

THE BUSINESS SITUATION

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REAL GROSS domestic product (GDP), a measure of goods and services produced in the United States, increased 3.0 percent in the first quarter of 1994, according to the "preliminary" estimate of the national income and product accounts (NIPA's). The "advance" estimate of the NIPA's, reported in the April "Business Situation," showed a 2.6-percent increase.¹ Real gross domestic purchases, a measure of goods and services purchased by U.S. residents, increased 4.2 percent, 0.1 percentage point more than the advance estimate. The fixed-weighted price index for gross domestic purchases increased 2.6 percent, 0.3 percentage point more than the advance estimate. (The sources of these revisions are discussed in "Revisions" later in this article.)

The 3.0-percent increase in real GDP in the first quarter followed a 7.0-percent increase in the fourth (chart 1). The deceleration was accounted for by sharply slower growth in the production of goods other than motor vehicles and by a downturn in the production of structures; the production of motor vehicles surged again in the first quarter, and the production of services picked up after a modest increase (table 1).

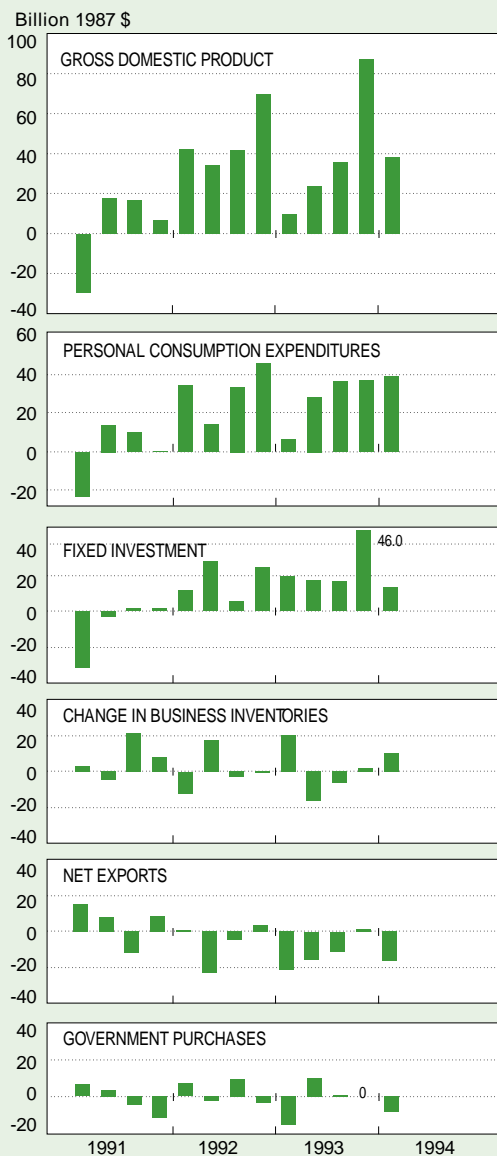
The 4.2-percent increase in real gross domestic purchases followed an increase of 6.7 percent (table 2). The slowdown was more than accounted for by final sales to domestic purchasers; inventory investment accelerated. Within final sales, residential and nonresidential fixed investment increased much less in the first quarter than in the fourth, and government purchases dropped after no change. Personal consumption expenditures, in contrast, increased a little more than in the fourth quarter.

Exports and imports are the link between the goods and services produced in the United States (or GDP) and the goods and services purchased by U.S. residents (or gross domestic purchases). Exports decreased slightly in the first quarter after a

strong fourth-quarter increase; imports increased about half as much in the first quarter as in the fourth.

CHART 1

Real Product: Change from Preceding Quarter



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

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes are differences between these rates. Quarter-to-quarter percent changes are annualized.

Real, or constant-dollar, estimates are expressed in 1987 dollars and are based on 1987 weights. Alternatively weighted measures of real GDP and prices are discussed on page 8 of this article.

Northridge earthquake.—The Northridge earthquake struck southern California on the morning of January 17. The destruction it caused—and the reconstruction and relief efforts that it gave rise to—affected the components of first-quarter GDP and gross domestic purchases, but most of these effects are embedded in the source data that are used to estimate the components. Thus, the effects of the earthquake and reconstruction cannot be disentangled from the effects of unseasonably cold weather in much of the Nation or, indeed, from the effects of any other factor.

However, the Bureau of Economic Analysis did estimate the extent of the earthquake's damage to fixed capital and the resulting effects on various components of personal income and on corporate profits. Those estimates were presented in the April "Business Situation."

Personal consumption expenditures

Real personal consumption expenditures (PCE) increased 4.6 percent in the first quarter after increasing 4.4 percent in the two preceding quarters (table 3). All major components contributed to the first-quarter increase.

Among the factors usually associated with changes in consumer spending, the strongest improvement in the first quarter was posted by the Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center), which jumped to its highest level in 5 years (chart 2). The unemployment rate, in contrast, changed little. Real disposable personal income increased 2.6 percent in the first quarter after increasing 5.4 percent in the fourth.

Expenditures for durable goods increased 10.2 percent after increasing 15.2 percent. Nearly all of the first-quarter increase was accounted for by

Table 1.—Real Gross Domestic Product, by Major Type of Product

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1993			1994
		1993			1994	II	III	IV	I
	1994:I	II	III	IV	I				
Gross domestic product	5,264.1	23.9	36.2	87.3	38.5	1.9	2.9	7.0	3.0
Goods	2,163.8	8.9	5.8	56.0	32.9	1.7	1.1	11.2	6.3
Motor vehicles	238.7	-2.6	-10.2	21.7	23.6	-4.9	-18.6	53.0	51.7
Other	1,925.1	11.5	16.0	34.3	9.3	2.5	3.5	7.5	2.0
Services	2,623.6	12.2	19.2	9.3	17.6	1.9	3.0	1.4	2.7
Structures	476.7	2.8	11.1	22.1	-12.0	2.5	10.1	20.3	-9.5

NOTE.—Most series are found in table 1.4 of the "Selected NIPA Tables." Output of motor vehicles is the sum of auto output and truck output (from tables 8.4 and 8.6).

Table 2.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1993			1994
		1993			1994	II	III	IV	I
	1994:I	II	III	IV	I				
Gross domestic product	5,264.1	23.9	36.2	87.3	38.5	1.9	2.9	7.0	3.0
Less: Exports of goods and services	618.4	5.2	-1.3	28.1	-1.6	3.6	-9	20.4	-1.0
Plus: Imports of goods and services	719.2	20.5	9.8	26.3	14.7	13.3	6.0	16.4	8.6
Equals: Gross domestic purchases	5,364.9	39.3	47.2	85.4	54.9	3.1	3.7	6.7	4.2
Less: Change in business inventories	19.1	-16.3	-6.5	2.0	10.6	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	5,345.8	55.5	53.8	83.5	44.2	4.4	4.2	6.6	3.4
Personal consumption expenditures	3,546.3	28.9	36.9	37.3	39.4	3.4	4.4	4.4	4.6
Nonresidential fixed investment	635.0	22.0	10.5	30.9	9.3	16.6	7.4	22.5	6.1
Residential investment	231.4	-5.2	5.9	15.1	4.2	-9.5	11.9	31.7	7.6
Government purchases	933.1	9.8	.6	0	-8.6	4.3	.3	0	-3.6

NOTE.—Dollar levels are found in tables 1.2 and 1.6 of the "Selected NIPA Tables." Percent changes are found in table 8.1.

motor vehicles and parts, which jumped sharply for the second consecutive quarter. Net purchases of used autos increased sharply; purchases of new foreign autos and of trucks also increased, while purchases of new domestic autos decreased.

Expenditures for nondurable goods increased 4.2 percent after increasing 2.7 percent. Food and "other" nondurable goods accounted for most of the first-quarter increase. Clothing and shoes and fuel oil and coal also increased, while gasoline and oil decreased.

Expenditures for services increased 3.3 percent after increasing 2.6 percent. "Other" services accounted for more than half of the first-quarter increase. Among "other" services, brokerage charges increased the most.

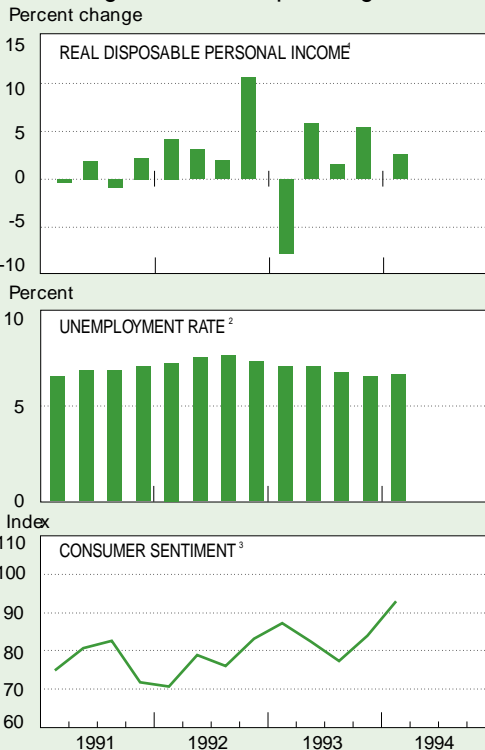
Nonresidential fixed investment

Real nonresidential fixed investment increased 6.1 percent in the first quarter after jumping 22.5 percent in the fourth (table 4). Structures turned down sharply after four consecutive increases; producers' durable equipment increased strongly, though less than in the fourth quarter.

Factors that affect investment spending were mixed in the first quarter. The yield on new high-grade corporate bonds increased 23 basis points but remained low. The capacity utilization rate in manufacturing continued its uptrend with a 1.0-percentage-point increase. Real final

CHART 2

Selected Factors Affecting Consumer Spending



1. Disposable personal income in 1987 dollars; seasonally adjusted annual rates
 2. All civilian workers, seasonally adjusted.
 Data: U.S. Department of Labor, Bureau of Labor Statistics
 3. Data: University of Michigan's Survey Research Center

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

Table 3.—Real Personal Consumption Expenditures

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1993			1994
		1993			1994	II	III	IV	I
		1994:I	II	III	IV	I	II	III	IV	I
Personal consumption expenditures	3,546.3	28.9	36.9	37.3	39.4	3.4	4.4	4.4	4.6
Durable goods	523.4	12.3	8.9	17.8	12.5	10.8	7.6	15.2	10.2
Motor vehicles and parts	211.3	5.6	-1.4	9.8	11.6	12.6	-2.9	22.3	25.3
New autos	86.3	2.4	-7	6.2	1.9	13.2	-3.5	35.7	9.3
New trucks	48.0	1.3	-2.4	6.0	1.1	13.0	-20.4	72.9	9.7
Other	77.0	1.9	1.7	-2.4	8.6	11.8	10.2	-12.9	60.6
Furniture and household equipment	227.9	5.9	7.0	7.7	.8	11.9	13.8	14.8	1.4
Other	84.3	.9	3.1	.4	.2	4.6	16.3	1.9	1.0
Nondurable goods	1,111.5	7.1	9.9	7.2	11.3	2.7	3.7	2.7	4.2
Food	541.1	1.9	4.0	3.4	5.1	1.5	3.1	2.6	3.9
Clothing and shoes	205.6	3.0	2.8	4.0	1.0	6.3	5.8	8.2	2.0
Energy ¹	99.3	-1	2.7	-9	.8	-4	11.6	-3.6	3.3
Other	265.4	2.2	.5	.7	4.3	3.5	.8	1.1	6.8
Services	1,911.4	9.5	18.1	12.3	15.6	2.1	3.9	2.6	3.3
Housing	497.5	1.9	2.6	2.0	2.2	1.6	2.1	1.6	1.8
Household operation	222.1	-2.3	5.2	.5	.8	-4.2	10.0	.9	1.5
Energy ²	101.0	-2.9	4.4	-3	.7	-11.2	19.6	-1.2	2.8
Other household operation	121.1	.6	.8	.9	0	2.0	2.7	3.0	0
Transportation	129.1	1.6	.4	1.5	1.1	5.2	1.3	4.8	3.5
Medical care	472.8	3.1	4.0	4.2	3.5	2.7	3.5	3.7	3.0
Other	590.0	5.0	6.1	4.0	8.1	3.6	4.3	2.8	5.7

1. Gasoline and oil, and fuel oil and coal.
 2. Electricity and gas.

NOTE.—Dollar levels are found in table 2.3 of the "Selected NIPA Tables." New auto and truck purchases are found in tables 8.4 and 8.6. Percent changes in major aggregates are found in table 8.1.

sales of domestic product slowed to a 2.2-percent increase, its smallest increase in four quarters. Corporate profits turned down sharply, and cash flow turned down moderately. Nevertheless, a recent Census Bureau survey found that businesses have revised up their current-dollar plant and equipment spending plans for 1994; the implied growth of real spending for 1994 rose as a result, to 9.8 percent from 7.0 percent.

Structures fell 20.1 percent after posting the largest increase in more than 6 years. All four of the major components of structures contributed to the downturn. In buildings, which contributed the most to the downturn, both industrial and commercial structures decreased after increasing.

Producers' durable equipment (PDE) slowed to a 16.1-percent increase from a 26.0-percent increase. About two-thirds of the slowdown was accounted for by information processing and related equipment, mainly computers. Industrial equipment and "other" PDE also contributed to the slowdown. Transportation equipment stepped up slightly: Purchases of autos turned up sharply, purchases of trucks jumped (though less than in the fourth quarter), and purchases of aircraft dropped less than in the fourth quarter.

Residential investment

Real residential investment increased 7.6 percent in the first quarter after jumping 31.7 percent

in the fourth. The deceleration reflected a slowdown in single-family construction and a downturn in "other" residential investment.²

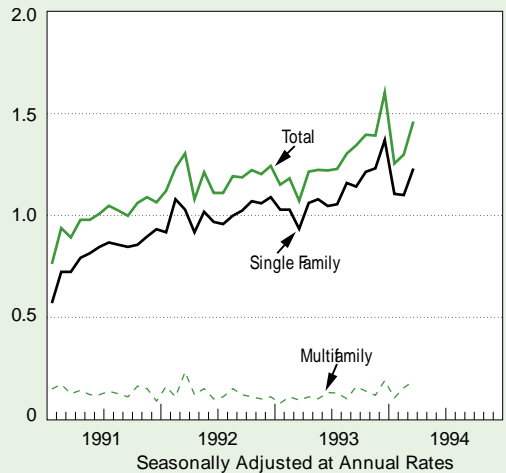
Single-family construction increased 19.7 percent after increasing 39.8 percent. Single-family

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

CHART 3

Housing Starts

Millions of units



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

Table 4.—Real Gross Private Domestic Fixed Investment

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1993			1994
		1993			1994	II	III	IV	I
	1994:I	II	III	IV	I	II	III	IV	I
Gross private domestic fixed investment	866.4	16.9	16.3	46.0	13.5	9.0	8.5	24.8	6.5
Nonresidential	635.0	22.0	10.5	30.9	9.3	16.6	7.4	22.5	6.1
Structures	147.1	2.9	.1	4.4	-8.5	8.1	.3	12.2	-20.1
Nonresidential buildings, including farm	100.5	1.2	1.0	4.5	-5.5	4.9	4.0	18.9	-19.2
Utilities	29.4	.7	-1.1	.7	-1.8	9.7	-1.3	9.5	-21.2
Mining exploration, shafts, and wells	10.5	1.0	.3	-8	-4	44.4	10.9	-24.7	-13.9
Other	6.7	.1	-1.2	0	-8	4.7	-44.8	0	-36.3
Producers' durable equipment	487.9	19.1	10.4	26.4	17.9	19.8	10.0	26.0	16.1
Information processing and related equipment	222.2	8.2	14.1	13.7	7.6	19.7	33.8	30.2	14.9
Computers and peripheral equipment	117.2	5.0	10.6	7.3	4.8	24.3	53.0	30.8	18.2
Other	105.0	3.3	3.6	6.3	2.8	15.7	16.5	29.0	11.4
Industrial equipment	87.1	2.1	1.7	4.2	2.4	11.4	8.9	22.6	11.8
Transportation and related equipment	97.0	7.1	-7.1	5.3	6.0	37.5	-27.3	27.1	29.1
Motor vehicles	86.5	6.9	-3.0	4.7	7.7	45.5	-14.7	27.9	45.2
Other	10.5	.2	-4.1	.6	-1.7	5.3	-70.2	22.4	-45.1
Other	81.5	1.7	1.6	3.2	1.8	9.6	8.8	17.8	9.3
Residential	231.4	-5.2	5.9	15.1	4.2	-9.5	11.9	31.7	7.6
Single-family structures	125.1	-5.2	1.3	9.6	5.5	-17.0	4.9	39.8	19.7
Multifamily structures	9.4	-1	.8	-4	0	-4.3	40.6	-15.4	0
Other	96.9	.2	3.8	5.9	-1.3	.9	18.3	28.1	-5.2

NOTE.—Dollar levels are found in table 5.5 of the "Selected NIPA Tables." Motor vehicles are found in tables 8.4 (autos) and 8.6 (trucks). Percent changes in major aggregates are found in table 8.1.

construction in a quarter is largely determined by the housing starts in that quarter and in the preceding quarter. Therefore, construction in the first quarter of 1994 reflected housing starts in that quarter and in the fourth quarter of 1993. In these two quarters, housing starts averaged 1.23 million units (annual rate), up from an average of 1.21 million units in the third and fourth quarters; the average for the second and third quarters had been 1.11 million (chart 3).

Multifamily construction, which currently accounts for less than 5 percent of residential investment, was unchanged after decreasing 15.4 percent. The rental vacancy rate increased to 7.5 percent from 6.9 percent.

“Other” residential investment decreased 5.2 percent after increasing 28.1 percent. The decrease was mainly accounted for by brokers’ commissions, which reflected a decrease in house sales; sales of new single-family homes decreased 88,000 units, and sales of existing homes decreased 117,000 units (seasonally adjusted annual rates). In part, the decrease in sales may have reflected an upturn in mortgage rates: After hitting a 30-year low of 6.83 percent in October 1993, mortgage rates increased steadily, to 7.68 percent in March 1994 (chart 4).

Inventory investment

Real inventory investment—that is, the change in business inventories—increased \$10.6 billion in the first quarter after increasing \$2.0 billion in the fourth. The first-quarter increase mainly reflected a step-up in nonfarm inventory accumulation (table 5).

Nonfarm inventories increased \$21.1 billion after increasing \$12.9 billion. The step-up was attributable to an upturn in manufacturing inventories and to faster accumulation of retail automotive inventories.

Manufacturing inventories of both durable goods and nondurable goods increased in the first quarter after decreasing in the fourth. The increase in inventories of durable goods was more than accounted for by electronic and industrial equipment; the fourth-quarter decrease was more than accounted for by (ongoing) reductions in inventories of transportation equipment other than motor vehicles. The increase in inventories of nondurable goods was accounted for by food and petroleum.

Wholesale trade inventories decreased in the first quarter after increasing in the fourth. In-

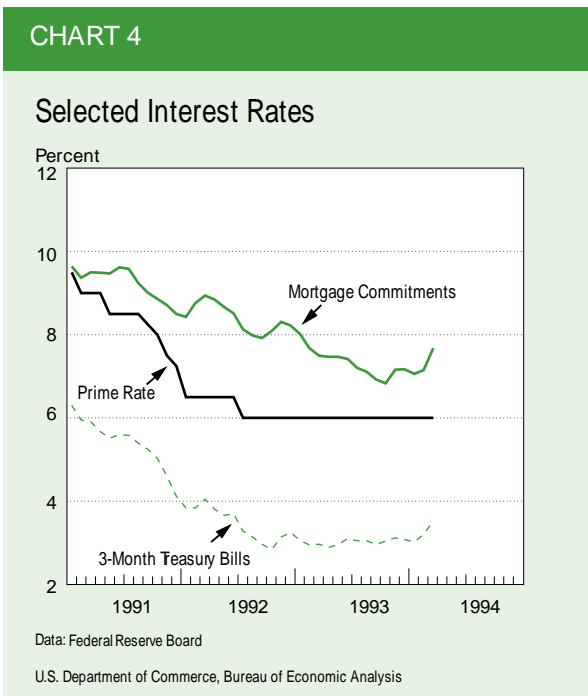


Table 5.—Change in Real Business Inventories
[Billions of 1987 dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter			
	1993				1994	1993			1994
	I	II	III	IV	I	II	III	IV	I
Change in business inventories	29.3	13.0	6.5	8.5	19.1	-16.3	-6.5	2.0	10.6
Farm	0	-4.1	-12.9	-4.4	-1.9	-4.1	-8.8	8.5	2.5
Nonfarm	29.3	17.1	19.4	12.9	21.1	-12.2	2.3	-6.5	8.2
Manufacturing	-8	5.0	3.1	-5.3	6.0	5.8	-1.9	-8.4	11.3
Wholesale trade .....	.7	6.6	6.4	1.2	-2.2	5.9	-2	-5.2	-3.4
Retail trade	24.0	3.0	4.8	11.1	10.5	-21.0	1.8	6.3	-6
Auto dealers	16.6	-5	-7.1	2.4	10.4	-17.1	-6.6	9.5	8.0
Other retail trade	7.4	3.5	11.9	8.7	.1	-3.9	8.4	-3.2	-8.6
Other	5.4	2.4	5.0	5.9	6.8	-3.0	2.6	.9	.9
Addenda: Motor vehicles	14.8	-1.9	-4.4	3.5	4.2	-16.7	-2.5	7.9	.7
Nonfarm less motor vehicles	14.5	19.0	23.8	9.4	16.9	4.5	4.8	-14.4	7.5

NOTE.—Dollar levels for change in real business inventories are found in table 5.11 of the “Selected NIPA Tables.” Motor vehicles are found in tables 8.4 (autos) and 8.6 (trucks).

ventories of both durable and nondurable goods decreased after increasing. The decrease in inventories of durable goods was more than accounted for by motor vehicles and parts.

Retail trade inventories other than those of autos changed little in the first quarter after increasing in the fourth.

Farm inventories decreased \$1.9 billion after decreasing \$4.4 billion. Inventories of livestock decreased after increasing slightly; the decrease reflected weakness in livestock output. Inventories of crops decreased less than in the fourth quarter. The first-quarter decrease reflected a pickup in open-market sales; decreases in the preceding two quarters reflected the effects of floods in the Midwest and drought in the Southeast in the summer of 1993.

The constant-dollar ratio of nonfarm inventories to all final sales of domestic businesses was unchanged at 2.45. A different ratio, in which final sales are limited to goods and structures, edged up to 4.22 from 4.21 in the fourth. (The advance estimates had shown first-quarter increases

in these ratios of 0.02 and 0.04, respectively.) In the fourth quarter, each ratio was at its lowest level in 20 years.

Net exports of goods and services

Real exports slipped 1.0 percent in the first quarter after jumping 20.4 percent in the fourth. Real imports slowed to an 8.6-percent increase from a 16.4-percent increase (table 6).

Exports of goods decreased 3.4 percent after jumping 29.4 percent. Following sharp fourth-quarter increases, exports of agricultural products dropped, and exports of nonagricultural products decreased slightly. Most of the downturn in nonagricultural exports was accounted for by autos and by nonautomotive capital goods, but other major end-use categories also showed weakness. Exports of services increased after a modest decrease.

Imports of goods increased 9.8 percent, about half as much as in the fourth quarter. Imports of petroleum and petroleum products turned

Table 6.—Real Net Exports of Goods and Services

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1993			1994
		1993			1994	II	III	IV	I
	1994:I	II	III	IV	I				
Net exports of goods and services	-100.8	-15.3	-11.1	1.8	-16.3				
Exports of goods and services	618.4	5.2	-1.3	28.1	-1.6	3.6	-9	20.4	-1.0
Goods	459.0	4.3	-4	28.9	-4.0	4.1	-4	29.4	-3.4
Agricultural products	36.5	.1	-1.5	1.8	-2.6	1.0	-14.6	20.7	-24.1
Nonagricultural products	422.5	4.2	1.1	27.1	-1.4	4.4	1.1	30.2	-1.3
Services	159.4	.8	-.8	-.8	2.4	2.0	-2.0	-2.0	6.3
Imports of goods and services	719.2	20.5	9.8	26.3	14.7	13.3	6.0	16.4	8.6
Goods	613.0	19.8	9.2	24.0	14.1	15.3	6.7	17.8	9.8
Petroleum and products	56.7	4.4	-1.1	1.4	-1.4	37.3	-7.4	10.2	-9.3
Nonpetroleum products	556.2	15.4	10.3	22.5	15.5	13.1	8.4	18.5	12.0
Services	106.2	.7	.6	2.3	.6	2.8	2.4	9.2	2.3

NOTE.—Dollar levels are found in tables 4.2 and 4.4 of the "Selected NIPA Tables," and percent changes in major aggregates are found in table 8.1.

Table 7.—Real Government Purchases

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1993			1994
		1993			1994	II	III	IV	I
	1994:I	II	III	IV	I				
Government purchases	933.1	9.8	0.6	0	-8.6	4.3	0.3	0	-3.6
Federal	344.6	1.8	-5.7	-4.7	-4.4	2.0	-6.2	-5.2	-4.9
National defense	228.0	.4	-6.3	-3.0	-9.1	.7	-9.8	-4.9	-14.5
Nondefense	116.6	1.5	.7	-1.9	4.8	5.5	2.5	-6.5	18.3
State and local	588.4	7.9	6.4	4.8	-4.4	5.6	4.5	3.3	-2.9
Structures	92.3	5.5	4.1	2.8	-7.0	27.8	19.0	12.1	-25.4
Other	496.1	2.4	2.3	2.0	2.6	2.0	1.9	1.6	2.1

NOTE.—Dollar levels are found in table 3.8B of the "Selected NIPA Tables," and percent changes in major aggregates are found in table 8.1.

down, and imports of nonpetroleum products slowed. The slowdown in nonpetroleum imports was more than accounted for by autos and by nonautomotive capital goods; imports of foods, feeds, and beverages and of industrial supplies and materials increased more than in the fourth quarter. Imports of services increased modestly after a larger increase.

Government purchases

Real government purchases decreased 3.6 percent in the first quarter after no change in the fourth (table 7). Both Federal Government purchases and State and local government purchases contributed to the decrease.

Federal defense purchases decreased 14.5 percent after decreasing 4.9 percent. The first-quarter decrease was spread across all types of purchases, but more than half of it was in services. Within services, the largest decreases were in contractual research and development and in travel of persons. Compensation of employees declined for the 12th consecutive quarter.

Federal nondefense purchases increased 18.3 percent after decreasing 6.5 percent. The increase was accounted for by purchases of nondurable goods and of services excluding compensation of employees.

State and local government purchases decreased 2.9 percent after increasing 3.3 percent. The decrease was more than accounted for by structures, which decreased after increases in the preceding three quarters; most types of structures contributed to the decrease.

Revisions

The preliminary first-quarter estimate of a 3.0-percent increase in real GDP is 0.4 percentage point higher than the advance estimate (table 8). The preliminary estimate of gross domestic purchases was revised from a 4.1-percent increase to a 4.2-percent increase.

The revision to GDP reflected revised estimates for exports and imports; the revision to gross domestic purchases did not. Exports were revised up \$13.4 billion, and imports were revised up \$9.9 billion; the net effect from these components was an upward revision in GDP of \$3.5 billion. The revisions in both exports and imports primarily reflected the incorporation of newly available source data that showed unexpectedly large increases in exports and imports in March.

A \$1.6 billion revision in gross domestic purchases reflected sizable, but largely offsetting,

revisions in its components. Personal consumption expenditures was revised up \$6.5 billion as a result of the incorporation of revised source data on retail sales for March; much of the revision reflected purchases at eating and drinking places. Federal Government purchases was revised up \$6.6 billion as a result of the incorporation of data on total outlays and on outlays by program for March from the *Monthly Treasury Statement*. The upward revisions in personal consumption expenditures and in Federal government purchases were largely offset by an \$11.4 billion downward revision in inventory investment. Most of the revision was in nonfarm inventories and reflected the incorporation of newly available source data on non-motor vehicle manufacturing and trade inventories for March.

Table 8.—Revisions in Real Gross Domestic Product and Prices, First Quarter 1994

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars	Percent change from preceding quarter	
		Advance estimate	Preliminary estimate
	Preliminary estimate minus advance estimate		
Gross domestic product	5.1	2.6	3.0
Less: Exports of goods and services	13.4	-9.3	-1.0
Plus: Imports of goods and services	9.9	2.8	8.6
Equals: Gross domestic purchases	1.6	4.1	4.2
Personal consumption expenditures	6.5	3.8	4.6
Durables .....	.5	9.7	10.2
Nondurables	4.8	2.4	4.2
Services	1.2	3.1	3.3
Fixed investment .....	.2	6.4	6.5
Nonresidential .....	.9	5.5	6.1
Structures	-1.8	-16.1	-20.1
Producers' durable equipment	2.8	13.5	16.1
Residential	-2.8	9.1	7.6
Change in business inventories	-11.4	.....	.....
Nonfarm	-9.6	.....	.....
Farm	-1.7	.....	.....
Government purchases	6.3	-6.2	-3.6
Federal	6.6	-12.0	-4.9
National defense	-4	-13.9	-14.5
Nondefense	7.0	-7.6	18.3
State and local	-5	-2.6	-2.9
Gross domestic purchases price index (fixed weights) ¹ .....	.....	2.3	2.6
GDP price index (fixed weights) ¹ .....	.....	2.9	3.1

1. Based on 1987 weights.

NOTE.—Preliminary estimates for the first quarter of 1994 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared a month ago.

Personal consumption expenditures: Revised retail sales for February and March, and consumers' share of new car and truck purchases for February.

Nonresidential fixed investment: Construction put in place for January and February (revised) and March, manufacturers' shipments of machinery and equipment for February (revised) and March, and business' share of new car and truck purchases for February.

Residential 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, and revised unit inventories of motor vehicles for March.

Net exports of goods and services: Exports and imports of goods for February (revised) and March.

Government purchases: Federal outlays for March, State and local construction put in place for February (revised) and March, and Employment Cost Index for State and local government wages and salaries for the quarter.

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

GDP prices: Detailed price indexes for exports and imports of goods for January through March, values and quantities of petroleum imports for March, and housing prices for the quarter.

The first-quarter increase in the fixed-weighted price index for gross domestic purchases was revised up 0.3 percentage point, and the increase in the index for GDP was revised up 0.2 percentage point. The revisions mainly reflected the incorporation of newly available price data for single-family houses for the first quarter.

Alternative measures

Currently, both of BEA's alternative measures of real GDP and GDP prices—the chain-type annual-weighted and benchmark-years-weighted measures—have 1992 weights for quarters beginning with the third quarter of 1992.³ Consequently, the alternative measures provide an estimate of the effect of shifting the price and quantity weights used in BEA's featured fixed-weighted measures from 1987 to 1992.

3. For a discussion of the weights used in calculating the alternative measures, see Allan H. Young, "Alternative Measures of Change in Real Output and Prices, Quarterly Estimates For 1959-92," SURVEY 73 (March 1993): 31-41.

In the first quarter, the alternative measures of real GDP increased 2.8 percent, 0.2 percentage point less than the 1987-weighted measure; in the fourth quarter, the alternative measures had increased 0.8 percentage point less than the 1987-weighted measure. About two-thirds of this narrowing was accounted for by computers, which increased much less in the first quarter than in the fourth.

In the first quarter, as well as in the fourth, the difference between the GDP growth rates reflected offsetting differences between the growth rates for the major components. Positive contributions came from personal consumption expenditures, gross private domestic investment, and exports; negative contributions came from government purchases and imports (which is subtracted in deriving GDP).

For prices, the difference between the growth rates of the featured and alternative measures has been small. In the first quarter, all of the measures of price change for gross domestic purchases increased 2.6 percent; for GDP, they all increased 3.1 percent.

Table 9.—Corporate Profits
[Seasonally adjusted at annual rates]

	Level	Change from preceding quarter	
	1994:I	1993:IV	1994:I
Billions of dollars			
Profits from current production	474.4	39.4	-33.5
Domestic	420.9	47.0	-31.9
Financial	77.9	8.5	-18.2
Nonfinancial	343.0	38.5	-13.7
Rest of the world	53.5	-7.6	-1.6
IVA	-16.0	-5.3	-11.7
CCAdj	20.1	.1	-3.8
Profits before tax	470.3	44.6	-18.1
Profits tax liability	185.3	23.0	-7.2
Profits after tax	284.9	21.6	-11.0
Cash flow from current production	550.6	15.7	-8.4
Profits by industry:			
Profits before tax with IVA	454.3	39.2	-29.7
Domestic	400.8	46.8	-28.1
Financial	90.9	8.8	-17.2
Nonfinancial	309.9	38.0	-10.9
Manufacturing		22.2	
Trade		6.3	
Transportation and public utilities		5.9	
Other		3.7	
Rest of the world	53.5	-7.6	-1.6
Receipts (inflows)	75.4	-8	2.2
Payments (outflows)	21.8	6.8	3.7
Dollars			
Unit prices, costs, and profits of domestic nonfinancial corporations:			
Unit price	1,172	0.001	0.007
Unit labor cost	.769	-.007	.007
Unit nonlabor cost	.289	-.003	.005
Unit profits from current production	.113	.010	-.005

NOTE.—Levels of these and other profits series are found in tables 1.14, 1.16, 6.16C, and 7.15 of the "Selected NIPA Tables."
IVA Inventory valuation adjustment
CCAdj Capital consumption adjustment

Corporate Profits

Profits from current production—profits before tax (PBT) plus inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj)—decreased \$33.5 billion in the first quarter after increasing \$39.4 billion in the fourth (table 9).⁴

Profits from the domestic operations of financial corporations accounted for more than half of the decrease in profits from current production. The decrease in financial profits largely reflected claims paid by insurance carriers as a result of the Northridge earthquake.

Profits from the domestic operations of nonfinancial corporations accounted for most of the rest of the decrease in profits from current production. The decrease in nonfinancial profits reflected a decrease in unit profits, as increases in unit labor and nonlabor costs more than offset an increase in unit prices. The rise in nonlabor costs largely reflected uninsured losses of fixed capital in the earthquake.

Profits from the rest of the world decreased moderately.

4. It is estimated that the Northridge earthquake reduced corporate profits in the first quarter by about \$29 billion: Of this reduction, about \$20 billion was accounted for by benefits paid by insurance companies, and about \$9 billion was accounted for by damage to corporate equipment and structures that was not offset by insurance benefits.

Cash flow from current production, a profits-related measure of internally generated funds available to corporations for investment, decreased \$8.4 billion after increasing \$15.7 billion. The decrease in cash flow, together with an increase in nonresidential fixed investment, reduced cash flow as a percentage of nonresidential investment to 82.6 percent from 85.2 percent. The ratio has been drifting down from its peak of 93.8 percent in the first quarter of 1992, but is still higher than it had been in the 1980's.

Related measures.—Industry profits are measured by PBT with IVA because estimates of the CCADj by industry do not exist. Like profits from current production, this measure of profits dropped sharply in the first quarter after a sharp increase in the fourth. Like the drop in profits from current production, more than half of the drop in PBT with IVA was accounted for by financial corporations, mainly reflecting property and casualty insurance carriers. Substantial decreases in the profits of nonfinancial corporations appear to have been in retail trade and in "other" durable and "other" nondurable manufacturing.

In profits from the rest of the world, receipts of profits from foreign affiliates of U.S. corporations increased \$2.2 billion, and payments of profits by U.S. affiliates of foreign corporations increased \$3.7 billion.

PBT decreased \$18.1 billion. The difference between this decrease and the \$33.5 billion decrease in profits from current production mainly reflected a decrease in the IVA.

The IVA, an estimate of inventory profits with the sign reversed, decreased \$11.7 billion. The increase in inventory profits reflected an increase in prices of inventoried goods.

Government Sector

The fiscal position of the government sector improved in the first quarter of 1994, as the combined deficit of the Federal Government and of State and local governments decreased \$33.2 billion, to \$166.5 billion (table 10). The improvement was more than accounted for by the Federal Government deficit, which decreased from \$207.0 billion to \$164.7 billion. The State and local government position deteriorated from a surplus of \$7.2 billion to a deficit of \$1.8 billion.

Federal

The Federal Government deficit decreased \$42.3 billion in the first quarter, as receipts increased

and expenditures decreased. The Federal deficit has decreased for six consecutive quarters after reaching a record high of \$290.7 billion in the third quarter of 1992.

Receipts.—Receipts increased \$24.2 billion in the first quarter after increasing \$39.8 billion in the fourth. Increases in personal tax receipts and in contributions for social insurance were offset by a decrease in corporate profits tax accruals.

Personal tax and nontax receipts increased \$14.0 billion after increasing \$8.0 billion. In the first quarter, growth in wages and salaries resulted in an \$8.4 billion increase (in withheld

Table 10.—Government Sector Receipts and Expenditures

(Billions of dollars, seasonally adjusted at annual rates)

	Level	Change from preceding quarter				
		1993				1994
		I	II	III	IV	I
	1994:I					
Government sector						
Receipts	2066.9	-3.5	63.8	15.1	53.8	31.7
Expenditures	2,233.4	8.7	22.6	7.9	39.2	-1.6
Surplus or deficit (-)	-166.5	-12.2	41.3	7.1	14.7	33.2
Federal Government						
Receipts	1,339.9	-2.7	49.6	7.9	39.8	24.2
Personal tax and nontax receipts	549.1	-9.7	18.6	6.4	8.0	14.0
Corporate profits tax accruals	152.3	5.3	10.0	-3.1	18.8	-5.8
Indirect business tax and nontax accruals	93.6	-2.0	4.7	.5	8.3	-1.4
Contributions for social insurance	544.9	3.6	16.4	4.1	4.7	17.4
Expenditures	1,504.6	-3.4	8.7	-2.1	34.1	-18.0
Purchases	441.8	-9.7	4.8	-3.9	-3.6	1.8
National defense	292.6	-10.9	2.8	-5.7	-2.7	-6.6
Nondefense	149.1	1.2	2.1	1.7	-1.0	8.4
Transfer payments (net)	664.6	.3	3.6	7.2	14.4	-2.6
To persons	652.0	11.8	3.8	6.4	4.6	8.3
To rest of the world	12.6	-11.5	-2	.8	9.8	-10.9
Grants-in-aid to State and local governments	188.4	-6	6.7	5.8	8.8	-9.0
Net interest paid	175.7	-3.0	4.2	-3	-1.8	-4.7
Subsidies less current surplus of government enterprises	34.1	9.7	-10.6	-10.9	16.3	-3.6
Subsidies	36.7	7.6	-7.8	-11.1	15.7	-3.8
Of which: Agricultural subsidies	12.3	7.5	-7.9	-11.6	15.4	-5.3
Less: Current surplus of government enterprises	2.5	-2.1	2.8	-2	-6	-3
Less: Wage accruals less disbursements	0	0	0	0	0	0
Surplus or deficit (-)	-164.7	.7	40.9	9.9	5.7	42.3
State and local governments						
Receipts	915.4	-1.4	20.8	13.2	22.8	-1.6
Personal tax and nontax receipts	166.7	-3.8	5.3	1.7	2.1	2.6
Corporate profits tax accruals	33.0	.6	2.3	-7	4.3	-1.4
Indirect business tax and nontax accruals	458.2	1.9	5.9	5.7	7.0	5.5
Contributions for social insurance	69.1	.6	.7	.5	.6	.8
Federal grants-in-aid	188.4	-6	6.7	5.8	8.8	-9.0
Expenditures	917.2	11.4	20.6	15.9	13.8	7.5
Purchases	730.8	5.6	14.1	10.1	8.0	1.6
Of which: Structures	106.2	-1.9	7.4	4.9	4.2	-7.4
Transfer payments to persons	270.3	5.7	6.9	6.2	6.7	6.4
Net interest paid	-44.9	.2	.2	.1	.2	.1
Less: Dividends received by government	11.1	0	.2	.1	.1	.2
Subsidies less current surplus of government enterprises	-27.9	-3	-4	-5	-7	-5
Subsidies .....	.5	0	.1	0	0	0
Less: Current surplus of government enterprises	28.4	.3	.4	.5	.8	.5
Less: Wage accruals less disbursements	0	0	0	0	0	0
Surplus or deficit (-)	-1.8	-12.7	.3	-2.8	8.9	-9.0
Social insurance funds	57.2	2.5	-1	-4	-6	-7
Other	-59.0	-15.3	.4	-2.4	9.5	-8.3

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

personal income taxes); in addition, provisions of the Omnibus Budget Reconciliation Act of 1993, largely retroactively increased tax rates, resulted in a \$7.0 billion increase. These increases were partly offset by a decrease resulting from the annual indexation of withholding tables for inflation.

Contributions for social insurance increased \$17.4 billion after increasing \$4.7 billion. In the first quarter, the growth in wages and salaries resulted in a \$7.4 billion increase in contributions. In addition, contributions were boosted \$10.0 billion (annual rate) by an increase in the social security taxable wage base, an increase in the monthly premium for supplementary medical insurance, and the removal of the \$135,000 cap on the medicare taxable wage base.

Corporate profits tax accruals decreased \$5.8 billion after increasing \$18.8 billion. The decrease reflected the downturn in corporate profits.

Indirect business tax and nontax accruals decreased \$1.4 billion after increasing \$8.3 billion. The decrease reflected the absence of a one-time tax on commercial inventories of gasoline, diesel fuel, and aviation fuel that had been collected in the fourth quarter as part of an increase of 4.3 cents per gallon in the motor fuels tax.

Expenditures.—Expenditures decreased \$18.0 billion in the first quarter after increasing \$34.1 billion in the fourth. All the major components of expenditures except purchases contributed to the decrease.

Grants-in-aid to State and local governments decreased \$9.0 billion after increasing \$8.8 billion. The decrease was mainly attributable to payments for medicaid, which decreased \$6.8 billion after increasing \$4.7 billion.

Net interest paid decreased \$4.7 billion after decreasing \$1.8 billion. The first-quarter decrease continues a downtrend following the record high in the fourth quarter of 1991.

Subsidies less the current surplus of government enterprises decreased \$3.6 billion after increasing \$16.3 billion. The decrease was more than accounted for by agricultural subsidies, which decreased \$5.3 billion after increasing \$15.4 billion. Among agricultural subsidies, Conservation Reserve Program payments decreased \$6.9 billion after increasing \$6.9 billion; the decrease was partly offset by increases in flood- and drought-related payments and in deficiency payments, which make up the difference between support prices and market prices for farm commodities.

Transfer payments decreased \$2.6 billion after increasing \$14.4 billion. The decrease was more than accounted for by a \$10.9 billion decrease in transfer payments to the rest of the world; these transfers had increased \$9.8 billion in the fourth quarter, primarily because of \$12.0 billion (annual rate) in economic support payments and other payments to Israel in October. Transfer payments to persons increased \$8.3 billion after increasing \$4.6 billion. The first-quarter increase was mainly attributable to a \$7.7 billion cost-of-living increase in social security benefits (old-age, survivors, and disability insurance) and to increases in medicare payments (hospital and supplementary medical insurance). These increases were partly offset by a decrease in payments under the program for emergency unemployment compensation; this program stopped accepting new applicants on February 5, 1994, and payments will end in May 1994.

Purchases increased \$1.8 billion after decreasing \$3.6 billion. Nondefense purchases increased \$8.4 billion after decreasing \$1.0 billion. The first-quarter increase was primarily in the medical care programs of the Department of Veterans Affairs and in the National Institutes of Health and the Internal Revenue Service. Defense purchases decreased \$6.6 billion after decreasing \$2.7 billion; purchases of military durables, nondurables, and services contributed to the first-quarter decrease. The civilian buyout program begun last year at the Department of Defense boosted compensation of defense employees by \$0.4 billion in the first quarter and by \$0.9 billion in the fourth.

State and local

The State and local government fiscal position deteriorated \$9.0 billion in the first quarter, as receipts decreased and expenditures increased.

Receipts decreased \$1.6 billion in the first quarter after increasing \$22.8 billion in the fourth. The decrease was more than accounted for by Federal grants-in-aid, which decreased \$9.0 billion—mainly reflecting medicaid—after increasing \$8.8 billion. Reflecting the downturn in corporate profits, corporate profits tax accruals decreased \$1.4 billion after increasing \$4.3 billion. Indirect business tax and nontax accruals increased \$5.5 billion after increasing \$7.0 billion; the deceleration was attributable mainly to sales tax collections, which reflected a slowdown in retail sales.

Expenditures increased \$7.5 billion in the first quarter after increasing \$13.8 billion in the

fourth. Purchases increased \$1.6 billion after increasing \$8.0 billion. Purchases other than structures increased more in the first quarter than in the fourth—\$9.0 billion, compared with \$3.8 billion—but structures decreased \$7.4 billion after increasing \$4.2 billion. The earthquake that struck Northridge, California, on January 17 increased purchases by about

\$2 billion, primarily for employee compensation. The impact of the earthquake on purchases of structures cannot be separated from other factors that affected construction, such as the unseasonably cold weather in much of the Nation. Transfer payments to persons increased \$6.4 billion after increasing \$6.7 billion. 