

Business Situation

Advance Estimates for the Second Quarter of 2005

THE U.S. economy slowed somewhat in the second quarter of 2005, according to the “advance” estimates of the national income and product accounts (NIPAs) (chart 1).¹ Prices accelerated somewhat.

The advance estimates for the second quarter of 2005 show the following:

- Real gross domestic product (GDP) increased 3.4 percent after increasing 3.8 percent in the first quarter (table 1). During the current expansion period, GDP growth has averaged 3.2 percent.²
- Prices of goods and services purchased by U.S. residents increased 3.2 percent in the second quarter after increasing 2.9 percent. The acceleration mainly reflected accelerations in food and energy prices.

The NIPA estimates for the first quarter of 2005, along with the estimates for 2002–2004, have been revised as part of the regular annual revision of the ac-

counts.³

The deceleration in real GDP growth in the second quarter primarily reflected a downturn in inventory investment that was partly offset by a downturn in imports (which are subtracted in the calculation of GDP) and by accelerations in exports and in private investment in equipment and software.⁴

Inventory investment subtracted 2.32 percentage points from GDP growth in the second quarter after contributing 0.29 percentage point to growth in the first quarter. Businesses reduced inventories \$6.4 billion in the second quarter after adding \$58.2 billion in the first quarter; the reduction reflected inventory liquidations by retail motor vehicle and parts dealers and by manufacturers that were partly offset by inventory accumulations by wholesalers.

Imports decreased 2.0 percent and contributed 0.33 percentage point to real GDP growth after increasing 7.4 percent and subtracting 1.14 percentage points from GDP growth in the first quarter. Goods imports turned down; the largest contributors to the downturn

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter dollar changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized.

2. The current expansion period is measured from the cyclical trough in the third quarter of 2001 through the second quarter of 2005.

3. See Eugene P. Seskin, Shelly Smith, and Teresa L. Weadock, “Annual Revision of the National Income and Product Accounts: Annual Estimates for 2002–2004 and Quarterly Estimates for 2002:I–2005:I” in this issue.

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

This article was prepared by David F. Sullivan.

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
	III	IV	I	II	III	IV	I	II	II
Gross domestic product	4.0	3.3	3.8	3.4	4.0	3.3	3.8	3.4	100.0
Personal consumption expenditures	4.4	4.3	3.5	3.3	3.05	3.01	2.44	2.30	70.1
Durable goods.....	10.8	5.5	2.6	8.3	0.88	0.45	0.22	0.68	8.4
Nondurable goods.....	3.9	5.5	5.3	3.3	0.78	1.09	1.07	0.66	20.5
Services.....	3.4	3.6	2.8	2.3	1.39	1.47	1.15	0.96	41.3
Gross private domestic investment	4.6	6.8	8.6	-4.9	0.75	1.11	1.42	-0.84	16.5
Fixed investment.....	8.4	7.2	7.0	9.3	1.31	1.13	1.12	1.48	16.6
Nonresidential.....	11.8	10.4	5.7	9.0	1.15	1.04	0.58	0.92	10.6
Structures.....	1.4	4.7	-2.0	3.1	0.04	0.12	-0.05	0.08	2.6
Equipment and software.....	15.5	12.4	8.3	11.0	1.12	0.92	0.64	0.84	8.0
Residential.....	2.6	1.6	9.5	9.8	0.15	0.09	0.54	0.56	6.0
Change in private inventories.....					-0.56	-0.03	0.29	-2.32	-0.1
Net exports of goods and services					-0.17	-0.98	-0.40	1.57	-5.5
Exports.....	5.5	7.1	7.5	12.6	0.53	0.70	0.74	1.25	10.5
Goods.....	8.2	3.7	5.3	14.5	0.55	0.25	0.37	0.99	7.3
Services.....	-0.6	15.5	12.5	8.3	-0.02	0.44	0.37	0.26	3.2
Imports.....	4.7	11.3	7.4	-2.0	-0.70	-1.68	-1.14	0.33	16.0
Goods.....	4.7	13.0	8.2	-3.7	-0.59	-1.60	-1.05	0.51	13.4
Services.....	4.6	3.1	3.7	7.1	-0.11	-0.08	-0.10	-0.18	2.7
Government consumption expenditures and gross investment	1.8	0.9	1.9	2.0	0.35	0.17	0.35	0.38	18.9
Federal.....	3.6	-0.6	2.4	1.3	0.25	-0.04	0.17	0.09	7.0
National defense.....	9.0	-3.3	3.0	2.0	0.41	-0.16	0.14	0.10	4.7
Nondefense.....	-6.4	5.2	1.1	-0.1	-0.16	0.12	0.03	0.00	2.3
State and local.....	0.8	1.8	1.6	2.4	0.10	0.21	0.19	0.28	11.9

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.

were nonautomotive consumer goods, petroleum and products, "other" goods, and industrial supplies. In contrast, services imports accelerated.

Exports increased 12.6 percent and contributed 1.25 percentage points to GDP growth after increasing 7.5 percent and contributing 0.74 percentage point. Goods exports accelerated; the largest contributors to the acceleration were accelerations in nonautomotive capital goods and in industrial supplies and an upturn in foods, feeds, and beverages. In contrast, services exports decelerated.

Business investment in equipment and software increased 11.0 percent and contributed 0.84 percentage point to real GDP growth after increasing 8.3 percent and contributing 0.64 percentage point. Investment in transportation equipment and in "other" equipment turned up, but investment in industrial equipment turned down and investment in "other" information processing equipment and in software decelerated.

The advance estimates for the second quarter also show the following:

- Consumer spending slowed slightly, increasing 3.3 percent after increasing 3.5 percent. Spending on energy goods decreased after increasing, and spending on food decelerated. In contrast, spending on motor vehicles turned up, increasing 9.9 percent after decreasing 8.0 percent.
- Business investment in structures increased 3.1 percent after decreasing 2.0 percent. Upturns in mining exploration, shafts, and wells and in "other" structures were partly offset by downturns in power and communication structures and in commercial and health care structures.
- Government spending increased 2.0 percent after increasing 1.9 percent. Spending by state and local governments accelerated, but spending by the Federal Government slowed.
- Residential investment increased 9.8 percent after increasing 9.5 percent. A sharp acceleration in "other" structures, primarily an upturn in brokers' commissions, was partly offset by a deceleration in

single-family structures and a downturn in multi-family structures.

- Real final sales of domestic product (GDP less the change in private inventories) increased 5.8 percent after increasing 3.5 percent.
- Real gross domestic purchases (real GDP less net exports of goods and services) increased 1.7 percent after increasing 4.0 percent.
- The production of services decelerated, but the production of structures and of goods accelerated (table 2).

Chart 1. Selected Measures: Change From Preceding Quarter

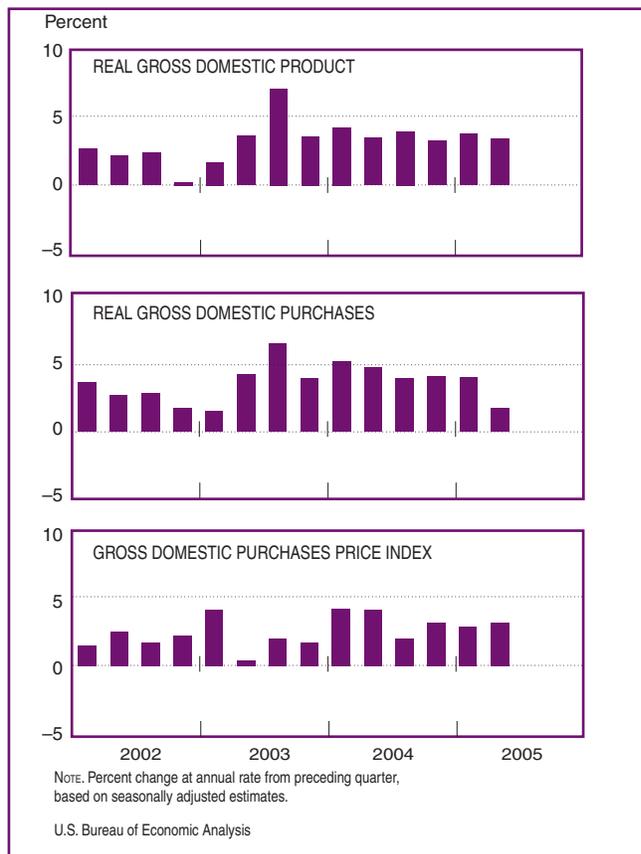


Table 2. Real Gross Domestic Product by Type of Product

[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		
	III	IV	I	II	III	IV	I	II	II
Gross domestic product (GDP)	4.0	3.3	3.8	3.4	4.0	3.3	3.8	3.4	100.0
Final sales of domestic product.....	4.6	3.3	3.5	5.8	4.54	3.33	3.51	5.73	100.1
Change in private inventories.....					-0.56	-0.03	0.29	-2.32	-0.1
Goods.....	6.6	3.9	4.4	4.8	2.10	1.26	1.41	1.55	31.9
Services.....	3.0	3.2	3.2	1.9	1.75	1.82	1.86	1.08	57.5
Structures.....	1.2	2.2	5.2	7.8	0.13	0.23	0.53	0.79	10.6
Addenda:									
Motor vehicle output.....	3.0	8.8	4.3	-2.2	0.11	0.29	0.15	-0.08	3.4
GDP excluding motor vehicle output.....	4.0	3.1	3.8	3.6	3.87	3.01	3.66	3.49	96.6
Final sales of computers.....	13.3	56.5	54.9	63.3	0.10	0.36	0.37	0.43	0.9
GDP excluding final sales of computers.....	3.9	3.0	3.5	3.0	3.87	2.95	3.44	2.98	99.1

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.

- Motor vehicle output turned down, subtracting 0.08 percentage point from real GDP growth after contributing 0.15 percentage point.
- Final sales of computers added 0.43 percentage point to real GDP growth after adding 0.37 percentage point.
- Real disposable personal income increased 1.4 percent in contrast to a 2.9-percent decrease in the first quarter; the decrease followed a large increase in the fourth quarter that had primarily resulted from a

special dividend payment by the Microsoft Corporation (see “Personal Income”).

- The personal saving rate fell to 0.2 percent in the second quarter from 0.7 percent in the first quarter.⁵

5. The personal saving rate is measured as personal saving as a percentage of current-dollar disposable personal income. An estimate of the *national* saving rate (measured as gross saving as a percentage of gross national income), along with the “preliminary” NIPA estimates for the second quarter, will be available at the end of August.

Second-Quarter 2005 Advance NIPA Estimates: Source Data and Assumptions

The “advance” estimates for the second quarter are based on the following major source data; as more and better data become available, the estimates will be revised. (The number of months for which data were available is shown in parentheses.)

Personal consumption expenditures: Sales of retail stores (3), unit auto and truck sales (3), and consumers’ shares of auto and truck sales (2);

Nonresidential fixed investment: Unit auto and truck sales (3), construction put in place (2), manufacturers’ shipments of machinery and equipment other than aircraft (3), shipments of civilian aircraft (2), and exports and imports of machinery and equipment (2);

Residential investment: Construction put in place (2), single-family housing starts (3), sales of new homes (3), and sales of existing houses (3);

Change in private inventories: Trade and nondurable manufacturing inventories (2), durable manufacturing inventories (3), and unit auto and truck inventories (3);

Net exports of goods and services: Exports and imports of goods and services (2);

Government consumption expenditures and gross investment: Federal outlays (3), state and local construction put in place (2), and state and local employment (3);

GDP prices: Consumer price indexes (3), producer price indexes (3), U.S. import and export price indexes (3), and values and quantities of petroleum imports (2).

BEA made assumptions for source data that were not available. Table A shows the assumptions for key series; a more comprehensive list is available on BEA’s Web site at <www.bea.gov/bea/dn/home/gdp.htm>.

Table A. Summary of Major Source Data and Assumptions for Advance NIPA Estimates, 2005:II

[Billions of dollars, seasonally adjusted at annual rates]

	2005					
	January	February	March	April	May	June ¹
Private fixed investment:						
Nonresidential structures:						
Value of new total private construction put in place less residential (including improvements)	243.3	242.1	244.3	245.8	241.9	243.9
Equipment and software:						
Manufacturers’ shipments of complete aircraft	27.2	19.2	24.6	39.8	25.5	26.7
Residential structures:						
Value of new residential construction put in place:						
Single family	396.2	402.1	404.5	404.7	406.9	409.6
Multifamily	44.5	44.5	43.5	44.1	43.7	44.0
Change in private inventories:						
Change in inventories for nondurable manufacturing	29.8	9.7	17.7	-1.2	-8.6	3.5
Change in inventories for merchant wholesale and retail industries other than motor vehicles and equipment	58.8	48.4	40.9	28.8	24.6	36.3
Net exports:²						
Exports of goods:						
U.S. exports of goods, international-transactions-accounts basis	859.1	848.6	858.4	894.7	894.0	884.9
Excluding gold	853.3	844.4	851.9	889.3	888.6	879.4
Imports of goods:						
U.S. imports of goods, international-transactions-accounts basis	1,611.5	1,625.5	1,565.1	1,642.4	1,623.1	1,635.8
Excluding gold	1,607.9	1,621.6	1,561.0	1,638.5	1,618.9	1,631.6
Net exports of goods	-752.4	-776.9	-706.7	-747.8	-729.1	-750.9
Excluding gold	-754.6	-777.2	-709.1	-749.3	-730.4	-752.2
State and local government structures:						
Value of new construction put in place	212.9	222.6	224.9	226.6	230.4	228.5

1. Assumption.

2. Nonmonetary gold is included in international-transactions-accounts exports and imports but is not used directly in the estimation of national income and product account exports and imports.

Prices, next page.

Prices

Inflation as measured by the price index for gross domestic purchases accelerated to 3.2 percent in the second quarter from 2.9 percent in the first quarter (table 3). Both food and energy prices accelerated in the second quarter; excluding prices for food and energy, the price index increased 2.0 percent after increasing 3.0 percent (chart 2).

Prices of goods and services purchased by consumers increased 3.3 percent after increasing 2.3 percent. The prices paid for nondurable goods accelerated, but the prices paid for services decelerated slightly and the prices paid for durable goods turned down.

The prices paid by consumers for gasoline and oil and for food accelerated in the second 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 1.8 percent after increasing 2.4 percent. The largest contributors to this deceleration were the prices of motor vehicles and parts and of medical care services.

Prices of private nonresidential fixed investment increased 1.8 percent after increasing 3.1 percent. Prices of equipment and software turned down, mainly reflecting a downturn in the prices of transportation equipment and a deceleration in the prices of "other" equipment. Prices of structures decelerated. Prices of residential fixed investment increased 2.5 percent after increasing 1.6 percent.

Prices paid by government increased 3.9 percent after increasing 5.7 percent. The slowdown was accounted for by prices paid by the Federal Government; the first-quarter increase reflected a pay raise for civilian and military personnel.⁶ Prices paid by state and local governments increased at the same rate as in the first quarter.

The GDP price index increased 2.4 percent in the second quarter, 0.8 percentage point less than the price index for gross domestic purchases.⁷ The smaller increase in the GDP price index reflected a smaller 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, a larger increase in export prices than in import prices had resulted in an increase in gross domestic purchases prices that was smaller than the increase in GDP prices.

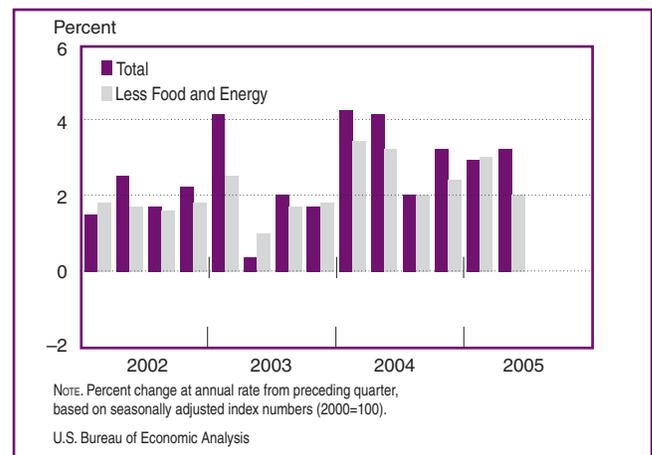
Table 3. Prices for Gross Domestic Purchases

[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	
	III	IV	I	II	III	IV	I	II
Gross domestic purchases	2.0	3.2	2.9	3.2	2.0	3.2	2.9	3.2
Personal consumption expenditures (PCE)	1.5	3.1	2.3	3.3	0.97	2.08	1.50	2.21
Durable goods	-2.4	0.6	0.9	-0.5	-0.20	0.05	0.07	-0.04
Nondurable goods	0.1	4.5	1.3	5.8	0.02	0.86	0.25	1.10
Services	2.9	3.0	3.0	2.9	1.14	1.17	1.18	1.15
Gross private domestic investment	3.2	2.3	2.6	2.0	0.51	0.37	0.41	0.33
Fixed investment	3.0	2.2	2.6	2.1	0.46	0.34	0.40	0.33
Nonresidential	0.9	1.1	3.1	1.8	0.09	0.11	0.31	0.19
Structures	6.6	5.6	10.3	9.7	0.16	0.13	0.24	0.23
Equipment and software	-0.9	-0.4	0.9	-0.6	-0.07	-0.03	0.07	-0.04
Residential	6.9	4.2	1.6	2.5	0.37	0.23	0.09	0.14
Change in private inventories .....	.....	.....	.....	.....	0.04	0.03	0.01	0.00
Government consumption expenditures and gross investment	3.2	4.1	5.7	3.9	0.57	0.73	1.00	0.69
Federal	2.2	2.6	7.0	2.2	0.15	0.18	0.46	0.15
National defense	2.8	2.7	6.6	1.5	0.13	0.12	0.29	0.07
Nondefense	1.2	2.5	7.9	3.7	0.02	0.06	0.17	0.08
State and local	3.7	4.9	4.9	4.9	0.42	0.55	0.54	0.55
Addenda:								
Gross domestic purchases:								
Food	2.5	2.6	1.0	3.5	0.23	0.24	0.10	0.32
Energy goods and services	2.5	22.1	5.1	28.0	0.10	0.87	0.23	1.15
Excluding food and energy	2.0	2.4	3.0	2.0	1.71	2.06	2.58	1.76
Personal consumption expenditures:								
Food	2.5	2.5	1.0	3.5	.....	.....	.....	.....
Energy goods and services	-1.2	18.3	3.6	28.5	.....	.....	.....	.....
Excluding food and energy	1.5	2.3	2.4	1.8	.....	.....	.....	.....
"Market-based" PCE	1.1	2.8	2.1	3.5	.....	.....	.....	.....
Excluding food and energy	1.1	1.8	2.2	1.6	.....	.....	.....	.....
Gross domestic product	1.5	2.7	3.1	2.4	.....	.....	.....	.....

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.

Chart 2. Gross Domestic Purchases Prices: Change From Preceding Quarter



6. 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.

7. 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.

Personal Income

Real disposable personal income (DPI) increased 1.4 percent in the second quarter after decreasing 2.9 percent in the first quarter (chart 3). The upturn reflected an upturn in current-dollar DPI (table 4).⁸ The implicit price deflator for personal consumption expenditures (which is used to deflate DPI) accelerated in the second quarter.

Personal income, which is only measured in current dollars, increased \$143.0 billion (or 5.8 percent) after increasing \$64.4 billion (or 2.6 percent) in the first quarter. The acceleration primarily reflected an upturn in personal dividend income that reflected a return to a

8. Current-dollar DPI is defined as personal income less personal current taxes.

Table 4. Personal Income and Its Disposition

(Billions of dollars; quarterly estimates are seasonally adjusted at annual rates)

	Level		Change from preceding period			
	2005		2004		2005	
	II	III	IV	I	II	
Compensation of employees, received	7,111.1	120.6	171.6	124.0	91.3	
Wage and salary disbursements.....	5,715.9	103.9	140.9	83.9	69.1	
Private industries	4,748.9	98.9	133.7	72.0	64.0	
Goods-producing industries.....	1,107.9	26.7	20.7	12.2	12.7	
Manufacturing	719.9	18.5	11.7	7.3	4.8	
Services-producing industries.....	3,641.0	72.0	113.1	59.8	51.3	
Trade, transportation, and utilities.....	956.3	16.8	24.8	16.4	8.8	
Other services-producing industries.....	2,684.7	55.2	88.3	43.4	42.5	
Government.....	967.0	5.1	7.2	11.8	5.2	
Supplements to wages and salaries	1,395.2	16.8	30.6	40.2	22.1	
Proprietors' income with IVA and CCAAdj.....	942.4	-9.3	11.8	17.0	24.5	
Farm.....	25.2	-14.4	-5.1	0.1	0.5	
Nonfarm	917.2	5.2	16.9	16.9	24.0	
Rental income of persons with CCAAdj	102.1	-19.7	6.6	-10.7	-15.9	
Personal income receipts on assets	1,437.6	14.3	115.4	-85.7	29.7	
Personal interest income	933.8	-0.4	2.7	8.0	18.4	
Personal dividend income.....	503.8	14.7	112.7	-93.7	11.3	
Personal current transfer receipts	1,509.9	21.7	7.7	39.6	21.1	
Less: Contributions for government social insurance ..	870.9	12.9	17.6	19.8	7.6	
Equals: Personal income	10,232.2	114.9	295.6	64.4	143.0	
Less: Personal current taxes.....	1,212.1	24.4	35.9	79.7	38.1	
Equals: Disposable personal income	9,020.1	90.6	259.5	-15.3	105.0	
Less: Personal outlays	9,001.7	127.2	158.7	129.6	147.1	
Equals: Personal saving.....	18.4	-36.6	100.8	-144.9	-42.1	
Addenda: Special factors in personal income						
In government wages and salaries:						
Federal pay raise	7.0	0.0	0.0	6.6	0.4	
Reservists' pay	8.7	-0.3	1.0	0.3	-0.9	
In supplements to wages and salaries:						
Employer contributions for social insurance.....	4.1	0.0	0.0	4.1	0.0	
In nonfarm proprietors' income:						
Hurricane-related destruction of uninsured business property	0.0	-5.5	5.5	0.0	0.0	
In rental income of persons:						
Hurricane-related destruction of uninsured residential property.....	0.0	-14.5	14.5	0.0	0.0	
In personal dividend income:						
Microsoft "special" dividend payments.....	0.0	0.0	99.4	-99.4	0.0	
In personal current transfer receipts:						
Social security retroactive payments	0.0	0.0	2.5	-2.5	0.0	
Cost-of-living adjustments under Federal transfer programs.....	15.3	0.0	0.0	15.3	0.0	
Hurricane-related net insurance settlements (excluding owner-occupied housing).....	0.0	15.2	-15.2	0.0	0.0	
In contributions for government social insurance:						
Changes in premium for supplementary medical insurance	5.4	0.0	0.0	5.4	0.0	
In personal current taxes:						
Federal tax law changes	-2.7	0.0	0.0	-2.7	0.0	
Refunds, settlements, and other	49.6	0.0	0.0	49.6	0.0	

Note: Dollar levels are from NIPA tables 2.1 and 2.2B.
IVA Inventory valuation adjustment
CCAAdj Capital consumption adjustment

typical pattern of personal dividend income, following the special dividend payment in the fourth quarter by the Microsoft Corporation.⁹ Excluding the Microsoft special dividend, personal income increased \$143.0 billion (5.8 percent) in the second quarter after increasing \$163.8 billion (6.8 percent) in the first quarter.

Among other components of personal income, compensation of employees and personal current

9. On December 2, 2004, Microsoft paid a special dividend of \$3.00 per share to shareholders of record as of November 17, 2004. The total dividend payout was about \$32 billion (at a quarterly rate). BEA estimates that about three-fourths of the total dividend payout (or \$24.9 billion) was paid to persons; this amount has been converted to an annual rate (\$99.4 billion) and recorded as personal dividend income for the fourth quarter in December.

Quarterly NIPA estimates are presented at annual rates, which show the value that would be registered if the rate of activity that is measured for a quarter were maintained for a full year. These annual rates are determined simply by multiplying the estimated rate of activity by 4.

For more information on the treatment of dividends in the national accounts, see "The Microsoft Special Dividend" at <www.bea.gov/bea/faq/national/FAQ.htm> on BEA's Web site.

Chart 3. Selected Personal Income and Saving Measures



transfer receipts decelerated, rental income of persons decreased more in the second quarter than in the first quarter, and personal interest income and proprietors' income accelerated in the second quarter.

Compensation of employees increased \$91.3 billion after increasing \$124.0 billion; both wage and salary disbursements and supplements to wages and salaries decelerated. The slowdown in wage and salary disbursements was in both private and government disbursements. In private disbursements, the largest contributor to the slowdown was trade, transportation, and utilities, which increased \$8.8 billion after increasing \$16.4 billion. In government disbursements, the slowdown was primarily in Federal Government disbursements; first-quarter disbursements had reflected the Federal pay raise.

The slowdown in supplements to wages and salaries was both in employer contributions for employee pension and insurance funds and in employer contributions for government social insurance.¹⁰ In employer contributions for employee pension and insurance funds, the slowdown primarily reflected a slowdown in employer contributions to private health insurance

funds. In employer contributions for government social insurance, the larger first-quarter increase had reflected an increase in premiums for supplementary medical insurance.

Personal current transfer receipts increased \$21.1 billion after increasing \$39.6 billion. Government social benefits to persons increased \$21.0 billion after increasing \$40.2 billion. In Federal benefits, the larger increase in the first quarter had reflected cost-of-living adjustments to social security payments and step-ups in the earned income and child tax credits; in state and local benefits, Medicaid payments decelerated in the second quarter.

Rental income of persons decreased \$15.9 billion after decreasing \$10.7 billion. The larger second-quarter decrease resulted from an acceleration in expenses (which are subtracted in the calculation of rental income) and a deceleration in space rent.

Personal interest income increased \$18.4 billion after increasing \$8.0 billion; the acceleration primarily resulted from an increase in interest paid by the Federal Government. Proprietors' income increased \$24.5 billion after increasing \$17.0 billion. The acceleration was primarily in nonfarm proprietors' income; the first-quarter increase had been moderated by the expiration of certain depreciation provisions of the 2002 and 2003 tax acts.

10. Employer contributions for government social insurance do not affect personal income. In the calculation of personal income, they are added in "supplements to wages and salaries" and subtracted in "contributions for government social insurance."