

# GDP and the Economy

## Preliminary Estimates for the Fourth Quarter of 2005

REAL gross domestic product (GDP) increased 1.6 percent in the fourth quarter of 2005, according to the “preliminary” estimates of the national income and product accounts (NIPAs) (chart 1).<sup>1</sup> Even though the fourth-quarter growth rate was revised up 0.5 percentage point from the “advance” estimate released in January, it was well below the 4.1-percent growth rate in the third quarter (see page 9).

- Real GDP growth in the fourth quarter primarily reflected increases in inventory investment, consumer spending, exports, investment in equipment and software, and residential fixed investment. In contrast, Federal Government spending contracted, and imports increased.<sup>2</sup> (See page 2.)
- The deceleration in real GDP growth reflected a deceleration in consumer spending, an acceleration in imports, a downturn in Federal Government spending, and decelerations in investment in equipment and software and in residential fixed investment. In contrast, inventory investment turned up.
- Inflation, as measured by the increase in prices of goods and services purchased by U.S. residents, increased 3.6 percent after increasing 4.2 percent in the third quarter and 3.3 percent in the second quarter. The fourth-quarter deceleration (and the third-quarter acceleration) mainly reflected quarterly changes in energy prices. Excluding food and energy prices, the inflation rate rose to 3.0 percent from 2.5 percent. (See page 8.)
- Real disposable personal income increased 7.1 percent after decreasing 1.4 percent (revised) in the third quarter. (See page 3.)

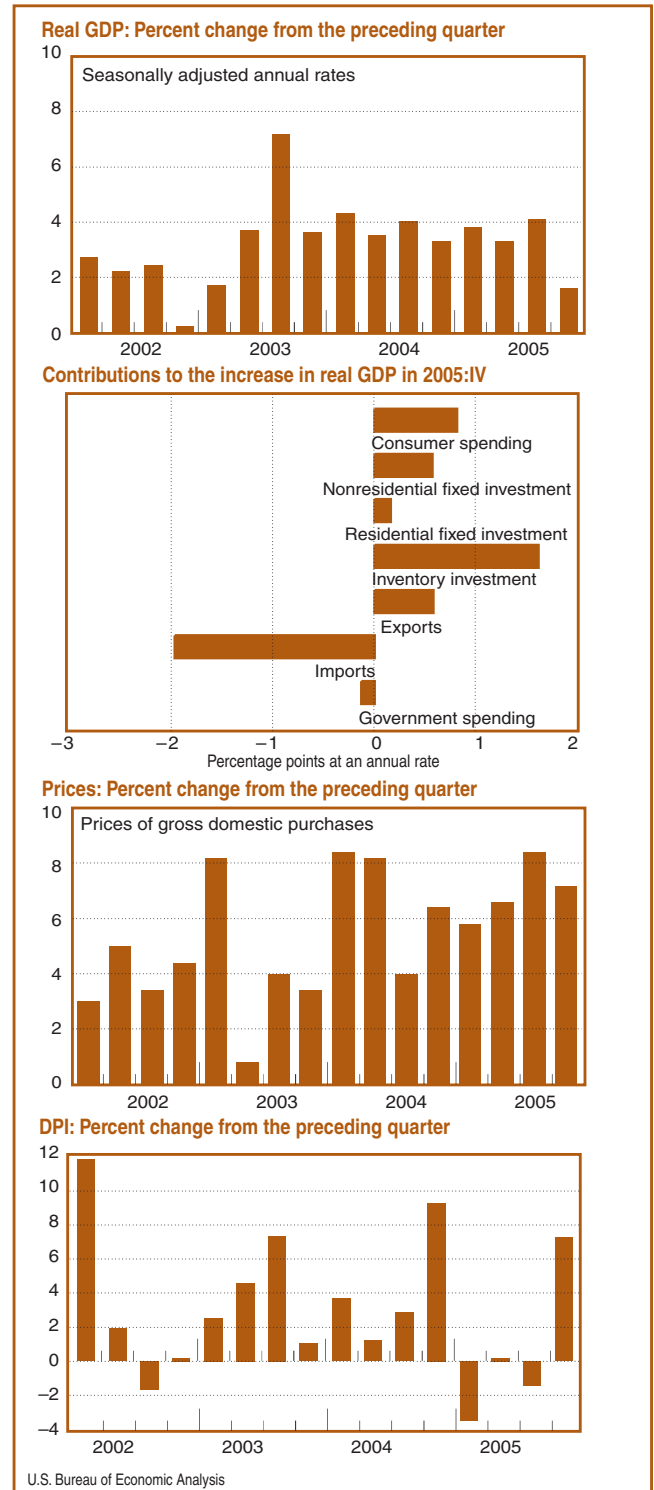
1. Three sequential GDP estimates for each quarter are prepared—advance, preliminary, and final estimates. Each incorporates increasingly comprehensive and improved source data. Information on BEA estimates, revisions, and accuracy can be found on BEA’s Web site at <[www.bea.gov/bea/about/infoqual.htm](http://www.bea.gov/bea/about/infoqual.htm)> and at <[www.bea.gov/bea/faq/national/gdp\\_accuracy.htm](http://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.

2. In this article, “inventory investment” is shorthand for the NIPA series “change in private inventories,” “consumer spending” is shorthand for “personal consumption expenditures,” “Federal Government spending” is shorthand for “Federal Government consumption expenditures and gross investment,”

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**Chart 1. GDP, Prices, Disposable Personal Income (DPI)**



## Real GDP Overview

**Table 1. Real Gross Domestic Product (GDP) 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)
	2005				2005				2005
	I	II	III	IV	I	II	III	IV	IV
<b>Gross domestic product</b>	<b>3.8</b>	<b>3.3</b>	<b>4.1</b>	<b>1.6</b>	<b>3.8</b>	<b>3.3</b>	<b>4.1</b>	<b>1.6</b>	<b>100.0</b>
<b>Personal consumption expenditures</b>	<b>3.5</b>	<b>3.4</b>	<b>4.1</b>	<b>1.2</b>	<b>2.44</b>	<b>2.35</b>	<b>2.85</b>	<b>0.81</b>	<b>70.0</b>
Durable goods	2.6	7.9	9.3	-16.6	0.22	0.64	0.76	-1.47	7.9
Nondurable goods	5.3	3.6	3.5	5.1	1.07	0.74	0.73	1.04	20.7
Services	2.8	2.3	3.3	3.0	1.15	0.97	1.36	1.24	41.4
<b>Gross private domestic investment</b>	<b>8.6</b>	<b>-3.7</b>	<b>5.3</b>	<b>14.8</b>	<b>1.42</b>	<b>-0.63</b>	<b>0.87</b>	<b>2.35</b>	<b>17.2</b>
Fixed investment	7.0	9.5	8.0	4.4	1.12	1.51	1.31	0.73	17.0
Nonresidential	5.7	8.8	8.5	5.4	0.58	0.90	0.88	0.57	10.8
Structures	-2.0	2.7	2.2	3.3	-0.05	0.07	0.06	0.09	2.8
Equipment and software	8.3	10.9	10.6	6.2	0.64	0.83	0.82	0.48	8.0
Residential	9.5	10.8	7.3	2.6	0.54	0.62	0.43	0.16	6.2
Change in private inventories					0.29	-2.14	-0.43	1.62	0.2
<b>Net exports of goods and services</b>					<b>-0.40</b>	<b>1.11</b>	<b>-0.12</b>	<b>-1.40</b>	<b>-6.2</b>
Exports	7.5	10.7	2.5	5.7	0.74	1.07	0.26	0.58	10.5
Goods	5.3	16.0	3.2	7.7	0.37	1.08	0.23	0.54	7.3
Services	12.5	-0.4	1.0	1.2	0.37	-0.01	0.03	0.04	3.2
Imports	7.4	-0.3	2.4	12.8	-1.14	0.04	-0.38	-1.98	16.7
Goods	8.2	-1.1	3.5	14.0	-1.05	0.15	-0.46	-1.82	14.1
Services	3.7	4.4	-3.2	6.3	-0.10	-0.11	0.09	-0.16	2.6
<b>Government consumption expenditures and gross investment</b>	<b>1.9</b>	<b>2.5</b>	<b>2.9</b>	<b>-0.7</b>	<b>0.35</b>	<b>0.47</b>	<b>0.54</b>	<b>-0.13</b>	<b>19.0</b>
Federal	2.4	2.4	7.4	-2.6	0.17	0.17	0.52	-0.18	7.0
National defense	3.0	3.7	10.0	-9.0	0.14	0.17	0.46	-0.44	4.6
Nondefense	1.1	-0.2	2.4	11.9	0.03	-0.01	0.06	0.26	2.3
State and local	1.6	2.6	0.2	0.4	0.19	0.31	0.03	0.05	12.0

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.

Consumer spending increased 1.2 percent in the fourth quarter after increasing 4.1 percent in the third. Its contribution to real GDP was 0.81 percentage point, compared with 2.85 percentage points. The growth was the slowest since the second quarter of 2001 and reflected a decline in spending on durable goods, mainly motor vehicles and parts.

Fixed investment decelerated, increasing 4.4 percent after increasing 8.0 percent, primarily reflecting decelerations in equipment and software and in residential fixed investment. (See page 4.)

Inventory investment turned up and contributed 1.62 percentage points to real GDP growth after subtracting 0.43 percentage point; inventory investment of retail automobile dealers, other retail stores, and nondurable-goods manufacturing all turned up. (See page 5.)

Exports grew 5.7 percent after growing 2.5 percent. The contribution to real GDP was 0.58 percentage point, compared with 0.26 percentage point. Exports of nonautomotive capital goods made the largest contribution to the acceleration. (See page 6.)

Imports grew 12.8 percent after growing 2.4 percent. Imports subtracted 1.98 percentage points from real GDP growth after subtracting 0.38 percentage point. Upturns in petroleum and products, nonpetroleum industrial supplies, and nonautomotive consumer goods were major contributors to the step-up. (See page 6.)

Federal Government spending decreased 2.6 percent after increasing 7.4 percent. (See page 7.)

**Table 2. Real Gross Domestic Product (GDP) 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)
	2005				2005				2005
	I	II	III	IV	I	II	III	IV	IV
<b>Gross domestic product</b>	<b>3.8</b>	<b>3.3</b>	<b>4.1</b>	<b>1.6</b>	<b>3.8</b>	<b>3.3</b>	<b>4.1</b>	<b>1.6</b>	<b>100.0</b>
Final sales of domestic product	3.5	5.6	4.6	0.0	3.51	5.45	4.58	0.01	99.8
Change in private inventories					0.29	-2.14	-0.43	1.62	0.2
Goods	4.4	5.0	5.3	1.5	1.41	1.58	1.70	0.49	31.3
Services	3.2	1.5	3.6	1.5	1.86	0.88	2.09	0.85	57.7
Structures	5.2	8.4	3.3	2.7	0.53	0.85	0.35	0.29	11.0
<b>Addenda:</b>									
Motor vehicle output	4.3	-0.3	17.6	-17.1	0.15	-0.01	0.56	-0.63	3.3
GDP excluding motor vehicle output	3.8	3.4	3.7	2.3	3.66	3.32	3.58	2.26	96.7
Final sales of computers	54.9	45.4	20.3	47.6	0.37	0.32	0.16	0.34	0.9
GDP excluding final sales of computers	3.5	3.0	4.0	1.3	3.44	2.98	3.98	1.29	99.1

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.

Growth in real final sales of domestic product—real GDP less the change in private inventories—was nil, underscoring the importance of inventory investment to real GDP growth.

## Consumer Spending

**Table 3. Real Personal Consumption Expenditures (PCE)**

[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)
	2005				2005				2005
	I	II	III	IV	I	II	III	IV	IV
<b>Personal consumption expenditures .....</b>	<b>3.5</b>	<b>3.4</b>	<b>4.1</b>	<b>1.2</b>	<b>3.5</b>	<b>3.4</b>	<b>4.1</b>	<b>1.2</b>	<b>100.0</b>
<b>Durable goods .....</b>	<b>2.6</b>	<b>7.9</b>	<b>9.3</b>	<b>-16.6</b>	<b>0.31</b>	<b>0.92</b>	<b>1.09</b>	<b>-2.10</b>	<b>11.2</b>
Motor vehicles and parts .....	-8.0	7.5	12.7	-42.7	-0.44	0.39	0.64	-2.75	4.6
Furniture and household equipment.....	11.3	5.8	12.9	11.7	0.46	0.25	0.52	0.47	4.3
Other <sup>1</sup> .....	13.2	12.9	-3.4	7.9	0.29	0.29	-0.08	0.18	2.4
<b>Nondurable goods .....</b>	<b>5.3</b>	<b>3.6</b>	<b>3.5</b>	<b>5.1</b>	<b>1.52</b>	<b>1.05</b>	<b>1.04</b>	<b>1.48</b>	<b>29.6</b>
Food .....	5.2	4.3	6.3	5.4	0.72	0.60	0.87	0.73	14.0
Clothing and shoes .....	5.6	7.3	3.0	10.9	0.22	0.28	0.12	0.40	4.0
Gasoline, fuel oil, and other energy goods.....	9.5	-4.6	-4.3	1.5	0.30	-0.15	-0.16	0.06	3.7
Other <sup>2</sup> .....	3.7	4.2	2.7	3.8	0.29	0.33	0.21	0.29	7.9
<b>Services .....</b>	<b>2.8</b>	<b>2.3</b>	<b>3.3</b>	<b>3.0</b>	<b>1.64</b>	<b>1.39</b>	<b>1.94</b>	<b>1.77</b>	<b>59.2</b>
Housing .....	2.2	2.1	1.9	1.8	0.33	0.32	0.28	0.27	14.6
Household operation .....	1.9	-0.5	4.6	1.9	0.11	-0.03	0.25	0.11	5.7
Electricity and gas .....	1.3	-5.1	6.2	5.6	0.03	-0.12	0.14	0.13	2.5
Other household operation .....	2.4	2.8	3.4	-0.8	0.08	0.09	0.11	-0.03	3.2
Transportation .....	2.3	2.3	1.8	4.0	0.08	0.08	0.07	0.15	3.7
Medical care .....	4.4	4.2	5.5	5.2	0.76	0.72	0.94	0.88	17.4
Recreation .....	4.9	0.8	0.7	1.3	0.20	0.03	0.03	0.05	4.1
Other <sup>3</sup> .....	1.2	1.9	2.7	2.4	0.16	0.26	0.37	0.33	13.8

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.

Spending for durable goods turned down and subtracted 2.10 percentage points from PCE growth. The 16.6-percent decrease primarily reflected a sharp downturn in motor vehicles and parts purchases. The decrease in motor vehicles and parts reflected downturns in spending for new autos and light trucks. Spending for “other” durable goods turned up.

Spending for nondurable goods accelerated, contributing 1.48 percentage points to PCE growth. The acceleration reflected an acceleration in spending for clothing and shoes and an upturn in spending for gasoline, fuel oil, and other energy goods.

Spending for services decelerated, contributing 1.77 percentage points to PCE growth. The slower growth reflected a decrease in spending for “other household operations services” (notably telephone services).

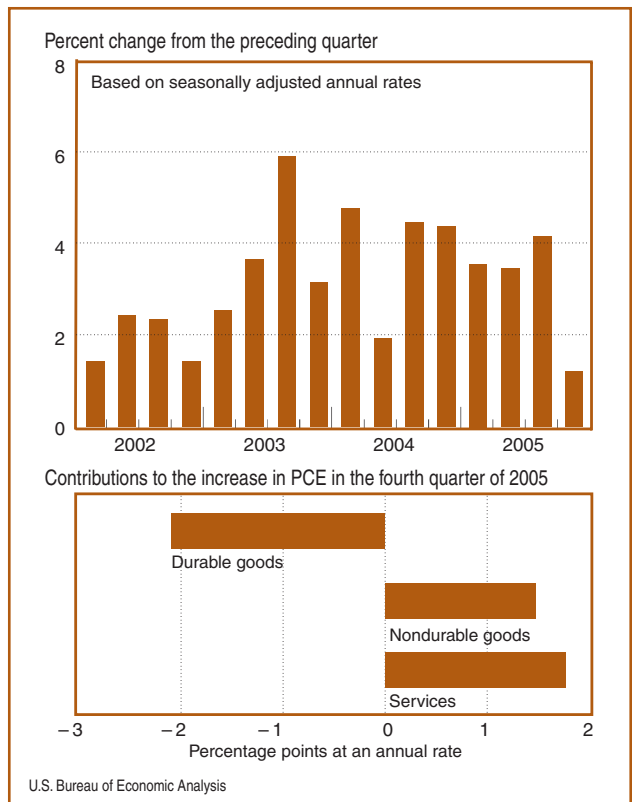
### Related Indicators

Several indicators of personal income, consumer expectations, consumer credit, and wealth are frequently considered in the analysis of consumer spending.

Real disposable personal income (DPI) increased 7.1 percent in the fourth quarter of 2005. For all of 2005, growth rate decelerated to 1.5 percent from 3.4 percent. Robust annual consumer spending in the face of declining growth in real DPI reflects growth in consumer credit, increases in wealth, and demographic shifts.<sup>1</sup> For example, increases in mortgage debt as a percentage of DPI and more cash-out refinancing of residential property, detailed in the Federal Reserve Board’s flow of funds accounts, suggest consumers are able to spend from credit sources not included in DPI.

1. See Marshall Reinsdorf, “Saving, Wealth, Investment, and the Current Account Deficit,” SURVEY OF CURRENT BUSINESS 85 (April 2005); 3. Compare personal saving in the NIPAs and in the Federal Reserve Board’s flow of funds account at <[www.bea.gov/bea/dn/nipaweb/Nipa-Frb.asp](http://www.bea.gov/bea/dn/nipaweb/Nipa-Frb.asp)>.

**Chart 2. Real Personal Consumption Expenditures**



## Private Fixed Investment

**Table 4. Real Private Fixed Investment (PFI)**

[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)
	2005				2005				2005
	I	II	III	IV	I	II	III	IV	IV
<b>Private fixed investment</b> .....	<b>7.0</b>	<b>9.5</b>	<b>8.0</b>	<b>4.4</b>	<b>7.0</b>	<b>9.5</b>	<b>8.0</b>	<b>4.4</b>	<b>100</b>
<b>Nonresidential</b> .....	<b>5.7</b>	<b>8.8</b>	<b>8.5</b>	<b>5.4</b>	<b>3.64</b>	<b>5.66</b>	<b>5.38</b>	<b>3.43</b>	<b>63.6</b>
<b>Structures</b> .....	<b>-2.0</b>	<b>2.7</b>	<b>2.2</b>	<b>3.3</b>	<b>-0.32</b>	<b>0.44</b>	<b>0.36</b>	<b>0.55</b>	<b>16.6</b>
Commercial and health care ..	3.3	0.5	1.7	1.7	0.21	0.03	0.11	0.11	6.2
Manufacturing .....	9.9	-2.9	-6.7	4.5	0.11	-0.03	-0.07	0.05	1.1
Power and communication ....	4.5	-22.8	-14.5	-9.6	0.09	-0.51	-0.28	-0.17	1.7
Mining exploration, shafts, and wells .....	-3.9	40.9	17.7	16.5	-0.13	1.21	0.64	0.68	4.7
Other structures <sup>1</sup> .....	-17.1	-8.2	-0.9	-3.7	-0.60	-0.26	-0.03	-0.11	2.9
<b>Equipment and software</b> .....	<b>8.3</b>	<b>10.9</b>	<b>10.6</b>	<b>6.2</b>	<b>3.96</b>	<b>5.22</b>	<b>5.02</b>	<b>2.89</b>	<b>47.0</b>
Information processing equipment and software ....	20.3	14.5	11.1	10.5	4.43	3.31	2.57	2.36	23.2
Computers and peripheral equipment .....	45.5	31.7	13.9	39.1	1.94	1.46	0.68	1.67	5.1
Software <sup>2</sup> .....	15.2	20.1	9.0	10.8	1.35	1.80	0.86	0.99	9.5
Other <sup>3</sup> .....	13.0	0.5	11.8	-3.4	1.14	0.05	1.03	-0.30	8.6
Industrial equipment .....	18.8	-18.9	16.7	13.8	1.40	-1.62	1.21	1.00	7.7
Transportation equipment .....	-11.2	27.4	13.9	-12.6	-0.99	2.07	1.13	-1.09	7.9
Other equipment <sup>4</sup> .....	-10.0	18.5	1.1	7.6	-0.88	1.46	0.10	0.62	8.2
<b>Residential</b> .....	<b>9.5</b>	<b>10.8</b>	<b>7.3</b>	<b>2.6</b>	<b>3.36</b>	<b>3.88</b>	<b>2.66</b>	<b>0.95</b>	<b>36.4</b>
<b>Structures</b> .....	<b>9.6</b>	<b>11.0</b>	<b>7.4</b>	<b>2.5</b>	<b>3.36</b>	<b>3.88</b>	<b>2.65</b>	<b>0.91</b>	<b>36.0</b>
Permanent site .....	14.2	3.8	7.2	8.0	3.06	0.87	1.60	1.75	22.7
Single family .....	11.3	3.6	7.1	7.9	2.23	0.75	1.44	1.56	20.4
Multifamily .....	45.3	5.1	7.5	8.8	0.83	0.12	0.17	0.19	2.3
Other structures <sup>5</sup> .....	2.3	23.9	7.7	-6.1	0.31	3.01	1.05	-0.84	13.3
<b>Equipment</b> .....	<b>-0.3</b>	<b>1.2</b>	<b>2.0</b>	<b>10.0</b>	<b>0.00</b>	<b>0.01</b>	<b>0.01</b>	<b>0.04</b>	<b>0.4</b>

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, i or bundled, in computers and other equipment).

3. Includes communication equipment, nonmedical instruments, medical equipment and instruments, photocopiers 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.

Real private nonresidential investment grew 5.4 percent and contributed 3.43 percentage points to fixed investment growth. The slowdown from the 8.5-percent increase in the third quarter was due to a deceleration in investment in equipment and software.

Growth in nonresidential structures investment accelerated to 3.3 percent from 2.2 percent, mainly reflecting an upturn in manufacturing structures.

Slower growth in equipment and software investment reflected a sharp downturn in transportation equipment investment and a decrease in "other" information processing equipment and software, mostly telecommunications switching gear. Growth in investment in computers and peripheral equipment and in software accelerated.

Growth in residential investment decelerated to 2.6 percent from 7.3 percent, mainly reflecting a downturn in brokers' commissions (in "other" structures).

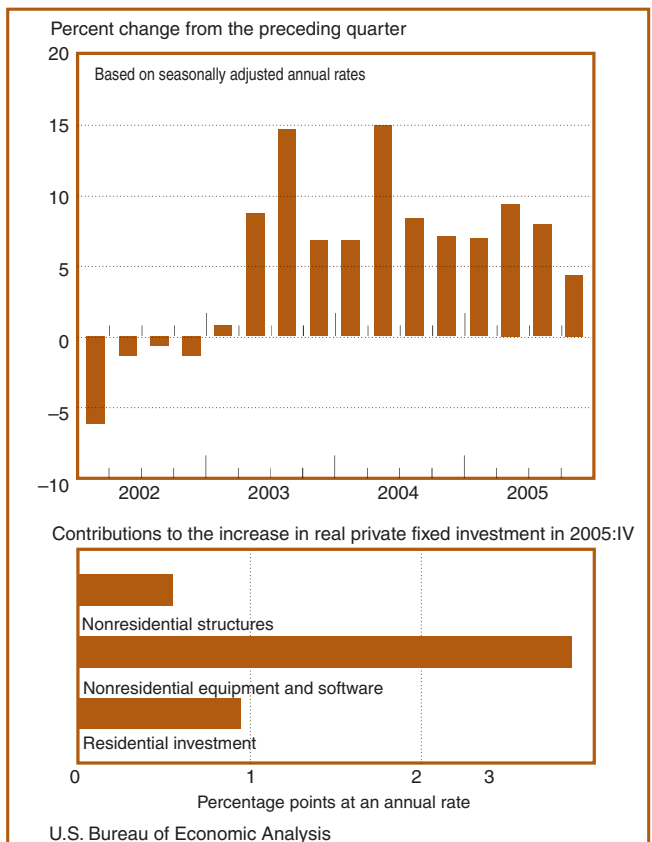
### Related Indicators

Indicators frequently considered in the analysis of investment spending are those that address real demand and production constraints and those that help to assess conditions for capital financing of new capacity.

Industrial production has been rising steadily, and capacity utilization rose above 80 percent in the fourth quarter of 2005—the first quarter it has done so since the fourth quarter of 2000. Growth in real nonresidential fixed investment has exceeded growth in real final sales since the second quarter of 2003.

Despite a policy-induced increase in short-term interest rates, longer yields have been stable. The average rise in bonds rated AAA by Moody's was 39 basis points in the fourth quarter of 2005. The current average rate remains 25 basis points below last year's average.

**Chart 3. Real Private Fixed Investment**



## Inventory Investment

**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			2005				
	IV	I	II	III	IV	I	II	III	IV	
<b>Change in private inventories ...</b>	<b>50.1</b>	<b>58.2</b>	<b>-1.7</b>	<b>-13.3</b>	<b>30.4</b>	<b>8.1</b>	<b>-59.9</b>	<b>-11.6</b>	<b>43.7</b>	
Farm .....	-0.2	-2.3	-4.2	-4.5	-3.7	-2.1	-1.9	-0.3	0.8	
Mining, utilities, and construction .....	3.3	2.0	5.0	-3.8	-0.6	-1.3	3.0	-8.8	3.2	
Manufacturing .....	1.5	25.1	-8.4	-2.5	-1.5	23.6	-33.5	5.9	1.0	
Durable-goods industries .....	2.7	18.2	-2.9	7.4	-1.7	15.5	-21.1	10.3	-9.1	
Nondurable-goods industries .....	-1.0	7.1	-5.2	-8.7	0.1	8.1	-12.3	-3.5	8.8	
Wholesale trade .....	25.6	23.3	16.2	10.8	10.6	-2.3	-7.1	-5.4	-0.2	
Durable-goods industries .....	17.7	15.2	13.5	9.4	14.1	-2.5	-1.7	-4.1	4.7	
Nondurable-goods industries .....	8.0	8.1	3.0	1.7	-2.4	0.1	-5.1	-1.3	-4.1	
Retail trade .....	17.0	7.0	-13.7	-13.4	24.8	-10.0	-20.7	0.3	38.2	
Motor vehicle and parts dealers .....	-3.2	-4.5	-24.4	-15.2	19.4	-1.3	-19.9	9.2	34.6	
Food and beverage stores .....	0.6	-0.4	0.4	-1.6	1.6	-1.0	0.8	-2.0	3.2	
General merchandise stores .....	6.6	5.4	0.9	3.5	1.6	-1.2	-4.5	2.6	-1.9	
Other retail stores .....	12.6	6.1	7.9	-0.9	3.2	-6.5	1.8	-8.8	4.1	
Other industries .....	3.8	3.4	3.0	1.2	4.1	-0.4	-0.4	-1.8	2.9	
Residual <sup>1</sup> .....	-0.8	-0.1	1.3	-1.8	-5.3	0.7	1.4	-3.1	-3.5	
<b>Addenda: Ratios of private inventories to final sales of domestic business:</b>										
Private inventories to final sales .....	2.47	2.47	2.42	2.39	2.40					
Nonfarm inventories to final sales .....	2.27	2.27	2.23	2.20	2.21					
Nonfarm inventories to final sales of goods and structures .....	3.61	3.62	3.52	3.47	3.51					

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.

Inventory investment increased \$43.7 billion and contributed 1.62 percentage points to real GDP growth. Inventory investment decreased in the two preceding quarters. The increase reflected a step-up in retail inventory investment.

Inventory investment in manufacturing increased less in the fourth quarter than in the third. Durable-goods manufacturing inventory investment decreased, while nondurable-goods manufacturing inventory investment rose.

Wholesale trade inventory investment decreased slightly, but by less than in each of the last five quarters. The decrease was mostly due to a reduction in inventories held by nonmerchant wholesalers (mainly manufacturers' sales branch offices).

The strong increase in retail trade inventory investment was driven by a step-up in investment by motor vehicle and parts dealers and by an upturn by "other" retail stores.

### Inventory Investment

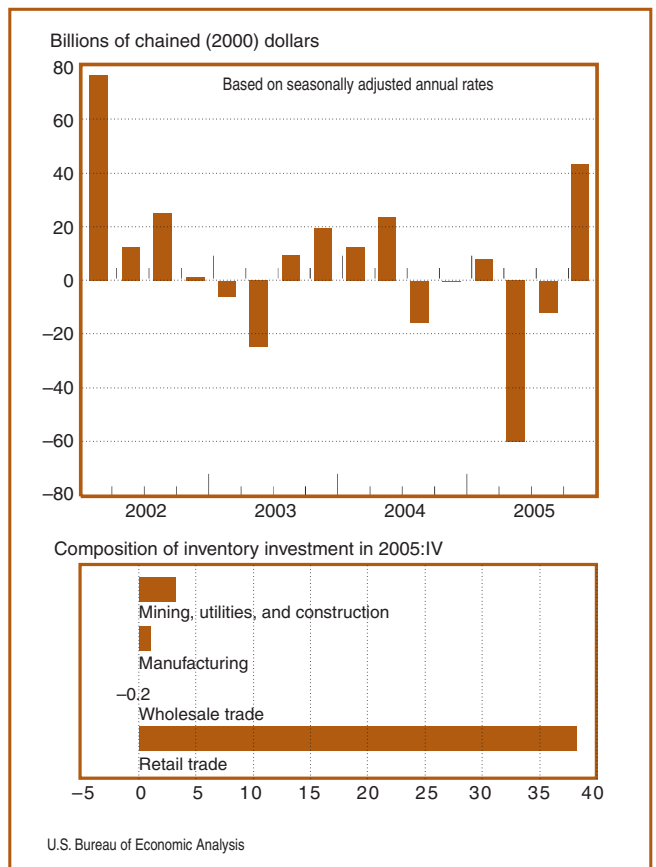
The change in private inventories, often called private inventory investment, represents the change in the physical stock of goods held by businesses. It includes finished goods, goods at various stages of production, and raw materials.

The change in private inventories is a key component of gross domestic product (GDP), which aims to measure output derived from current production. To include the value of currently produced goods that are not yet sold and to exclude the value of goods produced in previous periods, change in private inventories must be included in the GDP calculation.

Thus, GDP can also be seen as the sum of final sales of domestic product and the change in private inventories (see table 2).

For most industries, the estimates of change in private inventories are prepared by revaluing book-value estimates of inventories from the Census Bureau to a replacement-cost basis and calculating the change over a quarter or year. BEA does not always have complete data for every industry.

**Chart 4. Real Private Inventory Investment**



## Exports and Imports

**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)
	2005				2005				2005
	I	II	III	IV	I	II	III	IV	IV
<b>Exports of goods and services</b> .....	<b>7.5</b>	<b>10.7</b>	<b>2.5</b>	<b>5.7</b>	<b>7.5</b>	<b>10.7</b>	<b>2.5</b>	<b>5.7</b>	<b>100.0</b>
<b>Exports of goods</b> <sup>1</sup> .....	<b>5.3</b>	<b>16.0</b>	<b>3.2</b>	<b>7.7</b>	<b>3.70</b>	<b>10.84</b>	<b>2.20</b>	<b>5.31</b>	<b>69.9</b>
Foods, feeds, and beverages .....	-8.8	32.0	-18.3	-0.8	-0.42	1.36	-0.95	-0.03	4.4
Industrial supplies and materials .....	0.2	15.9	-4.2	-14.2	0.04	2.72	-0.76	-2.63	17.0
Capital goods, except automotive .....	4.9	24.2	3.5	23.4	1.35	6.27	0.96	5.98	28.4
Automotive vehicles, engines, and parts .....	3.3	-4.5	20.4	26.2	0.26	-0.33	1.38	1.81	7.8
Consumer goods, except automotive .....	16.6	3.0	7.1	11.3	1.42	0.27	0.61	0.97	8.9
Other .....	38.4	17.3	32.2	-20.4	1.06	0.55	0.96	-0.77	3.3
<b>Exports of services</b> <sup>1</sup> .....	<b>12.5</b>	<b>-0.4</b>	<b>1.0</b>	<b>1.2</b>	<b>3.76</b>	<b>-0.12</b>	<b>0.29</b>	<b>0.36</b>	<b>30.2</b>
<b>Imports of goods and services</b> .....	<b>7.4</b>	<b>-0.3</b>	<b>2.4</b>	<b>12.8</b>	<b>7.40</b>	<b>-0.30</b>	<b>2.40</b>	<b>12.80</b>	<b>100.0</b>
<b>Imports of goods</b> <sup>1</sup> .....	<b>8.2</b>	<b>-1.1</b>	<b>3.5</b>	<b>14.0</b>	<b>6.81</b>	<b>-0.96</b>	<b>2.89</b>	<b>11.73</b>	<b>84.4</b>
Foods, feeds, and beverages .....	5.2	-0.1	15.2	1.4	0.18	0.00	0.48	0.05	3.3
Industrial supplies and materials, except petroleum and products .....	2.8	-5.6	-4.0	21.4	0.37	-0.74	-0.51	2.64	13.5
Petroleum and products .....	3.4	-24.5	-3.1	42.5	0.38	-3.15	-0.39	5.03	13.8
Capital goods, except automotive .....	4.2	24.8	4.4	8.5	0.80	4.20	0.82	1.58	18.3
Automotive vehicles, engines, and parts .....	0.0	-1.1	17.9	18.8	-0.01	-0.13	1.95	2.15	11.9
Consumer goods, except automotive .....	19.1	0.0	-3.4	10.5	3.73	0.00	-0.71	2.06	19.4
Other .....	32.5	-22.1	31.8	-34.5	1.34	-1.14	1.24	-1.78	4.0
<b>Imports of services</b> <sup>1</sup> .....	<b>3.7</b>	<b>4.4</b>	<b>-3.2</b>	<b>6.3</b>	<b>0.63</b>	<b>0.70</b>	<b>-0.52</b>	<b>1.02</b>	<b>15.7</b>
<b>Addenda:</b>									
Exports of agricultural goods <sup>2</sup> .....	-6.8	28.6	-7.3	-11.8					4.8
Exports of nonagricultural goods .....	6.3	15.1	4.1	9.4					65.0
Imports of nonpetroleum goods .....	8.9	3.1	4.7	9.3					70.5

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.

Real exports accelerated, increasing 5.7 percent and contributing 0.58 percentage point to real GDP growth, primarily reflecting an acceleration in goods exports.

Goods exports increased 7.7 percent after increasing 3.2 percent. The increase was mainly due to a 23.4-percent increase in nonautomotive capital goods. The pickup in capital goods was driven by an increase in "other" nonautomotive capital goods and by an upturn in civilian aircraft, engines, and parts. However, industrial supplies and materials decreased.

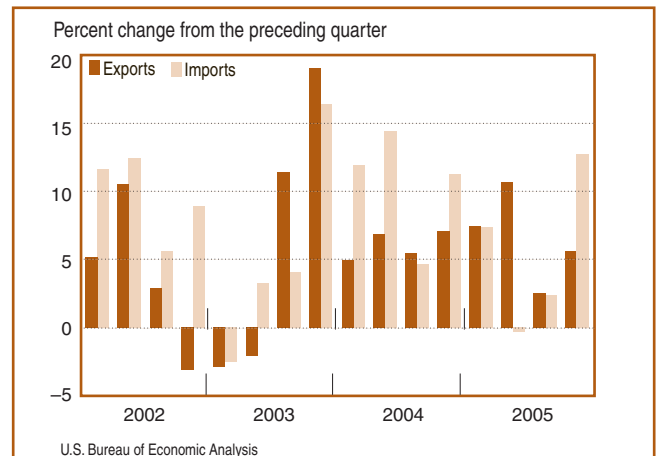
Services exports accelerated slightly. An upturn in passenger fares, a smaller decrease in travel, and an increase in other private services contributed to the acceleration. Transfers under U.S. military agency sales contracts turned down.

Real imports accelerated sharply, increasing 12.8 percent and subtracting 1.98 percentage points from real GDP growth. Imports of goods accelerated; imports of services turned up.

Goods imports surged, reflecting upturns in petroleum and products, in nonpetroleum industrial supplies and materials, and in nonautomotive consumer goods.

Services imports turned up, reflecting upturns in other transportation, direct defense expenditures, and passenger fares.

**Chart 5. Real Exports and Imports of Goods and Services**



## Government Spending

**Table 7. Real Government Consumption Expenditures and Gross Investment (CEGI)**  
[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real CEGI (percentage points)				Share of current-dollar CEGI (percent)
	2005				2005				2005
	I	II	III	IV	I	II	III	IV	IV
<b>Government consumption expenditures and gross investment ...</b>	<b>1.9</b>	<b>2.5</b>	<b>2.9</b>	<b>-0.7</b>	<b>1.9</b>	<b>2.5</b>	<b>2.9</b>	<b>-0.7</b>	<b>100.0</b>
Consumption expenditures.....	2.8	0.2	4.0	-1.7	2.29	0.17	3.25	-1.42	82.8
Gross investment.....	-2.5	14.6	-2.3	4.4	-0.42	2.33	-0.40	0.73	17.2
<b>Federal .....</b>	<b>2.4</b>	<b>2.4</b>	<b>7.4</b>	<b>-2.6</b>	<b>0.89</b>	<b>0.88</b>	<b>2.71</b>	<b>-0.95</b>	<b>36.7</b>
<b>National defense .....</b>	<b>3.0</b>	<b>3.7</b>	<b>10.0</b>	<b>-9.0</b>	<b>0.75</b>	<b>0.91</b>	<b>2.42</b>	<b>-2.33</b>	<b>24.3</b>
Consumption expenditures.....	8.5	1.0	9.1	-11.3	1.79	0.22	1.94	-2.60	21.2
Gross investment.....	-29.0	26.2	16.7	9.1	-1.04	0.69	0.48	0.27	3.1
<b>Nondefense.....</b>	<b>1.1</b>	<b>-0.2</b>	<b>2.4</b>	<b>11.9</b>	<b>0.14</b>	<b>-0.03</b>	<b>0.29</b>	<b>1.38</b>	<b>12.4</b>
Consumption expenditures.....	0.8	-4.1	3.8	6.9	0.09	-0.46	0.40	0.71	10.7
Gross investment.....	3.3	32.0	-6.6	51.9	0.05	0.43	-0.11	0.66	1.7
<b>State and local.....</b>	<b>1.6</b>	<b>2.6</b>	<b>0.2</b>	<b>0.4</b>	<b>0.98</b>	<b>1.62</b>	<b>0.15</b>	<b>0.27</b>	<b>63.3</b>
Consumption expenditures.....	0.8	0.8	1.8	0.9	0.41	0.41	0.91	0.47	50.9
Gross investment .....	4.7	10.1	-6.0	-1.6	0.57	1.21	-0.76	-0.20	12.4

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.

Government spending decreased 0.7 percent and subtracted 0.13 percentage point from real GDP growth.

The 2.6-percent decline in Federal spending mainly reflected a 9.0-percent decrease in defense spending. Nondefense spending accelerated.

State and local government spending accelerated slightly, as investment in equipment and software accelerated. Investment in structures declined but not as much as in the third quarter. In contrast, consumption expenditures decelerated.

### Government Spending

“Government consumption expenditures and gross investment,” or “government spending,” consists of two main components: (1) Consumption expenditures by Federal and by state and local governments and (2) gross investment by government and government-owned enterprises.

Government consumption is measured as the gross output of government less sales to other sectors and own-account investment.<sup>1</sup> Gross output of government is measured as spending for labor and capital services, for intermediate goods (durable and nondurable), and for services.<sup>2</sup>

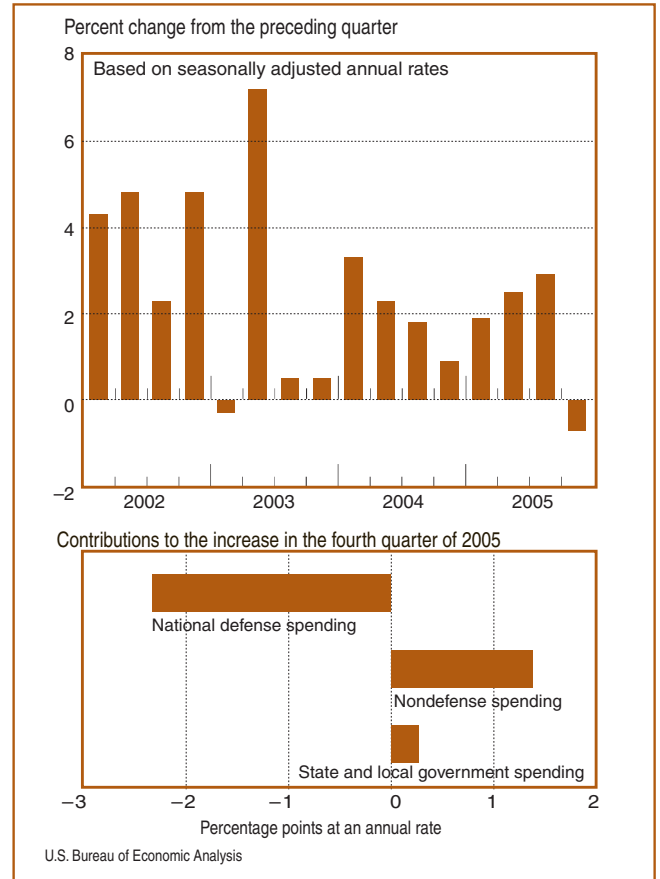
Gross investment consists of the following components: (1) Purchases of new structures (such as highways and dams) and equipment and software by government and government-owned enterprises, (2) net purchases of used structures and equipment, and (3) own-account production of structures and software.

Government consumption and gross investment excludes current transactions of government-owned enterprises, current transfer payments, interest payments, subsidies, and transactions in financial assets and nonproduced assets, such as land.

1. Own-account investment is the production of structures and software by general government employees for use by general government.

2. Capital services (depreciation) is also known as consumption of fixed capital and represents a partial measure of the services provided by government-owned fixed capital in the current period.

**Chart 6. Real Government Consumption Expenditures and Gross Investment**



Prices

**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)			
	2005				2005			
	I	II	III	IV	I	II	III	IV
<b>Gross domestic purchases</b> .....	<b>2.9</b>	<b>3.3</b>	<b>4.2</b>	<b>3.6</b>	<b>2.9</b>	<b>3.3</b>	<b>4.2</b>	<b>3.6</b>
<b>Personal consumption expenditures</b> .....	<b>2.3</b>	<b>3.3</b>	<b>3.7</b>	<b>2.7</b>	<b>1.50</b>	<b>2.19</b>	<b>2.47</b>	<b>1.77</b>
Durable goods .....	0.9	-0.5	-3.0	-0.8	0.07	-0.04	-0.24	-0.06
Nondurable goods .....	1.3	5.7	7.9	0.8	0.25	1.09	1.51	0.16
Services .....	3.0	2.9	3.1	4.3	1.18	1.14	1.20	1.66
<b>Gross private domestic investment</b> .....	<b>2.6</b>	<b>2.7</b>	<b>3.7</b>	<b>5.0</b>	<b>0.41</b>	<b>0.44</b>	<b>0.59</b>	<b>0.79</b>
Fixed investment .....	2.6	2.7	4.0	5.2	0.40	0.43	0.63	0.83
Nonresidential .....	3.1	1.9	2.5	3.9	0.31	0.19	0.26	0.40
Structures .....	10.3	9.9	16.5	20.9	0.24	0.24	0.39	0.50
Equipment and software .....	0.9	-0.7	-1.8	-1.4	0.07	-0.05	-0.13	-0.10
Residential .....	1.6	4.3	6.5	7.6	0.09	0.24	0.37	0.43
Change in private inventories .....					0.01	0.01	-0.04	-0.03
<b>Government consumption expenditures and gross investment</b> .....	<b>5.7</b>	<b>3.7</b>	<b>6.7</b>	<b>5.6</b>	<b>1.00</b>	<b>0.66</b>	<b>1.19</b>	<b>1.00</b>
Federal .....	7.0	2.1	3.0	1.1	0.46	0.14	0.20	0.07
National defense .....	6.6	1.4	3.5	1.1	0.29	0.06	0.16	0.05
Nondefense .....	7.9	3.6	2.1	1.0	0.17	0.08	0.05	0.02
State and local .....	4.9	4.7	9.0	8.4	0.54	0.52	0.99	0.92
<b>Addenda:</b>								
Gross domestic purchases:								
Food .....	1.0	3.5	1.2	2.6	0.10	0.32	0.11	0.25
Energy goods and services .....	5.1	28.1	50.6	14.7	0.23	1.15	2.00	0.71
Excluding food and energy .....	3.0	2.1	2.5	3.0	2.58	1.81	2.14	2.60
Personal consumption expenditures:								
Food .....	1.0	3.5	1.3	2.4				
Energy goods and services .....	3.6	28.6	50.0	10.2				
Excluding food and energy .....	2.4	1.7	1.4	2.1				
"Market-based" PCE .....	2.1	3.4	3.9	2.5				
Excluding food and energy .....	2.2	1.5	1.1	1.8				
Gross domestic product .....	3.1	2.6	3.3	3.3				

NOTE: Most percent changes are from NIPA table 1.6.7; percent changes for personal consumption expenditures (PCE) for food and energy goods and services and for PCE 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.

The inflation rate, as measured by the price index for gross domestic purchases, decreased to 3.6 percent from 4.2 percent.

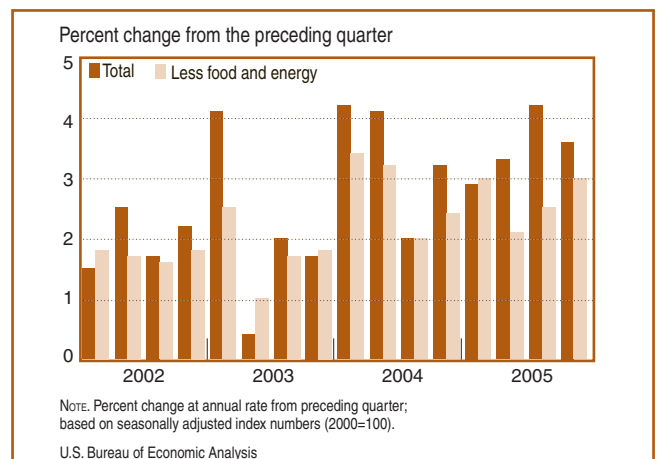
Consumer prices, as measured by the PCE price index, moderated, rising 2.7 percent after rising 3.7 percent. Consumer prices accounted for about half of the increase in inflation. Consumer nondurable goods-prices decelerated sharply, partly because of a decrease in gasoline, fuel oil, and other energy goods.

Prices of nonresidential investment accelerated, mostly reflecting an acceleration in structures prices. Prices of residential fixed investment increased 7.6 percent; they have accelerated for three quarters.

Prices paid by government slowed, reflecting decelerations in prices paid by the Federal Government and by state and local governments.

The price index for consumer purchases excluding food and energy, sometimes viewed as the underlying or "core" rate of consumer price inflation, accelerated. Consumer prices paid for energy decelerated sharply, while prices paid for food accelerated.

**Chart 7. Gross Domestic Purchases Prices**





## Revisions

**Table 9. Preliminary and Advance Estimates for the Fourth 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
<b>Gross domestic product</b> .....	<b>1.6</b>	<b>1.1</b>	<b>0.5</b>	<b>1.6</b>	<b>1.1</b>	<b>0.5</b>
<b>Personal consumption expenditures</b> .....	<b>1.2</b>	<b>1.1</b>	<b>0.1</b>	<b>0.81</b>	<b>0.79</b>	<b>0.02</b>
Durable goods .....	-16.6	-17.5	0.9	-1.47	-1.56	0.09
Nondurable goods .....	5.1	5.1	0.0	1.04	1.04	0.00
Services .....	3.0	3.2	-0.2	1.24	1.32	-0.08
<b>Gross private domestic investment</b> .....	<b>14.8</b>	<b>12.2</b>	<b>2.6</b>	<b>2.35</b>	<b>1.95</b>	<b>0.40</b>
Fixed investment .....	4.4	3.0	1.4	0.73	0.51	0.22
Nonresidential .....	5.4	2.8	2.6	0.57	0.30	0.27
Structures .....	3.3	0.7	2.6	0.09	0.02	0.07
Equipment and software .....	6.2	3.5	2.7	0.48	0.28	0.20
Residential .....	2.6	3.5	-0.9	0.16	0.21	-0.05
Change in private inventories .....				1.62	1.45	0.17
<b>Net exports of goods and services</b> .....				<b>-1.40</b>	<b>-1.18</b>	<b>-0.22</b>
Exports .....	5.7	2.4	3.3	0.58	0.25	0.33
Goods .....	7.7	3.8	3.9	0.54	0.27	0.27
Services .....	1.2	-0.9	2.1	0.04	-0.03	0.07
Imports .....	12.8	9.1	3.7	-1.98	-1.42	-0.56
Goods .....	14.0	10.0	4.0	-1.82	-1.32	-0.50
Services .....	6.3	4.2	2.1	-0.16	-0.11	-0.05
<b>Government consumption expenditures and gross investment</b> .....	<b>-0.7</b>	<b>-2.4</b>	<b>1.7</b>	<b>-0.13</b>	<b>-0.45</b>	<b>0.32</b>
Federal .....	-2.6	-7.0	4.4	-0.18	-0.50	0.32
National defense .....	-9.0	-13.1	4.1	-0.44	-0.66	0.22
Nondefense .....	11.9	6.9	5.0	0.26	0.15	0.11
State and local .....	0.4	0.4	0.0	0.05	0.05	0.00
<b>Addenda:</b>						
Final sales of domestic product .....	0.0	-0.3	0.3	0.01	-0.33	0.34
Gross domestic purchases price index .....	3.6	3.3	0.3			
GDP price index .....	3.3	3.0	0.3			

The 1.6-percent preliminary estimate of real GDP growth is 0.5 percentage point more than the advance estimate. In 1978–2004, revisions from the advance to the preliminary estimates, without regard to sign, averaged 0.5 percentage point.

Equipment and software investment was revised up; new light-truck registration data for December led to a revision of transportation equipment.

Exports were revised up; new Census Bureau data for December led to a revision of nonautomotive capital goods exports. The revisions added 0.33 percentage point to real GDP growth.

Imports were revised up; new Census Bureau data for December led to a revision of nonautomotive consumer goods imports. The revisions subtracted 0.56 percentage point from real GDP growth.

Federal Government spending was revised up; new defense agency financial data and a corrected seasonal adjustment led to revised defense spending. The revisions added 0.32 percentage point to GDP growth.

Price indexes for both gross domestic purchases and GDP were revised up 0.3 percentage point.

### Source Data for Preliminary Estimates

*Personal consumption expenditures:* Retail sales for August and September (revised). Motor vehicle registrations for July and August (revised) and September (new). Retail electricity and natural gas sales for August (new).

*Nonresidential fixed investment:* Construction put-in-place data for July and August (revised) and September (new). Manufacturers' machinery and equipment shipments for August and September (revised). Exports and imports for August (revised) and September (new). Manufacturers' completed civilian aircraft shipments for September (new).

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

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

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

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

### Personal Income for the Third Quarter

With the preliminary estimates of GDP, BEA also releases revised estimates of various income-related series for the previous quarter. This revision reflects the incorporation of newly available third-quarter tabulations from the Bureau of Labor Statistics quarterly census of employment and wages.

Wages and salaries increased \$90.0 billion in the third quarter, an upward revision of \$20.7 billion. Personal current taxes increased \$14.4 billion, an upward revision of \$4.5 billion. Contributions for government social insurance increased \$10.5 billion, an upward revision of \$2.8 billion.

The revision also shows the following:

- Personal income increased \$64.7 billion, an upward revision of \$19.4 billion.
- Disposable personal income increased \$50.3 billion, an upward revision of \$14.9 billion.
- Personal saving decreased \$122.4 billion, \$15.0 billion less of a decrease than the previous estimate.
- The personal saving rate was -1.6 percent, 0.2 percentage point less of a decrease than the previous estimate.