

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

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ECONOMIC GROWTH accelerated in the fourth quarter of 1997, according to the "advance" estimates of the national income and product accounts (NIPA's), as real gross domestic product (GDP) increased 4.3 percent after increasing 3.1 percent in the third quarter (**chart 1** and **table 1**).¹ The step-up reflected an upturn in inventory investment that more than offset a slowdown in

final sales of domestic product. The price index for gross domestic purchases increased 1.5 percent after increasing 1.3 percent.

The upturn in inventory investment reflected a step-up in accumulation of inventories after a slowdown in the third quarter; the upturn was most pronounced in manufacturing. The deceleration in final sales was more than accounted for by a downturn in nonresidential fixed investment, mainly in producers' durable equipment and by a slowdown in personal consumption expenditures (PCE) for goods. In contrast, exports

1. Quarterly estimates in the NIPA's are expressed at seasonally adjusted annual rates unless otherwise specified. Quarter-to-quarter dollar changes are differences between the 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

[Quarterly estimates seasonally adjusted at annual rates]

	Billions of chained (1992) dollars						Percent change from preceding quarter					
	Change from preceding quarter						1997					
	1996	1997	1997				1996	1997	I	II	III	IV
			I	II	III	IV						
Gross domestic product	186.3	263.0	84.2	58.0	54.4	76.3	2.8	3.8	4.9	3.3	3.1	4.3
Less: Exports of goods and services	65.8	107.4	21.6	39.8	10.5	26.3	8.3	12.5	9.9	18.4	4.4	11.3
Plus: Imports of goods and services	81.4	135.0	42.3	50.2	38.0	3.7	9.1	13.9	17.9	20.5	14.6	1.3
Equals: Gross domestic purchases	200.2	285.7	102.5	66.0	77.7	56.6	2.9	4.1	5.9	3.7	4.3	3.1
Less: Change in business inventories	-2.3	37.2	30.8	13.9	-30.1	12.4						
Equals: Final sales to domestic purchasers	202.1	245.8	70.4	51.6	106.2	44.5	3.0	3.5	4.0	2.9	6.0	2.5
Personal consumption expenditures	118.8	155.6	61.7	11.3	66.8	38.8	2.6	3.3	5.3	.9	5.6	3.2
Durable goods	27.5	34.7	20.7	-8.8	27.1	4.2	4.7	5.7	14.1	-5.4	18.4	2.6
Nondurable goods	19.7	27.0	16.6	-7.8	15.5	-1.4	1.4	1.9	4.7	-2.1	4.3	-4
Services	71.4	94.2	25.7	25.9	26.3	34.9	2.7	3.5	3.9	3.9	3.9	5.1
Private nonresidential fixed investment	65.2	75.0	8.1	28.1	37.5	-8.0	9.2	9.7	4.1	14.6	19.2	-3.6
Structures	8.8	6.7	-1.0	-2.4	3.2	-1.4	4.8	3.6	-2.1	-4.8	6.7	-2.7
Producers' durable equipment	57.7	71.4	9.9	32.7	36.0	-6.8	10.9	12.2	6.7	23.0	24.1	-3.9
Private residential investment	15.1	7.6	2.2	4.9	1.9	7.0	5.9	2.8	3.3	7.4	2.7	10.4
Government consumption expenditures and gross investment	6.0	12.7	-1.3	9.6	3.3	5.1	.5	1.0	-4	3.1	1.1	1.6
Federal	-6.1	-6.4	-6.8	7.3	-1.3	.7	-1.3	-1.4	-5.8	6.6	-1.1	.7
State and local	12.1	19.2	5.4	2.4	4.6	4.3	1.6	2.4	2.7	1.2	2.3	2.1
Addendum: Final sales of domestic product	188.3	223.2	52.4	43.6	82.6	64.3	2.8	3.2	3.0	2.5	4.7	3.6

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 found in NIPA tables 1.2, 1.4, and 1.6. Percent changes are found in table 8.1. Contributions of the major components to the quarter-to-quarter percent change in real GDP are found in table 8.2.

CHART 1

Selected Measures: Change From Preceding Quarter

Percent



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

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stepped up, and imports (which are subtracted in deriving final sales) slowed.

The largest contribution to the fourth-quarter increase in real GDP was made by PCE, which increased 3.2 percent; most of the increase in PCE was in services.² Exports of goods and services, which increased 11.3 percent, also contributed

substantially to the increase in GDP; exports of nonautomotive capital goods, of autos, and of agricultural products all rose markedly.³ Inventory investment also contributed to the increase

2. NIPA table 8.2 shows the contributions of the major components of GDP to the quarter-to-quarter percent change in real GDP.

3. Exports (and imports) of nonautomotive capital goods include both parts and equipment. In contrast, parts are not included in producers' durable equipment in business fixed investment or in the equipment component of government investment. The difference arises because the end-use classification system used for exports and imports does not distinguish between equipment and machinery, which are treated as investment in the NIPAs, and parts, which are treated as intermediate purchases in the NIPAs.

Fourth-Quarter 1997 Advance GDP Estimate: Source Data and Assumptions

The "advance" GDP estimate for the fourth quarter is based on preliminary and incomplete source data; as more and better data become available, the estimate will be revised. The advance estimate is based on the following major source data. (The number of months for which data were available is shown in parentheses.)

Personal consumption expenditures: Sales of retail stores (3) and unit 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), aircraft shipments (2), and exports and imports of machinery and equipment (2);

Residential investment: Construction put in place (2) and single-family housing starts (3);

Change in business inventories: Manufacturing and trade inventories (2) 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: Department of Defense outlays (3), other Federal outlays (3), State and local construction put in place (2), and State and local employment (3);

GDP prices: Consumer Price Index (3), Producer Price Index (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 listing of assumptions is available on the Department of Commerce's Economic Bulletin Board or from BEA.

Table A.—Summary of Major Data Assumptions for Advance Estimates, 1997:IV

[Billions of dollars, seasonally adjusted at annual rates]

	1997					
	July	August	September	October	November	December ¹
Fixed investment:						
Nonresidential structures:						
Buildings, utilities, and farm:						
Value of new nonresidential construction put in place	164.5	163.4	163.3	165.0	158.7	163.4
Producers' durable equipment:						
Manufacturers' shipments of complete civilian aircraft	42.6	31.2	30.0	28.3	29.3	39.3
Residential structures:						
Value of new residential construction put in place:						
1-unit structures	161.5	161.7	163.7	165.7	167.7	170.8
2-or-more-unit structures	21.4	22.1	22.9	24.7	23.1	23.9
Change in business inventories nonfarm:						
Change in inventories for manufacturing and trade (except nonmerchant wholesalers) for industries other than motor vehicles and equipment in trade	17.6	21.1	71.4	37.7	51.4	23.0
Net exports: ²						
Exports of goods:						
U.S. exports of goods, balance-of-payments basis	680.9	687.9	676.4	701.4	693.4	708.2
Excluding nonmonetary gold	677.6	684.6	672.8	698.0	690.5	702.6
Imports of goods:						
U.S. imports of goods, balance-of-payments basis	883.1	886.6	898.9	899.1	874.6	882.0
Excluding nonmonetary gold	880.1	884.0	895.6	896.5	871.2	876.5
Net exports of goods (exports less imports)	-202.2	-198.7	-222.5	-197.7	-181.2	-173.8
Excluding nonmonetary gold	-202.5	-199.4	-222.8	-198.5	-180.7	-173.9
Government consumption expenditures and gross investment:						
State and local:						
Structures:						
Value of new construction put in place	123.8	123.9	121.4	125.4	124.4	124.4

1. Assumed.

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.

in GDP, mainly reflecting higher rates of accumulation in manufacturing and in retail trade. These positive contributions to GDP growth were partly offset by a negative contribution from nonresidential fixed investment; structures and producers' durable equipment both decreased.

Motor vehicles.—Real motor vehicle output increased 21.7 percent in the fourth quarter after increasing 24.1 percent in the third, as a downturn in auto output more than offset a step-up in truck output (table 2). Gross domestic purchases of motor vehicles slowed sharply—to a 1.1-percent increase after a 26.9-percent increase—as exports turned up and imports turned down. The small fourth-quarter increase in purchases reflected almost offsetting changes in final sales to domestic purchasers and in inventory investment. A decrease in sales was more than accounted for by autos, and an increase in inventory investment was more than accounted for by trucks.

Much of the downturn in final sales was accounted for by consumer purchases. The weakness in consumer purchases occurred despite favorable developments in several factors frequently considered in analyses of consumer spending. Growth of real disposable personal income picked up, to 4.7 percent from 2.6 percent, and the unemployment rate decreased, to

4.7 percent from 4.9 percent. The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) slipped only slightly from its highest level in 45 years. Factors specific to motor vehicle purchases were also favorable in the fourth quarter. Interest rates on new-car loans made by commercial banks were unchanged at 9.0 percent, and manufacturers continued to offer sales-incentive programs that included rebates and below-market interest rates for new-vehicle loans.

Business purchases increased much less than in the third quarter. Government purchases turned down. Imports decreased after increasing. Exports increased sharply after decreasing; the increase reflected substantially higher truck exports to Canada and Mexico.

Motor vehicle inventory investment increased after decreasing. The inventory-sales ratio for new domestic autos, which is calculated from units data, edged up from 2.3 at the end of the third quarter to 2.4 (the traditional industry target) at the end of the fourth.

Prices

The price index for gross domestic purchases, which measures the prices paid for goods and services purchased by U.S. residents, increased

Table 2.—Motor Vehicle Output, Sales, and Inventories

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1997			
	1997	1997							
	IV	I	II	III	IV	I	II	III	IV
Output	266.8	11.0	-6.9	13.4	12.8	19.9	-10.7	24.1	21.7
Autos	120.4	6.0	-2.9	5.3	-1.7	22.5	-9.3	19.6	-5.6
Trucks	146.0	5.0	-4.0	8.0	14.4	17.6	-12.0	28.4	51.5
Less: Exports	30.2	-3	1.1	-1.5	5.3	-4.5	17.8	-20.8	116.3
Autos	17.0	-2	1.4	-1.9	1.9	-5.0	39.8	-36.9	59.5
Trucks	13.2	0	-4	4	3.4	-3.6	-12.3	16.1	232.6
Plus: Imports	76.0	10.4	-2.2	3.3	-6.9	72.6	-10.5	17.8	-29.4
Autos	62.4	8.4	-1.9	1.7	-5.0	69.9	-11.2	11.2	-26.8
Trucks	13.6	2.1	-3	1.6	-1.9	86.5	-7.0	53.9	-40.3
Equals: Gross domestic purchases	312.7	21.4	-10.0	18.0	.8	34.1	-12.6	26.9	1.1
Autos	165.7	14.3	-6.1	8.8	-8.5	41.8	-13.5	23.1	-18.3
Trucks	146.8	7.1	-3.9	9.1	9.4	24.8	-11.5	31.8	30.0
Less: Change in business inventories	4.8	12.5	.9	-2.4	4.6				
Autos	-7	6.1	2.7	-1.5	-1				
Trucks	5.7	6.5	-1.9	-8	4.8				
Equals: Final sales to domestic purchasers	307.6	9.4	-10.9	20.2	-3.8	13.4	-13.7	30.9	-4.9
Autos	166.2	8.4	-8.7	10.2	-8.4	21.8	-18.6	27.4	-18.0
Trucks	141.1	1.0	-2.2	10.0	4.5	3.2	-6.7	35.6	13.9
Addenda:									
Personal consumption expenditures	179.8	4.8	-9.0	13.7	-3.0	11.5	-18.8	36.4	-6.2
Producers' durable equipment	120.7	3.9	-2.1	5.4	.7	14.5	-7.0	20.5	2.1
Gross government investment	8.5	.7	.4	1.1	-1.5	43.3	18.5	60.0	-47.6

NOTE.—See note to table 1 for an explanation of chained (1992) dollars. Truck output includes new trucks only; auto output includes new cars and used cars. Chained (1992) dollar levels for motor vehicle output, auto and truck output, and residuals, which measure the extent of nonadditivity in each table, are found in NIPA tables 1.4, 8.5, and 8.7.

1.5 percent in the fourth quarter after increasing 1.3 percent in the third (chart 2 and table 3).

Prices of *PCE* increased 1.3 percent after increasing 1.5 percent. A slowdown in food prices was largely offset by a step-up in energy prices. Food prices increased 1.4 percent after increasing 3.4 percent; the slowdown was more than accounted for by downturns in the prices of beef and non-alcoholic beverages and by a slowdown in the price of fresh vegetables. Energy prices increased

3.0 percent after increasing 2.4 percent; the price of natural gas increased more than in the third quarter, the price of electricity decreased less, and prices of fuel oil and coal turned up. "Other" *PCE* prices increased 1.2 percent, about the same as in the third quarter.

Prices of nonresidential fixed investment decreased 0.8 percent, the same as in the third quarter. Prices of structures increased 4.4 percent after increasing 4.2 percent. Prices of producers' durable equipment decreased 2.7 percent after decreasing 2.6 percent; prices of transportation equipment turned down, but prices of information processing equipment (particularly computers and peripheral equipment) decreased less than in the third quarter, and prices of "other" equipment increased after decreasing.

Prices of government consumption expenditures and gross investment increased 3.3 percent after increasing 1.4 percent. Prices for all levels of government contributed to the step-up. Prices paid by the Federal Government increased 3.5 percent after increasing 0.9 percent; both nondefense and national defense prices accelerated. Prices paid by State and local governments increased 3.1 percent after increasing 1.7 percent, partly reflecting a step-up in the price of structures.

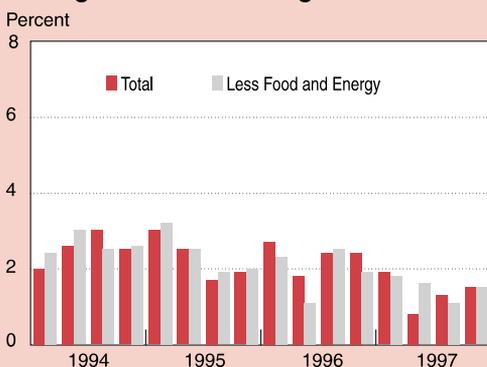
The price index for *GDP* increased 1.5 percent after increasing 1.4 percent; the fourth-quarter increase was the same as that in the price index for gross domestic purchases, reflecting virtually identical changes in the prices of exports and of imports. Export prices, which are included in the *GDP* price index but not in the price index for gross domestic purchases, decreased 2.0 percent, the same as in the third quarter; most major categories of goods posted changes similar to those in the third quarter, except that prices of industrial supplies and materials turned down, and prices of "other" goods turned up. Import prices, which are included in the price index for gross domestic purchases but not in the price index for *GDP*, decreased 2.1 percent after decreasing 3.0 percent; an upturn in services prices constrained the fourth-quarter decrease.

Personal income

Real disposable personal income (*DPI*) increased 4.7 percent in the fourth quarter after increasing 2.6 percent in the third (chart 3). Current-dollar *DPI* increased 6.1 percent after increasing 4.1 percent. The personal saving rate (saving as a percentage of current-dollar *DPI*) increased to

CHART 2

Gross Domestic Purchases Prices: Change From Preceding Quarter



Note—Percent change at annual rate from preceding quarter; based on seasonally adjusted index numbers (1992=100).

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Table 3.—Price Indexes

[Percent change at annual rates; quarterly estimates based on seasonally adjusted index numbers (1992=100)]

	1996	1997	1997			
			I	II	III	IV
Gross domestic product	2.3	2.0	2.4	1.8	1.4	1.5
Less: Exports of goods and services	-1.8	-2.2	-1.8	-7	-2.0	-2.0
Plus: Imports of goods and services	-2.2	-3.9	-5.3	-7.6	-3.0	-2.1
Equals: Gross domestic purchases	2.2	1.7	1.9	.8	1.3	1.5
Less: Change in business inventories						
Equals: Final sales to domestic purchasers	2.2	1.8	2.0	.9	1.3	1.5
Personal consumption expenditures	2.4	2.0	2.2	1.0	1.5	1.3
Food	3.0	2.7	1.4	1.6	3.4	1.4
Energy	4.6	1.1	7.7	-15.7	2.4	3.0
Other	2.2	2.0	2.0	2.0	1.1	1.2
Private nonresidential fixed investment	-1.0	-1.4	-2.0	-1.5	-8	-8
Structures	2.3	3.3	2.8	3.9	4.2	4.4
Producers' durable equipment	-2.3	-3.1	-3.8	-3.5	-2.6	-2.7
Private residential investment	2.4	3.0	2.0	3.4	3.2	3.1
Government consumption expenditures and gross investment	3.3	2.4	3.5	1.4	1.4	3.3
Federal	3.4	2.4	4.9	1.3	.9	3.5
National defense	3.9	2.4	4.3	1.1	.6	2.8
Nondefense	2.3	2.5	6.1	1.5	1.5	5.1
State and local	3.2	2.3	2.7	1.5	1.7	3.1
Addendum: Gross domestic purchases less food and energy	2.0	1.7	1.8	1.6	1.1	1.5

NOTE.—Percent changes in major aggregates are found in NIPA table 8.1. Most index number levels are found in tables 7.1 and 7.2.

3.9 percent from 3.5 percent, reflecting a larger increase in DPI than in outlays.

Personal income increased \$108.5 billion in the fourth quarter after increasing \$77.8 billion in the third (table 4). The acceleration was almost entirely accounted for by wage and salary disbursements. Proprietors' income increased more than in third quarter, and all the other components changed about as much as in the third quarter.

Wage and salary disbursements increased \$83.6 billion after increasing \$54.5 billion. Almost all of the acceleration was in the private sector, particularly goods-producing industries and service industries. The step-up in private industry wages and salaries reflected step-ups in employment and in average hourly earnings and an upturn in average weekly hours.

Proprietors' income increased \$6.1 billion after increasing \$3.6 billion. Nonfarm proprietors'

income increased more than in the third quarter, and farm proprietors' income decreased less.

Transfer payments increased \$9.1 billion after increasing \$8.7 billion. The fourth-quarter increase included \$1.1 billion in retroactive social security payments; these payments result when the Social Security Administration recalculates benefits on the basis of updated information on the earnings base of recent retirees.

The Year 1997

The rate of growth of output and income stepped up in 1997, and inflation slowed. Real GDP increased 3.8 percent, up from a 2.8-percent increase in 1996 and the highest growth rate since 1988. Real DPI increased 2.9 percent, up from a 2.3-percent increase. The price index for gross

Table 4.—Personal Income and Its Disposition

(Billions of dollars; quarterly estimates seasonally adjusted at annual rates)

	Level		Change from preceding quarter					
	1997	1997	1996	1997	1997			
		IV			I	II	III	IV
Wage and salary disbursements	3,877.2	3,979.7	203.0	244.7	74.6	50.1	54.5	83.6
Private industries	3,211.8	3,305.5	183.4	221.9	65.8	45.9	48.8	77.1
Goods-producing industries	960.1	983.5	44.7	51.0	15.1	9.9	8.6	22.1
Manufacturing	705.9	723.1	26.3	31.2	8.5	6.2	5.7	17.1
Distributive industries	876.0	899.6	40.2	52.7	16.2	10.2	13.8	18.8
Service industries	1,375.6	1,422.4	98.5	118.1	34.6	25.7	26.5	36.1
Government	665.4	674.2	19.6	22.8	8.9	4.2	5.7	6.5
Other labor income	416.6	421.4	.8	9.0	3.2	2.8	2.6	3.7
Proprietors' income with IVA and CCAAdj	544.7	553.3	31.3	24.4	6.3	9.0	3.6	6.1
Farm	40.9	39.0	13.8	3.7	-2	3.4	-2.7	-1.9
Nonfarm	503.8	514.4	17.6	20.7	6.5	5.6	6.3	8.1
Rental income of persons with CCAAdj	148.1	146.6	13.5	1.8	-2	-3	-7	-1.4
Personal dividend income	321.5	330.7	39.3	30.3	17.3	5.8	6.2	6.2
Personal interest income	768.8	779.1	16.8	33.1	7.4	8.9	6.5	6.5
Transfer payments to persons	1,121.1	1,134.8	53.0	53.1	25.7	9.8	8.7	9.1
Less: Personal contributions for social insurance	323.6	330.2	13.2	17.3	6.7	3.1	3.5	5.4
Personal income	6,874.4	7,015.4	344.4	379.2	127.8	82.9	77.8	108.5
Less: Personal tax and nontax payments	987.9	1,018.5	91.8	101.0	33.1	23.5	18.8	20.5
Equals: Disposable personal income	5,886.6	5,996.9	252.6	278.3	94.7	59.4	59.0	88.0
Less: Personal outlays	5,661.0	5,765.8	267.7	292.2	99.2	28.2	98.0	65.0
Equals: Personal saving	225.6	231.1	-15.0	-14.0	-4.5	31.1	-38.8	22.9
Addendum: Special factors in personal income:								
In wages and salaries:								
Federal Government and Postal Service pay adjustments, including "buyouts"	0				4.4	-2	-1	0
In transfer payments to persons:								
Social security retroactive payments	1.1				-1.1	0	0	1.1
Cost-of-living adjustments in Federal transfer programs	0				13.5	0	0	0
Earned Income Tax Credit payments	0				4.3	0	0	0
In personal contributions for social insurance:								
Social security base changes and increase in premium for supplementary medical insurance	0				2.1	0	0	0
In personal tax and nontax payments:								
Recent tax law changes	0				-4.1	0	0	0

NOTE.—Most dollar levels are found in NIPA table 2.1.
IVA Inventory valuation adjustment
CCAAdj Capital consumption adjustment

CHART 3

Selected Personal Income and Saving Measures



Note—Changes are from preceding quarter, based on seasonally adjusted annual rates.

domestic purchases increased 1.7 percent—its lowest rate since 1964.

The biggest contributions to the growth in real GDP were made by PCE, by exports, and by nonresidential fixed investment. In PCE, almost two-thirds of the increase was in services, mainly in medical care, housing, recreation, and brokerage fees. In exports, most categories contributed to the rise; nonautomotive capital goods (the largest category) contributed the most. In nonresidential fixed investment, the increase was mostly accounted for by information processing and related equipment, especially computers and peripheral equipment. Inventory investment also contributed to the increase in GDP, as the pace of inventory accumulation in wholesale trade and in manufacturing increased. In contrast to these positive contributions, a sizable increase in imports (which are subtracted in deriving GDP) made a large negative contribution.

The step-up in real DPI reflected both a step-up in current-dollar DPI and a slowdown in the rate of increase of consumer prices. The step-up in current-dollar DPI was more than accounted for by wage and salary disbursements, which increased \$244.7 billion in 1997 after increasing \$203.0 billion in 1996, and by personal interest income, which increased \$33.1 billion after increasing \$16.8 billion.

The personal saving rate declined to 3.8 percent, the lowest rate since 1939. This low rate of saving

out of current income may partly reflect the large capital gains that households accumulated as a result of increases in stock prices. Such capital gains, which are not included in the NIPA measure of personal saving, may reduce the need to save out of current incomes.

The price index for gross domestic purchases increased 1.7 percent after increasing 2.2 percent in 1996. The slowdown was evident in all major components except residential investment and nonresidential structures. PCE prices increased 2.0 percent after increasing 2.4 percent; prices of food, energy, and "other" PCE all contributed to the slowdown. Prices of producers' durable equipment decreased 3.1 percent after decreasing 2.3 percent. Prices paid by the Federal Government increased 2.4 percent after increasing 3.4 percent, and prices paid by State and local governments increased 2.3 percent after increasing 3.2 percent.

The price index for GDP increased 2.0 percent after increasing 2.3 percent. Export prices, which are included in the GDP price index but not in the price index for gross domestic purchases, decreased 2.2 percent after decreasing 1.8 percent. Import prices, which are included in the price index for gross domestic purchases but not in the GDP price index, decreased 3.9 percent after decreasing 2.2 percent, as the price of imported petroleum turned down. 