BUSINESS SITUATION

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According to the "preliminary" estimates of the national income and product accounts (NIPA's), real gross domestic product (GDP) increased 5.8 percent in the first quarter of 1997 (table 1 and chart 1); the "advance" estimate of real GDP, reported in the May "Business Situation," had shown a 5.6-percent increase.[1] The upward revision was more than accounted for by revisions to the change in business inventories and to exports of goods and services. (The sources of the revisions are discussed in the "Revisions" section.)

Two-thirds of the of the first-quarter increase was accounted for by final sales of domestic product, which increased 3.8 percent; inventory investment accounted for the other third.

As in the advance estimate, real GDP growth accelerated in the first quarter from a 3.8-percent increase in the fourth. All components of GDP except exports, imports, and business investment in structures contributed to the acceleration. Business investment in inventories and in equipment turned up sharply, consumer spending accelerated, and residential investment and government spending turned up. In contrast, imports accelerated sharply, and exports and business investment

1. Quarterly estimates in the NIPA's are expressed at seasonally adjusted annual rates, and quarterly changes are differences between these rates. Quarter-to-quarter percent changes are annualized. Real estimates are expressed in chained (1992) dollars. Price indexes are chain-type indexes.

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

[Seasonally adjusted at annual rates]

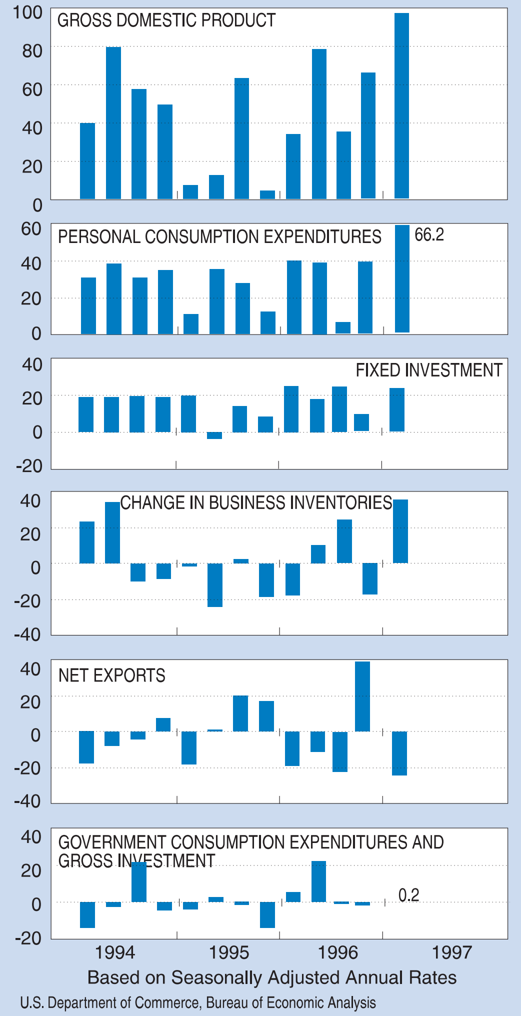
	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1996			1997
	1997	1996			1997				
	I	II	III	IV	I	II	III	IV	I
Gross domestic product	**7,092.1**	**78.3**	**36.0**	**65.2**	**98.8**	**4.7**	**2.1**	**3.8**	**5.8**
Less: Exports of goods and services	886.0	11.2	–1.8	46.8	23.1	5.6	–.9	25.0	11.2
Plus: Imports of goods and services	1,012.9	21.9	20.9	7.8	51.6	9.9	9.3	3.3	23.2
***Equals*: Gross domestic purchases**	**7,213.4**	**88.5**	**57.7**	**27.4**	**125.7**	**5.2**	**3.3**	**1.6**	**7.3**
Less: Change in business inventories	51.4	10.2	27.4	–17.0	34.3	....	....	....	....
***Equals*: Final sales to domestic purchasers**	**7,162.0**	**79.7**	**29.7**	**45.4**	**91.7**	**4.7**	**1.7**	**2.6**	**5.3**
Personal consumption expenditures	4,798.7	38.5	5.9	39.0	66.2	3.4	.5	3.4	5.7
Nonresidential fixed investment	813.8	7.0	30.9	10.6	21.8	3.8	17.5	5.5	11.5
Residential investment	280.6	10.4	–3.7	–1.2	4.0	16.3	–5.2	–1.8	6.0
Government consumption expenditures and gross investment	1,273.6	23.5	–2.1	–2.7	.2	7.7	–.6	–.9	.1
Federal	459.3	10.5	–4.1	–6.4	–3.6	9.4	–3.5	–5.3	–3.1
State and local	815.3	12.9	2.2	3.7	3.9	6.7	1.1	1.9	2.0
Addendum: Final sales of domestic product	**7,040.8**	**69.5**	**8.0**	**83.2**	**64.9**	**4.1**	**.5**	**4.9**	**3.8**

NOTE.—Chained (1992) dollar series are calculated as the product of the chain-type quantity index and the 1992 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corres- ponding chained-dollar estimates usually are not additive. Chained (1992) dollar levels and residuals, which measure the extent of nonadditivity in each table, are found in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are found in NIPA table 8.1.

CHART 1

Real Product: Change from Preceding Quarter

Billion chained (1992) $



U.S. Department of Commerce, Bureau of Economic Analysis in structures increased less in the first quarter than in the fourth.

Real gross domestic purchases increased 7.3 percent in the first quarter after increasing 1.6 percent in the fourth. All components except business investment in structures contributed to the acceleration. (Unlike GDP, gross domestic purchases includes imports and excludes exports; thus, it represents purchases by U.S. residents, regardless of where the goods and services are produced.)

The price index for gross domestic purchases increased 2.2 percent in the first quarter after increasing 2.6 percent in the fourth. The price index for GDP increased 2.8 percent after increasing 1.9 percent.

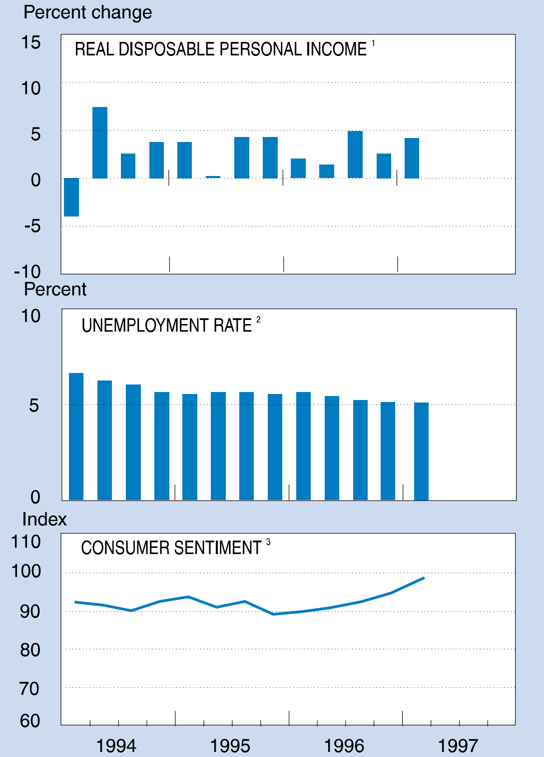
Personal consumption expenditures

Real personal consumption expenditures (PCE) increased 5.7 percent in the first quarter after increasing 3.4 percent in the fourth (table 2). Expenditures for both durable goods and nondurable goods increased more in the first quarter than in the fourth. In contrast, expenditures for services increased slightly less than in the fourth quarter.

Consistent with the step-up in PCE, several of the factors usually considered in analyses of PCE showed strength in the first quarter (chart 2). Real disposable personal income increased 4.2 percent in the first quarter after

CHART 2

Selected Factors Affecting Consumer Spending



1. Disposable personal income in chained (1992) 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

Table 2.—Real Personal Consumption Expenditures

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	1997	1996			1997	1996			1997
	I	II	III	IV	I	II	III	IV	I
Personal consumption expenditures	**4,798.7**	**38.5**	**5.9**	**39.0**	**66.2**	**3.4**	**0.5**	**3.4**	**5.7**
Durable goods	647.1	16.4	–4.0	7.5	28.0	11.4	–2.6	5.0	19.3
Motor vehicles and parts	227.7	1.7	–5.9	–.6	8.3	3.0	–10.0	–1.0	16.0
Of which: New autos	76.5	–2.7	–5.9	4.0	3.2	–13.3	–27.9	24.8	19.1
New trucks	50.4	–1.8	–1.3	1.6	–.6	–12.6	–10.4	14.2	–4.8
Furniture and household equipment	298.3	11.9	3.0	5.2	14.1	19.4	4.4	7.6	21.4
Other	126.3	3.5	–.5	3.4	6.0	13.2	–1.7	11.9	21.5
Nondurable goods	1,466.0	4.8	1.3	6.4	17.4	1.3	.4	1.8	4.9
Food	708.6	–4.3	–3.3	1.2	5.8	–2.4	–1.8	.7	3.3
Clothing and shoes	278.0	6.4	2.1	–.7	7.7	10.1	3.2	–1.0	11.8
Gasoline and oil	115.1	1.7	–.9	1.5	.2	6.2	–3.2	5.3	.9
Fuel oil and coal	9.0	–.6	0	–.1	–1.0	–20.2	–.9	–1.9	–36.0
Other	356.4	1.9	3.5	4.4	5.0	2.3	4.2	5.1	5.8
Services	2,687.2	17.6	8.3	25.0	21.6	2.7	1.3	3.8	3.3
Housing	700.6	2.6	2.3	3.3	3.4	1.5	1.3	1.9	2.0
Household operation	285.4	4.8	–3.4	4.8	–1.6	7.1	–4.8	7.1	–2.2
Electricity and gas	113.3	2.5	–3.5	1.0	–2.1	8.9	–11.4	3.7	–7.2
Other household operation	171.9	2.3	0	3.8	.5	5.9	0	9.4	1.1
Transportation	191.3	.8	1.9	2.7	3.4	1.8	4.2	6.1	7.4
Medical care	712.3	5.0	3.6	6.8	5.8	2.9	2.1	3.9	3.3
Other	797.8	4.3	3.8	7.3	10.6	2.3	1.9	3.8	5.5

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA tables 2.3, 8.5 (autos), and 8.7 (trucks). Percent changes in major aggregates are found in NIPA table 8.1.

increasing 2.6 percent in the fourth. The unemployment rate remained at 5.3 percent, the lowest level in more than 7 years. The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) jumped to its highest level in over 14 years, following a strong increase in the fourth quarter.

Expenditures for durable goods jumped 19.3 percent after increasing 5.0 percent. Motor vehicles and parts increased after decreasing, and furniture and household equipment and "other" durable goods increased more in the first quarter than in the fourth. The upturn in motor vehicles and parts was more than accounted for by an upturn in net purchases of used cars; in addition, purchases of parts increased slightly more than in the fourth quarter. In contrast, purchases of new cars increased less than in the fourth quarter, and purchases of trucks turned down. The acceleration in furniture and household equipment was primarily in computers, peripheral equipment, and software. The acceleration in "other" durable goods was widespread.

Expenditures for nondurable goods increased 4.9 percent after increasing 1.8 percent. A sharp upturn in clothing and shoes and an acceleration in food more than accounted for the step-up; in addition, "other" nondurable goods increased slightly more in the first quarter than in the fourth. In contrast, gasoline and oil increased less than in the fourth quarter, and fuel oil and coal decreased more than in the fourth quarter.

Expenditures for services increased 3.3 percent after increasing 3.8 percent. The slowdown was more than accounted for by household operation; electricity and gas turned down, largely reflecting a decrease in the demand for heating as a result of warmer-than-normal winter temperatures that followed cooler-than-normal autumn temperatures, and other household operation slowed sharply. In addition, medical care increased somewhat less in the first quarter than in the fourth. In contrast, "other" services and transportation increased more in the first quarter than in the fourth; the step-up in "other" services was primarily in brokerage commissions and investment counseling and in recreational services.

Nonresidential fixed investment

Real private nonresidential fixed investment increased 11.5 percent in the first quarter after increasing 5.5 percent in the fourth (table 3). The acceleration was more than accounted for by an upturn in producers' durable equipment (PDE); investment in structures slowed.

Factors that affect investment spending have been generally favorable in recent quarters. Real final sales of domestic product increased 3.3 percent over the past four quarters. Domestic corporate profits increased at an annual rate of 9.4 percent over the same period. The capacity utilization rate in manufacturing has drifted up, albeit slowly, and long term interest rates have

Table 3.—Real Gross Private Domestic Fixed Investment

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	1997	1996			1997	1996			1997
	I	II	III	IV	I	II	III	IV	I
Gross private domestic fixed investment	**1,092.2**	**17.8**	**26.4**	**9.1**	**25.6**	**7.2**	**10.6**	**3.5**	**10.0**
Nonresidential	813.8	7.0	30.9	10.6	21.8	3.8	17.5	5.5	11.5
Structures	202.9	–1.7	3.7	11.2	3.1	–3.8	8.4	25.8	6.5
Nonresidential buildings, including farm	146.1	–1.7	3.3	9.8	3.3	–5.0	10.4	33.1	9.5
Utilities	36.4	.4	–.4	1.0	–1.0	4.3	–5.0	12.0	–10.2
Mining exploration, shafts, and wells	13.5	.1	.6	–.6	.6	4.2	22.2	–16.6	18.1
Other	6.8	–.6	.3	.8	.4	–37.1	28.3	70.2	22.2
Producers' durable equipment	612.6	9.2	27.5	–1.3	18.9	6.7	20.9	–.9	13.4
Information processing and related equipment	269.8	8.6	16.4	6.9	12.4	16.3	31.0	11.5	20.7
Computers and peripheral equipment	159.9	9.1	12.6	10.0	11.0	34.7	46.2	32.4	32.8
Other	128.3	1.6	5.8	–.6	3.4	5.2	21.1	–2.1	11.6
Industrial equipment	118.1	2.8	–2.6	–.9	1.0	9.9	–8.2	–3.0	3.3
Transportation and related equipment	123.4	–2.6	11.6	–5.4	2.3	–8.5	47.0	–16.0	7.7
Of which: Motor vehicles	111.5	2.1	4.7	–2.5	4.9	8.4	19.3	–8.8	19.8
Other	109.0	1.1	3.1	–.9	4.2	4.1	12.8	–3.3	16.9
Residential	280.6	10.4	–3.7	–1.2	4.0	16.3	–5.2	–1.8	6.0
Single-family structures	135.9	5.1	–.9	–2.0	1.2	16.5	–2.8	–5.7	3.6
Multifamily structures	21.2	1.8	–3.1	1.2	2.1	42.5	–47.5	30.9	49.9
Other	124.2	3.5	.3	–.5	.9	12.2	.9	–1.3	2.9

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA tables 5.5, 8.5 (autos), and 8.7 (trucks). Percent changes in major aggregates are found in NIPA table 8.1.

not increased much; for example, the yield on high grade corporate bonds, at 7.85 percent, was only 28 basis points higher at the end of the first quarter than it was a year earlier.

PDE increased 13.4 percent after edging down 0.9 percent. Strength was evident in many types of equipment. Transportation equipment turned up, largely reflecting purchases of motor vehicles. Information processing equipment increased almost twice as much as in the fourth quarter; most of the step-up was in equipment other than computers. "Other" PDE increased after decreasing slightly, and industrial equipment turned up.

Structures increased 6.5 percent after jumping 25.8 percent. Most of the slowdown was accounted for by industrial and commercial buildings: Industrial buildings decreased after an increase, and commercial buildings increased only about half as much as in the fourth quarter.

Residential investment

Real residential investment increased 6.0 percent in the first quarter after decreasing 1.8 percent in the fourth (table 3). All components of residential investment contributed to the upturn; single-family and "other" residential construction turned up, and multifamily construction increased more in the first quarter than in the fourth. [2]

Single-family structures increased 3.6 percent in the first quarter after decreasing 5.7 percent in the fourth. The upturn reflected an increase in the quality and other amenities of homes under construction in the first quarter. Single-family housing starts continue to fluctuate in the range of 1.0 to 1.2 million units (seasonally adjusted annual rate) (chart 3).[3]

Multifamily construction increased 49.9 percent after increasing 30.9 percent.

"Other" residential investment increased 2.9 percent in the first quarter after decreasing 1.3 percent in the fourth. The upturn was primarily accounted for by brokers' commissions on home sales. The upturn in brokers' commissions reflected a sharp increase in the average sales price of existing homes and an increase of 73,000 units (seasonally adjusted annual rate) in home sales—61,000 of which were in sales of new residences, and 12,000 of which were in sales of existing residences. The commitment rate on 30-year, fixed-rate mortgages increased slightly to 7.79 percent from 7.71 percent (chart 4).

Inventory investment

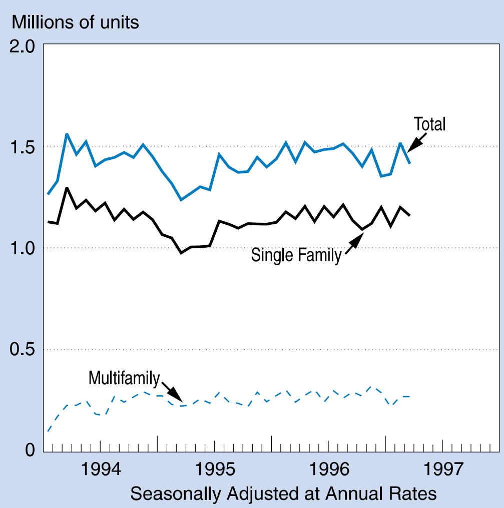
Real inventory investment—that is, the change in business inventories—increased $34.3 billion in first quarter, as inventory accumulation stepped

2. "Other" residential investment includes home improvements, new mobile home sales, brokers' commissions on home sales, and residential equipment.

3. The estimate of single-family structures for a quarter largely reflects starts in the first 2 months of that quarter and in the last 2 months of the preceding quarter; therefore, structures in the first quarter largely reflected starts from November through February, and structures in the fourth quarter largely reflected starts from August through November.

CHART 3

Housing Starts

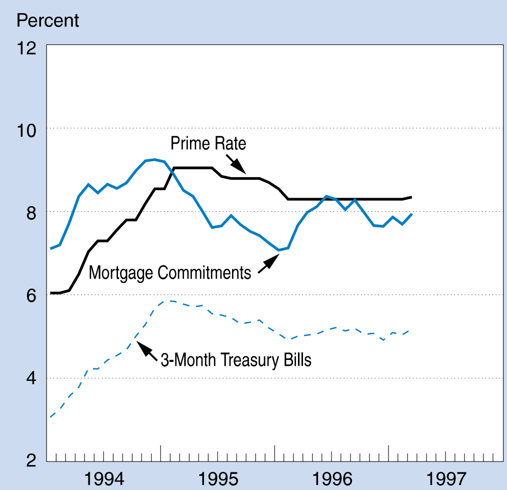


Data: Bureau of the Census

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 up to $51.4 billion from $17.1 billion (table 4). In contrast, inventory investment had decreased $17.0 billion in the fourth quarter, as accumulation had slowed from $34.1 billion in the third quarter.

Nonfarm inventories increased $52.0 billion in the first quarter after increasing $19.3 billion in the fourth. The step-up was attributable to faster accumulation of manufacturing inventories, wholesale trade inventories, and "other" inventories. In contrast, retail inventories increased slightly less than in the fourth quarter.

In manufacturing, inventories in both the durable goods and the nondurable goods industries increased substantially more in the first quarter than in the fourth. In the durable goods industries, the pickup was primarily accounted for by an acceleration in transportation equipment other than motor vehicles and an upturn in industrial machinery; in the nondurable goods industry, the pickup was more than accounted for by an upturn in petroleum products.

In wholesale trade, inventories increased more in the first quarter than in the fourth. The step-up was accounted for by an upturn in inventories of the durable goods industries, primarily motor vehicles, electrical goods, and machinery equipment. In contrast, inventories of nondurable goods industries increased less than in the fourth quarter.

"Other" nonfarm inventories increased more in the first quarter than in the fourth.[4] The step-up was in nondurable inventories.

Retail trade inventories increased slightly less in the first quarter than in the fourth. The slowdown was accounted for by inventories of nondurable goods, which decreased after increasing. In contrast, inventories of durable goods increased after decreasing; the upturn was accounted for by inventories of durable goods other than those held by motor vehicle dealers. Inventories of motor vehicle dealers decreased more in the first quarter than in the fourth.

Farm inventories decreased $1.2 billion after decreasing $2.6 billion; the first-quarter decrease marked the ninth consecutive quarter of farm inventory reduction. Inventories of both crops and livestock decreased in the first quarter.

The ratio of real nonfarm business inventories to real final sales of domestic business edged up to 2.24 from 2.23. A different ratio, in which final sales are limited to goods and structures, edged down to 3.98 from 3.99. Both ratios remained low by historical standards.

Exports and imports

Real exports of goods and services increased 11.2 percent in the first quarter after jumping 25.0 percent in the fourth (table 5). Real imports of goods and services jumped 23.2 percent after increasing 3.3 percent.

Real exports of goods increased 12.8 percent after surging 30.7 percent. Much of the slowdown was accounted for by nonautomotive capital goods; within nonautomotive capital goods, sharp slowdowns in exports of aircraft and of "other" capital goods more than offset a step-up in exports of computers, peripheral equipment, and parts.[5] Industrial supplies and materials and nonautomotive consumer goods also contributed to the slowdown in exports. Exports of services increased 6.6 percent after increasing 10.8 percent, partly reflecting a slowdown in travel (that is, spending by foreign visitors in the United States).

4. The "other" component includes inventories held by the mining; construction; public utilities; transportation; communication, finance, insurance, and real estate; and service industries.

5. Exports and imports of nonautomotive capital goods include both parts and equipment. However, parts are *not* included in the producers' durable equipment component of business fixed investment or in the equipment component of government investment.

Table 4.—Real Change in Business Inventories

[Billions of chained (1992) dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter			
	1996				1997	1996			1997
	I	II	III	IV	I	II	III	IV	I
Change in business inventories	**–3.5**	**6.7**	**34.1**	**17.1**	**51.4**	**10.2**	**27.4**	**–17.0**	**34.3**
Farm	–7.0	–5.6	–.8	–2.6	–1.2	1.4	4.8	–1.8	1.4
Nonfarm	2.9	11.7	34.6	19.3	52.0	8.8	22.9	–15.3	32.7
Manufacturing	12.0	–3.9	11.9	4.2	19.2	–15.9	15.8	–7.7	15.0
Wholesale trade	6.4	7.3	–3.6	9.1	21.7	.9	–10.9	12.7	12.6
Retail trade	–21.7	5.2	22.7	2.9	2.4	26.9	17.5	–19.8	–.5
Of which: Motor vehicle dealers	–23.6	2.0	10.6	–2.1	–5.1	25.6	8.6	–12.7	–3.0
Other	6.1	3.1	3.6	3.1	8.6	–3.0	.5	–.5	5.5

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA table 5.11.

Real imports of goods jumped 24.9 percent after increasing 3.5 percent. Much of the step-up was accounted for by autos, by nonautomotive capital goods, and by petroleum. Imports of autos and of petroleum increased in the first quarter after decreasing. In nonautomotive capital goods, computers and "other" capital goods stepped up sharply; in contrast, imports of aircraft turned down slightly. Imports of services increased 14.4 percent after increasing 2.3 percent; most categories of services contributed to the step-up.

Government spending

Real government consumption expenditures and gross investment edged up 0.1 percent in the first quarter after decreasing 0.9 percent in the fourth (table 6). Federal Government spending decreased less in the first quarter than in the fourth, and State and local government spending increased slightly more in the first quarter than in the fourth.

Federal nondefense spending increased 11.7 percent after decreasing 2.1 percent. Consumption expenditures increased after decreasing, primarily as a result of an upswing in spending for services. Investment changed little after a substantial increase.

Federal defense spending decreased 10.0 percent after decreasing 6.9 percent. The larger first-quarter decrease was the result of a downturn in spending on "other" services. Within "other" services, most major categories turned down. Compensation of employees declined for the 24th consecutive quarter. Investment decreased less in the first quarter than in the fourth; the decreases

Table 5.—Real Exports and Imports of Goods and Services

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	1997	1996			1997	1996			1997
	I	II	III	IV	I	II	III	IV	I
Exports of goods and services	**886.0**	**11.2**	**–1.8**	**46.8**	**23.1**	**5.6**	**–0.9**	**25.0**	**11.2**
Goods	662.3	9.7	.5	41.5	19.7	6.7	.3	30.7	12.8
Agricultural goods	47.8	–5.0	1.0	4.8	–3.5	–33.7	8.7	48.7	–24.6
Nonagricultural goods	616.0	15.5	–.7	36.6	23.9	11.9	–.5	29.0	17.2
Services	225.3	1.6	–2.2	5.6	3.6	2.8	–3.8	10.8	6.6
Imports of goods and services	**1,012.9**	**21.9**	**20.9**	**7.8**	**51.6**	**9.9**	**9.3**	**3.3**	**23.2**
Goods	863.8	21.5	20.1	7.0	46.8	11.7	10.6	3.5	24.9
Petroleum and products	61.4	6.8	1.1	–5.5	3.8	59.9	7.0	–30.5	29.4
Nonpetroleum products	800.1	15.1	19.0	11.9	42.8	8.7	10.9	6.5	24.6
Services	149.9	.4	.9	.9	4.9	1.3	2.6	2.3	14.4
Addendum: Net exports of goods and services	**–126.8**	**–10.7**	**–22.7**	**39.0**	**–28.4**	....	....	....	....

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA table 4.4. Percent changes in major aggregates are found in NIPA table 8.1.

Table 6.—Real Government Consumption Expenditures and Real Gross Investment by Type

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	1997	1996			1997	1996			1997
	I	II	III	IV	I	II	III	IV	I
Government consumption expenditures and gross investment	**1,273.6**	**23.5**	**–2.1**	**–2.7**	**0.2**	**7.7**	**–0.6**	**–0.9**	**0.1**
Federal	459.3	10.5	–4.1	–6.4	–3.6	9.4	–3.5	–5.3	–3.1
National defense	301.3	7.5	–4.5	–5.5	–8.1	10.0	–5.5	–6.9	–10.0
Consumption expenditures	270.2	8.0	–3.1	–1.2	–5.1	12.2	–4.3	–1.7	–7.2
Gross investment	31.3	–.4	–1.4	–4.3	–2.9	–4.0	–13.2	–37.9	–30.1
Nondefense	157.4	3.1	.2	–.8	4.3	8.3	.6	–2.1	11.7
Consumption expenditures	134.8	3.1	–.3	–3.9	4.3	9.6	–.7	–11.2	13.7
Gross investment	22.8	0	.5	3.4	0	–1.3	11.6	91.3	–.4
State and local	815.3	12.9	2.2	3.7	3.9	6.7	1.1	1.9	2.0
Consumption expenditures	656.5	8.8	2.7	.8	3.3	5.6	1.6	.5	2.0
Gross investment	158.9	4.1	–.5	3.0	.6	11.2	–1.2	7.8	1.6

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA table 3.8B. Percent changes in major aggregates are found in NIPA table 8.1.

in both quarters were mostly accounted for by equipment.

State and local government spending increased 2.0 percent after increasing 1.9 percent. Compensation of employees increased more than in the fourth quarter, and investment increased less than in the fourth quarter.

Revisions

As noted earlier, the preliminary estimate of a 5.8-percent increase in real GDP in the first quarter is 0.2 percentage point higher than the advance estimate (table 7); for 1976–96, the average revision, without regard to sign, from the advance estimate of real GDP to the preliminary estimate was 0.5 percentage point. Upward revisions to exports of goods and services and to the change in business inventories more than offset a downward revision to PCE. The preliminary estimate of the increase in the price index for gross domestic purchases is 2.2 percent, unchanged from the advance estimate, and the preliminary estimate of the increase in the price index for GDP is 2.8 percent, 0.1 percentage point higher than the advance estimate.

The upward revision to exports of goods and services was primarily to goods and reflected newly available Census Bureau data for March.

The upward revision to the change in business inventories was more than accounted for by nonfarm inventories, largely by manufacturing and wholesale trade. The revision to manufacturing and wholesale trade primarily reflected the incorporation of newly available Census Bureau data on the value of inventories for March; for wholesale trade, the revision also reflected revised Census Bureau inventory data for October 1996 through February 1997.

The downward revision to PCE was primarily to nondurable goods and reflected the incorporation of revised Census Bureau data on retail sales for January 1993 through February 1997.

The preliminary estimate of real disposable personal income increased 4.2 percent in the first quarter, 2.2 percentage points lower than the advance estimate; current-dollar personal income was revised up slightly, but personal tax and nontax payments were revised up substantially. The revision to personal tax and nontax payments reflected the incorporation of newly available tax collections data from the Department of the Treasury. Largely as a result of the downward revision to disposable personal income, the preliminary estimate of the personal saving rate was revised down to 4.8 percent, 0.3 percentage point lower than the advance estimate.

Corporate Profits

Profits from current production jumped \$46.7 billion in the first quarter after decreasing \$7.2 billion in the fourth (table 8).[6]

Profits of domestic industries increased \$51.9 billion after decreasing \$20.5 billion. Profits rebounded strongly in both financial and nonfinancial corporations. In nonfinancial corporations,

6. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown in NIPA tables 1.9, 1.14, 1.16, and 6.16C as "corporate profits with inventory valuation and capital consumption adjustments."

Table 7.—Revisions to Real Gross Domestic Product and Prices,

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Preliminary estimate minus advance estimate	
	Advance estimate	Preliminary estimate	Percentage points	Billions of chained (1992) dollars
Gross domestic product	**5.6**	**5.8**	**0.2**	**2.7**
Less: Exports of goods and services	8.1	11.2	3.1	6.1
Goods	9.1	12.8	3.7	5.5
Services	5.3	6.6	1.3	.7
Plus: Imports of goods and services	21.9	23.2	1.3	2.8
Goods	23.7	24.9	1.2	2.2
Services	12.5	14.4	1.9	.6
***Equals*: Gross domestic purchases**	**7.3**	**7.3**	**0**	**–.7**
Personal consumption expenditures	6.4	5.7	–.7	–7.3
Durable goods	19.9	19.3	–.6	–.8
Nondurable goods	6.3	4.9	–1.4	–4.9
Services	3.6	3.3	–.3	–1.8
Fixed investment	10.2	10.0	–.2	–.5
Nonresidential	11.9	11.5	–.4	–.8
Structures	9.5	6.5	–3.0	–1.5
Producers' durable equipment	12.9	13.4	.5	.7
Residential	5.5	6.0	.5	.3
Change in business inventories	....	....	....	5.3
Nonfarm	....	....	....	5.5
Farm	....	....	....	–.3
Government consumption expenditures and gross investment	–.6	.1	.7	2.0
Federal	–3.5	–3.1	.4	.5
National defense	–10.1	–10.0	.1	0
Nondefense	10.1	11.7	1.6	.6
State and local	1.2	2.0	.8	1.4
Addenda:				
Final sales of domestic product	3.9	3.8	–.1	–2.5
Gross domestic purchases price index[1]	2.2	2.2	0	....
GDP price index[1]	2.7	2.8	.1	....

1. Based on chained (1992) weights.

NOTE.—The preliminary estimates for the first quarter of 1997 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

Personal consumption expenditures: Revised retail sales from October 1996 through March 1997, consumers' share of new-car purchases for March; consumers' share of new-truck purchases for March, used car sales for the quarter; and hospital expenses for January.

Nonresidential fixed investment: Construction put in place for January and February (revised) and March, manufacturers' shipments of machinery and equipment for February and March (revised), and exports and imports of machinery and equipment for February (revised) and March.

Residential fixed investment: Construction put in place for January and February (revised) and March.

Change in business inventories: Manufacturing inventories for February (revised) and March; and retail trade and wholesale trade inventories for October 1996 through February 1997 (revised) and March.

Exports and imports of goods and services: Exports and imports of goods for February (revised) and March.

Government consumption expenditures and gross investment: Monthly Treasury Statement detailed data for March, Department of Defense detailed financial reports for the quarter, State and local government construction put in place for January and February (revised) and March; State and local government employment for February and March (revised); and the employment cost index for State and local government for the quarter.

Wages and salaries: Employment, average hourly earnings, and average weekly hours for February and March (revised).

GDP prices: Detailed merchandise export and import price indexes for January through March (revised), values and quantities of petroleum imports for February (revised) and March, and housing prices for the first quarter.

increased profits in the first quarter reflected increases in both real output and in unit profits. Profits from the rest of the world decreased $5.2 billion after increasing $13.3 billion; receipts turned down and payments picked up slightly.[7]

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased $29.6 billion after decreasing $1.1 billion. The ratio of cash flow to nonresidential fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, increased to 82.8 percent from 80.9 percent. These levels are near the low end of the range in which the ratio has fluctuated during most of this decade.

Industry profits.—Industry profits increased $44.4 billion after decreasing $9.7 billion.[8] For domestic financial corporations, a sharp increase followed a fourth-quarter decrease that had reflected a special assessment on thrift institutions to recapitalize the Savings Association Insurance Fund. For domestic nonfinancial corporations, an upturn in profits reflected upturns in the transportation and public utilities group and in retail trade; in contrast, profits in manufacturing were relatively flat, and profits in wholesale trade and in "other" nonfinancial corporations increased less than in the fourth quarter.

Related measures.—Profits before tax (PBT) increased $35.2 billion in the first quarter after increasing $1.5 billion in the fourth. The difference between the $33.7 billion step-up in PBT and the $53.9 billion upturn in profits from current production was accounted for by inventory profits, which decreased in the first quarter after increasing in the fourth. (Inventory profits are represented in the national income and product accounts by the inventory valuation adjustment, with the sign reversed.)

Table 8.—Corporate Profits

[Seasonally adjusted at annual rates]

	Level 1997 I	Change from preceding quarter 1996 IV	Change from preceding quarter 1997 I
	Billions of dollars		
Profits from current production	**716.8**	**–7.2**	**46.7**
Domestic industries	632.1	–20.5	51.9
Financial	124.4	–14.4	28.7
Nonfinancial	507.7	–6.1	23.2
Rest of the world	84.7	13.3	–5.2
IVA	0	–11.2	9.2
CCAdj	44.6	2.5	2.4
Profits before tax	672.3	1.5	35.2
Profits tax liability	245.7	–4.5	16.8
Profits after tax	426.5	6.0	18.3
Cash flow from current production	688.2	–1.1	29.6
Corporate profits with IVA	672.3	–9.7	44.4
Domestic industries	587.5	–23.0	49.5
Financial	150.6	–13.7	29.3
Nonfinancial	437.0	–9.4	20.3
Rest of the world	84.7	13.3	–5.2
Receipts (inflows)	133.7	14.1	–3.3
Payments (outflows)	49.0	.8	1.9
	Dollars		
Unit price, costs, and profits of nonfinancial corporations:			
Unit price	1.069	0	0.003
Unit labor cost	.709	.002	.001
Unit nonlabor cost	.234	.000	.000
Unit profits from current production	.126	–.003	.003

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

Rates of Return for Domestic Nonfinancial Corporations, 1959–95

This section presents revised estimates of rates of return and related measures for domestic nonfinancial corporations. Table 9 shows these measures, and table 10 shows the NIPA series from which they are calculated.

The measures are based on wealth estimates, published in the May SURVEY, that incorporate the definitional and statistical improvements introduced in last year's comprehensive revision of the NIPA's.[9] In particular, the wealth estimates reflect an improved methodology for calculating depreciation that uses empirical evidence on the prices of used equipment and structures in resale markets; this evidence shows that depreciation for most types of assets approximates a geometric pattern. For structures, which account for most of the revision to the wealth estimates, the new methodology results in a slower pattern of depreciation throughout the life of an asset; for equipment, the new methodology results in a more rapid pattern of depreciation in the early years of an asset's life and a slower pattern in the later years.

The rate of return highlighted in this discussion is measured as the ratio for nonfinancial corpo-

7. Profits from the rest of the world is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents.

8. Industry profits, which are estimated as the sum of corporate profits before tax and the inventory valuation adjustment, are shown in NIPA table 6.16C. Estimates of the capital consumption adjustment do not exist at a detailed industry level; they are available only for total financial and total nonfinancial industries.

9. Arnold J. Katz and Shelby W. Herman, "Improved Estimates of Fixed Reproducible Tangible Wealth, 1929–95," SURVEY OF CURRENT BUSINESS 77 (May 1997):69–92.

rations of property income to the stock of net reproducible tangible assets (table 9, column 1).[10] *Property income* is the sum of profits from current production—corporate profits with inventory valuation adjustment and capital consumption adjustment—and net interest payments (table 10, column 1). *Net reproducible tangible assets* consist of fixed capital stock and inventories; both are measured at current-replacement cost (table 10, column 7).

10. Corporate profits and net interest are based on tabulations of "company" data rather than "establishment" data. As a result, property income for domestic nonfinancial corporations may include income earned by financial establishments of those corporations; similarly, it may exclude the income earned by nonfinancial units of financial corporations. For a discussion of the industrial distribution of NIPA series, see, for example, *National Income and Product Accounts of the United States, Volume 2, 1959–88* (Washington, DC: U.S. Government Printing Office, 1992): M-13.

Rates of return may be calculated in other ways (see the box "Alternative Measures of Rates of Return"), but the measure used here has several analytically useful features. First, by using property income in the numerator, it captures the *total* return to investment—regardless of the mix of equity and debt used to finance the investment. Second, because this numerator reflects the current-replacement costs of inventory withdrawals and of capital used up in production, it is not distorted by inventory "profits" and "profits" resulting from over- or under-depreciation of capital in the underlying tax returns used by BEA to estimate corporate profits before tax. Third, because the denominator is measured at current-replacement cost—that is, because net reproducible tangible assets are valued at the prices that would have been paid for them if they

Table 9.—Rate of Return, Income Share, and Average Product of Capital, Domestic Nonfinancial Corporations, 1959–95

[Percent, except as noted]

Year	Rate of return					Share of domestic income			Product per dollar of capital (ratio)
	Property income					Property income			
	Total	Profits from current production			Net interest	Total	Profits from current production	Net interest	
		Total	Profits tax liability	Profits after tax					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1959	9.3	8.7	4.2	4.5	0.6	21.3	19.8	1.4	0.437
1960	8.6	7.9	3.7	4.2	.7	19.6	18.1	1.5	.439
1961	8.7	7.9	3.7	4.2	.8	19.7	18.0	1.7	.440
1962	9.9	9.0	3.8	5.2	.8	21.1	19.3	1.8	.468
1963	10.6	9.8	4.1	5.7	.9	22.1	20.3	1.8	.482
1964	11.3	10.4	4.1	6.3	.9	22.7	20.9	1.8	.497
1965	12.3	11.3	4.3	7.0	1.0	23.9	22.0	1.9	.513
1966	12.1	11.0	4.3	6.7	1.1	23.3	21.3	2.1	.516
1967	10.9	9.7	3.7	6.0	1.2	21.9	19.5	2.3	.498
1968	10.7	9.5	4.1	5.4	1.2	21.3	18.9	2.5	.501
1969	9.5	8.0	3.7	4.3	1.5	19.3	16.3	3.0	.492
1970	7.7	5.9	2.8	3.2	1.7	16.6	12.8	3.8	.462
1971	8.1	6.4	2.8	3.6	1.7	17.8	14.1	3.7	.458
1972	8.5	6.9	2.9	4.0	1.6	18.2	14.7	3.5	.469
1973	8.3	6.6	3.0	3.5	1.7	17.8	14.2	3.7	.464
1974	6.5	4.7	2.6	2.0	1.8	15.6	11.3	4.3	.413
1975	7.1	5.5	2.3	3.1	1.6	17.8	13.8	4.1	.398
1976	7.5	6.1	2.7	3.4	1.4	18.2	14.7	3.4	.412
1977	7.8	6.4	2.8	3.7	1.4	18.6	15.3	3.4	.420
1978	7.7	6.3	2.7	3.5	1.5	18.2	14.8	3.5	.424
1979	6.8	5.2	2.5	2.7	1.6	16.6	12.7	3.9	.411
1980	5.8	4.0	2.1	2.0	1.8	15.1	10.4	4.7	.387
1981	6.5	4.5	1.8	2.7	2.0	16.5	11.4	5.1	.391
1982	6.0	3.8	1.2	2.5	2.2	15.6	9.9	5.7	.383
1983	6.7	4.7	1.5	3.2	2.0	16.8	11.8	5.0	.399
1984	8.0	5.9	1.8	4.0	2.2	18.7	13.7	5.0	.428
1985	7.8	5.7	1.6	4.1	2.1	18.0	13.1	4.9	.435
1986	7.4	5.2	1.7	3.4	2.2	16.8	11.7	5.1	.439
1987	7.9	5.6	2.0	3.6	2.3	17.5	12.4	5.1	.450
1988	8.5	6.0	2.1	3.9	2.5	18.4	13.0	5.4	.461
1989	8.2	5.4	1.9	3.5	2.8	17.8	11.7	6.2	.461
1990	7.9	5.1	1.8	3.3	2.7	17.1	11.1	6.0	.461
1991	7.4	5.0	1.6	3.4	2.5	16.2	10.8	5.4	.458
1992	7.2	5.3	1.6	3.7	1.9	15.4	11.4	4.0	.466
1993	7.6	5.9	1.8	4.2	1.7	16.3	12.6	3.6	.469
1994	8.3	6.7	2.1	4.6	1.6	17.4	14.1	3.3	.480
1995	8.2	6.7	2.2	4.5	1.6	17.1	13.9	3.3	.481

Source: Table 10.

NOTE.—Columns 1–5 are percentages of the stock of net reproducible assets (structures, equipment, and inventories) valued at current replacement cost. Columns 6–8 are percentages of domestic income. Column 9 is calculated as the ratio of column 1 to column 6.

Table 10.—Property Income of Domestic Nonfinancial Corporations and Related Series, 1959–95

[Billions of dollars]

Year	Property income					Domestic income	Net reproducible tangible assets [1]
	Total	Profits from current production			Net interest		
		Total	Profits tax liability	Profits after tax			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1959	46.4	43.2	20.7	22.5	3.1	217.8	498.7
1960	44.1	40.7	19.2	21.5	3.5	225.3	512.8
1961	45.6	41.6	19.5	22.2	4.0	230.9	524.6
1962	53.6	49.1	20.6	28.4	4.5	253.7	542.5
1963	59.7	54.9	22.8	32.1	4.8	270.8	561.2
1964	66.5	61.2	24.0	37.2	5.3	293.2	590.5
1965	77.5	71.4	27.2	44.2	6.1	324.0	632.2
1966	83.4	76.1	29.5	46.6	7.4	357.4	692.0
1967	81.8	73.0	27.8	45.2	8.8	374.1	750.6
1968	87.6	77.5	33.6	43.9	10.1	410.8	819.6
1969	85.6	72.5	33.3	39.1	13.2	444.5	902.8
1970	75.4	58.3	27.2	31.1	17.1	454.0	983.7
1971	86.9	68.8	29.9	38.8	18.1	488.9	1,067.8
1972	99.5	80.4	33.8	46.6	19.2	546.6	1,164.7
1973	109.6	87.1	40.2	46.9	22.5	615.5	1,327.6
1974	103.1	74.8	42.2	32.6	28.3	659.9	1,597.4
1975	126.0	97.3	41.5	55.8	28.7	706.3	1,772.7
1976	145.9	118.4	53.0	65.4	27.5	803.3	1,950.1
1977	170.1	139.4	59.9	79.5	30.6	912.6	2,170.7
1978	190.3	154.0	67.1	86.9	36.3	1,043.2	2,457.9
1979	192.3	147.2	69.6	77.6	45.1	1,160.4	2,825.3
1980	188.3	130.1	67.0	63.1	58.2	1,246.8	3,223.9
1981	232.3	160.3	63.9	96.4	71.9	1,403.7	3,589.1
1982	224.6	142.1	46.3	95.8	82.5	1,441.6	3,764.8
1983	258.1	181.5	59.4	122.0	76.6	1,538.6	3,860.3
1984	326.9	239.0	73.7	165.4	87.8	1,748.6	4,085.0
1985	334.1	243.5	69.9	173.6	90.6	1,856.0	4,264.1
1986	324.1	226.0	75.6	150.5	98.1	1,927.3	4,388.8
1987	363.8	258.6	93.5	165.1	105.3	2,079.3	4,619.9
1988	415.3	294.3	101.7	192.6	121.0	2,262.0	4,902.6
1989	422.7	276.7	98.8	178.0	145.9	2,372.7	5,149.6
1990	422.8	275.3	95.7	179.6	147.5	2,478.8	5,377.0
1991	403.4	269.7	85.4	184.3	133.7	2,493.9	5,439.4
1992	399.8	295.6	91.1	204.5	104.2	2,595.1	5,574.7
1993	446.2	346.6	103.5	243.1	99.6	2,740.5	5,837.5
1994	511.6	414.1	129.9	284.2	97.5	2,946.4	6,135.6
1995	532.0	430.7	140.7	290.0	101.3	3,106.9	6,452.9

1. Structures, equipment, and inventories, valued at current replacement cost. Data are averages of end-of-year values for adjacent years. The value of structures and equipment for 1985–95 are from Arnold J. Katz and Shelby W. Herman, "Improved Estimates of Fixed Reproducible Tangible Wealth, 1929–95," SURVEY 77 (May 1997):87. Data on structures and equipment for 1959–84 and all data on inventories are unpublished BEA estimates.

NOTE.—Property income is profits from current production plus net interest. Profits from current production is corporate profits with inventory valuation adjustment and capital consumption adjustment. Profits after tax is also shown with inventory valuation adjustment and capital consumption adjustment.

had been purchased new in the period to which the stock estimates refer—the rate of return is an estimate of the current average profitability of investment.

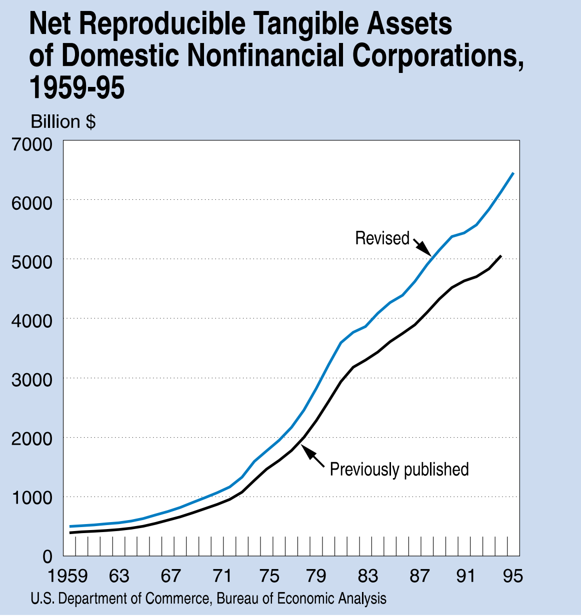
A measure closely related to the rate of return is property income's share of domestic income (table 9, column 6). It is calculated as the ratio of property income to domestic income (table 10, columns 1 and 6). *Domestic income* of nonfinancial corporations consists of property income plus compensation of employees; thus, property income's share is the portion of domestic income that is not used to compensate labor.

These two ratios are related by a third ratio, the product per dollar of capital (table 9, column 9).[11] It can be calculated in two equivalent ways: As the ratio of the rate of return to property income's share (table 9, columns 6 and 1), or as the ratio of domestic income to the stock of net reproducible tangible assets (table 10, columns 6 and 7).

These ratios provide a useful perspective for analyzing the substantial increases in corporate profits and in property income in recent years. In the context of the rate of return and of the share of domestic income, these gains are much less pronounced. For example, though the rate of return was higher in the 1990's than in the late 1970's and early 1980's, it was considerably lower than in the 1960's; moreover, since the mid-1980's the rate of return has been relatively flat.

The revised estimates of net fixed reproducible tangible assets, along with the previously published estimates from the April 1995 SURVEY, are plotted in chart 5. The revised estimates are

CHART 5



11. It should be noted that this ratio is not appropriate for use in productivity analysis; for productivity analysis, the denominator should measure capital services, not capital stock.

Alternative Measures of Rates of Return

The following paragraphs describe several alternative measures of rates of return.

The income measure in the numerator of the rate-of-return ratio can be defined exclusive of net interest or in terms of some measure other than the current-production variant for profits. For example, the numerator could be profits after tax, or it could be retained earnings, and these incomes can be measured with or without inventory valuation and capital consumption adjustments. (Several of these variants are shown in table 9.)

The denominator can include the net capital stock valued at historical cost, that is, at the prices at which the assets were purchased when new. However, historical-cost estimates are problematic because they treat a dollar of capital stock purchased in 1959 as equivalent to a dollar of capital stock purchased in 1995; the estimates do not incorporate any adjustment for changes in the price level. Moreover, the mix of inventory accounting methods (such as FIFO and LIFO) in use would make historical-cost valuation of inventories difficult if not impossible. (The Census Bureau's *Quarterly Financial Report* (QFR) contains estimates of fixed assets based on historical costs and total inventories based on a mixture of accounting methods; these estimates are available for all manufacturing corporations and for corporations included in mining, wholesale trade, and retail trade with assets of $50 million or more.) If this difficulty were surmounted somehow, one would, until relatively recently, probably expect historical-cost rates to be higher than replacement-cost rates, as increases in the prices of many assets make the denominator of the replacement-cost ratio bigger than that of the historical-cost ratio; however, in recent years, this effect may have been largely offset by decreases in computer prices.

The denominator of the ratio need not be limited to reproducible assets. For example, land (including subsoil resources), goodwill, and intellectual property might also be included. Alternatively, rates of return on stockholders' equity and on sales can be calculated, as is done for mining, manufacturing, retail trade, and wholesale trade corporations by the Census Bureau in the *QFR*. (*QFR* measures of profits based on financial accounting standards, not profits from current production, are used in the numerators.)

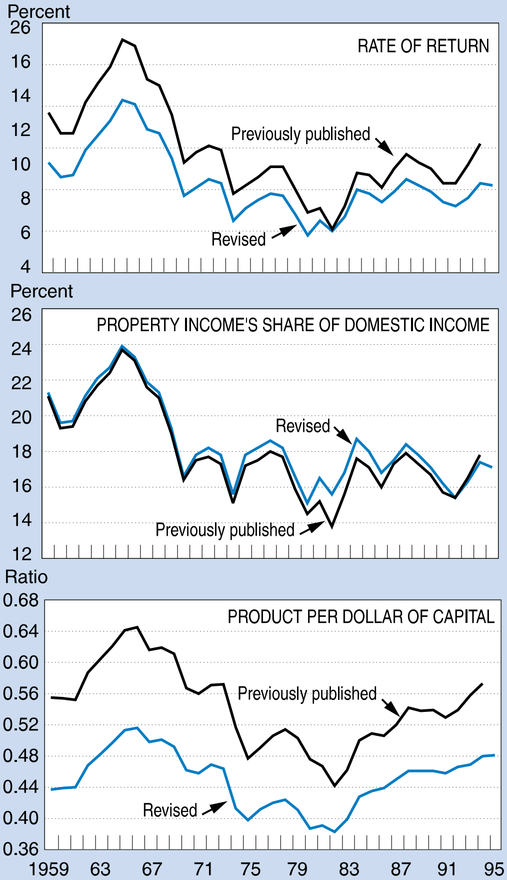
consistently higher than the previously published estimates; on average, they exceed the previously published estimates by about 20 percent.

The upward revision to the stock of assets is reflected in downward revisions to the rate of return and to the product per dollar of capital (chart 6).[12] Typically (that is, more than half the time), revisions to the rate of return are between −1.0 and −2.0 percentage points; for the product per dollar of capital, the typical revision is between −0.075 and −0.120 percentage point. In both cases, the paths of the revised and previously published series are very similar. Property income's share of domestic income is affected by the improved methodology for calculating depreciation that underlies the revision to the asset estimates; the typical revision to property income's share is between 0.3 and 0.6 percentage point.

12. Revisions to the net stock are also discussed in Katz and Herman, "Improved Estimates," 75–76; revisions to corporate profits with the IVA and CCAdj are discussed in Robert P. Parker, "Completion of the Comprehensive Revision of the National Income and Product Accounts, 1929–96," SURVEY 77 (May 1997): 6–9.

CHART 6

Selected Measures for Domestic Nonfinancial Corporations, 1959-95



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

Government Sector

The combined fiscal position of the Federal Government and State and local governments shifted from a deficit of $15.0 billion in the fourth quarter to a surplus of $13.5 billion in the first quarter—the first surplus in more than 8 years (table 11).[13] The shift was largely attributable to a decrease in the Federal Government deficit, but an increase in the State and local surplus also contributed.

Federal

The Federal Government current deficit decreased $24.1 billion, to $81.8 billion, in the first quarter after decreasing $14.9 billion in the fourth quarter. The first-quarter deficit is the smallest since the third quarter of 1981.

Receipts.—Receipts increased $34.6 billion in the first quarter after increasing $37.4 billion in the fourth. The slight deceleration resulted from a sharp downturn in indirect business tax and nontax accruals that was nearly offset by an upturn in corporate profits tax accruals and by accelerations in personal tax and nontax receipts and contributions for social insurance.

Indirect business tax and nontax accruals decreased $22.5 billion after increasing $23.0 billion. The downturn was mostly accounted for by indirect business nontaxes, which decreased $19.2 billion after increasing $18.2 billion; these changes were primarily accounted for by a special assessment of $18.0 billion (annual rate) that was paid in the fourth quarter by thrift institutions to recapitalize the Savings Association Insurance Fund. Air transport excise taxes decreased $3.1 billion after increasing $4.5 billion; these taxes expired at the end of 1996 and were not reinstated until early March 1997.

Corporate profits tax accruals increased $14.1 billion after decreasing $3.7 billion. The upturn

13. The concepts and coverage that are used in the measurement of the government current surplus or deficit in the national income and product accounts (NIPA's) are consistent with those used in the measurement of the gross domestic product. The NIPA estimates of government receipts and current expenditures are derived primarily from data from financial statements for the Federal Government and State and local governments, which are adjusted mainly for differences in timing and coverage with the NIPA's. For more information, see *Government Transactions*, NIPA Methodology Paper Series MP-5 (Washington, DC: U.S. Printing Office, November 1988); and "Preview of the Comprehensive Revision of the National Income and Product Accounts: Recognition of Government Investment and Incorporation of a New Methodology For Calculating Depreciation," SURVEY OF CURRENT BUSINESS 75 (September 1995): 33–41.

reflected the pattern of domestic corporate profits.

Personal tax and nontax receipts increased $28.1 billion after increasing $10.9 billion. The acceleration was attributable to estimated income tax payments less refunds, which increased $20.3 billion after increasing $1.5 billion.[14]

14. The first-quarter estimate for estimated income tax payments less refunds incorporated actual data through April from the Department of the Treasury in conjunction with projections for the rest of 1997 based on historical relationships and actual collections from 1997. Earlier estimates for the first quarter were based on budget projections.

Table 11.—Government Sector Receipts and Current Expenditures

[Billions of dollars, seasonally adjusted at annual rates]

	Level	Change from preceding quarter				
		1996				1997
	1997:I	I	II	III	IV	I
Government sector						
Receipts	2,511.4	40.0	63.5	12.9	47.4	49.1
Current expenditures	2,498.0	37.7	24.9	18.9	30.8	20.7
Current surplus or deficit(–)	13.5	2.1	38.6	–5.9	16.6	28.5
Social insurance funds	113.7	–8.4	1.8	2.8	.7	–1.5
Other	–100.2	10.6	36.7	–8.7	15.9	30.0
Federal Government						
Receipts	1,653.9	28.4	52.5	6.3	37.4	34.6
Personal tax and nontax receipts	719.2	16.3	41.8	–1.2	10.9	28.1
Corporate profits tax accruals	206.9	12.1	2.6	–2.5	–3.7	14.1
Indirect business tax and nontax accruals	86.2	–6.9	–1.2	2.5	23.0	–22.5
Contributions for social insurance	641.6	6.7	9.4	7.4	7.3	14.9
Current expenditures	1,735.8	29.0	24.0	.3	22.6	10.6
Consumption expenditures	462.8	2.2	9.9	–2.2	–3.6	5.1
National defense	302.5	–1.4	8.7	–2.7	0	–2.2
Nondefense	160.4	3.6	1.2	.5	–3.6	7.4
Transfer payments (net)	786.7	25.3	1.7	5.0	16.9	6.9
To persons	776.6	17.9	8.8	5.2	5.4	20.0
To the rest of the world	10.1	7.4	–7.2	–.1	11.6	–13.2
Grants-in-aid to State and local governments	219.4	4.3	11.7	–4.8	2.3	2.6
Net interest paid	235.2	–3.4	.3	2.9	5.1	–3.6
Subsidies less current surplus of government enterprises	31.5	.5	.4	–.5	1.7	–.5
Subsidies	32.6	0	.1	.3	.7	.2
Of which: Agricultural subsidies	5.5	.3	.2	.1	–.1	–.1
Less: Current surplus of government enterprises	1.0	–.5	–.3	.8	–1.0	.6
Less: Wage accruals less disbursements	0	0	0	0	0	0
Current surplus or deficit (–)	–81.8	–.7	28.5	5.9	14.9	24.1
Social insurance funds	60.8	–7.7	2.2	3.9	2.1	–.4
Other	–142.6	6.9	26.4	2.0	12.8	24.5
State and local governments						
Receipts	1,076.9	15.9	22.7	1.9	12.2	17.1
Personal tax and nontax receipts	199.9	1.5	3.9	3.1	3.9	3.7
Corporate profits tax accruals	38.8	2.5	.5	–.5	–.8	2.7
Indirect business tax and nontax accruals	542.5	6.9	5.8	3.4	6.3	7.3
Contributions for social insurance	76.3	.6	.8	.7	.6	.8
Federal grants-in-aid	219.4	4.3	11.7	–4.8	2.3	2.6
Current expenditures	981.6	13.0	12.7	13.7	10.5	12.7
Consumption expenditures	733.0	9.4	8.9	9.1	6.0	7.7
Transfer payments to persons	320.4	3.5	3.7	4.3	4.4	5.1
Net interest paid	–43.7	.7	.6	.5	.5	.4
Less: Dividends received by government	14.2	.3	.4	0	.2	.3
Subsidies less current surplus of government enterprises	–13.9	–.1	–.2	–.1	–.3	–.2
Subsidies	.4	0	0	0	0	0
Less: Current surplus of government enterprises	14.2	.1	.1	.2	.3	.1
Less: Wage accruals less disbursements	0	0	0	0	0	0
Current surplus or deficit (–)	95.3	2.9	10.0	–11.8	1.7	4.4
Social insurance funds	52.9	–.8	–.4	–1.1	–1.3	–1.1
Other	42.4	3.6	10.5	–10.8	3.1	5.5

NOTE.—Dollar levels are found in NIPA tables 3.1, 3.2, and 3.3.

Contributions for social insurance increased $14.9 billion after increasing $7.3 billion. The acceleration was primarily attributable to contributions for social security (old-age, survivors, disability, and health insurance), which increased $12.4 billion after increasing $6.5 billion; the acceleration reflected a pickup in wages and salaries and an increase in the social security taxable wage base.

Current expenditures.—Current expenditures increased $10.6 billion in the first quarter after increasing $22.6 billion in the fourth. The deceleration reflected a slowdown in transfer payments and a downturn in net interest paid that were only partly offset by an upturn in consumption expenditures.

Transfer payments (net) increased $6.9 billion after increasing $16.9 billion. A downturn in transfer payments to the rest of the world was partly offset by an acceleration in transfer payments to persons. Transfer payments to the rest of the world decreased $13.2 billion after increasing $11.6 billion; the fourth-quarter increase was attributable to $12.0 billion (annual rate) in economic support and other payments to Israel. Transfer payments to persons increased $20.0 billion after increasing $5.4 billion. This step-up was accounted for by increases in social security benefits (old-age, survivors, and disability insurance), Federal civilian employee pensions, and veteran's pension benefits; $11.5 billion of the first-quarter increase in these programs was accounted for by a 2.9-percent cost-of-living adjustment that went into effect in January. In addition, transfer payments to persons was boosted by a $3.0 billion increase in refunds of earned income tax credits.

Net interest paid decreased $3.6 billion after increasing $5.1 billion. The downturn was mostly accounted for by gross interest paid to persons and business, which decreased $9.4 billion after decreasing $2.1 billion.

Subsidies less current surplus of government enterprises decreased $0.5 billion after increasing $1.7 billion. The downturn was mainly accounted for by an upturn in the surplus of the Postal Service.

Consumption expenditures increased $5.1 billion after decreasing $3.6 billion. The upturn was more than accounted for by nondefense consumption expenditures, which increased $7.4 billion after decreasing $3.6 billion; in contrast, defense consumption expenditures decreased $2.2 billion after no change. Within nondefense expenditures, services increased $6.4 billion after decreasing $3.1 billion, and compensation of employees increased $2.5 billion—as a result of a Federal civilian employee pay raise that went into effect in January—after decreasing $0.3 billion. In addition, sales of services decreased after increasing. (Sales by government, except those by government enterprises, of goods and services similar to those provided by the private sector are treated as deductions from current consumption expenditures.)

State and local

The State and local government surplus increased $4.4 billion, to $95.3 billion, in the first quarter after increasing $1.7 billion in the fourth. The acceleration was attributable to receipts.

Receipts increased $17.1 billion after increasing $12.2 billion. The acceleration was mostly attributable to an upturn in corporate profits tax accruals, which increased $2.7 billion after decreasing $0.8 billion, reflecting the pattern of domestic corporate profits. Indirect business tax and nontax accruals increased $7.3 billion after increasing $6.3 billion; the acceleration was more than accounted for by sales taxes.

Current expenditures increased $12.7 billion after increasing $10.5 billion. Consumption expenditures increased $7.7 billion after increasing $6.0 billion; an acceleration in services more than offset a deceleration in nondurable goods. The acceleration in services was largely in compensation of employees, reflecting an upturn in State and local government employment. The deceleration in nondurable goods resulted from a deceleration in prices, primarily for petroleum products. Transfer payments to persons increased $5.1 billion after increasing $4.4 billion.