

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

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THE "FINAL" estimate of growth in real gross domestic product (GDP) for the second quarter of 1996 is 4.7 percent, 0.1 percentage point lower than the "preliminary" estimate reported in the September "Business Situation" (table 1 and chart 1).¹

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarter-to-quarter dollar changes are differences between these estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data. Real estimates are expressed in chained (1992) dollars. Price indexes are chain-type indexes.

Table 1.—Revisions to Real Gross Domestic Product and Prices, Second 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	4.8	4.7	-0.1	-1.9
<i>Less:</i> Exports of goods and services	4.8	5.6	.8	1.7
Goods	7.0	6.7	-.3	-.4
Services	-7	2.8	3.5	2.0
<i>Plus:</i> Imports of goods and services	9.4	9.9	.5	1.2
Goods	11.6	11.7	.1	.2
Services	-1.3	1.3	2.6	.9
Equals: Gross domestic purchases	5.4	5.2	-.2	-2.5
Personal consumption expenditures	3.4	3.4	0	-.5
Durable goods	11.8	11.4	-.4	-.5
Nondurable goods	1.6	1.3	-.3	-1.1
Services	2.5	2.7	.2	1.1
Fixed investment	7.3	7.2	-.1	-.1
Nonresidential	4.0	3.8	-.2	-.4
Structures	-1.2	-3.7	-2.5	-1.2
Producers' durable equipment	6.0	6.7	.7	1.0
Residential	15.9	16.3	.4	.2
Change in business inventories				-.1
Nonfarm				-.2
Farm .....				.1
Government consumption expenditures and gross investment	8.2	7.7	-.5	-1.6
Federal	10.7	9.4	-1.3	-1.4
National defense	11.6	10.0	-1.6	-1.1
Nondefense	9.0	8.3	-.7	-.2
State and local	6.8	6.7	-.1	-.2
Addenda:				
Final sales of domestic product	4.3	4.1	-.2	-1.7
Gross domestic purchases price index (chain-type weights) ¹	2.1	2.1	0	
GDP price index (chain-type weights) ¹	2.2	2.2	0	

1. Based on chained (1992) weights.

NOTE.—Final estimates for the second 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 June.

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

Residential fixed investment: Revised construction put in place for May and June.

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

Exports and imports of goods and services: Revised exports and imports of goods for June and revised balance of payments data on exports and imports of services for the second quarter.

Government consumption expenditures and gross investment: Revised State and local construction put in place for May and June, and new detailed financial reports for the Department of Defense for the second quarter.

Wages and salaries: Revised employment, average hourly earnings, and average weekly hours for June.

GDP prices: Revised detailed price indexes for exports and imports of goods for June, revised values and quantities of petroleum imports for June, and revised housing prices for May and June.

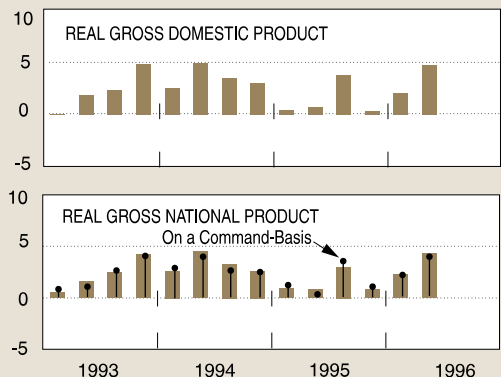
Revisions to the components of GDP were small; consequently, the general picture of the economy is little changed from that reported in September. GDP increased more in the second quarter than in the first, and the step-up was largely accounted for by inventory investment (change in business inventories) and by State and local government spending; also contributing to the step-up were exports of goods and services, residential fixed investment, and Federal Government spending. Inventory investment and State and local government spending each increased in the second quarter after decreasing in the first; exports of goods and services, residential fixed investment, and Federal Government spending each increased more in the second quarter than in the first. In contrast, nonresidential fixed investment increased less than in the first quarter. Personal consumption expenditures and imports of goods and services increased about the same amount in each quarter.

The largest downward revision to the second-quarter estimates was to Federal Government spending, \$1.4 billion, and primarily reflected the incorporation of newly available detailed

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

financial reports for the military services. The largest upward revision was to exports of goods and services, \$1.7 billion, and primarily reflected updates to source data in the balance of payments accounts.

Real final sales of domestic product increased 4.1 percent in the second quarter, 0.2 percentage point less than the preliminary estimate. Real gross domestic purchases increased 5.2 percent, also 0.2 percentage point less than the preliminary estimate.

The price indexes for gross domestic purchases and for GDP increased 2.1 percent and 2.2 percent, respectively, unrevised from the preliminary estimates.

Real disposable personal income increased 1.3 percent, 0.3 percentage point less than the preliminary estimate; the downward revision was accounted for by a downward revision to current-dollar disposable personal income that was more than accounted for by an upward revision to personal tax and nontax payments. The personal saving rate was 4.3 percent, 0.1 percentage point less than the preliminary estimate.

Gross national product (GNP).—Real GNP increased 4.3 percent in the second quarter, 0.4 percentage point less than the increase in real GDP

([chart 1](#) and [table 2](#)).² Payments of factor income to the rest of the world increased more than receipts of factor income; profits and interest income contributed equally to the increase in payments, but interest income accounted for most of the increase in receipts.

Real GNP on a command basis increased slightly less than real GNP in the second quarter—4.1 percent, compared with 4.3 percent—reflecting a small deterioration in the terms of trade.³ In the first quarter, command basis GNP increased slightly more than real GNP—2.4 percent, compared with 2.3 percent—reflecting a small improvement in the terms of trade.

Corporate Profits

Profits from current production increased \$10.7 billion in the second quarter after increasing \$33.3 billion in the first ([table 3](#)).⁴

Profits from domestic operations increased \$15.3 billion in the second quarter after increasing \$31.9 billion in the first. Profits of financial corporations increased much less in the second quarter than in the first. Profits of nonfinancial corporations increased about the same amount in each quarter, as both real output and unit profits increased. The increases in unit profits reflected higher unit prices and lower unit nonlabor costs that more than offset increases in unit labor costs. Profits from the rest of the world turned down, decreasing \$4.8 billion after increasing \$1.5 billion.

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$9.9 billion after increasing \$15.4 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, increased to 83.7 percent from 82.9 percent. These levels are near the low end of the range in which the ratio has fluctuated during most of this decade,

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	
		1996	1996		I
		II	I	II	
Gross domestic product	6,892.6	33.6	78.3	2.0	4.7
<i>Plus:</i> Receipts of factor income from the rest of the world	205.4	5.6	2.2	11.8	4.5
<i>Less:</i> Payments of factor income to the rest of the world	211.1	−1	8.8	−3	18.7
Equals: Gross national product	6,886.5	39.3	71.6	2.3	4.3
<i>Less:</i> Exports of goods and services and receipts of factor income from the rest of the world	1,024.1	9.4	13.3	3.8	5.4
<i>Plus:</i> Command-basis exports of goods and services and receipts of factor income	1,042.1	9.7	11.5	3.9	4.5
Equals: Command-basis gross national product	6,904.5	39.6	69.8	2.4	4.1
Addendum:					
Terms of trade ¹	101.8	.1	−2	.4	−8

1. Ratio of the implicit price deflator for the sum of exports of goods and services and 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.

2. GNP—goods and services produced by labor and property supplied by U.S. residents—equals GDP plus receipts of factor income from the rest of the world less payments of factor income to the rest of the world.

3. 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 reflects changes both in prices and in the composition of exports and imports.)

4. 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.”

but they are substantially higher than the levels typically posted in the 1980's.

Industry profits.—Industry profits increased \$8.7 billion in the second quarter after increasing \$29.5 billion in the first.⁵ The slowdown mainly reflected a sharp deceleration in profits of financial corporations and a downturn in profits from the rest of the world. For financial corporations, profits had increased by an unusually large amount in the first quarter after being held down in the fourth quarter by claims arising from Hurricane Opal. For profits from the rest of the world—that is, receipts of profits from foreign affiliates of U.S. companies less payments of profits by U.S. affiliates of foreign companies—the downturn was more than accounted for by a sharp deceleration in receipts. Profits of domestic nonfinancial corporations increased about the same amount in each quarter; in the second quarter, an upturn in profits of the transportation and utilities group was roughly offset by a downturn in profits of wholesale trade.

Related measures.—Profits before tax (PBT) increased \$2.4 billion in the second quarter after increasing \$38.0 billion in the first. The difference between the \$35.6 billion slowdown in PBT and the \$22.6 billion slowdown in profits from current production was more than accounted for by inventory profits, especially in petroleum refining. (Inven-


Table 3.—Corporate Profits

[Seasonally adjusted at annual rates]

	Level		Change from preceding quarter	
	1996		1996	
	II	I	I	II
Billions of dollars				
Profits from current production	655.8	33.3	10.7	
Domestic industries	577.3	31.9	15.3	
Financial	143.5	15.9	1.8	
Nonfinancial	433.8	16.0	13.5	
Rest of the world	78.4	1.5	-4.8	
IVA	-11.0	-8.6	6.4	
CCAdj	22.3	3.9	1.9	
Profits before tax	644.6	38.0	2.4	
Profits tax liability	236.4	14.7	3.0	
Profits after tax	408.1	23.3	-7	
Cash flow from current production	647.3	15.4	9.9	
Corporate profits with IVA	633.5	29.5	8.7	
Domestic industries	555.1	27.9	13.5	
Financial	136.6	15.6	1.7	
Nonfinancial	418.5	12.3	11.8	
Manufacturing	164.7	4.0	3.4	
Wholesale trade	32.8	6.3	-4.7	
Retail trade	44.3	2.1	2.6	
Transportation and public utilities	104.5	-2	8.9	
Other	72.2	.1	1.6	
Rest of the world	78.4	1.5	-4.8	
Receipts (inflows)	122.6	8.3	.4	
Payments (outflows)	44.2	6.7	5.2	
Dollars				
Unit price, costs, and profits of domestic non-financial corporations:				
Unit price	1.065	0.005	0.003	
Unit labor cost .....	.706	.003	.004	
Unit nonlabor cost .....	.247	-.002	-.001	
Unit profits from current production .....	.113	.003	.002	

IVA Inventory valuation adjustment
 CCAdj Capital consumption adjustment

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

tory profits are represented in the national income and product accounts by the inventory valuation adjustment, with the sign reversed.) 

5. 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. 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.