

# Business Situation

## Preliminary Estimates for the Third Quarter of 2004

**T**HE growth of gross domestic product (GDP) picked up in the third quarter of 2004 and inflation slowed, according to the “preliminary” estimates of the national income and product accounts (NIPAs) (table 1 and chart 1).<sup>1</sup> Real disposable personal income decelerated. A similar picture of GDP growth and prices was shown in the “advance” estimates released in October; however, income growth decelerated more in the advance estimate.

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized. AReal® estimates are in chained (2000) dollars, and price indexes are chain-type measures.

● Real GDP increased 3.9 percent in the third quarter after increasing 3.3 percent in the second. The advance estimate for the third quarter had shown a 3.7-percent increase. Net exports, consumer spending, and nonresidential fixed investment were revised up in the preliminary estimates, and inventory investment was revised down.<sup>2</sup>

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

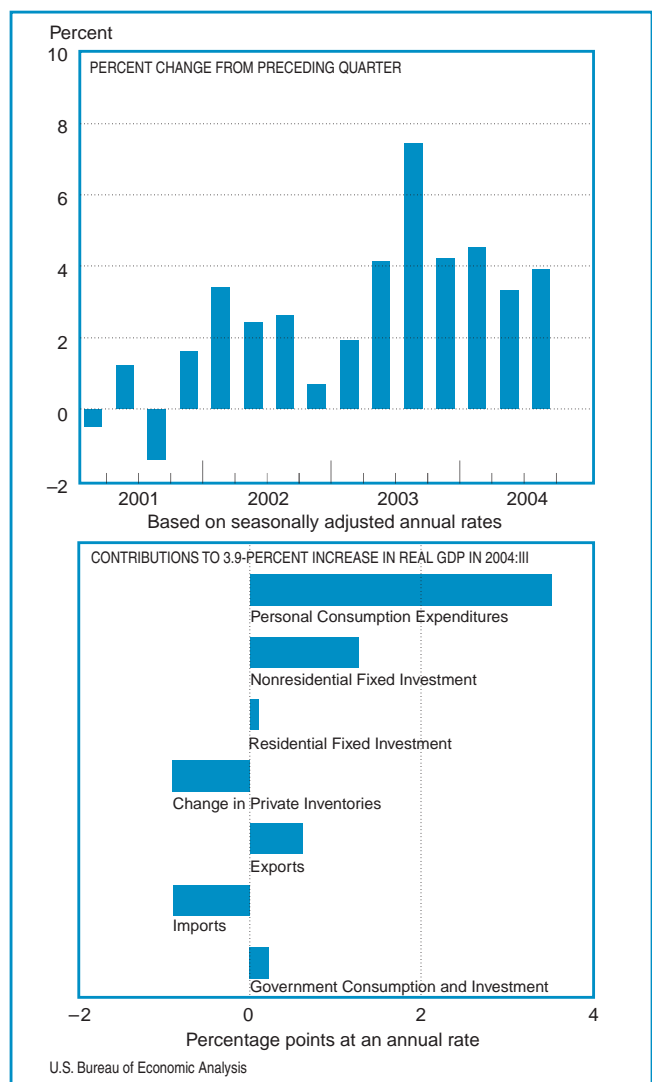
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**Table 1. Real Gross Domestic Product and Components**  
[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)				Share of current-dollar GDP (percent)
	2003		2004		2003		2004		
	IV	I	II	III	IV	I	II	III	
<b>Gross domestic product (GDP)</b>	<b>4.2</b>	<b>4.5</b>	<b>3.3</b>	<b>3.9</b>	<b>4.2</b>	<b>4.5</b>	<b>3.3</b>	<b>3.9</b>	<b>100.0</b>
<b>Personal consumption expenditures</b>	<b>3.6</b>	<b>4.1</b>	<b>1.6</b>	<b>5.1</b>	<b>2.50</b>	<b>2.90</b>	<b>1.10</b>	<b>3.53</b>	<b>70.1</b>
Durable goods .....	3.9	2.2	-0.3	17.2	0.33	0.19	-0.02	1.37	8.5
Nondurable goods .....	5.1	6.7	0.1	4.8	1.01	1.33	0.03	0.96	20.2
Services .....	2.8	3.3	2.7	2.9	1.15	1.39	1.10	1.21	41.4
<b>Gross private domestic investment..</b>	<b>13.9</b>	<b>12.3</b>	<b>19.0</b>	<b>2.8</b>	<b>2.04</b>	<b>1.86</b>	<b>2.85</b>	<b>0.46</b>	<b>16.5</b>
Fixed investment .....	10.5	4.5	13.9	8.8	1.57	0.69	2.07	1.37	16.2
Nonresidential .....	11.0	4.2	12.5	12.9	1.07	0.42	1.21	1.27	10.5
Structures .....	7.9	-7.6	6.9	-0.3	0.18	-0.19	0.16	-0.01	2.4
Equipment and software .....	12.0	8.0	14.2	17.2	0.89	0.61	1.05	1.28	8.1
Residential .....	9.6	5.0	16.5	1.7	0.50	0.27	0.86	0.10	5.7
Change in private inventories .....	.....	.....	.....	.....	0.47	1.17	0.78	-0.91	0.3
<b>Net exports of goods and services...</b>	<b>.....</b>	<b>.....</b>	<b>.....</b>	<b>.....</b>	<b>-0.66</b>	<b>-0.76</b>	<b>-1.06</b>	<b>-0.27</b>	<b>-5.2</b>
Exports .....	17.5	7.3	7.3	6.3	1.55	0.70	0.70	0.62	10.1
Goods .....	16.1	9.1	6.0	9.1	1.00	0.60	0.41	0.62	7.0
Services .....	20.6	3.4	10.2	0.2	0.56	0.10	0.30	0.01	3.0
Imports .....	17.1	10.6	12.6	6.0	-2.22	-1.46	-1.77	-0.89	15.3
Goods .....	18.4	12.7	13.0	5.6	-1.96	-1.43	-1.52	-0.69	12.8
Services .....	11.1	1.2	10.6	8.3	-0.26	-0.03	-0.25	-0.20	2.5
<b>Government consumption expenditures and gross investment.....</b>	<b>1.6</b>	<b>2.5</b>	<b>2.2</b>	<b>1.2</b>	<b>0.31</b>	<b>0.48</b>	<b>0.41</b>	<b>0.23</b>	<b>18.6</b>
Federal .....	4.8	7.1	2.7	4.7	0.33	0.48	0.18	0.32	6.9
National defense .....	11.6	10.6	1.9	9.8	0.50	0.47	0.09	0.44	4.7
Nondefense .....	-7.5	0.2	4.4	-5.2	-0.18	0.00	0.10	-0.12	2.2
State and local .....	-0.1	0.0	1.9	-0.8	-0.02	0.00	0.23	-0.09	11.7

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**



- Prices of goods and services purchased by U.S. residents increased 1.8 percent, the same as in the advance estimate, after increasing 3.5 percent.
- Real disposable personal income increased 2.0 percent after increasing 2.8 percent. The advance estimate for the second quarter had shown a 1.4-percent increase.

The insurance transactions associated with the hurricanes that struck portions of the southern and eastern United States in August and September did not directly affect third-quarter GDP, because of the treatment of insurance services that was introduced as part of the 2003 comprehensive revision of the NIPAs.<sup>3</sup> Estimates of other, indirect, effects of the hurricanes are not available, because these effects may occur with a lag, and they generally cannot be disentangled from the regular source data that BEA uses to prepare the GDP estimates. However, as described in the section on corporate profits, some income-side measures were affected by the hurricanes, and estimates of those effects have been incorporated.

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3. This treatment incorporates *expected*, rather than *actual*, losses and eliminates the large swings in measured insurance services that had previously been associated with catastrophes. For more information, 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.

The acceleration in GDP growth in the third quarter mainly reflected a step-up in consumer spending and a smaller decrease in net exports than in the second quarter; these developments were partly offset by a downturn in inventory investment and by a slowdown in residential fixed investment.

- Consumer spending increased 5.1 percent and contributed 3.53 percentage points to GDP growth, 2.43 percentage points more than it contributed in the second quarter. Purchases of durable goods turned up, purchases of nondurable goods accelerated, and purchases of services stepped up slightly.
- Imports, which are subtracted in the calculation of GDP, increased 6.0 percent and subtracted 0.89 percentage point from third-quarter GDP growth, about half as much as they had subtracted in the second quarter. (Exports slowed somewhat, contributing 0.08 percentage point less to GDP growth than in the second quarter.)
- Inventory investment subtracted 0.91 percentage point from GDP growth after adding 0.78 percentage point in the second quarter. Real inventory stocks increased \$35.9 billion in the third quarter after increasing \$61.1 billion in the second quarter and \$40.0 billion in the first quarter.
- Residential fixed investment increased 1.7 percent and contributed 0.10 percentage point to third-quarter GDP growth, 0.76 percentage point less than in the second quarter.

Government spending slowed and nonresidential fixed investment increased at about the same rate as in the second quarter.

- Government spending increased 1.2 percent and contributed 0.23 percentage point to third-quarter GDP growth, 0.18 percentage point less than in the second quarter.
- Nonresidential fixed investment increased 12.9 percent and contributed 1.27 percentage points, 0.06 percentage point more than in the second quarter. Investment in equipment and software accelerated somewhat, and investment in structures decreased slightly after increasing in the second quarter.

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

- Real final sales of domestic product (GDP less the change in private inventories) increased 4.9 percent after increasing 2.5 percent (table 2).
- The production of goods stepped up and the production of services accelerated slightly, but the production of structures turned down.
- Motor vehicle output turned up. Excluding motor vehicles, real GDP increased 3.7 percent after increasing 4.0 percent.
- Final sales of computers stepped up, increasing 20.9 percent after little change in the previous two quarters.
- Gross domestic purchases increased 4.0 percent after increasing 4.2 percent.

- The gross saving rate—saving from all sources as a percentage of gross national income—held steady at 13.9 percent. The net saving rate decreased to 1.2 percent from 2.1 percent in the second quarter. Net saving is a measure of the saving that is available for augmenting the stock of fixed assets; it equals gross saving less consumption of fixed capital (CFC). The decrease in the net saving rate reflected a large increase in the CFC that resulted from the estimated damage to the stock of private fixed assets caused by the third-quarter hurricanes.

**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)
	2003		2004		2003		2004		2004
	IV	I	II	III	IV	I	II	III	III
<b>Gross domestic product (GDP)</b>	<b>4.2</b>	<b>4.5</b>	<b>3.3</b>	<b>3.9</b>	<b>4.2</b>	<b>4.5</b>	<b>3.3</b>	<b>3.9</b>	<b>100.0</b>
Final sales of domestic product .....	3.7	3.3	2.5	4.9	3.71	3.32	2.52	4.86	99.7
Change in private inventories .....	0.47	0.47	0.47	0.47	0.47	1.17	0.78	-0.91	0.3
Goods .....	5.8	8.2	2.5	8.1	1.90	2.65	0.82	2.60	32.7
Services .....	3.1	3.0	2.3	2.6	1.77	1.76	1.30	1.48	57.2
Structures .....	5.4	0.7	12.7	-1.3	0.52	0.07	1.19	-0.13	10.1
<b>Addenda:</b>									
Motor vehicle output .....	2.9	8.8	-15.2	10.1	0.11	0.30	-0.58	0.33	3.4
GDP excluding motor vehicle output .....	4.2	4.3	4.0	3.7	4.08	4.18	3.88	3.62	96.6
Final sales of computers .....	29.0	0.1	0.1	20.9	0.26	0.00	0.00	0.18	1.0
GDP excluding final sales of computers .....	4.0	4.5	3.3	3.8	3.93	4.48	3.30	3.77	99.0

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.

Personal Consumption Expenditures, next page.

## Personal Consumption Expenditures

In the third quarter of 2004, real personal consumption expenditures stepped up to a 5.1-percent increase from a 1.6-percent increase in the second quarter (table 3 and chart 2). (Over the past 10 years, consumption spending has increased at an average annual rate of 3.7 percent.) Purchases of durable goods and nondurable goods made the largest contributions to the step-up, but purchases of services also contributed.

In durable goods, purchases of motor vehicles and parts increased 28.6 percent after a 6.0-percent de-

crease in the second quarter. Net purchases of used autos and used light trucks turned up, and purchases of new light trucks increased sharply after a moderate increase. In contrast, purchases of new autos decreased after a small increase. Purchases of furniture and household equipment increased more than in the second quarter; in the third quarter, step-ups were posted by video and audio goods, by computers, and by furniture. "Other" durable goods (which includes jewelry and watches) turned up.

**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)
	2003		2004		2003		2004		
	IV	I	II	III	IV	I	II	III	
<b>Personal consumption expenditures (PCE).....</b>	<b>3.6</b>	<b>4.1</b>	<b>1.6</b>	<b>5.1</b>	<b>3.6</b>	<b>4.1</b>	<b>1.6</b>	<b>5.1</b>	<b>100.0</b>
<b>Durable goods.....</b>	<b>3.9</b>	<b>2.2</b>	<b>-0.3</b>	<b>17.2</b>	<b>0.48</b>	<b>0.27</b>	<b>-0.03</b>	<b>1.96</b>	<b>12.2</b>
Motor vehicles and parts.....	-1.8	-5.8	-6.0	28.6	-0.10	-0.33	-0.34	1.40	5.5
Furniture and household equipment.....	9.8	11.1	7.4	11.6	0.41	0.45	0.31	0.48	4.3
Other <sup>1</sup> .....	7.4	6.2	-0.2	3.8	0.17	0.15	-0.01	0.09	2.4
<b>Nondurable goods.....</b>	<b>5.1</b>	<b>6.7</b>	<b>0.1</b>	<b>4.8</b>	<b>1.45</b>	<b>1.90</b>	<b>0.04</b>	<b>1.38</b>	<b>28.8</b>
Food.....	2.6	8.1	2.3	4.2	0.36	1.10	0.32	0.59	14.0
Clothing and shoes.....	3.9	16.3	-5.3	6.1	0.16	0.62	-0.22	0.24	3.9
Gasoline, fuel oil, and other energy goods.....	19.1	-2.3	-13.2	3.5	0.47	-0.06	-0.42	0.10	3.0
Other <sup>2</sup> .....	5.8	3.1	4.5	5.6	0.46	0.25	0.35	0.44	8.0
<b>Services.....</b>	<b>2.8</b>	<b>3.3</b>	<b>2.7</b>	<b>2.9</b>	<b>1.64</b>	<b>1.98</b>	<b>1.56</b>	<b>1.74</b>	<b>59.0</b>
Housing.....	0.8	2.1	2.0	2.4	0.13	0.33	0.30	0.37	15.1
Household operation.....	7.5	3.2	-0.9	0.0	0.41	0.18	-0.05	0.00	5.5
Electricity and gas.....	17.5	3.5	-8.0	-3.0	0.35	0.08	-0.18	-0.06	2.1
Other household operation.....	1.6	3.1	4.0	2.0	0.05	0.10	0.13	0.07	3.3
Transportation.....	-0.5	2.0	2.9	1.5	-0.02	0.07	0.11	0.05	3.7
Medical care.....	3.1	3.2	4.4	5.0	0.52	0.55	0.74	0.84	17.0
Recreation.....	4.0	5.9	0.3	2.8	0.16	0.24	0.01	0.12	4.1
Other <sup>3</sup> .....	3.2	4.4	3.3	2.5	0.44	0.61	0.45	0.36	13.8

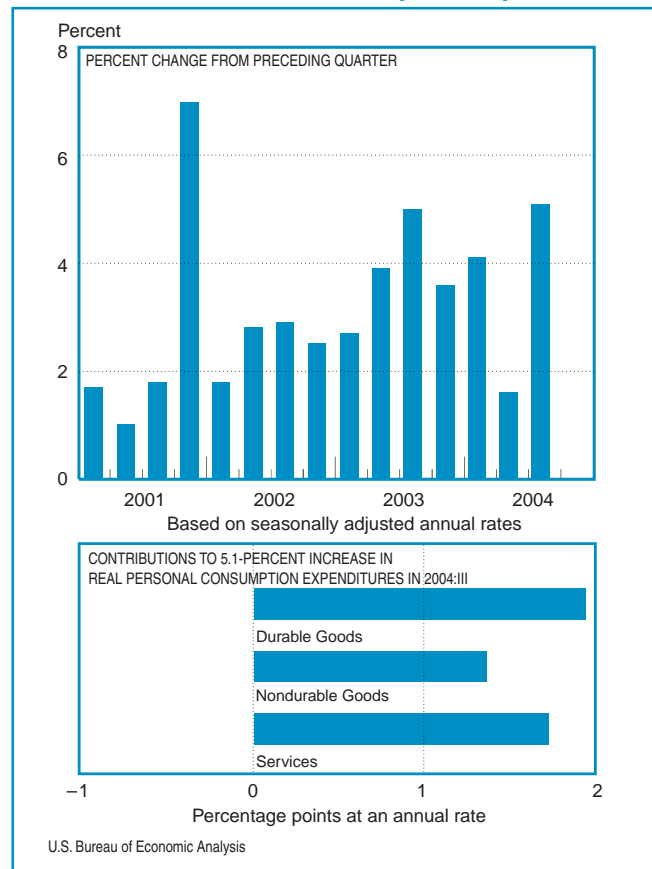
1. Includes jewelry and watches, ophthalmic products and orthopedic equipment, books and maps, bicycles and motorcycles, guns and sporting equipment, photographic equipment, boats, and pleasure aircraft.

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.

**Chart 2. Real Personal Consumption Expenditures**



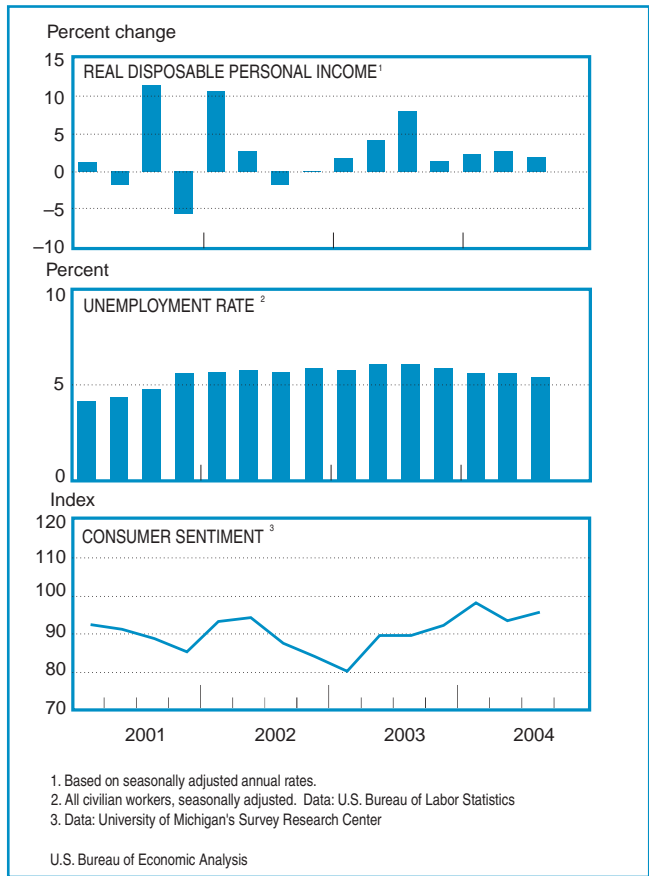
In nondurable goods, purchases of gasoline, fuel oil, and other energy goods and of clothing and shoes turned up, and purchases of food and of “other” nondurable goods accelerated.

In services, spending on electricity and gas decreased less than in the second quarter, and spending on recreation (which includes casino gambling), on medical care, and on housing accelerated. In contrast, spending on “other” services and on transportation slowed.

Factors frequently considered in the analysis of consumer spending were mixed in the third quarter (chart 3). The Index of Consumer Sentiment (prepared by the University of Michigan’s Survey Research Center) increased after decreasing in the second quarter, and the unemployment rate dropped from 5.6 percent to 5.4 percent, but real disposable personal income registered a fourth consecutive below-average increase.<sup>4</sup>

4. Real disposable personal income increased 2.0 percent in the third quarter. Over the preceding 10 years, it has increased at an average annual rate of 3.3 percent.

**Chart 3. Selected Factors Affecting Consumer Spending**



## Private Fixed Investment

Real private fixed investment increased 8.8 percent in the third quarter after increasing 13.9 percent in the second (table 4 and chart 4).<sup>5</sup>

**Nonresidential.** Real private nonresidential fixed investment increased 12.9 percent in the third quarter after increasing 12.5 percent in the second. Investment in equipment and software increased more than in the second quarter, and investment in structures decreased slightly after an increase.

The step-up in equipment and software reflected step-ups in industrial equipment, in transportation equipment, and in "other" equipment. In contrast, investment in information processing equipment and software increased less than in the second quarter. The step-up in industrial equipment primarily reflected

an acceleration in special industry machinery and an upturn in metalworking machinery. In transportation equipment, light trucks accelerated, and autos and "other" trucks turned up; in contrast, aircraft turned down after a second-quarter rebound. In "other" equipment, the upturn was led by an acceleration in construction machinery. Within information processing equipment and software, "other" information processing equipment, computers and peripheral equipment, and software slowed.

The decrease in structures reflected a decrease in power and communication. The third-quarter decrease more than offset increases in the other components of structures; however, for all the components except manufacturing, the increases were less than in the second quarter. In manufacturing, the third-quarter increase followed four quarterly decreases.

Conditions that are frequently considered in the

5. From the third quarter of 1994 to the third quarter of 2004, real private fixed investment increased at an average annual rate of 5.7 percent.

**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)
	2003		2004		2003		2004		
	IV	I	II	III	IV	I	II	III	III
<b>Private fixed investment (PFI)</b> .....	10.5	4.5	13.9	8.8	10.5	4.5	13.9	8.8	100.0
<b>Nonresidential</b> .....	11.0	4.2	12.5	12.9	7.20	2.73	8.11	8.19	64.6
<b>Structures</b> .....	7.9	-7.6	6.9	-0.3	1.22	-1.19	1.07	-0.05	14.7
Commercial and health care .....	-6.3	-9.1	21.3	0.6	-0.42	-0.60	1.24	0.04	6.3
Manufacturing .....	-4.1	-16.8	-14.2	18.3	-0.03	-0.15	-0.12	0.13	0.8
Power and communication ...	71.4	-13.4	-37.0	-21.1	1.30	-0.35	-1.03	-0.48	2.0
Mining exploration, shafts, and wells .....	13.7	6.7	20.0	9.6	0.29	0.14	0.42	0.21	2.3
Other structures <sup>1</sup> .....	2.3	-7.0	16.8	1.8	0.08	-0.25	0.55	0.06	3.4
<b>Equipment and software</b> .....	12.0	8.0	14.2	17.2	5.97	3.92	7.05	8.24	49.9
Information processing equipment and software ...	16.3	16.4	14.1	7.6	4.11	4.01	3.67	1.96	25.4
Computers and peripheral equipment .....	31.5	6.5	26.5	21.0	1.70	0.37	1.47	1.16	5.8
Software <sup>2</sup> .....	9.3	16.8	8.7	7.3	0.91	1.54	0.87	0.71	9.5
Other <sup>3</sup> .....	15.0	22.1	12.7	0.9	1.50	2.10	1.33	0.10	10.0
Industrial equipment .....	-4.5	6.6	2.1	27.2	-0.36	0.52	0.17	1.99	8.1
Transportation equipment .....	11.9	-15.0	26.1	35.4	0.92	-1.26	1.88	2.48	8.0
Other equipment <sup>4</sup> .....	16.5	8.3	16.1	23.0	1.31	0.66	1.32	1.81	8.5
<b>Residential</b> .....	9.6	5.0	16.5	1.7	3.34	1.75	5.76	0.64	35.4
<b>Structures</b> .....	9.5	4.9	16.7	1.6	3.28	1.70	5.74	0.60	34.9
Permanent site .....	21.6	6.7	9.0	3.0	4.25	1.43	1.99	0.66	21.7
Single family .....	24.8	7.1	8.9	2.6	4.34	1.37	1.78	0.53	19.6
Multifamily .....	-4.4	2.8	9.8	6.1	-0.09	0.06	0.21	0.13	2.1
Other structures <sup>5</sup> .....	-7.2	2.1	30.5	-0.5	-0.97	0.27	3.75	-0.06	13.2
<b>Equipment</b> .....	12.7	11.9	3.7	8.8	0.06	0.05	0.02	0.04	0.5

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.

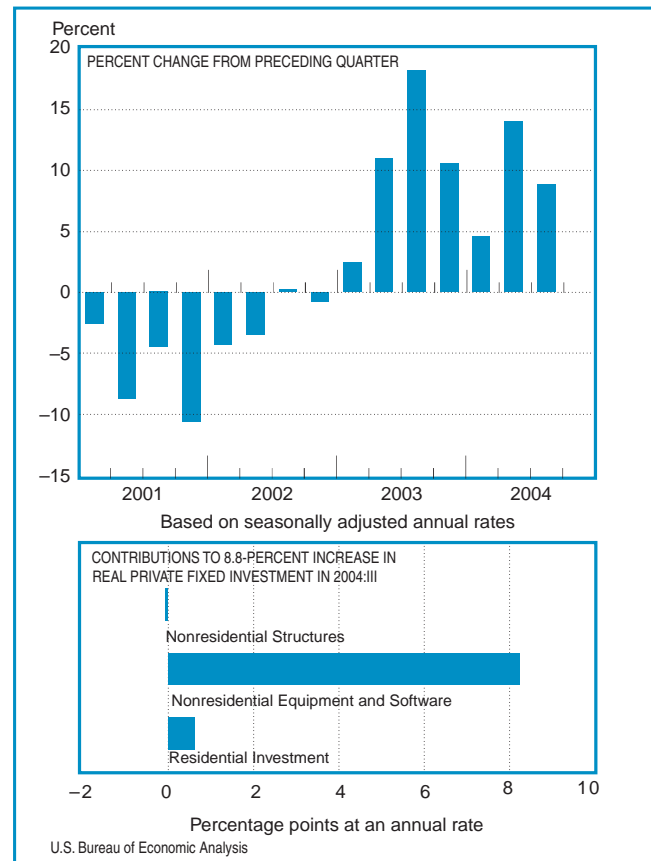
3. Includes communication equipment, nonmedical instruments, medical equipment and instruments, photocopy and related equipment, and office and accounting equipment.

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.

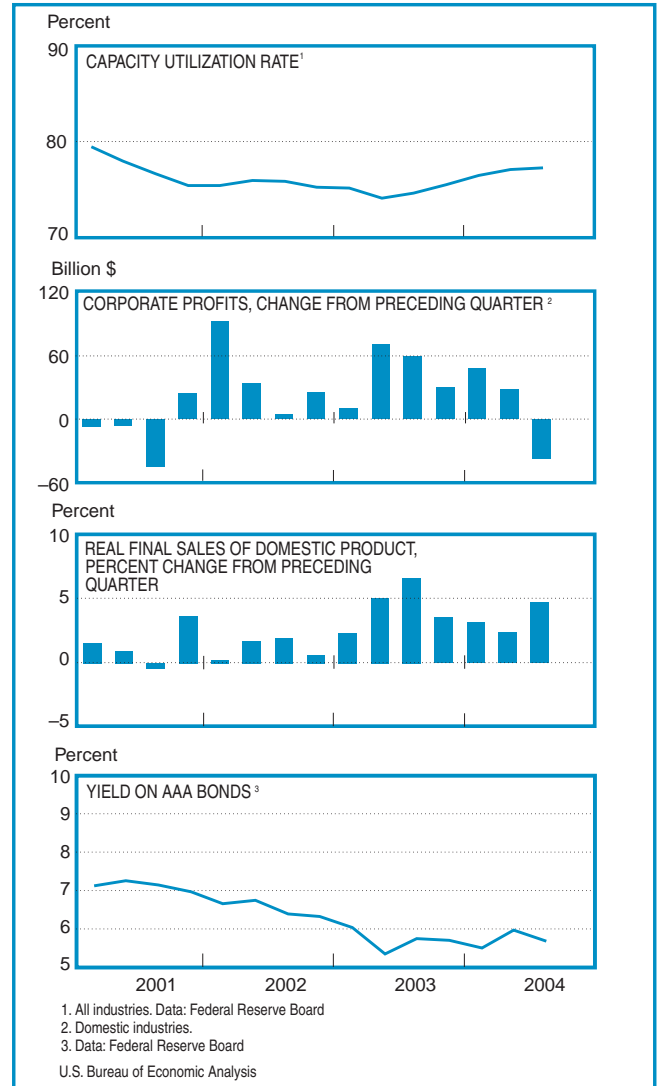
**Chart 4. Real Private Fixed Investment**



analysis of investment spending have generally been favorable in recent quarters (chart 5). The capacity utilization rate for manufacturing, mining, and utilities increased slightly; this increase was the fifth consecutive quarterly increase. At 77.3 percent, the rate was 3.2 percentage points above its low in the second quarter of 2003, and it was at its highest level since the second quarter of 2001. Long-term interest rates decreased in the third quarter; the yield on AAA bonds has remained below 6 percent since the first quarter of 2003. Real final sales of domestic product stepped up somewhat, increasing 4.9 percent in the third quarter after an average increase of 3.2 percent in the preceding three quarters. Domestic corporations' profits from current production decreased after increasing for 11 consecutive quarters; third-quarter profits were reduced about \$80 billion because of hurricanes (see the section "Corporate Profits").

**Residential.** Real private residential investment slowed sharply in the third quarter, increasing 1.7 percent after increasing 16.5 percent in the second quarter. The slowdown mainly reflected a downturn in "other" structures, which includes brokers' commissions on the sale of residences. Both single-family and multifamily construction increased less than in the second quarter.

**Chart 5. Selected Factors Affecting Nonresidential Investment**



Inventory Investment, next page.

## Inventory Investment

Real inventory investment decreased \$25.2 billion, to \$35.9 billion in the third quarter from \$61.1 billion in the second (table 5 and chart 6). This decrease contrasted with a step-up of \$21.1 billion in the second quarter.

Retail trade inventories turned down in the third quarter. The downturn largely reflected a swing from accumulation to liquidation in inventories of motor vehicle dealers. Inventory investment of most other types of retail outlets also fell, but by much less than that of motor vehicle dealers.

Manufacturing inventories increased somewhat less than in the second quarter. A downturn in inventories of chemical manufacturing was partly offset by an acceleration in inventories of plastic and rubber products.

Wholesale trade inventories increased more in the third quarter than in the second quarter. The acceleration was more than accounted for by merchant whole-

salers; the biggest contributions were made by an upturn in inventories of apparel wholesalers and an acceleration in inventories of miscellaneous durable goods.

Farm inventories increased more than in the second quarter. Crop inventories mainly accounted for the acceleration.

The ratio of real private nonfarm inventories to final sales of goods and structures decreased to 3.50 from 3.55. A ratio that includes all final sales of domestic businesses in the denominator decreased to 2.21 from 2.22.<sup>6</sup> Both ratios have been trending down for decades.

6. 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.

**Table 5. Real Change in Private Inventories, by Industry**

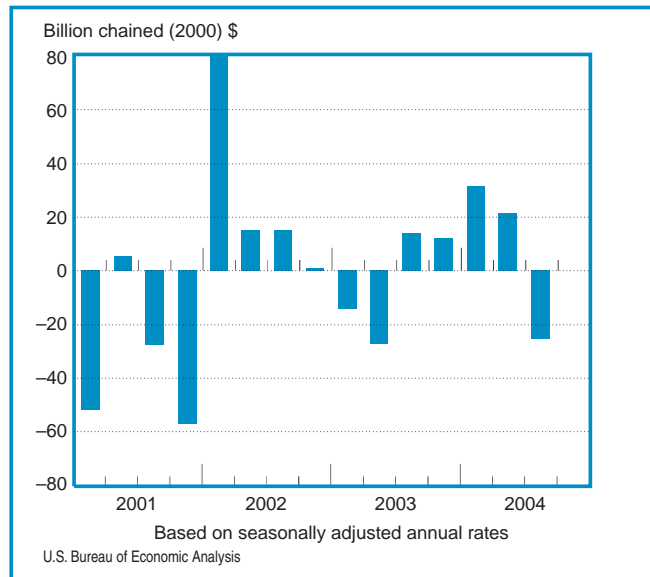
[Billions of chained (2000) dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter				
	2003		2004			2003		2004		
	III	IV	I	II	III	IV	I	II	III	
<b>Change in private inventories (CPI) .....</b>	<b>-3.5</b>	<b>8.6</b>	<b>40.0</b>	<b>61.1</b>	<b>35.9</b>	<b>12.1</b>	<b>31.4</b>	<b>21.1</b>	<b>-25.2</b>	
Farm .....	-0.7	3.5	5.1	3.0	3.9	4.2	1.6	-2.1	0.9	
Mining, utilities, and construction .....	1.2	3.5	-4.5	-1.7	5.1	2.3	-8.0	2.8	6.8	
Manufacturing .....	-20.4	-13.1	3.0	9.1	7.5	7.3	16.1	6.1	-1.6	
Durable-goods industries .....	-17.7	-1.8	-2.2	5.9	6.2	15.9	-0.4	8.1	0.3	
Nondurable-goods industries .....	-2.9	-10.9	5.0	3.3	1.4	-8.0	15.9	-1.7	-1.9	
Wholesale trade .....	2.3	4.0	8.5	20.0	32.5	1.7	4.5	11.5	12.5	
Durable-goods industries .....	-6.9	9.7	11.1	16.4	25.5	16.6	1.4	5.3	9.1	
Nondurable-goods industries .....	8.6	-5.2	-2.0	4.0	7.5	-13.8	3.2	6.0	3.5	
Retail trade .....	13.7	9.4	25.6	29.9	-19.2	-4.3	16.2	4.3	-49.1	
Motor vehicle and parts dealers .....	4.3	-0.9	18.7	17.1	-22.7	-5.2	19.6	-1.6	-39.8	
Food and beverage stores .....	0.8	-2.1	0.3	1.6	-0.2	-2.9	2.4	1.3	-1.8	
General merchandise stores .....	0.6	3.3	3.0	2.7	0.7	2.7	-0.3	-0.3	-2.0	
Other retail stores .....	8.2	9.2	4.3	8.9	1.9	1.0	-4.9	4.6	-7.0	
Other industries .....	0.5	0.8	2.8	2.3	4.2	0.3	2.0	-0.5	1.9	
Residual <sup>1</sup> .....	0.5	-0.5	-1.6	-2.4	2.4	-1.0	-1.1	-0.8	4.8	
<b>Addenda: Ratios of private inventories to final sales of domestic business:</b>										
Private inventories to final sales .....	2.45	2.42	2.42	2.43	2.41	.....	.....	.....	.....	
Nonfarm inventories to final sales .....	2.24	2.22	2.22	2.22	2.21	.....	.....	.....	.....	
Nonfarm inventories to final sales of goods and structures .....	3.59	3.55	3.54	3.55	3.50	.....	.....	.....	.....	

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**





## Exports and Imports

The growth of real exports of goods and services slowed somewhat in the third quarter, and the growth of real imports of goods and services slowed more sharply (table 6).

Real exports of goods and services increased 6.3 percent after increasing 7.3 percent (chart 7). Exports of goods increased 9.1 percent after increasing 6.0 percent. The acceleration reflected an upturn in exports of foods, feeds, and beverages and step-ups in exports of

automotives and in "other" exports that were partly offset by a downturn in exports of nonautomotive consumer goods and by a slowdown in exports of industrial supplies and materials.

Exports of services increased 0.2 percent after increasing 10.2 percent. The deceleration primarily reflected downturns in transfers under U.S. military sales contracts, in passenger fares, and in "other" transportation and decelerations in travel and in "other"

**Table 6. Real Exports and Imports of Goods and Services**  
[Seasonally adjusted at annual rates]

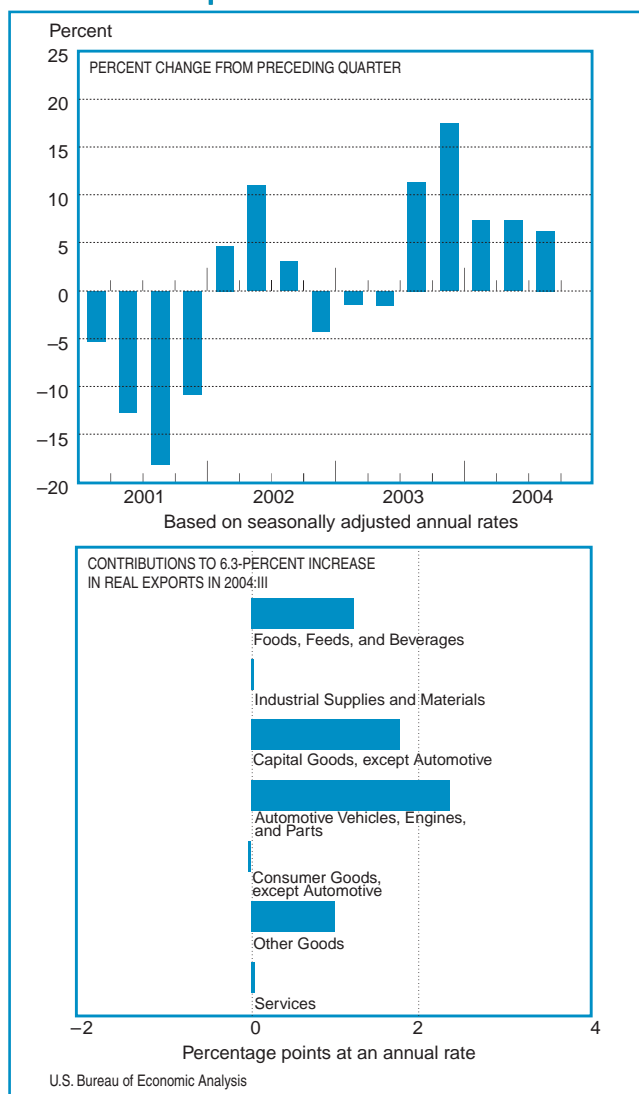
	Change from preceding period (percent)				Contribution to percent change in real exports and imports (percentage points)				Share of current-dollar exports and imports (percent)
	2003		2004		2003		2004		
	IV	I	II	III	IV	I	II	III	
<b>Exports of goods and services</b> .....	<b>17.5</b>	<b>7.3</b>	<b>7.3</b>	<b>6.3</b>	<b>17.5</b>	<b>7.3</b>	<b>7.3</b>	<b>6.3</b>	<b>100.0</b>
<b>Exports of goods</b> <sup>1</sup> .....	<b>16.1</b>	<b>9.1</b>	<b>6.0</b>	<b>9.1</b>	<b>11.21</b>	<b>6.30</b>	<b>4.19</b>	<b>6.28</b>	<b>70.0</b>
Foods, feeds, and beverages	-6.0	-30.0	-24.3	28.3	-0.32	-1.83	-1.35	1.21	4.6
Industrial supplies and materials	5.2	14.4	6.9	0.3	0.87	2.23	1.14	0.04	17.0
Capital goods, except automotive	31.0	13.1	6.2	6.2	8.25	3.61	1.75	1.75	28.1
Automotive vehicles, engines, and parts	14.8	5.1	8.2	35.0	1.13	0.38	0.60	2.33	7.8
Consumer goods, except automotive	11.3	18.6	18.2	-0.3	0.99	1.50	1.49	-0.03	8.6
Other	7.3	11.4	16.1	27.7	0.28	0.41	0.57	0.98	4.0
<b>Exports of services</b> <sup>1</sup> .....	<b>20.6</b>	<b>3.4</b>	<b>10.2</b>	<b>0.2</b>	<b>6.24</b>	<b>1.04</b>	<b>3.06</b>	<b>0.05</b>	<b>30.0</b>
<b>Imports of goods and services</b> .....	<b>17.1</b>	<b>10.6</b>	<b>12.6</b>	<b>6.0</b>	<b>17.1</b>	<b>10.6</b>	<b>12.6</b>	<b>6.0</b>	<b>100.0</b>
<b>Imports of goods</b> <sup>1</sup> .....	<b>18.4</b>	<b>12.7</b>	<b>13.0</b>	<b>5.6</b>	<b>15.11</b>	<b>10.41</b>	<b>10.82</b>	<b>4.67</b>	<b>83.5</b>
Foods, feeds, and beverages	18.9	2.3	7.4	-10.1	0.68	0.08	0.27	-0.37	3.4
Industrial supplies and materials, except petroleum and products	0.7	16.9	38.2	25.2	0.16	1.87	3.97	2.95	13.2
Petroleum and products	16.5	39.1	-33.1	5.3	1.33	3.13	-3.88	0.51	10.0
Capital goods, except automotive	26.0	13.4	30.6	13.9	4.83	2.55	5.43	2.57	19.4
Automotive vehicles, engines, and parts	21.7	6.0	10.1	3.2	2.88	0.82	1.33	0.42	12.8
Consumer goods, except automotive	21.9	9.6	20.5	-9.7	4.64	2.08	4.21	-2.12	20.2
Other	11.8	-2.2	-10.7	16.4	0.60	-0.11	-0.51	0.70	4.5
<b>Imports of services</b> <sup>1</sup> .....	<b>11.1</b>	<b>1.2</b>	<b>10.6</b>	<b>8.3</b>	<b>1.97</b>	<b>0.21</b>	<b>1.78</b>	<b>1.36</b>	<b>16.5</b>
<b>Addenda:</b>									
Exports of agricultural goods <sup>2</sup>	-19.1	-23.2	-19.1	24.6					5.1
Exports of nonagricultural goods	20.1	12.7	8.5	7.9					64.9
Imports of nonpetroleum goods	18.6	9.8	20.9	5.6					73.5

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.

**Chart 7. Real Exports**

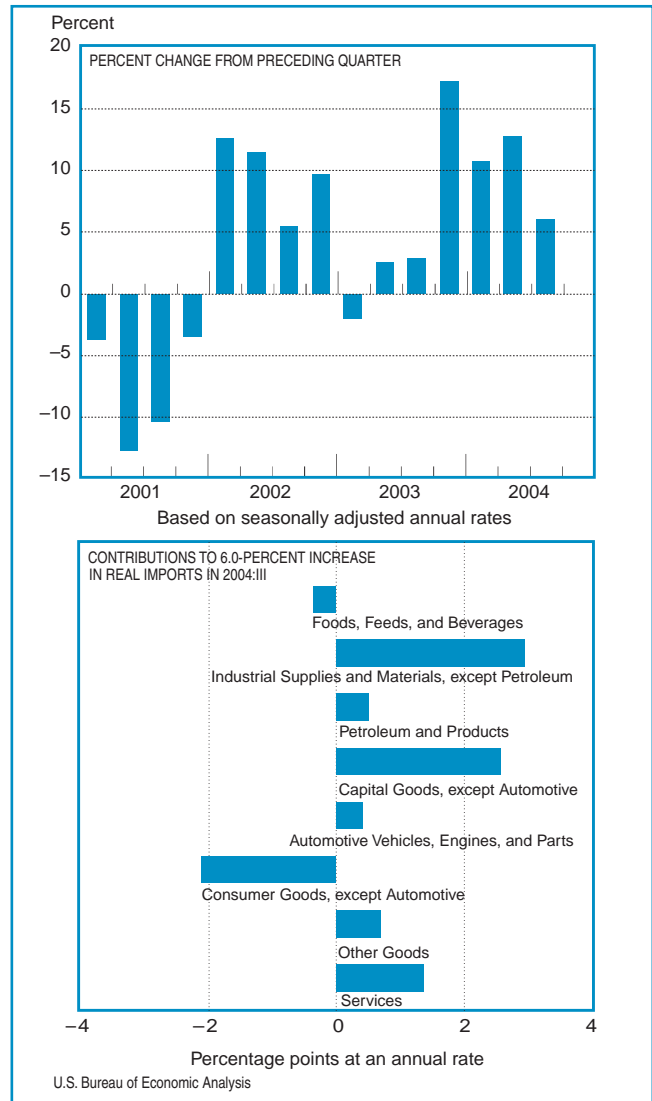


private services.

Real imports of goods and services increased 6.0 percent after increasing 12.6 percent (chart 8). Imports of goods increased 5.6 percent after increasing 13.0 percent. A downturn in imports of nonautomotive consumer goods and a deceleration in nonautomotive capital goods were partly offset by an upturn in imports of petroleum.

Imports of services also slowed, increasing 8.3 percent after increasing 10.6 percent. A deceleration in travel was partly offset by an acceleration in royalties and license fees.

**Chart 8. Real Imports**



### Government Spending

Government spending increased 1.2 percent in the third quarter after increasing 2.2 percent in the second quarter (table 7 and chart 9). Spending by the Federal Government increased more than in the second quarter, and spending by state and local governments turned down.

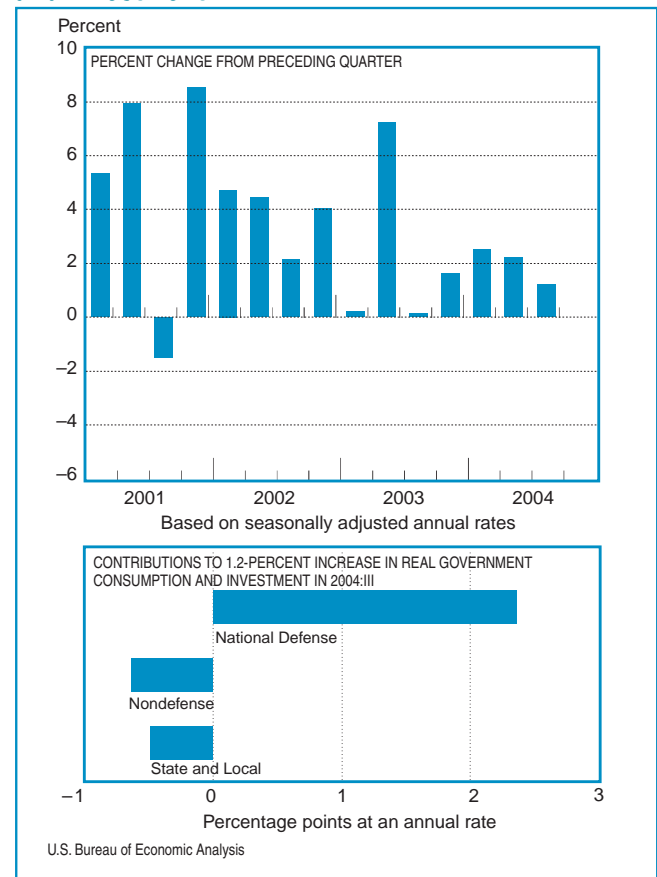
National defense spending increased 9.8 percent after increasing 1.9 percent. The step-up reflected an acceleration in consumption expenditures and an upturn in gross investment. The acceleration in consumption expenditures primarily reflected an acceleration in services. The upturn in gross investment was both in structures and in equipment and software; within equipment and software, investment in ships and missiles turned up.

Federal nondefense spending decreased 5.2 percent after increasing 4.4 percent. The downturn was primarily accounted for by a downturn in gross investment that mainly reflected a downturn in equipment and

software. Consumption expenditures decreased more than in the second quarter, largely reflecting a downturn in consumption expenditures of nondurable goods.

At the state and local level, gross investment decreased 8.9 percent after increasing 10.0 percent; the downturn was mainly accounted for by structures. Consumption expenditures accelerated in the third quarter, primarily reflecting an acceleration in employee compensation.

**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 CEGI (percentage points)				Share of current-dollar CEGI (percent)
	2003		2004		2003		2004		
	IV	I	II	III	IV	I	II	III	
<b>Government consumption expenditures and gross investment (CEGI)</b> .....	<b>1.6</b>	<b>2.5</b>	<b>2.2</b>	<b>1.2</b>	<b>1.6</b>	<b>2.5</b>	<b>2.2</b>	<b>1.2</b>	<b>100.0</b>
Consumption expenditures .....	2.0	1.9	1.0	3.1	1.67	1.61	0.81	2.50	82.7
Gross investment .....	-0.3	5.5	8.3	-7.0	-0.05	0.94	1.41	-1.27	17.3
<b>Federal</b> .....	<b>4.8</b>	<b>7.1</b>	<b>2.7</b>	<b>4.7</b>	<b>1.71</b>	<b>2.56</b>	<b>0.99</b>	<b>1.71</b>	<b>37.1</b>
<b>National defense</b> .....	<b>11.6</b>	<b>10.6</b>	<b>1.9</b>	<b>9.8</b>	<b>2.66</b>	<b>2.53</b>	<b>0.47</b>	<b>2.36</b>	<b>25.3</b>
Consumption expenditures .....	10.9	7.2	4.1	9.7	2.20	1.53	0.87	2.04	22.2
Gross investment .....	16.8	37.2	-12.0	10.6	0.46	1.00	-0.40	0.32	3.2
<b>Nondefense</b> .....	<b>-7.5</b>	<b>0.2</b>	<b>4.4</b>	<b>-5.2</b>	<b>-0.95</b>	<b>0.03</b>	<b>0.52</b>	<b>-0.64</b>	<b>11.8</b>
Consumption expenditures .....	-8.7	-0.3	-0.7	-2.2	-0.98	-0.03	-0.07	-0.23	10.3
Gross investment .....	1.7	3.9	44.0	-22.4	0.03	0.06	0.59	-0.41	1.6
<b>State and local</b> .....	<b>-0.1</b>	<b>0.0</b>	<b>1.9</b>	<b>-0.8</b>	<b>-0.09</b>	<b>-0.01</b>	<b>1.23</b>	<b>-0.49</b>	<b>62.9</b>
Consumption expenditures .....	0.9	0.2	0.0	1.4	0.45	0.12	0.01	0.69	50.2
Gross investment .....	-4.1	-1.0	10.0	-8.9	-0.54	-0.12	1.22	-1.18	12.6

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.

Prices, next page.

## Prices

Inflation as measured by the price index for gross domestic purchases was 1.8 percent in the third quarter; in the second quarter, inflation was 3.5 percent (table 8). The deceleration partly reflected a sharp deceleration in energy prices and a moderate deceleration in food prices. Excluding energy and food prices, the price index increased 1.6 percent in the third quarter after a 2.5-percent increase in the second (chart 10).

Prices of goods and services purchased by consumers increased 1.1 percent after increasing 3.1 percent; food and energy prices increased less than in the second quarter. Excluding food and energy, prices paid by

consumers increased 0.7 percent after increasing 1.7 percent.

Prices of private nonresidential fixed investment increased 1.0 percent after increasing 1.7 percent. Prices of equipment and software decreased after increasing slightly; in contrast, prices of structures increased more than in the second quarter.

Prices paid by government increased 3.4 percent after increasing 4.3 percent. Prices paid by the Federal Government slowed; both national defense and non-defense prices contributed to the deceleration. Prices paid by state and local governments increased 4.4 percent in the third quarter, 0.8 percentage point less than in the second.

The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 1.3 percent, 0.5 percentage point less than the price index for gross domestic purchases. The smaller increase in the GDP price index reflected 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).

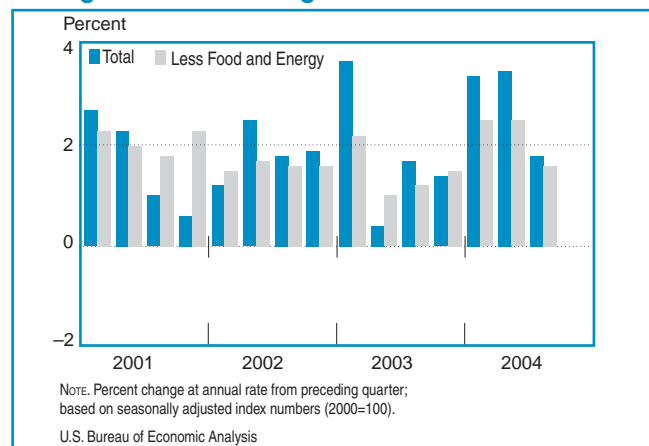
**Table 8. Price Indexes**

[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)			
	2003		2004		2003		2004	
	IV	I	II	III	IV	I	II	III
<b>Gross domestic purchases</b> .....	<b>1.4</b>	<b>3.4</b>	<b>3.5</b>	<b>1.8</b>	<b>1.4</b>	<b>3.4</b>	<b>3.5</b>	<b>1.8</b>
<b>Personal consumption expenditures</b> .....	<b>1.2</b>	<b>3.3</b>	<b>3.1</b>	<b>1.1</b>	<b>0.82</b>	<b>2.19</b>	<b>2.08</b>	<b>0.74</b>
Durable goods .....	-4.3	0.0	-0.1	-3.1	-0.37	0.00	-0.01	-0.25
Nondurable goods .....	0.5	5.3	6.6	0.9	0.11	1.00	1.25	0.18
Services.....	2.7	3.0	2.1	2.1	1.08	1.20	0.84	0.81
<b>Gross private domestic investment</b> .....	<b>2.7</b>	<b>2.1</b>	<b>4.4</b>	<b>3.1</b>	<b>0.40</b>	<b>0.32</b>	<b>0.68</b>	<b>0.48</b>
Fixed investment.....	2.8	2.0	4.3	3.1	0.40	0.30	0.64	0.47
Nonresidential.....	1.2	0.3	1.7	1.0	0.12	0.03	0.17	0.10
Structures .....	1.4	4.8	7.6	9.8	0.03	0.10	0.17	0.21
Equipment and software...	1.2	-1.1	0.1	-1.5	0.09	-0.08	0.01	-0.11
Residential.....	5.8	5.4	9.1	7.0	0.29	0.28	0.47	0.37
Change in private inventories .....					-0.01	0.02	0.04	0.01
<b>Government consumption expenditures and gross investment</b> .....	<b>1.0</b>	<b>5.1</b>	<b>4.3</b>	<b>3.4</b>	<b>0.18</b>	<b>0.89</b>	<b>0.77</b>	<b>0.59</b>
Federal.....	1.0	6.6	3.0	1.6	0.06	0.42	0.20	0.10
National defense.....	1.3	5.7	3.5	1.8	0.06	0.25	0.15	0.08
Nondefense.....	0.3	8.3	1.9	1.1	0.01	0.18	0.04	0.02
State and local.....	1.0	4.2	5.2	4.4	0.11	0.47	0.57	0.49
<b>Addenda:</b>								
Gross domestic purchases:								
Food.....	4.1	2.8	4.2	2.1	0.38	0.27	0.40	0.20
Energy goods and services .....	-7.1	27.0	24.9	6.3	-0.29	0.98	0.94	0.26
Excluding food and energy .....	1.5	2.5	2.5	1.6	1.31	2.16	2.19	1.35
Personal consumption expenditures:								
Food.....	3.9	2.6	3.9	2.6				
Energy goods and services .....	-8.5	26.7	26.5	4.0				
Excluding food and energy .....	1.3	2.1	1.7	0.7				
Gross domestic product.....	1.6	2.8	3.2	1.3				

NOTE. Most percent changes are from NIPA table 1.6.7; percent changes for personal consumption expenditures 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 3.9-percent increase in real GDP in the third quarter is 0.2 percentage point more than the advance estimate released in October (table 9). In the past 20 years, the average revision, without regard to sign, from the advance estimate to the preliminary estimate has been 0.5 percentage point.

The upward revision to third-quarter real GDP reflected upward revisions to net exports and to consumer spending that were partly offset by a downward revision to inventory investment.

In the preliminary estimate, net exports added 0.35 percentage point more to the GDP growth rate than in the advance estimate. Exports increased more than previously reported, and imports (which are subtracted in the calculation of GDP) increased less. The revisions to both exports and imports mainly reflected the incorporation of newly available Census Bureau data on trade in goods for September.

Consumer spending contributed 0.30 percentage point more to GDP growth in the preliminary estimate than in the advance estimate. The upward revision to consumer spending mainly reflected the incorporation of revised Census Bureau data on retail sales for August and September.

Inventory investment contributed 0.43 percentage point less to GDP growth in the preliminary estimate than in the advance estimate. Within inventory investment, nonfarm inventories were revised down, and farm inventories were revised up. The downward revision to nonfarm inventory investment reflected the incorporation of newly available Census Bureau data on inventories for September and revised data for August. The upward revision to farm inventories reflected the incorporation of newly available data from the Department of Agriculture.

In addition to these revised estimates for the third quarter, estimates of wages and salaries and of related series for the second quarter have been revised. These revisions reflect the incorporation of newly available tabulations of wages and salaries of employees covered by state unemployment insurance from the Bureau of Labor Statistics. Wage and salary accruals are now estimated to have increased \$70.7 billion in the second quarter, an upward revision of \$10.0 billion, and real

disposable personal income (DPI) is now estimated to have increased 2.8 percent in the second quarter, an upward revision of 0.4 percentage point. Real DPI in the third quarter is now estimated to have increased 2.0 percent, an upward revision of 0.6 percentage point.

**Table 9. Preliminary and Advance Estimates for the Third Quarter of 2004**  
[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 (GDP)</b> .....	<b>3.9</b>	<b>3.7</b>	<b>0.2</b>	<b>3.9</b>	<b>3.7</b>	<b>0.2</b>
<b>Personal consumption expenditures</b> .....	<b>5.1</b>	<b>4.6</b>	<b>0.5</b>	<b>3.53</b>	<b>3.23</b>	<b>0.30</b>
Durable goods.....	17.2	16.8	0.4	1.37	1.33	0.04
Nondurable goods.....	4.8	3.9	0.9	0.96	0.79	0.17
Services.....	2.9	2.7	0.2	1.21	1.10	0.11
<b>Gross private domestic investment</b> .....	<b>2.8</b>	<b>5.2</b>	<b>-2.4</b>	<b>0.46</b>	<b>0.85</b>	<b>-0.39</b>
Fixed investment.....	8.8	8.5	0.3	1.37	1.33	0.04
Nonresidential.....	12.9	11.7	1.2	1.27	1.15	0.12
Structures.....	-0.3	1.4	-1.7	-0.01	0.03	-0.04
Equipment and software.....	17.2	14.9	2.3	1.28	1.12	0.16
Residential.....	1.7	3.1	-1.4	0.10	0.18	-0.08
Change in private inventories.....				-0.91	-0.48	-0.43
<b>Net exports of goods and services</b> .....				<b>-0.27</b>	<b>-0.62</b>	<b>0.35</b>
Exports.....	6.3	5.1	1.2	0.62	0.51	0.11
Goods.....	9.1	7.8	1.3	0.62	0.53	0.09
Services.....	0.2	-0.8	1.0	0.01	-0.02	0.03
Imports.....	6.0	7.7	-1.7	-0.89	-1.13	0.24
Goods.....	5.6	7.5	-1.9	-0.69	-0.92	0.23
Services.....	8.3	8.8	-0.5	-0.20	-0.21	0.01
<b>Government consumption expenditures and gross investment</b> .....	<b>1.2</b>	<b>1.4</b>	<b>-0.2</b>	<b>0.23</b>	<b>0.26</b>	<b>-0.03</b>
Federal.....	4.7	4.6	0.1	0.32	0.31	0.01
National defense.....	9.8	9.3	0.5	0.44	0.42	0.02
Nondefense.....	-5.2	-4.7	-0.5	-0.12	-0.11	-0.01
State and local.....	-0.8	-0.5	-0.3	-0.09	-0.05	-0.04
<b>Addenda:</b>						
Final sales of domestic product.....	4.9	4.2	0.7	4.86	4.19	0.67
Gross domestic purchases price index.....	1.8	1.8	0.0			
GDP price index.....	1.3	1.3	0.0			

NOTE: The preliminary estimates for the third quarter of 2004 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

*Personal consumption expenditures:* Revised retail sales for August and September, and revised estimates of electricity usage for July.

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

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

*Change in private inventories:* Manufacturers' and trade inventories for August (revised) and September (newly available and revised), and crop and livestock estimates from the U.S. Department of Agriculture for

2003 (revised) and 2004 (projected).

*Exports and imports of goods and services:* Exports and imports of goods for August (revised) and September.

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

*Wages and salaries:* Revised employment, average hourly earnings, and average weekly hours for August and September, and tabulations of wages and salaries for the second quarter of employees covered by state unemployment insurance.

*GDP prices:* Revised export and import prices for July through September, revised unit-value index for petroleum imports for September, seasonally adjusted consumer price indexes for July through September (revised), and revised prices of single-family houses under construction for the quarter.

Corporate Profits, next page.

## Corporate Profits

Profits from current production decreased \$27.6 billion (2.4 percent at a quarterly rate) in the third quarter after increasing \$8.3 billion (0.7 percent) in the second quarter (table 10).<sup>7</sup> In the third quarter, profits of domestic industries decreased, and profits from the rest of the world increased; in contrast, in the second quarter, profits of domestic industries increased, and profits from the rest of the world decreased.<sup>8</sup>

Third-quarter profits from current production were reduced \$79.7 billion (annual rate) because of Hurricanes Charley, Frances, Ivan, and Jeanne. Benefits paid by insurance companies reduced their profits by \$69.3 billion. In addition, profits of other companies were reduced \$10.4 billion by uninsured losses.<sup>9</sup>

Taxes on corporate income decreased \$9.8 billion (3.6 percent) in the third quarter, and after-tax profits from current production decreased \$17.8 billion (2.0 percent).

The decrease in profits of domestic industries was more than accounted for by financial corporations. Profits of financial corporations decreased \$46.7 billion (13.4 percent) in the third quarter, reflecting the effect of the hurricanes on the profits of insurance companies; in the second quarter, profits of financial corporations decreased \$7.9 billion (2.2 percent). In contrast, profits of nonfinancial corporations increased \$10.2 billion (1.6 percent) in the third quarter after increasing \$36.2 billion (6.0 percent) in the second. The third-quarter increase reflected an increase in gross value added, as both unit prices and profits per unit changed little.

Profits from the rest of the world increased \$8.8 billion (4.7 percent) after decreasing \$20.0 billion (9.7

percent). The turnaround reflected a downturn in payments by domestic affiliates to foreign parents, which are deducted in the calculation of profits from the rest of the world. These payments decreased \$2.5 billion (2.1 percent) after increasing \$26.6 billion (28.4 percent). Receipts from foreign affiliates of domestic parents increased at about the same rate in the third quarter as in the second.

Net cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$20.4 billion.<sup>10</sup> 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 decreased to 104.4 in the third quarter from 106.2 in the second. However, the ratio remained above 100 for the eighth consecutive quarter.

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

**Table 10. Corporate Profits**

[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change from preceding quarter (quarterly rate)				
	Level		Change from preceding quarter							
	2004	2003	2004			2003	2004			
	III	IV	I	II	III	IV	I	II	III	
<b>Current production measures:</b>										
Corporate profits .....	1,146.3	72.0	36.5	8.3	-27.6	6.8	3.2	0.7	-2.4	
Domestic industries .....	952.1	29.6	47.0	28.3	-36.5	3.3	5.1	2.9	-3.7	
Financial .....	301.1	-0.5	19.8	-7.9	-46.7	-0.1	5.9	-2.2	-13.4	
Nonfinancial .....	651.0	30.0	27.3	36.2	10.2	5.5	4.7	6.0	1.6	
Rest of the world .....	194.1	42.4	-10.5	-20.0	8.8	24.4	-4.9	-9.7	4.7	
Receipts from the rest of the world .....	311.9	40.3	5.6	6.6	6.3	15.9	1.9	2.2	2.1	
Less: Payments to the rest of the world .....	117.8	-2.2	16.2	26.6	-2.5	-2.7	20.8	28.4	-2.1	
Less: Taxes on corporate income .....	261.4	13.6	4.2	14.7	-9.8	5.7	1.6	5.7	-3.6	
Equals: Profits after tax .....	884.9	58.4	32.3	-6.4	-17.8	7.1	3.7	-0.7	-2.0	
Net dividends .....	424.0	2.3	7.0	9.8	10.8	0.6	1.8	2.4	2.6	
Undistributed profits from current production .....	460.9	56.2	25.3	-16.2	-28.6	13.2	5.3	-3.2	-5.8	
Net cash flow .....	1,293.8	63.2	5.9	-5.7	20.4	5.2	0.5	-0.4	1.6	
<b>Industry profits:</b>										
Profits with IVA .....	925.0	64.7	-16.5	15.2	-15.6	7.4	-1.8	1.6	-1.7	
Domestic industries .....	730.9	22.3	-6.1	35.2	-24.3	3.2	-0.8	4.9	-3.2	
Financial .....	259.9	-0.8	8.4	-7.3	-46.5	-0.3	2.7	-2.3	-15.2	
Nonfinancial .....	471.0	23.1	-14.3	42.4	22.2	5.8	-3.4	10.4	5.0	
Rest of the world .....	194.1	42.4	-10.5	-20.0	8.8	24.4	-4.9	-9.7	4.7	
<b>Addenda:</b>										
Profits before tax (without IVA and CCAAdj) .....	964.3	85.2	-3.8	25.9	-24.0	9.7	-0.4	2.7	-2.4	
Profits after tax (without IVA and CCAAdj) .....	703.0	71.6	-8.0	11.2	-14.1	11.2	-1.1	1.6	-2.0	
IVA .....	-39.3	-20.5	-12.7	-10.8	8.5					
CCAAdj .....	221.2	7.3	53.0	-6.9	-12.1	4.1	28.3	-2.9	-5.2	

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

7. 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.

Percent changes in profits are shown at quarterly, not annual, rates.

8. 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.

9. For additional information on the effects of the third-quarter hurricanes on corporate profits and other NIPA income measures, see BEA's Web site, <[www.bea.gov/bea/dn/hurricane.htm](http://www.bea.gov/bea/dn/hurricane.htm)>. More detail is available at <[www.bea.gov/bea/dn/hurricane.pdf](http://www.bea.gov/bea/dn/hurricane.pdf)>.

## Government Sector

“Net government saving,” the difference between current receipts and expenditures, was  $-\$367.7$  billion in the third quarter of 2004, decreasing  $\$6.0$  billion from  $-\$361.7$  billion in the second quarter (table 11).<sup>11</sup> Net Federal Government saving decelerated in the third quarter, and net state and local government saving turned down.

### Federal

Net Federal Government saving was  $-\$376.2$  billion in the third quarter of 2004, increasing  $\$3.8$  billion from  $-\$380.0$  billion in the second quarter. Both current receipts and current expenditures decelerated.

**Current receipts.** Federal Government current receipts increased  $\$14.8$  billion in the third quarter after increasing  $\$33.8$  billion in the second quarter. The deceleration was more than accounted for by decelerations in current tax receipts and in contributions for government social insurance. These decelerations were partly offset by an upturn in income receipts on assets.

Current tax receipts increased  $\$5.4$  billion after increasing  $\$24.6$  billion. The deceleration was more than accounted for by a downturn in taxes on corporate income, which decreased  $\$7.8$  billion after increasing  $\$11.6$  billion. The deceleration was also partly attributable to personal current taxes, which increased  $\$12.9$  billion after increasing  $\$13.2$  billion.

Contributions for government social insurance increased  $\$8.7$  billion after increasing  $\$9.7$  billion. The deceleration was mostly accounted for by contributions for social security (old-age, survivors, disability, and health insurance trust funds), which increased  $\$7.6$  billion after increasing  $\$8.6$  billion, reflecting a deceleration in wage and salary disbursements.

Income receipts on assets increased  $\$0.6$  billion after decreasing  $\$0.7$  billion. The upturn was mostly attributable to an upturn in interest receipts. Interest receipts from the rest of the world turned up, increasing  $\$0.5$  billion after decreasing  $\$0.6$  billion.

**Current expenditures.** Federal Government current expenditures increased  $\$11.0$  billion after increasing  $\$22.8$  billion. The deceleration was mostly accounted for by a downturn in interest payments and a slowdown in current transfer payments. The deceleration was partly offset by an acceleration in consumption expenditures.

Interest payments decreased  $\$0.7$  billion after increasing  $\$9.6$  billion. The downturn was mostly accounted for by a downturn in interest paid to persons and business, which decreased  $\$5.3$  billion after increasing  $\$3.8$  billion, reflecting lower interest expense

payments on the public debt.

Current transfer payments increased  $\$0.1$  billion after increasing  $\$2.0$  billion. The slowdown was more than accounted for by “other current transfer payments,” which decreased  $\$11.0$  billion after decreasing  $\$4.8$  billion; the third-quarter decrease was partly offset by an acceleration in government social benefits.

Grants-in-aid to state and local governments decreased  $\$9.8$  billion after increasing  $\$5.9$  billion. The

**Table 11. Government Sector Current Receipts and Expenditures**

[Billions of dollars, seasonally adjusted at annual rates]

	Level		Change from preceding quarter		
	2004	2003	2004		
	III	IV	I	II	III
Current receipts .....	3,198.8	104.4	30.8	61.1	17.7
Current expenditures .....	3,566.5	21.7	66.2	43.6	23.7
<b>Net government saving .....</b>	<b>-367.7</b>	<b>82.6</b>	<b>-35.3</b>	<b>17.5</b>	<b>-6.0</b>
Social insurance funds .....	69.7	2.8	12.1	6.7	2.5
Other .....	-437.4	79.8	-47.4	10.7	-8.4
<b>Federal</b>					
<b>Current receipts .....</b>	<b>1,963.9</b>	<b>84.2</b>	<b>14.7</b>	<b>33.8</b>	<b>14.8</b>
Current tax receipts .....	1,103.9	75.6	-1.0	24.6	5.4
Personal current taxes .....	794.4	63.3	-4.2	13.2	12.9
Taxes on production and imports .....	89.5	1.6	-0.6	0.3	0.2
Taxes on corporate income .....	211.7	10.6	3.0	11.6	-7.8
Taxes from the rest of the world .....	8.3	0.1	0.7	-0.3	0.0
Contributions for government social insurance .....	806.3	7.9	18.4	9.7	8.7
Income receipts on assets .....	22.8	1.2	-2.6	-0.7	0.6
Current transfer receipts .....	26.6	-0.2	0.5	0.1	0.4
Current surplus of government enterprises .....	4.4	-0.5	-0.4	-0.1	-0.1
<b>Current expenditures .....</b>	<b>2,340.1</b>	<b>30.4</b>	<b>26.5</b>	<b>22.8</b>	<b>11.0</b>
Consumption expenditures .....	713.0	8.3	19.8	9.2	12.7
National defense .....	487.1	13.1	15.0	8.4	13.5
Nondefense .....	226.0	-4.8	4.8	0.7	-0.6
Current transfer payments .....	1,368.0	19.5	15.3	2.0	0.1
Government social benefits .....	1,004.2	8.0	13.7	6.8	11.2
To persons .....	1,001.2	7.9	13.7	6.8	11.1
To the rest of the world .....	2.9	0.1	0.0	0.0	0.0
Other current transfer payments .....	363.9	11.4	1.7	-4.8	-11.0
Grants-in-aid to state and local governments .....	342.1	14.2	-11.2	5.9	-9.8
To the rest of the world .....	21.8	-2.8	12.9	-10.7	-1.2
Interest payments .....	220.0	4.6	-3.6	9.6	-0.7
Subsidies .....	39.0	-2.1	-3.5	-1.0	0.3
Less: Wage accruals less disbursements .....	0.0	0.0	1.5	-3.0	1.5
<b>Net Federal Government saving .....</b>	<b>-376.2</b>	<b>53.8</b>	<b>-11.8</b>	<b>11.0</b>	<b>3.8</b>
Social insurance funds .....	68.2	2.8	12.0	6.7	2.3
Other .....	-444.4	51.0	-23.8	4.3	1.5
<b>State and local</b>					
<b>Current receipts .....</b>	<b>1,576.9</b>	<b>34.4</b>	<b>4.8</b>	<b>33.3</b>	<b>-7.0</b>
Current tax receipts .....	1,043.4	16.9	12.3	24.9	7.4
Personal current taxes .....	249.9	4.4	1.4	10.8	0.8
Taxes on production and imports .....	754.6	10.3	9.9	12.2	8.2
Taxes on corporate income .....	39.0	2.2	0.9	2.0	-1.5
Contributions for government social insurance .....	16.8	0.4	0.5	0.4	0.4
Income receipts on assets .....	83.3	1.1	0.5	0.4	0.7
Current transfer receipts .....	431.3	16.2	-8.2	8.1	-14.7
Federal grants-in-aid .....	342.1	14.2	-11.2	5.9	-9.8
Other .....	89.2	2.0	3.0	2.2	-4.9
Current surplus of government enterprises .....	2.1	-0.1	-0.2	-0.6	-0.8
<b>Current expenditures .....</b>	<b>1,568.5</b>	<b>5.6</b>	<b>28.3</b>	<b>26.9</b>	<b>2.8</b>
Consumption expenditures .....	1,104.8	5.3	13.5	12.0	13.0
Government social benefits .....	369.9	-3.4	14.0	14.7	-11.1
Interest payments .....	93.1	1.8	1.3	0.1	1.0
Subsidies .....	0.7	1.9	-0.5	0.0	0.0
Less: Wage accruals less disbursements .....	0.0	0.0	0.0	0.0	0.0
<b>Net state and local government saving .....</b>	<b>8.5</b>	<b>28.8</b>	<b>-23.5</b>	<b>6.5</b>	<b>-9.8</b>
Social insurance funds .....	1.5	0.1	0.1	0.1	0.1
Other .....	7.0	28.7	-23.5	6.3	-9.9
<b>Addendum:</b>					
Net lending or net borrowing (-) <sup>1</sup> .....	-514.0	88.4	-38.4	7.7	-0.3
Federal .....	-429.2	61.3	-14.8	12.3	-4.1
State and local .....	-84.8	27.1	-23.6	-4.6	3.8

1. "Net lending or borrowing" is similar to "net financial investment" in the flow-of-funds accounts prepared by 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. There are also small conceptual differences, such as the classification of the Federal Government's railroad retirement and veterans life insurance programs.

11. Net government saving is shown in NIPA tables 3.1-3.3.

downturn was more than accounted for by a downturn in grants for Medicaid, which decreased \$17.8 billion after increasing \$8.9 billion.

“Other current transfer payments to the rest of the world” decreased \$1.2 billion after decreasing \$10.7 billion. The second-quarter decrease followed a first-quarter increase that included a payment of \$2.8 billion (\$11.2 billion at an annual rate) to Israel and Egypt for economic support.

Government social benefits increased \$11.2 billion after increasing \$6.8 billion. The acceleration was mainly accounted for by government social benefits to persons, which increased \$11.1 billion after increasing \$6.8 billion. Payments for unemployment programs decreased \$1.1 billion after decreasing \$8.0 billion.

Consumption expenditures increased \$12.7 billion after increasing \$9.2 billion. The acceleration was more than accounted for by an acceleration in defense consumption expenditures. Nondefense consumption expenditures turned down.

Defense consumption expenditures increased \$13.5 billion after increasing \$8.4 billion. Expenditures for services accelerated, increasing \$11.3 billion after increasing \$6.1 billion. These expenditures include expenditures for research and development, for transportation of materials, for travel, and for other services.

Nondefense consumption expenditures decreased \$0.6 billion after increasing \$0.7 billion. The downturn was more than accounted for by spending for nondurable goods, which decreased \$1.3 billion after increasing \$0.4 billion. Commodity Credit Corporation sales, which are treated as deductions from consumption expenditures, increased \$3.2 billion after decreasing \$1.4 billion.

### State and local

Net state and local government saving was \$8.5 billion in the third quarter of 2004, decreasing \$9.8 billion from \$18.3 billion in the second quarter. Current receipts turned down, and current expenditures decelerated.

**Current receipts.** State and local government current receipts decreased \$7.0 billion after increasing \$33.3 billion. The downturn was more than accounted for by a downturn in current transfer receipts and by a deceleration in current tax receipts.

Current transfer receipts decreased \$14.7 billion after increasing \$8.1 billion. The downturn was mostly accounted for by the downturn in Federal grants-in-aid, which decreased \$9.8 billion after increasing \$5.9 billion mainly because of a downturn in Medicaid grants. The downturn was also attributable

to a downturn in “other” transfer receipts, specifically transfer receipts from business, which decreased \$6.4 billion after increasing \$0.7 billion, reflecting the effect of the hurricanes on the transactions of state-owned insurance enterprises in Florida and Louisiana.

Current tax receipts increased \$7.4 billion after increasing \$24.9 billion. The deceleration was mostly accounted for by a deceleration in personal current taxes, which increased \$0.8 billion after increasing \$10.8 billion, mainly as a result of a deceleration in personal income taxes.

**Current expenditures.** State and local government current expenditures increased \$2.8 billion after increasing \$26.9 billion. The deceleration was more than accounted for by a downturn in government social benefits.

Government social benefits decreased \$11.1 billion after increasing \$14.7 billion. The downturn was mostly accounted for by a downturn in Medicaid payments that had been boosted by an increase in the Federal matching rate for Medicaid as a result of the Job and Growth Tax Relief Reconciliation Act of 2003; this increase expired at the end of the second quarter of 2004.

### Net lending or net borrowing

“Net lending or net borrowing (–)” is an alternative measure of the government fiscal position. 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.<sup>12</sup>

Net borrowing increased \$0.3 billion in the third quarter after decreasing \$7.7 billion in the second quarter. Federal Government net borrowing increased \$4.1 billion after decreasing \$12.3 billion. The upturn was mainly accounted for by “capital transfers received (net),” which decreased \$6.2 billion after increasing \$1.2 billion. State and local government net borrowing turned down, decreasing \$3.8 billion after increasing \$4.6 billion.

Gross government investment turned down, decreasing \$1.1 billion after increasing \$13.6 billion.<sup>13</sup> Federal Government gross investment decreased \$0.2 billion after increasing \$1.9 billion. State and local government gross investment decreased \$0.8 billion after increasing \$11.6 billion; the deceleration was mostly accounted for by a downturn in gross investment for structures, which decreased \$1.2 billion after increasing \$11.1 billion.

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

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