

# 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 Daniel Larkins prepared the section on corporate profits.

**T**HE "FINAL" estimate of growth in real gross domestic product (GDP) for the first quarter of 1995 is 2.7 percent, unchanged from the "preliminary" estimate reported in the May "Business Situation" (table 1).<sup>1</sup> Revisions to the components of GDP were small; consequently, the

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.

general picture of the economy is little changed from that reported in May: Personal consumption expenditures (PCE) increased less in the first quarter than in the fourth; both net exports and residential fixed investment decreased after increasing; change in business inventories increased after decreasing; nonresidential fixed investment increased more than in the fourth quarter; and government purchases decreased less than in the fourth quarter.

The largest upward revisions were to exports of goods and services, \$4.0 billion; to imports of goods and services, \$2.4 billion; and to producers' durable equipment (PDE), \$2.3 billion. The largest downward revision was to PCE, \$2.2 billion. Revised producer prices indexes for computers and peripheral equipment accounted for most of the revision to PDE and to imports and accounted for some of the revision to exports. Most of the revision to exports was due to revised seasonal adjustment factors that were updated as part of an annual revision of the balance of payments accounts; see page 70 of "U.S. International Transactions, Revised Estimates for

**Table 1.—Revisions to Real Gross Domestic Product and Prices, First Quarter 1995**

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Final estimate minus preliminary estimate	
	Preliminary estimate	Final estimate	Percentage points	Billions of 1987 dollars
<b>Gross domestic product</b> .....	<b>2.7</b>	<b>2.7</b>	<b>0</b>	<b>0.1</b>
Less: Exports of goods and services .....	2.5	4.8	2.3	4.0
Goods .....	4.3	7.4	3.1	3.9
Services .....	-3.4	-3.1	.3	.1
Plus: Imports of goods and services .....	8.8	10.1	1.3	2.4
Goods .....	8.0	9.3	1.3	2.0
Services .....	13.9	15.9	2.0	.5
<b>Equals: Gross domestic purchases</b> <sup>1</sup> .....	<b>3.6</b>	<b>3.5</b>	<b>-.1</b>	<b>-1.4</b>
Personal consumption expenditures .....	1.8	1.6	-.2	-2.2
Durable goods .....	-4.0	-3.4	.6	.9
Nondurable goods .....	2.6	2.3	-.3	-.8
Services .....	3.1	2.6	-.5	-2.3
Fixed investment .....	14.6	14.9	.3	.7
Nonresidential .....	20.7	21.5	.8	1.3
Structures .....	14.3	11.5	-2.8	-1.0
Producers' durable equipment .....	22.5	24.5	2.0	2.3
Residential .....	-2.6	-3.4	-.8	-.5
Change in business inventories .....	.....	.....	.....	-1.2
Nonfarm .....	.....	.....	.....	-.7
Farm .....	.....	.....	.....	-.5
Government purchases .....	-1.2	-.7	.5	1.1
Federal .....	-4.2	-3.8	.4	.3
National defense .....	-7.3	-7.5	-.2	-.1
Nondefense .....	1.8	3.6	1.8	.5
State and local .....	.5	1.0	.5	.8
<b>Addenda:</b>				
Final sales of domestic product .....	2.5	2.6	.1	1.3
Gross domestic purchases price index (fixed weights) <sup>1</sup> .....	3.0	3.0	0	.....
GDP price index (fixed weights) <sup>1</sup> .....	3.3	3.3	0	.....

1. Based on 1987 weights.

NOTE.—Final estimates for the first quarter of 1995 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, revised manufacturers' shipments of equipment for March, and revised shipments of complete civilian aircraft for March.

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

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

*Net exports of goods and services:* Revised merchandise exports and imports for March, revised exports and imports of services for the quarter, and updated seasonal adjustment factors and other changes introduced in this year's annual revision to the balance of payments accounts.

*Government purchases:* Revised State and local government construction put in place for February and March.

*Net interest:* Financial assets held by households for the quarter and net interest from the rest of the world for the quarter.

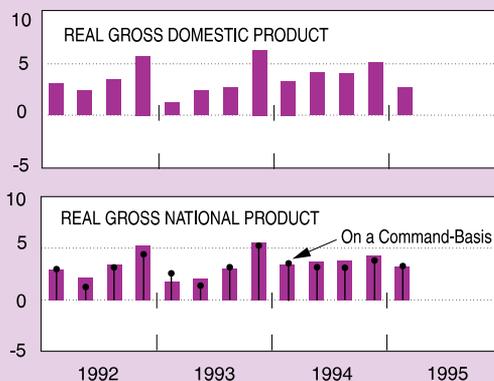
*Corporate profits:* Revised domestic book profits and profits from the rest of the world for the quarter.

*GDP prices:* Revised housing prices for the quarter and revised producer price indexes for February and March. Personal tax

**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

1983-94" in this issue. Newly available information on net foreign travel (also from the annual revision of the balance of payments accounts) resulted in revisions to exports and imports and in a largely offsetting revision to PCE services, which accounted for most of the revision in PCE.

The final estimate of real gross domestic purchases shows a 3.5-percent increase, 0.1 percentage point lower than the preliminary estimate.

The final estimates of the fixed-weighted price indexes for gross domestic purchases and GDP show increases of 3.0 percent and 3.3 percent, respectively, unchanged from the preliminary estimates.

The increase in real disposable personal income (DPI) was revised down 0.4 percentage point to 4.1 percent; the revision primarily reflected an upward revision to personal tax and nontax payments that was based on newly available information on tax collections. The personal saving rate was unrevised at 5.1 percent.

**Alternative measures.**—In the first quarter, BEA's chain-type annual-weighted measure of real GDP increased 1.7 percent (unchanged from the preliminary estimate), 1.0 percentage point less than the fixed-1987-weighted measure of real GDP (table 2); BEA's benchmark-years-weighted measure of real GDP increased 1.8 percent (0.1 percentage point lower than the preliminary estimate). About four-fifths of the difference between the fixed-weighted measure and the alternative measures was accounted for by purchases of computers, a product whose prices have decreased steadily since 1987; most of the rest of the difference was accounted for by change in business inventories.

**Table 2.—Fixed-Weighted and Alternative Quantity and Price Indexes**

[Percent change at annual rates; based on seasonally adjusted index numbers (1987=100)]

	1994			1995
	II	III	IV	I
<b>Gross domestic product:</b>				
Quantity indexes:				
Fixed 1987 weights .....	4.1	4.0	5.1	2.7
Chain-type annual weights .....	4.2	3.6	4.0	1.7
Benchmark-years weights .....	4.1	3.6	4.1	1.8
Price indexes:				
Fixed 1987 weights .....	2.9	3.0	2.6	3.3
Chain-type annual weights .....	2.7	2.8	2.5	3.2
Benchmark-years weights .....	2.7	2.7	2.6	3.3
<b>Gross domestic purchases:</b>				
Price indexes:				
Fixed 1987 weights .....	3.2	3.5	2.6	3.0
Chain-type annual weights .....	3.1	3.2	2.4	2.9
Benchmark-years weights .....	3.1	3.2	2.5	2.9

NOTE.—Percent changes are found in NIPA table 8.1. Index number levels are found in tables 7.1 and 7.2.

For prices of gross domestic purchases, both the chain-type measure and the benchmark-years-weighted measure increased 2.9 percent—0.1 percentage point less than the fixed-weighted measure.

**Gross national product (GNP).**—Real GNP increased 3.2 percent in the first quarter, 0.5 percentage point more than the increase in real GDP (chart 1 and table 3).<sup>2</sup> Receipts of factor income from the rest of the world increased more than payments of factor income; profits accounted for a little more than half of the increase in receipts, and interest income accounted for nearly all of the increase in payments.

Real GNP on a command basis increased slightly more than real GNP in the first quarter—3.3 percent, compared with 3.2 percent—reflecting an improvement in the terms of trade.<sup>3</sup> In the fourth quarter, command-basis GNP increased

2. 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.

3. In the estimation of real GNP, the current-dollar value of exports of goods and services is deflated by export prices, the current-dollar value of imports of goods and services is deflated by import prices, and the current-dollar values of receipts and payments of factor income are deflated primarily by the implicit price deflator for net domestic product. In the estimation of command-basis GNP—a measure of U.S. production in terms of its purchasing power—the current-dollar value of exports of goods and services and receipts of factor income is deflated by the implicit price deflator for imports of goods and services and 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 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 are based on implicit price deflators—rather than exchange rates—they may reflect changes both in prices and in the composition of exports and imports.)

**Table 3.—Relation of Gross Domestic Product, Gross National Product, and Command-Basis Gross National Product in Constant Dollars**

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars			Percent change from preceding quarter	
	Level	Change from preceding quarter		1994:IV	1995:I
		1995:I	1994:IV		
<b>Gross domestic product</b> .....	<b>5,470.1</b>	<b>66.8</b>	<b>36.3</b>	<b>5.1</b>	<b>2.7</b>
Plus: Receipts of factor income from the rest of the world .....	156.1	5.4	12.9	16.6	41.2
Less: Payments of factor income to the rest of the world .....	167.9	16.1	6.9	52.4	18.3
<b>Equals: Gross national product</b> ...	<b>5,458.3</b>	<b>56.1</b>	<b>42.3</b>	<b>4.3</b>	<b>3.2</b>
Less: Exports of goods and services and receipts of factor income from the rest of the world .....	862.3	36.8	21.2	19.6	10.5
Plus: Command-basis exports of goods and services and receipts of factor income .....	877.1	35.2	23.3	18.3	11.4
<b>Equals: Command-basis gross national product</b> .....	<b>5,473.1</b>	<b>54.5</b>	<b>44.4</b>	<b>4.1</b>	<b>3.3</b>
<b>Addendum:</b>					
Terms of trade <sup>1</sup> .....	101.7	−3	.2	−1.2	.8

1. Ratio of the implicit price deflator for 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.

less than GNP—4.1 percent, compared with 4.3 percent—reflecting a deterioration in the terms of trade.

### Corporate Profits

Profits from current production increased \$9.4 billion in the first quarter after increasing \$4.3 billion in the fourth (table 4).<sup>4</sup>

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$9.1 billion after decreasing \$3.3 billion. The ratio of cash flow to nonresidential fixed investment is an indicator of the share of the current level of investment that could be financed by internally generated funds. In the first quarter, this ratio decreased to 75.4 percent; the decrease was the sixth in succession and reflected the continued strong growth of investment rather than weaker profits.

4. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment (IVA), and the capital consumption adjustment (CCAdj); it is shown in NIPA tables 1.14, 1.16, and 6.16C as "corporate profits with IVA and CCAdj."

**Table 4.—Corporate Profits**  
[Seasonally adjusted at annual rates]

	Level	Change from preceding quarter	
	1995:I	1994:IV	1995:I
Billions of dollars			
<b>Profits from current production</b> .....	<b>569.7</b>	<b>4.3</b>	<b>9.4</b>
Domestic industries .....	501.0	4.9	.4
Financial .....	98.0	-5.8	7.2
Nonfinancial .....	403.0	10.7	-6.8
Rest of the world .....	68.7	-6	9.0
IVA .....	-39.0	-12.5	-6.9
CCAdj .....	38.1	1.3	-7
Profits before tax .....	570.6	15.4	17.1
Profits tax liability .....	220.0	7.0	4.4
Profits after tax .....	350.7	8.4	12.8
Cash flow from current production .....	577.9	-3.3	9.1
<b>Profits by industry:</b>			
Corporate profits with IVA .....	531.6	2.9	10.2
Domestic industries .....	462.9	3.6	1.2
Financial .....	115.2	-5.4	8.0
Nonfinancial .....	347.7	9.0	-6.8
Manufacturing .....	143.9	7.6	-7.0
Trade .....	66.7	-9	-2.5
Transportation and public utilities .....	77.6	3.8	-6
Other .....	59.5	-1.5	3.3
Rest of the world .....	68.7	-6	9.0
Receipts (inflows) .....	99.4	.1	9.4
Payments (outflows) .....	30.7	.7	.4
Dollars			
<b>Unit price, costs, and profits of domestic non-financial corporations:</b>			
Unit price .....	1.175	0	0
Unit labor cost .....	.771	0	.003
Unit nonlabor cost .....	.280	-.001	.001
Unit profits from current production .....	.125	.001	-.003

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

IVA Inventory valuation adjustment  
CCAdj Capital consumption adjustment

The first-quarter increase in profits from current production was more than accounted for by domestic operations of financial corporations and by profits from the rest of the world. In contrast, profits from domestic operations of nonfinancial corporations decreased; real product of these corporations increased, but profits per unit dipped as unit costs rose.

**Industry profits.**—Industry profits increased \$10.2 billion after increasing \$2.9 billion.<sup>5</sup> Profits of financial industries increased \$8.0 billion after decreasing \$5.4 billion; the largest first-quarter increases were registered by commercial banks and Federal Reserve banks.<sup>6</sup>

Profits of nonfinancial industries decreased \$6.8 billion after increasing \$9.0 billion. Large decreases were posted by manufacturers of electronic equipment, motor vehicles, "other" durable goods, food, and chemicals and by petroleum refiners. The drop in motor vehicles reflected an unusual \$6.3 billion pension plan contribution by a major manufacturer; this contribution is treated as a deduction in calculating profits. Only two manufacturing industries—primary metals and industrial machinery—posted substantial increases in profits. In trade, a decrease in profits of retailers was partly offset by an increase in profits of wholesalers. Profits of "other" nonfinancial corporations, such as construction and services, increased.

Profits from the rest of the world increased \$9.0 billion after decreasing \$0.6 billion. This component of profits measures receipts of profits from foreign affiliates of U.S. corporations less payments of profits by U.S. affiliates of foreign corporations. Receipts increased much more than payments in the first quarter; all major industries and most geographical areas contributed to the increase in receipts.

Profits before tax increased \$17.1 billion, \$7.7 billion more than profits from current production. Most of this difference reflects an increase in inventory profits, which are in profits before tax but are not in profits from current production.<sup>7</sup>

5. Industry profits are estimated as the sum of profits before tax and the inventory valuation adjustment (IVA); they are shown in NIPA table 6.16C as "corporate profits with IVA." Estimates of the capital consumption adjustment by industry do not exist.

6. The income of Federal Reserve banks is treated as corporate profits in the NIPA's.

7. Inventory profits are recorded (with the sign reversed) in the NIPA's as the inventory valuation adjustment.

### Comprehensive Revision of the NIPA's

Revised and updated estimates of the national income and product accounts (NIPA's) resulting from a comprehensive, or benchmark, revision are scheduled for release in late 1995. These estimates will incorporate statistical revisions resulting from (1) newly available source data, such as the 1987 benchmark input-output tables, the 1992 Economic Censuses, and several annual surveys for 1993 and 1994 and (2) changes in methodology. The estimates will also reflect changes in definitions and classifications. (For additional information, see "Mid-Decade Strategic Review of BEA's Economic Accounts: An Update" in the April SUR-

VEY OF CURRENT BUSINESS.) In addition, table formats will be revised, and new series will be presented. The changes to be introduced in the comprehensive revision will be described in upcoming articles in the SURVEY.

In general, the statistical revisions will affect the estimates back to 1983, but the changes in definitions and classifications will affect the estimates as far back as necessary. The estimates released in late 1995 will be limited to 1959 forward and will consist only of those usually shown in July SURVEY tables; estimates for earlier periods will be released during 1996.