

Business Situation

Final Estimates for the First Quarter of 2005

ACCORDING to the “final” estimates of the national income and product accounts (NIPAs), real gross domestic product (GDP) increased 3.8 percent in the first quarter of 2005, the same as in the fourth quarter of 2004 (table 1 and chart 1).¹ The “preliminary” estimates of first-quarter GDP released in May had shown a 3.5-percent increase. In the final estimates, upward revisions to exports of services and to residential fixed investment were partly offset by a

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter dollar changes are differences between these published estimates. Percent changes are calculated from unrounded data and are annualized. “Real” estimates are presented in chained (2000) dollars, and price indexes are chain-type measures.

downward revision to exports of goods (table 2).

- Prices of goods and services purchased by U.S. residents increased 2.7 percent, 0.2 percentage point less than in the preliminary estimate. In the fourth quarter, prices had increased 2.9 percent. The deceleration mainly reflected a deceleration in energy prices.
- Real disposable personal income (DPI) decreased 1.4 percent, 0.2 percentage point more of a decrease than in the preliminary estimate. Real DPI had increased 10.8 percent in the fourth quarter, largely reflecting a special dividend payment by the Microsoft Corporation.²

2. During the fourth quarter, the Microsoft Corporation paid its shareholders a special dividend that boosted personal income by \$99.4 billion (at an annual rate). For information on the effects of the special dividend on other NIPA estimates, see “Corporate Profits.”

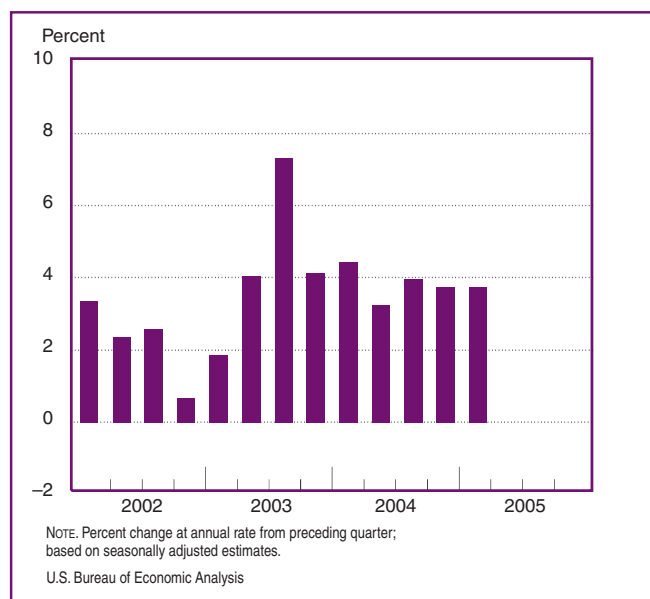
Table 1. Real Gross Domestic Product and Components
[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)				Share of current-dollar GDP (percent)
	2004			2005	2004			2005	2005
	II	III	IV	I	II	III	IV	I	I
Gross domestic product (GDP)	3.3	4.0	3.8	3.8	3.3	4.0	3.8	3.8	100.0
Personal consumption expenditures	1.6	5.1	4.2	3.6	1.10	3.57	2.92	2.52	70.0
Durable goods.....	-0.3	17.2	3.9	1.8	-0.02	1.37	0.33	0.15	8.4
Nondurable goods.....	0.1	4.7	5.9	5.5	0.03	0.94	1.19	1.10	20.4
Services.....	2.7	3.0	3.4	3.1	1.10	1.26	1.41	1.26	41.2
Gross private domestic investment	19.0	2.4	13.3	10.9	2.85	0.40	2.11	1.79	17.1
Fixed investment.....	13.9	8.8	10.5	6.6	2.07	1.37	1.65	1.08	16.5
Nonresidential.....	12.5	13.0	14.5	4.1	1.21	1.27	1.46	0.44	10.7
Structures.....	6.9	-1.1	2.1	-2.4	0.16	-0.03	0.05	-0.06	2.4
Equipment and software..	14.2	17.5	18.4	6.1	1.05	1.30	1.41	0.50	8.3
Residential.....	16.5	1.6	3.4	11.5	0.86	0.09	0.19	0.64	5.8
Change in private inventories.....	.....	.....	.....	.....	0.78	-0.97	0.46	0.72	0.6
Net exports of goods and services	7.3	6.0	3.2	8.9	-1.06	-0.10	-1.35	-0.58	-5.7
Exports.....	7.3	6.0	3.2	8.9	0.70	0.59	0.32	0.87	10.2
Goods.....	6.0	9.5	1.9	7.1	0.41	0.64	0.14	0.49	7.1
Services.....	10.2	-1.8	6.2	13.2	0.30	-0.06	0.18	0.38	3.1
Imports.....	12.6	4.6	11.4	9.6	-1.77	-0.69	-1.67	-1.46	15.9
Goods.....	13.0	5.0	14.9	10.1	-1.52	-0.62	-1.80	-1.28	13.4
Services.....	10.6	2.8	-5.2	7.2	-0.25	-0.07	0.13	-0.17	2.5
Government consumption expenditures and gross investment	2.2	0.7	0.9	0.2	0.41	0.13	0.16	0.03	18.5
Federal.....	2.7	4.8	1.2	0.6	0.18	0.33	0.09	0.04	6.9
National defense.....	1.9	10.1	-0.6	0.5	0.09	0.45	-0.03	0.02	4.7
Nondefense.....	4.4	-5.3	5.3	0.9	0.10	-0.12	0.11	0.02	2.2
State and local.....	1.9	-1.7	0.6	-0.1	0.23	-0.20	0.07	-0.01	11.6

NOTE: Percent changes are from NIPA table 1.1.1, and contributions to percent change are from NIPA table 1.1.2. Shares are from NIPA table 1.1.10.

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Chart 1. Real Gross Domestic Product



The growth rate of real GDP in the first quarter was the same as that in the fourth quarter. In the first quarter, a smaller decrease in net exports and pickups in residential fixed investment and in inventory investment were offset by slowdowns in business investment in equipment and software, in consumer spending, and in government spending.³

3. In this article, "consumer spending" is shorthand for the NIPA series "personal consumption expenditures," "government spending" is shorthand for "government consumption expenditures and gross investment," and "inventory investment" is shorthand for "change in private inventories."

Table 2. Final and Preliminary Estimates for the First Quarter of 2005
[Seasonally adjusted at annual rates]

	Percent change from preceding quarter			Contribution to percent change in real GDP		
	Final estimate	Preliminary estimate	Final minus preliminary	Final estimate	Preliminary estimate	Final minus preliminary
Gross domestic product (GDP)	3.8	3.5	0.3	3.8	3.5	0.3
Personal consumption expenditures	3.6	3.6	0.0	2.52	2.54	-0.02
Durable goods.....	1.8	1.7	0.1	0.15	0.15	0.00
Non-durable goods.....	5.5	5.4	0.1	1.10	1.09	0.01
Services.....	3.1	3.2	-0.1	1.26	1.30	-0.04
Gross private domestic investment	10.9	10.0	0.9	1.79	1.65	0.14
Fixed investment.....	6.6	5.3	1.3	1.08	0.87	0.21
Nonresidential.....	4.1	3.5	0.6	0.44	0.38	0.06
Structures.....	-2.4	-3.3	0.9	-0.06	-0.08	0.02
Equipment and software.....	6.1	5.6	0.5	0.50	0.46	0.04
Residential.....	11.5	8.8	2.7	0.64	0.49	0.15
Change in private inventories.....				0.72	0.78	-0.06
Net exports of goods and services				-0.58	-0.67	0.09
Exports.....	8.9	7.2	1.7	0.87	0.71	0.16
Goods.....	7.1	8.7	-1.6	0.49	0.60	-0.11
Services.....	13.2	3.6	9.6	0.38	0.11	0.27
Imports.....	9.6	9.1	0.5	-1.46	-1.38	-0.08
Goods.....	10.1	9.8	0.3	-1.28	-1.25	-0.03
Services.....	7.2	5.3	1.9	-0.17	-0.13	-0.04
Government consumption expenditures and gross investment	0.2	-0.2	0.4	0.03	-0.03	0.06
Federal.....	0.6	0.4	0.2	0.04	0.03	0.01
National defense.....	0.5	0.3	0.2	0.02	0.01	0.01
Nondefense.....	0.9	0.7	0.2	0.02	0.02	0.00
State and local.....	-0.1	-0.5	0.4	-0.01	-0.06	0.05
Addenda:						
Final sales of domestic product.....	3.0	2.7	0.3	3.04	2.71	0.33
Gross domestic purchases price index.....	2.7	2.9	-0.2			
GDP price index.....	2.9	3.2	-0.3			

NOTE: The final estimates for the first quarter of 2005 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

Personal consumption expenditures: Retail sales for March (revised) and bank services data for the quarter (newly available).

Nonresidential fixed investment: Construction put-in-place data for February and March (revised) and manufacturers' shipments of machinery and equipment for March (revised).

Residential fixed investment: Construction put-in-place data for February and March (revised).

Change in private inventories: Manufacturers' and trade inventories for March (revised) and stocks of coal and petroleum at electric utilities for February (revised).

Exports and imports of goods and services: Exports and imports of goods and services for October 2004 through March 2004 (revised), reflecting (on a "best-change" basis) the results of the annual revision of BEA's international transactions accounts.

Government consumption expenditures and gross investment: State and local government construction put-in-place data for February and March (revised).

Wages and salaries: Employment, average hourly earnings, and average weekly hours for March (revised), and data on employer costs for employee compensation for the first quarter (newly available).

GDP prices: Export and import prices for January through March (revised), unit-value index for petroleum imports for March (revised), and prices of single-family houses under construction for the quarter (revised).

- Net exports subtracted 0.58 percentage point from first-quarter GDP growth after subtracting 1.35 percentage points from fourth-quarter growth. Exports in the first quarter picked up, increasing 8.9 percent after increasing 3.2 percent, and they added 0.87 percentage point to GDP growth after adding 0.32 percentage point. Imports slowed, increasing 9.6 percent after increasing 11.4 percent, and they subtracted 1.46 percentage points from growth after subtracting 1.67 percentage points.

- Residential fixed investment increased 11.5 percent after increasing 3.4 percent and added 0.64 percentage point to GDP growth after adding 0.19 percentage point.

- Inventory investment added 0.72 percentage point to GDP growth after adding 0.46 percentage point. Real inventory stocks increased more in the first quarter (\$66.8 billion) than in the fourth quarter (\$47.2 billion).

- Business investment in equipment and software slowed sharply, increasing 6.1 percent after increasing 18.4 percent, and added 0.50 percentage point to GDP growth after adding 1.41 percentage points.

- Consumer spending increased 3.6 percent after increasing 4.2 percent and contributed 2.52 percentage points to GDP growth after contributing 2.92 percentage points.

- Government spending slowed, increasing 0.2 percent after increasing 0.9 percent, and added 0.03 percentage point after adding 0.16 percentage point.

The final estimates for the first quarter also show the following:

- Real final sales of domestic product (GDP less the change in private inventories) increased 3.0 percent in the first quarter after increasing 3.4 percent in the fourth quarter.

- Real gross domestic purchases (GDP less net exports) increased 4.1 percent after increasing 5.0 percent.

- Real gross national product (GNP) increased 3.9 percent after increasing 3.5 percent.⁴ The first-quarter increase in GNP is 0.1 percentage point more than the increase in GDP; a decrease in income payments to the rest of the world was partly offset by a

4. GNP is a measure of the goods and services produced by labor and property supplied by U.S. residents regardless of where they are located; in contrast, GDP is a measure of the goods and services produced by labor and property in the United States, regardless of nationality. The two measures are related as follows: GNP equals GDP *plus* income receipts from the rest of the world *minus* income payments to the rest of the world.

decrease in income receipts from the rest of the world.

- The gross saving rate (saving from all sources as a percentage of gross national income) increased to 14.7 percent in the first quarter from 14.4 percent in the fourth quarter, and the net saving rate increased to 3.3 percent from 2.8 percent.⁵
- The personal saving rate decreased to 0.9 percent in the first quarter from 2.2 percent in the fourth quarter. The higher fourth-quarter rate primarily reflected a special dividend payment by the Microsoft Corporation.

5. Net saving, which excludes the consumption of fixed capital, is a measure of the saving that is available for augmenting the stock of fixed assets.

Corporate Profits

Profits from current production increased \$76.1 billion (6.0 percent at a quarterly rate) in the first quarter of 2005 after increasing \$150.8 billion (13.5 percent) in the fourth quarter of 2004 (table 3).⁶ The large fourth-quarter increase in profits partly reflected a rebound from the effects of the four hurricanes that had reduced third-quarter profits by \$79.7 billion (annual rate); excluding the effects of these hurricanes, profits from current production increased 5.9 percent in the fourth quarter.

6. 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 as "corporate profits with inventory valuation and capital consumption adjustments" in NIPA tables 1.7.5, 1.10-1.12, 1.14-1.16, and 6.16D.

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

Table 3. Corporate Profits
[Seasonally adjusted]

	Billions of dollars (annual rate)				Percent change from preceding quarter (quarterly rate)					
	Level	Change from preceding quarter								
		2005	2004			2005				
	I	II	III	IV	I	II	III	IV	I	
Current-production measures:										
Corporate profits	1,344.9	8.3	-55.9	150.8	76.1	0.7	-4.8	13.5	6.0	
Domestic industries	1,141.3	28.3	-59.3	150.8	61.2	2.9	-6.0	16.2	5.7	
Financial	399.9	-7.9	-68.7	84.1	36.7	-2.2	-19.7	30.1	10.1	
Nonfinancial	741.4	36.2	9.4	66.7	24.5	6.0	1.5	10.3	3.4	
Rest of the world	203.5	-20.0	3.4	0.0	14.8	-9.7	1.8	0.0	7.9	
Receipts from the rest of the world	324.9	6.6	7.5	30.8	-19.0	2.2	2.5	9.8	-5.5	
Less: Payments to the rest of the world	121.3	26.6	4.2	30.8	-34.0	28.4	3.5	24.7	-21.9	
Less: Taxes on corporate income	360.0	14.7	-17.9	42.4	64.3	5.7	-6.6	16.8	21.7	
Equals: Profits after tax	984.9	-6.4	-38.0	108.3	11.9	-0.7	-4.2	12.5	1.2	
Net dividends	442.8	9.8	10.8	110.7	-91.9	2.4	2.6	26.1	-17.2	
Undistributed profits from current production	542.1	-16.2	-48.8	-2.4	103.8	-3.2	-10.0	-0.5	23.7	
Net cash flow	1,337.4	-5.7	-1.6	-37.7	103.3	-0.4	-0.1	-3.0	8.4	
Industry profits:										
Profits with IVA	1,283.5	15.2	-45.6	113.8	274.7	1.6	-4.8	12.7	27.2	
Domestic industries	1,080.0	35.2	-48.9	113.8	259.9	4.9	-6.5	16.1	31.7	
Financial	378.8	-7.3	-68.8	80.6	60.6	-2.3	-22.5	33.9	19.0	
Nonfinancial	701.2	42.4	19.9	33.2	199.3	10.4	4.4	7.1	39.7	
Utilities	36.2	-1.7	-0.4	6.4	8.7	-7.1	-2.0	30.6	31.6	
Manufacturing	162.7	13.3	10.2	37.4	20.3	16.4	10.7	35.6	14.2	
Wholesale trade	77.4	6.2	8.9	-2.1	18.4	13.7	17.0	-3.5	31.3	
Retail trade	88.4	-6.9	-8.4	6.1	17.6	-8.6	-11.5	9.3	24.9	
Transportation and warehousing	25.9	3.8	-8.2	-2.8	21.4	33.0	-53.1	-38.4	479.4	
Information	35.8	23.1	5.1	-15.0	29.2	.....	.....	.....	.....
Other nonfinancial	274.7	4.4	12.8	3.3	83.5	2.6	7.3	1.7	43.7	
Rest of the world	203.5	-20.0	3.4	0.0	14.8	-9.7	1.8	0.0	7.9	
Addenda:										
Profits before tax (without IVA and CCAAdj)	1,324.0	25.9	-55.5	125.1	266.1	2.7	-5.6	13.4	25.2	
Profits after tax (without IVA and CCAAdj)	964.0	11.2	-37.6	82.6	201.9	1.6	-5.3	12.2	26.5	
IVA	-40.4	-10.8	10.0	-11.3	8.7	.....	.....	.....	.....
CCAAdj	61.3	-6.9	-10.3	37.0	-198.7	-2.9	-4.4	16.6	-76.4	

NOTE: Levels of these and other profile series are shown in NIPA tables 1.12, 1.14, 1.15, and 6.16D.
IVA Inventory valuation adjustment
CCAAdj Capital consumption adjustment

In the first quarter, both profits of domestic industries and profits from the rest of the world increased. In the fourth quarter, profits of domestic industries increased, and profits from the rest of the world were unchanged.⁷

The first-quarter increase in profits of domestic industries was accounted for by both profits of financial corporations, which increased \$36.7 billion (10.1 percent) after increasing \$84.1 billion (30.1 percent), and profits of nonfinancial corporations, which increased \$24.5 billion (3.4 percent) after increasing \$66.7 billion (10.3 percent). Real gross value added of nonfinancial corporations increased. Profits per unit also increased; the increase reflected an increase in unit prices that was partly offset by an increase in unit labor costs. Unit nonlabor costs decreased.

Profits from the rest of the world increased \$14.8 billion (7.9 percent) in the first quarter after no change in the fourth quarter. The increase reflected a larger decrease in payments by domestic affiliates to foreign parents than the decrease in receipts from foreign affiliates of domestic parents. Payments by domestic affiliates to foreign parents decreased \$34.0 billion (21.9 percent) after increasing \$30.8 billion (24.7 percent). Receipts from foreign affiliates of domestic parents decreased \$19.0 billion (5.5 percent) after increasing \$30.8 billion (9.8 percent).

Taxes on corporate income increased \$64.3 billion (21.7 percent) in the first quarter. After-tax profits from current production increased \$11.9 billion (1.2 percent).

Net dividends decreased \$91.9 billion (17.2 percent) in the first quarter after increasing \$110.7 billion (26.1 percent) in the fourth quarter. The large fourth-quarter increase reflected the special dividend payment by the Microsoft Corporation.⁸ Undistributed corporate

7. Profits from the rest of the world is the difference between (1) receipts by U.S. residents of earnings from foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations and (2) payments by U.S. affiliates of earnings to foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA's international transactions accounts.

8. The total dividend payout was about \$32 billion (at a quarterly rate). GDP and profits of domestic corporations were not affected by the special dividend. The estimate of net dividends reflects the total dividend payout less the dividends received by U.S. corporations and by foreign residents. Because BEA's estimates of corporate profits and of income payments to, and receipts from, the rest of the world are partly based on confidential survey data, BEA cannot provide estimates of the effects of the special dividend on these components.

For more information, see "The Microsoft Special Dividend" at <www.bea.gov/bea/faq/national/FAQ.htm>.

profits (a measure of net saving that equals after-tax profits less dividends) increased \$103.8 billion (23.7 percent) in the first quarter after decreasing \$2.4 billion (0.5 percent).

Net cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$103.3 billion (8.4 percent) in the first quarter after decreasing \$37.7 billion (3.0 percent).⁹ The ratio of cash flow to nonresidential fixed investment, an indicator of the extent to which the current level of investment could be financed by internally generated corporate funds increased to 102.3 in the first quarter from 95.9 in the fourth quarter. For eight consecutive quarters before the fourth quarter, the ratio had remained above 100.

Industry profits. The current-production measure of profits is not available at the detailed industry level, because estimates of the capital consumption adjustment (CCAdj) at the detailed level are not available.¹⁰ (Estimates of the CCAdj are only available for total financial industries and for total nonfinancial industries.) Consequently, industry profits are best measured by profits with inventory valuation adjustment

(IVA).¹¹

In the first quarter, industry profits with IVA increased \$274.7 billion after increasing \$113.8 billion. For domestic financial industries, profits with IVA increased \$60.6 billion (chart 2). For domestic nonfinancial corporations, profits with IVA increased \$199.3 billion; the increase was widespread, but the largest increases were in “other” nonfinancial industries and in information industries.

The increase in industry profits is substantially larger than the \$76.1 billion increase in profits from current production, reflecting the differing estimates of depreciation that underlie the two measures. Profits from current production include the CCAdj, which decreased \$198.7 billion in the first quarter after increasing \$37.0 billion.¹² The large increase in industry profits and the large decrease in the CCAdj reflected the expiration of the “bonus” depreciation provisions of both the Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003; these acts had increased the immediate depreciation writeoff that corporations could claim.

9. Cash flow from current production is undistributed profits with inventory valuation and capital consumption adjustments plus the consumption of fixed capital.

10. The CCAdj is the difference between consumption of fixed capital (the decline in the value of the stock of assets due to wear and tear, obsolescence, accidental damage, and aging) and capital consumption allowances (tax-return-based depreciation).

11. The IVA adjusts the NIPA estimates of business income for inventory profits or losses; the IVA is the difference between the cost of inventory withdrawals valued at acquisition cost and the cost of inventory withdrawals valued at replacement cost.

12. The CCAdj converts the depreciation of fixed assets reported on a tax-return, historical-cost basis to a current-cost basis.

Chart 2. Corporate Profits with Inventory Valuation Adjustment: Change From 2004:IV to 2005:I

