BUSINESS SITUATION

Ralph W. Morris prepared the first section of this article, and Daniel Larkins prepared the section on corporate profits.

REAL gross domestic product (GDP) increased 5.5 percent in the first quarter of 2000, according to the "final" estimates of the national income and product accounts (NIPA's), after increasing 7.3 percent in the fourth quarter of 1999 (table 1 and chart 1).[1] The general picture of the economy that is indicated by the final estimates is little changed from that shown by the "preliminary" estimates.

Real GDP growth decelerated in the first quarter but remained strong. The deceleration primarily reflected downturns in private inventory investment and in defense spending that were partly offset by accelerations in private nonresidential fixed investment and in consumer spending.

The largest contributors to the first-quarter increase in real GDP were consumer spending and private fixed investment (table 2). The increase was moderated by an increase in imports of goods and services (which are subtracted in the calculation of GDP) and by decreases in private inventory investment and in defense spending.

The final estimate of the change in real GDP is 0.1 percentage point more than the 5.4-percent increase indicated by the preliminary estimate reported in the June "Business Situation" (table 3). For 1978–99, the average revision (without regard to sign) from the preliminary estimate to the final estimate was 0.3 percentage point. The upward re-

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

Real estimates are calculated using a chain-type Fisher formula with annual weights for all years except 1999 and quarterly weights for all quarters; real estimates are expressed both as index numbers (1996=100) and as chained (1996) dollars. Price indexes (1996=100) are also calculated using a chain-type Fisher formula.

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

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars: Level	Change from preceding quarter				Percent change from preceding quarter			
	2000	1999			2000	1999			2000
	I	II	III	IV	I	II	III	IV	I
Gross domestic product	**9,158.2**	**40.7**	**121.5**	**157.4**	**121.0**	**1.9**	**5.7**	**7.3**	**5.5**
Less: Exports of goods and services	1,094.6	10.0	28.3	25.6	16.4	4.0	11.5	10.1	6.2
Plus: Imports of goods and services	1,462.1	44.5	47.6	29.3	39.8	14.4	14.9	8.7	11.7
***Equals*: Gross domestic purchases**	**9,500.6**	**70.7**	**138.3**	**160.8**	**142.0**	**3.2**	**6.2**	**7.2**	**6.2**
Less: Change in private inventories	28.0	–36.1	24.0	28.7	–38.7	....	....	....	....
Nonfarm	34.0	–30.0	28.1	31.1	–38.3	....	....	....	....
Farm	–6.5	–6.5	–4.7	–2.9	.2	....	....	....	....
***Equals*: Final sales to domestic purchasers**	**9,462.6**	**102.8**	**114.1**	**132.9**	**176.6**	**4.7**	**5.1**	**5.9**	**7.8**
Personal consumption expenditures	6,217.8	73.2	71.2	87.2	114.9	5.1	4.9	5.9	7.7
Durable goods	894.1	17.3	15.1	25.5	47.4	9.1	7.7	13.0	24.3
Nondurable goods	1,837.9	14.2	15.6	32.7	25.9	3.3	3.6	7.6	5.8
Services	3,501.2	42.5	41.1	31.3	46.5	5.2	5.0	3.7	5.5
Gross private domestic fixed investment	1,688.7	25.1	26.3	10.5	70.9	6.6	6.8	2.6	18.7
Nonresidential fixed investment	1,311.3	20.2	31.4	8.9	68.1	7.0	10.9	2.9	23.7
Structures	257.5	–3.4	–2.4	–.3	11.7	–5.3	–3.8	–.5	20.6
Equipment and software	1063.6	25.2	35.7	9.8	57.2	11.2	15.7	4.0	24.7
Residential investment	381.6	5.1	–3.7	1.7	4.8	5.5	–3.8	1.8	5.2
Government consumption expenditures and gross investment	1,563.8	4.9	17.0	34.3	–5.8	1.3	4.5	9.3	–1.5
Federal	535.7	2.9	5.4	18.8	–22.6	2.1	4.1	14.7	–15.2
National defense	340.2	–2.2	9.1	14.1	–22.2	–2.6	11.2	17.2	–22.3
Nondefense	195.3	5.0	–3.6	4.8	–.6	10.9	–7.1	10.3	–1.2
State and local	1027.6	2.2	11.5	15.6	16.5	.9	4.8	6.4	6.7
Addendum: Final sales of domestic product	**9,120.1**	**72.5**	**97.5**	**129.6**	**155.5**	**3.4**	**4.5**	**6.0**	**7.1**

NOTE.—Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 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 (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1. (See "Selected NIPA Tables," which begin on page D-2 in this issue.)

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

[Seasonally adjusted at annual rates]

	1999			2000
	II	III	IV	I
Percent change at annual rate:				
Gross domestic product	1.9	5.7	7.3	5.5
Percentage points at annual rates:				
Personal consumption expenditures	3.36	3.33	4.07	5.18
Durable goods	.71	.62	1.03	1.84
Nondurable goods	.64	.73	1.51	1.17
Services	2.00	1.98	1.53	2.17
Gross private domestic investment	–.36	2.26	1.72	1.44
Fixed investment	1.10	1.16	.48	2.98
Nonresidential	.86	1.33	.39	2.75
Structures	–.16	–.11	–.01	.56
Equipment and software	1.02	1.44	.40	2.19
Residential	.24	–.17	.09	.23
Change in private inventories	–1.46	1.09	1.24	–1.54
Net exports of goods and services	–1.35	–.73	–.12	–.91
Exports	.42	1.19	1.08	.68
Goods	.32	1.19	.83	.46
Services	.10	0	.24	.22
Imports	–1.77	–1.92	–1.20	–1.59
Goods	–1.59	–1.84	–1.12	–1.30
Services	–.19	–.08	–.08	–.29
Government consumption expenditures and gross investment	.23	.81	1.61	–.24
Federal	.13	.26	.87	–1.01
National defense	–.10	.42	.65	–.98
Nondefense	.23	–.16	.22	–.03
State and local	.10	.55	.75	.77

NOTE.—More detailed contributions to percent change in real gross domestic product are shown in NIPA table 8.2. Contributions to percent change in major components of real gross domestic product are shown in tables 8.3 through 8.6.

vision to real GDP primarily reflected upward revisions to consumer spending for durable goods and to exports and a downward revision to imports. These revisions were partly offset by downward revisions to business investment in equipment and software and to private inventory investment. For consumer spending, the upward revision mainly reflected the incorporation of revised sales data from the annual retail trade survey from the Census Bureau.[2] For exports and imports, the revision reflected the incorporation (on a "best-change" basis) of data on international trade in goods and services from the annual revision of BEA's international transactions accounts (ITA's).[3] The data resulted in a downward revision to imports and an upward revision to exports. The downward revision to equipment and software was more than accounted for by transportation equipment, primarily aircraft, reflecting the incorporation of revised Census Bureau data. In private inventory investment, the revision was widespread, reflecting the incorporation of revised Census Bureau data.

Real gross domestic purchases increased 6.2 percent, 0.2 percentage point less than the preliminary estimate; in the fourth quarter, this measure increased 7.2 percent.[4] Real final sales of domestic product increased 7.1 percent, 0.2 percentage point more than the preliminary estimate; in the fourth quarter, this measure increased 6.0 percent.[5]

The price index for gross domestic purchases increased 3.5 percent, 0.3 percentage point more

Table 3.—Revisions to Change in Real Gross Domestic Product and Prices, First Quarter 2000

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Final estimate minus preliminary estimate: Change in real GDP	
	Preliminary estimate	Final estimate	Percentage points	Billions of chained (1996) dollars
Gross domestic product	**5.4**	**5.5**	**0.1**	**1.5**
Less: Exports of goods and services	5.5	6.2	.7	2.0
Goods	6.8	6.0	–.8	–1.6
Services	2.2	6.8	4.6	3.2
Plus: Imports of goods and services	12.7	11.7	–1.0	–3.4
Goods	13.5	11.3	–2.2	–6.2
Services	8.3	13.5	5.2	2.5
***Equals*: Gross domestic purchases**	**6.4**	**6.2**	**–.2**	**–3.4**
Less: Change in private inventories	....	....	....	–2.5
Farm	....	....	....	.3
Nonfarm	....	....	....	–2.7
***Equals*: Final sales to domestic purchasers**	**7.9**	**7.8**	**–.1**	**–1.1**
Personal consumption expenditures	7.5	7.7	.2	3.5
Durable goods	22.4	24.3	1.9	3.5
Nondurable goods	5.6	5.8	.2	1.2
Services	5.6	5.5	–.1	–.6
Fixed investment	19.8	18.7	–1.1	–3.8
Nonresidential	25.2	23.7	–1.5	–3.9
Structures	20.7	20.6	–.1	–.1
Equipment and software	26.6	24.7	–1.9	–4.1
Residential	5.2	5.2	0	0
Government consumption expenditures and gross investment	–1.2	–1.5	–.3	–1.0
Federal	–15.1	–15.2	–.1	–.1
National defense	–22.3	–22.3	0	0
Nondefense	–.9	–1.2	–.3	–.1
State and local	7.0	6.7	–.3	–.9
Addenda:				
Final sales of domestic product	6.9	7.1	.2	3.8
Gross domestic purchases price index	3.2	3.5	.3	....
GDP price index	2.7	3.0	.3	....

NOTE.—The final estimates for the first quarter of 2000 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 October 1999 through March 2000 that include the incorporation (on a "best- change" basis) of data reflecting the results of the 1998 Annual Retail Trade Survey. Nonresidential fixed investment: Revised construction put-in-place for February and March, revised manufacturers' shipments of machinery and equipment for March, and revised petroleum drilling footage for the quarter. Residential fixed investment: Revised construction put in-place for February and March and revised sales of new homes for January through March.

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

Exports and imports of goods and services: Revised data on exports and imports of goods and services for October 1999 through March 2000 that include the incorporation (on a "best-change" basis) of revised seasonal factors reflecting the results of the annual revision of BEA's international transactions accounts.

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 October 1999 through March 2000 that include the incorporation (on a "best-change" basis) of revised seasonal factors reflecting the results of the annual revision of BLS's establishment survey.

GDP prices: Revised export and import prices for January through March, revised unit-value index for petroleum imports for March, and revised prices of single-family homes under construction for the quarter.

2. The revised sales data were incorporated on a "best-change" basis. The final estimates of consumer spending in the first quarter incorporate the quarterly *change* implied by the revised estimates of retail sales. The revised estimates of retail sales will be incorporated in the annual revision of the NIPA's that is scheduled for release at end of July.

3. These data were also incorported on a "best-change" basis. The final estimates of exports and imports in the first quarter incorporate the quarterly *change* implied by the revised ITA estimates. The quarterly *levels* of the revised ITA estimates will be incorporated in the upcoming annual NIPA revision. For further information, see "U.S. International Transactions Accounts, Revised Estimates for 1982–1999" in this issue.

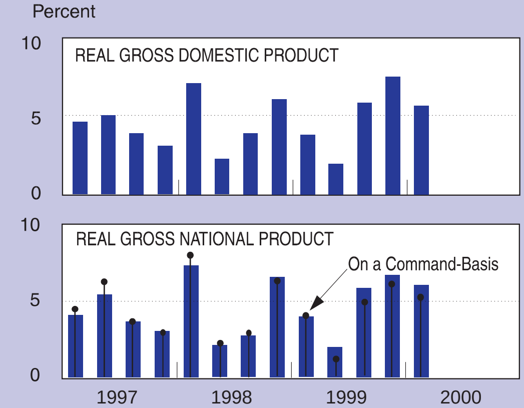
4. Gross domestic purchases—a measure of purchases by U.S. residents regardless of where the purchased goods and services were produced—is calculated as the sum of personal consumption expenditures, gross private domestic investment, and government consumption expenditures and gross investment.

5. Final sales of domestic product is calculated as GDP less change in private inventories.

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 than the preliminary estimate; in the fourth quarter, the index increased 2.3 percent. The upward revision primarily reflected upward revisions to "other" personal consumption expenditures prices—specifically, revisions to the implicit prices of brokerage and investment counseling that resulted from the incorporation of newly available data from the Securities and Exchange Commission and revisions to the implicit price of imputed financial charges that resulted from the incorporation of newly available data from the Federal Deposit Insurance Corporation. The price index for GDP increased 3.0 percent, also 0.3 percentage point more than the preliminary estimate; in the fourth quarter, this measure increased 2.0 percent.

Real disposable personal income (DPI) increased 1.5 percent in the first quarter, 0.7 percentage point less than the preliminary estimate; in the fourth quarter, real DPI increased 4.7 percent. Current-dollar DPI increased 5.0 percent, 0.5 percentage point less than the preliminary estimate; in the fourth quarter, current-dollar DPI increased 7.3 percent. The downward revision to current-dollar DPI reflected an upward revision to personal tax and nontax payments that was due to the incorporation of newly available data on Federal income tax collections from the Monthly Treasury Statement and of updated projections of tax collections for the remainder of the calender year on the basis of historical collection patterns. The upward revision to personal tax and nontax payments was partly offset by an upward revision to personal interest income that was due to the incorporation of newly available data from the Federal Reserve Board flow-of-funds and the Federal Deposit Insurance Corporation. The downward revision to real DPI reflected the downward revision to current-dollar DPI and an upward revision to the implicit price deflator for personal consumption expenditures, which is used to deflate current-dollar DPI.

The personal saving rate—personal saving as a percentage of current-dollar DPI—was 0.3 percent, 0.3 percentage point less than the preliminary estimate; in the fourth quarter, the rate was 1.8 percent. The downward revision reflected the downward revision to current-dollar DPI and an upward revision to personal outlays (largely personal consumption expenditures). The first-quarter rate is the lowest since 1946, the first year for which quarterly estimates are available.

Gross national product (GNP).—In the first quarter, real GNP—goods and services produced by labor and property supplied by U.S. residents—increased 5.8 percent, 0.3 percentage point more than real GDP (table 4).[6] Income receipts from the rest of the world increased more than income payments to the rest of the world; corporate profits accounted for most of the increase in receipts, and interest income accounted for most of the increase in payments.

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

Table 4.—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 (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1999			2000
	2000	1999			2000				
	I	II	III	IV	I	II	III	IV	I
Gross domestic product	**9,158.2**	**40.7**	**121.5**	**157.4**	**121.0**	**1.9**	**5.7**	**7.3**	**5.5**
Plus: Income receipts from the rest of the world	324.4	10.6	9.9	11.7	16.2	16.3	14.5	16.7	22.7
Less: Income payments to the rest of the world	350.0	10.3	10.6	30.7	9.9	15.1	15.0	45.8	12.2
***Equals*: Gross national product**	**9,132.4**	**40.9**	**120.8**	**138.4**	**127.2**	**1.9**	**5.6**	**6.4**	**5.8**
Less: Exports of goods and services and income receipts from the rest of the world	1,420.2	21.1	38.4	37.5	33.3	6.7	12.2	11.6	10.0
Plus: Command-basis exports of goods and services and income receipts from the rest of the world [1]	1,444.4	10.2	26.4	32.1	22.8	3.0	8.0	9.6	6.6
***Equals*: Command-basis gross national product**	**9,156.6**	**30.0**	**108.9**	**133.0**	**116.6**	**1.4**	**5.0**	**6.1**	**5.3**
Addendum: Terms of trade [2]	**101.7**	**–.9**	**–1.0**	**–.5**	**–.8**	**–3.4**	**–3.8**	**–1.9**	**–3.1**

1. Exports of goods and services and income receipts deflated by the implicit price deflator for imports of goods and services and income payments.
2. Ratio of the implicit price deflator for exports of goods and services and income receipts to the corresponding implicit price deflator for imports divided by 100.

NOTE. See note to table 1 for an explanation of chained (1996) dollar series. Levels of these series are shown in NIPA tables 1.10 and 1.11.

Real GNP on a command basis, which measures the purchasing power of goods and services produced by the U.S. economy, increased less than real GNP—5.3 percent, compared with 5.8 percent—reflecting a deterioration in the terms of trade.[7] The terms of trade have deteriorated in each of the last four quarters.

The national saving rate—gross saving as a percentage of GNP—was 18.2 percent in the first quarter, down slightly from 18.3 percent in the fourth quarter; the rate remained higher than the average rate over the current expansion.

7. In the estimates of command-basis GNP, the current-dollar value of the sum of exports of goods and services and income receipts is deflated by the implicit price deflator (IPD) for the sum of imports of goods and services and income payments.

The terms of trade is a measure of the relationship between the prices that are received by U.S. producers for exports of goods and services and the prices that are paid by U.S. purchasers for imports of goods and services. It is measured by the following ratio, with the decimal point shifted two places to the right: In the numerator, the IPD for the sum of exports of goods and services and of income receipts; in the denominator, the IPD for the sum of imports of goods and services and of income payments.

Changes in the terms of trade reflect the interaction of several factors, including movements in exchange rates, changes in the composition of the traded goods and services, and changes in producers' profit margins. For example, if the U.S. dollar depreciates against a foreign currency, a foreign manufacturer may choose to absorb this cost by reducing the profit margin on the product it sells to the United States, or it may choose to raise the price of the product and risk a loss in market share.

Corporate Profits

According to revised estimates, profits from current production increased $46.2 billion (or 5.0 percent at a quarterly rate) in the first quarter after increasing $35.3 billion (4.0 percent) in the fourth (table 5).[8] First-quarter profits were reduced about $5.5 billion by tobacco company payments related to out-of-court settlements; in the fourth quarter, profits had been reduced about $11.2 billion by these payments.

Profits of domestic nonfinancial corporations increased $36.4 billion (5.9 percent). An increase in the unit profits of these corporations resulted from increased unit prices and slightly lower unit costs; the real product of domestic nonfinancial corporations increased 7.5 percent (annual rate). Profits of domestic financial corporations increased $1.7 billion (0.8 percent). Profits from the rest of the world increased $8.3 billion (8.5 percent), as receipts of earnings from foreign affili-

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 begins on page D-2 of this issue) as corporate profits with inventory valuation and capital consumption adjustments.

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

Table 5.—Corporate Profits

[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change (quarterly rate)			
	Level	Change from preceding quarter				1999			2000
	2000	1999			2000				
	I	II	III	IV	I	II	III	IV	I
Profits from current production	**965.6**	**–6.4**	**3.6**	**35.3**	**46.2**	**–.7**	**.4**	**4.0**	**5.0**
Domestic industries	859.8	–5.5	–1.1	45.9	37.9	–.7	–.1	5.9	4.6
Financial	203.2	–7.8	4.4	19.5	1.7	–4.2	2.5	10.7	.8
Nonfinancial	656.7	2.3	–5.5	26.3	36.4	.4	–.9	4.4	5.9
Rest of the world	105.8	–1.0	4.8	–10.6	8.3	–.9	4.6	–9.8	8.5
Receipts (inflows)	187.0	7.1	5.4	4.5	13.0	4.5	3.3	2.7	7.5
Payments (outflows)	81.3	8.1	.6	15.1	4.8	15.2	1.0	24.6	6.3
IVA	–26.7	–26.9	–13.1	1.8	–1.8	....	....	....	....
CCAdj	55.7	2.7	–1.2	1.0	–2.3	....	....	....	....
Profits before tax	936.5	17.7	18.0	32.5	50.2	2.2	2.1	3.8	5.7
Profits tax liability	290.8	6.4	5.0	16.3	15.1	2.6	2.0	6.3	5.5
Profits after tax	645.8	11.3	12.9	16.3	35.2	2.0	2.2	2.7	5.8
Cash flow from current production	990.7	–6.7	12.3	20.9	40.8	–.7	1.3	2.2	4.3
Domestic industry profits:									
Corporate profits of domestic industries with IVA	804.1	–8.2	.1	44.9	40.2	–1.1	0	6.2	5.3
Financial	228.4	–7.0	5.6	21.0	3.5	–3.4	2.8	10.3	1.5
Nonfinancial	575.8	–1.3	–5.5	23.9	36.8	–.2	–1.1	4.6	6.8
Manufacturing	179.6	–3.2	–4.7	–2.8	19.3	–1.9	–2.8	–1.7	12.0
Transportation and public utilities	132.1	–4.0	9.4	10.7	4.1	–3.6	8.8	9.1	3.2
Wholesale trade	45.3	.9	–5.2	3.7	2.5	2.2	–11.9	9.5	6.0
Retail trade	82.5	–.3	–7.7	4.9	9.9	–.4	–10.2	7.2	13.6
Other	136.3	5.4	2.7	7.4	1.0	4.5	2.2	5.7	.8
	Dollars								
Unit price, costs, and profits of nonfinancial corporations:									
Unit price	1.018	0.003	0	0.002	0.004	....	....	....	....
Unit labor cost	.656	.003	0	–.002	–.001	....	....	....	....
Unit nonlabor cost	.236	0	.003	.001	0	....	....	....	....
Unit profits from current production	.126	–.001	–.003	.003	.005	....	....	....	....

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

ates of U.S. corporations increased more than payments by U.S. affiliates of foreign corporations.[9]

The revised estimate of profits from current production is $11.7 billion higher than the preliminary estimate. Profits from the rest of the world were revised up $6.9 billion, mainly reflecting a downward revision to payments by U.S. affiliates of foreign corporations. Profits of domestic nonfinancial corporations were revised up $3.8 billion, and profits of domestic financial corporations were revised up $1.1 billion.

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased $40.8 billion after increasing $20.9 billion.[10] 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 from 79.8 percent to 78.8 percent. During 1991-99, the ratio fluctuated between 78.6 percent and 94.0 percent; it averaged 85.1 percent.

Domestic industry profits and related measures.—Domestic industry profits increased $40.2 billion after increasing $44.9 billion.[11] Profits of domestic nonfinancial corporations increased $36.8 billion after increasing $23.9 billion. The step-up was accounted for by an upturn in manufacturing profits and a step-up in retail trade profits; in contrast, profits of the transportation and public utilities group, of wholesale trade, and of "other" nonfinancial corporations increased less than in the fourth quarter. Profits of domestic financial corporations increased $3.5 billion after increasing $21.0 billion; the large fourth-quarter increase had reflected a rebound from the effects of Hurricane Floyd in the third quarter.

Profits before tax (PBT) increased $50.2 billion after increasing $32.5 billion. The first-quarter increase in PBT was slightly larger than the increase in profits from current production because of decreases in the inventory valuation adjustment and the capital consumption adjustment.[12]

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 include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA's international transactions accounts.

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

11. Domestic industry profits are estimated as the sum of corporate profits before tax and the inventory valuation adjustment; they are shown in NIPA table 6.16C (on page D-17 of this issue). Estimates of the capital consumption adjustment do not exist at a detailed industry level; they are available only for total financial and total nonfinancial industries.

12. As prices change, companies that value inventory withdrawals at original acquisition (historical) costs may realize inventory profits or losses. Inventory profits—a capital-gains-like element in profits—result from an increase in inventory prices, and inventory losses—a capital-loss-like element in profits—result from a decrease in inventory prices. In the NIPA's, inventory profits or losses are removed from business incomes by the inventory valuation adjustment (IVA); a negative IVA removes inventory profits, and a positive IVA removes inventory losses.

The capital consumption adjustment converts depreciation valued at historical cost and based on service lives and depreciation patterns specified in the tax code to depreciation valued at replacement cost and based on empirical evidence on the prices of used equipment and structures in resale markets. For more information on depreciation in the NIPA's, see Shelby W. Herman, "Fixed Assets and Consumer Durable Goods: Estimates for 1925-98," SURVEY OF CURRENT BUSINESS 80 (April 2000): 17-30.