

# Business Situation

## Preliminary Estimates for the First Quarter of 2005

**I**N the first quarter of 2005, the growth of real gross domestic product (GDP) decelerated somewhat from the growth in the fourth quarter of 2004, according to the “preliminary” estimates of the national income and product accounts (NIPAs) (table 1 and chart 1).<sup>1</sup> The GDP growth rate for the first quarter was 0.4 percentage point higher than that reported in the “advance” estimates released in April. Inflation was the same as in the fourth quarter. Despite the upward revision to GDP, the picture shown by the preliminary estimates is similar to that shown by the advance estimates (see “Revisions”).

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized. “Real” estimates are in chained (2000) dollars, and price indexes are chain-type measures.

*This article was prepared by Brian C. Moyer, Shelly Smith, David F. Sullivan, and Bob Armstrong.*

**Table 1. Real Gross Domestic Product and Components**  
[Seasonally adjusted at annual rates]

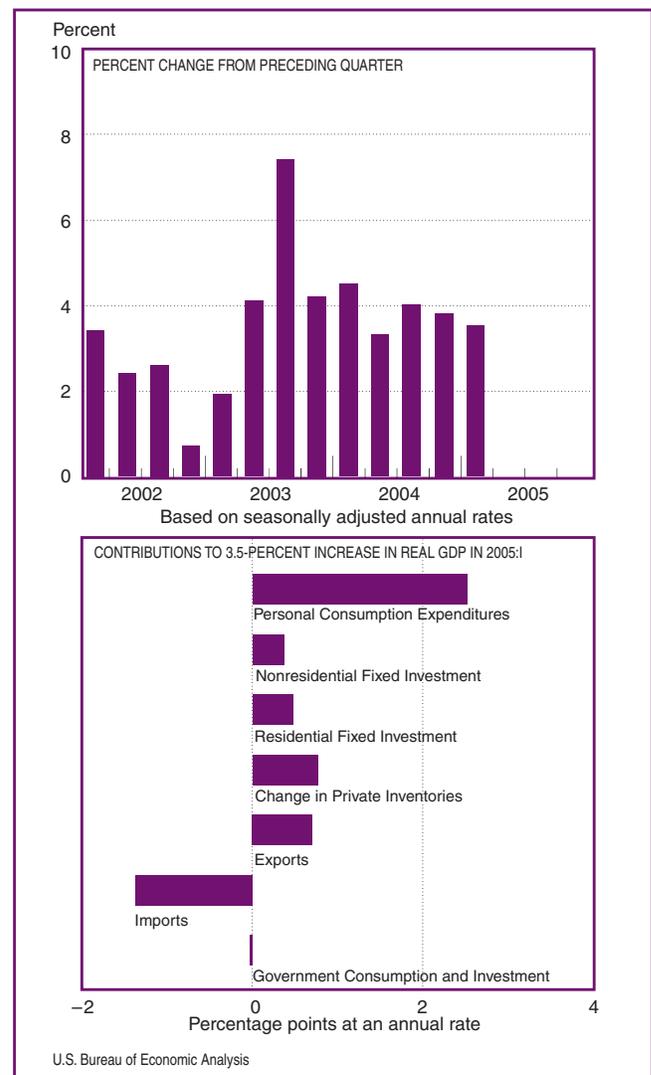
	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)				Share of current-dollar GDP (percent)
	2004			2005	2004			2005	2005
	II	III	IV	I	II	III	IV	I	I
<b>Gross domestic product</b> .....	<b>3.3</b>	<b>4.0</b>	<b>3.8</b>	<b>3.5</b>	<b>3.3</b>	<b>4.0</b>	<b>3.8</b>	<b>3.5</b>	<b>100.0</b>
<b>Personal consumption expenditures</b> .....	<b>1.6</b>	<b>5.1</b>	<b>4.2</b>	<b>3.6</b>	<b>1.10</b>	<b>3.57</b>	<b>2.92</b>	<b>2.54</b>	<b>70.1</b>
Durable goods.....	-0.3	17.2	3.9	1.7	-0.02	1.37	0.33	0.15	8.4
Nondurable goods.....	0.1	4.7	5.9	5.4	0.03	0.94	1.19	1.09	20.4
Services.....	2.7	3.0	3.4	3.2	1.10	1.26	1.41	1.30	41.3
<b>Gross private domestic investment</b> .....	<b>19.0</b>	<b>2.4</b>	<b>13.3</b>	<b>10.0</b>	<b>2.85</b>	<b>0.40</b>	<b>2.11</b>	<b>1.65</b>	<b>17.1</b>
Fixed investment.....	13.9	8.8	10.5	5.3	2.07	1.37	1.65	0.87	16.5
Nonresidential.....	12.5	13.0	14.5	3.5	1.21	1.27	1.46	0.38	10.7
Structures.....	6.9	-1.1	2.1	-3.3	0.16	-0.03	0.05	-0.08	2.4
Equipment and software....	14.2	17.5	18.4	5.6	1.05	1.30	1.41	0.46	8.3
Residential.....	16.5	1.6	3.4	8.8	0.86	0.09	0.19	0.49	5.8
Change in private inventories .....	.....	.....	.....	.....	0.78	-0.97	0.46	0.78	0.6
<b>Net exports of goods and services</b> .....	.....	.....	.....	.....	<b>-1.06</b>	<b>-0.10</b>	<b>-1.35</b>	<b>-0.67</b>	<b>-5.7</b>
Exports .....	7.3	6.0	3.2	7.2	0.70	0.59	0.32	0.71	10.2
Goods .....	6.0	9.5	1.9	8.7	0.41	0.64	0.14	0.60	7.2
Services.....	10.2	-1.8	6.2	3.6	0.30	-0.06	0.18	0.11	3.1
Imports.....	12.6	4.6	11.4	9.1	-1.77	-0.69	-1.67	-1.38	15.9
Goods.....	13.0	5.0	14.9	9.8	-1.52	-0.62	-1.80	-1.25	13.4
Services.....	10.6	2.8	-5.2	5.3	-0.25	-0.07	0.13	-0.13	2.5
<b>Government consumption expenditures and gross investment</b> .....	<b>2.2</b>	<b>0.7</b>	<b>0.9</b>	<b>-0.2</b>	<b>0.41</b>	<b>0.13</b>	<b>0.16</b>	<b>-0.03</b>	<b>18.5</b>
Federal.....	2.7	4.8	1.2	0.4	0.18	0.33	0.09	0.03	6.9
National defense.....	1.9	10.1	-0.6	0.3	0.09	0.45	-0.03	0.01	4.7
Nondefense.....	4.4	-5.3	5.3	0.7	0.10	-0.12	0.11	0.02	2.2
State and local.....	1.9	-1.7	0.6	-0.5	0.23	-0.20	0.07	-0.06	11.6

NOTE. Percent changes are from NIPA table 1.1.1, and contributions to percent change are from NIPA table 1.1.2. Shares are from NIPA table 1.1.10.

- Real GDP increased 3.5 percent in the first quarter after increasing 3.8 percent in the fourth quarter. The first-quarter advance estimates had shown a 3.1-percent increase. The largest contributor to the upward revision in GDP growth was a downward revision to imports (which are subtracted in the calculation of GDP) that was partly offset by a downward revision to inventory investment.<sup>2</sup>
- Prices of goods and services purchased by U.S. residents increased 2.9 percent, 0.1 percentage point

2. In this article, “inventory investment” is shorthand for the NIPA term “change in private inventories,” “consumer spending” is shorthand for “personal consumption expenditures,” and “government spending” is shorthand for “government consumption expenditures and gross investment.”

**Chart 1. Real Gross Domestic Product**



less than in the advance estimate, after increasing 2.9 percent in the fourth quarter.

- Real disposable personal income decreased 1.2 percent after increasing 10.8 percent (revised). The advance estimate had shown a 0.3-percent decrease. The large fourth-quarter increase included a special dividend payment by the Microsoft Corporation.<sup>3</sup>

The small first-quarter deceleration in real GDP growth mainly reflected slowdowns in business investment in equipment and software and in consumer spending. These slowdowns were partly offset by a smaller deterioration in net exports than in the fourth quarter and by pickups in inventory investment and in residential fixed investment.

Business investment in equipment and software increased 5.6 percent in the first quarter after increasing 18.4 percent in the fourth quarter and contributed 0.46 percentage point to first-quarter GDP growth after contributing 1.41 percentage points. Consumer spending increased 3.6 percent in the first quarter after increasing 4.2 percent in the fourth quarter and contributed 2.54 percentage points to GDP growth after contributing 2.92 percentage points.

Net exports subtracted 0.67 percentage point from first-quarter GDP growth after subtracting 1.35 percentage points from fourth-quarter growth. Exports picked up, adding 0.71 percentage point to first-quarter GDP growth after adding 0.32 percentage point; the pickup was in exports of goods, which increased 8.7 percent after increasing 1.9 percent. Imports slowed, subtracting 1.38 percentage points from first-quarter GDP growth after subtracting 1.67 percentage points; the slowdown was in imports of goods, which increased 9.8 percent after increasing 14.9 percent. Imports of services turned up.

Inventory investment added 0.78 percentage point to GDP growth after adding 0.46 percentage point. Real inventory stocks increased more in the first quarter (\$68.4 billion) than in the fourth quarter (\$47.2 billion).

Residential fixed investment picked up, increasing 8.8 percent after increasing 3.4 percent.

The preliminary estimates for the first quarter also show the following:

- Business fixed investment in nonresidential structures turned down, decreasing 3.3 percent after

3. During the fourth quarter, the Microsoft Corporation paid its shareholders a special dividend of \$3.00 per share that boosted current-dollar personal income by \$99.4 billion (annual rate). For more information, see "The Microsoft Special Dividend" on BEA's Web site at <[www.bea.gov/bea/faq/national/FAQ.htm](http://www.bea.gov/bea/faq/national/FAQ.htm)>.

increasing 2.1 percent, and subtracted 0.08 percentage point from GDP growth after adding 0.05 percentage point.

- Government spending turned down, decreasing 0.2 percent after increasing 0.9 percent, and subtracted 0.03 percentage point from GDP growth after adding 0.16 percentage point.
- Real final sales of domestic product (GDP less the change in private inventories) increased 2.7 percent after increasing 3.4 percent.
- Real gross domestic purchases (real GDP less net exports of goods and services) increased 4.0 percent after increasing 5.0 percent.
- The production of goods and of services slowed, and the production of structures accelerated somewhat (table 2).
- Motor vehicle output slowed, contributing 0.23 percentage point to real GDP growth after contributing 0.86 percentage point.
- Final sales of computers (sales of domestically produced computers less inventory change) contributed 0.56 percentage point to real GDP growth in the first quarter, the same contribution as in the fourth quarter.
- The gross saving rate (saving from all sources as a percentage of gross national income) increased slightly to 14.5 percent from 14.4 percent. The net saving rate increased to 3.0 percent from 2.8 percent.<sup>4</sup>

4. Net saving, which excludes the consumption of fixed capital, is a measure of the saving that is available for augmenting the stock of fixed assets.

**Table 2. Real Gross Domestic Product by Type of Product**

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)				Share of current-dollar GDP (percent)
	2004		2005		2004		2005		
	II	III	IV	I	II	III	IV	I	
<b>Gross domestic product (GDP)</b>	<b>3.3</b>	<b>4.0</b>	<b>3.8</b>	<b>3.5</b>	<b>3.3</b>	<b>4.0</b>	<b>3.8</b>	<b>3.5</b>	<b>100.0</b>
Final sales of domestic product .....	2.5	5.0	3.4	2.7	2.52	4.97	3.38	2.71	99.4
Change in private inventories .....	.....	.....	.....	.....	0.78	-0.97	0.46	0.78	0.6
Goods .....	2.5	8.3	6.1	5.2	0.82	2.67	1.99	1.68	32.7
Services .....	2.3	2.8	3.0	2.8	1.30	1.59	1.71	1.57	57.2
Structures .....	12.7	-2.5	1.4	2.3	1.19	-0.25	0.14	0.23	10.1
<b>Addenda:</b>									
Motor vehicle output .....	-15.2	10.4	27.6	6.4	-0.58	0.34	0.86	0.23	3.6
GDP excluding motor vehicle output .....	4.0	3.8	3.1	3.4	3.88	3.66	2.99	3.26	96.4
Final sales of computers .....	0.1	20.7	74.6	68.5	0.00	0.18	0.56	0.56	1.1
GDP excluding final sales of computers .....	3.3	3.9	3.3	2.9	3.30	3.82	3.28	2.92	98.9

NOTE. Percent changes are from NIPA table 1.2.1, and contributions to percent change are from NIPA table 1.2.2. Shares are calculated from NIPA table 1.2.5.

### Personal Consumption Expenditures

Real personal consumption expenditures decelerated to a 3.6-percent increase in the first quarter of 2005 from a 4.2-percent increase in the fourth quarter of 2004 (table 3 and chart 2).<sup>5</sup> Spending for durable goods, for nondurable goods,<sup>5</sup> and for services decelerated in the first quarter.

**Durable goods.** Purchases of motor vehicles and parts decreased 8.5 percent after decreasing 0.5 percent. Purchases of new cars decreased after a sizable increase; a downturn in purchases of foreign cars was

partly offset by an acceleration in purchases of domestic cars. Purchases of used cars decreased after an increase. Purchases of new and used trucks decreased less in the first quarter than in the fourth. In contrast, purchases of furniture and household equipment accelerated, mainly because of an acceleration in purchases of video and audio equipment. Purchases of “other” durable goods also accelerated; the acceleration was mainly in purchases of motorcycles, which turned up.

**Nondurable goods.** Purchases of food and of clothing and shoes decelerated. Purchases of gasoline, fuel oil, and other energy goods turned up. Purchases of “other” nondurable goods accelerated slightly.

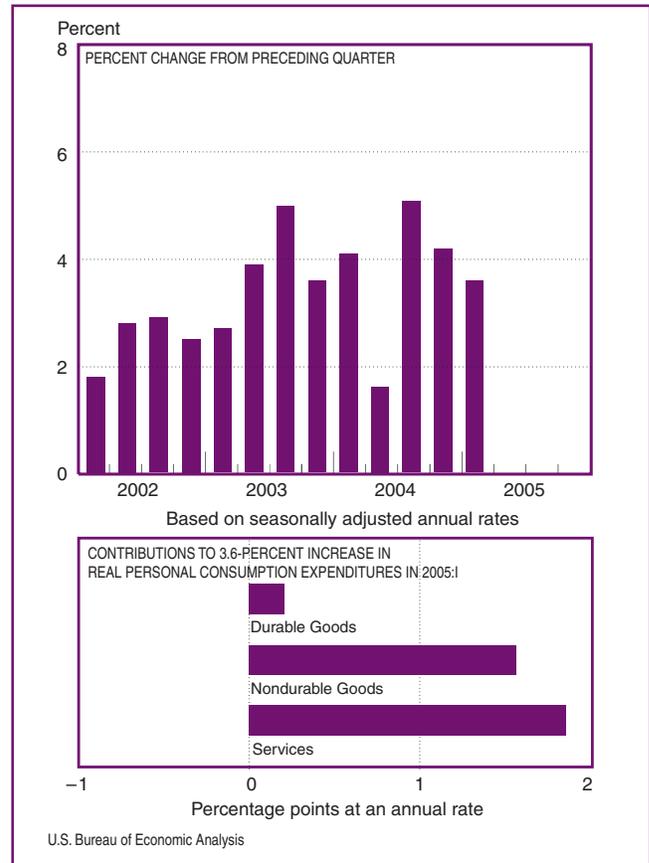
5. Consumer spending has increased at an average annual rate of 3.8 percent from the first quarter of 1995 to the first quarter of 2005.

**Table 3. Real Personal Consumption Expenditures**  
[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real PCE (percentage points)				Share of current-dollar PCE (percent)	
	2004			2005	2004			2005		2005
	II	III	IV	I	II	III	IV	I		
<b>Personal consumption expenditures (PCE) .....</b>	<b>1.6</b>	<b>5.1</b>	<b>4.2</b>	<b>3.6</b>	<b>1.6</b>	<b>5.1</b>	<b>4.2</b>	<b>3.6</b>	<b>100.0</b>	
<b>Durable goods .....</b>	<b>-0.3</b>	<b>17.2</b>	<b>3.9</b>	<b>1.7</b>	<b>-0.03</b>	<b>1.97</b>	<b>0.47</b>	<b>0.21</b>	<b>12.0</b>	
Motor vehicles and parts .....	-6.0	28.7	-0.5	-8.5	-0.34	1.40	-0.03	-0.48	5.4	
Furniture and household equipment .....	7.4	11.6	7.3	11.0	0.31	0.48	0.31	0.45	4.3	
Other <sup>1</sup> .....	-0.2	3.5	8.3	11.0	-0.01	0.08	0.19	0.25	2.4	
<b>Nondurable goods .....</b>	<b>0.1</b>	<b>4.7</b>	<b>5.9</b>	<b>5.4</b>	<b>0.04</b>	<b>1.35</b>	<b>1.71</b>	<b>1.57</b>	<b>29.1</b>	
Food .....	2.3	4.4	7.7	5.9	0.32	0.61	1.07	0.82	14.1	
Clothing and shoes .....	-5.3	6.0	10.2	5.5	-0.22	0.24	0.39	0.22	4.0	
Gasoline, fuel oil, and other energy goods .....	-13.2	2.6	-1.1	6.9	-0.42	0.08	-0.03	0.21	3.1	
Other <sup>2</sup> .....	4.5	5.3	3.5	4.0	0.35	0.43	0.28	0.32	7.9	
<b>Services .....</b>	<b>2.7</b>	<b>3.0</b>	<b>3.4</b>	<b>3.2</b>	<b>1.56</b>	<b>1.82</b>	<b>2.02</b>	<b>1.86</b>	<b>58.9</b>	
Housing .....	2.0	2.4	2.3	2.4	0.30	0.37	0.34	0.37	15.0	
Household operation .....	-0.9	1.3	5.4	1.0	-0.05	0.07	0.30	0.06	5.5	
Electricity and gas .....	-8.0	-0.9	12.7	-1.6	-0.18	-0.02	0.26	-0.04	2.2	
Other household operation .....	4.0	2.7	0.9	2.8	0.13	0.09	0.03	0.09	3.3	
Transportation .....	2.9	1.7	4.2	2.1	0.11	0.06	0.15	0.08	3.6	
Medical care .....	4.4	5.0	4.3	4.8	0.74	0.85	0.72	0.81	17.0	
Recreation .....	0.3	2.7	-1.3	5.0	0.01	0.11	-0.05	0.20	4.0	
Other <sup>3</sup> .....	3.3	2.5	4.1	2.6	0.45	0.35	0.56	0.36	13.8	

1. Includes jewelry and watches, ophthalmic products and orthopedic equipment, books and maps, bicycles and motorcycles, guns and sporting equipment, photographic equipment, boats, and pleasure aircraft.  
 2. Includes tobacco, toilet articles, drug preparations and sundries, stationery and writing supplies, toys, film, flowers, cleaning preparations and paper products, semidurable house furnishings, and magazines and newspapers.  
 3. Includes personal care, personal business, education and research, religious and welfare activities, and net foreign travel.  
 NOTE: Percent changes are from NIPA table 2.3.1, and contributions to percent change are from NIPA table 2.3.2. Shares are calculated from NIPA table 2.3.5.

**Chart 2. Real Personal Consumption Expenditures**

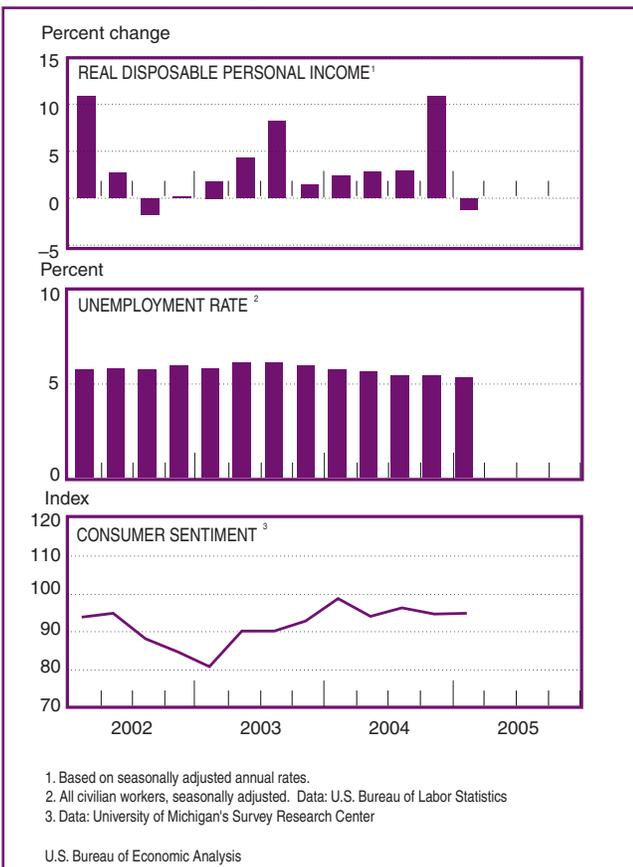


**Services.** The slight deceleration largely reflected a downturn in spending on electricity and gas and a deceleration in spending on “other” services that were partly offset by an upturn in spending on recreation. In “other” services, a deceleration in brokerage charges and a downturn in political organizations were partly offset by an upturn in net foreign travel. The upturn in spending on recreation primarily reflected an upturn in casino gambling.

**Selected factors.** Conditions frequently considered in the analysis of consumer spending were mixed in the first quarter (chart 3). The Index of Consumer Sentiment (prepared by the University of Michigan’s Survey Research Center) increased slightly after decreasing, and the unemployment rate decreased to 5.3 percent from 5.4 percent. In contrast, real disposable personal income decreased 1.2 percent after increasing 10.8 percent (revised).<sup>6</sup>

6. Real disposable personal income increased at an average annual rate of 3.4 percent from the first quarter of 1995 to the first quarter of 2005.

**Chart 3. Selected Factors Affecting Consumer Spending**



## Private Fixed Investment

Real private fixed investment increased 5.3 percent in the first quarter of 2005 after increasing 10.5 percent in the fourth quarter of 2004 (table 4 and chart 4).<sup>7</sup>

**Nonresidential.** Real private nonresidential fixed investment increased 3.5 percent in the first quarter after increasing 14.5 percent in the fourth quarter. Investment in equipment and software decelerated, and investment in structures turned down.

Investment in equipment and software increased 5.6 percent after increasing 18.4 percent, reflecting downturns in transportation equipment and in “other” equipment that were partly offset by an upturn in “other” information processing equipment. In transportation equipment, the downturn reflected downturns in aircraft, in passenger cars, and in light trucks

7. Real private fixed investment increased at an average annual rate of 5.5 percent from the first quarter of 1995 to the first quarter of 2005.

**Table 4. Real Private Fixed Investment**

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)			Contribution to percent change in real PFI (percentage points)				Share of current-dollar PFI (percent)	
	2004			2005				2005	
	II	III	IV	I	II	III	IV	I	
<b>Private fixed investment (PFI)</b> .....	<b>13.9</b>	<b>8.8</b>	<b>10.5</b>	<b>5.3</b>	<b>13.9</b>	<b>8.8</b>	<b>10.5</b>	<b>5.3</b>	<b>100.0</b>
<b>Nonresidential</b> .....	<b>12.5</b>	<b>13.0</b>	<b>14.5</b>	<b>3.5</b>	<b>8.11</b>	<b>8.21</b>	<b>9.25</b>	<b>2.32</b>	<b>64.8</b>
<b>Structures</b> .....	<b>6.9</b>	<b>-1.1</b>	<b>2.1</b>	<b>-3.3</b>	<b>1.07</b>	<b>-0.16</b>	<b>0.32</b>	<b>-0.49</b>	<b>14.6</b>
Commercial and health care..	21.3	-1.8	-9.6	-5.6	1.24	-0.11	-0.62	-0.35	5.9
Manufacturing.....	-14.2	25.4	70.9	19.5	-0.12	0.17	0.44	0.16	0.9
Power and communication.....	-37.0	-20.9	15.0	19.8	-1.03	-0.48	0.28	0.38	2.1
Mining exploration, shafts, and wells.....	20.0	9.5	23.7	-6.4	0.42	0.21	0.52	-0.17	2.6
Other structures¹.....	16.8	1.6	-8.6	-14.6	0.55	0.05	-0.30	-0.51	3.1
<b>Equipment and software</b> .....	<b>14.2</b>	<b>17.5</b>	<b>18.4</b>	<b>5.6</b>	<b>7.05</b>	<b>8.37</b>	<b>8.93</b>	<b>2.80</b>	<b>50.2</b>
Information processing equipment and software....	14.1	7.5	17.7	21.1	3.67	1.92	4.34	4.96	25.8
Computers and peripheral equipment.....	26.5	20.7	52.6	50.1	1.47	1.14	2.63	2.54	6.3
Software².....	8.7	6.8	20.5	13.0	0.87	0.66	1.87	1.19	9.8
Other³.....	12.7	1.1	-1.7	13.2	1.33	0.11	-0.16	1.22	9.8
Industrial equipment.....	2.1	27.7	7.6	4.1	0.17	2.03	0.62	0.33	8.1
Transportation equipment.....	26.1	38.1	40.6	-16.9	1.88	2.64	2.95	-1.53	8.0
Other equipment⁴.....	16.1	22.6	12.1	-10.7	1.32	1.78	1.02	-0.95	8.3
<b>Residential</b> .....	<b>16.5</b>	<b>1.6</b>	<b>3.4</b>	<b>8.8</b>	<b>5.76</b>	<b>0.59</b>	<b>1.22</b>	<b>3.02</b>	<b>35.2</b>
<b>Structures</b> .....	<b>16.7</b>	<b>1.5</b>	<b>3.3</b>	<b>8.9</b>	<b>5.74</b>	<b>0.55</b>	<b>1.18</b>	<b>3.03</b>	<b>34.7</b>
Permanent site.....	9.0	2.7	0.5	13.4	1.99	0.60	0.10	2.78	21.7
Single family.....	8.9	3.0	0.0	12.7	1.78	0.60	0.01	2.39	19.6
Multifamily.....	9.8	0.2	4.5	19.9	0.21	0.00	0.10	0.39	2.1
Other structures⁵.....	30.5	-0.4	8.1	1.9	3.75	-0.05	1.08	0.25	13.0
<b>Equipment</b> .....	<b>3.7</b>	<b>9.1</b>	<b>8.3</b>	<b>-1.1</b>	<b>0.02</b>	<b>0.04</b>	<b>0.04</b>	<b>0.00</b>	<b>0.4</b>

1. Consists primarily of religious, educational, vocational, lodging, railroads, farm, and amusement and recreational structures, net purchases of used structures, and brokers’ commissions on the sale of structures.  
 2. Excludes software “embedded” or bundled, in computers and other equipment.  
 3. Includes communication equipment, nonmedical instruments, medical equipment and instruments, photography and related equipment, and office and accounting equipment.

4. Consists primarily of furniture and fixtures, agricultural machinery, construction machinery, mining and oilfield machinery, service industry machinery, and electrical equipment not elsewhere classified.  
 5. Consists primarily of manufactured homes, improvements, dormitories, net purchases of used structures, and brokers’ commissions on the sale of residential structures.

NOTE: Percent changes are from NIPA table 5.3.1, and contributions to percent change are from NIPA table 5.3.2. Shares are calculated from NIPA table 5.3.5.

(pickups, vans, and sport utility vehicles). In “other” equipment, the downturn primarily reflected downturns in construction machinery and in agricultural machinery. In “other” information processing equipment, the upturn reflected an upturn in communication equipment.

Investment in structures decreased 3.3 percent after increasing 2.1 percent, primarily reflecting a downturn in investment in mining exploration, shafts, and wells.

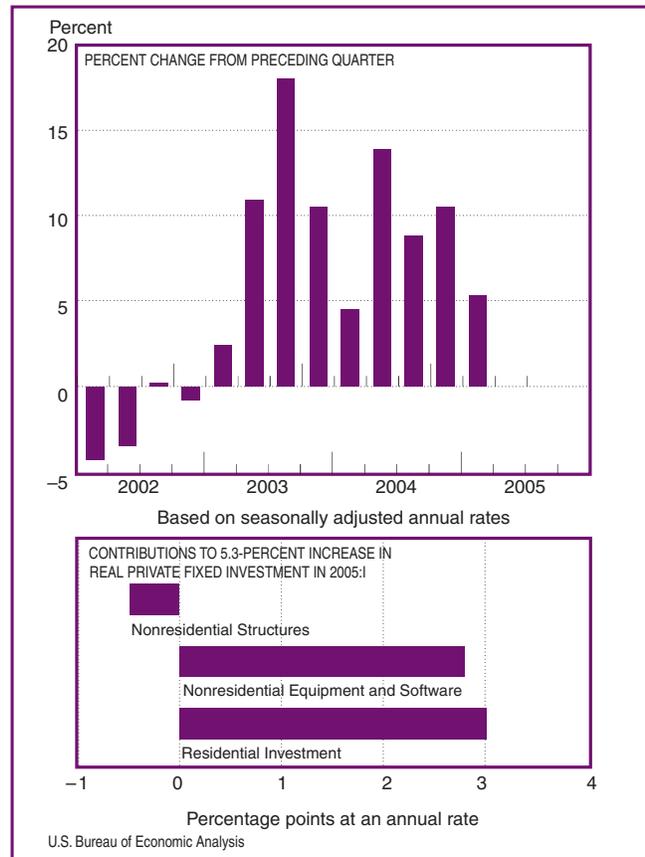
Conditions that are frequently considered in the analysis of investment spending have generally been favorable in recent quarters (chart 5). The capacity utilization rate for manufacturing, mining, and utilities increased for the seventh consecutive quarter, to 79.3 percent, the highest rate since the fourth quarter of 2000. The yield on AAA corporate bonds decreased for the third consecutive quarter. Domestic corporations’ profits from current production increased in the first quarter after a sizable increase in the fourth quarter; profits have increased 16.3 percent since the first quar-

ter of 2004. However, real final sales of domestic product increased 2.7 percent after increasing 3.4 percent; the first-quarter increase was below the average increase over the last 3 years.<sup>8</sup>

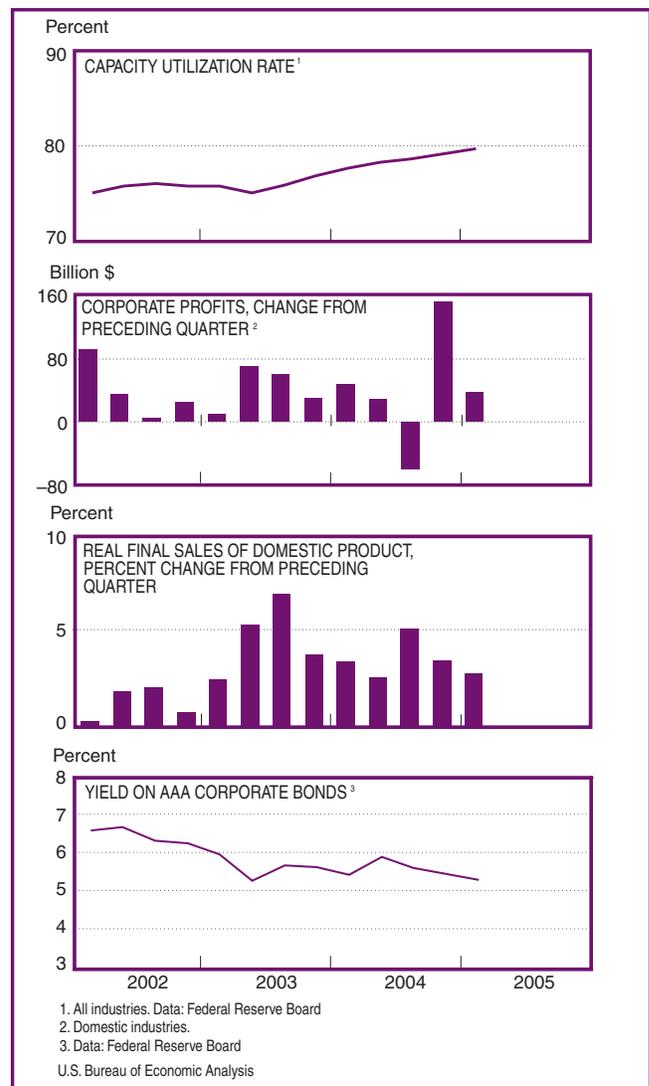
**Residential.** Real private residential investment increased 8.8 percent in the first quarter after increasing 3.4 percent in the fourth quarter. Investment in single-family structures accelerated sharply, increasing 12.7 percent after no change in the fourth quarter.

8. Real final sales of domestic product increased at an average annual rate of 3.3 percent from the first quarter of 2002 to the first quarter of 2005.

**Chart 4. Real Private Fixed Investment**



**Chart 5. Selected Factors Affecting Nonresidential Investment**



Inventory Investment, next page.

## Inventory Investment

Real inventory investment picked up in the first quarter of 2005, increasing \$21.2 billion, to \$68.4 billion, after increasing \$12.7 billion in the fourth quarter of 2004 (table 5 and chart 6). The pickup was mainly in manufacturing inventories.

Manufacturing inventories increased \$25.9 billion after increasing \$4.6 billion. A pickup in inventories of durable-goods industries was led by an upturn in inventories of transportation equipment manufacturing (both motor vehicles and other transportation equipment). Inventories of nondurable-goods industries also picked up; upturns in inventories of petroleum manufacturing and of beverage and tobacco products manufacturing were partly offset by a downturn in inventories of chemical manufacturing.

Inventories of the mining, utilities, and construction industries and of "other" industries increased more in the first quarter than in the fourth quarter.

Wholesale trade inventories increased \$22.6 billion, about the same increase as in the fourth quarter. A pickup in inventories of nonmerchant wholesalers was largely offset by a deceleration in inventories of merchant wholesalers; the biggest contributors to the deceleration were downturns in inventories of miscel-

laneous nondurable-goods wholesalers and of professional and commercial equipment wholesalers. The deceleration was moderated by an upturn in inventories of miscellaneous durable-goods wholesalers and by an acceleration in inventories of farm product raw material wholesalers.

Retail trade inventories increased \$13.9 billion after increasing \$15.3 billion. Inventories of building material and garden equipment and supplies dealers increased less than in the fourth quarter; inventories of furniture, furnishings, electronics, and appliance stores turned down in the first quarter, and inventories of general merchandise stores increased less than in the fourth quarter. In contrast, inventories of motor vehicle and parts dealers turned up in the first quarter, and inventories of clothing stores increased more than in the fourth quarter.

Farm inventories decreased \$0.2 billion after increasing \$1.7 billion. Crop inventories turned down in the first quarter, but livestock inventories turned up.

The ratio of real private nonfarm inventories to final sales of goods and structures increased to 3.52 from 3.50. A ratio that includes all final sales of domestic businesses in the denominator increased to 2.21 from 2.20.<sup>9</sup>

**Table 5. Real Change in Private Inventories by Industry**

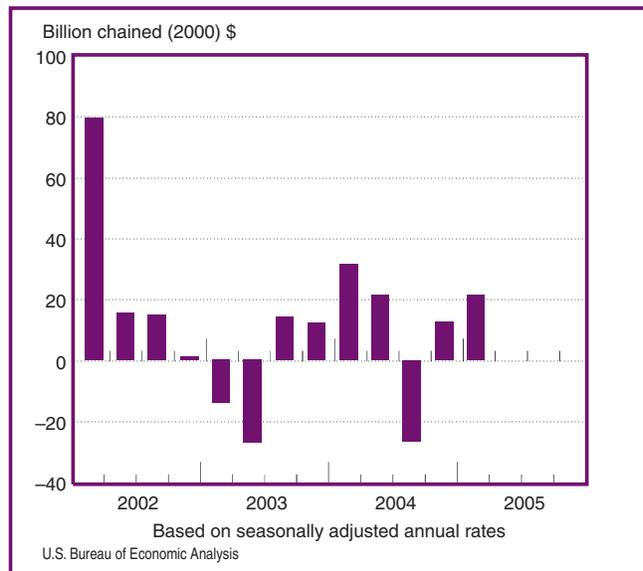
[Billions of chained (2000) dollars; seasonally adjusted at annual rates]

	Level				Change from preceding quarter				
	2004				2005	2004			
	I	II	III	IV	I	II	III	IV	I
<b>Change in private inventories</b> .....	<b>40.0</b>	<b>61.1</b>	<b>34.5</b>	<b>47.2</b>	<b>68.4</b>	<b>21.1</b>	<b>-26.6</b>	<b>12.7</b>	<b>21.2</b>
Farm .....	5.1	3.0	3.8	1.7	-0.2	-2.1	0.8	-2.1	-1.9
Mining, utilities, and construction .....	-4.5	-1.7	4.5	0.7	2.5	2.8	6.2	-3.8	1.8
Manufacturing.....	3.0	9.1	7.0	4.6	25.9	6.1	-2.1	-2.4	21.3
Durable-goods industries .....	-2.2	5.9	7.8	3.7	18.7	8.1	1.9	-4.1	15.0
Nondurable-goods industries ...	5.0	3.3	-0.6	0.9	7.5	-1.7	-3.9	1.5	6.6
Wholesale trade .....	8.5	20.0	33.2	22.3	22.6	11.5	13.2	-10.9	0.3
Durable-goods industries .....	11.1	16.4	27.2	14.9	15.7	5.3	10.8	-12.3	0.8
Nondurable-goods industries ...	-2.0	4.0	6.6	7.6	7.0	6.0	2.6	1.0	-0.6
Retail trade .....	25.6	29.9	-20.1	15.3	13.9	4.3	-50.0	35.4	-1.4
Motor vehicle and parts dealers .....	18.7	17.1	-23.1	-7.2	3.3	-1.6	-40.2	15.9	10.5
Food and beverage stores.....	0.3	1.6	-0.1	0.7	-0.2	1.3	-1.7	0.8	-0.9
General merchandise stores ....	3.0	2.7	0.3	7.2	4.4	-0.3	-2.4	6.9	-2.8
Other retail stores.....	4.3	8.9	1.6	14.0	6.4	4.6	-7.3	12.4	-7.6
Other industries .....	2.8	2.3	4.1	3.4	4.2	-0.5	1.8	-0.7	0.8
Residual <sup>1</sup> .....	-1.6	-2.4	2.4	-0.4	-0.9	-0.8	4.8	-2.8	-0.5
<b>Addenda: Ratios of private inventories to final sales of domestic business:</b>									
Private inventories to final sales .....	2.42	2.43	2.40	2.40	2.41	.....	.....	.....	.....
Nonfarm inventories to final sales .....	2.22	2.22	2.20	2.20	2.21	.....	.....	.....	.....
Nonfarm inventories to final sales of goods and structures .....	3.54	3.55	3.50	3.50	3.52	.....	.....	.....	.....

1. The residual is the difference between the first line and the sum of the most detailed lines. It reflects the fact that chained-dollar estimates are usually not additive, because the quantity indexes on which they are based embody weights of more than one period.

Note. Real change in private inventories is from NIPA table 5.6.6B, and ratios of private inventories to final sales of domestic business are from NIPA table 5.7.6B.

**Chart 6. Real Private Inventory Investment: Change from Preceding Quarter**



9. Using the ratio that includes all final sales of domestic businesses in the denominator implies that the production of services results in a demand for inventories that is similar to that generated in the production of goods and structures. In contrast, using the "goods and structures" ratio implies that the production of services does not generate demand for inventories. Both implications are extreme. Production of some services may require substantial inventories, while production of other services may not.

## Exports and Imports

Real exports of goods and services accelerated in the first quarter of 2005, and real imports of goods and services decelerated (table 6).

Real exports of goods and services increased 7.2 percent after increasing 3.2 percent (chart 7). The step-up

was in exports of goods, which increased 8.7 percent after increasing 1.9 percent. Exports of "other" goods turned up, exports of nonautomotive capital goods accelerated, and exports of automotive goods turned up. In contrast, exports of foods, feeds, and beverages

**Table 6. Real Exports and Imports of Goods and Services**

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real exports and imports (percentage points)				Share of current-dollar exports and imports (percent)
	2004			2005	2004			2005	2005
	II	III	IV	I	II	III	IV	I	I
<b>Exports of goods and services</b> .....	<b>7.3</b>	<b>6.0</b>	<b>3.2</b>	<b>7.2</b>	<b>7.3</b>	<b>6.0</b>	<b>3.2</b>	<b>7.2</b>	<b>100.0</b>
<b>Exports of goods</b> <sup>1</sup> .....	<b>6.0</b>	<b>9.5</b>	<b>1.9</b>	<b>8.7</b>	<b>4.19</b>	<b>6.52</b>	<b>1.36</b>	<b>6.06</b>	<b>70.1</b>
Foods, feeds, and beverages.....	-24.3	28.6	37.2	-5.0	-1.35	1.21	1.48	-0.23	4.6
Industrial supplies and materials.....	6.9	-0.1	1.9	1.9	1.14	-0.02	0.33	0.33	17.5
Capital goods, except automotive.....	6.2	6.2	0.3	8.2	1.75	1.73	0.08	2.24	27.5
Automotive vehicles, engines, and parts.....	8.2	34.8	-2.7	10.6	0.60	2.31	-0.21	0.80	7.6
Consumer goods, except automotive.....	18.2	-0.7	21.9	16.4	1.49	-0.06	1.75	1.41	9.1
Other.....	16.1	39.9	-42.1	49.2	0.57	1.35	-2.07	1.52	3.8
<b>Exports of services</b> <sup>1</sup> .....	<b>10.2</b>	<b>-1.8</b>	<b>6.2</b>	<b>3.6</b>	<b>3.06</b>	<b>-0.54</b>	<b>1.83</b>	<b>1.09</b>	<b>29.9</b>
<b>Imports of goods and services</b> .....	<b>12.6</b>	<b>4.6</b>	<b>11.4</b>	<b>9.1</b>	<b>12.6</b>	<b>4.6</b>	<b>11.4</b>	<b>9.1</b>	<b>100.0</b>
<b>Imports of goods</b> <sup>1</sup> .....	<b>13.0</b>	<b>5.0</b>	<b>14.9</b>	<b>9.8</b>	<b>10.82</b>	<b>4.15</b>	<b>12.22</b>	<b>8.24</b>	<b>84.3</b>
Foods, feeds, and beverages.....	7.4	-10.1	17.1	2.0	0.27	-0.37	0.56	0.07	3.4
Industrial supplies and materials, except petroleum and products.....	38.2	23.6	0.7	6.9	3.97	2.76	0.14	0.91	13.1
Petroleum and products.....	-33.1	2.0	56.1	4.3	-3.88	0.19	4.97	0.50	11.1
Capital goods, except automotive.....	30.6	14.0	9.3	0.9	5.43	2.59	1.80	0.18	18.6
Automotive vehicles, engines, and parts.....	10.1	3.2	-4.3	5.8	1.33	0.42	-0.54	0.71	12.1
Consumer goods, except automotive.....	20.5	-9.8	27.8	16.8	4.21	-2.13	5.25	3.39	21.0
Other.....	-10.7	16.5	1.0	66.4	-0.51	0.70	0.04	2.47	4.9
<b>Imports of services</b> <sup>1</sup> .....	<b>10.6</b>	<b>2.8</b>	<b>-5.2</b>	<b>5.3</b>	<b>1.78</b>	<b>0.47</b>	<b>-0.84</b>	<b>0.85</b>	<b>15.7</b>
<b>Addenda:</b>									
Exports of agricultural goods <sup>2</sup> .....	-19.1	24.6	27.2	-4.5	.....	.....	.....	.....	5.0
Exports of nonagricultural goods.....	8.5	8.4	0.2	9.8	.....	.....	.....	.....	65.1
Imports of nonpetroleum goods.....	20.9	5.4	9.8	10.7	.....	.....	.....	.....	73.2

1. Exports and imports of certain goods, primarily military equipment purchased and sold by the Federal Government, are included in services.  
2. Includes parts of foods, feeds, and beverages, of nondurable industrial supplies and materials, and of

nondurable nonautomotive consumer goods.

NOTE: Percent changes are from NIPA table 4.2.1, and contributions to percent change are from NIPA table 4.2.2. Shares are calculated from NIPA table 4.2.5.

turned down.

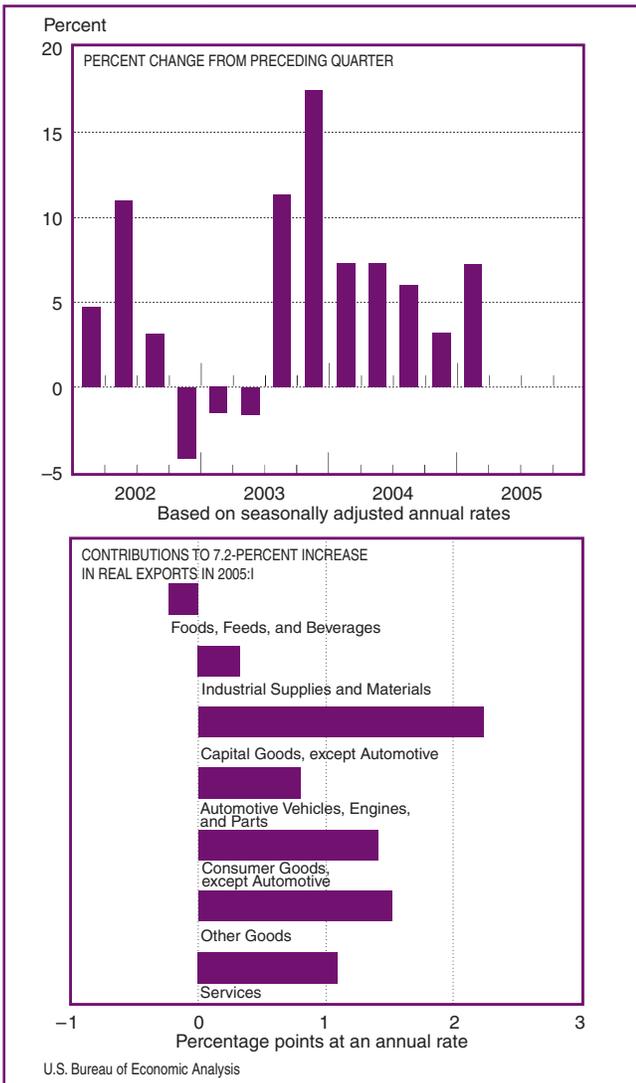
Exports of services decelerated, increasing 3.6 percent after increasing 6.2 percent. The deceleration was mainly due to a deceleration in travel.

Real imports of goods and services increased 9.1 percent after increasing 11.4 percent (chart 8). The deceleration reflected a deceleration in imports of goods, which increased 9.8 percent after increasing 14.9 percent. Imports of petroleum, of nonautomotive

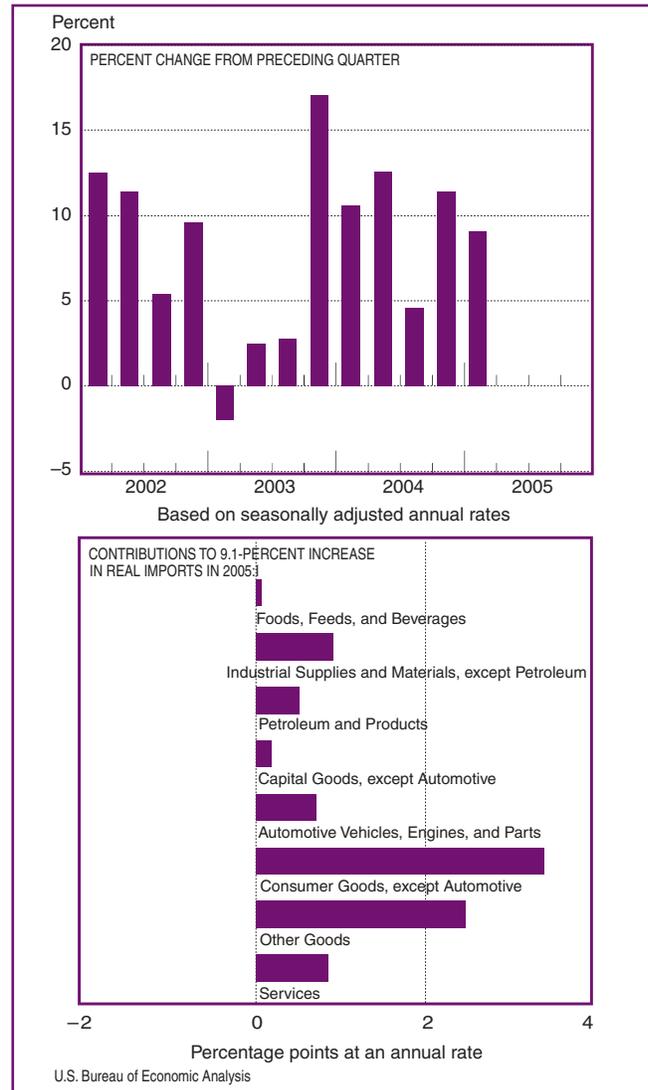
consumer goods, and of nonautomotive capital goods decelerated. In contrast, imports of “other” goods accelerated, and imports of automotive goods turned up.

Imports of services turned up, increasing 5.3 percent after decreasing 5.2 percent. The upturn primarily reflected travel, which decreased less than in the fourth quarter, and royalties and license fees, which turned up in the first quarter.

**Chart 7. Real Exports**



**Chart 8. Real Imports**



### Government Spending

Government spending decreased 0.2 percent in the first quarter of 2005 after increasing 0.9 percent in the fourth quarter of 2004 (table 7 and chart 9). A downturn in state and local government spending and a slowdown in Federal nondefense spending were partly offset by an upturn in spending on national defense.

State and local government spending decreased 0.5 percent after increasing 0.6 percent. Gross investment decreased more than in the fourth quarter, and consumption expenditures decelerated. Investment in structures decreased 7.8 percent after decreasing 3.9 percent; equipment and software increased 8.6 percent after increasing 10.3 percent. Consumption expenditures increased 0.6 percent after increasing 1.1 percent; the deceleration was mainly attributable to compensation of employees.

Federal nondefense spending increased 0.7 percent after increasing 5.3 percent; gross investment turned down, and consumption expenditures decelerated. In gross investment, structures decreased 30.1 percent after decreasing 11.2 percent, and equipment and soft-

ware increased 3.9 percent after increasing 23.1 percent. Consumption expenditures increased 1.9 percent after increasing 4.3 percent; the slowdown reflected downturns in compensation and in services.

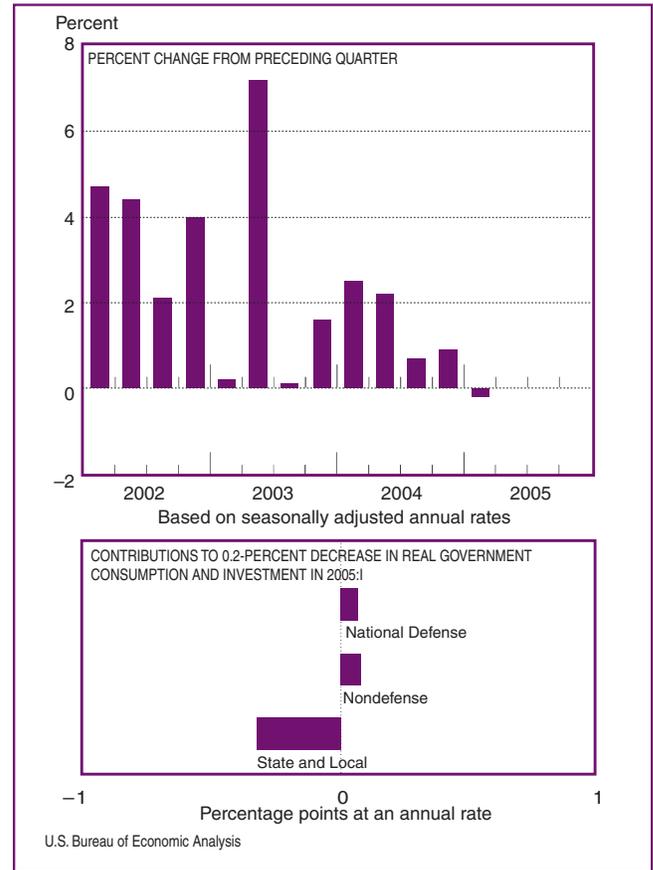
National defense spending increased 0.3 percent after decreasing 0.6 percent. An upturn in consumption expenditures was partly offset by a downturn in gross investment. The upturn in consumption expenditures was attributable to an upturn in "intermediate goods and services purchased," specifically in services and in nondurable goods; in contrast, compensation turned down. The downturn in gross investment was in equipment and software, reflecting downturns in "other" equipment and in aircraft.

**Table 7. Real Government Consumption Expenditures and Gross Investment**  
[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real CEGI (percentage points)				Share of current-dollar CEGI (percent)
	2004			2005	2004			2005	
	II	III	IV	I	II	III	IV	I	
<b>Government consumption expenditures and gross investment (CEGI) .....</b>	<b>2.2</b>	<b>0.7</b>	<b>0.9</b>	<b>-0.2</b>	<b>2.2</b>	<b>0.7</b>	<b>0.9</b>	<b>-0.2</b>	<b>100.0</b>
Consumption expenditures .....	1.0	2.9	-0.1	1.9	0.81	2.39	-0.07	1.56	82.9
Gross investment .....	8.3	-9.2	5.4	-9.6	1.41	-1.69	0.92	-1.74	17.1
<b>Federal .....</b>	<b>2.7</b>	<b>4.8</b>	<b>1.2</b>	<b>0.4</b>	<b>0.99</b>	<b>1.75</b>	<b>0.45</b>	<b>0.15</b>	<b>37.3</b>
<b>National defense .....</b>	<b>1.9</b>	<b>10.1</b>	<b>-0.6</b>	<b>0.3</b>	<b>0.47</b>	<b>2.41</b>	<b>-0.16</b>	<b>0.07</b>	<b>25.3</b>
Consumption expenditures .....	4.1	9.6	-4.8	5.1	0.87	2.02	-1.07	1.08	22.2
Gross investment .....	-12.0	13.1	32.0	-26.9	-0.40	0.39	0.91	-1.01	3.1
<b>Nondefense .....</b>	<b>4.4</b>	<b>-5.3</b>	<b>5.3</b>	<b>0.7</b>	<b>0.52</b>	<b>-0.66</b>	<b>0.61</b>	<b>0.08</b>	<b>12.0</b>
Consumption expenditures .....	-0.7	-2.6	4.3	1.9	-0.07	-0.27	0.43	0.20	10.4
Gross investment .....	44.0	-21.1	11.9	-7.0	0.59	-0.38	0.18	-0.11	1.6
<b>State and local .....</b>	<b>1.9</b>	<b>-1.7</b>	<b>0.6</b>	<b>-0.5</b>	<b>1.23</b>	<b>-1.05</b>	<b>0.40</b>	<b>-0.33</b>	<b>62.7</b>
Consumption expenditures .....	0.0	1.3	1.1	0.6	0.01	0.64	0.57	0.28	50.3
Gross investment .....	10.0	-12.5	-1.4	-4.8	1.22	-1.69	-0.17	-0.61	12.4

Note. Percent changes are from NIPA table 3.9.1, and contributions to percent change are from NIPA table 3.9.2. Shares are calculated from NIPA table 3.9.5.

**Chart 9. Real Government Consumption and Investment**



Prices, next page.

## Prices

Inflation as measured by the price index for gross domestic purchases was 2.9 percent in the first quarter of 2005, the same as in the fourth quarter of 2004 (table 8). Both food prices and energy prices decelerated in the first quarter; excluding prices for food and energy, the price index increased 3.0 percent after increasing 2.0 percent (chart 10).

Prices of goods and services purchased by consumers increased 2.1 percent after increasing 2.7 percent. The prices paid for nondurable goods decelerated, but the prices paid for services and for durable goods accelerated.

The prices paid by consumers for food and for energy decelerated in the first quarter. The price index for consumer purchases excluding food and energy, which is sometimes viewed as an indicator of the underlying or core rate of inflation, increased 2.2 percent after in-

creasing 1.7 percent. The largest contributors to this acceleration were the prices of housing services, of medical care services, and of motor vehicles and parts.

Prices of private nonresidential fixed investment increased 2.6 percent after increasing 1.6 percent. Prices of equipment and software turned up, mainly reflecting an upturn in the prices of software and an acceleration in the prices of "other" equipment. Prices of structures decelerated slightly.

Prices paid by government increased 6.3 percent after increasing 4.2 percent. The step-up was accounted for by prices paid by the Federal Government; these prices reflected a pay raise for civilian and military personnel.<sup>10</sup> Prices paid by state and local governments decelerated slightly.

The GDP price index increased 3.2 percent, 0.3 percentage point more than the price index for gross domestic purchases. (The GDP price index measures the prices paid for goods and services produced in the United States. The price index for gross domestic purchases measures the prices paid for goods and services purchased by U.S. residents, regardless of where those goods and services were produced.) The larger increase in the GDP price index reflected a larger increase in export prices (which are included in the GDP price index) than in import prices (which are included in the price index for gross domestic purchases). In the first quarter, export prices increased 4.3 percent, and import prices increased 2.4 percent.

**Table 8. Prices for Gross Domestic Purchases**

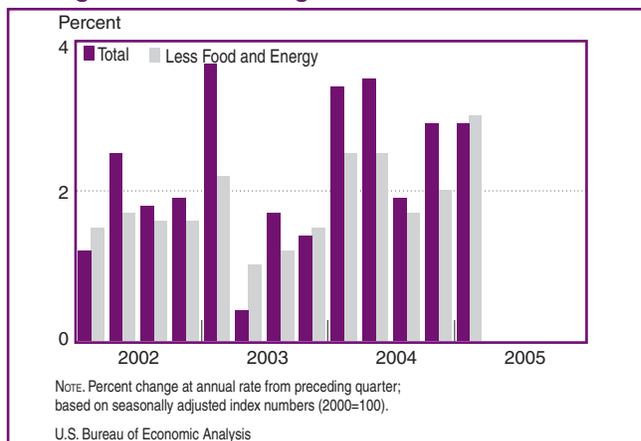
(Percent change at annual rates; based on seasonally adjusted index numbers (2000=100))

	Change from preceding period (percent)			Contribution to percent change in gross domestic purchases prices (percentage points)				
	2004			2005	2004			2005
	II	III	IV	I	II	III	IV	I
<b>Gross domestic purchases</b>	<b>3.5</b>	<b>1.9</b>	<b>2.9</b>	<b>2.9</b>	<b>3.5</b>	<b>1.9</b>	<b>2.9</b>	<b>2.9</b>
<b>Personal consumption expenditures (PCE)</b> .....	<b>3.1</b>	<b>1.3</b>	<b>2.7</b>	<b>2.1</b>	<b>2.08</b>	<b>0.84</b>	<b>1.78</b>	<b>1.39</b>
Durable goods.....	-0.1	-3.1	0.1	0.9	-0.01	-0.25	0.01	0.07
Nondurable goods.....	6.6	0.9	4.7	1.3	1.25	0.18	0.89	0.24
Services.....	2.1	2.3	2.2	2.7	0.84	0.92	0.87	1.07
<b>Gross private domestic investment</b> .....	<b>4.4</b>	<b>2.9</b>	<b>2.4</b>	<b>2.9</b>	<b>0.68</b>	<b>0.46</b>	<b>0.38</b>	<b>0.46</b>
Fixed investment.....	4.3	3.0	2.4	2.8	0.64	0.45	0.37	0.44
Nonresidential.....	1.7	0.9	1.6	2.6	0.17	0.09	0.16	0.26
Structures.....	7.6	9.8	10.9	10.5	0.17	0.21	0.24	0.23
Equipment and software.....	0.1	-1.6	-0.9	0.4	0.01	-0.12	-0.07	0.03
Residential.....	9.1	6.8	3.8	3.3	0.47	0.36	0.20	0.18
Change in private inventories.....					0.04	0.01	0.01	0.02
<b>Government consumption expenditures and gross investment</b> .....	<b>4.3</b>	<b>3.6</b>	<b>4.2</b>	<b>6.3</b>	<b>0.77</b>	<b>0.62</b>	<b>0.73</b>	<b>1.09</b>
Federal.....	3.0	1.7	2.3	8.3	0.20	0.11	0.15	0.53
National defense.....	3.5	1.9	2.4	8.4	0.15	0.08	0.11	0.36
Nondefense.....	1.9	1.3	2.2	8.1	0.04	0.03	0.05	0.17
State and local.....	5.2	4.7	5.3	5.2	0.57	0.51	0.58	0.57
<b>Addenda:</b>								
Gross domestic purchases:								
Food.....	4.2	2.1	2.5	1.0	0.40	0.20	0.24	0.09
Energy goods and services.....	24.9	6.4	22.2	5.3	0.94	0.26	0.87	0.23
Excluding food and energy.....	2.5	1.7	2.0	3.0	2.19	1.47	1.77	2.61
Personal consumption expenditures:								
Food.....	3.9	2.6	2.6	0.9				
Energy goods and services.....	26.5	4.0	18.2	3.7				
Excluding food and energy.....	1.7	0.9	1.7	2.2				
Market-based PCE.....	3.7	1.4	2.7	2.0				
Excluding food and energy.....	2.1	1.0	1.7	2.1				
Gross domestic product.....	3.2	1.4	2.3	3.2				

NOTE: Most percent changes are from NIPA table 1.6.7; percent changes for personal consumption expenditures on food and on energy goods and services and for personal consumption expenditures excluding food and energy are calculated from index numbers in NIPA table 2.3.4. Contributions to percent change are from NIPA table 1.6.8.

10. In the NIPAs, an increase in the rate of Federal employee compensation is treated as an increase in the price of employee services purchased by the Federal Government.

**Chart 10. Gross Domestic Purchases Prices: Change From Preceding Quarter**



## Revisions

The preliminary estimate of a 3.5-percent increase in real GDP in the first quarter is 0.4 percentage point more than the advance estimate released in April (table 9). During the past 25 years, the average revision, without regard to sign, from the advance estimates to the preliminary estimates has been 0.5 percentage point.

The upward revision to the first-quarter real GDP growth rate reflected a downward revision to imports (which are subtracted in the calculation of GDP) that was partly offset by a downward revision to inventory investment.

**Table 9. Preliminary and Advance Estimates for the First Quarter of 2005**  
[Seasonally adjusted at annual rates]

	Percent change from preceding quarter			Contribution to percent change in real GDP		
	Preliminary estimate	Advance estimate	Preliminary minus advance	Preliminary estimate	Advance estimate	Preliminary minus advance
<b>Gross domestic product (GDP)</b> .....	<b>3.5</b>	<b>3.1</b>	<b>0.4</b>	<b>3.5</b>	<b>3.1</b>	<b>0.4</b>
<b>Personal consumption expenditures</b> .....	<b>3.6</b>	<b>3.5</b>	<b>0.1</b>	<b>2.54</b>	<b>2.45</b>	<b>0.09</b>
Durable goods.....	1.7	0.0	1.7	0.15	0.00	0.15
Nondurable goods.....	5.4	4.9	0.5	1.09	0.98	0.11
Services.....	3.2	3.6	-0.4	1.30	1.46	-0.16
<b>Gross private domestic investment</b> .....	<b>10.0</b>	<b>12.5</b>	<b>-2.5</b>	<b>1.65</b>	<b>2.03</b>	<b>-0.38</b>
Fixed investment.....	5.3	5.0	0.3	0.87	0.82	0.05
Nonresidential.....	3.5	4.7	-1.2	0.38	0.49	-0.11
Structures.....	-3.3	-2.6	-0.7	-0.08	-0.06	-0.02
Equipment and software.....	5.6	6.9	-1.3	0.46	0.56	-0.10
Residential.....	8.8	5.7	3.1	0.49	0.32	0.17
Change in private inventories.....				0.78	1.21	-0.43
<b>Net exports of goods and services</b> .....				<b>-0.67</b>	<b>-1.49</b>	<b>0.82</b>
Exports.....	7.2	7.0	0.2	0.71	0.69	0.02
Goods.....	8.7	9.3	-0.6	0.60	0.64	-0.04
Services.....	3.6	1.8	1.8	0.11	0.06	0.05
Imports.....	9.1	14.7	-5.6	-1.38	-2.19	0.81
Goods.....	9.8	16.1	-6.3	-1.25	-2.00	0.75
Services.....	5.3	7.5	-2.2	-0.13	-0.18	0.05
<b>Government consumption expenditures and gross investment</b> .....	<b>-0.2</b>	<b>0.6</b>	<b>-0.8</b>	<b>-0.03</b>	<b>0.10</b>	<b>-0.13</b>
Federal.....	0.4	0.6	-0.2	0.03	0.04	-0.01
National defense.....	0.3	0.2	0.1	0.01	0.01	0.00
Nondefense.....	0.7	1.3	-0.6	0.02	0.03	-0.01
State and local.....	-0.5	0.5	-1.0	-0.06	0.06	-0.12
<b>Addenda:</b>						
Final sales of domestic product.....	2.7	1.9	0.8	2.71	1.87	0.84
Gross domestic purchases price index.....	2.9	3.0	-0.1			
GDP price index.....	3.2	3.3	-0.1			

NOTE: The preliminary estimates for the first quarter of 2005 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

*Personal consumption expenditures:* Retail sales for February and March (revised). Motor vehicle registration data for January and February (revised) and March (newly available).

*Nonresidential fixed investment:* Construction put-in-place data for January and February (revised) and for March (newly available), manufacturers' shipments of machinery and equipment for February and March (revised) and of complete civilian aircraft for March (newly available). Motor vehicle registration data for January and February (revised) and March (newly available).

*Residential fixed investment:* Construction put-in-place data for January and February (revised) and for March (newly available).

*Change in private inventories:* Manufacturers' and trade inventories for February (revised) and for March (revised and newly available).

*Exports and imports of goods and services:* International transactions accounts data for February (revised) and for March (newly available).

*Government consumption expenditures and gross investment:* State and local government construction put-in-place data for January and February (revised) and for March (newly available).

*Wages and salaries:* Employment, average hourly earnings, and average weekly hours for January through March (revised), and tabulations of wages and salaries for the fourth quarter from the census of employment and wages.

*GDP prices:* Export and import prices for January through March (revised), unit-value index for petroleum imports for February (revised) and March (newly available), and prices of single-family houses under construction for the quarter (newly available).

In the preliminary estimates, imports subtracted 1.38 percentage points from GDP growth; in the advance estimates, imports had subtracted 2.19 percentage points from GDP growth. The revisions to imports mainly reflected the incorporation of newly available Census Bureau data on trade in goods for March.

Change in private inventories added 0.43 percentage point less to the GDP growth rate in the preliminary estimates than in the advance estimates. The revision primarily reflected the incorporation of newly available data on inventories for March and revised data for February.

In addition to these revised estimates for the first quarter of 2005, estimates of wages and salaries and of related series for the fourth quarter of 2004 have been revised. These revisions reflect the incorporation of newly available tabulations of wages and salaries from the census of employment and wages from the Bureau of Labor Statistics. These tabulations provide more comprehensive coverage than is available for the earlier estimates of quarterly wages and salaries, and they include wages in the form of stock options and bonus payments. Wage and salary accruals are now estimated to have increased \$135.8 billion in the fourth quarter, an upward revision of \$71.0 billion.

Personal current taxes for both the first quarter and the fourth quarter were also revised to incorporate the revised estimates of wages and salaries and to incorporate newly available Treasury Department data on Federal tax collections through mid-May.<sup>11</sup> Personal current taxes are now estimated to have increased \$35.5 billion in the fourth quarter (an upward revision of \$14.9 billion) and to have increased \$61.5 billion in the first quarter (an upward revision of \$58.8 billion).

Based on the revised estimates of wages and salaries, of personal current taxes, and of other related series, real disposable personal income (DPI) is now estimated to have increased 10.8 percent in the fourth quarter, revised up from 8.3 percent. Real DPI is now estimated to have decreased 1.2 percent in the first quarter; previously, real DPI had been estimated to have decreased 0.3 percent. The personal saving rate (personal saving as a percentage of current-dollar DPI) is now estimated to have decreased to 0.9 percent in the first quarter from 2.2 percent in the fourth quarter; previously, the personal saving rate had been estimated to have decreased to 0.6 percent from 1.6 percent.

11. For information on the methodology for estimating Federal income taxes, see Eugene P. Seskin, "Annual Revision of the National Income and Product Accounts," SURVEY OF CURRENT BUSINESS 78 (August 1998): 29-30.

## Corporate Profits

Profits from current production increased \$57.5 billion (4.5 percent at a quarterly rate) in the first quarter of 2005 after increasing \$150.8 billion (13.5 percent) in the fourth quarter of 2004 (table 10).<sup>12</sup> The large fourth-quarter increase in profits partly reflected the effects of four hurricanes that had reduced third-quarter profits by \$79.7 billion (annual rate); excluding the effects of the third-quarter hurricanes, profits from

12. 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 as "corporate profits with inventory valuation and capital consumption adjustments" in NIPA tables 1.7.5, 1.10–1.12, 1.14–1.16, and 6.16D.

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

**Table 10. Corporate Profits**  
[Seasonally adjusted]

	Billions of dollars (annual rate)				Percent change from preceding quarter (quarterly rate)					
	Level	Change from preceding quarter								
	2005	2004			2005	2004				2005
	I	II	III	IV	I	II	III	IV	I	
<b>Current production measures:</b>										
Corporate profits .....	1,326.3	8.3	-55.9	150.8	57.5	0.7	-4.8	13.5	4.5	
Domestic industries .....	1,116.5	28.3	-59.3	150.8	36.4	2.9	-6.0	16.2	3.4	
Financial .....	405.2	-7.9	-68.7	84.1	42.0	-2.2	-19.7	30.1	11.6	
Nonfinancial .....	711.3	36.2	9.4	66.7	-5.6	6.0	1.5	10.3	-0.8	
Rest of the world .....	209.8	-20.0	3.4	0.0	21.1	-9.7	1.8	0.0	11.2	
Receipts from the rest of the world .....	331.5	6.6	7.5	30.8	-12.4	2.2	2.5	9.8	-3.6	
Less: Payments to the rest of the world .....	121.8	26.6	4.2	30.8	-33.5	28.4	3.5	24.7	-21.6	
Less: Taxes on corporate income .....	343.2	14.7	-17.9	42.4	47.5	5.7	-6.6	16.8	16.1	
Equals: Profits after tax .....	983.0	-6.4	-38.0	108.3	10.0	-0.7	-4.2	12.5	1.0	
Net dividends .....	442.8	9.8	10.8	110.7	-91.9	2.4	2.6	26.1	-17.2	
Undistributed profits from current production .....	540.2	-16.2	-48.8	-2.4	101.9	-3.2	-10.0	-0.5	23.2	
Net cash flow .....	1,337.5	-5.7	-1.6	-37.7	103.4	-0.4	-0.1	-3.0	8.4	
<b>Industry profits:</b>										
Profits with IVA .....	1,267.0	15.2	-45.6	113.8	258.2	1.6	-4.8	12.7	25.6	
Domestic industries .....	1,057.3	35.2	-48.9	113.8	237.2	4.9	-6.5	16.1	28.9	
Financial .....	384.3	-7.3	-68.8	80.6	66.1	-2.3	-22.5	33.9	20.8	
Nonfinancial .....	672.9	42.4	19.9	33.2	171.0	10.4	4.4	7.1	34.1	
Rest of the world .....	209.8	-20.0	3.4	0.0	21.1	-9.7	1.8	0.0	11.2	
<b>Addenda:</b>										
Profits before tax (without IVA and CCAAdj) .....	1,307.9	25.9	-55.5	125.1	250.0	2.7	-5.6	13.4	23.6	
Profits after tax (without IVA and CCAAdj) .....	964.6	11.2	-37.6	82.6	202.5	1.6	-5.3	12.2	26.6	
IVA .....	-40.8	-10.8	10.0	-11.3	8.3	.....	.....	.....	.....	
CCAAdj .....	59.2	-6.9	-10.3	37.0	-200.8	-2.9	-4.4	16.6	-77.2	

NOTE: Levels of these and other profits series are shown in NIPA tables 1.12, 1.14, 1.15, and 6.16D.  
IVA Inventory valuation adjustment  
CCAAdj Capital consumption adjustment

current production increased 5.9 percent in the fourth quarter.

In the first quarter, both profits of domestic industries and profits from the rest of the world increased. In the fourth quarter, profits of domestic industries increased, and profits from the rest of the world were unchanged.<sup>13</sup>

Taxes on corporate income increased \$47.5 billion (16.1 percent) in the first quarter. After-tax profits from current production increased \$10.0 billion (1.0 percent).

The increase in profits of domestic industries was accounted for by profits of financial corporations, which increased \$42.0 billion (11.6 percent) after increasing \$84.1 billion (30.1 percent). In contrast, profits of nonfinancial corporations decreased \$5.6 billion (0.8 percent) after increasing \$66.7 billion (10.3 percent). Real gross value added increased, but profits per unit decreased. The decrease in unit profits reflected an increase in unit prices that was more than offset by an increase in unit labor costs; unit nonlabor costs were unchanged.

Profits from the rest of the world increased \$21.1 billion (11.2 percent) after no change in the fourth quarter. The first-quarter increase reflected a larger decrease in payments by domestic affiliates to foreign parents (which are deducted in the calculation of profits from the rest of the world) than the decrease in receipts from foreign affiliates of domestic parents. Payments by domestic affiliates to foreign parents decreased \$33.5 billion (21.6 percent) after increasing \$30.8 billion (24.7 percent). Receipts from foreign affiliates of domestic parents decreased \$12.4 billion (3.6 percent) after increasing \$30.8 billion (9.8 percent).

13. Profits from the rest of the world is the difference between (1) receipts by U.S. residents of earnings from foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations and (2) payments by U.S. affiliates of earnings to 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.

Net dividends decreased \$91.9 billion (17.2 percent) after increasing \$110.7 billion (26.1 percent). The large fourth-quarter increase reflected the special dividend payment by the Microsoft Corporation.<sup>14</sup> Undistributed corporate profits (a measure of net saving that equals after-tax profits less dividends) increased \$101.9 billion (23.2 percent) in the first quarter after decreasing \$2.4 billion (0.5 percent).

---

14. The total dividend payout was about \$32 billion (at a quarterly rate). GDP and profits of domestic corporations were not affected by the special dividend. The estimate of net dividends reflects the total dividend payout less the dividends received by U.S. corporations and by foreign residents. Because BEA's estimates of corporate profits and of income payments to, and receipts from, the rest of the world are partly based on confidential survey data, BEA cannot provide estimates of the effects of the special dividend on these components.

For more information, see "The Microsoft Special Dividend" at <[www.bea.gov/bea/faq/national/FAQ.htm](http://www.bea.gov/bea/faq/national/FAQ.htm)>.

Net cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$103.4 (8.4 percent) billion in the first quarter; in contrast, net cash flow decreased \$37.7 billion (3.0 percent) in the fourth quarter.<sup>15</sup> The ratio of cash flow to nonresidential fixed investment, an indicator of the extent to which the current level of investment could be financed by internally generated corporate funds increased to 102.4 in the first quarter from 95.9 in the fourth quarter. Preceding the fourth quarter, the ratio had remained above 100 for eight consecutive quarters.

---

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

Government Sector, next page.

## Government Sector

“Net government saving,” the difference between current receipts and expenditures, was -\$246.6 billion in the first quarter of 2005, increasing \$49.5 billion from -\$296.1 billion in the fourth quarter of 2004 (table 11).<sup>16</sup> The increase resulted from an increase in net Federal Government saving, which was partly offset by a decrease in net state and local government saving.

### Federal

Net Federal Government saving was -\$278.6 billion in the first quarter of 2005, increasing \$53.1 billion from -\$331.7 billion in the fourth quarter of 2004. Both current receipts and current expenditures accelerated.

**Current receipts.** Federal Government current receipts increased \$118.4 billion in the first quarter after increasing \$91.2 billion in the fourth quarter. The acceleration was more than accounted for by accelerations in current tax receipts and in contributions for government social insurance; the acceleration was tempered by a larger first-quarter decrease in the current surplus of government enterprises and by decelerations in current transfer receipts and in income receipts on assets.

Current tax receipts increased \$96.5 billion after increasing \$70.5 billion. The acceleration was accounted for by accelerations in personal current taxes and in taxes on corporate income. Personal current taxes increased \$52.9 billion after increasing \$29.5 billion, reflecting an acceleration in nonwithheld income taxes, which increased \$37.8 billion after increasing \$4.4 billion. Taxes on corporate income increased \$42.0 billion after increasing \$35.3 billion. In contrast, taxes from the rest of the world turned down, decreasing \$1.2 billion after increasing \$2.1 billion; fourth-quarter taxes were boosted by taxes paid on the Microsoft dividends. Taxes on production and imports decelerated, increasing \$3.0 billion after increasing \$3.5 billion; the deceleration was primarily due to decelerations in air transport excise taxes.

Contributions for government social insurance increased \$22.7 billion after increasing \$18.4 billion. The acceleration was more than accounted for by supplementary medical insurance, which increased \$5.7 billion after increasing \$0.1 billion; the first-quarter increase resulted from an increase in the monthly

**Table 11. Government Sector Current Receipts and Expenditures**

[Billions of dollars, seasonally adjusted at annual rates]

	Level		Change from preceding quarter			
	2005	2004				2005
		I	II	III	IV	
Current receipts .....	3,472.4	61.1	17.4	128.9	145.0	
Current expenditures .....	3,719.0	43.6	26.1	54.6	95.5	
<b>Net government saving .....</b>	<b>-246.6</b>	<b>17.5</b>	<b>-8.8</b>	<b>74.4</b>	<b>49.5</b>	
Social insurance funds .....	78.4	6.7	6.2	4.6	0.4	
Other .....	-325.0	10.7	-14.9	69.8	49.1	
<b>Federal</b>						
<b>Current receipts .....</b>	<b>2,175.4</b>	<b>33.8</b>	<b>16.7</b>	<b>91.2</b>	<b>118.4</b>	
Current tax receipts .....	1,268.9	24.6	3.4	70.5	96.5	
Personal current taxes .....	882.0	13.2	18.1	29.5	52.9	
Taxes on production and imports .....	95.7	0.3	-0.1	3.5	3.0	
Taxes on corporate income .....	282.2	11.6	-14.6	35.3	42.0	
Taxes from the rest of the world .....	9.1	-0.3	-0.1	2.1	-1.2	
Contributions for government social insurance .....	851.2	9.7	12.5	18.4	22.7	
Income receipts on assets .....	24.0	-0.7	0.7	0.8	0.3	
Current transfer receipts .....	28.8	0.1	0.4	1.8	0.4	
Current surplus of government enterprises .....	2.4	-0.1	-0.2	-0.2	-1.7	
<b>Current expenditures .....</b>	<b>2,454.1</b>	<b>22.8</b>	<b>11.7</b>	<b>47.9</b>	<b>65.4</b>	
Consumption expenditures .....	737.0	9.2	12.7	0.6	23.4	
National defense .....	501.3	8.4	13.5	-3.1	17.3	
Nondefense .....	235.7	0.7	-0.7	3.6	6.2	
Current transfer payments .....	1,448.0	2.0	0.9	40.6	38.6	
Government social benefits .....	1,048.5	6.8	11.3	18.0	26.2	
To persons .....	1,045.4	6.8	11.2	17.9	26.2	
To the rest of the world .....	3.1	0.0	0.1	0.1	0.0	
Other current transfer payments .....	399.5	-4.8	-10.4	22.6	12.4	
Grants-in-aid to state and local governments .....	360.8	5.9	-9.8	19.5	-0.8	
To the rest of the world .....	38.8	-10.7	-0.6	3.1	13.3	
Interest payments .....	222.5	9.6	-0.7	4.2	-1.7	
Subsidies .....	46.5	-1.0	0.3	2.6	4.9	
Less: Wage accruals less disbursements .....	0.0	-3.0	1.5	0.0	0.0	
<b>Net Federal Government saving .....</b>	<b>-278.6</b>	<b>11.0</b>	<b>5.0</b>	<b>43.3</b>	<b>53.1</b>	
Social insurance funds .....	77.5	6.7	6.1	4.7	0.8	
Other .....	-356.1	4.3	-1.0	38.5	52.3	
<b>State and local</b>						
<b>Current receipts .....</b>	<b>1,657.8</b>	<b>33.3</b>	<b>-9.2</b>	<b>57.3</b>	<b>25.8</b>	
Current tax receipts .....	1,094.0	24.9	5.0	27.7	25.3	
Personal current taxes .....	263.9	10.8	0.2	5.9	8.7	
Taxes on production and imports .....	781.6	12.2	7.5	15.5	12.2	
Taxes on corporate income .....	48.5	2.0	-2.8	6.3	4.5	
Contributions for government social insurance .....	16.7	0.4	0.4	0.2	-0.3	
Income receipts on assets .....	84.4	0.4	0.9	1.1	-0.2	
Current transfer receipts .....	461.7	8.1	-14.7	28.8	1.6	
Federal grants-in-aid .....	360.8	5.9	-9.8	19.5	-0.8	
Other .....	100.9	2.2	-4.9	9.4	2.3	
Current surplus of government enterprises .....	1.0	-0.6	-0.7	-0.6	-0.6	
<b>Current expenditures .....</b>	<b>1,625.8</b>	<b>26.9</b>	<b>4.5</b>	<b>26.2</b>	<b>29.4</b>	
Consumption expenditures .....	1,135.8	12.0	13.7	16.1	14.2	
Government social benefits .....	394.8	14.7	-9.9	9.4	14.3	
Interest payments .....	94.5	0.1	0.8	0.7	0.9	
Subsidies .....	0.7	0.0	0.0	0.0	0.0	
Less: Wage accruals less disbursements .....	0.0	0.0	0.0	0.0	0.0	
<b>Net state and local government saving .....</b>	<b>32.0</b>	<b>6.5</b>	<b>-13.8</b>	<b>31.1</b>	<b>-3.6</b>	
Social insurance funds .....	0.9	0.1	0.1	-0.1	-0.5	
Other .....	31.1	6.3	-13.9	31.2	-3.1	
<b>Addenda:</b>						
Net lending or net borrowing (-) <sup>1</sup> .....	-388.9	7.7	-0.8	66.2	59.4	
Federal .....	-327.9	12.3	-3.4	42.2	58.4	
State and local .....	-61.0	-4.6	2.6	24.0	1.0	

1. "Net lending or borrowing" is similar to "net financial investment" in the flow-of-funds accounts prepared by the Federal Reserve Board. The two measures differ primarily because government net lending or borrowing is estimated from data for transactions, whereas net financial investment is estimated from data for financial assets. There are also small conceptual differences, such as the classification of the Federal Government's railroad retirement and veterans life insurance programs.

16. Net government saving is shown in NIPA tables 3.1-3.3.

premium paid by participants in Medicare Part B from \$66.60 to \$75.30 in January.

Current surplus of government enterprises decreased \$1.7 billion after decreasing \$0.2 billion. Current transfer receipts increased \$0.4 billion after increasing \$1.8 billion, and income receipts on assets increased \$0.3 billion after increasing \$0.8 billion.

**Current expenditures.** Federal Government current expenditures increased \$65.4 billion after increasing \$47.9 billion. The acceleration was more than accounted for by accelerations in consumption expenditures and in subsidies that were partly offset by a downturn in interest payments and a slight deceleration in current transfer payments.

Consumption expenditures increased \$23.4 billion after increasing \$0.6 billion. The acceleration was accounted for by an upturn in defense consumption expenditures and an acceleration in nondefense consumption expenditures.

Defense consumption expenditures increased \$17.3 billion after decreasing \$3.1 billion. The turnaround was accounted for by an upturn in expenditures for defense services, which increased \$9.5 billion after decreasing \$7.9 billion (these expenditures consist of expenditures for research and development, for transportation of materials, for travel, and for other services). Compensation of defense employees increased \$7.0 billion after increasing \$1.4 billion; the acceleration was mostly accounted for by the January 2005 pay raise, which boosted compensation \$4.5 billion.

Nondefense consumption expenditures increased \$6.2 billion after increasing \$3.6 billion. The acceleration was accounted for by compensation of nondefense employees, which increased \$3.0 billion after increasing \$0.5 billion; the pickup in compensation was mostly accounted for by the January 2005 pay raise, which boosted compensation \$2.7 billion.

Subsidies increased \$4.9 billion after increasing \$2.6 billion. The acceleration was accounted for by agricultural subsidies.

In contrast, interest payments decreased \$1.7 billion after increasing \$4.2 billion. The downturn was more than accounted for by interest paid to persons and business, which decreased \$9.4 billion after decreasing \$1.2 billion.

Current transfer payments increased \$38.6 billion after increasing \$40.6 billion. The deceleration was more than accounted for by a deceleration in "other current transfer payments" that was partly offset by an acceleration in government social benefit payments.

"Other current transfer payments" increased \$12.4 billion after increasing \$22.6 billion. The deceleration was more than accounted for by a downturn in grants-in-aid to state and local governments, which decreased \$0.8 billion after increasing \$19.5 billion. The downturn was primarily accounted for by a downturn in grants for education, which decreased \$7.7 billion after increasing \$5.5 billion; grants for "other income support" and for welfare and social services also turned down.

The downturn in grants-in-aid to state and local governments was moderated by an acceleration in "other current transfer payments to the rest of the world," which increased \$13.3 billion after increasing \$3.1 billion. The acceleration reflected a payment of \$3.0 billion (\$12.0 billion at an annual rate) to Israel and Egypt for economic support.

Federal Government social benefits increased \$26.2 billion after increasing \$18.0 billion. The acceleration mainly reflected a 2.7-percent cost-of-living adjustment that boosted benefits \$15.2 billion for social security (old-age, survivors, disability, and health insurance), veterans pensions, supplemental security income, and other programs. The acceleration was also attributable to payments for the Earned Income and Child Tax Credits, which boosted social benefits \$5.3 billion.

### State and local

Net state and local government saving was \$32.0 billion in the first quarter of 2005, decreasing \$3.6 billion from \$35.6 billion in the fourth quarter of 2004. Current receipts decelerated sharply, and current expenditures accelerated.

**Current receipts.** State and local government current receipts increased \$25.8 billion after increasing \$57.3 billion. The deceleration was mostly accounted for by a deceleration in current transfer receipts, but current tax receipts also decelerated.

Current transfer receipts increased \$1.6 billion after increasing \$28.8 billion. The deceleration was mostly accounted for by a downturn in Federal grants-in-aid, which decreased \$0.8 billion after increasing \$19.5 billion. Transfer receipts from business increased \$0.7 billion after increasing \$7.8 billion; third-quarter receipts were reduced as a result of the effects of the hurricanes on the transactions of state-owned insurance enterprises in Florida and Louisiana.

Current tax receipts increased \$25.3 billion after increasing \$27.7 billion. The deceleration was accounted

for by a deceleration in taxes on production and imports, which increased \$12.2 billion after increasing \$15.5 billion, mostly as a result of a deceleration in state sales taxes. Taxes on corporate income increased \$4.5 billion after increasing \$6.3 billion.

**Current expenditures.** State and local government current expenditures increased \$29.4 billion after increasing \$26.2 billion. Government social benefit payments accelerated, and consumption expenditures decelerated.

Government social benefit payments increased \$14.3 billion after increasing \$9.4 billion. The acceleration was mainly attributable to an acceleration in Medicaid payments.

Consumption expenditures increased \$14.2 billion after increasing \$16.1 billion. The deceleration was more than accounted for by a deceleration in the purchases of nondurable goods, which increased \$4.8 billion after increasing \$9.8 billion.

### Net lending or net borrowing

“Net lending or net borrowing (–)” is an alternative measure of the government fiscal position. It is the financing requirement of the government sector, and it is derived as net government saving plus the consumption of fixed capital and “capital transfers received

(net)” less gross investment and net purchases of non-produced assets.<sup>17</sup>

Net borrowing was \$388.9 billion in the first quarter, decreasing \$59.4 billion from \$448.3 billion in the fourth quarter. Federal Government net borrowing was \$327.9 billion in the first quarter, decreasing \$58.4 billion from \$386.3 billion in the fourth quarter; net Federal Government saving increased \$53.1 billion after increasing \$43.3 billion. State and local government net borrowing was \$61.0 billion in the first quarter, decreasing \$1.0 billion from \$62.0 billion in the fourth quarter.

Gross government investment turned down, decreasing \$4.1 billion after increasing \$10.6 billion.<sup>18</sup> Federal Government gross investment decreased \$5.9 billion after increasing \$6.6 billion; both defense gross investment and nondefense gross investment turned down. State and local government gross investment increased \$1.8 billion after increasing \$4.0 billion; the deceleration was mostly accounted for by a deceleration in gross investment for structures, which increased \$0.8 billion after increasing \$2.8 billion.

---

17. These estimates are also shown in NIPA tables 3.1–3.3.

18. See the addenda to NIPA tables 3.1–3.3.