

Business Situation

Preliminary Estimates for Third Quarter 2004

REAL gross domestic product (GDP) increased 4.3 percent in the third quarter of 2005, according to the “preliminary” estimates of the national income and product accounts (NIPAs) (table 1 and chart 1).¹ The preliminary estimate of GDP growth was 0.5 percentage point more than the “advance” estimate released in October, and it exceeded the 3.3-percent growth rate

reported for the second quarter of 2005. Despite the upward revision to GDP, the overall pattern of growth is similar to that shown in the advance estimate (see “Revisions”).

- The increase in real GDP in the third quarter primarily reflected positive contributions from consumer spending, from investment in equipment and software, from Federal Government spending, and from residential fixed investment that were partly offset by negative contributions from

1. Three sequential GDP estimates for each quarter are prepared—advance, preliminary, and final estimates. Each incorporates increasingly comprehensive and improved source data. Detailed information on BEA estimates, revisions, and accuracy can be found on BEA’s Web site at <www.bea.gov/bea/about/infoqual.htm> and at <www.bea.gov/bea/faq/national/gdp_accuracy.htm>.

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 annualized.

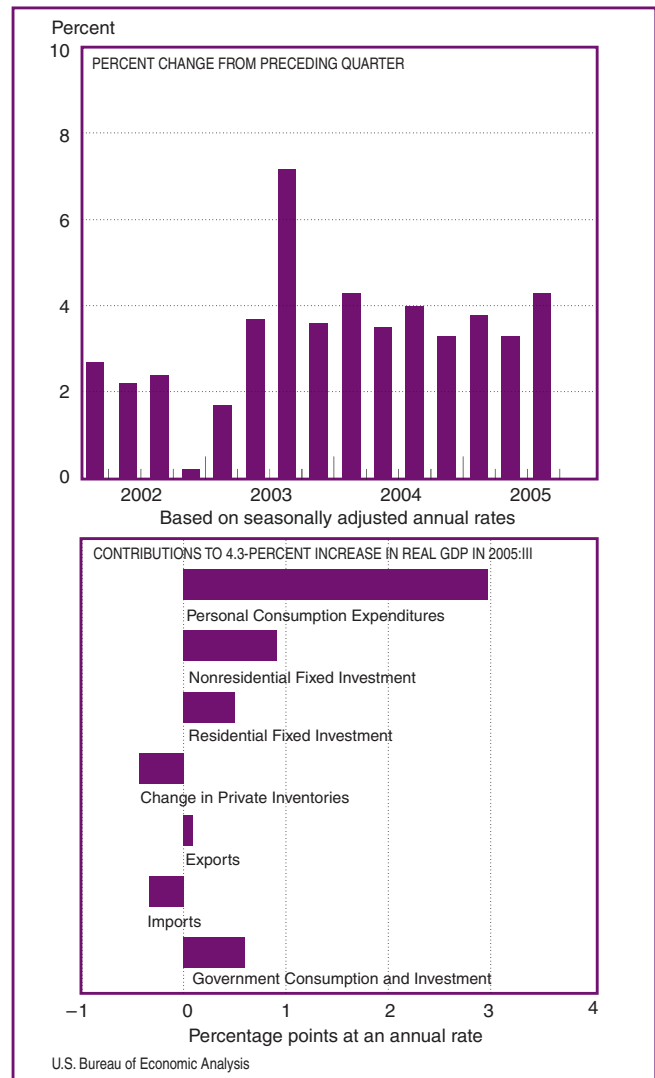
This article was prepared by Christopher Swann and Andrew E. Vargo.

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
	IV	I	II	III	IV	I	II	III	III
Gross domestic product (GDP)	3.3	3.8	3.3	4.3	3.3	3.8	3.3	4.3	100.0
Personal consumption expenditures	4.3	3.5	3.4	4.2	3.01	2.44	2.35	2.97	70.2
Durable goods	5.5	2.6	7.9	10.5	0.45	0.22	0.64	0.85	8.4
Nondurable goods	5.5	5.3	3.6	3.6	1.09	1.07	0.74	0.74	20.7
Services	3.6	2.8	2.3	3.3	1.47	1.15	0.97	1.38	41.2
Gross private domestic investment	6.8	8.6	-3.7	5.8	1.11	1.42	-0.63	0.96	16.6
Fixed investment	7.2	7.0	9.5	8.6	1.13	1.12	1.51	1.40	16.8
Nonresidential	10.4	5.7	8.8	8.8	1.04	0.58	0.90	0.91	10.7
Structures	4.7	-2.0	2.7	2.7	0.12	-0.05	0.07	0.07	2.7
Equipment and software	12.4	8.3	10.9	10.8	0.92	0.64	0.83	0.83	8.0
Residential	1.6	9.5	10.8	8.4	0.09	0.54	0.62	0.50	6.1
Change in private inventories					-0.03	0.29	-2.14	-0.44	-0.2
Net exports of goods and services					-0.98	-0.40	1.11	-0.25	-5.8
Exports	7.1	7.5	10.7	0.8	0.70	0.74	1.07	0.09	10.4
Goods	3.7	5.3	16.0	3.0	0.25	0.37	1.08	0.22	7.3
Services	15.5	12.5	-0.4	-3.9	0.44	0.37	-0.01	-0.13	3.1
Imports	11.3	7.4	-0.3	2.1	-1.68	-1.14	0.04	-0.34	16.2
Goods	13.0	8.2	-1.1	3.3	-1.60	-1.05	0.15	-0.44	13.6
Services	3.1	3.7	4.4	-3.9	-0.08	-0.10	-0.11	0.10	2.6
Government consumption expenditures and gross investment	0.9	1.9	2.5	3.2	0.17	0.35	0.47	0.60	19.0
Federal	-0.6	2.4	2.4	8.1	-0.04	0.17	0.17	0.56	7.1
National defense	-3.3	3.0	3.7	10.3	-0.16	0.14	0.17	0.48	4.8
Nondefense	5.2	1.1	-0.2	3.6	0.12	0.03	-0.01	0.08	2.3
State and local	1.8	1.6	2.6	0.4	0.21	0.19	0.31	0.04	11.9

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.

Chart 1. Real Gross Domestic Product



inventory investment and from imports.²

- The acceleration in real GDP growth primarily reflected a smaller decrease in private inventory investment and accelerations in consumer spending and in Federal Government spending that were partly offset by a deceleration in exports, an upturn in imports, and a deceleration in state and local government spending.
- Prices of goods and services purchased by U.S. residents (gross domestic purchases) increased 4.0 percent in the third quarter, the same rate as in the advance estimate, after an increase of 3.3 percent in the second quarter. The acceleration was fueled largely by a sharp acceleration in energy prices; food prices decelerated. Excluding food and energy, gross domestic purchases prices increased 2.1 percent, the same as in the second quarter.
- Real disposable personal income decreased 0.7 percent in the third quarter after increasing 0.2 percent in the second quarter.

The preliminary estimates reflect the disruptions to economic activity and to incomes from the recent hurricanes. Third-quarter GDP was not directly affected by the insurance transactions associated with Hurricane Katrina and Hurricane Rita that struck the Gulf states in August and September, because of the treatment of insurance services that the Bureau of Economic Analysis (BEA) introduced as part of its 2003 comprehensive revision of the NIPAs.³ Estimates of other, indirect effects of the hurricanes are not available, because the effects may occur with a lag or because they cannot be disentangled from the regular source data that BEA uses to prepare the GDP estimates. However, some income flows were affected by the hurricanes, and the estimates of those effects have been prepared.⁴ (See the box “The Impact of the Third-Quarter Hurricanes on the NIPAs” on page 4.)

Real inventory investment subtracted 0.44 percentage point from real GDP growth in the third quarter after subtracting 2.14 percentage points in the second quarter. Businesses reduced inventory investment by \$11.7 billion after a reduction of \$59.9 billion in the second quarter. A downturn in inventory investment

by mining, utilities, and construction industries and a reduction in inventory investment by wholesale trade were partly offset by an upturn in durable-goods manufacturing.

Real consumer spending increased 4.2 percent in the third quarter, contributing 2.97 percentage points to real GDP growth, after increasing 3.4 percent in the second quarter and contributing 2.35 percentage points to real GDP growth. The acceleration primarily reflected accelerations in spending for motor vehicles and parts, for food, for furniture and household equipment, for medical care services, and for “other” services that were partly offset by a downturn in “other” durable goods.

Real government spending increased 3.2 percent in the third quarter and contributed 0.60 percentage point to real GDP growth after increasing 2.5 percent in the second quarter and contributing 0.47 percentage point to growth. Federal Government spending increased 8.1 percent and contributed 0.56 percentage point to real GDP growth after increasing 2.4 percent; the acceleration was due to a step-up in Federal defense spending and to an upturn in Federal spending on nondefense goods and services. State and local government spending increased 0.4 percent and contributed 0.04 percentage point to real GDP growth; in the second quarter, it increased 2.6 percent and contributed 0.31 percentage point to real GDP growth. The deceleration was primarily due to a downturn in investment in structures.

Real exports increased 0.8 percent in the third quarter, contributing 0.09 percentage point to real GDP growth, after increasing 10.7 percent and contributing 1.07 percentage points. The deceleration follows three successive quarters of accelerating growth, and it primarily reflected downturns in civilian aircraft, engines, and parts, in industrial supplies and materials, and in foods, feeds, and beverages. Services exports decreased more in the third quarter than in the second quarter.

Real imports of goods and services turned up, increasing 2.1 percent and reducing real GDP growth by 0.34 percentage point after decreasing 0.3 percent in the second quarter. An upturn in goods imports was partly offset by a downturn in services imports.

The preliminary estimates for the third quarter also show the following:

- Business investment in equipment and software increased 10.8 percent and contributed 0.83 percentage point to real GDP growth after increasing 10.9 percent in the second quarter. An upturn in investment in industrial equipment was partly offset by decelerations in investment in computers and peripheral equipment, in software, in transportation equipment, and in “other” equipment.

2. 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.”

3. See Brent R. Moulton and Eugene P. Seskin, “Preview of the 2003 Comprehensive Revision of the National Income and Product Accounts: Changes in Definitions and Classifications,” *SURVEY OF CURRENT BUSINESS* 83 (June 2003): 17–34; and Baoline Chen and Dennis J. Fixler, “Measuring the Services of Property-Casualty Insurance in the NIPAs: Changes in Concepts and Methods,” *SURVEY* 83 (October 2003): 10–26.

4. For an explanation of how the NIPAs are affected by disasters, see <www.bea.gov/bea/faq/national/FAQ.htm> on BEA’s Web site.

- Business investment in structures increased 2.7 percent, the same as in the second quarter. An upturn in “other” structures, a smaller decrease in power and communication structures, and an acceleration in commercial and health care structures were partly offset by a deceleration in investment in mining exploration, shafts, and wells and by a larger decrease in investment in manufacturing structures.
- Residential fixed investment increased 8.4 percent and contributed 0.50 percentage point to real GDP growth after increasing 10.8 percent in the second quarter and contributing 0.62 percentage point to real growth. A deceleration in “other” structures was partly offset by a sharp acceleration in single-family homes.
- Real final sales of domestic product (real GDP less the change in private inventories) increased 4.7 percent after an increase of 5.6 percent in the second quarter.
- Real gross domestic purchases (real GDP less net exports of goods and services) increased 4.3 percent after an increase of 2.1 percent in the second quarter.
- The production of both goods and services accelerated, but production of structures decelerated (table 2).
- Motor vehicle output increased 17.5 percent, revised up from a 15.0-percent increase in the advance estimate; in the second quarter, it decreased 0.3 percent.
- Real final sales of computers (sales of domestically

produced computers less inventory change) increased 20.8 percent, adding 0.17 percentage point to real GDP growth after a 45.4-percent increase in the second quarter.

- The gross saving rate (saving from all sources as a percentage of gross national income) was 13.3 percent in the third quarter; in the second quarter, it was 13.2 percent (revised). In the third quarter, the personal saving rate was a negative 1.5 percent, revised down 0.4 percentage point; it was a negative 0.2 percent (revised) in the second quarter.

Table 2. Real Gross Domestic Product by Type of Product

[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
	IV	I	II	III	IV	I	II	III	III
Gross domestic product (GDP)	3.3	3.8	3.3	4.3	3.3	3.8	3.3	4.3	100.0
Final sales of domestic product.....	3.3	3.5	5.6	4.7	3.33	3.51	5.45	4.73	100.2
Change in private inventories .....	.....	.....	.....	.....	-0.03	0.29	-2.14	-0.44	-0.2
Goods	3.9	4.4	5.0	5.8	1.26	1.41	1.58	1.85	31.8
Services	3.2	3.2	1.5	3.5	1.82	1.86	0.88	2.01	57.5
Structures	2.2	5.2	8.4	4.0	0.23	0.53	0.85	0.43	10.7
Addenda:									
Motor vehicle output.....	8.8	4.3	-0.3	17.5	0.29	0.15	-0.01	0.56	3.5
GDP excluding motor vehicle output	3.1	3.8	3.4	3.8	3.01	3.66	3.32	3.73	96.6
Final sales of computers	56.5	54.9	45.4	20.8	0.36	0.37	0.32	0.17	0.9
GDP excluding final sales of computers.....	3.0	3.5	3.0	4.2	2.95	3.44	2.98	4.12	99.2

NOTE. Percent changes are from NIPA table 1.2.1, and contributions to percent change are from NIPA table 1.2.2. Shares are calculated from NIPA table 1.2.5.

The Impact of the Third-Quarter Hurricanes on the NIPAs

Natural disasters—such as Hurricanes Katrina, Rita, and Wilma, which struck the Gulf region in August, September, and October—have two main economic effects: The destruction of property and the disruption of the flows of production, income, and spending. These effects are reflected in the Bureau of Economic Analysis (BEA) national income and product accounts (NIPAs) in a variety of ways.

Gross domestic product and net domestic product

Direct effects. As a measure of current production, gross domestic product (GDP) is not directly affected by the destruction of previously produced property. While GDP does include estimates of the value of insurance services, these estimates are not directly affected by natural disasters under BEA's methodology for treating insurance services.

The destruction of private property generally leads to an increase in the NIPA depreciation measure, consumption of fixed capital (CFC), which captures the loss in value of fixed assets as a result of damage. Net domestic product (NDP) is defined as GDP less CFC; thus, an increase in CFC, all other items being equal, leads to a decline in NDP.

Indirect effects. Hurricanes and other disasters indirectly affect GDP in several ways. For example, consumer spending may drop in the Gulf region. This drop would be reflected in Census Bureau data on retail sales, which BEA uses to produce its consumer spending estimates. Also, government aid will likely rise, which would be reflected in the source data BEA uses to estimate government social benefits.

Some effects may be spread out over time. Rebuilding activity, which may occur over many months following a disaster, will be reflected in the source data used by BEA to estimate residential and nonresidential investment. Also, tourism and other types of consumer spending may be canceled or postponed because of a disaster.

These indirect effects on GDP cannot be specifically quantified, because the source data that BEA uses generally do not isolate the specific effects of disasters.

Income measures

Natural disasters affect various income measures in the following ways:

- Rental income of persons and nonfarm proprietors' income are both reduced. Both measures are adjusted for depreciation, which generally rises as a result of property damage. In the third quarter, rental income was reduced \$68.1 billion, reflecting \$185.9 billion in property damages netted against \$117.7 billion in insurance benefits received (see the table). Proprietors' income was reduced \$14 billion, reflecting \$42.0 billion in property damages netted against \$27.9 billion in insurance benefits received. These measures can also be reduced by lower actual rent payments as a result of damaged property, but this amount tends to be small.
- Corporate profits are reduced in two ways. First, property and casualty insurance companies incur higher expenses, and thus lower profits, as they pay more to settle claims. Second, because BEA adjusts corporate profits for depreciation, the destruction of uninsured business property often reduces profits. In the third quarter, profits were reduced by \$151.2 billion, reflecting \$75.2 billion in damages to fixed assets and a \$76.0 billion increase in net insurance payments.
- Business current transfer payments are changed for three reasons. First, payments to persons increase, as insurance companies pay benefits to cover damaged autos and other consumer durable goods. Second, payments to governments reflect higher insurance benefits as a result of destroyed government property netted against benefits paid by government insurance funds and agencies, including the National Flood Insurance Program. Third, insurance benefits paid to foreign entities are netted against those received from foreign entities, usually payments by foreign reinsurance companies. Overall, business current transfer payments were reduced \$69.7 billion in the third quarter.

Hurricane Damages and Insurance Settlements for Third Quarter 2005¹

[Billions of dollars; quarterly estimates at annual rates]²

Line		Total effect	Damage to fixed assets	Insurance benefits ³
1	Gross domestic product	0.0	0.0	0.0
2	Less: Consumption of fixed capital (CFC).....	317.6	317.6	.....
3	Equals: Net domestic product/national income	-317.6	-317.6	0.0
4	Proprietors' income with CCAAdj.....	-14.0	-42.0	27.9
5	Rental income of persons with CCAAdj.....	-68.1	-185.9	117.7
6	Corporate profits with IVA and CCAAdj.....	-151.2	-75.2	-76.0
7	Total payouts.....	.....	.....	-250.0
8	Insurance benefits received by corporations.....	.....	.....	58.1
9	National Flood Insurance Program.....	.....	.....	80.4
10	Louisiana Citizens Property Insurance Corporation.....	.....	.....	3.6
11	Reinsurance.....	.....	.....	32.0
12	Business current transfer payments (net).....	-69.7	.....	-69.7
13	Net insurance settlements to persons ⁴.....	.....	.....	42.5
14	Net insurance settlement to government.....	.....	.....	-75.8
15	Federal.....	.....	.....	-80.4
16	State and local.....	.....	.....	4.6
17	Net insurance settlements to the rest of the world.....	.....	.....	-36.4
18	Current surplus of government enterprises.....	-14.6	-14.6	.....
19	Federal (Postal Service).....	-0.4	-0.4	.....
20	State and local.....	-14.2	-14.2	.....
21	Less: Corporate profits with CCAAdj.....	-151.2	-75.2	-76.0
22	Business current transfer payments to governments and to the rest of the world.....	-112.2	.....	-112.2
23	Current surplus of government enterprises.....	-14.6	-14.6	.....
24	Equals: Personal income	-39.7	-227.8	188.1
	Addenda:			
25	Personal income.....	-39.7	-227.8	188.1
26	Proprietors' income with CCAAdj.....	-14.0	-42.0	27.9
27	Rental income of persons with CCAAdj.....	-68.1	-185.9	117.7
28	Net insurance settlements to persons.....	42.5	.....	42.5

1. Includes only explicit adjustments to source data for write-offs of nonrepairable damage and for insurance. Excludes effects that are assumed to be reflected in source data.

2. The estimates of the actual damages and insurance settlements (not at an annual rate) can be derived by dividing the numbers shown in the table by 4; actual damages to fixed assets in personal income, for example, are estimated to be \$57.0 billion (\$227.8 billion at an annual rate).

3. Includes business interruption insurance.

4. Includes benefits paid to persons for the loss of personal property, such as motor vehicles and household furnishings and equipment.

IVA Inventory valuation adjustment

CCAAdj Capital consumption adjustment

NOTE: Estimates in this table reflect the "preliminary" GDP release on November 30, 2005.

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Personal Consumption Expenditures

Real personal consumption expenditures accelerated, increasing 4.2 percent in the third quarter after increasing 3.4 percent in the second quarter (table 3 and chart 2). Spending for services and for durable goods accelerated in the third quarter; growth in spending for nondurable goods was the same as in the second quarter.

Durable goods. Spending for durable goods increased 10.5 percent in the third quarter, contributing 0.85 percentage point to real GDP growth, after increasing 7.9 percent in the second quarter. Purchases of motor vehicles and parts accelerated, increasing 15.1 percent after increasing 7.5 percent. Purchases of

trucks and recreational vehicles accelerated, and purchases of used cars turned up after a sharp downturn in the second quarter. In contrast, purchases of new cars decelerated, and spending for parts turned down. Consumer spending for furniture and household equipment accelerated, increasing 13.3 percent after increasing 5.8 percent in the second quarter. The acceleration mostly reflected an acceleration in spending for furniture and household equipment excluding computers.

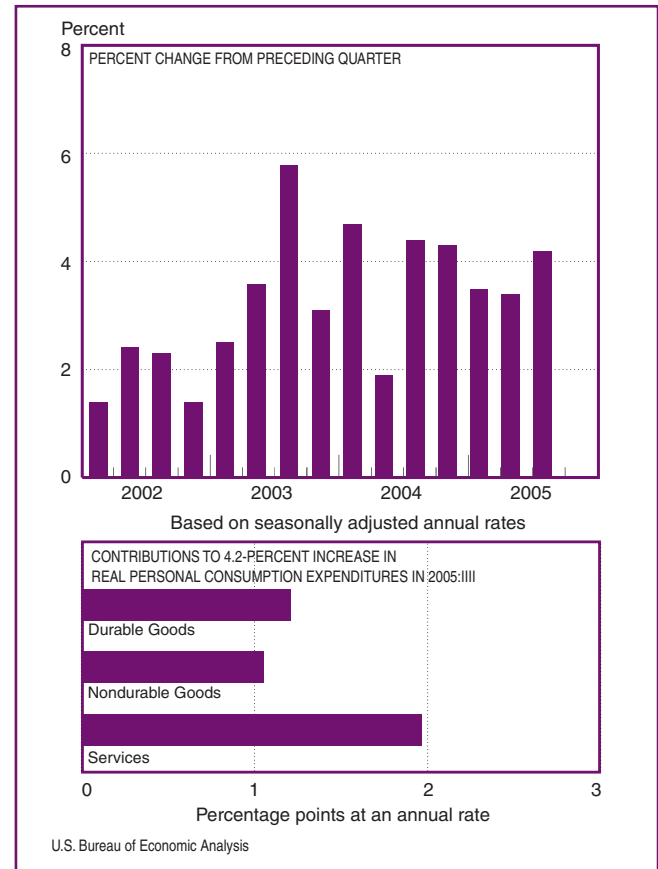
Nondurable goods. Spending for nondurable goods increased 3.6 percent in the third quarter, the same as

Table 3. Real Personal Consumption Expenditures
[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real PCE (percentage points)				Share of current-dollar PCE (percent)
	2004		2005		2004		2005		2005
	IV	I	II	III	IV	I	II	III	III
Personal consumption expenditures (PCE)	4.3	3.5	3.4	4.2	4.3	3.5	3.4	4.2	100.0
Durable goods	5.5	2.6	7.9	10.5	0.65	0.31	0.92	1.21	11.9
Motor vehicles and parts	2.8	-8.0	7.5	15.1	0.15	-0.44	0.39	0.76	5.3
Furniture and household equipment	7.0	11.3	5.8	13.3	0.30	0.46	0.25	0.54	4.2
Other ¹	8.9	13.2	12.9	-3.7	0.20	0.29	0.29	-0.09	2.3
Nondurable goods	5.5	5.3	3.6	3.6	1.57	1.52	1.05	1.06	29.5
Food	6.6	5.2	4.3	6.7	0.90	0.72	0.60	0.91	13.9
Clothing and shoes	9.4	5.6	7.3	3.0	0.37	0.22	0.28	0.12	3.9
Gasoline, fuel oil, and other energy goods	3.4	9.5	-4.6	-5.1	0.10	0.30	-0.15	-0.19	3.8
Other ²	2.5	3.7	4.2	2.8	0.20	0.29	0.33	0.22	7.8
Services	3.6	2.8	2.3	3.3	2.12	1.64	1.39	1.97	58.6
Housing	2.8	2.2	2.1	1.9	0.42	0.33	0.32	0.28	14.6
Household operation	9.1	1.9	-0.5	3.1	0.48	0.11	-0.03	0.17	5.5
Electricity and gas	27.4	1.3	-5.1	2.9	0.53	0.03	-0.12	0.07	2.3
Other household operation	-1.4	2.4	2.8	3.3	-0.05	0.08	0.09	0.10	3.2
Transportation	-0.5	2.3	2.3	1.5	-0.02	0.08	0.08	0.06	3.7
Medical care	4.5	4.4	4.2	5.5	0.77	0.76	0.72	0.94	17.2
Recreation	0.7	4.9	0.8	0.8	0.03	0.20	0.03	0.03	4.0
Other ³	3.0	1.2	1.9	3.5	0.42	0.16	0.26	0.48	13.7

1. Includes jewelry and watches, ophthalmic products and orthopedic equipment, books and maps, bicycles and motorcycles, guns and sporting equipment, photographic equipment, boats, and pleasure aircraft.
 2. Includes tobacco, toilet articles, drug preparations and sundries, stationery and writing supplies, toys, film, flowers, cleaning preparations and paper products, semidurable house furnishings, and magazines and newspapers.
 3. Includes personal care, personal business, education and research, religious and welfare activities, and net foreign travel.
 NOTE: Percent changes are from NIPA table 2.3.1, and contributions to percent change are from NIPA table 2.3.2. Shares are calculated from NIPA table 2.3.5.

Chart 2. Real Personal Consumption Expenditures

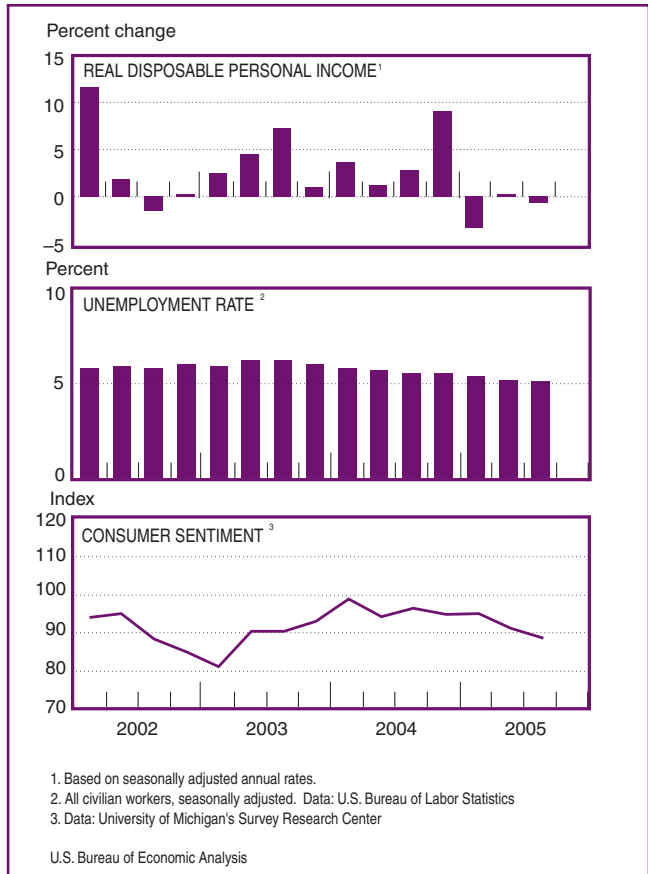


in the second quarter, and contributed 0.74 percentage point to third-quarter real GDP growth. Purchases of food accelerated, increasing 6.7 percent after increasing 4.3 percent in the second quarter. Real spending for “other” nondurable goods and for clothing and shoes decelerated, and real spending for gasoline, fuel oil, and other energy goods decreased more in the third quarter than in the second quarter.

Services. Consumer spending for services increased 3.3 percent and contributed 1.38 percentage points to real GDP growth in the third quarter after increasing 2.3 percent. The acceleration primarily reflected accelerations in spending for medical care services and for “other” services. Spending for electricity and gas turned up.

Selected factors. Conditions frequently considered in the analysis of consumer spending were somewhat mixed in the third quarter (chart 3). Real disposable personal income decreased 0.7 percent in the third quarter after increasing 0.2 percent (revised) in the second quarter, but the decrease reflected the effects of the hurricanes on major personal income components. The unemployment rate stepped down slightly to 5.0 percent in the third quarter from 5.1 percent in the second quarter; it has declined steadily since a peak of 6.1 percent in the third quarter of 2003. In contrast, the Index of Consumer Sentiment (prepared by the University of Michigan’s Survey Research Center) decreased for the third successive quarter.

Chart 3. Selected Factors Affecting Consumer Spending



Private Fixed Investment

Real private fixed investment increased 8.6 percent in the third quarter and contributed 1.40 percentage points to real GDP growth after increasing 9.5 percent in the second quarter and contributing 1.51 percentage points to real GDP growth (table 4 and chart 4)

Nonresidential. Real private nonresidential fixed investment increased 8.8 percent, the same rate of growth as in the second quarter, and contributed 0.91 percentage point to real GDP growth. Investment in equipment and software increased 10.8 percent and contributed 0.83 percentage point to real GDP growth. Investment in structures increased 2.7 percent and contributed 0.07 percentage point to real growth.

Equipment and software investment increased 10.8 percent and contributed 0.83 percentage point to real GDP growth after increasing 10.9 percent in the second quarter. An upturn in investment in industrial equipment was partly offset by a deceleration in investment in computers and peripheral equipment, in software, in transportation equipment, and in "other" equipment.

Within structures, an upturn in investment in "other" structures, a smaller decrease in investment in power and communication structures, and an acceleration in investment in commercial and health care structures were partly offset by a deceleration in investment in mining exploration, shafts, and wells and by a

Table 4. Real Private Fixed Investment

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real PFI (percentage points)				Share of current-dollar PFI (percent)
	2004		2005		2004		2005		
	IV	I	II	III	IV	I	II	III	
Private fixed investment (PFI)	7.2	7.0	9.5	8.6	7.2	7.0	9.5	8.6	100.0
Nonresidential	10.4	5.7	8.8	8.8	6.59	3.64	5.66	5.58	63.7
Structures	4.7	-2.0	2.7	2.7	0.75	-0.32	0.44	0.45	16.1
Commercial and health care.....	-8.4	3.3	0.5	3.4	-0.57	0.21	0.03	0.21	6.2
Manufacturing.....	94.2	9.9	-2.9	-13.8	0.69	0.11	-0.03	-0.16	1.0
Power and communication.....	-5.8	4.5	-22.8	-13.7	-0.12	0.09	-0.51	-0.27	1.8
Mining exploration, shafts, and wells.....	32.7	-3.9	40.9	17.7	0.87	-0.13	1.21	0.64	4.1
Other structures ¹	-3.5	-17.1	-8.2	0.7	-0.12	-0.60	-0.26	0.02	2.9
Equipment and software	12.4	8.3	10.9	10.8	5.83	3.96	5.22	5.14	47.7
Information processing equipment and software.....	9.2	20.3	14.5	12.3	2.15	4.43	3.31	2.85	23.4
Computers and peripheral equipment.....	39.9	45.5	31.7	12.7	1.71	1.94	1.46	0.63	5.0
Software ²	6.1	15.2	20.1	12.9	0.58	1.35	1.80	1.21	9.6
Other ³	-1.5	13.0	0.5	11.5	-0.14	1.14	0.05	1.01	8.9
Industrial equipment.....	4.8	18.8	-18.9	16.6	0.38	1.40	-1.62	1.21	7.6
Transportation equipment.....	32.8	-11.2	27.4	12.4	2.45	-0.99	2.07	1.02	8.4
Other equipment ⁴	10.2	-10.0	18.5	0.6	0.85	-0.88	1.46	0.06	8.3
Residential	1.6	9.5	10.8	8.4	0.59	3.36	3.88	3.05	36.3
Structures	1.5	9.6	11.0	8.5	0.55	3.36	3.88	3.04	35.9
Permanent site.....	0.6	14.2	3.8	9.1	0.14	3.06	0.87	2.01	22.3
Single family.....	0.0	11.3	3.6	9.6	0.00	2.23	0.75	1.91	20.1
Multifamily.....	6.8	45.3	5.1	4.6	0.14	0.83	0.12	0.10	2.2
Other structures ⁵	3.0	2.3	23.9	7.6	0.41	0.31	3.01	1.04	13.5
Equipment	8.8	-0.3	1.2	1.8	0.04	0.00	0.01	0.01	0.4

1. Consists primarily of religious, educational, vocational, lodging, railroads, farm, and amusement and recreational structures, net purchases of used structures, and brokers' commissions on the sale of structures.

2. Excludes software "embedded" or bundled, in computers and other equipment.

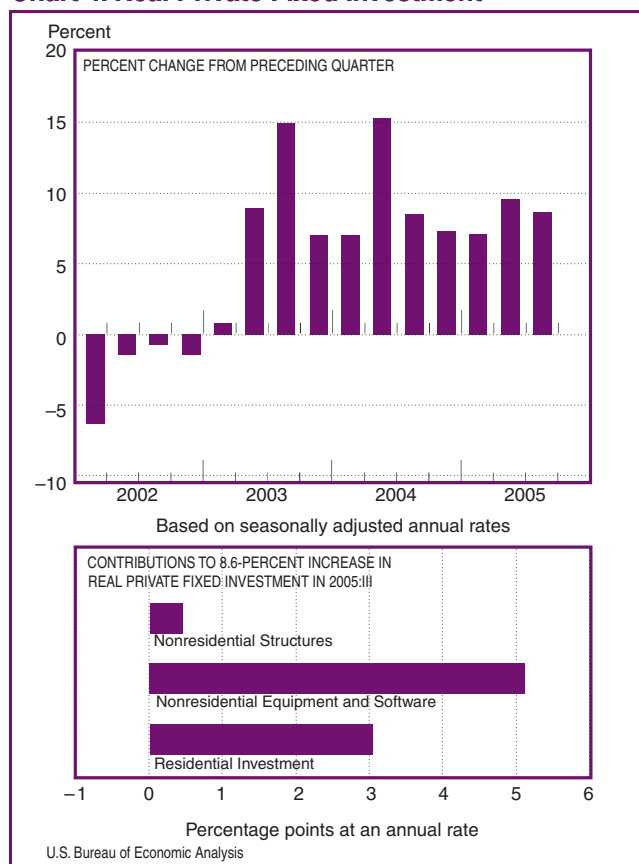
3. Includes communication equipment, nonmedical instruments, medical equipment and instruments, photocopy and related equipment, and office and accounting equipment.

4. Consists primarily of furniture and fixtures, agricultural machinery, construction machinery, mining and oilfield machinery, service industry machinery, and electrical equipment not elsewhere classified.

5. Consists primarily of manufactured homes, improvements, dormitories, net purchases of used structures, and brokers' commissions on the sale of residential structures.

NOTE: Percent changes are from NIPA table 5.3.1, and contributions to percent change are from NIPA table 5.3.2. Shares are calculated from NIPA table 5.3.5.

Chart 4. Real Private Fixed Investment

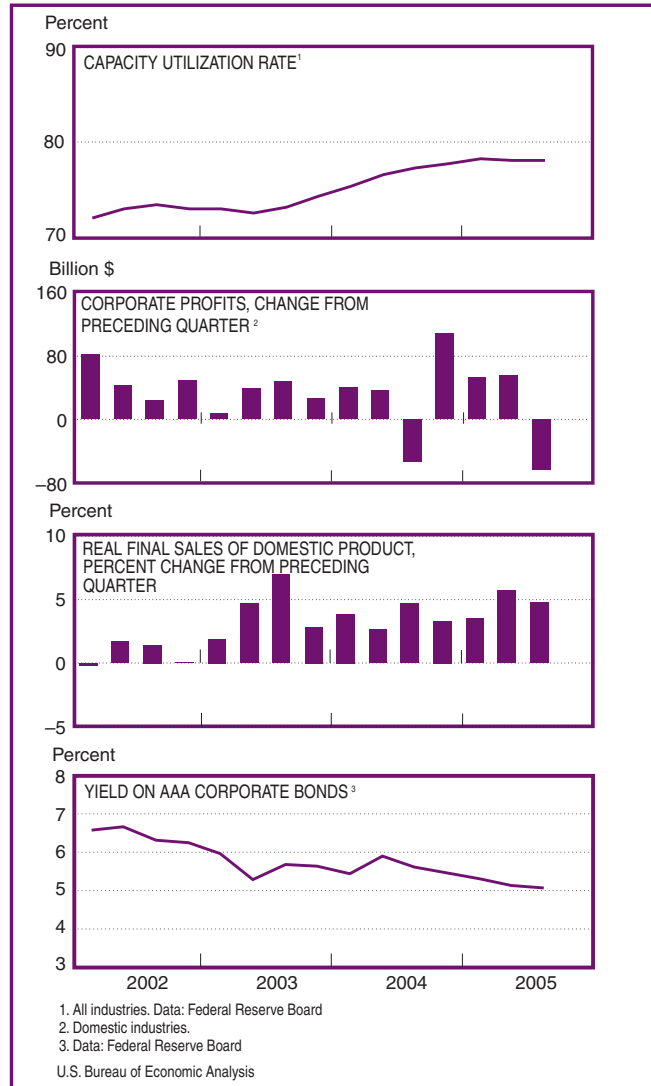


larger decrease in investment in manufacturing structures.

Several conditions that are frequently considered in the analysis of real fixed investment have generally been favorable in recent quarters (chart 5). The capacity utilization rate for manufacturing, mining, and utilities was unchanged at 78.1 in the third quarter, but it has previously increased steadily since the beginning of the current recovery, reflecting growth in industrial output. After increasing in the preceding three quarters, corporate profits of domestic industries decreased \$63.4 billion (5.5 percent) in the third quarter. However, the third-quarter estimates of profits include the impact of the hurricanes on key income components that affect the calculation of profits; on a year-over-year basis, profit growth exceeded 16 percent. The yield on AAA corporate bonds decreased 5 basis points, the fifth successive decrease since the second quarter of 2004. Following the general pattern of longer term rates in the yield curve, AAA corporate rates have declined 83 basis points since the second quarter of 2004. Real final sales of domestic product decelerated somewhat, increasing 4.7 percent in the third quarter after increasing 5.6 percent in the second quarter. However, at a third-quarter rate of 8.8 percent, growth in private fixed investment exceeded increases in real final sales as it has since the second quarter of 2003.

Residential. Real private residential investment increased 8.4 percent and contributed 0.50 percentage point to real GDP growth, after increasing 10.8 percent in the second quarter. The deceleration primarily reflects a deceleration in “other” structures that was partly offset by a sharp acceleration in single-family structures.

Chart 5. Selected Factors Affecting Nonresidential Investment



Inventory Investment

Real inventory investment decreased \$11.7 billion in the third quarter after decreasing \$59.9 billion (table 5 and chart 6). The pattern of change in nonfarm inventory investment varied across industries.

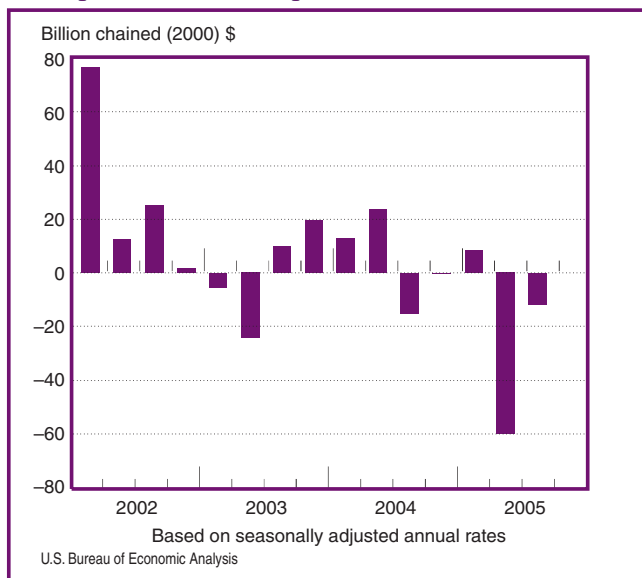
Manufacturing inventories decreased less in the third quarter than in the second quarter, decreasing

Table 5. Real Change in Private Inventories by Industry
 [Billions of chained (2000) dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter				
	2004		2005			2004		2005		
	III	IV	I	II	III	IV	I	II	III	
Change in private inventories	50.4	50.1	58.2	-1.7	-13.4	-0.3	8.1	-59.9	-11.7	
Farm	6.3	-0.2	-2.3	-4.2	-4.4	-6.5	-2.1	-1.9	-0.2	
Mining, utilities, and construction	7.1	3.3	2.0	5.0	-4.2	-3.8	-1.3	3.0	-9.2	
Manufacturing.....	6.5	1.5	25.1	-8.4	-3.0	-5.0	23.6	-33.5	5.4	
Durable-goods industries	8.2	2.7	18.2	-2.9	7.3	-5.5	15.5	-21.1	10.2	
Nondurable-goods industries	-1.5	-1.0	7.1	-5.2	-9.1	0.5	8.1	-12.3	-3.9	
Wholesale trade	34.4	25.6	23.3	16.2	10.6	-8.8	-2.3	-7.1	-5.6	
Durable-goods industries	28.2	17.7	15.2	13.5	8.4	-10.5	-2.5	-1.7	-5.1	
Nondurable-goods industries	6.8	8.0	8.1	3.0	2.4	1.2	0.1	-5.1	-0.6	
Retail trade.....	-10.2	17.0	7.0	-13.7	-12.4	27.2	-10.0	-20.7	1.3	
Motor vehicle and parts dealers	-17.0	-3.2	-4.5	-24.4	-16.8	13.8	-1.3	-19.9	7.6	
Food and beverage stores.....	-0.2	0.6	-0.4	0.4	-0.4	0.8	-1.0	0.8	-0.8	
General merchandise stores	1.4	6.6	5.4	0.9	3.9	5.2	-1.2	-4.5	3.0	
Other retail stores.....	4.6	12.6	6.1	7.9	0.0	8.0	-6.5	1.8	-7.9	
Other industries.....	4.3	3.8	3.4	3.0	1.2	-0.5	-0.4	-0.4	-1.8	
Residual ¹	2.2	-0.8	-0.1	1.3	-1.7	-3.0	0.7	1.4	-3.0	
Addenda: Ratios of private inventories to final sales of domestic business:										
Private inventories to final sales	2.47	2.47	2.47	2.42	2.39	.....	.....	.....	.....
Nonfarm inventories to final sales.....	2.27	2.27	2.27	2.23	2.20	.....	.....	.....	.....
Nonfarm inventories to final sales of goods and structures	3.61	3.61	3.62	3.52	3.47	.....	.....	.....	.....

1. The residual is the difference between the first line and the sum of the most detailed lines. It reflects the fact that chained-dollar estimates are usually not additive, because the quantity indexes on which they are based embody weights of more than one period.
 NOTE: Real change in private inventories is from NIPA table 5.6.6B, and ratios of private inventories to final sales of domestic business are from NIPA table 5.7.6B.

Chart 6. Real Private Inventory Investment: Change from Preceding Quarter



\$3.0 billion after decreasing \$8.4 billion. Nondurable-goods inventories decreased more in the third quarter than in the second quarter, but the decrease was partly offset by an upturn in durable-goods inventories. The larger decrease in third-quarter nondurable-goods inventories was primarily due to a larger decrease in chemical inventories and to downturns in paper inventories and in food inventories that were partly offset by an upturn in petroleum inventories. Durable-goods inventories turned up, increasing \$7.3 billion after decreasing \$2.9 billion. The upturn was primarily due to upturns in the inventories of “other” transportation equipment manufacturing and in computer and electronic product manufacturing.

Mining, utilities, and construction inventories decreased \$4.2 billion after increasing \$5.0 billion, the first downturn since the first quarter of 2004.

Wholesale trade inventories increased \$10.6 billion after increasing \$16.2 billion in the second quarter, reflecting decelerations in both durable-goods wholesalers and in nondurable-goods wholesalers. The deceleration in the inventories of durable-goods wholesalers was primarily due to downturns in the inventories of motor vehicle wholesalers and of “other” professional and commercial equipment wholesalers. The deceleration in the inventories of nondurable-goods wholesalers reflected a deceleration in the inventories of “miscellaneous nondurable-goods wholesalers” and a larger decrease in the inventories of petroleum and petroleum products wholesalers.

Retail trade inventories decreased \$12.4 billion in the third quarter after decreasing \$13.7 billion in the second quarter. A smaller decrease in the inventories of motor vehicle dealers and an acceleration in inventories of general merchandise retailers were mostly offset by a deceleration in inventories of “other” retail stores.

The ratio of nonfarm inventories to final sales, which includes all final sales of domestic business including services, decreased slightly in the third quarter to 2.20 from 2.23. The ratio of real private nonfarm inventories to final sales of goods and structures stepped down to 3.47 from 3.52; in this ratio, services are removed from the denominator, implying that services generate zero impact on inventory investment.⁵ However, both measures have been declining over the last several decades.

5. Using the ratio that includes all final sales of domestic businesses in the denominator implies that the production of services results in a demand for inventories that is similar to that generated in the production of goods and structures. In contrast, using the “goods and structures” ratio implies that the production of services does not generate demand for inventories. Both implications are extreme. Production of some services may require substantial inventories, while production of other services may not.

Exports and Imports

Real exports of goods and services decelerated sharply in the third quarter, and real imports of goods and services turned up (table 6).

Real exports of goods and services increased 0.8 percent and contributed 0.09 percentage point to real GDP growth after increasing 10.7 percent (chart 7). The deceleration primarily reflected downturns in civilian aircraft, engines, and parts, in industrial supplies and materials, and in foods, feeds, and beverages that were partly offset by a sharp upturn in automotive vehicles, engines, and parts.

Services exports decreased 3.9 percent after decreasing

0.4 percent, primarily reflecting a downturn in travel that was partly offset by a smaller decrease in "other" private services.

Real imports of goods and services increased 2.1 percent, subtracting 0.34 percentage point from real GDP growth, after decreasing 0.3 percent in the second quarter (chart 8). The upturn reflected an upturn in goods imports that more than offset a downturn in services imports.

Goods imports increased 3.3 percent after decreasing 1.1 percent in the second quarter. The upturn primarily reflected a smaller decrease in petroleum and

Table 6. Real Exports and Imports of Goods and Services

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real exports and imports (percentage points)				Share of current-dollar exports and imports (percent)
	2004		2005		2004		2005		2005
	IV	I	II	III	IV	I	II	III	III
Exports of goods and services	7.1	7.5	10.7	0.8	7.1	7.5	10.7	0.8	100.0
Exports of goods ¹	3.7	5.3	16.0	3.0	2.59	3.70	10.84	2.05	69.8
Foods, feeds, and beverages.....	27.6	-8.8	32.0	-19.6	1.17	-0.42	1.36	-1.03	4.6
Industrial supplies and materials.....	1.6	0.2	15.9	-4.6	0.28	0.04	2.72	-0.83	17.6
Capital goods, except automotive.....	-0.4	4.9	24.2	3.4	-0.12	1.35	6.27	0.94	27.7
Automotive vehicles, engines, and parts.....	4.8	3.3	-4.5	21.0	0.37	0.26	-0.33	1.41	7.5
Consumer goods, except automotive.....	17.7	16.6	3.0	7.2	1.48	1.42	0.27	0.61	8.9
Other.....	-17.5	38.4	17.3	31.8	-0.60	1.06	0.55	0.95	3.5
Exports of services ¹	15.5	12.5	-0.4	-3.9	4.52	3.76	-0.12	-1.21	30.2
Imports of goods and services	11.3	7.4	-0.3	2.1	11.3	7.4	-0.3	2.1	100.0
Imports of goods ¹	13.0	8.2	-1.1	3.3	10.79	6.81	-0.96	2.77	84.1
Foods, feeds, and beverages.....	4.4	5.2	-0.1	15.2	0.15	0.18	0.00	0.48	3.4
Industrial supplies and materials, except petroleum and products.....	8.7	2.8	-5.6	-4.0	1.17	0.37	-0.74	-0.51	12.5
Petroleum and products.....	45.1	3.4	-24.5	-3.1	4.12	0.38	-3.15	-0.39	13.2
Capital goods, except automotive.....	8.5	4.2	24.8	3.9	1.65	0.80	4.20	0.73	18.8
Automotive vehicles, engines, and parts.....	1.8	0.0	-1.1	18.2	0.23	-0.01	-0.13	1.98	11.9
Consumer goods, except automotive.....	18.5	19.1	0.0	-3.7	3.64	3.73	0.00	-0.76	19.8
Other.....	-3.9	32.5	-22.1	32.0	-0.18	1.34	-1.14	1.25	4.6
Imports of services ¹	3.1	3.7	4.4	-3.9	0.54	0.63	0.70	-0.64	16.0
Addenda:									
Exports of agricultural goods ²	21.6	-6.8	28.6	-8.5	.....	.....	.....	.....	5.1
Exports of nonagricultural goods.....	2.3	6.3	15.1	4.0	.....	.....	.....	.....	64.7
Imports of nonpetroleum goods.....	9.0	8.9	3.1	4.5	.....	.....	.....	.....	70.9

1. Exports and imports of certain goods, primarily military equipment purchased and sold by the Federal Government, are included in services.

2. Includes parts of foods, feeds, and beverages, of nondurable industrial supplies and materials, and of nondurable nonautomotive consumer goods.

Note: Percent changes are from NIPA table 4.2.1, and contributions to percent change are from NIPA table 4.2.2. Shares are calculated from NIPA table 4.2.5.

products and upturns in “other” imports and in automotive vehicles, engines, and parts that were partly offset by a deceleration in “other” nonautomotive capital goods and by a downturn in civilian aircraft, engines,

and parts.

Imports of services decreased 3.9 percent after increasing 4.4 percent in the second quarter. The largest contributor to the downturn was travel.

Chart 7. Real Exports

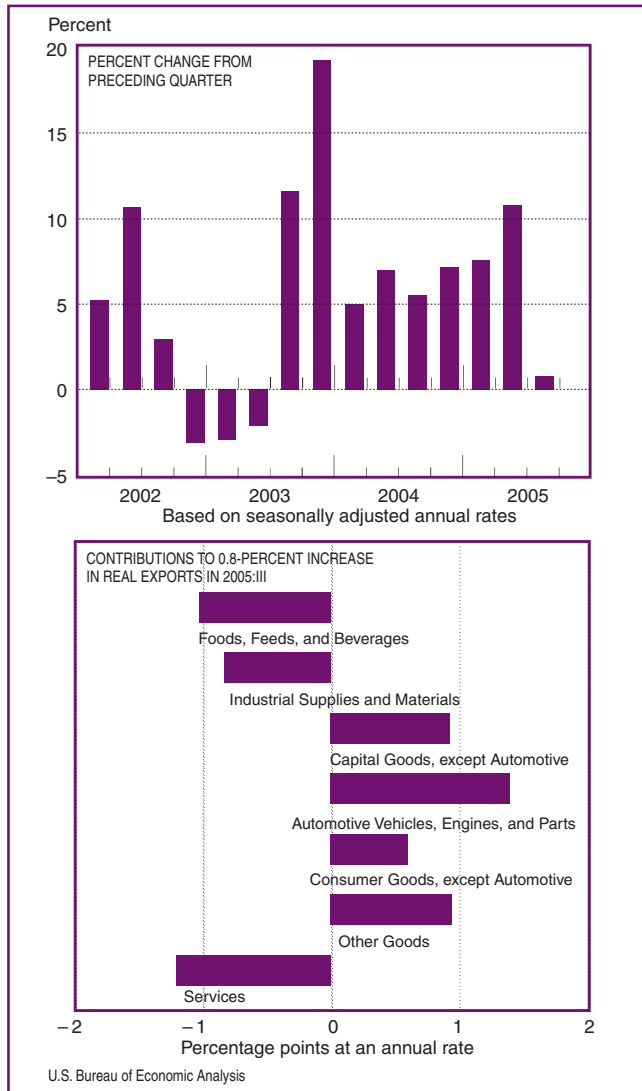
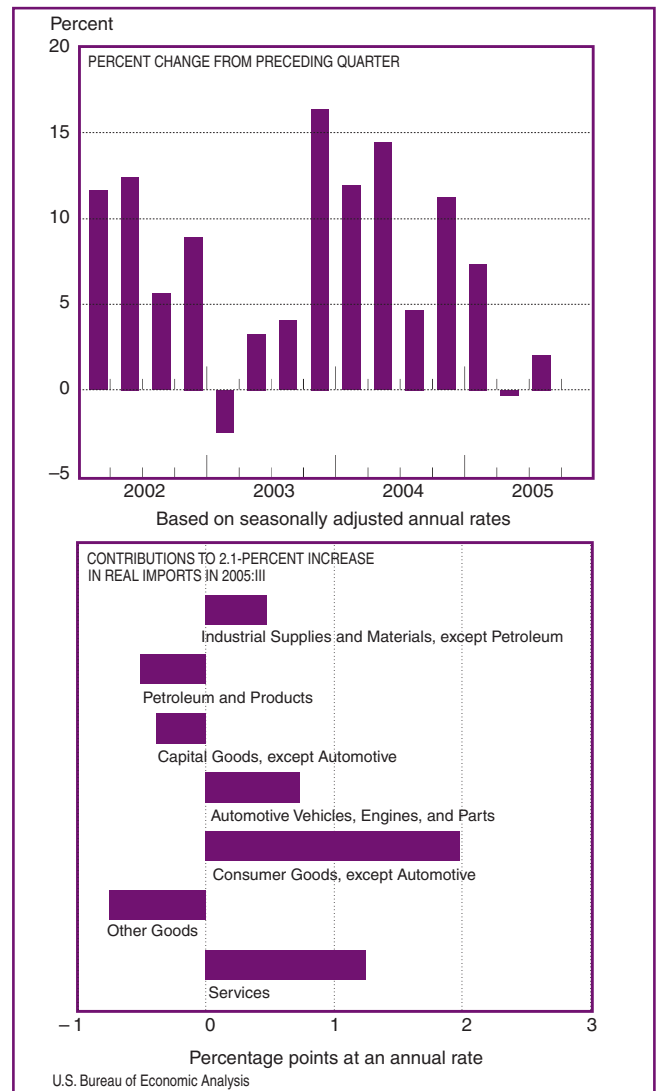


Chart 8. Real Imports



Government Spending, next page.

Government Spending

Government spending increased 3.2 percent and contributed 0.60 percentage point to real GDP growth after increasing 2.5 percent in the second quarter (table 7 and chart 9). The step-up was driven by an acceleration in Federal defense spending and an upturn in Federal nondefense spending.

National defense spending increased 10.3 percent after increasing 3.7 percent in the second quarter. The acceleration reflected an acceleration in consumption expenditures that was attributable to a step-up in “intermediate goods and services purchased.” Gross investment decelerated somewhat.

Federal nondefense spending increased 3.6 percent after decreasing 0.2 percent. The upturn reflected an upturn in consumption expenditures.

State and local government spending increased 0.4 percent after increasing 2.6 percent in the second quarter. The deceleration primarily reflected a downturn in gross investment; structures investment turned down, and equipment and software investment decelerated.

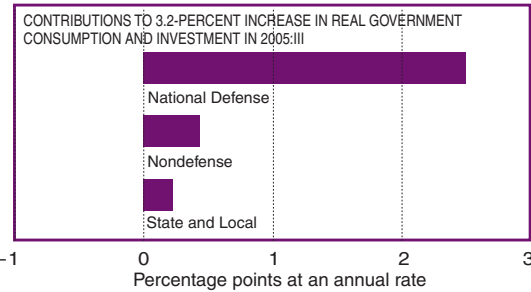
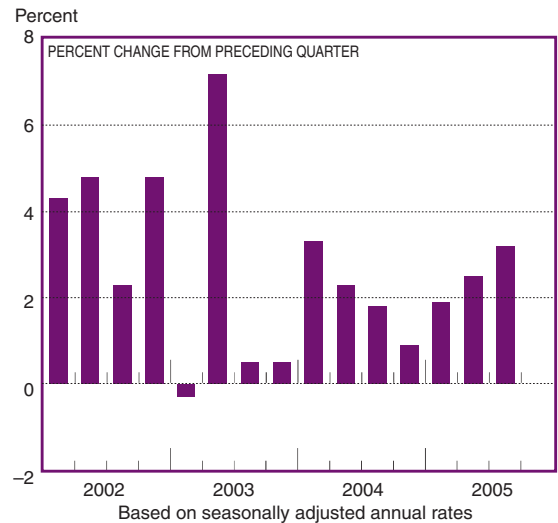
Chart 9. Real Government Consumption and Investment

Table 7. Real Government Consumption Expenditures and Gross Investment

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real CEGl (percentage points)				Share of current-dollar CEGl (percent)
	2004		2005		2004		2005		
	IV	I	II	III	IV	I	II	III	III
Government consumption expenditures and gross investment (CEGI)	0.9	1.9	2.5	3.2	0.9	1.9	2.5	3.2	100.0
Consumption expenditures	-0.1	2.8	0.2	4.2	-0.08	2.29	0.17	3.46	83.1
Gross investment	6.0	-2.5	14.6	-1.7	0.98	-0.42	2.33	-0.28	16.9
Federal	-0.6	2.4	2.4	8.1	-0.21	0.89	0.88	2.94	37.4
National defense	-3.3	3.0	3.7	10.3	-0.84	0.75	0.91	2.51	25.2
Consumption expenditures	-6.0	8.5	1.0	9.2	-1.37	1.79	0.22	1.98	22.1
Gross investment	18.5	-29.0	26.2	18.7	0.53	-1.04	0.69	0.53	3.1
Nondefense	5.2	1.1	-0.2	3.6	0.62	0.14	-0.03	0.44	12.2
Consumption expenditures	4.0	0.8	-4.1	5.4	0.43	0.09	-0.46	0.57	10.7
Gross investment	13.9	3.3	32.0	-8.3	0.19	0.05	0.43	-0.13	1.5
State and local	1.8	1.6	2.6	0.4	1.11	0.98	1.62	0.23	62.7
Consumption expenditures	1.7	0.8	0.8	1.8	0.85	0.41	0.41	0.91	50.3
Gross investment	2.1	4.7	10.1	-5.3	0.26	0.57	1.21	-0.68	12.3

NOTE. Percent changes are from NIPA table 3.9.1, and contributions to percent change are from NIPA table 3.9.2. Shares are calculated from NIPA table 3.9.5.



U.S. Bureau of Economic Analysis

Prices

Inflation as measured by the price index for gross domestic purchases accelerated, increasing 4.0 percent in the third quarter after increasing 3.3 percent in the second quarter (table 8). Energy prices accelerated sharply, but food prices decelerated in the third quarter (chart 10). Prices for domestic purchases excluding food and energy increased 2.1 percent, the same as in the second quarter.

Prices of goods and services purchased by consumers accelerated slightly, increasing 3.6 percent in the third quarter after increasing 3.3 percent in the second quarter. Consumer prices for nondurable-goods purchases increased 7.9 percent after increasing 5.7 percent, largely because of the increase in energy prices. Consumer prices for durable-goods purchases decreased 3.0 percent after decreasing 0.5 percent, primarily reflecting a downturn in prices paid for motor vehicles and parts and a larger decrease in furniture and household equipment prices. Consumer prices for services increased the same as in the second quarter.

Food prices paid by consumers increased 1.3 percent after increasing 3.5 percent. Consumer prices for

gasoline, fuel oil, and other energy goods and services increased 49.8 percent after increasing 28.6 percent. The price index for consumer purchases excluding food and energy, which is sometimes viewed as an indicator of the underlying or core rate of inflation, decelerated, increasing 1.2 percent after increasing 1.7 percent in the second quarter.

Prices of private nonresidential fixed investment increased 2.4 percent after increasing 1.9 percent, reflecting an acceleration in structures prices that was partly offset by a larger decrease in prices paid for equipment and software.

Prices paid by government increased 6.3 percent after increasing 3.7 percent, primarily reflecting an acceleration in the prices paid by state and local governments for goods and services.

The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 3.0 percent, 1.0 percentage point less than the increase in the price index for gross domestic purchases. The price index for gross domestic purchases measures the prices paid for goods and services purchased by U.S. residents, irrespective of where those goods and services were produced. The smaller increase in the GDP price index reflects a smaller increase in export prices (which are included in the GDP price index) than in import prices (which are included in the price index for gross domestic purchases). In the third quarter, export prices increased 3.0 percent after an increase of 3.7 percent in the second quarter, and import prices increased 9.3 percent after an increase of 8.2 percent.

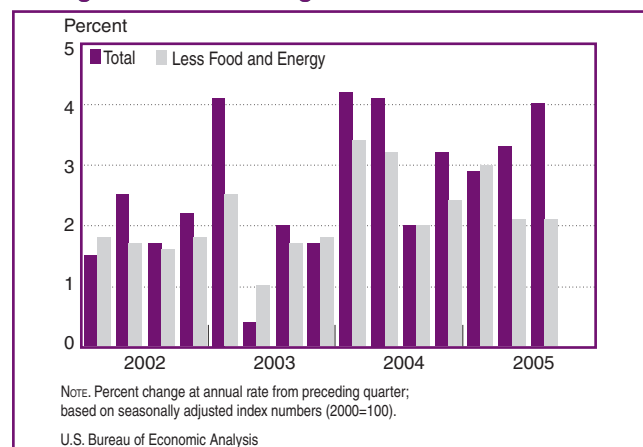
Table 8. Prices for Gross Domestic Purchases

[Percent change at annual rates; based on seasonally adjusted index numbers (2000=100)]

	Change from preceding period (percent)				Contribution to percent change in gross domestic purchases prices (percentage points)			
	2004		2005		2004		2005	
	IV	I	II	III	IV	I	II	III
Gross domestic purchases	3.2	2.9	3.3	4.0	3.2	2.9	3.3	4.0
Personal consumption expenditures (PCE)	3.1	2.3	3.3	3.6	2.08	1.50	2.19	2.39
Durable goods	0.6	0.9	-0.5	-3.0	0.05	0.07	-0.04	-0.24
Nondurable goods	4.5	1.3	5.7	7.9	0.86	0.25	1.09	1.50
Services	3.0	3.0	2.9	2.9	1.17	1.18	1.14	1.12
Gross private domestic investment	2.3	2.6	2.7	2.8	0.37	0.41	0.44	0.45
Fixed investment	2.2	2.6	2.7	3.0	0.34	0.40	0.43	0.48
Nonresidential	1.1	3.1	1.9	2.4	0.11	0.31	0.19	0.24
Structures	5.6	10.3	9.9	15.4	0.13	0.24	0.24	0.37
Equipment and software	-0.4	0.9	-0.7	-1.6	-0.03	0.07	-0.05	-0.13
Residential	4.2	1.6	4.3	4.3	0.23	0.09	0.24	0.24
Change in private inventories					0.03	0.01	0.01	-0.04
Government consumption expenditures and gross investment	4.1	5.7	3.7	6.3	0.73	1.00	0.66	1.12
Federal	2.6	7.0	2.1	3.0	0.18	0.46	0.14	0.20
National defense	2.7	6.6	1.4	3.5	0.12	0.29	0.06	0.16
Nondefense	2.5	7.9	3.6	2.1	0.06	0.17	0.08	0.05
State and local	4.9	4.9	4.7	8.3	0.55	0.54	0.52	0.92
Addenda:								
Gross domestic purchases:								
Food	2.6	1.0	3.5	1.2	0.24	0.10	0.32	0.11
Energy goods and services	22.1	5.1	28.1	50.5	0.87	0.23	1.15	1.99
Excluding food and energy	2.4	3.0	2.1	2.1	2.06	2.58	1.81	1.85
Personal consumption expenditures:								
Food	2.5	1.0	3.5	1.3				
Energy goods and services	18.3	3.6	28.6	49.8				
Excluding food and energy	2.3	2.4	1.7	1.2				
"Market-based" PCE	2.8	2.1	3.4	3.9				
Excluding food and energy	1.8	2.2	1.5	1.0				
Gross domestic product	2.7	3.1	2.6	3.0				

NOTE: Most percent changes are from NIPA table 1.6.7; percent changes for personal consumption expenditures on food and on energy goods and services and for personal consumption expenditures excluding food and energy are calculated from index numbers in NIPA table 2.3.4. Contributions to percent change are from NIPA table 1.6.8.

Chart 10. Gross Domestic Purchases Prices: Change From Preceding Quarter



Revisions

The preliminary estimate of a 4.3-percent increase in real GDP in the third quarter is 0.5 percentage point more than the advance estimate released in October (table 9). The revisions for 1978–2004, without regard to sign, averaged 0.5 percentage point from the advance estimate to the preliminary estimate and 0.3 percentage point from the preliminary estimate to the final estimate. The upward revision to the growth rate of real GDP primarily reflected upward revisions to residential fixed investment, to consumer spending for

nondurable goods, to equipment and software, and to nonresidential structures that were partly offset by an upward revision to imports of goods.

In the preliminary estimates, the revision to residential fixed investment added 0.22 percentage point to real GDP growth. The largest contributor to the upward revision was single-family structures, reflecting revised Census Bureau data for the value of construction put in place for July and August and newly available data for September.

The upward revision to consumer spending (primarily revisions to spending for food) was based on revised Census Bureau retail sales data and revised Energy Information Administration data.

The upward revision to equipment and software was mostly to transportation equipment, specifically to investment spending for aircraft and for light trucks, and it is based on newly available Census Bureau data on aircraft shipments for September and newly available light-truck registration data for September.

The primary contributors to the upward revision to nonresidential structures were commercial and health care structures and “other” structures, reflecting the revised Census Bureau data for construction put in place for July and August and the newly available data for September.

The upward revision to imports of goods was mostly to nonpetroleum industrial supplies and materials and “other” goods and is based on newly available Census Bureau goods data for September.

In addition to these revised estimates for the third quarter, estimates of wages and salaries and related series for the second quarter have been revised. Wage and salary accruals for the second quarter increased \$42.4 billion, a downward revision of \$37.9 billion. The revision reflected the incorporation of newly available second-quarter tabulations from the Bureau of Labor Statistics quarterly census of employment and wages. Personal current taxes for the second quarter increased \$34.6 billion, a downward revision of \$6.6 billion. Contributions for government social insurance, a subtraction in calculating personal income, increased \$3.9 billion, a downward revision of \$5.2 billion. The following second-quarter estimates were also revised:

- Personal income increased \$112.3 billion, a downward revision of \$35.5 billion.
- Disposable personal income increased \$77.7 billion, a downward revision of \$28.9 billion.
- Personal saving decreased \$68.9 billion, a downward revision of \$28.9 billion.
- The personal saving rate was a negative 0.2 percent, a downward revision of 0.3 percentage point.

Table 9. Preliminary and Advance Estimates for the Third Quarter of 2005
(Seasonally adjusted at annual rates)

	Percent change from preceding quarter			Contribution to percent change in real GDP		
	Preliminary estimate	Advance estimate	Preliminary minus advance	Preliminary estimate	Advance estimate	Preliminary minus advance
Gross domestic product (GDP)	4.3	3.8	0.5	4.3	3.8	0.5
Personal consumption expenditures	4.2	3.9	0.3	2.97	2.73	0.24
Durable goods.....	10.5	10.8	-0.3	0.85	0.87	-0.02
Nondurable goods.....	3.6	2.6	1.0	0.74	0.54	0.20
Services.....	3.3	3.2	0.1	1.38	1.32	0.06
Gross private domestic investment	5.8	2.3	3.5	0.96	0.38	0.58
Fixed investment.....	8.6	5.7	2.9	1.40	0.93	0.47
Nonresidential.....	8.8	6.2	2.6	0.91	0.65	0.26
Structures.....	2.7	-1.4	4.1	0.07	-0.04	0.11
Equipment and software.....	10.8	8.9	1.9	0.83	0.69	0.14
Residential.....	8.4	4.8	3.6	0.50	0.28	0.22
Change in private inventories.....				-0.44	-0.55	0.11
Net exports of goods and services				-0.25	0.08	-0.33
Exports.....	0.8	0.8	0.0	0.09	0.08	0.01
Goods.....	3.0	2.8	0.2	0.22	0.21	0.01
Services.....	-3.9	-3.9	0.0	-0.13	-0.13	0.00
Imports.....	2.1	0.0	2.1	-0.34	0.00	-0.34
Goods.....	3.3	1.1	2.2	-0.44	-0.15	-0.29
Services.....	-3.9	-5.8	1.9	0.10	0.16	-0.06
Government consumption expenditures and gross investment	3.2	3.2	0.0	0.60	0.61	-0.01
Federal.....	8.1	7.7	0.4	0.56	0.53	0.03
National defense.....	10.3	10.2	0.1	0.48	0.47	0.01
Nondefense.....	3.6	2.6	1.0	0.08	0.06	0.02
State and local.....	0.4	0.7	-0.3	0.04	0.08	-0.04
Addenda:						
Final sales of domestic product.....	4.7	4.4	0.3	4.73	4.36	0.37
Gross domestic purchases price index.....	4.0	3.1	0.9			
GDP price index.....	3.0	4.0	-1.0			

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

Personal consumption expenditures: Retail sales for August and September (revised), Motor vehicle registrations for July and August (revised) and for September (newly available), Electricity and natural gas sales to residential consumers for August (newly available).

Nonresidential fixed investment: Construction put-in-place data for July and August (revised) and for September (newly available), Manufacturers' shipments of machinery and equipment for August and September (revised), Exports and imports for August (revised) and for September (newly available), Manufacturers' shipments of complete civilian aircraft for September (newly available).

Residential investment: Construction put-in-place data for July and August (revised) and for September (newly available).

Change in private inventories: Manufacturers' and trade inventories for July and August (revised) and for September (newly available).

Exports and imports of goods and services: International transactions accounts for July and August (revised) and for September (newly available).

Government consumption expenditures and gross investment: State and local government construction put-in-place data for July and August (revised) and for September (newly available).

Wages and salaries: Employment, average hourly earnings, and average weekly hours for July through September (revised) and tabulations of wages and salaries for the second quarter from the census of employment and wages.

GDP prices: Export and import prices for July through September (revised), unit value index for petroleum imports for August (revised) and for September (newly available), and prices of single-family houses under construction for July and August (revised) and for September (newly available).

Corporate Profits

Profits from current production decreased \$45.5 billion (3.4 percent at a quarterly rate) in the third quarter after increasing \$59.3 billion (4.6 percent) in the second quarter (table 10).⁶ In the third quarter, profits of domestic industries decreased \$63.4 billion after increasing \$55.5 billion, but profits from the rest of the world accelerated, increasing \$17.9 billion after increasing \$3.7 billion.⁷ Third-quarter profits reflect the

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.

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.

Table 10. Corporate Profits
[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change from preceding quarter (quarterly rate)				
	Level		Change from preceding quarter			2004		2005		
	2005	2004	2005			2004	2005			
	III	IV	I	II	III	IV	I	II	III	
Current production measures:										
Corporate profits	1,302.0	102.3	68.7	59.3	-45.5	9.2	5.6	4.6	-3.4	
Domestic industries	1,086.9	109.6	53.9	55.5	-63.4	11.8	5.2	5.1	-5.5	
Financial	285.4	77.2	36.0	-26.9	-65.3	29.2	10.6	-7.1	-18.6	
Nonfinancial	801.5	32.4	17.8	82.5	1.9	4.9	2.5	11.5	0.2	
Rest of the world	215.1	-7.3	14.9	3.7	17.9	-3.9	8.3	1.9	9.1	
Receipts from the rest of the world	332.3	23.2	-19.1	14.7	4.1	7.5	-5.7	4.7	1.2	
Less: Payments to the rest of the world	117.1	30.4	-33.9	10.9	-13.9	24.6	-22.0	9.1	-10.6	
Less: Taxes on corporate income	363.5	34.0	69.6	9.9	-9.0	13.1	23.7	2.7	-2.4	
Equals: Profits after tax	938.5	68.2	-0.8	49.4	-36.5	8.0	-0.1	5.3	-3.7	
Net dividends	520.1	113.4	-94.4	11.4	13.8	23.8	-16.0	2.3	2.7	
Undistributed profits from current production	418.4	-45.1	93.5	38.0	-50.3	-11.8	27.7	8.8	-10.7	
Net cash flow	1,315.2	-75.3	95.4	41.7	34.3	-6.2	8.3	3.4	2.7	
Industry profits:										
Profits with IVA	1,368.5	98.4	259.5	54.1	-24.8	10.0	24.0	4.0	-1.8	
Domestic industries	1,153.4	105.6	244.6	50.4	-42.7	13.3	27.2	4.4	-3.6	
Financial	284.9	76.6	57.8	-27.7	-64.6	31.5	18.1	-7.4	-18.5	
Nonfinancial	868.5	29.0	186.8	78.1	21.9	5.3	32.1	10.2	2.6	
Rest of the world	215.1	-7.3	14.9	3.7	17.9	-3.9	8.3	1.9	9.1	
Addenda:										
Profits before tax (without IVA and CCAAdj)	1,395.9	105.9	254.2	33.9	-16.3	10.4	22.6	2.5	-1.2	
Profits after tax (without IVA and CCAAdj)	1,032.4	71.9	184.6	24.0	-7.3	9.5	22.2	2.4	-0.7	
IVA	-27.4	-7.5	5.3	20.2	-8.5	.....	.....	.....	.....
CCAAdj	-66.5	4.0	-190.8	5.2	-20.7	.....	.....	.....	.....

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

impact of the recent hurricanes on key income components.

Taxes on corporate income decreased \$9.0 billion (2.4 percent) in the third quarter. After-tax profits from current production decreased \$36.5 billion (3.7 percent).

The decrease in profits of domestic industries primarily reflected a third-quarter decrease of \$65.3 billion in domestic financial industries after a decrease of \$26.9 billion in the second quarter. Profits of domestic nonfinancial corporations increased \$1.9 billion in the third quarter after an increase of \$82.5 billion in the second quarter. Profits per unit of real gross value added decreased slightly in the third quarter, reflecting increases in both unit labor costs and unit nonlabor costs that more than offset an increase in unit prices.

Profits from the rest of the world increased \$17.9 billion (9.1 percent) in the third quarter after increasing \$3.7 billion (1.9 percent). The third-quarter increase reflected an increase in receipts from foreign affiliates of domestic parents and a decrease in payments by domestic affiliates to foreign parents. Receipts from foreign affiliates of domestic parents increased \$4.1 billion (1.2 percent) after increasing \$14.7 billion (4.7 percent) in the second quarter. Payments by domestic affiliates to foreign parents decreased \$13.9 billion (10.6 percent) after increasing \$10.9 billion (9.1 percent) in the second quarter.

Net dividends increased \$13.8 billion (2.7 percent) after increasing \$11.4 billion (2.3 percent). Undistributed corporate profits (a measure of net saving that equals after-tax profits less dividends) turned down, decreasing \$50.3 billion (10.7 percent) in the third quarter after increasing \$38.0 billion (8.8 percent) in the second quarter. Net cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$34.3 billion (2.7 percent) after increasing \$41.7 billion (3.4 percent).⁸ 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, was unchanged at 97.5. The ratio has declined since the latest peak value of 107.3 in the third quarter of 2004.

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

Government Sector

“Net government saving,” the difference between current receipts and expenditures, was $-\$406.0$ billion in the third quarter of 2005, decreasing $\$129.9$ billion from $-\$276.1$ billion in the second quarter (table 11).⁹ Both net Federal Government saving and net state and local government saving turned down in the third quarter.

Federal

Net Federal Government saving was $-\$403.2$ billion in the third quarter of 2005, decreasing $\$105.9$ billion

9. Net government saving appears in NIPA tables 3.1–3.3.

Table 11. Government Sector Current Receipts and Expenditures
(Billions of dollars, seasonally adjusted at annual rates)

	Level		Change from preceding quarter		
	2005	2004	2005		
	III	IV	I	II	III
Current receipts.....	3,493.6	113.6	175.6	67.1	-70.7
Current expenditures.....	3,899.6	50.3	98.9	52.2	59.3
Net government saving	-406.0	63.2	76.8	14.8	-129.9
Social insurance funds.....	53.2	6.9	-2.1	0.8	0.2
Other.....	-459.2	56.3	78.8	22.9	-130.1
Federal					
Current receipts	2,162.9	79.2	142.0	31.3	-65.0
Current tax receipts.....	1,341.2	61.9	123.8	26.7	9.4
Personal current taxes.....	941.9	29.7	68.6	16.0	17.6
Taxes on production and imports.....	97.5	1.1	0.3	2.9	-0.8
Taxes on corporate income.....	293.3	27.8	56.4	9.1	-7.5
Taxes from the rest of the world.....	8.5	3.3	-1.5	-1.2	0.0
Contributions for government social insurance.....	852.5	17.4	17.7	4.0	7.4
Income receipts on assets.....	22.8	0.4	0.8	1.3	-1.5
Current transfer receipts.....	-49.4	1.3	0.4	-0.2	-79.6
Current surplus of government enterprises.....	-4.2	-1.9	-0.6	-0.7	-0.6
Current expenditures	2,566.1	39.2	68.7	30.3	40.9
Consumption expenditures.....	784.0	-0.6	24.5	3.2	21.2
National defense.....	528.7	-4.5	18.8	3.4	16.4
Nondefense.....	255.3	4.0	5.6	-0.2	4.8
Current transfer payments.....	1,475.6	35.0	39.7	1.2	15.7
Government social benefits.....	1,093.6	15.0	29.3	13.7	15.7
To persons.....	1,090.3	14.7	29.3	13.6	15.7
To the rest of the world.....	3.2	0.3	0.0	0.0	0.0
Other current transfer payments.....	382.1	20.0	10.4	-12.4	0.0
Grants-in-aid to state and local governments.....	354.1	16.8	-2.6	2.5	-4.5
To the rest of the world.....	28.0	3.1	13.0	-14.8	4.5
Interest payments.....	250.8	1.6	0.5	24.2	0.0
Subsidies.....	55.6	3.3	4.0	1.5	4.0
Less: Wage accruals less disbursements.....	0.0	0.0	0.0	0.0	0.0
Net Federal Government saving	-403.2	40.0	73.3	1.0	-105.9
Social insurance funds.....	53.0	7.2	-1.3	-7.6	0.4
Other.....	-456.2	32.7	74.7	8.6	-106.3
State and local					
Current receipts	1,684.8	51.2	31.0	38.2	-10.1
Current tax receipts.....	1,143.4	25.9	32.7	33.5	2.0
Personal current taxes.....	274.9	6.2	8.5	18.7	-6.9
Taxes on production and imports.....	812.4	14.3	12.6	13.4	10.6
Taxes on corporate income.....	56.0	5.4	11.6	1.3	-1.7
Contributions for government social insurance.....	19.9	0.2	-0.2	-0.1	0.1
Income receipts on assets.....	79.4	1.4	-0.6	0.6	0.6
Current transfer receipts.....	460.6	24.0	-0.6	4.5	2.2
Federal grants-in-aid.....	354.1	16.8	-2.6	2.5	-4.5
Other.....	106.6	7.3	2.0	2.0	6.8
Current surplus of government enterprises.....	-18.5	-0.3	-0.3	-0.3	-15.0
Current expenditures	1,687.6	27.9	27.7	24.3	13.9
Consumption expenditures.....	1,204.0	19.2	15.9	16.7	28.3
Government social benefits.....	390.5	7.5	10.9	7.1	-15.2
Interest payments.....	92.6	1.1	0.8	0.6	0.8
Subsidies.....	0.5	0.0	0.0	0.0	0.0
Less: Wage accruals less disbursements.....	0.0	0.0	0.0	0.0	0.0
Net state and local government saving	-2.8	23.3	3.4	13.9	-24.1
Social insurance funds.....	0.2	-0.3	-0.8	-0.4	-0.2
Other.....	-3.0	23.5	4.2	14.3	-23.8
Addenda:					
Net lending or net borrowing (-) ¹	-546.7	57.8	61.9	18.4	-114.0
Federal.....	-450.9	42.5	60.8	8.7	-102.2
State and local.....	-95.8	15.3	1.2	9.6	-11.8

1. "Net lending or borrowing" is similar to "net financial investment" in the flow-of-funds accounts from the Federal Reserve Board. The two measures differ primarily because government net lending or borrowing is estimated from data for transactions, whereas net financial investment is estimated from data for financial assets. They also differ because of small conceptual differences, such as the classification of the veterans life insurance program.

from $-\$297.3$ billion in the second quarter. Current receipts turned down, and current expenditures accelerated.

Current receipts. Federal Government current receipts decreased $\$65.0$ billion in the third quarter after increasing $\$31.3$ billion in the second quarter. The downturn was more than accounted for by a much sharper decrease in current transfer receipts from business and a downturn in taxes on corporate income.

Current transfer receipts decreased $\$79.6$ billion after decreasing $\$0.2$ billion. Current transfer receipts from business were reduced $\$80.4$ billion for "above normal" insurance settlements paid by the National Flood Insurance Program as a result of Hurricanes Katrina and Rita.

Current tax receipts increased $\$9.4$ billion after increasing $\$26.7$ billion. The deceleration was mostly accounted for by a downturn in taxes on corporate income, which decreased $\$7.5$ billion after increasing $\$9.1$ billion; the downturn was due to a reduction in corporate profits as a result of the hurricanes.

Income receipts on assets turned down, decreasing $\$1.5$ billion after increasing $\$1.3$ billion.

Contributions for government social insurance increased $\$7.4$ billion after increasing $\$4.0$ billion. The acceleration was mostly accounted for by contributions for social security (old-age, survivors, disability, and health insurance trust funds), which increased $\$6.7$ billion after increasing $\$3.4$ billion, reflecting an acceleration in wage and salary disbursements.

Current expenditures. Federal Government current expenditures increased $\$40.9$ billion after increasing $\$30.3$ billion. The acceleration was more than accounted for by accelerations in consumption expenditures, in current transfer payments, and in subsidies that were partly offset by a deceleration in interest payments.

Consumption expenditures increased $\$21.2$ billion after increasing $\$3.2$ billion. The acceleration was accounted for by an acceleration in defense consumption expenditures and by an upturn in nondefense consumption expenditures.

Defense consumption expenditures increased $\$16.4$ billion after increasing $\$3.4$ billion. The acceleration was mostly accounted for by an acceleration in expenditures for services, which increased $\$12.7$ billion after increasing $\$1.1$ billion (these expenditures include expenditures for research and development, for transportation of materials, for travel, and for other services).

Nondefense consumption expenditures increased $\$4.8$ billion after decreasing $\$0.2$ billion. The upturn was more than accounted for by spending for nondurable goods, which increased $\$2.7$ billion after decreasing $\$4.0$ billion; Commodity Credit Corporation sales,

which are treated as deductions from consumption expenditures, increased \$2.3 billion after increasing \$7.1 billion. Expenditures for services increased \$3.5 billion after increasing \$1.4 billion; third-quarter spending was boosted by spending for Hurricane Katrina relief operations.

Current transfer payments increased \$15.7 billion after increasing \$1.2 billion. The acceleration was more than accounted for by “other current transfers,” which remained flat after decreasing \$12.4 billion.

“Other current transfer payments to the rest of the world” increased \$4.5 billion after decreasing \$14.8 billion. The second-quarter decrease followed a first-quarter increase that included a payment of \$3.0 billion (\$12.0 billion at an annual rate) to Israel and Egypt for economic support.

Grants-in-aid to state and local governments decreased \$4.5 billion after increasing \$2.5 billion. The downturn was more than accounted for by a downturn in grants for Medicaid, which decreased \$10.8 billion after increasing \$3.7 billion.

Interest payments were unchanged after increasing \$24.2 billion. The deceleration was more than accounted for by a downturn in interest paid to persons and business, which decreased \$8.9 billion after increasing \$16.9 billion, reflecting lower interest expense payments on the public debt.

Government social benefits increased \$15.7 billion after increasing \$13.7 billion. The acceleration was more than accounted for by “other” benefits, which increased \$6.5 billion after decreasing \$0.1 billion; disaster relief payments boosted social benefit payments \$6.9 billion in the third quarter.

Subsidies accelerated, increasing \$4.0 billion after increasing \$1.5 billion. The acceleration was mostly accounted for by “other subsidies,” which increased \$1.3 billion after decreasing \$0.5 billion. Agricultural subsidies increased \$3.0 billion after increasing \$2.3 billion.

State and local

Net state and local government saving was $-\$2.8$ billion in the third quarter of 2005, decreasing \$24.1 billion from \$21.3 billion in the second quarter. Current receipts turned down, and current expenditures decelerated.

Current receipts. State and local government current receipts turned down, decreasing \$10.1 billion after increasing \$38.2 billion. The downturn was mostly accounted for by a deceleration in current tax receipts.

Current tax receipts increased \$2.0 billion after increasing \$33.5 billion. The deceleration was mostly accounted for by a downturn in personal current taxes, which decreased \$6.9 billion after increasing \$18.7 billion, mainly as a result of a downturn in personal in-

come taxes. Taxes on corporate income also turned down, decreasing \$1.7 billion after increasing \$1.3 billion. Taxes on production and imports decelerated, increasing \$10.6 billion after increasing \$13.4 billion

Current transfer receipts increased \$2.2 billion after increasing \$4.5 billion. The deceleration was mostly accounted for by the downturn in Federal grants-in-aid. The downturn was slightly offset by an acceleration in “other” transfer receipts, specifically in transfer receipts from business, which increased \$5.3 billion after increasing \$0.6 billion.

Current expenditures. State and local government current expenditures increased \$13.9 billion after increasing \$24.3 billion. The deceleration was more than accounted for by a downturn in government social benefit payments that was partly offset by an acceleration in consumption expenditures.

Government social benefit payments decreased \$15.2 billion after increasing \$7.1 billion. The decrease was mainly attributable to reduced spending for Medicaid.

Consumption expenditures increased \$28.3 billion after increasing \$16.7 billion. The acceleration was mostly accounted for by accelerations in expenditures for nondurable goods and compensation.

Net lending or net borrowing

“Net lending or net borrowing (–)” is an alternative measure of the government fiscal position.¹⁰ Net lending is the financing requirement of the government sector, and it is derived as net government saving plus the consumption of fixed capital and “capital transfers received (net)” less gross investment and net purchases of nonproduced assets.

Net borrowing was \$546.7 billion in the third quarter, increasing \$114.0 billion from \$432.7 billion in the second quarter. Federal Government net borrowing was \$450.9 billion in the third quarter, increasing \$102.2 billion from \$348.7 billion. State and local government net borrowing was \$95.8 billion in the third quarter, increasing \$11.8 billion from \$84.0 billion in the second quarter.

Gross government investment decelerated, increasing \$5.2 billion after increasing \$15.7 billion.¹¹ Federal Government gross investment increased \$2.5 billion after increasing \$6.3 billion. State and local government gross investment increased \$2.8 billion after increasing \$9.3 billion; the deceleration was mostly accounted for by a deceleration in gross investment for structures, which increased \$2.0 billion after increasing \$8.2 billion.

10. These estimates are also shown in NIPA tables 3.1–3.3.

11. See the addenda to NIPA tables 3.1–3.3.