

BUSINESS SITUATION

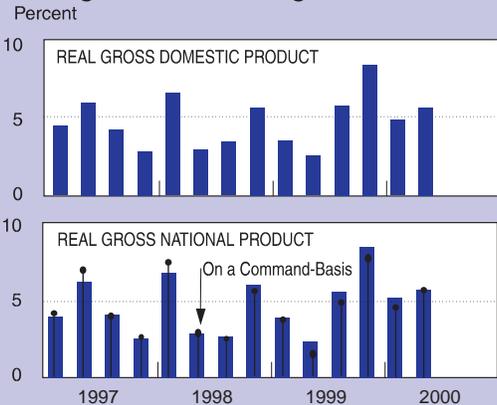
Ralph W. Morris prepared the first section of this article, and Daniel Larkins prepared the section on corporate profits.

REAL gross domestic product (GDP) increased 5.6 percent in the second quarter of 2000, according to the "final" estimates of the national income and product accounts (NIPA's), after increasing 4.8 percent in the first quarter (table 1 and chart 1).¹ The general picture of the economy that is indicated by the final estimates is little changed from that shown by the "preliminary" estimates.

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates. Quarter-to-quarter dollar changes are the differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data unless otherwise specified.
Real estimates are calculated using a chain-type Fisher formula with annual weights for all years and quarterly weights for all quarters; real estimates are expressed both as index numbers (1996=100) and as chained (1996) dollars. Price indexes (1996=100) are also calculated using a chain-type Fisher formula.

CHART 1

Selected Product Measures: Change from Preceding Quarter



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

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

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 (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1999		2000	
		2000	1999	2000		III	IV	I	II
	II	III	IV	I	II				
Gross domestic product	9,318.9	122.6	178.3	107.7	127.1	5.7	8.3	4.8	5.6
Less: Exports of goods and services	1,121.8	25.0	25.8	16.4	37.0	10.2	10.3	6.3	14.3
Plus: Imports of goods and services	1,525.2	53.0	35.7	40.8	63.5	16.9	10.7	12.0	18.6
Equals: Gross domestic purchases	9,694.3	147.1	187.4	129.5	150.7	6.6	8.4	5.6	6.5
Less: Change in private inventories	78.6	26.0	41.8	-44.3	42.0				
Nonfarm	72.3	29.4	29.5	-40.0	39.3				
Farm	6.2	-3.9	12.9	-4.3	2.6				
Equals: Final sales to domestic purchasers	9,610.5	121.3	147.6	169.5	110.6	5.5	6.6	7.5	4.7
Personal consumption expenditures	6,260.6	73.6	87.2	112.5	47.1	5.0	5.9	7.6	3.1
Durable goods	886.7	15.7	25.6	46.4	-11.5	8.0	13.0	23.6	-5.0
Nondurable goods	1,861.1	21.1	32.0	26.7	16.3	4.9	7.4	6.0	3.6
Services	3,526.7	37.7	31.9	44.2	39.5	4.5	3.8	5.2	4.6
Private fixed investment	1,777.6	30.7	28.8	64.3	46.7	7.8	7.2	16.4	11.2
Nonresidential	1,412.5	35.0	29.3	63.5	47.2	11.8	9.5	21.0	14.6
Structures	277.0	-4.1	6.0	13.4	3.0	-6.2	9.7	22.3	4.4
Equipment and software	1,146.6	41.6	23.5	50.3	46.2	18.0	9.5	20.6	17.9
Residential	372.6	-2.9	.5	2.9	1.2	-3.1	.5	3.2	1.3
Government consumption expenditures and gross investment	1,583.7	17.9	31.7	-4.4	18.6	4.8	8.5	-1.1	4.8
Federal	558.8	8.9	17.1	-21.0	21.7	6.9	13.2	-14.2	17.2
National defense	355.1	10.1	10.5	-19.4	13.6	12.3	12.6	-19.8	16.9
Nondefense	203.6	-1.1	6.6	-1.7	8.2	-2.2	14.4	-3.3	17.8
State and local	1,024.6	8.9	14.8	16.2	-2.8	3.7	6.1	6.6	-1.1
Addendum: Final sales of domestic product	9,235.3	96.9	138.7	147.5	87.3	4.5	6.4	6.7	3.9

NOTE.—Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 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 (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1. (See "Selected NIPA Tables," which begin on page D-2 in this issue.)

Table 2.—Contributions to Percent Change in Real Gross Domestic Product

[Seasonally adjusted at annual rates]

	1999		2000	
	III	IV	I	II
Percent change at annual rate:				
Gross domestic product	5.7	8.3	4.8	5.6
Percentage points at annual rates:				
Personal consumption expenditures	3.43	4.08	5.03	2.14
Durable goods .....	.64	1.04	1.79	-.42
Nondurable goods .....	.97	1.47	1.19	.74
Services	1.81	1.58	2.04	1.83
Gross private domestic investment	2.50	3.04	.92	3.66
Fixed investment	1.33	1.26	2.68	1.93
Nonresidential	1.47	1.22	2.54	1.87
Structures	-.19	.29	.63	.14
Equipment and software	1.66	.94	1.91	1.73
Residential	-.13	.03	.14	.06
Change in private inventories	1.17	1.78	-1.76	1.73
Net exports of goods and services	-1.08	-.37	-.94	-1.00
Exports	1.05	1.09	.67	1.48
Goods	1.13	.94	.46	1.37
Services	-.08	.15	.21	.11
Imports	-2.13	-1.45	-1.61	-2.48
Goods	-1.99	-1.28	-1.28	-2.26
Services	-.13	-.17	-.33	-.22
Government consumption expenditures and gross investment .....	.84	1.50	-.18	.85
Federal .....	.41	.79	-.93	.97
National defense .....	.46	.48	-.86	.60
Nondefense	-.05	.30	-.07	.37
State and local .....	.43	.71	.75	-.12

NOTE.—More detailed contributions to percent change in real gross domestic product are shown in NIPA table 8.2. Contributions to percent change in major components of real gross domestic product are shown in tables 8.3 through 8.6.

The largest contributors to the second-quarter increase in real GDP were consumer spending for services, business investment in equipment and software, private inventory investment, and exports of goods (table 2).² The increase in real GDP was moderated by an increase in imports (which are subtracted in the calculation of GDP).

The acceleration in real GDP growth in the second quarter reflected upturns in private inventory investment and in Federal Government spending and a step-up in exports of goods. These changes

2. In the NIPAs, consumer spending is shown as personal consumption expenditures; business investment in equipment and software and in structures is shown as private nonresidential fixed investment; private inventory investment is shown as change in private inventories; and government spending is shown as government consumption expenditures and gross investment.

**Table 3.—Revisions to Change in Real Gross Domestic Product and Prices,
Second Quarter 2000**

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Final estimate minus preliminary estimate	
	Preliminary estimate	Final estimate	Percentage points	Billions of chained (1996) dollars
Gross domestic product	5.3	5.6	0.3	7.4
Less: Exports of goods and services	13.5	14.3	.8	2.1
Goods	18.9	19.0	.1	.2
Services	1.0	3.5	2.5	1.8
Plus: Imports of goods and services	19.5	18.6	-.9	-3.1
Goods	20.1	20.0	-.1	-.1
Services	16.3	10.6	-5.7	-2.7
Equals: Gross domestic purchases	6.3	6.5	.2	2.8
Less: Change in private inventories				-.7
Farm				-.1
Nonfarm				-.6
Equals: Final sales to domestic purchasers	4.6	4.7	.1	3.4
Personal consumption expenditures	2.9	3.1	.2	2.4
Durable goods	-5.0	-5.0	0	0
Nondurable goods	3.4	3.6	.2	.6
Services	4.4	4.6	.2	1.8
Fixed investment	10.9	11.2	.3	1.2
Nonresidential	14.6	14.6	0	-.1
Structures	4.8	4.4	-.4	-.2
Equipment and software	17.8	17.9	.1	.2
Residential	0	1.3	1.3	1.2
Government consumption expenditures and gross investment	4.9	4.8	-.1	-.2
Federal	16.9	17.2	.3	.4
National defense	16.3	16.9	.6	.5
Nondefense	17.9	17.8	-.1	0
State and local	-9	-1.1	-2	-6
Addenda:				
Final sales of domestic product	3.5	3.9	.4	8.0
Gross domestic purchases price index	2.3	2.1	-.2	
GDP price index	2.6	2.4	-.2	

NOTE.—The final estimates for the second quarter of 2000 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

Personal consumption expenditures: Revised retail sales for June and newly available brokerage services data for the second quarter.

Nonresidential fixed investment: Revised construction put-in-place for May and June and revised manufacturers' shipments of machinery and equipment for June.

Residential fixed investment: Revised construction put-in-place for May and June, revised sales of new homes for April through June, and revised sales of existing homes for June.

Change in private inventories: Revised manufacturing and trade inventories for June.

Exports and imports of goods and services: Revised data on exports and imports of goods for June and revised international transactions data on exports and imports of services for the first and second quarters.

Government consumption expenditures and gross investment: Revised State and local construction put-in-place for May and June.

Wages and salaries: Revised employment, average hourly earnings, and average weekly hours for May and June and newly available unemployment insurance tabulations for the first quarter.

GDP prices: Revised export and import prices for April through June, revised unit-value index for petroleum imports for June, and revised prices of single-family homes under construction for the quarter.

were partly offset by decelerations in consumer spending for goods and in nonresidential fixed investment and an acceleration in imports of goods.

The final estimate of the change in real GDP is 0.3 percentage point more than the 5.3-percent increase indicated by the preliminary estimate reported in the September "Business Situation" (table 3). For 1978–99, the average revision (without regard to sign) from the preliminary estimate to the final estimate was 0.3 percentage point. The upward revision to second-quarter real GDP primarily reflected a downward revision to imports of services and an upward revision to exports of services. These revisions reflected the incorporation of revised data from BEA's international transactions accounts.

Real gross domestic purchases increased 6.5 percent, 0.2 percentage point more than the preliminary estimate; in the first quarter, this measure increased 5.6 percent.³ Real final sales of domestic product increased 3.9 percent, 0.4 percentage point more than the preliminary estimate; in the first quarter, this measure increased 6.7 percent.⁴

The price index for gross domestic purchases increased 2.1 percent, 0.2 percentage point less than the preliminary estimate; in the first quarter, the index increased 3.8 percent. The downward revision to second-quarter prices primarily reflected revisions to the prices of personal consumption expenditures (PCE) for services—specifically, revisions to the implicit prices of brokerage and investment counseling that resulted from the incorporation of newly available data from the Securities and Exchange Commission. The GDP price index increased 2.4 percent in the second quarter, also 0.2 percentage point less than the preliminary estimate; in the first quarter, the index increased 3.3 percent.

Real disposable personal income (DPI) increased 3.7 percent in the second quarter, 0.4 percentage point more than the preliminary estimate; in the first quarter, real DPI increased 1.9 percent. The upward revision to real DPI reflected an upward revision to current-dollar DPI and the downward revision to PCE prices. Current-dollar DPI increased 5.9 percent, 0.2 percentage point more than the preliminary estimate; the upward revision reflected upward revisions to wages and salaries and to personal interest income. For wages and salaries, the extrapolation adjustment for

3. Gross domestic purchases—a measure of purchases by U.S. residents regardless of where the purchased goods and services were produced—is calculated as the sum of personal consumption expenditures, gross private domestic investment, and government consumption expenditures and gross investment.

4. Final sales of domestic product is calculated as GDP less change in private inventories.

undercoverage of earnings was revised up on the basis of newly available Bureau of Labor Statistics (BLS) tabulations of unemployment insurance (UI) data for the first quarter.⁵ The upward revision to personal interest income was primarily due to the incorporation of revised and newly available data from the Federal Reserve Board flow-of-funds and from the Federal Deposit Insurance Corporation.

The personal saving rate—personal saving as a percentage of current-dollar DPI—was 0.3 percent, 0.1 percentage point higher than the preliminary estimate; in the first quarter, the rate was 0.2 percent.

Gross national product (GNP).—In the second quarter, real GNP—goods and services produced by labor and property supplied by U.S. residents—increased 5.6 percent, the same increase as that in real GDP (table 4).⁶ Income receipts from the rest of the world increased slightly less than income payments to the rest of the world; about half of the increase in receipts was accounted for by corporate profits, and most of the increase in payments was accounted for by interest income.

Real GNP on a command basis, which measures the purchasing power of goods and services pro-

duced by the U.S. economy, increased more than real GNP—5.9 percent, compared with 5.6 percent—reflecting an improvement in the terms of trade; the terms of trade deteriorated in each of the preceding four quarters.⁷

The national saving rate—gross saving as a percentage of GNP—was 18.6 percent in the second quarter after ranging from 18.2 percent to 18.4 percent in the preceding four quarters.

Corporate Profits

According to revised estimates, profits from current production increased \$27.3 billion (or 2.9 percent at a quarterly rate) in the second quarter after increasing \$43.1 billion (4.8 percent) in the first (table 5).⁸

Profits of domestic nonfinancial corporations increased \$27.3 billion (4.3 percent), reflecting increases in unit profits and in real product. The increase in unit profits, which accounted for about

7. In the estimates of command-basis GNP, the current-dollar value of the sum of exports of goods and services and income receipts is deflated by the implicit price deflator (IPD) for the sum of imports of goods and services and income payments.

The terms of trade is a measure of the relationship between the prices that are received by U.S. producers for exports of goods and services and the prices that are paid by U.S. purchasers for imports of goods and services. It is measured by the following ratio, with the decimal point shifted two places to the right: In the numerator, the IPD for the sum of exports of goods and services and of income receipts; in the denominator, the IPD for the sum of imports of goods and services and of income payments.

Changes in the terms of trade reflect the interaction of several factors, including movements in exchange rates, changes in the composition of the traded goods and services, and changes in producers' profit margins. For example, if the U.S. dollar depreciates against a foreign currency, a foreign manufacturer may choose to absorb this cost by reducing the profit margin on the product it sells to the United States, or it may choose to raise the price of the product and risk a loss in market share.

8. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown in NIPA tables 1.9, 1.14, 1.16, and 6.16C (see "Selected NIPA Tables," which begins on page D-2 of this issue) as corporate profits with inventory valuation and capital consumption adjustments.

Percent changes in profits are shown at quarterly, not annual, rates.

Table 4.—Relation of Real Gross Domestic Product, Real Gross National Product, and Real Command-Basis Gross National Product

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1999		2000	
	2000	1999		2000					
	II	III	IV	I	II	III	IV	I	II
Gross domestic product	9,318.9	122.6	178.3	107.7	127.1	5.7	8.3	4.8	5.6
Plus: Income receipts from the rest of the world	353.2	16.5	14.3	15.8	21.2	25.2	20.3	21.6	28.1
Less: Income payments to the rest of the world	357.9	20.2	13.0	10.8	22.1	30.6	17.7	14.0	29.1
Equals: Gross national product	9,313.7	118.7	179.6	112.7	126.0	5.5	8.3	5.1	5.6
Less: Exports of goods and services and income receipts from the rest of the world	1,477.5	42.0	40.6	33.0	58.9	13.6	12.6	9.9	17.7
Plus: Command-basis exports of goods and services and income receipts from the rest of the world ¹	1,508.9	31.0	33.6	24.5	65.5	9.5	10.1	7.1	19.4
Equals: Command-basis gross national product	9,345.1	107.6	172.6	104.2	132.6	5.0	8.0	4.7	5.9
Addendum: Terms of trade ²	102.1	-.9	-.6	-.7	.4	-3.4	-2.3	-2.7	1.6

1. Exports of goods and services and income receipts deflated by the implicit price deflator for imports of goods and services and income payments.

2. Ratio of the implicit price deflator for exports of goods and services and income receipts

to the corresponding implicit price deflator for imports divided by 100.

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Levels of these series are shown in NIPA tables 1.10 and 1.11.

tic financial corporations decreased \$3.8 billion after increasing \$4.6 billion.

Profits before tax (PBT) increased \$21.8 billion after increasing \$50.0 billion. The difference between the second-quarter increase in profits from current production and the increase in PBT reflected an increase in the inventory valuation adjustment that was partly offset by a decrease in the capital consumption adjustment.¹²

Rates of return

New estimates of the rate of return and related series for domestic nonfinancial corporations in 1999 and revised estimates for 1997 and 1998 reflect the revised estimates of fixed assets that were published in the September SURVEY OF CURRENT

BUSINESS (tables 6 and 7).¹³ The rate of return was revised down 0.1 percentage point for 1997 and 0.2 percentage point for 1998; the revised rates remain the highest in more than 25 years.

12. As prices change, companies that value inventory withdrawals at original acquisition (historical) costs may realize inventory profits or losses. Inventory profits—a capital-gains-like element in profits—result from an increase in inventory prices, and inventory losses—a capital-loss-like element in profits—result from a decrease in inventory prices. In the NIPAs, inventory profits or losses are removed from business incomes by the inventory valuation adjustment (IVA); a negative IVA removes inventory profits, and a positive IVA removes inventory losses.

The capital consumption adjustment converts depreciation valued at historical cost and based on service lives and depreciation patterns specified in the tax code to depreciation valued at current cost and based on empirical evidence on the prices of used equipment and structures in resale markets. For more information on depreciation in the NIPAs, see Shelby W. Herman, "Fixed Assets and Consumer Durable Goods: Estimates for 1925-98," SURVEY OF CURRENT BUSINESS 80 (April 2000): 17-30.

13. Shelby W. Herman, "Fixed Assets and Consumer Durable Goods for 1925-99," SURVEY 80 (September 2000): 19-30. Rate-of-return estimates for 1960-98 were presented in "Note on Rates of Return For Domestic Nonfinancial Corporations: Revised Estimates for 1960-98," SURVEY 80 (June 2000): 15-17.

Table 6.—Rate of Return and Income Share, Domestic Nonfinancial Corporations, 1990-99
[Percent]

Year	Rate of return			Share of domestic income		
	Domestic property income			Domestic property income		
	Total	Profits from current production	Net interest	Total	Profits from current production	Net interest
	(1)	(2)	(3)	(4)	(5)	(6)
1990	7.8	4.9	2.9	16.8	10.5	6.3
1991	7.2	4.6	2.6	15.9	10.2	5.8
1992	7.0	5.0	2.0	15.2	10.8	4.4
1993	7.4	5.6	1.8	15.8	12.0	3.9
1994	8.3	6.6	1.8	17.4	13.7	3.7
1995	8.6	6.8	1.8	17.9	14.2	3.7
1996	9.1	7.5	1.6	18.8	15.5	3.3
1997 ^r	9.5	7.8	1.7	19.2	15.8	3.4
1998 ^r	9.2	7.5	1.7	18.4	15.0	3.5
1999 ^r	9.2	7.5	1.8	18.3	14.7	3.5
Average: 1990-99	8.3	6.4	2.0	17.4	13.2	4.2

^r revised
Source: Table 7.

NOTE.—Columns 1-3 are percentages of the net stock of produced assets (averages of end-of-year values for adjacent years) valued at current cost. Columns 4-6 are percentages of domestic income. Estimates for earlier years are available in "Note on Rates of Return For Domestic Nonfinancial Corporations: Revised Estimates for 1960-98," SURVEY 80 (June 2000): 15-17.

Table 7.—Property Income of Domestic Nonfinancial Corporations and Related Series, 1990-99
[Billions of dollars]

Year	Domestic property income			Domestic income	Produced assets ¹
	Total	Profits from current production	Net interest		
	(1)	(2)	(3)		
1990	414.6	258.5	156.0	2,467.3	5,440.1
1991	395.7	252.8	143.0	2,482.6	5,515.5
1992	392.2	278.9	113.3	2,586.5	5,687.4
1993	431.2	325.3	105.9	2,721.9	5,961.7
1994	510.4	402.5	107.9	2,940.6	6,308.3
1995	558.3	442.5	115.8	3,111.0	6,652.2
1996	617.8	509.1	108.7	3,284.9	6,956.5
1997 ^r	675.6	555.6	120.0	3,510.7	7,325.8
1998 ^r	689.8	560.4	129.4	3,744.9	7,662.3
1999 ^r	729.8	588.5	141.3	3,996.8	8,125.4

^r revised

1. Produced assets consist of structures, equipment and software, and inventories; they are valued at current cost at end of year. The estimates for structures and equipment and software are available on the BEA Web site: go to <bea.doc.gov/bea/dn2.htm> and click on "Data files for the 15 tables in the above article." The estimates for domestic nonfinancial corporations are in files "7kcu.txt" and "9kcu.txt". Inventories are from legal-form and industry detail underlying NIPA table 5.12.

NOTE.—Property income is profits from current production plus net interest. Profits from current production is corporate profits with inventory valuation adjustment and capital consumption adjustment. Profits after tax is also shown with inventory valuation adjustment and capital consumption adjustment.