

THE BUSINESS SITUATION

The first two sections of this article were prepared by Daniel Larkins, Ralph W. Morris, and Deborah Y. Sieff. The section on the government sector was prepared by Pamela A. Kelly and Michael W. Webb.

REAL GROSS domestic product (GDP) increased 3.8 percent in the second quarter of 1994, according to the "preliminary" estimates of the national income and product accounts (NIPA's).¹ The "advance" estimates of the NIPA's, reported in the July "Business Situation," showed a 3.7-percent increase. Real gross domestic purchases, a measure of goods and services purchased by U.S. residents, increased 4.4 percent, the same as the advance estimate. The fixed-weighted price index for gross domestic purchases increased 3.3 percent, 0.1 percentage point more than the advance estimate. (The sources of these revisions are discussed in "Revisions" later in this article.)

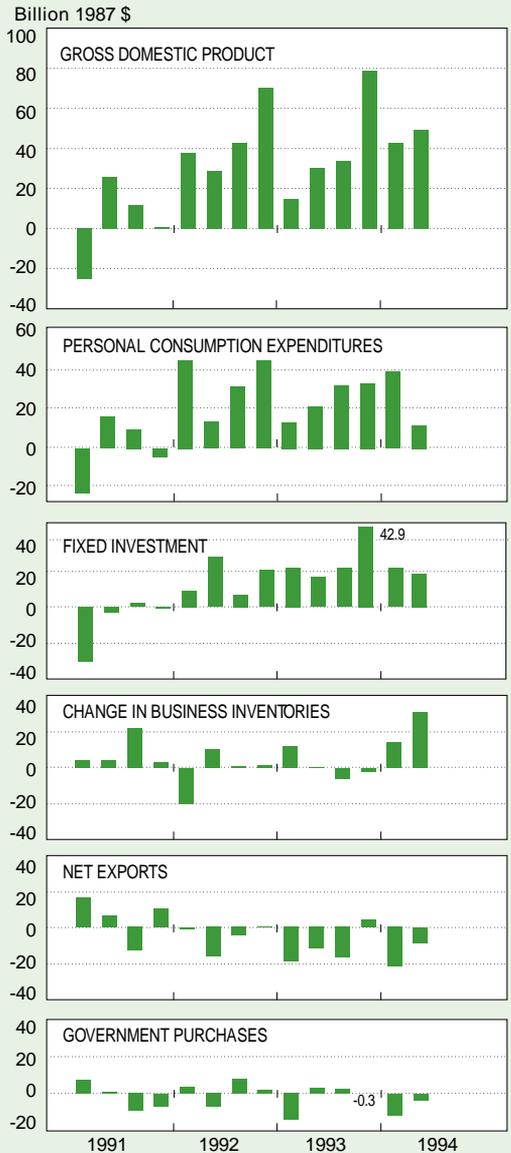
The 3.8-percent increase in real GDP in the second quarter followed a 3.3-percent increase in the first (chart 1). Output of goods other than motor vehicles accelerated, and structures turned up; in contrast, motor vehicles turned down sharply, and services slowed (table 1).

The 4.4-percent increase in real gross domestic purchases followed an increase of 5.0 percent (table 2). More than half of the second-quarter increase reflected a jump in inventory investment, as businesses added \$56.3 billion to

inventories—more than at any time since the fourth quarter of 1987. Final sales to domestic purchasers slowed to a 2.0-percent increase from a 3.9-percent increase. Personal consumption ex-

CHART 1

Real Product:
Change from Preceding Quarter



1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes are differences between these rates. Quarter-to-quarter percent changes are annualized.

Real, or constant-dollar, estimates are expressed in 1987 dollars and are based on 1987 weights. Alternatively weighted measures of real GDP and prices are discussed on page 7 of this article.

Table 1.—Real Gross Domestic Product, by Major Type of Product
(Seasonally adjusted at annual rates)

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1993		1994	
		1993		1994		III	IV	I	II
		1994:II	III	IV	I					II
Gross domestic product ...	5,310.2	34.0	78.6	43.1	49.1	2.7	6.3	3.3	3.8
Goods	2,200.7	8.3	57.3	33.3	31.9	1.6	11.5	6.4	6.0
Motor vehicles	222.9	-9.8	22.2	18.0	-12.7	-17.8	53.8	37.4	-19.9
Other	1,977.8	18.1	35.1	15.3	44.6	3.9	7.7	3.2	9.6
Services	2,632.7	17.6	5.1	14.6	6.9	2.7	.8	2.3	1.1
Structures	476.9	8.1	16.2	-4.8	10.4	7.4	15.0	-4.0	9.2

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

penditures slowed sharply, and fixed investment (both residential and nonresidential) slowed a little. Government purchases decreased much less than in the first quarter.

Exports and imports are the link between goods and services produced in the United States (GDP) and goods and services purchased by U.S. residents (gross domestic purchases). In the second quarter, exports turned up, and imports accelerated.

Personal consumption expenditures

Real personal consumption expenditures increased 1.4 percent in the second quarter af-

ter increasing 4.7 percent in the first (table 3). The slowdown may reflect decelerations in real disposable personal income in the first two quarters of 1994; after increasing 4.3 percent in the fourth quarter of 1993, income slowed to a 3.4-percent increase in the first quarter of 1994 and to a 2.7-percent increase in the second (chart 2). Two other factors associated with changes in consumer spending were more positive. The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) had jumped to its highest level in 5 years in the first quarter; in the second quarter, it remained high.

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

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1993		1994	
		1993		1994		III	IV	I	II
	1994:II	III	IV	I	II				
Gross domestic product	5,310.2	34.0	78.6	43.1	49.1	2.7	6.3	3.3	3.8
Less: Exports of goods and services	642.7	-4.9	29.9	-5.6	23.1	-3.2	21.7	-3.5	15.8
Plus: Imports of goods and services	755.6	12.0	25.8	16.2	32.0	7.4	16.0	9.5	18.9
Equals: Gross domestic purchases	5,423.1	51.1	74.4	64.9	58.0	4.0	5.8	5.0	4.4
Less: Change in business inventories	56.3	-5.9	-2.2	14.6	30.9	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	5,366.7	57.0	76.6	50.3	27.0	4.5	6.0	3.9	2.0
Personal consumption expenditures	3,558.6	33.0	34.0	40.1	12.3	3.9	4.0	4.7	1.4
Nonresidential fixed investment	657.9	16.9	29.3	16.4	14.3	12.2	21.1	10.9	9.2
Residential investment	234.0	4.7	13.5	5.4	4.1	9.4	28.2	10.0	7.3
Government purchases	916.3	2.5	-3	-11.6	-3.6	1.1	-1	-4.9	-1.6

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

Table 3.—Real Personal Consumption Expenditures

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1993		1994	
		1993		1994		III	IV	I	II
	1994:II	III	IV	I	II				
Personal consumption expenditures	3,558.6	33.0	34.0	40.1	12.3	3.9	4.0	4.7	1.4
Durable goods	523.3	9.0	18.1	10.9	1.6	7.7	15.5	8.8	1.2
Motor vehicles and parts	206.6	-1	9.7	9.0	-7.1	-2	21.4	18.8	-12.6
New autos	84.1	-1	7.2	-1.6	-1.5	-5	41.2	-7.1	-6.8
New trucks	45.7	-1.7	5.1	1.0	-2.0	-14.8	58.8	8.8	-15.7
Other	76.8	1.7	-2.6	9.6	-3.6	9.8	-13.4	66.3	-16.7
Furniture and household equipment	232.3	6.7	8.0	1.3	6.4	13.4	15.6	2.3	11.8
Other	84.4	2.4	.4	.5	2.4	12.8	2.0	2.5	12.2
Nondurable goods	1,103.9	7.4	6.3	10.3	5.6	2.8	2.4	3.8	2.1
Food	536.3	2.8	3.0	3.8	4.4	2.2	2.3	2.9	3.4
Clothing and shoes	205.0	2.5	3.8	1.4	1.2	5.2	7.9	2.8	2.4
Energy ¹	97.6	2.2	-9	.7	-1.9	9.3	-3.6	2.9	-7.4
Other	265.0	.1	.4	4.3	1.9	.2	.6	6.8	2.9
Services	1,931.3	16.6	9.6	18.9	5.0	3.6	2.0	4.0	1.0
Housing	500.0	2.2	1.7	2.3	2.3	1.8	1.4	1.9	1.9
Household operation	229.0	4.6	-5	1.8	.3	8.5	-2.9	3.2	.5
Energy ²	100.4	3.6	-3	1.5	-7	15.8	-1.2	6.2	-2.7
Other household operation	128.6	1.0	-3	.5	.9	3.2	-9	1.6	2.8
Transportation	131.7	.8	1.4	1.1	.8	2.5	4.4	3.4	2.5
Medical care	477.5	3.3	2.8	2.8	4.3	2.9	2.4	2.4	3.7
Other	593.2	5.7	4.2	11.0	-2.7	4.0	2.9	7.7	-1.8

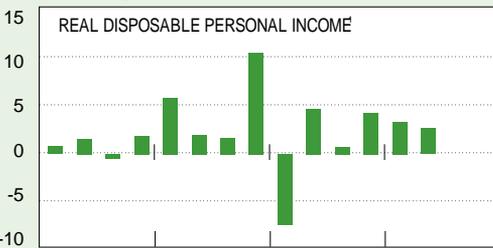
1. Gasoline and oil, and fuel oil and coal.
2. Electricity and gas.

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

CHART 2

Selected Factors Affecting Consumer Spending

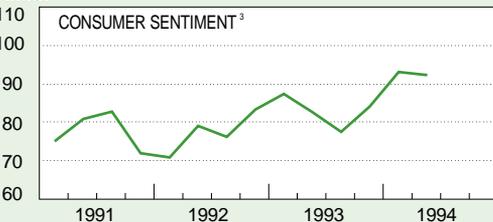
Percent change



Percent



Index



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

The unemployment rate dropped from 6.6 percent in the first quarter to 6.2 percent in the second.

Expenditures for durable goods slowed to a 1.2-percent increase after increasing 8.8 percent. The slowdown was more than accounted for by motor vehicles and parts, which decreased after increasing. Net purchases of used autos dropped after increasing sharply; purchases of trucks also turned down. In contrast, furniture and household equipment increased more than in the first quarter; almost two-thirds of the step-up was accounted for by "other durable house furnishings," which includes such items as floor coverings and lamps.

Expenditures for nondurable goods slowed to a 2.1-percent increase after increasing 3.8 percent. The slowdown reflected a downturn in fuel oil and coal and a slowdown in "other" nondurables.

Expenditures for services slowed to a 1.0-percent increase after increasing 4.0 percent. Most of the slowdown was accounted for by "other" services—most notably brokerage services and net foreign travel by U.S. residents.

Nonresidential fixed investment

Real nonresidential fixed investment increased 9.2 percent in the second quarter after increasing 10.9 percent in the first (table 4). Structures turned up sharply, but producers' durable equipment slowed.

Table 4.—Real Gross Private Domestic Fixed Investment

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1993		1994	
		1993		1994		III	IV	I	II
		1994:II	III	IV	I				
Gross private domestic fixed investment	891.9	21.5	42.9	21.7	18.5	11.4	23.0	10.6	8.7
Nonresidential	657.9	16.9	29.3	16.4	14.3	12.2	21.1	10.9	9.2
Structures	150.7	.2	1.2	-4.6	6.6	.5	3.3	-11.8	19.6
Nonresidential buildings, including farm	105.2	2.0	2.2	-3.5	6.0	8.4	9.0	-13.0	26.5
Utilities	28.8	-2	0	-1	.4	-2.8	0	-1.4	5.8
Mining exploration, shafts, and wells	9.7	-7	-6	-3	.1	-22.8	-21.0	-11.6	4.2
Other	6.8	-1.0	-4	-7	-1	-37.6	-18.5	-32.1	-5.7
Producers' durable equipment	507.3	16.6	28.2	20.9	7.9	16.2	27.5	18.6	6.5
Information processing and related equipment	242.0	18.1	16.3	8.0	8.8	43.7	35.1	15.0	16.0
Computers and peripheral equipment	130.2	14.2	10.3	4.7	3.0	71.8	42.1	16.3	9.8
Other	111.9	3.9	6.0	3.3	5.9	17.9	27.2	13.5	24.2
Industrial equipment	88.9	2.4	3.7	2.8	2.5	13.0	19.8	14.1	12.1
Transportation and related equipment	92.6	-5.1	5.6	7.6	-5.9	-20.7	29.0	37.9	-21.9
Motor vehicles	84.8	-7	5.0	9.0	-3.4	-3.7	29.8	53.8	-14.6
Other	7.8	-4.4	.6	-1.4	-2.5	-73.7	23.4	-39.9	-67.1
Other	83.7	1.3	2.7	2.4	2.4	7.1	14.9	12.7	12.3
Residential	234.0	4.7	13.5	5.4	4.1	9.4	28.2	10.0	7.3
Single-family structures	127.7	1.7	8.1	6.8	2.6	6.4	32.8	25.1	8.6
Multifamily structures	11.2	.7	-2	.3	1.2	34.1	-7.8	13.0	57.4
Other	95.0	2.3	5.5	-1.5	.1	10.8	26.5	-6.1	.4

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

Factors that affect investment spending, like those that affect consumer spending, were mixed in the second quarter. On the one hand, borrowing costs increased and sales slowed: The yield on new high-grade corporate bonds increased 73 basis points, and real final sales of domestic product increased only 1.4 percent, its smallest increase in five quarters. On the other hand, pressure on capacity continued to mount, and profitability improved: The capacity utilization rate in manufacturing increased 0.4 percentage point, to 82.9 percent, following two quarterly increases of a percentage point or more; corporate profits rebounded from a first-quarter drop associated with the Northridge, California, earthquake; and cash flow increased.

Structures increased 19.6 percent—the largest percentage increase in 10 years—after dropping 11.8 percent. Most of the upturn was accounted for by industrial and commercial buildings. Industrial buildings increased for the fifth time in six quarters. Commercial buildings posted a strong increase for the second time in three quarters.

Producers' durable equipment slowed to a 6.5-percent increase after increasing 18.6 percent. Transportation equipment more than accounted for the slowdown, as purchases of both autos and trucks turned down, and purchases of aircraft decreased more than in the first quarter. Information processing equipment increased a little more than in the first quarter, despite a small slowdown in computer purchases.

Residential investment

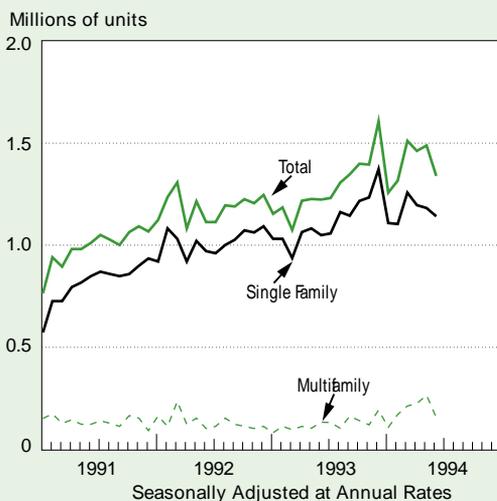
Real residential investment increased 7.3 percent in the second quarter after increasing 10.0 percent in the first. Single-family construction (which accounts for more than half of all residential investment) decelerated, multifamily construction accelerated, and "other" residential investment changed little after decreasing.

Single-family construction increased 8.6 percent after increasing 25.1 percent. Single-family construction for a quarter can usually be approximated by housing starts in that quarter and in the preceding quarter; accordingly, construction in the second quarter of 1994 would reflect housing starts in the first two quarters of 1994. However, in these two quarters, housing starts averaged 1.18 million units (seasonally adjusted annual rate)—down from an average of 1.23 million units for the fourth quarter of 1993 and the first quarter of 1994 (chart 3). The seeming anomaly of a decrease in average starts and an increase in single-family construction can be explained by an increase in the "quality" (that is, the size, location, and amenities) of the units. Such an increase in quality is reflected in the NIPA estimate of single-family construction but not in the average number of starts.

Multifamily construction—which is the smallest of the three components of residential investment and accounts for less than 5 percent of the total—increased 57.4 percent after increasing 13.0 percent. The increases occurred despite a rental

CHART 3

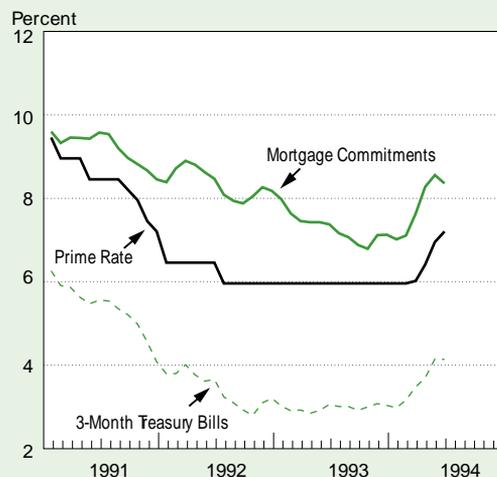
Housing Starts



Data: Bureau of the Census
U.S. Department of Commerce, Bureau of Economic Analysis

CHART 4

Selected Interest Rates



Data: Federal Reserve Board

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

vacancy rate that remained high (7.4 percent in the second quarter).

“Other” residential investment increased 0.4 percent after decreasing 6.1 percent.² The upturn was more than accounted for by brokers’ commissions. Sales of new and existing single-family residences increased 24,000 units after decreasing 277,000 units (seasonally adjusted annual rates); the upturn occurred despite a jump in the mortgage interest rate of more than 100 basis points (chart 4).

Inventory investment

Real inventory investment—that is, the change in business inventories—increased \$30.9 billion in the second quarter after increasing \$14.6 billion in the first. The second-quarter increase reflected a sharp step-up in nonfarm inventory accumulation (table 5).

Nonfarm inventories increased \$51.8 billion after increasing \$22.1 billion; the second-quarter increase was the largest since the fourth quarter of 1987. The step-up was attributable to upturns in wholesale trade inventories and in retail trade inventories other than those held by auto dealers.

Within wholesale trade, inventories of durable goods increased considerably more than in the first quarter; about half the second-quarter increase was in inventories of motor vehicles and parts and of electrical goods. Inventories of nondurable goods decreased less than in the first quarter.

Within retail trade, accumulation of durable goods stepped up, and inventories of nondurable goods increased after decreasing. The second-quarter increase in inventories of durables was

accounted for by furniture and appliance stores and by building material and hardware stores; retail auto inventories decreased after increasing. Most of the increase in inventories of nondurables was accounted for by apparel and department stores.

Manufacturing inventories increased less than in the first quarter. Inventories of nondurable goods decreased after increasing; the decrease was accounted for by chemicals and petroleum. Inventories of durable goods increased about the same as in the first quarter.

“Other” nonfarm inventories increased a little less than in the first quarter.³ Since the second quarter of 1993, this component has increased, on average, \$9.9 billion; in 1990–92, in contrast, it decreased, on average, \$2.1 billion.

Farm inventories increased \$4.6 billion after increasing \$3.3 billion. Inventories of crops increased more than in the first quarter; inventories of livestock decreased after a slight increase.

The constant-dollar ratio of nonfarm inventories to all final sales of domestic businesses moved up to 2.49 in the second quarter from 2.46 in the first. A different ratio, in which final sales are limited to goods and structures, shows much the same picture; it moved up to 4.29 from 4.25. Despite these increases, both ratios remained low by historical standards.

Net exports of goods and services

Real exports increased 15.8 percent in the second quarter after decreasing 3.5 percent in the first. Real imports increased 18.9 percent—twice as fast as in the first quarter (table 6).

2. “Other” residential investment includes improvements (major replacements and additions and alterations), sales of new mobile homes, brokers’ commissions on house sales, and residential equipment.

3. “Other” nonfarm inventories consists mainly of inventories held by mining, construction, public utilities, transportation, communication, and service industries.

Table 5.—Change in Real Business Inventories

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

	Level					Change from preceding quarter			
	1993			1994		1993		1994	
	II	III	IV	I	II	III	IV	I	II
Change in business inventories	18.9	13.0	10.8	25.4	56.3	-5.9	-2.2	14.6	30.9
Farm	-3.9	-7.9	.1	3.3	4.6	-4.0	8.0	3.2	1.3
Nonfarm	22.8	20.9	10.7	22.1	51.8	-1.9	-10.2	11.4	29.7
Manufacturing	3.9	2.5	-7.7	9.9	3.3	-1.4	-10.2	17.6	-6.6
Wholesale trade	7.3	6.8	.7	-1.0	14.7	-5	-6.1	-1.7	15.7
Retail trade	1.8	6.2	5.0	2.0	23.3	4.4	-1.2	-3.0	21.3
Auto dealers	-8	-7.4	-4.5	2.5	-2.1	-6.6	2.9	7.0	-4.6
Other retail trade	2.6	13.6	9.5	-5	25.4	11.0	-4.1	-10.0	25.9
Other	9.8	5.3	12.7	11.3	10.4	-4.5	7.4	-1.4	-9
Addenda:									
Motor vehicles	-3.2	-6.7	.6	-1.9	2.1	-3.5	7.3	-2.5	4.0
Nonfarm less motor vehicles	26.0	27.6	10.1	24.0	49.7	1.6	-17.5	13.9	25.7

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

Exports of goods increased 17.5 percent after decreasing 3.1 percent. Following a sharp first-quarter decrease, exports of agricultural products increased moderately. Exports of nonagricultural products increased strongly after decreasing slightly. All major end-use categories contributed to the upturn; the largest contributions were by industrial supplies and materials and by nonautomotive capital goods other than civilian aircraft and computers. Exports of services increased after a decrease.

Imports of goods increased 22.6 percent—more than twice as much as in the first quarter. Imports of petroleum and petroleum products turned up, and imports of nonpetroleum products accelerated; the acceleration was accounted for by autos and by nonautomotive consumer goods. Imports of services decreased modestly after increasing.

Government purchases

Real government purchases decreased 1.6 percent in the second quarter after decreasing 4.9 percent

in the first (table 7). Federal Government purchases decreased less than in the first quarter, and State and local government purchases increased after decreasing.

Federal defense purchases decreased 6.2 percent after decreasing 16.0 percent. (Federal defense purchases have decreased in 12 of the last 13 quarters). The second-quarter decrease reflected decreases in all types of purchases, but about half of it was accounted for by services. Within services, the largest decrease was in compensation of employees, which decreased for the 13th consecutive quarter.

Federal nondefense purchases decreased 14.0 percent after increasing 2.9 percent. All categories of purchases except durable goods contributed to the decrease; the largest decreases were in services and structures.

State and local government purchases increased 2.9 percent after decreasing 1.4 percent. The upswing was accounted for by a rebound in structures.

Table 6.—Real Net Exports of Goods and Services

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1993		1994	
		1993		1994		III	IV	I	II
	1994:II	III	IV	I	II				
Net exports of goods and services	-112.9	-17.0	4.1	-21.8	-8.9	.....	.....	.....	.....
Exports of goods and services	642.7	-4.9	29.9	-5.6	23.1	-3.2	21.7	-3.5	15.8
Goods	483.5	-4.8	29.6	-3.7	19.1	-4.3	29.9	-3.1	17.5
Agricultural products	37.5	-2.4	2.2	-2.5	.9	-22.3	26.1	-23.2	10.2
Nonagricultural products	446.0	-2.4	27.5	-1.3	18.2	-2.4	30.3	-1.2	18.1
Services	159.2	-.2	.4	-1.9	4.0	-.5	1.0	-4.8	10.7
Imports of goods and services	755.6	12.0	25.8	16.2	32.0	7.4	16.0	9.5	18.9
Goods	647.4	9.7	22.8	15.3	32.2	7.0	16.8	10.6	22.6
Petroleum and products	60.4	-1.0	1.4	-1.6	3.9	-6.8	10.2	-10.6	30.6
Nonpetroleum products	587.0	10.7	21.4	16.8	28.4	8.7	17.5	13.0	21.9
Services	108.1	2.3	3.1	.9	-4	9.3	12.4	3.4	-1.5

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

Table 7.—Real Government Purchases

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1993		1994	
		1993		1994		III	IV	I	II
	1994:II	III	IV	I	II				
Government purchases	916.3	2.5	-0.3	-11.6	-3.6	1.1	-0.1	-4.9	-1.6
Federal	333.9	-2.7	-4.5	-9.4	-7.8	-3.0	-5.0	-10.3	-8.8
National defense	224.9	-5.9	-2.2	-10.2	-3.6	-9.2	-3.6	-16.0	-6.2
Nondefense	109.0	3.2	-2.3	.8	-4.2	12.0	-7.8	2.9	-14.0
State and local	582.4	5.2	4.2	-2.1	4.1	3.7	2.9	-1.4	2.9
Structures	88.1	2.9	2.0	-6.0	1.7	13.9	9.1	-23.6	8.1
Other	494.3	2.3	2.2	3.9	2.4	1.9	1.8	3.2	2.0

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

Revisions

The preliminary second-quarter estimate of a 3.8-percent increase in real GDP is 0.1 percentage point higher than the advance estimate (table 8). This revision is quite small; the average revision (without regard to sign) between the advance and the preliminary estimate is 0.5 percentage point.

Exports were revised up \$6.6 billion, and imports were revised up \$6.1 billion; the net effect on GDP was small—an upward revision of \$0.5 billion. The revisions to both exports and imports primarily reflected the incorporation of newly available source data that showed larger-than-expected increases in merchandise trade in June.

The other major components of GDP generally registered small, offsetting revisions. The largest upward revision (\$2.3 billion) was to change in business inventories: A large upward revision to retail trade inventories, reflecting the incorporation of newly available source data for June, more than offset downward revisions to manufacturing and wholesale trade inventories. Personal consumption expenditures was also revised up; an upward revision to nondurable goods, reflecting revised retail sales data for May and June, was partly offset by a downward revision to motor vehicles, reflecting newly available data on consumers' share of new car purchases in May, and by a downward revision to services, mainly reflecting newly available data on brokerage services for June. Federal Government purchases was revised down.

The preliminary estimate of the increase in gross domestic purchases, 4.4 percent, is the same as the advance estimate.

The second-quarter increase in the fixed-weighted price index for gross domestic purchases was revised up 0.1 percentage point. The increase in the price index for GDP was not revised.

Alternative measures

Both of BEA's alternative measures of real GDP—the chain-type annual-weighted and the benchmark-years-weighted measures—increased 3.9 percent in the second quarter of 1994, 0.1 percentage point more than the featured fixed-1987-weighted measure. In the first quarter, both alternative measures had increased 0.1 percentage point less than the featured measure.⁴

4. The alternative quantity and price indexes are found in tables 7.1–7.3 of the "Selected NIPA Tables," and the associated percent changes are found in table 8.1. For additional information about the alternative indexes, see "Quantity and Price Indexes, 1988–94" in this issue.

In the second quarter, as well as in the first, the small difference in the GDP growth rates reflected offsetting differences among the growth rates of the major components. In the second quarter, the sources of the differences were the same for both alternative measures: Positive contributions came from PCE for services, change in business inventories, and imports (which is subtracted in deriving GDP); negative contributions came from PCE for durable goods and producers' durable equipment.

For prices of gross domestic purchases, both alternative measures increased 3.1 percent in the second quarter, 0.2 percentage point less than the featured 1987-weighted measure. In the first quarter, the chain-type measure increased 2.5 percent, the same as the featured measure; the benchmark-years measure increased 2.6 percent. For GDP prices, both alternatives increased 2.7

Table 8.—Revisions in Real Gross Domestic Product and Prices, Second Quarter 1994

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Preliminary estimate minus advance estimate	
	Advance estimate	Preliminary estimate	Percentage points	Billions of 1987 dollars
Gross domestic product	3.7	3.8	0.1	1.0
Less: Exports of goods and services	11.1	15.8	4.7	6.6
Goods	12.0	17.5	5.5	5.8
Services	8.5	10.7	2.2	.8
Plus: Imports of goods and services	15.1	18.9	3.8	6.1
Goods	19.0	22.6	3.6	4.9
Services	-5.4	-1.5	3.9	1.1
Equals: Gross domestic purchases	4.4	4.4	0	.5
Personal consumption expenditures	1.2	1.4	.2	1.5
Durables .....	.8	1.2	.4	.5
Nondurables .....	.7	2.1	1.4	3.7
Services	1.6	1.0	-.6	-2.8
Fixed investment	9.2	8.7	-.5	-.9
Nonresidential	10.0	9.2	-.8	-1.2
Structures	18.4	19.6	1.2	.4
Producers' durable equipment	7.7	6.5	-1.2	-1.4
Residential	7.0	7.3	.3	.2
Change in business inventories				2.3
Nonfarm				1.8
Farm .....				.5
Government purchases	-5	-1.6	-1.1	-2.4
Federal	-4.8	-8.8	-4.0	-3.6
National defense	-3.8	-6.2	-2.4	-1.4
Nondefense	-6.9	-14.0	-7.1	-2.2
State and local	2.0	2.9	.9	1.2
Gross domestic purchases price index (fixed weights) ¹	3.2	3.3	.1	
GDP price index (fixed weights) ¹	2.9	2.9	0	

1. Based on 1987 weights.

NOTE.—Preliminary estimates for the second quarter of 1994 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared a month ago.

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

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

Residential investment: Construction put in place for April and May (revised) and June.

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

Net exports of goods and services: Merchandise exports and merchandise imports for May (revised) and June.

Government purchases: Detailed Federal outlays for June, State and local construction put in place for April and May (revised) and June, and State and local government employment for May and June (revised).

Wages and salaries: Revised employment, average hourly earnings, and average weekly hours for May and June.

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

percent in the second quarter and 3.2 percent in the first; the featured measure increased 2.9 percent in the second quarter and 3.1 percent in the first.

Corporate Profits

Profits from current production—profits before tax (PBT) plus inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj)—increased \$39.1 billion in the second quarter after decreasing \$25.7 billion in the first (table 9). The rebound largely reflected the effect of the Northridge, California, earthquake, which had reduced first-quarter profits by about \$30 billion.⁵

Domestic operations of both financial and nonfinancial corporations contributed to the second-quarter increase; profits from the rest of the world changed little. For domestic operations of nonfinancial corporations, the increase mainly reflected an increase in unit profits, as the prices that corporations received increased more than the unit costs they incurred.

Cash flow from current production, a profits-related measure of internally generated funds available to corporations for investment, increased \$10.1 billion after increasing \$1.0 billion. Despite the step-up in cash flow, the ratio of cash flow to nonresidential fixed investment decreased from 84.1 percent to 83.4 percent. Since hitting a peak of 91.9 percent in the first quarter of 1992, the ratio has fluctuated between 83 percent and 88 percent; in the 1980's, in contrast, it had averaged 72.1 percent.

Related measures.—Industry profits are measured by PBT with IVA because estimates of the CCAdj by

industry do not exist. Second-quarter profits are not yet available at the industry level, but preliminary and incomplete information suggests that an increase in financial industry profits mainly reflected profits of property and casualty insurance carriers and that an increase in nonfinancial

Table 9.—Corporate Profits

[Seasonally adjusted at annual rates]

	Level		Change from preceding quarter
	1994:II		
	1994:I	1994:II	
Billions of dollars			
Profits from current production	547.3	-25.7	39.1
Domestic	486.1	-25.1	39.0
Financial	90.3	-25.7	15.4
Nonfinancial	395.8	.6	23.6
Rest of the world	61.2	-6	.1
IVA	-12.5	-5.8	-2
CCAdj	36.8	-1.8	-2
Profits before tax	523.1	-18.2	39.6
Profits tax liability	201.5	-7.4	17.4
Profits after tax	321.6	-10.8	22.2
Cash flow from current production	570.0	1.0	10.1
Profits by industry:			
Profits before tax with IVA	510.6	-23.9	39.4
Domestic	449.4	-23.3	39.3
Financial	106.0	-25.0	16.4
Nonfinancial	343.4	1.7	22.9
Manufacturing .....	.....	10.9	.....
Trade .....	.....	-4.7	.....
Transportation and public utilities .....	.....	-6.3	.....
Other .....	.....	1.7	.....
Rest of the world	61.2	-6	.1
Receipts (inflows)	80.0	2.9	2.4
Payments (outflows)	18.8	3.6	2.2
Dollars			
Unit price, costs, and profits of domestic nonfinancial corporations:			
Unit price	1.170	0.006	0.005
Unit labor cost .....	.766	.003	.003
Unit nonlabor cost .....	.277	.005	-.003
Unit profits from current production .....	.128	-.001	.006

NOTE.—Levels of these and other profits series are found in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

IVA Inventory valuation adjustment
CCAdj Capital consumption adjustment

5. See pages 2 and 3 of the June 1994 SURVEY.

Table 10.—Rate of Return, Income Share, and Average Product of Capital, Domestic Nonfinancial Corporations, 1989–93

[Percent]

Year	Rate of return					Share of domestic income				Average product of capital
	Property income					Property income				
	Total	Profits from current production			Net interest	Total	Profits from current production	Net interest		
		Total	Profits tax liability	Profits after tax						
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)		
1989	9.3	5.9	2.3	3.6	3.4	17.3	11.0	6.3	.538	
1990	9.0	5.7	2.1	3.6	3.3	16.7	10.6	6.1	.539	
1991	8.3	5.4	1.8	3.6	2.9	15.7	10.2	5.5	.529	
1992	8.3	5.9	1.9	4.0	2.4	15.4	10.9	4.5	.539	
1993	9.2	6.8	2.4	4.4	2.4	16.5	12.2	4.2	.558	

NOTE.—Columns 1–5 are percentages of the stock of net reproducible assets (structures, equipment, and inventories) valued at current replacement cost. Columns 6–8 are percentages of domestic income. Column 9 is calculated as the ratio of column 1 to column 6. Estimates for 1991–

93 are revised; estimates for earlier years, along with a discussion of the measures, appeared in the April 1994 SURVEY OF CURRENT BUSINESS.

industry profits reflected profits in trade and in transportation and public utilities.

PBT increased \$39.6 billion. The difference between this increase and the \$39.1 billion increase in profits from current production reflects very small decreases in the IVA and the CCAdj.

Revisions in profits and related measures.—Estimates of profits, net interest, and reproducible assets for 1991–93 were revised as part of the annual revision of the national income and product accounts, which was presented in the July SURVEY OF CURRENT BUSINESS.⁶ These revisions are reflected in the last three rows of table 10, which presents selected rates of return and shares of domestic income for domestic nonfinancial corporations.

Government Sector

The fiscal position of the government sector improved in the second quarter of 1994, as the combined deficit of the Federal Government and of State and local governments decreased \$31.8 billion, to \$119.3 billion (table 11). The Federal Government deficit accounted for most of the improvement; the State and local government position improved slightly.

Federal

The Federal Government deficit decreased \$31.2 billion, to \$145.0 billion, in the second quarter, as receipts increased considerably more than expenditures. The Federal deficit, which has decreased for five consecutive quarters, is the smallest in over 3 years.

Receipts.—Receipts increased \$43.1 billion in the second quarter after increasing \$23.9 billion in the first. All but one of the major components of receipts increased; indirect business taxes were unchanged.

Personal tax and nontax receipts increased \$20.9 billion after increasing \$13.4 billion. Nearly half of the second-quarter increase, \$10.3 billion, reflected provisions of the Omnibus Budget Reconciliation Act of 1993 that retroactively increased tax rates for high-income taxpayers. Persons affected by the rate increases had the option of paying the additional 1993 income taxes in three annual installments, the first of which was due April 15, 1994. Withheld personal income taxes increased \$5.2 billion as a result of growth in wages and salaries.

Corporate profits tax accruals increased \$14.3 billion after decreasing \$6.0 billion. The increase reflected the upturn in corporate profits.

Contributions for social insurance increased \$7.9 billion after increasing \$16.8 billion. In the second quarter, growth in wages and salaries accounted for \$5.2 billion of the increase in contributions. In the first quarter, contributions were boosted \$10.0 billion (annual rate) by an increase in the social security taxable wage base, an increase in the monthly premium for supplementary medical insurance, and the removal of the \$135,000 cap on the medicare taxable wage base.

Table 11.—Government Sector Receipts and Expenditures

(Billions of dollars, seasonally adjusted at annual rates)

	Level	Change from preceding quarter				
		1993			1994	
		II	III	IV	I	II
Government sector						
Receipts	2121.2	64.2	15.8	54.5	31.1	54.7
Expenditures	2240.6	13.9	5.2	39.1	-3.4	23.0
Surplus or deficit (-)	-119.3	50.3	10.6	15.4	34.5	31.8
Federal Government						
Receipts	1380.6	51.0	9.0	40.9	23.9	43.1
Personal tax and nontax receipts	571.1	22.6	7.7	9.3	13.4	20.9
Corporate profits tax accruals	166.1	9.7	-1.6	17.6	-6.0	14.3
Indirect business tax and nontax accruals	90.4	1.6	-1.2	8.4	-3	0
Contributions for social insurance	553.0	17.0	4.1	5.6	16.8	7.9
Expenditures	1525.6	4.5	-3.0	36.1	-20.0	11.9
Purchases	434.9	-1.7	-2.5	-2.9	-2.0	-2.9
National defense	290.7	-1.2	-6.8	.1	-7.4	-1.0
Nondefense	144.1	-5	4.2	-2.9	5.4	-2.0
Transfer payments (net)	676.0	8.0	7.4	13.9	-2.6	4.5
To persons	663.5	6.5	6.0	3.9	10.1	3.6
To rest of the world	12.5	1.5	1.4	10.0	-12.7	.9
Grants-in-aid to State and local governments	193.6	6.2	4.9	9.2	-7.0	3.6
Net interest paid	189.7	2.3	-1.2	-1	-4.2	10.4
Subsidies less current surplus of government enterprises	31.5	-10.1	-11.8	16.0	-4.2	-3.6
Subsidies	34.6	-7.2	-11.3	15.5	-3.9	-3.1
Of which: Agricultural subsidies	8.9	-7.8	-11.7	15.5	-4.9	-3.4
Less: Current surplus of government enterprises	3.1	3.0	.4	-5	.3	.5
Less: Wage accruals less disbursements	0	0	0	0	0	0
Surplus or deficit (-)	-145.0	46.4	12.1	4.8	43.9	31.2
State and local governments						
Receipts	934.2	19.3	11.7	22.8	.3	15.1
Personal tax and nontax receipts	175.3	5.9	1.8	2.3	2.7	2.4
Corporate profits tax accruals	35.4	2.3	-3	4.0	-1.4	3.1
Indirect business tax and nontax accruals	459.5	4.2	4.5	6.6	5.2	5.3
Contributions for social insurance	70.5	.8	.7	.7	.8	.8
Federal grants-in-aid	193.6	6.2	4.9	9.2	-7.0	3.6
Expenditures	908.5	15.6	13.1	12.2	9.6	14.6
Purchases	731.4	11.0	9.0	7.2	4.6	9.4
Of which: Structures	101.5	5.8	3.4	3.0	-5.8	2.3
Transfer payments to persons	270.7	5.3	5.2	5.7	5.7	6.4
Net interest paid	-54.6	-1	-1	-2	-5	-5
Less: Dividends received by government	10.8	.1	.1	.1	.2	.1
Subsidies less current surplus of government enterprises	-28.2	-4	-9	-4	-1	-5
Subsidies .....	.4	0	0	0	0	0
Less: Current surplus of government enterprises	28.6	.4	.8	.4	.2	.5
Less: Wage accruals less disbursements	0	0	0	0	0	0
Surplus or deficit (-)	25.7	3.7	-1.4	10.6	-9.3	.5
Social insurance funds	65.8	.1	-1	-1	-3	-1
Other	-40.1	3.6	-1.3	10.7	-9.0	.6

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

6. See tables 1.15 and 1.16 of the "National Income and Product Accounts Tables" in the July 1994 SURVEY. See also "Fixed Reproducible Tangible Wealth" on page 54 in this issue.

Expenditures.—Expenditures increased \$11.9 billion in the second quarter after decreasing \$20.0 billion in the first. The upswing was more than accounted for by net interest, grants-in-aid to State and local governments, and transfer payments.

Net interest paid increased \$10.4 billion after decreasing \$4.2 billion. The upturn was mainly attributable to interest paid on the public debt, which increased \$8.0 billion after decreasing \$4.9 billion.

Grants-in-aid to State and local governments increased \$3.6 billion after decreasing \$7.0 billion. The turnaround was more than accounted for by medicaid, which increased \$5.6 billion after decreasing \$6.3 billion.

Transfer payments increased \$4.5 billion after decreasing \$2.6 billion. The turnaround was more than accounted for by transfer payments to the rest of the world, which increased \$0.9 billion after decreasing \$12.7 billion; the decrease followed a large fourth-quarter increase that was primarily due to \$12.0 billion (annual rate) in economic support and other payments to Israel. Transfer payments to persons increased \$3.6 billion after increasing \$10.1 billion. In the first quarter, transfer payments had been boosted \$7.7 billion by a cost-of-living adjustment in social security benefits (old-age, survivors, and disability insurance) in January and \$1.1 billion by temporary rental assistance payments to the victims of the earthquake that struck Northridge, California, in January. The second-quarter increase in transfer payments included a \$1.6 billion cost-of-living adjustment for Federal civilian and military retirees that became effective in April; in past years, these adjustments became effective in January, but they were delayed this year by provisions of the Omnibus Budget Reconciliation Act of 1993. The second-quarter increase also included the final payments from the Emergency Unemployment Compensation program to persons who had exhausted their regular unemployment benefits; these benefits have been decreasing since the third quarter of 1993.

Subsidies less the current surplus of government enterprises decreased \$3.6 billion after decreasing \$4.2 billion. The decreases in both quarters were mostly attributable to agricultural subsidies, which decreased \$3.4 billion after decreasing \$4.9 billion. The second-quarter decrease in agricultural subsidies was more than accounted for by flood- and drought-related payments.

Purchases decreased \$2.9 billion after decreasing \$2.0 billion. Nondefense purchases decreased \$2.0 billion after increasing \$5.4 billion. Most of the downturn was attributable to structures and to services other than compensation, both of which decreased in the second quarter after increasing in the first. Compensation of nondefense employees increased \$2.2 billion after increasing \$2.9 billion. Buyout programs at Federal civilian agencies boosted nondefense compensation by \$2.3 billion in the second quarter and by less than \$0.1 billion in the first quarter; Congress granted buyout authority to all civilian agencies on March 24, 1994, but some agencies, such as the Library of Congress and the Government Printing Office, had limited buyout authority before March. The first-quarter increase in compensation also reflected \$1.1 billion in locality pay raises.

Offsetting most of the downturn in nondefense purchases, defense purchases decreased \$1.0 billion after decreasing \$7.4 billion. Purchases of military equipment, nondurable goods, and services other than compensation decreased less in the second quarter than in the first.

State and local

The State and local government surplus increased \$0.5 billion, to \$25.7 billion, as receipts increased slightly more than expenditures.

Receipts increased \$15.1 billion in the second quarter after increasing \$0.3 billion in the first. The acceleration was more than accounted for by turnarounds in Federal grants-in-aid and in corporate profit tax accruals. Federal grants-in-aid increased \$3.6 billion after decreasing \$7.0 billion; the turnaround was more than accounted for by medicaid. Reflecting the upturn in corporate profits, corporate profits tax accruals increased \$3.1 billion after decreasing \$1.4 billion.

Expenditures increased \$14.6 billion in the second quarter after increasing \$9.6 billion in the first. Purchases increased \$9.4 billion after increasing \$4.6 billion. Within purchases, structures increased \$2.3 billion after decreasing \$5.8 billion; highway construction accounted for most of the increase in the second quarter and for part of the decrease in the first. Compensation of employees increased \$6.3 billion after increasing \$6.8 billion; the increases in both quarters reflected growth in employment. The impact of the Northridge earthquake raised compensation \$1.2 billion in the first quarter and reduced it \$0.9 billion in the second. Transfer payments to persons increased \$6.4 billion after increasing \$5.7 billion. 