the BUSINESS SITUATION

REAL GNP increased 1½ percent at an annual rate in the fourth quarter of 1979.[1] The increase was more than accounted for by final sales; although inventories continued to accumulate, the rate of accumulation was less than in the third quarter (chart 1 and table 1).

Quarterly changes in real GNP were erratic last year—perhaps partly due to errors in measurement, as suggested by changes in the statistical discrepancy. As a result, it has been difficult to evaluate the underlying strength of the economy by examining the quarterly changes. A better view of the course of the economy over the year is obtained by comparing the fourth quarter of 1979 with the fourth quarter of 1978 (chart 2 and table 2). Over this period, real GNP increased less than 1 percent. At 1 percent, the rate of GNP growth was well below the rate of growth of potential real GNP, which has been estimated to be 2½–3 percent for 1979.

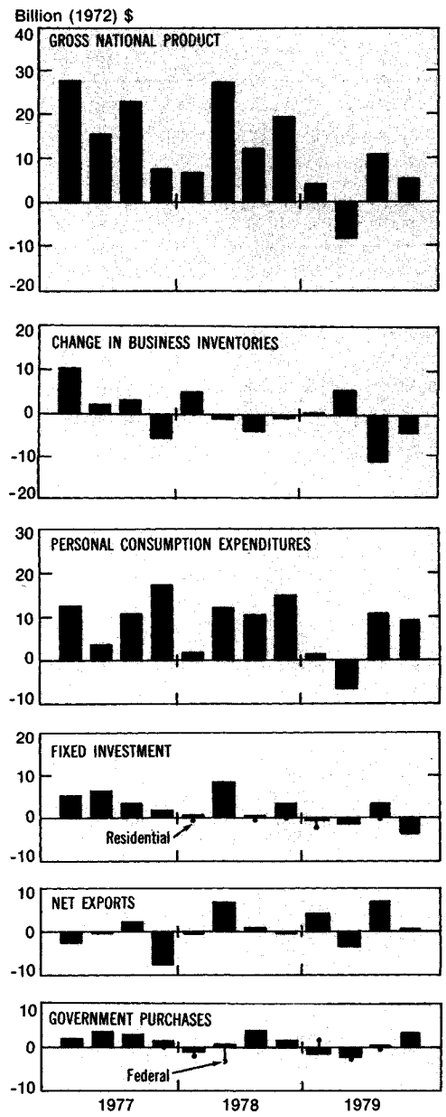
The major factor holding down real GNP growth was motor vehicle production, which declined 20 percent; real GNP exclusive of motor vehicle production increased 2 percent. A variety of factors may have contributed, to one degree or another, to the decline in motor vehicles, but concern over gasoline—its high and rising price and its availability—was certainly a major one.

The increase in production exclusive of motor vehicles was more than accounted for by final sales; inventory accumulation in the fourth quarter of 1979 was less than in the fourth quarter of 1978. Within final sales exclusive of motor vehicles, the fourth-to-fourth-quarter increase in personal consumption expenditures (PCE) was 2½ percent. However, PCE showed surprising strength in the second half of the year, when it increased 5 percent at an annual rate. Business fixed investment showed a strong fourth-to-fourth-quarter increase—7½ percent. The quarterly increases were erratic—largely due to the severe winter weather—but slowed in the second half of the year. A slide in residential investment began in the fourth quarter of 1978 and over the following four quarters amounted to 8½ percent. Net exports were up substantially; the improvement was more than accounted for by exports. Government purchases changed little.

Energy was another major factor last year. The accompanying tabulation shows the energy components of real GNP for which separate estimates can be made. These estimates are not comprehensive, but are useful nevertheless because they show the order of magnitude of these components of GNP and of the changes in them. The dominant component is PCE for energy, which declined 6 percent in real terms from the fourth quarter of 1978 to the fourth quarter of 1979. In the first quarter of 1979, PCE for energy increased substantially, reflecting unusually high expenditures for home heating during the

CHART 1

Real Product: Change From Preceding Quarter



Based on Seasonally Adjusted Annual Rates

U.S. Department of Commerce, Bureau of Economic Analysis 80-1-1

1. The fourth-quarter GNP estimates are based on the following major data sources: For *personal consumption expenditures* (PCE), retail sales, and unit auto and truck sales through December; for *nonresidential fixed investment*, the same information for autos and trucks as for PCE, manufacturers' shipments of machinery and equipment for October and November, October and November construction put in place, and investment plans for the quarter; for *residential investment*, October and November construction put in place, and housing starts for October and November; for *change in business inventories*, October and November book values for manufacturing and trade, and unit auto inventories through December; for *net exports of goods and services*, October and November merchandise trade, and fragmentary information on investment income for the quarter; for *government purchases of goods and services*, Federal unified budget outlays for October and November, State and local construction put in place for October and November, and State and local employment through December; and for *GNP prices*, the Consumer Price Index for October and November, the Producer Price Index through December, and unit value indexes for exports and imports for October and November. Some of these source data are subject to revision.

Table 1.—Gross National Product in Current and Constant Dollars, 1979

[Quarters at seasonally adjusted annual rates]

	Current dollars					Constant (1972) dollars									
	Billions of dollars										Percent change from preceding period				
	Year	I	II	III	IV	Year	I	II	III	IV	Year	I	II	III	IV
Gross national product	2,368.5	2,292.1	2,329.8	2,396.5	2,455.8	1,431.1	1,430.6	1,422.3	1,433.3	1,438.4	2.3	1.1	−2.3	3.1	1.4
Final sales	2,350.2	2,272.9	2,296.4	2,381.9	2,449.5	1,421.0	1,418.4	1,404.1	1,426.2	1,435.2	2.6	1.1	−3.9	6.4	2.5
Change in business inventories	18.4	19.1	33.4	14.5	6.4	10.2	12.3	18.1	7.1	3.2					
Less: Rest-of-the-world product	25.2	24.2	23.7	26.9	26.1	7.9	8.9	8.1	8.0	6.7	−10.4	42.2	−32.5	−1.4	−52.5
Equals: Gross domestic product	2,343.3	2,267.9	2,306.1	2,369.5	2,429.7	1,423.2	1,421.7	1,414.2	1,425.3	1,431.7	2.3	.9	−2.1	3.2	1.8

[Billions of constant (1972) dollars, seasonally adjusted at annual rates]

	1978 IV	1979			
		I	II	III	IV
PCE for energy [1]	57.5	59.8	55.3	54.5	53.9
Petroleum imports	8.6	8.8	8.4	8.4	8.3
Federal Government purchases of fuel	.9	.9	.8	.7	.6
Change in business inventories of energy [2]	.8	−.6	.4	.4	.9

1. Gasoline and oil, fuel oil and coal, electricity, and natural gas.

2. Petroleum and coal products manufacturing, petroleum and petroleum products wholesalers, and electric and gas utilities.

severe winter weather. In the second quarter, these expenditures returned to more normal levels, and, in addition, expenditures for gasoline declined due to shortages. Over the quarters since the fourth quarter of 1978, the price of energy has been an important factor in the reduction of energy consumption.

Employment as measured by the household survey increased 430,000 in the fourth quarter (table 3). The increase in the labor force was somewhat larger, and unemployment and the unemployment rate increased a little, the latter by 0.1 percentage points to 5.9 percent. According to the establishment survey, nonfarm payroll employment increased 410,000. Employment in services and trade accounted for most of the increase. Employment in durables manufacturing was down; a large part of the decline was in transportation equipment. The average workweek was up 0.1 to 35.7 hours; the manufacturing workweek was unchanged.

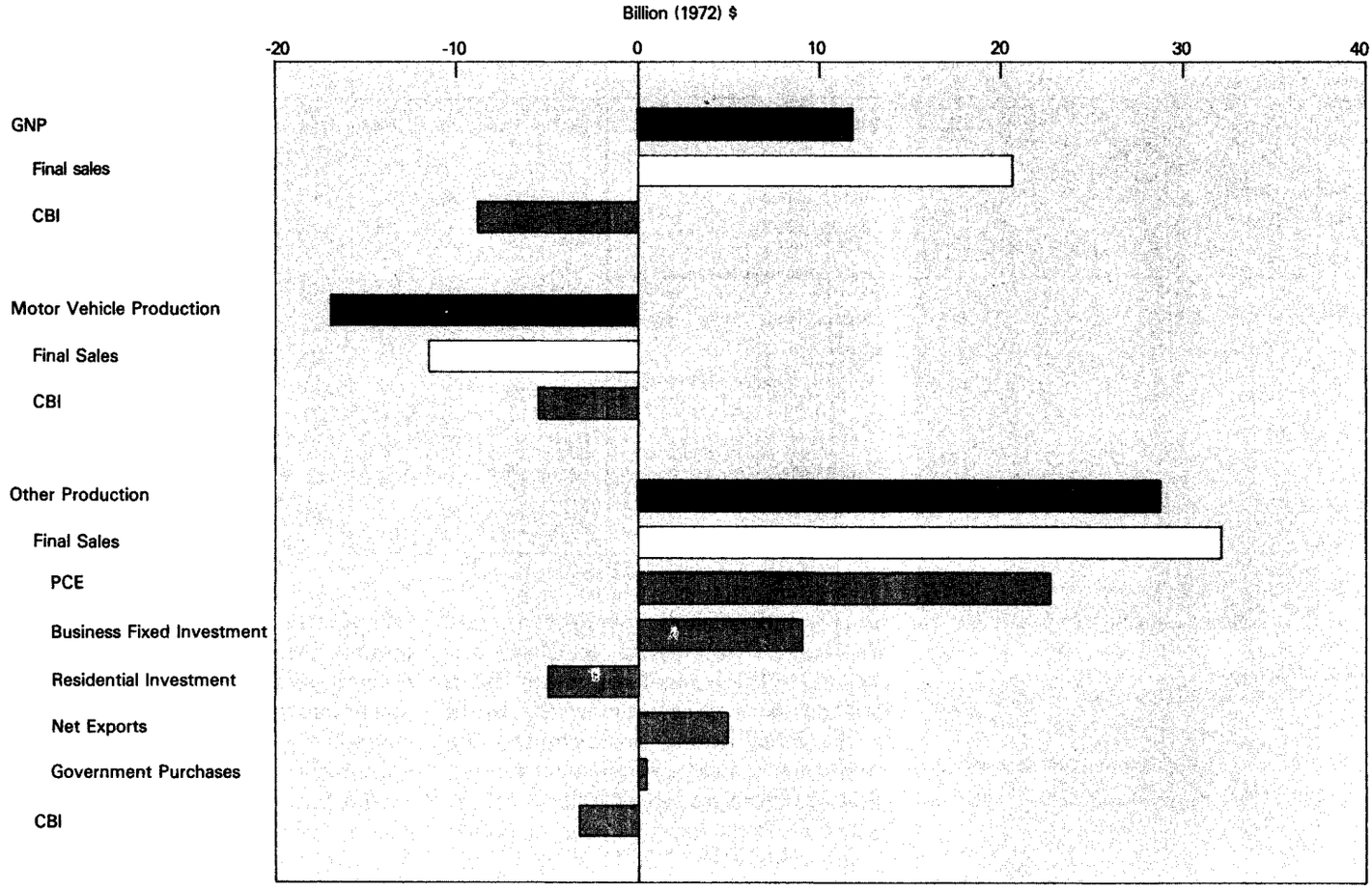
From the fourth quarter of 1978 to the fourth quarter of 1979, employment increased 2.0 million according to the household survey—a substantial increase although much less than the 3.5 million increase that had occurred over the preceding four quarters. According to the establishment survey, the 1979 employment increase was 2.4 million, following a 3.9 million increase. During 1979, employment in manufacturing

Table 2.—Key Factors in Real GNP

	Billions of constant (1972) dollars										Percent change from preceding period (quarters at annual rates)				
	Seasonally adjusted at annual rates					Change									
	1978 IV	1979				1978: IV–1979: IV	1978: IV–1979: I	1979: I–1979: II	1979: II–1979: III	1979: III–1979: IV	1978: IV–1979: IV	1978: IV–1979: I	1979: I–1979: II	1979: II–1979: III	1979: III–1979: IV
		I	II	III	IV										
GNP	1,426.6	1,430.6	1,422.3	1,433.3	1,438.4	11.8	4.0	−8.3	11.0	5.1	0.8	1.1	−2.3	3.1	1.4
Less: Motor vehicles	84.0	87.1	76.7	68.3	67.1	−16.9	3.1	−10.4	−8.4	−1.2	−20.1	15.6	−40.0	−37.2	−6.6
GNP less motor vehicles	1,342.5	1,343.5	1,345.6	1,365.1	1,371.3	28.8	1.0	2.1	19.5	6.2	2.1	.3	.6	5.9	1.8
Final sales	1,414.6	1,418.4	1,404.1	1,426.2	1,435.2	20.6	3.8	−14.3	22.1	9.0	1.5	1.1	−3.9	6.4	2.5
Less: Motor vehicles	80.8	83.8	73.2	73.7	69.3	−11.5	3.0	−10.6	.5	−4.4	−14.2	15.7	−41.8	2.8	−21.6
Final sales less motor vehicles	1,333.8	1,334.6	1,331.0	1,352.5	1,365.8	32.0	.8	−3.6	21.5	13.3	2.4	.2	−1.1	6.6	4.0
PCE	920.3	921.8	915.0	925.9	935.2	14.9	1.5	−6.8	10.9	9.3	1.6	.6	−2.9	4.9	4.1
Less: Motor vehicles	54.3	54.8	48.3	48.1	46.6	−7.7	.5	−6.5	−.2	−1.5	−14.1	3.8	−39.7	−1.8	−11.6
PCE less motor vehicles	866.1	867.0	866.7	877.9	888.6	22.6	.9	−.3	11.2	10.7	2.6	.4	−.1	5.2	5.0
Business fixed investment	145.5	147.2	146.9	150.7	148.0	2.5	1.7	−.3	3.8	−2.7	1.7	4.8	−.8	10.7	−6.9
Less: Motor vehicles	28.2	28.4	24.4	25.7	21.7	−6.5	.2	−4.0	1.3	−4.0	−22.9	3.3	−46.1	23.5	−48.5
Business fixed investment less motor vehicles	117.3	118.8	122.5	125.0	126.2	8.9	1.5	3.7	2.4	1.2	7.7	5.2	13.3	8.3	4.1
Residential investment	60.0	57.7	56.7	56.5	55.0	−5.0	−2.3	−1.0	−.2	−1.5	−8.3	−14.3	−7.2	−1.5	−9.8
Net exports	12.9	17.0	13.2	20.1	20.7	7.8	4.1	−3.8	6.9	.6					
Less: Motor vehicles	−3.8	−1.5	−1.4	−2.0	−.9	2.9	2.3	.1	−.6	1.1					
Net exports less motor vehicles	16.6	18.5	14.6	22.1	21.7	5.1	1.9	−3.9	7.5	−.4					
Exports	113.8	117.0	116.0	122.2	123.9	10.1	3.2	−1.0	6.2	1.7	8.9	11.5	−3.1	23.0	5.8
Less: Motor vehicles	8.1	8.6	8.6	8.1	9.1	1.7	.5	0	−.5	1.0	12.0	28.4	−1.3	−18.4	52.5
Exports less motor vehicles	105.7	108.4	107.5	114.1	114.9	9.2	2.7	−.9	6.6	.8	8.7	10.3	−3.2	26.9	2.9
Imports	101.0	100.0	102.9	102.1	103.2	2.2	−1.0	2.9	−.8	1.1	2.3	−3.8	12.1	−2.9	4.5
Less: Motor vehicles	11.9	10.1	10.0	10.0	10.0	−1.9	−1.8	−.1	.2	−.2	−15.5	−47.2	−3.7	6.0	−5.5
Imports less motor vehicles	89.1	89.9	92.8	91.9	93.2	4.1	.8	2.9	−.9	1.3	4.6	3.5	13.9	−3.9	5.7
Government purchases	276.0	274.7	272.4	273.1	276.3	.3	−1.3	−2.3	.7	3.2	.1	−1.8	−3.3	1.0	4.7
Less: Motor vehicles	2.1	2.1	2.0	2.0	1.9	−.2	0	−.1	0	−.1	−6.6	−.6	−17.2	−3.6	−4.2
Government purchases less motor vehicles	273.9	272.6	270.4	271.1	274.3	.4	−1.3	−2.2	.7	3.2	.2	−1.8	−3.2	1.0	4.8
Change in business inventories	12.0	12.3	18.1	7.1	3.2	−8.8	.3	5.8	−11.0	−3.9					
Less: Motor vehicles	3.3	3.4	3.5	−5.7	−2.2	−5.5	.1	.1	−9.2	3.5					
Change in business inventories less motor vehicles	8.7	8.9	14.6	12.8	5.4	−3.3	.2	5.7	−1.8	−7.4					

CHART 2

Real Product: Change, Fourth Quarter 1978 to Fourth Quarter 1979



NOTE—PCE is personal consumption expenditures, and CBI is change in business inventories.

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

80-1-2

and government increased very little—0.1 and 0.2 million, respectively. Employment in construction was up sharply—0.3 million—despite a decline in construction activity; employment and activity data in this industry are often difficult to reconcile. Employment in the distributive and service industries increased 0.7 and 1.0 million, respectively.

Prices.—GNP prices as measured by the fixed-weighted price index increased 10 percent at an annual rate in the fourth quarter—about the same as in the earlier quarters of the year (table 4). About 0.8 percentage points of the fourth-quarter increase was due to the pay raise for Federal employees, which is reflected in the index because it represents an increase in the prices of the services of employees purchased by the Federal Government. Excluding the effect of the pay raise, prices increased a little less than in the third quarter. Prices paid by consumers and by

Table 3.—Selected Labor Market Indicators

[Seasonally adjusted]

	1978	1979				Change from preceding quarter			
	IV	I	II	III	IV	1979:I	1979:II	1979:III	1979:IV
Household Survey									
Civilian labor force (millions)	101.5	102.3	102.4	103.2	103.7	0.8	0	0.9	0.5
Employment	95.7	96.4	96.5	97.2	97.7	.8	0	.8	.4
Unemployment	5.9	5.9	5.9	6.0	6.1	0	0	.1	.1
Unemployment rate (percent):									
Total	5.8	5.8	5.8	5.8	5.9	0	0	0	.1
Adult men	4.0	4.0	4.0	4.2	4.2	0	0	.2	0
Adult women	5.7	5.7	5.7	5.6	5.7	0	0	−.1	.1
Teenagers	16.2	15.9	16.1	16.2	16.1	−.3	.2	.1	−.1
Employment-population ratio	59.0	59.3	59.1	59.3	59.3	.3	−.2	.2	0
Civilian labor force participation rate (percent)	63.5	63.7	63.5	63.8	63.8	.2	−.2	.3	0
Establishment Survey									
Employment, nonfarm payroll (millions)	87.8	88.7	89.4	89.8	90.2	.9	.6	.4	.4
Goods producing	26.1	26.5	26.6	26.6	26.6	.4	.1	0	0
Manufacturing	20.8	21.0	21.1	21.0	20.9	.3	0	−.1	−.1
Other	5.3	5.5	5.6	5.6	5.7	.1	.1	.1	.1
Distributive [1]	24.8	25.1	25.2	25.3	25.5	.3	.1	.1	.2
Services [2]	21.4	21.6	21.9	22.1	22.4	.3	.3	.2	.2
Government	15.5	15.5	15.6	15.7	15.7	0	.1	.1	0
Average weekly hours, private nonfarm:									
Total	35.8	35.8	35.5	35.6	35.7	0	−.3	.1	.1
Manufacturing	40.6	40.6	39.8	40.2	40.2	0	−.8	.4	0

1. Transportation and public utilities, and wholesale and retail trade.
2. Services, and finance, insurance, and real estate.

Source: Bureau of Labor Statistics.

CHART 3

Nonfinancial Corporations: Product, Productivity, Prices, Costs, and Profits

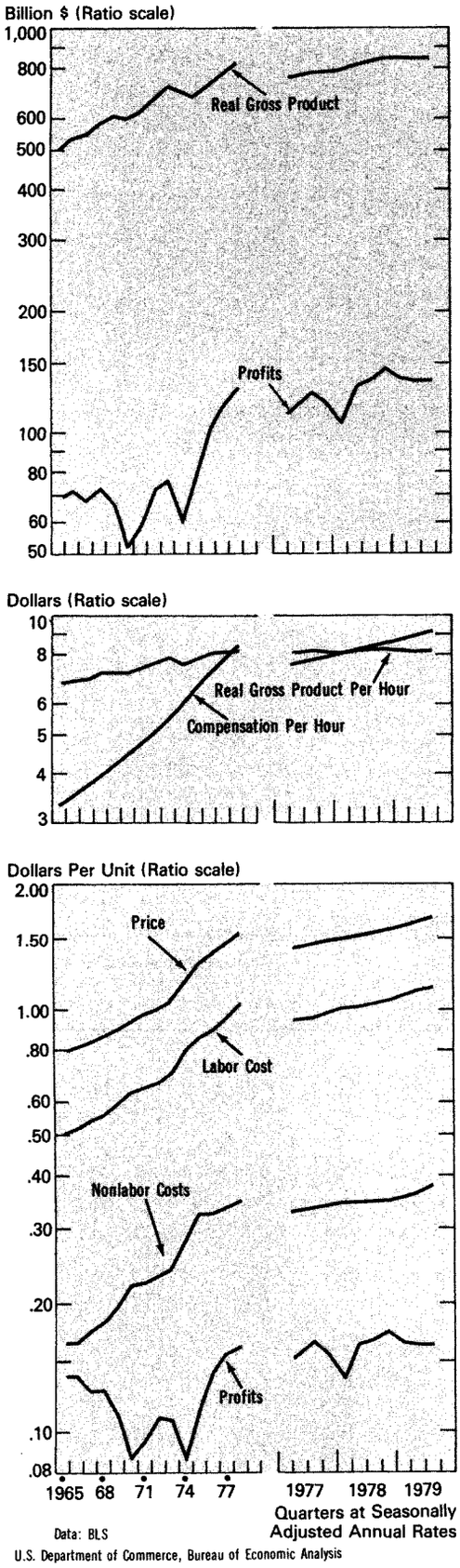


Table 4.—Fixed-Weighted Price Indexes, 1979

[Quarters are seasonally adjusted]

	Index numbers (1972=100)					Percent change from preceding period (quarters at seasonally adjusted annual rate)				
	Year	I	II	III	IV	Year	I	II	III	IV
Gross national product	**168.7**	**162.8**	**166.6**	**170.6**	**174.7**	**9.4**	**9.9**	**9.5**	**10.0**	**9.9**
Less: Change in business inventories										
Equals: Final sales	**168.6**	**162.7**	**166.4**	**170.4**	**174.5**	**9.4**	**9.9**	**9.5**	**10.0**	**9.9**
Less: Exports	216.9	205.3	211.4	220.5	227.8	12.8	12.9	12.4	18.5	13.9
Plus: Imports	248.6	229.6	240.9	256.8	272.8	15.5	14.1	21.2	29.1	27.3
Equals: Final sales less exports plus imports	**170.8**	**164.4**	**168.5**	**172.9**	**177.6**	**9.7**	**10.1**	**10.3**	**11.0**	**11.2**
Personal consumption expenditures	166.2	160.0	163.9	168.4	172.7	9.6	11.0	10.3	11.3	10.6
Food	179.2	175.8	178.5	179.5	183.1	10.0	17.6	6.3	2.3	8.4
Energy [1]	243.8	207.9	231.4	262.3	278.4	26.6	19.5	53.5	65.2	27.0
Other personal consumption expenditures	155.2	151.0	153.5	156.4	159.8	7.3	7.9	6.7	7.8	9.0
Other	178.6	171.9	176.2	180.6	185.8	9.8	8.7	10.4	10.5	12.0
Nonresidential structures	189.2	181.6	186.4	191.7	196.6	10.8	9.1	10.9	11.8	10.7
Producers' durable equipment	167.0	161.5	165.6	169.1	171.8	7.8	7.6	10.5	8.9	6.6
Residential	201.9	192.7	199.3	205.7	210.5	12.4	7.0	14.3	13.5	9.7
Government purchases	174.5	168.2	172.0	176.0	182.1	9.4	9.4	9.2	9.8	14.5
Federal	170.4	164.0	167.2	171.1	180.1	9.4	8.2	7.9	9.8	22.6
State and local	177.3	171.1	175.2	179.4	183.5	9.4	10.1	10.0	9.9	9.5

1. Gasoline and oil, fuel oil and coal, electricity, and gas.

private investors in equipment and structures (residential and nonresidential) both increased somewhat less in the fourth quarter than in the third.

For PCE prices, a substantial deceleration in prices of PCE for energy more than offset accelerations in the prices of PCE for food and for other goods and services. PCE energy prices increased at an annual rate of 27 percent, compared with 65 percent in the third quarter. Each of the PCE energy categories—gasoline and oil, fuel oil and coal, electricity, and natural gas—decelerated, but the major factor was the price of gasoline, which increased 34 percent, compared with about 75 percent in the second and third quarters. Two major factors contributed to the deceleration in gasoline. First, most of the July 1 OPEC price increase had been passed through in the third quarter. Second, upward pressure on prices had been reduced by the establishment on August 1 by the Department of Energy of a maximum allowable gross margin on retail gasoline sales. The maximum margin replaced the "banking" provision, which had allowed retailers to increase prices to compensate for sales made when competitive conditions prevented them from passing through increased costs. The effect of these factors was partly offset by that of several others. First, most individual OPEC and non-OPEC countries increased prices in the fourth quarter. Second, several kinds of actions put upward pressure on oil prices: Prepayments for crude oil bought under contract were introduced and credit terms were tightened by oil exporters; producers reduced exports; and supplies were diverted to the spot market. Some but not all of the effects of these two factors were reflected in fourth-quarter gasoline prices. Finally, gasoline supplies remained tight, as evidenced by a contraseasonal fourth-quarter decline in the average level of primary stocks—that is, at refineries, in pipelines, and at major bulk terminals. A U.S. embargo on Iranian oil was announced November 12, but it had little effect on fourth-quarter gasoline prices; preembargo oil was processed until late in the quarter.

Table 5.—Real Gross Product, Hours, and Compensation in the Business Economy Other Than Farm and Housing, 1979

[Percent change from preceding period, quarters at annual rates based on seasonally adjusted estimates]

	Year	I	II	III	IV
Real gross product	2.3	1.1	−3.8	1.1	1.6
Hours	3.5	4.6	.6	2.2	2.3
Compensation	12.8	15.4	8.5	11.3	11.2
Real gross product per hour	−1.2	−3.4	−4.4	−1.1	−.7
Compensation per hour	8.9	10.3	7.9	8.9	8.7
Unit labor cost	10.3	14.2	12.8	10.2	9.4

Table 6.—Personal Income and Its Disposition

	1978 IV	1979 I	1979 II	1979 III	1979 IV	Change 1978: IV–1979: IV	Change 1978: IV–1979: I	Change 1979: I–1979: II	Change 1979: II–1979: III	Change 1979: III–1979: IV
	Seasonally adjusted at annual rates					Based on seasonally adjusted annual rates				
	Billions of dollars									
Personal income	**1,803.1**	**1,852.6**	**1,892.5**	**1,946.6**	**2,000.5**	**197.4**	**49.5**	**39.9**	**54.1**	**54.0**
Less: Personal tax and nontax payments	278.2	280.4	290.7	306.6	321.7	43.5	2.2	10.3	15.9	15.1
Disposable personal income	1,524.8	1,572.2	1,601.7	1,640.0	1,678.8	154.0	47.4	29.5	38.3	38.8
Less: Personal outlays	1,453.4	1,493.0	1,515.8	1,569.7	1,622.9	169.5	39.6	22.8	53.9	53.2
Personal saving	71.5	79.2	85.9	70.3	55.9	−15.6	7.7	6.7	−15.6	−14.4
	Billions of 1972 dollars					Percent (seasonally adjusted at annual rates)				
Disposable personal income	991.5	996.6	993.0	993.4	993.4	.2	2.1	−1.4	.2	0
Personal outlays [1]	945.0	946.1	939.7	950.8	960.3	1.6	.5	−2.7	4.8	4.1
	Percent (based on seasonally adjusted annual rates)									
Personal saving rate	4.7	5.0	5.4	4.3	3.3	−1.4	.3	.4	−1.1	−1.0

1. Current-dollar personal outlays divided by the implicit price deflator for personal consumption expenditures.

Prices of PCE for food increased at an annual rate of 8½ percent in the fourth quarter, up sharply from 2½ percent in the third—the smallest increase in over 2 years. The acceleration reflected food consumed at home, which increased 8 percent after little change in the third quarter. The price of restaurant meals—which has a weight in the PCE food price index of only one-third that of food consumed at home—decelerated slightly, from 8½ percent in the third quarter to 7½ percent in the fourth. For food consumed at home, third-quarter declines in the prices of beef, pork, and poultry had largely offset increases in most other prices, including large increases in fresh fruits and vegetables. Pork and poultry prices had reflected record or near-record production, and beef prices had reflected consumer substitution of pork and poultry for beef. In the fourth quarter, there were no substantial offsets for the increases in beef, fresh vegetables, dairy products, and bakery products. Increased marketing costs—such as for labor, packaging, transportation, and energy—continued to be a major factor in food price increases.

Cost-price relationships and profits.—Further information on factors underlying price developments can be obtained from table 5, which covers the business economy other than farm and housing.[2] Probably most interesting is the continued poor performance of productivity. According to the measure shown—real product per hour—productivity declined 1 percent in 1979, following several years of poor performance. A substantial slowdown in productivity growth occurred after 1973; in 1965–73, productivity had increased about 2 percent yearly. Hourly compensation increased about 9 percent in 1979. In combination with the decline in productivity, the increase in hourly compensation resulted in a very large increase—10½ percent—in unit labor costs, which, in turn, continued to exert upward pressure on prices.

It is difficult to explain the difference between the 9-percent increase in hourly compensation and the administration's pay standard for 1979, which limited the increase in hourly wages and private fringe benefits to 7 percent; differences in the pay measure used and in the groups and time periods covered as well

2. The measure of real gross product in this table is, in essence, derived as the sum of incomes, i.e., it excludes the residual, which is the constant-dollar counterpart of the statistical discrepancy. As a result, the quarterly changes in real gross product shown in this table differ from those measures of real gross product that are derived as the sum of products, such as GNP. In 1979, the difference between the two kinds of measures was particularly large in the third quarter.

Table 7.—Personal Consumption Expenditures in Current and Constant Dollars, 1979

[Quarters at seasonally adjusted annual rates]

	Current dollars					Constant (1972) dollars									
	Billions of dollars										Percent change from preceding period				
	Year	I	II	III	IV	Year	I	II	III	IV	Year	I	II	III	IV
Personal consumption expenditures	**1,509.8**	**1,454.2**	**1,475.9**	**1,528.6**	**1,580.4**	**924.5**	**921.8**	**915.0**	**925.9**	**935.2**	**2.6**	**0.6**	**−2.9**	**4.9**	**4.1**
Durables	**212.8**	**213.8**	**208.7**	**213.4**	**215.5**	**147.0**	**150.2**	**144.8**	**146.9**	**146.0**	**.2**	**−5.0**	**−13.6**	**5.8**	**−2.3**
Motor vehicles and parts	91.3	97.7	89.1	89.8	88.6	58.5	64.0	57.1	57.1	55.9	−6.7	1.6	−36.5	.2	−8.4
Other durables	121.5	116.1	119.6	123.6	126.9	88.5	86.2	87.7	89.7	90.1	5.3	−9.6	7.1	9.6	1.7
Nondurables	**597.0**	**571.1**	**581.2**	**604.7**	**631.0**	**349.3**	**348.1**	**344.1**	**349.2**	**356.0**	**1.8**	**−4.2**	**−4.5**	**6.1**	**8.0**
Food	301.9	292.9	296.7	303.1	315.1	168.9	167.2	166.7	169.3	172.4	1.1	−3.3	−1.2	6.4	7.4
Energy [1]	83.3	73.8	77.5	88.7	93.4	31.9	34.6	31.5	31.0	30.5	−4.8	3.8	−31.6	−6.0	−6.5
Other nondurables	211.7	204.4	207.1	212.9	222.5	148.6	146.2	145.9	148.9	153.2	4.1	−7.1	−.8	8.3	12.0
Services	**700.0**	**669.3**	**686.0**	**710.6**	**733.9**	**428.2**	**423.5**	**426.1**	**429.9**	**433.2**	**4.2**	**7.1**	**2.5**	**3.6**	**3.2**
Energy [2]	48.8	47.7	47.3	49.6	50.5	24.0	25.2	23.8	23.5	23.4	3.5	37.6	−19.3	−5.3	−1.9
Other services	651.2	621.6	638.7	660.9	683.4	404.2	398.4	402.3	406.4	409.8	4.3	5.4	4.0	4.1	3.5

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

Table 8.—Fixed Investment in Current and Constant Dollars, 1979

[Quarters at seasonally adjusted annual rates]

	Current dollars					Constant (1972) dollars									
	Billions of dollars										Percent change from preceding period				
	Year	I	II	III	IV	Year	I	II	III	IV	Year	I	II	III	IV
Fixed investment	**367.8**	**354.6**	**361.9**	**377.8**	**376.9**	**204.6**	**204.9**	**203.5**	**207.1**	**203.0**	**2.2**	**—1.0**	**—2.7**	**7.2**	**—7.7**
Nonresidential	253.9	243.4	249.1	261.8	261.3	148.2	147.2	146.9	150.7	148.0	5.8	4.8	—.8	10.7	—6.9
Structures	92.3	84.9	90.5	95.0	98.7	47.9	45.8	47.9	48.7	49.3	9.1	—5.6	19.0	7.1	4.7
Producers' durable equipment	161.6	158.5	158.6	166.7	162.6	100.3	101.3	99.0	101.9	98.7	4.2	10.1	—8.9	12.5	—12.1
Autos, trucks, and buses	39.2	42.7	38.1	41.1	35.0	25.1	28.4	24.4	25.7	21.7	—9.0	3.3	—46.1	23.5	—48.5
Other	122.4	115.8	120.5	125.7	127.7	75.2	72.9	74.6	76.3	77.0	9.5	12.8	9.8	9.0	3.7
Residential	113.9	111.2	112.9	116.0	115.6	56.5	57.7	56.7	56.5	55.0	—6.1	—14.3	—7.2	—1.5	—9.8

as some lack of compliance were probably involved. However, it is likely that the proposed pay standard for 1980, which establishes a 7½–9½-percent range, is compatible with some step-up in the increase in hourly compensation.

Similar measures of productivity, hourly compensation, and unit costs for nonfinancial corporations make it possible to throw some light on recent developments in corporate profits (with inventory valuation and capital consumption adjustments). Chart 3 shows that unit profits flattened in 1979, following increases from their cyclical low in 1974. However, with a further increase in real product, total profits were higher in 1979 than in 1978, although the 1979 increase was smaller.

Personal income and its disposition

Personal income increased $54 billion in the fourth quarter, the same as in the third (see the accompanying tabulation).[3] Wage and salary disbursements increased substantially more in the fourth quarter than in the third. In manufacturing, the fourth-quarter increase was mainly due to hourly earnings; aggregate hours changed little. In other private industries, both aggregate hours and hourly earnings increased. In government, $3½ billion of the fourth-quarter increase was due to the pay raise for Federal employees.

[Billions of dollars; based on seasonally adjusted annual rates]

	Change from preceding quarter	
	1979:III	1979:IV
Personal income	54.1	54.0
Wage and salary disbursements	25.7	32.0
Manufacturing	3.4	6.7
Other commodity producing	3.2	2.9
Distributive	8.3	8.2
Services	8.5	8.7
Government and government enterprises	2.4	5.6
Proprietors' income	1.0	1.2
Farm	−2.9	−1.4
Nonfarm	3.9	2.6
Transfer payments	17.2	5.9
Other income	11.5	16.6
Less: Contributions for social insurance	1.4	1.8

Farm proprietors' income declined in the fourth quarter, as it had in the second and in the third. In the fourth quarter, cash receipts from marketings were down, and expenses increased due to the higher costs of a variety of items used in production. The decline in marketings was mainly due to crops, for which prices declined; livestock marketings were unchanged, as a decline in volume was about offset by an increase in prices. In transfer payments, an $11½ billion deceleration reflected the third-quarter cost-of-living increases in benefits paid under social security and several other Federal programs. Personal interest income, which is included in "other income" in the tabulation, increased much more than

3. Quarterly estimates of the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

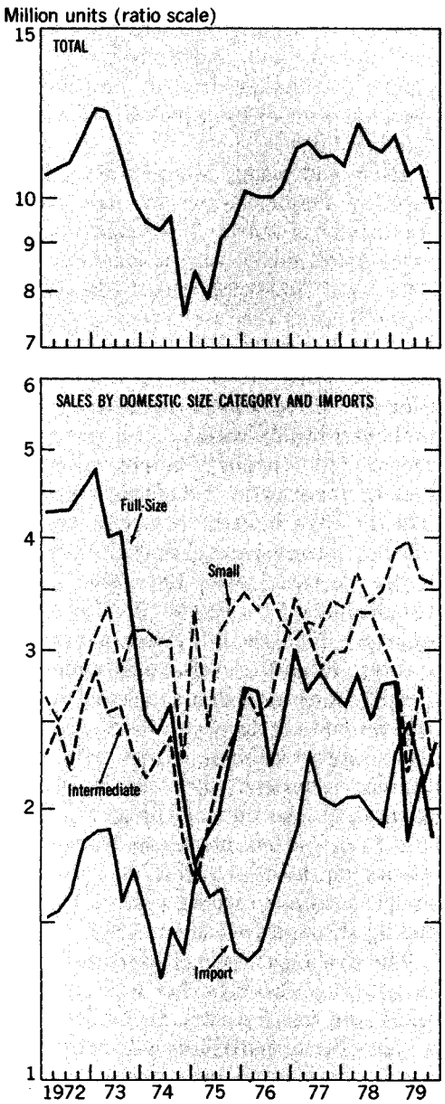
Table 9.—Net Exports of Goods and Services in Current and Constant Dollars, 1979

[Quarters at seasonally adjusted annual rates]

	Current dollars					Constant (1972) dollars									
	Billions of dollars										Percent change from preceding period				
	Year	I	II	III	IV	Year	I	II	III	IV	Year	I	II	III	IV
Net exports of goods and services	**−3.5**	**4.0**	**−8.1**	**−2.3**	**−7.7**	**17.7**	**17.0**	**13.2**	**20.1**	**20.7**					
Exports	257.4	238.5	243.7	267.3	280.0	119.8	117.0	116.0	122.2	123.9	10.0	11.5	−3.1	23.0	5.8
Merchandise	177.0	163.0	166.8	184.6	193.4	84.0	80.8	80.5	86.5	88.2	12.1	10.1	−1.7	33.2	8.2
Agricultural	35.3	30.6	30.9	38.4	41.2	15.8	14.4	14.3	16.7	17.8	3.5	−24.8	−2.8	88.2	29.0
Nonagricultural	141.7	132.4	135.9	146.1	152.2	68.2	66.4	66.2	69.7	70.3	14.3	20.2	−1.4	23.1	3.6
Other	80.4	75.5	76.9	82.7	86.6	35.8	36.2	35.6	35.7	35.8	5.4	14.8	−6.3	2.0	.3
Imports	260.9	234.4	251.9	269.5	287.7	102.0	100.0	102.9	102.1	103.2	4.2	−3.8	12.1	−2.9	4.5
Merchandise	208.0	186.0	200.4	215.9	229.7	76.2	75.1	77.2	76.3	76.3	1.7	−7.6	11.8	−4.8	0
Petroleum	59.5	46.6	51.6	66.5	73.2	8.5	8.8	8.4	8.4	8.3	0	9.8	−17.4	.6	−6.1
Nonpetroleum	148.6	139.5	148.8	149.5	156.5	67.7	66.3	68.8	67.8	68.0	1.9	−9.6	16.2	−5.4	.7
Other	52.9	48.4	51.4	53.6	58.0	25.8	24.9	25.7	25.8	27.0	12.4	8.7	12.9	2.7	19.0

CHART 4

Retail Sales of New Passenger Cars



Seasonally Adjusted at Annual Rates

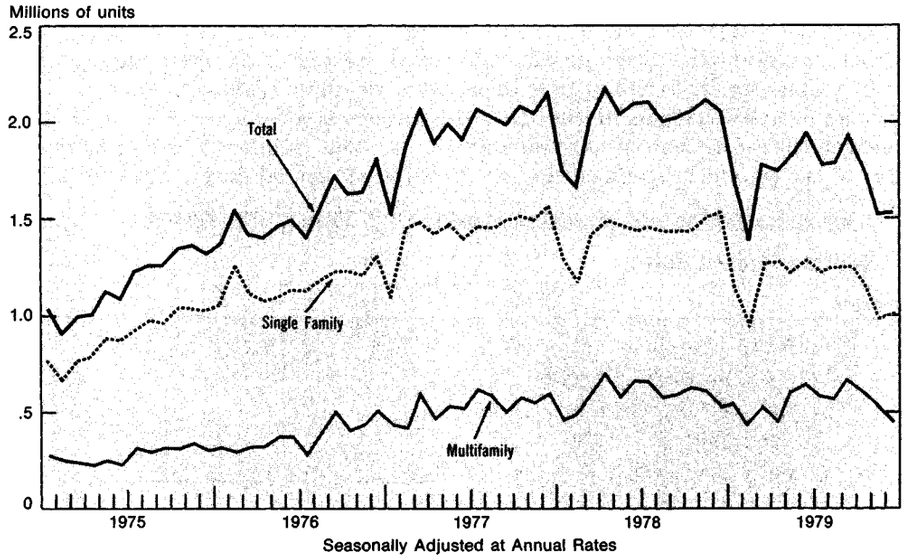
Note.—The components may not add to the total because each category was separately adjusted for seasonal variation.

Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports; seasonal adjustment by BEA.

U.S. Department of Commerce, Bureau of Economic Analysis 80-1-4

CHART 5

Housing Starts



Seasonally Adjusted at Annual Rates

Data: Census

U.S. Department of Commerce, Bureau of Economic Analysis 80-1-5

in the third quarter. The step-up was largely due to higher interest rates on U.S. assets held by persons.

As was the case for personal income, the fourth-quarter change was about the same as the third-quarter change for personal taxes (in the fourth quarter, $15 billion), and thus for disposable personal income ($39 billion), and for personal outlays ($53 billion). Because the changes in outlays exceeded those in disposable income, personal saving declined (about $14 billion). The personal saving rate dropped from its 5.4 percent 1979 high in the second quarter to 4.3 percent in the third and to an extraordinary low of 3.3 percent in the fourth (table 6). Over the 4 quarters since the fourth quarter of 1978, the saving rate fell 1.4 percentage points. In real terms, this fall was mirrored in an increase in spending of 1½ percent and no change in disposable income.

Real PCE.—The increase in real PCE was substantial in the fourth quarter as well as in the third (table 7). The bulk of a deceleration from an annual rate of 5 percent in the third quarter to 4 percent in the fourth was due to motor vehicles. Among the nonvehicle components shown in the table, only PCE for energy declined. As in the third quarter, all other components increased; combined, they increased strongly in both quarters.

PCE for motor vehicles declined 8½ percent at an annual rate after no change in the third quarter. Most of the decline was due to new car purchases. In terms of unit sales of passenger cars, which are sales not only to consumers but also to business and other final users, the decline was from 10.8 million (seasonally adjusted annual rate) in the third quarter to 9.9 million in the fourth. All of the decline was in sales of domestic cars, which fell from 8.6 million to 7.5 million. Sales of imports increased 0.2 to 2.4 million, and reached a record 24 percent of total unit sales.

The pattern of sales of domestic cars differed somewhat among size categories (chart 4). Intermediate car sales dropped from 2.8 million in the third quarter to 2.2 million in the fourth. Full-size car sales were also off sharply, from 2.2 million to 1.9 million. In the third quarter, sales of these large cars had been boosted by extensive dealer incentive and consumer rebate programs. These programs were discontinued in October and reinstated in November, but sales did not pick up, indicating that some third-quarter sales had been "borrowed" from the fourth. Small car sales, in contrast, were down only slightly in the fourth quarter, from 3.6 million to 3.5 million. Together, domestic small cars and imports accounted for 59 percent of total unit sales, up from 54 percent in the third quarter.

Investment

Real nonresidential fixed investment declined 7 percent at an annual rate, after increasing 10½ percent in the third

quarter (table 8). The swing was largely in motor vehicles. In the third quarter, sales of motor vehicles had increased, due to autos. In the fourth quarter, sales of both autos and trucks declined. Other nonresidential fixed investment increased less in the fourth quarter than in the third. A weakening in this investment in the second half of the year was due to the equipment component.

Real residential investment declined 10 percent at an annual rate in the fourth quarter. Declines had been registered in each quarter of the year. However, earlier declines had been smaller except in the first quarter, when the weather adversely affected construction activity.

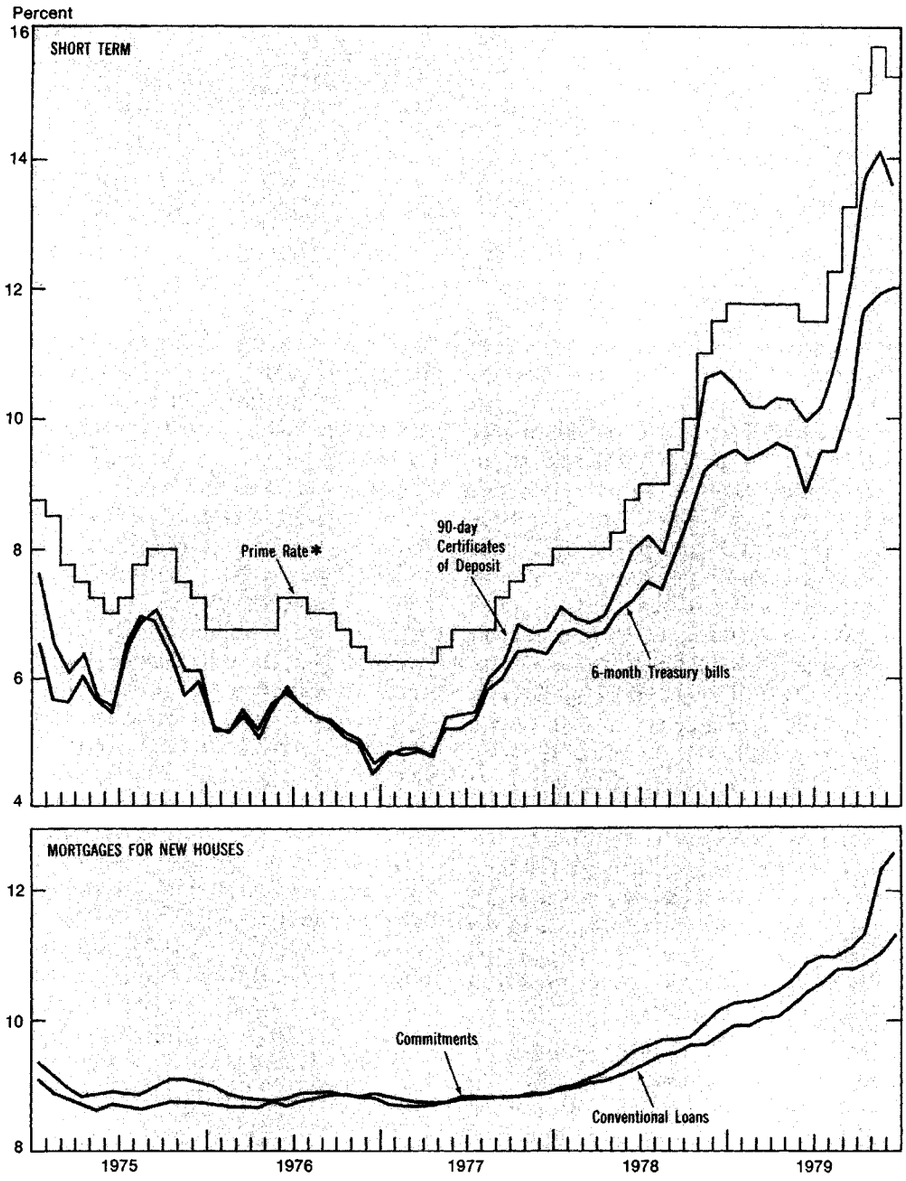
At 1.60 million units (seasonally adjusted annual rate), housing starts were 12½ percent below the third quarter and about 20 percent below the 2 million plateau in 1977 and 1978 (chart 5). Both single-family and multifamily starts contributed to the decline in October and November. In December, a further drop in multifamily starts was offset by a pick-up in single-family starts.

High and rising interest rates have been a major factor in the recent weakening of starts. Mortgage interest rates had moved up throughout the year, and following the Federal Reserve Board's credit-tightening actions on October 6, the full spectrum of interest rates increased sharply.[4] The prime rate, to which the interest rate on construction loans is tied, reached a record 15.75 percent before falling to 15.25 percent at the end of year (chart 6). The average interest rate on commitments for conventional new home mortgages increased over 100 basis points from about 11 percent in the third quarter. This record increase brought interest rates to levels approaching or exceeding usury ceilings in some States. At the end of the year, 14 States had fixed usury ceilings at or below 12 percent. However, Federal legislation enacted at the end of the year allows banks and other mortgage loan originators to make residential mortgage loans at rates exceeding a State's usury ceiling through March 31, 1980.

The slowing of savings flows into thrift institutions—savings and loan associations and mutual savings banks—was another factor contributing to the weakness in residential investment. Inflows of net new money, that is, new deposits received minus withdrawals and interest, slowed over the year, and in October and November there were small net outflows. As net inflows slackened, thrifts relied increasingly on alternative sources of funds to mitigate the impact of the slackening inflows on the extension of mortgage credit. The alternative sources included advances from the Federal Home Loan Bank Board, sales

CHART 6

Selected Interest Rates



*At the end of the month.
U.S. Department of Commerce, Bureau of Economic Analysis

Data: FRB, FHLBB
80-1-6

[4] On that date, the Federal Reserve Board announced three actions designed to curb inflation: (1) an increase in the discount rate, from 11 percent to a record 12 percent; (2) establishment of marginal reserve requirements on increases in "managed liabilities"; and (3) a change to place greater emphasis in day-to-day operations on the supply of bank reserves and less on the Federal funds rate.

of mortgages in the secondary market, and increases in other borrowings (which include issues of mortgage-backed bonds). Nevertheless, mortgage commitments have receded since their peak in the fourth quarter of 1978; an extraordinarily large decline—$3 billion—occurred in November.

Real inventory investment was less in the fourth quarter than in the third—$3 billion, compared with $7 billion. Inventories other than motor vehicles more than accounted for this decline; motor vehicle inventories continued to be reduced in the fourth quarter, but at a lower rate than in the third. Inventories of domestic cars, in terms of units, fell to 1,591,000 (seasonally adjusted) from 1,693,000 at the end of the third quarter. Carryover of 1979 models continued to be a larger than normal portion of car inventories. Despite the reduction in inventories, the inventory-sales ratio for domestic cars increased from 2.35 in the third quarter to 2.54—well above the 2.0 considered normal.

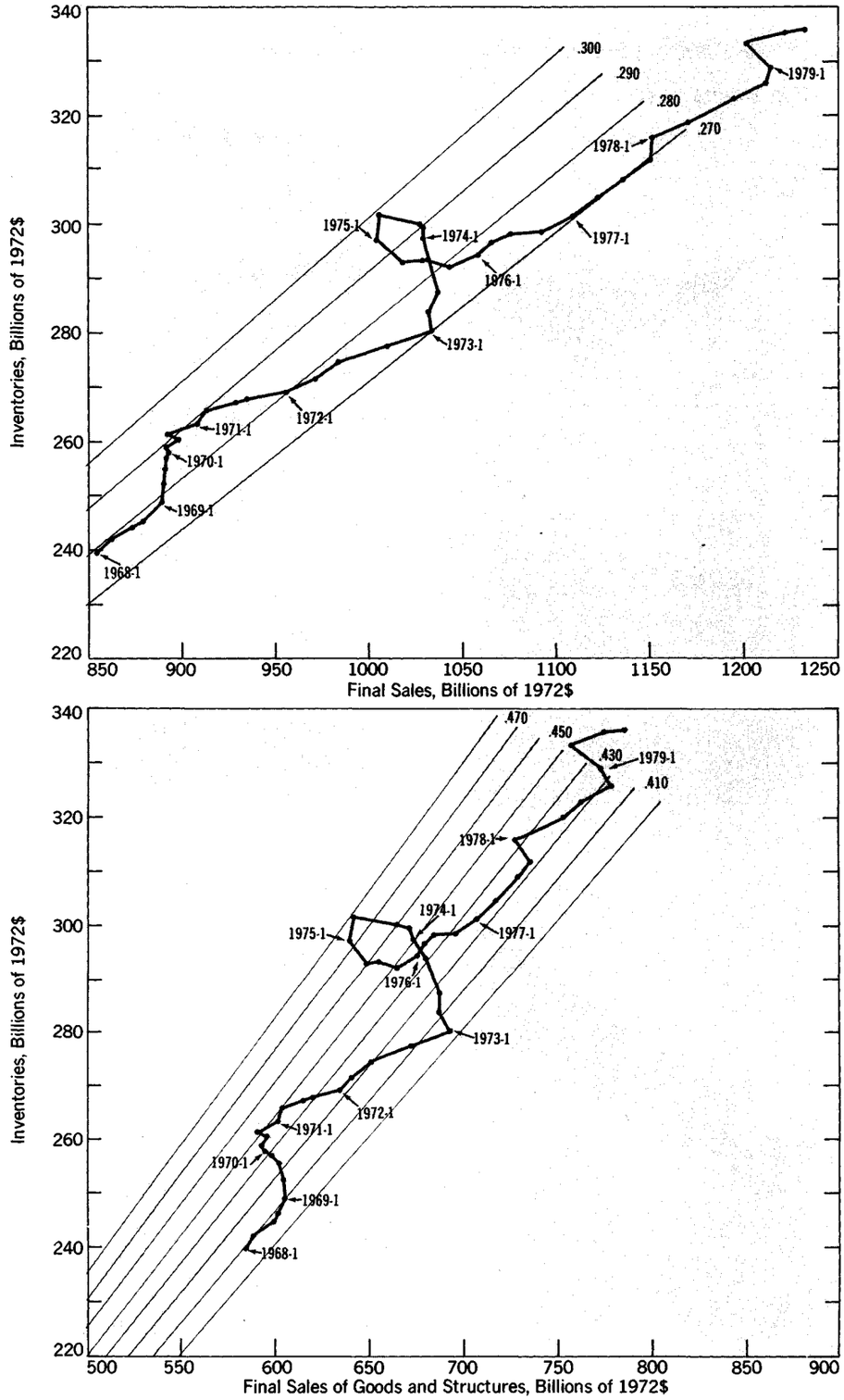
The decline in the rate of investment in inventories other than motor vehicles is traceable to swings from accumulation to decumulation in manufacturing nondurables and trade durables. As usual, it is difficult to interpret inventory movements, because they are often erratic and because source data are inadequate.

Chart 7 provides a broader view of inventory developments by relating inventories to total business final sales and to business final sales of goods and structures. Analytical use of the former relationship implies that the production of services results in a demand for inventories that is similar to that generated by the production of goods and structures. Use of the latter implies that the production of services does not generate demand for inventories. Both implications are extremes.

In 1978, both ratios declined. The levels to which they fell in the fourth quarter were, respectively, below 1968 and above 1968, a period that is often considered normal. In the first and second quarters of 1979, the ratios increased substantially, as inventories increased while final sales were flat or declined. In the third and fourth quarters, as final sales increased

CHART 7

Constant-Dollar Business Inventories, Final Sales and Final Sales of Goods and Structures, and Inventory-Sales Ratios



Note.—End-of-quarter inventories, seasonally adjusted; final sales seasonally adjusted at annual rates. Blue lines represent ratios of inventory stocks to final sales.

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

80-1-7

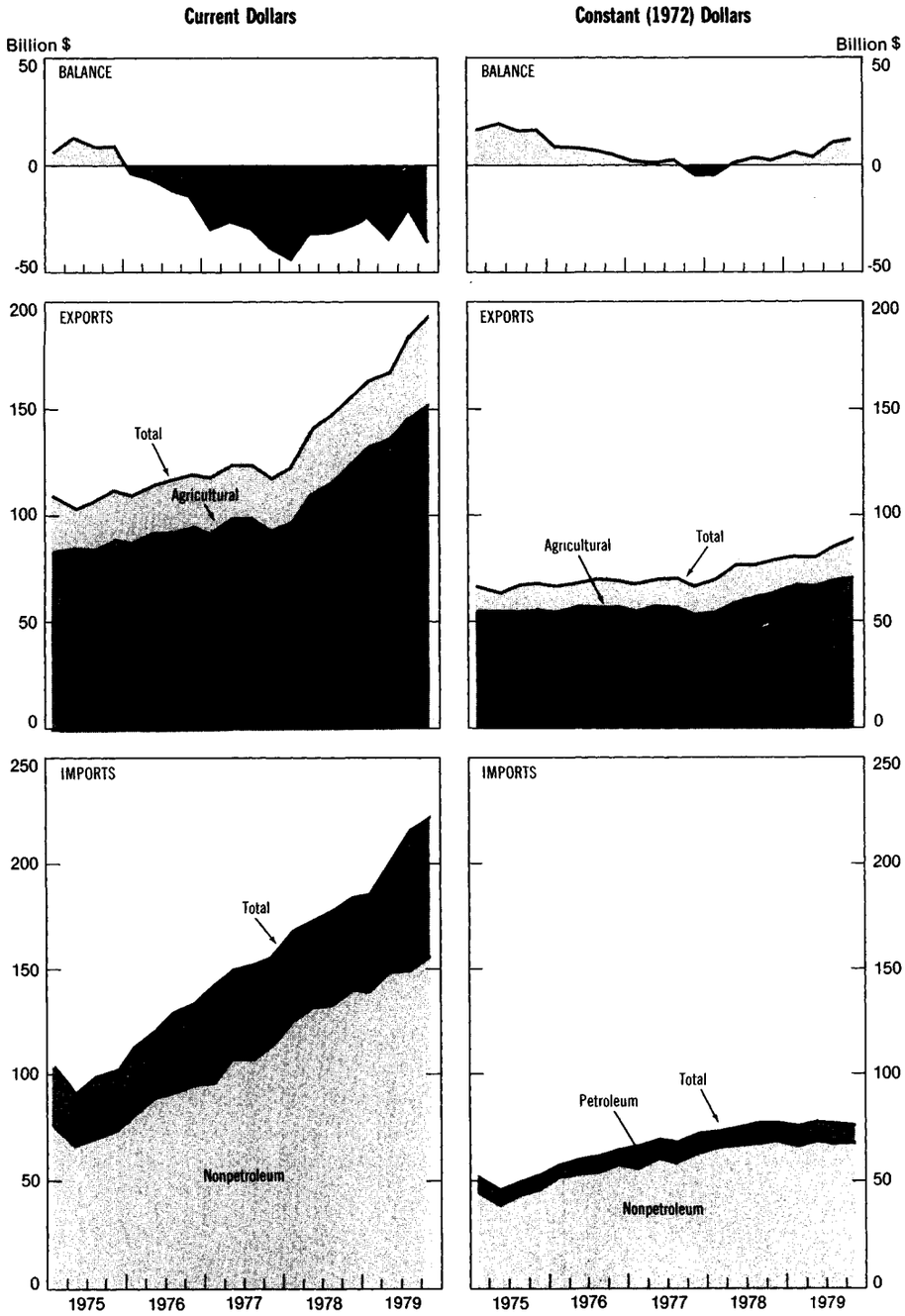
strongly and additions to inventories were substantially smaller than earlier in the year, the ratios fell back about one-half the distance to their fourth-quarter 1978 lows.

Net exports

Real net exports increased much less in the fourth quarter than in the third—$½ billion, compared with $7 billion (table 9). The deceleration was largely in merchandise trade. Exports—both agricultural and nonagricultural—increased much less than in the third quarter. Third-quarter exports had included unusually large shipments of grain and soybeans to Eastern Europe, and of aircraft. Imports of merchandise were flat after having declined in the third quarter, and thus contributed to the deceleration, as did imports of services, which increased sharply in the fourth quarter. The step-up in services reflected travel and investment income payments.

CHART 8

Merchandise Trade



U.S. Department of Commerce, Bureau Economic Analysis

80-1-8

Chart 8 shows that the improvement in the real merchandise trade balance over the last 2 years was largely due to increases in exports. The improvement reflected changes in the cyclical position of the United States and its trading partners, the depreciation of the dollar, and the decline in petroleum imports that followed the opening of the Alaskan pipeline.

Government sector

Real government purchases increased more in the fourth quarter than in the third—4½ percent at an annual rate, compared with 1 percent (table 10). State and local purchases changed little after a 3-percent increase in the third quarter. The step-up was in Federal purchases, and was more than accounted for by the Commodity Credit Corporation's agricultural price support operations. In the third quarter, loan redemptions, which are treated as negative Government purchases in the national income and product accounts (NIPA's), had been unusually large as farmers, in response to higher market prices, withdrew crops—especially corn and wheat—previously placed under loan. Redemptions continued in the fourth quarter, but at a much lower rate than in the third.

NIPA Federal sector.—Table 11 is in current dollars and rounds out the information on Federal receipts and expenditures. Expenditures increased $20½ billion, compared with $23 billion in the third quarter. Purchases increased more than in the third quarter. The acceleration reflected the operations of the Commodity Credit Corporation, which in current dollars showed

Table 10.—Government Purchases of Goods and Services in Current and Constant Dollars, 1979

[Quarters at seasonally adjusted annual rates]

	Current dollars					Constant (1972) dollars									
	Billions of dollars										Percent change from preceding period				
	Year	I	II	III	IV	Year	I	II	III	IV	Year	I	II	III	IV
Government purchases of goods and services	476.1	460.1	466.6	477.8	499.8	274.1	274.7	272.4	273.1	276.3	0.3	−1.8	−3.3	1.0	4.7
Federal	166.3	163.6	161.7	162.9	177.0	99.2	101.1	98.1	97.4	100.4	.7	7.2	−11.3	−2.6	12.6
National defense	108.3	103.4	106.0	109.0	114.6										
Nondefense	58.0	60.2	55.7	53.9	62.4										
State and local	309.8	296.5	304.9	314.9	322.8	174.9	173.6	174.3	175.6	175.9	.2	−6.6	1.6	3.1	.6

a swing of $10 billion, and the $3½ billion pay raise. Other expenditures more than offset the step-up in purchases. The largest deceleration was in transfer payments, which in the third quarter had been raised by cost-of-living increases that amounted to $11½ billion. Receipts will increase about as much as in the third quarter, as a somewhat larger increase in personal taxes is likely to offset a smaller increase in corporate profit tax accruals, for which reliable estimates are not yet available. As a result of these changes in expenditures and receipts, the Federal deficit on a NIPA basis is likely to remain close to the $11½ billion registered in the third quarter.

Yearend position and outlook

It became increasingly clear in the course of last year—in connection, first, with OPEC's oil price increase and later with events in Iran and Afghanistan—that decisionmaking that was influenced by political and military considerations had an unusually large impact on economic developments. It is probable that the situation will be similar in 1980. Assessment of the economic outlook in such an environment is difficult. The assessment that follows, which is built around the major GNP demand components and the major price elements discussed earlier, will be little more than a checklist designed to be helpful in thinking about unfolding economic developments.

PCE.—Personal taxes will be held down, and thus disposable personal income supported, in 1980 by an increase in Federal personal income tax refunds. This increase in refunds, which will amount to about $10 billion, is the result of overwithholding in 1979 that stemmed from the incorrect adjustment of withholding schedules to the reduction of liabilities provided in the Revenue Act of 1978. This support to disposable income will tend to strengthen PCE. Reference has already been made to forces, which may be important quantitatively, that will work in the opposite direction. Real disposable income has not increased over the last year, and the increase in real spending has required a fall in the personal saving rate to an extraordinarily low level.

Fixed investment.—As noted earlier, nonresidential fixed investment tended to decelerate in the second half of last year. It would appear from BEA's plant and equipment survey, which is reviewed later in this issue, that this tendency will extend into 1980. On the basis of information obtained in November and December, business plans to increase real capital spending only 1–2 percent in 1980. Moreover, if 1980 is separated into two halves by deducting planned spending for the first half (obtained from a survey in October and November) from planned spending for the year as a whole, it appears that the deceleration will continue through the year.

It seems likely that the full impact on residential investment of the credit tightening initiated in October 1979 has not yet been felt. Despite the attempts by Government and financial institutions to mitigate the effects of the credit tightening on housing, housing starts and construction will probably continue down in the first half of 1980.

Net exports and government.—The two remaining components of final sales—net exports and government purchases—are most directly affected by

(*Continued on page 44*)

Table 11.—Federal Government Receipts and Expenditures, NIPA Basis

[Billions of dollars]

	Seasonally adjusted at annual rates					Change			
	1978 IV	1979				1979			
		I	II	III	IV	I	II	III	IV
Receipts	463.5	475.0	485.8	504.8	n.a.	11.5	10.8	19.0	n.a.
Personal tax and nontax receipts	211.0	213.0	223.4	235.2	248.1	2.0	10.4	11.8	12.9
Corporate profits tax accruals	81.2	77.2	74.9	79.4	n.a.	−4.0	−2.3	4.5	n.a.
Indirect business tax and nontax accruals	29.3	29.4	29.9	30.0	30.7	.1	.5	.1	.7
Contributions for social insurance	142.0	155.5	157.5	160.2	164.2	13.5	2.0	2.7	4.0
Expenditures	479.7	486.8	492.9	516.1	536.4	7.1	6.1	23.2	20.3
Purchases of goods and services	159.0	163.6	161.7	162.9	177.0	4.6	−1.9	1.2	14.1
National defense	101.2	103.4	106.0	109.0	114.6	2.2	2.6	3.0	5.6
Nondefense	57.8	60.2	55.7	53.9	62.4	2.4	−4.5	−1.8	8.5
Transfer payments	192.1	196.8	201.9	217.6	221.9	4.7	5.1	15.7	4.3
Grants-in-aid to State and local governments	80.7	77.8	77.7	81.8	83.0	−2.9	−.1	4.1	1.2
Net interest paid	37.1	40.0	42.6	43.5	46.0	2.9	2.6	.9	2.5
Subsidies less current surplus of government enterprise	10.9	8.3	9.0	10.2	8.4	−2.6	.7	1.2	−1.8
Less: Wage accruals less disbursements	0	−.2	0	0	0	−.2	.2	0	0
Surplus or deficit (−), national income and product accounts	−16.3	−11.7	−7.0	−11.3	n.a.	4.6	4.7	−4.3	n.a.

n.a. Not available.

(*Continued from page 11*)

political and military considerations, and, accordingly, it is difficult to assess the outlook for them. However, it seems likely that an increase in military spending will result in an increase in Federal purchases during 1980, in contrast to their flatness during 1979.

Change in business inventories.—Auto inventories, as noted earlier, are excessive, and a further reduction in them is in prospect. In contrast, inventories other than motor vehicles in the aggregate appear to be in line with sales. Needless to say, if—as seems quite possible on the basis of this summary of the outlook—total final sales decline in the first half of 1980, inventories may at first pile up before being brought back into line with sales.

Prices.—It was noted that recent actions affecting energy prices have not yet fully worked their way through the several stages of pricing. Also, additional phases in the decontrol of crude oil and natural gas prices will become effective. Accordingly, further increases in energy prices are likely to occur in the shortrun. It is uncertain how the windfall profits tax now being legislated will affect the price of energy.

In 1974, a prominent consideration in the assessment of OPEC's increase in oil prices was that it would, at the same time, reduce demand for U.S. output substantially, essentially due to a redistribution of income that would reduce spending. Income that would largely have been spent by U.S. persons on U.S. consumer goods and services would be diverted (1) to foreign oil producers who, in the shortrun, would spend only a small part of this income on U.S. output, and (2) to U.S. oil producers who, in the shortrun, would spend only a small part of it on U.S. structures, equipment, and inventories. It is not clear to what extent this consideration will be applicable to the 1980 setting.

The U.S. Department of Agriculture has forecast a slowing in retail food prices from an increase of about 11½ percent in 1979 to 8 percent in 1980. According to the Department, the farm value of food will increase only 3 percent, in contrast to 11½ percent in 1979, and marketing costs will continue to increase more than 10 percent. Weather conditions, obviously, could invalidate the forecast. Moreover, the prospect of reduced exports of grain to the Soviet Union was not taken into account. However, inasmuch as marketing costs account for a large part of the retail price of food, it is unlikely that retail food prices will be affected substantially by whatever happens to the price of grain as a result of its changed disposition.

As noted earlier, the 1980 pay standard is compatible with some acceleration in hourly compensation, and hence more cost pressures on prices. However, if a recession should occur, two additional factors need to be taken into account: On the one hand, a reduction in demand will tend to reduce prices; on the other, a reduction in productivity will increase unit costs and tend to raise prices.

Detailed Tables for the 1972 Input-Output Study

THE 496-order industry/commodity tables for the 1972 input-output study are now available from the U.S. Government Printing Office. The tables appear in two volumes, each with the major title, "The Detailed Input-Output Structure of the U.S. Economy: 1972."

Volume I—The Use and Make of Commodities by Industries, 1972
- Part I—Table 1.—The Use of Commodities by Industries, 1972
- Part II—Table 2.—The Make of Commodities by Industries, 1972
  - A. Industries Producing Each Commodity
  - B. Commodities Produced by Each Industry

Volume II—Total Requirements for Commodities and Industries, 1972
- Part I—Table 4.—Commodity-by-Commodity Total Requirements, 1972
- Part II—Table 5.—Industry-by-Commodity Total Requirements, 1972

The two volumes may be purchased from the U.S. Government Printing Office, Washington, D.C. 20402 at the cost of $8.50 for Volume I and $7.50 for Volume II. Checks should be made payable to the Supertintendent of Documents. The stock numbers are 003-010-00064-3 for Volume I and 003-010-00065-1 for Volume II.

U. S. GOVERNMENT PRINTING OFFICE : 1980 O - 307-688

the BUSINESS SITUATION

REVISED estimates show that real GNP increased at an annual rate of 2 percent in the fourth quarter of 1979, about one-half percentage point more than in the preliminary (15-day) estimates (table 1). The difference between the estimates was accounted for by upward revisions in nonresidential and residential fixed investment. Revisions in other major components were minor and offsetting. The increase in GNP prices, as measured by the fixed-weighted price index, was revised slightly, from 9.9 to 9.7 percent.

Special reconciliation tables

The reconciliation of changes in compensation per hour and average hourly earnings and of changes in the implicit price deflator for personal consumption expenditures (PCE), the PCE chain price index, and the Consumer Price Index (CPI) are shown in tables 2 and 3 below.

Compensation per hour increased 8.8 percent (annual rate) in the fourth quarter, compared with 8.9 percent in the third. Average hourly earnings increased 7.3 percent in the fourth quarter, compared with 9.1 percent in the third. The smaller deceleration in compensation per hour was mainly due to the contribution of unpaid family workers, who are excluded from average hourly earnings, and to statistical differences in compiling the wage and salary per hour component of compensation per hour.

The implicit price deflator for PCE increased 9.7 percent (annual rate) in the fourth quarter, the same as in the third; the chain price index increased 10.2 percent, compared with 10.6 percent; and the CPI increased 13.2 percent, compared with 12.9 percent. In the fourth quarter, the chain price index increased at a faster rate than the implicit price deflator because of shifts from purchases of goods and services with larger than average price in-

Table 1.—Revisions in Selected Component Series of the NIPA's, Fourth Quarter of 1979

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates		
	15-day estimate	45-day estimate	Revision	15-day estimate	45-day estimate	Revision
	Billions of current dollars					
GNP	**2,455.8**	**2,459.4**	**3.6**	**10.3**	**10.9**	**0.6**
Personal consumption expenditures	1,580.4	1,581.2	.8	14.3	14.5	.2
Nonresidential fixed investment	261.3	264.2	2.9	−.7	3.8	4.5
Residential investment	115.6	116.6	1.0	−1.6	1.8	3.4
Change in business inventories	6.4	6.7	.3			
Net exports	−7.7	−10.5	−2.8			
Government purchases	499.8	501.2	1.4	19.7	21.1	1.4
Federal	177.0	178.4	1.4	39.3	43.8	4.5
State and local	322.8	322.8	0	10.4	10.4	0
National income						
Compensation of employees	1,512.8	1,513.1	.3	11.3	11.4	.1
Corporate profits with inventory valuation and capital consumption adjustments						
Other	297.4	300.0	2.6	13.1	17.1	4.0
Personal income	2,000.5	2,003.1	2.6	11.6	12.1	.5
	Billions of constant (1972) dollars					
GNP	**1,438.4**	**1,440.7**	**2.3**	**1.4**	**2.1**	**.7**
Personal consumption expenditures	935.2	935.9	.7	4.1	4.4	.3
Nonresidential fixed investment	148.0	149.8	1.8	−6.9	−2.3	4.6
Residential investment	55.0	55.9	.9	−9.8	−4.2	5.6
Change in business inventories	3.2	2.5	−.7			
Net exports	20.7	19.8	−.9			
Government purchases	276.3	276.9	.6	4.7	5.7	1.0
Federal	100.4	100.9	.5	12.6	14.9	2.3
State and local	175.9	176.0	.1	.6	.8	.2
	Index numbers, 1972=100 [1]					
GNP implicit price deflator	170.74	170.71	−.03	8.7	8.7	0
GNP fixed-weighted price index	174.7	174.6	−.1	9.9	9.7	−.2
GNP chain price index				9.2	8.9	−.3

1. Not at annual rates.

NOTE.—For the fourth quarter of 1979, the following revised or additional major source data became available: For *personal consumption expenditures*, revised retail sales for November and December, and sales and inventories of used cars of franchised automobile dealers for November (revised) and December; for *nonresidential fixed investment*, manufacturers' shipments of equipment for November (revised) and December, construction put in place for November (revised) and December, and a partial tabulation of business expenditures for plant and equipment for the quarter: for *residential investment*, construction put in place for November (revised) and December; for *change in business inventories*, book values for manufacturing and trade for November (revised) and December: for *net exports of goods and services*, merchandise trade for November (revised) and December, and revised net investment income and other services receipts for the quarter: for *government purchases of goods and services*, Federal unified budget outlays for December, and State and local construction put in place for November (revised) and December; for *wages and salaries*, revised employment, average hourly earnings, and average weekly hours for November and December; for *net interest*, revised net interest received from abroad for the quarter; for *GNP prices*, the Consumer Price Index for December, unit value indexes for exports and imports for December, and residential housing prices for the quarter.

creases—notably new autos and electricity, gas, fuel oil, and coal—to purchases with less than average price increases. The CPI increased at a faster rate than the chain price index mainly because the increase in gasoline and oil prices continues to be faster than the average of all prices and receives more weight than in the chain price index, and because homeownership prices, which are included in the CPI but excluded from the chain price index, also increased faster than the average of all prices. The acceleration in the rate of increase in the CPI was due primarily to the homeownership component.

Table 2.—Reconciliation of Changes in Compensation Per Hour in the Business Economy other than Farm and Housing and Average Hourly Earnings in the Private Nonfarm Economy, Seasonally Adjusted

	1979			
	I	II	III[r]	IV[p]
1. **Compensation per hour of all persons in the business economy other than farm and housing** (percent change at annual rate) [1]	10.3	7.9	8.9	8.8
2. Less: Contribution of supplements	1.4	.6	.2	.3
3. Plus: Contribution of housing and nonprofit institutions	0	−.4	−.2	.1
4. Less: Contribution of employees of government enterprises and self-employed and unpaid family workers	−.2	0	.1	.6
5. **Equals: Wages and salaries per hour of employees in the private nonfarm economy** (percent change at annual rate)	9.1	6.9	8.4	8.0
6. Less: Contribution of production workers in manufacturing	−.1	.7	−.3	−.2
7. Less: Contribution of non-BLS data, detailed weighting, and seasonal adjustment	.6	.3	−.4	.9
8. **Equals: Average hourly earnings, production and nonsupervisory workers in the private nonfarm economy** (percent change at annual rate)	8.7	5.9	9.1	7.3

[r] Revised. [p] Preliminary.
1. BLS estimates of changes in hourly compensation in the nonfarm business sector for the four quarters are 10.4, 7.9, 8.5, and 9.2 percent.

Table 3.—Reconciliation of Changes in the Implicit Price Deflator for Personal Consumption Expenditures and the Consumer Price Index for all Urban Consumers, Seasonally Adjusted

	1979	
	III[r]	IV[p]
1. **Implicit price deflator for personal consumption expenditures** (percent change at annual rate)	9.7	9.7
2. Less: Contribution of shifting weights in PCE	−1.0	−.4
New autos	0	−.4
Gasoline and oil	−.5	−.1
Electricity, gas, fuel oil, and coal	−.6	−.7
Furniture and household equipment	.4	−.1
Food purchased for off-premise consumption	.5	0
Purchased meals and beverages	−.3	.5
Clothing and shoes	.6	0
Housing	0	.3
Other	−1.1	.1
3. **Equals: PCE chain price index** (percent change at annual rate)	10.6	10.2
4. Less: Contribution of differences in weights of comparable CPI and PCE expenditure components	−.7	−1.7
Gasoline and oil	−1.2	−.8
Electricity, gas, fuel oil, and coal	0	−.2
Furniture, appliances, floor coverings, other household furnishings	.1	.1
Food at home	0	−.1
Food away from home	−.2	−.2
Apparel commodities	0	.1
Rent	−.3	−.4
Other	.9	−.2
5. Less: Contributions of PCE expenditure components not comparable with CPI components	−.5	0
New autos	−.1	−.4
Net purchases of used autos	−.3	0
Owner-occupied nonfarm and farm dwellings—space rent	−.1	.1
Services furnished without payment by financial intermediaries except life insurance carriers	0	.1
Current expenditures by nonprofit institutions	.1	.3
Other	0	−.1
6. Plus: Contribution of CPI expenditure components not comparable with PCE components	.4	−.7
New autos	−.2	−.6
Used autos	−.6	−.3
Homeownership	1.6	3.0
Other	−.3	−.5
7. Less: Contribution of differences in seasonal adjustment [1]	−.3	.5
8. **Equals: Consumer Price Index, all items** (percent change at annual rate)	12.9	13.2

[r] Revised. [p] Preliminary.
1. These differences arise because component price indexes that are used in the BEA measures and in the CPI are seasonally adjusted at different levels of detail.

the BUSINESS SITUATION

PERSONAL income increased $50½ billion in the first quarter, $8 billion less than in the fourth quarter of 1979 (chart 1).[1] Several nonrecurring factors, which are listed at the bottom of table 1, affected changes in personal income in these quarters. A pay raise for Federal employees added $3½ billion to the fourth-quarter income increase. In the first quarter, a step-up in the minimum wage under the Fair Labor Standards Act from $2.90 to $3.10 per hour and a special energy allowance paid to Supplemental Security Income recipients (a transfer payment in the national income and product accounts) added $2 billion and $1½ billion, respectively. A step-up in the social security tax base from $22,900 to $25,900 held down the first-quarter increase $2½ billion, because personal income is measured after deduction of personal contributions for social insurance.

1. Quarterly estimates of the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

Table 1.—Personal Income: Change from Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1979: IV	1980: I*
Wage and salary disbursements	32.4	28.8
Manufacturing	6.4	7.5
Other commodity-producing	3.1	4.3
Distributive	8.4	5.5
Services	9.0	8.0
Government and government enterprises	5.6	3.4
Proprietors' income	4.2	−2.2
Farm	1.6	−3.6
Nonfarm	2.6	1.4
Transfer payments	5.7	7.2
Other income	17.8	19.9
Less: Contributions for social insurance	1.8	3.4
Personal income	58.4	50.3
Less: Federal pay raise	3.5	----------
Minimum wage	----------	2.0
Special energy allowances	----------	1.5
Less: Social security base change	----------	2.5
Personal income, adjusted	54.9	49.3

*Projected.

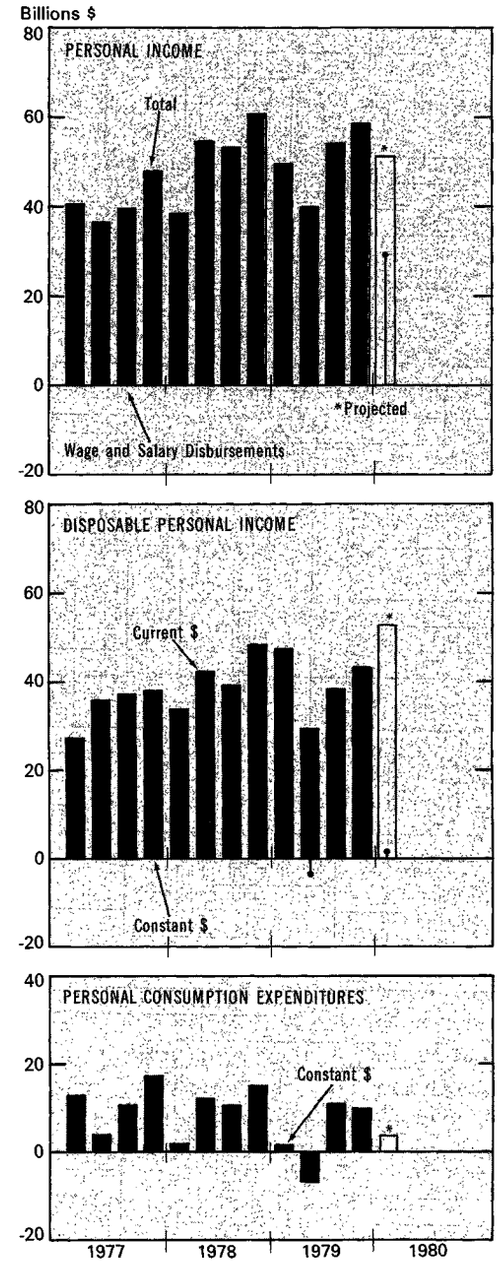
Adjustment for these nonrecurring factors reduces the fourth-to-first quarter income deceleration to $5½ billion. The major source of the deceleration was proprietors' income, which declined $2 billion after an increase of $4 billion in the fourth quarter. Wages and salaries in the distributive and service industries increased less in the first quarter than in the fourth, although the step-up in the minimum wage was concentrated in these industries. Larger increases in the first quarter than in the fourth in wages and salaries in commodity-producing industries and in the "other income" category in table 1 were partial offsets. The latter included a larger increase in personal interest income, which was mainly due to escalating interest rates on U.S. assets held by persons.

Despite the increase in incomes, personal tax and nontax payments declined $2½ billion, following an increase of $15½ billion in the fourth quarter (table 2). The major factor was an increase in Federal income tax refunds. These refunds included $9½ billion that resulted from overwithholding in 1979 due to a lack of synchronization between changes in withholding schedules and the reduction in liabilities provided in the Revenue Act of 1978. Legislative changes in State and local personal taxes, largely in California, also contributed to the decline in personal taxes.

The $17½ billion swing in taxes exceeded the deceleration in income, and, as a result, disposable personal income increased more in the first quarter than

CHART 1

Personal Income and Consumption: Change From Preceding Quarters



Based on Seasonally Adjusted Annual Rates

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

80-3-1

The Administration's Anti-inflation Program of March 1980

ON March 14, the administration announced a new program designed to curb accelerating inflation. The program has five major parts:

- Reductions in Federal spending and achievement of a balanced budget in fiscal year 1981.
- Restraints on credit, especially consumer credit.
- Intensified and expanded pay and price monitoring.
- New measures to conserve energy, principally the imposition of a levy on imported oil.
- A renewed appeal to Congress for prompt approval of pending legislation designed to encourage productivity and saving.

Full information about the program was not available when the SURVEY went to press; the following paragraphs summarize the major features of the program.

Reduced spending and a balanced 1981 budget

The administration proposed to reduce Federal outlays (unified budget basis) $13–14 billion in fiscal 1981 and $2 billion in fiscal 1980. Information about the reductions is incomplete, but it is known that a reduction of $3.1 billion in 1981 is planned in programs such as general revenue sharing, welfare reform, and mass transit capital grants. Revenues are increased $3.4 billion in 1981 by proposed legislation, effective January 1, 1981, to withhold 15 percent of taxable interest and dividends. The levy on oil imports—effective March 15, 1980—adds about $3 billion in 1980 and $10 billion in 1981. The revised budget estimates also reflect upward revisions in outlays due to higher-than-expected inflation and interest rates as well as certain other factors; upward revisions in receipts also reflect higher inflation and stronger economic activity. Overall, a $10–13 billion unified budget surplus is expected in 1981, and a $36–37 billion deficit in 1980.

Credit restraint

The Federal Reserve Board (FRB) took several initiatives designed to limit credit growth. (1) Under a Special Credit Restraint Program, banks were asked to limit the increase in loans this year to the 6–9 percent range. (2) Certain consumer creditors, including issuers of credit cards and banks, are required to deposit 15 percent of their increase in "covered consumer credit" in non-interest bearing accounts held by Federal Reserve banks and certain other Federal financial agencies. "Covered consumer credit" excludes automobile credit, credit specifically used to finance the purchase of household goods such as furniture and appliances, home improvement loans, and mortgage credit. (3) A three-percentage point surcharge was added to the discount rate for large banks that borrow repeatedly at the discount window and the marginal reserve requirement on managed liabilities was raised from 8 to 10 percent. (4) Restraints were placed on the amount of credit raised by large nonmember banks and steps were taken to curb the expansion of assets of money market mutual funds.

The administration proposed reductions in Federal loans and loan guarantees amounting to $4 billion in fiscal 1981, and urged enactment of a "credit budget" to help control extension of Federal loans and loan guarantees.

Monitoring pay and price standards

The Council on Wage and Price Stability will intensify and expand its pay and price monitoring activity. A larger number of companies will be asked to report price change information and these reports will be reviewed more thoroughly. Voluntary pre-notification of price increases will be asked on a selective basis. The price guidelines issued last November, under which most companies were asked to hold price increases to the same rate as 1976–77, were confirmed.

The administration accepted the revised pay standards recommended by the Pay Advisory Committee. These standards permit pay increases ranging from 7.5 percent to 9.5 percent for the second year of the voluntary wage-price program. The previous ceiling had been 7 percent.

Energy conservation

The administration imposed a levy on imported oil, effective March 15, 1980. This "gasoline conservation fee" is $4.62 per barrel and is intended to be shifted entirely to gasoline. Imports of gasoline are also subject to the levy, which is expected to increase the retail price of gasoline about 10 cents per gallon, effective May 15. According to the administration, the direct effect of this increase will raise the Consumer Price Index (CPI) about one-half percentage point, largely by June. Indirect effects will be felt as the increased gasoline costs are passed on. Direct plus the indirect effects are expected to increase the CPI about three-fourths of a percentage point over the next year.

The oil import fee was imposed by administrative action. However, the administration intends to request legislation replacing the fee with a new tax on gasoline and diesel fuel, starting at 14 cents a gallon and automatically adjusted by changes in refiners' (sales) prices. The existing 4 cents a gallon tax on gasoline would be repealed.

State-by-state targets for gasoline consumption will be established. The overall target is 5½ percent below the average consumption in 1979. Although the State targets are expected to be achieved through voluntary compliance, the President has the authority to make the targets mandatory under legislation enacted in 1979.

Renewed appeal for legislation

The administration renewed its appeal to Congress to enact the Regulatory Reform Act and to speed passage of bills to cut regulation of banking, trucking, railroads, and communications. Passage is also urged of a financial institutions' reform bill that phases out existing ceilings that limit the interest return to small savers.

Table 2.—Personal Tax and Nontax Payments: Change from Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1979: IV	1980: I*
Personal tax and nontax payments	15.3	−2.3
Federal	13.4	−2.4
Impact of legislation	−.6	−11.9
Withheld	−.5	−.4
Nonwithheld less refunds	−.1	−11.5
Other	14.0	9.4
State and local	1.9	.1
Impact of legislation	−.1	−2.0
Other	2.1	2.1

*Projected.

in the fourth—$52½ billion, compared with $43 billion. Personal outlays increased a little more than the $53½ billion registered in the fourth quarter. As a result, personal saving declined, and the personal saving rate may have dropped below the 3.5 percent registered in the fourth quarter

The increase in the prices of personal consumption expenditures (PCE)—at an annual rate of about 13 percent—was almost as large as the increase in disposable income, and real disposable income showed little change. As can be seen from chart 1, real disposable income has been flat over the past year.

The increase in PCE prices in the first quarter was about 3 percentage points more than in the fourth. A deceleration in PCE food prices was more than offset by accelerations in prices of PCE on energy and on other goods and services. In food, a slowing from the 9½-percent annual rate increase in the fourth quarter was largely due to a decline in the prices of fresh vegetables. The decline reflected ample supplies, especially of lettuce and tomatoes. Other food prices continued up, although generally less than in the fourth quarter. Sugar prices were a notable exception. They accelerated, reflecting the projected world deficit—the first in several years—and speculation in commodities. In energy, the increase was double the 25 percent annual rate in the fourth quarter. The major factor in the acceleration was gasoline. The increase in gasoline prices, which was almost triple that in the fourth quarter, was traceable to recent substantial boosts in the price of imported crude oil, the phased decontrol of domestic crude oil prices, and an increase in the maximum allowable gross margin on gasoline sales.

Real PCE increased at an annual rate of less than 2 percent in the first quarter, compared with 4 percent in the fourth quarter and 5 percent in the third.[2] The deceleration from the fourth quarter was in goods, and occurred in all major categories except motor vehicles and energy. Furniture and equipment as well as clothing and shoes declined following large increases in the third quarter of 1979 and smaller ones in the fourth. Food increased, but only one-half as much as the unusually large—6½–7½ percent—increases in the second half of 1979.

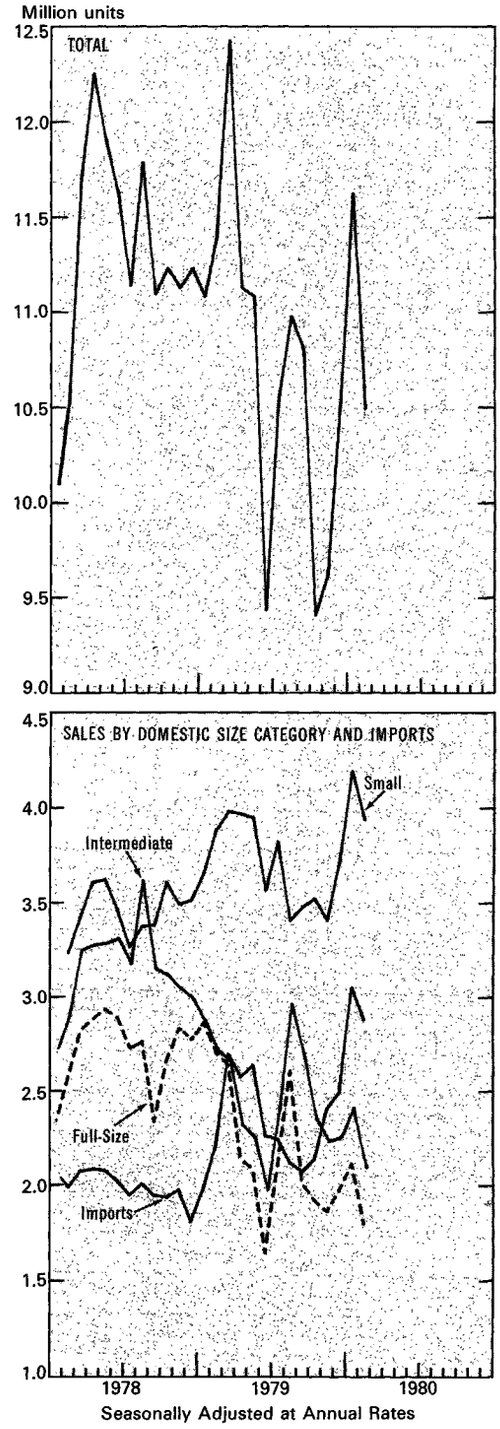
In contrast, energy goods—gasoline and oil, and fuel oil and coal—continued to decline at about the same rate as in the earlier quarters, and motor vehicles increased after a decline in the fourth quarter. The swing in motor vehicles was in autos; trucks were down in the first quarter after little change in the fourth.

New car sales, which are sales not only to consumers but also to business and other final users, averaged 11.1 million (seasonally adjusted annual rate) in the first 2 months of 1980, up sharply from 9.9 million in the fourth quarter. Almost all of the increase was in sales of domestic small cars and imports. The former averaged 4.1 million for the 2 months, compared with 3.6 million in the fourth quarter of 1979, and the latter averaged 3.0 million, compared with 2.4 million (chart 2). Manufacturers continued various incentive programs to stimulate sales of intermediate and full-size cars, and sales

2. The major source data that shed light on first-quarter GNP components are limited to 1 or 2 months of the quarter, and in some cases are preliminary. These data are: For *personal consumption expenditures* (PCE), January and February retail sales, unit sales of new autos through the first 10 days of March, and sales of new trucks for January and February; for *nonresidential fixed investment*, the same data for autos and trucks as for PCE, January construction put in place, January manufacturers' shipments of equipment, and business investment plans for the quarter; for *residential investment*, January construction put in place, and housing starts for January and February; for *change in business inventories*, January book values for manufacturing and trade, and unit auto inventories for January and February; for *net exports of goods and services*, January merchandise trade; for *government purchases of goods and services*, Federal unified budget outlays for January, State and local construction put in place for January, and State and local employment for January and February; and for *GNP prices*, the Consumer Price Index for January, and the Producer Price Index for January and February.

CHART 2

Retail Sales of New Passenger Cars



Note—The components may not add to the total because each category was separately adjusted for seasonal variation.

Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports; seasonal adjustment by BEA.

U.S. Department of Commerce, Bureau of Economic Analysis 80-3-2

of these cars held at about the same levels as in the fourth quarter.

Inventories of new domestic cars dropped sharply in January and steadied at about 1.4 million units (seasonally adjusted) in February. The inventory-sales ratio was 2.2 in February, down sharply from 2.6 in the fourth quarter and only slightly above the ratio preferred by dealers. Several small car models continued to be in short supply, but many intermediate and full-size cars were overstocked. Popular Japanese imports also remained in short supply.

Domestic new car production for January and February averaged 7.1 million (seasonally adjusted annual rate). The higher production scheduled for March will bring the first-quarter average close to the 7.3 million registered in the fourth quarter. Increased production at plants manufacturing small cars, which are now operating near capacity, offset reduced production at plants manufacturing large cars. As indicated by the near restoration of the inventory-sales ratio to the preferred level, the auto industry is in a much more stable position than it had been during most of 1979. Assuming no further reduction in demand, auto production will cease to be a major drag on GNP.

The year-long decline in real residential construction accelerated sharply in the first quarter. Housing starts, at seasonally adjusted annual rates of 1.42 million in January and 1.33 million in February, were down from 1.59 million in the fourth quarter (chart 3). The major factors contributing to the decline have been high and rising interest rates and a sharp slowdown of savings flows into thrift institutions (chart 4). Reflecting these factors, outstanding mortgage commitments in January were the lowest since 1976 and 18 percent less than in January 1979. The prime rate, to which the interest rate on construction loans is tied, climbed to 16.5 percent in February and to 17.75 percent in mid-March. Mortgage interest rates continued to increase, and, in some areas of the country, reached 17 percent. Yields at the Federal National Mortgage Association (FNMA) auctions suggest that rates are likely to increase further.

Table 3.—Selected Labor Market Indicators

[Seasonally adjusted]

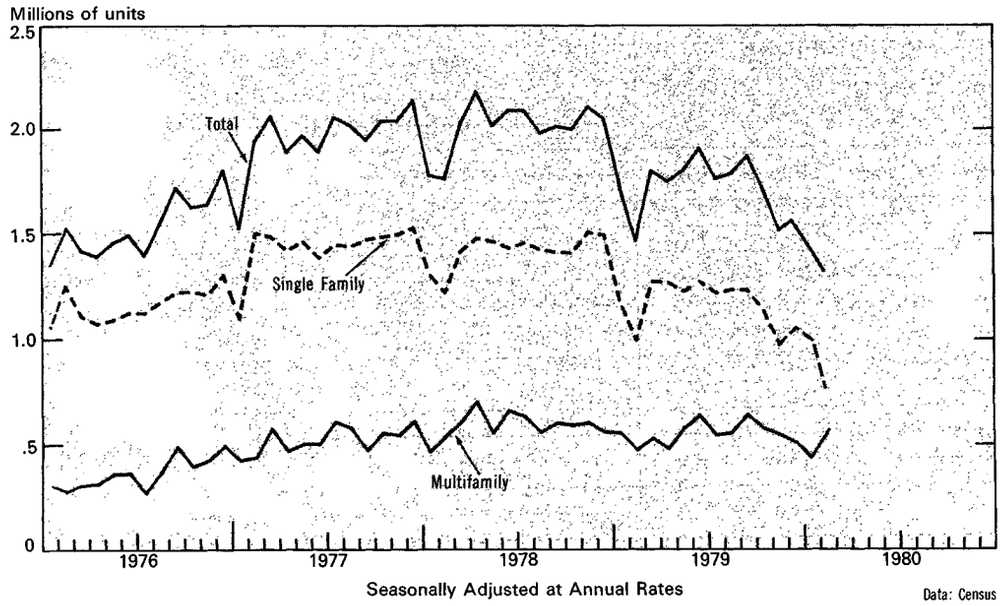
	1979				1980		Change			
	I	II	III	IV	Jan.	Feb.	1979:I–1979:II	1979:II–1979:III	1979:III–1979:IV	1979:IV–1980:Feb.
Household survey										
Civilian labor force (millions)	102.3	102.4	103.2	103.7	104.2	104.3	0	0.9	0.5	0.5
Employment	96.4	96.5	97.2	97.7	97.8	98.0	0	.8	.4	.3
Unemployment	5.9	5.9	6.0	6.1	6.4	6.3	0	.1	.1	.2
Job losers	2.5	2.4	2.6	2.7	3.0	2.9	0	.2	.1	.2
On layoff	.8	.8	.9	1.0	1.0	1.0	0	.1	.1	.1
Other job losers	1.7	1.6	1.8	1.8	2.0	1.9	0	.1	0	.1
Job leavers, reentrants, and new entrants	3.4	3.4	3.4	3.4	3.4	3.4	0	−.1	0	.1
Employment-population ratio	59.3	59.1	59.3	59.3	59.2	59.3	−.2	.2	0	0
Unemployment rate (percent):										
Total	5.8	5.8	5.8	5.9	6.2	6.0	0	0	.1	.1
Adult men	4.0	4.0	4.2	4.2	4.7	4.6	0	.2	0	.4
Adult women	5.7	5.7	5.6	5.7	5.8	5.7	0	−.1	.1	0
Teenagers	15.9	16.1	16.2	16.1	16.3	16.5	.2	.1	−.1	.4
Civilian labor force participation rate (percent):										
Total	63.7	63.5	63.8	63.8	63.9	63.9	−.2	.3	0	.1
Adult men	80.0	79.7	79.9	79.6	79.4	79.6	−.3	.2	−.3	0
Adult women	50.3	50.3	50.9	51.0	51.4	51.3	0	.6	.1	.3
Teenagers	58.8	57.9	57.5	58.2	58.2	57.4	−.9	−.4	.7	−.8
Establishment survey										
Employment, nonfarm payroll (millions)	88.7	89.4	89.8	90.1	90.6	90.7	.6	.4	.3	.6
Goods producing	26.5	26.6	26.6	26.6	26.8	26.8	.1	0	−.1	.2
Manufacturing	21.0	21.1	21.0	20.9	20.9	20.9	0	−.1	−.1	0
Other	5.5	5.6	5.6	5.7	5.9	5.9	.1	.1	.1	.2
Distributive [1]	25.1	25.2	25.3	25.5	25.6	25.7	.1	.1	.2	.2
Services [2]	21.6	21.9	22.1	22.3	22.5	22.6	.3	.2	.2	.2
Government	15.5	15.6	15.7	15.7	15.7	15.7	.1	.1	0	0
Average weekly hours, private nonfarm:										
Total	35.8	35.5	35.6	35.7	35.6	35.4	−.3	.1	.1	−.3
Manufacturing	40.6	39.8	40.2	40.2	40.3	40.1	−.8	.4	0	−.1

1. Transportation and public utilities, and wholesale and retail trade.
2. Services, and finance, insurance, and real estate.

Source: Bureau of Labor Statistics.

CHART 3

Housing Starts



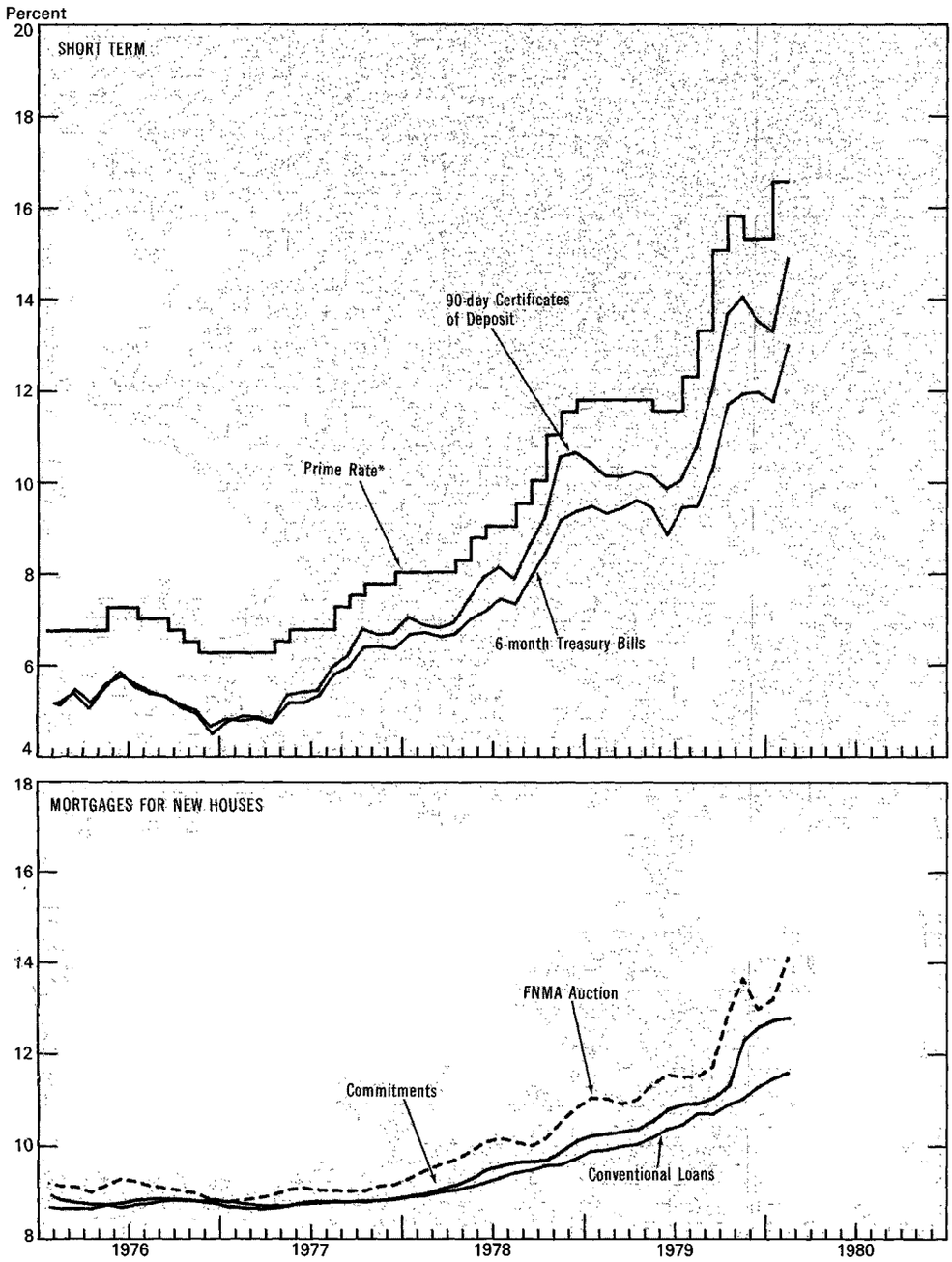
U.S. Department of Commerce, Bureau of Economic Analysis

(Yields are determined by lenders' bids; these bids are an indicator of future mortgage interest rates because FNMA makes commitments to buy mortgages for a 4-month period.)

To increase the availability of mortgage credit, Congress in December suspended State usury ceilings on mortgage loans through the first quarter of this year. However, the supply of mortgage credit was curtailed by a continued slowdown of savings flows into thrift institutions. Inflows of net new money slowed through the fourth quarter, and in January were the lowest for that month since 1970. Jumbo certificates and certificates offered at rates tied to market interest rates—6-month money market certificates and the new 30-month certificates—were responsible for all of the net savings gains. However, most of the increase in these certificates was the result of transfers from lower yielding passbook accounts. The 30-month certificates were authorized starting January 1 to enable banks and thrift institutions to acquire deposits with a maturity longer than that of the 6-month certificates. When authorized, the 30-month certificates offered an interest rate pegged to the 30-month Treasury security. However, at the end of February, ceilings were imposed—12 percent for thrift institutions and 11.75 percent for banks. Given high and still rising interest rates, these ceilings may limit the ability of 30-month certificates to attract new funds.

CHART 4

Selected Interest Rates



*At the end of the month

Data: FRB, FHLBB

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

80-3-4

Real nonresidential fixed investment increased in the first quarter, after changing little in the fourth. The increase was due to motor vehicles. Autos increased after a decline in the fourth quarter, although trucks continued to decline. (Investment spending is discussed later in this issue in the article on the BEA plant and equipment survey.) Real government purchases increased, but much less than the 6 percent annual rate in the fourth quarter. State and local purchases accounted for most of the deceleration. Exports and imports increased substantially in the first quarter, and it is likely that net exports continued to show little change.

The summing of the changes in the components of real final sales points to an increase in total final sales, but one that is substantially smaller than the 3½ percent annual rate in the fourth quarter. As of mid-March, little is known about the first-quarter change in business inventories. The change in real GNP will depend on inventory developments, which are particularly difficult to assess at this juncture of the business cycle.

Employment and unemployment

Employment continued to increase in the first quarter, although signs of labor market weakness appeared. If February is taken as representative of the first quarter, the household measure of employment increased 290,000, or 150,000 less than in the fourth quarter

of 1979 (table 3). Because of the continued increase in the civilian labor force participation rate of adult women, the aggregate participation rate rose to 63.9 percent, and the labor force increased 510,000, about the same as in the previous quarter. Unemployment increased 220,000, and the unemployment rate increased 0.1 to 6.0 percent. As in the previous two quarters, the increase in unemployment was concentrated among job losers.

The payroll measure of employment increased 620,000 in the first quarter, 270,000 more than in the fourth. Trade (240,000), services (170,000), and construction (130,000) accounted for the bulk of the first-quarter increase. The average workweek was down 0.3 to 35.4 hours; the manufacturing workweek was down 0.1 to 40.1.

Fourth-quarter corporate profits

Profits from current production—profits with inventory valuation and capital consumption adjustments—decreased $1 billion to $180 billion in the fourth quarter. In the third quarter, they had increased $4 billion.

Domestic profits of nonfinancial corporations changed little, as real corporate product increased moderately and unit profits were flat. These profits had decreased $1½ billion in the third quarter, when the effects of a decrease in unit profits more than offset a small increase in real corporate product (chart 5). In the fourth quarter, there were increases in profits of petroleum mining and manufacturing, motor vehicles, and wholesale and retail trade. Petroleum mining and manufacturing profits increased sharply in the fourth quarter, reflecting boosts in the prices of crude petroleum and petroleum products. Following losses in the third quarter, motor vehicle manufacturers registered profits, although profits were very low by historical standards. There were decreases in profits of nonelectrical machinery, rubber, and primary metals manufacturers and of transportation companies.

Domestic profits of financial corporations increased $½ billion, following a $1½ billion increase in the third quarter. The fourth-quarter increase was due to increased profits of Federal Reserve banks. Other financial corporations' profits were unchanged, as higher costs of acquired funds offset higher returns on loans and investments.

Profits from the rest of the world—as measured by the net inflow of branch profits and dividends—decreased $2½ billion, following an increase of $4 billion in the third quarter. Profits on the overseas petroleum operations of U.S. corporations had registered an extraordinarily large increase in the third quarter, and accounted for a large part of the increases in rest-of-the-world profits; they increased less strongly in the fourth quarter. Other profits from the rest of the world, which had increased moderately in the third quarter, decreased sharply in the fourth.

Before-tax book profits increased $4 billion, following an increase of $14½ billion in the third quarter. These profits exclude the two valuation adjustments, which are designed to value inventories and fixed capital used up in production at replacement costs, the valuation concept underlying national income and product accounting, rather than at historical cost, the valuation concept generally underlying business accounting. If, as in the fourth quarter, the historical cost of inventories used up is less than their replacement cost, profits as measured by business profits exceed profits as measured by the national income and product accounts by an amount that is called inventory profits. Inventory profits increased $2½ billion in the fourth quarter, following an increase of $7½ billion in the third.

Corporate profits taxes, which are levied on profits including inventory profits, increased $3½ billion, following an increase of $5½ billion in the third quarter.

The Federal Sector in the fourth quarter

The Federal Government deficit on the national income and product accounting (NIPA) basis increased $3½

Table 4.—Relation of Net Exports of Goods and Services in the National Income and Product Accounts (NIPA's) to Balance of Goods and Services in the Balance of Payments Accounts (BPA's)

[Billions of dollars, seasonally adjusted at annual rates]

		1979			
		I[r]	II[r]	III[r]	IV
1	Exports of goods and services, BPA's	259.8	271.3	299.0	315.2
2	Less: Reinvested earnings of incorporated affiliates of U.S. direct investors [1]	15.0	17.7	20.1	19.8
3	Gold, BPA's [2]	3.6	4.6	5.2	7.0
4	Seasonal adjustment discrepancy [3]	−.7	.4	−.6	.9
5	Statistical differences [4]	2.9	4.4	6.7	6.7
6	Other items	.4	.4	.4	.4
7	Equals: Exports of goods and services, NIPA's	238.5	243.7	267.3	280.4
8	Imports of goods and services, BPA's	253.4	269.1	289.0	312.5
9	Less: Payments of income on U.S. government liabilities [6]	11.0	11.0	11.4	11.3
10	Reinvested earnings of incorporated affiliates of foreign direct investors [1]	2.5	4.0	4.3	4.6
11	Gold, BPA's [2]	1.6	2.5	2.7	4.8
12	Seasonal adjustment discrepancy [3]	3.3	−1.0	−.4	−1.9
13	Statistical differences [4]	.9	1.6	1.8	1.8
14	Other items	0	0	0	0
15	Plus: Gold, NIPA's [2]	.4	.9	.4	.5
16	Equals: Imports of goods and services, NIPA's	234.4	251.9	269.5	292.4
17	Balance of goods and services, BPA's (1–8)	6.4	2.2	10.0	2.7
18	Less: Reinvested earnings of incorporated affiliates (2–10)	12.5	13.7	15.8	15.2
19	Gold (3–11+15)	2.4	2.9	2.9	2.7
20	Seasonal adjustment discrepancy (4–12)	−4.0	1.4	−.2	2.7
21	Statistical differences (5–13)	2.1	2.9	4.8	4.8
22	Other items (6–14)	.4	.4	.4	.4
23	Plus: Payments of income on U.S. Government liabilities (9)	11.0	11.0	11.4	11.3
24	Equals: Net exports of goods and services (7–16)	4.0	−8.1	−2.3	−11.9

[r] Revised.

1. This item, recently included in the BPA's, has not yet been incorporated in the NIPA's.

2. Beginning with estimates for 1976, the treatment of net exports of gold in the NIPA's differs from that in the BPA's. BPA gold exports (line 3) and imports (line 11) are removed from the NIPA's. Imports of gold in the NIPA's (line 15) is the excess of the value of gold in domestic final sales plus the change in business inventories over the value of U.S. production of gold. For further explanation of the NIPA treatment, see the July 1979 SURVEY OF CURRENT BUSINESS, pp. 4–7.

3. Beginning with estimates for 1976, the procedure used to seasonally adjust merchandise exports and imports in the NIPA's differs from that in the BPA's. In the NIPA's, they are calculated as the sums of seasonally adjusted quarterly BPA merchandise exports and imports for major end-use categories. In the BPA's, they are calculated as the sums of Census Bureau seasonally adjusted monthly merchandise exports and imports for Standard Industrial Trade Classification categories converted to a BPA basis. For further explanation, see the text.

4. Consists of statistical revisions in the BPA's that have not yet been incorporated in the NIPA's.

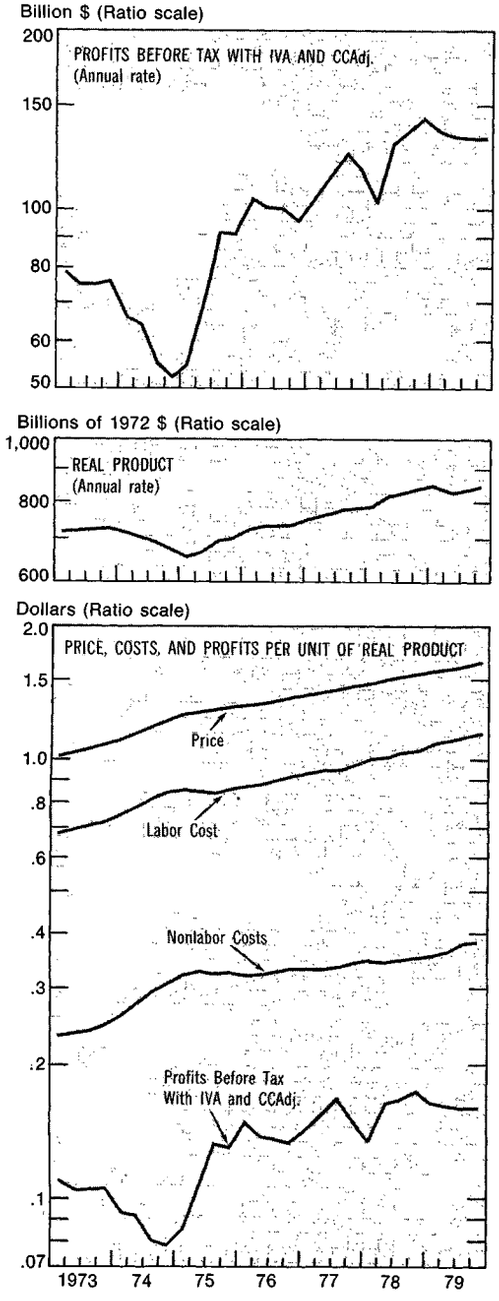
5. Consists of arms shipments to Israel financed under the Emergency Security Act of 1973 and subsequent legislation. In the NIPA's, these arms shipments are classified as military grants, which are included in the defense purchases component of GNP when they are acquired by the U.S. Government. Their transfer abroad is not reflected in the NIPA's.

6. Represents interest paid by government to foreigners. This item is treated as an import of services in the BPA's. In the NIPA's, it is excluded from government purchases and, thus, also from imports. For further explanation, see Part I of the January 1976 SURVEY, p. 7.

billion in the fourth quarter of 1979, as expenditures increased more than receipts. The deficit amounted to $14½ billion at an annual rate, about $1½ billion less than in the fourth quarter of 1978.

CHART 5

Domestic Nonfinancial Corporate Business: Profits; Real Product; and Price, Costs, and Profits per Unit of Real Product



Seasonally Adjusted

NOTE.—Price per unit is current dollar product divided by constant dollar (real) product. Costs and profits per unit are respective components of current dollar product divided by constant dollar product.

U.S. Department of Commerce, Bureau of Economic Analysis 80-3-5

Receipts increased $21 billion in the fourth quarter, slightly more than in the third quarter. Personal tax and nontax receipts increased over $13 billion. Contributions for social insurance increased $4 billion, corporate profits tax accruals $3 billion, and indirect business tax and nontax accruals $¾ billion.

Expenditures increased $24 billion in the fourth quarter. Purchases of goods and services increased $15½ billion, including over $3½ billion for a 7-percent civilian and military pay raise. Agricultural price support operations of the Commodity Credit Corporation contributed $8 billion to the increase in purchases. In the third quarter, loan redemptions, which are treated as negative purchases, had been unusually large as farmers, in response to higher market prices, withdrew crops—especially corn and wheat—previously placed under loan. Redemptions continued in the fourth quarter, but at a much lower rate than in the third. Transfer payments to persons increased $4 billion, including about $2 billion for cost-of-living increases for military and civilian retirees and for veterans pensions. Grants-in-aid to State and local governments and net interest paid each increased $2½ billion; all other expenditures on balance were unchanged.

(*Continued on page 72*)

Table 5.—Revisions in Selected Component Series of the NIPA's, Fourth Quarter of 1979

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates		
	45-day estimate	75-day estimate	Revision	45-day estimate	75-day estimate	Revision
	Billions of current dollars					
GNP	**2,459.4**	**2,456.9**	**−2.5**	**10.9**	**10.5**	**−0.4**
Personal consumption expenditures	1,581.2	1,580.4	−.8	14.5	14.3	−.2
Nonresidential fixed investment	264.2	265.2	1.0	3.8	5.4	1.6
Residential investment	116.6	116.4	−.2	1.8	1.4	−.4
Change in business inventories	6.7	5.6	−1.1			
Net exports	−10.5	−11.9	−1.4			
Government purchases	501.2	501.2	0	21.1	21.1	0
Federal	178.4	178.4	0	43.8	43.8	0
State and local	322.8	322.8	0	10.4	10.4	0
National income		**1,993.6**			**11.1**	
Compensation of employees	1,513.1	1,513.2	.1	11.4	11.4	0
Corporate profits with inventory valuation and capital consumption adjustments		179.6			−2.5	
Other	300.0	300.7	.7	17.1	18.3	1.2
Personal income	**2,003.1**	**2,005.0**	**1.9**	**12.1**	**12.6**	**.5**
	Billions of constant (1972) dollars					
GNP	**1,440.7**	**1,440.3**	**−.4**	**2.1**	**2.0**	**−.1**
Personal consumption expenditures	935.9	935.4	−.5	4.4	4.1	−.3
Nonresidential fixed investment	149.8	150.5	.7	−2.3	−.3	2.0
Residential investment	55.9	55.8	−.1	−4.2	−4.5	−.3
Change in business inventories	2.5	1.4	−1.1			
Net exports	19.8	20.1	.3			
Government purchases	276.9	277.1	.2	5.7	6.0	.3
Federal	100.9	101.1	.2	14.9	16.0	1.1
State and local	176.0	176.0	0	.8	.8	0
	Index numbers, 1972=100 [1]					
GNP implicit price deflator	170.71	170.58	−.13	8.7	8.4	−.3
GNP fixed-weighted price index	174.6	174.4	−.2	9.7	9.4	−.3
GNP chain price index				8.9	8.5	−.4

1. Not at annual rates.

NOTE.—For the fourth quarter of 1979, the following revised or additional major source data became available: For *personal consumption expenditures*, revised retail sales for December, consumer share of new car purchases for December, and consumption of electricity for November; for *nonresidential fixed investment*, revised manufacturers' shipments of equipment for December, revised construction put in place for December, business share of new car purchases for December, and business expenditures for plant and equipment for the quarter; for *residential investment*, revised construction put in place for December; for *change in business inventories*, revised book values for manufacturing and trade for December; for *net export of goods and services*, revised merchandise trade for December, and revised service receipts for the quarter; for *government purchases of goods and services*, revised construction put in place for December; for *wages and salaries*, revised employment, average hourly earnings, and average weekly hours for December; for *corporate profits*, domestic book profits for the quarter, revised dividends from abroad and branch profits (net) for the quarter; and for *GNP prices*, revised unit value indexes for exports and imports for December, and residential housing prices for the quarter.

(*Continued from page 7*)

Special reconciliation table: net export and balance on goods and services

A reconciliation of the definitional and statistical differences between net export of goods and services in the national income and product accounts and the balance on goods and services in the balance of payments accounts is shown in table 4.

Fourth-quarter NIPA revisions

The 75-day revisions of the national income and product account estimates for the fourth quarter of 1979 are shown in table 5.

(*Continued from page 52*)

Net inflows for foreign direct investments in the United States increased $1.4 billion to $7.7 billion. The increase was more than accounted for by higher reinvested earnings, which increased $1.5 billion to $3.8 billion. About one-half of the increase was attributable to petroleum affiliates, particularly those of European parents. Inflows on equity and intercompany accounts were down $0.1 billion to $3.8 billion. A $0.3 billion decrease in equity inflows (capital stock and additional paid-in capital) more than accounted for the decrease.

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the BUSINESS SITUATION

REAL GNP increased 1 percent at an annual rate in the first quarter, about one-half as much as in the fourth quarter of 1979 (chart 1 and table 1).[1] Inflation, as measured by the GNP fixed-weighted price index, accelerated from 9½ percent in the fourth quarter to 11½ percent in the first.

The major factors in the deceleration in real GNP were personal consumption expenditures (PCE), which increased substantially less, and residential construction, which dropped more sharply than in the fourth quarter. A slowdown in inventory accumulation held down the increases in real GNP in both the first and fourth quarters, although less in the first quarter than in the fourth.

The quarter-to-quarter increase in real GNP masks what was probably the onset of a downturn toward the end of the first quarter. Real PCE, which is available monthly, dropped about 2½ percent at an annual rate from December to March. Also, several monthly series that underlie GNP fell off during the quarter. In particular, motor vehicle production and housing starts dropped precipitously in March.

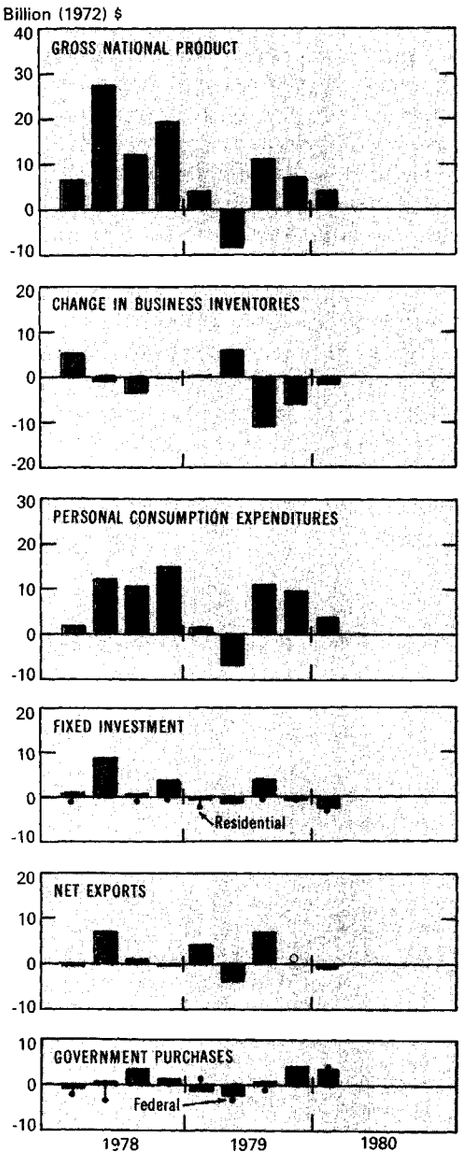
Prices.—If the Federal pay raise in the fourth quarter is set aside, the acceleration in GNP prices was 3 rather then 2 percentage points (table 2). (The pay raise is reflected In GNP prices because it represents an increase in the prices of employee services purchased by the Government.) Prices paid by consumers as well as those paid by investors in fixed capital increased more than in the fourth quarter. The acceleration in the former was from 10½ percent to 14 percent. Food prices increased less than in the fourth quarter, but PCE energy prices and prices of other PCE increased more. The acceleration in the latter category was widespread, and probably reflected the working through to consumers of higher energy costs and perhaps also labor costs incurred by producers and distributors.

PCE energy prices increased at an annual rate of 53½ percent in the first quarter, about twice as much as in the fourth. The price of gasoline and oil increased 85 percent. It had increased 33½ percent in the fourth quarter, after increases of about 75 percent in the second and third quarters. First-quarter accelerations also occurred in the prices of fuel oil and electricity, but the increases in the first quarter were less than those in mid-1979. The price of natural gas continued to decelerate. Residential users were shielded from the full effect of the decontrol of natural gas prices by a system of surcharges that shifts the higher costs to large industrial users.

Several developments contributed to the first-quarter increases of gasoline and fuel oil prices. Around the turn of the year, most nations—both OPEC and non-OPEC—from which the United States imports crude oil announced price increases, some with retroactive features. The embargo on

CHART 1

Real Product: Change From Preceding Quarter



Based on Seasonally Adjusted Annual Rates

U.S. Department of Commerce, Bureau of Economic Analysis 80-4-1

1. The first-quarter GNP estimates are based on the following major data sources: For *personal consumption expenditures* (PCE), retail sales, and unit auto and truck sales through March; for *nonresidential fixed investment*, the same information for autos and trucks as for PCE, manufacturers' shipments of machinery and equipment for January and February, January and February construction put in place, and investment plans for the quarter; for *residential investment*, January and February construction put in place, and housing starts for January and February; for *change in business inventories*, January and February book values for manufacturing and trade, and unit auto inventories through March; for *net exports of goods and services*, January and February merchandise trade, and fragmentary information on investment income for the quarter; for *government purchases of goods and services*, Federal unified budget outlays for January and February, State and local construction put in place for January and February, and State and local employment through March; and for *GNP prices*, the Consumer Price Index for January and February, the Producer Price Index through March, and unit values for imports for January. Some of these source data are subject to revision.

Table 1.—Gross National Product in Current and Constant Dollars

	Current dollars				Constant (1972) dollars						
	Billions of dollars, seasonally adjusted at annual rates								Percent change from preceding quarter at annual rates		
	1979			1980	1979			1980	1979		1980
	II	III	IV	I	II	III	IV	I	III	IV	I
Gross national product	**2,329.8**	**2,396.5**	**2,456.9**	**2,520.3**	**1,422.3**	**1,433.3**	**1,440.3**	**1,444.2**	**3.1**	**2.0**	**1.1**
Final sales	2,296.4	2,381.9	2,451.4	2,515.8	1,404.1	1,426.2	1,439.0	1,443.3	6.4	3.6	1.5
Change in business inventories	33.4	14.5	5.6	4.5	18.1	7.1	1.4	0			
Less: Rest-of-the-world product	23.7	26.9	26.4	25.7	8.1	8.0	6.5	5.0			
Equals: Gross domestic product	**2,306.1**	**2,369.5**	**2,430.6**	**2,494.6**	**1,414.2**	**1,425.3**	**1,433.8**	**1,439.2**	**3.2**	**2.4**	**1.5**

Iranian oil diverted some U.S. purchases to the spot market, in which prices tend to be higher than those of oil purchased under contract. Effective January 1, the second stage of the phasing out of controls on domestic crude oil prices began; decontrol is scheduled to be completed by October 1981. Also, in December the first semiannual adjustment to the maximum allowable gross margin for retail gasoline dealers was made, enabling them to raise the price of gasoline.

Given the uncertainty of the international economic and political situation, it is risky to predict the second-quarter course of the world price of crude oil. However, a further increase in this price is likely. PCE energy prices will also be affected by a $4.62 per barrel fee on imported crude oil that was imposed as part of the administration's mid-March anti-inflation program. (See the March issue of the SURVEY OF CURRENT BUSINESS for a summary of that program.) The fee is intended to be shifted to gasoline, and will raise its price about 10 cents per gallon effective May 15.

The increase in PCE food prices decelerated to 6½ percent (annual rate) in the first quarter from 9½ percent in the fourth. The deceleration in the price of food consumed at home to 4 percent from 9½ percent in the fourth quarter more than offset an acceleration in the price of restaurant meals. Large supplies of citrus fruits, of vegetables, and of pork and poultry were major factors in the deceleration and are likely to be reflected in another moderate food price increase in the second quarter.

Labor market conditions.—Employment continued to increase in the first quarter, but signs of labor market weakness appeared. The household measure of employment increased only 140,000, or 300,000 less than in the fourth quarter (table 3). Unemployment increased 310,000, and the unemployment rate increased 0.2 to 6.1 percent. As in the 2 previous quarters, the increase in unemployment was concentrated among job losers. The increase in the unemployment rate would have been larger but for a slowing in

Table 2.—Fixed-Weighted Price Indexes

	Index numbers (1972=100) seasonally adjusted							Percent change from preceding quarter at annual rates					
	1978		1979				1980	1978	1979				1980
	III	IV	I	II	III	IV	I	IV	I	II	III	IV	I
Gross national product	**155.7**	**159.0**	**162.8**	**166.6**	**170.6**	**174.4**	**179.2**	**8.9**	**9.9**	**9.5**	**10.0**	**9.4**	**11.4**
Less: Change in business inventories													
Equals: Final sales	**155.6**	**158.9**	**162.7**	**166.4**	**170.4**	**174.3**	**179.0**	**8.8**	**9.9**	**9.5**	**10.0**	**9.4**	**11.3**
Less: Exports	192.9	199.2	205.3	211.4	220.5	227.8	237.7	13.8	12.9	12.4	18.5	13.9	18.4
Plus: Imports	217.4	222.1	229.6	240.9	256.8	273.8	293.1	9.1	14.1	21.2	29.1	29.3	31.2
Equals: Final sales less exports plus imports	**157.3**	**160.5**	**164.4**	**168.5**	**172.9**	**177.4**	**182.5**	**8.5**	**10.1**	**10.3**	**11.0**	**10.8**	**12.7**
Personal consumption expenditures	153.1	155.9	160.0	163.9	168.4	172.6	178.4	7.4	11.0	10.3	11.3	10.5	14.0
Food	165.2	168.8	175.8	178.5	179.5	183.5	186.5	9.0	17.6	6.3	2.3	9.3	6.6
Energy [1]	194.5	198.8	207.9	231.4	262.3	278.3	309.7	9.1	19.5	53.5	65.2	26.7	53.4
Other personal consumption expenditures	145.8	148.2	151.0	153.5	156.4	159.6	163.7	6.7	7.9	6.7	7.8	8.5	10.7
Other	164.3	168.4	171.9	176.2	180.6	185.5	190.3	10.2	8.7	10.4	10.5	11.3	10.6
Nonresidential structures	172.9	177.7	181.6	186.4	191.7	196.0	200.8	11.6	9.1	10.9	11.8	9.2	10.2
Producers' durable equipment	156.4	158.4	161.5	165.6	169.1	171.8	175.9	5.7	7.6	10.5	8.9	6.4	10.0
Residential	182.9	189.5	192.7	199.3	205.7	208.9	214.2	15.1	7.0	14.3	13.5	6.4	10.6
Government purchases	160.6	164.5	168.2	172.0	176.0	182.1	186.8	10.0	9.4	9.2	9.8	14.5	10.8
Federal	156.1	160.8	164.0	167.2	171.1	180.2	184.7	12.8	8.2	7.9	9.8	22.9	10.4
State and local	163.7	167.0	171.1	175.2	179.4	183.4	188.3	8.2	10.1	10.0	9.9	9.3	11.1

1. Gasoline and oil, fuel oil and coal, electricity, and gas.

Table 3.—Selected Labor Market Indicators

[Seasonally adjusted]

	1979				1980	Change			
	I	II	III	IV	I	1979:I-1979:II	1979:II-1979:III	1979:III-1979:IV	1979:IV-1980:I
Household survey									
Civilian labor force (millions)	102.3	102.4	103.2	103.7	104.2	0	0.9	0.5	0.4
Employment	96.4	96.5	97.2	97.7	97.8	0	.8	.4	.1
Unemployment	5.9	5.9	6.0	6.1	6.4	0	.1	.1	.3
Job losers	2.5	2.4	2.6	2.7	3.0	0	.2	.1	.3
On layoff	.8	.8	.9	1.0	1.1	0	.1	.1	.1
Other job losers	1.7	1.6	1.8	1.8	1.9	0	.1	0	.1
Job leavers, reentrants, and new entrants	3.4	3.4	3.4	3.4	3.4	0	−.1	0	0
Employment-population ratio	59.3	59.1	59.3	59.3	59.2	−.2	.2	0	−.1
Unemployment rate (percent):									
Total	5.8	5.8	5.8	5.9	6.1	0	0	.1	.2
Adult men	4.0	4.0	4.2	4.2	4.7	0	.2	0	.5
Adult women	5.7	5.7	5.6	5.7	5.7	0	−.1	.1	0
Teenagers	15.9	16.1	16.2	16.1	16.2	.2	.1	−.1	.1
Civilian labor force participation rate (percent):									
Total	63.7	63.5	63.8	63.8	63.8	−.2	.3	0	0
Adult men	80.0	79.7	79.9	79.6	79.5	−.3	.2	−.3	−.1
Adult women	50.3	50.3	50.9	51.0	51.2	0	.6	.1	.2
Teenagers	58.8	57.9	57.5	58.2	57.7	−.9	−.4	.7	−.5
Establishment survey									
Employment, nonfarm payroll (millions)	88.7	89.4	89.8	90.1	90.7	.6	.4	.3	.6
Goods producing	26.5	26.6	26.6	26.6	26.7	.1	0	−.1	.1
Manufacturing	21.0	21.1	21.0	20.9	20.9	0	−.1	−.1	0
Other	5.5	5.6	5.6	5.7	5.8	.1	.1	.1	.1
Distributive [1]	25.1	25.2	25.3	25.5	25.7	.1	.1	.2	.2
Services [2]	21.6	21.9	22.1	22.3	22.6	.3	.2	.2	.2
Government	15.5	15.6	15.7	15.7	15.7	.1	.1	0	0
Average weekly hours, private nonfarm:									
Total	35.8	35.5	35.6	35.7	35.5	−.3	.1	.1	−.2
Manufacturing	40.6	39.8	40.2	40.2	40.0	−.8	.4	0	−.2

1. Transportation and public utilities, and wholesale and retail trade.
2. Services, and finance, insurance, and real estate.
Source: Bureau of Labor Statistics.

labor force growth and an increase of 250,000 in the number of discouraged workers.

The payroll measure of employment increased 580,000 in the first quarter, 230,000 more than in the fourth. Trade (220,000), services (190,000), and construction (80,000) accounted for the bulk of the first-quarter increase, although employment in construction declined in both February and March. The average workweek in the private nonfarm economy was down 0.2 to 35.5 hours; the manufacturing workweek was down 0.2 to 40.0 hours.

The quarter-to-quarter changes in the major labor market indicators do not bring out fully the weakening that occurred during the first quarter. Employment as measured by both the household and payroll series declined in March; the unemployment rate was up to 6.2 percent, and the average workweek slipped further—to 35.4 hours for the private nonfarm economy and to 39.8 hours for manufacturing.

Costs and productivity.—Table 4 adapts the information on real product, employment, and hours to focus on costs and productivity in the business economy other than farm and housing. The increase in real product in this sector decelerated in the first quarter, as did the increase in aggregate hours.[2] Compensation increased 11 percent at an annual rate, about the same as in the 2 previous quarters. About 1 percentage point of the first-quarter increase was due to two special factors: Compensation was affected by the increase—from $2.90 to $3.10 per hour—in the minimum wage under the Fair Labor Standards Act, and by the increase in employer contributions for social insurance due to a change in the social security tax base from $22,900 to $25,900. Compensation per hour increased 10 percent, up from 9 percent, and unit labor costs increased 10 percent, up from 8½ percent. In both of these measures, the step-up was largely due to the two special factors.

2. The measure of real gross product in this table is, in essence, derived as the sum of incomes, i.e., it excludes the residual, which is the constant-dollar counterpart of the statistical discrepancy. As a result, the quarterly changes in real gross product shown in this table differ from those in measures of real gross product, such as GNP, that are derived as the sum of products. The difference between the two kinds of measures was particularly large in the third quarter of 1979.

Personal income and its disposition

Personal income increased $51½ billion, $7 billion less than in the fourth quarter (table 5).[3] The deceleration was largely in farm proprietors' income. This income declined $4 billion after an increase of $1½ billion in the fourth quarter. The swing was mainly due to livestock prices, which had increased sharply in the fourth quarter and changed little in the first.

Wage and salary disbursements increased a little less than in the fourth quarter—$30½ billion, compared with $32½ billion. Wages and salaries of employees of government and government enterprises increased less than in the fourth quarter, because that quarter had included a $3½ billion Federal pay raise. Wages and salaries in the distributive industries also increased less, despite the increase in the minimum wage.

Several special factors other than the Federal pay raise and the increase in the minimum wage also affected personal income. First-quarter transfer payments were raised $1.6 billion by an energy allowance for recipients of Supplemental Security Income. Rental

3. Quarterly estimates of the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

Table 4.—Real Gross Product, Hours, and Compensation in the Business Economy Other Than Farm and Housing

[Percent change from preceding quarter at annual rates based on seasonally adjusted estimates]

	1979			1980
	II	III	IV	I
Real gross product	−3.8	1.1	2.4	1.0
Hours	.6	2.2	2.2	1.3
Compensation	8.5	11.3	11.3	11.2
Real gross product per hour	−4.4	−1.1	.2	−.2
Compensation per hour	7.9	8.9	8.9	9.8
Unit labor cost	12.8	10.2	8.7	10.1

Table 5.—Personal Income: Change From Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1979: IV	1980: I
Wage and salary disbursements	32.4	30.6
Manufacturing	6.4	7.8
Other commodity-producing	3.1	3.1
Distributive	8.4	6.9
Services	9.0	9.4
Government and government enterprises	5.6	3.5
Proprietors' income	4.2	−3.2
Farm	1.6	−4.1
Nonfarm	2.6	.8
Transfer payments	5.7	8.1
Other income	17.8	19.5
Less: Personal contributions for social insurance	1.8	3.5
Personal income	58.4	51.6
Less: Federal pay raise	3.5	.2
Minimum wage		2.0
Energy allowance		1.6
California flood damage		−.3
Less: Social security base change		2.5
California refund		−.7
Personal income, adjusted	54.9	49.9

income of persons (included in "other income" in table 5) and nonfarm proprietors' income were reduced $0.3 billion by flood damage in California. Finally, personal contributions for social insurance, which are deducted in deriving personal income, were held down $0.7 billion by a refund of employee contributions under the cash sickness (disability insurance) program administered by the State of California and were boosted $2.5 billion by the increase in the social security tax base. If personal income is adjusted for all the special factors, which are listed at the bottom of table 5, the fourth-to-first-quarter deceleration was $5 billion.

In contrast to the deceleration in personal income, disposable personal income accelerated—from a $43-billion increase in the fourth quarter to a $53½-billion increase in the first. The acceleration was due to a turnaround in personal tax and nontax payments from a $15½-billion increase to a $2-billion decline (table 6). More than one-half of the turnaround was accounted for by an unusual increase in Federal income tax refunds that resulted from overwithholding in 1979. Legislative cuts in State and local personal taxes, about one-half in California, also contributed. The increase in personal outlays exceeded that in disposable personal income, as it had in the 2 previous quarters. Consequently, personal saving declined for the third consecutive quarter, but the decline was much less than in the 2 previous quarters. The saving rate was down slightly to 3.4 percent, which is very low by historical standards.

Real disposable personal income changed little in the first quarter. It has been flat since the first quarter of 1979 (chart 2).

Real PCE.—Real PCE increased 1½ percent (annual rate) in the first quarter, compared with 4 percent in the fourth (table 7). PCE on motor vehicles and parts increased 11½ percent after a 5½-percent decline in the fourth quarter. (See the discussion of autos, which follows in this section, and of trucks, which is in the investment section). PCE on energy declined over 10 percent—in line with its 12-percent decline since the first quarter of 1979. Expenditures on gasoline were down 13 percent over the 4 quarters; most of the drop was in the second quarter of 1979, when the gasoline shortage was most severe. Sharp price increases that followed—the average retail price of regular gasoline jumped from $0.88 per gallon in July 1979 to $1.19 per gallon in March 1980—and efforts to conserve energy held down gasoline expenditures in subsequent quarters. Expenditures

Table 6.—Personal Tax and Nontax Payments: Change From Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1979: IV	1980: I
Personal tax and nontax payments	15.3	−1.9
Federal	13.4	−2.0
Impact of legislation	−.6	−11.9
Withheld	−.5	−.4
Nonwithheld less refunds	−.1	−11.5
Other	14.0	9.9
State and local	1.9	.2
Impact of legislation	−.1	−2.0
Other	2.1	2.2

Table 7.—Personal Consumption Expenditures In Current and Constant Dollars

	Current dollars				Constant (1972) dollars						
	Billions of dollars, seasonally adjusted at annual rates								Percent change from preceding quarter at annual rate		
	1979			1980	1979			1980	1979		1980
	II	III	IV	I	II	III	IV	I	III	IV	I
Personal consumption expenditures	1,475.9	1,528.6	1,580.4	1,634.1	915.0	925.9	935.4	939.0	4.9	4.1	1.6
Durables	208.7	213.4	216.2	221.8	144.8	146.9	146.7	146.3	5.8	−.6	−1.0
Motor vehicles and parts	89.1	89.8	89.4	94.3	57.1	57.1	56.4	57.9	.2	−5.3	11.7
Furniture and household equipment	84.2	87.3	88.9	89.0	62.4	64.3	64.7	63.5	13.3	2.2	−7.0
Other durables	35.4	36.3	37.8	38.4	25.4	25.4	25.6	24.9	.8	3.4	−11.5
Nondurables	581.2	604.7	630.7	653.0	344.1	349.2	355.1	354.5	6.1	7.0	−.6
Food	296.7	303.1	315.6	324.3	166.7	169.3	172.3	174.2	6.4	7.3	4.4
Energy [1]	77.5	88.7	93.8	104.7	31.5	31.0	30.6	29.7	−6.0	−4.9	−11.3
Clothing and shoes	96.9	101.0	103.6	103.0	74.9	77.6	78.5	76.8	15.2	4.8	−8.5
Other nondurables	110.2	111.9	117.7	121.1	71.0	71.3	73.7	73.9	1.4	14.0	1.1
Services	686.0	710.6	733.5	759.4	426.1	429.9	433.6	438.1	3.6	3.5	4.2
Energy [2]	47.3	49.6	50.5	50.4	23.8	23.5	23.5	22.8	−5.3	1.1	−10.2
Other services	638.7	660.9	683.0	709.0	402.3	406.4	410.1	415.3	4.1	3.8	5.1

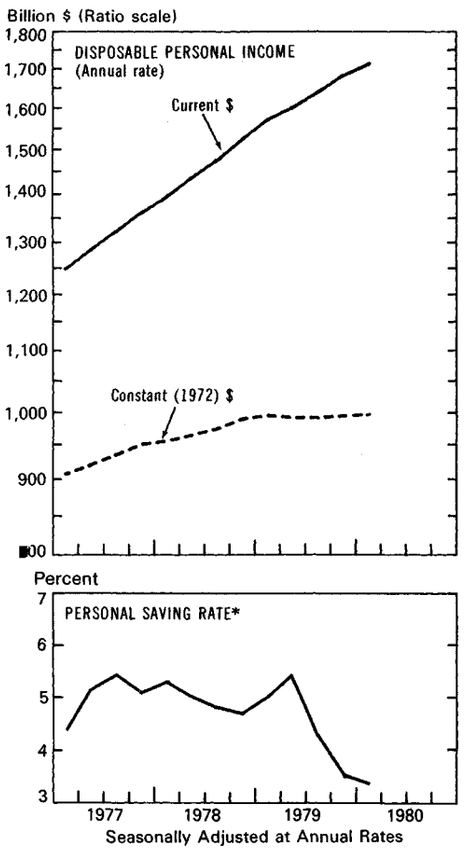
1. Gasoline and oil, and fuel oil and coal.
2. Electricity and gas.

on fuel oil and on natural gas each dropped 19 percent over the 4 quarters. These expenditures are mainly for home heating, and, reflecting differences in weather conditions, had been abnormally high a year ago and were abnormally low in the first quarter of this year. Expenditures on electricity were down about 5 percent.

Expenditures on other goods weakened in the first quarter. Three categories—furniture and equipment, other durables, and clothing and shoes—declined after fourth-quarter increases; two categories—food, and other nondurables—registered smaller increases. Expenditures on services (other than energy) increased more than in the fourth quarter, mainly because of a sharp increase in brokerage charges due to heavy activity in security and commodity markets.

CHART 2

Disposable Personal Income and Personal Saving Rate



* Personal saving as a percentage of disposable personal income.

U.S. Department of Commerce, Bureau of Economic Analysis 80-4-2

Not only did real PCE decelerate from the fourth quarter to the first, but it declined in February and March. The declines were widespread among goods, but were partly offset by a continuing uptrend in services.

Autos.—Unit sales of new passenger cars, which are sales to consumers, business, and other final users, increased from 9.9 million (seasonally adjusted annual rate) in the fourth quarter to 10.7 million in the first (chart 3). The increase was entirely in imports and in domestic small cars, both of which are relatively fuel-efficient. Imports rose sharply from 2.4 million in the fourth quarter to a record 2.8 million in the first, and domestic small cars from 3.6 million to a record 4.0 million. Domestic intermediate and full-size car sales remained weak. The shift toward domestic small cars occurred despite various dealer incentive and rebate programs designed to stimulate purchases of large cars. In the first quarter, the market share of small cars exceeded the shares registered at the heights of the 1974 and the 1979 gasoline shortages. This development confirms the importance of the price—in addition to the availability—of gasoline as a factor in new car purchasing decisions. It also suggests that the distribution of sales by size categories is not likely to shift back very far in the direction of large cars.

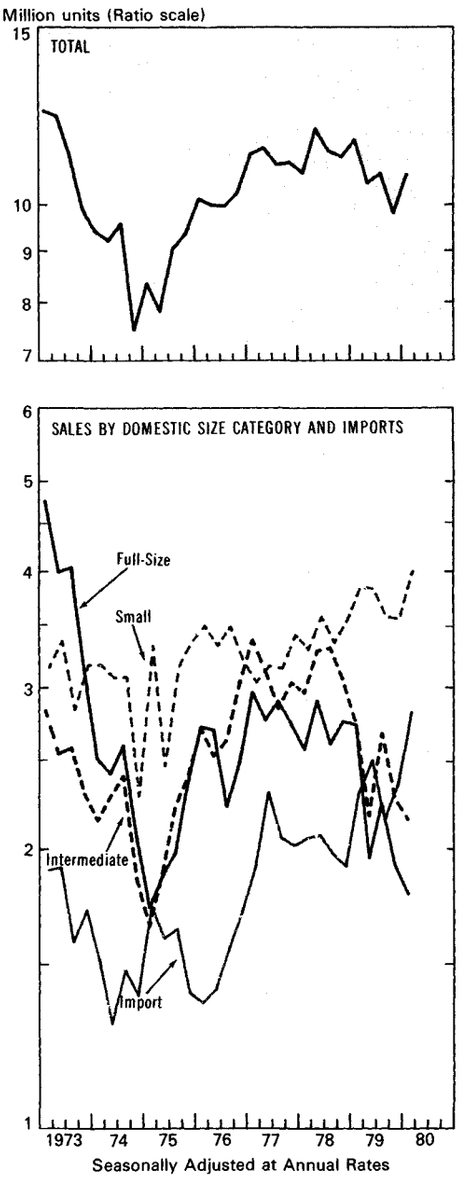
Although new car sales increased in the first quarter, they declined from 11.6 million in January to 10.4 million in February and to 10.1 million in March (seasonally adjusted annual rates). The decline was most severe for large cars, but domestic small cars and imports declined also. The financing of new car purchases may have become a problem. Interest rates on retail auto installment credit were high and rising, and the availability of funds was curtailed. Credit extensions by banks and credit unions were cut back; some of the slack, however, was taken up by finance companies, including auto makers' subsidiaries. In some States, usury laws were a factor in curtailing the availability of funds.

Investment

Real nonresidential fixed investment registered little change in the first quarter, as it had in the fourth (table 8). Investment in structures and in producers' durable equipment other than motor vehicles increased, but less than in the fourth quarter, and motor vehicles declined, but also less than in

CHART 3

Retail Sales of New Passenger Cars



Note.—The components may not add to the total because each category was separately adjusted for seasonal variation.

Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports; seasonal adjustment by BEA.

U.S. Department of Commerce, Bureau of Economic Analysis 80-4-3

the fourth quarter. The first-quarter decline in motor vehicles was more than accounted for by trucks; autos increased after a very sharp drop in the fourth quarter. In terms of units, domestic new truck sales fell from 2.8 million (seasonally adjusted annual rate) in the fourth quarter to 2.4 million in the first. Sales of light trucks (up to 10,000 pounds) dropped to 2.1 million in the first quarter, their lowest level in 4½ years. Sales of large trucks (over 10,000 pounds) declined for the fifth consecutive quarter.

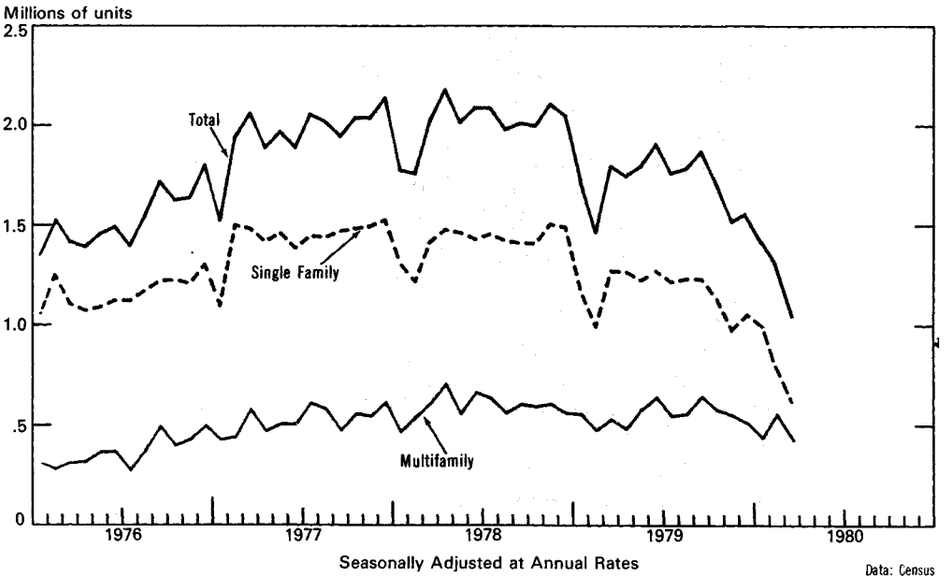
The yearlong decline in real residential construction worsened in the first quarter, when construction dropped 20 percent at an annual rate. The decline was in single-family units; construction of multifamily units—apartments and condominiums—continued to increase.

Housing starts dropped 0.33 million to 1.26 million (seasonally adjusted annual rate) in the first quarter. The sharpness of the first-quarter decline was evident throughout the country—ranging from 12 percent in the South to 30 percent in the North Central region. As can be seen from chart 4, after weakening since September, starts dropped precipitously in March to 1.04 million—one-half the level recorded in 1977 and 1978.

Deterioration was evident also in another indicator of housing activity. Total sales, including existing as well as new homes, averaged 3.7 million (seasonally adjusted annual rate) in the first 2 months of 1980, down from 4.2 million in the fourth quarter.

CHART 4

Housing Starts



High and rising interest rates and a sharp slowdown of savings flows into thrift institutions have been major factors contributing to the housing decline. Net new money at thrift institutions—new deposits received minus withdrawals and interest—slowed over the last year, and the increase in deposits was concentrated in high-cost money market certificates and jumbo certificates. The prime rate, to which construction loans are tied, had been less than 12 percent through mid-1979 and then climbed sharply, especially after the Federal Reserve's credit tightening moves in October 1979 and in March 1980 (chart 5). At the end of the quarter, it reached 19½ percent. The interest rate on mortgage commitments (25-year loans, with a loan-to-price ratio of 75 percent) rose to over 14 percent. Reflecting these factors, outstanding mortgage commitments in February were 18 percent below their year-earlier level.

Federal authorities have taken several steps recently to increase savings flows and the availability of mortgage credit, but these steps are unlikely to have a substantial effect in the near

Table 8.—Fixed Investment in Current and Constant Dollars

	Current dollars				Constant (1972) dollars						
	Billions of dollars, seasonally adjusted at annual rates								Percent change from preceding quarter at annual rates		
	1979			1980	1979			1980	1979		1980
	II	III	IV	I	II	III	IV	I	III	IV	I
Fixed investment	**361.9**	**377.8**	**381.7**	**384.3**	**203.5**	**207.1**	**206.3**	**203.7**	**7.2**	**−1.5**	**−5.0**
Nonresidential	249.1	261.8	265.2	271.6	146.9	150.7	150.5	151.0	10.7	−.3	1.1
Structures	90.5	95.0	100.2	102.6	47.9	48.7	50.1	50.5	7.1	12.2	2.8
Producers' durable equipment	158.6	166.7	165.1	169.0	99.0	101.9	100.4	100.5	12.5	−6.0	.3
Autos, trucks and buses	38.1	41.1	35.6	34.6	24.4	25.7	22.2	21.1	23.5	−43.9	−18.4
Other	120.5	125.7	129.4	134.4	74.6	76.3	78.2	79.3	9.0	10.4	6.1
Residential	112.9	116.0	116.4	112.7	56.7	56.5	55.8	52.8	−1.5	−4.5	−20.1

future. In late March, the Federal Home Loan Bank Board reduced the liquidity reserve requirement for savings and loan associations from 5½ to 5 percent, effective April 1. In early April, the Board voted to allow them to begin immediately to issue "renegotiated-rate mortgages," whose interest rate could rise or fall up to one-half a percentage point a year, and up to 5 percentage points over the life of the loan. On March 31, the Depository Institutions Deregulation and Monetary Control Bill was signed. Under this legislation, interest ceilings on savings accounts are phased out over a 6-year period, and State usury ceilings on mortgage loans are abolished unless the States reenact them within 3 years.

As can be seen from chart 6, which presents an overview of inventory developments, in the first quarter, as in the fourth, real inventories registered little change. Both ratios shown in the chart—one relating business inventories to business final sales and another relating them to final sales of goods and structures—have fallen in recent quarters, as sales have continued to increase. They are close to levels registered in 1977–78 when, as is generally accepted, inventories were lean. The ratio of inventories to business final sales has fallen more in recent quarters because, in contrast to the goods and structures ratio, it reflects the steady growth of services.

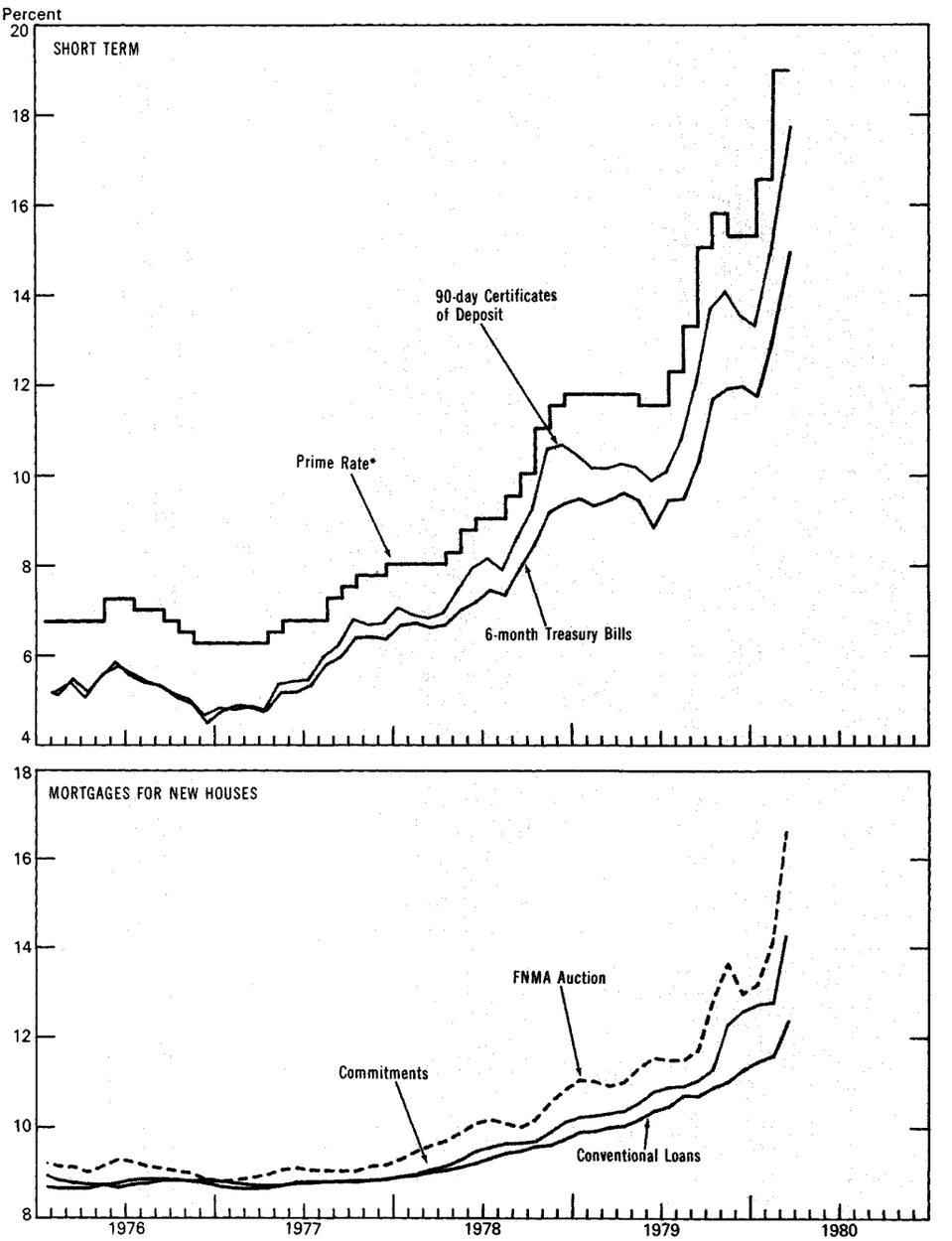
A more detailed view can be obtained from manufacturing and trade inventories and sales in constant dollars. The inventory-sales ratio for total manufacturing and trade confirms the impression that, overall, there is no imbalance. Since the second quarter of 1979, this ratio has been flat at levels only moderately higher than in 1977–78. However, within the total there have been two offsetting changes (table 9). The ratio for durables manufacturing has increased, reflecting declining sales and increasing inventories, particularly in transportation equipment and metals. The ratio for retail auto dealers has declined, as inventories were reduced. In terms of units, inventories of domestic cars fell steadily from a peak of 1.9 million (seasonally adjusted) in the second quarter of 1979 to 1.4 million at the end of the first quarter of 1980. The first-quarter inventory-sales ratio was 2.1, close to the 2.0 ratio preferred by dealers. Large cars were overstocked despite the rebate and incentive programs. Several models of domestic small cars and of imports were in short supply; limitations in capacity here and abroad as well as shipping constraints on imports may slow rebuilding of stocks of these models.

Net exports

Real net exports were up slightly in the first quarter, as both exports and imports increased more than in the fourth (table 10). Merchandise exports, particularly capital and consumer goods, were up sharply. The increase in consumer goods reflected large shipments of silver coins to European re-

CHART 5

Selected Interest Rates



*At the end of the month

Data: FRB, FHLBB

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

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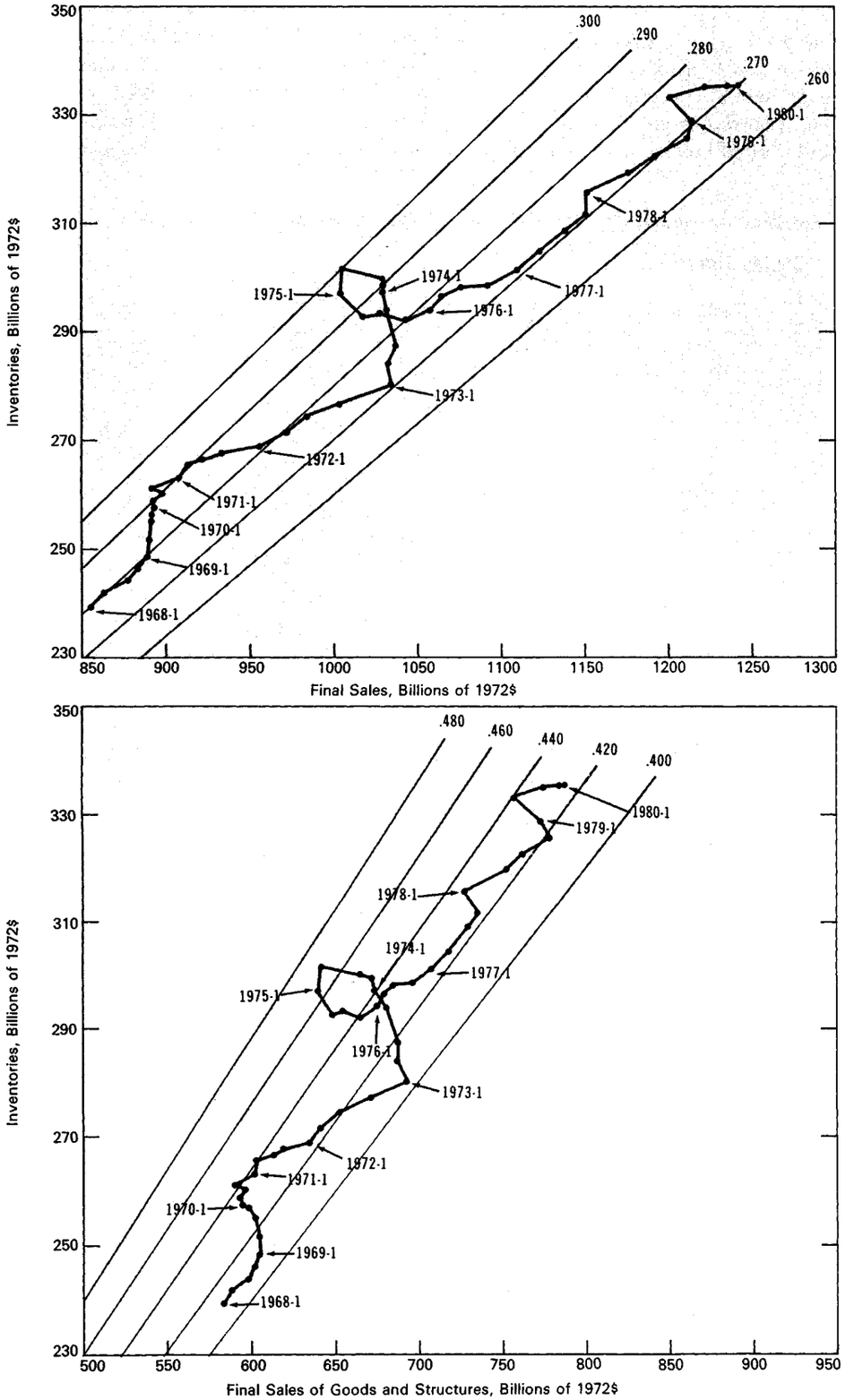
CHART 6

Constant-Dollar Business Inventories, Final Sales and Final Sales of Goods and Structures, and Inventory-Sales Ratios



Note.—End-of-quarter inventories, seasonally adjusted; final sales seasonally adjusted at annual rates.
Blue lines represent ratios of inventory stocks to final sales.

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

80-4-6

finers. Agricultural exports fell, partly due to reduced grain shipments to the Soviet Union. Merchandise imports were also up, but not as much as exports. Automotive and capital goods imports increased after changing little in the fourth quarter. Petroleum imports, which had been steady since the second quarter of 1979, were lower; in contrast, current-dollar petroleum imports soared because of price increases.

Government

Real government purchases of goods and services increased 5½ percent (annual rate) in the first quarter, almost as much as in the fourth (table 11). Federal purchases increased substantially, as they had in the fourth quarter. Commodity Credit Corporation agricultural price support operations added to Federal purchases; in both quarters, declining crop prices led farmers to place substantial quantities of crops under loan.

NIPA Federal sector.—Information on current-dollar Federal receipts and expenditures is shown in table 12. Expenditures increased $23½ billion, a little less than in the fourth quarter. Purchases increased $9 billion, compared with $15½ billion. The fourth-quarter increase had included the $3½ billion Federal pay raise and substantial Commodity Credit Corporation loan extensions. Larger increases in other categories of expenditures, particularly net interest paid, almost offset the deceleration in purchases. Net interest paid reflected higher interest rates on Federal securities, and transfer payments included, as already noted, payment of the energy allowance to recipients of Supplemental Security Income.

Receipts will increase less than in the fourth quarter. Personal taxes declined, largely because, as noted earlier, there were unusually high refunds in the first quarter. Other receipts increased more than in the fourth quarter; legislative changes were a major factor. Contributions for social insurance reflected the increase in the social security tax base. The step-up in indirect business taxes was due to the imposition of the windfall profits tax on March 1 ($3.5 billion) and of the fee on imported crude oil on

March 15 ($2 billion). (See "Federal Budget Revisions for Fiscal Years 1980 and 1981" later in this issue.) Corporate profits tax accruals, and hence total receipts and the surplus or deficit, cannot be estimated at this time because corporate profits for the first quarter are not yet available. However, if a rough calculation of corporate profits is made on the basis of a corporate profits figure that can be prepared by assuming that the statistical discrepancy is the same as in the fourth quarter, and if an allowance is made for the deductibility of the windfall profits tax in arriving at taxable profits, it would appear that the Federal deficit on a national income and product accounting basis will be about $10 billion higher than in the fourth quarter.

Table 9.—Constant-Dollar Inventory-Sales Ratios for Manufacturing and Trade

[Seasonally adjusted, based on 1972 dollars]

	1979				1980	
	I	II	III	IV	Jan.	Feb.
Total	**1.55**	**1.60**	**1.59**	**1.60**	**1.58**	**1.60**
Manufacturing:						
Durables	2.07	2.21	2.26	2.33	2.28	2.26
Nondurables	1.36	1.38	1.38	1.38	1.37	1.41
Merchant wholesalers	1.34	1.31	1.30	1.29	1.28	1.31
Retail trade:						
Auto dealers	1.64	1.91	1.76	1.76	1.59	1.64
Other durable goods	1.78	1.77	1.70	1.71	1.77	1.77
Nondurable goods	1.19	1.21	1.20	1.18	1.18	1.19

Fourth-Quarter Corporate Profits

Corporate profits from current production—profits with inventory valuation and capital consumption adjustments—declined $4½ billion in the fourth quarter of 1979 to $176½ billion (table 13). (The fourth-quarter estimate is $3 billion lower than the one published a month ago; the revision was largely in domestic profits of nonfinancial corporations.) Since their peak in the fourth quarter of 1978, these profits have declined $8½ billion (chart 7). The fourth-quarter-to-fourth-quarter decline was in domestic profits of nonfinancial corporations; rest-of-the-world profits and domestic profits of financial corporations increased. Within profits of nonfinancial corporations, petroleum manufacturing registered a very large increase and other industries combined registered an even larger decline.

Table 10.—Net Exports of Goods and Services in Current and Constant Dollars

	Current dollars				Constant (1972) dollars						
	Billions of dollars, seasonally adjusted at annual rates								Percent change from preceding quarter at annual rates		
	1979			1980	1979			1980	1979		1980
	II	III	IV	I	II	III	IV	I	III	IV	I
Net exports of goods and services	**−8.1**	**−2.3**	**−11.9**	**−21.0**	**13.2**	**20.1**	**20.1**	**20.8**			
Exports	243.7	267.3	280.4	299.4	116.0	122.2	124.3	128.3	23.0	7.0	13.6
Merchandise	166.8	184.6	194.4	209.1	80.5	86.5	89.0	93.0	33.2	12.1	19.7
Agricultural	30.9	38.4	42.2	40.5	14.3	16.7	18.4	17.7	88.2	46.7	−14.9
Nonagricultural	135.9	146.1	152.2	168.5	66.2	69.7	70.5	75.3	23.1	4.8	30.2
Other	76.9	82.7	86.0	90.4	35.6	35.7	35.3	35.3	2.0	−4.6	−.7
Imports	251.9	269.5	292.4	320.4	102.9	102.1	104.1	107.5	−2.9	8.2	13.5
Merchandise	200.4	215.9	233.9	256.6	77.2	76.3	76.8	78.6	−4.8	3.0	9.4
Petroleum	51.6	66.5	75.4	86.8	8.4	8.4	8.4	8.2	.6	.4	−9.5
Nonpetroleum	148.8	149.5	158.5	169.8	68.8	67.8	68.4	70.3	−5.4	3.3	11.9
Other	51.4	53.6	58.5	63.8	25.7	25.8	27.3	28.9	2.7	24.7	25.5

Table 11.—Government Purchases of Goods and Services in Current and Constant Dollars

	Current dollars				Constant (1972) dollars						
	Billions of dollars, seasonally adjusted at annual rates								Percent change from preceding quarter at annual rates		
	1979			1980	1979			1980	1979		1980
	II	III	IV	I	II	III	IV	I	III	IV	I
Government purchases of goods and services	**466.6**	**477.8**	**501.2**	**518.3**	**272.4**	**273.1**	**277.1**	**280.8**	**1.0**	**6.0**	**5.4**
Federal	161.7	162.9	178.4	187.3	98.1	97.4	101.1	105.0	−2.6	16.0	16.2
National defense	106.0	109.0	114.6	119.6							
Nondefense	55.7	53.9	63.8	67.7							
State and local	304.9	314.9	322.8	331.0	174.3	175.6	176.0	175.7	3.1	.8	−.5

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Industry profits

One of the valuation adjustments to profits—the capital consumption adjustment (CCAdj)—is not available in industry detail. As a result, an analysis of profits by industry must be done using a measure—corporate profits with inventory valuation adjustment and without capital consumption adjustment—that omits that adjustment. Because changes in the CCAdj are generally small, its omission does not seriously handicap the analysis.

Rest-of-the-world profits—measured as the net inflow of branch profits and dividends—declined $2½ billion in the fourth quarter to $13½ billion. Much of the increase from the fourth quarter of 1978, and in particular much of the sharp increase in the third quarter of 1979, was accounted for by overseas petroleum operations of U.S. corporations.

Domestic profits of financial corporations increased $1 billion in the fourth quarter to $35 billion. Most of the fourth-quarter increase and also most of a $3 billion increase from the fourth quarter of 1978 was traceable to Federal Reserve banks. The increase in profits of the Federal Reserve banks reflected increasing holdings of U.S. Government securities and the higher yields earned on them. Commercial bank profits were strong despite narrowing spreads between interest rates received and paid because the volume of business loans increased strongly through most of the year. Profits of other financial corporations were held down by narrowing interest rate spreads, slowing deposit inflows and some disintermediation, and other problems of unsettled economic and financial conditions.

Within domestic profits of nonfinancial corporations, profits in petroleum manufacturing increased $6½ billion in the fourth quarter to $28½ billion. They had increased each quarter in 1979, for a total increase of $13½ billion. The corporations included in this industry typically are integrated—that is, they engage in production, transportation, refining, and marketing of petroleum and its products. Further, these corporations engage extensively in coal mining and in the manufacture of petroleum-related products such as chemicals. These characteristics of the corporations make it difficult to measure and analyse their profits. However, production in petroleum manufacturing trended down over the year, suggesting that the increase in profits was associated with a widening of margins on crude oil and refined products.

Table 12.—Federal Government Receipts and Expenditures, NIPA Basis

[Billions of dollars]

	Seasonally adjusted at annual rates				Change			
	1979			1980	1979			1980
	II	III	IV	I	II	III	IV	I
Receipts	**485.8**	**504.8**	**524.7**	**n.a.**	**10.8**	**19.0**	**19.9**	**n.a.**
Personal tax and nontax receipts	223.4	235.2	248.5	246.5	10.4	11.8	13.3	−2.0
Corporate profits tax accruals	74.9	79.4	81.4	n.a.	−2.3	4.5	2.0	n.a.
Indirect business tax and nontax accruals	29.9	30.0	30.7	35.8	.5	.1	.7	5.1
Contributions for social insurance	157.5	160.2	164.1	171.4	2.0	2.7	3.9	7.3
Expenditures	**492.9**	**516.1**	**540.4**	**564.0**	**6.1**	**23.2**	**24.3**	**23.6**
Purchases of goods and services	161.7	162.9	178.4	187.3	−1.9	1.2	15.5	8.9
National defense	106.0	109.0	114.6	119.6	2.6	3.0	5.6	5.0
Nondefense	55.7	53.9	63.8	67.7	−4.5	−1.8	9.9	3.9
Transfer payments	201.9	217.6	222.7	229.3	5.1	15.7	5.1	6.6
Grants-in-aid to State and local governments	77.7	81.8	84.3	87.3	−.1	4.1	2.5	3.0
Net interest paid	42.6	43.5	46.2	50.9	2.6	.9	2.7	4.7
Subsidies less current surplus of government enterprise	9.0	10.2	8.8	9.3	.7	1.2	−1.4	.5
Less: Wage accruals less disbursements	0	0	0	0	.2	0	0	0
Surplus or deficit (−), national income and product accounts	**−7.0**	**−11.3**	**−15.7**	**n.a.**	**4.7**	**−4.3**	**−4.4**	**n.a.**

n.a. Not available.

Table 13.—Corporate Profits

[Billions of dollars; seasonally adjusted at annual rates]

	1978	1979: Change from preceding quarter				1979
	IV	I	II	III	IV	IV
Corporate profits with inventory valuation and capital consumption adjustments	**184.8**	**−5.9**	**−2.3**	**4.2**	**−4.4**	**176.4**
Profits before tax	227.4	5.9	−5.4	14.4	.7	243.0
Profits tax liability	95.1	−3.8	−2.6	5.3	2.1	96.1
Profits after tax	132.3	9.7	−2.7	9.0	−1.4	146.9
Dividends	49.7	1.8	.8	.5	1.6	54.4
Undistributed profits	82.6	7.9	−3.5	8.5	−3.0	92.5
Inventory valuation adjustment	−28.8	−11.1	3.3	−7.4	−2.5	−46.5
Capital consumption adjustment	−13.8	−.7	−.2	−2.9	−2.5	−20.1
Corporate profits with inventory valuation adjustment and without capital consumption adjustment	**198.6**	**−5.3**	**−2.0**	**7.0**	**−1.8**	**196.5**
Rest of the world	9.6	2.3	−.2	4.1	−2.3	13.5
Domestic	189.0	−7.6	−1.8	2.9	.5	183.0
Financial	32.1	−.2	.1	1.8	1.2	35.0
Federal Reserve banks	8.6	.2	.4	.5	.9	10.6
Other financial	23.5	−.4	−.3	1.3	.3	24.4
Nonfinancial	156.9	−7.3	−1.9	1.0	−.7	148.0
Petroleum and allied products manufacturing	14.8	1.6	3.1	2.3	6.5	28.3
Other	142.1	−8.9	−5.0	−1.3	−7.2	119.7
Manufacturing other than petroleum and allied products	75.8	1.9	−6.6	−6.5	−8.9	55.7
Nondurable goods other than petroleum and allied products	30.3	1.5	−1.9	2.1	−5.5	26.5
Food and kindred products	6.4	−.7	1.9	.2	−1.4	6.4
Chemicals and allied products	8.9	.1	−1.0	−.9	−.5	6.6
Other	15.1	2.0	−2.9	2.9	−3.6	13.5
Durables	45.5	.5	−4.8	−8.6	−3.4	29.2
Primary metal industries	2.9	.9	.4	−.2	−2.1	1.9
Fabricated metal products	5.1	−.1	.4	−.6	−.1	4.7
Machinery, except electrical	9.8	−1.6	−.6	.3	−1.0	6.9
Electrical and electronic equipment	5.1	.4	−.3	−.1	−.5	4.6
Motor vehicles and equipment	9.3	2.1	−4.0	−7.9	.1	−.4
Other	13.3	−1.3	−.7	−.1	.3	11.5
Wholesale and retail trade	25.8	−7.2	3.8	4.1	.6	27.1
Transportation, communication, and electric, gas, and sanitary services	22.7	−1.0	−3.2	−.5	−.6	17.4
Transportation	5.3	−.5	−.1	.1	−.1	4.7
Communication	7.5	−.4	−.7	.9	−.4	6.9
Electric, gas, and sanitary services	9.8	0	−2.4	−1.5	0	5.8
Other	17.9	−2.8	1.0	1.7	1.6	19.4

Within manufacturing other than petroleum, profits declined $9 billion in the fourth quarter, and $20 billion from the fourth quarter of 1978. Virtually all industries—durables as well as nondurables—contributed to these declines. Motor vehicle manufacturers registered net losses in the second half of 1979, compared with profits of $9½ billion in the fourth quarter of 1978. The swing reflected a sharp drop in the production of autos and trucks, and, in the case of autos, a substantial shift to small cars on which profit margins are lower than on large cars. Related to these developments, manufacturers introduced several rebate and incentive programs designed to encourage purchase of large cars; these programs held down profits in the second half of 1979.

Profits of rubber manufacturers, which are included in "other" nondurables reflected weak demand for tires for replacements and for installation on new motor vehicles—the latter due to the drop in motor vehicle production. The weakness in profits of primary metals industries was largely in the steel industry. Lower demand for steel in the second half of the year, mainly for use in motor vehicles, and temporarily lowered productivity associated with the bringing on line of modernized plants were major factors.

Profits of food manufacturers showed sharp but offsetting quarterly changes. The changes probably reflect the industry practice of allowing its margins to fluctuate in the short run instead of attempting to adjust its product prices to follow fully changes in crude food prices. However, the quarterly estimates may in part reflect measurement errors; the inventory valuation adjustment (IVA), which is large in this industry, is difficult to estimate when crude food prices change rapidly and substantially.

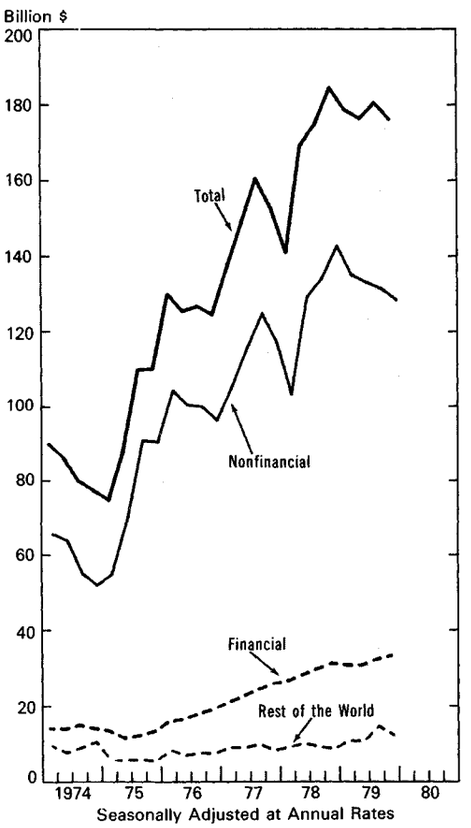
Profits in trade increased $½ billion in the fourth quarter, primarily reflecting some recovery in auto retailers' profits. This increase, in combination with larger ones in the third and second quarters, more than offset a sharp decline—$7 billion—in the first quarter of 1979, when sales were held down by severe winter weather. Weakness in the profits of transportation industries was largely traceable to airlines. Rising fuel costs and high costs associated with opening new routes following deregulation of the industry held down profits.

Components of profits

The two valuation adjustments—the IVA and the CCAdj—are designed to obtain measures of profits in which inventories and fixed capital used up in production are valued at replacement costs, the valuation concept underlying national income and product accounting, rather than historical cost, the valuation concept underlying business accounting.[4] The IVA decreased in the fourth quarter—from −$44 billion to −$46½ billion. With one exception, it became more negative each quarter of 1979; its positive change in the second quarter reflected the deceleration of food prices. The CCAdj became more negative each quarter, more in the second half of the year than in the first. In the fourth quarter it was −$20 billion.

CHART 7

Profits with IVA and CCAdj.

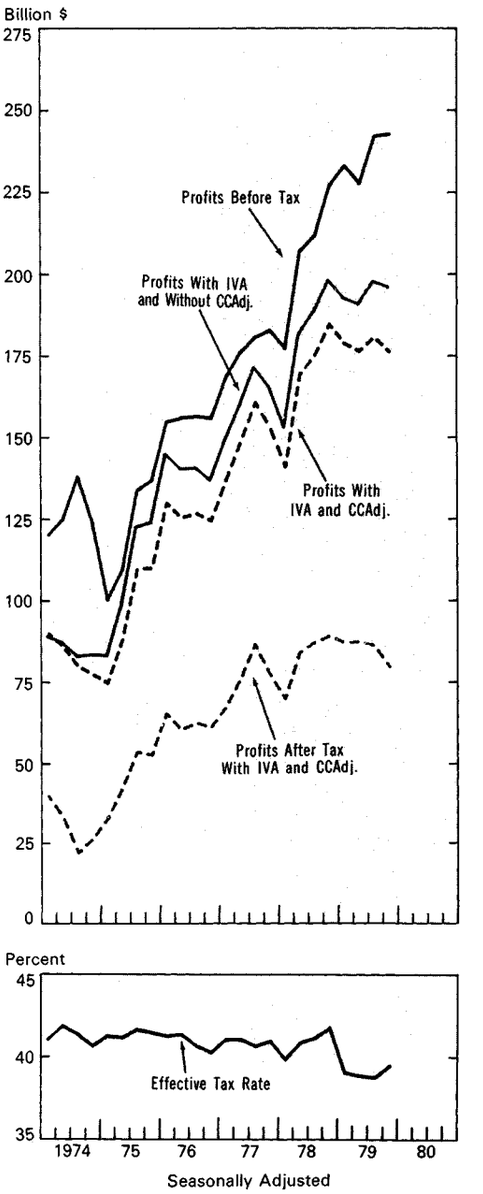


Note.—An IVA is not calculated for financial and rest of the world and a CCAdj. is not calculated for rest of the world.

U.S. Department of Commerce, Bureau of Economic Analysis 80-4-7

CHART 8

Corporate Profits



NOTE.—IVA is inventory valuation adjustment and CCAdj. is capital consumption adjustment.

U.S. Department of Commerce, Bureau of Economic Analysis 80-4-8

[4] The CCAdj also places the using up in production of fixed capital on a consistent basis with respect to service lives (85 percent of Internal Revenue Service Bulletin F for equipment and nonresidential structures) and depreciation formulas (straight-line).

Profits before tax (PBT) exclude the two valuation adjustments, and, in contrast to the two profits aggregates discussed earlier, increased in the fourth quarter and from the fourth quarter of 1978—$½ billion and $15½ billion, respectively (chart 8).

Profits tax liability increased $2 billion in the fourth quarter. The larger increase in profits tax liability than in PBT reflected the composition of the increase in profits: (1) Because there is no domestic profits tax liability associated with rest-of-the-world profits, there was no decline in tax liability associated with the decline in rest-of-the-world profits; and (2) because profits of Federal Reserve banks are paid to the U.S. Treasury and are treated as taxes, the increase in the profits of Federal Reserve banks was registered as in increase in tax liability. The reduction in profits tax liability in the first quarter of 1979 was due to the Revenue Act of 1978, which cut the maximum tax rate from 48 to 46 percent and cut tax liability on the first $100,000 of a corporation's profits. Largely reflecting this legislation, the effective tax rate—profits tax liability as a percentage of PBT—was reduced in 1979 (chart 8).

Dividends were up $1½ billion in the fourth quarter and $4½ billion from the fourth quarter of 1978. Undistributed profits as shown in table 13 were $92½ billion in the fourth quarter of 1979, up $10 billion from the fourth quarter of 1978. These estimates are based upon the historical cost rather than the replacement cost of inventories and fixed capital used up. For some purposes the replacement cost valuation is preferable. Using this valuation, undistributed profits were $26 billion, down $14 billion from the fourth quarter of 1978.

the BUSINESS SITUATION

REVISED estimates show that real GNP increased one-half percent at an annual rate in the first quarter, one-half percentage point less than in the preliminary (15-day) estimates (table 1). Personal consumption expenditures, residential investment, change in business inventories, and government purchases were revised downward. In personal consumption expenditures, the major source of the revision was lower estimates of retail sales in February and March. Net exports were revised upward, largely due to a higher than projected trade balance in March. The increase in GNP prices, as measured by the fixed-weighted price index, was revised down one-half percentage point to 11 percent.

Corporate profits

Profits from current production—profits with inventory valuation and capital consumption adjustments—decreased $4½ billion in the first quarter, to $172 billion, according to preliminary estimates.[1] They had decreased the same amount in the fourth quarter of 1979.

Domestic profits of nonfinancial corporations decreased $5½ billion, to $124 billion, following a $3 billion decrease. First-quarter profits reflected the imposition of the windfall profits tax and the oil import ("gasoline conservation") fee. These levies reduced profits on petroleum operations about $4½ billion; because the operations that are taxed may be carried on by corporations classified in mining, manufacturing, transportation, and trade, it is not possible to allocate the impact of the levies. The windfall profits tax, which was effective March 1, was levied on domestic oil production. The tax was designed to capture a portion of the increased profits due to the decontrol of crude oil prices. The oil import fee was placed at $4.62 per barrel of crude oil, effective March 15, and was intended to be passed on to consumers of gasoline, effective May 15. Both levies are deductible in computing taxable profits (and are classified in the national income and product accounts as indirect business taxes). Accordingly, the portion of the windfall profits tax and of the oil import fee paid by corporations reduced corporate profits—somewhat less than $3 billion and somewhat less than $2 billion, respectively. (Corporate profits tax accruals were also reduced—by the amount of taxes that would have otherwise accrued on these profits.)[2]

Profits of trade corporations decreased very sharply—more than accounting for the decrease in the domestic profits of nonfinancial corporations—following little change in the fourth quarter. A large part of the decrease is probably traceable to their pricing practices. Many trade corporations base their sales prices on the cost of the goods that, using the conventions of first-in-first-out accounting, are in inventory. Accordingly, sales prices are based on the oldest—and with inflation, the lowest—cost units rather than current—and higher—cost units. The difference in cost between the oldest unit and currently purchased unit that will

1. Quarterly estimates of the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

2. Imposition of the oil import fee may be nullified. A Federal District Court ruled in mid-May that the fee program, as presently constituted, is illegal; the ruling is being appealed. If the ruling is upheld, first-quarter profits would be increased and indirect business tax accruals would be reduced about $2 billion, and corporate profits tax accruals would be increased somewhat less than $1 billion.

replace it in inventory—the inventory valuation adjustment (IVA)—is deducted from book profits to derive profits from current production. This deduction was quite large in the first quarter.

Profits of durable goods manufacturers were also down, following a decrease in the fourth quarter. As in the fourth quarter, the decrease was widespread. Motor vehicle manufacturers' losses increased due to a fall off in production as well as to the costs of several rebate and incentive programs designed primarily to encourage purchases of less energy-efficient models. Profits of manufacturers of nondurable goods other than petroleum increased sharply, registering a substantial rebound from a decline in the fourth quarter. Profits of petroleum manufacturers increased; the increase was less than in the fourth quarter, because of the imposition of the petroleum levies.

Profits of nonfinancial corporations can be viewed alternatively as the product of their real gross domestic product and profits per unit of real product. The first-quarter decline in profits occurred because the increase in real product was not large enough to offset the decrease in profits per unit. Lower unit profits, in turn, reflected larger increases in both labor and nonlabor costs than in the prices charged. Major factors contributing to the differential increases in costs and prices were that the increase in nonlabor costs was stepped up sharply due to the oil levies, and that the increase in prices was held down by the pricing practices in trade just referred to.

Domestic profits of financial corporations were flat, following a $1 billion increase in the fourth quarter, as an increase in Federal Reserve bank profits offset a decrease in profits of other financial corporations. Other financial corporations' profits reflected sharp decreases in the profits of thrift institutions due to narrowing interest rate spreads as well as some disintermediation.

Profits from the rest of the world—measured as the net inflow of branch profits and dividends—increased $1 billion, following a decrease of $2½ billion in the fourth quarter.

In contrast to profits from current production, profits before tax—which exclude both the IVA and the capital consumption adjustment—increased.[3] They were up $14 billion, to $257 billion, following an increase of $1½ billion in the fourth quarter. The contrast was largely due to the IVA, which decreased $16½ billion to −$63 billion. The decrease in the IVA was widespread; the largest decreases were associated with prices of metals, jewelry, and petroleum products.

Corporate profits taxes, which are levied on profits excluding the two valuation adjustments, increased $5½ billion, following a $2 billion increase in the fourth quarter. After-tax book profits increased $8½ billion, following a decline of $1½ billion in the fourth quarter.

Table 1.—Revisions in Selected Component Series of the NIPA's, First Quarter of 1980

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates		
	15-day estimate	45-day estimate	Revision	15-day estimate	45-day estimate	Revision
	Billions of current dollars					
GNP	**2,520.3**	**2,516.1**	**−4.2**	**10.7**	**10.0**	**−0.7**
Personal consumption expenditures	1,634.1	1,628.7	−5.4	14.3	12.8	−1.5
Nonresidential fixed investment	271.6	273.3	1.7	9.9	12.8	2.9
Residential investment	112.7	110.5	−2.2	−12.3	−18.8	−6.5
Change in business inventories	4.5	.1	−4.4			
Net exports	−21.0	−14.0	7.0			
Government purchases	518.3	517.4	−.9	14.4	13.5	−.9
Federal	187.3	186.2	−1.1	21.5	18.7	−2.8
State and local	331.0	331.2	.2	10.6	10.7	.1
National income		**2,031.4**			**8.5**	
Compensation of employees	1,552.4	1,554.6	2.2	10.8	11.4	.6
Corporate profits with inventory valuation and capital consumption adjustments		171.8			−10.1	
Other	305.6	305.0	−.6	6.6	5.8	−.8
Personal income	**2,056.6**	**2,057.2**	**.6**	**10.7**	**10.8**	**.1**
	Billions of constant (1972) dollars					
GNP	**1,444.2**	**1,442.6**	**−1.6**	**1.1**	**.6**	**−.5**
Personal consumption expenditures	939.0	936.0	−3.0	1.6	.3	−1.3
Nonresidential fixed investment	151.0	152.1	1.1	1.1	4.3	3.2
Residential investment	52.8	52.0	−.8	−20.1	−24.7	−4.6
Change in business inventories	0	−1.9	−1.9			
Net exports	20.8	24.3	3.5			
Government purchases	280.8	280.0	−.8	5.4	4.2	−1.2
Federal	105.0	104.3	−.7	16.2	13.0	−3.2
State and local	175.7	175.7	0	−.5	−.5	0
	Index numbers, 1972=100 [1]					
GNP implicit price deflator	174.51	174.42	−.09	9.5	9.3	−.2
GNP fixed-weighted price index	179.2	179.0	−.2	11.4	10.9	−.5
GNP chain price index				10.1	9.6	−.5

1. Not at annual rates.

NOTE.—For the first quarter of 1980, the following revised or additional major source data became available: For *personal consumption expenditures*, revised retail sales for February and March, and sales and inventories of used cars of franchised automobile dealers for February; for *nonresidential fixed investment*, manufacturers' shipments of equipment for February (revised) and March, construction put in place for February (revised) and March, and a partial tabulation of business expenditures for plant and equipment for the quarter; for *residential investment*, construction put in place for February (revised) and March; for *change in business inventories*, book values for manufacturing and trade for February (revised) and March; for *net exports of goods and services*, merchandise trade for February (revised) and March, and revised net investment income and other services receipts for the quarter; for *government purchases of goods and services*, Federal unified budget outlays for March, and State and local construction put in place for February (revised) and March; for *wages and salaries*, revised employment, average hourly earnings, and average weekly hours for February and March; for *net interest*, revised net interest received from abroad for the quarter; for *corporate profits*, domestic book profits for the quarter, and dividends from abroad and branch profits (net) for the quarter; for *GNP prices*, the Consumer Price Index for March, unit value indexes for exports and imports for February and March, and residential housing prices for the quarter.

3. The two valuation adjustments are designed to obtain measures of profits in which inventories and fixed capital are valued at replacement cost, the valuation concept underlying national income and product accounting, rather than historical cost, the valuation concept underlying business accounting. The capital consumption adjustment also places the using up in production of fixed capital on a consistent basis with respect to service lives (85 percent of Internal Revenue Service Bulletin F for equipment and nonresidential structures) and depreciation formulas (straight-line).

The Federal sector

The Federal Government deficit on the national income and product accounting (NIPA) basis increased $6 billion in the first quarter of 1980, as receipts increased less than expenditures.

Receipts increased $16 billion in the first quarter, $4 billion less than in the fourth. Most of the increase was due to higher incomes. On balance, legislative changes were not a factor in the first-quarter increase; legislative increases—about $9 billion—were largely offset by lower net final settlements resulting from overwithholding in personal income taxes in 1979. Contributions for social insurance increased $7½ billion, including over $3½ billion for the combined employer-employee social security contribution due to an increase in taxable wage base to $25,900 from $22,900, effective January 1. Indirect business tax and nontax accruals increased over $5 billion, including $3½ billion for the windfall profits tax, effective March 1, and $2 billion for the oil import fee effective March 15. (Until the issue of the legality of the oil import fee is settled, the NIPA's will include it on a liability basis.) A reduction in the telephone excise tax from 3 percent to 2 percent reduced indirect business taxes about $½ billion. Personal tax and nontax receipts declined $1½ billion; substantially lower net final settlements due to overwithholding in 1979 more than offset the effect of higher incomes. Corporate profits tax accruals increased almost $5 billion.

Expenditures increased $22 billion in the first quarter, a little less than in the fourth quarter. Purchases of goods and services increased almost $8 billion, including over $1½ billion for higher defense fuel costs and $1 billion for agricultural purchases by the Commodity Credit Corporation. Transfer payments to persons increased $7 billion, including over $1½ billion for energy assistance payments to supplemental security income recipients and $1 billion for unemployment benefits. Net interest paid increased nearly $5 billion, largely due to an acceleration in interest rates. Grants-in-aid to State and local governments increased over $1½ billion and subsidies less the surplus of government enterprises increased $1 billion.

Special reconciliation tables

The reconciliation of changes in compensation per hour and average

Table 2.—Reconciliation of Changes in Compensation Per Hour in the Business Economy Other Than Farm and Housing and Average Hourly Earnings in the Private Nonfarm Economy, Seasonally Adjusted

	1979				1980
	I	II	III	IV r	I p
1. **Compensation per hour of all persons in the business economy other than farm and housing (percent change at annual rate)**[1]	**10.3**	**7.9**	**8.9**	**8.9**	**10.1**
2. Less: Contribution of supplements	1.4	.6	.2	.2	.6
3. Plus: Contribution of housing and nonprofit institutions	0	−.4	−.2	0	−.1
4. Less: Contribution of employees of government enterprises and self-employed and unpaid family workers	−.2	0	.1	.6	−.2
5. **Equals: Wages and salaries per hour of employees in the private nonfarm economy (percent change an annual rate)**	**9.1**	**6.9**	**8.4**	**8.1**	**9.6**
6. Less: Contribution of nonproduction workers in manufacturing	−.1	.7	−.3	−.1	.1
7. Less: Contribution of non-BLS data, detailed weighting, and seasonal adjustment	.6	.3	−.4	.7	.8
8. **Equals: Average hourly earnings, production and nonsupervisory workers in the private nonfarm economy (percent change at annual rate)**	**8.7**	**5.9**	**9.1**	**7.5**	**8.7**

r Revised. p Preliminary.
1. BLS estimates of changes in hourly compensation in the nonfarm business sector for the five quarters are 10.4, 7.9, 8.5, 9.4 and 10.2 percent.

Table 3.—Reconciliation of Changes in the Implicit Price Deflator for Personal Consumption Expenditures and the Consumer Price Index for all Urban Consumers, Seasonally Adjusted

	1979	1980
	IV r	I p
1. **Implicit price deflator for personal consumption expenditures (percent change at annual rate)**	**9.7**	**12.5**
2. Less: Contribution of shifting weights in PCE	−.4	−.5
New autos	−.6	1.4
Gasoline and oil	−.2	−.4
Electricity, gas, fuel oil, and coal	−.7	−.9
Furniture and household equipment	−.1	−.7
Food purchased for off-premise consumption	.2	.7
Purchased meals and beverages	.5	−.4
Clothing and shoes	0	−.7
Housing	.3	.8
Other	.1	−.3
3. **Equals: PCE chain price index (percent change at annual rate)**	**10.1**	**12.9**
4. Less: Contribution of differences in weights of comparable CPI and PCE expenditure components	−1.5	−1.4
Gasoline and oil	−.8	−1.7
Electricity, gas, fuel oil, and coal	−.2	−.2
Furniture, appliances, floor coverings, other household furnishings	.1	.2
Food at home	−.1	−.4
Food away from home	−.2	−.2
Apparel commodities	.2	.2
Rent	−.3	−.3
Other	−.2	1.1
5. Less: Contributions of PCE expenditure components not comparable with CPI components	−.1	−1.0
New autos	−.4	−.1
Net purchases of used autos	0	−.1
Owner-occupied nonfarm and farm dwellings—space rent	.1	−.9
Services furnished without payment by financial intermediaries except life insurance carriers	.1	0
Current expenditures by nonprofit institutions	.3	.2
Other	−.1	−.1
6. Plus: Contribution of CPI expenditure components not comparable with PCE components[1]	1.7	1.2
New autos	−.5	−.2
Used autos	−.3	−.3
Homeownership	2.9	2.1
Other	−.4	−.4
7. Less: Contribution of differences in seasonal adjustment[2]	.1	−.1
8. **Equals: Consumer Price Index, all items[1] (percent change at annual rate)**	**13.6**	**16.9**

r Revised. p Preliminary.
1. Data have been revised by BLS to incorporate new seasonal factors.
2. These differences arise because component price indexes that are used in the BEA measures and in the CPI are seasonally adjusted at different levels of detail.

318-665 O - 80 - 2

hourly earnings and of changes in the implicit price deflator for personal consumption expenditures (PCE), the PCE chain price index, and the Consumer Price Index (CPI) are shown in tables 2 and 3.

Compensation per hour increased 10.1 percent (annual rate) in the first quarter, compared with 8.9 percent in the fourth quarter of 1979 and average hourly earnings increased 8.7 percent compared with 7.5 percent. About one-half percentage point of the first-quarter increase in compensation per hour, and in the difference between compensation per hour and hourly earnings, was the result of an increase in employer contributions for social security due to an increase in the taxable wage base. About one-half percentage point of the first-quarter increase in both measures was due to an increase in the minimum wage under the Fair Labor Standards Act.

The implicit price deflator for PCE increased 12.5 percent (annual rate) in the first quarter, compared with 9.7 percent in the fourth quarter of 1979; the chain price index increased 12.9 percent, compared with 10.1 percent; and the CPI increased 16.9 percent, compared with 13.6 percent.

The implicit price deflator measures the average price of consumer purchases in each period. As a result, changes in the deflator measure not only changes in prices but also shifts in the composition of these purchases from one period to the next. In contrast, changes in the chain price index and the CPI measure only changes in average prices; the composition of purchases is held constant. The chain index is based on the composition of purchases in the preceding quarter, and the CPI is based on their composition in 1972.

In the first quarter, the deflator increased less than the chain index because of shifts in purchases to goods and services whose prices increased less than the average increase in all prices in the chain index. These shifts were to new autos, food purchased for off-premise consumption, and housing.

The CPI increased 4 percentage points more in the first quarter than the chain index both because of the contribution of differences in the composition of purchases of comparable goods and services (line 4) and because of the contribution of components that are not comparable (line 5 and line 6). Among comparable components, the largest contribution to the difference between the increases in the two indexes was by gasoline and oil, which currently has a smaller weight in the chain index than in the CPI. Among the components that are not comparable, the largest contribution was by the items relating to housing. The homeownership component has a larger weight in the CPI than the space rent for owner-occupied dwellings component has in the chain index. In the first quarter, the price of homeownership increased more than the average of all CPI prices, and the price of space rent increased less than the average of all prices in the chain index. The combined countribution of the two housing components to the difference between the increases in the chain index and in the CPI was 3 percentage points.

Postponement of July Revision of GNP

A benchmark revision of the national income and product accounts that will incorporate the 1972 economic census and information from other sources is in preparation. All series in the accounts will be revised back to 1967 and some will be revised for earlier years. Preliminary estimates of the new series for 1972 appeared in the April 1979 issue of the SURVEY OF CURRENT BUSINESS *in "U.S. National Income and Product Accounts: Preliminary Revised Estimates, 1972." The current schedule calls for completing the benchmark revision this winter.*

The revision of the estimates for 1977–79 that would customarily be published this July will be combined with the benchmark revision.

the BUSINESS SITUATION

ON the basis of information available in mid-June, it is apparent that a major decline in real GNP occurred in the second quarter.[1] Real residential investment dropped more than $9 billion (1972 dollars), and final sales of motor vehicles to consumers and to business investors dropped about $14 billion and $6 billion, respectively.[2] Personal consumption expenditures (PCE) other than for motor vehicles declined about $12 billion. In the case of motor vehicles, about $5 billion of the decline in final sales was offset by changes in inventories. (See the discussion of motor vehicles in a later section of the "Business Situation.") These declines, if there were no changes in other GNP components, would result in a decline in real GNP of about 9½ percent at an annual rate.

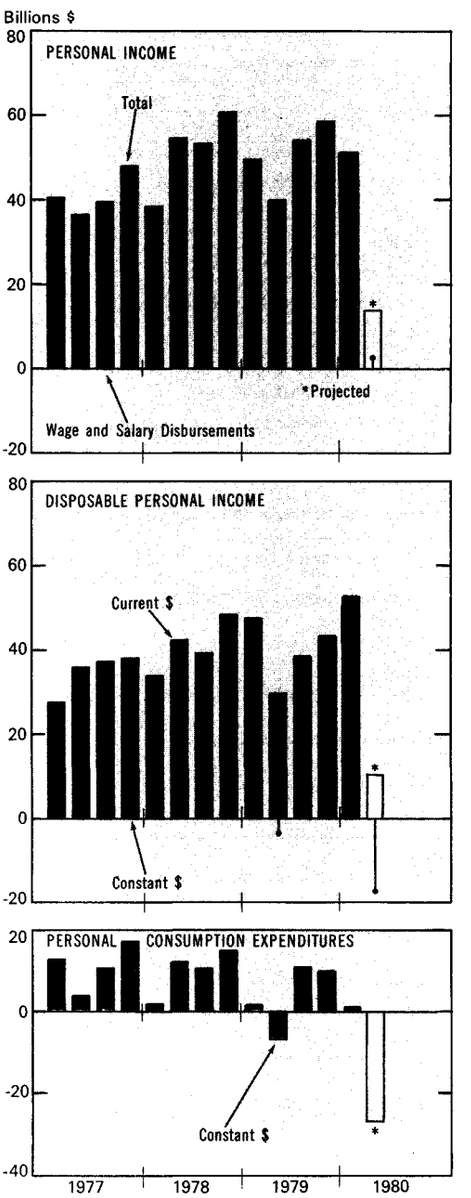
Little is known as yet about the other components. However, it is likely that, combined, the other final sales components registered some increase, mainly because imports declined sharply. If it is assumed that investment in inventories of other than motor vehicles remained at the first-quarter level, the second-quarter decline in real GNP was somewhat smaller. Inventory investment could easily have been either more or less than in the first quarter, because near business cycle turning points it is particularly difficult to project. If it was more, it would probably reflect involuntary inventory accumulation, and the smaller decline in real GNP that would result would not be indicative of greater strength in the economy.

Labor market indicators.—Changes in employment and hours, shown in tables 1 and 2, reflect the drop in production and provide some indication of its monthly pattern. Employment as measured in the establishment survey declined about 500,000 in April and May combined, almost offsetting the increases in the first 3 months of the year. Average weekly hours peaked at the turn of the year, and dec'ined steadily from 35.7 to 35.1 hours in May. The weakening in both employment and hours was mainly in the goods-producing and distributive industries. Employment in construction, after reaching a high in January, fell through April. In manufacturing, the weakening was most pronounced in durables, where employment and hours dropped sharply in April and May. Within manufacturing, transportation equipment industries and industries supplying materials for transportation equipment and construction showed large declines. In trade, hours declined consistently since the turn of the year. Employment, however, continued to increase through February, and the only substantial decline was in April. Both employment and hours declined in transportation and public utilities.

Employment as measured in the household survey declined about 700,000

CHART 1

Personal Income and Consumption: Change From Preceding Quarter



Based on Seasonally Adjusted Annual Rates

U.S. Department of Commerce, Bureau of Economic Analysis 80-6-1

1. The major source data that shed light on second-quarter GNP are limited to 1 or 2 months of the quarter, and in some cases are preliminary. These data are: For *personal consumption expenditures* (PCE), April and May retail sales, unit sales of new autos through the first 10 days of June, and sales of new trucks for April and May; for *nonresidential fixed investment*, the same data for autos and trucks as for PCE, April construction put in place, April manufacturers' shipments of equipment, and business investment plans for the quarter; for *residential investment*, April construction put in place, and April and May housing starts; for *change in business inventories*, April book values for manufacturing and trade, and unit auto inventories for April and May; for *net exports of goods and services*, April merchandise trade; for *government purchases of goods and services*, Federal unified budget outlays for April, State and local construction put in place for April, and State and local employment for April and May; and for *GNP prices*, the Consumer Price Index for April and the Producer Price Index for April and May.

2. Quarterly estimates of the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

in April and May combined. In contrast to establishment-based employment, it had declined also in the earlier months of the year. The unemployment rate jumped in April and May—0.8 percentage points each month—to 7.8 percent.

Table 1.—Selected Labor Market Indicators

[Seasonally adjusted]

	1979 Dec.	1980: Change from preceding month					1980 May
		Jan.	Feb.	Mar.	Apr.	May	
Household survey							
Civilian labor force (millions)	104.0	0.2	0	−0.2	0.3	0.7	105.1
Employment	97.9	−.1	.1	−.3	−.5	−.2	97.0
Unemployment	6.1	.3	−.1	.1	.8	.9	8.2
Job losers	2.7	.3	−.1	.1	.6	.7	4.3
On layoff	.9	.1	0	.1	.3	.5	1.9
Other job losers	1.8	.2	−.1	0	.3	.2	2.4
Job leavers, reentrants, and new entrants	3.4	0	0	0	.2	.3	3.9
Employment-population ratio	59.4	−.2	.1	−.3	−.4	−.1	58.5
Unemployment rate (percent):							
Total	5.9	.3	−.2	.2	.8	.8	7.8
Adult men	4.2	.5	−.1	.3	1.0	.7	6.6
Adult women	5.7	.1	−.1	0	.6	.3	6.6
Teenagers	16.0	.3	.2	−.6	.3	3.0	19.2
Civilian labor force participation rate (percent):							
Total	63.9	0	0	−.2	.1	.4	64.2
Adult men	79.5	−.1	.2	−.2	.1	.4	79.9
Adult women	51.1	.3	−.1	−.3	.5	0	51.5
Teenagers	58.6	−.4	−.8	−.1	−1.0	1.6	57.9
Establishment survey							
Employment, nonfarm payroll (millions)	90.2	.4	.2	0	−.3	−.2	90.3
Goods producing	26.7	.1	−.1	−.1	−.4	−.2	26.0
Distributive [1]	25.5	.2	.1	0	−.2	0	25.6
Services [2]	22.4	.1	.1	0	0	.1	22.8
Government	15.7	0	.1	.1	.2	0	16.0
Average weekly hours, private nonfarm	35.7	0	−.2	−.1	−.1	−.2	35.1

1. Transportation and public utilities, and wholesale and retail trade.
2. Services, and finance, insurance, and real estate.

Source: Bureau of Labor Statistics.

Table 2.—Nonfarm Employment and Average Weekly Hours: Establishment Survey

[Seasonally adjusted; employment in thousands]

	1979 Dec.	1980: Change from preceding month					1980 May
		Jan.	Feb.	Mar.	Apr.	May	
Mining:							
Employment	991	9	9	2	5	18	1,034
Hours	43.9	.5	−.7	−.2	−.3	−.4	42.8
Construction:							
Employment	4,783	110	−62	−131	−109	10	4,601
Hours	37.1	.5	−.9	−.6	.4	.3	36.8
Manufacturing—Durables:							
Employment	12,615	−14	54	−2	−257	−243	12,153
Hours	40.7	.1	−.2	−.2	−.3	−.3	39.8
Manufacturing—Nondurables:							
Employment	8,266	23	−52	−1	−29	−32	8,175
Hours	39.4	.1	−.1	−.3	−.1	−.1	38.9
Transportation and public utilities:							
Employment	5,223	−11	−2	3	−24	−2	5,187
Hours	39.8	.1	−.4	.2	−.2	−.2	39.3
Wholesale and retail trade:							
Employment	20,254	174	93	−22	−150	22	20,371
Hours	32.6	−.1	−.2	0	−.2	−.1	32.0
Finance, insurance, and real estate:							
Employment	5,056	25	11	15	0	24	5,131
Hours	36.4	−.2	.2	.1	−.1	−.1	36.3
Services:							
Employment	17,357	85	80	26	30	72	17,650
Hours	32.9	−.2	0	0	0	−.2	32.5
Government:							
Employment	15,696	10	62	84	223	−49	16,026

Source: Bureau of Labor Statistics.

Reflecting the falloff in construction activity and in the output of the motor vehicle and related industries where the employment of adult men preponderates, adult men accounted for most of the increase in unemployment.

Prices.—As measured by the fixed-weighted price index, PCE prices increased 3 or 4 percentage points less in the second quarter than the 14-percent annual rate increase registered in the first. The major factor in the deceleration was the price of gasoline and of fuel oil and coal. Gasoline prices increased only one-third as much as the 82 percent registered in the first quarter, which had reflected increases in crude oil prices at the turn of the year. In the second quarter, price increases by foreign producers were smaller. Also, conditions for retail price increases were less favorable, because mild weather in the first quarter had led to a carry-over of fuel oil stocks, consumers held down gasoline purchases in response to high and rising gasoline prices, and the decline in economic activity in the second quarter reduced the industrial demand for energy. Food prices increased a little less than the 6 percent registered in the first quarter. PCE prices other than for energy and for food also increased less, partly because of the weakness in consumer demand.

Personal income and its disposition

Personal income increased only $14 billion in the second quarter, after a $52½ billion increase in the first (chart 1). Changes in both quarters reflected numerous special factors, which are listed following the personal income total in table 3. However, adjustment for these special factors reduces the first-quarter increase only to $50½ billion and raises the second-quarter increase only to $17 billion.

Each of the income components shown in table 3 contributed to the deceleration. Proprietors' income declined $12 billion, after a decline of $4½ billion in the first quarter. The decline in farm income was larger than in the first quarter, mainly because there was a swing to a decline in livestock marketings. Nonfarm proprietors' income was

Table 3.—Personal Income: Change from Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1979	1980	
	IV	I	II*
Wage and salary disbursements	32.4	33.2	2.5
Manufacturing	6.4	8.9	−4.8
Other commodity-producing	3.1	3.3	−1.2
Distributive	8.4	7.6	−.5
Services	9.0	9.8	5.6
Government and government enterprises	5.6	3.6	3.4
Proprietors' income	4.2	−4.5	−12.2
Farm	1.6	−4.7	−7.3
Nonfarm	2.6	.3	−4.8
Transfer payments	5.7	8.4	5.4
Other income	17.8	18.8	18.2
Less: Personal contributions for social insurance	1.8	3.6	−.3
Personal income	**58.4**	**52.4**	**14.2**
Less: Federal pay raise	3.5	.2	------
Minimum wage	------	2.0	------
Energy allowance	------	1.6	−1.6
Accidental damage	------	−.3	−.3
Less: Social security base change	------	2.5	------
California refund	------	−.7	.7
Personal income, adjusted	**54.9**	**50.7**	**16.8**

*Projected.

down, reflecting the drop in construction activity and the weakness in retail trade. Despite a step-up in government unemployment insurance benefits, the second-quarter increase in transfer payments was less than the first-quarter increase, which had included a $1.6 billion special energy allowance for recipients of Supplemental Security Income.

The largest deceleration was in wage and salary disbursements, which increased only $2½ billion after an increase of $33 billion in the first quarter. Table 4 provides industrial detail on a monthly basis that reflects the pattern

Table 5.—Personal Tax and Nontax Payments; Change from Preceding Quarter

[Billions of dollars, based on seasonally adjusted annual rates]

	1979	1980	
	IV	I	II
Personal tax and nontax payments	**15.3**	**−1.9**	**3.5**
Federal	13.4	−2.4	2.4
Impact of legislation	−.6	−12.1	−1.5
Withheld	−.5	−.4	−.4
Nonwithheld less refunds	−.1	−11.7	−1.1
Other	14.0	9.6	3.8
State and local	1.9	.5	1.1
Impact of legislation	−.1	−1.7	−.1
Other	2.1	2.2	1.2

of the second-quarter contraction in production. It is similar to the pattern of employment and hours shown in table 2. The main difference is due to the fact that wage and salary disbursements are influenced not only by employment and hours but also by average earnings. As can be seen from table 4, declines in construction payrolls occurred in March and April. In manufacturing, they occurred in April and May, and in trade, in April.

Personal tax and nontax payments increased $3½ billion in the second quarter, after a decline of $2 billion in the first. The first-quarter decline had been due to the impact of legislative changes—$12 billion in Federal income taxes, mainly due to unusually large refunds, and $1½ billion in State and local taxes. The impact of legislative changes was much less in the second quarter; nevertheless, the increase in personal taxes was quite limited because the increase in incomes was small.

Disposable personal income—personal income less personal taxes—increased $10½ billion, and personal outlays declined about $8½ billion. As a result, personal saving increased substantially. The personal saving rate may have increased as much as 1 percentage point from the 3.7 percent registered in the first quarter.

Real disposable income showed a huge drop in the second quarter, following 6 quarters of virtually no change (chart 1). This drop was probably the major factor in the sharp decline in real PCE, which is discussed immediately below, although at least four other factors contributed to it. First, plant closings and layoffs led to mounting concern over job security and future income losses. Second, credit-financed spending was

CHART 2

Personal Consumption Expenditures

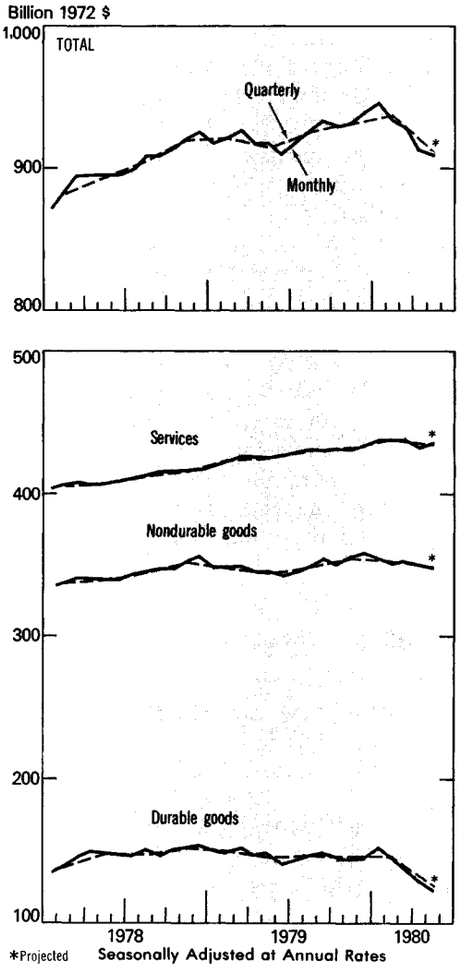


Table 4.—Wage and Salary Disbursements

[Billions of dollars: seasonally adjusted at annual rates]

	1979 Dec.	1980: Change from preceding month					1980 May
		Jan.	Feb.	Mar.	Apr.	May	
Wage and salary disbursements	**1,282.9**	**10.1**	**11.2**	**9.7**	**−6.7**	**−1.1**	**1,306.1**
Commodity-producing	453.1	3.3	4.5	1.6	−5.5	−3.4	453.7
Construction	77.4	.1	1.1	−1.1	−1.7	−.2	75.6
Manufacturing	341.5	2.8	3.3	2.1	−4.0	−3.7	342.0
Other	34.2	.4	.2	.6	.2	.5	36.0
Distributive	314.5	3.3	2.4	2.1	−2.8	0	319.4
Trade	215.2	3.1	1.8	1.6	−2.4	0	219.3
Other	99.3	.2	.6	.5	−.5	0	100.1
Services	274.4	1.7	3.3	5.1	.6	.7	285.9
Government and government enterprises	240.9	1.8	.9	.9	1.0	1.5	247.2

curtailed, reflecting several developments. Interest rates reached levels consumers increasingly considered prohibitive or that bumped into some jurisdictions' usury ceilings. The actions taken by the Federal Reserve in mid-March to restrain consumer credit appear to have reduced credit extensions substantially—and perhaps more than intended, partly because of confusion and misunderstanding and partly because of their use as a reason for denying consumer credit. Concern over the advisability of further expansion of borrowing had been growing, reflecting heavy debt repayment burdens. Third, financial markets had displayed considerable instability, and there were losses in the value of financial assets, and, finally, there was a slowing in the monetization of capital gains on existing residences.

Real PCE.—Real PCE declined more than 10 percent at an annual rate, after a fractional increase in the first quarter. PCE on motor vehicles plummeted, and accounted for more than one-half of the decline. In the first quarter, they had accounted for the increase. Most of the nonvehicle goods components were down in the second quarter—even more than in the first. The increase in services was held down by the decline from the first quarter's unusually high level of fees paid to security and commodity brokers.

The monthly decline in PCE is shown in chart 2. The steepness of the decline was largely due to motor vehicles. However, both with and without them, the peak was in January, the sharpest drop occurred in April, and there was some leveling out in May.

Residential investment

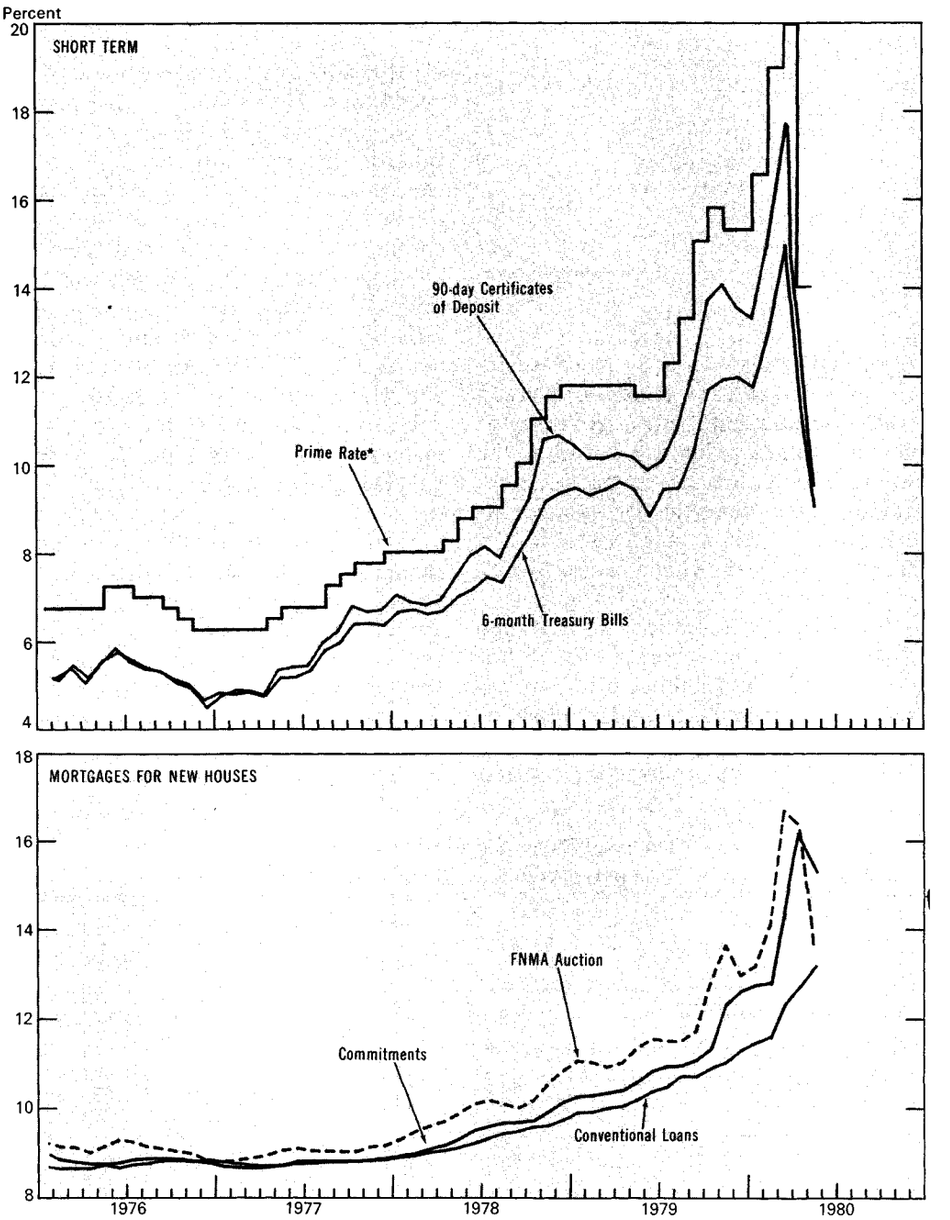
Real residential investment declined at about twice the 26-percent annual rate registered in the first quarter. In the second quarter, it was about 75 percent of the level in the fourth quarter of 1979 and about 70 percent of the level in the fourth quarter of 1978, when it had reached its recent peak.

Among the major types of residential investment, construction of single-family units declined substantially more than in the first quarter, and construction of multifamily units declined for the first time since the first quarter of 1979. Residential investment as measured in GNP includes not only the value of new construction, but also additions and alterations, mobile home purchases, and brokers' commissions on the sale of residences. Reflecting the drop in the sales of both new and existing residences, these commissions declined sharply in the second quarter, as they had in the first.

Adverse financial conditions, which were the major factor in this year's plunge, began to subside in April. The prime interest rate, the bellwether of short-term interest rates, dropped from 20 percent in April to 14 percent in

CHART 3

Selected Interest Rates



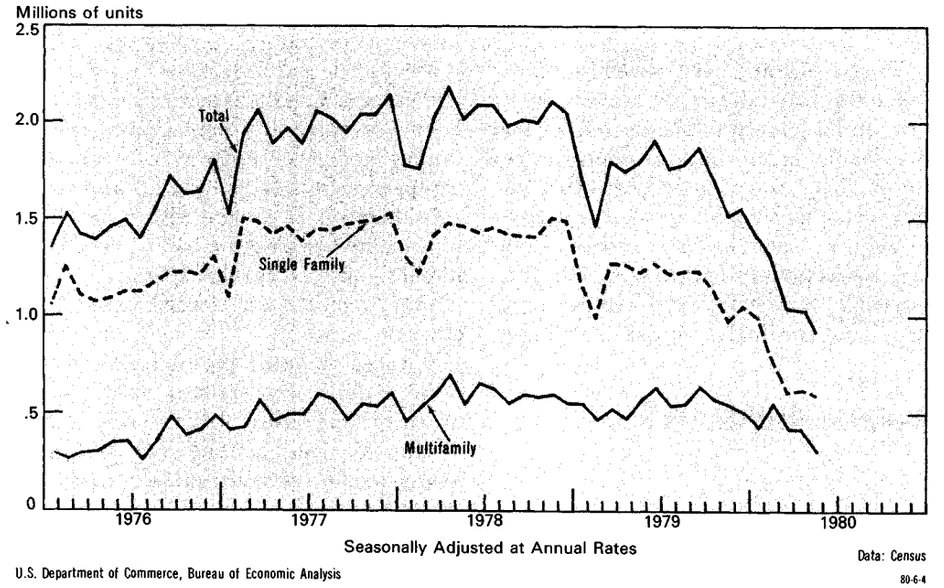
*At the end of the month

Data: FRB, FHLBB

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

CHART 4

Housing Starts



May, and in June was back to the 11½-percent level registered in mid-1979, prior to the escalation of interest rates (chart 3). Mortgage interest rates have begun to follow suit. The interest rate on commitments on 25-year mortgages with a loan-to-price ratio of 75 percent fell 86 basis points in May from its peak of over 16 percent in April. A second-quarter decline in yields at Federal National Mortgage Association auctions suggests that mortgage rates are likely to fall further.

However, a quick turnaround in residential investment is not in prospect. Housing starts continued to plunge in the second quarter: Single-family starts in May, at 616,000 (seasonally adjusted annual rate), were 23 percent below the first-quarter level, and multifamily starts, at 304,000 were 34 percent lower (chart 4). Because there are several decision lags—decisions to seek loans at the reduced interest rates, builders' decisions to take out permits, and their decisions to begin construction—housing starts are unlikely to recover promptly, and even if they did, they would be fully reflected in residential investment only with a further lag.

Motor Vehicles in the Second Quarter

The plunge in motor vehicles, which was the major factor in the second-quarter decline in real GNP, is quantified in table 6. Output and final sales of both autos and trucks were down sharply. In autos, output was down less than final sales, and the change in inventories increased—inventories, which had been run off in the first quarter, changed little in the second. In trucks, the decline in sales was matched by that in output. For both autos and trucks, output has been declining since the first quarter of 1979. In the second quarter of this year, auto output was 37 percent below that peak, and truck output was 55 percent below it.

In terms of units, new car production was 6.0 million (seasonally adjusted annual rate) in April and 5.2 million in May. Assuming that June production was close to that scheduled by manufacturers at the beginning of the month, second-quarter production totaled about 5.7 million, 20 percent less than that in the first quarter. Closings of plants that produced small cars as well as of plants that produced intermediate and full-size cars spread as manufacturers tried to prevent an inventory buildup as the end of the 1980 production run approached. Indefinite layoffs of autoworkers reached 238,000 in the first week of June—more that at any time during the 1974–75 recession.

Table 6.—Motor Vehicle Output

[Billions of 1972 dollars]

	Seasonally adjusted at annual rates						Change from preceding quarter				
	1979				1980		1979			1980	
	I	II	III	IV	I	II*	II	III	IV	I	II*
Output	87.1	76.7	68.0	66.9	64.1	49.6	−10.4	−8.7	−1.1	−2.8	−14.5
Autos	58.1	52.9	47.5	47.1	46.5	36.6	−5.2	−5.4	−.4	−.6	−9.9
Trucks	29.0	23.8	20.5	19.8	17.6	13.0	−5.2	−3.3	−.7	−2.1	−4.6
Final sales	83.8	73.2	73.7	70.1	69.2	49.6	−10.6	.5	−3.6	−.9	−19.6
Autos	57.8	51.3	52.0	49.1	51.2	36.5	−6.4	.6	−2.9	2.2	−14.8
Trucks	26.0	21.8	21.7	21.0	17.9	13.2	−4.2	−.1	−.7	−3.1	−4.8
Personal consumption expenditures	54.8	48.3	48.1	47.2	48.4	34.2	−6.5	−.2	−.9	1.2	−14.2
Autos	47.1	42.5	42.2	41.2	43.4	30.6	−4.6	−.3	−1.0	2.2	−12.8
Trucks	7.7	5.8	5.8	6.0	5.0	3.5	1.9	.1	.1	−1.0	−1.4
Producers' durable equipment	28.4	24.4	25.7	22.2	21.4	15.6	−4.1	1.3	−3.5	−.9	−5.7
Autos	11.2	9.3	10.8	8.4	9.3	6.9	−1.8	1.5	−2.3	.8	−2.3
Trucks	17.3	15.0	14.9	13.8	12.1	8.7	−2.2	−.1	−1.1	−1.7	−3.4
Other	.6	.5	0	.7	−.5	−.2	0	−.6	.7	−1.2	.4
Autos	−.5	−.5	−1.0	−.6	−1.4	−1.1	0	−.6	.4	−.8	.3
Trucks	1.0	1.0	1.0	1.3	.9	1.0	0	0	.3	−.4	.1
Change in business inventories	3.4	3.5	−5.7	−3.3	−5.1	0	.2	−9.2	2.4	−1.8	5.1
Autos	.4	1.6	−4.4	−2.0	−4.8	.1	1.2	−6.0	2.4	−2.8	4.9
Trucks	3.0	2.0	−1.3	−1.3	−.3	−.1	−1.0	−3.2	0	1.0	.2

*Projected. Based on unit production in April and May and scheduled production for June, unit sales of autos through the first 10 days of June and of trucks for April and May, and unit inventories for April and May.

NOTE.—Auto output includes dealers' margins on their used car transactions. These margins are paid by consumers and are the excess of the net purchases of used cars in personal consumption expenditures over the net sales of used cars in producers' durable equipment.

Total new car sales, which are sales to consumers, business, and other final users, were 8.3 million (seasonally adjusted annual rate) in April and 7.4 million in May—down from 10.7 million in the first quarter (chart 5). Domestic sales averaged 5.7 million for the 2 months, almost 30 percent less than in the first quarter. Sales of all size categories were down: Small cars, to 2.8 million from a record 4.0 million in the first quarter, intermediate cars, to 1.5 from 2.2 million, and full-size cars, to 1.2 from 1.8 million. Sales of imports were down also, to 2.2 million from a record 2.8 million in the first quarter. The pervasiveness of the decline contrasts with earlier ones, which were concentrated in sales of intermediate and full-size cars.

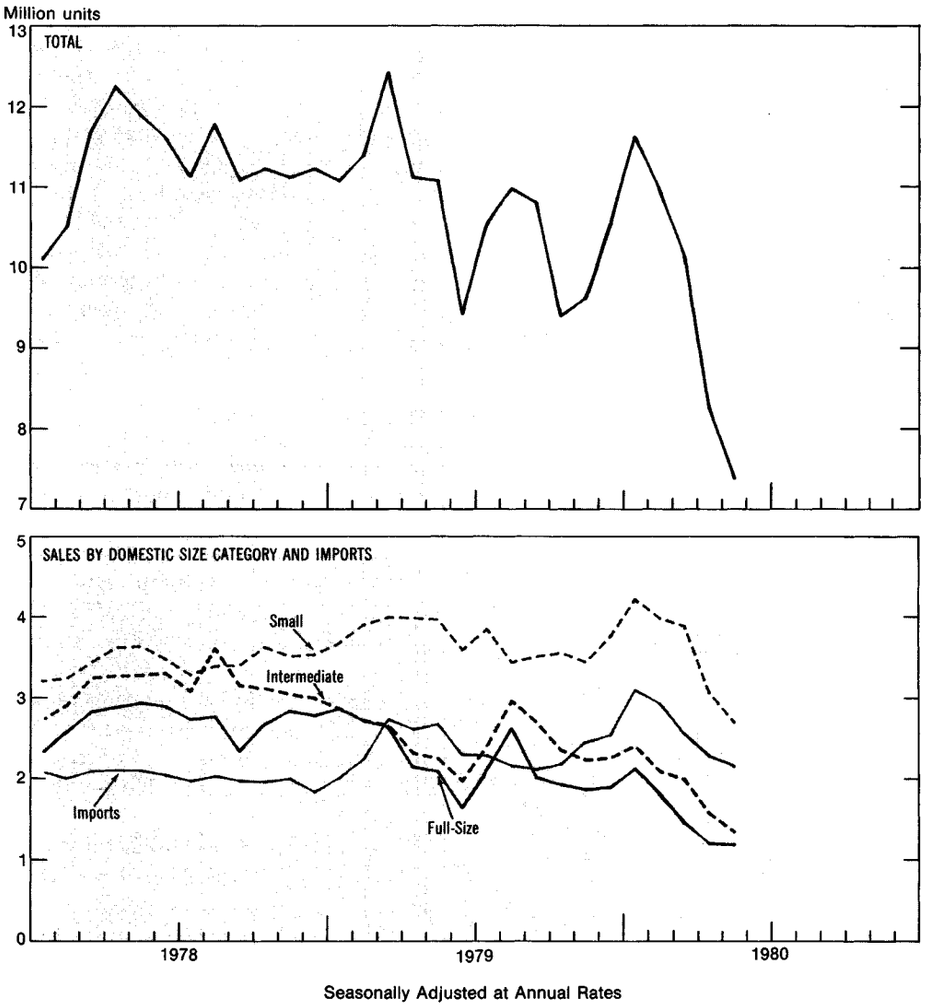
The depth and pervasiveness of the second-quarter decline in sales can be attributed largely to the decline in real disposable income and the concern over job security and income losses that cut into consumer spending in general. As is typical, spending for autos—which are discretionary purchases—was hit especially hard. Difficulties in financing new cars also had a significant impact on sales. Some consumers were deterred by record-high interest rates on auto installment loans. Even though interest rates turned around, they remained above usury ceilings in some States. As a result, the availability of credit was held down. Credit extensions were cut back—severely by banks and credit unions, and moderately even by finance companies (which include automakers' subsidiaries). High and rising gasoline prices may have been a factor, but their impact, as in earlier quarters, was largely to shift sales toward more fuel-efficient cars.

Because domestic production was cut back, inventories were trimmed slightly in April and May despite the sharp decline in sales. At the end of May, domestic new car inventories were about 1,330,000 (seasonally adjusted), their lowest level in almost a decade. Nevertheless, the overall inventory-sales ratio rose to 3.0 in May, well above the 2.0 generally preferred by dealers. Moreover, the ratio for many models exceeded that level.

Production of new trucks also dropped sharply in April and May. Assuming that June production is close to that scheduled, second-quarter production will be at least 30 percent less than in the first quarter. This decline would be in line with that of sales. Sales of domestic new trucks averaged 1.7 million (seasonally adjusted annual rate) in April and May, down from 2.4 million in the first quarter. Sales of both light and "other" trucks fell sharply (see accompanying tabulation).

CHART 5

Retail Sales of New Passenger Cars



Note.—The components may not add to the total because each category was separately adjusted for seasonal variation.

Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports; seasonal adjustment by BEA.

U.S. Department of Commerce, Bureau of Economic Analysis 80-6-5

[Millions of units, seasonally adjusted at annual rates]

	Domestic new truck sales		
	Total	Light trucks	Other trucks
1979: I	3.56	3.10	0.46
II	2.80	2.40	.40
III	2.98	2.62	.36
IV	2.76	2.42	.34
1980: I	2.36	2.05	.31
Average Apr.-May	1.75	1.51	.24

First-Quarter Corporate Profits

Corporate profits from current production—profits with inventory valuation and capital consumption adjust-

ments—declined $1½ billion in the first quarter of 1980 to $175 billion. The estimate is $3 billion higher than the one published a month ago. Last month's estimate had assumed the imposition of the 10 cents-per-gallon gasoline conservation fee, which held down profits somewhat less than $2 billion; since then the authority to impose the fee was retroactively revoked. In addition, rest-of-the-world profits were revised up $1½ billion.

Profits from the rest of the world—measured as the net inflow of branch profits and dividends—increased $2½ billion in the first quarter, following a decline of equal size in the fourth. Overseas petroleum operations of U.S. corporations accounted for a substantial portion of the increase.

Domestic profits of nonfinancial corporations declined $3½ billion to $126 billion in the first quarter, following a decline of $3 billion in the fourth. These profits can be viewed as the product of the real gross domestic product of nonfinancial corporations and profits per unit of real product. If unit costs increase more than unit prices, unit profits will decline, and unless real corporate product increases enough to offset the decline, total profits will decline. From a peak in the fourth quarter of 1978, unit profits have declined steadily, in part reflecting an increase in unit nonlabor costs. During the same period, real product increased, but not enough to offset the decline in unit profits. As a result, total profits have also declined steadily from a peak in the fourth quarter of 1978 (chart 6).

In the first quarter, a large decline in trade profits more than offset an increase in manufacturing profits (table 7). A substantial part of the decline in trade profits is probably traceable to the practice of many trade corporations of setting their sales prices by marking up unit costs that are based on historical acquisition costs. When there is inflation, replacement costs will exceed historical costs. These differences give rise to inventory profits for many firms, which in the National Income and Product Accounts (NIPA's) are deducted from book profits to derive profits from current production. Inventory profits in trade increased sharply in the first quarter.

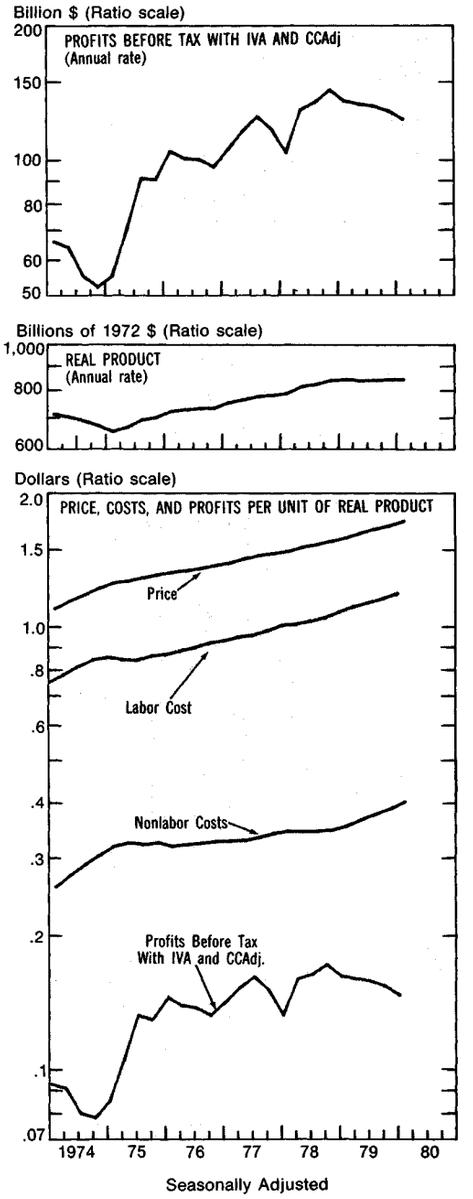
A substantial increase in manufacturing profits occurred despite declines in the profits of the manufacturers of motor vehicles, transportation equipment (such as ships, aircraft, and railroad equipment), and farm machinery (included in nonelectrical machinery), as well as profits of rubber manufacturers. The lower profits reflected lower production. As measured by the Federal Reserve Board Index of Industrial Production, production of rubber manufacturers declined by 6½ percent at an annual rate, farm equipment production declined 11 percent, and transportation equipment (including motor vehicles) production declined 14½ percent. Motor vehicle manufacturers' losses also reflected the costs of rebate and incentive programs designed primarily to encourage purchases of less fuel-efficient models. Profits of petroleum manufacturers increased sharply despite the imposition of the windfall profits tax on domestic crude oil production; most of this tax falls on these corporations because they also produce most of the crude petroleum. Chemical and food manufacturers' profits also increased in the first quarter, following declines in the fourth; food manufacturers benefited from declines in crude food prices.

Profits in transportation declined. An increase in railroad profits, due to good weather and strong shipments, was more than offset by lower profits for other forms of transportation, due to higher fuel costs. Losses registered by airlines reflected both fuel costs and sharply declining revenue passenger miles. Further, the opening of new routes made possible by deregulation resulted in high start-up costs and created excess capacity on routes that had previously been served by airlines providing sufficient capacity. In addition, administrative delays in obtaining approval for fare increases and competitive pressures limited the airlines' ability to pass through higher costs to passengers.

Domestic profits of financial corporations declined one-half billion dollars, following a $1 billion increase in the fourth quarter. An increase in the earnings of Federal Reserve banks, which are classified as corporations for purposes of the NIPA's, partially offset a decline in the profits of other financial corporations. The increase in Federal

CHART 6

Domestic Nonfinancial Corporate Business: Profits; Real Product; and Price, Costs, and Profits per Unit of Real Product



NOTE.—Price per unit is current dollar product divided by constant dollar (real) product. Costs and profits per unit are respective components of current dollar product divided by constant dollar product.

U.S. Department of Commerce. Bureau of Economic Analysis 80-6-6

Reserve banks' earnings resulted primarily from increases in the average interest rates on their holdings of Federal debt instruments. The decline in other financial corporations' profits reflected narrowing interest rate spreads as well as some disintermediation at thrift institutions.

Table 7.—Domestic Nonfinancial Corporate Profits with Inventory Valuation Adjustment and Without Capital Consumption Adjustment

[Billions of dollars]

	Seasonally adjusted at annual rates					Change from preceding quarter			
	1979				1980	1979			1980
	I	II	III	IV	I	II	III	IV	I
Nonfinancial	**135.9**	**133.9**	**132.3**	**129.3**	**125.9**	**−2.0**	**−1.6**	**−3.0**	**−3.4**
Manufacturing	94.1	90.6	86.4	84.0	93.0	−3.5	−4.2	−2.4	9.0
Nondurable goods	48.2	49.4	53.8	54.8	65.5	1.3	4.4	1.0	10.7
Food and kindred products	5.7	7.6	7.8	6.4	8.3	1.9	.2	−1.4	1.9
Chemicals and allied products	9.0	8.0	7.1	6.6	8.9	−1.0	−.9	−.5	2.3
Petroleum and coal products	16.4	19.5	21.8	28.3	32.6	3.1	2.3	6.5	4.3
Other	17.1	14.2	17.1	13.5	15.7	−2.9	2.9	−3.6	2.2
Durable goods	46.0	41.2	32.6	29.2	27.4	−4.8	−8.6	−3.4	−1.8
Primary metal industries	3.8	4.2	4.0	1.9	4.4	.4	−.2	−2.1	2.5
Fabricated metal products	5.0	5.4	4.8	4.7	5.3	.4	−.6	−.1	.6
Machinery, except electrical	8.2	7.6	7.9	6.9	5.7	−.6	.3	−1.0	−1.2
Electric and electronic equipment	5.5	5.2	5.1	4.6	4.6	−.3	−.1	−.5	0
Motor vehicles and equipment	11.4	7.4	−.5	−.4	−2.8	−4.0	−7.9	.1	−2.4
Transportation equipment	−.4	−.2	−.5	−.5	−1.2	.2	−.3	0	−.7
Other	12.4	11.5	11.7	12.0	11.4	−.9	.2	.3	−.6
Wholesale and retail trade	18.6	22.4	26.5	27.1	16.5	3.8	4.1	.6	−10.6
Transportation, communication, and electric, gas, and sanitary services	21.7	18.5	18.0	17.4	18.0	−3.2	−.5	−.6	.6
Transportation	4.8	4.8	4.8	4.7	3.8	−.1	.1	−.1	−.9
Communication	7.1	6.4	7.3	6.9	7.5	−.7	.9	−.4	.6
Electric, gas, and sanitary services	9.8	7.3	5.8	5.8	6.7	−2.4	−1.5	0	.9
Other	15.1	16.1	17.8	19.4	19.0	1.0	1.7	1.7	−.4

Table 8.—Relation of Net Exports of Goods and Services in the National Income and Product Accounts (NIPA's) to Balance of Goods and Services in the Balance of Payments Accounts (BPA's)

[Billions of dollars, seasonally adjusted at annual rates]

Line		1979				1980
		I r	II r	III r	IV r	I r
1	Exports of goods and services, BPA's	262.7	271.1	299.1	313.2	341.3
2	Less: Reinvested earnings of incorporated affiliates of U.S. direct investors [1]	15.7	17.8	21.4	18.8	22.2
3	Gold, BPA's [2]	3.6	4.6	5.2	7.0	4.0
4	Statistical differences [3]	4.5	4.6	4.8	6.5	6.5
5	Other items	[4] .4	[4] .4	[4] .4	[4] .4	[4] .4
6	Equals: Exports of goods and services, NIPA's	238.5	243.7	267.3	280.4	308.1
7	Imports of goods and services, BPA's	251.7	271.5	289.1	314.2	344.1
8	Less: Payments of income on U.S. Government liabilities [5]	11.1	11.0	11.0	11.3	12.2
9	Reinvested earnings of incorporated affiliates of foreign direct investors [1]	2.6	4.0	4.3	4.0	3.9
10	Gold, BPA's [2]	1.6	2.5	2.7	4.8	7.4
11	Statistical differences [3]	2.5	2.9	1.9	2.2	2.2
12	Other items	0	0	0	0	0
13	Plus: Gold, NIPA's [2]	.4	.9	.4	.5	3.3
14	Equals: Imports of goods and services, NIPA's	234.4	251.9	269.5	292.4	321.7
15	Balance of goods and services, BPA's (1-7)	10.9	−.4	10.0	−1.0	−2.8
16	Less: Reinvested earnings of incorporated affiliates (2-9)	13.1	13.8	17.1	14.8	18.3
17	Gold (3-10+13)	2.4	2.9	2.9	2.7	0
18	Statistical differences (4-11)	2.0	1.6	2.9	4.3	4.4
19	Other items (5-12)	.4	.4	.4	.4	.4
20	Plus: Payments of income on U.S. Government liabilities (8)	11.1	11.0	11.0	11.3	12.2
21	Equals: Net exports of goods and services, NIPA's (6-14)	4.0	−8.1	−2.3	−11.9	−13.6

r Revised.

1. This item, recently included in the BPA's, has not yet been incorporated in the NIPA's.

2. Beginning with estimates for 1976, the treatment of net exports of gold in the NIPA's differs from that in the BPA's. BPA gold exports (line 3) and imports (line 10) are removed from the NIPA's. Imports of gold in the NIPA's (line 13) is the excess of the value of gold in domestic final sales plus the change in business inventories over the value of U.S. production of gold. For further explanation of the NIPA treatment, see the July 1979 SURVEY OF CURRENT BUSINESS, pp. 4-7.

3. Consists of statistical revisions in the BPA's that have not yet been incorporated in the NIPA's.

4. Consists of arms shipments to Israel financed under the Emergency Security Act of 1973 and subsequent legislation. In the NIPA's, these arms shipments are classified as military grants, which are included in the defense purchases component of GNP when they are acquired by the U.S. Government. Their transfer abroad is not reflected in the NIPA's.

5. Represents interest paid by government to foreigners. This item is treated as an import of services in the BPA's. In the NIPA's, it is excluded from government purchases and, thus, also from imports. For further explanation, see Part I of the January 1976 SURVEY, p. 7.

Before-tax profits increased $17½ billion, following an increase of one-half billion dollars in the fourth quarter. These profits exclude the two valuation adjustments, which are designed to value inventories and fixed capital used up in production at replacement costs, the valuation concept underlying national income and product accounting, rather than at historical cost, the concept generally underlying business accounting.[3] If, as in the first quarter, the historical cost of inventories used up is less than their replacement cost, profits as measured by business exceed profits as measured in the NIPA's by an amount that is called inventory profits. Inventory profits increased $16½ billion in the first quarter, following an increase of $2½ billion in the fourth. If, as in the first quarter, fixed capital used up as measured by business is less than that measured by the NIPA's, business profits exceed NIPA profits by an amount that is equal to the underdepreciation of the fixed capital stock. The profits attributable to underdepreciation of the fixed capital stock increased $2 billion in the first quarter, following an increase of $2½ billion in the fourth.

Corporate profits taxes, which are levied on profits including inventory profits and profits attributable to underdepreciation of the fixed capital stock, increased $6½ billion, following an increase of $2 billion in the fourth quarter.

Dividends increased $2½ billion, following an increase of $1½ billion in the fourth quarter. Undistributed profits increased $9 billion, following a decline of $3 billion.

* * *

Special reconciliation table: net exports and balance of goods and services

The reconciliation of net exports of goods and services in the national income and product accounts (NIPA's)

3. The capital consumption adjustment also places the using up in production of fixed capital on a consistent basis with respect to service lives (85 percent of Internal Revenue Service Bulletin F for equipment and nonresidential structures) and depreciation formulas (straight-line).

and the balance of goods and services in the balance of payments accounts (BPA's) is shown in table 8. The newly revised BPA series, which appear on pp. 32–65, are reflected in this table. One of the changes incorporated in the new BPA series is the introduction of a technique of seasonal adjustment of merchandise exports and imports consistent with that used in the NIPA's. (See p. 66 for an explanation of this change.) As a result, the "seasonal adjustment discrepency" lines previously shown in the reconciliation table have been deleted.

First-quarter NIPA revisions

The 75-day revisions of the national income and product account estimates for the first quarter of 1980 are shown in table 9.

Table 9.—Revisions in Selected Component Series of the NIPA's, First Quarter of 1980

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates		
	45-day estimate	75-day estimate	Revision	45-day estimate	75-day estimate	Revision
	Billions of current dollars					
GNP	**2,516.1**	**2,520.8**	**4.7**	**10.0**	**10.8**	**0.8**
Personal consumption expenditures	1,628.7	1,629.5	.8	12.8	13.0	.2
Nonresidential fixed investment	273.3	272.6	−.7	12.8	11.6	−1.2
Residential investment	110.5	110.4	−.1	−18.8	−19.3	−.5
Change in business inventories	.1	4.7	4.6	----------	----------	----------
Net exports	−14.0	−13.6	.4	----------	----------	----------
Government purchases	517.4	517.2	−.2	13.5	13.4	−.1
Federal	186.2	186.2	0	18.7	18.7	0
State and local	331.2	331.0	−.2	10.7	10.5	−.2
National income	**2,031.4**	**2,035.4**	**4.0**	**8.5**	**9.4**	**.9**
Compensation of employees	1,554.6	1,555.2	.6	11.4	11.6	.2
Corporate profits with inventory valuation and capital consumption adjustments	171.8	175.0	3.2	−10.1	−3.1	7.0
Other	305.0	305.2	.2	5.8	6.0	.2
Personal income	**2,057.2**	**2,057.4**	**.2**	**10.8**	**10.9**	**.1**
	Billions of constant (1972) dollars					
GNP	**1,442.6**	**1,444.7**	**2.1**	**.6**	**1.2**	**.6**
Personal consumption expenditures	936.0	936.5	.5	.3	.5	.2
Nonresidential fixed investment	152.1	151.2	−.9	4.3	1.7	−2.6
Residential investment	52.0	51.7	−.3	−24.7	−26.2	−1.5
Change in business inventories	−1.9	.3	2.2	----------	----------	----------
Net exports	24.3	25.0	.7	----------	----------	----------
Government purchases	280.0	280.0	0	4.2	4.2	0
Federal	104.3	104.3	0	13.0	13.1	.1
State and local	175.7	175.7	0	−.5	−.7	−.2
	Index numbers, 1972=100 [1]					
GNP implicit price deflator	174.42	174.48	.06	9.3	9.5	.2
GNP fixed-weighted price index	179.0	179.0	0	10.9	10.9	0
GNP chain price index	----------	----------	----------	9.6	9.6	0

1. Not at annual rates.

NOTE.—For the first quarter of 1980, the following revised or additional major source data became available: For *personal consumption expenditures,* revised retail sales for March, consumer share of new car purchases for March, and consumption of electricity for February; for *nonresidential fixed investment,* revised manufacturers' shipments of equipment for March, revised construction put in place for March, business share of new car purchases for March, and business expenditures for plant and equipment for the quarter; for *residential investment,* revised construction put in place for March; for *change in business inventories,* revised book values for manufacturing and trade for March; for *net exports of goods and services,* revised merchandise trade and service receipts for the quarter; for *government purchases of goods and services,* revised construction put in place for March; for *wages and salaries,* revised employment, average hourly earnings, and average weekly hours for March; for *corporate profits,* domestic book profits for the quarter, revised dividends from abroad and branch profits (net) for the quarter; and for *GNP prices,* revised residential housing and nonresidential building prices for the quarter.

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the BUSINESS SITUATION

A sharp drop in real GNP in the second quarter ended the cyclical expansion that began in 1975. Real GNP declined 9 percent at an annual rate (chart 1 and table 1).[1] Personal consumption expenditures (PCE) and fixed investment were down sharply. Net exports, government purchases, and inventory investment were partial offsets. Inflation as measured by the GNP fixed-weighted price index slowed to 9 percent from 11 percent. About two-thirds of the slowing was due to energy prices.

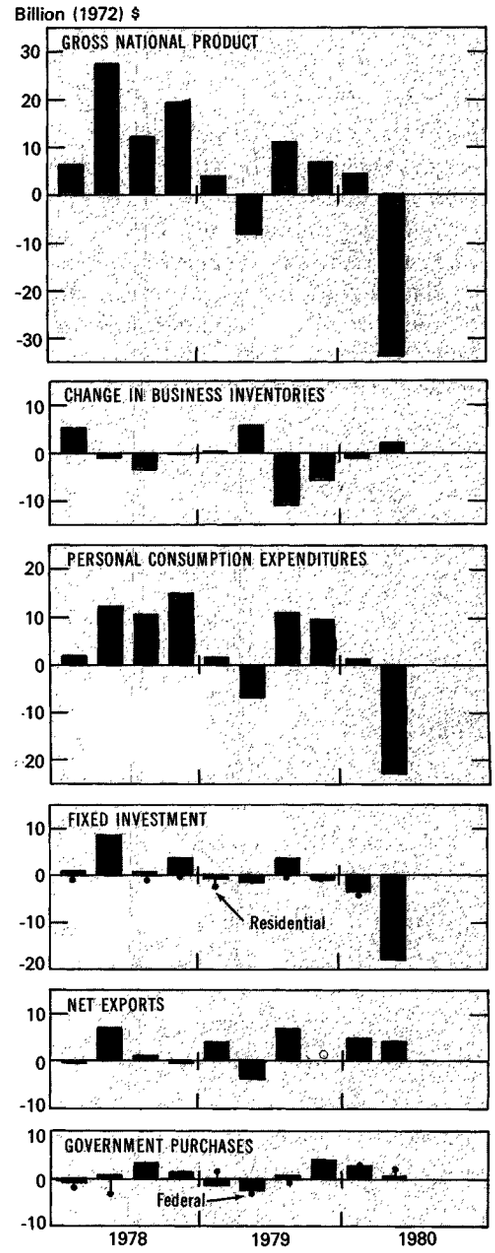
More than 70 percent of the second-quarter decline in real GNP can be traced to motor vehicle production and residential investment (table 2). Motor vehicle production, which had declined steadily from a peak in the first quarter of 1979, plummeted at an annual rate of about 60 percent. Both auto and truck production were down in April and May but steadied in June; production schedules for the next few months indicate a bottoming of the decline. Residential investment, which had peaked in 1978, also plummeted about 60 percent in the second quarter. Housing starts, which are reflected in residential construction with a lag, had declined through May but increased in June.

PCE other than on motor vehicles also declined sharply in the second quarter; it too improved in June. Of the remaining components of real GNP, only net exports registered a sizable

1. The second-quarter GNP estimates are based on the following major data sources: For *personal consumption expenditures* (PCE), retail sales, and unit auto and truck sales through June; for *nonresidential fixed investment*, the same information for autos and trucks as for PCE, manufacturers' shipments of machinery and equipment for April and May, April and May construction put in place, and investment plans for the quarter; for *residential investment*, April and May construction put in place, and housing starts for April and May; for *change in business inventories*, April and May book values for manufacturing and trade, and unit auto inventories through June; for *net exports of goods and services*, April and May merchandise trade, and fragmentary information on investment income for the quarter; for *government purchases of goods and services*, Federal unified budget outlays for April and May, State and local construction put in place for April and May, and State and local employment through June; and for *GNP prices*, the Consumer Price Index for April and May, the Producer Price Index through June, and unit value indexes for exports and imports for April. Some of these source data are subject to revision.

CHART 1

Real Product: Change From Preceding Quarter



Based on Seasonally Adjusted Annual Rates

U.S. Department of Commerce, Bureau of Economic Analysis 80-7-1

Postponement of July Revision of GNP

A benchmark revision of the national income and product accounts that will incorporate the 1972 economic census and information from other sources is in preparation. All series in the accounts will be revised back to 1967 and some will be revised for earlier years. Preliminary estimates of the new series for 1972 appeared in the April 1979 issue of the SURVEY OF CURRENT BUSINESS *in "U.S. National Income and Product Accounts: Preliminary Revised Estimates, 1972." The current schedule calls for completing the benchmark revision this winter.*

The revision of the estimates for 1977–79 that would customarily be published this July will be combined with the benchmark revision.

Table 1.—Gross National Product in Current and Constant Dollars

	Current dollars				Constant (1972) dollars						
	Billions of dollars, seasonally adjusted at annual rates								Percent change from preceding quarter at annual rates		
	1979		1980		1979		1980		1979	1980	
	III	IV	I	II	III	IV	I	II	IV	I	II
Gross national product	**2,396.5**	**2,456.9**	**2,520.8**	**2,523.4**	**1,433.3**	**1,440.3**	**1,444.7**	**1,410.8**	**2.0**	**1.2**	**−9.1**
Final sales	2,381.9	2,451.4	2,516.1	2,511.7	1,426.2	1,439.0	1,444.4	1,408.5	3.6	1.5	−9.6
Change in business inventories	14.5	5.6	4.7	11.7	7.1	1.4	.3	2.3	------	------	------
Less: Rest-of-the-world product	26.9	26.4	28.8	31.8	8.0	6.5	6.0	7.1	------	------	------
Equals: Gross domestic product	2,369.5	2,430.6	2,492.0	2,491.6	1,425.3	1,433.8	1,438.7	1,430.7	2.4	1.4	−9.4

increase. Both exports and imports declined, but imports declined more, largely reflecting the effect of declining U.S. production on the demand for petroleum and other industrial supplies. The rate of inventory accumulation was up slightly in the second quarter, due to a cessation in the runoff of motor vehicle inventories. The rate of accumulation of other inventories was down.

Prices.—As just noted, energy prices accounted for about two-thirds of the deceleration in the GNP fixed-weighted price index. This calculation is based on the prices of the energy components of GNP that can be identified—most importantly petroleum and petroleum products, and coal in the change in business inventories, petroleum and petroleum products in imports, energy goods and services in PCE, and fuels in government purchases. Inasmuch as GNP is a sum of final products, this calculation cannot take into account the effects on the prices of final products of changes in the prices of the energy that is a cost of production.

The increase in energy prices decelerated dramatically in the second quarter. As shown in table 3, PCE energy prices increased only one-half as much as in the first quarter—23 percent at an annual rate compared with 52 percent. After an 82½-percent increase in the first quarter, gasoline prices increased 21 percent in the second. Fuel oil prices also decelerated, from a 47-percent increase to a 24-percent increase. A major factor underlying the decelerations was a substantially smaller OPEC price increase in the second quarter than in the first. Also, conditions for retail price increases were less favorable, because mild weather in the first quarter had led to a carryover of fuel oil stocks and the

Table 2.—Key Factors in Real GNP

	Billions of constant (1972) dollars												
	Seasonally adjusted at annual rates							Change from preceding quarter					
	1978	1979				1980		1979				1980	
	IV	I	II	III	IV	I	II	I	II	III	IV	I	II
GNP	**1,426.6**	**1,430.6**	**1,422.3**	**1,433.3**	**1,440.3**	**1,444.7**	**1,410.8**	**4.0**	**−8.3**	**11.0**	**7.0**	**4.4**	**−33.9**
Less: Motor vehicles	84.0	87.1	76.7	68.0	66.9	64.1	50.0	3.1	−10.4	−8.7	−1.1	−2.8	−14.1
Residential investment	60.0	57.7	56.7	56.5	55.8	51.7	41.1	−2.3	−1.0	−.2	−.7	−4.1	−10.6
GNP less motor vehicles and residential investment	**1,282.6**	**1,285.8**	**1,288.9**	**1,308.8**	**1,317.6**	**1,328.9**	**1,319.7**	**3.2**	**3.1**	**19.9**	**9.4**	**11.3**	**−9.2**
Final sales	1,414.6	1,418.4	1,404.1	1,426.2	1,439.0	1,444.4	1,408.5	3.8	−14.3	22.1	12.8	5.4	−35.9
Less: Motor vehicles	80.8	83.8	73.2	73.7	70.2	69.2	50.9	3.0	−10.6	.5	−3.5	−1.0	−18.3
Residential investment	60.0	57.7	56.7	56.5	55.8	51.7	41.1	−2.3	−1.0	−.2	−.7	−4.1	−10.6
Final sales less motor vehicles and residential investment	1,273.8	1,276.9	1,274.2	1,296.0	1,313.0	1,323.5	1,316.5	3.1	−2.7	21.8	17.0	10.5	−7.0
Personal consumption expenditures	920.3	921.8	915.0	925.9	935.4	936.5	913.6	1.5	−6.8	10.9	9.5	1.1	−22.9
Less: Motor vehicles	54.3	54.8	48.3	48.1	47.2	48.4	34.9	.5	−6.5	−.2	−.9	1.2	−13.5
Personal consumption expenditures less motor vehicles	866.1	867.0	866.7	877.9	888.2	888.1	878.7	.9	−.3	11.2	10.3	−.1	−9.4
Less: Energy	57.5	59.8	55.3	54.5	54.0	51.9	51.1	2.3	−4.5	−.8	−.5	−2.1	−.8
Personal consumption expenditures less motor vehicles and energy	808.6	807.2	811.4	823.4	834.2	836.2	827.6	−1.4	4.2	12.0	10.8	2.0	−8.6
Nonresidential structures	46.5	45.8	47.9	48.7	50.1	50.3	48.6	−.7	2.1	.8	1.4	.2	−1.7
Nonresidential producers' durable equipment	98.9	101.3	99.0	101.9	100.4	100.9	95.3	2.4	−2.3	2.9	−1.5	.5	−5.6
Less: Motor vehicles	28.2	28.4	24.4	25.7	22.2	21.4	16.8	.2	−4.0	1.3	−3.5	−.8	−4.6
Nonresidential producers' durable equipment less motor vehicles	70.7	72.9	74.6	76.2	78.2	79.5	78.5	2.2	1.7	1.6	2.0	1.3	−1.0
Net exports	12.9	17.0	13.2	20.1	20.1	25.0	29.3	4.1	−3.8	6.9	0	4.9	4.3
Less: Motor vehicles	−3.8	−1.5	−1.4	−2.0	−1.3	−2.4	−2.6	2.3	.1	−.6	.7	−1.1	−.2
Net exports less motor vehicles	16.6	18.5	14.6	22.1	21.4	27.4	31.9	1.9	−3.9	7.5	−.7	6.0	4.5
Exports	113.8	117.0	116.0	122.2	124.3	131.7	128.7	3.2	−1.0	6.2	2.1	7.4	−3.0
Less: Motor vehicles	8.1	8.6	8.6	8.1	8.9	8.0	6.9	.5	0	−.5	.8	−.9	−1.1
Exports less motor vehicles	105.7	108.4	107.5	114.1	115.3	123.7	121.8	2.7	−.9	6.6	1.2	8.4	−1.9
Imports	101.0	100.0	102.9	102.1	104.1	106.7	99.4	−1.0	2.9	−.8	2.0	2.6	−7.3
Less: Motor vehicles	11.9	10.1	10.0	10.2	10.2	10.6	9.5	−1.8	−.1	.2	0	.4	−1.1
Imports less motor vehicles	89.1	89.9	92.8	91.9	93.9	96.1	89.9	.8	2.9	−.9	2.0	2.2	−6.2
Government purchases	276.0	274.7	272.4	273.1	277.1	280.0	280.6	−1.3	−2.3	.7	4.0	2.9	.6
Less: Motor vehicles	2.1	2.1	2.0	2.0	1.9	1.9	1.9	0	−.1	0	−.1	0	0
Government purchases less motor vehicles	273.9	272.6	270.4	271.1	275.2	278.1	278.7	−1.3	−2.2	.7	4.1	2.9	.6
Change in business inventories	12.0	12.3	18.1	7.1	1.4	.3	2.3	.3	5.8	−11.0	−5.7	−1.1	2.0
Less: Motor vehicles	3.3	3.4	3.5	−5.7	−3.3	−5.1	−.9	.1	.1	−9.2	2.4	−1.8	4.2
Change in business inventories less motor vehicles	8.7	8.9	14.6	12.8	4.6	5.4	3.2	.2	5.7	−1.8	−8.2	.8	−2.2

decline in economic activity reduced the industrial demand for energy. Refiners reduced prices for gasoline and fuel oil, and retailers allowed margins to fall. Partly offsetting the decelerations in gasoline and fuel oil prices were larger increases in the prices of electricity and natural gas.

Among the nonenergy components of PCE, food prices increased 6½ percent at an annual rate, about the same as in the first quarter. The increase in the prices of other PCE slowed down from 10½ percent to 10 percent. The slowing was traceable largely to the prices of used cars, jewelry, and clothing and shoes.

Among the prices paid by investors and government, only prices of producers' durable equipment (PDE) accelerated in the second quarter. This acceleration partly reflected the price of used cars. Because businesses are net sellers of used cars, used cars enter PDE as negative purchases. Accordingly, the price of used cars enters PDE prices with a negative sign, and the decline in used car prices that occurred in the second quarter raised PDE prices. The price of structures increased less than in the first quarter. This deceleration is registered in the nonresidential structures and residential investment components of the table, and it also contributed to the decelera-

Table 3.—Fixed-Weighted Price Indexes

	Index numbers (1972=100) seasonally adjusted						Percent change from preceding quarter at annual rates				
	1979				1980		1979			1980	
	I	II	III	IV	I	II	II	III	IV	I	II
Gross national product	**162.8**	**166.6**	**170.6**	**174.4**	**179.0**	**182.9**	**9.5**	**10.0**	**9.4**	**10.9**	**8.9**
Less: Change in business inventories	------	------	------	------	------	------	------	------	------	------	------
Equals: Final sales	**162.7**	**166.4**	**170.4**	**174.3**	**179.8**	**182.7**	**9.5**	**10.0**	**9.4**	**10.9**	**9.0**
Less: Exports	205.3	211.4	220.5	227.8	238.6	242.3	12.4	18.5	13.9	20.2	6.3
Plus: Imports	229.6	240.9	256.8	273.8	276.5	308.5	21.2	29.1	29.3	37.6	17.1
Equals: Final sales less exports plus imports	**164.4**	**168.5**	**172.9**	**177.4**	**182.8**	**187.2**	**10.3**	**11.0**	**10.8**	**12.6**	**10.0**
Personal consumption expenditures	160.0	163.9	168.4	172.6	178.3	182.9	10.3	11.3	10.5	13.8	10.7
Food	175.8	178.5	179.5	183.5	186.3	189.2	6.3	2.3	9.3	6.2	6.5
Energy [1]	207.9	231.4	262.3	278.3	309.0	325.3	53.5	65.2	26.7	52.0	22.8
Other personal consumption expenditures	151.0	153.5	156.4	159.6	163.7	167.7	6.7	7.8	8.5	10.7	9.9
Other	171.9	176.2	180.6	185.5	190.4	194.5	10.4	10.5	11.3	10.8	9.0
Nonresidential structures	181.6	186.4	191.7	196.0	202.0	206.8	10.9	11.8	9.2	12.9	10.0
Producers' durable equipment	161.5	165.6	169.1	171.8	175.9	181.5	10.5	8.9	6.4	9.9	13.3
Residential investment	192.7	199.3	205.7	208.9	213.9	218.4	14.3	13.5	6.4	10.0	8.6
Government purchases	168.2	172.0	176.0	182.1	186.9	190.4	9.2	9.8	14.5	11.0	7.8
Federal	164.0	167.2	171.1	180.2	184.7	187.7	7.9	9.8	22.9	10.5	6.6
State and local	171.1	175.2	179.4	183.4	188.4	192.3	10.0	9.9	9.3	11.3	8.6

1. Gasoline and oil, fuel oil and coal, electricity, and gas.

Table 4.—Selected Labor Market Indicators

[Seasonally adjusted]

	1979	1980: Change from preceding quarter		1980	1979	1980: Change from preceding month						1980
	IV	I	II	II	December	Jan.	Feb.	March	April	May	June	June
Household survey												
Civilian labor force (millions)	103.7	0.4	0.5	104.7	104.0	0.2	0	−0.2	0.3	0.7	−0.6	104.5
Employment	97.7	.1	−.9	96.9	97.9	−.1	.1	−.3	−.5	−.2	−.5	96.5
Unemployment	6.1	.3	1.4	7.8	6.1	.3	−.1	.1	.8	.9	−.1	8.0
Job losers	2.7	.3	1.2	4.2	2.7	.3	−.1	.1	.6	.7	.3	4.6
On layoff	1.0	.1	.8	1.8	.9	.1	0	.1	.3	.5	.2	2.1
Other job losers	1.8	.1	.4	2.4	1.8	.2	−.1	0	.3	.2	.2	2.5
Job leavers, reentrants, and new entrants	3.4	0	.3	3.7	3.4	0	0	0	.2	.3	−.3	3.6
Employment-population ratio	59.3	−.1	−.8	58.4	59.4	−.2	.1	−.3	−.4	−.1	−.4	58.1
Unemployment rate (percent):												
Total	5.9	.2	1.4	7.5	5.9	.3	−.2	.2	.8	.8	−.1	7.7
Adult men	4.2	.5	1.7	6.4	4.2	.5	−.1	.3	1.0	.7	.1	6.7
Adult women	5.7	0	.8	6.5	5.7	.1	−.1	0	.6	.3	−.1	6.5
Teenagers	16.1	.1	1.8	18.0	16.0	.3	.2	−.6	.3	3.0	−.7	18.5
Civilian labor force participation rate (percent):												
Total	63.8	0	.1	63.9	63.9	0	0	−.2	.1	.4	−.5	63.7
Adult men	79.6	−.1	.1	79.6	79.5	−.1	.2	−.2	.1	.4	−.5	79.4
Adult women	51.0	.2	.2	51.4	51.1	.3	−.1	−.3	.5	0	−.2	51.3
Teenagers	58.2	−.5	−.8	56.9	58.6	−.4	−.8	−.1	−1.0	1.6	−1.4	56.5
Establishment survey												
Employment, nonfarm payroll (millions)	90.6	.6	−.6	90.5	90.7	.4	.2	0	−.2	−.3	−.5	90.1
Goods producing	26.5	.1	−.9	25.7	26.6	.1	−.1	−.1	−.4	−.4	−.4	25.4
Construction	4.6	.1	−.2	4.4	4.6	.1	−.1	−.1	−.1	0	−.1	4.4
Manufacturing:												
Durables	12.7	0	−.5	12.2	12.7	0	0	0	−.3	−.3	−.2	11.9
Nondurables	8.3	0	−.1	8.1	8.3	0	0	0	0	−.1	−.1	8.1
Distributive [1]	25.7	.1	−.1	25.6	25.7	.1	.1	0	−.1	−.1	−.1	25.6
Services [2]	22.4	.3	.1	22.8	22.4	.1	.1	.1	0	.1	0	22.8
Government	16.0	.1	.3	16.4	16.0	0	.1	.1	.2	0	0	16.4
Average weekly hours, private nonfarm:												
Total	35.6	−.1	−.4	35.1	35.7	−.1	−.1	−.1	−.1	−.2	−.1	35.0
Manufacturing	40.1	0	−.7	39.4	40.2	.1	−.2	−.3	0	−.5	−.2	39.1

1. Transportation and public utilities, and wholesale and retail trade.
2. Services, and finance, insurance, and real estate.

Source: Bureau of Labor Statistics.

tion in the government purchases component.

Labor market indicators.—Changes in employment and hours, shown in table 4, reflect the drop in production and provide an indication of its monthly pattern. Employment as measured in the establishment survey dropped 570,000 (seasonally adjusted) in the second quarter, after increasing a similar amount in the first. Declines were registered in each month of the quarter. The quarterly as well as the monthly declines were in the goods-producing industries—construction and manufacturing, especially durables—and in the distributive industries—trade, and transportation and public utilities. Employment in services and in government continued to increase. Average weekly hours in the private nonfarm economy peaked at the turn of the year, dipped slightly in the first quarter, and fell sharply in the second. They declined 0.1 or 0.2 hours in each month of the second quarter.

The unemployment rate increased 1.4 percentage points to 7.5 percent in the second quarter. The rate had hovered at about 6.0 percent for an extended period—just below it in 1979 and just above it in the first quarter. In April and again in May, it jumped 0.8 percentage points, and in June, it declined 0.1 percentage points. Because an unusually large proportion of high school and college students who normally enter the labor force at the end of the school year did so this year in May, the seasonal factors overstated the unemployment rate in May and understated it in June. If allowance could be made for this unusual pattern, the net increase of 0.7 percentage points from April to June would be more evenly distributed by month.

Costs and productivity.—Table 5 adapts the information on real product, employment, and hours to focus on costs and productivity in the business economy other than farm and housing. Real gross product and aggregate hours in this sector were down sharply in the second quarter. As is typical in a severe contraction, the decline in real product substantially exceeded that in hours. Compensation registered almost no increase, in contrast to annual rate increases ranging from 8 to 12 percent over the last year. As a result, real product per hour declined sharply—4.4 percent—and unit labor costs increased sharply—16.3 percent.

When the source data are available, this measure of gross product is estimated by summing incomes and other charges against gross product, excluding the statistical discrepancy. For the second quarter, the source data needed to estimate one of the incomes—corporate profits—are not yet available, and profits are obtained by holding the first-quarter statistical discrepancy constant. The residual calculation implies a second-quarter decline in profits that is somewhat larger than seems likely. If profits, and hence gross product estimated by summing charges, turn out to be higher, the decline in real product per hour will be somewhat less and the increase in unit labor costs will be somewhat less than shown in the table.

Table 5.—Real Gross Product, Hours, and Compensation in the Business Economy Other Than Farm and Housing

[Percent change from preceding quarter at annual rates based on seasonally adjusted estimates]

	1979		1980	
	III	IV	I	II
Real gross product	1.1	2.4	0	−13.3
Hours	2.2	2.2	1.7	−9.3
Compensation	11.3	11.3	12.0	.8
Real gross product per hour	−1.1	.2	−1.7	−4.4
Compensation per hour	8.9	8.9	10.1	11.2
Unit labor cost	10.2	8.7	12.0	16.3

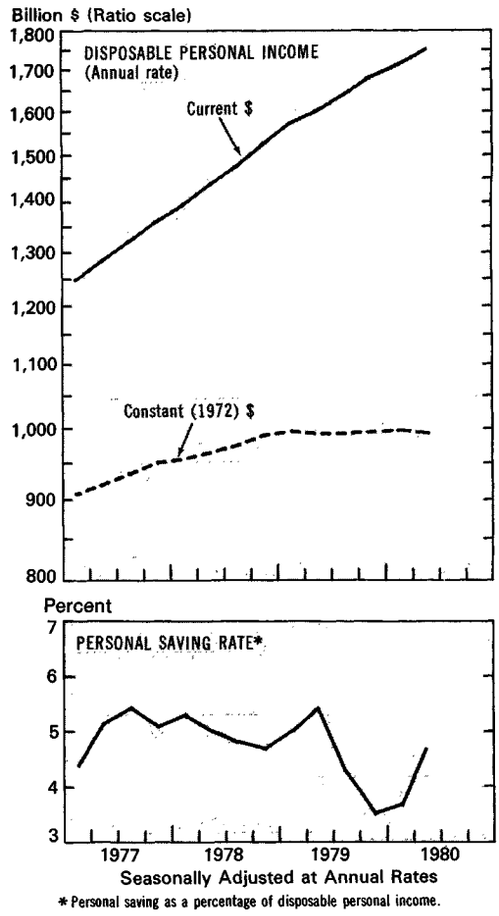
Table 6.—Personal Income and Its Disposition: Change From Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1979	1980	
	IV	I	II
Wage and salary disbursements	32.4	33.2	5.6
Manufacturing	6.4	8.9	−5.8
Other commodity-producing	3.1	3.3	−.5
Distributive	8.4	7.6	.8
Services	9.0	9.8	7.4
Government and government enterprises	5.6	3.6	3.7
Proprietors' income	4.2	−4.5	−10.8
Farm	1.6	−4.7	−5.5
Nonfarm	2.6	.3	−5.3
Transfer payments	5.7	8.4	7.3
Other income	17.8	18.8	18.7
Less: Personal contributions for social insurance	1.8	3.6	−.2
Personal income	**58.4**	**52.4**	**21.0**
Less: Personal tax and nontax payments	15.3	−1.9	4.3
Federal	13.4	−2.4	3.1
Impact of legislation	−.6	−12.1	−1.5
Withheld	−.5	−.4	−.4
Nonwithheld less refunds	−.1	−11.7	−1.1
Other	14.0	9.6	4.5
State and local	1.9	.5	1.2
Impact of legislation	−.1	−1.7	−.1
Other	2.1	2.2	1.3
Equals: Disposable personal income	43.1	54.3	16.6
Less: Personal outlays	53.7	49.5	−1.8
Equals: Personal saving	−10.6	4.7	18.5
Addenda:			
Special factors in personal income:			
Federal pay raise	3.5	.2	------
Minimum wage	------	2.0	------
Energy allowance	------	1.6	−1.6
Accidental damage:			
California floods	------	−.3	.3
Mount St. Helens and Florida civil disturbance	------	------	−.6
Social security base change	------	−2.5	------
California cash sickness program refund	------	.7	.4
Personal income adjusted for the special factor	54.9	50.7	22.5

CHART 2

Disposable Personal Income and Personal Saving Rate



* Personal saving as a percentage of disposable personal income.

U.S. Department of Commerce, Bureau of Economic Analysis 80-7-2

Personal income and its disposition

Personal income increased only $21 billion in the second quarter, compared with $52½ billion in the first (table 6).[2] Most of the deceleration was in wage and salary disbursements, which increased only $5½ billion after an increase of $33 billion. Declines in employment and average weekly hours almost offset an increase in average hourly earnings. Declines in wages and salaries were registered in construction, manufacturing, retail trade, and transportation, where the declines in hours and employment were concentrated.

Proprietors' income was down $11 billion, after a $4½ billion decline in the first quarter. Farm proprietors' income continued to decline. Reflecting the drop in construction activity and the weakness in retail trade, nonfarm proprietors' income was down $5½ billion after little change in the first quarter. Proprietors' income and rental income of persons combined were reduced by about $0.6 billion due to damage to businesses and dwellings caused by the eruption of Mount St. Helens, Wash., and by civil disturbances in Miami, Fla. Despite a step-up in government unemployment insurance benefits, the second-quarter increase in transfer payments was less than the first-quarter increase, which had included a $1.6 billion special energy allowance for recipients of Supplemental Security Income.

Several special factors in addition to the damage and the energy allowance affected the changes in personal income in recent quarters. These factors are listed in the addenda to table 6. Personal income adjusted for these factors decelerated $28 billion from the first quarter to the second, about $3 billion less than personal income.

Personal tax and nontax payments increased $4½ billion in the second quarter, after a $2 billion decline in the first. The first-quarter decline had been due to the impact of legislative changes—$12 billion in Federal income taxes, the result of unusually large refunds, and $1½ billion in State and local taxes. Although the impact of legislative changes was much less in the second quarter, the increase in personal taxes was small, reflecting a small increase in the tax base.

Because of the swing in personal taxes, the increase in disposable personal income decelerated even more than did personal income—from $54½ billion to $16½ billion. Personal outlays dropped, and personal saving increased substantially. The personal saving rate was up 1 percentage point to 4.7 percent, following a smaller first-quarter increase from the low in the fourth quarter of last year. Despite the recent increases, the rate is still below the plateau of about 5 percent from which it started to fall a year ago (chart 2).

Real disposable personal income registered a large drop—5½ percent at an annual rate—after six quarters of virtually no change. This drop was the principal cause of the sharp decline in real PCE, but several other factors

2. Quarterly estimates of the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

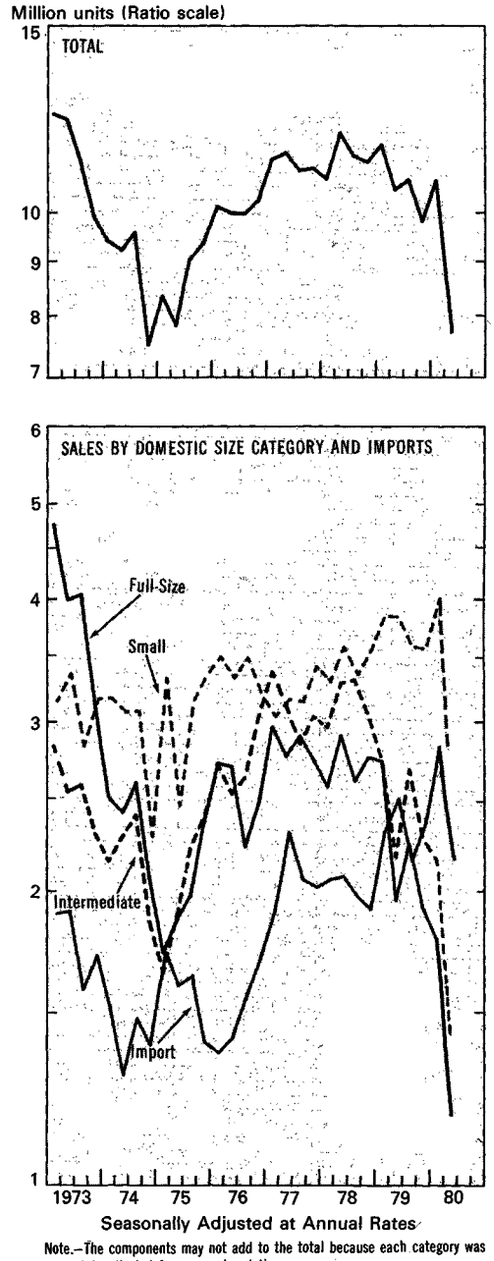
Table 7.—Personal Consumption Expenditures in Current and Constant Dollars

	Current dollars				Constant (1972) dollars						
	Billions of dollars, seasonally adjusted at annual rates								Percent change from preceding quarter at annual rates		
	1979		1980		1979		1980		1979	1980	
	III	IV	I	II	III	IV	I	II	IV	I	II
Personal consumption expenditures	**1,528.6**	**1,580.4**	**1,629.5**	**1,628.2**	**925.9**	**935.4**	**936.5**	**913.6**	**4.1**	**0.5**	**−9.4**
Durables	213.4	216.2	220.0	197.0	146.9	146.7	145.4	128.3	−.6	−3.5	−39.4
Motor vehicles and parts	89.8	89.4	92.9	71.9	57.1	56.4	57.3	43.4	−5.3	6.6	−66.9
Furniture and household equipment	87.3	88.9	88.2	86.6	64.3	64.7	62.9	60.8	2.2	−10.7	−12.7
Other durables	36.3	37.8	39.1	38.6	25.4	25.6	25.2	24.0	3.4	−6.1	−17.5
Nondurables	604.7	630.7	652.0	654.4	349.2	355.1	354.1	349.1	7.0	−1.1	−5.6
Food	303.1	315.6	322.6	324.0	169.3	172.3	173.5	171.5	7.3	2.7	−4.5
Energy [1]	88.7	93.8	105.3	105.5	31.0	30.6	29.9	28.6	−4.9	−8.7	−16.4
Clothing and shoes	101.0	103.6	103.9	106.6	77.6	78.5	77.5	78.8	4.8	−5.1	6.6
Other nondurables	111.9	117.7	120.2	118.4	71.3	73.7	73.2	70.2	14.0	−2.4	−15.4
Services	710.6	733.5	757.3	776.8	429.9	433.6	437.0	436.3	3.5	3.2	−.6
Energy [2]	49.6	50.5	48.8	52.9	23.5	23.5	22.0	22.5	1.1	−22.7	9.6
Other services	660.9	683.0	708.4	723.9	406.4	410.1	415.0	413.8	3.8	4.9	−1.2

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

CHART 3

Retail Sales of New Passenger Cars



Note.—The components may not add to the total because each category was separately adjusted for seasonal variation.

Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports; seasonal adjustment by BEA.

U.S. Department of Commerce, Bureau of Economic Analysis 80-7-3

contributed. First, plant closings and layoffs led to mounting uncertainty about job security and concern over future income losses. Second, credit-financed spending was curtailed as a result of record high interest rates, heavy debt repayment burdens, and the effects—unintended as well as intended—of the Federal Reserve's program to restrain consumer credit that was in force from March through June. Third, financial markets displayed considerable instability, which added to uncertainty, and there were losses in the value of financial assets. Finally, there was a slowing in the monetization of capital gains on existing residences as the increase in housing prices decelerated and the volume of transactions declined.

Table 8.—Fixed Investment in Current and Constant Dollars

	Current dollars				Constant (1972) dollars						
	Billions of dollars, seasonally adjusted at annual rates								Percent change from preceding quarter at annual rates		
	1979		1980		1979		1980		1979	1980	
	III	IV	I	II	III	IV	I	II	IV	I	II
Fixed investment	**377.8**	**381.7**	**383.0**	**355.2**	**207.1**	**206.3**	**202.9**	**185.0**	**−1.5**	**−6.5**	**−30.9**
Nonresidential	261.8	265.2	272.6	265.9	150.7	150.5	151.2	143.9	−.3	1.7	−17.8
Structures	95.0	100.2	103.3	102.7	48.7	50.1	50.3	48.6	12.2	1.2	−12.6
Producers' durable equipment	166.7	165.1	169.4	163.2	101.9	100.4	100.9	95.3	−6.0	2.0	−20.3
Autos, trucks and buses	41.1	35.6	34.9	28.5	25.7	22.2	21.4	16.7	−43.9	−14.6	−62.4
Other	125.7	129.4	134.4	134.6	76.3	78.2	79.5	78.6	10.4	7.1	−4.6
Residential	116.0	116.4	110.4	89.3	56.5	55.8	51.7	41.1	−4.5	−26.2	−60.3

Table 9.—Net Exports of Goods and Services in Current and Constant Dollars

	Current dollars				Constant (1972) dollars						
	Billions of dollars, seasonally adjusted at annual rates								Percent change from preceding quarter at annual rates		
	1979		1980		1979		1980		1979	1980	
	III	IV	I	II	III	IV	I	II	IV	I	II
Net exports of goods and services	**−2.3**	**−11.9**	**−13.6**	**1.3**	**20.1**	**20.1**	**25.0**	**29.3**	------	------	------
Exports	267.3	280.4	308.1	307.3	122.2	124.3	131.7	128.7	7.0	26.1	−8.7
Merchandise	184.6	194.4	215.3	212.3	86.5	89.0	95.7	92.8	12.1	34.2	−11.9
Agricultural	38.4	42.2	42.0	38.8	16.7	18.4	18.4	17.7	46.7	−1.0	−14.5
Nonagricultural	146.1	152.2	173.3	173.4	69.7	70.5	77.4	75.1	4.8	44.8	−11.2
Other	82.7	86.0	92.8	95.0	35.7	35.3	36.0	36.0	−4.6	7.3	.1
Imports	269.5	292.4	321.7	306.0	102.1	104.1	106.7	99.4	8.2	10.2	−24.5
Merchandise	215.9	233.9	258.6	244.3	76.3	76.8	78.2	72.3	3.0	7.4	−26.8
Petroleum	66.5	75.4	86.4	82.4	8.4	8.4	8.1	6.9	.4	−13.1	−47.3
Nonpetroleum	149.5	158.5	172.2	161.9	67.8	68.4	70.1	65.4	3.3	10.2	−24.1
Other	53.6	58.5	63.1	61.7	25.8	27.3	28.5	27.1	24.7	18.2	−17.9

Table 10.—Government Purchases of Goods and Services in Current and Constant Dollars

	Current dollars				Constant (1972) dollars						
	Billions of dollars, seasonally adjusted at annual rates								Percent change from preceding quarter at annual rates		
	1979		1980		1979		1980		1979	1980	
	III	IV	I	II	III	IV	I	II	IV	I	II
Government purchases of goods and services	**477.8**	**501.2**	**517.2**	**527.0**	**273.1**	**277.1**	**280.0**	**280.6**	**6.0**	**4.2**	**0.9**
Federal	162.9	178.4	186.2	192.5	97.4	101.1	104.3	106.6	16.0	13.1	8.9
National defense	109.0	114.6	119.6	123.6	------	------	------	------	------	------	------
Nondefense	53.9	63.8	66.6	68.9	------	------	------	------	------	------	------
State and local	314.9	322.8	331.0	334.5	175.6	176.0	175.7	174.0	.8	−.7	−3.6

Personal consumption expenditures

Real PCE fell 9½ percent at an annual rate in the second quarter, after increasing one-half percent in the first (table 7). On a monthly basis, PCE slid from January through May, but increased in June.

More than one-half of the second-quarter decline was in expenditures on motor vehicles and parts. These expenditures declined 67 percent at an annual rate, after a slight increase in the first quarter. Autos, for which there had been a small upturn in the first quarter, turned down again in the second, and trucks continued down. (Unit auto sales are discussed immediately below, and unit truck sales are discussed in the investment section). PCE on furniture and household equipment and on other durables declined in the second quarter, even more than in the first. The former partly reflected the weakness in the housing market. The decline in PCE on nondurable goods accelerated as well; clothing and shoes was the only category that registered an increase. A small decline in PCE on services reflected a fall-off in security and commodity brokers' fees from an unusually high first-quarter level.

Autos.—Unit sales of new passenger cars, which are sales to businesses and other final users as well as to consumers, dropped from 10.7 million (seasonally adjusted annual rate) in the first quarter to 7.7 million in the second (chart 3). The decline was spread across all domestic size categories and imports.

Domestic sales plunged from 7.9 to 5.5 million, their lowest level in nearly a decade. Full-size car sales fell from 1.8 to 1.2 million, and intermediate sales from 2.2 to 1.4 million. Domestic small car and import car sales fell from record first-quarter levels—domestic small car sales fell from 4.0 to 2.8 million, and import sales from 2.8 to 2.2 million. In terms of market shares, domestic small cars and imports—that is, relatively fuel-efficient cars—attained a 66-percent share, the largest ever. The domestic small car share edged up to

37½ percent, and the import share jumped to a record 28½ percent.

The depth and pervasiveness of the decline in new car sales can be attributed to the factors that were responsible for the decline in total PCE. Curtailment due to financing difficulties was especially important for car purchases because a large portion of them is credit-financed.

Investment

Real nonresidential fixed investment declined 18 percent at an annual rate in the second quarter, after increasing slightly in the first (table 8). The decline in motor vehicle investment, which accounted for the bulk of the decline in the total, was the largest quarterly decline in the slide that began a year ago. Both autos and trucks were down sharply. In terms of units, domestic new truck sales fell from 2.4 million (seasonally adjusted annual rate) in the first quarter to 1.8 million in the second. Sales of light trucks (up to 10,000 pounds) dropped from 2.1 million to 1.6 million and "other" trucks (over 10,000 pounds) from 318,000 to 240,000, their lowest levels in nearly a decade. Sales of imported trucks were also down.

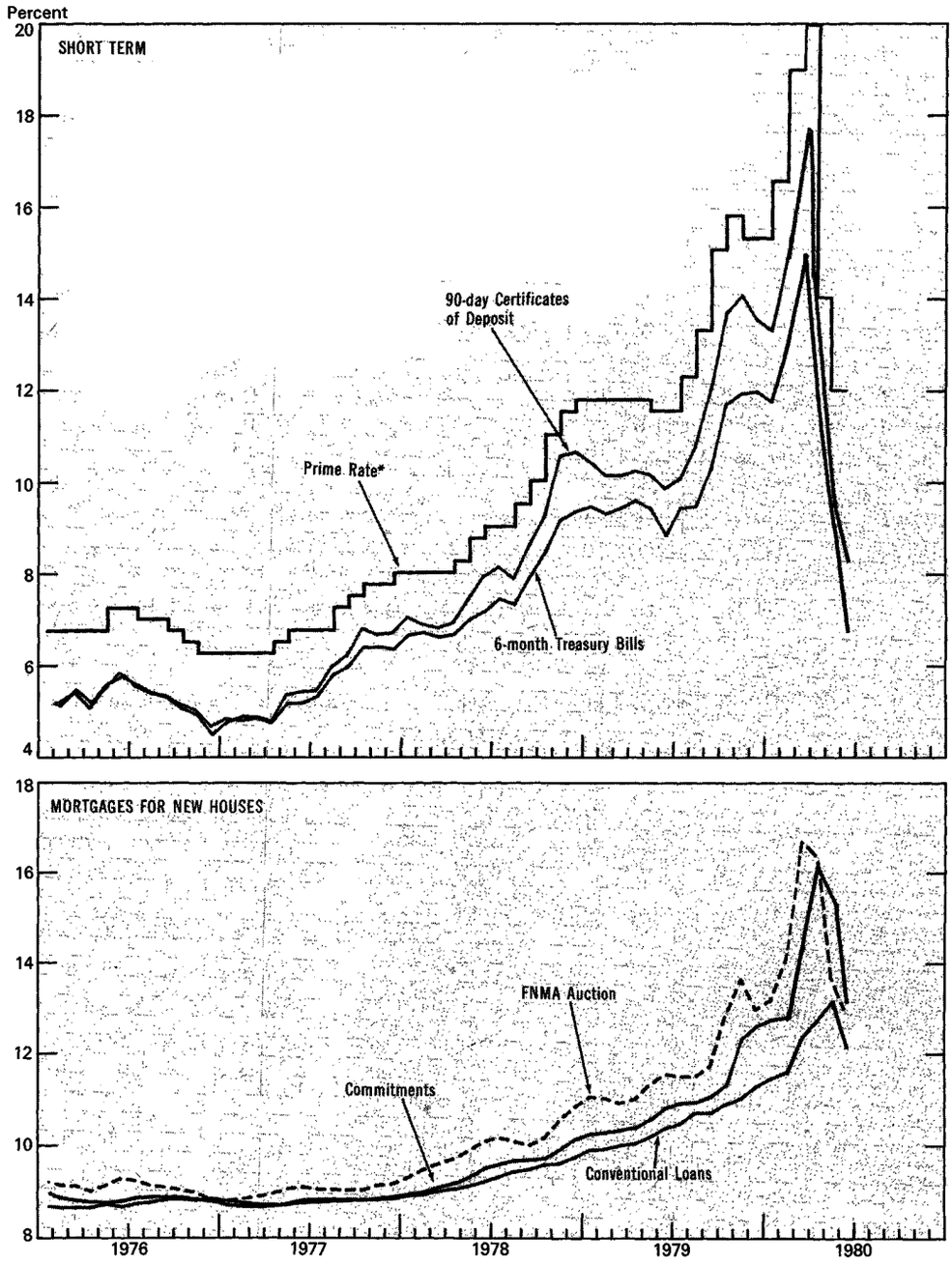
PDE other than motor vehicles, which had registered quarterly increases over the last year, declined moderately—4½ percent at an annual rate. The decline was centered in construction machinery, metalworking machinery, and transportation equipment. Structures declined 13 percent, also after quarterly increases over the last year. The decline was widespread. Commercial buildings and public utilities declined following first-quarter increases, and industrial buildings and all other structures declined, as they had in the first quarter.

It is difficult to assess whether these second-quarter changes mark a cyclical downturn in investment. Investment in PDE tends to be erratic, in part reflecting the movement of several large components—e.g., computers and aircraft—that often show abrupt changes. Also, in investment in structures, turning points usually do not coincide with those of the business cycle. However, two major indicators of future purchases of equipment and structures suggest that the second-quarter declines mark a cyclical downturn: Manufacturers' new orders for nondefense capital goods and construction contracts for commercial and industrial buildings have declined markedly since the turn of the year. Contrary evidence is provided by the series on newly approved capital appropriations for large manufacturing firms. This series registered a huge increase in the first quarter, which—in light of the weakness in manufacturing—is puzzling.

Residential investment.—Real residential investment declined 60½ percent at an annual rate, after a 26-percent decline in the first quarter. Among the major types of residential investment, construction of single-family units de-

CHART 4

Selected Interest Rates



*At the end of the month

Data: FRB, FHLBB

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

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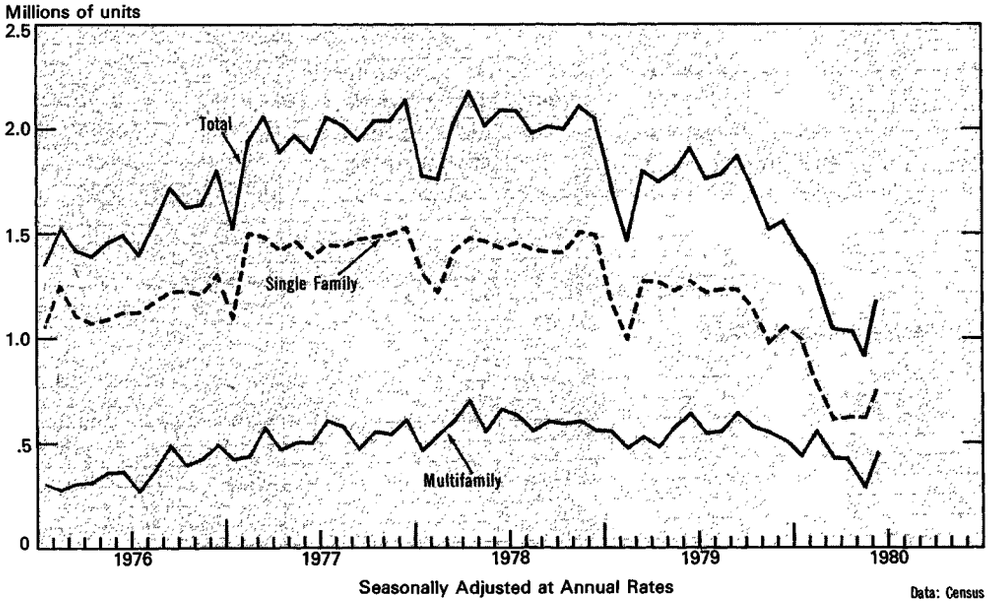
CHART 5

Housing Starts



clined substantially more than in the first quarter, and construction of multifamily units declined for the first time since the first quarter of 1979. Residential investment as measured in GNP includes not only the value of new construction, but also additions and alterations, mobile home purchases, and brokers' commissions on the sale of residences. Mobile home shipments, after having held steady in the first quarter, averaged much lower in April and May, and brokers' commissions declined sharply, reflecting the drop in the sales of both new and existing residences.

The financial conditions that had adversely affected housing began to improve during the second quarter. Interest rates fell dramatically after mid-April (chart 4). The prime rate, the bellwether short-term interest rate to which construction loans are tied, fell from 20 percent in April to 14 percent in May and to 12 percent in June. At that level, the prime rate was back to where it had been in mid-1979 before the escalation of interest rates began. Mortgage rates dropped more slowly, although significantly. The interest rate on commitments on 25-year mortgages with a loan-to-price ratio of 75 percent fell from its peak of over 16 percent in April to 15.3 percent in May and to 13.1 percent in June. It is still about 2 percentage points above the mid-1979 rate, but yields at Federal National Mortgage Association (FNMA) auctions—an indicator of future mortgage interest rates because FNMA makes commitments to buy mortgages for a 4-month period—suggest that mortgage rates are likely to fall further. In addition, it is likely that funds will become increasingly available: The net flow of new money at thrift institutions in April and May was up substantially from first-quarter levels, and also from mid-1979.

These improving financial conditions appear to have begun to affect housing sales and starts. Sales of existing homes which averaged 3.0 million (seasonally adjusted annual rate) in the first quarter, dropped in April and May, but the May decline—from 2.4 to 2.3 million—was the smallest this year. Sales of new homes, which averaged 530,000 in the first quarter, dropped in April to 350,000 but increased in May. Total private housing starts averaged 1.26 million units (seasonally adjusted annual rate) in the first quarter and dropped 17 percent (not at an annual rate) to 1.04 million in the second. This large drop masks considerable unevenness during the quarter (chart 5). Housing starts held about steady in April but declined steeply in May, and then increased in June. The June increase was large, but it was concentrated in structures with five or more units and in the South; starts of structures with two to four units and in the Northeast continued to decline. These changes are difficult to interpret. However, even if housing starts have reached their low, they are reflected in residen-

Table 11.—Federal Government Receipts and Expenditures, NIPA Basis

[Billions of dollars]

	Seasonally adjusted at annual rates				Change		
	1979		1980		1979	1980	
	III	IV	I	II	IV	I	II
Receipts	**504.8**	**524.7**	**538.4**	**n.a.**	**19.9**	**13.7**	**n.a.**
Personal tax and nontax receipts	235.2	248.5	246.1	249.2	13.3	−2.4	3.1
Corporate profits tax accruals	79.4	81.4	86.8	n.a.	2.0	5.5	n.a.
Indirect business tax and nontax accruals	30.0	30.7	33.8	43.0	.7	3.1	9.2
Contributions for social insurance	160.2	164.1	171.7	171.7	3.9	7.6	0
Expenditures	**516.1**	**540.4**	**561.3**	**579.0**	**24.3**	**20.9**	**17.7**
Purchases of goods and services	162.9	178.4	186.2	192.5	15.5	7.8	6.3
National defense	109.0	114.6	119.6	123.6	5.6	5.0	4.0
Nondefense	53.9	63.8	66.6	68.9	9.9	2.8	2.3
Transfer payments	217.6	222.7	230.0	236.1	5.1	7.2	6.1
Grants-in-aid to State and local governments	81.8	84.3	86.0	86.4	2.5	1.7	.4
Net interest paid	43.5	46.2	50.2	54.5	2.7	4.1	4.3
Subsidies less current surplus of government enterprise	10.2	8.8	8.9	9.4	−1.4	.1	.5
Less: Wage accruals less disbursements	0	0	0	0	0	0	0
Surplus or deficit (−), national income and product accounts	−11.3	−15.7	−22.9	n.a.	−4.4	−7.1	n.a.

n.a. Not available.

tial investment with a lag. It is likely, therefore, that residential investment will be down again in the third quarter, but probably less than in the second.

Inventory investment.—As can be seen from chart 6, which presents an overview of inventory developments, real stocks of business inventories rose only slightly in the second quarter after little change in the first. The second quarter's abrupt increases in both of the inventory-sales (I/S) ratios shown in the chart—one relating inventories to business final sales and the other relating them to final sales of goods and structures—were due to drops in final sales.

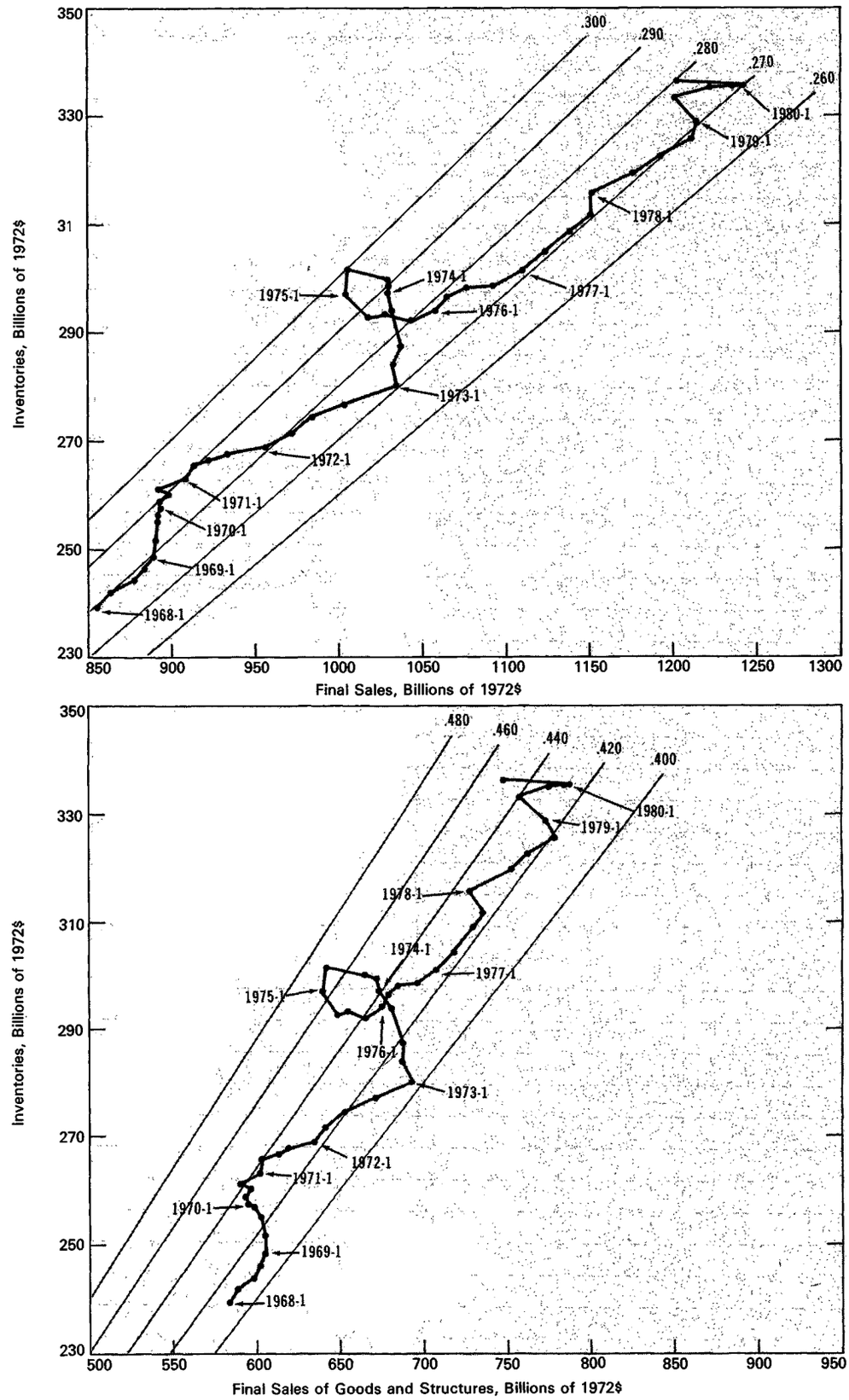
A breakdown of inventories and sales in constant dollars for manufacturing and trade shows that the I/S ratios for that total, for manufacturing, and for retail trade were all up sharply. In manufacturing, particularly large jumps occurred in the ratios for primary and fabricated metals, motor vehicles, chemicals, and rubber and plastic products. In each case, the jump was the result of a steep sales decline rather than of a large buildup in inventories. In retail trade, autos accounted for much of the increase in the ratio. In terms of units, domestic new car inventories were unchanged at about 1,435,000 (seasonally adjusted) in the second quarter. However, as a result of the very steep drop in sales, the I/S ratio rose from 2.2 in the first quarter to 3.1 in the second. This level was well above the 2.0 generally preferred by dealers and raises the possibility of an oversupply of 1980 cars at the end of the model year. Several manufacturers have already announced delays in the introduction of 1981 models to allow more time for clearance of this year's models.

Net exports

Real net exports were up $4½ billion, after a $5 billion increase in the first quarter (table 9). In the first quarter, exports had increased more than imports; in the second, both declined, but imports declined more. Merchandise imports were down sharply in the second quarter, largely reflecting the effect of the drop in U.S. production on demand for imports. Petroleum imports

CHART 6

Constant-Dollar Business Inventories, Final Sales and Final Sales of Goods and Structures, and Inventory-Sales Ratios



Note.—End-of-quarter inventories, seasonally adjusted; final sales seasonally adjusted at annual rates. Blue lines represent ratios of inventory stocks to final sales.

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

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were down from 8.4 million barrels per day in the first quarter to about 7.2 million barrels in the second. Among the other categories, by far the largest drop was in industrial supplies and materials. Merchandise exports—both agricultural and nonagricultural—declined. The decline in agricultural shipments was due to reduced grain exports to the Soviet Union. Declines were registered also in the automotive, consumer goods, and "other" categories. The consumer goods category reflected a decline from an unusually high level of shipments of numismatic coins to European refiners in the first quarter.

Government

The increase in real government purchases slowed to 1 percent in the second quarter from 4 percent in the first (table 10). The increase in Federal purchases decelerated, mainly due to the agricultural price support operations of the Commodity Credit Corporation. State and local government purchases declined more than in the first quarter, largely due to a reduction in purchases of structures. The reduction was centered in construction other than buildings and highways (such as parks, utilities, transit, and airports). Lower Federal grants for local public works, continued increases in construction costs, which—given budgets stated in current dollars—led to cuts in real purchases, and a tightening of government fiscal positions were major factors.

NIPA Federal sector.—Table 11 rounds out information on Federal receipts and expenditures that was present earlier. Expenditures increased $17½ billion, compared with $21 billion in the first quarter. The deceleration was traceable about equally to purchases, transfer payments, and grants-in-aid to State and local governments.

Receipts are likely to have increased much less than in the first quarter. Personal tax and nontax receipts increased only slightly due to the small increase in the tax base; they had declined in the first quarter due to the impact of legislative changes. Second-quarter indirect business taxes included a full quarter's effect of the windfall profits tax, which became effective March 1. Contributions for social insurance increased less than in the first quarter, when they had been up sharply due to the increase in the social security tax base. As noted earlier, estimates of corporate profits, and hence of corporate profits tax accruals, are not yet available for the second quarter. However, on the basis of the residual calculation of these profits, it seems likely that the Federal deficit on a national income and product accounting basis will be nearly twice as large as the $23 billion registered in the first quarter.

the BUSINESS SITUATION

REVISED (45-day) estimates left the second-quarter drop in real GNP unchanged from the 9 percent annual rate indicated by the preliminary (15-day) estimates (table 1). Small upward revisions in nonresidential investment, change in business inventories, and government purchases were offset by small downward revisions in personal consumption expenditures, residential investment, and net exports. The increase in GNP prices, as measured by the fixed-weighted price index, was revised up from 9 percent to 9½ percent.

Corporate Profits

Corporate profits from current production—profits with inventory valuation and capital consumption adjustments—declined $19 billion to $156 billion in the second quarter of 1980, according to preliminary estimates (chart 1).[1] They had declined $1½ billion in the first quarter.

Domestic profits of nonfinancial corporations declined $13½ billion to $112½ billion in the second quarter, following a $3½ billion decline in the first. The second-quarter profits reflect the full impact of the windfall profits tax on domestic crude oil production, which reduced profits by about $10 billion. The tax, which is classified as an indirect business tax in the national income and production accounts (NIPA's) and which became effective March 1, 1980, had reduced first-quarter profits by about $3 billion. The production that is subject to this tax is carried on by corporations classified in various industries. While it is not possible to precisely allocate the impact of the tax, much of it falls on corporations classified in petroleum manufacturing. Weakening demand for petroleum products probably also contributed to the decline in profits of petroleum manufacturers. Motor vehicle manufacturers' losses increased sharply due to a drop in production resulting from slumping auto and truck sales. Reduced demand resulting from the drop in motor vehicle production also contributed to lower profits of primary metals manufacturers and increased losses of rubber manufacturers (which are included in "other" nondurables). The profits of most other manufacturing industries also declined.

1. Quarterly estimates of the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

Table 1.—Revisions in Selected Component Series of the NIPA's, Second Quarter of 1980

	Seasonally adjusted at annual rates			Percent change from preceding quarter an annual rates		
	15-day estimate	45-day estimate	Revision	15-day estimate	45-day estimate	Revision
	Billions of current dollars					
GNP	**2,523.4**	**2,524.6**	**1.2**	**0.4**	**0.6**	**0.2**
Personal consumption expenditures	1,628.2	1,628.6	.4	−.3	−.2	.1
Nonresidential fixed investment	265.9	267.7	1.8	−9.5	−7.0	2.5
Residential investment	89.3	89.0	−.3	−57.0	−57.8	−.8
Change in business inventories	11.7	13.6	1.9			
Net exports	1.3	−2.5	−3.8			
Government purchases	527.0	528.3	1.3	7.8	8.9	1.1
Federal	192.5	193.3	.8	14.2	16.1	1.9
State and local	334.5	335.0	.5	4.2	4.9	.7
National income		**2,026.9**			**−1.7**	
Compensation of employees	1,566.1	1,567.2	1.1	2.8	3.1	.3
Corporate profits with inventory valuation and capital consumption adjustments		156.0			−36.9	
Other	303.4	303.8	.4	−2.4	−1.8	.6
Personal income	**2,078.3**	**2,079.5**	**1.2**	**4.1**	**4.4**	**.3**
	Billions of constant (1972) dollars					
GNP	**1,410.8**	**1,410.9**	**.1**	**−9.1**	**−9.0**	**.1**
Personal consumption expenditures	913.6	912.6	−1.0	−9.4	−9.8	−.4
Nonresidential fixed investment	143.9	145.0	1.1	−17.8	−15.3	2.5
Residential investment	41.1	40.7	−.4	−60.3	−61.8	−1.5
Change in business inventories	2.3	3.3	1.0			
Net exports	29.3	28.1	−1.2			
Government purchases	280.6	281.3	.7	.9	1.9	1.0
Federal	106.6	106.9	.3	8.9	10.6	1.7
State and local	174.0	174.3	.3	−3.6	−3.0	.6
	Index numbers, 1972=100 [1]					
GNP implicit price deflator	178.86	178.93	.07	10.4	10.6	.2
GNP fixed-weighted price index	182.9	183.2	.3	8.9	9.7	.8
GNP chain price index				8.3	9.2	.9

1. Not at annual rates.

NOTE.—For the second quarter of 1980, the following revised or additional major source data became available: For *personal consumption expenditures* revised retail sales for May and June, and consumer purchases of gasoline for May (revised) and June; *nonresidential fixed investment*, manufacturers' shipments of equipment for May (revised) and June, construction put-in-place for May (revised) and June, and a partial tabulation of business expenditures for plant and equipment for the quarter, for *residential investment*, construction put-in-place for May (revised) and June; for *change in business inventories*, book values for manufacturing and trade for May (revised) and June; for *net exports of goods and services*, merchandise trade for May (revised) and June, and revised net investment income and other service receipts for the quarter; for *government purchases of goods and services*, construction put-in-place for May (revised) and June; for *wages and salaries*, revised employment, average hourly earnings, and average weekly hours for May and June; for *corporate profits*, domestic book profits for the quarter, dividends from abroad and branch profits (net) for the quarter; and for *GNP prices*, the Consumer Price Index for June, unit value indexes for exports and imports for May and June, and residential housing prices for the quarter.

An increase in trade profits partially offset the decline in manufacturing profits. Much of the increase is probably due to an easing in the rate of increase in the cost of replacing inventories. The easing of these costs is reflected in an increase in the inventory valuation adjustment for trade from −$25 billion to −$9½ billion. To the extent that trade corporations use first-in-first-out inventory accounting and set the sales price as a fixed markup of the acquisition cost of inventory, the easing in replacement cost is not immediately reflected in the sales price, but carries through to profits from current production.

Domestic profits of financial corporations declined $3 billion to $30 billion in the second quarter, following a one-half billion dollar decline in the first. An increase in the earnings of Federal Reserve banks partially offset a decline in the profits of other financial corporations. The increase in Federal Reserve banks' earnings reflected increases in the average interest rates on their holdings of Federal debt instruments. The decline in the profits of other financial corporations was more than accounted for by a decline in the profits of thrift institutions.

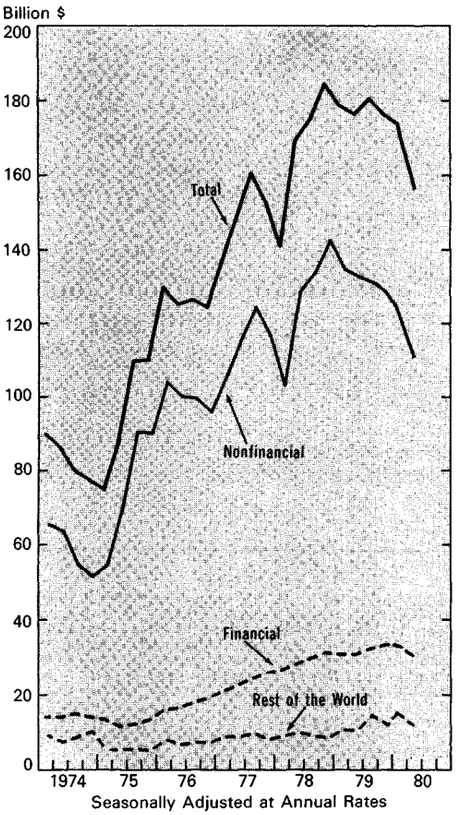
Profits from the rest of the world—measured as the net inflow of branch profits and dividends—declined $3 billion to $13½ billion in the second quarter, following an increase of $2½ billion in the first.

Before-tax profits declined $51½ billion to $209 billion in the second quarter, following an increase of $17½ billion in the first. These profits exclude the two valuation adjustments, which are designed to value inventories and fixed capital used up in production at replacement cost, the valuation concept underlying national income and product accounting, rather than at historical cost, the concept generally underlying business accounting.[2] If, as in the second quarter, the historical cost of inventories used up is less than their replacement cost, profits as measured by business exceed profits as measured in the NIPA's by an amount that is called inventory profits. Inventory profits decreased $35 billion in the second quarter, following an increase of $16½ billion in the first. If, as in the second quarter, the historical cost of fixed capital used up is less than the replacement cost, business profits exceed NIPA profits by an amount that is equal to the underdepreciation of the fixed capital stock. The profits corresponding to underdepreciation of the fixed capital stock increased $2½ billion in the second quarter, following an increase of $2 billion in the first.

Corporate profits taxes, which are levied on profits before tax, declined $23 billion in the second quarter, following an increase of $6½ billion in the first.

CHART 1

Profits with IVA and CCAdj.



Note.—An IVA is not calculated for financial and rest of the world and a CCAdj. is not calculated for rest of the world.

U.S. Department of Commerce, Bureau of Economic Analysis 80-8-1

2. The capital consumption adjustment also places the using up in production of fixed capital on a consistent basis with respect to service lives (85 percent of Internal Revenue Service Bulletin F for equipment and nonresidential structures) and depreciation formulas (straight-line).

The Federal sector

The Federal Government deficit, as measured in the NIPA's, increased $25 billion in the second quarter of 1980 as receipts declined and expenditures increased. The second quarter deficit was $48 billion, compared with a deficit of only $7 billion in the second quarter of 1979.

Receipts declined $7 billion in the second quarter, compared with a $14 billion increase in the first. A $19½ billion decline in corporate profits tax accruals more than accounted for the drop in total receipts and reflected a substantial decline in profits before tax. The deceleration in incomes held down the growth in personal tax and nontax receipts and resulted in no change in contributions for social insurance. The increase in indirect business tax and nontax accruals reflected entirely the first full-quarter effect of the windfall profits tax.

Expenditures increased $18 billion in the second quarter, about $3 billion less than in the first. Purchases of goods and services increased $7 billion largely due to continued strong growth in national defense purchases. Agricultural purchases by the Commodity Credit Corporation contributed over $1 billion to the increase in total purchases; an increase in grain purchases due to the suspension of sales to Russia was partly offset by a decline in regular purchases. Transfer payments to persons increased over $6 billion, largely for unemployment benefits and Federal civilian retirement benefits. Net interest paid increased $3¾ billion, subsidies less the current surplus of government enterprises about $1 billion, and grants-in-aid to State and local governments were unchanged.

Special reconciliation tables

The reconciliation of changes in compensation per hour and average hourly earnings and of changes in the implicit price deflator for personal consumption expenditures (PCE), the PCE chain price index, and the Consumer Price Index (CPI) are shown in tables 2 and 3.

Compensation per hour increased 10.8 percent (annual rate) in the second

quarter, compared with 10.1 percent in the first quarter. Average hourly earnings increased 7.6 percent, compared with 7.8 percent. Nearly 1½ percentage points of the second-quarter increase in compensation per hour, and in the difference between the increases in compensation per hour and hourly earnings, was attributable to supplements. Supplements includes employer contributions for social insurance funds such as social security and contributions for private pension and welfare funds. While employer payments into the social security funds are tied to payrolls, many of the contributions to the private funds do not vary with short-term fluctuations in employment or hours. Instead, payments to these funds are spread through the year. In addition, some union contracts call for the temporary continuation of health insurance and/or other benefits contributions when an employee is laid off. For these reasons, the rate of increase in supplements per hour in the second quarter was much more than that in wages and salaries per hour.

Table 2.—Reconciliation of Changes in Compensation Per Hour in the Business Economy other than Farm and Housing and Average Hourly Earnings in the Private Nonfarm Economy, Seasonally Adjusted

	1979				1980	
	I	II	III	IV	I r	II p
1. Compensation per hour of all persons in the business economy other than farm and housing (percent change at annual rate) [1]	**10.3**	**7.9**	**8.9**	**8.9**	**10.1**	**10.8**
2. Less: Contribution of supplements	1.4	.6	.2	.2	.5	1.3
3. Plus: Contribution of housing and nonprofit institutions	0	−.4	−.2	0	−.1	−.2
4. Less: Contribution of employees of government enterprises and self-employed and unpaid family workers	−.2	0	.1	.6	−.3	−.2
5. Equals: Wages and salaries per hour of employees in the private nonfarm economy (percent change at annual rate)	**9.1**	**6.9**	**8.4**	**8.1**	**9.8**	**9.5**
6. Less: Contribution of nonproduction workers in manufacturing	−.1	.7	−.3	−.1	.2	.9
7. Less: Contribution of non-BLS data, detailed weighting, and seasonal adjustment	1.5	.1	−.8	.3	1.8	1.0
8. Equals: Average hourly earnings, production and nonsupervisory workers in the private nonfarm economy (percent change at annual rate)	**7.7**	**6.1**	**9.5**	**7.4**	**7.9**	**7.6**

r Revised. p Preliminary.
1. BLS estimates of changes in hourly compensation in the nonfarm business sector for the six quarters are 10.2, 8.1, 8.5, 9.5, 10.7, and 10.8 percent.

Table 3.—Reconciliation of Changes in the Implicit Price Deflator for Personal Consumption Expenditures and the Consumer Price Index for all Urban Consumers, Seasonally Adjusted

	1980	
	I r	II p
1. Implicit price deflator for personal consumption expenditures (percent change at annual rate)	**12.5**	**10.6**
2. Less: Contribution of shifting weights in PCE	−.5	−.2
New autos	1.3	−4.3
Gasoline and oil	−.5	−.6
Electricity, gas, fuel oil, and coal	−1.0	.7
Furniture and household equipment	−.7	−.4
Food purchased for off-premise consumption	.6	1.3
Purchased meals and beverages	−.3	−.2
Clothing and shoes	−.4	1.0
Housing	.7	2.0
Other	−.3	.3
3. Equals: PCE chain price index (percent change at annual rate)	**13.0**	**10.9**
4. Less: Contribution of differences in weights of comparable CPI and PCE expenditure components	−1.4	−.1
Gasoline and oil	−1.7	−.5
Electricity, gas, fuel oil, and coal	−.2	−.4
Furniture, appliances, floor coverings, other household furnishings	.2	.2
Food at home	−.4	.3
Food away from home	−.2	−.2
Apparel commodities	.2	.1
Rent	−.3	−.3
Other	1.1	.8
5. Less: Contributions of PCE expenditure components not comparable with CPI components	−1.0	−.5
New autos	−.1	0
Net purchases of used autos	−.1	−.3
Owner-occupied nonfarm and farm dwellings—space rent	−.9	−.3
Services furnished without payment by financial intermediaries except life insurance carriers	0	0
Current expenditures by nonprofit institutions	.2	0
Other	−.1	0
6. Plus: Contribution of CPI expenditure components not comparable with PCE components	1.2	2.3
New autos	−.2	−.1
Used autos	−.3	−.8
Homeownership	2.1	3.6
Other	−.4	−.3
7. Less: Contribution of differences in seasonal adjustment [1]	−.1	0
8. Equals: Consumer Price Index, all items (percent change at annual rate)	**16.9**	**13.7**

r Revised. p Preliminary.
1. These differences arise because component price indexes that are used in the BEA measures and in the CPI are seasonally adjusted at different levels of detail.

The implicit price deflator for PCE increased 10.6 percent (annual rate) in the second quarter, compared with 12.5 percent in the first quarter; the chain price index increased 10.9 percent compared with 13.0 percent; and the CPI increased 13.7 percent, compared with 16.9 percent.

The implicit price deflator measures the average price of consumer purchases in each period. As a result, changes in the deflator measure not only changes in prices but also shifts in the composition of these purchases from one period to the next. In contrast, changes in the chain price index and the CPI measure only changes in average prices; the composition of purchases is held constant. The chain index is based on the composition of purchases in the preceding quarter, and the CPI is based on their composition in 1972–73.

In the second quarter both the deflator and the chain index increased at about the same rate; the CPI increased about 3 percentage points more. The difference was mainly because of the contributions of components that are not comparable (line 5 and line 6). Among these components, the largest contribution was by the items relating to housing. The homeownership component has a larger weight in the CPI than the space rent for owner-occupied dwellings component has in the chain index. In the second quarter, the price of homeownership increased more than the average of all CPI prices, and the price of space rent increased less than the average of all prices in the chain index. The combined contribution of the two housing components to the difference between the increases in the chain index and in the CPI was 4 per-

centage points. Among comparable components (line 4), the contribution of differences in relative weights used for the CPI and for the chain index were small and offsetting.

Federal Budget Developments: The Mid-Session Review

Revised estimates of unified budget receipts and outlays for fiscal years 1980 and 1981 were released in late July by the Office of Management and Budget as part of its mid-session review. The review provides only revisions as required by law; policy changes were not proposed by the administration. Specifically, the administration believes it is "not appropriate" at this time to proposed a tax cut, although "it is quite likely that a tax cut will be desirable in 1981." The new estimates reflect changes to the January budget made by the administration in March and subsequent developments, including revised economic assumptions, reestimates of agency spending and of tax collections based on more recent experience, and policy changes enacted by Congress since late March.

On the basis of the revised economic assumptions, a deeper recession is expected than earlier this year (table 4). From the fourth quarter of 1979 to the fourth quarter of 1980, real GNP is estimated to decline 3.1 percent, about 2¾ percentage points more than forecast in March. Because of the expected lower growth, the unemployment rate in the fourth quarters of 1980 and 1981 is forecast to be 8.5 percent, about 1¼ percentage points higher than forecast in March. Consumer prices rise less rapidly in 1980 than assumed in March—12 percent compared with 12.8 percent—but rise more rapidly in 1981—9.8 percent compared with 9 percent. About one-half percentage point of the 1981 increase results from a motor fuels tax, which is proposed to become effective in June 1981.

For fiscal year 1980, a $60.9 billion deficit is estimated, compared with $36.5 billion in March (table 5). Receipts are $14.5 billion lower, largely reflecting lower incomes, as well as the Congressional rejection of the gasoline

Table 4.—Economic Assumptions Underlying the Mid-Session Review of the Fiscal Year 1981 Budget

	Calendar year					
	Actual		Estimates		Differences from March	
	1978	1979	1980	1981	1980	1981
	Billions of dollars					
Gross national product:						
Current dollars	2,128	2,369	2,557	2,821	−64	−64
1972 dollars	1,399	1,432	1,412	1,416	−30	−33
Incomes:						
Personal income	1,717	1,924	2,108	2,327	−23	−13
Wages and salaries	1,103	1,228	1,327	1,458	−26	−35
Corporate profits before taxes	206	237	220	217	−22	−24
	Percent change from preceding year					
GNP in current dollars:						
Annual average	12.0	11.3	7.9	10.3	−2.7	.2
Fourth quarter	13.4	9.9	6.7	12.6	−3.3	1.2
GNP in 1972 dollars:						
Annual average	4.4	2.3	−1.4	.3	−2.2	−.1
Fourth quarter	4.8	1.0	−3.1	2.6	−2.7	.4
GNP deflator:						
Annual average	7.3	8.8	9.4	10.0	−.4	.4
Fourth quarter	8.2	8.9	10.1	9.7	−.3	.6
Consumer Price Index:						
Annual average	7.6	11.4	13.4	9.7	−.5	.2
Fourth quarter	8.9	12.8	12.0	9.8	−.8	.8
	Percent					
Unemployment rate:						
Annual average	6.0	5.8	7.6	8.5	.9	1.2
Fourth quarter	5.8	5.9	8.5	8.5	1.3	1.2
Insured unemployment rate:[1]						
Annual average	2.9	3.0	4.4	5.0	.7	1.0
Interest rate, 91-day Treasury bills[2]	7.2	10.0	9.2	9.0	−3.9	−.5

1. Insured unemployment under the State regular unemployment insurance program, excluding recipients of extended benefits, as percentage of covered employment under that program.
2. Average rate on new issues within the year. The estimates assume, by convention, that interest rates vary with the rate of inflation. They do not represent a forecast of interest rates.

Source: "Mid-Session Review of the 1981 budget."

Table 5.—Federal Government Receipts and Expenditures

[Billions of dollars]

	Fiscal year								
	Actual 1979	Estimates							
		1980				1981			
		Jan.	Mar.	July	Mar. to July revision	Jan.	Mar.	July	Mar. to July revision
Unified budget:									
Receipts	465.9	523.8	532.4	517.9	−14.5	600.0	628.0	604.0	−24.0
Outlays	493.7	563.6	568.9	578.8	9.8	615.8	611.5	633.8	22.2
Surplus or deficit (−)	−27.7	−39.8	−36.5	−60.9	−24.4	−15.8	16.5	−29.8	−46.3
National income and product accounts:									
Receipts	483.7	530.6	543.2	532.1	−11.1	607.7	636.1	612.3	−23.8
Personal tax and nontax receipts	223.5	245.1	248.1	247.6	−.5	279.7	288.8	284.7	−4.1
Corporate profits tax accruals	78.4	76.5	81.5	78.0	−3.5	77.1	79.6	70.0	−9.6
Indirect business tax and nontax accruals	29.4	38.5	41.8	37.6	−4.2	53.0	68.3	62.4	−5.9
Contributions for social insurance	152.4	170.5	171.8	168.9	−2.9	197.9	199.4	195.2	−4.2
Expenditures	493.6	564.2	568.1	572.8	4.7	626.3	621.4	641.4	20.0
Purchases of goods and services	162.4	185.6	188.1	188.3	.2	202.9	204.4	210.7	6.3
National defense	105.9	118.7	122.4	121.6	−.8	132.1	136.8	143.1	6.3
Nondefense	56.5	66.9	65.7	66.7	1.0	70.8	67.6	67.6	--------
Transfer payments	201.7	235.1	234.8	238.4	3.6	267.6	268.3	278.7	10.4
To persons	197.7	230.9	230.1	233.6	3.5	263.2	263.5	273.8	10.3
To foreigners	4.0	4.2	4.7	4.8	.1	4.4	4.8	4.9	.1
Grants-in-aid to State and local governments	79.3	84.3	85.0	85.8	.8	90.7	84.8	87.7	2.9
Net interest paid	40.4	49.2	49.9	50.6	.7	52.2	52.9	52.8	−.1
Subsidies less current surplus of government enterprises	9.8	10.0	10.3	9.7	−.6	12.9	11.0	11.5	.5
Surplus or deficit (−)	−9.9	−33.6	−24.9	−40.7	−15.8	−18.6	14.7	−29.1	−43.8

Sources: "Mid-Session Review of the 1981 Budget," and the Bureau of Economic Analysis.

conservation fee proposed by the administration in March. Outlays are $9.8 billion higher; $3.3 billion of the increase is for unemployment benefits, and reflects the higher unemployment mentioned earlier. Defense outlays are $1.6 billion higher, and reflect higher than expected fuel costs and prices of other purchases, faster than expected spending under contracts let earlier, and increased operations in the Persian Gulf. Loans to financial institutions by the Federal Savings and Loan Insurance Corporation and the Federal Deposit Insurance Corporation are $1.5 billion higher and loans to farmers to offset the impact of the suspension of shipment of grain to Russia are $0.8 billion higher. On balance, all other nondefense outlays are $2.6 billion higher than estimated in March.

For fiscal year 1981, a deficit of $29.8 billion is estimated, compared with a surplus of $16.5 billion in March. Receipts are $24 billion lower; $15.6 billion is due to revised economic assumptions and reestimates, and $8.4 billion is due to tax changes. Among the tax changes are a delay in the effective date of the motor fuels tax from October 1980 to June 1981 ($6.8 billion) and rejection of the gasoline conservation fee ($2.4 billion); other tax changes increase receipts $0.7 billion. Outlays are $22.2 billion higher; $9 billion of the increase is for unemployment benefits and $6.9 billion is for defense spending, largely due to the same factors cited for 1980. Other major upward revisions are for food stamps ($1.4 billion), medicare and medicaid ($1.1 billion), and disaster loans ($0.5 billion). Many other nondefense programs are revised upward by small amounts.

Table 6.—Federal Government Receipts and Expenditures, NIPA Basis

[Billions of dollars, seasonally adjusted at annual rates]

	Calendar year							
	Actual	Estimates						
	1979	1980				1981		
	IV	I	II	III	IV	I	II	III
Receipts	**525.2**	**539.1**	**538.8**	**541.8**	**559.9**	**588.6**	**636.3**	**667.5**
Personal tax and nontax receipts	248.5	246.1	249.2	255.3	265.4	266.0	297.4	209.0
Windfall profits tax offset	-------	-------	−.5	−.5	−.6	−1.8	−1.8	−1.8
Withholding on interest and dividends [1]	-------	-------	-------	-------	-------	−6.7	14.0	14.5
Other	248.5	246.1	249.7	255.8	266.0	274.5	285.2	296.3
Corporate profits tax accruals [2]	81.9	87.5	74.9	67.6	66.4	68.1	71.3	74.0
Windfall profits tax offset	-------	−1.1	−4.5	−6.1	−7.5	−8.6	−10.0	−11.5
Other	81.9	88.6	79.4	73.7	73.9	76.7	81.3	85.5
Indirect business tax and nontax accruals	30.7	33.8	43.0	45.0	50.3	54.8	64.8	79.3
Windfall profits tax	-------	3.1	12.6	17.2	21.0	24.8	28.9	33.2
Proposed motor fuels tax	-------	-------	-------	-------	-------	-------	3.8	12.8
Other	30.7	30.7	30.4	27.8	29.3	30.0	32.1	33.3
Contributions for social insurance	164.1	171.7	171.7	173.9	177.8	199.7	202.8	205.2
Social security rate and base increase	-------	-------	-------	-------	-------	16.4	16.7	17.0
Other	164.1	171.7	171.7	173.9	177.8	183.3	186.1	188.2
Expenditures	**540.4**	**561.3**	**579.0**	**610.2**	**620.9**	**630.6**	**645.7**	**667.9**
Purchases of goods and services	178.4	186.2	192.5	196.1	204.9	207.7	212.6	217.8
National defense	114.6	119.6	123.6	128.6	136.9	141.0	145.2	149.4
Nondefense	63.8	66.6	68.9	67.5	68.0	66.7	67.4	68.4
Transfer payments	222.7	230.0	236.1	263.6	266.9	271.8	280.1	296.1
To persons	217.8	225.2	231.4	258.9	262.1	266.9	275.2	291.1
To foreigners	5.0	4.8	4.8	4.7	4.8	4.9	4.9	5.0
Grants-in-aid to State and local governments	84.3	86.0	86.4	84.6	85.8	87.1	88.5	88.7
Net interest paid	46.2	50.2	54.5	53.5	52.0	52.6	53.0	53.6
Subsidies less current surplus of government enterprises	8.8	8.9	9.4	12.4	11.3	11.4	11.5	11.7
Surplus or deficit (−)	**−15.2**	**−22.2**	**−40.1**	**−68.4**	**−61.0**	**−42.0**	**−9.4**	**−.4**

1. Net of reduced quarterly declarations.
2. Differs from numbers shown in Table 12 of the National Income and Product Accounts because of proposed increase involving the retroactivity to 1979 of the foreign tax credit assumed in budget revisions.

Table 7.—Relation of Federal Government Receipts in the National Income and Product Accounts to the Unified Budget

[Billions of dollars]

	Fiscal year		
	1979	1980	1981
Unified budget receipts	**465.9**	**517.9**	**604.0**
Less: Coverage differences	1.2	1.4	1.4
Financial transactions	-------	-------	-------
Plus: Netting differences:			
Contributions to government employees retirement funds	7.9	8.8	9.5
Other	3.6	4.0	4.2
Timing differences:			
Corporate income tax	4.6	1.3	−6.8
Federal and State unemployment insurance taxes	.2	0	.1
Withheld personal income tax and social security contributions	2.3	−.2	.6
Excise taxes	.2	1.6	1.8
Miscellaneous	.1	.1	.2
Equals: Federal Government receipts, national income and product accounts	**483.7**	**532.1**	**612.3**

Revised NIPA estimates

BEA has prepared estimates of the Federal sector on the national income and product accounting (NIPA) basis consistent with the revised unified budget estimates (table 5). On this basis, fiscal year 1980 receipts are $11.1 billion lower than estimated in March, expenditures are $4.7 billion higher, and the deficit is $15.8 billion higher. All categories of receipts are revised down, largely reflecting lower incomes. The downward revision in indirect business tax and nontax accruals also reflects the rejection of the gasoline conservation fee. The upward revision in expenditures is almost entirely accounted for by increases in transfer payments to persons ($3.5 billion) and nondefense purchases ($1 billion). All other expenditures on balance are up $0.2 billion, with upward revisions in grants-in-aid to State and local governments and in net interest paid being partly offset by downward revisions in national defense purchases and subsidies less current surplus of government enterprises. The upward revision in transfer payments reflects higher unemployment benefits (including trade adjustment benefits paid to workers whose jobs have been lost due to imports) and higher medicare benefits. The upward revision in nondefense purchases is largely due to higher agricultural purchases by the Commodity Credit Corporation. Defense

Table 8.—Relation of Federal Government Expenditures in the National Income and Product Accounts to the Unified Budget

[Billions of dollars]

	Fiscal year		
	1979	1980	1981
Unified budget outlays	**493.7**	**578.8**	**633.8**
Less: Coverage differences:			
Geographic	4.0	4.7	5.1
Off-budget Federal entities	−12.4	−16.1	−21.7
Other	0	−.2	.2
Financial transactions:			
Net lending	20.6	27.2	22.7
Other	.2	−.6	−.2
Net purchases of land:			
Outer Continental Shelf	−1.9	−2.5	−3.1
Other	.4	.4	.3
Plus: Netting differences:			
Contributions to government employees retirement funds	7.9	8.8	9.5
Other	3.6	4.0	4.2
Timing differences:			
National defense purchases	−1.3	−4.8	−2.2
Other	.6	−1.0	−.7
Miscellaneous	0	0	.1
Equals: Federal Government expenditures, national income and product accounts	**493.6**	**572.8**	**641.4**

purchases in the NIPA's are revised down—despite the upward revision in defense outlays in the unified budget—because deliveries are lagging outlays by a larger amount than previously estimated.

For fiscal year 1981, receipts are $23.8 billion lower than estimated in March, expenditures are $20 billion higher, and the fiscal position is revised from a surplus of $14.7 billion to a deficit of $29.1 billion. The downward revision in receipts consists of $14 billion due to revised economic assumptions and $9.8 billion due to proposed tax changes. All receipts categories are revised down. The delay in the effective date of the motor fuels tax accounts for $8.6 billion of the tax changes. The major upward revisions in expenditures are in transfer payments to persons (unemployment benefits, social security including medicare, and food stamps), in national defense purchases, and in grants-in-aid to State and local governments (low-income energy assistance). Nondefense purchases are unchanged and net interest is revised down slightly.

BEA has also revised the quarterly pattern of receipts and expenditures on the NIPA basis (table 6) and the reconciliation of fiscal year totals with the unified budget (table 7 and table 8). NIPA estimates based on the January budget and the March revisions are discussed in detail in the February and April issues of the SURVEY OF CURRENT BUSINESS, respectively.

Acknowledgments

Time limitations did not permit the inclusion of the following acknowledgments for the 1972 capital flow study appearing on page 45 in the July issue. The study was prepared under the general direction of Philip M. Ritz, Chief of the Interindustry Economics Division. Albert J. Walderhaug, Chief of the Research and Analysis Branch, supervised the study. David R. Nelson, Robert S. Robinowitz, and George M. Swisko prepared the initial distributions of capital goods items to using industries. Irving Stern prepared the estimates of total expenditures for structures and for equipment by industry. Peter E. Coughlin coordinated the study, produced the final estimates, and prepared the report. Howard L. Schreier advised on the computer work.

the BUSINESS SITUATION

ON the basis of information available in mid-September, it seems likely that there was little or no change in real GNP in the third quarter.[1] In the second quarter, real GNP had declined 9½ percent at an annual rate.

Of the three elements that had accounted for virtually the entire second-quarter decline in real GNP, two increased substantially in the third quarter and one stabilized: Motor vehicle production was up about $4 billion in constant (1972) dollars, after a $14 billion drop; personal consumption expenditures (PCE) other than on motor vehicles was up about $8 billion, after a $12 billion drop; and residential investment changed little, after an $11 billion drop.[2]

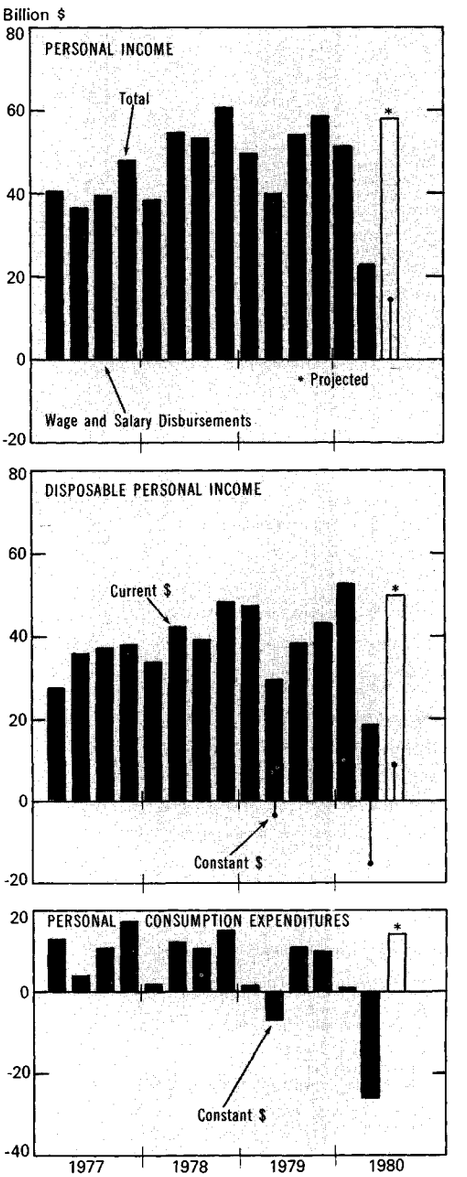
Less information is available about third-quarter changes in the other elements of real GNP. Net exports may have increased, government purchases appear to have changed little, and fixed nonresidential investment (other than in motor vehicles) appears to have weakened further. Only 1 month's data are available to estimate the change in business inventories other than of motor vehicles, but it is likely that an inventory liquidation occurred. If the swing to liquidation is assumed to have been about $10 billion, it would about offset the changes in the other elements of real GNP.

GNP prices as measured by the fixed-weighted price index may have increased fractionally less than the 9½-percent annual rate registered in the second quarter. Third-quarter changes in food and energy prices were very different from second-quarter changes. The price of food, which is a component of PCE prices, increased at about twice the second-quarter's 6½ percent. Food prices were affected by heat and drought in farm regions, but the major factor in their acceleration was meat—pork and poultry as well as beef. Meat prices has been held down earlier in the year by record marketings. The price of energy—which is a component not only of PCE prices but also of the prices of imports, change in business inventories, and government purchases—decelerated sharply. The price of PCE energy increased only about 5 percent, after a 24½-percent increase in the second quarter. The deceleration was due to a slowing of increases in the price of crude oil imports and to an oversupply of gasoline. In their effect on the GNP fixed-weighted price index, the acceleration of food prices and the deceleration of energy prices were about offsetting. The fractional deceleration in the index was widely spread among its other components.

Employment, unemployment, and hours.—Labor market conditions stabilized in the third quarter. Employment as measured in the household

CHART 1

Personal Income and Consumption: Change From Preceding Quarter



Based on Seasonally Adjusted Annual Rates

U.S. Department of Commerce, Bureau of Economic Analysis 80-9-1

1. The major source data that shed light on third-quarter GNP are limited to 1 or 2 months of the quarter, and in some cases are preliminary. These data are: For *personal consumption expenditures* (PCE), July and August retail sales, unit sales of new autos through the first 10 days of September, and sales of new trucks for July and August; for *nonresidential fixed investment*, the same data for autos and trucks as for PCE, July construction put in place, July manufacturers' shipments of equipment, and business investment plans for the quarter; for *residential investment*, July construction put in place, and July and August housing starts; for *change in business inventories*, July book values for manufacturing and trade, and unit auto inventories for July and August; for *net exports of goods and services*, July merchandise trade; for *government purchases of goods and services*, Federal unified budget outlays for July, State and local construction put in place for July, and State and local employment for July and August; and for *GNP prices*, the Consumer Price Index for July and the Producer Price Index for July and August.

2. Quarterly estimates of the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

survey had shown weakness in the first quarter that intensified in the second, with a low relative to December 1979 in June (table 1). An increase occurred in July, and there was little change in August. As measured in the establishment survey, employment did not weaken until the second quarter.

Table 1.—Employment, Unemployment, and Hours

[Seasonally adjusted]

	1979 Dec.	1980: Change from December 1979							
		Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.
Household survey									
Employment (thousands)	97,912	−108	41	−256	−758	−924	*−1,375*	−916	−906
Unemployment (thousands)	6,087	338	220	351	1,178	2,067	1,919	*2,120*	1,932
Unemployment rate (percent)	5.9	.3	.1	.3	1.1	1.9	1.8	*1.9*	1.7
Establishment survey									
Employment, nonfarm payroll (thousands)	90,678	353	508	466	273	−210	−631	*−813*	−612
Private nonfarm	74,676	323	423	307	−109	−481	−859	*−1,023*	−781
Goods-producing	26,590	125	33	−114	−469	−845	−1,168	*−1,448*	−1,315
Construction	4,615	130	44	−86	−148	−179	−236	*−296*	−260
Manufacturing	20,983	−12	−26	−45	−341	−697	−969	*−1,171*	−1,080
Durable	12,706	−25	9	1	−264	−566	−759	*−899*	−877
Nondurable	8,277	13	−35	−46	−77	−131	−210	*−272*	−203
Trade	20,448	81	189	162	83	39	11	39	107
Other	27,638	117	201	259	277	325	298	386	427
Government	16,002	30	85	159	382	271	228	210	169
Average weekly hours, private nonfarm	35.7	−.1	−.2	−.3	−.4	−.6	−.7	−.8	−.6
Manufacturing	40.2	.1	−.1	−.4	−.4	−.9	*−1.1*	*−1.1*	−.6
Durable	40.7	.1	−.1	−.4	−.4	−1.0	−1.2	*−1.3*	−.6
Nondurable	39.4	.1	0	−.4	−.3	−.5	−.8	−.8	−.6
Trade	32.6	0	−.2	−.3	−.6	−.5	−.7	−.8	−.7

NOTE.—Italics in employment and hours denote lows relative to December 1979; in unemployment and the unemployment rate, they denote highs.

Source: Bureau of Labor Statistics.

Table 2.—Personal Income and Its Disposition: Change from Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1980		
	I	II	III p
Wage and salary disbursements	33.2	6.7	14.3
Manufacturing	8.9	−5.2	1.0
Other commodity-producing	3.3	−.3	−.8
Distributive	7.6	.7	2.7
Services	9.8	7.5	7.9
Government and government enterprises	3.6	3.9	3.4
Proprietors' income	−4.5	−9.5	3.4
Farm	−4.7	−4.6	1.1
Nonfarm	.3	−5.0	2.3
Transfer payments	8.4	7.6	29.0
Other income	18.8	18.1	13.1
Less: Personal contributions for social insurance	3.6	−.3	1.9
Personal income	**52.4**	**23.1**	**57.9**
Less: Personal tax and nontax payments	−1.9	4.6	8.5
Impact of legislation	−13.8	−1.6	.2
Other	11.8	6.1	8.3
Equals: Disposable personal income	**54.3**	**18.5**	**49.4**
Less: Personal outlays	49.5	−3.4	58.0
Equals: Personal savings	**4.7**	**21.9**	**−8.5**
Addenda: Special factors in personal income			
Federal pay raise	.2	----------	----------
Minimum wage	2.0	----------	----------
Energy allowance	1.6	−1.6	----------
Accidental damage:			
California floods	−.3	.3	----------
Mount St. Helens and Florida civil disturbance	----------	−.6	.6
Social security base change	−2.5	----------	----------
California cash sickness program refund	.7	.5	−1.0
Cost-of-living increase in Federal transfer payments	.4	1.4	17.7
Personal income adjusted for the special factors	**50.3**	**23.1**	**40.6**

p Projected.

In that quarter, substantial declines in the goods-producing industries—in manufacturing, especially durables, and in construction—and smaller ones in trade more than offset continued increases in other industries. A low was reached in July in the goods-producing industries and also in total employment. All major industries except government registered increases in August.

Unemployment and the unemployment rate reached highs in July. The unemployment rate, which averaged just above 6 percent through the first quarter, had jumped 0.8 percentage point in both April and May. Thereafter, it averaged 7.7 percent, with a slight dip in August.

The work week in the private nonfarm economy, after a steady decline relative to December, reached a low of 34.9 hours in July. An upturn in August, to 35.1 hours, mainly reflected a sharp turnaround in durables manufacturing. This turnaround was spread widely among industries, but was particularly sharp in transportation equipment.

Personal income and its disposition

Personal income increased $58 billion in the third quarter, compared with $23 billion in the second (chart 1). Changes in both quarters reflected the special factors that are listed in the addenda to table 2. In the third quarter, by far the largest was the cost-of-living increases in Federal transfer payments, which added $17½ billion to the increase in personal income and accounted for about one-half of the step-up.

The remainder of the step-up was accounted for by wage and salary disbursements and by proprietors' income. Wages and salaries increased $14½ billion, compared with $6½ billion in the second quarter. The acceleration was due to manufacturing and retail trade, and—to a much smaller extent—to construction. Manufacturing payrolls had declined substantially in the second quarter and registered a small increase in the third. Payrolls in retail trade had changed little in the second quarter, and increased in the third.

A swing in farm proprietors' income—from a $4½ billion decline to a $1

billion increase—largely reflected the course of farm prices. Prices, especially of livestock, increased sharply in the third quarter after having declined in the second. In nonfarm proprietors' income, there was a swing from a $5 billion decline to a $2½ billion increase. A large part of it was due to construction and retail trade, where fluctuations in activity strongly affect proprietors' income. Another factor in the swing was commissions on the sale of securities, commodities, and residences. Commissions had declined in the second quarter and recovered in the third.

In contrast, personal interest income increased less in the third quarter than in the second. (It is included in "other income" in table 2.) The deceleration was largely due to reductions in interest rates paid on savings deposits and other short-term instruments held by persons. Short-term rates peaked in March–April and fell during the second quarter; they affect personal interest income with a lag that reflects the turnover in these instruments.

Disposable personal income increased $49½ billion, or 11½ percent at an annual rate, compared with $18½ billion, or 4½ percent, in the second quarter. In real terms, the improvement was more pronounced, because prices paid by consumers increased less than in the second quarter. The increase in PCE prices was about 2 percentage points below the 11 percent registered in the second quarter.

Personal outlays—of which PCE is the preponderant part—increased even more than disposable income, and personal saving declined. In contrast, outlays had declined in the second quarter, and saving had increased substantially. In that quarter, the saving rate had jumped 1.2 percentage points to 4.9 percent; in the third quarter, it fell back to about 4½ percent.

Real PCE increased about 6 percent at an annual rate, after a 10½-percent drop in the second quarter. Table 3 sheds light on the timing and composition of these changes on a monthly basis. Real PCE declined through May, and increased in June and July. The decline, as well as the increase, was mainly in goods. In durables, where the decline continued into June, the major

Table 3.—Real Income and Consumption, and Motor Vehicle Sales

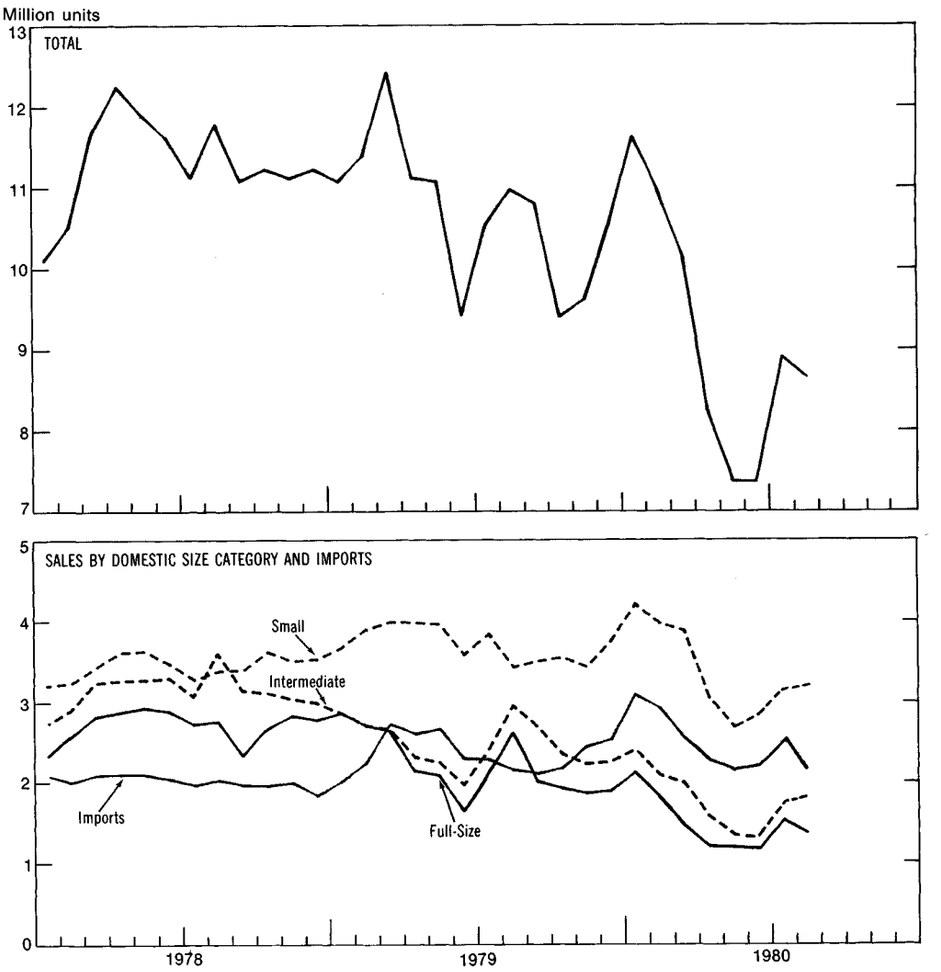
[Seasonally adjusted at annual rates]

	1979 Dec.	1980: Change from December 1979							
		Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.
Constant (1972) dollars									
Disposable personal income	**998.7**	**6.9**	**−0.6**	**−6.9**	**−13.5**	**−16.5**	**−16.7**	**−6.3**	**−9.1**
Personal consumption expenditures	939.7	6.3	−5.0	−10.9	−25.0	*−32.4*	−29.4	−17.7	−15.6
Durables	146.9	5.3	−1.8	−8.1	−16.5	−20.8	*−21.2*	−11.7	−12.1
Nondurables	358.2	−1.4	−5.7	−5.2	−8.2	*−12.9*	−10.2	−9.8	−9.9
Services	434.7	2.3	2.3	2.3	*−.4*	1.2	1.9	3.8	6.5
Millions of units									
New passenger car sales	10.5	1.1	0	−.3	−2.2	−3.1	*−3.1*	−1.5	−1.9
Domestic	8.0	.6	−.4	−.4	−2.0	−2.7	*−2.8*	−1.5	−1.5
Imported	2.5	.6	.4	0	−.3	*−.4*	−.3	0	−.4
Domestic truck sales	2.7	0	−.3	−.6	−.8	*−1.0*	−.6	−.5	−.8
Light	2.3	0	−.3	−.5	−.8	*−.9*	−.5	−.5	−.8
Other	.3	0	0	0	−.1	*−.1*	−.1	0	0

NOTE.—Italics denote lows relative to December 1979.

CHART 2

Retail Sales of New Passenger Cars



Seasonally Adjusted at Annual Rates

Note.—The components may not add to the total because each category was separately adjusted for seasonal variation.

Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports; seasonal adjustment by BEA.

U.S. Department of Commerce, Bureau of Economic Analysis 80-9-2

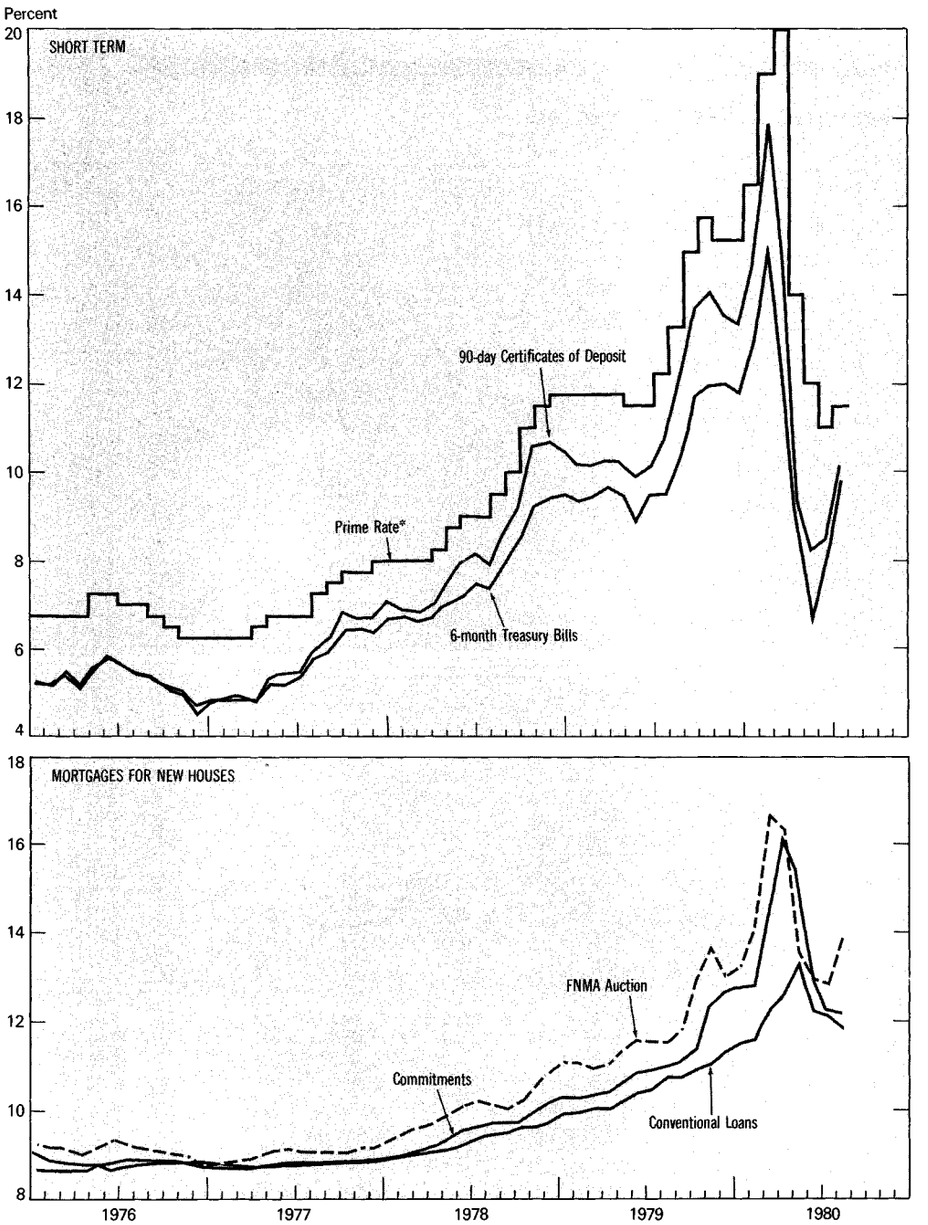
factor was a steep drop in motor vehicle sales. The July comeback in durables was also largely due to these sales. Subsequently, motor vehicle sales stabilized, and there was little change in durables.

On a quarterly basis, more information on real PCE can be assembled. Real PCE on other than motor vehicles increased about 3½ percent at an annual rate, after a 5½-percent decline. The swing can be traced to several factors—most importantly, to the improvement in real disposable income and in financial conditions, including lower interest rates and increased availability of credit. In goods, after second-quarter declines, furniture and equipment as well as clothing and shoes registered substantial increases, and "other" durables, "other" nondurables, and gasoline and oil showed little change. Services increased after a second-quarter decline. The swing was largely due to commissions of commodity and security brokers. They had fallen in the second quarter from an unusually high level in the first, and recovered in the third.

Real PCE on motor vehicles increased very sharply, after a huge second-quarter decline. The course of the upturn can be traced in terms of unit sales, which are sales to consumers, business, and other final users. New car sales recovered to 8.9 million (seasonally adjusted annual rate) in July and 8.6 million in August, from 7.7 million in the second quarter (chart 2). Most of the recovery was in domestic sales, which averaged 6.5 million in July–August, compared with 5.5 million in the second quarter. The recovery was spread across all size categories: Small car sales rose to 3.2 million from 2.8 million, intermediate sales to 1.8 from 1.4 million, and full-size sales to 1.5 from 1.2 million. Import sales were up to 2.5 million in July from 2.2 million in the second quarter but fell back to 2.1 million in August. Domestic new truck sales averaged 2.0 million in July–August, up from 1.8 million in the second quarter. Sales of light (up to 10,000 pounds) trucks, about one-half of which are to consumers, as well as sales of "other" (over 10,000 pounds) trucks were up. Sales of imported trucks also increased sharply in July–August after dropping in the second quarter.

CHART 3

Selected Interest Rates



*At the end of the month.
U.S. Department of Commerce, Bureau of Economic Analysis
Data: FRB, FHLBB
80-9-3

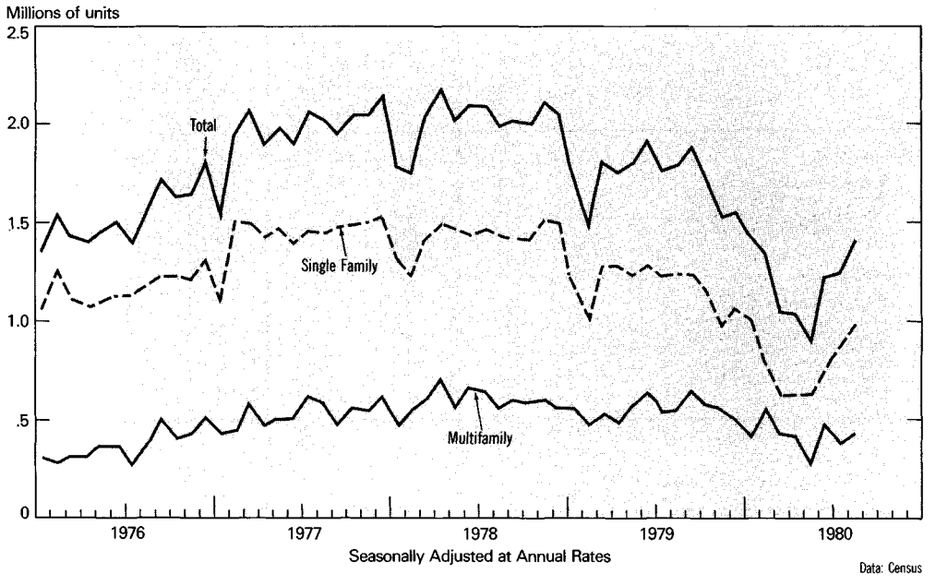
Other final sales

Real residential investment stabilized in the third quarter, after plunging in the first half of the year. This component of GNP includes not only the value of new construction but also additions and alterations, mobile home purchases, and brokers' commissions on the sale of new and existing residences. Commissions had contributed to the decline in investment, because sales of residences had dropped sharply. With the pickup in sales in the third quarter—July sales of existing homes were at a seasonally adjusted annual rate of 2,920,000, compared with 2,403,000 in the second quarter—these commissions increased sharply.

A steep drop in interest rates was a

CHART 4

Housing Starts



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

major determinant of the course of housing starts. The interest rate on commitments on 25-year mortgages with a loan-to-price ratio of 75 percent fell from its peak of over 16 percent in April to nearly 12 percent in July and August (chart 3). The prime rate, to which construction loans are tied, fell from 20 percent in April to 11½ percent in August before advancing in September. Reflecting the movement of interest rates, housing starts reached a low in May, at 906,000 units (seasonally adjusted annual rate), and climbed to 1,399,000 in August (chart 4). So far the upturn in starts has been concentrated in single-family units. Rising yields at the Federal National Mortgage Association auctions suggest that mortgage rates may be turning up; an upturn will limit the recovery in housing starts and, hence, residential investment.

Real nonresidential fixed investment fell at only about one-half the 14½ percent annual rate registered in the second quarter. Motor vehicles accounted for the slowing of the decline. Producers' durable equipment other than motor vehicles declined after showing little change, and structures were down about as much as in the second quarter. The weakness in investment is not surprising in light of the deterioration in economic conditions, as highlighted by the sharp drop in second-quarter profits, which is discussed next in the "Business Situation," and in manufacturers' capacity utilization, which is discussed in the artic e on the BEA plant and equipment survey.

Real net exports may have increased in the third quarter, as they had in the second. Merchandise imports again appear to have declined more than exports; a continued decline in petroleum imports was a significant factor. Petroleum imports had averaged 7.44 million barrels per day in the second quarter, and dropped to 5.67 million in July, reflecting both continued conservation efforts and the weakness in U.S. industrial activity.

Real government purchases showed little change. Federal purchases had increased 9½ percent at an annual rate in the second quarter; in the third, defense purchases continued strong and nondefense purchases were down moderately, as purchases of the Commodity Credit Corporation (CCC) declined. The CCC began to purchase grain in the second quarter as a consequence of the embargo of sales to the Soviet Union; in the third quarter, these purchases declined.

Second-Quarter Corporate Profits

In the second quarter, corporate profits from current production—profits with inventory valuation and capital consumption adjustments—registered one of the largest declines in the postwar period. On the basis of revised data, they declined $22 billion to $153 billion. The estimate is $3 billion lower than the one published a month ago. The downward revision was centered in durable goods manufacturing profits.

Of the $22 billion decline, $16 billion was in the domestic profits of nonfinancial corporations. They declined to $109½ billion in the second quarter, following a decline of $3½ billion in the first. Second-quarter profits reflect the full impact of the windfall profits tax on domestic crude oil production, which reduced profits about $10 billion. This tax, which became effective March 1, 1980, is classified as an indirect business tax in the national income and product accounts (NIPA's). It had reduced first-quarter profits by about $3 billion. It is not possible to allocate precisely the impact of the tax; it is clear however, that much of it falls on corporations classified in petroleum manufacturing, which produce a major share of domestic crude oil.

Detail by industry for nonfinancial corporations is available for profits with inventory valuation adjustment but without capital consumption adjustment. Manufacturing profits dropped $19½ billion in the second quarter. At $73½ billion, they were $20½ billion below their peak in the first quarter of 1979 (table 4). The six-quarter decline was interrupted in the first quarter, when profits increased $9 billion. Within manufacturing, sharp increases in petroleum manufacturing profits have moderated the decline in the total (chart 5). Petroleum profits increased from $16½ billion in the first quarter of 1979 to $32½ billion in the first quarter of 1980 and dipped to $30½ billion in the second. The increase reflected the

escalating price of crude oil and a widening of refining margins. In the absence of the windfall profits tax, profits probably would have registered another increase in the second quarter. Profits of other manufacturing industries declined in each quarter since the peak, except in the first quarter of 1980. Of the $34½ billion decline, one-half occurred in the second quarter of 1980.

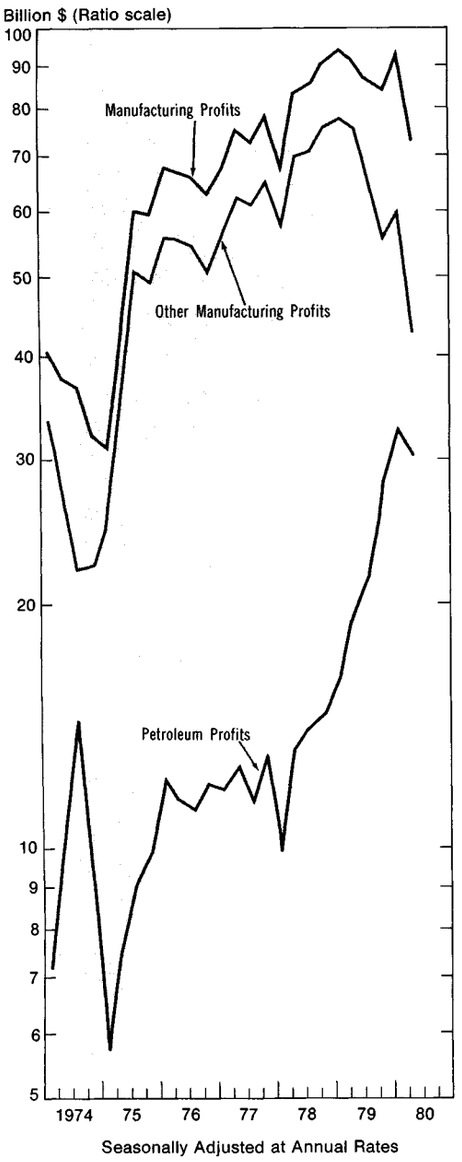
Table 4.—Profits with Inventory Valuation Adjustment and without Capital Consumption Adjustment in Manufacturing

[Billions of dollars]

	Seasonally adjusted at annual rates						1980–II: Change from	
	1979				1980		1979	1980
	I	II	III	IV	I	II	I	I
Manufacturing	**94.1**	**90.6**	**86.4**	**84.0**	**93.0**	**73.4**	**−20.7**	**−19.6**
Nondurable goods	48.2	49.4	53.8	54.8	65.5	58.1	9.9	−7.4
Food and kindred products	5.7	7.6	7.8	6.4	8.3	8.1	2.4	−.2
Chemicals and allied products	9.0	8.0	7.1	6.6	8.9	7.0	−2.0	−1.9
Petroleum and products	16.4	19.5	21.8	28.3	32.6	30.4	14.0	−2.2
Other	17.1	14.2	17.1	13.5	15.7	12.6	−4.5	−3.1
Durable goods	46.0	41.2	32.6	29.2	27.4	15.3	−30.7	−12.1
Primary metal industries	3.8	4.2	4.0	1.9	4.4	3.0	−.8	−1.4
Fabricated metal products	5.0	5.4	4.8	4.7	5.3	2.4	−2.6	−2.9
Machinery, except electrical	8.2	7.6	7.9	6.9	5.7	6.4	−1.8	.7
Electric and electronic equipment	5.5	5.2	5.1	4.6	4.6	4.3	−1.2	−.3
Motor vehicles and equipment	11.4	7.4	−.5	−.4	−2.8	−8.8	−20.2	−6.0
Transportation equipment	−.4	−.2	−.5	−.5	−1.2	−1.0	−.6	.2
Other	12.4	11.5	11.7	12.0	11.4	9.1	−3.3	−2.3

CHART 5

Manufacturing Corporate Profits With IVA and Without CCAdj.



U.S. Department of Commerce, Bureau of Economic Analysis 80-9-5

The second-quarter decline in profits of other manufacturing industries was widespread, and mirrored production; production, as measured by summing BEA measures of constant-dollar sales and constant-dollar inventory change, declined in most manufacturing industries. Motor vehicle manufacturers' losses increased sharply in the second quarter, as real auto and truck output plummeted over 60 percent at an annual rate. Reduced demand resulting from the drop in motor vehicle production contributed to lower profits of primary metals manufacturers and increased losses of rubber manufacturers (which are included in "other" nondurables).

Profits in transportation also declined in the second quarter. Increased losses registered by airlines reflected both declining revenue passenger miles and inability to pass higher costs on to passengers because of strong competition. Lower profits for railroads and motor freight carriers reflected weak shipments volume.

The only substantial increase in domestic profits of nonfinancial corporations was in trade. These profits had shown an unusually sharp drop in the first quarter. In that quarter, a substantial part of the decline was probably traceable to the practice of many trade corporations of setting their sales prices by marking up unit costs that are based on historical acquisition costs. When there is inflation, replacement costs exceed historical costs. These differences give rise to inventory profits for many firms, which in the national income and product accounts are deducted from book profits to derive profits from current production. Inventory profits in trade had increased sharply in the first quarter.

Domestic profits of financial corporations declined $3½ billion to $30 billion in the second quarter, following a one-half billion dollar decline in the first. An increase in the earnings of Federal Reserve banks partially offset a decline in the profits of other financial corporations. Federal Reserve banks' profits reflected increased holdings of Federal debt instruments and increases in the average interest rates on their holdings. The decline in other financial corporations' profits resulted primarily from savings and loan associations' swing to losses as interest rate spreads narrowed and deposits shifted from low-interest-paying passbook accounts to higher-interest-paying time deposits.

Profits from the rest of the world—measured as the net inflow of branch profits and dividends—declined $3 billion to $13½ billion in the second quarter, following an increase of $2½ billion in the first. A decline in rest-of-the-world profits of petroleum corporations more than offset other increases.

Other profits measures.—Before-tax profits declined $55½ billion to $205 billion in the second quarter, following an increase of $17½ billion in the first. These profits exclude the two valuation

adjustments, which are designed to value inventories and fixed capital used up in production at replacement costs, the valuation concept underlying national income and product accounting, rather than at historical cost, the concept generally underlying business accounting.[3] If, as in the second quarter, the historical cost of inventories used up is less than their replacement cost, profits as measured by business exceed profits as measured in the NIPA's by an amount that is called inventory profits. Inventory profits decreased $36 billion to $27½ billion in the second quarter, following an increase of $16½ billion in the first. If, as in the second quarter, the historical cost of fixed capital used up is less than the replacement cost, business profits exceed NIPA profits by an amount that is equal to underdepreciation in measuring of fixed capital used up. The profits corresponding to underdepreciation increased $2½ billion to $24½ billion in the second quarter, following an increase of $2 billion.

Corporate profits taxes, which are levied on profits including inventory profits and profits attributable to underdepreciation, declined $24½ billion to $77½ billion in the second quarter, following an increase of $6½ billion in the first. Profits after tax declined $31 billion to $127 billion, following an $11 billion increase in the first.

3. The capital consumption adjustment also places the using up in production of fixed capital on a consistent basis with respect to service lives (85 percent of Internal Revenue Service Bulletin F for equipment and nonresidential structures) and depreciation formulas (straight-line).

Table 5.—Economic Renewal Program, Unified Budget Basis

[Billions of dollars]

	Fiscal year	
	1981	1982
Provision:		
Constant rate depreciation	2.8	9.0
Refundable and targeted investment tax credit	.2	3.1
Social security credit	3.8	19.3
Married couples deduction	.3	5.2
Earned income tax credit	------	.9
Other	2.6	2.3
Total, tax reductions and outlay increases	9.8	39.9

Federal Budget Developments: New Administration Proposals

IN late August the administration proposed an "economic renewal" program emphasizing investment incentives and tax relief for low- and middle-income families.

The program consists of tax reductions and outlay increases amounting to $9.8 billion in fiscal year 1981 and $39.9 billion in fiscal year 1982 (table 5). If approved by the Congress, the program will be effective January 1, 1981; most of its provisions are permanent. The major provisions are:

- A new depreciation allowance for business investment. It will provide a constant annual rate of depreciation for 30 asset and industry classes (compared with 130 under current law) and increase the depreciation rate approximately 40 percent.

- An investment tax credit that allows 30 percent of unused investment tax credits for investments placed in service after December 1, 1980 to be refunded, regardless of tax liability. For the first time, under this provision, companies without taxable profits would receive direct Federal payments related to their investments. An additional 10 percent investment credit for eligible investment projects is targeted for localities of high unemployment.

- An income tax credit equal to 8 percent of social security taxes paid by employees and employers. The credit will be in effect for calendar years 1981 and 1982. Corporate employers will reduce their corporate income tax liabilities by the amount of the credit; State and local governments, nonprofit institutions, and companies without taxable profits will receive direct Federal payments. Employees' income tax withholdings will be reduced beginning June 1, 1981.

- A special income tax deduction for employed married couples equal to 10 percent of the first $30,000 of income of the spouse with the lower income. The maximum deduction will be $3,000.

- An increase in the earned income tax credit to 12 percent of the first $5,000 of income and a phase out as income increases from $7,000 to $11,000. Currently the credit is equal to 10 percent of the first $5,000 and is phased out as income increases from $6,000 to $10,000.

- Expenditure increases for a variety of programs, including countercyclical revenue sharing, supplemental unemployment benefits (an additional 13 weeks of benefits) and programs for energy, basic scientific research, transportation, and economic and industrial development.

Table 6.—Economic Renewal Program, NIPA Basis

[Billions of dollars]

	Fiscal year	
	1981	1982
Receipts	−10.3	−31.2
Personal tax and nontax receipts		
Constant rate depreciation	−.7	−2.2
Social security credit	−2.1	−9.9
Married couples deduction	−.3	−5.2
Earned income tax credit	------	−.3
Other	−.1	−.3
Corporate profits tax accruals		
Constant rate depreciation	−3.4	−8.1
Refundable and targeted investment tax credits	−.1	−.1
Social security credit	−3.4	−5.1
Other	−.1	−.1
Expenditures	5.1	7.9
Purchases of goods and services		
Energy programs	------	.1
Transfer payments to persons		
Refundable investment credit	------	.3
Social security credit	.1	.4
Earned income tax credit	------	.6
Supplemental unemployment benefits	1.4	------
Grants-in-aid to State and local governments		
Social security credit	.2	1.0
Basic scientific research	.2	.3
Energy programs	.2	.2
Transportation	.1	.2
Economic and industrial development	------	.1
Human resources	.1	.3
Countercyclical revenue sharing	.5	.5
Subsidies less current surplus of government enterprises		
Refundable and targeted investment tax credits	1.7	2.9
Social security credit	.6	.9
Transportation	------	.1
Surplus or deficit (−)	−15.4	−39.1

BEA has prepared estimates of the new program on the national income and product accounting basis for fiscal years 1981 and 1982 (table 6). On this basis, in 1982, Federal receipts are reduced $31.2 billion and Federal expenditures are increased $7.9 billion.

* * *

Special reconciliation table: net exports of goods and services and balance on goods and services

Beginning with the estimates for the second quarter of 1980, an additional difference was introduced between net exports of goods and services in the national income and product accounts (NIPA's) and the balance on goods and services in the balance of payments accounts (BPA's): capital gains and losses of unincorporated foreign affiliates are excluded from the NIPA measure of income receipts from direct investment abroad and from the corresponding income payments. In the NIPA's, capital gains and losses have always been excluded from profits earned in the United States; in the BPA's, they are included in the measures of income from direct investment. Separate data on capital gains and losses included in the BPA measures have been available since 1978 from the BEA quarterly surveys of foreign direct investment. Until now these amounts were small, and the NIPA measure, which is derived from the BPA measure, was not adjusted to remove them. In the second quarter of 1980 however, there was a significant nonrecurring capital loss, primarily reflecting a change in the nature and status of the operations of a Middle East branch of a U.S.-incorporated company, and it was decided to begin removing all such gains and losses from the NIPA measures. In table 7, net capital gains are treated as statistical differences and included in line 4 (exports) and line 11 (imports).

Inventory profits and the difference between profits based on historical cost depreciation and profits based on replacement cost depreciation, which are excluded from the NIPA measure of profits earned in the United States, are still included in both the NIPA and BPA income measures because there are no data available to remove them.

Table 7.—Relation of Net Exports of Goods and Services in the National Income and Product Accounts (NIPA's) to Balance on Goods and Services in the Balance of Payments Accounts (BPA's)

[Billions of dollars, seasonally adjusted at annual rates]

Line		1980	
		I r	II
1	Exports of goods and services, BPA's	342.6	326.1
2	Less: Reinvested earnings of incorporated affiliates of U.S. direct investors [1]	22.6	15.5
3	Gold, BPA's [2]	4.0	4.9
4	Statistical differences [3]	7.4	−1.7
5	Other items	[4] .4	[4] .4
6	Equals: Exports of goods and services, NIPA's	308.1	307.0
7	Imports of goods and services, BPA's	345.9	331.1
8	Less: Payments of income on U.S. Government liabilities [5]	12.2	11.7
9	Reinvested earnings of incorporated affiliates of foreign direct investors [1]	4.7	4.5
10	Gold, BPA's [2]	7.4	4.8
11	Statistical differences [3]	3.2	3.7
12	Other items	0	0
13	Plus: Gold, NIPA's [2]	3.3	2.8
14	Equals: Imports of goods and services, NIPA's	321.7	309.2
15	Balance on goods and services, BPA's (1–7)	−3.3	−5.0
16	Less: Reinvested earnings of incorporated affiliates (2–9)	18.0	11.0
17	Gold (3−10+13)	0	2.9
18	Statistical differences (4–11)	4.2	−5.4
19	Other items (5–12)	.4	.4
20	Plus: Payments of income on U.S. Government liabilities (8)	12.2	11.7
21	Equals: Net exports of goods and services, NIPA's (6–14)	−13.6	−2.2

r Revised.

1. This item, recently included in the BPA's, has not yet been incorporated in the NIPA's.

2. Beginning with estimates for 1976, the treatment of net exports of gold in the NIPA's differs from that in the BPA's. BPA gold exports (line 3) and imports (line 10) are removed from the NIPA's. Imports of gold in the NIPA's (line 13) is the excess of the value of gold in domestic final sales plus the change in business inventories over the value of U.S. production of gold. For further explanation of the NIPA treatment, see the July 1979 SURVEY OF CURRENT BUSINESS, pp. 4–7.

3. Consists of statistical revisions in the BPA's that have not yet been incorporated in the NIPA's and, beginning with estimates for the second quarter of 1980, capital gains and losses of unincorporated foreign affiliates.

4. Consists of arms shipments to Israel financed under the Emergency Security Act of 1973 and subsequent legislation. In the NIPA's, these arms shipments are classified as military grants, which are included in the defense purchases component of GNP when they are acquired by the U.S. Government. Their transfer abroad is not reflected in the NIPA's.

5. Represents interest paid by government to foreigners. This item is treated as an import of services in the BPA's. In the NIPA's, it is excluded from government purchases and, thus, also from imports. For further explanation, see Part I of the January 1976 SURVEY, p. 7.

Second-quarter NIPA revisions

The 75-day revisions of the national income and product account estimates for the second quarter of 1980 are shown in table 8.

Table 8.—Revisions in Selected Component Series of the NIPA's, Second Quarter of 1980

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates		
	45-day estimate	75-day estimate	Revision	45-day estimate	75-day estimate	Revision
	Billions of current dollars					
GNP	**2,524.6**	**2,521.3**	**−3.3**	**0.6**	**0.1**	**−0.5**
Personal consumption expenditures	1,628.6	1,626.6	−2.0	−.2	−.7	−.5
Nonresidential fixed investment	267.7	268.2	.5	−7.0	−6.3	.7
Residential investment	89.0	88.9	−.1	−57.8	−57.8	0
Change in business inventories	13.6	11.4	−2.2	----------	----------	----------
Net exports	−2.5	−2.2	.3	----------	----------	----------
Government purchases	528.3	528.3	0	8.9	8.9	0
Federal	193.3	193.3	0	16.1	16.1	0
State and local	335.0	335.0	0	4.9	5.0	.1
National income	**2,026.9**	**2,024.6**	**−2.3**	**−1.7**	**−2.1**	**−.4**
Compensation of employees	1,567.2	1,567.2	0	3.1	3.1	0
Corporate profits with inventory valuation and capital consumption adjustments	156.0	152.8	−3.2	−36.9	−41.9	−5.0
Other	303.8	304.6	.8	−1.8	−.7	1.1
Personal income	**2,079.5**	**2,080.5**	**1.0**	**4.4**	**4.6**	**.2**
	Billions of constant (1972) dollars					
GNP	**1,410.9**	**1,408.6**	**−2.3**	**−9.0**	**−9.6**	**−.6**
Personal consumption expenditures	912.6	910.8	−1.8	−9.8	−10.6	−.8
Nonresidential fixed investment	145.0	145.3	.3	−15.3	−14.6	.7
Residential investment	40.7	40.7	0	−61.8	−61.8	0
Change in business inventories	3.3	2.6	−.7	----------	----------	----------
Net exports	28.1	28.3	.2	----------	----------	----------
Government purchases	281.3	280.9	−.4	1.9	1.4	−.5
Federal	106.9	106.7	−.2	10.6	9.5	−1.1
State and local	174.3	174.3	0	−3.0	−3.2	−.2
	Index numbers, 1972=100 [1]					
GNP implicit price deflator	178.93	178.99	.06	10.6	10.7	.1
GNP fixed-weighted price index	183.2	183.2	0	9.7	9.7	0
GNP chain price index	----------	----------	----------	9.2	9.1	−.1

1. Not at annual rates.

NOTE.—For the second quarter of 1980, the following revised or additional major source data became available: For *personal consumption expenditures*, revised retail sales for June, consumer share of new car purchases for June, and consumption of electricity for May; for *nonresidential fixed investment*, revised manufacturers' shipments of equipment for June, revised construction put in place for June, business share of new car purchases for June, and business expenditures for plant and equipment for the quarter; for *residentrial investment*, revised construction put in place for June; for *change in business inventories*, revised book values for manufacturing and trade for June; for *net exports of goods and services*, revised merchandise trade for June, and revised service receipts for the quarter; for *government purchases of goods and services*, revised construction put in place for June; for *wages and salaries*, revised employment, average hourly earnings and average weekly hours for June; for *corporate profits*, domestic book profits for the quarter, revised dividends from abroad and branch profits (net) for the quarter; and for *GNP prices*, revised unit value indexes for exports and imports for June.

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the BUSINESS SITUATION

REAL GNP increased at an annual rate of 1 percent in the third quarter, after a second-quarter decline of 9½ percent (table 1 and chart 1).[1] An increase in final sales more than offset a swing to liquidation of business inventories. Among final sales, personal consumption expenditures (PCE) and net exports increased, residential investment steadied, and nonresidential investment and government purchases declined.

In the second quarter, declines in three elements—motor vehicle output, PCE on other than motor vehicles, and residential investment—about accounted for the decline in GNP. In the third quarter, motor vehicle output and PCE on other than motor vehicles increased, and residential investment steadied (table 2). These elements combined increased $12½ billion in real terms.[2] An $8 billion swing to liquidation in business inventories other than motor vehicles almost offset these increases; real GNP increased only $3½ billion.

1. The third-quarter GNP estimates are based on the following major source data: For *personal consumption expenditures* (PCE), retail sales, and unit auto and truck sales through September; for *nonresidential fixed investment*, the same information for autos and trucks as for PCE, manufacturers' shipments of machinery and equipment for July and August, July and August construction put in place, and investment plans for the quarter; for *residential investment*, July and August construction put in place, and housing starts for July and August; for *change in business inventories*, July and August book values for manufacturing and trade, and unit auto inventories through September; for *net exports of goods and services*, July and August merchandise trade, and fragmentary information on investment income for the quarter; for *government purchases of goods and services*, Federal unified budget outlays for July and August, State and local construction put in place for July and August, and State and local employment through September; and for *GNP prices*, the Consumer Price Index for July and August, the Producer Price Index through September, and unit value indexes for exports and imports for July and August. Some of these source data are subject to revision.

2. Quarterly estimates of the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

Prices.—GNP prices as measured by the fixed-weighted price index increased 9½ percent at an annual rate, as they had in the second quarter. Prices of two products had a substantial effect on the GNP price index in the 2 quarters. Price increases for food accelerated sharply; in contrast, price increases for energy decelerated sharply. As can be seen from the accompanying tabulation, the prices of GNP less food and energy increased a little less in the third quarter than in the second—9½ percent, compared with 10½ percent.

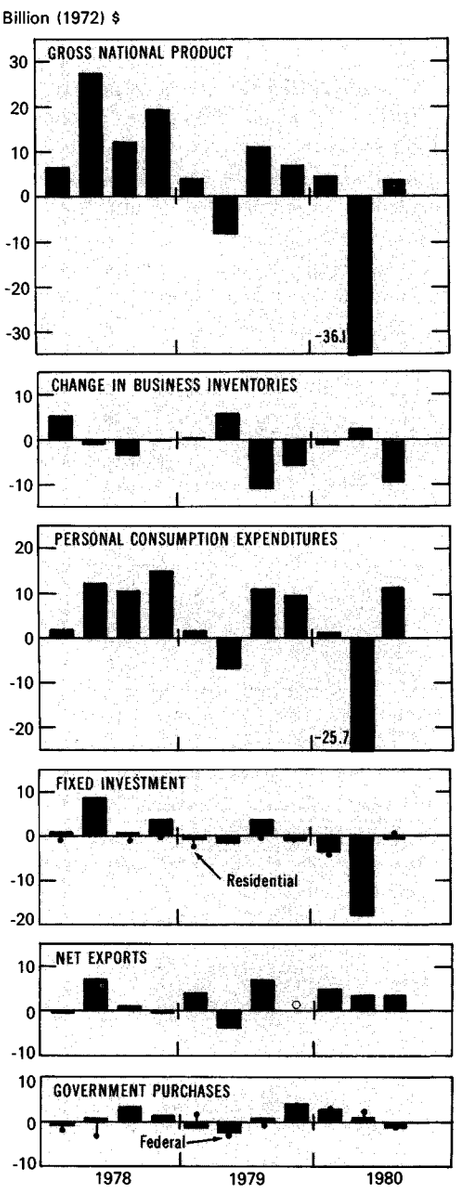
The pattern of sharp changes in food and energy prices is quantified in table 3 in terms of prices of PCE on food and of PCE on energy. The rate of increase of PCE food prices doubled, from 6½ percent at an annual rate to 13½ percent. The major factor in the acceleration was prices of red meat and poultry. These prices, and also prices of some other foods, were affected in the third quarter by heat and drought in farm regions. In addition, meat prices had been held down earlier in the year by record marketings. The rate of increase of PCE energy prices was cut from 24½ percent in the second quarter to 4 percent in the third. The major factor in the deceleration was gasoline prices, which declined in the third quarter after a substantial increase in the second. Prices of PCE on energy are discussed in an article later in this SURVEY. Other

[Percent change in the fixed-weighted price index at annual rates]

	1980: II	1980: III
GNP	9.7	9.7
GNP less food	10.4	9.0
GNP less energy	9.3	10.3
GNP less food and energy	10.3	9.7

CHART 1

Real Product: Change From Preceding Quarter



U.S. Department of Commerce, Bureau of Economic Analysis 80-10-1

Table 1.—Gross National Product in Current and Constant Dollars

	Current dollars				Constant (1972) dollars						
	Billions of dollars, seasonally adjusted at annual rates								Percent change from preceding quarter at annual rates		
	1979	1980			1979	1980			1980		
	IV	I	II	III	IV	I	II	III	I	II	III
Gross national product	**2,456.9**	**2,520.8**	**2,521.3**	**2,583.0**	**1,440.3**	**1,444.7**	**1,408.6**	**1,412.1**	**1.2**	**−9.6**	**1.0**
Final sales	2,451.4	2,516.1	2,509.9	2,600.9	1,439.0	1,444.4	1,406.0	1,418.9	1.5	−10.2	3.7
Change in business inventories	5.6	4.7	11.4	−17.9	1.4	.3	2.6	−6.8	-------	-------	-------
Less: Rest-of-the-world product	26.4	28.8	29.9	29.6	6.5	6.0	6.3	6.5	-------	-------	-------
Equals: Gross domestic product	2,430.6	2,492.0	2,491.3	2,553.4	1,433.8	1,438.7	1,402.3	1,405.6	1.4	−9.7	1.0

PCE prices decelerated, from 10½ percent to 9½ percent. The prices of "other" items—fixed investment goods, and goods and services purchased by government—increased at about the same rate in both quarters.

Employment and unemployment.—Labor market conditions stabilized in the third quarter. The household measure of employment, which had declined 911,000 in the second quarter, increased 177,000 in the third (table 4). Although unemployment was up 209,000 for the quarter, it declined 380,000 from July to September. The unemployment rate—at 7.6 percent—was virtually unchanged from the second quarter, but drifted down during the third quarter.

The establishment measure of employment, which had declined 631,000 in the second quarter, declined another 398,000 in the third. Both quarterly declines were concentrated in durable goods manufacturing. On a monthly basis, however, total employment increased 429,000 from July to September, with durables manufacturing up 95,000. The average workweek in durables manufacturing, as well as in manufacturing as a whole, had fallen sharply in the second quarter, fell another 0.1 hours in the third, but rose 0.5 from July to September. In the nonfarm economy, the pattern in hours was similar but the changes were less pronounced.

Costs and productivity.—Changes in real gross product per hour and unit labor costs in the business economy other than farm and housing were particularly sharp in the second and third quarters (table 5). It is always difficult to prepare accurate estimates of these measures on a timely basis, and it is particularly difficult to do so when, as was the case this year, real gross product and hours change rapidly. It is probable that the second- and third-quarter changes in real gross product per hour and in unit labor costs were smoother than those shown in the table.

Table 2.—Key Factors in Real GNP

	Billions of constant (1972) dollars						
	Seasonally adjusted at annual rates				Change from preceding quarter		
	1979	1980			1980		
	IV	I	II	III	I	II	III
GNP	**1,440.3**	**1,444.7**	**1,408.6**	**1,412.1**	**4.4**	**−36.1**	**3.5**
Less: Motor vehicle output	66.9	64.1	49.9	54.1	−2.8	−14.2	4.2
Residential investment	55.8	51.7	40.7	41.2	−4.1	−11.0	.5
GNP less motor vehicle output and residential investment	**1,317.6**	**1,328.9**	**1,318.0**	**1,316.8**	**11.3**	**−10.9**	**−1.2**
Final sales	1,439.0	1,444.4	1,406.0	1,418.9	5.4	−38.4	12.9
Less: Motor vehicles	70.2	69.2	50.8	56.3	−1.0	−18.4	5.5
Residential investment	55.8	51.7	40.7	41.2	−4.1	−11.0	.5
Final sales less motor vehicles and residential investment	1,313.0	1,323.5	1,314.5	1,321.4	10.5	−9.0	6.9
Personal consumption expenditures	935.4	936.5	910.8	922.4	1.1	−25.7	11.6
Less: Motor vehicles	47.2	48.4	34.9	38.9	1.2	−13.5	4.0
Personal consumption expenditures less motor vehicles	888.2	888.1	875.9	883.5	−.1	−12.2	7.6
Nonresidential structures	50.1	50.3	49.1	46.7	.2	−1.2	−2.4
Nonresidential producers' durable equipment	100.4	100.9	96.3	97.4	.5	−4.6	1.1
Less: Motor vehicles	22.2	21.4	17.1	19.9	−.8	−4.3	2.8
Nonresidential producers' durable equipment less motor vehicles	78.2	79.5	79.2	77.5	1.3	−.3	−1.7
Net exports	20.1	25.0	28.3	31.6	4.9	3.3	3.3
Less: Motor vehicles	−1.3	−2.4	−3.0	−4.4	−1.1	−.6	−1.4
Net exports less motor vehicles	21.4	27.4	31.3	36.0	6.0	3.9	4.7
Exports	124.3	131.7	128.3	126.9	7.4	−3.4	−1.4
Less: Motor vehicles	8.9	8.0	6.7	6.3	−.9	−1.3	−.4
Exports less motor vehicles	115.3	123.7	121.6	120.6	8.4	−2.1	−1.0
Imports	104.1	106.7	99.9	95.3	2.6	−.8	−4.6
Less: Motor vehicles	10.2	10.6	9.7	10.7	.4	−.9	1.0
Imports less motor vehicles	93.9	96.1	90.2	84.6	2.2	−5.9	−5.6
Government purchases	277.1	280.0	280.9	279.6	2.9	.9	−1.3
Less: Motor vehicles	1.9	1.9	1.9	1.9	0	0	0
Government purchases less motor vehicles	275.2	278.1	279.0	277.7	2.9	.9	−1.3
Change in business inventories	1.4	.3	2.6	−6.8	−1.1	2.3	−9.4
Less: Motor vehicles	−3.3	−5.1	−.9	−2.2	−1.8	4.2	−1.3
Change in business inventories less motor vehicles	4.6	5.4	3.5	−4.6	.8	−1.9	−8.1

Personal income and its disposition

Personal income increased $60½ billion in the third quarter, compared with $23 billion in the second (table 6). Changes in both quarters reflected the special factors that are listed in the addenda to the table. In the third quarter, by far the largest was the cost-of-living increases in Federal transfer payments, mainly social security benefit payments. They added $17½ billion to the increase in personal income and accounted for about one-half of the step-up.

The remainder of the step-up was accounted for by wage and salary disbursements and by proprietors' income. Wages and salaries increased $17 billion, compared with $6½ billion in the second quarter. Although average hourly earnings increased a little less than in the second quarter, declines in hours and employment, which in their effect on wages and salaries are an offset

Table 3.—Fixed-Weighted Price Indexes

	Index numbers (1972=100) seasonally adjusted							Percent change from preceding quarter at annual rates					
	1979				1980			1979			1980		
	I	II	III	IV	I	II	III	II	III	IV	I	II	III
Gross national product	**162.8**	**166.6**	**170.6**	**174.4**	**179.0**	**183.2**	**187.5**	**9.5**	**10.0**	**9.4**	**10.9**	**9.7**	**9.7**
Less: Change in business inventories													
Equals: Final sales	162.7	166.4	170.4	174.3	178.8	183.1	187.4	9.5	10.0	9.4	10.9	9.8	9.7
Less: Exports	205.3	211.4	220.5	227.8	238.6	243.1	250.7	12.4	18.5	13.9	20.2	7.8	13.1
Plus: Imports	229.6	240.9	256.8	273.8	276.5	307.0	315.5	21.2	29.1	29.3	37.6	14.8	11.5
Equals: Final sales less exports plus imports	**164.4**	**168.5**	**172.9**	**177.4**	**182.8**	**187.4**	**191.7**	**10.3**	**11.0**	**10.8**	**12.6**	**10.5**	**9.6**
Personal consumption expenditures	160.0	163.9	168.4	172.6	178.3	183.1	187.3	10.3	11.3	10.5	13.8	11.2	9.5
Food	175.8	178.5	179.5	183.5	186.3	189.3	195.4	6.3	2.3	9.3	6.2	6.6	13.7
Energy [1]	207.9	231.4	262.3	278.3	309.0	326.4	329.5	53.5	65.2	26.7	52.0	24.5	3.8
Other personal consumption expenditures	151.0	153.5	156.4	159.6	163.7	167.8	171.6	6.7	7.8	8.5	10.7	10.4	9.3
Other	171.9	176.2	180.6	185.5	190.4	194.7	199.3	10.4	10.5	11.3	10.8	9.5	9.7
Nonresidential structures	181.6	186.4	191.7	196.0	202.0	206.6	211.7	10.9	11.8	9.2	12.9	9.6	10.1
Producers' durable equipment	161.5	165.6	169.1	171.8	175.9	181.5	185.7	10.5	8.9	6.4	9.9	13.4	12.0
Residential	192.7	199.3	205.7	208.9	213.9	219.2	225.0	14.3	13.5	6.4	10.0	10.3	11.0
Government purchases	168.2	172.0	176.0	182.1	186.9	190.6	194.6	9.2	9.8	14.5	11.0	8.2	8.7
Federal	164.0	167.2	171.1	180.2	184.7	187.9	191.4	7.9	9.8	22.9	10.5	7.0	7.6
State and local	171.1	175.2	179.4	183.4	188.4	192.5	196.8	10.0	9.9	9.3	11.3	9.0	9.4

1. Gasoline and oil, fuel oil and coal, electricity and gas.

to increases in average hourly earnings, were substantially less than in the second quarter. The acceleration in wages and salaries was in manufacturing and retail trade, and—to a much smaller extent—in construction. Manufacturing payrolls had declined substantially in the second quarter and registered a small increase in the third. Most of the swing was in durables manufacturing. Payrolls in retail trade increased after changing little in the second quarter, and construction payrolls steadied after declining.

A swing in farm proprietors' income—from a $4½ billion decline to a $1 billion increase—largely reflected the course of farm prices. Prices, especially of livestock, increased sharply in the third quarter after having declined in the second. In nonfarm proprietors' income, there was a swing from a $5 billion decline to a $2½ billion increase. A large part of the swing was due to construction and retail trade, where fluctuations in activity strongly affect proprietors' income. Another factor was a turnaround in commissions on the sale of securities, commodities, and residences.

In contrast, personal interest income increased less in the third quarter than in the second—$6½ billion, compared with $11½ billion. (Personal interest income is included in "other" income in table 6.) The deceleration was largely due to reductions in interest rates paid on short-term instruments held by persons. Short-term rates peaked in March-April and fell during the second quarter; they affect personal interest income

Table 4.—Selected Labor Market Indicators

[Seasonally adjusted]

	1979	1980			1980: Change from preceding quarter		
	IV	I	II	III	I	II	III
Household survey							
Civilian labor force (millions)	103.7	104.2	104.7	105.1	0.4	0.5	0.4
Employment	97.7	97.8	96.9	97.1	.1	−.9	.2
Unemployment	6.1	6.4	7.8	8.0	.3	1.4	.2
Job losers	2.7	3.0	4.2	4.5	.3	1.2	.3
On layoff	1.0	1.1	1.8	1.8	.1	.8	0
Other job losers	1.8	1.9	2.4	2.6	.1	.4	.3
Job leavers, reentrants, and new entrants	3.4	3.4	3.7	3.6	0	.3	−.1
Unemployment rate (percent):							
Total	5.9	6.1	7.5	7.6	.2	1.4	.1
Adult men	4.2	4.7	6.4	6.7	.5	1.7	.3
Adult women	5.7	5.7	6.5	6.4	0	.8	−.1
Teenagers	16.1	16.2	18.0	18.5	.1	1.8	.5
Establishment survey							
Employment, nonfarm payroll (millions	90.6	91.1	90.5	90.1	.6	−.6	−.4
Goods producing	26.5	26.6	25.8	25.3	.1	−.8	−.5
Construction	4.6	4.6	4.4	4.4	.1	−.2	−.1
Manufacturing:							
Durables	12.7	12.7	12.2	11.9	0	−.5	−.3
Nondurables	8.3	8.3	8.1	8.1	0	−.1	−.1
Distributive [1]	25.7	25.8	25.7	25.7	.1	−.1	0
Services [2]	22.4	22.6	22.8	23.0	.3	.1	.2
Government	16.0	16.1	16.3	16.1	.1	.2	−.2
Average weekly hours, private nonfarm:							
Total	35.6	35.5	35.1	35.1	−.1	−.4	0
Manufacturing	40.1	40.1	39.4	39.3	0	−.7	−.1

1. Transportation and public utilities, and wholesale and retail trade.
2. Services, and finance, insurance, and real estate.

Source: Bureau of Labor Statistics.

Table 5.—Real Gross Product, Hours, and Compensation in the Business Economy Other Than Farm and Housing

[Percent change from preceding quarter at annual rates based on seasonally adjusted estimates]

	1979	1980		
	IV	I	II	III
Real gross product	2.4	0	−12.8	1.0
Hours	2.2	1.7	−9.0	−1.6
Compensation	11.3	12.0	.9	6.9
Real gross product per hour	.2	−1.7	−4.2	2.7
Compensation per hour	8.9	10.1	10.9	8.6
Unit labor cost	8.7	12.0	15.7	5.7

with a lag that reflects the turnover in these instruments.

Disposable personal income increased $51½ billion, or 12½ percent at an annual rate, compared with $18½ billion, or 4½ percent, in the second quarter. In real terms, the improvement was more pronounced, because prices paid by consumers increased less than in the second quarter. Real disposable income increased 3½ percent at an annual rate, after a 6-percent decline in the second quarter.

Personal outlays—of which PCE is the preponderant part—increased even more than disposable income, and personal saving declined. In contrast, outlays had declined in the second quarter, and saving had increased substantially. In that quarter, the saving rate had jumped 1.2 percentage points to 4.9 percent; in the third quarter, it fell back to 4.6 percent (chart 2).

Real PCE increased about 5 percent at an annual rate, after a 10½-percent drop in the second quarter that was shared by all but one of the components shown in table 7. In the third quarter, durable goods registered the sharpest increase—about 21 percent. Their strength was due to motor vehicles, which are discussed in an article later in this SURVEY, and, to a lesser extent, to furniture and household equipment. Nondurables were flat. Continued declines in food and energy were about offset by a strong increase in clothing and shoes. A swing in services from a decline in the second quarter to an increase in the third was largely due to commissions of security and commodity brokers. These commissions had fallen in the second quarter from an unusually high level in the first, and recovered in the third.

Table 8, which presents month-to-month changes in real PCE, shows that most of the third-quarter increase occurred in July and was concentrated in durable goods. The increase that occurred in August was much more moderate. In September, a decline in PCE on goods was only partly offset by a continued increase in services.

Table 7.—Personal Consumption Expenditures in Current and Constant Dollars

	Current dollars				Constant (1972) dollars						
	Billions of dollars, seasonally adjusted at annual rates								Percent change from preceding quarter at annual rates		
	1979	1980			1979	1980			1980		
	IV	I	II	III	IV	I	II	III	I	II	III
Personal consumption expenditures	**1,580.4**	**1,629.5**	**1,626.6**	**1,681.8**	**935.4**	**936.5**	**910.8**	**922.4**	**0.5**	**−10.6**	**5.2**
Durables	216.2	220.2	195.7	209.3	146.7	145.4	127.4	133.6	−3.5	−41.0	20.9
Motor vehicles and parts	89.4	92.9	71.8	80.9	56.4	57.3	43.5	47.8	6.6	−66.9	46.0
Furniture and household equipment	88.9	88.2	86.0	89.7	64.7	62.9	60.3	62.2	−10.7	−15.3	13.0
Other durables	37.8	39.1	37.9	38.7	25.6	25.2	23.6	23.6	−6.1	−23.3	.4
Nondurables	630.7	652.0	654.1	666.4	355.1	354.1	347.8	348.0	−1.1	−7.0	.3
Food	315.6	322.6	325.8	335.6	172.3	173.5	172.3	171.9	2.7	−2.6	−.9
Energy [1]	93.8	105.3	105.9	102.2	30.6	29.9	28.5	27.7	−8.7	−17.2	−11.5
Clothing and shoes	103.6	103.9	104.1	108.2	78.5	77.5	76.7	78.6	−5.1	−3.9	9.8
Other nondurables	117.7	120.2	118.3	120.4	73.7	73.2	70.2	69.9	−2.4	−15.6	−1.7
Services	733.5	757.3	776.9	806.1	433.6	437.0	435.6	440.8	3.2	−1.3	4.9
Energy [2]	50.5	48.8	52.9	56.6	23.5	22.0	22.4	22.8	−22.7	6.7	7.7
Other services	683.0	708.4	724.0	749.5	410.1	415.0	413.2	418.0	4.9	−1.7	4.7

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

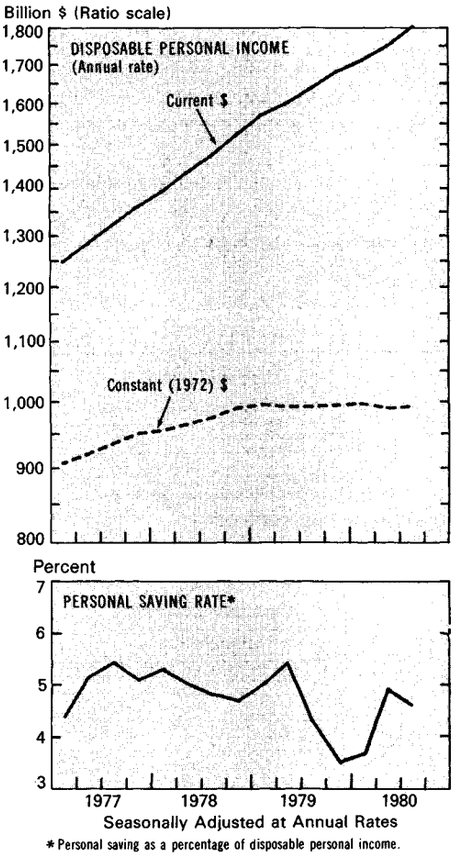
Table 6.—Personal Income and Its Disposition: Change from Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1980		
	I	II	III
Wage and salary disbursements	33.2	6.7	17.2
Manufacturing	8.9	−5.2	1.1
Other commodity-producing	3.3	−.3	−.1
Distributive	7.6	.7	4.3
Services	9.8	7.5	8.5
Government and government enterprises	3.6	3.9	3.4
Proprietors' income	−4.5	−9.5	3.7
Farm	−4.7	−4.6	1.1
Nonfarm	.3	−5.0	2.6
Transfer payments	8.4	7.6	30.0
Other income	18.8	18.1	11.7
Less: Personal contributions for social insurance	3.6	−.3	2.1
Personal income	**52.4**	**23.1**	**60.7**
Less: Personal tax and nontax payments	−1.9	4.6	9.1
Impact of legislation	−13.8	−1.6	.2
Other	11.8	6.1	8.8
Equals: Disposable personal income	54.3	18.5	51.6
Less: Personal outlays	49.5	−3.4	54.7
Equals: Personal saving	4.7	21.9	−3.0
Addenda: Special factors in personal income			
Federal pay raise	.2	------	------
Minimum wage	2.0	------	------
Energy allowance	1.6	−1.6	------
Accidental damage:			
California floods	−.3	.3	------
Mount St. Helens and Florida civil disturbance	------	−.6	.6
Social security base change	−2.5	------	------
California cash sickness program refund	.7	.5	−1.0
Cost-of-living increase in Federal transfer payments	.4	1.4	17.6
Personal income adjusted for the special factors	50.3	23.1	43.5

CHART 2

Disposable Personal Income and Personal Saving Rate



* Personal saving as a percentage of disposable personal income.

U.S. Department of Commerce, Bureau of Economic Analysis 80-10-2

Table 8.—Real Personal Consumption Expenditures: Change from Preceding Month

[Billions of constant (1972) dollars; based on seasonally adjusted annual rates]

	Total	Durable goods	Nondurable goods	Services
1980				
January	6.3	5.3	−1.4	2.3
February	−11.3	−7.0	−4.3	0
March	−5.9	−6.3	.5	0
April	−14.1	−8.5	−2.9	−2.7
May	−7.4	−4.3	−4.7	1.5
June	3.1	−.3	2.7	.8
July	10.7	8.0	0	2.6
August	3.6	1.3	.7	1.6
September p	−2.9	−3.1	−1.3	1.5

p Projected.

Table 9.—Fixed Investment in Current and Constant Dollars

	Current dollars				Constant (1972) dollars						
	Billions of dollars, seasonally adjusted at annual rates								Percent change from preceding quarter at annual rates		
	1979	1980			1979	1980			1980		
	IV	I	II	III	IV	I	II	III	I	II	III
Fixed investment	**381.7**	**383.0**	**357.1**	**363.9**	**206.3**	**202.9**	**186.0**	**185.3**	**−6.5**	**−29.4**	**−1.4**
Nonresidential	265.2	272.6	268.2	271.4	150.5	151.2	145.3	144.1	1.7	−14.6	−3.2
Structures	100.2	103.3	103.7	102.4	50.1	50.3	49.1	46.7	1.2	−9.3	−17.7
Producers' durable equipment	165.1	169.4	164.5	169.0	100.4	100.9	96.3	97.4	2.0	−17.1	4.8
Autos, trucks and buses	35.6	34.9	29.1	35.2	22.2	21.4	17.1	19.9	−14.6	−59.3	86.8
Other	129.4	134.4	135.4	133.8	78.2	79.5	79.2	77.5	7.1	−1.6	−8.5
Residential	116.4	110.4	88.9	92.5	55.8	51.7	40.7	41.2	−26.2	−61.8	5.6

Investment

Real nonresidential fixed investment declined 3½ percent at an annual rate, compared with 14½ percent in the second quarter (table 9). The slowing of the decline was due to motor vehicles, which turned up after a long slide. Both structures and producers' durable equipment other than motor vehicles declined more than in the second quarter. The declines in structures—9½ percent in the second quarter and 18 percent in the third—were widespread. The declines were concentrated in commercial and industrial buildings and in public utilities; the only substantial increase was in petroleum exploration and drilling. In producers' durable equipment other than motor vehicles, which declined 1½ percent and then 8½ percent, the weakening also was widespread. Sharp declines were registered in construction machinery, metalworking machinery, and aircraft.

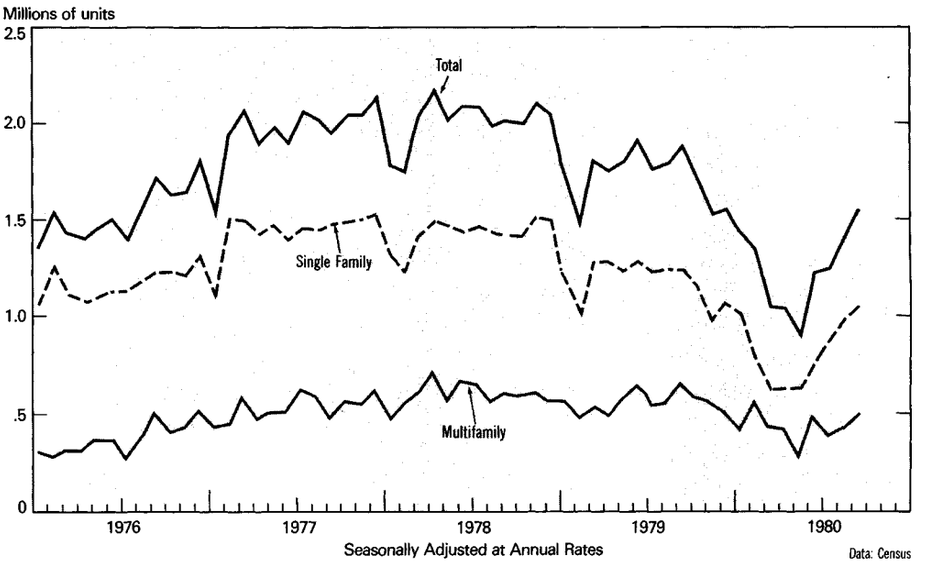
Real residential investment steadied in the third quarter after 2 years of decline climaxed by drops of 26 and 62 percent in the first 2 quarters of 1980. Residential investment as measured in the national income and product accounts includes the value of new construction and brokers' commissions on the sale of new and existing residences (as well as additions and alterations, and mobile home purchases). The value of new construction continued to decline; construction of single-family units stabilized but that of multifamily units fell further. Brokers' commissions increased sharply in the third quarter, as sales of residences increased.

Housing starts have increased each month beginning in June (chart 3). In the third quarter, at a seasonally adjusted annual rate of 1.4 million, they were 34 percent above the second quarter. The upturn was concentrated in single-family starts, and was evident in every region of the country. Prospects for a strong recovery in residential investment are dimmed by a third-quarter turnaround in interest rates, and by softness that may be emerging in housing sales.

The prime rate, to which construction loans are tied, fell from its peak of 20 percent in April to 11 percent in August, but rose to 13 percent by the end of September. The commitment interest rate on 25-year mortgages with a loan-to-price ratio of 75 percent fell from over 16 percent in April to about 12 percent in July and August, but rose 67 basis points to 12.86 percent in September. The increase through the end of September in yields at the Federal National Mortgage Association auctions portends a continued uptrend in mortgage rates.

CHART 3

Housing Starts



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

80-10-3

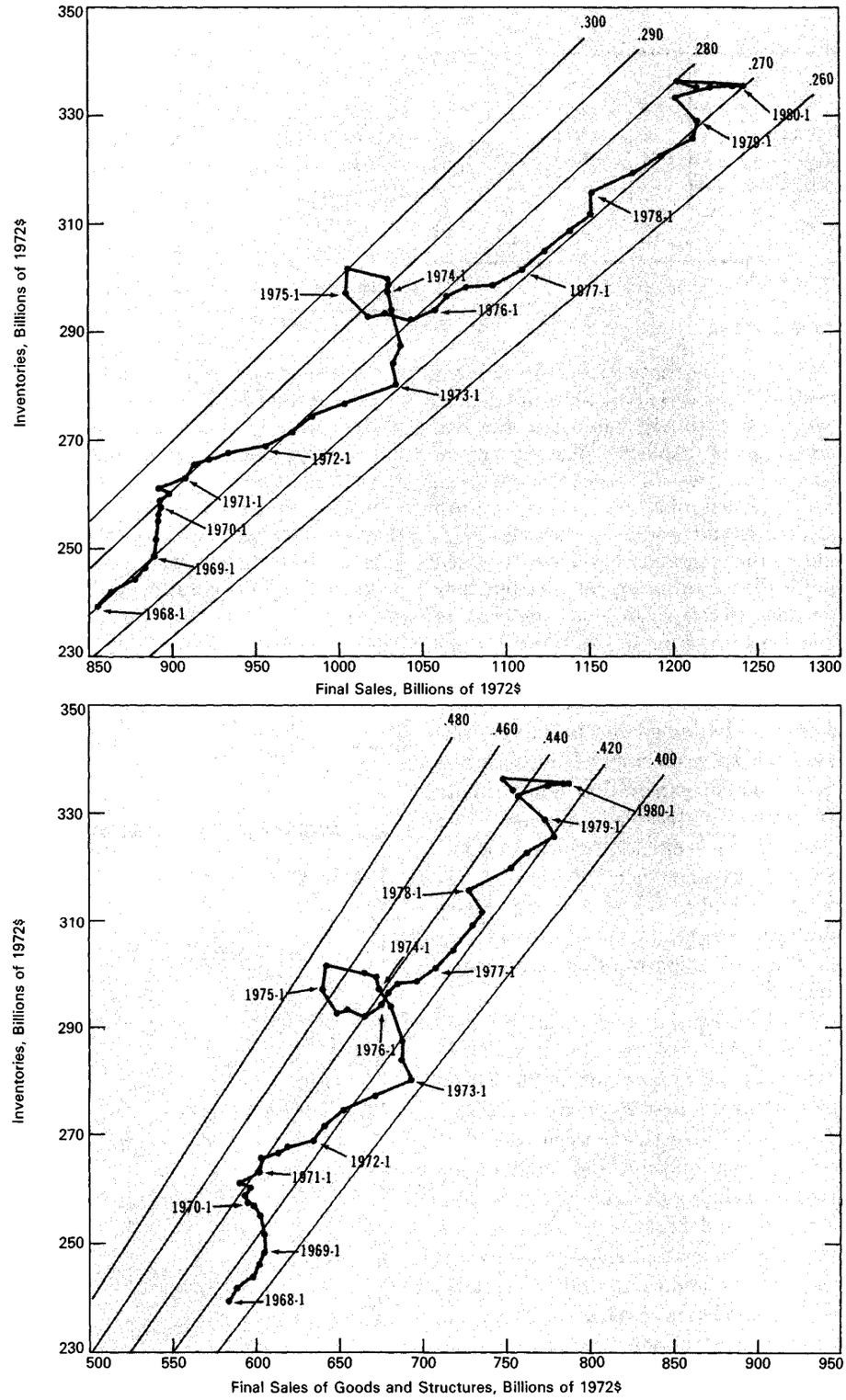
Sales of new one-family houses almost doubled from April to July, increasing from a seasonally adjusted annual rate of 345,000 to 655,000, but then declined to 623,000 in August. Sales of existing homes have increased beginning in June through August—from 2,310,000 to 3,030,000, or nearly one-third—but the August increase was the smallest. Sales of new homes must keep pace with construction to prevent an overhang of unsold homes, and, because many buyers of new homes are trading up, the sale of an existing home is often a precondition of the purchase of a new one.

Inventory investment.—As can be seen from chart 4, which presents an overview of inventory developments, the real stock of business inventories declined moderately in the third quarter. Since the first quarter of 1980, when the inventory-sales ratio reached a low, the stock of inventories has changed little, and the changes in the ratio were almost entirely due to changes in final sales. If the increase in final sales that started in the third quarter continues, a balance between inventories and final sales will not be difficult to achieve.

This assessment of inventories is confirmed by information on constant-dollar inventories, sales, and inventory-sales ratios for manufacturing and trade, which, for January and August, is assembled in table 10. In manufacturing and trade as a whole, as well as in the durable and nondurable goods categories of manufacturing, wholesale trade, and retail trade, sales were lower in August than in January. For total manufacturing and trade, inventories were unchanged; some categories showed lower inventories and some higher. The largest increase was in durable goods wholesalers, reflecting an August level that appears erratically high. In durable goods manufacturing, the increase in inventories over this period can be traced to primary metals, nonelectrical machinery, and to "other" transportation equipment, where the increase was particularly large. Because the inventory buildups in these industries were associated with sales declines, their inventories may be out of line.

CHART 4

Constant-Dollar Business Inventories, Final Sales and Final Sales of Goods and Structures, and Inventory-Sales Ratios



Note.—End-of-quarter inventories, seasonally adjusted; final sales seasonally adjusted at annual rates. Blue lines represent ratios of inventory stocks to final sales.

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

Table 10.—Constant-Dollar Inventories, Sales, and Inventory-Sales Ratios for Manufacturing and Trade

[Seasonally adjusted]

	January 1980			August 1980			Ratio: January to August		
	Inventories (end of month)	Sales (monthly rate)	Inventory-sales ratio	Inventories (end of month)	Sales (monthly rate)	Inventory-sales ratio	Inventories	Sales	Inventory-sales ratio
	Billions of 1972 dollars			Billions of 1972 dollars					
Manufacturing and trade	**257.5**	**163.2**	**1.58**	**257.4**	**151.3**	**1.70**	**1.000**	**0.927**	**1.076**
Manufacturing:									
Durable goods	96.3	42.2	2.28	97.6	38.2	2.55	1.013	.905	1.118
Nondurable goods	48.1	35.1	1.37	47.6	32.6	1.46	.990	.929	1.066
Merchant wholesalers:									
Durable goods	32.7	18.8	1.74	33.6	16.1	2.09	1.028	.885	1.161
Nondurable goods	17.0	20.4	.83	16.7	19.1	.88	.982	.936	1.060
Retail trade:									
Durable goods	28.0	17.2	1.63	26.4	15.5	1.70	.943	.901	1.043
Nondurable goods	35.4	30.1	1.17	35.6	29.8	1.19	1.006	.990	1.017

Net exports

Real net exports increased $3½ billion in the third quarter, about as much as they had in the second (table 11). In both quarters, the increase was due to merchandise trade. Agricultural and nonagricultural exports increased in the third quarter, after declining in the second. The second-quarter decline in agricultural exports had been due to a cessation of grain shipments to the Soviet Union. In nonagricultural exports, a third-quarter decline in industrial supplies and materials, which may have reflected a weakening in economic activity abroad, was more than offset by small increases spread across most other categories. Petroleum and nonpetroleum imports declined, as they had in the second quarter. The weakness in U.S. economic activity contributed to the declines. In nonpetroleum imports, in the third quarter as in the second, by far the largest decline was in industrial supplies and materials. Petroleum imports continued to decline sharply, from 8.4 million barrels per day in the first quarter to 7.4 million in the second and 6.1 million in the third.

Table 11.—Net Exports of Goods and Services in Current and Constant Dollars

	Current dollars				Constant (1972) dollars						
	Billions of dollars, seasonally adjusted at annual rates								Percent change from preceding quarter at annual rates		
	1979	1980			1979	1980			1980		
	IV	I	II	III	IV	I	II	III	I	II	III
Net exports of goods and services	**−11.9**	**−13.6**	**−2.2**	**18.6**	**20.1**	**25.0**	**28.3**	**31.6**			
Exports	280.4	308.1	307.0	312.1	124.3	131.7	128.3	126.9	26.1	−10.0	−4.2
Merchandise	194.4	215.3	214.4	223.3	89.0	95.7	93.3	94.0	34.2	−9.9	2.9
Agricultural	42.2	42.0	39.4	42.4	18.4	18.4	18.0	18.4	−1.0	−8.8	9.3
Nonagricultural	152.2	173.3	175.0	180.8	70.5	77.4	75.3	75.6	44.8	−10.2	1.5
Other	86.0	92.8	92.6	88.8	35.3	36.0	35.0	32.9	7.3	−10.4	−21.5
Imports	292.4	321.7	309.2	293.5	104.1	106.7	99.9	95.3	10.2	−23.1	−17.4
Merchandise	233.9	258.6	247.8	235.1	76.8	78.2	72.9	70.3	7.4	−24.4	−13.6
Petroleum	75.4	86.4	84.0	71.4	8.4	8.1	7.2	5.9	−13.1	−38.5	−54.5
Nonpetroleum	158.5	172.2	163.8	163.7	68.4	70.1	65.7	64.4	10.2	−22.6	−7.8
Other	58.5	63.1	61.4	58.4	27.3	28.5	27.0	24.9	18.2	−19.4	−26.9

Government purchases

Real government purchases declined 2 percent at an annual rate, after an increase of 1½ percent in the second quarter (table 12). State and local purchases continued to slip, largely due to declines in highway and building construction. Federal purchases were down despite continued strengthening in defense purchases. The decline was due to purchases of the Commodity Credit Corporation (CCC). Following the cessation of sales of grain to the Soviet Union, the CCC attempted to remove from the market the amount of grain that would otherwise have been exported. The purchases were almost all

Table 12.—Government Purchases of Goods and Services in Current and Constant Dollars

	Current dollars				Constant (1972) dollars						
	Billions of dollars, seasonally adjusted at annual rates								Percent change from preceding quarter at annual rates		
	1979	1980			1979	1980			1980		
	IV	I	II	III	IV	I	II	III	I	II	III
Government purchases of goods and services	**501.2**	**517.2**	**528.3**	**536.7**	**277.1**	**280.0**	**280.9**	**279.6**	**4.2**	**1.4**	**−1.9**
Federal	178.4	186.2	193.3	194.6	101.1	104.3	106.7	105.6	13.1	9.5	−3.9
National defense	114.6	119.6	124.1	129.1							
Nondefense	63.8	66.6	69.2	65.5							
Commodity Credit Corporation	1.4	2.5	3.7	−1.7	.1	1.6	2.2	−.6			
Other	62.4	64.1	65.5	67.2							
State and local	322.8	331.0	335.0	342.1	176.0	175.7	174.3	173.9	−.7	−3.2	−.8

in the second quarter. In addition, as crop prices strengthened in the third quarter, farmers redeemed crops previously placed under loan to the CCC. The redemptions are treated as negative purchases in the national income and product accounts.

NIPA Federal sector.—Table 13 rounds out information on Federal receipts and expenditures. Expenditures increased $32 billion in the third quarter, compared with $18 billion in the second. The step-up was entirely due to transfer payments. Purchases of goods and services increased less than in the second quarter—$1½ billion, compared with $7 billion—and net interest paid declined fractionally after a $4½ billion increase in the second quarter, as the average interest rate paid on Federal debt dropped.

Receipts increased substantially in the third quarter, after a decline in the second. The major factor in the swing was corporate profits tax accruals. Accruals had dropped $21 billion in the second quarter, and—on the basis of a residual calculation of corporate profits—increased substantially in the third. This residual calculation of corporate profits, from which tax accruals are estimated, assumes that the statistical discrepancy in the national income and product account is the same as in the preceding quarter. Indirect business tax accruals were the only major category of Federal receipts that increased less in the third quarter than in the second. The second-quarter increase in these taxes had been unusually large because it included $7 billion due to the windfall profits tax. This tax, which became effective March 1, yielded about $3 billion in the first quarter and $10 billion in the second, when it was in effect for the entire quarter.

Table 13.—Federal Government Receipts and Expenditures, NIPA Basis

[Billions of dollars]

	Seasonally adjusted at annual rates					Change		
	1979		1980			1980		
	III	IV	I	II	III	I	II	III
Receipts	**504.8**	**524.7**	**538.4**	**529.9**	**n.a.**	**13.7**	**−8.5**	**n.a.**
Personal tax and nontax receipts	235.2	248.5	246.1	249.5	256.0	−2.4	3.4	6.4
Corporate profits tax accruals	79.4	81.4	86.8	65.6	n.a.	5.5	−21.2	n.a.
Indirect business tax and nontax accruals	30.0	30.7	33.8	43.0	48.2	3.1	9.2	5.2
Contributions for social insurance	160.2	164.1	171.7	171.8	173.5	7.6	.1	1.7
Expenditures	**516.1**	**540.4**	**561.3**	**579.1**	**611.0**	**20.9**	**17.8**	**31.8**
Purchases of goods and services	162.9	178.4	186.2	193.3	194.6	7.8	7.1	1.3
National defense	109.0	114.6	119.6	124.1	129.1	5.0	4.5	5.0
Nondefense	53.9	63.8	66.6	69.2	65.5	2.8	2.6	−3.7
Transfer payments	217.6	222.7	230.0	235.7	264.3	7.2	5.7	28.6
Grants-in-aid to State and local governments	81.8	84.3	86.0	86.0	86.4	1.7	0	.4
Net interest paid	43.5	46.2	50.2	54.3	53.8	4.1	4.3	−.5
Subsidies less current surplus of government enterprise	10.2	8.8	8.9	9.8	11.8	.1	.9	2.0
Less: Wage accruals less disbursements	0	0	0	0	0	0	0	0
Surplus or deficit (−), national income and product accounts	**−11.3**	**−15.7**	**−22.9**	**−49.2**	**n.a.**	**7.1**	**−26.3**	**n.a.**

n.a. Not available.

the BUSINESS SITUATION

REVISED (45-day) estimates left the third-quarter increase in real GNP unchanged from the 1 percent annual rate indicated by the preliminary (15-day) estimates (table 1). Revisions in the major components were small: upward for residential investment, change in business inventories, and net exports, and downward for personal consumption expenditures, nonresidential fixed investment, and government purchases. The increase in GNP prices as measured by the fixed-weighted price index was revised slightly, from 9.7 to 9.5 percent.

Corporate profits

Corporate profits from current production—profits with inventory valuation and capital consumption adjustments—increased $5½ billion to $158½ billion in the third quarter of 1980, ccor ding to preliminary estimates.[1] In the second quarter they had declined $22 billion.

Domestic profits of nonfinancial corporations more than accounted for the overall increase. They increased $7 billion to $117 billion in the third quarter, following declines in each of the previous six quarters (chart 1). Increases in both real gross domestic product of nonfinancial corporations and profits per unit of real product contributed to the increase in total profits. The increase in unit profits occurred despite a decline in the rate of increase of unit prices: Total unit costs grew more slowly than unit prices, as the rates of increases of both labor and nonlabor unit costs declined sharply.

1. Quarterly estimates of the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

The increase in domestic profits of nonfinancial corporations reflected an increase in the profits of durables manufacturers. Although motor vehicle manufacturers registered a loss again, the third-quarter loss was substantially smaller than the second-quarter loss. Profits of nondurable goods manufac-

Table 1.—Revisions in Selected Component Series of the NIPA's, Third Quarter of 1980

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates		
	15-day estimate	45-day estimate	Revision	15-day estimate	45-day estimate	Revision
	Billions of current dollars					
GNP	**2,583.0**	**2,586.5**	**3.5**	**10.2**	**10.8**	**0.6**
Personal consumption expenditures	1,681.8	1,683.3	1.5	14.3	14.7	.4
Nonresidential fixed investment	271.4	270.9	−.5	4.9	4.1	−.8
Residential investment	92.5	94.2	1.7	16.8	26.1	9.3
Change in business inventories	−17.9	−16.8	1.1			
Net exports	18.6	21.3	2.7			
Government purchases	536.7	533.6	−3.1	6.5	4.0	−2.5
Federal	194.6	191.4	−3.2	2.7	−4.0	−6.7
State and local	342.1	342.2	.1	8.7	8.9	.2
National income		**2,068.6**			**9.0**	
Compensation of employees	1,590.1	1,591.5	1.4	6.0	6.4	.4
Corporate profits with inventory valuation and capital consumption adjustments		158.3			15.3	
Other	316.4	318.7	2.3	16.6	19.8	3.2
Personal income	**2,141.1**	**2,144.6**	**3.5**	**12.2**	**12.9**	**.7**
	Billions of constant (1972) dollars					
GNP	**1,412.1**	**1,411.7**	**−.4**	**1.0**	**.9**	**−.1**
Personal consumption expenditures	922.4	921.9	−.5	5.2	5.0	−.2
Nonresidential fixed investment	144.1	143.5	−.6	−3.2	−4.9	−1.7
Residential investment	41.2	42.2	1.0	5.6	16.1	10.5
Change in business inventories	−6.8	−6.2	.6			
Net exports	31.6	32.2	.6			
Government purchases	279.6	278.0	−1.6	−1.9	−4.1	−2.2
Federal	105.6	103.9	−1.7	−3.9	−10.0	−6.1
State and local	173.9	174.1	.2	−.8	−.4	.4
	Index numbers, 1972=100 [1]					
GNP implicit price deflator	182.92	183.23	.31	9.1	9.8	.7
GNP fixed-weighted price index	187.5	187.4	−.1	9.7	9.5	−.2
GNP chain price index				9.8	9.8	0

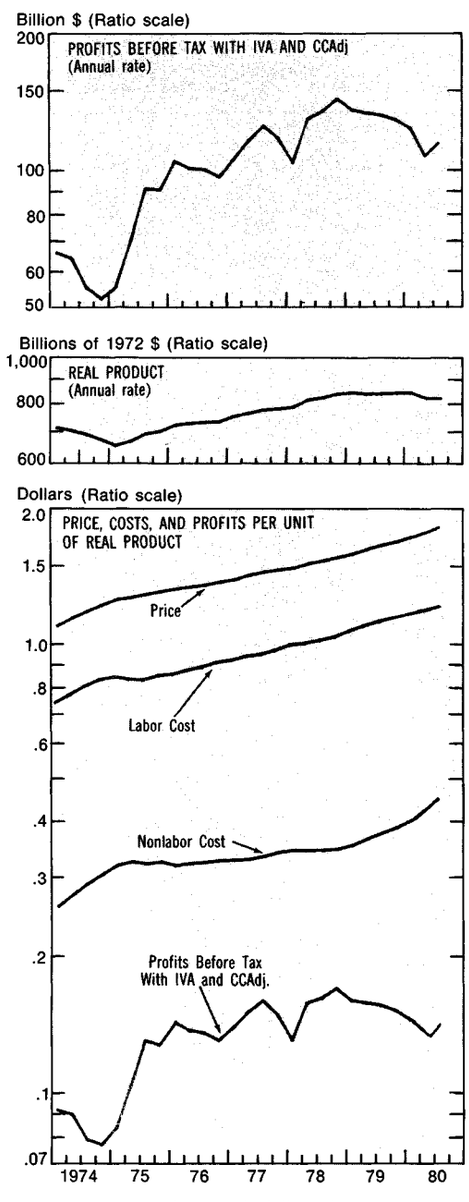
1. Not at annual rates.

NOTE.—For the third quarter of 1980, the following revised or additional major source data became available: For *personal consumption expenditures*, revised retail sales for August and September, and sales and inventories of used cars of franchised automobile dealers for July and August; for *nonresidential fixed investment*, manufacturers' shipments of equipment for August (revised) and September, construction put in place for August (revised) and September, and a partial tabulation of business expenditures for plant and equipment for the quarter; for *residential investment*, construction put in place for August (revised) and September; for *change in business inventories*, book values for manufacturing and trade for August (revised) and September; for *net exports of goods and services*, merchandise trade for August (revised) and September, and revised net investment income and other services receipts for the quarter; for *government purchases of goods and services*, Federal unified budget outlays for September, and State and local construction put in place for August (revised) and September; for *wages and salaries*, revised employment, average hourly earnings, and average weekly hours for August and September; for *net interest*, revised net interest received from abroad for the quarter; for *corporate profits*, domestic book profits for the quarter, and dividends from abroad and branch profits (net) for the quarter; for *GNP prices*, the Consumer Price Index for September, unit value indexes for exports and imports for September, and residential housing prices for the quarter.

turers declined, reflecting declines in the profits of food and petroleum manufacturers. The profits of food manufacturers were held down by sharp increases in farm product prices, and those of petroleum manufacturers by an increase in windfall profits payments

CHART 1

Domestic Nonfinancial Corporate Business: Profits; Real Product; and Price, Costs, and Profits per Unit of Real Product



NOTE.—Price per unit is current dollar product divided by constant dollar (real) product. Costs and profits per unit are respective components of current dollar product divided by constant dollar product.

U.S. Department of Commerce. Bureau of Economic Analysis 80-11-1

and slackening demand for most petroleum products. Transportation, communication, and utilities profits increased; trade profits declined.

Domestic profits of financial corporations declined $1 billion to $29 billion, following a decline of $3½ billion in the second quarter. A decline in the earnings of Federal Reserve banks, which are treated as part of corporate business in the national income and product accounts (NIPA's), more than offset an increase in the profits of other financial corporations. The decline in Federal Reserve banks' earnings reflects a decline in the average interest rate on their holdings of short-term Federal debt instruments.

Profits from the rest of the world—measured as the net inflow of branch profits and dividends—declined $½ billion to $12½ billion, following a $3 billion decline in the second quarter.

Profits before tax increased $17½ billion to $222½ billion, following a decline of $55½ billion in the second quarter. These profits exclude the two valuation adjustments, which are designed to value inventories and fixed capital used up in production at replacement costs, the valuation concept underlying national income and product accounting, rather than at historical cost, the concept generally underlying business accounting.[2] If the historical cost of inventories used up is less than their replacement cost, profits as measured by business exceed profits as measured in the NIPA's by an amount that is called inventory profits. Inventory profits increased $8½ billion, following a decrease of $36 billion in the second quarter. If the historical cost of fixed capital used up is less than the replacement cost, profits as measured by business exceed profits as measured in the NIPA's by an amount that is equal to underdepreciation in measuring fixed capital used up. The profits corresponding to underdepreciation increased $3½ billion, following an increase of $2½ billion in the second quarter.

2. The capital consumption adjustment also places the using up in production of fixed capital on a consistent basis with respect to service lives (85 percent of Internal Revenue Service Bulletin F for equipment and nonresidential structures) and depreciation formulas (straight-line).

Corporate profits taxes, which are levied on profits including inventory profits and profits attributable to underdepreciation, increased $7½ billion to $85 billion, following a decline of $25 billion in the second quarter. Profits after tax increased $10 billion to $137 billion, following a decline of $31 billion in the second quarter.

The Federal sector

The Federal Government deficit as measured in the NIPA's increased $9¼ billion in the third quarter, as expenditures increased more than receipts. The third-quarter deficit was $58½ billion, compared with a deficit of $11¼ billion in the third quarter of 1979.

All major categories shared in a $20 billion increase in receipts, after a decline of $8½ billion in the second quarter. Higher wages and salaries accounted for the increase in personal tax and nontax receipts and in contributions for social insurance, and a rebound in corporate profits accounted for the increase in corporate profits tax accruals. A $4½ billion increase in the windfall profits tax accounted for most of the increase in indirect business tax and nontax accruals.

Expenditures increased $29¼ billion, compared with $17¾ billion in the second. Transfer payments to persons accounted for nearly all of the third-quarter increase. The large increase in transfer payments—$28¼ billion—was the result of cost-of-living increases in benefits for a number of programs, including $16 billion for social security benefits, in combination with large increases in unemployment benefits ($3¾ billion), in trade adjustment assistance ($3 billion), and in black lung benefits ($1 billion). Unemployment benefits were boosted by a $1¼ billion increase in extended benefits, and the trade adjustment assistance and black lung benefits were boosted by retroactive payments due to late appropriations. Subsidies less current surplus of government enterprises and grants-in-aid to State and local governments also increased; the former was mainly the result of an increase in the Commodity Credit Corporation (CCC) deficit. Purchases of goods and services

declined nearly $2 billion, the net result of a $5 billion increase in national defense purchases and a $7 billion decline in nondefense purchases. The decline in nondefense purchases reflected a substantial decline—$8½ billion—in agricultural purchases by the CCC, including a $3½ billion drop-off in direct purchases resulting from the embargo of grain shipment to the Soviet Union. Net interest paid declined slightly.

* * *

Special reconciliation tables

The reconciliation of changes in compensation per hour and average hourly earnings and of changes in the implicit price deflator for personal consumption expenditures (PCE), the PCE chain price index, and the Consumer Price Index (CPI) are shown in tables 2 and 3.

Table 2.—Reconciliation of Changes in Compensation Per Hour in the Business Economy other than Farm and Housing and Average Hourly Earnings in the Private Nonfarm Economy, Seasonally Adjusted

	1980		
	I	II r	III p
1. **Compensation per hour of all persons in the business economy other than farm and housing (percent change at annual rate)** [1]	**10.1**	**10.9**	**8.9**
2. Less: Contribution of supplements	.5	1.2	0
3. Plus: Contribution of housing and nonprofit institutions	−.1	−.3	−.1
4. Less: Contribution of employees of government enterprises and self-employed and unpaid family workers	−.3	−.1	.4
5. **Equals: Wages and salaries per hour of employees in the private nonfarm economy (percent change at annual rate)**	**9.8**	**9.5**	**8.4**
6. Less: Contribution of nonproduction workers in manufacturing	.2	.9	.4
7. Less: Contribution of non-BLS data, detailed weighting, and seasonal adjustment	1.8	1.0	−.5
8. **Equals: Average hourly earnings, production and nonsupervisory workers in the private nonfarm economy (percent change at annual rate)**	**7.8**	**7.6**	**8.5**

r Revised. p Preliminary.
1. BLS estimates of changes in hourly compensation in the nonfarm business sector for the three quarters are 10.7, 10.8, and 8.8 percent.

Table 3.—Reconciliation of Changes in the Implicit Price Deflator for Personal Consumption Expenditures and the Consumer Price Index for all Urban Consumers, Seasonally Adjusted

	1980		
	I	II r	III p
1. **Implicit price deflator for personal consumption expenditures (percent change at annual rate)**	**12.5**	**11.0**	**9.2**
2. Less: Contribution of shifting weights in PCE	−.5	.1	−1.1
New autos	1.3	−4.3	1.2
Gasoline and oil	−.5	−.5	−1.0
Electricity, gas, fuel oil, and coal	−1.0	.6	.3
Furniture and household equipment	−.7	−.3	.4
Food purchased for off-premise consumption	.6	1.7	−.9
Purchased meals and beverages	−.3	−.1	−.4
Clothing and shoes	−.4	.5	0
Housing	.7	2.7	0
Other	−.3	−.2	−.7
3. **Equals: PCE chain price index (percent change at annual rate)**	**13.0**	**10.9**	**10.5**
4. Less: Contribution of differences in weights of comparable CPI and PCE expenditure components	−1.4	.2	.9
Gasoline and oil	−1.7	−.5	.2
Electricity, gas, fuel oil, and coal	−.2	−.4	−.3
Furniture, appliances, floor coverings, other household furnishings	.2	.2	.1
Food at home	−.4	.3	.5
Food away from home	−.2	−.1	−.2
Apparel commodities	.2	.3	.3
Rent	−.3	−.3	−.3
Other	1.1	.8	.5
5. Less: Contributions of PCE expenditure components not comparable with CPI components	−1.0	−.5	.6
New autos	−.1	0	0
Net purchases of used autos	−.1	−.3	0
Owner-occupied nonfarm and farm dwellings—space rent	−.9	−.3	0
Services furnished without payment by financial intermediaries except life insurance carriers	0	0	.1
Current expenditures by nonprofit institutions	.2	0	.3
Other	−.1	0	.1
6. Plus: Contribution of CPI expenditure components not comparable with PCE components	1.2	2.3	−1.8
New autos	−.2	−.1	.2
Used autos	−.3	−.8	.1
Homeownership	2.1	3.6	−2.2
Other	−.4	−.3	.1
7. Less: Contribution of differences in seasonal adjustment [1]	−.1	−.7	−.2
8. **Equals: Consumer Price Index, all items (percent change at annual rate)**	**16.9**	**13.7**	**7.2**

r Revised. p Preliminary.
1. These differences arise because component price indexes that are used in the BEA measures and in the CPI are seasonally adjusted at different levels of detail.

the BUSINESS SITUATION

In the third and fourth quarters, real GNP increased 2½ and 5 percent at annual rates, following a one-quarter recession, in which it had declined 10 percent.[1] As a result of the increase from the second quarter to the fourth, it regained 70 percent of its recession loss. Neither in the recession nor over the recovery did inventories play a significant role in the change in real GNP (chart 1).

Motor vehicle production and residential investment, which together are less than 7 percent of GNP, accounted for more than one-half of the second-quarter decline in real GNP (table 1). Motor vehicle production and residential investment each declined about 60 percent. They increased in the second half of the year, regaining 80 percent and 60 percent, respectively, of their second-quarter losses.

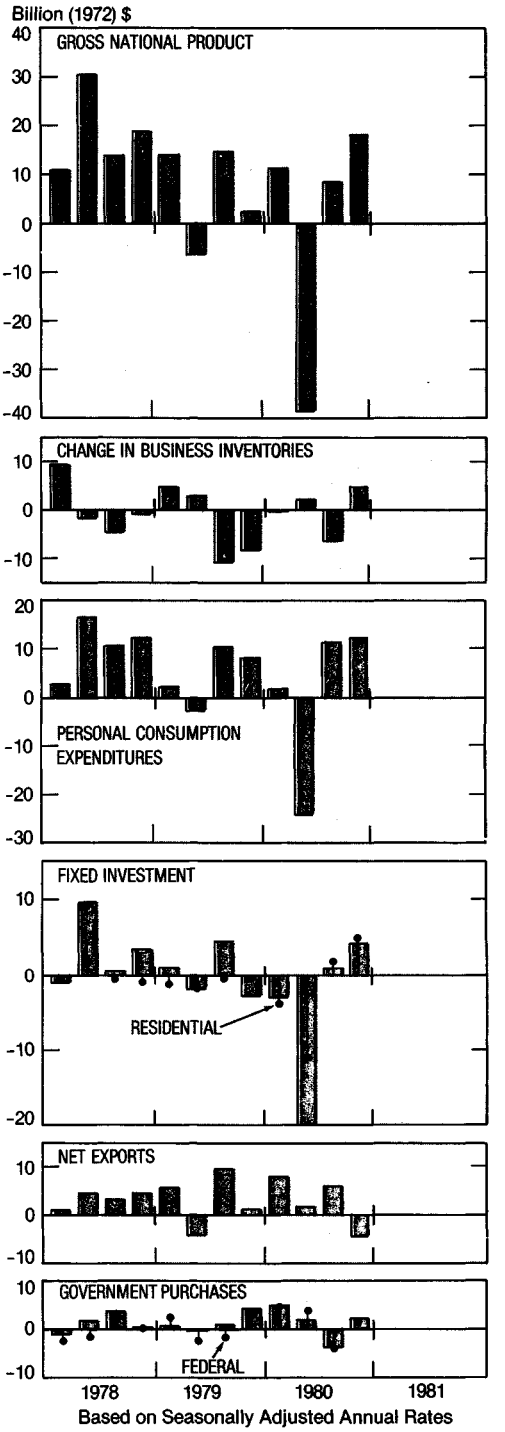
In GNP excluding motor vehicle production and residential investment, which declined 4½ percent at an annual rate in the second quarter, personal consumption expenditures (PCE) and nonresidential fixed investment more than accounted for the decline; net exports and government purchases increased. Over the subsequent recovery, GNP excluding these components regained 70 percent of the loss. By the fourth quarter, PCE, which led the recovery, was substantially above its first-quarter level. Nonresidential fixed investment weakened further from the second to the fourth quarter; over that period, changes in net exports and government purchases were small and offset each other.

The influence of residential investment and motor vehicle production on the course of GNP was substantial over the longer run as well. Motor vehicle production and residential investment have undergone protracted declines since their respective highs in the first quarter of 1979 and the second quarter of 1978. Despite their upturns in the second half of 1980, they remain about 30 percent and 20 percent below their highs. Their declines were the major factor in the subnormal growth in GNP since the second quarter of 1978: Total real GNP increased at an average annual rate of only 1.6 percent over this period; GNP excluding motor vehicle production and residential investment increased at an average annual rate of 2.8 percent.

Prices.—GNP prices as measured by the fixed-weighted price index increased 10½ percent at an annual rate in the fourth quarter. About 1.4 percentage points of the increase was due to the pay raise for Federal employees, which is reflected in the index because it represents an increase in the prices of the employee services purchased by the Federal Government. Excluding the pay raise, the increase in GNP prices was in the 9- to 10-percent range registered earlier in the year. Two other prices had a substantial effect on GNP

CHART 1

Real Product: Change from Preceding Quarter



Based on Seasonally Adjusted Annual Rates

U.S. Department of Commerce, Bureau of Economic Analysis 81-1-1

1. The fourth-quarter GNP estimates are based on the following major source data: For *personal consumption expenditures* (PCE), retail sales, and unit auto and truck sales through December; for *nonresidential fixed investment*, the same information for autos and trucks as for PCE, manufacturers' shipments of machinery and equipment for October and November, October and November construction put in place, and investment plans for the quarter; for *residential investment*, October and November construction put in place, and housing starts for October and November; for *change in business inventories*, October and November book values for manufacturing and trade, and unit auto and truck inventories through December; for *net exports of goods and services*, October and November merchandise trade, and fragmentary information on investment income for the quarter; for *government purchases of goods and services*, Federal unified budget outlays for October and November, State and local construction put in place for October and November, and State and local employment through December; and for *GNP prices*, the Consumer Price Index for October and November, and the Producer Price Index through December. Some of these source data are subject to revision.

prices. As can be seen from the accompanying tabulation, prices of GNP excluding food increased less, and prices of GNP excluding energy increased more, than prices of GNP. Prices of GNP excluding food, energy, and the pay raise increased 2 percentage points less than prices of GNP. At 8½ percent, the increase was about the same rate as in the third quarter and a little less than earlier in the year. The deceleration was in the prices of fixed investment goods (table 2).

[Percent change in the fixed-weighted price index at annual rates]

	1980			
	I	II	III	IV
GNP	9.8	9.1	9.2	10.7
GNP excluding food	11.1	9.9	8.0	9.5
GNP excluding energy	8.7	9.1	9.8	11.0
GNP excluding the Federal pay raise	9.8	9.1	9.2	9.3
GNP excluding food, energy, and the Federal pay raise	9.3	9.8	8.5	8.7

The pattern of changes in food and energy prices is quantified in table 2 in terms of prices of PCE on food and on energy. PCE food prices increased in the fourth quarter at about the 17-percent annual rate registered in the third, up substantially from the relatively small increases—3½ and 5½ percent—in the first half of 1980. The larger food price increases in the second half were due to sharply higher farm prices, rather than to higher marketing costs. Farm prices were affected by livestock and poultry production cutbacks in the second half of the year, as well as crop, livestock, and poultry losses that resulted from last summer's heat wave and drought. The increase in food marketing costs decelerated, reflecting prices of the components of marketing costs, particularly energy, and consumer resistance to rising retail food prices—as indicated by declining constant-dollar expenditures on food since the first quarter.

Increasing farm prices are expected to continue to boost retail food prices through the first half of 1981. Pork production cutbacks are continuing, and supplies of substitutes—beef, poultry, and eggs—will not be available in sufficient quantities to prevent increases for these products. Freeze damage to some fruits and vegetables in January will tend to raise farm prices. Stocks of crops will be much lower in the first half of 1981 than a year earlier, so that food prices will be more vulnerable. In addition, increasing sugar prices, which were a factor in food price increases throughout 1980, are expected to continue to exert upward pressure due to relatively tight world supplies.

PCE energy prices increased at an annual rate of 6 percent in the fourth quarter, up from 2 percent in the third. The acceleration was entirely due to a swing in the price of gasoline from a 7-percent decline in the third quarter to a 6-percent increase in the fourth. The gasoline price decline in the third quarter resulted from reduced marketing margins, as retailers and wholesalers cut their prices in an attempt to maintain their sales volume in the face of steadily declining consumption. In the fourth quarter, some upward pressure on gasoline prices resulted from increased gasoline consumption.

Because of unusually large worldwide stocks of crude oil, neither gasoline prices nor retail prices of other

Table 1.—Key Factors in Real GNP, 1980

[Billions of constant (1972) dollars]

	Year	Seasonally adjusted at annual rates				Change from preceding period				
		I	II	III	IV	Year	I	II	III	IV
Gross domestic product	1,453.3	1,471.5	1,435.5	1,443.4	1,462.4	−2.6	9.1	−36.0	7.9	19.0
Plus: Rest-of-the world product	28.6	30.4	27.8	28.5	27.6	1.4	2.3	−2.6	.7	−.9
GNP	1,481.8	1,501.9	1,463.3	1,471.9	1,490.1	−1.2	11.3	−38.6	8.6	18.2
Less: Motor vehicle output	52.0	58.2	47.4	46.8	55.7	−17.1	−2.2	−10.8	.8	8.9
Residential investment	47.9	54.2	43.1	44.7	49.8	−11.2	−3.9	−11.1	1.6	5.1
GNP less vehicle output and residential investment	1,381.9	1,389.5	1,372.8	1,380.4	1,384.6	27.1	17.4	−16.7	7.6	4.2
Change in business inventories	−1.2	−.9	1.3	−5.0	−.2	−11.4	−.2	2.2	−6.3	4.8
Less: Motor vehicles	−2.5	−7.4	−.3	−4.4	2.1	1.9	−2.6	−7.1	−4.1	6.5
Change in business inventories less motor vehicles	1.3	6.5	1.6	−.6	−2.3	−13.3	2.4	−4.9	−2.2	−1.7
Final sales	1,483.0	1,502.8	1,462.0	1,476.9	1,490.3	10.1	11.5	−40.8	14.9	13.4
Less: Motor vehicles	54.5	65.6	47.6	51.3	53.6	−15.1	.5	−18.0	5.1	2.3
Residential investment	47.9	54.2	43.1	44.7	49.8	−11.2	−3.9	−11.1	1.6	5.1
Final sales less motor vehicles and residential investment	1,380.6	1,383,0	1,371.3	1,380.9	1,386.9	36.4	14.9	−11.7	9.6	6.0
Personal consumption expenditures	934.2	943.4	919.3	930.8	943.0	3.3	1.8	−24.1	11.5	12.2
Less: Motor vehicles	41.3	49.5	34.9	39.1	41.7	−7.6	2.1	−14.6	5.6	2.6
Personal consumption expenditures less motor vehicles	892.9	893.9	884.4	891.7	901.3	10.9	−.3	−9.5	7.3	9.6
Nonresidential structures	48.2	50.5	48.7	46.8	46.6	−.3	−.2	−1.8	−1.9	−.2
Nonresidential producers' durable equipment	109.6	114.5	107.4	108.8	107.7	−5.2	1.0	−7.1	1.4	−1.1
Less: Motor vehicles	17.4	19.5	15.7	17.7	16.8	−5.8	−.8	−3.8	2.0	−.9
Nonresidential producers' durable equipment less motor vehicles	92.2	95.0	91.7	91.1	90.9	.6	1.8	−3.3	−.6	−.2
Net exports	53.1	50.1	51.7	57.6	52.9	15.4	7.9	1.6	5.9	−4.7
Less: Motor vehicles	−6.4	−5.6	−5.2	−7.8	−7.0	−1.6	−.8	.4	−2.6	.8
Net exports less motor vehicles	59.5	55.7	56.9	65.4	59.9	17.0	8.7	1.2	8.5	−5.5
Exports	161.6	165.9	160.5	160.5	159.5	14.7	11.1	−5.4	.5	−1.0
Less: Motor vehicles	4.0	4.7	3.9	3.4	4.1	−1.0	−.5	−.8	0	−.7
Exports less motor vehicles	157.6	161.2	156.6	157.1	155.4	15.7	11.6	−4.6	.5	−1.7
Imports	108.5	115.8	108.9	102.8	106.6	−.7	3.2	−6.9	−6.1	3.8
Less: Motor vehicles	10.5	10.3	9.2	11.2	11.1	.6	.4	−1.1	2.0	−.1
Imports less motor vehicles	98.0	105.5	99.7	91.6	95.5	−1.3	2.8	−5.8	−8.1	3.9
Government purchases	290.1	290.1	291.9	288.2	290.2	8.3	4.8	1.8	−3.7	2.0
Less: Motor vehicles	2.2	2.2	2.2	2.2	2.2	−.1	0	0	0	0
Government purchases less motor vehicles	287.9	287.9	289.7	286.0	288.0	8.4	4.8	1.8	−3.7	2.0

Table 2.—Fixed-Weighted Price Indexes, 1980

[Quarters are seasonally adjusted]

	Index numbers (1972=100)					Percent change from preceding period (quarters at seasonally adjusted annual rates)				
	Year	I	II	III	IV	Year	I	II	III	IV
Gross national product	**182.0**	**175.9**	**179.8**	**183.8**	**188.6**	**9.4**	**9.8**	**9.1**	**9.2**	**10.7**
Less: Change in business inventories										
Equals; Final sales	181.8	175.7	179.7	183.6	188.4	9.4	9.7	9.2	9.2	10.7
Less: Exports	216.9	210.0	213.1	218.9	225.6	10.2	13.5	5.9	11.5	12.9
Plus: Imports	300.0	287.9	296.9	305.8	311.7	23.3	38.6	13.2	12.5	7.9
Equals: Final sales to domestic purchasers	**187.2**	**180.8**	**185.1**	**189.3**	**194.0**	**10.7**	**12.1**	**9.9**	**9.4**	**10.3**
Personal consumption expenditures	182.7	176.4	180.5	184.7	189.4	10.9	12.8	9.8	9.6	10.5
Food	190.7	183.3	185.8	193.2	200.8	7.8	3.4	5.7	16.9	16.7
Energy [1]	317.0	304.1	318.5	320.2	324.9	31.9	53.4	20.5	2.1	6.0
Other personal consumption expenditures	168.0	162.5	166.2	169.7	173.5	8.9	10.3	9.3	8.7	9.3
Other	194.9	188.3	192.8	197.0	201.7	10.4	10.9	10.1	10.0	9.9
Nonresidential structures	218.1	210.3	216.7	221.0	225.3	11.9	14.5	12.6	8.1	8.1
Producers' durable equipment	182.5	175.2	180.8	185.8	189.6	9.8	9.1	13.4	11.6	8.4
Residential	220.1	213.2	218.4	223.1	226.3	9.6	10.1	10.2	8.8	5.8
Government purchases	188.2	182.1	185.9	189.7	195.1	10.4	11.0	8.5	8.4	11.9
Federal	188.8	182.8	186.0	189.4	197.4	12.4	11.0	7.1	7.5	17.9
State and local	187.7	181.7	185.8	189.9	193.6	9.1	11.0	9.5	9.0	8.0

1 Gasoline and oil, fuel oil and coal, electricity, and gas.

petroleum-based energy have been significantly affected by the September cutoff of most crude oil supplies from Iran and Iraq. Price increases were announced by OPEC and non-OPEC producers in December, but they will not be reflected in retail prices until the first quarter of 1981. The effective size of the increase in prices is not yet clear, because the premiums to be paid over the new benchmark price have not yet been set. Prices for all energy components continue to be affected, directly or indirectly, by the decontrol of domestic crude oil and/or the decontrol of natural gas. Decontrol accounts for a large part of the upward pressure on energy prices, but only a small part of their quarterly fluctuations.

The price of fuel oil and coal increased only 3 to 4 percent at annual rates in the third and fourth quarters. The price of natural gas decelerated to an increase of 5½ percent from 23 percent in the third quarter. A factor in the deceleration was the introduction of seasonal pricing: Under a "lifeline" rate structure, more units of natural gas are sold at the lowest rate during the winter heating season. Such a rate structure has not affected natural gas prices for long enough to be fully reflected in the seasonal adjustment factors. The price of electricity also decelerated in the fourth quarter, to 7½ percent from 20½ percent in the third quarter. Third-quarter electricity prices had reflected the increased average cost of electricity supplied to meet unusually high demand for air conditioning during the summer heat wave and drought. Fuel adjustment clauses allow these cost pass-throughs in many States.

Table 3.—Selected Labor Market Indicators

[Seasonally adjusted]

	1979	1980				1980: Change from preceding quarter			
	IV	I	II	III	IV	I	II	III	IV
Household survey									
Civilian labor force (thousands)	103,741	104,217	104,693	104,982	105,173	476	476	289	191
Employment	97,572	97,718	97,040	97,061	97,276	146	−678	21	215
Unemployment	6,169	6,499	7,652	7,921	7,897	330	1,153	269	−24
Job losers	2,786	3,040	4,071	4,357	4,232	254	1,031	286	−125
On layoff	974	1,098	1,716	1,758	1,538	124	618	42	−220
Other job losers	1,812	1,942	2,355	2,598	2,693	130	413	243	95
Job leavers, reentrants, and new entrants	3,384	3,438	3,645	3,610	3,665	54	207	−35	55
Unemployment rate (percent):									
Total	5.9	6.2	7.3	7.5	7.5	.3	1.1	.2	0
Adult men	4.4	4.8	6.2	6.6	6.3	.4	1.4	.4	−.3
Adult women	5.7	5.8	6.4	6.4	6.7	.1	.6	0	.3
Teenagers	16.2	16.4	17.9	18.4	18.3	.2	1.5	.5	−.1
Establishment survey									
Employment, nonfarm payroll (thousands)	90,557	91,120	90,489	90,131	90,916	563	−631	−358	785
Goods producing	26,549	26,605	25,763	25,317	25,785	56	−842	−446	468
Construction	4,566	4,644	4,427	4,362	4,469	78	−217	−65	107
Manufacturing:									
Durables	12,721	12,701	12,176	11,878	12,125	−20	−525	−298	247
Nondurables	8,276	8,254	8,138	8,059	8,138	−22	−116	−79	79
Distributive [1]	25,657	25,793	25,652	25,694	25,776	136	−141	42	82
Services [2]	22,360	22,630	22,778	22,983	23,190	270	148	205	207
Government	15,990	16,093	16,296	16,137	16,165	103	203	−159	28
Average weekly hours, private nonfarm:									
Total	35.6	35.5	35.1	35.1	35.4	−.1	−.4	0	.3
Manufacturing	40.1	40.1	39.4	39.3	39.9	0	−.7	−.1	.6

1. Transportation and public utilities, and wholesale and retail trade.
2. Services, and finance, insurance, and real estate.

Source: Bureau of Labor Statistics.

Employment and unemployment.—The household measure of employment, which had fallen 678,000 in the second quarter, regained only about one-third of that amount in the third and fourth quarters (table 3). Unemployment continued to increase in the third quarter and held steady in the fourth, and the unemployment rate, which had jumped 1.1 percentage points to 7.3 percent in the second quarter, stood at 7.5 percent in the third and fourth.

The labor force grew 956,000 in the last 3 quarters, only about one-half as much as in the previous 3 quarters, as the participation rates of adult men and teenagers declined and the secular increase in the rate of adult women paused. These rates probably were kept down by the nonparticipation in the labor force of persons discouraged about the possibility of finding a job. Had these persons participated, it is likely that the unemployment rate would have been higher. A simple but not implausible way of quantifying the extent to which the unemployment rate would have been higher in the fourth quarter is to assume that the labor force grew in the last 3 quarters of 1980 as much as it did in the previous 3 quarters and that the fourth-quarter level of employment remained what it actually was. Under these assumptions, the fourth-quarter unemployment rate would have been 0.8 percentage points higher.

The payroll measure of employment increased 785,000 in the fourth quarter, about 80 percent of the 989,000 that it had fallen in the second and third quarters. (The payroll employment measure reached its 1980 low in July, the household measure in June.) Durables manufacturing accounted for about one-third of the fourth-quarter increase. The increase in durables manufacturing, although substantial, was only about one-fourth of the decline over the previous 4 quarters.

Average weekly hours in the private nonfarm economy were up in the fourth quarter after declines earlier in the year. The total was up 0.3 hours, to 35.4, and manufacturing was up 0.6 hours, to 39.9; each remained below year-earlier levels.

Costs and productivity.—The quarterly changes in real gross product per hour and unit labor costs in the business economy other than farm and housing were particularly sharp in 1980 (table 4). It is always difficult to prepare accurate estimates of these measures, and it is particularly difficult to do so when, as was the case in 1980, real gross product and hours change abruptly. It is probable that the actual changes in productivity and in unit labor costs were smoother than those shown in the table, which ranged from −3.5 percent to 4.0 percent (annual rates) for productivity and from 5.5 percent to 15.0 percent for unit labor costs.

Table 4.—Real Gross Product, Hours, and Compensation in the Business Economy Other Than Farm and Housing, 1980

[Percent change from preceding quarter at annual rates based on seasonally adjusted estimates]

	I	II	III	IV
Real gross product	1.4	−12.5	2.9	6.7
Hours	1.1	−9.3	−1.0	7.7
Compensation	11.2	.7	8.5	8.0
Real gross product per hour	.3	−3.5	4.0	−.9
Compensation per hour	10.0	0.7	9.7	9.6
Unit labor cost	9.7	15.0	5.4	10.7

A better view of developments in productivity and unit labor costs can be obtained by looking at year-over-year changes. In 1980, productivity declined 0.7 percent and unit labor costs increased 10.4 percent, both about the same as in the preceding year.

Personal income and its disposition

Wage and salary disbursements accelerated in the third and fourth quarters, after only a very small increase in the second quarter (table 5). Each of the major industry components of private wages and salaries contributed to the $29 billion fourth-quarter acceleration, which was mainly due to widespread improvements in employment and hours.[2] The fourth-quarter acceleration in government wages and salaries was attributable to the pay raise for military and Federal civilian personnel, $6 billion of which became effective in the fourth quarter. Among the other components of personal income, only transfer payments registered a change sharply different from that in the third quarter. Transfer payments increased only $3½ billion in the fourth quarter,

2. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

Table 5.—Personal Income and Its Disposition, 1980: Change From Preceding Quarter

[Billions of dollars, based on seasonally adjusted annual rates]

	I	II	III	IV
Wage and salary disbursements	32.5	5.7	21.4	56.5
Manufacturing	7.5	−4.7	3.5	18.7
Other commodity-producing	3.8	−1.0	.6	5.6
Distributive	7.6	.7	6.0	11.8
Services	9.9	7.1	7.9	11.2
Government and government enterprises	3.7	3.7	3.4	9.3
Proprietors' income	−2.6	−8.8	4.8	4.5
Farm	−3.8	−2.4	−1.2	.4
Nonfarm	1.1	−6.3	6.0	4.1
Personal interest income	14.2	13.7	8.2	9.5
Transfer payments	8.6	9.0	30.0	3.7
Other income	7.4	6.3	5.4	6.0
Less: Personal contributions for social insurance	3.8	−.3	2.3	3.2
Personal income	**56.2**	**26.3**	**67.7**	**77.0**
Less: Personal tax and nontax payments	1.3	7.2	11.2	18.5
Impact of legislation	−11.0	−1.3	.3	−.6
Other	12.3	8.5	10.9	19.1
Equals: Disposable personal income	55.0	19.0	56.5	58.5
Less: Personal outlays	49.3	−4.6	55.1	63.3
Equals: Personal saving	5.7	23.6	1.4	−4.8
Addenda: Special factors in personal income—				
Federal pay raise	.2			6.1
Minimum wage	1.7			
Energy allowance	1.6	−1.6		
Accidental damage:				
California floods	−.6	.6		
Mount St. Helens and Florida civil disturbance		−.7	.7	
Social security base change	−2.4			
California cash sickness program refund	.4	.6	−.8	−.2
Cost-of-living increase in Federal transfer payments	.4	1.4	17.6	2.5
Personal income adjusted for the special factors	54.9	26.0	50.2	68.6

compared with $30 billion in the third. The third-quarter increase had been boosted by cost-of-living increases in Federal transfer payments, mainly in social security benefits; these increases amounted to $17½ billion. Also, increases in trade adjustment and black lung benefits had been unusually large. Earlier, payments for these programs had been temporarily held up due to lack of funds; payments were made in the third quarter, following Congressional action. Finally, the third-quarter increase in unemployment insurance benefits had been unusually large; these payments declined in the fourth quarter.

Total personal income in the fourth quarter was up $9½ billion more than in the third, $77 billion compared with $67½ billion. Personal taxes also increased more, largely reflecting higher incomes. Disposable income registered similar increases in both quarters—$56½ billion and $58½ billion, or about 13 percent at an annual rate. In real terms, the fourth-quarter increase of 3 percent was somewhat less than the third-quarter increase, due to the acceleration in prices paid by consumers. These increases followed 5 quarters over which real disposable income changed little (chart 2).

Personal outlays, of which PCE is the preponderant part, increased a little less than disposable income in the third quarter and somewhat more in the fourth. As a result, personal saving swung from a small increase to a decline. The personal saving rate, which had reached 6.2 percent in the second quarter, declined to 6.1 percent in the third and 5.6 percent in the fourth.

Real PCE, after dropping 10 percent at an annual rate in the second quarter, registered increases of 5 and 5½ percent in the third and fourth quarters (table 6). Several factors were responsible for the second-quarter decline in PCE: plant closings and layoffs, which led to mounting uncertainty about job security and concern over future income losses; curtailment of credit-financed spending, as a result of record high interest rates, heavy debt repayment burdens, and the effects of the Federal Reserve's program to restrain consumer credit; instability of financial markets; and a slowing in the monetization of capital gains on existing residences. Recovery in the third and fourth quarters reflected the cessation or mitigation of these factors as well as the improvement in real disposable income.

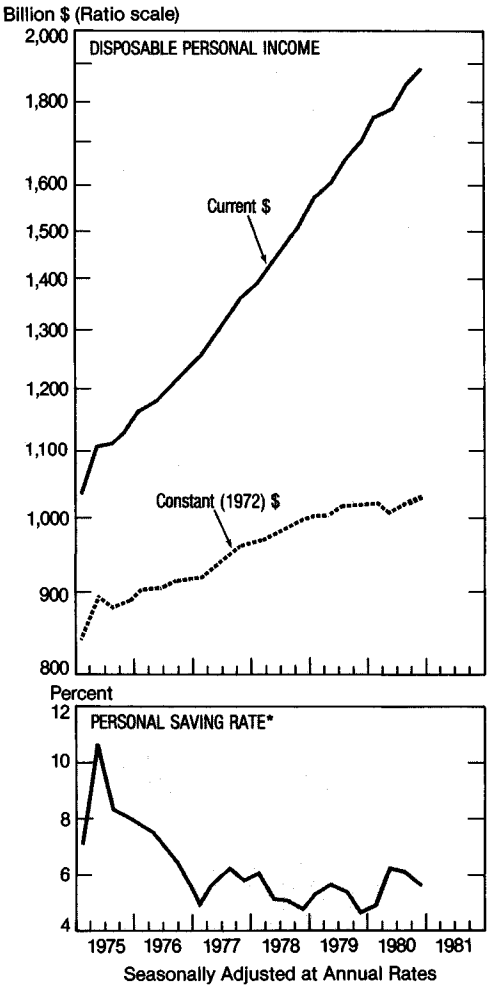
In the third quarter, durable goods turned around following a second-quarter plunge; services resumed their increase; and nondurable goods, with the exception of clothing and shoes, continued to decline. In the fourth quarter, durables and services continued to increase, but services increased less than in the third quarter; nondurables, with the exception of food, increased.

PCE on food was down in each of the 3 quarters. In the second quarter, food purchases reflected, directly or indirectly, the several factors responsible for the general decline in PCE. In the third quarter, when food prices accelerated sharply, and in the fourth, when their high rate of increase was maintained, consumer resistance was a factor in the further decline in food purchases.

In services, the quarterly pattern reflected sharp changes in commissions of security and commodity brokers. In the second quarter, these commissions had declined from an unusually high level in the first quarter, and in the third quarter they recovered to more normal levels. The third-quarter increase in services also included unusually high purchases of electricity for air

CHART 2

Disposable Personal Income and Personal Saving Rate



*Personal saving as a percentage of disposable personal income.

U.S. Department of Commerce, Bureau oy Economic Analysis 81-1-2

Table 6.—Real Personal Consumption Expenditures, 1980

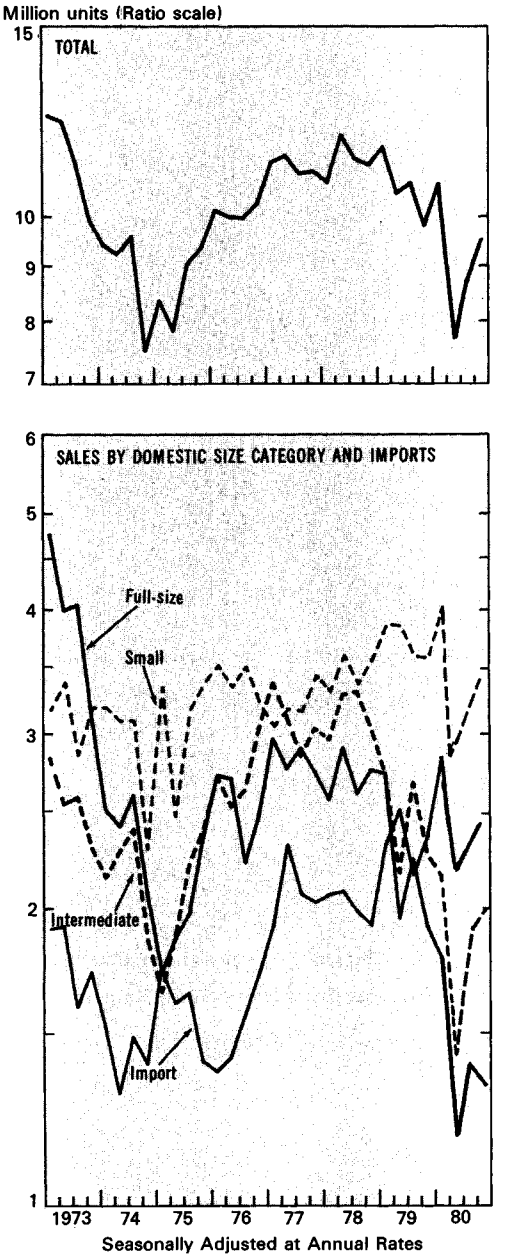
[Quarters at seasonally adjusted annual rates]

	Billions of constant (1972) dollars					Percent change from preceding period				
	Year	I	II	III	IV	Year	I	II	III	IV
Personal consumption expenditures	**934.2**	**943.4**	**919.0**	**930.8**	**943.0**	**0.4**	**0.8**	**−9.8**	**5.1**	**5.3**
Durables	135.6	145.4	126.2	132.6	138.3	−7.5	−1.6	−43.3	21.7	18.3
Motor vehicles and parts	53.7	62.1	47.0	51.5	54.2	−13.0	12.2	−67.2	44.5	22.0
Furniture and household equipment	58.9	59.6	57.0	58.4	60.6	−1.5	−7.6	−15.9	10.2	16.1
Other durables	23.0	23.8	22.2	22.6	23.4	−8.4	−17.6	−24.4	8.0	15.5
Nondurables	357.6	361.5	356.6	354.9	357.5	.8	.2	−5.3	−1.8	3.0
Food	181.0	183.6	182.2	180.1	177.9	2.4	5.2	−3.0	−4.6	−4.8
Energy [1]	30.4	31.2	30.5	29.5	30.5	−7.2	−5.9	−9.8	−11.2	13.4
Clothing and shoes	77.9	76.9	76.7	78.3	79.5	1.7	−7.5	−.7	8.3	6.4
Other nondurables	68.4	69.7	67.2	67.0	69.6	−.2	.2	−5.3	−1.8	2.9
Services	440.9	436.5	436.5	443.3	447.3	2.6	2.1	0	6.4	3.7
Energy [2]	23.3	22.3	23.1	24.1	23.5	.9	−11.1	15.9	18.4	−10.2
Other services	417.6	414.2	413.4	419.2	423.8	2.7	2.9	−.8	5.7	4.5

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

CHART 3

Retail Sales of New Passenger Cars



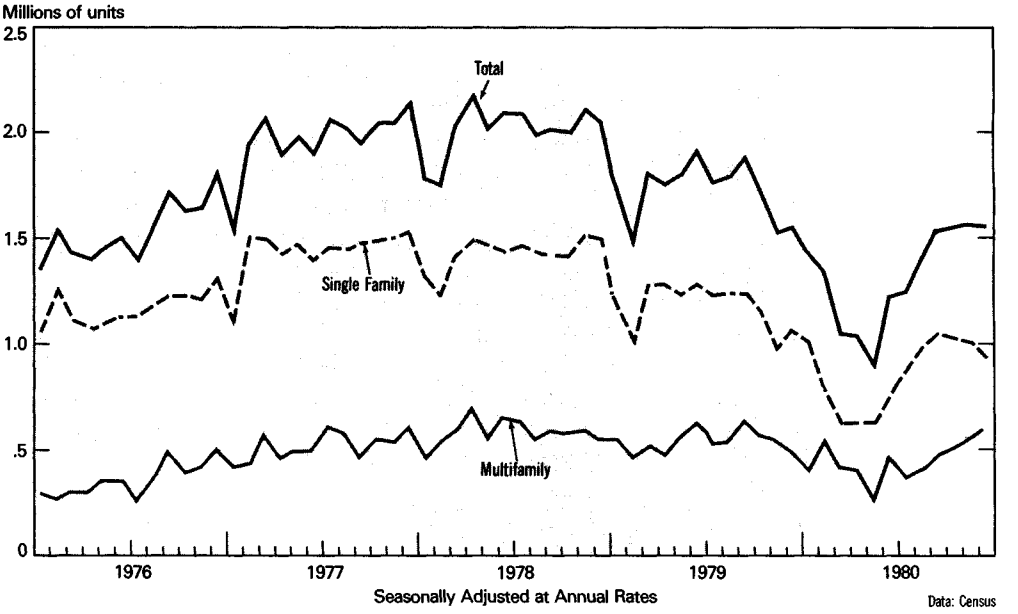
Note.—The components may not add to the total because each category was separately adjusted for seasonal variation.

Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports; seasonal adjustment by BEA.

U.S. Department of Commerce, Bureau of Economic Analysis 81-1-3

CHART 4

Housing Starts



Data: Census

U.S. Department of Commerce, Bureau of Economic Analysis 81-1-4

Table 7.—Real Fixed Investment, 1980

[Quarters at seasonally adjusted annual rates]

	Billions of constant (1972) dollars					Percent change from preceding period				
	Year	I	II	III	IV	Year	I	II	III	IV
Fixed investment	205.7	219.2	199.2	200.2	204.1	−7.5	−5.3	−31.8	2.1	8.2
Nonresidential	157.7	165.0	156.1	155.5	154.3	−3.4	2.2	−19.9	−1.6	−3.2
Structures	48.2	50.5	48.7	46.8	46.6	−.7	−1.2	−13.3	−15.3	−1.2
Producers' durable equipment	109.6	114.5	107.4	108.8	107.7	−4.6	3.8	−22.7	5.3	−4.0
Autos, trucks, and buses	17.3	19.5	15.6	17.6	16.6	−24.9	−14.6	−58.4	60.8	−20.3
Other	92.3	95.1	91.7	91.2	91.1	.6	8.2	−13.3	−2.4	−.4
Residential	47.9	54.2	43.1	44.7	49.8	−18.9	−24.2	−60.2	16.0	54.0

conditioning during the heat wave that affected many regions of the country.

PCE on motor vehicles declined 67 percent at an annual rate in the second quarter, and increased in the third and fourth quarters at annual rates of 45 percent and 22 percent. The changes in PCE on new autos, which is about one-half of PCE on motor vehicles, were more extreme. PCE on trucks declined less than PCE on autos in the second quarter, increased less in the third, and was off in the fourth.

In terms of units, sales of new passenger cars, which are sales to businesses and other final users as well as to consumers, dropped from 10.8 million (seasonally adjusted annual rate) in the first quarter to a 5½-year low of 7.6 million in the second. Sales rebounded to 8.8 million in the third quarter and increased to 9.1 million in the fourth. The fourth-quarter slowdown was due to a drop in December sales—a drop that can at least partly be attributed to record interest rates, which discouraged the financing of new car purchases. In response to these developments, manufacturers lowered their sales expectations for the first quarter of 1981 and cut back scheduled increases in production.

The pattern of sales in each of the size categories was similar to that of total car sales (chart 3). The rates of recovery for domestic small, domestic intermediate, and import cars all decelerated in the fourth quarter, and domestic full-size cars registered a decline. The market shares of the domestic small and import cars were 37½ percent and 27 percent, respectively, in the fourth quarter—close to their all-time highs. The intermediate car share held at 21½ percent, and the full-size car share fell to a record low of 14 percent.

Investment

Real nonresidential fixed investment declined 20 percent at an annual rate in the second quarter and much less—1½ and 2 percent—in the third and fourth quarters (table 7). Structures and producers' durable equipment (PDE) both contributed to the sharpness of the second-quarter decline, but partly offset each other in the third and fourth quarters.

Structures declined 13½ percent at an annual rate in the second quarter, declined about as much in the third, and steadied in the fourth. The second- and third-quarter declines were concentrated in commercial and industrial buildings and in public utilities; petroleum exploration and drilling provided a partial offset. In the fourth quarter, the only substantial change was a decline in public utilities construction.

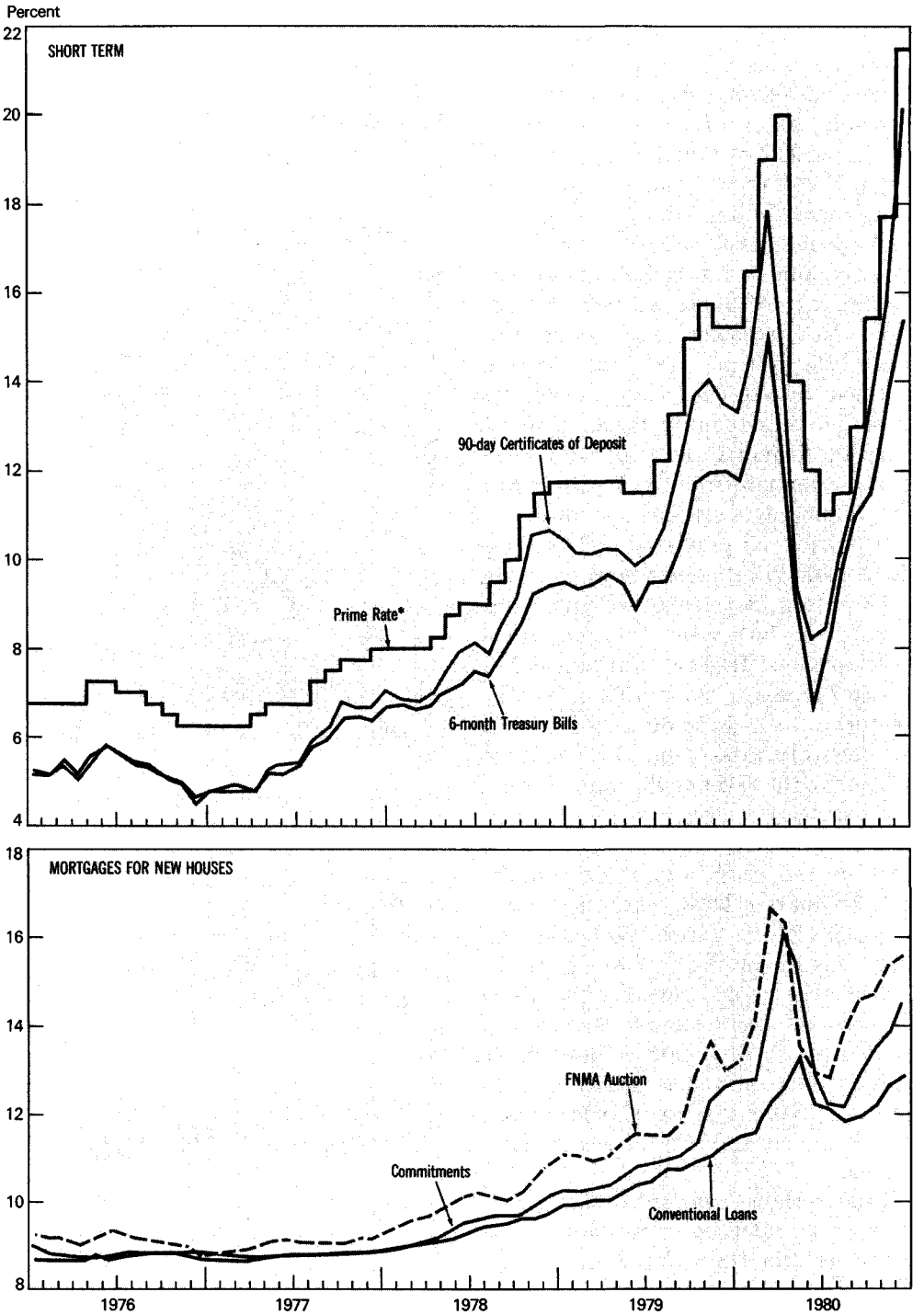
The quarter-to-quarter changes in PDE were dominated by those in investment in motor vehicles. Other PDE steadied in the third and fourth quarters after a second-quarter decline. Both trucks and autos declined sharply in the second quarter, picked up in the third, and fell off in the fourth. Total truck sales have not recovered from their sharp drop in the second quarter. In terms of units, the drop was from 2.9 million (seasonally adjusted annual rate) in the first quarter to a 5-year low of 2.3 million in the second. Sales moved up to 2.4 million in the third quarter but moved back to 2.3 million in the fourth. Sales of all categories—domestic light, domestic "other," and imports—remain depressed.

Residential investment.—The protracted decline in real residential investment accelerated sharply in the second quarter. There was a turnaround in the third quarter, reflecting single-family construction, and a substantial increase in the fourth—54 percent at an annual rate—to which multifamily construction contributed as well. The pattern of housing starts, which leads the pattern of construction put in place, showed a low in single-family starts in the March–May period and in multifamily starts in May followed by increases, which were sharp in the third quarter for single-family units and in the fourth quarter for multifamily units (chart 4). By the fourth quarter, both were up just under 50 percent from second-quarter levels: for singles, from 671,000 (seasonally adjusted annual rate) to 996,000, and for multis, from 382,000 to 560,000.

Financial developments were a major factor in determining the pattern of housing starts. The prime rate, to which construction loans are tied, climbed to a then-record level of 20 percent in April, and the commitment interest rate on 25-year mortgages with a loan-to-

CHART 5

Selected Interest Rates



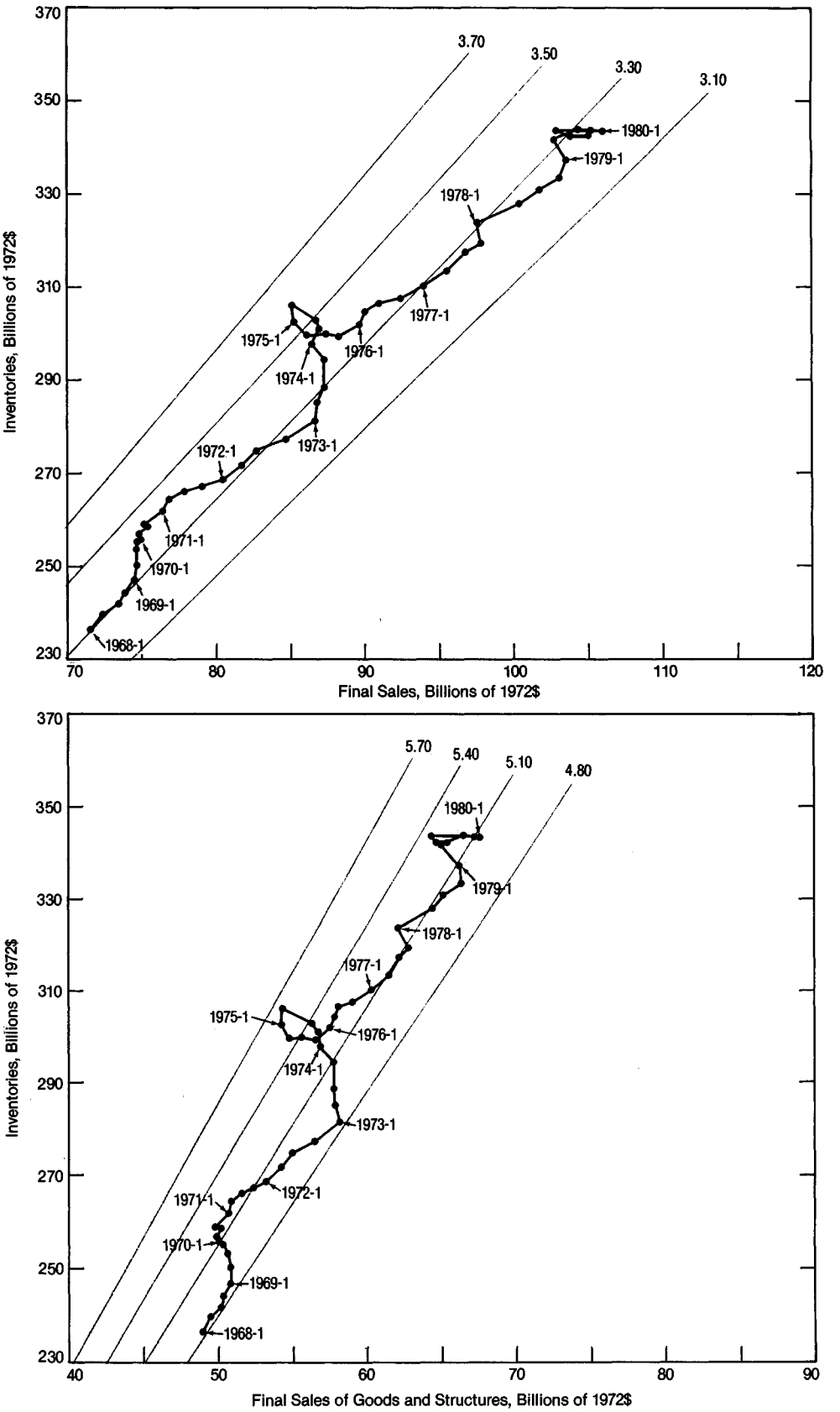
*At the end of the month.
U.S. Department of Commerce, Bureau of Economic Analysis
Data: FRB, FHLBB
81-1-5

price ratio of 75 percent reached 16 percent (chart 5). The subsequent fall in these rates—to 11 percent in August for the prime rate and about 12 percent in July and August for the commitment rate—was reflected not only in housing starts but also in other indicators. For example, sales of new and existing homes picked up, and the volume of thrift institutions' mortgage commitments outstanding, after reaching a low in May, increased substantially. Subsequently, interest rates climbed, although mortgage credit remained readily available. In December, the prime rate passed its previous peak, and the commitment rate reached 14½ percent. The effect on single-family housing, which mirrors financial developments more closely than multifamily, was to reduce the volume of mortgage commitments, to cut back sales of new and existing homes, and to turn down housing starts.

Inventory investment.—Chart 6 presents an overview of inventory developments. It shows constant-dollar (end-of-quarter) stocks of business inventories, constant-dollar final sales (at monthly rates), and, on the diagonal rays, the ratio of the two. In 1980, the quarterly changes in the stock of inventories were small; in the fourth quarter, the stock was slightly under its first-quarter level, when the inventory-sales (I–S) ratios reached a low. The changes in the ratios—up in the second quarter and down in the third and fourth—were almost entirely due to changes in final sales. The ratio to business final sales was nearly back to its first-quarter level; the ratio to final sales of goods and structures remained higher.

Table 8 shows constant-dollar inventories, sales, and I–S ratios for manufacturing and trade for January and November 1980. The inventories shown in chart 6 are the sum of those in table 8 plus inventories held in industries other than manufacturing and trade. The sales in the table, unlike those in the chart, include intermediate sales, i.e., sales from one industry to another, in addition to the final sales. January and November are shown in the table because January is the first month for which constant-dollar monthly esti-

Constant-Dollar Business Inventories, Final Sales and Final Sales of Goods and Structures, and Inventory-Sales Ratios



Note: End-of-quarter inventories, seasonally adjusted; final sales seasonally adjusted. Blue lines represent ratios of inventory stocks to final sales.

U.S. Department of Commerce, Bureau of Economics 81-1-6

mates have as yet been revised as part of the recent comprehensive revision of the national income and product accounts, and because November is the latest month for which source data are available. January is reasonable as a reference month because it is the first month of the quarter in which the I–S ratios and the final sales shown in chart 6 reached a low and a high, respectively.

The stock of manufacturing and trade inventories changed little during the year—it moved up one-half percent from January to April, and then declined to a November level one-half percent below January. The I–S ratio moved up sharply to May, and subsequently fell back about one-half of the distance to its January level. As in the case of the ratios to final sales, the ratio's movement largely reflected the course of sales. Sales dropped 9 percent to May, and subsequently recovered about one-half their January-to-May loss. The subordinate role of inventories and the dominant role of sales in increases in I–S ratios early in 1980 and in their subsequent declines is evident in each of the durable and nondurable breakdowns of manufacturing and trade shown in table 8.

In durable goods manufacturing, inventories moved up 1 percent to April-May and sales declined—with particularly sharp declines in the primary metals and motor vehicle industries—13½ percent to June. As a result, the I–S ratios moved up. Subsequently, inventories declined; in November they were one-half percent lower than in January. Sales made a partial recovery; in November they were 3 percent below January. The I–S ratio was only moderately higher in November than in January. The exception to this pattern was in transportation equipment other than motor vehicles. This industry added steadily to its inventories during the year and its sales were flat. Excluding the inventories and sales of this industry, the I–S ratio for durable goods manufacturing in November was almost back to the January level.

In nondurable goods manufacturing, additions to inventories early in the year were similar to those in durables, but the subsequent decline was larger. In November, inventories were 1½ percent lower than in January. Inventories of the food industry, which declined throughout the year, were a major factor. Nondurables sales declined less than durables sales early in the year (7 percent), and recovered less (to 5 percent below their January level). The I–S ratio fell about one-half the distance it had climbed in April.

In wholesale trade, inventories were added to in most months and, in contrast to manufacturing and retail trade, were higher—1½ percent—in November than January. Despite some recovery from the 7-percent January-May drop in sales, the I–S ratio in November was only a little lower than in May and was substantially higher than in January.

In retail trade, inventories were reduced throughout the year; by November they were down 1 percent. A reduction in inventories of both auto dealers and other durables retailers more than offset an increase in inventories of nondurables retailers. Total retail sales fell 8½ percent to May—sharply for auto dealers (25 percent to May) and other durables retailers (11½ percent to June), and moderately for nondurables retailers (3 percent to May)—and recovered only partly, to 3½ percent below January. The I–S ratios in November were higher than in January, except for other durables retailers.

Table 8.—Constant-Dollar Inventories, Sales, and Inventory-Sales Ratios for Manufacturing and Trade

[Seasonally adjusted]

	January 1980			November 1980		
	Inventories (end of month)	Sales (monthly rate)	Inventory-sales ratio	Inventories (end of month)	Sales (monthly rate)	Inventory-sales ratio
	Billions of 1972 dollars			Billions of 1972 dollars		
Manufacturing and trade	**256.6**	**163.2**	**1.57**	**255.6**	**156.4**	**1.64**
Manufacturing:						
Durable goods	95.8	42.2	2.27	95.4	41.0	2.33
Nondurable goods	48.1	35.1	1.37	47.4	33.3	1.43
Merchant wholesalers:						
Durable goods	32.6	18.2	1.79	33.3	17.2	1.94
Nondurable goods	16.9	20.4	.83	16.9	19.3	.88
Retail trade:						
Durable goods	27.9	17.1	1.63	26.4	15.8	1.67
Nondurable goods	35.4	30.2	1.17	36.2	29.9	1.21

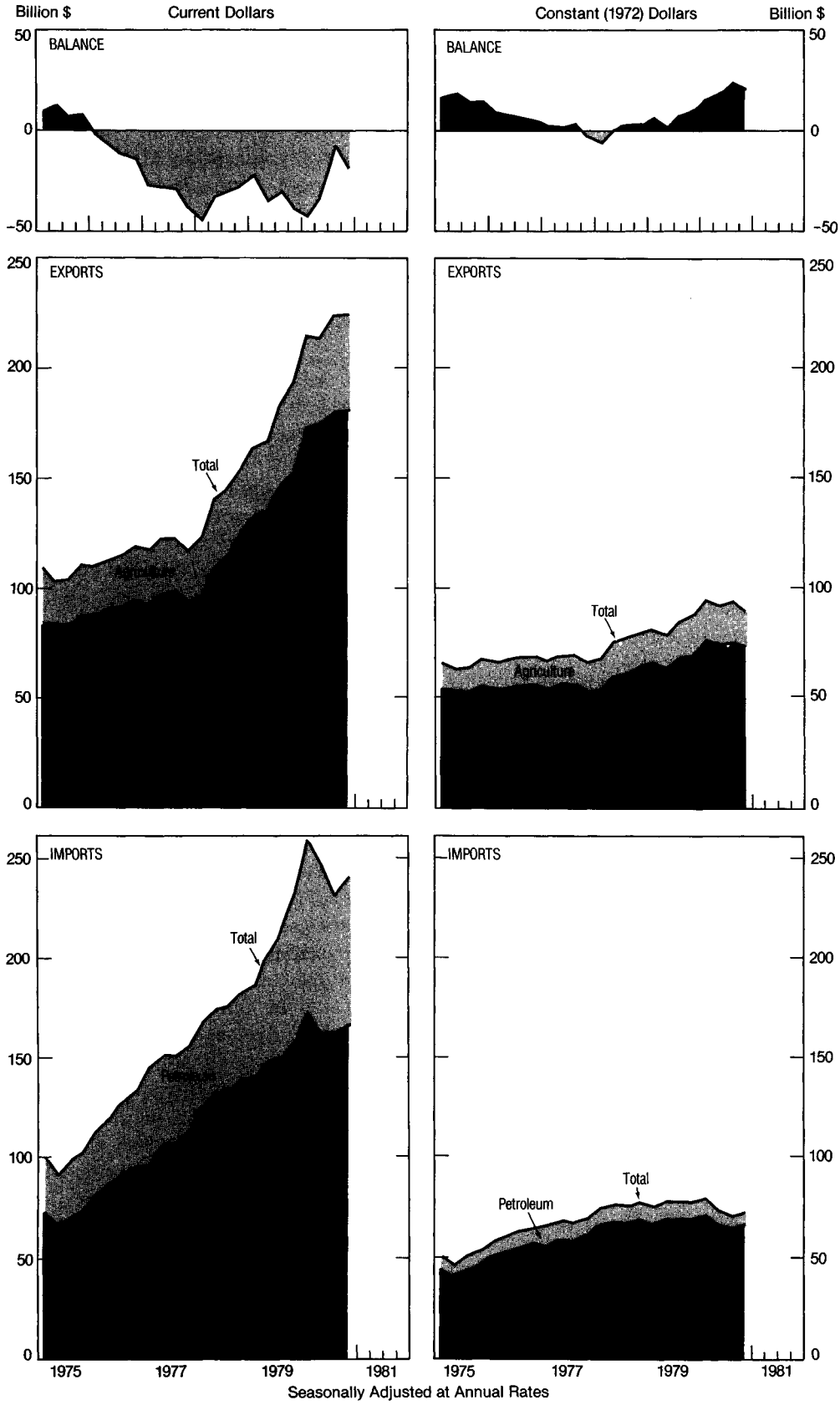
Net exports

Real net exports of goods and services fell $4½ billion in the fourth quarter, after increases in the second and third (table 9). In merchandise trade, nonagricultural exports weakened in the second quarter, mainly in automotive and consumer goods, and in the second half of the year, in industrial materials and supplies. Agricultural exports, after a decline in the second quarter due to a cessation of grain exports to the Soviet Union, increased in the third quarter, reflecting large shipments of grain and soybeans to the United Kingdom, Canada, Latin America, and Japan, but declined in the fourth, as grain shipments to these countries declined. Nonpetroleum imports declined in the second and third quarters and increased moderately in the fourth—a pattern to which weakness in U.S. economic activity contributed. In the second quarter, most of the decline in the latter was in industrial supplies and materials and in capital goods. Industrial supplies and materials continued to decline in the third quarter, but showed little change in the fourth. Petroleum imports showed a similar pattern, to which both weakness of U.S. economic activity and continuing conservation efforts contributed. Petroleum imports dropped sharply in the second and third quarters—from 8.6 million barrels per day (seasonally adjusted annual rate) in the first quarter to 7.4 million and to 6.0 million—before moving up to 6.4 million in the fourth quarter.

Chart 7 shows merchandise trade in current and constant dollars. The most

CHART 7

Merchandise Trade



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

81-1-7

striking feature of the chart is that, in contrast to the balance expressed in 1972 dollars, in the period since 1976 the current-dollar balance has shown a large deficit. Petroleum prices, which have increased in relation to other import and export prices since 1972, are the major reason for the difference. The chart also brings out that the sharp improvement in the current-dollar balance is due to the recent reduction in petroleum imports.

Government purchases

Real government purchases of goods and services increased 2½ percent at an annual rate in the fourth quarter, after a decline of 5 percent in the third and an increase of 2½ percent in the second (table 10).

In Federal Government purchases, national defense purchases were up 9 percent at an annual rate. Except in the third quarter, they increased sharply in 1980; year-to-year, they were up 6 percent. Excluding employee compensation, the year-to-year increase was 11 percent, accounted for about equally by military hardware and support equipment and by base support services. The recent large and irregular changes in nondefense purchases have reflected mainly the operations of the Commodity Credit Corporation (CCC). CCC transactions shifted from net purchases in the first half of the year to net sales in the second. In the second half, redemptions of crops placed under loan earlier more than offset new loans. Other nondefense purchases increased little in the fourth quarter, after increases of 6½ and 9½ percent in the second and third quarters. Their unusually large increase in the first quarter was due to a fourth-quarter 1979 sale of nuclear fuel by the Tennessee Valley Authority; sales of this kind are netted against purchases, and, thus, held down fourth-quarter purchases.

State and local government purchases increased only ½ percent at an annual rate in the fourth quarter. Purchases, particularly structures, were weak throughout the year.

Table 9.—Net Exports of Goods and Services, 1980

[Quarters at seasonally adjusted annual rates]

	Current dollars					Constant (1972) dollars									
	Billions of dollars										Percent change from preceding period				
	Year	I	II	III	IV	Year	I	II	III	IV	Year	I	II	III	IV
Net exports of goods and services	**26.1**	**8.2**	**17.1**	**44.5**	**34.5**	**53.1**	**50.1**	**51.7**	**57.6**	**52.9**					
Exports	340.6	337.3	333.3	342.4	349.2	161.6	165.9	160.5	160.5	159.5	10.0	32.0	−12.3	−0.2	−2.4
Merchandise	218.7	214.8	213.9	222.9	223.2	92.6	94.1	92.1	93.5	90.6	11.8	33.4	−8.1	6.0	−11.8
Agricultural	42.0	41.5	38.9	43.8	43.6	17.9	18.1	17.6	18.7	17.3	12.7	−3.1	−9.2	26.9	−27.1
Nonagricultural	176.7	173.3	174.9	179.1	179.6	74.6	76.0	74.5	74.8	73.3	11.6	44.5	−7.9	1.4	−7.7
Other	121.9	122.5	119.4	119.5	126.0	69.0	71.8	68.4	67.0	68.9	7.7	30.1	−17.5	−8.0	12.1
Imports	314.5	329.1	316.2	297.9	314.7	108.5	115.8	108.9	102.8	106.6	−.6	11.9	−21.9	−20.4	15.5
Merchandise	244.0	257.5	245.6	231.5	241.5	73.5	78.8	73.4	70.5	71.5	−4.4	4.3	−24.7	−14.9	5.7
Petroleum	78.7	86.4	84.0	69.1	75.2	6.8	8.2	7.2	5.8	6.2	−20.1	−12.8	−38.6	−58.5	27.6
Nonpetroleum	165.4	171.1	161.7	162.4	166.3	66.7	70.6	66.1	64.7	65.3	−2.5	6.5	−23.0	−8.6	3.9
Other	70.4	71.6	70.5	66.4	73.2	35.0	37.0	35.5	32.4	35.1	8.6	30.5	−15.6	−31.0	39.1

Federal sector.—Several of the major sources of recent changes in Federal receipts and expenditures have already been mentioned: in the third quarter, an unusually large increase in transfer payments that included $17½ billion in cost-of-living benefits paid under Federal transfer programs; the swing in CCC purchases, which in current dollars amounted to −$9 billion; and in the fourth quarter, the $6 billion increase in purchases due to the pay raise. Table 11 rounds out the information on Federal receipts and expenditures.

Expenditures increased $23½ billion in the fourth quarter—in the same range as in the last 5 quarters. Purchases increased $18½ billion, reflecting the pay raise, the CCC, and a resumption of purchases of petroleum for the Strategic Petroleum Reserve. Transfer payments increased $3 billion, after the unusually large increase in the third quarter. Net interest increased, after a decline in the third quarter, reflecting the course of interest rates.

Table 10.—Real Government Purchases of Goods and Services, 1980

[Quarters at seasonally adjusted annual rates]

	Billions of constant (1972) dollars					Percent change from preceding period				
	Year	I	II	III	IV	Year	I	II	III	IV
Government purchases of goods and services	**290.1**	**290.1**	**291.9**	**288.2**	**290.1**	**3.0**	**6.9**	**2.5**	**−5.0**	**2.6**
Federal	108.4	107.6	110.7	106.9	108.6	6.6	18.9	11.9	−13.1	6.8
National defense	71.1	69.9	70.9	70.9	72.4	5.9	9.8	6.2	−.1	8.8
Nondefense	37.4	37.7	39.7	35.9	36.2	8.1	38.4	23.1	−33.1	3.0
Commodity Credit Corporation	.1	1.3	2.7	−1.9	−1.8					
Other	37.3	36.4	37.0	37.9	38.0	6.2	20.4	6.5	9.7	2.0
State and local	181.7	182.5	181.2	181.3	181.6	.9	.6	−2.8	.3	.6

Table 11.—Federal Government Receipts and Expenditures, NIPA Basis, 1980

[Billions of dollars]

	Year	Seasonally adjusted at annual rates				Change from preceding period				
		I	II	III	IV	Year	I	II	III	IV
Receipts	**539.7**	**528.4**	**520.9**	**540.8**	**n.a.**	**45.3**	**14.4**	**−7.5**	**19.9**	**n.a.**
Personal tax and nontax receipts	258.0	246.9	252.0	259.4	273.6	26.6	−.2	5.1	7.4	14.2
Corporate profits tax accruals	68.8	80.5	60.9	66.7	n.a.	−5.8	6.2	−19.6	5.8	n.a.
Indirect business tax and nontax accruals	40.7	31.9	38.7	42.9	49.5	11.3	2.3	6.8	4.2	6.6
Contributions for social insurance	172.2	169.2	169.3	171.8	178.7	13.2	6.2	.1	2.5	6.9
Expenditures	**601.3**	**564.7**	**587.3**	**615.0**	**638.3**	**92.1**	**26.1**	**22.6**	**27.7**	**23.3**
Purchases of goods and services	199.2	190.0	198.7	194.9	213.3	31.3	11.9	8.7	−3.8	18.4
National defense	131.9	125.0	128.7	131.4	142.7	20.7	6.3	3.7	2.7	11.3
Nondefense	67.3	64.9	70.0	63.5	70.6	10.6	5.5	5.1	−6.5	7.1
Transfer payments	249.6	228.9	236.0	265.3	268.1	40.5	7.2	7.1	29.3	2.8
Grants-in-aid to State and local governments	87.3	85.5	87.2	87.7	88.9	6.9	.6	1.7	.5	1.2
Net interest paid	53.4	50.3	54.4	53.5	55.9	11.1	5.9	4.1	−.9	2.0
Subsidies less current surplus of government enterprises	11.8	10.1	11.0	13.7	12.5	2.4	.6	.9	2.7	−1.2
Less: Wage accruals less disbursements	0	0	0	0	0	0	0	0	0	0
Surplus or deficit (−), national income and product accounts	**−61.6**	**−36.3**	**−66.5**	**−74.2**	**n.a.**	**−46.8**	**−11.8**	**−30.2**	**−7.7**	**n.a.**

n.a. Not available.

Receipts declined $7½ billion in the second quarter, increased $20 billion in the third, and probably increased by somewhat more in the fourth. In the fourth quarter, personal taxes increased $14 billion, compared with $7½ billion in the third, and contributions for social insurance increased $7 billion, compared with $2½ billion. Both step-ups reflected the acceleration in incomes. Indirect business taxes increased $6½ billion, $2½ billion more than in the third. A factor in the step-up was the beginning of Federal participation in the crude oil entitlements program. Federal receipts under this program are treated as indirect business taxes in the national income and product accounts. On the basis of a residual calculation of fourth-quarter corporate profits, corporate profits tax accruals changed little. This residual calculation assumes that the statistical discrepancy in the national income and product account is the same as in the preceding quarter. This residual calculation indicates that the Federal deficit on a national income and product account basis may be a little smaller than the $74 billion recorded in the third quarter.

the BUSINESS SITUATION

REVISED (45-day) estimates show that real GNP increased 4 percent at an annual rate in the fourth quarter of 1980, 1 percentage point less than in the preliminary (15-day) estimates (table 1). The downward revision was more than accounted for by a larger estimate of the decumulation of business inventories. Among the components of final sales, there were upward revisions in personal consumption expenditures (mostly nondurable goods), nonresidential fixed investment, and residential investment, and downward revisions in net exports (mostly in goods, downward in exports and upward in imports) and government purchases. The increase in GNP prices as measured by the fixed-weighted price index was revised down one-half percentage point to 10 percent.

The article "Pollution Abatement and Control Expenditures," which regularly appears in the February SURVEY OF CURRENT BUSINESS, will be published in the March issue. Publication is being delayed in order to incorporate data on expenditures in 1979 by manufacturing industries for the operation of pollution abatement facilities. These source data usually become available in November or December; this year they will be released in February.

The article "Federal Fiscal Programs," which regularly appears in the February SURVEY, will be published in a later issue. Publication is being delayed in order to incorporate the fiscal year 1982 budget revisions submitted to Congress by the new administration.

Table 1.—Revisions in Selected Component Series of the NIPA's, Fourth Quarter of 1980

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates		
	15-day estimate	45-day estimate	Revision	15-day estimate	45-day estimate	Revision
	Billions of current dollars					
GNP	**2,741.4**	**2,732.3**	**−9.1**	**16.7**	**15.2**	**−1.5**
Personal consumption expenditures	1,744.4	1,749.2	4.8	15.6	16.9	1.3
Nonresidential fixed investment	297.3	300.0	2.7	4.5	8.4	3.9
Residential investment	112.2	113.3	1.1	63.8	70.5	6.7
Change in business inventories	−5.7	−15.2	−9.5			
Net exports	34.5	26.9	−7.6			
Government purchases	558.8	558.0	−.8	20.4	19.7	−.7
Federal	213.3	212.1	−1.2	43.6	40.2	−3.4
State and local	345.5	346.0	.5	8.4	9.0	.6
National income						
Compensation of employees	1,662.4	1,661.6	−.8	17.3	17.1	−.2
Corporate profits with inventory valuation and capital consumption adjustments						
Other	361.1	360.3	−.8	17.2	16.1	−1.1
Personal income	**2,259.1**	**2,256.0**	**−3.1**	**14.9**	**14.3**	**−.6**
	Billions of constant (1972) dollars					
GNP	**1,490.1**	**1,486.5**	**−3.6**	**5.0**	**4.0**	**−1.0**
Personal consumption expenditures	943.0	946.0	3.0	5.3	6.7	1.4
Nonresidential fixed investment	154.3	156.1	1.8	−3.0	1.6	4.6
Residential investment	49.8	50.8	1.0	54.1	67.2	13.1
Change in business inventories	−.2	−5.8	−5.6			
Net exports	52.9	49.7	−3.2			
Government purchases	290.2	289.7	−.5	2.9	2.0	−.9
Federal	108.6	107.6	−1.0	6.8	2.8	−4.0
State and local	181.6	182.1	.5	.6	1.6	1.0
	Index numbers, 1972=100 [1]					
GNP implicit price deflator	183.98	183.80	−.18	11.2	10.7	−.5
GNP fixed-weighted price index	188.6	188.3	−.3	10.7	10.1	−.6
GNP chain price index				11.0	10.5	−.5

1. Not at annual rates.

NOTE.—For the fourth quarter of 1980, the following revised or additional major source data became available: For *personal consumption expenditures*, revised retail sales for November and December, and sales and inventories of used cars of franchised automobile dealers for October and November; for *nonresidential fixed investment*, manufacturers' shipments of equipment for November (revised) and December, and construction put in place for November (revised) and December; for *residential investment*, construction put in place for November (revised) and December; for *change in business inventories*, book values for manufacturing and trade for November (revised) and December; for *net exports of goods and services*, merchandise trade for November (revised) and December, and revised net investment income and other services receipts for the quarter; for *government purchases of goods and services*, Federal unified budget outlays for December, and State and local construction put in place for November (revised) and December; for *wages and salaries*, revised employment, average hourly earnings, and average weekly hours for November and December; for *net interest*, revised net interest received from abroad for the quarter; for *GNP prices*, the Consumer Price Index for December, unit value indexes for exports and imports for November and December, and residential housing prices for the quarter.

the BUSINESS SITUATION

AS OF MID-MARCH, the source data required to estimate the first-quarter national income and product accounts are incomplete and in some cases preliminary. However, the data required to estimate personal income, taxes, and outlays are more adequate than those required to estimate other components of the accounts and provide the basis for publishing monthly estimates of these items. The estimates for 2 months of the quarter, in turn, provide the basis for a quarterly projection, which is particularly useful because consumers receive most of the Nation's income and give rise to the bulk of the demand for GNP. As will be seen, the projection indicates that the increase in personal consumption expenditures (PCE) was strong in the first quarter despite a weakening in the increase in personal income.

Personal income and its disposition

Personal income increased $59 billion in the first quarter, $15 billion less than in the fourth quarter of 1980 (table 1).[1] For wage and salary disbursements, personal interest income, and personal contributions for social insurance, there was a substantial difference between the sizes of the fourth- and first-quarter increases. Wages and salaries increased $41½ billion, compared with $56 billion in the fourth quarter. Most of the deceleration was in government and government enterprises and in manufacturing. In government, a Federal pay raise had added $6 billion to the fourth-quarter increase. In manufacturing, the deceleration was mainly due to employment and average hours, both of which steadied after substantial increases. On January 1, the minimum wage was raised from $3.10 to $3.35 per hour, raising first-quarter wages and salaries $2 billion. Despite this step-up, the effect of which was concentrated in the distributive and service industries, wages and salaries in the former increased less than in the fourth quarter and in the latter held steady.

In personal interest income, a major factor in the unusually large difference between the sizes of the fourth- and first-quarter increases—$8 billion compared with $16½ billion—was interest paid by the Federal Government. The larger first-quarter increase was due to higher interest rates in conjunction with an increase in Federal debt on which interest is paid to persons, either directly or through financial intermediaries.

Personal contributions for social insurance, which are deducted in deriving personal income, increased $10½ billion, compared with $3 billion in the fourth quarter. The first-quarter increase included $9 billion due to the statutory changes in the tax rate and taxable wage base for social security. The change in the tax rate, from 6.13 percent to 6.65 percent, raised personal contributions $6½ billion, and the change in the wage base, from $25,900 to $29,700, raised them $2½ billion.

Partly due to the deceleration in wages and salaries, personal taxes increased only $12 billion, compared with $17½ billion in the fourth quarter. In addition, taxes were held down by the impact of legislation, including changes in the indexing procedure used in California to adjust personal taxes for the effects of inflation. Disposable personal income increased $47 billion, compared with $56½ billion. Personal outlays increased $64½ billion, compared with $70 billion—in both quarters more than

Table 1.—Personal Income and Its Disposition: Change From Preceding Quarter

[Billion of dollars, based on seasonally adjusted annual rates]

	1980		1981
	III	IV	I *
Wage and salary disbursements	21.4	56.0	41.4
Manufacturing	3.5	18.2	12.6
Other commodity-producing	.6	5.7	4.4
Distributive	6.0	11.4	9.2
Services	7.9	11.3	11.5
Government and government enterprises	3.4	9.4	3.7
Proprietors' income	4.8	4.3	-.1
Farm	-1.2	.3	-.4
Nonfarm	6.0	3.9	.4
Personal interest income	8.2	7.9	16.7
Transfer payments	30.0	3.2	4.8
Other income	5.4	5.8	7.0
Less: Personal contributions for social insurance	2.3	3.1	10.7
Personal income	67.7	74.1	59.1
Less: Personal tax and nontax payments	11.2	17.7	12.2
Impact of legislation	.3	-.6	-2.8
Other	10.9	18.3	15.0
Equals disposable personal income	56.5	56.4	46.9
Less: Personal outlays	55.1	70.2	4.6
Equals personal saving	1.4	-13.8	-7.8
Addenda: Special factors in personal income			
Federal pay raise	-------	6.1	.1
Minimum wage	-------	-------	2.0
Accidental damage: Mount St. Helens and Florida civil disturbance	.7	-------	-------
Social security (in personal contributions for social insurance)			
Base change	-------	-------	2.3
Rate change	-------	-------	6.7
Cost-of-living increase in Federal transfer payments	17.6	2.5	1.1

* Projected.

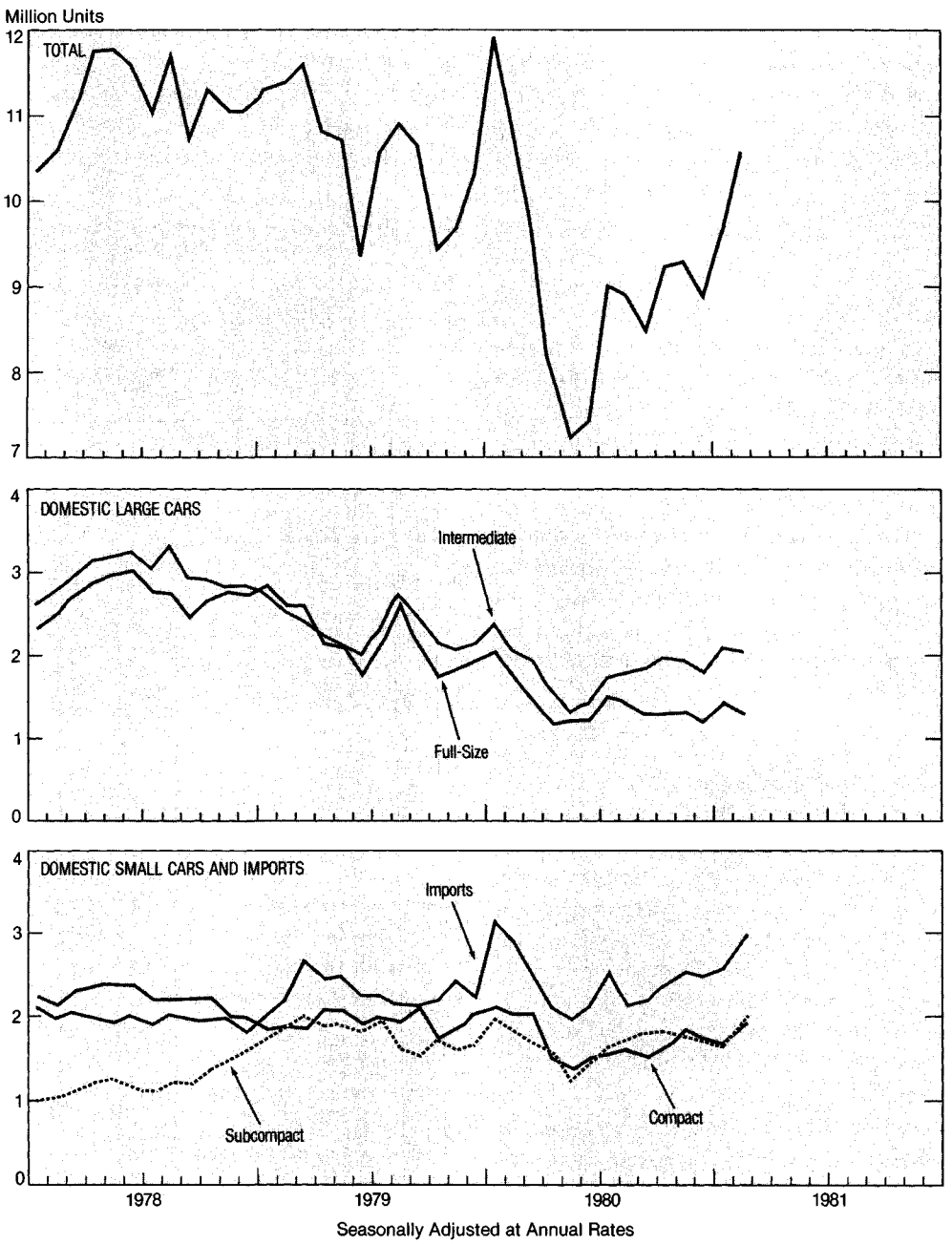
1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarter changes in them are differences between these rates.

the increases in disposable income. Accordingly, personal saving declined in both quarters, and because the deceleration in outlays was smaller than that in disposable income, personal saving declined more in the first quarter than in the fourth. The personal saving rate fell from 5.1 percent to about 4 percent—an extraordinarily low level.

Most of the deceleration in current-dollar disposable income carried through to real disposable income; real income, after increasing 3 percent at an annual rate in the fourth quarter, increased 1 percent in the first. The implicit price deflator for PCE, which is used to derive real income, decelerated, but only slightly, from the 9½ percent registered in the fourth quarter. Slowing in the rates of increase in new car and food prices more than offset a quickening in the rate of increase of energy prices.

CHART 1

Retail Sales of New Passenger Cars



Note.—The components may not add to the total because each category was separately adjusted for seasonal variation.

Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports; seasonal adjustment by BEA.

U.S. Department of Commerce, Bureau of Economic Analysis 81-3-1

New car prices were held down by cash rebates introduced in February. The slowing of food price increases from the 16–17 percent (annual rate) registered in the second half of 1980 was largely due to meat prices. There were sharp jumps in the prices of fresh vegetables, reflecting reduced supplies following the mid-January freeze in Florida, and of fats and oils, reflecting damage to the peanut crop. PCE energy prices accelerated sharply from the single-digit rates of increase registered in the second half of 1980. An acceleration in gasoline and fuel oil prices was due to a combination of increased prices for OPEC and other imported crude oil, and the decontrol of domestic crude oil and of refined petroleum products on January 28. (Gasoline was the only major refined product still subject to Federal controls; see "PCE Energy Prices, 1978–80" in the October 1980 SURVEY OF CURRENT BUSINESS.) Electricity price increases reflected pass-throughs (in the form of fuel adjustments in consumers' bills) of higher prices of petroleum products used in electricity production, and, to a lesser extent, the effects of drought on hydroelectric production, which caused increased reliance on higher priced energy inputs.

Real PCE increased about 6 percent at an annual rate in the first quarter.[2] Its unusual strength was due to motor vehicles and parts; all other PCE combined increased about 4 percent. Among the major components, only electricity

2. The major source data that shed light on first-quarter GNP components are limited to 1 or 2 months of the quarter, and in some cases are preliminary. These data are: For *personal consumption expenditures* (PCE), January and February retail sales, unit sales of new autos through the first 10 days of March, and sales of new trucks for January and February; for *nonresidential fixed investment*, the same data for autos and trucks as for PCE, January construction put in place, January manufacturers' shipments of equipment, and business investment plans for the quarter; for *residential investment*, January construction put in place, and housing starts for January and February; for *change in business inventories*, January book values for manufacturing and trade, and unit auto inventories for January and February; for *net exports of goods and services*, January merchandise trade; for *government purchases of goods and services*, Federal unified budget outlays for January, State and local construction put in place for January, and State and local employment for January and February; and for *GNP prices*, the Consumer Price Index for January, and the Producer Price Index for January and February.

and natural gas declined; a factor in the decline was unseasonably mild weather in February.

In motor vehicles, purchases of cars increased again, and purchases of trucks turned up. In terms of units, sales of new passenger cars, which are sales to business and other final users as well as to consumers, averaged 10.0 million (seasonally adjusted annual rate) in January–February, up from 9.1 million in the fourth quarter. Import sales were up to 2.8 million from 2.5 million. Domestic sales, which were up to 7.3 million from 6.7 million, were boosted by the cash rebate programs. For each domestic size category, sales in January–February were up from the fourth quarter (chart 1).

Other components of GNP

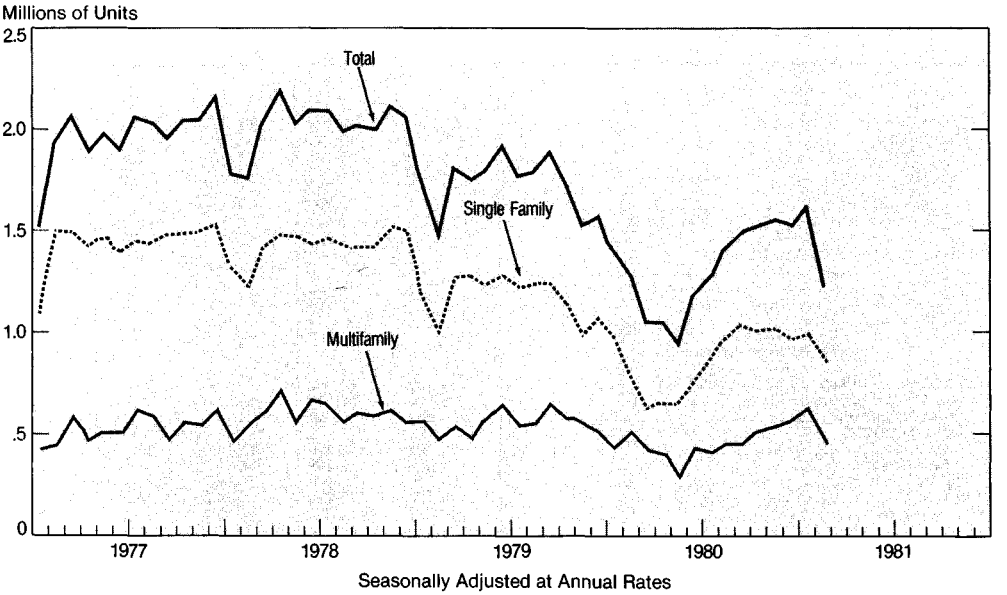
Real residential investment, which reflects housing starts with a lag, was up about 10 percent at an annual rate. Housing starts had increased through the second half of 1980 before turning down in January–February (chart 2). The increase in the residential investment total was held down by a decline in commissions on the sale of new and existing houses; new construction was up substantially more than 10 percent. Multifamily construction was especially strong. Although it was only one-third of new construction, it contributed almost one-half of its first-quarter increase.

Despite continued excess capacity and expensive financing, real nonresidential fixed investment increased again in the first quarter. The 9-percent annual rate increase reflected unusually strong investment in motor vehicles and 5-percent increases both in structures and in producers' durable equipment other than motor vehicles. (Business investment as reported in the Plant and Equipment Survey is discussed later in this issue.)

A 2-percent annual rate increase in real government purchases was largely accounted for by the price support operations of the Commodity Credit Corporation. Over the past year, these operations have accounted for most of the quarterly changes in government purchases.

CHART 2

Housing Starts



Data: Census
U.S. Department of Commerce, Bureau of Economic Analysis

81-3-2

For the remaining components of GNP—net exports and change in business inventories (CBI)—little information is available. The only item for which there is more than 1 month of information is the motor vehicles component of CBI. This information indicates that there was a substantial liquidation of motor vehicle inventories in the first quarter after moderate accumulation in the fourth. In terms of units, new car inventories dropped from 1.35 million (seasonally adjusted) in the fourth quarter to about 1.12 million in February. The inventory-sales ratio dropped below the desired 2.0 level for the first time in 4 years.

The developments in GNP components that have been roughly quantified add up to a 3-percent annual increase in the first quarter. Likely developments in the remaining components suggest that the increase in real GNP was substantially more. For net exports, it is unlikely that the unusually large decline in the fourth quarter was repeated in the first. In the fourth quarter, upturns in petroleum and nonpetroleum merchandise imports, together with substantial declines in agricultural and nonagricultural merchandise exports, produced a $9 billion decline in real net exports. For inventories other than of motor vehicles, it is unlikely that the substantial decumulation that occurred in the fourth quarter was repeated; inventories were already low in relation to sales in the fourth quarter.

GNP prices probably increased somewhat less than the 10-percent annual rate registered by the fixed-weighted price index in the fourth quarter. The major factor in the lower rate of increase was prices paid by government. The fourth-quarter increase had included the Federal pay raise, which added about 1½ percentage points to the increase in GNP prices.

Employment and unemployment

From the fourth quarter of 1980 to February, the civilian labor force increased 508,000, the largest increase in over a year (table 2). Adult women accounted for the entire fourth-quarter-to-February increase. The household measure of employment increased 651,000, about three times as much as in the fourth quarter. Virtually the entire increase was in the employment of adult women. A decrease in unemployment of 143,000 was more than accounted for by a decrease in the number of persons on layoff. In February, the unemployment

Table 2.—Selected Labor Market Indicators

[Seasonally adjusted]

	1980				1981		Change from preceding quarter			
	I	II	III	IV	Jan.	Feb.	1980:II	1980:III	1980:IV	1981:Feb.
Household survey										
Civilian labor force (thousands)	104,217	104,693	104,982	105,173	105,543	105,681	476	289	191	508
Employment	97,718	97,040	97,061	97,276	97,696	97,927	−678	21	215	651
Unemployment	6,499	7,652	7,921	7,897	7,847	7,754	1,153	269	−24	−143
Job losers	3,040	4,071	4,357	4,232	3,847	3,896	1,031	286	−125	−336
On layoff	1,098	1,716	1,758	1,538	1,258	1,267	618	42	−220	−271
Other job losers	1,942	2,355	2,598	2,693	2,590	2,629	413	243	95	−64
Job leavers, reentrants, and new entrants	3,438	3,645	3,610	3,665	3,946	3,782	207	−35	55	117
Unemployment rate (percent):										
Total	6.2	7.3	7.5	7.5	7.4	7.3	1.1	.2	0	−.2
Adult men	4.8	6.2	6.6	6.3	6.0	6.0	1.4	.4	−.3	−.3
Adult women	5.8	6.4	6.4	6.7	6.7	6.5	.6	0	.3	−.2
Teenagers	16.4	17.9	18.4	18.3	19.0	19.3	1.5	.5	−.1	1.0
Establishment survey										
Employment, nonfarm payroll (thousands)	91,120	90,489	90,131	90,932	91,499	91,550	−631	−358	801	618
Goods producing	26,605	25,763	25,317	25,780	26,042	25,960	−842	−446	463	180
Construction	4,644	4,427	4,362	4,475	4,608	4,500	−217	−65	113	25
Manufacturing:										
Durables	12,701	12,176	11,878	12,116	12,192	12,198	−525	−298	238	82
Nondurables	8,254	8,138	8,059	8,134	8,158	8,172	−116	−79	75	38
Distributive [1]	25,793	25,652	25,694	25,785	25,930	26,039	−141	42	91	254
Services [2]	22,630	22,778	22,983	23,211	23,400	23,439	148	205	228	228
Government	16,093	16,296	16,137	16,156	16,127	16,112	203	−159	19	−44
Average weekly hours, private nonfarm:										
Total	35.5	35.1	35.1	35.4	35.5	35.2	−.4	0	.3	−.2
Manufacturing	40.1	39.4	39.3	39.9	40.4	39.8	−.7	−.1	.6	−.1

1. Transportation and public utilities, and wholesale and retail trade.
2. Services, and finance, insurance, and real estate.

Source: Bureau of Labor Statistics.

rate was 7.3 percent, down from 7.5 percent in the fourth quarter. The rates for adult men and adult women declined, but that for teenagers continued its uptrend.

The payroll measure of employment increased 618,000, about 200,000 less than in the fourth quarter. The deceleration was in construction and manufacturing—largely durables. The bulk of the first-quarter increase was in distributive industries (254,000) and services (228,000).

Average weekly hours in the private nonfarm economy declined 0.3 hours in February to 35.2 hours, after increasing since August. The decline was in construction and manufacturing. Adverse weather conditions in the Midwest and Southeast prevailed during the week of the payroll survey and were a major factor in the decline.

Fourth-quarter corporate profits

In the fourth quarter of 1980, corporate profits from current production—profits with inventory valuation and capital consumption adjustments—increased $5 billion, following an $8½ billion increase in the third. With these

Table 3.—Corporate Profits

[Billions of dollars; seasonally adjusted at annual rates]

	1979	1980: Change from preceding quarter				1980
	IV	I	II	III	IV	IV
Corporate profits with inventory evaluation and capital consumption adjustments	**189.4**	**10.8**	**−30.9**	**8.6**	**5.1**	**183.0**
Profits before tax	255.4	21.7	−59.2	19.7	11.6	249.2
Profits tax liability	87.2	7.0	−22.7	7.0	6.6	85.1
Profits after tax	168.2	14.7	−36.4	12.6	5.0	164.1
Dividends	51.6	2.3	1.8	1.0	1.0	57.7
Undistributed profits	116.6	12.3	−38.2	11.7	4.0	106.4
Inventory valuation adjustment	−50.8	−10.6	30.3	−10.6	−6.7	−48.4
Capital consumption adjustment	−15.1	−.3	−2.2	−.3	.1	−17.8
Corporate profits with inventory valuation adjustment and without capital consumption adjustment	**204.5**	**11.1**	**−28.7**	**9.0**	**4.9**	**200.8**
Rest of the world	31.7	4.9	−7.3	1.6	−3.2	27.7
Domestic	172.9	6.1	−21.5	7.5	8.1	173.1
Financial	32.6	.7	−3.2	−1.4	1.9	30.6
Federal Reserve banks	10.5	1.4	.8	−1.4	.7	12.0
Other financial	22.1	−.7	4.0	0	1.2	18.6
Nonfinancial	140.3	5.4	−18.2	8.7	6.3	142.5
Manufacturing	80.2	11.9	−30.8	7.2	6.7	75.2
Durable goods	29.3	−1.2	−18.0	9.3	5.9	25.3
Primary metal industries	2.8	3.1	−3.9	−1.3	2.6	3.3
Fabricated metal products	4.8	.4	−3.5	2.2	1.1	5.0
Machinery, except electrical	8.0	−.7	−1.6	.5	−.2	6.0
Electric and electronic equipment	5.7	.9	−2.8	1.7	−.1	5.4
Motor vehicles and equipment	−.8	−2.1	−5.9	4.0	3.8	−1.0
Other	8.8	−2.8	−.4	2.4	−1.4	6.6
Nondurable goods	50.9	13.1	−12.8	−2.1	.8	49.9
Food and kindred products	6.7	1.5	−1.5	−1.0	2.4	8.1
Chemicals and allied products	6.6	2.2	−2.8	1.0	1.2	8.2
Petroleum and coal products	23.7	7.3	−5.7	−3.1	−2.4	19.8
Other	13.8	2.2	−2.8	1.0	−.3	13.9
Wholesale and retail trade	22.6	−7.8	11.1	−5.5	2.3	22.7
Transportation, communication and electric, gas, and sanitary services	14.9	1.2	.5	5.9	−3.2	19.3
Other	22.6	.1	1.0	1.1	.6	25.4

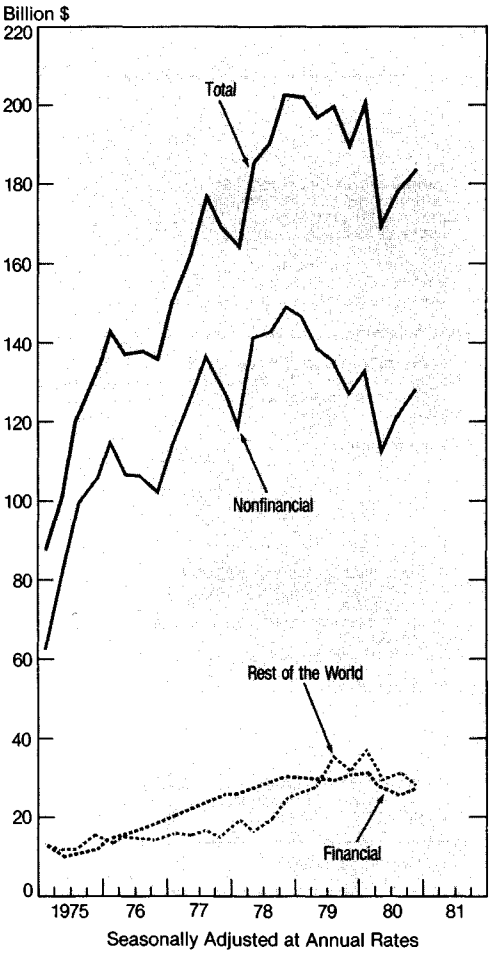
increases, profits have regained nearly one-half the ground lost in the second quarter. At $183 billion, they are $17 billion below the first quarter of 1980 and $19½ billion below their recent peak in the fourth quarter of 1978 (chart 3). Domestic profits of nonfinancial corporations also increased in the third and fourth quarters. These profits, at $128 billion, have nearly regained their first-quarter 1980 level, but remain $21 billion below the fourth quarter of 1978. Domestic profits of financial corporations increased $2 billion following a $1½ billion decrease. With little net gain in these two quarters, these profits, at $27½ billion, are close to their second-quarter level, which is well below the $30–$31 billion at which they had held from the fourth quarter of 1978 to the first quarter of 1980. Rest-of-the-world profits—as measured by the net inflow of dividends and reinvested earnings of incorporated foreign affiliates, and earnings of unincorporated foreign affiliates—decreased $3 billion, following a $1½ billion increase. At $27½ billion, these profits, which show substantial quarterly irregularity, are $3½ billion above the fourth quarter of 1978.

Detail by industry for nonfinancial corporations is available for profits with inventory valuation adjustment but without capital consumption adjustment (table 3). Manufacturing profits increased $6½ billion to $75 billion in the fourth quarter, following an increase of $7 billion in the third. Within manufacturing, the increases are largely due to durable goods manufacturers' profits; nondurable goods manufacturers' profits increased very slightly in the fourth quarter, following a small decrease in the third. The overall increase in nondurable profits was held down by a decrease in petroleum manufacturers' profits.

The fourth-quarter increase in profits of durable goods manufacturers was widespread and mirrored production. Production, as measured by summing BEA measures of constant-dollar sales and constant-dollar inventory change, increased sharply in most durable goods in manufacturing industries. Losses of

CHART 3

Profits With IVA and CCAdj.



Note.—An IVA is not calculated for financial and rest of the world and a CCAdj. is not calculated for rest of the world.

U.S. Department of Commerce, Bureau of Economic Analysis 81-3-3

manufacturers of motor vehicles and equipment were sharply reduced, reflecting both costcutting measures taken by these manufacturers and substantial increases in the production and sales of autos and trucks. Increased demand for metal products, resulting from the increase in auto and truck production, contributed to substantial increases in the profits of steel and fabricated metal products manufacturers. The profits of lumber and of stone, clay, and glass manufacturers increased, reflecting stronger demand resulting from increased investment in residential and nonresidential structures in the fourth quarter.

The $2 billion fourth-quarter in the profits of domestic financial corporations included an increase in Federal Reserve banks' profits and an increase in the profits of other financial corporations. The increase in other financial corporations' profits resulted primarily from savings and loan associations' swing from losses to profits. A major factor in the $3 billion decrease of profits from the rest of the world was profits of the overseas petroleum operations of U.S. corporations.

Disposition of profits.—Before-tax profits increased $11½ billion in the fourth quarter, following an increase of $19½ billion in the third quarter. These profits exclude the two valuation adjustments, which are designed to value inventories and fixed capital used up in production at replacement costs, the valuation concept underlying national income and product accounting, rather than at historical cost, the concept generally underlying business accounting.[3] If, as in the fourth quarter, the historical cost of inventories used up is less than their replacement cost, profits as measured by business exceed profit as measured in the NIPA's by an amount that is called inventory profits. Inventory profits increased $6½ billion in the fourth quarter, following an increase of $10½ billion in the third. If, as in the fourth quarter, fixed capital used up as measured by business is less than that as measured in the NIPA's, business profits exceed NIPA profits by an amount that is equal to the underdepreciation of the fixed capital stock. The profits attributable to underdepreciation were unchanged in the fourth quarter, following an increase of $½ billion in the third.

Corporate profits taxes, which are levied on profits including inventory profits and profits attributable to underpreciation, increased $6½ billion in the fourth quarter, a little less than in the third. Dividends increased $1 billion in both the third and fourth quarters. Undistributed profits increased $4 billion in the fourth quarter, following an increase of $11½ billion in the third.

3. The capital consumption adjustment also places the using up in production of fixed capital on a consistent basis with respect to service lives (85 percent of Internal Revenue Service Bulletin F for equipment and nonresidential structures) and depreciation formulas (straight-line).

The Federal Sector in the Fourth Quarter

The Federal government deficit as measured in the NIPA's declined $6 billion in the fourth quarter of 1980, as receipts increased more than expenditures. The fourth-quarter deficit was $68 billion, compared with a deficit of $24½ billion in the fourth quarter of 1979.

Receipts increased $32 billion in the fourth quarter, compared with $20 billion in the third. Personal tax and nontax receipts increased $13½ billion, reflecting a large increase in wages and salaries. Contributions for social insurance increased $7 billion and corporate profits tax accruals increased $6 billion. Of a $6 billion increase in indirect business tax and nontax accruals, $5 billion was in the windfall profits tax.

Expenditures increased $26 billion, slightly more than in the third quarter. Purchases of goods and services increased $17 billion, including $6½ billion for a 9.1-percent civilian and military pay raise. Agricultural price support operations of the Commodity Credit Corporation contributed $4½ billion to the increase in purchases and the resumption of purchases of petroleum for the Strategic Petroleum Reserve contributed $2 billion. Grants-in-aid to State and local governments increased $4 billion, largely for public assistance and water treatment plants. Transfer payments to persons increased $2 billion, the net result of a $3 billion decline in unemployment and trade adjustment benefits and a $5 billion increase in all other transfer payments. The latter increase included $2½ billion for cost-of-living adjustments for veterans and military and civilian retirees.

* * * *

Table 4.—Revisions in Selected Component Series of the NIPA's, Fourth Quarter of 1980

	Seasonally adjusted at annual rates			Precent change from preceding quarter at annual rates		
	45-day estimate	75-day estimate	Revision	45-day estimate	75-day estimate	Revision
	Billions of current dollars					
GNP	**2,732.3**	**2,730.6**	**−1.7**	**15.2**	**14.9**	**−0.3**
Personal consumption expenditures	1,749.2	1,751.0	1.8	16.9	17.4	.5
Nonresidential fixed investment	300.0	302.1	2.1	8.4	11.5	3.1
Residential investment	113.3	113.0	−.3	70.5	68.5	−2.0
Change in business inventories	−15.2	−17.4	−2.2			
Net exports	26.9	23.3	−3.6			
Government purchases	558.0	558.6	.6	19.7	20.2	.5
Federal	212.1	212.0	−.1	40.2	40.2	0
State and local	346.0	346.6	.6	9.0	9.7	.7
National income		**2,204.5**			**16.4**	
Compensation of employees	1,661.6	1,661.8	.2	17.1	17.1	0
Corporate profits with inventory valuation and capital consumption adjustments		183.0			11.9	
Other	360.3	359.7	−.6	16.1	15.3	−.8
Personal income	**2,256.0**	**2,256.2**	**.2**	**14.3**	**14.3**	**0**
	Billions of constant (1972) dollars					
GNP	**1,486.5**	**1,485.6**	**−.9**	**4.0**	**3.8**	**−.2**
Personal consumption expenditures	946.0	946.8	.8	6.7	7.0	.3
Nonresidential fixed investment	156.1	157.0	.9	1.6	4.0	2.4
Residential investment	50.8	50.6	−.2	67.2	64.2	−3.0
Change in business inventories	−5.8	−7.2	−1.4			
Net exports	49.7	48.5	−1.2			
Government purchases	289.7	289.8	.1	2.0	2.2	.2
Federal	107.6	107.4	−.2	2.8	2.0	−.8
State and local	182.1	182.4	.3	1.6	2.3	.7
	Index numbers, 1972=100 [1]					
GNP implicit price deflator	183.80	183.81	.01	10.7	10.7	0
GNP fixed-weighted price index	188.3	188.3	0	10.1	10.0	−.1
GNP chain price index				10.5	10.4	−.1

1. Not at annual rates.

NOTE.—For the fourth quarter of 1980, the following revised or additional major source data became available: For *personal consumption expenditures*, revised retail sales for December, consumer share of new car purchases for December, and consumption of electricity for November; for *nonresidential fixed investment*, revised manufacturers' shipments of equipment for December, revised construction put in place for December, business share of new car purchases for December, and business expenditures for plant and equipment for the quarter; for *residential investment*, revised construction put in place for December; for *change in business inventories*, revised book values for manufacturing and trade for December; for *net exports of goods and services*, revised merchandise trade for December, and revised service receipts for the quarter; for *government purchases of goods and services*, revised construction put in place for December; for *wages and salaries*, revised employment, average hourly earnings and average weekly hours for December; for *corporate profits*, preliminary tabulations of domestic book profits for the quarter, revised dividends from abroad and branch profits (net) for the quarter; and for *GNP prices*, residential housing prices for the quarter.

Fourth-quarter NIPA revisions

The 75-day revisions of the national income and product account estimates for the fourth quarter of 1980 are shown in table 4.

the BUSINESS SITUATION

REAL GNP increased 6½ percent at an annual rate in the first quarter of 1981, compared with 4 percent in the fourth quarter of 1980.[1] Two-thirds of the acceleration was in final sales; the rest was due to inventories. The contribution of inventories to the acceleration reflected a slowing in the rate of decumulation from the fourth quarter to the first after a step-up in that rate from the third to the fourth. In final sales, the largest element in the acceleration was net exports, which increased after a huge drop in the fourth quarter. Government purchases and nonresidential fixed investment increased more than in the fourth quarter. In contrast, personal consumption expenditures (PCE) increased less, and residential investment flattened (chart 1).

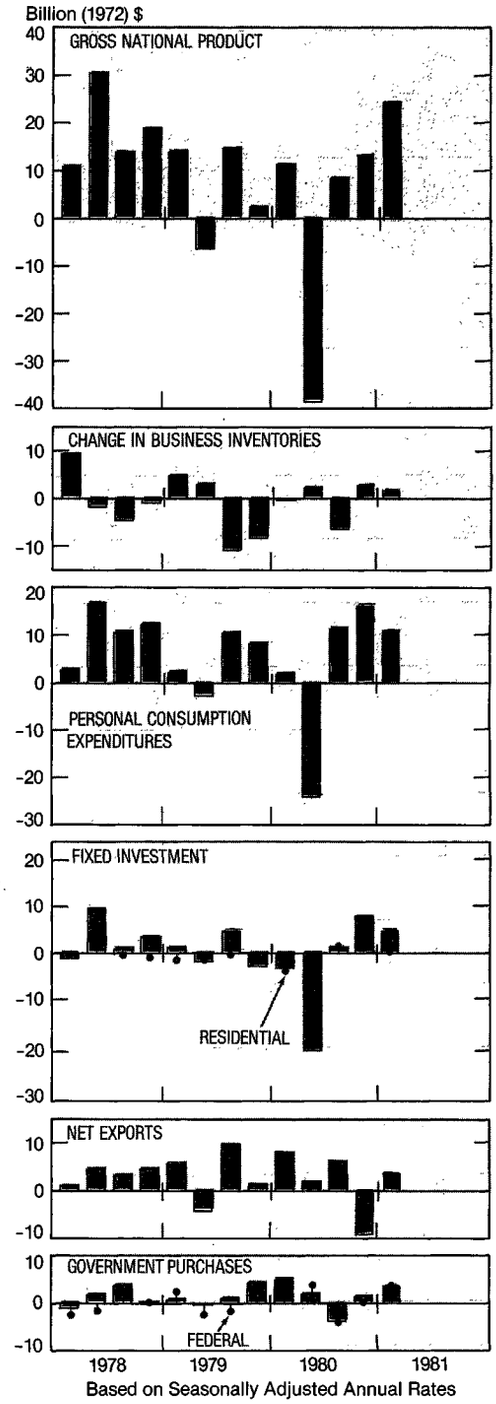
Motor vehicle output, which is the sum of the final sales and inventory change that are included in the corresponding conventional components of GNP, is shown in table 1. Motor vehicle output declined in the first quarter after a large increase in the fourth. If motor vehicle output and also residential investment are excluded, the course of production was quite different. This measure of production declined ½ percent at an annual rate in the fourth quarter and increased 8 percent in the first, compared with the 4-percent and 6½-percent increases registered by total GNP. Total GNP surpassed its first-quarter 1980 peak by ½ percent, and production excluding motor vehicle output and residential investment surpassed its peak by 1 percent.

Prices.—GNP prices as measured by the fixed-weighted price index increased 10 percent at an annual rate, compared with 10½ percent in the fourth quarter (table 2). The fourth-quarter increase had been boosted by a pay raise for Federal employees, which is reflected in the index because it represents an increase in the prices of the employee services purchased by the Federal Government. Excluding the pay raise, the increase in the fixed-weighted price indexes for GNP and for total final sales both accelerated 1 percentage point from 9 percent in the fourth quarter. This acceleration would have been larger had it not been for the prices of exports and imports. Export prices increased less than in the fourth quarter, largely reflecting prices of agricultural exports. Import prices, which enter the fixed-weighted price indexes with a negative weight, increased more, largely reflecting the price of petroleum imports. Among prices of other components of final sales, sharp accelerations were registered for each of the investment components; prices of PCE increased 11 percent, compared with 10 percent in the fourth quarter.

The step-up in PCE price increases was due to energy. Food prices and prices of PCE on other than food and energy increased less than in the fourth

CHART 1

Real Product: Change from Preceding Quarter



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1. The first-quarter GNP estimates are based on the following major source data: For *personal consumption expenditures* (PCE), retail sales, and unit auto and truck sales through March; for *nonresidential fixed investment,* the same information for autos and trucks as for PCE, manufacturers' shipments of machinery and equipment for January and February, January and February construction put in place, and investment plans for the quarter; for *residential investment,* January and February construction put in place, and housing starts for January and February; for *change in business inventories,* January and February book values for manufacturing and trade, and unit auto inventories through March; for *net exports of goods and services,* January and February merchandise trade, and fragmentary information on investment income for the quarter; for *government purchases of goods and services,* Federal unified budget outlays for January and February, State and local construction put in place for January and February, and State and local employment through March; and for *GNP prices,* the Consumer Price Index for January and February, the Producer Price Index through March, and unit values for imports for January. Some of these source data are subject to revision.

Table 1.—Key Factors in Real GNP

[Billions of constant (1972) dollars]

	Seasonally adjusted at annual rates				Change from preceding quarter		
	1980			1981	1980		1981
	II	III	IV	I	III	IV	I
Gross domestic product	1,435.5	1,443.4	1,458.9	1,481.2	7.9	15.5	22.3
Plus: Rest-of-the world product	27.8	28.5	26.7	28.0	.7	−1.8	1.3
GNP	**1,463.3**	**1,471.9**	**1,485.6**	**1,509.2**	**8.6**	**13.7**	**23.6**
Less: Motor vehicle output[1]	47.4	46.8	57.1	53.7	.8	10.3	−3.4
Residential investment	43.1	44.7	50.6	50.7	1.6	5.9	−.1
GNP less motor vehicle output and residential investment	**1,372.8**	**1,380.4**	**1,377.9**	**1,404.8**	**7.6**	**−2.5**	**26.9**
Change in business inventories	1.3	−5.0	−7.2	−5.7	−6.3	−2.2	1.5
Less: Motor vehicles	−.3	−4.4	2.4	−7.5	−4.1	6.8	−9.9
Change in business inventories less motor vehicles	1.6	−.6	−9.6	1.8	−2.2	−9.0	11.4
Final sales	1,462.0	1,476.9	1,492.7	1,515.0	14.9	15.8	22.3
Less: Motor vehicles	47.6	51.3	54.6	61.2	5.1	3.3	6.6
Residential investment	43.1	44.7	50.6	50.7	1.6	5.9	.1
Final sales less motor vehicles and residential investment	1,371.3	1,380.9	1,387.5	1,403.1	9.6	6.6	15.6
Personal consumption expenditures	919.3	930.8	946.8	957.8	11.5	16.0	11.0
Less: Motor vehicles	34.9	39.1	42.0	47.2	5.6	2.9	5.2
Personal consumption expenditures less motor vehicles	884.4	891.7	904.8	910.6	7.3	13.1	5.8
Nonresidential structures	48.7	46.8	47.8	49.1	−1.9	1.0	1.3
Nonresidential producers' durable equipment	107.4	108.8	109.3	112.6	1.4	.5	3.3
Less: Motor vehicles	15.7	17.7	17.1	18.0	2.0	−.6	.9
Nonresidential producers' durable epuipment less motor vehicles	91.7	91.1	92.2	94.6	−.6	1.1	2.4
Net exports	51.7	57.6	48.5	51.8	5.9	−9.1	3.3
Less: Motor vehicles	−5.2	−7.8	−6.7	−6.1	−2.6	1.1	.6
Net exports less motor vehicles	56.9	65.4	55.2	57.9	8.5	−10.2	2.7
Exports	160.5	160.5	157.4	164.9	0	−3.1	7.5
Less: Motor vehicles	3.9	3.4	4.0	4.2	−.5	.6	.2
Exports less motor vehicles	156.6	157.1	153.4	160.7	.5	−3.7	7.3
Imports	108.9	102.8	108.9	113.1	−6.1	6.1	4.2
Less: Motor vehicles	9.2	11.2	10.6	10.2	2.0	−.6	−.4
Imports less motor vehicles	99.7	91.6	98.3	102.9	−8.1	6.7	4.6
Government purchases	291.9	288.2	289.8	292.9	−3.7	1.6	3.1
Less: Motor vehicles	2.2	2.2	2.2	2.2	0	0	0
Government purchases less motor vehicles	289.7	286.0	287.6	290.7	−3.7	1.6	3.1

1. This estimate and the estimates of motor vehicles that are shown under the components of GNP are from the auto and truck output tables (tables 1.15 and 1.17 of the National Income and Product Account Tables). The output estimates in turn are based primarily on unit production and sales data.

quarter: The former increased 7 percent at an annual rate, compared with 16 percent; the latter increased 8 percent, compared with 9 percent. The major factor in food was a decline in meat prices. Partly offsetting meat were sharp jumps in the prices of fats and oils, reflecting substantial damage to last fall's peanut crop, and of fresh vegetables, reflecting reduced supplies following the mid-January freeze in Florida. Meat prices are expected to increase in the second quarter because of tighter supplies of beef.

PCE energy prices accelerated sharply in the first quarter from an annual rate increase of 6½ percent to 40½ percent. All four major components contributed. Gasoline and fuel oil prices increased 44½ percent and 89½ percent, respectively, compared

Table 2.—Fixed-Weighted Price Indexes

	Index of numbers (1972=100) seasonally adjusted				Percent change from preceding quarter at annual rates		
	1980 r			1981	1980 r		1981
	II	III	IV	I	III	IV	I
Gross national product	**181.1**	**185.1**	**189.7**	**194.3**	**9.0**	**10.4**	**9.9**
Less: Change in business inventories							
Equals: Final sales	181.1	185.0	189.6	194.2	9.0	10.4	10.0
Less: Exports	213.2	219.1	226.6	232.4	11.5	14.5	10.6
Plus: Imports	299.4	308.7	315.5	325.7	13.1	9.0	13.6
Equals: Final sales to domestic purchasers	**186.6**	**190.8**	**195.4**	**200.3**	**9.2**	**10.0**	**10.3**
Personal consumption expenditures	182.1	186.3	190.8	195.9	9.5	10.1	11.1
Food	187.9	195.1	202.6	206.1	16.2	16.1	7.2
Energy [1]	318.7	320.3	325.2	354.1	2.1	6.3	40.5
Other personal consumption expenditures	167.8	171.3	175.0	178.4	8.7	8.9	7.9
Other	194.3	198.4	203.1	207.6	8.8	9.7	9.2
Nonresidential structures	216.7	221.0	224.1	229.4	8.1	5.8	9.8
Producers' durable equipment	180.8	185.8	189.4	193.8	11.6	7.9	9.7
Residential	218.4	223.1	224.3	230.3	8.8	2.1	11.1
Government purchases	188.4	192.1	198.2	202.2	8.1	13.3	8.3

r Revised.
1. Gasoline and oil, fuel oil and coal, electricity, and gas.

with 6 percent and 6½ percent in the fourth quarter. The step-ups were due to increased prices for OPEC and other imported crude oil, and the decontrol of domestic crude oil and refined petroleum products, effective January 28. The latest round of OPEC price increases, announced in December, generally were $2 to $4 per barrel. Decontrol concentrated into the first quarter the price impact of the previously scheduled phasing out of Federal price and allocation controls. The effect of these developments on the average price of gasoline was an immediate increase of several cents per gallon. In March, however, the price of gasoline showed little change. Natural gas prices increased 7½ percent in the first quarter, compared with 5 percent in the fourth. Electricity prices increased 17½ percent, compared with 7½ percent in the fourth quarter, as higher prices for crude oil and petroleum products used in electricity production were passed through to consumers.

Employment and unemployment.—Labor market conditions improved slightly in the first quarter. The civilian labor force increased 627,000, the largest increase in over a year (table 3). The household measure of employment increased 736,000, more than three times as much as in the fourth quarter. Adult women accounted for virtually the entire first-quarter increase in the labor force and for three-fourths of the increase in employment. Unemployment declined 109,000, as a decline in job losers more than offset increases in the other categories of unemployment. The unemployment rate declined from 7.5 percent in the previous 2 quarters to 7.4 percent, although the rate for teenagers increased to 19.1 percent, its highest level in 5 years.

The payroll measure of employment increased 658,000, about 140,000 less than in the fourth quarter. The entire deceleration was in durables manufacturing. The bulk of the first-quarter increase was in services (242,000) and distributive industries (217,000). Average weekly hours in the private nonfarm economy held steady at 35.4, and hours in manufacturing were up 0.2 to 40.1.

Like production, by the first quarter, employment and hours had recovered their recession losses. Employment was above its first-quarter 1980 peak, and average hours nearly regained their year-ago level. Unemployment, however, remained well above its year-ago level.

Table 3.—Selected Labor Market Indicators

[Seasonally adjusted]

	1980				1981	Change from preceding quarter			
	I	II	III	IV	I	1980: II	1980: III	1980: IV	1981: I
Household survey									
Civilian labor force (thousands)	104,217	104,693	104,982	105,173	105,800	476	289	191	627
Employment	97,718	97,040	97,061	97,276	98,012	−678	21	215	736
Unemployment	6,499	7,652	7,921	7,897	7,788	1,153	269	−24	−109
Job losers	3,040	4,071	4,357	4,232	3,863	1,031	286	−125	−369
On layoff	1,098	1,716	1,758	1,538	1,275	618	42	−220	−263
Other job losers	1,942	2,355	2,598	2,693	2,589	413	243	95	−104
Job leavers, reentrants, and new entrants	3,438	3,645	3,610	3,665	3,872	207	−35	55	207
Unemployment rate (percent):									
Total	6.2	7.3	7.5	7.5	7.4	1.1	.2	0	−.1
Adult men	4.8	6.2	6.6	6.3	6.0	1.4	.4	−.3	−.3
Adult women	5.8	6.4	6.4	6.7	6.6	.6	0	.3	−.1
Teenagers	16.4	17.9	18.4	18.3	19.1	1.5	.5	−.1	.8
Establishment survey									
Employment, nonfarm payroll (thousands)	91,120	90,489	90,131	90,932	91,590	−631	−358	801	658
Goods producing	26,605	25,763	25,317	25,780	26,002	−842	−446	463	222
Construction	4,644	4,427	4,362	4,475	4,549	−217	−65	113	74
Manufacturing:									
Durables	12,701	12,176	11,878	12,116	12,193	−525	−298	238	77
Nondurables	8,254	8,138	8,059	8,134	8,170	−116	−79	75	36
Distributive [1]	25,793	25,652	25,694	25,785	26,002	−141	42	91	217
Services [2]	22,630	22,778	22,983	23,211	23,453	148	205	228	242
Government	16,093	16,296	16,137	16,156	16,133	203	−159	19	−23
Average weekly hours, private nonfarm:									
Total	35.5	35.1	35.1	35.4	35.4	−.4	0	.3	0
Manufacturing	40.1	39.4	39.3	39.9	40.1	−.7	−.1	.6	.2

1. Transportation and public utilities, and wholesale and retail trade.
2. Services, and finance, insurance, and real estate.

Source: Bureau of Labor Statistics.

Table 4.—Real Gross Product, Hours, and Compensation in the Business Economy Other Than Farm and Housing

[Percent change from preceding quarter at annual rates based on seasonally adjusted estimates]

	1980			1981
	II	III	IV	I
Real gross product	−12.5	2.9	7.3	7.5
Hours	−9.3	−1.0	7.6	3.2
Compensation	.7	8.5	17.9	15.4
Real gross product per hour	−3.5	4.0	−.3	4.2
Compensation per hour	10.9	9.7	9.6	11.8
Unit labor cost	15.0	5.4	9.8	7.3

Costs and productivity.—Table 4 adapts the information on real product, employment, and hours to focus on costs and productivity in the business economy other than farm and housing. Real product increased as strongly in the first quarter as in the fourth, but the increase in hours decelerated to only one-half the fourth-quarter increase. As a result, productivity—as measured by real gross product per hour—swung to a substantial increase, continuing the irregular pattern that characterized 1980. Compensation was up sharply in both quarters; the first quarter was affected by the increase—from $3.10 to $3.35 per hour—in the minimum wage under the Fair Labor Standards Act, and by the increase in employer contributions for social insurance due to step-ups in the social security tax rate from 6.13 percent to 6.65 percent and in the taxable wage base from $25,900 to $29,700. Excluding both of these factors, compensation per hour increased 8.7 percent at an annual rate, compared with 9.6 percent in the fourth quarter. Unit labor costs increased less than in the fourth quarter.

Personal income and its disposition

Personal income increased $61½ billion in the first quarter, $12½ billion less than in the fourth (table 5).[2] The deceleration can be traced to wage and salary disbursements, proprietors' income, and

2. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

Table 5.—Personal Income and Its Disposition: Change From Preceding Quarter

[Billions of dollars, based on seasonally adjusted annual rates]

	1980		1981
	III	IV	I
Wage and salary disbursements	21.4	56.0	44.5
Manufacturing	3.5	18.2	13.0
Other commodity-producing	.6	5.7	4.1
Distributive	6.0	11.4	10.8
Services	7.9	11.3	12.8
Government and government enterprises	3.4	9.4	3.7
Proprietors' income	4.8	4.3	−2.6
Farm	−1.2	.3	−3.5
Nonfarm	6.0	3.9	.8
Personal interest income	8.2	7.9	18.7
Transfer payments	30.0	3.2	5.2
Other income	5.4	5.8	6.7
Less: Personal contributions for social insurance	2.3	3.1	11.0
Personal income	**67.7**	**74.1**	**61.5**
Less: Personal tax and nontax payments	11.2	17.7	13.0
Impact of legislation	.3	−.6	−2.8
Other	10.9	18.3	15.8
Equals: Disposable personal income	56.5	56.4	48.5
Less: Personal outlays	55.1	70.2	54.8
Equals: Personal saving	1.4	−13.8	−6.3
Addenda: Special factors in personal income:			
Federal pay raise	----------	6.1	.1
Minimum wage	----------	----------	2.0
Accidental damage: Mount St. Helens and Florida civil disturbance	.7	----------	----------
Social security (in personal contributions for social insurance)			
Base change	----------	----------	2.3
Rate change	----------	----------	6.7
Cost-of-living increase in Federal transfer payments	17.6	2.5	1.1

personal contributions for social insurance. In wages and salaries, the increase in manufacturing decelerated from $18 billion to $13 billion, largely due to smaller increases in employment and average weekly hours in durable goods industries. The increase in the minimum wage, the effect of which was concentrated in the distributive and services industries, more than accounted for the acceleration in their combined wages and salaries. In government and government enterprises, the deceleration was due to the Federal pay raise, which added $6 billion to fourth-quarter wages and salaries.

Proprietors' income declined $2½ billion in the first quarter after increasing $4½ billion in the fourth. A swing in farm proprietors' income—from a small plus to a $3½ billion decline—was largely traceable to the course of farm prices. Crop prices registered almost no change after a substantial fourth-quarter increase, and livestock prices registered a swing from an increase to a decline. Nonfarm proprietors' income increased only $1 billion after a $4 billion increase. The increase in the first quarter was smaller than in the fourth, because incomes from construction increased much less and because commissions of real estate brokers and of security and commodity brokers declined.

Personal contributions for social insurance, which are deducted in deriving personal income, were boosted $9 billion in the first quarter by legislated increases in social security contributions. The increase due to the tax-rate change amounted to $6½ billion, and that due to the wage-base change amounted to $2½ billion.

The major offset to these decelerations was personal interest income, which increased $18½ billion, compared with $8 billion in the fourth quarter. The first-quarter increase was unusually large and was due to higher interest rates on Federal securities held by persons, either directly or through financial intermediaries.

Partly due to the deceleration in wages and salaries, personal taxes increased only $13 billion, compared with $17½ billion in the fourth quarter. Taxes were also held down by the impact of legislation, including changes in the indexing procedure used in California to adjust personal taxes for the effects of inflation.

As a result of the deceleration in tax payments, disposable personal income decelerated somewhat less than personal income. Disposable income increased $48½ billion, $8 billion less than in the fourth quarter. The increase in personal outlays, of which PCE is the preponderant part, again exceeded that in disposable income, so that personal saving again declined. However, because outlays decelerated more than income, the first-quarter decline in saving was smaller—only about one-half the large fourth-quarter decline. The personal saving rate declined 0.4 percentage point, to 4.7

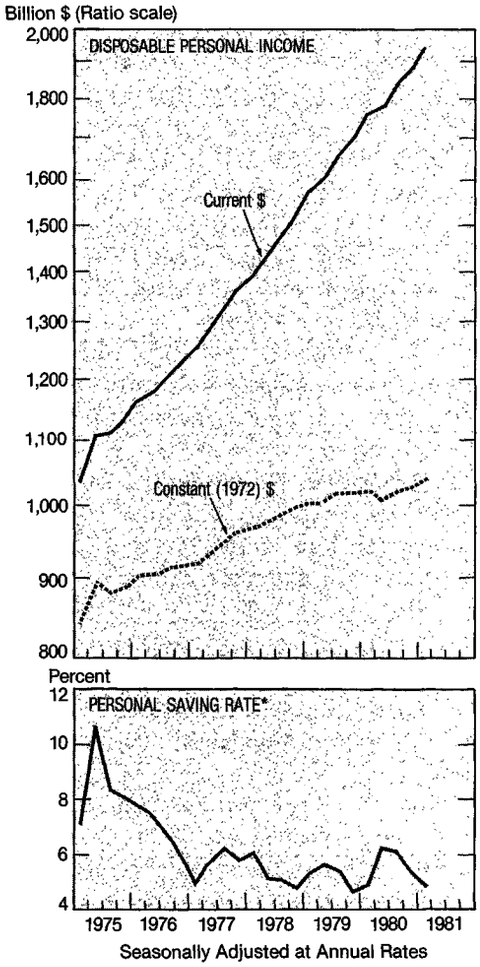
Table 6.—Real Personal Consumption Expenditures

	Billions of constant (1972) dollars, seasonally adjusted annual rates				Percent change from preceding quarter at annual rates		
	1980			1981	1980		1981
	II	III	IV	I	III	IV	I
Personal consumption expenditures	**919.0**	**930.8**	**946.8**	**957.8**	**5.1**	**7.0**	**4.7**
Durables	126.2	132.6	139.1	146.6	21.7	21.2	23.4
Motor vehicles and parts	47.0	51.5	54.6	60.4	44.5	26.1	49.7
Furniture and household equipment	57.0	58.4	60.7	62.0	10.2	16.6	9.0
Other durables	22.2	22.6	23.8	24.2	8.0	22.3	6.9
Nondurables	356.6	354.9	360.4	363.8	−1.8	6.3	3.8
Food	182.2	180.1	179.9	181.1	−4.6	−.5	2.8
Energy [1]	30.5	29.5	30.6	28.5	−11.2	14.9	−24.3
Clothing and shoes	76.7	78.3	80.1	82.9	8.3	9.7	14.5
Other nondurables	67.2	67.0	69.8	71.3	−1.8	17.8	8.6
Services	436.5	443.3	447.3	447.4	6.4	3.7	.1
Energy [2]	23.1	24.1	23.4	21.8	18.4	−11.4	−24.5
Other services	413.4	419.2	423.9	425.6	5.7	4.6	1.6

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

CHART 2

Disposable Personal Income and Personal Saving Rate



*Personal saving as a percentage of disposable personal income.

U.S. Department of Commerce, Bureau of Economic Analysis 81-4-2

percent, after declining 1.0 percentage point in the fourth quarter.

In real terms, disposable income increased 2½ percent at an annual rate, after increasing 3 percent in the fourth quarter and 4 percent in the third. These increases—although substantial—did little more than restore real disposable income to the level of the three-quarter plateau it had reached prior to its sharp decline in the second quarter of 1980 (chart 2).

Real PCE.—Real PCE continued strong in the first quarter. It increased 4½ percent at an annual rate, following increases of 7 percent in the fourth quarter and 5 percent in the third (table 6). On a monthly basis, PCE increased through January, but flattened subsequently. PCE on motor vehicles and parts continued up, but other PCE fell off.

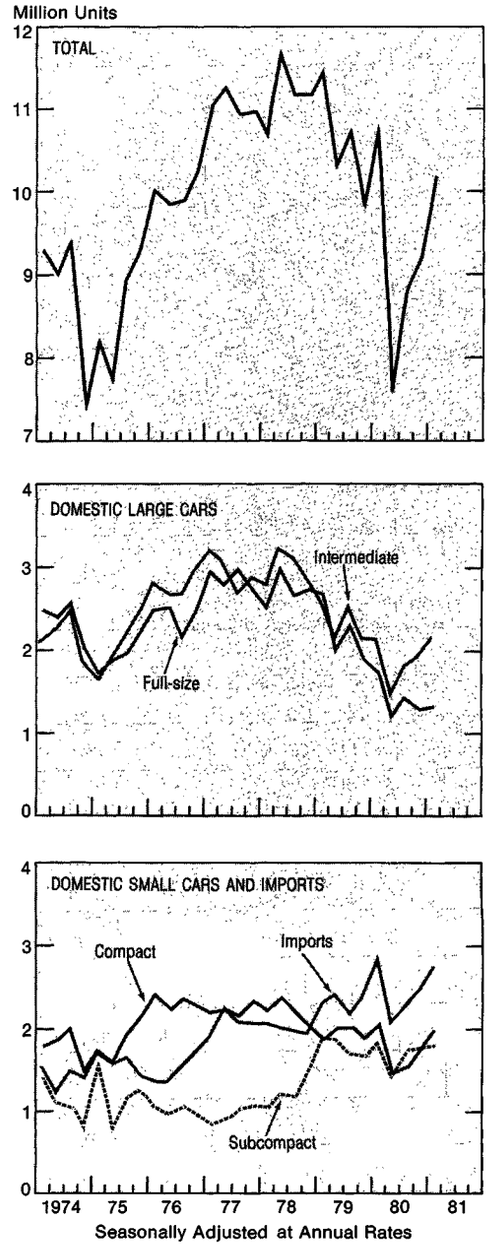
The bulk of the deceleration that occurred in PCE from the fourth quarter to the first was in services. PCE on electricity and gas declined, mainly due to unseasonably mild weather in February and March. "Other" services increased less than in the fourth quarter, primarily a reflection of a decline in commissions of security and commodity brokers and smaller increases in payments for several health-related services. Among goods, PCE on durables other than motor vehicles increased less in the first quarter, and PCE on energy declined. A decline in PCE on fuel oil, like that in electricity and gas, was mainly due to the weather. PCE on gasoline declined, continuing a 2-year slide that had been interrupted in the fourth quarter. In contrast, PCE on food turned up after 3 quarters of decline, and PCE on clothing continued to show a strong increase.

PCE on motor vehicles increased twice as much in the first quarter as in the fourth; purchases of cars continued to increase, and purchases of trucks turned up. In terms of units, sales of new passenger cars, which are sales to business and other final users as well as to consumers, totaled 10.2 million (seasonally adjusted annual rate) in the first quarter, up from 9.1 million in the fourth (chart 3). Import car sales continued their steady advance, increasing from 2.5 to 2.7 million. Sales of domestic cars were up sharply, from 6.7 to 7.4 million, after little change in the fourth quarter.

Sales of domestic cars were boosted by the extensive cash rebate programs in effect from mid-February through mid-March. The rebates were concentrated on intermediate and compact cars; sales of these cars increased from 1.9 to 2.2 million and from 1.7 to 2.0 million, respectively. Full-size car sales held steady at 1.3 million, and subcompact sales at 1.8 million. A portion of the rebate-induced increase represents "borrowing" from future periods; sales in the last 10 days of March, when most of the rebate programs had been scaled back, fell sharply.

CHART 3

Retail Sales of New Passenger Cars



Note.—The components may not add to the total because each category was separately adjusted for seasonal variation.

Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports; seasonal adjustment by BEA.

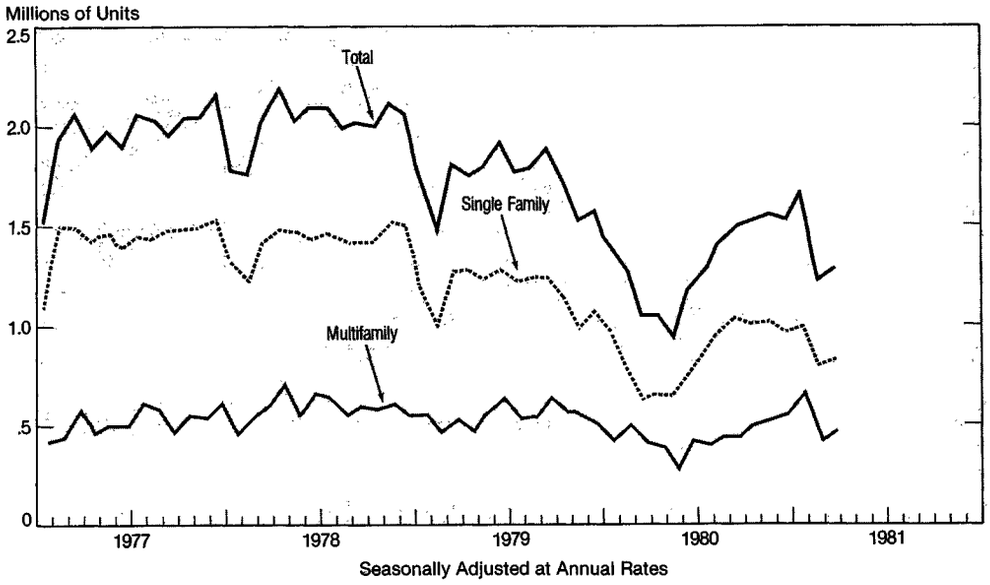
U.S. Department of Commerce, Bureau of Economic Analysis. 81-4-3

Investment

Real nonresidential fixed investment increased 12½ percent at an annual rate, after increasing 4 percent in the fourth quarter (table 7). The first-quarter acceleration was in producers' durable equipment; a turnaround in motor vehicles and a larger first-quarter increase in other producers' durable equipment contributed about equally.

CHART 4

Housing Starts



Data: Census
U.S. Department of Commerce, Bureau of Economic Analysis 81-4-4

Most of the turnaround in motor vehicles was due to the boost given by the cash rebate programs to business purchases of new cars. New truck sales, which are sales to all final users, were up only slightly—in terms of units, from 2.3 to 2.4 million (seasonally adjusted annual rates). The entire increase was in sales of imported trucks; sales of domestic "light" and "other" trucks remained at about their fourth-quarter levels. In other producers' durable equipment, the increase in the first quarter, as in the fourth, was spread across most of the major categories. The first-quarter increase in purchases of computers was especially large.

Investment in structures continued strong, increasing 11½ percent at an annual rate after 9½ percent in the fourth quarter. The strength in the first quarter, as in the fourth, was in industrial and commercial buildings. Among other types of structures, public utility construction continued to decline, and petroleum exploration and drilling was up in the fourth but down in the first.

Residential investment.—Real residential investment was flat in the first quarter, following a huge increase in the fourth. Although new construction increased—single-family units, much less than in the fourth quarter, and multifamily units, more than in the fourth—the "other" component of residential investment registered an offsetting decline. The first-quarter decline in this component, which includes brokers' commissions on the sale of new and existing residences, additions and alterations, and mobile home purchases, was in brokers' commissions.

New construction is a lagged function of housing starts. Multifamily starts moved up rather steadily through January, plummeted in February, and registered a limited recovery in March (chart 4). The fourth quarter included an unusually large increase in starts authorized under the Section 8 Federal rent subsidy program. Single-family starts increased strongly in June through September, held steady through January, and in February and March followed a course similar to that of multifamily starts. Single-family starts respond more rapidly to changes in financial conditions than do multifamily starts. In the fourth quarter, the prime rate—to which construction loans are tied—climbed to unprecedented levels, and, at 14 percent, the commitment rate on typical 25-year mortgages averaged 150 basis points above the third quarter (chart 5).

High and rising mortgage interest rates contributed also to the first-quarter decline in house sales, and, accordingly, in brokers' commissions. Sales of new single-family houses declined from a seasonally adjusted annual rate of 541,000 in the fourth quarter to 500,000 in January and February; the corresponding decline for existing homes was from 3,000,000 to 2,570,000.

A clue to the surprising strength of housing starts through January in the face of high and rising interest rates is that the number of unused building permits was being drawn down to unusually low levels. This suggests that the houses being started included a larger than usual proportion for which financing had been arranged earlier, when terms were more favorable. This source of strength has receded. Further, recent yields at Federal National Mortgage Association auctions suggest that the mortgage rate is unlikely to fall much, if at all, in the near future. Also, net deposit flows at savings and loan associations and mutual savings banks fell sharply from the fourth quarter to January and February. Given these developments.

Table 7.—Real Fixed Investment

	Billions of constant (1972) dollars, seasonally adjusted annual rates				Percent change from preceding quarter at annual rates		
	1980			1981	1980		1981
	II	III	IV	I	III	IV	I
Fixed investment	**199.2**	**200.2**	**207.6**	**212.4**	**2.1**	**15.7**	**9.4**
Nonresidential	156.1	155.5	157.0	161.7	−1.5	4.0	12.3
Structures	48.7	46.8	47.8	49.1	−15.3	9.0	11.5
Producers' durable equipment	107.4	108.8	109.3	112.6	5.3	1.9	12.6
Autos, trucks, and buses	15.6	17.6	17.0	17.9	60.8	−12.2	21.1
Other	91.7	91.2	92.2	94.7	−2.4	4.8	11.1
Residential	43.1	44.7	50.6	50.7	16.0	64.2	1.0

the outlook for residential investment is clouded.

Inventory investment.—In real terms, inventories were run down in the first quarter at a rate of $5½ billion—not far from the rates in the third and fourth quarters of 1980. The bulk of the three-quarter run-down was in nonfarm inventories, but farm inventories contributed as well.

The first-quarter decumulation in nonfarm inventories was more than accounted for by retail auto dealers.[3] Another series, which is the companion series to unit sales of new passenger cars, sheds additional light on auto inventory developments. Inventories of domestic cars were slashed from 1,350,000 (seasonally adjusted) in the fourth quarter to about 990,000 in the first, the lowest level in more than a decade. The inventory-sales ratio plunged from 2.4 in the fourth quarter to 1.6. The rebate programs were tailored to clear out certain slow-selling models that had built up despite earlier cutbacks in production. Inventories of many models are so low that an increase in production is scheduled in the second quarter despite uncertainty about the course of sales.

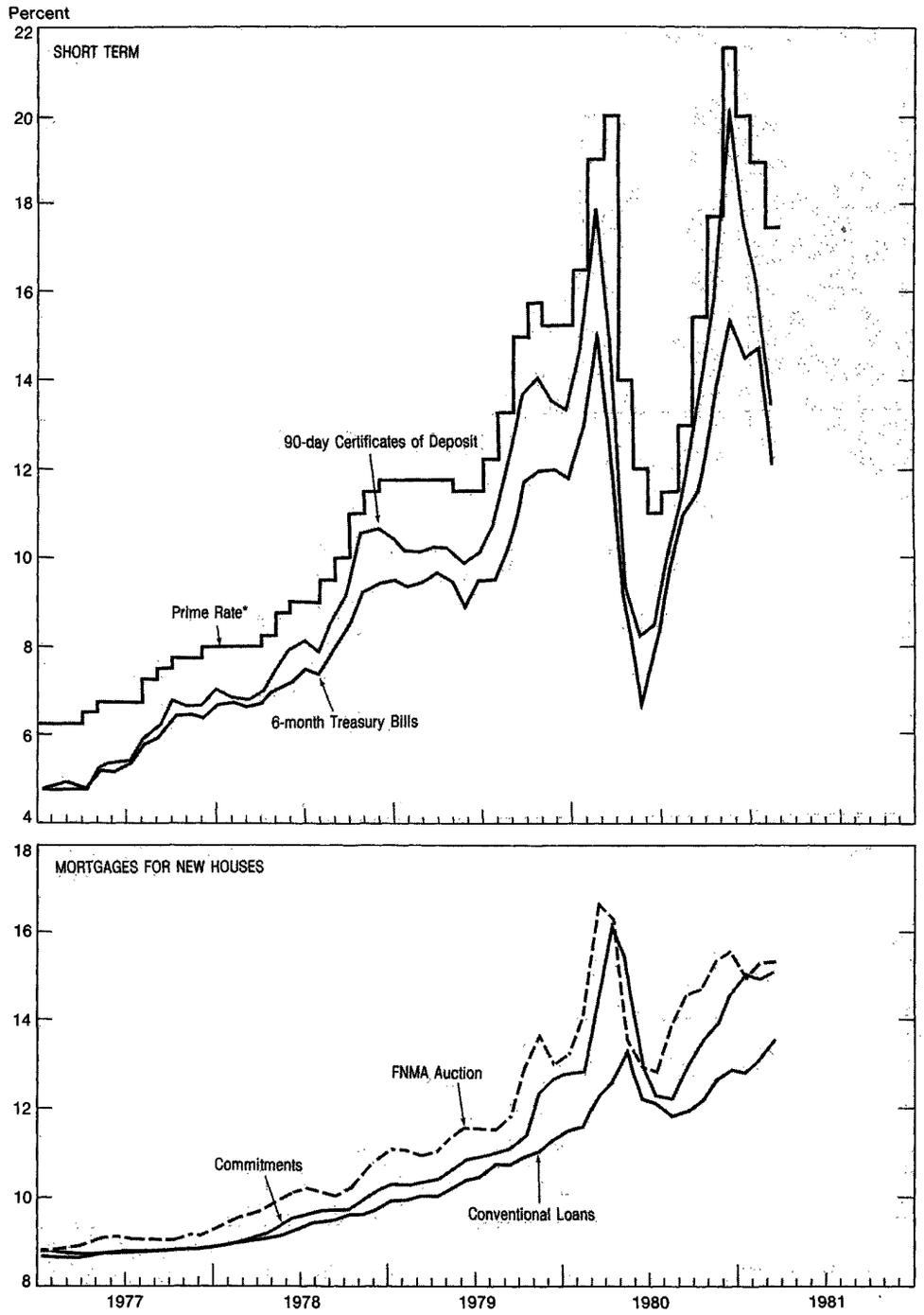
Among other nonfarm inventories, those held in wholesale trade, especially durables, and retail nondurables also registered decumulation in the first quarter. Accumulation in manufacturing, both durables and nondurables, was a partial offset.

For manufacturing, merchant wholesale trade, and retail trade, sales estimates are available that make it possible to relate inventory stocks to sales. Table 8 shows constant-dollar inventories, sales, and inventory-sales ratios for the period beginning in the second quarter of 1980, when inventory-sales ratios reached their peak. In retail trade, durables inventories were run down in the third and fourth quarters and held steady in the first. The strong sales increase over this period made it possible for these retailers to achieve the lean inventories they wanted. Nondurables inventories accumulated substantially in the third quarter when sales were weak, but were brought down subsequently when sales increased moderately. In manufacturing, inventories were run down in the third and fourth quarters prior to the first-quarter accumulation. A strengthening of sales coincided with the run-down and a weakening coincided with the accumulation. The strengthening and weakening of sales, especially in durables manufacturing, is, in turn, partly traceable to the course of motor vehicle production and resi-

3. In general, the series for retail auto dealers is derived from Census Bureau book value inventory data. These data cover most auto inventories—including inventories of new and used autos, domestic and foreign—although not those held by manufacturers and wholesalers. The Census Bureau data for retail auto dealers cover, in addition to autos, some trucks and other motorized vehicles, and also parts.

CHART 5

Selected Interest Rates



*At end of the month.
U.S. Department of Commerce, Bureau of Economic Analysis

Data: FRB, FHLBB

81-4-5

dential investment, because they are major markets for the products of manufacturing industries.

An overview of inventory developments is provided in chart 6, which shows total business inventories relative to business final sales and to business final sales of goods and structures. The chart brings out that, except in the second quarter of 1980, inventories have tended down since the third quarter of 1979. Apart from special industry situations, this tendency can be attributed to the high costs of carrying inventories that prevailed during most of the period, the determination to avoid the kind of buildup that occurred prior to 1975, and the widespread expectation of weaker sales in the second half of 1980 than materialized. Over this period, the movements in the inventory-sales ratios were largely due to movements in sales—a picture that emerges also in the by-industry inventories and sales indexes shown in table 8. By the first quarter of 1981, the ratios had fallen back to the levels that were registered in 1977–78, a period when inventories do not seem to have been excessive.

Net exports

Real net exports of goods and services were up $3½ billion in the first quarter, after declining $9 billion in the fourth (table 9). The major factor in the swing was a sharp turnaround in merchandise exports (chart 7). Agricultural exports increased following a decline in the fourth quarter. Most categories of nonagricultural exports strengthened relative to the fourth quarter. There was an especially large step-up in capital goods—an increase of $½ billion after a decline of $2½ billion. Merchandise imports increased, but not as much as in the fourth quarter. Reflecting increased U.S. industrial activity, petroleum as well as other industrial supplies and materials again registered sharp increases. Petroleum imports were up to 6.9 million barrels per day (seasonally adjusted) from 6.5 million in the fourth quarter. The first-quarter level was 18 percent below that of the first quarter of 1980.

Factor incomes—both receipts and payments—were up in the first quarter, as they had been in the fourth. A major cause of the increases was higher dollar interest rates.

Government

Real government purchases of goods and services increased 4½ percent at an annual rate in the first quarter, compared with 2 percent in the fourth (table 10). Federal purchases increased 12½ percent after little change. In the first quarter, agricultural price support operations by the Commodity Credit Corporation shifted from net sales of $1½ billion to net purchases of $2½ billion, as new loans to farmers exceeded redemptions of crops placed under loan earlier. Other Federal purchases showed little change.

State and local purchases, both in total and for major purchase categories, were flat in the first quarter. In the fourth quarter, these purchases had increased 2½ percent.

Table 8.—Constant-Dollar Inventories, Sales, and Inventory-Sales Ratios for Manufacturing and Trade

[Seasonally adjusted]

	Inventories (billions of 1972 dollars, end of period)						Sales (billions of 1972 dollars, monthly rate)					Inventory-sales ratio				
	1980			1981			1980			1981		1980			1981	
	II	III	IV	I	Jan.	Feb.	II	III	IV	Jan.	Feb.	II	III	IV	Jan.	Feb.
Manufacturing and trade	**264.7**	**264.2**	**263.0**	**261.6**	**263.2**	**262.9**	**150.5**	**153.6**	**158.1**	**159.5**	**158.6**	**1.76**	**1.72**	**1.66**	**1.65**	**1.66**
Manufacturing	147.2	145.9	145.0	146.0	145.8	146.2	70.1	71.5	74.1	74.0	73.8	2.10	2.04	1.96	1.97	1.98
Durable goods	99.5	99.0	98.9	99.3	99.4	99.5	37.2	38.3	40.5	40.3	40.5	2.67	2.59	2.44	2.47	2.46
Nondurable goods	47.7	46.8	46.1	46.7	46.4	46.8	32.9	33.2	33.6	33.8	33.3	1.45	1.41	1.37	1.37	1.40
Merchant wholesalers	52.9	53.3	53.4	52.6	53.0	52.9	36.2	36.8	38.4	38.6	37.6	1.46	1.45	1.39	1.37	1.41
Durable goods	35.3	35.3	35.5	34.6	35.0	35.0	16.4	16.9	17.8	17.6	17.8	2.15	2.09	1.99	1.99	1.97
Nondurable goods	17.6	18.1	17.9	18.0	18.0	17.9	19.8	19.9	20.5	21.0	19.9	.89	.91	.87	.86	.90
Retail trade	64.7	65.1	64.6	63.0	64.4	63.7	44.2	45.3	45.7	46.8	47.2	1.47	1.44	1.41	1.38	1.35
Durable goods	30.7	30.2	30.3	29.0	30.4	29.7	14.2	15.3	15.4	16.3	16.7	2.16	1.98	1.97	1.86	1.78
Auto	15.1	14.9	15.3	13.9	15.3	14.5	7.6	8.5	8.4	8.9	9.3	2.00	1.74	1.84	1.72	1.56
Other	15.6	15.4	15.0	15.0	15.1	15.1	6.7	6.8	7.0	7.4	7.4	2.34	2.27	2.13	2.04	2.05
Nondurable goods	34.1	34.8	34.2	34.0	34.0	34.1	29.9	30.0	30.3	30.5	30.5	1.14	1.16	1.13	1.12	1.12
	1980: II=1.000															
Manufacturing and trade	**1.000**	**.998**	**.994**	**.998**	**.994**	**.993**	**1.000**	**1.021**	**1.050**	**1.060**	**1.054**	**1.000**	**.977**	**.943**	**.938**	**.943**
Manufacturing	1.000	.991	.985	.992	.990	.993	1.000	1.020	1.057	1.056	1.052	1.000	.971	.933	.938	.943
Durable goods	1.000	.995	.994	.998	1.000	1.000	1.000	1.030	1.089	1.083	1.088	1.000	.970	.914	.925	.921
Nondurable goods	1.000	.981	.966	.979	.973	.981	1.000	1.009	1.021	1.027	1.012	1.000	.972	.945	.945	.966
Merchant wholesalers	1.000	1.008	1.009	.994	1.002	1.000	1.000	1.017	1.061	1.066	1.039	1.000	.993	.952	.938	.966
Durable goods	1.000	1.000	1.006	.980	.992	.992	1.000	1.030	1.085	1.073	1.085	1.000	.972	.926	.926	.916
Nondurable goods	1.000	1.028	1.017	1.023	1.023	1.017	1.000	1.005	1.035	1.061	1.005	1.000	1.022	.978	.966	1.011
Retail trade	1.000	1.006	.998	.974	.995	.995	1.000	1.025	1.034	1.059	1.068	1.000	.980	.959	.939	.918
Durable goods	1.000	.984	.987	.945	.990	.967	1.000	1.077	1.085	1.148	1.176	1.000	.917	.912	.861	.824
Auto	1.000	.987	1.013	.921	1.013	.960	1.000	1.118	1.105	1.171	1.224	1.000	.870	.920	.860	.780
Other	1.000	.987	.962	.962	.968	.968	1.000	1.015	1.045	1.104	1.104	1.000	.970	.910	.872	.872
Nondurable goods	1.000	1.021	1.003	.997	.997	1.000	1.000	1.003	1.013	1.020	1.020	1.000	1.018	.991	.982	.912

NOTE.—When put at annual rates and added to the change in farm, nonmerchant wholesalers, and "other" inventories, the differences between quarterly inventories sum to the constant-dollar change in business inventories component of GNP.

NIPA Federal sector.—Information on current-dollar Federal receipts and expenditures is shown in table 11. Expenditures increased $19 billion, compared with $26 billion in the fourth quarter. Purchases decelerated sharply; in the fourth quarter they had been boosted $6½ billion by the Federal pay raise. Grants-in-aid to State and local governments declined after increasing in the fourth quarter. In contrast, net interest paid increased more. The $12 billion step-up reflected higher interest rates on Federal securities and $2½ billion paid to the Penn Central Transportation Company as part of a settlement for the value of assets transferred by Penn Central to Conrail in 1976.

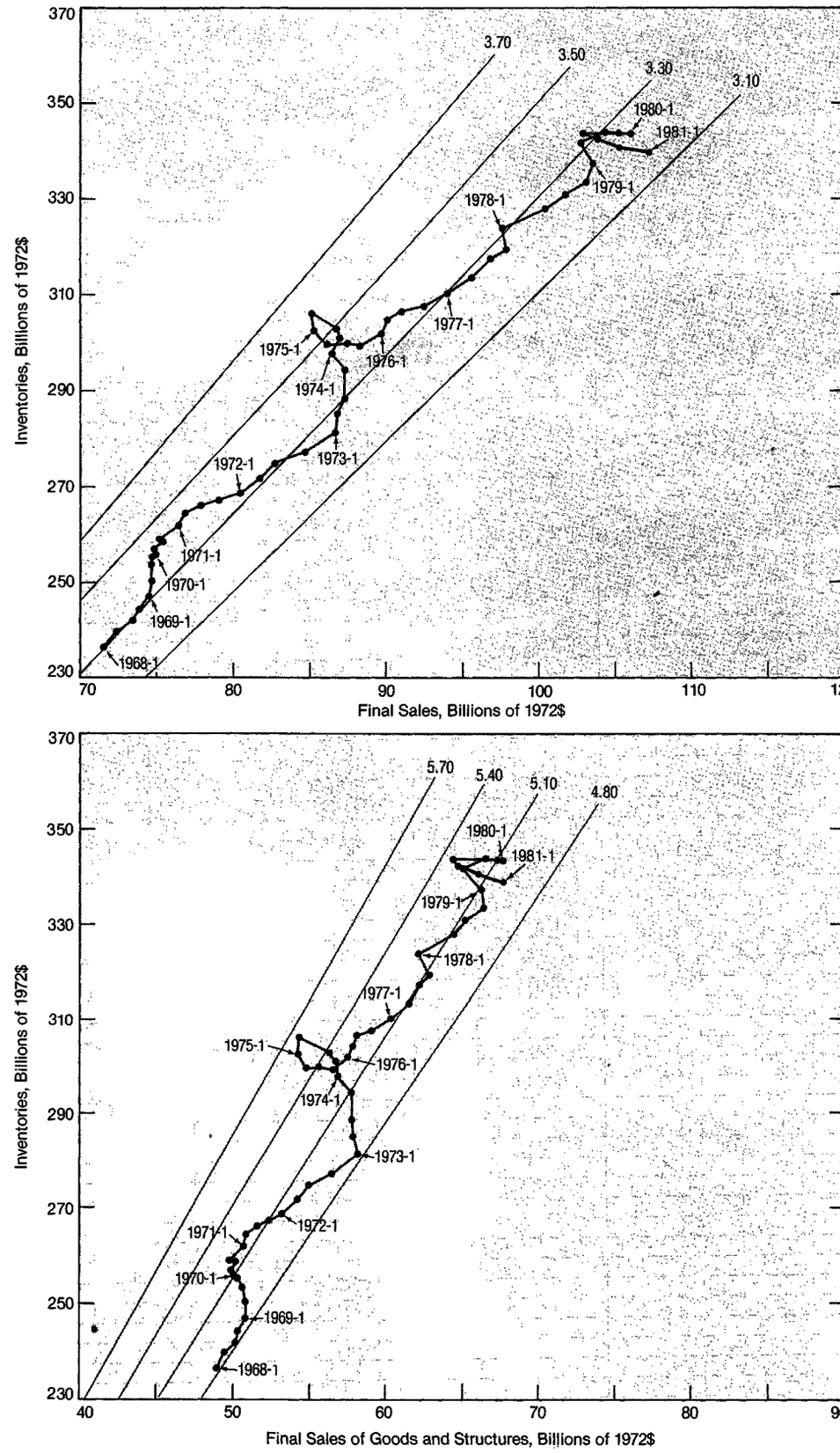
Receipts increased more than they did in the fourth quarter. Contributions for social insurance accelerated sharply—from $7 billion to $20½ billion—due to the step-up in the social security tax rate and taxable wage base. Also, indirect business taxes were up $11 billion, after increasing $6 billion in the fourth quarter. Windfall profits tax receipts increased sharply as a result of the full decontrol of domestic crude oil in January. Personal taxes increased $10½ billion, about $3 billion less than in the fourth quarter, largely reflecting the deceleration in the increase in wages and salaries. On the basis of a residual calculation of first-quarter profits, corporate profits tax accruals were down about one-third as much as they had increased in the fourth quarter. This residual calculation assumes that the statistical discrepancy in the national income and product account is the same as in the preceding quarter. On this basis, it appears that the Federal deficit on a national income and product account basis was about $20 billion less than the $68 billion recorded in the fourth quarter.

Corporate profits

In the fourth quarter of 1980, corporate profits from current production—profits with inventory valuation and capital consumption adjustments—increased $5½ billion to $183½ billion. This estimate is $½ billion higher than

CHART 6

Constant-Dollar Business Inventories, Final Sales and Final Sales of Goods and Structures and Inventory-Sales Ratios



Note: End-of-quarter inventories, seasonally adjusted; final sales seasonally adjusted. Blue lines represent ratios of inventory stocks to final sales.

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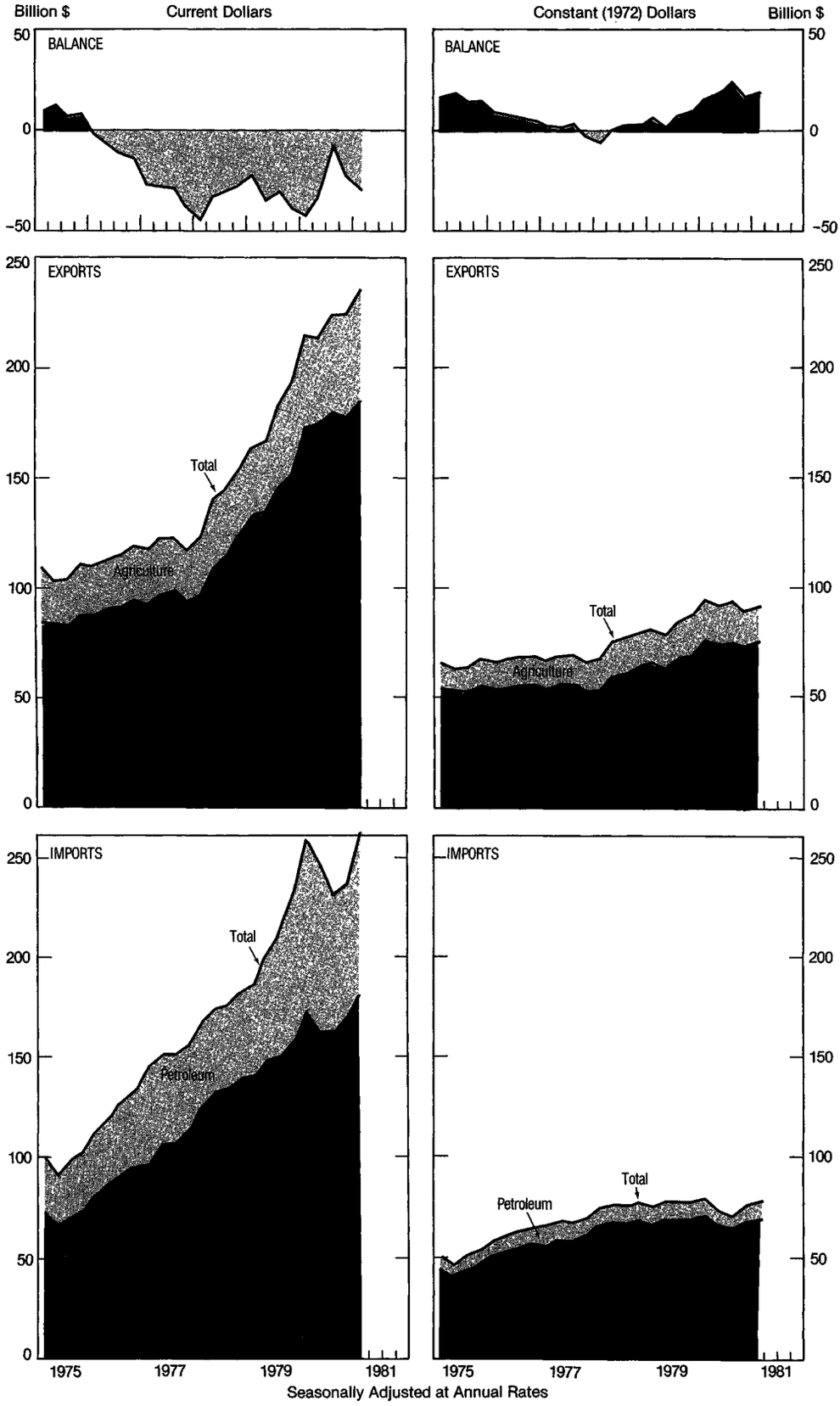
CHART 7

Merchandise Trade



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the one published a month ago. An upward revision in manufacturing profits more than offset down revisions in other industries.

Domestic profits of nonfinancial corporations increased $7 billion to $128 billion. Most of this increase was durable goods manufacturing profits.

Domestic profits of financial corporations increased $1½ billion to $27½ billion. An increase in Federal Reserve banks' profits and a swing from losses to profits for savings and loan associations more than offset a decrease in the profits of insurance carriers.

Rest-of-the-world profits—as measured by the net inflow of dividends and reinvested earnings of incorporated foreign affiliates, and earnings of unincorporated foreign affiliates—decreased $3 billion to $27½ billion. A major factor in this decrease was lower profits on the overseas petroleum operations of U.S. corporations.

Recent developments in manufacturing and transportation profits.—For manufacturing corporations, profits with inventory valuation adjustment but without capital consumption adjustment peaked in the first quarter of 1979, declined, with the exception of one quarter, until the second quarter of 1980, and increased substantially in the third and fourth quarters (table 12). However, these profits remain well below their peak. Quarter-to-quarter changes in the profits of most manufacturing industries have generally been in the same direction as quarter-to-quarter changes in constant-dollar sales of these industries (table 13). Exceptions are usually due to identifiable special factors.

Within durables manufacturing, changes in profits of primary metals manufacturers reflected both changes in sales and fluctuations in prices received for metals; decreases or low rates of increase in prices held down profits in 3 quarters of 1979 and 1980 despite sales increases. (Extraordinary charges related to closings of plants have not significantly affected profits as measured in the national income and product accounts (NIPA's). One example of such charges is write-offs of undepreciated closed facilities, which are treated in fi-

Table 9.—Net Exports of Goods and Services

	Current dollars				Constant (1972) dollars						
	Billions of dollars, seasonally adjusted at annual rates								Percent change from preceding quarter at annual rates		
	1980			1981	1980			1981	1980		1981
	II	III	IV	I	II	III	IV	I	III	IV	I
Net exports of goods and services	17.1	44.5	23.3	24.3	51.7	57.6	48.5	51.8			
Exports	333.3	342.4	346.1	371.5	160.5	160.5	157.4	164.9	−.2	−7.4	20.5
Merchandise	213.9	222.9	221.0	236.4	92.1	93.5	89.0	92.4	6.0	−17.9	16.5
Agricultural	38.9	43.8	44.8	49.1	17.6	18.7	17.7	18.7	26.9	−20.4	26.0
Nonagricultural	174.9	179.1	176.2	187.3	74.5	74.8	71.3	73.7	1.4	−17.3	14.2
Other	119.4	119.5	125.0	135.0	68.4	67.0	68.4	72.5	−8.0	8.8	25.9
Imports	316.2	297.9	322.7	347.2	108.9	102.8	108.9	113.1	−20.4	25.8	16.2
Merchandise	245.6	231.5	248.8	267.3	73.4	70.5	73.4	75.3	−14.9	17.6	10.6
Petroleum	84.0	69.1	76.8	88.2	7.2	5.8	6.2	6.7	−58.5	34.3	29.8
Nonpetroleum	161.7	162.4	172.0	179.1	66.1	64.7	67.1	68.6	−8.6	16.1	9.0
Other	70.5	66.4	73.9	79.9	35.5	32.4	35.5	37.8	−31.0	45.1	28.5

nanical statements as capital losses in the period the decision to close is made; in the NIPA's, the entire value of the plant is depreciated over the expected service life of the plant. Another example is the value of unfunded pension costs, which are not charged in deriving NIPA measures unless actually paid to trust funds.)

Quarter-to-quarter movements in the profits of auto manufacturers closely reflected movements of unit production of autos and light trucks. In addition, profits were held down in the early part of the period by a change in the mix of sales from large to small cars, on which per-unit profits are lower. In 1980, however, a narrowing in the spread of prices per unit among car sizes mitigated the

Table 10.—Real Government Purchases of Goods and Services

	Billions of constant (1972) dollars, seasonally adjusted annual rates				Percent change from preceding quarter at annual rates		
	1980			1981	1980		1981
	II	III	IV	I	III	IV	I
Government purchases of goods and services	291.9	288.2	289.8	292.9	−5.0	2.2	4.3
Federal	110.7	106.9	107.4	110.6	−13.1	2.0	12.5
National defense	70.9	70.9	71.9	72.1	−.1	5.9	1.0
Nondefense	39.7	35.9	35.4	38.5	−33.1	−5.3	38.8
Commodity Credit Corporation	2.7	−1.9	−1.4	2.4			
Other	37.0	37.9	36.9	36.0	9.7	−10.1	−8.7
State and local	181.2	181.3	182.4	182.3	.3	2.3	0

Table 11.—Federal Government Receipts and Expenditures, NIPA Basis

[Billions of dollars]

	Seasonally adjusted at annual rates				Change from preceding quarter		
	1980			1981	1980		1981
	II	III	IV	I	III	IV	I
Receipts	520.9	540.8	573.1	n.a.	19.9	32.3	n.a.
Personal tax and nontax receipts	252.0	259.4	272.9	283.6	7.4	13.5	10.7
Corporate profits tax accruals	60.9	66.7	72.5	n.a.	5.8	5.8	n.a.
Indirect business tax and nontax accruals	38.7	42.9	49.1	60.3	4.2	6.2	11.2
Contributions for social insurance	169.3	171.8	178.6	198.9	2.5	6.8	20.3
Expenditures	587.3	615.0	641.1	660.3	27.7	26.1	19.2
Purchases of goods and services	198.7	194.9	212.0	219.6	−3.8	17.1	7.6
National defense	128.7	131.4	141.6	144.9	2.7	10.2	3.3
Nondefense	70.0	63.5	70.4	74.8	−6.5	6.9	4.4
Transfer payments	236.0	265.3	269.0	271.7	29.3	3.7	2.7
Grants-in-aid to State and local governments	87.2	87.7	91.8	88.8	.5	4.1	−3.0
Net interest paid	54.4	53.5	55.2	67.3	−.9	1.7	12.1
Subsidies less current surplus of government enterprises	11.0	13.7	13.1	12.8	2.7	−.6	−.3
Less: Wage accruals less disbursements	0	0	0	0	0	0	0
Surplus or deficit (−), national income and product accounts	−66.5	−74.2	−68.0	n.a.	−7.7	6.2	n.a.

n.a. Not available.

downward pressure on profits due to the mix change. Profits of nonelectrical machinery fell despite the increases in sales. Strong competition in the computer and computing equipment industries was a factor in the profits decline.

Within nondurable manufacturing, changes in food manufacturers' profits reflected, in addition to sales, fluctuations in raw food prices, which were sharp in 1979 and 1980. Large increases in these prices are usually accompanied by decreases in margins between raw food costs and manufactured food prices, and slowing price increases or decreases are usually accompanied by margin increases.

The pattern of petroleum manufacturers' profits reflected three factors. First, because corporations classified in petroleum manufacturing produce a major share of domestic crude oil, increasing crude oil prices—the result of increasing world oil prices and gradual decontrol of domestic crude oil prices—led to higher profits. Second, the windfall profits tax on domestic crude oil production, effective March 1, 1980, reduced profits. Although it is not possible precisely to allocate by industry the impact of the tax, much of it fell on corporations classified in petroleum manufacturing. This tax was about $2 billion in the first quarter of 1980, $9 billion in the second, $12 billion in the third, and $17 billion in the fourth. Third, during 1980, declining demand for petroleum products made it increasingly difficult for petroleum refiners to pass on to product prices the higher costs of crude oil. The resulting squeeze on margins held down profits.

Transportation profits decreased steadily from a peak in the third quarter of 1978 until the second quarter of 1980, and increased in the third and fourth quarters. Most of the decline was in airline profits. Rising fuel costs, declining revenue-passenger miles, and costs of opening new routes and competitive pressures under deregulation held down profits. Very large fare increases began offsetting these negative factors in the fourth quarter of 1979, and airline profits increased in the third and fourth quarters of 1980. Decreases in motor freight profits, due to rapid increases in fuel costs and a large decrease in intercity truck tonnage, also contributed to the decreases in transportation profits.

Table 12.—Corporate Profits With Inventory Valuation Adjustment and Without Capital Consumption Adjustment in Manufacturing: Change From Preceding Quarter

[Billions of dollars; seasonally adjusted at annual rates]

	1979				1980			
	I	II	III	IV	I	II	III	IV
Manufacturing	**5.8**	**−7.9**	**−7.1**	**−4.2**	**11.9**	**−30.8**	**7.2**	**7.7**
Durable goods	3.2	−7.9	−8.2	−5.5	−1.2	−18.0	9.3	6.4
Primary metal industries	.6	−.1	−.2	−1.7	3.1	−3.9	−1.4	3.2
Fabricated metal products	.1	−.3	−.7	.3	.4	−3.5	2.1	.9
Machinery, except electrical	−1.0	−.5	.4	−1.2	−.7	−1.5	.5	−.1
Electrical machinery	1.1	−.7	−.6	−.1	.9	−2.8	1.7	−.2
Motor vehicles	2.7	−5.2	−7.0	−.5	−2.1	−5.9	4.0	4.1
Other	−.4	−1.3	.1	−2.3	−2.8	−.4	2.3	−1.4
Nondurable goods	2.6	0	1.1	1.3	13.1	−12.8	−2.1	1.3
Food and kindred products	−.1	.9	−.8	0	1.6	−1.5	−1.1	2.9
Paper and allied products	.7	−.8	1.2	−1.4	.2	−.9	.1	.2
Chemicals and allied products	0	−.6	−1.0	−1.2	2.2	−2.8	1.1	1.1
Petroleum and coal products	1.2	1.9	.8	6.0	7.3	−5.8	−3.0	−2.4
Other	.9	−1.2	.8	−2.2	1.9	−1.8	.8	−.6

Table 13.—Constant-Dollar Manufacturing Sales: Change From Preceding Quarter

[Billions of 1972 dollars; seasonally adjusted at annual rates]

	1979				1980			
	I	II	III	IV	I	II	III	IV
Manufacturing	**10.8**	**−16.3**	**−0.2**	**−13.6**	**3.2**	**−71.8**	**16.2**	**31.3**
Durable goods	7.1	−18.0	−4.9	−7.9	5.0	−53.0	12.4	26.7
Primary metal industries	−.7	−4.4	.8	−1.8	.1	−11.8	2.2	6.5
Fabricated metal products	1.5	−2.3	−.2	.5	.1	−7.8	1.2	5.6
Machinery, except electrical	.6	.6	2.2	.2	1.9	−4.4	2.0	2.4
Electrical machinery	3.7	−.3	−2.1	.8	5.7	−4.7	−1.0	1.5
Motor vehicles	.1	−9.6	−8.0	−5.0	−3.0	−13.2	5.0	5.1
Other	2.0	−2.0	2.3	−2.6	.2	−11.2	3.0	5.6
Nondurable goods	3.7	1.7	4.7	−5.6	−1.8	−18.7	3.7	4.6
Food and kindred products	.1	1.3	1.8	−.3	−.1	−.2	1.1	−2.7
Paper and allied products	.4	.3	.5	−1.7	.4	−2.0	.6	.3
Chemicals and allied products	3.0	−.3	.8	.5	−1.7	−8.0	1.7	5.4
Petroleum and coal products	.1	−1.8	−1.6	−1.5	−1.2	−2.3	−.9	1.6
Other	.1	2.2	3.2	−2.6	.8	−6.2	1.2	0

the BUSINESS SITUATION

REVISED (45-day) estimates show that real GNP increased 8½ percent at an annual rate in the first quarter of 1981, 2 percentage points more than in the preliminary (15-day) estimates (table 1). All of the major components of GNP were revised up. The largest revisions were in the change in business inventories (upward revisions in manufacturing, trade, and other inventories) and net exports (mainly an upward revision in merchandise exports). The increase in GNP prices as measured by the fixed-weighted price index was revised up from 9.9 percent to 10.2 percent.

An alternative measure of real GNP can be derived within the framework of the national income and product accounts by summing incomes earned in the production of GNP and dividing by the implicit price deflator for GNP. This incomes measure increased 6½ percent at an annual rate in the first quarter, about 2 percentage points less than real GNP. In the fourth quarter of 1980, the incomes measure had increased 5½ percent, about 1½ percentage points more than real GNP. Over the two quarters, both measures increased at about the same rate—6 percent. The differences in timing between the two measures are due to imperfections in the source data and estimating techniques, including seasonal adjustment, on which the two measures are based.

Corporate profits

Corporate profits from current production—profits with inventory valuation and capital consumption adjustments—increased $19½ billion, to $202½ billion, in the first quarter of 1981, according to preliminary estimates.[1] Profits had increased $5½ billion and $8½ billion in the fourth and third quarters of 1980. The three increases restored profits to the level of their previous peak, which was reached in the fourth quarter of 1978.

Domestic profits of nonfinancial corporations more than accounted for the first-quarter increase. They increased $21½ billion to $149½ billion, following a $7 billion increase in the fourth quarter (chart 1). Increases in real gross domestic product of nonfinancial corporations and profits per unit of real product both contributed to the first-quarter increase in total profits. Unit profits reflected an acceleration in the increase in unit prices and a deceleration in the increase in unit costs, specifically unit labor costs.

About one-half of the first-quarter increase in domestic profits of nonfinancial corporations was in the profits of manufacturing corporations. Within manufacturing, sizable increases were registered with nondurable goods industries and in primary metals, machinery, and "other" durables. Larger losses of motor vehicle manufacturers reflected lower output of autos and trucks as well as the costs of rebate programs.

Profits of trade corporations increased sharply in the first quarter, as did profits of the transportation, communications, and utilities group. Within transportation, profits of railroad corporations increased substantially, reflecting an increase in revenue ton-miles of freight carried, and losses of airlines decreased despite a decline in revenue-passenger-miles, reflecting sharp increases in fares.

Domestic profits of financial corporations declined $2 billion to $25½ billion

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

No July Revision of the NIPA's

The regular annual revision of the national income and product accounts (NIPA's) will not be made this July because key source data will not be available in time for incorporation. The key source data that will not be available are: Preliminary tabulations for 1978 and 1979 and final tabulations for 1977 of corporate income tax returns from the Internal Revenue Service, the Annual Survey of Manufacturers for 1979 and Governmental Finances for 1979–80 from the Census Bureau, and revised estimates of farm income for 1978–80 from the Department of Agriculture.

Annual and quarterly estimates for 1980 published in the NIPA tables in the April 1981 SURVEY OF CURRENT BUSINESS and annual and monthly estimates for 1980 of personal income and outlays published in the statistical ("S") pages of the March 1981 SURVEY will not be revised until July 1982 unless source data become available that indicate the advisability of an earlier revision. Estimates for 1977–79, forthcoming in *National Income and Product Tables, 1976–79*, also will not be revised until July 1982.

in the first quarter, following an increase of $1½ billion. The decline was more than accounted for by a swing from profits to losses by savings and loan associations. Earnings of Federal Reserve banks, which are treated as part of corporate business in the national income and product accounts (NIPA's), and profits of other financial corporations increased.

Profits from the rest of the world—measured as the net inflow of dividends and reinvested earnings of incorporated foreign affiliates, and earnings of unincorporated foreign affiliates—were $27½ billion in the first quarter, unchanged from the fourth.

Disposition of profits.—Before-tax profits increased $9 billion to $258½ billion in the first quarter, following an increase of $12 billion in the fourth. These profits exclude the two valuation adjustments, which are designed to value inventories and fixed capital used up in production at replacement costs, the valuation concept underlying national income and product accounting, rather than at historical costs, the concept generally underlying business accounting.[2] If, as in the first quarter, the historical cost of inventories used up is less than their replacement cost, profits as measured by business exceed profit as measured in the NIPA's by an

2. The capital consumption adjustment also places the using up in production of fixed capital on a consistent basis with respect to service lives (85 percent of Internal Revenue Service Bulletin F for equipment and nonresidential structures) and depreciation formulas (straight-line).

Table 1.—Revisions in Selected Component Series of the NIPA's, First Quarter of 1981

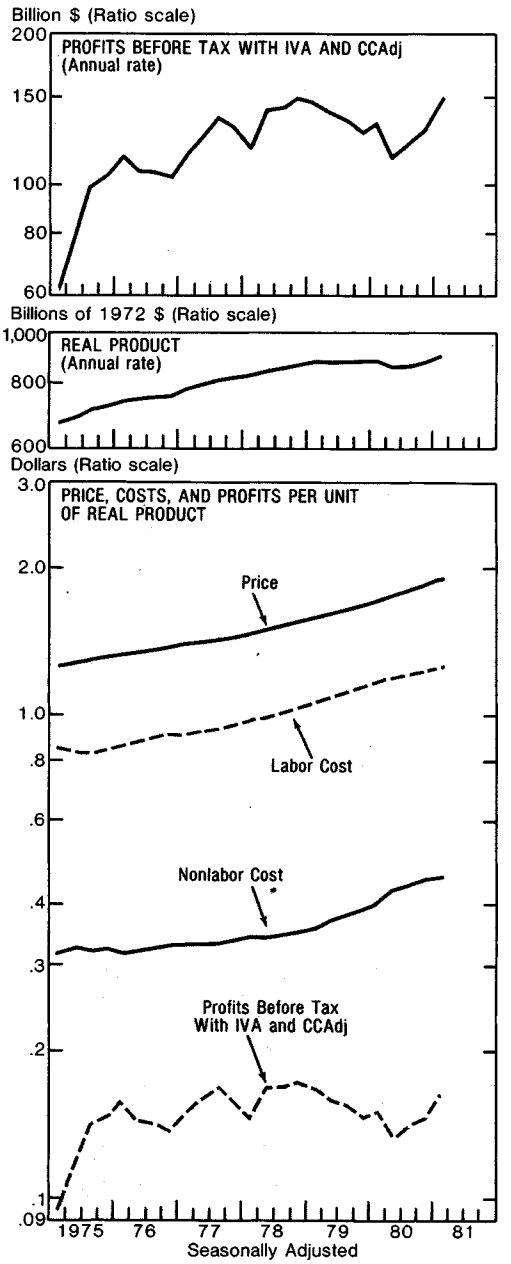
	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates		
	15-day estimate	45-day estimate	Revision	15-day estimate	45-day estimate	Revision
	Billions of current dollars					
GNP	**2,826.8**	**2,853.8**	**27.0**	**14.9**	**19.3**	**4.4**
Personal consumption expenditures	1,805.4	1,805.8	.4	13.0	13.1	.1
Nonresidential fixed investment	314.7	316.1	1.4	17.7	19.9	2.2
Residential investment	116.3	116.7	.4	12.3	13.7	1.4
Change in business inventories	−7.9	2.6	10.5			
Net exports	24.3	37.0	12.7			
Government purchases	574.1	575.5	1.4	11.6	12.7	1.1
Federal	219.6	221.5	1.9	15.1	19.0	3.9
State and local	354.5	354.1	−.4	9.5	8.9	−.6
National income		**2,289.3**			**16.3**	
Compensation of employees	1,721.8	1,721.9	.1	15.3	15.3	0
Corporate profits with inventory valuation and capital consumption adjustments		202.6			49.4	
Other	365.1	364.8	−.3	6.1	5.8	−.3
Personal income	**2,317.7**	**2,318.8**	**1.1**	**11.4**	**11.6**	**.2**
	Billions of constant (1972) dollars					
GNP	**1,509.2**	**1,516.0**	**6.8**	**6.5**	**8.4**	**1.9**
Personal consumption expenditures	957.8	958.3	.5	4.7	5.0	.3
Nonresidential fixed investment	161.7	162.0	.3	12.3	13.3	1.0
Residential investment	50.7	50.8	.1	1.0	2.0	1.0
Change in business inventories	−5.7	−2.3	3.4			
Net exports	51.8	53.9	2.1			
Government purchases	292.9	293.2	.3	4.4	4.8	.4
Federal	110.6	111.0	.4	12.5	14.3	1.8
State and local	182.3	182.2	−.1	−.1	−.5	−.4
	Index numbers, 1972=100[1]					
GNP implicit price deflator	187.30	188.25	.95	7.8	10.0	2.2
GNP fixed-weighted price index	194.3	194.4	.1	9.9	10.2	.3
GNP chain price index				9.6	9.9	.3

1. Not at annual rates.

NOTE.—For the first quarter of 1981, the following revised or additional major source data became available: For *personal consumption expenditures*, revised retail sales for February and March, and sales and inventories of used cars of franchised automobile dealers for February; for *nonresidential fixed investment*, manufacturers' shipments of equipment for February (revised) and March, construction put in place for February (revised) and March, and a partial tabulation of business expenditures for plant and equipment for the quarter; for *residential investment*, construction put in place for February (revised) and March; for *change in business inventories*, book values for manufacturing and trade for February (revised) and March; for *net exports of goods and services*, merchandise trade for February (revised) and March, and revised net investment income and other services receipts for the quarter; for *government purchases of goods and services*, Federal unified budget outlays for March, and State and local construction put in place for February (revised) and March; for *wages and salaries*, revised employment, average hourly earnings, and average weekly hours for February and March; for *net interest*, revised net interest received from abroad for the quarter; for *corporate profits*, domestic book profits for the quarter, and dividends from abroad for the quarter; for *GNP prices*, the Consumer Price Index for March, unit value indexes for exports and imports for February and March, and residential housing prices for the quarter.

CHART 1

Domestic Nonfinancial Corporate Business: Profits; Real Product; and Price, Costs, and Profits per Unit of Real Product



NOTE.—Price per unit is current dollar product divided by constant dollar (real) product. Costs and profits per unit are respective components of current dollar product divided by constant dollar product.

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amount that is called inventory profits. Inventory profits decreased $9 billion to $39 billion in the first quarter, following an increase of $6½ billion in the fourth. If, as in the first quarter, fixed capital used up as measured by business is less than that as measured in the NIPA's, business profits exceed NIPA profits by an amount that is equal to the underdepreciation of the capital stock. The profits attributable to underdepreciation decreased $1 billion to $17 billion in the first quarter, following a very small decrease in the fourth.

Corporate profits taxes, which are levied on profits including inventory profits and profits attributable to underdepreciation, increased $5 billion to $90½ billion in the first quarter, following an increase of $6½ billion in the fourth. Dividends increased $2 billion to $59½ billion, following an increase of $1 billion. Undistributed profits increased $2 billion to $108½ billion, following an increase of $4 billion.

The Federal sector

The Federal Government deficit as measured in the NIPA's declined $23½ billion in the first quarter of 1981 to $44½ billion, as receipts increased twice as much as expenditures.

Receipts increased $47 billion, $14 billion more than in the fourth quarter of 1980. Contributions for social insurance increased $20 billion, including $16½ billion due to the increase in the social security taxable wage base to $29,700 from $25,900 and in the combined employer-employee tax rate to 13.3 percent from 12.26 percent. Indirect business tax and nontax accruals increased $11½ billion, entirely due to the windfall profits tax. Personal tax and nontax receipts increased $10½ billion and corporate profits tax accruals increased $4½ billion.

Expenditures increased $23 billion, $3 billion less than in the fourth quarter. A $12½ billion increase in net interest paid accounted for over one-half of the total increase. The large increase in net interest reflected higher interest rates on Federal securities and $2½ billion paid to the Penn Central Transportation Company as part of a settlement for the value of assets transferred by Penn Central to Conrail in 1976. Purchases increased $9½ billion, including $4 billion for agricultural purchases by the Commodity Credit Corporation. Transfer payments to persons increased $4½ billion, as increases in social security and food stamp benefits were partly offset by a decline in unemployment benefits. Grants-in-aid to State and local governments declined almost $2 billion, due to the discontinuation of grants to States for general revenue sharing for 1981. Subsidies less the current surplus of government enterprises declined slightly.

High-employment budget.—The Federal fiscal position on a high-em-

Table 2.—High-Employment Federal Receipts and Expenditures

	1979	1980	1979 IV	1980 I	1980 II	1980 III	1980 IV	1981 I p	1979	1980	1979 IV	1980 I	1980 II	1980 III	1980 IV	1981 I p
	Billions of dollars								Percentage of potential GNP							
			Seasonally adjusted at annual rates								Seasonally adjusted at annual rates					
Receipts	**504.2**	**574.3**	**528.3**	**543.2**	**556.6**	**581.7**	**615.7**	**656.0**	**20.6**	**20.9**	**20.7**	**20.7**	**20.6**	**20.9**	**21.4**	**22.1**
Personal tax and nontax receipts	236.4	274.0	253.9	253.9	268.6	278.9	294.4	302.3	9.6	10.0	10.0	9.7	9.9	10.0	10.2	10.2
Corporate profits tax accruals	77.0	79.6	78.4	84.7	72.0	78.6	83.1	84.3	3.1	2.9	3.1	3.2	2.7	2.8	2.9	2.8
Indirect business tax and nontax accruals	29.8	41.8	30.1	32.4	40.0	44.2	50.4	61.6	1.2	1.5	1.2	1.2	1.5	1.6	1.8	2.1
Contributions for social insurance	161.1	179.0	165.9	172.3	176.0	179.9	187.7	207.8	6.6	6.5	6.5	6.6	6.5	6.5	6.5	7.0
Expenditures	**506.5**	**592.6**	**535.3**	**560.3**	**578.2**	**602.9**	**628.8**	**652.8**	**20.7**	**21.6**	**21.0**	**21.4**	**21.4**	**21.7**	**21.9**	**22.0**
Transfer payments	206.6	240.8	218.6	224.8	227.3	253.7	257.4	261.7	8.4	8.8	8.6	8.6	8.4	9.1	8.9	8.8
Grants-in-aid to State and local governments	80.2	87.6	84.7	85.2	86.8	87.2	91.1	89.3	3.3	3.2	3.3	3.2	3.2	3.1	3.2	3.0
All other expenditures	219.6	264.2	232.0	250.4	264.1	262.1	280.3	301.9	9.0	9.6	9.1	9.5	9.8	9.4	9.7	10.2
Surplus or deficit (−), national income and product accounts	−2.2	−18.3	−7.0	−17.1	−21.6	−21.2	−13.1	3.1	−.1	−.7	−.3	−.7	−.8	−.8	−.5	.1
	Change from preceding period															
	Billions of dollars								Percentage points							
Receipts	**63.1**	**70.1**	**17.4**	**14.9**	**13.4**	**25.1**	**34.0**	**40.3**	**0.5**	**0.3**	**0.1**	**0**	**−0.1**	**0.3**	**0.5**	**0.7**
Personal tax and nontax receipts	36.0	37.6	12.7	0	14.7	10.3	15.5	7.9	.5	.4	.3	−.3	.2	.1	.2	0
Corporate profits tax accruals	4.5	2.6	.4	6.3	−12.7	6.6	4.5	1.2	−.2	−.2	0	.1	−.5	.1	.1	−.1
Indirect business tax and nontax accruals	1.3	12.0	.5	2.3	7.6	4.2	6.2	11.2	−.1	.3	0	0	.3	.1	.2	.3
Contributions for social insurance	21.4	17.9	3.8	6.4	3.7	3.9	7.8	20.1	.2	−.1	0	.1	−.1	0	0	.5
Expenditures	**49.7**	**86.1**	**22.1**	**25.0**	**17.9**	**24.7**	**25.9**	**24.0**	**−.2**	**.9**	**.3**	**.4**	**0**	**.3**	**.2**	**.1**
Transfer payments	24.6	34.2	4.3	6.2	2.5	26.4	3.7	4.3	.1	.4	0	0	−.2	.7	−.2	−.1
Grants-in-aid to State and local governments	3.3	7.4	4.1	.5	1.6	.4	3.9	−1.8	−.2	−.1	.1	−.1	0	−.1	.1	−.2
All other expenditures	21.7	44.6	13.5	18.4	13.7	−2.0	18.2	21.6	0	.6	.3	.4	.3	−.4	.3	.5
Surplus or deficit (−), national income and product accounts	13.5	−16.1	−4.7	−10.1	−4.5	.4	8.1	16.2	.6	−.6	−.2	−.4	−.1	0	.3	.6

p Preliminary.

NOTE.—These estimates differ from those published in the November 1980 SURVEY OF CURRENT BUSINESS due to revisions of potential GNP by the Council of Economic Advisers and the comprehensive revisions of the national income and product accounts.

ployment budget basis moved from a deficit of $13 billion in the fourth quarter to a surplus of $3 billion in the first (table 2). The surplus or deficit as a percentage of potential GNP increased from −0.5 percent in the fourth quarter to 0.1 percent in the first—a move toward more restrictive fiscal position. Receipts as a percentage of potential GNP increased 0.7 percentage points due to percentage-point increases in contributions for social insurance and indirect business taxes. Expenditures as a percentage of potential GNP changed little. These estimates differ from those in the November 1980 SURVEY OF CURRENT BUSINESS due to revisions of potential GNP by the Council of Economic Advisers and the comprehensive revisions of the national income and product accounts.

Table 3.—Developments in Consumer Installment Credit

[Millions of dollars, seasonally adjusted]

	1980									1981		
	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Extensions	23,220	22,093	22,349	23,997	26,176	27,064	27,365	25,991	27,149	27,059	28,706	29,822
Automobile	5,922	5,533	5,550	6,068	7,400	7,518	7,544	7,117	7,234	7,237	8,333	8,700
Revolving	10,347	10,302	10,341	10,679	10,700	11,143	11,124	10,953	11,614	11,483	11,867	12,071
Mobile home	397	299	424	377	415	442	513	424	479	383	409	641
Other	6,554	5,959	6,034	6,873	7,661	7,961	8,184	7,497	7,822	7,956	8,097	8,410
Repayments	24,891	24,770	24,394	25,196	25,687	26,009	26,663	25,152	25,530	26,190	26,710	26,714
Net change in amount outstanding	−1,671	−2,677	−2,045	−1,199	489	1,055	702	839	1,619	869	1,996	3,108

Source: Federal Reserve Board.

Consumer installment credit

Consumer installment credit outstanding increased an average of $2.0 billion per month in the first quarter, almost twice as much as in the fourth quarter of 1980 (table 3). The March increase of $3.1 billion was the largest since September 1979, when the burden of consumer credit, as measured by the ratio of consumer installment credit repayments to disposable personal income, was close to its all-time high. The repayments ratio, which had fallen almost without interruption from 17.7 percent in the second quarter of 1979 to 16.3 percent in the fourth quarter of 1980, increased to 16.4 percent in the first quarter.

Two-thirds of the first-quarter acceleration in installment credit outstanding was in automobile credit; extensions of automobile credit were up sharply in February and March, reflecting the rebate-bolstered strength in auto sales (see the "Business Situation" in the April SURVEY). To the extent that the first-quarter acceleration in credit outstanding is attributable to the auto rebate programs, it, like the auto sales it financed, may be regarded as "borrowed" from future periods. However, non-auto credit outstanding also accelerated in the first quarter—from an average monthly increase of $0.8 billion in the fourth quarter to $1.1 billion—and the March increase of $1.4 billion was the largest since late 1979.

The first-quarter acceleration in credit outstanding occurred despite high and rising consumer interest rates. The rate on 36-month new automobile loans at commercial banks was 15.8 percent in February, up from 14.3 percent in November 1980 and from 13.3 percent in February 1980. The rate on 24-month consumer loans at commercial banks (other than for the purchase of automobiles or mobile homes) was 17.1 percent in February, up from 15.5 percent in November and from 14.7 percent in February 1980.

As protection against the increase in the cost of acquiring deposits due to rising interest rates, some banks have recently begun to extend variable-rate consumer loans. The interest rate on these loans, like the rate on variable-rate mortgages, is adjusted periodically, in response to changes in some designated rate; in the case of consumer loans, the designated rate generally is the bank's prime lending rate or the rate on 13-week Treasury bills. An increase in the rate will either extend the maturity of the loan or increase the consumer's monthly payment.

Because consumer loans have a shorter maturity than do mortgage loans, protection against rising interest rates is less important to banks in extending consumer credit than in extending mortgage credit, and thus far only a small number of banks have begun to extend variable-rate consumer loans. Two factors that will slow the introduction of these loans are the effects of State usury laws and the fear of consumer resistance. The latter should wane in importance as variable-rate mortgages become more common. These mortgages may become more common as a result of the late-April decision by the Federal Home Loan Bank Board to allow federally chartered thrift institutions to issue mortgages with interest rates that vary as much as does a designated index rate agreed upon by the lender and borrower.

the BUSINESS SITUATION

THE economy weakened substantially in the second quarter, following strong increases in the two preceding quarters. On the basis of information available in mid-June, the second-quarter annual rate of change in real GNP was within a 3 percentage point range centered at zero.[1] In the first quarter real GNP had increased 8½ percent, and in the fourth quarter of 1980 it had increased 4 percent. An alternative measure of real GNP, derived by summing incomes earned in the production of GNP and dividing by the implicit price deflator for GNP, increased less in the first quarter, and more in the fourth, than did real GNP. The two-quarter average increase for the two measures was about 6 percent, as was noted in the May "Business Situation." The differences in timing between the two measures are due to imperfections in source data and estimating techniques.

Information relating to motor vehicle production and residential investment is relatively complete, and shows that these components of real GNP registered changes that roughly offset each other. Motor vehicle production, discussed later in the "Business Situation," was up about $2 billion (1972 dollars); final sales dropped $10 billion and inventories swung sharply from decumulation to accumulation.[2] Residential investment was down about $3 billion. Changes in all other components of real GNP also appear to have roughly offset each other.

Prices.—The fixed-weighted price index for GNP increased about 2 percentage points less than the 10-percent annual rate registered in the first quarter. The deceleration was due to sharply lower price increases for food and energy. The prices of personal consumption expenditures (PCE) on food increased only slightly, following a 6½-percent increase in the first quarter. Meat and poultry prices again declined, but the decline was not offset by sharp increases in some other food categories, as it had been in the first quarter. The prices of PCE on energy increased at less than one-fourth the 39½-percent rate in the first quarter, when they reflected the yearend increases in the prices of foreign crude oil and the decontrol of domestic crude oil and petroleum products in January. Second-quarter gasoline prices showed only a small increase, following an increase of 45 percent in the first quarter. On a monthly basis, gasoline prices have edged down since March.

Increases in the prices of other major categories of final sales to domestic purchasers—PCE on other than food and energy, structures, producers' durable equipment, and government purchases—were in the range of 8½–10½ percent at annual rates. These rates of inflation were about the same as in the first quarter, and represent deceleration

Table 1.—Personal Income and Its Disposition: Change from Preceding Quarter

[Billion of dollars, based on seasonally adjusted annual rates]

	1980: IV	1981 I	1981 II*
Wage and salary disbursements	56.0	45.1	22.6
Manufacturing	18.2	12.4	9.2
Other commodity-producing	5.7	4.9	−3.9
Distributive	11.4	11.4	6.8
Services	11.3	12.5	7.4
Government and government enterprises	9.4	3.9	3.1
Proprietors' income	4.3	−1.9	3.0
Farm	.3	−3.5	3.1
Nonfarm	3.9	1.6	0
Personal interest income	7.9	19.0	12.9
Transfer payments	3.2	5.7	4.2
Other income	5.8	6.8	6.6
Less: Personal contributions for social insurance	3.1	11.0	.7
Personal income	**74.1**	**63.6**	**48.6**
Less: Personal tax and nontax payments	17.7	12.8	10.5
Impact of legislation	−.6	−2.8	−1.3
Other	18.3	15.6	11.8
Equals: Disposable personal income	**56.4**	**50.8**	**38.1**
Less: Personal outlays	70.2	59.5	29.0
Equals: Personal saving	**−13.8**	**−8.7**	**9.1**
Addenda: Special factors—			
Federal pay raise	6.1	.1	--------
Minimum wage	--------	2.0	--------
Cost-of-living increases in Federal transfer payments	2.5	1.1	1.3
Social security (in personal contributions for social insurance):			
Base change	--------	2.3	--------
Rate change	--------	6.7	--------

*Projected.

1. The major source data that shed light on second-quarter GNP are limited to 1 or 2 months of the quarter, and in some cases are preliminary. These data are: For *personal consumption expenditures* (PCE), April and May retail sales, unit sales of new autos through the first 10 days of June, and sales of new trucks for April and May; for *nonresidential fixed investment,* the same data for autos and trucks as for PCE, April construction put in place, April manufacturers' shipments of equipment, and business investment plans for the quarter; for *residential investment,* April construction put in place, and April and May housing starts; for *change in business inventories,* April book values for manufacturing and trade, and unit auto inventories for April and May; for *net exports of goods services,* April merchandise trade; for *government purchases of goods and services,* Federal unified budget outlays for April, State and local construction put in place for April, and State and local employment for April and May; and for GNP *prices,* the Consumer Price Index for April and the Producer Price Index for April and May.

2. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

only relative to those that characterized the quarters of 1979 and early 1980.

Personal income and its disposition

The second-quarter weakening in the economy was visible in personal income as a sharp deceleration in wage and salary disbursements—the largest component that is earned in production. Wages and salaries increased only about one-half as much as the $45 billion increase registered in the first quarter (table 1). Wages and salaries in construction and mining—included in other commodity-producing industries in table 1—declined, mirroring the decline in construction activity and the coal strike. Other private wages and salaries increased much less than in the first quarter. Only about $2 billion of the deceleration was accounted for by the increase in the minimum wage, which was centered in the distributive and services industries and added to the first-quarter increase. A deceleration in government largely reflected a decline in State and local employment due to the wind-down of programs funded by the Comprehensive Employment and Training Act (CETA).

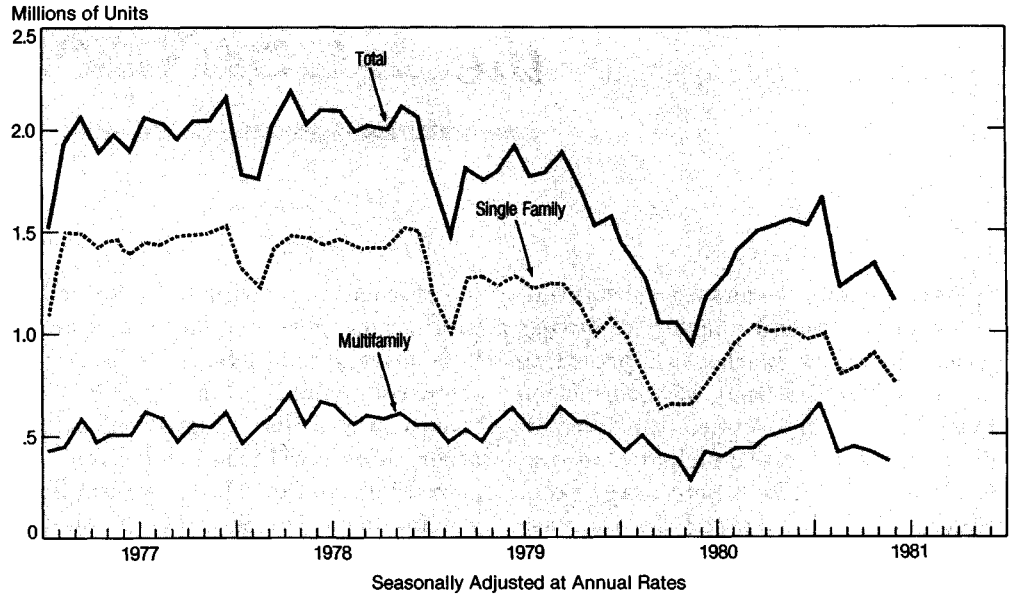
Nonfarm proprietors' income showed little change after a first-quarter increase, reflecting declines in construction activity and in retail trade. In contrast, farm proprietors' income increased after a drop—$3½-billion—in the first quarter. The swing was largely due to livestock prices, which declined sharply in the first quarter and partly recovered in the second.

In personal interest income, the increase was substantially smaller than the $19 billion increase in the first quarter. The first-quarter increase—an unusually large one—had been due to a step-up in interest rates on securities held by persons or by financial intermediaries in their behalf. In the second quarter, these interest rates increased much less.

The slowing in personal income—from an increase of $63½ billion to one of $48½ billion—was less than that in the incomes just reviewed, because personal contributions for social insurance, which are deducted in deriving personal income, increased about $10 billion less than in the first quarter. The first-quarter increase was largely due to the January 1 step-ups in the tax rate and in the wage base for social security.

CHART 1

Housing Starts



Data: Census
U.S. Department of Commerce, Bureau of Economic Analysis
81-6-1

Largely following the course of wages and salaries, the increase in personal tax and nontax payments also slowed. Disposable personal income increased $38 billion, compared with $51 billion in the first quarter. The increase in personal outlays slowed even more than that in income, so that personal saving increased. The personal saving rate, which had dropped from 6.2 percent in the second quarter of 1980 to 4.6 percent in the first quarter of 1981, edged up in the second.

In real terms, disposable income increased only ½ percent at an annual rate, compared with 3 percent in the first quarter. The second-quarter increase was the smallest since the recession a year ago.

Real PCE.—Real PCE declined 1½ percent at an annual rate in the second quarter, following a 6-percent increase in the first. Sharp changes in motor vehicles continued to be a major factor in the course of PCE. On a quarterly basis, motor vehicles declined $8 billion in the

No July Revision of the NIPA's

The regular annual revision of the national income and product accounts (NIPA's) will not be made this July because key source data will not be available in time for incorporation. The key source data that will not be available are: Preliminary tabulations for 1978 and 1979 and final tabulations for 1977 for corporate income tax returns from the Internal Revenue Service, the Annual Survey of Manufactures for 1979 and Governmental Finances for 1979–80 from the Census Bureau, and revised estimates of farm income for 1978–80 from the Department of Agriculture.

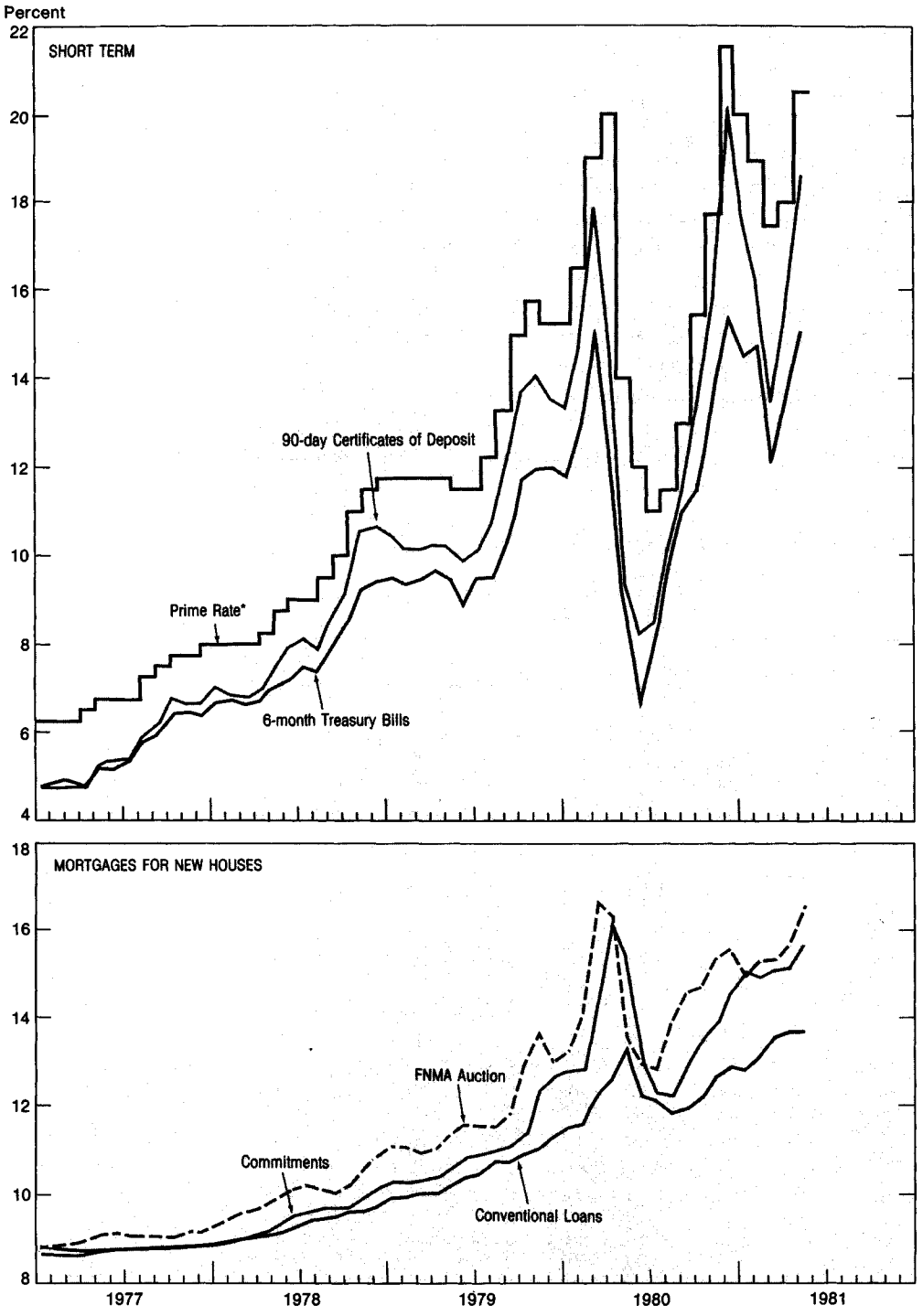
Annual and quarterly estimates for 1980 published in the NIPA tables in the April 1981 SURVEY OF CURRENT BUSINESS and annual and monthly estimates for 1980 of personal income and outlays published in the statistical ("S") pages of the March 1981 SURVEY will not be revised until July 1982 unless source data become available that indicate the advisability of an earlier revision. Estimates for 1977–79, forthcoming in *National Income and Product Tables, 1976–79*, also will not be revised until July 1982.

second quarter, more than accounting for the $3 billion decline in total PCE; they had accounted for $5½ billion of the $13½ billion first-quarter increase. From January through May, the sizable monthly changes in total PCE—an increase in January and a decline in April—were due to motor vehicles; all other PCE combined showed only small monthly changes.

Real PCE on other than motor vehicles increased somewhat less than the 3½ percent annual rate registered in the first quarter. Other durables declined; a decline in furniture and equipment reflected flagging construction activity and home sales. Nondurables—mirroring food, and clothing and shoes—increased less than in the first quarter. Gasoline and oil declined again, continuing a 2-year downtrend that had been interrupted only in the fourth quarter of 1980. Services, in contrast, increased more than in the first quarter, when they were held down by a decline, due to unseasonably warm weather, in PCE on electricity and natural gas for home heating.

CHART 2

Selected Interest Rates



*At end of the month.
U.S. Department of Commerce, Bureau of Economic Analysis

Data: FRB, FHLBB
81-6-2

Other final sales

Real residential investment declined $3 billion in the second quarter, after changing little in the first. In the first quarter, new construction had increased, but the "other" component, which includes brokers' commissions on the sale of residences, had registered an offsetting decline. In the second quarter, construction, which reflects housing starts with a lag, declined and the "other" component changed little. The increase in housing starts, which began in mid-1980, continued through January of this year; strong increases in multifamily starts more than offset some late-1980 softening in single-family starts. Both dropped sharply in February. Subsequently, multifamily starts have held at the February level, but single-family starts, after recovering somewhat in March and April, fell even lower in May (chart 1). Reflecting this pattern and the shorter lag between starts and completions for single-family units, investment in single-family residences was down in the second quarter and investment in multifamily residences was unchanged.

Unfavorable financial conditions were a major factor in the decline in residential investment in the second quarter. Deposits (exclusive of interest credited) at mutual savings banks and savings and loan associations fell $9½ billion during the first 4 months of the year—a record $6½ billion in April alone. Six-month money market certificates (MMC's)—usually a source of deposit strength at thrift institutions—were flat in both March and April. Thrifts were able, however, to roll over the $100 bil-

lion of MMC's—40 percent of thrift MMC's outstanding—that matured in those 2 months, although they did so at interest rates about 2 percentage points higher than on the maturing certificates.

Partly as a consequence of these developments, the commitment interest rate on 25-year mortgages with a loan-to-price ratio of 75 percent drifted upward until early April and then jumped 55 basis points, reaching 15.65 percent in early May (chart 2). Moreover, the prime rate—to which construction loans are tied—was high throughout the period. Most of the decline that had occurred in January-April was erased by a 3 percentage point increase in May, to 20½ percent; by mid-June the prime rate had receded to 20 percent.

Real nonresidential fixed investment declined in the second quarter after a 13½-percent annual rate increase in the first. More than one-half the decline was in motor vehicles; other producers' durable equipment declined after a first-quarter increase, a substantial part of which was in computers. Structures showed no change after a 16½-percent increase, as investment in commercial and industrial structures flattened out. The lackluster performance of nonresidential fixed investment in the second quarter is in line with plans for 1981 reported in the BEA plant and equipment survey, which are discussed later in this issue.

On the basis of very limited information, real net exports showed little change after a $2½ billion increase in the first quarter. Agricultural exports declined after a $2 billion increase in the first quarter. The unusually large increase had been due partly to a slowing in the increase in the prices of U.S. agricultural exports and partly to a rebound from temporarily reduced demand in the fourth quarter of 1980. Petroleum imports held about steady. At an average of 6.6 million barrels a day—the first-quarter level—they were 10 percent below a year ago.

Real government purchases—Federal and also State and local—declined in the second quarter. As has often been the case in recent quarters, agricultural price support operations of the Commodity Credit Corporation were the major element in the change in Federal purchases. In the national income and product accounts, new loans to farmers are treated as Federal purchases, and redemptions of crops placed under loan earlier are treated as negative Federal purchases. In the second quarter, crop redemptions about equaled new loans, so that net purchases were close to zero. In the first quarter, net purchases had been about $2 billion. The decline in State and local government purchases was primarily in structures. The decline in structures may be the beginning of a downtrend due to the limitation of growth of Federal grants-in-aid supporting specific types of construction and the elimination of the State portion of general revenue sharing. Employee compensation also declined, traceable to the wind-down of CETA programs.

Summing up

This review has shown that all components of final sales weakened in the

Table 2.—Selected Labor Market Indicators

[Seasonally adjusted]

	1980			1981						Change from preceding quarter			
	II	III	IV	I	Jan.	Feb.	Mar.	Apr.	May	1980: III	1980: IV	1981: I	1981: May
Household survey													
Civilian labor force (thousands)	104,693	104,982	105,173	105,800	105,543	105,681	106,177	106,722	107,406	289	191	627	1,606
Employment	97,040	97,061	97,276	98,012	97,696	97,927	98,412	98,976	99,235	21	215	736	1,233
Unemployment	7,652	7,921	7,897	7,788	7,847	7,754	7,764	7,746	8,171	269	−24	−109	383
Job losers	4,071	4,357	4,232	3,863	3,847	3,896	3,846	3,819	4,084	286	−125	−369	221
On layoff	1,716	1,758	1,538	1,275	1,258	1,267	1,299	1,280	1,368	42	−220	−263	93
Other job losers	2,355	2,598	2,693	2,589	2,590	2,629	2,547	2,539	2,715	243	95	−104	126
Job leavers, reentrants, and new entrants	3,645	3,610	3,665	3,872	3,946	3,782	3,889	3,858	4,073	−35	55	207	201
Unemployment rate (percent):													
Total	7.3	7.5	7.5	7.4	7.4	7.3	7.3	7.3	7.6	.2	0	−.1	.2
Adult men	6.2	6.6	6.3	6.0	6.0	6.0	5.9	5.8	6.3	.4	−.3	−.3	.3
Adult women	6.4	6.4	6.7	6.6	6.7	6.5	6.6	6.6	6.8	0	.3	−.1	.2
Teenagers	17.9	18.4	18.3	19.1	19.0	19.3	19.1	19.1	19.5	.5	−.1	.8	.4
Civilian labor force participation rate (percent):													
Total	63.9	63.8	63.7	63.9	63.8	63.8	64.0	64.3	64.6	−.1	−.1	.2	.7
Adult men	79.6	79.4	79.2	78.9	78.8	78.7	79.2	79.4	79.8	−.2	−.2	−.3	.9
Adult women	51.4	51.5	51.4	51.9	51.8	51.9	52.1	52.3	52.6	.1	−.1	.5	.7
Teenagers	57.0	56.5	56.4	56.9	57.0	57.0	56.6	57.7	57.4	−.5	−.1	.5	.5
Establishment survey													
Employment, nonfarm payroll (thousands)	90,489	90,131	90,932	91,613	91,481	91,653	91,705	91,490	91,474	−358	801	681	−139
Goods producing	25,763	25,317	25,780	26,013	26,041	25,988	26,010	25,830	25,678	−446	463	233	−335
Mining	1,021	1,018	1,054	1,094	1,086	1,095	1,100	949	951	−3	36	40	−143
Construction	4,427	4,362	4,475	4,547	4,610	4,518	4,514	4,441	4,315	−65	113	72	−232
Manufacturing:													
Durables	12,176	11,878	12,116	12,202	12,188	12,196	12,222	12,259	12,238	−298	238	86	36
Nondurables	8,138	8,059	8,134	8,170	8,157	8,179	8,174	8,181	8,174	−79	75	36	4
Distributive [1]	25,652	25,694	25,785	26,009	25,904	26,041	26,081	25,970	26,051	42	91	224	42
Services [2]	22,778	22,983	23,211	23,452	23,401	23,458	23,496	23,572	23,673	205	228	241	221
Government	16,296	16,137	16,156	16,140	16,135	16,166	16,118	16,118	16,072	−159	19	−16	−68
Average weekly hours, private nonfarm:													
Total	35.1	35.1	35.4	35.4	35.5	35.3	35.4	35.4	35.3	0	.3	0	−.1
Manufacturing	39.4	39.3	39.9	40.1	40.4	39.8	40.0	40.1	40.2	−.1	.6	.2	.1

1. Transportation and public utilities, and wholesale and retail trade.
2. Services, and finance, insurance, and real estate.

Source: Bureau of Labor Statistics.

second quarter. Each component, after a first-quarter increase, either registered a decline—PCE, producers' durable equipment, residential investment, and government purchases—or little or no change—business investment in structures and net exports. As a result, total final sales of GNP declined substantially in the second quarter.

As noted earlier, motor vehicle inventories swung from decumulation in the first quarter to accumulation in the second. This swing amounted to about $12½ billion. Only limited information is now available about other inventories in the second quarter, but what there is does not suggest that the rate of accumulation in the second quarter was much different from the moderate rate recorded in the first. If it is assumed that the rate was not much different, the total effect of inventories on the change in real GNP was due to motor vehicle inventories, and that positive swing about offset the decline in final sales of GNP.

Employment and hours.—The second-quarter weakening was evident also in the employment data from the payroll survey and, to a lesser extent, in average weekly hours. If May is taken as representative of the second quarter, nonfarm employment declined 140,000, compared with increases of 680,000 and 800,000 in the first quarter of 1981 and fourth quarter of 1980, respectively (table 2). The weakening was widespread. Employment in goods-producing industries, following two quarterly increases, declined sharply, as declines in construction (230,000) and mining (140,000, due to the coal strike) far exceeded a small increase (40,000) in manufacturing. A decline in employment in government (68,000) included the effect of the wind-down of CETA programs. An increase in the distributive industries (40,000) was substantially smaller than the two preceding increases. Only in services industries did employment not weaken; the increase in these industries (220,000) was of about the same size as the preceding increases. (A revision of the payroll data is scheduled for release by the Bureau of Labor Statistics next month, and the Bureau has indicated that the movement in the last few months may be modified to show more strength.)

Average weekly hours in the private nonfarm economy were 35.4 in April and 35.3 in May. The first-quarter average of 35.4 was held down by the low February figure obtained during a survey week unrepresentative of the month. If allowance is made for that effect, increases in hours occurred in the fourth and first quarters, but a decline occurred in the second.

The household survey presents a different picture of employment. If May is again taken as representative of the second quarter, employment as measured in the household survey increased 1,220,000, much more than in the two preceding quarters. Of the several differences between the payroll and household surveys in coverage, definition, and methodology, one was particularly relevant in the second quarter: persons on unpaid leave—whether on strike or for other temporary reasons—are counted as employed in the household survey but not in the payroll survey.

The unemployment rate, which had been 7.4 percent in the first quarter of 1981 and 7.5 percent in the fourth quarter of 1980, moved up from 7.3 percent in April to 7.6 percent in May.

Motor Vehicle Developments in the Second Quarter

Second-quarter changes in final sales of motor vehicles and in the change in motor vehicle inventories accounted for almost the entire change in the GNP components of which they are parts. As shown in table 3, final sales of motor vehicles declined $10 billion, with all of the decline in autos. The positive swing in the change in inventories, from substantial decumulation in the first quarter to even larger accumulation in the second, was about $12½ billion. Production, as noted earlier, was up $2 billion, after a slight decline in the first quarter. All of the increase was in autos; trucks changed little.

In terms of units, new car production was 7.1 million (seasonally adjusted annual rate) in April and 7.2 million in May. Assuming that June production was close to that scheduled by manufacturers at the beginning of the month, second-quarter production totaled 7.1 million, up from 6.2 million in the first quarter.

Total new car sales fell sharply to an average of 8.0 million (seasonally adjusted annual rate) in April-May from 10.2 million in the first quarter (chart 3). A portion of this drop occurred because some sales that otherwise would have been made in April and May were

Table 3.—Motor Vehicle Output

[Billions of 1972 dollars]

	1980: I	Change from preceding quarter					1981: II*
		1980: II	1980: III	1980: IV	1981: I	1981: II*	
Output	**58.2**	**−10.8**	**−0.6**	**10.3**	**−0.7**	**2.1**	**58.5**
Autos	42.5	−7.9	0	8.2	0	2.1	44.9
Trucks	15.7	−2.9	−.6	2.1	−.7	0	13.6
Final sales	**65.6**	**−18.0**	**3.7**	**3.3**	**7.8**	**−10.2**	**52.2**
Autos	48.3	−14.8	3.3	4.1	7.6	−10.0	38.5
Trucks	17.3	−3.2	.4	−.8	.2	−.2	13.7
Personal consumption expenditures	49.5	−14.6	4.2	2.9	5.5	−8.0	39.5
Autos	43.7	−13.3	3.9	3.2	5.3	−8.0	34.8
Trucks	5.8	−1.3	.3	−.3	.2	0	4.7
Producers' durable equipment	19.5	−3.8	2.0	−.6	.8	−1.4	16.5
Autos	9.1	−1.8	1.3	.3	1.0	−1.3	8.6
Trucks	10.4	−2.0	.7	−.9	−.2	−.1	7.9
Other	−3.4	.4	−2.6	1.1	1.4	−.7	−3.8
Autos	−4.5	.4	−2.0	.6	1.3	−.7	−4.9
Trucks	1.1	0	−.6	.5	.1	0	1.1
Change in business inventories	**−7.4**	**7.1**	**−4.1**	**6.8**	**−8.4**	**12.3**	**6.3**
Autos	−5.8	6.8	−3.2	4.1	−7.6	12.1	6.4
Trucks	−1.6	.3	−.9	2.7	−.8	.2	−.1

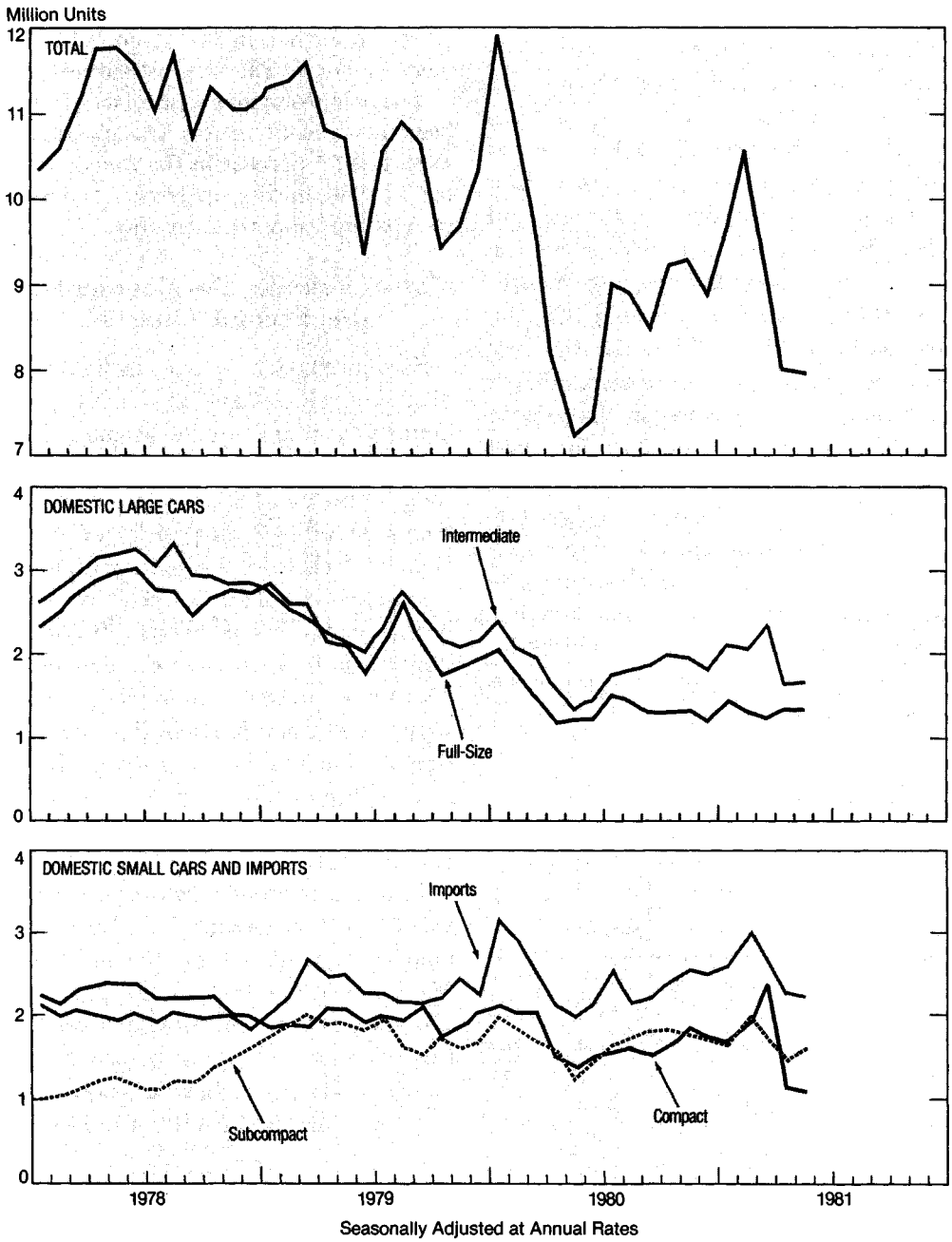
*Projected. Based on unit production in April and May and scheduled production for June, unit sales of autos through the first 10 days of June and of trucks for April and May, and unit inventories for April and May.

NOTE.—For estimates through 1981: I, see tables 1.14–1.15 and 1.16–1.17 of the National Income and Product Accounts Tables. Auto output includes dealers' margins on their used car transactions; truck output includes new trucks only.

made in February and March, when extensive cash rebates were offered. Intermediate and compact car sales—on which the bulk of the rebates were offered—were especially hard hit. Intermediate sales fell from 2.2 million in the first quarter to 1.6 million in April-May, and compact sales from 2.0 to 1.3 million. Sales were held down also by the slowdown in the growth of real disposable income, an increase in new car prices (domestic manufacturers' average price increases ranged from 2 to 3½ percent per unit), and a continued rise in interest rates on auto installment loans. Subcompact car sales declined from 1.8 to 1.5 million, and full-size car sales remained weak at 1.3 million. Imported car sales fell from 2.7 to 2.2 million.

CHART 3

Retail Sales of New Passenger Cars



Note.—The components may not add to the total because each category was separately adjusted for seasonal variation.

Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports; seasonal adjustment by BEA.

U.S. Department of Commerce, Bureau of Economic Analysis 81-6-3

The step-up in domestic production and the drop in sales resulted in an increase in inventories. The increase, although large, appeared intentional: Stocks of some models that had been depleted were rebuilt; stocks of several intermediate models were added to in preparation for major model changeovers in the third quarter; and stocks of new subcompact models were built up prior to their May introduction. At the end of May, domestic new car inventories were about 1,240,000 (seasonally adjusted), up from 1,013,000 in the first quarter. The inventory-sales ratio increased from 1.6 in the first quarter to about 2.6 in May. The ratio was higher than the 2.0 preferred by the industry, but, given the low level of unit inventories, a small recovery in sales would bring the ratio back into line.

In terms of units, new truck production was scheduled to increase only slightly in the second quarter. Sales of domestic trucks were unchanged in April-May from 1.9 million (seasonally adjusted annual rate) in the first quarter; sales of imported trucks were down.

First-Quarter Corporate Profits

Corporate profits from current production—profits with inventory valuation and capital consumption adjustments—increased $19½ billion, to $203 billion, in the first quarter of 1981. This is $½ billion above the estimate published a month ago. An upward revision in manufacturing profits more than offset downward revisions in other domestic nonfinancial industries and in profits from the rest of the world. With the first-quarter increase, profits regained their previous peak level, which occurred in the fourth quarter of 1978.

Domestic profits of nonfinancial corporations increased $24 billion to $152 billion. About two-thirds of this increase was in manufacturing. Manufacturing profits include $2½ billion in interest (at annual rate) paid to the Penn Central Transportation Company as part of a settlement for the value of assets transferred by Penn Central to Conrail in 1976.

Table 4.—Corporate Profits With Inventory Valuation Adjustment and Without Capital Consumption Adjustment

[Billions of dollars; seasonally adjusted at annual rates]

	1979: I	1980: I	Change from preceding quarter					1981: I
			1980: I	1980: II	1980: III	1980: IV	1981: I	
Manufacturing	**99.4**	**92.1**	**11.9**	**−30.8**	**7.2**	**7.7**	**15.2**	**91.4**
Petroleum and coal products	15.0	31.0	7.3	−5.7	−3.1	−2.3	1.9	21.8
Other	84.4	61.1	4.6	−25.1	10.3	10.0	13.3	69.6
Nondurable goods other than petroleum and coal products	33.5	33.0	5.8	−7.1	1.0	3.6	7.3	37.8
Food and kindred products	6.6	8.2	1.5	−1.5	−1.0	2.9	1.9	10.5
Chemicals and allied products	9.4	8.8	2.2	−2.8	1.0	1.1	2.1	10.2
Other	17.4	16.0	2.2	−2.8	1.0	−.4	3.2	17.0
Durable goods	50.9	28.1	−1.2	−18.0	9.3	6.4	6.0	31.8
Primary metal industries	4.8	5.9	3.1	−3.9	−1.3	3.1	1.5	5.3
Fabricated metal products	5.5	5.2	.4	−3.5	2.2	.9	−.7	4.1
Machinery, except electrical	9.3	7.3	−.7	−1.6	.5	−.1	2.7	8.8
Electric and electronic equipment	7.1	6.6	.9	−2.8	1.7	−.2	3.1	8.4
Motor vehicles	11.8	−2.9	−2.1	−5.9	4.0	4.0	−.9	−1.7
Other	12.4	6.0	−2.8	−.4	2.4	−1.4	.4	7.0

Domestic profits of financial corporations declined $2 billion to $25½ billion. The decline was more than accounted for by a swing from profits to losses for savings and loan associations; excluding interest credited to accounts, they suffered net deposit withdrawals. Earnings of Federal Reserve banks, which are treated as part of corporate business in the national income and product accounts (NIPA's), increased sharply as the result of higher average interest rates on its holdings of Federal debt, especially short-term debt.

Profits from the rest of the world—measured as the net inflow of dividends and reinvested earnings of incorporated affiliates, and earnings of unincorporated affiliates—declined $2½ billion to $25½ billion in the first quarter. The decline reflected weakness in many foreign economies.

Recent developments in nonfinancial profits.—Detail by industry for nonfinancial corporations is available for profits with inventory valuation adjustment but without capital consumption adjustment. In the first quarter of 1981, manufacturing profits increased sharply, reflecting increased sales in most manufacturing industries. The first-quarter level of manufacturing profits was near to its pre-recession value of the first quarter of 1980, but was still below its peak value, which occurred a year earlier (table 4). Within manufacturing, the profits of most manufacturing industries, with the exception of petroleum, have followed a similar pattern; peaks in or near the first quarter of 1979, sharp declines in the second quarter of 1980, sharp increases thereafter.

The profits of petroleum manufacturers peaked in the first quarter of 1980 and declined throughout 1980. Declining demand for petroleum products made it increasingly difficult for refiners to pass on to the product prices higher costs of crude oil, and the resulting squeeze on margins has depressed profits.

(Continued on page 72)

Reconciliation and Other Special Tables

Table 1.—Relation of Net Exports of Goods and Services in the National Income and Product Account (NIPA's) to Balance on Goods and Services in the Balance of Payments Accounts (BPA's)

[Billions of dollars, seasonally adjusted at annual rates]

Line		1980				1981
		I	II	III	IV	I
1	Exports of goods and services, BPA's	343.1	334.5	346.6	354.5	376.6
2	Less: Gold, BPA's	4.0	4.9	2.2	4.9	5.5
3	Capital gains net of losses in direct investment income receipts	.8	−11.1	1.1	1.0	1.2
4	Statistical differences [1]	.7	7.0	.2	1.6	2.2
5	Other items	.1	.3	.7	1.0	.4
6	Equals: Exports of goods and services, NIPA's	337.3	333.3	342.4	346.1	367.4
7	Imports of goods and services, BPA's	343.9	331.3	320.7	339.6	358.2
8	Less: Payments of income on U.S. Government liabilities	12.2	11.7	12.0	14.1	15.8
9	Gold, BPA's	7.5	4.8	6.6	3.4	3.8
10	Capital gains net of losses in direct in vestment income payments	−.4	1.1	5.6	.4	.1
11	Statistical differences [1]	−1.8	−.9	.3	.8	.8
12	Other items					
13	Plus: Gold, NIPA's	2.7	1.6	1.6	1.8	.4
14	Equals: Imports of goods and services, NIPA's	329.1	316.2	297.9	322.7	338.2
15	Balance on goods and services, BPA's (1-7)	−.9	3.1	25.9	14.9	18.4
16	Less: Gold (2-9+13)	−.7	1.7	−2.8	3.3	2.1
17	Capital gains net of losses in direct investment income (3-10)	1.2	−12.2	−4.5	.6	1.1
18	Statistical differences (4-11)	2.5	7.9	−.1	.9	1.4
19	Other items (5-12)	.1	.3	.7	1.0	.4
20	Plus: Payments of income on U.S. Government liabilities (8)	12.2	11.7	12.0	14.1	15.8
21	Equals: Net exports of goods and services, NIPA's (6-14)	8.2	17.1	44.5	23.3	29.2

1. Consists of statistical revisions in the BPA's that have not yet been incorporated in the NIPA's.

(Continued from page 7)

First-quarter profits of manufacturers of nondurables other than petroleum increased sharply, surpassing their previous peak. The increase occurred in almost all nondurable manufacturing industries. Profits of durable goods manufacturers increased, but remained far below their peaks. Motor vehicle manufacturers, which accounted for about one quarter of durable manufacturers' profits at their peak in the first quarter of 1979, swung to losses in the third quarter of 1979. Losses increased in the first quarter of 1981, reflecting lower output of autos and trucks as well as the costs of rebate programs.

Profits of trade corporations increased sharply in the first quarter, as did profits of transportation corporations. Within transportation, profits of trucking and railroad corporations increased reflecting increased volumes of freight carried; losses of airlines decreased, reflecting sharp increases in fares which offset a decline in revenue-passenger miles.

* * *

First-quarter NIPA revisions

The 75-day revision of the national income and product account estimates for the first quarter of 1981 are shown in table 5.

Table 5.—Revisions in Selected Component Series of the NIPA's, First Quarter of 1981

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates		
	45-day estimate	75-day estimate	Revision	45-day estimate	75-day estimate	Revision
	Billions of current dollars					
GNP	**2,853.8**	**2,853.0**	**−0.8**	**19.3**	**19.2**	**−0.1**
Personal consumption expenditures	1,805.8	1,810.1	4.3	13.1	14.2	1.1
Nonresidential fixed investment	316.1	315.9	−.2	19.9	19.6	−.3
Residential investment	116.7	116.7	0	13.7	14.0	.3
Change in business inventories	2.6	4.5	1.9	----------	----------	----------
Net exports	37.0	29.2	−7.8	----------	----------	----------
Government purchases	575.5	576.5	1.0	12.7	13.5	.8
Federal	221.5	221.6	.1	19.0	19.3	.3
State and local	354.1	354.9	.8	8.9	10.0	1.1
National income	**2,289.3**	**2,291.1**	**1.8**	**16.3**	**16.6**	**.3**
Compensation of employees	1,721.9	1,722.4	.5	15.3	15.4	.1
Corporate profits with inventory valuation and capital consumption adjustments	202.6	203.0	.4	49.4	50.6	1.2
Other	364.8	365.7	.9	5.8	6.8	1.0
Personal income	**2,318.8**	**2,319.8**	**1.0**	**11.6**	**11.8**	**.2**
	Billions of constant (1972) dollars					
GNP	**1,516.0**	**1,516.4**	**.4**	**8.4**	**8.6**	**.2**
Personal consumption expenditures	958.3	960.2	1.9	5.0	5.8	.8
Nonresidential fixed investment	162.0	162.0	0	13.3	13.3	0
Residential investment	50.8	51.0	.2	2.0	3.6	1.6
Change in business inventories	−2.3	−1.4	.9	----------	----------	----------
Net exports	53.9	50.9	−3.0	----------	----------	----------
Government purchases	293.2	293.6	.4	4.8	5.4	.6
Federal	111.0	111.2	.2	14.3	14.8	.5
State and local	182.2	182.5	.3	−.5	.2	.7
	Index numbers, 1972=100 [1]					
GNP implicit price deflator	188.25	188.14	−1.1	10.0	9.8	−.2
GNP fixed-weighted price index	194.4	194.4	0	10.2	10.2	0
GNP chain price index	----------	----------	----------	9.9	9.8	−.1

1. Not at annual rates.

NOTE.—For the first quarter of 1981, the following revised or additional major source data became available: For *personal consumption expenditures*, revised retail sales for March, consumer share of new car purchases for March, and consumption of electricity for February; for *nonresidential fixed investment*, revised manufacturers' shipments of equipment for March, revised construction put in place for March, business share of new car purchases for March, and business expenditures for plant and equipment for the quarter; for *residential investment*, revised construction put in place for March; for *change in business inventories*, revised book values for manufacturing and trade for March; for *net exports of goods and services*, revised merchandise trade for March, and revised service receipts for the quarter; for *government purchases of goods and services*, revised construction put in place for March; for *wages and salaries*, revised employment, average hourly earnings and average weekly hours for March; for *net interest*, revised net interest received from abroad for the quarter; for *corporate profits*, domestic book profits for the quarter, revised profits from the rest of the world for the quarter; and for *GNP prices*, revised residential housing prices for the quarter.

(Continued from page 30)

on the ratios of PA to total plant and equipment spending. In editing, which is the process of examining the company responses with the aim of making them as representative of the universe as possible, companies that have unusual PA investment patterns are often treated separately in calculating sample ratios to minimize their effect on the universe estimates.

The only downward statistical revision—in 1973—reflects revisions for electric utilities, petroleum, chemicals, nonferrous metals, and iron and steel. The downward revision in these five industries reflects, in turn, downward revisions in their total plant and equipment spending as well as reediting of responses and reclassification of reports. Because 1973 was the first year PA questions were included on the annual survey, determining whether company responses were representative of the universe was difficult at that time. Reediting and reclassification resulted in improved determinations for several industries.

3. Comparison of BEA and Census Bureau Estimates for Manufacturing

Alternative estimates of capital expenditures for pollution abatement are available for manufacturing from the Pollution Abatement Costs and Expenditures Survey by the Census Bureau. BEA estimates are larger than Census Bureau estimates in all years. The revision makes the ratios of BEA to Census estimates more stable and increases them in each year except 1973 (table 10). For 1973–79, the average annual increase for BEA revised estimates is 8 percent and for the Census Bureau estimates is 7 percent.

The differences in the estimates are not surprising in light of differences in the underlying surveys. The Census Bureau sends questionnaires to parts of companies called establishments, excluding establishments in nonmanufacturing. BEA sends questionnaires to companies; the resulting manufacturing estimates include nonmanufacturing establishments owned by manufacturing companies but exclude manufacturing establishments owned by nonmanufacturing companies. Sampling methods, sample sizes, and extrapolation procedures also differ.

the BUSINESS SITUATION

AFTER three quarters of uneven advance, real GNP declined 2 percent at an annual rate in the second quarter of 1981.[1] The decline was substantially smaller than that in the second quarter of last year, when in a sharp recession real GNP plummeted 10 percent, but was about the same size as that in the second quarter of 1979, when GNP growth was interrupted by a decline of 1½ percent.

Final sales declined 5 percent at an annual rate in the second quarter of 1981. Every major component—personal consumption expenditures, residential and nonresidential fixed investment, net exports, and government purchases—declined after increasing in the first quarter. A swing in inventories from decumulation in the first quarter to accumulation in the second partly offset the decline in final sales (chart 1). On the basis of inferences drawn from estimates of components making up the four-fifths of GNP for which monthly source data are available, it appears that real GNP peaked in January–February, weakened through May, and—even more tentatively—stabilized in June.

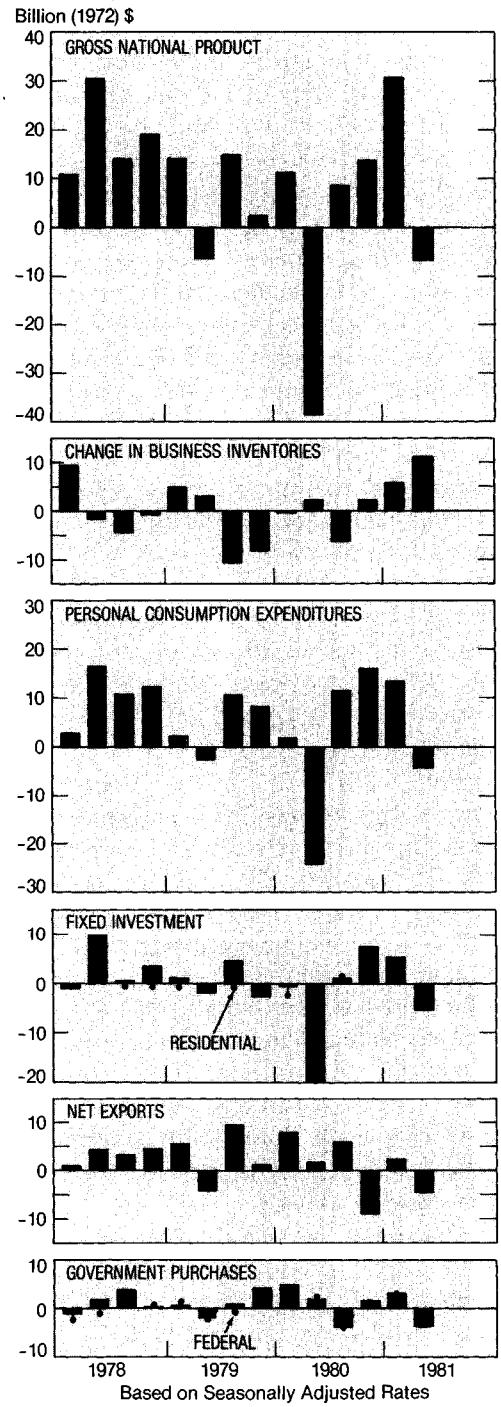
Prices.—GNP prices as measured by the fixed-weighted price index increased 7½ percent at an annual rate in the second quarter, compared with 10 percent in the first. Food and energy prices were major factors in the deceleration. These prices affect the change in business inventories, exports, imports, personal consumption expenditures (PCE), and government purchases lines of table 1, because they have food and/or energy components. Table 2 presents a quantification of the prices of the food and energy components of GNP and their effect on GNP prices. The price of GNP less food and energy increased at an annual rate of 8½ percent in the second quarter compared with 9 percent in the first.

Both export and import prices increased less in the second quarter than in the first. In export prices, a drop in the price of the food, feed, and beverage category was a major factor. In import prices, which have a negative weight in the calculation of GNP prices, the increase in the price of imported petroleum was much less than in the first quarter.

The second-quarter increase in PCE prices, at an annual rate of 6½ percent, was substantially less than the first-quarter increase and was the smallest increase since the first quarter of 1978. The second-quarter deceleration was due to food and energy prices. Food prices were unchanged after a 6½-percent increase in the first quarter. A 2-percent decline in the price of food consumed at home was offset by a 6-percent increase in the price of restaurant meals. For food consumed at home, declines in prices of meat, poultry, non-

CHART 1

Real Product: Change From Preceding Quarter



U.S. Department of Commerce, Bureau of Economic Analysis 81-7-1

1. The second-quarter GNP estimates are based on the following major data sources: For *personal consumption expenditures* (PCE), retail sales, and unit auto and truck sales through June; for *nonresidential fixed investment,* the same information for autos and trucks as for PCE, manufacturers' shipments of machinery and equipment for April and May, April and May construction put in place, and investment plans for the quarter; for *residential investment,* April and May construction put in place, and housing starts for April and May; for *change in business inventories,* April and May book values for manufacturing and trade, and unit auto inventories through June; for *net exports of goods and services,* April and May merchandise trade, and fragmentary information on investment income for the quarter; for *government purchases of goods and services,* Federal unified budget outlays for April and May, State and local construction put in place for April and May, and State and local employment through June; and for *GNP prices,* the Consumer Price Index for April and May, the Producer Price Index through June, and unit value indexes for exports and imports for April and May. Some of these source data are subject to revision.

alcoholic beverages, sugar, and imported foods more than offset increases in the prices of dairy and bakery products, and fruits and vegetables.

Three of the four energy components contributed to sharp deceleration of the increase in PCE energy prices to an annual rate of 8 percent. The price of gasoline increased 2½ percent after a 45-percent increase in the first quarter; fuel oil increased 16½ percent and electricity increased 10 percent, after increases of 76 percent and 15½ percent. (Gasoline prices declined each month in the second quarter, and fuel oil prices declined in 2 of the 3 months; the small monthly declines, however, did not offset the effect of the previous quarter's large monthly increases, so that, on a quarterly basis, their prices increased.) First-quarter price increases were largely due to crude oil price increases by OPEC members and other foreign sources in December, and the decontrol of domestic crude oil and petroleum products in January. Second-quarter prices were affected by cuts in contract prices and premiums by some foreign crude oil producers, declines in spot market crude oil prices to below contract prices, and reductions in U.S. refiners' "posted" price offerings—all traceable to a worldwide glut of crude oil. Also, there was competitive price cutting among gasoline retailers in many regions of the country.

Prices of PCE on other than food and energy increased 8½ percent at an annual rate, compared with 8 percent in the first quarter. The acceleration was accounted for by new car prices, which reflected a cash rebate program in the first quarter and price increases by manufacturers in the second. Other PCE prices combined increased at about the same rate in both quarters; clothing prices increased somewhat more and furniture and household equipment prices increased less, but most others increased at about the same rate.

Quarterly changes in the prices of residential investment are sometimes difficult to explain, but the deceleration in the second quarter is consistent with the soft market for new homes described later. With this exception, prices of components included in "other" in table 1 increased at rates similar to those in the first quarter: nonresidential structures at 9 percent (annual rate), the same as in the first quarter; producers' durable equipment at 11½ percent, somewhat more than in the first quarter; and government purchases at 9 percent, a little less.

This review of component prices indicates that the deceleration in GNP price increases was not widespread; for most components, prices increased at about the same rate in both quarters. Moreover, these rates represent decelerations only relative to rates that characterized the quarters of 1979 and early 1980.

Inflation must be viewed not only in terms of product prices, but also in terms of the costs of the factors of production; among these, wage costs are the most important. There are several measures of wage costs. The Hourly Earnings Index has the advantage that it excludes the effects of overtime pay in manufacturing and of changes in the industrial mix of employment. Increases in this index have decelerated sharply, from a peak of 10.3 percent (seasonally adjusted at an annual rate) in the fourth quarter of 1980, to 9.7 percent in the first quarter of this year, and to 7.9 percent in the second quarter. Increases had been above 8 percent in all quarters since the second quarter of 1979.

Employment and unemployment.—The payroll measure of employment, which had increased 412,000 in the first

Table 1.—Fixed-Weighted Price Indexes

	Index numbers (1972=100) seasonally adjusted				Percent change from preceding quarter at annual rates		
	1980		1981		1980	1981	
	III	IV	I	II	IV	I	II
Gross national product	**185.1**	**189.7**	**194.4**	**197.9**	**10.4**	**10.2**	**7.6**
Less: Change in business inventories							
Equals: Final sales	185.0	189.6	194.3	197.9	10.4	10.3	7.6
Less: Exports	219.1	226.6	232.9	236.4	14.5	11.7	6.1
Plus: Imports	308.7	315.5	324.4	327.5	9.0	11.8	3.9
Equals: Final sales to domestic purchasers	**190.8**	**195.4**	**200.2**	**203.8**	**10.0**	**10.3**	**7.3**
Personal consumption expenditures	186.3	190.8	195.8	198.9	10.1	10.9	6.5
Food	195.1	202.6	205.7	205.7	16.1	6.4	0
Energy [1]	320.3	325.2	353.3	360.2	6.3	39.2	8.1
Other personal consumption expenditures	171.3	175.0	178.4	182.0	8.9	8.0	8.4
Other	198.4	203.1	207.7	212.1	9.7	9.5	8.7
Nonresidential structures	221.0	224.1	229.0	234.1	5.8	9.0	9.2
Producers' durable equipment	185.8	189.4	193.9	199.1	7.9	9.9	11.3
Residential	223.1	224.3	229.7	232.5	2.1	10.1	5.0
Government purchases	192.1	198.2	202.7	207.0	13.3	9.3	8.9

1. Gasoline and oil, fuel oil and coal, electricity, and gas.

Table 2.—Selected Fixed-Weighted Price Indexes: Change From the Preceding Quarter at Seasonally Adjusted Annual Rates

	1979				1980				1981	
	I	II	III	IV	I	II	III	IV	I	II
GNP	9.3	8.9	8.8	[1] 10.3	9.7	9.3	9.0	[1] 10.4	10.2	7.6
Food components	15.3	6.6	5.0	7.9	3.2	4.1	17.1	18.6	7.3	-.1
Energy components	18.5	36.9	34.9	27.8	40.7	13.1	2.0	2.3	36.4	14.0
GNP less food	8.3	9.4	9.5	10.8	10.8	10.2	7.8	9.1	10.7	8.9
GNP less energy	8.8	7.6	7.5	9.3	8.0	9.1	9.5	10.9	8.6	7.1
GNP less food and energy	7.6	7.8	7.9	[1] 9.5	8.9	9.9	8.3	[1] 9.8	8.9	8.5

NOTE.—Inasmuch as GNP is a sum of final products, the estimates in this table do not take into account the effect on the prices of final products of changes in the prices of the food and energy that are costs of production.

1. Includes pay raises for Federal employees, which added 0.8 and 1.4 percentage points to the increase in GNP prices in the fourth quarters of 1979 and 1980, respectively.

2. Consists of all components for which separate estimates are prepared. The major component that is not included is purchases of food by the Federal Government other than transactions by the Commodity Credit Corporation that are treated like purchases.

3. Consists of all components for which separate estimates are prepared. The major components that are not included are (1) exports of energy, (2) the gasoline and motor oil portions of inventories of gasoline service stations, and (3) the energy portions of inventories of businesses that do not produce energy for sale.

Table 3.—Selected Labor Market Indicators

[Seasonally adjusted]

	1980			1981		Change from preceding quarter			
	II	III	IV	I	II	1980: III	1980: IV	1981: I	1981: II
Household survey									
Civilian labor force (thousands)	104,693	104,982	105,173	105,800	106,768	289	191	627	968
Employment	97,040	97,061	97,276	98,012	98,868	21	215	736	856
Unemployment	7,652	7,921	7,897	7,788	7,900	269	−24	−109	112
Job losers	4,071	4,357	4,232	3,863	4,041	286	−125	−369	178
On layoff	1,716	1,758	1,538	1,275	1,338	42	−220	−263	63
Other job losers	2,355	2,598	2,693	2,589	2,702	243	95	−104	113
Job leavers, reentrants, and new entrants	3,645	3,610	3,665	3,872	3,902	−35	55	297	30
Unemployment rate (percent):									
Total	7.3	7.5	7.5	7.4	7.4	.2	0	−.1	0
Adult men	6.2	6.6	6.3	6.0	6.1	.4	−.3	−.3	.1
Adult women	6.4	6.4	6.7	6.6	6.6	0	.3	−.1	0
Teenagers	17.9	18.4	18.3	19.1	19.2	.5	−.1	.8	.1
Establishment survey									
Employment, nonfarm payroll (thousands)	90,450	90,213	90,820	91,232	91,501	−237	607	412	269
Goods producing	25,678	25,306	25,594	25,670	25,721	−372	288	76	51
Construction	4,381	4,319	4,385	4,398	4,334	−62	66	13	−64
Manufacturing:									
Durables	12,165	11,911	12,060	12,086	12,239	−254	149	26	153
Nondurables	8,115	8,064	8,098	8,095	8,145	−51	34	−3	50
Distributive [1]	25,456	25,529	25,585	25,721	25,833	73	56	136	112
Services [2]	22,939	23,177	23,399	23,619	23,842	238	222	220	223
Government	16,377	16,201	16,242	16,222	16,105	−176	41	−20	−117
Average weekly hours, private nonfarm:									
Total	35.2	35.2	35.3	35.3	35.4	0	.1	0	.1
Manufacturing	39.5	39.4	39.8	39.9	40.2	−.1	.4	.1	.3

1. Transportation and public utilities, and wholesale and retail trade.
2. Services, and finance, insurance, and real estate.

Source: Bureau of Labor Statistics.

quarter, increased only 269,000 in the second (table 3). On a monthly basis, employment was virtually flat from April to June, even though the settlement of the coal strike added about 150,000 to June. Employment increased in the second quarter in services (223,000), distributive industries (112,000), and manufacturing (203,000); in manufacturing, the increase was substantially larger than in the first quarter, and in the services and distributive industries, increases were about the same in both quarters. Decreases were registered in government (117,000, laregly as a result of the loss of Comprehensive Employment and Training Act jobs at the State and local level) and construction (64,000), after little change in the first quarter. Average weekly hours in the private nonfarm economy were up 0.1 to 35.4; manufacturing hours were up 0.3 to 40.2.

The household measure of employment increased 856,000 in the second quarter, after an increase of 736,000 in the first. Unemployment, which had declined 109,000 in the first quarter, increased an equal amount in the second, and the unemployment rate, which had declined 0.1 percentage points, held steady at 7.4 percent. During the quarter, the rate moved up from 7.3 percent in April to 7.6 percent in May, and back to 7.3 percent in June. Earlier-than-usual school closings may have exaggerated the seasonally adjusted changes in the rates for May and June.

Costs and productivity.—Table 4 adapts the information on real product, employment, and hours to focus on costs and productivity in the business economy other than farm and housing. Productivity—as measured by real gross product per hour—declined in the second quarter, as real product declined more than hours. The increase in compensation decelerated sharply, due to the decline in hours and to two special factors that had raised compensation in the first quarter. These factors were the increase in the minimum wage from $3.10 to $3.35 per hour and the increase in employer contributions for social insurance. (Effective January 1, the social security tax rate increased from 6.13 percent to 6.65 percent and the taxable wage base increased from $25,900 to $29,700.) Excluding these factors, the increase in compensation per hour was 8½ percent at an annual rate in both the first and second quarters. Unit labor costs increased 10½ percent, compared with 7 percent in the first quarter.

Table 4.—Real Gross Product, Hours, and Compensation in the Business Economy Other Than Farm and Housng

[Percent change from preceding quarter at annual rates based on seasonally adjusted estimates]

	1980		1981	
	III	IV	I	II
Real gross product	2.9	7.3	8.2	−3.6
Hours	−1.0	7.6	3.1	[1]−1.9
Compensation	8.5	17.9	15.5	[1]6.6
Real gross product per hour	4.0	−.3	4.9	−1.8
Compensation per hour	9.7	9.6	12.0	8.6
Unit labor cost	5.4	9.8	6.8	10.6

1. The second-quarter estimates of hours and compensation incorporate the recent Bureau of Labor Statistics (BLS) benchmark revision of monthly employment, hours, and earnings. However, the seasonal factors used to adjust the employment, hours, and earnings that underlie the hours and compensation estimates in this table differ from those used by BLS to adjust the published employment, hours, and earnings.

Personal income and its disposition

The second-quarter weakening in production resulted in much smaller increases in wage and salary disbursements and in proprietors' income (table 5).[2] The deceleration in wages and salaries—from a $45 billion increase to a $23 billion increase—was pervasive; all major component industries contributed. Wages and salaries in construction and in mining, which are included in "other" commodity-producing industries, declined after increasing in the first quarter. The downswing in construction wages and salaries—from a $3 billion increase to a $1½ billion decline—mirrored the fall-off in construction activity in the second quarter. The downswing in mining wages and salaries—from a $1½ billion increase to a $1½ billion decline—largely reflected the coal strike. Other private wages and salaries increased $22½ billion, compared with $37 billion in the first quarter. Only about $2 billion of the deceleration was accounted for by the first-quarter increase in the minimum wage. Government wages and salaries increased $3 billion, $1 billion less than in the first quarter. The deceleration

2. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

largely reflected a decline in State and local employment due to the wind-down of programs funded by the Comprehensive Employment and Training Act.

Farm proprietors' income swung from a $3½ billion decline in the first quarter to a $3 billion increase in the second. The swing was largely due to livestock prices, which declined sharply in the first quarter and partly recovered in the second, and to the first increase in the real volume of crop marketings in a year. After a $1½ billion increase in the first quarter, nonfarm proprietors' income declined slightly, reflecting construction activity and retail trade.

Personal interest income increased $12½ billion in the second quarter, compared with $19 billion in the first. Rising interest rates on Federal securities held by persons or by financial intermediaries on their behalf were responsible for both increases. In the second quarter, these interest rates rose less than in the first.

Table 5.—Personal Income and Its Disposition: Change from Preceding Quarter

[Billions of dollars, based on seasonally adjusted annual rates]

	1980: IV	1981 I	1981 II
Wage and salary disbursements	56.0	45.1	23.0
Manufacturing	18.2	12.4	8.8
Other commodity-producing	5.7	4.9	−2.7
Distributive	11.4	11.4	5.9
Services	11.3	12.5	7.9
Government and government enterprises	9.4	3.9	3.2
Proprietors' income	4.3	−1.9	2.2
Farm	.3	−3.5	2.8
Nonfarm	3.9	1.6	−.6
Personal interest income	7.9	19.0	12.6
Transfer payments	3.2	5.7	4.3
Other income	5.8	6.8	6.6
Less: Personal contributions for social insurance	3.1	11.0	.7
Personal income	**74.1**	**63.6**	**48.0**
Less: Personal tax and nontax payments	17.7	12.8	10.4
Impact of legislation	−.6	−2.8	−1.3
Other	18.3	15.6	11.8
Equals: Disposable personal income	**56.4**	**50.8**	**37.6**
Less: Personal outlays	70.2	59.5	20.5
Equals: Personal saving	**−13.8**	**−8.7**	**17.1**
Addenda: Special factors—			
Federal pay raise	6.1	.1	--------
Minimum wage	--------	2.0	--------
Cost-of-living increases in Federal transfer payments	2.5	1.1	1.3
Social security (in personal contributions for social insurance):			
Base change	--------	2.3	--------
Rate change	--------	6.7	--------

Total personal income slowed less—from an increase of $63½ billion to one of $48 billion—than did the components just reviewed, because personal contributions for social insurance, which are deducted in deriving personal income, increased about $10 billion less than in the first quarter. The first-quarter increase was largely due to the January 1 increases in the tax rate and in the wage base for social security.

Disposable personal income increased $37½ billion, compared with $51 billion in the first quarter. The increase in personal outlays, of which PCE is the preponderant part, was less than that in disposable income, and personal saving increased $17 billion. The personal saving rate moved up 0.7 percentage point to 5.3 percent, the first increase in a year (chart 2).

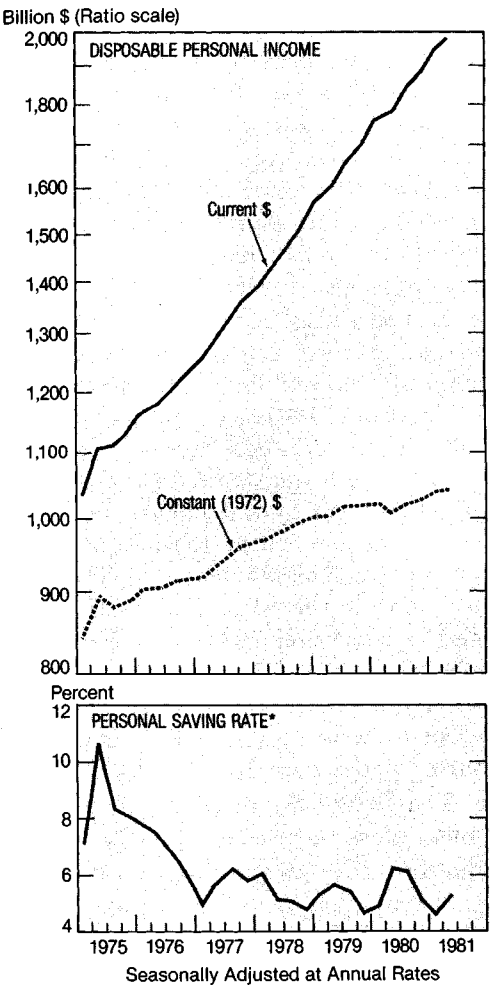
Real disposable personal income increased 1½ percent at an annual rate. Increases in the previous three quarters had ranged from 3 to 4 percent. The smaller increase was more than accounted for by current-dollar income, which increased 8 percent compared with 11 to 13½ percent earlier; the slowing in PCE price increases was a partial offset.

PCE.—Real PCE declined 2 percent at an annual rate in the second quarter, following three consecutive quarters of strong increases (table 6). The downswing was primarily due to motor vehicles, which fell sharply after a large increase in the first quarter. PCE other than on motor vehicles increased 2 percent compared with 3½ percent in the first quarter. Other durables turned down; a decline in furniture and equipment reflected flagging construction activity and home sales. Nondurables—mirroring food, and clothing and shoes—increased less than in the first quarter. Gasoline and oil declined, continuing a 2-year downtrend that was interrupted only in the fourth quarter of 1980. Services, in contrast, increased more than in the first quarter, largely due to an upswing in PCE on electricity and natural gas; expenditures on home heating had been held down in the first quarter by unseasonably warm weather.

The sharp downswing in PCE on motor vehicles was accounted for by new car sales. In terms of units, sales of new passenger cars, which are sales to business and other final users as well as to consumers, totaled 7.8 million (seasonally adjusted annual rate) in the second quarter, down from 10.2 million in the first (chart 3). First-quarter sales had been boosted by extensive cash rebate programs, but the second-quarter drop was too severe to reflect merely a shift in sales between the two quarters. Second-quarter sales were affected by the slowdown in the growth of real disposable income, by an increase in new car prices, and by a continued rise in finance rates. Domestic manufacturers' average price increases ranged from 2

CHART 2

Disposable Personal Income and Personal Saving Rate



*Personal saving as a percentage of disposable personal income.

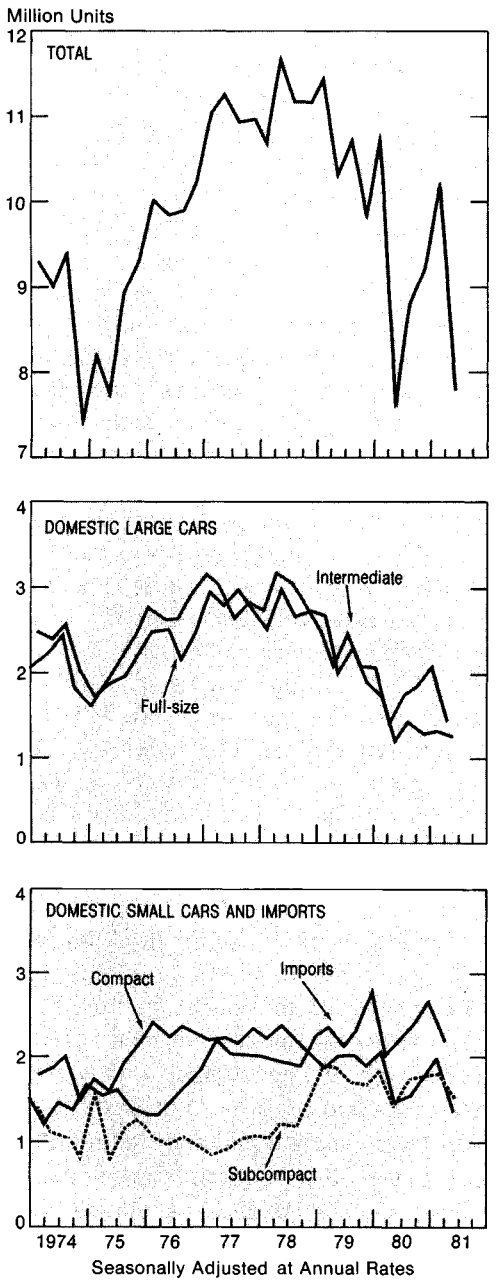
U.S. Department of Commerce, Bureau of Economic Analysis 81-7-2

to 3½ percent per unit, and finance rates on selected consumer auto installment loans by commercial banks reached a record 16.0 percent.

The drop in new car sales was spread across all size categories. Intermediate and compact sales—on which the bulk of the rebates had been offered—fell from 2.2 to 1.6 million, and from 2.0 to 1.3 million, respectively. Subcompact car sales declined from 1.8 to 1.5 million, and full-size car sales from 1.3 to 1.2 million. Imported car sales fell from 2.7 to 2.2 million, but, because domestic sales dropped even more, the import share of the market rose to a record 28½ percent.

CHART 3

Retail Sales of New Passenger Cars



Note.—The components may not add to the total because each category was separately adjusted for seasonal variation.

Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports; seasonal adjustment by BEA.

U.S. Department of Commerce, Bureau of Economic Analysis. 81-7-3

Investment

Real nonresidential fixed investment declined 6 percent at an annual rate in the second quarter, after increasing 13½ percent in the first (table 7). Structures and producers' durable equipment both contributed to the downswing.

Investment in structures declined slightly, following a 16½-percent increase in the first quarter. The flattening can be attributed to declines in commercial building and, to a lesser extent, in industrial and institutional building. Public utility construction was up, following a prolonged decline, and petroleum exploration and drilling resumed an uptrend that had been interrupted in the first quarter.

Investment in both motor vehicles and other producers' durable equipment declined, after increasing in the first quarter. The downswing in motor vehicles was in purchases of autos, which had been boosted in the first quarter by the cash rebate programs. Unit truck sales, which are sales to all final users, were down slightly from 2.4 million (seasonally adjusted annual rate) in the first quarter to 2.3 million. The decline was concentrated in sales of imported trucks. Sales of domestic trucks have been weak since the second quarter of 1980. The downswing in purchases of other producers' durable equipment centered in computers, which declined after a sharp increase in the first quarter. An increase in communications equipment was a partial offset.

Table 6.—Real Personal Consumption Expenditures

	Billions of constant (1972) dollars, seasonally adjusted annual rates				Percent change from preceding quarter at annual rates		
	1980		1981		1980	1981	
	III	IV	I	II	IV	I	II
Personal consumption expenditures	**930.8**	**946.8**	**960.2**	**955.6**	**7.0**	**5.8**	**−1.9**
Durables	132.6	139.1	146.8	137.3	21.2	24.1	−23.5
Motor vehicles and parts	51.5	54.6	60.6	51.6	26.1	51.4	−47.3
Furniture and household equipment	58.4	60.7	62.1	61.1	16.6	9.3	−6.2
Other durables	22.6	23.8	24.1	24.6	22.3	6.5	7.5
Nondurables	354.9	360.4	364.5	365.9	6.3	4.6	1.5
Food	180.1	179.9	182.9	184.9	−.5	6.8	4.6
Energy [1]	29.5	30.6	28.5	27.7	14.9	−24.2	−11.6
Clothing and shoes	78.3	80.1	82.8	83.4	9.7	13.9	3.0
Other nondurables	67.0	69.8	70.3	69.9	17.8	3.0	−2.5
Services	443.3	447.3	448.9	452.4	3.7	1.4	3.2
Energy [2]	24.1	23.4	22.6	23.3	−11.4	−13.1	12.9
Other services	419.2	423.9	426.3	429.1	4.6	1.5	3.4

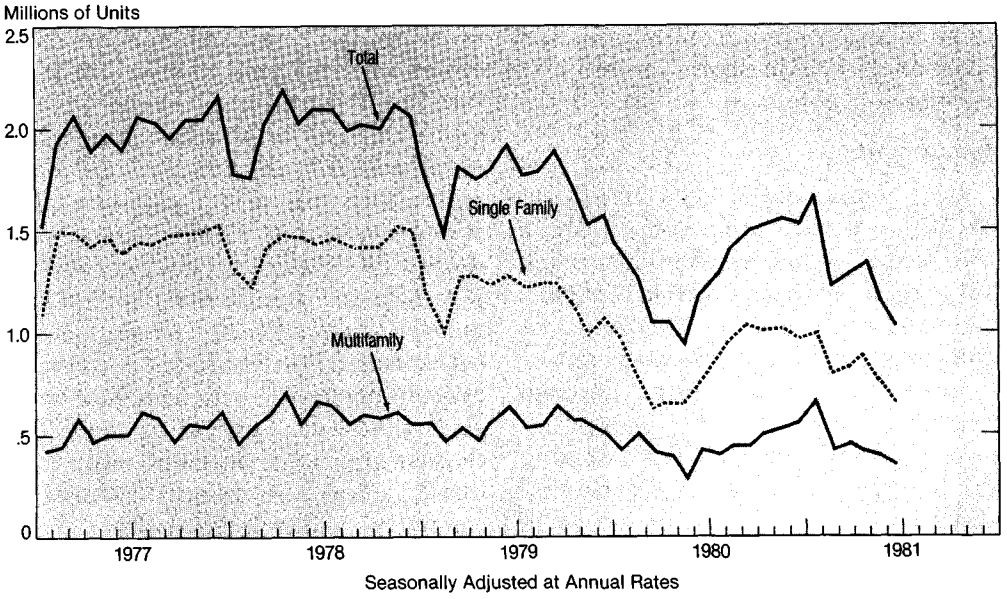
1. Gasoline and oil, and fuel oil and coal.
2. Electricity and gas.

Table 7.—Real Fixed Investment

	Billions of constant (1972) dollars, seasonally adjusted annual rates				Percent change from preceding quarter at annual rates		
	1980		1981		1980	1981	
	III	IV	I	II	IV	I	II
Fixed investment	**200.2**	**207.6**	**213.1**	**207.7**	**15.7**	**10.8**	**−9.7**
Nonresidential	155.5	157.0	162.0	159.5	4.0	13.3	−6.1
Structures	46.8	47.8	49.6	49.4	9.0	16.6	−1.7
Producers' durable equipment	108.8	109.3	112.4	110.1	1.9	11.8	−8.0
Autos, trucks, and buses	17.6	17.0	17.9	16.0	−12.2	21.3	−36.6
Other	91.2	92.2	94.5	94.1	4.8	10.2	−1.6
Residential	44.7	50.6	51.0	48.2	64.2	3.6	−20.6

CHART 4

Housing Starts



Data: Census
U.S. Department of Commerce, Bureau of Economic Analysis

81-7-4

The weakening in nonresidential fixed investment is consistent with the lackluster investment plans for 1981 reported in the BEA plant and equipment survey. These plans, which were reviewed in the June issue of the SURVEY OF CURRENT BUSINESS, suggest little or no year-over-year change in real terms. Uncertainty about the specific provisions that will be incorporated in the investment incentive measures now being considered by Congress tends to be a negative factor. There is excess capacity in many manufacturing industries, as evidenced by the fact that BEA's capacity utilization index is well below its level of 2 years ago. Also, finance continues to be a constraining factor; both short- and long-term interest rates remain high and cash flows remain depressed.

Residential investment.—Real residential investment, which had changed little in the first quarter, declined 20 percent at an annual rate in the second. The sharpest decline was in single-family construction. Multi-family construction also declined, and the "other" component of residential investment held steady. This component includes brokers' commissions, which remained weak in the second quarter, mirroring sales of new and existing residences. Sales of existing homes in April-May, at 2,560,000 (seasonally adjusted annual rate), were virtually unchanged from the first quarter, but were down 11 percent from 1980; at 470,000, sales of new single-family houses in April-May were down 8 percent from the first quarter and 11 percent from 1980.

Housing starts, which are reflected in construction activity with a lag, had turned around in mid-1980 and continued to increase through January of this year. Strong increases in multifamily starts more than offset some late-1980 softening in single-family starts. Both dropped sharply in February. In March and April, multifamily starts steadied and single-family starts strengthened, but both fell in May and June (chart 4). In June, starts were close to the very low levels to which they had fallen during the recession a year ago. Reflecting this pattern and the shorter lag between starts and completions for single-family units, investment in single-family residences was down more in the second quarter than investment in multifamily residences.

The weakness in residential investment in the second quarter reflected unfavorable financial conditions. Deposits (exclusive of interest credited) at mutual savings banks and insured savings and loans associations (S&L's) fell more than $10 billion during the first 5 months of the year—a record $6½ billion in April alone. During this period, the rates on newly issued 6-month money market certificates (MMC's) averaged about 3 percentage points higher than rates on maturing certificates.

Reflecting the loss of deposits, the increased cost of MMC's, and the generally upward movement in long-term interest rates, the commitment interest rate on 25-year mortgages with a loan-to-price ratio of 75 percent drifted upward until early April and then jumped more than 55 basis points in each of the next 2 months. At 16.28 percent in early June, the commitment rate was 12 basis points higher than its previous record level reached in April 1980 (chart 5). Moreover, the prime rate—to which construction loans are generally tied—

Table 8.—Real GNP, Final Sales, and Change in Business Inventories

[Billions of constant (1972) dollars]

	Seasonally adjusted at annual rates			Change from preceding quarter	
	1980:	1981		1981	
	IV	I	II	I	II
GNP	**1485.6**	**1516.4**	**1509.1**	**30.8**	**−7.3**
Auto	42.8	42.8	43.7	0	.9
Other	1442.8	1473.6	1465.4	30.8	−8.2
Final sales	**1492.7**	**1517.8**	**1499.4**	**25.1**	**−18.4**
Auto	40.9	48.5	38.0	7.6	−10.5
Other	1451.8	1469.3	1461.4	17.5	−7.9
Change in business inventories	**−7.2**	**−1.4**	**9.7**	**5.8**	**11.1**
Auto	1.9	−5.7	5.7	−7.6	11.4
Other	−9.1	4.3	4.0	13.4	−.3

NOTE.—The auto series are from table 1.14-1.15 of the National Income and Product Accounts Tables.

was high throughout the period; a 3-percentage point increase in May to 20½ percent, from which the June rate receded only slightly, erased most of the decline that had been registered in January–April.

Financial factors in the outlook for residential investment are mixed. Fragmentary information for June suggests continued deposit losses, but rates on newly issued MMC's were about 80 basis points lower than the rates on maturing certificates. Yields at Federal National Mortgage Association auctions—frequently viewed as indicating the future path of mortgage rates—showed no clear signs of falling between mid-May and early July, although commitment rates at a sample of S&L's did drift slightly lower during June.

Inventory investment.—In real terms, inventories accumulated at a rate of $9½ billion in the second quarter, following a decumulation of $1½ billion in the first (table 8). In its effect on the change in GNP, this swing provided an $11 billion offset to an $18½ billion decline in final sales. In the first quarter, the effect of inventories on the change in GNP was smaller and reinforcing. They contributed $6 billion and final sales contributed $25 billion to the change in GNP.

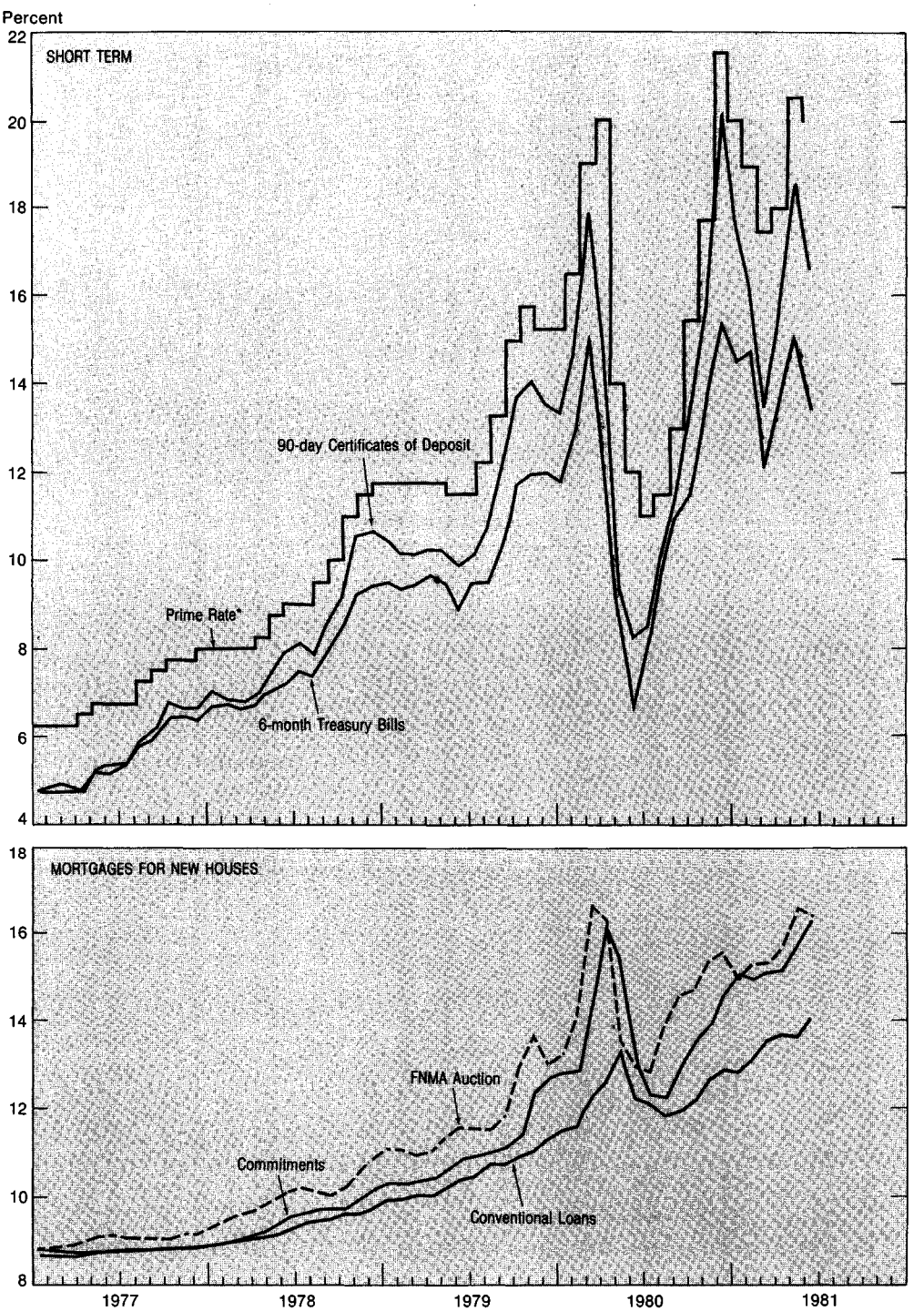
The first-quarter swing was more than accounted for by auto inventories. This statement is true whether auto inventory change is measured by the inventory change component of auto output, shown in table 8, or by the change in inventories helds by retail auto dealers.[3] In terms of units, inventories of domestic cars increased from 1,013,000 (seasonally adjusted) in the first quarter to 1,375,000 in the second. The inventory-sales ratio jumped from 1.6 in the first quarter to 3.0—above the 2.0 ratio generally preferred by the industry. In the first part of the second quarter, most of the buildup was concentrated in specific models: Stocks of some models that had been depleted were rebuilt; stocks of several intermediate models were added to in preparation for major model changeovers in the third quarter; and stocks of new subcompact models were built up prior to their May introduction. The inventory accumulation became more widespread in the latter part of the quarter as the weakness in sales continued, and probably had an involuntary element.

The information relating to nonauto inventories that is shown in the table is difficult to interpret. Under certain as-

3. The latter, as a rule, is part of the change in business inventories component of GNP. It is derived from Census Bureau book value inventory data. These data cover most auto inventories—including inventories of new and used autos, domestic and foreign—although not those held by manufacturers and wholesalers. In addition to autos, the data cover some trucks and other motorized vehicles, and some parts.

CHART 5

Selected Interest Rates



*At end of the month.

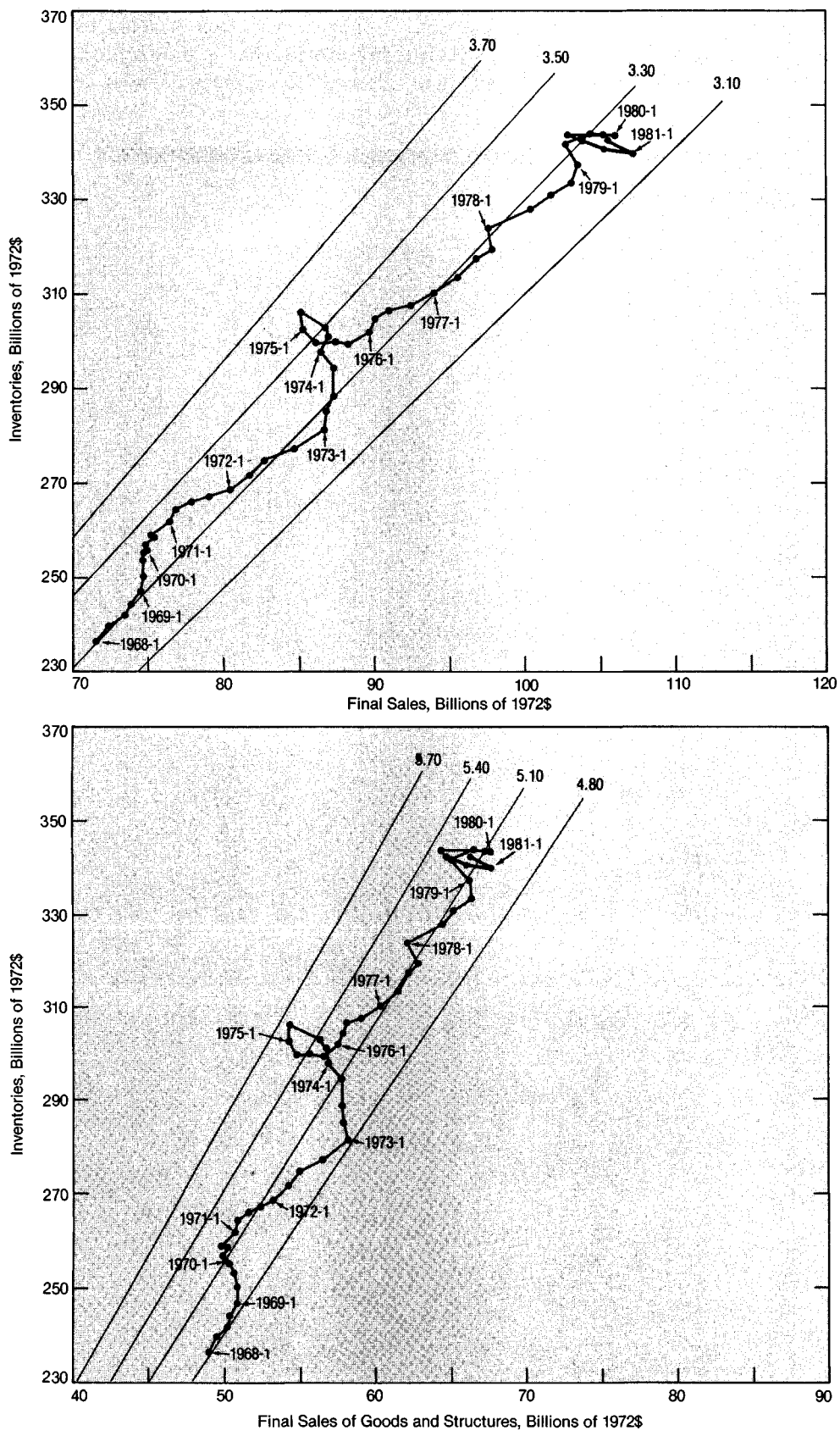
Data: FRB, FHLBB

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

81-7-5

CHART 6

Constant-Dollar Business Inventories, Final Sales and Final Sales of Goods and Structures, and Inventory-Sales Ratios



Note: End-of-quarter inventories, seasonally adjusted; final sales seasonally adjusted. Blue lines represent ratios of inventory stocks to final sales.

U.S. Department of Commerce, Bureau of Economic Analysis 81-7-6

sumptions about the relationship of inventories and sales, it is possible to see in the second-quarter accumulation an involuntary element. However, given the moderate size of that accumulation, this element was probably small.

An overview of inventory developments is provided in chart 6, which shows total business inventories relative to business final sales and to business final sales of goods and structures. The ratios increased in the second quarter both because sales declined and because inventories accumulated. Most of the sales decline was in autos, and a large part of the inventory accumulation was in autos. Accordingly, nonauto inventory-sales ratios moved up less than the ratios for business as a whole.

Net exports

Real net exports of goods and services declined $5 billion in the second quarter, after increasing $2½ billion in the first (table 9). The decline, as well as the increase, was almost entirely in merchandise trade.

In merchandise exports, the second-quarter decline was mainly in agricultural products, which had registered an unusually large increase in the first quarter. That increase had been due partly to a slowing in the increase in the price of U.S. agricultural exports and partly to a rebound from temporarily reduced demand in the fourth quarter of 1980. In the second quarter, there were substantial reductions in grain and soybean shipments to Eastern Europe and to developing countries. In nonagricultural exports, the bulk of a swing to decline was accounted for by industrial supplies and materials. In that category, the second-quarter decline reflected weak economic activity in other major industrial countries and the coal strike.

Merchandise imports increased more than in the first quarter. In nonpetroleum imports, industrial supplies and materials—predominantly iron and steel imports from Western Europe—and automotive products from Canada were major contributors to the step-up. The automotive imports went to add to stocks of intermediate models, many of which are produced in Canada. Petro-

Table 9.—Net Exports of Goods and Services

	Current dollars				Constant (1972) dollars						
	Billions of dollars, seasonally adjusted at annual rates								Percent change from preceding quarter at annual rates		
	1980		1981		1980		1981		1980	1981	
	III	IV	I	II	III	IV	I	II	IV	I	II
Net exports of goods and services	**44.5**	**23.3**	**29.2**	**19.4**	**57.6**	**48.5**	**50.9**	**46.0**			
Exports	342.4	346.1	367.4	366.2	160.5	157.4	162.5	160.3	−7.4	13.6	−5.3
Merchandise	222.9	221.0	236.3	232.5	93.5	89.0	92.4	89.9	−17.9	16.4	−10.4
Agricultural	43.8	44.8	51.5	45.8	18.7	17.7	19.7	17.9	−20.4	52.9	−31.2
Nonagricultural	179.1	176.2	184.8	186.8	74.8	71.3	72.7	72.0	−17.3	8.4	−4.0
Other	119.5	125.0	131.1	133.7	67.0	68.4	70.1	70.4	8.8	10.2	1.7
Imports	297.9	322.7	338.2	346.9	102.8	108.9	111.6	114.3	25.8	10.3	10.2
Merchandise	231.5	248.8	259.1	265.1	70.5	73.4	74.5	76.5	17.6	6.0	11.6
Petroleum	69.1	76.8	82.8	82.3	5.8	6.2	6.3	6.1	34.3	2.1	−9.3
Nonpetroleum	162.4	172.0	176.3	182.8	64.7	67.1	68.2	70.4	16.1	6.3	13.6
Other	66.4	73.9	79.1	81.8	32.4	35.5	37.1	37.8	45.1	19.5	7.4

leum imports, at an average of 6.4 million barrels a day, were about 9 percent less at an annual rate than in the first quarter and down about 15 percent from the year-ago level.

Government

Real government purchases of goods and services declined 4½ percent at an annual rate in the second quarter, after a 5½-percent increase in the first (table 10). Federal as well as State and local purchases contributed to the downswing. In Federal purchases, agricultural price support operations by the Commodity Credit Corporation (CCC) showed little change after net purchases of $2 billion in the first quarter; in the second quarter, redemptions of crops placed under loan earlier offset new loans to farmers. Stepped-up purchases for the strategic petroleum reserve bolstered second-quarter purchases.

The decline in State and local government purchases was primarily in structures. It may be the beginning of a downtrend due to the limitation of growth of Federal grants-in-aid supporting specific types of construction and the elimination of the State portion of general revenue sharing.

NIPA Federal sector.—Information on current-dollar Federal receipts and expenditures is shown in table 11. Expenditures increased only $5½ billion,

Table 10.—Real Government Purchases of Goods and Services

	Billions of constant (1972) dollars, seaonally adjusted annual rates				Percent change from preceding quarter at annual rates		
	1980		1981		1980	1981	
	III	IV	I	II	IV	I	II
Government purchases of goods and services	**288.2**	**289.8**	**293.6**	**290.1**	**2.2**	**5.4**	**−4.7**
Federal	106.9	107.4	111.2	109.3	2.0	14.8	−6.4
National defense	70.9	71.9	72.1	72.5	5.9	1.1	1.9
Nondefense	35.9	35.4	39.0	36.9	−5.3	46.8	−20.4
Commodity Credit Corporation	−1.9	−1.4	1.8	−.2			
Other	37.9	36.9	37.2	37.0	−10.1	3.6	−1.6
State and local	181.3	182.4	182.5	180.8	2.3	.2	−3.7

Table 11.—Federal Government Receipts and Expenditures, NIPA Basis

[Billions of dollars]

	Seasonally adjusted at annual rates				Change from preceding quarter		
	1980		1981		1980	1981	
	III	IV	I	II	IV	I	II
Receipts	**540.8**	**573.2**	**620.7**	**n.a.**	**32.4**	**47.5**	**n.a.**
Personal tax and nontax receipts	259.4	272.9	283.3	292.0	13.5	10.4	8.7
Corporate profits tax accruals	66.7	72.6	77.9	n.a.	5.9	5.3	n.a.
Indirect business tax and nontax accruals	42.9	49.1	60.6	63.4	6.2	11.5	2.8
Contributions for social insurance	171.8	178.6	198.9	200.4	6.8	20.3	1.5
Expenditures	**615.0**	**641.1**	**664.0**	**669.4**	**26.1**	**22.9**	**5.4**
Purchases of goods and services	194.9	212.0	221.6	219.5	17.1	9.6	−2.1
National defense	131.4	141.6	145.2	148.1	10.2	3.6	2.9
Nondefense	63.5	70.4	76.4	71.4	6.9	6.0	−5.0
Transfer payments	265.3	269.0	271.9	275.2	3.7	2.9	3.3
Grants-in-aid to State and local governments	87.7	91.8	90.2	88.7	4.1	−1.6	−1.5
Net interest paid	53.5	55.2	67.7	70.8	1.7	12.5	3.1
Subsidies less current surplus of government enterprise.	13.7	13.1	12.6	15.2	−.6	−.5	2.6
Less: Wage accruals less disbursements	0	0	0	0	0	0	0
Surplus or deficit (−), national income and product accounts.	**−74.2**	**−67.9**	**−43.3**	**n.a.**	**6.3**	**24.1**	**n.a.**

n.a. Not available.

compared with $23 billion in the first quarter; the slowdown was largely due to the swing in CCC operations and a deceleration in the increase in net interest paid. The latter reflected a slowing in the rise in interest rates on Federal securities.

All major categories of receipts for which estimates can be made at this time increased considerably less than they did in the first quarter. Personal taxes increased $8½ billion, $2 billion less than in the first quarter; the deceleration largely reflected the course of wages and salaries. Indirect business taxes were up $3 billion, compared with an increase of $11½ billion in the first quarter, when windfall profits receipts had increased sharply as a result of the full decontrol of domestic crude oil in January. The increase in contributions for social insurance decelerated from $20½ billion to $1½ billion. The first-quarter increase had been boosted by the increases in the social security tax rate and taxable wage base. On the basis of a residual calculation of second-quarter profits, corporate profits tax accruals were down substantially. This residual calculation assumes that the statistical discrepancy in the national income and product account is the same as in the preceding quarter. On this basis, it appears that the Federal deficit on national income and product account may widen about $5 billion from the $43½ billion recorded in the first quarter.

The regular annual revision of the national income and product accounts (NIPA's) was not made this July because key source data were not available in time for incorporation. Except for the estimates of population and per capita income and product, annual and quarterly estimates published in the National Income and Product Account Tables and annual and monthly estimates of personal income and outlays published in the statistical ("S") pages will not be revised until July 1982 unless source data become available that indicate the advisability of an earlier revision. Estimates for 1977–79, forthcoming in *National Income and Product Tables, 1976–1979*, also will not be revised until July 1982. This special supplement to the SURVEY OF CURRENT BUSINESS is now available and is being distributed to subscribers.

Annual, quarterly, and monthly estimates of population and of per capita income and product have been revised to incorporate the results of the 1980 Census of Population. Estimates in this issue of the SURVEY reflect these revised estimates. Comparable estimates for earlier periods are available on request from the National Income and Wealth Division, Bureau of Economic Analysis, U.S. Department of Commerce, Washington, D.C. 20230.

the BUSINESS SITUATION

REVISED (45-day) estimates show that the real GNP declined 2½ percent at an annual rate in the second quarter of 1981, ½ percentage point more than in the preliminary (15-day) estimates (table 1). Revisions in the major components were small: an upward revision in nonresidential fixed investment was more than offset by downward revisions in net exports and government purchases. The increase in GNP prices as measured by the fixed-weighted price index was revised up from 7½ to 8 percent.

Corporate profits

Corporate profits from current production—profits with inventory valuation and capital consumption adjustments—decreased $16 billion to $187 billion in the second quarter of 1981, according to preliminary estimates.[1] This decrease followed an increase of $19½ billion in the first quarter, which had restored profits to their previous peak of $203 billion (reached in the fourth quarter of 1978).

Domestic profits of nonfinancial corporations fell $8½ billion to $143½ billion, after increasing $24 billion in the first quarter (chart 1). The second-quarter drop was due to a decrease in real output of nonfinancial corporations and a squeeze on margins as unit costs accelerated and unit prices decelerated.

Decreases in corporate profits occurred for almost all domestic nonfinancial industries. The decreases were especially large for most durables manufacturing industries. Auto manufacturers, however, registered profits in the second quarter following losses in the previous seven quarters. Although retail sales of new cars fell in the second quarter, manufacturers' sales increased, result-

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

Table 1.—Revisions in Selected Component Series of the NIPA's, Second Quarter of 1981

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates		
	15-day estimate	45-day estimate	Revision	15-day estimate	45-day estimate	Revision
	Billions of current dollars					
GNP	**2,881.0**	**2,881.6**	**0.6**	**4.0**	**4.1**	**0.1**
Personal consumption expenditures	1,830.3	1,831.0	.7	4.5	4.7	.2
Nonresidential fixed investment	322.0	323.3	1.3	7.9	9.7	1.8
Residential investment	111.4	111.3	−.1	−16.9	−17.4	−.5
Change in business inventories	20.4	21.2	.8			
Net exports	19.4	17.7	−1.7			
Government purchases	577.6	577.1	−.5	.7	.4	−.1
Federal	219.5	219.4	−.1	−3.7	−3.9	−.2
State and local	358.1	357.7	−.4	3.6	3.1	−.5
National income		**2,316.5**			**4.5**	
Compensation of employees	1,751.0	1,751.2	.2	6.8	6.9	.1
Corporate profits with inventory valuation and capital consumption adjustments		187.0			−28.0	
Other	378.6	378.3	−.3	15.0	14.6	−.4
Personal income	**2,367.8**	**2,368.9**	**1.1**	**8.5**	**8.7**	**.2**
	Billions of constant (1972) dollars					
GNP	**1,509.1**	**1,507.4**	**−1.7**	**−1.9**	**−2.4**	**−.5**
Personal consumption expenditures	955.6	955.3	−.3	−1.9	−2.0	−.1
Nonresidential fixed investment	159.5	160.4	.9	−6.1	−4.0	2.1
Residential investment	48.2	48.1	−.1	−20.6	−21.0	−.4
Change in business inventories	9.7	9.7	0			
Net exports	46.0	44.6	−1.4			
Government purchases	290.1	289.3	−.8	−4.7	−5.8	−1.1
Federal	109.3	108.6	−.7	−6.4	−9.0	−2.6
State and local	180.8	180.7	−.1	−3.7	−3.8	−.1
	Index numbers, 1972=100 [1]					
GNP implicit price deflator	190.91	191.17	.26	6.0	6.6	.6
GNP fixed-weighted price index	197.9	198.1	.2	7.6	8.0	.4
GNP chain price index				7.3	7.8	.5

1. Not at annual rates.

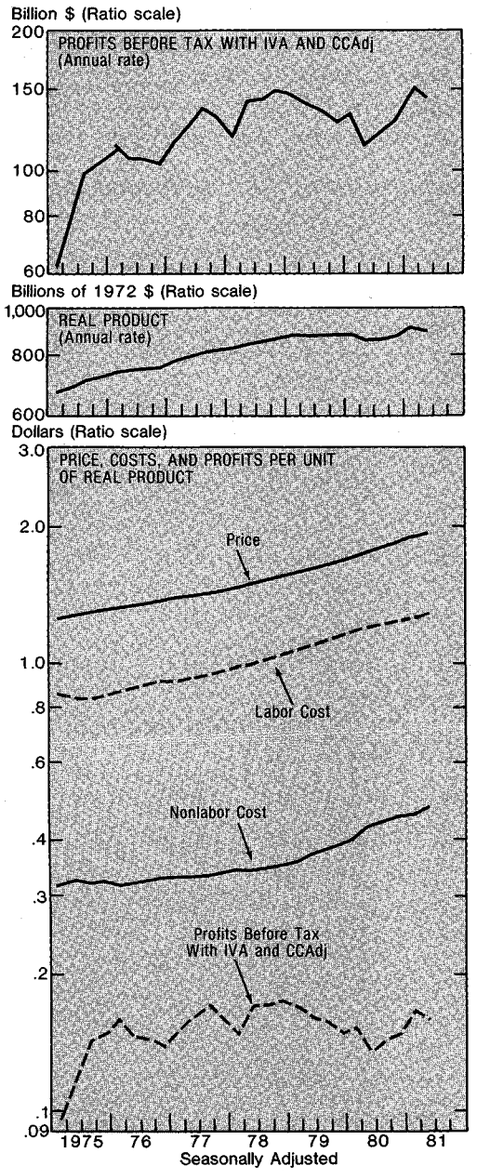
NOTE.—For the second quarter of 1981, the following revised or additional major source data became available. For *personal consumption expenditures*, revised retail sales for May and June, and sales and inventories of used cars of franchised automobile dealers for May; for *nonresidential fixed investment*, manufacturers; shipments of equipment for May (revised) and June, construction put in place for May (revised) and June, and a partial tabulation of business expenditures for plant and equipment for the quarter; for *residential investment*, construction put in place for May (revised) and June; for *change in business inventories*, book values for manufacturing and trade for May (revised) and June; for *net exports of goods and services*, merchandise trade for May (revised) and June, and revised net investment income and other services receipts for the quarter; for *government purchases of goods and services*, Federal unified budget outlays for June, and State and local construction put in place for May (revised) and June; for *wages and salaries*, revised employment, average hourly earnings, and average weekly hours for May and June; for *net interest*, revised net interest received from abroad for the quarter; for *corporate profits*, domestic book profits for the quarter, and dividends from abroad for the quarter; for *GNP prices*, the Consumer Price Index for June, and unit value indexes for exports and imports for June.

ing in large increases in dealer inventories.

Domestic profits of financial corporations decreased $5 billion to $20½ billion in the second quarter, following a decrease of $2 billion in the first. The decrease resulted from increased losses for savings and loan associations and smaller profits for commercial banks. Earnings of Federal Reserve banks, which are treated as part of corporate business in the national income and product accounts (NIPA's), increased.

CHART 1

Domestic Nonfinancial Corporate Business: Profits; Real Product; and Price, Costs, and Profits per Unit of Real Product



NOTE.—Price per unit is current dollar product divided by constant dollar (real) product. Costs and profits per unit are respective components of current dollar product divided by constant dollar product.

U.S. Department of Commerce, Bureau of Economic Analysis 81-9-1

Profits from the rest of the world—measured as the net inflows of dividends and reinvested earnings of incorporated foreign affiliates, and of earnings of unincorporated foreign affiliates—decreased $2½ billion to $22½ billion in the second quarter. The decrease was more than accounted for by lower profits on the overseas petroleum operations of U.S. corporations.

Other profits measures.—Profits before tax decreased $32 billion to $225 billion in the second quarter following an increase of $7½ billion in the first.

Profits before tax exclude the two valuation adjustments, which are designed to value inventories and fixed capital used up in production at replacement costs, the valuation concept underlying national income and product accounting, rather than at historical costs, the concept generally underlying business accounting.[2] If, as in the second quarter, the historical costs of inventories used up is less than their replacement cost, profits as measured by business exceed profits as measured in the NIPA's by an amount that is called inventory profits. Inventory profits decreased $16 billion to $23 billion in the second quarter, following a decrease of $9 billion in the first. If, as in the second quarter, fixed capital used up as measured by business is less than that as measured in the NIPA's, business profits exceed NIPA profits by an amount that is equal to the underdepreciation of the capital stock. The profits attributable to underdepreciation were unchanged, at $14½ billion, in the second quarter, following a decrease of $3 billion in the first.

Corporate profits taxes, which are levied on profits including inventory profits and profits attributable to underdepreciation, decreased $13 billion to $75 billion in the second quarter following an increase of $2½ billion in the first.

2. The capital consumption adjustment also places the using up in production of fixed capital on a consistent basis with respect to service lives (85 percent of Internal Revenue Service Bulletin F for equipment and nonresidential structures) and depreciation formulas (straight-line).

Table 2.—Impact of the Economic Recovery Tax Act of 1981 on Corporate Profits and Related Measures

[Billions of dollars; seasonally adjusted at annual rates]

Item	1981	
	I	II
Corporate profits before tax	−2.1	−4.3
Plus: Inventory valuation adjustment		
Capital consumption adjustment		
Equals: Corporate profits from current production	2.1	4.3
Corporate profits tax liability	−3.4	−4.7
Federal tax liability	−3.3	−4.5
State and local tax liability	−.1	−.2

The profits estimates presented above have been adjusted to incorporate changes in tax law that resulted from the enactment of the Economic Recovery Tax Act of 1981. The impact of the Act is summarized in table 2. See "Federal Budget Developments," which follows, for a discussion of the changes in tax law.

The Federal sector

The Federal Government deficit as measured in the NIPA's increased $3 billion in the second quarter of 1981 to $50 billion, as receipts increased less than expenditures.

Receipts increased $2 billion in the second quarter, compared with $47½ billion in the first, when receipts were boosted by a large increase in the windfall profits tax and increases in the social security tax rate and wage base. Corporate profits tax accruals declined over $11 billion in the second quarter reflecting a significant decline in profits and the impact of tax reductions under the Economic Recovery Act of 1981. (See "Federal Budget Developments", which follows.) Other categories of receipts increased less than in the first; the windfall profits tax accounted for the increase in indirect business tax and nontax accruals.

Expenditures increased $5½ billion in the second quarter, compared with

$23 billion in the first. Transfer payment to persons increased $3½ billion, including about $1½ billion for a 4.4 percent benefit increase for military and Federal civilian retirees. National defense purchases of goods and services and net interest paid increased $3 billion each. Subsidies less the current surplus of government enterprises increased $1½ billion; a large increase in the Commodity Credit Corporation (CCC) deficit was partly offset by a decline in the Postal Service deficit that reflects the full impact of the postal rate increase effective in March. Nondefense purchases declined $5 billion. Major offsetting changes were a $7 billion decline in the agricultural price support operations of the CCC and a $3 billion increase in purchases of crude oil for the strategic petroleum reserve; all other purchases, on balance, declined $1 billion.

High-Employment Budget.—The federal fiscal position on a high-employment budget basis moved from a surplus of $0.6 billion in the first quarter to a surplus of $5.2 billion in the second quarter (table 3, page 19). The surplus as a percentage of potential GNP increased from less than 0.1 per cent in the first quarter to 0.2 percent in the second quarter—the second successive quarterly move toward a more restrictive fiscal position.

Federal Budget Developments

In mid-July, the Office of Management and Budget released, as part of its mid-session review, revised estimates of Federal unified budget receipts and outlays for fiscal years 1981 and 1982. Those estimates reflected the administration's proposed Economic Recovery Tax Act of 1981. As signed, in mid-August, the Act did not differ substantially in its effect on receipts, and thus on the deficit, from what had been proposed in the mid-session review. The revised estimates of receipts and outlays as presented in the mid-session review are discussed immediately below, and then the features of the tax act as signed are described.

Mid-session review

Revised estimates of Federal unified budget receipts and outlays for fiscal years 1981 and 1982 released as part of the mid-session review reflect revised

Table 3.—Economic Assumptions Underlying the Mid-Session Review of the Fiscal Year 1982 Budget

	Calendar year					
	Actual		Estimates		Differences from March	
	1979	1980	1981	1982	1981	1982
	Billions of dollars					
Gross national product:						
Current dollars	2,414	2,626	2,951	3,296	31	3
1972 dollars	1,483	1,481	1,519	1,570	22	10
Incomes:						
Personal income	1,944	2,160	2,401	2,677	2	2
Wages and salaries	1,236	1,344	1,495	1,668	7	1
Corporate profits before taxes	255	246	[1] 246	[1] 266	13	12
	Percent change from preceding year					
GNP in current dollars:						
Annual average	12.0	8.8	12.4	11.7	1.3	−1.1
Fourth quarter	9.9	9.4	11.8	12.9	.8	−.4
GNP in 1972 dollars:						
Annual average	3.2	−.2	2.6	3.4	1.5	−.8
Fourth quarter	1.7	−.3	2.5	5.2	1.1	0
GNP deflator:						
Annual average	8.5	9.0	9.6	8.0	−.3	−.3
Fourth quarter	8.1	9.8	9.1	7.3	−.4	−.4
Consumer Price Index:						
Annual average	11.4	13.5	9.9	7.0	−1.2	−1.3
Fourth quarter	12.8	12.6	8.6	6.2	−1.9	−1.0
	Percent					
Unemployment rate: [2]						
Annual average	5.8	7.2	7.5	7.3	−.3	−.1
Fourth quarter	5.9	7.5	7.7	7.0	0	0
Insured unemployment rate:						
Annual average	2.9	3.9	3.7	3.9	−.7	−.1
Interest rate, 91-day Treasury bills [3]	10.0	11.5	13.6	10.5	2.5	1.6

1. Includes the direct effect of the administration's depreciation proposal.
2. Insured unemployment under the State regular employment insurance program, excluding recipients of extended benefits, as percentage of covered employment under that program.
3. Average rate of new issues within the year. The estimates assume, by convention, that interest rates vary with the rate of inflation. They do not represent a forecast of interest rates.

Source: "Mid-session Review of the 1982 Budget."

Table 4.—Federal Government Receipts and Expenditures

[Billions of dollars]

	Fiscal year						
	Actual 1980	Estimates					
		1981			1982		
		March	July	Revision	March	July	Revision
Unified budget							
Receipts	520.0	600.3	605.6	5.4	650.3	662.4	12.0
Outlays	579.6	655.2	661.2	6.1	695.3	704.8	9.6
Surplus or deficit (−)	−59.6	−54.9	−55.6	−.7	−45.0	−42.5	2.5
National income and product accounts							
Receipts	525.5	609.5	620.8	11.3	665.0	678.3	13.3
Personal tax and nontax receipts	249.7	283.5	291.5	8.0	295.7	309.9	14.2
Corporate profits tax accruals	70.6	68.2	74.0	5.8	73.2	80.6	7.4
Indirect business tax and nontax accruals	35.7	60.2	57.2	−3.0	69.4	61.3	−8.1
Contributions for social insurance	169.4	197.6	198.1	.5	226.7	226.5	−.2
Expenditures	578.2	663.1	667.3	4.2	707.1	719.3	12.2
Purchases of goods and services	190.2	216.6	219.3	2.7	244.7	247.4	2.7
National defense	126.1	148.2	147.0	−1.2	172.9	171.7	−1.2
Nondefense	64.1	68.4	72.3	3.9	71.8	75.7	3.9
Transfer payments	239.3	280.7	278.4	−2.3	302.7	301.4	−1.3
To persons	234.7	275.5	273.2	−2.3	297.1	295.8	−1.3
To foreigners	4.6	5.2	5.2	-------	5.6	5.6	-------
Grants-in-aid to State and local governments	86.7	89.4	89.7	.3	80.4	82.1	1.7
Net interest paid	51.2	64.4	67.4	3.0	68.5	77.0	8.5
Subsidies less current surplus of government enterprises	10.8	12.0	12.5	.5	10.8	11.4	.6
Surplus or deficit (−)	−52.8	−53.6	−46.5	7.1	−42.1	−41.0	1.1

Sources: "Mid-session Review of the 1982 Budget," and Bureau of Economic Analysis.

economic assumptions, reestimates of agency spending and tax collections based on more recent experience, legislation enacted by Congress, and policy changes announced by the administration since March, including revisions to proposed tax legislation. The new estimates do not reflect the Omnibus Reconciliation Act or, as noted above, the Economic Recovery Tax Act of 1981, both of which were passed by Congress in early August.

On the basis of the revised economic assumptions, real GNP is expected to increase substantially more in calendar year 1981 than expected earlier this year (table 3). From the fourth quarter of 1980 to the fourth quarter of 1981, real GNP is estimated to increase 2.5 percent, over 1 percentage point more than forecast in March. According to the administration, this higher growth is the result of a stronger than expected first quarter of 1981. Real GNP is expected to increase very little through the middle of the year, accelerate somewhat in the fourth quarter, and increase strongly through 1982. From the fourth quarter of 1981 to the fourth quarter of 1982, real GNP is estimated to increase 5.2 percent, the same as estimated earlier this year. Consumer prices rise considerably less than assumed in March—8.6 percent in 1981 and 6.2 percent in 1982, compared with 10.5 percent and 7.2 percent, respectively. Declines in the prices of food and non-food commodities, including oil, contribute to the slower increase in consumer prices. Interest rates on 91-day Treasury bills are assumed to be much higher than estimated in March—2.5 percentage points more in 1981 and 1.6 percentage points more in 1982.

For fiscal year 1981, a $55.6 billion deficit is estimated, compared with $54.9 billion in March (table 4). Receipts are $5.4 billion higher; a $6.4 billion upward revision from changes in proposed tax legislation is partly offset by a $1 billion downward revision from other administrative actions and reestimates. Outlays are $6.1 billion higher; $5.0 billion of the increase is for interest on the public debt, and reflects the higher interest rates mentioned earlier.

Table 5.—Impact of Proposed Economic Recovery Tax Act of 1981 on Federal Government Receipts, NIPA Basis

[Billions of dollars]

	1981	1982	1981				1982			
			I	II	III	IV	I	II	III	IV
	Calendar year		Seasonally adjusted at annual rates							
Receipts	**−7.7**	**−53.3**	**−3.0**	**−3.2**	**−4.4**	**−20.1**	**−30.2**	**−34.1**	**−71.7**	**−77.9**
Personal tax and nontax receipts	−4.3	−44.5			−1.0	−16.2	−22.4	−25.6	−62.6	−68.1
Withheld income taxes	−3.7	−34.9				−14.8	−15.7	−17.1	−52.4	−54.4
Rate reductions	−3.7	−34.5				−14.8	−15.6	−16.8	−52.0	−53.6
Other		−.4					.1	−.3	−.4	−.8
Declarations and net settlements	−.6	−9.1			−1.0	−1.4	−6.7	−8.5	−10.2	−11.8
Rate reductions		−4.3					−3.1	−3.9	−4.7	−5.5
Accelerated cost recovery system	−.6	−3.8			−1.0	−1.4	−3.2	−3.8	−4.3	−4.7
Other		−1.0					−.4	−.8	−1.2	−1.6
Estate and gift taxes		−.5								−1.9
Corporate profits tax accruals	−3.3	−8.2	−3.0	−3.2	−3.4	−3.6	−7.3	−7.9	−8.5	−9.1
Accelerated cost recovery system	−3.2	−7.6	−2.9	−3.1	−3.3	−3.5	−6.7	−7.3	−7.9	−8.5
Other	−.1	−.6	−.1	−.1	−.1	−.1	−.6	−.6	−.6	−.6
Indirect business tax and nontax accruals:										
Windfall profits tax credit	−.1	−.6				−.3	−.5	−.6	−.6	−.7

Upward revisions for agricultural price support and related programs ($2.7 billion), medicare ($0.5 billion), food stamps ($0.5 billion), plus smaller ones for a variety of other programs are largely offset by downward revisions in outlays for unemployment benefits ($4.7 billion) and defense ($2 billion).

For fiscal year 1982, a deficit of $42.5 billion is estimated, compared with $45 billion in March. Receipts are $12 billion higher; a $14.4 billion upward revision due to changes in proposed tax legislation is partly offset by a $2.3 billion downward revision from the new economic assumptions. Outlays are $9.6 billion higher. Outlays for interests on the public debt are revised up $9 billion and outlays for a variety of other programs are revised up a total of $5.9 billion. The major downward revision—$3.8 billion—results from proposed changes in social security; defense outlays are revised down $1 billion and a variety of other programs are revised down $0.7 billion. The proposed changes in social security include shifting the annual increase in benefits from July to October in 1982, revising the procedure for calculating the benefit increase, and eliminating the minimum monthly benefit—currently about $122—in January 1982.

Revised NIPA estimates.—BEA has prepared estimates of the Federal sector on the national income and product accounting (NIPA) basis consistent with the revised unified budget estimates (table 4, and table 6 for quarterly pattern). On this basis, fiscal year 1981 receipts are $11.3 billion higher, expenditures are $4.2 billion higher, and the deficit is $7.1 billion lower than estimated in March. (Details of the March estimates are discussed in the April SURVEY OF CURRENT BUSINESS.)

The upward revision in receipts consists of $7.3 billion due to changes in the proposed tax legislation and $4 billion due to the new economic assumptions. Table 5 shows the impact on NIPA receipts of the tax proposal. This proposal includes a 25-percent reduction in individual income tax rates over 33 months and an accelerated depreciation system for business. Compared with the March estimates, all categories of receipts except indirect business tax and nontax accruals are revised up. The upward revision in personal tax and nontax receipts and in corporate profits tax accruals largely reflect the administration's changes to the tax proposal and higher incomes, particularly corporate profits. The downward revision in indirect business taxes is largely the result of lower windfall profits taxes.

Table 6.—Federal Government Receipts and Expenditures, NIPA Basis

[Billions of dollars, seasonally adjusted at annual rates]

	Calendar year							
	Actual			Estimates				
	1980	1981		1981		1982		
	IV	I	II	III	IV	I	II	III
Receipts	**573.2**	**617.4**	**619.5**	**666.3**	**668.2**	**684.6**	**698.8**	**680.3**
Personal tax and nontax receipts	272.9	283.3	293.1	312.4	309.4	317.3	326.6	302.8
Corporate profits tax accruals	72.6	74.6	63.3	77.9	80.2	78.9	80.7	82.7
Indirect business tax and nontax accruals	49.1	60.6	62.8	60.1	60.2	61.0	61.5	62.2
Contributions for social insurance	178.6	198.9	200.4	215.9	218.4	227.4	230.0	232.6
Expenditures	**641.1**	**664.0**	**669.4**	**693.4**	**703.9**	**712.1**	**725.2**	**735.2**
Purchases of goods and services	212.0	221.6	219.4	224.1	235.7	243.5	251.1	258.6
National defense	141.6	145.2	148.1	153.1	163.4	168.9	174.3	179.9
Nondefense	70.4	76.4	71.3	71.0	72.3	74.6	76.8	78.7
Transfer payments	269.0	271.9	275.5	297.6	298.1	298.9	302.9	305.2
To persons	262.6	267.3	270.7	292.6	292.8	293.4	297.2	299.3
To foreigners	6.4	4.7	4.8	5.0	5.3	5.5	5.7	5.9
Grants-in-aid to State and local governments	91.8	90.2	89.8	86.8	83.9	82.0	82.0	80.7
Net interest paid	55.2	67.7	70.7	75.8	76.3	76.8	77.3	77.8
Subsidies less current surplus of government enterprises	13.1	12.6	14.0	9.1	9.9	10.9	11.9	12.9
Surplus or deficit (−)	**−67.9**	**−46.6**	**−50.0**	**−27.1**	**−35.7**	**−27.5**	**−26.4**	**−54.9**

The upward revision in expenditures for fiscal year 1981 is more than accounted for by nondefense purchases of goods and services ($3.9 billion) and net interest paid ($3 billion). In nondefense purchases, the upward revision is largely due to higher agricultural purchases by the Commodity Credit Corporation (CCC) and higher purchases of crude oil for the strategic petroleum reserve; in net interest, it is due to the higher interest rates mentioned earlier. Other expenditure categories are revised up slightly. Partly offsetting these increases are downward revisions in transfer payments to persons ($2.3 billion) and national defense purchases ($1.2 billion). The downward revision in transfer payments is more than accounted for by lower unemployment benefits, and that in defense purchases reflects failure to enact the military pay raise proposed for July of this year ($0.4 billion) and lower prices for fuel.

For fiscal year 1982, receipts are $13.3 billion higher, expenditures are $12.2 billion higher, and the deficit is $1.1 billion lower. The upward revision in receipts consists of $11.8 billion due to changes in proposed tax legislation and $1.5 billion due to the new economic assumptions. Personal taxes and corporate taxes are revised up, largely reflecting the changes in tax legislation. Indirect business taxes and contributions for social insurance are revised down. The revision in the former largely reflects lower windfall profits taxes. The major upward revisions in expenditures are in net interest, nondefense purchases (agricultural purchases by CCC and a variety of other programs), and grants-in-aid to State and local governments (education, highways, and public service employment). Downward revisions are in transfer payments (the proposed changes in social security are partly offset by increases in a host of programs) and in defense purchases for the same reasons cited for 1981.

High-employment surplus or deficit.—As measured on a high-employment basis, the Federal sector of the NIPA's was in deficit in calendar year 1980 and is forecast to be in surplus in 1981 and 1982. The swing to surplus occurs in early 1981, reflecting the large increase in social security taxes in January and an increase in the windfall profits tax resulting from the complete decontrol of oil prices in January. (For high-employment receipts and expenditures for recent quarters, see table 3 on page 19). The surplus swings to deficit in mid-1982, reflecting the additional personal tax reduction in July (table 7).

The Economic Recovery Tax Act of 1981

The Economic Recovery Tax Act of 1981 was passed shortly before Congress adjourned and was signed in mid-August. The act provides about $1 billion more of net tax reductions (on the NIPA basis) in calendar year 1981 than the administration's proposal in the mid-session review; in 1982, the net reductions are about the same. Table 8 shows the impact of the act on Federal receipts on the NIPA basis for calendar year 1981 and 1982.

Major features of the act are:

- A 25-percent across-the-board reduction in individual income tax rates over 33 months—5 percent on October 1, 1981 and 10 percent on July 1, 1982 and 1983. Starting in 1985, income tax brackets, the zero bracket amount, and the personal exemption will be adjusted for inflation as measured by the Consumer Price Index.
- An accelerated cost recovery system that provides substantially faster depreciation write-offs for business. The new system assigns depreciable lives of 3 years for most vehicles, 5 years for most equipment, 10 years for certain public utility property, and 15 years for most depreciable real estate and some long-lived public utility property.
- Incentives for persons who put savings in specified savings accounts and repeal of the exclusion from gross income of interest and dividends.
- A substantial reduction in estate and gift taxes; and
- An increase in the windfall profits tax credit for qualified royalty recipients.

Personal tax and nontax receipts are reduced $3.9 billion in 1981 and $41.2 billion in 1982. Most of the reduction is in withheld income taxes, as withholding rates are cut in October of this year and again in July 1982. Smaller reductions in 1982 are from a deduction for married couples with two incomes and from increases in exclusions for foreign earned income of U.S. citizens and in a deduction for overseas housing expenses. The married couples deduction

Table 7.—High-Employment Surplus or Deficit (—), NIPA Basis

[Billions of dollars]

	High employment surplus or deficit (—)	Change from preceding period
Calendar year:		
1979	−2.2	13.5
1980	−18.3	−16.1
1981	17.2	35.5
Quarters:		
1979:		
I	−4.6	5.0
II	5.1	9.7
III	−2.3	−7.4
IV	−7.0	−4.7
1980:		
I	−17.1	−10.1
II	−21.6	−4.5
III	−21.2	.4
IV	−13.1	8.1
1981:		
I	.7	13.7
II	5.2	4.6
III	32.9	27.7
IV	30.0	−2.9
1982:		
I	37.0	7.0
II	34.3	−2.7
III	−1.0	−35.3

Table 8.—Impact of the Economic Recovery Tax Act of 1981 on Federal Government Receipts, NIPA Basis

[Billions of dollars]

	1981	1982	1981				1982			
			I	II	III	IV	I	II	III	IV
	Calendar year		Seasonally adjusted at annual rates							
Receipts	−8.7	−53.0	−3.3	−4.5	−5.3	−21.6	−30.6	−33.6	−70.8	−77.0
Personal tax and nontax receipts	−3.9	−41.2				−15.6	−20.6	−22.6	−58.4	−63.2
Withheld income taxes	−3.7	−33.8				−14.8	−16.0	−16.8	−50.5	−51.9
Rate reductions	−3.7	−33.3				−14.8	−15.6	−16.4	−50.0	−51.2
Married couples deduction		−.2					−.1	−.1	−.2	−.4
Foreign earned income		−.3					−.3	−.3	−.3	−.3
Declarations and net settlements	−.2	−6.7				−.8	−4.6	−5.4	−7.4	−9.4
Rate reductions		−4.2					−3.0	−3.8	−4.6	−5.4
Married couples deduction		−.3						−.2	−.4	−.6
Accelerated cost recovery system	−.2	−1.7				−.8	−1.1	−1.5	−1.9	−2.3
Savings incentives		−.1					−.1	.5	−.1	−.7
Repeal of interest exclusion		.8						2.1	1.1	
Savings certificates		−.5						−1.3	−.7	
Other		−.4					−.1	−.3	−.5	−.7
Other		−.4					−.4	−.4	−.4	−.4
Estate and gift taxes		−.7						−.3	−.5	−1.9
Corporate profits tax accruals	−4.8	−10.9	−3.3	−4.5	−5.3	−6.1	−9.0	−10.1	−11.5	−13.0
Accelerated cost recovery system	−2.5	−6.6	−1.0	−2.2	−3.0	−3.8	−4.7	−5.8	−7.2	−8.7
Leasing	−1.9	−3.3	−1.9	−1.9	−1.9	−1.9	−3.3	−3.3	−3.3	−3.3
Other	−.4	−1.0	−.4	−.4	−.4	−.4	−1.0	−1.0	−1.0	−1.0
Indirect business tax and nontax accruals:										
Windfall profits tax credit	−.1	−1.4				−.3	−1.4	−1.4	−1.4	−1.4
Contributions for social insurance:										
Railroad retirement	.1	.5				.4	.4	.5	.5	.6

is phased in over 2 years, beginning January 1, 1982, when it is 5 percent (up to a $1,500 maximum) of the lower earning spouse's income. In 1983 and subsequent years, it is 10 percent (up to a maximum of $3,000).

A number of provisions of the act reduce declarations and net settlements in 1981 and 1982. The largest item—$4.2 billion—is rate reductions on income not subject to withholding; these include a reduction in the top marginal tax rate on dividends and interest from 70 percent to 50 percent on January 1, 1982 and a reduction in the tax rate on long-term capital gains from 28 percent to 20 percent retroactive to June 10, 1981. Faster depreciation write-offs for unincorporated businesses under the accelerated cost recovery system reduces declarations and net settlements a little in 1981 and $1.7 billion in 1982. The savings incentives, which are not effective until 1982, have little net impact on receipts in that year. Among these incentives are (1) repeal of the current exclusion from gross income of up to $200 on a single return ($400 on a joint return) of interest and dividends for 1981 and 1982, and allowance after 1982, of only a dividend exclusion of $100 on a single return ($200 on a joint return), which applied before 1981; (2) a lifetime exclusion from gross income of $1,000 ($2,000 on a joint return) of interest earned on qualified tax-exempt savings certificates; (3) other savings provisions, such as the increase in the amount of exclusion from gross income contributions to self-employed and individual retirement accounts and modifications to employee stock ownership plans.

Estate and gift taxes are reduced $0.7 billion in 1982 by several changes: the cumulative amount excluded from taxes is more than tripled after a 5-year

Constant-Dollar Estimates of Plant and Equipment Expenditures

An article presenting quarterly and annual constant-dollar estimates for 1947–80 of new plant and equipment (P&E) expenditures that are companions to the current-dollar estimates compiled from the BEA P&E survey will be presented in the September issue of the SURVEY OF CURRENT BUSINESS. These estimates substantially extend and improve the information available for analysis of capital expenditures. They, like the current-dollar estimates, cover nonfarm business P&E expenditures and are on a company basis. The constant-dollar estimates are obtained by dividing the current-dollar estimates by specially constructed implicit price deflators for industries.

Historical series of constant-dollar expenditure estimates, implicit price deflators, and fixed-weighted price indexes for establishment-based industries and for company-based industries (broken down into total, equipment, and plant) are available from BEA in computer printout form. The data for total P&E expenditures are available quarterly and annually from 1947 on; those for plant and for equipment are available annually from 1947 on and quarterly from 1972 on. The cost of the printout is $20. For further information, write to P&E Survey Statistics, Business Outlook Division, (BE-52), Bureau of Economic Analysis, U.S. Department of Commerce, Washington, D.C. 20230, or telephone (202) 523-0701.

phase-in, the tax exclusion on gifts is increased and the tax on transfers between spouses is eliminated, and the top tax rate on cumulative estate and gift transfers is reduced in four steps from 70 percent to 50 percent.

Corporate profits tax accruals are reduced $4.8 billion in 1981 and $10.9 billion in 1982; the accelerated cost recovery system and modifications to the investment tax credit account for most of the reduction. The act also liberalizes the rules under which leasing companies can use the investment tax credit and depreciation. The other major provisions that reduce, on balance, corporate taxes in 1982 are: (1) a 25-percent tax credit for certain research and experimentation expenditures; and (2) a 1 percentage point reduction in the corporate tax rate, for income below $25,000, to 16 percent in 1982, (and to 15 percent in 1983) and, for income of $25,000–$50,000, to 19 percent in 1982 (and to 18 percent in 1983).

Indirect business tax and nontax accruals are reduced slightly in 1981 and $1.4 billion in 1982, largely the result of an increase from $1,000 to $2,500 in the royalty-recipient windfall profits tax credit. Contributions for social insurance are increased slightly in 1981 and $0.5 billion in 1982 as the result of an increase from 9.5 percent to 11.75 percent in the employer tax rate for railroad retirement contributions and a new 2-percent tax imposed on employees; both are effective October 1, 1981.

the BUSINESS SITUATION

THE economy remained weak in the third quarter. On the basis of information available in mid-September, the annual rate of change in real GNP was within a 3-percentage-point range centered at zero.[1] Although sales of motor vehicles rebounded after their second-quarter plunge, each category of final sales excluding motor vehicles continued lackluster performance and, taken together, were down about as much as in the second quarter. The increase in motor vehicle sales came out of inventories, which had become excessive in the second quarter. The swing from accumulation to liquidation of motor vehicle inventories is likely to have been partly offset by a move to a higher rate of accumulation of other inventories.

Inflation again was somewhat below the double-digit rate in the first quarter. The increase in the fixed-weighted price index for GNP apparently was a little more than the 8-percent annual rate in the second quarter. Indexes for some components increased more, and for others a little less, than in the second quarter.

1. The major source data that shed light on third-quarter GNP are limited to 1 or 2 months of the quarter, and in some cases are preliminary. These data are: For *personal consumption expenditures* (PCE), July and August retail sales, unit sales of new autos through the first 10 days of September, and sales of new trucks for July and August; for *nonresidential fixed investment,* the same data for autos and trucks as for PCE, July construction put in place, July maufacturers' shipments of equipment, and business investment plans for the quarter; for *residential investment,* July construction put in place, and July and August housing starts; for *change in business inventories,* July book values for manufacturing and trade, and unit auto inventories for July and August; for *net exports of goods and services,* July merchandise trade; for *government purchases of goods and services,* Federal unified budget outlays for July, State and local construction put in place for July, and State and local employment for July and August; and for *GNP prices,* the Consumer Price Index for July and the Producer Price Index for July and August.

The index for personal consumption expenditures (PCE) was among those that increased more—about 7½ percent at an annual rate compared with 6½ percent in the second quarter. The increase in the prices of food accelerated from a ½-percent increase in the second quarter. The acceleration was due to a turnaround in prices of food consumed at home, particularly meat and poultry. Prices of restaurant meals continued to increase at the second-quarter rate. In contrast, prices of energy decelerated, probably registering a slight decline. Gasoline prices declined sharply after increasing 2½ percent in the second quarter; on a monthly basis, they began to decline in April. Fuel oil prices also declined. Prices of other PCE goods and services increased somewhat more than the 8 percent registered in the second quarter. Their increases have moved in a narrow range of 7–9 percent over the past year.

Employment and unemployment.—If August is taken as representative of the third quarter, there was, on balance, little change in labor market conditions. The payroll measure of employment increased 481,000, somewhat more than in either of the two previous quarters (table 1). Employment increased in services, trade, mining (largely because the coal strike had depressed employment in April and May), and manufacturing, but continued to decline in government and construction. Employment in construction fell to its lowest level in more than 3 years. Average weekly hours in the private nonfarm economy were 35.3 unchanged since the fourth quarter of 1980 and up only 0.1 from the second-quarter 1980 recession. Manufacturing hours were down 0.1 to 40.1.

The household measure of employment, which had registered an unusually large increase of 856,000 in the second quarter, increased only 76,000 in the third. Unemployment decreased 243,000, and the unemployment rate, which had held steady at 7.4 percent in the second quarter, dropped to 7.2 percent in the third.

Personal income and its disposition

Continued weakness in the economy was visible in the components of personal income that are related to production. Wage and salary disbursements registered a moderate increase—$33 billion (table 2).[2] It was larger than the second-quarter increase mainly because of the effects of the coal strike—the strike reduced second-quarter wages about $2½ billion, and the resumption of coal mining added about $2½ billion

2. Quarterly estimates of the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

Historical NIPA Tables Available

The National Income and Product Accounts of the United States, 1929–76: Statistical Tables, is now available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. (Stock number 003–010–00101–1, price $10.00). *National Income and Product Accounts, 1976–79* was published in July 1981 as a Special Supplement to the SURVEY (Stock number 003–010–721888–0, price $3.75). These publications present the results of the comprehensive revision of the national income and product accounts described in the December 1980 SURVEY.

Table 1.—Selected Labor Market Indicators

[Seasonally adjusted]

	1980		1981				Change from preceding quarter			
	III	IV	I	II	July	Aug.	1980: IV	1981: 1	1981: II	1981: Aug.
Household survey										
Civilian labor force (thousands)	104,982	105,173	105,800	106,768	106,464	106,602	191	627	968	−166
Employment	97,061	97,276	98,012	98,868	98,962	98,944	215	736	856	76
Unemployment	7,921	7,897	7,788	7,900	7,502	7,657	−24	−109	112	−243
Job losers	4,357	4,232	3,863	4,041	3,691	3,929	−125	−369	178	−112
On layoff	1,758	1,538	1,275	1,338	1,178	1,205	−220	−263	63	−133
Other job losers	2,598	2,693	2,589	2,702	2,513	2,724	95	−104	113	22
Job leavers, reentrants, and new entrants	3,610	3,665	3,872	3,902	3,793	3,721	55	207	30	−181
Unemployment rate (percent):										
Total	7.5	7.5	7.4	7.4	7.0	7.2	0	−.1	0	−.2
Adult men	6.6	6.3	6.0	6.1	5.6	5.9	−.3	−.3	.1	−.2
Adult women	6.4	6.7	6.6	6.6	6.7	6.5	.3	−.1	0	−.1
Teenagers	18.4	18.3	19.1	19.2	18.1	18.8	−.1	.8	.1	−.4
Establishment survey										
Employment, nonfarm payroll (thousands)	90,213	90,820	91,232	91,546	91,966	92,027	607	412	314	481
Goods producing	25,306	25,594	25,670	25,741	25,947	25,929	288	76	71	188
Construction	4,319	4,385	4,398	4,345	4,269	4,265	66	13	−53	−80
Manufacturing:										
Durables	11,911	12,060	12,086	12,246	12,339	12,330	149	26	160	84
Nondurables	8,064	8,098	8,095	8,144	8,208	8,185	34	−3	49	41
Distributive [1]	25,529	25,585	25,721	25,842	25,955	26,042	56	136	121	200
Services [2]	23,177	23,399	23,619	23,849	23,999	24,043	222	220	230	194
Government	16,201	16,242	16,222	16,114	16,065	16,013	41	−20	−108	−101
Average weekly hours, private nonfarm:										
Total	35.2	35.3	35.3	35.3	35.2	35.3	.1	0	0	0
Manufacturing	39.4	39.8	39.9	40.2	40.0	40.1	.4	.1	.3	−.1

1. Transportation and public utilities, and wholesale and retail trade.
2. Services, and finance, insurance, and real estate.
Source: Bureau of Labor Statistics.

in the third quarter. Increases in wages and salaries in manufacturing, distributive, services, and government were similar to those in the second quarter.

Farm proprietors' income continued to recover from its 3½-year low recorded in the first quarter of 1981. The second- and third-quarter increases were similar in size—about $2½ billion—but different in their source. In the third quarter, the increase was in receipts from livestock marketings, where a substantial increase in prices more than offset a further cutback in volume. In the second quarter, the increase had been in crop receipts, where a sharp increase in volume had more than offset a drop in prices.

Personal interest income increased $15 billion. This increase was larger than in the second quarter but fell short of that in the first—mainly following the course of interest rates. Personal interest income has been the fastest growing component of personal income. Personal interest income and the procedures used to estimate it are described in the accompanying Special Note.

Transfer payments, which are not related to production, increased $19½ billion, accounting for about one-fourth of the third-quarter increase in personal income. An 11.2 percent cost-of-living adjustment to transfer payments under several Federal programs went into effect in July. The adjustment amounted to $16½ billion, of which $15 billion was in social security benefits.

Total personal income increased $76½ billion, compared with $48½ billion in the second quarter, and disposable personal income increased $61 billion, or 13 percent, compared with $38 billion, or 8 percent. The third-quarter increase in income was larger than that in outlays, so that saving increased and the saving rate edged up from 5.4 percent in the second quarter. Changes in saving and the saving rate were probably affected by the large and abrupt changes in PCE on motor vehicles in the third and earlier quarters of the year. Also, because personal saving is measured as the difference between seasonally adjusted disposable personal income and seasonally adjusted personal outlays, saving and the saving rate are influenced by the procedures used to adjust income and outlays for seasonality. The cost-of-living increases in benefits are not seasonally adjusted; in contrast, outlays—of which expenditures made out of benefit increases are an indistinguishable part—are.

Table 2.—Personal Income and Its Disposition: Change from Preceding Quarter

[Billions of dollars, based on seasonally adjusted annual rates]

	1981		
	I	II	III*
Wage and salary disbursements	45.1	24.1	33.1
Manufacturing	12.4	9.4	8.6
Other commodity-producing	4.9	3.6	6.1
Distributive	11.4	5.9	7.1
Services	12.5	8.0	8.9
Government and government enterprises	3.9	3.4	4.4
Proprietors' income	−1.9	2.0	−2.8
Farm	−3.5	2.7	2.6
Nonfarm	1.6	−.7	.2
Personal interest income	19.0	12.1	14.8
Transfer payments	5.7	4.6	19.6
Other income	6.8	6.7	7.9
Less: Personal contributions for social insurance	11.0	.8	1.7
Personal income	63.6	48.7	76.4
Less: Personal tax and nontax payments	12.8	10.9	15.3
Impact of legislation	−2.8	−1.4	.5
Other	15.6	12.3	14.8
Equals: Disposable personal income	50.8	37.8	61.1
Less: Personal outlays	59.5	20.1	54.0
Equals: Personal saving	−8.7	17.7	7.1
Addenda: Special factors—			
Minimum wage	2.0	------	------
Cost-of-living increases in Federal transfer payments	1.1	1.3	16.3
Social security (in personal contributions for social insurance):			
Base change	2.3	------	------
Rate change	6.7	------	------
Coal strike	------	−2.6	2.6

* Projected.

In real terms, disposable income increased 4 percent at an annual rate. Except in the second quarter, when it had increased only 1½ percent, increases in real disposable income have been in the range of 3–4 percent since the 1980 recession.

Real PCE.—Aside from PCE on motor vehicles and parts, which recovered about two-thirds of their second-quarter loss, PCE continued weak. It increased less than 1 percent at an annual rate after increasing only 1½ percent in the second quarter. In goods, all major categories except energy weakened. Gasoline increased—the first strong increase in three quarters. In services, the increase continued below trend.

The effect on consumer spending of the third-quarter increase in personal income is hard to assess, because little is known about the pattern of spending out of cost-of-living adjustments to transfer payments, which are one-shot, received largely by retirees, and expected because they are legislated. However, given the strength of real disposable income over the past year, the weakness of PCE on other than motor vehicles must be due to factors other than income. The sharp decline of residential construction and high interest rates on consumer loans help explain the weakness in furniture and household equipment. The course of prices helps explain food and energy: A third-quarter decline in food, after two quarters of increase, coincides with the acceleration of food prices, and the strong increase in gasoline coincides with the decline in its price.

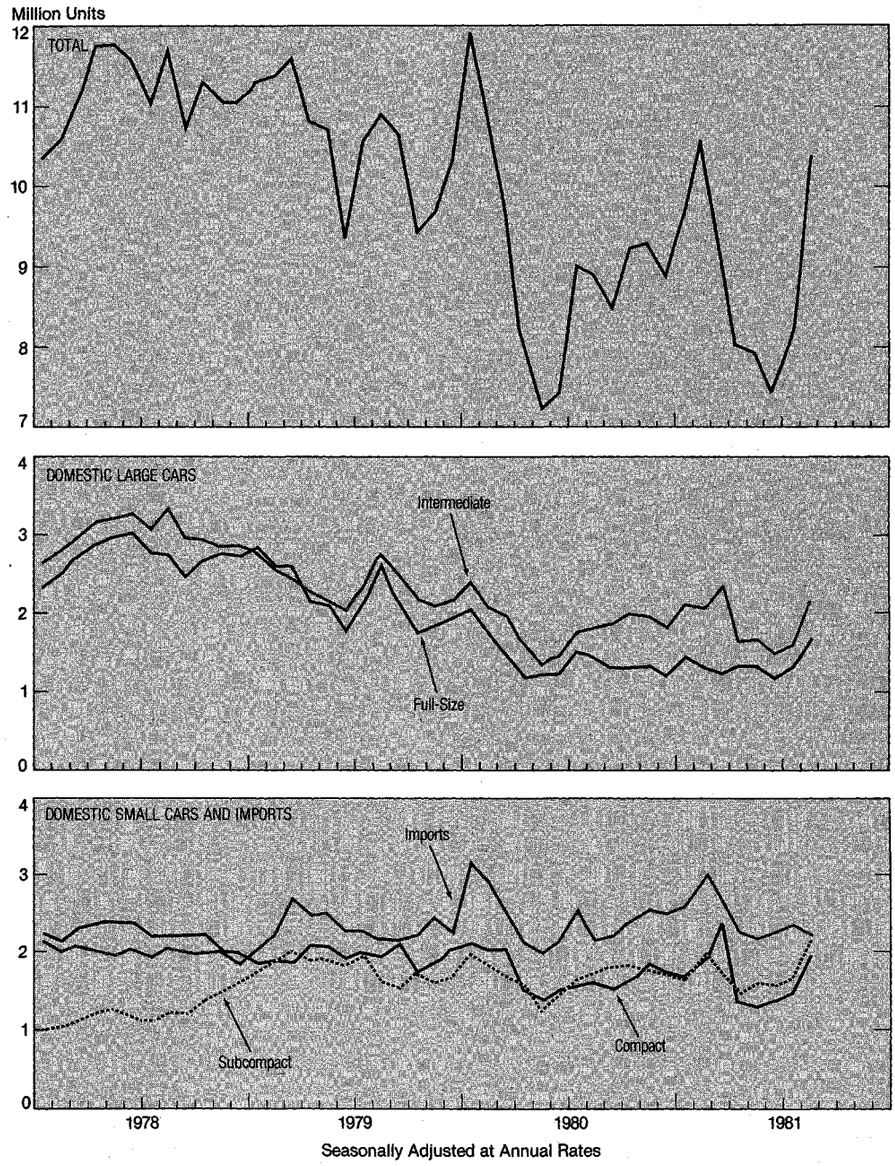
In motor vehicles, purchases of cars were up sharply. Unit sales of domestic new passenger cars averaged 8.2 million (seasonally adjusted annual rate) in July–August, up from 5.9 million in the second quarter. Domestic sales in August were boosted substantially by cash rebate, dealer incentive, and interest subsidy programs, which helped reduce the overhang of inventories. August sales were up sharply for each size category (chart 1). Sales of imported cars, at 2.3 million in July–August, were little changed from the second quarter.

Other real final sales

Residential investment, which had declined at a 23-percent annual rate in the second quarter, declined at least as sharply in the third. Both single-family and multifamily construction declined, lagging the course of housing starts. Single-family starts, which had declined 13 percent in the first quarter and 10 percent in the second (not at annual rates), dropped to 591,000 (seasonally adjusted annual rate) in August—the lowest level since the series began (chart 2). Multifamily starts, which had held almost steady in the first quarter and declined 24 percent in the second, slid further in July–August. Moreover, a 20-percent decline in total building permits in July–August—even sharper than the decline in total

CHART 1

Retail Sales of New Passenger Cars



Note.—The components may not add to the total because each category was separately adjusted for seasonal variation.

Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports; seasonal adjustment by BEA.

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

Special Note.—Personal Interest Income

SINCE 1979, personal interest income has increased about 50 percent. By the third quarter of 1981, it accounted for almost 13 percent of personal income, compared with 10.8 percent in 1979 and 9.5–9.7 percent in the mid-1970's. Increases in personal interest income can stem from increases in persons' holdings of interest-bearing assets and/or from increases in the average interest rate earned on these holdings. Data needed for decomposition into these elements are lacking. However, because increases in interest rates have been so sharp, it is clear that the increase in the average interest rate has been the primary element. Shifts of portfolios toward higher yielding assets as well as increases in interest rates for particular types of assets contributed to the increase in the average.

Personal interest income is defined in the national income and product accounts as interest income of persons from all sources. In addition to monetary interest, it includes imputed interest. (The inclusion of imputed interest is part of a procedure that is necessary to avoid the understatement of income and product originating in financial businesses that would otherwise arise because these businesses provide some services that are not matched by explicit charges.)

Because interest income cannot be estimated reliably on the basis of information either about persons' interest receipts or about the portions of interest payments made by business, government, and the rest of the world that go to persons, an indirect estimating procedure must be used. Interest received by persons is estimated as interest paid in the United States and the interest paid by foreigners to the United States less interest received in the United States by transactors other than persons and the interest paid in the United States to foreigners.

This procedure can be stated algebraically. If interest is paid (p) and received (r) by business (B), by persons (P), by government (G), and by foreigners in transactions with the United States (F), then:

$$B_p+P_p+G_p+F_p=B_r+P_r+G_r+F_r.$$

Rearranging, P_r can be expressed as:

$$P_r=(B_p-B_r)+(F_p-F_r)+G_p-G_r+P_p.$$

Inasmuch as $[(B_p-B_r)+(F_p-F_r)]$ is the net interest item in the national income and product account, it can be seen that personal interest income equals that net interest item plus interest paid by government less interest received by government plus interest paid by persons. This statement replicates the presentation in the Summary National Income and Product Accounts, which is used because information is available with which to estimate each of these items.

The last year for which final information for estimating personal interest income is available is 1976; this estimate is well-founded. For later periods, the information becomes increasingly preliminary or incomplete; the estimates become subject to a substantial margin of error. The last year for which detailed estimates have been published is 1979. They are in table 8.7 of *National Income and Product Accounts, 1976–79* and are shown in summary form in the accompanying tabulation, as are estimates for the second quarter of 1981.

Information about the makeup of the items used in the estimation of personal interest income, as well as inferences about the reliability of the estimates, can be drawn from the following summary methodology, which is keyed to the tabulation.

(1a) For net interest paid by business, annual estimates are derived mainly from tax return tabulations prepared by the Internal Revenue Service (IRS) of interest paid and received by corporations, sole proprietorships, and partnerships. For a few industries, data from regulatory agencies (e.g., Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, National Credit Union Administration) and other sources are

Algebraic expression	National income and product accounts item	Billions of dollars		
		1979 [1]	Seasonally adjusted annual rate, 1981	
			II	III *
P_r	Personal interest income	209.6	300.9	315.6
(1) $[(B_p-B_r)+(F_p-F_r)]$	Net interest	143.4	211.0	----------
(1a) B_p-B_r	Paid by business	129.8	183.4	----------
	Monetary	55.2	90.8	----------
	Imputed	74.6	92.6	----------
(1b) F_p-F_r	Paid by the rest of the world	13.5	27.6	----------
(2) G_p-G_r	Interest paid by government to persons and business less interest received. [2]	22.5	41.0	----------
(3) P_p	Interest paid by consumers to business [3]	43.7	48.9	----------

* Projected.
1. See table 8.7 in *National Income and Product Accounts, 1976–79.*
2. "Interest paid by government to persons and business" excludes interest paid by government to foreigners. Such payments are not regarded as payments for services produced by property supplied by foreigners to the United States, and are therefore excluded from production in the rest of the world.
3. "Interest paid by consumers to business" (1) excludes interest paid by nonprofit institutions (it is included in the business component of "net interest"), (2) excludes interest on loans associated with homeownership (it also is included in the business component of "net interest"), and (3) assumes that consumers pay interest only to business.

used. Estimates for years since the latest IRS tabulations are prepared by extrapolating by the product of debt outstanding (from the flow-of-funds accounts of the Federal Reserve Board) and estimated interest rates. Quarterly estimates of net monetary interest paid by business for years for which there are annual estimates are prepared by interpolating annual estimates by indicator series that are the product of debt outstanding, based primarily on the flow-of-funds accounts, and interest rates; other quarterly estimates are prepared by extrapolating by past trends with allowance for changes in interest rates. For recent quarters, it is generally assumed that changes in debt outstanding have little impact on the estimates.

(1b) For net interest paid by the rest of the world, estimates are based on the balance of payments accounts. The balance of payments items in which interest is included are direct investment receipts and payments, other private receipts and payments, and U.S. Government receipts. These items are described in Part II of the June 1978 SURVEY OF CURRENT BUSINESS.

(2) For net interest paid by the Federal Government, estimates are derived from the *Budget of the United States* and the *Monthly Treasury Statement*. For net interest paid by State and local governments, estimates are based on annual and quarterly Census Bureau survey data.

(3) For interest paid by consumers to business, estimates are based mainly on Federal Reserve data on outstanding consumer installment and noninstallment credit multiplied by applicable interest rates. (Interest payments on mobile home and home improvement loans are excluded because, in the national income and product accounts, homeownership and its related income and expenses are treated as part of the business sector.)

As noted earlier, the estimating procedure for personal interest income is an indirect one: Although the items used in estimating personal interest income are not parts of it, taken together they measure it. Even though the items are not part of personal interest income, their magnitudes are worth noting because they shed light on the relative importance of interest flows in the economy. Net interest paid by business has increased almost 50 percent since 1979. Monetary interest increased much more rapidly than imputed interest, reflecting the fact that net monetary interest is more sensitive to interest rate changes than is imputed interest. Net interest paid by the rest of the world has more than doubled, reflecting a faster increase in U.S. investment abroad than in foreign investment in the United States, as well as increasing interest rates. Net interest paid by government has increased more than 80 percent. The Federal Government more than accounted for the increase, which was traceable largely to increasing interest rates. Interest paid by consumers to business has shown only a small increase over the period. The increase was interrupted in mid-1980 by the limited extension of credit related to the Federal Reserve's credit control program and the weakness in sales, especially of autos.

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starts—suggests continued weakness in residential construction in the near future.

Continued unfavorable financial conditions were a major factor in the decline in residential investment in the third quarter. Deposits (exclusive of interest credited) at mutual savings banks and insured savings and loan associations fell $14.6 billion in June–July, bringing the net deposit loss for the first 7 months of the year to $24.8 billion. Balances in 6-month MMC accounts—money market certificates—increased during January–July, but the average monthly increase was only $4.1 billion, compared with $6 billion in 1980. (Maturing MMC's were rolled over at interest rates averaging about 2 percentage points higher than the rates at which they had been issued.) To offset this poor deposit experience, thrifts resorted to heavy and costly borrowing during January–July.

Reflecting these developments, as well as the general upward movement in long-term rates, the commitment interest rate on 25-year mortgages with a loan-to-price ratio of 75 percent drifted up until early April and then rose sharply to 16.79 percent in August (chart 3). The 1.69-percentage-point increase over the 4 months, would translate into a 10-percent increase in monthly payments on new mortgages. Moreover, the prime rate—to which interest rates on construction loans are tied—was high throughout the period and hovered around 20–20½ percent from late May to mid-September.

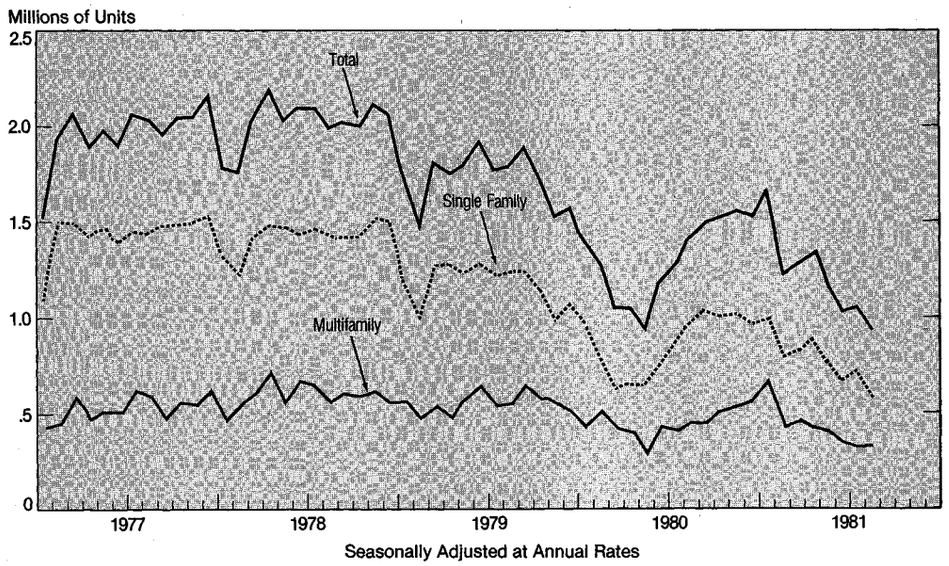
Nonresidential fixed investment was again flat. In producers' durable equipment, motor vehicles partly recovered from their second-quarter decline, but other producers' durable equipment slipped further. Structures registered another small increase. This lackluster performance of nonresidential fixed investment is in line with plans for 1981 reported in the BEA plant and equipment survey, which is discussed later in this issue. The latest survey was taken at about the same time as the passage and signing of the Economic Recovery Tax Act of 1981, but because changes in investment plans in response to Government actions require several months, the results of the survey probably were not appreciably affected by the act.

On the basis of very limited information, net exports declined further. The decline was again concentrated in goods. Both agricultural and nonagricultural exports are being held down by the appreciation of the dollar. Imports may have declined after several quarters of increase.

In government, defense purchases picked up in the third quarter—perhaps the beginning of the expected upturn. With the exception of purchases

CHART 2

Housing Starts



Data: Census
U.S. Department of Commerce, Bureau of Economic Analysis
81-9-2

associated with the agricultural price support operations of the Commodity Credit Corporation, nondefense Federal purchases continued to slip. Purchases by State and local government were down again. A major factor in both the second and third quarters was the lowered level of Federal support. Employee compensation reflected the phasing out of employees hired previously under the Comprehensive Employment and Training Act, and structures reflected the limitation of growth in grants-in-aid supporting specific types of construction and the elimination of the State portion of general revenue sharing. In addition, construction may have been held down by the persistence of high interest rates.

Summing up

This review indicates the likelihood of a third-quarter decline in real final sales other than of motor vehicles: Declines in fixed investment, net exports, and government purchases more than offset a small increase in PCE. However, if the recovery of motor vehicle sales is added in, total final sales may have registered a small increase. In inventories, there was a substantial runoff of motor vehicle inventories following a second-quarter buildup; the resulting swing amounted to about $8½ billion. Little is known about other inventories, but it seems likely that the weakness in final sales led to a step-up in the rate of accumulation. If it is assumed that this step-up partly offset the swing in motor vehicle inventories, the third-quarter change in real GNP would be near zero.

Second-quarter profits

Corporate profits from current production—profits with inventory valuation and capital consumption adjustments—decreased $12½ billion, to $190½ billion, in the second quarter of 1981. (This estimate is $3½ billion higher than the estimate published a month ago.) The decrease, which was widely spread across industries, was partly due to the weakened economic situation. In addition, profits of financial institutions were directly affected by higher interest rates.

Domestic profits of nonfinancial corporations decreased $5½ billion to $146½ billion, after increasing $24 billion in the first quarter. Detail by industry is available for profits with inventory valuation adjustment but without capital consumption adjustment. The second-quarter decrease in profits of manufacturing corporations accounted for the overall decrease (table 3). Within manufacturing, all industries other than motor vehicle and fabricated metal products manufacturing registered decreases. A large decrease in petroleum manufacturers' profits reflected declining demand for their products. Declining demand made it more difficult to pass on to product prices higher costs of crude oil, and the re-

Table 3.—Corporate Profits of Nonfinancial Corporations with Inventory Valuation Adjustment and without Capital Consumption Adjustment

[Billions of dollars; seasonally adjusted at annual rates]

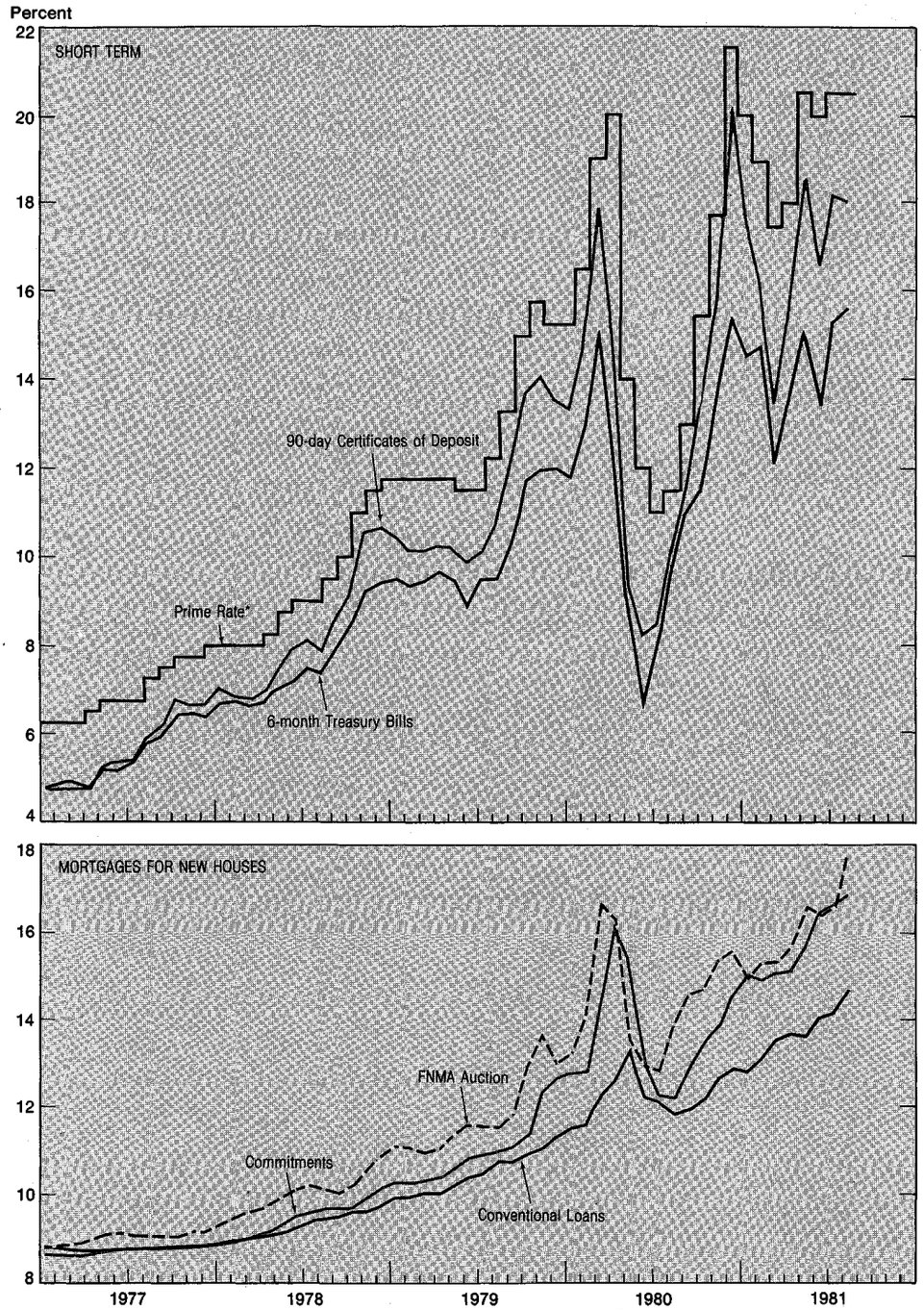
	1980 I	Change from preceding quarter						1981 II
		1980				1981		
		I	II	III	IV	I	II	
Nonfinancial	146.7	5.4	−18.2	8.7	6.7	20.8	−5.7	158.0
Manufacturing	92.1	11.9	−30.8	7.2	7.7	14.2	−6.0	84.4
Durable goods	28.1	−1.2	−18.0	9.3	6.4	5.7	.4	31.9
Primary metal industries	5.9	3.1	−3.9	−1.4	3.2	1.3	−1.3	3.8
Fabricated metal products	5.2	.4	−3.5	2.1	.9	−.7	.5	4.6
Machinery, except electrical	7.3	−.7	−1.5	.5	−.1	2.6	−.5	8.2
Electric and electronic equipment	6.6	.9	−2.8	1.7	−.2	3.1	−2.2	6.2
Motor vehicles and equipment	−2.9	−2.1	−5.9	4.0	4.1	−.8	4.3	2.7
Other	6.0	−2.8	−.4	2.3	−1.4	.2	−.5	6.3
Nondurable goods	64.0	13.1	−12.8	−2.1	1.3	8.5	−6.4	52.5
Food and kindred products	8.2	1.6	−1.5	−1.1	2.9	1.8	−.9	9.5
Chemicals and allied products	8.8	2.2	−2.8	1.1	1.1	2.0	−1.8	8.3
Petroleum and coal products	31.0	7.3	−5.8	−3.0	−2.4	1.7	−3.0	19.6
Other	16.0	2.2	−2.8	1.0	−.4	3.0	−1.7	15.1
Transportation and public utilities	16.1	1.2	.5	5.9	−3.7	2.0	−.8	20.0
Wholesale and retail trade	14.8	−7.8	11.1	−5.5	2.2	4.9	.9	28.4
Other	22.7	.1	1.0	1.1	.4	−.1	0	25.1

sulting squeeze on margins depressed profits. The increase in motor vehicle manufacturers' profits reflected increased manufacturers' shipments (although for dealers, sales fell and inventories built up).

Profits of transportation corporations decreased. Losses of airlines increased and profits of railroads and trucking companies were lower, reflecting lower revenue ton-miles of freight carried by railroads and flat intercity truck tonnage. The increase in airlines' losses occurred despite a continuing rapid increase in fares and a moderate increase in revenue-passenger miles. Profits of other nonfinancial nonmanufacturing corporations increased.

CHART 3

Selected Interest Rates



*At end of the month.
U.S. Department of Commerce, Bureau of Economic Analysis
Data: FRB, FHLBB
81-9-3

Domestic profits of financial corporations decreased $4½ billion to $21 billion, after decreasing $2 billion in the first quarter. Most of the second-quarter decrease was due to lower profits of commercial banks and increased losses of mutual savings banks and of savings and loan associations. The increased losses reflected both net withdrawals of deposits and higher interest rates paid. In contrast, higher interest rates boosted earnings of Federal Reserve banks, which are treated as part of corporate business in the national income and product accounts (NIPA's). Much of the increase registered by these banks was due to higher average interest rates on Federal Reserve holdings of U.S. Government debt; a smaller portion was due to larger holdings.

Profits from the rest of the world—measured as the net inflow of dividends and reinvested earnings of incorporated foreign affiliates, and of earnings of unincorporated foreign affiliates—decreased $2½ billion to $23 billion, after a decrease of the same size in the first quarter. The second-quarter decrease was more than accounted for by lower profits on the overseas petroleum operations of U.S. corporations.

Disposition of profits.—Profits before tax decreased $28 billion to $229 billion, after an increase of $7½ billion in the first quarter.[3] Profits before tax include profits corresponding to the inventory valuation and capital consumption adjustments.[4] Inventory

3. The estimates of profits before tax and of related measures have been adjusted to incorporate changes in tax law that resulted from the enactment of the Economic Recovery Tax Act of 1981. The impact of the act on these estimates was summarized in the August issue of the SURVEY OF CURRENT BUSINESS, p. 2 (table 2).

4. The valuation adjustments are designed to value inventories and fixed capital used up in production at replacement costs, the valuation concept underlying national income and product accounting, rather than at historical costs, the concept generally underlying business accounting. The capital consumption adjustment also places the using up in production of fixed capital on a consistent basis with respect to service lives (85 percent of Internal Revenue Service Bul-

profits decreased $15 billion to $24 billion, after a decrease of $9 billion. Profits attributable to underdepreciation were unchanged at $14½ billion, after a decrease of $3 billion.

Corporate profits taxes, which are levied on profits including inventory profits and profits attributable to underdepreciation, decreased $11½ billion to $76½ billion, after an increase of $2½ billion. Dividends, however, increased; they increased $2½ billion to $62 billion, after an increase of $2 billion. Undistributed profits decreased $19 billion to $90½ billion, after an increase of $3 billion. The second-quarter level of undistributed profits was equal to the previous recent low, which occurred in the second quarter of 1980.

* * *

Second-quarter NIPA revisions

The 75-day revisions of the national income and product account estimates for the second quarter of 1981 are shown in table 4.

letin F for equipment and nonresidential structures) and depreciation formulas (straight-line). If the historical costs of inventories used up is less than their replacement costs, profits as measured by business exceed profits as measured in the NIPA's by an amount that is called inventory profits; in deriving profits from current production from profits before tax these inventory profits are removed by the inventory valuation adjustment. If fixed capital used up as measured by business is less than as measured in the NIPA's, business profits exceed NIPA profits by an amount that is equal to the underdepreciation of the capital stock; in deriving profits from current production from profits before tax, profits attributable to underdepreciation are removed by the capital consumption adjustment.

Table 4.—Revisions in Selected Component Series of the NIPA's, Second Quarter of 1981

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates		
	45-day estimate	75-day estimate	Revision	45-day estimate	75-day estimate	Revision
	Billions of current dollars					
GNP	**2,881.6**	**2,885.8**	**4.2**	**4.1**	**4.7**	**0.6**
Personal consumption expenditures	1,831.0	1,829.1	−1.9	4.7	4.3	−.4
Nonresidential fixed investment	323.3	324.6	1.3	9.7	11.4	1.7
Residential investment	111.3	110.7	−.6	−17.4	−19.2	−1.8
Change in business inventories	21.2	23.3	2.1	----------	----------	----------
Net exports	17.7	20.8	3.1	----------	----------	----------
Government purchases	577.1	577.4	.3	.4	.6	.2
Federal	219.4	219.5	.1	−3.9	−3.7	.2
State and local	357.7	357.9	.2	3.1	3.3	.2
National income	**2,316.5**	**2,320.9**	**4.4**	**4.5**	**5.3**	**.8**
Compensation of employees	1,751.2	1,752.0	.8	6.9	7.1	.2
Corporate profits with inventory valuation and capital consumption adjustments	187.0	190.3	3.3	−28.0	−22.7	5.3
Other	378.2	378.5	.3	14.5	14.8	.3
Personal income	**2,368.9**	**2,368.5**	**−.4**	**8.7**	**8.7**	**0**
	Billions of constant (1972) dollars					
GNP	**1,507.4**	**1,510.4**	**3.0**	**−2.4**	**−1.6**	**.8**
Personal consumption expenditures	955.3	955.1	−.2	−2.0	−2.1	−.1
Nonresidential fixed investment	160.4	161.1	.7	−4.0	−2.1	1.9
Residential investment	48.1	47.8	−.3	−21.0	−23.4	−2.4
Change in business inventories	9.7	10.8	1.1	----------	----------	----------
Net exports	44.6	46.2	1.6	----------	----------	----------
Government purchases	289.3	289.5	.2	−5.8	−5.6	.2
Federal	108.6	108.7	.1	−9.0	−8.4	.6
State and local	180.7	180.7	0	−3.8	−3.8	0
	Index numbers, 1972=100[1]					
GNP implicit price deflator	191.17	191.06	−.11	6.6	6.4	−.2
GNP fixed-weighted price index	198.1	198.1	0	8.0	7.9	−.1
GNP chain-price index	----------	----------	----------	7.8	7.7	−.1

1. Not at annual rates.

NOTE.—For the second quarter of 1981, the following revised or additional major source data became available: For *personal consumption expenditures*, revised retail sales for June, consumer share of new car purchases for June, and consumption of electricity for May; for *nonresidential fixed investment*, revised manufacturers' shipments of equipment for June, revised construction put in place for June, business share of new car purchases for June, and business expenditures for plant and equipment for the quarter; for *residential investment*, revised construction put in place for June; for *change in business inventories*, revised book values for manufacturing and trade for June; for *net exports of goods and services*, revised merchandise trade for June, and revised service receipts for the quarter; for *government purchases of goods and services*, revised construction put in place for June; for *wages and salaries*, revised employment, average hourly earnings, and average weekly hours for June; for *net interest*, revised net interest received from abroad for the quarter; for *corporate profits*, revised domestic book profits for the quarter, and revised profits from the rest of the world for the quarter; and for *GNP prices*, revised residential housing prices for the quarter.

the BUSINESS SITUATION

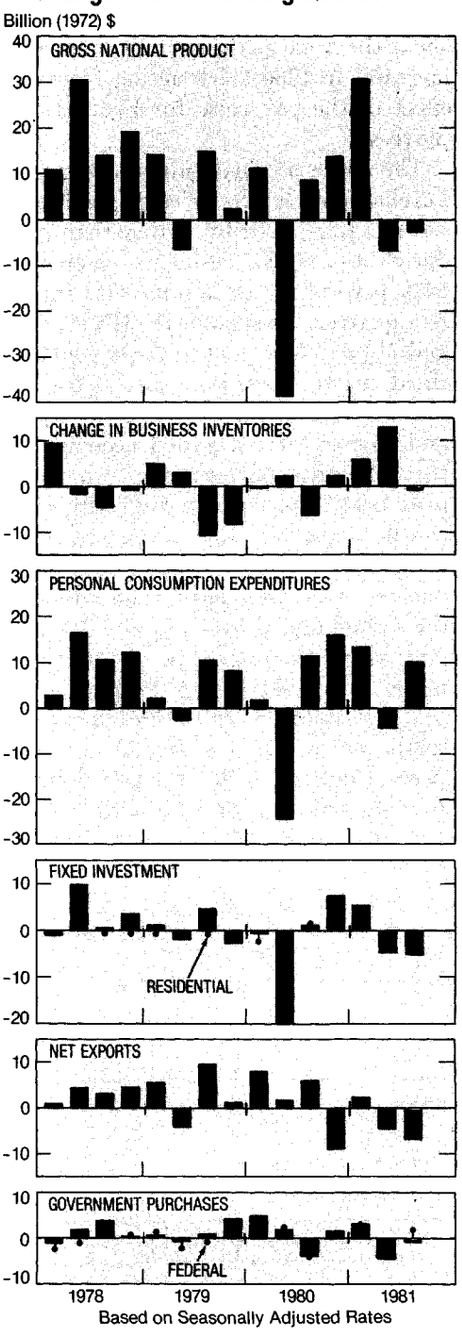
THE economy weakened further in the third quarter. Real GNP declined ½ percent at an annual rate, after a 1½-percent decline in the second quarter.[1] Estimates of components making up the four-fifths of GNP for which monthly source data are available indicate that real GNP has trended down since January–February.

Although the second- and third-quarter declines in real GNP were small, there were both large increases and large declines in the components (chart 1). This feature is brought into sharper focus by a separation of real GNP, final sales, and inventory change (CBI) into their motor vehicle and nonvehicle components (table 1). For motor vehicles, large changes in final sales and large changes in CBI tended to offset each other in their impact on the change in GNP. In the third quarter, final sales were up $6 billion and CBI was down $8 billion.[2] In the second quarter, it was final sales that were down, $11 billion, and it was CBI that was up, $13 billion. For nonvehicle components, final sales declined in both quarters—the same amount, $7½ billion, and with the same pattern. Increases in nonvehicle personal consumption expenditures and nonresidential structures were more than offset by declines in each of the other nonvehicle components, i.e., producers' durable equipment, residential investment, net exports, and government purchases. In the third quarter, the decline in nonvehicle final sales was offset in its impact on the change in GNP by an increase in nonvehicle CBI; in the second quarter, the change in CBI was negligible.

These kinds of changes suggest that several strong causal factors—some countering each other, some reinforcing—have been at work. The impact of persistently high interest rates—whether a result of monetary policy or a reflection of inflation—can be seen in several GNP components: residential investment, motor vehicles (although strongly affected by other factors as well), consumer spending on items such as furniture and household equipment, and State and local government construction. Price changes, including auto rebates, help explain some components of consumer spending. Also, the appreciation of the dollar against foreign currencies had a strong impact on net exports. There is no evidence, however, that the new Federal fiscal policy has affected GNP in a major way. Although some categories of expenditure—most importantly, grants-in-aid to State and local governments—have turned down, most of the changes in expenditures are yet to be felt. The tax cuts enacted as part of the Economic Recovery Tax Act

CHART 1

Real Product: Change From Preceding Quarter



U.S. Department of Commerce, Bureau of Economic Analysis 81-10-1

1. The third-quarter GNP estimates are based on the following major source data: For *personal consumption expenditures* (PCE), retail sales, and unit auto and truck sales through September; for *nonresidential fixed investment,* the same information for autos and trucks as for PCE, manufacturers' shipments of machinery and equipment for July and August, July and August construction put in place, and investment plans for the quarter; for *residential investment,* July and August construction put in place, and housing starts for July and August; for *change in business inventories,* July and August book values for manufacturing and trade, and unit auto inventories through September; for *net exports of goods and services,* July and August merchandise trade, and fragmentary information on investment income for the quarter; for *government purchases of goods and services,* Federal unified budget outlays for July and August, State and local construction put in place for July and August, and State and local employment through September; and for *GNP prices,* the Consumer Price Index for July and August, the Producer Price Index through September, and unit value indexes for exports and imports for July and August. Some of these source data are subject to revision.

2. Quarterly estimates of the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

of 1981 are unlikely to have as yet affected the spending and saving of investors or consumers.

Prices.—Food and energy price increases have continued to fluctuate widely and have largely accounted for changes in the rate of increase in the price of GNP. The fixed-weighted price index for GNP increased at annual rates of 10, 8, and 9 percent in the first three quarters of this year; the increase in the price of GNP less the food and energy components held fairly steady at around 9 percent (table 2). These increases were about the same as the average quarterly increases in 1980 (abstracting from the effect of the pay raise for Federal employees).

Table 1.—Real GNP and Motor Vehicle Output: Change From Preceding Quarter

[Billions of 1972 dollars, based on seasonally adjusted annual rates]

	1981		
	I	II	III
GNP	30.8	-6.0	-2.2
Less: Motor vehicle output	-.7	1.8	-1.9
GNP less motor vehicle output	31.5	-7.8	-.3
Final sales	25.1	-18.2	-1.7
Less: Motor vehicles	7.7	-10.9	5.9
Final sales less motor vehicles	17.4	-7.3	-7.6
Personal consumption expenditures less motor vehicles	7.9	3.4	5.2
Nonresidential structures	1.8	.8	.9
Producers' durable equipment less motor vehicles	2.3	-.6	-2.6
Residential investment	.4	-3.2	-4.6
Net exports less motor vehicles	1.0	-3.6	-6.2
Government purchases less motor vehicles	3.8	-4.0	-.4
Change in business inventories	5.8	12.2	-.5
Less: Motor vehicles	-8.4	12.8	-7.9
Change in business inventories less motor vehicles	14.2	-.6	7.4

NOTE.—Dollar levels are found in the National Income and Product Accounts Tables, as follows: GNP, table 1.1-1.2; motor vehicles, tables 1.14-1.15 (autos) and 1.16-1.17 (trucks).

The price of final sales to domestic purchasers—i.e., the price of goods and services purchased by, rather than produced by, U.S. residents—increased 10½ percent at an annual rate in the first quarter, the same as the GNP price, and 7½ and 8 percent in the second and third quarters, less than the GNP price (table 3). The performance of export and import prices, which account for the difference between the two measures, both improved substantially after the first quarter. Export prices, after increasing 11½ percent in the first quarter, increased only moderately in the second and third—5½ and 4½ percent. However, import prices improved more. After increasing 12 percent in the first quarter, they showed only a small increase in the second and a 6-percent decline in the third. It is likely that the strong appreciation of the dollar since mid-1980 contributed to the improved performance of import prices. In addition, other factors were at work—mainly abundant crops, which affected prices of agricultural exports, and a lower price for imported petroleum. The average price of petroleum imports was $34.63 per barrel in the first quarter and $35.64 in the second, but dropped to about $33.25 in the third.

Within final sales to domestic purchasers, some third-quarter price increases were larger than second-quarter increases and some were smaller, but most second- and third-quarter increases were smaller than first-quarter increases. The increase in the price of personal consumption expenditures (PCE) was among those that was larger in the third quarter than in the second quarter—8 percent at an annual rate, compared with 6½ percent.

PCE food prices contributed to the acceleration. They increased at an annual rate of 9 percent after increasing ½ percent in the second quarter. The acceleration was primarily due to a turnaround in the price of food consumed at home—especially meat and poultry—from a small decline to a 9-percent increase. Food consumed at home has a weight of about 75 percent in the fixed-weighted index for PCE food, and so the total food index moves closely with it. The price of restuarant meals, the other principal food component, increased 6½–7½ percent in both quarters. These increases were at lower end of the range, which extended to about 12 percent, within which increases in the price of restaurant meals have fluctuated over the last 2 years. The greater stability of this price than of the price of food con-

Table 2.—Selected Fixed-Weighted Price Indexes: Change From Preceding Quarter

[Percent change at annual rates; based on index numbers (1972=100), seasonally adjusted]

	1979				1980				1981		
	I	II	III	IV	I	II	III	IV	I	II	III
GNP	9.3	8.9	8.8	[1] 10.3	9.7	9.3	9.0	[1] 10.4	10.2	7.9	9.2
Food components [2]	15.3	6.6	5.0	7.9	3.2	4.1	17.1	18.6	7.3	.6	8.3
Energy components [3]	18.5	36.9	34.9	27.8	40.7	13.1	2.0	2.3	36.4	14.3	10.1
GNP less food components	8.3	9.4	9.5	10.8	10.8	10.2	7.8	9.1	10.7	9.2	9.3
GNP less energy components	8.8	7.6	7.5	9.3	8.0	9.1	9.5	10.9	8.6	7.5	9.1
GNP less food and energy components	7.6	7.8	7.9	[1] 9.5	8.9	9.9	8.3	[1] 9.8	8.9	8.9	9.3

1. Includes pay raises for Federal employees, which added 0.8 and 1.4 percentage points to the increase in GNP prices in the fourth quarters of 1979 and 1980, respectively.
2. Consists of all components for which separate estimates are prepared. The major component that is not included is purchases of food by the Federal Government other than transactions by the Commodity Credit Corporation that are treated like purchases.
3. Consists of all components for which separate estimates are prepared. The major components that are not included are (1) exports of energy, (2) the gasoline and motor oil portions of inventories of gasoline service stations, and (3) the energy portions of inventories of businesses that do not produce energy for sale.

NOTE.—Inasmuch as GNP is a sum of final products, the food and energy estimates in this table do not take into account the effect on the prices of final products of changes in the prices of the food and energy that are costs of production.

sumed at home—changes in the price of food consumed at home ranged from a small decline to an increase of about 20 percent—reflected the smaller weight of volatile farm prices.

PCE energy prices declined in the third quarter at an annual rate of ½ percent, after increases of 8½ percent in the second quarter and 39½ percent in the first. Third-quarter declines for gasoline and fuel oil—9½ percent and 6 percent, respectively—more than offset continued price increases for electricity and natural gas (addendum to table 3). Sharp first-quarter increases for the petroleum products reflected the increased price of imports and the compression of the final phases of the decontrol of domestic crude oil and refined products into the first quarter. In the third quarter, reduced marketing margins were a factor in the price declines, which on a monthly basis began in the second quarter. Price changes for energy services fluctuated less than did those for gasoline and fuel oil, but rates of increase tended to remain high. Natural gas price increases reflected the phased deregulation of domestic supplies and higher prices of imports from Canada and Mexico.[3] Electricity prices reflected the automatic passthrough in many States of increased fuel costs. Additional fluctuations in both electric and gas rates were due to the timing of rate increases approved by State public utility commissions. For example, rate hikes were a major factor in driving up third-quarter electricity prices 30 percent—double the rate of increase registered in either of the two preceding quarters.

Prices of other PCE goods and services increased at an annual rate of 9½ percent in the third quarter, higher than the increases of 7–9 percent registered over the past year. Prices of services were largely responsible for the step-up. Increases in the prices of rents, local

3. The increasing use of "lifeline" rate structures, which price a larger quantity of each residential customer's consumption at the lowest rate during the winter heating season, has not been fully removed through seasonal adjustment. The seasonally adjusted second-quarter increase thus reflected utilities' switch to their effectively higher summer rate schedule (and the fourth-quarter change will reflect their switch to the effectively lower winter rate schedule).

Table 3.—Fixed-Weighted Price Indexes: Change From Preceding Quarter

[Percent change at annual rates; based on index numbers (1972=100), seasonally adjusted]

	1981		
	I	II	III
Gross national product	10.2	7.9	9.2
Less: Change in business inventories			
Equals: Final sales	10.3	7.9	9.1
Less: Exports	11.7	5.6	4.3
Plus: Imports	11.8	.4	−6.1
Equals: Final sales to domestic purchasers	10.3	7.3	7.8
Personal consumption expenditures	10.9	6.5	8.2
Food	6.4	.5	8.8
Energy	39.2	8.3	−.7
Other personal consumption expenditures	8.0	8.2	9.6
Other [1]	9.5	8.6	7.3
Nonresidential structures	9.0	8.1	8.2
Producers' durable equipment	9.9	11.8	8.4
Residential	10.1	6.0	6.3
Government purchases	9.3	8.6	7.2
Addendum: Personal consumption expenditures, energy:			
Nondurables:			
Gasoline and oil	45.0	2.3	−9.6
Fuel oil and coal	76.1	16.2	−6.0
Services:			
Electricity	15.7	12.1	30.2
Natural gas	12.4	21.3	10.2

1. Index number levels for the fourth quarter of 1980 through the third quarter of 1981 were: 203.1, 207.7, 212.0 and 215.9.

NOTE.—Index number levels are found in the National Income and Product Accounts Tables, tables 7.1–7.2.

Table 4.—Selected Labor Market Indicators

[Seasonally adjusted]

	1980		1981			Change from preceding quarter			
	III	IV	I	II	III	1980:IV	1981:I	1981:II	1981:III
Household survey									
Civilian labor force (thousands)	104,982	105,173	105,800	106,768	106,434	191	627	968	−334
Employment	97,061	97,276	98,012	98,868	98,725	215	736	856	−143
Unemployment	7,921	7,897	7,788	7,900	7,709	−24	−109	112	−191
Job losers	4,357	4,232	3,863	4,041	3,986	−125	−369	178	−55
On layoff	1,758	1,538	1,275	1,338	1,265	−220	−263	63	−73
Other job losers	2,598	2,693	2,589	2,702	2,721	95	−104	113	19
Job leavers, reentrants, and new entrants	3,610	3,665	3,872	3,902	3,768	55	207	30	−134
Unemployment rate (percent):									
Total	7.5	7.5	7.4	7.4	7.2	0	−.1	0	−.2
Adult men	6.6	6.3	6.0	6.1	5.9	−.3	−.3	.1	−.2
Adult women	6.4	6.7	6.6	6.6	6.6	.3	−.1	0	0
Teenagers	18.4	18.3	19.1	19.2	18.7	−.1	.8	.1	−.5
Civilian labor force participation rate:									
Total	63.8	63.7	63.9	64.3	63.8	−.1	.2	.4	−.5
Adult men	79.4	79.2	78.9	79.4	78.9	−.2	−.3	.5	−.5
Adult women	51.5	51.4	51.9	52.4	52.2	−.1	.5	.5	−.2
Teenagers	56.5	56.4	56.9	56.3	54.8	−.1	.5	−.6	−1.5
Establishment survey									
Employment, nonfarm payroll (thousands)	90,213	90,820	91,232	91,546	91,895	607	412	314	349
Goods producing	25,306	25,594	25,670	25,741	25,943	288	76	71	202
Construction	4,319	4,385	4,398	4,345	4,266	66	13	−53	−79
Manufacturing:									
Durables	11,911	12,060	12,086	12,246	12,332	149	26	160	86
Nondurables	8,064	8,098	8,095	8,144	8,198	34	−3	49	54
Distributive [1]	25,529	25,585	25,721	25,842	26,016	56	136	121	174
Services [2]	23,177	23,399	23,619	23,849	25,042	222	220	230	193
Government	16,201	16,242	16,222	16,114	15,894	41	−20	−108	−220
Average weekly hours, private nonfarm:									
Total	35.2	35.3	35.3	35.3	35.1	.1	0	0	−.2
Manufacturing	39.4	39.8	39.9	40.2	39.7	.4	.1	.3	−.5

1. Transportation and public utilities, and wholesale and retail trade.
2. Services, and finance, insurance, and real estate.

Source: Bureau of Labor Statistics.

transit, telephone, and medical services were larger than in the second quarter.

Employment and unemployment.—It is difficult to obtain a consistent view of third-quarter labor market conditions, but, on balance, the indicators suggest weakening (table 4). The household measure of employment, which had increased an average of almost 800,000 in each of the two previous quarters, declined 143,000 in the third quarter. Unemployment also declined, and the unemployment rate declined 0.2 percentage points to 7.2 percent. The decline in the unemployment rate, however, was attributable to a decline of 334,000 in the civilian labor force, the largest decline in almost 3 decades. The labor force participation rate fell for each of the three major demographic groups—adult men, adult women, and teenagers. Short-term changes in the series derived from the household survey are often erratic.

The payroll measure of employment increased 349,000, about the same as in each of the two previous quarters. On a monthly basis, however, employment was flat from July to September. The third-quarter increase was in services (193,000), distributive industries (174,000), mining (142,000, largely because the coal strike had depressed employment in April and May), and manufacturing (139,000). Average weekly hours in the private nonfarm economy were down 0.2 to 35.1, and manufacturing hours were down 0.5 to 39.7. Part of the weakness in hours may have been due to the unusual occurrence of Labor Day in the September survey week.

Perspective on recent conditions can be obtained by tracing developments since the recession a year ago. (Although the household measure of employment hit its 1980 low in the second quarter, the payroll measure hit its low in the third, and the unemployment rate was higher in the third quarter than in the second.) The household measure of employment was 1,664,000 higher in the third quarter of 1981 than it had been a year earlier. Employment was up 1,131,000 among adult women and 938,000 among adult men; adult men had accounted for about three-fourths of the drop in employment from the first to the second quarter of 1980. Largely because of declines in teenage population and labor force participation, employment among teenagers was 404,000 lower in the third quarter of 1981 than a year earlier.

At 7.2 percent in the third quarter of 1981, the unemployment rate was 0.3 percentage points lower than a year earlier. The decline was entirely among adult men, whose unemployment rate had risen from 4.1 to 6.6 percent over the previous year; in the third quarter of 1981 it stood at 5.9 percent. Other signs of weakness in the labor market recovery included the number of discouraged workers (1,050,000), which was almost 100,000 higher than a year earlier, and the number of workers on part-time schedule for economic reasons (4,316,000), which was 179,000 higher.

[Thousands]

	1981:III	Change from 1 year earlier	
		1980:III	1981:III
Manufacturing employment	20,529	-1,145	553
Durables	12,332	-931	421
Lumber and wood products	689	-100	18
Furniture and fixtures	488	-44	33
Stone, clay, and glass products	658	-60	7
Primary metal industries	1,146	-186	66
Fabricated metal products	1,611	-161	49
Machinery, except electrical	2,540	-63	80
Electric and electronic equipment	2,166	-56	94
Transportation equipment	1,888	-237	47
Instruments and related products	727	12	19
Miscellaneous manufacturing	420	-34	8
Nondurables	8,198	-215	134
Food and kindred products	1,678	-14	-35
Tobacco manufacturers	72	-2	3
Textile mill products	853	-44	15
Apparel and other textile products	1,277	-37	18
Paper and allied products	700	-25	14
Printing and publishing	1,195	16	38
Chemicals and allied products	1,112	-12	13
Petroleum and coal products	212	-2	4
Rubber and miscellaneous plastics products	762	-82	56
Leather and leather products	237	-13	8

The payroll measure of employment was 1,682,000 higher in the third quarter than it had been a year earlier. The increase in employment was spread across industries, except construction, which was at its lowest level in over 3 years, and government, which was at its lowest level in over 2 years. Manufacturing employment was up 553,000. As shown in the accompanying tabulation, however, the recovery was less than one-half of the previous-year decline and in some industries was minimal.

Costs and productivity.—Table 5 adapts the information on real product, employment, and hours to focus on costs and productivity in the business economy other than farm and housing. Productivity—as measured by real gross product per hour—declined 3 percent at an annual rate after a ½-percent increase in the second quarter. In both quarters, real product declined and hours were weak. Compensation per hour increased at roughly the same rate in both quarters; if allowance is made for the two special factors that affected the first quarter—increases in the minimum wage and employer contributions for social insurance—the increase in compensation per hour has been about 8½ percent each quarter this year. The increase in unit labor cost has trended up over the year, even without allowance for the effect of the special factors.

Table 5.—Real Gross Product, Hours, and Compensation in the Business Economy Other Than Farm and Housing: Change From Preceding Quarter

[Percent change at annual rates; based on seasonally adjusted estimates]

	1981		
	I	II	III
Real gross product	8.2	−1.2	−2.0
Hours	3.1	−1.8	1.1
Compensation	15.5	6.9	9.6
Real gross product per hour	5.0	.6	−3.1
Compensation per hour	12.0	8.8	8.4
Unit labor cost	6.7	8.1	11.8

Personal income and its disposition

Weakness in the economy was again visible in the components of personal income that are related to production. Wage and salary disbursements registered another moderate increase—$31 billion (table 6). It was larger than the second-quarter increase mainly because of the effects of the coal strike: The

Table 6.—Personal Income and Its Disposition: Change From Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1981		
	I	II	III
Wage and salary disbursements	45.1	24.1	30.9
Manufacturing	12.4	9.4	7.8
Other commodity-producing	4.9	2.6	4.5
Distributive	11.4	5.9	6.8
Services	12.5	8.0	7.7
Government and government enterprises	3.9	3.4	4.0
Proprietors' income	−1.9	2.0	1.2
Farm	−3.5	2.7	1.4
Nonfarm	1.6	−.7	−.2
Personal interest income	19.0	12.1	14.9
Transfer payments	5.7	4.6	18.5
Other income	6.8	6.7	7.8
Less: Personal contributions for social insurance	11.0	.8	1.8
Personal income	**63.6**	**48.7**	**71.5**
Less: Personal tax and nontax payments	12.8	10.9	17.0
Impact of legislation	−2.8	−1.4	.4
Other	15.6	12.3	16.6
Equals: Disposable personal income	**50.8**	**37.8**	**54.5**
Less: Personal outlays	59.5	20.1	60.9
Equals: Personal saving	**−8.7**	**17.7**	**−6.4**
Addenda: Special factors—			
Minimum wage	2.0	----------	----------
Cost-of-living increases in Federal transfer payments	1.1	1.3	16.3
Social security (in personal contributions for social insurance):			
Base change	2.3	----------	----------
Rate change	6.7	----------	----------
Coal strike	----------	−2.6	2.6

strike reduced second-quarter wages about $2½ billion, and the resumption of coal mining added about $2½ billion in the third quarter. The increase in manufacturing and in the services industries was a little smaller than in the second quarter and that in the distributive industries was a little larger, but, in each industry group, the second- and third-quarter increases were substantially smaller than the first-quarter increase. In government and government enterprises, the third-quarter increase included almost $1 billion of lump-sum payments and one-time bonuses paid to employees of the U.S. Postal Service under an agreement signed in July.

Farm proprietors' income increased $1½ billion in the third quarter. The increase was more than accounted for by farm production that went into inventories. Cash receipts from farm marketings were actually down, reflecting mainly a large drop in crop prices.

At $23 billion in the third quarter, farm proprietors' income remains far below its $32½ billion peak in the second quarter of 1979 (chart 2). Over this period, the volumes of production and of purchases of intermediate products have changed little, but differential price movements have put a squeeze on gross farm product—i.e., on the GNP originating on farms.[4] Even though crop prices increased about 15 percent, the average price of marketings increased only about 6 percent because livestock prices declined. Prices of intermediate products increased about 20 percent, reflecting increases in the prices of fuel and fertilizer. Further, even though gross farm product was down over this period, incomes other than farm proprietors' income, especially net interest, that are part of gross farm product were up. Thus, farm proprietors' income, which is what remains after deduction of these incomes and other charges against gross farm product, was depressed.

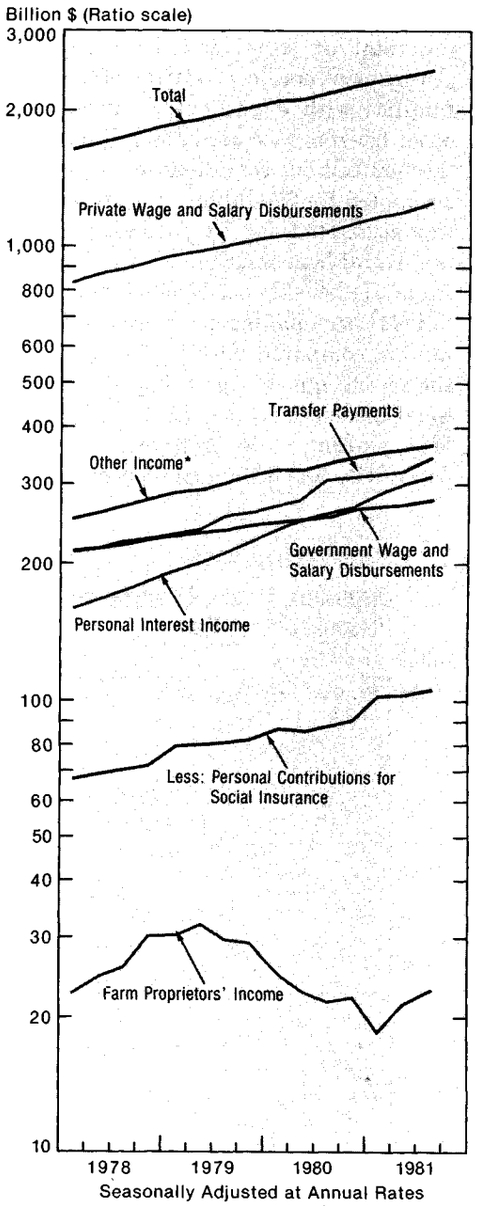
Personal interest income increased $15 billion in the third quarter. This increase was larger than in the second quarter but fell short of that in the first. Personal interest income has been the fastest growing component of personal income in recent years. Increases in interest rates for particular types of assets and shifts of portfolios toward higher yielding assets, rather than increases in persons' holdings, have been the primary factors in the increase. (Personal interest income and the procedures used to estimate it were described in the Special Note to the "Business Situation" in the September 1981 issue of the SURVEY.)

Transfer payments, which are not related to production, increased $18½ billion, accounting for about one-fourth of the third-quarter increase in personal income. An 11.2 percent cost-of-living adjustment to benefit payments under several Federal programs went into effect in July. The adjustment amounted to $16½ billion, of which $15 billion was in social security benefits.

In recent years, cost-of-living increases—which have amounted to $1–2 billion each quarter except in the third quarter when social security increases become effective—have been a growing share of the increase in transfer pay-

CHART 2

Personal Income



*Other labor income, nonfarm proprietors' income, rental income of persons, and personal dividend income.

U.S. Department of Commerce, Bureau of Economic Analysis 81-10-2

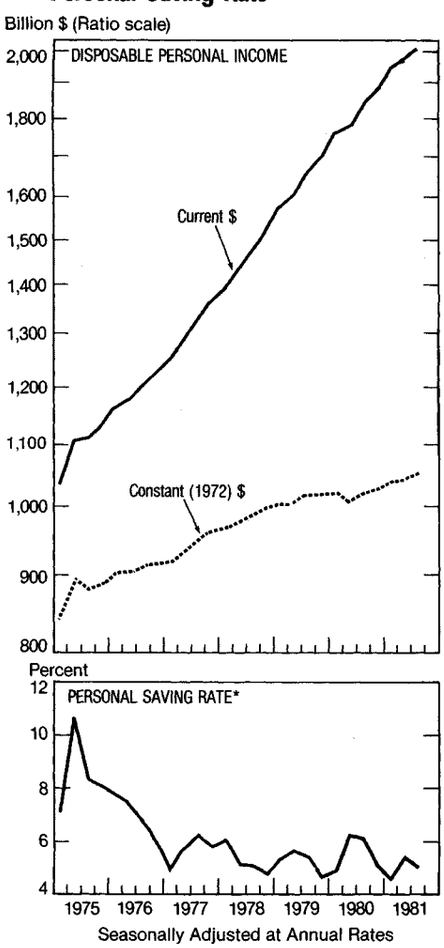
4. The relationship among the several measures of farm production and income is seen, for recent years, in tables 1.18 and 1.19 in *National Income and Product Accounts, 1976–79,* a special supplement to the SURVEY OF CURRENT BUSINESS. See also Shelby W. Herman, "The Farm Sector," SURVEY 58 (November 1978) : 18–26.

ments. Over the last four quarters, transfer payments increased $32 billion. (Although government unemployment insurance benefits declined $4 billion, the total of social security, veterans, government employee retirement, aid to families with dependent children, and other benefits increased $36 billion.) Of the $32 billion, cost-of-living increases accounted for $20 billion; the remainder was accounted for by increases in the number of beneficiaries and, to a smaller extent, in benefits per beneficiary.

Total personal income increased $71½ billion, compared with $48½ billion in the second quarter, and disposable personal income increased $54½ billion, or 11½ percent at an annual rate, compared with $38 billion, or 8 percent. The third-quarter increase in income was smaller than that in outlays, so that saving declined and the saving rate moved down from 5.4 percent in the second quarter to 4.9 percent (chart 3). Changes in saving and the saving rate were probably affected by the large and abrupt changes in PCE on motor vehicles in the third and earlier quarters of the year. Also, because personal saving is measured as the difference between disposable personal income and personal outlays, saving and the saving rate are influenced by the procedures used to adjust income and outlays for seasonality. The cost-of-living increases in social security benefits are not seasonally adjusted; in contrast, outlays—of which expenditures made out of these benefit increases are an indistinguishable part—are seasonally adjusted.

CHART 3

Disposable Personal Income and Personal Saving Rate



*Personal saving as a percentage of disposable personal income.

U.S. Department of Commerce, Bureau of Economic Analysis 81-10-3

In real terms, disposable income increased 2 percent at an annual rate, after an increase of 1½ percent in the second quarter. In contrast, in the three earlier quarters since the 1980 recession, increases in real disposable income were larger—in the range of 3–4 percent.

Real PCE.—In the third quarter, as earlier in the year, PCE on motor vehicles and parts registered on extraordinary large change (table 7). The pattern of these changes—increases of $5–6 billion in the third and first quarters and a decline of $9 billion in the second—can be traced to a large extent to the rebate and other price discount programs that were superimposed on economic and financial conditions that were generally adverse to motor vehicle purchases. These developments are discussed in more detail in "Motor Vehicles, Model Year 1981," later in this issue.

Aside from motor vehicles and parts, PCE remained weak. After it had increased 3½ percent at an annual rate in the first quarter, it increased only 1½ percent in the second and 2 percent in the third. In goods, all major categories except energy either declined or were unchanged: Furniture and household equipment edged down after a second-quarter decline; food was unchanged after a substantial increase; and clothing and shoes declined again. In contrast, gasoline and oil increased—the first strong increase in three quarters. In services, the increase, although larger than in the first and second quarters, continued below trend.

The effect on consumer spending of the third-quarter increase in personal income is particularly hard to assess, because little is known about the pattern of spending out of cost-of-living adjustments to transfer payments, which are one-shot step-ups, received largely by retirees, and expected because they are legislated. Although the pattern of increases in real disposable income over the past year helps explain the pattern of increases in PCE on other than motor vehicles, it appears that factors other than income were also at work. The

Table 7.—Real GNP: Change From Preceding Quarter

[Percent change at annual rates; based on billions of 1972 dollars, seasonally adjusted at annual rates]

	1981		
	I	II	III
GNP	8.6	−1.6	−0.6
Final sales	6.9	−4.7	−.5
Personal consumption expenditures	5.8	−2.1	4.3
Durables	24.1	−23.3	15.3
Motor vehicles and parts	51.4	−47.1	47.1
Furniture and household equipment	9.3	−5.3	−1.4
Other durables	6.5	6.1	−.8
Nondurables	4.6	2.7	1.4
Food	6.8	4.7	.2
Energy [1]	−24.2	−7.4	21.5
Clothing and shoes	10.5	−5.0	−8.3
Other nondurables	3.0	−2.0	−.1
Services	1.4	1.6	3.5
Energy [2]	−13.1	9.9	7.3
Other services	2.3	1.2	3.3
Fixed investment	10.8	−7.6	−8.8
Nonresidential	13.3	−2.1	−.4
Structures	16.6	6.7	6.8
Producers' durable equipment	11.8	−5.9	−3.6
Autos and trucks	22.0	−24.4	44.2
Other	10.0	−2.0	−10.7
Residential	3.6	−23.4	−33.3
Net exports of goods and services			
Exports	13.6	−2.3	−8.7
Merchandise	16.4	−6.0	−20.5
Agricultural	52.9	−35.2	−25.4
Nonagricultural	8.4	3.4	−19.3
Other	10.2	2.6	8.5
Imports	10.3	14.2	11.0
Merchandise	6.0	16.0	11.3
Petroleum	2.1	−1.5	−32.3
Nonpetroleum	6.3	17.7	15.9
Other	19.5	10.6	10.3
Government purchases of goods and services	5.4	−5.6	−.5
Federal	14.8	−8.4	5.3
National defense	1.1	2.6	8.1
Nondefense	46.8	−26.4	0
Commodity Credit Corporation [3]			
Other	3.6	−6.5	−6.2
State and local	.2	−3.8	−4.0
Change in business inventories			

1. Gasoline and oil, and fuel oil and coal.
2. Electricity and gas.
3. Estimates, in billions of 1972 dollars, for the fourth quarter of 1980 through the third quarter of 1981 were: −1.4, 1.8, −0.4, and 0.7.

NOTE.—Dollar levels are found in the National Income and Product Accounts Tables, as follows: GNP and its major components, tables 1.1–1.2 and 1.3–1.4; personal consumption expenditures detail, tables 2.2–2.3; motor vehicles, tables 1.14–1.15 (autos) and 1.16–1.17 (trucks); and net exports details, tables 4.1–4.2 and 4.3–4.4.

sharp decline of residential construction and high interest rates on consumer loans help explain the weakness in furniture and household equipment. The course of their prices helps explain food and energy: The third-quarter leveling in food purchases, after two quarters of increases, coincides with the acceleration of food prices, and the strong increase in gasoline coincides with the decline in its prices.

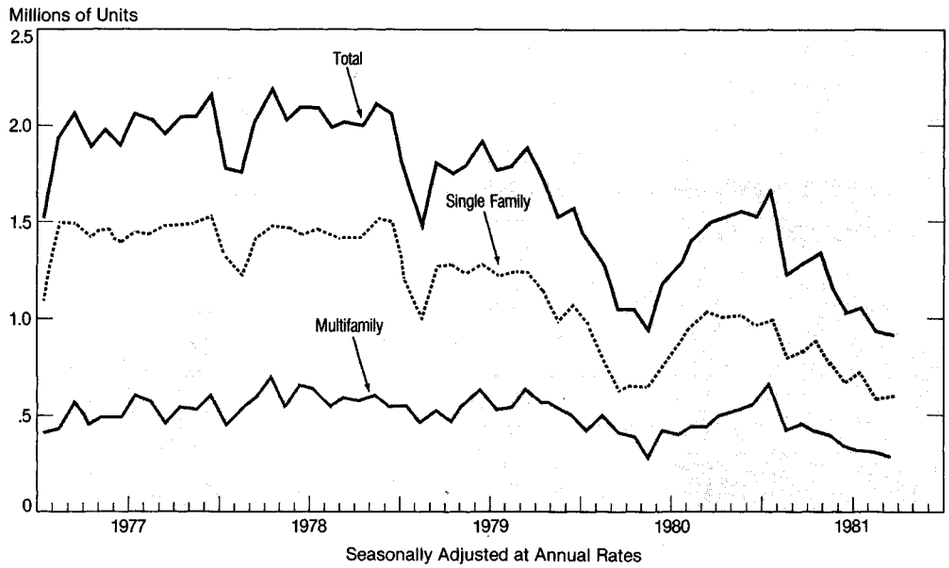
Real investment

Nonresidential fixed investment leveled off in the third quarter after a 2-percent annual rate decline in the second. The weakness in both quarters was in producers' durable equipment (PDE). In PDE, the quarterly changes in motor vehicles were similar to those in PCE—an increase in the third quarter after a decline in the second. These changes in PDE were due to autos; trucks were unchanged (see "Motor Vehicles, Model Year 1981"). Other PDE, after a 2-percent decline in the second quarter, fell off sharply in the third. Computers and aircraft, which often show large quarter-to-quarter changes, were the major items in the decline.

Investment in nonresidential structures in the third quarter again ran counter to the course of most other categories of final sales, increasing again at a 6½–7 percent annual rate. Since its 1980 low, which lagged that of GNP by one quarter, it has increased 9½ percent. Office and industrial construction were the major factors in the third-quarter increase. Over the past year, both—but especially office construction—have increased sharply, although with some quarter-to-quarter irregularity. Construction of commercial structures other than offices was flat after a second-quarter decline. This construction, which roughly follows the pattern of residential investment, has increased only slightly over the past year. Petroleum exploration and drilling changed little in the third quarter. In contrast, in most of the recent quarters it has registered strong increases, reflecting the incentives provided by sharply rising petroleum prices, which in turn were due to decontrol of domestic crude oil prices coupled with increasing international prices. Public utility construction was down. Over the past year electric utilities construction has been held down by a variety of factors, including energy conservation and regulatory restrictions.

CHART 4

Housing Starts



Data: Census
U.S. Department of Commerce, Bureau of Economic Analysis

81-10-4

Residential investment.—Residential investment, which had declined at a 23½-percent annual rate in the second quarter, declined 33½ percent in the third. Both single- and multi-family construction declined more than in the second quarter. The "other" component of residential investment, which includes additions and alterations, brokers' commissions on the sale of residences, and mobile homes, remained flat.

Single-family starts, which had declined 10 percent in the second quarter (not at an annual rate), declined 18 percent in the third (chart 4). Multifamily starts, which had declined 24 percent in the second quarter, declined 17 percent. Permits were down about 20 percent, as both single- and multifamily permits declined more than in the second quarter. Sales of existing homes, which had increased in the second quarter, declined 8 percent in July-August; the August (annual) rate of 2,260,000 was the lowest in over 6 years. Sales of new homes, which had declined 13 percent in the second quarter, declined 12 percent in July-August.

Financial factors were unfavorable to residential investment in the second and third quarters of 1981, as they had been in the corresponding quarters of 1980. Last year, financial conditions, although unfavorable, improved during these quarters and set the stage for a moderate upturn. This year, in contrast, they worsened and indicate that an upturn is unlikely in the near term.

The prime rate—to which construction loans are tied—quickly rose from 17 percent in April to a 19½–20½ percent range, where it remained through September (chart 5). In 1980, in contrast, the prime had fallen during the corresponding period. The commitment interest rate on 25-year mortgages with a loan-to-price ratio of 75 percent rose from 15.05 percent in April 1981 to 17.20 percent in early September. During the corresponding period in 1980, the commitment rate fell from the then record level of 16.16 percent to 12.88 percent. Reflecting these interest rate patterns, mortgage commitments made in August of this year by insured savings and loan associations (S&L's) were about 40 percent lower than in April; last year com-

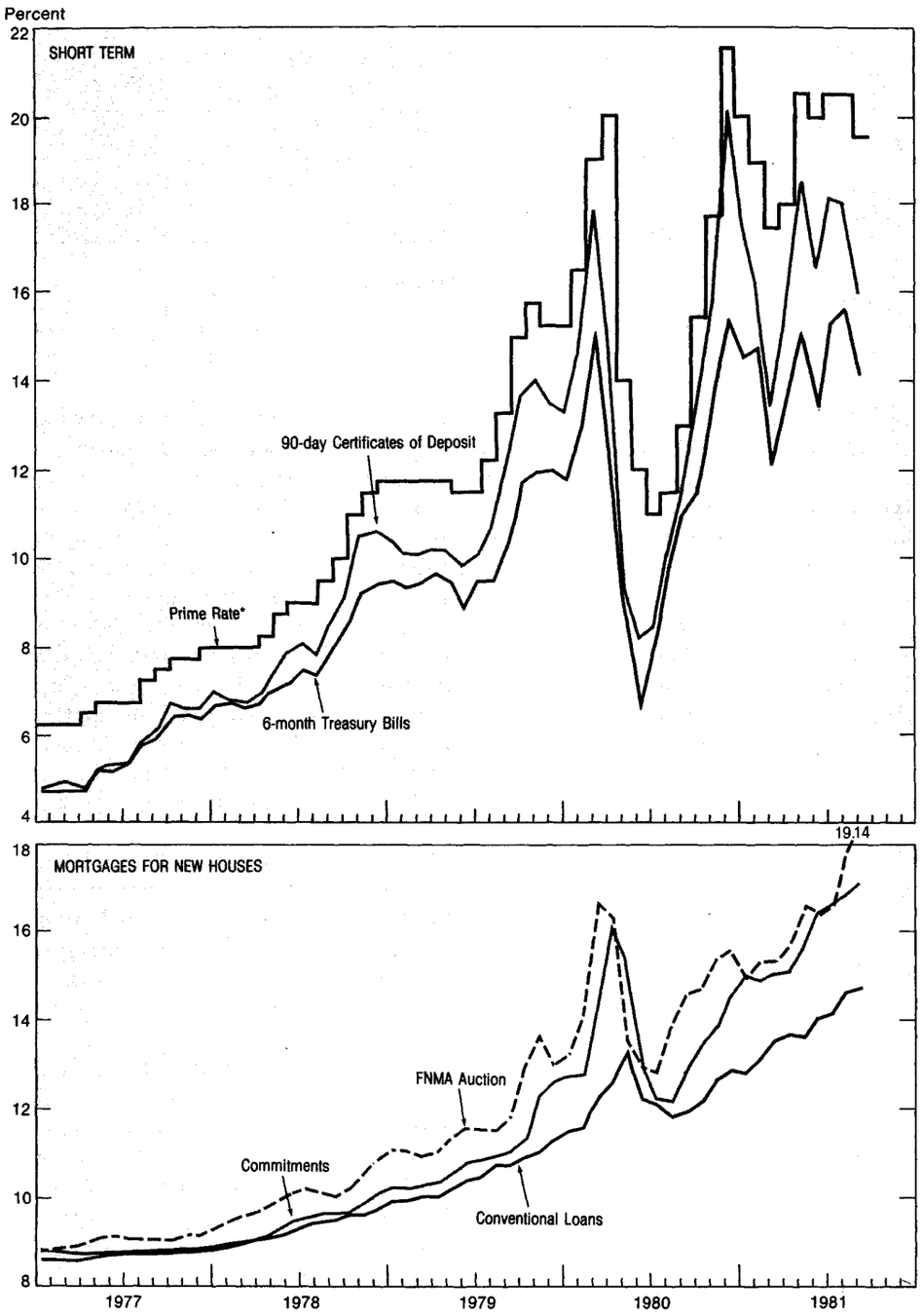
mitments in August were substantially higher than in April.

Higher mortgage rates and higher home prices raised the monthly principal and interest charges on the average mortgage for the purchase of a newly built house in the second and third quarters of 1981 to about $800, 24 percent more than a year earlier. Such an increase made it even more difficult for a potential purchaser to qualify for a mortgage.

The S&L's—major suppliers of mortgage funds—were buffeted in the second and third quarters of this year. The inflow of funds deteriorated. Withdrawals exceeded new deposits every month during the April-to-August period, cumulating to a deposit loss (exclusive of interest credited) of $19.3 billion, and net mortgage loan repayments were low. To offset these declines, S&L's borrowed heavily from the Federal Home Loan Banks ($12.7 billion) and from other sources ($6.1 billion). The high cost of both deposits and borrowings, coupled with the low levels of mortgage lending, was reflected in a $2.1 billion decline in S&L's net worth—indicating an operating loss.

CHART 5

Selected Interest Rates



*At end of the month.
U.S. Department of Commerce, Bureau of Economic Analysis
Data: FRB, FHLBB
81-10-5

The introduction of All Savers Certificates (ASC's) on October 1 will reduce the cost of funds to S&L's and other depository institutions. ASC's—authorized by the Economic Recovery Tax Act of 1981—are 1-year certificates with a yield equal to 70 percent of the yield on 1-year Treasury bills. Interest on the certificates—up to a lifetime limit of $1,000 for an individual and $2,000 for a couple filing jointly—is exempt from Federal income tax. Although the ASC's will benefit S&L's, they are not likely to have much impact on construction. Preliminary indications are that many ASC's are being purchased by transfer of funds from other accounts at S&L's; thus the net deposit gain from the sale of ASC's may be relatively small. Moreover, S&L's may be reluctant to extend long-term mortgage loans with money raised from the sale of relatively short-term certificates; new 1-year securities issued by the Federal National Mortgage Association (FNMA) may be a more attractive investment to many S&L's. FNMA, in turn, is likely to use a large part of these proceeds to finance its existing portfolio of mortgages rather than to channel the funds into construction by buying large quantities of new mortgages in the secondary market.

Change in business inventories.—The rate of accumulation of business inventories was essentially the same in the third and second quarters, so that CBI contributed little to the third-quarter change in real GNP. In contrast, CBI had contributed substantially—$12 bil-

lion—to the second-quarter GNP change.

Motor vehicle inventories accounted for a substantial part of CBI (table 8). In the first quarter, motor vehicle inventories were drawn down by design; rebates on a wide range of models were initiated for this purpose. In the second quarter, inventories accumulated, and at a substantial rate—on specific models early in the quarter and more widely spread late in the quarter as sales weakened. A second round of rebates and other price discounts in the third quarter helped reduce inventories, which built up sharply in the first part of the quarter. (See "Motor Vehicles, Model Year 1981.")

Nonvehicle inventory changes are more difficult to interpret. In the first and second quarters, the rate of accumulation was roughly the same and was moderate. In the first quarter, accumulation was centered in manufacturing, and in the second it was somewhat more widespread. In the third quarter, the rate of accumulation was stepped up; the accumulation was widespread but there was some concentration in nondurable retail trade. These quarters of accumulation, in combination with generally weak sales in the second and third quarters, have pushed inventory-sales ratios up—but not to the high levels reached in the second quarter of 1980.

Real net exports

Net exports dropped sharply in the third quarter, as they had in the second. The declines—$6½ billion and $4½ billion, respectively—were largely in merchandise trade. These declines were due to declines in exports in combination with continued increases in imports.

In merchandise exports, the changes have been large in two of the three quarters of this year. An increase of $3½ billion in the first quarter was primarily due to an unusually large increase in agricultural products. In the second quarter, when a decline of $1½ billion was registered, exports of agricultural products turned down, more than offsetting an increase in nonagricultural exports. The nonagricultural exports increase was largely in capital goods and autos; the increase in capital goods was more than accounted for by a jump in shipments of aircraft. In the third quarter, a $5 billion decline reflected a further drop in agricultural exports and widespread downturns in nonagricultural exports, to which aircraft contributed substantially. Exports in general were held down by the appreciation of the dollar. In addition, agricultural exports were affected by several specific factors, including abundant crops abroad, and nonagricultural exports were held down by depressed economic activity in many foreign countries.

Table 8.—Real Change in Business Inventories

[Billions of constant (1972) dollars, seasonally adjusted at annual rates]

	1981		
	I	II	III
Change in business inventories	−1.4	10.8	10.3
Motor vehicles	−6.0	6.8	−1.1
Autos	−5.7	6.6	−.1
Trucks	−.3	.2	−1.0
Other	4.6	4.0	11.4

NOTE.—Changes in motor vehicles inventories are from National Income and Product Accounts tables 1.14–1.15 (autos) and 1.16–1.17 (trucks).

In merchandise imports, petroleum changed little in the first and second quarters and resumed its downtrend in the third. An average of 6.0 million barrels per day was imported, compared with 6.1 million barrels a year ago and 8.6 million barrels 2 years ago. (Third-quarter imports included purchases for the strategic petroleum reserve, which were resumed in the fourth quarter of 1980.) Nonpetroleum imports were stimulated by the appreciation of the dollar. Increases each quarter—larger in the second and third than in the first—mainly reflected increases in industrial supplies and materials, capital goods, and consumer goods.

Government

Real government purchases declined again, although much less than in the second quarter—½ percent at an annual rate compared with 5½ percent. In the second quarter, both Federal purchases and State and local purchases declined; in the third, Federal purchases were up, but were more than offset by a continued decline in State and local purchases.

In Federal purchases, the third-quarter increase was in defense purchases; nondefense purchases were flat. The agricultural price support operations of the Commodity Credit Corporation, as they moved from net redemptions of loans to net extensions, resulted in a $1 billion increase. This increase was offset in nondefense purchases by declines in the services categories. Purchases of the services of employees, i.e., employee compensation, which accounted for about 45 percent of Federal nondefense purchases, continued to edge down. Since the third quarter of 1980, they have declined 4 percent. Purchases of other services include research and development, travel, rent, utilities, and communications, and accounted for about 35 percent of nondefense purchases. They declined more than compensation in the third quarter, as they had in recent quarters; since the third quarter of 1980, they have declined 16 percent.

The declines in State and local purchases were due to structures and, in the third quarter, to compensation of employees. A major factor in both the second and third quarters was reduced Federal support. Employee compensation reflected the phasing out of employees hired previously under the Comprehensive Employment and Training Act, and structures reflected the limitation of growth in grants-in-aid supporting specific types of construction and the elimination of the State portion of general revenue sharing. In addition, construction was held down by the persistence of high interest rates.

NIPA Federal sector.—Changes in current-dollar Federal receipts and expenditures are shown in table 9. Expenditures increased $28½ billion, compared with an increase of only $4 billion in the second quarter. The major factor in the increase, and also in the step-up from the second quarter, was transfer payments. They increased $17½ billion, of which $16½ billion was due to the cost-of-living increases mentioned earlier. Purchases of goods and services in-

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creased $8 billion after a second-quarter decline of $2 billion. Defense purchases accounted for some of the swing; as noted earlier, they increased more in the third quarter than in the second. Most of the swing, however, was due to the operations of the Commodity Credit Corporation. Net interest paid increased $6 billion, roughly twice as much as in the second quarter, following the course of Federal interest paid. Grants-in-aid to State and local governments declined $2½ billion, continuing the declines earlier in the year.

Receipts increased much more than in the second quarter. Corporate profits tax accruals probably changed little, but had declined $10 billion in the second quarter, reflecting a decline in profits and the impact of the tax reductions under the Economic Recovery Tax Act of 1981. Personal taxes increased $13½ billion and contributions for social insurance increased $3 billion; both increases were larger than in the second quarter because of the larger increase in wages and salaries. Indirect business taxes, in contrast, declined. This decline, and their second-quarter increase, were accounted for by the windfall profits tax, which reflects changes in the price of domestic crude oil.

The statement that corporate profits tax accruals probably changed little was based on a residual calculation of corporate profits that assumes that the statistical discrepancy in the national income and product account is the same as in the preceding quarter. On the basis of this calculation of profit tax accruals, it appears that the Federal deficit on a national income and product account basis was about $13 billion larger than the $47 billion recorded in the second quarter.

Table 9.—Federal Government Receipts and Expenditures, NIPA Basis: Change From Preceding Quarter

[Billions of dollars, based on seasonally adjusted annual rates]

	1981		
	I	II	III
Receipts	**44.3**	**3.5**	**n.a.**
Personal tax and nontax receipts	10.4	9.8	13.4
Corporate profits tax accruals	2.0	−9.8	n.a.
Indirect business tax and nontax accruals	11.5	2.0	−1.4
Contributions for social insurance	20.3	1.5	3.2
Expenditures	**23.0**	**4.2**	**28.5**
Purchases of goods and services	9.6	−2.1	8.1
National defense	3.6	3.1	6.4
Nondefense	6.0	−5.2	1.7
Transfer payments	2.9	2.9	17.3
Grants-in-aid to State and local governments	−1.7	−.6	−2.6
Net interest paid	12.5	2.7	5.8
Subsidies less current surplus of government enterprises	−.4	1.3	−.2
Less: Wage accruals less disbursements	0	0	.2
Surplus or deficit (−), national income and product accounts	**21.3**	**−.6**	n.a.

n.a. Not available.

NOTE.—Dollar levels are found in the National Income and Product Accounts Tables, table 3. 2.

the BUSINESS SITUATION

REVISED (45-day) estimates show that real GNP increased ½ percent at an annual rate in the third quarter of 1981, compared with the ½-percent decline shown by the preliminary (15-day) estimates (table 1). The bulk of the revision in real GNP was in change in business inventories: The largest upward revision was in durables manufacturing inventories, but farm and wholesale inventories also were revised up. According to the revised estimates, business inventories accumulated more rapidly in the third quarter than they had in the second. The revision in nonresidential fixed investment that affected real GNP was in producers' durable equipment: Shipments of computers were revised up. Additional information on the allocation of new car purchases raised business expenditures for durable equipment but lowered consumer expenditures. Revisions in the other major components of GNP were small.

The revisions do not alter the picture of weakness in the economy described in the October "Business Situation". Final sales other than of motor vehicles continued to decline in the third quarter, and nonvehicle inventories built up rapidly. An increase in final sales of motor vehicles was more than offset by a reduction in inventories.

Corporate profits

Corporate profits from current production—profits with inventory valuation and capital consumption adjustments—increased $1 billion to $191 billion in the third quarter of 1981, according to preliminary estimates.[1] The increase followed a $12½ billion decrease.

Domestic profits of nonfinancial corporations increased $3 billion to $150 billion in the third quarter. The increase was accounted for by nonmanufacturing corporations, where small increases in the profits of public utilities and wholesale trade corporations more than offset a decrease in retail trade profits. The decrease was more than accounted for by a swing from profits to losses for auto dealers, which occurred despite an increase in unit auto sales. Airlines registered increased losses despite a continued rapid rate of increase

1. Quarterly estimates of the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

Table 1.—Revisions in Selected Component Series of the NIPA's, Third Quarter of 1981

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	15-day estimate	45-day estimate	Revision	15-day estimate	45-day estimate
	Billions of current dollars				
GNP	**2,947.0**	**2,956.6**	**9.6**	**8.8**	**10.2**
Personal consumption expenditures	1,888.6	1,887.2	−1.4	13.7	13.3
Nonresidential fixed investment	330.8	333.2	2.4	7.9	11.0
Residential investment	101.4	101.6	.2	−29.7	−29.0
Change in business inventories	17.6	24.3	6.7		
Net exports	18.0	22.0	4.0		
Government purchases	590.5	588.3	−2.2	9.4	7.7
National income		**2,371.9**			**9.1**
Compensation of employees	1,790.0	1,789.9	−.1	8.9	8.9
Corporate profits with inventory valuation and capital consumption adjustments		191.2			1.8
Other	388.8	390.8	2.0	11.4	13.7
Personal income	**2,440.0**	**2,441.8**	**1.8**	**12.6**	**13.0**
	Billions of constant (1972) dollars				
GNP	**1,508.2**	**1,512.8**	**4.6**	**−.6**	**.6**
Personal consumption expenditures	965.2	964.6	−.6	4.3	4.0
Nonresidential fixed investment	161.0	162.8	1.8	−.4	4.3
Residential investment	43.2	43.3	.1	−33.3	−32.6
Change in business inventories	10.3	14.0	3.7		
Net exports	39.5	39.8	.3		
Government purchases	289.1	288.4	−.7	−.5	−1.5
	Index numbers, 1972=100 [1]				
GNP implicit price deflator	195.40	195.44	.04	9.4	9.5
GNP fixed-weighted price index	202.5	203.4	.9	9.2	9.4
GNP chain price index				9.5	9.8

1. Not at annual rates.

NOTE.—For the third quarter of 1981, the following revised or additional major source data became available: For *personal consumption expenditures*, revised retail sales for August and September, and sales and inventories of used cars of franchised automobile dealers for August; for *nonresidential fixed investment*, manufacturers' shipments of equipment for August (revised) and September, construction put in place for August (revised) and September, and a partial tabulation of business expenditures for plant and equipment for the quarter; for *residential investment*, construction put in place for August (revised) and September; for *change in business inventories*, book values for manufacturing and trade for August (revised) and September; for *net exports of goods and services*, merchandise trade for August (revised) and September, and revised services receipts for the quarter; for *government purchases of goods and services*, Federal unified budget outlays for September, and State and local construction put in place for August (revised) and September; for *wages and salaries*, revised employment, average hourly earnings, and average weekly hours for August and September; for *corporate profits*, domestic book profits for the quarter; for *GNP prices*, the Consumer Price Index for September, unit value indexes for exports and imports for September, and residential housing prices for the quarter.

in passenger fares and a continued effort to cut costs; a decrease in revenue passenger miles reflected reduced schedules and uncertainty arising from the effects of the air controllers' strike.

Manufacturing profits were virtually unchanged. Large changes in the profits of petroleum and coal products manufacturers and motor vehicle manufacturers were almost offsetting. Petroleum profits increased sharply as the prices charged by refiners fell less than their costs for crude petroleum. Motor vehicle manufacturers registered a swing to substantial losses in the third quarter from profits in the second. The losses occurred despite the increase in unit sales and reflected a decrease in auto production and the costs of rebate and interest subsidy programs.

Domestic profits of financial corporations decreased $2 billion to $19 billion in the third quarter. Increased losses of savings and loan associations more than offset increased earnings of Federal Reserve banks, which are classified in corporate business in the national income and product accounts, and profits of commercial banks.

Profits from the rest of the world—measured as the net inflows of dividends and reinvested earnings of incorporated foreign affiliates, and of earnings of unincorporated foreign affiliates—were level at $22½ billion in the third quarter. Continued decreases in profits on the overseas petroleum operations of U.S. corporations were offset by increases in other profits from the rest of the world.

Other profits measures.—Profits before tax increased $2 billion to $231 billion in the third quarter, following a decrease of $28 billion in the second. These profits exclude the inventory valuation adjustment (IVA) and the capital consumption adjustment (CCadj).[2] Inventory profits—the IVA with sign reversed—increased $2½ billion to $26½ billion in the third quarter, following a decrease of $15 billion in the second. Profits attributable to underdepreciation—the CCadj with sign reversed—decreased $1½ billion in the third quarter, after having been unchanged in the second. The estimates of profits before tax and of the CCadj, just referred to, and of corporate profits taxes, referred to below, have been adjusted for changes in tax law that resulted from the enactment of the Economic Recovery Tax Act of 1981. The impact of the Act is summarized in table 2.

Table 2.—Impact of the Economic Recovery Tax Act of 1981 on Corporate Profits and Related Measures

[Billions of dollars, seasonally adjusted at annual rates]

Item	1981		
	I	II	III
Corporate profits before tax	−2.1	−4.3	−6.4
Plus: Inventory valuation adjustment			
Capital consumption adjustment	2.1	4.3	6.4
Equals: Corporate profits from current production			
Corporate profits tax liability	−3.4	−4.7	−5.7
Federal tax liability	−3.3	−4.5	−5.3
State and local tax liability	−.1	−.2	−.4

Corporate profits taxes, which are levied on profits including inventory profits and profits attributable to underdepreciation, increased $1 billion to $77½ billion in the third quarter, following a decrease of $11½ billion in the second. Dividends increased, continuing a 6-year uptrend; they increased $3 billion to $65 billion in the third quarter, following an increase of $2½ billion in the second. Because the third-quarter increase in dividends was larger than the increase in profits before tax, undistributed profits decreased $2 billion to $88½ billion in the third quarter, following a decrease of $19 billion. The third-quarter level of undistributed profits was lower than any level since the first quarter of 1978.

The government sector

The fiscal position of the government sector in the NIPA's deteriorated in the third quarter of 1981, as the combined deficit of the Federal and State and local governments increased $6½ billion. Compared with a year earlier, however, the fiscal position was considerably improved, as the combined deficit declined from $45½ billion to $17½ billion. The improvement in the fiscal position occurred at both levels of government.

The Federal sector.—The Federal Government deficit increased $7½ billion in the third quarter of 1981, as receipts increased less than expenditures.

Receipts increased $17 billion in the third quarter, compared with $3½ billion in the second. (In the second quarter, corporate profits tax accruals declined as a result of a sharp drop in profits and the impact of tax reductions under the Economic Recovery Tax Act of 1981.) Personal tax and nontax receipts increased $13½ billion and contributions for social insurance increased $3 billion, both reflecting the increase in wages and salaries. Corporate profits tax accruals increased slightly, and indirect business tax and nontax accruals declined $1 billion, as the windfall profits tax continued to decline.

Expenditures increased $24½ billion in the third quarter, compared with $4 billion in the second. Transfer payments to persons accounted for about 70 percent of the third-quarter increase. The large increase in transfer payments—$17 billion—was the result of cost-of-living increases in benefits for a number of programs, including almost $15 billion for an 11.2 percent increase in social security benefits. Unemployment benefits declined $¾ billion, entirely due to a drop in extended unemployment benefits. Purchases of goods and services increased $6½ billion. Defense purchases continued to increase and nondefense purchases increased $1 billion after a $5 billion decline in the second quarter. Purchases by the Commodity Credit Corporation (CCC) accounted for a $4 billion increase (and for a swing of about $11 billion from the second quarter, when these purchases declined). A decline in all other nondefense purchases of about $3 billion was widespread, including a $1 billion decline in purchases of the National Aeronautics and Space Administration and a $½ billion decline in purchases for the strategic petroleum reserve. Net interest paid increased $5½ billion, more than twice as much as in the second quarter. Grants-in-aid

2. The IVA and CCadj are defined in *National Income and Product Accounts of the United States, 1929–76: Statistical Tables*, U.S. Department of Commerce, Bureau of Economic Analysis (Washington, D.C.: U.S. GPO, 1981).

to State and local governments declined $4 billion. The decline in grants-in-aid was over a wide variety of programs, including public service employment ($1 billion), highways and education ($¾ billion each), and sewage treatment construction grants ($½ billion). Subsidies less the current surplus of government enterprises declined slightly.

On a high-employment budget basis, the Federal fiscal position moved from a surplus of $6.7 billion in the second quarter to a surplus of $4.4 billion in the third (table 3, page 15). The surplus as a percentage of potential GNP decreased slightly, from 0.2 percent in the second quarter to 0.1 percent in the third—a move indicating little change in the Federal fiscal position.

The Federal deficit on the NIPA basis for fiscal year 1981 was $54 billion, $7½ billion more than the July midsession review estimate. Receipts were $8½ billion lower and expenditures were $1 billion lower than estimated in July. (See the August 1981 SURVEY OF CURRENT BUSINESS for a detailed discussion of the July estimates.)

The State and local sector.—The State and local government surplus increased $1 billion in the third quarter, as receipts increased more than expenditures.

Receipts increased $6 billion in the third quarter, compared with $2 billion in the second, when a decline in corporate profits tax accruals and legislated tax changes, such as indexation of personal income taxes, held down the increase. Indirect business tax and nontax accruals increased $5 billion, reflecting a rebound in sales taxes. Sales taxes declined in the second quarter, largely due to a decline in gasoline consumption and retail sales in general. The third-quarter rebound in sales taxes was boosted by many sizable legislated increases in motor fuel taxes. Personal tax and nontax receipts also recorded a larger increase than in the second quarter, when income taxes were held down by lower net final settlements due to indexation in such States as Arizona, California, and Minnesota. Contributions for social insurance increased $1 billion and grants-in-aid declined.

Expenditures increased $4½ billion in the third quarter, compared with about $3 billion in the second. Purchases of goods and services accounted for the increase; all other expenditures, on balance, were unchanged. Within purchases, compensation increased somewhat less than in the second quarter; public service employment continued to decline although there was some offsetting gain in other employment. Construction purchases continued to decline, reflecting the decline in grants supporting capital outlays, increased borrowing costs, and straitened conditions in many State and local governments.

the BUSINESS SITUATION

ECONOMIC activity dropped substantially in the fourth quarter after having been on a plateau for most of 1981. The composite index of coincident indicators—which reflects the movements of nonagricultural employment, real personal income less transfer payments, industrial production, and real manufacturing and trade sales—fell at monthly rates of 1.4 percent in October and about 1 percent in November. The index had shown little change since February (chart 1). An estimate of real GNP based on limited and preliminary source data showed a large decline in the fourth quarter.[1] Changes in real GNP in the second and third quarters had been small and offsetting—down and then up, both 1½ percent at annual rates. Estimates of components making up the four-fifths of GNP for which monthly source data are available indicate that real GNP, like the index of coincident indicators, had shown little change from February to September.

Two major components of the fourth-quarter decline in real GNP can be quantified. Real residential investment was down about $3½ billion, and motor vehicle output was down about $7½ billion.[2] (See "Motor Vehicle Developments in the Fourth Quarter" later in the "Business Situation.")

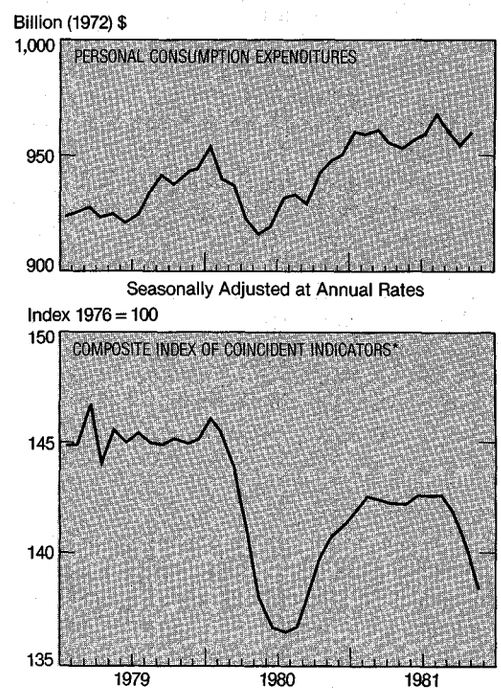
Less is known about the other GNP components. Personal consumption expenditures (PCE) other than for motor vehicles appear to have changed little in the fourth quarter. The sum of other nonvehicle final sales appears to have shown a small decline; each type except government purchases contributed to the decline. In government, defense purchases continued to increase moderately and nondefense purchases were bolstered by the agricultural price support operations of the Commodity Credit Corporation. It is almost certain that nonvehicle inventory investment was less than in the third quarter. An assumption that it was about one-half as much, together with the rough estimates just provided, indicates a fourth-quarter decline in real GNP of 5 to 6 percent at an annual rate.

Prices.—GNP prices as measured by the fixed-weighted price index increased about 1 percentage point less than the 9½ percent annual rate registered in the third quarter. If the Federal pay raise is excluded, the deceleration was about 1 percentage point larger. (The pay raise is reflected in the index because it represents an increase in the prices of employee services purchased by the Federal Government.) As in the third quarter, the effects of food and energy prices on the change in the GNP index tended to offset each other, but, in a reversal of the pattern, the food price increase decelerated and the energy price increase accelerated. The latter reflected the movement of gasoline and fuel oil prices.

A substantial part of the fourth-quarter deceleration is traceable to the price of local transportation services in PCE; the price of new autos, which affects the prices of both PCE and producers' durable equipment; and the price of residential struc-

CHART 1

Monthly Indicators of Economic Activity



*The components are: employees on nonagricultural payrolls; constant-dollar personal income less transfer payments; industrial production; and constant-dollar manufacturing and trade sales.

U.S. Department of Commerce, Bureau of Economic Analysis 81-12-1

1. The major source data that shed light on fourth-quarter GNP are limited to 1 or 2 months of the quarter, and in some cases are preliminary. These data are: For *personal consumption expenditures* (PCE), October and November retail sales, unit sales of new autos through the first 10 days of December, and sales of new trucks for October and November; for *nonresidential fixed investment,* the same data for autos and trucks as for PCE, October construction put in place, October manufacturers' shipments of equipment, and business investment plans for the quarter; for *residential investment,* October construction put in place, and October and November housing starts; for *change in business inventories,* October book values for manufacturing and trade, and unit auto inventories for October and November; for *net exports of goods and services,* October merchandise trade; for *government purchases of goods and services,* Federal unified budget outlays for October, State and local construction put in place for October, and State and local employment for October and November; and for *GNP prices,* the Consumer Price Index for October and the Producer Price Index for October and November.

2. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

Table 1.—Selected Labor Market Indicators

[Seasonally adjusted]

	1980	1981					Change from preceding quarter			
	IV	I	II	III	Oct.	Nov.	1981:I	1981:II	1981:III	1981:Nov.
Household survey										
Civilian labor force (thousands)	105,173	105,800	106,768	106,434	106,736	107,029	627	968	−334	595
Employment	97,276	98,012	98,868	98,725	98,217	98,025	736	856	−143	−700
Unemployment	7,897	7,788	7,900	7,709	8,520	9,004	−109	112	−191	1,295
Job losers	4,232	3,863	4,041	3,986	4,422	4,786	−369	178	−55	800
On layoff	1,538	1,275	1,338	1,265	1,607	1,790	−263	63	−73	525
Other job losers	2,693	2,589	2,702	2,721	2,815	2,996	−104	113	19	275
Job leavers, reentrants, and new entrants	3,665	3,872	3,902	3,768	4,121	4,174	207	30	−134	406
Unemployment rate (percent):										
Total	7.5	7.4	7.4	7.2	8.0	8.4	−.1	0	−.2	1.2
Adult men	6.3	6.0	6.1	5.9	6.7	7.2	−.3	.1	−.2	1.3
Adult women	6.7	6.6	6.6	6.6	7.0	7.3	−.1	0	0	.7
Teenagers	18.3	19.1	19.2	18.7	20.6	21.8	.8	.1	−.5	3.1
Establishment survey										
Employment, nonfarm payroll (thousands)	90,820	91,232	91,546	91,938	91,798	91,561	412	314	392	−377
Goods producing	25,594	25,670	25,741	25,933	25,651	25,459	76	71	192	−474
Construction	4,385	4,398	4,345	4,273	4,260	4,242	13	−53	−72	−31
Manufacturing:										
Durables	12,060	12,086	12,246	12,325	12,108	11,953	26	160	79	−372
Nondurables	8,098	8,095	8,144	8,187	8,119	8,085	−3	49	43	−102
Distributive [1]	25,585	25,721	25,842	26,018	26,074	25,987	136	121	176	−31
Services [2]	23,399	23,619	23,849	24,049	24,141	24,183	220	230	200	134
Government	16,242	16,222	16,114	15,938	15,932	15,932	−20	−108	−176	−6
Average weekly hours, private nonfarm:										
Total	35.3	35.3	35.3	35.1	35.0	35.1	0	0	−.2	0
Manufacturing	39.8	39.9	40.2	39.8	39.5	39.3	.1	.3	−.4	−.5

1. Transportation and public utilities, and wholesale and retail trade.
2. Services, and finance, insurance, and real estate.

Source: Bureau of Labor Statistics.

tures. The deceleration in the first two was from unusually large increases in the third quarter. The rate of increase in the price of residential structures in the fourth quarter was quite low, about one-half its 7½-percent increase in the third quarter. The price of residential structures is always difficult to measure and may be particularly so in a sharp contraction in the housing market, but it is plausible that some deceleration occurred.

Employment and unemployment.—Labor market conditions deteriorated rapidly in the fourth quarter. The household measure of employment, which had declined 143,000 in the third quarter, declined 700,000 from the third quarter to November (table 1). As is typical in a downturn, adult men accounted for the bulk (563,000) of the decline in employment; employment increased 112,000 among adult women, and declined 250,000 among teenagers. Unemployment increased 1,295,000, and the unemployment rate increased sharply. After averaging 7.4 percent in the second quarter and 7.2 percent in the third, it jumped from 7.5 percent in September to 8.0 percent in October and to 8.4 percent in November.

The payroll measure of employment, which had increased 392,000 in the third quarter, declined 377,000 from the third quarter to November. Manufacturing more than accounted for the decline. Employment declines in manufacturing were widespread; they were largest in transportation equipment (111,000), fabricated metal products (65,000), lumber and wood products (46,000), electric and electronic equipment (44,000), and pri-

Table 2.—Personal Income and Its Disposition: Change From Preceding Quarter

[Billions of 1972 dollars; seasonally adjusted annual rates]

	1981			
	I	II	III	IV*
Wage and salary disbursements	45.1	24.1	31.6	26.9
Manufacturing	12.4	9.4	7.2	−2.6
Other commodity-producing	4.9	2.6	4.9	3.8
Distributive	11.4	5.9	7.5	7.3
Services	12.5	8.0	8.0	9.7
Government and government enterprises	3.9	3.4	4.0	8.8
Proprietors' income	−1.9	2.0	2.9	−3.4
Farm	−3.5	2.7	3.0	−3.0
Nonfarm	1.6	−.7	−.1	−.4
Personal interest income	19.0	12.1	14.8	14.4
Transfer payments	5.7	4.6	18.0	3.2
Other income	6.8	6.7	7.8	5.9
Less: Personal contributions for social insurance	11.0	.8	1.9	1.7
Personal income	**63.6**	**48.7**	**73.2**	**45.3**
Less: Personal tax and nontax payments	12.8	10.9	16.9	−1.1
Impact of legislation	−2.8	−1.4	.1	−15.1
Other	15.6	12.3	16.8	14.0
Equals: Disposable personal income	**50.8**	**37.8**	**56.4**	**46.4**
Less: personal outlays	59.5	20.1	56.1	29.9
Equals: Personal saving	**−8.7**	**17.7**	**.3**	**16.4**
Addenda: Special factors in personal income—				
Minimum wage	2.0	.....	.....	.....
Cost-of-living increases in Federal transfer payments	1.1	1.3	16.3	0
Social security (in personal contributions for social insurance):				
Base change	2.3	.....	.....	.....
Rate change	6.7	.....	.....	.....
Coal strike	.....	−2.6	2.6	.....
Federal pay raise	.....	.....	.....	6.2

* Projected.

mary metal products (43,000). The decline in manufacturing employment erased almost 90 percent of the recovery from the 1980 recession. Average weekly hours, although unchanged in the private nonfarm economy as a whole, were down 0.5 in manufacturing from the third quarter to November.

Personal income and its disposition

In personal income, the weakness in the economy was clearly evident in wage and salary disbursements (table 2). They increased only $27 billion despite the Federal pay raise, which added $6 billion; they had increased $31½ billion in the third quarter. The deceleration was in manufacturing payrolls, which declined $2½ billion after a third-quarter increase of $7 billion.

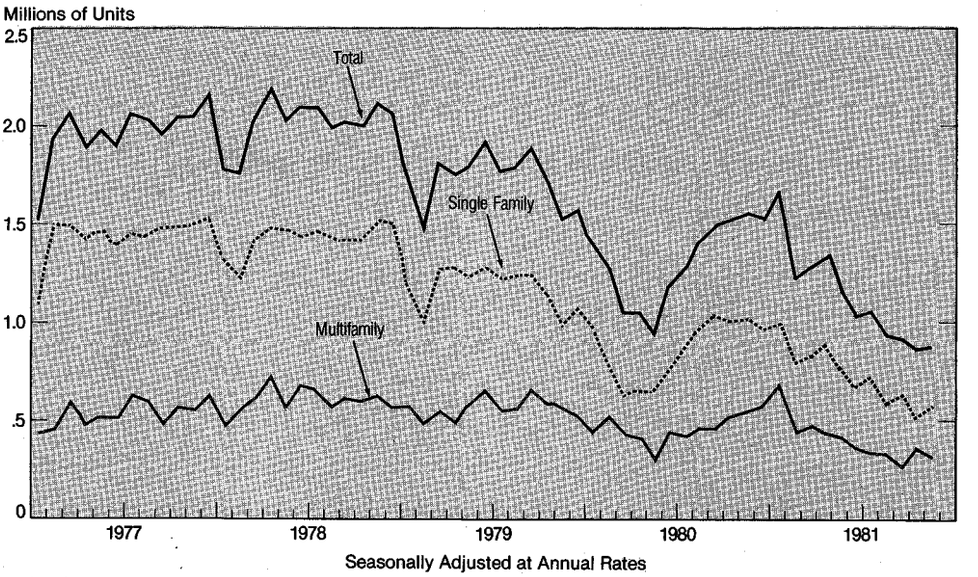
A cut in personal taxes under the Economic Recovery Tax Act of 1981 became effective October 1. The cut amounted to about $15 billion in the fourth quarter, and accounted for most of the swing from a $17 billion increase in personal taxes in the third quarter to a $1 billion decline in the fourth.

Despite the cut in personal taxes, disposable personal income increased only $46½ billion, compared with $56½ billion in the third quarter. The increase in personal outlays slowed even more than the increase in income, and personal saving increased substantially. The personal saving rate, which had been 5.2 percent in the third quarter, approached 6 percent in the fourth. In real terms, disposable income increased only about one-half as much as the 2½-percent annual rate registered in the third quarter.

Real PCE decline about 1½ percent at an annual rate after a 3½-percent increase in the third quarter. In durables, declines were registered in all major components—in motor vehicles, after a third-quarter increase, and in furniture and household equipment and in other durables, after third-quarter declines. Nondurables were flat, as declines in clothing and shoes and in gasoline and oil offset an increase in food. In the third quarter, nondurables had increased about 2 percent; the increase was largely due to an increase in gasoline and oil. Services again registered a below-trend increase.

CHART 2

Housing Starts



Data: Census
U.S. Department of Commerce, Bureau of Economic Analysis
81-12-2

The pattern of increases in real disposable income in the past year helps explain the pattern of changes in PCE: weak increases in income in the second and fourth quarters (in both quarters, 1½ percent annual rate) coincided with declines in PCE, and stronger increases in income in the first and third quarters (3 and 2½ percent) coincided with relatively strong increases in PCE (6 and 3½ percent). Fourth-quarter consumer spending was probably held down by increasing concern about job prospects. In October, the quit rate in manufacturing, which reflects workers' confidence in their ability to find new jobs, fell to its lowest level in over 20 years (see "The Quit Rate in Manufacturing" later in the "Business Situation").

In addition, specific factors affected spending in several categories of PCE. For autos, prices and interest rates were important factors (see "Motor Vehicle Developments in the Fourth Quarter"). High interest rates on consumer loans and the sharp decline in home sales help explain the weakness in furniture and household equipment. The movement of prices of food and gasoline helps explain the pattern of spending for those goods.

Real residential investment

Residential investment, which had declined at a 36 percent annual rate in the third quarter, declined almost as rapidly in the fourth. Both single- and multi-family construction slid further. There was little change in the "other" component of residential investment, which includes additions and alterations, brokers' commissions on the sale of residences, and mobile homes.

Housing starts fell to a record low of 868,000 (seasonally adjusted annual rate) in October–November (chart 2). Starts may have finally bottomed out; they held steady from October to November, as did permits.

Home sales remained very weak. At a seasonally adjusted annual rate of 360,000 in October, sales of new homes were up only moderately from the record lows of 350,000 in August and 313,000 in September. Sales of existing homes were at an annual rate of 1,920,000 in October, the lowest level in over a decade, and 16 percent below the third quarter.

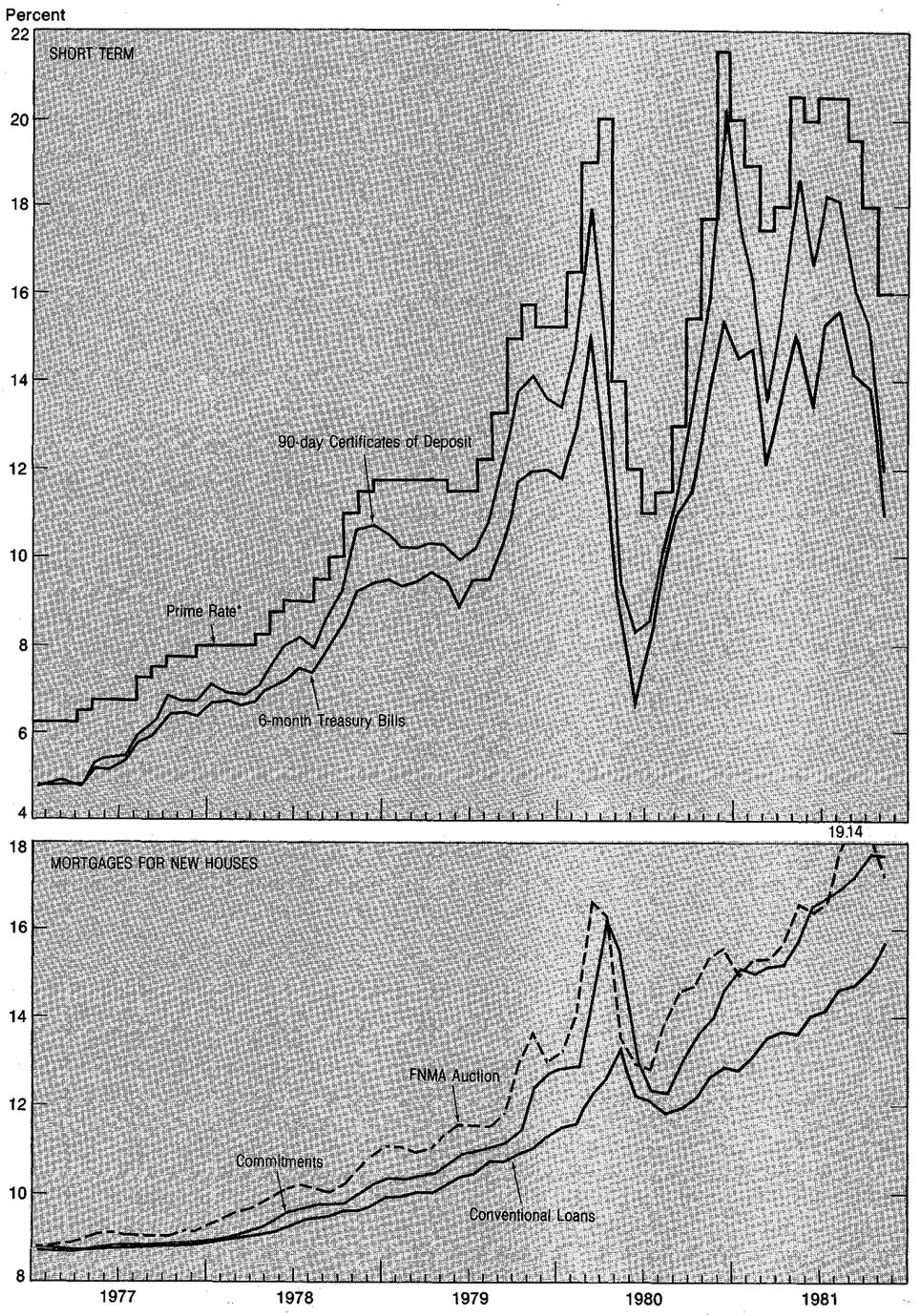
Much of the continued decline in residential investment is attributable to the unfavorable financial conditions that prevailed during the first three quarters of the year. The prime rate—to which construction loans are tied—averaged 19½ percent during

the period (chart 3). The commitment interest rate on 25-year mortgages with a loan-to-price ratio of 75 percent rose steadily—from less than 15 percent in January to more than 17½ percent by the start of the fourth quarter—reflecting the general rise in long-term rates and a steep decline in net deposit flows at insured savings and loan associations (S&L's).

Financial conditions improved in the fourth quarter. If the improvement continues, it will help lay the foundation for a turnaround in residential investment during 1982. From late September to early December, the prime rate fell 375 basis points to 15.75 percent, the commitment rate at a sample of S&L's fell 146 basis points, and yields at Federal National Mortgage Association auctions—widely viewed as indicating the future path of mortgage rates—dropped 240 basis points.

CHART 3

Selected Interest Rates



*At end of the month.

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

Data: FRB, FHLBB

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With falling interest rates and the introduction on October 1 of the All Savers Certificate (ASC), the cost of funds at thrift institutions has declined. ASC's were offered at 12.14 percent during most of October—about 200 basis points below the ceiling rate on 6-month money market certificates (MMC's)—and insured S&L's sold an estimated $16.5 billion of the new certificates during the month. Rates on both ASC's and MMC's fell subsequently; by mid-December they had dropped to 8.34 and 11.85 percent, respectively. Due in large part to the introduction of ASC's, deposits (exclusive of interest credited) at S&L's rose $1.5 billion in October, the first monthly gain since February. Despite the deposit gain, mortgage activity by S&L's was low. Although total assets rose $3 billion in October, S&L holdings of mortgages and mortgage-backed securities rose only $0.6 billion; holdings of liquid assets rose $2.7 billion.

Motor Vehicle Developments in the Fourth Quarter

The difficulties of the motor vehicle industry continued in the fourth quarter (table 3). At the beginning of the third quarter, the auto industry had been confronted with excess inventories and, in order to bring them under control, used a variety of price discount programs. After initial success, sales weakened and, in the fourth quarter, fell sharply. Fourth-quarter production was cut back by about the same amount as the decline in sales, but inventories, relative to sales, remained high. The truck industry faced a continuing sales slump; a fourth-quarter step-up in production—the first this year—resulted in additions to inventories.

In terms of units, domestic car production averaged 5.1 million (seasonally adjusted annual rate) in October-November, and was scheduled at about that level for December. Pro-

duction had been 6.9 million in the third quarter.

Total new car sales dropped sharply to an average of 7.4 million (seasonally adjusted annual rate) in October-November from 9.1 million in the third quarter (chart 4). The drop was accounted for by domestic car sales, which fell from 6.9 million to 5.3 million. Third-quarter domestic sales had been boosted by extensive price discounting—cash rebates, dealers' incentives, and finance subsidies. Some discounting continued into the fourth quarter, but its impact on sales was greatly diminished. Sales were also affected by two other factors specific to autos—the price increase on the 1982 models (domestic manufacturers' average price increases ranged from 3½ to 5½ percent per unit), and continued high finance rates on auto installment loans.

The drop in domestic sales was spread across all size categories: Full-size car sales fell from 1.5 million in the third quarter to 1.1 million in October-November, intermediate sales from 1.9 to 1.4 million, compact sales from 1.6 to 1.3 million, and subcompact sales from 1.9 to 1.5 million. Imported car sales averaged 2.2 million in October-November, the same as in the previous two quarters.

Because the sharp drops in production and in sales were similar in size, inventories of domestic cars in November were little changed from 1,446,000 (seasonally adjusted) in the third quarter. The inventory-sales ratio, however, rose from 2.5 to 3.3, well above the 2.0 level generally preferred by the industry.

In terms of units, truck production was scheduled to increase slightly in the fourth quarter. Total new truck sales declined to 2.1 million in October-November (seasonally adjusted annual rate) from 2.3 million in the previous two quarters. Sales of domestic light, domestic "other," and imported trucks all were down.

The Quit Rate in Manufacturing

The quit rate reflects workers' ability to find new jobs and (in the case of those who quit one job before securing another) their perceptions of their ability to find new jobs. The failure of the quit rate to rebound from the second-quarter 1980 recession appears to be due to the lingering pessimism induced by the recession and the weakness of the subsequent recovery (chart 5).

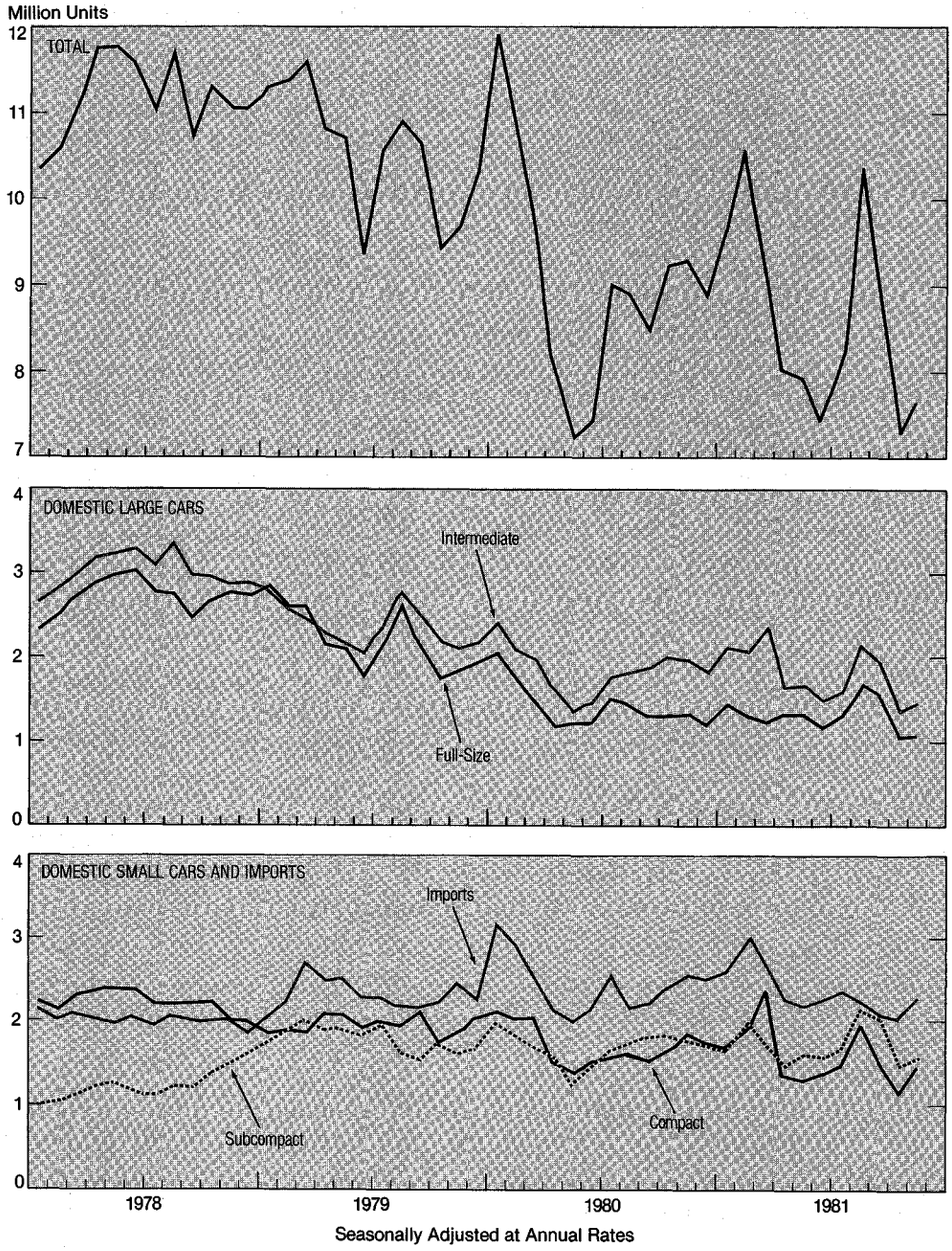
A "quit" is defined as a termination of employment initiated by an employee for any reason except retirement, transfer to another establishment of the same firm, or service in the Armed Forces, and the quit rate is equal to the number of quits per month per 100 employees. The quit rate is one element in the labor turnover series that also include new hire, recall, and layoff rates.

The quit rate generally leads the business cycle at peaks, and lags slightly at troughs.[3] The quit rate

3. See *Business Conditions Digest* 21 (November 1981): 16.

CHART 4

Retail Sales of New Passenger Cars



Note.—The components may not add to the total because each category was separately adjusted for seasonal variation.

Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports; seasonal adjustment by BEA.

U.S. Department of Commerce, Bureau of Economic Analysis 81-12-4

Table 3.—Motor Vehicle Output

[Billions of 1972 dollars; seasonally adjusted annual rates]

	1980: IV	Change from preceding quarter, 1981				1981: IV*
		I	II	III	IV*	
Output	57.1	−0.7	1.8	−1.3	−7.4	49.5
Autos	42.8	0	1.5	.5	−7.8	37.0
Trucks	14.3	−.7	.3	−1.8	.4	12.5
Final sales	54.6	7.8	−10.9	5.6	−8.0	49.1
Autos	40.9	7.6	−10.7	6.3	−7.1	37.0
Trucks	13.7	.2	−.2	−.7	−.9	12.1
Change in business inventories	2.4	−8.4	12.8	−7.1	.7	.4
Autos	1.9	−7.6	12.3	−5.9	−.7	0
Trucks	.5	−.8	.5	−1.2	1.4	.4

*Projected. Based on unit production in October and November and scheduled production for December, unit sales of autos through the first 10 days of December and of trucks for October and November, and unit inventories for October and November.

NOTE.—For estimates through 1981: III, see tables 1.14–1.15 and 1.16–1.17 of the National Income and Product Accounts Tables. Auto output includes dealers' margins on their used car transactions; truck output includes new trucks only.

turns down before the peak of the business cycle because the availability of job opportunities is related, not to the absolute level of employment, but rather to the rate of employment increase, which slows before the business cycle reaches its peak. Also, a worker's inclination to quit is inversely related to tenure in the job; therefore, the quit rate declines when the number of new hires declines—before the peak of the cycle. Furthermore, the quit data are limited to manufacturing, and employment in manufacturing begins to decline before the peak of the cycle; a quit rate that covered all industries might reach its peak closer to that of the business cycle than does the manufacturing quit rate.[4] The tendency of the quit rate to lag at troughs reflects the lag necessary for workers to regain their confidence in the health of the labor market.

The highest quarterly quit rate since 1950 was 3.3, which was reached several times in 1951 and 1953; the lowest was 0.9, in the second quarter of 1958—the trough of the 1957–58 recession. During 1978–79, the quit rate averaged 2.0. It was 1.9 in the first quarter of 1980, and then dropped to 1.5 in the second-quarter recession (table 4). It failed to rebound during the past year, and stood at 1.4 in the third quarter of 1981. The preliminary rate of 1.1 for October was the lowest monthly rate in over 20 years. This unusual failure of the quit rate to rebound from a recession—indicating workers' inability to find new jobs or a lack of confidence in their ability to find new jobs—is consistent with the unusually weak recovery in the new hire rate.

The aggregate quit rate masks a wide divergence of rates among the various manufacturing industries. In the third quarter, the range was from a high of 2.9 in leather and leather products to a low of 0.6 in primary metal industries, tobacco manufactures, and petroleum and coal products. Interindustry differences in the quit rate are attributable to differences in such factors as the level of earnings, the age composition of employment, and the proportion of employment that is unionized.[5] For example, the quit rate is low in metal industries, which are characterized by high earnings (which reduce the expected benefits of changing jobs), a small propor-

4. See National Commission on Employment and Unemployment Statistics, *Concepts and Data Needs—Appendix Volume I,* "Discussion of The Measurement and Significance of Labor Turnover," by Paul Armknecht (Washington, D.C.: U.S. GPO, undated): 595.

5. On the determinants of interindustry differences in the quit rate, see Terence J. Wales, "Quit Rates in Manufacturing Industries in the United States," *Canadian Journal of Economics* 3 (February 1970): 123–139, and U.S. Department of Labor, Bureau of Labor Statistics, *The Manufacturing Quit Rate: Trends, Cycles, and Interindustry Variations,* by John F. Early and Paul A. Armknecht, BLS Staff Paper 7 (Washington, D.C.: U.S. GPO, 1973).

Table 4.—Quit and New Hire Rates in Manufacturing

[Seasonally adjusted]

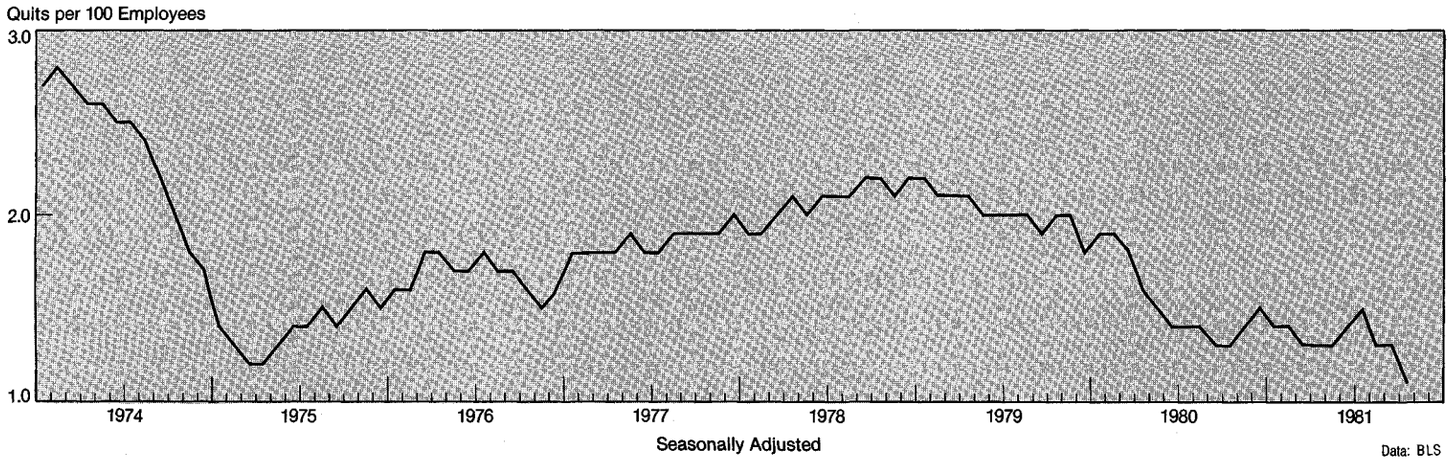
	Quit rate							New hire rate						
	1980				1981			1980				1981		
	I	II	III	IV	I	II	III	I	II	III	IV	I	II	III
Total manufacturing	**1.9**	**1.5**	**1.4**	**1.4**	**1.4**	**1.3**	**1.4**	**2.6**	**1.9**	**2.0**	**2.1**	**2.1**	**2.1**	**2.1**
Durables:														
Lumber and wood products	2.8	2.1	2.1	2.2	2.3	2.2	2.1	3.4	2.1	3.0	3.2	3.3	2.9	2.6
Furniture and fixtures	2.7	2.0	1.8	2.0	2.0	1.9	1.9	3.6	2.3	2.5	2.9	3.0	3.0	2.8
Stone, clay, and glass products	1.7	1.3	1.1	1.2	1.3	1.2	1.2	2.3	1.6	1.8	2.0	2.0	2.0	1.8
Primary metal industries	.8	.6	.5	.5	.6	.6	.6	1.2	.7	.7	1.0	1.0	1.0	1.0
Fabricated metal products	1.8	1.3	1.2	1.3	1.3	1.2	1.2	2.6	1.8	1.9	1.9	2.1	2.1	1.9
Machinery, except electrical	1.3	.9	.9	1.0	.9	.9	.9	1.9	1.5	1.4	1.4	1.5	1.7	1.5
Electric and electronic equipment	1.5	1.2	1.0	1.1	1.1	1.0	1.0	2.2	1.6	1.5	1.7	1.6	1.7	1.7
Transportation equipment	.9	.8	.7	.8	.9	.8	.8	1.6	1.1	1.3	1.4	1.4	1.3	1.2
Instruments and related products	1.5	1.3	1.2	1.1	1.1	1.1	1.2	2.4	2.1	1.9	1.7	1.8	2.0	1.9
Miscellaneous manufacturing industries	2.4	1.9	1.9	1.8	1.7	1.7	1.8	3.5	2.7	2.7	2.9	2.8	2.8	3.0
Nondurables:														
Food and kindred products	3.0	2.5	2.3	2.3	2.3	2.2	2.1	4.3	3.8	3.7	3.5	3.4	3.5	3.4
Tobacco manufactures	1.1	.4	.6	.6	.8	.4	.6	1.8	1.4	1.4	1.6	2.0	1.4	1.5
Textile mill products	2.7	2.1	1.9	1.9	1.8	1.9	2.0	3.6	2.6	2.4	2.5	2.5	2.4	2.6
Apparel and other textile products	3.2	2.8	2.5	2.5	2.5	2.5	2.7	4.0	3.3	3.1	3.0	3.2	3.3	3.6
Paper and allied products	1.2	.9	.9	.9	.9	.9	1.0	1.9	1.3	1.4	1.6	1.6	1.5	1.5
Printing and publishing	2.1	1.9	1.8	1.8	1.9	1.7	1.7	2.9	2.5	2.3	2.5	2.7	2.4	2.5
Chemicals and allied products	.8	.7	.6	.7	.7	.7	.7	1.3	1.2	1.1	1.2	1.3	1.2	1.2
Petroleum and coal products	.9	.7	.6	.7	.6	.7	.6	1.7	1.8	1.6	1.9	1.8	1.6	1.5
Rubber and miscellaneous plastics products	2.4	1.7	1.7	1.7	1.6	1.6	1.6	3.2	1.9	2.3	2.6	2.6	2.4	2.5
Leather and leather products	3.9	3.2	3.1	3.0	3.1	2.8	2.9	5.0	4.3	4.2	3.9	4.3	4.1	4.0

NOTE.—Quarterly rates are averages of monthly rates.

Source: Bureau of Labor Statistics.

CHART 5

Quit Rate in Manufacturing



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

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tion of young workers (who are more mobile than older workers), and a high degree of unionization (which provides nonfinancial job benefits, such as an effective grievance procedure). The quit rate is high in textiles, which are characterized by low earnings, a larger proportion of young workers, and a low degree of unionization.

Despite the wide interindustry divergence in the level of the quit rate, the failure of the rate to rebound from the 1980 recession was pervasive among the various manufacturing industries. Because many job changes occur within an industry, changes in an industry's new hire rate should influence the industry's quit rate.[6] However, even in industries—such as lumber and wood products—in which the new hire rate did rebound from the 1980 recession, the quit rate did not. Apparently, the rebound of these new hire rates was insufficient to offset the pessimism induced by the recession and by the overall weakness of the subsequent recovery.

Third-Quarter Corporate Profits

Corporate profits from current production—profits with inventory valuation and capital consumption adjustments—increased $5½ billion to $195½ billion in the third quarter of 1981. This estimate is $4½ billion higher than the one published a month ago. Most of the upward revision was in domestic profits of trade corporations and profits from the rest of the world.

Domestic profits of nonfinancial corporations increased $5½ billion to $152 billion in the third quarter, reversing a decrease of the same size in the second. The third-quarter increase was primarily due to increases in the profits of nonmanufacturing corporations; these increases were centered in the profits of trade and utility corporations. The increase in trade profits occurred despite a swing from profits to losses for auto dealers. Among other nonmanufacturing industries, higher profits in coal mining followed the ending of the second-quarter strike. Profits in petroleum mining fell, reflecting declining prices for crude petroleum. Airlines' losses increased, reflecting a decline in revenue passenger miles.

Manufacturing profits increased slightly, as a large increase in the profits of petroleum and coal products manufacturers offset decreases in profits in many other manufacturing industries. Petroleum profits increased sharply as the price charged by refiners fell less than the price they paid for crude petroleum. The resulting increases in margins on refined products more than offset reduced margins on crude petroleum produced by corporations classified as manufacturers. The largest decrease in manufacturing profits was in motor vehicle manufacturing, which registered substantial losses following a temporary return to profits in the second quarter. The losses reflected a decrease in motor vehicle production and the costs of rebate and interest subsidy programs.

Domestic profits of financial corporations decreased $2 billion to $19 billion in the third quarter, following a decrease of $4½ billion the second. The third-quarter decrease was more than accounted for by increased losses of savings and loan associations, which suffered net deposit withdrawals and increased interest costs. An increase in the profits of Federal Reserve banks, which are classified in corporate business in the national income and product accounts, was primarily due to higher average interest rates on their holdings of Federal debt instruments. The profits of commercial banks also increased.

Profits from the rest of the world increased $1½ billion to $24½ billion in the third quarter, following a decrease of $2½ billion in the second. The increase was primarily due to the overseas petroleum operations of U.S. corporations. Other rest-of-the-world profits were flat, reflecting weakness in economic activity in most major industrial countries.

Other measures of profits.—Profits before tax increased $5½ billion to

6. On the importance of intra-industry job changing, see Edward I. Steinberg, "Labor Mobility in 1960–65 and 1970–75," SURVEY OF CURRENT BUSINESS 59 (January 1979): 27.

$234½ billion in the third quarter, following a decrease of $28 billion in the second. These profits exclude the inventory valuation adjustment (IVA) and the capital consumption adjustment (CCAdj).[7] Inventory profits—the IVA with sign reversed—increased $1½ billion to $25½ billion in the third quarter, following a decrease of $15 billion in the second. Profits attributable to underdepreciation—the CCAdj with sign reversed—decreased $1½ billion in the third quarter, after having been unchanged in the second.

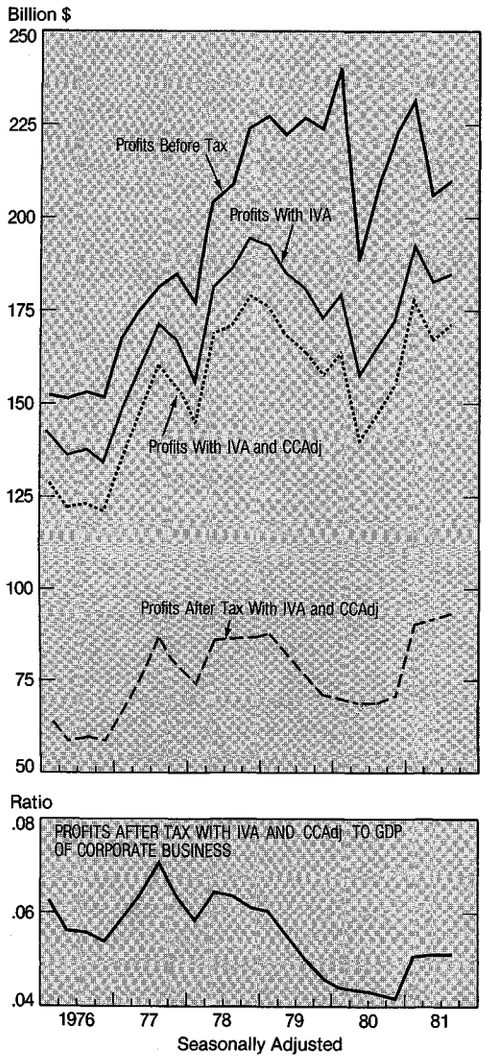
Corporate profits taxes, which are levied on profits including inventory profits and profits attributable to underdepreciation, increased $1½ billion to $78 billion in the third quarter, following a decrease of $11½ billion in the second.

Perspectives on domestic profits.—Chart 6 provides some perspective on two recent developments in domestic profits. First, it brings out the contrasting movement of profits before tax—the series plotted at the top of the chart's upper panel—and of profits after tax with IVA and CCAdj—the series plotted at the bottom of that panel. Profits before tax peaked in the first quarter of 1980 and in the third quarter of 1981 was $30½ billion below that peak. In the first quarter of 1980, profits after tax with IVA and CCAdj was quite low and has since increased $23½ billion to a record high. The largest factor in the contrasting movement is the IVA. It had peaked at $61½ billion in the first quarter of 1980 and has, with some irregularity, dropped to $25½ billion. The other factor is corporate profits tax liability, which declined $16 billion over this period; the decline reflected the drop in profits before tax and, beginning in the first quarter of 1981, the impact of the Economic Recovery Tax Act of 1981. In the third quarter, the act reduced corporate profits tax liability $5½ billion. (For more information on the impact of the act on corporate profits and related measures, see table 2, page 2, of the November 1981 SURVEY OF CURRENT BUSINESS.)

7. The IVA and CCAdj are defined in *National Income and Product Accounts of the United States, 1929–1976: Statistical Tables,* U.S. Department of Commerce, Bureau of Economic Analysis (Washington, D.C.: U.S. GPO, 1981).

CHART 6

Domestic Corporate Profits



Note.—IVA is inventory valuation adjustment and CCAdj is capital consumption adjustment.

U.S. Department of Commerce, Bureau of Economic Analysis 81-12-6

Table 5.—Revisions in Selected Component Series of the NIPA's, Third Quarter of 1981

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	45-day estimate	75-day estimate	Revision	45-day estimate	75-day estimate
	Billions of current dollars				
GNP	**2,956.6**	**2,965.0**	**8.4**	**10.2**	**11.4**
Personal consumption expenditures	1,887.2	1,883.9	−3.3	13.3	12.5
Nonresidential fixed investment	333.2	335.1	1.9	11.0	13.6
Residential investment	101.6	100.5	−1.1	−29.0	−32.1
Change in business inventories	24.3	27.5	3.2	.....	.....
Net exports	22.0	29.3	7.3	.....	.....
Government purchases	588.3	588.9	.6	7.7	8.2
National income	**2,371.9**	**2,377.6**	**5.7**	**9.1**	**10.1**
Compensation of employees	1,789.9	1,790.7	.8	8.9	9.1
Corporate profits with inventory valuation and capital consumption adjustments	191.2	195.7	4.5	1.8	11.7
Other	390.8	391.2	.4	13.7	14.2
Personal income	**2,441.8**	**2,441.7**	**−.1**	**13.0**	**13.0**
	Billions of constant (1972) dollars				
GNP	**1,512.8**	**1,515.8**	**3.0**	**.6**	**1.4**
Personal consumption expenditures	964.6	962.8	−1.8	4.0	3.3
Nonresidential fixed investment	162.8	163.9	1.1	4.3	6.9
Residential investment	43.3	42.7	−.6	−32.6	−36.2
Change in business inventories	14.0	14.9	.9	.....	.....
Net exports	39.8	43.2	3.4	.....	.....
Government purchases	288.4	288.3	−.1	−1.5	−1.5
	Index numbers, 1972=100 [1]				
GNP implicit price deflator	195.44	195.61	.17	9.5	9.9
GNP fixed-weighted price index	202.6	202.6	0	9.4	9.5
GNP chain price index	.....	.....	.....	9.8	10.0

1. Not at annual rates.

NOTE.—For the third quarter of 1981, the following revised or additional major source data became available: For *personal consumption expenditures,* revised retail sales for September, consumer share of new car purchases for September, and consumption of electricity for August; for *nonresidential fixed investment,* revised manufacturers' shipments of equipment for September, revised construction put in place for September, business share of new car purchases for September, and business expenditures for plant and equipment for the quarter; for *residential investment,* revised construction put in place for September; for *change in business inventories,* revised book values for manufacturing and trade for September; for *net exports of goods and services,* revised merchandise trade for September, and revised service receipts for the quarter; for *government purchases of goods and services,* revised construction put in place for September; for *wages and salaries,* revised employment, average hourly earnings, and average weekly hours for August and September; for *net interest,* revised net interest received from abroad for the quarter; for *corporate profits,* revised domestic book profits for the quarter, and revised profits from the rest of the world for the quarter; and for *GNP prices,* revised residential housing prices for the quarter.

Second, despite the improvement in profits after tax with IVA and CCAdj, in the third quarter of 1981 the ratio of that measure to gross domestic product of corporate business, although up some from its lows in 1980, was well below levels registered in the second half of the 1970's.

* * *

Third-quarter NIPA revisions

The 75-day revisions of the national income and product account estimates for the third quarter of 1981 are shown in table 5.

Reconciliation and Other Special Tables

Table 1.—Relation of Net Exports of Goods and Services in the National Income and Product Accounts (NIPA's) to Balance on Goods and Services in the Balance of Payments Accounts (BPA's)

[Billions of dollars, seasonally adjusted at annual rates]

	Line	1981		
		I	II	III
Export of goods and services, BPA's	1	377.7	380.3	377.0
Less: Gold, BPA's	2	5.5	5.1	4.4
Capital gains net of losses in direct investment income receipts	3	1.5	2.9	.5
Statistical differences [1]	4	3.0	3.7	3.7
Other items	5	.4	.4	.4
Equals: Export of goods and services, NIPA's	6	367.4	368.2	368.0
Imports of goods and services, BPA's	7	358.6	369.7	361.0
Less: Payments of income on U.S. Government liabilities	8	15.8	17.0	17.1
Gold, BPA's	9	3.8	4.1	4.5
Capital gains net of losses in direct investment income payments	10	.2	−.2	−.5
Statistical differences [1]	11	1.0	1.9	1.9
Other items	12	.....	.....	.....
Plus: Gold, NIPA's	13	.4	.6	.6
Equals: Imports of goods and services, NIPA's	14	338.2	347.5	338.7
Balance on goods and services, BPA's (1–7)	15	19.2	10.6	16.0
Less: Gold (2−9+13)	16	2.1	1.5	.6
Capital gains net of losses in direct investment income (3–10)	17	1.3	3.1	1.0
Statistical differences (4–11)	18	2.0	1.8	1.8
Other items (5–12)	19	.4	.4	.4
Plus: Payments of income on U.S. Government liabilities (8)	20	15.8	17.0	17.1
Equals: Net exports of goods and services, NIPA's (6–14)	21	29.2	20.8	29.3

1. Consists of statistical revisions in the BPA's that have not yet been incorporated in the NIPA's.

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the BUSINESS SITUATION

DATA that have become available since mid-December confirm that real GNP slid sharply in the fourth quarter of 1981, after having been on a plateau since the beginning of the year.[1] The decline amounted to 5 percent at an annual rate (table 1). About two-thirds of it was traceable to final sales and the rest to a lower rate of inventory accumulation in the fourth quarter than in the third. In final sales, there were declines in personal consumption expenditures (more than accounted for by durables), nonresidential fixed investment (accounted for by producers' durable equipment), residential investment, and net exports. The only increase was in government purchases, and it was attributable to defense purchases and to the Commodity Credit Corporation.

In the fourth quarter, motor vehicle production was a major factor in the change in GNP (table 2). Vehicle production—specifically auto production—dropped sharply, as did final sales. Earlier in the year, vehicle production—like GNP—had held steady; changes in final sales of vehicles were nearly offset by changes in the rate of inventory investment.

The persistence of high interest rates—reflecting mainly tight monetary policy and inflationary expectations—was probably the most important general factor depressing final sales of GNP in 1981. Their impact was directly felt in residential investment and expenditures on durables, and indirectly felt—via their contribution to the appreciation of the dollar—on net exports. The lackluster performance of final sales through the third quarter was accompanied by inventory accumulation: Business final sales were down 1½ percent from the first to the third quarter, while inventory stocks were up 2 percent. By the fourth quarter, the re-

Table 1.—Real GNP: Change from Preceding Quarter

[Percent change at annual rates; based on billions of 1972 dollars, seasonally adjusted at annual rates]

	1981			
	I	II	II	IV
GNP	8.6	−1.6	1.4	−5.2
Final sales	6.9	−4.7	.3	−3.6
Personal consumption expenditures	5.8	−2.1	3.3	−1.8
Durables	24.1	−23.3	8.6	−19.2
Motor vehicles and parts	51.4	−47.1	28.3	−37.0
Furniture and household equipment	9.3	−5.3	−1.9	−4.0
Other durables	6.5	6.1	−2.6	−10.5
Nondurables	4.6	2.7	2.1	.4
Food	6.8	4.7	.4	.8
Energy [1]	−24.2	−7.4	21.6	−1.2
Clothing and shoes	13.9	6.1	.9	−2.8
Other nondurables	3.0	−2.0	.5	4.2
Services	1.4	1.6	2.6	2.2
Energy [2]	−13.1	9.9	4.1	−6.5
Other services	2.3	1.2	2.5	2.7
Fixed investment	10.8	−7.6	−4.4	−14.4
Nonresidential	13.3	−2.1	6.9	−10.9
Structures	16.6	6.7	8.4	−.4
Producers' durable equipment	11.8	−5.9	6.3	−15.4
Autos, trucks, and buses	22.0	−24.4	73.9	−41.1
Other	10.0	−2.0	−3.8	−7.9
Residential	3.6	−23.4	−36.2	−26.9
Government purchases of goods and services	5.4	−5.6	−1.5	7.1
Federal	14.8	−8.4	3.1	19.4
National defense	1.1	2.6	7.9	7.5
Nondefense	46.8	−26.4	−6.1	47.4
Commodity Credit Corporation [3]				
Other	3.6	−6.5	−17.2	−10.1
State and local	.2	−3.8	−4.2	.1
Net exports of goods and services				
Exports	13.6	−2.3	−3.5	−10.2
Merchandise	16.4	−6.0	−18.0	1.2
Agricultural	52.9	−35.2	−13.3	46.0
Nonagricultural	8.4	3.4	−19.1	−7.9
Other	10.2	2.6	18.0	−22.8
Imports	10.3	14.2	5.5	8.0
Merchandise	6.0	16.0	9.8	33.5
Petroleum	2.1	−1.5	−34.5	29.6
Nonpetroleum	6.3	17.7	14.6	33.8
Other	19.5	10.6	−3.0	−33.3
Change in business inventories				

1. Gasoline and oil, and fuel oil and coal.
2. Electricity and gas.
3. Estimates, in billions of 1972 dollars, for the first through the fourth quarters of 1981 were: 1.8, −.4, .7, and 5.2.

1. The fourth-quarter GNP estimates are based on the following major source data: For *personal consumption expenditures* (PCE), retail sales, and unit auto and truck sales through December; for *nonresidential fixed investment,* the same information for autos and trucks as for PCE, manufacturers' shipments of machinery and equipment for October and November, October and November construction put in place, and investment plans for the quarter; for *residential investment,* October and November construction put in place, and housing starts for October and November; for *change in business inventories,* October and November book values for manufacturing and trade, and unit auto and truck inventories through December; for *net exports of goods and services,* October and November merchandise trade, and fragmentary information on investment income for the quarter; for *government purchases of goods and services,* Federal unified budget outlays for October and November, State and local construction put in place for October and November, and State and local employment through December; and for *GNP prices,* the Consumer Price Index for October and November, and the Producer Price Index for October and November. Some of these source data are subject to revision.

sulting imbalances led to cuts in production. Once production cuts got underway, the usual cumulative forces that characterize a recession took hold; important among them was faltering consumer expenditures traceable to actual and expected job losses.

Prices, costs, and productivity.—The fixed-weighted price index for GNP increased at an annual rate of 8½ percent in the fourth quarter (table 3). If the Federal pay raise is excluded, the increase was 7 percent. (The pay raise is reflected in the index because it represents an increase in the prices of employee services purchased by the Federal Government.) If the food and energy components of GNP are also excluded, the increase—7½ percent—was noticeably less than increases earlier in the year.

The rate of increase in the prices of personal consumption expenditures other than food and energy contributed to the deceleration. These prices increased 8 percent at an annual rate, compared with 9½ percent in the third quarter; prices of autos, clothing, and transportation services were major factors in the deceleration. The fourth-quarter rate of increase in the price of residential structures was quite low—2½ percent; in earlier quarters of the year, successive increases had been 10 percent, 6 percent, and 7½ percent. The price of residential structures is always difficult to measure, and may be particularly so in a sharp contraction in the housing market, but it is plausible that a substantial deceleration has occurred.

The increase in wage rates also slowed in the fourth quarter. The Index of Hourly Earnings, which is adjusted for changes in industry mix and overtime in manufacturing, increased 7 percent (seasonally adjusted annual rate), compared with 8 percent and 8½ percent in the second and third quarters and with 9½ percent in the first, when an increase in the minimum wage became effective. The fourth-quarter deceleration was concentrated in manufacturing and trade. The increase in compensation per hour in the business economy other than farm and housing, which is shown in table 4, also slowed in the fourth quarter. At a 7½-percent annual rate, the fourth-quarter increase was about 1½ percentage points below the increases earlier in the year (if the first 3-quarter increase is reduced 3 percentage points to exclude the effects of increases in the minimum wage and in employer contributions for social insurance).

Table 4 also shows real gross product per hour. This measure of productivity showed a particularly poor performance in the fourth quarter—a decline of 8½ percent at an annual rate. As is typical in a recession, real gross product dropped much faster than aggregate hours. For the year 1981, productivity increased slightly—the first increase since 1977.

Employment and unemployment.—Labor market conditions provide further evidence about the recession. The household measure of employment, which had declined 143,000 in the third quarter, declined 915,000 in the fourth (table 5). As is typical in a recession, adult men accounted for the bulk (608,000) of the decline. Unemployment increased 1,286,000, and the unemployment rate, which had stood at 7.4 percent in the second quarter and 7.2 percent in the third, jumped to 8.4 percent. On a monthly basis, the unemployment rate in-

Table 2.—Real GNP and Motor Vehicle Output: Change from Preceding Quarter

[Billions of 1972 dollars, based on seasonally adjusted annual rates]

	1981			
	I	II	III	IV
GNP	30.8	−6.0	5.4	−20.3
Less: Motor vehicle output	−.7	1.8	−1.4	−8.2
GPN less motor vehicle output	31.5	−7.8	6.8	−12.1
Final sales	25.1	−18.2	1.3	−13.8
Less: Motor vehicles	7.7	−10.9	5.6	−8.8
Final sales less motor vehicles	17.4	−7.3	−4.4	−5.0
Change in business inventories	5.8	12.2	4.1	−6.4
Less: Motor vehicles	−8.4	12.8	−7.0	.6
Change in business inventories less motor vehicles	14.2	−.6	11.2	−7.0

NOTE.—Dollar levels are found in the National Income and Product Accounts Tables, as follows: GNP, table 1.1-1.2; motor vehicles, tables 1.14-1.15 (autos) and 1.16-1.17 (trucks).

Table 3.—Fixed-Weighted Price Indexes: Change From Preceding Quarter

[Percent change at annual rates; based on index numbers (1972=100), seasonally adjusted]

	1981			
	I	II	III	IV
Gross national product	**10.2**	**7.9**	**9.5**	**[5] 8.3**
Less: Change in business inventories				
Equals: Final sales	10.3	7.9	9.5	8.4
Less: Exports	11.7	5.6	5.0	3.3
Plus: Imports	11.8	.4	−7.4	−2.1
Equals: Final sales to domestic purchasers	**10.3**	**7.3**	**8.0**	**7.7**
Personal consumption expenditures	10.9	6.5	8.2	7.0
Food	6.4	.5	8.6	4.2
Energy	30.2	8.3	−.3	7.0
Other personal consumption expenditures	8.0	8.2	9.7	8.0
Other [1]	9.5	8.6	7.7	8.7
Nonresidential structures	9.0	8.1	8.1	8.6
Producers' durable equipment	9.9	11.8	8.5	6.7
Residential	10.1	6.0	7.5	2.6
Government purchases	9.3	8.6	7.4	[5] 11.0
Addendum: Food and energy components of GNP: [2]				
Food components [3]	7.3	.6	8.3	4.5
Energy components [4]	30.4	14.3	10.1	11.1
GNP less food components	10.7	9.2	9.7	9.0
GNP less energy components	8.6	7.5	9.5	8.1
GNP less food and energy components	8.9	8.9	9.7	8.8

1. Index number levels for the fourth quarter of 1980 through the fourth quarter of 1981 were: 203.1, 207.7, 212.0, 216.0, and 220.5.

2. Inasmuch as GNP is a sum of final products, the food and energy estimates in this table do not take into account the effect on the prices of final products of changes in the prices of the food and energy that are costs of production.

3. Consists of all components for which separate estimates are prepared. The major component that is not included is purchases of food by the Federal Government other than transactions by the Commodity Credit Corporation that are treated like purchases.

4. Consists of all components for which separate estimates are prepared. The major components that are not included are (1) exports of energy, (2) the gasoline and motor oil portions of inventories of gasoline service stations, and (3) the energy portions of inventories of businesses that do not produce energy for sale.

5. The Federal pay raise accounted for 1.2 percentage points of the increase in the index for GNP and 5.5 percentage points of the increase in the index for government purchases.

NOTE.—Index number levels are found in the National Income and Product Accounts Tables, tables 7.1-7.2

Table 4.—Real Gross Product, Hours, and Compensation in the Business Economy Other Than Farm and Housing: Change From Preceding Quarter

[Percent change at annual rates; based on seasonally adjusted estimates]

	1981			
	I	II	III	IV
Real gross product	8.2	−1.2	−1.4	−8.6
Hours	3.1	−1.8	1.0	−1.9
Compensation	15.5	6.9	9.9	5.5
Real gross product per hour	5.0	.6	−2.4	−6.9
Compensation per hour	12.0	8.8	8.8	7.6
Unit labor cost	6.7	8.1	11.5	15.5

creased throughout the quarter and reached 8.9 percent in December. The unemployment rate would have increased further but for a marked slowdown in labor force increase; the labor force was only slightly larger in the fourth quarter than in the second.

The payroll measure of employment, which had increased 392,000 in the third quarter, declined 426,000 in the fourth. The decline was more than accounted for by manufacturing, in which employment fell almost to its 1980 recession low. The largest of the widespread employment declines in manufacturing in the fourth quarter were in transportation equipment (110,000), fabricated metal products (63,000), primary metal products (53,000), lumber and wood products (51,000), and electric and electronic equipment (45,000).

Average weekly hours were down 0.1 in the total private nonfarm economy. In manufacturing, hours dropped 0.5 after a 0.4 drop in the third quarter; at 39.3, they were at the same low level as in mid-1980.

Personal income and its disposition

Personal income increased only moderately in the fourth quarter—$42½ billion (table 6).[2] The increase was held down by declines in production, farm prices, and interest rates. In addition, the increase in the fourth quarter was smaller than in the third because the latter had included $16½ billion in transfer payments for cost-of-living adjustments under several Federal programs.

The drop in production is clearly visible in wage and salary disbursements. They increased only $24½ billion, $6½ billion of which is attributable to the Federal pay rise. The weakness in private wages and salaries was due to declines in employment, particularly in manufacturing; widespread declines in average weekly hours; and a slowing of the increase in average hourly earnings. Manufacturing payrolls declined $2½ billion, after increases earlier in the year ranging from $7 to $13½ billion; the decline was in durable goods industries. Payrolls in the distributive industries increased only $4 billion, the smallest increase this year. Payrolls in services, in contrast, increased more than in the second and third quarters.

Farm proprietors' income declined $2 billion. Since the second quarter of 1980, farm income has been depressed; aside from fluctuations in the first and third quarters of 1981, it held at $22 to $23 billion, compared with $31 billion in 1979. The fluctuations around this level in the first and third quarters were largely due to sharp swings in farm prices, as was the decline in the fourth quarter. In the fourth quarter, livestock and crop prices declined, the latter reflecting record or near-record harvests of wheat, feed grains, and some other crops. The decline in crop prices triggered an increase in Federal payments to farmers; these payments, which are included in farm proprietors' income, increased $1 billion.

Personal interest income increased $13 billion, somewhat less than in the third quarter, primarily because of the drop in interest rates over the

2. Quarterly estimates of the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

Table 5.—Selected Labor Market Indicators

[Seasonally adjusted]

	1980	1981				Change from preceding quarter			
	IV	I	II	III	IV	1981:I	1981:II	1981:III	1981:IV
Household survey									
Civilian labor force (thousands)	105,173	105,800	106,768	106,434	106,805	627	968	−334	371
Employment	97,276	98,012	98,868	98,725	97,810	736	856	−143	−915
Unemployment	7,897	7,788	7,900	7,709	8,995	−109	112	−191	1,286
Job losers	4,232	3,863	4,041	3,986	4,838	−369	178	−55	852
On layoff	1,538	1,275	1,338	1,265	1,820	−263	63	−73	555
Other job losers	2,693	2,589	2,702	2,721	3,018	−104	113	19	297
Job leavers, reentrants, and new entrants	3,665	3,872	3,902	3,768	4,129	207	30	−134	361
Unemployment rate (percent):									
Total	7.5	7.4	7.4	7.2	8.4	−.1	0	−.2	1.2
Adult men	6.3	6.0	6.1	5.9	7.3	−.3	.1	−.2	1.4
Adult women	6.7	6.6	6.6	6.6	7.3	−.1	0	0	.7
Teenagers	18.3	19.1	19.2	18.7	21.3	.8	.1	−.5	2.6
Establishment survey									
Employment, nonfarm payroll (thousands)	90,820	91,232	91,546	91,938	91,512	412	314	392	−426
Goods producing	25,594	25,670	25,741	25,933	25,408	76	71	192	−525
Construction	4,385	4,398	4,345	4,273	4,227	13	−53	−72	−46
Manufacturing:									
Durables	12,060	12,086	12,246	12,325	11,932	26	160	79	−393
Nondurables	8,098	8,095	8,144	8,187	8,079	−3	49	43	−108
Distributive [1]	25,585	25,721	25,842	26,018	25,971	136	121	176	−47
Services [2]	23,399	23,619	23,849	24,049	24,187	220	230	200	138
Government	16,242	16,222	16,114	15,938	15,946	−20	−108	−176	8
Average weekly hours, private nonfarm:									
Total	35.3	35.3	35.3	35.1	35.0	0	0	−.2	−.1
Manufacturing	39.8	39.9	40.2	39.8	39.3	.1	.3	−.4	−.5

1. Transportation and public utilities, and wholesale and retail trade.
2. Services, and finance, insurance, and real estate.

Source: Bureau of Labor Statistics.

quarter from the record levels that had prevailed earlier.

A cut in personal taxes under the Economic Recovery Tax Act of 1981 became effective October 1. The cut amounted to about $15 billion in the fourth quarter, and accounted for most of the swing from a $17 billion increase in personal taxes in the third quarter to a $2 billion decline in the fourth.

Despite the cut in personal taxes, disposable personal income increased only $44 billion. In real terms, this increase was only 1½ percent at an annual rate. For more than a year, real income growth has been weak; increases have ranged from 1½ to 3 percent.

The personal saving rate was 6.0 percent, almost regaining its highs of 6.2 and 6.1 percent in mid-1980 (chart 1). In the intervening period, the rate fell to 4.6 percent in the first quarter of 1981 and then moved up. Given only a moderate uptrend in current-dollar disposable income, this sharp increase in the saving rate has been accompanied by weakness in personal consumption expenditures.

Real PCE.—In the fourth quarter, personal consumption expenditures (PCE) declined 2 percent at an annual rate; its level in the fourth quarter was slightly below what it had been in the first. PCE on goods was down from the third quarter and also from the first. Both declines were concentrated in motor vehicles; for a discussion of motor vehicle developments, see "Motor Vehicles, Model Year 1981" in the October 1981 SURVEY OF CURRENT BUSINESS and the "Business Situation" in the December issue. The total of other goods increased only slightly from the first quarter to the fourth and declined from the third to the fourth. In general, durable goods were weaker than nondurables. Services increased, but continued well below their trend.

Real investment

Investment in nonresidential structures was unchanged in the fourth quarter. Since late 1980 it had increased steadily, running counter to the course of most other categories of final sales. Petroleum exploration and drilling continued to increase strongly, and construction of commercial structures other than offices, which roughly follows the pattern of residential investment, was down more than earlier in the year.

Both the motor vehicle and "other" components of producers' durable equipment declined sharply in the fourth quarter. The motor vehicle component, like its PCE counterpart, had shown large and partly offsetting fluctuations earlier in the year, but after the fourth-quarter decline, the level in the fourth quarter was below that in the first. Other producers' durable equipment had declined moderately in the second and third quarters.

Residential investment declined sharply for the third consecutive quarter, and was about 20 percent below its first-quarter 1981 level. Both single- and multi-family construction slid further in the fourth quarter. There was little change in the "other" component of residential investment, which includes additions and alterations, brokers' commissions on the sale of residences, and mobile homes. Despite an increase in December, housing starts fell to a record low of 903,000 (seasonally adjusted annual rate) in the fourth quarter, and sales of both new and existing homes remained very weak (chart 2).

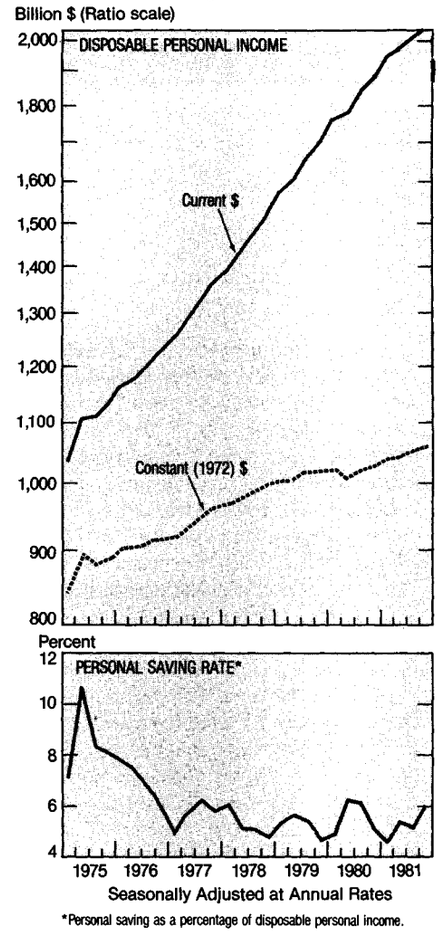
Much of the continued decline in residential investment is attributable to the unfavorable financial conditions that prevailed during the first three quarters of the year. (See the "Business Situation" in the December 1981 SURVEY.) Financial conditions improved, however, in the fourth quarter. The prime rate—to which construction loans are tied—fell 375 basis points to 15.75 percent by late December. The commitment interest rate on 25-year mortgages with a loan-to-price ratio of 75 percent dropped 62 basis points, and yields at Federal National Mortgage Association auctions—widely viewed as indicating the future path of mortgage rates—declined 214 basis points. The decline in mortgage rates reflected the declining cost of funds to thrift institutions and some improvement in net deposit flows.

Inventories accumulated at a rate of $8½ billion in the fourth quarter, compared with $15 billion in the third; thus, inventory change accounted for $6½ billion, or one-third, of the fourth-quarter decline in GNP. In the second quarter, the rate of accumulation had been $11 billion. Both the fourth-quarter deceleration in the rate of accumulation and the third-quarter acceleration were concentrated in durables manufacturing and, to a lesser extent, in nondurable retail trade. In durables manufacturing, where sales were off in the third quarter, the acceleration seems to have been involuntary; sales were down even more in the fourth quarter, and the deceleration in the rate of inventory accumulation seems to have reflected attempts to bring inventories into line with sales.

The ratio of inventories to business final sales, which had been 3.17 in the first quarter of 1981, moved up steadily as inventories accumulated and business final sales declined. At 3.33 in the fourth quarter, the ratio was about the same as in the second quarter of 1980, its recent high.

CHART 1

Disposable Personal Income and Personal Saving Rate



*Personal saving as a percentage of disposable personal income.

U.S. Department of Commerce, Bureau of Economic Analysis 82-1-1

Real net exports

Net exports declined $6½ billion in the fourth quarter. The bulk of the decline—$5½ billion—was in merchandise. This estimate is based on data for October and November; it is particularly difficult to make an assumption about what the data for December will show because these data include year-end timing adjustments, which may be large.

Exports of merchandise changed little, as an increase in agricultural exports offset a decline in nonagricultural exports. The increase in agricultural exports was concentrated in cotton and corn, for which supplies were large and U.S. prices had become more competitive. In nonagricultural exports, autos and capital goods were down.

Imports of merchandise were up sharply. Petroleum imports were up $½ billion. They averaged 6.35 million barrels per day (seasonally adjusted), compared with 5.94 million in the third quarter. Purchases for the strategic petroleum reserve accounted for part of the increase. All major categories of nonpetroleum imports except autos were up; the largest increases were in capital goods (except autos) and consumer goods.

The fourth-quarter decline in net exports followed declines of $3 billion and $4½ billion in the third and second quarters; net exports had been $51 billion in the first quarter, and were $36½ billion in the fourth. Until the fourth quarter, exports had been flat; major factors in their lack of growth and fourth-quarter decline were the appreciation of the dollar through the third quarter and weakness of economic activity abroad. In contrast, imports have increased steadily. Increases, which had resumed a year ago following the 1980 recession, occurred despite the flatness of economic activity in 1981, and partly reflected the appreciation of the dollar.

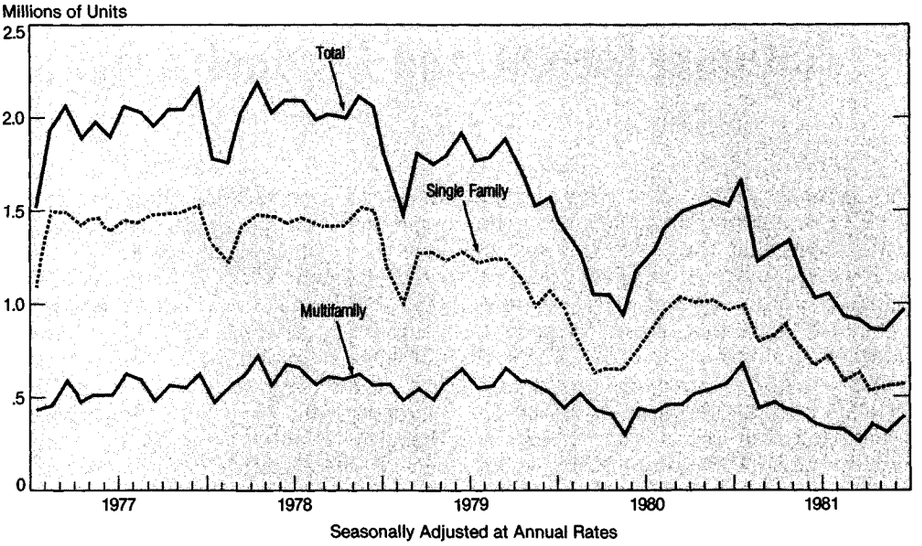
Government

Real government purchases increased substantially in the fourth quarter—7½ percent at an annual rate. The increase was in Federal purchases; total State and local purchases, as well as the major categories, were flat.

(text continued on p. 8)

CHART 2

Housing Starts



Data: Census
U.S. Department of Commerce, Bureau of Economic Analysis

82-1-2

Table 6.—Personal Income and Its Disposition: Change From Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1981			
	I	II	III	IV
Wage and salary disbursements	45.1	24.1	31.6	24.4
Manufacturing	13.4	9.4	7.2	−2.5
Other commodity-producing	3.9	−2.6	4.9	3.5
Distributive	11.4	5.9	7.5	4.1
Services	12.5	8.0	8.0	10.4
Government and government enterprises	3.9	3.4	4.0	8.9
Proprietors' income	−1.9	2.0	2.9	−2.9
Farm	−3.5	2.7	3.0	−2.0
Nonfarm	1.6	−.7	−.1	−.9
Personal interest income	19.0	12.1	14.9	13.2
Transfer payments	5.7	4.6	18.0	3.5
Other income	6.8	6.7	7.8	5.9
Less: Personal contributions for social insurance	11.0	.8	1.9	1.5
Personal income	**63.6**	**48.7**	**73.2**	**42.7**
Less: Personal tax and nontax payments	12.8	10.9	16.9	−1.8
Impact of legislation	−2.8	−1.4	.1	−15.1
Other	15.6	12.3	16.8	13.3
Equals: Disposable personal income	**50.8**	**37.8**	**56.4**	**44.4**
Less: Personal outlays	59.5	20.1	56.1	27.2
Equals: Personal saving	**−8.7**	**17.7**	**.3**	**17.2**
Addenda: Special factors—				
Minimum wage	2.0			
Cost-of-living increases in Federal transfer payments	1.1	1.3	16.3	.5
Social security (in personal contributions for social insurance):				
Base change	2.3			
Rate change	6.7			
Coal strike		−2.6	2.6	
Federal pay raise				6.3

NOTE.—Most dollar levels are found in the National Income and Product Accounts Tables, table 2.1.

Special Note.—The Commodity Credit Corporation in the National Income and Product Accounts

IN recent years, the Commodity Credit Corporation (CCC) has been the major source of the large quarter-to-quarter fluctuations in Federal Government purchases of goods and services. CCC activities, which require a complex treatment in the national income and product accounts (NIPA's), are undertaken to assist in supporting farm prices and income, to ensure adequate supplies of farm products, and to assist in their orderly distribution. This Special Note describes these activities, their treatment in the NIPA's, and recent developments.

Activities of the CCC

The CCC is a corporation wholly owned and operated by the Government within the Department of Agriculture. Four of its main activities, which are authorized by a variety of Federal laws including the Agriculture and Food Act of 1981, are described briefly below. (For more information, see "The Farm Sector" in the November 1978 SURVEY OF CURRENT BUSINESS.)

Commodity loans.—Using specified crops—mainly corn, wheat, tobacco, soybeans, sorghum, and barley—as collateral, farmers can borrow an amount equal to the quantity of the crop put under loan times a "loan rate" set by the CCC. To be eligible for these loans, farmers must comply with any Government limitations on crop acreage and set-asides of cropland. Farmers may obtain loans at any time during a crop year, whether the loan rate is above or below the market price. Even when the market price is above the loan rate, they often obtain loans if they expect prices to rise before the maturity date of the loan. New commodity loans totaled $3.87 billion in fiscal year 1980 and $5.62 billion in fiscal year 1981.

At any time during the period of the loan (9 months for most crops), farmers may redeem their crops by repaying the principal plus accrued interest and storage costs. Redemptions totaled $3.93 billion in fiscal year 1980 and $5.45 billion in fiscal year 1981. Alternatively, the farmer may choose to default; in this case the CCC takes title to the crop as full payment of the loan and other charges. Finally, the farmer may extend the loan for certain crops for 3–5 years by placing them into a farmer-owned reserve. (The reserve program is intended to help stabilize prices and provides a stock upon which to draw when harvests are poor.)

The terms of the corn loan program provide examples. The 1981 loan rate was set at $2.40 per bushel. The loan period was 9 months, and the interest rate was 14.5 percent per year. No crop acreage or set-aside requirements had to be met. The borrowers' grain was eligible to enter the farmer-owned reserve; reserve contracts were for 3 years, and the loan rate for the reserve was $2.55 per bushel. For perspective, the loan rates may be compared with the average price received by farmers for corn: It was about $3.20 per bushel during the first half of 1981 and then fell rapidly to $2.27 per bushel in December.

Direct purchases.—The CCC is authorized to make direct purchases of dairy products, feed grains, wheat, and some other products at specified support prices. In recent years, dairy products have usually accounted for the largest share of direct purchases.

Direct payments to farmers.—Three main types of payments may be made to eligible producers of feed grains, wheat, cotton, and rice. Deficiency payments are made if the market price of a covered crop is below a "target price." Target prices are set at levels intended to keep pace with the prices of farm expenses. Because market prices exceeded target prices, no deficiency payments were made in fiscal year 1981. Disaster payments are made if drought, flood, or other natural disaster prevents planting or reduces the quantity harvested to considerably below expectations. Payments were $1.03 billion in fiscal year 1981. Diversion payments are made to farmers who set aside for conservation purposes acreage above any required set-aside. No such payments have been authorized since 1979.

Disposal of commodities.—Commodities are sold by the CCC at fixed prices or through competitive bids, but only when market prices reach specified levels (except when there is danger of deterioration or spoilage). For example, at present the minimum sales price for dairy products is 105 percent of the CCC's current purchase price. Commodities may also be donated by the CCC to private domestic organizations, foreign aid programs, or government agencies.

Table A.—The Commodity Credit Corporation in the National Income and Product Accounts

[Billions of dollars]

	1976	1977	1978	1979	1980	1981 p
Purchases of goods and services	1.0	3.9	0.2	−1.0	1.1	3.6
Change in CCC inventories	.9	3.9	.1	−1.1	.7	3.0
Other	.1	0	.1	.1	.4	.6
Transfer payments to foreigners	.4	.4	.5	.6	.6	.8
Net interest paid	−.2	−.3	−.5	−.6	−.7	−.7
Subsidies less current surplus	.7	1.7	3.3	2.1	2.6	3.1
Subsidies	.5	1.4	2.6	.9	.9	1.4
Less: Current surplus	−.2	−.3	−.8	−1.2	−1.7	−1.7

p Preliminary.

NOTE.—This table is an adaptation of NIPA table 3.20. For estimates for years earlier than 1976, see National Income and Product Accounts of the United States, 1929–76: Statistical Tables.

The CCC in the NIPA's

The CCC is treated as a government enterprise in the NIPA's. The items that make up its presentation in the NIPA's are shown in table A, with annual estimates for 1976–81. *Purchases of goods and services* include the change in commodity inventories resulting from CCC direct purchases and sales, and the change in commodity loans outstanding. These transactions are combined in what is called "change in CCC inventories." The inclusion in purchases of a change in loans outstanding—specifically, treating a new loan as a purchase and a repayment as a negative purchase—is a departure from the usual NIPA procedure of excluding financial transactions. (Because new loans are treated as purchases, the assumption of title to a crop by the Government in the case of default does not need to be recorded.) In addition to the change in CCC inventories, the purchases series includes an item when commodities are donated to private domestic organizations. The item is an offset needed to obtain the appropriate measure of CCC purchases and GNP.

Transfer payments to foreigners accounts for donations of commodities to foreign nations to meet famine or other emergency relief needs. *Net interest paid* is interest paid to the public—a negligible amount—less interest received on commodity loans, on storage facility loans, and on export credit loans. *Subsidies* are the direct payments to farmers. Finally, the *current surplus* is the difference between current revenues and current operating expenses, plus an adjustment for differences between CCC transaction prices and market prices.

Annual and quarterly estimates in current dollars for the items in table A are prepared largely on the basis of information obtained from monthly CCC reports. In the case of commodity loans, there is information on the value and physical volume of crops for both new loans and redemptions. This information is used in conjunction with price information to prepare estimates valued at market price. Seasonal adjustment is difficult for these series; like most agricultural series, they are extremely seasonal. The purchases series is prepared in constant as well as in current dollars; to prepare the former, quantities of the major commodities are multiplied by base year prices.

Recent developments

Two series in table A, transfer payments to foreigners and net interest paid, are small and fairly stable. The current surplus has grown from −$0.2 billion in 1976 to −$1.7 billion in 1981, largely reflecting increases in storage, handling, and transportation expenses, and increases in the adjustment for the difference between CCC transaction prices and market prices. Subsidies, which had been small in 1974–76, moved up in 1977 and 1978, reflecting lower farm prices. In 1977, deficiency payments were introduced under the target price program. These payments, largely for wheat, amounted to $0.8 billion in 1977 and $1.4 billion in 1978. Deficiency payments in 1979 and 1980 were lower, when farm prices improved. Falling prices in the second half of 1981 triggered large payments beginning in late 1981.

The purchases series had the widest range over the period—from −$1.0 billion to $3.9 billion—and it fluctuated substantially on a quarterly basis as well. The dominant component of the purchases series, change in CCC inventories, in both current and constant dollars, for the quarters of 1979–81, is shown in table B. In 1980, a major development was the direct purchases of wheat and corn made following the U.S. suspension of grain exports to the Soviet Union. The second quarter of 1980 shows a large increase because of these purchases; in addition, purchases of dairy products moved to a higher level, which has largely been maintained. The next quarter shows a large decline as the direct purchases of wheat and corn fell off. The swing from increase to decline produced a huge quarter-to-quarter change: −$9 billion in current dollars and −$4½ billion in constant dollars.

Table B.—Change in Commodity Credit Corporation Inventories

[Billion of dollars, seasonally adjusted at annual rates]

	Current dollars	Constant (1972) dollars
1979–I	2.0	1.7
II	−1.5	−.9
III	−5.8	−3.0
IV	.9	0
1980–I	1.9	1.3
II	5.0	2.7
III	−4.2	−1.9
IV	.1	−1.4
1981–I	4.1	1.8
II	−3.0	−.4
III	1.0	.7
IV	9.7	5.2

In 1981, corn loans were the single largest element in the quarterly pattern. In the first quarter, new corn loans were large. In the second quarter, new loans reverted to a more normal level and redemptions were large. In the third quarter, both new loans and redemptions were fairly large, tending to offset each other. In the fourth quarter, new corn loans, as well as new soybean loans, jumped, reflecting drops in market prices. As a result, the rate of addition to CCC inventories was a record: $9½ billion in current dollars and $5 billion in constant dollars.

Caution should be exercised when interpreting estimates of the CCC component of Federal Government purchases, particularly when using these estimates to interpret quarterly changes in GNP. A crop placed under loan in a quarter may represent current production or it may represent past production withdrawn from farm inventories. In the latter case, if the—perhaps questionable—assumption is made that coverage, timing, and seasonal adjustment are consistent, the CCC purchase is offset in the change in business inventories component of GNP. Thus, in this case, a statement to the effect that the change in CCC purchases added to the change in GNP would be misleading. The same need for caution arises, of course, for most other types of final sales. However, a special warning seems necessary for CCC purchases because, given the size of their quarter-to-quarter changes, it is tempting to explain the changes in GNP by reference to them.

In Federal purchases, the increase is traceable to national defense and to the agricultural price support operations of the Commodity Credit Corporation (CCC). The former increased 8 percent at an annual rate, about the same as in the third quarter and more than in the second. The CCC has accounted for recent quarters' volatility in nondefense purchases; other nondefense purchases have trended downward. The fourth-quarter increase in government purchases traceable to the CCC—$4½ billion—was due to a step-up in new loans, which are treated as purchases in the national income and product accounts. A substantial increase in new loans on corn reflected the record crop and the low market price of corn relative to the support price. CCC activities and their treatment in the national income and product accounts are described in the accompanying Special Note.

NIPA Federal sector.—Changes in current-dollar Federal receipts and expenditures are shown in table 7. Receipts were down sharply in the fourth quarter. Personal taxes declined $4½ billion; the $15 billion cut under the Economic Recovery Tax Act was partly offset by a moderate increase in the tax base. Corporate profits tax accruals were down substantially, due to the impact of the recession on profits. Indirect business taxes were also down, reflecting the continued decline in the windfall profits tax. Contributions for social insurance were the only category of receipts that increased. They were up $3 billion; a step-up in contributions to railroad retirement and a payment by the Federal Government for Federal employee retirement each contributed about $½ billion to the increase.

Table 7.—Federal Government Receipts and Expenditures, NIPA Basis: Change from Preceding Quarter

[Billions of dollars, based on seasonally adjusted annual rates]

	1981			
	I	II	III	IV
Receipts	**44.3**	**3.5**	**17.3**	**n.a.**
Personal tax and nontax receipts	10.4	9.8	13.3	−4.5
Corporate profits tax accruals	2.0	−9.8	1.6	n.a.
Indirect business tax and nontax accruals	11.5	2.0	−.8	−1.6
Contributions for social insurance	20.3	1.5	3.3	3.2
Expenditures	**23.0**	**4.2**	**25.9**	**25.3**
Purchases of goods and services	9.6	−2.1	6.9	20.4
National defense	3.6	3.1	5.9	11.7
Nondefense	6.0	−5.2	.9	8.7
Transfer payments	2.9	2.9	18.8	3.6
Grants-in-aid to State and local governments	−1.7	−.6	−4.1	−2.5
Net interest paid	12.5	2.7	5.2	3.9
Subsidies less current surplus of government enterprises	−.4	1.3	−.6	−.3
Less: Wage accruals less disbursements	0	0	.2	−.3
Surplus or deficit (−), national income and product accounts	**21.3**	**−.6**	**−8.5**	**n.a.**

n.a. Not available.

NOTE.—Dollar levels are found in the National Income and Product Accounts Tables, table 3.1.

Expenditures increased $25½ billion, about as much as in the third quarter. The third-quarter increase had included the $16½ billion increase in transfer payments due to cost-of-living adjustments. The fourth-quarter increase included the $6½ billion pay raise for Federal civilian and military employees, and the increase in purchases traceable to the price support operations of the CCC, which in current dollars was $8½ billion.

The fourth-quarter decline in corporate profits tax accruals can be approximated by using a residual calculation of corporate profits that assumes that the statistical discrepancy in the national income and product account was the same as in the preceding quarter. On the basis of this calculation of corporate profits tax accruals, the Federal deficit on a national income and product account basis was around $40 billion larger than the $55½ billion recorded in the third quarter.

the BUSINESS SITUATION

REVISED (45-day) estimates show that real GNP declined 4½ percent at an annual rate in the fourth quarter of 1981, compared with the 5-percent decline shown by the preliminary (15-day) estimates (table 1). The largest upward revisions were in the producers' durable equipment component (due to computers and aircraft) of nonresidential fixed investment, and the Federal purchases component (defense and Commodity Credit Corporation) of government purchases. Personal consumption expenditures (nondurable goods) and change in business inventories (nondurable manufacturing and retail trade) were revised downward. The revisions leave the increase in GNP prices as measured by the fixed-weighted price index at an annual rate of 8½ percent.

The revisions do not alter the picture of a decline widely spread across GNP components that was described in the January "Business Situation." However, less of the decline than was indicated there was in final sales. According to the revised estimates, about one-half of the decline in real GNP was traceable to final sales, and one-half to a lower rate of inventory accumulation in the fourth quarter than in the third.

Business inventories in the fourth quarter were lower than shown in the preliminary estimates; decumulation in December was larger than projected. For the quarter, the ratio of business inventories to final sales, which moved up steadily throughout 1981, was 3.31. The inventory-sales ratio for manufacturing and trade—at 1.76—was up to its first-quarter 1975 high. (See "Constant-Dollar Inventories, Sales, and Inventory-Sales Ratios for Manufacturing and Trade," in this issue.) In manufacturing, inventories changed little in the fourth quarter, but sales dropped. Inventory-sales ratios were up for all categories of durables and nondurables other than food. There was no evidence of a large inventory buildup in defense goods, or in finished manufactured goods. In trade, the inventory-sales ratios of wholesale durables and retail nondurables were at all-time highs.

Table 1.—Revisions in Selected Component Series of the NIPA's, Fourth Quarter of 1981

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	15-day estimate	45-day estimate	Revision	15-day estimate	45-day estimate
	Billions of current dollars				
GNP	**2984.9**	**2995.3**	**10.4**	**2.7**	**4.1**
Personal consumption expenditures	1909.5	1908.4	−1.1	5.6	5.3
Nonresidential fixed investment	332.6	337.5	4.9	−3.0	2.8
Residential investment	93.4	93.8	.4	−25.2	−24.0
Change in business inventories	17.6	12.6	−5.0		
Net exports	16.0	20.8	4.8		
Government purchases	615.7	622.2	6.5	19.5	24.6
National income					
Compensation of employees	1821.7	1820.9	−.8	7.1	6.9
Corporate profits with inventory valuation and capital consumption adjustments					
Other	396.8	397.7	.9	5.8	6.8
Personal income	**2484.4**	**2485.9**	**1.5**	**7.2**	**7.4**
	Billions of constant (1972) dollars				
GNP	**1495.6**	**1497.6**	**2.0**	**−5.2**	**−4.7**
Personal consumption expenditures	958.3	957.2	−1.1	−1.8	−2.3
Nonresidential fixed investment	159.2	161.7	2.5	−10.9	−5.1
Residential investment	39.5	39.3	−.2	−26.9	−28.1
Change in business inventories	8.5	6.2	−2.3		
Net exports	36.7	37.5	.8		
Government purchases	293.4	295.6	2.2	7.1	10.5
	Index numbers, 1972=100 [1]				
GNP implicit price deflator	199.58	200.01	.43	8.4	9.3
GNP fixed-weighted price index	206.7	206.8	.1	8.3	8.5
GNP chain price index				8.4	8.5

1. Not at annual rates.

NOTE.—For the fourth quarter of 1981, the following revised or additional major source data became available: For *personal consumption expenditures*, revised retail sales for November and December, and sales and inventories of used cars of franchised automobile dealers for November; for *nonresidential fixed investment*, manufacturers' shipments of equipment for November (revised) and December, construction put in place for November (revised) and December, and a partial tabulation of business expenditures for plant and equipment for the quarter; for *residential investment*, construction put in place for November (revised) and December; for *change in business inventories*, book values for manufacturing and trade for November (revised) and December; for *net exports of goods and services*, merchandise trade for November (revised) and December, and revised net investment income and other services receipts for the quarter; for *government purchases of goods and services*, Federal unified budget outlays for December, and State and local construction put in place for November (revised) and December; for *wages and salaries*, revised employment, average hourly earnings, and average weekly hours for November and December; for *net interest*, revised net interest received from abroad for the quarter; for *GNP prices*, the Consumer Price Index for December, unit value indexes for exports and imports for December, and residential housing prices for the quarter.

the BUSINESS SITUATION

INFORMATION available in mid-March suggests that real GNP declined substantially in the first quarter.[1] The composition of this decline is likely to have differed, however, from that of the 4½-percent (annual rate) decline registered in the previous quarter. Two components for which the estimates are relatively firm—motor vehicle output and residential investment—declined much less in the first quarter (table 1). Combined, they declined about $2½ billion, compared with $12 billion in the fourth quarter of 1981, when they accounted for a large part of the decline in GNP.[2] In motor vehicles, sales were up sharply after plunging in the fourth quarter, but inventories swung sharply to liquidation after little change. The steep slide in residential investment slowed.

In contrast, real GNP other than motor vehicle output and residential investment appears to have declined much more than in the fourth quarter, largely due to a weakening in its final sales total. In nonvehicle inventories, January data indicate sharp liquidation, and even if it is assumed that the liquidation was smaller in February and March, the swing from moderate accumulation in the fourth quarter to liquidation in the first would be a substantial negative in the change in GNP. These inventories had a substantial negative effect also in the fourth quarter, when the rate of accumulation was cut back. In final sales, only personal consumption expenditures (PCE) appears to have strengthened, registering a small increase after no change in the fourth quarter. Fixed investment—especially producers' durable equipment—declined after a fourth-quarter increase, and government purchases increased less, largely reflecting a smaller increase in defense purchases. It is likely that net exports declined again, perhaps as much as in the fourth quarter. The total of these final sales components is likely to have declined several billion dollars in the first quarter, after a $6½ billion increase in the fourth.

GNP prices, as measured by the fixed-weighted price index, increased less than the 8½-percent annual rate registered in the fourth quarter, even after allowing about 1 percentage point for the impact of the Federal pay raise on the fourth-quarter increase. The deceleration was in the price of PCE, specifically goods. Most importantly, the increase in motor vehicle prices slowed, reflecting a variety of rebate programs, and gasoline prices declined.

Personal income and its disposition

Personal income registered only a small increase in the first quarter (table 2). Wage and salary disbursements and farm income largely accounted for the weakness. In addition, personal contributions for social insurance, which are subtracted in deriving the personal income total, included $3½ billion due to an increase in the social security tax rate from 6.65 to 6.70 percent and an increase in the taxable wage base from $29,700 to $32,400.

Of the increases in wages and salaries in the last 5 years, only one—in the second quarter of 1980—was smaller than in the first quarter. Wages and salaries in the commodity-producing industries again showed little change, compared with a $12 billion increase in last year's depressed second quarter. Distributive and service industries increased, but less than in that quarter. Government and government enterprises increased at about the average for recent quarters without a Federal pay raise. Farm proprietors' income declined sharply. In contrast to last year's fluctuations, in which prices had the major role, the first-quarter decline was primarily due to volume.

Personal taxes declined in the first quarter as they had in the fourth, due to the Crude Oil Windfall Profits Tax Act of 1980 and the Economic Recovery Tax Act of 1981. In the fourth quarter, the cut, which was almost all

Table 1.—Motor Vehicle Output and Residential Investment: Change From Preceding Quarter

[Billions of 1972 dollars; based on seasonally adjusted annual rates]

	1981				1982
	I	II	III	IV	I*
Motor vehicle output	−0.7	1.8	−1.3	−9.0	−1.9
Final sales	7.8	−10.9	5.6	−9.7	8.7
Change in business inventories	−8.4	12.8	−7.1	.7	−10.5
Residential investment	−.4	−3.2	−5.1	−3.2	−.6

*Projected. See text footnote 1, page 1.

1. The major source data that shed light on first-quarter GNP components are limited to 1 or 2 months of the quarter, and in some cases are preliminary. These data are: For *personal consumption expenditures* (PCE), January and February retail sales, unit sales of new autos through the first 10 days of March, and sales of new trucks for January and February; for *nonresidential fixed investment,* the same data for autos and trucks as for PCE, January construction put in place, January manufacturers' shipments of equipment, and business investment plans for the quarter; for *residential investment,* January construction put in place, and housing starts for January and February; for *change in business inventories,* January book values for manufacturing and trade, and unit auto inventories for January and February; for *net exports of goods and services,* January merchandise trade; for *government purchases of goods and services,* Federal unified budget outlays for January, State and local construction put in place for January, and State and local employment for January and February; and for *GNP prices,* the Consumer Price Index for January, and the Producer Price Index for January and February.

2. Constant-dollar, or "real," estimates are in 1972 dollars. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

in withholdings, amounted to over $15 billion. In the first quarter, nonwithheld taxes and refunds were reduced by an interest and dividend exclusion provided under the 1980 act, and rate reductions, depreciation write-offs for unincorporated businesses, and an oil royalty credit provided under the 1981 act; the reductions amounted to about $9 billion. Increases in the tax base, and thus in taxes, were held down by the weakness in wages and salaries.

Despite the tax cut, first-quarter disposable personal income showed only a small increase. In real terms, it declined—the first decline since the second quarter of 1980. Saving and the saving rate fell. The latter, which had reached 6.1 percent in the fourth quarter, returned to around 5 percent.

Total real PCE strengthened in the first quarter, largely due to a turnaround in PCE on motor vehicles. These expenditures had dropped $5½ billion in the fourth quarter, and increased a little more than that in the first. As noted earlier, PCE excluding motor vehicles also strengthened, registering a small increase after no change in the fourth quarter. Most of the strengthening was in services, which had registered a below-trend increase in the fourth quarter. Goods other than motor vehicles remained weak, with a pickup in clothing offsetting a weakening in food.

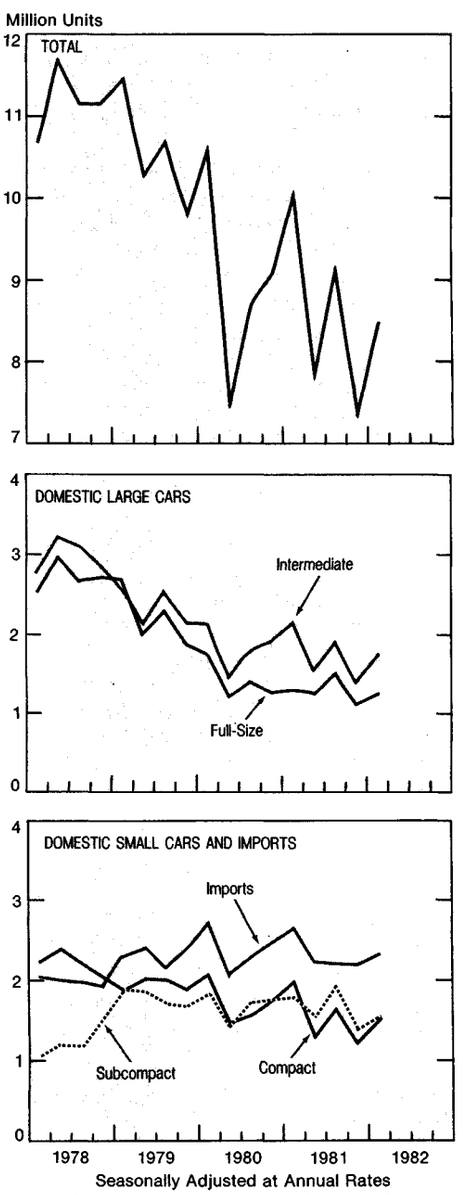
Motor vehicles

Motor vehicle output fell in the first quarter but much less steeply than in the fourth (table 1). Both auto and truck output were held at very low levels, and rebate programs were put in place at the beginning of February to boost sales. Auto and truck inventories, which had been high relative to sales for the past year, were cut back sharply.

In terms of units, total new car sales increased to 8.5 million (seasonally adjusted annual rate) in the first quarter from 7.4 million in the fourth. The largest increases were in sales of domestic intermediate and compact cars, but other domestic and imported cars also were up (chart 1). Domestic sales, which increased from 5.2 million in the fourth quarter to 6.1 million in the first, were boosted in February and March by rebates ranging from $500 to $750 on most models and up to $2,000 on some luxury models. The first-quarter increase continued an irregular pattern that has persisted since the first quarter of 1981. In-

CHART 1

Retail Sales of New Passenger Cars



NOTE.—The components may not add to the total because each category was separately adjusted for seasonal variation. Data for the most recent quarter are projected.

Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports; seasonal adjustment by BEA.

U.S. Department of Commerce, Bureau of Economic Analysis 82-3-1

Table 2.—Personal Income and Its Disposition: Change From Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1981				1982
	I	II	III	IV	I*
Wage and salary disbursements	45.1	24.1	31.6	24.0	13.8
Manufacturing	12.4	9.4	7.2	−2.9	−.9
Other commodity-producing	4.9	2.6	4.9	3.7	.2
Distributive	11.4	5.9	7.5	4.2	4.1
Services	12.5	8.0	8.0	10.3	6.4
Government and government enterprises	3.9	3.4	4.0	8.8	3.9
Proprietors' income	−1.9	2.0	2.9	−1.2	−7.2
Farm	−3.5	2.7	3.0	−.2	−6.5
Nonfarm	1.6	−.7	−.1	−.9	−.7
Personal interest income	19.0	12.1	14.8	12.9	10.6
Transfer payments	5.7	4.6	18.0	4.7	6.6
Other income	6.8	6.7	7.8	5.8	4.4
Less: Personal contributions for social insurance	11.0	.8	1.9	1.6	4.5
Personal income	**63.6**	**48.7**	**73.2**	**44.8**	**23.7**
Less: Personal tax and nontax payments	12.8	10.9	16.9	−1.7	−.6
Impact of legislation	−2.8	−1.4	.5	−15.9	−8.9
Other	15.6	12.3	16.4	14.3	8.3
Equals: Disposable personal income	**50.8**	**37.8**	**56.4**	**46.5**	**24.3**
Less: Personal outlays	59.5	20.1	56.1	25.4	47.8
Equals: Personal saving	**−8.7**	**17.7**	**.3**	**21.1**	**−23.5**
Addenda: Special factors in personal income:					
Minimum wage	2.0				
Cost-of-living increases in Federal transfer payments	1.1	1.3	16.3	.5	[illegible]
Social security (in personal contributions for social insurance)	9.0				3.4
Coal strike		−2.6	2.6		
Federal pay raise				6.2	.3

*Projected.

termittent rebate and other sales incentive programs and the following "payback" periods have been largely responsible for these fluctuations, which have obscured cyclical developments.

The downtrend in domestic production has been pronounced. After peaking at 7.2 million (seasonally adjusted annual rate) in the second quarter of 1981, production fell sharply to 5.0 million in the fourth quarter. It slid further in January and February; a small increase scheduled for March will bring the first-quarter total to a mere 4.2 million.

The gap between domestic sales and production led to a substantial decumulation of inventories; they fell from 1,465,000 (seasonally adjusted) in December to about 1,150,000 in February and even lower in March. The sharp reduction brought inventories more closely in line with sales (the I/S ratio was about 2.2 in February) but at a level too low to support much of a sales recovery. However, as evidenced by second-quarter production schedules as of mid-March, domestic manufacturers do not anticipate a quick recovery in sales. Production was scheduled to increase to 5.8 million, still below the level of sales in the first quarter.

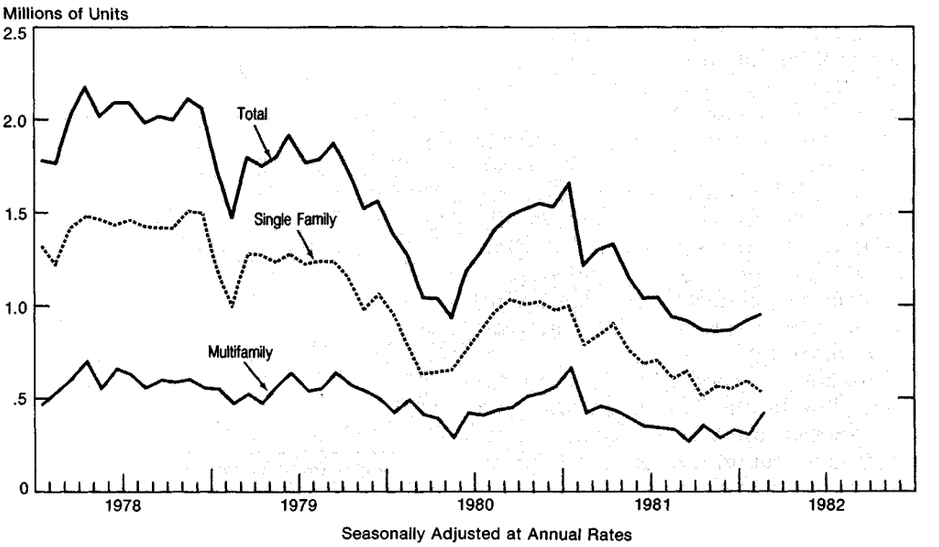
Total new truck sales increased sharply to about 2.6 million (seasonally adjusted annual rate) in the first quarter from 2.1 million in the fourth. Most of the increase was in sales of domestic light trucks, which rebounded to their highest level in 2 years. Sales of the recently introduced compact pickups were particularly strong. Sales of domestic "other" (over 10,000-pound) trucks increased moderately, and imported truck sales changed little. As a result of the large increase in sales and only a slight scheduled increase in production, domestic new truck inventories decreased from 576,000 (seasonally adjusted) in the fourth quarter.

Residential investment

Residential investment declined in the first quarter, but much less than in the preceding three quarters (table [illegible]). Both multifamily and single-family construction contributed to this deceleration. Multifamily construction changed little after declining in the fourth quarter, and the decline in

CHART 2

Housing Starts

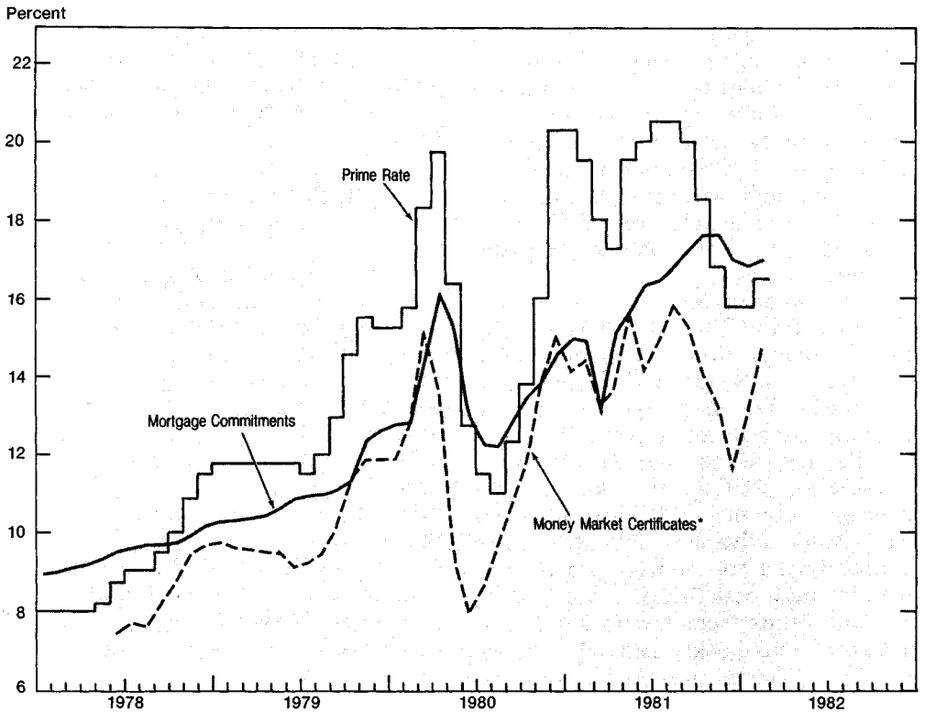


Data: Census

U.S. Department of Commerce, Bureau of Economic Analysis 82-3-2

CHART 3

Selected Interest Rates



*Ceiling rate at savings and loans associations.

U.S. Department of Commerce, Bureau of Economic Analysis 82-3-3

single-family construction slowed. The "other" component of residential investment—which includes additions and alterations, brokers' commissions, and mobile homes—continued down, reflecting, in part, lower sales of new and existing residences.

Residential construction reflects housing starts with a lag. The leveling in multifamily construction reflected the flatness of multifamily starts during the second half of 1981; the smaller decline in single-family construction reflected the bottoming out in single-family starts late last year (chart 2).

Financial conditions improved somewhat in the fourth quarter and contributed to the stabilization. Mortgage loan commitments outstanding at savings and loan associations (S&L's) increased $2 billion on a seasonally adjusted basis over the fourth quarter, reversing an almost continuous decline that had begun a year earlier. This turnaround was accompanied by an approximately 75 basis-point drop in the commitment interest rate on 25-year level-payment mortgages with loan-to-price ratios of 75 percent (chart 3). Flows of funds into S&L's also improved. Seasonally adjusted net mortgage loan repayments rose for the first time in more than a year, despite a sharp increase in the delinquent loan ratio. (This ratio—the dollar amount of mortgages delinquent 60 days or more as a percent of total mortgages held—has risen steadily from 0.84 in August 1979 to 1.48 in December 1981.) Moreover, although withdrawals exceeded new deposits (exclusive of interest credited), the net outflow was the smallest in a year.

Most 6-month Money Market Certificates (MMC's) maturing in the fourth quarter either were rolled over at interest rates lower than the rates at which they had been issued, or were invested in lower cost All Savers Certificates (ASC's) and Small Savers Certificates (SSC's). In addition, the average rate on new Federal home loan bank advances fell 370 basis points during the quarter. Partly offsetting these cost declines was a shift of some funds from low interest rate accounts—passbooks and old, fixed-rate certificates—into ASC's, MMC's, and SSC's.

Financial developments early in the first quarter were mixed. On a seasonally adjusted basis, net new deposits and net mortgage loan repayments at S&L's both declined in January from their fourth-quarter averages, but outstanding mortgage loan commitments continued to increase. Interest rates rose in February, but in most cases only slightly, and ceiling rates on new MMC's remained below rates on those maturing. Yields on conventional mortgages at Federal National Mortgage Association auctions—widely viewed as indicating the future path of mortgage rates—showed no clear pattern, hovering in the 17–18 percent range, during the quarter.

Table 3.—Real Gross National Product and National Income, Command Over Goods and Services, and Related Series

[Billions of 1972 dollars]

	1980	1981	Seasonally adjusted at annual rates				
			1980	1981			
			IV	I	II	III	IV
GNP	**1,480.7**	**1,510.3**	**1,485.6**	**1,516.4**	**1,510.4**	**1,515.8**	**1,498.4**
Gross domestic purchases	1,428.7	1,465.4	1,437.1	1,465.5	1,464.2	1,472.6	1,459.2
Net exports of goods and services	52.0	44.9	48.5	50.9	46.2	43.2	39.2
National income	**1,184.6**	**1,203.6**	**1,187.8**	**1,210.3**	**1,208.7**	**1,206.9**	**1,188.4**
Command, GNP basis	**1,436.8**	**1,474.2**	**1,444.9**	**1,475.1**	**1,471.1**	**1,482.7**	**1,467.8**
Gross domestic purchases	1,428.7	1,465.4	1,437.1	1,465.5	1,464.2	1,472.6	1,459.2
Net exports of goods and services [1]	8.0	8.8	7.9	9.6	6.9	10.1	8.6
Command, National income basis	**1,145.5**	**1,171.6**	**1,151.7**	**1,173.7**	**1,173.8**	**1,177.6**	**1,161.2**
	Percent change from preceding period						
GNP	−.2	2.0	3.8	8.6	−1.6	1.4	−4.5
Command, GNP basis	−1.0	2.6	4.3	8.6	−1.1	3.2	−4.0
National income	−1.0	1.6	5.1	7.8	−.5	−.6	−6.0
Command, national income basis	−1.9	2.3	5.8	7.9	0	1.3	−5.5
Addendum:							
Terms of trade [2]	72.7	77.5	74.2	74.6	75.7	79.3	80.5

1. Equals current-dollar net exports of goods and services deflated by the implicit price deflator for imports of goods and services.
2. Equals the ratio of the implicit price deflator for exports of goods and services to the implicit price deflator for imports of goods and services.

Command Over Goods and Services

In the estimates of constant-dollar GNP, the net exports component is calculated by deflating the current-dollar value of exports by export prices and the current-dollar value of imports by import prices. This procedure yields a constant-dollar measure of the goods and services currently produced by labor and property supplied by residents of the United States, which is the appropriate measure for analyses related to production.

In the article "International Transactions in Measures of the Nation's Production" by Edward F. Denison in the May 1981 SURVEY OF CURRENT BUSINESS, an alternative approach to the deflation of net exports was discussed that takes into account changes in the terms of trade—i.e., the ratio of an index of export prices to an index of import prices. In this approach, net exports in constant dollars is calculated by deflating the value of net exports by the import price index. The use of this alternative measure yields constant-dollar measures of the Nation's command over goods and services resulting from current production. These series—called command series—are preferable for certain types of analysis, as explained in that article.

Table 3 updates the May SURVEY presentations of the command counterparts to GNP and national income, as well as the index of the terms of trade. Henceforth this table will appear regularly in the March, June, September, and December issues. The command counterpart to net national product (NNP) and deflators for GNP, NNP, and national income are available from BEA upon request.

Errata in "International Transactions in Measures of the Nation's Production"

The following errata have been identified in table 1 on pp. 20–21 of the May 1981 SURVEY OF CURRENT BUSINESS:

Period	Column	Published	Correct
1940	20	1.0082	1.0032
1959	13	66.7	67.7
1961	6	760.0	757.0
1961	7	1.0044	1.0004

The Fourth Quarter: Corporate Profits and the Government Sector

Preliminary estimates of corporate profits for the fourth quarter of 1981 have been completed. Their compilation makes it possible to estimate corporate profits tax accruals for the fourth quarter, rounding out the estimates of receipts and expenditures of the government sector. Also, the 75-day revisions of the national income and product accounts for the fourth quarter are shown in table 4.

Corporate profits

Corporate profits from current production—profits with inventory valuation and capital consumption adjustments—decreased $16 billion to $179½ billion in the fourth quarter of 1981, according to preliminary estimates. The decrease, which followed an increase of $5½ billion in the third quarter, erased more than one-half the gain made since the 1980 recession.

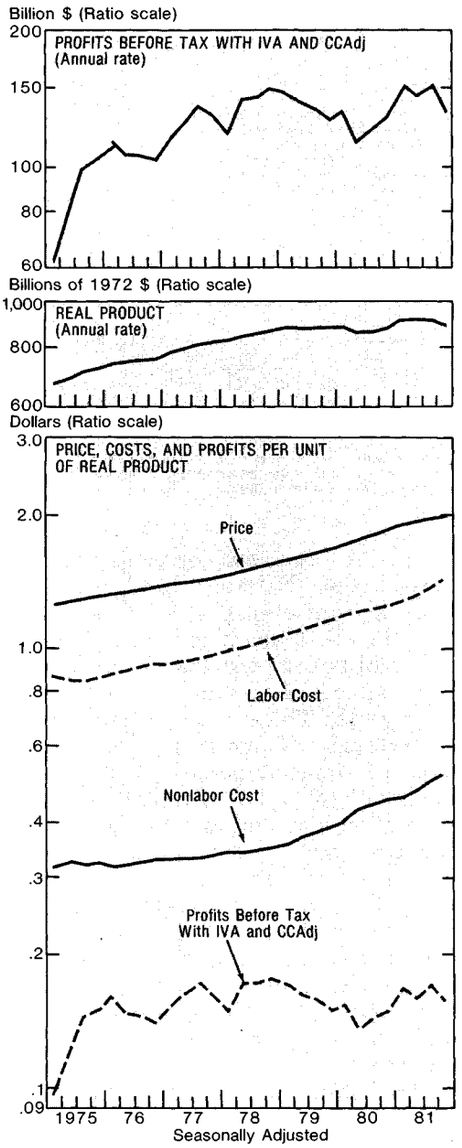
Domestic profits of nonfinancial corporations decreased $15 billion to $137 billion, after increasing $5½ billion in the third quarter (chart 4). Real output of nonfinancial corporations was down sharply, and margins were squeezed by accelerating unit costs and decelerating unit prices.

The decrease in the profits of domestic nonfinancial corporations was centered in the profits of manufacturing corporations. More than one-half of the decrease in the latter was due to a sharp drop in the profits of petroleum manufacturing corporations, which reflected continuing decreases in the prices of refined petroleum products and of crude oil. Crude oil prices can affect profits of petroleum manufacturers because they produce a major share of domestic crude oil. The profits of primary metals and fabricated metal products manufacturers reflected sharp drops in their real sales. In addition, profits of primary metals manufacturers were adversely affected by weakness in the prices of ferrous and nonferrous metals.

Profits of domestic nonmanufacturing industries also decreased. Profits in trade declined; a substantial part of the decline was due to increases in the losses registered by auto dealers. These increased losses reflected a sharp drop in unit auto sales from already depressed levels. In transportation, an increase in the losses registered by airlines—the effect of intensified competition appears to have been larger than the effects of increased airline fares and revenue passenger miles—was about offset by an increase in other parts of the industry.

CHART 4

Domestic Nonfinancial Corporate Business: Profits; Real Product; and Price, Costs, and Profits per Unit of Real Product



NOTE.—Price per unit is current dollar product divided by constant dollar (real) product. Costs and profits per unit are respective components of current dollar product divided by constant dollar product.

U.S. Department of Commerce, Bureau of Economic Analysis 82-3-4

Domestic profits of financial corporations decreased $½ billion to $18½ billion in the fourth quarter, following a decrease of $2 billion in the third. The fourth-quarter decrease was more than accounted for by increased losses of savings and loan associations. Profits from the rest of the world also decreased $½ billion, to $24 billion, following an increase of $1½ billion in the third quarter.

Other measures of profits.—Profits before tax decreased $20 billion to $214½ billion in the fourth quarter, following an increase of $5½ billion in the third.[3] These profits exclude the inventory valuation adjustment (IVA) and the capital consumption adjustment (CCAdj).[4] Inventory profits—the IVA with sign reversed—decreased $3 billion to $22½ billion, following an increase of $1½ billion. Profits attributable to underdepreciation—the CCAdj with sign reversed—decreased $½ billion to $13 billion, following a decrease of $1½ billion.

Disposition of profits.—Corporate profits taxes, which are levied on profits including inventory profits and profits attributable to underdepreciation, decreased $8½ billion to $69½ billion in the fourth quarter, following an increase of $1½ billion in the third. Dividends increased, continuing a 6-year uptrend; they increased $1 billion to $66 billion in the fourth quarter. Undistributed profits decreased $12½ billion to $79 billion, following a $1 billion increase.

The government sector

The fiscal position of the government sector in the NIPA's deteriorated significantly in the fourth quarter of 1981, as the combined deficit of the Federal and of State and local govern-

3. These estimates, and also those of the capital consumption adjustment and corporate profits tax accruals, have been adjusted for changes in the tax law that resulted from enactment of the Economic Recovery Tax Act of 1981. Fourth-quarter profits before tax were reduced $8.6 billion, the capital consumption adjustment was reduced the same amount, and tax liability was reduced $6.6 billion. For an explanation of the changes, see the "Business Situation" in the August 1981 SURVEY OF CURRENT BUSINESS.

4. The IVA and CCAdj are defined in *National Income and Product Accounts of the United States, 1929-1976: Statistical Tables,* U.S. Department of Commerce, Bureau of Economic Analysis (Washington, D.C.: U.S. GPO, 1981).

ments increased $46 billion. Compared with a year earlier, the combined deficit more than doubled to $63½ billion. The deterioration occurred at both levels of government, but was most pronounced at the Federal level.

The Federal sector.—The Federal government deficit increased $44 billion in the fourth quarter, as receipts declined and expenditures continued to increase.

Receipts declined $10½ billion, compared with a $17½ billion increase in the third quarter. The decline was the results of tax reductions, a sharp drop in profits, and a decline in the price of domestic crude oil. All categories of receipts declined except contributions for social insurance. Corporate profits tax accruals declined $7½ billion, reflecting the drop in profits. Personal tax and nontax receipts declined $5 billion, mainly reflecting the first stage of rate reductions under the Economic Recovery Tax Act of 1981 (ERTA). Indirect business tax and nontax accruals declined $2 billion, as windfall profits tax receipts continued to decline. Contributions increased $3½ billion, including $½ billion each for a step-up in contributions to railroad retirement and in the Federal payment to employee retirement funds.

Expenditures increased $33 billion in the fourth quarter, compared with $26 billion in the third. Purchases of goods and services accounted for over 80 percent of the fourth-quarter increase. National defense purchases increased $15½ billion, including over $5 billion for the October pay raise. Nondefense purchases increased $11½ billion, including $10½ billion for purchases by the Commodity Credit Corporation, reflecting a large fall harvest and a drop in farm prices. The pay raise added $1 billion; all other purchases—largely for the strategic petroleum reserve—declined $½ billion. A $4 billion increase in transfer payments to persons was accounted for by increases in medicare ($2½ billion) and unemployment benefits ($1½ billion). Net interest paid increased $3 billion, and subsidies less current surplus of government enterprises increased $¾ billion. Grants-in-aid to State and local governments declined $2 billion; $¾ billion was for public service employment grants, which were terminated in the fourth quarter.

Table 4.—Revisions in Selected Component Series of the NIPA's, Fourth Quarter of 1981

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	45-day estimate	75-day estimate	Revision	45-day estimate	75-day estimate
	Billions of current dollars				
GNP	**2,995.3**	**2,998.3**	**3.0**	**4.1**	**4.6**
Personal consumption expenditures	1,908.4	1,908.3	−.1	5.3	5.3
Nonresidential fixed investment	337.5	339.8	2.3	2.8	5.8
Residential investment	93.8	94.2	.4	−24.0	−22.9
Change in business inventories	12.6	9.4	−3.2		
Net exports	20.8	24.7	3.9		
Government purchases	622.2	622.0	−.2	24.6	24.5
National income		**2,401.0**			**4.0**
Compensation of employees	1,820.9	1,821.3	.4	6.9	7.0
Corporate profits with inventory valuation and capital consumption adjustments		179.5			−29.2
Other	397.7	400.2	2.5	6.8	9.5
Personal income	**2,485.9**	**2,486.5**	**.6**	**7.4**	**7.5**
	Billions of constant (1972) dollars				
GNP	**1,497.6**	**1,498.4**	**.8**	**−4.7**	**−4.5**
Personal consumption expenditures	957.2	957.5	.3	−2.3	−2.2
Nonresidential fixed investment	161.7	162.7	1.0	−5.1	−2.9
Residential investment	39.3	39.4	.1	−28.1	−27.1
Change in business inventories	6.2	4.2	−2.0		
Net exports	37.5	39.2	1.7		
Government purchases	295.6	295.4	−.2	10.5	10.2
	Index numbers, 1972=100 [1]				
GNP implicit price deflator	200.01	200.10	.09	9.3	9.5
GNP fixed-weighted price index	206.8	206.9	.1	8.5	8.6
GNP chain price index				8.5	8.6

1. Not at annual rates.

NOTE.—For the fourth quarter of 1981, the following revised or additional major source data became available: For *personal consumption expenditures,* revised retail sales for December, consumer share of new car purchases for December, and consumption of electricity for November; for *nonresidential fixed investment,* revised manufacturers' shipments of equipment for December, revised construction put in place for December, business share of new car purchases for December, and business expenditues for plant and equipment for the quarter; for *residential investment,* revised construction put in place for December; for *change in business inventories,* revised book values for manufacturing and trade for December; for *net exports of goods and services,* revised merchandise trade for December, and revised service receipts for the quarter; for *government purchases of goods and services,* revised construction put in place for December; for *wages and salaries,* revised employment, average hourly earnings, and average weekly hours for December; for *net interest,* revised net interest received from abroad for the quarter; for *corporate profits,* domestic book profits for the quarter, and revised profits from the rest of the world for the quarter; and for *GNP prices,* revised producer price indexes for October.

On a high-employment budget basis, the Federal fiscal position moved from a surplus of $4.3 billion in the third quarter to a deficit of $24.0 billion in the fourth, reflecting the tax reductions under ERTA (table 2, page 18). The surplus or deficit as a percentage of potential GNP decreased from 0.1 percent in the third quarter to −0.7 percent in the fourth—a move toward a more expansionary fiscal position. These estimates differ from those previously published in the SURVEY due to changes in the procedures used to calculate the high employment budget. A discussion of the new procedures and revised historical estimates will be published in the April 1982 SURVEY.

The State and local sector.—The State and local government surplus declined $2 billion in the fourth quarter to $36 billion, as expenditures increased more than receipts.

Receipts increased $4 billion, compared with $6 billion in the third quarter. Indirect business tax and nontax accruals increased $3 billion, less than in the third quarter because of slower growth of retail sales and a decline in gasoline consumption. Personal tax and nontax receipts increased $3 billion, and contributions for social insurance increased $1 billion. Corporate profits tax accruals declined $1 billion.

Expenditures increased $6 billion, compared with $4½ billion in the third quarter. Purchases of goods and services accounted for the increase; all other expenditures, on balance, were unchanged. Within purchases, compensation increased somewhat more than in the third quarter; public service employment ended by the close of the quarter and was partly replaced by employees with higher average pay. Construction purchases increased, following a decline in the third quarter; highway construction continued to decline, but other types—transit and education—were up, but probably only temporarily.

the BUSINESS SITUATION

INFORMATION that is available as of mid-June to estimate real GNP for the second quarter suggests a flattening, after substantial declines in the two preceding quarters. For motor vehicle production, information about the second quarter is relatively complete.[1] It indicates that motor vehicle production, which accounted for about one-third of the decline in GNP over the four preceding quarters, was up substantially in the second quarter. Personal consumption expenditures (PCE) other than on motor vehicles is based on 2 months' information. Nonvehicle PCE appears to have accelerated slightly from the moderate increases over the four preceding quarters. Although information on fixed investment other than residential construction is sketchy, it is clear that fixed investment registered a substantial drop in the second quarter. The drop was centered in producers' durable equipment (PDE), which had weakened earlier. In residential construction, the free fall of 1981 slowed in the first and second quarters. Information for these components of GNP, together with the little that is known about the others, yields the flattening in the total.

In what follows, price and labor market developments will be summarized before turning to motor vehicle production, PCE and personal income, and fixed investment.

Prices.—Deceleration in the increase in GNP prices continued in the second quarter. The increase in GNP prices, as measured by the fixed-weighted price index, was down substantially from annual rates of 5 percent in the first quarter and 7½–10½ percent in 1981. The second-quarter deceleration was most marked in PCE prices, but extended to prices paid by investors and government.

Within PCE prices, the second-quarter deceleration was largely due to energy and food. Energy prices were down sharply, after a small decline in the first quarter. For gasoline, which makes up about one-half of PCE on energy, prices have weakened over the past several quarters, largely due to the worldwide excess supply of oil. On a monthly basis, consumer gasoline prices declined sharply from January through April; in May, however, there was a turnaround, and gasoline prices increased substantially. Food prices decelerated in the second quarter, from the 5½-percent increase registered in the first. Except in January, when prices of fruits and vegetables were affected by weather damage, consumer food prices showed small monthly changes—some up and some down—through April. In May, prices increased substantially: meat and poultry, fruits and vegetables, and cereals contributed to a turnaround.

Labor markets.—The unemployment rate rose to 9.5 percent in May, from 8.8 percent in the first quarter. At 9.5 percent, the rate surpassed the post-World War II high of 9.0 percent set in 1975 (chart 1). The rates for adult men and adult women also were up 0.7 percentage points from the first quarter, to 8.4 percent and 8.3 percent, respectively. Teenage unemployment was 23.1 percent in May; for teenage blacks, the rate was 49.8 percent.

Employment as measured by the household survey increased 563,000 from the first quarter to May; all of the increase was from April to May. As measured by the payroll survey, however, employment declined 439,000 over the same period. Most of the decline had occurred by April; May showed no change. As in recent quarters, the declines were widespread, but were particularly large in manufacturing. Employment in manufacturing dropped 310,000, of which 221,000 was in durables (table 1).

Average weekly hours, which typically lead economic activity, stabilized in recent months. Hours for the total

Table 1.—Employment by Industry

[Seasonally adjusted; thousands]

	Change		1982: May
	1981: IV–1982: I	1982: I–1982 May	
Total	**−546**	**−439**	**89,969**
Goods-producing	−571	−411	24,177
Mining	−1	−42	1,158
Construction	−108	−59	3,899
Manufacturing	−462	−310	19,120
Durable goods, except electrical	−333	−221	11,341
Primary metal products	−57	−65	958
Fabricated metal products	−48	−33	1,472
Machinery	−69	−76	2,365
Electric and electronic equipment	−29	−8	2,039
Transportation equipment	−51	−16	1,760
Other	−80	−22	2,747
Nondurable goods	−129	−89	7,779
Food and kindred products	−3	−6	1,653
Apparel and other textile products	−85	−34	1,162
Printing and publishing	0	−3	1,273
Chemicals and allied products	−11	−14	1,078
Other	−31	−31	2,613
Service-producing	24	−27	65,792
Transportation and public utilities	−34	−49	5,064
Wholesale trade	−29	−17	5,325
Retail trade	80	−6	15,304
Finance, insurance, and real estate	2	−2	5,327
Services	60	53	18,920
Government	−56	−6	15,852

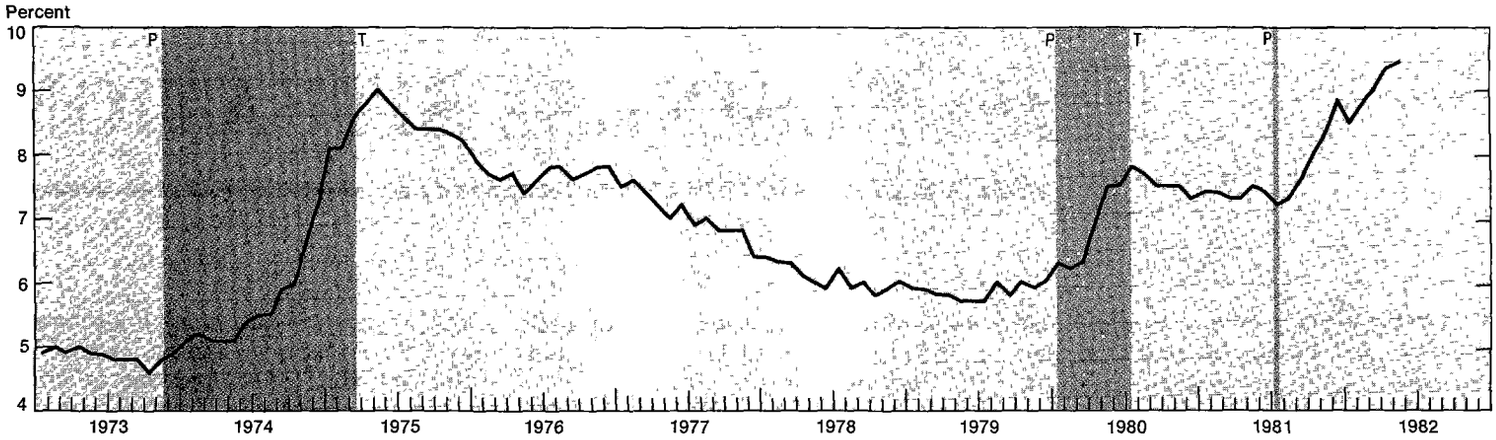
Source: Bureau of Labor Statistics.

1. The major source data that shed light on second-quarter GNP are limited to 1 or 2 months of the quarter, and in some cases are preliminary. These data are: For *personal consumption expenditures* (PCE), April and May retail sales, unit sales of new autos through the first 10 days of June, and sales of new trucks for April and May; for *nonresidential fixed investment,* the same data for autos and trucks as for PCE, April construction put in place, April manufacturers' shipments of business equipment, and business investment plans for the quarter; for *residential investment,* April construction put in place, and April and May housing starts; for *change in business inventories,* April book values for manufacturing and trade, and unit auto inventories for April and May; for *net exports of goods and services,* April merchandise trade; for *government purchases of goods and services,* Federal unified budget outlays for April, State and local construction put in place for April, and State and local employment for April and May; and for *GNP prices,* the Consumer Price Index for April and the Producer Price Index for April and May.

"Real" or constant-dollar estimates are in 1972 dollars. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

CHART 1

Unemployment Rate



Note —Business cycle peaks (P), and troughs (T), are turning points in economic activity, as designated by the National Bureau of Economic Research, Inc Shaded areas represent recessions
Data BLS
U S Department of Commerce, Bureau of Economic Analysis

private nonfarm economy, which had fallen from 35.4 in the first quarter of 1981 to 34.9 in March and April of this year, increased to 35.0 in May. Overtime hours in manufacturing, which had fallen from 3.0 in the second quarter of 1981 to 2.3 in March, increased to 2.4 in April and May.

Motor vehicles

Motor vehicle production increased sharply in the second quarter, after three quarters of decline. Although truck production contributed to the step-up, most of it was in auto production, which registered the first substantial increase in a year and a half. Auto production had been cut in the first quarter, and extensive sales incentive programs put in place to reduce an overhang of inventories. With inventories in better balance by the end of the quarter, production was stepped up in the second quarter to put it in line with sales.

The sharp increase in domestic car production was from an extremely low level in the first quarter. The step-up closed the gap between production and sales, which—based on information through the first 10 days of June—were little changed from 6.0 million (seasonally adjusted annual rate) in the first quarter. Inventories remained at about the first-quarter level of 1,081,000 (seasonally adjusted) and the inventory-sales ratio remained at about 2.2.

Total new car sales were down slightly from 8.3 million in the first quarter (chart 2). Sales of large (full-size plus intermediate) domestic cars increased, but sales of small (subcompact plus compact) domestic cars and imported cars (which are nearly all subcompacts and compacts) declined. Over the last two quarters, the market share of total sales accounted for by large domestic cars climbed from 34½ percent to 42 percent. The share of small domestic cars declined from 35½ percent to 33 percent and of imported cars from 30 percent to 25 percent over the same period. The shift toward large domestic cars from small domestic and imported cars may partly reflect a lessening in the importance of fuel economy as a factor in new car buying. After sharp increases in 1979 and 1980, gasoline prices began falling in the second quarter of 1981, and, by May 1982, were 9½ percent below their year-earlier level.

Incentive programs to stimulate domestic sales continued in the second quarter. In the first quarter, the sales incentives consisted of cash rebates to purchasers. Sales incentives in the second quarter were largely in the form of extended warranties and interest rate subsidies, although a few rebates on selected models were offered. The second-quarter programs probably assisted in maintaining sales, thereby moderating the "payback" period that has usually followed cash rebates. Prospects for sales are brightened by a boost in disposable personal income due to the income tax cut effective July 1 (see below).

Total new truck sales declined from 2.7 million (seasonally adjusted annual rate) in the first quarter, but were above the 2.1–2.4 million range that had prevailed the previous year and a half. Sales of domestic light (under 10,000 pound) trucks were down slightly, after a sharp increase in the first quarter. Sales of domestic "other" (over 10,000 pound) trucks remained weak. The introduction of new domestic compact pickups cut sharply into imported truck sales, which dropped to their lowest level in 4 years.

Personal income and PCE

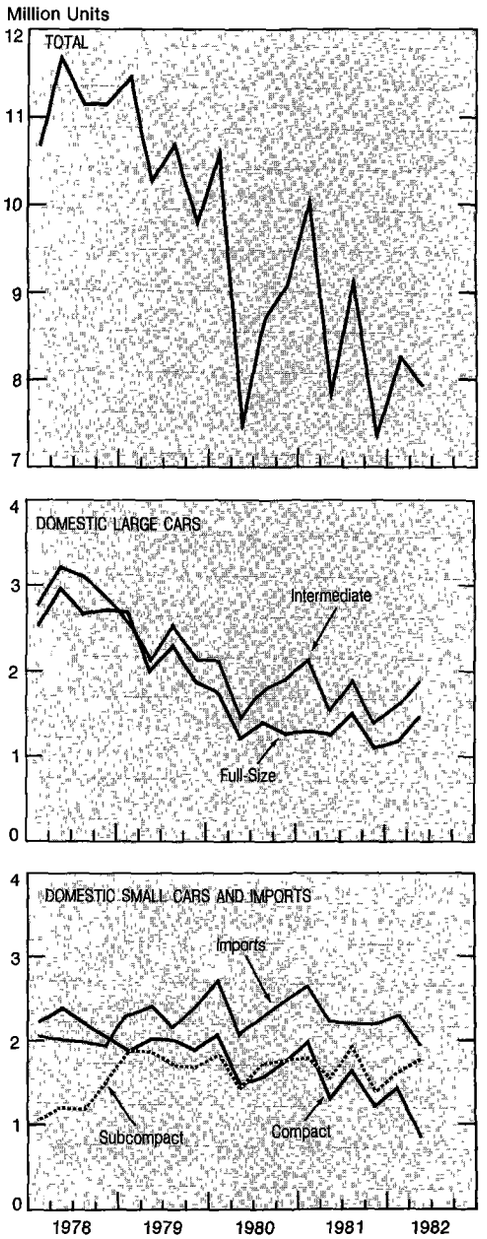
Although the personal income total increased more in the second quarter than in the first, wage and salary disbursements increased at only one-half their already slow first-quarter rate (table 2). The deceleration was spread across all major industries: Wages and salaries in commodity-producing industries fell at a faster rate, and in distributive and service industries and in government and government enterprises increased at slower rates than in the first quarter. For the most part, these slowdowns paralleled the declines in employment referred to in table 1.

Farm proprietors' income declined considerably less than in the first quarter. The volume of crop and livestock production was down, as it had been in the first quarter, but was partly offset by a substantial increase in prices.

Improvements in other components of personal income did not stem from production. The step-up in transfer payments was due to an increase in unemployment insurance payments and, to a smaller extent, to an increase in civilian and military retirement benefits. A pickup in personal interest income reflected higher interest rates. In addition, personal contributions for social insurance, which are subtracted in deriving the personal income total, increased less than in the first quarter, when they had been boosted $3½ billion by increases in the social security tax rate and wage base.

CHART 2

Retail Sales of New Passenger Cars



NOTE —The components may not add to the total because each category was separately adjusted for seasonal variation. Data for the most recent quarter are projected

Data Motor Vehicle Manufacturers Association of the United States, Inc and Ward's Automotive Reports, seasonal adjustment by BEA

U S Department of Commerce, Bureau of Economic Analysis 82 6 2

After no change in the first quarter, personal taxes increased only $4 billion in the second. In both quarters, taxes were held down by the Crude Oil Windfall Profit Tax Act of 1980 and the Economic Recovery Tax Act of 1981. Various exclusions under these acts were introduced in the first and second quarters, and they were roughly equal in amount. In addition, rate reductions on nonwithheld income had been introduced in the first quarter. Disposable personal income increased more than in the first quarter. Given the substantial deceleration in PCE prices, real disposable personal income registered its largest increase—3 percent at an annual rate—in more than a year. Two special factors will boost disposable income in the third quarter. The first is a cost-of-living increase in social security benefits, effective July 1, which will raise personal income about $11 billion. The second is a cut in personal taxes under the Economic Recovery Tax Act of 1981, also effective July 1. It will amount to about $32 billion.

Personal outlays increased less in the second quarter than in the first. In real terms, a deceleration in PCE, which dominates personal outlays, was largely due to the swing in the motor vehicle component of PCE from a large first-quarter increase to a small second-quarter decline. In contrast to the motor vehicle component, nonvehicle PCE strengthened slightly. Furniture and equipment purchases increased after several quarters of decline, and gasoline and fuel oil increased after several quarters of decline or no change. The increase in gasoline purchases was partly a response to the decline in prices. On a monthly basis, except in March, total PCE has increased since December and nonvehicle PCE since January. The annual rate of increase was 4 percent for total PCE, and 3½ percent for nonvehicle PCE.

Fixed investment

Residential investment registered a decline of about the same size as in the first quarter and less than in the free fall of 1981. The decline is largely traceable to the course of housing starts, which construction expenditures follow with a lag.

As noted earlier, although information about second-quarter nonresidential fixed investment is sketchy, it is clear that there was a substantial decline centered in PDE. PDE had weakened during 1981, and, although its pattern was dominated by the irregular decline of motor vehicles, other PDE had fallen off as well. In the first quarter of 1982, motor vehicles had increased, but in the second they declined. For nonvehicle PDE, the major source of information is the Census Bureau's monthly (M-3) survey of manufacturers' shipments, inventories, and orders. Shipments, after this year's high in February, fell sharply through April. If it is assumed that there is a slight recovery in May and June from April's depressed level, shipments indicate a second quarter substantially lower than the first. Continued drops in purchases of agricultural equipment, construction machinery, mining and oil field equipment, and aircraft are

Table 2.—Personal Income and Its Disposition: Change From Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1981	1982	
	IV	I	II*
Wage and salary disbursements	24.0	16.1	7.9
Manufacturing	−2.9	−1.2	−.7
Other commodity producing	3.7	.9	−3.4
Distributive	4.2	4.3	2.5
Services	10.3	8.2	6.3
Government and government enterprises	8.8	4.0	3.0
Proprietors' income	−1.2	−8.3	−1.9
Farm	−.2	−7.5	−1.9
Nonfarm	−.9	−.8	.1
Personal interest income	12.9	10.0	13.4
Transfer payments	4.7	7.3	14.4
Other income	5.8	4.3	3.4
Less. Personal contributions for social insurance	1.6	4.6	1.5
Personal Income	**44.8**	**24.8**	**35.7**
Less: Personal tax and nontax payments	−1.7	0	3.8
Impact of legislation	−15.9	−10.2	−4.2
Other	14.3	10.2	8.0
Equals: Disposable personal income	**46.5**	**24.8**	**31.9**
Less: Personal outlays	25.4	39.0	23.9
Equals: Personal saving	**21.2**	**−14.1**	**8.0**
Addenda. Special factors in personal income—			
Cost-of-living increases in Federal transfer payments	5	.4	2.4
Social security base and rate changes (in personal contributions for social insurance)		3.4	
Federal pay raise	6.2	.3	

*Projected.

indicated, reflecting the particularly severe problems of the industries investing in these kinds of PDE. In addition, a large drop is indicated for purchases of computers.

Nonresidential structures, which had registered substantial increases throughout 1981, leveled off in the first quarter and held even in the second. Through the fourth quarter of 1981, industrial construction, public utility construction, and oil and gas well drilling had increased. Subsequently, they turned down and were offset in the total by a pickup in commercial, particularly office, construction.

The recent weakening in nonresidential fixed investment is consistent with the results obtained from the BEA survey of expenditures for new plant and equipment. As discussed later in this issue, business plans were revised down substantially from the plans reported 3 months ago. This downward revision, and also the planned low level of investment in 1982—a 2.4-percent decline in real terms from 1981—appears to reflect the poor performance of profits (see the next section of the "Business Situation"), the extremely low utilization rate of manufacturing capacity, and near-record long-term interest rates.

Table 3.—Gross Domestic Product and Unit Profits, Prices, and Costs of Nonfinancial Corporate Business

[Dollars, seasonally adjusted, unless otherwise noted]

	1981		1982	Percent change from preceding quarter at annual rates	
	III	IV	I		
Gross domestic product (billions of 1972 dollars, annual rates)	901.1	883.0	875.4	−7.8	−3.4
Per unit:					
Profits	.169	.153	136	−32 8	−37.6
Prices	1.954	1 999	2 013	9.5	2 8
Costs					
Labor	1 295	1 336	1.361	13 3	7.7
Nonlabor	490	.510	516	17.4	4 8

NOTE.—For full specifications of items, see National Income and Product Accounts Tables 1.13 and 7 7

First-Quarter Corporate Profits

In the first quarter of 1982, corporate profits from current production—profits with inventory valuation and capital consumption adjustments—decreased $25½ billion to $152 billion, following a decrease of $18 billion in the fourth quarter of 1981. The first-quarter decrease was largely accounted for by domestic profits of nonfinancial corporations, which decreased $16½ billion to $118 billion, following a $17 billion decrease in the fourth quarter. The decreases in nonfinancial profits resulted from the weakening in economic activity, traced in table 3 by the decline in real gross domestic product of nonfinancial corporate business, and lower profits per unit of output. The lower unit profits reflected faster increases in labor and nonlabor costs than in unit prices.

For nonfinancial profits, detail by industry is available for a measure of profits that includes the inventory valuation but not the capital consumption adjustment. According to this measure, profits of manufacturing corporations accounted for about three-quarters of the decrease in profits of nonfinancial corporations. Decreases in profits occurred for most manufacturing industries, where the weakening in economic activity can be traced with constant-dollar sales. A decrease in the profits of primary metals manufacturers reflected both a decrease in their sales and level or declining prices for metals, especially nonferrous metals. The losses of motor vehicle manufacturers increased as their output slumped further and they incurred the costs of rebate programs, which were used primarily to reduce excessive dealer inventories. Profits of food manufacturers decreased despite a sales increase; profit margins were squeezed as prices for processed foods failed to increase as rapidly as crude food prices. A decrease in the profits of petroleum manufacturers reflected declining petroleum product prices as well as a decrease in their sales. Profits of most nonmanufacturing nonfinancial industries also decreased. Profits of retail trade corporations increased, however, despite a decrease in their constant-dollar sales. The increase was almost entirely due to a swing from losses to profits for auto dealers, whose unit auto sales increased within the overall retail trade sales decrease.

Domestic profits of financial corporations decreased $½ billion to $18½ billion in the first quarter, following an equal decrease in the fourth. The first-quarter decrease was more than accounted for by a decrease in the profits of insurance companies. Profits of Federal Reserve banks—which are treated as part of corporate business in the national income and product accounts (NIPA's)—and commercial banks increased, and losses of savings and loan associations and of mutual savings banks decreased slightly. The increase in profits of Federal Reserve banks resulted from increased holdings of long-term Federal Government debt instruments and from increased average interest rates on these debt instruments.

Profits from the rest of the world decreased $8½ billion to $15½ billion in the first quarter, following a decrease of $½ billion in the fourth. The first-quarter decrease was primarily in the rest-of-the-world profits other than those on the foreign petroleum operations of U.S. corporations and reflected weak growth or recessions in the economies of most industrial nations.

Other profits measures.—Profits before tax decreased $41 billion to $172 billion in the first quarter, following a decrease of $21½ billion in the fourth. These profits exclude the inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj).[2] Inventory profits—the IVA with sign reversed—decreased $12½ billion to $10 billion, and profits at-

(Continued on p. 16)

2. The IVA and CCAdj are defined in *National Income and Product Accounts of the United States, 1929–1976: Statistical Tables*, U.S. Department of Commerce, Bureau of Economic Analysis (Washington, D.C.: U.S. GPO. 1981).

(Continued from p. 4)

tributable to underdepreciation—the CCAdj with sign reversed—decreased $3 billion to $9½ billion. These decreases accounted for almost two-fifths of the decrease in profits before tax.

Disposition of profits.—Corporate profits taxes, which are levied on profits including inventory profits and profits attributable to underdepreciation, decreased $15 billion to $53½ billion in the first quarter, following a $9½ billion decrease in the fourth. The decrease resulted from not only lower profits, but also a sharp decrease in the share of domestic profits going to Federal taxes. Excluding the profits of Federal Reserve banks (almost all of which are returned to the Treasury and are counted as corporate profits taxes in the NIPA's), the share dropped to 23½ percent in the first quarter from 31 percent in the fourth. The reduced share reflected both increased tax credits (under the Economic Recovery Tax Act of 1981) and reduced pre-tax profits relative to the credits.

Dividends continued their 6-year uptrend in the first quarter, increasing another $1 billion to $67 billion. Undistributed profits decreased $26½ billion to $51½ billion following a decrease of $13½ billion in the fourth quarter. The first-quarter level, after 2 years of decrease, was as low as that registered at the end of the 1974-75 recession.

Reconciliation and Other Special Tables

Table 1.—Relation of Net Exports of Goods and Services in the National Income and Products Accounts (NIPA's) to Balance on Goods and Services in the Balance of Payments Accounts (BPA's)

[Billions of dollars, seasonally adjusted at annual rates]

	Line	1981				1982
		I	II	III	IV	I
Exports of goods and services, BPA's	1	373.1	377.6	371.9	369.0	361.5
Less: Gold, BPA's	2	5.5	5.1	4.4	2.5	1.7
Capital gains net of losses in direct investment income receipts	3	1.5	2.9	−.9	−2.0	−.6
Statistical differences [1]	4	−2.0	.6	−.8	2.3	2.3
Other items	5	.8	.7	1.1	.6	1.1
Equals: Exports of goods and services, NIPA's	6	367.4	368.2	368.0	365.6	356.9
Imports of goods and services, BPA's	7	354.5	365.9	361.6	365.3	348.8
Less: Payments of income on U.S. Government liabilities	8	15.8	17.0	17.1	17.1	17.9
Gold, BPA's	9	3.8	4.1	4.5	3.7	3.0
Capital gains net of losses in direct investment income payments	10	.3	−.2	−1.0	.1	−.5
Statistical differences [1]	11	−3.2	−1.9	2.9	3.4	3.4
Other items	12	.	.	.	.	.
Plus. Gold, NIPA's	13	.4	.6	.6	.0	.4
Equals. Imports of goods and services, NIPA's	14	338.2	347.5	338.7	341.0	325.4
Balance on goods and services, BPA's (1-7)	15	18.7	11.6	10.2	3.8	12.7
Less: Gold (2-9+13)	16	2.1	1.5	.6	−1.1	−.9
Capital gains net of losses in direct investment income (3-10)	17	1.2	3.1	.1	−2.1	−.1
Statistical differences (4-11)	18	1.2	2.5	−3.8	−1.1	−1.1
Other items (5-12)	19	.8	.7	1.1	.6	1.1
Plus: Payments of income on U.S. Government liabilities (8)	20	15.8	17.0	17.1	17.1	17.9
Equals: Net exports of goods and services, NIPA's (6-14)	21	29.2	20.8	29.3	24.7	31.5

1 Consists of statistical revisions in the BPA's that have not yet been incorporated in the NIPA's

Table 2.—Real Gross National Product and National Income, Command Over Goods and Services, and Related Series

[Billions of 1972 dollars]

	1980	1981	Seasonally adjusted at annual rates				
			1981				1982
			I	II	III	IV	I
GNP	**1,480.7**	**1,510.3**	**1,516.4**	**1,510.4**	**1,515.8**	**1,498.4**	**1,484.5**
Gross domestic purchases	1,428.7	1,465.4	1,465.5	1,464.2	1,472.6	1,459.2	1,445.2
Net exports of goods and services	52.0	44.9	50.9	46.2	43.2	39.2	39.3
National income	**1,184.6**	**1,203.4**	**1,210.3**	**1,208.7**	**1,206.9**	**1,187.5**	**1,171.8**
Command, GNP basis	**1,436.8**	**1,474.2**	**1,475.1**	**1,471.1**	**1,482.7**	**1,467.8**	**1,456.1**
Gross domestic purchases	1,428.7	1,465.4	1,465.5	1,464.2	1,472.6	1,459.2	1,445.2
Net exports of goods and services [1]	8.0	8.8	9.6	6.9	10.1	8.6	10.9
Command, National income basis	**1,145.5**	**1,171.4**	**1,173.7**	**1,173.8**	**1,177.6**	**1,160.3**	**1,146.8**
	Percent change from preceding period						
GNP	−.2	2.0	8.6	−1.6	1.4	−4.5	−3.7
Command, GNP basis	−1.0	2.6	8.6	−1.1	3.2	−4.0	−3.1
National income	−1.0	1.6	7.8	−.5	−.6	−6.3	−5.2
Command, national income basis	−1.9	2.3	7.9	0	1.3	−5.7	−4.6
Addendum							
Terms of trade [2]	72.7	77.5	74.6	75.7	79.3	80.5	81.4

1. Equals current-dollar net exports of goods and services deflated by the implicit price deflator for imports of goods and services.

2 Equals the ratio of the implicit price deflator for exports of goods and services to the implicit price deflator for imports of goods and services

the BUSINESS SITUATION

REAL GNP increased 1½ percent at an annual rate in the second quarter.[1] According to revised estimates presented later in this issue, real GNP had peaked in the third quarter of 1981, and then dropped 5–5½ percent in both the fourth quarter of 1981 and first quarter of 1982 (table 1). The following are highlights of this contraction and the second-quarter increase in terms of personal income, GNP prices, and the components of real GNP.

• Personal income, and also real disposable personal income, did better in the second quarter than in the two preceding quarters.

Private wage and salary disbursements, which were severely depressed by declines in production, increased more in the second quarter than in the first (table 2). Proprietors' income declined less in the second quarter than in both the first and fourth quarters. These production-related developments, in combination with larger increases in personal interest income and transfer payments, underlie a larger increase in personal income in the second quarter than in the two preceding quarters.

The impact of legislation on personal taxes helped insulate disposable personal income from the weakness in personal income. The impacts included a $15 billion cut in withheld income taxes under the Economic Recovery Tax Act of 1981 (ERTA) effective October 1, rate reductions on nonwithheld income taxes amounting to $4 billion effective January 1, and various exclusions introduced in the first and second quarters under ERTA and the Crude Oil Windfall Profit Tax Act of 1980. (A further cut under ERTA, amounting to roughly $25 billion, became effective July 1.)

Reflecting these income and tax developments and also PCE prices, real disposable personal income registered a better performance in the second quarter—a 3-percent annual rate increase—than in the fourth and first quarters, when it increased 1 percent and declined 2 percent, respectively.

• GNP price increases slowed substantially from the fourth quarter of 1981 to the first quarter of 1982, and then slightly from the first quarter to the second, as measured by the fixed-weighted price index.

The increase in GNP prices slowed from an annual rate of 8½ percent in the fourth quarter (including a little over 1 percentage point for the effect of the Federal pay raise) to 5 percent in the first quarter and 4½ percent in the second (table 3). The slowing was evident in the prices of fixed investment goods and of government purchases as well as in the prices of personal consumption expenditures (PCE), which have a weight in GNP prices of almost two-thirds. Within PCE, energy prices declined in the first and second quarters, largely due to gasoline prices, and increases in prices of expenditures on other than food and energy dropped to 6–6½ percent from 9 percent in the fourth quarter.

Table 1.—Real GNP: Change From Preceding Quarter

[Percent change at annual rates; based on billions of 1972 dollars, seasonally adjusted at annual rates]

	1981	1982	
	IV	I	II
GNP	−5.3	−5.1	1.7
Final sales	−2.3	.2	−.7
Personal consumption expenditures	−3.3	2.4	3.0
Durables	−20.9	10.5	4.4
Motor vehicles and parts	−36.9	45.3	.7
Furniture and household equipment	−6.4	−12.0	7.7
Other durables	−15.2	6.9	5.1
Nondurables	.1	−1.0	3.9
Food	2.5	−.7	4.9
Energy[1]	−7.8	1.4	14.4
Clothing and shoes	−.5	3.9	4.4
Other nondurables	−2.3	−9.0	−2.9
Services	0	2.9	1.9
Energy[2]	3.2	6.5	−10.5
Other services	−.2	2.7	2.7
Gross private domestic fixed investment	−5.0	−6.0	−6.3
Nonresidential	.6	−5.0	−8.5
Structures	5.9	1.5	1.5
Producers' durable equipment	−1.7	−7.7	−12.8
Autos, trucks, and buses			
Other			
Residential	−25.3	−9.7	3.1
Net exports of goods and services			
Exports	−2.4	−12.7	1.6
Merchandise	2.7	−15.3	−7.4
Agricultural	53.0	−.9	11.4
Nonagricultural	−7.1	−18.9	−12.2
Other	−8.3	−9.2	14.0
Imports	6.0	−17.5	7.2
Merchandise	19.0	−30.1	−.9
Petroleum	5.4	−44.2	−48.9
Nonpetroleum	20.1	−28.9	3.4
Other	−17.6	17.6	25.1
Government purchases of goods and services	7.0	−2.9	−6.3
Federal	20.4	−5.4	−16.4
National defense	10.1	−8.1	7.2
Nondefense	43.6	−.9	−49.2
Commodity Credit Corporation[3]			
Other	−4.3	−4.8	−4.3
State and local	−.8	−.9	.2
Change in business inventories			

1. Gasoline and oil, and fuel oil and coal.
2. Electricity and gas.
3. Estimates, in billions of 1972 dollars, for the third quarter of 1981 through the second quarter of 1982 were: 1.9, 5.7, 6.1, and 0.2.

NOTE.—Most dollar levels are found in the National Income and Product Accounts Tables, table 1.2.

1. The second-quarter GNP estimates are based on the following major data sources. For *personal consumption expenditures* (PCE), retail sales and unit auto and truck sales through June; for *nonresidential fixed investment,* the same information for autos and trucks as for PCE, April and May construction put in place, and April and May manufacturers' shipments of equipment; for *residential investment,* April and May construction put in place, and April and May housing starts; for *change in business inventories,* April and May book values for manufacturing and trade, and unit auto inventories through June; for *net exports of goods and services,* April and May merchandise trade, and fragmentary information on investment income for the quarter; for *government purchases of goods and services,* Federal unified budget outlays for April and May, State and local construction put in place for April and May, and State and local employment through June; and for *GNP prices,* the Consumer Price Index for April and May, the Producer Price Index for April and May, and unit value indexes for exports and imports for April and May. Some of the source data are subject to revision.

Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

• Personal consumption expenditures declined in the fourth quarter, and increased moderately in the first and second quarters.

The fourth-quarter decline in PCE was largely accounted for by motor vehicles, as was the first-quarter increase. In the first quarter, auto manufacturers introduced cash rebates to boost sales; sales were maintained in the second quarter by offers of extended warranties and interest rate subsidies to purchasers. With motor vehicle sales flat, the second-quarter increase in PCE was mainly in furniture and equipment, after several quarters of decline; food; clothing and shoes; gasoline, in part a response to the decline in its price; and transportation services.

• Nonresidential fixed investment weakened over the three quarters.

The weakening in nonresidential fixed investment centered in producers' durable equipment (PDE), which declined each quarter. In the fourth quarter, the decline was more than accounted for by motor vehicles; in the first and second quarters, other PDE declined substantially. There were large declines in purchases of aircraft and computers, and continued weakening in purchases of equipment—such as agricultural machinery, construction machinery, and mining and oil field equipment—used in industries that have been hard hit in recent quarters.

Increases in nonresidential structures, which had been substantial through the third quarter of 1981, tapered in the fourth quarter and were small in the first and second quarters. In 1981, industrial construction and oil and gas well drilling had been major factors in the increases; in the first half of 1982, these types of construction were down. In contrast, commercial construction, which had shown moderate increases in 1981, was stepped up.

Although the volatility of motor vehicles and, to a lesser extent, of aircraft and computers blurs the cyclical pattern of investment obtainable from these estimates, they seem consistent with the low level of business investment plans for 1982 reported in the BEA survey of expenditures on new plant and equipment.

• Residential investment bottomed out in the first half of 1982, ending a three-quarter slide.

Although the slide had ended, residential construction remained in the doldrums in the first half of 1982. It was as low as its troughs in the 1970 and 1974–75 recessions. A small decrease in the first quarter and a small increase in the second were in parts of residential investment other than construction—commissions on the sale of residences in the first quarter, and additions and alterations in the second.

• Change in business inventories (CBI) showed sharp quarter-to-quarter fluctuations, to which motor vehicle inventories contributed significantly.

Motor vehicle inventories, after having contributed little to the quarter-to-quarter change in CBI in the fourth quarter, were a major factor in the first and second quarters (chart 1). In the first quarter, there was a swing to sharp decumulation, as the cash rebates helped reduce an overhang of dealer inventories. In the second quarter, there was a swing to moderate accumulation. This swing

Table 2.—Personal Income and Its Disposition: Change From Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1981	1982	
	IV	I	II
Wage and salary disbursements	18.9	10.4	14.2
Manufacturing	−4.2	−3.6	.3
Other commodity-producing	2.6	.2	−1.5
Distributive	1.8	3.1	4.4
Services	10.0	6.7	7.4
Government and government enterprises	8.6	4.1	3.6
Proprietors' income	−3.4	−7.7	−1.2
Farm	−2.5	−6.7	−2.6
Nonfarm	−.9	−1.0	1.4
Personal interest income	11.4	8.8	12.1
Transfer payments	5.9	3.8	10.4
Other income	4.7	4.2	4.0
Less: Personal contributions for social insurance	.9	3.6	.7
Personal income	**36.4**	**15.9**	**38.9**
Less: Personal tax and nontax payments	−4.9	.2	4.1
Impact of legislation	−14.7	−10.5	−4.6
Other	9.8	10.7	8.7
Equals: Disposable personal income	**41.4**	**15.7**	**34.9**
Less: Personal outlays	17.0	35.1	32.0
Equals: Personal saving	**24.2**	**−19.4**	**2.9**
Addenda: Special factors—			
Cost-of-living increases in Federal transfer payments	.5	.4	2.4
Social security base and rate changes (in personal contributions for social insurance)	.....	3.2	.....
Federal pay raise	6.2	.3	.....

NOTE.—Most dollar levels are found in the National Income and Product Accounts Tables, table 2.1.

Table 3.—Fixed-Weighted Price Indexes: Change From Preceding Quarter

[Percent change at annual rates; based on index numbers (1972=100) seasonally adjusted]

	1981			1982	
	II	III	IV	I	II
GNP	**8.4**	**8.9**	**[5] 8.5**	**4.8**	**4.6**
Less: Change in business inventories	.....	.....	.....	.....	.....
Equals: Final sales	8.4	8.9	8.6	4.8	4.6
Less: Exports	5.2	4.7	2.4	4.9	1.7
Plus: Imports	1.0	−8.4	−3.0	6.7	−5.0
Equals: Final sales to domestic purchasers	**7.9**	**7.4**	**7.9**	**5.0**	**3.8**
Personal consumption expenditures	7.7	7.6	7.1	4.9	3.0
Food	3.5	6.5	2.0	7.0	3.0
Energy	11.1	−.2	6.5	−4.6	−14.4
Other personal consumption expenditures	8.5	9.5	8.8	5.9	6.3
Other [1]	8.4	8.9	8.5	4.7	4.6
Nonresidential structures	7.0	7.8	6.1	4.4	3.8
Producers' durable equipment	10.4	7.5	7.5	5.5	5.2
Residential	5.4	8.1	6.3	2.6	2.4
Government purchases	8.5	6.5	11.1	5.8	6.1
Addendum: Food and energy components of GNP: [2]					
Food components [3]	3.6	6.2	2.2	6.6	3.0
Energy components [4]	17.3	10.0	10.0	−5.6	−7.3
GNP less food components	9.3	9.4	9.6	4.5	4.8
GNP less energy components	7.8	8.8	8.4	5.5	5.4
GNP less food and energy components	8.6	9.3	9.5	5.3	5.8

1. Index number levels for the first quarter of 1981 through the second quarter of 1982 were: 195.9, 199.9, 204.2, 208.4, 210.8, and 213.2.

2. Inasmuch as GNP is a sum of final products, the food and energy estimates in this table do not take into account the effect on the prices of final products of changes in the prices of the food and energy that are costs of production.

3. Consists of all components for which separate estimates are prepared. The major component that is not included is purchases of food by the Federal Government other than transactions by the Commodity Credit Corporation that are treated like purchases.

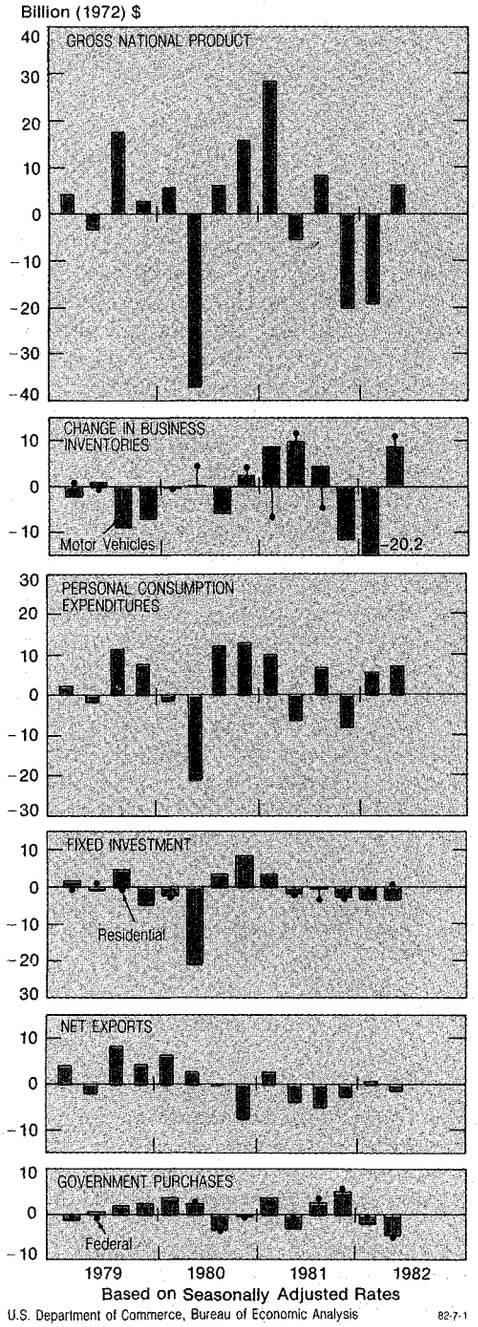
4. Consists of all components for which separate estimates are prepared. The major components that are not included are (1) exports of energy, (2) the gasoline and motor oil portions of inventories of gasoline service stations, and (3) the energy portions of inventories of businesses that do not produce energy for sale.

5. The Federal pay raise accounted for 1.2 percentage points of the increase in the index for GNP.

NOTE.—Index number levels are found in the National Income and Product Accounts Tables, table 7.2.

CHART 1

Real Product: Change From Preceding Quarter



more than accounted for the large—$10 billion—contribution of motor vehicle production to the change in second-quarter GNP. Other inventories registered a sharp drop in the rate of accumulation in the fourth quarter, followed by liquidation, more rapid in the second quarter than in the first. The additions to inventories in the fourth quarter, in combination with a decline in business final sales, pushed the ratio of inventories to these sales to 3.32, up from a low of 3.19 in the first quarter and the highest the ratio had been since the mid-1970's. The subsequent runoff of inventories in the first and second quarters lowered the ratio to 3.27—a value that does not suggest an overall imbalance.

Total CBI was the dominant component in the change in GNP in the three quarters—it accounted for about one-half of the decline in the fourth quarter, and for more than the decline in the first quarter and the increase in the second.

• Net exports, following a sharp slide, increased slightly in the first quarter but declined in the second.

Counter to its usual stabilizing effect during economic weakness, net exports declined in 1981, ending with a sizable decline in the fourth quarter. In the first quarter, net exports increased slightly but declined again in the second. Except in the first quarter, most of the fluctuations were traceable to merchandise trade. In that quarter, net direct investment income declined, mainly due to lower earnings on direct investment.

The major factor slowing the slide in net exports was merchandise imports, which, after five consecutive quarters of large increases, dropped in the first quarter and was unchanged in the second. The first-half performance of imports appears to have reflected the reduced level of U.S. economic activity.

Nonagricultural merchandise exports were down sharply in each of the three quarters, continuing a downtrend since early 1981. Increases in agricultural exports were offsets in the fourth and second quarters. The decline in nonagricultural exports, which reflected weak economic conditions abroad and earlier appreciation of the dollar, was widespread.

• Government purchases increased in the fourth quarter and declined in the first and second quarters, mainly reflecting the purchases of the Commodity Credit Corporation (CCC).

CCC purchases continued to be the source of large fluctuations in government purchases. They accounted for $4 billion of the $5 billion increase in government purchases in the fourth quarter; in the second quarter, when they declined $6 billion, they more than accounted for the decline. In the fourth quarter, a substantial addition in CCC inventories—which are treated as purchases—reflected the record corn crop and low market price. After another substantial addition in the first quarter, little was added to CCC inventories in the second. Caution should be exercised when interpreting CCC purchases, particularly when using them to explain quarterly changes in GNP. (See the Special Note in the January 1982 SURVEY.)

Defense purchases, which in 1981 began to register quarterly increases, increased about $1½ billion in the fourth and second quarters, but were down $1½ billion in the first. Other Federal purchases as well as State and local purchases generally moved down over the period.

the BUSINESS SITUATION

REVISED (45-day) estimates left the second-quarter increase in real GNP unchanged from the 1½ percent annual rate indicated by the preliminary (15-day) estimates (table 1). Revisions in the major components were small: upward for residential investment and change in business inventories and downward for personal consumption expenditures and nonresidential fixed investment. For net exports, exports and imports were both revised up, and for government purchases, Federal defense expenditures were revised up and nondefense expenditures were revised down. The increase in prices as measured by the GNP fixed-weighted price index was revised down from 4½ to 4 percent.

The revisions do not alter the picture of economic activity described in the July "Business Situation." The increase in real GNP was more than accounted for by a sharp slowdown in inventory liquidation. The decline in final sales was primarily in nonresidential fixed investment, net exports, and government purchases.

Corporate profits

Corporate profits from current production—profits with inventory valuation and capital consumption adjustments—decreased $2 billion in the second quarter, following a decrease of $27 billion in the first.[1] At $155 billion, profits were down to their lowest level since the first quarter of 1977. Domestic profits of nonfinancial corporations and profits from the rest of the world decreased much less than in the first quarter, and domestic profits of financial corporations increased after having changed little.

Domestic profits of nonfinancial corporations decreased $5½ billion to $115 billion, following a decrease of $18 billion in the first quarter. The decrease resulted from a decrease in the real output of nonfinancial corporations and growth in unit costs that was more rapid than growth in unit prices (chart 1). The growth in unit costs reflected a rapid increase in the per-unit indirect business tax component of nonlabor costs; the growth of per-unit labor costs slowed substantially in the second quarter to a rate less than the growth rate of unit prices.

The second-quarter decrease in the profits of domestic nonfinancial corporations reflected decreases in the profits of corporations in most nondurable goods manufacturing industries and in lumber, primary and fabricated metals, and nonelectrical machinery manufacturing. A decrease in profits of petroleum manufacturing corporations was especially large and reflect-

Table 1.—Revisions in Selected Component Series of the NIPA's, Second Quarter of 1982

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	15-day estimate	45-day estimate	Revision	15-day estimate	45-day estimate
	Billions of current dollars				
GNP	**3,047.4**	**3,041.2**	**−6.2**	**7.1**	6.2
Personal consumption expenditures	1,950.8	1,945.8	−5.0	6.7	5.6
Nonresidential fixed investment	354.0	351.9	−2.1	−3.2	−5.6
Residential investment	94.7	95.2	.5	5.7	7.6
Change in business inventories	−19.7	−17.4	2.3	.....	.....
Net exports	35.6	35.1	−.5	.....	.....
Government purchases	631.9	630.6	−1.3	1.2	.3
National income	.....	**2,425.1**	.....	.....	**4.8**
Compensation of employees	1,849.9	1,850.6	.7	4.3	4.4
Corporate profits with inventory valuation and capital consumption adjustments	.....	154.9	.....	.....	−5.6
Other	416.8	419.7	2.9	7.9	10.9
Personal income	**2,549.5**	**2,553.5**	**4.0**	**6.3**	**7.0**
	Billions of constant (1972) dollars				
GNP	**1,476.8**	**1,475.3**	**−1.5**	**1.7**	**1.3**
Personal consumption expenditures	956.3	953.8	−2.5	3.0	2.0
Nonresidential fixed investment	168.2	166.4	−1.8	−8.5	−12.3
Residential investment	39.2	39.9	.7	3.3	11.5
Change in business inventories	−6.9	−5.3	1.6	.....	.....
Net exports	35.6	35.7	.1	.....	.....
Government purchases	284.5	284.7	.2	−6.4	−6.2
	Index numbers, 1972=100 [1]				
GNP implicit price deflator	206.35	206.14	−.21	5.3	4.9
GNP fixed-weighted price index	213.2	213.0	−.2	4.6	4.2
GNP chain price index	.....	.....	.....	4.7	4.7

1. Not at annual rates.

Note.—For the second quarter of 1982, the following revised or additional major source data became available: For *personal consumption expenditures,* revised retail sales for May and June, and sales and inventories of used cars of franchised automobile dealers for June; for *nonresidential fixed investment,* manufacturers' shipments of equipment for May (revised) and June, construction put in place for May (revised) and June, and a partial tabulation of business expenditures for plant and equipment for the quarter; for *residential investment,* construction put in place for May (revised) and June; for *change in business inventories,* book values for manufacturing and trade for May (revised) and June; for *net exports of goods and services,* merchandise trade for May (revised) and June; for *government purchases of goods and services,* Federal unified budget outlays for June, and State and local construction put in place for May (revised) and June; for *wages and salaries,* revised employment, average hourly earnings, and average weekly hours for May and June; for *corporate profits,* domestic book profits for the quarter, and dividends from abroad for the quarter; for *GNP prices,* the Consumer and Producer Price Indexes for June, unit value indexes for exports and imports for June, and residential housing prices for the quarter.

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

ed quarter-to-quarter decreases in the prices of both refined petroleum products and crude oil. Crude oil prices can affect profits of petroleum manufacturers because they produce a major share of domestic crude oil. (Petroleum product prices rose sharply in May and June, suggesting that profits of petroleum manufacturers may recover somewhat in the third quarter.) The profits of primary metals manufacturers were adversely affected by decreases in the prices of both ferrous and nonferrous metals. Motor vehicle manufacturers registered a swing from substantial losses to profits despite a decrease in real final sales of motor vehicles; manufacturers took new measures to cut costs and increased their output as dealers rebuilt their inventories.

Profits also decreased in most domestic nonmanufacturing industries. However, profits of corporations in most transportation industries increased, and airline corporations registered smaller losses than in the preceding quarter. The smaller losses reflected sharp increases in both revenue-passenger miles and air fares. An increase in the profits of motor freight corporations reflected an increase in intercity truck tonnage.

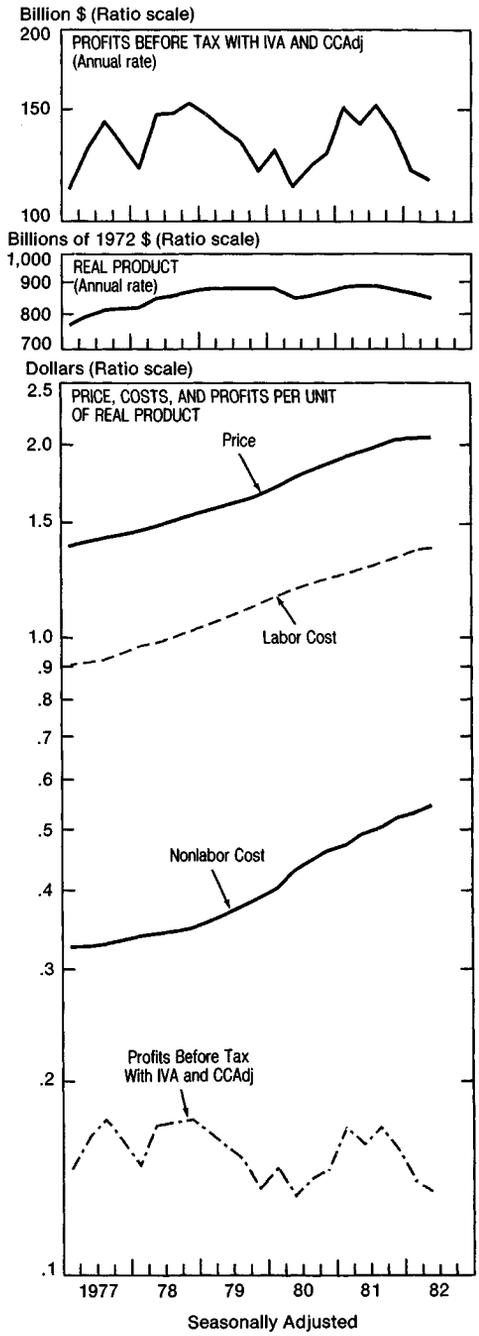
Profits from the rest of the world decreased $½ billion to $16½ billion in the second quarter, following a decrease of $9 billion in the first. The decrease reflected continuing economic weakness or recessions in many industrial countries.

Domestic profits of financial corporations increased $3½ billion to $23½ billion in the second quarter, following a decrease of less than $½ billion in the first. The second-quarter increase occurred despite a decrease in commerical banks' profits and reflected smaller losses than in the preceding quarter for savings and loan associations and mutual savings banks.

Other measures of profits.—Profits before tax decreased $3 billion to $168½ billion in the second quarter, following a decrease of $45 billion in the first. These profits exclude the inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj).[2] Inventory profits—the IVA with sign reversed—increased $3½ billion to $8 billion in the second quarter, following a decrease of $12½ billion in the first. Profits attributable to underdepreciation—the CCAdj with sign reversed—decreased $4 billion to $6 billion in the second quarter, following a decrease of $5½ billion in the first.

CHART 1

Domestic Nonfinancial Corporate Business: Profits; Real Product; and Price, Costs, and Profits per Unit of Real Product



NOTE.—Price per unit is current dollar product divided by constant dollar (real) product. Costs and profits per unit are respective components of current dollar product divided by constant dollar product.

U.S. Department of Commerce, Bureau of Economic Analysis 82-8-1

Disposition of profits.—Corporate profits taxes, which are levied on profits including inventory profits and profits attributable to underdepreciation, decreased $2 billion to $53½ billion in the second quarter, following a decrease of $16 billion in the first. The decreases resulted from both lower profits and decreases in the share of domestic profits going to Federal taxes. Excluding the profits of Federal Reserve banks (almost all of which are returned to the Treasury and are counted as corporate profits taxes in the national income and product accounts), the share dropped to 20½ percent in the second quarter from 21½ percent in the first and 25 percent in the fourth. The reduced shares reflected increased tax credits under the Economic Recovery Tax Act of 1981 (ERTA), reduced pre-tax profits relative to the credits, and other tax-reducing provisions of ERTA.

Dividends continued their 7-year uptrend in the second quarter, increasing another $½ billion to $69½ billion. Undistributed profits decreased $1½ billion to $45½ billion in the second quarter, following a decrease of $30 billion in the first. The second-quarter level, after more than 2 years of decrease, was about as low as that registered at the end of the 1974–1975 recession.

The government sector

The fiscal position of the government sector in the national income and product accounts (NIPA's) improved slightly in the second quarter of 1982, as the combined deficit of the Federal Government and State and local governments declined $1½ billion. However, compared with a year earlier, the combined deficit increased significantly, from $7½ billion to $90 billion. All of this deterioration occurred at the Federal level, where the deficit tripled.

The Federal sector.—The Federal Government deficit increased $3 billion to $122½ billion in the second quarter, as expenditures increased more than receipts.

Receipts increased $4½ billion, compared with a $16 billion decline in the

2. The IVA and CCAdj are defined in *National Income and Product Accounts of the United States, 1929–1976: Statistical Tables.* U.S. Department of Commerce, Bureau of Economic Analysis (Washington, D.C.: U.S. GPO, 1981).

first quarter when corporate profits tax accruals and indirect business tax and nontax accruals recorded substantial declines. In the second quarter, all categories except corporate profits taxes increased, although by only small amounts. Personal tax and nontax receipts increased $3½ billion, following a small decline in the first quarter when legislation reduced net settlements more than in the second. Indirect business taxes increased $1½ billion, largely reflecting an increase in the windfall profits tax, and contributions for social insurance increased $1 billion. Corporate profits taxes continued to decline, but substantially less than in the first quarter.

Expenditures increased $7½ billion, compared with $1 billion in the first quarter. The second-quarter increase was the net result of declines in nondefense purchases ($15 billion), and in transfer payments to foreigners and in subsidies less the current surplus of government enterprises ($1 billion each) and an increase of $24½ billion in all other expenditures. The decline in nondefense purchases was largely due to a swing in agricultural purchases by the Commodity Credit Corporation (CCC). In the first quarter, the CCC had acquisitions of $17½ billion (largely corn and cotton) and dispositions of $5½ billion, for net purchases of $12 billion. In the second quarter, dispositions slightly outpaced acquisitions, and net purchases were −$1 billion.

National defense purchases increased $10 billion, largely reflecting a step-up in purchases of military hardware, such as aircraft and missiles. Transfer payments to persons also increased $10 billion, including $5 billion for unemployment benefits and $2½ billion for an 8.7 percent cost-of-living adjustment in military and civilian retirement benefits. Net interest paid increased $3 billion, and grants-in-aid to State and local governments increased $2 billion. In grants, a $4 billion increase, largely in public assistance and highways, was partly offset by a $2 billion decline in other programs.

On a high-employment budget basis, the Federal fiscal position moved from a deficit of $17 billion in the first quarter to a deficit of $9 billion in the second (see table 3 on page 10). The high-employment deficit as a percentage of potential GNP increased from −0.5 percent in the first quarter to −0.3 percent in the second—a move toward a more restrictive fiscal position. Both high-employment receipts and expenditures continued to decline as a percentage of potential GNP. These estimates differ from those in the April 1982 SURVEY OF CURRENT BUSINESS due to the July revisions in the NIPA's. The estimates remain based on the potential GNP estimates discussed by the Council of Economic Advisers in the 1981 *Economic Report of the President.*

The State and local sector.—The State and local government surplus increased $4½ billion to $32 billion, as receipts increased more than expenditures.

Receipts increased $10 billion, compared with $2½ billion in the first quarter. Indirect business tax and nontax accruals increased $5½ billion, including $1 billion for increased sales taxes. Florida and Washington increased the general sales tax rate, and Wisconsin brought grocery sales into the tax base. Personal tax and nontax receipts increased $2 billion, and contributions for social insurance increased $1 billion. Corporate profits tax accruals declined slightly.

Expenditures increased $5½ billion, compared with $4 billion in the first quarter. Purchases accounted for the increase; all other expenditures, on balance, were unchanged. Within purchases, compensation increased at about the same rate as in the first quarter, and construction continued to decline, but significantly less than in the previous quarter.

the BUSINESS SITUATION

ECONOMIC performance was lackluster in the third quarter. BEA's composite index of coincident indicators—which reflects the movements of nonagricultural employment, real personal income less transfer payments, industrial production, and real manufacturing and trade sales—fell at monthly rates of 0.3 percent in July and 0.6 percent in August. The index had fallen in 2 of the 3 months of the second quarter, and for the quarter as a whole was down 0.7 percent. Real GNP also showed little strength. On a revised basis, it increased 2 percent at an annual rate in the second quarter and, on the basis of information available in mid-September, it appears to have increased again in the third quarter, but less than in the second.[1]

• Real personal consumption expenditures (PCE) increased less than 1 percent at an annual rate in the third quarter. Weakness was widespread and particularly apparent in durables, where each major category declined. The weakness occurred despite sizable increases in real disposable personal income in both the second and third quarters (see the following discussion of "Personal Income").

• Although information on fixed investment other than residential construction is sketchy, it is clear that fixed investment registered a substantial drop in the third quarter. In producers' durable equipment, there were large declines in purchases of trucks, aircraft, and computers. Further weakening was evident in purchases of equipment—such as agricultural machinery, construction machinery, and mining and oil field equipment—used in industries that have been hard hit in the recession. Nonresidential structures declined, largely due to a further decline in oil and gas well drilling. Other components remained flat. The article on the quarterly BEA plant and equipment expenditures survey, which appears later in this issue, throws additional light on business fixed investment.

• Residential investment again registered a moderate increase. As described in the following discussion of "Housing and Mortgage Markets," much of the third-quarter increase reflected activity on government-assisted multifamily projects. Housing starts and financial conditions suggest that the long slide in residential investment is over.

• Little information is yet available about the other components of final sales—net exports and government purchases. It appears that together they contributed a small plus to the third-quarter change in final sales. The total of these sales appears to have shown little change in the third quarter.

• For the change in business inventories, reasonably complete information is available only for motor vehicles (see the following discussion of "Motor Vehicles"). Accumulation of motor vehicle inventories was at a slightly higher rate in the third quarter than in the second, so that the contribution to the change in GNP was a plus—about $2 billion.[2] This contribution contrasts sharply with that in the second quarter, when—as motor vehicle inventories swung sharply from a substantial decumulation in the first quarter to accumulation in the second—these inventories added about $12½ billion.

Prices.—After increasing at annual rates of only about 4½ percent in the first half of the year, the GNP fixed-weighted price index accelerated about 2 percentage points in the third quarter. A substantial part of the acceleration was in the prices of PCE. PCE energy prices were the single most important factor. After a 13½-percent decline in the second quarter, they were up in the third, reflecting gasoline price increases late in the second quarter and early in the third. Food prices decelerated from a 4-percent increase registered in the second quarter, and prices for PCE other than food and energy accelerated from a 6-percent increase, mainly due to an acceleration of residential rents.

Personal Income

Personal income increased $49½ billion—the largest increase in recent quarters (table 1). The step-up in the third quarter was largely due to transfer payments. These payments included a $12 billion cost-of-living increase under several Federal transfer payment programs; about $11 billion was in social security benefits. A smaller increase than in the second quarter in unemployment insurance benefits was due to a decline in payments under extended benefit programs. The increase in wage and salary disbursements was again weak. In the commodity-producing industries, disbursements declined again; in

1. The 75-day revision of the second-quarter estimates (see table 4) was larger than usual. The revisions centered in the foreign military sales and direct investment income components of net exports and in change in business inventories. The revision in the former reflected new information; in the latter, it reflected revised data on wholesale inventories.

The major source data that shed light on third-quarter GNP are limited to 1 or 2 months of the quarter, and in some cases are preliminary. These data are: For *personal consumption expenditures* (PCE), July and August retail sales, unit sales of new autos through the first 10 days of September, and sales of new trucks for July and August; for *nonresidential fixed investment,* the same data for autos and trucks as for PCE, July construction put in place, July manufacturers' shipments of equipment, and business investment plans for the quarter; for *residential investment,* July construction put in place, and July and August housing starts; for *change in business inventories,* July book values for manufacturing and trade, and unit auto inventories for July and August; for *net exports of goods and services,* July merchandise trade; for *government purchases of goods and services,* Federal unified budget outlays for July, State and local construction put in place for July, and State and local employment for July and August; and for *GNP prices,* the Consumer Price Index for July and the Producer Price Index for July and August.

2. Quarterly estimates of the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

Table 1.—Personal Income and Its Disposition: Change From Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1981	1982		
	IV	I	II	III*
Wage and salary disbursements	18.9	10.4	15.0	17.2
Manufacturing	−4.2	−3.6	.5	−.1
Other commodity-producing	2.6	.2	−1.2	−1.1
Distributive	1.8	3.1	4.0	3.6
Services	10.0	6.7	8.1	10.6
Government and government enterprises	8.6	4.1	3.5	4.3
Proprietors' income	−3.4	−7.7	.9	2.5
Farm	−2.5	−6.7	−.5	1.0
Nonfarm	−.9	−1.0	1.4	1.5
Personal interest income	11.4	8.8	12.3	10.3
Transfer payments	5.9	3.8	10.7	15.8
Other income	4.7	4.2	4.0	4.8
Less: Personal contributions for social insurance	.9	3.6	.7	1.3
Personal income	**36.4**	**15.9**	**42.1**	**49.4**
Less: Personal tax and nontax payments	−4.9	.2	7.7	−4.6
Impact of legislation	−14.7	−10.3	−4.8	−18.5
Other	9.8	10.6	12.5	13.9
Equals: Disposable personal income	**41.4**	**15.7**	**34.4**	**54.1**
Less: Personal outlays	17.0	35.1	29.2	40.8
Equals: Personal saving	**24.2**	**−19.4**	**5.2**	**13.4**
Addenda: Special factors in personal income—				
Cost-of-living increases in Federal transfer payments	.5	.4	2.4	12.0
Social security base and rate changes (in personal contributions for social insurance)	.....	3.2	.....	.....
Federal pay raise	6.2	.3	.....	.....

*Projected.

the third quarter, as in the second, the decline centered in mining. An acceleration in government and government enterprise disbursements was due to the second of three annual lump-sum payments to Postal Service employees under a collective-bargaining agreement signed last year. Personal interest income increased a little less than in the second quarter, reflecting lower interest rates.

In the third quarter, as in the previous three quarters, the impacts of changes in legislation on personal taxes helped insulate disposable personal income from the weakness in personal income. These impacts are detailed in table 2. In the fourth quarter of 1981, withheld income taxes were reduced $15 billion under the Economic Recovery Tax Act of 1981 (ERTA). In the first quarter, a $10½ billion reduction included the impact of the ERTA rate changes on declarations and net settlements ($5 billion), and temporary reductions under ERTA ($1 billion for a windfall profit tax credit), and under the Crude Oil Windfall Profit Tax Act of 1980 ($3 billion for the partial exclusion of interest and dividends). An additional ERTA provision—the authorization of all savers' certificates—temporarily reduced declarations and net settlements $1 billion in the second quarter. In the third quarter, the second rate reduction on withheld income taxes under ERTA, currently estimated at $25 billion, became effective. Its impact on the change in personal taxes was partly offset by the termination of the temporary reductions. Net, the impact of this legislation held down personal taxes about $20 billion in the third quarter.

Personal taxes declined in the third quarter, even though the continuing effect of the increase in the tax base partly offset legislative impact. Accordingly, disposable personal income increased more than did personal income. The percentage increase in disposable income, 10½ percent at an annual rate, was substantially larger than in other recent quarters. However, the increase in prices of PCE as measured by the implicit price deflator was substantial—about 8 percent, the largest since the recession began. As a result, the increase in real disposable income was held to 2½ percent, compared with a second-quarter increase of 3 percent.

The personal saving rate appears to have moved up several tenths of a percentage point from 6.7 percent in the second quarter. The rate, although down from 7.5 percent in the fourth quarter of 1981, has averaged higher this year than in any of the preceding 5 years.

Table 2.—Impact of Legislation on Personal Tax and Nontax Payments: Change From Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1981	1982		
	IV	I	II	III*
Total	**−15.2**	**−10.3**	**−4.8**	**−18.5**
Federal	−15.2	−10.1	−4.7	−20.0
Economic Recovery Tax Act of 1981	−15.2	−7.2	−3.1	−24.4
Withheld:				
October 1981 rate reduction	−14.8	−.6	−.5	−.7
July 1982 rate reduction	.....	.....	.....	−25.2
Other	−.4	−.3	0	−.1
Declarations and net settlements:				
Permanent provisions	.....	−5.1	−.6	−.6
Temporary provisions	.....	−1.1	−1.9	2.3
Estate and gift taxes	.....	−.1	−.1	−.3
Crude Oil Windfall Profit Tax Act of 1980	.....	−2.8	−1.6	4.4
State and local	0	−.2	−.1	1.5

* Projected.

Housing and Mortgage Markets

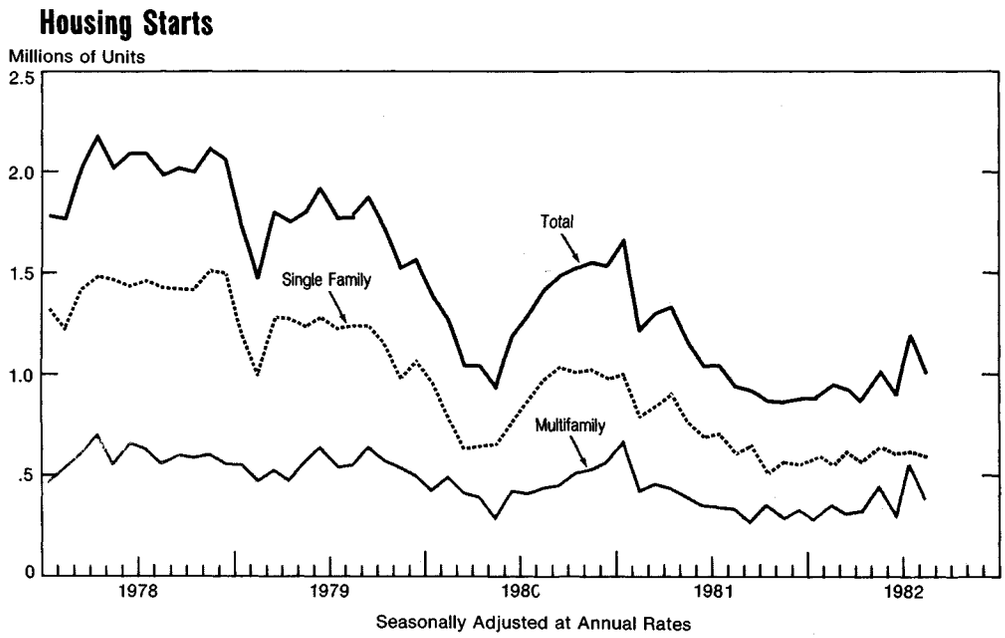
Real residential investment increased moderately in the third quarter. Single-family structures posted a small increase for the third consecutive quarter; multifamily structures increased sharply, following two quarters of almost no change. The "other" component—which includes mobile homes, additions and alterations, and brokers' commissions on the sale of new and used residences—was flat in the third quarter.

The recent sharp decline in short-term interest rates and the 234,000-unit increase in housing starts from the fourth quarter of 1981 to July-August 1982 suggest that the long slide in residential investment is over. These and other developments in housing and mortgage markets are reviewed below. First, estimates of real residential investment are examined, largely in terms of their relationship to housing starts. Next, financial factors are discussed; these include interest rate movements and conditions in the savings and loan industry.

Residential investment. — The month-to-month path of housing starts this year has been erratic (chart 1). Compared with their fourth-quarter 1981 averages, however, single-family units started in July-August were up 81,000 units and multifamily units started were up 153,000. The July-August level of single-family starts, although much above the depressed fourth-quarter level, was nonetheless very low. Multifamily starts in May and July were boosted by issuance by the Department of Housing and Urban Development (in March) of commitments to purchase almost $1 billion of below-market rate mortgages under the section 8 rental assistance program. Further stimulus from this mortgage-purchase program is not expected, because funds have not been requested for fiscal year 1983. Thus, the increase in multifamily starts does not appear to represent a lasting, market-induced response to economic conditions. A July increase in rent subsidies under the section 8 program may, however, give a further boost to multifamily starts in the autumn.

Real residential investment usually tracks the course of housing starts. The relationship is far from perfect, however, even after removal of the

CHART 1



Data: Census
U.S. Department of Commerce, Bureau of Economic Analysis

82-9-1

"other" component from residential investment—this component now accounts for more than two-fifths of real residential investment—and even after separation of the rest of residential investment into its single-family and multifamily structures components.

Housing starts is the number of housing units on which construction begins during a particular period, whereas real investment in residential structures is the value (in 1972 dollars) of housing units put in place during a period. For single-family structures, the number of starts is combined with the value of new single-family construction (based on the Building Permits Survey) to derive the value of starts in a given month. Weights are then applied to the value of starts to generate estimates of the value of construction put in place that month and in subsequent months. These progress weights stretch forward 11 months from the date of the starts; more than one-half of the value of starts is assumed to be put in place in less than 3 months, however, and 90 percent within 6 months. The put-in-place series is then seasonally adjusted. Real investment estimates are obtained by deflation of the series by an index based on the prices of new one-family houses sold. Thus, lags between starts and construction put in place, changes in the average value of starts, and changes in the deflator can all contribute to disparities between the movements of starts and investment in single-family structures.

In the first quarter of this year, for example, the number of single-family housing starts increased about 10½ percent. The effect of this increase on real investment was muted substantially by a decline (5½ percent) in the average value of starts and an increase (½ percent) in the deflator. Lags between starts and construction put in place had a similar effect, with the result that real investment in single-family structures rose only 1 percent. (Percent changes in this paragraph are not at annual rates.)

For multifamily structures, the value of construction put in place, rather than being derived using starts, is from a survey of a sample of builders. However, in principle, the same factors that give rise to disparate movements in single-family starts and construction put in place are responsible for such movements in the two multifamily series. Because multifamily construction ranges from two-unit duplexes to high rise condominiums, the lag between starts and construction put in place is even more likely to give rise to disparate movements in the multifamily series.

Financial developments.—Short-term interest rates started a steep decline in mid-July. The prime rate, for example, dropped 300 basis points by the end of August, and rates on Treasury bills dropped by similar amounts. (Interest rates on construction loans are tied to the prime rate, and ceiling rates on short-term retail certificates of deposit are linked to Treasury bill rates.) Many long-term interest rates also declined, although not as sharply; corporate bond yields, for example, fell 156 basis points from late June to mid-September.

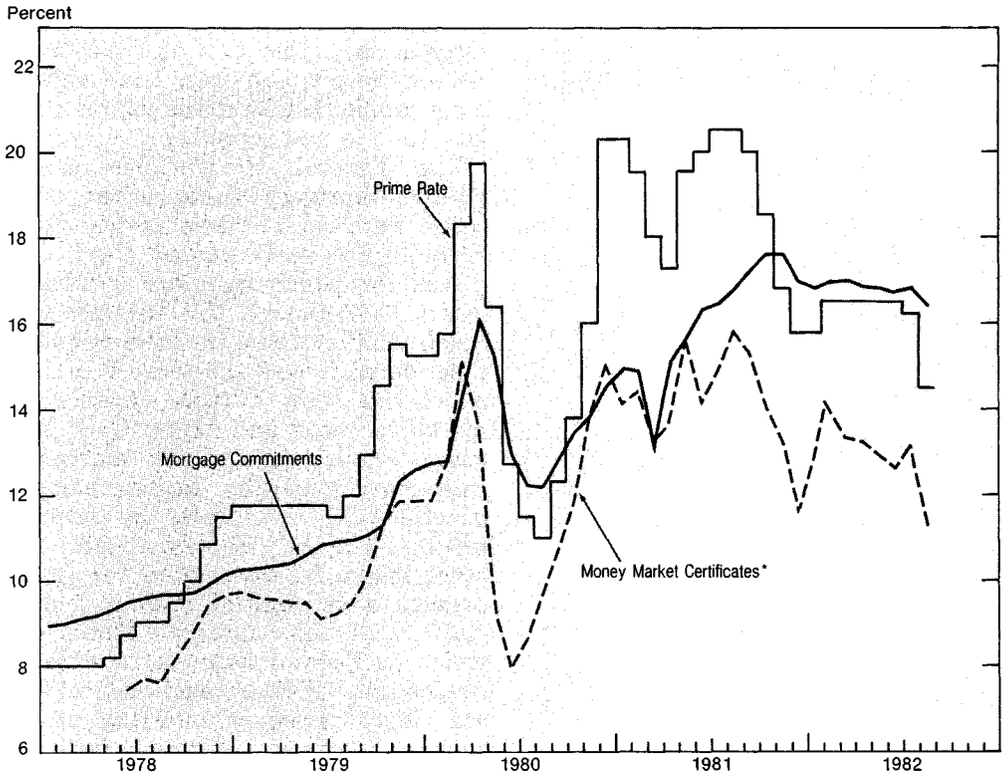
The Federal Home Loan Bank Board's mortgage commitment rate series declined 21 basis points from early July to early August, the latest period for which data are available (chart 2). Although this decline was much smaller than the declines just mentioned, it was the largest in the series this year. Further declines in mortgage rates are likely. Over the past decade, changes in mortgage rates have generally lagged changes in other long-term rates by several months. The July–September drop in other long-term rates, therefore, may presage a substantial drop in mortgage rates this autumn. Moreover, yields at Federal National Mortgage Association (FNMA) auctions, which are widely viewed as indicating future changes in mortgage rates, declined in each of the last five bi-weekly auctions, by a total of 182 basis points. In fact, the Federal Home Loan Mortgage Corporation's mortgage commitment rate series, which is available weekly, showed a decline of 137 basis points—comparable in magnitude to the decline in corporate bond yields—from mid-July to mid-September.[3]

The Bank Board's series stood at 16.5 percent in early August, and the Mortgage Corporation's at 15.6 in mid-September. It is not clear whether further declines, assuming they materialize, will carry the mortgage rate below the 13–14 percent generally regarded as the threshold that will bring borrowers back to the market in large numbers. Mortgage lenders may be reluctant to reduce rates sharply. They had done so in the summer of 1980 when other market rates plummeted, only to find themselves locked into unprofitable commitments when rates turned back up in the autumn. Competitive forces, however, may drive mortgage rates down regardless of the concerns of particular lenders.

3. The Bank Board's series is for 25-year mortgages with a loan to price ratio of 0.75, and covers all mortgage lenders. The Mortgage Corporation's series covers 30-year mortgages with a loan to price ratio of 0.80, and is based on a sample of savings and loan associations. Both series, as well as the FNMA auction yields, are for conventional, level payment mortgages.

CHART 2

Selected Interest Rates



*Ceiling rate at savings and loans associations.

U.S. Department of Commerce, Bureau of Economic Analysis 82-9-2

The decline in short-term rates is unalloyed good news for savings and loan associations (S&L's) and other depository institutions. S&L's have been especially hard hit by the very high interest rates that have prevailed until recently. S&L net worth, which is used as an indicator of operating profit or loss, has fallen more than $5 billion—more than 15 percent—since the end of the third quarter of 1981. Losses such as these have thinned the ranks of S&L's substantially. During the first 7 months of this year, for example, 318 associations (with combined assets of $43 billion) disappeared through mergers, almost as many associations as disappeared in all of 1981. The number of associations that disappeared in each period was more than 8 percent of the total number of associations at the start of each period.

The recent declines in short-term interest rates should provide S&L's with considerable relief. Most S&L liabilities are now either linked to market rates or not regulated at all. In addition to 6-month money market certificates (MMC's), 30-month small savers' certificates (SSC's), and tax-exempt all savers' certificates, the recently authorized 1-month and 3-month certificates are linked to yields on U.S. Treasury securities. Jumbo certificates (which are issued in denominations of $100,000 and more), 1½-year individual retirement account balances, and 3½-year "wild card" accounts have no ceilings. MMC's, SSC's, and jumbo certificates alone make up more than two-thirds of total S&L deposit liabilities. If Treasury bill rates remain in the single-digit range, S&L's can expect substantial relief from the cost pressures they have experienced for the past several years. For example, if the $180 billion in outstanding MMC's at S&L's at the end of July are rolled over at 9½ percent yields, the reduction in interest costs to S&L's would average approximately $½ billion per month during the next 6 months.

Furthermore, S&L earnings should improve somewhat as mortgage demand picks up. The Supreme Court ruled in June that "due-on-sale" clauses are enforceable even if States have passed laws prohibiting their enforcement. House buyers will not be able to assume low-rate mortgages taken out years earlier by sellers. S&L's will be relieved of these low-rate mortgages and replace them with higher yielding new mortgages. (The non-assumability of old mortgages, on the other hand, can be expected to reduce the demand for housing below the level that it would otherwise have been. For this reason, representatives of builders and real estate brokers opposed the Court's decision.)

Motor Vehicles

Motor vehicle output increased much less in the third quarter than it had in the second—$1 billion (1972 dollars) compared with $10 billion (table 3). Auto output increased less than in the second quarter, and truck output declined following an increase. Auto sales to domestic purchasers were flat in the third quarter; an increase in final sales was traceable to net exports. Truck sales were down. During the quarter, domestic inventories of both autos and trucks built up to high levels relative to sales.

Total new car sales were about the same as the 7.5 million units (seasonally adjusted annual rate) registered in the second quarter (chart 3). Domestic sales were down slightly from 5.5 million: Sales of large (full-size and intermediate) cars retreated fol-

Table 3.—Motor Vehicle Output

[Billions of 1972 dollars; seasonally adjusted annual rates]

	1981: III	Change from preceding quarter				1982: III*
		1981: IV	1982			
			I	II	III*	
Output	58.2	−10.9	−2.1	10.1	1.2	56.5
Autos	45.6	−11.2	−3.1	8.4	2.5	42.2
Trucks	12.6	.3	1.0	1.7	−1.3	14.3
Final sales	56.7	−9.7	6.4	−2.4	−.8	50.2
Autos	43.7	−8.5	3.1	−1.3	1.4	38.4
Trucks	13.0	−1.2	3.3	−1.1	−2.2	11.8
Change in business inventories	1.3	−1.1	−8.4	12.5	1.9	6.2
Autos	1.8	−2.6	−6.2	9.7	1.0	3.7
Trucks	−.5	1.5	−2.2	2.8	.9	2.5

*Projected. Based on unit production in July and August and scheduled production for September, unit sales of autos through the first 10 days of September and of trucks for July and August, and unit inventories for July and August.

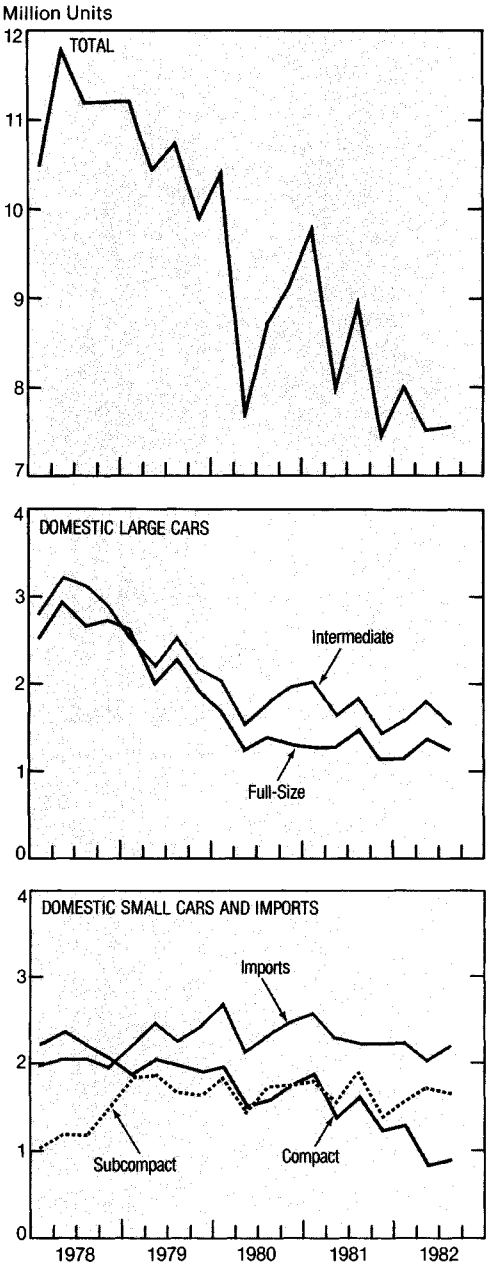
NOTE.—For estimates through 1982: II, see tables 1.14-1.15 and 1.16-1.17 of the National Income and Product Accounts Tables. Auto output includes dealers' margins on their used car transactions; truck output includes new trucks only.

lowing a second-quarter advance, and sales of small (compact and subcompact) cars changed little. Imported car sales were up slightly from 2.0 million; the share of total sales accounted for by imports moved close to the record 30 percent.

The lackluster performance of new car sales occurred despite the strong third-quarter increase in disposable personal income and a downturn in interest rates on new auto installment loans. Apparently, consumers remained wary after the prolonged period of poor economic performance: Job uncertainty persisted as the unemployment rate reached a postwar high during the quarter. The downturn in auto installment rates was slow; in August, the rate charged by commercial banks was still above 17 percent.

CHART 3

Retail Sales of New Passenger Cars



Seasonally Adjusted at Annual Rates

NOTE.—The components may not add to the total because each category was separately adjusted for seasonal variation. Data for the most recent quarter are projected.

Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports; seasonal adjustment by BEA.

U.S. Department of Commerce, Bureau of Economic Analysis 82-9-3

Domestic car production increased to 6.1 million units (seasonally adjusted annual rate) from 5.4 million in the second quarter and 4.2 million in the first. Schedules at the beginning of the third quarter indicated a larger increase, but production was cut back as the quarter progressed. The cutbacks were induced by the lackluster sales, which resulted in a rapid inventory buildup of 1982 models as the model year drew to a close. End-of-August inventories were 1,486,000 (seasonally adjusted), up from 1,247,000 at the end of the second quarter, and the inventory/sales ratio was 3.3, up from 2.7. The cutbacks were accomplished by extending the downtime for model changeover and by reducing the rate of production of 1983 models.

Total new truck sales declined from 2.5 million (seasonally adjusted annual rate) in the second quarter to about 2.3 million in the third. Sales of both domestic light (under 10,000 pound) and "other" (over 10,000 pound) trucks declined. Inventories began to build up, and production was cut to try to bring them back into line with sales. Sales of imported trucks rebounded from the 4-year low in the second quarter.

Second-quarter corporate profits

Corporate profits from current production—profits with inventory valuation and capital consumption adjustments—were $155½ billion in the second quarter, down only $1½ billion from the first quarter of 1982 but down $45 billion from the first quarter of 1981. (The second-quarter estimate is $½ billion higher than the one published a month ago. An upward revision in profits from the rest of the world more than offset a downward revision in profits of domestic corporations.) The second-quarter decline was in profits of domestic nonfinancial corporations; profits from the rest of the world and profits of domestic financial corporations increased. In the first quarter, when the total had decreased $27 billion, profits of each of these major groups had decreased.

Profits from the rest of the world increased $1½ billion to $18 billion in the second qurarter, following a decrease of $9 billion. The increase occurred as a decrease in the profits of foreign petroleum operations of U.S. corporations was more than offset by an increase in nonpetroleum profits. The nonpetroleum increase occurred despite weakness in the economies of most other industrial countries and appears to have been centered in the profits of Canadian affiliates of U.S. motor vehicle manufacturing corporations. These profits reflected a sharp increase in U.S. imports of Canadian-made motor vehicles and parts. Over the last two quarters, rest-of-the-world profits contributed substantially to the volatility of the total, as they have done in some other recent periods as well. One component of these profits, reinvested earnings of incorporated affiliates, was first included at the time of the comprehensive revision of the national income and product accounts in 1980. The definition of these earnings, the sources and methods used to prepare estimates, and their course in recent years are described in a Special Note beginning on page 6.

Profits of domestic financial corporations increased $2½ billion to $22½ billion in the second quarter, following a decrease of less than $½ billion. The increase occurred despite a decrease in commercial banks' profits and was primarily due to reduced losses of savings and loan associations. The reduced losses reflected decreasing interest rates, which lowered the costs of attracting deposits; because about three-fourths of savings and loan associations' assets are long-term mortgages, most of which have fixed interest rates, reductions in interest rates improve profitability. Increased profits of insurance carriers also contributed to the increase in financial profits.

Profits of domestic nonfinancial corporations decreased $5½ billion to $115 billion in the second quarter, following a decrease of $18 billion. Decreases in the profits in most nonmanufacturing industries accounted

(Continued on p. 8)

Special Note.—Reinvested Earnings of Incorporated Affiliates in the National Income and Product Accounts

PROFITS from the rest of the world is a sizable part of corporate profits: It was 12 percent of the total in 1981 and was among the largest of the components shown in the detail of profits by industry. Further, rest-of-the-world profits accounted for a disproportionate share—almost one-third—of the last 3 years' profits slide.

Rest-of-the-world profits is the net receipts by the United States of dividends, earnings of unincorporated affiliates, and reinvested earnings of incorporated affiliates. The receipts are those of U.S. corporations and persons, and the payments are those to all foreigners. The dividends component consists of both the dividends in direct investment income and those in portfolio investment income, an income classification based on the extent of ownership by a foreign resident in the case of investment in the United States and by a U.S. resident in the case of investment abroad (10 percent or more for direct, less than 10 percent for portfolio). Earnings of unincorporated affiliates are part of direct investment income, as are the reinvested earnings of incorporated affiliates.

This Special Note discusses the reinvested earnings component, which, in 1981, accounted for over one-third of rest-of-the-world profits. The definition of reinvested earnings, and the sources and methods used to implement it, point to the factors that underlie the sharp changes in reinvested earnings in recent years (see chart 4).

As a component of rest-of-the-world profits in the national income and product accounts (NIPA's), reinvested earnings is the difference between U.S. residents' share (generally in proportion to equity participation) of reinvested earnings of incorporated foreign affiliates of U.S. direct investors (receipts) and foreign residents' share of reinvested earnings of U.S. affiliates of foreign direct investors (payments). Receipts are included in "national" aggregates, such as national income—that is, aggregates referring to production attributable to factors of production supplied by U.S. residents—but payments are excluded. For "domestic" aggregates, such as gross domestic product—that is, aggregates referring to production attributable to factors of production located in the United States—the opposite is the case: Payments are included but receipts are excluded.

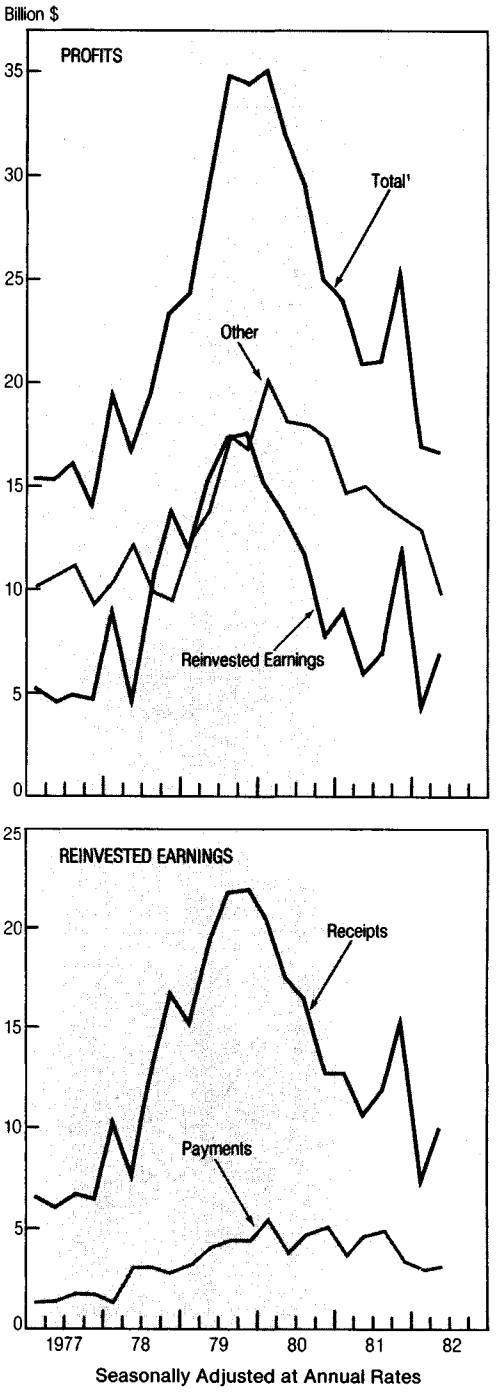
In addition to appearing as part of profits in type-of-income classifications, reinvested earnings is part of the rest-of-the-world sector in sector-of-origin classifications. In GNP by type of product, receipts of reinvested earnings are in the factor income component of exports, and payments are in the corresponding component of imports. Further, reinvested earnings is in gross investment (as net foreign investment) and in gross saving (as undistributed corporate profits).

Reinvested earnings of incorporated affiliates was first included in the NIPA's as part of the comprehensive revision of 1980. These earnings had been included in the U.S. international transactions accounts several years earlier. Expansion in the early 1970's in the item coverage of BEA's surveys of international investment facilitated preparation of estimates for both sets of accounts.[1] As a result of the inclusion of both dividends and reinvested earnings of incorporated affiliates in the NIPA's, rest-of-the-world profits was made essentially invariant to the form in which earnings of incorporated affiliates are attributed to direct investors.

1. In June 1976, BEA introduced estimates of reinvested earnings of incorporated affiliates as memoranda to the quarterly U.S. international transactions accounts. Two years later, receipts and payments became line items in those accounts, consistent with guidelines established by the International Monetary Fund. Estimates of reinvested earnings appear in payments and receipts of income on direct investment and, with sign reversed, in the direct investment capital accounts. As shown in NIPA table 4.5, the estimates of direct investment income in the international transactions accounts include, but those in the NIPA's exclude, capital gains net of losses.

CHART 4

Rest-of-the-World Corporate Profits



1. For definition, see text.

NOTE.—In 1977, estimates include capital gains.

U.S. Department of Commerce, Bureau of Economic Analysis. 82-9-4

Sources and methods

For both receipts and payments, the estimates of reinvested earnings are calculated as the difference between earnings and dividends (on common and preferred stock). In this calculation, the dividends item is dividends paid in the accounting period before host-country withholding taxes on dividends. The earnings item is the net income for the accounting period, net of host-country income taxes. (Because the dividends item is on an "as paid" basis, it, and hence reinvested earnings, cannot in general be related only to the earnings of a single accounting period.)

Data on earnings and dividends are collected by BEA from the universe of incorporated affiliates in benchmark surveys of foreign direct investment in the United States and of U.S. direct investment abroad. Estimates for benchmark years are extrapolated using quarterly sample surveys. In the extrapolation, account is taken of affiliates not covered by the sample surveys; adjustments are made to include new affiliates and to exclude those liquidated or sold. Data are aggregated by country and industry, and published annually, usually in the August issue of the SURVEY. Annual and quarterly estimates are incorporated in the NIPA's (and in the U.S. international transactions accounts) in more aggregated form. Beginning with estimates for 1978, reinvested earnings in the NIPA's, like other NIPA components, exclude capital gains and losses; for earlier years, data needed to exclude them are not available. Neither an inventory valuation nor a capital consumption adjustment is made, also because data are not available.

Receipts and payments of reinvested earnings are deflated as part of factor income in the NIPA's using the implicit price deflator for net domestic product. Lack of detailed price data by country and industry necessitates the use of such a broad domestic price measure. Its use can be justified partly because exchange rate movements over time tend to offset changes in relative prices among countries, and because the degree of industrial concentration of direct investment is not great.

Reinvested earnings, 1977–81

In the 1970's through 1977, reinvested earnings of incorporated affiliates varied between $3 and $7 billion. Thereafter, it increased sharply to a peak of $15½ billion in 1979, and then declined $3½ billion in 1980 and in 1981. Fluctuations can be traced in terms of factors affecting earnings and payments of dividends. Among those affecting dividends are recent years' earnings, changes in home-country taxation, and host-country restrictions and taxes on dividends.

In recent years, fluctuations in receipts—that is, in reinvested earnings of foreign affiliates of U.S. direct investors—rather than in payments, have been the source of most of the fluctuations in the net. Movements in exchange rates were one factor that played a major role in determining the pattern of receipts. Earnings abroad, which firms generally calculate initially in foreign currencies, are reported to BEA, and expressed in the NIPA's, in dollars. Thus, dollar depreciation against the currency of a country where the earnings are generated generally raises the dollar measure; dollar appreciation generally lowers it. A trade-weighted index of the foreign currency price of the dollar, based on 22 currencies, declined 9 percent in 1978, steadied in 1979, and then rose 3 percent in 1980 and 13½ percent in 1981. Developments in the petroleum industry worldwide were another major factor determining the pattern of receipts.

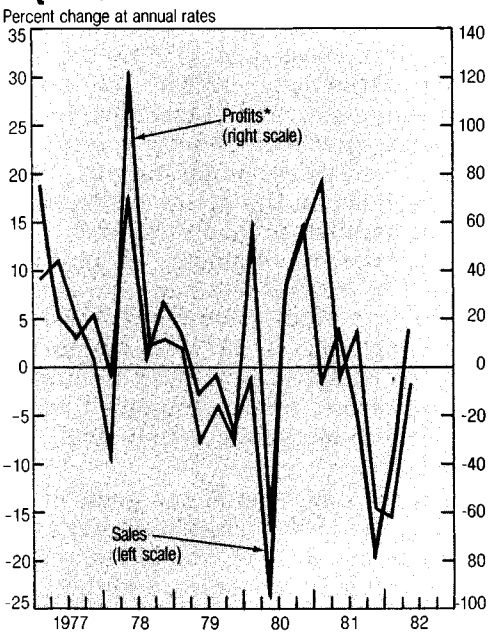
On the up side of the 1979 peak in receipts, increases in 1978 and 1979 reflected sharp increases in earnings in combination with less than proportional increases in dividends. Earnings were boosted in 1978 by depreciation of the dollar and in 1979 by increased prices and production of petroleum products and by continuing high worldwide inflation. In both years, much of the earnings tended to be reinvested, probably in part to finance the replacement of physical assets at costs exceeding allowances calculated under historical cost accounting. Also, a 1979 change in the United Kingdom in the tax treatment of inventory profits prompted affiliates there to reinvest newly available funds.

On the downside of the peak in receipts, the 1980 decline reflected a decline in earnings in combination with an increase in dividends, and the 1981 decline, a decline in earnings. In 1980, much of the decline occurred in the reinvested earnings of affiliates in the United Kingdom, where, as previously noted, a tax change caused a one-year jump in reinvested earnings in 1979. The decline in earnings in 1981 was due to slowing foreign economic activity as well as appreciation of the dollar against major foreign currencies.

As can be seen from the chart, payments were much more stable than receipts. Increases in 1978, 1979, and 1980 reflected increases in earnings in combination with a decline (in 1978) or less than proportional increase (in 1979 and 1980) in dividends. These increases were centered in petroleum affiliates, where earnings rose at extremely high rates. A decline in 1981 reflected a sharp decline in earnings in combination with a sharp increase in dividends.

CHART 5

Corporate Profits and Constant-Dollar Sales for Manufacturing: Percent Change From Preceding Quarter



Based on Seasonally Adjusted Annual Rates

*Corporate profits with IVA and without CCAdj.

U.S. Department of Commerce, Bureau of Economic Analysis 82-9-5

for most of the second-quarter decrease. In manufacturing, quarter-to-quarter changes in profits have been closely related to quarter-to-quarter changes in constant-dollar manufacturing sales in recent years (chart 5). In the second quarter, manufacturing profits decreased slightly, following large decreases in each of the two previous quarters, while constant-dollar sales increased slightly, following large decreases. The second-quarter decrease in manufacturing profits was largely traceable to decreased profits for petroleum, chemicals, fabricated metals, and nonelectrical machinery manufacturers and increased losses of primary metals manufacturers. Offsetting these were a swing from substantial losses to profits for motor vehicle manufacturers and increased profits in most other manufacturing industries.

Other measures of profits.—Profits before tax were unchanged at $171½ billion in the second quarter, following a decrease of $45 billion in the first. These profits exclude the inventory valuation adjustment and capital consumption adjustment.[4] Inventory profits—the IVA with sign reversed—increased $5 billion to $9½ billion in the second quarter, following a decrease of $12½ billion. Profits attributable to underdepreciation—the CCAdj with sign reversed—decreased $3 billion to $7 billion in the second quarter, following a decrease of $5½ billion. Somewhat more than $2 billion of each decrease in the CCAdj was due to provisions of the Economic Recovery Tax Act of 1981, which have progressively reduced profits attributable to underdepreciation. The second-quarter decrease is also consistent with rates of inflation in prices for fixed nonresidential investment that were lower than those experienced over the service lives of the assets: such lower rates of inflation lead to less negative values for the portion of the CCAdj that values fixed capital used up in production at replacement costs rather that at historical costs.

Corporate profits taxes.—Corporate profits taxes, which are levied on profits including inventory profits and profits attributable to underdepreciation, decreased $1½ billion to $55½ billion in the second quarter, following a decrease of $15 billion in the first. The first- and second-quarter levels were each increased $1 billion by some provisions of the recently enacted Tax Equity and Fiscal Responsibility Act of 1982 that were retroactive to the beginning of the year. (For a discussion of the act, see the article on Federal budget developments later in this issue of the SURVEY.) The levels of profits after tax were correspondingly lowered by the provisions of the act (to $115 and $116½ billion in the first and second quarters, respectively). Profits before tax were not affected.

* * *

Second-quarter NIPA revisions

The 75-day revisions of the national income and product account estimates for the second quarter of 1982 are shown in table 4.

Table 4.—Revisions in Selected Component Series of the NIPA's, Second Quarter of 1982

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	45-day estimate	75-day estimate	Revision	45-day estimate	75-day estimate
	Billions of current dollars				
GNP	**3,041.2**	**3,045.2**	**4.0**	**6.2**	**6.8**
Personal consumption expenditures	1945.8	1947.8	2.0	5.6	6.1
Nonresidential fixed investment	351.9	352.2	.3	−5.6	−5.3
Residential investment	95.2	95.5	.3	7.6	9.4
Change in business inventories	−17.4	−16.2	1.2		
Net exports	35.1	34.9	−.2		
Government purchases	630.6	630.9	.3	.3	.6
National income	**2,425.1**	**2,425.2**	**.1**	**4.8**	**4.8**
Compensation of employees	1,850.6	1,850.7	.1	4.4	4.4
Corporate profits with inventory valuation and capital consumption adjustments	154.9	155.4	.5	−5.6	−3.7
Other	419.7	418.8	−.9	10.9	9.9
Personal income	**2,553.5**	**2,552.7**	**−.8**	**7.0**	**6.9**
	Billions of constant (1972) dollars				
GNP	**1,475.3**	**1,478.4**	**3.1**	**1.3**	**2.1**
Personal consumption expenditures	953.8	955.0	1.2	2.0	2.5
Nonresidential fixed investment	166.4	166.7	.3	−12.3	−11.8
Residential investment	39.9	40.1	.2	11.5	12.9
Change in business inventories	−5.3	−4.4	.9		
Net exports	35.7	35.7	0		
Government purchases	284.7	285.3	.6	−6.2	−5.3
	Index numbers, 1972=100 [1]				
GNP implicit price deflator	206.14	205.98	−.16	4.9	4.6
GNP fixed-weighted price index	213.0	213.0	0	4.2	4.1
GNP chain price index				4.7	4.6

1. Not at annual rates.

NOTE.—For the second quarter of 1982, the following revised or additional major source data became available: For *personal consumption expenditures,* revised retail sales for June, consumer share of new car purchases for June, and consumption of electricity for June; for *nonresidential fixed investment,* revised manufacturers' shipments of equipment for June, revised construction put in place for June, and business share of new car purchases for June; for *residential investment,* revised construction put in place for June; for *change in business inventories,* revised book values for manufacturing and trade for June; for *net exports of goods and services,* revised merchandise trade for June, and revised service receipts for the quarter; for *government purchases of goods and services,* revised construction put in place for June; for *wages and salaries,* revised employment, average hourly earnings, and average weekly hours for June; for *net interest,* revised net interest received from abroad for the quarter; for *corporate profits,* revised domestic book profits for the quarter, and revised profits from the rest of the world for the quarter; and for *GNP prices,* revised residential housing prices for the quarter, and revised producer price indexes for April.

4. The IVA and CCAdj are defined in *National Income and Product Accounts of the United States, 1929–1976: Statistical Tables.* U.S. Department of Commerce, Bureau of Economic Analysis (Washington, D.C.: U.S. GPO, 1981).

the BUSINESS SITUATION

IN the third quarter, economic performance was again lackluster. Real GNP increased 1 percent at an annual rate, following a 2-percent increase in the second quarter.[1] Only a small part of the ground lost during the sharp declines in the previous two quarters was regained (chart 1). Inventories were up slightly in the third quarter, after moderate liquidation in the second. In the change in GNP, their positive contribution more than offset a decline in final sales. Among the categories of final sales, fixed investment again dropped substantially, and personal consumption expenditures (PCE) increased only a little (table 1). Sharp changes in net exports—a decline—and in government purchases—an increase—about offset each other.

Prices.—GNP prices as measured by the fixed-weighted price index increased 6 percent at an annual rate in the third quarter, after increasing 5 percent and 4 percent in the first and second quarters, respectively. Even after the acceleration in the third quarter, prices increased much less than in 1981, when quarterly increases had ranged from 8½ to 10 percent. As can be seen from the addenda to table 2, a major factor in the acceleration was energy prices. The price of the GNP energy components had declined 5½ percent in the first quarter and 9½ percent in the second, and increased 19 percent in the third.

The third-quarter increase of 7 percent in the price of total PCE was up

1. The third-quarter GNP estimates are based on the following major source data: *For personal consumption expenditures* (PCE), retail sales, and unit auto and truck sales through September; for *nonresidential fixed investment,* the same information for autos and trucks as for PCE, manufacturers' shipments of machinery and equipment for July and August, July and August construction put in place, and investment plans for the quarter; for *residential investment,* July and August construction put in place, and housing starts for July and August; for *change in business inventories,* July and August book values for manufacturing and trade, and unit auto inventories through September; for *net exports of goods and services,* July and August merchandise trade, and fragmentary information on investment income for the quarter; for *government purchases of goods and services,* Federal unified budget outlays for July and August, State and local construction put in place for July and August, and State and local employment through September; and for *GNP prices,* the Consumer Price Index for July and August, the Producer Price Index for July and August, and unit value indexes for exports and imports for July and August. Some of these source data are subject to revision.

Table 1.—Real GNP: Change From Preceding Quarter

[Percent change at annual rates; based on billions of 1972 dollars, seasonally adjusted at annual rates]

	1981	1982		
	IV	I	II	III
GNP	−5.3	−5.1	2.1	0.8
Final sales	−2.3	.2	−.9	−.6
Personal consumption expenditures	−3.3	2.5	2.5	1.4
Durables	−20.9	10.4	2.5	−4.3
Motor vehicles and parts	−37.3	45.7	−3.3	−2.6
Furniture and household equipment	−5.9	−12.4	6.8	−3.8
Other durables	−15.0	6.9	6.0	−8.9
Nondurables	0	−1.0	2.6	2.7
Food	2.4	−.6	2.9	5.2
Energy [1]	−7.5	2.2	16.1	−3.5
Clothing and shoes	−.1	3.8	1.1	1.2
Other nondurables	−2.5	−9.0	−1.7	.4
Services	0	3.0	2.4	−2.2
Energy [2]	3.3	6.7	−20.9	−9.7
Other services	−.2	2.8	3.9	2.9
Gross private domestic fixed investment	−5.0	−6.0	−7.6	−9.8
Nonresidential	.6	−5.0	−11.8	−12.9
Structures	5.9	1.3	1.6	−8.6
Producers' durable equipment	−1.7	−7.6	−17.4	−15.0
Autos, trucks, and buses	−43.0	38.8	−16.7	1.0
Other	7.5	−13.5	−17.5	−17.5
Residential	−25.3	−10.2	−12.9	4.2
Net exports of goods and services				
Exports	−2.4	−12.7	7.5	−10.6
Merchandise	2.7	−15.3	−2.1	−7.5
Agricultural	53.0	−.9	17.5	−34.4
Nonagricultural	−7.1	−18.9	−7.1	19.5
Other	−8.3	−9.2	20.4	−14.1
Imports	6.0	−17.5	14.5	2.6
Merchandise	19.0	−30.1	10.6	9.0
Petroleum	5.4	−44.2	−32.7	111.5
Nonpetroleum	20.1	−28.9	14.3	4.3
Other	−17.6	17.6	22.5	−9.0
Government purchases of goods and services	7.0	−2.9	−5.3	6.8
Federal	20.4	−5.5	−13.5	19.6
National defense	10.1	−7.9	21.4	14.3
Nondefense	43.6	−.9	−58.1	33.4
Commodity Credit Corporation [3]				
Other	−4.3	−4.8	−13.9	−3.8
State and local	−.8	−1.1	.4	−.7
Change in business inventories				

1. Gasoline and oil, and fuel oil and coal.
2. Electricity and gas.
3. Estimates, in billions of 1972 dollars, for the third quarter of 1981 through the third quarter of 1982 were: 1.9, 5.7, 6.0, −0.5, and 2.2.

NOTE.—Most dollar levels are found in the National Income and Product Accounts Tables, table 1.2.

from increases of 5 percent and 3 percent in the first and second quarters, respectively, and was close to the size of most 1981 increases. Energy accounted for a major part of the third-quarter acceleration. Within energy, energy goods—gasoline and oil, and fuel oil and coal—increased substantially after first- and second-quarter declines. The increase in the prices of PCE other than food and energy also accelerated, from about 6 percent in the two previous quarters to 7 percent in the third. Accelerations were widespread both in goods and in services. In contrast, food prices decelerated over the quarters of the year to a 2-percent increase in the third quarter. The deceleration came from a wide variety of foods: in the second quarter, from eggs, fruit, vegetables, grains, bakery products, and fish; in the third quarter, again from eggs, fruit, and grains and also from meat and poultry.

Increases in the prices of the major categories of goods and services purchased by government and investors remained in the range of 3–6 percent generally registered in the first and second quarters. The acceleration in the average of these prices from a 3-percent increase in the second quarter to a 5-percent increase in the third was largely traceable to the prices of residential investment. These prices, which are extremely difficult to measure on a quarterly basis, declined in the second quarter and increased in the third.

Costs and productivity.—The slower rate of inflation in 1982 in the prices of final goods and services was accompanied by a slowing of the increase in labor costs per hour. In the business economy other than farm and housing, the increase in compensation per hour in the third quarter was 6½ percent at an annual rate (table 3). A year earlier the increase had been two percentage points higher. A slowing is also apparent in the Average Hourly Earnings Index, which is adjusted for fluctuations in manufacturing overtime and interindustry employment shifts. This measure, which is prepared by the Bureau of Labor Statistics for production workers in the private nonfarm economy, increased 5.9 percent in the third quarter, compared with 8.4 percent a year earlier.

Table 3 also shows the increase in productivity as measured by real gross product per hour. In the third quarter, productivity increased substantially as aggregate hours continued to decline while real product increased slightly. A similar pattern

CHART 1

Real Product: Change From Preceding Quarter

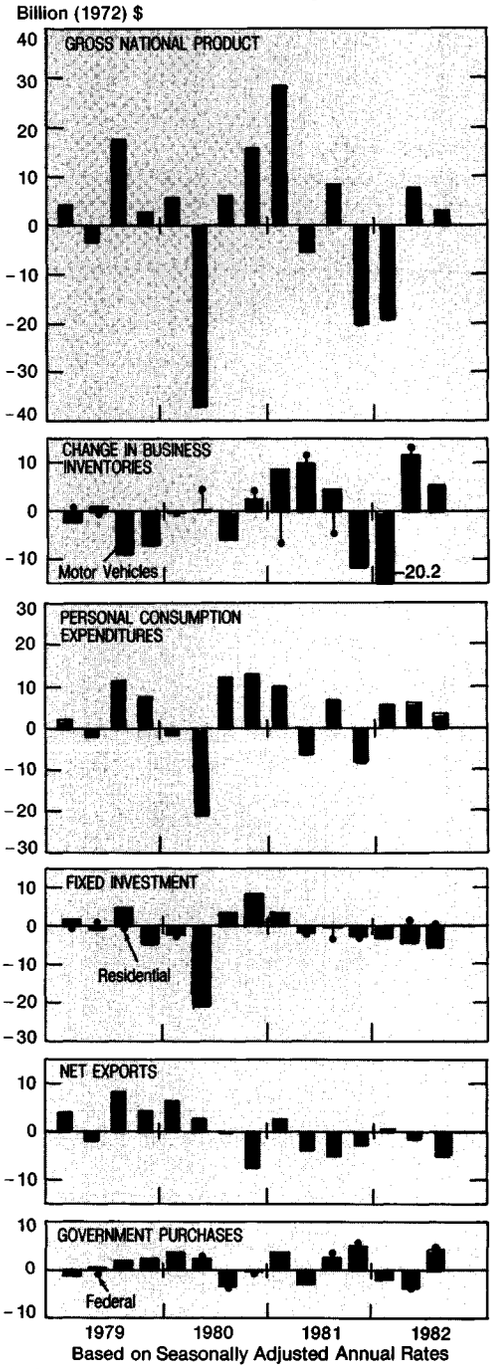


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Table 2.—Fixed-Weighted Price Indexes: Change From Preceding Quarter

[Percent change at annual rates; based on index numbers (1972=100), seasonally adjusted]

	1981	1982		
	IV	I	II	III
GNP	[5] **8.5**	**4.8**	**4.1**	**6.1**
Less: Change in business inventories				
Equals: Final sales	8.6	4.8	4.1	6.2
Less: Exports	2.4	4.9	1.2	−.8
Plus: Imports	−3.0	6.7	−6.7	2.3
Equals: Final sales to domestic purchasers	**7.9**	**4.9**	**3.2**	**6.3**
Personal consumption expenditures	7.1	4.8	3.2	7.1
Food	2.0	7.0	3.8	2.0
Energy	6.5	−4.6	−13.5	18.1
Other personal consumption expenditures	8.8	5.9	6.1	7.1
Other [1]	9.2	5.1	3.2	5.1
Nonresidential structures	6.1	4.4	4.8	4.5
Producers' durable equipment	7.5	5.5	6.1	6.2
Residential	6.3	2.6	−3.4	3.2
Government purchases	11.1	5.8	4.0	5.4
Addenda: Food and energy components of GNP—[2]				
Food components [3]	2.2	6.6	3.8	1.3
Energy components [4]	10.0	−5.6	−9.6	19.1
GNP less food components	9.6	4.5	4.1	6.9
GNP less energy components	8.4	5.5	5.0	5.3
GNP less food and energy components	9.5	5.3	5.2	6.0

1. Index number levels for the third quarter of 1981 through the third quarter of 1982 were: 204.2, 208.4, 210.8, 213.0 and 216.1.
2. Inasmuch as GNP is the sum of final products, the food and energy estimates in this table do not take into acount the effect on the prices of final products of changes in the prices of the food and energy that are costs of production.
3. Consists of all components for which separate estimates are prepared. The major component that is not included is purchases of food by the Federal Government other than transactions by the Commodity Credit Corporation that are treated like purchases.
4. Consists of all components for which separate estimates are prepared. The major components that are not included are (1) exports of energy, (2) the gasoline and motor oil portions of inventories of gasoline service stations, and (3) the energy portions of inventories of businesses that do not produce energy for sale.
5. The Federal pay raise accounted for 1.2 percentage points of the increase in the index for GNP.

NOTE.—Index number levels are found in the National Income and Product Accounts Tables, table 7.2.

Table 3.—Real Gross Product, Hours, and Compensation in the Business Economy Other Than Farm and Housing: Change From Preceding Quarter

[Percent change at annual rates; based on seasonally adjusted estimates]

	1981	1982		
	IV	I	II	III
Real gross product	−7.3	−4.3	0.6	0.7
Hours	−3.7	−4.8	−.8	−2.7
Compensation	3.3	2.6	5.9	3.6
Real gross product per hour	−3.7	.5	1.4	3.5
Compensation per hour	7.3	[1]7.8	6.7	6.5
Unit labor cost	11.4	7.9	5.3	2.9

1. Increases in employers' contributions for social security in the first quarter of 1982 accounted for 0.6 percentage points of the increase in compensation per hour.

was apparent in the second quarter. These improvements in productivity in combination with the smaller increases in compensation per hour led to small increases in unit labor costs—3 percent in the third quarter and 5½ percent in the second.

Personal income and its disposition

Personal income increased $45 billion—by a small margin the largest increase in recent quarters (table 4).[2] A major factor in the size of the third-quarter increase, and also in the second-quarter increase, was transfer payments. Of the $15½ billion third-quarter increase in transfer payments, $12 billion was due to cost-of-living increases in several Federal programs. Such increases had also boosted second-quarter payments, but by a much smaller amount. Unemployment insurance benefits, on the other hand, increased more in the second quarter ($5 billion) than in the third ($2 billion). In the third quarter, payments under extended benefit programs were down, partly because some unemployed reached the 13-week limit on benefits under these programs. (Effective in September, an additional 10 weeks of payments were authorized under the Tax Equity and Fiscal Responsibility Act of 1982.) The cost-of-living increases may be described as inflation-induced, and the changes in unemployment insurance benefits, as cycle-induced. An article later in this issue discusses these sources of change in Federal transfer payments to persons for the period 1970-81.

Proprietors' income also improved in the third quarter. The improvement was due to a turnaround in farm proprietors' income, which increased $1½ billion. The increase was traceable to the volume of marketings, especially of crops; prices received by farmers fell in the third quarter.

Personal interest income registered another large increase—$10½ billion. Lower interest rates in the third quarter than in the second accounted for a deceleration in these incomes.

The increase in wage and salary disbursements was again weak. A $9 billion increase in private wages and salaries was roughly the same size as the average of the previous three quarters. Wages and salaries paid by commodity-producing industries declined again, due to reductions in employment and, to a smaller extent, in average weekly hours. The third-quarter decline was concentrated in durables manufacturing and in mining. In durables manufacturing, it was largely traceable to widespread reductions in employment; in mining, it was traceable to reductions in employment and average hours in iron ore mining. In wages and salaries paid by government and government enterprises, the third quarter included about $1 billion for the second of three annual lump-sum payments to Postal Service employees under a collective bargaining agreement signed last year.

Personal taxes declined $5½ billion, as legislative changes, mainly the withheld income tax rate reductions effective July 1 under the Economic Recovery Tax Act of 1981, on balance, reduced taxes $18½ billion. As brought out in last month's "Business Situation," legislative changes that became effective beginning in the fourth quarter of 1981 have helped insulate disposable personal income from the weakness in personal income. (Increases in personal taxes under the Tax Equity and Fiscal Responsibility Act of 1982 do not become effective until 1983.) Increases in disposable income have, with the exception of the first quarter, been within a range of 6½-10 percent, compared with a range of 6-7½ percent in personal income. Increases in real disposable personal income reflected, in addition, the course of PCE prices; these increases were, again with the first quarter as an exception, in the range of 1-3 percent.

The personal saving rate moved up slightly, to 6.9 percent, compared with 6.7 percent in the second quarter and 6.6 percent in the first. These rates, although down from the 7.5 percent in the fourth quarter of 1981, averaged higher than in any of the preceding 5 years (chart 2). Personal saving is influenced by the same factors as its complement, spending; these factors are discussed below in connection with PCE.

Real PCE increased only 1½ percent at an annual rate in the third quarter. In durable goods, each major category—motor vehicles and parts, furni-

Table 4.—Personal Income and Its Disposition: Change From Preceding Quarter

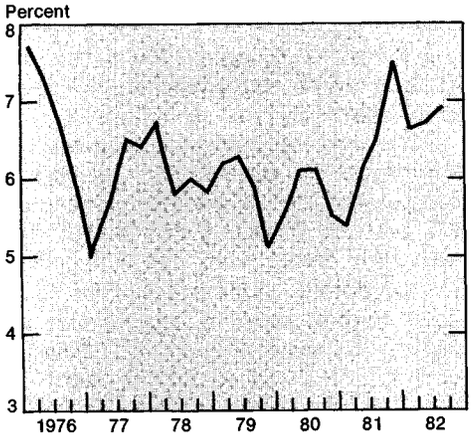
[Billions of dollars; based on seasonally adjusted annual rates]

	1981	1982		
	IV	I	II	III
Wage and salary disbursements	18.9	10.4	15.0	12.7
Manufacturing	−4.2	−3.6	.5	−2.1
Other commodity-producing	2.6	.2	−1.2	−1.6
Distributive	1.8	3.1	4.0	3.1
Services	10.0	6.7	8.1	9.7
Government and government enterprises	8.6	4.1	3.5	3.5
Proprietors' income	−3.4	−7.7	.9	3.0
Farm	−2.5	−6.7	−.5	1.6
Nonfarm	−.9	−1.0	1.4	1.4
Personal interest income	11.4	8.8	12.3	10.3
Transfer payments	5.9	3.8	10.7	15.5
Other income	4.7	4.2	4.0	4.6
Less: Personal contributions for social insurance	.9	3.6	.7	1.0
Personal income	**36.4**	**15.9**	**42.1**	**45.1**
Less: Personal tax and nontax payments	−4.9	.2	7.7	−5.7
Impacts of legislation	−14.7	−10.3	−4.8	−18.5
Other	9.8	10.6	12.5	12.9
Equals: Disposable personal income	**41.4**	**15.7**	**34.4**	**50.8**
Less: Personal outlays	17.0	35.1	29.2	42.1
Equals: Personal saving	**24.2**	**−19.4**	**5.2**	**8.7**
Addenda: Special factors in personal income—				
Cost-of-living increases in Federal transfer payments	.5	.4	2.4	12.1
Social security base and rate changes (in personal contributions for social insurance)	.....	3.2	.....	.....
Federal pay raise	6.2	.3	.....	.....

2. Quarterly estimates of the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

CHART 2

Personal Saving Rate



Note.—Personal saving as a percentage of disposable personal income; based on seasonally adjusted annual rates.

U.S. Department of Commerce, Bureau of Economic Analysis 82-10-2

ture and household equipment, and other durables—declined. In nondurable goods, food registered a substantial increase; a decline in gasoline and oil offset small increases in clothing and shoes and in other nondurables. In services, the increase was held down by a decline in household operation, where electricity declined due to unseasonably mild weather.

Table 5 places these development in PCE in perspective. Since the third quarter of 1981, when real GNP reached its recent peak, real PCE increased at an annual rate of only one-half percent. This rate of increase was slower than the 1-percent average increase from the third quarter of 1979 to the third quarter of 1981—already a period of poor overall economic performance—and the 2½-percent average increase from the third quarter of 1977 to the third quarter of 1981, which includes, in addition, 2 years of stronger economic performance.

Durable goods registered the most marked deterioration—a 4-percent decline over the most recent four quarters, compared with a 2½-percent average decline over the previous 2 years and a one-half percent average increase over the longer period. Overall, expenditures on durables were held down by high interest rates on consumer installment loans and on mortgages—the latter because they influenced PCE through their impact on housing purchases. Motor vehicles declined substantially in each period. The size of the declines was affected by the timing of rebates and other incentive programs this year and last; the third quarter of 1981, in particular, was affected by the introduction of several of these programs. In addition, motor vehicle expenditures, as discussed in an article later in this issue, were affected by rising "sticker" prices. The recent decline in the other durables category was more than accounted for by the subcategory that consists of bicycles, durable toys, and sporting equipment; one possible explanation for the decline is the discretionary nature of these expenditures.

Nondurable goods, which increased only 1 percent over the most recent four quarters, were no weaker than over the previous 2-year period but were weaker than over the longer period. The recent weakness was in clothing and shoes, which registered a smaller increase than earlier, and in the other nondurables category, which declined. In the latter, a heterogeneous category including such items as tobacco and semidurable house furnishings, declines were widespread. In contrast, food increased after earlier declines. The increase in gasoline occurred in the first and second quarters of 1982, reflecting a period of generally lower gasoline prices.

Services, which increased 2 percent over the most recent four quarters, also were no weaker than over the previous 2-year period but were weaker than over the longer period. Housing services increased less over the most recent four quarters because, as a result of the slump in residential investment, the housing stock grew less, and household operation declined after average increases of 3½ percent over both earlier periods. The decline in household operation occurred in the second and third quarters of 1982, and was largely due to electricity, which, as noted earlier, was affected by unseasonably mild weather. Transportation, in contrast, increased 3½ percent—concentrated in auto repair—after declines in both earlier periods. The declines were largely traceable to auto repair and air transportation. The changes in auto repair were partly due to the changes in mileage driven, which, in turn, determine maintenance requirements. Comparisons for air transportation were affected by the strike of air controllers in the third quarter of 1981. Further, airline travel may have affected by changes in fares and routes following deregulation, in addition to the more usual cuts it suffers when economic conditions are poor.

In addition to the factors discussed above that affected specific components, PCE was affected also by more general factors. Among them were job insecurity, interest rates, consumer balance sheets, and real disposable income. It is clear that there was concern about job security—a concern that holds down spending. Various labor market indicators provide evi-

Table 5.—Real Personal Consumption Expenditures

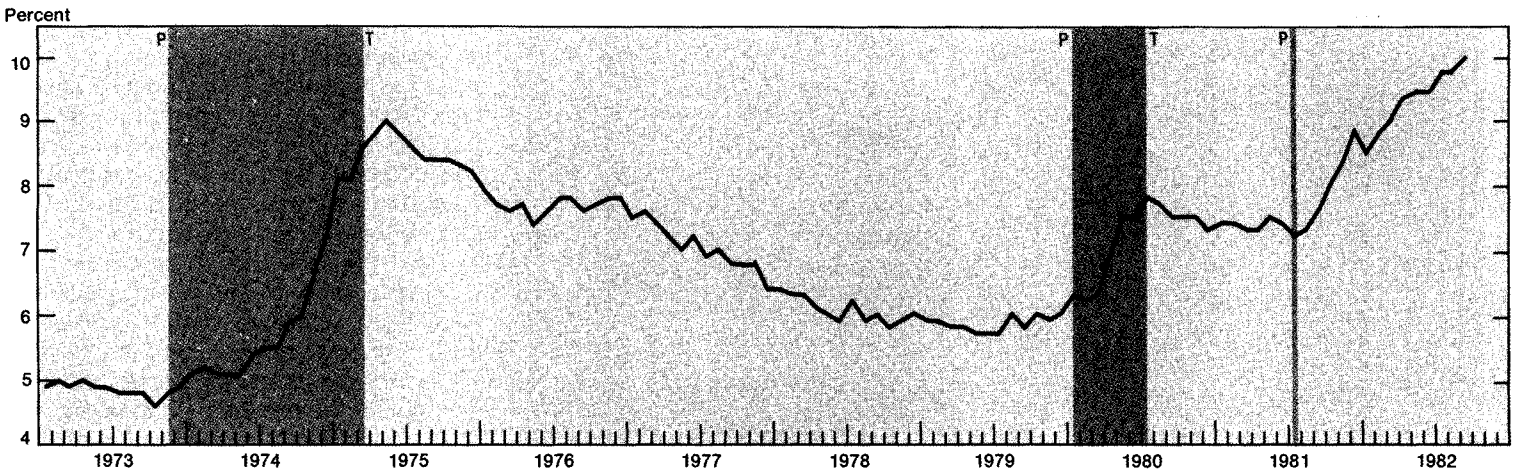
[Based on seasonally adjusted annual rates]

	Billions of 1972 dollars						Percent change		
	Change						Average		
	From preceding quarter				1981: III-1982: III	1982: III	1977: III-1981: III	1979: III-1981: III	1981: III-1982: III
	1981: IV	1982							
		I	II	III					
Total PCE	**−8.0**	**5.7**	**5.9**	**3.3**	**7.0**	**958.4**	**2.3**	**1.1**	**0.7**
Goods	−8.0	2.5	3.1	.9	−1.5	503.7	1.7	.3	−.3
Durable goods	−8.1	3.4	.8	−1.5	−5.4	136.8	.5	−2.3	−3.8
Motor vehicles and parts	−6.1	4.9	−.5	−.4	−2.1	54.1	−3.7	−5.8	−3.6
Furniture and household equipment	−.8	−2.1	.9	−.5	−2.5	58.9	3.6	−.2	−4.1
Other	−1.0	.4	.3	−.5	−.8	23.9	2.7	.8	−3.2
Nondurable goods	.1	−.9	2.3	2.4	3.9	366.9	2.2	1.3	1.1
Food	1.1	−.3	1.3	2.4	4.5	185.4	1.6	1.4	2.5
Clothing and shoes	−.1	.8	.2	.3	1.2	84.3	5.4	3.4	1.4
Gasoline and oil	−.4	.4	1.0	−.4	.6	26.8	−1.3	−.8	2.3
Other	−.6	−1.9	−.1	.1	−2.5	70.4	1.9	−.1	−3.4
Services	0	3.3	2.7	2.4	8.4	454.6	3.0	2.0	1.9
Housing	.6	1.0	.7	.5	2.8	165.7	3.5	2.4	1.7
Household operation	.3	.1	−1.1	−.5	−1.2	62.9	3.6	3.5	−1.9
Transportation	−.4	.2	.6	.7	1.1	33.2	−.8	−4.2	3.4
Other	−.6	1.9	2.5	1.8	5.6	193.8	3.2	2.5	3.0

NOTE.—Dollar levels are found in the National Income and Product Accounts Tables, table 2.3.

CHART 3

Unemployment Rate



Note.—Business cycle peaks (P), and troughs (T), are turning points in economic activity, as designated by the National Bureau of Economic Research, Inc. Shaded areas represent recessions.
Data: BLS
U.S. Department of Commerce, Bureau of Economic Analysis

82-10-3

dence of what was giving rise to it: the sharp drop in the employment-population ratio, the steady increase in the number of discouraged workers, the growing number of persons working part-time for economic reasons, and the increase in the unemployment rate to a postwar high of over 10 percent (chart 3). Interest rates were quite high until recently, acting as a deterrent to the incurrence of consumer debt and as an incentive to save. As indicated by changes in real net worth, consumer balance sheets deteriorated until recently, when some recovery in the value of financial assets tended to lessen their dampening effect on spending. Increases in real disposable income were rather well maintained, tending to support spending. However, a sizable part of the increases stemmed from tax cuts and cost-of-living increases in Federal transfer payments, which may not be spent according to the pattern typical of increases in real disposable income.

Real investment

Nonresidential fixed investment declined 13 percent at an annual rate, the third consecutive decline. In the third quarter, structures declined for the first time; motor vehicle purchases were flat, as an increase in autos offset a decline in trucks; and producers' durable equipment (PDE) other than motor vehicles again declined sharply.

Earlier in the year, the major factor holding up the structures total was its office building component; other components showed smaller changes that, on balance, were down. In the third quarter, the increase in office buildings slowed, and petroleum and natural gas well drilling declined. In PDE other than motor vehicles, declines spread to most components. Earlier, the declines had been more concentrated in computers, aircraft, and equipment—such as agricultural machinery, construction machinery, and mining and oil field equipment—used in industries hit hard by the recession.

Residential investment increased 4 percent at an annual rate. Although a long slide ended in the first quarter, the increases since—in the second quarter, in the nonconstruction components, and in the third quarter, in government-assisted multifamily projects—do not appear to represent a lasting, market-induced recovery. However, a sharp drop in short-term interest rates that started in mid-August is spreading to the "sticky" mortgage interest rates (chart 4). Continuation of the decline in mortgage rates to the neighborhood of 13–14 percent—generally regarded as the threshold that will bring borrowers back into the market in large numbers—would be a significant step toward such a recovery. (Housing and mortgage markets were discussed in detail in last month's "Business Situation.")

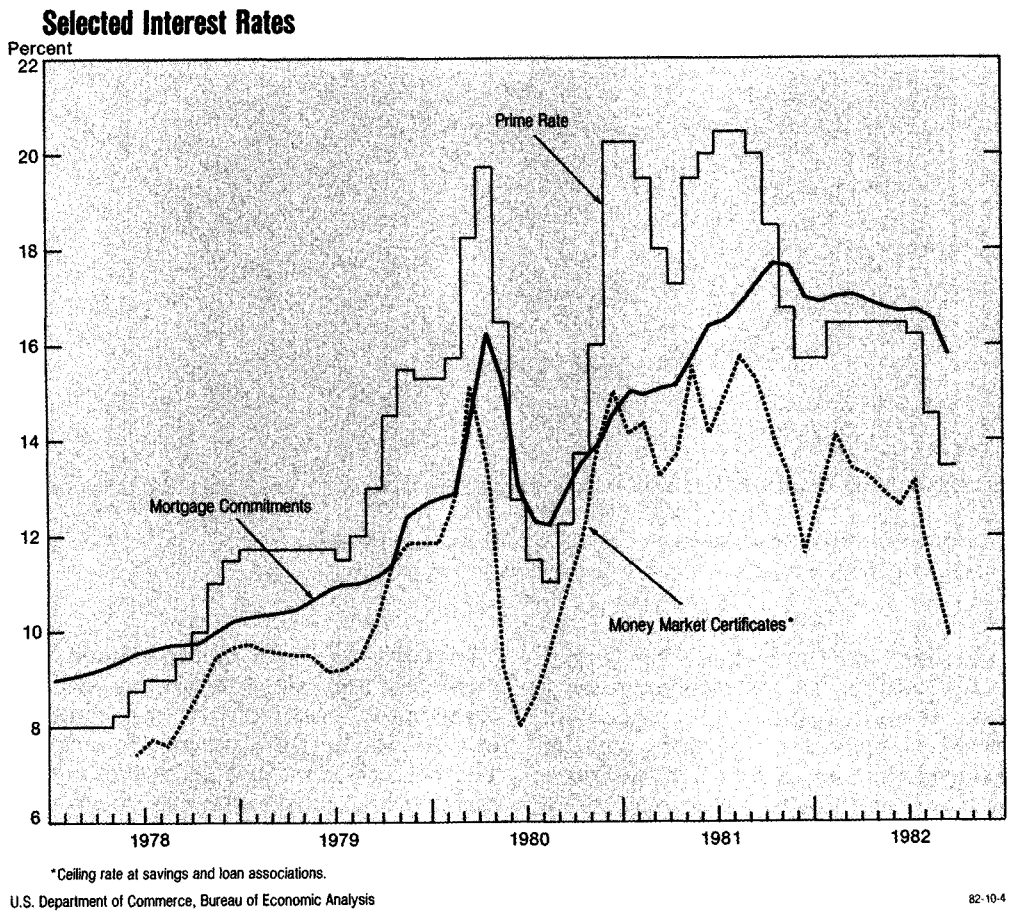
Inventories—both motor vehicle inventories and all others combined—contributed positively to the change in GNP in the third quarter (chart 1). The positive contribution of motor vehicles—$1½ billion—came from a higher rate of accumulation in the third quarter than in the second. At the end of the quarter, inventories were uncomfortably high. The positive contribution of other inventories—$3½ billion—came from a lower rate of decumulation in the third quarter. It seems probable that, in some industries, businesses would have liked to have reduced inventory holdings even more.

Real net exports

Net exports declined $5 billion in the third quarter, as exports declined $4 billion and imports increased $1 billion. In exports, about one-half of the decline was in investment income, largely reflecting the decline in interest rates on assets held abroad and depressed foreign economic activity. Agricultural exports declined sharply, as shipments of grain to Eastern Europe fell off; nonagricultural exports edged up.

In imports also, investment income declined. Merchandise imports more than offset that decline, as both petroleum and nonpetroleum imports increased. Petroleum imports increased from 4.8 million barrels a day (seasonally adjusted) in the second quarter to 5.8 million in the third.

CHART 4



Government

Real government purchases increased 7 percent at an annual rate in the third quarter. As in earlier quarters of the year, most of the constant-dollar change was in defense purchases and purchases of the Commodity Credit Corporation (CCC); the rest of Federal purchases as well as State and local purchases generally showed only small changes and were on a downtrend (table 6).

The third-quarter increase in defense purchases continued an uptrend that began in the first quarter of 1981 and that was interrupted only in the first quarter of 1982. The increases were in services other than compensation—such as research and development, and depot maintenance—and in durables. The "other" category in table 6, which consists mainly of compensation but includes nondurables and structures as well, has shown little change.

Transactions of the CCC that are treated as purchases in the national income and product accounts (NIPA's) were $2 billion in the third quarter following −$½ billion in the second, thus accounting for the $2½ billion third-quarter change in nondefense purchases. The $2 billion was mostly due to large purchases of wheat—farmers' response to a gap between the support and low market prices. The small negative figure reflected small purchases and sales of several crops. As explained in the Special Note in the January 1982 issue of the SURVEY OF CURRENT BUSINESS (pages 6 and 7), these transactions are generally made to support farm prices and incomes through the CCC's direct purchase or commodity loan programs. Caution should be exercised when using estimates of these transactions to interpret quarterly changes in GNP. For instance, a crop placed under loan in a quarter may represent current production or it may represent past production withdrawn from business inventories. In the latter case, if the assumption is made that coverage, timing, and seasonal adjustment are consistent, the CCC purchase is offset in the change in business inventories component of GNP. Thus, in this case, a statement to the effect that the change in CCC purchases added to the change in GNP would be misleading.

NIPA Federal sector.—Changes in current-dollar Federal receipts and expenditures are shown in table 7. Although the estimate for total third-quarter receipts cannot be completed until estimates of corporate profits, and thus of corporate profits tax accruals, are available, it is quite likely that total receipts changed little. A $9 billion decline in personal taxes reflected legislative changes mentioned earlier in combination with continued weakness in the tax base. Indirect business taxes increased $3½ billion, mostly due to the windfall profits tax, and contributions for social insurance were up $1½ billion.

In expenditures, the developments in purchases just described amounted, in current dollars, to an increase of $13 billion, and a $14 billion increase in transfer payments included the cost-of-living adjustments described in connection with personal income. A large increase in net interest paid—$6 billion—was due to the increased

Table 6.—Real Government Purchases of Goods and Services

[Billions of 1972 dollars, seasonally adjusted at annual rates]

	1980: IV	Change from preceding quarter							1982: III
		1981: I	1981: II	1981: III	1981: IV	1982: I	1982: II	1982: III	
Federal purchases	**104.8**	**3.1**	**−.9**	**3.7**	**5.3**	**−1.6**	**4.1**	**5.0**	**115.3**
National defense	69.6	1.4	1.9	1.4	1.8	−1.6	3.7	2.7	80.9
Durable	18.2	.4	1.3	.3	−.1	−.2	1.8	.7	22.4
Services other than compensation	15.2	.8	.3	1.0	1.5	−1.7	2.0	1.6	20.7
Other	36.2	.2	.3	0	.5	.3	0	.2	37.7
Nondefense	35.2	1.7	−2.8	2.4	3.4	−.1	−7.7	2.3	34.4
Commodity Credit Corporation	−.2	1.3	−2.4	3.2	3.8	.4	−6.6	2.7	2.2
Other	35.4	.4	−.4	−.8	−.4	−.5	−1.1	−.4	32.2
State and local purchases	**178.4**	**.6**	**−2.1**	**−1.2**	**−.4**	**−.4**	**.1**	**−.3**	**174.7**

NOTE.—Most dollar levels are found in the National Income and Product Accounts Tables, table 3.8B.

amount of financing—including a substantial amount of roll over of debt—that more than offset the effect of lower interest rates. Subsidies less current surplus of government enterprises increased $2 billion, largely due to an increase in agricultural subsidies and a decline in the current surplus of the Postal Service, which stemmed from the payment of the lump sum mentioned earlier. The only category that declined was grants-in-aid to State and local governments; a $1 billion decline resumed a downtrend that began in the first quarter of 1981. On balance, these changes yield an increase in total expenditures of $34½ billion, and, with little change in total receipts, will raise the Federal deficit on the NIPA basis to roughly $155 billion.

Table 7.—Federal Government Receipts and Expenditures, NIPA Basis: Change From Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1981	1982		
	IV	I	II	III
Receipts	**−14.5**	**−15.8**	**7.1**	**na**
Personal tax and nontax receipts	−7.0	−1.0	5.9	−8.9
Corporate profits tax accruals	−9.3	−12.6	−1.3	na
Indirect business tax and nontax accruals	−.6	−8.6	1.2	3.4
Contributions for social insurance	2.3	6.4	1.3	1.4
Expenditures	**29.2**	**1.0**	**8.2**	**34.6**
Purchases of goods and services	20.5	−.9	−5.4	13.2
National defense	12.5	−.8	10.0	7.5
Nondefense	7.9	−.1	−15.4	5.7
Transfer payments	5.6	2.5	9.6	14.1
Grants-in-aid to State and local governments	−2.7	−.6	2.0	−.8
Net interest paid	5.0	.7	3.1	6.1
Subsidies less current surplus of Government enterprises	.6	−.9	−1.0	2.0
Less: Wage accruals less disbursements	−.3	−.1	.2	0
Surplus or deficit (−), national income and product accounts	**−43.7**	**−16.7**	**−1.2**	**na**

na Not available.

NOTE.—Dollar levels are found in the National Income and Product Accounts Tables, table 3.2.

the BUSINESS SITUATION

REVISED (45-day) estimates show that real GNP was unchanged in the third quarter of 1982, compared with the 1-percent annual rate increase shown by the preliminary (15-day) estimates (table 1). The downward revision in real GNP was more than accounted for by a large—$5 billion—downward revision in net exports.[1] The revision reflected a $3 billion downward revision in merchandise exports in combination with a $1½ billion upward revision in merchandise imports. In prior quarters in 1982 and 1981, revisions in exports and imports happened to be partially offsetting. The downward revision in merchandise exports reflected revisions to the August trade data and an overestimate of September exports. The unexpectedly low level of exports reflected the persistence of weak economic activity world-wide, particularly acute economic and financial problems of some major trading partners, and the continued strength of the dollar in exchange markets. The upward revision in merchandise imports largely reflected an underestimate of September imports; these estimates have been affected by increased volatility in the underlying monthly source data.

Revisions in the other major components of GNP were small: upward for nonresidential fixed investment (in producers' durable equipment) and change in business inventories (down for manufacturing and up for trade), and downward for personal consumption expenditures (down for goods and up for services). The increase in prices as measured by the GNP fixed-weighted price index was revised down from 6 to 5½ percent.

1. Quarterly estimates of the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

The revisions in the real GNP estimates do not alter the picture of lackluster economic performance described in the October "Business Situation." Business inventories accumulated in the third quarter after liquidation in the second, but that positive contribution to the change in GNP was offset by a decline in final sales. Personal consumption expenditures and residential investment increased only slightly. Nonresidential fixed investment dropped substantially: Producers' durable equipment fell for the fourth consecutive quarter, and structures declined for the first time. Net exports registered a huge decline—exports dropped sharply as both goods and services declined, and imports were up as goods, both petroleum and nonpetroleum, increased. Government purchases increased substantially due to increases in defense purchases and purchases of the Commodity Credit Corporation.

Table 1.—Revisions in Selected Component Series of the NIPA's, Third Quarter of 1982

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	15-day estimate	45-day estimate	Revision	15-day estimate	45-day estimate
	Billions of current dollars				
GNP	**3,091.4**	**3,080.7**	**−10.7**	**6.2**	**4.7**
Personal consumption expenditures	1,989.5	1,987.5	−2.0	8.8	8.4
Nonresidential fixed investment	341.6	341.2	−.4	−11.5	−11.9
Residential investment	97.4	97.2	−.2	7.9	7.0
Change in business inventories	−.5	2.9	3.4		
Net exports	13.2	2.7	−10.5		
Government purchases	650.2	649.2	−1.0	12.8	12.1
National income		**2,457.6**			**5.5**
Compensation of employees	1,867.8	1,868.2	.4	3.7	3.8
Corporate profits with inventory valuation and capital consumption adjustments		165.9			29.2
Other	425.7	423.4	−2.3	6.8	4.5
Personal income	**2,597.8**	**2,596.0**	**−1.8**	**7.3**	**7.0**
	Billions of constant (1972) dollars				
GNP	**1,481.2**	**1,478.4**	**−2.8**	**.8**	**0**
Personal consumption expenditures	958.4	957.7	−.7	1.4	1.1
Nonresidential fixed investment	161.0	162.0	1.0	−12.9	−10.8
Residential investment	40.5	40.7	.2	4.2	6.3
Change in business inventories	.7	2.3	1.6		
Net exports	30.7	25.7	−5.0		
Government purchases	290.0	290.0	0	6.8	6.8
	Index numbers, 1972=100 [1]				
GNP implicit price deflator	208.71	208.38	−.33	5.4	4.7
GNP fixed-weighted price index	216.1	215.9	−.2	6.1	5.6
GNP chain price index				6.1	5.8

1. Not at annual rates.

NOTE.—For the third quarter of 1982, the following revised or additional major source data became available: For *personal consumption expenditures,* revised retail sales for August and September, and sales and inventories of used cars of franchised automobile dealers for August; for *nonresidential fixed investment,* manufacturers' shipments of equipment for August (revised) and September, construction put in place for August (revised) and September, and a partial tabulation of business expenditures for plant and equipment for the quarter; for *residential investment,* construction put in place for August (revised) and September; for *change in business inventories,* book values for manufacturing and trade for August (revised) and September; for *net exports of goods and services,* merchandise trade for August (revised) and September; for *government purchases of goods and services,* Federal unified budget outlays for September, and State and local construction put in place for August (revised) and September; for *wages and salaries,* revised employment, average hourly earnings, and average weekly hours for August and September; for *corporate profits,* domestic book profits for the quarter; for *GNP prices,* the Consumer and Producer Price Indexes for September, unit value indexes for exports and imports for September, and residential housing prices for the quarter.

Corporate profits

Corporate profits from current production—profits with inventory valuation and capital consumption adjustments—increased $10½ billion to $166 billion in the third quarter, following a decrease of $1½ billion in the second. The increase followed three consecutive quarters of decrease. An increase in the domestic profits of nonfinancial corporations accounted for most of the increase; domestic profits of financial corporations increased and profits from the rest of the world decreased.

Domestic profits of nonfinancial corporations increased $9 billion to $124 billion in the third quarter, following a decrease of $5½ billion in the second. The increase resulted from both an increase in real product of nonfinancial corporations and a more rapid increase in unit prices than in unit costs. The relatively low growth in unit costs reflected the third consecutive quarter of decline in the growth rate of unit labor costs.

The third-quarter increase in the domestic profits of nonfinancial corporations was largely due to an increase in the profits of manufacturing corporations. The increase in manufacturing profits was, in turn, largely due to a sharp increase in the profits of petroleum manufacturing corporations. Refineries' margins increased as wholesale prices for petroleum products increased sharply while their costs for crude oil increased only slightly. Increases and decreases in the profits of other manufacturing industries largely offset each other. The pattern generally mirrored the pattern of increases and decreases in contant-dollar sales in the industries, but in several industries price developments were significant as well. Food manufacturers' profits increased, despite a decrease in their constant-dollar sales. Their increased margins were probably related to the fact that prices for processed foods increased very slightly while costs as measured by prices for farm products decreased sharply. Conversely, chemicals manufacturers' profits fell despite an increase in constant-dollar sales, reflecting a fall in producer prices for chemicals. Smaller losses were registered by primary metals manufacturers, reflecting increases in prices of many nonferrous metals within the third quarter.

Profits of nonfinancial nonmanufacturing corporations also increased in the third quarter, although within the total several industries' profits continued to reflect depressed economic conditions. Profits of mining corporations decreased again, reflecting production cutbacks. Airlines' losses continued as a sharp decrease in revenue-passenger miles offset a substantial increase in fares and continuing attempts to reduce labor costs. Auto dealers' profits decreased; they were adversely affected by the cost of carrying large inventories of unsold cars.

Profits of domestic financial corporations increased $2½ billion in both the second and third quarters, reaching $25 billion. In the third quarter, commerical banks' profits increased and losses registered by mutual savings banks and by savings and loan associations decreased. The reduced losses reflected the impact of decreasing interest rates, which lowered the costs of attracting deposits. Mutual savings banks and savings and loan associations have registered seven consecutive quarters of losses.

Profits from the rest of the world decreased $1½ billion to $17 billion in the third quarter, following an increase of $1½ billion. The decrease was due to nonpetroleum foreign operations of U.S. corporations and reflected depressed economic conditions in most other industrial nations.

Other measures of profits.—Profits before tax increased $8 billion to $180 billion in the third quarter, after having been unchanged in the second. These profits exclude the inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj).[2] Inventory profits—the IVA with sign reversed—increased $½ billion to $10 billion in the third quarter, following an increase of $5 billion. Profits attributable to underdepreciation—the CCAdj with sign reversed—decreased $3 billion in both the second and third quarters, reaching $4 billion. Somewhat more than $2 billion of each decrease in the CCAdj was due to provisions of the Economic Recovery Tax Act of 1981, which have progressively reduced profits attributable to underdepreciation. The decreases were also consistent with rates of inflation in prices for fixed nonresidential investment that were lower than those experienced over the service lives of the assets: Such lower rates of inflation lead to less negative values for the portion of the CCAdj that values fixed capital used up in production at replacement costs rather than at historical costs.

Disposition of profits.—Corporate profits taxes, which are levied on profits including inventory profits and profits attributable to underdepreciation, increased $5½ billion to $61 billion in the second quarter, following a decrease of $1½ billion. The increase resulted from both higher profits and an increase in the share going to Federal taxes. Only a small portion of the increase in profits taxes resulted from provisions of the Tax Equity and Fiscal Responsibility Act of 1982. The increased share reflected reduced importance of tax credits relative to pretax profits.

Dividends continued their uptrend in the third quarter, increasing $1 billion to $70½ billion, following an increase of $½ billion in the second quarter. Undistributed profits increased $1½ billion to $48½ billion in the third quarter, following an increase of $1 billion.

The government sector

The fiscal position of the government sector in the national income and product accounts (NIPA's) deteriorated significantly in the third quarter, as the combined deficit of the Federal Government and the State and local governments increased $33 billion. Compared with a year earlier, the combined deficit increased substantially, from $24½ billion to $120½ billion. Virtually all of this deterioration occurred at the Federal level, where the deficit increased $95 billion.

2. The IVA and CCAdj are defined in *National Income and Product Accounts of the United States, 1929-1976: Statistical Tables*, U.S. Department of Commerce, Bureau of Economic Analysis (Washington, D.C.: U.S. GPO, 1981).

The Federal sector.—The Federal government deficit increased $33½ billion in the third quarter, to $153 billion, reflecting a decline in receipts and an increase in expenditures.

Receipts declined $3½ billion, compared with a $7 billion increase in the second quarter. In the third quarter, a decline in personal tax and nontax receipts more than offset increases in all other categories of receipts. The decline in personal taxes—$10 billion—was the result of the second round of cuts in withholding rates provided for by the Economic Recovery Tax Act of 1981 (ERTA). The July 1 cut in withholding rates reduced withheld income taxes $25 billion; this reduction was partly offset by a $7½ billion increase due to higher incomes. Declarations and net settlements also increased—$8 billion—reflecting the absence of temporary tax reductions that occurred in the first half of the year. (See page 2 of the September SURVEY OF CURRENT BUSINESS for details on the temporary reductions.) Corporate profits tax accruals increased $4 billion, reflecting some recovery in corporate profits. Contributions for social insurance increased $1½ billion, including about $½ billion for an increase in the monthly premium for supplementary medical insurance to $12.20 from $11.00. Indirect business tax and nontax accruals increased $1 billion, including about $½ billion each for the windfall profit tax and for the increased airport and airway taxes provided for by the Tax Equity and Fiscal Responsibility Act of 1982.

Expenditures increased $30 billion, compared with $8 billion in the second quarter. Transfer payments to persons were up $14½ billion. Of that amount, $12 billion was for various cost-of-living adjustments, including a 7.4 percent increase in social security benefits that accounted for $11 billion. Unemployment benefits increased $2 billion, the net result of a small decline in extended benefits and a large increase in regular benefits. Purchases of goods and services increased $12 billion, following a decline of $5½ billion in the second quarter. National defense purchases continued to increase, but not as strongly as in the second quarter. However, in contrast to the second quarter, when the increase was concentrated in military hardware (aircraft and missiles), the third-quarter increase was mainly in services other than compensation, such as for depot maintenance and for research and development. The accompanying Special Note discusses national defense purchases in more detail and an article later in this issue presents new detailed quarterly estimates.

Nondefense purchases rebounded strongly in the third quarter, increasing $6 billion following a decline of $15½ billion in the second. The third-quarter increase, as well as the large second-to-third-quarter swing, was concentrated in agricultural purchases by the Commodity Credit Corporation (CCC). The CCC rebound was mainly in transactions relating to corn, wheat, and cotton. In the third quarter, acquisitions were $11 billion and dispositions were $5½ billion, for net purchases of $5½ billion. In the second quarter, dispositions slightly outpaced acquisitions, and net purchases were about −$1 billion. All other nondefense purchases also rebounded: Although purchases of crude petroleum for the strategic petroleum reserve continued to decline, others increased slightly following a large decline in the second quarter.

Net interest paid increased $6 billion, and subsidies less the current surplus of government enterprises increased $½ billion. The latter increase was the net result of a $1 billion decline in payments to farmers, a $1 billion increase in the Postal Service deficit, and a $½ billion increase in the CCC deficit. The increase in the Postal Service deficit was due to the second of three annual lump-sum payments to employees under a contract signed last year. Grants-in-aid to State and local governments declined $3 billion, mainly for public assistance, food and nutrition, and education.

On a high-employment budget basis, the Federal fiscal position moved from deficit of $6 billion in the second quarter to a deficit of $27 billion in the third (table 3 on page 11). The high-employment deficit as a percentage of potential GNP increased from 0.2 percent in the second quarter to 0.8 percent in the third—a move toward a more expansionary fiscal position. As percentages of potential GNP, high-employment receipts continued to decline and high-employment expenditures increased from the second quarter to the third.

For fiscal year 1982, on the basis of seasonally adjusted quarterly data, the Federal Government recorded a deficit of $123½ billion, up from $51 billion in fiscal year 1981. Receipts amounted to $616½ billion, up only $1 billion. Expenditures amounted to $739½ billion, up $73½ billion. The small increase in receipts reflects the impact of the recession and tax reductions provided for by ERTA. The tax reductions lowered receipts $3½ billion in fiscal year 1981 and $37½ billion in fiscal year 1982.

The State and local sector.—The State and local government surplus increased $½ billion, as receipts increased more than expenditures. The increase in the surplus was more than accounted for by a continued increase in the surplus of the social insurance funds; the "all other" deficit increased after declining in the second quarter.

Receipts increased $6½ billion, compared with $10 billion in the second quarter. The $3 billion dollar decline in Federal grants-in-aid mentioned earlier explains the smaller third-quarter increase. Indirect business tax and nontax accruals increased $4 billion and personal tax and nontax receipts increased $3½ billion. The third-quarter change in personal taxes was boosted by tax increases, mainly in Ohio and New York City. Ohio imposed a temporary 6-month increase of 50 percent in withholdings to collect for a tax increase that was passed in midyear, retroactive to January. Corporate profits tax accruals and contributions for social insurance each increased about $1 billion.

Expenditures increased $6 billion, slightly more than in the second quarter. Purchases of goods and services accounted for all the increase; all other expenditures, on balance, were unchanged. Within purchases, compensation increased $1 billion less than in the second quarter, reflecting a decline in employment, and construction purchases increased about $1 billion following a slight decline in the second quarter.

Special Note.—National Defense Purchases

IN recent quarters, spending for national defense, in contrast to other types of government spending, has been on an uptrend as a result of the administration's policy of 8.7 percent average annual growth in real defense outlays over fiscal years 1981–84. This uptrend has heightened interest in the several series that can be used to track defense spending. One such series is the national defense *purchases* series, a subcomponent of Federal Government purchases of goods and services in the national income and product accounts (NIPA's). This series consists of the compensation of military and civilian employees, purchases of goods and services from business and abroad, and net purchases of used goods. Another NIPA series is defense *expenditures,* which consists of, in addition to purchases, small amounts for grants-in-aid to State and local governments and for subsidies less the current surplus of government enterprises. The expenditures series is broken down into the functional subcategories of military activities, civil defense, foreign military assistance, and other expenditures (see annual NIPA table 3.16). A more comprehensive series is *outlays*—the unified budget series in terms of which the administration's policy is expressed. It consists of, in addition to expenditures, military retirement pay, loans, and net interest paid. A further distinction between purchases and outlays is that outlays are on a checks-issued basis, and purchases are on a delivery basis. (For a reconciliation of outlays and purchases, see table 10, page 23, of the March 1982 SURVEY OF CURRENT BUSINESS.)

The national defense purchases series will be the focus of this Special Note. Within the NIPA's, national defense purchases are a subcomponent of GNP and, as just noted, a subcomponent of expenditures in presentations of government receipts and expenditures. These purchases, which are made largely by the Department of Defense (DOD), are shown in the usual four-fold NIPA major-type-of-product categories: durable goods (those with a normal life expectancy of 1 year or more), largely consisting of military equipment, such as aircraft and ships; nondurable goods, largely bulk petroleum products and ammunition; services, largely compensation of employees; and structures, largely military facilities. Substantial detail by type of purchase—for current dollars, constant dollars, and associated implicit price deflators—is shown annually beginning with 1972 in NIPA tables 3.9, 3.10, and 7.15. Quarterly estimates, at a summary level of detail, are in NIPA tables 3.7B, 3.8B, and 7.14B. Quarterly estimates for 1977–82, at an intermediate level of detail, are introduced later in this issue of the SURVEY, along with percent changes in a new fixed-weighted price index.

Sources and methods.—A basic source of information for current-dollar estimates is the *Monthly Treasury Statement of Receipts and Outlays of the United States Government* (MTS). As shown in the reconciliation table mentioned earlier, purchases are derived from defense outlays in the MTS by subtracting outlays for transfer payments to retired military personnel, grants-in-aid, net interest paid, and other outlays, such as for loans. A timing adjustment is also made to adjust outlays from a checks-issued basis to a delivery basis. The timing adjustment is derived from DOD reported deliveries of major weapons systems. This procedure provides a control total for national defense purchases. Detail for purchases by type of good or service is obtained from a variety of DOD reports.

Constant-dollar estimates are prepared by the standard NIPA procedure for final goods and services: At the finest possible level of product detail, divide current-dollar estimates by appropriate price indexes, and sum the results to the published level of detail. For defense purchases, implementation of this procedure is especially difficult because much of defense spending is for unique products that change radically and are otherwise difficult to price. Further, until recent years, information was not available on product breakdowns or on prices paid by Government, which may move very differently from prices paid by the private sector.

A project to remedy the inadequacy of product and price information was started in the mid-1970's by BEA in cooperation with DOD. It involved the development of price series at a very detailed level, along with parallel development of product detail, using data largely from DOD records. The technique used to obtain the price series was specification pricing: Price-determining characteristics of an item are defined, and these are then held constant for successive pricings of the item. For example, in the case of combat boots, the type and quality of sole and upper material—rather than size and color—are price-determining characteristics. For each period, the price of an item with these characteristics is divided by its price in the base year; the result is the price index needed to divide into current-dollar purchases. For many reasons, it may not be possible to price successively an item with the given specifications, and in this case the price is adjusted for the cost of a change in specification. The price adjustment for the specification change is obtained by assuming that the production cost associated with the change is the appropriate measure. In the example of combat boots, if a change in the sole material from leather to rubber lengthens the life of the boot, the difference in the cost of the leather and rubber sole is taken as the price of the specification change. Price series for a sample of products in each of about 100 categories were prepared in this way. The categories

Table A.—National Defense Purchases of Goods and Services

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982*
	Billions of 1972 dollars										
National defense purchases	73.1	68.3	66.9	66.4	64.9	65.4	65.7	67.4	70.1	73.5	78.9
Compensation	35.7	33.8	33.3	32.9	32.3	32.0	32.2	32.0	32.2	32.8	33.3
All other	37.5	34.6	33.6	33.5	32.6	33.4	33.5	35.4	37.9	40.7	45.6
	Percent change from preceding period										
National defense purchases (Billions of 1972 dollars)		−6.6	−2.0	−.8	−2.3	.8	.5	2.6	4.0	4.9	7.3
Compensation		−5.3	−1.5	−1.3	−1.8	−.9	.6	−.6	.6	1.9	1.5
All other		−7.7	−2.9	−.3	−2.7	2.5	.3	5.7	7.1	7.4	12.0
National defense purchases (Index, 1972=100)											
Implicit price deflator		6.6	8.0	8.5	6.0	7.1	7.6	8.7	12.9	11.5	8.4
Fixed-weighted price index		6.9	10.0	8.8	6.0	7.3	7.5	9.7	14.5	11.8	8.6

* Projection.

ranged from aircraft to depot maintenance services to compensation of employees. (For the latter, the price-determining characteristics were education and training.)[1]

As a result of this project, estimates of constant-dollar defense purchases and implicit price deflators—the result of dividing a current-dollar estimate by a constant-dollar estimate—were first introduced into the NIPA's in 1980 for the period beginning in 1972. Further, the current-dollar estimates, by type, were improved, because of the work on product detail.

Real purchases and prices, 1972–82.—National defense purchases, measured in 1972 dollars, declined from $73 billion in 1972 to $65 billion in 1976 (table A). Following this period of continued winding down of U.S. operations in Vietnam, they increased moderately in 1977–78 before they began to accelerate in 1979. They are estimated to be $79 billion in 1982. In 1972, compensation was roughly one-half of total defense purchases, and in 1982 it was only 42 percent: Although compensation had declined less than the "all other" component in the early part of the decade, it increased much less later. In 1982, it was still below its level of a decade earlier, largely because the size of the armed forces was down about 300,000. "All other" purchases declined at annual rates that averaged 3½ percent from 1972 to 1976. Thereafter, with one exception, each year's increase was larger than in the preceding year; the 1982 increase was about 12 percent.

The acceleration in 1979 was a reflection of a policy to strengthen NATO forces in Europe, to strengthen strategic forces, and to increase the overall combat readiness of U.S. forces. Further acceleration in mid-1982 was a reflection of the administration's policy to increase defense spending substantially over the next few years. This acceleration was not due to the introduction of new major weapons systems, but to a higher rate of spending for all defense activities, particularly for weapons systems currently in production, such as the F-16 and F-18 fighter aircraft. All types of purchases other than compensation contributed to the acceleration. In durables, although purchases of aircraft slowed, purchases of missiles and ships were stepped up. In nondurables, the acceleration was widespread, and in services, it was concentrated in research and development and in maintenance.

Throughout the 1979–82 period, the pattern of quarterly changes often appeared erratic. However, the pattern can be traced largely to the changes in the deliveries of aircraft, missiles, and vehicles, and in the purchases of services other than compensation. Deliveries may change abruptly for several reasons: (1) the introduction of a new weapons system, as in mid-1980 when initial deliveries of the F-18 were small and larger deliveries of the A-7—which the F-18 replaced—stopped; (2) changes in the number of aircraft or missiles to be delivered, as when scheduled deliveries of the F-14 were reduced because of budget constraints; (3) diversion of deliveries to foreign buyers, as when F-15's were diverted to Israel; and (4) production problems or bottlenecks. Fluctuations in the purchases of services other than compensation were mainly due to discretionary purchases at military installations. Large increases in these purchases early in 1980 were the result of large existing backlogs in the maintenance and repair of facilities and equipment; purchases declined as these backlogs were reduced.

Two measures of price change for national defense purchases are also shown in table A—the implicit price deflator and the fixed-weighted price index. The implicit price deflator reflects shifts in weights as well as price changes (except when the comparison of change is from the base period), whereas the fixed-weighted price index does not reflect weight shifts, but only price change. Throughout most of the 1972–82 period, annual increases in defense prices (as reflected in the fixed-weighted price index) did not differ much from those in total GNP prices. In 1980 and 1981, however, defense price increases were much higher—in the range of 11½–14½ percent, compared to 9½–10 percent for GNP. Defense prices increased more mainly because of large increases in the prices of bulk petroleum products in those years. A large—14.3 percent—military pay raise also contributed to the 1981 increase (pay raises are reflected as price increases). Like most other price increases, defense price increases show a substantial deceleration in 1982, to about 8½ percent.

Throughout most of the period, the differences between changes in the fixed-weighted price index and in the implicit price deflator were small—no

1. A detailed description of the work done appears in *Price Change of Defense Purchases of the United States*, U.S. Department of Commerce, Bureau of Economic Analysis (Washington, D.C.: U.S. GPO, 1979).

more than 0.3 percentage points. There were three exceptions, and in each year the increase in the fixed-weighted price index was larger: in 1974, by 2.0 points, in 1979, by 1.0 point, and in 1980, by 1.6 points. The major reason for these large differences was the price and weight of bulk petroleum products. In 1974, the prices of petroleum products accelerated sharply following the 1973 OPEC oil embargo. Because the weight of bulk petroleum was higher in the fixed-weighted price index than in the implicit price deflator, the fixed-weighted price index registered a larger increase. In 1979–80, prices for bulk petroleum products were continuing to increase substantially more than other defense prices on average. Because, by this time, the weight for bulk petroleum products was twice as large in the fixed-weighted index as in the implicit price deflator, it again recorded larger increases.

On a quarterly basis, significant price increases occur in the fourth quarters, when Federal pay raises are effective. Other than these large increases, price changes appear erratic. The sharp movements are partly due to inherent characteristics of prices for defense purchases. For example, when a transaction does not occur in a given quarter, the price is held unchanged at the last observed price until there is a new transaction; the new transaction's price may be significantly higher or lower. Also, the contracting procedures of DOD can cause sharp changes. Many goods and services are purchased under fixed-price contracts, which are for 1 year; their effective dates tend to be clustered at certain times of the year.

the BUSINESS SITUATION

THE fourth quarter of 1982 was the fifth consecutive quarter of poor economic performance. Nearly complete information indicates that motor vehicle production was down sharply (table 1). Less complete information suggests that other production in total remained flat.[1]

• Real personal consumption expenditures (PCE) increased about 2½ percent at an annual rate. In goods, the increase was more than accounted for by motor vehicles; as discussed in the following section on "Motor Vehicles," sales were boosted by manufacturers' interest rate subsidies. All other categories of goods except food were flat or down, continuing their lackluster performance. Services registered only a small increase. An increase in "other services" was largely due to commissions of security and commodity brokers; a decline in gas and electric services reflected unusually mild weather.

• Although information on fixed investment other than residential construction is sketchy, it is clear that fixed investment registered another substantial drop. In producers' durable equipment, most major categories again declined—the nonvehicle categories for the fourth consecutive quarter. Nonresidential structures continued flat. An increase in office buildings offset declines in several other categories, including oil well drilling. The article on the quarterly BEA plant and equipment survey, which appears later in this issue, puts the fourth-quarter decline in capital spending into the context of past developments and plans for 1983.

• Residential investment was up moderately. As described in the following section on "Housing and Mortgage Markets," declining interest rates have spurred activity: mortgage commitments, sales, and housing starts, as well as construction put in place.

• Little information is yet available about the other components of final sales—net exports and government purchases. It appears that although exports and imports both were down, exports were down more. Weakness in net exports continued to reflect depressed economic conditions abroad and appreciation of the dollar. The major factor in government purchases was a step-up in the price-support operations of the Commodity Credit Corporation, as farmers responded to low market prices for crops by putting substantial amounts—mainly of soybeans, corn, and cotton—under loan.

• For the change in business inventories, reasonably complete information is available only for motor vehicles. Motor vehicle inventories were run down sharply in the fourth quarter; the swing from moderate accumulation in the third quarter to liquidation in the fourth made a negative contribution to the change in GNP. If it is assumed that other inventories contributed little to the change, inventories in total more than accounted for the decline in real GNP.

Prices and wages

With the fourth-quarter increase in the GNP fixed-weighted price index at about a 5-percent annual rate, the quarterly increases for the year were all in the range of 4 to 6 percent, down substantially from 8½ to 10 percent in 1981. The Federal pay raise, which is reflected in the prices of employee services purchased by the Federal Government, accounted for 0.4 percentage points of the fourth-quarter increase. Prices of PCE were up about 1 point more than the average of GNP prices, but less than in the

1. The major source data that shed light on fourth-quarter GNP are limited to 1 or 2 months of the quarter, and in some cases are preliminary. These data are: For *personal consumption expenditures* (PCE), October and November retail sales, unit sales of new autos through the first 10 days of December, and sales of new trucks for October and November; for *nonresidential fixed investment*, the same data for autos and trucks as for PCE, October construction put in place, October manufacturers' shipments of equipment, and business investment plans for the quarter; for *residential investment*, October construction put in place, and October and November housing starts; for *change in business inventories*, October book values for manufacturing and trade, and unit auto inventories for October and November; for *net exports of goods and services*, October merchandise trade; for *government purchases of goods and services*, Federal unified budget outlays for October, State and local construction put in place for October, and State and local employment for October and November; and for *GNP prices*, the Consumer Price Index for October and the Producer Price Index for October and November.

Table 1.—Motor Vehicle Output

[Billions of 1972 dollars; seasonally adjusted annal rates]

	1981: III	Change from preceding quarter					1982: IV*
		1981: IV	1982				
			I	II	III	IV*	
Output	58.2	−10.9	−2.1	10.1	1.0	−8.0	48.3
Autos	45.6	−11.2	−3.1	8.4	2.6	−5.0	37.3
Trucks	12.6	.3	1.0	1.7	−1.6	−3.0	11.0
Final Sales	56.7	−9.7	6.4	−2.4	−1.2	5.8	55.6
Autos	43.7	−8.5	3.1	−1.3	.4	5.6	43.0
Trucks	13.0	−1.2	3.3	−1.1	−1.6	.2	12.6
Change in business inventories	1.3	−1.1	−8.4	12.5	2.0	−13.6	−7.3
Autos	1.8	−2.6	−6.2	9.7	2.1	−10.5	−5.7
Trucks	−.5	1.5	−2.2	2.8	−.1	−3.1	−1.6

*Projected. Based on unit production in October and November and scheduled production for December, unit sales of autos through the first 10 days of December and of trucks for October and November, and unit inventories for October and November.

NOTE.—For estimates through 1982:III, see tables 1.14-1.15 and 1.16-1.17 of the National Income and Product Accounts Tables. Auto output includes dealers' margins on their used car transactions; truck output includes new trucks only.

third quarter. PCE energy prices increased about one-half as much as the 18½ percent registered in the third quarter. The major factor in the smaller increase in energy prices was gasoline, where cash discount programs held down prices. PCE food prices increased at about the same rate as in the third quarter—2 percent. For fixed investment, prices were up several points less than the average of GNP prices. Prices of nonresidential structures and of producers' durable equipment increased less than in the third quarter, and prices of residential investment declined after a little change.

Prices of GNP less food and energy—an indicator of the underlying rate of inflation—also increased about 5 percent at an annual rate. The range of quarterly increases in 1982 was 5 to 6 percent, down from 8½ to 9½ percent in 1981.

Deceleration is also visible in wage rate increases, which moderated further in the second half of 1982. The Index of Hourly Earnings increased about 3½ percent at an annual rate in the fourth quarter and 6 percent in the third, compared with increases of 6½-percent in the first half of the year and of 7½ to 8½ percent in the latter half of 1981 (table 2). A slowdown in compensation—which, in addition to straight-time wages and salaries, includes employer costs of supplementary benefits such as vacation and sick leave, health insurance, and social security—paralleled that in wages. The Employment Cost Index for private industry workers decelerated from year-over-year increases of 9 to 10 percent in the latter half of 1981 to a 7-percent increase in September 1982 (table 3).

Recent major collective bargaining settlements—those covering units with at least 1,000 workers—suggest that it is likely that the lower rates of increase will persist. Settlements in the second half of 1982 provided for moderate wage increases in 1983. Many of these settlements involve multi-year contracts, and they often set standards for wage rates in the same or related industries. Wage-rate adjustments to existing contracts were down again in the second half of 1982 due to negotiated deferrals or cancellations of scheduled increases in troubled industries or firms and due to decreases in cost-of-living adjustments (COLA's). (Over one-half of workers covered by major contracts have cost-of-living protection.) The Consumer Price Index (CPI), which is the basis for most COLA's, increased 5 percent from October 1981 to October 1982, compared with 10 percent and 12½ percent the 2 previous years. In some cases, increases in the CPI were not large enough to trigger any adjustments; in others, the adjustments were reduced. In addition, COLA reviews that had been scheduled were eliminated by terms agreed to under several contract reopenings.

Table 2.—Hourly Earnings Index: Change From Preceding Quarter

[Percent change at annual rates; based on index numbers (1977=100), seasonally adjusted]

	1981		1982			
	III	IV	I	II	III	Nov.
Private nonfarm economy	**8.5**	**7.3**	**6.5**	**6.4**	**6.2**	**3.7**
Mining[1]	10.6	7.2	9.0	4.1	11.6	2.0
Construction	8.9	8.8	9.1	2.3	3.5	2.1
Manufacturing	8.7	7.7	8.7	6.6	6.3	3.2
Transportation and public utilities	6.4	7.7	7.4	6.0	4.3	4.1
Wholesale and retail trade	8.0	4.2	4.4	6.4	4.5	4.4
Finance, insurance, and real estate	9.1	7.6	4.0	9.5	9.6	7.2
Services	9.3	9.3	5.1	8.5	8.4	3.9

1. Computed from data that are not seasonally adjusted.
Source: Bureau of Labor Statistics.

Table 3.—Employment Cost Index: Change From 1 Year Earlier

[Percent; based on index numbers (June 1981=100), not seasonally adjusted]

	1981		1982		
	Sept.	Dec.	Mar.	June	Sept.
Civilian nonfarm workers[1]	**n.a.**	**n.a.**	**n.a.**	**7.5**	**7.3**
Private industry workers	10.0	8.8	7.8	7.2	7.2
Manufacturing	10.2	8.7	8.2	7.2	7.1
Nonmanufacturing	9.8	9.0	7.6	7.1	7.2
State and local government workers	n.a.	n.a.	n.a.	9.3	8.5

n.a. Not available.
1. Excludes private household and Federal Government workers.
NOTE.—The index measures change in total compensation costs (wages, salaries, and employer costs for employee benefits).
Source: Bureau of Labor Statistics.

Personal income

Personal income was up $30 billion in the fourth quarter (table 4).[2] The composition of the increase bears the imprint of several significant developments in the economy—in employment, hours, and unemployment; in farm prices; and in interest rates. Wage and salary disbursements were essentially flat. In manufacturing, wages were down sharply, largely due to declines in employment and average weekly hours in durable goods manufacturing. Wages in other commodity-producing industries and in distributive industries were down as well. In services and in government and government enterprises, they were up. In services, however, the increase was less than in the third quarter; the increase in government included $2½ billion for a Federal pay raise.

In proprietors' income, the farm component registered an increase that was more than accounted for by subsidies. The increase in subsidies, in the form of deficiency and diversion payments by the Commodity Credit Corporation, amounted to $8½ billion; initially these payments were to be made on a schedule that extended into the first quarter of 1983. Receipts for marketings of both crops and livestock were down; prices paid to farmers dropped sharply, and for crops more than offset the effect of a sharp increase in volume.

Personal interest income increased only $1 billion, down from increases of $6 to $12½ billion earlier in the year. In 1981, increases had been even larger and interest had been the fastest growing component of personal income. The deceleration was due to the drop in interest rates on assets held by persons.

2. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

Transfer payments again increased by an unusally large amount—$16 billion. The fourth quarter included a sharp step-up in unemployment insurance benefits and smaller cost-of-living adjustments than in the third quarter.

Disposable personal income increased $25 billion, or 4½ percent at an annual rate, down from an increase of $46½ billion, or 9 percent, in the third quarter. (In real terms, disposable income was down, after a 1½ percent increase in the third quarter.) The smaller increase in disposable income in the fourth quarter reflected not only the smaller increase in personal income, but also the fact that personal taxes increased after a decline. A $5 billion fourth-quarter increase in taxes was the net of a $3 billion decline in Federal taxes—the further effects of the Economic Recovery Tax Act of 1981—and an $8 billion increase due to an increase in the tax base. With a larger increase in spending than in disposable personal income, personal saving declined, and the saving rate moved down from the high levels of recent quarters.

Table 4.—Personal Income and Its Disposition: Change From Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1982			
	I	II	III	IV*
Wage and salary disbursements	10.4	15.0	13.4	1.2
Manufacturing	−3.6	.5	−1.9	−8.4
Other commodity-producing	.2	−1.2	−1.6	−.9
Distributive	3.1	4.0	3.0	−1.5
Services	6.7	8.1	10.2	6.6
Government and government enterprises	4.1	3.5	3.5	5.4
Proprietors' income	−7.7	.9	1.0	8.3
Farm	−6.7	−.5	−.7	5.8
Nonfarm	−1.0	1.4	1.8	2.5
Personal interest income	8.8	12.3	6.2	1.3
Transfer payments	3.8	10.7	15.8	15.9
Other income	4.2	4.0	4.5	3.3
Less: Personal contributions for social insurance	3.6	.7	1.1	−.1
Personal income	**15.9**	**42.1**	**39.8**	**30.2**
Less: Personal tax and nontax payments	.2	7.7	−6.7	5.0
Impact of legislation	−10.3	−4.8	−18.5	−3.1
Other	10.6	12.5	12.9	8.1
Equals: Disposable personal income	**15.7**	**34.4**	**46.6**	**25.2**
Less: Personal outlays	35.1	29.2	38.9	39.2
Equals: Personal saving	**−19.4**	**5.2**	**7.6**	**−14.1**
Addenda: Special factors in personal income—				
Cost-of-living increases in Federal transfer payments	.4	2.4	12.0	1.2
Social security base and rate changes (in personal contributions for social insurance)	3.2	.....	.....	.....
Subsidies to farmers	−.1	−1.1	−1.1	8.5
Federal pay raise	.3	.....	.....	2.7

*Projected.

Motor vehicles

Motor vehicle output dropped $8 billion (1972 dollars) in the fourth quarter, after increasing $½ billion in the third (see table 1). Auto output dropped following an increase, and truck output registered another substantial decline. Auto sales to domestic purchasers were up, largely due to interest rate subsidies on carried-over 1982 models. Truck sales were about the same as in the third quarter. Motor vehicle inventories declined sharply as stocks of 1982 model cars and trucks were liquidated.

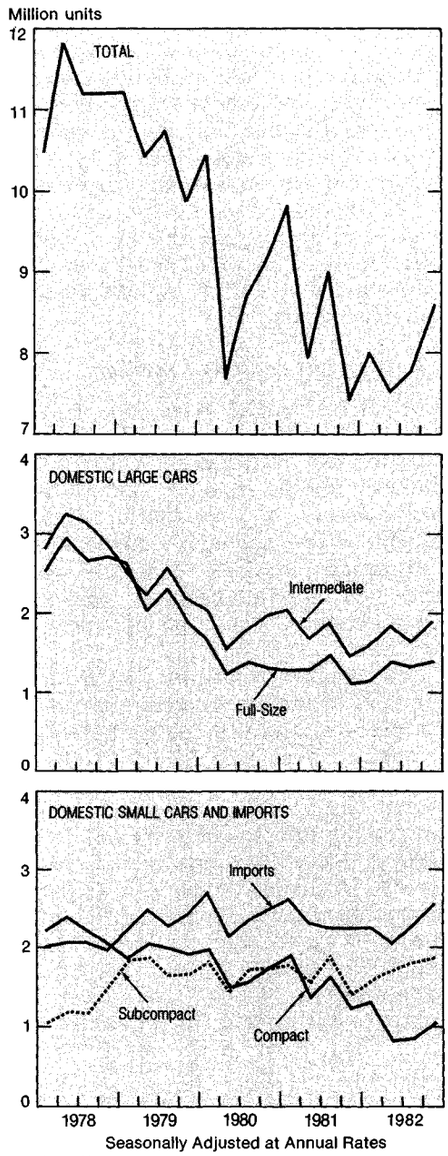
Total new car sales increased to about 8.6 million (seasonally adjusted annual rate)—their highest level in more than a year—from 7.8 million in the third quarter (chart 1). Sales of both domestic and imported cars increased. Imported car sales were up from 2.2 to about 2.5 million, as sales of both Japanese and West German cars increased sharply. Sales of several Japanese makes were boosted by various dealer incentive programs. The share of total sales accounted for by imported cars matched the 28½ percent registered in the third quarter.

Domestic car sales moved up to about 6.2 million from 5.5 million in the third quarter. Sales of all size categories were up: The largest increases were in intermediate and compact cars. Sales were especially strong in November when the major automakers, through their financial subsidiaries, subsidized auto installment loan rates at less than 11 percent. For the most part, these subsidies applied to 1982 models, although some 1983 models were included. The subsidy programs continued through December, but their impact on sales lessened as stocks of 1982 models dwindled. Sales in the first 10-day period in December were down from November but were above the third-quarter level.

At the beginning of the fourth quarter, domestic automakers faced a large inventory overhang due to an excessive carryover of 1982 models. Fourth-quarter production of new models was reduced sharply to 4.7 million units (seasonally adjusted annual rate) from 6.1 million in the third quarter. Total domestic car inventories declined from 1,418,000 (sea-

CHART 1

Retail Sales of New Passenger Cars



Seasonally Adjusted at Annual Rates

Note.—The components may not add to the total because each category was separately adjusted for seasonal variation. Data for the most recent quarter are projected.

Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports.

U.S. Department of Commerce, Bureau of Economic Analysis 82-12-1

sonally adjusted) at the end of the third quarter to about 1,220,000 at the end of November. The inventory-sales ratio fell from 3.2 in the third quarter to 2.1 in November, a level close to that considered desirable by the industry. As a result of the restoration of the inventory-sales balance, a pickup in production has been scheduled for the first quarter of 1983.

Total new truck sales changed little from the 2.5 million units (seasonally adjusted annual rate) registered in the third quarter. Sales of domestic light trucks (up to 10,000 pounds) remained at 1.9 million, and domestic "other" truck (over 10,000 pounds) sales slumped further to a record low of 0.16 million. Interest rate subsidies on light trucks and vans boosted sales sharply in November from a very low level in October. As was the case for autos, the subsidies were designed to clear out an excessive carryover of 1982 models. Production again was cut back sharply in the fourth quarter. Sales of imported trucks were up substantially, to the highest level in nearly 3 years.

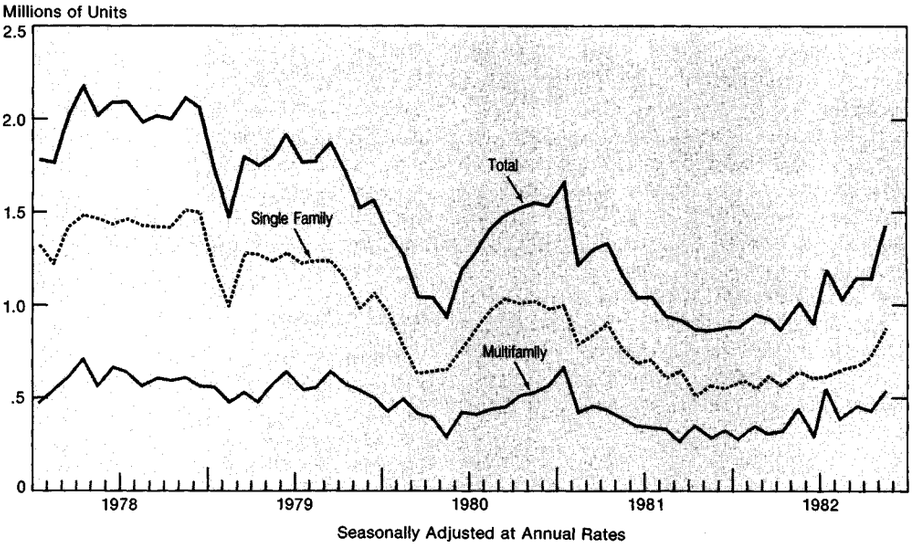
Housing and mortgage markets

Real residential investment was up in the fourth quarter, with both single- and multifamily construction sharing in the increase. The "other" component of residential investment—which includes additions and alterations, brokers' commissions on the sale of new and used residences, and mobile home sales—also increased.

To October–November, both single and multifamily housing starts increased almost 50 percent from a trough a year ago (chart 2). Three-fourths of the increase in multifamily starts occurred in the third quarter under the impetus of government programs. More than one-half of the increase in singles occurred in October–November, in response to declining interest rates and improved home sales. The prime rate—to which many construction loans are tied—fell sharply during the third quarter and continued down in the fourth (chart 3). Sales of new one-family houses turned up in August, jumped in September, and maintained the higher level in October. At October's sales

CHART 2

Housing Starts

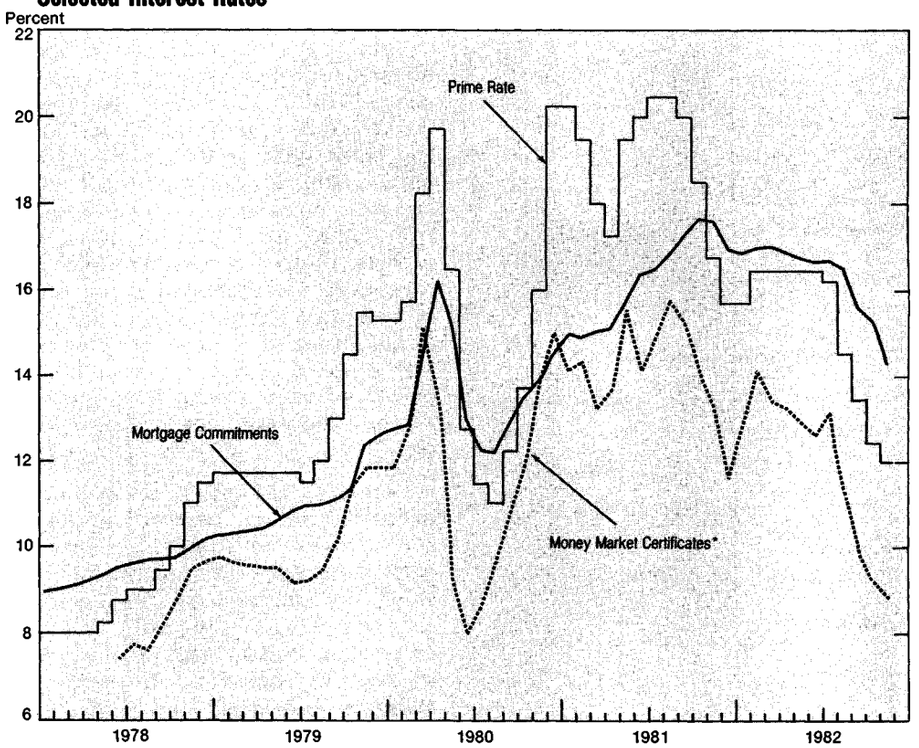


Data: Census

U.S. Department of Commerce, Bureau of Economic Analysis 82-12-2

CHART 3

Selected Interest Rates



*Ceiling rate at savings and loan associations.

U.S. Department of Commerce, Bureau of Economic Analysis 82-12-3

pace of 487,000 (annual rate), the inventory of unsold new houses fell to 6.1 months' supply, its lowest level in 2 years. Sales of existing single-family homes turned up in September and jumped 80,000 to 1,920,000 (annual rate) in October. Declining mortgage interest rates were an important factor in spurring sales. The commitment rate on 30-year mortgages with 80 percent loan-to-price ratios dropped from 16.93 percent in early July to 13.66 percent in early December.

A drop in short-term interest rates has reduced the cost of deposits for savings and loan associations (S&L's), which account for about 40 percent of mortgage commitments. Net worth of S&L's, an indicator of operating profits, continued to decline in September and October, but the declines ($0.01 billion and $0.07 billion, respectively) were much smaller than in earlier months. Moreover, mortgage activity at S&L's has been rising. In both September and October, more than $6 billion in mortgage commitments were made, and outstanding mortgage commitments rose to $18 billion by the end of October. New and outstanding commitments had not reached these levels since the spring of 1981.

Not all of the news from S&L's was good, however. All Savers Certificates fell from $22.9 billion in September to $9.9 billion in October. Although most of this drop was offset by increased balances in other accounts, withdrawals nevertheless exceeded new deposits (exclusive of interest credited) by $3.5 billion. In addition, the percentage of S&L mortgages that were delinquent 60 days or more continued to climb, reaching 2.16 percent in October.

Effective December 14, S&L's (and other depository institutions) were permitted to offer savings accounts without interest rate ceilings; effective January 5, 1983, ceiling-free checking accounts will be permitted. These new accounts will enable depository institutions to compete more effectively with money market mutual funds. S&L's are likely to gain deposits that they otherwise would not have gained and to retain deposits that they otherwise would have lost. The magnitude and timing of these deposit gains are difficult to estimate. It seems likely, however, that the cost of deposits will rise, as funds are shifted from passbook accounts (with a 5¼ percent interest rate ceiling) to the new accounts.

Third-Quarter Corporate Profits

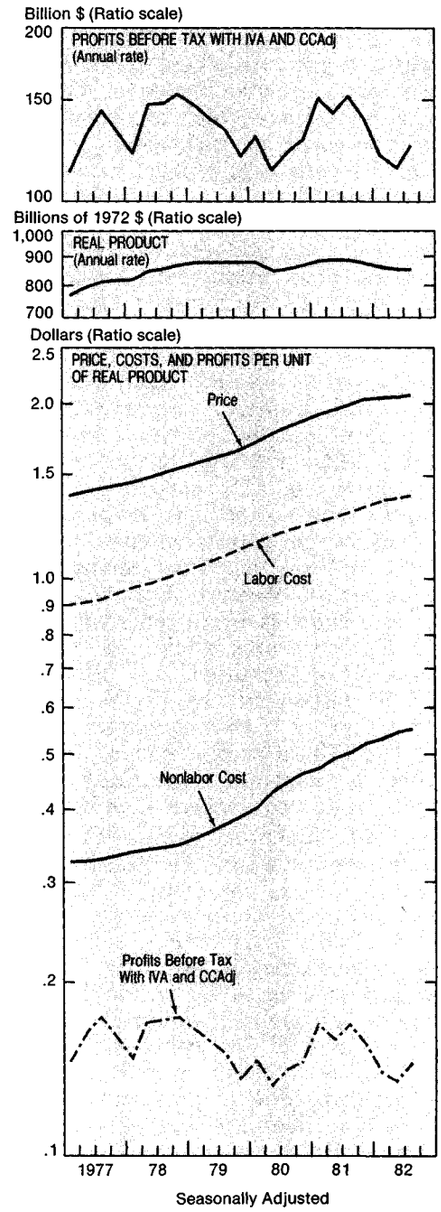
Corporate profits from current production—profits with inventory valuation and capital consumption adjustments—increased $11 billion to $166 billion in the third quarter, following a decrease of $1½ billion in the second. (This third-quarter estimate is the same as the preliminary one published a month ago; an upward revision in profits of domestic nonfinancial corporations was offset by downward revisions in domestic financial and rest-of-the-world profits.) The third-quarter increase was in profits of domestic corporations; profits from the rest of the world decreased.

Domestic profits of nonfinancial corporations increased $10½ billion to $125½ billion in the third quarter, following a decrease of $5½ billion in the second. The increase resulted from both an increase in real product of nonfinancial corporations and a more rapid increase in unit prices than in unit costs (chart 4). The growth rate of per-unit labor and nonlabor costs decreased in the third quarter, while the growth rate of unit prices increased.

The third-quarter increase in the domestic profits of nonfinancial corporations was largely due to a sharp increase in the profits of petroleum manufacturing corporations. Refiners' margins increased as wholesale prices for petroleum products increased sharply while their costs for crude oil increased only slightly. Increases and decreases in the profits of other manufacturing industries largely offset each other; the pattern generally mirrored constant-dollar industry sales. Increases in the profits of construction, retail trade, transportation, and communication corporations also added to the overall increase in nonfinancial profits. The increase in retail trade profits occurred even though auto dealers registered a swing from profits to losses. Auto dealers' losses occurred despite an increase in unit sales and reflected the costs of carrying large inventories of unsold cars.

CHART 4

Domestic Nonfinancial Corporate Business: Profits; Real Product; and Price, Costs, and Profits per Unit of Real Product



Note.— Price per unit is current dollar product divided by constant dollar (real) product. Costs and profits per unit are respective components of current dollar product divided by constant dollar product.

U.S. Department of Commerce, Bureau of Economic Analysis 82-12-4

Profits of domestic financial corporations increased $2½ billion in both the second and third quarters, reaching $24½ billion. The increase was accounted for by an increase in the profits of commercial banks and decreases in the losses registered by mutual savings banks and savings and loan associations. The reduced losses reflected the impact of decreasing interest rates, which lowered the costs of attracting deposits; the reduced losses occurred although there was a continuing excess of withdrawals over deposits. Profits of Federal Reserve banks—which are treated as part of corporate business in the national income and product accounts—decreased slightly, as the effect of a decline in the average interest rate received on holdings of short-term Federal debt instruments outweighed the effect of an increase in total holdings of assets.

Profits from the rest of the world decreased $2 billion to $16½ billion in the third quarter, following an increase of $1½ billion. A decrease in the profits of foreign manufacturing operations of U.S. corporations was larger than an increase in the profits of the foreign petroleum operations of U.S. corporations. The decrease was centered in Western Europe, where most economies are in recessions.

Other measures of profits.—Profits before tax increased $8½ billion to $180½ billion in the third quarter, after having been unchanged in the second. These profits exclude the inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj).[3] Inventory profits—the IVA with sign reversed—increased $1 billion to $10½ billion in the third quarter, following an increase of $5 billion. Profits attributable to underdepreciation—the CCAdj with sign reversed—decreased $3 billion in both the second and third quarters, reaching $4 billion. Somewhat more than $2 billion of each decrease in the CCAdj was due to provisions of the Economic Recovery Tax Act of 1981, which have progressively reduced profits attributable to underdepreciation. The decreases were also consistent with rates of inflation in prices for fixed nonresidential investment that were lower than those experienced over the service lives of the assets: Such lower rates of inflation lead to less negative values for the portion of the CCAdj that revalues fixed capital used up in production at replacement cost from historical cost.

Disposition of profits.—Corporate profits taxes, which are levied on profits including inventory profits and profits attributable to underdepreciation, increased $5½ billion to $61 billion in the second quarter, following a decrease of $1½ billion. The increase resulted from both higher profits and an increase in the share going to Federal taxes. Only a small portion of the increase in profits taxes resulted from provisions of the Tax Equity and Fiscal Responsibility Act of 1982. The increased share reflected reduced importance of tax credits relative to pretax profits.

Dividends continued their uptrend in the third quarter, increasing $1 billion to $70½ billion, following an increase of $½ billion in the second quarter. Undistributed profits increased $2 billion to $49 billion in the third quarter, following an increase of $1 billion.

Unemployment: An Overview

In November, 12 million persons in the United States were unemployed.[4] That level is 50 percent more than that in the third quarter of 1981, the low prior to the current period of weakness in economic activity, and is double that in the second quarter of 1979, the low prior to the 1980 recession. As a percentage of the civilian labor force, unemployed persons were at a postwar high of 10.8 percent in November, up from 7.4 percent in the third quarter of 1981 and from 5.7 percent in the second quarter of 1979. A 12-million level is of historic interest because that is the level that was averaged during the worst years of the Great Depression, when, of course, it was a much larger part—about 25 percent—of the civilian labor force.

Chart 5 shows a number of unemployment rates prepared by the Bureau of Labor Statistics (BLS) to supplement the "official" unemployment rate just mentioned. These summary measures, which are based on information collected for BLS by the Census Bureau in the monthly Current Population Survey (commonly referred to as the household survey), are designed to meet a variety of analytical purposes by defining unemployment and the associated labor force in different ways.[5] The official unemployment rate—designated U5—is based on the definition of unemployed persons as those aged 16 and over who did not work during the week the survey was conducted, who were available to work (except for temporary illness), and who either (1) had made specific efforts to find a job within the prior 4 weeks, (2) were waiting to be recalled to a job from which they had been laid off, or (3) were waiting to report to a new wage and salary job within 30 days.

Two of the alternatives shown in the chart are more comprehensive than the official unemployment rate. U6, the rate for full-time workers plus one-half of employed part-time workers, is based on the rationale that persons involuntarily working part-time (34 hours or less) should be counted as at least partly unemployed and that the weights assigned to unemployed persons should reflect whether they were looking for part-time or full-time work. U7 is the rate for workers as defined in U6 plus discouraged workers, that is, those who say they want a job but are not looking because they think they cannot get a job. The addition of discouraged workers is based on the rationale that their situation is essentially the same as that of unemployed workers.

U4 through U1 are more narrowly defined, referring, respectively, to unemployed full-time workers (representing those strongly attached to the labor force), unemployed persons 25 years and over (representing experienced workers settled into an occupa-

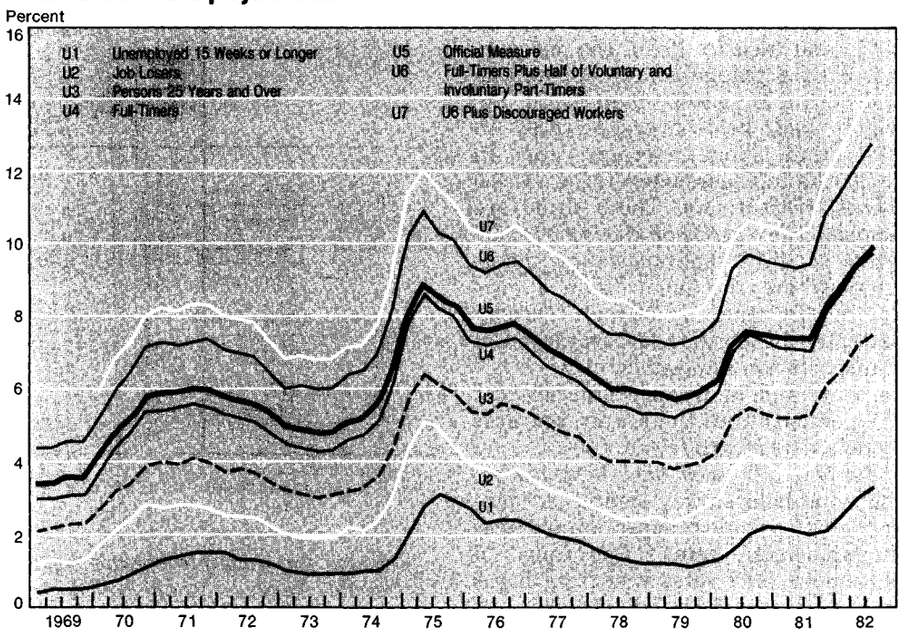
3. The IVA and CCAdj are defined in *National Income and Product Accounts of the United States, 1929-1976: Statistical Tables*, U.S. Department of Commerce, Bureau of Economic Analysis (Washington, D.C.: U.S. GPO, 1981).

4. Unless otherwise noted, seasonally adjusted data are used in the following discussion.

5. The Current Population Survey is a sample survey of about 60,000 households. The sample is selected to reflect the civilian noninstitutional population 16 years of age and older. The data collected are based on activity or status reported for the calendar week that contains the 12th day of the month.

CHART 5

Alternative Unemployment Rates



Note.—November is plotted for the fourth quarter of 1982

Data: BLS

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

82-12-5

tion), job losers (because income loss for this group, many of whom are heads of households, stems from forces outside their control), and persons unemployed 15 weeks or longer (because substantial hardship is often a result of long-term unemployment).

As is clear from the chart, the pattern of these summary measures is similar. With the exception of the rate for long-term unemployment (U1), which tends to lag the others by one or more quarters, all rates fell only slightly during the short, weak recovery from the 1980 recession before turning up sharply in the third or fourth quarters of 1981. Previous highs—all set in the 1973-75 recession—were surpassed in the first half of 1982. By November, all rates were well above their previous highs. U1 was 4.1 percent, double its 1981 low and approaching four times its 1979 low. U6 was 13.9 percent, up 4.6 percentage points from 1981 and 6.7 points from 1979. (Unlike the other measures, U7 is available only quarterly, so that the latest figure is for the third quarter. It was then 14.1 percent, up 3.9 points from its 1981 low and 6.1 points from its 1979 low.)

Selected unemployment rates.—The unemployment situation that has resulted from the weakness in economic activity—most immediately from that of the last year and a half but also from that of the last 3 years—can be profiled more fully with unemployment rates by demographic characteristic, occupation, industry, and residence of the unemployed. Chart 6 presents some of these unemployment rates.

For each major age-sex and race-ethnic group, unemployment rates were at postwar highs in November. As shown in the top panel of the chart, throughout 1982 the rate for adult men was above that for adult women. By November the rate for men was 10.1 percent, up 4.1 percentage points from the third quarter of 1981. This increase is larger than those recorded in all postwar recessions except that in 1948-49. For women, the rate was 9.1 percent, up 2.4 points—about the average increase for a recesssion. The unemployment rate for men increases more than that for women in most recessions, but it is unusual for the rate for men to increase so much that it exceeds the rate for women. Teenagers, for whom the rate declined in only two quarters in the past 3 years, experienced the sharpest percentage-point increase of the age-sex groups—up 5.1 points, to 24.2 percent.

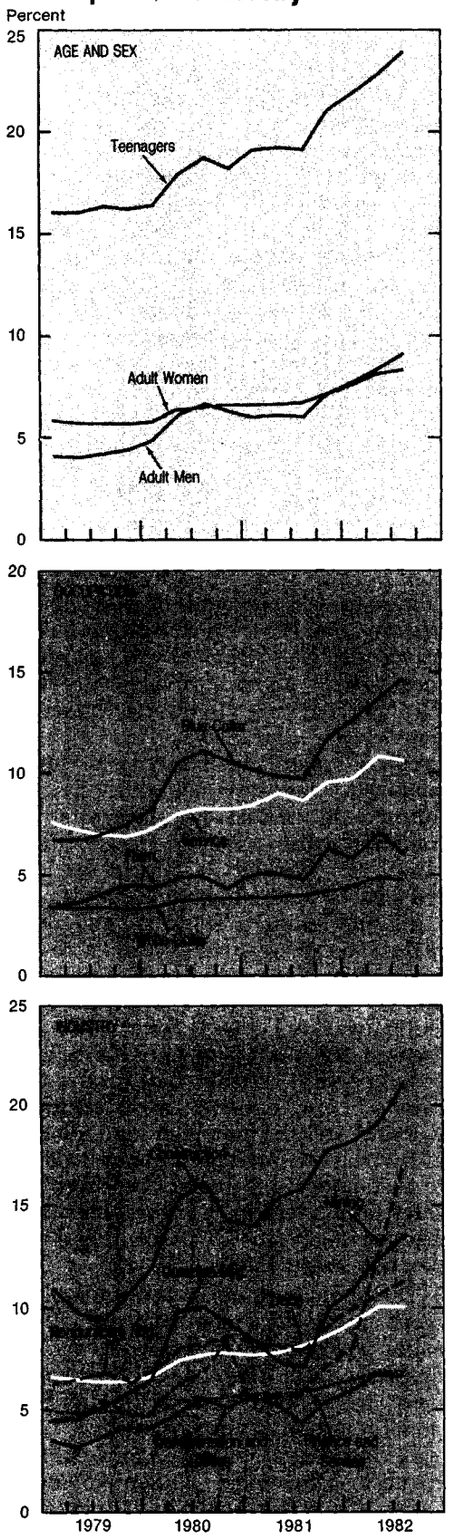
The unemployment rate for blacks also had shown little improvement as a result of the recovery in 1981. From 15.8 percent in the third quarter of 1981, the rate moved up to 20.2 percent in November 1982. For persons of Hispanic origin, the rate was 15.7 percent in November, up 5.9 points, and for whites, 9.7 percent, up 3.3 points. The spreads between the rates for whites and for others widened, as is typical of a recession.

The middle panel of the chart shows that blue-collar workers experienced the sharpest increase in their unemployment rate from a level that was already the highest of the four major occupational groups. The blue-collar rate was up 6.8 percentage points to 16.5 percent in November. Within that occupational group, operatives (except transport) were affected most; their unemployment rate was 21.2 percent in the fourth quarter, double its 1981 low. (This diverse group of operatives includes occupations such as assemblers, as in the automobile industry; inspectors in manufacturing; packers and wrappers; and welders.) The rates for transportation equipment operatives, craft and kindred workers, and nonfarm laborers ranged from 12 to 19 percent in November, each up 5 to 6 points. In contrast, the rate for white-collar workers, the lowest rate, increased the least—up only 1.6 points to 5.6 percent. Within that group, the rates for professional and technical workers and for managers and administrators both increased about 1 point to just under 4 percent; the rates for sales and clerical workers both increased more, to 6.3 percent and 7.9 percent, respectively.

The sharp run-up in the unemployment rates for men and for blue-collar workers can be traced to the industries most affected by the weakness in economic activity (bottom panel). Among nonagricultural private wage and salary workers, the highest November unemployment rates, and also the sharpest increases from 1981 lows, were for workers last employed in construction (21.9 per-

CHART 6

Unemployment Rates by Age and Sex, Occupation, and Industry



1. Private nonagricultural wage and salary workers only.
Data: BLS

U.S. Department of Commerce, Bureau of Economic Analysis. 82-12-6

cent in November), mining (18.0 percent), and durable goods manufacturing (17.1 percent). In construction, which had an above-average rate in 1981 (and also in 1979), the increase was 6.0 percentage points. For mining and durable goods manufacturing, which had below-average rates in 1981 (and about average rates in 1979), the increases were 12.1 and 10.0 points, respectively. These three are among the goods-producing industries—roughly the blue-collar industries—where the labor force is predominately made up of men. November rates for workers last employed in transportation and public utilities (8.7 percent) and in finance and services (7.7 percent) were the lowest, but nevertheless at record levels.

For the 10 most populous States, the household survey sample is large enough to permit preparation of State unemployment rates.[6] The range of November 1982 rates was from highs of 17.2 percent for Michigan and 14.2 percent for Ohio to lows of 7.6 percent for Texas and 7.2 percent for Massachusetts. Michigan and Ohio registered the largest increases, both 5.8 percentage points, from lows in the second quarter of 1981. Massachusetts registered the smallest increase, 1.7 points, from a low in the fourth quarter of 1980; most of the increase occurred before 1982. The increase for Texas was 2.6 points (the third smallest, after New Jersey), and almost all of it occurred in 1982. These differences can be traced in part to the industrial makeup of the States. Michigan and Ohio have heavy concentrations in durable goods manufacturing industries, such as automobiles and primary and fabricated metals, that have been especially hard hit. In Massachusetts, although there is a concentration in durable goods manufacturing, it is in rapid-growth high technology industries. In Texas, oil and gas extraction and petroleum refining, and industries related to them, are important; they were adversely affected in 1982 by recession-induced cutbacks in energy use and lower prices for petroleum.

6. The 10 States are California, Florida, Illinois, Massachusetts, Michigan, New Jersey, New York, Ohio, Pennsylvania, and Texas. Data for the other States are based on different procedures.

Table 5.—Involuntary Part-time and Discouraged Workers

[Millions; seasonally adjusted]

	Involuntary part-time workers [1]	Discouraged workers	
		Number	Percent citing job-market reasons
1979: I	3.3	0.7	69
II	3.4	.8	64
III	3.4	.8	71
IV	3.5	.8	62
1980: I	3.5	.9	63
II	4.2	1.0	68
III	4.3	1.0	68
IV	4.2	1.1	68
1981: I	4.3	1.1	78
II	4.2	1.0	69
III	4.5	1.1	73
IV	5.1	1.2	74
1982: I	5.5	1.3	80
II	5.7	1.5	72
III	5.9	1.6	75
Nov	6.5		

1. Nonagricultural industries.
Source: Bureau of Labor Statistics.

Reasons for unemployment.—In the household survey, unemployed persons are categorized according to whether they lost their last job by layoff or by permanent separation, voluntarily left a job, entered the labor force for the first time, or reentered the labor force. As is typical of recessions, the percentage of total unemployed persons who lost their jobs increased. However, the percentage reached in November was unusually high—62 percent, 4 points above the previous record in 1973–75. The percentage had dropped to only about 50 percent in 1981, compared with about 40 percent during most recoveries. (The unemployment rate for job losers—U2 in chart 5, was 6.7 percent in November, up 3 points from its 1981 low and more than 4 points from its 1979 low.) In contrast, the percentage of job leavers dropped to a record low in November—6.5 percent. This percentage was down about 5 points from its 1981 high and about 8 points from its 1979 high.

Duration of unemployment.—Since the fourth quarter of 1981, when the increase in the number of unemployed brought the measures of average duration down, the mean and median number of consecutive weeks of unemployment increased sharply. The mean increased from 13.2 to 17.2 weeks by November, equaling the highs following the 1973–75 and 1960–

61 recessions. However, because the duration measures tend to lag turnarounds in the economy (the high following the 1973–75 recession occurred about 1 year after the 1975 trough) they are likely to move even higher. Duration lengthened as the percentage of the total number of unemployed who had been without jobs 15 weeks or longer increased sharply. In November, over one-third of the unemployed had been so for at least 15 weeks, compared with lows of one-quarter in 1981 and one-fifth in 1979. (As noted earlier, the unemployment rate for this group (U1) moved up to a record high in November.)

Involuntary part-time and discouraged workers.—Neither persons working part-time involuntarily—that is, for economic reasons such as slack work, material shortages, or inability to find full-time jobs—nor discouraged workers are counted as unemployed. The number of nonagricultural involuntary part-timers increased over the period since 1979: There was no decline following the 1980 recession and a sharp increase beginning in late 1981 (table 5). Their number as a percentage of those at work increased to 7.2 percent from 3.7 percent in the third quarter of 1979 and from 4.6 percent in the second quarter of 1981. The number of discouraged workers followed roughly the same pattern as that of involuntary part-timers. By the third quarter of 1982 (the latest period for which data are available), there were 1.6 million persons classified as discouraged workers, double the number in 1979. About 75 percent of discouraged workers gave job market-related, rather than personal, reasons: they had looked unsuccessfully for a job, or thought that there were no jobs available in their line or area. As suggested by the widening of the spreads between U5 and U6 and between U6 and U7, respectively, the increase in the number of persons in these groups has been a significant aspect of the underutilization of resources that has characterized this prolonged period of weakness in economic activity.

Table 6.—Revisions in Selected Component Series of the NIPA's, Third Quarter of 1982

	Seasonally adjusted at annual rates			Percent change from preceding quater at annual rates	
	45-day estimate	75-day estimate	Revision	45-day estimate	75-day estimate
	Billions of current dollars				
GNP	**3,080.7**	**3,088.2**	**7.5**	**4.7**	**5.8**
Personal consumption expenditures	1,987.5	1,986.3	−1.2	8.4	8.1
Nonresidential fixed investment	341.2	344.2	3.0	−11.9	−8.7
Residential investment	97.2	94.3	−2.9	7.0	−4.8
Change in business inventories	2.9	4.7	1.8		
Net exports	2.7	6.9	4.2		
Government purchases	649.2	651.7	2.5	12.1	13.8
National income	**2,457.6**	**2,455.6**	−2.0	**5.5**	**5.1**
Compensation of employees	1,868.2	1,868.3	.1	3.8	3.8
Corporate profits with inventory valuation and capital consumption adjustments	165.9	166.2	.3	29.2	30.1
Other	423.4	421.1	−2.3	4.5	2.2
Personal income	**2,596.0**	**2,592.5**	−3.5	**7.0**	**6.4**
	Billions of constant (1972) dollars				
GNP	**1,478.4**	**1,481.1**	**2.7**	**0**	**.7**
Personal consumption expenditures	957.7	956.3	−1.4	1.1	.6
Nonresidential fixed investment	162.0	163.4	1.4	−10.8	−7.6
Residential investment	40.7	39.5	−1.2	6.3	−5.3
Change in business inventories	2.3	3.4	1.1		
Net exports	25.7	27.5	1.8		
Government purchases	290.0	291.1	1.1	6.8	8.4
	Index numbers, 1972–100 [1]				
GNP implicit price deflator	208.38	208.51	.13	4.7	5.0
GNP fixed-weighted price index	215.9	216.0	.1	5.6	5.9
GNP chain price index				5.8	6.0

1. Not at annual rates.

NOTE.—For the third quarter of 1982, the following revised or additional major source data became available: For *personal consumption expenditures,* revised retail sales for September, consumer share of new car purchases for September, and consumption of electricity for August; for *nonresidential fixed investment,* revised manufacturers' shipments of equipment for September, revised construction put in place for September, and business share of new car purchases for September; for *residential investment,* revised construction put in place for September, and residential alterations and repairs for the quarter; for *change in business inventories,* revised book values for manufacturing and trade for September; for *net exports of goods and services,* revised merchandise trade for September, and revised service receipts for the quarter; for *government purchases of goods and services,* revised construction put in place for September; for *wages and salaries,* revised employment, average hourly earnings, and average weekly hours for September; for *net interest,* financial assets held by households for the quarter, and revised net interest received from abroad for the quarter; for *corporate profits,* revised domestic book profits for the quarter, and revised profits from the rest of the world for the quarter; and for *GNP prices,* revised residential housing prices for the quarter, and revised Producer Price Indexes for September.

* * *

Third-quarter NIPA revisions

The 75-day revisions of the national income and product account estimates for the third quarter of 1982 are shown in table 6.

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the BUSINESS SITUATION

REAL GNP declined 2½ percent at an annual rate in the fourth quarter of 1982, the net result of sharp changes in most components (table 1 and chart 1).[1] These changes reflected the wide spectrum of forces affecting economic activity—lower and, in some cases, decelerating rates of price increase; sharply lower interest rates; appreciation of the dollar; and depressed levels of economic activity here and abroad. Personal consumption expenditures (PCE) was up sharply. Increases were widespread; in durables, where lower interest rates were a factor, the increase was quite strong. Nonresidential fixed investment declined further, in part due to poor profits and low rates of capacity utilization. Lower interest rates appear to have turned residential investment around. Imports declined, but exports declined even more, and net exports dropped, as they continued to show the effects of the dollar's appreciation and the worldwide recession. An increase in government purchases was largely due to operations of the Commodity Credit Corporation (CCC). CCC purchases stepped up as farmers responded to sharply lower prices for crops by putting substantial amounts under loan. Business inventories registered a large swing, from modest accumulation in the third quarter to substantial decumulation in the fourth.

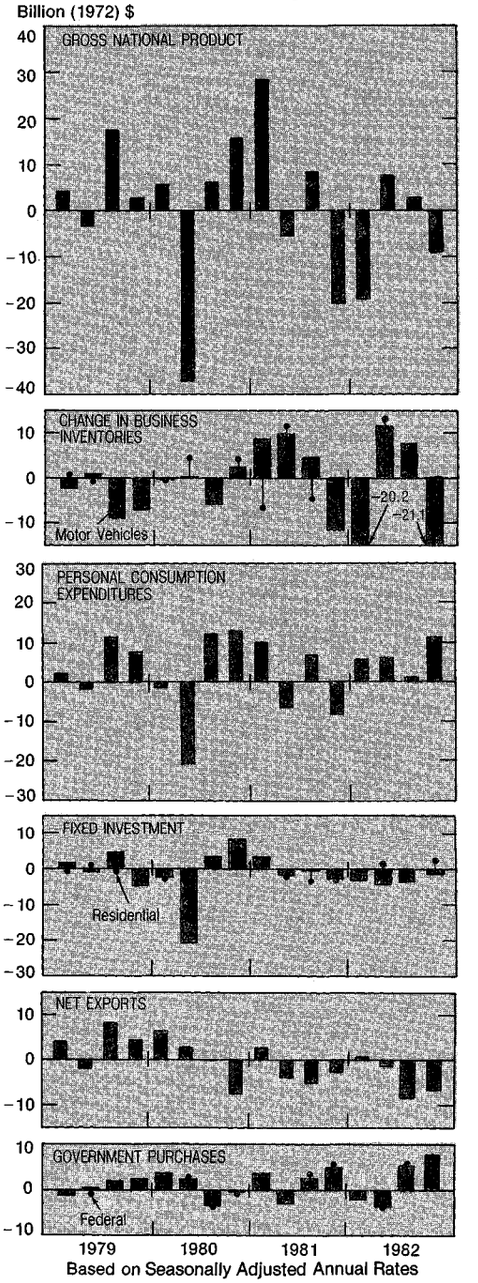
As shown in table 2, the business inventory swing amounted to $21 billion (1972 dollars); final sales were up $11½ billion, or 3 percent; and GNP was down $9½ billion.[2] Table 2 also breaks out motor vehicles. With vehicle output down $7½ billion and final sales up $6½ billion, the inventory swing—from accumulation in the third quarter to liquidation in the fourth—was $14 billion.

Prices.—GNP prices as measured by the fixed-weighted price index increased 5 percent at an annual rate (table 3). Quarterly increases in 1982 have ranged from 4 to 6 percent, down substantially from increases in 1981 of 8½ to 10 percent. A Federal pay raise, which is reflected in the prices of employee services purchased by the Federal Government, accounted for 0.4 percentage points of the fourth-quarter increase.

Prices of PCE were up 5½ percent at an annual rate, after an increase of 7½ percent in the third quarter. Larger increases in the second half of the year—prices had increased 5 and 3 percent, respectively, in the first and second quarters—were due to energy prices. Gasoline prices had declined in the first and second quarters, but then increased, substantially in the third quarter and moderately in the fourth. Natural gas prices continued to increase in the range of 20–

CHART 1

Real Product: Change From Preceding Quarter



Based on Seasonally Adjusted Annual Rates

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

1. The fourth-quarter GNP estimates are based on the following major source data: For *personal consumption expenditures* (PCE), retail sales, and unit auto and truck sales through December; for *nonresidential fixed investment,* the same information for autos and trucks as for PCE, manufacturers' shipments of machinery and equipment for October and November, October and November construction put in place, and investment plans for the quarter; for *residential investment,* October and November construction put in place, and housing starts for October and November; for *change in business inventories,* October and November book values for manufacturing and trade, and unit auto and truck inventories through December; for *net exports of goods and services,* October and November merchandise trade, and fragmentary information on investment income for the quarter; for *government purchases of goods and services,* Federal unified budget outlays for October and November, State and local construction put in place for October and November, and State and local employment through December; and for *GNP prices,* the Consumer Price Index for October and November, and the Producer Price Index for October and November. Some of these source data are subject to revision.

2. Quarterly estimates of the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

35 percent, partly due to the effect of the phased deregulation. Food prices continued to decelerate. They increased only about ½ percent in the fourth quarter, down from 7 percent in the first. Prices of other PCE increased 6½ percent; earlier in the year, increases had ranged from 6 to 7½ percent.

Prices of fixed investment goods increased only moderately in the fourth quarter—about 2½ percent at an annual rate for nonresidential and ½ percent for residential. For nonresidential investment, this rate was several percentage points less than earlier in the year. For residential investment, prices had moved erratically earlier, including a one-quarter decline. Prices of goods and services purchased by government increased 7 percent; excluding the effect of the Federal pay raise, the increase was 4½ percent. Earlier increases had ranged from 4 to 6 percent.

Costs and productivity.—The slower rate of inflation in 1982 in the prices of final goods and services has been accompanied by a slowing of the increase in compensation per hour. In the business economy other than farm and housing, the fourth-quarter increase was 5 percent at an annual rate (table 4). In late 1981 and early 1982, increases had been about 7½ percent, and in the second and third quarters, about 6½–7 percent.

Table 4 also shows the increase in productivity as measured by real gross product per hour. Productivity increased in the fourth quarter, as it had in each quarter this year. The fourth-quarter increase of 1 percent at an annual rate reflected a larger drop in aggregate hours than in real product—5 percent for hours and 4 percent for product. (Real product in this sector was down more than GNP mainly because farm product, which is in GNP but not in this sector, increased very sharply.)

Despite the decline in product, the increase in unit labor cost was relatively small—3½ percent at an annual rate—because compensation was down. Declines in compensation have been infrequent in the last 20 years; earlier in the postwar period it was not uncommon for compensation to decline in at least one quarter of a recession. Although the fourth-quarter

Table 1.—Real GNP: Change From Preceding Quarter

[Percent change at annual rates; based on millions of 1972 dollars, seasonally adjusted at annual rates]

	1981	1982			
	IV	I	II	III	IV
GNP	−5.3	−5.1	2.1	0.7	−2.5
Final sales	−2.3	.2	−.9	−1.3	3.2
Personal consumption expenditures	−3.3	2.5	2.5	.6	5.0
Durables	−20.9	10.4	2.5	−5.4	19.9
Motor vehicles and parts	−37.3	45.7	−3.3	−4.5	51.6
Furniture and household equipment	−5.9	−12.4	6.8	−3.5	3.4
Other durables	−15.0	6.9	6.0	−11.6	−1.1
Nondurables	0	−1.0	2.6	1.5	2.6
Food	2.4	−.6	2.9	4.1	4.8
Energy [1]	−7.5	2.2	16.1	−7.4	−5.3
Clothing and shoes	−.1	3.8	1.1	−.1	1.2
Other nondurables	−2.5	−9.0	−1.7	.9	1.8
Services	0	3.0	2.4	1.7	2.7
Energy [2]	3.3	6.7	−20.9	3.2	.6
Other services	−.2	2.8	3.9	1.6	2.8
Gross private domestic fixed investment	−5.0	−6.0	−7.6	−7.2	−3.2
Nonresidential	.6	−5.0	−11.8	−7.6	−9.0
Structures	5.9	1.3	1.6	−5.2	−2.3
Producers' durable equipment	−1.7	−7.6	−17.4	−8.8	−12.1
Autos, trucks, and buses	−43.0	38.8	−16.7	9.1	−18.1
Other	7.5	−13.5	−17.5	−11.6	−10.9
Residential	−25.3	−10.2	12.9	−5.3	23.7
Net exports of goods and services					
Exports	−2.4	−12.7	7.5	−16.8	−26.9
Merchandise	2.7	−15.3	−2.1	−16.7	−24.0
Agricultural	53.0	−.9	17.5	−52.5	−3.9
Nonagricultural	−7.1	−18.9	−7.1	−2.9	−28.5
Other	−8.3	−9.2	20.4	−16.9	−30.2
Imports	6.0	−17.5	14.5	4.6	−14.8
Merchandise	19.0	−30.1	10.6	19.6	−13.0
Petroleum	5.4	−44.2	−32.7	115.3	−11.9
Nonpetroleum	20.1	−28.9	14.3	15.0	−13.1
Other	−17.6	17.6	22.5	−20.7	−18.6
Government purchases of goods and services	7.0	−2.9	−5.3	8.4	11.3
Federal	20.4	−5.5	−13.5	23.1	28.4
National defense	10.1	−7.9	21.4	13.0	3.2
Nondefense	43.6	−.9	−58.1	50.7	102.7
Commodity Credit Corporation [3]					
Other	−4.3	−4.8	−13.9	−1.7	−1.3
State and local	−.8	1.1	.4	−.2	1.0
Change in business inventories					

1. Gasoline and oil, and fuel oil and coal.
2. Electricity and gas.
3. Estimates, in billions of 1972 dollars, for the third quarter of 1981 through the fourth quarter of 1982 were: 1.9, 5.7, 6.1, −0.5, 3.1, and 10.1

NOTE.—Most dollar levels are found in the National Income and Product Accounts Tables, table 1.2.

Table 2.—Recent GNP Patterns

[Billions of 1972 dollars, seasonally adjusted at annual rates]

	1981: III	Change from preceding quarter				
		1981	1982			
		IV	I	II	III	IV
GNP	1,510.4	−20.3	−19.4	7.7	2.7	−9.4
Motor vehicles	58.2	−10.9	−2.1	10.1	1.0	−7.6
Other	1,452.2	−9.4	−17.3	−2.4	1.7	−1.8
Final sales	1,493.9	−8.6	.8	−3.4	−4.9	11.5
Motor vehicles	56.7	−9.7	6.4	−2.4	−1.2	6.5
Other	1,437.2	1.1	−5.6	−1.0	−3.7	5.0
Personal consumption expenditures	909.3	−2.3	.5	6.6	2.0	6.3
Nonresidential fixed investment	155.5	2.7	−3.5	−4.6	−3.6	−3.1
Residential investment	42.9	−3.0	−1.0	1.2	−.6	2.2
Net exports	45.7	−1.4	.7	−.3	−7.3	−8.2
Government purchases	283.7	5.3	−2.2	−4.0	5.6	7.9
Change in business inventories	16.5	−11.7	−20.2	11.0	7.8	−21.1
Motor vehicles	1.3	−1.1	−8.4	12.5	2.0	−14.1
Other	15.2	−10.6	−11.8	−1.5	5.8	−7.0

NOTE.—Components may not add to totals due to rounding.

Table 3.—Fixed-Weighted Price Indexes: Change From Preceding Quarter

[Percent change at annual rates; based on index numbers (1972=100), seasonally adjusted]

	1981	1982			
	IV	I	II	III	IV
GNP	[5] **8.5**	**4.8**	**4.1**	**5.9**	[5] **5.2**
Less: Change in business inventories					
Equals: Final sales	8.6	4.8	4.1	6.0	5.2
Less: Exports	2.4	5.1	1.2	−1.7	.5
Plus: Imports	−3.0	6.7	−6.7	0	2.2
Equals: Final sales to domestic purchasers	**7.9**	**4.9**	**3.2**	**6.0**	**5.3**
Personal consumption expenditures	7.1	4.8	3.2	7.3	5.6
Food	2.0	7.0	3.8	2.0	.7
Energy	6.5	−4.6	−13.5	18.5	12.0
Other personal consumption expenditures	8.8	5.9	6.1	7.3	6.3
Other [1]	9.3	4.9	3.2	3.9	4.6
Nonresidential structures	6.1	4.4	4.8	2.3	2.2
Producers' durable equipment	7.5	5.5	6.1	5.7	2.3
Residential	6.3	2.6	−3.4	.1	.7
Government purchases	11.1	5.8	4.0	4.7	6.9
Addenda:					
Food and energy components of GNP—[2]					
Food components [3]	2.2	6.6	3.8	1.2	−.5
Energy components [4]	10.0	−5.6	−9.6	19.1	13.0
GNP less food components	9.6	4.5	4.1	6.7	6.1
GNP less energy components	8.4	5.5	5.0	5.1	4.7
GNP less food and energy components	9.5	5.3	5.2	5.8	5.6

1. Index number levels for the third quarter of 1981 through the fourth quarter of 1982 were: 217.6, 222.5, 225.2, 227.0, 229.2, and 231.8.
2. Inasmuch as GNP is the sum of final products, the food and energy estimates in this table do not take into account the effect on the prices of final products of changes in the prices of the food and energy that are costs of production.
3. Consists of all components for which separate estimates are prepared. The major component that is not included is purchases of food by the Federal Government other than transactions by the Commodity Credit Corporation that are treated like purchases.
4. Consists of all components for which separate estimates are prepared. The major components that are not included are (1) exports of energy; (2) the gasoline and motor oil portions of inventories of gasoline service stations, and (3) the energy portions of inventories of businesses that do not produce energy for sale.
5. The Federal pay raise accounted for 1.2 percentage points of the increase in the index for GNP in the fourth quarter of 1981 and 0.4 percentage points in the fourth quarter of 1982.

NOTE.—Index number levels are found in the National Income and Products Accounts Tables, table 7.2.

Table 4.—Real Gross Product, Hours, and Compensation in the Business Economy Other Than Farm and Housing: Change From Preceding Quarter

[Percent change at annual rates; based on seasonally adjusted estimates]

	1981	1982			
	IV	I	II	III	IV
Real gross product	−7.3	−4.3	0.6	0.7	−4.0
Hours	−3.7	−4.8	−.8	−2.9	−5.1
Compensation	3.3	2.6	5.9	3.7	−.4
Real gross product per hour	−3.7	.5	1.4	3.7	1.2
Compensation per hour	7.3	[1] 7.8	6.7	6.9	5.0
Unit labor cost	11.9	7.9	5.3	3.0	3.7

1. Increases in employers' contributions for social security in the first quarter of 1982 accounted for 0.6 percentage points of the increase in compensation per hour.

increase in unit labor cost was up somewhat from the 3 percent registered in the third quarter, increases have been progressively smaller since last year.

Labor market conditions.—Major indicators of labor market conditions worsened in the fourth quarter. Employment as measured by both the household and establishment series declined, the former by 470,000 (seasonally adjusted) and the latter, a measure of nonfarm payroll employment, by 680,000. About two-thirds of the decline in the establishment series was in durable goods manufacturing, particularly in primary and fabricated metal products and in nonelectrical machinery. The unemployment rate jumped 0.7 percentage points to a postwar high of 10.7 percent.[3] The rate for adult men, who have been particularly hard hit by the recession, jumped 0.9 points, to 10.0 percent. The number of unemployed reached 11.8 million, up 0.8 million from the third quarter; another 1.8 million persons, up 0.2 million, reported they wanted a job but did not look for one because they did not believe they could find one. Average weekly hours in the private nonfarm economy slipped further, from 34.8 in the third quarter to 34.7 in the fourth.

3. These unemployment rates incorporate the annual revision of the household survey series. Thus, they differ from the unemployment rates presented in the "Business Situation" in the December 1982 SURVEY OF CURRENT BUSINESS.

Personal income and its disposition

The increase in personal income decelerated to $30½ billion from $40 billion in the third quarter (table 5). Wage and salary disbursements slowed sharply to a small increase, personal interest income declined, proprietors' income was up strongly, and transfer payments registered another large increase.

Wage and salary disbursements increased only $2½ billion in the fourth quarter, following a $13½ billion increase in the third. Private wages and salaries registered the first decline since the first quarter of 1975: Employment and hours were both down, and the increase in hourly earnings slowed. In the commodity-producing industries, durables manufacturing wages and salaries were down substantially more than in the third quarter; in the distributive industries, trade declined following an increase, and transportation declined more than in the third quarter; and in the

Table 5.—Personal Income and Its Disposition: Change From Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1982			
	I	II	III	IV
Wage and salary disbursements	10.4	15.0	13.4	2.3
Manufacturing	−3.6	.5	−1.9	−8.0
Other commodity-producing	.2	−1.2	−1.6	−.7
Distributive	3.1	4.0	3.0	−1.0
Services	6.7	8.1	10.2	6.5
Government and government enterprises	4.1	3.5	3.5	5.6
Proprietors' income	−7.7	.9	1.0	9.8
Farm	−6.7	−.5	−.7	6.0
Nonfarm	−1.0	1.4	1.8	3.8
Personal interest income	8.8	12.3	6.2	−1.0
Transfer payments	3.8	10.7	15.8	16.2
Other income	4.2	4.0	4.5	3.3
Less: Personal contributions for social insurance	3.6	.7	1.1	0
Personal income	**15.9**	**42.1**	**39.8**	**30.7**
Less: Personal tax and nontax payments	.2	7.7	−6.7	5.3
Impacts of legislation	−10.3	−4.8	−18.4	−3.1
Other	10.6	12.5	11.7	8.4
Equals: Disposable personal income	**15.7**	**34.4**	**46.6**	**25.4**
Less: Personal outlays	35.1	29.2	38.9	48.5
Equals: Personal saving	**−19.4**	**5.2**	**7.6**	**−23.1**
Addenda: Special factors in personal income—				
Cost-of-living increases in Federal transfer payments	.4	2.4	12.0	1.2
Social security base and rate changes (in personal contributions for social insurance)	3.2			
Subsidies to farmers	−.1	−1.1	−1.1	8.1
Federal pay raise	.3			2.7
Property damage (see text)				−1.4

service industries, increases were smaller. Wages and salaries paid by government and government enterprises were up more than in the third quarter; the 4 percent pay raise for most Federal employees, which totaled $2½ billion, accounted for the difference.

The decline in personal interest income was the first in the postwar period and followed a sharp slowdown in the third quarter. The swing from an increase of $12½ billion in the second quarter to a $1 billion decline in the fourth quarter was concentrated in interest from money market fund shares and large-denomination time deposits, and reflected a steep slide in short-term interest rates (chart 2). (The growing importance of these assets in recent years is described in the article "The Monetary Aggregates: An Introduction to Definitional Issues" later in the SURVEY OF CURRENT BUSINESS.) The rate on large-denomination, negotiable 6-month certificates of deposit fell from 14 percent in the middle of the second quarter to 11½ percent in the middle of the third and to 9 percent in the middle of the fourth.

Farm proprietors' income increased $6 billion, after declining $½ billion in the third quarter. The increase was more than accounted for by an $8 billion step-up in subsidy payments by the CCC. Roughly one-quarter of the step-up was in regularly scheduled deficency payments for 1982 crops—mainly wheat and cotton. (Deficiency payments are made when the market price of a covered crop falls below a "target price.") Most of the remainder was due to a speed-up in payments for 1982 crops—mainly corn and other feed grains—that would otherwise have been paid in the first quarter of 1983 and to diversion payments for some 1983 crops. (Diversion payments are made to farmers who set aside crop acreage from production.) Other farm income continued to slide: Receipts for marketings were down in the fourth quarter, as prices tumbled and more than offset an increase in the volume of production. The increase in nonfarm proprietors' income can be attributed partly to pickups in the contruction, real estate, and securities industries.

Transfer payments increased about as much in the fourth quarter as in the third—$16 billion. In the third quarter, they had been boosted $12 billion by cost-of-living increases in benefits paid under several Federal programs, primarily social security. In the fourth quarter, the increase in social security payments was usually large, partly reflecting retroactive payments and resumption of payments to college students. Unemployment insurance benefits, which had increased $2 billion in the third quarter, were up $6½ billion in the fourth. The pickup was due to supplementary extended benefits authorized under the Tax Equity and Fiscal Responsibility Act of 1982.

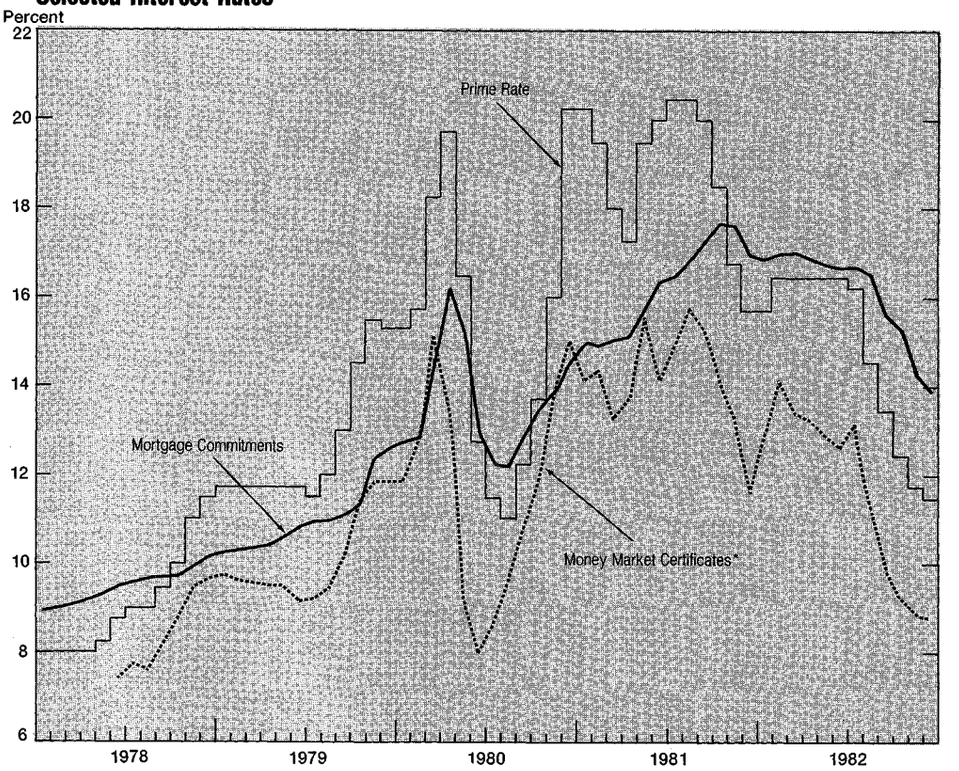
Personal income was reduced $1½ billion as a result of property damage done by hurricane Ewa in Hawaii and by extensive flooding in the Mississippi River basin. This damage is reflected in the proprietors' and rental income components. Setting aside the effects of these disasters and the other special factors listed as addenda to the table, the fourth-quarter deceleration in personal income is narrowed only slightly.

Personal tax and nontax payments increased $5½ billion after a $6½ billion decline. In the third quarter, legislative changes, mainly the withheld income tax rate reductions under the Economic Recovery Tax Act of 1981 (ERTA), on balance, had reduced taxes $18½ billion. In the fourth quarter, legislative reductions under ERTA amounted to $3 billion, including a $1½ billion reduction in estate and gift taxes. (Increases in personal taxes under the Tax Equity and Fiscal Responsibility Act of 1982 do not become effective until 1983.) Reflecting the weakness in personal income, the increase in taxes due to increases in the tax base decelerated to $8½ billion from $11½ billion.

Disposable personal income increased a little more than one-half as much as in the third quarter. In real terms it changed little, following a 1½-percent increase in the third quarter and a 3-percent increase in the second. The slowing in disposable income, coupled with a step-up in the increase in personal outlays, resulted in a sharp drop in personal saving.

CHART 2

Selected Interest Rates



*Ceiling rate at savings and loan associations.

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83-1-2

The personal saving rate fell to 5.8 percent—the lowest rate in nearly 2 years—from 6.9 percent in the third quarter.

Real PCE.—Developments in real disposable income in combination with other general factors that influence PCE do not yield a clear answer to why PCE increased as strongly as it did in the fourth quarter—5 percent at an annual rate—after several quarters of lackluster performance. Some of these factors showed improvement, others did not. Interest rates have come down from the high levels that acted as a deterrent to the incurrence of debt and as an incentive to save, and consumer balance sheets, as indicated by real net worth, appear to have improved again in the fourth quarter. On the other hand, labor market indicators that proxy concern about job security worsened.

The size and composition of the increase in PCE on durables points to the significant role of interest rates in boosting consumer purchases—both directly, via the rate on auto installment and other consumer loans, and indirectly, via the effect of lower mortgage rates in spurring housing sales, which in turn led to increased sales of household furniture and equipment. Sales of motor vehicles, both autos and trucks, were up substantially. Major automakers, through their financial subsidiaries, subsidized auto installment loan rates. These rates—less than 11 percent—applied, for the most part, to 1982 models. In November, when these rates were introduced, domestic unit sales (about two-thirds of which are sales to consumers) climbed to 6.8 million at an annual rate, the highest rate since August 1981. In December, as stocks of 1982 models dwindled, sales fell back to 6.1 million, but remained above the third-quarter rate. PCE on household furniture and equipment was up 3½ percent. These expenditures had been on a downtrend since the first quarter of 1981, interrupted only in the second quarter of this year.

With one exception, all other categories of PCE goods and services performed better than in the third quarter. The exception was fuel oil, which was down slightly because of the unseasonably warm weather. "Other" durables and gasoline declined less than in the third quarter, and clothing and shoes increased after no change. Other categories increased more than in the third quarter; among these, a sharp increase in "other" services was largely accounted for by commissions paid to brokers.

Real investment

Nonresidential fixed investment deteriorated in the fourth quarter. The structures component declined slightly, as it had in the third quarter, and producers' durable equipment (PDE) declined sharply, as it had earlier in the year. In structures, off only 2½ percent at an annual rate, declines in several components more than offset increases in several others. Declines continued in commercial buildings other than offices and in petroleum and natural gas well drilling, and public utilities declined after earlier increases. Office building continued to increase, although less than in the first half of the year, and industrial building increased after earlier weakness.

In PDE, which declined 12 percent at an annual rate, motor vehicles declined following an increase. The disparate movements of motor vehicles in PDE and in PCE partly reflected the fact that subsidized interest rates did not apply to fleet purchases by business. Almost all types of nonvehicle PDE continued to decline. In fabricated metals equipment, metalworking machinery, general industrial machinery, communications equipment, and instruments the declines were expecially large.

The persistence of high interest rates on long-term corporate debt well into 1982, low capacity utilization, and the poor performance of corporate profits were major factors in the 8½-percent decline of nonresidential investment from the fourth quarter of 1981. Only the unfavorable impact of interest rates has abated. Capacity utilization declined throughout 1982; in manufacturing, only about two-thirds of capacity was in use in the fourth quarter. Domestic profits of nonfinancial corporations remain depressed despite a third-quarter increase, which was concentrated in profits of petroleum manufacturing. A continuing impact of these factors is consistent with the results of the BEA survey of year-ahead plans for plant and equipment expenditures, which are presented later in this issue. In current dollars, plans show a decline in capital expenditures for 1983—the first year-to-year decline in 20 years in the plant and equipment surveys taken at the turn of year. When adjusted by BEA for price changes, the expenditures show a 5.2-percent decline.

Residential investment turned around, increasing 23½ percent at an annual rate. Construction of single-family houses and the component of residential investment that includes brokers' commissions on the sale of residences both strengthened. Mortgage interest rates have declined as part of the general decline in interest rates, although, as seen in chart 2, less rapidly than short-term rates. The effect of the interest rate decline and other financial developments on residential investment was discussed in the "Business Situation" in the December 1982 SURVEY. Construction of multifamily housing, which had increased in the third quarter under the impetus of Federal commitments to purchase below-market-rate mortgages under the Section 8 rental assistance program, was flat in the fourth quarter.

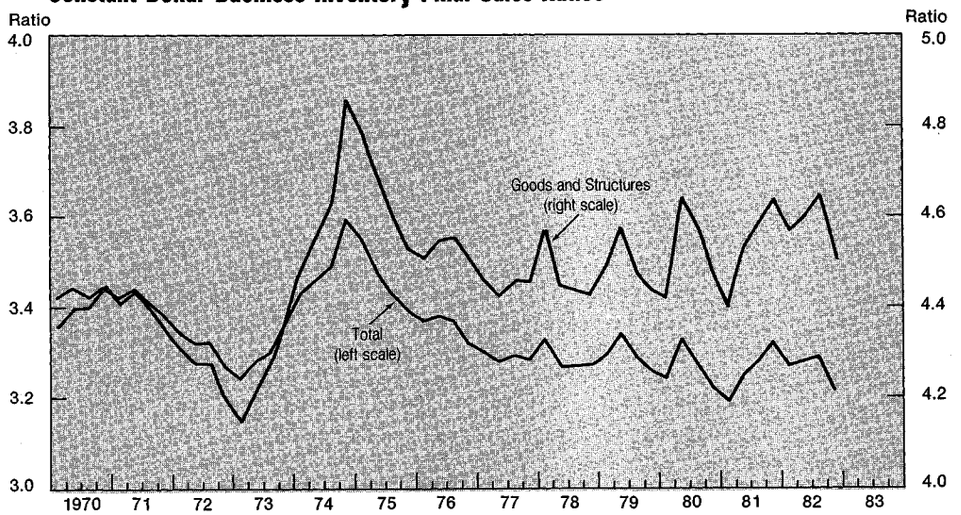
Business inventories were run off at an annual rate of $17½ billion in the fourth quarter, following a $3½ billion accumulation in the third; thus, the swing amounted to −$21 billion. A major portion of the swing was in motor vehicle inventories; they declined $7½ billion, as stocks of 1982 model cars and trucks were liquidated, following a $6½ billion buildup in the third quarter.

The liquidation of business inventories since the fourth quarter of 1981 has totaled $8½ billion, or 2½ percent—more than in any of the last four recessions. Most of the liquidation was in manufacturers' inventories, and was spread across all major durable and nondurable categories. Declines in primary and fabricated metals and in electrical and nonelectrical machinery were especially sharp. Trade inventories were down only slightly; declines centered in retail auto dealers and in nonmerchant wholesalers.

An overview of inventory developments may be obtained by relating inventories to total business final sales. Analytical use of this ratio implies

CHART 3

Constant-Dollar Business Inventory-Final Sales Ratios



Note.—"Total" is total business inventories divided by total business final sales, and "goods and structures" is nonfarm business inventories divided by business final sales of goods and structures.

U.S. Department of Commerce, Bureau of Economic Analysis 83-1-3

that the production of services results in a demand for inventories that is similar to that generated by the production of goods and structures. The ratio changed little in 1982, before declining in the fourth quarter (chart 3). Throughout the current recession it has remained well below the levels reached in the 1970 and 1973–75 recessions. A characteristic of the ratio that would have brought it down, other things being equal, is the reflection in its denominator of the rapid increase in services during the latter part of the 1970's and their continued increase during the last 3 years' economic weakness. The low level of the ratio in historical perspective indicates that inventories in the aggregate were well-balanced relative to sales at the end of 1982 and suggests that a recovery in sales would need to be accompanied by a quick rebuilding of inventories.

An alternative ratio is that of nonfarm inventories to final sales of goods and structures. Use of this ratio implies that the production of services does not generate demand for inventories. This ratio moved up through the third quarter of 1982, when it was higher than at any time except during the 1973–75 recession. In the fourth quarter, it declined sharply. It is less clear from the level of this ratio in the fourth quarter that inventories in the aggregate were back in line with sales.

Real net exports

Net exports were down $6½ billion in the fourth quarter to $21 billion, as exports dropped more than imports (chart 4). After a peak of $53½ billion in mid-1980, net exports have declined in all but two quarters. The decline in the fourth quarter of this year and that in the third, which was $8½ billion, were especially large; in those quarters, a decline in the balance on investment income, which had held up relatively well, occurred along with a continuing deterioration in the trade balance.

In exports, merchandise trade and investment income contributed about equally to the $11 billion fourth-quarter decline. Economic activity abroad remained depressed, and the dollar has appreciated substantially against the currencies of major industrial nations (chart 5). These developments in combination with declining U.S. interest rates, which influenced investment income, were major factors affecting exports. In merchandise trade, declines were widespread among end-use categories, but about one-half was in autos to Canada and other capital goods.

In imports, also, both merchandise trade and investment income contributed to the fourth-quarter decline, which amounted to $4½ billion. Merchandise trade accounted for somewhat more than one-half, as most end-use categories declined. The decline in autos from Canada was especially sharp. Petroleum imports were down; volume declined from 5.77 million barrels a day (seasonally adjusted) in the third quarter to 5.65 billion in the fourth. In investment income, the decline was largely traceable to the fall in Eurodollar rates.

Government purchases

Real government purchases increased 28½ percent at an annual rate in the fourth quarter, following an in-

Table 6.—Federal Government Receipts and Expenditures, NIPA Basis: Change From Preceding Quarter

[Billions of dollars, based on seasonally adjusted annual rates]

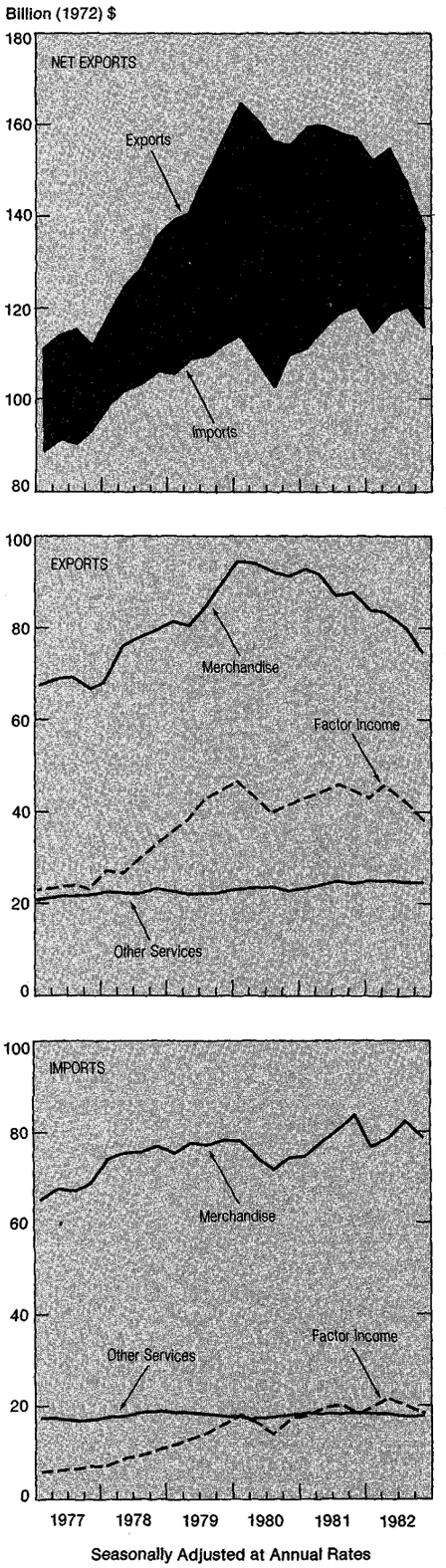
	1981	1982			
	IV	I	II	III	IV
Receipts	**−14.5**	**−15.8**	**7.1**	**−3.3**	**n.a.**
Personal tax and nontax receipts	−7.0	−1.0	5.9	−10.2	3.7
Corporate profits tax accruals	−9.3	−12.6	−1.3	4.6	n.a.
Indirect business tax and nontax accruals	−.6	−8.6	1.2	1.0	−.1
Contributions for social insurance	2.3	6.4	1.3	1.4	−.2
Expenditures	**29.2**	**1.0**	**8.2**	**33.1**	**46.2**
Purchases of goods and services	20.5	−.9	−5.4	14.7	17.1
National defense	12.5	−.8	10.0	6.5	6.2
Nondefense	7.9	−.1	−15.4	8.2	10.9
Transfer payments	5.6	2.5	9.6	14.6	16.6
Grants-in-aid to State and local governments	−2.7	−.6	2.0	−3.0	2.2
Net interest paid	5.0	.7	3.1	5.9	−.5
Subsidies less current surplus of government enterprises	.6	−.9	−1.0	.9	10.8
Less: Wage accruals less disbursements	−.3	−.1	.2	0	0
Surplus or deficit (−), national income and product accounts	**−43.7**	**−16.7**	**−1.2**	**−36.4**	**n.a.**

n.a. Not available.

NOTE.—Dollar levels are found in the National Income and Product Accounts Tables, table 3.2.

CHART 4

Net Exports of Goods and Services



U.S. Department of Commerce, Bureau of Economic Analysis 83-1-4

crease of 23 percent in the third. In both quarters, the major factor in the large increase was purchases by the CCC. These purchases stepped up from $3 billion in the third quarter to $10 billion in the fourth, as farmers responded to low market prices for crops by putting larger amounts, especially of corn and soybeans, under loan. (The treatment of the CCC in the national income and product accounts and the problems of using changes in CCC purchases to explain changes in GNP were discussed in a Special Note in the January 1982 SURVEY.)

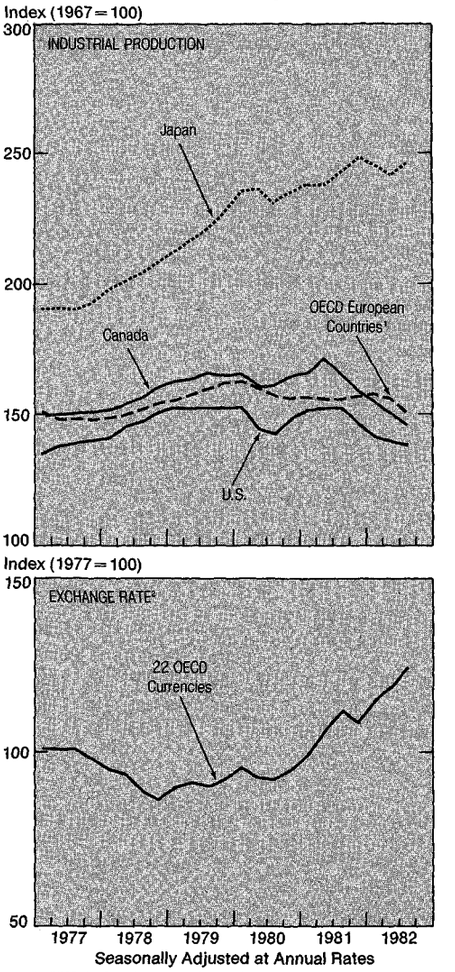
National defense purchases increased, but less than in the two preceding quarters. As discussed in the Special Note on defense purchases in the November 1982 SURVEY, throughout the 1979–82 period, over which defense purchases have been on an uptrend, the pattern of quarterly changes was often irregular. The increases in the second and third quarters centered in services, such as depot maintenance, and in military hardware. The third-quarter increase included a speed-up in deliveries of aircraft, such as the F-16. In the fourth quarter, hardware deliveries increased less, as did a wide range of other purchases. The slowing of purchases other than for hardware probably reflected concern about appropriations for fiscal 1983.

Nondefense purchases other than CCC continued the decline begun in the fourth quarter of 1981. In State and local government purchases, a slight increase was in structures; other components showed little change.

The Federal sector.—Changes in current-dollar Federal receipts and expenditures on a national income and product accounts basis are shown in table 6. In expenditures, the purchases just described amounted, in current dollars, to an increase of $17 billion, and the increase in transfer payments described in connection with personal income amounted to $16½ billion. The subsidy payments to farmers referred to in connection with proprietors' income boosted subsidies less the current surplus of government enterprises, and that item increased $11 billion. Among the expenditure components, only net interest paid was down.

CHART 5

Factors Affecting Net Exports



1. OECD is Organization for Economic Cooperation and Development.
2. Trade-weighted average index of foreign currency price of the U.S. dollar.
Data: Federal Reserve Board, OECD, Statistics Canada, and Ministry of International Trade and Industry (Japan).

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Although the estimate of total receipts cannot be completed until estimates of corporate profits, and thus of corporate profits tax accruals, are available, it is quite likely that receipts were up only moderately in the fourth quarter. Personal taxes increased $3½ billion; indirect business taxes and contributions for social insurance showed no change, reflecting weakness in the tax base.

With expenditures up $46 billion and receipts up only moderately, the deficit on a national income and product accounts basis increased substantially and approached $200 billion.

the BUSINESS SITUATION

REVISED (45-day) estimates show that real GNP declined 2 percent at an annual rate in the fourth quarter of 1982, compared with the 2½-percent decline shown by the preliminary (15-day) estimates (table 1). Revisions in the major components were small. Upward revisions were in nonresidential investment (largely in aircraft shipments), residential investment (due to lower estimates for housing prices), net exports (merchandise imports were revised down more than were merchandise exports), and government purchases (Federal nondefense purchases). Downward revisions were in personal consumption expenditures (mainly food and motor vehicles) and change in business inventories (down for manufacturing and up for retail trade). The increase in prices as measured by the GNP fixed-weighted price index was revised down from 5 to 4½ percent.

The revisions in the fourth-quarter real GNP estimates do not alter the picture of economic activity described in the January "Business Situation." The decline in GNP was more than accounted for by a large swing in business inventories, from modest accumulation in the third quarter to substantial decumulation in the fourth. Final sales were up sharply; personal consumption expenditures and government purchases increased more than in the third quarter, and residential investment turned around. Nonresidential fixed investment and net exports continued to slide. The increase in GNP prices remained in the range of 4 to 6 percent.

The discussion of inventories in the January "Business Situation" referred to the constant-dollar ratios of inventories to final sales and to final sales of goods and structures. Subsequently, a revision of an alternative series, constant-dollar ratios of inventories to sales for manufacturing and trade, has been completed. (Revised series for 1977–82 appear on pages 44–49 of this issue.) These ratios show that, in contrast to the declines shown in the final-sales ratios, inventories remained high relative to sales in the fourth quarter. Because the inventory movements in the two series were quite similar, the contrast is traceable to differences in the movement of sales. As just noted, final sales were up sharply in the fourth quarter, but sales for manufacturing and trade (specifically, sales for manufacturing and merchant wholesale trade, which are largely intermediate) declined.

Table 1.—Revisions in Selected Component Series of the NIPA's Fourth Quarter of 1982

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	15-day estimate	45-day estimate	Revision	15-day estimate	45-day estimate
	Billions of current dollars				
GNP	**3,101.3**	**3,101.4**	**0.1**	**1.7**	**1.7**
Personal consumption expenditures	2,034.6	2,031.5	−3.1	10.1	9.4
Nonresidential fixed investment	336.6	336.9	.3	−8.6	−8.3
Residential investment	99.8	99.8	0	25.1	25.0
Change in business inventories	−38.5	−44.2	−5.7		
Net exports	−6.9	.8	7.7		
Government purchases	675.7	676.7	1.0	15.6	16.3
National income					
Compensation of employees	1,873.7	1,875.9	2.2	1.2	1.6
Corporate profits with inventory valuation and capital consumption adjustments					
Other	429.0	429.6	.6	7.7	8.4
Personal income	**2,623.2**	**2,626.9**	**3.7**	**4.8**	**5.4**
	Billions of constant (1972) dollars				
GNP	**1,471.7**	**1,473.9**	**2.2**	**−2.5**	**−1.9**
Personal consumption expenditures	968.0	967.5	−.5	5.0	4.8
Nonresidential fixed investment	159.6	160.0	.4	−9.0	−8.0
Residential investment	41.7	42.5	.8	23.7	34.3
Change in business inventories	−17.7	−18.7	−1.0		
Net exports	21.1	23.3	2.2		
Government purchases	299.0	299.2	.2	11.3	11.6
	Index numbers, 1972=100 [1]				
GNP implicit price deflator	210.73	210.42	−.31	4.3	3.7
GNP fixed-weighted price index	218.8	218.5	−.3	5.2	4.6
GNP chain price index				5.2	4.9

1. Not at annual rates.

NOTE.—For the fourth quarter of 1982, the following revised or additional major source data became available: For *personal consumption expenditures*, revised retail sales for November and December, and sales and inventories of used cars of franchised automobile dealers for November; for *nonresidential fixed investment*, manufacturers' shipments of equipment for November (revised) and December, construction put in place for November (revised) and December, and a partial tabulation of business expenditures for plant and equipment for the quarter; for *residential investment*, construction put in place for November (revised) and December; for *change in business inventories*, book values for manufacturing and trade for November (revised) and December; for *net exports of goods and services*, merchandise trade for November (revised) and December; for *government purchases of goods and services*, Federal unified budget outlays for December, and State and local construction put in place for November (revised) and December; for *wages and salaries*, revised employment, average hourly earnings, and average weekly hours for October and November; for *GNP prices*, the Consumer and Producer Price Indexes for December, unit value indexes for exports and imports for December, and residential housing prices for the quarter.

the BUSINESS SITUATION

REAL GNP increased at an annual rate of about 4 percent in the first quarter of 1983, after five consecutive quarters of poor performance ending with a 1-percent decline in the fourth quarter of 1982. Inflation continued to slow; the 3-percent increase in GNP prices registered in the first quarter was the lowest in over a decade.[1] The unemployment rate, at 10.2 percent in February, remained near its postwar high.

● Real personal consumption expenditures increased moderately—about 2½ percent at an annual rate. Purchases of motor vehicles dipped, after a large increase in the fourth quarter in response to the introduction of subsidized interest rates (see the following section on motor vehicles). Purchases of other durable goods strengthened, in part reflecting the revitalization of the housing market. An increase in purchases of gasoline, after two quarters of decline, appears to have been related to declines in its price. Services continued weak; within them, expenditures on home heating declined, due to the unusually mild winter weather in some parts of the country.

● Information on fixed investment other than residential construction is sketchy. It appears that real nonresidential construction increased, largely due to construction of commercial buildings other than offices. This category, which includes stores and warehouses, had declined steadily over the past year. Weakness persisted in industrial construction and in oil well drilling; public utility construction was down again. In producers' durable equipment, motor vehicles changed little and it appears that other categories, in total, were down about as much as in the fourth quarter of 1982, but less than earlier in that year.

● As discussed in the section on housing markets, real residential investment was up strongly, in large part due to continued improvement in the financial conditions affecting housing.

● Little information is yet available about the other components of final sales—net exports and government purchases. It appears that real exports and imports both were up, but imports were up more. The increases were in merchandise trade; investment income continued to decline, reflecting the fall in interest rates here and abroad. The major factor in real government purchases was a drop-off in the price-support operations of the Commodity Credit Corporation. In the fourth quarter, farmers had responded to low market prices for crops by placing substantial amounts—mainly of soybeans, corn, cotton, and wheat—under loan. In the first quarter, they placed much less under loan.

● For the change in business inventories, reasonably complete information is available only for motor vehicles. Real motor vehicle inventories changed little after having been run down sharply in the fourth quarter; the swing from liquidation made a large positive contribution to the change in GNP. The limited evidence about other inventories suggests further liquidation in the first quarter.

● GNP prices as measured by the fixed-weighted price index increased at an annual rate of 3 percent. The slowing from the fourth-quarter increase of 5 percent was attributable to energy prices; among these, gasoline prices resumed their downtrend. For most other components, first-quarter increases were in the range of 2 to 5 percent. Some of these increases differed noticeably from those registered in the fourth quarter: food prices, which had changed little in the fourth quarter, increased about 2 percent in the first; prices of residential structures had declined 5 percent in the fourth quarter but increased moderately in the first; and prices of Federal purchases increased less than in the fourth quarter, when a pay raise for Federal employees had added about 5 percentage points to the increase in prices.

Personal income

Personal income was up $21 billion in the first quarter, the net result of several increases and decreases in its components.[2] Wage and salary disbursements were up sharply—about $21½ billion. Disbursements in all major industry groups shown in table 1 were up. A $6 billion increase in manufacturing, centered in durable goods, was the first sizable one in over a year. Farm proprietors' income

1. The major source data that shed light on first-quarter GNP components are limited to 1 or 2 months of the quarter, and in some cases are preliminary. These data are: For *personal consumption expenditures* (PCE), January and February retail sales, unit sales of new autos through the first 10 days of March, and sales of new trucks for January and February; for *nonresidential fixed investment,* the same data for autos and trucks as for PCE, January construction put in place, January manufacturers' shipments of equipment, and business investment plans for the quarter; for *residential investment,* January construction put in place, and housing starts for January and February; for *change in business inventories,* January book values for manufacturing and trade, and unit auto inventories for January and February; for *net exports of goods and services,* January merchandise trade; for *government purchases of goods and services,* Federal unified budget outlays for January, State and local construction put in place for January, and State and local employment for January and February; and for *GNP prices,* the Consumer Price Index for January, and the Producer Price Index for January.

2. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

declined $6 billion. Fourth-quarter farm income had included a $6½ billion step-up in subsidy payments by the Commodity Credit Corporation; in the first quarter, these payments decreased $3 billion. Also, farm receipts were down; a decrease in farm production more than offset an upturn in farm prices.

Personal interest income increased $1½ billion, after a $3½ billion decline in the fourth quarter. Transfer payments declined $2 billion, largely due to declines in benefits paid under regular unemployment insurance programs and under social security. In the fourth quarter, the increase in social security payments had been unusually large, reflecting retroactive payments and resumption of payments to college students; also, unemployment benefits had been stepped up under the supplementary extended benefits program authorized by the Tax Equity and Fiscal Responsibility Act of 1982. Personal contributions for social insurance, which are subtracted in deriving the personal income total, increased $3½ billion, after no change in the fourth quarter. An increase in the taxable wage base from $32,400 to $35,700 accounted for $2 billion, and the start of Federal contributions to health insurance under social security accounted for $1 billion, of the step-up.

Disposable personal income increased only $18 billion, or 3½ percent at an annual rate. However, the increase in prices paid by consumers was even less, and real disposable income increased 1½ percent. In 1982, quarterly changes in real disposable income had ranged from a 2-percent decline in the first quarter to a 3-percent increase in the second.

Personal outlays increased more than disposable income, so that personal saving and the saving rate declined. The saving rate was down several tenths of a percentage point from the 6.0 percent registered in the fourth quarter.

Table 1.—Personal Income and Its Disposition: Change From Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1982: IV	1983: I*
Wage and salary disbursements	4.5	21.5
Manufacturing	−8.0	6.0
Other commodity-producing	−.6	1.8
Distributive	.4	2.0
Services	7.1	7.7
Government and government enterprises	5.6	4.0
Proprietors' income	10.6	−1.4
Farm	7.5	−6.2
Nonfarm	3.1	4.8
Personal interest income	−3.6	1.4
Transfer payments	16.8	−1.9
Other income	3.3	5.1
Less: Personal contributions for social insurance	.1	3.7
Personal income	**31.5**	**20.9**
Less: Personal tax and nontax payments	5.3	2.9
Impacts of legislation	−2.8	−9.2
Other	8.1	12.1
Equals: Disposable personal income	**26.2**	**18.1**
Less: Personal outlays	44.8	24.1
Equals: Personal saving	**−18.6**	**−6.0**
Addenda: Special factors in personal income—		
Cost-of-living increases in Federal transfer payments	1.2	0
Social security base and rate changes (in personal contributions for social insurance)		1.9
Subsidies to farmers	6.4	−3.0
Federal pay raise	2.9	0

*Projected.

Motor vehicles

Motor vehicle output increased about $6½ billion (1972 dollars) in the first quarter, following a $7½ billion decline in the fourth (table 2). The first-quarter increase in motor vehicle output accounted for about one-half of the increase in GNP; the $14 billion turnaround in motor vehicle output accounted for about three-fourths of the turnaround in GNP.

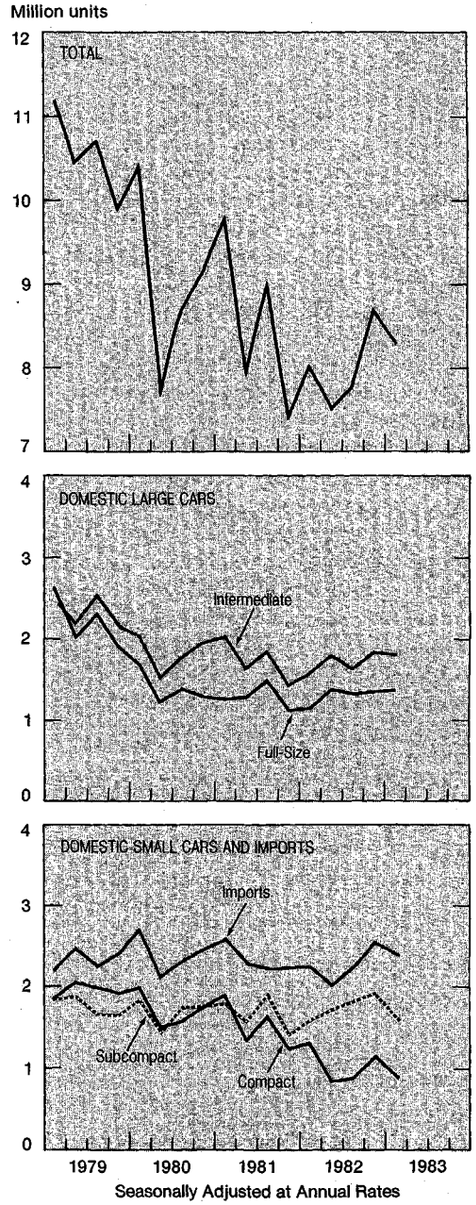
The turnaround in motor vehicle output was in both autos and trucks; output had been at very low levels in the fourth quarter. Sales of motor vehicles declined slightly in the first quarter, but remained above the levels registered in the first three quarters of 1982. Inventories changed little after dropping sharply in the fourth quarter.

Unit sales of new cars declined to about 8.3 million (seasonally adjusted annual rate), from 8.7 million in the fourth quarter (chart 1). Earlier in 1982, sales had ranged from 7.5 to 8.0 million. Sales of both domestic and imported cars were down in the first quarter.

Imported car sales declined from 2.5 million to about 2.4 million, but their share of total sales remained at about 29 percent. In the latter part of the quarter, sales of Japanese cars, which make up the bulk of imports, may have been held down by short supplies. Shipments of cars to the United States had slowed as Japanese automakers complied with the agreed limit of 1.68 million for the year ending March 31, 1983. Japan has ex-

CHART 1

Retail Sales of New Passenger Cars



Seasonally Adjusted at Annual Rates

Note.—The components may not add to the total because each category was separately adjusted for seasonal variation. Data for the most recent quarter are projected.

Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports.

U.S. Department of Commerce, Bureau of Economic Analysis 83-3-1

tended the agreement to limit shipments to 1.68 million for a third year, beginning April 1, 1983.

Domestic car sales declined to about 5.9 million in the first quarter from 6.1 million in the fourth. Fourth-quarter sales had been boosted by below-market installment loan rates—under 11 percent—offered by major automakers through their financial subsidiaries. In the first quarter, rates about 1 percentage point higher were offered. The net increase in new car sales over the last two quarters has been modest—not surprising in view of the lackluster performance of real disposable income and the continued high unemployment rate.

Car production was stepped up to 5.9 million units (seasonally adjusted annual rate) in the first quarter from a very low level—4.7 million—in the fourth. Production had been curtailed in the fourth quarter, as automakers worked down excessive inventories of carryover 1982 models. Low production combined with increased sales reduced domestic car inventories from 1,481,000 (seasonally adjusted) at the end of the third quarter to 1,193,000 at the end of the fourth. The ratio of inventories to sales fell from 3.2 to 2.3, a ratio close to that usually considered desirable by the industry. To prevent further inventory liquidation, production was raised to the level of sales in the first quarter, and inventories edged up to about 1,250,000 at the end of February. Second-quarter production is scheduled at about the same level as in the first, indicating that automakers are cautious about prospects for an immediate strong recovery in sales.

Total new truck sales changed little from the 2.6 million units (seasonally adjusted annual rate) registered in the fourth quarter. Sales of both light domestic trucks (up to 10,000 pounds) and "other" domestic trucks (over 10,000 pounds) increased slightly, from 1.9 to 2.0 million and from 0.17 to 0.18 million, respectively. Sales of imported trucks receded from the 3-year high of 0.54 million reached in the fourth quarter. The course of truck production paralleled that of cars: down in the fourth quarter as excess inventories were liquidated, and up in the first to maintain the inventory-sales balance.

Housing markets

The residential investment component of real GNP, which had increased $3.4 billion (39 percent at an annual rate) in the fourth quarter of 1982, increased even more sharply in the first. Single-family construction accounted for about two-thirds of the increase, but multifamily construction and the "other" component also posted substantial gains. (The "other" component includes additions and alterations, brokers' commissions on the sale of new and existing residences, and mobile home sales.) The continued strengthening in residential investment was attributable, in large part, to continued improvement in the financial conditions affecting housing.

Housing demand had been depressed by high mortgage rates and the long recession. With the decline in mortgage rates that began in mid-1982, demand picked up. The commitment interest rate on 30-year level-payment mortgages with an 80 percent loan-to-price ratio dropped from almost 17 percent in early July to below 14 percent by yearend. The commitment rate continued down in 1983, dropping below 13 percent by late February. Sales of new one-family houses responded immediately, increasing from an average of 366,000 (annual rate) in the second quarter of 1982 to 401,000 in the third, and to 525,000 in the fourth. Sales of existing single-family homes turned up in the fourth quarter, increasing to 2,133,000 from 1,893,000 in the third. Sales of both new and existing single-family homes continued up early in the first quarter.

Improving sales and declining interest rates encouraged builders to step-up their activity. Sales provided funds for working capital and reduced the inventory of unsold units from 8½ months' supply in July to only 5½ months' supply in January. Moreover, interest rates on construction loans fell, probably about in line with the prime rate. (The prime declined from 16½ percent in July, to 11½ percent by yearend, and to 10½ percent by mid-March.)

Reflecting these factors, housing starts increased substantially in the third and fourth quarters (chart 2). Unseasonably mild weather in January helped boost starts to 1,707,000, the highest level in more than 3 years, and 33 percent—a record month-to-month gain—above December's level. Starts rose again in February (to 1,756,000). The January–February average was 37 percent higher than the fourth-quarter level.

The housing expansion is likely to continue unless interest rates turn sharply upward. Building permits rose for the sixth consecutive month in February. Moreover, mortgage funds appear to be ample. Net new deposits received by savings and loan associations increased by unprecedented amounts in December and January with the authorization, effective December 14, of money market deposit accounts. Associations were able to reduce borrowings by record amounts in both months and to build liquidity ratios to record levels.

Table 2.—Motor Vehicle Output

[Billions of 1972 dollars; seasonally adjusted annual rates]

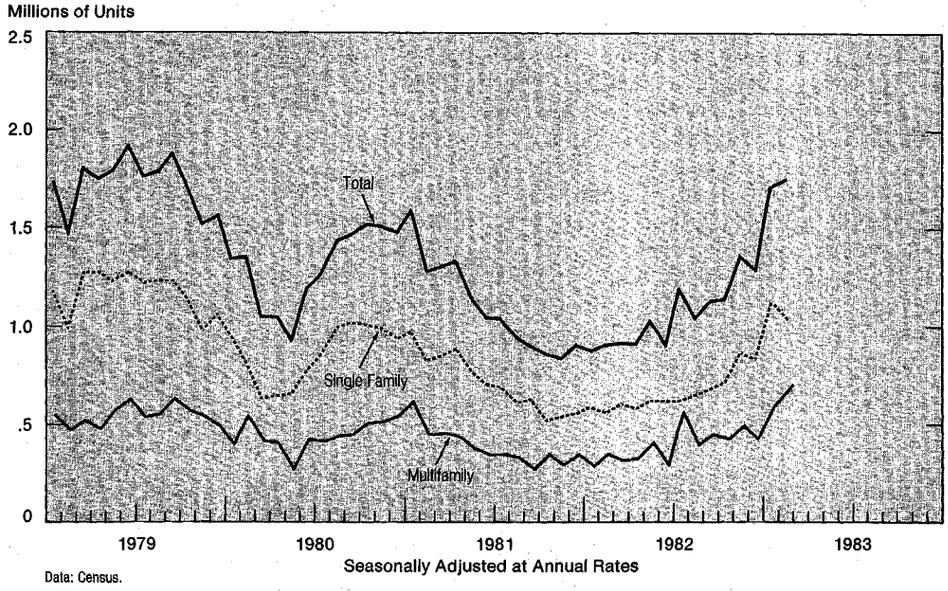
	1981: IV	Change from preceding quarter					1983: I*
		1982				1983: I*	
		I	II	III	IV		
Output	47.3	−2.1	10.1	1.0	−7.6	6.5	55.3
Autos	34.4	−3.1	8.4	2.6	−5.1	5.2	42.4
Trucks	12.9	1.0	1.7	−1.6	−2.5	1.4	12.9
Final sales	47.0	6.4	−2.4	−1.2	6.6	−.9	55.5
Autos	35.2	3.1	−1.3	.4	5.5	−1.0	41.9
Trucks	11.8	3.3	−1.1	−1.6	1.1	.1	13.6
Change in business inventories	.2	−8.4	12.5	2.0	−14.0	7.4	−.2
Autos	−.8	−6.2	9.7	2.1	−10.6	6.2	.5
Trucks	1.0	−2.2	2.8	−.1	−3.4	1.2	−.7

*Projected. Based on unit production in January and February and scheduled production for March, unit sales of autos through the first 10 days of March and of trucks for January and February, and unit inventories for January and February.

NOTE.—For estimates through 1982: IV, see tables 1.14–1.15 and 1.16–1.17 of the National Income and Product Accounts Tables. Auto output includes dealers' margins on their used car transactions; truck output includes new trucks only.

CHART 2

Housing Starts



Data: Census.

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

83-3-2

Table 3.—Revisions in Selected Component Series of the NIPA's, Fourth Quarter of 1982

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	45-day estimate	75-day estimate	Revision	45-day estimate	75-day estimate
	Billions of current dollars				
GNP	**3,101.4**	**3,108.2**	**6.8**	**1.7**	**2.6**
Personal consumption expenditures	2,031.5	2,030.8	−.7	9.4	9.3
Nonresidential fixed investment	336.9	338.4	1.5	−8.3	−6.6
Residential investment	99.8	101.4	1.6	25.0	33.6
Change in business inventories	−44.2	−48.3	−4.1	.....	.....
Net exports	.8	9.1	8.3	.....	.....
Government purchasaes	676.7	676.8	.1	16.3	16.3
National income	.....	**2,471.7**	.....	.....	**2.7**
Compensation of employees	1,875.9	1,876.1	.2	1.6	1.7
Corporate profits with inventory valuation and capital consumption adjustments	.....	167.5	.....	.....	3.1
Other	429.6	428.1	−1.5	8.4	6.8
Personal income	**2,626.9**	**2,624.0**	**−2.9**	**5.4**	**5.0**
	Billions of constant (1972) dollars				
GNP	**1,473.9**	**1,477.2**	**3.3**	**−1.9**	**−1.1**
Personal consumption expenditures	967.5	967.0	−.5	4.8	4.5
Nonresidential fixed investment	160.0	160.9	.9	−8.0	−6.0
Residential investment	42.5	42.9	.4	34.3	39.3
Change in business inventories	−18.7	−20.3	−1.6	.....	.....
Net exports	23.3	27.2	3.9	.....	.....
Government purchases	299.2	299.5	.3	11.6	12.0
	Index numbers, 1972=100[1]				
GNP implicit price deflator	210.42	210.42	0	3.7	3.7
GNP fixed-weighted price index	218.5	218.6	.1	4.6	4.9
GNP chain price index	.....	.....	.....	4.9	5.1

1. Not at annual rates.

NOTE.—For the fourth quarter of 1982, the following revised or additional major source data became available: For *personal consumption expenditures,* revised retail sales for December, consumer share of new car purchases for December, and consumption of electricity for December; for *nonresidential fixed investment,* revised manufacturers' shipments of equipment for December, revised construction put in place for December, and business share of new car purchases for December; for *residential investment,* revised construction put in place for December, and residential alterations and repairs for the quarter; for *change in business inventories,* revised book values for manufacturing and trade for December; for *net exports of goods and services,* revised merchandise trade and revised service receipts for the quarter; for *government purchases of goods and services,* revised construction put in place for December; for *wages and salaries,* revised employment, average hourly earnings, and average weekly hours for December; for *net interest,* financial assets held by households for the quarter, and revised net interest received from abroad for the quarter; for *corporate profits,* domestic book profits and profits from the rest of the world for the quarter; and for *GNP prices,* revised residential housing prices for the quarter, and revised producer price indexes for December.

The Fourth Quarter: Corporate Profits and the Government Sector

Preliminary estimates of corporate profits for the fourth quarter of 1982 have been completed. Their compilation makes it possible to estimate corporate profits tax accruals for the fourth quarter, rounding out the estimates of receipts and expenditures of the government sector.

The 75-day revisions of the national income and product accounts for the fourth quarter are shown in table 3. The revisions reduced the fourth-quarter decline in real GNP from 2 percent to 1 percent. The largest revisions were upward in net exports (largely in factor income) and downward in change in business inventories (larger liquidation in manufacturing).

Corporate profits

Corporate profits from current production—profits with inventory valuation and capital consumption adjustments—increased $1½ billion to $167½ billion in the fourth quarter of 1982, following an $11 billion dollar increase in the third. In the fourth quarter, a decrease in the domestic profits of nonfinancial corporations was more than offset by increases in the profits of domestic financial corporations and profits from the rest of the world.

Domestic profits of nonfinancial corporations decreased $7½ billion to $117½ billion in the fourth quarter, following an increase of $10½ billion. The decrease in domestic profits of nonfinancial corporations was, in turn, accounted for by a decrease in manufacturing profits. Within manufacturing, profits of all major durables industries and most nondurables industries decreased. The weakness in manufacturing profits reflected decreases in the constant-dollar sales of all major manufacturing industries. In particular, a swing from profits to losses for motor vehicle manufacturers reflected both a decrease in their sales and the costs of consumer incentive programs, which were designed to reduce large dealer inventories of unsold motor vehicles. A sizable decrease in petroleum manufacturers' profits reflected lower sales and, be-

cause petroleum manufacturers extract a major share of domestic crude oil, lower prices for crude oil.

Profits of nonfinancial nonmanufacturing corporations increased moderately, as increased profits of trade, utilities, and "other" nonmanufacturing corporations more than offset decreased profits of transporation and communication corporations. Airlines registered increased losses despite increased revenue passenger miles and a continued run-up of prices of regular tickets; the effects of intense competition on many major routes hurt profits. Decreased profits of communication corporations resulted from lower telephone and telegraph profits. Much of the increase in trade profits was accounted for by a swing from losses to profits for auto dealers. This swing reflected increased unit auto sales, which resulted in part from the manufacturer-supported consumer incentive programs.

Domestic profits of financial corporations increased $4½ billion to $29 billion in the fourth quarter, following an increase of $2½ billion. The fourth-quarter increase occurred as savings and loan associations and mutual savings banks registered reduced losses and profits of commercial banks increased; these changes more than offset decreased profits of Federal Reserve banks. (Federal Reserve banks are treated as part of corporate business in the national income and product accounts.) The reduced losses reflected the impact of decreasing interest rates, which lowered the cost of attracting deposits. Savings and loan associations registered very large net inflows of deposits in December, as Money Market Deposit Accounts became available, after a number of months of when withdrawals exceeded deposits. The effect of the inflows into Money Market Deposit Accounts on savings and loan associations' profits is not clear; many associations attracted deposits by initially offering very high rates of interest.

Profits from the rest of the world increased $4½ billion in the fourth quarter to $21 billion, following a decrease of $2 billion. Two-thirds of the increase was due to an increase in earnings on U.S. corporations' foreign assets. An increase in earnings on nonpetroleum operations, centered in the European manufacturing operations of U.S. corporations, more than offset a decrease in earnings on petroleum operations. The rest of the increase in profits from the rest of the world was accounted for by a decrease in the earnings on foreign corporations' U.S. assets. These earnings are netted against U.S. corporations' foreign earnings in the calculation of profits.

Other measures of profits.—Profits before tax decreased $1½ billion to $179 billion in the fourth quarter, following an increase of $8½ billion. These profits exclude the inventory valuation adjustment (IVA) and the capital consumption adjustment (CCAdj). Inventory profits—the IVA with sign reversed—increased $2½ billion to $12½ billion in the fourth quarter, following an increase of $1 billion. The profits component attributable to the misdepreciation of capital—the CCAdj with sign reversed—registered a loss—that is, became negative—for the first time since the second quarter of 1974.[3] The fourth-quarter loss was $1½ billion, following a profit of $4 billion in the third quarter. The swing reflected the effects of provisions of the Economic Recovery Tax Act of 1981 (ERTA), which permit the use of relatively short service lives for measuring the depreciation on new capital (as reported to the Internal Revenue Service) used as a deduction from receipts in the calculation of corporate profits. As corporations depreciate increasing amounts of capital using the relatively short service lives, the component of the CCAdj that adjusts depreciation to consistent service lives becomes increasingly positive. The effects of ERTA have progressively reduced profits attributable to the misdepreciation of capital by somewhat more than $2 billion per quarter beginning with the first quarter of 1981. The swing to a loss was also consistent with rates of inflation in prices for fixed nonresidential investment that were lower than those experienced over the service lives of the assets. Such lower rates of inflation lead to less negative values for the portion of the CCAdj that revalues fixed capital used up in production at replacement cost from historical cost.

Disposition of profits.—Corporate profits taxes decreased $1½ billion to $59½ billion in the fourth quarter, following an increase of $5½ billion. Dividends continued their 7-year uptrend in the fourth quarter, increasing $2 billion to $72½ billion, following an increase of $1 billion. Undistributed profits decreased $2 billion to $47 billion, following an increase of $2 billion.

Government sector

The fiscal position of the government sector in the national income and product accounts (NIPA's) continued to deteriorate in the fourth quarter, as the combined deficit of the Federal government and the State and local governments increased $43 billion. Compared with a year earlier, the combined deficit increased substantially, from $72½ billion to $166½ billion. All of this deterioration occurred at the Federal level, where the deficit increased over $100 billion.

The Federal sector.—The Federal Government deficit increased $47 billion in the fourth quarter, to $203 billion, reflecting a much larger increase in expenditures than in receipts.

Receipts increased $2½ billion, compared with a $3½ billion decline in the third quarter, when personal income tax withholding rates were reduced for the second time under provisions of the Economic Recovery Tax Act of 1981. In the fourth quarter, a $3½ billion increase in personal tax and nontax receipts more than accounted for the increase in total receipts; all other categories declined on balance. Corporate profits tax accruals declined $1½ billion, reflecting the decline in corporate profits. Indirect business tax and nontax accruals were down slightly, largely the net result of a $1½ billion decline in the windfall profits tax and increases—$½ billion each—in tobacco and in air-

3. The capital consumption adjustment places the using up in production of fixed capital on a consistent basis with respect to service lives (85 percent of Internal Revenue Service Bulletin F for equipment and nonresidential structures) and depreciation formulas (straight line). It also values fixed capital used up in production at replacement cost, the valuation concept underlying national income accounting, rather than at historical cost, the concept generally underlying business accounting.

port and airway taxes. The increase in tobacco taxes reflects a special tax on cigarette floor stocks held at the nonretail level provided for by the Tax Equity and Fiscal Responsibility Act of 1982; the increase in the airport and airway taxes reflects the first full-quarter effect of increased taxes provided for by the same act.

Expenditures increased $49½ billion, compared with $33 billion in the third quarter. Purchases of goods and services increased $20 billion. Nondefense purchases, up $13 billion, included a $10½ billion increase for agricultural purchases by the Commodity Credit Corporation (CCC). A 4-percent pay raise in October and stepped-up purchases for the strategic petroleum reserve contributed $½ billion each to the increase. National defense purchases, up $7 billion, included $2 billion for the pay raise.

Transfer payments to persons increased $15½ billion; $7½ billion was for social security benefits and $6 billion was for unemployment benefits. The increase in social security benefits was unusually large, partly reflecting retroactive payments and resumption of payments to college students. Unemployment benefits were boosted by the first full-quarter impact of supplemental benefits; they accounted for $4½ billion of the increase in total unemployment benefits.

Subsidies less the current surplus of government enterprises increased $9 billion. Agricultural subsidies accounted for $6½ billion of the increase. Roughly one-quarter of the increase in agricultural subsidies was in regularly scheduled deficiency payments for 1982 crops—mainly wheat and cotton. Most of the remainder was due to a speed-up in payments for 1982 crops—mainly corn and other feed grains—that would otherwise have been paid in the first quarter of 1983 and to diversion payments for some 1983 crops. The CCC deficit increased $3 billion and the Postal Service deficit declined $½ billion; the latter largely reflected the absence of an employee bonus paid in the third quarter.

Grants-in-aid to State and local governments increased $2½ billion. Increases in grants for education, public assistance, and food and nutrition were partly offset by declines in grants for waste treatment and health care.

On a high-employment budget basis, the Federal fiscal position moved from a deficit of $33 billion in the third quarter to a deficit of $63 billion in the fourth quarter (table 3 on page 18). The high-employment deficit as a percentage of potential GNP increased from 1.0 percent in the third quarter to 1.8 percent in the fourth—a move toward a more expansionary fiscal position. As percentages of potential GNP, high-employment receipts did not change, but high-employment expenditures increased sharply from the third quarter to the fourth.

The State and local sector.—The State and local government surplus increased $4½ billion, as receipts increased more than expenditures. The increase in the surplus was largely accounted for by a $3 billion decline in the "all other" deficit; the surplus of the social insurance funds continued to increase.

Receipts increased $9½ billion, compared with $6 billion in the third quarter; a $5½ billion swing in grants-in-aid more than accounted for the acceleration. Indirect business tax and nontax accruals increased $5 billion, including $3 billion for property taxes. Personal tax and nontax receipts increased $1½ billion and contributions about $1 billion.

Expenditures increased $5½ billion, compared with $6 billion in the third quarter. Purchases of goods and services accounted for all of the increase; all other expenditures, on balance, were unchanged. Within purchases, compensation increased $½ billion more than in the third quarter, partly reflecting an increase in employment other than in education. Construction purchases declined $½ billion, following an increase in the third quarter.

Summary of BEA Staff Paper

"Summary Input-Output Tables of the U.S. Economy: 1976, 1978, and 1979"

By Paula C. Young and Mark A. Planting

THIS paper presents summary (85-industry/commodity) tables that are updates of the 1972 study. Of necessity, they are based on information that is much less adequate than that used in 1972, for which the economic censuses are available. In addition to presenting the tables, the paper describes the tables, explains their derivation, and examines the changes in output requirements during the 1972–79 period that are revealed by the update estimates.

This paper, which is No. 39 in the BEA Staff Paper series, may be ordered from the National Technical Information Service, 5285 Port Royal Road, Springfield, VA 22161. The accession number is PB-83 167-403, enclose $13.00 for a paper copy and $4.50 for microfiche.

the BUSINESS SITUATION

REAL GNP increased 3 percent at an annual rate in the first quarter of 1983, after a number of quarters of poor performance ending with a 1-percent decline in the fourth quarter of 1982 (table 1 and chart 1). Inflation continued to slow; the 3-percent increase in GNP prices registered in the first quarter was the lowest in over a decade.[1] The unemployment rate, at 10.2 percent, remained near its postwar high in the fourth quarter.

Among the conventional components of GNP, real personal consumption expenditures (PCE) increased moderately after a strong increase in the fourth quarter. Nonresidential fixed investment—both structures and producers' durable equipment—was up after several quarters of decline. Residential investment strengthened further. Inventory liquidation was less than in the fourth quarter, so that inventories made a positive contribution to the change in GNP in the first quarter after a large negative contribution in the fourth. The two remaining components were down: Net exports continued a long slide, and government purchases—reflecting the operations of the Commodity Credit Corporation (CCC)—declined after an increase in the fourth quarter.

1. The first-quarter GNP estimates are based on the following major source data: For *personal consumption expenditures (PCE),* retail sales, and unit auto and truck sales through March; for *nonresidential fixed investment,* the same information for autos and trucks as for PCE, manufacturers' shipments of machinery and equipment for January and February, January and February construction put in place, and investment plans for the quarter; for *residential investment,* January and February construction put in place, and housing starts for January and February; for *change in business inventories,* January and February book values for manufacturing and trade, and unit auto inventories through March; for *net exports of goods and services,* January and February merchandise trade, and fragmentary information on investment income for the quarter; for *government purchases of goods and services,* Federal unified budget outlays for January and February, State and local construction put in place for January and February, State and local employment through March; and for GNP *prices,* the Consumer Price Index for January and February, and the Producer Price Index for January and February. Some of these source data are subject to revision.

Table 1.—Real GNP: Change From Preceding Quarter

[Percent change at annual rates; based on millions of 1972 dollars, seasonally adjusted at annual rates]

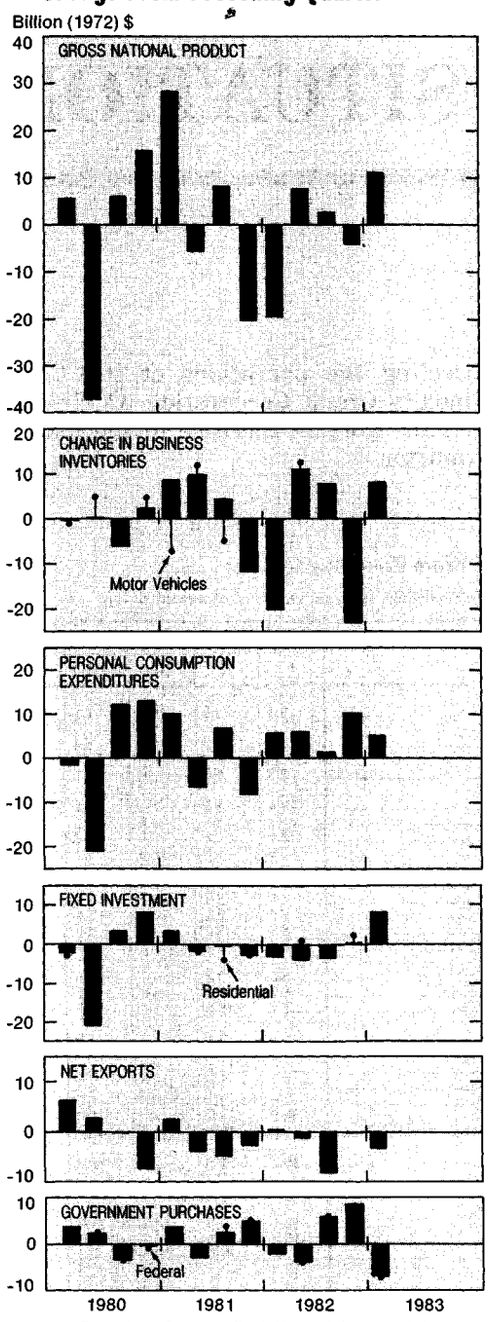
	1982				1983
	I	II	III	IV	I
GNP	−5.1	2.1	0.7	−1.1	3.1
Final sales	.2	−.9	−1.3	5.4	.9
Personal consumption expenditures	2.5	2.5	.6	4.5	2.3
Durables	10.4	2.5	−5.4	20.2	4.8
Motor vehicles and parts	45.7	−3.3	−4.5	48.3	−1.1
Furniture and household equipment	−12.4	6.8	−3.5	5.4	4.6
Other durables	6.9	6.0	−11.6	1.1	21.0
Nondurables	−1.0	2.6	1.5	1.9	2.5
Food	−.6	2.9	4.1	3.4	3.2
Energy [1]	2.2	16.1	−7.4	−7.6	7.6
Clothing and shoes	3.8	1.1	−.1	2.0	1.4
Other nondurables	−9.0	−1.7	.9	1.7	−.5
Services	3.0	2.4	1.7	2.3	1.4
Energy [2]	6.7	−20.9	3.2	9.5	−7.5
Other services	2.8	3.9	1.6	1.9	1.9
Gross private domestic fixed investment	−6.0	−7.6	−7.2	1.8	16.9
Nonresidential	−5.0	−11.8	−7.6	−6.0	2.7
Structures	1.3	1.6	−5.2	−4.8	5.3
Producers' durable equipment	−7.6	−17.4	−8.8	−6.5	1.5
Autos, trucks, and buses	38.8	−16.7	9.1	−15.0	15.7
Other	−13.5	−17.5	−11.6	−5.0	−.8
Residential	−10.2	12.9	−5.3	39.3	83.1
Net export of goods and services					
Exports	−12.7	7.5	−16.8	−21.6	−.7
Merchandise	−15.3	−2.1	−16.7	−26.7	13.5
Agricultural	−.9	17.5	−52.5	−6.4	48.7
Nonagricultural	−18.9	−7.1	−2.9	−31.3	5.2
Other	−9.2	20.4	−16.9	−15.3	−15.3
Imports	−17.5	14.5	4.6	−25.4	11.0
Merchandise	−30.1	10.6	19.6	−24.9	19.7
Petroleum	−44.2	−32.7	115.3	−17.8	−69.6
Nonpetroleum	−28.9	14.3	15.0	−25.3	30.2
Other	17.6	22.5	−20.7	−26.6	−6.3
Government purchases of goods and services	−2.9	−5.3	8.4	12.0	−8.9
Federal	−5.5	−13.5	23.1	32.8	−21.1
National defense	−7.9	21.4	13.0	2.0	.4
Nondefense	−.9	−58.1	50.7	128.1	−51.7
Commodity Credit Corporation [3]					
Other	−4.8	−13.9	−1.7	5.6	2.7
State and local	1.1	.4	−.2	−.4	.7
Change in business inventories					

1. Gasoline and oil, and fuel oil and coal.
2. Electricity and gas.
3. Estimates, in billions of 1972 dollars for the fourth quarter of 1981 through the first quarter of 1983, were: 5.7, 6.1, −0.5, 3.1, 10.8, and 3.3.

NOTE.—Most dollar levels are found in the National Income and Product Accounts Tables, table 1.2.

CHART 1

Real Product: Change From Preceding Quarter



Based on Seasonally Adjusted Annual Rates

U.S. Department of Commerce, Bureau of Economic Analysis 83-4-1

Table 2 sheds light on the extent to which the various sectors of the economy were showing recovery. Business product (line 5)—that is, GNP less product originating in the rest of the world, households and institutions, and government—increased 4½ percent at an annual rate in the first quarter after a 2-percent decline. Nonfarm business product (line 8) showed an even larger first-quarter increase as well as a larger fourth-quarter decline, as farm product declined in the first quarter after having increased in the fourth. After removing the changes in farm product and also those in the residual (the constant-dollar equivalent of the statistical discrepancy), the first-quarter increase was 6 percent and the fourth-quarter decline was 4½ percent. Housing product—that is, the product originating in owner-occupied and tenant-occupied residences—is removed from nonfarm business product to derive an aggregate that can be associated with labor variables to measure productivity and unit labor cost. That aggregate, nonfarm business product less housing (line 10), increased 6½ percent in the first quarter after a 5-percent decline.

Much of the 11½-percentage-point swing in this aggregate can be traced to two relatively small but volatile items: motor vehicle output and residential investment. The former, shown in the addendum to table 2, increased sharply in the first quarter and had declined sharply in the fourth. The latter, shown in table 1 as a component of final sales, increased much more in the first quarter than in the fourth. (Although residential investment is a component of final sales, it is a measure of production because it is on a put-in-place basis.) Nonfarm business product less housing excluding these volatile items shows a much smaller swing—5 percentage points, to an increase of only 1 percent (annual rate) in the first quarter from a 4-percent decline in the fourth.

Prices.—GNP prices as measured by the fixed-weighted price index increased at an annual rate of 3 percent, the lowest rate in over a decade. The slowing from the fourth-quarter increase of 5 percent was attributable to energy prices; as shown in the addenda to table 3, GNP prices exclusive of the energy components increased 4½ percent in both quarters. The prices of these components increased substantially (14 percent) in the fourth quarter and declined substantially (15½ percent) in the first. The substantial price decline that occurred in the part of energy purchased by consumers is also quantified in table 3. In the first quarter, PCE energy prices fell 15½ percent at an annual rate, due to declines in gasoline prices and, to a lesser extent, in fuel oil prices. These declines reflected the glut and accompanying price weakness in the crude oil market. In contrast, prices of natural gas and electricity continued to increase.

The low rate of increase in food prices—1 percent at an annual rate for PCE food and 2 percent for the various food components of GNP—also helped hold down the first-quarter increase in prices. In recent quarters, major factors in the relatively low rates of increase in food prices have been record or near-record U.S. harvests of several crops, in combination with weak domestic and export demand. In addition, increases in marketing costs—largely labor, packaging, and transportation—have moderated in line with prices in general.

The prices of GNP less food and energy increased 5 percent at an annual rate, the same as in the fourth quarter. In the first quarter, increases in most major categories of these prices—prices of "other PCE" and prices of goods and services purchased by investors and by government—were close to the 5 percent average. The increase in the price of nonresidential structures was an exception. This price increased ½ percent after increasing 2½ percent in the second half of 1982 and about 4½ percent in the first half. The very low rate of increase in the first quarter reflected declines in the construction costs for the oil well drilling and public utility components; construction costs for the buildings component continued to increase.

From the fourth quarter to the first, the increase in the GNP implicit price deflator, which is often used to track prices even though it is not a measure of pure price change, accelerated from 3½ percent at an annual rate to 6 percent, in contrast to the deceleration in the fixed-weighted price index. The two measures may move differently when there are sharp quarter-to-quarter changes in

Table 2.—Alternative Measures of Production

[Billions of 1972 dollars, seasonally adjusted at annual rates]

Line		Dollars							Percent change from preceding quarter at annual rate		
		Level				Change from preceding quarter					
		1982			1983	1982		1983	1982		1983
		II	III	IV	I	III	IV	I	III	IV	I
1	Gross national product	1,478.4	1,481.1	1,477.2	1,488.5	2.7	−3.9	11.3	0.7	−1.1	3.1
2	Less: Rest-of-the-world	24.2	22.5	23.4	21.1	−1.7	.9	−2.3	−25.6	17.6	−33.8
3	Gross domestic product	1,454.1	1,458.6	1,453.7	1,467.4	4.5	−4.9	13.7	1.2	−1.3	3.8
4	Less: Households and institutions, and government	203.6	203.2	203.8	204.2	−.4	.6	.4	−.9	1.3	.8
5	Business product	1,250.5	1,255.4	1,249.9	1,263.2	4.9	−5.5	13.3	1.6	−1.8	4.3
6	Less: Farm	38.0	39.3	44.8	41.1	1.3	5.5	−3.7	15.2	68.5	−29.2
7	Residual [1]	.4	1.7	3.3	3.3	1.3	2.9	0			
8	Nonfarm business product	1,212.2	1,214.4	1,200.5	1,217.5	2.2	−13.9	17.0	.7	−4.5	5.8
9	Less: Housing	132.6	133.1	133.5	134.0	.5	.4	.5	1.4	1.4	1.5
10	Nonfarm business product less housing	1,079.5	1,081.3	1,066.9	1,083.4	1.8	−14.4	16.5	.7	−5.2	6.3
	Addendum: Motor vehicle output	55.3	56.2	48.7	55.6	.9	−7.5	6.9	6.7	−43.8	70.2

1. The residual is the constant dollar equivalent of the statistical discrepancy. For the first quarter of 1983, it is not yet available; it is assumed in this table to be the same as in the fourth quarter of 1982.

NOTE.—Most dollar levels are found in the National Income and Product Accounts Tables, table 1.6, and most percent changes are found in table 8.1.

quantities—that is, in weights—because the implicit price deflator, unlike the fixed-weighted price index, reflects quarter-to-quarter shifts in weights. More specifically, differences occur when there are weight shifts for components whose prices have increased more or less than the average of GNP prices since 1972 (the valuation period). Several components—but especially the change in inventories, imports of merchandise (particularly petroleum), and purchases of the CCC—contributed to the difference in movement of the two measures from the fourth quarter to the first.

Table 3.—Fixed-Weighted Price Indexes: Change From Preceding Quarter

[Percent change at annual rates; based on index numbers (1972=100), seasonally adjusted]

	1982				1983
	I	II	III	IV	I
GNP	**4.8**	**4.1**	**5.9**	**4.9**	**3.2**
Less: Change in business inventories					
Equals: Final sales	4.8	4.1	6.0	4.9	3.2
Less: Exports	5.1	1.2	−1.7	.4	2.5
Plus: Imports	6.7	−6.7	0	.9	−3.0
Equals: Final sales to domestic purchasers	**4.9**	**3.2**	**6.0**	**4.9**	**2.6**
Personal consumption expenditures	4.8	3.2	7.3	5.6	1.9
Food	7.0	3.8	2.0	.3	.9
Energy	−4.6	−13.5	18.5	11.1	−15.4
Other personal consumption expenditures	5.9	6.1	7.3	6.5	5.3
Other [1]	4.9	3.2	3.9	3.6	3.9
Nonresidential structures	4.4	4.8	2.3	2.3	.7
Producers' durable equipment	5.5	6.1	5.7	2.3	3.3
Residential	2.6	−3.4	.1	−5.0	6.1
Government purchases	5.8	4.0	4.7	6.6	4.1
Addenda: Food and energy components of GNP [2]—					
Food components [3]	6.6	3.8	1.2	−.8	2.0
Energy components [4]	−5.6	−9.6	19.1	13.9	−15.5
GNP less food components	4.5	4.1	6.7	5.8	3.5
GNP less energy components	5.5	5.0	5.1	4.3	4.3
GNP less food and energy components	5.3	5.2	5.8	5.2	4.8

1. Index number levels for the fourth quarter of 1981 through the first quarter of 1983 were: 222.5, 225.2, 227.0, 229.2, 231.2 and 233.5.
2. Inasmuch as GNP is the sum of final products, the food and energy estimates in this table do not take into account the effect on the prices of final products of changes in the prices of the food and energy that are costs of production.
3. Consists of all components for which separate estimates are prepared. The major component that is not included is purchases of food by the Federal Government other than transactions by the Commodity Credit Corporation that are treated like purchases.
4. Consists of all components for which separate estimates are prepared. The major components that are not included are (1) exports of energy; (2) the gasoline and motor oil portions of inventories of gasoline service stations, and (3) the energy portions of inventories of businesses that do not produce energy for sale.
5. The Federal pay raise accounted for 0.4 percentage points of the increase in the index for GNP in the fourth quarter of 1982.

NOTE.—Index number levels are found in the National Income and Product Accounts Tables, table 7.2.

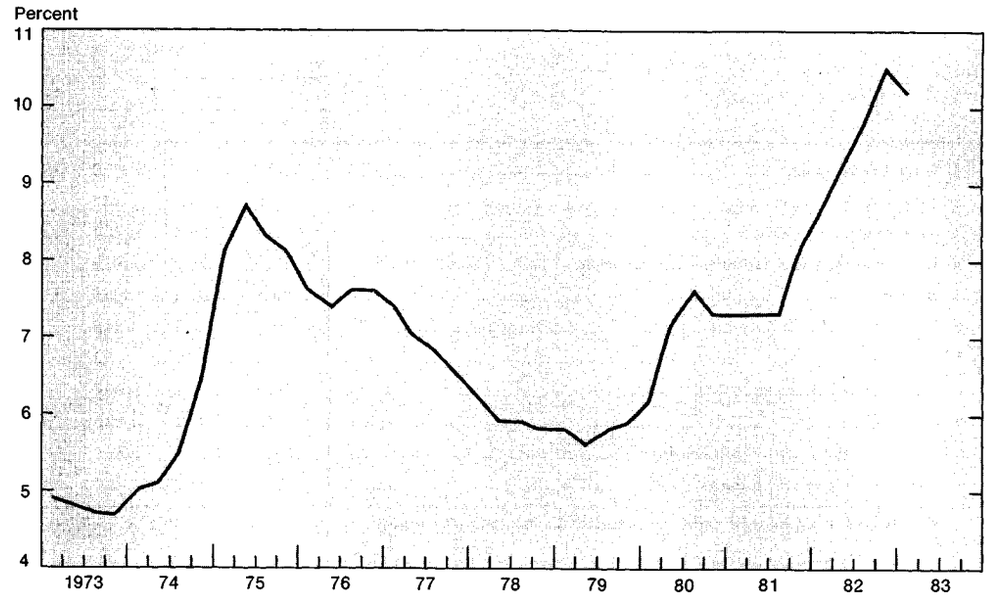
Labor market conditions.—Labor markets improved in the first quarter. The payroll measure of employment, based on payroll records for wage and salary workers in nonagricultural establishments, increased 105,000 in the first quarter after declining 640,000 in the fourth (table 4). The increase was more than accounted for by the service-producing industries, in which employment increased 139,000 after a fourth-quarter decline of 66,000. Within that group, employment increased in services; retail trade; and finance, insurance, and real estate. Manufacturing employment, which had declined 474,000 in the fourth quarter and had accounted for three-fourths of the total decline, increased 20,000 in the first quarter. The increase was centered in transportation equipment and in electric and electronic equipment. Average weekly hours for the private nonfarm economy increased 0.1 hour to 34.8; except for a similar increase in the second quarter of 1982, average hours

have not increased, on a quarterly basis, since late 1980.

The household measure of employment—which includes not only paid nonagricultural workers but also unpaid, agricultural, and self-employed workers, as well as the resident Armed Forces—declined 44,000 in the first quarter, after declining 483,000 in the fourth. The unemployment rate declined 0.3 percentage point to 10.2 percent (chart 2). The unemployment rates for adult men and adult women declined 0.3 and 0.1 percentage points, respectively, to 9.7 and 8.9 percent, and the rate for teenagers dropped 1.5 percentage points to 22.8 percent. The number of "discouraged workers"—those not seeking employment because they do not believe they could find any—dropped 85,000 in the first quarter after increasing 211,000 in the fourth.

CHART 2

Unemployment Rate



Note.—Includes the resident Armed Forces.
Data: BLS.
U.S. Department of Commerce, Bureau of Economic Analysis

83-4-2

Costs and productivity.—Table 5 shows changes in real gross product, aggregate hours, and compensation in the business economy other than farm and housing. The first-quarter increase of 6½ percent (annual rate) in real product was mentioned earlier, and an increase in aggregate hours was suggested by the improvement in employment and average weekly hours just mentioned. The strong increase in product in combination with a smaller increase in hours (1 percent) yields a 5½-percent increase in productivity as measured by real product per hour. Such a large increase had not been registered since the first quarter of 1981, during the recovery from the 1980 recession.

The increase in compensation included the effect of an increase in employer contributions for social security due to an increase in the taxable wage base from $32,400 to $35,700 and an increase in employer contributions for State unemployment insurance. Even though the increase in compensation was relatively large (7½ percent at an annual rate), with the 6½-percent increase in product, the increase in unit labor cost was quite small—only 1 percent.

Table 4.—Employment by Industry

[Seasonally adjusted; thousands]

	Change		
	1982: III–IV	1982: IV–1983: I	1983: I
Total, nonagricultural establishments	**−640**	**105**	**88,836**
Goods-producing	−574	−34	23,068
Mining	−40	−38	1,009
Construction	−60	−15	3,828
Manufacturing	−474	20	18,232
Durable goods	−431	28	10,606
Primary metal products	−71	−4	812
Fabricated metal products	−61	2	1,370
Machinery, except electrical	−125	−46	2,066
Electric and electronic equipment	−49	12	1,971
Transportation equipment	−79	44	1,694
Other	−46	20	2,693
Nondurable goods	−43	−8	7,626
Food and kindred products	8	−10	1,631
Apparel and other textile products	−3	4	1,139
Printing and publishing	−2	5	1,271
Chemicals and allied products	−10	−6	1,052
Other	−37	0	2,533
Service-producing	−66	139	65,768
Transportation and public utilities	−39	−54	4,940
Wholesale trade	−54	−35	5,194
Retail trade	−104	107	15,272
Finance, insurance, and real estate	4	33	5,399
Services	61	114	19,233
Government	67	−25	15,731

Source: Bureau of Labor Statistics.

Table 5.—Real Gross Product, Hours, and Compensation in the Business Economy Other Than Farm and Housing: Change From Preceding Quarter

[Percent change at annual rates; based on seasonally adjusted estimates]

	1982				1983
	I	II	III	IV	I
Real gross product	−4.3	0.6	0.7	−5.2	6.3
Hours	−4.7	−.7	−2.9	−5.0	1.0
Compensation	2.6	5.9	3.7	−.2	7.5
Real gross product per hour	.4	1.3	3.6	−.3	5.3
Compensation per hour	[1] 7.7	6.7	6.8	5.0	[1] 6.5
Unit labor cost	7.3	5.3	3.0	5.3	1.1

1. Increases in employer contributions for social security accounted for 0.6 percentage points of the increase in compensation per hour in the first quarter of 1982. Increases in employer contributions for social security and for unemployment insurance accounted for 1.1 percentage points of the increase in the first quarter of 1983.

Personal income and its disposition

The increase in personal income decelerated to $24½ billion from $31½ billion in the fourth quarter (table 6).[2] Wage and salary disbursements were up sharply, and personal interest income increased following a decline, but proprietors' income and transfer payments both declined after strong increases.

Wage and salary disbursements increased $23 billion, after an increase of only $4½ billion in the fourth

2. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

Table 6.—Personal Income and Its Disposition: Change From Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1982			1983
	II	III	IV	I
Wage and salary disbursements	15.0	13.4	4.5	23.2
Manufacturing	.5	−1.9	−8.0	7.3
Other commodity-producing	−1.2	−1.6	−.6	1.0
Distributive	4.0	3.0	.4	2.9
Services	8.1	10.2	7.1	8.1
Government and government enterprises	3.5	3.5	5.6	4.0
Proprietors' income	.9	1.0	10.6	−.5
Farm	−.5	−.7	7.5	−5.7
Nonfarm	1.4	1.8	3.1	5.2
Personal interest income	12.3	6.2	−3.6	3.0
Transfer payments	10.7	15.8	16.8	−2.6
Other income	4.0	4.5	3.3	5.1
Less: Personal contributions for social insurance	.7	1.1	.1	3.9
Personal income	**42.1**	**39.8**	**31.5**	**24.3**
Less: Personal tax and nontax payments	7.7	−6.7	5.3	1.7
Impacts of legislation	−4.8	−18.4	−2.8	−11.0
Other	12.5	11.7	8.1	12.7
Equals: Disposable personal income	**34.4**	**46.6**	**26.2**	**22.7**
Less: Personal outlays	29.2	38.9	44.8	24.2
Equals: Personal saving	**5.2**	**7.6**	**−18.6**	**−1.5**
Addenda: Special factors in personal income—				
Cost-of-living increases in Federal transfer payments	2.4	12.0	1.2	.....
Social security base change (in personal contributions for social insurance)	.....	.....	.....	1.9
Subsidies to farmers	−1.1	−1.1	6.4	−3.3
Federal pay raise	.....	.....	2.7	.1
Federal employee contributions to Medicare under social security	.....	.....	.....	.8
Property damage (see text)	.....	.....	−1.4	.....

NOTE.—Most dollar levels are found in the National Income and Product Accounts Tables, table 2.1.

quarter. A turnaround in manufacturing—from an $8 billion decline to a $7½ billion increase—largely accounted for the pickup. The turnaround was centered in durables and reflected improvements in both employment and hours. As noted earlier, after a sharp drop in the fourth quarter, employment in manufacturing was up in the first. Average weekly hours, which had declined slightly in the fourth quarter, increased strongly in the first. Average hourly earnings continued their uptrend. Wages and salaries in the other commodity-producing industries, principally mining and construction, were up slightly as declines in employment slowed. Pickups in wages and salaries in the distributive industries and in the service industries were mainly accounted for by larger increases in employment. The increase in government wages and salaries, which had been boosted in the fourth quarter by a $2½ billion pay raise for Federal employees, returned to about the rate of recent quarters in which there had been no pay raise.

Personal interest income increased $3 billion, after declining $3½ billion in the fourth quarter. A flattening of short-term interest rates after two quarters of sharp deceleration contributed to the turnaround. The rate on large-denomination, negotiable 6-month certificates of deposit had fallen from 14 percent in the middle of the second quarter of 1982 to 9 percent in the middle of the fourth. Short-term rates steadied in the first quarter of 1983; the mid-quarter rate on large-denomination certificates remained at 9 percent. The fact that personal interest income increased in the first quarter, rather than flattening as did interest rates, is traceable to one of its components—property income of private noninsured pension funds and life insurance carriers—that is not interest sensitive; this component increased in the first quarter in line with its trend.

Farm proprietors' income fell $5½ billion, after a $7½ billion increase in the fourth quarter. Most of the swing was accounted for by the timing of subsidy payments by the CCC. A $6½ billion step-up in payments in the fourth quarter reflected not only regularly scheduled payments but also a speed-up in payments that ordinarily would have been made in the first quarter. First-quarter payments to farmers declined $3½ billion. Other farm income continued to slide; receipts from marketings fell in the first quarter, as a decrease in farm production more than offset an upturn in farm prices. The step-up in nonfarm proprietors' income was mainly in construction and retail trade.

Transfer payments declined $2½ billion, after increasing $17 billion in the fourth quarter. The fourth-quarter increase in social security payments had been unusually large, partly reflecting retroactive payments and a resumption of payments to college students. Unemployment insurance benefits, which had increased $6½ billion in the fourth quarter, declined $4 billion in the first. The drop-off was both in regular benefits and in supplemental extended benefits authorized under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). Increases in other Federal benefit programs, primarily food stamps, slowed in the first quarter.

Personal contributions for social insurance, which are subtracted in deriving the personal income total, were stepped up $4 billion after changing little in the fourth quarter. The increase in the social security taxable wage base, effective January 1, accounted for $2 billion of the step-up. (The social security tax rate for employees, at 6.70 percent, was not changed.) Also on January 1, Federal employees began to contribute to Medicare under social security; these contributions accounted for $1 billion of the step-up.

Personal income in the fourth quarter was reduced $1½ billion as a result of hurricane damage in Hawaii and of extensive flooding in the Mississippi River Basin. This property

damage is reflected in the proprietors' and rental income components. If allowance is made for this and for the other special factors listed as addenda to table 6, the first-quarter increase in personal income would have exceeded that in the fourth quarter.

The increase in personal tax and nontax payments slowed to $1½ billion from $5½ billion in the fourth quarter. In the fourth quarter, legislative reductions under the Economic Recovery Tax Act of 1981 (ERTA) amounted to $3 billion. In the first quarter, reductions under ERTA—primarily the effect of earlier rate reductions, the married couples deduction, and the all savers' exclusion—amounted to $14½ billion. These reductions were partly offset by increases amounting to $2½ billion under TEFRA. Reflecting the step-up in wages and salaries, the increase in taxes due to increases in the tax base accelerated to $12½ billion from $8 billion in the fourth quarter.

Disposable personal income increased $22½ billion, or 4 percent at an annual rate, in the first quarter, only a little less than in the fourth quarter, but considerably less than in the third. In real terms, however, the first-quarter increase in disposable income was 2 percent—up from increases of ½ percent in the fourth quarter and 1½ percent in the third. The relatively better performance of real disposable income in the first quarter reflected the slowing in prices paid by consumers. In the first quarter, the PCE deflator, which is used to calculate the real measure, increased only 2½ percent, compared with increases of 4½ and 7½ percent in the two previous quarters.

The increase in personal outlays decelerated sharply in the first quarter, but still exceeded the increase in disposable personal income. As a result, personal savings continued to decline, but considerably less than in the fourth quarter. The personal saving rate was down slightly to 5.9 percent from 6.0 percent.

Real PCE.—PCE increased at an annual rate of 2½ percent compared with 4½ percent in the fourth quarter. The deceleration was due to motor vehicles, as new car sales showed little change after a large increase in the fourth quarter. As described in last month's "Business Situation," fourth-quarter sales had been boosted by below-market installment loan rates—under 11 percent—offered by major automakers through their financial subsidiaries. In the first quarter, rates about 1 percentage point higher were offered.

Other real PCE continued to show moderate increases. Improvement in expenditures on household furniture and equipment in the fourth and first quarters appears to be related to recovery in housing markets. Gasoline and oil increased substantially in the first quarter. In 1982, gasoline purchases registered both quarterly increases and declines, but relative to 1981, an uptrend appears to have gotten under way. The absence of a sharp runup in gasoline prices probably was a major factor. Services again registered only a small increase. A smaller increase than in the fourth quarter was largely due to electricity and gas. Expenditures on home heating declined in the first quarter, due to unusually mild winter weather in some parts of the country.

Real investment

Residential investment increased even more strongly than in the fourth quarter—over 80 percent at an annual rate, compared with about 40 percent. Construction of single-family units continued to strengthen, construction of multifamily units picked up, and the "other" component—consisting of additions and alterations, brokers' commissions on the sale of new and existing residences, and mobile home sales—increased substantially although less than in fourth quarter. As discussed in last month's "Business Situation," housing starts and sales of both new and existing residences have responded to the continuing improvement in the financial conditions affecting housing.

Nonresidential investment increased 2½ percent at an annual rate after several quarters of decline. If the increase is the beginning of a recovery in investment, it is somewhat earlier than suggested by most interpretations of major factors that influence investment, such as capacity utilization and corporate profits, or by the BEA plant and equipment expenditure survey. The survey of plans taken in late January and February, as reported in last month's SURVEY OF CURRENT BUSINESS, indicated declines in both the first and second quarters of 1983 (although smaller ones than in the third and fourth quarters of 1982) before an upturn in the second half.

Nonresidential construction increased 5½ percent at an annual rate after two quarters of decline. The increase was largely due to construction of commercial buildings other than offices. This category, which includes stores and warehouses, had declined steadily over the past year. Weakness persisted in industrial construction and in oil well drilling, although in the latter the decline was smaller than earlier. Public utility construction was down again.

Producers' durable equipment increased 1½ percent at an annual rate. The increase was in motor vehicles, where both autos and trucks increased after fourth-quarter declines. Other producers' durable equipment changed little after sliding since the first quarter of 1982. Declines were less widespread among the major categories than in the fourth quarter, and those in metalworking machinery and communications equipment were smaller; computers again increased substantially.

The liquidation of business inventories continued in the first quarter, but at a slower rate than in the fourth (table 7). The slowdown from $20½ billion to $12½ billion accounted for $8 billion of the increase in first-quarter GNP. Most of the slowdown was in motor vehicle inventories; they decline $1 billion after a $7½ billion declined in the fourth quarter, when excess stocks of 1982 model cars and trucks were liquidated. Other inventories were runoff sharply in both quarters. The liquidation was concentrated in manufacturing durables—especially in primary and fabricated metals and in electrical and nonelectrical machinery—and in wholesale durables; most other categories declined slightly or changed little.

The reductions in inventories, in combination with improvements in sales, have brought inventory-sales ratios down sharply. The ratio of constant-dollar business inventories to total business final sales declined 0.14 points over the last two quarters to 3.15; in the first three quarters of 1982 it had averaged 3.28. The ratio of nonfarm business inventories to final sales of goods and structures declined 0.24 points to 4.41; in the first three quarters of 1982 it had averaged 4.61.

Real net exports

Net exports continued their 3-year slide, over which they were halved. (See "Net Exports of Goods and Services, 1980–82" in the March issue of the SURVEY.) In the first quarter, they declined $3 billion, as imports increased and exports changed little. In the fourth quarter, net exports had changed little, as both exports and imports declined by large amounts.

The balance on goods changed by relatively small amounts—declines of $1 billion and $½ billion in the first and fourth quarters, respectively—as exports and imports registered largely offsetting swings from declines to increases. Part of the swing in exports was in agricultural exports, which increased substantially in the first quarter, partly due to increased shipments of wheat. Nonagricultural exports had registered a decline of $5½ billion—widely spread among end-use categories—in the fourth quarter, and increased $½ billion in the first. Improvement was particularly sharp in motor vehicles shipped to Canada and in aircraft. The swing in imports was more than accounted for by nonpetroleum imports. In the first quarter, most categories increased—with especially strong increases in automotive products, capital goods, and consumer goods—after declines in the fourth quarter.

The balance on services declined $2 billion after no change in the fourth quarter. Receipts of investment income declined more than in the fourth quarter, and payments declined less.

Government purchases

Real government purchases declined 9 percent at an annual rate after a 12-percent increase in the fourth quarter. The first-quarter decline and the swing from the fourth quarter were due to the operations of the CCC. Defense purchases, Federal nondefense purchases other than CCC, and State and local purchases each showed little or no change in both quarters.

Real CCC purchases declined $7½ billion after a fourth-quarter increase of $7½ billion. In the fourth quarter, farmers had responded to low market prices for crops by placing substantial amounts—mainly of soybeans, corn, cotton, and wheat—under loan. In the first quarter, they placed much less of these crops under loan.

The Federal sector.—Changes in current-dollar Federal receipts and expenditures on a national income and product accounts basis are shown in table 8. Among expenditures, the sources of the large first-quarter changes have already been referred to. In current dollars, purchases declined $7 billion, transfer payments declined $6 billion, and subsidies less the current surplus of government enterprises declined $5 billion. These declines, together with smaller and partly offsetting changes in net interest paid and grants-in-aid, totaled $17 billion.

Among receipts, two of the sources of change were mentioned earlier. A $1 billion decline in personal tax and nontax payments reflected reductions under ERTA, and a $9½ billion increase in contributions for social insurance reflected the increase in the taxable wage base for social security, the beginning of Federal employee contributions to Medicare under

Table 7.—Change in Business Inventories

[Billions of 1972 dollars; seasonally adjusted at annual rates]

	Level				Change from preceding quarter		
	1982			1983	1982		1983
	II	III	IV	I	III	IV	I
Change in business inventories	−4.4	3.4	−20.3	−12.4	7.8	−23.7	7.9
Motor vehicles	4.3	6.3	−7.7	−.8	2.0	−14.0	6.9
Other	−8.7	−2.9	−12.6	−11.6	5.8	−9.7	1.0

Table 8.—Federal Government Receipts and Expenditures, NIPA Basis: Change From Preceding Quarter

[Billions of dollars, based on seasonally adjusted annual rates]

	1982				1983
	I	II	III	IV	I
Receipts	**−15.8**	**7.1**	**−3.3**	**1.3**	**n.a.**
Personal tax and nontax receipts	−1.0	5.9	−10.2	3.6	−1.0
Corporate profits tax accruals	−12.6	−1.3	4.6	−2.5	n.a.
Indirect business tax and nontax accruals	−8.6	1.2	1.0	−.1	.7
Contributions for social insurance	6.4	1.3	1.4	.2	9.5
Expenditures	**1.0**	**8.2**	**33.1**	**49.5**	**−17.0**
Purchases of goods and services	−.9	−5.4	14.7	19.7	−6.8
National defense	−.8	10.0	6.5	6.7	2.3
Nondefense	−.1	−15.4	8.2	13.1	−9.1
Transfer payments	2.5	9.6	14.6	17.9	−5.8
Grants-in-aid to state and local governments	−.6	2.0	−3.0	2.6	1.2
Net interest paid	.7	3.1	5.9	.3	−.4
Subsidies less current surplus of government enterprises	−.9	−1.0	.9	8.9	−5.2
Less: Wage accruals less disbursements	−.1	.2	0	0	0
Surplus or deficit (−), national income and product accounts	**−16.7**	**−1.2**	**−36.4**	**−48.1**	**n.a.**

n.a. Not available.

NOTE.—Dollar levels are found in the National Income and Product Accounts Table, table 3.2.

social security, and the increase in the tax base for State unemployment insurance. Indirect business taxes were up $½ billion, partly due to increases in telephone and cigarette excise taxes under TEFRA. Estimates of corporate profits, and thus of corporate profits tax accruals, are not yet available. It is quite likely that there was a turnaround in profits and that accruals increased. If this is assumed, total receipts were up substantially.

With the decline in expenditures and an increase in receipts, the deficit on a national income and product accounts basis was reduced substantially from the $204 billion recorded in the fourth quarter.

Corporate Profits, Fourth Quarter and Year 1982

In the fourth quarter of 1982, corporate profits from current production—profits with inventory valuation and capital adjustments—decreased $1½ billion to $164½ billion. (The fourth-quarter estimate is $3 billion lower than the one published a month ago. Downward revisions in the profits of most domestic nonfinancial industries more than accounted for the revision.) Although the change in the total was relatively small, changes in profits of major groupings of corporations were large.

Domestic profits of nonfinancial corporations decreased $11 billion to $114½ billion in the fourth quarter. The decrease was centered in manufacturing, where nearly all industries registered decreases in profits or increases in losses; the largest decrease was in motor vehicle manufacturing.

Domestic profits of financial corporations increased $4½ billion to $29½ billion. The increase resulted from sharp reductions in the losses registered by savings and loan associations and by mutual savings banks and from a modest increase in the profits of commercial banks. These changes more than offset a decrease in the profits of Federal Reserve banks.

Profits from the rest of the world increased $4½ billion to $21 billion. This measure is calculated as earnings on U.S. corporations' foreign assets (receipts) less earnings on foreign corporations' U.S. assets (payments). The fourth-quarter increase was the result of both an increase in receipts and a decrease in payments.

Developments during 1982

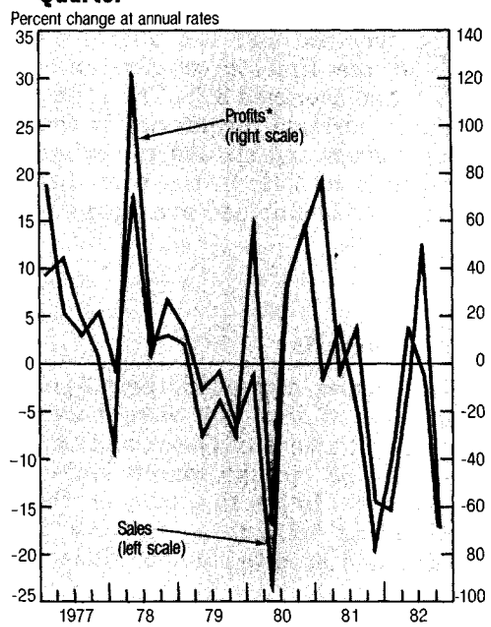
Profits decreased very sharply in the first quarter of 1982 and fluctuated moderately thereafter, remaining at levels well below their 1981 level of $190½ billion. For the year 1982, profits totaled $161 billion, the lowest level since 1976. Decreases in domestic profits of nonfinancial corporations and in profits from the rest of the world accounted for nearly all of the decrease in the first quarter of 1982 and more than accounted for the decrease from 1981 to 1982.

Decreases in manufacturing profits accounted for most of the decrease in the first quarter of 1982 in domestic nonfinancial profits, as well as for most of the year-to-year decrease. Quarter-to-quarter fluctuations in profits of manufacturing corporations were closely related to fluctuations in constant-dollar manufacturing sales. This relationship is shown for total manufacturing in chart 3 and can be seen for individual industries by comparison of tables 9 and 10.

In addition to reflecting the pattern of constant-dollar sales, the pattern of profits also reflected a variety of other factors. Widening losses of primary metals manufacturers in the first and second quarters reflected decreasing prices for nonferrous metals, while smaller losses in the third quarter reflected increased prices. Large losses registered by motor vehicle manufacturers in the first and fourth quarters reflected the costs of consumer incentive programs, which were designed to reduce excessive dealer inventories. Petroleum manufacturers' profits were more closely linked to swings in the prices of crude oil and refined petroleum product prices than to the small changes in their constant-dollar sales. The impact of prices on their profits is the major reason why the third quarter appears as an exception to the close

CHART 3

Corporate Profits and Constant-Dollar Sales for Manufacturing: Percent Change From Preceding Quarter



Based on Seasonally Adjusted Annual Rates

*Corporate profits with IVA and without CCAdj.

U.S. Department of Commerce, Bureau of Economic Analysis 83-4-3

relationship between total manufacturing profits and constant-dollar sales. In that quarter, as seen in chart 3, a small decrease in sales was paired with a large increase in manufacturing profits. Most of the increase in profits was due to an increase in the profits of petroleum manufacturing corporations. Refineries' margins increased, as wholesale prices for petroleum products increased sharply while their costs for crude oil increased slightly. Profits of food manufacturers were affected by their tendency to pass on changes in crude food prices to processed food prices less than fully and with a lag. In the first half of 1982, crude food prices rose more rapidly than processed food prices; in the second half, crude food prices fell more rapidly.

Domestic profits of financial corporations decreased slightly in the first quarter, then increased steadily for the rest of the year. By the fourth quarter, they were nearly half again as high as they had been a year earlier. The fourth-to-fourth-quarter in-

crease resulted from steady reductions in the losses registered by savings and loan associations and by mutual savings banks. These thrift institutions benefited from falling interest rates, which lowered the interest costs of attracting deposits more rapidly than interest rates were reduced on their assets, most of which are long-term instruments with fixed interest rates. Profits of Federal Reserve banks increased in the first quarter then decreased steadily as average interest rates received on their holdings of short-term Federal debt instruments fell rapidly.

Profits from the rest of the world decreased sharply in the first quarter and fluctuated moderately thereafter. The pattern reflected continuing recessions in most major industrial countries. The first-quarter decrease was due to decreases on both the petroleum and nonpetroleum foreign activities of U.S. corporations. Thereafter, profits fluctuations related to petroleum and nonpetroleum activities were partly offsetting.

Other profits measures.—Profits before tax also decreased very sharply in the first quarter of 1982 and fluctuated moderately thereafter. They totaled $175 billion for the year, the lowest level since 1976; in 1981 these profits were $232 billion. These profits exclude the inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj). Inventory profits—the IVA with sign reversed—decreased sharply in the first quarter and increased moderately thereafter. Inventory profits in 1982 were $9 billion, well below their $24½ billion level in 1981.

The profits component attributable to the misdepreciation of capital—the CCAdj with sign reversed—decreased each quarter of 1982, and became negative in the fourth quarter.[3] These profits were $5 billion in 1982, well below their $17 billion level in 1981. The decreases reflected the effects of provisions of ERTA permitting the use of shorter service lives for measuring the depreciation on new capital (as reported to the Internal Revenue Service), which is a deduction from receipts in the calculation of corporate profits. As corporations depreciate increasing amounts of capital using the shorter service lives, the component of the CCAdj that adjusts tax return depreciation to consistent service lives becomes increasingly positive. The effects of ERTA have progressively reduced profits attributable to the misdepreciation of capital by somewhat more than $2 billion per quarter, beginning with the first quarter of 1981. The decreases were also consistent with rates of inflation in prices for fixed nonresidential investment that were lower than those experienced over the service lives of the assets. Such lower rates of inflation lead to less negative values for the portion of the CCAdj that revalues fixed capital used up in production from historical cost to replacement cost.

Disposition of profits.—Corporate profits taxes, which are levied on profits including inventory profits and profits attributable to misdepreciation, were $57½ billion in 1982, well

Table 9.—Manufacturing Corporate Profits With Inventory Valuation Adjustment and Without Capital Consumption Adjustment

[Billions of dollars; seasonally adjusted at annual rates]

	1981: IV	Change from preceding quarter				1982: IV
		1982				
		I	II	III	IV	
Manufacturing	73.7	−16.0	−1.1	6.0	−16.0	46.7
Durable goods	18.9	−9.8	3.6	−.5	−12.1	0
Primary metal industries	.7	−3.8	−3.4	1.0	−.4	−5.9
Fabricated metal products	3.4	1.0	−.6	.9	−1.7	3.1
Machinery, except electrical	9.9	−1.6	−3.5	−1.0	−1.9	1.8
Electrical machinery	4.3	−.7	.1	.5	−1.5	1.7
Motor vehicles	−1.8	−2.3	7.4	−.1	−4.6	−1.4
Other	2.4	−2.4	3.5	−.8	−2.1	.7
Nondurable goods	54.7	−6.1	−4.7	6.6	−3.8	46.7
Food and kindred products	8.1	−1.4	−.4	.7	−.2	6.7
Chemicals and allied products	7.8	−1.3	−.7	−.7	−1.0	4.1
Petroleum and coal products	24.7	.7	−5.0	5.4	−3.4	22.5
Other	14.1	−4.1	1.4	1.1	.8	13.3

Table 10.—Constant-Dollar Manufacturing Sales

[Billions of 1972 dollars; seasonally adjusted at annual rates]

	1981:IV	Change from preceding quarter				1982:IV
		1982				
		I	II	III	IV	
Manufacturing	854.4	−19.5	7.9	−3.8	−38.8	800.0
Durable goods	464.5	−16.9	4.9	−7.2	−30.0	415.1
Primary metal industries	49.7	−3.4	−2.7	−1.7	−4.2	37.8
Fabricated metal products	49.0	−.6	1.6	−.7	−4.9	44.3
Machinery, except electrical	106.3	−3.8	−5.9	−4.1	−3.6	88.9
Electrical machinery	82.5	−1.5	1.9	−.9	−3.5	78.5
Motor vehicles	47.4	−2.6	9.7	1.6	−12.6	43.5
Other	129.6	−5.0	.3	−1.5	−1.2	122.2
Nondurable goods	389.9	−2.6	3.0	3.4	−8.8	384.8
Food and kindred products	132.4	2.5	−.5	.5	−1.0	133.9
Chemicals and allied products	67.7	−1.2	2.1	.8	−2.2	67.2
Petroleum and coal products	31.7	−1.7	3.2	−.8	−1.8	30.6
Other	158.1	−2.2	−1.8	2.9	−3.8	153.2

3. The capital consumption adjustment places the using up in production of fixed capital on a consistent basis with respect to service lives (85 percent of Internal Revenue Service Bulletin F for equipment and nonresidential structures) and depreciation formulas (straight line). It also values fixed capital used up in production at replacement cost, the valuation concept underlying national income and product accounting, rather than at historical cost, the concept generally underlying business accounting.

below the $81 billion registered in 1981. The decrease reflected lower profits and a decrease in the share of domestic profits taken by the Federal Government. Excluding the profits of the Federal Reserve banks (almost all of which are returned to the Treasury and are treated as corporate profits taxes in the national income and product accounts) from taxes and profits, the share decreased from 27 percent in 1981 to 22 percent in 1982. Dividends continued their 7-year uptrend, increasing in each quarter of 1982. Dividends were $70½ billion in 1982, up from $65 billion in 1981. Undistributed profits were $47 billion in 1982, down from $86 billion in 1981.

the BUSINESS SITUATION

REVISED (45-day) estimates show that real GNP increased 2½ percent at an annual rate in the first quarter of 1983, compared with the 3-percent increase shown by the preliminary (15-day) estimates (table 1). The downward revision was more than accounted for by a higher estimate of the rate of liquidation of business inventories (largely in manufacturing). Net exports also was revised down (mainly due to an upward revision in merchandise imports), but personal consumption expenditures and nonresidential fixed investment (due to computers) were revised up. Revisions in the other major components were quite small. The revisions did not change the first-quarter increase in prices as measured by the GNP fixed-weighted price index from 3 percent.

Although final sales were somewhat stronger and the liquidation of inventories was larger than estimated earlier, the revisions did not alter the picture of economic activity described in the April "Business Situation." Real GNP increased after a number of quarters of poor performance, and inflation continued to slow. Among the conventional components of GNP, personal consumption expenditures increased moderately after a strong increase in the fourth quarter. Total nonresidential fixed investment was up after several quarters of decline: Although revised structures shows a decline instead of an increase, revised producers' durable equipment shows a larger increase. Inventory liquidation was somewhat less than in the fourth quarter, so that inventories made a positive contribution to the change in GNP. Net exports continued a long slide, and government purchases declined after an increase.

Recent developments in inventories

Real business inventories have declined $13 billion, or 4 percent, since the fourth quarter of 1981. The liquidation, the steepest in the postwar period, considerably outpaced a decline in real business final sales. From a peak in the first quarter of 1981, these sales declined 2 percent to the third quarter of 1982, before turning up in the fourth quarter. The ratio of total business inventories to total business final sales, which had peaked at 3.32 in the fourth quarter of 1981, fell to 3.20 by the fourth quarter of 1982 (chart 1). At that level, the ratio was back to its early-1981 low. However, the decline in the ratio partly resulted from a continued growth in services during the recession; the production of services does not require inventory support to the same extent as does the production of goods and structures. The ratio fell again—to 3.14—in the first quarter of 1983, as the liquidation of inventories continued despite another increase in sales.

A decline in final sales of goods and structures was considerably sharper—4½ percent—than that in total business final sales. The ratio of nonfarm business inventories to final sales of goods and structures peaked at 4.64 in the fourth quarter of 1981, fell slightly, but then moved back up to 4.65 in the third quarter of 1982. Not until the fourth quarter, when sales turned around and inventories continued down, did the ratio fall rapidly to 4.48. That level was still well above the early-1981 low. In the first quarter of 1983, further liquidation combined with increasing sales to bring the ratio down to 4.39, the lowest level in nearly a decade.

Table 2 presents information on constant-dollar manufacturing and trade inventories and sales; these industries hold the bulk of business inventories and accounted for nearly all of the liquidation. Over the past year and a half, sharp inventory runoffs occurred in manufacturing durables (−$9½ billion) and nondurables (−$3 billion) and in merchant wholesale durables (−$2 billion). The runoffs resulted from cutbacks in production, triggered by sharp declines in sales that began in the first half of 1981 and extended through the fourth quarter of 1982. (These sales include intermediate sales from one business to another as well as sales to final users.)

In most manufacturing durables industries, declines in sales outpaced declines in inventories through the fourth quarter of 1982, and inventory-sales (I/S) ratios moved up rapidly from early-1981 lows. The I/S ratios did not turn down until the first quarter of 1983, when sales finally increased. At the end of the first quarter, the ratios for most industries approached their 1981 lows, but those for primary metals and nonelectrical machinery were still relatively high. Data on inventories by stage of fabrication show that more than half of the first-quarter liquidation was in inventories of materials and supplies.

In most manufacturing nondurables industries, declines in inventories more closely matched those in sales, and the I/S ratios did not rise appreciably above their early-1981 lows. In paper products and in rubber and plastic products, the two principal exceptions, the I/S ratios moved up through the fourth quarter of 1982, but dropped back sharply in the first quarter. In nondurables, most of the first-quarter liquidation was in finished goods.

Except for merchant wholesale durables, changes in trade inventories were small. Sales trended down, however, and most I/S ratios have crept above early-1981 lows. Through the fourth quarter of 1982, merchant wholesale durables inventories and sales followed a pattern similar to that of manufacturing durables. In the first quarter, the pace of inventory liquidation—mostly in metals and in machinery—picked up, but the I/S ratio remained high relative to the early-1981 low.

Table 1.—Revisions in Selected Component Series of the NIPA's, First Quarter of 1983

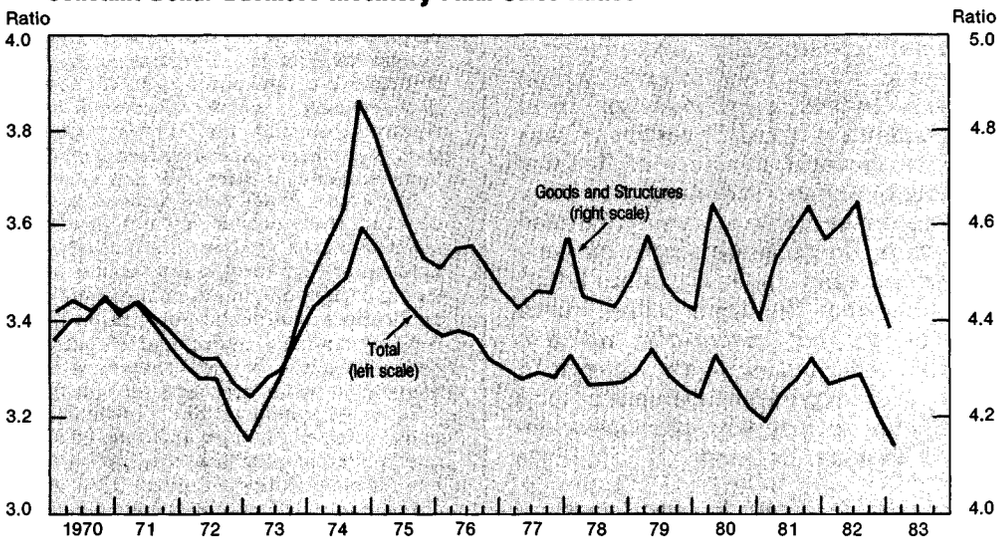
	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	15-day estimate	45-day estimate	Revision	15-day estimate	45-day estimate
	Billions of current dollars				
GNP	**3,176.7**	**3,170.9**	**−5.8**	**9.1**	**8.3**
Personal consumption expenditures	2,054.0	2,054.2	.2	4.6	4.7
Nonresidential fixed investment	339.3	338.1	−1.2	1.0	−.4
Residential investment	119.9	120.5	.6	95.0	99.4
Change in business inventories	−28.5	−37.3	−8.8		
Net exports	16.6	19.0	2.4		
Government purchases	675.5	676.4	.9	−.8	−.2
National income		**2,523.9**			**9.2**
Compensation of employees	1,908.5	1,908.4	−.1	7.1	7.1
Corporate profits with inventory valuation and capital consumption adjustments		185.4			60.7
Other	430.7	430.2	−.5	2.4	1.9
Personal income	**2,648.3**	**2,648.2**	**−.1**	**3.8**	**3.7**
	Billions of constant (1972) dollars				
GNP	**1,488.5**	**1,486.2**	**−2.3**	**3.1**	**2.5**
Personal consumption expenditures	972.4	973.1	.7	2.3	2.6
Nonresidential fixed investment	162.0	163.1	1.1	2.7	5.6
Residential investment	49.9	49.7	−.2	83.1	79.6
Change in business inventories	−12.4	−16.1	−3.7		
Net exports	24.0	23.5	−.5		
Government purchases	292.6	292.9	.3	−8.9	−8.5
	Index numbers, 1972=100 [1]				
GNP implicit price deflator	213.41	213.36	−.05	5.8	5.7
GNP fixed-weighted price index	220.4	220.4	0	3.2	3.2
GNP chain price index				3.5	3.4

1. Not at annual rates.

NOTE.—For the first quarter of 1983, the following revised or additional major source data became available: For *personal consumption expenditures*, revised retail sales for February and March, and sales and inventories of used cars of franchised automobile dealers for February; for *nonresidential fixed investment*, manufacturers' shipments of equipment for February (revised) and March, construction put in place for February (revised) and March, and a partial tabulation of business expenditures for plant and equipment for the quarter; for *residential investment*, construction put in place for February (revised) and March; for *change in business inventories*, book values for manufacturing and trade for February (revised) and March; for *net exports of goods and services*, merchandise trade for January and February (revised) and March; for *government purchases of goods and services*, Federal unified budget outlays for March, and State and local construction put in place for February (revised) and March; for *wages and salaries*, revised employment, average hourly earnings, and average weekly hours for February and March; for *corporate profits*, domestic book profits for the quarter; for *GNP prices*, the Consumer Price Index and the Producer Price Index for March, unit value indexes for exports and imports for January–March, and residential housing prices for the quarter.

CHART 1

Constant-Dollar Business Inventory-Final Sales Ratios



Note.—"Total" is total business inventories divided by total business final sales, and "goods and structures" is nonfarm business inventories divided by business final sales of goods and structures.

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In sum, the sharp drops in the I/S ratios indicate an improvement in inventory-sales relationships—especially in the manufacturing durables industries—by the end of the first quarter of 1983 and seem to signal a slowdown or end in the inventory liquidation. However, the continued decline in materials and supplies inventories may indicate that businesses remain cautious.

Corporate profits

Corporate profits from current production—profits with inventory valuation and capital consumption adjustments—increased $20½ billion to $185½ billion in the first quarter, following a decrease of $1½ billion.[1] An increase in domestic profits much more than offset a decrease in profits from the rest of the world.

Domestic profits of nonfinancial corporations increased $23 billion to $137½ billion in the first quarter, following a decrease of $11 billion. The increase resulted from both an increase in the real product of nonfinancial corporations and a moderate increase in unit prices coupled with unchanged unit costs. Within unit costs, unit labor costs increased slightly and unit nonlabor costs decreased slightly.

An increase in manufacturers' profits was more than accounted for by an increase in durable goods manufacturers' profits. Profits increased in all major durable goods industries, reflecting increased constant-dollar sales in these industries. A swing from losses to profits for motor vehicle manufacturers reflected an extremely sharp increase in factory sales; fourth-quarter sales has been depressed as retail auto dealers trimmed excessive inventories.

Within nondurable goods manufacturing, decreases in food and petroleum profits more than offset increases in other profits. Food profits were depressed by food manufacturers' tendency to pass on changes in crude food prices only gradually; crude food prices rose much more rapidly than processed food prices. The decrease in petroleum profits reflected lower sales and, because petroleum manufacturers extract a major share of domestic crude oil, lower prices for crude oil.

An increase in nonmanufacturing profits reflected increased profits or reduced losses in nearly all nonmanufacturing industries. Both wholesale and retail trade profits increased. An increase in auto dealers' profits, which accounted for much of the increase in retail trade, occurred despite a small decrease in unit sales and reflected cost-cutting measures, including reduced inventories. Airlines also undertook cost-cutting measures, which included layoffs and the elimination of some flights. As a result, their losses were reduced even though revenues decreased.

Domestic profits of financial corporations increased $2½ billion to $32 billion in the first quarter, following an increase of $4½ billion. Losses registered by mutual savings banks were smaller than in the fourth quarter, and savings and loan associations returned to profits following eight consecutive quarters of losses. Changes in the profits of other financial industries, including a decrease in the profits of Federal Reserve banks, were largely offsetting.

Profits from the rest of the world decreased $5 billion to $16 billion in the first quarter, reversing a $4½ billion increase in the fourth. The de-

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

Table 2.—Constant-Dollar Inventories, Sales, and Inventory-Sales Ratios for Manufacturing and Trade

[Seasonally adjusted]

	Inventories					Sales				Inventory-sales ratio		
	Level (billions of 1972 dollars, end of period)			Change from peak to 1983: I		Level (billions of 1972 dollars, monthly rate)			Percent change from peak to 1982: IV			
	1981 Peak [1]	1982: IV	1983: I	Dollars	Percent	1981 Peak [2]	1982: IV	1983: I		1981: I	1982: IV	1983: I
Manufacting and trade	**269.9**	**261.0**	**257.1**	**−12.8**	**−4.7**	**162.8**	**151.1**	**156.1**	**−7.2**	**1.62**	**1.73**	**1.65**
Manufacturing	**149.4**	**139.7**	**136.9**	**−12.5**	**−8.4**	**76.1**	**66.7**	**70.0**	**−12.4**	**1.96**	**2.10**	**1.95**
Durable goods	102.5	95.4	93.2	−9.3	−9.1	42.4	34.6	37.2	−18.4	2.42	2.76	2.51
Primary metals	14.2	12.5	12.3	−1.9	−13.4	4.9	3.1	3.4	−36.7	2.84	3.99	3.64
Fabricated metals	11.6	10.2	10.0	−1.6	−13.8	4.7	3.7	3.9	−21.3	2.47	2.76	2.54
Machinery except electrical	25.2	23.4	22.8	−2.4	−9.5	8.9	7.4	7.7	−16.9	2.76	3.15	2.98
Electrical machinery	16.6	15.1	14.7	−1.9	−11.4	7.2	6.5	6.9	−9.7	2.30	2.31	2.14
Transportation equipment	18.1	18.7	18.2	.1	.6	8.3	6.3	7.5	−24.1	2.35	2.97	2.44
Other durable goods	17.0	15.6	15.2	−1.8	−10.6	8.5	7.5	7.9	−11.8	1.97	2.07	1.93
Nondurable goods	46.8	44.3	43.7	−3.1	−6.6	33.7	32.1	32.9	−4.7	1.38	1.38	1.33
Food and kindred products	11.6	10.8	10.6	−1.0	−8.6	11.3	11.2	11.5	−.9	1.04	.97	.93
Paper and allied products	4.3	4.3	4.2	−.1	−2.3	2.9	2.7	2.8	−6.9	1.44	1.58	1.52
Chemicals and allied products	8.9	8.2	8.1	−.8	−9.0	6.1	5.6	5.9	−8.2	1.44	1.47	1.38
Petroleum and coal products	3.4	3.2	3.2	−.2	−5.9	2.7	2.5	2.4	−7.4	1.26	1.26	1.33
Rubber and plastic products	3.4	3.0	2.9	−.5	−14.7	1.8	1.5	1.5	−16.7	1.86	2.02	1.94
Other nondurable goods	15.6	14.7	14.6	−1.0	−6.4	9.1	8.6	8.9	−5.5	1.69	1.72	1.65
Merchant wholesalers	**55.3**	**55.4**	**54.1**	**−1.2**	**−2.2**	**40.3**	**37.6**	**39.0**	**−6.7**	**1.32**	**1.47**	**1.39**
Durable goods	37.4	36.8	35.6	−1.8	−4.8	19.1	16.6	16.8	−13.1	1.89	2.21	2.11
Nondurable goods	17.9	18.6	18.5	.6	3.4	21.3	21.0	22.1	−1.4	.82	.89	.84
Retail trade	**66.1**	**65.9**	**66.1**	**0**	**0**	**47.2**	**46.9**	**47.1**	**−.6**	**1.33**	**1.41**	**1.40**
Auto dealers	14.9	14.3	14.2	−.7	−4.7	8.8	8.9	8.8	1.1	1.50	1.61	1.61
Other durable goods	15.7	15.7	15.7	0	0	7.6	6.9	7.2	−9.2	2.05	2.26	2.17
Nondurable goods	35.7	35.9	36.2	.5	1.4	31.0	31.0	31.1	0	1.11	1.16	1.16

1. Estimates shown are for either the third or fourth quarters of 1981, whichever was the peak for the series.

2. Estimates shown are for either the first or second quarters of 1981, whichever was the peak for the series.

NOTE.—Estimates for constant-dollar inventories, sales, and inventory-sales ratios for manufacturing and trade are found in the February, 1983 SURVEY OF CURRENT BUSINESS.

crease, which reflected continuing weakness in many foreign economies, was centered in the foreign nonpetroleum operations of U.S. corporations, where profits had jumped sharply in the fourth quarter.

Other measures of profits.—Profits before tax increased $2½ billion to $178½ billion in the fourth quarter, following a decrease of $4½ billion. These profits increased less than profits from current production because they exclude the inventory valuation adjustment (IVA) and the capital consumption adjustment (CCAdj). The IVA increased $12 billion (from −$12½ billion to −$½ billion) in the first quarter, following a decrease of $2½ billion. The CCAdj increased $6½ billion (from $1½ billion to $8 billion) in the first quarter, following a $5 billion swing from negative to positive values in the fourth quarter.[2] The increase reflected the effects of provisions of the Economic Recovery Tax Act of 1981 (ERTA) permitting the use of shorter service lives for measuring the depreciation on new capital (as reported to the Internal Revenue Service), which is a deduction from receipts in the calculation of corporate profits. As corporations depreciate increasing amounts of capital using the shorter service lives, the component of the CCAdj that adjusts tax return depreciation to consistent service lives becomes increasingly positive. The effects of ERTA have progressively added to the CCAdj by somewhat more than $2 billion per quarter, beginning with the first quarter of 1981. The increases in CCAdj were also consistent with a rate of inflation in prices for fixed nonresidential investment in the first quarter that was lower than in the fourth quarter.

Disposition of profits.—Corporate profits taxes increased $7½ billion to $65½ billion in the first quarter, following a decrease of $3 billion. The increase in taxes was large relative to the increase in profits before tax because profits from the rest of the world fell and because many provisions of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) went into effect. A decrease in profits from the rest of the world lowers profits before tax but has no effect on profits taxes. The provisions of TEFRA raised profits taxes about $5 billion. TEFRA contains a large number of small revenue-generating measures, the most important of which are a reduction in benefits from "safe harbor" leasing and a repeal of benefits from modified coinsurance transactions. Dividends continued their 7-year uptrend in the first quarter, increasing $1 billion to $73½ billion, following an increase of $2 billion. Undistributed profits decreased $6½ billion, to $39 billion, following a decrease of $3½ billion.

Government sector

The fiscal position of the government sector in the national income and product accounts (NIPA's) improved in the first quarter, as the combined deficit of the Federal government and of State and local governments declined $35½ billion. This improvement was largely accounted for by a decline in the Federal government deficit. Compared with a year earlier, however, the combined deficit was still significantly larger, $132 billion compared with $91 billion. This deterioration in the fiscal position of the government sector was more than accounted for by a $55½ billion increase in the Federal deficit.

The Federal sector.—The Federal government deficit declined $30½ billion in the first quarter, to $174 billion, reflecting an increase in receipts and a decline in expenditures of about equal size.

Receipts increased $15 billion, compared with $1½ billion in the fourth quarter. All categories of receipts increased except personal tax and nontax receipts. Contributions for social insurance increased $9½ billion, including $3½ billion for an increase (to $35,700 from $32,400) in the social security taxable wage base, effective January 1. Two other legislated changes—both effective January 1—also boosted contributions: an increase in unemployment insurance contributions ($2 billion) due to increases in the taxable wage base to $7,000 from $6,000 and in the Federal tax rate to 0.8 percent from 0.7 percent, and an extension of medicare hospital insurance coverage to Federal employees ($1½ billion). Corporate profits tax accruals increased $6½ billion, reflecting the strong increase in corporate profits.

Indirect business tax and nontax accruals increased slightly: A $3½ billion decline in windfall profit taxes largely offset a $2½ billion increase in tobacco taxes and a $1 billion increase in telephone taxes. Both of these increases reflected provisions of the Tax Equity and Fiscal Responsibility Act of 1982. Personal tax and nontax receipts declined $1½ billion; a $10 billion increase in personal taxes due to higher incomes was more than offset by a $11 billion tax reduction resulting from the Economic Recovery Tax Act of 1981.

Expenditures declined $15½ billion, compared with a $49½ billion increase in the fourth quarter. All categories of expenditures declined except national defense purchases of goods and services and grants-in-aid to State and local governments. Nondefense purchases declined $8.3 billion, the net result of a $10 billion decline in agricultural purchases by the Commodity Credit Corporation (CCC) and a $2 billion increase in all other purchases.

Subsidies less the current surplus of government enterprises declined $5½ billion, reflecting a decline in agricultural subsidies ($3½ billion) and a decline in the CCC deficit ($2 billion). The decline in agricultural subsidies was accounted for by the timing of subsidy payments by the CCC. A $6½ billion step-up in payments in the fourth quarter reflected not only regularly scheduled payments but also a speedup in payments that ordinarily would have been made in the first quarter.

Transfer payments to persons declined $3 billion; unemployment benefits declined $3.7 billion, social security benefits declined $1.2 billion, and all other transfers, on balance, increased almost $2 billion. The decline in unemployment benefits was in regular benefits; extended and supplemental benefits increased slightly.

2. The capital consumption adjustment converts depreciation of fixed capital to a consistent basis with respect to service lives (85 percent of Internal Revenue Service Bulletin F for equipment and nonresidential structures) and depreciation formulas (straight line). It also converts depreciation of fixed capital used up in production to replacement costs, the valuation concept underlying national income accounting, from historical cost, the concept generally underlying business accounting.

The decline in social security benefits was more than accounted for by a smaller payment of retroactive benefits in the first quarter than in the fourth. Transfer payments to foreigners declined $2½ billion, reflecting large military assistance payments to Israel and large economic aid payments to various foreign countries in the fourth quarter.

On a high-employment budget basis, the Federal fiscal position moved from a deficit of $64 billion in the fourth quarter to a deficit of $32 billion in the first quarter (table 3 on page 11). The high-employment deficit as a percentage of potential GNP decreased from 1.8 percent in the fourth quarter to 0.9 percent in the first—a move toward a more restrictive fiscal position. As percentages of potential GNP, high-employment receipts increased slightly, but high-employment expenditures decreased sharply, from the fourth quarter to the first.

The State and local sector.—The State and local government surplus increased $5½ billion, as receipts increased more than expenditures. The increase in the surplus was largely accounted for by a $4½ billion increase in the "all other" surplus.

Receipts increased $10½ billion, compared with $9½ billion in the fourth quarter. Indirect business tax and nontax accruals increased $5 billion, including $3½ billion for property taxes. Personal tax and nontax receipts increased $2½ billion and contributions for social insurance $1 billion.

Expenditures increased $4½ billion, compared with $5½ billion in the fourth quarter. Purchases of goods and services accounted for most of the increase; all other expenditures, on balance, were up slightly. Within purchases, compensation increased $4 billion, construction declined over $½ billion, and all other purchases increased $1 billion.

Reconciliation and Other Special Tables—Continued from page 11

Table 4.—National Defense Purchases of Goods and Services

	Seasonally adjusted at annual rates										Percent change from preceding period at annual rates									
	Billions of dollars					Billions of 1972 dollars					Implicit price deflator					Fixed-weighted price index				
	1982				1983	1982				1983	1982				1983	1982				1983
	I	II	III	IV	I	I	II	III	IV	I	I	II	III	IV	I	I	II	III	IV	I
National defense purchases	**166.2**	**176.2**	**182.7**	**189.3**	**192.9**	**74.5**	**78.2**	**80.6**	**81.0**	**81.6**	**6.5**	**4.1**	**2.3**	**13.1**	**4.6**	**5.7**	**4.6**	**4.3**	**9.7**	**3.4**
Durables	43.1	48.9	51.7	52.2	54.7	19.9	21.7	22.8	22.3	23.3	7.5	17.6	2.8	12.1	2.4	12.5	15.0	9.3	6.9	8.0
Aircraft	14.2	15.4	17.7	17.1	17.9	6.1	6.3	6.9	6.5	6.6	26.5	21.5	23.9	10.0	6.2	17.4	36.4	23.4	10.1	9.6
Missiles	5.2	6.5	6.3	6.4	6.4	2.5	2.7	3.0	2.6	2.7	−17.8	64.6	−37.1	75.1	−9.5	27.6	10.6	11.2	9.2	6.9
Ships	5.2	5.9	5.9	5.5	5.6	2.2	2.5	2.5	2.3	2.3	2.0	7.0	4.8	2.3	−.5	8.8	6.8	5.0	7.8	4.1
Vehicles	2.1	2.6	2.8	3.5	4.1	.9	1.0	1.0	1.3	1.5	−5.0	28.8	12.7	2.3	10.0	4.1	.3	−16.4	7.5	52.5
Other durables	16.4	18.4	18.9	19.7	20.8	8.3	9.2	9.4	9.7	10.2	4.3	5.7	−.7	5.1	2.4	7.2	4.1	1.5	2.9	3.6
Nondurables	13.6	13.4	13.2	15.5	16.3	2.8	2.8	2.7	3.0	3.2	−17.4	−6.0	10.7	27.2	−5.6	−7.9	−3.5	0	1.1	−15.7
Bulk petroleum	9.3	9.1	9.1	11.2	12.0	1.0	1.0	1.0	1.2	1.4	−9.3	−11.7	−10.9	4.7	−22.5	−12.8	−6.7	−5.2	.4	−23.9
Other nondurables	4.3	4.3	4.1	4.3	4.2	1.9	1.9	1.7	1.8	1.8	12.9	−3.2	14.9	8.1	−11.3	6.6	5.3	14.1	2.9	6.6
Services	106.0	110.7	113.8	118.0	118.0	50.3	52.3	53.4	54.1	53.5	6.6	1.3	2.8	10.0	4.9	5.0	2.0	2.8	12.4	3.8
Compensation	66.3	66.5	66.8	69.2	70.0	33.2	33.3	33.3	33.5	33.6	2.2	.8	.8	13.9	2.9	2.2	.8	.8	14.0	2.8
Services less compensation	39.8	44.1	47.0	48.7	48.0	17.1	19.1	20.1	20.6	19.9	17.7	−1.8	3.9	3.8	9.1	11.2	4.7	6.9	9.2	5.7
Travel	2.4	2.5	2.9	2.8	2.7	1.0	1.0	1.2	1.1	1.1	−2.4	4.3	−4.9	7.4	.9	−2.5	2.8	−4.5	5.6	2.0
Transportation	3.2	3.1	3.3	3.5	3.5	1.3	1.3	1.3	1.4	1.4	2.3	−4.6	12.2	1.5	8.0	4.5	−1.5	15.8	−1.6	5.9
Communications	1.0	1.2	1.2	1.2	1.3	.6	.7	.7	.7	.8	2.3	5.7	−10.2	4.2	5.2	.5	2.4	1.9	6.8	1.9
Other services	33.1	37.4	39.6	41.2	40.5	14.2	16.1	16.8	17.4	16.6	21.5	−2.0	4.5	3.4	10.5	13.7	5.7	7.1	11.0	6.2
Structures	3.5	3.3	4.0	3.7	3.9	1.5	1.4	1.7	1.6	1.7	7.0	7.2	−2.8	−6.4	4.7	7.4	1.2	8.4	−5.1	9.6
Addenda:																				
Total purchases less compensation	99.9	109.6	115.9	120.1	122.9	41.3	44.9	47.3	47.6	48.1	10.9	3.6	1.6	12.7	5.4	8.7	7.7	7.1	6.5	3.9
Total purchases less compensation and bulk petroleum	90.6	100.5	106.8	108.9	110.9	40.4	44.0	46.3	46.4	46.7	11.8	7.4	3.6	7.6	4.6	11.4	9.4	8.5	7.1	7.0

the BUSINESS SITUATION

REAL GNP increased at an annual rate of 6½ percent in the second quarter, following an increase of 2½ percent in the first. GNP prices increased 4½ percent, somewhat more than in the first quarter.[1] The unemployment rate was down but, at 10.0 percent in May, remained high. Gains in employment were substantial and widespread.

• Real personal consumption expenditures registered a strong second-quarter increase—about 5 percent at an annual rate. Purchases of motor vehicles were up after changing little in the first quarter. (See the following section on motor vehicles.) Other durables increased again, due to the continued strength of furniture and household equipment. Nondurables increased, but less than in the first quarter; a swing to a decline in food was a major factor in the deceleration. Services, after an unusually small increase in the first quarter, registered a sharp increase in the second. Spending on electricity and gas for home heating ws influenced in both quarters by unusual weather. In some parts of the country, the winter was unusually mild and the spring was unusually cool.

• As discussed in the section on residential investment, both single-family and multifamily construction were up in the second quarter, continuing the recovery begun in late 1982.

• Information on fixed investment other than residential construction is sketchy. It appears that real nonresidential construction declined for the fourth consecutive quarter. The decline in the second quarter was more widespread than in the first. In producers' durable equipment, motor vehicles increased about as much in the second quarter as in the first, and other producers' durable equipment increased more than in the first.

• Little information is yet available about the other components of final sales—net exports and government purchases. It appears that real net exports were down substantially. Exports—both merchandise and services—were down, and imports—both merchandise and services—were up. In real government purchases, it appears that both Federal purchases and State and local purchases were down slightly. An increase in defense purchases was more than offset by a decline in the price support operations of the Commodity Credit Corporation. In State and local purchases, structures more than accounted for the decline.

• For the change in business inventories, reasonably complete informa-

1. The major source data that shed light on second-quarter GNP are limited to 1 or 2 months of the quarter, and in some cases are preliminary. These data are: For *personal consumption expenditures* (PCE), April and May retail sales, unit sales of new autos through the first 10 days of June, and sales of new trucks for April and May; for *nonresidential fixed investment,* the same data for autos and trucks as for PCE, April construction put in place, April manufacturers' shipments of business equipment, and business investment plans for the quarter; for *residential investment,* April construction put in place, and April and May housing starts; for *change in business inventories,* April book values for manufacturing and trade, and unit auto inventories for April and May; for *net exports of goods and services,* April merchandise trade; for *government purchases of goods and services,* Federal unified budget outlays for April, State and local construction put in place for April, and State and local employment for April and May; and for *GNP prices,* the Consumer Price Index for April and the Producer Price Index for April and May.

tion is available only for motor vehicles. After several quarters of sharp changes that included both runups and liquidations, motor vehicle inventories registered only small changes in the first and second quarters. Other inventories, through the first quarter, had registered five consecutive quarters of substantial liquidation. The limited evidence about these inventories in the second quarter suggests little, if any, further liquidation.

• The acceleration in GNP prices as measured by the fixed-weighted price index was more than accounted for by the prices of food and energy. Energy prices, which had declined in the first quarter, increased in the second; the increase was partly due to the imposition of a 5 cents a gallon Federal excise tax on gasoline effective April 1. Food prices, which had increased 3 percent in the first quarter, increased at about double that rate in the second. Most other major categories of prices continued to increase at about the same or somewhat lower rates than in the first quarter.

Personal income and its disposition

Personal income increased $56 billion—the largest increase since the third quarter of 1981.[2] The acceleration from the first quarter, when personal income increased $24 billion, was in wage and salary disbursements, proprietors' income, and transfer payments.

In wages and salaries, which increased $39 billion, each of the categories shown in table 1 increased more than in the first quarter. Sharp accelerations in private wages and salaries were due to increases in employment and in average weekly hours. In government and government enterprises, the larger increase in the second quarter was due to retroactive wage payments of about $1 billion to Postal Service employees following settlement of a suit under the Fair Labor Standards Act.

2. Quarterly estimates in the national income and product accounts are expressed at seaonally adjusted annual rates, and quarterly changes in them are differences between these rates.

Table 1.—Personal Income and Its Disposition: Change From Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1982		1983	
	III	IV	I	II*
Wage and salary disbursements	13.4	4.5	22.8	38.9
Manufacturing	−1.9	−8.0	7.3	11.9
Other commodity-producing	−1.6	−.6	1.0	1.8
Distributive	3.0	.4	2.3	9.2
Services	10.2	7.1	8.2	11.2
Government and government enterprises	3.5	5.6	4.0	4.8
Proprietors' income	1.0	10.6	0	7.1
Farm	−.7	7.5	−5.2	.2
Nonfarm	1.8	3.1	5.2	6.9
Personal interest income	6.2	−3.6	1.9	3.1
Transfer payments	15.8	16.8	−1.7	5.2
Other income	4.5	3.3	5.0	3.9
Less: Personal contributions for social insurance	1.1	.1	3.9	2.1
Personal income	**39.8**	**31.5**	**24.2**	**56.1**
Less: Personal tax and nontax payments	−6.7	5.3	1.2	13.3
Impacts of legislation	−18.4	−2.8	−10.9	−2.1
Other	11.7	8.1	12.1	15.5
Equals: Disposable personal income	**46.6**	**26.2**	**22.9**	**42.8**
Less: Personal outlays	38.9	44.8	23.1	52.2
Equals: Personal saving	**7.6**	**−18.6**	**−.1**	**−9.4**
Addenda: Special factors in personal income—				
Cost-of-living increases in Federal transfer payments	12.0	1.2	.....	1.0
Social security base change (in personal contributions for social insurance)	.....	.....	1.9	.....
Subsidies to farmers	−1.1	6.4	−2.9	−2.5
Federal pay raise	.....	2.7	.1	.....
Federal employee contributions to Medicare under social security	.....	.....	.8	.....

*Projected.

NOTE.—Most dollar levels are found in the National Income and Product Accounts Tables, table 2.1.

Proprietors' income increased about $7 billion after no change in the first quarter. Most of the improvement was in farm income, which had declined $5 billion in the first quarter but was unchanged in the second. Subsidy payments to farmers declined again in the second quarter, and only moderately less than the $3 billion decline in the first. A drop in production volume, however, was much less than in the first quarter and, in its effect on farm income, was more than offset by another increase in farm prices.

Transfer payments increased about $5 billion after a $1½ billion decline in the first quarter. The turnaround was largely due to a leveling off in regular unemployment insurance benefits and in retroactive social security payments after declines in the first quarter. A cost-of-living increase in Federal employee retirement benefits in the second quarter also contributed.

Personal taxes increased $13½ billion in the second quarter. Legislation enacted in recent years held down the increase only $2 billion, compared with $11 billion in the first quarter. That $11 billion was the net effect of reductions under the Economic Recovery Tax Act of 1981—about $14½ billion primarily due to earlier rate reductions, the married couples deduction, and the all savers' exclusion—and increases under the Tax Equity and Fiscal Responsibility Act of 1982.

Disposable personal income increased $43 billion, $20 billion more than in the first quarter. Despite this rather strong increase (8 percent at an annual rate), personal saving was down in the second quarter, as personal outlays increased even more strongly. The saving rate was down about a half percentage point from the 5.9 percent registered in the first quarter.

Motor vehicles

Motor vehicle output increased about $7 billion (1972 dollars) in the second quarter, following an increase of about the same size in the first (table 2). Both autos and trucks contributed, as they had to the first-quarter increase. Sales of new cars and trucks were up strongly, reflecting the acceleration in personal income and the improvement in economic conditions. Domestic and foreign manufacturers continued to offer sales incentives, mainly below-market financing, but their impact on total sales is uncertain. Motor vehicle inventories registered a small increase in the second quarter, after a small decline in the first.

Unit sales of new cars increased to 8.8 million (seasonally adjusted annual rate) from 8.4 million in the first quarter (chart 1). The pickup was more than accounted for by an increase in domestic car sales; imported car sales declined again.

Table 2.—Motor Vehicle Output

[Billions of 1972 dollars; s asonally adjusted annual rates]

	1982:I	Change from preceding quarter					1983:II*
		1982			1983		
		II	III	IV	I	II*	
Output	45.2	10.1	1.0	−7.6	6.8	6.9	62.4
Autos	31.3	8.4	2.6	−5.1	4.8	4.2	46.2
Trucks	13.9	1.7	−1.6	−2.5	2.0	2.7	16.2
Final sales	53.4	−2.4	−1.2	6.6	0	4.8	61.2
Autos	38.3	−1.3	.4	5.5	−.7	3.0	45.2
Trucks	15.1	−1.1	−1.6	1.1	.7	1.8	16.0
Change in business inventories	−8.2	12.5	2.0	−14.0	6.7	2.2	1.2
Autos	−7.0	9.7	2.1	−10.6	5.5	1.3	1.0
Trucks	−1.2	2.8	−.1	−3.4	1.2	.9	.2

*Projected. Based on unit production in April and May and scheduled production for June, unit sales of autos through the first 10 days of June and of trucks for April and May, and unit inventories for April and May.

NOTE.—For estimates through 1983:I, see tables 1.14-1.15 and 1.16-1.17 of the National Income and Product Accounts Tables. Auto output includes dealers' margins on their used car transactions; truck output includes new trucks only.

Sales of imported cars declined from 2.4 million in the first quarter to 2.2 million in the second, and their share of total sales dropped from 28½ percent to 25 percent. Sales of Japanese cars, which make up the bulk of imports, probably were held down by tight supplies; shipments of these cars to the United States had been reduced in the first quarter to comply with an agreed limit of 1.68 million for the year ending March 31. Shipments picked up in the second quarter, as Japanese manufacturers attempted to rebuild depleted inventories. (The increase in second-quarter motor vehicle inventories in table 2 is based upon a projected increase in foreign car inventories.)

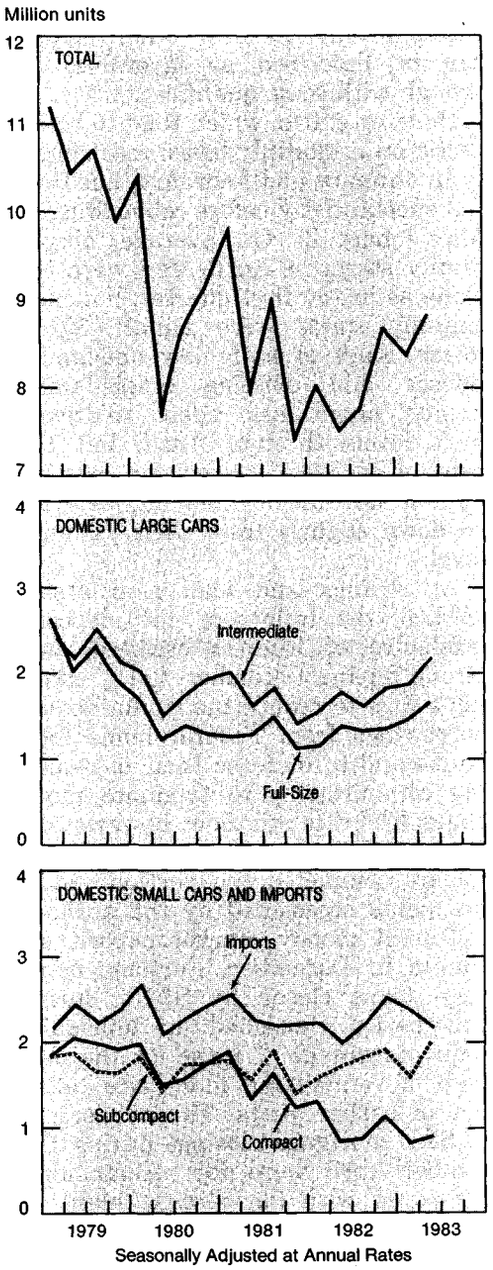
Sales of domestic cars increased to 6.6 million from 6.0 million in the first quarter. Unit sales and the market share of each size category increased in the second quarter. Full-size cars accounted for 18½ percent of total sales, their largest share in 3½ years, and intermediates accounted for 24½ percent, their largest share in 4½ years. The market share of small cars—subcompacts and compacts—was up to 32½ percent from 30 percent in the first quarter. The tight supplies of competing Japanese cars and the modification of below-market financing programs to favor small cars contributed to the turnaround. Automakers offered financing at about 10 percent, and later in the quarter at about 9 percent, on most subcompact and compact models. For the most part, financing on larger models continued at about the 12- or 13-percent rates offered in the first quarter.

In conjunction with the increase in domestic sales, production was stepped up to 6.3 million units (seasonally adjusted annual rate) from 5.9 million in the first quarter. Despite the step-up, production was below sales in the second quarter, and inventories declined slightly from 1,244,000 units (seasonally adjusted) in the first quarter. The ratio of inventories to sales fell from 2.5 to about 2.2, a ratio close to that usually considered desirable by the industry. Anticipating further increases in sales, automakers have scheduled another step-up in production in the third quarter.

Total new truck sales increased sharply from 2.7 million units (seasonally adjusted annual rate) in the first quarter to 3.1 million in the second. The increase was entirely accounted for by an increase in light domestic truck (up to 10,000 pounds) sales from 2.1 to 2.5 million. The same below-market financing that was available on small cars was offered on several compact pickup models. Sales of imported trucks changed little from the 0.40 million registered in the first quarter. Japanese manufacturers continue to offer financing and cash incentives on their compact pickups. Sales of "other" domestic trucks (over 10,000 pounds) remained near their recession low of 0.17 million. Production of domestic trucks was stepped up to the level of sales in the second quarter, so inventories changed little.

CHART 1

Retail Sales of New Passenger Cars



Note.—The components may not add to the total because each category was separately adjusted for seasonal variation. Data for the most recent quarter are projected.

Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports.

U.S. Department of Commerce, Bureau of Economic Analysis 83-6-1

Residential investment

Residential investment increased strongly for the third consecutive quarter. Both single-family and multifamily construction were up.

Factors usually discussed in analyses of residential investment generally continued to be favorable. Building permits continued an upswing begun

last summer with steady increases through May. Several other factors can be described as favorable, although with some qualification.

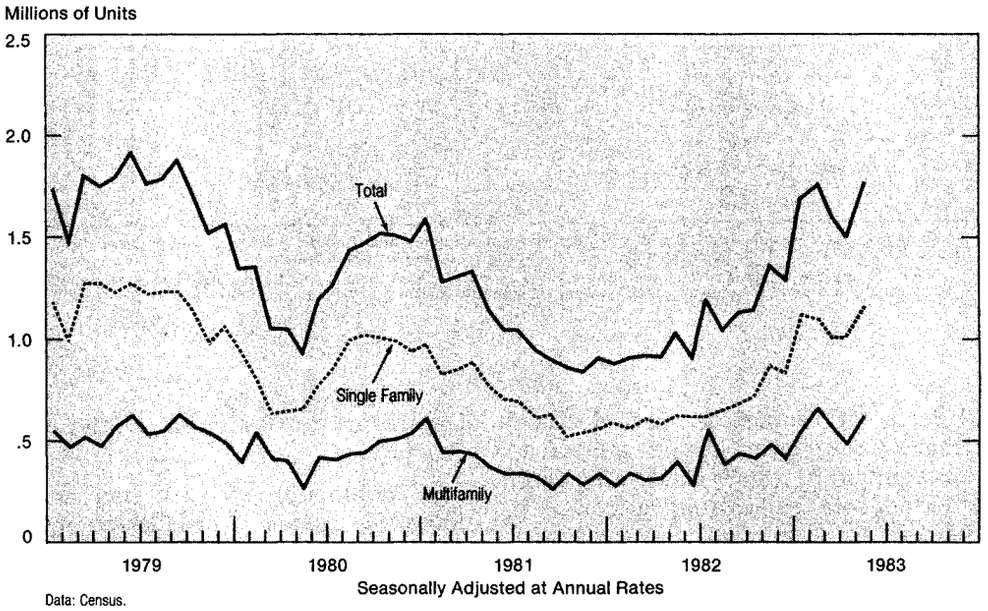
Housing starts, which tend to be erractic on a monthly basis, rose sharply in January and February, but then fell substantially before rebounding in May (chart 2). On average, single-family starts in April–May were the same as in the first quarter, but multifamily starts were almost 50,000 lower. Sales of both new one-family houses and existing single-family homes maintained their relatively high levels through April, but the rate of increase slowed for existing homes, and sales of new houses drifted down slightly from their January level.

At savings and loan associations (S&L's), the inflow of new deposits (exclusive of interest credited) was strong during December–April, allowing S&L's to reduce their outstanding borrowings from Federal home loan banks and to increase their outstanding commitments to originate mortgages. The rate of inflow, however, declined steadily as more and more customers completed the portfolio readjustments occasioned by the authorization of money market deposit accounts in December. Further, mortgage loans closed by S&L's during this period contained an unusually high percentage of loans for the purpose of refinancing mortgages taken out in earlier years. Twenty percent of S&L mortgage closings during December–April were for refinancings, compared with (an already high) 13 percent in 1982. Nine percent of S&L mortgage closings during this period were for the purpose of purchasing newly built houses, compared with more than 17 percent in 1982.

The commitment rate on 30-year level-payment mortgages with loan to price ratios of 80 percent fluctuated in a narrow range around its average of 12.74 percent from the end of March to the beginning of June. The prime rate, which is frequently used as a barometer of the rate on construction loans, was constant at 10½ percent during the same period. But these rates, which had fallen steadily since the middle of last year, showed no clear tendency to continue their downward trend.

CHART 2

Housing Starts



Data: Census.

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

83-6-2

First-Quarter Corporate Profits

Profits from current production—profits with inventory valuation and capital consumption adjustments—increased $21½ billion to $186 billion in the first quarter, following a $1½ billion decrease in the fourth. (This first-quarter estimate is $½ billion higher than the preliminary one published a month ago.) The increase was centered in the profits of domestic nonfinancial corporations and was second in size only to the increase in the second quarter of 1978.

Domestic profits of nonfinancial corporations increased $21 billion to $135 billion in the first quarter, following a decrease of $11 billion. This increase was the largest since the first quarter of 1981, and reflected both a turnaround in the real product of nonfinancial corporations and an increase in unit profits. The increase in unit profits was the result of an increase in unit prices coupled with level unit costs. All of the components of unit costs contributed to its deceleration: Unit labor costs and per-unit indirect business taxes increased only slightly, and per-unit capital consumption allowances and interest expenses decreased slightly (chart 3).

The increase in profits of nonfinancial corporations was widespread. Profits in most major manufacturing industries increased along with increased sales. A large decrease in the profits of petroleum manufacturers reflected both lower sales and, because petroleum manufacturers extract a major share of domestic crude oil, lower prices for crude oil. Profits in most major nonmanufacturing industries also increased.

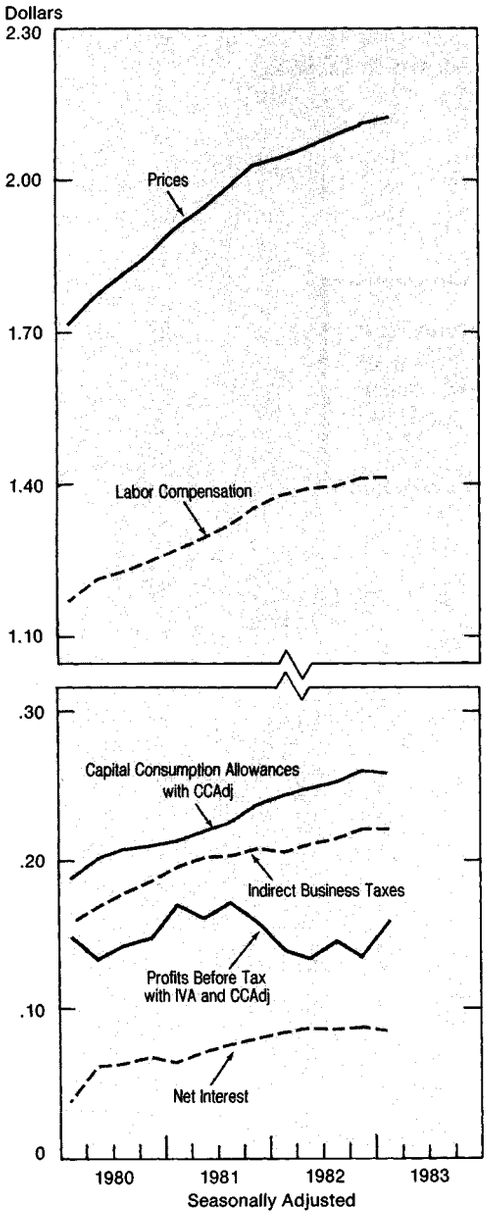
Domestic profits of financial corporations increased $4 billion to $33 billion in the first quarter, following an increase of $4½ billion. About two-thirds of the increase was due to savings and loan associations, which returned to profits following eight consecutive quarters of losses. The return to profits reflected the resumption of substantial inflows of net new savings. The inflows, in turn, appear to be associated with the availability of high-interest money market deposit accounts beginning in December 1982 and the effects of liberalized rules for individual retirement accounts. Profits of most other financial industries also increased. A decrease occurred in the profits of Federal Reserve banks, however, as average interest rates fell on its holdings of Federal debt instruments.

Profits from the rest of the world decreased $3 billion to $18 billion in the first quarter, following an increase of $4½ billion. Decreases occurred in both the petroleum and nonpetroleum components of these profits.

Other measures of profits.—Profits before tax increased $2 billion to $178 billion in the fourth quarter, following a decrease of $4½ billion. These profits increased less than profits from current production because they exclude the inventory valuation adjustment (IVA) and the capital consumption adjustment (CCAdj). The IVA registered a swing from negative to positive values, as it increased $13 billion (from −$12½ billion to $½ billion) in the first quarter, following a decrease of $2½ billion. The CCAdj increased $6½ billion (from $1½ billion to $7½ billion) in the first quarter, following a $5 billion swing from a negative to a positive value in the fourth quarter.[3] The increase reflected the effects of provisions of the Economic Recovery Tax Act of 1981 (ERTA) permitting the use of shorter service lives for measuring the depreciation on new capital (as reported to the Internal Revenue Service), which is a deduction from receipts in the calculation of corporate profits. As corporations depreciate increasing amounts of capital using the shorter service lives, the component of the CCAdj that adjusts tax-return depreci-

CHART 3

Domestic Nonfinancial Corporate Business: Prices, Costs, and Profits Per Unit of Real Product



Note.—Price per unit is current dollar product divided by constant dollar (real) product. Costs and profits per unit are respective components of current dollar product divided by constant dollar product.

U.S. Department of Commerce, Bureau of Economic Analysis 83-6-3

3. The capital consumption adjustment converts depreciation of fixed capital to a consistent basis with respect to service lives (85 percent of Internal Revenue Service Bulletin F for equipment and nonresidential structures) and depreciation formulas (straight line). It also converts depreciation of fixed capital used up in production to replacement cost, the valuation concept underlying national income and product accounting, from historical cost, the concept generally underlying business accounting.

Table 3.—Corporate Profits From Current Production Less Corporate Profits Taxes

[Billions of dollars; seasonally adjusted annual rates]

	I	II	III	IV
1977	80.4	94.5	107.2	96.1
1978	97.7	109.4	112.8	116.6
1979	111.2	109.0	109.7	98.9
1980	100.0	98.9	95.6	93.3
1981	108.9	105.9	110.7	112.3
1982	100.4	100.0	105.3	106.6
1983	120.9	.....	.....	.....

Note.—This measure is shown as "corporate profits after tax with IVA and CCAdj" in the National Income and Product Accounts Tables, in the addenda to table 1.11.

Table 4.—Revisions in Selected Component Series of the NIPA's, First Quarter of 1983

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	45-day estimate	75-day estimate	Revision	45-day estimate	75-day estimate
	Billions of current dollars				
GNP	**3,170.9**	**3,170.6**	**−0.3**	**8.3**	**8.3**
Personal consumption expenditures	2,054.2	2,052.9	−1.3	4.7	4.4
Nonresidential fixed investment	338.1	337.1	−1.0	−.4	−1.6
Residential investment	120.5	121.0	.5	99.4	102.6
Change in business inventories	−37.3	−36.3	1.0	.....	.....
Net exports	19.0	19.6	.6	.....	.....
Government purchases	676.4	676.3	−.1	−.2	−.3
National income	**2,523.9**	**2,524.9**	**1.0**	**9.2**	**9.4**
Compensation of employees	1,908.4	1,908.1	−.3	7.1	7.0
Corporate profits with inventory valuation and capital consumption adjustments	185.4	186.1	.7	60.7	63.2
Other	430.2	430.8	.6	1.9	2.5
Personal income	**2,648.2**	**2,648.2**	**0**	**3.7**	**3.7**
	Billions of constant (1972) dollars				
GNP	**1,486.2**	**1,486.7**	**.5**	**2.5**	**2.6**
Personal consumption expenditures	973.1	972.9	−.2	2.6	2.5
Nonresidential fixed investment	163.1	162.4	−.7	5.6	3.9
Residential investment	49.7	49.8	.1	79.6	80.5
Change in business inventories	−16.1	−15.5	.6	.....	.....
Net exports	23.5	24.7	1.2	.....	.....
Government purchases	292.9	292.4	−.5	−8.5	−9.1
	Index numbers, 1972=100 [1]				
GNP implicit price deflator	213.36	213.26	−.10	5.7	5.5
GNP fixed-weighted price index	220.4	220.4	0	3.2	3.3
GNP chain price index	.....	.....	.....	3.4	3.5

1. Not at annual rates.

Note.—For the first quarter of 1983, the following revised or additional major source data became available: For *personal consumption expenditures,* revised retail sales for March, consumer share of new car purchases for March, and consumption of electricity for March; for *nonresidential fixed investment,* revised manufacturers' shipments of equipment for March, revised construction put in place for March, and business share of new car purchases for March; for *residential investment,* revised construction put in place for March, and residential alterations and repairs for the quarter; for *change in business inventories,* revised book values for manufacturing and trade for March; for *net exports of goods and services,* revised merchandise trade and revised service receipts for the quarter; for *government purchases of goods and services,* revised construction put in place for March; for *wages and salaries,* revised employment, average hourly earnings, and average weekly hours for March; for *net interest,* financial assets held by households for the quarter, and revised net interest received from abroad for the quarter; for *corporate profits,* revised domestic book profits for the quarter, and revised profits from the rest of the world for the quarter; and for *GNP prices,* revised residential housing prices for the quarter, and revised producer price indexes for March.

ation to consistent service lives becomes increasingly positive. The effects of ERTA have progressively added to the CCAdj by somewhat more than $2 billion per quarter, beginning with the first quarter of 1981. The increases in the CCAdj were also consistent with a rate of inflation in prices for fixed nonresidential investment in the first quarter that was lower than in the fourth quarter.

Corporate profits taxes increased $7 billion to $65 billion in the first quarter, following decrease of $3 billion. The increase in taxes was larger than the increase in profits before tax because profits from the rest of the world fell and because many provisions of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) went into effect. A decrease in profits from the rest of the world lowers profits before tax but has no effect on profits taxes. The provisions of TEFRA raised profits taxes about $5 billion. TEFRA contains a large number of small revenue-generating measures; two of the most important are a reduction in benefits from "safe harbor" leasing and a repeal of benefits from modified coinsurance transactions.

Reflecting the larger increase in taxes than in profits before tax, profits after tax decreased $5 billion to $112½ billion in the first quarter, following a decrease of $1½ billion.

If corporate profits taxes are deducted from corporate profits from current production, the result is a measure of the excess of income over taxes and expenses (including those necessary to maintain tangible capital intact), i.e., the amount available to corporations for capital expansion or distribution as dividends. This measure increased $14½ billion to a record $121 billion in the first quarter (table 3).

* * *

First-quarter NIPA revisions

The 75-day revisions of the national income and product account estimates for the first quarter of 1983 are shown in table 4.

NOTE.—Revised estimates of the national income and product accounts for the last 3 years will be presented in the July issue of the SURVEY OF CURRENT BUSINESS. These estimates will incorporate new source data and updated seasonal adjustment factors.

the BUSINESS SITUATION

REAL GNP registered a very strong increase in the second quarter.[1] According to revised estimates presented later in this issue, real GNP peaked in the third quarter of 1981 and dropped through the fourth quarter of 1982 before turning up in the first quarter of 1983. The first-quarter increase was 2½ percent at an annual rate and the second-quarter increase was 8½ percent (table 1). The following are highlights of the two quarters of increases in terms of personal income, GNP prices, and components of real GNP.

● *Personal income, when transfer payments are set aside, strengthened in both quarters.* Personal income increased $26 billion in the first quarter and $57½ billion in the second, and had increased $41 billion in the fourth quarter of 1982 (table 2). If transfer payments, which showed an unusually large increase in the fourth quarter, are excluded, the remainder more nearly reflects the course of economic activity. It increased $22 billion in the fourth quarter of 1982 and $26½ billion and $53 billion in the first and second quarters of 1983. Wage and salary disbursements strengthened in both the first and second quarters. All of the private wage and salary components shown in the table increased more than in the preceding quarter. Proprietors' income was up, more in the second quarter than in the first. In contrast, personal interest income continued to decline, reflecting the course of interest rates.

Personal taxes declined in the first quarter, when the effects of Federal income tax cuts more than offset the effect of increases in the tax base. In the second quarter, when the legislative impacts were smaller, personal taxes increased.

A first-quarter increase in disposable personal income about matched an increase in personal outlays, but, in the second quarter, outlays increased much more than income. As a result, saving dropped sharply, and the saving rate fell from 5.4 percent in the first quarter to 3.9 percent in the second—the lowest since 1950.

Reflecting developments in income and taxes and also in prices, real disposable personal income registered increases of 3 percent in both quarters.

● *Inflation continued at moderate rates in both quarters.* GNP prices as measured by the fixed-weighted price index increased at annual rates of 3½ percent and 5 percent, respectively, in the first and second quarters—similar to the rates that prevailed in 1982. Energy prices held down the first-quarter increase but added to the second-quarter increase. Excluding energy prices, GNP prices increased 5½ percent and 4 percent (table 3).

● *Consumer spending accelerated in the second quarter.* In the second quarter, the increase in real personal consumption expenditures (PCE) was extraordinarily large—10 percent at an annual rate. The first-quarter in-

Table 1.—Real GNP: Change From Preceding Quarter

[Percent change at annual rates; based on millions of 1972 dollars, seasonally adjusted at annual rates]

	1983	
	I	II
GNP	2.6	8.7
Final sales	.6	5.5
Personal consumption expenditures	2.9	10.0
Durables	7.6	32.4
Motor vehicles and parts	2.7	67.2
Furniture and household equipment	9.7	15.0
Other durables	15.9	1.1
Nondurables	3.2	5.9
Food	4.0	2.0
Energy [1]	14.8	9.6
Clothing and shoes	1.0	18.7
Other nondurables	−1.0	0
Services	1.4	6.8
Energy [2]	−15.4	52.5
Other services	2.3	4.8
Gross private domestic fixed investment	8.8	15.6
Nonresidential	−1.5	4.6
Structures	−13.9	−14.0
Producers' durable equipment	5.0	14.2
Autos, trucks, and buses	28.5	12.4
Other	1.3	14.5
Residential	57.3	61.1
Net exports of goods and services		
Exports	2.4	−8.7
Merchandise	8.2	−9.1
Agricultural	26.6	−26.2
Nonagricultural	3.7	−3.8
Other	−4.5	−8.3
Imports	12.1	27.2
Merchandise	25.0	32.0
Petroleum	−73.4	174.3
Nonpetroleum	36.6	27.1
Other	−11.7	16.8
Government purchases of goods and services	−8.8	−.9
Federal	−18.0	−.6
National defense	6.5	14.1
Nondefense	−52.6	−29.4
Commodity Credit Corporation [3]		
Other	7.7	−.7
State and local	−1.8	−1.0
Change in business inventories		

1. Gasoline and oil, and fuel oil and coal.
2. Electricity and gas.
3. Estimates, in billions of 1972 dollars for the fourth quarter of 1982 through the second quarter of 1983, were: 9.7 1.7, and −1.2.

NOTE.—Most dollar levels are found in the National Income and Product Accounts tables, table 1.2.

1. The "flash" (minus 15-day) estimates released in June showed an increase at an annual rate of 6½ percent in the second quarter. A major factor in raising the rate of increase was the incorporation of revised source data on retail sales for April and May.

The second-quarter GNP estimates prepared in mid-July (plus 15-day estimates) are based on the following major data sources. For *personal consumption expenditures* (PCE), retail sales and unit auto and truck sales through June; for *nonresidential fixed investment*, the same information for autos and trucks as for PCE, April and May construction put in place, and April and May manufacturers' shipments of equipment; for *residential investment*, April and May construction put in place, and April and May housing starts; for *change in business inventories*, April and May book values for manufacturing and trade, and unit auto inventories through June; for *net exports of goods and services*, April and May merchandise trade, and fragmentary information on investment income for the quarter; for *government purchases of goods and services*, Federal unified budget outlays for April and May, State and local construction put in place for April and May, and State and local employment through June; and for *GNP prices*, the Consumer Price Index for April and May, the Producer Price Index for April and May, and unit value indexes for exports and imports for April and May. Some of the source data are subject to revision.

Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

crease was 3 percent, a little higher than the 2½ percent that 1982 increases had averaged. Most components accelerated in the second quarter; the major exceptions were food and gasoline. Most of the $16½ billion acceleration in PCE was accounted for by three components: motor vehicles, clothing and shoes, and electricity and natural gas. The pickup in motor vehicle purchases, which was largely in sales of new domestic cars, accounted for about one-half of the acceleration. Purchases of clothing and shoes increased strongly after several quarters of little change. Spending on electricity and natural gas was influenced by the unusually mild winter and the unusually cool spring in some parts of the country.

● *The slide in business capital spending leveled out.* After a small decline in the first quarter, real nonresidential fixed investment increased in the second. In both quarters, producers' durable equipment increased and structures declined. Producers' durable equipment appears to have turned around following a steep drop that began in mid-1981. Structures continued a slide that began in late 1981. There were large declines in both the first and second quarters in industrial buildings, which had registered large declines in some quarters of 1982 as well, and in office buildings, which in 1982 had declined only in the fourth quarter. In addition, other large declines were in public utilities in the first quarter and commercial buildings in the second quarter. Declines in oil and gas well exploration and drilling, which earlier had been quite large, tapered off.

● *Residential investment continued its strong recovery.* Real residential investment, after a low in the third quarter of 1982, continued to increase at annual rates that exceeded 50 percent. Construction, both of single-family and multifamily units, as well as the sizable "other" component—which includes additions and alternations, brokers' sales commissions, and mobile homes—contributed to the increases.

● *Inventories contributed to the increases in GNP in both quarters.* Inventories continued to be liquidated, but at progressively slower rates. As a result, the real change in business inventories contributed positively to the change in GNP—$7½ billion in the

Table 2.—Personal Income and Its Disposition: Change From Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1983 I	1983 II
Wage and salary disbursements	24.7	38.9
Manufacturing	8.1	11.3
Other commodity-producing	1.0	2.7
Distributive	2.9	8.4
Services	7.9	11.2
Government and government enterprises	4.7	5.4
Proprietors' income	4.4	9.5
Farm	−3.9	1.9
Nonfarm	8.3	7.6
Personal interest income	−5.8	−.6
Transfer payments	−.5	4.5
Other income	6.6	7.0
Less: Personal contributions for social insurance	3.7	2.0
Personal income	**25.8**	**57.3**
Less: Personal tax and nontax payments	−2.4	10.4
Impact of legislation	−10.7	−2.4
Other	8.3	12.8
Equals: Disposable personal income	**28.1**	**46.9**
Less: Personal outlays	27.2	79.3
Equals: Personal saving	**.9**	**−32.4**
Addenda: Special factors in personal income—		
Cost-of-living increases in Federal transfer payments	.....	1.0
Social security base and rate changes (in personal contributions for social insurance)	2.5	.....
Subsidies to farmers	−2.9	1.2
Federal pay raise	.1	.....

Table 3.—Fixed-Weighted Price Indexes: Change From Preceding Quarter

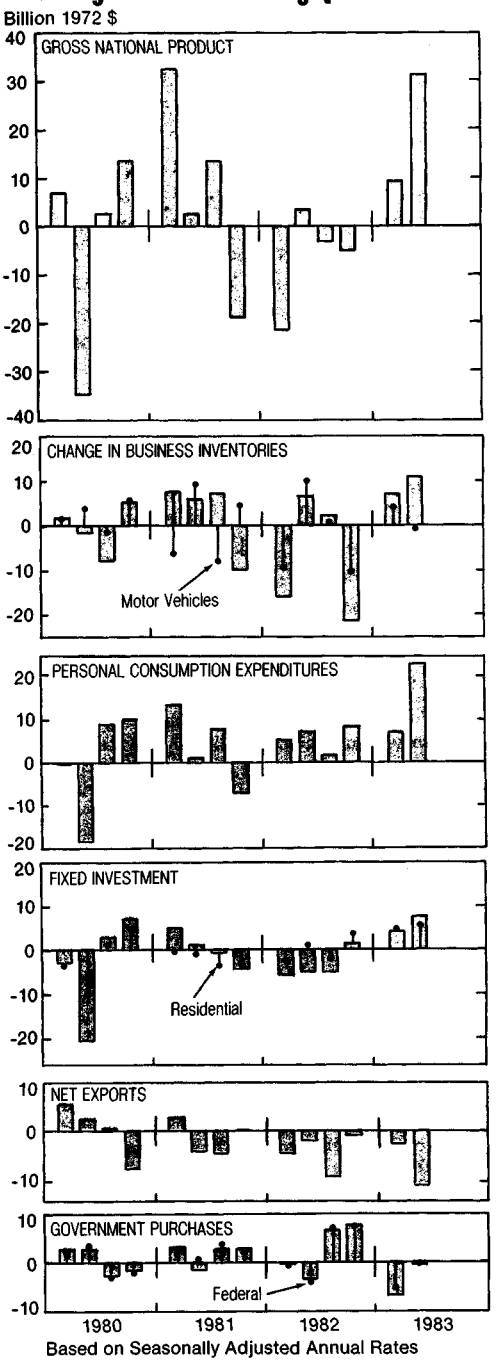
[Percent change at annual rates; based on index numbers (1972=100), seasonally adjusted]

	1983 I	1983 II
GNP	3.4	5.2
Less: Change in business inventories	.....	.....
Equals: Final sales	3.4	5.2
Less: Exports	3.2	1.5
Plus: Imports	−3.8	−6.7
Equals: Final sales to domestic purchasers	**2.7**	**4.4**
Personal consumption expenditures	1.6	5.6
Food	2.1	6.2
Energy	−17.8	7.7
Other personal consumption expenditures	5.1	5.1
Other [1]	4.6	2.6
Nonresidential structures	−.1	−1.0
Producers' durable equipment	3.8	2.0
Residential	11.4	3.5
Government purchases	4.0	3.1
Addenda:		
Food and energy components of GNP [2]—		
Food components [3]	3.4	6.5
Energy components [4]	−19.4	17.2
GNP less food components	3.4	5.1
GNP less energy components	5.1	4.5
GNP less food and energy components	5.4	4.2

1. Index number levels for the fourth quarter of 1982 through the second quarter of 1983 were: 231.9, 234.5, and 236.0.
2. Inasmuch as GNP is the sum of final products, the food and energy estimates in this table do not take into account the effect on the prices of final products of changes in the prices of the food and energy that are costs of production.
3. Consists of all components for which separate estimates are prepared. The major component that is not included is purchases of food by the Federal Government other than transactions by the Commodity Credit Corporation that are treated like purchases.
4. Consists of all components for which separate estimates are prepared. The major components that are not included are (1) exports of energy; (2) the gasoline and motor oil portions of inventories of gasoline service stations, and (3) the energy portions of inventories of businesses that do not produce energy for sale.

NOTE.—Index number levels are found in the National Income and Product Accounts Tables, table 7.2.

Real Products: Change From Preceding Quarter



Based on Seasonally Adjusted Annual Rates

U.S. Department of Commerce, Bureau of Economic Analysis 83-7-1

first quarter and $11 billion in the second (chart 1). In combination with increases in business final sales, the liquidation brought the constant-dollar inventory-sales ratio down sharply, to 3.07 from 3.27 in mid-1982.

● *Net exports continued their slide.* The first and second quarters together added another $13 billion to the drop in real net exports that has proceeded almost without interruption since the third quarter of 1980. Imports were up sharply in both quarters. In the first quarter, the increase was in nonpetroleum goods; in the second quarter, services and petroleum increased as well. Exports, after a slight increase in the first quarter largely due to agricultural shipments, declined in the second quarter; both goods—agricultural as well as nonagricultural—and services contributed.

● *Government purchases declined in both quarters.* Real government purchases declined substantially in the first quarter and slightly in the second. The first-quarter decline, and the moderation of the decline in the second quarter, was largely in Federal purchases. State and local purchases remained on a moderate downtrend. In Federal purchases, national defense purchases increased again. Since the first quarter of 1981, these purchases have increased 17½ percent. In nondefense purchases, purchases by the Commodity Credit Corporation accounted for all of the first-quarter decline of $7½ billion and for all of the second-quarter decline of $3 billion. In the first quarter, smaller amounts of crops were placed under loan by farmers, and in the second quarter, there were net redemptions. These purchases, which have recently dominated changes in nondefense purchases, are now shown separately in NIPA tables 3.7B and 3.8B.

ERRATA: National Income and Product Accounts

The table below shows corrections to estimates published in *The National Income and Product Accounts of the United States, 1929-76: Statistical Tables* and in the July 1982 issue of the SURVEY OF CURRENT BUSINESS. Additional errata appeared in the SURVEY issues of July and August 1982.

Table	Title	Line	Previously published								Corrected							
			1968	1973	1974	1975	1976	1977	1978	1979	1968	1973	1974	1975	1976	1977	1978	1979
1.20	Housing output	1	77.2	...	...	...	...	179.8	202.5	227.5	76.9	...	...	...	...	179.3	202.0	227.0
	Nonfarm housing	2	74.4	...	...	...	...	172.5	194.3	217.8	74.1	...	...	...	...	172.1	193.8	217.3
	Owner-occupied	3	52.2	...	...	...	...	...	...	...	51.9	...	...	...	...	...	...	...
	Tenant-occupied	4	...	...	...	...	...	47.8	53.1	57.9	...	...	...	...	...	47.4	52.6	57.4
	Less: IGS	6	10.6	...	...	...	...	28.2	33.0	37.3	10.3	...	...	...	...	27.8	32.6	36.8
6.15	Benefits paid by private pension and welfare funds.	28	...	37,993	44,302	50,324	58,732	64,767	74,827	84,029	...	37,590	44,001	51,944	59,494	67,930	77,069	88,329
	Group health insurance	30	...	19,903	23,350	26,580	32,584	34,358	39,628	42,863	...	19,500	23,049	28,200	33,346	37,521	41,870	47,163

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REVISED (45-day) estimates show that real GNP increased 9 percent at an annual rate in the second quarter of 1983, compared with the 8½-percent increase shown by the preliminary (15-day) estimates (table 1). Revisions in the major components were small. Upward revisions were in residential investment (partly due to a downward revision in prices), net exports (mainly due to a downward revision in nonpetroleum imports), nonresidential fixed investment (producers' durable equipment), and change in business inventories (retail trade). Downward revisions were in personal consumption expenditures (mainly in housing services) and government purchases (Federal defense purchases). The increase in prices as measured by the GNP fixed-weighted price index was revised down from 5 to 4½ percent.

The revisions in the second-quarter real GNP estimates do not alter the picture of economic activity described in the July "Business Situation." About two-thirds of the strong increase in GNP was accounted for by an extraordinarily large increase in personal consumption expenditures. A continued strong recovery in residential investment, a leveling out in the slide in nonresidential fixed investment, and a sharp deceleration in the rate of inventory liquidation also contributed to the increase in GNP. Net exports registered a sharp decline as exports fell and imports increased, and government purchases were down again, but not as much as in the first quarter.

Table 1.—Revisions in Selected Component Series of the NIPA's, Second Quarter of 1983

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	15-day estimate	45-day estimate	Revision	15-day estimate	45-day estimate
	Billions of current dollars				
GNP	**3,273.7**	**3,270.0**	**−3.7**	**13.5**	**13.0**
Personal consumption expenditures	2,151.3	2,148.4	−2.9	16.0	15.4
Nonresidential fixed investment	335.3	335.9	.6	3.9	4.6
Residential investment	126.8	127.7	.9	68.2	73.3
Change in business inventories	−10.6	−11.9	−1.3		
Net exports	−12.5	−12.3	.2		
Government purchases	683.3	682.1	−1.2	3.5	2.8
National income		**2,612.0**			**13.9**
Compensation of employees	1,969.9	1,968.8	−1.1	10.0	9.7
Corporation profits with inventory valuation and capital consumption adjustments		214.7			94.4
Other	429.3	428.5	−.8	6.1	5.3
Personal income	**2,715.0**	**2,715.7**	**.7**	**8.9**	**9.0**
	Billions of constant (1972) dollars				
GNP	**1,521.4**	**1,523.4**	**2.0**	**8.7**	**9.2**
Personal consumption expenditures	1,010.5	1,009.9	−.6	10.0	9.7
Nonresidential fixed investment	161.8	162.3	.5	4.6	5.9
Residential investment	51.2	52.4	1.2	61.1	76.1
Change in business inventories	−4.5	−4.0	.5		
Net exports	10.2	11.0	.8		
Government purchases	292.2	291.9	−.3	−.9	−1.4
	Index numbers, 1972=100[1]				
GNP implicit price deflator	215.17	214.66	−.51	4.5	3.5
GNP fixed-weighted price index	223.4	222.9	−.5	5.2	4.4
GNP chain price index				5.1	4.4

1. Not at annual rates.

NOTE.—For the second quarter of 1983, the following revised or additional major source data became available: For *personal consumption expenditures,* revised retail sales for May and June; for *nonresidential fixed investment,* manufacturers' shipments of equipment for May (revised) and June, construction put in place for May (revised) and June, and a partial tabulation of business expenditures for plant and equipment for the quarter; for *residential investment,* construction put in place for May (revised) and June; for *change in business inventories,* book values for manufacturing and trade for May (revised) and June; for *net exports of goods and services,* merchandise trade for May (revised) and June; for *government purchases of goods and services,* Federal unified budget outlays for June, and State and local construction put in place for May (revised) and June; for *wages and salaries,* revised employment, average hourly earnings, and average weekly hours for May and June; for *corporate profits,* domestic book profits for the quarter; for *GNP prices,* the Consumer Price Index and the Producer Price Index for June, unit value indexes and export and import price indexes for June, and residential housing prices for the quarter.

Corporate profits

Corporate profits from current production increased $33 billion to $214½ billion in the second quarter—a record increase and an all-time high.[1] On a percentage-change basis, the second-quarter increase in this measure of profits, which includes the inventory valuation and capital consumption adjustments, was the largest since the third quarter of 1975. The pattern in the first two quarters of 1983—an increase of $20 billion followed by an even larger one—closely resembles the pattern in the second and third quarters of 1975. Both reflected recoveries from deep recessions that reached troughs in the immediately preceding quarters.

An increase in the domestic profits of nonfinancial corporations accounted for most of the increase in the second quarter. These profits increased $30 billion to $164 billion, following an increase of $19½ billion

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

(table 2). The second-quarter increase resulted from a combination of a large increase in the real product of nonfinancial corporations, a moderate increase in unit prices, and decline in unit costs. Per-unit labor and nonlabor costs both decreased; the decrease in unit labor costs was the first registered since the third quarter of 1975.

Manufacturers' profits accounted for most of the increase in nonfinancial profits. Increases in profits or reductions in losses in most major manufacturing industries reflected strong increases in sales. Increased profits of motor vehicle manufacturers reflected the effects of a very sharp increase in auto output, which in turn mirrored a sharp pickup in unit auto sales. The increase in auto output led to increased demand for tires to equip new autos, and helped boost rubber manufacturers' profits. The continuing recovery in residential construction was a major factor in a strengthening in lumber profits. An increase in the profits of petroleum manufacturers resulted from both increased margins and increased sales, as the prices of refined products increased, while crude oil prices remained about level.

An increase in nonmanufacturing profits was widely spread: Profits of gas and electric utilities rebounded from depressed first-quarter levels; first-quarter profits reflected the effects of low demand for energy during an unusually mild winter in some parts of the country. An increase in trade profits was more than accounted for by wholesalers' profits and by retail auto dealers' profits, which reflected the sharp increase in unit auto sales.

Domestic profits of financial corporations increased $4½ billion to $32 billion in the second quarter, matching the increase in the first. Although nearly all major categories of financial institutions registered increased profits, most of the second-quarter increase was due to increased profits of savings and loan associations and a swing from losses to profits for mutual savings banks. These thrift institutions benefited from stable or declining interest rates on most types of deposits and abatement of interest-rate competition for new Money Market Deposit Accounts; many thrifts had attempted to attract deposits by initially offering very high rates of interest.

Profits from the rest of the world decreased $1½ billion to $18½ billion in the second quarter, following a decrease of $4 billion. The second-quarter decrease resulted from an increase in the earnings on foreign corporations' U.S. assets that outweighed an increase in the earnings on U.S. corporations' foreign assets. Foreign corporations' U.S. earnings and U.S. corporations' foreign earnings are netted in the calculation of rest-of-the-world profits. Increases occurred in both the petroleum and nonpetroleum foreign activities of U.S. corporations, as petroleum prices firmed and recoveries were underway in the economies of many industrial nations.

Other profits measures.—Profits before tax increased $29½ billion to $199 billion in the second quarter, following an increase of $2 billion. The second-quarter level is well below the peak level of $261 billion recorded in the first quarter of 1980. These profits exclude the inventory valuation adjustment (IVA) and the capital consumption adjustment (CCAdj). The IVA became more negative in the second quarter, decreasing $8 billion to −$10 billion, following an increase of $8½ billion. The decrease resulted from increased rates of inflation of prices of goods held in inventories; the largest decreases occurred in the mining, services, transportation, retail trade, and petroleum manufacturing industries. The CCAdj increased $11½ billion to $25½ billion in the second quarter, following an increase of $9 billion.[2] The increases reflected the effects of provisions of the Economic Recovery Tax Act of 1981 (ERTA) permitting the use of shorter service lives for measuring the depreciation on new capital (as reported to

Table 2.—Corporate Profits

[Billions of dollars, seasonally adjusted at annual rates]

	1982				1983	
	I	II	III	IV	I	II
Corporate profits with IVA and CCAdj	**162.0**	**166.8**	**168.5**	**161.9**	**181.8**	**214.7**
Domestic industries	141.4	145.0	147.8	137.8	161.6	196.0
Financial	13.6	18.6	20.2	23.5	27.8	32.0
Nonfinancial	127.7	126.5	127.5	114.3	133.9	164.0
Rest of the world	20.7	21.7	20.7	24.1	20.2	18.7
Corporate profits with IVA and without CCAdj	**167.7**	**170.3**	**168.3**	**157.2**	**168.0**	**189.3**
Domestic industries	147.0	148.5	147.6	133.1	147.8	170.6
Financial	15.5	20.4	22.2	25.5	29.8	33.7
Nonfinancial	131.5	128.1	125.4	107.6	118.0	136.9
Manufacturing	60.9	61.4	65.5	48.3	53.7	68.4
Durable goods	10.4	14.5	12.9	1.2	10.0	18.9
Primary metal industries	−3.3	−6.7	−5.6	−6.0	−1.6	−1.1
Fabricated metal industries	4.0	3.4	3.1	2.1	2.8	3.8
Machinery, except electrical	8.7	5.0	3.5	1.8	1.1	3.7
Electric and electronic equipment	4.4	5.3	5.1	2.4	3.5	2.0
Motor vehicles and equipment	−3.8	3.4	3.3	−1.2	3.0	5.2
Other	.3	4.1	3.5	2.2	1.2	5.3
Nondurable goods	50.5	46.9	52.6	47.1	43.6	49.6
Food and kindred products	6.7	7.3	8.0	7.2	6.9	7.0
Chemicals and allied products	6.2	5.7	4.6	3.0	4.8	5.0
Petroleum and coal products	27.2	21.9	26.8	23.5	15.9	19.5
Other	10.4	11.9	13.2	13.4	16.0	18.2
Nonmanufacturing	70.6	66.7	59.9	59.3	64.4	68.4
Rest of the world	20.7	21.7	20.7	24.1	20.2	18.7
Addenda:						
Corporate profits before tax	173.2	178.8	177.3	167.5	169.7	199.1
Profits tax liability	60.3	61.4	60.8	54.0	61.5	75.0
Profits after tax	112.9	117.4	116.5	113.5	108.2	124.1
Dividends	67.7	67.8	68.8	70.4	71.4	72.0
Undistributed profits	45.2	49.5	47.7	43.1	36.7	52.1
IVA	−5.5	−8.5	−9.0	−10.3	−1.7	−9.8
CCAdj	−5.6	−3.5	.1	4.7	13.9	25.4

IVA Inventory valuation adjustment.
CCAdj Capital consumption adjustment.

2. The capital consumption adjustment converts depreciation of fixed capital used up in product to a consistent basis with respect to service lives (85 percent of Internal Revenue Service Bulletin F for equipment and nonresidential structures) and depreciation formulas (straight line). It also converts depreciation to replacement cost, the valuation concept underlying national income and product accounting, from historical cost, the concept generally underlying business accounting.

the Internal Revenue Service); depreciation is a deduction from receipts in the calculation of corporate profits. As corporations depreciate increasing amounts of capital using the shorter service lives, the component of the CCAdj that adjusts tax-return depreciation to consistent service lives becomes increasingly positive. The effects of ERTA have added somewhat more than $2 billion per quarter to the change in the CCAdj, beginning with the first quarter of 1981. The increases in the CCAdj were also consistent with relatively little change in the prices of business fixed investment.

Government sector

The fiscal position of the government sector in the national income and product accounts (NIPA's) continued to improve in the second quarter, as the combined deficit of the Federal Government and of State and local governments declined $31 billion. This improvement was accounted for by an 11-percent decline in the Federal deficit and a 28-percent increase in the State and local surplus. However, the combined deficit, at $112 billion, was still significantly larger than the $81 billion deficit of a year earlier. This deterioration in the fiscal position of the government sector was more than accounted for by a $50½ billion increase in the Federal deficit.

The Federal sector.—The Federal Government deficit declined $20 billion in the second quarter, to $163½ billion, as receipts increased significantly more than expenditures.

Receipts increased $28½ billion, compared with $10½ billion in the first quarter. All categories of receipts recorded strong increases, dominated by a $10½ billion gain in corporate profits tax accruals, reflecting the large increase in corporate profits. Indirect business tax and nontax accruals increased $7½ billion, the net effect of a $1½ billion decline in windfall profit taxes and a $9 billion increase in all other categories. Several new levies boosted these receipts. A 5-cent increase (to 9 cents from 4 cents per gallon) in the gasoline and diesel fuel excise tax—effective April 1, 1983, under provisions of the Highway Revenue Act of 1982—contributed $6½ billion. A fee of 50 cents imposed on dairy farmers by the Secretary of Agriculture for each 100 pounds of milk produced—effective October 1, 1982, but delayed by an injunction until mid-April—contributed $½ billion to nontaxes. A tax of 1 mill on each kilowatt-hour of nuclear-generated electricity—effective April 7, 1983, under provisions of the Nuclear Waste Policy Act—contributed about $½ billion to excise taxes. (The proceeds of this tax will be used by the Federal Government to dispose of radioactive waste materials produced by utilities.)

Personal tax and nontax receipts increased $6½ billion, compared with a $5½ billion decline in the first quarter. In the first quarter, the effects of Federal income tax cuts more than offset the effect of increases in the tax base. In the second quarter, these legislative impacts were smaller, and the tax base increased significantly more, than in the first. Contributions for social insurance increased $4 billion, reflecting a strong increase in wages and salaries.

Expenditures increased $9 billion, compared with a $14 billion decline in the first quarter, when most expenditure categories were down. In the second quarter, only nondefense purchases, subsidies less the current surplus of government enterprises, and transfer payments to foreigners declined. National defense purchases increased $5½ billion; the increase was concentrated in purchases of military hardware, particularly aircraft and ships, each up about $1½ billion (see table 4 on page 10). Transfer payments to persons also increased $5½ billion. Cost-of-living adjustments for Federal civilian and military retirees each accounted for $½ billion and unemployment benefits accounted for $1 billion as Federal supplemental benefits increased $2 billion and regular benefits declined $1 billion. Net interest paid increased $3 billion and grants-in-aid to State and local governments increased $1 billion. Partly offsetting these increases were declines of $6½ billion in nondefense purchases and of $1 billion in subsidies less the current surplus of government enterprises. Within the former, agricultural purchases by the Commodity Credit Corporation (CCC) declined $7 billion and all other categories of purchases increased $½ billion. Within the latter, a $2 billion decline in the CCC deficit was partly offset by a $1 billion increase in agricultural subsidies.

On a high-employment budget basis, the Federal fiscal position moved from a deficit of $45 billion in the first quarter to a deficit of $32 billion in the second (see table 3 on page 9). The high-employment deficit as a percentage of potential GNP decreased from 1.3 percent to 0.9 percent—a move toward a more restrictive fiscal position. (These estimates differ from those published previously due to last month's revisions in the NIPA's and to revisions, beginning in 1977, in several other series used in the calculation of the high-employment estimates. The estimates remain based on the potential GNP series discussed by the Council of Economic Advisers in the 1981 *Economic Report of the President.*)

The State and local sector.—The State and local government surplus increased $11½ billion, to $52 billion as receipts increased more than expenditures. The increase in the surplus was largely accounted for by a $10½ billion increase in the "other" surplus, that is, in the surplus excluding social insurance funds.

Receipts increased $16½ billion, compared with $11 billion in the first quarter. Indirect business tax and nontax accruals increased $7½ billion; sales taxes accounted for $4½ billion and property taxes for $2½ billion. The increase in sales taxes was much larger than in the first quarter, and reflected strong retail sales as well as rate and base changes in several states. Other categories also increased: personal tax and nontax receipts, $4½ billion, including $1 billion for a rate increase in Michigan; corporate profits tax accruals, $3 billion; and contributions for social insurance, $½ billion.

Expenditures increased $5½ billion, compared with $3½ billion in the first quarter. Purchases of goods and services accounted for all of the increase; all other expenditures, on balance, were unchanged. Within purchases, compensation increased $4 billion, construction declined $1 billion, and all other purchases increased $2½ billion.

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REAL GNP increased at an annual rate of 7 percent in the third quarter, and the GNP fixed-weighted price index increased at an annual rate of 4 percent. These are "flash" estimates, that is, estimates prepared 15 days before the end of the quarter. Flash estimates of GNP and of GNP prices were released by BEA for the first time in September. The estimates that were released, along with estimates for the first and second quarters, are shown in table 1.

Flash estimates have been prepared since 1965, but previously were provided by BEA only to selected Government officials. Although the procedures used to prepare these estimates are the same as those used to prepare the estimates released after the end of the quarter, the source data that are available are limited. They cover only 1 or 2 months of the quarter, and, in some cases, are preliminary; BEA projects the missing source data. Accordingly, the flash estimates may be subject to larger revisions than the estimates released after the end of the quarter. Information about the relative accuracy of the quarterly GNP estimates, based on measures of revision in them, is shown in table 3 on page 18.

The evidence available in mid-September suggests the following third-quarter developments in the components of real GNP and of GNP prices.[1]

• Personal consumption expenditures (PCE) increased only moderately after an unusually large increase—10 percent at an annual rate—in the second quarter. PCE for both goods and services increased less than in the second quarter. Motor vehicles, furniture and equipment, electricity and natural gas, and "other" services (which includes medical care, personal business, and recreation) increased substantially less, and clothing and shoes declined after an 18½-percent increase. (See the following section for a discussion of motor vehicles.)

• Nonresidential fixed investment increased more than the 8-percent annual rate recorded in the second quarter. The strengthening was largely in structures, which turned up after a year and a half of decline. Producers' durable equipment again increased substantially, reflecting investment in several types of equipment, including computers and motor vehicles.

• Residential investment increased substantially in the third quarter, although less than the annual rates of 50 to 80 percent recorded earlier in its recovery. As discussed in the following section on housing and mortgage markets, the deceleration can be traced to single-family housing construction.

• For the change in business inventories, reasonably complete information is available only for motor vehicles. After second-quarter liquidation, substantial additions were made to motor vehicle inventories in the third quarter. The swing to accumulation was large; motor vehicle inventories contributed about $8½ billion (1972 dollars) to the third-quarter increase in real GNP.[2] The limited evidence on other inventories in the third quarter suggests that liquidation ceased and that these inventories contributed moderately to the increase in real GNP.

• For net exports, the limited evidence suggests another decline, although less than the $8 billion recorded in the second quarter. Exports increased, but imports increased even more. In merchandise trade, exports changed little, but both petroleum and nonpetroleum imports were up substantially. In services, it is likely that investment income increased, reflecting economic recoveries and rising interest rates in the United States and abroad.

• Government purchases appear to have increased slightly. In Federal purchases, an increase in defense about offset a decline in nondefense. In State and local purchases, small in-

Table 1.—GNP and GNP Prices

[Levels at seasonally adjusted annual rates; percent changes at annual rates]

	1983		
	I	II	III
Current-dollar GNP (billions of dollars):			
Level	3,171.5	3,272.0	3,354.6
Percent change from preceding quarter	8.2	13.3	10.5
Real GNP (billions of 1972 dollars):			
Level	1,490.1	1,525.1	1,551.2
Percent change from preceding quarter	2.6	9.7	7.0
GNP fixed-weighted price index (index, 1972=100):			
Level	220.6	222.9	225.0
Percent change from preceding quarter	3.4	4.3	3.8
GNP implicit price deflator (index, 1972=100):			
Level	212.83	214.55	216.25
Percent change from preceding quarter	5.5	3.3	3.2

1. The major source data that are available are: For *personal consumption expenditures* (PCE), July and August retail sales, unit sales of new autos through the first 10 days of September, and sales of new trucks for July and August; for *nonresidential fixed investment,* the same data for autos and trucks as for PCE, July construction put in place, July manufacturers' shipments of equipment, and business investment plans for the quarter; for *residential investment,* July construction put in place, and July and August housing starts; for *change in business inventories,* July book values for manufacturing and trade, and unit auto inventories for July and August; for *net exports of goods and services,* July merchandise trade; for *government purchases of goods and services,* Federal unified budget outlays for July, State and local construction put in place for July, and State and local employment for July and August; and for *GNP prices,* the Consumer Price Index for July, the Producer Price Index for July and August, and unit value indexes for merchandise exports and imports for July.

2. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

creases were recorded in the components other than employee compensation.

• The moderate increase in the GNP fixed-weighted price index—4 percent at an annual rate—was a little less than in the second quarter but a little more than in the first. The deceleration from the second quarter was largely in PCE prices, where food prices showed little change after a 5-percent increase. Prices of capital goods again declined, reflecting the prices of both residential and nonresidential construction.

Personal income and its disposition

Personal income increased about $46 billion in the third quarter after increasing $56 billion in the second (table 2). The increases in both quarters mirrored the general strengthening of the economy as well as a number of specific developments.

Table 2.—Personal Income and Its Disposition: Change From Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1983		
	I	II	III*
Wage and salary disbursements	24.7	37.7	32.1
Manufacturing	8.1	12.0	11.4
Other commodity-producing	1.1	1.6	4.0
Distributive	2.9	7.9	4.1
Services	7.9	10.9	8.5
Government and government enterprises	4.7	5.4	4.2
Proprietors' income	4.4	6.6	−1.6
Farm	−3.9	−1.2	−6.2
Nonfarm	8.3	7.8	4.6
Personal interest income	−5.8	−.1	9.9
Transfer payments	−.5	6.8	.5
Other income	6.6	7.0	7.1
Less: Personal contributions for social insurance	3.7	2.1	1.8
Personal income	**25.8**	**55.9**	**46.2**
Less: Personal tax and nontax payments	−2.4	10.8	−14.0
Impacts of legislation	−10.7	−2.4	−25.3
Other	8.3	13.3	11.4
Equals: Disposable personal income	**28.1**	**45.1**	**60.1**
Less: Personal outlays	27.2	75.3	35.9
Equals: Personal saving	**.9**	**−30.2**	**24.2**
Addenda: Special factors in personal income—			
Cost-of-living increases in Federal transfer payments	.2	1.0	.4
Social security base and rate changes (in personal contributions for social insurance)	2.5	.....	.....
Subsidies to farmers	−1.7	1.2	.9
Postal Service special payments	.....	1.1	0

*Projected. Based on published estimates of personal income and its disposition for July and August. Detail may not add to totals due to rounding.

Wage and salary disbursements increased about $32 billion. Wages and salaries in manufacturing recorded another substantial increase, and those in other commodity-producing industries increased more than in the second quarter, largely reflecting construction. In the distributive industries and in government and government enterprises, smaller increases were largely due to transitory factors. In the former, the increase in wages and salaries was held down $3½ billion by a 3-week strike in August by telephone workers. In the latter, there were two kinds of special payments to Postal Service employees. These payments boosted the second-quarter increase and, on balance, had no effect on the third-quarter increase. The first of these payments was a retroactive wage payment made following settlement of a suit under the Fair Labor Standards Act. This payment amounted to $1 billion in the second quarter and $½ billion in the third. The second was a lump-sum payment of $350 per employee made under a 1981 collective bargaining agreement. This payment—the last of three annual payments—amounted to $1 billion in the third quarter.

Proprietors' income shifted from a second-quarter increase to a third-quarter decline mainly due to farm income. This year's slide in farm income accelerated in the third quarter. Part of the acceleration was due to widespread drought.

Changes in two components of personal income did not directly reflect the strengthening of the economy. Personal interest income, which had declined or shown little change over the last four quarters, increased $10 billion, and transfer payments changed little, after a second-quarter increase of $7 billion. The third-quarter increase in personal interest income was mainly due to the upturn in interest rates. In transfer payments, declines in payments under the several unemployment insurance programs offset continued increases in other types of payments.

Although personal income increased less in the third quarter than in the second, disposable personal income—that is, personal income less personal tax and nontax payments—increased much more, about $60 billion compared with $45 billion. In the third quarter, personal taxes declined, due to the final stage of reduction in the income tax withholding rates under the Economic Recovery Tax Act of 1981. This reduction, which amounted to $29 billion, became effective on July 1. The strength of the third-quarter increase in disposable personal income carried through to real income, because the increase in PCE prices remained moderate. Real disposable personal income increased 6 percent at an annual rate, after a 3½-percent increase in the second quarter.

The increase in disposable personal income was much larger than the increase in personal outlays, and personal saving increased. The personal saving rate was up about 1 percentage point from the unusually low rate—4.0 percent—in the second quarter.

Table 3.—Motor Vehicle Output

[Billions of 1972 dollars; seasonally adjusted annual rates]

	1982: II	Change from preceding quarter					1983: III*
		1982		1983			
		III	IV	I	II	III*	
Output	56.3	−0.1	−5.5	8.3	3.5	8.7	71.1
Autos	40.5	1.5	−3.7	6.6	1.1	8.8	54.7
Trucks	15.8	−1.6	−1.8	1.7	2.4	−.1	16.4
Final sales	53.5	−.7	5.0	−.1	7.4	.2	65.3
Autos	39.0	.6	3.8	−.1	5.5	.7	49.5
Trucks	14.5	−1.3	1.2	0	1.9	−.5	15.8
Change in business inventories	2.8	.7	−10.8	8.5	−3.8	8.4	5.8
Autos	1.5	1.0	−7.7	6.7	−4.3	8.0	5.2
Trucks	1.3	−.3	−3.1	1.8	.5	.4	.6

*Projected. Based on unit production in July and August and scheduled production for September, unit sales of autos through the first 10 days of September and of trucks for July and August, and unit inventories for July and August.

NOTE.—For estimates through 1983: II, see tables 1.14–1.15 and 1.16–1.17 of the National Income and Product Accounts Tables. Auto output includes dealers' margins on their used car transactions; truck output includes new trucks only.

Motor vehicles

Motor vehicle output increased about $8½ billion (1972 dollars) in the third quarter, following a $3½ billion increase in the second (table 3).[3] The increase was entirely in auto output, which was up for the third consecutive quarter. Truck output was unchanged after two quarters of sharp increase. Sales of motor vehicles changed little in the third quarter after a strong increase in the second: Autos were up slightly, and trucks were down slightly. Largely reflecting autos, motor vehicle inventories swung sharply, from liquidation in the second quarter to accumulation in the third; truck inventories registered a small increase after little change.

Unit sales of new cars were unchanged at 9.2 million (seasonally adjusted annual rate) in the third quarter (chart 1). Sales had been up strongly in the second quarter, reflecting increases in disposable personal income and improving economic conditions in general. While these developments have continued, car sales may have been adversely affected by tight supplies in the third quarter.

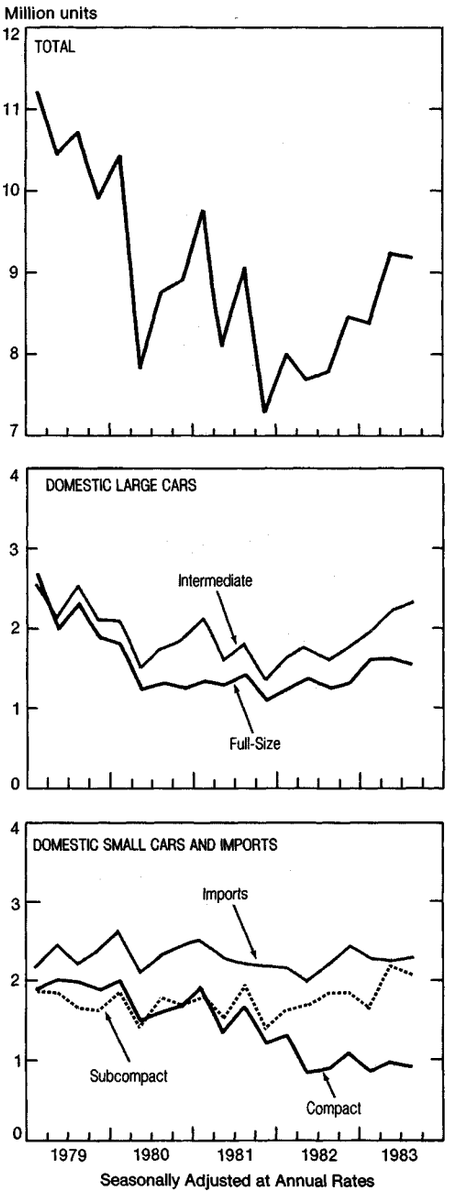
Sales of imported cars have remained at 2.3 million throughout 1983. Their share of total sales was down to about 25 percent in the second and third quarters from the 26–30 percent range registered during the previous year and a half. Sales have been held down by chronic shortages of Japanese cars, which make up the bulk of imports. Shipments to the United States are limited under the Japanese auto agreement.

Following an increase of 0.8 million to 6.9 million in the second quarter, sales of domestic cars were unchanged in the third. The leveling off may be attributed to tight supplies of cars for sale on dealers' lots through much of the quarter and to the scaling down of sales incentives. In the third quarter, these incentives—largely below-market financing—applied to fewer models and, in some cases, were not at rates as low as those offered in the second quarter.

Domestic production was stepped up in the latter part of the third quarter after only brief plant shutdowns for changeover to 1984 models.

Chart 1

Retail Sales of New Passenger Cars



Note.—Data for the most recent quarter are projected.

Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports; seasonal adjustment by BEA.

U.S. Department of Commerce, Bureau of Economic Analysis 83-9-1

For the quarter as a whole, production increased sharply to about 7.5 million units (seasonally adjusted annual rate) from 6.1 million in the second quarter. Production exceeded sales for the quarter; inventories increased from 1,082,000 (seasonally adjusted) in the second quarter, and the ratio of inventories to sales moved up from 1.9. However, the inventory increase was accounted for by 1984 models, which did not officially go on sale until the last 10 days of the quarter. During most of the third quarter, supplies on dealers' lots of 1983 models, particularly of several high-volume intermediate and full-size cars, were quite limited. Automakers have scheduled continued increases in production in the fourth quarter.

Unit sales of new trucks were unchanged at 3.1 million (seasonally adjusted annual rate) in the third quarter after a large increase in the second. Sales of light domestic trucks were down slightly from 2.5 million in the second quarter, and sales of "other" domestic trucks remained close to the recession level of 0.17 million. Sales of imported trucks increased sharply to about 0.55 million from 0.44 million in the second quarter. Domestic and several foreign manufacturers continued to offer sales incentives—largely below-market financing—during most of the quarter. Production of domestic trucks leveled off in the third quarter; in general, inventories of light domestic trucks did not appear to be as tight as those of domestic cars.

Housing and mortgage markets

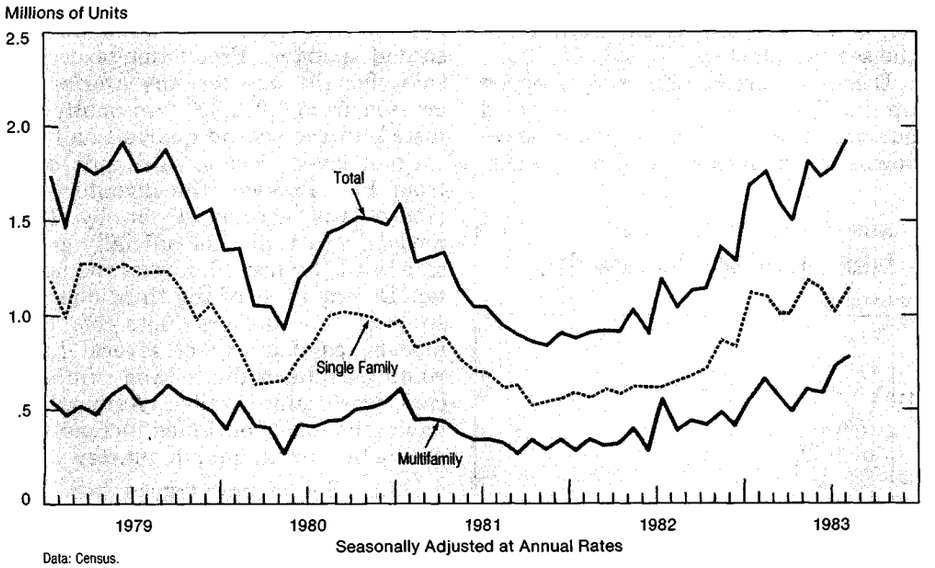
The recovery in residential investment continued in the third quarter. Real residential investment again increased substantially, although less than the annual rates of 50 to 80 percent recorded in the three preceding quarters. A slowing in construction of single-family units more than offset a pickup in construction of multifamily units.

The slowing in single-family construction reflected the slowing in single-family housing starts from the first to the second quarter (chart 2). In July–August, these starts stayed at about their second-quarter level. Sales

3. Seasonal adjustment of motor vehicles is generally difficult during model changeover. This year, in contrast with the past several years, the industry entered the third quarter with low inventories of old models and production of new models was strong. Seasonal adjustment, because it is based on previous patterns, may have led to an overstatement of production, which would have carried through to inventories.

CHART 2

Housing Starts

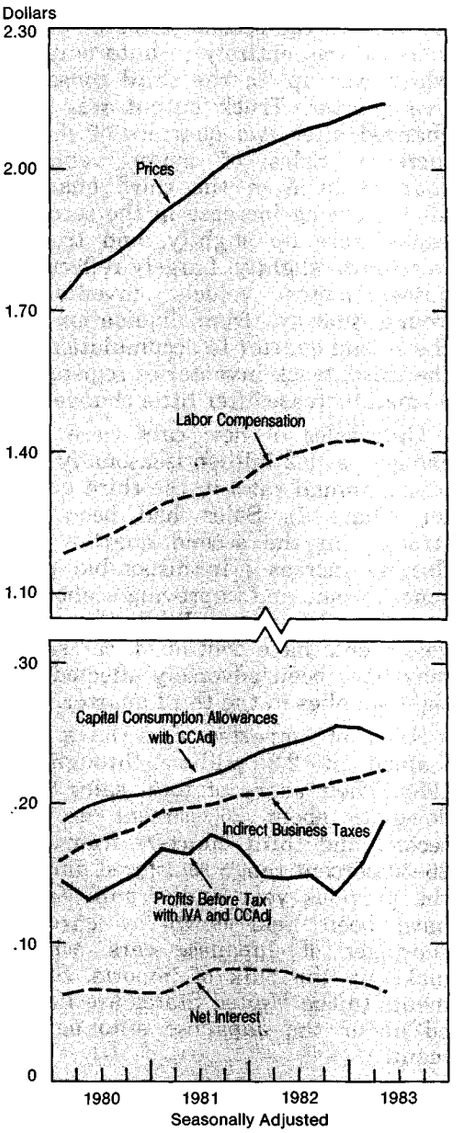


Data: Census.

U.S. Department of Commerce, Bureau of Economic Analysis 83-9-2

CHART 3

Domestic Nonfinancial Corporate Business: Prices, Costs, and Profits Per Unit of Real Product



Note.—Price per unit is current dollar product divided by constant dollar (real) product. Costs and profits per unit are respective components of current dollar product divided by constant dollar product.

U.S. Department of Commerce, Bureau of Economic Analysis 83-9-3

of both new and existing single-family residences fell in July following only small increases in June.

A turnaround in mortgage rates coincided with the slowing in single-family starts and the weakening in sales. In May, mortgage rates started rising, and by late August the commitment rate on level-payment 30-year conventional mortgages at savings and loan associations (S&L's) had risen 123 basis points to 13.78 percent. The prime rate, which may be reflected in the rate on construction loans, increased to 11 percent in early August after having held at 10½ percent since February.

At S&L's, the very large inflows of deposits occasioned by the introduction of money market deposit accounts stopped in April. However, due to the continued growth in large-denomination certificates of deposit and in other no-ceiling and variable-ceiling certificates, inflows of deposits remained strong into the third quarter. The inflow of deposits permitted S&L's to reduce their outstanding advances from the Federal Home Loan banks by $10½ billion from December to July, to increase their liquidity, and to increase mortgage activity substantially. At the end of July, outstanding mortgage commitments at federally insured S&L's totaled a record $31.8 billion.

Second-Quarter Corporate Profits

Profits from current production—profits with inventory valuation and capital consumption adjustments—increased $36½ billion to an all-time high of $218 billion in the second quarter, following an increase of $20 billion. (The second-quarter estimate is $3½ billion higher than the preliminary estimate published a month ago.)

A record increase in the domestic profits of nonfinancial corporations accounted for most of the second-quarter increase. These profits increased $32 billion to $165½ billion, also an all-time high; in the first quarter they had increased $19½ billion. Most of the second-quarter increase was due to an increase in per-unit profits, although the real product of nonfinancial corporations increased as well. The increase in per-unit profits resulted from a moderate increase in unit prices in combination with decreases in per-unit labor and nonlabor costs (chart 3).Within nonlabor costs, decreases in per-unit capital consumption allowances and net interest more than offset an increase in per-unit indirect business taxes. This increase in taxes resulted from an increase of 5 cents per gallon in the Federal excise tax on gasoline.

Manufacturers' profits accounted for a major share of the increase in nonfinancial profits. Increases in profits or reductions in losses in most major manufacturing industries reflected strong increases in sales. Increased profits of motor vehicle and rubber manufacturers reflected in-

creased auto output. The continuing recovery in residential construction was a major factor in a strengthening in profits of lumber and stone, clay, and glass manufacturers. An increase in the profits of petroleum manufacturers resulted from increases in both sales and margins, as the prices of refined products increased, while crude oil prices remained about level.

An increase in nonmanufacturing profits was widely spread. Profits of gas and electric utilities rebounded following depressed levels during an unusually mild winter in some parts of the country. An increase in trade profits was largely accounted for by an increase in wholesalers' profits. Retailers' profits increased only slightly, as increases in the profits of auto dealers and general merchandise corporations were largely offset by decreases in the profits of other retail trade corporations.

Domestic profits of financial corporations increased $4½ billion to $32 billion in the second quarter, matching the increase in the first. Although nearly all types of financial institutions registered increased profits, most of the second-quarter increase was due to increased profits of savings and loan associations and a swing from losses to profits for mutual savings banks.These thrift institutions benefited from net inflows of new savings, stable or declining interest rates on most types of deposits, and abatement of interest-rate competition for new money market deposit accounts. Decreases occurred in the profits of insurance carriers and federally sponsored credit agencies.

Profits from the rest of the world increased $½ billon to $20½ billion in the second quarter, following a decrease of $4 billion. The second-quarter increase occurred as an increase in the earnings on U.S. corporations' foreign assets outweighed an increase in the earnings on foreign corporations' U.S. assets. U.S. corporations' foreign earnings and foreign corporations' U.S. earnings are netted in the calculation of rest-of-the-world profits. The net increase was about equally due to petroleum and nonpetroleum earnings, as petroleum product prices firmed and recoveries were underway in the economies of nearly all industrial nations.

Other profits measures, tax effects, and the disposition of profits.—Profits before tax increased $33½ billion to $203½ billion in the second quarter, following an increase of $2 billion. The second-quarter level is well below the peak of $261 billion recorded in the first quarter of 1980. These profits exclude the inventory valuation adjustment (IVA) and the capital con-

Table 4.—Effects of the Economic Recovery Tax Act of 1981 and the Tax Equity and Fiscal Responsibility Act of 1982 on Corporate Profits Taxes and Related Measures

[Billions of dollars; quarters are seasonally adjusted at annual rates]

Item	1981	1982	1982				1983	
			I	II	III	IV	I	II
Corporate profits before tax	**−6.4**	**−15.1**	**−12.1**	**−14.0**	**−16.1**	**−18.2**	**−22.3**	**−29.3**
Plus: Inventory valuation adjustment								
Capital consumption adjustment	6.4	15.1	12.1	14.0	16.1	18.2	22.3	29.3
Equals: Corporate profits from current production								
Corporate profits tax liability	**−5.4**	**−8.9**	**−7.5**	**−9.1**	**−9.5**	**−9.5**	**−6.4**	**−8.6**
Federal tax liability	−5.1	−8.3	−7.0	−8.5	−8.9	−8.8	−6.0	−8.3
Effect of ERTA	−5.1	−10.6	−8.4	−10.0	−11.2	−12.8	−15.4	−18.6
Effect of TEFRA	0	2.3	1.4	1.5	2.3	4.0	9.4	10.3
State and local tax liability	−.3	−.6	−.5	−.6	−.6	−.7	−.4	−.3
Effect of ERTA	−.3	−.6	−.5	−.6	−.6	−.7	−.6	−.6
Effect of TEFRA	0	0	0	0	0	0	.2	.3

Table 5.—Revisions in Selected Component Series of the NIPA's, Second Quarter of 1983

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	45-day estimate	75-day estimate	Revision	45-day estimate	75-day estimate
	Billions of current dollars				
GNP	**3,270.0**	**3,272.0**	**2.0**	**13.0**	**13.3**
Personal consumption expenditures	2,148.4	2,147.0	−1.4	15.4	15.1
Nonresidential fixed investment	335.9	336.3	.4	4.6	5.1
Residential investment	127.7	128.4	.7	73.3	76.7
Change in business inventories	−11.9	−14.5	−2.6		
Net exports	−12.3	−8.5	3.8		
Government purchases	682.1	683.4	1.3	2.8	3.6
National income	**2,612.0**	**2,612.8**	**.8**	**13.9**	**14.0**
Compensation of employees	1,968.8	1,968.7	−.1	9.7	9.7
Corporate profits with inventory valuation and capital consumption adjustments	214.7	218.2	3.5	94.4	107.4
Other	428.5	425.8	−2.7	5.3	2.8
Personal income	**2,715.7**	**2,713.6**	**−2.1**	**9.0**	**8.7**
	Billions of constant (1972) dollars				
GNP	**1,523.4**	**1,525.1**	**1.7**	**9.2**	**9.7**
Personal consumption expenditures	1,009.9	1,010.6	.7	9.7	10.0
Nonresidential fixed investment	162.3	163.0	.7	5.9	7.9
Residential investment	52.4	52.6	.2	76.1	79.5
Change in business inventories	−4.0	−5.4	−1.4		
Net exports	11.0	12.3	1.3		
Government purchases	291.9	292.1	.2	−1.4	−1.1
	Index numbers, 1972=100 [1]				
GNP implicit price deflator	214.66	214.55	−.11	3.5	3.3
GNP fixed-weighted price index	222.9	222.9	0	4.4	4.3
GNP chain price index				4.4	4.3

1. Not at annual rates.

NOTE.—For the second quarter of 1983, the following revised or additional major source data became available: For *personal consumption expenditures,* revised retail sales for June, consumer share of new car purchases for June, and consumption of electricity for June; for *nonresidential fixed investment,* revised manufacturers' shipments of equipment for June, revised construction put in place for June, and business share of new car purchases for June; for *residential investment,* revised construction put in place for June, and residential alterations and repairs for the quarter; for *change in business inventories,* revised book values for manufacturing and trade for June; for *net exports of goods and services,* revised merchandise trade for June, and revised service receipts for the quarter; for *government purchases of goods and services,* revised construction put in place for June; for *wages and salaries,* revised employment, average hourly earnings, and average weekly hours for June; for *net interest,* financial assets held by households for the quarter, and revised net interest received from abroad for the quarter; for *corporate profits,* revised domestic book profits for the quarter, and revised profits from the rest of the world for the quarter; and for *GNP prices,* revised residential housing prices for the quarter, and revised producer price indexes for June.

sumption adjustment (CCAdj). The IVA became more negative in the second quarter, decreasing $9 billion to −$10½ billion, following an increase of $8½ billion. The decrease resulted from increased rates of inflation in prices of goods held in inventories; the largest decreases occurred in the mining, services, transportation, retail trade, and petroleum manufacturing industries.

The CCAdj increased $11½ billion to $25½ billion in the second quarter, following an increase of $9 billion. The increases reflected in part the effects of provisions of the Economic Recovery Tax Act of 1981 (ERTA) that permit the use of shorter service lives for measuring the depreciation on new capital as reported to the Internal Revenue Service. As corporations depreciate increasing amounts of capital using the shorter service lives, the component of the CCAdj that converts depreciation based on tax returns to a consistent basis with respect to service lives (and also depreciation formulas) becomes increasingly positive.[4] The effects of ERTA have progressively added to the level of the CCAdj, as shown in table 4.

Because depreciation is a deduction from receipts in the calculation of corporate profits, the larger amounts of depreciation deductible as the result of the shorter service lives reduce corporate profits before tax. The amounts by which this provision of ERTA has reduced the level of corporate profits before tax is also shown in table 4. Corporate profits from current production are not affected by this provision of ERTA: The reduction in profits before tax and the increase in the CCAdj are offsetting in their effects on this measure of profits.

Corporate profits taxes increased $14½ billion to $76 billion in the second quarter, following an increase of $7½ billion. Although the effects of provisions of ERTA have progressively lowered profits tax liability, provisions of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) have progressively raised profits tax liability. As a result, the combined effects of ERTA and TEFRA on profits tax liability have been roughly constant—a reduction in the range of $6½ to $9½ billion—since the first quarter of 1982 (table 4).

Dividends continued their 8-year uptrend in the second quarter, increasing $½ billion to $72 billion, following an increase of $1 billion. Undistributed profits increased $18½ billion to $55 billion, following a decrease of $6½ billion.

* * *

Second-quarter NIPA revisions

The 75-day revisions of the national income and product account estimates for the second quarter of 1983 are shown in table 5.

4. The other component of the CCAdj converts depreciation to replacement cost, the valuation concept underlying national income and product accounting, from historical cost, the concept generally underlying business accounting.

ERRATA: National Income and Product Accounts

Corrections to the National Income and Product Accounts Tables published in the July 1983 SURVEY OF CURRENT BUSINESS are shown below.

The changes in farm inventories of crops (line 9) and livestock (line 10) are published incorrectly in table 1.19 for 1980. The corrected estimates, in billions of 1972 dollars, are: crops, −2.9; livestock, 0.6.

Personal consumption expenditures on household operation (column 13) are published incorrectly in tables 2.8 (current dollars), 2.9 (constant dollars) and 7.13 (implicit price deflators) for the months beginning January 1980. The corrected estimates are in the table below.

	Table 2.8 (billions of dollars)				Table 2.9 (billions of 1972 dollars)				Table 7.13 (index numbers, 1972=100)			
	1980	1981	1982	1983	1980	1981	1982	1983	1980	1981	1982	1983
January	101.9	121.6	140.2	143.6	59.7	63.1	63.6	61.4	170.6	192.8	220.5	233.9
February	105.9	121.0	140.0	146.0	61.0	62.4	63.5	61.9	173.5	193.9	220.7	235.8
March	111.2	122.5	140.4	148.2	63.0	62.7	63.3	62.5	176.6	195.3	221.9	237.2
April	111.5	122.3	147.7	157.9	62.7	62.2	65.4	65.0	177.7	196.6	225.9	242.9
May	110.2	126.5	142.6	155.2	61.7	63.3	63.6	64.2	178.7	199.9	224.3	241.8
June	109.3	128.4	143.4	158.6	61.5	63.8	63.5	.....	177.6	201.2	225.6	.....
July	115.0	130.6	144.6	.....	62.7	63.6	63.6	.....	183.5	205.3	227.3	.....
August	118.0	130.7	145.5	.....	63.7	62.7	63.7	.....	185.3	208.3	228.5	.....
September	117.4	130.2	145.6	.....	63.1	62.1	63.3	.....	186.0	209.8	230.0	.....
October	117.3	134.2	145.6	.....	62.9	63.4	63.0	.....	186.6	211.5	231.1	.....
November	117.5	134.5	148.6	.....	62.2	62.7	63.5	.....	188.9	214.6	233.8	.....
December	120.5	137.8	147.2	.....	62.9	63.6	62.6	.....	191.5	216.7	235.2	.....

the BUSINESS SITUATION

THE economy continued to advance in the third quarter. Real GNP increased at an annual rate of 8 percent, following increases of 9½ percent in the second quarter and 2½ percent in the first (table 1).[1] Since the economy's trough in the fourth quarter of 1982, employment has increased strongly, and the civilian unemployment rate has declined from 10.7 percent to 9.4 percent. Price increases remained moderate; the GNP fixed-weighted price index increased 4 percent in the third quarter, following increases one-half point higher in the second quarter and one-half point lower in the first.

The pattern of change in GNP components in the third quarter is roughly characteristic of the recovery thus far (chart 1). Inventories—at first as the liquidation slowed and then, in the third quarter, when a swing to accumulation occurred—contributed positively to the change in real GNP each quarter. They accounted for one-third of the $29½ billion increase in real GNP in the third quarter as well as one-third of the $73½ billion increase since the trough.[2] Within the two-thirds of each increase accounted for by final sales, the strength was concentrated in personal consumption expenditures (PCE) and in investment in producers' durable equipment and housing. Net exports declined each quarter. Government purchases and nonresidential structures increased in the third quarter; over the three quarters, however, they were down.

Table 2 sheds some light on the extent to which the various sectors of the economy have strengthened in the recovery. Business product (line 6)—that is, GNP less product originating in the rest of the world, households and institutions, and government—registered somewhat larger percent increases each quarter than did GNP. Nonfarm business product (line 9) showed even larger increases. Farm product declined each quarter, in part due to the curtailment of production under the Federal payment-in-kind (PIK) program and in part due to unfavorable weather. After removing the declines in farm production and also those in the residual (the constant-dollar equivalent of the statistical discrepancy), the quarterly increases were 5, 13, and 10 percent at annual rates. Housing product is the product originating in owner- and tenant-occupied residences. It is often removed from nonfarm business product to derive a measure that can be associated with labor variables to measure productivity and unit labor cost. Increases in this measure (line 11) were very strong, especially in the second and third quarters.

The extent to which motor vehicle output contributed to the recovery is shown in the addenda to table 2. Motor vehicle output increased $21 billion, or over 40 percent, from the

Table 1.—Real GNP: Change From Preceding Quarter

[Percent change at annual rates; based on millions of 1972 dollars, seasonally adjusted at annual rates]

	1983		
	I	II	III
GNP	2.6	9.7	7.9
Final sales	.6	6.8	5.1
Personal consumption expenditures	2.9	10.0	3.5
Durables	7.6	32.6	5.7
Motor vehicles and parts	2.7	66.5	5.2
Furniture and household equipment	9.7	15.7	7.0
Other durables	15.9	1.4	3.7
Nondurables	3.2	6.4	5.1
Food	4.0	2.5	10.3
Energy [1]	14.8	10.2	6.8
Clothing and shoes	1.0	18.9	−9.6
Other nondurables	−1.0	1.0	10.8
Services	1.4	6.4	1.4
Energy [2]	−15.4	42.1	−.9
Other services	2.3	4.8	1.6
Gross private domestic fixed investment	8.8	21.5	19.8
Nonresidential	−1.5	7.9	14.6
Structures	−13.9	−14.9	11.5
Producers' durable equipment	5.0	19.8	15.9
Autos and trucks	28.5	19.1	49.0
Other	1.3	20.0	10.6
Residential	57.3	79.5	37.0
Net export of goods and services			
Exports	2.4	−3.2	11.2
Merchandise	8.2	−7.0	9.2
Agricultural	26.6	−18.5	16.6
Nonagricultural	3.7	−3.5	7.3
Other	−4.5	1.7	13.7
Imports	12.1	26.8	25.4
Merchandise	25.0	26.2	26.5
Petroleum	−73.4	224.5	150.0
Nonpetroleum	36.6	20.0	20.9
Other	−11.7	28.4	22.9
Government purchases of goods and services	−8.8	−1.1	5.7
Federal	−18.0	−2.8	6.8
National defense	6.5	7.4	7.2
Nondefense	−52.6	−23.5	5.9
Commodity Credit Corporation			
Other	7.7	.9	1.9
State and local	−1.8	0	5.0
Change in business inventories			

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

NOTE.—Percent changes in major aggregates are found in the National Income and Product Accounts Tables, table 8.1. Dollar levels are found in tables 1.2, 1.15, 1.17, 3.8B, and 4.4.

1. The third-quarter GNP estimates are based on the following major source data: For *personal consumption expenditures* (PCE), retail sales, and unit auto and truck sales through September; for *nonresidential fixed investment,* the same information for autos and trucks as for PCE, manufacturers' shipments of machinery and equipment for July and August, July and August construction put in place, and investment plans for the quarter; for *residential investment,* July and August construction put in place, and housing starts for July and August; for *change in business inventories,* July and August book values for manufacturing and trade, and unit auto inventories through September; for *net exports of goods and services,* July and August merchandise trade, and fragmentary information on investment income for the quarter; for *government purchases of goods and services,* Federal unified budget outlays for July and August, State and local construction put in place for July and August, and State and local employment through September; and for *GNP prices,* the Consumer Price Index for July and August, the Producer Price Index for July and August, and unit-value indexes for exports and imports for July and August. Some of these source data are subject to revision.

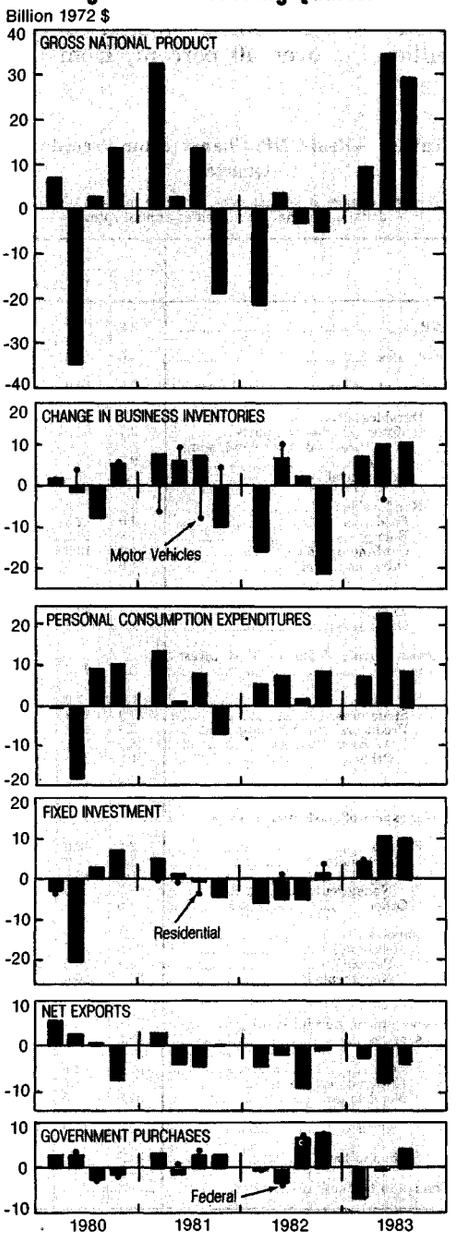
2. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates. Constant-dollar, or "real," estimates are in 1972 dollars.

fourth quarter of 1982, and contributed more than proportionately to the increases in real GNP. In turn, as discussed in "Motor Vehicles, Model Year 1983," which appears later in this issue, the turnaround in vehicle sales was related in part to the improvement in economic conditions.

In the third quarter, each of the broad measures of real product shown in table 2—that is, GNP, the variants of business product, and GNP less motor vehicle output—surpassed previous highs registered 2 years ago. They did so by amounts ranging from about 1 percent for GNP less motor vehicle output, to about 2 percent for GNP, and to about 3 percent for nonfarm business product. Of the narrower sectoral measures, highs were set in product originating in households and institutions and in housing, both of which show steady uptrends. Motor vehicle output, although up substantially from lows in 1980-82, was still well below its previous high in 1979. Product originating in the rest of the world and in farming remained below previous highs, and product originating in government has been flat for 3 years.

CHART 1

Real Product: Change From Preceding Quarter



Prices, costs, and productivity.—Prices increased only moderately in the third quarter, as they had in the first and second quarters. GNP prices as measured by the fixed-weighted price index increased 4 percent at an annual rate, a little less than in the second quarter and a little more than in the first (table 3). Prices paid by domestic purchasers for the goods and services they buy—whether produced in the United States or abroad—also increased 4 percent in the third quarter. In the two preceding quarters, the export-import price relationship as measured in terms of fixed-weighted price indexes had moved in favor of the United States; the prices of imports had declined while the prices of exports had increased. As a result, prices paid by domestic purchasers increased about 1 percentage point less than GNP prices—2½ percent in the first quarter and 3½ percent in the second.

Within GNP prices, most components, with the exception of food and energy, have registered increases at annual rates of 5 percent or less. Prices of PCE other than food and energy increased moderately each quarter, prices of nonresidential structures remained flat to slightly down, and prices of producers' durable equipment were up only slightly. Prices of residential structures were up 5 percent, after a decline in the second quarter and a large increase in the first; a general uptrend is consistent with the continued recovery of residential construction. Prices of government purchases were at the high end of the range of third-quarter increases. The increase reflected sizable increases in the prices of several goods and services including aircraft, transportation services, and energy, and also in the price of the services of State and local government employees (that is, in their wage rates).

Food prices registered moderate increases in the first and second quarters, but declined in the third. The decline was largely due to lower prices for beef and pork and for fresh vegetables. Meat prices reflected high livestock slaughter, as drought and reduced plantings of grains made feed increasingly expensive.

Energy prices, as measured by prices of energy in GNP and in PCE, increased at annual rates in the range of 7 to 17 percent in the second and third quarters. In the first quarter, these prices had declined substantially, when a glut in the crude oil market and the accompanying price weakness led to declines in the prices of gasoline and, to a lesser extent, of fuel oil. The second-quarter increase was partly due to the 5-cents-a-gallon Federal excise tax on gasoline, which became effective April 1.

The continued moderate rates of inflation in final products are consistent with developments in labor costs and productivity. Table 4 shows, for the business economy other than farm and housing, changes in real gross product, aggregate hours, and compensation. Compensation increased at annual rates of 8 to 11 percent in 1983, but with the very strong increases in product, unit labor costs increased only 3 percent in the first quarter, declined 3 percent in the second, and were flat in the third. The contrast with increases in unit labor costs in recent years—for example, 8 percent in 1982—is striking.

As discussed in the following section on labor market developments, increases in both employment and average weekly hours underlie the increases in aggregate hours. However, these increases, which were quite large in the second and third quarters, were less than those in product, and real gross product per hour was up substantially in each quarter. The quarterly increases in 1983—4, 7½, and 4½ percent—in combination with smaller increases in the second half of 1982 make up the strongest sustained

Table 2.—Alternative Measures of Production

[Billions of 1972 dollars, seasonally adjusted at annual rates]

Line		Dollars							Percent change from preceding quarter at annual rate		
		Level				Change from preceding quarter					
		1982	1983			1983			1983		
		IV	I	II	III	I	II	III	I	II	III
1	Gross national product	1,480.7	1,490.1	1,525.1	1,554.4	9.4	35.0	29.3	2.6	9.7	7.9
2	Less: Rest-of-the-world	22.1	21.0	20.7	21.6	−1.1	−.3	.9	−18.9	−5.5	19.5
3	Gross domestic product	1,458.6	1,469.2	1,504.4	1,532.9	10.6	35.2	28.5	2.9	9.9	7.8
4	Less: Households and institutions	46.9	47.1	47.3	47.5	.2	.2	.2	2.4	1.4	1.8
5	Government	155.8	155.9	156.0	156.0	.1	.1	0	.2	.1	.1
6	Business product	1,255.9	1,266.1	1,301.2	1,329.3	10.2	35.1	28.1	3.3	11.5	8.9
7	Less: Farm	40.6	39.2	37.7	34.8	−1.4	−1.5	−2.9	−13.7	−14.2	−27.5
8	Residual [1]	2.0	−.6	−1.6	−1.6	−2.6	−1.0	0			
9	Nonfarm business product	1,213.2	1,227.5	1,265.1	1,296.1	14.3	37.6	31.0	4.8	12.8	10.2
10	Less: Housing	144.3	145.6	146.9	148.1	1.3	1.3	1.2	3.7	3.6	3.3
11	Nonfarm business product less housing	1,068.9	1,081.9	1,118.2	1,148.0	13.0	36.3	29.8	4.9	14.1	11.1
	Addenda:										
	Motor vehicle output	50.7	59.0	62.5	71.5	8.3	3.5	9.0	83.9	25.6	72.6
	GNP less motor vehicle output	1,430.0	1,431.1	1,462.6	1,482.9	1.1	31.5	20.3	.3	9.1	5.6

1. The residual is the constant-dollar equivalent of the statistical discrepancy. For the third quarter of 1983, it is not yet available; it is assumed in this table to be the same as in the second quarter of 1983.

NOTE.—Most dollar levels are found in the National Income and Product Accounts Tables, table 1.6, and most percent changes are found in table 8.1.

Table 3.—Fixed-Weighted Price Indexes: Change From Preceding Quarter

[Percent change at annual rates; based on index numbers (1972=100), seasonally adjusted]

	1983		
	I	II	III
GNP	**3.4**	**4.3**	**4.1**
Less: Change in business inventories			
Equals: Final sales	3.4	4.3	4.2
Less: Exports	3.2	2.6	3.4
Plus: Imports	−3.8	−6.3	2.7
Equals: Final sales to domestic purchasers	**2.7**	**3.4**	**4.1**
Personal consumption expenditures	1.6	4.9	4.2
Food	2.1	5.1	−1.0
Energy	−17.8	6.8	8.5
Other personal consumption expenditures	5.1	4.5	5.1
Other	4.6	1.2	1.3
Nonresidential structures	−.1	−1.0	.4
Producers' durable equipment	3.8	1.2	1.6
Residential	11.4	−2.6	4.8
Government purchases	4.0	2.6	5.1
Addenda:			
Food and energy components of GNP:[1]			
Food components[2]	3.4	5.4	−.7
Energy components[3]	−19.4	16.5	9.6
GNP less food components	3.4	4.1	4.9
GNP less energy components	5.1	3.5	3.8
GNP less food and energy components	5.4	3.2	4.5

1. Inasmuch as GNP is the sum of final products, the food and energy estimates in this table do not take into account the effect on the prices of final products of changes in the prices of the food and energy that are costs of production.

2. Consists of all components for which separate estimates are prepared. The major component that is not included is purchases of food by the Federal Government other than transactions by the Commodity Credit Corporation that are treated like purchases.

3. Consists of all components for which separate estimates are prepared. The major components that are not included are (1) exports of energy; (2) the gasoline and motor oil portions of inventories of gasoline service stations, and (3) the energy portions of inventories of businesses that do not produce energy for sale.

NOTE.—Most index number levels are found in the National Income and Product Accounts Tables, table 7.2.

advance in this measure of productivity since the recovery from the 1973–75 recession.

Personal income and its disposition

Personal income increased $47½ billion in the third quarter (table 5). This increase, like those earlier in 1983, mirrored the general strengthening of the economy as well as a number of specific developments.

Wage and salary disbursements increased $33 billion. Wages and salaries in manufacturing recorded another substantial increase. The increase was largely in durables, where employment and, to a lesser extent, average hours and hourly earnings were up. Wages and salaries in other commodity-producing industries increased more than in the second quarter; the step-up was largely in construction. In the distributive industries and in government and government enterprises, smaller increases were mainly due to transitory factors. In the former, the increase in wages and salaries was held down, $3½ billion by a 3-week strike in August by telephone workers. In the latter, two kinds of special payments were made to Postal Service employees. These payments boosted the second-quarter increase and, on balance, had no effect on the third-quarter increase. The first of these payments was a retroactive wage payment made following settlement of a suit under the Fair Labor Standards Act against the Postal Service for wage and overtime violations in 1974–78. This payment amounted to $1 billion in the second quarter and $½ billion in the third. The second was a lump-sum payment of $350 per employee made under a 1981 collective-bargaining agreement. This payment—the last of three annual payments—amounted to $1 billion in the third quarter.

Proprietors' income was unchanged. Farm income registered the third consecutive—and largest—decline this year, in part due to drought and a heat wave in many agricultural areas

Table 4.—Real Gross Product, Hours, and Compensation in the Business Economy Other Than Farm and Housing: Change From Preceding Quarter

[Percent change at annual rates; based on seasonally adjusted estimates]

	1983		
	I	II	III
Real gross product	4.9	14.1	11.1
Hours	.9	6.1	6.5
Compensation	8.0	10.8	10.9
Real gross product per hour	4.0	7.6	4.3
Compensation per hour	[1] 7.1	4.5	4.1
Unit labor cost	2.9	−2.9	−.2

1. Increases in employer contributions for social security and for unemployment insurance accounted for 1.1 percentage points of the increase in the first quarter of 1983.

NOTE.—For estimates for 1980–82, see table 12, page 16, of the July 1983 SURVEY OF CURRENT BUSINESS.

Table 5.—Personal Income and Its Disposition: Change From Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1983		
	I	II	III
Wage and salary disbursements	24.7	37.7	33.1
Manufacturing	8.1	12.0	11.6
Other commodity-producing	1.1	1.6	4.0
Distributive	2.9	7.9	4.6
Services	7.9	10.9	8.8
Government and government enterprises	4.7	5.4	4.2
Proprietors' income	4.4	6.6	.2
Farm	−3.9	−1.2	−5.4
Nonfarm	8.3	7.8	5.6
Personal interest income	−5.8	−.1	11.7
Transfer payments	−.5	6.8	−2.4
Other income	6.6	7.0	6.9
Less: Personal contributions for social insurance	3.7	2.1	1.9
Personal income	**25.8**	**55.9**	**47.7**
Less: Personal tax and nontax payments	−2.4	10.8	−12.8
Impacts of legislation	−10.7	−2.4	−25.3
Other	8.3	13.3	12.5
Equals: Disposable personal income	**28.1**	**45.1**	**60.5**
Less: Personal outlays	27.2	75.3	41.1
Equals: Personal saving	**.9**	**−30.2**	**19.4**
Addenda: Special factors in personal income—			
Cost-of-living increases in Federal transfer payments	.2	1.0	.4
Social security base and rate changes (in personal contributions for social insurance)	2.5	.....	.....
Subsidies to farmers	−1.7	1.2	.8
Postal Service special payments	.....	1.1	0
Disaster damage	.....	.....	1.7
Telephone strike	.....	.....	−3.3

in the Midwest and South. Nonfarm income increased by an offsetting amount, but the increase was smaller than in the first half of the year. Part of the deceleration reflected the slowing in residential construction, which is the part of construction in which partnerships and proprietorships are most likely to operate.

Personal interest income, which had declined or shown little change over the last four quarters, increased $11½ billion. The increase was mainly due to an increase in personal financial assets and an upturn in interest rates. In transfer payments, a $7 billion decline in payments under the several unemployment insurance programs—regular, extended, and supplemental—more than offset increases in other types of payments. The latter included a $3 billion increase in social security benefits and a $1 billion increase in supplemental security income (SSI) benefits. The SSI increase was largely the result of the social security package legislated earlier in the year. Rental income of persons, which is included in the other income item shown in table 5, registered a decline of $1 billion. The decline was more than accounted for by a $1½ billion loss due to damage to residential property in Texas from hurricane Alicia.

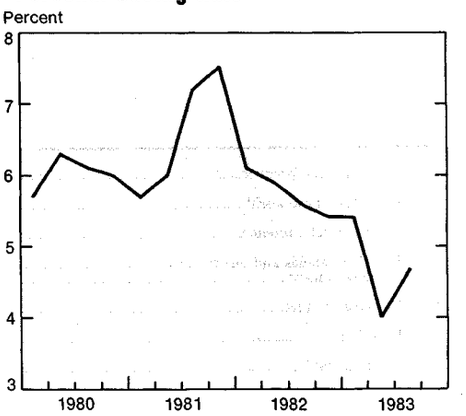
Because personal taxes declined in the third quarter, disposable personal income increased much more than personal income—$60½ billion, or 11 percent at an annual rate. The decline in taxes was due to the final stage of reduction in the income tax withholding rates under the Economic Recovery Tax Act of 1981. This reduction, which amounted to $29 billion, became effective July 1. The strength of the third-quarter increase in disposable personal income largely carried through to real income, because the increase in PCE prices remained moderate. Real disposable personal income increased 6½ percent at an annual rate, after increases of 3½ percent in the second quarter and 3 percent in the first.

The increase in disposable personal income was much larger than the increase in personal outlays, and personal saving increased. The personal saving rate was 4.7 percent, still well below levels in 1982 although up from 4.0 percent in the second quarter (chart 2). In the second quarter, as discussed immediately below, outlays—in which PCE predominates—had registered an extraordinarily large increase, and even with the sizable increase in disposable income, saving had declined.

PCE.—Real PCE increased 3½ percent at an annual rate in the third quarter. With two exceptions, increases were recorded in all the major categories shown in table 1. The exceptions were energy, in services, and clothing and shoes, in nondurables. These categories, along with motor vehicles, which increased only moderately, had increased very sharply in the second quarter and accounted for three-fifths of that quarter's extraordinarily large increase in PCE. As indicated in the article on motor vehicles, the quarterly pattern of motor vehicle purchases may have been affected by sales incentive programs. Expenditures for electric and natural gas services reflected the influence of

CHART 2

Personal Saving Rate



Note.—Personal saving as a percentage of disposable personal income; based on seasonally adjusted annual rates.

U.S. Department of Commerce, Bureau of Economic Analysis 83-10-2

unusual weather. An unusually mild winter tended to limit expenditures on home heating, especially expenditures for gas, in the first quarter. The spring was unusually cool in some parts of the country and tended to raise expenditures in the second quarter. The summer was unusually hot and tended to raise expenditures for home cooling, especially expenditures for electricity, about offsetting declines in expenditures for gas. The pattern in purchases of clothing and shoes—no change in the first quarter, a sharp increase, and a subsequent decline—is difficult to explain.

The nature of these irregularities suggests that a useful perspective on developments in PCE can be obtained from a measure that covers a longer time period. One such measure is the average annual rate of increase from the fourth quarter. That rate of increase—5.4 percent—highlights the substantial strength in this large component of GNP.

Real investment

Nonresidential fixed investment increased 14½ percent at an annual rate in the third quarter, almost double its rate of increase in the second, when it first turned up. The acceleration was accounted for by structures, which increased 11½ percent at an annual rate after six consecutive quarters of decline.

Commercial buildings accounted for almost all of the increase in structures. Investment in office buildings, the larger of the two components of commercial buildings, edged up after three quarters of decline. However, high vacancy rates for office space make it difficult to view this increase as the beginning of a vigorous expansion. Investment in commercial buildings other than offices—a category that includes stores and warehouses—also turned up in the third quarter. Industrial buildings, after a prolonged slide, leveled out in the third quarter. The weakness is perhaps not surprising: In earlier business cycles, industrial buildings trailed the trough in heavy industrial equipment with a median lag of three quarters; this category of equipment, as discussed below, reached a trough in the fourth quarter of 1982.

Producers' durable equipment (PDE) increased somewhat less in the third quarter than in the second, 16 percent at an annual rate compared with 20 percent. The sources of the deceleration can be identified in terms of four broad product categories shown in table 6. High-technology PDE is approximated by aggregating office and store machinery (including computers), communications equipment, and scientific, engineering, and photographic instruments. This category, which accounts for almost one-half of total PDE, has increased rapidly in recent years and is less sensitive to the business cycle than other categories. The other three categories account for about equal parts of total PDE. Heavy industrial PDE—consisting of general and special industrial machinery, fabricated metals and metalworking equipment, electrical transmission and distribution equipment, and engines—usually lags the business cycle at both peaks and troughs; its share in total PDE has been trending down. Transportation equipment—largely passenger cars, trucks, and aircraft—usually turns up at about the same time as the business cycle. "Other" PDE, the final category, consists of construction and agricultural equipment, mining and oilfield machinery, furniture, service industry machinery, and miscellaneous products. The farm and construction components tend to lag at business cycle troughs, and the remaining components, as a group, coincide.

Table 6.—Producers' Durable Equipment in Current and Constant Dollars

	Current dollars				Constant (1972) dollars						
	Billions of dollars, seasonally adjusted annual rates								Percent change from preceding quarter at annual rates		
	1982	1983			1982	1983			1983		
	IV	I	II	III	IV	I	II	III	I	II	III
Producers' durable equipment	**198.4**	**199.3**	**208.8**	**217.9**	**108.3**	**109.6**	**114.7**	**119.0**	**4.9**	**20.0**	**15.9**
High technology	67.9	69.6	73.3	73.7	51.5	52.9	55.7	56.3	11.3	22.9	4.4
Heavy industrial	47.9	48.4	50.3	55.2	19.3	19.5	20.1	21.9	4.2	12.9	40.9
Transportation	39.2	40.9	39.9	42.7	20.5	21.3	21.2	22.8	16.5	−1.9	33.8
Other	43.4	40.3	45.3	46.3	17.0	15.9	17.7	18.0	−23.5	53.6	7.0

NOTE.—High technology equipment consists of: office and store equipment (including computers), communications equipment, photographic instruments and scientific and engineering instruments. Heavy industrial equipment consists of: general and special industrial machinery, fabricated metals and metalworking equipment, steam and internal combustion engines, and electrical transmission and distribution equipment. Transportation equipment consists of: passenger cars, trucks, aircraft, railroad equipment, and ships and boats.

Table 7.—Change in Business Inventories

[Billions of 1972 dollars; seasonally adjusted at annual rates]

	Level				Change from preceding quarter		
	1982	1983			1983		
	IV	I	II	III	I	II	III
Change in business inventories	**−22.7**	**−15.4**	**−5.4**	**4.8**	**7.3**	**10.0**	**10.2**
Farm	−1.6	−.3	−2.1	−5.3	1.3	−1.8	−3.2
Nonfarm	−21.1	−15.1	−3.3	10.1	6.0	11.8	13.4
Manufacturing	−13.6	−12.3	−.8	2.0	1.7	11.5	2.8
Wholesale trade	−2.4	−6.7	−2.9	4.0	−4.3	3.8	6.9
Retail trade	−4.1	3.1	1.7	3.9	7.2	−1.4	2.2
Other	−1.0	.8	−1.3	.2	1.8	−2.1	1.5

NOTE.—Dollar levels are found in the National Income and Product Accounts Tables, table 5.9.

The third-quarter deceleration in total PDE resulted from slowdowns in high-technology and "other" PDE that more than offset speedups in heavy industrial and transportation PDE. In fact, the entire deceleration in total PDE can be attributed to a sharp decline in the communications equipment component of the high-technology category. Although the decline in communications equipment is partly accounted for by the strike in the telephone industry, the decline appears to be too large and too widespread to be entirely accounted for in this manner. In "other" PDE, most of the slowdown can be attributed to a smaller increase than in the second quarter in mining and oilfield machinery and another decline in agricultural machinery. Declines in the latter were to be expected in light of developments in the farm sector.

Residential investment.—The now year-long recovery in residential investment continued. However, the third-quarter increase, at 37 percent at an annual rate, is smaller than those recorded earlier. A slowing in the construction of single-family units more than offset a pickup in the construction of multifamily units.

The slowing in single-family construction reflected the falloff in single-family starts that began in May. As discussed in the "Business Situation" in September, this falloff coincided with an upturn in mortgage interest rates. Multifamily starts continued to move irregularly higher.

Change in business inventories.—Business inventories registered a swing from liquidation to accumulation in the third quarter (table 7). The swing, which amounted to $10 billion, plus the moves to slower rates of liquidation that had occurred in the second and first quarters, accounted for a substantial part of the increase in real GNP since its trough in the fourth quarter of 1982.

The third-quarter swing was more than accounted for by nonfarm inventories. Farm inventories were reduced at a faster rate than in the second quarter; reductions in farm inventories, including substantial reductions in grain stocks, have taken

place over the past year. In nonfarm inventories, each major category—manufacturing, wholesale trade, retail trade, and "other"—contributed to the swing. All except retail trade added to their inventories following earlier run-offs; in retail trade, accumulation was at a faster rate than in the second quarter.

Despite the additions to inventories, and reflecting the strength in final sales, inventory-sales ratios continued to drop in the third quarter. The ratio of constant-dollar business inventories to total business final sales declined to 3.03, down from 3.18 in the fourth quarter of 1982. It had averaged 3.27 in the first three quarters of that year. The ratio of nonfarm business inventories to final sales of goods and structures declined to 4.26, down from 4.49 in the fourth quarter and its average of 4.62 in the first three quarters of 1982.

Real net exports

Net exports declined, as they had in most quarters since mid-1980. Exports were up $3½ billion from the second quarter, but imports were up more, $7 billion.

In exports, merchandise exports increased $1½ billion, or 9 percent at an annual rate. Following a sharp drop through the fourth quarter of 1982, merchandise exports have roughly leveled off; quarterly fluctuations have been in a relatively narrow range. Similar patterns are evident in both agricultural and nonagricultural exports. Agricultural exports—up $½ billion, or 16½ percent, in the third quarter—have fluctuated within a $16–17 billion range. Nonagricultural exports—up $1 billion, or 7½ percent, in the third quarter—have fluctuated around $60 billion. With one exception, most end-product categories of nonagricultural exports also fluctuated with no clear trend. The exception was autos; they increased steadily. In services, receipts of investment income, after a slide through the first quarter, increased in the second quarter and again in the third. The increases reflected the recovery of industrial economies abroad and higher U.S. interest rates.

In imports, merchandise imports increased $5 billion, or 26½ percent at an annual rate. In contrast to merchandise exports, merchandise imports have risen sharply in all three quarters of 1983. Petroleum imports registered another large increase in the third quarter: An average of 6.4 million barrels was imported per day, up from 5.2 million in the second quarter. The increases largely reflected increased industrial demand. Nonpetroleum imports registered another strong increase, spread—as in earlier quarters—across industrial supplies and materials, capital goods, autos, and consumer goods. In services, payments of investment income, like receipts, again increased; they reflected the course of U.S. economic activity and interest rates.

Government purchases

Real government purchases increased 5½ percent at an annual rate, as both Federal purchases and State and local purchases turned around. In Federal purchases, national defense continued to increase in the range of 6½–7½ percent registered earlier in the year. An increase in nondefense was largely due to the Commodity Credit Corporation operations, in which net redemptions of crops—which are treated as negative Federal purchases—were slightly lower than in the second quarter.[3] In State and local purchases, the turnaround was in purchases of structures. Highway construction was up, and probably reflected the beginning of the use of grant funds from the 5-cents-a-gallon Federal excise tax on gasoline.

The Federal sector.—Changes in current-dollar Federal receipts and expenditures on a national income and product accounts basis are shown in table 8. Among expenditures, the changes in purchases and transfer payments have already been referred to. In current dollars, purchases were up $7½ billion; transfer payments were down $3½ billion. A large increase in net interest paid, $9 billion, reflected mainly the higher interest rates paid on Federal securities. A $1½ billion increase in subsidies less the current surplus of government enterprises was more than accounted for by subsidies paid to farmers under the PIK program. These, together with other smaller and partly offsetting changes, resulted in an increase of $13½ billion in total expenditures.

Among receipts, the $29 billion reduction in taxes under the Economic Recovery Tax Act of 1981 was mentioned earlier. It was only partly offset in its effect on personal tax and nontax receipts by an increase in the tax base. Indirect business taxes were down slightly, partly due to a decline in the windfall profit tax. Contributions for social insurance were up $3½ billion. Estimates of corporate profits, and thus of corporate profits tax accruals, are not yet available. It is quite likely that profits and profits tax accruals, reflecting the increase in business production, increased substantially in the third quarter, although not as much as in the second. If this is assumed, total receipts probably declined several billion dollars.

With the $13½ billion increase in expenditures and a decline in receipts, the deficit on a national income and product accounts basis increased substantially from the $166 billion recorded in the second quarter.

3. In the National Income and Product Accounts Tables, tables 3.7B and 3.8B have been expanded to show Commodity Credit Corporation inventory change separately. The component includes the loan and redemption activity of the Commodity Credit Corporation in support of agricultural prices.

Table 8.—Federal Government Receipts and Expenditures, NIPA Basis: Change From Preceding Quarter

[Billions of dollars, based on seasonally adjusted annual rates]

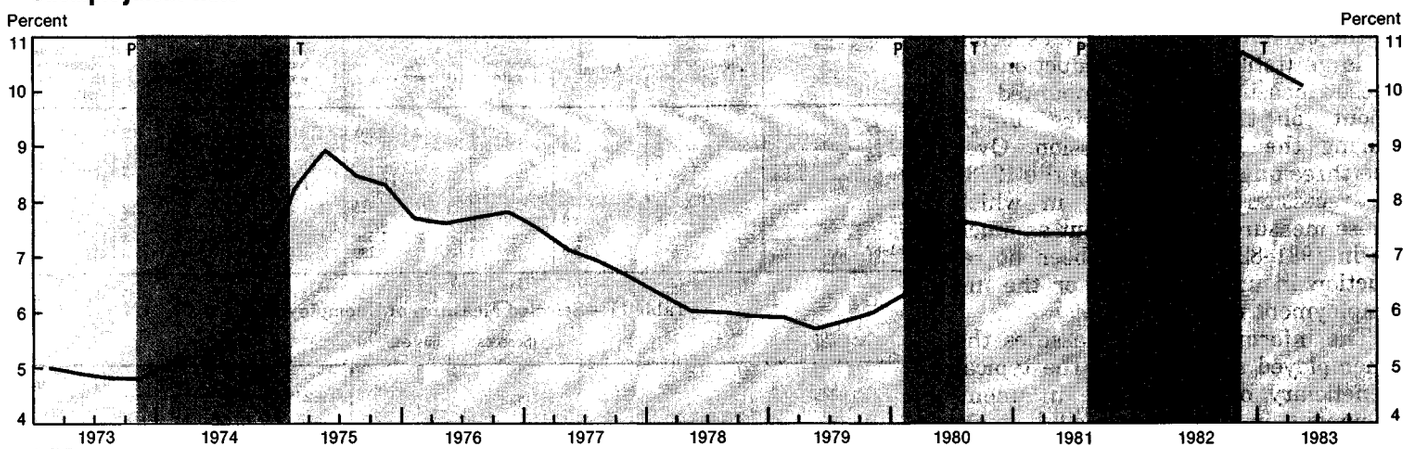
	1983		
	I	II	III
Receipts	**10.7**	**29.3**	**n.a.**
Personal tax and nontax receipts	−5.3	6.6	−17.6
Corporate profits tax accruals	6.4	11.2	n.a.
Indirect business tax and nontax accruals	.3	7.4	−.5
Contributions for social insurance	9.2	4.1	3.5
Expenditures	**−14.2**	**12.0**	**13.6**
Purchases of goods and services	−5.7	.2	7.5
National defense	3.6	5.0	6.4
Nondefense	−9.3	−4.8	1.1
Transfer payments	−4.5	6.7	−3.3
Grant-in-aid to State and local governments	.8	.9	−.3
Net interest paid	−.7	3.4	9.0
Subsidies less current surplus of government enterprises	−4.2	−.4	1.6
Less: Wage accruals less disbursements	−.1	−1.2	.9
Surplus or deficit (−), national income and product accounts	**24.9**	**17.2**	**n.a.**

n.a. Not available.

NOTE.—Dollar levels are found in the National Income and Product Accounts Tables, table 3.2.

CHART 3

Unemployment Rate[1]



1. Civilian.

Note.—Business cycle peaks (P), and troughs (T), are turning points in economic activity, as designated by the National Bureau of Economic Research, Inc. Shaded areas represent recessions.

Data: BLS.

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

83-10-3

Labor Market Conditions

The picture in labor markets brightened considerably as production increased in recent quarters. From the fourth quarter of 1982 to the third quarter of 1983, employment increased substantially, twice as much as the labor force increased. Accordingly, from highs in the fourth quarter, unemployment declined 1.3 million and the civilian unemployment rate declined 1.3 percentage points (chart 3).[4]

Industry employment and hours.—Over the period since the fourth-quarter 1982 trough in production, both employment and average weekly hours registered relatively large increases. As measured by the establishment series, nonfarm payroll employment increased 1,322,000 (table 9). One-half of the increase was in goods-producing industries; more specifically, one-third was in durables manufacturing. In the latter, increases were largest in transportation equipment, lumber and wood products, and electric and electronic equipment. In service-producing industries, employment increases were large in services, in retail trade, and in finance, insurance, and real estate. Employment declined in transportation and public utilities, largely due to the strike by telephone workers, and in government, largely in State and local governments.

Average weekly hours for production workers increased 0.4 hours to 35.1 hours in the third quarter from their fourth-quarter 1982 low. In manufacturing, hours rose 1.4 after leveling off at 39.0 in the second half of 1982. Manufacturing overtime hours also rose substantially—to 3.1 hours—in the third quarter, after leveling off at 2.3 hours in the second half of 1982. Within manufacturing, the recovery was most evident in durables. In service-producing industries, average weekly hours changed little.

Table 9.—Employees on Nonagricultural Payrolls and Average Weekly Hours, by Industry

[Employees in thousands, seasonally adjusted; hours, seasonally adjusted]

	1982:IV	1983			Change: 1982:IV–1983:III
		I	II	III	
Employees:					
Total nonfarm	**88,796**	**88,815**	**89,452**	**90,118**	**1,322**
Goods-producing	23,160	23,088	23,341	23,828	668
Mining	1,067	1,019	998	1,022	−45
Construction	3,835	3,817	3,860	4,015	180
Manufacturing	18,258	18,252	18,484	18,791	533
Durables	10,607	10,606	10,774	11,017	410
Nondurables	7,651	7,646	7,707	7,773	122
Service-producing	65,636	65,727	66,110	66,291	655
Transportation and public utilities	5,020	4,970	4,991	4,781	−239
Wholesale trade	5,214	5,181	5,200	5,243	29
Retail trade	15,093	15,169	15,160	15,295	202
Finance, insurance, and real estate	5,358	5,383	5,436	5,479	121
Services	19,182	19,285	19,564	19,829	647
Government	15,770	15,740	15,726	15,663	−107
Hours:					
Total private nonfarm [1]	**34.7**	**34.8**	**35.0**	**35.1**	**.4**
Goods-producing:					
Mining [2]	41.9	41.9	42.1	42.6	.7
Construction [2]	36.7	36.2	37.3	38.1	1.4
Manufacturing	39.0	39.5	40.1	40.4	1.4
Overtime	2.3	2.5	2.8	3.1	.8
Durable goods	39.3	39.9	40.5	41.0	1.7
Nondurable goods	38.6	38.9	39.5	39.6	1.0
Service-producing:					
Transportation and public utilities	38.9	38.7	38.9	39.0	.1
Wholesale trade	38.4	38.4	38.6	38.6	.2
Retail trade	29.9	29.6	29.8	29.7	−.2
Finance, insurance, and real estate [2]	36.2	36.2	36.2	36.1	−.1
Services	32.6	32.7	32.8	32.7	.1

1. Production or nonsupervisory workers on private nonagricultural payrolls.
2. Not seasonally adjusted.

Source: Bureau of Labor Statistics.

4. The overall unemployment rate, for which members of the resident Armed Forces are counted as part of the labor force, declined 1.2 percentage points over the same period.

All estimates in this section are seasonally adjusted and refer to civilian labor markets.

Unemployment.—The reductions in unemployment and in the unemployment rate in the first three quarters of the current recovery were especially large (table 10). The reductions in these measures have amounted to about one-third of their runups during the 1981–82 recession. Over the three quarters following the 1973–75 recession—a recession in which these measures ran up about as much as in 1981–82—there had been no reduction in unemployment or the unemployment rate.

The information that classifies the unemployed suggests that the typical beneficiary of the decline in unemployment in 1983 is an adult male who had been laid off from a position in a durables manufacturing industry for between 5 and 26 weeks.

Within the major age-sex groups, adult men experienced the largest decline in unemployment from the fourth quarter. Their unemployment declined 660,000, or 1.2 percentage points as a percent of the adult male labor force (table 11). The number of unemployed adult women declined 412,000, or 1.1 points. Although employment gains were about equal for both groups, increases in the respective labor forces offset two-thirds of the employment gain for women but less than one-half of that for men. For teenagers, the decline in unemployment—197,000 or 1.8 points—was entirely due to a decline in the labor force.

The number of unemployed declined in three of the four categories of unemployment by duration. The sharpest reductions were for those unemployed 5 to 14 weeks, which declined 630,000 or 18 percent, and for those unemployed 15 to 26 weeks, which declined 507,000 or 24½ percent. A smaller decline occurred in short-term unemployment—327,000 or 8 percent. Long-term unemployment rose 128,000 or 5½ percent.

Persons unemployed because of layoffs declined 850,000, or one-third, and accounted for almost two-thirds of the decline in unemployment. Layoffs, as usual, had accounted for a disproportionate share of total unemployment during the recession. They declined from a 21-percent share at the fourth-quarter 1982 peak in unemployment to a 15½-percent share in the third quarter of 1983.

Table 10.—Comparison of Recessions, 1948–82

Recession	Duration of recession (quarters)	Decline in real GNP (percent change)		Change in unemployment (thousands)		Change in unemployment rate (percentage points)	
		Actual	Annual rate	During recession	During subsequent three quarters of recovery	During recession	During subsequent three quarters of recovery
1948–49	4	1.4	1.4	2,001	−1,427	3.2	−2.4
1953–54	3	2.6	3.5	1,974	−674	3.1	−1.1
1957–58	3	2.7	3.6	2,165	−1,049	3.2	−1.6
1960–61	3	.1	.1	1,133	−437	1.6	−.6
1969–70	4	.3	.3	1,925	215	2.2	.2
1973–75	5	4.9	3.9	3,323	146	3.4	.1
1980	2	2.2	4.4	1,540	−215	1.3	−.2
1981–82	5	3.0	2.4	3,780	−1,268	3.3	−1.3

Table 11.—Selected Measures of Unemployment

[Seasonally adjusted]

	1982:IV	1983			Change: 1982:IV–1983:III
		I	II	III	
Unemployment (thousands):					
Total, civilian	11,839	11,439	11,222	10,571	−1,268
Adult men	5,829	5,642	5,532	5,169	−660
Adult women	3,961	3,926	3,777	3,549	−412
Teenagers	2,049	1,871	1,913	1,852	−197
Unemployment rate (percent):					
Total, civilian	10.7	10.3	10.1	9.4	−1.3
Adult men	10.0	9.7	9.4	8.8	−1.2
Adult women	9.0	8.9	8.5	7.9	−1.1
Teenagers	24.3	22.8	23.3	22.5	−1.8
Unemployment by duration (thousands):					
Less than 5 weeks	3,971	3,569	3,574	3,644	−327
5 to 14 weeks	3,507	3,191	3,016	2,877	−630
15 to 26 weeks	2,089	1,910	1,677	1,582	−507
27 weeks and over	2,385	2,712	2,810	2,513	128
Average duration (weeks)	17.5	19.1	20.5	20.6	3.1
Median duration (weeks)	9.9	10.5	11.8	9.3	−.6
Unemployment by reason (thousands):					
Layoffs	2,506	2,033	1,904	1,656	−850
Permanent separations	4,824	4,745	4,772	4,477	−347
Voluntary separations	808	863	799	790	−18
New entrants	1,276	1,163	1,312	1,229	−47
Reentrants	2,499	2,513	2,426	2,435	−64
Unemployment rate, by industry (percent): [1]					
Total private nonfarm	11.3	10.8	10.3	9.6	−1.7
Mining	18.0	18.0	20.4	16.2	−1.8
Construction	22.0	20.0	19.6	18.1	−3.9
Manufacturing	14.6	13.0	12.1	10.6	−4.0
Durables	16.7	14.5	13.1	11.2	−5.5
Nondurables	11.3	11.0	10.6	9.8	−1.5
Transportation and public utilities	8.1	7.9	7.5	7.5	−.6
Wholesale and retail trade	10.7	11.0	10.2	9.7	−1.0
Finance and service industries	7.6	7.4	7.3	7.2	−.4
Government workers	5.0	5.9	5.7	5.1	.1
Farm workers	15.1	16.2	17.1	15.0	−.1

1. Wage and salary workers.
Source: Bureau of Labor Statistics.

For wage and salary workers in private nonfarm business, declines in unemployment rates were particularly large in durables manufacturing, down from 16.7 percent to 11.2 percent, and in construction, down from 22.0 percent to 18.1 percent. The runups in unemployment in these industries in the 1981–82 recession had been large, as usual. The smallest declines were in finance and service industries, down from 7.6 percent to 7.2 percent, and in transportation and public utilities, down from 8.1 percent to 7.5 percent.

Unemployment rates are available for the 10 most populous States, using household survey data.[5] In the third quarter, the range of rates for those States was from a high of 13.7 percent for Michigan, where durables manufacturing is concentrated in motor vehicles and heavy industries, to a low of 6.3 percent for Massachusetts, where durables manufacturing is concentrated in rapid-growth high technology industries. Changes from the fourth quarter of 1982 ranged from declines of 3.1 percentage points for Michigan to an increase of 0.1 point in the relatively low rate for Texas.

5. The 10 States are California, Florida, Illinois, Massachusetts, Michigan, New Jersey, New York, Ohio, Pennsylvania, and Texas. Estimates for the other States are based on different procedures.

the BUSINESS SITUATION

REVISED (45-day) estimates show that real GNP increased 7½ percent at an annual rate in the third quarter of 1983, compared with the 8-percent increase shown by the preliminary (15-day) estimates. Revisions in the major components of GNP were small (table 1). Downward revisions were in personal consumption expenditures (mainly in food purchases), change in business inventories (wholesale trade), residential investment (partly due to an upward revision in prices), and government purchases (Federal defense purchases). Upward revisions were in net exports (nonagricultural exports were revised up and nonpetroleum imports were revised down) and nonresidential fixed investment (producers' durable equipment). The increase in prices as measured by the GNP fixed-weighted price index was revised up from 4 to 4½ percent.

Table 1.—Revisions in Selected Component Series of the NIPA's, Third Quarter of 1983

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	15-day estimate	45-day estimate	Revision	15-day estimate	45-day estimate
	Billions of current dollars				
GNP	**3,363.3**	**3,360.3**	**−3.0**	**11.6**	**11.2**
Personal consumption expenditures	2,186.5	2,182.9	−3.6	7.6	6.9
Nonresidential fixed investment	348.4	349.6	1.2	15.3	16.9
Residential investment	140.7	139.9	−.8	44.5	41.1
Change in business inventories	11.8	8.7	−3.1		
Net exports	−25.9	−20.2	5.7		
Government purchases	701.8	699.4	−2.4	11.2	9.7
National income		**2,686.6**			**11.8**
Compensation of employees	2,011.3	2,011.9	.6	8.9	9.1
Corporate profits with inventory valuation and capital consumption adjustments		246.2			62.0
Other	427.4	428.5	1.1	1.5	2.6
Personal income	**2,761.4**	**2,763.2**	**1.8**	**7.2**	**7.5**
	Billions of constant (1972) dollars				
GNP	**1,554.4**	**1,553.6**	**−.8**	**7.9**	**7.7**
Personal consumption expenditures	1,019.2	1,018.0	−1.2	3.5	3.0
Nonresidential fixed investment	168.7	169.3	.6	14.6	16.3
Residential investment	56.9	56.2	−.7	37.0	30.1
Change in business inventories	4.8	3.9	−.9		
Net exports	8.7	10.4	1.7		
Government purchases	296.1	295.8	−.3	5.7	5.3
	Index numbers, 1972=100 [1]				
GNP implicit price deflator	216.37	216.29	−.08	3.4	3.3
GNP fixed-weighted price index	225.1	225.3	.2	4.1	4.4
GNP chain price index				4.4	4.3

1. Not at annual rates.

NOTE.—For the third quarter of 1983, the following revised or additional major source data became available: For *personal consumption expenditures,* revised retail sales for August and September; for *nonresidential fixed investment,* manufacturers' shipments of equipment for August (revised) and September, construction put in place for August (revised) and September, and a partial tabulation of business expenditures for plant and equipment for the quarter; for *residential investment,* construction put in place for August (revised) and September; for *change in business inventories,* book values for manufacturing and trade for August (revised) and September; for *net exports of goods and services,* merchandise trade for August (revised) and September; for *government purchases of goods and services,* Federal unified budget outlays for September, and State and local construction put in place for August (revised) and September; for *wages and salaries,* revised employment, average hourly earnings, and average weekly hours for August and September; for *corporate profits,* domestic book profits for the quarter; for *GNP prices,* the Consumer Price Index and the Producer Price Index for September, unit value indexes and export and import price indexes for September, and residential housing prices for the quarter.

The revisions in the third-quarter GNP do not alter the picture of economic activity described in the October "Business Situation." About one-third of the strong increase in GNP was accounted for by a swing in business inventories to accumulation after six consecutive quarters of liquidation. Among the components of final sales, personal consumption expenditures and residential investment continued to increase, but at slower rates than in the second quarter. Nonresidential fixed investment was up more than in the second quarter; structures turned around, and producers' durable equipment registered another sizable increase. Government purchases, due to turnarounds in Federal and in State and local purchases, increased after a small decline. The slide in net exports slowed markedly in the third quarter; exports increased following a decline, and imports were up about the same as in the second quarter.

Corporate profits

Corporate profits from current production—profits with inventory valuation and capital consumption adjustments—increased $28 billion to $246 billion in the third quarter.[1] In the second quarter, they had increased a record $36½ billion to $218 billion (table 2).

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

An increase in the domestic profits of nonfinancial corporations more than accounted for the third-quarter increase. These profits increased $28½ billion to $194½ billion, following an increase of $32 billion. In both quarters, the increases resulted from the combination of large increases in the real product of nonfinancial corporations, moderate increases in unit prices, and decreases in unit labor and nonlabor costs. The decreases in labor costs were the first registered since the second and third quarters of 1975.

Increases in manufacturing profits accounted for a major share of the increase in nonfinancial profits. Profits of most manufacturing industries were up and reflected strengthening sales in nearly all manufacturing industries. Profit increases were especially large for motor vehicle, petroleum, and chemicals manufacturers. Motor vehicle manufacturers' profits reflected increased shipments to dealers, who rebuilt depleted inventories, and cutbacks in sales incentive programs. Both petroleum and chemicals manufacturers' profits reflected increasing producer prices for their products in combination with lower costs for petrochemical feedstocks and for some types of crude oil.

Increases occurred in the profits of nearly all nonmanufacturing industries. Utilities' profits increased from an already high second-quarter level, as unusually hot summer weather in many parts of the country led to stepped up use of electricity for air conditioning. Increased transportation profits resulted primarily from reduced losses by airlines; sharply higher air fares, as measured by cents per revenue passenger mile, offset the effects of reduced air travel (seasonally adjusted).

Domestic profits of financial corporations decreased $1 billion to $31 billion in the third quarter. The decrease was more than accounted for by decreases in the profits of savings and loan associations and of mutual savings banks, which were adversely affected by increasing interest rates on some types of deposits. The decrease in financial profits was the first since the first quarter of 1982; since that trough, these profits have doubled. The Special Note that begins on p. 3 discusses the recent volatility of these profits. As background, it highlights the diversity of financial corporations and reviews the accounting concepts and methodology that underlie the estimation of their profits.

Table 2.—Corporate Profits

[Billions of dollars, seasonally adjusted at annual rates]

	1982	1983		
	IV	I	II	III
Corporate profits with IVA and CCAdj	**161.9**	**181.8**	**218.2**	**246.2**
Domestic industries	137.8	161.6	197.7	225.4
Financial	23.5	27.8	32.1	31.1
Nonfinancial	114.3	133.9	165.7	194.3
Rest of the world	24.1	20.2	20.5	20.7
Corporate profits with IVA and without CCAdj	**157.2**	**168.0**	**192.7**	**208.5**
Domestic industries	133.1	147.8	172.2	187.8
Financial	25.5	29.8	33.8	32.5
Nonfinancial	107.6	118.0	138.4	155.3
Manufacturing	48.3	53.7	68.1	n.a.
Durable goods	1.2	10.0	18.3	n.a.
Primary metal industries	−6.0	−1.6	−1.1	n.a.
Fabricated metal industries	2.1	2.8	4.0	n.a.
Machinery except electrical	1.8	1.1	2.9	n.a.
Electric and electronic equipment	2.4	3.5	3.0	n.a.
Motor vehicles and equipment	−1.2	3.0	5.6	n.a.
Other	2.2	1.2	3.9	n.a.
Nondurable goods	47.1	43.6	49.9	n.a.
Food and kindred products	7.2	6.9	6.9	n.a.
Chemicals and allied products	3.0	4.8	5.5	n.a.
Petroleum and coal products	23.5	15.9	20.0	n.a.
Other	13.4	16.0	17.4	n.a.
Nonmanufacturing	59.3	64.4	70.3	n.a.
Rest of the world	24.1	20.2	20.5	20.7

IVA Inventory valuation adjustment.
CCAdj Capital consumption adjustment.
n.a. Not available.

Profits from the rest of the world increased slightly to $20½ billion in the third quarter, matching the increase in the second. The increases were small because increases in earnings on U.S. corporations' foreign assets—which reflected recoveries in the economies of many industrial nations—were largely offset by sharp increases in the earnings on foreign corporations' U.S. assets. U.S. corporations' foreign earnings and foreign corporations' U.S. earnings are netted in the calculation of rest-of-the world profits.

Other profits measures.—Profits before tax increased $28 billion to $246 billion in the third quarter, following an increase of $36½ billion. The third-quarter level remains below the peak of $261 billion recorded in the first quarter of 1980. These profits exclude the inventory valuation adjustment (IVA) and the capital consumption adjustment (CCAdj). The IVA became more negative in the third quarter, decreasing $8 billion to −$18½ billion, following a slightly larger decrease. The decreases resulted from increased rates of inflation of prices of goods held in inventories; the largest decreases occurred in the trade industry and in the food, chemicals, machinery, and transportation equipment manufacturing industries. The CCAdj increased $12 billion to $37½ billion, following an increase of $11½ billion.[2] The increases reflected in part the effects of provisions of the Economic Recovery Tax Act of 1981 (ERTA) permitting the use of shorter service lives for measuring the depreciation on new capital (as reported to the Internal Revenue Service). (For further discussion, see the "Business Situation" in the September 1983 SURVEY OF CURRENT BUSINESS.)

Disposition of profits.—Corporate profits taxes increased $9 billion to $85 billion in the third quarter, following an increase of $14½ billion. Provisions of the Tax Equity and Fiscal Responsibility Act of 1982 have progressively raised profits tax liability, and partly offset the effects of ERTA.

Dividends continued their 8-year uptrend in the third quarter, increasing $1½ billion to $73½ billion, following an increase of $½ billion. Undistributed profits increased $13 billion to $68 billion, following an increase of $18½ billion.

2. The capital consumption adjustment converts depreciation of fixed capital used up in production to a consistent basis with respect to service lives (85 percent of Internal Revenue Service Bulletin F for equipment and nonresidential structures) and depreciation formulas (straight line). It also converts depreciation to replacement cost, the valuation concept underlying national income and product accounting, from historical cost, the concept generally underlying business accounting.

Special Note.—Profits of Financial Corporations

AS NOTED in the "Business Situation," on a quarterly basis, profits of financial corporations have recovered strongly since the low in the first quarter of 1982. From 1978 to 1982, these profits had declined sharply—$11½ billion, or about one-third—and contributed far more than proportionately to the decline in total domestic corporate profits (chart 1). In earlier years, profits of financial corporations had trended rather steadily upward, with only mild declines in recessions.

The recent volatility of these profits largely reflects the effects of the course of interest rates on this diverse group of corporations—some of which were favorably affected, and some adversely affected. Further, the appearance of volatility was heightened by the impact on these profits of the national income and product accounting treatment of private noninsured pension funds. In order to shed light on movements in these profits, this Special Note highlights the diverse nature of financial corporations and aspects of national income and product accounting that underlie the measures of their profits.

Coverage, concepts, and methodology

In the presentation of corporate profits by industry in table 6.20 of the National Income and Product Accounts Tables, the "financial" line is shown as a component of "domestic." [1] Thus, what will be referred to in this Special Note as financial profits are the profits from the U.S. operations of corporations primarily engaged in financial activities. The profits of these corporations averaged about 14 percent of total domestic profits over the last three decades.

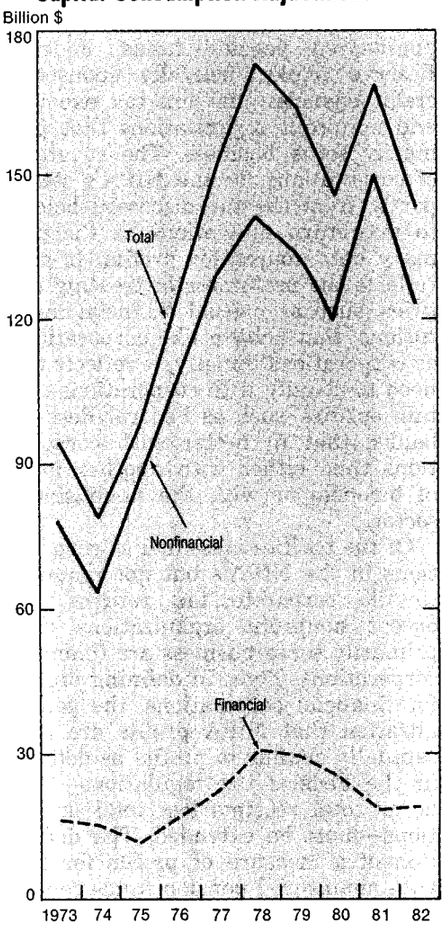
As is suggested by the coverage of the six categories of financial profits detailed for this Special Note in table 1, financial corporations are diverse. Some are closely held corporations; others are sponsored by the Federal Government. Some, like commercial banks, engage in a broad range of financially oriented activities; others, like real estate investment trusts, are narrowly focused. Yet others, like Federal home loan banks, serve only other financial institutions.

For the national income and product accounts (NIPA's), the coverage of the term "corporation" is not congruent with that of corporations as defined by State and Federal laws.

1. The coverage of "financial" differs from that of the finance, insurance, and real estate division of the Standard Industrial Classification (SIC). In terms of the breakdowns used in tables (such as 6.21B) that are based on the SIC, "financial" includes banking, credit agencies other than banks, security and commodity brokers and services, and insurance carriers; excludes insurance agents, brokers, and services, and real estate; and includes part of investment and other holding companies.

CHART 1

Domestic Corporate Profits With Capital Consumption Adjustment



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

83-11-1

Table 1.—Domestic Financial Corporate Profits

[Billions of dollars]

	Coverage	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Domestic financial profits with CCAdj		**16.0**	**15.0**	**11.5**	**16.6**	**22.6**	**30.6**	**29.5**	**25.3**	**18.4**	**19.0**
Domestic financial profits without CCAdj		**15.9**	**15.0**	**11.8**	**17.1**	**23.1**	**31.0**	**30.3**	**26.9**	**20.3**	**20.9**
Federal Reserve	Federal Reserve banks	4.5	5.7	5.7	6.0	6.2	7.7	9.6	11.9	14.5	15.4
Other		11.4	9.3	6.2	11.1	16.9	23.3	20.7	15.0	5.8	5.5
Commercial banks	Commercial banks and bank holding companies	5.3	5.1	4.3	4.4	5.2	6.7	8.1	6.4	5.9	5.6
Thrift institutions	Savings and loan assoc., mutual savings banks, and credit unions.	3.3	2.4	2.0	3.2	4.6	6.0	4.7	.1	−7.0	−5.8
Federally sponsored, and personal and business, credit agencies.	Federal home loan banks, Federal land banks, Federal Home Loan Mortgage Corp., Federal intermediate credit banks, and personal and business credit agencies.	.7	1.3	.6	1.1	.9	2.7	1.1	−.5	−.2	.2
Insurance carriers	Life insurance companies, nonlife insurance companies, and private noninsured pension funds.	2.4	.3	−.4	2.3	6.6	7.9	6.9	7.0	5.0	2.9
Investment-oriented institutions	Security and commodity brokers, dealers, and services; regulated investment companies; real estate investment trusts; and small business investment companies.	−.3	.2	−.3	.1	−.5	0	−.1	2.0	2.0	2.6

CCAdj Capital consumption adjustment.

First, the NIPA term covers all business entities required to file Federal corporate income tax returns; these include, in addition to corporations defined by law, many other types of business entities, such as most mutual financial institutions. Second, the term covers several types of entities that are not required to file corporate tax returns: credit unions, private noninsured pension funds, Federal Reserve banks, federally sponsored credit agencies that are tax exempt, and nonprofit organizations that primarily serve business. The coverage of corporations for the NIPA's stems partly from the tie, discussed below, to tax-return tabulations as the primary data source for profits. It also reflects the usefulness of treating entities, such as mutual financial institutions, that behave like corporations as corporations. Finally, it reflects the need to classify with corporations certain entities, such as Federal Reserve banks, that fit better with corporations than either with another form of business or with the nonbusiness sector.

Of the entities classified as corporations in the NIPA's but not required to file corporate tax returns, all except nonprofit organizations that primarily serve business are financial corporations. Thus, in defining profits for financial corporations, the generalization that NIPA profits are conceptually similar to profits as defined in the Federal tax regulations—that is, as total receipts less total deductions—must be extended. The definition of a measure of profits for private noninsured pension funds can be taken as an example. These funds—for which banks and other financial institutions except life insurance carriers are trustees—receive income, including dividends, on their investments. Reflecting the nature of these funds, in the NIPA's their income is attributed to persons as savings. In addition, their dividends are subject to the accounting requirement that the NIPA's show an unduplicated measure of dividends. This general requirement is implemented by netting dividends received by corporations against dividends paid by them. For pension funds, which do not pay any dividends, the resulting measure of net dividends paid is negative. Thus, the measure of profits defined for these funds consists only of net dividends paid, and it is negative.

Although NIPA profits are similar to profits as reported on tax returns, there are several conceptual differences. Three of these differences are particularly significant to the measurement of profits of financial corporations. First, NIPA profits exclude capital gains and losses. Thus, the substantial amounts of capital gains and losses earned on the portfolios of financial corporations (which are reported as part of profits on tax returns) are excluded from NIPA profits.[2] This exclusion is particularly significant to the measurement of profits of regulated investment companies, which include mutual funds. Second, NIPA profits are net of dividends received from domestic corporations. This netting is particularly significant to the measurement of profits of life and nonlife (property and casualty) insurance carriers and regulated investment companies, as well as underlying the measurement of profits of private noninsured pension funds; all of these typically hold a large share of their assets in corporate stocks and thus receive substantial amounts of dividends. Third, NIPA profits include the excess of additions to bad debt reserves over losses actually incurred. This feature of NIPA profits is particularly significant to the measurement of profits of commercial banks and of savings and loan associations.[3]

Two further adjustments are usually required to derive NIPA profits—that is, profits from current production. Of the two adjustments, made to place NIPA profits on a basis that values capital used up in production at replacement cost with consistent service lives and depreciation formulas, only the capital consumption adjustment is made for financial profits. As a rule, financial corporations do not carry enough inventories of goods to require an inventory valuation adjustment. The capital consumption adjustment is small, however, and is not available separately for the various categories of financial profits.

In general, estimates of profits are based, in industry detail, on tabulations of corporate income tax returns published by the Internal Revenue Service in its *Statistics of Income* and, for the 2 most recent years before those tabulations become available, extrapolations using other data sources. Among the financial corporations, this methodology is used for commercial banks, thrift institutions except credit unions, some credit agencies, life and nonlife insurance carriers, and investment-oriented institutions. In most cases, the extrapolators are prepared using income and related data from regulatory agencies (such as the Federal Home Loan Bank Board for savings and loan associations, and the Securities and Exchange Commission for security and commodity brokers), publicly available financial statements for commercial banks and nonlife insurance, and trade associations (such as the National Association of Mutual Savings Banks and the American Council of Life Insurance). For investment-oriented institutions except security and commodity brokers, the extrapolators are based on trends judgmentally adjusted for changes in business conditions. For the financial corporations that do not file corporate income tax returns, estimates are based on the following: for credit unions, income and related data from the National Credit Union Administration; for Federal Reserve banks and the tax-exempt federally sponsored credit agencies, income and related data from the agencies or their parent organizations; and for private noninsured pension funds, holdings of corporate stock from the Federal Reserve's flow-of-funds accounts combined with average stock yields.

Financial profits, 1973–82

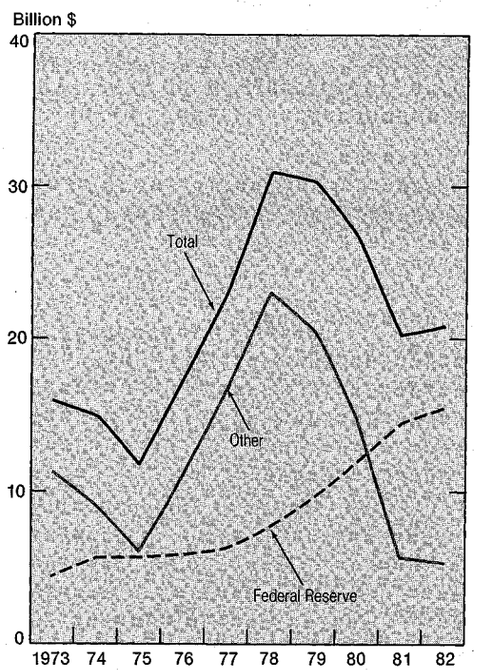
After declining moderately in 1974 and 1975, financial profits (without capital consumption adjustment) increased sharply through 1978 to $31 billion, declined sharply through 1981, and increased slightly to $21 billion in 1982 (chart 2). The overall pattern masks very different patterns for the major categories of financial profits.

2. Capital gains and losses realized on the securities held in trading accounts by security and commodity brokers are an exception.

3. These and other items, including an adjustment for understatement of profits on tax returns, that reconcile tax-return and NIPA profits are shown for total corporate profits in table 8.12 in the National Income and Product Accounts Tables; see, for example, the July 1983 SURVEY OF CURRENT BUSINESS.

CHART 2

Financial Profits



NOTE.—Profits are without capital consumption adjustment.
U.S. Department of Commerce, Bureau of Economic Analysis 83-11-2

Of those shown in table 1, only Federal Reserve profits increased throughout the period. Among the other categories, profits of thrift institutions and, to a lesser extent, profits of insurance carriers and of commercial banks were weak toward the end of the period. By the end of the period, reflecting the strength of Federal Reserve profits and the weakness of other profits, Federal Reserve profits accounted for three-fourths of the total.

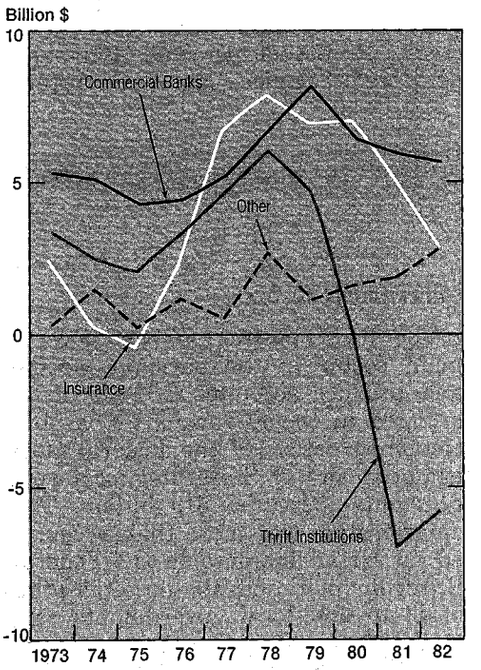
Increases in Federal Reserve profits were moderate through 1977 and then large. These profits mainly reflect interest on Federal Reserve banks' holdings of Federal debt instruments; these holdings change as purchases and sales are made in order to try to influence the money supply and interest rates. During the period of large increases, about one-fourth of the $9 billion increase in profits was due to increases in holdings. The remainder was primarily due to increased average interest rates on these holdings.

The pattern of financial profits excluding Federal Reserve profits was similar to the overall pattern except that the decline from 1978 to 1981 was even sharper and continued into 1982. The poor performance of thrift institutions' profits was a major factor; these profits accounted for about two-thirds of the decline from 1978 to 1982. Profits of thrift institutions peaked at $6 billion in 1978, and, following declines in 1979 and 1980, registered losses of $7 billion and $6 billion in 1981 and 1982 (chart 3). The weakness after 1978 is traceable to swings from profits to large losses for mutual savings banks and for savings and loan associations. For savings and loan associations, the swing resulted from three main factors: (1) interest paid on deposits reflected the generally increasing interest rates augmented by the effects of liberalized interest rate ceilings and other elements of the increased competitiveness of financial institutions; (2) interest receipts reflected the slow increase in the average interest rate on their portfolios, which are dominated by long-term mortgages; and (3) net outflows of new funds in 1981 and 1982 limited acquisitions of new, high-yield assets. Similar factors affected mutual savings banks. Profits of credit unions, which reflect interest on consumer loans to members and on their holdings of other financial assets, showed moderate year-to-year variability, but declined little from 1978 to 1982.

Changes in profits of the insurance group were substantial throughout the period. These profits declined sharply in 1974 and 1975, increased sharply to a peak of $8 billion in 1978, and then declined to $3 billion in 1982. This pattern reflected disparate movements in the three components. Sharp fluctuations in nonlife insurance profits produced most of the year-to-year variability; as is typical, most of the fluctuations were traceable to profits from their underwriting operations rather than from their portfolio holdings. Life insurance profits increased steadily, but moderately, throughout the period. Private noninsured pension funds registered steadily increasing losses. From 1978 to 1982, pension fund losses increased from $4 billion to $6½ billion, thus accounting for about one-half the decline for this group. As noted earlier, these losses result from the NIPA measurement of their profits as their (nonexistent) dividends paid less dividends received. These funds registered substantial increases in dividends received during the period, and as a result their losses increased. The increase in dividends received largely reflected the rapid growth—near doubling from 1978 to 1982—in their portfolios of corporate stocks.

CHART 3

Financial Profits Excluding Federal Reserve Profits



NOTE.—Profits are without capital consumption adjustment.
Estimates are from table 1.
U.S. Department of Commerce, Bureau of Economic Analysis 83-11-3

Commercial banks' profits declined slightly in 1974 and 1975, increased to a peak of $8 billion in 1979, and then declined to $5½ billion in 1982. Interest paid reflected conditions similar to those affecting savings and loan associations: generally rising interest rates and increased competitiveness—both among banks and with thrift institutions and money market funds. As a result, interest paid increased about as much as interest received. Problem loans, in part the result of continuing adverse economic conditions, became a major, and more or less pervasive, depressant to profits.

The other categories of financial profits—those of the credit agencies and investment-oriented institutions—have fluctuated from year to year, but have remained at low levels. Among the credit agencies, profits of the federally sponsored credit agencies fluctuated modestly around a

gradual uptrend. These profits are derived mainly from interest on portfolio holdings held to carry out their several missions, which are largely related to mortgage and agricultural credit. Profits of personal and business credit agencies showed substantial volatility, ending the period with several years of losses. Among the investment-oriented institutions, fluctuations in the profits of security and commodity brokers have been responsible for much of the year-to-year variability. These profits are primarily from sales of securities and their underwriting operations. Regulated investment companies, real estate investment trusts, and small business investment companies registered losses through 1979, then returned to profitability.

Government sector

The fiscal position of the government sector in the national income and product accounts (NIPA's) deteriorated in the third quarter, as the combined deficit of the Federal Government and of State and local governments increased $19 billion. The deterioration was more than accounted for by an increase in the Federal Government deficit; the fiscal position of State and local governments continued to improve. The combined deficit, at $133 billion, was slightly higher than the $127 billion deficit of a year earlier. Over the past year, the Federal Government deficit increased $30 billion, but the State and local government surplus increased $24 billion.

The Federal sector.—The Federal Government deficit, which had declined $42 billion over the first half of the year, increased $22½ billion in the third quarter to $188½ billion, as receipts declined and expenditures increased.

Receipts declined $7 billion, compared with a $29½ billion increase in the second quarter. The third-quarter decline was more than accounted for by a $17½ billion decline in personal tax and nontax receipts, reflecting the final reduction in income tax withholding rates under the Economic Recovery Tax Act of 1981. This reduction, which amounted to $29 billion, became effective July 1. Indirect business tax and nontax accruals also declined, reflecting a further decline in windfall profit taxes. Corporate profits tax accruals increased $7 billion and contributions for social insurance increased $3½ billion, as corporate profits and wages and salaries continued to record strong gains.

Expenditures increased $15½ billion, compared with $12 billion in the second quarter. All major categories of expenditures increased more than in the previous quarter, except transfer payments, which declined. Net interest paid recorded the largest increase—$9 billion; the increase was mainly the result of higher interest rates. Purchases of goods and services increased $5 billion. Within the total, nondefense was up $2½ billion; agricultural purchases by the Commodity Credit Corporation (CCC) increased $1½ billion, crude oil purchases for the strategic petroleum reserve increased $1 billion, and all other purchases were unchanged. The increase in CCC purchases was the net of a $4 billion increase in regular CCC purchases and a $2½ billion decline as a result of the payment-in-kind (PIK) program. The PIK program provides certain crops—mainly corn, cotton, and wheat—to farmers who agreed to divert acreage from production. The crops are given to farmers from CCC stocks and, therefore, the transactions have no effect on total expenditures. In the NIPA's, the PIK transactions are treated as negative CCC purchases and as subsidy payments to farmers.

Subsidies less the current surplus of government enterprises also increased $5 billion. The increase was accounted for by the CCC deficit ($3 billion), the Postal Service deficit ($1 billion), and subsidy payments to farmers ($1 billion). The increase in the Postal Service deficit reflected a third annual bonus payment of $350 per employee and a pay raise. The increase in subsidy payments to farmers was the net of a $2½ billion increase under the PIK program and a $1½ billion decline in regular payments. Grants-in-aid to State and local governments increased $½ billion; a $1 billion increase in highway grants was partly offset by a $½ billion decline in food and nutrition grants. The increase in highway grants reflected the initial spending of funds from the gasoline excise tax increase in April under the Highway Revenue Act of 1982.

Transfer payments to persons declined $3½ billion, compared with $6 billion increase in the second quarter. A $7 billion decline in unemployment benefits was partly offset by increases in social security benefits ($2½ billion) and in supplemental security income (SSI) benefits ($1 billion). All types of unemployment benefits declined; regular and extended benefits, $2½ billion each, and supplementary benefits, $2 billion. The increase in SSI benefits included $½ billion for a legislated benefit increase effective July 1.

For fiscal year 1983, the Federal Government deficit (on the NIPA basis) amounted to $186½ billion, or $9 billion below the deficit based on the midsession review of the unified budget (see the August SURVEY for details of the midsession review). Receipts were $1½ billion higher and expenditures were $7½ billion lower than previously estimated.

On a high-employment budget basis, the Federal fiscal position moved from a deficit of $36 billion in the second quarter to a deficit of $74 billion in the third (see table 1 on page 7). The high-employment deficit as a percentage of potential GNP increased from 1.0 percent in the second quarter to 2.0 percent in the third—a move toward a more expansionary fiscal position. As percentages of potential GNP, high-employment expenditures increased slightly, but high-employment receipts decreased sharply, from the second quarter to the third.

The State and local sector.—The State and local government surplus increased $3½ billion, to $55½ billion, as receipts continued to increase

more than expenditures. The increase in the surplus was largely accounted for by a $2½ billion increase in the "other" surplus, that is, in the surplus excluding social insurance funds.

Receipts increased $14 billion, compared with $17 billion in the second quarter. Indirect business tax and nontax accruals increased $5½ billion; sales taxes accounted for $3 billion of the increase and property taxes for $2 billion. Personal tax and nontax receipts increased $5 billion, including $2 billion for tax increases, primarily in Illinois, Pennsylvania, and Wisconsin. Corporate profits tax accruals increased $2½ billion.

Expenditures increased $10½ billion, compared with $5½ billion in the second quarter. Purchases of goods and services more than accounted for the increase; all other expenditures, on balance, declined slightly. Within purchases, compensation increased $4½ billion, construction, $3½ billion, and all other purchases, $3 billion. The increase in construction was the first since late 1982 and the largest since a $4½ billion increase in the second quarter of 1978. Although highways accounted for the bulk of the increase, all major types of construction recorded gains. The $3 billion increase in highway construction reflected, in part, the increase in highway grants mentioned earlier.

Reconciliation and Other Special Tables

Table 1.—High-Employment Federal Receipts and Expenditures

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

Year and quarter	Receipts					Expenditures					Surplus or deficit (−)				
	Level	Percentage of potential GNP	Change from preceding period			Level	Percentage of potential GNP	Change from preceding period			Level	Percentage of potential GNP	Change from preceding period		
			Total	Due to automatic inflation effects	Due to discretionary policy and other factors			Total	Due to automatic inflation effects	Due to discretionary policy and other factors			Total	Due to automatic inflation effects	Due to discretionary policy and other factors
1977	392.3	19.8	35.2	25.7	9.6	412.7	20.9	39.1	14.5	24.5	−20.4	−1.0	−3.8	11.0	−14.9
1978	440.6	20.1	48.3	37.9	10.4	456.5	20.8	43.8	16.8	27.0	−15.9	−.7	4.5	21.1	−16.6
1979	504.9	20.5	64.3	48.1	16.2	506.9	20.6	50.4	20.4	29.9	−2.0	−.1	13.9	27.7	−13.7
1980	576.8	20.9	71.9	57.2	14.6	593.9	21.5	87.0	29.5	57.5	−17.1	−.6	−15.1	27.7	−42.9
1981	671.3	21.6	94.5	63.5	31.0	674.5	21.7	80.6	35.9	44.7	−3.2	−.1	13.9	27.6	−13.6
1982	704.0	20.7	32.7	37.0	−4.3	736.6	21.7	62.1	25.2	36.9	−32.6	−1.0	−29.4	11.9	−41.2
1977: I	385.3	20.2	15.3	6.3	9.0	391.9	20.6	2.1	1.7	.4	−6.6	−.3	13.1	4.5	8.6
II	387.8	19.8	2.5	8.1	−5.6	403.8	20.7	11.9	2.9	8.9	−16.0	−.8	−9.4	5.1	−14.5
III	390.7	19.5	2.9	6.7	−3.8	421.9	21.1	18.1	6.5	11.6	−31.2	−1.6	−15.2	.1	−15.4
IV	405.3	19.8	14.6	7.4	7.3	433.3	21.2	11.4	4.5	6.9	−27.9	−1.4	3.3	2.9	.4
1978: I	413.3	19.8	8.0	5.6	2.4	439.3	21.0	6.0	1.0	5.0	−26.0	−1.2	1.9	4.6	−2.6
II	431.7	20.0	18.4	15.7	2.7	446.6	20.6	7.3	4.0	3.4	−14.9	−.7	11.1	11.7	−.6
III	449.8	20.2	18.1	12.6	5.5	461.3	20.7	14.7	8.1	6.6	−11.5	−.5	3.4	4.5	−1.1
IV	467.3	20.4	17.5	13.5	4.0	478.7	20.9	17.4	5.5	11.9	−11.4	−.5	.1	8.0	−7.9
1979: I	484.9	20.5	17.6	11.1	6.4	484.4	20.5	5.7	2.8	2.9	.4	0	11.8	8.3	3.6
II	499.7	20.6	14.8	11.5	3.4	491.2	20.2	6.8	1.1	5.7	8.6	.4	8.2	10.4	−2.3
III	510.5	20.5	10.8	11.2	−.4	515.5	20.7	24.3	12.5	11.8	−5.0	−.2	−13.6	−1.3	−12.2
IV	524.5	20.5	14.0	9.8	4.2	536.5	21.0	21.0	5.6	15.4	−11.9	−.5	−6.9	4.3	−11.2
1980: I	542.7	20.6	18.2	14.9	3.3	560.2	21.3	23.7	3.5	20.3	−17.5	−.7	−5.6	11.5	−17.0
II	561.8	20.6	19.1	18.8	.3	580.3	21.3	20.1	4.0	16.0	−18.5	−.7	−1.0	14.7	−15.8
III	587.0	21.0	25.2	14.7	10.6	606.0	21.6	25.7	18.5	7.2	−19.0	−.7	−.5	−3.9	3.4
IV	615.6	21.2	28.6	20.0	8.6	629.2	21.7	23.2	12.2	11.0	−13.6	−.5	5.4	7.8	−2.4
1981: I	653.9	21.9	38.3	18.9	19.4	648.1	21.7	18.9	4.3	14.7	5.8	.2	19.4	14.6	4.7
II	664.6	21.7	10.7	7.1	3.6	654.3	21.4	6.2	−.1	6.3	10.3	.3	4.5	7.2	−2.7
III	680.5	21.6	15.9	15.9	0	686.9	21.8	32.6	20.1	12.4	−6.3	−.2	−16.6	−4.2	−12.4
IV	686.1	21.2	5.6	16.9	−11.3	708.7	21.9	21.8	8.5	13.2	−22.6	−.7	−16.3	8.3	−24.6
1982: I	695.1	21.1	9.0	5.0	4.0	707.9	21.5	−.8	−1.0	.3	−12.8	−.4	9.8	6.0	3.8
II	703.6	20.9	8.5	8.2	.3	710.4	21.1	2.5	4.2	−1.6	−6.9	−.2	5.9	4.0	1.9
III	704.8	20.6	1.2	4.4	−3.1	743.1	21.7	32.7	11.4	21.4	−38.3	−1.1	−31.4	−6.9	−24.5
IV	712.3	20.4	7.5	5.2	2.3	784.8	22.5	41.7	3.8	37.8	−72.4	−2.1	−34.1	1.4	−35.6
1983: I	728.8	20.5	16.5	10.6	5.9	773.8	21.8	−11.0	3.9	−14.8	−45.0	−1.3	27.4	6.7	20.7
II	748.1	20.7	19.3	5.4	13.9	783.9	21.7	10.1	.5	9.7	−35.9	−1.0	9.1	4.9	4.1
III	729.0	19.9	−19.1	4.9	−24.0	802.9	21.9	19.0	1.8	17.2	−74.0	−2.0	−38.1	3.1	−41.3

the BUSINESS SITUATION

REAL GNP increased at an annual rate of 4½ percent in the fourth quarter of 1983, and the GNP fixed-weighted price index increased at an annual rate of 4 percent. These estimates and the others for the fourth quarter shown in table 1 are "flash" estimates, that is, estimates prepared 15 days before the end of the quarter.[1] They may be subject to larger revisions than the estimates released after the end of the quarter. Information about the relative accuracy of the quarterly estimates, based on measures of revision in them, is shown in table 3 on page 18.

Since the trough in the fourth quarter of 1982, real GNP has increased 6 percent—about average for the first year of a business cycle recovery. Employment has shown strong growth; by November, total employment had increased over 3½ million. The Index of Industrial Production, after 12 consecutive months of increase, was almost 16 percent above its trough. While these and other coincident indicators of economic activity increased, inflation remained moderate. The GNP fixed-weighted price index was up 4 percent over the year, and each quarterly increase at an annual rate was within ½ percentage point of 4 percent.

Table 1.—GNP and GNP Prices

[Levels at seasonally adjusted annual rates; percent changes at annual rates]

	1983			
	I	II	III	IV
Current-dollar GNP (billions of dollars):				
Level	3,171.5	3,272.0	3,362.2	3,432.7
Percent change from preceding quarter	8.2	13.3	11.5	8.7
Real GNP (billions of 1972 dollars):				
Level	1,490.1	1,525.1	1,553.4	1,570.6
Percent change from preceding quarter	2.6	9.7	7.6	4.5
GNP fixed-weighted price index (index, 1972=100):				
Level	220.6	222.9	225.5	227.8
Percent change from preceding quarter	3.4	4.3	4.7	4.2
GNP implicit price deflator (index, 1972=100):				
Level	212.83	214.55	216.44	218.56
Percent change from preceding quarter	5.5	3.3	3.6	4.0

In this year's recovery, real GNP increased at annual rates of 2½ percent, 9½ percent, 7½ percent, and then the fourth quarter's 4½ percent. As is typical of a recovery, substantial variation in the behavior of the GNP components underlies this pattern. The evidence available in mid-December suggests the following developments in these components and in GNP prices in the fourth quarter.

• Personal consumption expenditures (PCE) registered a substantial increase—roughly midway between the extraordinary 10-percent annual rate increase in the second quarter and the 2½-percent annual rate increase in the third. With the exception of energy goods and services, all major categories increased. Motor vehicle purchases were up, after slipping in the third quarter. (A discussion of motor vehicles follows later in the "Business Situation.") Other large increases were in clothing and shoes and in "other" services. Purchases of clothing and shoes have been quite erratic this year on a quarterly basis: no change in the first quarter, a sharp increase, a decline, and a sharp increase in the fourth quarter. However, the increase since the fourth quarter of 1982 appears to be about in line with PCE as a whole. In "other" services, the third quarter had included a decline in commissions paid to commodity and security brokers, as personal investors accounted for a reduced share of lower stock market volume; in the fourth quarter, these commissions appear to have leveled off.

• Nonresidential fixed investment again increased, reflecting a second consecutive increase in structures and continued strength in producers' durable equipment. As discussed in the article on the results of the BEA plant and equipment expenditures survey, the strength of investment in recent quarters and the increases planned in 1984 are consistent with improvements in capacity utilization rates and increases in sales, corporate profits, and cash flow.

• Residential investment weakened, mainly due to a decline in the construction of single-family houses. Starts of single-family houses peaked at 1,183,000 (seasonally adjusted annual rate) in May. Subsequently, as mortgage interest rates firmed, these starts tapered to an average of 1,037,000 in October-November.

1. The procedures used to prepare the "flash" estimates are the same as those used to prepare the estimates released after the end of the quarter. However, the source data that are available are limited to only 1 or 2 months of the quarter, and, in some cases, are preliminary. BEA makes projections of the missing source data. The major source data that are available are: For *personal consumption expenditures* (PCE), October and November retail sales, unit sales of new autos through the first 10 days of December, and sales of new trucks for October and November; for *nonresidential fixed investment,* the same data for autos and trucks as for PCE, October construction put in place, October manufacturers' shipments of equipment, and business investment plans for the quarter; for *residential investment,* October construction put in place, and October housing starts; for *change in business inventories,* October book values for manufacturing and trade, and unit auto inventories for October and November; for *net exports of goods and services,* October merchandise trade; for *government purchases of goods and services,* Federal unified budget outlays for October, State and local construction put in place for October, and State and local employment for October and November; and for *GNP prices,* the Consumer Price Index for October, and the Producer Price Index for October.

• For the change in business inventories, reasonably complete information is available only for motor vehicles. Inventories of motor vehicles were up more than they had been in the third quarter, and so contributed to the fourth-quarter increase in real GNP. The limited evidence on nonvehicle inventories suggests that, after slight accumulation in the third quarter, moderate accumulation occurred in the fourth, as restocking got underway. Farm inventories have been a major factor in recent quarterly movements in nonvehicle inventories. The reduction in farm inventories that occurred this year, mainly in grain stocks, was especially large in the third quarter. It appears that inventory reduction continued in the fourth quarter, but at a lower rate. The lower rate of reduction is consistent with farmers receiving crops from Government stocks under the payment-in-kind (PIK) program.

• For net exports, the limited evidence suggests a large decline concentrated in merchandise trade. Merchandise imports increased sharply. The increase was widely spread in nonpetroleum imports; petroleum imports changed little. Exports declined, continuing this year's pattern of fluctuation within a relatively narrow range. As discussed later in this issue in the article on international transactions in the third quarter, imports have reflected the appreciation of the dollar and the U.S. economic recovery. Exports, although perhaps beginning to reflect the recoveries in a few major industrial countries, have been restrained by dollar appreciation as well as the debt service problems and foreign exchange constraints in many developing countries.

• Government purchases appear to have declined. The decline was in purchases of the Commodity Credit Corporation (CCC); defense purchases as well as State and local purchases appear to have increased. A sharp decline in CCC purchases was dominated by transactions associated with the PIK program. This program gives certain crops—mainly corn, cotton, and wheat—to farmers who agreed to divert acreage from production. The crops are given to farmers from CCC stocks. In the national income and product accounts, these transactions are treated as negative CCC purchases and as subsidy payments to farmers; the latter are noted below in connection with personal income.

• The 4-percent annual rate increase in the fixed-weighted price index was a little less than the third-quarter increase. Most prices increased at rates roughly similar to those in the third quarter, although PCE price increases were slightly higher and residential structures price increases were lower. Within PCE prices, food prices increased moderately after a small third-quarter decline; meat prices again declined, but were more than offset in their effect on food prices by slightly larger increases on a variety of other foods. Most other PCE price increases remained in the range of 4 to 6 percent.

Personal income and its disposition

Personal income increased about $72½ billion in the fourth quarter, following a $48 billion increase in the third quarter and a $56 billion increase in the second (table 2).[2] The strength in personal income in these three quarters reflected the continued recovery in economic activity; the acceleration in the fourth quarter was largely due to a number of specific developments.

Wage and salary disbursements increased about as much as in the two previous quarters. Wages and salaries in manufacturing, in other commodity-producing industries, and in government and government enterprises increased slightly less than in the third quarter; those in services increased slightly more. In the distributive industries, the third-quarter increase had been held down $3½ billion by a 3-week strike in August by telephone workers.

Proprietors' income increased sharply in the fourth quarter after a small decline in the third. The swing was more than accounted for by farm income. Most of the large increase in farm income in the fourth quarter was due to subsidies under the PIK program. These payments were $2½ billion in the third quarter and much larger in the fourth. The increase in nonfarm income continued to decelerate, largely due to the slowdown in construction activity.

Among the remaining components of personal income shown in table 2, personal interest income registered another substantial increase. Transfer payments were up following a decline; the shift was mainly due to slowing declines in regular and extended unemployment benefits and to a renewal of funds for supplemental benefits to the long-term unemployed. In "other" income, rental income of persons increased, after having been reduced in the third quarter by a $2 billion loss due to damage from hurricane Alicia.

Although personal income increased much more in the fourth

2. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

Table 2.—Personal Income and Its Disposition: Change From Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1983			
	I	II	III	IV*
Wage and salary disbursements	24.7	37.7	33.6	34.7
Manufacturing	8.1	12.0	11.8	9.1
Other commodity-producing	1.1	1.6	3.8	2.4
Distributive	2.9	7.9	4.6	10.0
Services	7.9	10.9	9.1	10.2
Government and government enterprises	4.7	5.4	4.2	3.0
Proprietors' income	4.4	6.6	−.5	16.7
Farm	−3.9	−1.2	−5.5	13.9
Nonfarm	8.3	7.8	5.0	2.8
Personal interest income	−5.8	−.1	12.8	10.5
Transfer payments	−.5	6.8	−2.8	2.2
Other income	6.6	7.0	6.9	10.6
Less: Personal contributions for social insurance	3.7	2.1	1.9	2.1
Personal income	**25.8**	**55.9**	**48.2**	**72.7**
Less: Personal tax and nontax payments	−2.4	10.8	−12.5	10.9
Impacts of legislation	−10.7	−2.4	−25.4	−2.3
Other	8.3	13.3	12.8	13.2
Equals: Disposable personal income	**28.1**	**45.1**	**60.7**	**61.8**
Less: Personal outlays	27.2	75.3	36.4	58.2
Equals: Personal saving	**.9**	**−30.2**	**24.3**	**3.6**
Addenda: Special factors in personal income—				
Cost-of-living increases in Federal transfer payments	.2	1.0	.4	0
Social security base and rate changes (in personal contributions for social insurance)	2.5	.....	.....	.....
Subsidies to farmers	−1.7	1.2	−.2	13.7
Postal Service special payments	.....	1.1	.1	−1.2
Disaster damage	.....	.....	−1.9	1.9
Telephone strike	.....	.....	−3.3	3.3

*Projected. Based on published estimates of personal income and its disposition for October and November.

quarter than in the third, disposable personal income was up about the same in both quarters. In the third quarter, a decline in personal taxes of $12½ billion was due to the final stage of reduction in income tax withholding rates under the Economic Recovery Tax Act of 1981. This reduction, which amounted to $29½ billion, more than offset an increase in taxes due to growth in the taxable wage base. In the fourth quarter, taxes increased $11 billion, largely due to continued growth in the wage base. The strength in disposable personal income again carried through to real income, as the increase in PCE prices remained moderate. The annual rate of increase in fourth-quarter real disposable personal income was close to the 6½-percent increase in the third quarter.

The increase in personal outlays accelerated sharply in the fourth quarter and nearly matched the increase in disposable personal income. Personal saving registered only a small increase after a much larger one in the third quarter, and the personal saving rate changed little from 4.9 percent.

Motor vehicles

Motor vehicle output increased about $4 billion (1972 dollars) in the fourth quarter, following an $8½ billion increase in the third (table 3). Auto output was up, but at a slower rate than in the third quarter, and truck output registered another strong increase. Sales of motor vehicles increased in the fourth quarter: Auto sales changed little, but truck sales were up sharply, partly due to a pickup in sales of high-value heavy trucks. Inventories of motor vehicles registered a substantial increase, as the industry continued to rebuild auto and truck inventories from lows earlier in the year.

Unit sales of new cars increased to 9.5 million (seasonally adjusted annual rate) in the fourth quarter from 9.3 million in the third (chart 1). All of the increase was accounted for by imported car sales, which jumped to 2.6 million from 2.3 million in the third quarter. Sales of Japanese cars were strong despite supply limitations, and sales of other imports, primarily from West Germany, were up sharply. Imported cars accounted for 27 percent of total sales in the fourth quarter; in the two previous quarters, their market share had been under 25 percent.

Sales of domestic cars remained close to the 6.9–7.0 million level of the two previous quarters. Sales of subcompact cars increased in the fourth quarter, but sales of all the other size categories decreased slightly. The lackluster performance of domestic car sales in recent quarters is somewhat surprising in light of the strength of the economy. Factors that may account for the sales performance include: interest rates on auto installment loans, which had fallen rapidly early in the recovery, leveled off; sales incentive programs, particularly below-market financing, were progressively scaled back; and supplies of several popular models were tight, especially during the model changeover period.

Production of domestic cars was stepped up to 7.6 million (seasonally adjusted annual rate) in the fourth quarter from 7.3 million in the third. In both quarters, production exceeded sales, as the industry rebuilt inventories from very low levels. Domestic inventories increased from 1,082,000 (seasonally adjusted) at the end of the second quarter, to 1,231,000 at the end of the third, and to about 1,440,000 at the end of the fourth. Over the period, the ratio of inven-

Table 3.—Motor Vehicle Output

[Billions of 1972 dollars; seasonally adjusted annual rates]

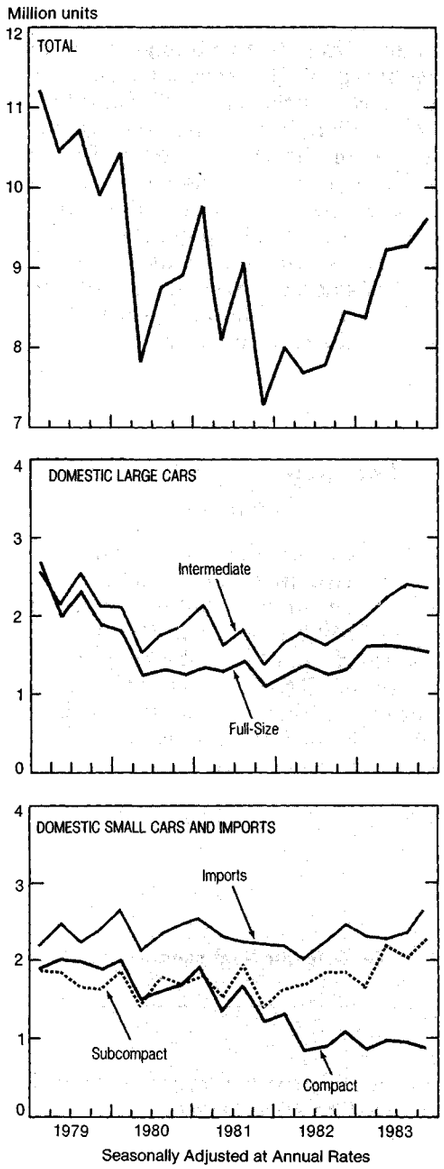
	1982:IV	Change from preceding quarter				1983:IV*
		1983				
		I	II	III	IV*	
Output	50.7	8.3	3.5	8.6	3.8	74.9
Autos	38.3	6.6	1.1	7.1	2.4	55.5
Trucks	12.4	1.7	2.4	1.5	1.4	19.4
Final sales	57.8	−.1	7.4	3.1	1.6	69.9
Autos	43.4	−.1	5.5	2.2	0	51.1
Trucks	14.4	0	1.9	.9	1.6	18.8
Change in business inventories	−7.3	8.5	−3.8	5.4	2.3	5.0
Autos	−5.2	6.7	−4.3	4.9	2.4	4.4
Trucks	−2.1	1.8	.5	.5	−.1	.6

*Projected. Based on unit production in October and November and scheduled production for December, unit sales of autos through the first 10 days of December and of trucks for October and November, and unit inventories for October and November.

NOTE.—For estimates through 1983:III, see tables 1.14–1.15 and 1.16–1.17 of the National Income and Product Accounts Tables. Auto output includes dealers' margins on their used car transactions; truck output includes new trucks only.

CHART 1

Retail Sales of New Passenger Cars



NOTE—Data for the most recent quarter are projected.

Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports; seasonal adjustment by BEA.

U.S. Department of Commerce, Bureau of Economic Analysis 83-12-1

tories to sales climbed from 1.9 to about 2.5, a ratio somewhat above that generally considered desirable by the industry. Sales probably will have to pick up for manufacturers to carry out the sizable increase in production scheduled for the first quarter of 1984.

Unit sales of new trucks steadied at 3.3 million (seasonally adjusted annual rate) in the fourth quarter, after large increases in the two previous quarters. Sales of light domestic trucks were up slightly to 2.7 million, their fifth consecutive increase. Sales of "other" domestic trucks registered their first strong increase—to 0.21 million from 0.18 million—since the beginning of the economic recovery. Imported truck sales fell sharply to 0.44 million from a near-record 0.57 million in the third quarter. Production of domestic trucks changed little in the fourth quarter after three quarters of strong increase. Production remained somewhat above the level of sales, so inventories continued to accumulate, but at a slower pace than in the third quarter.

Third-Quarter Corporate Profits

Profits from current production—profits with inventory valuation and capital consumption adjustments—increased $30 billion to $248½ billion in the third quarter, following an increase of $36½ billion. (The third-quarter estimate is $2 billion higher than the preliminary estimate published a month ago; the revision is more than accounted for by higher rest-of-the-world profits.)

An increase in the domestic profits of nonfinancial corporations accounted for nearly all of the third-quarter increase. These profits increased $29 billion to $194½ billion, an all time high. These profits had increased a record $32 billion in the second quarter and a smaller amount in the first quarter, for an increase of $80 billion since their low in the fourth quarter of 1982. Although real product and profits per unit of real product both contributed to this increase, most of it—about four-fifths—was due to the very sharp increase in unit profits (table 4). The increase in unit profits reflected the combined effects of a moderate increase in unit prices and a decline in unit costs (chart 2). Unit capital consumption allowances and net interest declined in each quarter over this period, and unit labor compensation, although it increased in the first quarter, declined in the second and third. Unit indirect business taxes (and business transfer payments less subsidies) increased in the first and second quarters, where they included the effects of the imposition on April 1 of the 5 cents-a-gallon Federal excise tax on gasoline; in the third quarter, however, unit indirect taxes also declined—the first across-the-board decline in unit costs in a decade.

Increases in manufacturing profits accounted for a major portion of the increase in nonfinancial profits in the fourth quarter. Profits of many manufacturing industries were up and reflected strengthening sales in nearly all manufacturing industries. A sharp increase in motor vehicle manufacturers' profits—which reflected increased shipments to dealers to rebuild depleted inventories as well as cutbacks in sales incentive programs—more than accounted for an increase in durable goods manufacturers' profits. Within nondurable manufacturing, profits increases were especially large for petroleum, chemicals, and rubber manufacturers. Both petroleum and chemicals manufacturers' profits reflected increasing producer prices for their products in combination with lower costs for petrochemical feedstocks and for some types of crude oil.

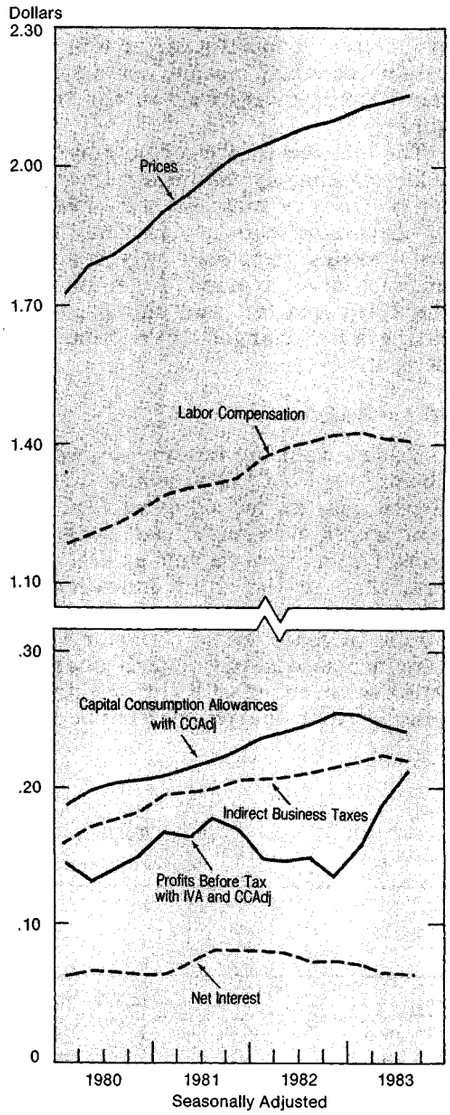
Table 4.—Domestic Nonfinancial Corporate Business: Profits, Real Product, and Profits Per Unit of Real Product

	1982:IV	1983			Change: 1982:IV–1983:III	Percent change: 1982:IV–1983:III
		I	II	III		
Profits with IVA and CCAdj (billions of dollars)	114.3	113.9	165.7	194.5	80.2	70.2
Gross domestic product (billions of 1972 dollars)	846.4	856.0	885.8	909.4	63.0	7.4
Profits per units of product (dollars)	.135	.156	.187	.214	.079	58.5
Price per unit of product	2.097	2.123	2.136	2.153	.056	2.7
Cost per unit of product	1.962	1.967	1.950	1.939	−.023	−1.2

IVA Inventory valuation adjustment.
CCAdj Capital consumption adjustment.

CHART 2

Domestic Nonfinancial Corporate Business: Prices, Costs, and Profits Per Unit of Real Product



NOTE—Price per unit is current dollar product divided by constant dollar (real) product. Costs and profits per unit are respective components of current dollar product divided by constant dollar product.

U.S. Department of Commerce, Bureau of Economic Analysis 83-12-2

The increase in auto shipments led to increased demand for tires to equip new autos, and helped boost rubber manufacturers' profits.

Increases occurred in the profits of nearly all nonmanufacturing industries. Utilities' profits increased from an already high second quarter, as unusually hot weather in much of the country led to increased use of electricity for air conditioning. Most transportation industries registered increases and airlines registered smaller losses. The smaller losses reflected the effects of sharply higher air fares (as measured by cents per revenue passenger mile), which more than offset lower air travel.

Domestic profits of financial corporations decreased $1½ billion to $30½ billion in the third quarter, following an increase of $4½ billion. The decrease was the first since the first quarter of 1982, when financial profits ended a 3-year slide. The decrease was accounted for by decreases in the profits of thrift institutions, which were adversely affected by increasing interest rates on some types of deposits and the shifting of funds into higher yielding types of deposits. Profits of Federal Reserve banks—which are included in the financial corporate business sector in the national income and product accounts—increased slightly, reflecting increased holdings of Federal debt. (The diverse nature of financial corporations and aspects of national income and product accounting that underlie the measures of their profits were examined in a Special Note in last month's SURVEY OF CURRENT BUSINESS.)

Profits for the rest of the world increased $3 billion to $23½ billion in the third quarter, following an increase of $1/2 billion. In both quarters, increases in earnings on U.S. corporations' foreign assets were partly offset by sharp increases in foreign corporations' earnings on their U.S. assets. (U.S. corporations' foreign earnings and foreign corporations' U.S. earnings are netted in the calculations of rest-of-the-world profits.) Increases in U.S. corporations' foreign earnings reflected recoveries in the economies of many industrial nations. The third-quarter increase also reflected improvements in U.S. corporations' earnings from their Western Hemisphere operations.

Other profits measures.—Profits before tax increased $26 billion to $229 billion in the third quarter, following an increase of $33½ billion. The third-quarter level remains below the peak of $261 billion recorded in the first quarter of 1980. These profits exclude the inventory valuation adjustment (IVA) and the capital consumption adjustment (CCAdj). The IVA became more negative in the third quarter, decreasing $7½ billion to −$18½ billion, following a decrease of $9 billion. The decreases resulted from increased rates of inflation of prices of goods held in inventories; the largest decreases occurred in the trade industry and in the food, chemicals, metals, machinery, and transportation equipment manufacturing industries. The CCAdj increased $12 billion to $37½ billion following an increase of $11½ billion.[3] The increases reflected in part the effects of provisions of the Economic Recovery Tax Act of 1981 (ERTA) per-

3. The capital consumption adjustment converts depreciation of fixed capital used up in production to a consistent basis with respect to service lives (85 percent of Internal Revenue Service Bulletin F for equipment and nonresidential structures) and depreciation formulas (straight line). It also converts depreciation to replacement cost, the valuation concept underlying national income and product accounting, from historical cost, the concept generally underlying business accounting.

Table 5.—Revisions in Selected Component Series of the NIPA's, Third Quarter of 1983

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	45-day estimate	75-day estimate	Revision	45-day estimate	75-day estimate
	Billions of current dollars				
GNP	**3,360.3**	**3,362.2**	**1.9**	**11.2**	**11.5**
Personal consumption expenditures	2,182.9	2,181.1	−1.8	6.9	6.5
Nonresidential fixed investment	349.6	351.0	1.4	16.9	18.8
Residential investment	139.9	141.5	1.6	41.1	47.5
Change in business inventories	8.7	8.5	−.2		
Net exports	−20.2	−18.3	1.9		
Government purchases	699.4	698.3	−1.1	9.7	9.0
National income	**2,686.6**	**2,686.9**	**.3**	**11.8**	**11.8**
Compensation of employees	2,011.9	2,011.8	−.1	9.1	9.0
Corporate profits with inventory valuation and capital consumption adjustments	246.2	248.4	2.2	62.0	67.8
Other	428.5	426.8	−1.7	2.6	.9
Personal income	**2,763.2**	**2,761.9**	**−1.3**	**7.5**	**7.3**
	Billions of constant (1972) dollars				
GNP	**1,553.6**	**1,553.4**	**−.2**	**7.7**	**7.6**
Personal consumption expenditures	1,018.0	1,016.0	−2.0	3.0	2.2
Nonresidential fixed investment	169.3	170.1	.8	16.3	18.7
Residential investment	56.2	56.8	.6	30.1	35.9
Change in business inventories	3.9	3.8	−.1		
Net exports	10.4	11.4	1.0		
Government purchases	295.8	295.2	−.6	5.3	4.4
	Index numbers, 1972=100 [1]				
GNP implicit price deflator	216.29	216.44	.15	3.3	3.6
GNP fixed-weighted price index	225.3	225.5	.2	4.4	4.7
GNP chain price index				4.3	4.5

1. Not at annual rates.

NOTE.—For the third quarter of 1983, the following revised or additional major source data became available: For *personal consumption expenditures,* revised retail sales for September, consumer share of new car purchases for September, and consumption of electricity for August; for *nonresidential fixed investment,* revised manufacturers' shipments of equipment for September, revised construction put in place for September, and business share of new car purchases for September; for *residential investment,* revised construction put in place for September, and residential alterations and repairs for the quarter; for *change in business inventories,* revised book values for manufacturing and trade for September; for *net exports of goods and services,* revised merchandise trade for September, and revised service receipts for the quarter; for *government purchases of goods and services,* revised construction put in place for September; for *wages and salaries,* revised employment, average hourly earnings, and average weekly hours for September; for *net interest,* financial assets held by households for the quarter, and revised net interest received from abroad for the quarter; for *corporate profits,* revised domestic book profits for the quarter, and revised profits from the rest of the world for the quarter; and for *GNP prices,* revised residential housing prices for the quarter, and revised producer price indexes for September.

mitting the use of shorter service lives for measuring the depreciation on new capital (as reported to the Internal Revenue Service). (For further discussion, see the "Business Situation" in the September 1983 SURVEY.)

Disposition of profits.—Corporate profits taxes increased $9 billion to $85 billion in the third quarter, following an increase of $14½ billion. Provisions of the Tax Equity and Fiscal Responsibility Act of 1982 have progressively raised profits tax liability, and partly offset the effects of ERTA.

Dividends continued their 8-year uptrend in the third quarter, increasing $1½ billion to $73½ billion, following an increase of $½ billion. Undistributed profits increased $15 billion to $70½ billion, following an increase of $18½ billion.

* * *

Third-quarter NIPA revisions

The 75-day revisions of the national income and product account estimates for the third quarter of 1983 are shown in table 5.

the BUSINESS SITUATION

REAL GNP increased at an annual rate of 4½ percent in the fourth quarter of 1983. The slowing from the very strong increases in the second and third quarters was in final sales, especially residential investment and net exports, and in inventory investment (chart 1). Prices as measured by the GNP fixed-weighted price index increased 4½ percent at an annual rate, about the same as in earlier quarters of the year.[1]

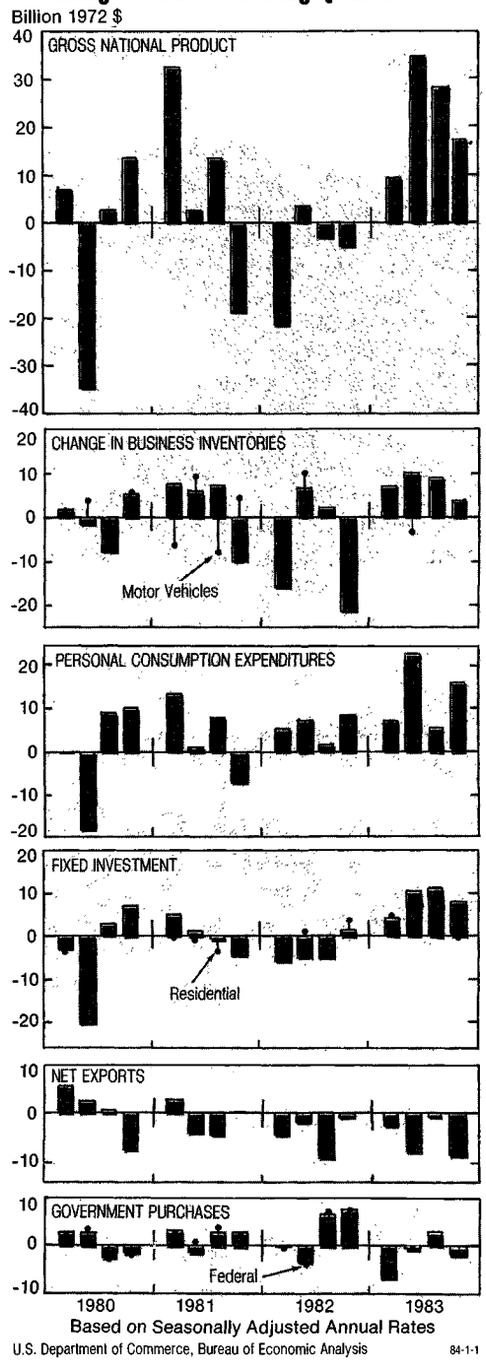
Over the four quarters since the recession trough in the fourth quarter of 1982, real GNP increased 6 percent. (This period is hereafter referred to as "recovery" even though real GNP surpassed its previous peak, and thus moved from recovery into expansion, in the third quarter of 1983.) The increase in real GNP over the recovery was about one-half percentage point less than that in the first four quarters of the median of recoveries since 1945, and also of the 1975 recovery (table 1). (The 1975 recovery is singled out because it followed a recession similar to the recent one in depth and duration.) Final sales increased 4 percent in the 1983 recovery, also about one-half point less than in the median and 1975 recoveries. Thus, inventories, as they swung from decumulation to accumulation, contributed about as much to the change in GNP in the 1983 recovery as in the median and 1975 recoveries.

Among the components of final sales, the increase in personal consumption expenditures (PCE) in the 1983 recovery—5½ percent—was about in line with the median recovery and somewhat less than that of the 1975 recovery. Fixed investment was up quite strongly in 1983. Both residential and nonresidential investment registered larger increases than is typical in the first four quarters of recovery. Net exports typically decline in the early quarters of a recovery, but the decline in 1983 was much steeper than in any previous recovery. The increase in exports was about in line with most recoveries, but imports were up much more sharply. The sharper increase in imports can be attributed largely to increased price-competitiveness of imported goods reflecting the strengthening of the U.S. dollar. Government purchases registered a small decline, primarily due to the operations of the Commodity Credit Corporation; typically government purchases increase somewhat during the first four quarters of recovery.

Table 2 shows an alternative breakdown of real GNP that sheds light on developments in the various sectors of the economy in the 1983 recovery. Product originating in the rest of the

CHART 1

Real Product: Change From Preceding Quarter



U.S. Department of Commerce, Bureau of Economic Analysis 84-1-1

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates. Real, or constant-dollar, estimates are expressed in 1972 dollars.

The fourth-quarter GNP estimates are based on the following major source data: For *personal consumption expenditures* (PCE), retail sales, and unit auto and truck sales through December; for *nonresidential fixed investment,* the same information for autos and trucks as for PCE, manufacturers' shipments of machinery and equipment for October and November, October and November construction put in place, and investment plans for the quarter; for *residential investment,* October and November construction put in place, and housing starts for October and November; for *change in business inventories,* October and November book values for manufacturing and trade, and unit auto and truck inventories through December; for *net exports of goods and services,* October and November merchandise trade, and fragmentary information on investment income for the quarter; for *government purchases of goods and services,* Federal unified budget outlays for October and November, State and local construction put in place for October and November, and State and local employment through December; and for *GNP prices,* the Consumer Price Index for October and November, the Producer Price Index for October and November, and unit-value indexes for exports and imports for October and November. Some of these source data are subject to revision.

Table 1.—Change in Real Product Over First Four Quarters of Recovery

[Based on billions of 1972 dollars, seasonally adjusted annual rates]

	Median of preceding seven recoveries [1]	1975 Recovery 1975:I-1976:I		1983 Recovery 1982:IV-1983:IV	
	Percent	Dollars	Percent	Dollars	Percent
GNP	6.7	80.9	6.7	89.8	6.1
Final sales	4.6	56.5	4.6	59.6	4.0
Personal consumption expenditures	5.4	46.6	6.1	52.6	5.4
Fixed investment	9.5	11.3	7.1	33.9	16.9
Nonresidential	3.6	1.3	1.1	18.4	11.5
Residential	24.4	10.0	25.4	15.5	38.2
Net exports		−5.4		−20.5	
Exports	2.8	3.6	3.5	5.0	3.7
Imports	10.5	9.0	12.5	25.5	22.5
Government purchases	1.6	4.2	1.6	−6.5	−2.2
Change in business inventories		24.3		30.2	

1. Median value of preceding seven recoveries. The four quarters of recovery are calculated from troughs in real GNP—1949:IV, 1954:II, 1958:I, 1960:IV, 1970:IV, 1975:I, and 1980:II.

world, in line 2, is receipts of factor income less payments of factor income. Both receipts and payments increased, but by equal amounts, so that the net changed little over the four quarters. Product originating in households and institutions, line 4, increased 2½ percent; inasmuch as this sector is not significantly affected by the business cycle, this increase was close to the sector's average increase since the mid-1970's. In line 5, product originating in government, which is a measure of the services of government employees, showed little change, reflecting efforts to hold down employment by the Federal and by State and local governments. (See "State and Local Government Fiscal Position in 1983" later in this issue.) Farm product, in line 7, was down sharply. The decline, discussed later in the "Business Situation," was due to widespread drought and Federal acreage reduction programs. Nonfarm business product, which excludes these sectors, increased more than GNP over the recovery period—8 percent. The exclusion of housing, which is product originating in owner- and tenant-occupied residences, provides an aggregate that may be related to labor variables for productivity analysis. This aggregate—nonfarm business product less housing, shown in line 11—increased 8½ percent over the 1983 recovery; the increase was slightly less than that of the median recovery and the 1975 recovery.

The addenda to the table shows motor vehicle output, which is the value of new autos and trucks produced plus the margin on the sale of used autos by business. Motor vehicle output increased $24½ billion, or almost 50 percent, over the 1983 recovery. GNP less motor vehicle output increased 4½ percent.

Employment and unemployment.—The improvement in labor markets since the fourth quarter of 1982 is another dimension of the recovery. Civilian employment, as measured by the household survey, increased 3.5 million (of which 2.6 million was in the second half of 1983), or 3.5 percent. This increase was about three times the increase in the civilian labor force, which grew at the slowest rate in two decades.

The resulting decline in unemployment amounted to 2.3 million from the fourth quarter of 1982. The civilian unemployment rate declined from 10.6 to 8.5 percent; most of the decline occurred in the third and fourth quarters (chart 2). This decline was large—much larger than over the 1975 recovery. Unemployment rates

Table 2.—Alternative Measures of Production

[Billions of 1972 dollars, seasonally adjusted at annual rates]

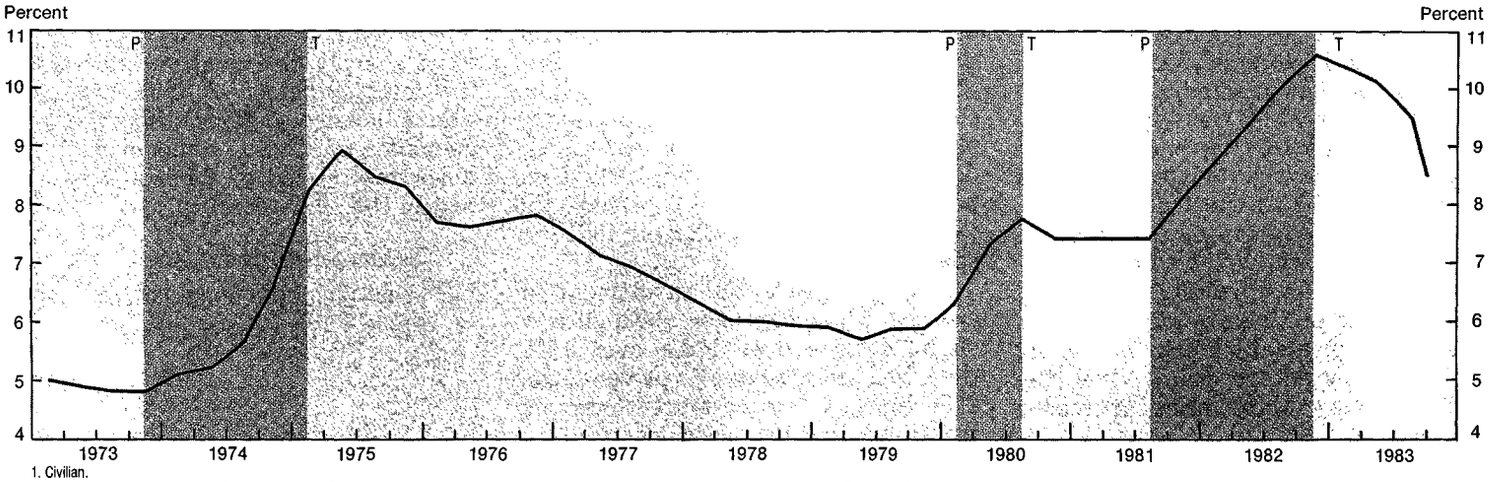
Line		Dollars									Percent change from preceding quarter at annual rate				Change: 1982: IV–1983: IV	
		Level					Change from preceding quarter				1983					
		1982	1983				1983								Dollars	Percent
		IV	I	II	III	IV	I	II	III	IV	I	II	III	IV		
1	Gross national product	1,480.7	1,490.1	1,525.1	1,553.4	1,570.5	9.4	35.0	28.3	17.2	2.6	9.7	7.6	4.5	89.8	6.1
2	Less: Rest-of-the-world	22.1	21.0	20.7	22.3	22.0	−1.1	−.3	1.6	−.3	−18.9	−5.5	34.7	−5.3	−.1	−.5
3	Gross domestic product	1,458.6	1,469.2	1,504.4	1,531.1	1,548.5	10.6	35.2	26.7	17.4	2.9	9.9	7.3	4.6	89.9	6.2
4	Less: Households and institutions	46.9	47.1	47.3	47.6	48.0	.2	.2	.3	.4	2.4	1.4	2.6	3.4	1.1	2.3
5	Government	155.8	155.9	156.0	156.0	156.1	.1	.1	0	.1	.2	.1	0	.3	.3	.2
6	Business product	1,255.9	1,266.1	1,301.2	1,327.5	1,344.4	10.2	35.1	26.3	16.9	3.3	11.5	8.4	5.2	88.5	7.0
7	Less: Farm	40.6	39.2	37.7	35.5	33.9	−1.4	−1.5	−2.2	−1.6	−13.7	−14.2	−21.4	−16.8	−6.7	−16.5
8	Residual [1]	2.0	−.6	−1.6	1.1	1.1	−2.6	−1.0	2.7	0					−.9	
9	Nonfarm business product	1,213.2	1,227.5	1,265.1	1,290.9	1,309.3	14.3	37.6	25.8	18.4	4.8	12.8	8.4	5.8	96.1	7.9
10	Less: Housing	144.3	145.6	146.9	148.3	149.9	1.3	1.3	1.4	1.6	3.7	3.6	3.9	4.4	5.6	3.9
11	Nonfarm business product less housing	1,068.9	1,081.9	1,118.2	1,142.6	1,159.4	13.0	36.3	24.4	16.2	4.9	14.1	9.0	6.0	90.5	8.5
	Addenda:															
	Motor vehicle output	50.7	59.0	62.5	71.1	75.1	8.3	3.5	8.6	4.0	83.9	25.6	8.6	4.0	24.4	48.1
	GNP less motor vehicle output	1,430.0	1,431.1	1,462.6	1,482.3	1,495.4	1.1	31.5	19.7	13.1	.3	9.1	5.5	3.6	65.4	4.6

1. The residual is the constant-dollar equivalent of the statistical discrepancy. For the fourth quarter of 1983, it is not yet available; it is assumed in this table to be the same as in the third quarter of 1983.

NOTE.—Most dollar levels are found in the National Income and Product Accounts Tables, table 1.6 and most percent changes are found in table 8.1.

CHART 2

Unemployment Rate[1]



1. Civilian.
NOTE.—Business cycle peaks (P), and troughs (T), are turning points in economic activity, as designated by the National Bureau of Economic Research, Inc. Shaded areas represent recessions.
Data: BLS.
U.S. Department of Commerce, Bureau of Economic Analysis

for adult men and adult women declined 2.1 and 1.8 percentage points, respectively, to 7.8 and 7.2 percent, so that the differential between them narrowed. The differential had reached 0.9 percentage points in the fourth quarter of 1982, reflecting the relative concentration of adult men in cyclically sensitive goods-producing industries. Teenage unemployment dropped 3.5 points from the fourth quarter of 1982 to 20.6 percent in the fourth quarter of 1983; a slight decline in employment was more than offset by a sharp decline in the teenage labor force.

Nonfarm payroll employment, as measured by the establishment series, increased 2.6 million, or 2.9 percent, from the fourth quarter of 1982. About three-fifths of the increase was in service-producing industries, principally in services; the remainder was concentrated in durables manufacturing.

Average weekly hours for private nonfarm production workers increased 0.5 hours from the fourth quarter of 1982 to 35.2 hours, regaining much of the ground lost during the recession. In manufacturing, the increase in regular hours was 0.6 from the fourth quarter of 1982 and the increase in overtime hours was 1.0.

Productivity and costs.—Table 3 refers to the nonfarm business economy less housing, the sector mentioned earlier. It shows the 8.5-percent increase in product in the 1983 recovery and a substantial increase in aggregate hours—4.7 percent—that was suggested by the improvement in employment and average weekly hours. The combination yielded a 3.6-percent increase in productivity as measured by real product per hour. This increase represents substantial improvement over the poor performance of the last few years, but such improvement is typical of recovery periods. For example, in the first four quarters of the 1975 recovery, productivity increased about 5 percent. (The difference in the increases in the 1975 and 1983 recoveries is primarily due to the larger increase in aggregate hours in the latter; the increase in product in the 1983 recovery was only slightly smaller than in the 1975 recovery.)

Unit labor cost was up only 1.1 percent from the fourth quarter of 1982 to the fourth quarter of 1983, much less than increases ranging from 7 to 11 percent in the preceding 3 years. Increases in unit labor cost typically slow in recoveries. However, the increase in 1983 appears particularly small; for example, the increase in the 1975 recovery was about 2 percent. The 1983 performance contributed substantially to sustaining the low rate of inflation in final product prices.

Prices.—GNP prices as measured by the fixed-weighted price index increased 4½ percent at an annual rate in the fourth quarter (table 4). Prices increased at similar rates in each quarter of 1983—down from higher rates of increase in recent years—so that the increase over the recovery period was also about 4½ percent.

Table 3.—Real Gross Product, Hours, and Compensation in the Nonfarm Business Economy Less Housing: Percent Change

[Based on seasonally adjusted estimates]

	Change from preceding quarter at annual rates				Change: 1982: IV–1983: IV
	1983				
	I	II	III	IV	
Real gross product	4.9	14.1	9.0	6.0	8.5
Hours	.9	6.1	6.8	5.0	4.7
Compensation	8.0	10.8	10.9	9.3	9.7
Real gross product per hour	4.0	7.6	2.1	1.0	3.6
Compensation per hour	[1] 7.1	4.5	3.9	4.1	4.9
Unit labor cost	2.9	−2.9	1.7	3.1	1.1

1. Increases in employer contributions for social security and for unemployment insurance accounted for 1.1 percentage points of the increase in the first quarter of 1983.

NOTE.—For estimates for 1980–82, see table 12, page 16, of the July 1983 SURVEY OF CURRENT BUSINESS.

Prices paid by domestic purchasers for the goods and services they buy—whether produced in the United States or abroad—increased at an annual rate of 4 percent in the fourth quarter. In that quarter, and in earlier quarters of 1983, the export-import price relationship as measured in terms of fixed-weighted price indexes moved in favor of the United States; the prices of exports increased while the prices of imports declined or increased less. As a result, prices paid by domestic purchasers increased less than GNP prices, by amounts ranging up to 1 percentage point. Over the 1983 recovery, these prices increased 3½ percent.

Price increases for most GNP components continued to decelerate from the highs reached in 1979 and 1980 (chart 3). The deceleration was less obvious for the more volatile components—food and energy within PCE (and within GNP), and residential investment. Abnormal weather, which disrupted the marketing of crops and livestock, added volatility to food prices. Food prices in PCE increased 2½ percent from the fourth quarter of 1982 to the fourth quarter of 1983, compared with increases of 3 percent and 5 percent over the four quarters of 1982 and 1981, respectively. Decontrol of oil and deregulation of natural gas, coupled with weather conditions, continued to cause wide fluctuation in energy prices. Energy prices in PCE declined 1 percent over 1983, compared with increases of 2 percent and 12½ percent over 1982 and 1981, respectively.

Prices of residential investment increased 5 percent over 1983, after a slight decline over 1982; over 1981, they had increased 7½ percent. The 1983 increase can be traced to strong increases in the price of nonfarm structures in the first and third quarters. The calculation of price changes for nonfarm structures is based, in part, on changes in the calculated average sales price of the kind of new one-family house sold in 1977. Using the hedonic technique, the reported average sales price of a house is adjusted each period to remove the effects of changes in the mix of characteristics of houses actually sold. These characteristics include size, location, and amenities.

Table 4.—Fixed-Weighted Price Indexes: Change From Preceding Quarter

[Percent change at annual rates; based on index numbers (1972=100), seasonally adjusted]

	1983			
	I	II	III	IV
GNP	**3.4**	**4.3**	**4.7**	**4.5**
Less: Change in business inventories				
Equals: Final sales	3.4	4.3	4.7	4.6
Less: Exports	3.2	2.6	3.9	6.2
Plus: Imports	−3.8	−6.3	1.5	−.5
Equals: Final sales to domestic purchasers	**2.7**	**3.4**	**4.5**	**4.0**
Personal consumption expenditures	1.6	4.9	4.4	4.5
Food	2.1	5.1	−1.1	3.4
Energy	−17.8	6.8	8.6	1.7
Other personal consumption expenditures	5.1	4.5	5.5	5.3
Other	4.6	1.2	4.7	3.3
Nonresidential structures	−.1	−1.0	1.6	1.4
Producers' durable equipment	3.8	1.2	1.3	1.2
Residential	11.4	−2.6	8.0	3.8
Government purchases	4.0	2.6	5.3	4.0
Addenda:				
Food and energy components of GNP:[1]				
Food components [2]	3.4	5.4	−.6	4.7
Energy components [3]	−19.4	16.5	9.8	2.1
GNP less food components	3.4	4.1	5.6	4.5
GNP less energy components	5.1	3.5	4.4	4.7
GNP less food and energy components	5.4	3.2	5.2	4.7

1. Inasmuch as GNP is the sum of final products, the food and energy estimates in this table do not take into account the effect on the prices of final products of changes in the prices of the food and energy that are costs of production.
2. Consists of all components for which separate estimates are prepared. The major component that is not included is purchases of food by the Federal Government other than transactions by the Commodity Credit Corporation that are treated like purchases.
3. Consists of all components for which separate estimates are prepared. The major components that are not included are (1) exports of energy; (2) the gasoline and motor oil portions of inventories of gasoline service stations, and (3) the energy portions of inventories of businesses that do not produce energy for sale.

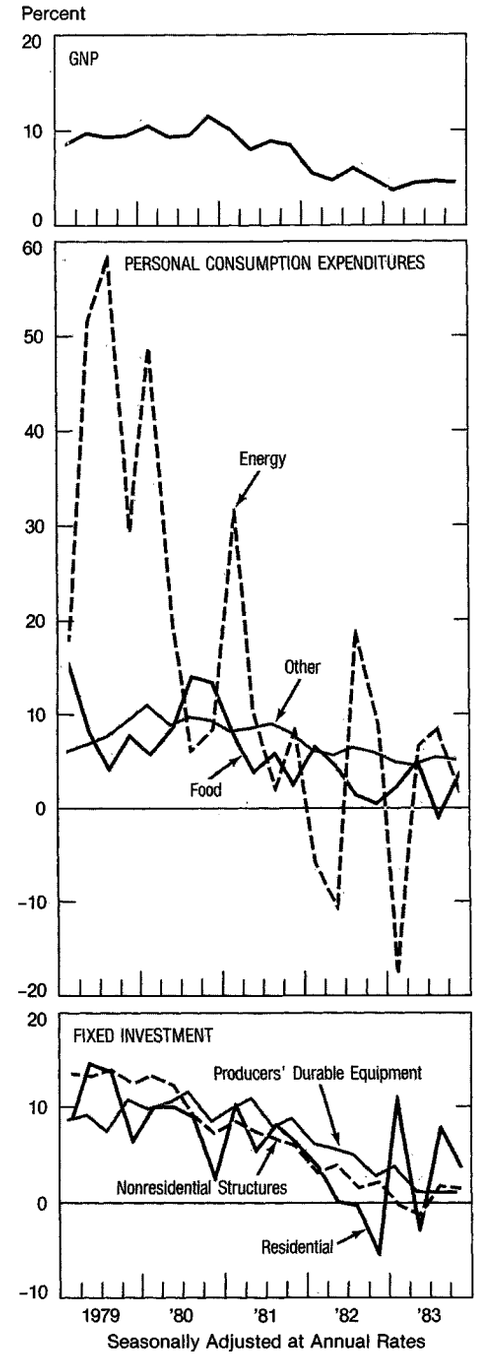
NOTE.—Most index number levels are found in the National Income and Product Accounts Tables, table 7.2.

Components of Real GNP

The components of real GNP registered sharply divergent movements in the fourth quarter of 1983 (table 5). The following sections discuss developments in these components and measures related to them in the context of the 1983 recovery.

CHART 3

Fixed-Weighted Price Index: Change From Preceding Quarter



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Personal consumption expenditures

Real PCE increased 6½ percent at an annual rate in the fourth quarter—another strong quarter in the 1983 pattern of widely varying increases. Over the recovery, PCE increased 5½ percent. The strength reflected several general factors. Real disposable personal income was up 5 percent over the four-quarter period, with stronger increases in the second half. Consumer wealth was boosted by increases, beginning in 1982, in the value of financial assets. As employment increased and the unemployment rate declined, concern over job security lessened. These and related developments appear to underlie the marked improvement in consumer attitudes in 1983. The University of Michigan's Index of Consumer Sentiment jumped early in 1983 to the highest levels in over a decade. Against this background, consumers have stepped up their spending rate—that is, reduced their saving rate—from recession levels.

The quarter-to-quarter volatility of the PCE increases had several sources. Among them, weather conditions and sales incentive programs for motor vehicles appear to have been especially important. Unusual weather conditions—a mild winter, a cool spring, a summer heat wave, and, finally, severe cold in December—affected expenditures for home heating and cooling. Sales incentive programs probably influenced the quarterly pattern of motor vehicle purchases. The programs featured financing at interest rates that were varied from 1 or 2 percentage points up to 5 percent points below market rates.

In the fourth quarter, durables were the strongest PCE category, as they were over the entire 1983 recovery. They increased 15½ percent at an annual rate in the fourth quarter and 14 percent over the four-quarter period. Purchases of furniture and household equipment again were up substantially in the fourth quarter, continuing the uptrend that began after the turnaround in residential investment in 1982. Purchases of motor vehicles were a major factor in the quarterly volatility of durables. In the fourth quarter and in the second, these purchases registered large increases following little or no change in the preceding quarter. Both new autos and trucks were up in 1983. By the fourth quarter, sales of new passenger cars (which include sales to business as well as to persons) reached 9.9 million (seasonally adjusted annual rate), up from 8.4 million a year earlier. The increase was spread across all domestic size categories and imports.

Nondurables increased 5½ percent at an annual rate in the fourth quarter, showing somewhat more strength than they had over the entire recovery. Purchases of clothing and shoes registered a fourth-quarter increase of 19½ percent at an annual rate. The erratic pattern in 1983 included little change in the first quarter, an increase in the second roughly as large as that in the fourth, and a decline in the third. However, over the period from the fourth quarter of 1982, the increase only slightly exceeded that for PCE as a whole. Energy purchases declined in the fourth quarter after earlier, albeit decelerating, increases. Purchases of gasoline declined after no change in the second and third quarters. Poor driving conditions due to the unusually harsh December weather in much of the country contributed to the fourth-quarter decline. Purchases of fuel oil declined after increases in the second and third quarters. In response to fuel oil prices that were below 1982 levels, consumers rebuilt their inventories to higher-than-usual levels in the spring and summer. As a result, the unusual fourth-quarter heating needs could be

Table 5.—Real GNP: Change From Preceding Quarter

[Percent change at annual rates; based on millions of 1972 dollars, seasonally adjusted at annual rates]

	1983			
	I	II	III	IV
GNP	2.6	9.7	7.6	4.5
Final sales	.6	6.8	5.1	3.5
Personal consumption expenditures	2.9	10.0	2.2	6.5
Durables	7.6	32.6	3.7	15.4
Motor vehicles and parts	2.7	66.5	−.3	19.1
Furniture and household equipment	9.7	15.7	7.9	12.4
Other durables	15.9	1.4	4.4	13.1
Nondurables	3.2	6.4	3.6	5.6
Food	4.0	2.5	8.0	2.8
Energy [1]	14.8	10.2	3.7	−9.6
Clothing and shoes	1.0	18.9	−10.1	19.6
Other nondurables	−1.0	1.0	10.7	4.0
Services	1.4	6.4	.6	4.5
Energy [2]	−15.4	42.1	5.8	12.5
Other services	2.3	4.8	.3	4.0
Gross private domestic fixed investment	8.8	21.5	22.7	14.9
Nonresidential	−1.5	7.9	18.7	22.3
Structures	−13.9	−14.9	11.1	10.1
Producers' durable equipment	5.0	19.8	22.0	27.6
Autos and trucks	28.5	19.1	65.6	35.2
Other	1.3	20.0	15.1	26.2
Residential	57.3	79.5	35.9	−5.2
Net exports of goods and services				
Exports	2.4	−3.2	3.7	2.4
Merchandise	8.2	−7.0	10.1	−4.1
Agricultural	26.6	−18.5	11.4	−20.2
Nonagricultural	3.7	−3.5	9.8	.6
Other	−4.5	1.7	18.4	10.8
Imports	12.1	26.8	18.1	33.7
Merchandise	25.0	26.2	22.6	37.6
Petroleum	−73.4	224.5	152.6	−23.9
Nonpetroleum	36.6	20.0	16.9	43.2
Other	−11.7	28.4	8.4	25.0
Government purchases of goods and services	−8.8	−1.1	4.4	−2.7
Federal	−18.0	−2.8	4.6	−6.8
National defense	6.5	7.4	0	6.9
Nondefense	−52.6	−23.5	16.9	−34.5
Commodity Credit Corporation				
Other	7.7	.9	−2.2	2.7
State and local	−1.8	0	4.3	.1
Change in business inventories				

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

NOTE.—Percent changes in major aggregates are found in the National Income and Product Accounts Tables, table 8.1. Dollar levels are found in tables 1.2, 1.15, 1.17, 3.8B, and 4.4.

met by drawing down inventories rather than by stepping up purchases.

Services increased 4½ percent at an annual rate in the fourth quarter, also showing somewhat more strength than they had over the entire recovery. Purchases of electricity and natural gas were up sharply—12½ percent—in the fourth quarter, partly due to the severe cold in December in much of the country.

Residential investment

Residential investment registered a slight decline in the fourth quarter. Even with that decline, it increased 38 percent over the last four quarters. This increase was larger than the increases over the first four quarters of any of the preceding seven recoveries.

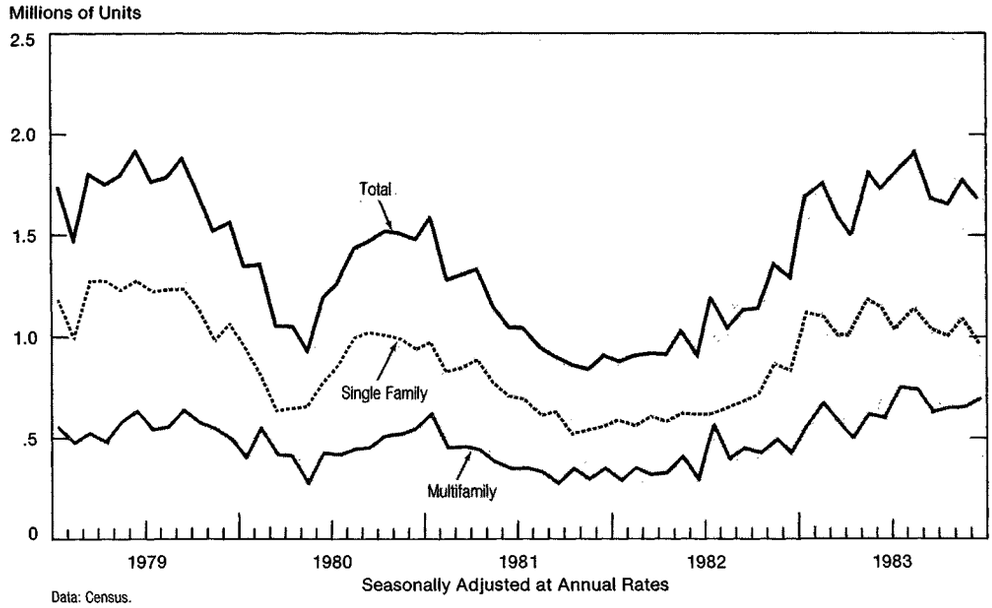
Construction of single-family units, which accounted for 40 percent of total residential investment a year ago, accounted for 60 percent of the four-quarter increase. Increases in single-family construction were largest in the first two quarters of 1983, and increases in multifamily construction were largest in the second and third quarters. In the fourth quarter, singles slipped somewhat and multis were unchanged. The "other" component of residental investment—which includes mobile home sales, additions and alterations, and brokers' commissions on the sale of new and existing residences—registered relatively small gains during the year.

Starts of both singles and multis surged early in the year, raising total starts from an average of 1.3 million (annual rate) in the fourth quarter of 1982 to 1.7 million in the first quarter of 1983 (chart 4). During the first half of 1983, singles fluctuated around an average level of 1.09 million and multis around an average level of 0.6 million. In the second half, singles slipped, but multis continued to increase. For the year as a whole, total starts were 1.7 million, the highest level since 1979.

Sales of new and existing residences also were up sharply in 1983. Sales of new one-family houses increased through spring, fell during the summer, and then increased again in the autumn. Sales for January–No-

CHART 4

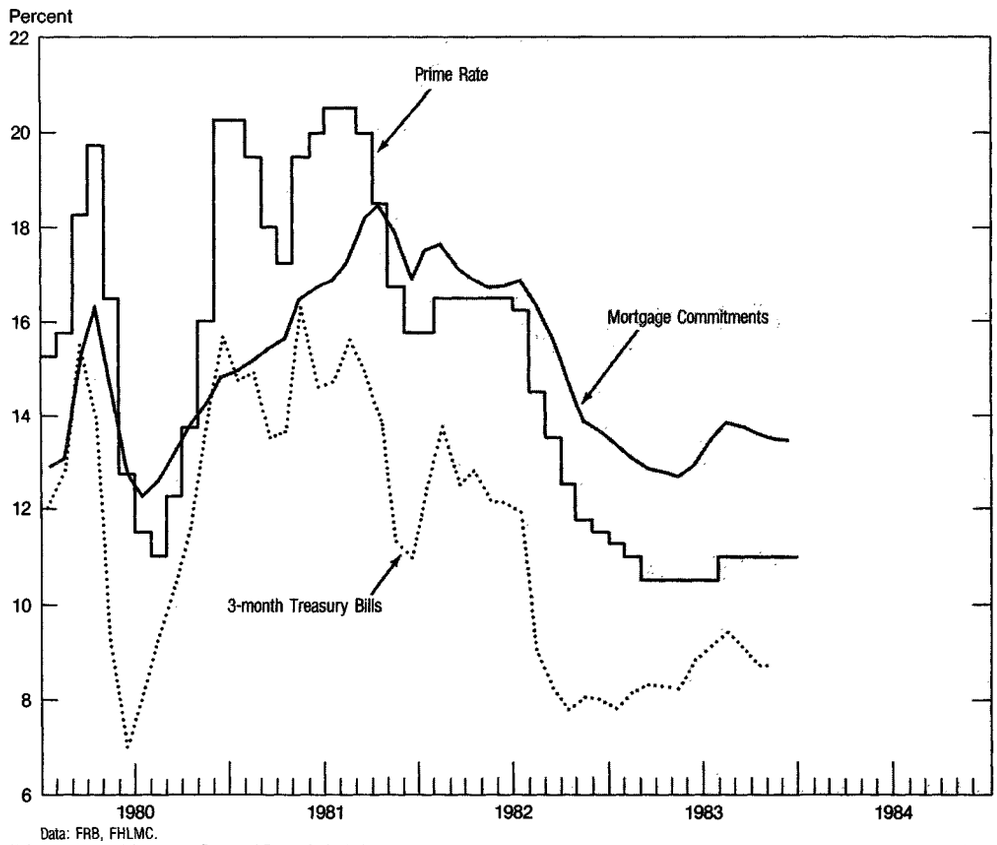
Housing Starts



Data: Census.
U.S. Department of Commerce, Bureau of Economic Analysis

CHART 5

Selected Interest Rates



Data: FRB, FHLMC.
U.S. Department of Commerce, Bureau of Economic Analysis

84-1-5

vember averaged 616,000 (annual rate), about 50 percent higher than in the same period of 1982. Sales of existing single-family homes generally increased during the first half of the year and then drifted down during the second half. For January–November, sales averaged 2,707,000, almost 40 percent higher than in the same period in 1982.

Mortgage markets.—Throughout the year, financial conditions were generally supportive of the increase in residential investment. Mortgage commitment rates, for example, drifted steadily lower during the first part of the year, continuing a decline from 17½ percent in early 1982 (chart 5). Rates turned up a little in late May; in July–December, they fluctuated around 13½ percent.

The increase in mortgage rates after May, small though it was, might have depressed housing more if adjustable rate mortgages (ARM's) had not been available. On average, the initial interest rate on ARM's was about 1½ percentage points less than the rate on fixed-rate mortgages. In May, after more than a year of declining mortgage rates, ARM's accounted for 26 percent of all mortgage closings at savings and loan associations (S&L's). The share increased steadily during the rest of the year; by November, it reached 63 percent. (For all major mortgage lenders, ARM's share of mortgage closings reached 55 percent in November.)

The introduction of money market deposit accounts (MMDA's) in December 1982 did much to hold funds in S&L's (and other depository institutions) for mortgage lending. In that month, $36 billion flowed into these accounts at S&L's, and by March, MMDA balances were over $100 billion. These balances remained close to that amount through September. Much, but not all, of the funds placed in MMDA's came from other deposits at S&L's. For the first 11 months of 1983, net new deposits received (exclusive of interest credited) amounted to $59 billion; during the first 11 months of 1982, in contrast, net new deposits received had been a negative $17 billion.

S&L mortgage activity was vigorous. During January–November, S&L's made commitments to originate mortgages of $121 billion, almost three times the amount during the comparable period in 1982. Because of the lag between commitments and closings, and because some commitments were not "taken down," S&L mortgage closings increased less than commitments. Nevertheless, closings were 160 percent higher during the first 11 months of 1983 than during the same period in 1982. A notable feature of S&L mortgage loans closed in January–November 1983 was the high proportion (18.4 percent) that refinanced outstanding mortgages. In January–November 1982, 13.6 percent had been used for this purpose.

Nonresidential fixed investment

Real nonresidential fixed investment increased 22½ percent at an annual rate in the fourth quarter and surpassed its previous peak. With the fourth-quarter increase, this form of investment was 11½ percent above its level at the business cycle trough in the fourth quarter of 1982; in the preceding seven recoveries, in contrast, it was typically—i.e., as measured by the median—7½ percent above its business cycle trough after four quarters (chart 6).[2]

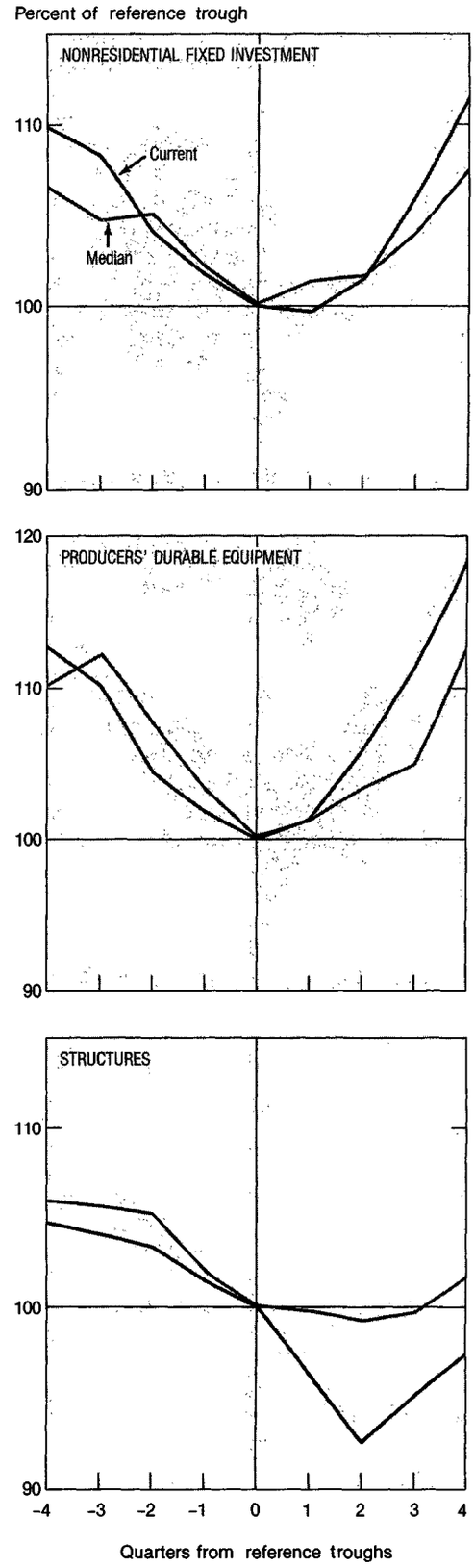
All of the strength in nonresidential fixed investment since the business cycle trough can be attributed to producers' durable equipment (PDE). As the bottom panel of chart 6 shows, structures continued to decline for two quarters after the trough. Four quarters after the trough—i.e., in the fourth quarter of 1983—they remained 2½ percent below the trough level. PDE, in contrast, turned up immediately after the business cycle

2. This section uses business cycle troughs as designated by the National Bureau of Economic Research (NBER) in cyclical comparisons; table 1 uses troughs in real GNP. Although the fourth quarter of 1982 was a trough in both the NBER cycle and in real GNP, several of the earlier NBER troughs differ from the troughs in real GNP. These differences in trough dates account for the difference between the 3½-percent median increase indicated for nonresidential fixed investment in table 1 and the 7½-percent increase indicated here.

Chart 6 is an adaptation of a type of chart frequently published in *Business Condition Digest (BCD).* For more information, see "How to Read Cyclical Comparison Charts," *BCD,* July 1983, p. 106.

CHART 6

Nonresidential Fixed Investment in Business Cycles



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trough and increased much faster than is typical of the early stages of a recovery. In the fourth quarter of 1983, PDE was 18 percent above its business cycle trough; this performance was stronger than in any of the preceding seven recoveries except the one following the 1949 trough.

All PDE product categories shown in table 6 registered strong increases during 1983. Quarterly increases in "high-technology" PDE during 1983 were in a narrower range—8½ to 23½ percent at annual rates—than the increases in other product categories, and yielded a somewhat smaller four-quarter increase. The increase for high-technology PDE was less than the increases in other categories partly because high-technology PDE is not as cyclically sensitive.

In contrast, "transportation equipment" registered the largest four-quarter increase among the product categories; the quarterly changes varied widely, from a small decline to a 50-percent annual rate increase. Trucks, which accounted for about 30 percent of transportation equipment at the business cycle trough, accounted for almost 70 percent of the category's four-quarter increase. Most of the increase in trucks occurred in the third and fourth quarters, as sales of high-value heavy trucks picked up. From the business cycle trough to the fourth quarter of 1983, unit sales of new trucks (which includes sales to persons as well as to business) increased sharply, from 2.7 million to 3.6 million (annual rates).

Despite increases in the third and fourth quarters, structures remained below their business cycle trough. Most of the components of structures declined during the first two quarters of 1983, and, of the major components, only two registered sizable increases after that. Commercial buildings other than offices accounted for one-half of the third-quarter increase in structures; public utility structures accounted for the entire fourth-quarter increase. Office buildings leveled out after dropping in the first and second quarters, and industrial buildings declined in each quarter.

Table 6.—Nonresidential Producers' Durable Equipment

	Billions of 1972 dollars; seasonally adjusted annual rate					Percent change from preceding quarter at annual rate			
	1982	1983				1983			
	IV	I	II	III	IV	I	II	III	IV
Nonresidential producers' durable equipment	**108.3**	**109.6**	**114.7**	**120.5**	**128.1**	**5.0**	**19.8**	**22.0**	**27.6**
High technology	51.5	52.9	55.7	56.9	60.0	12.0	22.8	8.7	23.3
Heavy industrial	19.3	19.5	20.1	21.7	22.9	3.1	13.8	37.3	23.0
Transportation	20.5	21.3	21.2	23.5	25.0	16.2	−1.6	50.0	29.1
Other	17.0	15.9	17.7	18.4	20.2	−23.3	51.2	18.0	45.8

NOTE.—High technology equipment consists of: office and store equipment (including computers), communications equipment, photographic instruments and scientific and engineering instruments. Heavy industrial equipment consists of: general and special industrial machinery, fabricated metals and metalworking equipment, steam and internal combustion engines, and electrical transmission and distribution equipment. Transportation equipment consists of: passenger cars, trucks, aircraft, railroad equipment, and ships and boats. Other equipment includes: furniture and fixtures, agricultural and construction machinery, service industry and mining and oilfield machinery, and other electrical equipment, less sale of equipment scrap (excluding autos).

Table 7.—Change in Business Inventories

[Billions of 1972 dollars; seasonlly adjusted at annual rates]

	Level					Change from preceding quarter			
	1982	1983				1983			
	IV	I	II	III	IV	I	II	III	IV
Change in business inventories	**−22.7**	**−15.4**	**−5.4**	**3.8**	**7.5**	**7.3**	**10.0**	**9.2**	**3.7**
Farm	−1.6	−.3	−2.1	−5.0	−4.2	1.3	−1.8	−2.9	.8
Nonfarm	−21.1	−15.1	−3.3	8.8	11.7	6.0	11.8	12.1	2.9
Manufacturing	−13.6	−12.3	−.8	1.4	1.3	1.3	11.5	2.2	−.1
Wholesale trade	−2.4	−6.7	−2.9	4.1	4.2	−4.3	3.8	7.0	.1
Retail trade	−4.1	3.1	1.7	3.8	5.9	7.2	−1.4	2.1	2.1
Other	−1.0	.8	−1.3	−.5	.3	1.8	−2.1	.8	.8

NOTE.—Dollar levels are found in the National Income and Product Accounts tables, table 5.9.

Inventories

Businesses added to real inventories in the fourth quarter, as they had in the third (table 7). In contrast, a sharp reduction in inventories, which got underway during the recession, had extended, with progressively smaller reductions, into the first half of 1983. Inventories contributed positively to the change in real GNP in each quarter of 1983, with the smallest contribution in the fourth. Since the trough in real GNP, inventories accounted for $30 billion of the $90 billion recovery in real GNP.

Farm inventories were reduced $4 billion in the fourth quarter, the seventh consecutive quarter of reduction. Inventories had built up as a result of the bumper crops of the 2 preceding years; Federal acreage reduction programs and the summer's drought led to the reduction in 1983.

Nonfarm inventories were up $11½ billion in the fourth quarter, following a smaller addition in the third, as restocking got underway in the wake of earlier sharp reductions. The additions were almost across-the-board by industry group, but concentrated in trade; the bulk of the addition was in durables. Motor vehicle inventories—wherever held—accounted for about one-third of the additions in the third and fourth quarters. In manufacturing, the small additions appear to represent a restocking of materials and supplies; finished goods inventories, particularly in durables, were being drawn down.

Despite the additions to inventories, and reflecting the strength in final sales, the aggregate inventory-sales ratios held about steady in the fourth quarter. The ratio of constant-dollar business inventories to total business final sales was 3.02, down from 3.18 in the fourth quarter of 1982. It had averaged 3.27 in the first three quarters of that year. The ratio of nonfarm business inventories to final sales of goods and structures was 4.27, down from 4.49 in the fourth quarter of 1982 and its average of 4.62 in the first three quarters of 1982.

Net exports

Real net exports declined sharply in the fourth quarter. The decline accounted for $9 billion of the $20½ billion decline since the fourth quarter of 1982. In the fourth quarter of 1983,

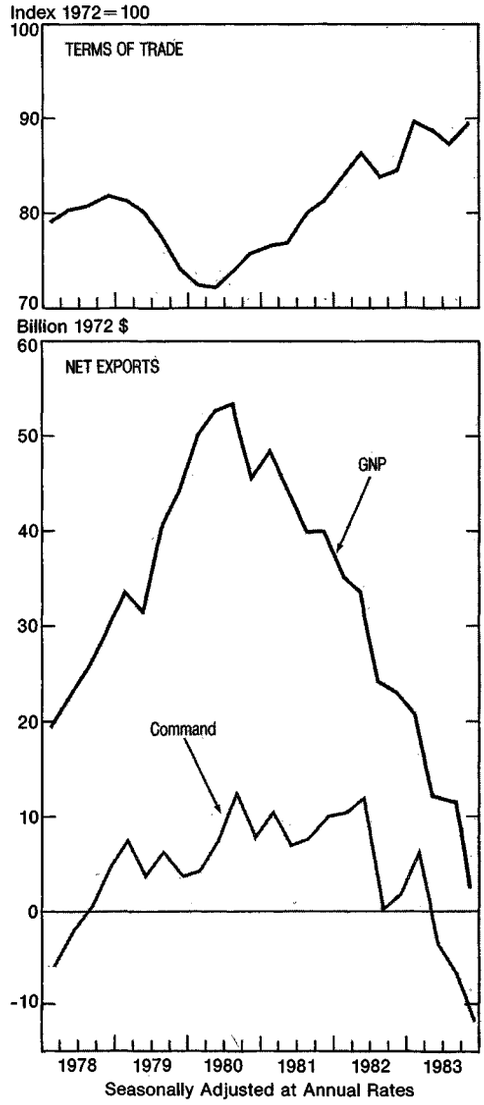
as over the four-quarter period, the decline was concentrated in merchandise and was largely due to increases in imports. These increases were widely spread across end-use categories and, in most categories, they were steady.

Terms of trade.—The terms of trade moved irregularly higher, from 84.6 to 89.8, over the period since the fourth quarter of 1982 (chart 7). The BEA series on terms of trade—shown each quarter among the "Reconciliation and Other Special Tables," usually in the March, June, September, and December issues of the SURVEY OF CURRENT BUSINESS—is calculated as the ratio of the implicit price deflator for total exports to the implicit price deflator for total imports. The improvement in the terms of trade occurred as the import deflator moved irregularly lower while the export deflator moved steadily higher. Over this period the improvement was 6 percent, about three-fourths due to the increase in the export deflator and one-fourth due to the decline in the import deflator. Within the import deflator, the deflator for petroleum dropped sharply in the first half of 1983. If the effect of petroleum imports is excluded, the improvement would have been only 3 percent; this 3-percent improvement largely reflected the appreciation of the dollar.

Changes in the terms of trade do not directly increase or decrease real production as measured by GNP, but such changes do increase or decrease the quantity of foreign goods and services the United States can purchase. This effect is taken into account in series that may be called "command over goods and services resulting from current production." These series are obtained by using an alternative to the conventional procedure used by BEA to obtain deflated net exports. (The conventional procedure is to deflate current-dollar exports by export prices and current-dollar imports by import prices, and subtract the latter from the former.) For the "command" counterparts of the BEA production measures, the procedure used is to deflate current-dollar net exports by the implicit price deflator for total imports. (This procedure is the equivalent of deflating current-dollar exports by the implicit price deflator for imports.) Other price indexes could have been used; the choice among indexes is somewhat arbitrary.[3] Command GNP and the conventional GNP thus differ by the former's inclusion of net exports calculated in this way (and shown in the lower panel of chart 9 as "command" net exports) and the latter's inclusion of net exports calculated in the conventional way (and shown in the chart as "GNP" net exports). The effect of the improvement in the terms of trade appears as the difference between the rates of increase in command GNP and conventional GNP. Since the fourth quarter of 1982, command GNP increased 6½ percent, about one-half percentage point more than conventional GNP.

CHART 7

Terms of Trade and Net Exports of Goods and Services



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Government purchases

Real government purchases declined 2½ percent at an annual rate in the fourth quarter; they had also declined in each quarter of 1983 except the third. Over the four quarters, they declined 2 percent. Federal purchases accounted for the fourth-quarter decline and for most of the decline since the GNP trough.

In Federal purchases, national defense purchases were up 7 percent at an annual rate, somewhat more than over the 1983 recovery as a whole. Sharp changes in nondefense purchases in the fourth quarter—a decline of 34½ percent—and in earlier quarters of 1983 were largely due to Commodity Credit Corporation (CCC) purchases. In the national income and product accounts (NIPA's), CCC loans to farmers on their crops add to CCC inventories and are treated as Federal purchases; redemptions of the crops by farmers, and also the transfer of crops to farmers under the payment-in-kind (PIK) program, reduce CCC inventories and are treated as negative purchases.[4] (The PIK program is discussed in "Farm Product and Income" later in the "Business Situation.") In the fourth quarter, a CCC inventory reduction of $3 billion was the net of $1 billion of regular additions to CCC inventories and $4 billion of PIK reductions. A third-quarter addition to CCC inventories of almost $1 billion was the net of $2 billion of regular additions and $1 billion of PIK reductions. Thus, the change in Federal purchases from CCC operations was a negative $3½ billion in the fourth quarter. Other Federal nondefense

3. See Edward F. Denison, "International Transactions in Measures of the Nation's Production," SURVEY OF CURRENT BUSINESS 61 (May 1981):17–22.

4. In the National Income and Product Accounts Tables, tables 3.7B and 3.8B were expanded in July 1983 to show the CCC inventory change separately. This component includes the loan and redemption activity of the CCC in support of agricultural prices.

purchases again changed only moderately in the fourth quarter, up 2½ percent.

State and local purchases were unchanged in the fourth quarter, in part reflecting the fiscal restraint that held down purchases over the last few years. In the third quarter, purchases of structures had increased substantially, apparently reflecting the beginning of the use of grant funds from the 5-cents-a-gallon increase in the Federal excise tax on gasoline effective April 1. Structures were down in the fourth quarter, however, but their decline was offset by increases in the other noncompensation components.

The Federal sector.—Changes in current-dollar Federal receipts and expenditures on a NIPA basis are shown in table 8. In current dollars, the fourth-quarter decline in purchases just referred to amounted to $2½ billion. Transfer payments were up $4 billion after a decline in the third quarter; the shift was partly due to slowing declines in regular and extended unemployment benefits. Net interest paid registered a sizable increase, although not as large as in the third quarter. These increases mainly reflected the higher interest rates paid on Federal securities. An increase of $9½ billion in subsidies less the current surplus of Government enterprises was more than accounted for by subsidies paid to farmers, including those paid under the PIK program. (The PIK subsidy payments offset the reduction of CCC inventories due to PIK, so that PIK transactions have no effect on total Federal expenditures.) Changes in these components, together with other smaller and partly offsetting changes, resulted in an increase of $14½ billion in total expenditures.

Among receipts, the increase of $7½ billion in personal tax and nontax payments was largely due to the increase in the tax base. In the third quarter, increases in the tax base had been more than offset by legislated tax cuts, so that personal taxes had declined. Indirect business taxes were again down slightly due to declines in the windfall profit tax. Contributions for social insurance were up $4 billion. Estimates of corporate profits, and thus of corporate profits tax accruals, are not yet available. It is quite likely that profits before tax—i.e., book profits—and thus profits tax accruals declined; the declines reflected a drop in inventory profits and the continued impact of accelerated depreciation patterns established under the Economic Recovery Tax Act of 1981. If a decline in profits tax accruals is assumed, total receipts probably increased $5–10 billion.

With the $14½ billion increase in expenditures and an increase of this size in receipts, the deficit on a NIPA basis increased from the $187 billion registered in the third quarter.

Table 8.—Federal Government Receipts and Expenditures, NIPA Basis: Change From Preceding Quarter

[Billions of dollars, based on seasonally adjusted annual rates]

	1983			
	I	II	III	IV
Receipts	**10.7**	**29.3**	**−7.4**	**n.a.**
Personal tax and nontax receipts	−5.3	6.6	−17.4	7.4
Corporate profits tax accruals	6.4	11.2	6.8	n.a.
Indirect business tax and nontax accruals	.3	.7.4	−.4	−.2
Contributions for social insurance	9.2	4.1	3.6	4.0
Expenditures	**−14.2**	**12.0**	**13.8**	**14.5**
Purchases of goods and services	−5.7	.2	4.4	−2.5
National defense	3.6	5.0	1.8	5.0
Nondefense	−9.3	−4.8	2.6	−7.6
Transfer payments	−4.5	6.7	−3.5	3.8
Grants-in-aid to State and local governments	.8	.9	.6	−.8
Net interest paid	−.7	3.4	9.1	4.7
Subsidies less current surplus of government enterprises	−4.2	−.4	4.1	9.6
Less: Wage accruals less disbursements	−.1	−1.2	.9	.4
Surplus or deficit (−), national income and product accounts	**24.9**	**17.2**	**−21.2**	**n.a.**

n.a. Not available.

NOTE.—Dollar levels are found in the National Income and Product Accounts Tables, table 3.2.

Personal Income

Personal income was up sharply in the fourth quarter, following strong increases in the third and second quarters and a moderate increase in the first (table 9). Over the four quarters of recovery since the GNP trough, personal income increased 7½ percent; over the four previous quarters of recession, personal income had been up only 4½ percent.

Wage and salary disbursements increased substantially in each quarter of 1983. Employment and average hours, as noted earlier, as well as earnings, were up strongly. The most striking improvements were in wages and salaries in manufacturing and in the other commodity-producing industries, which were up sharply after declines in the previous year. In manufacturing, the improvement was concentrated in durables; in the other commodity-producing industries, it was mainly in construction. In the distributive industries, quarterly increases generally were larger than in 1982. A deceleration in the third quarter of 1983 and an acceleration in the fourth reflected the impact of a 3-week strike in August by telephone workers. In the service industries and in government, wages and salaries in 1983 continued to increase at about their recent trend rates. Some of the quarterly fluctuations in government wages and salaries were accounted for by the timing of special payments that were made to Postal Service employees.

Farm proprietors' income declined in the first three quarters of 1983, in part due to the impact of drought in many agricultural areas of the Midwest and South. A fourth-quarter jump was mainly due to subsidies under the payment-in-kind (PIK) program. The decline in farm income since the fourth quarter of 1982 was considerably smaller than that over the preceding four quarters. (See the discussion later in the "Business Situation.") Nonfarm proprietors' income increased strongly in the beginning of 1983, but, as the year progressed, the increases slowed. The pattern largely reflected the course of residential construction activity.

Personal interest income was up sharply in the second half of 1983, fol-

lowing four quarters of decline. The turnaround was due to increases in holdings of personal financial assets and to higher interest rates. (See chart 5; the 3-month Treasury bill rate is representative of the course of short-term rates.)

Over the past four quarters, transfer payments increased much less than they had over 1982. Unemployment insurance benefits fell off as the economy picked up and laid-off workers were rehired. The increase in social security benefits slowed in 1983 because the cost-of-living increase usually effective in July was postponed until January 1984. A cost-of-living increase in Federal employee retirement benefits did boost transfer payments in the second quarter.

The large quarterly increases in the "other income" component in table 9 were mostly accounted for by other labor income, which picked up in response to improving economic conditions. Rental income of persons was up in the fourth quarter, after having been reduced in the third by a $2 billion loss due to damage to residential property from hurricane Alicia.

Personal contributions for social insurance, which are subtracted in deriving the personal income total, continued to increase steadily. These contributions were raised $2½ billion in the first quarter due to an increase in the social security taxable wage base.

Despite sizable increases in the taxable wage base resulting from the economic recovery, the increase in personal tax and nontax payments over the past four quarters was small. In the first quarter, personal taxes were reduced $14½ billion under various provisions of the Economic Recovery Tax Act of 1981 (ERTA). In the third quarter, the final stage of reduction in income withholding rates under ERTA amounted to $29½ billion. In the second and fourth quarters, when the impact of legislation was small, taxes were up sharply due to the growth in the wage base.

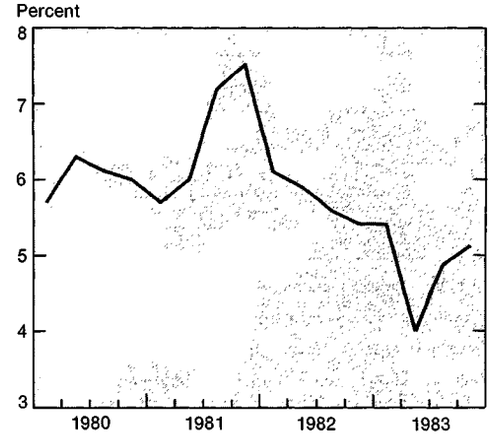
Table 9.—Personal Income and Its Disposition

[Billions of dollars; based on seasonally adjusted annual rates]

	Change from preceding quarter				Change: 1982: IV–1983: IV
	1983				
	I	II	III	IV	
Wage and salary disbursements	24.7	37.7	33.6	34.7	130.7
Manufacturing	8.1	12.0	11.8	9.4	41.2
Other commodity-producing	1.1	1.6	3.8	2.6	9.1
Distributive	2.9	7.9	4.6	10.3	25.7
Services	7.9	10.9	9.1	9.5	37.4
Government and government enterprises	4.7	5.4	4.2	3.0	17.3
Proprietors' income	4.4	6.6	−.5	12.9	23.5
Farm	−3.9	−1.2	−5.5	9.8	−.7
Nonfarm	8.3	7.8	5.0	3.2	24.2
Personal interest income	−5.8	−.1	12.8	11.0	17.9
Transfer payments	−.5	6.8	−2.8	4.9	8.5
Other income	6.6	7.0	7.0	10.6	31.2
Less: Personal contributions for social insurance	3.7	2.1	1.9	1.8	9.6
Personal income	**25.8**	**55.9**	**48.2**	**72.5**	**202.2**
Less: Personal tax and nontax payments	−2.4	10.8	−12.5	10.5	6.5
Impacts of legislation	−10.7	−2.4	−25.4	−2.3	−40.8
Other	8.3	13.3	12.8	12.8	47.2
Equals: Disposable personal income	**28.1**	**45.1**	**60.7**	**62.0**	**195.8**
Less: Personal outlays	27.2	75.3	36.4	54.2	193.1
Equals: Personal saving	**.9**	**−30.2**	**24.3**	**7.8**	**2.7**
Addenda: Special factors in personal income—					
Cost-of-living increases in Federal transfer payments	.2	1.0	.4	0	1.6
Social security base and rate changes (in personal contributions for social insurance)	2.5				2.5
Subsidies to farmers	−1.7	1.2	−.2	9.7	9.0
Postal Service special payments		1.1	.1	−1.2	0
Disaster damage			−1.9	1.9	.5
Telephone strike			−3.3	3.3	0

CHART 8

Personal Saving Rate



NOTE.—Personal saving as a percentage of disposable personal income; based on seasonally adjusted annual rates.

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Disposable personal income picked up sharply in the first half of the year and registered strong increases in the second half. The strength carried through to real income, as increases in PCE prices were moderate. Increases in real disposable personal income accelerated from 3 percent at an annual rate in the first quarter to 7½ percent in the fourth. Over the four quarters of recovery, real disposable personal income increased 5 percent, following no change over the preceding four quarters. Over the first four quarters of the 1975 recovery, it had increased 6½ percent, following a 2-percent decline.

Primarily due to sharp fluctuations in personal outlays, changes in personal saving moved within a wide range in 1983. The personal saving rate fell from 5.4 percent in the first quarter to 4.0 percent—its lowest level in more than three decades—in the second. By the fourth quarter, the saving rate had moved back up to 5.1 percent (chart 8).

Farm Product and Income

As noted earlier, the farm sector, as measured by real gross farm product, was the only sector that declined over the period since the GNP trough in the fourth quarter of 1982. For the year 1983, this measure—which is the product, or value added, originating in farming—was $36½ billion, down from the bumper crop years of 1981 and 1982 (table 10).

Table 10.—Farm Output, Gross Product, and Income

	Billions of dollars					Billions of 1972 dollars					Implicit price deflator (Index numbers, 1972=100)				
	1979	1980	1981	1982	1983[p]	1979	1980	1981	1982	1983[p]	1979	1980	1981	1982	1983[p]
Farm output	**149.9**	**149.0**	**165.2**	**158.7**	**150.4**	**74.4**	**71.9**	**76.1**	**75.3**	**67.2**	**201.4**	**207.1**	**217.1**	**210.7**	**224.0**
Cash receipts from farm marketings and net Commodity Credit Corporation loans	131.7	140.5	142.3	144.1	139.8	67.9	70.6	69.2	73.0	66.9	193.9	199.1	205.5	197.5	209.0
Crops	63.1	72.7	73.1	73.9	70.6	31.8	34.2	32.0	35.5	29.7	198.3	212.3	228.4	208.0	237.9
Livestock	68.6	67.8	69.2	70.2	69.2	36.1	36.3	37.2	37.4	37.2	190.1	186.7	185.8	187.5	186.0
Gross rental value of farm housing	9.8	11.1	12.2	12.9		2.6	2.4	2.1	1.9		369.8	464.6	570.3	692.9	
Farm products consumed on farms	1.3	1.1	1.1	1.1	16.3	.7	.6	.6	.5	3.2	193.1	190.2	199.6	192.9	511.8
Other farm income	1.5	1.6	2.0	2.1		.8	.7	.8	.8		186.2	221.1	249.8	258.7	
Change in farm inventories	5.7	−5.3	7.6	−1.4	−5.7	2.4	−2.3	3.4	−.8	−2.9					
Crops	4.8	−6.7	7.3	−.7		2.1	−2.9	3.3	−.5						
Livestock	.9	1.3	.3	−.8		.3	.6	.1	−.3						
Less: Intermediate goods and services purchased	78.4	81.3	84.1	84.6	79.4	40.3	36.9	35.5	36.4	30.6	194.6	220.3	237.1	232.8	259.7
Intermediate goods and services, other than rent	70.2	73.5	76.4	77.8		36.5	33.6	32.4	33.4		192.2	218.9	235.8	232.6	
Rent paid to nonoperator landlords	8.1	7.8	7.7	6.9		3.7	3.3	3.1	2.9		218.2	234.0	249.8	234.7	
Equals: Gross farm product	**71.6**	**67.7**	**81.1**	**74.1**	**71.0**	**34.2**	**35.0**	**40.6**	**39.0**	**36.6**	**209.4**	**193.3**	**199.6**	**190.2**	**194.1**
Less: Capital consumption allowances with capital consumption Adjustment	16.3	18.9	20.7	21.9	22.7	8.7	9.0	9.0	9.0		187.2	209.8	229.2	242.8	
Indirect business tax and nontax liability	3.0	3.4	3.3	3.5	3.7	2.1	2.1	2.6	3.2		141.0	160.5	128.1	109.1	
Plus: Subsidies to operators	1.2	1.2	1.8	3.3	7.2	4.3	4.7	4.4	4.8						
Equals: Income	**53.4**	**46.6**	**58.9**	**52.0**	**51.8**	**27.6**	**28.6**	**33.4**	**31.6**		**193.8**	**162.8**	**176.4**	**164.7**	
Compensation of employees	10.1	11.1	11.6	11.9	12.5										
Wages and salaries	8.9	9.8	10.1	10.5	11.0										
Supplements to wages and salaries	1.2	1.3	1.5	1.5	1.5										
Proprietors' income with inventory valuation and capital consumption adjustments	31.9	21.8	30.5	21.5	21.0										
Corporate profits with inventory valuation and capital consumption adjustments	.9	.1	.1	.2	.2										
Net interest	10.5	13.6	16.7	18.4	18.1										
Addendum:															
Net Commodity Credit Corporation loans	−1.0	.4	3.1	9.0	−.7	−.5	.1	1.1	3.4	−.3					

[p] Preliminary.

NOTE.—Dollar levels are found in the National Income and Product Accounts Tables, tables 1.18 and 1.19. Implicit price deflators are found in table 7.10.

The decline in real gross farm product was the result of the Federal payment-in-kind (PIK) program, other Federal acreage reduction programs, and drought. The Federal farm programs aimed, in part, to reduce production and thereby reduce the large stocks of grains and some other crops accumulated in 1981 and 1982 (table 11). Under the programs initially announced for 1983 crops, farmers could idle a fixed percentage of their acreage in certain crops in return for eligibility to use crops as collateral for Commodity Credit Corporation (CCC) loans and for subsidy payments if average prices for the marketing year fall below specified target levels. Under the PIK program, announced later, farmers who participated in the initial programs could idle still more acreage and receive crops from CCC inventories in return. The in-kind payments equaled a percentage of the normal yield on the acreage idled—95 percent for wheat and 80 percent for corn, sorghum, cotton, and rice.

After farmers had reduced acreage under both types of programs, severe drought last summer sharply reduced yields on the acres that remained in production. (The winter wheat crop, however, largely escaped drought, because it is harvested in the spring.) Farm output—that is, production before the deduction of purchases of intermediate goods and services—foregone by participation in the Federal programs nearly equaled output lost to drought. However, for each unit of output, drought reduced farm product more than did participation in the Federal programs. In the case of drought, the farmer incurred the expenses of seed, fertilizer, and other input to be netted against the lower amount of output. In the case of participation in the Federal programs, the farmer did not incur many of these expenses.

Under the PIK program, farmers took title in 1983 to an estimated $3 billion of crops previously held by the CCC. In the national income and product accounts (NIPA's), this transfer does not affect gross farm product or GNP (or Federal Government expenditures, as noted in discussing the Federal sector). In gross farm product (and also output), the reduction in CCC stocks is shown as a reduction in net CCC loans (in table 10, shown

Table 11.—Marketing Year Final Stocks and Average Prices for Major U.S. Crops

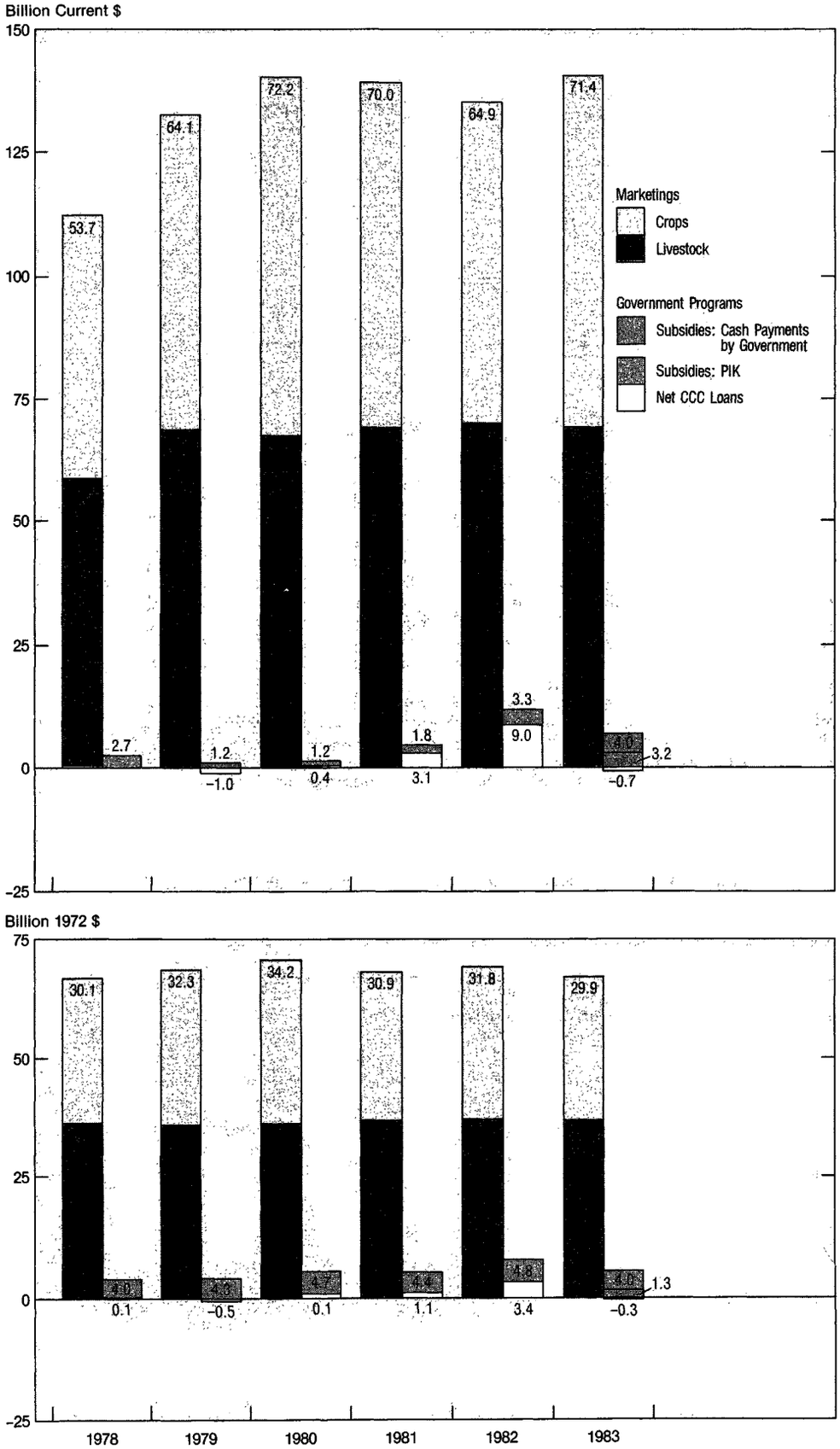
Crop and Marketing Year [1]	Stocks [2] (Million bushels, except million bales for cotton)	Price (Dollars per bushel, except cents per pound for cotton)
Corn:		
1979/80	1,617	2.52
1980/81	1,034	3.11
1981/82	2,286	2.50
1982/83	3,140	2.70
1983/84 [3]	595	3.20–3.40
Wheat:		
1979/80	902	3.78
1980/81	989	3.91
1981/82	1,164	3.65
1982/83	1,543	3.53
1983/84 [3]	1,441	3.45–3.60
Soybeans:		
1979/80	359	6.28
1980/81	318	7.57
1981/82	266	6.04
1982/83	387	5.65
1983/84 [3]	185	7.50–8.25
Cotton:		
1979/80	3.0	62.5
1980/81	2.7	74.7
1981/82	6.6	54.3
1982/83	7.9	[4] 58.0
1983/84 [3]	3.6	([5])

1. Marketing years extend approximately from harvest to harvest for each crop.
2. Includes stocks held privately and under Federal farm programs.
3. Projections.
4. Weighted average for first 8 months of marketing year; not a projection.
5. USDA is prohibited by law from publishing cotton price projections.

Source: Department of Agriculture.

CHART 9

Market Sales and Proceeds From Government Programs



NOTE.— Market sales differ from cash receipts in table 10 by net CCC loans.

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along with cash receipts from marketings). This reduction is offset by an increase in the change in farm inventories and/or an increase in cash receipts from marketings. In GNP, the reduction in CCC stocks is a reduction in Federal purchases. This reduction is offset among the product components by an increase in the change in inventories and/or an increase in final sales. Correspondingly, the PIK transfers do not affect GNP seen as the sum of income components. GNP is valued at market prices—that is, exclusive of subsidies. PIK transfers appear as subsidies to farmers and are part of farm proprietors' income (or, for corporate farms, corporate profits); they are subtracted, along with other subsidies, as a separate item in the derivation of GNP.

On a quarterly basis, real farm product was down $1½–$2 billion each quarter.[5] A quarterly pattern is particularly difficult to estimate for at least two reasons. Even if complete data were available, measurement would be difficult during the growing year for an output that is heavily influenced by weather and becomes a certainty only when harvested. Moreover, quarterly data are fragmentary, particularly for inventories held by farmers, and in most cases do not become available until long after the current NIPA estimates for a given quarter have been released.

Despite the decline in farm product, farm income for the year 1983, at $52 billion in current dollars, held even with 1982, although both years fell short of 1981. Within this measure, which is national income originating in farming, farm proprietors' income showed the same pattern. In 1983, Federal programs provided historically high levels of help in maintaining income, as shown in the upper panel of chart 9. While net CCC loans, exclusive of PIK transfers to farmers, were a negative $1 billion, Federal programs paid substantial amounts of cash subsidies in addition to the PIK subsidies of $3 billion. These cash subsidies, which consist primarily of crop program payments, were $4 billion. The high level of cash subsidies re-

5. In the NIPA tables shown each month in the SURVEY, farm product is in tables 1.5–1.6.

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flected low U.S. crop prices relative to the targets specified for 1982 crops, most of which were marketed in 1983.

On a quarterly basis, farm proprietors' income increased $10 billion in the fourth quarter of 1983, after declines of $5½ billion in the third quarter and smaller amounts in the second and first.[6] The PIK program provided options to farmers that affect quarterly and annual patterns in farm proprietors' income. PIK permitted farmers to receive crops at their normal harvest time, but with an optional 5 months of free storage from that date if farmers delayed taking title. Thus, the estimated pattern of PIK subsidies and proprietors' income in the second half of 1983 is preliminary until administrative records become available.

6. In the NIPA tables shown each month in the SURVEY, farm proprietors' income is in tables 1.11 and 2.1.

the BUSINESS SITUATION

REVISED (45-day) estimates show that real GNP increased 5 percent at an annual rate in the fourth quarter of 1983.[1] Preliminary (15-day) estimates had shown a 4½-percent increase. Inflation, as measured by the increase in the GNP fixed-weighted price index, was revised down from 4½ percent to 4 percent.

The $1½ billion upward revision in real GNP resulted from large, but offsetting, revisions in some of the major components (table 1). Net exports were revised up $4 billion, mainly due to higher estimates of merchandise exports and lower estimates of merchandise imports. The upward revision of $2½ billion in nonresidential fixed investment was in producers' durable equipment—about half in motor vehicles. Residential investment was revised up $1 billion. The largest downward revision—$3½ billion—was in change in business inventories. Manufacturing inventories, both durable and nondurable, accounted for about three-fifths of the revision; wholesale inventories, primarily nondurable, accounted for the remainder. Personal consumption expenditures were revised down $2 billion. In particular, estimates for autos, food, and electricity and natural gas were lower. Revisions in government purchases were quite small.

For the most part, the revisions in fourth-quarter GNP do not alter the picture of economic activity described in the January "Business Situation." The 5-percent increase in real GNP in the fourth quarter was smaller than the very strong increases in the two preceding quarters. The slowdown was in inventory investment. In the third quarter, a swing in inventories from liquidation in the second quarter to accumulation had boosted the change in GNP. In the fourth quarter, inventories accumulated at the same rate as in the third, and, thus, did not affect the change in GNP. The moderate increase in inventories in the fourth quarter, coupled with a strong increase in final sales, led to a contin-

Table 1.—Revisions in Selected Component Series of the NIPA's, Fourth Quarter of 1983

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	15-day estimate	45-day estimate	Revision	15-day estimate	45-day estimate
	Billions of current dollars				
GNP	**3,432.0**	**3,437.3**	**5.3**	**8.6**	**9.2**
Personal consumption expenditures	2,233.1	2,227.0	−6.1	9.9	8.7
Nonresidential fixed investment	371.2	376.2	5.0	25.1	31.9
Residential investment	140.8	141.5	.7	−1.8	.2
Change in business inventories	17.7	10.5	−7.2		
Net exports	−32.6	−18.7	13.9		
Government purchases	701.7	700.9	−.8	2.0	1.5
National income					
Compensation of employees	2,056.0	2,056.3	.3	9.1	9.2
Corporate profits with inventory valuation and capital consumption adjustments					
Other	446.3	448.0	1.7	19.6	21.4
Personal income	**2,834.2**	**2,835.3**	**1.1**	**10.9**	**11.1**
	Billions of constant (1972) dollars				
GNP	**1,570.5**	**1,571.9**	**1.4**	**4.5**	**4.9**
Personal consumption expenditures	1,032.2	1,030.2	−2.0	6.5	5.7
Nonresidential fixed investment	178.9	181.3	2.4	22.3	29.0
Residential investment	56.1	57.1	1.0	−5.2	1.8
Change in business inventories	7.5	3.9	−3.6		
Net exports	2.5	6.3	3.8		
Government purchases	293.2	293.2	0	−2.7	−2.7
	Index numbers, 1972=100 [1]				
GNP implicit price deflator	218.53	218.67	.14	3.9	4.2
GNP fixed-weighted price index	228.0	227.7	−.3	4.5	4.1
GNP chain price index				4.6	4.4

1. Not at annual rates.

NOTE.—For the fourth quarter of 1983, the following revised or additional major source data became available: For *personal consumption expenditures,* revised retail sales for November and December; for *nonresidential fixed investment,* manufacturers' shipments of equipment for November (revised) and December, construction put in place for November (revised) and December, and a partial tabulation of business expenditures for plant and equipment for the quarter; for *residential investment,* construction put in place for November (revised) and December; for *change in business inventories,* book values for manufacturing and trade for November (revised) and December; for *net exports of goods and services,* merchandise trade for November (revised) and December; for *government purchases of goods and services,* Federal unified budget outlays for December, and State and local construction put in place for November (revised) and December; for *wages and salaries,* revised employment, average hourly earnings, and average weekly hours for November and December; for *GNP prices,* the Consumer Price Index and the Producer Price Index for December, unit value indexes and export and import price indexes for December, and residential housing prices for the quarter.

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates. Quarterly percent changes in them are expressed at annual rates.

ued decline in the aggregate inventory-sales ratios.

Final sales were up 5 percent in both the third and fourth quarters. Among the components of final sales, personal consumption expenditures increased sharply in the fourth quarter, following a moderate increase in the third. About one-half of the fourth-quarter increase was accounted for by spending on durables, particularly on new cars and trucks and on furniture and equipment. A speedup in nonresidential fixed investment in the fourth quarter was in its equipment component. Residential investment changed little in the fourth quarter, following several quarters of strong increases. Both single-family and multifamily construction contributed to the slowdown. Net exports registered a much sharper decline than in the third quarter. Imports were up more than in the third quarter, and exports were up less. Government purchases declined after an increase; a decrease in Federal nondefense purchases was due to the operations of the Commodity Credit Corporation.

the BUSINESS SITUATION

REAL GNP increased at an annual rate of 7 percent in the first quarter of 1984, and the GNP fixed-weighted price index increased at an annual rate of 5 percent. These estimates and the others for the first quarter shown in table 1 are "flash" estimates, that is, estimates prepared 15 days before the end of the quarter.[1]

These rates of increase continued the generally good performance of 1983. Real GNP was up about 2 percentage points more than in the fourth quarter but a little less than in the third; inflation was up only slightly from the 4–4½ percent annual rates recorded in those quarters. Within real GNP, motor vehicle output increased only slightly in the first quarter. In the third and fourth quarters of 1983, it had increased more sharply, and had added about 2 percentage points to the GNP growth rate in the third quarter and about 1 percentage point in the fourth. In contrast, farm product, which had dropped sharply in 1983 due to widespread drought and Federal acreage reduction programs, increased sharply in the first quarter of 1984, and added about 1 percentage point to the GNP growth rate.

Real final sales increased somewhat less than the annual rate of 5 percent registered in the third quarter, but a little more than the 3½ percent registered in the fourth. Had it not been for transactions of the Commodity Credit Corporation (CCC), final sales would have increased at roughly the same rate—4½–5 percent—in all three quarters. In the national income and product accounts, CCC loans to farmers on their crops are treated as additions to CCC inventories; redemptions of the crops by farmers are treated as reductions of CCC inventories. In addition, transfers of crops to farmers under the payment-in-kind (PIK) program actually reduce CCC inventories. All of these transactions are treated as Federal purchases, positive or negative, and thus as final sales. Removing them from final sales provides a measure that more closely approximates the intent of the final sales measure.[2]

The evidence available in mid-March suggests the following first-quarter developments in components of real GNP and GNP prices.

• Personal consumption expenditures increased substantially, although less than the annual rate of 6½ percent registered in the fourth quarter. Much of the deceleration was accounted for by motor vehicles, which are discussed later in the "Business Situation." With the exception of energy goods and services, most major categories continued to increase at roughly the same rate as in the fourth quarter. Gasoline purchases increased after a decline in the fourth quarter, when driving may have been curtailed by unusually hazardous weather. Electricity and natural gas purchases declined even more than in the fourth quarter. Electricity had declined in the fourth quarter from an unusually high third quarter, when its use reflected home cooling during a heat wave. In the first quarter, both electricity and natural gas declined, reflecting unusually mild weather conditions.

• Nonresidential fixed investment increased at about one-half the very strong annual rate of 27 percent registered in the fourth quarter. The deceleration was more than accounted for by producers' durable equipment, where motor vehicles declined after an increase and other equipment increased less than in the fourth quarter. As discussed in the article on the

Table 1.—GNP and GNP Prices

[Levels at seasonally adjusted annual rates; percent changes at annual rates]

	1983			1984:I
	II	III	IV	
Current-dollar GNP (billions of dollars):				
Level	3,272.0	3,362.2	3,436.2	3,534.9
Percent change from preceding quarter	13.3	11.5	9.1	12.0
Real GNP (billions of 1972 dollars):				
Level	1,525.1	1,553.4	1,572.5	1,600.1
Percent change from preceding quarter	9.7	7.6	5.0	7.2
GNP fixed-weighted price index (index, 1972=100):				
Level	222.9	225.5	227.8	230.6
Percent change from preceding quarter	4.3	4.7	4.2	5.1
GNP implicit price deflator (index, 1972=100):				
Level	214.55	216.44	218.53	220.91
Percent change from preceding quarter	3.3	3.6	3.9	4.4

1. The procedures used to prepare the "flash" estimates are the same as those used to prepare the estimates released after the end of the quarter. However, the source data that are available are limited to only 1 or 2 months of the quarter, and, in some cases, are preliminary. BEA makes projections of the missing source data. The major source data that are available are: For *personal consumption expenditures* (PCE), January and February retail sales, and unit sales of new autos and trucks for January and February; for *nonresidential fixed investment,* the same data for autos and trucks as for PCE, January construction put in place, January manufacturers' shipments of equipment, and business investment plans for the quarter; for *residential investment,* January construction put in place, and January housing starts; for *change in business inventories,* January book values for manufacturing and trade, and unit auto inventories for January and February; for *net exports of goods and services,* January merchandise trade; for *government purchases of goods and services,* Federal unified budget outlays for January, State and local construction put in place for January, and State and local employment for January and February; and for *GNP prices,* the Consumer Price Index for January, and the Producer Price Index for January.

2. It would be a mistake to exclude CCC transactions from GNP with the aim of setting aside a particularly volatile component. This is so because a substantial part of CCC transactions relate, not to current production (which is what GNP measures), but to commodities produced in a past period. Reductions in CCC inventories, for example, generally relate to commodities produced in the past.

results of the BEA plant and equipment expenditures survey, the strength of investment in recent quarters and the increases planned in 1984 are consistent with favorable developments in a number of indicators of investment.

• Residential investment came back after a dip in the fourth quarter. Most of the strengthening was in construction of single-family units, as single-family starts jumped in January and February. Interest rates on mortgage commitments continued to drift down from highs in mid-1983 and the share of mortgages that carried adjustable (rather than fixed) rates remained at the high level to which it had climbed in the fourth quarter of 1983.

• For the change in business inventories, reasonably complete information is available only for motor vehicles. Inventories of motor vehicles were up more than in the fourth quarter, and so contributed to the first-quarter increase in real GNP. Only fragmentary information is available about farm inventories on a quarterly basis, but related developments point to continued large inventory changes. Through the third quarter of 1983, inventories had been run down; in the fourth quarter, there was little change, and in the first quarter, it appears that there was substantial accumulation. Two developments that point to first-quarter accumulation are: first, the reduction in inventories held by the CCC (largely related to the transfer of inventories to farmers under the PIK program), and, second, the step-up in production, which is assumed to go largely into inventories in the short run, following the drought and sharp acreage reductions under PIK. The swing to accumulation of farm inventories contributed substantially to the first-quarter increase in GNP. Other inventories appear to have been accumulated in the first quarter, but at a rate not very different from that in the fourth, so that they had little effect on the first-quarter increase in GNP.

• For net exports, the limited evidence suggests another substantial decline. Exports increased, but imports increased even more. The increase in merchandise imports was widely spread among nonpetroleum categories; petroleum imports declined again. In services, it is likely that payments of investment income increased, reflecting continued large increases in bank liabilities to foreigners.

• Government purchases appear to have changed little. In Federal purchases, an increase in defense was more than offset by a decline in nondefense. In nondefense, CCC inventories were reduced, as mentioned earlier; the other components changed little. In State and local purchases, small increases were registered in components other than compensation.

• Inflation, as measured by the GNP fixed-weighted price index, was slightly higher than in 1983. The acceleration from the fourth quarter was largely traceable to food prices and a Federal pay raise, which is reflected in the prices of employee services purchased by the Federal Government. The latter accounted for 0.4 percentage point of the first-quarter increase. A decline in energy prices, after a fourth-quarter increase, was a partial offset. The first-quarter decline was mainly in gasoline and natural gas.

Personal income

Personal income registered another sharp increase in the first quarter—$84½ billion after a $73½ billion increase in the fourth (table 2).[3] The strength in personal income in these two quarters reflected several specific developments as well as the continued recovery in economic activity.

Wage and salary disbursements increased somewhat more than in the fourth quarter. Increases in wages and salaries picked up in manufacturing and in other commodity-producing industries, and remained about the same in services. The pattern of increases in the distributive industries in the last three quarters largely reflected the impact of a 3-week strike in August by telephone workers. Government wages and salaries were boosted $3 billion in the first quarter by the Federal pay raise.

Proprietors' income was a major contributor to the sharp increases in personal income in both the fourth and first quarters. Following a $9½ billion increase in the fourth quarter, farm income was up about $20½ billion in the first. These huge increases can be attributed to large subsidy payments under PIK and other programs and to the strong step-up in crop production. The increase in nonfarm income accelerated in the first quarter, largely due to retail trade.

Among the remaining components of personal income shown in table 2, personal interest income registered another substantial increase. Transfer payments were up somewhat less than in the fourth quarter, as unemployment insurance benefits fell more

Table 2.—Personal Income and Its Disposition

[Billions of dollars; based on seasonally adjusted annual rates]

	Change from preceding quarter			
	1983			1984: I*
	II	III	IV	
Wage and salary disbursements	37.7	33.6	35.4	40.0
Manufacturing	12.0	11.8	9.8	14.6
Other commodity-producing	1.6	3.8	2.4	3.9
Distributive	7.9	4.6	10.4	5.4
Services	10.9	9.1	9.4	9.0
Government and government enterprises	5.4	4.2	3.3	7.1
Proprietors' income	6.6	−.5	12.7	26.7
Farm	−1.2	−5.5	9.5	20.5
Nonfarm	7.8	5.0	3.2	6.2
Personal interest income	−.1	12.8	11.1	11.1
Transfer payments	6.8	−2.8	5.5	3.8
Other income	7.0	7.0	10.6	9.3
Less: Personal contributions for social insurance	2.1	1.9	2.0	6.4
Personal income	**55.9**	**48.2**	**73.4**	**84.4**
Less: Personal tax and nontax payments	10.8	−12.5	11.2	9.9
Impacts of legislation	−2.4	−25.4	−1.0	−1.6
Other	13.3	12.8	12.2	11.5
Equals: Disposable personal income	**45.1**	**60.7**	**62.1**	**74.5**
Less: Personal outlays	75.3	36.4	52.4	54.5
Equals: Personal saving	**−30.2**	**24.3**	**9.7**	**19.9**
Addenda: Special factors in personal income—				
Cost-of-living increases in Federal transfer payments	1.0	.4	0	6
Social security base, rate, and coverage changes (in personal contributions for social insurance)	.....	.....	.....	4.0
Subsidies to farmers	1.2	−.2	10.1	11.8
Telephone strike	.....	−3.3	3.3	0

*Projected.

3. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

rapidly. A cost-of-living increase that had been postponed 6 months from July 1 boosted social security and associated benefits $6½ billion in the first quarter; this boost was offset, however, by a decline in retroactive social security payments. Personal contributions for social insurance, which are subtracted in deriving the personal income total, were raised $4 billion by an increase in the social security taxable wage base, rate increases for self-employed persons and supplementary medical insurance, and an extension of social security coverage.

Personal taxes increased by about the same amount as in the fourth quarter. As in the last several quarters, the increase was primarily due to continued growth in the taxable wage base. Disposable personal income—personal income less taxes—was up even more sharply than in the fourth quarter. The strength largely carried through to real income, as the increase in PCE prices remained moderate. The increase in real disposable personal income was up slightly from the 8-percent (annual rate) increase in the fourth quarter.

The increase in disposable personal income exceeded the increase in personal outlays, so personal saving continued to increase. The personal saving rate moved up about ½ percentage point from the 5.2 percent registered in the fourth quarter.

Motor vehicles

Motor vehicle output increased about $½ billion (1972 dollars) in the first quarter, following a $5 billion increase in the fourth (table 3). Auto output was unchanged: A strong increase in domestic output of new autos was offset by a sharp decline in the part of auto output that is attributable to imported autos. Truck output was up, but less than in the fourth quarter. Final sales of both autos and trucks registered small declines. Inventories of motor vehicles increased substantially, as rebuilding continued.

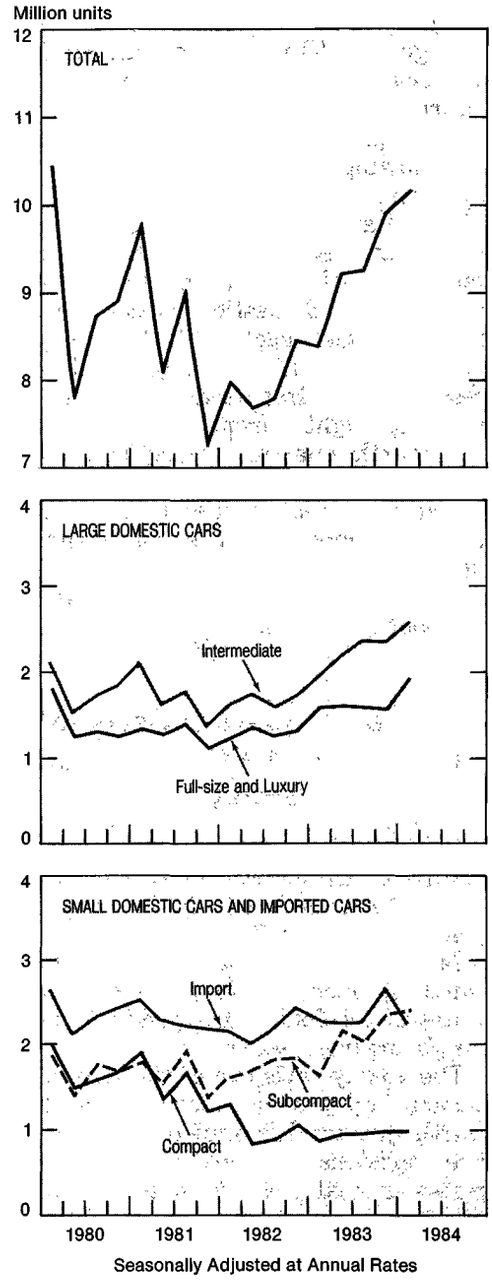
Unit sales of new cars increased to 10.2 million (seasonally adjusted annual rate) in the first quarter from 9.9 million in the fourth and 9.3 million in the third (chart 1). The first-quarter increase was more than accounted for by domestic car sales, which were up sharply to 7.9 million from 7.2 million in the fourth quarter. Sales of all domestic size categories were up, but large cars registered the strongest increases. Full-size and luxury car sales shot up to 1.9 million, and intermediate car sales climbed to 2.6 million. Together they accounted for 45 percent of total sales, their largest market share since 1979. Compact and subcompact car sales edged up to 1.0 million and 2.4 million, respectively. The market share of domestic small cars has remained at about 33 percent for the last several quarters.

Sales of imported cars receded to 2.2 million from 2.7 million in the fourth quarter, and their market share tumbled to 22 percent, the lowest since 1979. The decrease was more than accounted for by a sharp dropoff in sales of Japanese cars. Sales of these cars may have been constrained by tight supplies; several manufacturers reduced shipments in the first quarter to comply with the voluntary quota agreement. Sales of other imported cars, primarily from West Germany, registered another strong increase in the first quarter.

Domestic manufacturers stepped up production in the first quarter to continue inventory rebuilding. Production of domestic cars jumped to 8.9

CHART 1

Retail Sales of New Passenger Cars



NOTE.—Data for the most recent quarter are projected.
Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports; seasonal adjustment by BEA.

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Table 3.—Motor Vehicle Output

[Billions of 1972 dollars; seasonally adjusted annual rates]

	1982:IV	Change from preceding quarter					1984:I *
		1983				1984:I *	
		I	II	III	IV		
Output	50.7	8.3	3.5	8.6	5.1	0.6	76.7
Autos	38.3	6.6	1.1	7.1	2.8	0	55.8
Trucks	12.4	1.7	2.4	1.5	2.3	.6	20.9
Final sales	57.8	−.1	7.4	3.1	3.2	−1.5	70.0
Autos	43.4	−.1	5.5	2.2	.1	−1.0	50.2
Trucks	14.4	0	1.9	.9	3.1	−.5	19.8
Change in business inventories	−7.3	8.5	−3.9	5.4	2.0	2.0	6.7
Autos	−5.2	6.7	−4.4	4.9	2.7	1.0	5.7
Trucks	−2.1	1.8	.5	.5	−.7	1.0	1.0

* Projected. Based on unit production in January and February and scheduled production for March, unit sales of autos and of trucks for January and February, and unit inventories for January and February.

NOTE.—For estimates through 1983:IV, see tables 1.14–1.15 and 1.16–1.17 of the National Income and Product Accounts Tables. Auto output includes dealers' margins on their used car transactions; truck output includes new trucks only.

million (seasonally adjusted annual rate) from 7.6 million in the fourth quarter. Domestic inventories increased from 1.39 million (seasonally adjusted) in the fourth quarter; shortages of a number of popular models, which may have constrained sales earlier, eased. The ratio of inventories to sales probably moved up from 2.3 in the fourth quarter, a ratio already somewhat above that generally considered desirable by the industry. Production is scheduled to decline in the second quarter, at least partly due to early plant shutdowns for model changeover. Thus, the additional inventories carried into the second quarter may be required to maintain sales at present levels.

Following several quarters of strong increases, unit sales of new trucks steadied at 3.6 million (seasonally adjusted annual rate) in the first quarter. Sales of light domestic trucks and of "other" domestic trucks maintained levels reached in the fourth quarter—2.9 million and 0.22 million, respectively. Imported truck sales were up slightly from 0.49 million in the fourth quarter. Domestic manufacturers resumed inventory rebuilding in the first quarter; unit production of domestic trucks was stepped up from 3.0 million (seasonally adjusted annual rate) in the fourth quarter to about 3.3 million.

The Fourth Quarter: Corporate Profits and the Government Sector

Preliminary estimates of corporate profits for the fourth quarter of 1983 have been completed. Their compilation makes it possible to estimate corporate profits tax accruals for the fourth quarter, rounding out the estimates of receipts and expenditures of the government sector.

The 75-day revisions of the national income and product accounts for the fourth quarter are shown in table 4. The revisions did not alter the increase in real GNP from the annual rate of 5 percent shown in the 45-day estimates, but more strength was in inventory investment and less in final sales. The largest revisions were upward in change in business inventories (mainly in farm inventories) and downward in net exports (largely in factor income).

Corporate profits

Corporate profits from current production—profits with inventory valuation and capital consumption adjustments—increased $19½ billion to $268 billion in the fourth quarter. This increase was smaller than the increases of $36½ billion and $30 billion observed in the second and third quarters, reflecting slower growth of the economy in the fourth quarter. By the fourth quarter, corporate profits as a share of national income had rebounded further from the recession through a year earlier than in the comparable period for the median postwar recovery (chart 2).

An increase in the domestic profits of nonfinancial corporations more than accounted for the fourth-quarter increase in total profits. Nonfinancial profits increased $23 billion to $217½ billion, following an increase of $29 billion. In both quarters, the increases resulted from the combination of a higher real product, moderately higher unit prices, and a lower unit cost. A decrease in unit nonlabor cost barely offset an increase in unit labor cost in the fourth quarter; both types of cost had declined in the third quarter. Manufacturing and trade profits were up about the same as in the third quarter, but profits of transportation and utilities and of "other" nonmanufacturing were up less.

Profits of durable goods manufacturers, which are about one-sixth of domestic nonfinancial profits, accounted for one-half the increase; in the third quarter, they had increased proportionally. Profits of all major durables industries were up in the fourth quarter, reflecting their constant-dollar sales. Primary metals manufacturers benefited also from higher prices for nonferrous metal products and registered profits for the first time since the fourth quarter of 1981. Profits of motor vehicle manufacturers increased from their robust third-quarter level; sales of domestic motor vehicles reflected in part con-

Table 4.—Revisions in Selected Component Series of the NIPA's, Fourth Quarter of 1983

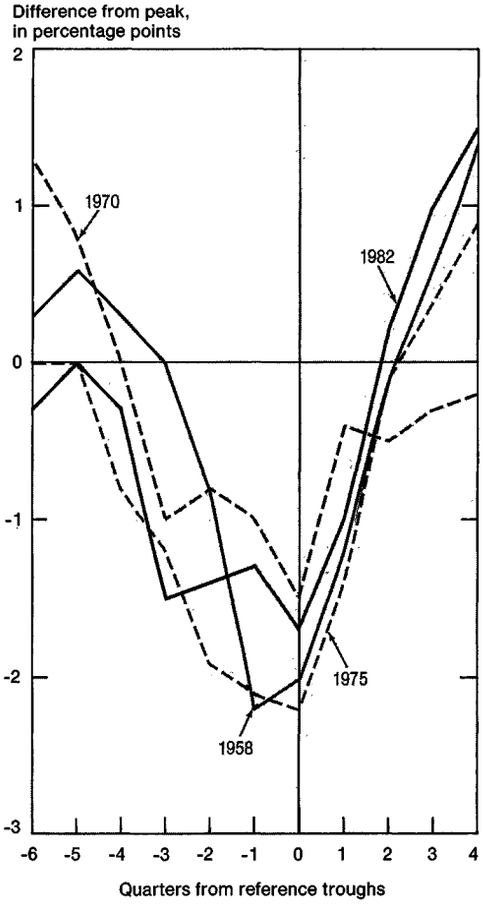
	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	45-day estimate	75-day estimate	Revision	45-day estimate	75-day estimate
	Billions of current dollars				
GNP	**3,437.3**	**3,436.2**	**−1.1**	**9.2**	**9.1**
Personal consumption expenditures	2,227.0	2,230.9	3.9	8.7	9.4
Nonresidential fixed investment	376.2	374.0	−2.2	31.9	28.8
Residential investment	141.5	138.8	−2.7	.2	−7.3
Change in business inventories	10.5	19.6	9.1	...	...
Net exports	−18.7	−26.1	−7.4	...	...
Government purchases	700.9	699.0	−1.9	1.5	.4
National income	...	**2,772.3**	...	...	**13.3**
Compensation of employees	2,056.3	2,056.6	.3	9.2	9.2
Corporate profits with inventory valuation and capital consumption adjustments	...	268.1	...	...	35.7
Other	448.0	447.6	−.4	21.4	21.0
Personal income	**2,835.3**	**2,835.2**	**−.1**	**11.1**	**11.1**
	Billions of constant (1972) dollars				
GNP	**1,571.9**	**1,572.5**	**.6**	**4.9**	**5.0**
Personal consumption expenditures	1,030.2	1,032.2	2.0	5.7	6.5
Nonresidential fixed investment	181.3	180.7	−.6	29.0	27.2
Residential investment	57.1	55.8	−1.3	1.8	−6.9
Change in business inventories	3.9	8.7	4.8	...	...
Net exports	6.3	2.8	−3.5	...	...
Government purchases	293.2	292.3	−.9	−2.7	−3.9
	Index numbers, 1972=100 [1]				
GNP implicit price deflator	218.67	218.53	−.14	4.2	3.9
GNP fixed-weighted price index	227.7	227.8	.1	4.1	4.2
GNP chain price index	...	...	...	4.4	4.4

1. Not at annual rates.

NOTE.—For the fourth quarter of 1983, the following revised or additional major source data became available: For *personal consumption expenditures,* revised retail sales for December, and consumption of electricity for December; for *nonresidential fixed investment,* revised manufacturers' shipments of equipment for December, and revised construction put in place for December; for *residential investment,* revised construction put in place for December, and residential alterations and repairs for the quarter; for *change in business inventories,* revised book values for manufacturing and trade for December; for *net exports of goods and services,* revised merchandise trade and revised service receipts for the quarter; for *government purchases of goods and services,* revised construction put in place for December; for *wages and salaries,* revised employment, average hourly earnings, and average weekly hours for December; for *net interest,* financial assets held by households for the quarter, and revised net interest received from abroad for the quarter; for *corporate profits,* preliminary domestic book profits for the quarter, and revised profits from the rest of the world for the quarter; and for *GNP prices,* revised residential housing prices for the quarter.

CHART 2

Corporate Profits as a Share of National Income in Selected Business Cycles



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tinued protection under the Japanese voluntary quota agreement.

The fourth-quarter increase in the profits of nondurable manufacturers was less than one-half the third-quarter increase. A smaller increase in petroleum profits more than accounted for the deceleration in the fourth quarter. Chemicals were up moderately and petroleum, other nondurables, and food producers were up slightly. The increases in food and petroleum manufacturing profits occurred despite declining real sales.

Domestic profits of nonfinancial nonmanufacturing corporations also increased less in the fourth quarter. Trade profits equaled their third-quarter increase, while profits of "other" nonmanufacturing and of transportation and utilities increased less. The increase in trade profits was due to wholesalers' profits; retailers' profits were level. Airlines continued to narrow their losses.

Domestic profits of financial corporations decreased $2 billion to $28½ billion in the fourth quarter, equaling the third-quarter decrease. The fourth-quarter decrease was accounted for by decreases in the profits of insurance companies and of securities and commodities brokers. For brokers, the decline occurred despite an increase in the volume of shares traded. Profits of Federal Reserve banks—which the national income and product accounts place in the financial corporate business sector—showed a small increase; profits of commercial banks, a small decline.

Profits from the rest of the world decreased $1½ billion to $21½ billion in the fourth quarter, partly reversing a $3 billion increase in the third. In the fourth quarter, a decrease in earnings from foreign nonpetroleum operations of U.S. corporations more than offset an increase in earnings from foreign petroleum operations.

Other profits measures.—Profits before tax declined $1 billion to $228 billion in the fourth quarter, following an increase of $26 billion. These profits exclude the inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj), which more than accounted for the increase in profits from current production.[4] The IVA became less negative in the fourth quarter, increasing $12 billion to −$6½ billion, following a decline of $7½ billion. The increase resulted primarily from smaller increases in prices of goods held in inventories by trade, utilities, and some durables manufacturing corporations. The CCAdj increased $8½ billion to $46 billion in the fourth quarter, following an increase of $12 billion. The increases primarily reflected the effects of provisions of the Economic Recovery Tax Act of 1981 permitting the use of shorter service lives for measuring the depreciation on new capital (as reported to the Internal Revenue Service). The increases also were consistent with little change in the prices for business fixed investment.

4. The capital consumption adjustment converts depreciation of fixed capital used up in production to a consistent basis with respect to service lives (85 percent of Internal Revenue Service Bulletin F for equipment and nonresidential structures) and depreciation formulas (straight line). It also converts depreciation to replacement cost, the valuation concept underlying national income and product accounting, from historical cost, the concept generally underlying business accounting.

Corporate profits taxes increased $½ billion to $85 billion, following an increase of $9 billion, while dividends increased $2 billion to $76 billion, following an increase of $1½ billion. Dividends were 53 percent of profits after tax, somewhat above the third-quarter share, but below the shares observed earlier in 1983 and in 1982. The changes in share reflect milder cyclical fluctuation in dividends than in profits. Undistributed profits declined $3½ billion to $67 billion, following an increase of $15 billion. However, even with the decline, the fourth-quarter level remained nearly double the cyclical low in the first quarter of 1983.

Government sector

The fiscal position of the government sector in the national income and product accounts was essentially unchanged in the fourth quarter; the combined deficit of the Federal government and of State and local governments declined $1 billion. An increase in the State and local surplus was slightly larger than the increase in the Federal deficit. However, the combined deficit, at $128 billion, was considerably lower than the $175 billion deficit of a year earlier. Over the past year, the Federal government deficit declined $18 billion and the State and local government surplus increased $29 billion.

The Federal sector.—The Federal government deficit increased $2½ billion in the fourth quarter to $190 billion, as expenditures increased more than receipts. For the year 1983, the deficit was $181½ billion, up $34½ billion from 1982.

Receipts increased $12 billion, compared with a $7½ billion decline in the third quarter, when personal tax and nontax receipts were reduced significantly by the final reduction in income tax withholding rates under the Economic Recovery Tax Act of 1981. Personal taxes rebounded in the fourth quarter and accounted for two-thirds of the increase in total receipts. A $4 billion increase in contributions for social insurance—reflecting a strong increase in wages and salaries—accounted for the remainder of the total increase. On balance, the other categories of receipts were unchanged.

Expenditures increased $15 billion, about the same as in the third quarter. Two categories registered unusually large increases in the fourth quater. Subsidies less the current surplus of government enterprises increased $9 billion. A $10 billion increase in subsidy payments to farmers included $8½ billion under the payment-in-kind (PIK) program. (See "Farm Product and Income" in the January 1984 SURVEY for a detailed discussion of the PIK program and its effect on farm income and Government expenditures.) This increase was only partly offset by declines ($½ billion each) in the deficits of the Postal Service and of the Commodity Credit Corporation (CCC). Transfer payments increased $7½ billion. Large payments to Israel—the full amount earmarked for Israel in the appropriation for fiscal year 1984—resulted in a $4 billion increase in transfer payments to foreigners. Transfer payments to individuals increased $3½ billion. Large increases in retroactive social security benefits ($3 billion) and in medicare ($2 billion), and a $½ billion increase in food stamps were partly offset by a decline in unemployment benefits ($2 billion). All types of unemployment benefits declined, paced by a $1 billion decline in regular benefits; extended and supplemental benefits accounted for the remainder of the decline in equal amounts. Net interest paid also increased; the $3½ billion increase largely reflected higher interest rates.

Partly offsetting these increases were declines in purchases of goods and services ($4 billion) and in grants-in-aid to State and local governments ($1 billion). Within purchases, national defense increased $5 billion and nondefense declined $9 billion. The decline in nondefense purchases was accounted for by a dropoff in agricultural purchases by the CCC, largely because of the PIK program. A decline in crude oil purchases for the strategic petroleum reserve was offset by increases in all other purchases.

Cyclically adjusted budget surplus or deficit.—BEA now regularly prepares two estimates of cyclically adjusted budgets—that is, budgets from which the automatic responses of receipts and expenditures to economic fluctuations have been removed so that they register only discretionary fiscal policy and other noncyclical factors. One is based on a "middle-expansion" trend GNP, the other on a 6-percent unemployment rate trend GNP (table 3 on page 18). An article in the December 1983 SURVEY discussed BEA's methodology for calculating cyclically adjusted budgets and the uses of these budgets. For reasons explained in that article, BEA has discontinued the high-employment budget estimates as they had been prepared since 1980.

As measured using the cyclically adjusted budget based on middle-expansion trend GNP, the Federal fiscal position moved from a deficit of $150 billion in the third quarter to a deficit of $162 billion in the fourth. The cyclically adjusted deficit as a percentage of middle-expansion trend GNP increased from 4.3 percent in the third quarter to 4.6 percent in the fourth—a move toward a more expansionary fiscal position.

The State and local sector.—The State and local government surplus increased $3½ billion, to $58 billion, as receipts increased more than expenditures. Most of the increase—$3 billion—was in the surplus of "other" funds, that is, other than social insurance funds. For the year 1983, the surplus was $51½ billion, up $20 billion from 1982. Of that increase, $3 billion was in the social insurance funds surplus and $17 billion was in "other", which swung from a $2 billion deficit to a $15 billion surplus in 1983. (An alternative measure of the fiscal position is described in "The State and Local Government Fiscal Position: An Alternative Measure" later in this issue.)

Receipts increased $7 billion, compared with $14 billion in the third quarter, when all receipt categories recorded strong increases. Indirect business tax and nontax accruals increased $4½ billion; sales taxes and property taxes each contributed $2 billion. Personal tax and nontax receipts increased $3 billion and contributions for social insurance about $1 billion; corporate profits tax accruals declined slightly.

Expenditures increased $6 billion, compared with $10 billion in the third quarter. Purchases of goods and services accounted for most of the increase; all other expenditures, on balance, increased $1 billion. Within purchases, compensation increased $4½ billion, construction declined $2½ billion, and all other purchases increased $3 billion. The decline in construction was concentrated in educational buildings and highways, and followed a strong third-quarter increase of $3 billion.

the BUSINESS SITUATION

ECONOMIC activity continued to expand rapidly in the first quarter of 1984. Real GNP increased at an annual rate of 8½ percent, following increases of 5 percent in the fourth quarter of 1983 and 7½ percent in the third quarter. Inflation remained moderate. The GNP fixed-weighted price index increased 4½ percent at an annual rate in the first quarter, following increases of 4 percent in the fourth and 4½ percent in the third.[1]

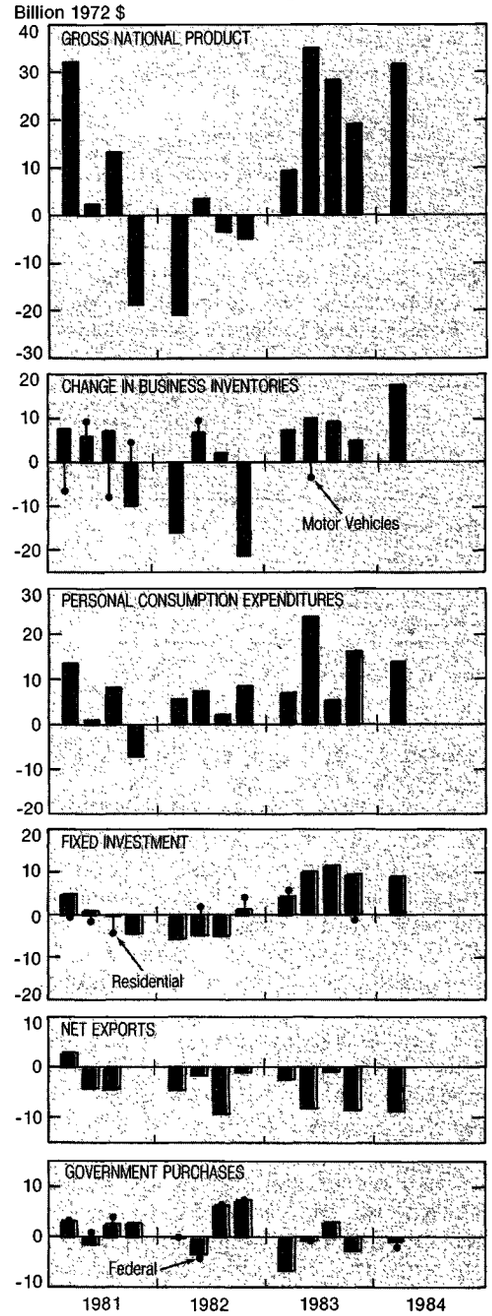
More than one-half of the increase in real production in the first quarter took the form of an increase in inventory investment (chart 1). Inventory investment was up $18 billion, following a $5 billion increase in the fourth quarter. About one-half of the first-quarter and all of the fourth-quarter increases were in farm inventories. Transfers of crops from the Commodity Credit Corporation (CCC) to farmers under the payment-in-kind (PIK) program accounted for $5 billion of the first-quarter increase and for $3½ billion of the fourth-quarter. The handling of PIK in the national income and product accounts (NIPA's) offsets these transfers, which relate to commodities produced in the past, in final sales; as a result, GNP, which is a measure of current production, is not affected. (The PIK program, introduced last year as part of the Federal acreage reduction program designed to reduce agricultural inventories, and its handling in the NIPA's were described in the January 1984 "Business Situation.")

Real final sales increased 3½ percent in the first and fourth quarters. In both quarters, changes in government purchases and, in turn, in final sales were greatly affected by CCC inventory transactions. In the NIPA's these transactions are treated as Federal purchases, positive or negative. (CCC inventories were reduced by the transfers of crops to farmers under PIK, and thus Federal purchases and, in turn, final sales were held down in the fourth and first quarters.) Had it not been for transactions of the CCC, final sales would have increased 4½–5 percent in the first and fourth quarters, about as strong as the 5-percent increase in the third. For these quarters in which PIK transactions were large, this measure is more useful in assessing the strength of final demand than is unadjusted final sales.

Increases in economic activity have been robust in the business sector of the economy (table 1). Real business product registered larger percent increases in each of the past several quarters than did GNP. Until the first quarter of 1984, nonfarm business product registered still larger in-

CHART 1

Real Product: Change From Preceding Quarter



Based on Seasonally Adjusted Annual Rates

U.S. Department of Commerce, Bureau of Economic Analysis 84-4-1

[1] Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates. Quarter-to-quarter percent changes are annualized. Real, or constant-dollar, estimates are expressed in 1972 dollars.

The first-quarter GNP estimates are based on the following major source data: For *personal consumption expenditures (PCE),* retail sales, and unit auto and truck sales through March; for *nonresidential fixed investment,* the same information for autos and trucks as for PCE, manufacturers' shipments of machinery and equipment for January and February, January and February construction put in place, and investment plans for the quarter; for *residential investment,* January and February construction put in place, and housing starts for January and February; for *change in business inventories,* January and February book values for manufacturing and trade, and unit auto inventories through March; for *net exports of goods and services,* January and February merchandise trade, and fragmentary information on investment income for the quarter; for *government purchases of goods and services,* Federal unified budget outlays for January and February, State and local construction put in place for January and February, and State and local employment through March; and for *GNP prices,* the Consumer Price Index for January and February, the Producer Price Index for January and February, and unit-value indexes for exports and imports for January and February. Some of these source data are subject to revision.

Table 1.—Alternative Measures of Production

[Billions of 1972 dollars, seasonally adjusted at annual rates]

Line		Dollars									Percent change from preceding quarter at annual rate			
		Level					Change from preceding quarter							
		1983				1984: I	1983			1984:I	1983			1984:I
		I	II	III	IV		II	III	IV		II	III	IV	
1	Gross national product	1,490.1	1,525.1	1,553.4	1,572.5	1,604.3	35.0	28.3	19.1	31.8	9.7	7.6	5.0	8.3
2	Less: Rest-of-the-world	21.0	20.7	22.3	21.3	21.0	−.3	1.6	−1.0	−.3	−5.5	34.7	−16.8	−5.5
3	Gross domestic product	1,469.2	1,504.4	1,531.1	1,551.2	1,583.3	35.2	26.7	20.1	32.1	9.9	7.3	5.4	8.5
4	Less: Household and institutions	47.1	47.3	47.6	48.0	48.0	.2	.3	.4	0	1.4	2.6	3.4	0
5	Government	155.9	156.0	156.0	156.3	156.3	.1	0	.3	0	.1	0	.8	0
6	Business product	1,266.1	1,301.2	1,327.5	1,346.9	1,378.9	35.1	26.3	19.4	32.0	11.5	8.4	6.0	9.8
7	Less: Farm	39.2	37.7	35.5	34.9	36.9	−1.5	−2.2	−.6	2.0	−14.2	−21.4	−6.6	25.0
8	Residual [1]	−.6	−1.6	1.1	−3.2	−3.1	−1.0	2.7	−4.3	−.1				
9	Nonfarm business product	1,227.5	1,265.1	1,290.9	1,315.2	1,345.1	37.6	25.8	24.3	29.9	12.8	8.4	7.7	9.4
10	Less: Housing	145.6	146.9	148.3	149.8	151.4	1.3	1.4	1.5	1.6	3.6	3.9	4.1	4.3
11	Nonfarm business product less housing	1,081.9	1,118.2	1,142.6	1,165.4	1,193.7	36.3	24.4	22.8	28.3	14.1	9.0	8.2	10.1
	Addenda:													
	Motor vehicle output	59.0	62.5	71.1	76.1	80.8	3.5	8.6	5.0	4.7	25.9	67.5	31.2	27.1
	GNP less motor vehicle output	1,431.1	1,462.6	1,482.3	1,496.4	1,523.5	31.5	19.7	14.1	27.1	9.1	5.5	3.9	7.5

1. The residual is the constant-dollar equivalent of the statistical discrepancy. For the first quarter of 1984, it is not yet available; it is assumed in this table to be the same as in the fourth quarter of 1983.

NOTE.—Most dollar levels are found in the National Income and Product Accounts Tables, table 1.6, and most percent changes are found in table 8.1.

Table 2.—Real Gross Product, Hours, and Compensation in the Nonfarm Business Economy Less Housing: Percent Change

[Based on seasonally adjusted estimates]

	Change from preceding quarter at annual rates			
	1983			1984:I
	II	III	IV	
Real gross product	14.1	9.0	8.2	10.1
Hours	6.1	6.1	5.8	6.7
Compensation	10.8	10.5	9.8	13.6
Real gross product per hour	7.6	2.8	2.3	3.1
Compensation per hour	4.5	4.1	3.7	6.4
Unit labor cost	−2.9	1.3	1.4	3.2

NOTE.—For estimates for 1980–82, see table 12, page 16, of the July 1983 SURVEY OF CURRENT BUSINESS.

Table 3.—Fixed-Weighted Price Indexes: Change From Preceding Quarter

[Percent change at annual rates; based on index numbers (1972=100), seasonally adjusted]

	1983			1984: I
	II	III	IV	
GNP	**4.3**	**4.7**	**4.2**	**4.7**
Less: Change in business inventories				
Equals: Final sales	4.3	4.7	4.2	4.7
Less: Exports	2.6	3.9	6.1	2.5
Plus: Imports	−6.3	1.5	−1.2	1.6
Equals: Final sales to domestic purchasers	**3.4**	**4.5**	**3.6**	**4.6**
Personal consumption expenditures	4.9	4.4	4.2	4.4
Food	5.1	−1.1	3.8	11.2
Energy	6.8	8.6	1.9	−6.0
Other personal consumption expenditures	4.5	5.5	4.8	4.2
Other	1.2	4.7	2.6	4.9
Nonresidential structures	−1.0	1.6	2.4	1.6
Producers' durable equipment	1.2	1.3	1.1	2.1
Residential	−2.6	8.0	−.3	.7
Government purchases	2.6	5.3	3.8	7.5
Addenda: Food and energy components of GNP:[1]				
Food components[2]	5.4	−.6	5.1	11.2
Energy components[3]	16.5	9.8	1.7	−6.1
GNP less food components	4.1	5.6	4.0	3.8
GNP less energy components	3.5	4.4	4.3	5.5
GNP less food and energy components	3.2	5.2	4.2	4.6

1. Inasmuch as GNP is the sum of final products, the food and energy estimates in this table do not take into account the effect on the prices of final products of changes in the prices of the food and energy that are costs of production.
2. Consists of all components for which separate estimates are prepared. The major component that is not included is purchases of food by the Federal Government other than transactions by the Commodity Credit Corporation that are treated like purchases.
3. Consists of all components for which separate estimates are prepared. The major components that are not included are (1) exports of energy; (2) the gasoline and motor oil portions of inventories of gasoline service stations, and (3) the energy portions of inventories of businesses that do not produce energy for sale.

NOTE.—Most index number levels are found in the National Income and Product Accounts Tables, table 7.2.

ceases. In that quarter, farm product, which had dropped steeply in 1983 due to widespread drought and Federal acreage reduction programs, increased sharply. Housing product—that is, the value of the services of owner- and tenant-occupied residences—is removed from nonfarm business product to derive a measure that can be used with labor variables for productivity analysis. Increases in this aggregate—nonfarm business product less housing—were very strong, ranging from 8 to 14 percent in the past four quarters.

Real motor vehicle output, which is shown in the addenda to table 1, again contributed significantly to the increase in GNP. Over the past several quarters, manufacturers have progressively stepped up production of cars and trucks to rebuild inventories from recession lows. GNP less motor vehicle output was up 7½ percent in the first quarter. As in the past several quarters, this measure increased about 1–2 percentage points less than did total GNP.

Productivity and costs.—Table 2 shows changes in real gross product, aggregate hours, and compensation in the business economy other than farm and housing. As in the preceding several quarters, real product and aggregate hours registered sizable increases in the first quarter. Again,

the increase in product exceeded that in hours; productivity was up 3 percent, following gains of 3 percent and 2½ percent in the preceding two quarters. The increases in compensation and in compensation per hour accelerated in the first quarter. Expanded coverage and increased rates for employer contributions for social insurance, effective January 1, accounted for about 1½ percentage points of the acceleration in compensation and for 1 percentage point of that in compensation per hour. The increase in unit labor cost remained moderate. Unit labor cost less the impact of the increase in employer contributions about matched the 1½-percent increases of the preceding two quarters.

Prices.—GNP prices as measured by the fixed-weighted price index increased 4½ percent in the first quarter—about the same rate as in the preceding several quarters (table 3). A Federal pay raise, which in the NIPA's is reflected in the price of employee services purchased by the Federal Government, accounted for 0.5 percentage point of the first-quarter increase.

Prices paid by domestic purchasers for the goods and services they buy—whether produced in the United States or abroad—also increased 4½ percent in the first quarter. In the fourth quarter, a decline in import prices held the increase in prices paid by domestic purchasers to 3½ percent compared with the 4-percent increase in GNP prices. The convergence in the first quarter occurred as the increase in export prices decelerated and import prices turned up.

Prices of personal consumption expenditures (PCE) increased 4½ percent—about the same rate as in the preceding several quarters. Food prices jumped 11 percent. The prices of fruits and vegetables shot up in January in response to freeze damage. Egg prices moved up sharply, as a large number of chickens exposed to avian flu were destroyed. Prices also rose for beef and pork. PCE energy prices dropped 6 percent, as lower gasoline prices more than offset sharp increases in fuel oil prices. Other PCE prices increased somewhat less than they had in the preceding several quarters.

Components of Real GNP

Most of the major components of real GNP registered changes in the first quarter of 1984 that were broadly similar to those in the fourth quarter of 1983 (table 4). PCE again increased strongly, as did nonresidential fixed investment. Net exports again fell sharply. Government purchases declined, but not as much as in the fourth quarter. The increase in business inventory investment picked up sharply. Residential investment increased after declining in the fourth quarter.

Personal consumption expenditures

Real PCE increased 6 percent after a 6½-percent increase in the fourth quarter. The continued strength was backed by large increases in real disposable income, as well as high levels of consumer confidence. On a monthly basis, the latter has weakened since January, as have many of the components of PCE, which may indicate that the boom in consumer spending is beginning to moderate.

Expenditures for durable goods increased slightly less than in the fourth quarter. Motor vehicles continued to increase, but at a slower pace, largely due to a weakening in purchases of trucks and used cars. Purchases of new cars increased at a higher rate than in the fourth quarter. Expenditures for furniture and household equipment and for other durables increased at about the same rate.

Expenditures for nondurable goods registered a slightly stronger increase

Table 4.—Real GNP: Change From Preceding Quarter

[Percent change at annual rates; based on millions of 1972 dollars, seasonally adjusted at annual rates]

	1983			1984:I
	II	III	IV	
GNP	**9.7**	**7.6**	**5.0**	**8.3**
Final sales	6.8	5.1	3.7	3.6
Personal consumption expenditures	10.0	2.2	6.5	5.8
Durables	32.6	3.7	19.9	17.2
Motor vehicles and parts	66.5	−.3	24.7	19.1
Furniture and household equipment	15.7	7.9	18.2	14.2
Other durables	1.4	4.4	10.8	20.3
Nondurables	6.4	3.6	4.8	5.9
Food	2.5	8.0	.9	−1.0
Energy [1]	10.2	3.7	−4.2	13.2
Clothing and shoes	18.9	−10.1	19.4	12.6
Other nondurables	1.0	10.7	2.4	14.2
Services	6.4	.6	3.7	2.0
Energy [2]	42.1	5.8	−4.5	−19.7
Other services	4.8	.3	4.2	3.3
Gross private domestic fixed investment	21.5	22.7	17.9	16.4
Nonresidential	7.9	18.7	27.2	12.1
Structures	−14.9	11.1	6.8	25.9
Producers' durable equipment	19.8	22.0	36.5	7.0
Autos and trucks	19.1	65.6	58.8	25.4
Other	20.0	15.1	32.4	3.5
Residential	79.5	35.9	−6.9	31.3
Net exports of goods and services				
Exports	−3.2	3.7	−.1	9.7
Merchandise	−7.0	10.1	2.6	13.6
Agricultural	−18.5	11.4	−7.0	28.3
Nonagricultural	−3.5	9.8	5.3	10.0
Other	1.7	18.4	−3.3	4.9
Imports	26.8	18.1	29.5	41.7
Merchandise	26.2	22.6	31.3	54.9
Petroleum	224.5	152.6	−46.4	−17.1
Nonpetroleum	20.0	16.9	39.1	60.1
Other	28.4	8.4	25.4	13.5
Government purchases of goods and services	−1.1	4.4	−3.9	−.8
Federal	−2.8	4.6	−8.4	−6.6
National defense	7.4	0	7.8	9.7
Nondefense	−23.5	16.9	−40.1	−42.9
Commodity Credit Corporation				
Other	.9	−2.2	4.1	.2
State and local	0	4.3	−.8	3.2
Change in business inventories				

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

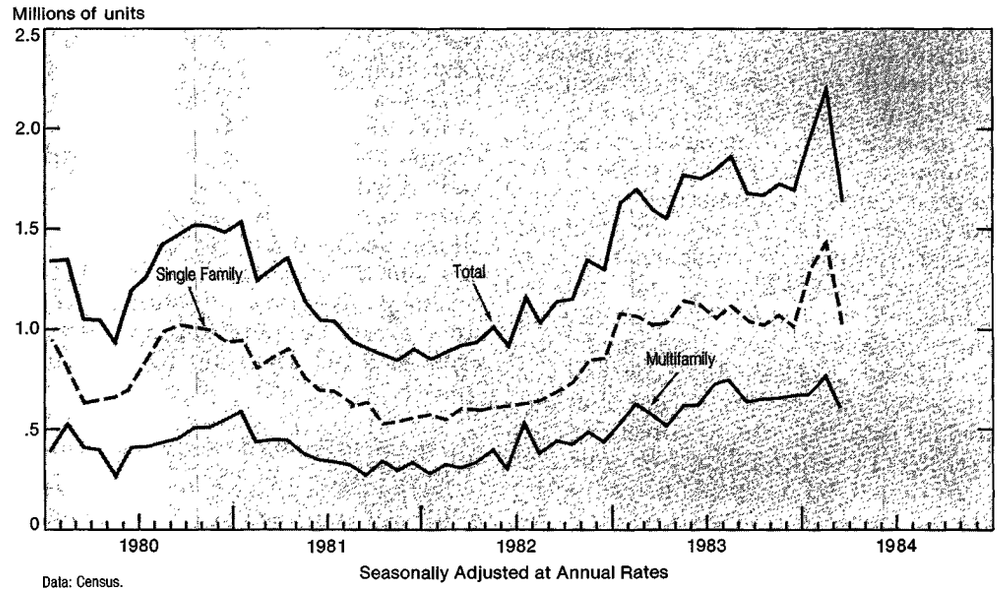
NOTE.—Percent changes in major aggregates are found in the National Income and Product Accounts Tables, table 8.1. Dollar levels are found in tables 1.2, 1.15, 1.17, 3.8B, and 4.4.

than in the fourth quarter. Gasoline and oil increased substantially, following several quarters of decline or little change, and other nondurables increased more than in the fourth quarter. In contrast, purchases of clothing and shoes increased somewhat less than in the fourth quarter. Food purchases again changed little.

Expenditures for services increased more slowly than in the fourth quarter, as energy declined significantly. Both the natural gas and the electricity components of energy services have fluctuated over the past several quarters. Electricity purchases, which had been high in the third quarter due to unusually hot weather, declined in the fourth and again in the first. Natural gas purchases increased in the fourth quarter—December was unusually cold—and declined in the first. A slowdown in the increase in other services was largely in foreign travel.

CHART 2

Housing Starts



Data: Census.

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

Nonresidential investment

Real nonresidential fixed investment registered another strong increase—12 percent, following third- and fourth-quarter increases of 18½ percent and 27 percent, respectively. Structures accelerated sharply, but producers' durable equipment (PDE), which accounts for more than two-thirds of total nonresidential fixed investment, decelerated even more sharply.

Commercial and industrial buildings accounted for virtually all of the 26-percent increase in structures in the first quarter. Both the office and nonoffice components of commercial building recorded substantial gains. In the two preceding quarters, increases had been based mainly on the strength of the nonoffice component. An increase in industrial buildings—the first in 2 years—was also substantial.

PDE increased only 7 percent in the first quarter, following a 36½-percent increase in the fourth. Motor vehicle PDE and, to a larger extent, other PDE contributed to the deceleration. Trucks, in the former category, and communications equipment, in the latter, both declined in the first quarter, following extraordinarily large increases in the fourth. In trucks, purchases appear to have turned up again late in the first quarter. In communications equipment, one may speculate that the circumstances surrounding the January 1 divestiture of A.T. & T. may have led to a bunching of purchases in the fourth quarter.

Most of the factors commonly used in assessing the future course of capital spending point toward continued increases. Corporate profits, cash flow, capacity utilization, real final sales, and net new orders for capital goods all registered substantial increases in the past several quarters. Interest rates, however, moved up late in the first quarter; the rate on seasoned corporate bonds, for example, increased almost one-half percentage point in March.

Residential investment

Real residential investment, which had slipped slightly in the fourth quarter after four consecutive strong increases, bounced back in the first quarter. Single-family construction was up 46 percent, multifamily construction was up 24½ percent, and the "other" component (which includes additions and alterations, brokers' commissions, and mobile home sales) was up 15½ percent.

Housing starts increased sharply in the first 2 months of the year and then posted an unprecedented 26½-percent drop (not an annual rate) in March (chart 2). Unusually mild weather in February, followed by an unusually cold and wet March, appears to have played an important part in this month-to-month pattern.

On a quarterly basis, starts were up 14½ percent (not an annual rate) in the first quarter. Starts of single-family units increased 221,000 to 1,258,000 (seasonally adjusted annual rate) in the first quarter, and starts of multifamily units increased 30,000 to 691,000. Building permits also were up in the first quarter. Permits for single-family units increased from 896,000 in the fourth quarter to 1,026,000 in the first, and permits for multifamily units increased from 710,000 in the fourth quarter to 800,000 in the first.

Sales of both new and existing single-family residences were also strong in the first quarter. Sales of new one-family houses increased 26,000 to 695,000 (seasonally adjusted annual rate) in January–February, after a strong fourth-quarter increase of 83,000, and sales of existing single-family homes increased 123,000 to 2,880,000 (seasonally adjusted annual rate) in January–February after a fourth quarter in which they had changed little. The inventory of unsold new one-family houses in February was low—5.1 months' supply at current sales rates.

The commitment rate on fixed-rate mortgages has hovered around 13½

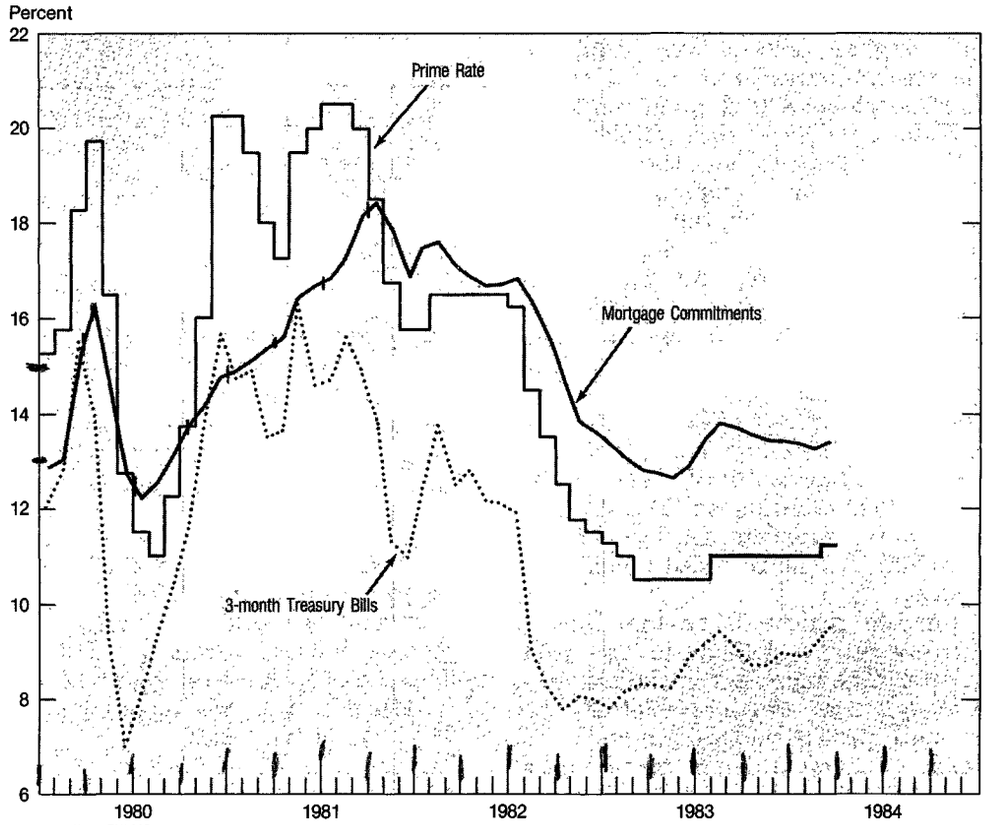
percent since July (chart 3). An increasing proportion of mortgages are being written with adjustable rates; initial interest rates on these mortgages are 1½ to 2 percentage points less than on fixed-rate mortgages. In each of the first three quarters of 1983, about one-third of conventional mortgages carried adjustable rates; in the fourth quarter, this share jumped to over 50 percent. In the first quarter of 1984, it increased to almost 60 percent.

The lower interest rate on an adjustable-rate mortgage results in initial monthly payments lower than on a fixed-rate mortgage; it also reduces the income that a potential borrower needs to qualify for a mortgage. On a 25-year, $65,000 mortgage, for example, initial monthly payments for principal and interest on an adjustable-rate mortgage are about $85 (11 percent) lower than on a fixed-rate mortgage. Assuming that a borrower needs an income equal to at least four times mortgage payments, the annual income needed to qualify for a $65,000 adjustable-rate mortgage is about $4,000 lower than for a fixed-rate mortgage.

Financial conditions at savings and loan associations, major suppliers of mortgage credit, continued generally favorable in January–February. The inflow of funds was strong; net new deposits received and mortgage repayments totaled $20.2 billion in just 2 months, compared with a total of $25.7 billion for the whole fourth quarter. Mortgage activity was also strong; outstanding commitments to originate mortgages increased $1.6 billion, after remaining unchanged in the fourth quarter.

CHART 3

Selected Interest Rates



Data: FRB, FHLMC.
U.S. Department of Commerce, Bureau of Economic Analysis

84-4-3

Table 5.—Change in Business Inventories

[Billions of 1972 dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter			
	1983				1984:I	1983			1984:I
	I	II	III	IV		II	III	IV	
Change in business inventories	−15.4	−5.4	3.8	8.7	26.6	10.0	9.2	4.9	17.9
Farm	−.3	−2.1	−5.0	−.1	8.6	−1.8	−2.9	4.9	8.7
Nonfarm	−15.1	−3.3	8.8	8.8	18.0	11.8	12.1	0	9.2
Manufacturing	−12.3	−.8	1.4	−.5	3.1	11.5	2.2	−1.9	3.6
Wholesale trade	−6.7	−2.9	4.1	3.6	3.7	3.8	7.0	−.5	.1
Retail trade	3.1	1.7	3.8	6.3	10.6	−1.4	2.1	2.5	4.3
Other	.8	−1.3	−.5	−.6	.7	−2.1	.8	−.1	1.3

NOTE.—Dollar levels are found in the National Income and Product Accounts Tables, table 5.9.

Change in business inventories

Real business inventories were up $26½ billion in the first quarter, following an $8½ billion increase in the fourth (table 5). The $18 billion step-up in the rate of accumulation was about evenly split between farm and nonfarm inventories. An $8½ billion accumulation in farm inventories, after little change in the fourth quarter, reflected the transfer of inventories to farmers under the PIK program and the step-up in production, which is assumed to go largely into inventories in the short run.

The $18 billion accumulation in nonfarm inventories in the first quarter was about double that in the fourth. The pickup was mainly in manufacturing and retail trade. In manufacturing, durables inventories—particularly primary metals and electrical machinery—accumulated at a faster pace than in the fourth quarter. In nondurables, most of the turnaround from liquidation to accumulation was in food processing. The pickup in retail trade inventories was centered in apparel and department stores, and probably reflected a drop-off in sales at the end of the quarter. Auto dealers' inventories accumulated at the same rate as in the fourth quarter.

The large inventory accumulations led to the first increases in the aggregate inventory-sales ratios since mid-1982. The ratio of constant-dollar business inventories to total business final sales edged up from 3.02 to 3.04, and the ratio of nonfarm business inventories to final sales of goods and structures from 4.24 to 4.25.

Net exports

Real net exports fell $9½ billion, following an $8½ billion decline in the fourth quarter. Exports increased, but imports increased much more.

Exports increased moderately—$3½ billion—in the first quarter, following little change in the fourth. The lackluster performance in the past several quarters reflected the sluggish economic recoveries of most major trading partners; the effects of trade constraints, particularly of less developed countries; and the impact of the strong dollar. Agricultural exports increased $1 billion after a small decline. A $1½ billion increase in exports of nonagricultural merchandise was concentrated in capital goods and automotive products. In services, investment income recorded a small increase.

Imports registered another strong increase—$12½ billion—in the first quarter. The increases in the last several quarters largely reflected the strength in U.S. business activity. Imports of nonpetroleum merchandise jumped $11½ billion in the first quarter. The increase was spread across most major end-use categories; the largest were in consumer goods, industrial supplies, and capital goods. Petroleum imports remained low—at about 5.2 million barrels per day. In services, payments of investment income increased somewhat more than in the fourth quarter, largely reflecting increased direct investment payments.

Government purchases

Real government purchases declined 1 percent in the first quarter, following a 4-percent decline in the fourth. Federal purchases declined again; State and local purchases increased after a decline.

In Federal purchases, national defense purchases jumped 9½ percent, following increases that averaged about 5 percent in the past five quarters. Sharp declines in nondefense purchases in the past two quarters were due to CCC operations, principally under the PIK program. As mentioned earlier, the transfer of crops to farmers under PIK reduces CCC inventories and is treated as a negative Federal purchase. Reductions in CCC inventories amounted to $7½ billion in the first quarter, and to $3 billion in the fourth.

The turnaround in State and local purchases was in purchases of structures. These purchases increased $1 billion, following a decline of $1 billion in the fourth quarter. All types of construction—buildings, highways, and other structures—showed improvement.

Table 6.—Federal Government Receipts and Expenditures, NIPA Basis: Change From Preceding Quarter

[Billions of dollars, based on seasonally adjusted annual rates]

	1983			1984:I
	II	III	IV	
Receipts	**29.3**	**−7.4**	**12.3**	**n.a.**
Personal tax and nontax receipts	6.6	−17.4	8.1	7.5
Corporate profits tax accruals	11.2	6.8	−.2	n.a.
Indirect business tax and nontax accruals	7.4	−.4	−.3	.1
Contributions for social insurance	4.1	3.6	4.0	16.7
Expenditures	**12.0**	**13.8**	**14.8**	**13.2**
Purchases of goods and services	.2	4.4	4.0	.9
National defense	5.0	1.8	5.1	9.9
Nondefense	−4.8	2.6	−9.1	−9.1
Transfer payments	6.7	−3.5	7.4	−3.3
Grants-in-aid to State and local governments	.9	.6	−.8	3.1
Net interest paid	3.4	9.1	3.6	3.2
Subsidies less current surplus of government enterprises	−.4	4.1	9.0	9.4
Less: Wage accruals less disbursements	−1.2	.9	.4	0
Surplus or deficit (−), national income and product accounts	**17.2**	**−21.2**	**−2.5**	**n.a.**

n.a. Not available.

NOTE.—Dollar levels are found in the National Income and Product Accounts Tables, table 3.2.

The Federal sector.—Changes in current-dollar Federal receipts and expenditures on a NIPA basis are shown in table 6. Among expenditures, purchases were up $1 billion; national defense purchases increased strongly, and nondefense purchases continued to decline due to the operations of the CCC. Transfer payments fell $3½ billion; large payments to Israel—the full amount earmarked for that country in the appropriation for fiscal year 1984—had boosted transfers to foreigners in the fourth quarter. A $3 billion increase in grants-in-aid to State and local governments was largely in public assistance, highway grants, and community development grants. Net interest paid continued to increase, largely reflecting higher interest rates on Government securities. The large increases in subsidies less the current surplus of Government enterprises in the last two quarters were more than accounted for by subsidies paid to farmers, primarily under the PIK program. (The PIK subsidy payments offset the reduction of CCC inventories due to PIK, so these transactions have no effect on total Federal expenditures.) These changes sum to an increase of $13 billion in total expenditures, about the same amount as in the past several quarters.

Among receipts, an increase of $7½ billion in personal tax and nontax payments was largely due to growth in the tax base. A $16½ billion increase in employer and employee contributions for social insurance resulted from legislated changes in social security coverage, taxable wage base, and tax rate. Estimates of corporate profits, and thus of corporate profits tax accruals, are not yet available. Because business production continued to expand in the first quarter, it is likely that profits and profits tax accruals also increased. These changes indicate a substantial increase in total receipts in the first quarter—perhaps twice as large as the $12½ billion increase in the fourth.

An increase of this size in receipts would exceed the $13 billion increase in expenditures, so the deficit on a NIPA basis would decline from the $190 billion registered in the fourth quarter.

Personal Income

Personal income increased $89½ billion in the first quarter, following a $73½ billion increase in the fourth (table 7). These large increases reflected a number of specific developments, particularly in farm proprietors' income and in transfer payments, as well as the continued expansion in economic activity.

Wage and salary disbursements were up $39 billion in the first quarter, about as much as in the past several quarters. Wages and salaries in manufacturing recorded another substantial increase, primarily due to increases on both employment and hourly earnings. The increase was concentrated in durables and was particularly large in motor vehicles and equipment. Wages and salaries in other commodity-producing industries and in services increased at about the same pace as in the past several quarters. The pattern of increases in the distributive industries in the past three quarters largely reflected the impact of a 3-week strike in August by telephone workers. In the first quarter, a 3½-percent pay rise for Federal civilian and military employees boosted government wages and salaries by $3 billion.

Proprietors' income contributed significantly to the large increases in personal income in both the fourth and first quarters. The ballooning of farm income in these quarters was attributable to the step-up in crop production and to large subsidy payments under the PIK and other programs. Payments under PIK amounted to $11 billion in the fourth quarter and $23½ billion in the first. These payments probably peaked early in the quarter and then tapered off. The pickup in nonfarm income in the first quarter was in retail trade and in construction.

Personal interest income registered another substantial increase in the first quarter. The increases in the past three quarters were due to increased holdings of personal financial assets and to slowly rising interest rates (chart 3).

The increase in transfer payments slowed somewhat in the first quarter. Reflecting improvements in labor market conditions, unemployment insurance benefits continued to decline, and at a more rapid rate than they had in the fourth quarter. In the first quarter, a social security cost-of-living increase that had been postponed 6 months from July 1, together with other cost-of-living increases, boosted social security and associated benefits by $6½ billion. This boost was nearly offset by a swing, from a $3 billion increase to a $3 billion decline, in retroactive payments to social security recipients.

Personal contributions for social insurance, which are subtracted in deriving the personal income total, were affected in the first quarter by several legislated changes in social security. As a result, increases in these contributions were stepped up $4 billion—to $6 billion—in the first quarter. An increase in the maximum social security taxable wage base from $35,700 to $37,800 accounted for $1 billion of the step-up. (The social security tax rate for employees was not changed from 6.70 percent.) A rate increase for self-employed persons from 9.35 percent to 11.30 percent, together with final payments for 1983, accounted for another $1½ billion of the step-up. A rate increase for supplementary medical insurance and an extension of social security coverage accounted for much of the remainder.

Personal tax and nontax payments increased $10 billion in the first quarter, following an $11 billion increase in the fourth. With the exception of the third quarter, when a sizable reduction in withheld income taxes occurred, personal taxes have increased steadily due to the continued growth in the taxable wage base.

Disposable personal income registered an even stronger increase than in the preceding two quarters. The strength again carried through to real income, as the increase in PCE prices remained moderate. Real disposable personal income jumped 10 percent in the first quarter, following increases of 6½ percent in the third quarter and 8 percent in the fourth.

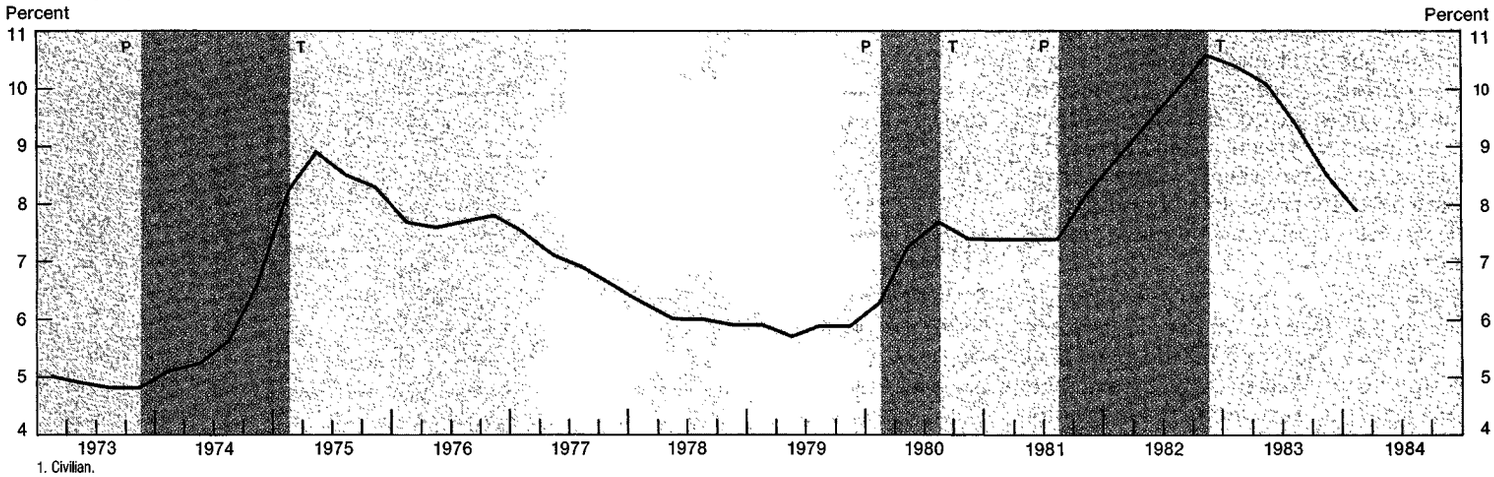
Table 7.—Personal Income and Its Disposition

[Billions of dollars; based on seasonally adjusted annual rates]

	Change from preceding quarter			
	1983			1984:I
	II	III	IV	
Wage and salary disbursements	37.7	33.6	35.4	38.9
Manufacturing	12.0	11.8	9.8	13.8
Other commodity-producing	1.6	3.8	2.4	3.3
Distributive	7.9	4.6	10.4	6.1
Services	10.9	9.1	9.4	8.6
Government and government enterprises	5.4	4.2	3.3	7.1
Proprietors' income	6.6	−.5	12.7	29.5
Farm	−1.2	−5.5	9.5	22.3
Nonfarm	7.8	5.0	3.2	7.2
Personal interest income	−.1	12.8	11.1	14.7
Transfer payments	6.8	−2.8	5.5	3.2
Other income	7.0	7.0	10.6	9.3
Less: Personal contributions for social insurance	2.1	1.9	2.0	6.2
Personal income	**55.9**	**48.2**	**73.4**	**89.4**
Less: Personal tax and nontax payments	10.8	−12.5	11.2	10.0
Impacts of legislation	−2.4	−25.4	−1.0	−1.6
Other	13.3	12.8	12.2	11.6
Equals: Disposable personal income	**45.1**	**60.7**	**62.1**	**79.4**
Less: Personal outlays	75.3	36.4	52.4	51.7
Equals: Personal saving	**−30.2**	**24.3**	**9.7**	**27.8**
Addenda: Special factors in personal income—				
Cost-of-living increases in Federal transfer payments	1.0	.4	0	6.3
Social security base, rate, and coverage changes (in personal contributions for social insurance)				3.9
Subsidies to farmers	1.2	−.2	10.1	12.1
Telephone strike		−3.3	3.3	

CHART 4

Unemployment Rate [1]



1. Civilian.

NOTE.—Business cycle peaks (P), and troughs (T), are turning points in economic activity, as designated by the National Bureau of Economic Research, Inc. Shaded areas represent recessions.

Data: BLS.

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

The increase in disposable personal income exceeded the increase in personal outlays by a wider margin than in the fourth quarter. Thus, personal saving was up by a larger amount than in the fourth quarter. Three consecutive quarters of increase in personal saving have raised the personal saving rate to 6.1 percent from a low of 4.0 percent in the second quarter of 1983.

Employment and Unemployment

The employment picture continued to brighten in the first quarter. Civilian employment, as measured by the household survey, increased 1.2 million to 103.7 million. The civilian labor force turned up after a fourth-quarter decline. The increase in employment exceeded that in the labor force, and unemployment declined 0.6 million to 8.9 million. The unemployment rate declined 0.6 percentage point to 7.9 percent (chart 4).

The unemployment rates for adult men and women converged in the first quarter after eight quarters of higher rates for men. Presumably, the rate for men will drop below that for women if the recovery in employment continues. Typically, the unemployment rate for men has been lower than that for women.

Total nonfarm payroll employment, as measured by the establishment survey, increased 0.9 million to 92.3 million in the first quarter—the first time that the payroll measure of employment exceeded its prerecession peak in the third quarter of 1981. Employment increased 3.5 million from the fourth quarter of 1982 to the first quarter of 1984 (table 8). The increase was buoyed by manufacturing, construction, retail trade, services, and finance, insurance, and real estate.

In manufacturing, the 1.2 million increase in employment since the fourth quarter of 1982 represents a recovery of more than one-half of the recession's decline. Within manufacturing, five of twenty industries more than recouped recession losses in employment. Four were durables industries: lumber and wood products, furniture and fixtures, electric and electronic equipment, and transportation equipment. The first two relate to housing, and the second two relate to high-technology equipment and to motor vehicles—three areas of recent strong economic growth. The nondurables industry that more than recouped losses was rubber and miscellaneous plastics products, which is tied, in part, to motor vehicles.

In construction and retail trade, the increases in employment since the fourth quarter of 1982 more than offset recessionary declines; construction increased by slightly more than the amount lost, and retail trade increased by over two-and-a-half times the amount lost. Employment in the services industry and the finance, insurance, and real estate industry increased both during the recession and, even more strongly, thereafter.

Mining was the only private industry in which employment continued to decline—albeit slightly—since the recession. Employment also continued to decline in the government sector; a small decline in State and local government employment more than offset an increase in Federal Government employment.

Table 8.—Employment by Industry

[Thousands]

	1981:III	Change: 1981:III-1982:IV	Change: 1982:IV-1984:I
Total nonfarm	91,440	−2,644	3,460
Private nonfarm	75,492	−2,466	3,470
Mining	1,193	−126	−15
Construction	4,162	−327	359
Manufacturing	20,298	−2,040	1,219
Durables	12,196	−1,589	945
Nondurables	8,102	−451	274
Transportation and public utilities	5,184	−164	44
Retail trade	15,262	−169	456
Wholesale trade	5,376	−162	146
Finance, insurance, and real estate	5,317	41	205
Services	18,700	482	1,054
Government	15,948	−178	10
Federal	2,771	−26	16
State and local	13,177	−152	−26

Source: Bureau of Labor Statistics.

Corporate Profits in 1983

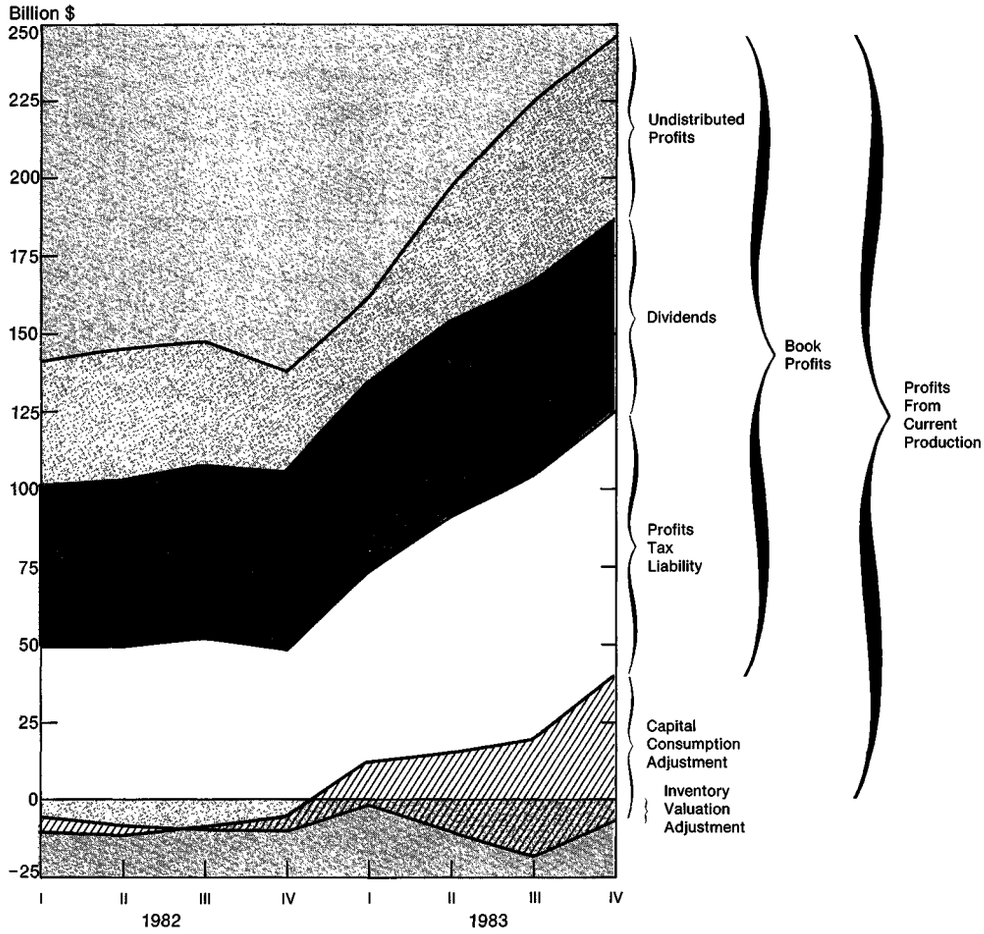
Profits from current production—profits with inventory valuation and capital consumption adjustments—increased 40 percent in 1983, to $229 billion. The increase reflected recovery from recession; profits had declined 14 percent in 1982. Domestic profits of nonfinancial corporations increased about 40 percent, to $178 billion, following a 17-percent decline; those of financial corporations increased about 50 percent, to $30 billion, following a slight increase. Profits from the rest of the world declined slightly to $21 billion, following a moderate decline.

Nearly one-half of the increase for the year appeared in the capital consumption adjustment (CCAdj), as the effects of the Accelerated Cost Recovery System of the Economic Recovery Tax Act of 1981 (ERTA) became more pronounced. For investment in new capital, ERTA permitted the acceleration of depreciation, which is deducted from revenues in deriving profits. Depreciation charges as reported for tax purposes now exceed capital consumption as defined in the NIPA's (economic depreciation). Thus, the CCAdj, which converts depreciation for tax purposes to economic depreciation, became positive in 1983 (chart 5).

The inventory valuation adjustment (IVA), which is the difference between acquisition and replacement cost of goods removed from inventory, remained negative in 1983. Because the positive CCAdj was larger than the IVA in absolute value, the sum of the two adjustments lifted profits from current production above profits before tax (book profits).

CHART 5

Composition of Domestic Corporate Profits From Current Production



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

Profits by industry.—Profits with IVA but without CCAdj is the publication form for profits by industry in the current year because the CCAdj is not estimated by industry. This profits measure increased $32½ billion, or 20 percent, to $198 billion, following an 18-percent decline. Manufacturers' profits contributed 40 percent of the increase, largely because primary metals manufacturers cut their losses and motor vehicles manufacturers increased their profits. Financial institutions' profits contributed another 30 percent of the increase, largely because profits of savings and loan associations and of mutual savings banks improved.

Nondurables manufacturers increased their profits $3 billion, or 6 percent. The increase was held down by declines in two large industries: food and petroleum manufacturers. Most others increased sharply.

Durables manufacturers doubled their depressed 1982 profits. Profits of primary metals manufacturers were down slightly after huge losses in 1982, reflecting some improvement in constant-dollar sales. Profits of motor vehicles manufacturers soared, as constant-dollar sales increased nearly one-third. Profits of fabricated metals manufacturers and of "other" durables manufacturers also increased. In sharp contrast, nonelectric and electric machinery manufacturers both registered profit declines, which occurred despite increases in constant-dollar sales.

Financial profits increased substantially. Savings and loan associations and mutual savings banks accounted for most of the improvement. As in 1982, when their losses diminished throughout the year, these institutions benefited from falling interest rates. Profits of Federal Reserve banks held approximately even.

In 1983, trade profits increased $7 billion; both wholesale and retail profits were up substantially. Among retailers, general merchandise profits were up the most; food profits held even; and auto dealers turned losses into profits as sales rose. Utility profits increased, in part the result of unusually hot weather in the third quarter and unusually cold weather in the

fourth. Transportation profits increased, primarily because airlines cut losses substantially.

In sharp contrast to the large increase in domestic profits, those from the rest of the world declined slightly, from $22 to $21½ billion, following a $2 billion decline. The decline in 1983 reflected more rapid economic expansion in the United States than abroad, particularly in Europe.

Disposition of profits.—Book profits increased 19 percent, to $207 billion, following a 23-percent decline. The effect of accelerated depreciation under ERTA limited the increase in book profits, compared with levels they would have registered under previous legislation. The limited increase in book profits, in turn, limited the increase in tax liability (table 9). The Tax Equity and Fiscal Responsibility Act of 1982 partially offset ERTA. The limited increase in tax liability and the economic recovery produced an increase in undistributed profits of 23 percent. Dividends increased only 7 percent.

Table 9.—Effects of the Economic Recovery Tax Act (ERTA) of 1981 and the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982 on Corporate Profits Taxes

[Billions of dollars: quarters are seasonally adjusted at annual rates]

	1981	1982	1983	1982				1983			
				I	II	III	IV	I	II	III	IV
Corporate profits tax liability	−5.5	−9.2	−11.5	−7.6	−9.2	−9.9	−10.1	−7.4	−9.5	−13.9	−15.3
Federal tax liability	−5.2	−8.6	−11.0	−7.1	−8.6	−9.3	−9.4	−6.8	−9.0	−13.4	−14.8
Effect of ERTA	−5.2	−10.7	−21.3	−8.5	−10.1	−11.3	−12.9	−15.7	−18.9	−24.1	−26.5
Effect of TEFRA	.....	2.1	10.3	1.4	1.5	2.0	3.5	8.9	9.9	10.7	11.7
State and local tax liability	−.3	−.6	−.5	−.5	−.6	−.6	−.7	−.6	−.5	−.5	−.5
Effect of ERTA	−.3	−.6	−.8	−.5	−.6	−.6	−.7	−.8	−.8	−.8	−.8
Effect of TEFRA	.....	.....	.3	.....	.....	.....	.....	.2	.3	.3	.3

the BUSINESS SITUATION

REVISED (45-day) estimates show that real GNP increased 9 percent at an annual rate in the first quarter of 1984. Preliminary (15-day) estimates had shown an 8½-percent increase. Inflation, as measured by the increase in the GNP fixed-weighted price index, was revised up slightly to an annual rate of 4.8 percent from 4.7 percent.[1]

The $1½ billion upward revision in real GNP resulted from partly offsetting revisions in the major components (table 1). The largest upward revision—$3½ billion—was in change in business inventories. Book values of manufacturing inventories, both durable and nondurable, were revised up sharply. Personal consumption expenditures were revised up $3 billion. Estimates of new and used car purchases were raised, as were estimates of expenditures on electricity and gas services. The $1 billion upward revision in nonresidential fixed investment was more than accounted for by revisions in producers' durable equipment, principally computers and communications equipment. The largest downward revision—$4 billion—was in net exports. Most of the revision was accounted for by merchandise imports, largely capital goods. A $1 billion downward revision in government purchases was mainly in Federal defense purchases. Residential investment was revised down $½ billion.

For the most part, the revisions in GNP do not alter the picture of robust economic expansion described in the April "Business Situation." The 9-percent increase in real GNP followed increases of 5 percent in the fourth quarter and 7½ percent in the third.

About two-thirds of the increase in real production in the first quarter took the form of an increase in inventory investment. Inventories accumulated at a rapid pace, following moderate accumulation in the third and fourth quarters. The first-quarter step-up was largely in farm, manufacturing, and retail inventories. A sharp accumulation in farm inventories, after little change, reflected the transfer of crops from the Commodity Credit Corporation (CCC) to farmers under the payment-in-kind (PIK) program, and a step-up in production. In manufacturing, inventories of both durables and nondurables increased after little change in the fourth quarter. An increase in the pace of inventory accumulation in retail trade was more than accounted for by nondurables. The large inventory accumulations led to the first increases in the ratios of constant-dollar inventories to final sales since mid-1982.

Table 1.—Revisions in Selected Component Series of the NIPA's, First Quarter of 1984

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	15-day estimate	45-day estimate	Revision	15-day estimate	45-day estimate
	Billions of current dollars				
GNP	**3,541.2**	**3,541.6**	**0.4**	**12.8**	**12.8**
Personal consumption expenditures	2,280.5	2,287.8	7.3	9.2	10.6
Nonresidential fixed investment	384.2	384.4	.2	11.4	11.5
Residential investment	148.9	147.3	−1.6	32.6	26.7
Change in business inventories	62.2	69.3	7.1	...	...
Net exports	−45.2	−54.6	−9.4	...	...
Government purchases	710.6	707.5	−3.1	6.8	4.9
National income	...	**2,878.4**	...	...	**16.2**
Compensation of employees	2,113.0	2,113.4	.4	11.4	11.5
Corporate profits with inventory valuation and capital consumption adjustments	...	277.5	...	...	14.7
Other	487.9	487.5	−.4	41.2	40.7
Personal income	**2,924.6**	**2,925.4**	**.8**	**13.2**	**13.3**
	Billions of constant (1972) dollars				
GNP	**1,604.3**	**1,606.0**	**1.7**	**8.3**	**8.8**
Personal consumption expenditures	1,046.8	1,049.6	2.8	5.8	6.9
Nonresidential fixed investment	185.9	187.0	1.1	12.1	14.6
Residential investment	59.7	59.1	−.6	31.3	25.7
Change in business inventories	26.6	30.1	3.5	...	...
Net exports	−6.5	−10.3	−3.8	...	...
Government purchases	291.7	290.7	−1.0	−.8	−2.2
	Index numbers, 1972=100 [1]				
GNP implicit price deflator	220.73	220.52	−.21	4.1	3.7
GNP fixed-weighted price index	230.4	230.4	0	4.7	4.8
GNP chain price index	...	...	...	4.5	4.6

1. Not at annual rates.

NOTE.—For the first quarter of 1984, the following revised or additional major source data became available: For *personal consumption expenditures,* revised retail sales for February and March; for *nonresidential fixed investment,* manufacturers' shipments of equipment for February (revised) and March, construction put in place for February (revised) and March, and a partial tabulation of business expenditures for plant and equipment for the quarter; for *residential investment,* construction put in place for February (revised) and March; for *change in business inventories,* book values for manufacturing and trade for February (revised) and March; for *net exports of goods and services,* merchandise trade for January and February (revised) and March; for *government purchases of goods and services,* Federal unified budget outlays for March, and State and local construction put in place for February (revised) and March; for *wages and salaries,* revised employment, average hourly earnings, and average weekly hours for February and March; for *corporate profits,* domestic book profits for the quarter; for *GNP prices,* the Consumer Price Index and the Producer Price Index for March, unit value indexes and export and import price indexes for March, and residential housing prices for the quarter.

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates. Quarter-to-quarter percent changes are annualized.

Among the components of final sales, personal consumption expenditures again increased strongly. About one-half of the first-quarter increase was accounted for by spending on durables; sales of new domestic cars were up sharply. Nonresidential fixed investment registered another substantial increase. Residential investment bounced back with a strong increase after a pause in the fourth quarter. Net exports declined even more sharply than in the fourth quarter. Exports increased moderately, but imports increased much more. Government purchases declined in the first quarter, as they had in the fourth. The declines were due to operations of the CCC, principally under the PIK program.

Highlights of corporate profits

Corporate profits from current production—profits with inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj)—increased $9½ billion to $277½ billion, in the first quarter of 1984, following a $20 billion increase in the fourth quarter. Profits have continued to decelerate since a sharp increase of $36½ billion in the second quarter of 1983. Such a slowing is typical as the business cycle progresses.

First-quarter profits were 52½ percent above their year-earlier level. Most of the increase was in profits of domestic nonfinancial corporations. The increase in these profits reflected both a strong recovery in economic activity and increases in unit profits. The latter stemmed from decreases in unit costs and increases in unit prices.

In the first quarter, profits of domestic nonfinancial corporations more than accounted for the increase in profits; durable manufacturing industries contributed substantially. Widespread increases in profits of durable goods manufacturers more than offset widespread declines in profits of nondurable goods manufacturers. Within durables, motor vehicles profits were up substantially, as output increased. Primary metals profits also increased. Within nondurables, petroleum accounted for most of the decline in profits, as prices for refined products fell.

Adjustments to profits.—Profits before tax—profits without IVA and CCAdj—increased $12½ billion in the first quarter, to $240½ billion. This increase exceeded the increase in profits from current production, which includes the IVA and CCAdj. These adjustments convert inventories and depreciation reported by business to those used in the national income and product accounts. The IVA decreased $6½ billion, to −$13 billion, reflecting larger increases in inventory prices in the first quarter than in the fourth. An increase of $3½ billion, to $50 billion, in the CCAdj was largely due to provisions of the Economic Recovery Tax Act of 1981 that allowed the use of shorter service lives for the depreciation of capital.

Government sector

The fiscal position of the government sector in the national income and product accounts improved considerably in the first quarter as the combined deficit of the Federal Government and of State and local governments declined $22 billion. This improvement was accounted for by a 10-percent decline in the Federal deficit and a 5-percent increase in the State and local surplus. Moreover, the combined deficit, at $110 billion, was also considerably smaller than the $143 billion deficit of a year earlier. Over the past year, the Federal Government deficit declined $12½ billion and the State and local government surplus increased $20½ billion.

The Federal Sector.—The Federal Government deficit declined $19 billion in the first quarter, as receipts increased significantly more than expenditures.

Receipts increased $30 billion, compared with $12 billion in the fourth quarter. Over one-half of the increase—$16½ billion—was in social insurance contributions; a number of legislated changes, primarily under provisions of the Social Security Amendments of 1983 and effective January 1, 1984, contributed to the large increase. Those changes were:

- An increase in the combined social security tax rate, to 13.7 percent from 13.4 percent, contributed $4½ billion. The increase was for employers only; the rate for employees remained at 6.7 percent.
- An increase in the maximum social security taxable wage base, to $37,800 from $35,700, contributed almost $2 billion.
- An increase in the social security tax rate for the self-employed, to 11.30 percent from 9.35 percent, coupled with the base increase and final payments for 1983, contributed $1½ billion.
- An increase in the premium for supplemental medical insurance—the voluntary program for the aged and disabled medicare beneficiaries—to $14.60 from $12.20 contributed $1 billion.
- An extension of mandatory social security coverage to new Federal Government civilian employees and to employees of nonprofit institutions contributed almost $2 billion.
- An increase in the Federal and State unemployment insurance tax rate contributed $2½ billion.

Among the other categories of receipts, personal tax and nontax receipts increased $7½ billion and corporate profits tax accruals increased $5½ billion. Indirect business tax and nontax accruals were unchanged; an increase in customs duties was offset by a decline in windfall profit taxes.

Expenditures increased $11 billion, compared with $15 billion in the fourth quarter. Subsidies less the current surplus of government enterprises increased $8½ billion; a $12½ billion increase in payment-in-kind (PIK) subsidies was partly offset by a $3 billion decline in the Commodity Credit Corporation (CCC) deficit and a $1 billion decline in regular Government payments to farmers. National defense purchases of goods and services increased $7 billion, including $2½ billion for the 4-percent civilian and military pay raise effective January 1, 1984 (including the 0.5 percent retroactive pay raise enacted in mid-April). Grants-in-aid to State and local governments increased $4 billion, the largest increase since the first quarter of 1978. Among the grant programs, the largest increases were for public assistance ($2½ billion) and for community development ($½ billion). Net interest paid increased $3½ billion and transfer payments to persons increased $2½ billion. The increase in transfer payments was the net result of increases

in social security benefits ($3 billion), medicare ($1½ billion), and a variety of other programs ($1 billion), and a decline in unemployment benefits ($3 billion). Within social security benefits, a 3½-percent cost-of-living increase—over $5½ billion—was partly offset by a $3 billion decline in retroactive benefit payments.

Nondefense purchases and transfer payments to foreigners declined in the first quarter. The decline in nondefense purchases—$8½ billion—was more than accounted for by a $10 billion decline in agricultural purchases by the CCC; a $12½ billion decline due to PIK transfers was partly offset by a $2½ billion increase in regular CCC purchases. Spending also declined over $½ billion each for the National Aeronautics and Space Administration and for purchases for the strategic petroleum reserve. Increases in a variety of other purchases ($2 billion) and the January pay raise ($1 billion) partly offset these declines. The decline in foreign transfer payments—$5 billion—was due to a large fourth-quarter payment to Israel; the payment was the full amount earmarked for Israel in the fiscal year 1984 appropriation.

Cyclically adjusted surplus or deficit.—When measured using cyclical adjustments based on middle-expansion trend GNP, the Federal fiscal position was essentially unchanged in the first quarter. The cyclically adjusted deficit was $160 billion, or 4.5 percent of middle-expansion trend GNP (see table 3 on page 10).

The State and local sector.—The State and local government surplus increased $3 billion, to $61 billion, as receipts increased more than expenditures. Most of the increase—$2 billion—was in the surplus of "other" funds, that is, other than social insurance funds. This other funds measure showed a deficit throughout 1982, when it averaged $2 billion. It swung to surplus in the first quarter of 1983 and since then has increased substantially, from $5½ billion to $23 billion. (See "The State and Local Government Fiscal Position: An Alternative Measure" in the March 1984 SURVEY OF CURRENT BUSINESS for discussions of how this surplus came about and of an alternative measure of this sector's fiscal position.)

Receipts increased $13½ billion, compared with $11½ billion in the fourth quarter. Indirect business tax and nontax accruals increased $5 billion; sales taxes accounted for three-fifths of the increase, reflecting strong retail sales. Federal grants-in-aid accounted for $4 billion of the increase. Rising incomes resulted in a $2½ billion increase in personal tax and nontax receipts and a $1½ billion increase in corporate profits tax accruals. Contributions for social insurance increased $½ billion.

Expenditures increased $10½ billion, slightly less than in the fourth quarter. Purchases of goods and services accounted for most of the increase; all other expenditures, on balance, increased $½ billion. Within purchases, compensation increased $5 billion, construction increased $2 billion, and all other purchases increased $3 billion.

the BUSINESS SITUATION

ECONOMIC activity and prices both increased less in the second quarter than in the first, according to the "flash" estimates. Real GNP increased at an annual rate of 5½ percent, compared with 9½ percent in the first quarter, and the GNP fixed-weighted price index increased 3½ percent, compared with 5 percent in the first quarter (table 1).[1]

The deceleration in real GNP can be traced to inventories. After a positive $22 billion contribution to the change in real GNP in the first quarter, inventories contributed negatively to the change in the second.

Total final sales accelerated to about double the first-quarter rate of 4 percent. The total includes the inventory transactions of the Commodity Credit Corporation (CCC). These transactions, largely reflecting the transfer of crops to farmers under the payment-in-kind (PIK) program, held down the increase in final sales in the first (and also the fourth) quarter, but added to it in the second. Final sales excluding CCC transactions increased 5 percent in the first quarter and about 7 percent in the second. (For quarters in which PIK transactions are large, this variant of final sales is more useful in assessing the underlying strength of demand than is total final sales.) The acceleration was partly attributable to net exports, which declined less in the second quarter than in the first. Final sales to domestic purchasers (also adjusted to exclude the CCC) increased only slightly more than the 7½-percent rate in the first quarter. As indicated in the following highlights of second-quarter developments in real GNP, prices, and personal income, the evidence available in mid-June suggests that most other major components of GNP registered changes similar to those in the first quarter.

• Personal consumption expenditures increased at about the same strong rate—6½ percent—as in the first quarter. Durable goods purchases increased less than in the first quarter, largely reflecting the pattern of motor vehicle sales. As discussed later in the "Business Situation," auto sales changed little after a very strong increase, but truck sales strengthened. Purchases of both nondurable goods and services were up more than in the first quarter. In nondurables, food increased after a decline; in services, the pickup was largely in net foreign travel.

• Nonresidential fixed investment increased slightly more than the 16-percent rate in the first quarter. Structures again were up strongly; the second-quarter strength was in commercial buildings and in public utilities. Producers' durable equipment, with a widespread increase, was up more than in the first quarter. As discussed in the article on the BEA plant and equipment expenditures survey, the strength of investment in recent quarters and the increase planned for the rest of 1984 are consistent with favorable developments in a number of investment indicators.

• Residential investment increased less than in the first quarter. In the first quarter, when residential investment increased 26½ percent, housing starts had averaged 1.96 million (seasonally adjusted annual rate). In April and May, they averaged 1.89 million. Reflecting the pattern of housing starts, most of the decelera-

Table 1.—GNP and GNP Prices

[Levels at seasonally adjusted annual rates; percent changes at annual rates]

	1983		1984	
	III	IV	I	II
Current-dollar GNP (billions of dollars):				
Level	3,362.2	3,436.2	3,550.1	3,624.6
Percent change from preceding quarter	11.5	9.1	13.9	8.7
Real GNP (billions of 1972 dollars):				
Level	1,553.4	1,572.5	1,609.3	1,631.6
Percent change from preceding quarter	7.6	5.0	9.7	5.7
GNP fixed-weighted price index (index, 1972=100):				
Level	225.5	227.8	230.5	232.5
Percent change from preceding quarter	4.7	4.2	4.9	3.5
GNP implicit price deflator (index, 1972=100):				
Level	216.44	218.53	220.60	222.15
Percent change from preceding quarter	3.6	3.9	3.9	2.8

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates. Quarter-to-quarter percent changes are annualized. Real, or constant-dollar, estimates are expressed in 1972 dollars.

The procedures used to prepare the "flash" estimates—that is, estimates prepared 15 days before the end of the quarter—are the same as those used to prepare the estimates released after the end of the quarter. However, the source data that are available are limited to only 1 or 2 months of the quarter, and, in some cases, are preliminary. BEA makes projections of the missing source data. The major source data that are available are: For *personal consumption expenditures* (PCE), April and May retail sales, unit sales of new autos through the first 10 days of June, and sales of new trucks for April and May; for *nonresidential fixed investment,* the same data for autos and trucks as for PCE, April construction put in place, April manufacturers' shipments of equipment, and business investment plans for the quarter; for *residential investment,* April construction put in place, and April housing starts; for *change in business inventories,* April book values for manufacturing and trade, and unit auto inventories for April and May; for *net exports of goods and services,* April merchandise trade; for *government purchases of goods and services,* Federal unified budget outlays for April, State and local construction put in place for April, and State and local employment for April and May; and for *GNP prices,* the Consumer Price Index for April, and the Producer Price Index for April.

tion in investment was in single-family housing units.

• Inventories accumulated at a substantial rate, but less than in the first quarter. Accordingly, they contributed negatively to the change in real GNP; in the first quarter, a step-up in the rate of accumulation had contributed a positive $22 billion. Motor vehicle inventories—the only part of inventories for which information about second-quarter developments is reasonably complete—were down sharply. Only fragmentary information is available about farm inventories; it appears that accumulation was substantial, but less than the $8½ billion rate in the first quarter. In contrast to the preceding two quarters, the transfer of crops to farmers under PIK—which appears in the national income and product accounts as farm inventory accumulation—was small, because the PIK program was being phased out. However, other farm inventories increased after 2 years of runoff. Nonfarm inventories other than motor vehicles appear to have registered substantial accumulation, probably somewhat more than the $17½ billion rate in the first quarter.

• For net exports, limited evidence suggests a decline roughly one-half the size of the $10½ billion first-quarter decline. Both exports and imports increased in the second quarter, but the increase in imports was larger. Imports continued to reflect the U.S. economic expansion and the strength of the dollar.

• Government purchases increased sharply after a $1½ billion decline in the first quarter. In the first quarter, CCC transactions—largely PIK—had declined $4 billion, more than accounting for the decline in Federal purchases. In the second quarter, with the phasing out of PIK, these transactions accounted for a substantial increase. Other Federal nondefense purchases again changed little, and defense purchases increased somewhat more than in the first quarter. State and local purchases increased moderately in both quarters, mainly due to increases in purchases of structures.

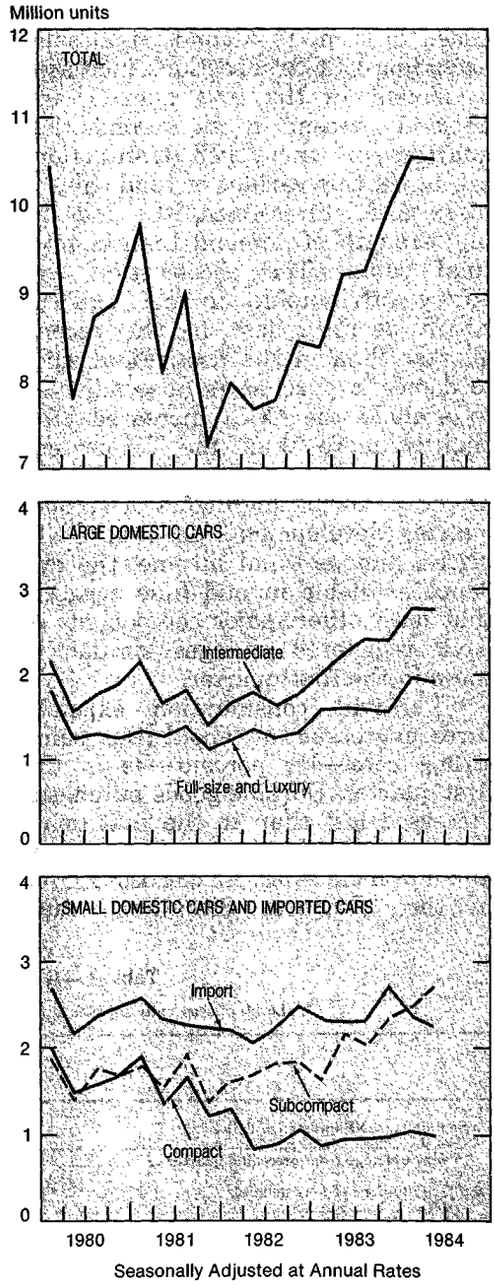
• In the GNP fixed-weighted price index, the deceleration of about 1½ percentage points was largely due to food prices. In the first quarter, prices of the food components of GNP had increased 11½ percent; in the second quarter, the increase was only 1 or 2 percent. The effect of a Federal pay raise, which had added 0.6 percentage point to the first-quarter increase in the GNP price index, accounted for the rest of the deceleration.

• Personal income increased about $53 billion, following an extraordinarily large—$91 billion—increase in the first quarter. The deceleration largely reflected Federal subsidy payments to farmers. These subsidies, primarily under the PIK program, had added $10½ billion to the change in farm proprietors' income in the first quarter; their winding down subtracted about twice that much in the second. The remaining major components of personal income registered increases about in line with those in the first quarter: Personal interest income and transfer payments were up a little more; wage and salary disbursements and nonfarm proprietors' income were up a little less. Personal contributions for social insurance, which are subtracted in deriving the personal income total, increased less than in the first quarter, when they had been boosted by several legislated changes in social security.

The deceleration in personal income carried through to disposable income; personal taxes were up about the same in both quarters. Despite a slowing in price increases, real disposable income increased only about one-half as much as the 10-percent rate in the first quarter. The increase in personal outlays exceeded that in disposable income, so personal saving declined. The saving rate fell about one-half percentage point from 5.9 percent in the first quarter.

CHART 1

Retail Sales of New Passenger Cars



NOTE.—Data for the most recent quarter are projected.
Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports; seasonal adjustment by BEA.

U.S. Department of Commerce, Bureau of Economic Analysis 84-6-1

Motor vehicles

Real motor vehicle output declined about $6½ billion in the second quarter, following a $5½ billion increase in the first. The swing was more than accounted for by auto output. Sales of autos changed little after a very strong increase in the first quarter, and inventories fell after an increase. Truck output was up strongly for the sixth consecutive quarter. Sales increased considerably more than in the first quarter; inventories increased less than in the first quarter.

Unit sales of new cars steadied at about 10.6 million (seasonally adjusted annual rate) in the second quarter, following sharp increases in the preceding two quarters (chart 1). The slowing growth in disposable income, increases in interest rates on consumer loans, and shortages in supplies of some models contributed to the flattening of sales.

Sales of imported cars declined slightly to about 2.2 million from 2.3 million in the first quarter, and their market share slipped to 21 percent

Table 2.—Revisions in Selected Component Series of the NIPA's, First Quarter of 1984

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	45-day estimate	75-day estimate	Revision	45-day estimate	75-day estimate
	Billions of current dollars				
GNP	**3,541.6**	**3,550.1**	**8.5**	**12.8**	**13.9**
Personal consumption expenditures	2,287.8	2,286.2	−1.6	10.6	10.3
Nonresidential fixed investment	384.4	385.7	1.3	11.5	13.1
Residential investment	147.3	147.8	.5	26.7	28.6
Change in business inventories	69.3	71.0	1.7		
Net exports	−54.6	−48.2	6.4		
Government purchases	707.5	707.6	.1	4.9	5.0
National income	**2,878.4**	**2,883.3**	**4.9**	**16.2**	**17.0**
Compensation of employees	2,113.4	2,113.4	0	11.5	11.5
Corporate profits with inventory valuation and capital consumption adjustments	277.5	281.6	4.1	14.7	21.6
Other	487.5	488.2	.7	40.7	41.6
Personal income	**2,925.4**	**2,926.2**	**.8**	**13.3**	**13.5**
	Billions of constant (1972) dollars				
GNP	**1,606.0**	**1,609.3**	**3.3**	**8.8**	**9.7**
Personal consumption expenditures	1,049.6	1,048.3	−1.3	6.9	6.4
Nonresidential fixed investment	187.0	187.6	.6	14.6	16.1
Residential investment	59.1	59.2	.1	25.7	26.3
Change in business inventories	30.1	30.7	.6		
Net exports	−10.3	−7.5	2.8		
Government purchases	290.7	291.0	.3	−2.2	−1.7
	Index numbers, 1972=100 [1]				
GNP implicit price deflator	220.52	220.60	.08	3.7	3.9
GNP fixed-weighted price index	230.4	230.5	.1	4.8	4.9
GNP chain price index				4.6	4.7

1. Not at annual rates.

NOTE.—For the first quarter of 1984, the following revised or additional major source data became available: For *personal consumption expenditures,* revised retail sales for March, consumer share of new car purchases for February, and consumption of electricity for March; for *nonresidential fixed investment,* revised manufacturers' shipments of equipment for March, revised construction put in place for March, and business share of new car purchases for February; for *residential investment,* revised construction put in place for March, and residential alterations and repairs for the quarter; for *change in business inventories,* revised book values for manufacturing and trade for March; for *net exports of goods and services,* revised merchandise trade for the quarter, and revised service receipts for the quarter; for *government purchases of goods and services,* revised construction put in place for March; for *wages and salaries,* revised employment, average hourly earnings, and average weekly hours for March; for *net interest,* financial assets held by households for the quarter, and revised net interest received from abroad for the quarter; for *corporate profits,* revised domestic book profits for the quarter, and revised profits from the rest of the world for the quarter; and for *GNP prices,* revised residential housing prices for the quarter.

from 22 percent. A weakness in Japanese car sales in the beginning of the quarter probably reflected supply shortages; several manufacturers had reduced shipments to the United States to comply with the March 31 cutoff of the voluntary quota agreement.

Sales of domestic cars increased slightly to about 8.3 million from 8.2 million in the first quarter. A step-up in subcompact car sales more than accounted for the increase. Compact car and intermediate car sales changed little, and full-size and luxury car sales declined slightly. Sales of some domestic models may have been constrained by shortages, particularly toward the end of the quarter.

Domestic car production dropped to 7.2 million (seasonally adjusted annual rate) in the second quarter from 8.9 million in the first. Part of the drop was due to shutdowns of three assembly plants that had been producing rear-wheel drive cars. After extensive remodeling and retooling, two of these plants will produce front-wheel drive cars, and the third will produce small vans.

Domestic car inventories fell sharply to 1.43 million (seasonally adjusted) in May from 1.61 million in March, and a further reduction appears likely in June. The ratio of inventories to sales fell from 2.3 in the first quarter to below 2.0, the ratio generally considered desirable by the industry. Further, supplies of some individual models are much tighter. Shortages probably will persist well into the third quarter.

Unit sales of new trucks increased to about 4.2 million (seasonally adjusted annual rate) from 3.8 million in the first quarter. Both consumer and business purchases strengthened. Sales of light domestic trucks increased strongly to about 3.4 million in the second quarter, their highest level in more than 5 years. Sales of "other" domestic trucks were up sharply to about 0.29 million. Imported truck sales changed little from 0.55 million in the first quarter. Despite another substantial increase in production, inventories declined in the second quarter.

First-quarter corporate profits

Profits from current production—profits with inventory valuation and capital consumption adjustments—increased $13½ billion in the first quarter, to $281½ billion, following a $20 billion increase in the fourth quarter. The first-quarter estimate is $4 billion higher than the preliminary one published a month ago. Domestic profits of nonfinancial corporations and the foreign component of profits were both revised up $2½ billion; domestic profits of financial corporations were revised down by $½ billion.

Domestic profits of nonfinancial corporations contributed most of the first-quarter increase in profits of domestic corporations, accounting for $12½ billion out of the $13 billion increase. The increase in nonfinancial profits resulted from increases in both constant-dollar output and in unit profits. The latter, in turn, was due to larger increases in unit prices than in unit costs.

Profits before tax—profits without inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj)—increased $16 billion in the first quarter, to $244½ billion. This increase exceeded the increase in profits from current production by $2½ billion, because the changes in the two adjustments reduce the latter by that amount (see accompanying tabulation). In contrast, in the fourth quarter, when the sum of the changes in the two adjustments had been $20½ billion, profits before tax had declined slightly, while profits from current production had increased $20 billion.

[Change from preceding quarter; billions of dollars]

	1983			1984
	II	III	IV	I
Adjustments	2.8	4.3	20.6	−2.6
IVA	−8.9	−7.7	12.0	−6.2
CCAdj	11.7	12.0	8.6	3.6

The adjustments convert the costs of inventories and depreciation reported by businesses into those used in the national income and product accounts. The IVA declined from −$6 billion to −$12½ billion in the first quarter, reflecting larger increases in inventory prices in the first quarter than in the fourth. An increase of $3½ billion in the CCAdj was largely due to provisions of the Economic Recovery Tax Act (ERTA) that allowed the use of shorter service lives for the depreciation of capital.

Disposition of profits before tax.—Corporate profits tax liability increased $7½ billion following an increase of $½ billion. Dividends were up $2 billion and undistributed profits, $6½ billion. Compared with year-earlier levels, tax liability was up 51 percent, dividends were up 9½ percent, and undistributed profits were up 100 percent. Although economic recovery and expansion raised profits and thus tax liability, ERTA helped keep the tax liability lower than it would have been under previous tax laws.

Profits by industry.—Profits with the IVA but without the CCAdj—the variant of profits available by industry—increased $10 billion in the first quarter, following an $11 billion increase in the fourth. While profits of domestic financial industries were up only slightly, those of domestic nonfinancial industries increased $9 billion, following an increase of $14 billion. Manufacturing profits accounted for nearly one-half of the first-quarter increase in nonfinancial industries' profits. A decline in profits of nondurable goods manufacturers partly offset widespread increases in profits of durable goods manufacturers. Within durables, motor vehicles accounted for more than one-half the gains. Within nondurables, a decline in profits of manufacturers of petroleum products more than accounted for the decline in total profits.

Trade profits increased $1 billion, following a $3½ billion increase; both wholesale and retail trade profits registered increases. Within retail trade, declines in profits of food stores and auto dealers were more than offset by increases in profits of general merchandisers and other retailers. Transportation profits were up, primarily because airlines continued to cut their losses.

* * *

First-quarter NIPA revisions

The 75-day revisions of the national income and product accounts estimates for the first quarter of 1984 are shown in table 2.

NOTE.—Revised estimates of the national income and product accounts for the last 3 years will be presented in the July issue of the SURVEY OF CURRENT BUSINESS. These estimates will incorporate new source data and updated seasonal adjustment factors.

the BUSINESS SITUATION

REAL GNP increased at an annual rate of 7½ percent in the second quarter, following a 10-percent increase in the first, according to revised estimates presented later in this issue (table 1).[1] Increases of this size are unusual six and seven quarters after a trough in GNP.

Labor markets, productivity, costs, and prices also registered favorable second-quarter developments. Civilian employment, as measured by the household survey, increased 1.4 million and unemployment declined 0.4 million. The civilian unemployment rate declined 0.4 percentage point, to 7.5 percent (chart 2). The unemployment rate for men dropped to 6.6 percent, below the rate for women (by 0.1 percentage point) for the first time since the fourth quarter of 1982. The unemployment rate for teenagers declined 0.9 percentage point in the second quarter to 18.7 percent.

Productivity—as measured by real gross product per hour in the nonfarm business economy less housing—continued to improve, which is typical in recovery/expansion periods. Both the first- and second-quarter increases were 3½ percent (see table 1 on page 101). Unit labor cost, which was flat after a 3-percent increase in the first quarter, continued to contribute substantially to sustaining a low rate of inflation in final product prices.

Prices as measured by the GNP fixed-weighted price index increased 3½ percent, down from 5 percent in the first quarter (table 2). The deceleration was more than accounted for by food prices. The price of GNP food components declined 2 percent, after a 12-percent increase in the first

Table 1.—Real GNP: Change From Preceding Quarter

[Percent change at annual rates; based on millions of 1972 dollars, seasonally adjusted at annual rates]

	1983		1984	
	III	IV	I	II
GNP	6.8	5.9	10.1	7.5
Final sales	4.9	4.2	3.6	10.4
Personal consumption expenditures	3.8	6.8	4.6	6.9
Durables	9.0	20.5	16.3	9.5
Motor vehicles and parts	7.7	26.8	17.9	11.6
Furniture and household equipment	10.6	17.5	14.7	7.8
Other durables	8.3	12.1	16.0	8.3
Nondurables	3.9	5.0	4.1	9.6
Food	7.8	.5	−3.1	8.0
Energy [1]	4.8	2.0	9.0	.1
Clothing and shoes	−6.4	18.6	13.1	19.7
Other nondurables	6.8	2.8	11.2	5.5
Services	2.1	3.8	1.2	3.8
Energy [2]	9.5	−5.7	−8.4	5.2
Other services	1.7	4.4	1.7	3.7
Gross private domestic fixed investment	21.8	23.5	20.8	17.9
Nonresidential	18.7	30.6	20.6	20.7
Structures	1.4	28.5	23.2	29.2
Producers' durable equipment	26.4	31.4	19.6	17.6
Autos and trucks	79.7	56.8	53.2	40.8
Other	17.7	26.4	12.8	12.3
Residential	31.6	4.0	21.3	9.4
Net exports of goods and services				
Exports	14.0	−1.5	11.4	11.2
Merchandise	10.3	3.9	15.3	1.5
Agricultural	11.3	−.1	19.5	−16.5
Nonagricultural	10.1	5.0	14.2	6.7
Other	18.7	−7.7	6.7	24.3
Imports	21.8	32.3	47.1	15.6
Merchandise	17.9	39.2	71.4	6.7
Petroleum	128.5	−35.1	−10.5	22.5
Nonpetroleum	13.0	46.0	77.3	6.0
Other	31.5	17.5	−.4	42.8
Government purchases of goods and services	−.5	−4.3	1.0	19.1
Federal	−5.3	−8.7	−2.8	47.9
National defense	−1.9	9.2	3.4	13.0
Nondefense	−13.6	−46.3	−21.1	233.0
Commodity Credit Corporation				
Other	3.0	3.1	−.1	−4.6
State and local	2.7	−1.4	3.5	3.2
Change in business inventories				

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

NOTE.—Percent changes in major aggregates are found in the National Income and Product Accounts Tables, table 8.1. Dollar levels are found in tables 1.2, 1.15, 1.17, 3.8B, and 4.4.

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates. Quarter-to-quarter percent changes are annualized. Real, or constant-dollar, estimates are expressed in 1972 dollars.

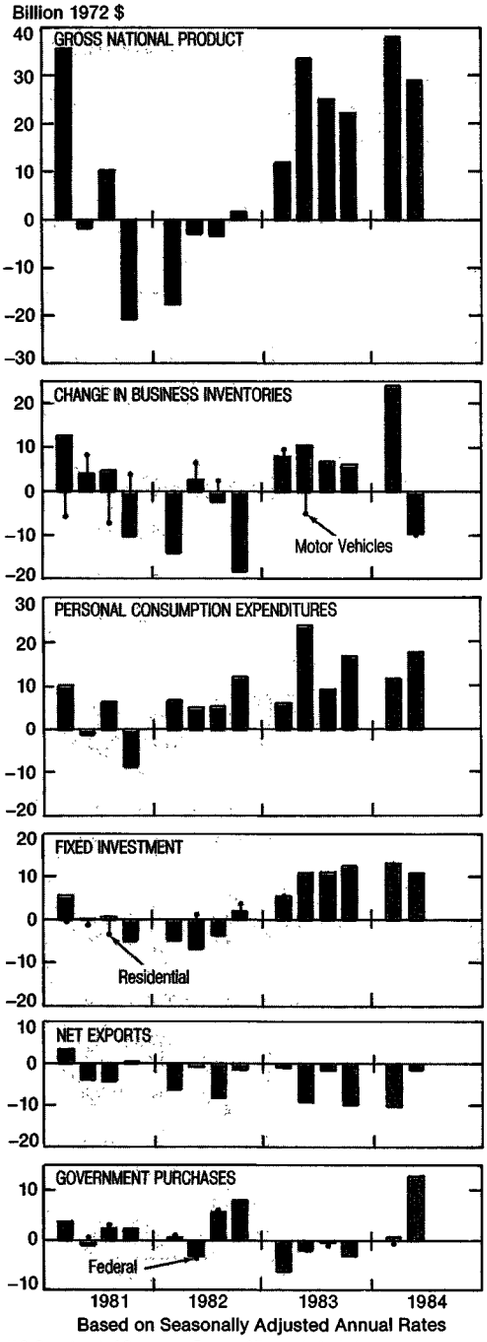
The "flash" (minus 15-day) estimates released in June showed an increase of 5½ percent in the second quarter.

The second-quarter GNP estimates prepared in mid-July (plus 15-day estimates) are based on the following major source data: For *personal consumption expenditures* (PCE), retail sales and unit auto and truck sales through June; for *nonresidential fixed investment,* the same information for autos and trucks as for PCE, April and May construction put in place, and April and May manufacturers' shipments of machinery and equipment; for *residential investment,* April and May construction put in place, and April and May housing starts; for *change in business inventories,* April and May book values for manufacturing and trade, and unit auto inventories through June; for *net exports of goods and severices,* April and May merchandise trade, and fragmentary information on investment income for the quarter; for *government purchases of goods and services,* Federal unified budget outlays for April and May, and State and local employment through June; and for *GNP prices,* the Consumer Price Index for April and May, the Producer Price Index for April and May, and unit-value indexes for exports and imports for April and May. Some of the source data are subject to revision.

quarter. The first-quarter increase had been largely due to freeze damage to fruits and vegetables and to higher meat prices; prices for these items have since declined. GNP energy prices were a partial offset; after a first-quarter decline of 2½ percent due to lower gasoline prices, energy prices increased 4 percent in the second quarter.

CHART 1

Real Product: Change From Preceding Quarter



U.S. Department of Commerce, Bureau of Economic Analysis 84-7-1

Real GNP

The second-quarter deceleration in real GNP took the form of a large swing in inventory investment. Real business inventories were up $21½ billion, after increasing $31½ billion in the first quarter, and $7 billion in the fourth (table 3). A major factor in the second-quarter decline in the rate of accumulation in inventories was a swing in motor vehicles from an increase of $7 billion in the first quarter to a decline of $3½ billion in the second. Other nonfarm inventories, in contrast, were up even more in the second quarter than in the first.

A decline in the rate of accumulation in farm inventories—from $5½ billion in the first quarter to $1 billion in the second—was primarily due to the phasing out of the payment-in-kind (PIK) program. Transfers of crops from the Commodity Credit Corporation (CCC) to farmers under PIK amounted to $8 billion in the first quarter; in the second quarter, they were only $½ billion.[2]

2. The handling of the payment-in-kind (PIK) program in the national income and product accounts (NIPA's) offsets these transfers (which relate to commodities produced in the past) in final sales; as a result, GNP, which is a measure of current production, is not affected. The PIK program and the NIPA procedure are described in "The U.S. National Income and Product Accounts: Revised Estimates," later in this issue.

Table 2.—Fixed-Weighted Price Indexes: Change From Preceding Quarter

[Percent change at annual rates; based on index numbers (1972=100), seasonally adjusted]

	1983		1984	
	III	IV	I	II
GNP	**4.7**	**3.9**	**5.0**	**3.5**
Less: Change in business inventories				
Equals: Final sales	4.7	3.9	5.0	3.5
Less: Exports	3.5	6.1	2.7	4.2
Plus: Imports	0	−.9	2.3	3.2
Equals: Final sales to domestic purchasers	**4.3**	**3.3**	**4.9**	**3.4**
Personal consumption expenditures	3.9	3.4	4.9	2.9
Food	−.7	4.4	12.3	−1.7
Energy	6.8	−1.8	−2.0	3.1
Other personal consumption expenditures	4.9	4.0	3.8	4.4
Other	5.0	3.1	5.1	4.3
Nonresidential structures	3.1	1.3	2.3	4.6
Producers' durable equipment	.8	1.2	2.0	1.2
Residential	9.9	−.6	1.7	5.5
Government purchases	5.3	4.9	7.3	4.7
Addenda:				
Food and energy components of GNP: [1]				
Food components [2]	−.2	5.7	12.1	−1.9
Energy components [3]	7.5	−2.7	−2.6	3.8
GNP less food components	5.4	3.6	4.0	4.4
GNP less energy components	4.5	4.3	5.5	3.5
GNP less food and energy components	5.3	4.1	4.5	4.4

1. Inasmuch as GNP is the sum of final products, the food and energy estimates in this table do not take into account the effect on the prices of final products of changes in the prices of the food and energy that are costs of production.
2. Consists of all components for which separate estimates are prepared. The major component that is not included is purchases of food by the Federal Government other than transactions by the Commodity Credit Corporation that are treated like purchases.
3. Consists of all components for which separate estimates are prepared. The major components that are not included are (1) exports of energy; (2) the gasoline and motor oil portions of inventories of gasoline service stations; and (3) the energy portions of inventories of businesses that do not produce energy for sale.

NOTE.—Most index number levels are found in the National Income and Product Accounts Tables, table 7.2.

Table 3.—Change in Business Inventories

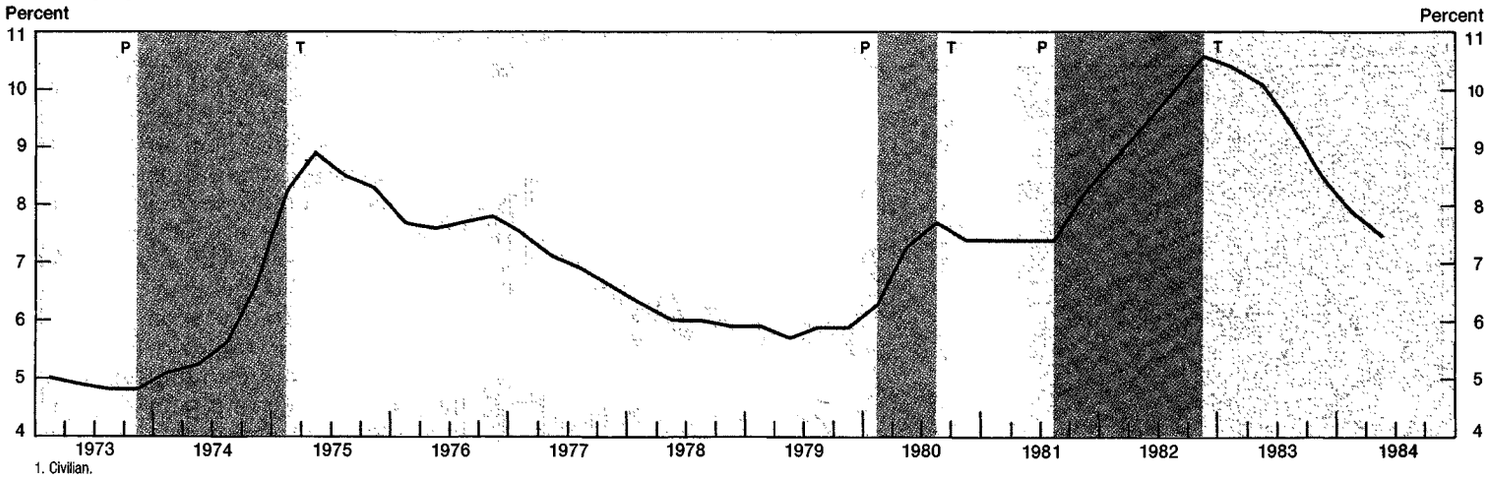
[Billions of 1972 dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter			
	1983			1984		1983		1984	
	II	III	IV	I	II	III	IV	I	II
Change in business inventories	**−6.1**	**0.9**	**7.2**	**31.6**	**21.5**	**7.0**	**6.3**	**24.4**	**−10.1**
Farm	−5.8	−6.6	.2	5.4	1.1	−.8	6.8	5.2	−4.3
Nonfarm	−.3	7.4	7.0	26.2	20.4	7.7	−.4	19.2	−5.8
Manufacturing	−1.5	−1.1	.1	9.1	10.6	.4	1.2	9.0	1.5
Wholesale trade	−2.8	3.1	3.3	4.8	8.9	5.9	.2	1.5	4.1
Retail trade	2.7	2.7	5.4	11.4	3.6	0	2.7	6.0	−7.8
Other	1.3	2.8	−1.8	.9	−2.7	1.5	−4.6	2.7	−3.6

NOTE.—Dollar levels are found in the National Income and Product Accounts Tables, table 5.9.

CHART 2

Unemployment Rate [1]



1. Civilian.

NOTE.—Business cycle peaks (P), and troughs (T), are turning points in economic activity, as designated by the National Bureau of Economic Research, Inc. Shaded areas represent recessions.
Data: BLS.
U.S. Department of Commerce, Bureau of Economic Analysis

Real final sales jumped 10½ percent, following a 3½-percent increase in the first quarter. About 3 percentage points of the acceleration was due to CCC inventory transactions in government purchases. CCC inventory depletions are treated in the national income and product accounts (NIPA's) as negative Federal purchases. In the first quarter, CCC inventories had declined due to PIK transfers. This, in turn, had reduced Federal purchases. Other contributions to acceleration came from personal consumption expenditures (PCE), which increased even more strongly than in the first quarter, and net exports, which declined much less. Nonresidential fixed investment was up strongly in both quarters; residential investment increased less than in the first quarter. Developments in final sales components are discussed in the following sections.

Personal consumption expenditures

Real PCE increased 7 percent, following an increase of 4½ percent in the first quarter. The acceleration was in nondurable goods and in services. Gains in real income and employment continued to spur consumer spending. Also, consumer confidence remained at high levels, despite some fluctuation.

Expenditures for durable goods increased 9½ percent, substantially less than in the first quarter. The slowdown was evident in all of the major components. Increases in expenditures for motor vehicles had been very strong in the two preceding quarters.

Expenditures for nondurable goods increased 9½ percent, a much larger gain than in the first quarter. The acceleration was accounted for by large increases in expenditures for food and for clothing and shoes.

Expenditures for services were up 4 percent more than in the first quarter. Transportation was up more than in the first quarter. Electricity and natural gas increased, after two quarters of decline. Increases in most other components of services were either the same as, or larger than, in the first quarter.

Fixed investment

Real residential investment increased 9½ percent in the second quarter, following a 21-percent increase in the first. The deceleration was mainly attributable to single-family construction, which slowed from a 30-percent rate of increase to a 13-percent rate.

The deceleration in single-family construction mirrored housing starts (chart 3). Single-family starts surged in January–February to 1.4 million (annual rate)—a surge many attribute to unusually favorable weather conditions—before dropping to a March–June average of 1.1 million.

Mortgage commitment rates increased almost a full percentage point in the second quarter, to 14.5 percent at the end of June, and further increases are widely expected (chart 4). The runup in rates, along with increased house prices, appears to have put a damper on house sales. Sales of existing single-family homes decelerated in April and fell in May. Sales of new one-family houses fell in 4 of the first 5 months of the year. The greater weakness in sales of new houses is attributable, in part, to larger price increases. During the first 5 months of the year, the median sales price of new houses increased more than twice as fast as that of existing houses.

Real nonresidential fixed investment increased 20½ percent in the second quarter, the same rate as in the first. A slight deceleration in producers' durable equipment (PDE) offset an acceleration in structures. Motor vehicles—which are about one-fifth of PDE—accounted for more than two-fifths of the second-quarter increase. Computers and photographic equipment accounted for about one-half of the remaining increase. In structures, about three-fourths of the second-quarter increase was in commercial buildings. Industrial buildings registered its second straight increase following a prolonged decline.

CHART 3

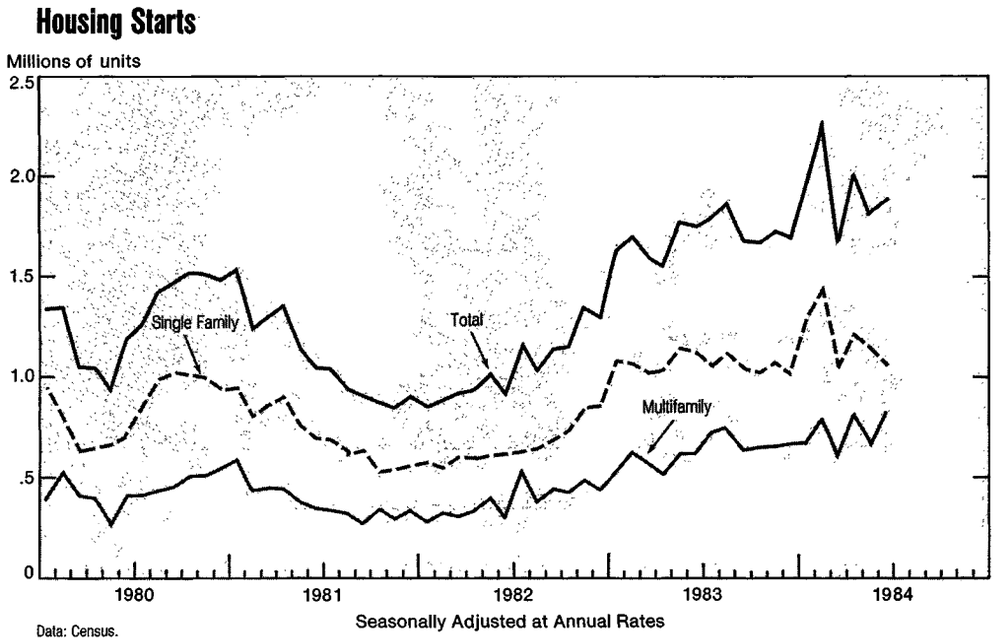
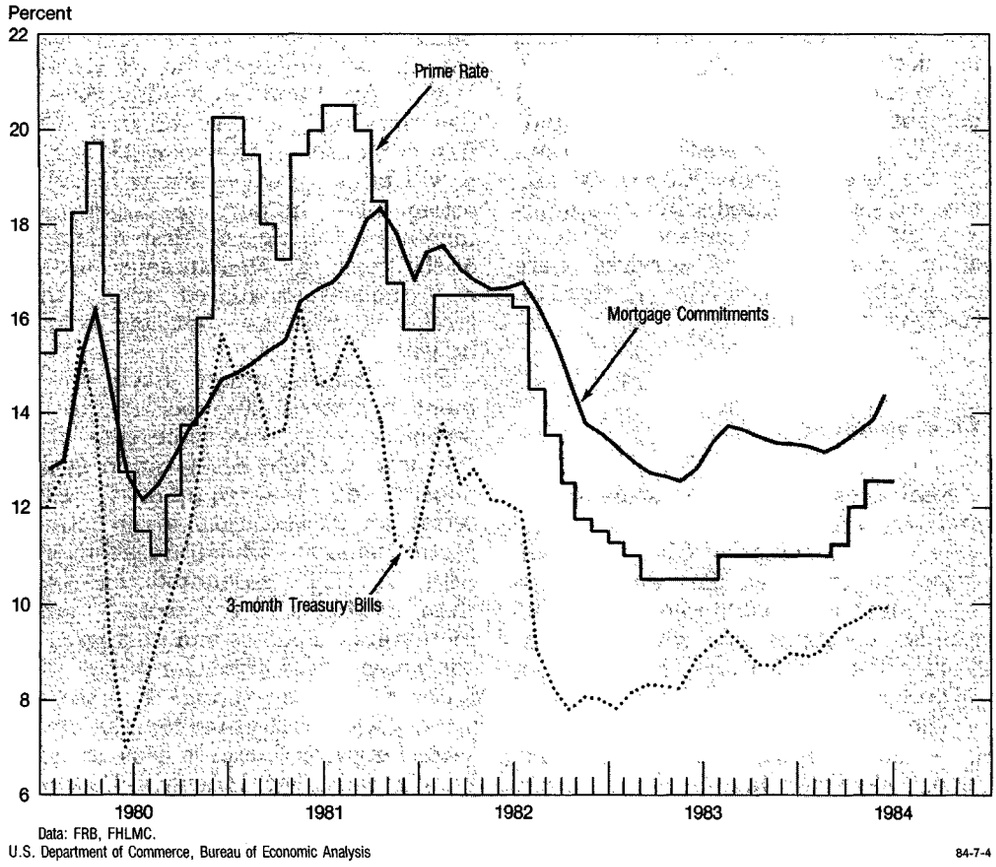


CHART 4



Net exports

Real net exports declined $10 billion, following an $8½ billion decline in the first quarter. Exports increased $4 billion in both quarters. The first-quarter increase had been concentrated in goods, mainly agricultural products, automotive products to Canada, and capital goods. The second-quarter increase was largely in receipts of portfolio investment income.

Imports were up $5½ billion, following a $14 billion jump in the first quarter. A large first-quarter increase in merchandise imports had been spread across most major end-use categories; merchandise imports increased much less in the second quarter. Payments for services picked up after no change in the first quarter.

Government purchases

Real government purchases were up strongly, following a slight increase in the first quarter. The pickup was largely in Federal nondefense purchases which were greatly affected during the past several quarters by CCC operations, primarily under the PIK program. (As mentioned earlier, CCC inventory depletions are treated as negative Federal purchases.) Reductions in CCC inventories amounted to $9 billion in the first quarter; in the second quarter, CCC inventories were unchanged, as PIK was phased out. Federal defense purchases increased $2½ billion, mostly in military hardware, following a small increase in the first quarter. State and local government purchases increased $1½ billion in both quarters; construction accounted for about one-half of the increases.

The Federal sector.—Changes in current-dollar Federal receipts and expenditures on a NIPA basis are shown in table 4. Among expenditures, purchases were up $32 billion; the huge increase was largely due to the CCC operations. Defense purchases also were up strongly in the second quarter. Transfer payments were up $2 billion, as the decline in unemployment insurance benefits tapered and other transfers to persons continued to increase. Net interest

paid continued to increase, mainly reflecting higher interest rates on the Federal debt. An $18 billion drop in sudsidies less the current surplus of Government enterprises was accounted for by a reduction in subsidies paid to farmers, as the PIK program was phased out. (The PIK subsidy payments offset CCC inventory changes due to PIK, so these transactions have no effect on total Federal expenditures.) These changes and smaller changes in other components sum to an increase of $19½ billion in total expenditures in the second quarter.

Among receipts, an increase of $6 billion in personal tax and nontax payments was largely due to continued growth in the tax base. Indirect business taxes were up $1 billion, and contributions for social insurance were up $4 billion. Estimates of corporate profits, and thus of corporate profits tax accruals, are not yet available. If, as is likely, profits and profits tax accruals changed little, then total receipts would register an increase about one-fourth as large as that in the first quarter.

An increase of this size in receipts would be less than one-half of the increase in expenditures, so the deficit on a NIPA basis would increase about $10 to $15 billion from the $161½ billion registered in the first quarter.

Table 4.—Federal Government Receipts and Expenditures, NIPA Basis: Change From Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1983		1984	
	III	IV	I	II
Receipts	**−9.1**	**14.8**	**31.4**	**n.a.**
Personal tax and nontax receipts	−20.1	8.7	8.3	6.0
Corporate profits tax accruals	7.5	−.2	6.5	n.a.
Indirect business tax and nontax accruals	.2	.5	−.4	.8
Contributions for social insurance	3.3	5.7	17.0	4.1
Expenditures	**4.4**	**14.4**	**12.1**	**19.3**
Purchases of good and services	−1.3	−2.9	1.3	31.8
National defense	1.6	6.3	6.2	8.0
Nondefense	−2.9	−9.2	−4.9	23.8
Transfer payments	−4.6	6.7	−2.5	1.9
Grants-in-aid to State and local governments	.4	−.2	4.0	.7
Net interest paid	7.3	4.7	5.7	2.7
Subsidies less current surplus of government enterprises	3.6	6.5	3.8	−17.8
Less: Wage accruals less disbursements	.9	.4	.2	0
Surplus or deficit (−), national income and product accounts	**−13.6**	**.4**	**19.2**	**n.a.**

n.a. Not available.

NOTE.—Dollar levels are found in the National Income and Product Accounts Table, table 3.2.

Table 5.—Personal Income and Its Disposition

[Billions of dollars; based on seasonally adjusted annual rates]

	Change from preceding quarter			
	1983		1984	
	III	IV	I	II
Wage and salary disbursements	29.2	44.1	40.3	36.3
Manufacturing	9.8	12.8	12.7	7.7
Other commodity-producing	2.3	2.7	4.3	3.6
Distributive	4.3	13.5	6.0	9.4
Services	7.9	11.2	9.7	11.0
Government and government enterprises	5.7	4.0	7.7	4.6
Proprietors' income	6.4	8.6	23.0	−2.1
Farm	1.1	6.1	15.2	−6.4
Nonfarm	5.3	2.5	7.8	4.3
Personal interest income	13.5	5.9	15.7	18.6
Transfer payments	−3.4	4.9	2.5	4.6
Other income	4.8	12.5	8.9	8.9
Less: Personal contributions for social insurance	1.9	2.8	6.4	2.1
Personal income	**48.9**	**73.2**	**84.0**	**64.3**
Less: Personal tax and nontax payments	−15.8	12.1	10.5	8.9
Impacts of legislation	−25.9	−1.0	−1.8	−2.6
Other	10.1	13.1	12.3	11.5
Equals: Disposable personal income	**64.5**	**61.2**	**73.5**	**55.4**
Less: Personal outlays	42.3	51.6	51.4	54.2
Equals: Personal saving	**22.0**	**9.7**	**22.1**	**1.3**
Addenda: Special factors in personal income—				
Cost-of-living increases in Federal transfer payments	.4	0	6.3	
Social security base, rate, and coverage changes (in personal contributions for social insurance)			4.0	
Subsidies to farmers	−1.5	10.3	3.5	−17.3

Personal Income

Personal income increased $64½ billion in the second quarter, following an $84 billion increase in the first (table 5). The deceleration can be almost entirely attributed to the sharp drop in Federal subsidy payments to farmers.

Wage and salary disbursements registered another strong increase in the second quarter. Wages and salaries in manufacturing and in other commodity-producing industries were up less than in the first quarter, but those in the distributive and in the service industries were up more. Government wages and salaries increased $3 billion less than in the first quarter; the difference was due to a pay raise for Federal civilian and military employees in the first quarter.

Farm proprietors' income dropped in the second quarter after a strong increase. Payments to farmers under PIK amounted to only $1½ billion; they had been $19 billion in the first quarter. A slowdown in the increase in nonfarm proprietors' income was in retail trade and, to a lesser extent, in construction.

Among the other components of personal income, personal interest income registered another substantial increase in the second quarter. Transfer payments were up somewhat more than in the first quarter, as the decline in unemployment insurance benefits tapered. Personal contributions for social insurance, which are

subtracted in deriving the personal income total, increased less than in the first quarter, when they had been boosted by several legislated changes in social security.

Reflecting the continued growth in the taxable wage base, personal tax and nontax payments were up $9 billion in the second quarter after a $10½ billion increase in the first. The increase in disposable personal income—personal income less taxes—decelerated to $55½ billion, or 9 percent, from $73½ billion, or 12½ percent, in the first quarter. Due to a slowing down in PCE prices, real income did not decelerate as much. Real disposable personal income increased 7 percent in the second quarter, following an 8-percent increase in the first.

Personal outlays increased about as much as disposable income in the second quarter, so personal saving changed little. The personal saving rate edged down 0.1 percentage point to 6.0 percent.

the BUSINESS SITUATION

REVISED (45-day) estimates show that real GNP increased at an annual rate of 7½ percent in the second quarter of 1984, practically the same rate as shown by the preliminary (15-day) estimates (table 1). Small upward revisions in some components were largely offset by small downward revisions in others. Upward revisions were in personal consumption expenditures (due mainly to revisions in durable and nondurable goods), nonresidential fixed investment (more than accounted for by a revision in producers' durable equipment), and net exports (due to a larger downward revision in merchandise imports than in merchandise exports). Downward revisions were in residential investment (mainly due to an upward revision in prices) and change in business inventories (more than accounted for by revisions in wholesale and retail trade inventories).

Table 1.—Revisions in Selected Component Series of the NIPA's, Second Quarter of 1984

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	15-day estimate	45-day estimate	Revision	15-day estimate	45-day estimate
	Billions of current dollars				
GNP	**3,646.4**	**3,648.1**	**1.7**	**10.9**	**11.1**
Personal consumption expenditures	2,326.7	2,329.5	2.8	9.1	9.6
Nonresidential fixed investment	421.2	422.1	.9	24.4	25.5
Residential investment	156.6	155.7	−.9	15.0	12.5
Change in business inventories	53.8	48.5	−5.3	.....	.....
Net exports	−58.0	−54.6	3.4	.....	.....
Government purchases	746.1	746.8	.7	25.8	26.3
National income	.....	**2,943.0**	.....	.....	**10.0**
Compensation of employees	2,157.9	2,158.9	1.0	8.7	8.9
Corporate profits with inventory valuation and capital consumption adjustments	.....	291.4	.....	.....	21.8
Other	495.9	492.7	−3.2	11.3	8.5
Personal income	**2,984.8**	**2,982.3**	**−2.5**	**9.1**	**8.7**
	Billions of constant (1972) dollars				
GNP	**1,640.2**	**1,640.8**	**.6**	**7.5**	**7.6**
Personal consumption expenditures	1,061.7	1,063.1	1.4	6.9	7.5
Nonresidential fixed investment	202.6	203.5	.9	20.7	22.8
Residential investment	62.0	60.9	−1.1	9.4	1.7
Change in business inventories	21.5	19.7	−1.8	.....	.....
Net exports	−10.0	−8.9	1.1	.....	.....
Government purchases	302.4	302.5	.1	19.1	19.1
	Index numbers, 1972=100 [1]				
GNP implicit price deflator	222.31	222.33	.02	3.2	3.2
GNP fixed-weighted price index	232.4	232.8	.4	3.5	4.2
GNP chain price index	.....	.....	.....	3.4	4.1

1. Not at annual rates.

NOTE.—For the second quarter of 1984, the following revised or additional major source data became available: For *personal consumption expenditures,* revised retail sales for May and June; for *nonresidential fixed investment,* manufacturers' shipments of equipment for May (revised) and June, construction put in place for May (revised) and June, and a partial tabulation of business expenditures for plant and equipment for the quarter; for *residential investment,* construction put in place for May (revised) and June; for *change in business inventories,* book values for manufacturing and trade for May (revised) and June; for *net exports of goods and services,* merchandise trade for June; for *government purchases of goods and services,* Federal unified budget outlays for June, and State and local construction put in place for May (revised) and June; for *wages and salaries,* revised employment, average hourly earnings, and average weekly hours for May and June; for *corporate profits,* domestic book profits for the quarter; for *GNP prices,* the Consumer Price Index and the Producer Price Index for June, unit-value indexes and export and import price indexes for June, and residential housing prices for the quarter.

The increase in prices, as measured by the GNP fixed-weighted price index, was revised up one-half of a percentage point to 4 percent. The revision was largely due to upward revisions in prices of housing and defense purchases of aircraft.

Overall, the economic picture presented in the July "Business Situation" remains largely unaltered, as most revisions in the second-quarter estimates reinforced the direction of change indicated by the preliminary estimates. The decline registered by inventory investment in the preliminary estimates became more pronounced in the revised estimates. Final sales, which increased strongly, increased even more.

Corporate profits

Profits from current production—profits with inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj)—increased $14 billion, to $291½ billion, in the second quarter, following a $17½ billion increase in the first quarter.[1] Domestic profits of nonfinancial corporations contributed $12 billion of the second-quarter increase, domestic profits of financial corporations $1½ billion, and profits from the rest of the world $½ billion.

The second quarter's rate of increase in profits from current production, at 5 percent, was in line with the 6½- and 6-percent rates of the first quarter of 1984 and the fourth quarter of 1983, but markedly lower than the 13- and 21-percent rates of the third and second quarters of 1983.

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates.

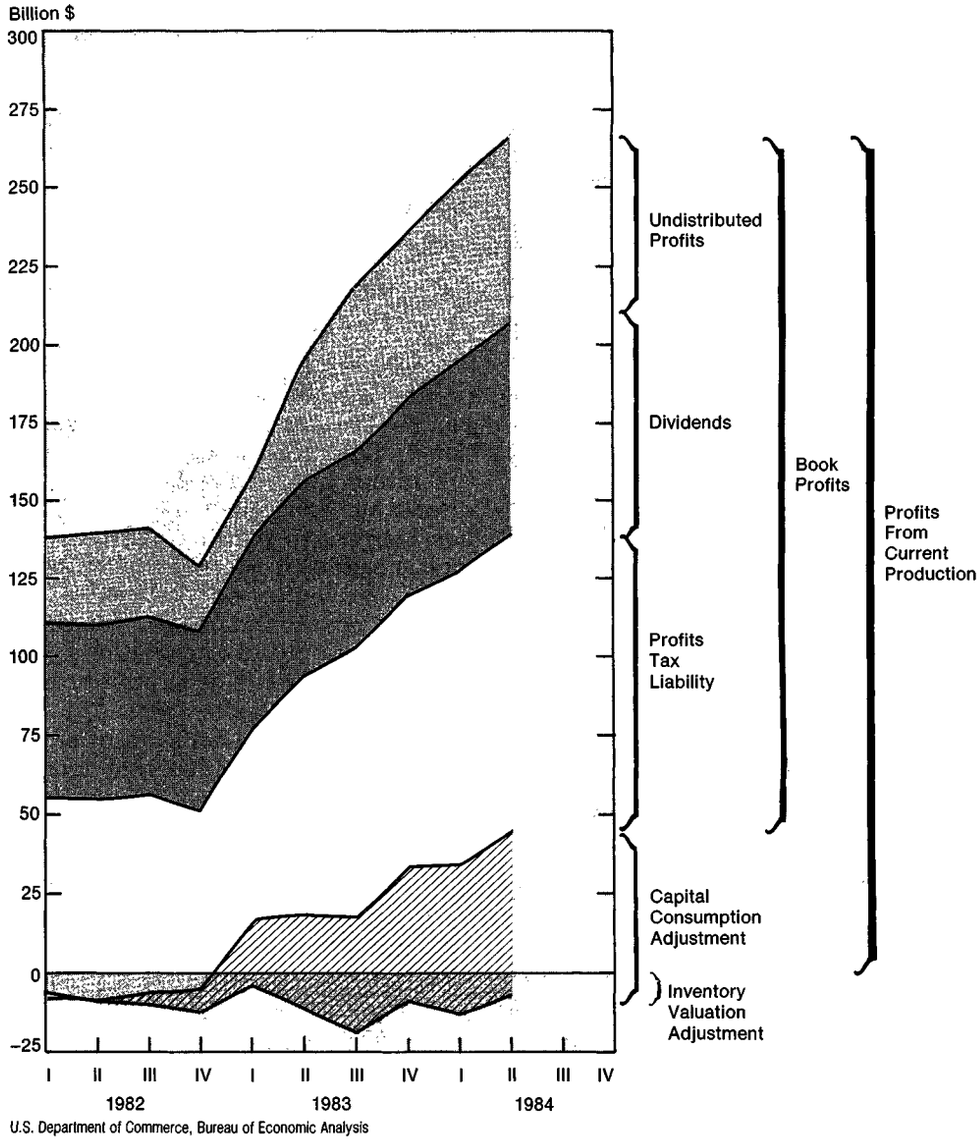
In those early quarters of recovery, unit costs declined while prices of products rose and rates of increase in corporate product were high; together these factors accounted for high rates of increase in profits. Later, prices received by corporations continued to rise; however, unit costs edged up each quarter and rates of increase in corporate product became smaller. Thus, the growth in profits slowed.

Adjustments to profits.—Profits before tax (book profits)—profits without IVA and CCAdj—increased $3½ billion to $246½ billion, following an increase of $18 billion. The IVA and CCAdj convert inventories and depreciation reported by business to those used in the national income and product accounts. The CCAdj was up $4½ billion, following a $4 billion increase, reflecting mainly the effect of the Economic Recovery Tax Act (ERTA) of 1981. The IVA became less negative, by $6 billion, reflecting smaller increases in inventory prices. In the first quarter, it had became more negative, by $4½ billion.

As chart 1 illustrates, the IVA has fluctuated between −$7 billion and −$19 billion since the third quarter of 1982. In contrast, the CCAdj has grown steadily from $4½ billion to $52 billion over the same period. It now equals 18 percent of profits from current production.

CHART 1

Composition of Domestic Corporate Profits From Current Production



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

The steady growth in the CCAdj mainly reflects provisions of ERTA that allow the use of shorter service lives for the depreciation of new capital for tax purposes. Moreover, with the passage of time, a larger part of the capital stock is becoming eligible for the accelerated depreciation.

Disposition of profits before tax.—Corporate profits tax liability was up $1 billion to $94 billion, following an $8 billion increase. The 1984 quarterly estimates incorporate the effects of changes in tax law that resulted from the enactment of the Deficit Reduction Act of 1984. (For a more detailed explanation of these changes, see the "Federal Budget Developments" article in this issue.) Dividends were up $2 billion, to $80 billion, following a $2½ billion increase. Undistributed profits were unchanged at $73 billion, following a $7½ billion increase.

Profits by industry.—Profits with IVA but without CCAdj—the varient of profits available by industry—increased $9½ billion in the second quarter, to $239½ billion, following an increase of $13½ billion in the first quarter.

Domestic profits of financial corporations were up $1½ billion to $30 billion. An upswing in savings and loan associations' profits accounted for the increase, as higher mortgage rates and moderation in costs of funds accompanied larger volumes of mortgage loans closed by thrift institutions.

Domestic profits of nonfinancial corporations were up $7½ billion to $183 billion, following a $13 billion increase in the first quarter. Manufacturers' profits declined in the second quarter. Although profits of nondurable manufacturers were up, they were more than offset by a decline in profits of durable manufacturers. A decline in profits of motor vehicles manufacturers, in turn, more than accounted for the slide in durables profits. The decline in motor vehicles profits was a departure from the recent trend. Production dropped sharply in the second quarter, partly due to shutdowns of several assembly plants for remodeling and retooling. In most quarters of the economic recovery and expansion, profits of motor vehicles manufacturers contributed substantially to manufacturers' profits. Although profits of motor vehicles manufacturers were sharply lower in

the second quarter than in the first, they remained nearly two-thirds above the level a year earlier.

Profits of manufacturers of nondurable goods increased; the increase was more than accounted for by profits of manufacturers of petroleum and coal products, which, in contrast, had declined in the first quarter.

Trade profits increased, accounting for two-thirds of the increase in profits of nonfinancial corporations. Retail trade profits, in turn, contributed about three-fourths of the increase in trade profits. Food store profits accounted for a large part of the increase in retail profits.

Government sector

The fiscal position of the government sector in the national income and product accounts (NIPA's) deteriorated somewhat in the second quarter, as the combined deficit of the Federal Government and of the State and local governments increased $5½ billion. The deterioration was accounted for by an increase in the Federal deficit; the State and local surplus was unchanged. However, at $113 billion, the combined deficit was lower than a year earlier. This improvement was largely due to a $10 billion increase in the State and local surplus.

The Federal sector.—The Federal Government deficit increased $5½ billion in the second quarter to $167 billion, as expenditures increased more than receipts. Receipts increased $16 billion, one-half as much as in the first quarter, when the Social Security tax base and rate increased and corporate profits tax accruals were up strongly. In the second quarter, personal tax and nontax receipts increased $9 billion and contributions for social insurance increased $4 billion, both reflecting a strong increase in wages and salaries. Of a $1½ billion increase in indirect business tax and nontax accruals, $1 billion was in customs duties. Corporate taxes increased $1 billion, reflecting the gain in corporate profits.

Expenditures increased $21½ billion, compared with $12 billion in the first quarter. Purchases of goods and services increased $31½ billion, more than accounting for the increase in total expenditures. Nondefense purchases increased $24 billion: Purchases by the Commodity Credit Corporation (CCC) increased $23½ billion, purchases for the strategic petroleum reserve increased $1 billion, and all other purchases declined $1½ billion. The sizable increase in CCC purchases was largely the result of the phasing out of the PIK program. In the first quarter, the distribution of agricultural commodities under the PIK program reduced CCC inventories $19 billion; in the second quarter, it reduced CCC inventories only $1½ billion. Regular CCC purchases of agricultural commodities increased $5½ billion in the second quarter, compared with a $4 billion decline in the first. National defense purchases increased $8 billion; nearly 60 percent of the gain was in purchases of military equipment (see table 4 on page 10).

Net interest paid increased $3½ billion and transfer payments to persons increased $3 billion. Grants-in-aid to State and local governments increased $2½ billion—the second consecutive large increase in this category of expenditures. Grants increased for highways ($2 billion) and for education ($1½ billion), and declined for public assistance ($1 billion). Subsidies less the current surplus of government enterprises declined $18 billion, reflecting a decline in subsidy payments to farmers under the PIK program. (These subsidy payments offset CCC inventory changes due to PIK, so that PIK transactions have no effect on total Federal expenditures.)

When measured using cyclical adjustments based on middle-expansion trend GNP, the Federal fiscal position moved from a deficit of $149 billion in the first quarter to a deficit of $170 billion in the second (see table 2 on page 9). The cyclically adjusted deficit as a percentage of middle-expansion trend GNP increased from 4.2 percent to 4.7 percent—a move toward a more expansionary fiscal position. (These estimates reflect last month's revisions in the NIPA's and updates in the middle-expansion trend GNP and unemployment rate series.)

The State and local sector.—The State and local government surplus, at $54 billion, was unchanged as receipts and expenditures each increased by the same amount. A small decline—the first since the fourth quarter of 1982—in the surplus of "other" funds was offset by a small increase in the surplus of the social insurance funds.

Receipts increased $10½ billion, compared with $14½ billion in the first quarter, when grants-in-aid and indirect business tax and nontax accruals recorded stronger increases. Indirect business taxes increased $4 billion in the second quarter; sales taxes and property taxes contributed $2 billion and $½ billion, respectively, to the increase. Personal tax and nontax receipts increased $3 billion, contributions for social insurance increased $1 billion, and corporate profits tax accruals were unchanged.

Expenditures also increased $10½ billion, compared with $12 billion in the first quarter. Purchases of goods and services accounted for all of the increase. Within purchases, compensation increased $4½ billion, construction increased $3 billion, and all other purchases increased $3 billion. The increase in construction was more than accounted for by highway construction; all other types of construction, on balance, declined slightly. In the first quarter, in contrast, highway construction had declined $½ billion and all other construction had increased $3 billion.

the BUSINESS SITUATION

INCREASES in economic activity and in prices slowed again in the third quarter, according to the "flash" GNP estimates. Real GNP increased at an annual rate of 3½ percent, down from increases of 10 percent in the first quarter and 7 percent in the second. The GNP fixed-weighted price index increased at an annual rate of 3½ percent, down from increases of 5 percent and 4½ percent, respectively (table 1).[1]

These estimates do not take into account the strike in the auto industry, which began September 15 at selected assembly plants. If the production stoppage due to the strike continues in the fourth week of September at roughly the same level as in the third week, the effect of the strike on the third-quarter change in real GNP will be quite small—a reduction of no more than 0.3 percentage point.

Although the decelerations in real GNP from the first quarter to the second and from the second to the third were roughly equal in size, the contributions of inventory investment and final sales were very different. The deceleration in the second quarter was in inventory investment. The effect on GNP was partly offset by an acceleration in final sales, from an increase of 3½ percent to one of 10½ percent. In contrast, in the third quarter, final sales decelerated to an increase of only 1 percent or less, and inventory investment provided a partial offset. In the three quarters, inventories accumulated, but the rate varied sharply. The variation in the increases in final sales centered in personal consumption expenditures (PCE), net exports, and the Commodity Credit Corporation portion of Federal Government purchases: The three components contributed about equally to the second-quarter acceleration; PCE accounted for about one-half of the third-quarter deceleration.

Third-quarter developments in these and other components of real GNP, in GNP prices, and in personal income are sketched below on the basis of data available through mid-September.

• PCE increased only fractionally after an unusually large increase—8 percent—in the second quarter. The deceleration was concentrated in goods and was spread across most major categories. Several categories declined—motor vehicle purchases after several quarters of increases, and purchases of clothing and shoes after a huge increase in the second quarter. Although some slowing of consumer spending would seem consistent with developments in real disposable income and interest rates, part of the sharp slowing seems to be an aftereffect of the unusually large second-quarter increase.

• Nonresidential fixed investment increased strongly, but at only about one-half the second-quarter rate of 21½ percent. The increase in structures moderated after three quarters of increases of 20 to 30 percent. As in the second quarter, commercial structures were strong; other major categories showed little change. In producers' durable equipment, the slowing was in motor vehicles. Both auto and truck purchases declined—trucks after a very strong second-quarter increase. As discussed in the article on the BEA plant and equipment expenditures survey, the strength of investment in recent quarters and the increase planned for the final quarter of 1984 are consistent with favorable

Table 1.—GNP and GNP Prices

[Levels at seasonally adjusted annual rates; percent changes at annual rates]

	1983	1984		
	IV	I	II[r]	III[*]
Current-dollar GNP (billions of dollars):				
Level	3,431.7	3,553.3	3,644.7	3,703.6
Percent change from preceding quarter	10.6	14.9	10.7	6.6
Real GNP (billions of 1972 dollars):				
Level	1,572.7	1,610.9	1,638.8	1,653.4
Percent change from preceding quarter	5.9	10.1	7.1	3.6
GNP fixed-weighted price index (index, 1972 = 100):				
Level	227.6	230.4	232.8	234.7
Percent change from preceding quarter	3.9	5.0	4.3	3.4
GNP implicit price deflator (index, 1972=100):				
Level	218.21	220.58	222.40	224.00
Percent change from preceding quarter	4.4	4.4	3.3	2.9

[r] Revised.
[*] Flash.

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates. Quarter-to-quarter percent changes are annualized. Real, or constant-dollar, estimates are expressed in 1972 dollars.

The procedures used to prepare the "flash" estimates—that is, estimates prepared 15 days before the end of the quarter—are the same as those used to prepare the estimates released after the end of the quarter. However, the source data that are available are limited to only 1 or 2 months of the quarter, and, in some cases, are preliminary. BEA makes projections of the missing source data. The major source data that are available are: For *personal consumption expenditures* (PCE), July and August retail sales, unit sales of new autos through the first 10 days of September, and sales of new trucks for July and August; for *nonresidential fixed investment,* the same data for autos and trucks as for PCE, July construction put in place, July manufacturers' shipments of equipment, and business investment plans for the quarter; for *residential investment,* July construction put in place, and July housing starts; for *change in business inventories,* July book values for manufacturing and trade, and unit auto inventories for July and August; for *net exports of goods and services,* July merchandise trade; for *government purchases of goods and services,* Federal unified budget outlays for July, State and local construction put in place for July, and State and local employment for July and August; and for *GNP prices,* the Consumer Price Index for July, and the Producer Price Index for July.

developments in a number of investment indicators.

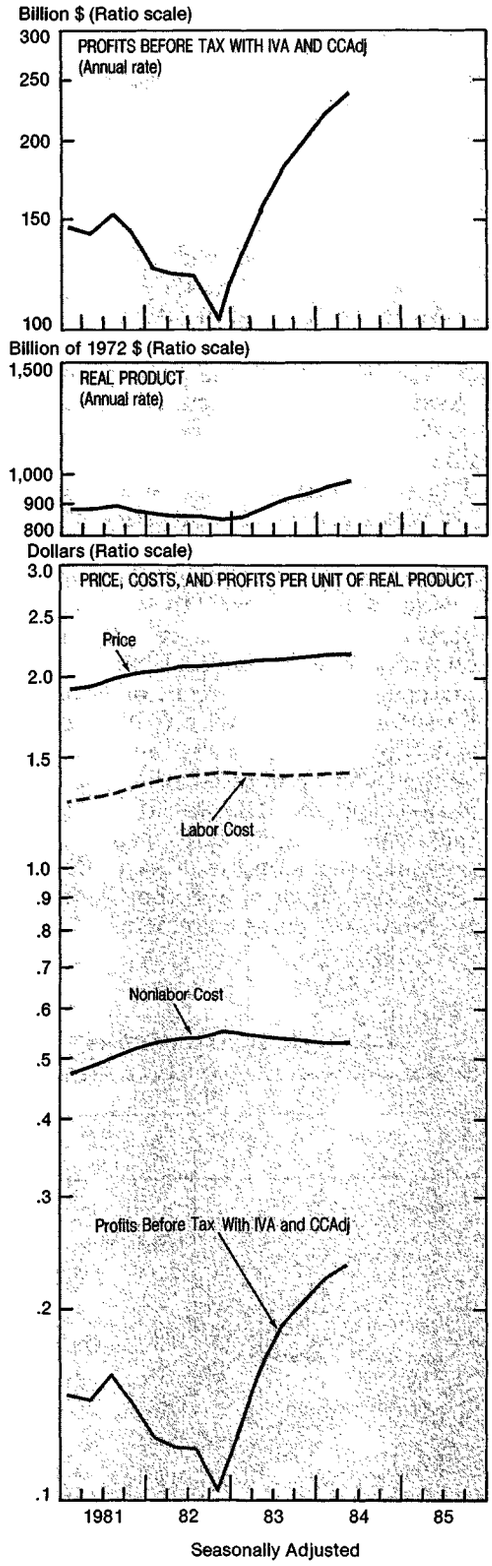
• Residential investment again changed little. In the second quarter, the major components of residential investment—single-family structures, multifamily structures, and "other" (largely additions and alterations, mobile homes, and commissions on house sales)—had been essentially flat. In the third quarter, construction of single-family structures slipped, but that of multifamily structures picked up. Although recent increases in mortgage interest rates and in house prices appear to have put a damper on residential investment, the availability of mortgage instruments other than the traditional fixed rate mortgage is widely credited with having been a sustaining factor. One of these mortgage instruments—the adjustable rate mortgage—is discussed later in the "Business Situation."

• Inventories accumulated at a substantial rate, more than the $20½ billion in the second quarter. Motor vehicle, farm, and other inventories all appear to have followed this pattern. Motor vehicle inventories—the part of inventories for which information about third-quarter developments is reasonably complete—were up, especially those of trucks; auto inventories had been down sharply in the second quarter. Only fragmentary information is available about farm inventories; it appears that accumulation was substantially more than the second-quarter rate of $1½ billion. Nonfarm inventories other than motor vehicles appear to have accumulated, perhaps somewhat more than the $22½ billion in the second quarter. Reflecting the additions to inventories over the last three quarters and the variability of the increases in final sales, inventory-sales ratios turned up in the first quarter, dropped back in the second, and increased again in the third, but only to a moderate level.

• For net exports, limited evidence suggests a decline substantially larger than the $3 billion decline in the second quarter. As discussed in the article reviewing international transactions, the merchandise trade balance had improved in the second quarter even though the fundamental factors encouraging imports and discouraging exports—dollar appreciation and faster economic expansion in the United States than abroad—were unchanged. In the third quarter, merchandise imports appear to have increased much more than merchandise exports.

CHART 1

Domestic Nonfinancial Corporate Business Profits; Real Product; and Price, Costs, and Profits per Unit of Real Product



NOTE.—Price per unit is current-dollar product divided by constant dollar (real) product. Costs and profits per unit are respective components of current-dollar product divided by constant-dollar product.

U.S. Department of Commerce, Bureau of Economic Analysis 83-9-1

• Government purchases increased, but much less than in the second quarter. In the second quarter, Commodity Credit Corporation operations, largely under the payment-in-kind (PIK) program, had accounted for about $9 billion of the $12½ billion increase. In the third quarter, when PIK was being wound down, these operations added only slightly to the increase. Other Federal purchases, mainly for defense, and State and local purchases, mainly for construction, increased roughly as much as in the second quarter.

• The GNP fixed-weighted price index increased 3½ percent, 1 percentage point less than in the second quarter. The continued deceleration was widespread; lower petroleum and petroleum product prices, which affected several components, were a major factor. Food prices, which had declined in the second quarter and had accounted for the deceleration in GNP prices, turned up in the third.

• Personal income increased about $60 billion, $4 billion less than in the second quarter. The increase in wage and salary disbursements was substantially smaller than the second-quarter increase of $37½ billion. Deceleration was apparent in all major private industry groups. In contrast, farm proprietors' income increased sharply after a $9 billion decline in the second quarter. In the second quarter, a falloff of Federal subsidy payments to farmers, largely due to the winding down of the PIK program, had subtracted about $15 billion from the change in farm income. In the third quarter, these subsidy payments changed little. Other components of farm income continued to register the effects of stepped-up production and, through the second quarter, increases in farm prices. The other major components of personal income registered increases about the same as, or a little smaller than, those in the second quarter.

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Personal taxes were up slightly more than in the second quarter, as were prices of PCE, so that the increase in real disposable income slowed further—down about 2 percentage points from the 6½ percent in the second quarter. The increase in personal outlays was less than that in disposable personal income, and personal saving increased. The saving rate was up about one-half percentage point from 5.7 percent in the second quarter.

Second-quarter corporate profits

Profits from current production—profits with inventory valuation and capital consumption adjustments—increased $14 billion in the second quarter, to $291 billion, following a $17½ billion increase in the first. The second-quarter estimate is $½ billion less than the preliminary one published a month ago. Profits from the rest of the world were revised down $5 billion, and domestic profits of financial corporations were revised down $1½ billion. These downward revisions were partly offset by an upward revision of $6 billion in domestic profits of nonfinancial corporations.

Profits from the rest of the world declined $4½ billion in the second quarter, to $21½ billion, following no change in the first quarter. The relatively weak economic recovery in European countries, a soft petroleum market, and strikes in Germany and the United Kingdom contributed to the lower earnings.

Profits of nonfinancial corporations accounted for nearly all of the $18 billion increase in domestic profits; financial corporations contributed only $½ billion. Domestic profits of nonfinancial corporations were up because domestic product increased substantially and unit prices rose more than the slight increase in unit costs (chart 1).

Profits before tax—profits without inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj)—increased $2½ billion in the second quarter, to $246 billion. They had increased $18 billion in the first quarter. Profits from current production were up more than profits before tax; the CCAdj was up $4½ billion and the IVA became less negative by $6 billion. The adjustments convert the costs of inventories and depreciation reported by businesses into those used in the national income and product accounts.

Corporate tax liability was up $3 billion, following an $8 billion increase in the first quarter. Dividends increased $2 billion, following a $2½ billion increase; undistributed profits decreased $2½ billion, following a $7½ billion increase.

Profits by industry.—Profits with the IVA but without the CCAdj—the variant of profits available by industry—increased $9 billion in the second quarter, following a $13½ billion increase in the first quarter. Domestic profits of financial corporations were unchanged. Domestic profits of nonfinancial corporations were up $13 billion, about the same as in the first quarter. The second-quarter increase more than offset the decline in profits from the rest of the world.

Trade profits contributed the most to the increase in domestic profits of nonfinancial corporations. Profits of both wholesalers and retailers increased; among retailers, profits of food retailers were up the most. Profits of manufacturers increased $2½ billion. An increase in profits of nondurable goods manufacturers more than offset a decline in profits of durable goods manufacturers. Petroleum profits contributed substantially to the increase in profits of nondurable goods manufacturers. The decline in profits of durable goods manufacturers resulted from a decline in motor vehicles profits. Profits of most other durable goods manufacturers improved.

Second-quarter NIPA revisions

The 75-day revisions of the national income and product accounts estimates for the second quarter of 1984 are shown in table 2.

Table 2.—Revisions in Selected Component Series of the NIPA's, Second Quarter of 1984

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	45-day estimate	75-day estimate	Revision	45-day estimate	75-day estimate
	Billions of current dollars				
GNP	**3,648.1**	**3,644.7**	**−3.4**	**11.1**	**10.7**
Personal consumption expenditures	2,329.5	2,332.7	3.2	9.6	10.2
Nonresidential fixed investment	422.1	420.8	−1.3	25.5	23.9
Residential investment	155.7	155.6	−.1	12.5	12.1
Change in business inventories	48.5	50.6	2.1	.....	.....
Net exports	−54.6	−58.7	−4.1	.....	.....
Government purchases	746.8	743.7	−3.1	26.3	24.3
National income	**2,943.0**	**2,944.8**	**1.8**	**10.0**	**10.3**
Compensation of employees	2,158.9	2,159.2	.3	8.9	9.0
Corporate profits with inventory valuation and capital consumption adjustments	291.4	291.1	−.3	21.8	21.2
Other	492.7	494.6	1.9	8.5	10.1
Personal income	**2,982.3**	**2,984.6**	**2.3**	**8.7**	**9.1**
	Billions of constant (1972) dollars				
GNP	**1,640.8**	**1,638.8**	**−2.0**	**7.6**	**7.1**
Personal consumption expenditures	1,063.1	1,064.2	1.1	7.5	7.9
Nonresidential fixed investment	203.5	202.9	−.5	22.8	21.3
Residential investment	60.9	60.8	−.1	1.7	1.2
Change in business inventories	19.7	20.3	.6	.....	.....
Net exports	−8.9	−11.4	−2.5	.....	.....
Government purchases	302.5	302.1	−.4	19.1	18.6
	Index numbers, 1972=100 [1]				
GNP implicit price deflator	222.33	222.40	.07	3.2	3.3
GNP fixed-weighted price index	232.8	232.8	0	4.2	4.3
GNP chain price index	.....	.....	.....	4.1	4.1

1. Not at annual rates.

NOTE.—For the second quarter of 1984, the following revised or additional major source data became available: for *personal consumption expenditures,* revised retail sales for June, consumer share of new car purchases for June, and consumption of electricity for June; for *nonresidential fixed investment,* revised manufacturers' shipments of equipment for June, revised construction put in place for June, and business share of new car purchases for June; for *residential investment,* revised construction put in place for June, and residential alterations and repairs for the quarter; for *change in business inventories,* revised book values for manufacturing and trade for June; for *net exports of goods and services,* revised merchandise trade and revised service receipts for the quarter; for *government purchases of goods and services,* revised construction put in place for June; for *wages and salaries,* revised employment, average hourly earnings, and average weekly hours for June; for *net interest,* financial assets held by households for the quarter, and revised net interest received from abroad for the quarter; for *corporate profits,* revised domestic book profits for the quarter, and revised profits from the rest of the world for the quarter; and for *GNP prices,* revised residential housing prices for the quarter.

Adjustable Rate Mortgages: Recent Developments

Adjustable rate mortgages (ARM's) now account for two-thirds of new conventional mortgage originations and for three-fourths of such originations by thrift institutions (savings and loan associations and savings banks). The use of ARM's is widely credited with giving considerable support to residential investment; moreover, ARM's have reduced the interest rate risk of mortgage lenders.[2] ARM's have not proven to be a cure-all for lenders, however; recent increases in interest rates have focused attention on the fact that decreased interest rate risk has been achieved only at the expense of increased credit risk.

Increased credit risk, in this context, means that a lender is more likely to have an ARM go into default than to have a fixed rate mortgage go into default. The reason is obvious: Payments on an ARM may increase to a level that the borrower cannot afford; payments (for principal and interest) on a fixed rate mortgage do not change.

"Credit risk" focuses attention on the problems that face ARM lenders. The same basic problem, when viewed from the standpoint of the borrower, is sometimes referred to as "payment shock." The problem, under one or both of its names, has been addressed by a number of industry experts in recent months.[3]

Most observers seem to agree that only a small percentage of ARM borrowers are likely to experience significant payment shock. For example, Federal Home Loan Bank Board Chairman Edwin J. Gray says that such borrowers "appear to account for a modest fraction of the total ARM market," and the U.S. League of Savings Institutions states: [4]

> . . . lenders are using a variety of features to insure that homeowners with adjustable rate mortgages do not face unwarranted dangers of so-called "payment shock." In 96.7 percent of the loans being made . . . there is either an annual interest rate cap or an annual payment cap to shield the borrower from excessive annual increases in monthly mortgage payment.

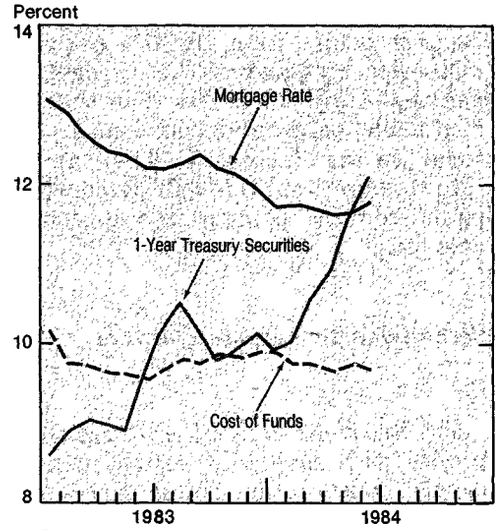
Nevertheless, even a relatively small share of unsound ARM's could lead to regulatory and legislative changes that have far-reaching effects on ARM's, the mortgage market, and thrift institutions. This discussion illustrates a case of payment shock, highlighting the importance of deep introductory discounts, which are then discussed in somewhat more detail.

Illustration of payment shock.—ARM's are generally offered at a "program" rate that is lower than the rate on fixed rate mortgages; this lower rate compensates the borrower for the risk of rate increases inherent in the ARM. Moreover, some ARM's are discounted for the first year or two of the mortgage. At the end of the introductory period, the discount expires and, in addition, the program rate is adjusted to an index rate. For purposes of illustration, consider a $60,000, 25-year ARM originated in May 1983 with a program rate of 12 percent, a 1-year introductory rate of 9 percent, and annual adjustments to the program rate linked to the rate on 1-year Treasury securities.

At the introductory rate (9 percent), monthly payments for principal and interest are $509. After 1 year, the rate goes up to its program rate (12 percent) with payments of $637, an increase of 25 percent. However, because the rate on 1-year Treasury securities went up 2.76 percentage points during the year, the mortgage rate is further adjusted to 14.76 percent. At 14.76 percent, monthly payments are $762, 50 percent above those in the first year.

CHART 2

Selected Adjustable Rate Mortgages Index Rates



Data: Federal Reserve Board, Federal Home Loan Bank Board.
U.S. Department of Commerce, Bureau of Economic Analysis 83-9-2

In most instances, interest rate caps or payment caps would limit actual increases to much smaller amounts. For example, payments would rise to only about $590 if there were an interest rate cap of 2 percentage points applicable to the introductory rate.[5] Some rate caps, however, apply to the program rate rather than the introductory rate, and some caps are considerably higher than 2 percentage points. A rate cap of 2 percentage points applied to the program rate in the example, or a cap of 5 percentage points applied to the introductory rate, would not limit the increase much. Thus, the mere existence of caps does not mean that payment shock will be avoided.

This illustration makes clear that two distinct elements can contribute to payment shock: elimination of the introductory discount, and adjustment of the program rate. In some cases, adjustment of the nondiscounted rate will be minor.

2. Adjustable rate mortgages and interest rate risk are discussed in a number of articles. See, for example, Daniel J. Larkins, "Recent Developments in Mortgage Markets," SURVEY OF CURRENT BUSINESS 62 (February 1982): 32-35.

3. See, for example, Edwin J. Gray, "The Adjustable Rate Mortgage—Key to Thrift Industry Survival," Remarks prepared for delivery to the Annual Meeting of The National Council of Savings Institutions (Baltimore, Maryland: May 14, 1984); National Council of Savings Institutions, *Economic Update*, May 30, 1984, p. 5; Jane Bryant Quinn, "Escalating the ARM's Race," *Newsweek*, March 12, 1984, p. 64; and U.S. League of Savings Institutions, *ARMs: A Study of Adjustable Rate Mortgages Being Made at Savings Institutions* (Chicago, Illinois, August 1984.)

4. Gray, "The Adjustable Rate Mortgage," p. 12, and U.S. League of Savings Institutions, *ARMs*, p. 8.

5. The example refers to annual interest rate caps. "Lifetime" rate caps, which restrict cumulative mortgage rate increases over the life of the loan, are also available on many ARM's. Payment caps could also limit the increase and prevent payment shock. Payment caps appear to be somewhat less common than interest rate caps, however. In any event, payment caps can lead to negative amortization (i.e., additions to the principal of the mortgage), which, in turn, can erode homeowners' equity and thereby increase the probability of default.

Chart 2 shows three of the most popular ARM index rates: the rate on 1-year Treasury securities, the Federal Home Loan Bank Board's average mortgage rate, and the Bank Board's median cost of funds ratio. The difference between these rates is striking. From May 1983 to May 1984, for example, the Treasury rate increased 2.76 percentage points, while the average mortgage rate fell 0.73 percentage point, and the cost of funds ratio was virtually unchanged. ARM's linked to the last two indexes obviously would not have confronted borrowers with payment shock. Thus, only the fraction of ARM borrowers with mortgages linked to a rate that increased substantially, like the rate on 1-year Treasury securities, face potential payment shock. Many of these borrowers, presumably, are protected by rate or payment caps. If there are no other complicating factors, then the vast majority of borrowers would probably be able to budget the monthly payment resulting from adjusting the program rate. Expiration of a deep introductory discount, in contrast, may be sufficient in itself to produce payment shock.

Introductory discount.—The Federal Home Loan Mortgage Corporation (FHLMC) surveyed adjustable rate mortgages made during the first half of 1983 by a randomly selected sample of savings and loan associations and found that about one-third of these mortgages carried discounts.[6] The average introductory discount ranged from 0.76 percentage point for uncapped ARM's indexed to 1-year Treasury securities to 1.73 percentage points for capped ARM's indexed to the Bank Board's mortgage interest rate series. No information is available on the dispersion of initial discounts around these averages. In any event, the use of *deep* initial discounts appears to have become significant during the second half of the year and, thus, would not be reflected in the sample.[7]

The deeper the discount, of course, the larger the increase in payments when the discount expires, and the greater the probability of payment shock. The probability of payment shock is increased further if the introductory rate, rather than the program rate, was used in deciding whether a borrower was qualified for the mortgage.

When a mortgage is applied for, the borrower's income is the prime determinant of whether he or she will qualify for the loan. The test of whether a borrower qualifies or not is—in oversimplified outline—whether mortgage payments would constitute more than a certain fraction of the borrower's income. If the introductory rate is used to calculate payments in this test, more borrowers can qualify. When the discount expires, however, monthly payments could well increase to a level that, according to the lending criterion, the borrower is not qualified to handle.

Considering the mortgage used in the earlier example, annual payments amount to $6,108 at the introductory rate of 9 percent and $7,644 at the program rate of 12 percent. If the lender uses a one-fourth ratio of mortgage payment to income to determine qualification, income must be at least $24,432 or $30,576, respectively. If the introductory rate is used, a borrower who barely qualifies will be taking on a mortgage that, after the first year, the borrower is not qualified for.

Most borrowers and lenders may be expected to avoid a mortgage that the borrower is technically qualified for if they realize that the borrower's obligation may soon reach unmanageable proportions. The borrower's self-discipline is undermined, however, if the potential magnitude of his or her obligation is not clear. In fact, confusion on the part of borrowers about future rate and payment changes seems to be not uncommon.[8] A lender's motive for entering into such a mortgage can only be surmised. (To repeat, the number of lenders doing so, although unknown, is assumed to be small.) Perhaps the lender is in an area where competition for mortgages is particularly intense. Perhaps, too, the lender's portfolio is heavily weighted with old, low-yielding loans and a rapid buildup of ARM's is seen as the only route to profitability. Finally, the lender is aware that some of the risk can be passed along to mortgage insurers. (Some large mortgage insurers have recently raised premiums on ARM's to compensate themselves for their increased risk.)

Clearly, behavior on the part of borrowers and lenders such as just described could lead to increased mortgage delinquency and default. As was suggested earlier, if payment shock does cause a significant increase in defaults, then—even though the absolute number of defaulted loans may be small—pressure may build to constrain or even eliminate ARM's.

6. Kent W. Colton and Michael J. Lea, "ARMs and the Secondary Markets: The Next Boom?" *Secondary Mortgage Markets*, p. 6.

7. Gray, "The Adjustable Rate Mortgage," p. 12.

8. Gray, "The Adjustable Rate Mortgage," p. 14.

the BUSINESS SITUATION

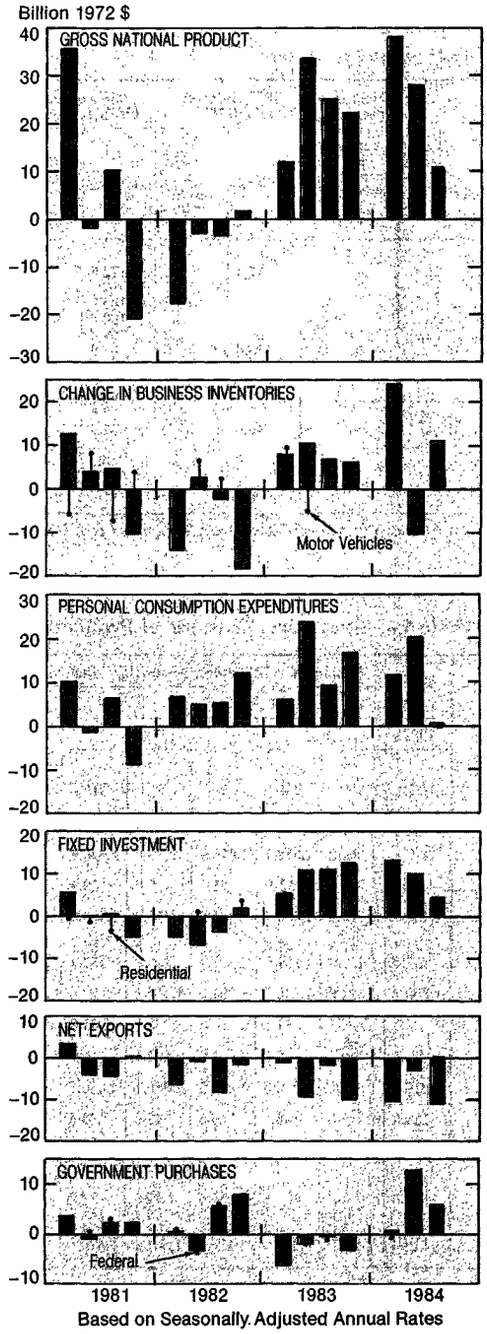
REAL GNP increased at an annual rate of 2½ percent in the third quarter, marking the eighth consecutive quarter of increase.[1] This increase—1 percentage point less than that reported a month ago in the "flash" estimate—followed increases of 7 percent and 10 percent in the second and first quarters, respectively (table 1). Over the two quarters of progressive deceleration, final sales and business inventory investment each shifted sharply but in opposite directions. In the second quarter, final sales accelerated from an increase of 3½ percent to one of 10½ percent, but were more than offset in their effect on GNP by inventories. In the third quarter, final sales slowed to a standstill, and were only partly offset in their effect on GNP by inventories. Within final sales, all components except residential investment contributed to the third-quarter deceleration; personal consumption expenditures (PCE) accounted for about one-half (chart 1).

1. Quarterly estimates in the national income and product accounts are expresed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates. Quarter-to-quarter percent changes are compounded to annual rates. Real, or constant-dollar, estimates are expressed in 1972 dollars.

The third-quarter GNP estimates are based on the following major source data: For *personal consumption expenditures* (PCE), retail sales, and unit auto and truck sales through September; for *nonresidential fixed investment,* the same information for autos and trucks as for PCE, July and August construction put in place, July and August manufacturers' shipments of machinery and equipment, and investment plans for the quarter; for *residential investment,* July and August construction put in place, and July and August housing starts; for *change in business inventories,* July and August book values for manufacturing and trade, and unit auto inventories through September; for *net exports of goods and services,* July and August merchandise trade, and fragmentary information on investment income for the quarter; for *government purchases of goods and services,* Federal unified budget outlays for July and August, and State and local employment through September; and for *GNP prices,* the Consumer Price Index for July and August, the Producer Price Index for July and August, and unit-value indexes for exports and imports for July and August. Some of the source data are subject to revision.

CHART 1

Real Product: Change From Preceding Quarter



U.S. Department of Commerce, Bureau of Economic Analysis 84-10-1

Over the eight quarters since the trough in real GNP in the third quarter of 1982, real GNP increased at an

Table 1.—Real GNP: Change From Preceding Quarter

[Percent change at annual rates]

	1983		1984	
	IV	I	II	III
GNP	5.9	10.1	7.1	2.7
Final sales	4.2	3.6	10.3	0
Personal consumption expenditures	6.8	4.6	7.9	−.2
Durables	20.5	16.3	12.0	−3.6
Motor vehicles and parts	26.8	17.9	10.8	−4.9
Furniture and household equipment	17.5	14.7	14.1	−2.0
Other durables	12.1	16.0	9.7	−4.0
Nondurables	5.0	4.1	10.3	−.5
Food	.5	−3.1	8.5	4.3
Energy [1]	2.0	9.0	−1.3	2.6
Clothing and shoes	18.6	13.1	22.1	−12.0
Other nondurable	2.8	11.2	5.4	2.0
Services	3.8	1.2	4.6	2.1
Energy [2]	−5.7	−8.4	13.4	−8.9
Other services	4.4	1.7	4.1	2.8
Gross private domestic fixed investment	23.5	20.8	16.2	6.8
Nonresidential	30.6	20.6	21.3	8.0
Structures	28.5	23.2	21.3	1.8
Producers' durable equipment	31.4	19.6	21.2	10.5
Autos and trucks	56.8	53.2	42.7	−10.6
Other	26.4	12.8	16.4	16.5
Residential	4.0	21.3	1.2	3.0
Net exports of goods and services	.....	.....	.....	.....
Exports	−1.5	11.4	−.5	15.8
Merchandise	3.9	15.3	−.4	9.2
Agricultural	−.1	19.5	−38.3	10.4
Nonagricultural	5.0	14.2	12.1	8.9
Other	−7.7	6.7	−.5	24.6
Imports	32.3	47.1	8.0	49.9
Merchandise	39.2	71.4	−5.6	58.9
Petroleum	−35.1	−10.5	31.1	13.1
Nonpetroleum	46.0	77.3	−7.2	61.6
Other	17.5	−.4	53.1	29.7
Government purchases of goods and services	−4.3	1.0	18.6	8.6
Federal	−8.7	−2.8	45.2	14.4
National defense	9.2	3.4	12.2	7.2
Nondefense	−46.3	−21.1	217.5	35.2
Commodity Credit Corporation	.....	.....	.....	.....
Other	3.1	−.1	−4.9	5.5
State and local	−1.4	3.5	3.7	4.8
Change in business inventories	.....	.....	.....	.....

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

NOTE.—Percent changes in major aggregates are found in the National Income and Product Accounts Tables, table 8.1. Dollar levels are found in tables 1.2, 1.15, 1.17, 3.8B, and 4.4.

annual rate of 5½ percent (table 2). (This period is hereafter referred to as recovery, even though real GNP surpassed its previous peak, and thus moved into expansion, in the second quarter of 1983.) This rate of increase is about the same as that for the median of the seven preceding recoveries and for the 1975–77 recovery. The 1975–77 recovery is singled out because it followed a recession similar in depth and duration to the one preceding the current recovery. The rate of increase in final sales was also about the same in the current recovery as in the median of the seven preceding and 1975–77 recoveries. Thus, inventory investment contributed about as much to the increase in GNP in the current recovery as in the median and 1975–77 recoveries.

Within final sales, the positive and negative contributions of fixed investment and net exports, respectively, stand out. The rates of increase in fixed investment, and in its nonresidential and residential components, were much higher in the current recovery than in the median of recoveries—indeed, they were highest among all seven preceding recoveries. Net exports reflected a much higher rate of increase in imports—more than twice as strong as in the median and, in fact, strongest among all seven preceding recoveries—and a lower rate of increase in exports. (Developments over the current recovery in fixed investment and in net exports are highlighted in the section on real GNP that follows.) The rate of increase in PCE in the current recovery was somewhat more than in the median, but somewhat less than in 1975–77, and the rate of increase in government purchases was higher than in the median and 1975–77 recoveries.

Table 3 shows an alternative breakdown of GNP, which sheds light on developments in the various sectors. As is typical of most recoveries, the business sector, and its nonfarm and nonfarm less housing subsectors, increased more than GNP, at annual rates of 6½ to 7 percent. However, the amount by which these rates of increase exceeded the rate of increase in GNP was somewhat larger in the current recovery than in the median of earlier recoveries. Thus, the nonbusiness sectors contributed less to GNP growth than is typical. Rest-of-the-world product declined. Product originating in government—that is, the compensation of government employees—showed only a very small in-

Table 2.—Change in Real Product Over First Eight Quarters of Recovery

[Based on billions of 1972 dollars, seasonally adjusted annual rates]

	Median of preceding seven recoveries [1]	1975 Recovery 1975:I–1977:I		1983 Recovery 1982:III–1984:III	
	Percent at annual rate	Dollars	Percent at annual rate	Dollars	Percent at annual rate
GNP	5.5	137.0	5.5	172.5	5.7
Final sales	4.3	112.2	4.5	135.0	4.5
Personal consumption expenditures	4.4	88.4	5.6	100.4	5.1
Fixed investment	5.7	31.1	9.3	67.3	15.6
Nonresidential	5.6	13.8	5.6	42.9	12.3
Residential	8.1	17.3	20.0	24.4	29.0
Net exports		−9.8		−48.4	
Exports	6.3	7.0	3.3	3.6	1.2
Imports	8.8	16.8	11.0	51.9	19.6
Government	.5	2.6	.5	15.6	2.6
Change in business inventories		24.8		37.6	

1. Median value of preceding seven recoveries. The eight quarters of recovery are calculated from troughs in real GNP—1949:IV, 1954:II, 1958:I, 1960:IV, 1970:IV, 1975:I, and 1980:II.

Table 3.—Alternative Measures of Production

	Billions of 1972 dollars, seasonally adjusted annual rates										Percent change from preceding quarter at annual rate				Change: 1982:III–1984:III	
	Level						Change from preceding quarter									
	1982	1983		1984			1983	1984			1983	1984			Dollars	Percent at annual rate
	III	III	IV	I	II	III	IV	I	II	III	IV	I	II	III		
Gross national product	1,477.1	1,550.2	1,572.7	1,610.9	1,638.8	1,649.6	22.5	38.2	27.9	10.8	5.9	10.1	7.1	2.7	172.5	5.7
Less: Rest-of-the-World	23.1	24.0	21.9	21.6	19.0	19.9	−2.1	−.3	−2.6	.9	−30.7	−5.4	−40.1	20.3	−3.2	−7.2
Gross domestic product	1,453.9	1,526.2	1,550.7	1,589.2	1,619.8	1,629.8	24.5	38.5	30.6	10.0	6.6	10.3	7.9	2.5	175.9	5.9
Less: Households and institutions	46.8	47.3	47.5	47.6	47.9	47.7	.2	.1	.3	−.2	1.7	.8	2.5	−1.7	.9	1.0
Government	156.4	157.0	157.5	157.7	157.8	157.9	.5	.2	.1	.1	1.3	.5	.3	.3	1.5	.5
Business product	1,250.7	1,321.9	1,345.7	1,384.0	1,414.1	1,424.2	23.8	38.3	30.1	10.1	7.4	11.9	9.0	2.9	173.5	6.7
Less: Farm	35.1	34.8	31.6	35.6	38.1	41.9	−3.2	4.0	2.5	3.8	−32.0	61.1	31.2	46.3	6.8	9.3
Residual [1]	−.5	−2.3	−2.2	1.0	−4.1	−4.1	.1	3.2	−5.1	0					−3.6	
Nonfarm business product	1,216.1	1,289.3	1,316.3	1,347.5	1,380.1	1,386.3	27.0	31.2	32.6	6.2	8.6	9.8	10.0	1.8	170.2	6.8
Less: Housing	139.6	143.8	145.1	146.5	148.0	149.6	1.3	1.4	1.5	1.6	3.7	3.9	4.2	4.4	10.0	3.5
Nonfarm business product less housing	1,076.5	1,145.6	1,171.2	1,200.9	1,232.1	1,236.7	25.6	29.7	31.2	4.6	9.2	10.5	10.8	1.5	160.2	7.2
Addenda:																
Motor vehicle output	57.5	71.2	75.4	84.6	76.9	79.2	4.2	9.2	−7.7	2.3	25.8	58.5	−31.7	12.5	21.7	17.4
Auto	43.5	53.9	55.1	62.5	54.4	54.4	1.2	7.4	−8.1	0	9.2	65.5	−42.6	0	10.9	11.8
Truck	14.0	17.3	20.3	22.1	22.5	24.8	3.0	1.8	.4	2.3	89.6	40.5	7.4	47.6	10.8	33.1
GNP less motor vehicle output	1,419.6	1,479.0	1,497.3	1,526.3	1,561.9	1,570.4	18.3	29.0	35.6	8.5	5.0	8.0	9.7	2.2	150.8	5.2

1. The residual is the constant-dollar equivalent of the statistical discrepancy. For the third quarter of 1984, it is not yet available; it is assumed in this table to be same as in the second quarter of 1984.

NOTE.—Most dollar levels are found in the National Income and Product Accounts Tables, table 1.6, and most percent changes are found in table 8.1.

crease, as Federal, State, and local governments held down employment. At an annual rate of only 1 percent, the increase in product originating in households and institutions, was below its trend rate.

Motor vehicle output, which is the value of new autos and trucks produced plus the margin on the sale of used autos by business, is shown in the addenda to table 3. It increased at an annual rate of 17½ percent in the current recovery. The recovery covers roughly the same period as model years 1983 and 1984, which—as described in the article on motor vehicles later in this issue—showed strong increases in both auto and truck production.

Prices.—Inflation continued moderate. The GNP fixed-weighted price index increased 4 percent in the third quarter, following increases of 4½ percent and 5 percent in the second and first quarters, respectively (table 4). The third-quarter rate was about the same as the average annual rate of the 2 years of recovery. Inflation had averaged about 2 percentage points more in the 1975–77 recovery.

In the current recovery, the prices of most of the items shown in the table registered increases within a few percentage points of the increase in GNP prices: PCE prices increased at about the same rate, prices of fixed investment increased somewhat less, and those paid by government increased somewhat more. Import prices were the only prices that declined over the period; the decline partly reflected the appreciation of the dollar against most foreign currencies.

Productivity and costs.—Table 5 shows changes in real gross product, aggregate hours, and compensation in the business economy other than farm and housing. Productivity, as measured by real product per hour, was flat in the third quarter, following increases in recent quarters. The slowing from a 5½-percent increase in the second quarter reflected sharper deceleration in real product than in aggregate hours.

Over the 2 years of recovery, productivity, which typically increases during recoveries, increased at an annual rate of 3½ percent—the strongest sustained growth since the 1975–77 recovery. Real product increased 7 percent; aggregate hours increased 3½ percent, reflecting increases in employment and average weekly hours. Productivity had increased faster during the 1975–77 recovery, when aggregate hours grew at a much slower rate than in the current recovery.

Unit labor cost increased 4 percent—more than in recent quarters. However, the average increase for the 2 years of recovery—1 percent at an annual rate—was by far the lowest sustained rate in a decade, and contributed substantially to the low rate of inflation in final product prices. In the 1975–77 recovery, unit labor cost had increased at an annual rate of about 4 percent; compensation had increased more, and real product less, than in the current recovery.

Employment and unemployment.—The civilian unemployment rate was unchanged at 7.5 percent in the third quarter, following declines of 0.4 and 0.6 percentage points in the second and first quarters, respectively. The third-quarter unemployment rate was about the same as that prior to the recessionary runup in 1981–82 (chart 2). The decline in the unemployment rate in the current recovery—whether measured as 2.5 percentage points from the third-quarter 1982 trough in real GNP or as 3.1 points from the fourth-quarter 1982 peak in unemployment—was more than double the decline in the 1975–77 recovery.

Employment gains in the third quarter, as measured by both the household and the establishment surveys, were smaller than those in recent quarters. Over the 2 years of the current recovery, employment increased at an annual rate of 3 per-

Table 5.—Real Gross Product, Hours, and Compensation in the Nonfarm Business Economy Less Housing

[Percent change at annual rates; based on seasonally adjusted estimates]

	Change from preceding quarter				Change: 1982:III–1984:III
	1983	1984			
	IV	I	II	III	
Real gross product	9.3	10.5	10.8	1.5	7.2
Hours	8.2	6.6	4.8	1.7	8.3
Compensation	12.5	13.7	8.7	5.3	3.7
Real gross product per hour	1.0	3.7	5.7	−.2	3.3
Compensation per hour	3.9	6.7	3.7	3.6	4.4
Unit labor cost	2.9	2.9	−1.9	3.8	1.0

Table 4.—Fixed-Weighted Price Indexes

[Percent change at annual rates; based on index numbers (1972=100), seasonally adjusted]

	Change from preceding quarter				Change: 1982:III–1984:III
	1983	1984			
	IV	I	II	III	
GNP	3.9	5.0	4.3	3.8	4.2
Less: Change in business inventories					
Equals: Final sales	3.9	5.0	4.3	3.8	4.2
Less: Exports	6.1	2.7	4.5	−.9	2.5
Plus: Imports	−.9	2.3	2.3	−2.0	−.9
Equals: Final Sales to domestic purchasers	**3.3**	**4.9**	**4.1**	**3.7**	**3.9**
Personal consumption expenditures	3.4	4.9	3.1	4.0	3.8
Food	4.4	12.3	−1.7	3.1	3.0
Energy	−1.8	−2.0	2.7	−1.6	.1
Other personal consumption expenditures	4.0	3.8	4.7	5.2	4.7
Other	3.1	5.1	5.7	3.1	3.9
Nonresidential structures	1.3	2.3	5.0	1.3	1.7
Producers' durable equipment	1.2	2.0	1.8	3.2	2.0
Residential	−.6	1.7	11.6	−.3	2.8
Government purchases	4.9	7.3	5.4	4.3	5.3
Addenda:					
Food and energy components of GNP:[1]					
Food components [2]	5.7	12.1	−2.1	2.1	3.1
Energy components [3]	−2.7	−2.6	2.8	0	1.4
GNP less food components	3.6	4.0	5.2	4.1	4.4
GNP less energy components	4.3	5.5	4.3	4.0	4.4
GNP less food and energy components	4.1	4.5	5.4	4.4	4.6

1. Inasmuch as GNP is the sum of final products, the food and energy estimates in this table do not take into account the effect on the prices of final products of changes in the prices of the food and energy that are costs of production.
2. Consists of all components for which separate estimates are prepared. The major component that is not included is purchases of food by the Federal Government other than transactions by the Commodity Credit Corporation that are treated like purchases.
3. Consists of all components for which separate estimates are prepared. The major components that are not include are (1) exports of energy; (2) the gasoline and motor oil portions of inventories of gasoline service stations, and (3) the energy portions of inventories of businesses that do not produce energy for sale.

NOTE.—Most index number levels are found in the National Income and Product Accounts Tables, table 7.2.

cent—about the same as in the 1975–77 recovery.

Average weekly hours for private nonfarm production workers declined slightly in the third quarter. This decline was the first since the fourth quarter of 1982. Over the 2 years, hours increased 0.4 to 35.2; the increase was much stronger than that in the 1975–77 recovery.

Real GNP

The third-quarter deceleration in real GNP was in all major components of final sales except residential investment. PCE changed little, after an unusually large increase in the second quarter; net exports declined much more than in the second quarter; and nonresidential fixed investment and government purchases were up much less. Residential investment registered little change in both quarters. In contrast with final sales, change in business inventories—that is, inventory investment—was up sharply in the third quarter, following a sharp decline in the second.

Personal consumption expenditures

Real PCE changed little in the third quarter, after an increase of 8 percent in the second. Several factors may have led to the third-quarter flattening in PCE, to which all three of its major components contributed. Real disposable personal income decelerated sharply in both the second and third quarters, and consumer confidence—as measured, for example, by the Conference Board's consumer confidence index—slipped in the third quarter. Both had increased during 1983 and the early part of 1984. Also, to some extent, the flattening may have been an aftereffect of the unusually large second-quarter increase.

Expenditures for durable goods declined 3½ percent in the third quarter, after very strong—but decelerating—increases in each of the preceding three quarters. The decline was spread across all major categories: motor vehicles, furniture and household equipment, and other durable goods.

A sharp falloff in expenditures for nondurable goods accounted for about one-half the slowdown in total PCE. Expenditures for nondurables were down slightly in the third quarter, following an increase of 10½ percent. A decline in purchases of clothing and shoes, which had registered a large increase in the second quarter, accounted for most of the swing. Food, energy, and other nondurables all increased moderately in the third quarter.

Expenditures for services increased 2 percent, following an increase of 4½ percent in the second quarter. Purchases of electricity and gas, which had surged in the second quarter, declined in the third. The decline reflected mild summer weather in many parts of the country. A slowdown in foreign travel by U.S. residents and a pickup in travel in the United States by foreigners also contributed to the deceleration in services.

Nonresidential fixed investment

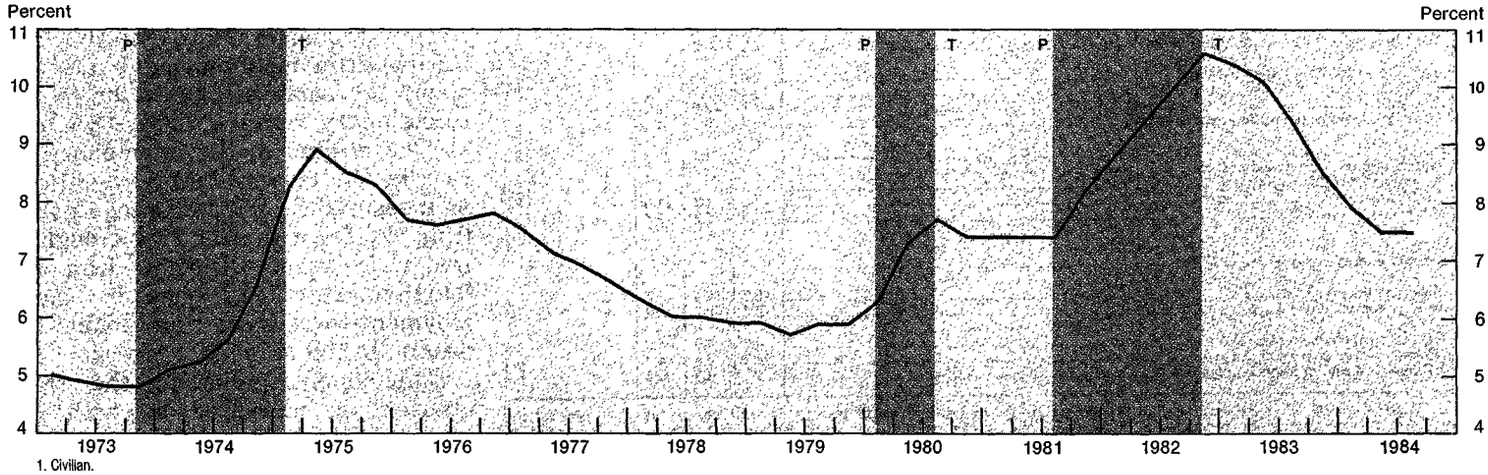
Real nonresidential fixed investment increased 8 percent in the third quarter, following an increase of 21 percent in the second. Producers' durable equipment (PDE) and structures, which had both increased 21 percent in the second quarter, increased 10½ percent and 2 percent, respectively, in the third.

The third-quarter slowdown in PDE was in motor vehicles; other PDE registered another sharp increase. Despite a third-quarter drop, motor vehicles contributed substantially to the strength in PDE over most of the recovery (table 6). Since the GNP trough, motor vehicles—which had amounted to 15 percent of PDE at the trough—accounted for one-third of the increase in PDE. Another one-third of the increase was accounted for by office, computing, and accounting machinery; this category, which consists mainly of computers, had amounted to 25 percent of PDE at the trough.

Most of the sharp third-quarter slowdown in structures was in commercial buildings, which increased slightly, following a 57-percent increase in the second quarter. This component also dominated structures over most of the recovery. Since the

CHART 2

Unemployment Rate [1]



1. Civilian.

NOTE.—Business cycle peaks (P), and troughs (T), are turning points in economic activity, as designated by the National Bureau of Economic Research, Inc. Shaded areas represent recessions.

Data: BLS.

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

GNP trough, commercial buildings—which amounted to 32 percent of structures at the trough—accounted for most of the increase in structures.

Over the first eight quarters of recovery, nonresidential investment and its PDE component both increased at rates substantially higher than those in all seven preceding recoveries. The rate of growth of structures was higher than in all but two.

Investment was especially strong during the second four quarters of the current recovery. PDE grew almost twice as fast during the second four quarters as during the first four. Structures turned around from an 8-percent decline in the first four quarters, to an 18-percent increase in the second four.

Many factors contributed to the surge in investment over the eight quarters. Some of the major ones may be identified, although it would be difficult to determine their relative importance. After-tax corporate profits and the net cash flow of corporations, both in constant dollars, increased rapidly. (The Economic Recovery Tax Act of 1981, which shortened service lives for many types of capital, contributed to improved cash flow.) Yields on corporate bonds—despite erratic upward movement during much of the recovery—averaged several percentage points lower than during the preceding recession. Appreciation of the dollar against major foreign currencies reduced the price of imported capital equipment. Capital stocks had increased very slowly in the 2 years prior to the recovery, and, as a result, pent-up demand for modernization may have developed. Further, the rate of capacity utilization in manufacturing increased rapidly and, although it remained below previous peaks, may have triggered spending for additional capacity.

Residential investment

Real residential investment increased 3 percent in the third quarter, following an even smaller increase in the second. Multifamily construction more than accounted for the third-quarter increase; single-family construction fell, and the "other" component (which includes additions and alterations, sales of new mobile homes, and brokers' commissions on sales of new and existing residences) changed little.

Over the eight quarters of recovery, residential investment increased faster than it had in the seven earlier recoveries. Single-family and multifamily construction both increased at annual rates of about 40 percent, and both decelerated significantly in the second four quarters of the recovery (table 6). Construction of single-family units increased much faster than construction of multifamily units in the first four quarters, and accounted for about two-thirds of the increase in residential investment. In the second four quarters, the reverse was true, as multifamily construction accounted for about four-fifths of the (much smaller) increase in residential investment.

Financial conditions played an important role in the growth of residential investment in the recovery. Interest rates fell early in the recovery (chart 3). From more than 16 percent

Table 6.—Fixed Investment: Change Over Quarters of Recovery

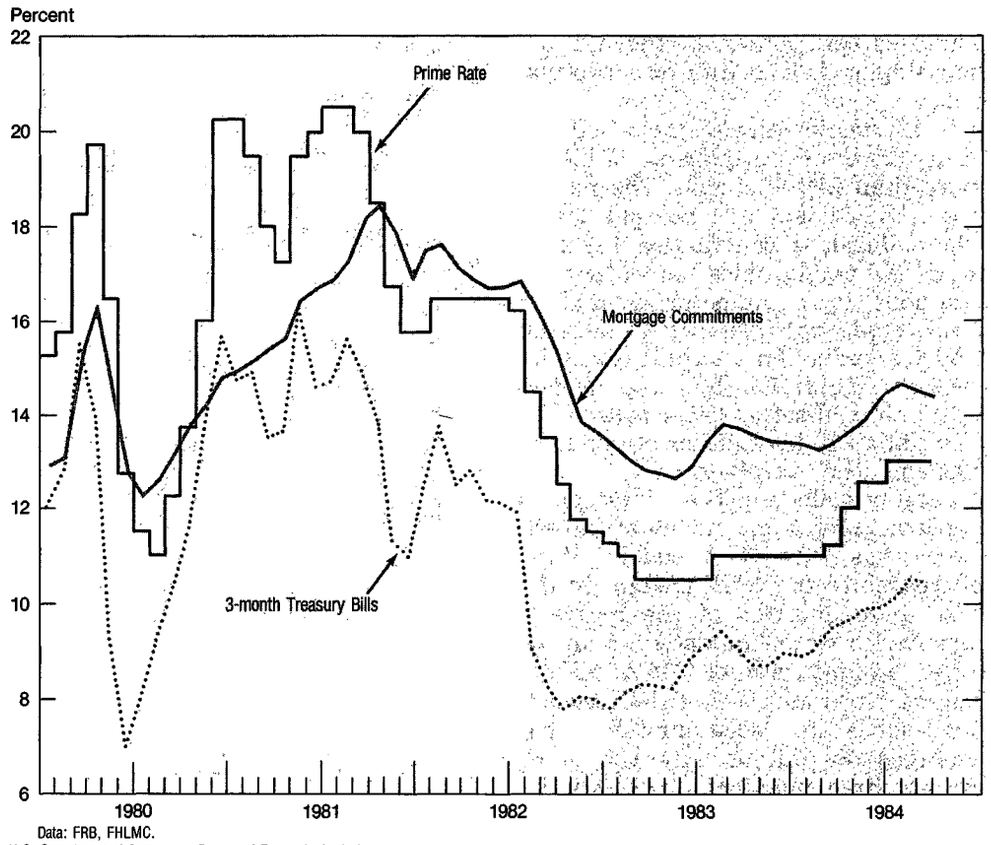
[Based on billions of 1972 dollars, seasonally adjusted at annual rates]

	1982:III–1983:III	1983:III–1984:III	1982:III–1984:III
	Dollars		
Nonresidential fixed investment	8.7	34.2	42.9
Producers' durable equipment	12.9	25.4	38.3
Autos and trucks	5.2	7.1	12.3
Other	7.6	18.3	25.9
Structures	−4.2	8.8	4.6
Commercial	−.9	4.9	4.1
Other	−3.3	3.9	.6
Residential fixed investment	20.4	4.0	24.4
Single family units	12.7	.5	13.3
Multifamily units	3.3	3.2	6.5
Other	4.3	.3	4.7
	Percent at annual rate		
Nonresidential fixed investment	5.3	19.8	12.3
Producers' durable equipment	11.5	20.5	15.9
Autos and trucks	31.1	32.3	31.7
Other	8.1	17.9	12.9
Structures	−8.0	18.3	4.3
Commercial	−5.2	31.4	11.6
Other	−9.2	11.9	.8
Residential fixed investment	55.4	7.1	29.0
Single family units	89.0	1.9	38.8
Multifamily units	49.6	31.8	40.4
Other	27.4	1.7	13.8

NOTE.—Dollar levels of nonresidential fixed investment, producers' durable equipment, structures, and residential investment are found in the National Income and Product Account Tables, table 1.2; percent changes are found in table 8.1

CHART 3

Selected Interest Rates



Data: FRB, FHLMC.
U.S. Department of Commerce, Bureau of Economic Analysis

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at the GNP trough, the mortgage commitment rate fell to less than 13 percent three quarters later, before increasing about 1 percentage point in the third quarter of 1983. The slower growth of residential investment over the second four quarters of the recovery was associated with mortgage commitment rates that hovered in the neighborhood of 13½ percent until mid-1984, when they increased to 14½ percent.

The introduction of money market deposit accounts in December 1982 helped depository institutions attract funds for mortgage loans during the recovery. A steadily increasing share of these loans was written with adjustable rate provisions, which are widely credited with giving considerable support to residential investment. Adjustable rate mortgages, which had accounted for 44 percent of conventional mortgage loans closed in the third quarter of 1982, accounted for 67 percent in the third quarter of 1984.

Change in business inventories

Real business inventories increased $31 billion in the third quarter, after increasing $20½ billion in the second (table 7). Both farm and nonfarm inventories contributed to the $11 billion step-up in the rate of accumulation.

Nonfarm inventories increased $27 billion in the third quarter, $8 billion more than in the second. The pickup was most evident in wholesale trade, where durables contributed twice as much as nondurables. Inventory investment in manufacturing and in retail trade changed little. In retail trade, a reduction in the rate of inventory liquidation by auto dealers was largely offset by lower rates of accumulation in inventories of nondurables and other durables.

Largely reflecting the course of its nonfarm component, inventory investment has passed through three phases, since the GNP trough. In the first three quarters of the recovery, inventories were liquidated at an average annual rate of $15½ billion. The next two quarters of the recovery saw moderate accumulation that averaged $4 billion. In the most recent three quarters, inventory investment increased significantly, averaging $27½ billion.

Farm inventory investment followed a different course. Farm inventories were reduced substantially in each of the first four quarters after the GNP trough, as farmers used inventories to supplement production, which fell as a result of drought and Federal acreage reduction programs. In the most recent four quarters, farm inventories increased erratically; in the fourth quarter of 1983 and the first quarter of 1984, they were boosted substantially by transfers of crops from the Commodity Credit Corporation (CCC) to farmers under the payment-in-kind (PIK) program.

In the first three quarters of recovery, large inventory liquidation, combined with a moderate increase in final sales, led to a sharp drop in inventory/sales ratios. Chart 4 shows two of these ratios: the ratio of constant-dollar business inventories to total business final sales, and the ratio of nonfarm business inventories to final sales of goods and structures. The former dropped from 3.30 in the third quarter of 1982 to 3.08 three quarters later; the latter dropped from 4.68 to 4.36 over the same period. Declines in both ratios continued in the next two quarters of the recovery, as the moderate increases in inventories were more than balanced by increases in sales. In the most recent three quarters, both ratios fluctuated; at the end of the period, both remained far below their 1972–82 average levels. Both ratios, therefore, suggest that the high rates of inventory investment in these quarters are largely adjustments toward desired inventory-sales relationships.

Table 7.—Change in Business Inventories

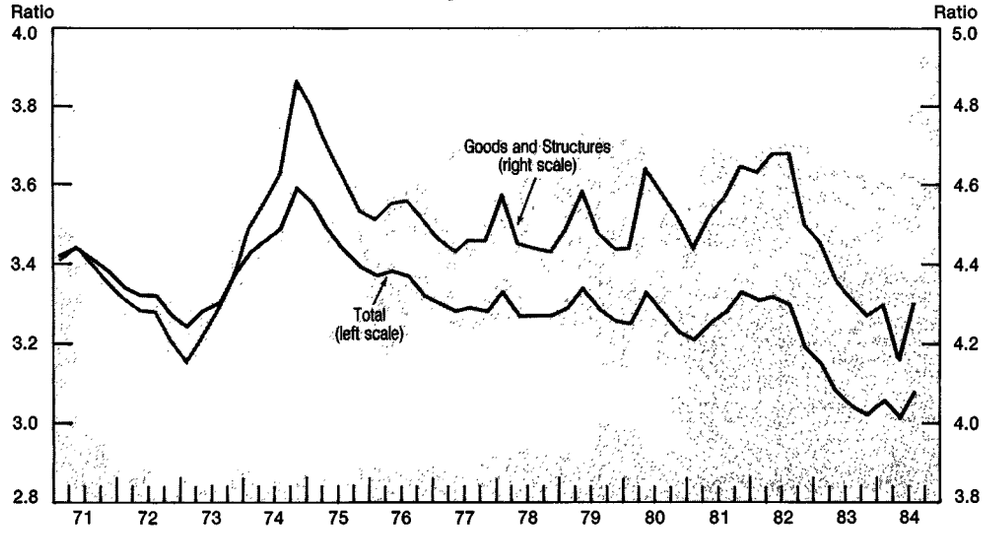
[Billions of 1972 dollars; seasonally adjusted annual rates]

	Level								Change from preceding quarter		
	1982	1983				1984			1984		
	IV	I	II	III	IV	I	II	III	I	II	III
Change in business inventories	**−24.6**	**−16.5**	**−6.1**	**0.9**	**7.2**	**31.6**	**20.3**	**31.2**	**24.4**	**−11.3**	**10.9**
Farm	−3.9	−4.6	−5.8	−6.6	.2	5.4	1.6	4.4	5.2	−3.8	2.8
Nonfarm	−20.7	−11.8	−.3	7.4	7.0	26.2	18.7	26.8	19.2	−7.5	8.1
Manufacturing	−13.4	−11.5	−1.5	−1.1	.1	9.1	13.8	14.6	9.0	4.7	.8
Wholesale trade	−3.0	−5.7	−2.8	3.1	3.3	4.8	5.3	9.1	1.5	.5	3.8
Retail trade	−4.5	2.7	2.7	2.7	5.4	11.4	1.7	1.8	6.0	−9.7	.1
Other	.1	2.6	1.3	2.8	−1.8	.9	−2.1	1.2	2.7	−3.0	3.3

NOTE.—Dollar levels are found in the National Income and Product Accounts Tables, table 5.9.

CHART 4

Constant-Dollar Business Inventory-Final Sales Ratios



NOTE.—"Total" is total business inventories divided by total business final sales, and "goods and structures" is nonfarm business inventories divided by business final sales of goods and structures.

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

Net exports

Real net exports declined $11½ billion—to −$22½ billion—in the third quarter, following a $3 billion decline in the second (table 8). Exports were up $5½ billion in the third quarter, but imports jumped $16½ billion.

The third-quarter deterioration in net exports was again in the merchandise trade balance. Merchandise exports registered a small increase in the third quarter, primarily in industrial supplies and materials, automotive goods, and capital goods. A sharp increase in merchandise imports was spread across most major end-use categories; the increase in capital goods was especially strong.

In the current recovery, net exports declined each quarter, turning negative in the first quarter of 1984 and becoming progressively more negative. The deterioration amounted to $48½ billion and was concentrated in the merchandise trade balance, which declined $40 billion. Factor income contributed $3 billion to the deterioration, and other services (such as U.S. Government transactions, largely those of defense agencies, and expenditures for travel and transportation) contributed $5 billion. Major factors that discouraged exports and encouraged imports were appreciation of the dollar and faster economic growth in the United States than abroad.

Government purchases

Real government purchases increased 8½ percent in the third quarter, following increases of 18½ percent and 1 percent in the second and first quarters, respectively. The quarterly pattern of increases in 1984 largely reflected operations of the CCC, primarily under the PIK program. (Transfers of crops to farmers from CCC inventories are treated in the national income and product accounts as negative Federal purchases.) Reductions in CCC inventories were large—$9 billion—in the first quarter, as they had been in the fourth. In the second quarter, CCC inventories were unchanged, as the PIK program wound down; CCC inventories increased $2 billion in the third quarter.

Other Federal nondefense purchases increased 5 percent in the third quarter, following a 4½-percent decline in the second quarter and no change in the first. Federal defense purchases increased 7 percent in the third quarter, about the average increase of the preceding two quarters.

Purchases by State and local governments increased 5 percent in the third quarter, following increases of 3½ percent in the first and second quarters. The acceleration was in purchases of structures.

The Federal sector.—Changes in current-dollar Federal receipts and expenditures on a NIPA basis are shown in table 9. Among expenditures, purchases were up $11½ billion; defense and nondefense purchases were each up less than in the second quarter. Transfer payments were up $2½ billion, the same increase as the second quarter; an increase in payments to persons more than offset a decline in foreign payments. Net interest paid increased strongly—$10 billion. A $2½ billion decline in subsidies less the current surplus of Government enterprises was much less than that in the second quarter, which had reflected the winding down of PIK payments to farmers. (The PIK subsidy payments are offset by the reductions in CCC inventories due to PIK, so these transactions have no effect on total Federal expenditures.) These changes and smaller changes in other components sum to a third-quarter increase in expenditures of $21 billion.

Among receipts, an increase of $11 billion in personal tax and nontax payments was largely due to continued growth in the taxable wage base. Indirect business taxes were up about the same as in the second quarter; contributions for social insurance were up, but less than in any quarter since the fourth quarter of 1982. Estimates of corporate profits, and thus of corporate profits tax accruals, are not yet available. It is likely that profits before tax, and thus profits tax accruals, declined. The third-quarter decline in corporate profits tax accruals can be approximated by using a residual calculation of corporate profits that assumes that the statistical discrepancy in the national income and product accounts was the same as in the preceding quarter. On the basis of this calculation of corporate profits tax accruals, total receipts probably increased only $5 to $10 billion in the third quarter.

An increase of this size in receipts would be considerably less than that in expenditures, so the deficit on a

Table 8.—Net Exports

[Billions of 1972 dollars, seasonally adjusted at annual rates]

	Net exports: (2) less (3), or (4) plus (5) plus (6)	Exports	Imports	Balance		
				Merchandise	Factor income	Other services
	(1)	(2)	(3)	(4)	(5)	(6)
1982: III	25.7	146.6	120.9	−1.9	23.1	4.4
IV	24.1	136.7	112.6	−1.1	22.0	3.1
1983: I	22.9	138.2	115.3	−5.0	22.1	5.8
II	13.6	137.0	123.4	−11.4	22.2	2.7
III	11.9	141.6	129.7	−13.2	24.0	1.1
IV	2.0	141.0	139.1	−20.2	22.0	.2
1984: I	−8.3	144.9	153.2	−31.5	21.6	1.6
II	−11.4	144.7	156.2	−30.0	19.0	−.5
III	−22.7	150.2	172.8	−41.8	19.9	−.7
Addendum: Change, 1982: III to 1984: III	−48.4	3.6	51.9	−39.9	−3.2	−5.1

NOTE.—Dollar levels are found in the National Income and Product Accounts Tables, table 4.2.

Table 9.—Federal Government Receipts and Expenditures, NIPA Basis: Change From Preceding Quarter

[Billions of dollars, based on seasonally adjusted annual rates]

	1983	1984		
	IV	I	II	III
Receipts	**14.8**	**31.4**	**17.9**	**n.a.**
Personal tax and nontax receipts	8.7	8.3	9.1	11.2
Corporate profits tax accruals	−.2	6.5	2.6	n.a.
Indirect business tax and nontax accruals	.5	−.4	1.8	1.2
Contributions for social insurance	5.7	17.0	4.4	3.1
Expenditures	**14.4**	**12.1**	**20.4**	**20.8**
Purchases of goods and services	−2.9	1.3	28.8	11.3
National defense	6.3	6.2	7.4	4.6
Nondefense	−9.2	−4.9	21.4	6.7
Transfer payments	6.7	−2.5	2.4	2.5
Grants-in-aid to State and local governments	−.2	4.0	2.6	−.8
Net interest paid	4.7	5.7	3.2	9.8
Subsidies less current surplus of government enterprises	6.5	3.8	−16.7	−2.6
Less: Wage accruals less disbursements	.4	.2	0	−.6
Surplus or deficit (−), national income and product accounts	**.4**	**19.2**	**−2.5**	**n.a.**

n.a. Not available.

NOTE.—Dollar levels are found in the National Income and Product Accounts Tables, table 3.2.

NIPA basis would increase about $10 to $15 billion from the $163½ billion registered in the second quarter.

Personal Income

Personal income increased $63 billion in the third quarter, following an increase of about the same size in the second (table 10). The similarity of the third- and second-quarter increases masked opposite movements in wage and salary disbursements and in farm proprietors' income.

Wage and salary disbursements were up $25½ billion in the third quarter, $12 billion less than in the second. Wages and salaries in all major private industry groups were up less than in the second quarter; the deceleration was due to the weaker increases in employment and earnings and the decline in average hours worked. Wages and salaries lost due to the auto strike were minimal. The increase in government wages and salaries was about the same as in the second quarter.

Table 10.—Personal Income and Its Disposition: Change From Preceding Quarter

[Billions of dollars; based on seasonally adjusted annual rates]

	1983	1984		
	IV	I	II	III
Wage and salary disbursements	44.1	40.3	37.4	25.7
Manufacturing	12.8	12.7	7.6	3.7
Other commodity-producing	2.7	4.3	3.5	2.0
Distributive	13.5	6.0	10.3	6.6
Services	11.2	9.7	11.4	8.3
Government and government enterprises	4.0	7.7	4.6	5.0
Proprietors' income	8.6	23.0	−5.2	6.1
Farm	6.1	15.2	−9.0	5.0
Nonfarm	2.5	7.8	3.9	1.2
Personal interest income	5.9	15.7	21.7	21.6
Transfer payments	4.9	2.5	3.9	4.3
Other income	12.5	8.9	8.6	6.9
Less: Personal contributions for social insurance	2.8	6.4	2.2	1.6
Personal income	**73.2**	**84.0**	**64.1**	**63.1**
Less: Personal tax and nontax payments	12.1	10.5	12.0	12.6
Impacts of legislation	−1.0	−1.8	−1.9	1.1
Other	13.1	12.3	13.9	11.5
Equals: Disposable personal income	**61.2**	**73.5**	**52.1**	**50.5**
Less: Personal outlays	51.6	49.6	59.9	30.6
Equals: Personal saving	**9.7**	**23.8**	**−7.7**	**19.9**
Addenda: Special factors in personal income—				
Cost-of-living increases in Federal transfer payments	0	6.3	.3	.1
Social security base, rate, and coverage changes (in personal contributions for social insurance)	.....	4.0	.....	.....
Agricultural subsidies	10.3	3.5	−17.3	−.9

Farm proprietors' income increased $5 billion in the third quarter, after dropping $9 billion in the second. It had nearly doubled—up $15 billion—in the first quarter. The quarter-to-quarter volatility in farm income largely reflected the pattern of agricultural subsidies, mainly under the PIK program. Payments under PIK increased $6 billion to $19 billion in the first quarter, and then fell to $1½ billion in the second and to $½ billion in the third. The strength in farm income in 1984 largely reflected a step-up in crop production.

Other components of personal income registered third-quarter increases that were about the same as, or only moderately smaller or larger than, those in the second quarter. A deceleration in nonfarm proprietors' income was largely in retail trade and construction. Personal interest income registered another strong increase of $21½ billion. Transfer payments increased slightly more in the third quarter than in the second, and personal contributions for social insurance—which are substracted in deriving the personal income total—increased slightly less.

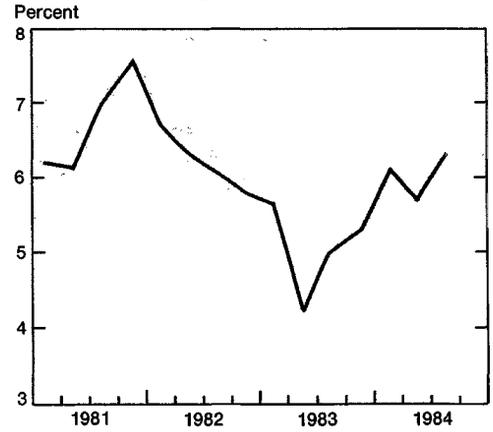
Largely reflecting the growth in the taxable wage base, increases in personal tax and nontax payments have been in the range of $10½–$12½ billion in the past several quarters. Disposable personal income increased $50½ billion, or 8 percent, in the third quarter—only slightly less than it had in the second. Real disposable personal income decelerated more sharply than did current-dollar disposable income, due to an acceleration in the PCE implicit price deflator. Real disposable income increased 3½ percent in the third quarter after an increase of 6½ percent in the second.

Over the eight quarters of the current recovery, real disposable personal income increased 5½ percent, about 1 percentage point more than in the eight quarters of the 1975–77 recovery. In contrast, the increase in current-dollar disposable income—9 percent—over the current recovery was smaller than the 10-percent increase registered in the 1975–77 recovery. The better performance of real income in 1982–84 is accounted for by the lower rate of inflation in the PCE implicit price deflator; it increased 3½ percent in the current recovery, about 2 percentage points less than in the 1975–77 recovery.

The sharp deceleration in personal outlays in the third quarter, coupled with the slight deceleration in disposable income, resulted in a swing in personal saving from a decline to a substantial increase. The personal saving rate increased to 6.3 percent in the third quarter, from 5.7 percent in the second (chart 5). Except for a dip of one-half percentage point in the second quarter of 1984, the personal saving rate has increased steadily since the second quarter of 1983, when it was only 4 percent—the lowest rate in more than 30 years. In contrast, in the 1975–77 recovery, the rate had declined steadily except in the initial quarter.

CHART 5

Personal Saving Rate



NOTE.—Personal saving as a percentage of disposable personal income; based on seasonally adjusted annual rates.

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REVISED (45-day) estimates show that real GNP increased at an annual rate of 2 percent in the third quarter of 1984 (table 1). Preliminary (15-day) estimates, published a month ago, had shown a 2½-percent increase.[1] The only sizable revisions were an upward revision of $3½ billion in nonresidential fixed investment (mainly due to a revision in producers' durable equipment) and a downward revision of $4 billion in net exports (due to a downward revision in exports and an upward revision in imports). A small upward revision in personal consumption expenditures was more than accounted for by services. Small downward revisions were in residential investment, change in business inventories (due to nonfarm inventories), and government purchases (more than accounted for by national defense purchases). The GNP fixed-weighted price index, which registered a 4-percent increase in the third quarter, was revised little.

Overall, the economic picture presented in the October "Business Situation" has not changed significantly. The third-quarter increase in real GNP was a marked slowdown from increases of 7 percent and 10 percent in the second and first quarters, respectively. A swing in final sales—to a small decline after a sharp increase in the second quarter—more than accounted for the third-quarter deceleration in GNP; an increase in inventory investment provided only a partial offset. Within final sales, all components contributed to the third-quarter swing; personal consumption expenditures contributed nearly one-half and net exports more than one-fourth.

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates. Quarter-to-quarter percent changes are compounded to annual rates. Real, or constant-dollar, estimates are expressed in 1972 dollars.

Corporate profits

Profits from current production—profits with inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj)—declined $9½ billion in the third quarter, to $281½ billion, following a $13½ billion increase in the second quarter. Domestic profits of financial corporations were down $2 billion; those of nonfinancial corporations, $7 billion; and profits from the rest of the world, $½ billion. Occasional dips in profits are not uncommon as expansions mature; therefore, it is too early to say whether profits have peaked yet for this expansion. Even after a peak in profits, however, GNP has typically continued to expand for several quarters.

The decline in profits follows six quarters of consecutive increases and reflects the progressive slowing of real GNP in 1984. Real corporate product also slowed. In the third quarter, it increased ½ percent, following six quarters of growth that ranged from 4½ to 15 percent.

Per unit profits declined, more than offsetting the slight increase in real product. Costs incurred and prices re-

Table 1.—Revisions in Selected Component Series of the NIPA's, Third Quarter of 1984

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	15-day estimate	45-day estimate	Revision	15-day estimate	45-day estimate
	Billions of current dollars				
GNP	**3,701.2**	**3,695.2**	**−6.0**	**6.3**	**5.7**
Personal consumption expenditures	2,359.3	2,360.8	1.5	4.6	4.9
Nonresidential fixed investment	431.5	438.5	7.0	10.5	17.9
Residential investment	156.6	155.4	−1.2	2.7	−.6
Change in business inventories	72.4	68.5	−3.9		
Net exports	−85.5	−89.9	−4.4		
Government purchases	766.9	762.0	−4.9	13.0	10.2
National income		**2,983.4**			5.3
Compensation of employees	2,191.2	2,191.9	.7	6.1	6.2
Corporate profits with inventory valuation and capital consumption adjustments		281.5			−12.5
Other	511.4	510.0	−1.4	14.3	13.1
Personal income	**3,047.7**	**3,046.7**	**−1.0**	**8.7**	**8.6**
	Billions of constant (1972) dollars				
GNP	**1,649.6**	**1,646.5**	**−3.1**	**2.7**	**1.9**
Personal consumption expenditures	1,064.6	1,065.6	1.0	.2	.6
Nonresidential fixed investment	206.8	210.5	3.7	8.0	15.9
Residential investment	61.2	60.1	−1.1	3.0	−4.6
Change in business inventories	31.2	30.0	−1.2		
Net exports	−22.7	−26.6	−3.9		
Government purchases	308.4	306.8	−1.6	8.6	6.4
	Index numbers, 1972=100[1]				
GNP implicit price deflator	224.36	224.44	.08	3.6	3.7
GNP fixed-weighted price index	235.0	235.1	.1	3.8	4.0
GNP chain price index				3.7	3.9

1. Not at annual rates.

NOTE.—For the third quarter of 1984, the following revised or additional major source data became available: For *personal consumption expenditures,* revised retail sales for August and September; for *nonresidential fixed investment,* manufacturers' shipments of equipment for August (revised) and September, construction put in place for August (revised) and September, and a partial tabulation of business expenditures for plant and equipment for the quarter; for *residential investment,* construction put in place for August (revised) and September; for *change in business inventories,* book values for manufacturing and trade for August (revised) and September; for *net exports of goods and services,* merchandise trade for September; for *government purchases of goods and services,* Federal unified budget outlays for September, and State and local construction put in place for August (revised) and September; for *wages and salaries,* revised employment, average hourly earnings, and average weekly hours for August and September; for *corporate profits,* domestic book profits for the quarter; for *GNP prices,* the Consumer Price Index and the Producer Price Index for September, unit-value indexes and export and import price indexes for September, and residential housing prices for the quarter.

ceived by corporations per unit of real product were up, but the increase in costs exceeded that in prices. Both labor and nonlabor costs increased—labor costs by more than twice as much as nonlabor costs.

Adjustments to profits.—Profits before tax—profits without IVA and CCAdj—declined $22½ billion to $223½ billion, following a $2½ billion increase in the second quarter. The IVA and CCAdj convert inventories and depreciation reported by business to those used in the national income and product accounts (NIPA's). The CCAdj was up $6 billion, following a $4½ billion increase; the increases mainly reflected the effect of shorter service lives for depreciation of capital permitted under the Economic Recovery Tax Act of 1981. The IVA again increased, by $7 billion, reflecting smaller increases in inventory prices. In the second quarter, it had increased $6 billion.

Disposition of profits before tax.—Corporate profits tax liability declined $11½ billion, to $84½ billion, following a $3 billion increase. The 1984 quarterly estimates incorporate the effects of the tax changes resulting from the Deficit Reduction Act of 1984. (For a detailed explanation of the changes and their effects, see the August 1984 issue of the SURVEY.) The third-quarter decline in tax liability reflected the decline in profits before tax. Dividends were up $1½ billion, to $81½ billion, following a $2 billion increase. Undistributed profits were down $12 billion, to $58 billion, following a $2½ billion decline.

Profits by industry.—Profits with IVA but without CCAdj—the variant of profits available by industry—declined $15½ billion in the third quarter, to $223½ billion, following a $9 billion increase in the second quarter.

Domestic profits of financial corporations were down $2 billion, to $27 billion, following no change. Savings and loan associations' profits more than accounted for the decline.

Domestic profits of nonfinancial corporations declined $13 billion, to $176 billion, following a $13 billion increase. Manufacturers' profits accounted for about three-fourths of the decline. Within profits of manufacturers of nondurable goods, declines were widespread; profits of manufacturers of petroleum and coal products and of chemicals and allied products accounted for most of the decline. Profits of durable goods manufacturers changed little.

In nonmanufacturing industries, decreases in trade and in the transportation, communication, and utilities group more than offset a small increase in other nonmanufacturing industries. Within trade, retail trade more than accounted for the decline. The change in these profits is consistent with the third-quarter slowing in personal consumption expenditures.

Government Sector

The fiscal position of the government sector in the national income and product accounts (NIPA's) deteriorated in the third quarter, as the combined deficit of the Federal Government and of the State and local governments increased $24 billion. The deterioration occurred at both levels of government: The Federal Government deficit increased, and the State and local government surplus declined. However, at $131 billion, the combined deficit was lower than a year earlier. This improvement was more than accounted for by a $4 billion decline in the Federal deficit.

The Federal sector

The Federal Government deficit increased $13 billion in the third quarter to $177 billion, as expenditures increased more than receipts. Receipts increased $3 billion, compared with $18 billion in the second quarter. The slowing was largely due to corporate profits tax accruals, which declined $9 billion—reflecting the drop in corporate profits—after a moderate increase. Personal tax and nontax receipts again increased $9 billion. Contributions for social insurance increased $3 billion, and indirect business tax and nontax accruals increased about $½ billion, both somewhat less than in the second quarter. In the latter, a $1 billion increase in customs duties and nontaxes was partly offset by a decline in windfall profit taxes.

Expenditures increased $16½ billion, compared with $20½ billion in the second quarter. Net interest paid increased $11 billion, accounting for over two-thirds of the increase in total expenditures. Nondefense purchases increased $7 billion: Purchases by the Commodity Credit Corporation (CCC) increased $5½ billion, and all other purchases increased $1½ billion. The increase in CCC purchases was largely the result of regular operations; PIK transactions accounted for less than $1 billion. Transfer payments to persons increased $2½ billion; a $3 billion increase in Social Security benefits was partly offset by a $½ billion decline in unemployment benefits.

All other categories of expenditures declined. Subsidies less the current surplus of government enterprises declined $2½ billion, reflecting declines in the CCC deficit ($1½ billion) and in agricultural subsidies ($½ billion). Grants-in-aid to State and local governments declined $1 billion, and transfer payments to foreigners and national defense purchases declined $½ billion each. The decline in national defense purchases was more than accounted for by a significant falloff in the delivery of all types of military equipment (see table 2 on page 9).

Cyclically adjusted budget.—When measured using cyclical adjustments based on middle-expansion trend GNP, the Federal fiscal position moved from a deficit of $165 billion in the second quarter to a deficit of $173 billion in the third (see table 3 on page 10). The cyclically adjusted deficit as a percentage of middle-expansion trend GNP increased from 4.5 percent in the second quarter to 4.7 percent in the third—a move toward a more expansionary fiscal position.

Fiscal year 1984.—For fiscal year 1984, which ended September 30, the Federal Government deficit (on the NIPA basis) amounted to $171 billion, slightly higher than the deficit projected in the mid-session review of the unified budget (see the August SURVEY for details of the midsession review). Receipts were $6 billion lower, and expenditures were $5 billion lower, than previously estimated.

The State and local sector

The State and local government surplus declined $8½ billion in the third quarter to $46 billion, as expenditures increased significantly more than receipts. A large decline in the surplus of "other" funds was partly offset by an increase in the surplus of social insurance funds.

Receipts increased $2½ billion, compared with $11 billion in the second quarter. The slowing was

largely due to declines in corporate profits tax accruals ($2 billion) and in federal grants-in-aid ($1 billion). Indirect business tax and nontax accruals increased $3½ billion; property taxes and sales taxes contributed $2 billion and $1½ billion, respectively, to the increase. Personal tax and nontax receipts and contributions for social insurance increased $1 billion each.

Expenditures increased $11½ billion, slightly more than in the previous quarter. Purchases of goods and services more than accounted for the increase; all other expenditures, on balance, declined $½ billion. Within purchases, compensation increased $4½ billion, construction increased $4 billion, and all other purchases increased $3 billion. More than one-half of the increase in construction was accounted for by highway construction, which has increased sharply—$5 billion—since the first quarter of 1984.

Alternative measure of fiscal position.—Table 2 updates the alternative measure of the State and local government fiscal position introduced in the March 1984 SURVEY. The update incorporates the NIPA revisions of July 1984, recent flow-of-funds revisions by the Federal Reserve Board, and preliminary 1982–83 *Governmental Finances* data from the Census Bureau. The basic fiscal position of State and local governments as shown by the alternative measure is the same as shown in the March presentation: State and local governments recorded deficits in 1981 and 1982 and then swung to surplus in 1983. However, the fiscal position in 1981 looks better than previously estimated, but the deficit in 1982 is $6½ billion higher, and the surplus in 1983 is $5½ billion lower, than previously estimated.

Table 2.—Derivation of an Alternative Measure of the State and Local Government Fiscal Position, 1980–83

[Billions of dollars]

Line		1980	1981	1982	1983
	Surplus or deficit (−), NIPA basis:				
1	Other than social insurance funds.	3.5	7.8	−0.8	6.6
2	*Plus:* Purchases of equipment and structures financed by borrowing. [1]	23.5	23.6	26.8	30.8
	Less: Net outlays for land	1.8	[p]1.9	[p]1.9	[p]2.0
4	Statutory housing authority transactions.	1.8	2.5	3.8	[p]4.1
5	Equals: Surplus or deficit (−) combined funds before financial transactions.	23.4	27.0	20.3	31.3
6	*Less:* Long-term debt retired.	18.5	20.5	[p]25.4	[p]25.5
7	Additions to sinking funds.	15.0	10.0	[p]16.5	[p]10.9
8	*Plus:* Borrowing to retire existing debt.	1.2	.6	4.3	11.4
9	Net change in short-term debt.	1.7	1.1	5.9	−6.6
10	Capital gains	1.1	[p]1.5	[p]1.7	[p]1.5
11	*Equals:* Surplus or deficit (−) combined funds.	−6.1	−.3	−9.7	1.2
	Addendum:				
	Surplus or deficit (−), combined funds as a percentage of NIPA receipts excluding contributions for social insurance.	−1.7	.....	−2.4	.3

[p] Preliminary.
1. Excludes force account compensation. Calculated as the sum of purchases of equipment and structures less grants-in-aid for capital formation and purchases of equipment and structures from current own-source revenue.

November ballot highlights.—A number of state and local tax and expenditure issues were up for voter consideration in November. Major limitations on taxes, expenditures, or both, appeared on ballots in California, Michigan, Nevada, and Oregon; all were defeated. Proposals to increase general sales taxes were defeated in Arkansas and West Virginia, as was a proposal to exempt grocery food from sales tax coverage in Idaho. In contrast, voters approved several bonded debt issues and lotteries.

Bond issues on the ballots totaled almost $5 billion, the largest volume of issues offered for approval since 1975. The largest issues approved were $2½ billion in California for water conservancy and pollution control, schools, veterans' loans, and hazardous waste cleanup, and over $½ billion in Alaska for financing veterans' housing. Over $½ billion in new issues were rejected; major turndowns were in Arkansas (for waste disposal) and West Virginia (for a variety of projects). Four States—California, Missouri, Oregon, and West Virginia—approved new lotteries. When the new lotteries are in full operation (probably in the fiscal year beginning July 1986), it is estimated that they will add a total of $½ billion annually to state revenues.

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ECONOMIC activity and prices increased moderately in the fourth quarter, according to the "flash" GNP estimates. A 3-percent annual rate increase in real GNP, in combination with a 1½-percent increase in the third quarter, indicates a marked slowing in the second half of 1984 from a much larger increase in the first half. The GNP fixed-weighted price index increased at an annual rate of 3½ percent in the fourth quarter, continuing the gradual slowing of inflation throughout 1984 (table 1).[1]

The third- and fourth-quarter increases in real GNP were not markedly different; table 1 shows that the fourth-quarter increase was larger by only 1.2 percentage points, or about $5 billion. However, it should be noted that large swings in two GNP components tended to offset each other. Further, the two components—change in business inventories and net exports—are particularly difficult to estimate for the flash GNP estimate. Only 1 month of source data for these components is available, and the data show substantial month-to-month volatility, which masks any trend that would be a guide to projecting the missing months of source data. The flash GNP estimate in the fourth quarter includes a slowing in inventory investment that subtracted about as much from the change in GNP as the $10½ billion pickup had added in the third quarter. The flash estimate also includes a substantial increase in net exports after a $15½ billion decline—from a negative $11½ billion to a negative $27 billion—in the third quarter. Both the fourth-quarter increase in net exports and the third-quarter decline were largely accounted for by imports.

Other components of GNP are, in general, less difficult to estimate for the flash estimate: Even if only 1 month of source data is available, the data show less volatility, and for some components—notably personal consumption expenditures (PCE)—more than 1 month of data is available. The measure that is the sum of these components—final sales to domestic purchasers—probably increased about as much in the fourth quarter as the 3-percent increase in the third. Earlier in 1984, this measure, which represents domestic demand, had been much stronger, registering increases of 6½ percent and 11 percent in the first and second quarters, respectively. Within this measure, PCE increased somewhat more in the fourth quarter than in the third, fixed investment increased less than in the third, and government purchases increased about the same in both quarters.

Fourth-quarter developments in the components of real GNP, in GNP prices, and in personal income are sketched below on the basis of data available as of mid-December.

- PCE increased moderately after a pause—an increase of only ½ percent—in the third quarter. Most of the pickup was in durable goods, where purchases of furniture and equipment increased substantially more than in the third quarter. In addition, purchases of motor vehicles declined less than in the third quarter; autos declined, as they had in the third quarter, but trucks strengthened. Purchases of nondurables declined again, about as much as the 1-percent decline registered in the third quarter. Several categories—food, in particular—declined and others changed little. Services increased about as much as the 4-percent increase in the third quarter.
- Nonresidential fixed investment continued to increase, but at only about one-half the third-quarter increase of 13½ percent. In producers' durable equipment (PDE), the slowing was in both motor vehicles and other

Table 1.—GNP and GNP Prices

[Levels at seasonally adjusted annual rates; percent changes at annual rates]

	1984			
	I	II	III[r]	IV[*]
Current-dollar GNP (billions of dollars):				
Level	3,553.3	3,644.7	3,694.6	3,747.2
Percent change from preceding quarter	14.9	10.7	5.6	5.8
Real GNP (billions of 1972 dollars):				
Level	1,610.9	1,638.8	1,645.2	1,656.7
Percent change from preceding quarter	10.1	7.1	1.6	2.8
GNP fixed-weighted price index (index, 1972=100):				
Level	230.4	232.8	235.1	237.2
Percent change from preceding quarter	5.0	4.3	4.0	3.6
GNP implicit price deflator (index, 1972=100):				
Level	220.58	222.40	224.57	226.18
Percent change from preceding quarter	4.4	3.3	3.9	2.9

[r] Revised.
[*] Flash.

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes in them are differences between these rates. Quarter-to-quarter percent changes are compounded to annual rates. Real, or constant-dollar, estimates are expressed in 1972 dollars.

The procedures used to prepare the "flash" estimates—that is, estimates prepared 15 days before the end of the quarter—are the same as those used to prepare the estimates released after the end of the quarter. However, the source data that are available are limited to only 1 or 2 months of the quarter and, in most cases, are preliminary. The major source data that are available are: For *personal consumption expenditures* (PCE), October and November retail sales, unit sales of new autos through the first 10 days of December, and sales of new trucks for October and November; for *nonresidential fixed investment*, the same data for autos and trucks as for PCE, October construction put in place, and October manufacturers' shipments of equipment; for *residential investment*, October construction put in place, and October housing starts; for *change in business inventories*, October book values for manufacturing and trade, and unit auto inventories for October and November; for *net exports of goods and services*, October merchandise trade; for *government purchases of goods and services*, Federal unified budget outlays for October, State and local construction put in place for October, and State and local employment for October and November; and for *GNP prices*, the Consumer Price Index for October, and the Producer Price Index for October and November.

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PDE. In the former, as in PCE on motor vehicles, the weakness was in the auto component, which declined after a third-quarter increase. In terms of unit auto sales to all final purchasers, the drop was to about 9.9 million (seasonally adjusted annual rate) from 10.3 million in the third quarter. In contrast, unit sales of trucks increased to about 4.4 million (seasonally adjusted annual rate) in the fourth quarter from 4.1 million in the third, continuing a strong rebound to record or near-record levels in several categories. In other PDE, the slowing was in computers and communications equipment. Structures strengthened after little change in the third quarter, when the increase in commercial structures had slowed. As discussed in the article that reports on BEA's October-November plant and equipment expenditure survey, which now includes plans for the full year ahead, business plans to increase capital spending in 1985 roughly one-half as much as in 1984. The smaller fourth-quarter increase in nonresidential fixed investment included in the flash GNP estimate appears consistent with these plans.

- Residential investment was down again, about as much as the 4½ percent registered in the third quarter. Construction of single-family structures declined in both the third and fourth quarters, reflecting a one-third falloff in housing starts from their recent peak in February. A decline in mortgage interest rates since July has yet to work its way through to encourage construction. Construction of multifamily units increased about as much as in the third quarter, and the "other" component (largely additions and alterations, mobile homes, and commissions on house sales) changed little.

- Business inventories accumulated at a substantial rate, but less than the $30½ billion accumulation in the third quarter. An increase in motor vehicle inventories—the only part of inventories for which more than 1 month of source data is available for the fourth quarter—reflected automakers' rebuilding of inventories after extensive plant closings in the United States and strikes in both the United States and Canada. Only fragmentary information is available about farm inventories; it appears that accumulation was roughly the same as the $4 billion in the third quarter. Nonfarm inventories other than motor vehicles appear to have increased, but less than the $26 billion in the third quarter. Reflecting the substantial additions to inventories in the earlier quarters of 1984 and the variability of the increases in final sales, inventory-sales ratios had turned up in the first quarter, dropped back in the second, and increased in the third. In the fourth quarter, it appears that the ratios held at about the third-quarter level.

- Net exports, as mentioned earlier, appear to have increased substantially. The increase, the first in 3 years, reflected a decline in imports after a huge—$18 billion—increase in the third quarter. In merchandise imports, where the decline was concentrated, declines were widely spread across end-use commodity categories, as the increase had been in the third quarter. The average change for the third and fourth quarters, appears to have been a substantial increase, indicating that imports continue to reflect the effects of cumulative dollar appreciation. Investment income payments also appear to have declined, partly reflecting lower interest rates on portfolio investment. In exports, both agricultural and nonagricultural merchandise exports increased, but the increases were more than offset by a decline in investment income receipts.

- Government purchases increased about as much as in the third quarter, when the Federal and the State and local components had contributed about equally to a 5½-percent increase. In Federal purchases, defense purchases increased after a slight decline. Commodity Credit Corporation (CCC) activities continued to dominate quarterly changes in nondefense purchases. A higher rate of increase in CCC inventories added to purchases in the fourth quarter, but not as much as the $2 billion addition in the third. In State and local purchases, a smaller increase than in the third quarter was largely in structures.

- The GNP fixed-weighted price index increased 3½ percent, down from 4 percent in the third quarter. The fourth-quarter increase in PCE prices as measured by the fixed-weighted price index was slightly larger than the 4 percent registered in the third quarter; food prices increased slightly more than in the third quarter, and energy prices increased after a small decline. Prices of structures—both residential and nonresidential—showed little change after third-quarter increases in the range of 1½–4 percent, and prices of PDE slowed from a 3-percent increase.

- Personal income increased about $50 billion, compared with $62½ billion in the third quarter. Most of the slowing was in personal interest income, which was up only about one-half as much as the $23½ billion increase in the third quarter. The smaller increase largely reflected the widespread decline in interest rates. Other components of personal income increased about as much as they had in the third quarter: wage and salary disbursements and farm proprietors' income slightly less, and nonfarm proprietors' income slightly more.

The smaller increase in personal income in the fourth quarter than in the third was augmented in its effect on disposable personal income by a slightly larger increase in personal taxes than in the third quarter. Although prices of PCE as measured by the implicit price deflator increased less than in the third quarter, the increase in real disposable income slowed further—down about 2 percentage points from the 4-percent increase in the third quarter. Earlier in 1984, the increases in real disposable income had been substantially larger—8½ percent and 6½ percent in the first and second quarters, respectively. The fourth-quarter increase in personal outlays—in which PCE predominates—was about the same as that in disposable personal income, so personal saving changed little. The saving rate held at about the third quarter's rate of 6.3 percent. Throughout 1984, the saving rate varied only slightly around 6 percent, as the slowing in disposable income was accompanied by a similar slowing in outlays.

Corporate Profits

Revised third-quarter estimates show that profits from current production—profits with inventory valuation adjustment and capital consumption adjustment—declined $8 billion, to $283 billion, following a $13½ billion increase in the second. The preliminary estimates, presented in

November, had shown a decline of $9½ billion.

The revisions generally reinforce the picture of widespread declines in domestic profits described in the November "Business Situation." The revisions show sharper declines in profits of manufacturers and financial corporations, but show trade profits, which had been down in the preliminary estimates, as unchanged. (A discussion of manufacturers' gross profits shares follows.)

The revised estimates show a picture for rest-of-the-world profits sharply different from that presented in November. Revised profits from the rest of the world increased $3 billion in the third quarter, to $24½ billion, following at $4½ billion decline in the second. (Preliminary estimates of rest-of-the-world profits had been down $½ billion.) Both receipts on U.S. assets abroad and payments on foreign assets in the United States were up, but receipts were up more. (See the article "U.S. International Transactions, Third Quarter 1984" in this issue and table 1 on page 11, which reconciles the balance on goods and services in the balance of payment accounts with net exports in the national income and product accounts.)

Manufacturers' gross profits share

Manufacturers' economic performance has been debated in recent years, some alleging that performance has been deteriorating and others disputing this allegation.[2] The debate is important because proponents of certain policy meausures—for example, industrial development banks and tax incentives for investment—cite the alleged deterioration to support their recommendations. Others, who dispute the idea of general deterioration, take the position that sustained economic growth will automatically create jobs and investment in manufacturing. The following discussion suggests gross profits as a share of gross product as a rough measure of industry performance, and uses it to evaluate the record in manufacturing since 1947.

Gross profits as a share of gross product.—Industry gross product is defined as sales or receipts plus change in inventories less intermediate goods and services purchased. (The last item is also called current account purchases; in the context of industry meaures, it is the output other than plant and equipment purchased for its own use by one industry from other industries.) Industry gross product is also defined as the costs of production—that is, the compensation of employees, net interest, depreciation and other capital consumption allowances, and indirect business taxes—and business profits, of which corporate profits are the largest category. The national income and product account (NIPA) estimates of industry gross product are prepared by implementing the second definition. It is in the framework of these estimates that gross profits as a percentage of gross product—hereafter called the gross profits share—is calculated.[3]

Gross profits is defined for this discussion as corporate profits with inventory valuation adjustment plus two components of the costs of production—net interest and corporate capital consumption allowances. It would be desirable to use a measure net of capital consumption allowances with the capital consumption adjustment—that is, a measure of capital consumption that has been adjusted to reflect uniform service lives and depreciation formulas and valued at replacement cost; however, such an adjusted measure of capital consumption allowances is not available by industry. A measure gross of corporate capital consumption allowances does maintain the desirable characteristic of being unaffected by changes in tax law that affect depreciation; for example, it is unaffected by the introduction in 1981 of the accelerated cost recovery system. The inclusion of net interest in gross profits provides a measure that reflects returns to both debt and equity capital, and is thus unaffected by changes over time in their proportion.

In one respect, the coverage of the gross profits share as calculated for this discussion is not fully consistent. Net interest covers both corporate and noncorporate establishments, but the other components of gross profits cover only corporate establishments. Gross product also covers both corporate and noncorporate establishments. (Corporate gross product is available for some, but not all, of the 1947–83 period.) For a measure of the corportate gross profits share, the lack of full consistency does not affect the results appreciably, because the noncorporate shares of net interest and gross product are very small.

Gross product and the components of gross profits, except net interest, are on an establishment basis rather than a company basis.[4] Net interest is on a company basis because information for allocating it to an establishment basis is not available. Establishment-based measures are appropriate indicators of industry performance because, unlike company-based measures, they allocate to each industry only the results of activities in that industry. The difference between the two bases can be illustrated with reference to an integrated company that maintains petroleum extraction operations, a pipeline, and a refinery. In establisment-based estimates, the gross product and gross profits from the three kinds of establishments would appear in mining, public utilities, and manufacturing, respectively. In company-based estimates, all the company's operation would appear in the industry that constitute the company's primary activity.[5]

The rough measure of industry performance that the gross profits share provides does not indicate performance in the sense of ability to maintain past levels of output or market share. For example, a shrinking industry that maintains its gross profits by closing plants could record a constant share. The gross profits share does, however, indicate performance in the sense of ability of an industry to remain profitable under changing circumstances.

2. For a summary of this debate, see Robert Z. Lawrence, *Can America Compete?* (Washington, DC: The Brookings Institution, 1984).

3. Annual estimates of gross product by industry are in NIPA table 6.1. That table shows the gross product total for major industries, including manufacturing, durable goods manufacturing, and nondurable goods manufacturing. Estimates for gross product and its 14 components at the 2-digit SIC industry level are available from BEA.

4. Company-based corporate profits with inventory valuation adjustment, corporate capital consumption allowances, and net interest are in NIPA tables 6.20, 6.26, and 6.19, respectively.

5. For corporate profits before tax with inventory valuation adjustment and corporate capital consumption allowances, the two classification bases yield divergent estimates for some industries. In manufacturing industries in 1983, for example, the establishment-based sum of these components as a percentage of the company-based sum ranged from 13 percent for petroleum and coal products to 111 percent for fabricated metal products.

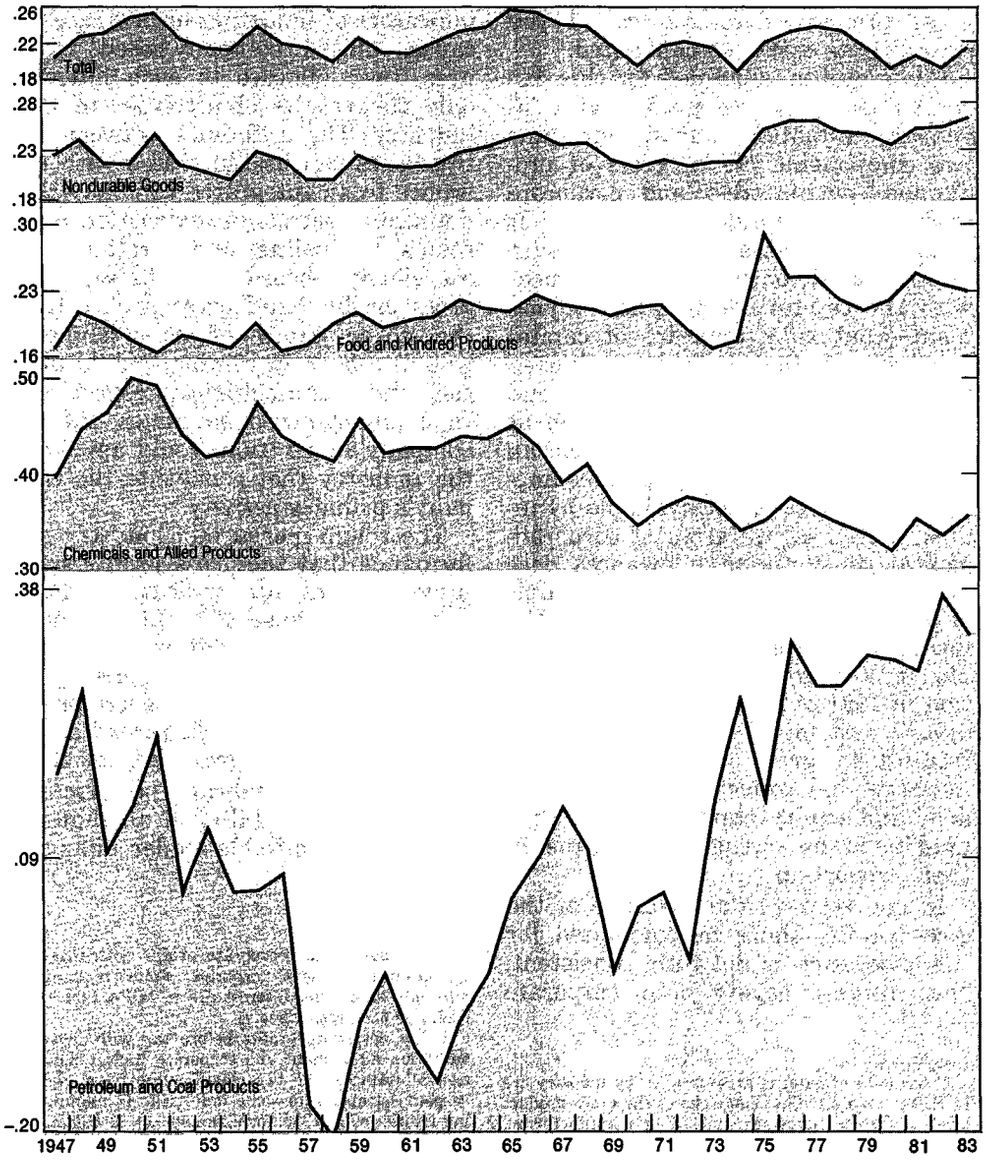
Manufacturers' performance, 1947–83.—The gross profits share for all manufacturing, durable goods and nondurable goods manufacturing, and selected manufacturing industries for 1947–83 are shown in charts 1 and 2. Although the shares show pronounced cyclical fluctuations, in most cases some underlying trend is discernible. For all manufacturing, the share appears to have been relatively stable, lending little support to the hypothesis of declining performance in manufacturing. Nondurables manufacturing shows a relatively stable share until 1973 and a slight uptrend thereafter. Durables manufacturing, in contrast, shows stability until 1965 and a slight downtrend thereafter.

The slight deterioration in the performance of durables manufacturing since 1965 reflects, in part, substantial deterioration in the gross profits share of manufacturers of primary metals. A downtrend in the share of manufacturers of motor vehicles from 1965 to 1980 also contributed. Since 1980, however, the share of this industry has improved, strengthening the durables share.

The slight improvement in the performance of nondurables manufacturing since 1973 reflects, in part, the improvement in the gross profits shares of two large industries—food and kindred products and petroleum and coal products. These industries began to record markedly higher shares in the 1970's, when world prices of their outputs shifted upward.

CHART 1

Gross Profits as a Share of Gross Product in Total Manufacturing and Selected Nondurable Manufacturing Industries



NOTE.—Gross profits equal corporate profits before tax with inventory valuation adjustment plus corporate capital consumption allowances and net interest.

U.S. Department of Commerce, Bureau of Economic Analysis 84-12-1

Employment and Hours: Two Years of Postrecession Growth

Labor input to production—as measured by employment and average weekly hours—increased strongly over the 2 years following the third-quarter 1982 trough in real GNP, but the growth was not among the strongest in post-World War II recoveries.[6] The following discussion highlights the industries where the growth in employment and hours was the strongest and weakest in the 2 years following the 1981–82 recession. It also compares growth during that period, 1982–84, with growth in the 2 years, 1975–77, following the 1973–75 recession. The period following the trough in real GNP in the first quarter of 1975 is used for comparison because it followed a recession similar to the 1981–82 recession in depth and duration. In addition, quarterly employment growth in 1975–77 was the median of the seven (post-World War II) recoveries preceding that in 1982–84.[7]

Employment by industry

Nonfarm employment as measured by the Bureau of Labor Statistics establishment survey increased 5.3 million, or 3 percent at an annual rate, over the 2 years following the 1982–84 recession. The increase was one-half percentage point larger than that over the 2 years following the 1973–75 recession (chart 3). In both recovery periods nonfarm employment regained prerecession peaks in most service-producing industries, both

6. An analysis of real GNP and related measures for the same period appeared in the "Business Situation" in the October 1984 SURVEY OF CURRENT BUSINESS.

In this discussion, peaks and troughs in real GNP are used to designate recessions; in some cases, these turning points do not coincide with those designated for business cycles by the National Bureau of Economic Research, Inc.

7. This characterization of the 1975–77 period may not necessarily hold at the individual industry level.

public and private, but did not regain prerecession peaks in most goods-producing industries (table 2).

Despite an initial decline, total nonfarm employment regained the prerecession peak by the fourth quarter of 1983 and expanded in the first three quarters of 1984. More than three-fourths of the 2-year increase in employment occurred in the second year—a larger proportion than in any other post-World War II recovery. In 1975–77, slightly more than one-half of the increase had occurred in the second year.

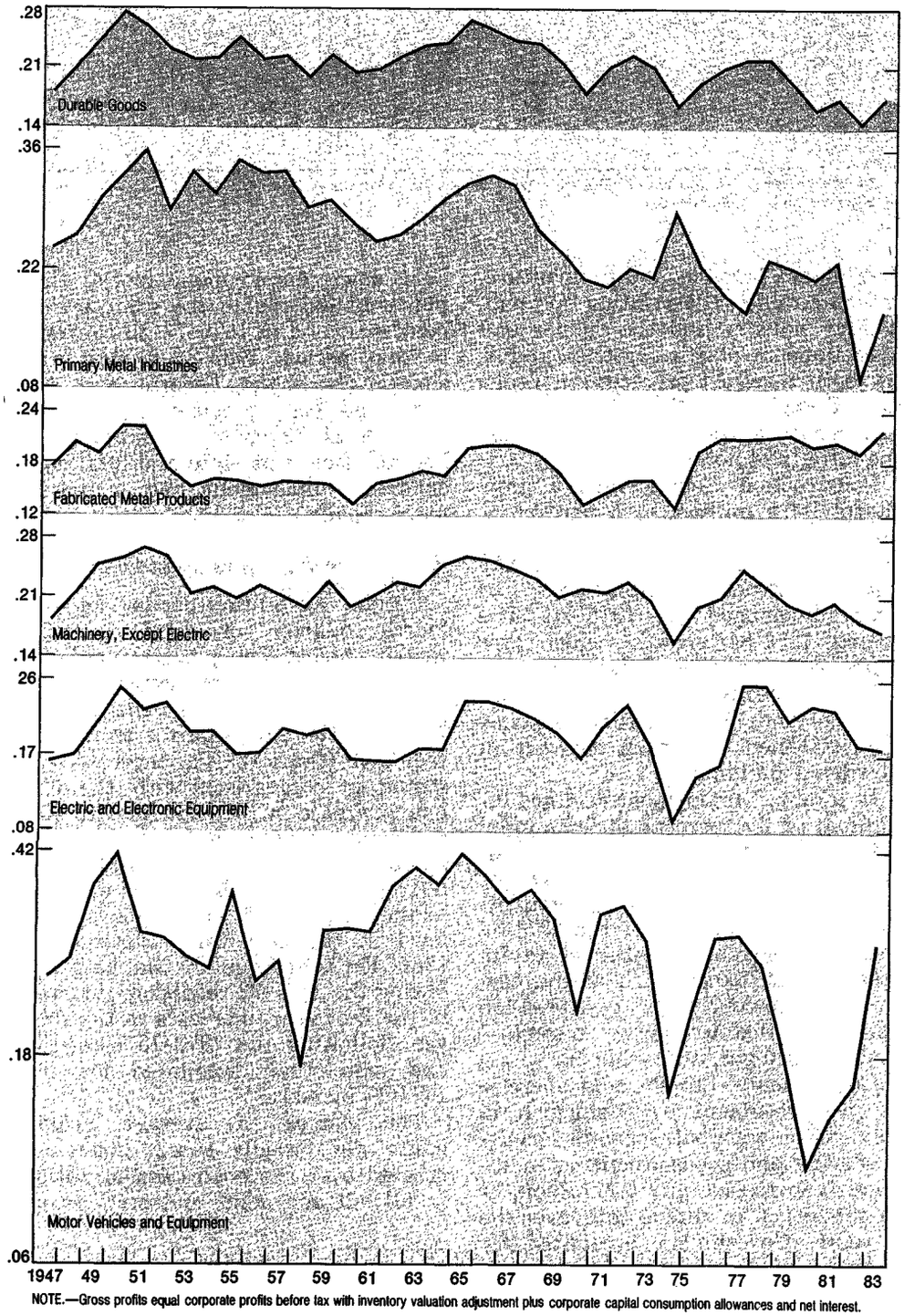
The increase in nonfarm employment was broadly based; employment increased in every major industry group—albeit slowly in some—except mining (table 3).

Private service-producing industries.—A little over one-half of nonfarm employment is in private service-producing industries, which accounted for 3.5 million, or about two-thirds, of the total 2-year increase. Relatively higher growth rates during the 1982–84 postrecession period—an annual rate of 3½ percent—continued a long-term shift towards these jobs. The 1982–84 growth rate matched that in 1975–77 for these industries. Of the four private service-producing industry groups, employment in two—transportation and public utilities and wholesale and retail trade—more than regained prerecession peaks over the 2-year period. Employment in finance, insurance, and real estate and in services had increased over the recession and increased more rapidly in the recovery.

Goods-producing industries.—A little over one-quarter of nonfarm em-

Chart 2

Gross Profits as a Share of Gross Product in Selected Durable Manufacturing Industries



NOTE.—Gross profits equal corporate profits before tax with inventory valuation adjustment plus corporate capital consumption allowances and net interest.

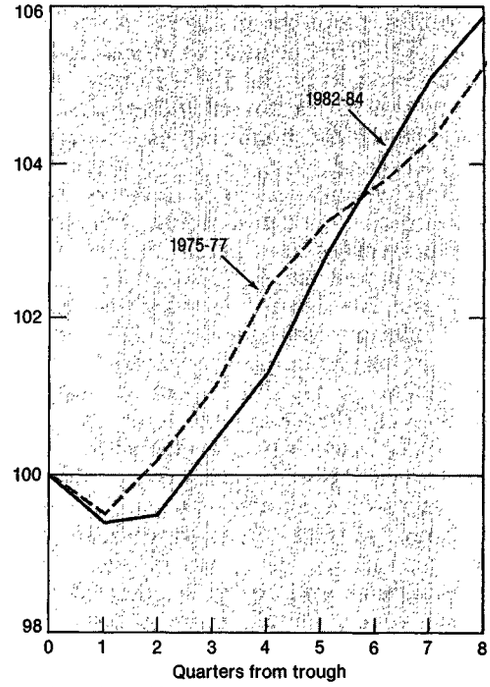
U.S. Department of Commerce, Bureau of Economic Analysis

84-12-2

CHART 3

Employment

Percent of trough level [1]



1. Troughs in real GNP in 1975: I and 1982: III.

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

Table 2.—Industries Where Employment and Hours Equalled or Exceeded Prerecession Peaks 2 Years After the 1973–75 and 1981–82 Recessions

	Employment		Hours	
	1975–77	1982–84	1975–77	1982–84
Total nonfarm	Yes	Yes	No	Yes.
Private service-producing industries:				
Transportation and public utilities	No	Yes	No	Yes.
Wholesale and retail trade	Yes [1]	Yes	No	No.
Finance, insurance, and real estate	Yes [1]	Yes [1]	No	Yes.[1]
Services	Yes [1]	Yes [1]	No	Yes.[2]
Goods-producing industries:				
Manufacturing	No	No	No	Yes.
Overtime			No	Yes.
Durables	No	No	No	Yes.
Overtime			No	Yes.
Nondurables	No	No	No	Yes.
Overtime			No	Yes.
Construction	No	Yes	No [3]	Yes.[1]
Mining	Yes [1]	No	No	No.
Government	Yes [1]	Yes		
Federal	Yes [4]	Yes		
State and local	Yes [1]	Yes		

1. Increased over the recession, and increased in the postrecession period.
2. Increased over the recession, and was unchanged in the postrecession period.
3. Regained the prerecession peak, but fell below that peak by the end of the 2-year postrecession period.
4. Increased over the recession, and declined in the postrecession period, but remained above the prerecession peak.

NOTE.—The cyclical peaks and troughs in real GNP were, respectively, 1973:IV and 1975:I for the 1973–75 recession, and 1981:III and 1982:III for the 1981–82 recession.

Table 3.—Employment

[Seasonally adjusted]

	Thousands			Percent change at annual rate	
	1981:III	1982:III	1984:III	1975:I–1977:I	1982:III–1984:III
Total nonfarm	**91,395**	**89,241**	**94,560**	**2.6**	**2.9**
Private service-producing industries	49,802	49,969	53,507	3.5	3.5
Transportation and public utilities	5,182	5,095	5,197	.6	1.0
Wholesale and retail trade	20,622	20,481	21,860	3.5	3.3
Finance, insurance, and real estate	5,310	5,340	5,680	2.8	3.1
Services	18,688	19,053	20,770	4.5	4.4
Goods-producing industries	25,639	23,540	25,056	2.1	3.2
Manufacturing	20,287	18,567	19,679	2.4	3.0
Durables	12,187	10,883	11,719	2.0	3.8
Nondurables	8,100	7,684	7,960	2.9	1.8
Construction	4,159	3,880	4,362	0	6.0
Mining	1,193	1,093	1,015	4.5	−3.7
Government	15,955	15,764	15,998	1.2	.7
Federal	2,771	2,737	2,789	−.2	.9
State and local	13,184	13,027	13,209	1.5	.7

NOTE.—The cyclical troughs in real GNP were 1975:I for the 1973–75 recession, and 1982:III for the 1981–82 recession.
Source: Bureau of Labor Statistics.

ployment is in goods-producing industries, which increased 1.5 million and accounted for about one-third of the overall increase. Manufacturing employment grew at an annual rate of 3 percent, a slightly higher rate than that following the 1973–75 recession. Durables employment grew at twice the 1975–77 rate, and nondurables at about two-thirds the 1975–77 rate. All of the growth in durables and most of the growth in nondurables occurred in the second year.

Employment in both durable and nondurable manufacturing did not regain prerecession peaks in 1982–84, just as it had not in 1975–77. In durables, notable exceptions were electronics, motor vehicles, lumber and lumber products, and furniture; these industries regained prerecession peaks in 1982–84, but had not in 1975–77. Growth in the electronics industry—a "high technology" industry—reflected strong sales of microcomputers and telecommunications equipment. A rebound in sales of automobiles and trucks accounted for much of the employment growth in motor vehicles, and a rebound in sales of new homes accounted for much of the employment growth in lumber and lumber products and in furniture. In nondurables, the printing and publishing industry and the rubber and miscellaneous plastics products industry both regained prerecession peaks in 1982–84; in 1975–77, the former had regained the prerecession peak, the latter had not.

Construction employment grew sharply—0.5 million, or 6 percent at an annual rate—in 1982–84 and exceeded the prerecession peak. In contrast, construction employment had been unchanged in 1975–77. The strong 1982–84 growth, which was centered in special trades (e.g., carpenters, masons, plumbers, and electricians) and in residential construction, reflected the sharp recovery in new home building.

In mining, employment declined 0.1 million, or 3½ percent at an annual rate—in sharp contrast to the 4½-percent rate of increase following the 1973–75 recession. Mining employment had increased over the 1973–75 recession and had continued to increase in 1975–77. Much of the contrast in growth in the postrecession periods is tied to energy markets—coal, natural gas, and crude oil.

Government.—Employment increases in government were sluggish in comparison with both private service-producing and goods-producing industries; it increased only 0.2 million, or ½ percent at an annual rate, over the 2 years. Government accounted for about one-sixth of total nonfarm employment, but only 4 percent of the 2-year increase—reflecting efforts to hold down employment levels. Employment did regain the prerecession peak as it had in 1975–77. In contrast to that period, 1982–84 growth was slow in both the Federal and the State and local components; in 1975–77, Federal Government employment had declined, and State and local government employment had increased more rapidly.

Average weekly hours by industry

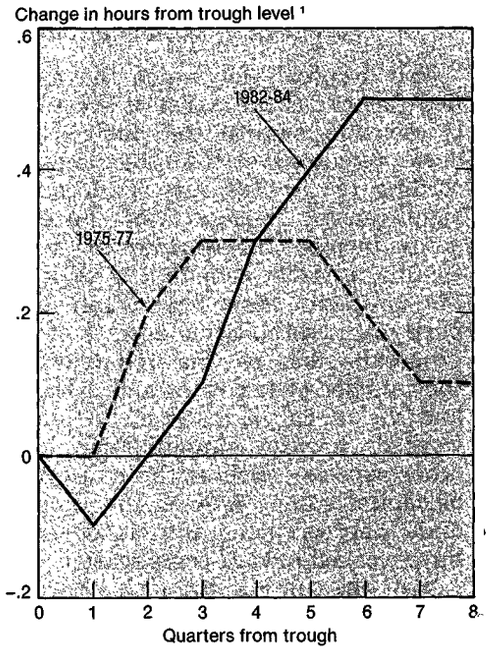
Despite an initial decline in the fourth quarter of 1982, average weekly hours for private nonfarm production and nonsupervisory workers increased 0.5 hours in the 2 years following the third-quarter trough in real GNP (chart 4).[8] The increase was strong in comparison with the 0.1-hour increase in 1975–77. As with employment, private nonfarm hours regained the prerecession peak—35.2 hours—in the fourth quarter of 1983; hours reached 0.1 hours above that level in the first three quarters of 1984. Three-fifths of the increase following the 1981–82 recession occurred in the first year; increases in the first year following the 1973–75 recession had more than accounted for the 1975–77 increase.

The increase in average weekly hours was broadly based; hours increased over the postrecession period in all but one major industry group;

8. As an input to production, each 0.1-hour increase in hours for private nonfarm production workers was equivalent to an increase in employment of about 170–180 thousand.

CHART 4

Average Weekly Hours



1. Troughs in real GNP in 1975: I and 1982: III.

U.S. Department of Commerce, Bureau of Economic Analysis 84-12-4

Table 4.—Average Weekly Hours

[Seasonally adjusted]

	Hours			Change	
	1981:III	1982:III	1984:III	1975:I–1977:I	1982:III–1984:III
Total private nonfarm	**35.2**	**34.8**	**35.3**	**0.1**	**0.5**
Private service-producing industries:					
Transportation and public utilities	39.3	39.0	39.6	.1	.6
Wholesale and retail trade	32.2	31.9	32.0	−.5	.1
Finance, insurance, and real estate[1]	36.2	36.3	36.6	−.1	.3
Services	32.5	32.7	32.7	−.6	0
Goods-producing industries:					
Manufacturing	39.7	39.0	40.5	1.1	1.5
Overtime	2.8	2.3	3.3	.9	1.0
Durables	40.2	39.3	41.2	1.0	1.9
Overtime	2.8	2.2	3.5	.9	1.3
Nondurables	39.1	38.5	39.4	1.4	.9
Overtime	2.8	2.5	3.0	.8	.5
Construction [1]	37.0	37.5	38.6	.6	1.1
Mining [1]	43.9	42.4	43.5	.9	1.1

1. Based on unadjusted estimates.

NOTE.—The cyclical troughs in real GNP were 1975:I for the 1973–75 recession, and 1982:III for the 1981–82 recession.

Source: Bureau of Labor Statistics.

hours in services were unchanged. The largest increases were in goods-producing industries, which had suffered the largest drops in the recession. In 1975–77, no industry group had regained its prerecession peak; in 1982–84, however, most regained their prerecession peaks.

Private service-producing industries.—Average weekly hours increased slightly, on average, in service-producing industries in 1982–84; hours had declined in 1975–77 (table 4). Hours regained prerecession peaks in transportation and public utilities. Hours in finance, insurance, and real estate and in services had increased over the recession. Hours in the former continued to increase in 1982–84, while those in the latter were unchanged. Hours did not regain prerecession peaks in wholesale and retail trade. None of the groups had regained prerecession peaks in 1975–77; in fact, hours declined in all but transportation and public utilities.

Goods-producing industries.—Average weekly hours increased even more strongly in manufacturing, construction, and mining in 1982–84 than they had in 1975–77. Prerecession peaks were regained in manufacturing (including that for overtime) and in construction. In manufacturing, almost all of the increase occurred in the first year, and probably reflected employers' use of increased hours rather than recalls or new hires to boost production early in the recovery. The increase in construction continued an increase over the preceding recession. In mining, where the prerecession peak was not regained, most of the increase in hours occurred in the second year. Hours had not regained the prerecession peak in any goods-producing group in 1975–77. Comparison of the overall (net) increase in construction hours in 1982–84 with that in 1975–77 conceals sharp fluctuations in hours within each period; early in the 1975–77 period, hours had regained the prerecession peak.

Summary

The recovery and expansion in employment and hours for the nonfarm sector was strong in the 2 years following the 1982 trough in real GNP, but not among the strongest of the post-World War II recoveries. The 1982–84 increase in total labor input to production was more concentrated in the second year. Most of the increase in hours occurred in the first year, but most of the increase in employment occurred in the second. In 1975–77, the increase in total labor input had been more concentrated in the first year due to a strong increase in hours.

The recovery and expansion in employment was about the same as that following the 1973–75 recession, which was the median for the post-war period. Employment levels that had existed prior to the 1981–82 recession were, in general, regained in service-producing industries but not in goods-producing industries—about the same performance as in 1975–77. The strongest increases were registered in construction and services; employment declined in mining and increased only slowly in transportation and public utilities.

The recovery and expansion in average weekly hours was stronger than that in 1975–77. Prerecession hours levels, which had not been regained in the 1975–77 recovery, were regained in most industries in 1982–84. The strongest increases were registered in the three goods-producing industries—manufacturing, construction, and mining. Hours remained unchanged in services, after increasing over the recession, and increased only slightly in wholesale and retail trade.

Federal Fiscal Developments: The Tax Reform Proposal

In late November, the Department of the Treasury released the proposal for tax reform requested in the President's State of the Union message last January.[9] The proposal is designed to make the tax system more equitable, simpler, and more conducive to economic growth. If enacted, it would be

9. U.S. Department of the Treasury, Office of the Secretary, *Tax Reform for Fairness, Simplicity, and Economic Growth: The Treasury Department Report to the President,* Vol. 1 (Washington, DC: U.S. GPO, November 1984).

a significant revision of the tax system, including a substantial modification of the progressivity of the rate structure.

Before formulating the proposal, the Treasury completed a study of four options: a pure flat tax, a modified flat tax, a tax on income consumed, and a general sales tax, including a value-added tax and a Federal retail sales tax. The study laid out the following major objectives:

- *Revenue neutrality.* Reform would leave revenues essentially unchanged from what they would be under current law.
- *Economic neutrality.* Reform would not unnecessarily distort choices about how income is earned or how it is spent. It would not unduly favor leisure over work, or consumption over saving and investment.
- *Equity.* Reform would not place significantly different tax burdens on taxpayers in similar economic circumstances.
- *Lower tax rates.* Reform would keep tax rates as low as possible, given other objectives.
- *An unchanged distribution of tax burdens across income classes.* Reform would not significantly change tax burdens across income classes, but would alter the distribution of tax burdens within income classes.
- *Fairness for families.* Reform would assure that families with incomes below the poverty level would pay little or no tax.
- *An inflation-proof tax law.* Reform would provide inflation adjustments—indexation—in the measurement of taxable income.

The proposal—for which the modified flat tax is the basis—is essentially revenue neutral (see table 5), it does provide lower tax rates, and, according to the Treasury, it does not significantly change tax burdens across income classes. However, in designing a tax system that is simpler, the proposal may have been only partly successful. Some aspects of the proposal—such as the reduction in the number of tax rates and brackets and the repeal of many deductions—worked toward simplification, but other aspects—such as the indexation of capital gains, interest, inventories, and depreciation allowances—may have worked toward complication.

According to the Treasury, the proposal is an integrated package; changes are mutually dependent and must occur together to avoid inequities, distortions, complex administrative rules, and increased compliance costs. Any change in the package means that either the proposed rate structure or another proposal must be redesigned in order to meet the objectives mentioned above.

The proposal would reduce the average individual's income taxes by 8½ percent while raising corporation income taxes by 37 percent. Under the proposal, 78 percent of individual taxpayers would experience no tax change or a tax decrease, and 22 percent would experience higher taxes. Of individuals with higher taxes, more than one-half would have an increase of less than 1 percent of income. The gainers under the Treasury proposal are likely to be low-income families and middle-income individuals who have few deductions or credits. Losers are those who have many deductions and credits, or who live in States with high income taxes. Among corporations, gainers are likely to be in service and high-technology industries, while those in capital-intensive industries, petroleum companies, and banks would be losers.

Effective dates and transition rules

The Treasury proposal recognizes the difficulties in implementing such a sweeping revision to the tax system.

Table 5.—Effect of the Tax Simplification and Reform Proposals on Unified Budget Receipts

[Billions of dollars]

	Fiscal year				
	1986	1987	1988	1989	1990
Total	**0.5**	**−5.8**	**3.9**	**10.3**	**3.9**
Individual income taxes	**−22.1**	**−36.6**	**−25.2**	**−25.9**	**−37.7**
Reduction	−36.3	−102.0	−118.5	−134.7	−161.7
Rate	−33.8	−92.7	−106.7	−118.2	−132.1
Indexation:					
Interest income and expense			−1.4	−12.8	−13.0
Capital gains			.5	6.4	−5.6
Earned income tax credit		−.2	−.4	−.5	−.6
Tax-exempt bonds	−1.1	−4.2	−5.3	−4.0	−4.3
Individual retirement accounts	−1.0	−2.8	−3.0	−3.3	−3.6
Other	−.4	−2.1	−2.2	−2.3	−2.5
Increases	14.3	65.0	93.2	108.7	123.8
Repeal and limiting of deductions:					
State and local taxes	2.4	18.6	33.9	35.7	38.7
Charitable contributions	1.5	7.1	6.0	6.5	7.0
Interest	.4	1.4	1.5	1.8	1.8
Other	.5	2.2	2.4	2.6	2.8
Repeal and limiting of exclusions:					
Health insurance premiums		4.6	8.0	9.8	11.9
Cafeteria plans	.2	.7	1.6	2.7	3.2
Group life insurance premiums		1.6	2.6	2.8	3.0
Workers' compensation		.2	1.5	1.9	2.1
Veterans' service disability compensation		.9	1.5	1.5	1.6
Unemployment benefit threshold		.5	1.5	1.4	1.3
Other	.3	1.2	1.4	1.5	1.6
Economic depreciation	.7	2.9	6.1	9.7	12.9
Dividend relief		.2	1.5	4.5	7.4
Investment tax credit	1.5	4.3	5.0	5.7	6.2
Other	6.7	18.7	18.8	20.6	22.4
Corporation income taxes	**22.2**	**30.6**	**29.3**	**38.1**	**44.7**
Reductions	−16.9	−54.0	−80.6	−93.4	−109.5
Rate	−12.5	−35.3	−46.5	−51.0	−58.4
Dividend relief		−9.8	−20.7	−29.0	−38.2
Indexation:					
Interest income and expense			−3.3	−5.7	−6.2
Inventories	−3.1	−6.0	−6.0	−5.9	−5.8
Capital gains	−.5	−1.3	−2.1	.6	1.8
Research and development credit	−.6	−1.2	−1.5	−1.7	−1.9
Other	−.2	−.4	−.5	−.7	−.8
Increases	39.1	84.4	109.7	131.7	154.4
Economic depreciation	6.0	18.9	35.6	51.9	68.1
Investment tax credit	13.0	23.5	26.6	29.2	31.7
Multiperiod construction	1.9	5.1	8.8	11.9	13.9
Graduated corporate rate	1.6	6.0	7.9	7.8	7.9
Foreign taxes	1.0	3.2	4.4	5.0	5.4
Intangible drilling costs	4.8	7.0	5.4	4.7	4.6
Tax-exempt bonds	1.9	5.1	5.0	4.3	4.6
Property and casualty insurance	2.0	3.3	3.4	3.5	3.6
State and local bonds	.5	1.4	1.7	2.0	2.3
Other	6.4	10.9	10.9	11.4	12.3
Estate and gift taxes	.2	−.1	−.1	−.1	−.1
Excise taxes	.2	.3	−.1	−1.7	−3.1

Source: Department of the Treasury.

NOTE.—The estimates are based on the economic assumptions included in the midsession review of the unified budget. See the August 1984 SURVEY OF CURRENT BUSINESS for a presentation of those assumptions.

The proposed effective dates and transition rules assume that legislation is introduced in early 1985, enactment is July 1, 1985, and the general effective date is January 1, 1986. The proposed transition rules can be divided into four general categories.

1. *Immediate implementation.* In many cases, the Treasury recommends that the proposals be implemented immediately. Changes in the zero bracket amount, personal exemptions, and a variety of credits and deductions fall into this category; changes in individual and corporate tax rates would be delayed 6 months to achieve the goal of revenue neutrality in the initial year after enactment. The special preferences for energy and natural resource industries would be repealed immediately. To reduce the impact of immediate implementation, the repeal of the windfall profit tax would be accelerated by 3 years, with the scheduled three-quarter phaseout beginning on January 1, 1988 instead of January 1, 1991.

2. *Immediate implementation with grandfathering.* Grandfathering provisions—that is, provisions that exempt commitments entered into prior to the legislation—are recommended to avoid reform-induced windfall gains and losses. Permanent grandfathering is recommended, for example, for existing commitments to accelerated cost recovery and the investment tax credit. Temporary grandfathering is recommended, for example, for fringe benefits. For most, the new rules will apply as contracts expire or, at the latest, January 1, 1989, but in the case of the two largest fringe benefits—employer-provided health care and life insurance—the new rules will be fully effective January 1, 1990. In addition, for those cases where tax-sheltered income is brought into the tax base, it is recommended that the increase in income tax be spread evenly over a fixed number of years for tax purposes.

3. *Phased-in implementation.* The Treasury recommends phased-in implementation for dividend relief, elimination of the deduction for State

Table 6.—Major Provisions of Current Law and Department of the Treasury Proposals

	Current law for 1986	Department of the Treasury proposals
Individual income taxes		
Tax rates	14 rate brackets, from 11 to 50 percent.	3 rate brackets of 15, 25, and 35 percent.
Personal exemption	$1,090	$2,000.
Zero bracket amount:		
Single return	$2,510	$2,800.
Joint return	$3,710	$3,800.
Heads of household return	$2,510	$3,500.
Indexation of rates, exemptions, and zero bracket amount.	Yes	Yes.
Personal deductions:		
Mortgage interest	Yes	Yes, limited to principal residence.
Other personal interest	Yes	Yes, limited to $5,000 over investment income.
Medical expenses	Yes, above 5 percent of adjusted gross income.	Yes, above 5 percent of adjusted gross income.
Charitable contributions	Yes	Yes, above 2 percent of adjusted gross income but no deduction for unrealized gains on contributed property.
State and local income taxes	Yes	No.
Other State and local taxes	Yes	No, unless incurred in income-producing activity.
Two-earner	Yes	No.
Earned income credit	Yes	Yes, but indexed.
Child care credit	Yes	No, but new deduction.
Unemployment compensation	Taxed if adjusted gross income over $12,000 (single) or $18,000 (married).	Taxed.
Workers' compensation	Not taxed	Taxed, but special credit for elderly and disabled.
Entertainment expenses	Deduction	No.
Business meals and travel expenses.	Deduction	Capped.
Income shifting to children via trust.	Permissible	Curtailed.
Retirement:		
Individual retirement account contribution.	$2,000, $250 for spouse	$2,500 for both.
Social Security benefits	Generally not taxed	Generally not taxed.
Corporate pension contributions.	Not taxed	Not taxed.
Health insurance premiums	Not taxed	Capped exclusion.
Group life insurance premiums.	Not taxed	Taxed.

	Current law for 1986	Department of the Treasury proposals
Business and capital income taxes		
Corporate tax rates	Graduated, up to 46 percent	33 percent flat rate.
Dividend relief	$100 (single), $200 (married) exclusion.	No exclusion, 50 percent dividend-paid deduction.
Depreciation	Accelerated cost recovery system.	Economic depreciation with indexation.
Investment tax credit	6 to 10 percent	No.
Capital gains	60 percent excluded	Indexed and taxed as ordinary income
Interest:		
Income	Taxed	Indexed, partially excluded.
Expense	Deduction	Indexed, partially nondeductible.
Rehabilitation and energy credits.	Yes	No.
Inventory accounting:		
LIFO conformity requirement.	Yes	No.
LIFO	Not indexed	Indexed.
Uniform production cost rules	No	Yes.
Bad debt reserve	Deduction	No.
Property installment sales	Deferral of tax on sales income.	No tax deferral unless receivables pledged.
Oil industry:		
Percentage depletion	Yes	No, indexed cost depletion.
Expense intangible drilling costs.	Yes	No.
Windfall profits tax	Yes	Accelerate phase-out.
Financial institutions:		
Special bad debt deduction	Yes	No.
Interest deduction to carry tax-exempt bonds.	Yes	No.
Exemption of credit unions	Yes	No.
Deferral of life insurance investment and annuity income.	Yes	No.
Municipal bonds:		
Public purpose	Not taxed	Not taxed.
Private purpose	Not taxed	Taxed.

Source: Department of the Treasury.

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Table 7.—Proposed Individual Income Tax Rates for 1986

Marginal tax rate (percent)	Taxable income by type of return			
	Single	Joint	Head of household	Married filing separately
0	Less than $2,800.	Less than $3,800.	Less than $3,500.	Less than $1,900.
15	$2,800 to $19,300.	$3,800 to $31,800.	$3,500 to $25,000.	$1,900 to $15,900.
25	$19,300 to $38,100.	$31,800 to $63,800.	$25,000 to $48,000.	$15,900 to $31,900.
35	$38,100 and over.	$63,800 and over.	$48,000 and over.	$31,900 and over.

Source: Department of the Treasury.

NOTE.—Taxable income is equal to adjusted gross income less $2,000 for each exemption for a taxpayer or dependent.

Table 8.—Revisions in Selected Component Series of the NIPA's, Third Quarter of 1984

	Seasonally adjusted at annual rates			Percent change from preceding quarter at annual rates	
	45-day estimate	75-day estimate	Revision	45-day estimate	75-day estimate
	Billions of current dollars				
GNP	**3,695.2**	**3,694.6**	**−0.6**	**5.7**	**5.6**
Personal consumption expenditures	2,360.8	2,361.4	.6	4.9	5.0
Nonresidential fixed investment	438.5	435.7	−2.8	17.9	14.9
Residential investment	155.4	155.3	−.1	−.6	−.6
Change in business inventories	68.5	71.8	3.3		
Net exports	−89.9	−90.6	−.7		
Government purchases	762.0	761.0	−1.0	10.2	9.6
National income	**2,983.4**	**2,984.9**	**1.5**	**5.3**	**5.6**
Compensation of employees	2,191.9	2,191.9	0	6.2	6.2
Corporate profits with inventory valuation and capital consumption adjustments	281.5	282.8	1.3	−12.5	−10.9
Other	510.0	510.2	.2	13.1	13.3
Personal income	**3,046.7**	**3,047.3**	**.6**	**8.6**	**8.7**
	Billions of constant (1972) dollars				
GNP	**1,646.5**	**1,645.2**	**−1.3**	**1.9**	**1.6**
Personal consumption expenditures	1,065.6	1,065.9	.3	.6	.7
Nonresidential fixed investment	210.5	209.5	−1.0	15.9	13.7
Residential investment	60.1	60.1	0	−4.6	−4.6
Change in business inventories	30.0	30.6	.6		
Net exports	−26.6	−27.0	−.4		
Government purchases	306.8	306.1	−.7	6.4	5.4
	Index numbers, 1972=100 [1]				
GNP implicit price deflator	224.44	224.57	.13	3.7	3.9
GNP fixed-weighted price index	235.1	235.1	0	4.0	4.0
GNP chain price index				3.9	3.9

1. Not at annual rates.

NOTE.—For the third quarter of 1984, the following revised or additional major source data became available: For *personal consumption expenditures,* revised retail sales for September, consumer share of new car purchases for September, and consumption of electricity for September; for *nonresidential fixed investment,* revised manufacturers' shipments of equipment for September, revised construction put in place for September, and business share of new car purchases for September; for *residential investment,* revised construction put in place for September, and residential alterations and repairs for the quarter; for *change in business inventories,* revised book values for manufacturing and trade for September; for *net exports of goods and services,* revised merchandise trade and revised service receipts for the quarter; for *government purchases of goods and services,* revised construction put in place for September; for *wages and salaries,* revised employment, average hourly earnings, and average weekly hours for September; for *net interest,* financial assets held by households for September, and revised net interest received from abroad for the quarter; for *corporate profits,* revised domestic book profits for the quarter, and revised profits from the rest of the world for the quarter; and for *GNP prices,* revised residential housing prices for the quarter.

and local taxes, the limit on charitable contributions, elimination of the graduated corporate tax rates, the limit on interest deductions, and elimination of the business deductions for entertainment expenses and for meal and travel costs in excess of a limit.

4. *Delayed implementation.* For various reasons, the Treasury recommends delayed implementation for many of the changes in the taxation of estates, certain military cash compensation, and unemployment and workers' compensation (January 1, 1987); interest indexing (January 1, 1988); indexing capital gains on nondepreciable assets (January 1, 1989); and repeal of the individual and corporate minimum taxes (January 1, 1990).

The remainder of this article will discuss the major features of the Treasury proposals (see tables 6 and 7). The effect for the year 1990 is referred to in order to encompass the full implementation of the proposals.

Individual income taxes

Individual income taxes are reduced $37.7 billion in 1990 by the Treasury proposal, the net result of $161.7 billion in tax reductions and $123.8 billion in tax increases. Changes in the tax rate structure (including the effect of indexation of rates, exemptions, and the zero bracket amount) account for the bulk of the proposed reductions. The current set of 14 rate brackets, ranging from 11 percent to 50 percent, is changed to a modified flat tax with 3 rate brackets (see table 3 for proposed rates and brackets). The indexation of interest income and expense, capital gains, and the earned income tax credit accounts for $19.2 billion of the reductions. The proposal to index interest introduces some complications into the tax code. Mortgage interest on an individual's primary residence is fully deductible. Other interest expense is then netted against interest income to derive net interest income (or expense). If the taxpayer has net interest income, a portion—the fractional interest exclusion—of this net income would be excluded in determining adjusted gross income (AGI); the remainder would be included in AGI. If the taxpayer has net interest expense, the first $5,000 would be deductible, and the excess of $5,000 would be subject to the fractional exclusion rate in determining the amount that would be deductible. Other provisions of the interest indexation proposal place limits on the total amount of net interest expense that can be deducted in 1 year. The fractional exclusion rate, announced each year, is to be set to reflect the relationship between the current rate of inflation—measured by the percentage increase in the Consumer Price Index over the previous 12 months—and the longrun real interest rate. The desired relationship is approximated by dividing the inflation rate by the nominal interest rate. For example, assuming an inflation rate of 4 percent and a nominal interest of 10 percent, the exclusion rate would be 40 percent. Thus, 40 percent of nominal net interest income will not be taxed.

The repeal and limiting of deductions account for the largest share—$50.3 billion—of the proposed increases and include: (1) repeal of the deduction for State and local government taxes, and (2) limiting the deduction for charitable contributions to those above 2 percent of AGI. The repeal and limiting of exclusions account for $20.2 billion of the increases and include taxing: (1) employer-paid health insurance premiums in excess

of $70 per month for a single person and $175 per month for a family, and (2) workers' compensation, but with a special credit for the elderly and disabled. The proposal to repeal the accelerated cost recovery system (ACRS) for depreciation and replace it with an indexed economic depreciation—the real cost recovery system—increases taxes $12.9 billion.

The proposal to provide relief from double taxation of dividends by allowing a 50-percent dividend-paid deduction to corporations increases individual income taxes $7.4 billion (based on the assumption that more dividends will be paid by corporations).

Corporation income taxes

Corporation income taxes are increased $44.7 billion in 1990 by the Treasury proposal, the net result of $109.5 billion in tax reductions and $154.4 billion in tax increases. Changing the rate structure from a graduated tax rate, up to 46 percent, to a flat rate of 33 percent accounts for the bulk of the reductions. The major increase occurs from repeal of ACRS and replacing it with indexed economic depreciation. Repeal of the investment tax credit and applying uniform rules for multiperiod construction increase taxes $31.7 billion and $13.9 billion, respectively.

Other taxes

Estate and gift taxes are reduced slightly by a proposal to unify the estate and gift tax structure by conforming the computation of the gift tax base to that of the estate tax. Excise taxes are reduced $3.1 billion in 1990 by the proposal to accelerate the phase-out of the windfall profit tax.

* * *

Third-quarter NIPA revisions

The 75-day revisions of the national income and product accounts estimates for the third quarter of 1984 are shown in table 8.

Summary of BEA Staff Paper

Cyclical Adjustment of the Federal Budget and Federal Debt: Detailed Methodology and Estimates

By Thomas M. Holloway

This paper describes the models that BEA uses to estimate the cyclically adjusted Federal budget and inflation-induced changes in the cyclically adjusted budget. The quarterly data for the variables in the models and the regression equations underlying the coefficients in the models are presented. The paper also discusses the cyclical adjustment of Federal debt and shows some results. Finally, the paper presents some simplified estimation procedures that approximate the results of the complete models, but have much more limited data requirements.

This paper, which is No. 40 in the BEA Staff Paper series, may be ordered from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402. The telephone number is (202) 783-3238. The stock number is 003-010-00126-7; price, $7.50. A supplement to the staff paper provides revisions and updates of the quarterly data from the first quarter of 1981 to the second quarter of 1984. The supplement is available upon request from the Government Division (BE-57), Bureau of Economic Analysis, U.S. Department of Commerce, Washington, DC 20230.

Reconciliation and Other Special Tables

Table 1.—Relation of Net Exports of Goods and Services in the National Income and Products Accounts (NIPA's) to Balance on Goods and Services in the Balance of Payments Accounts (BPA's)

[Billions of dollars]

Line		1983	Seasonally adjusted at annual rates		
			1984		
			I	II	III
1	Exports of goods and services, BPA's	332.2	362.8	355.6	366.7
2	Less: Gold, BPA's	1.7	1.5	1.6	3.2
3	Capital gains net of losses in direct investment income receipts.	−6.5	1.3	−12.0	−10.1
4	Statistical differences [1]	0	.4	2.6	2.6
5	Other items	.9	.8	1.0	2.3
6	Equals: Exports of goods and services, NIPA's	336.2	358.9	362.4	368.6
7	Imports of goods and services, BPA's	365.1	432.9	445.8	487.0
8	Less: Payments of income on U.S. Government liabilities	17.0	18.7	19.1	20.3
9	Gold, BPA's	2.4	2.8	3.9	3.5
10	Capital gains net of losses in direct investment income payments.	.6	1.1	−.2	2.1
11	Statistical differences [1]	0	.1	1.8	1.8
12	Other items				
13	Plus: Gold, NIPA's	0	.2	−.1	−.1
14	Equals: Imports of goods and services, NIPA's	344.4	410.4	421.1	459.3
15	Balance on goods and services, BPA's (1-7)	−32.9	−70.1	−90.2	−120.3
	Less: Gold (2-9+13)	−7	−1.2	−2.4	−.4
17	Capital gains net of losses in direct investment income (3-10).	−7.2	.2	−11.8	−12.2
18	Statistical differences (4-11)	0	.2	.8	.8
19	Other items (5-12)	.9	.8	1.0	2.3
20	Plus: Payments of income on U.S. Government liabilities (8).	17.7	18.7	19.1	20.3
21	Equals: Net exports of goods and services, NIPA's (6-14)	−8.3	−51.5	−58.7	−90.6

1. Consists of statistical revisions in the BPA's that have not yet been incorporated in the NIPA's.

Table 2.—Real Gross National Product and National Income, Command Over Goods and Services, and Related Series

[Billions of 1972 dollars]

	1983	Seasonally adjusted at annual rates				
		1983		1984		
		III	IV	I	II	III
GNP	**1,534.7**	**1,550.2**	**1,572.7**	**1,610.9**	**1,638.8**	**1,645.2**
Gross domestic purchases	1,522.1	1,538.3	1,570.7	1,619.2	1,650.2	1,672.2
Net exports of goods and services	12.6	11.9	2.0	−8.3	−11.4	−27.0
National income	**1,214.5**	**1,229.8**	**1,248.4**	**1,279.8**	**1,309.9**	**1,316.0**
Command, GNP basis	**1,519.0**	**1,532.3**	**1,559.7**	**1,599.9**	**1,628.5**	**1,637.8**
Gross domestic purchases	1,522.1	1,538.3	1,570.7	1,619.2	1,650.2	1,672.2
Net exports of goods and services [1]	−3.0	−5.9	−11.0	−19.2	−21.8	−34.4
Command, national income basis	**1,200.7**	**1,214.0**	**1,236.7**	**1,270.1**	**1,300.6**	**1,309.4**
	Percent change from preceding period					
GNP	3.7	6.8	5.9	10.1	7.1	1.6
Command, GNP basis	4.3	6.4	7.3	10.7	7.3	2.3
National income	3.6	8.4	6.2	10.5	9.7	1.9
Command, national income basis	4.2	8.0	7.7	11.2	10.0	2.8
Addendum:						
Terms of trade [2]	88.8	87.4	90.8	92.4	92.9	95.0

1. Equals current-dollar net exports of goods and services deflated by the implicit price deflator for imports of goods and services.
2. Equals the ratio of the implicit price deflator for exports of goods and services to the implicit price deflator for imports of goods and services.