

THE BUSINESS SITUATION

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REAL GROSS domestic product (GDP) increased 3.9 percent in the third quarter of 1994, according to the "preliminary" estimates of the national income and product accounts (NIPA's).¹ The "advance" estimates of the NIPA's, reported in the October "Business Situation," showed a 3.4-percent increase. Real gross domestic purchases, a measure of goods and services purchased by U.S. residents, increased 4.5 percent, 0.6 percentage point more than reported a month ago. The fixed-weighted price index for gross domestic purchases increased 3.4 percent, 0.2 percentage point more than reported a month ago. (The sources of these revisions are discussed in "Revisions" later in this article.)

The 3.9-percent increase in real GDP in the third quarter followed a 4.1-percent increase in the second (chart 1). Output of goods stepped up somewhat, reflecting an upturn in motor vehicle production. Output of services also increased more than in the second quarter, but structures increased substantially less (table 1).

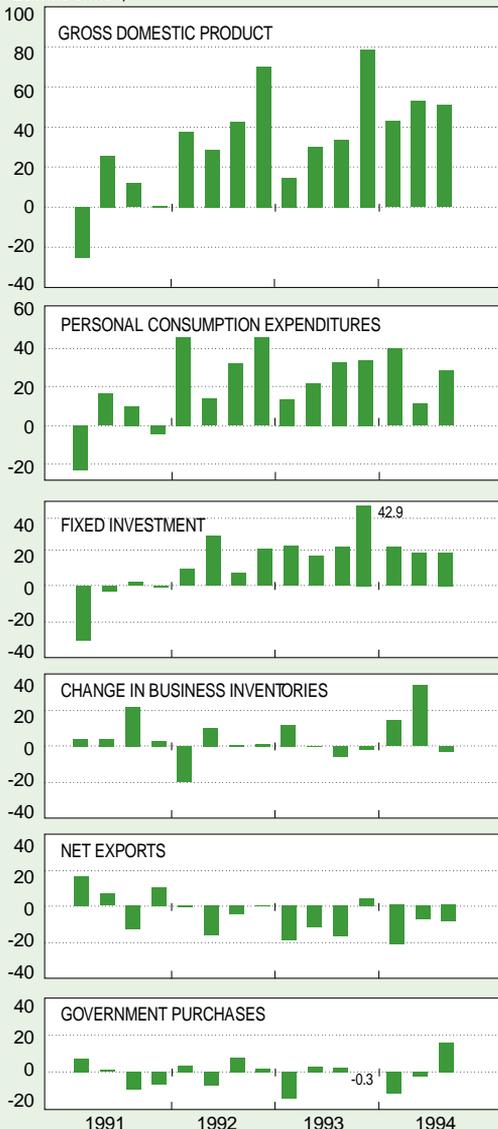
The 4.5-percent increase in real gross domestic purchases followed an increase of 4.6 percent (table 2). The third-quarter increase reflected

increases in personal consumption expenditures, nonresidential fixed investment, and government

CHART 1

Real Product: Change from Preceding Quarter

Billion 1987 \$



1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes are differences between these rates. Quarter-to-quarter percent changes are annualized.

Real, or constant-dollar, estimates are expressed in 1987 dollars and are based on 1987 weights.

Table 1.—Real Gross Domestic Product, by Major Type of Product

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1993	1994		
		1993	1994				IV	I	II	III
	1994:III	IV	I	II	III				
Gross domestic product ...	5,365.0	78.6	43.1	53.0	50.9	6.3	3.3	4.1	3.9
Goods	2,236.1	57.3	33.3	32.5	34.8	11.5	6.4	6.1	6.5
Motor vehicles	228.4	22.2	18.0	-12.2	5.0	53.8	37.4	-19.2	9.3
Other	2,007.7	35.1	15.3	44.7	29.8	7.7	3.2	9.6	6.2
Services	2,651.4	5.1	14.6	10.0	15.6	.8	2.3	1.5	2.4
Structures	477.6	16.2	-4.8	10.4	.7	15.0	-4.0	9.2	.6

NOTE.—Most series are found in NIPA table 1.4. Output of motor vehicles is the sum of auto output and truck output (from tables 8.4 and 8.6, respectively).

Based on Seasonally Adjusted Annual Rates
U.S. Department of Commerce, Bureau of Economic Analysis

purchases. Inventory investment, which had accounted for more than half of the second-quarter increase, decreased, as did residential investment.

Imports and exports are the link between goods and services produced in the United States (GDP) and goods and services purchased by U.S. residents (gross domestic purchases). In the third quarter, gross domestic purchases continued to increase faster than GDP, as imports increased faster than exports. Both imports and exports increased at a slower rate than in the second quarter.

Personal consumption expenditures

Real personal consumption expenditures (PCE) increased 3.3 percent in the third quarter after increasing 1.3 percent in the second (table 3). All major components contributed to the acceleration.

Factors frequently considered in analyses of PCE were mixed in the third quarter (chart 2). Real disposable personal income increased, but a little less than in the second quarter. The Index of Consumer Sentiment (prepared by the University

Table 2.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter				
	Level	Change from preceding quarter					1993		1994	
		1993		1994			IV	I	II	III
		1994:III	IV	I	II	III				
Gross domestic product	5,365.0	78.6	43.1	53.0	50.9	6.3	3.3	4.1	3.9	
Less: Exports of goods and services	662.7	29.9	-5.6	24.3	18.8	21.7	-3.5	16.6	12.2	
Plus: Imports of goods and services	783.5	25.8	16.2	32.0	27.9	16.0	9.5	18.9	15.6	
Equals: Gross domestic purchases	5,485.9	74.4	64.9	60.7	60.1	5.8	5.0	4.6	4.5	
Less: Change in business inventories	56.1	-2.2	14.6	33.8	-3.1	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	5,429.8	76.6	50.3	26.9	63.2	6.0	3.9	2.0	4.8	
Personal consumption expenditures	3,586.4	34.0	40.1	11.5	28.6	4.0	4.7	1.3	3.3	
Nonresidential fixed investment	680.4	29.3	16.4	14.3	22.5	21.1	10.9	9.2	14.4	
Residential investment	229.9	13.5	5.4	3.9	-3.9	28.2	10.0	7.0	-6.5	
Government purchases	933.0	-3	-11.6	-2.8	15.9	-1	-4.9	-1.2	7.1	

NOTE.—Dollar levels are found in NIPA tables 1.2 and 1.6, and percent changes are found in table 8.1.

Table 3.—Real Personal Consumption Expenditures

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter				
	Level	Change from preceding quarter					1993		1994	
		1993		1994			IV	I	II	III
		1994:III	IV	I	II	III				
Personal consumption expenditures	3,586.4	34.0	40.1	11.5	28.6	4.0	4.7	1.3	3.3	
Durable goods	530.2	18.1	10.9	.5	8.0	15.5	8.8	.4	6.3	
Motor vehicles and parts	202.8	9.7	9.0	-8.4	-2.5	21.4	18.8	-14.8	-4.8	
New autos	78.9	7.2	-1.6	-1.8	-4.9	41.2	-7.1	-8.1	-21.4	
New trucks	42.6	5.1	1.0	-2.4	-2.7	58.8	8.8	-18.7	-21.8	
Other	81.3	-2.6	9.6	-4.2	5.1	-13.4	66.3	-19.3	29.6	
Furniture and household equipment	241.5	8.0	1.3	6.6	9.0	15.6	2.3	12.2	16.4	
Other	86.0	.4	.5	2.4	1.6	2.0	2.5	12.2	7.8	
Nondurable goods	1,113.2	6.3	10.3	6.0	8.9	2.4	3.8	2.2	3.3	
Food	536.0	3.0	3.8	4.2	-1	2.3	2.9	3.2	-1	
Clothing and shoes	210.1	3.8	1.4	1.1	5.2	7.9	2.8	2.2	10.5	
Energy ¹	99.4	-9	.7	-1.4	1.3	-3.6	2.9	-5.5	5.4	
Other	267.7	.4	4.3	2.0	2.6	.6	6.8	3.1	4.0	
Services	1,943.0	9.6	18.9	5.1	11.6	2.0	4.0	1.1	2.4	
Housing	502.5	1.7	2.3	2.3	2.5	1.4	1.9	1.9	2.0	
Household operation	228.0	-5	1.8	.4	-1.1	-9	3.2	.7	-1.9	
Energy ²	97.1	-3	1.5	-9	-3.1	-1.2	6.2	-3.5	-11.8	
Other household operation	131.0	-3	.5	1.2	2.1	-9	1.6	3.8	6.7	
Transportation	132.5	1.4	1.1	.9	.7	4.4	3.4	2.8	2.1	
Medical care	480.6	2.8	2.8	4.2	3.2	2.4	2.4	3.6	2.7	
Other	599.4	4.2	11.0	-2.8	6.3	2.9	7.7	-1.9	4.3	

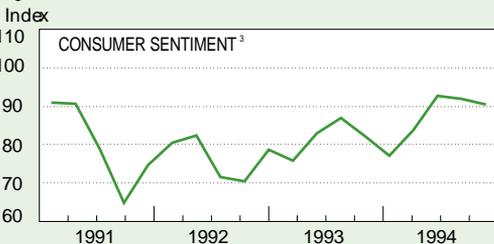
1. Gasoline and oil, and fuel oil and coal.
2. Electricity and gas.

NOTE.—Dollar levels are found in NIPA table 2.3. New auto and truck purchases are found in tables 8.4 and 8.6. Percent changes in major aggregates are found in table 8.1.

CHART 2

Selected Factors Affecting Consumer Spending

Percent change



1. Disposable personal income in 1987 dollars; seasonally adjusted annual rates
 2. All civilian workers, seasonally adjusted.
 Data: U.S. Department of Labor Bureau of Labor Statistics
 3. Data: University of Michigan's Survey Research Center
 U.S. Department of Commerce, Bureau of Economic Analysis

of Michigan's Survey Research Center) decreased but remained relatively high. The unemployment rate decreased.

Expenditures for durable goods increased 6.3 percent after edging up 0.4 percent. More than half of the third-quarter increase was accounted for by consumer electronics; furniture and "other durable household furnishings" (which includes such items as floor coverings and lamps) also increased significantly. Motor vehicles and parts decreased, primarily reflecting decreases in new domestic autos and in trucks; in contrast, net purchases of used autos increased.

Expenditures for nondurable goods increased 3.3 percent after increasing 2.2 percent. Clothing and shoes accounted for more than half of the third-quarter increase; food purchased for on-premise consumption, energy, and "other" nondurables also increased. Food purchased for off-premise consumption decreased.

Expenditures for services increased 2.4 percent after increasing 1.1 percent. Increases were recorded in medical care, transportation, housing services, and "other services"; energy decreased, primarily reflecting milder-than-normal weather.

Nonresidential fixed investment

Real nonresidential fixed investment increased 14.4 percent in the third quarter after increasing 9.2 percent in the second (table 4). Struc-

Table 4.—Real Gross Private Domestic Fixed Investment

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter				
	Level	Change from preceding quarter					1993		1994	
		1993	1994			IV	I	II	III	
			1994:III	IV	I					II
Gross private domestic fixed investment	910.3	42.9	21.7	18.3	18.6	23.0	10.6	8.6	8.6	
Nonresidential	680.4	29.3	16.4	14.3	22.5	21.1	10.9	9.2	14.4	
Structures	152.1	1.2	-4.6	6.9	1.1	3.3	-11.8	20.6	2.9	
Nonresidential buildings, including farm	105.7	2.2	-3.5	6.2	.3	9.0	-13.0	27.4	1.1	
Utilities	29.7	0	-.1	.6	.7	0	-1.4	8.7	10.0	
Mining exploration, shafts, and wells	9.4	-6	-.3	.2	-.4	-21.0	-11.6	8.6	-15.4	
Other	7.4	-4	-.7	-.1	.6	-18.5	-32.1	-5.7	40.2	
Producers' durable equipment	528.3	28.2	20.9	7.5	21.4	27.5	18.6	6.1	18.0	
Information processing and related equipment	251.1	16.3	8.0	9.0	8.9	35.1	15.0	16.4	15.5	
Computers and peripheral equipment	135.0	10.3	4.7	3.1	4.7	42.1	16.3	10.1	15.2	
Other	116.1	6.0	3.3	5.8	4.3	27.2	13.5	23.7	16.3	
Industrial equipment	92.1	3.7	2.8	2.5	3.2	19.8	14.1	12.1	15.2	
Transportation and related equipment	99.1	5.6	7.6	-6.2	6.8	29.0	37.9	-22.9	32.9	
Motor vehicles	90.2	5.0	9.0	-3.9	5.9	29.8	53.8	-16.5	31.1	
Other	8.9	.6	-1.4	-2.3	.9	23.4	-39.9	-63.6	53.2	
Other	86.0	2.7	2.4	2.3	2.4	14.9	12.7	11.8	12.0	
Residential	229.9	13.5	5.4	3.9	-3.9	28.2	10.0	7.0	-6.5	
Single-family structures	123.9	8.1	6.8	2.5	-3.7	32.8	25.1	8.2	-11.1	
Multifamily structures	12.0	-.2	.3	1.3	.7	-7.8	13.0	63.0	27.2	
Other	94.0	5.5	-1.7	.2	-1.0	26.5	-6.9	.8	-4.1	

NOTE.—Dollar levels are found in NIPA table 5.5. Motor vehicles are found in tables 8.4 (autos) and 8.6 (trucks). Percent changes in major aggregates are found in table 8.1.

tures slowed sharply, but producers' durable equipment stepped up.

Factors that affect investment spending were generally favorable in the third quarter. Real final sales of domestic product increased 4.2 percent, more than in either of the preceding two quarters. The capacity utilization rate in manufacturing continued its uptrend, increasing 0.7 percentage point to 84.1 percent. Corporate profits and cash flow increased, but not as much as in the preceding quarter, when they had rebounded from the effect of the Northridge, California, earthquake. Borrowing costs were one of the few factors that were less favorable to investment spending; for example, the yield on new high-grade corporate bonds increased 25 basis points.

Structures increased 2.9 percent after increasing 20.6 percent—the largest percentage increase in 10 years. Both industrial and commercial buildings increased much less than in the preceding quarter. Utilities structures increased about as much as in the second quarter. Mining exploration, shafts, and wells—mainly oilwell drilling—decreased.

Producers' durable equipment accelerated to an 18.0-percent increase after increasing 6.1 percent. All major categories of equipment contributed to the third-quarter increase. Information processing equipment and transportation equipment accounted for about three-fourths of the increase. The increase in information processing equipment was almost equally divided between

computers and communications equipment; the increase in transportation equipment was mainly accounted for by motor vehicles.

Residential investment

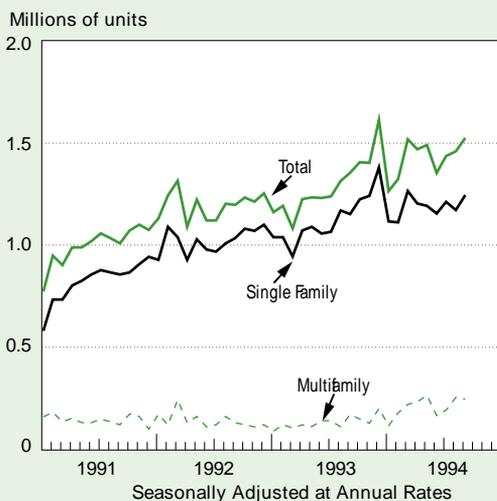
Real residential investment decreased 6.5 percent in the third quarter after increasing 7.0 percent in the second. Single-family construction turned down, multifamily construction decelerated, and "other residential investment" decreased after no change.

Single-family construction decreased 11.1 percent after increasing 8.2 percent. Single-family construction for a quarter can usually be approximated by the average of housing starts in that quarter and in the preceding quarter; accordingly, construction in the third quarter of 1994 would reflect housing starts in the second and third quarters of 1994. However, in these two quarters housing starts averaged 1.20 million units (seasonally adjusted annual rate)—up slightly from an average of 1.18 million units for the first and second quarters (chart 3). The anomaly of an increase in average starts and a decrease in single-family construction is due to a decrease in the "quality" (that is, the size, location, or amenities) of the units; such a decrease in quality is reflected in the NIPA estimate of real single-family construction but not in the average number of starts.

Multifamily construction increased 27.2 percent after increasing 63.0 percent. The rental

CHART 3

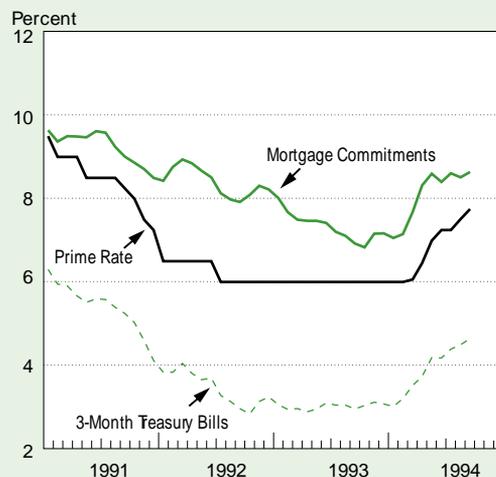
Housing Starts



Data: Bureau of the Census
U.S. Department of Commerce, Bureau of Economic Analysis

CHART 4

Selected Interest Rates



Data: Federal Reserve Board

U.S. Department of Commerce, Bureau of Economic Analysis

vacancy rate decreased a little, to 7.2 percent, but remained high.

“Other residential investment” decreased 4.1 percent after little change. Brokers’ commissions accounted for the decrease, reflecting a drop of 154,000 (seasonally adjusted annual rate) in the sales of new and existing residences. Mortgage rates continued to increase; for example, the commitment rate on 30-year fixed-rate mortgages increased 16 basis points, to 8.60 percent (chart 4).

Inventory investment

Real inventory investment—that is, the change in business inventories—decreased \$3.1 billion in the third quarter, as inventory accumulation slowed to \$56.1 billion from \$59.2 billion (table 5). In contrast, inventory investment had increased \$33.8 billion in the second quarter.

Nonfarm inventories increased strongly for the second consecutive quarter, increasing \$46.3 billion after increasing \$51.7 billion. Inventories in wholesale and retail trade increased somewhat less than in the second quarter but again accounted for more than three-fourths of the accumulation.

In retail trade, inventories of both durable and nondurable goods increased. Inventories held by auto dealers increased after a modest decrease. Inventories of other durable goods increased slightly more than in the second quarter; more than half of the third-quarter increase was accounted for by furniture and appliance stores. Inventories of nondurable goods increased about one-third as much as in the second quarter; department store inventories, which had increased

sharply in the second quarter, increased only modestly in the third.

In wholesale trade, too, inventories of both durable and nondurable goods increased. Most of the increase in inventories of durable goods was accounted for by machinery, equipment, and supplies and by electrical goods. The increase in inventories of nondurable goods was accounted for by apparel and dry goods.

Manufacturing inventories increased more than in the second quarter. The third-quarter increase was more than accounted for by durable goods, especially electrical and industrial equipment.

“Other nonfarm inventories” increased less than in second quarter. (The “other” component consists mainly of inventories held by the mining, construction, public utilities, transportation, communication, and service industries.)

Farm inventories increased \$9.8 billion after increasing \$7.5 billion. Inventories of both crops and livestock increased more than in the second quarter. The third-quarter increases largely reflected weak open-market sales.

Ratios of nonfarm inventories to final sales changed little in the third quarter. The ratio based on all final sales of domestic business edged up to 2.49 from 2.48. Another ratio, based on final sales of goods and structures, edged down to 4.28 from 4.29. Both ratios remained low by historical standards.

Net exports of goods and services

Real exports increased 12.2 percent in the third quarter after increasing 16.6 percent in the second. Real imports increased 15.6 percent after increasing 18.9 percent (table 6).

Table 5.—Change in Real Business Inventories

[Billions of 1987 dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter			
	1993		1994			1993	1994		
	III	IV	I	II	II	IV	I	II	III
Change in business inventories	13.0	10.8	25.4	59.2	56.1	-2.2	14.6	33.8	-3.1
Farm	-7.9	.1	3.3	7.5	9.8	8.0	3.2	4.2	2.3
Nonfarm	20.9	10.7	22.1	51.7	46.3	-10.2	11.4	29.6	-5.4
Manufacturing	2.5	-7.7	9.9	.7	3.6	-10.2	17.6	-9.2	2.9
Wholesale trade	6.8	.7	-1.0	17.7	15.3	-6.1	-1.7	18.7	-2.4
Retail trade	6.2	5.0	2.0	22.3	20.7	-1.2	-3.0	20.3	-1.6
Auto dealers	-7.4	-4.5	2.5	-1.9	6.9	2.9	7.0	-4.4	8.8
Other retail trade	13.6	9.5	-5	24.2	13.8	-4.1	-10.0	24.7	-10.4
Other	5.3	12.7	11.3	11.0	6.6	7.4	-1.4	-3	-4.4
Addenda: Motor vehicles	-6.7	.6	-1.9	3.5	7.2	7.3	-2.5	5.4	3.7
Nonfarm less motor vehicles	27.6	10.1	24.0	48.2	39.1	-17.5	13.9	24.2	-9.1

NOTE.—Dollar levels for change in real business inventories are found in NIPA table 5.11. Motor vehicles are found in tables 8.4 (autos) and 8.6 (trucks).

Exports of goods increased 17.9 percent, about the same as in the second quarter. Exports of both agricultural and nonagricultural products increased strongly. Most of the major end-use categories contributed to the third-quarter increase in nonagricultural products. Nonautomotive capital goods accounted for about half of the increase; within this category, computers and "other capital goods" increased substantially and more than offset a drop in civilian aircraft. Exports of services decreased after an increase.

Imports of goods increased 17.1 percent after increasing 23.3 percent. As in exports, the third-quarter increase was spread across most of the major end-use categories. Nonautomotive capital goods accounted for about half of the increase, as increases in computers and "other capital goods" more than offset a decrease in civilian aircraft. Most of the rest of the third-quarter increase in imports of goods was accounted for by petroleum and petroleum products, autos, and nonautomotive consumer goods. Imports of services turned up.

Government purchases

Real government purchases increased 7.1 percent in the third quarter after decreasing 1.2 percent in the second (table 7). Federal Government purchases turned up sharply, and purchases by State and local governments increased more than in the second quarter.

Federal defense purchases increased 13.6 percent in the third quarter after decreasing in the seven preceding quarters. The increase was attributable to all types of purchases except compensation of employees, which decreased for the 13th consecutive quarter. The largest increases were in purchases of durable goods, particularly aircraft, and in purchases of services other than compensation of employees.

Federal nondefense purchases increased 9.5 percent after decreasing 15.0 percent. The increase was more than accounted for by purchases of services other than employee compensation.²

2. The third-quarter increase in purchases of services primarily reflected smaller sales of services by government in the third quarter than in the second.

Table 6.—Real Net Exports of Goods and Services

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1993		1994	
		1993	1994			IV	I	II	III
	1994:III	IV	I	II	III				
Net exports of goods and services	-120.8	4.1	-21.8	-7.8	-9.0				
Exports of goods and services	662.7	29.9	-5.6	24.3	18.8	21.7	-3.5	16.6	12.2
Goods	505.0	29.6	-3.7	20.2	20.4	29.9	-3.1	18.6	17.9
Agricultural products	40.6	2.2	-2.5	.9	3.1	26.1	-23.2	10.2	37.4
Nonagricultural products	464.4	27.5	-1.3	19.3	17.3	30.3	-1.2	19.3	16.4
Services	157.7	.4	-1.9	4.0	-1.5	1.0	-4.8	10.7	-3.7
Imports of goods and services	783.5	25.8	16.2	32.0	27.9	16.0	9.5	18.9	15.6
Goods	674.4	22.8	15.3	33.1	26.1	16.8	10.6	23.3	17.1
Petroleum and products	64.4	1.4	-1.6	3.8	4.1	10.2	-10.6	29.7	30.1
Nonpetroleum products	609.9	21.4	16.8	29.3	22.0	17.5	13.0	22.7	15.8
Services	109.2	3.1	.9	-1.1	1.8	12.4	3.4	-4.0	6.9

NOTE.—Dollar levels are found in NIPA tables 4.2 and 4.4, and percent changes in major aggregates are found in table 8.1.

Table 7.—Real Government Purchases

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1993		1994	
		1993	1994			IV	I	II	III
	1994:III	IV	I	II	III				
Government purchases	933.0	-0.3	-11.6	-2.8	15.9	-0.1	-4.9	-1.2	7.1
Federal	344.7	-4.5	-9.4	-7.0	10.0	-5.0	-10.3	-7.9	12.5
National defense	233.4	-2.2	-10.2	-2.4	7.3	-3.6	-16.0	-4.1	13.6
Nondefense	111.2	-2.3	.8	-4.5	2.5	-7.8	2.9	-15.0	9.5
State and local	588.4	4.2	-2.1	4.1	6.0	2.9	-1.4	2.9	4.2
Structures	90.6	2.0	-6.0	1.7	2.5	9.1	-23.6	8.1	11.8
Other	497.8	2.2	3.9	2.4	3.5	1.8	3.2	2.0	2.9

NOTE.—Dollar levels are found in NIPA table 3.8B, and percent changes are found in table 8.1.

State and local government purchases increased 4.2 percent after increasing 2.9 percent. All categories of purchases contributed to the third-quarter increase; the largest increases were in structures and in compensation of employees.

Revisions

The preliminary third-quarter estimate of a 3.9-percent increase in real GDP is 0.5 percentage point higher than the advance estimate (table 8). This revision is equal to the average revision (without regard to sign) between the advance and the preliminary estimates over the past 10 years.

Upward revisions were made to purchases of equipment and structures by business, purchases of nondurable goods by consumers, and purchases of defense products by government. For producers' durable equipment, more than half of the revision reflected the incorporation of newly available source data on motor vehicle registrations for August and September; the new data indicated that the business share of motor vehicle purchases was much higher than assumed for the advance estimate. (For GDP, this upward revision to producers' durable equipment was largely offset by a downward revision to PCE durable goods that reflected a reduction in the consumer share.) Most of the rest of the upward revision to producers' durable equipment reflected the incorporation of revised data on manufacturers' shipments for September.

For nonresidential structures, the upward revision reflected the incorporation of revised data on the value of construction put in place for August and newly available data for September. For PCE nondurable goods, the upward revision reflected the incorporation of revised data on retail sales for August and September. For defense purchases, the upward revision reflected the incorporation of newly available data on outlays by the Department of Energy for September.

Downward revisions were made to inventory investment, net exports, and PCE durable goods. The revision to inventory investment was largely in durable manufacturing excluding motor vehicles and reflected the incorporation of revised source data for August and newly available data for September. The revision to net exports resulted from a smaller upward revision to exports than to imports, both of which reflected the in-

corporation of newly available data for September on trade in goods.³

The third-quarter increase in the fixed-weighted price index for gross domestic purchases was revised up 0.2 percentage point. The

3. The upward revision to constant-dollar imports was substantially larger (\$6.0 billion) than the upward revision to current-dollar imports (\$2.8 billion), primarily because the revisions affected the mix of current-dollar imports. In current dollars, computer imports were revised up, and automotive imports were revised down. The revision to computers translated into a larger upward revision in constant dollars because computer prices have decreased since 1987—that is, because the deflator for computer imports is less than 100.0. Conversely, the downward revision to current-dollar automotive imports translated into a smaller downward revision in constant dollars because automotive prices have increased since 1987. In addition to these mix effects, downward revisions to the prices of imported food, petroleum, and consumer goods increased the revised estimate of constant-dollar imports but not the estimate of current-dollar imports.

Table 8.—Revisions to Real Gross Domestic Product and Prices, Third Quarter 1994

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Preliminary estimate minus advance estimate	
	Advance estimate	Preliminary estimate	Percentage points	Billions of 1987 dollars
Gross domestic product	3.4	3.9	0.5	5.8
Less: Exports of goods and services	9.8	12.2	2.4	3.5
Goods	14.6	17.9	3.3	3.6
Services	-3.5	-3.7	-.2	-.1
Plus: Imports of goods and services	12.1	15.6	3.5	6.0
Goods	13.8	17.1	3.3	4.8
Services	2.3	6.9	4.6	1.2
Equals: Gross domestic purchases	3.9	4.5	.6	8.4
Personal consumption expenditures	3.0	3.3	.3	2.5
Durables	7.9	6.3	-1.6	-2.0
Nondurables	2.1	3.3	1.2	3.1
Services	2.1	2.4	.3	1.4
Fixed investment	3.2	8.6	5.4	11.6
Nonresidential	7.0	14.4	7.4	11.2
Structures	-5.4	2.9	8.3	3.2
Producers' durable equipment	11.0	18.0	7.0	8.0
Residential	-7.2	-6.5	.7	.4
Change in business inventories				-8.4
Nonfarm				-9.7
Farm				1.3
Government purchases	5.9	7.1	1.2	2.7
Federal	9.8	12.5	2.7	2.1
National defense	8.6	13.6	5.0	2.6
Nondefense	11.5	9.5	-2.0	-.5
State and local	3.8	4.2	.4	.6
Gross domestic purchases price index (fixed weights) ¹	3.2	3.4	.2	
GDP price index (fixed weights) ¹	2.7	2.8	.1	

1. Based on 1987 weights.

NOTE.—Preliminary estimates for the third quarter of 1994 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared a month ago.

Personal consumption expenditures: Revised retail sales for August and September, and consumers' share of new car purchases for August and September.

Nonresidential fixed investment: Construction put in place for July and August (revised) and September, manufacturers' shipments of machinery and equipment for August and September (revised), and business' share of new car purchases for August and September.

Residential investment: Construction put in place for July and August (revised) and September.

Change in business inventories: Manufacturing and trade inventories for August (revised) and September, and revised unit inventories of motor vehicles for September.

Net exports of goods and services: Merchandise exports and merchandise imports for August (revised) and September.

Government purchases: Detailed Federal outlays for September, State and local construction put in place for July and August (revised) and September, and State and local government employment for August and September (revised).

Wages and salaries: Revised employment, average hourly earnings, and average weekly hours for August and September.

GDP prices: Detailed merchandise export and import price indexes for July through September, values and quantities of petroleum imports for September, and single-family housing prices for the quarter.

increase in the price index for GDP was revised up 0.1 percentage point.

Corporate Profits

Profits from current production increased \$10.7 billion in the third quarter after increasing \$38.2 billion in the second (table 9).⁴ The second-quarter increase largely reflected a rebound from the effect of the Northridge, California, earthquake, which had reduced first-quarter profits by about \$30 billion.

The third-quarter increase was mostly accounted for by roughly equal increases in domestic operations of financial and nonfinancial corporations. For nonfinancial corporations, the increase reflected increases in both unit profits—as the prices that corporations received increased

4. 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 1.14, 1.16, and 6.16C as "corporate profits with inventory valuation and capital consumption adjustments."

Table 9.—Corporate Profits
[Seasonally adjusted at annual rates]

	Level		Change from preceding quarter
	1994:III		
		1994:II	1994:III
Billions of dollars			
Profits from current production	557.1	38.2	10.7
Domestic	495.9	38.6	10.2
Financial	95.8	16.0	4.9
Nonfinancial	400.1	22.5	5.4
Rest of the world	61.2	-.4	.5
IVA	-19.6	-1.8	-5.5
CCAdj	37.5	.4	.1
Profits before tax	539.2	39.6	16.1
Profits tax liability	208.7	17.6	7.0
Profits after tax	330.5	22.0	9.1
Cash flow from current production	573.1	8.3	4.9
Profits by industry:			
Profits before tax with IVA	519.6	37.8	10.6
Domestic	458.3	38.1	10.1
Financial	111.8	16.8	5.4
Nonfinancial	346.6	21.3	4.8
Manufacturing		-2.1	
Trade		13.0	
Transportation and public utilities		9.8	
Other .....		.6	
Rest of the world	61.2	-.4	.5
Receipts (inflows)	88.7	1.5	9.6
Payments (outflows)	27.4	1.8	9.0
Dollars			
Unit prices, costs, and profits of domestic nonfinancial corporations:			
Unit price	1.175	0.005	0.005
Unit labor cost .....	.768	.003	.002
Unit nonlabor cost .....	.279	-.003	.002
Unit profits from current production .....	.128	.005	.001

NOTE.—Levels of these and other profits series are found in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

IVA Inventory valuation adjustment
CCAdj Capital consumption adjustment

more than the unit costs they incurred—and real gross product.

Cash flow from current production, a profits-related measure of internally generated funds available to corporations for investment, increased \$4.9 billion after increasing \$8.3 billion. The ratio of cash flow to nonresidential fixed investment decreased from 83.2 percent to 80.8 percent; in the 1980's, the ratio had averaged 72.1 percent.

Related measures.—Industry profits increased \$10.6 billion after increasing \$37.8 billion.⁵ Preliminary and incomplete information suggests that an increase in financial industry profits was mainly in banking and that an increase in nonfinancial industry profits was mainly in mining and services.

Profits from the rest of the world increased \$0.5 billion after decreasing \$0.4 billion. This component of profits measures receipts of profits from foreign affiliates of U.S. corporations less payments of profits by U.S. affiliates of foreign corporations. Preliminary and incomplete information indicates that both receipts and payments increased substantially in the third quarter.

Profits before tax increased \$16.1 billion. The difference between this increase and the \$10.7 billion increase in profits from current production reflects a decrease in the inventory valuation adjustment; the capital consumption adjustment changed little.

Government Sector

The fiscal position of the government sector deteriorated in the third quarter of 1994, as the combined deficit of the Federal Government and of State and local governments increased \$12.9 billion, to \$131.0 billion (table 10). The Federal Government deficit accounted for most of the deterioration; the State and local government surplus decreased slightly.

Federal

The Federal Government deficit increased \$10.0 billion, to \$155.1 billion, in the third quarter, as expenditures increased more than receipts. The increase in the deficit was the first in seven quarters.

5. Industry profits are estimated as the sum of profits before tax and the inventory valuation adjustments; they are shown in NIPA table 6.16C. Estimates of the capital consumption adjustment do not exist.

Receipts.—Receipts increased \$7.8 billion in the third quarter after increasing \$43.2 billion in the second. The deceleration was accounted for by all the major components of receipts except indirect business tax and nontax accruals.

Personal tax and nontax receipts decreased \$4.6 billion after increasing \$20.9 billion. Second-quarter tax receipts had been boosted by the effects of the Omnibus Budget Reconciliation Act of 1993 that retroactively increased tax rates for high-income taxpayers. Persons affected by the rate increases had the option of paying the additional 1993 income taxes in three annual installments, the first of which was due April 15, 1994. Withheld personal income taxes slowed to a \$4.5 billion increase from a \$5.2 billion increase, reflecting a deceleration in wages and salaries.

Corporate profits tax accruals increased \$6.2 billion after increasing \$14.5 billion. The slowdown reflected the deceleration in corporate profits.

Contributions for social insurance increased \$4.5 billion after increasing \$7.9 billion. The slowdown reflected a deceleration in wages and salaries.

Indirect business tax and nontax accruals increased \$1.5 billion after no change in the second quarter. Business nontax accruals increased \$0.9 billion after decreasing \$1.2 billion; the turnaround was more than accounted for by a civil damage recovery settlement in the third quarter that was related to the savings and loan bailout. Excise taxes increased \$1.1 billion after decreasing \$0.2 billion; the turnaround was more than accounted for by a \$0.8 billion windfall-profits-tax refund to the petroleum industry in the second quarter.

Expenditures.—Expenditures increased \$17.7 billion in the third quarter after increasing \$12.2 billion in the second. The acceleration was more than accounted for by an upturn in purchases; in contrast, subsidies decreased more in the third quarter than in the second.

Purchases increased \$9.3 billion after decreasing \$2.7 billion. Defense purchases increased \$8.8 billion after no change. The pickup was more than accounted for by turnarounds in military durables, nondurables, and structures. Deliveries of two B-2 bombers more than accounted for the turnaround in durable goods. Nondefense purchases increased \$0.4 billion after decreasing \$2.6 billion. Most of the turnaround was attributable to a slowdown in sales of services, primarily those associated with the Department of Veterans Affairs hospitals and with foreign military service

training. (Sales, except those by government enterprises for goods and services similar to those provided by the private sector, are treated as deductions from government purchases.) The turnaround in nondefense purchases was partly offset by a downturn in compensation of non-defense employees, which decreased \$2.3 billion after increasing \$1.9 billion. Incentive payments (“buyouts”) for civilian employees who leave Federal service voluntarily decreased \$2.1 billion in the third quarter after increasing \$2.2 billion in the second.

Table 10.—Government Sector Receipts and Expenditures

(Billions of dollars, seasonally adjusted at annual rates)

	Level	Change from preceding quarter				
		1993		1994		
		III	IV	I	II	III
	1994: III					
Government sector						
Receipts	2138.7	15.8	54.5	31.1	55.4	16.8
Expenditures	2269.7	5.2	39.1	-3.4	22.4	29.7
Surplus or deficit (-)	-131.0	10.6	15.4	34.5	33.0	-12.9
Federal Government						
Receipts	1388.5	9.0	40.9	23.9	43.2	7.8
Personal tax and nontax receipts	566.5	7.7	9.3	13.4	20.9	-4.6
Corporate profits tax accruals	172.5	-1.6	17.6	-6.0	14.5	6.2
Indirect business tax and nontax accruals	91.9	-1.2	8.4	-3.0	0	1.5
Contributions for social insurance	557.5	4.1	5.6	16.8	7.9	4.5
Expenditures	1543.6	-3.0	36.1	-20.0	12.2	17.7
Purchases	444.4	-2.5	-2.9	-2.0	-2.7	9.3
National defense	300.5	-6.8	.1	-7.4	0	8.8
Nondefense	143.9	4.2	-2.9	5.4	-2.6	.4
Transfer payments (net)	683.6	7.4	13.9	-2.6	4.7	7.4
To persons	668.6	6.0	3.9	10.1	3.6	5.1
To rest of the world	15.1	1.4	10.0	-12.7	1.1	2.4
Grants-in-aid to State and local governments	200.3	4.9	9.2	-7.0	4.4	5.9
Net interest paid	194.4	-1.2	-1	-4.2	9.5	5.6
Subsidies less current surplus of government enterprises	20.9	-11.8	16.0	-4.2	-3.8	-10.4
Subsidies	25.9	-11.3	15.5	-3.9	-3.1	-8.7
Of which: Agricultural subsidies .....	.5	-11.7	15.5	-4.9	-3.4	-8.4
Less: Current surplus of government enterprises	5.0	.4	-5	.3	.7	1.7
Less: Wage accruals less disbursements	0	0	0	0	0	0
Surplus or deficit (-)	-155.1	12.1	4.8	43.9	31.1	-10.0
State and local governments						
Receipts	950.5	11.7	22.8	.3	16.5	14.9
Personal tax and nontax receipts	177.3	1.8	2.3	2.7	2.4	2.0
Corporate profits tax accruals	36.3	-3	4.0	-1.4	3.1	.9
Indirect business tax and nontax accruals	465.4	4.5	6.6	5.2	5.8	5.4
Contributions for social insurance	71.3	.7	.7	.8	.8	.8
Federal grants-in-aid	200.3	4.9	9.2	-7.0	4.4	5.9
Expenditures	926.3	13.1	12.2	9.6	14.7	17.7
Purchases	744.3	9.0	7.2	4.6	9.5	12.8
Of which: Structures	105.8	3.4	3.0	-5.8	2.3	4.3
Transfer payments to persons	277.0	5.2	5.7	5.7	6.4	6.3
Net interest paid	-55.1	-1	-2	-5	-5	-5
Less: Dividends received by government	10.9	.1	.1	.2	.1	.1
Subsidies less current surplus of government enterprises	-28.9	-9	-4	-1	-6	-6
Subsidies .....	.4	0	0	0	0	0
Less: Current surplus of government enterprises	29.2	.8	.4	.2	.6	.5
Less: Wage accruals less disbursements	0	0	0	0	0	0
Surplus or deficit (-)	24.1	-1.4	10.6	-9.3	1.8	-2.9
Social insurance funds	65.3	-1	-1	-3	0	-6
Other	-41.2	-1.3	10.7	-9.0	1.8	-2.3

NOTE.—Dollar levels are found in NIPA tables 3.2 and 3.3.

Transfer payments increased \$7.4 billion after increasing \$4.7 billion. The step-up was attributable to both transfer payments to persons, which increased \$5.1 billion after increasing \$3.6 billion, and transfer payments to the rest of the world, which increased \$2.4 billion after increasing \$1.1 billion. Most of the acceleration in transfer payments to persons was accounted for by a turnaround in payments for food stamps and a step-up in medicare (hospital and supplementary medical insurance).

Grants-in-aid to State and local governments increased \$5.9 billion after increasing \$4.4 billion.

The acceleration was more than accounted for by turnarounds in medical research and in aid to families with dependent children and by a step-up in food programs.

Net interest paid increased \$5.6 billion after increasing \$9.5 billion. The deceleration was mainly attributable to interest paid on the public debt, which increased \$6.8 billion after increasing \$8.0 billion.

Subsidies less the current surplus of government enterprises decreased \$10.4 billion after decreasing \$3.8 billion. Both decreases were mostly attributable to agricultural subsi-

Corrections To Be Made to the Estimates of Property Tax Receipts

BEA has determined that corrections will need to be made to the NIPA estimates of property tax receipts and of related aggregates. These corrections arise because the effects of changes to Michigan's property tax law were not recorded in accordance with NIPA accounting conventions when the changes took effect in 1994.¹ Property taxes and other indirect business taxes are recorded in the NIPA's on an accrual, not on a payments, basis, so the effects of the changes should have been recorded beginning with the first quarter of 1994, even though tax collections were not affected until later in the year.² The corrections will be incorporated at the next opportunity to make revisions back to the first quarter of 1994, which is the comprehensive NIPA revision tentatively scheduled for late 1995.

The changes to Michigan's property tax law reduced local taxes and increased State taxes; the combined effect was to reduce property tax liabilities by \$3.4 billion in 1994. In the government accounts, the corrections will reduce State and local government indirect business tax and nontax liability, receipts, and the surplus or deficit by \$3.4 billion.

The corrections will also affect the components of national and personal income in which property taxes are treated as expenses and are subtracted in their calculation. (Gross domestic product is not affected.) The corrections will raise rental income of persons by \$2.5 billion, farm proprietors' income by \$0.1 billion, and nonfarm proprietors' income by \$0.4 billion.³ Thus, personal income and personal saving will each be raised by \$3.0 billion. In addition, the corrections will

raise corporate profits by \$0.2 billion. (The reduction in property taxes results in a \$0.4 billion increase in corporate profits, but the source data used to estimate this component included most of the effects of the tax law changes.)

The accompanying table shows the corrections that will be made to the NIPA estimates for the first quarter of 1994 in the next comprehensive revision. It is not possible at this time to estimate the corrections for subsequent quarters, but they will probably be about the same as those for the first quarter. Further, it is not known to what extent these corrections to property tax receipts (and related aggregates) will be affected by the incorporation of more complete source data as part of the comprehensive revision.

Corrections To Be Made in the Next Comprehensive NIPA Revision: First Quarter 1994

[Billions of dollars, seasonally adjusted at annual rates]

State and local government receipts and expenditures:	
Receipts	-3.4
Indirect business tax and nontax liability	-3.4
Property taxes	-3.4
Expenditures	0
Surplus or deficit (-), NIPA's	-3.4
Other NIPA estimates:	
Gross domestic product	0
Less: Indirect business tax and nontax liability	-3.4
Statistical discrepancy .....	.3
Equals: National income	3.1
Proprietors' income with IVA and CCAAdj .....	.5
Farm .....	.1
Nonfarm .....	.4
Rental income of persons with CCAAdj	2.5
Corporate profits with IVA and CCAAdj .....	.2
Less: Corporate profits with IVA and CCAAdj .....	.2
Equals: Personal income	3.0
Less: Personal tax and nontax payments	0
Equals: DPI	3.0
Less: Personal outlays	0
Equals: Personal saving	3.0
Addenda:	
Personal saving as percent of DPI .....	.1
DPI, 1987 dollars	2.3
Nonfarm business product	-3
Nonfarm business product, 1987 dollars	-2
DPI	Disposable personal income
IVA	Inventory valuation adjustment
CCAAdj	Capital consumption adjustment

1. Several other changes to Michigan taxes also took effect in 1994, including changes to the sales tax, the income tax, the tobacco tax, and the real estate transfer tax. These changes have been properly recorded in the published NIPA estimates.

2. For additional information about the concepts, definitions, data sources, and methodology for estimating State and local government indirect business tax and nontax liability, see Bureau of Economic Analysis, Government Transactions, Methodology Paper Series MP-5 (Washington, DC: U.S. Government Printing Office, November 1988): 9, 80-88.

3. In the NIPA's, property taxes on owner-occupied housing are classified as indirect business taxes because owner-occupied housing is treated as a business; property taxes on owner-occupied housing are subtracted in the calculation of rental income of persons.

dies, which dropped \$8.4 billion after decreasing \$3.4 billion. The third-quarter drop was mostly accounted for by deficiency payments. (Deficiency payments make up the difference between support prices and market prices for farm commodities.)

State and local

The State and local government surplus decreased \$2.9 billion, to \$24.1 billion, as expenditures increased more than receipts.

Receipts increased \$14.9 billion in the third quarter after increasing \$16.5 billion in the second. Decelerations in most major categories of receipts were partly offset by an acceleration in Federal grants-in-aid. Reflecting the slowdown in corporate profits, corporate profits tax accruals increased \$0.9 billion after increasing \$3.1 billion.

Personal tax and nontax receipts increased \$2.0 billion after increasing \$2.4 billion. Indirect business tax and nontax accruals increased \$5.4 billion after increasing \$5.8 billion. Federal grants-in-aid increased \$5.9 billion after increasing \$4.4 billion; the acceleration was more than accounted for by increases in aid to families with dependent children, in food programs, and in medical research.

Expenditures increased \$17.7 billion in the third quarter after increasing \$14.7 billion in the second. The acceleration was more than accounted for by purchases, which increased \$12.8 billion after increasing \$9.5 billion. Within purchases, structures increased \$4.3 billion after increasing \$2.3 billion. The acceleration was accounted for by all categories of construction except highways and housing. 