

Taking Account...

NIPA handbook chapters on investment available

The Bureau of Economic Analysis (BEA) has made available two more chapters of its national income and product accounts (NIPAs) handbook, which is being released on its Web site in stages.

The newly available chapters focus on private fixed investment and change in private inventories (also known as inventory investment).

Private fixed investment, the subject of chapter 6, measures spending by private businesses, nonprofit institutions, and households on fixed assets in the U.S. economy. Fixed assets consist of structures, equipment, and software that are used in the production of goods and services. Private fixed investment encompasses the creation of new productive assets, the improvement of existing assets, and the replacement of worn-out or obsolete assets.

The estimates of private fixed investment serve as an indicator of the willingness of private businesses and nonprofit institutions to expand their production capacity and as an indicator of the demand for housing. Thus, movements in private fixed investment serve as a barometer of confidence in, and support for, future economic growth. Private fixed investment estimates also provide comprehensive information on the composition of business fixed investment.

This measure can thus be used to assess the penetration of new technology, for example. In addition, these investment estimates are the building blocks for BEA's estimates of capital stock, which are used in measuring rates of return on capital and in analyzing multifactor productivity.

The private fixed investment estimates are an integral part of the NIPAs, a set of economic accounts that provide a logical and consistent framework for presenting statistics on U.S. economic activity.

The change in private inventories, the subject of chapter 7, is a measure of the value of the change in the physical volume of the inventories—additions less withdrawals—that businesses maintain to support their production and distribution activities.

Inventory investment is one of the most volatile components of gross domestic product (GDP), giving it an important role in shortrun variations in GDP growth. Moreover, inventory movement plays a key role in the timing, duration, and magnitude of business cycles, as unanticipated buildups in inventories may signal future cutbacks in production, and unanticipated shortages in inventories may signal future pickups in production.

The estimates of the change in private inventories are the building blocks for BEA's estimates of inventory stocks. These

stock estimates, coupled with BEA's estimates of final sales, form inventory-sales ratios that can be used to assess the likelihood that businesses will add to, or reduce, inventories in response to changes in demand.

The two new chapters of the NIPA handbook discuss definitions and concepts, their recording in the NIPAs, an overview of source data and estimating methods, benchmark-year estimates, nonbenchmark-year estimates, current quarterly estimates, and quantity and price estimates.

All other chapters of the NIPA handbook are also available on the BEA Web site.

Chapters 1–5 are bound in one volume. This volume encompasses an introduction to the NIPAs, followed by chapters on fundamental concepts, principal source data, estimating methods, and personal consumption expenditures (consumer spending). BEA aims to add more chapters in the future.

Update to FAQs: PCE prices and the CPI

BEA has updated its Frequently Asked Question (FAQ) item that discusses the differences between the BEA personal consumption expenditures price index and the Bureau of Labor Statistics consumer price index. The FAQ tool provides answers to common questions that arise about BEA statistics. All FAQs are available on the BEA Web site www.bea.gov.