

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

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**E**CONOMIC GROWTH accelerated in the third quarter of 1998, according to the "advance" estimates of the national income and product accounts (NIPA's), as real gross domestic product (GDP) increased 3.3 percent after increasing 1.8 percent in the second quarter (chart 1 and table 1).<sup>1</sup> Prices increased at about the same rate as in the second quarter; for example, the price index for gross domestic purchases increased 0.5 percent after increasing 0.4 percent. Real dispos-

able personal income (DPI) increased 2.6 percent, the same as in the second quarter, and the personal saving rate (current-dollar saving as a percentage of current-dollar disposable personal income) continued its downtrend, decreasing to 0.1 percent from 0.4 percent.

The acceleration in real GDP growth from 1.8 percent to 3.3 percent was more than accounted for by inventory investment. Inventory stocks increased \$57.2 billion in the third quarter after increasing \$38.2 billion in the second; in the first quarter, stocks had increased \$91.4 billion. This pattern of inventory investment added 0.96 percentage point to the third-quarter change

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 calculated using a chain-type Fisher formula with annual weights and are expressed both as index numbers (1992=100) and as chained (1992) dollars. Price indexes (1992=100) also are 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]

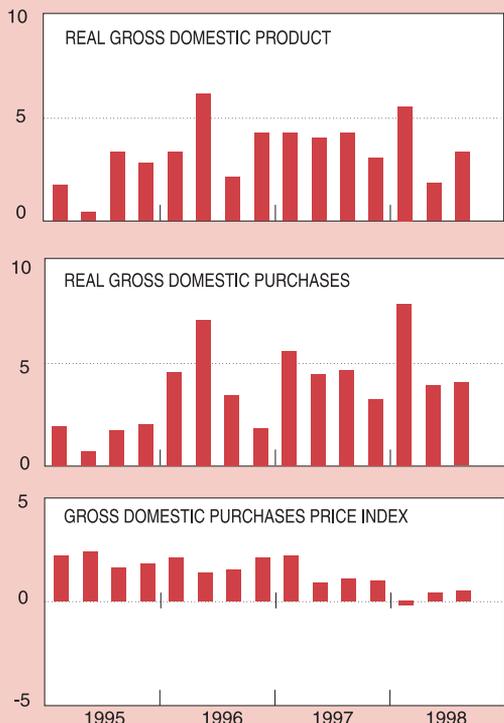
	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
		1998	1997	1998					
	III	IV	I	II	III	1997	1998		
					IV	I	II	III	
<b>Gross domestic product</b> .....	<b>7,559.5</b>	<b>53.4</b>	<b>100.1</b>	<b>33.9</b>	<b>60.9</b>	<b>3.0</b>	<b>5.5</b>	<b>1.8</b>	<b>3.3</b>
Less: Exports of goods and services .....	965.0	10.7	-6.9	-19.8	-7.1	4.4	-2.8	-7.7	-2.9
Plus: Imports of goods and services .....	1,227.5	17.3	42.6	26.9	10.2	6.3	15.7	9.3	3.4
<b>Equals: Gross domestic purchases</b> .....	<b>7,794.5</b>	<b>59.0</b>	<b>142.8</b>	<b>73.7</b>	<b>75.9</b>	<b>3.2</b>	<b>7.8</b>	<b>3.9</b>	<b>4.0</b>
Less: Change in business inventories .....	57.2	15.5	24.9	-53.2	19.0	.....	.....	.....	.....
Nonfarm .....	49.2	18.7	23.2	-56.0	19.3	.....	.....	.....	.....
Farm .....	8.5	-3.6	1.6	3.4	-2	.....	.....	.....	.....
<b>Equals: Final sales to domestic purchasers</b> .....	<b>7,734.1</b>	<b>44.1</b>	<b>120.1</b>	<b>124.2</b>	<b>57.7</b>	<b>2.4</b>	<b>6.6</b>	<b>6.7</b>	<b>3.0</b>
Personal consumption expenditures .....	5,179.3	34.0	74.1	75.1	49.1	2.8	6.1	6.1	3.9
Durable goods .....	729.4	5.2	25.5	19.1	0	3.1	15.8	11.2	0
Nondurable goods .....	1,549.6	-1.4	26.9	19.7	8.7	-4	7.4	5.3	2.3
Services .....	2,905.4	29.4	24.5	37.5	38.6	4.3	3.5	5.4	5.5
Gross private domestic fixed investment .....	1,267.8	10.2	55.4	39.2	3.7	3.6	20.4	13.4	1.2
Nonresidential fixed investment .....	958.1	4.0	45.7	28.5	-2.3	1.8	22.2	12.8	-1.0
Structures .....	198.6	.5	-2.6	-1.2	-3.3	.9	-4.9	-2.3	-6.5
Producers' durable equipment .....	773.3	3.8	52.4	32.5	2.0	2.2	34.3	18.8	1.1
Residential investment .....	314.3	5.6	10.6	10.6	5.2	8.2	15.6	15.0	6.8
Government consumption expenditures and gross investment .....	1,299.4	.3	-6.2	11.8	4.6	.1	-1.9	3.7	1.4
Federal .....	452.1	-2.4	-10.4	8.0	-2.0	-2.1	-8.8	7.3	-1.7
National defense .....	303.4	-1.5	-15.4	7.0	3.1	-2.0	-18.5	9.9	4.2
Nondefense .....	148.1	-9	4.6	1.0	-4.8	-2.3	13.1	2.6	-12.1
State and local .....	847.5	2.8	4.2	3.8	6.6	1.3	2.1	1.8	3.2
<b>Addendum: Final sales of domestic product</b> .....	<b>7,499.2</b>	<b>38.5</b>	<b>77.7</b>	<b>83.9</b>	<b>42.8</b>	<b>2.1</b>	<b>4.3</b>	<b>4.6</b>	<b>2.3</b>

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.

**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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in real GDP after subtracting 2.66 percentage points from the second-quarter change. Real final sales of domestic product—GDP less change in business inventories—decelerated to a 2.3-percent increase, following a 4.6-percent increase.

The largest contributors to the 3.3-percent third-quarter increase in real GDP were personal consumption expenditures (PCE) and inventory investment.<sup>2</sup> PCE increased 3.9 percent and con-

tributed 2.64 percentage points to GDP growth; purchases of services and of nondurable goods rose.<sup>3</sup> The 0.96-percentage-point contribution

but the composition of GDP was affected. (The USEC performed commercial nuclear enrichment activities.) Proceeds of the sale totaled \$3.1 billion (current dollars), \$1.5 billion of which was treated as a sale of financial assets and, consequently, was excluded from GDP. The remaining \$1.6 billion (\$6.4 billion at an annual rate) was the market value of uranium inventories and machinery and equipment. The inventory portion was deducted from government consumption expenditures and added to the change in business inventories; the machinery and equipment portion was deducted from government gross investment and was added to gross private domestic fixed investment.

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

2. The level of GDP was not affected by the privatization in late July of the United States Enrichment Corporation (USEC) by the Federal Government,

### Third-Quarter 1998 Advance GDP Estimate: Source Data and Assumptions

The "advance" GDP estimate for the third 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, 1998:III

[Billions of dollars, seasonally adjusted at annual rates]

	1998					
	April	May	June	July	August	September <sup>1</sup>
Fixed investment:						
Nonresidential structures:						
Buildings, utilities, and farm:						
Value of new nonresidential construction put in place .....	169.4	166.3	169.6	165.2	164.3	164.6
Producers' durable equipment:						
Manufacturers' shipments of complete civilian aircraft .....	41.0	43.1	44.4	52.4	42.0	45.8
Residential structures:						
Value of new residential construction put in place:						
1-unit structures .....	182.1	181.4	185.0	188.2	188.4	190.7
2-or-more-unit structures .....	24.8	22.9	23.0	23.5	22.3	22.5
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 .....	36.6	23.9	44.3	20.4	35.2	26.9
Net exports: <sup>2</sup>						
Exports of goods:						
U.S. exports of goods, balance-of-payments basis .....	664.0	656.6	657.2	645.9	644.4	668.7
Excluding nonmonetary gold .....	660.5	652.2	652.4	643.2	637.8	662.1
Imports of goods:						
U.S. imports of goods, balance-of-payments basis .....	920.0	927.6	903.6	898.3	922.8	928.3
Excluding nonmonetary gold .....	914.8	922.0	897.9	893.1	913.6	920.9
Net exports of goods (exports less imports) .....	-256.0	-271.0	-246.4	-252.4	-278.4	-259.6
Excluding nonmonetary gold .....	-254.3	-269.8	-245.5	-249.9	-275.8	-258.8
Government consumption expenditures and gross investment:						
State and local:						
Structures:						
Value of new construction put in place .....	132.3	126.0	132.9	131.6	133.9	132.7

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.

by inventory investment largely reflected a sharp reduction in the pace of inventory liquidation in the motor vehicle industry. (Though inventory investment in the motor vehicle industry boosted third-quarter GDP, total motor vehicle output decreased, restraining GDP; inventory investment and output were both affected by a strike in the industry.) Residential investment and government spending also contributed to the third-quarter increase in real GDP. The increase in real GDP was damped by an increase in imports and by decreases in exports and in nonresidential fixed investment.

**Motor vehicles.**—Real motor vehicle output decreased 6.0 percent in the third quarter after decreasing 11.2 percent in the second; both decreases partly reflected the strike at a motor vehicle manufacturer from June 5 to July 29. Truck output accounted for the third-quarter decrease; auto output increased after three consecutive decreases (table 2).

Final sales of motor vehicles to domestic purchasers decreased 23.0 percent after increasing 22.9 percent.<sup>4</sup> Purchases by consumers, by businesses, and by governments all turned down.

Consumer purchases turned down sharply even though the factors frequently considered in analyses of consumer spending were only a little less

favorable than in the second quarter. As mentioned earlier, real disposable personal income increased 2.6 percent, the same as in the second quarter. The Index of Consumer Sentiment (prepared by the University of Michigan Survey Research Center) decreased but remained high. The unemployment rate increased from 4.4 percent to 4.6 percent. In addition, motor vehicle manufacturers continued to offer attractive sales-incentive programs, and interest rates on new-car loans changed little.

Exports and imports of motor vehicles both decreased substantially more than in the second quarter.

Motor vehicle inventories decreased \$3.7 billion after decreasing \$22.6 billion; in the first quarter, they had increased \$2.6 billion. For new domestic autos, the inventory-sales ratio (calculated from units data) increased to 2.3 at the end of the third quarter from 1.9 at the end of the second; the traditional industry target is 2.4.

**Prices**

The price index for gross domestic purchases, which measures the prices of the goods and services purchased by U.S. residents, increased 0.5 percent in the third quarter after increasing 0.4 percent in the second (table 3). The price index for gross domestic purchases less food and energy

**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							
	1998	1997	1998			1997	1998		
	III	IV	I	II	III	IV	I	II	III
<b>Output</b> .....	<b>256.7</b>	<b>9.6</b>	<b>-6.2</b>	<b>-7.8</b>	<b>-4.0</b>	<b>15.2</b>	<b>-8.6</b>	<b>-11.2</b>	<b>-6.0</b>
Autos .....	115.3	-7	-5.7	-9.7	8.4	-2.2	-17.5	-29.2	35.2
Trucks .....	140.9	10.2	-4	1.8	-12.4	31.9	-1.0	4.8	-28.5
<b>Less: Exports</b> .....	21.0	.8	-1	-9	-5.1	13.1	-2.3	-12.2	-58.3
Autos .....	12.8	0	.1	-8	-2.1	-.3	.6	-17.0	-45.9
Trucks .....	8.2	.8	-2	-1	-3.0	35.2	-6.2	-5.2	-71.3
<b>Plus: Imports</b> .....	79.4	-3.3	6.4	-1.1	-3.6	-15.5	37.5	-4.9	-16.4
Autos .....	66.7	-2.2	6.1	.8	-4.0	-12.8	44.7	4.8	-20.7
Trucks .....	12.6	-1.1	.3	-1.9	.3	-26.5	7.5	-43.3	12.0
<b>Equals: Gross domestic purchases</b> .....	<b>315.0</b>	<b>5.5</b>	<b>.5</b>	<b>-8.1</b>	<b>-2.7</b>	<b>7.0</b>	<b>.6</b>	<b>-9.5</b>	<b>-3.3</b>
Autos .....	169.1	-2.8	.4	-8.1	6.4	-6.5	1.0	-17.7	16.7
Trucks .....	145.6	8.2	.1	0	-9.0	24.6	.1	.1	-21.5
<b>Less: Change in business inventories</b> .....	-3.7	9.5	-7.7	-25.2	18.9	.....	.....	.....	.....
Autos .....	2.6	3.7	-4.3	-12.2	14.9	.....	.....	.....	.....
Trucks .....	-6.0	5.5	-3.4	-12.7	4.2	.....	.....	.....	.....
<b>Equals: Final sales to domestic purchasers</b> .....	<b>318.7</b>	<b>-4.2</b>	<b>8.2</b>	<b>17.1</b>	<b>-21.5</b>	<b>-5.1</b>	<b>10.8</b>	<b>22.9</b>	<b>-23.0</b>
Autos .....	166.6	-6.4	4.6	3.8	-8.1	-14.2	11.5	9.2	-17.3
Trucks .....	151.8	2.3	3.5	13.3	-13.4	6.4	10.0	39.7	-28.7
<b>Addenda:</b>									
Personal consumption expenditures .....	189.8	-1.7	3.6	9.1	-9.2	-3.5	7.9	20.5	-17.2
Producers' durable equipment .....	122.4	-6	5.4	6.3	-9.8	-1.9	19.1	21.3	-26.4
Gross government investment .....	7.6	-1.9	-7	1.9	-2.9	-53.5	-24.4	121.8	-72.4

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

increased 0.6 percent, about the same as in the second quarter ([chart 2](#)).

PCE prices increased 1.0 percent after increasing 0.9 percent. PCE energy prices decreased 5.8 percent after decreasing 7.5 percent, as prices of gasoline and oil decreased less than in the second quarter. PCE food prices increased 2.8 percent after increasing 1.3 percent, partly reflecting step-ups in the prices of poultry and of processed dairy products. Prices of PCE less food and energy increased 1.0 percent after increasing 1.3 percent; prices of furniture and household equipment decreased more than in the second quarter, and prices of housing increased less than in the second quarter.

Prices of nonresidential fixed investment decreased 3.6 percent after decreasing 3.1 percent. Prices of structures increased 0.7 percent after increasing 3.1 percent. Prices of producers' durable equipment decreased 5.1 percent, about the same as in the second quarter; prices of computers and peripheral equipment decreased about the same as in the second quarter, prices of industrial equipment slowed, and prices of transportation equipment turned up. Prices of private residential investment increased 2.3 percent after increasing 1.7 percent.

Prices of government consumption expenditures and gross investment increased 1.1 percent

after increasing 0.8 percent. Prices paid by the Federal Government increased 0.1 percent after no change; nondense prices were unchanged after decreasing, and national defense prices increased about as much as in the second quarter. Prices paid by State and local governments increased 1.6 percent after increasing 1.2 percent.

The GDP price index, which measures the prices of goods and services produced in the United States, increased 0.8 percent after increasing 0.9 percent. This index, unlike the index for gross domestic purchases, includes the prices of exports and excludes the prices of imports. Export prices decreased 2.9 percent after decreasing 1.8 percent; prices of industrial supplies and materials and prices of nonautomotive capital goods decreased more than in the second quarter. Import prices decreased 4.8 percent after decreasing 4.5 percent; prices of foods, feeds, and beverages, of industrial supplies and materials, and of autos decreased more than in the second quarter, but prices of petroleum products and of nonautomotive consumer goods decreased less than in the second quarter.

### Personal income

Current-dollar DPI increased 3.6 percent after increasing 3.5 percent. The personal saving rate decreased to 0.1 percent from 0.4 percent, reflecting a larger increase in personal outlays than in DPI ([chart 3](#)). The third-quarter saving rate was the lowest since the quarterly series began in 1946. (Personal saving and the saving rate need not be greater than zero; negative personal

**Table 3.—Price Indexes**

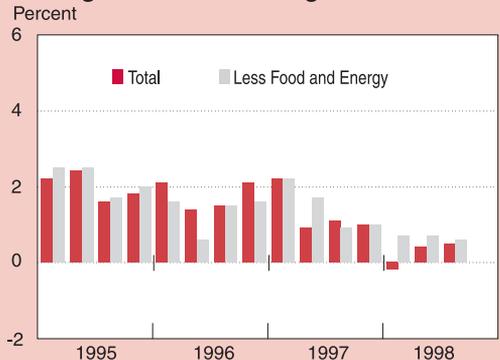
[Percent change at annual rates; based on seasonally adjusted index numbers (1992=100)]

	1997		1998	
	IV	I	II	III
<b>Gross domestic product</b> .....	1.1	0.9	0.9	0.8
Less: Exports of goods and services .....	-1.6	-3.4	-1.8	-2.9
Plus: Imports of goods and services .....	-2.3	-10.4	-4.5	-4.8
<b>Equals: Gross domestic purchases</b> .....	1.0	-2	.4	.5
Less: Change in business inventories .....				
<b>Equals: Final sales to domestic purchasers</b> .....	1.0	-1	.5	.5
Personal consumption expenditures .....	1.1	0	.9	1.0
Food .....	1.2	1.1	1.3	2.8
Energy .....	2.3	-20.2	-7.5	-5.8
Personal consumption expenditures less food and energy .....	1.0	1.1	1.3	1.0
Private nonresidential fixed investment .....	-1.6	-3.0	-3.1	-3.6
Structures .....	3.3	2.7	3.1	.7
Producers' durable equipment .....	-3.3	-5.0	-5.2	-5.1
Private residential investment .....	2.4	0	1.7	2.3
Government consumption expenditures and gross investment .....	2.2	1.1	.8	1.1
Federal .....	1.4	2.7	0	.1
National defense .....	1.2	2.9	.3	.2
Nondefense .....	1.8	2.2	-6	0
State and local .....	2.7	.2	1.2	1.6
<b>Addendum: Gross domestic purchases less food and energy</b> .....	1.0	.7	.7	.6

NOTE.—Percent changes in major aggregates are in NIPA table 8.1. Index number levels are in tables 7.1, 7.2, and 7.4.

**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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saving, or dissaving, may occur when outlays are financed by borrowing, by selling investments or other assets, or by using savings from previous periods.)

Personal income increased \$73.7 billion in the third quarter after increasing \$78.0 billion in the second (table 4). In both quarters, the increase was mainly accounted for by wage and salary disbursements, which increased \$57.8 billion after increasing \$55.7 billion. Private wages and salaries increased \$51.1 billion after increasing \$49.4 billion. In both quarters, about two-thirds of the increase was accounted for by service industries, and the remaining third was accounted for by distributive industries; manufacturing decreased slightly after increasing slightly. Government

wages and salaries increased \$6.6 billion, about the same as in the second quarter.

Transfer payments increased \$6.4 billion after increasing \$6.8 billion.

Personal interest income increased \$4.6 billion after increasing \$6.0 billion. Proprietors' income increased \$3.2 billion after increasing \$7.5 billion; most of the slowdown was accounted for by a downturn in farm proprietors' income, as crop prices decreased more than in the second quarter and livestock prices decreased after increasing.

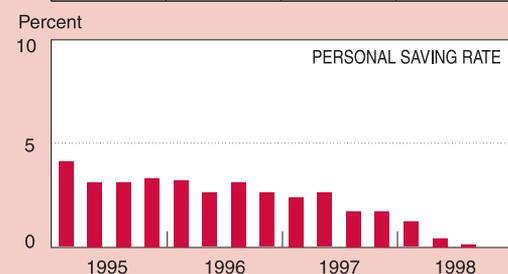
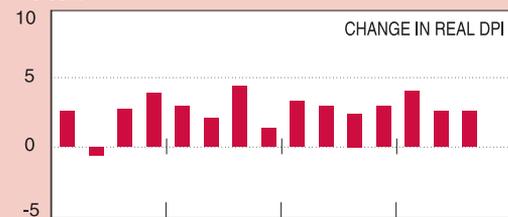
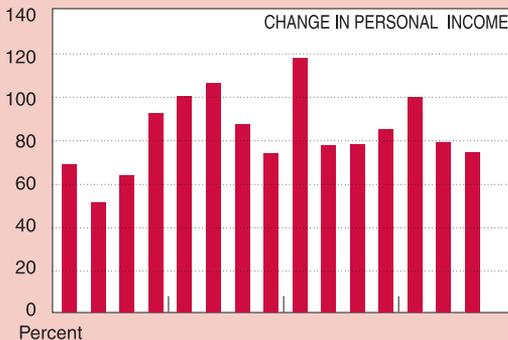
Personal contributions for social insurance, which is subtracted in the calculation of personal income, increased \$4.3 billion, about the same as in the second quarter.

Personal tax and nontax payments increased \$20.3 billion after increasing \$26.1 billion. The slowdown was primarily accounted for by a downturn in estate and gift tax collections. 

CHART 3

Selected Personal Income and Saving Measures

Billions \$



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

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Table 4.—Personal Income and Its Disposition

[Billions of dollars; seasonally adjusted at annual rates]

	Level	Change from preceding quarter				
	1998	1997		1998		
		III	IV	I	II	III
Wage and salary disbursements .....	4,175.4	74.4	72.0	55.7	57.8	
Private industries .....	3,482.9	69.5	64.0	49.4	51.1	
Goods-producing industries .....	1,026.8	24.3	15.3	4.2	3.6	
Manufacturing .....	750.3	19.0	9.1	.4	-5	
Distributive industries .....	946.0	18.2	14.4	13.3	13.8	
Service industries .....	1,510.1	27.0	34.3	31.9	33.7	
Government .....	692.4	4.7	8.1	6.3	6.6	
Other labor income .....	408.3	3.4	5.8	2.9	2.6	
Proprietors' income with IVA and CCAAdj .....	574.9	1.5	6.2	7.5	3.2	
Farm .....	24.2	-4.9	-4.0	.3	-3.5	
Nonfarm .....	550.7	6.4	10.2	7.2	6.7	
Rental income of persons with CCAAdj .....	163.6	.2	-5	2.7	2.6	
Personal dividend income .....	263.0	.9	.3	.5	.9	
Personal interest income .....	767.6	2.5	4.0	6.0	4.6	
Transfer payments to persons .....	1,152.2	6.5	18.5	6.8	6.4	
Less: Personal contributions for social insurance .....	349.4	5.4	7.3	4.2	4.3	
<b>Personal income .....</b>	<b>7,155.6</b>	<b>84.0</b>	<b>99.0</b>	<b>78.0</b>	<b>73.7</b>	
Less: Personal tax and nontax payments .....	1,113.2	26.5	41.3	26.1	20.3	
<b>Equals: Disposable personal income .....</b>	<b>6,042.4</b>	<b>57.6</b>	<b>57.7</b>	<b>51.8</b>	<b>53.5</b>	
Less: Personal outlays .....	6,036.4	57.9	82.8	99.3	73.1	
<b>Equals: Personal saving .....</b>	<b>5.9</b>	<b>-3</b>	<b>-25.2</b>	<b>-47.4</b>	<b>-19.7</b>	
<b>Addenda: Special factors in personal income:</b>						
In wages and salaries:						
Federal Government and Postal Service pay adjustments, including "buyouts" .....	4.0	0	3.5	.1	0	
Strike in the motor vehicle industry .....	-2.5	0	0	-1.2	-1.3	
In personal tax and nontax payments:						
Recent tax law changes .....	-45.1	0	-7.9	-5	-6	

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