

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

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REAL GROSS domestic product (GDP) increased 3.9 percent in the fourth quarter of 1997, according to the "preliminary" estimates of the national income and product accounts (NIPAs) (table 1 and chart 1); the "advance" estimate of real GDP, reported in the February "Business Situation," had shown a 4.3-percent increase.¹ The downward revision was more than accounted for by a large downward revision to net exports; government spending and consumer spending were also revised down, but by much less. These downward revisions were partly offset by a large upward revision to business inventory investment. Business fixed investment was re-

vised very little. (The sources of these revisions are discussed in the "Revisions" section.)

The picture of the economy presented by the preliminary estimates is somewhat changed from that presented by the advance estimates. As in the advance estimates, real GDP growth accelerated in the fourth quarter, and the acceleration was

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates unless otherwise specified. Quarter-to-quarter dollar changes are differences between published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded index numbers. Real estimates are expressed in chained (1992) dollars. Price indexes are chain-type measures.

Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers

[Seasonally adjusted at annual rates]

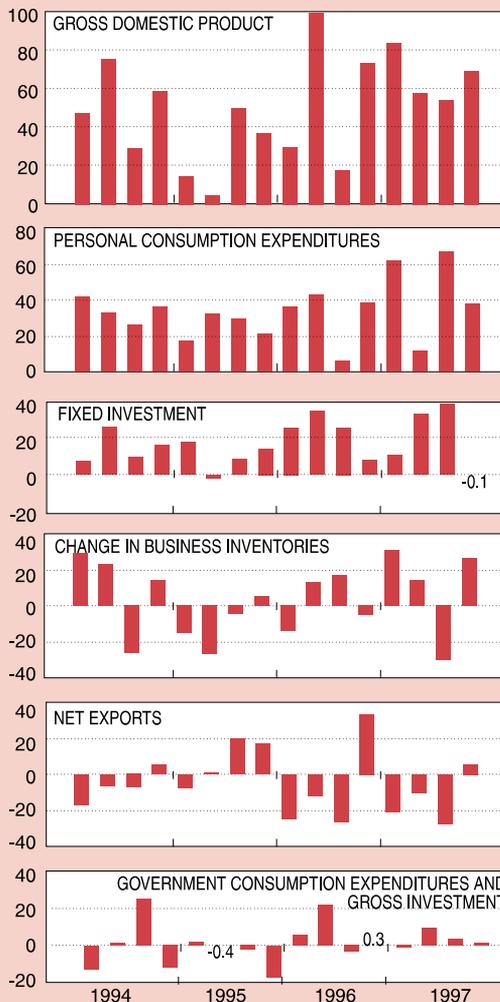
| | Billions of chained (1992) dollars | | | | | Percent change from preceding quarter | | | |
|--|------------------------------------|-------------------------------|-------------|--------------|-------------|---------------------------------------|------------|------------|------------|
| | Level | Change from preceding quarter | | | | 1997 | | | |
| | | 1997 | | | | I | II | III | IV |
| | IV | I | II | III | IV | | | | |
| Gross domestic product | 7,283.3 | 84.2 | 58.0 | 54.4 | 69.3 | 4.9 | 3.3 | 3.1 | 3.9 |
| Less: Exports of goods and services | 996.4 | 21.6 | 39.8 | 10.5 | 23.4 | 9.9 | 18.4 | 4.4 | 10.0 |
| Plus: Imports of goods and services | 1,154.9 | 42.3 | 50.2 | 38.0 | 17.8 | 17.9 | 20.5 | 14.6 | 6.4 |
| Equals: Gross domestic purchases | 7,428.7 | 102.5 | 66.0 | 77.7 | 64.1 | 5.9 | 3.7 | 4.3 | 3.5 |
| Less: Change in business inventories | 74.0 | 30.8 | 13.9 | -30.1 | 26.5 | ..... | ..... | ..... | ..... |
| Equals: Final sales to domestic purchasers | 7,349.7 | 70.4 | 51.6 | 106.2 | 38.8 | 4.0 | 2.9 | 6.0 | 2.1 |
| Personal consumption expenditures | 4,933.5 | 61.7 | 11.3 | 66.8 | 37.3 | 5.3 | .9 | 5.6 | 3.1 |
| Nonresidential fixed investment | 866.6 | 8.1 | 28.1 | 37.5 | -7.9 | 4.1 | 14.6 | 19.2 | -3.5 |
| Residential investment | 286.7 | 2.2 | 4.9 | 1.9 | 6.6 | 3.3 | 7.4 | 2.7 | 9.7 |
| Government consumption expenditures and gross investment | 1,274.7 | -1.3 | 9.6 | 3.3 | 1.3 | -4 | 3.1 | 1.1 | .4 |
| Federal | 456.4 | -6.8 | 7.3 | -1.3 | -2.4 | -5.8 | 6.6 | -1.1 | -2.1 |
| State and local | 818.3 | 5.4 | 2.4 | 4.6 | 3.6 | 2.7 | 1.2 | 2.3 | 1.8 |
| Addendum: Final sales of domestic product | 7,204.5 | 52.4 | 43.6 | 82.6 | 44.2 | 3.0 | 2.5 | 4.7 | 2.5 |

NOTE.—Chained (1992) dollar series are calculated as the product of the chain-type quantity index and the 1992 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1992) dollar levels and residuals, which measure the extent of nonadditivity in each table, are found in NIPA tables 1.2, 1.4 and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are found in NIPA table 8.1. Contributions of the major components to the quarter-to-quarter percent change in real GDP are in table 8.2.

CHART 1

Real Product: Change from Preceding Quarter

Billion chained (1992) \$



Based on Seasonally Adjusted Annual Rates

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

more than accounted for by upturns in business inventory investment and in net exports.² However, the “preliminary” estimates show a much sharper deceleration in real final sales of domestic product—GDP less the change in business inventories—than was shown by the advance estimates. According to the preliminary estimates, real final sales of domestic product increased 2.5 percent in the fourth quarter after increasing 4.7 percent in the third; the advance estimates had indicated a 3.6-percent increase in the fourth quarter.

Real gross domestic purchases—GDP less exports of goods and services plus imports of goods and services—increased 3.5 percent in the fourth quarter after increasing 4.3 percent in the third.³ A downturn in business fixed investment and a deceleration in consumer spending more than offset a sharp upturn in business inventory investment.

The price index for gross domestic purchases increased 1.4 percent in the fourth quarter after increasing 1.3 percent in the third. The price index for GDP increased 1.4 percent in both the third and fourth quarters.

2. NIPA table 8.2 (on page D-25 in this issue) shows the contributions of the major components to the quarter-to-quarter percent change in real GDP.

3. Gross domestic purchases is a measure of purchases by U.S. residents regardless of where the purchased goods and services are produced.

Personal consumption expenditures

Real personal consumption expenditures (PCE) increased 3.1 percent in the fourth quarter after increasing 5.6 percent in the third (table 2). Expenditures for durable goods slowed sharply, and expenditures for nondurable goods turned down; in contrast, expenditures for services increased somewhat more than in the third quarter.

Several of the factors usually considered in analyses of PCE showed strength in the fourth quarter (chart 2). The unemployment rate fell to 4.7 percent, its lowest rate in more than 25 years. Real disposable personal income accelerated to 4.5 percent from 2.6 percent. The Index of Consumer Sentiment (prepared by the University of Michigan’s Survey Research Center) slipped only slightly from its highest level in 45 years.

Expenditures for durable goods increased only 1.7 percent after jumping 18.4 percent. Motor vehicles and parts decreased after increasing sharply; the downturn mainly reflected a downturn in purchases of new autos and a deceleration in purchases of new trucks, but net purchases of used cars and purchases of parts also contributed. Furniture and household equipment and “other” durable goods expenditures both increased less than in the third quarter. In furniture and household equipment, most of the slowdown was accounted for by computers.

Expenditures for nondurable goods decreased 1.0 percent after increasing 4.3 percent. The

Table 2.—Real Personal Consumption Expenditures

[Seasonally adjusted at annual rates]

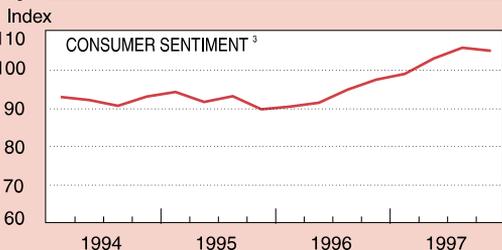
| | Billions of chained (1992) dollars | | | | | Percent change from preceding quarter | | | |
|--|------------------------------------|-------------------------------|-------------|-------------|-------------|---------------------------------------|------------|------------|------------|
| | Level | Change from preceding quarter | | | | 1997 | | | |
| | 1997 | 1997 | | | | | | | |
| | IV | I | II | III | IV | I | II | III | IV |
| Personal consumption expenditures | 4,933.5 | 61.7 | 11.3 | 66.8 | 37.3 | 5.3 | 0.9 | 5.6 | 3.1 |
| Durable goods | 658.9 | 20.7 | -8.8 | 27.1 | 2.8 | 14.1 | -5.4 | 18.4 | 1.7 |
| Motor vehicles and parts | 237.4 | 5.4 | -10.3 | 15.6 | -1.3 | 9.9 | -16.6 | 31.2 | -2.2 |
| Of which: | | | | | | | | | |
| New autos | 79.4 | 2.6 | -5.9 | 8.6 | -2.9 | 13.8 | -26.6 | 55.7 | -13.2 |
| New trucks | 61.2 | -8 | -2.7 | 5.8 | 3.5 | -5.6 | -18.1 | 52.9 | 25.8 |
| Furniture and household equipment | 304.4 | 10.6 | 4.9 | 8.8 | 3.3 | 16.1 | 7.0 | 12.7 | 4.5 |
| Other | 122.9 | 5.1 | -1.7 | 2.0 | 1.2 | 18.6 | -5.3 | 6.7 | 4.3 |
| Nondurable goods | 1,461.9 | 16.6 | -7.8 | 15.5 | -3.6 | 4.7 | -2.1 | 4.3 | -1.0 |
| Food | 687.4 | 5.6 | -6.4 | 1.3 | -2.1 | 3.3 | -3.6 | .8 | -1.2 |
| Clothing and shoes | 279.3 | 7.1 | -3.3 | 7.5 | -2.0 | 10.9 | -4.7 | 11.5 | -2.8 |
| Gasoline and oil | 117.0 | -1 | 1.4 | .1 | .8 | -5 | 5.3 | .4 | 2.6 |
| Fuel oil and coal | 9.9 | -9 | .7 | .3 | -5 | -31.3 | 32.5 | 13.4 | -17.1 |
| Other | 370.2 | 5.4 | -3 | 6.6 | .2 | 6.2 | -3 | 7.5 | .2 |
| Services | 2,812.9 | 25.7 | 25.9 | 26.3 | 36.8 | 3.9 | 3.9 | 3.9 | 5.4 |
| Housing | 719.2 | 3.5 | 3.7 | 3.6 | 3.6 | 2.0 | 2.1 | 2.0 | 2.0 |
| Household operation | 302.7 | -3.7 | 6.2 | 1.5 | 7.0 | -5.0 | 8.9 | 2.1 | 9.7 |
| Electricity and gas | 119.5 | -3.9 | 4.0 | -2.1 | 3.8 | -12.6 | 14.7 | -6.9 | 13.9 |
| Other household operation | 182.9 | .1 | 2.2 | 3.5 | 3.2 | .3 | 5.3 | 8.2 | 7.2 |
| Transportation | 206.7 | 2.3 | 1.6 | 3.0 | 2.8 | 4.8 | 3.3 | 6.1 | 5.5 |
| Medical care | 720.5 | 7.3 | 4.4 | 5.4 | 6.3 | 4.2 | 2.5 | 3.1 | 3.6 |
| Other | 864.5 | 15.9 | 10.2 | 12.6 | 17.4 | 8.1 | 5.1 | 6.2 | 8.5 |

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA tables 2.3, 8.5 (autos), and 8.7 (trucks). Percent changes in major aggregates are in NIPA table 8.1.

CHART 2

Selected Factors Affecting Consumer Spending

Percent change



1. Disposable personal income in chained (1992) dollars; seasonally adjusted annual rates.
 2. All civilian workers, seasonally adjusted.
 Data: U.S. Department of Labor, Bureau of Labor Statistics
 3. Data: University of Michigan's Survey Research Center.

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

weakness was widespread but was most pronounced in clothing and shoes and in "other" nondurable goods.

Expenditures for services increased 5.4 percent after increasing 3.9 percent. Household operation accelerated, reflecting an upturn in electricity and gas. "Other" services increased more than in the third quarter; net foreign travel turned up, reflecting an increase in U.S. residents' travel abroad and a decrease in foreign residents' travel in the United States, and recreational services increased about twice as much in the fourth quarter as in the third.

Nonresidential fixed investment

Real private nonresidential fixed investment decreased 3.5 percent in the fourth quarter after jumping 19.2 percent in the third (table 3). Both structures and producers' durable equipment (PDE) turned down; however, the downturn in PDE was much more pronounced.

Factors that affect investment spending have been generally favorable over the past four quarters: Real final sales of domestic product increased 3.2 percent; the capacity utilization rate in manufacturing increased from 81.4 to 82.1; long-term interest rates decreased—for example, the yield on high-grade corporate bonds decreased from 7.52 percent to 6.79 percent; and domestic corporate profits increased at an annual rate of 18.6 percent through the first three quarters of

Table 3.—Real Gross Private Domestic Fixed Investment

[Seasonally adjusted at annual rates]

| | Billions of chained (1992) dollars | | | | | Percent change from preceding quarter | | | |
|--|------------------------------------|-------------------------------|-------------|-------------|-------------|---------------------------------------|-------------|-------------|----------|
| | Level | Change from preceding quarter | | | | 1997 | | | |
| | 1997 | 1997 | | | | | | | |
| | IV | I | II | III | IV | I | II | III | IV |
| Gross private domestic fixed investment | 1,149.2 | 10.3 | 32.4 | 37.9 | -0.1 | 3.9 | 12.6 | 14.4 | 0 |
| Nonresidential | 866.6 | 8.1 | 28.1 | 37.5 | -7.9 | 4.1 | 14.6 | 19.2 | -3.5 |
| Structures | 194.5 | -1.0 | -2.4 | 3.2 | -2.2 | -2.1 | -4.7 | 6.7 | -4.3 |
| Nonresidential buildings, including farm | 145.8 | 1.7 | -3.0 | 3.0 | -4.3 | 4.4 | -7.6 | 8.3 | -10.8 |
| Utilities | 28.2 | -2.0 | 1.2 | -7 | .2 | -24.7 | 17.4 | -8.2 | 2.1 |
| Mining exploration, shafts, and wells | 13.0 | -2 | -6 | .4 | -4 | -4.1 | -18.3 | 13.9 | -11.5 |
| Other | 7.5 | -5 | .1 | .4 | 2.4 | -33.1 | 11.3 | 34.0 | 362.9 |
| Producers' durable equipment | 679.7 | 9.9 | 32.7 | 36.0 | -5.6 | 6.7 | 23.0 | 24.1 | -3.3 |
| Information processing and related equipment | 324.9 | 11.0 | 15.5 | 23.6 | 4.4 | 17.2 | 24.0 | 35.8 | 5.6 |
| Computers and peripheral equipment | 248.8 | 13.4 | 20.3 | 24.4 | 8.3 | 32.9 | 48.4 | 53.3 | 14.6 |
| Other | 131.5 | 2.2 | 2.9 | 7.1 | 0 | 7.6 | 9.9 | 24.9 | 0 |
| Industrial equipment | 126.6 | -1 | 6.7 | 2.1 | 1.0 | -3 | 24.8 | 7.2 | 3.2 |
| Transportation and related equipment | 139.5 | -2.2 | 8.5 | 10.8 | -7.3 | -6.8 | 29.5 | 35.8 | -18.4 |
| Of which: Motor vehicles | 120.1 | 3.9 | -2.1 | 5.4 | .1 | 14.6 | -7.0 | 20.2 | .3 |
| Other | 110.8 | 3.6 | 3.0 | 3.0 | -1.3 | 12.5 | 12.1 | 11.4 | -4.3 |
| Residential | 286.7 | 2.2 | 4.9 | 1.9 | 6.6 | 3.3 | 7.4 | 2.7 | 9.7 |
| Single-family structures | 138.9 | 0 | .3 | -8 | 3.2 | 0 | .7 | -2.3 | 9.8 |
| Multifamily structures | 21.0 | 1.6 | .8 | -8 | 1.4 | 41.1 | 17.6 | -15.6 | 31.4 |
| Other | 127.5 | .7 | 4.0 | 3.6 | 2.0 | 2.3 | 14.4 | 12.4 | 6.4 |

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA tables 5.5, 8.5 (autos), and 8.7 (trucks). Percent changes in major aggregates are in NIPA table 8.1.

1997 (profits data for the fourth quarter are not yet available).

PDE decreased 3.3 percent in the fourth quarter after jumping 24.1 percent in the third. All the major components contributed to the downturn. Information processing equipment, particularly computers and peripheral equipment, increased much less than in the third quarter. Transportation equipment turned down, reflecting a downturn in aircraft. "Other" equipment, particularly agricultural equipment and farm tractors, decreased after increasing. Industrial equipment increased less than in the third quarter.

Structures decreased 4.3 percent after increasing 6.7 percent. The downturn was more than accounted for by a downturn in investment in nonresidential buildings; industrial buildings, "other" buildings, commercial buildings, and hospital and institutional buildings each turned down. In addition, investment in mining exploration, shafts, and wells decreased after increasing. In contrast, investment in utilities changed little after decreasing, and investment in "other" structures increased more in the fourth quarter than in the third; the fourth-quarter increase in "other" structures was the result of the sale by the Federal Government to a private business of the Naval Petroleum Reserve at Elk Hills, California.⁴

Residential investment

Real residential investment increased 9.7 percent in the fourth quarter after increasing 2.7 percent in the third (table 3). The acceleration was accounted for by single-family and multifamily structures, both of which increased after decreasing.

Single-family structures increased 9.8 percent after decreasing 2.3 percent, and multifamily construction increased 31.4 percent after decreasing 15.6 percent. "Other" residential investment increased 6.4 percent after increasing 12.4 percent.⁵ A sharp slowdown in brokers' commissions more than offset an acceleration in home improvements. The slowdown in brokers' commissions

4. The structures at the Elk Hills Naval Petroleum Reserve were sold for \$0.8 billion, or \$3.2 billion at an annual rate. In the NIPA's, this transaction is recorded as offsetting entries in government gross investment and in private nonresidential structures. The remaining value of the sale, which consists of land and subsoil assets, is treated as the sale of nonproduced assets and is excluded from the NIPA's. Because GDP is measured on an accrual basis, the sale—which was closed in February 1998 but was made retroactive to October 1, 1997—was recorded in the fourth quarter in the NIPA's.

5. "Other" residential investment includes home improvements, new mobile home sales, brokers' commissions on home sales, residential equipment, and other residential structures (which consists primarily of dormitories, fraternity and sorority houses, and nurses' homes).

reflected a deceleration in home sales that occurred despite a decrease in the commitment rate on 30-year, fixed-rate mortgages from 7.47 percent to 7.20 percent (chart 3).

Inventory investment

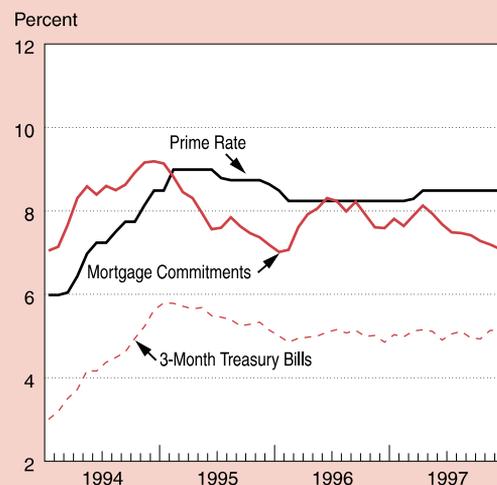
Real inventory investment—that is, the change in business inventories—increased \$26.5 billion in the fourth quarter, as inventory accumulation picked up to \$74.0 billion from \$47.5 billion (table 4). In contrast, inventory investment had decreased \$30.1 billion in the third quarter, as accumulation had slowed from \$77.6 billion in the second quarter.

Retail trade inventories increased \$16.5 billion in the fourth quarter after increasing \$2.8 billion in the third. Most of the step-up was accounted for by inventories of motor vehicle dealers, which increased substantially after four consecutive quarterly decreases. Inventories of other durable goods increased more than in the third quarter.

Manufacturing inventories increased \$22.3 billion after increasing \$14.8 billion. Most of the step-up was in nondurable goods industries, largely reflecting an upturn in petroleum products and accelerations in chemicals and in food. In the durable goods industries, step-ups in other transportation equipment and in "other" durable goods were partly offset by a downturn in motor vehicle inventories.

CHART 4

Selected Interest Rates



Data: Federal Reserve Board

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

Wholesale trade inventories increased \$19.8 billion after increasing \$14.9 billion. The step-up was mainly in nondurable goods and was more than accounted for by groceries, by apparel, and by farm products. In durable goods, a step-up in "other" durable goods was mostly offset by a downturn in motor vehicles.

"Other" nonfarm inventories increased about as much as in the third quarter.⁶

Farm inventories increased \$9.8 billion after increasing \$9.5 billion. As in the third quarter, an increase in crop inventories more than offset a small decrease in livestock inventories.

The ratio of real nonfarm inventories to real final sales of domestic businesses increased to 2.29 in the fourth quarter from 2.27 in the third. A different ratio, in which final sales are limited to goods and structures, increased to 4.15 from 4.10. For both measures, the fourth-quarter ratio is close to its average in recent years.

6. "Other" nonfarm inventories includes inventories held by the following industries: Mining; construction; public utilities; transportation; communication; finance, insurance, and real estate; and services.

Exports and imports

Real exports of goods and services increased 10.0 percent in the fourth quarter after increasing 4.4 percent in the third (table 5). Real imports of goods and services increased 6.4 percent after increasing 14.6 percent.

Real exports of goods increased 14.5 percent after increasing 3.4 percent; exports of both agricultural and nonagricultural goods increased more than in the third quarter. Much of the step-up in nonagricultural exports was accounted for by an acceleration in nonautomotive capital goods, which reflected an upturn in exports of civilian aircraft; in contrast, computers, peripherals, and parts turned down, and "other" nonautomotive and noncomputer goods increased less than in the third quarter.⁷ The step-up in nonagricultural exports also reflected upturns in automotive vehicles, engines, and parts and in consumer goods except automotive and an acceleration in foods,

7. Exports and imports of nonautomotive capital goods include both parts and equipment. However, parts are not included either in the producers' durable equipment component of business fixed investment or in the equipment component of government investment.

Table 4.—Real Change in Business Inventories

[Billions of chained (1992) dollars; seasonally adjusted at annual rates]

| | Level | | | | | Change from preceding quarter | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------------------------|-------------|--------------|-------------|
| | 1996 | 1997 | | | | 1997 | | | |
| | IV | I | II | III | IV | I | II | III | IV |
| Change in business inventories | 32.9 | 63.7 | 77.6 | 47.5 | 74.0 | 30.8 | 13.9 | -30.1 | 26.5 |
| Farm | 6.4 | 5.3 | 7.5 | 9.5 | 9.8 | -1.1 | 2.2 | 2.0 | 3 |
| Nonfarm | 26.5 | 58.3 | 70.1 | 38.3 | 64.4 | 31.8 | 11.8 | -31.8 | 26.1 |
| Manufacturing | 12.3 | 20.9 | 29.0 | 14.8 | 22.3 | 8.6 | 8.1 | -14.2 | 7.5 |
| Wholesale trade | 9.4 | 22.9 | 24.6 | 14.9 | 19.8 | 13.5 | 1.7 | -9.7 | 4.9 |
| Retail trade | .9 | .6 | 7.7 | 2.8 | 16.5 | -.3 | 7.1 | -4.9 | 13.7 |
| Of which: Motor vehicle dealers | -4.7 | -2.5 | -3.7 | -6 | 9.5 | 2.2 | -1.2 | 3.1 | 10.1 |
| Other | 3.9 | 13.7 | 8.9 | 5.7 | 5.9 | 9.8 | -4.8 | -3.2 | 2 |

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are in NIPA table 5.11.

Table 5.—Real Exports and Imports of Goods and Services

[Seasonally adjusted at annual rates]

| | Billions of chained (1992) dollars | | | | | Percent change from preceding quarter | | | |
|--|------------------------------------|-------------------------------|--------------|--------------|-------------|---------------------------------------|-------------|-------------|-------------|
| | Level | Change from preceding quarter | | | | 1997 | | | |
| | 1997 | 1997 | | | | | | | |
| | IV | I | II | III | IV | I | II | III | IV |
| Exports of goods and services | 996.4 | 21.6 | 39.8 | 10.5 | 23.4 | 9.9 | 18.4 | 4.4 | 10.0 |
| Goods | 757.0 | 20.0 | 39.6 | 6.0 | 25.2 | 12.6 | 25.1 | 3.4 | 14.5 |
| Agricultural goods | 53.0 | -4.0 | -5 | 2.3 | 3.5 | -27.6 | -4.2 | 20.6 | 31.6 |
| Nonagricultural goods | 707.4 | 25.6 | 41.2 | 3.3 | 21.3 | 17.7 | 28.2 | 1.9 | 13.0 |
| Services | 244.5 | 2.1 | 1.9 | 4.2 | -5 | 3.7 | 3.2 | 7.2 | -8 |
| Imports of goods and services | 1,154.9 | 42.3 | 50.2 | 38.0 | 17.8 | 17.9 | 20.5 | 14.6 | 6.4 |
| Goods | 988.4 | 33.8 | 47.1 | 34.3 | 15.7 | 16.7 | 22.9 | 15.4 | 6.6 |
| Petroleum and products | 68.6 | -1.8 | 5.9 | 1.1 | -6 | -10.8 | 44.5 | 6.3 | -3.2 |
| Nonpetroleum products | 920.1 | 37.0 | 40.6 | 33.4 | 16.4 | 20.0 | 21.1 | 16.2 | 7.5 |
| Services | 168.0 | 8.4 | 3.4 | 4.0 | 2.2 | 24.2 | 8.9 | 10.1 | 5.4 |
| Addendum: Net exports of goods and services | -158.5 | -20.7 | -10.3 | -27.5 | 5.6 | ..... | ..... | ..... | ..... |

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA table 4.4. Percent changes in major aggregates are found in NIPA table 8.1.

feeds, and beverages. Exports of services decreased 0.8 percent after increasing 7.2 percent, primarily reflecting a downturn in travel and a slowdown in "other private services," which includes such services as educational, financial, and telecommunications.

Real imports of goods increased 6.6 percent after increasing 15.4 percent; imports of petroleum and products turned down, and imports of nonpetroleum goods slowed considerably. Much of the slowdown in nonpetroleum imports was accounted for by a slowdown in nonautomotive capital goods, particularly in computers and parts, and by a downturn in automotive vehicles, engines, and parts. Imports of services increased 5.4 percent after increasing 10.1 percent; the slowdown was primarily accounted for by downturns in "other private services," which includes such services as telecommunications and financial, and in direct defense expenditures.

Government spending

Real government consumption expenditures and gross investment increased 0.4 percent in the fourth quarter after increasing 1.1 percent in the third (table 6). Federal Government spending decreased more in the fourth quarter than in the third, and State and local government spending increased less than in the third.

Federal nondefense spending decreased 8.6 percent after decreasing 5.7 percent. Consumption expenditures decreased more than in the third quarter, primarily reflecting a larger fourth-quarter decrease in employee compensation. Investment spending also decreased more than in the third quarter, reflecting a downturn in spend-

ing for structures. The fourth-quarter decrease was the result of the Elk Hills transaction (see footnote 4).

Federal defense spending increased 1.3 percent after increasing 1.2 percent. Consumption expenditures increased after decreasing; the upswing was mostly accounted for by expenditures for durable goods, largely aircraft parts. Investment spending increased less than in the third quarter; the slowdown was attributable to spending for equipment.

State and local government spending increased 1.8 percent after increasing 2.3 percent. Consumption expenditures increased less than in the third quarter, and investment spending decreased slightly after increasing, reflecting spending for structures, which decreased after no change, and spending on equipment, which decelerated.

Revisions

As noted earlier, the preliminary estimate of a 3.9-percent increase in real GDP in the fourth quarter is 0.4 percentage point lower than the advance estimate (table 7); for 1976-97, the average revision, without regard to sign, was 0.5 percentage point from the advance estimate to the preliminary estimate. The downward revision to GDP in the fourth quarter reflected downward revisions to net exports of goods and services and to consumer spending. These revisions were partly offset by a large upward revision to inventory investment.

The downward revision to net exports reflected the incorporation of newly available Census Bureau data for exports and imports of goods for December. The December data for exports was

Table 6.—Real Government Consumption Expenditures and Real Gross Investment by Type

[Seasonally adjusted at annual rates]

| | Billions of chained (1992) dollars | | | | | Percent change from preceding quarter | | | |
|---|------------------------------------|-------------------------------|------------|------------|------------|---------------------------------------|------------|------------|------------|
| | Level | Change from preceding quarter | | | | 1997 | | | |
| | 1997 | 1997 | | | | | | | |
| | IV | I | II | III | IV | I | II | III | IV |
| Government consumption expenditures and gross investment | 1,274.7 | -1.3 | 9.6 | 3.3 | 1.3 | -0.4 | 3.1 | 1.1 | 0.4 |
| Federal | 456.4 | -6.8 | 7.3 | -1.3 | -2.4 | -5.8 | 6.6 | -1.1 | -2.1 |
| National defense | 311.3 | -9.7 | 5.5 | .9 | 1.0 | -11.8 | 7.5 | 1.2 | 1.3 |
| Consumption expenditures | 274.2 | -4.1 | 3.6 | -3 | .6 | -5.8 | 5.4 | -4 | .9 |
| Gross investment | 37.1 | -5.7 | 1.9 | 1.3 | .4 | -46.9 | 25.3 | 15.3 | 4.4 |
| Nondefense | 144.8 | 2.8 | 1.7 | -2.2 | -3.2 | 8.0 | 4.9 | -5.7 | -8.6 |
| Consumption expenditures | 126.6 | 2.6 | .5 | -4 | -1.2 | 8.5 | 1.7 | -1.5 | -3.7 |
| Gross investment | 17.9 | .2 | 1.4 | -1.9 | -2.4 | 4.0 | 29.8 | -31.1 | -39.7 |
| State and local | 818.3 | 5.4 | 2.4 | 4.6 | 3.6 | 2.7 | 1.2 | 2.3 | 1.8 |
| Consumption expenditures | 672.5 | 3.3 | 3.2 | 4.3 | 3.9 | 2.0 | 1.9 | 2.6 | 2.3 |
| Gross investment | 145.8 | 2.1 | -8 | .3 | -3 | 6.0 | -2.4 | .9 | -7 |

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are found in NIPA table 3.8B. Percent changes in major aggregates are in NIPA table 8.1.

in line with the assumption that was used for the advance estimates, but the increase in the December data for imports—the largest increase since March 1993—was much larger than BEA's assumption.

The downward revision to government spending largely reflected the Elk Hills transaction.

The downward revision to consumer spending was more than accounted for by goods and reflected the incorporation of revised retail sales data for November and December.

The upward revision to inventory investment mainly reflected the incorporation of revised and newly available Census Bureau inventory data. In addition, the upward revision also reflected two other revisions: A special adjustment to remove the effects of a large, one-time "write-down" in the inventories of an aircraft manufacturer, and a revision to the inventory valuation adjustment to reflect the incorporation of newly available data for November on the refiners' acquisition price of petroleum and the incorporation of revised producer price indexes for September and newly available indexes for January that are used in calculating yearend inventory values.

The small downward revision to private non-residential structures was accounted for by a downward revision to purchases of new structures that more than offset the upward revision due to the Elk Hills transaction. The downward revision to purchases of new structures reflected the incorporation of revised data for October and November and newly available data for December on the value of construction put in place.

The preliminary estimates of the increases in the price indexes for gross domestic purchases and for GDP were each 1.4 percent; each was 0.1 percentage point lower than the advance estimate.

The preliminary estimate of real disposable personal income increased 4.5 percent, 0.2 percentage point lower than the advance estimate; current-dollar personal income was revised down slightly, and personal tax and nontax payments were revised up. The preliminary estimate of

the personal saving rate—personal savings as a percentage of current-dollar disposable personal income—was 3.8 percent, 0.1 percentage point lower than the advance estimate. 

**Table 7.—Revisions to Real Gross Domestic Product and Prices,
Fourth Quarter 1997**

[Seasonally adjusted at annual rates]

| | Percent change from preceding quarter | | Preliminary estimate minus advance estimate | |
|--|---------------------------------------|----------------------|---|------------------------------------|
| | Advance estimate | Preliminary estimate | Percentage points | Billions of chained (1992) dollars |
| Gross domestic product | 4.3 | 3.9 | -0.4 | -7.0 |
| <i>Less:</i> Exports of goods and services | 11.3 | 10.0 | -1.3 | -2.9 |
| Goods | 16.0 | 14.5 | -1.5 | -2.4 |
| Services | .2 | -8 | -1.0 | -6 |
| <i>Plus:</i> Imports of goods and services | 1.3 | 6.4 | 5.1 | 14.1 |
| Goods | .5 | 6.6 | 6.1 | 14.5 |
| Services | 5.7 | 5.4 | -3 | -1 |
| Equals: Gross domestic purchases | 3.1 | 3.5 | .4 | 7.5 |
| Personal consumption expenditures | 3.2 | 3.1 | -.1 | -1.5 |
| Durable goods | 2.6 | 1.7 | -.9 | -1.4 |
| Nondurable goods | -4 | -1.0 | -.6 | -2.2 |
| Services | 5.1 | 5.4 | .3 | 1.9 |
| Fixed investment | .1 | 0 | -.1 | -.4 |
| Nonresidential | -3.6 | -3.5 | .1 | .1 |
| Structures | -2.7 | -4.3 | -1.6 | -.8 |
| Producers' durable equipment | -3.9 | -3.3 | .6 | 1.2 |
| Residential | 10.4 | 9.7 | -.7 | -.4 |
| Change in business inventories ..... | ..... | ..... | ..... | 14.1 |
| Nonfarm ..... | ..... | ..... | ..... | 14.7 |
| Farm ..... | ..... | ..... | ..... | -.7 |
| Government consumption expenditures and gross investment | 1.6 | .4 | -1.2 | -3.8 |
| Federal | .7 | -2.1 | -2.8 | -3.1 |
| National defense | 2.9 | 1.3 | -1.6 | -1.3 |
| Nondefense | -3.8 | -8.6 | -4.8 | -1.8 |
| State and local | 2.1 | 1.8 | -.3 | -.7 |
| Addenda: | | | | |
| Final sales of domestic product | 3.6 | 2.5 | -1.1 | -20.1 |
| Gross domestic purchases price index ¹ | 1.5 | 1.4 | -.1 | ..... |
| GDP price index ¹ | 1.5 | 1.4 | -.1 | ..... |

1. Based on chained-type annual (1992) weights.

NOTE.—The preliminary estimates for the fourth quarter of 1997 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

Personal consumption expenditures: Revised retail sales for November and December, consumers' share of new-car purchases for December, revised average unit value for domestic new autos for October through December, consumers' share of new-truck purchases for December, and residential electricity usage for October.

Nonresidential fixed investment: Construction put in place for October and November (revised) and December, manufacturers' shipments of machinery and equipment for November and December (revised), and exports and imports of machinery and equipment for November (revised) and December.

Residential fixed investment: Construction put in place for October and November (revised) and December.

Change in business inventories: Manufacturing, retail trade, and wholesale trade inventories for November (revised) and December. *Exports and imports of goods and services:* Exports and imports of goods for November (revised) and December.

Government consumption expenditures and gross investment: Monthly Treasury Statement detailed data for December, Department of Defense detailed financial reports for the quarter, State and local government construction put in place for October and November (revised) and December.

Wages and salaries: Employment, average hourly earnings, and average weekly hours for November and December (revised).

GDP prices: Detailed merchandise export and import price indexes for October through December (revised), values and quantities of petroleum imports for November (revised) and December, and housing prices for the fourth quarter.