

# B U S I N E S S S I T U A T I O N

Ralph W. Morris prepared the first section of this article, and Daniel Larkins prepared the section on corporate profits.

**R**EAL GROSS domestic product (GDP) increased 5.4 percent in the first quarter of 1998, according to the "final" estimates of the national income and product accounts (NIPAs) (chart 1).<sup>1</sup> The step-up from the 3.7-percent increase in the fourth quarter was more than accounted for by accelerations in consumer spending, in business inventory investment, and in residential investment and by an upturn in business fixed investment. In contrast, net exports and government spending turned down (table 1).

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates unless otherwise specified. Quarter-to-quarter dollar changes are differences between published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data. Real estimates are expressed in chained (1992) dollars, and price indexes are chain-type indexes.

**Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers**

(Seasonally adjusted at annual rates)

|  | Billions of chained (1992) dollars |                               |              |             |              | Percent change from preceding quarter |            |            |            |
|--|------------------------------------|-------------------------------|--------------|-------------|--------------|---------------------------------------|------------|------------|------------|
|  | Level                              | Change from preceding quarter |              |             |              | 1997                                  |            |            | 1998       |
|  |                                    | 1997                          |              | 1998        |              | II                                    | III        | IV         | I          |
|  | I                                  | II                            | III          | IV          | I            | II                                    | III        | IV         | I          |
| <b>Gross domestic product</b> .....                            | <b>7,375.7</b>                     | <b>58.0</b>                   | <b>54.4</b>  | <b>66.0</b> | <b>95.7</b>  | <b>3.3</b>                            | <b>3.1</b> | <b>3.7</b> | <b>5.4</b> |
| Less: Exports of goods and services .....                      | 989.6                              | 39.8                          | 10.5         | 19.7        | -3.1         | 18.4                                  | 4.4        | 8.3        | -1.2       |
| Plus: Imports of goods and services .....                      | 1,198.0                            | 50.2                          | 38.0         | 14.7        | 46.2         | 20.5                                  | 14.6       | 5.3        | 17.1       |
| <b>Equals: Gross domestic purchases</b> .....                  | <b>7,563.5</b>                     | <b>66.0</b>                   | <b>77.7</b>  | <b>61.5</b> | <b>137.4</b> | <b>3.7</b>                            | <b>4.3</b> | <b>3.4</b> | <b>7.6</b> |
| Personal consumption expenditures .....                        | 4,998.7                            | 11.3                          | 66.8         | 29.9        | 72.6         | .9                                    | 5.6        | 2.5        | 6.0        |
| Durable goods .....  | 682.7                              | -8.8                          | 27.1         | 3.2         | 23.4         | -5.4                                  | 18.4       | 1.9        | 15.0       |
| Nondurable goods .....   | 1,484.4                            | -7.8                          | 15.5         | -4.6        | 23.5         | -2.1                                  | 4.3        | -1.2       | 6.6        |
| Services .....   | 2,834.1                            | 25.9                          | 26.3         | 30.3        | 27.7         | 3.9                                   | 3.9        | 4.4        | 4.0        |
| Gross private domestic fixed investment .....                  | 1,202.2                            | 32.4                          | 37.9         | 5.3         | 47.6         | 12.6                                  | 14.4       | 1.8        | 17.6       |
| Nonresidential fixed investment .....                          | 909.2                              | 28.1                          | 37.5         | -1.8        | 36.5         | 14.6                                  | 19.2       | -8         | 17.8       |
| Structures .....   | 194.1                              | -2.4                          | 3.2          | -1.2        | -1.4         | -4.7                                  | 6.7        | -2.3       | -3.0       |
| Producers' durable equipment .....                             | 726.1                              | 32.7                          | 36.0         | -5          | 41.3         | 23.0                                  | 24.1       | -3         | 26.4       |
| Residential investment .....                                   | 297.7                              | 4.9                           | 1.9          | 6.2         | 11.4         | 7.4                                   | 2.7        | 9.1        | 16.9       |
| Change in business inventories .....                           | 105.7                              | 13.9                          | -30.1        | 26.5        | 31.7         | .....                                 | .....      | .....      | .....      |
| Nonfarm .....  | 96.7                               | 11.8                          | -31.8        | 26.2        | 32.2         | .....                                 | .....      | .....      | .....      |
| Farm .....   | 9.0                                | 2.2                           | 2.0          | .3          | -8           | .....                                 | .....      | .....      | .....      |
| Government consumption expenditures and gross investment ..... | 1,264.1                            | 9.6                           | 3.3          | 1.0         | -10.3        | 3.1                                   | 1.1        | .3         | -3.2       |
| Federal .....  | 444.3                              | 7.3                           | -1.3         | -2.7        | -11.8        | 6.6                                   | -1.1       | -2.3       | -10.0      |
| National defense .....   | 295.5                              | 5.5                           | .9           | .8          | -15.6        | 7.5                                   | 1.2        | 1.0        | -18.6      |
| Nondefense .....   | 148.2                              | 1.7                           | -2.2         | -3.2        | 3.4          | 4.9                                   | -5.7       | -8.6       | 9.8        |
| State and local .....  | 819.9                              | 2.4                           | 4.6          | 3.6         | 1.6          | 1.2                                   | 2.3        | 1.8        | .8         |
| <b>Addenda: Final sales to domestic purchasers</b> .....       | <b>7,453.6</b>                     | <b>51.6</b>                   | <b>106.2</b> | <b>36.0</b> | <b>106.7</b> | <b>2.9</b>                            | <b>6.0</b> | <b>2.0</b> | <b>5.9</b> |
| Final sales of domestic product .....                          | 7,266.4                            | 43.6                          | 82.6         | 40.8        | 65.3         | 2.5                                   | 4.7        | 2.3        | 3.7        |

NOTE.—Chained (1992) dollar series are calculated as the product of the chain-type quantity index and the 1992 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1992) dollar levels and residuals, which measure the extent of nonadditivity in each table, are in NIPA tables 1.2, 1.4 and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are in NIPA table 8.1.

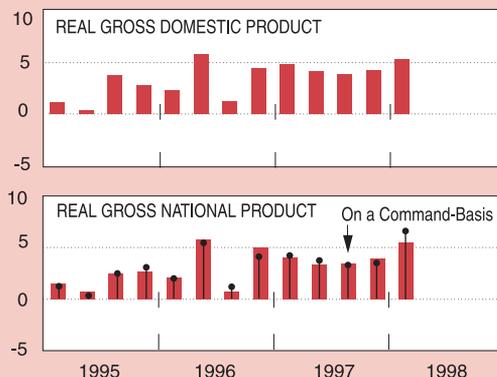
The "final" estimate of the change in real GDP is 0.6 percentage point higher than the 4.8-percent increase indicated by the "preliminary" estimate reported in the June "Business Situation" (table 2). The revision is larger than the average revision—0.3 percentage point, without regard to sign—from the preliminary estimate to the final estimate for 1976–97. The first-quarter revision primarily reflected upward revisions to net exports and business inventory investment. In net exports, the incorporation of the annual revision of Census Bureau and Bureau of Economic Analysis (BEA) data for U.S. international trade in goods and services resulted in an upward revision to exports and a downward revision to imports. (Imports are subtracted from final expenditures in the calculation of GDP.) The annual revision reflected updated source data and, for net exports of goods, revised seasonal factors.<sup>2</sup> In inventory investment, the upward revision was mostly to wholesale trade and retail trade, reflect-

2. For additional information on the annual revisions to the estimates of U.S. international trade in goods and services, see "U.S. International Transactions, Revised Estimates for 1986–97" in this issue.

**CHART 1**

## Selected Product Measures: Change From Preceding Quarter

Percent



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

ing the incorporation of revised Census Bureau data on inventory book values for March and newly available data on used-car inventories.

Real final sales of domestic product increased 3.7 percent in the first quarter, 0.3 percentage point more than the preliminary estimate.<sup>3</sup> The revision was smaller than that to GDP because the upward revision to change in business inventories, which is not included in final sales of domestic product, was large.

Real gross domestic purchases increased 7.6 percent, 0.3 percentage point more than the preliminary estimate. The revision was smaller than that to GDP because the upward revision to ex-

3. Final sales of domestic product equals GDP less change in business inventories.

ports, which are not included in gross domestic purchases, was large.

Real final sales to domestic purchasers increased 5.9 percent, the same as the preliminary estimate. The revision (zero) was smaller than the revision to final sales of domestic product because final sales to domestic purchasers excludes both exports and change in business inventories.

The price index for gross domestic purchases increased 0.1 percent, 0.1 percentage point more than the preliminary estimate; in the fourth quarter, it increased 1.4 percent. The price index for GDP increased 1.2 percent, 0.2 percentage point more than the preliminary estimate; in the fourth quarter, it also increased 1.4 percent.

Real disposable personal income increased 4.5 percent, 0.2 percentage point less than the preliminary estimate. The personal saving rate was 3.6 percent, 0.1 percentage point less than the preliminary estimate.

**Gross national product (GNP).**—In the first quarter, real GNP—goods and services produced by labor and property supplied by U.S. residents—increased 5.6 percent, 0.2 percentage point more than real GDP (table 3).<sup>4</sup> Receipts of factor income from the rest of the world increased, and payments of factor income decreased; corporate profits accounted for most of the increase in receipts and more than accounted for the decrease in payments.

Real GNP on a command basis—a measure of the goods and services produced by the U.S. economy in terms of their purchasing power—increased 6.6 percent, 1.0 percentage point more than the increase in real GDP, reflecting a substantial improvement in the terms of trade.<sup>5</sup> The first-quarter increase in the terms of trade roughly matches the increase in the second quarter of 1997; the two are among the half-dozen largest increases since the end of 1990. In

4. GNP equals GDP plus receipts of factor income from the rest of the world less payments of factor income to the rest of the world.

5. In the estimation of command-basis GNP the current-dollar value of the sum of exports of goods and services and of receipts of factor income is deflated by the implicit price deflator (IPD) for the sum of imports of goods and services and of payments of factor income.

The terms of trade is a measure of the relationship between the prices that are received by U.S. producers for exports of goods and services and the prices that are paid by U.S. purchasers for imports of goods and services. It is measured by the following ratio, with the decimal point shifted two places to the right: In the numerator, the IPD for the sum of exports of goods and services and of receipts of factor income; in the denominator, the IPD for the sum of imports of goods and services and of payments of factor income. Changes in the terms of trade reflect the interaction of several factors, including movements in exchange rates, changes in the composition of the traded goods and services, and changes in producers' profit margins. For example, if the U.S. dollar depreciates against a foreign currency, a foreign manufacturer may choose to absorb this cost by reducing the profit margin on the product it sells to the United States, or it may choose to raise the price of the product and risk a loss in market share.

**Table 2.—Revisions to Real Gross Domestic Product and Prices, First Quarter 1998**  
[Seasonally adjusted at annual rates]

|  | Percent change from preceding quarter |                | Final estimate minus preliminary estimate |                                    |
|--|---------------------------------------|----------------|---|------------------------------------|
|  | Preliminary estimate                  | Final estimate | Percentage points                         | Billions of chained (1992) dollars |
| <b>Gross domestic product</b> .....                            | <b>4.8</b>                            | <b>5.4</b>     | <b>0.6</b>                                | <b>10.1</b>                        |
| Less: Exports of goods and services .....                      | -3.0                                  | -1.2           | 1.8                                       | 4.6                                |
| Goods .....  | -5.4                                  | -1.5           | 3.9                                       | 7.7                                |
| Services .....   | 3.3                                   | -5             | -3.8                                      | -2.3                               |
| Plus: Imports of goods and services .....                      | 17.7                                  | 17.1           | -0.6                                      | -1.8                               |
| Goods .....  | 17.3                                  | 18.6           | 1.3                                       | 2.8                                |
| Services .....   | 20.0                                  | 9.3            | -10.7                                     | -4.0                               |
| <b>Equals: Gross domestic purchases</b> .....                  | <b>7.3</b>                            | <b>7.6</b>     | <b>.3</b>                                 | <b>4.7</b>                         |
| Personal consumption expenditures .....                        | 6.1                                   | 6.0            | -0.1                                      | -0.8                               |
| Durable goods .....  | 15.9                                  | 15.0           | -0.9                                      | -1.4                               |
| Nondurable goods .....   | 6.5                                   | 6.6            | .1  | .2                                 |
| Services .....   | 4.0                                   | 4.0            | 0   | .1                                 |
| Fixed investment .....   | 16.9                                  | 17.6           | .7  | 1.7                                |
| Nonresidential .....   | 17.2                                  | 17.8           | .6  | 1.2                                |
| Structures .....   | -7.4                                  | -3.0           | 4.4                                       | 2.3                                |
| Producers' durable equipment .....                             | 27.5                                  | 26.4           | -1.1                                      | -1.6                               |
| Residential .....  | 16.1                                  | 16.9           | .8  | .5                                 |
| Change in business inventories .....                           | .....                                 | .....          | .....                                     | 5.0                                |
| Nonfarm .....  | .....                                 | .....          | .....                                     | 4.9                                |
| Farm .....   | .....                                 | .....          | .....                                     | .1                                 |
| Government consumption expenditures and gross investment ..... | -3.0                                  | -3.2           | -0.2                                      | -0.5                               |
| Federal .....  | -9.8                                  | -10.0          | -0.2                                      | -0.2                               |
| National defense .....   | -18.4                                 | -18.6          | -0.2                                      | -0.1                               |
| Nondefense .....   | 10.1                                  | 9.8            | -0.3                                      | -0.1                               |
| State and local .....  | .9                                    | .8             | -0.1                                      | -0.3                               |
| <b>Addenda:</b>  |                                       |                |   |                                    |
| Final sales of domestic product .....                          | 3.4                                   | 3.7            | .3  | 5.5                                |
| Gross domestic purchases price index <sup>1</sup> .....        | 0                                     | .1             | .1  | .....                              |
| GDP price index <sup>1</sup> .....                             | 1.0                                   | 1.2            | .2  | .....                              |

1. Based on chained-type annual (1992) weights.

NOTE.—The final estimates for the first quarter of 1998 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

*Personal consumption expenditures:* Revised retail sales for March, hospital expenses for February, and residential electricity usage for February.

*Nonresidential fixed investment:* Revised construction put in place for February and March and revised manufacturers' shipments of machinery and equipment for March.

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

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

*Exports and imports of goods and services:* Revised data on exports and imports of goods for October 1997 through March 1998 and revised balance-of-payments data on exports and imports of services for the fourth and the first quarters.

*Government consumption expenditures and gross investment:* Revised State and local construction put in place for February and March.

*Wages and salaries:* Revised employment, average hourly earnings, and average weekly hours for October 1997 through March 1998 and revised seasonal factors.

*GDP prices:* Revised export and import prices for December through March, revised values and quantities of petroleum imports for March, and revised prices of single-family homes under construction for the first quarter.

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

[Seasonally adjusted at annual rates]

|  | Billions of chained (1992) dollars |                               |             |             |              | Percent change from preceding quarter |            |            |            |
|--|------------------------------------|-------------------------------|-------------|-------------|--------------|---------------------------------------|------------|------------|------------|
|  | Level                              | Change from preceding quarter |             |             |              | 1997                                  |            |            | 1998       |
|  | 1998                               | 1997                          |             |             | 1998         | II                                    | III        | IV         | I          |
|  | I                                  | II                            | III         | IV          | I            | II                                    | III        | IV         | I          |
| <b>Gross domestic product</b> .....  | <b>7,375.7</b>                     | <b>58.0</b>                   | <b>54.4</b> | <b>66.0</b> | <b>95.7</b>  | <b>3.3</b>                            | <b>3.1</b> | <b>3.7</b> | <b>5.4</b> |
| Plus: Receipts of factor income from the rest of the world .....                                   | 245.6                              | 11.7                          | 6.2         | -5          | 3.6          | 22.4                                  | 10.9       | -7         | 6.0        |
| Less: Payments of factor income to the rest of the world .....                                     | 257.9                              | 16.8                          | 6.1         | 1.8         | -8           | 31.8                                  | 10.1       | 2.9        | -1.2       |
| <b>Equals: Gross national product</b> .....  | <b>7,362.6</b>                     | <b>52.6</b>                   | <b>54.4</b> | <b>63.8</b> | <b>100.0</b> | <b>3.0</b>                            | <b>3.1</b> | <b>3.6</b> | <b>5.6</b> |
| Less: Exports of goods and services and receipts of factor income from the rest of the world ..... | 1,235.7                            | 51.6                          | 17.1        | 18.7        | 1.0          | 19.3                                  | 5.8        | 6.3        | .3         |
| Plus: Command-basis exports of goods and services and receipts of factor income .....              | 1,300.6                            | 69.8                          | 20.2        | 19.4        | 19.3         | 26.0                                  | 6.7        | 6.3        | 6.2        |
| <b>Equals: Command-basis gross national product</b> .....  | <b>7,427.5</b>                     | <b>70.8</b>                   | <b>57.6</b> | <b>64.5</b> | <b>118.2</b> | <b>4.0</b>                            | <b>3.2</b> | <b>3.6</b> | <b>6.6</b> |
| <b>Addendum:</b>   |                                    |                               |             |             |              |                                       |            |            |            |
| Terms of trade <sup>1</sup> .....  | 105.3                              | 1.5                           | .2          | 0           | 1.5          | 6.0                                   | .8         | 0          | 5.9        |

1. Ratio of the implicit price deflator for the sum of exports of goods and services and of receipts of factor income to the corresponding implicit price deflator for imports with the decimal

point shifted two places to the right.

NOTE.—Levels of these series are in NIPA tables 1.10 and 1.11.

the fourth quarter, command-basis GNP and real GNP both increased at the same rate—3.6 percent—reflecting no change in the terms of trade.

### Corporate Profits

Profits from current production increased \$9.6 billion in the first quarter after decreasing \$9.2 billion in the fourth (table 4).<sup>6</sup> Profits of domestic industries increased \$2.9 billion after decreasing \$5.7 billion. Profits of domestic nonfinancial corporations increased \$1.8 billion, as an increase in real product offset a decrease in unit profits; the decrease in unit profits resulted from a rise in unit labor costs while unit prices were unchanged. (In the fourth quarter, profits of domestic nonfinancial corporations decreased \$10.7 billion.) Profits of domestic financial corporations increased \$1.1 billion after increasing \$5.0 billion. Profits from the rest of the world increased \$6.7 billion after decreasing \$3.6 billion; receipts increased, and payments decreased.<sup>7</sup>

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$15.9 billion after decreasing \$4.5 billion. The ratio of cash flow to nonresidential fixed investment, an in-

**Table 4.—Corporate Profits**

[Seasonally adjusted at annual rates]

|   | Level               | Change from preceding quarter |             |             |            |
|---|---------------------|-------------------------------|-------------|-------------|------------|
|   | 1998                | 1997                          |             |             | 1998       |
|   | I                   | II                            | III         | IV          | I          |
|   | Billions of dollars |                               |             |             |            |
| <b>Profits from current production</b> .....                        | <b>827.7</b>        | <b>15.5</b>                   | <b>32.2</b> | <b>-9.2</b> | <b>9.6</b> |
| Domestic industries .....   | 724.7               | 12.2                          | 33.1        | -5.7        | 2.9        |
| Financial .....   | 115.4               | .9                            | 1.6         | 5.0         | 1.1        |
| Nonfinancial .....  | 609.3               | 11.3                          | 31.5        | -10.7       | 1.8        |
| Rest of the world .....   | 103.0               | 3.4                           | -9          | -3.6        | 6.7        |
| Receipts (inflows) .....  | 148.6               | 8.4                           | 2.2         | -5.5        | 3.6        |
| Payments (outflows) .....   | 45.6                | 5.0                           | 3.1         | -1.9        | -3.1       |
| IVA .....   | 30.1                | 2.4                           | -2.3        | 5.6         | 20.9       |
| CCAdj .....   | 73.7                | 1.7                           | .9          | 1.3         | 2.1        |
| Profits before tax .....  | 723.8               | 11.4                          | 33.6        | -16.1       | -13.5      |
| Profits tax liability .....   | 246.0               | 3.3                           | 13.7        | -4.6        | -7.6       |
| Profits after tax .....   | 477.9               | 8.1                           | 19.9        | -11.5       | -5.8       |
| Cash flow from current production .....                             | 719.3               | 11.3                          | 17.7        | -4.5        | 15.9       |
| <b>Profits by industry:</b>   |                     |                               |             |             |            |
| Corporate profits with IVA .....                                    | 754.0               | 13.8                          | 31.4        | -10.6       | 7.5        |
| Domestic industries .....   | 651.0               | 10.4                          | 32.3        | -7.0        | .8         |
| Financial .....   | 125.8               | 1.0                           | 1.9         | 5.1         | 1.3        |
| Nonfinancial .....  | 525.2               | 9.4                           | 30.4        | -12.1       | -5         |
| Manufacturing .....   | 221.5               | 12.8                          | 19.4        | -11.4       | -7.5       |
| Transportation and public utilities .....                           | 94.1                | -1.9                          | .4          | 1.5         | 2.6        |
| Wholesale trade .....   | 53.0                | .5                            | 4.6         | -2.4        | 1.3        |
| Retail trade .....  | 60.2                | -2                            | 3.0         | -2.7        | 5.0        |
| Other .....   | 96.5                | -1.8                          | 2.9         | 2.9         | -1.7       |
| Rest of the world .....   | 103.0               | 3.4                           | -9          | -3.6        | 6.7        |
|   | Dollars             |                               |             |             |            |
| <b>Unit price, costs, and profits of nonfinancial corporations:</b> |                     |                               |             |             |            |
| Unit price .....  | 1.073               | 0.003                         | 0           | 0.001       | 0          |
| Unit labor cost .....   | .704                | .001                          | -.003       | .007        | .002       |
| Unit nonlabor cost .....  | .227                | 0                             | -.001       | -.001       | 0          |
| Unit profits from current production .....                          | .143                | .001                          | .005        | -.004       | -.002      |

NOTE.—Levels of these and other profits series are in NIPA tables 1.14, 1.16, 6.18C, and 7.15.  
IVA Inventory valuation adjustment  
CCAdj Capital consumption adjustment

6. 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 in NIPA tables 1.9, 1.14, 1.16, and 6.16C (see "Selected NIPA Tables," which begins on page D-2 of this issue) as corporate profits with inventory valuation and capital consumption adjustments.

7. Profits from the rest of the world is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates are derived from BEA's international transactions accounts.

indicator of the share of the current level of investment that could be financed by internally generated funds, decreased for the fourth consecutive quarter, to 80.1 percent from 81.0 percent; the ratio averaged 84.7 percent in 1990–97.

*Industry profits and related measures.*—Industry profits increased \$7.5 billion after decreasing \$10.6 billion.<sup>8</sup> Profits of domestic financial corporations increased \$1.3 billion after increasing \$5.1 billion; banking more than accounted for the slowdown. Profits of domestic nonfinancial corporations decreased much less than in the fourth quarter. Trade turned up, manufacturing decreased less than in the fourth quarter, and the transportation and public utility group increased more than in the fourth quarter; the strength in these industries was partly offset by “other” nonfinancial corporations, which turned down. In

8. Industry profits, which are estimated as the sum of corporate profits before tax and the inventory valuation adjustment, are shown in NIPA table 6.16c (on page D-16 of this issue). Estimates of the capital consumption adjustment are available only for total financial and total nonfinancial industries.

trade, most of the upturn occurred at the retail level; auto dealers, food stores, and general merchandise stores contributed to the upturn. In manufacturing, the largest swings were a downturn in food and an upturn in motor vehicles. In the transportation and public utility group, transportation turned up and communications increased after no change, but public utilities changed little after an increase.

Profits before tax (PBT) decreased \$13.5 billion after decreasing \$16.1 billion. The difference between the \$13.5 billion decrease in PBT and the \$9.6 billion increase in profits from current production mainly reflected a \$20.9 billion decrease in inventory profits, about two-thirds of which was accounted for by manufacturing.<sup>9</sup> 

9. As prices change, companies that value inventory withdrawals at original acquisition (historical) costs may realize inventory profits or losses. Inventory profits—a capital-gains-like element in profits—result from an increase in inventory prices, and inventory losses—a capital-loss-like element in profits—result from a decrease in inventory prices. In the NIPA’s, inventory profits or losses are shown as adjustments to business income (corporate profits and nonfarm proprietors’ income), as reported on tax returns of businesses; they are shown as the inventory valuation adjustment with the sign reversed.

### Annual Revision of the NIPA's

On July 31, 1998, BEA will release summary results from the annual revision of the national income and product accounts (NIPA's). As usual, this year's revision, which primarily affects the estimates beginning with the first quarter of 1995, consists of the incorporation of better source data and of improvements in methodology. The regular source data that will be incorporated include the following: Census Bureau annual surveys of manufactures, merchant wholesale and retail trade, services, and State and local governments; BEA balance of payments accounts; Federal Government budget data; Internal Revenue Service tabulations of tax returns for corporations and for sole proprietorships and partnerships; Bureau of Labor Statistics (BLS) tabulations of wages and salaries of employees covered by State unemployment insurance; and Department of Agriculture farm statistics.

In addition, data from new sources will be incorporated for several difficult-to-measure consumer services, including computer online services, cellular telephone services, motor vehicle leasing, brokerage and investment counseling, and casino gambling. A new method will be introduced for the current quarterly estimates of the expenditures for light trucks (including minivans and sports utility vehicles). Several new price deflators will also be introduced: Many personal consumption expenditures categories will be deflated using newly available geometric-mean-type BLS consumer price indexes that allow for consumer substitution within categories, and several services categories will be deflated using newly available BLS producer price indexes.

This year's annual revision will also incorporate a number of changes designed to better separate "income from current production" from "income attributable to capital gains on existing assets." In the most important of these changes, dividend payments will be redefined to exclude payments that reflect identifiable capital gains distributions; at present, dividend payments includes capital gains distributions of regulated investment companies—that is, mutual funds. The redefinition will result in a reduction in dividends and an

offsetting increase in undistributed corporate profits; gross domestic product and national income will not be affected. The reduction in dividends will also result in reductions in personal income and in personal saving; however, national saving and private saving will not be affected, because the reduction in personal saving will be offset by the increase in business saving (undistributed corporate profits). All series affected by the redefinition will be revised back to 1982.

#### Publication schedule

The results of the annual revision will be published as follows in the SURVEY OF CURRENT BUSINESS:

- The August issue will include an article that presents the revised estimates and discusses the major sources of the revisions. In addition, the August issue will include the five summary accounts of the NIPA's; a complete list of the NIPA tables; and the full set of NIPA tables except for the tables showing government expenditures by type and function and the government reconciliation tables (tables 3.15-3.20) and the seasonally unadjusted tables (tables 9.1-9.6).
- The September issue will include "Updated Summary NIPA Methodologies." In addition, it will present revised estimates of fixed reproducible tangible wealth in the United States for 1995-97.
- The October issue will include NIPA tables 3.15-3.20 and 9.1-9.6. In addition, it will present revised estimates of real inventories, sales, and inventory-sales ratios for manufacturing and trade for 1995:1-1998:1.

Shortly after the release on July 31, the revised estimates for the major NIPA series will be posted on BEA's Web site at <<http://www.bea.doc.gov>>. In addition, all the revised estimates will be posted on STAT-USA's Economic Bulletin Board and on STAT-USA's Web site at <<http://www.stat-usa.gov>> (for more information or to subscribe, call STAT-USA at 202-482-1986). About 2 weeks later, the August issue of the SURVEY will be posted on the BEA and STAT-USA Web sites. Later in August, the revised estimates will also be made available on computer diskettes.