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**CHAPTER 5: PERSONAL CONSUMPTION EXPENDITURES**

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Personal consumption expenditures (PCE) is the primary measure of consumer spending on goods and services in the U.S. economy. It accounts for about two-thirds of domestic final spending, and thus it is the primary engine that drives future economic growth. PCE shows how much of the income earned by households is being spent on current consumption as opposed to how much is being saved for future consumption.

PCE also provides a comprehensive measure of types of goods and services that are purchased by households. Thus, for example, it shows the portion of spending that is accounted for by discretionary items, such as motor vehicles, or the adjustments that consumers make to changes in prices, such as a sharp run-up in gasoline prices.

In addition, the PCE estimates are available monthly, so they can provide an early indication of the course of economic activity in the current quarter. For example the PCE estimates for January are released at the end of February, and the estimates for February are released at the end of March; the advance GDP estimates for the first quarter are released at the end of April.

The PCE estimates are an integral part of the U.S. national income and product accounts (NIPAs), a set of accounts that provide a logical and consistent framework for presenting statistics on U.S. economic activity (see “Chapter 2: Fundamental Concepts”).

### **Definitions and Concepts**

Personal consumption expenditures (PCE) measures the goods and services purchased by “persons”—that is, by households and by nonprofit institutions serving households (NPISHs)—who are resident in the United States. Persons resident in the United States are those who are physically located in the United States and who have resided, or expect to reside, in this country for 1 year or more. PCE also includes purchases by U.S. government civilian and military personnel stationed abroad, regardless of the duration of their assignments, and by U.S. residents who are traveling or working abroad for 1 year or less.

Table 5.1 shows the kinds of transactions that are included in and excluded from PCE. Most of PCE consists of purchases of new goods and of services by households from private business. In addition, PCE includes purchases of new goods and of services by households from government and government enterprises, the costs incurred by NPISHs in providing services on behalf of households, net purchases of used goods by households, and purchases abroad of goods and services by U.S. residents traveling, working, or attending school in foreign countries. PCE also includes expenditures financed by third-party payers on behalf of households, such as employer-paid health insurance and medical care financed through government programs, and it includes expenses associated with life insurance and with private and government employee pension plans. Finally, PCE includes imputed purchases that keep PCE invariant to changes in the way that certain activities are carried out—for example, whether housing is rented or owned or whether employees are paid in cash or in kind.<sup>1</sup> PCE transactions are valued in market prices, including sales and excise taxes.

In the NIPAs, final consumption expenditures by NPISHs is the portion of PCE that represents the services that are provided to households by NPISHs without explicit charge (such as the value of the education services provided by a nonprofit college or university that is over and above the tuition and other costs paid by or for the student’s household). It is equal to their gross output, which is measured as their current operating expenses (not including purchases of buildings and equipment, which are treated as private fixed investment), less their sales to households and to other sectors of the economy (such as sales of education services to employers) and less the value of any investment goods (such as software) that are produced directly by the NPISH. Services that are provided by NPISHs and are paid by or on behalf of households (such as the tuition and other costs) are already accounted for in PCE as purchases by households. (For more information, see the section on NPISHs in the technical note at the end of this chapter.)

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<sup>1</sup> See Larry R. Moran and Clinton P. McCully, “Trends in Consumer Spending: 1959–2000,” *Survey of Current Business* 81 (March 2001): 15–21.

Table 5.1—Content of PCE

Category of expenditure	Comments
Market-based purchases of new goods and of services by households from business, from government, and from nonprofit institutions serving households (NPISHs) and purchases of the services of paid household workers	Includes the full value of financed purchases. Includes net outlays for health and casualty insurance. Includes direct and indirect commissions on securities transactions. Includes purchases directly financed by government social benefits, such as Medicaid. Excludes services (other than owner-occupied housing) that are produced by households for their own use. Excludes expenses associated with operating an unincorporated business. Excludes services provided directly at government-owned facilities (such as Veterans' Administration hospitals). Excludes finance charges. Excludes purchases of dwellings and major improvements to dwellings. Excludes expenses associated with owner-occupied housing—such as maintenance and repair, mortgage financing, and property insurance. Excludes purchases of illegal goods and services.
Costs incurred by NPISHs in providing services to households less sales by NPISHs to households (final consumption expenditures by NPISHs)	Costs consist of current operating expenses, including consumption of fixed capital. Excludes purchases of structures and equipment.
Net purchases of used goods by households from business and from government	Transactions between households are not reflected in PCE because they cancel in the aggregation of the personal sector.
Purchases of goods and services abroad by U.S. residents	These transactions are included in PCE in the category "foreign travel and other, net." They are not included in the various detailed PCE components.
Purchases imputed to keep PCE invariant to whether: Housing and institutional structures and equipment are rented or owned. Employees are paid in cash or in kind. Farm products are sold or consumed on farms. Saving, lending, and borrowing are direct or are intermediated. Financial and insurance service charges are explicit or implicit.	Estimates for the following PCE components are entirely imputed: the space rent of nonfarm owner-occupied housing, farm products consumed on farms, wages and salaries paid in kind, private workers' compensation, services furnished without payment by financial intermediaries except life insurance carriers, and the expenses associated with life insurance and pension plans. Other imputations include the imputed rental value of buildings and equipment owned and used by NPISHs (included in their current operating expenditures), the space rent of owner-occupied farm housing (included in the rental value of farm housing), the imputed value of employer-paid medical care and hospitalization insurance, and the imputed value of premium supplements for property and casualty insurance.

PCE records purchases for personal use by U.S. residents, wherever the purchases take place. Thus, the payments by U.S. residents to foreign residents for passenger fares and travel services and the purchases by U.S. residents while traveling, working, or attending school outside the United States are included in PCE—though they are not included in U.S. production. In PCE, these expenditures are recorded collectively as "Foreign travel by U.S. residents" in the category "Net foreign travel"; they are not distributed among the individual PCE categories. In the NIPAs, these expenditures are