

GDP and the Economy

Advance Estimates for the First Quarter of 2007

IN THE first quarter of 2007, U.S. economic growth slowed and inflation accelerated, according to the “advance” estimates of the national income and product accounts (NIPAs).¹

Real gross domestic product (GDP) increased 1.3 percent, following a 2.5-percent increase in the fourth quarter of 2006 (chart 1 and table 1).²

The slowdown primarily reflected a downturn in exports, an upturn in imports (which are subtracted in the calculation of GDP), a deceleration in consumer spending for nondurable goods, and a downturn in Federal Government spending.³ The deceleration was moderated by a smaller decrease in inventory investment, an upturn in equipment and software investment, a smaller decrease in residential investment, and an acceleration in consumer spending for durable goods

- Residential investment fell 17.0 percent after falling 19.8 percent (page 2). The first-quarter decline was the sixth consecutive decline.
- Prices of goods and services purchased by U.S. residents increased 3.6 percent, following a 0.2-percent increase (page 3). Energy prices turned up after dropping sharply, and food prices accelerated.
- Real disposable personal income (DPI) increased 4.5 percent, following a 5.3-percent increase (page 4). The deceleration reflected an upturn in the PCE implicit price deflator that is used to deflate current-dollar DPI, which accelerated.
- The personal saving rate, personal saving as a percentage of current-dollar DPI, was -1.0 percent in the first quarter; in the fourth quarter, it was -1.2 percent.

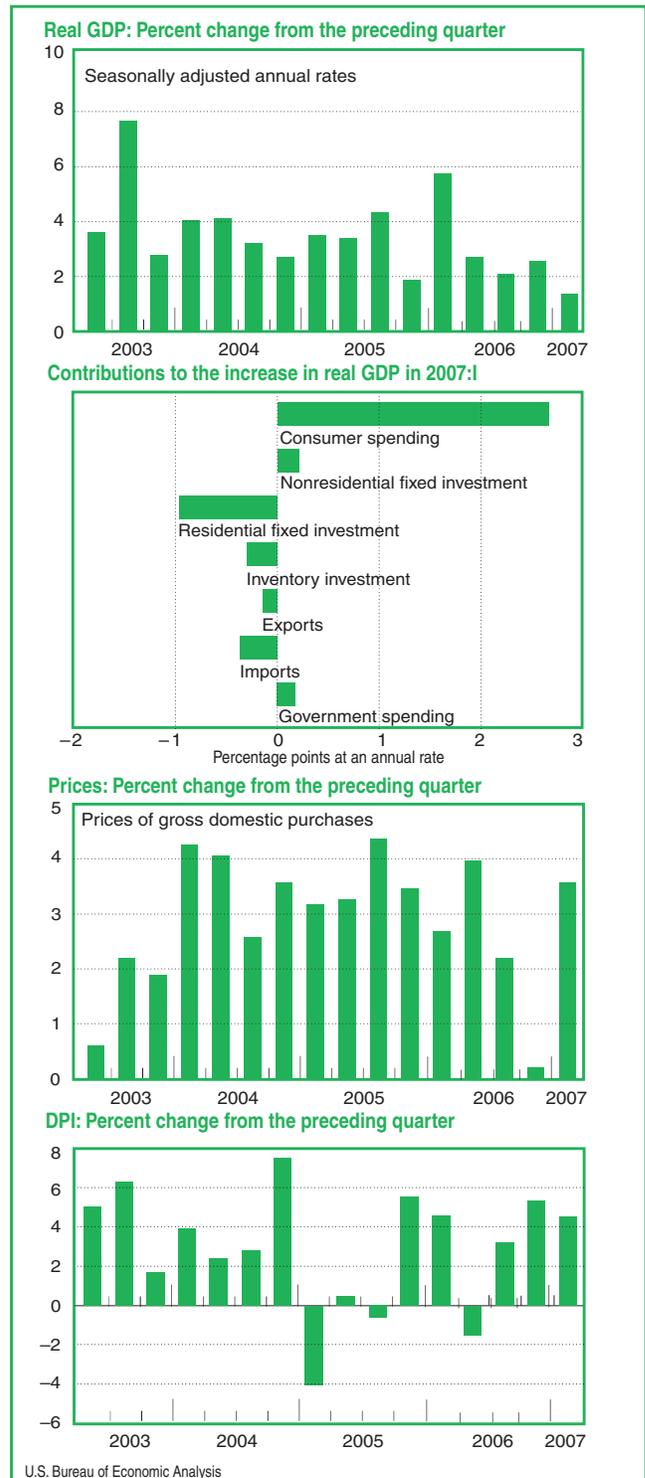
1. Each GDP estimate for a quarter (advance, preliminary, and final) incorporates increasingly comprehensive and improved source data. More detailed information can be found at <www.bea.gov/bea/about/infoqual.htm> and at <www.bea.gov/bea/faq/national/gdp_accuracy.htm>. Quarterly estimates are expressed at seasonally adjusted annual rates, a value that assumes the rate of activity for a quarter were maintained for a year.

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

3. In this article, “consumer spending” refers to the NIPA series “personal consumption expenditures,” “inventory investment” refers to “change in private inventories,” and “government spending” refers to “government consumption expenditures and gross investment.”

Christopher Swann prepared this article.

Chart 1. GDP, Prices, Disposable Personal Income (DPI)



Real GDP Overview

Table 1. Real Gross Domestic Product and Components

[Seasonally adjusted at annual rates]

	Share of current-dollar GDP (percent)	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)				
	2007	2006			2007	2006				2007
	I	II	III	IV	I	II	III	IV	I	
Gross domestic product¹.....	100.0	2.6	2.0	2.5	1.3	2.6	2.0	2.5	1.3	
Personal consumption expenditures.....	70.3	2.6	2.8	4.2	3.8	1.81	1.96	2.93	2.66	
Durable goods.....	8.0	-0.1	6.4	4.4	7.3	-0.01	0.50	0.35	0.56	
Nondurable goods.....	20.4	1.4	1.5	5.9	2.9	0.30	0.32	1.18	0.58	
Services.....	41.9	3.7	2.8	3.4	3.7	1.52	1.14	1.41	1.51	
Gross private domestic investment.....	15.7	1.0	-0.8	-15.2	-6.5	0.17	-0.13	-2.71	-1.06	
Fixed investment.....	15.6	-1.6	-1.2	-9.1	-4.7	-0.27	-0.19	-1.54	-0.76	
Nonresidential.....	10.5	4.4	10.0	-3.1	2.0	0.45	1.01	-0.34	0.21	
Structures.....	3.2	20.3	15.7	0.8	2.2	0.56	0.46	0.03	0.07	
Equipment and software.....	7.3	-1.4	7.7	-4.8	1.9	-0.10	0.55	-0.36	0.14	
Residential.....	5.0	-11.1	-18.7	-19.8	-17.0	-0.72	-1.20	-1.21	-0.97	
Change in private inventories.....	0.1	.....	.....	.....	.....	0.44	0.06	-1.16	-0.30
Net exports of goods and services.....	-5.2	.....	.....	.....	.....	0.42	-0.19	1.59	-0.52
Exports.....	11.2	6.2	6.8	10.6	-1.2	0.66	0.73	1.14	-0.14	
Goods.....	8.0	6.0	9.4	8.4	-0.8	0.45	0.71	0.65	-0.06	
Services.....	3.3	6.7	0.8	16.3	-2.3	0.21	0.03	0.50	-0.08	
Imports.....	16.5	1.4	5.6	-2.6	2.3	-0.24	-0.93	0.45	-0.37	
Goods.....	13.8	-0.1	7.1	-4.1	1.9	0.01	-1.00	0.61	-0.26	
Services.....	2.7	9.9	-2.6	6.2	4.4	-0.25	0.07	-0.16	-0.12	
Government consumption expenditures and gross investment.....	19.2	0.8	1.7	3.4	0.9	0.16	0.32	0.64	0.18	
Federal.....	6.9	-4.5	1.3	4.6	-3.0	-0.32	0.09	0.31	-0.21	
National defense.....	4.7	-2.0	-1.2	12.3	-6.6	-0.09	-0.06	0.55	-0.32	
Nondefense.....	2.3	-9.3	6.5	-9.6	4.7	-0.23	0.15	-0.23	0.10	
State and local.....	12.3	4.0	1.9	2.7	3.3	0.48	0.23	0.33	0.39	

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.

Consumer spending increased 3.8 percent after increasing 4.2 percent. The largest contributor to the slowdown was a deceleration in spending for food.

Nonresidential fixed investment picked up and added 0.21 percentage point to real GDP growth, reflecting an upturn in investment in information processing equipment and software.

Residential investment decreased for the sixth consecutive quarter.

Inventory investment subtracted 0.30 percentage point from the change in real GDP growth after subtracting 1.16 percentage points from the fourth-quarter change.

Exports decreased 1.2 percent after increasing 10.6 percent. The downturn in goods exports was primarily due to downturns in nonautomotive capital goods and in industrial supplies and materials. The downturn in services exports was primarily reflected a deceleration in "other" private services and a downturn in travel.

Imports increased 2.3 percent after a 2.6-percent decrease. Goods imports turned up, led by an upturn in petroleum and products. Imports of services slowed.

Federal Government spending decreased 3.0 percent after increasing 4.6 percent. The downturn reflected a downturn in defense spending.

State and local government spending accelerated slightly, increasing 3.3 percent, compared with an increase of 2.7 percent.

Table 2. Real Gross Domestic Product (GDP) by Type of Product

[Seasonally adjusted at annual rates]

	Share of current-dollar GDP (percent)	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)				
	2007	2006			2007	2006				2007
	I	II	III	IV	I	II	III	IV	I	
Gross domestic product¹.....	100.0	2.6	2.0	2.5	1.3	2.6	2.0	2.5	1.3	
Final sales of domestic product.....	99.9	2.1	1.9	3.7	1.6	2.11	1.90	3.62	1.56	
Change in private inventories.....	0.1	.....	.....	.....	.....	0.44	0.06	-1.16	-0.30
Goods.....	31.3	3.6	3.8	4.0	2.1	1.12	1.17	1.25	0.66	
Services.....	58.4	2.4	2.8	4.1	2.5	1.40	1.63	2.32	1.42	
Structures.....	10.3	0.3	-7.4	-9.9	-7.6	0.04	-0.84	-1.11	-0.82	
Addenda:										
Motor vehicle output.....	2.9	-9.4	27.4	-32.0	3.3	-0.31	0.76	-1.18	0.09	
GDP excluding motor vehicle output.....	97.1	3.0	1.2	3.8	1.2	2.87	1.20	3.63	1.17	
Final sales of computers.....	0.6	6.7	11.7	40.9	6.7	0.04	0.07	0.22	0.04	
GDP excluding final sales of computers.....	99.4	2.5	1.9	2.2	1.2	2.51	1.89	2.23	1.22	

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.

Real final sales of domestic product, real GDP less inventory investment, increased 1.6 percent, compared with a 3.7-percent increase.

Motor vehicle output turned up, increasing 3.3 percent after a 32.0-percent decrease.

Final sales of computers decelerated, increasing 6.7 percent after a 40.9-percent increase.

Prices

Table 3. Prices for Gross Domestic Purchases

[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)			
	2006			2007	2006			2007
	II	III	IV	I	II	III	IV	I
Gross domestic purchases¹	4.0	2.2	0.2	3.6	4.0	2.2	0.2	3.6
Personal consumption expenditures	4.0	2.4	-1.0	3.4	2.66	1.55	-0.63	2.24
Durable goods	-0.8	-1.1	-2.7	-1.8	-0.06	-0.08	-0.21	-0.14
Nondurable goods	8.3	2.3	-7.7	5.1	1.58	0.46	-1.55	0.97
Services	2.9	3.0	2.9	3.5	1.15	1.18	1.12	1.41
Gross private domestic investment	3.1	0.6	3.4	1.8	0.50	0.10	0.53	0.28
Fixed investment	3.0	0.5	3.4	1.7	0.47	0.08	0.51	0.26
Nonresidential	3.0	0.9	3.1	1.8	0.30	0.09	0.31	0.18
Structures	10.7	5.3	5.5	0.3	0.29	0.15	0.16	0.01
Equipment and software	0.1	-0.9	2.1	2.5	0.01	-0.06	0.15	0.17
Residential	2.9	-0.1	3.9	1.6	0.17	-0.01	0.20	0.08
Change in private inventories					0.03	0.02	0.02	0.02
Government consumption expenditures and gross investment	4.8	2.8	1.8	5.9	0.86	0.51	0.33	1.06
Federal	3.8	2.0	0.0	6.7	0.25	0.13	0.00	0.44
National defense	4.1	2.3	-0.3	6.4	0.18	0.10	-0.01	0.28
Nondefense	3.2	1.4	0.8	7.4	0.07	0.03	0.02	0.16
State and local	5.4	3.4	2.9	5.5	0.61	0.38	0.33	0.63
Addenda:								
Gross domestic purchases:								
Food	1.7	3.0	2.3	5.1	0.16	0.28	0.21	0.48
Energy goods and services	30.6	0.6	-33.8	15.0	1.37	0.03	-2.03	0.67
Excluding food and energy	2.9	2.2	2.4	2.8	2.49	1.85	2.04	2.43
Personal consumption expenditures (PCE):								
Food	1.7	2.9	1.9	4.8				
Energy goods and services	29.7	3.7	-36.0	16.1				
Excluding food and energy	2.7	2.2	1.8	2.2				
"Market-based" PCE	4.2	2.2	-1.6	3.5				
Excluding food and energy	2.7	1.9	1.6	2.2				
Gross domestic product	3.3	1.9	1.7	4.0				

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

Prices paid by domestic purchasers increased 3.6 percent, compared with a 0.2-percent increase in the fourth quarter. About 0.2 percentage point of the increase was accounted for by a pay raise for Federal civilian and military personnel, which is treated as an increase in the price of employee services purchased by the Federal Government. Energy prices turned up. Food prices accelerated after decelerating. Excluding food and energy prices, prices increased 2.8 percent.

Consumer prices turned up, mainly reflecting an upturn in prices paid for gasoline, fuel oil, and other energy goods.

Prices of private fixed investment slowed, reflecting decelerations in prices paid for nonresidential structures and in prices paid for residential investment.

Prices paid by government accelerated, reflecting accelerations in the prices paid by the Federal Government, mainly reflecting the pay raise, and by state and local governments.

Consumer prices excluding food and energy, a measure of the "core" rate of inflation, increased 2.2 percent, following a 1.8-percent increase.

The "market-based" PCE price index turned up, increasing 3.5 percent after decreasing 1.6 percent. (For more information, see the box on prices.)

The GDP price index increased 4.0 percent, 0.4 percentage point more than the increase in the price index for gross domestic purchases. The larger increase in the GDP price index reflected a smaller increase in import prices than in export prices.

Note on Prices

BEA's gross domestic purchases price index is the most comprehensive index of prices paid by U.S. residents for all goods and services. It is derived from the prices of personal consumption expenditures (PCE), private investment, and government consumption and investment.

BEA also produces price indexes for all components of GDP. The PCE price index is a measure of the total cost of consumer goods, and services including durable goods, nondurable goods, and services. PCE prices for food, energy goods and services, and for all items except food and energy are also estimated and reported. However, because prices for food and energy can be volatile, the price measure that excludes food and energy is often used a measure of underlying, or "core," inflation.

BEA also prepares a supplemental PCE price index, the "market-based" PCE price index, which is based on market transactions for which there are corresponding price measures. This index excludes many imputed expenditures, such as services furnished without charge by financial intermediaries, that are included in PCE and the PCE price index. BEA also prepares a market-based measure that excludes food and energy.

More information on these market-based measures is available on BEA's Web site at <www.bea.gov/bea/faq/national/markbsdPCE.htm>. For a comparison of price measures, including a comparison of the PCE price index and the Consumer Price Index, visit <www.bea.gov/bea/papers.htm>.

Personal Income

Table 4. Personal Income and Its Disposition

[Billions of dollars; quarterly estimates are seasonally adjusted at annual rates]

	Level	Change from preceding period				
	2007	2006				2007
	I	II	III	IV	I	
Personal income	11,311.2	85.9	132.1	126.1	245.7	
Compensation of employees, received	7,758.9	25.2	63.8	103.6	166.0	
Wage and salary disbursements	6,252.3	10.8	46.7	84.7	140.0	
Private industries	5,207.0	3.0	32.1	74.2	125.7	
Goods-producing industries	1,191.9	-4.3	-1.5	8.2	12.2	
Manufacturing	735.7	-10.0	-3.7	2.1	4.5	
Services-producing industries	4,015.1	7.3	33.6	66.0	113.5	
Trade, transportation, and utilities	1,014.0	7.2	4.8	9.2	9.2	
Other services-producing industries	3,001.1	0.2	28.8	56.7	104.4	
Government	1,045.3	7.8	14.6	10.5	14.3	
Supplements to wages and salaries	1,506.6	14.2	17.1	19.0	26.0	
Proprietors' income with IVA and CCAAdj	1,037.5	3.6	2.9	10.5	12.2	
Farm	31.7	-6.4	4.2	5.6	4.4	
Nonfarm	1,005.8	9.9	-1.1	4.8	7.8	
Rental income of persons with CCAAdj	86.1	-5.4	6.9	4.8	3.0	
Personal income receipts on assets	1,729.5	45.4	35.9	8.0	37.9	
Personal interest income	1,040.1	30.1	16.6	-13.0	17.3	
Personal dividend income	689.4	15.3	19.3	21.0	20.6	
Personal current transfer receipts	1,685.4	19.3	28.9	11.3	55.5	
Less: Contributions for government social insurance	986.3	2.1	6.4	12.0	29.1	
Less: Personal current taxes	1,444.3	28.4	1.5	24.0	57.8	
Equals: Disposable personal income	9,867.0	57.4	130.8	102.0	188.0	
Less: Personal outlays	9,969.8	158.5	133.0	86.5	173.3	
Equals: Personal saving	-102.8	-101.1	-2.2	15.5	14.7	
Addenda: Special factors in personal income						
In government wages and salaries:						
Federal pay raise	12.0	0.4	0.0	0.0	5.1	
Reservists' pay	5.1	-1.2	0.4	-0.7	-0.6	
In private wages and salaries:						
Irregular pay (bonuses and stock option exercise gains)	50.0	0.0	0.0	0.0	50.0	
In supplements to wages and salaries:						
Employer contributions for social insurance	7.6	0.0	0.0	0.0	3.0	
In personal current transfer receipts:						
Social security retroactive payments	0.0	0.0	0.0	2.2	-2.2	
Cost-of-living adjustments under Federal transfer programs	46.4	0.0	0.0	0.8	21.2	
Medicare part D—prescription drug benefits						
In contributions for government social insurance:						
Increase in taxable wage base	11.4	0.0	0.0	0.0	4.9	
Changes in premium for supplementary medical insurance	8.3	0.0	0.0	0.0	3.4	
In personal current taxes:						
Federal tax law changes	-8.1	0.0	0.0	0.0	-4.0	
Refunds, settlements, and other	37.3	0.0	0.0	0.0	11.1	

NOTE: Dollar levels are from NIPA tables 2.1 and 2.2B.
IVA Inventory valuation adjustment

CCAAdj Capital consumption adjustment

Personal income, which is measured in current dollars, increased \$245.7 billion, compared with an increase of \$126.1 billion. The acceleration primarily reflected accelerations in wage and salary disbursements and in personal current transfer receipts and an upturn in interest income.

Wages and salaries increased \$140.0 billion, compared with an increase of \$84.7 billion. The acceleration was more than accounted for by a first-quarter adjustment of \$50 billion (at an annual rate) for unusually large bonus payments and the exercise of stock options.

Personal interest income turned up, primarily reflecting an upturn in interest rates.

The acceleration in personal current transfer receipts primarily reflected an upturn in state and local Medicaid payments and an acceleration in Federal social security payments, which included a January cost-of-living adjustment.

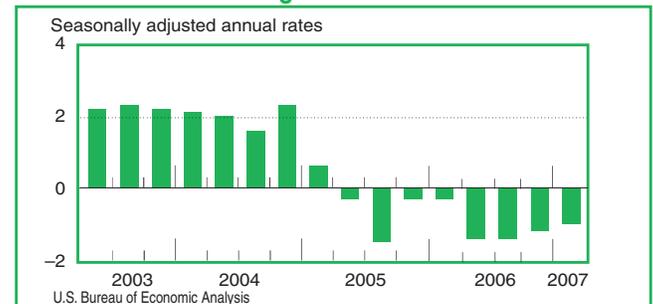
Personal current taxes accelerated, reflecting accelerations in both Federal income taxes and in state and local income taxes.

Current-dollar disposable personal income accelerated, reflecting a sharp acceleration in personal income that was moderated by an acceleration in personal current taxes.

Saving

Personal saving—disposable personal income less personal outlays—was -\$102.8 billion in the first quarter. Saving from current income may be near zero or negative when outlays are financed by borrowing (including borrowing financed through credit cards or home equity loans), by selling investments or other assets, or by using saving from previous periods. See “Alternative Measures of Personal Saving” in the February 2007 SURVEY OF CURRENT BUSINESS.

Chart 2. Personal Saving Rate



Source Data for the Advance Estimates

Table 5. Monthly Advance Estimates of Key NIPA Components Based on Partial Data, 2006:IV

[Billions of dollars, seasonally adjusted at annual rates]

	2006			2007		
	Oct.	Nov.	Dec.	Jan.	Feb.	March ¹
Private fixed investment:						
Nonresidential structures:						
Value of new nonresidential construction put in place	307.5	312.0	315.6	314.6	322.0	325.2
Equipment and software:						
Manufacturers' shipments of complete aircraft	34.4	34.2	33.5	47.1	42.1	34.1
Residential structures:						
Value of new residential construction put in place:						
Single family	375.1	361.5	354.6	341.4	331.4	329.5
Multifamily.....	59.0	58.6	57.4	56.7	56.7	56.4
Change in private inventories:						
Change in inventories for nondurable manufacturing.....	-8.6	0.8	-7.2	-14.7	-2.7	12.1
Change in inventories for merchant wholesale and retail industries other than motor vehicles and equipment	22.2	47.1	27.0	23.5	65.2	45.0
Net exports:²						
Exports of goods:						
U.S. exports of goods, international-transactions-accounts basis	1,058.9	1,068.1	1,072.5	1,092.6	1,061.3	1,084.9
Excluding gold	1,049.6	1,059.9	1,063.0	1,085.4	1,053.9	1,066.4
Imports of goods:						
U.S. imports of goods, international-transactions-accounts basis	1,840.3	1,845.4	1,889.1	1,874.6	1,835.0	1,871.2
Excluding gold	1,834.8	1,840.6	1,884.0	1,870.0	1,831.1	1,856.7
Net exports of goods.....	-781.4	-777.3	-816.7	-782.0	-773.7	-786.3
Excluding gold	-785.2	-780.7	-821.0	-784.7	-777.2	-790.3
State and local government structures:						
Value of new construction put in place.....	253.4	256.7	261.0	265.0	266.6	265.8

1. Assumption.

2. Nonmonetary gold is included in international-transactions-accounts exports

and imports but is not used directly in the estimation of national income and product account exports and imports.

Summary of the Source Data for the Advance Estimates of GDP for the Fourth Quarter of 2006

The advance estimates of many components of GDP are based on 3 months of source data, but the estimates of some components are based on only 2 months of data. For the following items, the number of months for which data are 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 (2);

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), sales of new homes (3), and sales of existing houses (3);

Change in private inventories: Trade and nondurable-goods manufacturing inventories (2), durable-goods 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 government construction put in place (2), and state and local government employment (3);

Compensation: Employment, average hourly earnings, and average weekly hours (3);

GDP prices: Consumer price indexes (3), producer price indexes (3), and values and quantities of petroleum imports (2).

Unavailable source data

When source data were unavailable, BEA made various assumptions for March, including the following:

- An increase in nondurable-goods manufacturing inventories,
- An increase in nonmotor vehicle merchant wholesale and retail inventories,
- Increases in exports and in imports of goods excluding gold.

Table 5 shows the assumptions for key series; a more comprehensive list is available on BEA's Web site at <www.bea.gov/national/index.htm#supp>.