

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

Larry R. Moran prepared the first section of this article, Daniel Larkins prepared the section on corporate profits, and Ann M. Groszkiewicz prepared the section on the government sector.

THE "FINAL" estimate of growth in real gross domestic product (GDP) for the fourth quarter of 1996 is 3.8 percent, 0.1 percentage point lower than the "preliminary" estimate reported in the March "Business Situation" (table 1 and chart 1); for 1981–96, the average revision from the preliminary to the final estimate, without regard to sign, was 0.3 percentage point.¹

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarter-to-quarter dollar

**Table 1.—Revisions to Real Gross Domestic Product and Prices,
Fourth 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	3.9	3.8	-0.1	-0.8
<i>Less:</i> Exports of goods and services	24.8	25.0	.2	.4
Goods	31.1	30.7	-.4	-.5
Services	9.1	10.8	1.7	.8
<i>Plus:</i> Imports of goods and services	3.8	3.3	-.5	-1.2
Goods	3.4	3.5	.1	.1
Services	5.8	2.3	-3.5	-1.2
Equals: Gross domestic purchases	1.7	1.6	-.1	-2.3
Personal consumption expenditures	3.4	3.4	0	-.8
Durable goods	4.1	5.0	.9	1.3
Nondurable goods	1.4	1.8	.4	1.2
Services	4.3	3.8	-.5	-3.1
Fixed investment	3.8	3.5	-.3	-.9
Nonresidential	5.5	5.5	0	.2
Structures	25.2	25.8	.6	.3
Producers' durable equipment	-.8	-.9	-.1	-.1
Residential	-.4	-1.8	-1.4	-1.0
Change in business inventories .....				.9
Nonfarm .....				.9
Farm .....				.1
Government consumption expenditures and gross investment	-.4	-.9	-.5	-1.4
Federal	-4.9	-5.3	-.4	-.5
National defense	-7.1	-6.9	.2	.2
Nondefense	-.6	-2.1	-1.5	-1.6
State and local	2.4	1.9	-.5	-1.0
Addenda:				
Final sales of domestic product	5.0	4.9	-.1	.....
Gross domestic purchases price index (chain-type weights) ¹	2.5	2.6	.1	.....
GDP price index (chain-type weights) ¹	1.8	1.9	.1	.....

1. Based on chained (1992) weights.

NOTE.—The final estimates for the fourth 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 December.

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

Residential fixed investment: Revised construction put in place for November and December.

Change in business inventories: Revised manufacturing and trade inventories for November and December.

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

Government consumption expenditures and gross investment: Revised State and local construction put in place for November and December.

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

GDP prices: Revised values and quantities of petroleum imports for December and revised prices of single-family homes under construction for the fourth quarter.

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 more in the fourth quarter than in the third, and the larger increase was more than accounted for by exports and consumer spending. Exports increased sharply in the fourth quarter after decreasing slightly in the third, and consumer spending increased much more in the fourth quarter than in the third. In addition, imports increased less in the fourth quarter than in the third, and residential investment decreased less in the fourth quarter than in the third. In contrast, inventory investment decreased in the fourth quarter after increasing in the third, nonresidential fixed investment increased less in the fourth quarter than in the third, and government spending decreased slightly more in the fourth quarter than in the third.

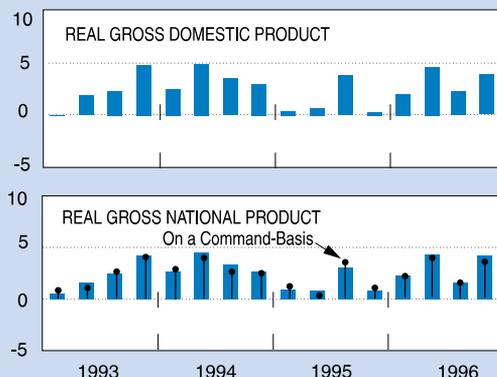
Revisions to the components of GDP were small. The largest revision was a \$3.1 billion downward revision to consumer spending for services,

changes are differences between these 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.

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

which primarily reflected newly available trade association data for November.

Real final sales of domestic product increased 4.9 percent in the fourth quarter, 0.1 percentage point less than the preliminary estimate. Real gross domestic purchases increased 1.6 percent, also 0.1 percentage point less than the preliminary estimate.

The price indexes for gross domestic purchases and for GDP increased 2.6 percent and 1.9 percent, respectively; each was 0.1 percentage point more than the preliminary estimate.

Real disposable personal income increased 2.6 percent, 0.1 percentage point more than the preliminary estimate. The personal saving rate was 5.1 percent, the same as the preliminary estimate.

Gross national product (GNP).—Real GNP increased 4.2 percent in the fourth quarter, 0.4 percentage point more than the increase in real GDP (chart 1 and table 2).² Receipts of factor income from the rest of the world increased more than payments of factor income; corporate profits accounted for most of the increase in receipts, and interest income accounted for most of the increase in payments.

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.

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:IV	III	IV	III	IV
Gross domestic product	6,993.6	35.8	65.2	2.1	3.8
<i>Plus:</i> Receipts of factor income from the rest of the world	221.0	1.6	14.0	3.1	30.0
<i>Less:</i> Payments of factor income to the rest of the world	229.0	10.3	7.6	20.8	14.5
Equals: Gross national product	6,985.2	27.2	71.5	1.6	4.2
<i>Less:</i> Exports of goods and services and receipts of factor income from the rest of the world	1,085.0	–1	61.0	–1	26.0
<i>Plus:</i> Command-basis exports of goods and services and receipts of factor income	1,096.2	1.0	53.1	.4	22.0
Equals: Command-basis gross national product	6,996.5	28.4	63.7	1.7	3.7
Addendum:					
Terms of trade ¹	101.0	.1	–9	.4	–3.5

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 found in NIPA tables 1.10 and 1.11.

Real GNP on a command basis increased less than real GNP in the fourth quarter—3.7 percent, compared with 4.2 percent—reflecting a deterioration in the terms of trade.³ In the third quarter, command-basis GNP increased slightly more than real GNP—1.7 percent, compared with 1.6 percent—reflecting a small improvement in the terms of trade.

Corporate Profits

Profits from current production decreased \$7.1 billion in the fourth quarter after increasing \$5.4 billion in the third (table 3).⁴

Profits from domestic industries decreased \$20.4 billion after increasing \$7.3 billion. Profits of financial corporations decreased much more in the fourth quarter than in the third; the sharper fourth-quarter decrease was more than accounted for by a special assessment on thrift institutions to recapitalize the Savings Association Insurance Fund. (For additional information, see the discussion on Federal receipts in the “Government Sector.”) Profits of nonfinancial corporations decreased after increasing, as a decrease in unit profits more than offset an increase in real output; the decrease in unit profits reflected a larger increase in unit labor costs than in unit prices. Profits from the rest of the world increased \$13.3 billion after decreasing \$1.8 billion; receipts picked up sharply, and payments slowed slightly.⁵

Cash flow from current production, a profits-related measure of internally generated funds available for investment, decreased \$1.1 billion after increasing \$12.4 billion. The ratio of cash flow to nonresidential fixed investment, an indicator of

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 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 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 of payments of factor income. Changes in the terms of trade reflect the interaction of a number of factors—including movements in exchange rates, changes in the composition of the traded goods and services, adjustment lags, and changes in producers' profit margins. For example, if the U.S. dollar were to appreciate 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 rather than by raising prices and risking a loss in market share.

4. 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 national income and product account 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.

the share of the current level of investment that could be financed by internally generated funds, decreased to 80.9 percent from 81.7 percent. These levels are near the low end of the range in which the ratio has fluctuated during most of this decade.

Industry profits.—Industry profits decreased \$9.7 billion after increasing \$4.1 billion.⁶ For domestic financial corporations, a much sharper decrease in the fourth quarter than in the third was more than accounted for by the special assessment on thrift institutions. Profits of domestic nonfinancial corporations declined in the fourth quarter after increasing in the third. The downturn was accounted for by retail trade, by transportation and public utilities, and by manufacturing; in contrast, profits in wholesale trade picked up, and profits in “other” nonfinancial industries increased about as much in the fourth quarter as in the third.

6. Industry profits, which are estimated as the sum of corporate profits before tax and the inventory valuation adjustment, are shown in national income and product accounts table 6.16c. 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 year
	1996:IV	1996:III		1996:IV
Billions of dollars			
Profits from current production	654.1	5.4	-7.1
Domestic industries	564.2	7.3	-20.4
Financial	128.1	-1.7	-13.7
Nonfinancial	436.1	9.0	-6.7
Rest of the world	89.9	-1.8	13.3
IVA	-9.2	13.0	-11.2
CCAadj	26.2	1.3	2.6
Profits before tax	637.1	-9.0	1.5
Profits tax liability	228.9	-3.0	-4.5
Profits after tax	408.2	-5.9	6.0
Cash flow from current production	658.6	12.4	-1.1
Profits by industry:			
Corporate profits with IVA	627.9	4.1	-9.7
Domestic industries	538.0	5.9	-23.0
Financial	121.3	-1.6	-13.7
Nonfinancial	416.7	7.6	-9.4
Manufacturing	169.4	5.9	-1.2
Transportation and public utilities	93.2	-2.0	-9.3
Wholesale trade	41.5	1.7	7.0
Retail trade	36.7	.2	-7.8
Other	75.9	1.7	2.0
Rest of the world	89.9	-1.8	13.3
Receipts (inflows)	137.0	.3	14.1
Payments (outflows)	47.1	2.1	.8
Dollars			
Unit price, costs, and profits of nonfinancial corporations:			
Unit price	1.066	0	.001
Unit labor cost .....	.708	0	.002
Unit nonlabor cost .....	.246	0	-.001
Unit profits from current production .....	.111	.001	-.003

IVA Inventory valuation adjustment
CCAadj Capital consumption adjustment

NOTE.—Levels of these and other profits series are found in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

Related measures.—Profits before tax (PBT) increased \$1.5 billion in the fourth quarter after decreasing \$9.0 billion in the third. The difference between the \$10.5 billion upturn in PBT and the \$12.5 billion downturn in profits from current production was more than accounted for by inventory profits, which increased in the fourth quarter after decreasing in the third. (Inventory profits are represented in the national income and product accounts by the inventory valuation adjustment, with the sign reversed.)

Government Sector

The combined current deficit of the Federal Government and State and local governments decreased \$16.6 billion, to \$15.0 billion, in the fourth quarter (table 4). The decrease was primarily accounted for by a decrease in the Federal deficit; the State and local government surplus increased slightly.

Federal

The Federal Government current deficit decreased \$14.9 billion, to \$105.9 billion, in the fourth quarter after decreasing \$5.9 billion in the third. The fourth-quarter deficit is the smallest since the third quarter of 1989.

Receipts.—Receipts increased \$37.4 billion in the fourth quarter after increasing \$6.3 billion in the third. Both the fourth-quarter increase and the acceleration were accounted for by indirect business tax and nontax accruals and by personal tax and nontax receipts.

Indirect business tax and nontax accruals increased \$23.0 billion after increasing \$2.5 billion. Indirect business nontaxes increased \$18.2 billion after increasing \$0.1 billion. The step-up was accounted for by a special assessment of \$18.0 billion (annual rate) that was paid to the Saving Association Insurance Fund by thrift institutions; this assessment recapitalized the fund, bringing the deposit fund to the target reserve ratio of \$1.25 per \$100 in deposits.⁷ Air transport excise taxes increased \$4.5 billion after increasing \$0.9 billion; these excise taxes, which had expired at the end of December 1995 as a result of the Federal budget impasse, were reinstated in late August.

Personal tax and nontax receipts increased \$10.9 billion after decreasing \$1.2 billion. Estimated income tax payments and final settlements, less refunds, increased \$1.5 billion after decreasing

7. The Federal Deposit Insurance Corporation authorized the assessment on October 8, 1996.

\$11.5 billion; the third-quarter decrease followed a second-quarter boost in tax receipts that reflected the third and final installment payment allowed by the provisions of the Omnibus Budget Reconciliation Act of 1993 that retroactively increased tax rates for high-income taxpayers. Withheld income taxes increased \$10.4 billion after increasing \$9.8 billion, reflecting an acceleration in wages and salaries.

Corporate profits tax accruals decreased \$3.7 billion after decreasing \$2.5 billion, reflecting the pattern of domestic corporate profits.

Table 4.—Government Sector Receipts and Current Expenditures

[Billions of dollars, seasonally adjusted at annual rates]

	Level 1996:IV	Change from preceding quarter				
		1996				
		IV	I	II	III	IV
Government sector						
Receipts	2,462.3	14.3	40.0	63.5	12.9	47.4
Current expenditures	2,477.3	16.2	37.7	24.9	18.9	30.8
Current surplus or deficit (-)	-15.0	-1.8	2.1	38.6	-5.9	16.6
Social insurance funds	115.2	.9	-8.4	1.8	2.8	.7
Other	-130.2	-2.7	10.6	36.7	-8.7	15.9
Federal Government						
Receipts	1,619.3	8.1	28.4	52.5	6.3	37.4
Personal tax and nontax receipts	691.1	6.0	16.3	41.8	-1.2	10.9
Corporate profits tax accruals	192.8	-4.8	12.1	2.6	-2.5	-3.7
Indirect business tax and nontax accruals	108.7	2.9	-6.9	-1.2	2.5	23.0
Contributions for social insurance	626.7	4.1	6.7	9.4	7.4	7.3
Current expenditures	1,725.2	4.3	29.0	24.0	.3	22.6
Consumption expenditures	457.7	-2.2	2.2	9.9	-2.2	-3.6
National defense	304.7	-1.3	-1.4	8.7	-2.7	0
Nondefense	153.0	-9	3.6	1.2	.5	-3.6
Transfer payments (net)	779.8	6.7	25.3	1.7	5.0	16.9
To persons	756.6	6.3	17.9	8.8	5.2	5.4
To the rest of the world	23.3	.3	7.4	-7.2	-1	11.6
Grants-in-aid to State and local governments	216.8	-5	4.3	11.7	-4.8	2.3
Net interest paid	238.8	1.6	-3.4	.3	2.9	5.1
Subsidies less current surplus of government enterprises	32.0	-1.2	.5	.4	-5	1.7
Subsidies	32.4	-1.3	0	.1	.3	.7
Of which: Agricultural subsidies	5.6	-7	.3	.2	.1	-1
Less: Current surplus of government enterprises .....	.4	-2	-5	-3	.8	-1.0
Less: Wage accruals less disbursements	0	0	0	0	0	0
Current surplus or deficit (-)	-105.9	4.0	-7	28.5	5.9	14.9
Social insurance funds	61.2	1.4	-7.7	2.2	3.9	2.1
Other	-167.1	2.6	6.9	26.4	2.0	12.8
State and local governments						
Receipts	1,059.8	5.7	15.9	22.7	1.9	12.2
Personal tax and nontax receipts	196.2	2.6	1.5	3.9	3.1	3.9
Corporate profits tax accruals	36.1	-1.0	2.5	.5	-5	-8
Indirect business tax and nontax accruals	535.2	3.9	6.9	5.8	3.4	6.3
Contributions for social insurance	75.5	.6	.6	.8	.7	.6
Federal grants-in-aid	216.8	-5	4.3	11.7	-4.8	2.3
Current expenditures	968.9	11.5	13.0	12.7	13.7	10.5
Consumption expenditures	725.3	5.7	9.4	8.9	9.1	6.0
Transfer payments to persons	315.3	5.1	3.5	3.7	4.3	4.4
Net interest paid	-44.1	.6	.7	.6	.5	.5
Less: Dividends received by government	13.9	.3	.3	.4	0	.2
Subsidies less current surplus of government enterprises	-13.7	.2	-1	-2	-1	-3
Subsidies .....	.4	0	0	0	0	0
Less: Current surplus of government enterprises	14.1	-2	.1	.1	.2	.3
Less: Wage accruals less disbursements	0	0	0	0	0	0
Current surplus or deficit (-)	90.9	-5.8	2.9	10.0	-11.8	1.7
Social insurance funds	54.0	-5	-8	-4	-1.1	-1.3
Other	36.9	-5.3	3.6	10.5	-10.8	3.1

NOTE.—Dollar levels are found in NIPA tables 3.1, 3.2, and 3.3.

Current expenditures.—Current expenditures increased \$22.6 billion in the fourth quarter after increasing \$0.3 billion in the third. The acceleration was mostly accounted for by transfer payments (net) and grants-in-aid to State and local governments.

Transfer payments (net) increased \$16.9 billion after increasing \$5.0 billion. Transfer payments to the rest of the world increased \$11.6 billion after decreasing \$0.1 billion; the upturn was more than accounted for by \$12.0 billion (annual rate) in economic support and other payments to Israel. Transfer payments to persons increased \$5.4 billion after increasing \$5.2 billion.

Grants-in-aid to State and local governments increased \$2.3 billion after decreasing \$4.8 billion. The upturn was mostly accounted for by grants for medicaid, which increased \$0.8 billion after decreasing \$4.5 billion. Grants for highways, human development services, community development services, and other programs also turned up. Subsidies less current surplus of government enterprises increased \$1.7 billion after decreasing \$0.5 billion. The turnaround was mainly accounted for by a downturn in the surplus of the Postal Service.

Net interest paid increased \$5.1 billion after increasing \$2.9 billion. The acceleration was accounted for by a downturn in interest received on foreign currency holdings.

Consumption expenditures decreased \$3.6 billion after decreasing \$2.2 billion. Nondefense consumption expenditures decreased \$3.6 billion after increasing \$0.5 billion. The downturn was accounted for by services, which decreased \$3.1 billion after increasing \$0.6 billion. Within services, sales of services increased \$3.3 billion after decreasing \$0.3 billion. (Sales by government, except those by government enterprises, of goods and services similar to those provided by the private sector are treated as deductions from current expenditures.)

State and local

The State and local government current surplus increased \$1.7 billion, to \$90.9 billion, in the fourth quarter after decreasing \$11.8 billion in the third. The turnaround was largely attributable to receipts.

Receipts increased \$12.2 billion after increasing \$1.9 billion. The acceleration was mostly accounted for by an upturn in Federal grants-in-aid, which increased \$2.3 billion after decreasing \$4.8 billion. Indirect business tax and nontax accruals increased \$6.3 billion after increasing \$3.4 billion; the acceleration was mostly accounted for by sales

taxes. Personal tax and nontax receipts increased \$3.9 billion after increasing \$3.1 billion.

Current expenditures increased \$10.5 billion after increasing \$13.7 billion. The deceleration was accounted for by consumption expenditures, which increased \$6.0 billion after increasing \$9.1 billion. Within consumption expenditures, a slowdown in compensation of employees reflected a deceleration in employment.

Government Sector in 1996

The combined current deficit of the Federal Government and State and local governments decreased \$32.6 billion in 1996 after decreasing \$23.8 billion in 1995. The combined deficit has declined every year, beginning in 1993, and the 1996 deficit was the smallest since 1982. The 1996 decrease was more than accounted for by a decrease in the Federal current deficit; the current surplus of the State and local governments registered a small decrease.

The Federal current deficit decreased \$34.6 billion, to \$127.1 billion, the smallest Federal deficit since 1989; the decrease was attributable to a larger

increase in receipts than in current expenditures.⁸ Federal receipts increased \$96.6 billion; the increase was mostly attributable to personal tax and nontax receipts, contributions for social insurance, and corporate profits tax accruals. Federal current expenditures increased \$62.0 billion; the increase was mostly accounted for by transfer payments to persons and by grants-in-aid to State and local governments.

The State and local government current surplus decreased \$2.0 billion, to \$93.0 billion; the decrease was attributable to a larger increase in current expenditures than in receipts. Current expenditures increased \$49.9 billion; the increase was mostly accounted for by consumption expenditures and by transfer payments to persons. Receipts increased \$47.9 billion; the increase was mostly attributable to indirect business tax and nontax accruals, personal tax and nontax receipts, and Federal grants-in-aid. 

8. The budget estimates in the national income and product accounts differ from the official U.S. Budget estimates in several respects, including the timing of transactions, the treatment of investment, and other coverage differences. For more information, see "Federal Budget Estimates, Fiscal Year 1998," SURVEY OF CURRENT BUSINESS 77 (March 1997): 8–16.

Release of Revised NIPA and Wealth Estimates

In May, the release of the following estimates will mark the completion of the most recent comprehensive revision of the national income and product accounts (NIPA's).

Revised NIPA estimates for 1929–58: The May SURVEY will present summary tables of revised NIPA estimates beginning in 1929 that will reflect the following major changes that were incorporated last year into the NIPA estimates beginning with 1959: Adoption of BEA's improved measures of real output and prices, the definitional change that recognizes government investment, and the improved methodology for calculating depreciation. More detailed estimates will be available electronically through STAT-USA's Economic Bulletin Board or Internet services and on diskette from BEA.

Revised estimates of reproducible tangible wealth for 1929–95: The May SURVEY will contain an article that presents revised estimates of reproducible tangible wealth for 1929–95 and that describes the methodology used to prepare these estimates, including the improved methodology for calculating depreciation. The complete set of wealth estimates will be available electronically through STAT-USA's Economic Bulletin Board or Internet services and

on diskette from BEA. In addition, these estimates, along with the definitions, classifications, and methodologies that underlie them, will be published later this year in *Fixed Reproducible Tangible Wealth of the United States, 1925–96*.

Newly available and revised NIPA estimates of selected series for 1959–96: The May SURVEY will present a set of tables showing newly available series that reflect the work undertaken to complete the estimates of reproducible tangible wealth—namely the estimates of real consumption of fixed capital and related net product and net investment series—and revised series that primarily reflect the incorporation into the NIPA's of the revisions to the wealth estimates. The largest revisions will be to capital consumption adjustment and consumption of fixed capital and to the series that depend upon them—including corporate profits from current production and some components of personal income; revisions to other series are expected to be small. The tables in the May SURVEY will present the estimates for 1991–96; all the newly available and revised estimates for 1959–96, including the more detailed estimates, will be available electronically through STAT-USA's Economic Bulletin Board or Internet services and on diskette from BEA.