

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

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**E**CONOMIC GROWTH accelerated in the first quarter of 1997, according to the “advance” estimates of the national income and product accounts (NIPA’s), as real gross domestic product (GDP) increased 5.6 percent—its biggest increase in more than 9 years (chart 1 and table 1).<sup>1</sup> In the fourth quarter of 1996, real GDP had increased 3.8 percent. Real final sales of domestic product increased 3.9 percent after increasing 4.9 percent. The price index for gross domestic purchases increased 2.2 percent after increasing 2.6 percent.

The large first-quarter increase in real GDP was more than accounted for by personal consumption expenditures (PCE), inventory investment

(that is, change in business inventories), producers’ durable equipment (PDE), and exports. PCE increased 6.4 percent, as purchases of durable goods posted the biggest increase since 1988. Inventory investment increased \$29.0 billion, as stocks increased \$46.1 billion after increasing \$17.1 billion. PDE increased 12.9 percent; information processing, transportation, and “other” PDE all contributed to the increase. Exports increased 8.1 percent; most of the increase was accounted for by nonautomotive capital goods and by autos.<sup>2</sup>

2. Exports and imports of nonautomotive capital goods include both parts and equipment. In contrast, parts are not considered investment and, thus, are not included in the PDE component of business fixed investment or in the equipment component of government investment.

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

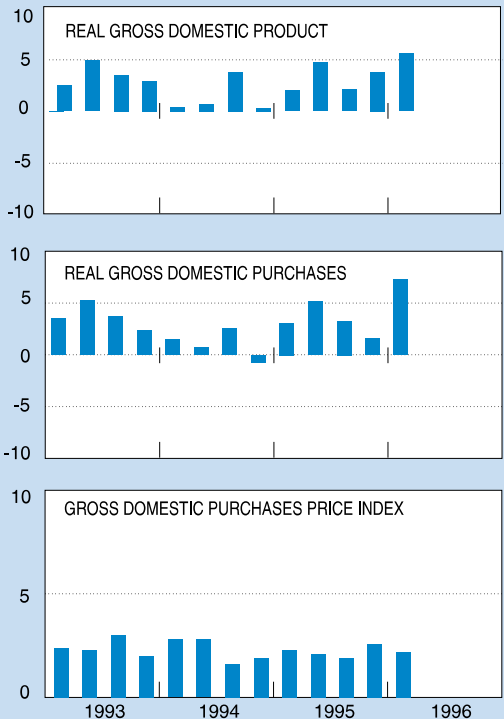
	Billions of chained (1992) dollars					Percent change from preceding quarter				
	Level	Change from preceding quarter				1996			1997	
		1996				II	III	IV	I	
	1997	I	II	III	IV	I	II	III	IV	I
<b>Gross domestic product</b> .....	<b>7,089.4</b>	<b>78.3</b>	<b>36.0</b>	<b>65.2</b>	<b>96.1</b>	<b>4.7</b>	<b>2.1</b>	<b>3.8</b>	<b>5.6</b>	
Less: Exports of goods and services .....	879.9	11.2	-1.8	46.8	17.0	5.6	-9	25.0	8.1	
Plus: Imports of goods and services .....	1,010.1	21.9	20.9	7.8	48.8	9.9	9.3	3.3	21.9	
<b>Equals: Gross domestic purchases</b> .....	<b>7,214.1</b>	<b>88.5</b>	<b>57.7</b>	<b>27.4</b>	<b>126.4</b>	<b>5.2</b>	<b>3.3</b>	<b>1.6</b>	<b>7.3</b>	
Less: Change in business inventories .....	46.1	10.2	27.4	-17.0	29.0					
<b>Equals: Final sales to domestic purchasers</b> .....	<b>7,167.8</b>	<b>79.7</b>	<b>29.7</b>	<b>45.4</b>	<b>97.5</b>	<b>4.7</b>	<b>1.7</b>	<b>2.6</b>	<b>5.6</b>	
Personal consumption expenditures .....	4,806.0	38.5	5.9	39.0	73.5	3.4	.5	3.4	6.4	
Durable goods .....	647.9	16.4	-4.0	7.5	28.8	11.4	-2.6	5.0	19.9	
Nondurable goods .....	1,470.9	4.8	1.3	6.4	22.3	1.3	.4	1.8	6.3	
Services .....	2,689.0	17.6	8.3	25.0	23.4	2.7	1.3	3.8	3.6	
Private nonresidential fixed investment .....	814.6	7.0	30.9	10.6	22.6	3.8	17.5	5.5	11.9	
Structures .....	204.4	-1.7	3.7	11.2	4.6	-3.8	8.4	25.8	9.5	
Producers’ durable equipment .....	611.9	9.2	27.5	-1.3	18.2	6.7	20.9	-9	12.9	
Private residential investment .....	280.3	10.4	-3.7	-1.2	3.7	16.3	-5.2	-1.8	5.5	
Government consumption expenditures and gross investment .....	1,271.6	23.5	-2.1	-2.7	-1.8	7.7	-6	-9	-6	
Federal .....	458.8	10.5	-4.1	-6.4	-4.1	9.4	-3.5	-5.3	-3.5	
State and local .....	813.9	12.9	2.2	3.7	2.5	6.7	1.1	1.9	1.2	
<b>Addendum: Final sales of domestic product</b> .....	<b>7,043.3</b>	<b>69.5</b>	<b>8.0</b>	<b>83.2</b>	<b>67.4</b>	<b>4.1</b>	<b>.5</b>	<b>4.9</b>	<b>3.9</b>	

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

**CHART 1**

## Selected Measures: Change From Preceding Quarter

Percent



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

The acceleration in real GDP growth from 3.8 percent to 5.6 percent was more than accounted for by inventory investment, PCE, and PDE. Inventory accumulation accelerated after slowing. PCE also accelerated; the step-up was accounted for by durable and nondurable goods. PDE turned up, reflecting upturns in transportation and "other" PDE and a step-up in information processing equipment.

**Motor vehicles.**—Real motor vehicle output increased 2.4 percent in the first quarter after decreasing 14.3 percent in the fourth (table 2). Final sales of motor vehicles to domestic purchasers increased 16.6 percent after decreasing 3.4 percent.

Motor vehicle sales in PCE increased strongly after a small decrease. The increase was con-

### First-Quarter 1997 Advance GDP Estimate: Source Data and Assumptions

The "advance" GDP estimate for the first quarter is based on preliminary and incomplete source data; as more and better data become available, the estimate will be revised. The advance estimate is based on the following major source data. (The number of months for which data were available is shown in parentheses.)

**Personal consumption expenditures:** Sales of retail stores (3) and unit auto and truck sales (3);

**Nonresidential fixed investment:** Unit auto and truck sales (3), construction put in place (2), manufacturers' shipments of machinery and equipment other than aircraft (3), aircraft shipments (2), and exports and imports of machinery and equipment (2);

**Residential investment:** Construction put in place (2) and single-family housing starts (3);

**Change in business inventories:** Manufacturing and trade inventories (2) and unit auto and truck inventories (3);

**Net exports of goods and services:** Exports and imports of goods and services (2);

**Government consumption expenditures and gross investment:** Department of Defense outlays (3), other Federal outlays (3), State and local construction put in place (2), and State and local employment (3);

**GDP prices:** Consumer Price Index (3), Producer Price Index (3), price indexes for nonpetroleum merchandise exports and imports (3), and values and quantities of petroleum imports (2).

BEA made assumptions for source data that were not available. Table A shows the assumptions for key series; a more comprehensive listing of assumptions is available on the Department of Commerce's Economic Bulletin Board or from BEA.

Table A.—Summary of Major Data Assumptions for Advance Estimates, 1997:1

[Billions of dollars, seasonally adjusted at annual rates]

	1996			1997		
	October	November	December	January	February	March <sup>1</sup>
Fixed investment:						
Nonresidential structures:						
Buildings, utilities, and farm:						
Value of new nonresidential construction put in place .....	150.2	154.4	149.8	154.6	158.5	156.9
Producers' durable equipment:						
Manufacturers' shipments of complete civilian aircraft .....	22.4	26.0	32.5	20.0	24.2	27.2
Residential structures:						
Value of new residential construction put in place:						
1-unit structures .....	157.1	156.7	156.9	157.1	159.4	161.5
2-or-more-unit structures .....	19.5	20.8	19.7	20.0	22.3	20.7
Change in business inventories nonfarm:						
Change in inventories for manufacturing and trade (except nonmerchandise wholesalers) for industries other than motor vehicles and equipment in trade .....	51.0	14.7	-7.3	43.9	42.2	-5.4
Net exports: <sup>2</sup>						
Exports of goods:						
U.S. exports of goods, balance-of-payments basis .....	634.8	639.7	623.1	616.3	648.7	667.5
Excluding nonmonetary gold .....	630.3	636.5	619.6	613.6	644.3	652.0
Imports of goods:						
U.S. imports of goods, balance-of-payments basis .....	805.3	812.5	825.6	839.7	851.5	859.6
Excluding nonmonetary gold .....	801.4	809.0	822.9	837.0	846.8	843.0
Net exports of goods (exports less imports) .....	-170.5	-172.8	-202.5	-223.4	-202.8	-192.1
Excluding nonmonetary gold .....	-171.1	-172.5	-203.0	-223.4	-202.5	-191.0
Government consumption expenditures and gross investment:						
State and local:						
Structures:						
Value of new construction put in place .....	130.0	132.5	128.6	127.9	131.9	129.9

1. Assumed.

2. Nonmonetary gold is included in balance-of-payments-basis exports and imports but is not used directly in the estimation of NIPA exports and imports.

sistent with several factors frequently considered in analyses of overall consumer spending. Real disposable personal income increased 6.4 percent after increasing 2.6 percent, and the Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) increased from 97.5 percent to 99.0 percent, its highest level in 13 years. The unemployment rate was unchanged at 5.3 percent. Among factors specific to motor vehicle purchases, interest rates on new-car loans at commercial banks were unchanged at 9.0 percent.

Motor vehicle sales to businesses also increased after decreasing; autos accounted for most of the increase. Sales to government decreased slightly after increasing; autos more than accounted for the decrease.

Imports of motor vehicles turned up sharply, and exports decreased after little change.

Motor vehicle inventory investment increased, mainly reflecting a swing in truck inventories from liquidation to accumulation. For new domestic autos, the inventory-sales ratio (calculated from units data) decreased from 2.1 at the end of the fourth quarter to 1.8 at the end of the first, the lowest ratio in 10 years. The traditional industry target is 2.4.

**Prices**

The price index for gross domestic purchases, which measures the prices paid for goods and services purchased by U.S. residents, increased 2.2 percent in the first quarter after increasing 2.6 percent in the fourth (table 3). Excluding the relatively volatile food and energy components, prices of gross domestic purchases increased 2.1 percent, about the same as in the fourth quarter (chart 2).

Prices of PCE increased 2.4 percent after increasing 2.8 percent. Food prices increased 1.4 percent after increasing 4.1 percent, as price slowdowns and downturns were widespread; notable downturns, for example, were posted by the prices of beef and veal, eggs, fresh fruit, and dairy products. Energy prices increased 7.5 percent after increasing 8.3 percent; prices of fuel oil and coal slowed after a sharp increase, but prices of electricity and gas stepped up. "Other" PCE prices increased 2.3 percent, about the same as in the fourth quarter.

Prices of nonresidential fixed investment decreased 0.2 percent after increasing 0.3 percent; prices of structures increased less than in the fourth quarter, and prices of PDE decreased a little more than in the fourth quarter. In PDE,

**Table 2.—Motor Vehicle Output, Sales, and Inventories**

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1996			1997
	1997	1996			1997	1996			1997
	I	II	III	IV	I	II	III	IV	I
<b>Output</b> .....	<b>228.7</b>	<b>22.8</b>	<b>-2.0</b>	<b>-8.9</b>	<b>1.4</b>	<b>49.6</b>	<b>-3.3</b>	<b>-14.3</b>	<b>2.4</b>
Autos .....	106.9	19.5	1.7	-11.9	-2.5	103.6	5.7	-33.9	-8.6
Trucks .....	121.6	3.3	-3.7	3.0	3.8	12.1	-11.8	10.8	13.5
<b>Less: Exports</b> .....	<b>23.4</b>	<b>-8</b>	<b>2.4</b>	<b>-1</b>	<b>-2.4</b>	<b>-13.0</b>	<b>47.0</b>	<b>-1.6</b>	<b>-32.3</b>
Autos .....	13.7	-1.5	2.7	-1.4	-2.4	-32.2	96.7	-29.8	-47.5
Trucks .....	9.7	.7	-4	1.4	0	39.2	-15.8	86.3	.4
<b>Plus: Imports</b> .....	<b>84.6</b>	<b>3.4</b>	<b>2.8</b>	<b>-5.2</b>	<b>13.3</b>	<b>21.1</b>	<b>16.0</b>	<b>-24.5</b>	<b>97.7</b>
Autos .....	70.0	1.9	2.1	-3.4	10.5	13.4	14.7	-20.4	91.9
Trucks .....	14.6	1.5	.7	-1.7	2.7	67.3	22.4	-41.6	126.5
<b>Equals: Gross domestic purchases</b> .....	<b>289.7</b>	<b>26.9</b>	<b>-1.4</b>	<b>-13.9</b>	<b>16.6</b>	<b>48.0</b>	<b>-2.0</b>	<b>-18.0</b>	<b>26.7</b>
Autos .....	162.9	22.8	1.2	-14.0	10.2	80.6	2.9	-29.5	29.4
Trucks .....	126.7	4.2	-2.7	0	6.5	15.0	-8.4	.1	23.2
<b>Less: Change in business inventories</b> .....	<b>1.1</b>	<b>27.1</b>	<b>1.1</b>	<b>-11.5</b>	<b>5.7</b>	.....	.....	.....	.....
Autos .....	-8	18.2	4.4	-6.8	.2	.....	.....	.....	.....
Trucks .....	1.8	8.8	-3.2	-4.7	5.4	.....	.....	.....	.....
<b>Equals: Final sales to domestic purchasers</b> .....	<b>288.5</b>	<b>-2</b>	<b>-2.7</b>	<b>-2.4</b>	<b>10.9</b>	<b>-3</b>	<b>-3.7</b>	<b>-3.4</b>	<b>16.6</b>
Auto .....	163.6	4.5	-3.3	-7.0	9.8	11.6	-7.7	-16.4	28.1
Trucks .....	124.8	-4.6	.6	4.7	1.0	-14.2	2.1	16.4	3.4
<b>Addenda:</b>									
Personal consumption expenditures .....	169.7	1.6	-6.8	-7	6.5	4.0	-15.1	-1.7	17.0
Producers' durable equipment .....	111.1	2.1	4.7	-2.5	4.5	8.4	19.3	-8.8	18.0
Gross government investment .....	8.9	-4.0	.1	.6	-1	-78.7	.3	36.0	-4.9

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 correspond-

ing chained-dollar estimates usually are not additive. Chained (1992) dollar levels for motor vehicle output, auto and truck output, and residuals, which measure the extent of nonadditivity in each table, are found in NIPA tables 1.4, 8.5, and 8.7.

prices of industrial equipment increased a little less than in the fourth quarter, prices of transportation equipment decreased more than in the fourth quarter, and prices of "other" equipment turned down. Prices of residential investment increased 1.2 percent after increasing 2.8 percent.

Prices of government consumption expenditures and gross investment increased 3.6 percent after increasing 2.6 percent. Prices paid by the Federal Government increased 5.2 percent after increasing 2.2 percent; a first-quarter pay raise for Federal civilian and military personnel more than

accounted for the step-up.<sup>3</sup> Prices paid by State and local governments increased 2.6 percent after increasing 2.9 percent.

The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 2.7 percent after increasing 1.9 percent.<sup>4</sup> The GDP price index, unlike the price index for gross domestic purchases, includes the prices of exports and excludes the prices of imports. Export prices increased 0.1 percent after decreasing 2.2 percent. Import prices decreased 3.7 percent after increasing 3.6 percent; the downturn mainly reflected petroleum prices, which decreased after a sharp increase.

**Table 3.—Price Indexes**

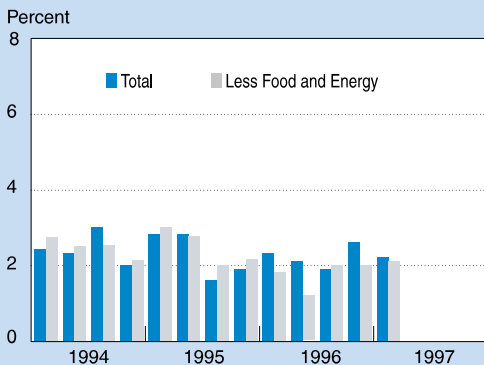
[Percent change at annual rates; based on seasonally adjusted index numbers (1992=100)]

	1996			1997
	II	III	IV	I
<b>Gross domestic product</b> .....	<b>2.2</b>	<b>2.0</b>	<b>1.9</b>	<b>2.7</b>
Less: Exports of goods and services .....	1.4	-1.8	-2.2	.1
Plus: Imports of goods and services .....	.7	-2.0	3.6	-3.7
<b>Equals: Gross domestic purchases</b> .....	<b>2.1</b>	<b>1.9</b>	<b>2.6</b>	<b>2.2</b>
Less: Change in business inventories .....	.....	.....	.....	.....
<b>Equals: Final sales to domestic purchasers</b> .....	<b>2.1</b>	<b>1.9</b>	<b>2.5</b>	<b>2.3</b>
Personal consumption expenditures .....	3.2	1.7	2.8	2.4
Food .....	3.7	4.9	4.1	1.4
Energy .....	18.8	-7.8	8.3	7.5
Other personal consumption expenditures .....	2.2	1.7	2.2	2.3
Private nonresidential fixed investment .....	.1	1.8	.3	-2
Structures .....	2.0	3.4	3.1	2.3
Producers' durable equipment .....	-6	1.1	-8	-1.2
Private residential investment .....	1.3	3.3	2.8	1.2
Government consumption expenditures and gross investment .....	-3	2.5	2.6	3.6
Federal .....	-7	.9	2.2	5.2
National defense .....	1.7	.6	1.9	5.1
Nondefense .....	-5.4	1.4	3.0	5.4
State and local .....	0	3.6	2.9	2.6

NOTE.—Percent changes in major aggregates are found in NIPA table 8.1. Most index number levels are found in tables 7.1 and 7.2.

## CHART 2

### Gross Domestic Purchases Prices: Change From Preceding Quarter



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted index numbers (1992=100).

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

## Personal income

Real disposable personal income (DPI) increased 6.4 percent in the first quarter after increasing 2.6 percent in the fourth (chart 3). Current-dollar DPI increased 8.4 percent after increasing 5.2 percent. The personal saving rate (saving as a percentage of current-dollar DPI) was unchanged at 5.1 percent.

Personal income increased \$116.4 billion after increasing \$86.0 billion (table 4). The acceleration was more than accounted for by wage and salary disbursements and transfer payments to persons.

Wage and salary disbursements increased \$76.4 billion after increasing \$56.5 billion, mainly reflecting larger increases in average weekly hours and in average hourly earnings. All the major private industry components contributed to the acceleration. Government also contributed to the acceleration, as wages and salaries were boosted by the pay raise for Federal civilian and military personnel.

Transfer payments to persons increased \$25.4 billion after increasing \$9.9 billion. The step-up reflected cost-of-living adjustments to benefits under social security and several other Federal retirement and income support programs. The step-up also reflected changes in the Earned Income Tax Credit program (which is administered through the Federal income tax system and which provides payments to low-income workers).

Nonfarm proprietors' income increased \$10.5 billion after increasing \$7.6 billion; the accel-

3. 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.


4. The implicit price deflator for GDP increased 2.3 percent in the first quarter after increasing 1.5 percent in the fourth. In the estimates for the most recent quarters, the deflator reflects changes in prices and in the composition of output; in contrast, chain-price measures reflect only changes in prices. (For more information, see the box "Calculation of Implicit Price Deflators" on page 31 of the October 1995 issue of the SURVEY OF CURRENT BUSINESS.)

eration reflected a pickup in retail sales and a turnaround in construction. Farm proprietors' income decreased \$2.8 billion after decreasing \$2.2 billion; the first-quarter decrease reflected lower livestock and crop prices.

Rental income of persons decreased \$1.7 billion after increasing \$2.7 billion. The downturn was due to an acceleration in residential housing expenses (which are subtracted in the calculation of rental income).

Personal contributions for social insurance increased \$7.5 billion after increasing \$3.7 billion. (Contributions are subtracted in the calculation of personal income.) The larger first-quarter increase reflected an increase in the social security

taxable earnings base for employees and for the self-employed, an increase in the monthly premium for supplementary medical insurance, and the growth in wages and salaries.

Personal tax and nontax payments decreased \$0.2 billion after increasing \$14.7 billion. Estimated Federal tax payments turned down; these estimates are based on initial budget projections for net payments of estimated taxes in 1997, and they reflect the yearly revision of the withholding tables to implement the inflation-indexing provisions of the tax law. 

**Table 4.—Personal Income and Its Disposition**

[Billions of dollars; seasonally adjusted at annual rates]

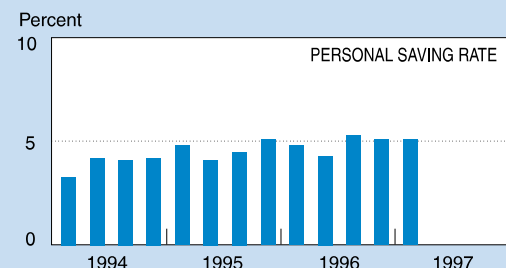
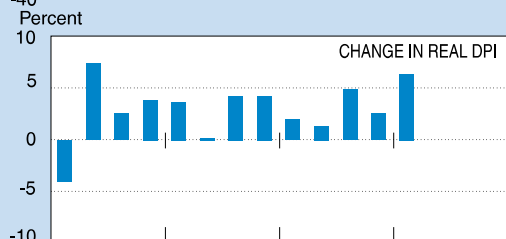
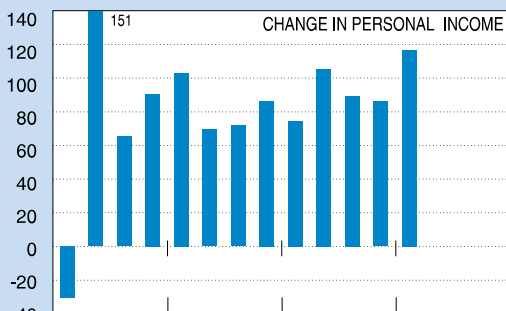
	Level 1997	Change from preceding quarter				
		1996				1997
		I	II	III	IV	I
Wage and salary disbursements .....	3,792.5	68.3	53.1	56.5	76.4	
Private industries .....	3,135.9	63.3	47.6	53.8	67.0	
Commodity-producing industries .....	936.3	21.6	10.7	9.9	15.4	
Manufacturing .....	693.6	17.0	6.7	6.5	8.6	
Distributive industries .....	862.5	11.8	10.1	14.1	16.0	
Service industries .....	1,337.0	29.8	26.7	29.9	35.5	
Government .....	656.7	4.9	5.7	2.6	9.5	
Other labor income .....	446.1	4.9	4.6	4.3	3.2	
Proprietors' income with IVA and CCAAdj .....	548.7	16.5	11.0	5.3	7.8	
Farm .....	45.1	7.5	6.0	-2.2	-2.8	
Nonfarm .....	503.6	9.0	5.0	7.6	10.5	
Rental income of persons with CCAAdj .....	116.2	-2.1	2.8	2.7	-1.7	
Personal dividend income .....	240.0	2.7	2.2	3.3	5.2	
Personal interest income .....	758.3	7.0	9.8	7.6	7.8	
Transfer payments to persons .....	1,120.4	12.6	9.5	9.9	25.4	
Less: Personal contributions for social insurance .....	320.9	4.8	3.9	3.7	7.5	
<b>Personal income .....</b>	<b>6,701.3</b>	<b>105.1</b>	<b>89.3</b>	<b>86.0</b>	<b>116.4</b>	
Less: Personal tax and nontax payments .....	887.0	45.7	1.9	14.7	-2	
<b>Equals: Disposable personal income .....</b>	<b>5,814.3</b>	<b>59.4</b>	<b>87.4</b>	<b>71.3</b>	<b>116.6</b>	
Less: Personal outlays .....	5,515.9	82.6	29.1	77.7	108.4	
<b>Equals: Personal saving .....</b>	<b>298.4</b>	<b>-23.2</b>	<b>58.3</b>	<b>-6.4</b>	<b>8.2</b>	
<b>Addenda: Special factors in personal income:</b>						
In wages and salaries:						
Federal Government and Postal Service pay adjustments, including "buyouts" .....		.2	0	0	4.4	
Strike in motor vehicle industry .....		2.9	0	-2	.2	
In transfer payments to persons:						
Social security retroactive payments .....		0	0	1.1	-1.1	
Cost-of-living adjustments in Federal transfer programs .....		1.7	0	.2	13.3	
Earned Income Tax Credit payments .....		0	0	0	3.0	
In personal contributions for social insurance:						
Social security base changes and increase in premium for supplementary medical insurance .....		0	0	0	2.1	
In personal tax and nontax payments:						
Recent tax law changes .....		16.4	-16.6	-1	-4.1	

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

**CHART 3**

**Selected Personal Income and Saving Measures**

Billions \$



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