

THE BUSINESS SITUATION

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REAL GROSS domestic product (GDP) increased 2.7 percent in the first quarter of 1995, according to the "preliminary" estimates of the national income and product accounts (NIPAs).¹ The "advance" estimates of the NIPAs, reported in the April "Business Situation," showed a 2.8-percent increase.

Although the revision to GDP growth was small, the revisions to some components of GDP were noteworthy. For example, the preliminary estimate of final sales of domestic product shows a 2.5-percent increase, considerably more than the advance estimate of a 1.8-percent increase. The preliminary estimate of inventory investment shows a substantially smaller increase than the advance estimate.

Real gross domestic purchases was revised little; according to the preliminary estimate, it increased 3.6 percent, only 0.1 percentage point less than reported a month ago. The fixed-weighted price index for gross domestic purchases increased 3.0 percent, 0.2 percentage point more than reported a month ago. (The sources of the revisions are discussed in the section "Revisions.")

1. Quarterly estimates in the NIPAs 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. Estimates based on weights of more recent periods are shown in the section "Alternative measures."

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

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1994			1995
						II	III	IV	I
		1995:I	II	III	IV	I	II	III	IV	I
Gross domestic product	5,470.0	53.0	52.9	66.8	36.2	4.1	4.0	5.1	2.7
Goods	2,316.2	32.5	34.2	51.4	29.3	6.1	6.4	9.5	5.2
Motor vehicles	231.9	-12.2	4.8	7.1	-3.4	-19.2	8.9	13.0	-5.7
Other	2,084.3	44.7	29.4	44.3	32.7	9.6	6.1	9.1	6.5
Services	2,666.4	10.0	18.1	8.5	4.0	1.5	2.8	1.3	.6
Structures	487.4	10.4	.7	6.9	2.9	9.2	.6	5.9	2.4

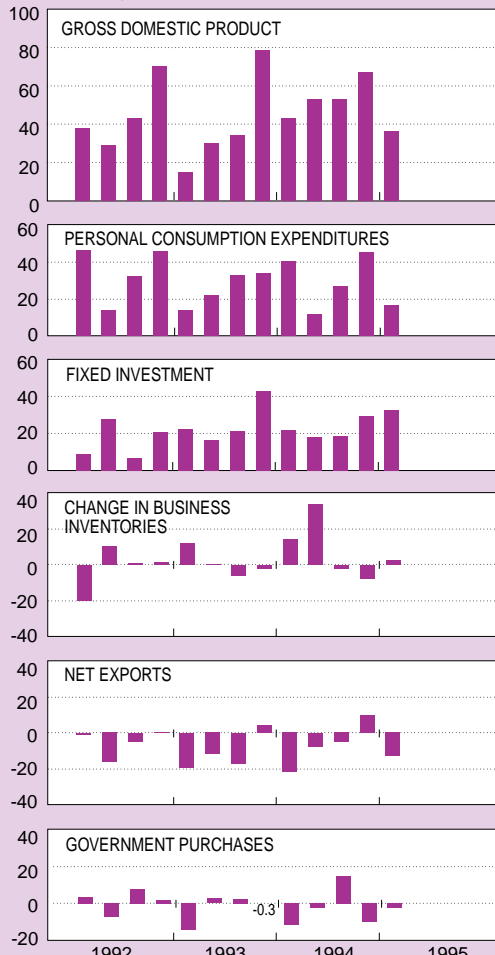
NOTE.—Most series are found in NIPA table 1.4. Output of motor vehicles is the sum of auto output and truck output (from tables 8.4 and 8.6, respectively).

The 2.7-percent increase in real GDP in the first quarter was markedly lower than the increases in the past few quarters (chart 1). The slowdown from the fourth quarter to the first was mostly accounted for by goods; motor vehicle output turned down, and the output of other goods increased less than in the fourth quarter (table 1). Output of services and of structures also slowed.

CHART 1

Real Product: Change from Preceding Quarter

Billion 1987 \$



Based on Seasonally Adjusted Annual Rates

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

The 3.6-percent increase in real gross domestic purchases followed an increase of 4.2 percent (table 2). The first-quarter increase reflected increases in nonresidential fixed investment and personal consumption expenditures. Inventory investment was up only a little, while residential investment and government purchases decreased.

Imports and exports account for the difference between GDP (the goods and services produced in the United States) and gross domestic purchases (the goods and services purchased by U.S. residents). In the first quarter, gross domestic

purchases increased more than GDP, as imports increased more than exports.

Personal consumption expenditures

Real personal consumption expenditures (PCE) increased 1.8 percent in the first quarter after increasing 5.1 percent in the fourth (table 3). Expenditures on durable goods, which turned down, contributed the most to the slowdown. Expenditures on nondurable goods increased somewhat less than in the fourth quarter, and expenditures on services somewhat more.

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

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1994			1995
		1994			1995	II	III	IV	I
	1995:I	II	III	IV	I				
Gross domestic product	5,470.0	53.0	52.9	66.8	36.2	4.1	4.0	5.1	2.7
Less: Exports of goods and services	702.2	24.3	22.6	31.4	4.3	16.6	14.8	20.2	2.5
Plus: Imports of goods and services	822.2	32.0	27.9	21.5	17.2	18.9	15.6	11.4	8.8
Equals: Gross domestic purchases	5,590.0	60.7	58.2	56.9	49.1	4.6	4.4	4.2	3.6
Less: Change in business inventories	52.3	33.8	-2.1	-7.7	2.9				
Equals: Final sales to domestic purchasers	5,537.7	26.9	60.3	64.6	46.2	2.0	4.6	4.8	3.4
Personal consumption expenditures	3,646.1	11.5	26.9	44.9	16.5	1.3	3.1	5.1	1.8
Nonresidential fixed investment	742.3	14.3	22.1	28.2	34.1	9.2	14.1	17.6	20.7
Residential investment	230.0	3.9	-3.6	1.3	-1.5	7.0	-6.0	2.3	-2.6
Government purchases	919.4	-2.8	14.9	-9.8	-2.8	-1.2	6.7	-4.1	-1.2

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

Table 3.—Real Personal Consumption Expenditures

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1994			1995
		1994			1995	II	III	IV	I
	1995:I	II	III	IV	I				
Personal consumption expenditures	3,646.1	11.5	26.9	44.9	16.5	1.3	3.1	5.1	1.8
Durable goods	549.1	.5	7.4	25.2	-5.7	.4	5.8	20.4	-4.0
Motor vehicles and parts	202.7	-8.4	-3.3	9.9	-9.2	-14.8	-6.3	21.1	-16.3
New autos	75.7	-1.8	-4.9	5.4	-8.6	-8.1	-21.4	30.3	-35.0
New trucks	45.9	-2.4	-2.7	5.9	-2.6	-18.7	-21.8	68.0	-19.8
Other	81.1	-4.2	4.3	-1.4	2.0	-19.3	24.6	-6.8	10.5
Furniture and household equipment	256.2	6.6	9.2	12.8	1.7	12.2	16.8	22.9	2.7
Other	90.1	2.4	1.6	2.4	1.7	12.2	7.8	11.6	7.9
Nondurable goods	1,129.0	6.0	9.1	8.5	7.1	2.2	3.3	3.1	2.6
Food	541.2	4.2	-4	2.8	2.7	3.2	-3	2.1	2.0
Clothing and shoes	216.9	1.1	5.3	6.2	.5	2.2	10.8	12.3	.9
Energy ¹	101.9	-1.4	1.6	-4	2.6	-5.5	6.7	-1.6	10.9
Other	269.1	2.0	2.7	-2	1.5	3.1	4.1	-3	2.3
Services	1,968.0	5.1	10.4	11.1	15.1	1.1	2.2	2.3	3.1
Housing	507.4	2.3	2.6	2.4	2.4	1.9	2.1	1.9	1.9
Household operation	230.1	.4	-1.0	-1.0	3.0	.7	-1.7	-1.7	5.4
Energy ²	96.6	-9	-3.0	-2.7	2.1	-3.5	-11.4	-10.7	9.2
Other household operation	133.5	1.2	2.0	1.7	.9	3.8	6.4	5.3	2.7
Transportation	137.1	.9	.6	3.3	1.4	2.8	1.8	10.3	4.2
Medical care	486.8	4.2	3.6	3.4	2.4	3.6	3.1	2.9	2.0
Other	606.6	-2.8	4.6	3.0	5.9	-1.9	3.1	2.0	4.0

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

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

The below-average growth in consumer spending is not easily explained by the factors usually associated with *PCE* (chart 2). Real disposable personal income posted a strong increase, 4.5 percent, though not as strong as the 7.5-percent increase in the fourth quarter. The unemployment rate edged down to 5.5 percent from 5.6 percent. The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) increased for the second consecutive quarter after declining in the two preceding quarters.

Expenditures for durable goods decreased 4.0 percent—the first decrease in more than 3 years—after jumping 20.4 percent. The downturn was mainly accounted for by motor vehicles and parts and by furniture and household equipment. Motor vehicles and parts fell 16.3 percent after jumping 21.1 percent, reflecting a sharp drop in expenditures for new autos and trucks; net purchases of used autos and expenditures for tires, accessories, and parts increased in the first quar-

ter. Furniture and household equipment slowed to a 2.7-percent increase from a 22.9-percent increase.

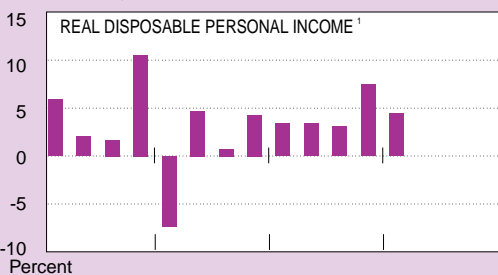
Expenditures for nondurable goods increased 2.6 percent after increasing 3.1 percent. Clothing and shoes, which increased 0.9 percent after increasing 12.3 percent, accounted for the slowdown. Food increased 2.0 percent, about the same as in the fourth quarter. Energy and "other" nondurable goods increased after decreasing.

Expenditures for services increased 3.1 percent after increasing 2.3 percent. The step-up was accounted for by energy and "other" services. Energy increased 9.2 percent after decreasing 10.7 percent, primarily reflecting a sharp pickup in expenditures for electricity and gas that resulted from the return to more normal temperatures after warmer-than-normal temperatures in the fourth quarter. "Other" services increased 4.0 percent after increasing 2.0 percent, mainly reflecting an upturn in net foreign travel expenditures and a step-up in expenditures for brokerage and investment counseling. Housing increased 1.9 percent, the same as in the fourth quarter. Transportation, medical care, and "other" household operations increased less than in the fourth quarter; in transportation, the slowdown reflected a smaller increase in air travel.

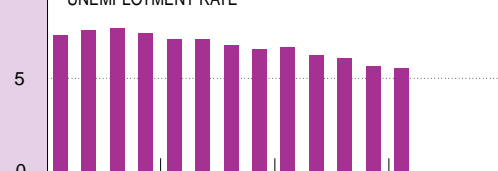
CHART 2

Selected Factors Affecting Consumer Spending

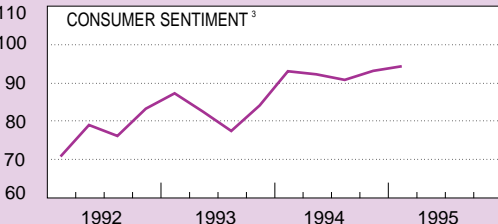
Percent change



UNEMPLOYMENT RATE²



CONSUMER SENTIMENT³



1. Disposable personal income in 1987 dollars; seasonally adjusted annual rates.

2. All civilian workers, seasonally adjusted.

Data: U.S. Department of Labor, Bureau of Labor Statistics

3. Data: University of Michigan's Survey Research Center.

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

Nonresidential fixed investment

Real nonresidential fixed investment increased 20.7 percent in the first quarter after increasing 17.6 percent in the fourth (table 4). Both structures and producers' durable equipment stepped up.

Factors that affect investment spending were generally favorable in the first quarter, except for real final sales of domestic product, which increased less than half as much as in the fourth quarter. Profits posted a fourth consecutive quarterly increase, and cash flow increased for the fourth time in five quarters. The capacity utilization rate in manufacturing continued its uptrend, increasing 0.4 percentage point to 84.9 percent. Borrowing costs—as measured by the yield on new high-grade corporate bonds—were unchanged after four consecutive quarterly increases.

Structures increased 14.3 percent after increasing 11.0 percent. Nonresidential buildings increased; both industrial and commercial buildings were up about as much as in the fourth quarter. Mining exploration, shafts, and wells—mainly oilwell drilling—increased after a de-

crease. Construction by utilities changed little after increasing.

Producers' durable equipment increased 22.5 percent after increasing 19.6 percent. The first-quarter increase was spread across all major categories of equipment. In information processing equipment, computers increased sharply, though not so sharply as in the fourth quarter. Most of the increase in transportation equipment was accounted for by aircraft; an increase in trucks and a decrease in autos were largely offsetting. In industrial equipment, the biggest increase was registered by special industry machinery.

Residential investment

Real residential investment decreased 2.6 percent in the first quarter after increasing 2.3 percent in the fourth. The downturn was accounted for by "other" residential investment, which decreased after increasing. Multifamily structures increased strongly again, and single-family structures decreased slightly less in the first quarter than in the fourth.

Single-family construction decreased 8.3 percent after decreasing 8.7 percent. Single-family construction in a quarter is largely determined by single-family housing starts in that quarter and in the preceding quarter. Therefore, construction in the first quarter of 1995 reflected starts in that quarter and in the fourth quarter of 1994.

In these two quarters, single-family starts averaged 1.11 million units (seasonally adjusted annual rate), down from an average of 1.21 million units in the third and fourth quarters of 1994 (chart 3).

Multifamily construction increased 44.4 percent after increasing 55.0 percent. The first-quarter increase was the fifth in succession; since the fourth quarter of 1993, multifamily construction has increased at a compound annual rate of

CHART 3

Housing Starts

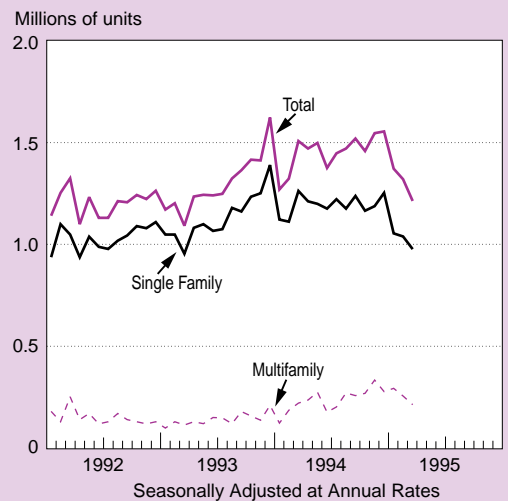


Table 4.—Real Gross Private Domestic Fixed Investment

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1994		1995	
		1994			1995	II	III	IV	I
	1995:I	II	III	IV	I				
Gross private domestic fixed investment	972.3	18.3	18.5	29.5	32.6	8.6	8.6	13.6	14.6
Nonresidential	742.3	14.3	22.1	28.2	34.1	9.2	14.1	17.6	20.7
Structures	160.9	6.9	.6	4.0	5.3	20.6	1.6	11.0	14.3
Nonresidential buildings, including farm	113.8	6.2	-.3	4.4	4.3	27.4	-1.1	17.8	16.7
Utilities	30.8	.6	.7	1.0	.1	8.7	10.0	14.2	1.3
Mining exploration, shafts, and wells	9.4	.2	-.5	-.8	.9	8.6	-18.9	-30.2	49.6
Other	7.0	-.1	.5	-.5	.2	-5.7	32.8	-24.7	12.3
Producers' durable equipment	581.4	7.5	21.5	24.2	28.8	6.1	18.1	19.6	22.5
Information processing and related equipment	283.6	9.0	9.0	18.7	13.7	16.4	15.7	33.3	21.9
Computers and peripheral equipment	155.5	3.1	4.8	11.4	9.0	10.1	15.6	38.3	26.9
Other	128.1	5.8	4.3	7.3	4.7	23.7	16.3	27.6	16.1
Industrial equipment	98.5	2.5	3.2	1.5	4.9	12.1	15.2	6.7	22.6
Transportation and related equipment	109.4	-6.2	6.8	4.3	6.0	-22.9	32.9	18.5	25.3
Motor vehicles	93.5	-3.9	5.8	3.1	.3	-16.5	30.5	14.5	1.3
Other	15.9	-2.3	1.0	1.2	5.7	-63.6	60.2	65.0	490.5
Other	89.8	2.3	2.5	-4	4.1	11.8	12.5	-1.8	20.6
Residential	230.0	3.9	-3.6	1.3	-1.5	7.0	-6.0	2.3	-2.6
Single-family structures	118.4	2.5	-3.8	-2.8	-2.6	8.2	-11.4	-8.7	-8.3
Multifamily structures	14.8	1.3	.8	1.4	1.3	63.0	31.5	55.0	44.4
Other	96.7	.2	-6	2.6	-3	.8	-2.5	11.5	-1.2

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

46.2 percent. This growth over the past five quarters occurred despite a rental vacancy rate that hovered in the relatively high (and narrow) range of 7.2 percent to 7.5 percent.

“Other” residential investment decreased 1.2 percent after increasing 11.5 percent. The decrease was more than accounted for by brokers’ commissions, which dropped as a result of a reduction in house sales. Sales of new and existing residences decreased 210,000 units (seasonally adjusted annual rate). The sales decrease occurred despite a decrease—the first in five quarters—in the mortgage commitment rate; the rate on 30-year fixed-rate loans decreased 29 basis points to 8.81 percent (chart 4).

Inventory investment

Real inventory investment—that is, the change in business inventories—increased \$2.9 billion in the first quarter, as inventory accumulation increased to \$52.3 billion from \$49.4 billion (table 5). In contrast, inventory investment decreased \$7.7 billion in the fourth quarter.

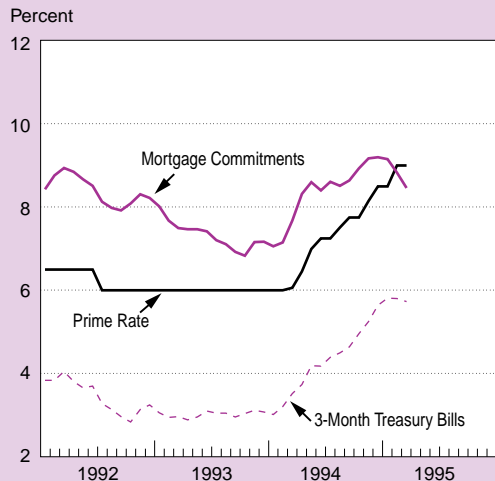
Nonfarm inventories increased \$49.8 billion in the first quarter, the fourth consecutive quarter of substantial accumulation. Most of the accumulation in the first quarter was by establishments that primarily sell durable goods. In manufacturing, the accumulation was accounted for by the electronic and industrial equipment industry. In retail trade, most of the accumulation was by auto dealers. In wholesale trade, the accumulation was more widespread; the largest accumulations were by wholesalers dealing in motor vehicles and parts, in electrical goods, and in machinery, equipment, and supplies.

Farm inventories increased \$2.5 billion after increasing \$7.7 billion. Inventories of crops increased less than in the fourth quarter, and inventories of livestock decreased slightly after an increase.

The constant-dollar ratio of nonfarm inventories to all final sales of domestic businesses moved up to 2.49 in the first quarter from 2.47 in the fourth. A ratio in which final sales are limited to goods and structures shows much the same picture; it moved up to 4.24 from 4.23. Despite these increases, both ratios remained low by historical standards.

CHART 4

Selected Interest Rates



Data: Federal Reserve Board

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

Table 5.—Change in Real Business Inventories

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

	Level					Change from preceding quarter			
	1994				1995	1994			1995
	I	II	III	IV	I	II	III	IV	I
Change in business inventories	25.4	59.2	57.1	49.4	52.3	33.8	-2.1	-7.7	2.9
Farm	3.3	7.5	9.7	7.7	2.5	4.2	2.2	-2.0	-5.2
Nonfarm	22.1	51.7	47.4	41.7	49.8	29.6	-4.3	-5.7	8.1
Manufacturing	9.9	.7	4.5	4.1	14.1	-9.2	3.8	-4	10.0
Wholesale trade	-1.0	17.7	16.9	15.8	21.0	18.7	-8	-1.1	5.2
Retail trade	2.0	22.3	19.9	15.6	9.6	20.3	-2.4	-4.3	-6.0
Automotive	2.5	-1.9	7.9	11.8	8.5	-4.4	9.8	3.9	-3.3
Other retail trade	-5	24.2	12.0	3.8	1.1	24.7	-12.2	-8.2	-2.7
Other	11.3	11.0	6.1	6.2	5.1	-3	-4.9	.1	-1.1
Addenda:									
Motor vehicles	-1.9	3.5	7.9	11.0	13.6	5.4	4.4	3.1	2.6
Nonfarm less motor vehicles	24.0	48.2	39.5	30.7	36.2	24.2	-8.7	-8.8	5.5

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

Exports and imports of goods and services

Real exports increased 2.5 percent in the first quarter after increasing 20.2 percent in the fourth. Real imports increased 8.8 percent after increasing 11.4 percent (table 6).

Exports of goods increased 4.3 percent after increasing 24.6 percent. After very strong fourth-quarter increases, exports of agricultural products turned down, and exports of nonagricultural products slowed sharply. Two-thirds of the slowdown in nonagricultural exports was accounted for by exports of nonautomotive capital goods; exports of civilian aircraft turned down, and exports of computers increased much less than in the fourth quarter. Most of the rest of the slowdown in nonagricultural exports was accounted for by nonautomotive consumer goods, which decreased after an increase. Exports of services turned down.

Imports of goods increased 8.0 percent after increasing 13.2 percent. The slowdown was more than accounted for by imports of nonautomotive capital goods, mainly computers. In contrast,

auto imports increased more than in the fourth quarter, and imports of petroleum and petroleum products decreased only a little after a very large decrease. Imports of services increased sharply after little change.

Government purchases

Real government purchases decreased 1.2 percent in the first quarter after decreasing 4.1 percent in the fourth (table 7). Federal Government purchases decreased much less than in the fourth quarter, and State and local government purchases slowed.

Federal defense purchases decreased 7.3 percent after decreasing 21.8 percent. The smaller first-quarter decrease mainly reflected an upturn in purchases of military equipment. First-quarter decreases in the purchases of nondurable goods and of services were comparable to the decreases in the fourth quarter. Within services, compensation of employees decreased for the 16th consecutive quarter. (Compensation primar-

Table 6.—Real Exports and Imports of Goods and Services

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1994			1995
		1994			1995	II	III	IV	I
	1995:I	II	III	IV	I				
Exports of goods and services	702.2	24.3	22.6	31.4	4.3	16.6	14.8	20.2	2.5
Goods	539.3	20.2	20.5	28.5	5.7	18.6	18.0	24.6	4.3
Agricultural products	45.7	.9	3.2	5.2	-2	10.2	38.8	61.8	-1.7
Nonagricultural products	493.6	19.3	17.3	23.2	6.0	19.3	16.4	21.5	5.0
Services	162.9	4.0	2.1	3.0	-1.4	10.7	5.4	7.6	-3.4
Imports of goods and services	822.2	32.0	27.9	21.5	17.2	18.9	15.6	11.4	8.8
Goods	709.5	33.1	26.3	21.3	13.6	23.3	17.2	13.2	8.0
Petroleum and products	56.4	3.8	4.0	-7.2	-7	29.7	29.3	-37.8	-4.8
Nonpetroleum products	653.1	29.3	22.4	28.6	14.2	22.7	16.1	20.1	9.2
Services	112.7	-1.1	1.5	.2	3.6	-4.0	5.7	.7	13.9
Addendum: Net exports of goods and services	-120.0	-7.8	-5.2	9.9	-12.9				

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

Table 7.—Real Government Purchases

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1994			1995
		1994			1995	II	III	IV	I
	1995:I	II	III	IV	I				
Government purchases	919.4	-2.8	14.9	-9.8	-2.8	-1.2	6.7	-4.1	-1.2
Federal	326.9	-7.0	8.8	-13.1	-3.5	-7.9	10.9	-14.4	-4.2
National defense	215.0	-2.4	6.9	-13.9	-4.1	-4.1	12.8	-21.8	-7.3
Nondefense	111.8	-4.5	1.8	.8	.5	-15.0	6.8	2.9	1.8
State and local	592.5	4.1	6.1	3.3	.7	2.9	4.3	2.3	.5
Structures	90.2	1.7	2.5	1.1	-1.5	8.1	11.8	4.9	-6.4
Other	502.3	2.4	3.6	2.2	2.2	2.0	2.9	1.8	1.8

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

ily reflects the number of military and civilian personnel in the Department of Defense.)

Federal nondefense purchases increased 1.8 percent after increasing 2.9 percent. The slowdown was more than accounted for by purchases of structures, which decreased after a sharp increase.

State and local government purchases increased 0.5 percent after increasing 2.3 percent. The slowdown was more than accounted for by structures, which decreased after three consecutive increases; most types of structures contributed to the decrease, but a decrease in highway construction was especially large.

Revisions

The preliminary estimate of a 2.7-percent increase in real GDP in the first quarter is 0.1 percentage point lower than the advance estimate (table 8). Preliminary estimates of the increases in the fixed-weighted price indexes for gross domestic purchases (3.0 percent) and for GDP (3.3 percent) are 0.2 percentage point higher than the advance estimates.

The small downward revision to real GDP was mainly the result of a downward revision to inventory investment that was largely offset by upward revisions to PCE and to residential and nonresidential fixed investment. The revision to inventory investment reflected the incorporation of the following revised or newly available source data:

- Newly available data on end-of-quarter inventory prices (producer price indexes for April) from the Bureau of Labor Statistics;
- Revised data for February and newly available data for March on the book value of inventories in manufacturing and trade from the Census Bureau;
- Revised seasonal factors for December 1994 from the Census Bureau; and
- Newly available data on livestock inventories from the Department of Agriculture.

The upward revision to personal consumption expenditures reflected the incorporation of revised data on retail sales for February and March. The upward revision to residential fixed investment reflected the incorporation of revised (February) and newly available (March) data on the value of new construction put in place from the Census Bureau. The upward revision to nonresidential fixed investment was concentrated in producers' durable equipment and reflected the incorporation of Census Bureau data for March

on manufacturers' shipments of capital goods (revised) and on imports and exports of capital goods (newly available).

Net exports—a component of GDP that sometimes undergoes substantial revision—was revised little this month, as exports and imports were revised up by nearly equal amounts. For both exports and imports, the revisions mainly reflected the incorporation of newly available Census Bureau data for March on trade in goods.

Alternative measures

The chain-type annual-weighted alternative measure of real GDP increased 1.7 percent in the first quarter, 1.0 percentage point less than the featured fixed-1987-weighted measure; the

Table 8.—Revisions to Real Gross Domestic Product and Prices, First Quarter 1995

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Preliminary estimate minus advance estimate	
	Advance estimate	Preliminary estimate	Percentage points	Billions of 1987 dollars
Gross domestic product	2.8	2.7	-0.1	-1.7
<i>Less:</i> Exports of goods and services	-6	2.5	3.1	5.3
Goods .....	.6	4.3	3.7	4.9
Services	-4.3	-3.4	.9	.4
<i>Plus:</i> Imports of goods and services	5.9	8.8	2.9	5.6
Goods	5.0	8.0	3.0	5.0
Services	11.5	13.9	2.4	.6
Equals: Gross domestic purchases	3.7	3.6	-1	-1.4
Personal consumption expenditures	1.4	1.8	.4	4.1
Durable goods	-4.7	-4.0	.7	.9
Nondurable goods	1.5	2.6	1.1	3.0
Services	3.1	3.1	0	.1
Fixed investment	12.5	14.6	2.1	4.5
Nonresidential	19.3	20.7	1.4	2.2
Structures	14.1	14.3	.2	.1
Producers' durable equipment	20.8	22.5	1.7	2.1
Residential	-6.6	-2.6	4.0	2.4
Change in business inventories .....	.....	.....	.....	-10.7
Nonfarm .....	.....	.....	.....	-8.5
Farm .....	.....	.....	.....	-2.2
Government purchases	-1.6	-1.2	.4	.8
Federal	-4.6	-4.2	.4	.4
National defense	-7.1	-7.3	-.2	-.1
Nondefense .....	.4	1.8	1.4	.4
State and local .....	.2	.5	.3	.4
Addenda:				
Final sales of domestic product	1.8	2.5	.7	9.0
Gross domestic purchases price index (fixed weights) ¹	2.8	3.0	.2	.....
GDP price index (fixed weights) ¹	3.1	3.3	.2	.....

1. Based on 1987 weights.

NOTE.—Preliminary estimates for the first quarter of 1995 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared a month ago.

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

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

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

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

Net exports of goods and services: Exports and imports of goods for March.

Government purchases: Federal outlays for March, State and local construction put in place for February (revised) and March, and State and local government employment for February and March (revised).

Wages and salaries: Revised employment, average hourly earnings, and average weekly hours for February and March.

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

Table 9.—Fixed-Weighted and Alternative Quantity and Price Indexes

[Percent change at annual rates; based on seasonally adjusted index numbers (1987=100)]

	1994			1995
	II	III	IV	I
Gross domestic product:				
Quantity indexes:				
Fixed 1987 weights	4.1	4.0	5.1	2.7
Chain-type annual weights	4.2	3.6	4.0	1.7
Benchmark-years weights	4.1	3.6	4.1	1.9
Price indexes:				
Fixed 1987 weights	2.9	3.0	2.6	3.3
Chain-type annual weights	2.7	2.8	2.5	3.3
Benchmark-years weights	2.7	2.7	2.6	3.3
Gross domestic purchases:				
Price indexes:				
Fixed 1987 weights	3.2	3.5	2.6	3.0
Chain-type annual weights	3.1	3.2	2.4	2.9
Benchmark-years weights	3.1	3.2	2.5	2.9

NOTE.—Percent changes are found in NIPA table 8.1. Index number levels are found in tables 7.1 and 7.2.

benchmark-years-weighted alternative measure increased 1.9 percent (table 9). About 75 percent of the difference between the increases in the alternative measures and the increase in the fixed-weighted measure was accounted for by a strong increase in purchases of computers, a product whose prices have decreased steadily since 1987. The alternative measures had also increased about 1 percentage point less than the fixed-weighted measure in the fourth quarter; about 60 percent of the difference was due to an increase in purchases of computers.

Both of the alternative price indexes for gross domestic purchases increased 2.9 percent in the first quarter, slightly less than the increase in the featured fixed-weighted measure. In the fourth quarter, the alternative measures had also increased slightly less than the fixed-weighted measure.

The preliminary estimate of the increase in the chain-type measure of real GDP is 0.4 percentage point less than the advance estimate published last month; the preliminary estimate of the increase in the benchmark-years measure is 0.3 percentage point less. For prices of gross domestic purchases, the chain-type measure was revised up 0.2 percentage point, and the benchmark-years measure was revised up 0.1 percentage point.

Corporate Profits

Profits from current production increased \$8.5 billion in the first quarter of 1995 after increasing \$4.3 billion in the fourth quarter of 1994 (table 10).²

2. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment (IVA), and the capital con-

The first-quarter increase was accounted for by domestic operations of financial corporations and by profits from the rest of the world. Profits from domestic operations of nonfinancial corporations, in contrast, decreased; real product of these corporations increased, but profits per unit dipped as unit costs rose more than unit prices.

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$8.1 billion after decreasing \$3.3 billion. The ratio of cash flow to nonresidential fixed investment is an indicator of the share of current level of investment that could be financed by internally generated funds. In the first quarter, this ratio decreased to 75.2 percent; the decrease was the sixth in succession and reflected the continued strong growth of investment.

sumption adjustment (CCAdj); it is shown in NIPA tables 1.14, 1.16, and 6.16C as "corporate profits with IVA and CCAdj."

Table 10.—Corporate Profits

[Seasonally adjusted at annual rates]

	Level	Change from preceding quarter	
	1995:I	1994:IV	1995:I
Billions of dollars			
Profits from current production	568.8	4.3	8.5
Domestic industries	501.6	4.9	1.0
Financial	96.9	-5.8	6.1
Nonfinancial	404.7	10.7	-5.1
Rest of the world	67.2	-6	7.5
IVA	-38.7	-12.5	-6.6
CCAdj	38.0	1.3	-8
Profits before tax	569.5	15.4	16.0
Profits tax liability	220.2	7.0	4.6
Profits after tax	349.4	8.4	11.5
Cash flow from current production	576.9	-3.3	8.1
Profits by industry:			
Corporate profits with IVA	530.8	2.9	9.4
Domestic industries	463.6	3.6	1.9
Financial	114.2	-5.4	7.0
Nonfinancial	349.4	9.0	-5.1
Manufacturing	7.6	.....	.....
Trade	-9	.....	.....
Transportation and public utilities	3.8	.....	.....
Other	-1.5	.....	.....
Rest of the world	67.2	-6	7.5
Receipts (inflows)	99.6	.1	9.6
Payments (outflows)	32.4	.7	2.1
Dollars			
Unit price, costs, and profits of domestic nonfinancial corporations:			
Unit price	1.176	0	.001
Unit labor cost .....	.771	0	.003
Unit nonlabor cost .....	.280	-.001	.001
Unit profits from current production .....	.125	.001	-.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

Related measures.—Industry profits increased \$9.4 billion after increasing \$2.9 billion.³ Profits of financial industries increased \$7.0 billion after decreasing \$5.4 billion; the increase appears to have been spread across commercial banks, Federal Reserve banks, and property/casualty insurance carriers.⁴ Profits of nonfinancial industries decreased \$5.1 billion after increasing \$9.0 billion; decreases appear to have been widespread in manufacturing and were evident also in trade and in the transportation and public utilities group. In contrast, profits of “other” nonfinancial corporations, such as construction and services, increased. Profits from the rest of the world increased \$7.5 billion after decreasing \$0.6 billion. This component of profits measures receipts of profits from foreign affiliates of U.S. corporations less payments of profits by U.S. affiliates of foreign corporations. Receipts increased much more than payments in the first quarter.

Profits before tax increased \$16.0 billion, almost twice as much as profits from current production. The difference between the two measures mainly reflects an increase in inventory profits, which are included in profits before tax and which are recorded (with the sign reversed) in the NIPA’s as the inventory valuation adjustment.

Government Sector

The fiscal position of the government sector improved in the first quarter of 1995, as the combined deficit of the Federal Government and of State and local governments decreased \$11.7 billion, to \$120.6 billion (table 11). This turnaround was largely the result of an improvement in the Federal Government deficit.

Federal

The Federal Government deficit fell \$10.8 billion, to \$150.3 billion, in the first quarter after increasing \$7.1 billion in the fourth quarter and \$8.9 billion in the third. The improvement reflected both an acceleration in receipts and a deceleration in expenditures.

Receipts.—Receipts increased \$28.3 billion in the first quarter after increasing \$20.0 billion in the fourth. The acceleration was more than accounted for by personal tax and nontax receipts and by contributions for social insurance.

Personal tax and nontax receipts increased \$16.4 billion after increasing \$7.3 billion. Net non-withheld personal income taxes increased \$10.3 billion after decreasing \$0.5 billion. This upturn was largely a result of provisions of the Omnibus Budget Reconciliation Act of 1993 that deferred some 1994 liabilities until 1995. These changes included the addition of a fourth tax bracket and a 10-percent surtax on high incomes. Withheld personal income taxes increased \$6.3

Table 11.—Government Sector Receipts and Expenditures

[Billions of dollars, seasonally adjusted]

	Level 1995:1	Change from preceding quarter				
		1994				1995
		I	II	III	IV	I
Government sector						
Receipts	2,207.8	31.1	55.4	17.0	32.1	36.8
Expenditures	2,328.4	-3.4	22.4	29.0	34.3	25.1
Surplus or deficit (-)	-120.6	34.5	33.0	-12.0	-2.2	11.7
Social insurance funds	138.0	9.6	4.3	0	1.2	17.4
Other	-258.6	24.9	28.6	-11.9	-3.4	-5.7
Federal Government						
Receipts	1,437.1	23.9	43.2	8.1	20.0	28.3
Personal tax and nontax receipts	590.6	13.4	20.9	-4.2	7.3	16.4
Corporate profits tax accruals	182.1	-6.0	14.5	6.1	5.7	4.0
Indirect business tax and nontax accruals	89.1	-0.3	0	1.5	0	-2.8
Contributions for social insurance	575.3	16.8	7.9	4.6	7.0	10.7
Expenditures	1,587.4	-20.0	12.2	16.9	27.1	17.5
Purchases	433.6	-2.0	-2.7	9.2	-12.4	1.7
National defense	283.8	-7.4	0	8.8	-15.2	-1.5
Nondefense	149.8	5.4	-2.6	.3	2.8	3.2
Transfer payments (net)	705.7	-2.6	4.7	6.8	16.2	6.5
To persons	695.2	10.1	3.6	5.0	6.0	20.7
To rest of the world	10.5	-12.7	1.1	1.7	10.3	-14.2
Grants-in-aid to State and local governments	211.0	-7.0	4.4	5.9	5.2	5.5
Net interest paid	210.0	-4.2	9.5	5.6	9.1	6.5
Subsidies less current surplus of government enterprises	27.1	-4.2	-3.8	-10.4	8.9	-2.7
Subsidies	36.2	-3.9	-3.1	-8.7	8.3	2.0
Of which: Agricultural subsidies	8.5	-4.9	-3.4	-8.4	8.3	-3
Less: Current surplus of government enterprises	9.1	.3	.7	1.7	-6	4.7
Less: Wage accruals less disbursements	0	0	0	0	0	0
Surplus or deficit (-)	-150.3	43.9	31.1	-8.9	-7.1	10.8
Social insurance funds	72.9	10.0	4.2	.6	1.4	17.4
Other	-223.2	33.9	26.8	-9.4	-8.5	-6.6
State and local governments						
Receipts	981.7	.3	16.5	14.7	17.4	14.0
Personal tax and nontax receipts	182.8	2.7	2.4	2.0	3.3	2.2
Corporate profits tax accruals	38.0	-1.4	3.1	.8	1.3	.5
Indirect business tax and nontax accruals	476.8	5.2	5.8	5.3	6.7	4.8
Contributions for social insurance	73.0	.8	.8	.8	.8	.9
Federal grants-in-aid	211.0	-7.0	4.4	5.9	5.2	5.5
Expenditures	952.0	9.6	14.7	17.8	12.5	13.1
Purchases	763.3	4.6	9.5	13.0	9.3	9.5
Of which: Structures	107.7	-5.8	2.3	4.4	2.6	-8
Transfer payments to persons	285.5	5.7	6.4	6.1	4.5	4.2
Net interest paid	-55.6	-5	-5	-5	-5	0
Less: Dividends received by government	11.6	.2	.1	.1	.4	.3
Subsidies less current surplus of government enterprises	-29.6	-1	-6	-6	-4	-3
Subsidies .....	.4	0	0	0	0	0
Less: Current surplus of government enterprises	30.0	.2	.6	.5	.5	.3
Less: Wage accruals less disbursements	0	0	0	0	0	0
Surplus or deficit (-)	29.7	-9.3	1.8	-3.1	4.9	.9
Social insurance funds	65.1	-3	0	-6	-2	0
Other	-35.4	-9.0	1.8	-2.5	5.1	.9

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

3. Industry profits are estimated as the sum of profits before tax and the inventory valuation adjustment (IVA); it is shown in NIPA table 6.16C as “corporate profits with IVA.” Estimates of the capital consumption adjustment by industry do not exist.

4. The income of Federal Reserve banks is treated as corporate profits in the NIPA’s.

billion after increasing \$8.3 billion, as a result of a slowdown in wages and salaries and the effects of annual indexation for inflation on the 1995 withholding tables.

Contributions for social insurance increased \$10.7 billion after increasing \$7.0 billion. The step-up reflected an increase in the social security taxable wage base and an increase in monthly premiums for supplemental medical insurance, both of which were effective in January 1995.

Indirect business tax and nontax accruals decreased \$2.8 billion after no change. The downturn reflected a decline in collections of customs duties as a result of reduced tariffs under the General Agreement on Trade and Tariffs and the North American Free Trade Agreement.

Corporate profits tax accruals increased \$4.0 billion after increasing \$5.7 billion. The slowdown reflected a deceleration in domestic corporate profits.

Expenditures.—Expenditures increased \$17.5 billion in the first quarter after increasing \$27.1 in the fourth. Slowdowns in transfer payments and in net interest paid and a downturn in subsidies less current surplus of government enterprises were partly offset by a turnaround in purchases.

Transfer payments increased \$6.5 billion after increasing \$16.2 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 \$14.2 billion after increasing \$10.3 billion; the increase in the fourth quarter was accounted for primarily by a \$12.0 billion (annual rate) payment to Israel to finance military purchases. Transfer payments to persons increased \$20.7 billion after increasing \$6.0 billion. Most of this step-up was accounted for by social security benefits (old-age, survivors, and disability insurance). These benefits increased \$9.8 billion after increasing \$2.1 billion, reflecting a 2.8-percent cost-of-living adjustment that went into effect in January. In addition, transfer payments to persons were boosted \$5.1 billion in the first quarter by an expansion of eligibility and higher benefits for the earned income tax credit, which became effective in January.

Subsidies less current surplus of government enterprises decreased \$2.7 billion after increasing \$8.9 billion. The downturn was attributable to both a slowdown in subsidies, which reflected a downturn in agricultural subsidies, and an upturn in the current surplus of government enterprises, which mainly reflected an increase in postal rates in January.

Net interest paid increased \$6.5 billion after increasing \$9.1 billion. The deceleration was mainly attributable to gross interest paid, which increased \$5.8 billion after increasing \$9.8 billion.

Purchases increased \$1.7 billion after decreasing \$12.4 billion. This turnaround was largely attributable to defense spending, which decreased much less in the first quarter than in the fourth. Defense purchases decreased \$1.5 billion after decreasing \$15.2 billion, as purchases of durable goods and structures turned up and as services declined less than in the fourth quarter. Most of the upswing in purchases of durable goods was attributable to military equipment, which rose \$2.6 billion after decreasing \$8.1 billion; purchases of "other" military equipment, aircraft, and ships all increased after decreasing in the fourth quarter. Purchases of defense services decreased \$5.0 billion after decreasing \$6.8 billion; compensation of employees turned up as a result of a pay raise for Federal military and civilian employees, which went into effect in January.

Nondefense purchases increased \$3.2 billion after increasing \$2.8 billion. Step-ups in purchases of services, durable goods, and nondurable goods were largely offset by a downturn in the purchases of structures. Purchases of nondefense services increased \$1.9 billion after an increase of \$0.7 billion. This acceleration was due to an increase in compensation that resulted from the pay raise for Federal employees. Purchases of durable goods increased \$0.6 billion after increasing \$0.1 billion, largely because of a slowdown in timber sales (sales except those by government enterprises for goods and services similar to those provided by the private sector are treated as deductions from government purchases). Purchases of nondurable goods increased \$0.9 billion after increasing \$0.6 billion; reduced sales by the Commodity Credit Corporation accounted for the step-up. Purchases of structures decreased \$0.2 billion after increasing \$1.4 billion.

Grants-in-aid to State and local governments increased \$5.5 billion after increasing \$5.2 billion.

State and local

The State and local government surplus increased \$0.9 billion, to \$29.7 billion, in the first quarter after increasing \$4.9 billion in the fourth. In both quarters, receipts increased more than expenditures.

Receipts increased \$14.0 billion in the first quarter after increasing \$17.4 billion in the fourth. This slowdown was accounted for by indirect business tax and nontax accruals,

personal tax and nontax receipts, and corporate profits tax accruals. Indirect business tax and nontax accruals increased \$4.8 billion after a \$6.7 billion increase, as sales taxes increased \$1.7 billion after an increase of \$4.1 billion. Personal tax and nontax receipts increased \$2.2 billion after an increase of \$3.3 billion; the deceleration was in income tax receipts. Corporate profits tax accruals increased \$0.5 billion after an increase of \$1.3 billion; the

slowdown reflected a deceleration in domestic corporate profits.

Expenditures increased \$13.1 billion in the first quarter after increasing \$12.5 billion in the fourth. Net interest paid was unchanged after a \$0.5 billion decrease. Purchases increased \$9.5 billion after increasing \$9.3 billion. Within purchases, structures decreased \$0.8 billion after a \$2.6 billion increase; all the other components of purchases accelerated. 