

# THE BUSINESS SITUATION

This article was prepared under the direction of Daniel Larkins.

**R**EAL GROSS domestic product (GDP) increased 4.6 percent in the fourth quarter of 1994, according to the "preliminary" estimates of the national income and product accounts (NIPA's).<sup>1</sup> The "advance" estimates of the NIPA's, reported in the January "Business Situation," showed a 4.5-percent increase. Although the revision to GDP growth was small, revisions to some components of GDP were large. For example, according to the preliminary estimates, final sales of domestic product surged 5.3 percent while inventory accumulation slowed; according to the advance estimates, in contrast, final sales had increased much less—3.7 percent—while inventory accumulation had accelerated. Real gross domestic purchases was also revised substantially; according to the preliminary estimates, it increased 3.9 percent, 1.1 percentage points less than reported a month ago. The fixed-weighted price index for gross domestic purchases increased 2.5 percent, the same as reported a month ago. (The sources of the revisions are discussed in "Revisions" later in this article.)

The 4.6-percent increase in real GDP in the fourth quarter represented a continuation of the

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. Estimates based on weights of more recent periods are shown in the section "Alternative measures."

**Table 1.—Real Gross Domestic Product, by Major Type of Product**

(Seasonally adjusted at annual rates)

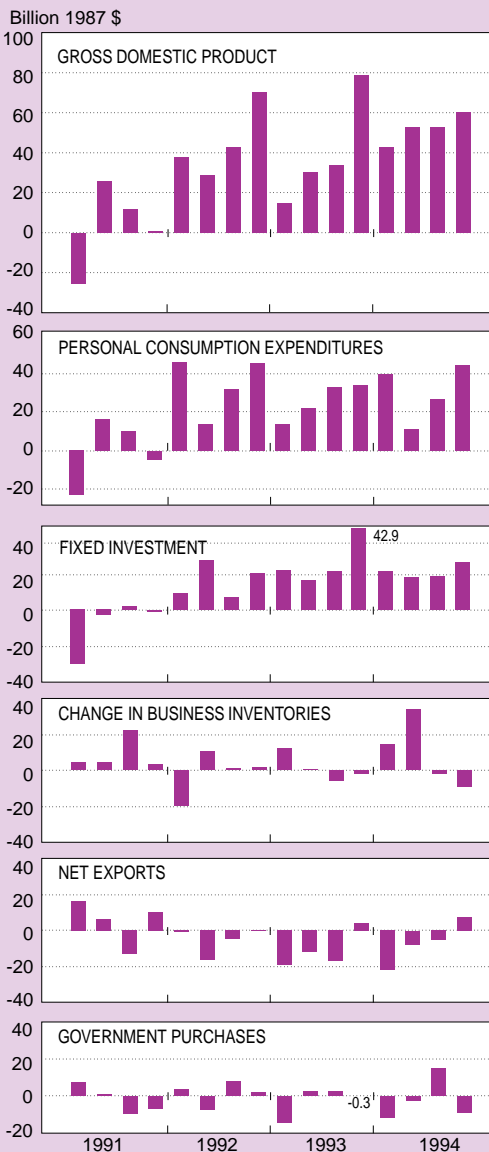
	Billions of 1987 dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1994			
		1994				I	II	III	IV
	1994:IV	I	II	III	IV				
<b>Gross domestic product ..</b>	<b>5,427.2</b>	<b>43.1</b>	<b>53.0</b>	<b>52.9</b>	<b>60.2</b>	<b>3.3</b>	<b>4.1</b>	<b>4.0</b>	<b>4.6</b>
Goods .....	2,283.5	33.3	32.5	34.2	48.0	6.4	6.1	6.4	8.9
Motor vehicles .....	235.3	18.0	-12.2	4.8	7.1	37.4	-19.2	8.9	13.0
Other .....	2,048.2	15.3	44.7	29.4	40.9	3.2	9.6	6.1	8.4
Services .....	2,660.7	14.6	10.0	18.1	6.8	2.3	1.5	2.8	1.0
Structures .....	483.0	-4.8	10.4	.7	5.4	-4.0	9.2	.6	4.6

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).

strong economic growth of recent quarters: GDP increased 4.0 percent in the third quarter and 4.1

**CHART 1**

**Real Product:  
Change from Preceding Quarter**



Based on Seasonally Adjusted Annual Rates  
U.S. Department of Commerce, Bureau of Economic Analysis

percent in the second (chart 1, table 1). Output of goods stepped up sharply in the fourth quarter, reflecting a surge in computer output. Excluding computers, GDP increased about 3.8 percent in both the third and fourth quarters.<sup>2</sup>

The 3.9-percent increase in real gross domestic purchases followed an increase of 4.4 percent (table 2). The fourth-quarter increase reflected increases in personal consumption expenditures

and nonresidential fixed investment. Residential investment was up only slightly, while inventory investment and government purchases decreased.

Imports and exports 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 fourth quarter, gross domestic purchases increased less than GDP for the first time in a year, as exports increased more than imports.

2. The change in the output of computers cannot be precisely estimated in the NIPA's, but it may be roughly approximated as the sum of the changes in computer purchases in personal consumption expenditures, in producers' durable equipment, and in net exports.

**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				1994			
		1994				I	II	III	IV
		1994:IV	I	II	III				
<b>Gross domestic product</b> .....	<b>5,427.2</b>	<b>43.1</b>	<b>53.0</b>	<b>52.9</b>	<b>60.2</b>	<b>3.3</b>	<b>4.1</b>	<b>4.0</b>	<b>4.6</b>
Less: Exports of goods and services .....	697.8	-5.6	24.3	22.6	31.3	-3.5	16.6	14.8	20.1
Plus: Imports of goods and services .....	807.4	16.2	32.0	27.9	23.9	9.5	18.9	15.6	12.8
<b>Equals: Gross domestic purchases</b> .....	<b>5,536.8</b>	<b>64.9</b>	<b>60.7</b>	<b>58.2</b>	<b>52.8</b>	<b>5.0</b>	<b>4.6</b>	<b>4.4</b>	<b>3.9</b>
Less: Change in business inventories .....	48.1	14.6	33.8	-2.1	-9.0				
<b>Equals: Final sales to domestic purchasers</b> .....	<b>5,488.7</b>	<b>50.3</b>	<b>26.9</b>	<b>60.3</b>	<b>61.8</b>	<b>3.9</b>	<b>2.0</b>	<b>4.6</b>	<b>4.6</b>
Personal consumption expenditures .....	3,629.1	40.1	11.5	26.9	44.4	4.7	1.3	3.1	5.0
Nonresidential fixed investment .....	705.9	16.4	14.3	22.1	25.9	10.9	9.2	14.1	16.1
Residential investment .....	230.6	5.4	3.9	-3.6	.4	10.0	7.0	-6.0	.7
Government purchases .....	923.0	-11.6	-2.8	14.9	-9.0	-4.9	-1.2	6.7	-3.8

NOTE.—Dollar levels are found in NIPA tables 1.2 and 1.6. 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				1994			
		1994				I	II	III	IV
		1994:IV	I	II	III				
<b>Personal consumption expenditures</b> .....	<b>3,629.1</b>	<b>40.1</b>	<b>11.5</b>	<b>26.9</b>	<b>44.4</b>	<b>4.7</b>	<b>1.3</b>	<b>3.1</b>	<b>5.0</b>
Durable goods .....	554.6	10.9	.5	7.4	25.0	8.8	.4	5.8	20.3
Motor vehicles and parts .....	212.0	9.0	-8.4	-3.3	10.0	18.8	-14.8	-6.3	21.3
New autos .....	84.1	-1.6	-1.8	-4.9	5.2	-7.1	-8.1	-21.4	29.1
New trucks .....	48.7	1.0	-2.4	-2.7	6.1	8.8	-18.7	-21.8	70.8
Other .....	79.2	9.6	-4.2	4.3	-1.3	66.3	-19.3	24.6	-6.3
Furniture and household equipment .....	254.3	1.3	6.6	9.2	12.6	2.3	12.2	16.8	22.5
Other .....	88.3	.5	2.4	1.6	2.3	2.5	12.2	7.8	11.1
Nondurable goods .....	1,122.4	10.3	6.0	9.1	9.0	3.8	2.2	3.3	3.3
Food .....	538.8	3.8	4.2	-4	3.1	2.9	3.2	-.3	2.3
Clothing and shoes .....	216.5	1.4	1.1	5.3	6.3	2.8	2.2	10.8	12.5
Energy <sup>1</sup> .....	99.6	.7	-1.4	1.6	-1	2.9	-5.5	6.7	-4
Other .....	267.5	4.3	2.0	2.7	-3	6.8	3.1	4.1	-4
Services .....	1,952.1	18.9	5.1	10.4	10.3	4.0	1.1	2.2	2.1
Housing .....	505.0	2.3	2.3	2.6	2.4	1.9	1.9	2.1	1.9
Household operation .....	226.8	1.8	.4	-1.0	-1.3	3.2	.7	-1.7	-2.3
Energy <sup>2</sup> .....	94.2	1.5	-.9	-3.0	-3.0	6.2	-3.5	-11.4	-11.8
Other household operation .....	132.6	.5	1.2	2.0	1.7	1.6	3.8	6.4	5.3
Transportation .....	134.9	1.1	.9	.6	2.5	3.4	2.8	1.8	7.8
Medical care .....	484.2	2.8	4.2	3.6	3.2	2.4	3.6	3.1	2.7
Other .....	601.3	11.0	-2.8	4.6	3.6	7.7	-1.9	3.1	2.4

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.

## Personal consumption expenditures

Real personal consumption expenditures (PCE) increased 5.0 percent in the fourth quarter after increasing 3.1 percent in the third (table 3). Durable goods accounted for the acceleration; increases in nondurable goods and in services were about the same in each quarter.

In the fourth quarter, most indicators associated with PCE were strong. Real disposable personal income jumped 7.7 percent, more than twice the increase in each of the first three quarters of the year and the largest increase in 2 years (chart 2). The unemployment rate fell for the third consecutive quarter, to 5.6 percent, the lowest rate in more than 4 years. The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) jumped sharply after decreasing in the second and third quarters.

Expenditures for durable goods jumped 20.3 percent in the fourth quarter after increasing 5.8 percent in the third; the fourth-quarter increase

was the largest in nearly 7 years. Most of the step-up was accounted for by motor vehicles and parts, up 21.3 percent after a decrease of 6.3 percent, and reflected a turnaround in purchases of new domestic cars and trucks. Purchases of furniture and household equipment and of "other" durable goods both increased somewhat more than in the third quarter.

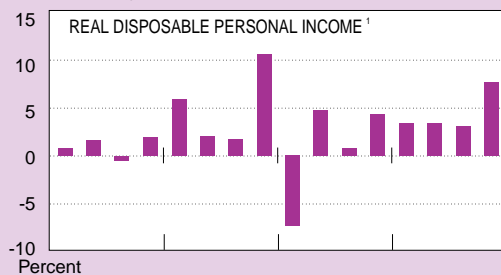
Expenditures for nondurable goods increased 3.3 percent in the fourth quarter, the same as in the third. Clothing and shoes accounted for more than half of the increase in each quarter. Food increased in the fourth quarter after decreasing in the third. Energy and "other" nondurable goods decreased slightly after increasing.

Expenditures for services increased 2.1 percent in the fourth quarter, about the same as in the third. Changes in housing, medical care, and household operation were similar to those posted in the third quarter. Transportation increased more than in the third quarter; the step-up reflected, at least in part, consumer reaction to sharply lower airfares. "Other" services increased less than in the third quarter; downturns and decelerations in most of the categories of "other" services were partly offset by an upturn in personal business services, especially brokerage and investment counseling.

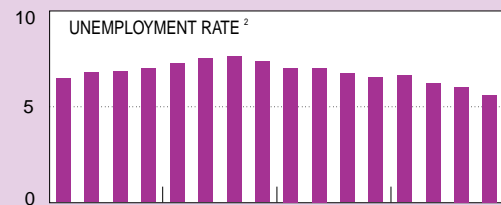
### CHART 2

#### Selected Factors Affecting Consumer Spending

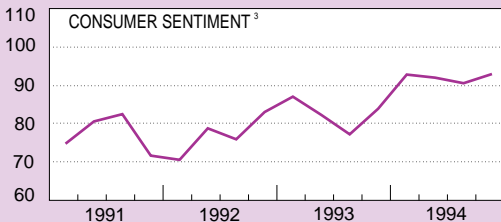
Percent change



Percent



Index



1. Disposable personal income in 1987 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

#### Nonresidential fixed investment

Real nonresidential fixed investment increased 16.1 percent in the fourth quarter after increasing 14.1 percent in the third (table 4). Structures stepped up, and producers' durable equipment increased about as much as in the third quarter.

Factors that affect investment spending were generally favorable in the fourth quarter. Real final sales of domestic product surged 5.3 percent after increasing 4.3 percent. The capacity utilization rate in manufacturing continued its uptrend, increasing 0.8 percentage point to 84.4 percent. Borrowing costs were one of the few factors that were less favorable to investment spending; for example, the yield on new high-grade corporate bonds increased for the fourth consecutive quarter.

Structures increased 9.3 percent after increasing 1.6 percent. Nonresidential buildings increased after a small decrease, as both industrial and commercial buildings increased much more than in the third quarter. Construction by utilities increased a little less than in the third quarter, and mining exploration, shafts, and wells—mainly oil-well drilling—decreased a little more than in the third quarter.

Producers' durable equipment increased 18.2 percent, virtually the same as in the third quarter. The fourth-quarter increase was attributable to increases in all major categories of equipment except "other" equipment, which dipped slightly. The increase in information processing equipment was almost entirely accounted for by computers and communication equipment; instruments and photocopier equipment contributed much less. The increase in transportation equipment was more than accounted for by trucks; autos decreased, and aircraft changed little. Half of the increase in industrial equipment was accounted for by engines and turbines.

### Residential investment

Real residential investment increased 0.7 percent in the fourth quarter after decreasing 6.0 percent in the third. Single-family structures decreased less than in the third quarter, multifamily structures accelerated, and "other" residential investment turned up.

Single-family construction decreased 8.7 percent after decreasing 11.4 percent. The fourth-quarter decrease occurred despite generally flat, or even rising, housing starts in recent quarters (chart 3). This divergence between the NIPA estimates and the housing starts estimates reflects a decrease in the "quality" (that is, the size, location, or amenities) of the units; such a decrease in quality is reflected in the NIPA estimates of real

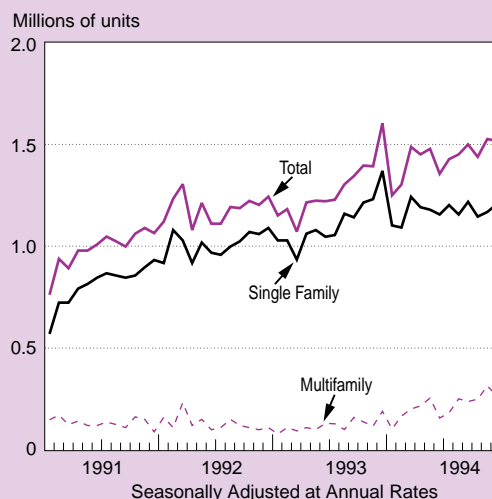
single-family construction but not in the average number of starts.

Multifamily construction increased 59.6 percent after increasing 31.5 percent. The increase in the fourth quarter was the fourth in succession; it occurred despite a slight increase in the rental vacancy rate.

"Other" residential investment increased 7.4 percent after decreasing 2.5 percent. Increases in mobile home sales and in major improvements

### CHART 3

### Housing Starts



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

### 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				1994			
		1994				I	II	III	IV
		1994:IV	I	II	III				
<b>Gross private domestic fixed investment</b> .....	<b>936.6</b>	<b>21.7</b>	<b>18.3</b>	<b>18.5</b>	<b>26.4</b>	<b>10.6</b>	<b>8.6</b>	<b>8.6</b>	<b>12.1</b>
Nonresidential .....	705.9	16.4	14.3	22.1	25.9	10.9	9.2	14.1	16.1
Structures .....	155.0	-4.6	6.9	.6	3.4	-11.8	20.6	1.6	9.3
Nonresidential buildings, including farm .....	109.5	-3.5	6.2	-3	4.4	-13.0	27.4	-1.1	17.8
Utilities .....	30.2	-1	.6	.7	.5	-1.4	8.7	10.0	6.9
Mining exploration, shafts, and wells .....	8.5	-3	.2	-5	-8	-11.6	8.6	-18.9	-30.2
Other .....	6.8	-7	-1	.5	-5	-32.1	-5.7	32.8	-24.7
Producers' durable equipment .....	550.9	20.9	7.5	21.5	22.5	18.6	6.1	18.1	18.2
Information processing and related equipment .....	270.0	8.0	9.0	9.0	18.8	15.0	16.4	15.7	33.5
Computers and peripheral equipment .....	146.6	4.7	3.1	4.8	11.5	16.3	10.1	15.6	38.6
Other .....	123.3	3.3	5.8	4.3	7.2	13.5	23.7	16.3	27.2
Industrial equipment .....	93.4	2.8	2.5	3.2	1.3	14.1	12.1	15.2	5.8
Transportation and related equipment .....	101.9	7.6	-6.2	6.8	2.8	37.9	-22.9	32.9	11.8
Motor vehicles .....	92.7	9.0	-3.9	5.8	2.6	53.8	-16.5	30.5	12.1
Other .....	9.2	-1.4	-2.3	1.0	.2	-39.9	-63.6	60.2	9.2
Other .....	85.6	2.4	2.3	2.5	-5	12.7	11.8	12.5	-2.3
Residential .....	230.6	5.4	3.9	-3.6	.4	10.0	7.0	-6.0	.7
Single-family structures .....	121.0	6.8	2.5	-3.8	-2.8	25.1	8.2	-11.4	-8.7
Multifamily structures .....	13.6	.3	1.3	.8	1.5	13.0	63.0	31.5	59.6
Other .....	96.1	-1.7	.2	-6	1.7	-6.9	.8	-2.5	7.4

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.

more than offset a decrease in brokers' commissions. Sales of new and existing homes dropped 153,000 units (seasonally adjusted annual rate), as mortgage rates continued to rise: The mortgage commitment rate on 30-year fixed-rate loans increased 50 basis points to 9.1 percent, the fourth consecutive quarterly increase (chart 4).

**Inventory investment**

Real inventory investment—that is, the change in business inventories—decreased \$9.0 billion in the fourth quarter after decreasing \$2.1 billion in the third (table 5). The fourth-quarter decrease mainly reflected a slowdown in nonfarm inventory accumulation.

Nonfarm inventories increased \$40.4 billion in the fourth quarter after increasing \$47.4 billion in the third; accumulation had also been large, \$51.7 billion, in the second quarter. In all three quarters, wholesale and retail trade accounted for more than three-fourths of the accumulation.

In retail trade, inventories held by auto dealers increased more than in the third quarter. Inventories of other durable goods increased much less than in the third quarter; inventories of furniture and appliance stores, which increased sharply in the third quarter, increased only modestly in the fourth. Inventories of nondurable goods increased slightly less than in the third quarter.

In wholesale trade, inventories of durable goods increased less than in the third quarter; most of the fourth-quarter increase was accounted for by machinery, equipment, and supplies and by sporting goods. Inventories of nondurable goods increased more than in the third quarter; about two-thirds of the fourth-quarter increase was accounted for by farm products.

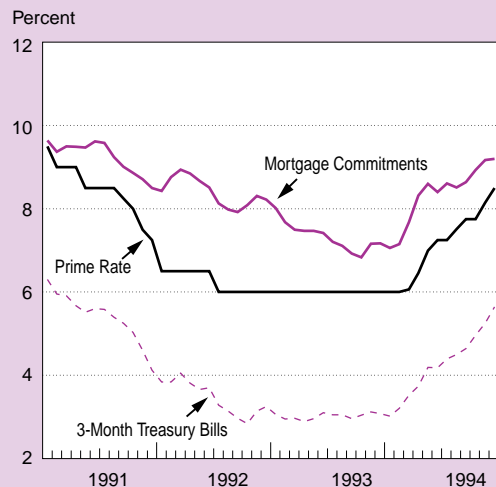
Manufacturing inventories increased less than in the third quarter. The fourth-quarter increase was more than accounted for by durable goods, especially electrical and industrial equipment.

“Other” nonfarm inventories increased about as much as in the third quarter. (This component consists mainly of inventories held by the mining, construction, public utilities, transportation, communication, and service industries.)

Farm inventories increased \$7.7 billion after increasing \$9.7 billion. Two-thirds of the slowdown was accounted for by crop inventories and reflected a decrease in crop output.

**CHART 4**

**Selected Interest Rates**



Data: Federal Reserve Board

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

**Table 5.—Change in Real Business Inventories**

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

	Level					Change from preceding quarter			
	1993	1994				1994			
	IV	I	II	III	IV	I	II	III	IV
<b>Change in business inventories</b> .....	<b>10.8</b>	<b>25.4</b>	<b>59.2</b>	<b>57.1</b>	<b>48.1</b>	<b>14.6</b>	<b>33.8</b>	<b>-2.1</b>	<b>-9.0</b>
Farm .....	.1	3.3	7.5	9.7	7.7	3.2	4.2	2.2	-2.0
Nonfarm .....	10.7	22.1	51.7	47.4	40.4	11.4	29.6	-4.3	-7.0
Manufacturing .....	-7.7	9.9	.7	4.5	2.5	17.6	-9.2	3.8	-2.0
Wholesale trade .....	.7	-1.0	17.7	16.9	15.4	-1.7	18.7	-.8	-1.5
Retail trade .....	5.0	2.0	22.3	19.9	16.5	-3.0	20.3	-2.4	-3.4
Automotive .....	-4.5	2.5	-1.9	7.9	11.2	7.0	-4.4	9.8	3.3
Other retail trade .....	9.5	-5	24.2	12.0	5.3	-10.0	24.7	-12.2	-6.7
Other .....	12.7	11.3	11.0	6.1	5.9	-1.4	-3	-4.9	-2
<b>Addenda:</b>									
Motor vehicles .....	.6	-1.9	3.5	7.9	10.6	-2.5	5.4	4.4	2.7
Nonfarm less motor vehicles .....	10.1	24.0	48.2	39.5	29.8	13.9	24.2	-8.7	-9.7

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).

The constant-dollar ratio of nonfarm inventories to all final sales of domestic businesses edged down to 2.48 from 2.49. A different ratio, in which final sales are limited to goods and structures, fell to 4.23 from 4.29. Both ratios are low by historical standards.

### *Net exports of goods and services*

Real exports increased 20.1 percent in the fourth quarter after increasing 14.8 percent in the third. Real imports increased 12.8 percent after increasing 15.6 percent (table 6).

Exports of goods increased 24.1 percent after increasing 18.0 percent. Exports of both agricultural and nonagricultural products increased strongly. Nonautomotive capital goods accounted for more than half of the increase in goods exports; computers increased substantially. Autos and nonautomotive consumer goods also increased substantially. Exports of services increased more than in the third quarter.

Imports of goods increased 13.4 percent after increasing 17.2 percent. Most of the fourth-quarter increase was accounted for by nonautomotive capital goods. Nonautomotive consumer goods posted a much smaller, but still substantial, increase. In contrast, petroleum and petroleum products turned down, posting its largest decrease in 4 years. Imports of services increased more than in the third quarter.

### *Government purchases*

Real government purchases decreased 3.8 percent in the fourth quarter after increasing 6.7 percent in the third (table 7). Federal Government purchases decreased after increasing; the decrease was more than accounted for by a substantial reduction in national defense purchases. State and local government purchases increased less than in the third quarter.

Federal defense purchases decreased 22.0 percent in the fourth quarter after increasing 12.8 percent in the third. The sharp decrease rep-

**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				1994			
		1994				I	II	III	IV
		1994:IV	I	II	III				
<b>Net exports of goods and services</b> .....	<b>-109.6</b>	<b>-21.8</b>	<b>-7.8</b>	<b>-5.2</b>	<b>7.4</b>	.....	.....	.....	.....
Exports of goods and services .....	697.8	-5.6	24.3	22.6	31.3	-3.5	16.6	14.8	20.1
Goods .....	533.1	-3.7	20.2	20.5	28.0	-3.1	18.6	18.0	24.1
Agricultural products .....	46.1	-2.5	.9	3.2	5.4	-23.2	10.2	38.8	64.6
Nonagricultural products .....	487.0	-1.3	19.3	17.3	22.6	-1.2	19.3	16.4	20.9
Services .....	164.7	-1.9	4.0	2.1	3.4	-4.8	10.7	5.4	8.7
Imports of goods and services .....	807.4	16.2	32.0	27.9	23.9	9.5	18.9	15.6	12.8
Goods .....	696.2	15.3	33.1	26.3	21.6	10.6	23.3	17.2	13.4
Petroleum and products .....	57.1	-1.6	3.8	4.0	-7.2	-10.6	29.7	29.3	-37.8
Nonpetroleum products .....	639.2	16.8	29.3	22.4	28.9	13.0	22.7	16.1	20.3
Services .....	111.2	.9	-1.1	1.5	2.3	3.4	-4.0	5.7	8.7

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				1994			
		1994				I	II	III	IV
		1994:IV	I	II	III				
<b>Government purchases</b> .....	<b>923.0</b>	<b>-11.6</b>	<b>-2.8</b>	<b>14.9</b>	<b>-9.0</b>	<b>-4.9</b>	<b>-1.2</b>	<b>6.7</b>	<b>-3.8</b>
Federal .....	331.2	-9.4	-7.0	8.8	-12.3	-10.3	-7.9	10.9	-13.6
National defense .....	219.0	-10.2	-2.4	6.9	-14.0	-16.0	-4.1	12.8	-22.0
Nondefense .....	112.3	.8	-4.5	1.8	1.8	2.9	-15.0	6.8	6.7
State and local .....	591.8	-2.1	4.1	6.1	3.3	-1.4	2.9	4.3	2.3
Structures .....	91.5	-6.0	1.7	2.5	.9	-23.6	8.1	11.8	4.0
Other .....	500.3	3.9	2.4	3.6	2.4	3.2	2.0	2.9	1.9

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



resents the resumption of a long downtrend in defense purchases; it reflected decreases in all major categories of purchases. The largest decreases were in purchases of durable goods, particularly aircraft, and in purchases of services. Within services, compensation of employees declined for the 15th consecutive quarter.

Federal nondefense purchases increased 6.7 percent, about the same as in the third quarter. The fourth-quarter increase was accounted for by purchases of structures and by changes in the inventories of farm products held by the Commodity Credit Corporation.

State and local government purchases increased 2.3 percent after increasing 4.3 percent. The slowdown was largely attributable to structures and to compensation of employees.

**Revisions**

The preliminary fourth-quarter estimate of a 4.6-percent increase in real GDP is 0.1 percentage point higher than the advance estimate (table 8). Preliminary estimates of the fourth-quarter increases in the fixed-weighted price indexes for gross domestic purchases (2.5 percent) and for GDP (2.6 percent) are the same as the advance estimates.

The estimate of GDP was raised by revisions to exports, imports, personal consumption expenditures, government purchases, and residential investment. However, the effect of these revisions was nearly offset by a big downward revision to inventory investment and by a modest downward revision to nonresidential fixed investment.

An upward revision to exports and a downward revision to imports mainly reflected the incorporation of newly available source data on exports and imports of goods for December. An upward revision to personal consumption expenditures reflected the incorporation of revised source data on retail sales for November and December and of newly available source data on motor vehicle registrations for November. An upward revision to government purchases was mostly in Federal nondefense purchases, reflecting the incorporation of newly available source data on detailed Federal outlays for December and of revised source data on construction put in place for December.

The downward revision to inventory investment reflected the incorporation of revised source data on inventories for November and of newly available source data for December. The downward revision to nonresidential fixed investment was in producers' durable equipment

and reflected the incorporation of newly available data on imports of capital goods in December and on motor vehicle registrations for November.

**Alternative measures**

For the fourth quarter of 1994, BEA's chain-type annual-weighted measure of real GDP increased 3.5 percent, 1.1 percentage points less than the featured fixed-1987-weighted measure; the benchmark-years-weighted alternative measure increased 3.6 percent (table 9). About three-fifths of the difference between the fixed-weighted measure and the alternative measures was ac-

**Table 8.—Revisions to Real Gross Domestic Product and Prices, Fourth 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
<b>Gross domestic product</b> .....	<b>4.5</b>	<b>4.6</b>	<b>0.1</b>	<b>0.4</b>
<i>Less:</i> Exports of goods and services .....	14.2	20.1	5.9	8.8
Goods .....	17.4	24.1	6.7	7.3
Services .....	4.8	8.7	3.9	1.5
<i>Plus:</i> Imports of goods and services .....	16.0	12.8	-3.2	-5.7
Goods .....	17.1	13.4	-3.7	-5.6
Services .....	9.1	8.7	-4	-1
<b>Equals: Gross domestic purchases</b> .....	<b>5.0</b>	<b>3.9</b>	<b>-1.1</b>	<b>-14.1</b>
Personal consumption expenditures .....	4.6	5.0	.4	4.0
Durable goods .....	18.4	20.3	1.9	2.2
Nondurable goods .....	2.8	3.3	.5	1.3
Services .....	2.1	2.1	0	.4
Fixed investment .....	12.3	12.1	-.2	-.3
Nonresidential .....	17.6	16.1	-1.5	-2.3
Structures .....	9.0	9.3	.3	.1
Producers' durable equipment .....	20.2	18.2	-2.0	-2.4
Residential .....	-2.6	.7	3.3	1.9
Change in business inventories .....				-19.9
Nonfarm .....				-19.5
Farm .....				-.4
Government purchases .....	-4.7	-3.8	.9	2.1
Federal .....	-15.6	-13.6	2.0	2.0
National defense .....	-22.5	-22.0	.5	.4
Nondefense .....	.4	6.7	6.3	1.7
State and local .....	2.3	2.3	0	0
<b>Addenda:</b>				
Final sales of domestic product .....	3.7	5.3	1.6	20.3
Gross domestic purchases price index (fixed weights) <sup>1</sup> .....	2.5	2.5	0	
GDP price index (fixed weights) <sup>1</sup> .....	2.6	2.6	0	

1. Based on 1987 weights.

NOTE.—Preliminary estimates for the fourth 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 November and December, and consumers' share of new car purchases for November.

*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 business' share of new car purchases for November.

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

*Change in business inventories:* Manufacturing and trade inventories for November (revised) and December, and revised unit inventories of motor vehicles for December.

*Net exports of goods and services:* Exports and imports of goods for November (revised) and December.

*Government purchases:* Detailed Federal outlays for December, State and local construction put in place for October and November (revised) and December, and State and local government employment for November and December (revised).

*Wages and salaries:* Revised employment, average hourly earnings, and average weekly hours for November and December.

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

**Table 9.—Fixed-Weighted and Alternative Quantity and Price Indexes**

[Percent change at annual rates; based on seasonally adjusted index numbers (1987=100)]

	1993	1994	1994			
			I	II	III	IV
<b>Gross domestic product:</b>						
Quantity indexes:						
Fixed 1987 weights .....	3.1	4.0	3.3	4.1	4.0	4.6
Chain-type annual weights .....	2.5	3.5	3.2	4.2	3.6	3.5
Benchmark-years weights .....	2.5	3.5	3.2	4.1	3.6	3.6
Price indexes:						
Fixed 1987 weights .....	3.0	2.7	3.1	2.9	3.0	2.6
Chain-type annual weights .....	2.8	2.7	3.2	2.7	2.8	2.5
Benchmark-years weights .....	2.8	2.7	3.2	2.7	2.7	2.6
<b>Gross domestic purchases:</b>						
Price indexes:						
Fixed 1987 weights .....	2.8	2.6	2.5	3.2	3.5	2.5
Chain-type annual weights .....	2.6	2.6	2.5	3.1	3.2	2.3
Benchmark-years weights .....	2.6	2.6	2.6	3.1	3.2	2.4

NOTE.—Percent changes are found in NIPA table 8.1. Index number levels are found in tables 7.1 and 7.2.

counted for by a strong increase in purchases of computers, a product whose prices have decreased steadily since 1987. In the third quarter, both of the alternative measures increased 3.6

percent—0.4 percentage point less than the fixed-weighted measure. Almost all of this difference was also due to an increase in purchases of computers.

Both of the alternative measures of gross domestic purchases prices increased less than the featured fixed-1987-weighted measure in the fourth quarter. The chain-type measure increased 2.3 percent—0.2 percentage point less than the fixed-weighted measure; the benchmark-years-weighted measure increased 2.4 percent. In the third quarter, both of the alternative measures increased 3.2 percent—0.3 percentage point less than the fixed-weighted measure.

Compared with the advance estimates published in the January "Business Situation," these preliminary estimates reflect downward revisions of 0.1 percentage point to both alternative measures of real GDP; there were no revisions to the alternative measures of gross domestic purchases prices. 