percent, 0.4 percentage point less than the preliminary estimate; the downward revision was accounted for by a downward revision to current-dollar disposable personal income, which was more than accounted for by personal interest income. The personal saving rate was unrevised at 4.6 percent.

Gross national product (GNP).—Real GNP increased 2.5 percent in the first quarter, 0.3 percentage point more than the increase in real GDP (chart 1 and table 2).³ Receipts of factor income from the rest of the world increased, and payments of factor income decreased; profits more than accounted for the increase in receipts, and interest income more than accounted for the decrease in payments.

Real GNP on a command basis increased at the same rate as real GNP in the first quarter—2.5 percent—reflecting little change in the terms of trade.⁴ In the fourth quarter, command-basis GNP increased more than GNP—1.7 percent, compared with 1.3 percent—reflecting an improvement in the terms of trade.

Corporate Profits

Profits from current production increased \$33.4 billion in the first quarter after increasing \$3.7 billion in the fourth (table 3).⁵

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; in early October 1995, Hurricane Opal caused destruction from the Florida panhandle to North Carolina that resulted in estimates losses of \$7.8 billion (annual rate) for property, casualty, and life insurance carriers. Profits of nonfinancial corporations increased after a small decrease; most of the upturn reflected an increase in unit profits, as an increase in unit

3. GNP equals GDP plus receipts of factor income from the rest of the world less payments of factor income to the rest of the world.

4. In the estimation of command-basis GNP—a measure of the goods and services produced by the U.S. economy in terms of their purchasing power—the current-dollar value of the sum of exports of goods and services and of receipts of factor income is deflated by the implicit price deflator for the sum of imports of goods and services and for payments of factor income. The terms of trade is measured by the ratio of the implicit price deflator for exports of goods and services and for receipts of factor income to the corresponding implicit price deflator for imports, with the decimal point shifted two places to the right. (Because the terms of trade is based on implicit price deflators rather than on exchange rates, it may reflect changes both in prices and in the composition of exports and imports.)

5. 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 1.14, 1.16, and 6.16C as "corporate profits with inventory valuation and capital consumption adjustments."

price and a decrease in unit nonlabor cost more than offset a rise in unit labor cost.

Profits from the rest of the world increased \$1.5 billion after increasing \$15.3 billion. The slowdown reflected developments both in payments of profits by U.S. affiliates of foreign corporations and in receipts of profits from foreign affiliates of U.S. corporations. Payments—which are subtracted from receipts in the calculation of profits from the rest of the world—increased in the first quarter after decreasing in the fourth, and receipts increased less in the first quarter than in the fourth.

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$15.5 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, edged down to 83.8 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 they are substantially higher than the levels typically posted in the 1980's.

Industry profits.—Industry profits increased \$29.4 billion in the first quarter after increasing \$1.9 billion in the fourth.⁶

The first-quarter increase was mostly accounted for by profits from domestic operations. As mentioned earlier, profits of financial corporations rebounded from a fourth-quarter decrease that largely reflected claims arising from Hurricane Opal. Profits of nonfinancial corporations also increased; increases in durable-goods manufacturing, wholesale trade, and retail trade more than offset decreases in the transportation and public utilities group and in nondurable-goods manufacturing.

In manufacturing, the increase in durable-goods-producing industries reflected sizable increases in motor vehicles and in industrial machinery. 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 all four quarters of 1995. The decrease in nondurable-goods-producing industries was accounted for by the petroleum-refining industry. Despite a recent runup in petroleum prices, profits in the industry decreased, reflecting an adjustment included in BEA's profits estimates that converts inventory withdrawals to a current replacement-cost valuation; for the first quarter, this adjustment removed inventory profits, which had surged as a result of the runup in prices.

Profits from the rest of the world increased, as receipts increased more than payments.

Related measures.—Profits before tax (PBT) increased \$38.0 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, which are represented in the national income and product accounts (with the sign reversed) by the inventory valuation adjustment, increased in the first quarter, raising PBT but not current-production profits (from which they are excluded).

Table 3.—Corporate Profits

[Seasonally adjusted at annual rates]


	Level			Change from preceding quarter		
	1996		1995	1996		
	I	IV	I	I	I	
Billions of dollars						
Profits from current production	652.0	3.7	33.4			
Domestic industries	562.0	-11.6	31.9			
Financial	141.7	-10.8	15.9			
Nonfinancial	420.3	-7	16.0			
Rest of the world	90.0	15.3	1.5			
IVA	-17.4	.5	-8.6			
CCAadj	20.4	1.9	3.9			
Profits before tax	649.0	1.4	38.0			
Profits tax liability	233.4	-5.8	14.7			
Profits after tax	415.6	7.2	23.3			
Cash flow from current production	644.3	10.0	15.5			
Profits by industry:						
Corporate profits with IVA	631.6	1.9	29.4			
Domestic industries	541.6	-13.4	27.9			
Financial	134.9	-11.1	15.6			
Nonfinancial	406.7	-2.3	12.3			
Manufacturing	161.3	4.1	4.0			
Wholesale trade	37.5	0	6.3			
Retail trade	41.7	-2.9	2.1			
Transportation and public utilities	95.6	-6.5	-2			
Other	70.6	3.0	.1			
Rest of the world	90.0	15.3	1.5			
Receipts (inflows)	131.0	12.7	8.2			
Payments (outflows)	41.0	-2.6	6.7			
Dollars						
Unit price, costs, and profits of domestic non-financial corporations:						
Unit price	1.060	0.001	0.005			
Unit labor cost699	.001	.003			
Unit nonlabor cost249	.001	-.002			
Unit profits from current production111	-.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
CCAadj Capital consumption adjustment

6. 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.

Revisions to profits and related measures.—The revised estimate of first-quarter corporate profits from current production is \$9.2 billion higher than the estimate published a month ago. Profits from the rest of the world accounted for the revision. Most of the revision in profits from the rest of the world was accounted for by an up-

ward revision in receipts from foreign affiliates of U.S. corporations. The preliminary estimate was based on preliminary tabulations of receipts of dividends and reinvested earnings on U.S. investment abroad from BEA's direct investment surveys; the final estimate is based on more complete tabulations. 

“Limited” Annual Revision of the NIPA Estimates

As announced in the April 1996 SURVEY OF CURRENT BUSINESS, BEA will limit the scope of this year's annual revision of the national income and product accounts (NIPA's). The limited annual revision reflects BEA's decision following the Federal Government shutdowns to focus its resources first on getting the release of the current estimates back on schedule and then on completing the remaining estimates from the comprehensive NIPA revision.¹ The next annual revision in July 1997 will incorporate the full range of annual source data and the results of key data improvement projects.

This year's NIPA revision, which is scheduled to be released on August 1 along with the “advance” gross domestic product (GDP) estimate for the second quarter of 1996 and to be published in the August SURVEY, will consist of the following elements.

Annual weights for 1995 will be incorporated into the calculation of the chain-type measures of real output and price indexes. The availability of 1995 weights permits the recalculation of the quarterly changes from the third quarter of 1994 to the second quarter of 1995 and the annual change for 1995 using the weights of the 2 adjacent years—1994 and 1995; currently, these changes are calculated using only 1994 weights. In addition, the changes for the first two quarters of 1994 will be revised in order to control the quarterly estimates to the corresponding 1994 annual estimate. The quarterly changes beginning with the third quarter of 1995 will continue to be based on a single year's weights, but they will be recalculated using 1995 weights in place of 1994 weights. (In the 1997 annual NIPA revision, when weights for 1996 become available, a similar updating of weights will take place.)

The recent annual revision of the balance of payments accounts (BPA's) will be incorporated into the NIPA estimates beginning with 1993.² The major aggregates and components affected are GDP, gross national product, national income, personal income, payments to the rest of the world (net), government interest paid to the rest of the world, corporate profits, and net interest. The corresponding real output and price measures for these aggregates and components will be revised accordingly.

Newly available Bureau of Labor Statistics (BLS) data will be incorporated into the NIPA estimates of wage and salary accruals and disbursements. The newly available data consist of annual tabulations of wages and salaries of private employees covered by unemployment insurance for 1994 and 1995 and revised monthly data on employment, average weekly hours, and average hourly earnings beginning with 1994. (The monthly data are used to interpolate between and to extrapolate from the annual tabulations.)

As a result of items 1–3 above, all of the major NIPA aggregates will be revised beginning with the first quarter of 1993; the following tables from the standard annual presentation will be published in the August 1996 SURVEY.

- The “Selected NIPA Tables,” that is, the tables containing quarterly and annual estimates that appear each month in the SURVEY, will show estimates for the years 1992–95 and for the most recent 15 quarters (through the second quarter of 1996): Tables 1.1–1.11, 1.14, 1.16, 2.1–2.3, 3.1–3.3, 3.7B, 3.8B, 3.10, 3.11, 4.1–4.4, 5.1, 5.4, 5.5, 5.10–5.13, 6.1C, 6.16C, 7.1–7.4C, 7.6, 7.9, 7.10, 7.11B, 7.14–7.16, and 8.1–8.7.
- Most of the “annual only” and “annual and monthly” tables will show estimates for 1992–95: Tables 1.12–1.13, 1.15, 2.4–2.11, 4.5, 5.6–5.9, 5.14, 5.15, 7.5, 7.7, 7.8, 7.12, 7.13, and 7.16.
- Table 8.25, which relates NIPA wages and salaries to the BLS unemployment insurance tabulations, and table 8.27, the once-a-year presentation of fixed-weighted quantity measures, will show estimates for 1992–95.

The following tables will *not* be published in the August SURVEY: Tables 3.4–3.6, 3.12–3.20, 5.2, 5.3, 6.2C–6.15C, 6.17C–6.22C, 8.8–8.24, 8.26, and 9.1–9.6. For most of these tables, the estimates will not be revised until the 1997 annual NIPA revision. Exceptions are the line items related to “rest of the world” in the industry tables in part 6, which are affected by the BPA revision; estimates for these items for 1992–94 will be shown in the August SURVEY.

For additional information about this year's annual NIPA revision, call the National Income and Wealth Division at (202) 606–9700.

1. See page 11 of the April 1996 SURVEY for the schedule of the release of NIPA-related estimates from the comprehensive revision.

2. For a description of the annual revision of the BPA's, see “U.S. International Transactions, Revised Estimates for 1986–95” in this issue.