

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

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REAL GROSS domestic product (GDP) increased 4.3 percent in the first quarter of 1999, according to the "final" estimates of the national income and product accounts (NIPA's) (table 1 and chart 1).¹ The slowdown from a 6.0-percent increase in the fourth quarter of 1998 reflected a downturn in exports.

The largest contributors to the first-quarter increase in real GDP were consumer spending and private fixed investment (table 2). The increase

1. Quarterly estimates in the NIPA's are expressed at seasonally adjusted annual rates. Quarter-to-quarter dollar changes are the differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data unless otherwise specified.

Real estimates are calculated using a chain-type Fisher formula with annual weights for all years and quarters except those in the most recent year, which are calculated using quarterly weights; real estimates are expressed both as index numbers (1992=100) and as chained (1992) dollars. Price indexes (1992=100) are also calculated using a chain-type Fisher formula.

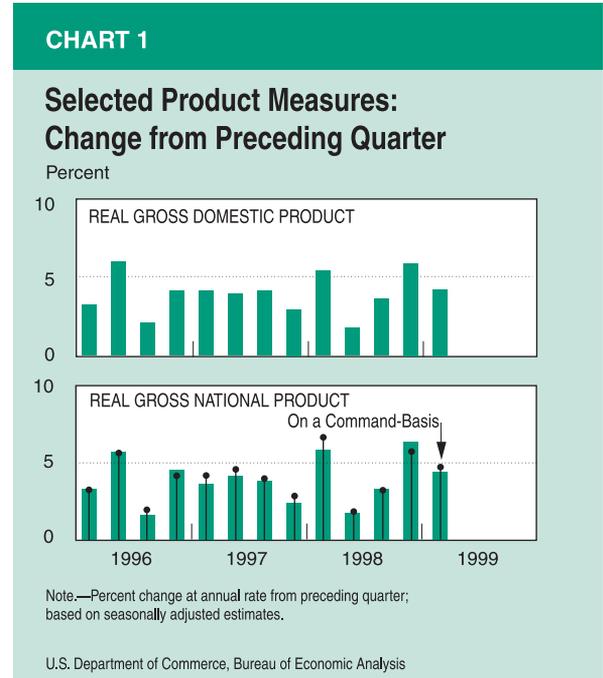


Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers

(Seasonally adjusted at annual rates)

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1998			1999
		1999	1998			II	III	IV	I
	I	II	III	IV	I				
Gross domestic product	7,759.6	33.9	67.9	111.2	81.9	1.8	3.7	6.0	4.3
Less: Exports of goods and services	996.5	-19.8	-6.8	44.3	-13.1	-7.7	-2.8	19.7	-5.1
Plus: Imports of goods and services	1,300.1	26.9	7.0	35.3	40.5	9.3	2.3	12.0	13.5
Equals: Gross domestic purchases	8,027.8	73.7	80.2	102.5	126.5	3.9	4.2	5.4	6.6
Less: Change in business inventories	38.7	-53.2	17.5	-11.5	-5.5				
Nonfarm	35.1	-56.0	17.1	-9.5	-2.4				
Farm	3.6	3.4	.4	-1.9	-3.6				
Equals: Final sales to domestic purchasers	7,983.6	124.2	63.4	112.7	131.1	6.7	3.3	6.0	6.8
Personal consumption expenditures	5,331.9	75.1	51.6	64.2	85.9	6.1	4.1	5.0	6.7
Durable goods	798.9	19.1	4.3	41.3	23.9	11.2	2.4	24.5	12.9
Nondurable goods	1,600.9	19.7	8.2	16.0	35.8	5.3	2.1	4.2	9.5
Services	2,946.8	37.5	38.0	12.4	29.6	5.4	5.4	1.7	4.1
Gross private domestic fixed investment	1,344.0	39.2	6.8	40.1	33.0	13.4	2.2	13.2	10.5
Nonresidential fixed investment	1,012.2	28.5	-1.7	33.2	20.3	12.8	-7	14.6	8.5
Structures	207.8	-1.2	.1	3.0	2.8	-2.3	.2	6.0	5.7
Producers' durable equipment	819.8	32.5	-2.0	32.2	18.3	18.8	-1.0	17.8	9.5
Residential investment	335.9	10.6	7.4	7.6	11.8	15.0	9.9	10.0	15.4
Government consumption expenditures and gross investment	1,323.9	11.8	4.8	10.7	13.6	3.7	1.5	3.3	4.2
Federal	458.4	8.0	-1.6	8.1	-2.2	7.3	-1.4	7.3	-1.9
National defense	299.4	7.0	3.2	1.1	-5.2	9.9	4.3	1.3	-6.6
Nondefense	158.0	1.0	-4.5	6.8	2.8	2.6	-11.5	19.8	7.4
State and local	865.8	3.8	6.4	2.7	15.8	1.8	3.1	1.3	7.7
Addendum: Final sales of domestic product	7,715.4	83.9	51.2	121.3	86.5	4.6	2.8	6.6	4.6

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 in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are in NIPA table 8.1. (See "Selected NIPA Tables," which begins on page D-2 of this issue.)

Table 2.—Contributions to Percent Change in Real Gross Domestic Product

(Seasonally adjusted at annual rates)

	1998			1999
	II	III	IV	I
Percent change at annual rate:				
Gross domestic product	1.8	3.7	6.0	4.3
Percentage points at annual rates:				
Personal consumption expenditures	4.09	2.78	3.48	4.56
Durable goods .....	.91	.20	1.90	1.09
Nondurable goods	1.01	.42	.84	1.77
Services	2.14	2.15	.74	1.70
Gross private domestic investment	-7.5	1.22	1.42	1.31
Fixed investment	1.95	.33	1.95	1.58
Nonresidential	1.35	-.08	1.52	.91
Structures	-0.07	.01	.17	.15
Producers' durable equipment	1.42	-.09	1.35	.76
Residential .....	.60	.41	.43	.66
Change in business inventories	-2.66	.89	-.53	-.27
Net exports of goods and services	-2.08	-.62	.52	-2.23
Exports	-.92	-.32	2.02	-.58
Goods	-.98	.04	1.76	-.68
Services .....	.06	-.36	.26	.10
Imports	-1.18	-.30	-1.50	-1.65
Goods	-1.19	-.32	-1.46	-1.42
Services .....	.01	.01	-.04	-.23
Government consumption expenditures and gross investment .....	.64	.27	.60	.70
Federal .....	.44	-.09	.44	-.08
National defense .....	.38	.17	.06	-.23
Nondefense .....	.06	-.26	.38	.14
State and local .....	.20	.35	.16	.78

NOTE.—NIPA table 8.2 also shows contributions for 1997:IV and 1998:I.

was moderated by an increase in imports and a decrease in exports.²

The “final” estimate of the change in real GDP is 0.2 percentage point more than the 4.1-percent increase indicated by the “preliminary” estimate reported in the June “*Business Situation*” (table 3). For 1978–97, the average revision—

2. Imports are subtracted in the calculation of GDP.

Table 3.—Revisions to Change in Real Gross Domestic Product and Prices, First Quarter 1999

[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	Contribution to percent change in real GDP
Gross domestic product	4.1	4.3	0.2	4.9	.....
Less: Exports of goods and services	-6.8	-5.1	1.7	4.5	.20
Goods	-11.5	-8.7	2.8	5.8	.27
Services	5.5	4.3	-1.2	-7	-.08
Plus: Imports of goods and services	14.2	13.5	-.7	-2.0	.11
Goods	15.2	13.8	-1.4	-3.4	.16
Services	8.9	11.8	2.9	1.2	-.05
Equals: Gross domestic purchases	6.6	6.6	0	-5	.....
Change in business inventories .....	.....	.....	.....	-3	-.04
Nonfarm .....	.....	.....	.....	4	.....
Farm .....	.....	.....	.....	-8	.....
Equals: Final sales to domestic purchasers	6.9	6.8	-.1	-2	.....
Personal consumption expenditures	6.8	6.7	-.1	-1.2	-.02
Durable goods	12.9	12.9	0	.1	.02
Nondurable goods	9.4	9.5	.1	.3	-.01
Services	4.3	4.1	-.2	-1.4	-.03
Private fixed investment	10.0	10.5	.5	1.3	.07
Nonresidential	7.9	8.5	.6	1.4	.06
Structures	2.9	5.7	2.8	1.4	.07
Producers' durable equipment	9.7	9.5	-.2	-5	0
Residential	15.4	15.4	0	0	0
Government consumption expenditures and gross investment	4.3	4.2	-.1	-3	-.05
Federal	-1.7	-1.9	-.2	-2	.02
National defense	-6.6	-6.6	0	0	.04
Nondefense	8.1	7.4	-.7	-3	-.03
State and local	7.7	7.7	0	-1	-.07
Addenda:					
Final sales of domestic product	4.3	4.6	.3	5.2	.....
Gross national product	4.3	4.4	.1	7.3	.....
Gross domestic purchases price index ¹	1.1	1.2	.1	.....	.....
GDP price index ¹	1.5	1.6	.1	.....	.....

1. Based on chained-type annual (1992) weights.

NOTE.—The final estimates for the first quarter of 1999 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 March.

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

Residential fixed investment: Revised construction put in place for February and March.

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

Exports and imports of goods and services: Revised exports and imports of goods and services for October 1998 through March 1999 and revised seasonal factors.

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

Wages and salaries: Revised employment, average hourly earnings, and average weekly hours for October 1998 through March 1999 and revised seasonal factors.

GDP prices: Revised export and import prices for January through March, revised values and quantities of petroleum imports for March, and revised prices of single-family homes under construction for the first quarter.

The revised source data for exports and imports of goods and services and for wages and salaries reflect annual revisions to the balance of payments accounts and to the Bureau of Labor Statistics establishment survey data, respectively. These data have been incorporated into the NIPA estimates on a “best-change” basis beginning with January 1999. The levels of the revised source data will be incorporated at the time of the next comprehensive revision of the NIPA's, which is scheduled for release at the end of October.

without regard to sign—from the preliminary estimate to the final estimate is 0.3 percentage point. The upward revision to real GDP was more than accounted for by an upward revision to exports and a downward revision to imports. The revisions to exports and imports reflect the incorporation (on a “best-change” basis) of source data from the annual revision of the balance of payments accounts; see “*U.S. International Transactions, Revised Estimates for 1982–1998*” in this issue.³

Real gross domestic purchases increased 6.6 percent, the same as the preliminary estimate; in the fourth quarter, this measure increased 5.4 percent.⁴ Real final sales of domestic product increased 4.6 percent, 0.3 percentage point more than the preliminary estimate; in the fourth quarter, it increased 6.6 percent.⁵

The price index for gross domestic purchases increased 1.2 percent, 0.1 percentage point more than the preliminary estimate; in the fourth quarter, the index increased 0.9 percent. The revision was more than accounted for by an upward revision to energy prices. The price index for GDP increased 1.6 percent, also 0.1 percentage point more than the preliminary estimate; in the fourth quarter, the index increased 0.8 percent. In the first quarter, the price index for gross domestic purchases increased less than the price index for GDP because import prices decreased more than export prices.⁶

Real disposable personal income (DPI) increased 3.5 percent, 0.8 percentage point less than the preliminary estimate. Current-dollar DPI increased 4.8 percent, 0.6 percentage point less than the preliminary estimate. The downward revision to DPI was primarily accounted for by an upward revision to personal tax and nontax payments that reflected the incorporation of newly available data on Federal income tax collections from the *Monthly Treasury Statement* and updated projections of tax collections from the Department of Treasury. (The updated projections were used

3. The final NIPA estimates of exports and imports in the first quarter incorporate the quarterly change implied by the revised balance of payments estimates. The quarterly levels of the revised balance of payments estimates will be incorporated at the time of the next comprehensive revision of the NIPA's, which is scheduled for release at the end of October.

4. Gross domestic purchases—a measure of purchases by U.S. residents regardless of where the purchased goods and services were produced—is calculated as GDP less exports of goods and services plus imports of goods and services; it may also be calculated as the sum of personal consumption expenditures, private fixed investment, and government consumption expenditures and gross investment.

5. Final sales of domestic product is calculated as GDP less change in business inventories.

6. Import prices are included in gross domestic purchases prices but not in GDP prices, and export prices are included in GDP prices but not in gross domestic purchases prices.

to derive new 1999 estimates of certain components of nonwithheld taxes; these estimates were then distributed evenly over the year, which resulted in an upward revision to first-quarter taxes.) Personal income was revised down only slightly.

The personal saving rate—personal saving as a percentage of current-dollar DPI—decreased to negative 0.7 percent, 0.1 percentage point lower than the preliminary estimate. The first-quarter rate was the first negative rate since the quarterly series began in 1946; in the fourth quarter, the rate was 0.0 percent. (For additional information, see “[Note on the Personal Saving Rate](#)” in the February 1999 SURVEY OF CURRENT BUSINESS.)

Gross national product (GNP).—In the first quarter, real GNP—goods and services produced by labor and property supplied by U.S. residents—increased 4.4 percent, 0.1 percentage point more than real GDP (chart 1 and table 4).⁷ Receipts of factor income from the rest of the world increased more than payments of factor income; both increases were more than accounted for by corporate profits.

Real GNP on a command basis, which measures the goods and services produced by the U.S. economy in terms of their purchasing power, increased more than real GNP—4.7 percent, compared with 4.4 percent—reflecting an improvement in the terms of trade.⁸ In the fourth

quarter, command-basis GNP and real GNP increased at the same rate—6.3 percent—reflecting little change in the terms of trade.

Corporate Profits

According to revised estimates, profits from current production increased \$47.1 billion (or 5.7 percent at a quarterly rate) in the first quarter after decreasing \$5.3 billion (0.6 percent) in the fourth quarter (table 5).⁹ Profits of domestic nonfinancial corporations increased \$29.0 billion (4.9 percent) after decreasing \$12.7 billion (2.1 percent); the increase reflected an increase in profits per unit and an increase in real product. The increase in profits per unit, in turn, mainly reflected a decrease in unit costs. Profits of domestic financial corporations increased \$13.4 billion (10.3 percent) after increasing \$0.6 billion (0.5 percent). Profits from the rest of the world increased \$4.6 billion (4.7 percent) after increasing \$6.9 billion (7.6 percent); the first-quarter

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 IPD for the sum of exports of goods and services and of receipts of factor income; in the denominator, the IPD 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 several factors, including movements in exchange rates, changes in the composition of the traded goods and services, and changes in producers' profit margins. For example, if the U.S. dollar depreciates 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, or it may choose to raise the price of the product and risk a loss in market share.

9. 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 NIPA tables 1.9, 1.14, 1.16, and 6.16c (see “[Selected NIPA Tables](#),” which begins on page D-2 of this issue) as corporate profits with inventory valuation and capital consumption adjustments.

Percent changes in profits are shown at quarterly, not annual, rates.

7. GNP equals GDP plus receipts of factor income from the rest of the world less payments of factor income to the rest of the world.

8. In the estimation of command-basis GNP, 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 (IPD) for the sum of imports of goods and services and of payments of factor income.

Table 4.—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				1998			1999
	1999	1998		1999	1998			1999	
	I	II	III	IV	I	II	III	IV	I
Gross domestic product	7,759.6	33.9	67.9	111.2	81.9	1.8	3.7	6.0	4.3
Plus: Receipts of factor income from the rest of the world	242.8	0	-5.3	4.7	2.4	0	-8.5	8.1	4.2
Less: Payments of factor income to the rest of the world	255.3	3.2	1.8	-7	1.4	5.2	2.9	-1.1	2.2
Equals: Gross national product	7,746.3	30.7	60.8	116.6	83.0	1.7	3.3	6.3	4.4
Less: Exports of goods and services and receipts of factor income from the rest of the world	1,239.4	-19.1	-12.6	48.1	-9.8	-6.1	-4.1	17.0	-3.1
Plus: Command-basis exports of goods and services and receipts of factor income	1,320.8	-13.1	-8.3	49.1	-3.4	-4.0	-2.5	16.3	-1.0
Equals: Command-basis gross national product	7,827.7	36.7	65.1	117.5	89.5	2.0	3.5	6.3	4.7
Addendum: Terms of trade ¹	106.6	.5	.5	-2	.6	1.9	1.9	-8	2.3

1. Calculated as the 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 in NIPA tables 1.10 and 1.11.

lion. Smaller upturns were posted by wholesale and retail trade and by the transportation and public utilities group, which includes communications. These upturns were partly offset by downturns in the industrial machinery, electronic equipment, and "other" durable goods industries.

Profits of domestic financial corporations increased \$13.2 billion after decreasing \$0.2 billion. The largest contribution to the upturn was made by commercial banks.

Profits before tax (PBT) increased \$44.5 billion after decreasing \$12.4 billion. The difference between the \$44.5 billion increase in PBT and the \$47.1 billion increase in profits from current production reflected changes in the inventory valuation adjustment that were partly offset by changes in the capital consumption adjustment. The inventory valuation adjustment removes inventory profits and losses from business income;

in the first quarter, inventory losses decreased \$1.8 billion.¹³ The capital consumption adjustment converts depreciation that is valued at historical cost and based on service lives and depreciation patterns specified in the tax code to depreciation that is valued at replacement cost and based on empirical evidence on the prices of used equipment and structures in resale markets; in the first quarter, the capital consumption adjustment increased \$4.4 billion.¹⁴ 

13. As prices change, companies that value inventory withdrawals at original acquisition (historical) costs may realize inventory profits or losses. Inventory profits—a capital-gains-like element in profits—result from an increase in inventory prices, and inventory losses—a capital-loss-like element in profits—result from a decrease in inventory prices. In the NIPA's, inventory profits or losses are removed from business incomes by the inventory valuation adjustment (IVA); a negative IVA removes inventory profits, and a positive IVA removes inventory losses.

14. For information on depreciation in the NIPA's, see Arnold J. Katz and Shelby W. Herman, "Improved Estimates of Fixed Reproducible Tangible Wealth, 1929–95," SURVEY 77 (May 1997): 69–92.