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CORPORATE PROFITS - FOURTH QUARTER 1970

Before-tax book profits of corporations declined in the fourth quarter of 1970 to a seasonally adjusted annual rate of \$77-1/2 billion, according to preliminary estimates released today by the Commerce Department's Office of Business Economics. This was \$7 billion below the third-quarter rate, and more than \$15 billion below the record reached in the first half of 1969.

The fourth-quarter drop in pre-tax profits centered in durable goods manufacturing, largely a reflection of losses due to the GM strike. Earnings were also somewhat lower for nondurable goods manufacturers, but for most nonmanufacturing groups they were higher or relatively unchanged.

Corporate profits tax liability declined \$3-1/2 billion, to \$35-1/2 billion at a seasonally adjusted annual rate, and after-tax earnings dropped \$3-1/4 billion, to \$42 billion. With dividends down \$1/4 billion, retained earnings fell \$3 billion. Capital consumption allowances (mainly depreciation charges) continued to advance and corporate cash flow reached \$72 billion, \$2 billion below the third-quarter rate.

The book profits measure includes gains or losses due to the difference between the replacement cost of goods taken out of inventory and the cost at which they are charged to production. However, when OBE measures profits for national income purposes, such inventory profits or losses are excluded through an "inventory valuation adjustment" (IVA).

[More]

Fourth-quarter inventory profits were almost \$3 billion less than in the third quarter, as wholesale prices rose at a somewhat slower pace. As a result, the national income measure of pre-tax corporate profits declined \$4 billion, \$3 billion less than book profits, to \$74-1/2 billion in the fourth quarter.

For the year 1970, pre-tax book profits declined to \$81-1/2 billion, \$9-1/2 billion below the total for 1969. Tax liability fell \$5 billion, to \$37-1/2 billion, and after-tax earnings dropped to \$44 billion. Net dividend payments rose \$1/2 billion in 1970, leaving undistributed profits at \$19 billion, \$5 billion below the 1969 level. With inventory profits in the year 1970 almost the same as in 1969, the national income measure of profits declined \$9 billion, about the same as book profits, to \$76-3/4 billion.

The 1970 drop in book profits also centered in durable goods manufacturing, where most industries had lower earnings than in 1969. Within durable goods manufacturing, the largest year-to-year decline was in the automobile industry which had a poor year even apart from the strike.

The accompanying tables show: (1) corporate profits and the other components of national income; and (2) prices, costs, and profits per unit of output for nonfinancial corporations. Additional data will appear in the March issue of the Survey of Current Business, the monthly magazine of the Office of Business Economics.

The Survey is available from the Field Offices of the Department of Commerce or from the Superintendent of Documents, U.S. Government Printing Office, Washington, D. C. 20402, at an annual subscription price of \$9, including weekly supplements; single copy \$1.

Table 1

NATIONAL INCOME BY TYPE OF INCOME
(Billions of dollars)

	1968	1969	1970 ^{1/}	1969	1970			
				IV	I	II	III	IV ^{1/}
				Seasonally adjusted at annual rates				
National income	712.7	769.5	800.4	785.2	791.5	797.4	806.6	806.0
Compensation of employees	514.1	564.2	599.8	582.1	592.2	596.4	603.8	606.7
Wages and salaries	464.8	509.0	540.1	525.3	534.4	537.4	543.4	545.2
Private	369.1	404.9	426.1	417.2	422.6	424.0	428.9	429.1
Military	17.9	19.0	19.3	19.6	20.1	19.5	19.1	18.6
Government civilian	77.8	85.1	94.6	88.5	91.7	93.9	95.4	97.5
Supplements to wages and salaries	49.3	55.1	59.7	56.8	57.9	59.0	60.4	61.4
Employer contributions for social insurance	24.3	27.5	29.3	28.3	28.6	29.0	29.6	29.9
Other labor income	24.9	27.6	30.4	28.5	29.3	30.0	30.8	31.5
Proprietors' income	64.1	66.8	67.6	67.2	67.6	67.8	67.8	67.4
Business and professional	49.1	50.5	51.4	50.6	50.6	51.2	51.7	52.0
Farm	15.0	16.4	16.2	16.6	17.0	16.5	16.1	15.3
Rental income of persons	21.3	22.0	22.7	22.3	22.5	22.6	22.7	23.0
Corporate profits and inventory valuation adjustment	85.4	85.8	76.8	82.0	76.7	77.5	78.4	74.5
Profits before tax	88.7	91.2	81.6	88.5	82.6	82.0	84.4	77.5
Profits tax liability	40.6	42.7	37.6	41.4	38.0	38.1	38.9	35.4
Profits after tax	48.2	48.5	44.0	47.1	44.6	43.9	45.4	42.1
Dividends	23.3	24.7	25.2	25.2	25.2	25.1	25.4	25.1
Undistributed profits	24.9	23.9	18.8	21.9	19.4	18.8	20.0	16.9
Inventory valuation adjustment	-3.3	-5.4	-4.8	-6.5	-5.8	-4.5	-5.9	-3.0
Net interest	27.8	30.7	33.5	31.7	32.4	33.1	33.8	34.5

^{1/} Fourth quarter 1970 corporate profits and related totals are preliminary and subject to revision next month.

USC COMM-DC 29319-P66

NONFINANCIAL CORPORATIONS: GROSS PRODUCT AND UNIT COSTS^{1/}

	1968	1969	1970 ^{2/}	1969	1970				
				IV	I	II	III	IV ^{2/}	
				Seasonally adjusted at annual rates					
				Billions of dollars					
Gross product originating in nonfinancial corporations	470.2	506.5	519.2	514.6	514.4	518.4	524.2	519.9	
Capital consumption allowances	45.1	48.3	51.9	49.5	50.4	51.4	52.3	53.4	
Indirect business taxes plus transfer payments less subsidies	42.9	46.5	49.8	47.7	48.4	49.4	50.6	50.8	
Compensation of employees	301.2	329.9	344.3	339.1	342.3	342.9	346.8	345.2	
Wages and salaries	268.6	293.5	305.6	301.8	304.4	304.6	307.6	305.7	
Supplements to wages and salaries	32.6	36.3	38.7	37.3	37.9	38.3	39.2	39.5	
Net interest	10.5	12.6	14.1	13.3	13.6	13.9	14.2	14.5	
Corporate profits and inventory valuation adjustment	70.4	69.4	59.2	65.1	59.6	60.7	60.3	56.1	
Profits before tax	73.7	74.8	64.0	71.6	65.4	65.2	66.2	59.1	
Profits tax liability	34.7	36.1	30.4	34.6	31.1	31.0	31.5	28.1	
Profits after tax	39.0	38.7	33.6	37.0	34.3	34.2	34.7	30.9	
Dividends	20.6	21.6	21.8	22.0	21.8	22.0	21.8	21.5	
Undistributed profits	18.4	17.1	11.8	15.1	12.5	12.3	12.9	9.5	
Inventory valuation adjustment	-3.3	-5.4	-4.8	-6.5	-5.8	-4.5	-5.9	-3.0	
				Billions of 1958 dollars					
Gross product originating in nonfinancial corporations	415.1	432.5	425.3	433.0	428.4	427.7	427.7	417.7	
				Dollars					
Current dollar cost per unit of 1958 dollar gross product originating in nonfinancial corporations ^{3/}	1.133	1.171	1.221	1.188	1.201	1.212	1.226	1.245	
Capital consumption allowances . . . . .	.109	.112	.122	.114	.118	.120	.122	.128
Indirect business taxes plus transfer payments less subsidies . . . . .	.103	.107	.117	.110	.113	.116	.118	.122
Compensation of employees . . . . .	.726	.763	.810	.783	.799	.802	.811	.826
Net interest . . . . .	.025	.029	.033	.031	.032	.033	.033	.035
Corporate profits and inventory valuation adjustment . . . . .	.170	.160	.139	.150	.139	.142	.141	.134
Profits tax liability . . . . .	.084	.083	.072	.080	.073	.072	.074	.067
Profits after tax plus inventory valuation adjustment . . . . .	.086	.077	.068	.070	.067	.069	.067	.067

^{1/} Excludes gross product originating in the rest of the world.^{2/} Fourth quarter 1970 corporate profits and related totals are preliminary and subject to revision next month.^{3/} This is equal to the deflator for gross product of nonfinancial corporations, with the decimal point shifted two places to the left.