

Business Situation

Advance Estimates for the Second Quarter of 2004

ECONOMIC growth slowed in the second quarter of 2004, according to the “advance” estimates of the national income and product accounts (NIPAs).

- Real gross domestic product (GDP) increased 3.0 percent after increasing 4.5 percent in the first quarter (table 1 and chart 1).¹
- Gross domestic purchases increased 3.0 percent after increasing 5.0 percent.
- Real disposable personal income increased 2.9 percent after increasing 3.2 percent.

1. “Real” estimates are in chained (2000) dollars, and price indexes are chain-type measures.

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 are annualized.

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The price index for gross domestic purchases increased 3.5 percent—about the same as in the first quarter. Excluding the relatively volatile prices of food and energy, the price index increased 2.4 percent, also about the same as in the first quarter.

NIPA estimates for the first quarter of 2004, along with estimates for 2001–2003, have been revised as part of the regular annual revision of the accounts.²

The deceleration in GDP growth in the second quarter mainly reflected a slowdown in consumer spending, but a slowdown in inventory investment also contributed.

- Consumer spending increased 1.0 percent and contributed 0.73 percentage point to GDP growth after

2. See Eugene P. Seskin and Shelly Smith, “Annual Revision of the National Income and Product Accounts: Annual Estimates, 2001–2003, and Quarterly Estimates, 2001:I–2004:I” in this issue.

Table 1. Real Gross Domestic Product and Components

[Seasonally adjusted at annual rates]

	Change from preceding quarter (percent)				Contribution to percent change in real GDP (percentage points)				Share of current-dollar GDP (percent)	
	2003		2004		2003		2004			2004
	III	IV	I	II	III	IV	I	II		II
Gross domestic product (GDP)	7.4	4.2	4.5	3.0	7.4	4.2	4.5	3.0	100.0	
Personal consumption expenditures	5.0	3.6	4.1	1.0	3.58	2.50	2.90	0.73	69.9	
Durable goods.....	16.5	3.9	2.2	-2.5	1.38	0.33	0.19	-0.21	8.3	
Nondurable goods.....	6.9	5.1	6.7	-0.1	1.38	1.01	1.33	-0.01	20.2	
Services.....	1.9	2.8	3.3	2.3	0.83	1.15	1.39	0.95	41.4	
Gross private domestic investment	22.4	13.9	12.3	12.8	3.16	2.04	1.86	1.97	16.2	
Fixed investment.....	18.0	10.5	4.5	11.1	2.59	1.57	0.69	1.68	15.9	
Nonresidential.....	15.7	11.0	4.2	8.9	1.50	1.07	0.42	0.87	10.2	
Structures.....	-1.3	7.9	-7.6	5.2	-0.03	0.18	-0.19	0.12	2.3	
Equipment and software.....	21.7	12.0	8.0	10.0	1.53	0.89	0.61	0.75	7.9	
Residential.....	22.4	9.6	5.0	15.4	1.09	0.50	0.27	0.81	5.7	
Change in private inventories.....					0.57	0.47	1.17	0.28	0.4	
Net exports of goods and services					0.64	-0.66	-0.76	-0.08	-4.8	
Exports.....	11.3	17.5	7.3	13.2	1.02	1.55	0.70	1.25	10.2	
Goods.....	10.1	16.1	9.1	14.6	0.64	1.00	0.60	0.96	7.1	
Services.....	14.1	20.6	3.4	10.0	0.39	0.56	0.10	0.29	3.0	
Imports.....	2.8	17.1	10.6	9.3	-0.39	-2.22	-1.46	-1.33	15.0	
Goods.....	0.0	18.4	12.7	8.7	0.00	-1.96	-1.43	-1.03	12.5	
Services.....	17.9	11.1	1.2	12.7	-0.39	-0.26	-0.03	-0.30	2.5	
Government consumption expenditures and gross investment	0.1	1.6	2.5	2.3	0.03	0.31	0.48	0.43	18.7	
Federal.....	-3.3	4.8	7.1	2.7	-0.23	0.33	0.48	0.19	6.9	
National defense.....	-7.7	11.6	10.6	1.9	-0.36	0.50	0.47	0.09	4.6	
Nondefense.....	5.8	-7.5	0.2	4.3	0.13	-0.18	0.00	0.10	2.3	
State and local.....	2.2	-0.1	0.0	2.1	0.26	-0.02	0.00	0.24	11.7	

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.

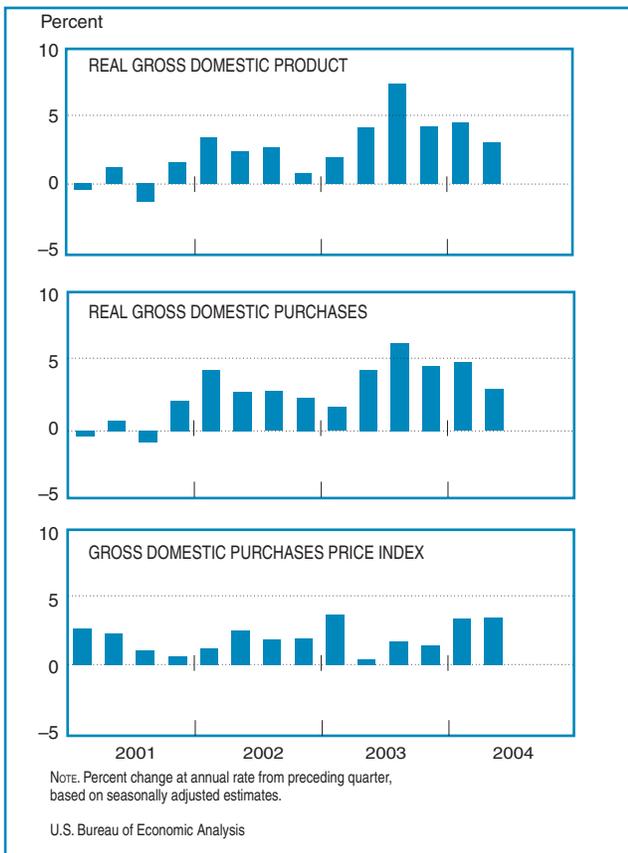
contributing 2.90 percentage points to first-quarter growth.³ Purchases of nondurable goods changed little after increasing, purchases of durable goods turned down, and purchases of services slowed.

- Inventory investment contributed 0.28 percentage point to GDP growth in the second quarter after contributing 1.17 percentage points in the first. Inventory stocks increased more in the second quarter than in the first (\$47.5 billion, compared with \$40.0 billion), but this step-up was much smaller than the step-up from the fourth quarter of 2003 to the first quarter of 2004 (from \$8.6 billion to \$40.0 billion).

The slowdowns in consumer spending and inventory investment were partly offset by step-ups in exports, in residential investment, and in nonresidential fixed investment.

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

Chart 1. Selected Measures: Change From Preceding Quarter



- Exports increased 13.2 percent and contributed 1.25 percentage points to GDP growth after contributing 0.70 percentage point. All the major categories of goods and most categories of services were stronger than in the first quarter. (Imports, which are subtracted in the calculation of GDP, subtracted 1.33 percentage points from second-quarter GDP growth after subtracting 1.46 percentage points.)
- Residential investment increased 15.4 percent and contributed 0.81 percentage point to GDP growth after contributing 0.27 percentage point; the bigger contribution in the second quarter mainly reflected a step-up in brokers' commissions on house sales.
- Nonresidential fixed investment increased 8.9 percent and contributed 0.87 percentage point to GDP growth after contributing 0.42 percentage point. Structures increased after a first-quarter decrease, and equipment and software increased somewhat more than in the first quarter.

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

- Government spending increased 2.3 percent and contributed 0.43 percentage point to GDP growth after contributing 0.48 percentage point. A slowdown in spending by the Federal Government was largely offset by a pickup in spending by state and local governments.
- Real final sales of domestic product (GDP less the change in private inventories) increased 2.8 percent after increasing 3.3 percent (table 2).
- The production of goods and of services slowed,

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)
	2003		2004		2003		2004		
	III	IV	I	II	III	IV	I	II	
Gross domestic product (GDP)	7.4	4.2	4.5	3.0	7.4	4.2	4.5	3.0	100.0
Final sales of domestic product	6.8	3.7	3.3	2.8	6.84	3.71	3.32	2.76	99.6
Change in private inventories					0.57	0.47	1.17	0.28	0.4
Goods	17.7	5.8	8.2	2.5	5.45	1.90	2.65	0.83	32.7
Services	1.1	3.1	3.0	1.9	0.67	1.77	1.76	1.10	57.3
Structures	13.9	5.4	0.7	11.8	1.29	0.52	0.07	1.11	10.0
Addenda:									
Motor vehicle output	26.3	2.9	8.8	-25.5	0.84	0.11	0.30	-1.01	3.3
GDP excluding motor vehicle output	6.8	4.2	4.3	4.2	6.57	4.08	4.18	4.06	96.7
Final sales of computers	93.7	29.0	0.1	3.8	0.64	0.26	0.00	0.04	1.0
GDP excluding final sales of computers	6.8	4.0	4.5	3.0	6.77	3.93	4.48	3.00	99.0

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.

- while the production of structures accelerated.
- Motor vehicle output turned down sharply. Excluding motor vehicles, real GDP increased 4.2 percent after increasing 4.3 percent.
- Final sales of computers increased somewhat after little change. Excluding these sales, real GDP increased 3.0 percent after increasing 4.5 percent.

- The personal saving rate increased from 1.2 percent to 1.7 percent.⁴

4. The personal saving rate is measured as personal saving as a percentage of current-dollar disposable personal income. Estimates of the *national* saving rates (measured as gross saving and net saving as a percentage of gross national income) will be available at the end of August along with the "preliminary" estimates of the NIPAs for the second quarter.

Second-Quarter 2004 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 (3);

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), and sales of new and 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>.

Table A. Summary of Major Source Data and Assumptions for Advance Estimates, 2004:II

[Billions of dollars, seasonally adjusted at annual rates]

	2004					
	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)	210.1	215.7	216.5	219.7	218.9	219.3
Equipment and software:						
Manufacturers' shipments of complete aircraft	26.8	26.6	27.7	24.6	31.3	23.7
Residential structures:						
Value of new residential construction put in place:						
Single family	348.0	348.1	353.5	360.1	364.9	361.3
Multifamily	35.6	36.8	37.6	37.5	37.7	37.4
Change in private inventories:						
Change in inventories for nondurable manufacturing	13.4	17.9	8.7	6.3	10.5	11.9
Change in inventories for merchant wholesale and retail industries other than motor vehicles and equipment	1.0	53.0	41.0	34.9	60.8	36.2
Net exports: ²						
Exports of goods:						
U.S. exports of goods, international-transactions-accounts basis	740.2	779.2	807.6	791.4	824.5	822.6
Excluding gold	735.1	775.3	803.5	787.9	820.8	819.0
Imports of goods:						
U.S. imports of goods, international-transactions-accounts basis	1,335.3	1,376.4	1,424.5	1,427.2	1,434.2	1,452.7
Excluding gold	1,331.2	1,372.0	1,420.7	1,423.4	1,431.4	1,449.1
Net exports of goods	-595.1	-597.2	-616.9	-635.9	-609.7	-630.0
Excluding gold	-596.2	-596.7	-617.3	-635.5	-610.6	-630.0
Government:						
State and local:						
Structures:						
Value of new construction put in place	205.4	204.5	218.1	219.9	219.7	219.8

1. Assumption.

2. Nonmonetary gold is included in balance-of-payments-basis exports and imports but is not used directly in the estimation of NIPA exports and imports.

Prices

The price index for gross domestic purchases increased 3.5 percent in the second quarter after increasing 3.4 percent in the first (table 3). Food prices accelerated, while energy prices increased almost as much as in the first quarter; excluding the prices of food and energy, the price index increased 2.4 percent after increasing 2.5 percent (chart 2). A Federal pay raise for military and civilian personnel had added about 0.3 percentage point to the first-quarter increase in prices.⁵

Prices of goods and services purchased by consumers increased 3.3 percent, the same as in the first quarter; food prices stepped up, and energy prices increased about as sharply as in the first quarter. Excluding food and energy, prices paid by consumers increased 1.8 percent after increasing 2.1 percent.

Prices of private nonresidential fixed investment increased 1.5 percent after increasing 0.3 percent. Prices of structures increased 1.0 percentage point more than in the first quarter, and prices of equipment and software increased slightly after decreasing.

5. 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.

Prices paid by government increased 4.0 percent after increasing 5.1 percent. The slowdown was more than accounted for by prices paid by the Federal Government; in the first quarter, those prices had reflected the pay raise for civilian and military personnel. Prices paid by state and local governments increased 4.7 percent in the second quarter, 0.5 percentage point more

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

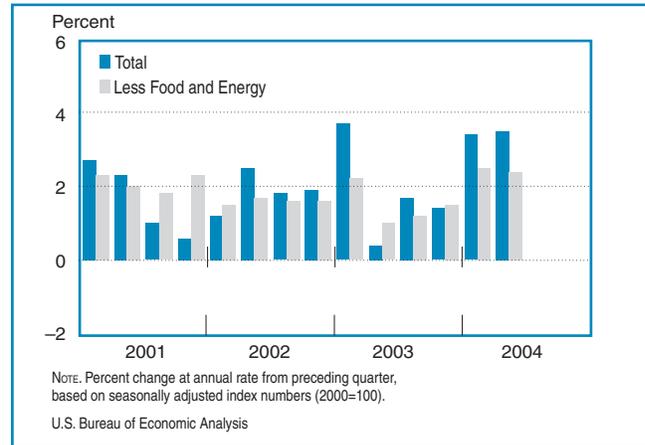


Table 3. Price Indexes

[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)			
	2003		2004		2003		2004	
	III	IV	I	II	III	IV	I	II
Gross domestic purchases	1.7	1.4	3.4	3.5	1.7	1.4	3.4	3.5
Personal consumption expenditures	1.6	1.2	3.3	3.3	1.10	0.82	2.19	2.19
Durable goods	-4.4	-4.3	0.0	-0.1	-0.37	-0.37	0.00	-0.01
Nondurable goods	3.5	0.5	5.3	6.7	0.67	0.11	1.00	1.26
Services	2.0	2.7	3.0	2.3	0.80	1.08	1.20	0.93
Gross private domestic investment	1.2	2.7	2.1	3.6	0.17	0.40	0.32	0.55
Fixed investment	1.2	2.8	2.0	3.4	0.18	0.40	0.30	0.51
Nonresidential	0.3	1.2	0.3	1.5	0.03	0.12	0.03	0.15
Structures	1.3	1.4	4.8	5.8	0.03	0.03	0.10	0.13
Equipment and software	0.0	1.2	-1.1	0.2	0.00	0.09	-0.08	0.02
Residential	3.1	5.8	5.4	7.0	0.15	0.29	0.28	0.36
Change in private inventories					-0.01	-0.01	0.02	0.04
Government consumption expenditures and gross investment	2.2	1.0	5.1	4.0	0.40	0.18	0.89	0.71
Federal	1.1	1.0	6.6	2.9	0.07	0.06	0.42	0.19
National defense	1.1	1.3	5.7	3.4	0.05	0.06	0.25	0.15
Nondefense	1.0	0.3	8.3	1.8	0.02	0.01	0.18	0.04
State and local	2.9	1.0	4.2	4.7	0.33	0.11	0.47	0.52
Addenda:								
Gross domestic purchases:								
Food	2.7	4.1	2.8	4.2	0.25	0.38	0.27	0.40
Energy goods and services	10.6	-7.1	27.0	25.2	0.39	-0.29	0.98	0.96
Excluding food and energy	1.2	1.5	2.5	2.4	1.01	1.31	2.16	2.10
Personal consumption expenditures:								
Food	2.8	3.9	2.6	3.9				
Energy goods and services	11.0	-8.5	26.7	27.0				
Excluding food and energy	0.9	1.3	2.1	1.8				
Gross domestic product	1.4	1.6	2.8	3.2				

NOTE: Most percent changes are from NIPA table 1.6.7; percent changes for personal consumption expenditures 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.

than in the first.

The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 3.2 percent, 0.3 percentage point less than the price index for gross domestic purchases. 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).

Personal Income

Real disposable personal income (DPI) increased 2.9 percent in the second quarter after increasing 3.2 percent in the first (chart 3 and table 4). The small slowdown was accounted for by a slowdown in current-dollar DPI (defined as personal income less personal current taxes); the implicit price deflator for personal

consumption expenditures (which is used to deflate DPI) increased at the same rate as in the first quarter.

Personal income, which is measured only in current dollars, increased \$149.4 billion (or 6.5 percent) after increasing \$135.4 billion (5.9 percent). The step-up was mainly due to proprietors' income, but income receipts on assets also contributed.

Proprietors' income increased \$30.7 billion after increasing \$7.4 billion. The step-up mainly reflected a step-up in the commissions earned by real estate brokers and an upturn in incomes of farm proprietors that mainly reflected an upturn in livestock output.

Income receipts on assets increased \$14.8 billion after increasing \$11.3 billion. Dividend income and interest income both contributed to the small step-up.

Chart 3. Selected Personal Income and Saving Measures

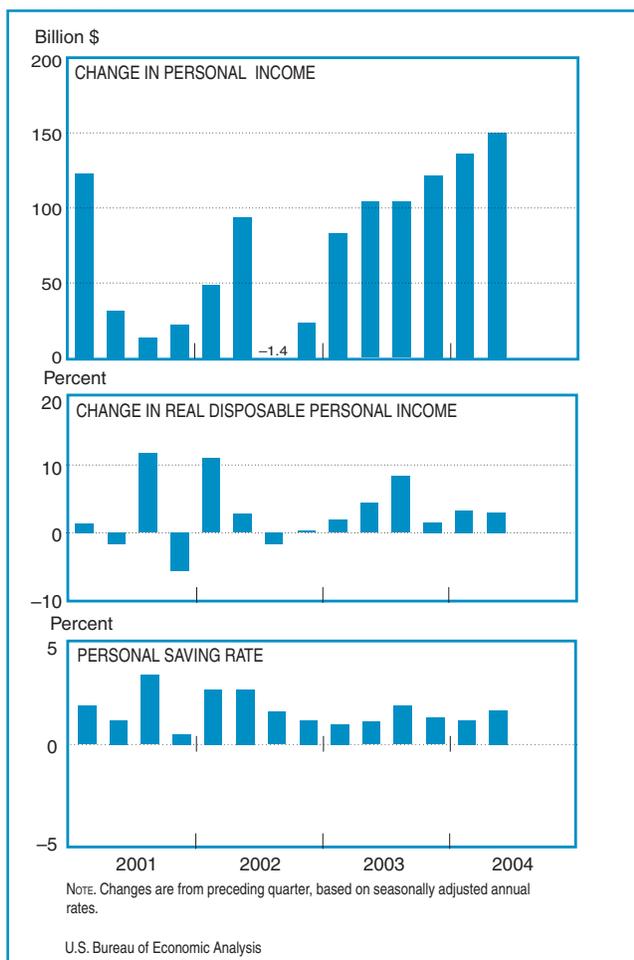


Table 4. Personal Income and Its Disposition

[Billions of dollars; seasonally adjusted at annual rates]

	Level		Change from preceding quarter			
	2004	2003	2004			
	II	III	IV	I	II	
Compensation of employees, received	6,602.0	77.7	82.0	104.6	90.7	
Wage and salary disbursements	5,330.6	55.3	60.3	72.1	69.6	
Private industries	4,407.2	51.9	56.4	59.7	63.6	
Goods-producing industries.....	1,055.6	6.1	19.8	15.9	14.1	
Manufacturing.....	697.8	2.5	14.2	9.7	8.0	
Services-producing industries.....	3,351.6	45.7	36.7	43.8	49.5	
Trade, transportation, and utilities	892.9	7.8	11.3	11.1	9.8	
Other services-producing industries	2,458.7	38.0	25.5	32.6	39.7	
Government	923.4	3.3	3.9	12.3	6.1	
Supplements to wages and salaries....	1,271.4	22.4	21.7	32.6	21.0	
Proprietors' income with IVA and CCAAdj	902.8	26.3	12.7	7.4	30.7	
Farm	18.6	0.7	-0.1	-6.8	0.7	
Nonfarm	884.2	25.6	12.8	14.2	30.0	
Rental income of persons with CCAAdj	173.8	4.7	18.3	5.7	1.0	
Personal income receipts on assets	1,351.9	-10.3	11.4	11.3	14.8	
Personal interest income	941.2	-9.6	9.2	4.2	5.0	
Personal dividend income.....	410.6	-0.7	2.2	7.1	9.7	
Personal current transfer receipts	1,400.8	13.1	4.5	28.3	21.8	
Less: Contributions for government social insurance	816.5	7.8	8.3	21.9	9.6	
Equals: Personal income	9,614.8	103.6	120.7	135.4	149.4	
Less: Personal current taxes.....	1,030.3	-89.0	67.7	1.0	19.9	
Equals: Disposable personal income.....	8,584.5	192.6	52.9	134.5	129.5	
Less: Personal outlays	8,442.5	124.9	101.6	142.2	90.9	
Equals: Personal saving	142.0	67.7	-48.7	-7.7	38.6	
Addenda: Special factors in personal income:						
In government wages and salaries:						
Federal pay raise	5.5	0.0	0.0	5.2	0.3	
Federal civilian retroactive pay	1.5	-1.6	0.0	0.3	1.2	
Reservists' pay	8.1	-0.8	-1.0	0.9	-0.9	
In supplements to wages and salaries:						
Employer contributions for social insurance	7.2	0.0	0.0	7.2	0.0	
In contributions for social insurance:...						
Changes in premium for supplementary medical insurance	3.2	0.0	0.0	3.2	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 in						
Federal transfer programs	11.9	0.0	0.5	11.4	0.0	
Earned-income tax credit.....	2.7	0.0	0.0	2.7	0.0	
In personal current taxes:						
Federal tax law changes.....	-3.2	0.0	0.0	-3.2	0.0	
Refunds, settlements, and other.....	-8.8	0.0	0.0	-8.8	0.0	

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

The step-ups in proprietors' income and in income receipts on assets were partly offset by slowdowns in current transfer receipts, in rental income, and in wage and salary disbursements.

Current transfer receipts increased \$21.8 billion after increasing \$28.3 billion. The larger first-quarter increase had included a cost-of-living adjustment to social security payments.

Rental income increased \$1.0 billion after increasing \$5.7 billion. The slowdown reflected a step-up in expenses, which are subtracted in the calculation of rental income.

Wage and salary disbursements increased \$69.6 billion after increasing \$72.1 billion. Disbursements by government slowed; first-quarter disbursements had reflected the Federal pay raise. Disbursements by private industries increased more than in the first quarter; services-producing industries more than accounted for the step-up.

A deceleration in supplements to wages and salaries mainly reflected a slowdown in employer contributions for government social insurance. The larger first-quarter increase had reflected an increase in the maximum taxable wage base.⁶

Personal current taxes increased \$19.9 billion after increasing \$1.0 billion. An upturn in Federal taxes primarily reflected an upturn in nonwithheld income taxes; the estimate reflected data from the Mid-Session Review of the 2005 Budget and data on monthly collections through June 2004. A step-up in state and local taxes reflected monthly collections data from a sample of states and tax law changes in three states.

6. "Employer contributions for government social insurance" is shown in NIPA table 2.1, line 8. These contributions do not affect personal income. They are part of "supplements to wage and salaries," but they are subtracted (along with employee and self-employed contributions) in "contributions for government social insurance," line 24.