

## Business Situation

### Advance Estimates for the Fourth Quarter of 2002

THE U.S. economy grew slowly in the fourth quarter of 2002, according to the “advance” estimates of the national income and product accounts (NIPA’s). Production, purchases, and income increased less than in the third quarter. Prices increased somewhat more.

- Real gross domestic product (GDP) increased 0.7 percent after increasing 4.0 percent (table 1 and chart 1).<sup>1</sup>
- Gross domestic purchases slowed to a 1.4-percent increase after increasing 3.9 percent.
- Real disposable personal income increased 2.6 percent after increasing 3.1 percent.
- The price index for gross domestic purchases rose 1.8 percent after rising 1.2 percent.

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter dollar changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized. “Real” estimates are in chained (1996) dollars, and price indexes are chain-type measures.

*This article was prepared by Daniel Larkins.*

The deceleration in real GDP reflected a slowdown in consumer spending and downturns in inventory investment and exports.

- Consumer spending increased only 1.0 percent, its smallest increase since early 1993.<sup>2</sup> It contributed only 0.67 percentage point to the growth of real GDP in the fourth quarter after contributing 2.93 percentage points in the third (table 2). Purchases of autos and trucks decreased sharply after surging in the third quarter in response to aggressive sales-incentive programs that included zero-rate financing and generous rebates.
- Inventory accumulation slowed, subtracting 0.56 percentage point from fourth-quarter GDP growth. In the third quarter, a step-up in accumulation had added 0.58 percentage point.

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.”

**Table 1. Change in Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers**

[Change from preceding period; quarterly estimates seasonally adjusted at annual rates]

	Billions of chained (1996) dollars						Percent					
	2001	2002	2002				2001	2002	2002			
			I	II	III	IV			I	II	III	IV
<b>Gross domestic product</b> .....	<b>23.1</b>	<b>221.6</b>	<b>114.4</b>	<b>29.2</b>	<b>93.2</b>	<b>17.6</b>	<b>0.3</b>	<b>2.4</b>	<b>5.0</b>	<b>1.3</b>	<b>4.0</b>	<b>0.7</b>
Less: Exports of goods and services .....	-61.1	-14.4	8.8	34.9	12.2	-4.7	-5.4	-1.3	3.5	14.3	4.6	-1.7
Plus: Imports of goods and services.....	-44.0	51.9	29.9	75.8	12.8	14.2	-2.9	3.5	8.5	22.2	3.3	3.7
<b>Equals: Gross domestic purchases</b> .....	<b>39.5</b>	<b>279.9</b>	<b>132.9</b>	<b>62.6</b>	<b>93.9</b>	<b>33.9</b>	<b>0.4</b>	<b>2.9</b>	<b>5.6</b>	<b>2.6</b>	<b>3.9</b>	<b>1.4</b>
Less: Change in private inventories .....	-126.4	60.9	69.5	33.8	13.9	-15.5	.....	.....	.....	.....	.....	.....
<b>Equals: Final sales to domestic purchasers</b> ..	<b>154.2</b>	<b>225.1</b>	<b>72.1</b>	<b>31.6</b>	<b>80.1</b>	<b>47.3</b>	<b>1.6</b>	<b>2.3</b>	<b>3.0</b>	<b>1.3</b>	<b>3.3</b>	<b>1.9</b>
Personal consumption expenditures .....	153.3	195.8	49.8	28.6	67.5	15.8	2.5	3.1	3.1	1.8	4.2	1.0
Durable goods.....	53.0	68.6	-16.1	4.8	51.7	-19.5	6.0	7.4	-6.3	2.0	22.8	-7.3
Nondurable goods.....	36.0	58.2	36.4	-0.5	4.9	18.4	2.0	3.1	7.9	-0.1	1.0	3.9
Services.....	70.4	78.7	25.6	24.0	20.8	12.1	2.0	2.2	2.9	2.7	2.3	1.3
Private fixed investment .....	-64.5	-51.3	-2.0	-3.8	-1.0	12.0	-3.8	-3.2	-0.5	-1.0	-0.3	3.1
Nonresidential.....	-69.1	-72.3	-18.0	-7.3	-2.4	4.5	-5.2	-5.8	-5.8	-2.4	-0.8	1.5
Structures.....	-4.6	-44.4	-9.5	-11.5	-13.5	-5.3	-1.7	-16.4	-14.2	-17.6	-21.4	-9.3
Equipment and software .....	-67.8	-17.8	-6.6	7.7	15.8	12.1	-6.4	-1.8	-2.7	3.3	6.7	5.0
Residential.....	1.1	14.1	12.6	2.5	1.0	6.5	0.3	3.8	14.2	2.7	1.1	6.8
Government consumption expenditures and gross investment .....	57.9	72.4	22.8	6.0	12.3	19.5	3.7	4.4	5.6	1.4	2.9	4.6
Federal.....	26.2	42.3	10.6	10.9	6.4	15.1	4.8	7.4	7.4	7.5	4.3	10.1
National defense .....	17.3	34.0	10.5	7.3	6.7	10.8	5.0	9.3	11.6	7.8	6.9	11.2
Nondefense.....	8.8	8.6	0.2	3.6	-0.2	4.3	4.5	4.2	0.4	6.9	-0.3	8.3
State and local .....	32.0	30.6	12.2	-4.6	5.9	4.7	3.1	2.9	4.6	-1.7	2.2	1.7
<b>Addendum: Final sales of domestic product</b>	<b>137.3</b>	<b>167.2</b>	<b>54.5</b>	<b>-1.5</b>	<b>79.3</b>	<b>31.0</b>	<b>1.5</b>	<b>1.8</b>	<b>2.4</b>	<b>-0.1</b>	<b>3.4</b>	<b>1.3</b>

NOTE. Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1996) dollar levels and residuals, which measure the extent of nonadditivity in each

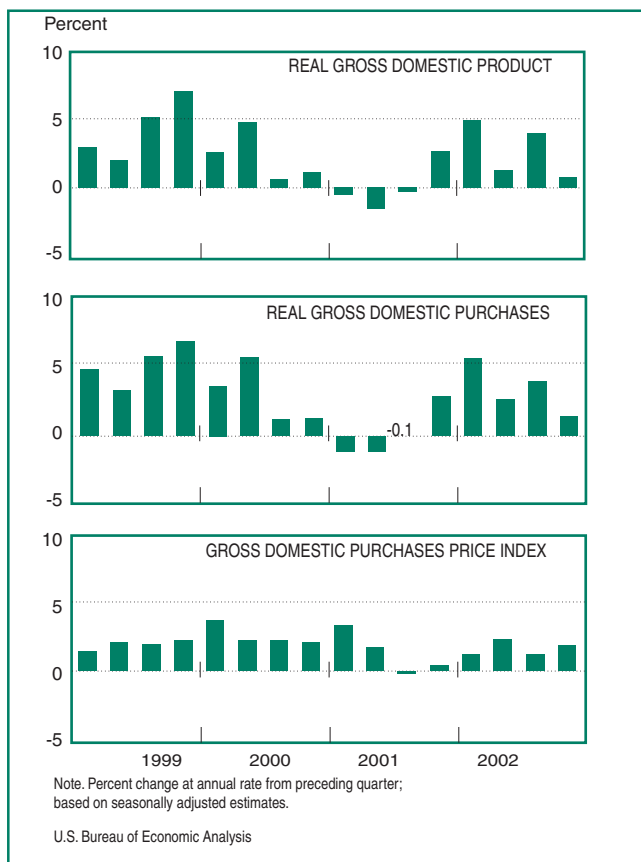
table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1 (See “Selected NIPA Tables,” which begins on page D-2 in this issue.)

- Exports decreased after increasing. Imports (which are subtracted in the calculation of GDP) increased about as much in the fourth quarter as in the third.<sup>3</sup>

The dampening effects of consumer spending, inventory investment, and exports on GDP growth were partly offset by step-ups in Federal Government spending and residential investment and by an upturn

3. Imports of goods and services are included in gross domestic purchases but not in GDP. Exports of goods and services are included in GDP but not in gross domestic purchases.

**Chart 1. Selected Measures: Change from Preceding Quarter**



in nonresidential fixed investment.

- Federal Government spending increased more than twice as much as in the third quarter; it added 0.65 percentage point to fourth-quarter growth after adding 0.29 percentage point to third-quarter growth. Defense spending accelerated, and nondefense spending turned up.
- Residential investment increased substantially more than in the third quarter. The increase was the fourth in a row.
- Nonresidential fixed investment registered a small increase after eight consecutive quarterly declines—declines that became progressively smaller in the first three quarters of 2002. In the fourth quarter, structures decreased much less than in the third. The advance estimates for the fourth quarter also

**Table 2. Contributions to Percent Change in Real Gross Domestic Product**

[Quarterly estimates seasonally adjusted at annual rates]

	2001	2002	2002			
			I	II	III	IV
<b>Percent change at annual rate:</b>						
Gross domestic product.....	0.3	2.4	5.0	1.3	4.0	0.7
<b>Percentage points at annual rates:</b>						
Personal consumption expenditures.....	1.67	2.12	2.22	1.22	2.93	0.67
Durable goods.....	0.48	0.60	-0.55	0.16	1.74	-0.64
Nondurable goods.....	0.39	0.62	1.57	-0.02	0.22	0.77
Services.....	0.80	0.89	1.20	1.08	0.97	0.55
Gross private domestic investment.....	-1.90	0.08	2.53	1.16	0.55	-0.10
Fixed investment.....	-0.65	-0.51	-0.07	-0.15	-0.03	0.46
Nonresidential.....	-0.66	-0.68	-0.66	-0.27	-0.08	0.16
Structures.....	-0.05	-0.52	-0.44	-0.53	-0.62	-0.24
Equipment and software.....	-0.61	-0.16	-0.22	0.26	0.53	0.40
Residential.....	0.01	0.17	0.60	0.12	0.05	0.30
Change in private inventories.....	-1.24	0.60	2.60	1.31	0.58	-0.56
Net exports of goods and services.....	-0.18	-0.61	-0.75	-1.40	-0.01	-0.68
Exports.....	-0.59	-0.14	0.33	1.29	0.45	-0.17
Goods.....	-0.47	-0.24	-0.23	0.99	0.28	-0.47
Services.....	-0.13	0.10	0.56	0.30	0.17	0.30
Imports.....	0.42	-0.47	-1.08	-2.69	-0.47	-0.51
Goods.....	0.40	-0.40	-0.40	-2.74	-0.40	-0.31
Services.....	0.01	-0.07	-0.68	0.05	-0.07	-0.20
Government consumption expenditures and gross investment.....	0.65	0.81	1.04	0.27	0.56	0.86
Federal.....	0.29	0.47	0.47	0.47	0.29	0.65
National defense.....	0.19	0.37	0.46	0.32	0.29	0.46
Nondefense.....	0.10	0.10	0.01	0.16	-0.01	0.19
State and local.....	0.36	0.35	0.56	-0.21	0.27	0.21

NOTE. More detailed contributions to percent change in real gross domestic product are shown in NIPA table 8.2. Contributions to percent change in major components of real gross domestic product are shown in tables 8.3 through 8.6.

**Table 3. Change in Real Gross Domestic Product by Type of Product**

[Change from preceding period; quarterly estimates seasonally adjusted at annual rates]

	Billions of chained (1996) dollars						Percent						
	2001	2002	2002				2001	2002	2002				
			I	II	III	IV			I	II	III	IV	
<b>Gross domestic product.....</b>	<b>23.1</b>	<b>221.6</b>	<b>114.4</b>	<b>29.2</b>	<b>93.2</b>	<b>17.6</b>	<b>0.3</b>	<b>2.4</b>	<b>5.0</b>	<b>1.3</b>	<b>4.0</b>	<b>0.7</b>	
Goods.....	-84.4	117.9	72.6	3.6	80.4	-23.9	-2.3	3.3	8.3	0.4	9.0	-2.5	
Services.....	97.5	132.3	34.1	42.3	30.9	33.1	2.1	2.7	2.8	3.5	2.5	2.7	
Structures.....	-0.8	-22.4	11.6	-17.2	-10.9	3.6	-0.1	-2.8	6.1	-8.4	-5.5	1.9	
<b>Addenda:</b>													
Motor vehicle output.....	-20.6	40.6	7.9	6.7	28.5	-13.1	-6.1	12.8	9.9	8.1	37.1	-13.3	
Gross domestic product less motor vehicle output.....	41.8	184.7	106.9	23.3	67.9	29.0	0.5	2.1	4.9	1.0	3.0	1.3	
Final sales of computers.....								9.1	13.0	-7.8	13.1	78.5	26.6
Gross domestic product less final sales of computers....								0.2	2.3	5.1	1.2	3.6	0.6

NOTE. See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals for most items are shown in NIPA table 1.4. Detail on motor vehicle output is shown in NIPA table 8.9B.

show the following:

- The deceleration in GDP growth can be attributed to a downturn in the production of goods (table 3). In contrast, the construction of structures turned up, and the production of services increased about as much as in the third quarter.
- Real motor vehicle output decreased 13.3 percent after jumping 37.1 percent. GDP less motor vehicle output increased 1.3 percent after increasing 3.0 percent.
- Real final sales of computers increased 26.6 percent after surging 78.5 percent. Computer prices

decreased a little less than in the third quarter.

- Final sales of domestic product—GDP less inventory investment—increased 1.3 percent after increasing 3.4 percent.
- The personal saving rate increased to 4.3 percent from 3.8 percent.<sup>4</sup>

4. The personal saving rate is measured as personal saving as a percentage of current-dollar disposable personal income. The fourth-quarter estimate of the *national* saving rate (which is measured as gross saving as a percentage of gross national product) will be available at the end of March along with the “final” estimates of fourth-quarter GDP.

#### Fourth-Quarter 2002 Advance NIPA Estimates: Source Data and Assumptions

The “advance” estimate for the fourth quarter is based on the following major source data; as more and better data become available, the estimates will be revised. (The number of months for which data were available is shown in parentheses.)

*Personal consumption expenditures:* Sales of retail stores (3), unit auto and truck sales (3), and consumers’ shares of auto and truck sales (2);

*Nonresidential fixed investment:* Unit auto and truck sales (3), construction put in place (2), manufacturers’ shipments of machinery and equipment other than aircraft (3), shipments of civilian aircraft (2), and exports and imports of machinery and equipment (2);

*Residential investment:* Construction put in place (2), single-family housing starts (3), sales of new houses (3), and sales of existing houses (3);

*Change in private inventories:* Trade and nondurable

manufacturing inventories (2), durable manufacturing inventories other than semiconductors (3), and unit auto and truck inventories (3);

*Net exports of goods and services:* Exports and imports of goods and services (2);

*Government consumption expenditures and gross investment:* Some Federal outlays were available for 2 months, others for 3, State and local construction put in place (2), and State and local employment (3);

*GDP prices:* Consumer price indexes (3), producer price indexes (3), U.S. import and export price indexes (3), and values and quantities of petroleum imports (2).

BEA made assumptions for source data that were not available. Table A shows the assumptions for key series; a more comprehensive list is available on BEA’s Web site at <www.bea.gov>.

**Table A. Summary of Major Data Assumptions for Advance Estimates, 2002:IV**

[Billions of dollars, seasonally adjusted at annual rates]

	2002					
	July	August	September	October	November	December <sup>1</sup>
Private fixed investment:						
Nonresidential structures:						
Buildings:						
Value of new nonresidential construction put in place .....	163.7	159.8	156.5	158.9	158.7	158.9
Equipment and software:						
Manufacturers’ shipments of complete aircraft .....	38.6	28.6	31.9	32.2	31.1	23.1
Residential structures:						
Value of new residential construction put in place: .....						
1-unit structures .....	261.8	259.3	263.8	267.1	271.3	274.2
2-unit-or-more .....	33.4	33.4	33.0	32.0	32.1	32.5
Change in private inventories:						
Change in inventories for nondurable manufacturing .....	10.2	10.9	16.4	2.0	-7.3	-2.2
Change in inventories for merchant wholesale and retail industries other than motor vehicles and equipment .....	31.0	12.4	26.3	-34.4	14.7	-5.1
Net exports: <sup>2</sup>						
Exports of goods:						
U.S. exports of goods, international—transactions—accounts basis .....	709.3	699.3	699.2	688.4	695.6	691.8
Excluding gold .....	705.3	696.0	695.7	684.9	691.3	688.2
Imports of goods:						
U.S. imports of goods, international—transactions—accounts basis .....	1,177.7	1,207.4	1,194.8	1,163.1	1,227.5	1,224.0
Excluding gold .....	1,174.6	1,204.3	1,191.9	1,159.4	1,224.6	1,220.4
Net exports of goods .....	-468.4	-508.0	-495.6	-474.7	-531.9	-532.2
Excluding gold .....	-469.3	-508.3	-496.3	-474.5	-533.3	-532.2
Government:						
State and local:						
Structures:						
Value of new construction put in place .....	185.8	186.4	190.5	187.9	191.9	189.9

1. Assumption.

2. Nonmonetary gold is included in balance-of-payments-basis exports and imports but is not used directly in the estimation of NIPA exports and imports.

## Prices

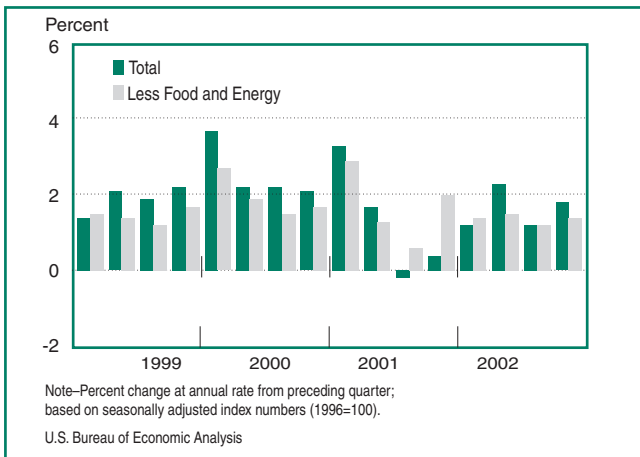
Inflation stepped up somewhat in the fourth quarter. The price index for gross domestic purchases, which measures the prices of goods and services purchased by U.S. residents, increased 1.8 percent after increasing 1.2 percent (table 4). The acceleration partly reflected step-ups in food and energy prices; excluding these items, the price index increased 1.4 percent after increasing 1.2 percent (chart 2).

Prices of goods and services purchased by consumers increased 1.9 percent after increasing 1.7 percent. The small step-up was more than accounted for by accelerations in food and energy prices; prices of other consumer purchases increased less than in the third quarter (1.5 percent versus 1.8 percent). The acceleration in energy prices mainly reflected a step-up in the price of gasoline and oil, but prices of other energy products (“electricity and gas” and “fuel oil and coal”) also contributed.

Prices paid by government increased 1.7 percent, a little more than in the third quarter. A step-up in prices paid by State and local governments was partly offset by a slowdown in prices paid by the Federal Government.

Prices of private nonresidential fixed investment increased after five consecutive quarterly decreases. An

**Chart 2. Gross Domestic Purchases Prices: Change From Preceding Quarter**



increase in the price of structures more than offset a small decrease in the price of equipment and software. Prices of information processing equipment and software decreased at about the average rate of the past 3 years. However, prices of transportation equipment swung up sharply, mainly because of an upturn in motor vehicle prices. The increase in prices of transportation equipment was the largest since 1986; the third-quarter drop had been the largest since 1972. Prices of residential investment increased after no change.

The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 1.8 percent in the fourth quarter, the same as the price index for gross domestic purchases.

**Table 4. Price Indexes**

[Percent change at annual rates; quarterly estimates based on seasonally adjusted index numbers (1996=100)]

	2001	2002	2002			
			I	II	III	IV
<b>Gross domestic product</b> .....	2.4	1.1	1.3	1.2	1.0	1.8
Less: Exports of goods and services .....	-0.8	-0.2	-0.8	3.0	3.5	0.8
Plus: Imports of goods and services .....	-2.9	0.3	-1.6	11.1	4.4	1.4
<b>Equals: Gross domestic purchases</b> .....	1.9	1.2	1.2	2.3	1.2	1.8
Less: Change in private inventories .....						
<b>Equals: Final sales to domestic purchasers</b> .....	1.9	1.2	1.1	2.3	1.3	1.8
Personal consumption expenditures .....	2.0	1.4	1.1	2.7	1.7	1.9
Durable goods .....	-1.9	-2.8	-4.2	-2.9	-1.9	-2.2
Nondurable goods .....	1.5	0.4	0.2	4.6	0.6	1.6
Services .....	3.1	2.7	2.7	3.0	3.0	3.0
Private fixed investment .....	1.2	-0.4	-1.5	-0.2	-0.9	1.4
Nonresidential .....	0.2	-1.4	-2.0	-1.4	-1.3	0.4
Structures .....	5.0	-0.7	-3.6	0.7	0.4	2.1
Equipment and software .....	-1.5	-1.6	-1.5	-2.1	-1.9	-0.2
Residential .....	4.1	2.0	0.0	3	0.0	4.0
Government consumption expenditures and gross investment .....	2.4	1.7	3.6	2.8	1.4	1.7
Federal .....	1.7	2.8	8.4	2.3	1.3	0.6
National defense .....	1.6	2.4	7.3	2.0	1.5	1.2
Nondefense .....	1.9	3.5	10.4	2.9	1.0	-0.4
State and local .....	2.7	1.1	1.1	3.1	1.5	2.2
<b>Addenda:</b>						
Gross domestic purchases:						
Food .....	3.0	1.9	2.4	0.4	0.7	1.7
Energy .....	2.3	-6.3	-8.7	29.9	3.8	12.0
Less food and energy .....	1.8	1.4	1.4	1.5	1.2	1.4
Personal consumption expenditures:						
Food .....	3.0	2.0	2.4	0.5	0.9	1.7
Energy goods and services <sup>1</sup> .....	2.8	-6.1	-9.1	29.6	3.3	10.5
Less food and energy .....	1.8	1.5	1.4	1.9	1.8	1.5

1. Consists of gasoline, fuel oil, and other energy goods and of electricity and gas.

NOTE: Percent changes in major aggregates are shown in NIPA table 8.1. Index numbers are shown in tables 7.1, 7.2, and 7.4.

## Personal Income

The growth of personal income stepped up in the fourth quarter, but the growth of disposable personal income slowed. In the third quarter, tax payments had fallen, boosting disposable income; in the fourth quarter, tax payments changed little.

Personal income, which is measured only in current dollars, increased \$88.3 billion (or 4.0 percent) after increasing \$79.3 billion (3.6 percent) (table 5). The larger fourth-quarter increase reflected step-ups in nonfarm proprietors' income and in wage and salary disbursements of service and distributive industries. In addition, transfer payments increased a little more than in the third quarter; the fourth-quarter increase included \$2.0 billion in retroactive social security payments.<sup>5</sup>

These accelerations were partly offset by changes in

5. These payments result when the Social Security Administration recalculates benefits of recent retirees on the basis of updated information on the earnings base.

farm proprietors' income, which increased less in the fourth quarter than in the third, and in personal interest income, which decreased more in the fourth quarter than in the third. The deceleration in farm proprietors' income reflected, at least in part, a downturn in crop prices. The weakness in interest income reflected a slowdown in the accumulation of interest-bearing assets.

Personal tax and nontax payments decreased slightly in the fourth quarter after a bigger drop in the third quarter. The smaller fourth-quarter decrease was more than accounted for by Federal taxes and primarily reflected the pattern of nonwithheld tax collections.

Current-dollar disposable personal income (DPI) slowed to a 4.6-percent increase in the fourth quarter after increasing 4.9 percent in the third. Real DPI slowed to a 2.6-percent increase after increasing 3.1 percent (chart 3).

**Table 5. Personal Income and Its Disposition**

[Billions of dollars; quarterly estimates seasonally adjusted at annual rates]

	Level		Change from preceding period					
	2002	2002	2001	2002	2002			
		IV			I	II	III	IV
Wage and salary disbursements.....	5,023.9	5,096.7	114.3	73.3	26.4	39.5	46.3	53.1
Private industries.....	4,171.0	4,231.0	72.4	31.2	11.2	31.5	37.6	44.5
Goods-producing industries.....	1,123.1	1,128.1	-21.3	-19.3	-6.4	4.4	4.7	2.1
Manufacturing.....	764.5	766.1	-40.0	-24.9	-10.5	5.9	1.7	-0.9
Distributive industries.....	1,118.9	1,129.9	14.4	9.7	11.5	5.2	5.0	9.6
Service industries.....	1,929.0	1,973.1	79.3	40.8	6.1	22.0	27.8	32.9
Government.....	852.9	865.7	41.9	42.1	15.2	8.0	8.7	8.6
Other labor income.....	610.8	630.9	26.2	40.4	14.5	13.3	13.4	13.4
Proprietors' income with IVA and CCAadj.....	756.9	772.9	13.1	29.0	17.1	-0.9	11.2	14.2
Farm.....	12.7	10.9	-3.6	-6.3	2.5	-14.2	3.2	0.2
Nonfarm.....	744.2	761.9	16.6	35.4	14.6	13.3	8.0	13.9
Rental income of persons with CCAadj.....	143.9	136.7	-8.7	6.0	2.0	12.2	-9.4	-7.4
Personal dividend income.....	433.8	443.8	33.5	24.6	6.4	6.6	7.0	6.5
Personal interest income.....	1,077.3	1,076.1	14.3	-14.0	-3.0	12.4	-1.6	-4.6
Transfer payments to persons.....	1,287.1	1,315.4	100.1	116.7	47.0	30.6	15.8	17.0
Less: Personal contributions for social insurance.....	385.5	391.0	13.9	13.2	7.8	3.1	3.4	4.0
<b>Personal income.....</b>	<b>8,948.1</b>	<b>9,081.6</b>	<b>278.7</b>	<b>262.8</b>	<b>102.5</b>	<b>110.6</b>	<b>79.3</b>	<b>88.3</b>
Less: Personal tax and nontax payments.....	1,118.1	1,106.6	5.7	-174.0	-172.9	-15.0	-14.5	-0.7
Equals: Disposable personal income.....	7,830.0	7,975.0	273.0	436.8	275.5	125.5	93.8	89.0
Less: Personal outlays.....	7,521.7	7,629.6	304.9	298.2	66.7	81.6	105.1	46.6
Equals: Personal saving.....	308.2	345.3	-31.8	138.5	208.9	43.9	-11.3	42.3
<b>Addenda: Special factors in personal income:</b>								
In government wages and salaries:								
Federal pay raise.....		9.0			8.4	0.6	0.0	0.0
Effects of the September 11 terrorist attacks.....		2.3			-0.5	0.3	-0.2	-1.0
In transfer payments to persons:								
Social security retroactive payments.....		2.0			-1.8	0.0	0.0	2.0
Cost-of-living adjustments in Federal transfer programs.....		13.3			12.8	0.0	0.0	-0.2
Correction for error in indexing for social security and supplemental security income benefits.....		0.0			-0.5	0.1	-0.1	0.0
In personal tax and nontax payments:								
Federal tax law changes.....		-42.9			-42.6	-0.3	0.0	0.0
Refunds and State tax law changes.....		0.0			-0.2	0.2	1.0	0.1

NOTE: Most dollar levels are in NIPA table 2.1.  
IVA Inventory valuation adjustment.  
CCAadj Capital consumption adjustment.

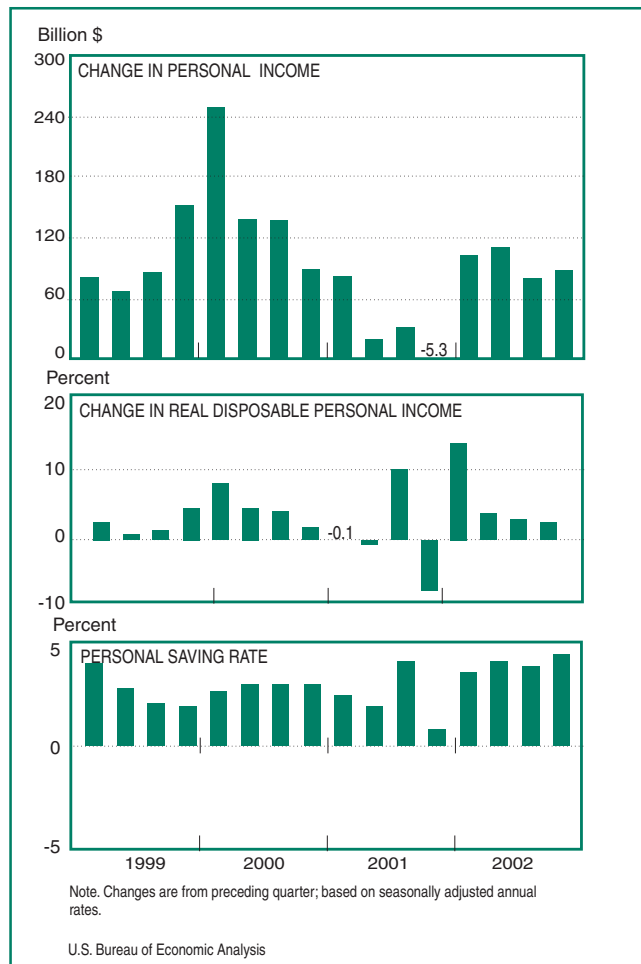
## The Year 2002

In 2002, production and purchases increased considerably more than in 2001, but they increased less than was typical during the expansion of the 1990s. Real DPI also increased more than in 2001—and more than during the 1990s. Inflation slowed.

Real GDP increased 2.4 percent in 2002 after increasing 0.3 percent in 2001 (table 1).<sup>6</sup> Real gross domestic purchases accelerated more, increasing 2.9 percent after increasing 0.4 percent. The 2002 increases were about a percentage point lower than the average growth rates of these measures during the expansion of

6. The 2002 increase is calculated from annual levels for 2001 and 2002. From the fourth quarter of 2001 to the fourth quarter of 2002, real GDP increased 2.8 percent, real DPI increased 5.9 percent, and the price index for gross domestic purchases increased 1.6 percent.

**Chart 3. Selected Personal Income and Saving Measures**



the 1990s.<sup>7</sup>

Inventory investment was the largest contributor to the step-up in GDP; it added 0.60 percentage point to GDP growth in 2002 after subtracting 1.24 percentage points in 2001 (table 2). The negative contribution in 2001 had reflected a swing from inventory accumulation to inventory liquidation; the positive contribution in 2002 reflected a virtual cessation of the liquidation.

Consumer spending increased 3.1 percent in 2002 year after increasing 2.5 percent in 2001. Spending on durable goods, nondurable goods, and services all increased more than in 2001. Consumer spending contributed 2.12 percentage points to growth in 2002, 0.45 percentage point more than in 2001.

Government spending also increased more than in 2001. Federal Government spending on national defense more than accounted for the step-up.

Nonresidential fixed investment was weak again in 2002, falling 5.8 percent and subtracting 0.68 percentage point from GDP growth. It had fallen a comparable amount in 2001. In 2002, investment in structures was mainly responsible for the decrease; in 2001, investment in equipment and software had mainly been responsible.

Exports decreased less than in 2001, and imports turned up. The net effect was to subtract more from GDP growth in 2002 than in 2001.

The price index for gross domestic purchases increased 1.2 percent after increasing 1.9 percent (table 4). The slowdown partly reflected a downturn in energy prices and a deceleration in food prices. In addition, prices of investment in nonresidential structures turned down, and prices of residential investment and prices paid by State and local governments decelerated.

Real DPI increased 4.5 percent in 2002, more than twice as much as in 2001 and more than its 3.1-percent average rate of growth in the 1990s. The acceleration reflected a step-up in current-dollar DPI and a deceleration in the prices of goods and services purchased by consumers (tables 4 and 5). The step-up in current-dollar DPI, in turn, mirrored a downturn in personal tax and nontax payments that partly resulted from the Economic Growth and Tax Relief Reconciliation Act of 2001. The personal saving rate increased to 3.9 percent from 2.3 percent.

7. From the trough of the recession in the first quarter of 1991 to the peak in the fourth quarter of 2000, real GDP increased at an average annual rate of 3.5 percent, and real gross domestic purchases increased 3.9 percent.