

# Business Situation

## Preliminary Estimates for the Second Quarter of 2004

THE growth of gross domestic product (GDP) slowed in the second quarter of 2004, according to the “preliminary” estimates of the national income and product accounts (NIPAs); prices and real disposable personal income increased about as much as in the first quarter of the year (chart 1 and table 1).<sup>1</sup> Much the same picture of GDP growth and prices was shown

in the “advance” estimates released a month ago; however, income growth was revised down.

- Real GDP increased 2.8 percent in the second quarter after increasing 4.5 percent in the first. The advance estimate for the second quarter had shown a 3.0-percent increase. Consumer spending, inventory investment, and nonresidential fixed investment were revised up in the preliminary estimates, and net exports was revised down.

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized. “Real” estimates are in chained (2000) dollars, and price indexes are chain-type measures.

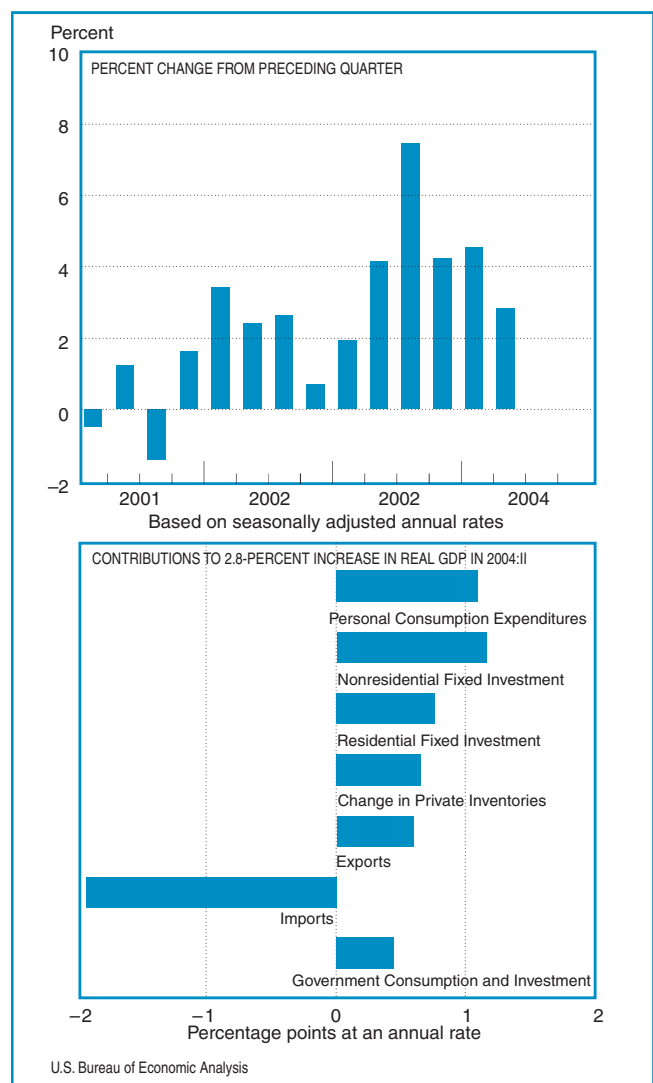
*This article was prepared by Daniel Larkins and Alyssa E. Holdren.*

**Table 1. Real Gross Domestic Product and Components**  
[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)				Share of current-dollar GDP (percent)
	2003		2004		2003		2004		
	III	IV	I	II	III	IV	I	II	II
<b>Gross domestic product (GDP)</b> .....	<b>7.4</b>	<b>4.2</b>	<b>4.5</b>	<b>2.8</b>	<b>7.4</b>	<b>4.2</b>	<b>4.5</b>	<b>2.8</b>	<b>100.0</b>
<b>Personal consumption expenditures</b> .....	<b>5.0</b>	<b>3.6</b>	<b>4.1</b>	<b>1.6</b>	<b>3.58</b>	<b>2.50</b>	<b>2.90</b>	<b>1.11</b>	<b>70.0</b>
Durable goods.....	16.5	3.9	2.2	0.0	1.38	0.33	0.19	0.00	8.4
Nondurable goods.....	6.9	5.1	6.7	0.4	1.38	1.01	1.33	0.09	20.2
Services.....	1.9	2.8	3.3	2.5	0.83	1.15	1.39	1.02	41.4
<b>Gross private domestic investment</b> .....	<b>22.4</b>	<b>13.9</b>	<b>12.3</b>	<b>17.3</b>	<b>3.16</b>	<b>2.04</b>	<b>1.86</b>	<b>2.60</b>	<b>16.4</b>
Fixed investment.....	18.0	10.5	4.5	13.0	2.59	1.57	0.69	1.95	16.0
Nonresidential.....	15.7	11.0	4.2	12.1	1.50	1.07	0.42	1.18	10.3
Structures.....	-1.3	7.9	-7.6	7.1	-0.03	0.18	-0.19	0.16	2.4
Equipment and software.....	21.7	12.0	8.0	13.6	1.53	0.89	0.61	1.01	7.9
Residential.....	22.4	9.6	5.0	14.7	1.09	0.50	0.27	0.77	5.7
Change in private inventories.....	.....	.....	.....	.....	0.57	0.47	1.17	0.66	0.5
<b>Net exports of goods and services</b> .....	.....	.....	.....	.....	<b>0.64</b>	<b>-0.66</b>	<b>-0.76</b>	<b>-1.37</b>	<b>-5.1</b>
Exports.....	11.3	17.5	7.3	6.1	1.02	1.55	0.70	0.60	10.0
Goods.....	10.1	16.1	9.1	5.0	0.64	1.00	0.60	0.34	7.0
Services.....	14.1	20.6	3.4	8.7	0.39	0.56	0.10	0.25	3.0
Imports.....	2.8	17.1	10.6	14.1	-0.39	-2.22	-1.46	-1.96	15.2
Goods.....	0.0	18.4	12.7	13.6	0.00	-1.96	-1.43	-1.58	12.6
Services.....	17.9	11.1	1.2	16.4	-0.39	-0.26	-0.03	-0.38	2.5
<b>Government consumption expenditures and gross investment</b> .....	<b>0.1</b>	<b>1.6</b>	<b>2.5</b>	<b>2.4</b>	<b>0.03</b>	<b>0.31</b>	<b>0.48</b>	<b>0.45</b>	<b>18.7</b>
Federal.....	-3.3	4.8	7.1	2.7	-0.23	0.33	0.48	0.19	6.9
National defense.....	-7.7	11.6	10.6	1.9	-0.36	0.50	0.47	0.09	4.6
Nondefense.....	5.8	-7.5	0.2	4.5	0.13	-0.18	0.00	0.10	2.3
State and local.....	2.2	-0.1	0.0	2.2	0.26	-0.02	0.00	0.26	11.8

NOTE: Percent changes are from NIPA table 1.1.1, and contributions to percent change are from NIPA table 1.1.2. Shares are from NIPA table 1.1.10.

**Chart 1. Real Gross Domestic Product**



- Prices of goods and services purchased by U.S. residents increased 3.5 percent (the same as in the advance estimate) after increasing 3.4 percent.
- Real disposable personal income increased 2.5 percent after increasing 2.4 percent. The advance estimate for the second quarter had shown a 2.9-percent increase.

The deceleration in GDP growth in the second quarter mainly reflected a slowdown in consumer spending, but a slowdown in inventory investment and a step-up in imports also contributed.<sup>2</sup>

- Consumer spending increased 1.6 percent and contributed 1.11 percentage points to GDP growth, 1.79 percentage points less than it contributed in the first quarter. Purchases of nondurable goods and of services slowed, and purchases of durable goods were flat after increasing.
- Inventory investment contributed 0.66 percentage point to GDP growth, 0.51 percentage point less than it contributed in the first quarter. Inventory stocks increased more in the second quarter (\$57.7 billion) than in the first (\$40.0 billion), but this step-up was much smaller than the step-up from the fourth quarter of 2003 to the first quarter of 2004 (from \$8.6 billion to \$40.0 billion).
- Imports increased 14.1 percent and subtracted 1.96 percentage points from second-quarter GDP growth, 0.50 percentage point more than in the first quarter. (Exports slowed somewhat and contributed 0.10 percentage point less to GDP growth than in the first quarter.)

The effects on GDP of consumer spending, inventory investment, and imports were partly offset by step-ups in fixed investment.

- Nonresidential fixed investment increased 12.1 percent and contributed 1.18 percentage points to second-quarter GDP growth, 0.76 percentage point more than it contributed in the first quarter. Investment in equipment and software stepped up, and investment in structures increased after decreasing.

2. In this article, "consumer spending" is shorthand for "personal consumption expenditures," "inventory investment" is shorthand for "change in private inventories," and "government spending" is shorthand for the NIPA series "government consumption expenditures and gross investment."

- Residential investment increased 14.7 percent and contributed 0.77 percentage point, 0.50 percentage point more than in the first quarter.

The preliminary estimates for the second quarter also show the following:

- Real final sales of domestic product (GDP less the change in private inventories) increased 2.1 percent after increasing 3.3 percent (table 2).
- The production of goods and of services slowed, while the production of structures stepped up.
- Motor vehicle output turned down. Excluding motor vehicles, real GDP increased 3.7 percent after increasing 4.3 percent.
- Final sales of computers decreased a little after a very slight increase.
- Gross domestic purchases increased 4.0 percent after increasing 5.0 percent. The advance estimate for the second quarter had shown a 3.0-percent increase.
- The gross saving rate—saving from all sources as a percentage of gross national income—held steady, at 13.7 percent. The net saving rate also held steady, at 1.9 percent. (Net saving, which excludes the consumption of fixed capital, is a measure of the saving that is available for augmenting the stock of fixed assets.)

**Table 2. Real Gross Domestic Product by Type of Product**

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)				Share of current-dollar GDP (percent)
	2003		2004		2003		2004		
	III	IV	I	II	III	IV	I	II	II
<b>Gross domestic product (GDP)</b>	<b>7.4</b>	<b>4.2</b>	<b>4.5</b>	<b>2.8</b>	<b>7.4</b>	<b>4.2</b>	<b>4.5</b>	<b>2.8</b>	<b>100.0</b>
Final sales of domestic product	6.8	3.7	3.3	2.1	6.84	3.71	3.32	2.14	99.5
Change in private inventories	.....	.....	.....	.....	0.57	0.47	1.17	0.66	0.5
Goods	17.7	5.8	8.2	1.8	5.45	1.90	2.65	0.61	32.6
Services	1.1	3.1	3.0	1.8	0.67	1.77	1.76	1.03	57.3
Structures	13.9	5.4	0.7	12.3	1.29	0.52	0.07	1.15	10.0
<b>Addenda:</b>									
Motor vehicle output	26.3	2.9	8.8	-19.6	0.84	0.11	0.30	-0.76	3.4
GDP excluding motor vehicle output	6.8	4.2	4.3	3.7	6.57	4.08	4.18	3.55	96.6
Final sales of computers	93.7	29.0	0.1	-1.1	0.64	0.26	0.00	-0.01	1.0
GDP excluding final sales of computers	6.8	4.0	4.5	2.8	6.77	3.93	4.48	2.80	99.0

NOTE: Percent changes are from NIPA table 1.2.1, and contributions to percent change are from NIPA table 1.2.2. Shares are calculated from NIPA table 1.2.5.

## Personal Consumption Expenditures

In the second quarter of 2004, real personal consumption expenditures slowed to a 1.6-percent increase from a 4.1-percent increase in the first quarter (chart 2 and table 3). (Over the past 10 years, consumption spending has increased at an average annual rate of 3.7 percent.) Purchases of nondurable goods made the largest contribution to the slowdown, but purchases of services and of durable goods also contributed.

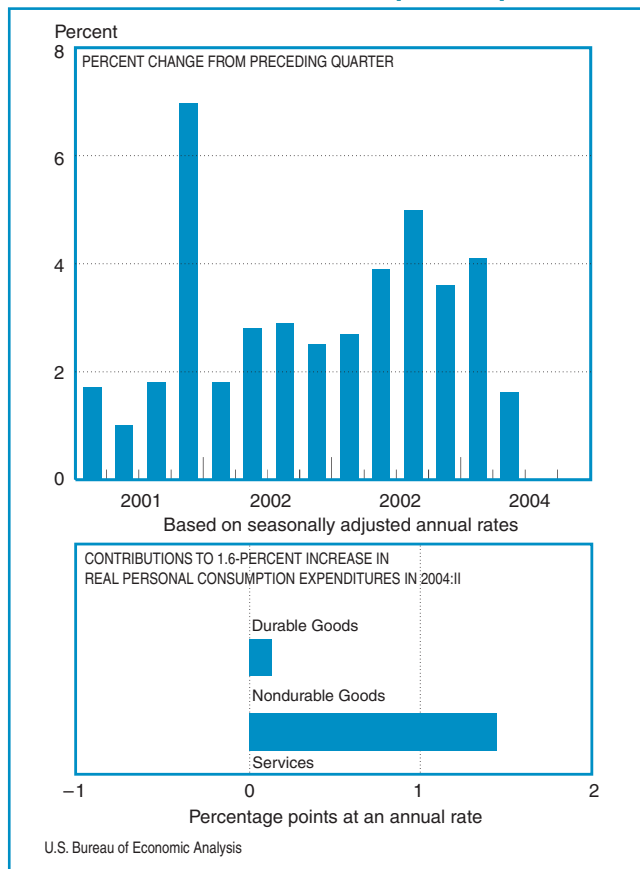
In nondurable goods, purchases of clothing and shoes turned down, and purchases of food slowed. Purchases of gasoline, fuel oil, and other energy goods decreased more than in the first quarter.

In services, spending on electricity and gas turned down, and spending on recreation (which includes ca-

sino gambling) slowed. Spending on "other" services also slowed, as brokerage charges and investment counseling turned down. In contrast, spending on medical care increased more than in the first quarter.

In durable goods, purchases of furniture and household equipment increased less than in the first quarter, as slowdowns were posted by kitchen appliances, by tableware, and by video and audio goods. "Other" durable goods (which includes jewelry and watches) turned down. Purchases of motor vehicles and parts decreased almost as much as in the first quarter; purchases of new autos slowed, but net purchases of used autos and purchases of new and used light trucks decreased less than in the first quarter.

**Chart 2. Real Personal Consumption Expenditures**



**Table 3. Real Personal Consumption Expenditures**

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real PCE (percentage points)				Share of current-dollar PCE (percent)
	2003		2004		2003		2004		
	III	IV	I	II	III	IV	I	II	II
<b>Personal consumption expenditures (PCE) .....</b>	<b>5.0</b>	<b>3.6</b>	<b>4.1</b>	<b>1.6</b>	<b>5.0</b>	<b>3.6</b>	<b>4.1</b>	<b>1.6</b>	<b>100.0</b>
<b>Durable goods .....</b>	<b>16.5</b>	<b>3.9</b>	<b>2.2</b>	<b>0.0</b>	<b>1.94</b>	<b>0.48</b>	<b>0.27</b>	<b>0.00</b>	<b>12.0</b>
Motor vehicles and parts .....	13.3	-1.8	-5.8	-5.3	0.74	-0.10	-0.33	-0.29	5.3
Furniture and household equipment .....	22.3	9.8	11.1	7.2	0.88	0.41	0.45	0.30	4.3
Other <sup>1</sup> .....	14.1	7.4	6.2	-0.4	0.32	0.17	0.15	-0.01	2.4
<b>Nondurable goods .....</b>	<b>6.9</b>	<b>5.1</b>	<b>6.7</b>	<b>0.4</b>	<b>1.93</b>	<b>1.45</b>	<b>1.90</b>	<b>0.13</b>	<b>28.9</b>
Food .....	5.9	2.6	8.1	2.6	0.80	0.36	1.10	0.36	14.0
Clothing and shoes .....	9.9	3.9	16.3	-4.9	0.39	0.16	0.62	-0.20	4.0
Gasoline, fuel oil, and other energy goods .....	5.3	19.1	-2.3	-13.2	0.14	0.47	-0.06	-0.41	3.0
Other <sup>2</sup> .....	7.6	5.8	3.1	5.0	0.61	0.46	0.25	0.39	8.0
<b>Services .....</b>	<b>1.9</b>	<b>2.8</b>	<b>3.3</b>	<b>2.5</b>	<b>1.16</b>	<b>1.64</b>	<b>1.98</b>	<b>1.45</b>	<b>59.1</b>
Housing .....	1.4	0.8	2.1	2.0	0.22	0.13	0.33	0.30	15.1
Household operation .....	2.0	7.5	3.2	-4.4	0.11	0.41	0.18	-0.24	5.4
Electricity and gas .....	0.4	17.5	3.5	-16.2	0.01	0.35	0.08	-0.38	2.1
Other household operation .....	3.0	1.6	3.1	4.0	0.10	0.05	0.10	0.13	3.4
Transportation .....	-0.8	-0.5	2.0	2.8	-0.03	-0.02	0.07	0.10	3.7
Medical care .....	3.3	3.1	3.2	4.9	0.56	0.52	0.55	0.82	16.9
Recreation .....	2.3	4.0	5.9	0.3	0.10	0.16	0.24	0.01	4.1
Other <sup>3</sup> .....	1.5	3.2	4.4	3.3	0.21	0.44	0.61	0.46	13.9

1. Includes jewelry and watches, ophthalmic products and orthopedic equipment, books and maps, bicycles and motorcycles, guns and sporting equipment, photographic equipment, boats, and pleasure aircraft.

2. Includes tobacco, toilet articles, drug preparations and sundries, stationery and writing supplies, toys, film, flowers, cleaning preparations and paper products, semidurable house furnishings, and magazines and newspapers.

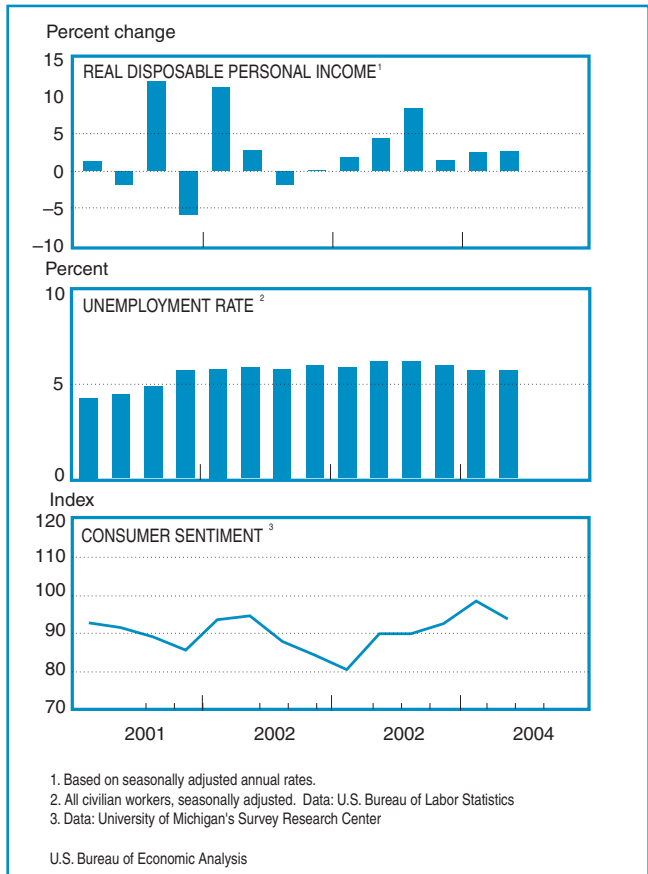
3. Includes personal care, personal business, education and research, religious and welfare activities, and net foreign travel.

NOTE: Percent changes are from NIPA table 2.3.1, and contributions to percent change are from NIPA table 2.3.2. Shares are calculated from NIPA table 2.3.5.

Factors frequently considered in the analysis of consumer spending were not particularly favorable in the second quarter (chart 3). Real disposable personal income registered a third consecutive below-average increase.<sup>3</sup> The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) decreased for the first time since the beginning of 2003. The unemployment rate held steady at 5.6 percent.

3. As noted earlier, real disposable personal income increased 2.5 percent in the second quarter; over the preceding 10 years, it has increased at an average annual rate of 3.3 percent.

**Chart 3. Selected Factors Affecting Consumer Spending**



### Private Fixed Investment

Real private fixed investment increased 13.0 percent in the second quarter—considerably more than in the first quarter, when it posted a below-average increase (chart 4 and table 4).<sup>4</sup>

**Nonresidential.** Real private nonresidential fixed investment increased 12.1 percent in the second quarter after increasing 4.2 percent in the first. Investment in equipment and software increased more than in the first quarter, and investment in structures turned up.

The step-up in equipment and software mainly reflected an upturn in transportation equipment, but a step-up in “other” equipment also contributed. In contrast, investment in information processing equipment and software and in industrial equipment increased

less than in the first quarter. In transportation equipment, aircraft rebounded from a first-quarter decline; trucks also turned up. In “other” equipment, an upturn in furniture and fixtures and a step-up in mining and oilfield machinery were partly offset by a slowdown in construction machinery. Information processing equipment and software was a mixed bag; investment in computers and peripheral equipment stepped up briskly, but investment in software and in “other” information processing equipment slowed. In industrial equipment, metalworking machinery turned down, and engines and turbines decreased more than in the first quarter; in contrast, general industrial machinery turned up.

In structures, the upturn was mainly accounted for by a turnaround in commercial and health care facilities; “other” structures and mining exploration, shafts, and wells also contributed. In contrast, the power and communication component decreased more than twice as much as in the first quarter.

Conditions that are frequently considered in the analysis of investment spending have generally been

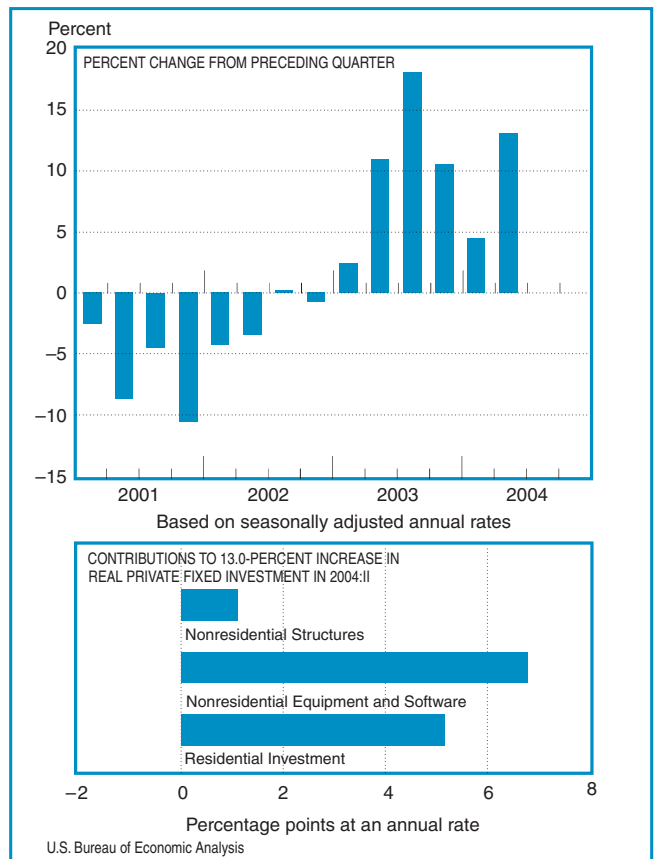
4. From the second quarter of 1994 to the second quarter of 2004, real private fixed investment increased at an average annual rate of 5.5 percent.

**Table 4. Real Private Fixed Investment**  
[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real PFI (percentage points)				Share of current-dollar PFI (percent)
	2003		2004		2003		2004		
	III	IV	I	II	III	IV	I	II	
<b>Private fixed investment (PFI)</b> .....	<b>18.0</b>	<b>10.5</b>	<b>4.5</b>	<b>13.0</b>	<b>18.0</b>	<b>10.5</b>	<b>4.5</b>	<b>13.0</b>	<b>100.0</b>
<b>Nonresidential</b> .....	<b>15.7</b>	<b>11.0</b>	<b>4.2</b>	<b>12.1</b>	<b>10.42</b>	<b>7.20</b>	<b>2.73</b>	<b>7.87</b>	<b>64.5</b>
<b>Structures</b> .....	<b>-1.3</b>	<b>7.9</b>	<b>-7.6</b>	<b>7.1</b>	<b>-0.20</b>	<b>1.22</b>	<b>-1.19</b>	<b>1.09</b>	<b>14.8</b>
Commercial and health care.....	-0.3	-6.3	-9.1	18.5	-0.02	-0.42	-0.60	1.09	6.3
Manufacturing.....	-5.7	-4.1	-16.8	-15.5	-0.05	-0.03	-0.15	-0.13	0.7
Power and communication.....	-16.0	71.4	-13.4	-32.2	-0.40	1.30	-0.35	-0.87	2.1
Mining exploration, shafts, and wells.....	31.9	13.7	6.7	20.0	0.63	0.29	0.14	0.42	2.2
Other structures <sup>1</sup> .....	-9.0	2.3	-7.0	17.9	-0.35	0.08	-0.25	0.58	3.4
<b>Equipment and software</b> .....	<b>21.7</b>	<b>12.0</b>	<b>8.0</b>	<b>13.6</b>	<b>10.61</b>	<b>5.97</b>	<b>3.92</b>	<b>6.79</b>	<b>49.7</b>
Information processing equipment and software.....	29.2	16.3	16.4	13.6	7.19	4.11	4.01	3.54	25.9
Computers and peripheral equipment.....	54.1	31.5	6.5	26.9	2.69	1.70	0.37	1.48	5.9
Software <sup>2</sup> .....	20.0	9.3	16.8	8.2	1.97	0.91	1.54	0.82	9.7
Other <sup>3</sup> .....	25.6	15.0	22.1	11.8	2.52	1.50	2.10	1.24	10.4
Industrial equipment.....	3.2	-4.5	6.6	2.6	0.29	-0.36	0.52	0.22	7.8
Transportation equipment.....	12.9	11.9	-15.0	23.9	0.99	0.92	-1.26	1.74	7.7
Other equipment <sup>4</sup> .....	27.6	16.5	8.3	15.8	2.14	1.31	0.66	1.29	8.3
<b>Residential</b> .....	<b>22.4</b>	<b>9.6</b>	<b>5.0</b>	<b>14.7</b>	<b>7.55</b>	<b>3.34</b>	<b>1.75</b>	<b>5.16</b>	<b>35.5</b>
<b>Structures</b> .....	<b>22.5</b>	<b>9.5</b>	<b>4.9</b>	<b>14.9</b>	<b>7.46</b>	<b>3.28</b>	<b>1.70</b>	<b>5.14</b>	<b>35.1</b>
Permanent site.....	22.1	21.6	6.7	6.1	4.45	4.25	1.43	1.36	21.6
Single family.....	23.4	24.8	7.1	6.2	4.20	4.34	1.37	1.24	19.5
Multifamily.....	11.5	-4.4	2.8	5.4	0.25	-0.09	0.06	0.11	2.0
Other structures <sup>5</sup> .....	23.1	-7.2	2.1	30.9	3.01	-0.97	0.27	3.78	13.5
<b>Equipment</b> .....	<b>18.8</b>	<b>12.7</b>	<b>11.9</b>	<b>3.2</b>	<b>0.09</b>	<b>0.06</b>	<b>0.05</b>	<b>0.02</b>	<b>0.5</b>

1. Consists primarily of religious, educational, vocational, lodging, railroads, farm, and amusement and recreational structures, net purchases of used structures, and brokers' commissions on the sale of structures.  
 2. Excludes software embedded, or bundled, in computers and other equipment.  
 3. Includes communication equipment, nonmedical instruments, medical equipment and instruments, photocopy and related equipment, and office and accounting equipment.  
 4. Consists primarily of furniture and fixtures, agricultural machinery, construction machinery, mining and oilfield machinery, service industry machinery, and electrical equipment not elsewhere classified.  
 5. Consists primarily of manufactured homes, improvements, dormitories, net purchases of used structures, and brokers' commissions on the sale of residential structures.  
 NOTE: Percent changes are from NIPA table 5.3.1, and contributions to percent change are from NIPA table 5.3.2. Shares are calculated from NIPA table 5.3.5.

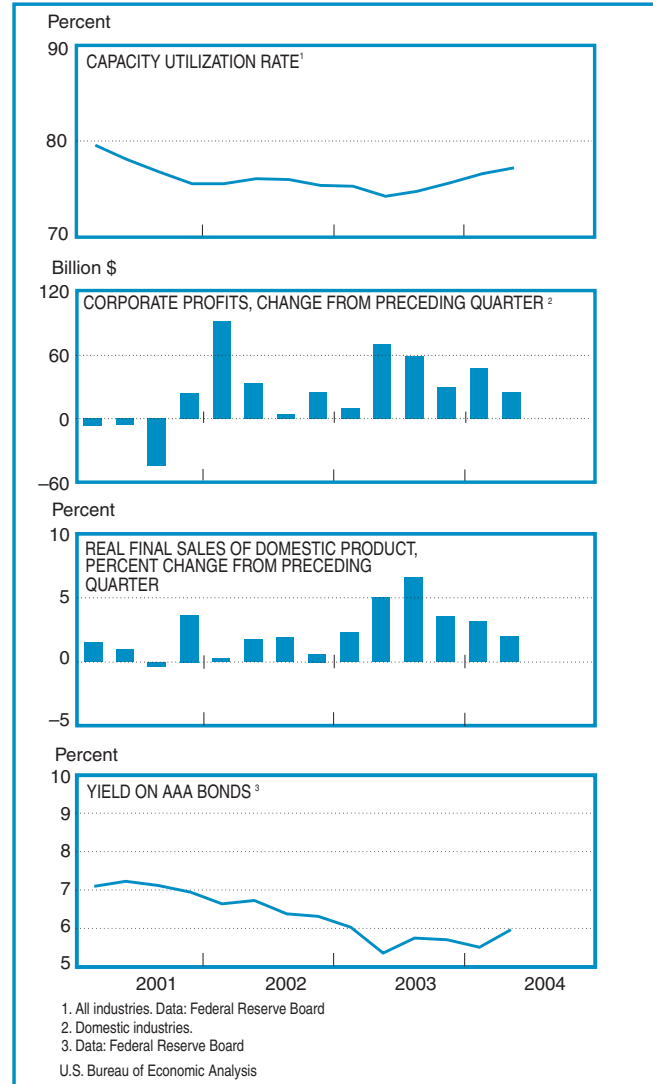
**Chart 4. Real Private Fixed Investment**



favorable in recent quarters (chart 5). The capacity utilization rate for manufacturing, mining, and utilities increased modestly for the fourth quarter in a row; at 77.1 percent, it is 3.0 percentage points above its low in the second quarter of 2003, and it is at its highest level since the second quarter of 2001. Domestic corporations' profits from current production increased for the 11<sup>th</sup> consecutive quarter. Long-term interest rates remained low despite an increase in the second quarter. Real final sales of domestic product increased at close to its average rate over the past four quarters despite slower-than-usual growth in the second quarter.

**Residential.** Real private residential investment increased 14.7 percent in the second quarter after increasing 5.0 percent in the first. The step-up mainly reflected a step-up in "other" structures, which includes brokers' commissions on the sale of residences. Single-family construction increased less than in the first quarter, and multifamily construction increased more.

**Chart 5. Selected Factors Affecting Nonresidential Investment**



## Inventory Investment

Real inventory investment increased to \$57.7 billion in the second quarter from \$40.0 billion in the first (table 5 and chart 6). The \$17.7 billion step-up was smaller than the first-quarter step-up of \$31.4 billion (from \$8.6 billion to \$40.0 billion).

Wholesale trade inventories increased about twice as much as in the first quarter. Most of the step-up was accounted for by merchant wholesalers; the biggest contributions were made by upturns in inventories of machinery, equipment, and supplies wholesalers and in inventories of miscellaneous durable and nondurable goods wholesalers. These upturns were partly offset by a downturn in the stocks of farm-product raw material wholesalers.

Manufacturing inventories increased somewhat more than in the first quarter, as an upturn in inventories of durable goods was partly offset by a slowdown in inventories of nondurable goods. In durable goods, the upturn mainly reflected an upturn in inventories of

computer and electronic equipment manufacturing that more than offset a slowdown in inventories of motor vehicle manufacturing. In nondurable goods, the slowdown mainly reflected slowdowns in inventories of chemical manufacturing and of petroleum refining and a downturn in inventories of food manufacturing.

Retail trade inventories increased slightly less than in the first quarter. The slowdown reflected a slowdown in inventories of motor vehicle dealers that was largely offset by step-ups in inventories of "other" retail stores and of food and beverage stores.

Farm inventories increased less than in the first quarter. Crop inventories mainly accounted for the slowdown.

The ratio of real private nonfarm inventories to final sales of goods and structures increased to 3.55 from 3.54. A ratio that includes all final sales of domestic businesses increased to 2.23 from 2.22.<sup>5</sup> Both ratios have been trending down for decades.

**Table 5. Real Change in Private Inventories, by Industry**

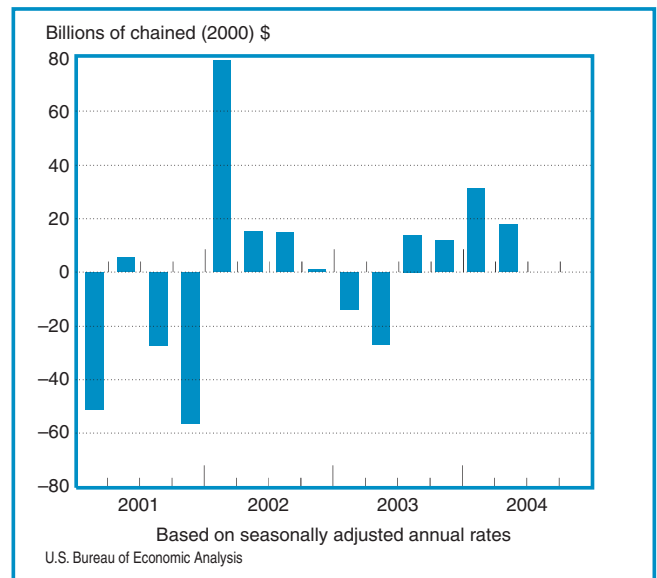
[Billions of chained (2000) dollars; seasonally adjusted at annual rates]

	Level						Change from preceding quarter			
	2003			2004			2003		2004	
	II	III	IV	I	II	III	IV	I	II	
<b>Change in private inventories (CPI)</b> .....	-17.6	-3.5	8.6	40.0	57.7	14.1	12.1	31.4	17.7	
Farm.....	-1.8	-0.7	3.5	5.1	3.0	1.1	4.2	1.6	-2.1	
Mining, utilities, and construction.....	-1.6	1.2	3.5	-4.5	1.7	2.8	2.3	-8.0	6.2	
Manufacturing.....	-15.1	-20.4	-13.1	3.0	6.2	-5.3	7.3	16.1	3.2	
Durable goods industries.....	-13.7	-17.7	-1.8	-2.2	5.5	-4.0	15.9	-0.4	7.7	
Nondurable goods industries.....	-1.6	-2.9	-10.9	5.0	0.8	-1.3	-8.0	15.9	-4.2	
Wholesale trade.....	-4.3	2.3	4.0	8.5	19.4	6.6	1.7	4.5	10.9	
Durable goods industries.....	-5.8	-6.9	9.7	11.1	16.7	-1.1	16.6	1.4	5.6	
Nondurable goods industries.....	1.2	8.6	-5.2	-2.0	3.2	7.4	-13.8	3.2	5.2	
Retail trade.....	1.1	13.7	9.4	25.6	25.3	12.6	-4.3	16.2	-0.3	
Motor vehicle and parts dealers.....	0.7	4.3	-0.9	18.7	11.8	3.6	-5.2	19.6	-6.9	
Food and beverage stores.....	-0.6	0.8	-2.1	0.3	1.5	1.4	-2.9	2.4	1.2	
General merchandise stores.....	0.0	0.6	3.3	3.0	3.0	0.6	2.7	-0.3	0.0	
Other retail stores.....	1.1	8.2	9.2	4.3	9.2	7.1	1.0	-4.9	4.9	
Other industries.....	4.5	0.5	0.8	2.8	3.0	-4.0	0.3	2.0	0.2	
Residual <sup>1</sup> .....	0.0	0.5	-0.5	-1.6	-1.7	0.5	-1.0	-1.1	-0.1	
<b>Addenda: Ratios of private inventories to final sales of domestic business:</b>										
Private inventories to final sales.....	2.5	2.5	2.4	2.4	2.4	.....	.....	.....	.....	
Nonfarm inventories to final sales.....	2.3	2.2	2.2	2.2	2.2	.....	.....	.....	.....	
Nonfarm inventories to final sales of goods and structures.....	3.7	3.6	3.6	3.5	3.6	.....	.....	.....	.....	

1. The residual is the difference between the first line and the sum of the most detailed lines. It reflects the fact that chained-dollar estimates are usually not additive, because the quantity indexes on which they are based embody weights of more than one period.

NOTE: Real change in private inventories is from NIPA table 5.6.6B, and ratios of private inventories to final sales of domestic business are from NIPA table 5.7.6B.

**Chart 6. Real Private Inventory Investment: Change from Preceding Quarter**



### Exports and Imports

The growth of real exports of goods and services slowed somewhat in the second quarter, while the growth of real imports of goods and services stepped up (table 6 and chart 7).

Exports of goods increased 5.0 percent after increasing 9.1 percent. The deceleration was mainly accounted for by slowdowns in exports of nonautomotive

capital goods and of industrial supplies and materials.

Exports of services increased 8.7 percent after increasing 3.4 percent. Upturns in travel and in passenger fares were mainly responsible for the step-up.

Imports of goods increased 13.6 percent after increasing 12.7 percent (chart 8). Step-ups in imports of

**Table 6. Real Exports and Imports of Goods and Services**  
[Seasonally adjusted at annual rates]

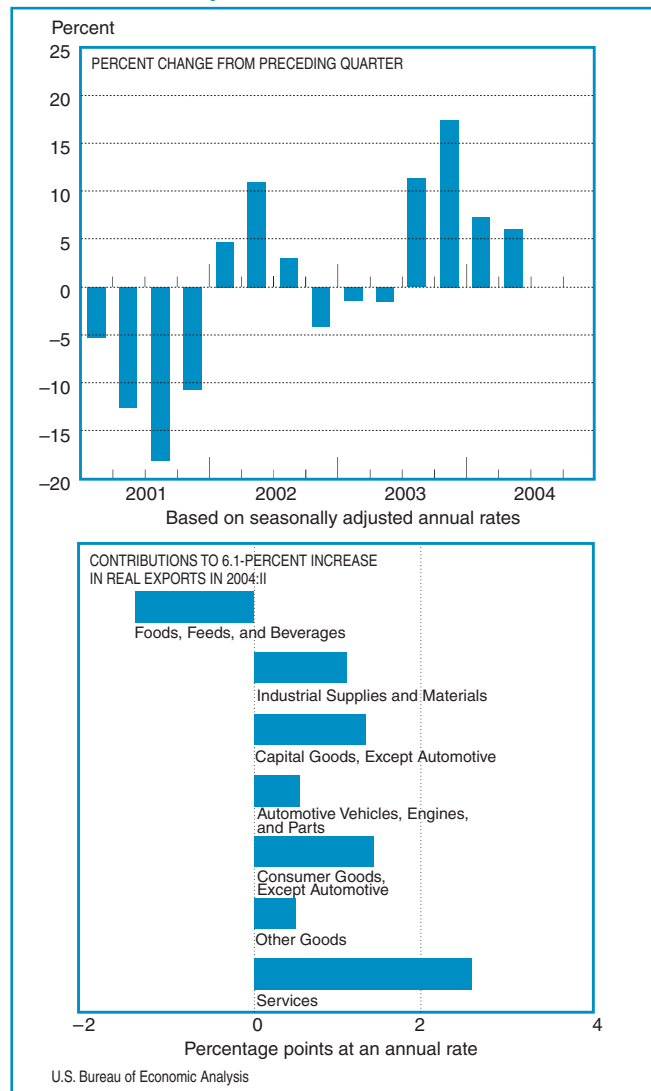
	Change from preceding period (percent)				Contribution to percent change in real exports and imports (percentage points)				Share of current-dollar exports and imports (percent)
	2003		2004		2003		2004		
	III	IV	I	II	III	IV	I	II	
<b>Exports of goods and services.....</b>	<b>11.3</b>	<b>17.5</b>	<b>7.3</b>	<b>6.1</b>	<b>11.3</b>	<b>17.5</b>	<b>7.3</b>	<b>6.1</b>	<b>100.0</b>
<b>Exports of goods <sup>1</sup>.....</b>	<b>10.1</b>	<b>16.1</b>	<b>9.1</b>	<b>5.0</b>	<b>7.02</b>	<b>11.21</b>	<b>6.30</b>	<b>3.52</b>	<b>69.6</b>
Foods, feeds, and beverages ...	10.5	-6.0	-30.0	-25.4	0.55	-0.32	-1.83	-1.42	4.8
Industrial supplies and materials.....	5.2	5.2	14.4	6.8	0.84	0.87	2.23	1.12	16.8
Capital goods, except automotive.....	17.2	31.0	13.1	4.7	4.66	8.25	3.61	1.34	28.2
Automotive vehicles, engines, and parts.....	-7.7	14.8	5.1	7.7	-0.61	1.13	0.38	0.55	7.3
Consumer goods, except automotive.....	11.0	11.3	18.6	17.6	0.95	0.99	1.50	1.44	8.8
Other.....	17.7	7.3	11.4	13.9	0.63	0.28	0.41	0.50	3.8
<b>Exports of services <sup>1</sup>.....</b>	<b>14.1</b>	<b>20.6</b>	<b>3.4</b>	<b>8.7</b>	<b>4.26</b>	<b>6.24</b>	<b>1.04</b>	<b>2.62</b>	<b>30.4</b>
<b>Imports of goods and services.....</b>	<b>2.8</b>	<b>17.1</b>	<b>10.6</b>	<b>14.1</b>	<b>2.8</b>	<b>17.1</b>	<b>10.6</b>	<b>14.1</b>	<b>100.0</b>
<b>Imports of goods <sup>1</sup>.....</b>	<b>0.0</b>	<b>18.4</b>	<b>12.7</b>	<b>13.6</b>	<b>-0.01</b>	<b>15.11</b>	<b>10.41</b>	<b>11.36</b>	<b>83.5</b>
Foods, feeds, and beverages ...	3.4	18.9	2.3	7.7	0.12	0.68	0.08	0.28	3.5
Industrial supplies and materials, except petroleum and ...	12.1	0.7	16.9	38.0	1.30	0.16	1.87	3.96	12.5
Petroleum and products.....	0.6	16.5	39.1	-32.5	0.05	1.33	3.13	-3.79	9.3
Capital goods, except automotive.....	2.8	26.0	13.4	31.5	0.53	4.83	2.55	5.60	19.3
Automotive vehicles, engines, and parts.....	-8.6	21.7	6.0	10.4	-1.23	2.88	0.82	1.38	13.0
Consumer goods, except automotive.....	1.7	21.9	9.6	21.6	0.35	4.64	2.08	4.43	21.3
Other.....	-19.8	11.8	-2.2	-10.5	-1.14	0.60	-0.11	-0.50	4.4
<b>Imports of services <sup>1</sup>.....</b>	<b>17.9</b>	<b>11.1</b>	<b>1.2</b>	<b>16.4</b>	<b>2.85</b>	<b>1.97</b>	<b>0.21</b>	<b>2.70</b>	<b>16.5</b>
<b>Addenda:</b>									
Exports of agricultural goods <sup>2</sup>	23.7	-19.1	-23.2	-20.3	.....	.....	.....	.....	5.4
Exports of nonagricultural goods.....	8.9	20.1	12.7	7.5	.....	.....	.....	.....	64.2
Imports of nonpetroleum goods	-0.1	18.6	9.8	21.5	.....	.....	.....	.....	74.1

1. Exports and imports of certain goods, primarily military equipment purchased and sold by the Federal Government, are included in services. Beginning with 1986, repairs and alterations of equipment are reclassified from goods to services.

2. Includes parts of foods, feeds, and beverages, of nondurable industrial supplies and materials, and of nondurable nonautomotive consumer goods.

Note: Percent changes are from NIPA table 4.2.1, and contributions to percent change are from NIPA table 4.2.2. Shares are calculated from NIPA table 4.2.5.

**Chart 7. Real Exports**

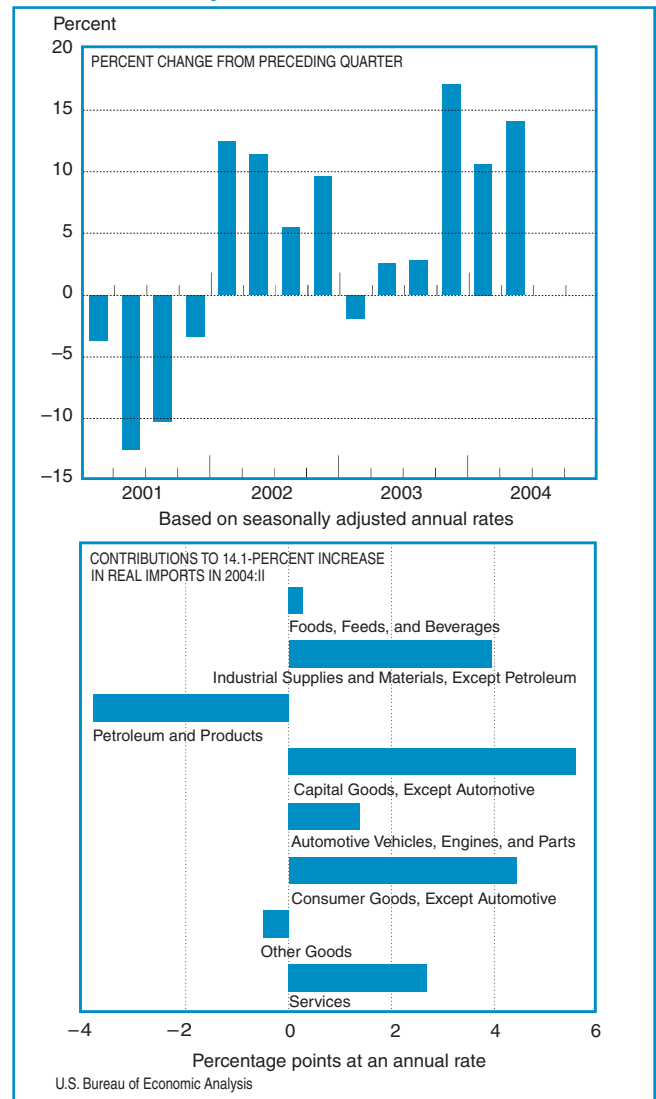




nonautomotive capital goods and in nonautomotive consumer goods were partly offset by a sharp downturn in imports of petroleum.

Imports of services stepped up sharply, increasing 16.4 percent in the second quarter after increasing 1.2 percent in the first. Upturns in travel, in direct defense expenditures, and in passenger fares were partly offset by a slowdown in “other transportation.”

**Chart 8. Real Imports**



### Government Spending

Government spending increased 2.4 percent in the second quarter, about the same as in the first quarter (table 7 and chart 9). Spending by the Federal Government increased less than in the first quarter, while spending by state and local governments increased after no change.

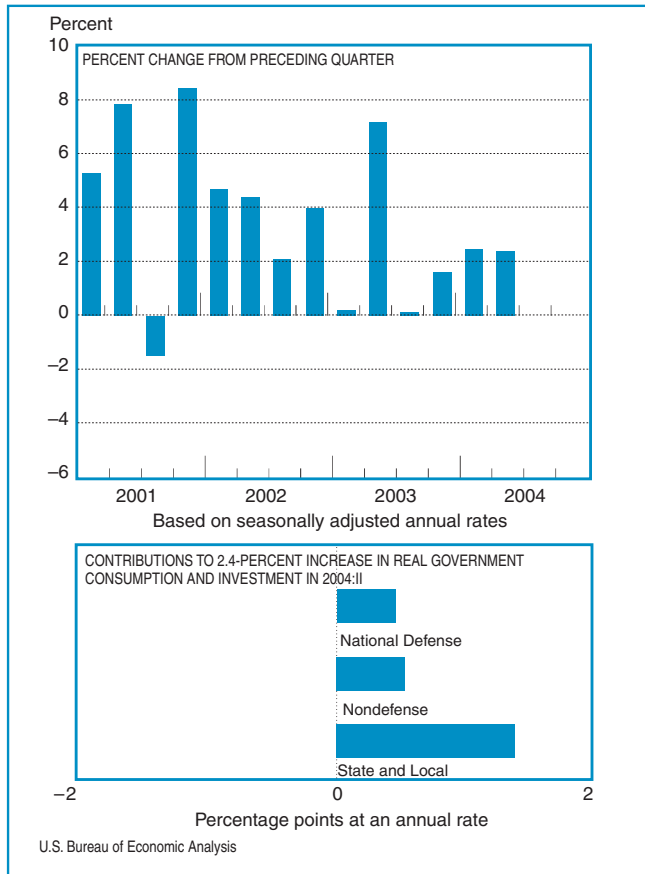
A slowdown in national defense spending reflected a sharp downturn in gross investment and a slowdown in consumption expenditures. The downturn in gross investment was mainly accounted for by downturns in aircraft, ships, and electronics and software and by a slowdown in "other" equipment. In addition, investment in structures decreased after a small increase.

A step-up in Federal nondefense spending was more than accounted for by an acceleration in gross invest-

ment that mainly reflected a step-up in equipment and software.

At the state and local level, gross investment increased in the second quarter after a small decrease in the first; the upturn was mainly accounted for by structures. Consumption expenditures were unchanged in the second quarter after a small increase in the first.

**Chart 9. Real Government Consumption and Investment**



**Table 7. Real Government Consumption Expenditures and Gross Investment**

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real CEGI (percentage points)				Share of current-dollar CEGI (percent)
	2003		2004		2003		2004		
	III	IV	I	II	III	IV	I	II	
<b>Government consumption expenditures and gross investment (CEGI).....</b>	<b>0.1</b>	<b>1.6</b>	<b>2.5</b>	<b>2.4</b>	<b>0.1</b>	<b>1.6</b>	<b>2.5</b>	<b>2.4</b>	<b>100.0</b>
Consumption expenditures.....	-1.0	2.0	1.9	0.9	-0.85	1.67	1.61	0.73	82.4
Gross investment.....	6.0	-0.3	5.5	10.0	0.99	-0.05	0.94	1.68	17.6
<b>Federal.....</b>	<b>-3.3</b>	<b>4.8</b>	<b>7.1</b>	<b>2.7</b>	<b>-1.21</b>	<b>1.71</b>	<b>2.56</b>	<b>1.00</b>	<b>37.0</b>
<b>National defense.....</b>	<b>-7.7</b>	<b>11.6</b>	<b>10.6</b>	<b>1.9</b>	<b>-1.92</b>	<b>2.66</b>	<b>2.53</b>	<b>0.47</b>	<b>24.9</b>
Consumption expenditures.....	-9.5	10.9	7.2	3.9	-2.10	2.20	1.53	0.84	21.8
Gross investment.....	6.5	16.8	37.2	-11.1	0.18	0.46	1.00	-0.37	3.1
<b>Nondefense.....</b>	<b>5.8</b>	<b>-7.5</b>	<b>0.2</b>	<b>4.5</b>	<b>0.70</b>	<b>-0.95</b>	<b>0.03</b>	<b>0.54</b>	<b>12.1</b>
Consumption expenditures.....	11.9	-8.7	-0.3	-1.0	1.21	-0.98	-0.03	-0.10	10.4
Gross investment.....	-26.4	1.7	3.9	47.9	-0.50	0.03	0.06	0.64	1.7
<b>State and local.....</b>	<b>2.2</b>	<b>-0.1</b>	<b>0.0</b>	<b>2.2</b>	<b>1.35</b>	<b>-0.09</b>	<b>-0.01</b>	<b>1.41</b>	<b>63.0</b>
Consumption expenditures.....	0.1	0.9	0.2	0.0	0.04	0.45	0.12	-0.01	50.2
Gross investment.....	11.0	-4.1	-1.0	11.7	1.31	-0.54	-0.12	1.41	12.8

NOTE: Percent changes are from NIPA table 3.9.1, and contributions to percent change are from NIPA table 3.9.2. Shares are calculated from NIPA table 3.9.5.

## Prices

Inflation as measured by the price index for gross domestic purchases was 3.5 percent in the second quarter; in the first quarter, inflation was 3.4 percent (table 8). Excluding food and energy prices, the price index increased 2.5 percent in the second quarter, the same as in the first quarter (chart 10). In the first quarter, a Federal pay raise for military and civilian personnel had added about 0.3 percentage point to the increase in prices.<sup>6</sup>

Prices of goods and services purchased by consumers increased 3.2 percent after increasing 3.3 percent;

6. In the NIPAs, an increase in the rate of Federal employee compensation is treated as an increase in the price of employee services purchased by the Federal Government.

**Table 8. Price Indexes**

[Percent change at annual rates; based on seasonally adjusted index numbers (2000=100)]

	Change from preceding period (percent)				Contribution to percent change in gross domestic purchases prices (percentage points)			
	2003		2004		2003		2004	
	III	IV	I	II	III	IV	I	II
<b>Gross domestic purchases</b> .....	<b>1.7</b>	<b>1.4</b>	<b>3.4</b>	<b>3.5</b>	<b>1.70</b>	<b>1.40</b>	<b>3.40</b>	<b>3.50</b>
<b>Personal consumption expenditures</b> .....	<b>1.6</b>	<b>1.2</b>	<b>3.3</b>	<b>3.2</b>	<b>1.10</b>	<b>0.82</b>	<b>2.19</b>	<b>2.11</b>
Durable goods .....	-4.4	-4.3	0.0	-0.1	-0.37	-0.37	0.00	-0.01
Non-durable goods .....	3.5	0.5	5.3	6.6	0.67	0.11	1.00	1.25
Services .....	2.0	2.7	3.0	2.2	0.80	1.08	1.20	0.87
<b>Gross private domestic investment</b> .....	<b>1.2</b>	<b>2.7</b>	<b>2.1</b>	<b>4.3</b>	<b>0.17</b>	<b>0.40</b>	<b>0.32</b>	<b>0.66</b>
Fixed investment .....	1.2	2.8	2.0	4.2	0.18	0.40	0.30	0.62
Nonresidential .....	0.3	1.2	0.3	1.8	0.03	0.12	0.03	0.18
Structures .....	1.3	1.4	4.8	6.6	0.03	0.03	0.10	0.14
Equipment and software .....	0.0	1.2	-1.1	0.4	0.00	0.09	-0.08	0.03
Residential .....	3.1	5.8	5.4	8.6	0.15	0.29	0.28	0.45
Change in private inventories .....	.....	.....	.....	.....	-0.01	-0.01	0.02	0.04
<b>Government consumption expenditures and gross investment</b> .....	<b>2.2</b>	<b>1.0</b>	<b>5.1</b>	<b>4.2</b>	<b>0.40</b>	<b>0.18</b>	<b>0.89</b>	<b>0.75</b>
Federal .....	1.1	1.0	6.6	2.9	0.07	0.06	0.42	0.19
National defense .....	1.1	1.3	5.7	3.5	0.05	0.06	0.25	0.16
Nondefense .....	1.0	0.3	8.3	1.8	0.02	0.01	0.18	0.04
State and local .....	2.9	1.0	4.2	5.0	0.33	0.11	0.47	0.55
<b>Addenda:</b>								
Gross domestic purchases:								
Food .....	2.7	4.1	2.8	4.2	0.25	0.38	0.27	0.40
Energy goods and services .....	10.6	-7.1	27.0	24.9	0.39	-0.29	0.98	0.94
Excluding food and energy .....	1.2	1.5	2.5	2.5	1.01	1.31	2.16	2.18
Personal consumption expenditures:								
Food .....	2.8	3.9	2.6	3.9	.....	.....	.....	.....
Energy goods and services .....	11.0	-8.5	26.7	26.6	.....	.....	.....	.....
Excluding food and energy .....	0.9	1.3	2.1	1.7	.....	.....	.....	.....
Gross domestic product .....	1.4	1.6	2.8	3.2	.....	.....	.....	.....

NOTE: Most percent changes are from NIPA table 1.6.7; percent changes for personal consumption expenditures on energy goods and services and for personal consumption expenditures excluding food and energy are calculated from index numbers in NIPA table 2.3.4. Contributions to percent change are from NIPA table 1.6.8.

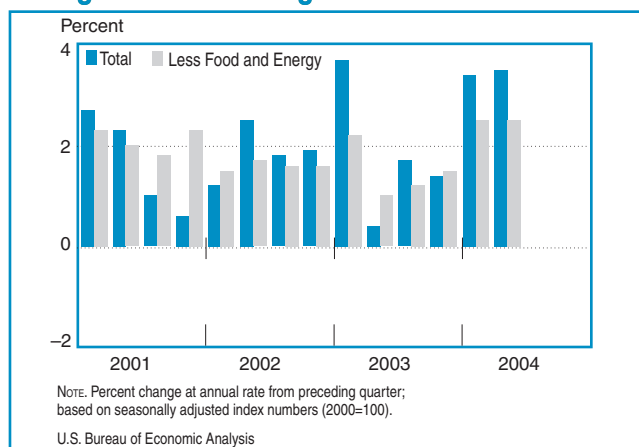
food prices stepped up, and energy prices increased about as sharply as in the first quarter. Excluding food and energy, prices paid by consumers increased 1.7 percent after increasing 2.1 percent.

Prices of private nonresidential fixed investment increased 1.8 percent after increasing 0.3 percent. Prices of structures increased more than in the first quarter, and prices of equipment and software increased slightly after decreasing.

Prices paid by government increased 4.2 percent after increasing 5.1 percent. The slowdown was more than accounted for by prices paid by the Federal Government; in the first quarter, these prices had reflected the pay raise for civilian and military personnel. Prices paid by state and local governments increased 5.0 percent in the second quarter, 0.8 percentage point more than in the first.

The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 3.2 percent, 0.3 percentage point less than the price index for gross domestic purchases. The smaller increase in the GDP price index reflected a smaller increase in export prices (which are included in the GDP price index) than in import prices (which are included in the price index for gross domestic purchases).

**Chart 10. Gross Domestic Purchases Prices: Change From Preceding Quarter**



Revisions, next page.

## Revisions

The preliminary estimate of a 2.8-percent increase in real GDP in the second quarter is 0.2 percentage point less than the advance estimate released last month (table 9). In the past 20 years, the average revision, without regard to sign, from the advance estimate to the preliminary estimate has been 0.5 percentage point.

The downward revision to second-quarter real GDP reflected a downward revision to net exports that was largely offset by upward revisions to consumer spending, to inventory investment, and to nonresidential fixed investment.

In the preliminary estimate, net exports subtracted 1.29 percentage points more from the GDP growth rate than in the advance estimate. Exports increased less than previously reported, and imports (which are subtracted in the calculation of GDP) increased more. The revisions to both exports and imports mainly reflected the incorporation of newly available Census Bureau data on trade in goods for June.

Consumer spending contributed 0.38 percentage point more to GDP growth in the preliminary estimate than in the advance estimate. The upward revision to consumer spending mainly reflected the incorporation of revised Census Bureau data on retail sales for June and corrected data on truck registrations.

Inventory investment also contributed 0.38 percentage point more to the GDP growth in the preliminary estimate than in the advance. The upward revision to inventory investment mainly reflected the incorporation of newly available and revised Census Bureau data on inventories for June and revised data for May.

Nonresidential investment in equipment and software contributed 0.26 percentage point more to GDP growth in the preliminary estimate than in the advance. The upward revision to equipment and software was mainly to transportation equipment and reflected the incorporation of newly available Census Bureau data on exports and imports for June and revised Census Bureau data on manufacturers' shipments of equipment for May and June.

In addition to these revised estimates for the second quarter, estimates of wages and salaries and of related series have been revised for the first quarter. These revisions reflect the incorporation of newly available Bureau of Labor Statistics tabulations of wages and salaries of employees covered by state unemployment in-

surance. Wages and salaries are now estimated to have increased \$51.8 billion in the first quarter, a downward revision of \$21.8 billion, and real disposable personal income (DPI) is now estimated to have increased 2.4 percent in the first quarter, a downward revision of 0.8 percentage point. Real DPI in the second quarter is now estimated to have increased 2.5 percent, a downward revision of 0.4 percentage point.

**Table 9. Preliminary and Advance Estimates for the Second Quarter of 2004**

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter			Contribution to percent change in real GDP		
	Preliminary estimate	Advance estimate	Preliminary minus advance	Preliminary estimate	Advance estimate	Preliminary minus advance
<b>Gross domestic product</b>	<b>2.8</b>	<b>3.0</b>	<b>-0.2</b>	<b>2.8</b>	<b>3.0</b>	<b>-0.2</b>
<b>Personal consumption expenditures</b>	<b>1.6</b>	<b>1.0</b>	<b>0.6</b>	<b>1.11</b>	<b>0.73</b>	<b>0.38</b>
Durable goods.....	0.0	-2.5	2.5	0.00	-0.21	0.21
Nondurable goods.....	0.4	-0.1	0.5	0.09	-0.01	0.10
Services.....	2.5	2.3	0.2	1.02	0.95	0.07
<b>Gross private domestic investment</b>	<b>17.3</b>	<b>12.8</b>	<b>4.5</b>	<b>2.60</b>	<b>1.97</b>	<b>0.63</b>
Private fixed investment.....	13.0	11.1	1.9	1.95	1.68	0.27
Nonresidential.....	12.1	8.9	3.2	1.18	0.87	0.31
Structures.....	7.1	5.2	1.9	0.16	0.12	0.04
Equipment and software...	13.6	10.0	3.6	1.01	0.75	0.26
Residential.....	14.7	15.4	-0.7	0.77	0.81	-0.04
Change in private inventories ..				0.66	0.28	0.38
<b>Net exports of goods and services</b>				<b>-1.37</b>	<b>-0.08</b>	<b>-1.29</b>
Exports.....	6.1	13.2	-7.1	0.60	1.25	-0.65
Goods.....	5.0	14.6	-9.6	0.34	0.96	-0.62
Services.....	8.7	10.0	-1.3	0.25	0.29	-0.04
Imports.....	14.1	9.3	4.8	-1.96	-1.33	-0.63
Goods.....	13.6	8.7	4.9	-1.58	-1.03	-0.55
Services.....	16.4	12.7	3.7	-0.38	-0.30	-0.08
<b>Government consumption expenditures and gross investment</b>	<b>2.4</b>	<b>2.3</b>	<b>0.1</b>	<b>0.45</b>	<b>0.43</b>	<b>0.02</b>
Federal.....	2.7	2.7	0.0	0.19	0.19	0.00
National defense.....	1.9	1.9	0.0	0.09	0.09	0.00
Nondefense.....	4.5	4.3	0.2	0.10	0.10	0.00
State and local.....	2.2	2.1	0.1	0.26	0.24	0.02
<b>Addenda:</b>						
Final sales of domestic product	2.1	2.8	-0.7	2.14	2.76	-0.62
Gross domestic purchases price index.....	3.5	3.5	0.0			
GDP price index.....	3.2	3.2	0.0			

NOTE: The preliminary estimates for the second quarter (newly available and revised) of 2004 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

*Exports and imports of goods and services:* Exports and imports of goods for May (revised) and June.

*Personal consumption expenditures:* Retail sales for May and June (revised), and corrected truck registration data for the quarter.

*Government consumption expenditures and gross investment:* State and local construction put-in-place data for April and May (revised) and June.

*Nonresidential fixed investment:* Construction put-in-place data for April and May (revised) and June, manufacturers' shipments of machinery and equipment for May and June (revised), and manufacturers' shipments of complete civilian aircraft for June.

*Wages and salaries:* Employment, average hourly earnings, and average weekly hours for May and June (revised), and tabulations of wages and salaries for the first quarter of employees covered by state unemployment insurance.

*Residential fixed investment:* Construction put-in-place data for April and May (revised) and June.

*GDP prices:* Export and import prices for April through June (revised), unit-value index for petroleum imports for May (revised) and June, and prices of single-family houses under construction for the quarter (revised).

*Change in private inventories:* Manufacturers' and trade inventories for April and May (revised) and June.

## Corporate Profits

Profits from current production increased \$1.6 billion (0.1 percent at a quarterly rate) in the second quarter after increasing \$36.5 billion (3.2 percent) in the first quarter (table 10).<sup>7</sup> Profits of domestic industries increased less—and profits from the rest of the world decreased more—in the second quarter than in the first.<sup>8</sup>

Taxes on corporate income increased \$12.9 billion (5.0 percent) in the second quarter, and after-tax profits from current production decreased \$11.3 billion (1.2 percent).

The slowdown in profits of domestic industries was more than accounted for by financial corporations. Profits of financial corporations decreased \$3.6 billion (1.0 percent) after increasing \$19.8 billion (5.9 percent). In contrast, profits of domestic nonfinancial corporations increased \$28.7 billion (4.7 percent), about the same as in the first quarter. The second-quarter increase in profits of nonfinancial corporations, like the first-quarter increase, mainly reflected a rise in profits per unit, as unit prices increased more than unit labor costs.

Profits from the rest of the world decreased \$23.5 billion (11.5 percent) in the second quarter after decreasing \$10.5 billion in the first. The second-quarter decrease mainly reflected an increase in payments by domestic affiliates to foreign parents.

Net cash flow from current production, a profits-related measure of internally generated funds available

7. 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 as "corporate profits with inventory valuation and capital consumption adjustments" in NIPA tables 1.7.5, 1.10–1.12, 1.14–1.16, and 6.16D.

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

8. Profits from the rest of the world is the difference between (1) receipts by U.S. residents of earnings from foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations and (2) payments by U.S. affiliates of earnings to foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA's international transactions accounts.

for investment, decreased \$11.4 billion.<sup>9</sup> The ratio of cash flow to nonresidential fixed investment, an indicator of the extent to which the current level of investment could be financed by internally generated funds, was above 100 for the seventh consecutive quarter, even though it decreased to 105.8 in the second quarter from 110.4 in the first.

9. Cash flow from current production is undistributed profits with inventory valuation and capital consumption adjustments plus the consumption of fixed capital.

**Table 10. Corporate Profits**

[Seasonally adjusted]

	Billions of dollars								Percent change from preceding quarter											
	Level	Change from preceding quarter																		
	2004	2003		2004		2003		2004												
	II	III	IV	I	II	III	IV	I	II											
<b>Current production measures:</b>																				
Corporate profits .....	1,167.2	70.9	72.0	36.5	1.6	7.2	6.8	3.2	0.1											
Domestic industries .....	985.4	58.8	29.6	47.0	25.1	7.1	3.3	5.1	2.6											
Financial .....	352.1	12.6	-0.5	19.8	-3.6	3.9	-0.1	5.9	-1.0											
Nonfinancial .....	633.3	46.2	30.0	27.3	28.7	9.2	5.5	4.7	4.7											
Rest of the world .....	181.8	12.0	42.4	-10.5	-23.5	7.5	24.4	-4.9	-11.5											
Receipts from the rest of the world .....	297.3	22.6	40.3	5.6	-1.7	9.8	15.9	1.9	-0.6											
Less: Payments to the rest of the world .....	115.5	10.6	-2.2	16.2	21.8	15.2	-2.7	20.8	23.4											
Less: Taxes on corporate income .....	269.4	14.1	13.6	4.2	12.9	6.3	5.7	1.6	5.0											
Equals: Profits after tax .....	897.8	56.7	58.4	32.3	-11.3	7.4	7.1	3.7	-1.2											
Net dividends .....	413.4	-0.6	2.3	7.0	10.0	-0.1	0.6	1.8	2.5											
Undistributed profits from current production .....	484.4	57.2	56.2	25.3	-21.3	15.6	13.2	5.3	-4.2											
Net cash flow .....	1267.7	64.0	63.2	5.9	-11.4	5.6	5.2	0.5	-0.9											
<b>Industry profits:</b>																				
Profits with IVA .....	933.2	53.7	64.7	-16.5	7.8	6.5	7.4	-1.8	0.8											
Domestic industries .....	751.5	41.6	22.3	-6.1	31.5	6.3	3.2	-0.8	4.4											
Financial .....	310.7	10.7	-0.8	8.4	-3.0	3.6	-0.3	2.7	-0.9											
Nonfinancial .....	440.7	30.8	23.1	-14.3	34.3	8.4	5.8	-3.4	8.5											
Rest of the world .....	181.8	12.0	42.4	-10.5	-23.5	7.5	24.4	-4.9	-11.5											
<b>Addenda:</b>																				
Profits before tax (without IVA and CCAj) .....	980.4	56.5	85.2	-3.8	18.0	6.8	9.7	-0.4	1.9											
Profits after tax (without IVA and CCAj) .....	711.0	42.3	71.6	-8.0	5.1	7.1	11.2	-1.1	0.7											
IVA .....	-47.2	-2.8	-20.5	-12.7	-10.2															
CCAj .....	234.0	17.2	7.3	53.0	-6.2	10.6	4.1	28.3	-2.6											

NOTE: Levels of these and other profits series are shown in NIPA tables 1.12, 1.14, 1.15, and 6.16D.

IVA Inventory valuation adjustment

CCAj Capital consumption adjustment

## Government Sector

“Net government saving,” the difference between current receipts and expenditures, was  $-\$366.5$  billion in the second quarter of 2004, increasing  $\$12.7$  billion from  $-\$379.2$  billion in the first quarter of 2004 (table 11).<sup>10</sup> Both net Federal Government saving and net state and local government saving turned up in the second quarter.

### Federal

Net Federal Government saving was  $-\$383.0$  billion in the second quarter of 2004, increasing  $\$8.0$  billion from  $-\$391.0$  billion in the first quarter. Current receipts accelerated sharply, and current expenditures decelerated.

**Current receipts.** Federal Government current receipts increased  $\$30.1$  billion after increasing  $\$14.7$  billion. The acceleration was more than accounted for by an upturn in current tax receipts and by a smaller decrease in income receipts on assets. The acceleration was partly offset by a deceleration in contributions for government social insurance.

Current tax receipts increased  $\$22.0$  billion after decreasing  $\$1.0$  billion. The upturn was more than accounted for by an upturn in personal current taxes and by an acceleration in taxes on corporate income, but a slight turnaround in taxes on production and imports also contributed. Personal current taxes increased  $\$11.4$  billion after decreasing  $\$4.2$  billion, reflecting the pattern of income taxes. Nonwithheld income taxes increased  $\$0.2$  billion after decreasing  $\$8.7$  billion; withheld income taxes increased  $\$11.2$  billion after increasing  $\$4.4$  billion. Taxes on corporate income increased  $\$10.5$  billion after increasing  $\$3.0$  billion.

Income receipts on assets decreased  $\$0.4$  billion after decreasing  $\$2.6$  billion. This smaller decrease was mostly attributable to interest receipts, which were unchanged after decreasing  $\$1.9$  billion.

Contributions for government social insurance increased  $\$8.3$  billion after increasing  $\$18.4$  billion. The deceleration was mostly accounted for by a downturn in contributions for unemployment programs, which decreased  $\$0.1$  billion after increasing  $\$6.7$  billion. In the first quarter, contributions were boosted  $\$6.8$  billion by increases in contribution rates and in state wage bases. The deceleration was also attributable to a deceleration in contributions for supplemental medical insurance, which increased  $\$0.2$  billion after increasing  $\$3.3$  billion; the first-quarter contributions were boosted  $\$3.2$  billion by an increase in the monthly premium paid by participants of the program.

**Current expenditures.** Federal Government current expenditures increased  $\$22.1$  billion after increasing  $\$26.5$  billion. The deceleration was more than accounted for by decelerations in current transfer payments and in consumption expenditures. The

**Table 11. Government Sector Current Receipts and Expenditures**

[Billions of dollars, seasonally adjusted at annual rates]

	Level	Change from preceding quarter				
	2004	2003			2004	
		II	III	IV	I	II
Current receipts .....	3,175.3	-57.2	104.4	30.8	55.3	
Current expenditures .....	3,541.9	-0.7	21.7	66.2	42.7	
<b>Net government saving .....</b>	<b>-366.5</b>	<b>-56.4</b>	<b>82.6</b>	<b>-35.3</b>	<b>12.7</b>	
Social insurance funds .....	65.8	2.7	2.8	12.1	5.3	
Other .....	-432.4	-59.1	79.8	-47.4	7.3	
<b>Federal</b>						
<b>Current receipts .....</b>	<b>1,945.4</b>	<b>-86.1</b>	<b>84.2</b>	<b>14.7</b>	<b>30.1</b>	
Current tax receipts .....	1,095.9	-94.9	75.6	-1.0	22.0	
Personal current taxes .....	779.7	-102.4	63.3	-4.2	11.4	
Taxes on production and imports .....	89.6	-1.6	1.6	-0.6	0.6	
Taxes on corporate income .....	218.4	11.2	10.6	3.0	10.5	
Taxes from the rest of the world .....	8.3	-2.1	0.1	0.7	-0.3	
Contributions for government social insurance .....	796.2	7.6	7.9	18.4	8.3	
Income receipts on assets .....	22.5	1.5	1.2	-2.6	-0.4	
Current transfer receipts .....	26.2	0.4	-0.2	0.5	0.1	
Current surplus of government enterprises .....	4.5	-0.5	-0.5	-0.4	-0.1	
<b>Current expenditures .....</b>	<b>2,328.4</b>	<b>-17.5</b>	<b>30.4</b>	<b>26.5</b>	<b>22.1</b>	
Consumption expenditures .....	699.9	-2.7	8.3	19.8	8.8	
National defense .....	473.5	-9.6	13.1	15.0	8.3	
Nondefense .....	226.4	6.9	-4.8	4.8	0.5	
Current transfer payments .....	1,367.6	3.6	19.5	15.3	1.7	
Government social benefits .....	992.8	7.3	8.0	13.7	6.6	
To persons .....	989.9	7.3	7.9	13.7	6.6	
To the rest of the world .....	2.9	0.0	0.1	0.0	0.0	
Other current transfer payments .....	374.7	-3.7	11.4	1.7	-5.0	
Grants-in-aid to state and local governments .....	351.9	-2.1	14.2	-11.2	5.9	
To the rest of the world .....	22.8	-1.5	-2.8	12.9	-10.9	
Interest payments .....	220.7	-7.6	4.6	-3.6	9.6	
Subsidies .....	38.7	-9.3	-2.1	-3.5	-1.0	
Less: Wage accruals less disbursements .....	-1.5	1.4	0.0	1.5	-3.0	
<b>Net Federal Government saving .....</b>	<b>-383.0</b>	<b>-68.6</b>	<b>53.8</b>	<b>-11.8</b>	<b>8.0</b>	
Social insurance funds .....	64.5	2.6	2.8	12.0	5.3	
Other .....	-447.5	-71.2	51.0	-23.8	2.7	
<b>State and local</b>						
<b>Current receipts .....</b>	<b>1,581.9</b>	<b>26.8</b>	<b>34.4</b>	<b>4.8</b>	<b>31.3</b>	
Current tax receipts .....	1,033.7	26.7	16.9	12.3	22.6	
Personal current taxes .....	249.6	13.5	4.4	1.4	11.3	
Taxes on production and imports .....	743.7	10.7	10.3	9.9	9.5	
Taxes on corporate income .....	40.3	2.5	2.2	0.9	1.8	
Contributions for government social insurance .....	16.4	0.2	0.4	0.5	0.4	
Income receipts on assets .....	82.8	0.0	1.1	0.5	0.6	
Current transfer receipts .....	446.0	-0.2	16.2	-8.2	8.1	
Federal grants-in-aid .....	351.9	-2.1	14.2	-11.2	5.9	
Other .....	94.1	1.9	2.0	3.0	2.2	
Current surplus of government enterprises .....	3.0	0.0	-0.1	-0.2	-0.5	
<b>Current expenditures .....</b>	<b>1,565.4</b>	<b>14.7</b>	<b>5.6</b>	<b>28.3</b>	<b>26.6</b>	
Consumption expenditures .....	1,091.6	9.2	5.3	13.5	11.8	
Government social benefits .....	380.9	6.0	-3.4	14.0	14.6	
Interest payments .....	92.3	0.8	1.8	1.3	0.3	
Subsidies .....	0.7	-1.3	1.9	-0.5	0.0	
Less: Wage accruals less disbursements .....	0.0	0.0	0.0	0.0	0.0	
<b>Net state and local government saving .....</b>	<b>16.5</b>	<b>12.2</b>	<b>28.8</b>	<b>-23.5</b>	<b>4.7</b>	
Social insurance funds .....	1.4	0.0	0.1	0.1	0.1	
Other .....	15.1	12.1	28.7	-23.5	4.5	
<b>Addenda:</b>						
Net lending or net borrowing (-) <sup>1</sup> .....	-519.6	-60.0	88.4	-38.4	1.8	
Federal .....	-428.5	-70.0	61.3	-14.8	8.9	
State and local .....	-91.1	10.0	27.1	-23.6	-7.1	

1. "Net lending or borrowing" is similar to "net financial investment" in the flow-of-funds accounts prepared by the Federal Reserve Board. The two measures differ primarily because government net lending or borrowing is estimated from data for transactions, whereas net financial investment is estimated from data for financial assets. There are also small conceptual differences, such as the classification of the Federal Government's railroad retirement and veterans life insurance programs.

10. Net government saving is shown in NIPA tables 3.1-3.3.

deceleration in current expenditures was partially offset by an upturn in interest payments and by a smaller decrease in subsidies.

Current transfer payments increased \$1.7 billion after increasing \$15.3 billion. The deceleration was attributable to a deceleration in government social benefit payments to persons and to a downturn in "other current transfer payments."

Government social benefit payments to persons increased \$6.6 billion after increasing \$13.7 billion. The deceleration was mostly attributable to the 2.1-percent cost-of-living adjustment that boosted benefits \$11.4 billion in the first quarter for social security (old-age, survivors, disability, and health insurance), veterans pensions, and supplemental security income. The deceleration was also attributable to payments for the earned income tax credit, which boosted social benefits \$2.7 billion in the first quarter. Tempering the deceleration, benefit payments for unemployment programs decreased \$8.0 billion after decreasing \$10.1 billion, and benefits for Medicare (hospital and supplemental medical insurance) accelerated.

"Other current transfer payments" decreased \$5.0 billion after increasing \$1.7 billion. The downturn was more than accounted for by a downturn in "other current transfer payments to the rest of the world," which decreased \$10.9 billion after increasing \$12.9 billion; the first-quarter increase was boosted by \$11.2 billion in economic support payments to Israel and Egypt. The downturn in "other current transfer payments to the rest of the world" was partly offset by an upturn in grants-in-aid to state and local governments.

Grants-in-aid to state and local governments increased \$5.9 billion after decreasing \$11.2 billion. The upturn was more than accounted for by grants-in-aid for executive, legislative, and judicial activities, which were unchanged after decreasing \$19.6 billion in the first quarter after the Temporary State Fiscal Relief Fund expired in the fourth quarter. Contributing to the upturn, grants-in-aid for housing and community services turned up, increasing \$1.1 billion after decreasing \$2.2 billion. The upturn was tempered by downturns in grants-in-aid for education, which decreased \$1.0 billion after increasing \$3.3 billion, and in grants-in-aid for welfare and social services, which decreased \$1.9 billion after increasing \$0.5 billion.

Consumption expenditures increased \$8.8 billion after increasing \$19.8 billion. Both defense and nondefense consumption expenditures decelerated.

Defense consumption expenditures increased \$8.3 billion after increasing \$15.0 billion. The deceleration was more than accounted for by a downturn in com-

penetration of general government employees, which decreased \$0.8 billion after increasing \$7.4 billion; in the first quarter, compensation was boosted \$5.5 billion by the January 2004 pay raise. The deceleration was also attributable to spending for nondurable goods, which decreased \$0.1 billion after increasing \$1.5 billion. In contrast, spending for services and for durable goods accelerated.

Nondefense consumption expenditures increased \$0.5 billion after increasing \$4.8 billion. The deceleration was mostly accounted for by a downturn in compensation of general government employees, which decreased \$0.2 billion after increasing \$3.3 billion; in the first quarter, compensation was boosted \$4.1 billion by the January 2004 pay raise. The deceleration was also attributable to a deceleration in government spending for services, which increased \$0.4 billion after increasing \$2.0 billion.

Interest payments increased \$9.6 billion after decreasing \$3.6 billion, mainly reflecting an upturn in interest paid to persons and business, which increased \$3.8 billion after decreasing \$6.9 billion. The upturn was also attributable to an acceleration in interest payments to the rest of the world, which increased \$5.8 billion after increasing \$3.3 billion.

Subsidies decreased \$1.0 billion after decreasing \$3.5 billion. The smaller decrease was more than accounted for by agricultural subsidies, which decreased \$1.1 billion after decreasing \$3.7 billion.

## State and local

Net state and local government saving was \$16.5 billion in the second quarter of 2004, increasing \$4.7 billion from \$11.8 billion in the first quarter. Current receipts accelerated rapidly, and current expenditures decelerated.

**Current receipts.** State and local government current receipts increased \$31.3 billion after increasing \$4.8 billion. The rapid acceleration was mostly accounted for by an upturn in current transfer receipts and by an acceleration in current tax receipts.

Current transfer receipts increased \$8.1 billion after decreasing \$8.2 billion. The upturn was more than accounted for by an upturn in Federal grants-in-aid, which increased \$5.9 billion after decreasing \$11.2 billion.

Current tax receipts increased \$22.6 billion after increasing \$12.3 billion. The acceleration was mostly accounted for by an acceleration in personal current taxes, which increased \$11.3 billion after increasing \$1.4 billion, mainly as a result of an acceleration in

personal income taxes.

**Current expenditures.** State and local government current expenditures increased \$26.6 billion after increasing \$28.3 billion. The deceleration was more than accounted for by decelerations in consumption expenditures and in interest payments. These decelerations were partly offset by a slight acceleration in government social benefit payments to persons.

Consumption expenditures increased \$11.8 billion after increasing \$13.5 billion. The deceleration was more than accounted for by decelerations in government spending for nondurable goods and for compensation. These decelerations were partly offset by accelerations in the consumption of general government fixed capital and in government spending for services.

Government social benefit payments increased \$14.6 billion after increasing \$14.0 billion. The acceleration was mostly accounted for by an acceleration in Medicaid payments.

### **Net lending or net borrowing**

“Net lending or net borrowing (–)” is an alternative measure of the government fiscal position. Net lending

is the financing requirement of the government sector, and it is derived as net government saving plus the consumption of fixed capital and “capital transfers received (net)” less gross investment and net purchases of nonproduced assets.<sup>11</sup>

Net borrowing decreased \$1.8 billion in the second quarter after increasing \$38.4 billion in the first quarter. Federal Government net borrowing decreased \$8.9 billion after increasing \$14.8 billion. State and local government net borrowing decelerated, increasing \$7.1 billion after increasing \$23.6 billion.

Government gross investment accelerated, increasing \$14.6 billion after increasing \$6.2 billion.<sup>12</sup> Federal Government gross investment increased \$2.3 billion after increasing \$6.0 billion. State and local government gross investment increased \$12.3 billion after increasing \$0.2 billion; the acceleration was mostly accounted for by an acceleration in gross investment for structures, which increased \$11.7 billion after increasing \$0.7 billion.

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11. These estimates are also shown in NIPA tables 3.1–3.3.

12. See the addenda to NIPA tables 3.1–3.3.