

THE BUSINESS SITUATION

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THE "FINAL" estimate of growth in real gross domestic product (GDP) for the fourth quarter of 1993 is 7.0 percent, 0.5 percentage point lower than the "preliminary" estimate reported in the February SURVEY OF CURRENT BUSINESS (table 1).¹ Change in business inventories and personal consumption expenditures accounted for the downward revision. The downward re-

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes are differences between these rates. Quarter-to-quarter percent changes are annualized. Real, or constant-dollar, estimates are expressed in 1987 dollars and are based on 1987 weights.

Table 1.—Revisions in Real Gross Domestic Product and Prices, Fourth Quarter 1993

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars		Percent change from preceding quarter	
	Final estimate minus preliminary estimate	Preliminary estimate	Final estimate	
Gross domestic product	-6.5	7.5	7.0	
Less: Exports of goods and services	-.1	20.5	20.4	
Plus: Imports of goods and services .....	.3	16.2	16.4	
Equals: Gross domestic purchases	-6.2	7.2	6.7	
Personal consumption expenditures	-1.7	4.6	4.4	
Durables	-.2	15.4	15.2	
Nondurables	-2.5	3.6	2.7	
Services	1.0	2.4	2.6	
Fixed investment .....	.7	24.4	24.8	
Nonresidential .....	.5	22.1	22.5	
Structures	-.7	14.2	12.2	
Producers' durable equipment	1.0	24.9	26.0	
Residential .....	.3	31.0	31.7	
Change in business inventories	-4.9			
Nonfarm	-4.9			
Farm	0			
Government purchases	-.3	.1	0	
Federal	-.5	-4.7	-5.2	
National defense	-.9	-3.5	-4.9	
Nondefense .....	.3	-7.5	-6.5	
State and local .....	.3	3.1	3.3	
Gross domestic purchases price index (fixed weights) ¹ ..		2.2	2.3	
GDP price index (fixed weights) ¹		2.3	2.3	

1. Based on 1987 weights.

NOTE.—Final estimates for the fourth quarter of 1993 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

Personal consumption expenditures: Revised retail sales for October through December.

Nonresidential fixed investment: Revised construction put in place for November and December, revised manufacturers' shipments of equipment for December, and revised shipments of complete civilian aircraft for December.

Residential investment: Revised construction put in place for November and December.

Change in business inventories: Revised manufacturing and merchant wholesale trade inventories for December and revised retail trade inventories for October through December.

Net exports of goods and services: Revised merchandise exports and imports for December and revised exports and imports of services for the quarter.

Government purchases: Revised State and local government construction put in place for November and December.

Net interest: Financial assets held by households for the quarter and net interest from the rest of the world for the quarter.

Corporate profits: Revised domestic book profits and profits from the rest of the world for the quarter.

GDP prices: Revised housing prices for the quarter and newly available export and import prices for the quarter.

vision in change in business inventories was accounted for by nonfarm inventories, and the downward revision in personal consumption expenditures was more than accounted for by nondurable goods.

The final estimate of real gross domestic purchases shows a 6.7-percent increase, also 0.5 percentage point lower than the preliminary estimate.

The final estimates of the fixed-weighted price indexes for gross domestic purchases and for GDP each show increases of 2.3 percent, little changed from the preliminary estimates.

Gross national product (GNP).—Real GNP increased 6.2 percent in the fourth quarter (table 2). GNP equals GDP plus receipts of factor income from the rest of the world less payments of factor income to the rest of the world. In the fourth quarter, receipts increased \$1.4 billion, and

Table 2.—Relation of Gross Domestic Product, Gross National Product, and Command-Basis Gross National Product in Constant Dollars

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars			Percent change from preceding quarter	
	Level	Change from preceding quarter			
		1993:IV	1993:III	1993:IV	1993:III	1993:IV
Gross domestic product	5,225.6	36.2	87.3	2.9	7.0
Plus: Receipts of factor income from the rest of the world ..	108.5	2.1	1.4	8.2	5.3
Less: Payments of factor income to the rest of the world	110.4	-3.4	10.8	-12.6	51.0
Equals: Gross national product	5,223.7	41.7	77.9	3.3	6.2
Less: Exports of goods and services and receipts of factor income from the rest of the world	728.5	.9	29.5	.5	18.0
Plus: Command-basis exports of goods and services and receipts of factor income	746.8	5.6	28.7	3.2	17.0
Equals: Command-basis gross national product	5,241.9	46.5	77.0	3.7	6.1
Addendum:					
Terms of trade ¹	102.5	.6	-2	2.4	-8

1. Ratio of the implicit price deflator for exports of goods and services and receipts of factor income to the corresponding implicit price deflator for imports with the decimal point shifted two places to the right.

NOTE.—Levels of these series are found in tables 1.10 and 1.11 of the "Selected NIPA Tables."

payments increased \$10.8 billion. The increase in receipts was more than accounted for by interest income. The increase in payments was about evenly split between profits and interest income.

Real GNP on a command basis increased slightly less than real GNP—6.1 percent, compared with 6.2 percent—reflecting a small deterioration in the terms of trade.² In the third quarter, command-basis GNP had increased more than real GNP—3.7 percent, compared with 3.3 percent—reflecting an improvement in the terms of trade.

Corporate Profits

Profits from current production—profits before tax (PBT) plus inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj)—increased \$42.0 billion in the fourth quarter of 1993 after increasing \$10.4 billion in the third quarter (table 3). Profits from the domestic operations of financial corporations increased \$6.6 billion after increasing \$2.6 billion. Profits from the domestic operations of nonfinancial corporations increased \$43.0 billion after increasing \$3.2 billion, mainly reflecting a sharp increase in profits per unit; the profit margin rose 1 percentage point to 10.3 percent—a level not approached in more than 5 years. Profits from the rest of the world decreased \$7.6 billion after increasing \$4.6 billion. Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$17.2 billion after increasing \$21.8 billion. As a percentage of nonresidential investment, cash flow remained high, at 85.4 percent.

Profits by industry.—Industry profits are measured by PBT with IVA because estimates of the CCAdj by industry do not exist. This measure of profits increased \$41.8 billion after increasing \$11.4 billion. The acceleration mainly reflected a jump in profits from the domestic operations of nonfinancial corporations; profits from the domestic operations of financial corporations also stepped up. Profits from the rest of the world turned down.

2. In estimating real GNP, the current-dollar value of exports of goods and services is deflated by export prices, the current-dollar value of imports of goods and services is deflated by import prices, and the current-dollar values of receipts and of most payments of factor income are deflated by the implicit price deflator for net domestic product. In estimating command-basis GNP—a measure of U.S. production in terms of its purchasing power—the current-dollar values of exports of goods and services and of receipts of factor income are deflated by the implicit price deflator for imports of goods and services and payments of factor income.

On the basis of preliminary and incomplete information, it appears that the jump in the profits of nonfinancial corporations was largely accounted for by upturns in the profits of wholesale trade and of motor vehicles, chemicals, and petroleum manufacturing. It appears that the step-up in profits of financial corporations was accounted for by insurance carriers. (Detailed estimates of profits by industry are scheduled to be released on April 28.)

Profits from the rest of the world measures receipts of profits from foreign affiliates of U.S. corporations less payments of profits by U.S. affiliates of foreign corporations. Receipts decreased \$0.8 billion in the fourth quarter, largely reflecting a drop in the profits of manufacturing affiliates abroad. Payments increased \$6.8 billion, largely reflecting increases in the profits of manufacturing and wholesale trade affiliates in this country.

PBT and related measures.—PBT increased \$47.2 billion. The difference between this increase and

Table 3.—Corporate Profits

[Seasonally adjusted at annual rates]

	Level		Change from preceding quarter
	1993:IV		
	1993:III	1993:IV	
Billions of dollars			
Profits from current production	510.5	10.4	42.0
Domestic	455.4	5.8	49.6
Financial	94.2	2.6	6.6
Nonfinancial	361.2	3.2	43.0
Rest of the world	55.1	4.6	-7.6
IVA	-4.3	13.2	-5.3
CCAdj	23.9	-9	.1
Profits before tax	491.0	-1.8	47.2
Profits tax liability	193.6	-3.8	24.1
Profits after tax	297.4	2.0	23.1
Cash flow from current production	560.5	21.8	17.2
Profits by industry:			
Profits before tax with IVA	486.6	11.4	41.8
Domestic	431.5	6.8	49.4
Financial	106.3	2.9	7.0
Nonfinancial	325.2	3.9	42.4
Manufacturing			
Trade			
Transportation and public utilities			
Other			
Rest of the world	55.1	4.6	-7.6
Receipts (inflows)	73.2	2.6	-8
Payments (outflows)	18.1	-2.0	6.8
Dollars			
Unit prices, costs, and profits of domestic nonfinancial corporations:			
Unit price	1.165	0	0.001
Unit labor cost .....	.761	-.001	-.008
Unit nonlabor cost .....	.283	0	-.004
Unit profits from current production .....	.120	0	.012

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

IVA Inventory valuation adjustment

CCAdj Capital consumption adjustment

the \$42.0 billion increase in profits from current production reflects a decrease in the IVA. The IVA is an estimate of inventory profits with the sign reversed: In the fourth quarter, inventory profits increased \$5.3 billion.

Government Sector

The fiscal position of the government sector improved in the fourth quarter of 1993, as the combined deficit of the Federal Government and of State and local governments decreased \$15.8 billion, to \$198.6 billion (table 4). The Federal Government deficit decreased \$6.7 billion, and the State and local government surplus increased \$9.2 billion.

Federal

The Federal Government deficit decreased to \$206.0 billion, as receipts increased more than expenditures. The Federal deficit has decreased for five consecutive quarters, after reaching a record high of \$322.0 billion in the third quarter of 1992.

Receipts.—Receipts increased \$40.7 billion in the fourth quarter after increasing \$7.9 billion in the third. The step-up was mostly accounted for by corporate profits tax accruals and by indirect business tax and nontax accruals.

Corporate profits tax accruals increased \$19.7 billion after decreasing \$3.1 billion; the upturn reflected a pickup in corporate profits.

Indirect business tax and nontax accruals increased \$8.3 billion after increasing \$0.5 billion. Most of the pickup was attributable to an increase of 4.3 cents per gallon in the motor fuels tax, which became effective on October 1.

Personal tax and nontax receipts increased \$8.0 billion after increasing \$6.4 billion. The increases were mainly in withheld personal income taxes, which reflected increases in wages and salaries. Provisions of the Omnibus Budget Reconciliation Act of 1993, largely retroactively increased tax rates, accounted for \$1.1 billion of the fourth-quarter increase.

Contributions for social insurance increased \$4.7 billion after increasing \$4.1 billion. The increases reflected the pattern of wages and salaries.

Expenditures.—Expenditures increased \$34.1 billion in the fourth quarter after decreasing \$2.1 billion in the third. The upswing was mostly accounted for by subsidies less the current surplus of government enterprises and by transfer payments.

Subsidies less the current surplus of government enterprises increased \$16.3 billion after decreasing \$10.9 billion. The turnaround was accounted for by agricultural subsidies, which increased \$15.4 billion after decreasing \$11.6 billion. Deficiency payments, which make up the difference between support prices and market prices for farm commodities, increased after a sharp decrease. Flood- and drought-related payments and other support payments accelerated in the fourth quarter.

Transfer payments increased \$14.4 billion after increasing \$7.2 billion. The pickup was more than accounted for by transfer payments

Table 4.—Government Sector Receipts and Expenditures

[Billions of dollars, seasonally adjusted at annual rates]

	Level	Change from preceding quarter				
		1993: IV	1993			
			IV	I	II	III	IV
Government sector						
Receipts	2036.4	71.6	-3.5	63.8	15.1	55.0
Expenditures	2235.0	32.8	8.7	22.6	7.9	39.2
Surplus or deficit (-)	-198.6	38.9	-12.2	41.3	7.1	15.8
Federal Government						
Receipts	1316.6	52.0	-2.7	49.6	7.9	40.7
Personal tax and nontax receipts	535.1	22.3	-9.7	18.6	6.4	8.0
Corporate profits tax accruals	159.0	20.1	5.3	10.0	-3.1	19.7
Indirect business tax and nontax accruals	95.0	2.4	-2.0	4.7	.5	8.3
Contributions for social insurance	527.5	7.3	3.6	16.4	4.1	4.7
Expenditures	1522.6	25.5	-3.4	8.7	-2.1	34.1
Purchases	440.0	-.4	-9.7	4.8	-3.9	-3.6
National defense	299.2	-1.0	-10.9	2.8	-5.7	-2.7
Nondefense	140.7	.6	1.2	2.1	1.7	-1.0
Transfer payments (net)	667.2	17.3	.3	3.6	7.2	14.4
To persons	643.7	5.5	11.8	3.8	6.4	4.6
To rest of the world	23.5	11.8	-11.5	-2	.8	9.8
Grants-in-aid to State and local governments	197.4	3.0	-6	6.7	5.8	8.8
Net interest paid	180.4	-6.1	-3.0	4.2	-3	-1.8
Subsidies less current surplus of government enterprises	37.7	11.8	9.7	-10.6	-10.9	16.3
Subsidies	40.5	10.6	7.6	-7.8	-11.1	15.7
Of which: Agricultural subsidies	17.6	10.6	7.5	-7.9	-11.6	15.4
Less: Current surplus of government enterprises	2.8	-1.2	-2.1	2.8	-2	-6
Less: Wage accruals less disbursements	0	0	0	0	0	0
Surplus or deficit (-)	-206.0	26.5	.7	40.9	9.9	6.7
State and local governments						
Receipts	917.2	22.6	-1.4	20.8	13.2	23.0
Personal tax and nontax receipts	164.1	5.5	-3.8	5.3	1.7	2.1
Corporate profits tax accruals	34.6	4.8	.6	2.3	-7	4.5
Indirect business tax and nontax accruals	452.7	8.5	1.9	5.9	5.7	7.0
Contributions for social insurance	68.3	.7	.6	.7	.5	.6
Federal grants-in-aid	197.4	3.0	-6	6.7	5.8	8.8
Expenditures	909.7	10.2	11.4	20.6	15.9	13.8
Purchases	729.2	5.2	5.6	14.1	10.1	8.0
Of which: Structures	113.6	5.3	-1.9	7.4	4.9	4.2
Transfer payments to persons	263.9	5.6	5.7	6.9	6.2	6.7
Net interest paid	-45.0	.2	.2	.2	.1	.2
Less: Dividends received by government	10.9	.2	0	.2	.1	.1
Subsidies less current surplus of government enterprises	-27.4	-.4	-.3	-.4	-.5	-.7
Subsidies .....	.5	0	0	.1	0	0
Less: Current surplus of government enterprises	27.9	.3	.3	.4	.5	.8
Less: Wage accruals less disbursements	0	0	0	0	0	0
Surplus or deficit (-)	7.5	12.3	-12.7	.3	-2.8	9.2
Social insurance funds	57.9	-.7	2.5	-.1	-.4	-.6
Other	-50.5	13.1	-15.3	.4	-2.4	9.7

NOTE.—Dollar levels are found in tables 3.2 and 3.3 of the "Selected NIPA Tables."

to the rest of the world, which increased \$9.8 billion after increasing \$0.8 billion; the fourth-quarter increase was more than accounted for by \$12.0 billion (annual rate) in economic support payments and other payments to Israel in October. Transfer payments to persons increased \$4.6 billion after increasing \$6.4 billion. The fourth-quarter increase was attributable to increases in social security benefits (old-age, survivors, and disability insurance) and in medicare payments (hospital and supplementary medical insurance). These increases were partly offset by a decrease in emergency payments for unemployment compensation, which was attributable to decreasing unemployment from the third to the fourth quarter.

Grants-in-aid to State and local governments increased \$8.8 billion after increasing \$5.8 billion. The fourth-quarter increase was mainly attributable to payments for medicaid.

Purchases decreased \$3.6 billion after decreasing \$3.9 billion. Defense purchases decreased \$2.7 billion after decreasing \$5.7 billion, as purchases of military equipment and nondurables decreased in both quarters. Nondefense purchases decreased \$1.0 billion after increasing \$1.7 billion.

Net interest paid decreased \$1.8 billion after decreasing \$0.3 billion. The decrease is the sixth in the eight quarters since the record high in the fourth quarter of 1991.

State and local

The State and local government surplus increased to \$7.5 billion, as receipts increased more than expenditures.

Receipts increased \$23.0 billion in the fourth quarter after increasing \$13.2 billion in the third. The acceleration was accounted for by corporate profits tax accruals, by Federal grants-in-aid, and by indirect business tax and nontax accruals. Reflecting the pickup in corporate profits, corporate profits tax accruals increased \$4.5 billion after decreasing \$0.7 billion. Federal grants-in-aid increased \$8.8 billion after increasing \$5.8 billion; the acceleration was more than accounted for by public assistance programs (including medicaid payments), which increased \$6.0 billion after increasing \$2.3 billion. Indirect business tax and nontax accruals increased \$7.0 billion after increasing \$5.7 billion; the acceleration was attributable mainly to sales tax collections, which reflected the pattern of retail sales.

Expenditures increased \$13.8 billion in the fourth quarter after increasing \$15.9 billion in the third. Most of the deceleration was accounted for by purchases, which increased \$8.0 billion after increasing \$10.1 billion. Within purchases, all components except nondurables contributed to the deceleration. Transfer payments to persons increased \$6.7 billion after increasing \$6.2 billion. 