

Inflation Underestimated, U.S. Admits

Profits Rise \$11.6 Billion

By James L. Rowe Jr.
Washington Post Staff Writer

Corporate profits jumped \$11.6 billion in the first quarter of this year and the Commerce Department said yesterday it had underestimated the rate of price increases during the same three months by 10 per cent.

The news is expected to cause further political problems for the administration's Phase III of economic controls. The period of skyrocketing inflation and rising corporate profits corresponds to the transition from Phase II mandatory controls to the current "self-administered" price controls.

The Commerce Department said before-tax profits of corporations increased \$11.6 billion in the first quarter, to a seasonally adjusted annual rate of \$113.1 billion. The profits boost trails only slightly the record increase of \$11.7 billion recorded in the first quarter of 1971 as the nation was recovering from a recession.

The figures are likely to

give further ammunition to union leaders who are negotiating major contracts this year, including electrical and rubber workers and the Teamsters.

While corporate profits more than doubled in the first quarter from the \$5.8 billion increase recorded in the final three months of last year, consumer purchasing power—as measured by real spendable earnings—fell and was no higher than a year ago.

The real spendable earnings index computed by the Department of Labor adjusts money incomes for rising prices and increased taxes.

The Commerce Department said that prices rose even faster in the first quarter than

its preliminary report issued last month indicated. A technical index known as the GNP deflator—generally considered by economists to be the broadest and best measure of price performance in the economy—showed that inflation shot up from an annual rate of 2.8 per cent in the last three months of 1972 to 6.6 per cent in the first three months of 1973.

The 6.6 per cent annual rate is far from the administration's announced goal of slowing price increases in the economy to 2.5 per cent by the end of the year. Administration officials still contend that they will achieve the 2.5 per cent rate by the end of the

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year, but now concede that their earlier estimates that prices would advance by no more than 3 per cent for the year were understated and now predict a 4 per cent rise.

The Commerce Department also said that the Gross National Product, which measures the market value of all goods and services, climbed 15.2 per cent, faster than the rate originally projected, 14.3 per cent.

Most of the revision was due to a faster-than-expected price rise. The revised real growth of GNP — after adjustment for price increases — was 8 per cent, compared with the preliminary 7.9 per cent.

The Gross National Product was at a seasonally adjusted annual rate of \$1,238 billion in the first quarter, up \$43 billion from the last quarter of 1972.

The Commerce Department said about half of the first quarter increases in corporate profits occurred in manufacturing industries, "especially in durable goods industries where higher earnings were particularly evident for auto-makers, the lumber industry and nonelectrical machinery producers," the department said.

Wholesale and retail companies also registered large profits gains.

Primarily because of government restraints on dividend payouts, dividend payments — at \$27.3 billion — were only \$0.6 billion ahead of the fourth-quarter 1972 rate, while retained earnings totaled \$35 billion, compared with \$30.5 billion in the fourth quarter.