

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

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THE "FINAL" estimate of growth in real gross domestic product (GDP) for the third quarter of 1996 is 2.1 percent, 0.1 percentage point higher than the "preliminary" estimate reported in the December "Business Situation" (table 1 and chart 1); for 1981–95, the average revision from the preliminary to the fi-

nal estimate, without regard to sign, was 0.3 percentage point.¹

The general picture of the economy that is indicated by the final estimates is little changed from that shown in the preliminary estimates. GDP increased less in the third quarter than in the second, and the slowdown was more than accounted for by personal consumption expenditures (PCE), government spending, residential fixed investment, and exports. PCE increased much less in the third quarter than in the second; government spending, residential fixed investment, and exports turned down. In contrast, nonresidential fixed investment and inventory investment increased more than in the second quarter; imports increased slightly less than in the second quarter.

Revisions to the components of GDP were small. An upward revision of \$1.6 billion to the change in nonfarm business inventories was more than accounted for by an upward revision to merchant

**Table 1.—Revisions to Real Gross Domestic Product and Prices,
Third Quarter 1996**

[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
Gross domestic product	2.0	2.1	0.1	2.2
<i>Less:</i> Exports of goods and services	-.9	-.9	0	0
Goods	-.3	-.3	.6	-.9
Services	-2.4	-3.8	-1.4	-.8
<i>Plus:</i> Imports of goods and services	9.9	9.3	-.6	-1.3
Goods	10.8	10.6	-.2	-.3
Services	5.4	2.6	-2.8	-1.0
Equals: Gross domestic purchases	3.3	3.3	0	1.0
Personal consumption expenditures .....	.6	.5	-.1	-.8
Durable goods	-2.0	-2.6	-.6	-.9
Nondurable goods .....	.3	.4	.1	.2
Services	1.3	1.3	0	-.1
Fixed investment	10.0	10.6	.6	1.5
Nonresidential	16.9	17.5	.6	1.0
Structures	7.7	8.4	.7	.3
Producers' durable equipment	20.3	20.9	.6	.7
Residential	-5.9	-5.2	.7	.5
Change in business inventories .....	.....	.....	.....	1.7
Nonfarm .....	.....	.....	.....	1.6
Farm .....	.....	.....	.....	.1
Government consumption expenditures and gross investment .....	.....	.....	.....	-1.3
Federal	-3.4	-3.5	-.1	0
National defense	-5.2	-5.5	-.3	-.2
Nondefense .....	.3	.6	.3	-.1
State and local	1.7	1.1	-.6	-1.3
Addenda:				
Final sales of domestic product .....	.4	.5	.1	.6
Gross domestic purchases price index (chain-type weights) ¹	1.8	1.9	.1	.....
GDP price index (chain-type weights) ¹	1.9	2.0	.1	.....

1. Based on chained (1992) weights.

NOTE.—Final estimates for the third quarter of 1996 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 September.

Nonresidential fixed investment: Revised construction put in place for August and September and revised manufacturers' shipments of machinery and equipment for September.

Residential fixed investment: Revised construction put in place for August and September.

Change in business inventories: Revised manufacturing and trade inventories for September.

Exports and imports of goods and services: Revised exports and imports of goods for September and revised balance of payments data on exports and imports of services for the third quarter.

Government consumption expenditures and gross investment: Revised State and local construction put in place for August and September and new detailed financial reports for the Department of Defense for the third quarter.

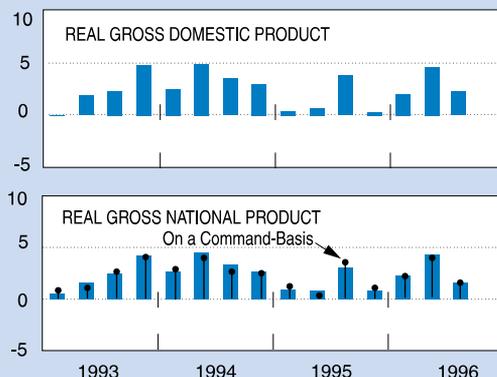
Wages and salaries: Revised employment, average hourly earnings, and average weekly hours for September.

GDP prices: Revised values and quantities of petroleum imports for September and revised housing prices for August and September.

CHART 1

Selected Product Measures: Change From Preceding Quarter

Percent



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

U.S. Department of Commerce, Bureau of Economic Analysis

wholesale inventories that reflected revised Census Bureau data for September on inventory book values. An upward revision of \$1.4 billion to net exports was accounted for by a downward revision to imports that reflected revised BEA balance-of-payments-accounts data for services for the third quarter and revised Census Bureau data for goods for September. A downward revision of \$1.3 billion to State and local government spending was accounted for by a downward revision to structures that reflected revised Census Bureau data on the value of new construction put in place for September.

Real final sales of domestic product edged up 0.5 percent in the third quarter, 0.1 percentage point more than the preliminary estimate. Real gross domestic purchases increased 3.3 percent, the same as the preliminary estimate.

The price indexes for gross domestic purchases and for GDP increased 1.9 percent and 2.0 percent, respectively; each was 0.1 percentage point more than the preliminary estimate.

Real disposable personal income increased 4.8 percent, the same as the preliminary estimate. The personal saving rate was 5.3 percent, also the same as the preliminary estimate.

Gross national product (GNP).—Real GNP increased 1.6 percent in the third quarter, 0.5 percentage point less than the increase in real GDP (chart 1 and

table 2).² Payments of factor income to the rest of the world increased much more than receipts of factor income; interest income accounted for most of the increase both in payments and in receipts.

Real GNP on a command basis increased slightly more than real GNP in the third quarter—1.7 percent, compared with 1.6 percent—reflecting a small improvement in the terms of trade.³ In the second quarter, command-basis GNP increased slightly less than real GNP—4.1 percent, compared with 4.3 percent—reflecting a small deterioration in the terms of trade.

Corporate Profits

Profits from current production increased \$5.4 billion in the third quarter after increasing \$10.7 billion in the second (table 3).⁴

Profits of domestic industries increased \$7.3 billion after increasing \$15.3 billion; profits of non-financial corporations increased less than in the second quarter, and profits of financial corporations decreased after an increase. Profits from the rest of the world decreased \$1.8 billion after decreasing \$4.8 billion; receipts increased about as much as in the second quarter, but payments increased considerably less than in the second quarter.⁵

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$12.4 billion after increasing \$9.9 billion. The ratio of cash flow to nonresidential fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, decreased to 81.7 percent from 83.7 percent. These levels are near the low end of the range in which the ratio has fluctuated during most of the 1990's, but they are substantially higher than the levels typically posted in the 1980's.

Table 2.—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		1996	
		1996	1996		II
		III	II	III	II
Gross domestic product	6,928.4	78.3	35.8	4.7	2.1
<i>Plus:</i> Receipts of factor income from the rest of the world	207.0	2.2	1.6	4.5	3.1
<i>Less:</i> Payments of factor income to the rest of the world	221.4	8.8	10.3	18.7	20.8
Equals: Gross national product	6,913.7	71.6	27.2	4.3	1.6
<i>Less:</i> Exports of goods and services and receipts of factor income from the rest of the world	1,024.0	13.3	-1	5.4	-1
<i>Plus:</i> Command-basis exports of goods and services and receipts of factor income	1,043.1	11.5	1.0	4.5	.4
Equals: Command-basis gross national product	6,932.8	69.8	28.4	4.1	1.7
Addendum:					
Terms of trade ¹	101.9	-2	.1	-8	.4

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

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

2. GNP—goods and services produced by labor and property supplied by U.S. residents—equals GDP plus receipts of factor income from the rest of the world less payments of factor income to the rest of the world.

3. In the estimation of command-basis GNP—a measure of the goods and services produced by the U.S. economy in terms of their purchasing power—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 for the sum of imports of goods and services and of payments of factor income.

The terms of trade is measured by the following ratio, with the decimal point shifted two places to the right: In the numerator, the implicit price deflator for the sum of exports of goods and services and of receipts of factor income; in the denominator, the implicit price deflator for the sum of imports of goods and services and payments of factor income.

4. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; profits from current production is shown in NIPA tables 1.14, 1.16, and 6.16c as “corporate profits with inventory valuation and capital consumption adjustments.”

5. Profits from the rest of the world are receipts of profits from foreign affiliates of U.S. companies less payments of profits by U.S. affiliates of foreign companies.

Industry profits.—Industry profits increased \$4.1 billion in the third quarter after increasing \$8.7 billion in the second.⁶ The slowdown reflected the deceleration in profits of nonfinancial corporations and the downturn in profits of financial corporations. Among nonfinancial corporations, profits in the transportation and public utilities group turned down, and profits in retail trade changed little after an increase; in contrast, manufacturing profits increased more than in the second quarter, and wholesale trade profits turned up. Profits from the rest of the world decreased less in the third quarter than in the second.

Related measures.—Profits before tax (PBT) decreased \$9.0 billion in the third quarter after increasing \$2.4 billion in the second. Inventory profits decreased \$13.0 billion after decreasing \$6.4 billion; the larger third-quarter decrease reflected a downturn in the prices of inventoried goods. (Inventory profits are represented in the national income and product accounts by the inventory valuation adjustment, with the sign reversed.)

Revisions.—The revised estimate of third-quarter corporate profits from current production is \$6.5 billion higher than the estimate published a month ago. Most of the revision was accounted for by an upward revision to profits of domestic nonfinancial corporations, which was primarily based on final data from the Census Bureau's *Quarterly Financial Report*. 

6. Industry profits are estimated as the sum of profits before tax and the inventory valuation adjustment; they are shown in NIPA table 6.16C as "corporate profits with inventory valuation adjustment." Estimates of the capital consumption adjustment do not exist at a detailed industry level; they are available only for total financial and total nonfinancial industries.

Table 3.—Corporate Profits

[Seasonally adjusted at annual rates]

	Level	Change from preceding quarter	
	1996		
	III	II	III
Billions of dollars			
Profits from current production	661.2	10.7	5.4
Domestic industries	584.6	15.3	7.3
Financial	141.8	1.8	-1.7
Nonfinancial	442.8	13.5	9.0
Rest of the world	76.6	-4.8	-1.8
Receipts (inflows)	122.9	.4	.3
Payments (outflows)	46.3	5.2	2.1
IVA	2.0	6.4	13.0
CCAdj	23.6	1.9	1.3
Profits before tax	635.6	2.4	-9.0
Profits tax liability	233.4	3.0	-3.0
Profits after tax	402.2	-7	-5.9
Cash flow from current production	659.7	9.9	12.4
Profits by industry:			
Corporate profits with IVA	637.6	8.7	4.1
Domestic industries	561.0	13.5	5.9
Financial	135.0	1.7	-1.6
Nonfinancial	426.1	11.8	7.6
Manufacturing	170.6	3.4	5.9
Transportation and public utilities	102.5	8.9	-2.0
Wholesale trade	34.5	-4.7	1.7
Retail trade	44.5	2.6	.2
Other	73.9	1.6	1.7
Rest of the world	76.6	-4.8	-1.8
Dollars			
Unit price, costs, and profits of nonfinancial corporations:			
Unit price	1.065	0.003	0
Unit labor cost .....	.706	.004	0
Unit nonlabor cost .....	.247	-.001	0
Unit profits from current production .....	.114	.002	.001

NOTE.—Levels of these and other profits series are found in NIPA tables 1.14, 1.16, 6.16C, and 7.15.
 IVA Inventory valuation adjustment
 CCAdj Capital consumption adjustment