

# Business Situation

## Final Estimates for the Third Quarter of 2003

ACCORDING to the “final” estimates of the national income and product accounts (NIPAs), real GDP increased 8.2 percent in the third quarter of 2003 (table 1 and chart 1).<sup>1</sup> The “preliminary” estimates released in November also showed an 8.2-percent increase for the quarter. In the final estimates, an upward revision to consumer spending was offset by a downward revision to inventory investment; the revisions reflect definitional and statistical changes that were implemented in the 2003 comprehensive revision of the NIPAs (table 2).<sup>2</sup>

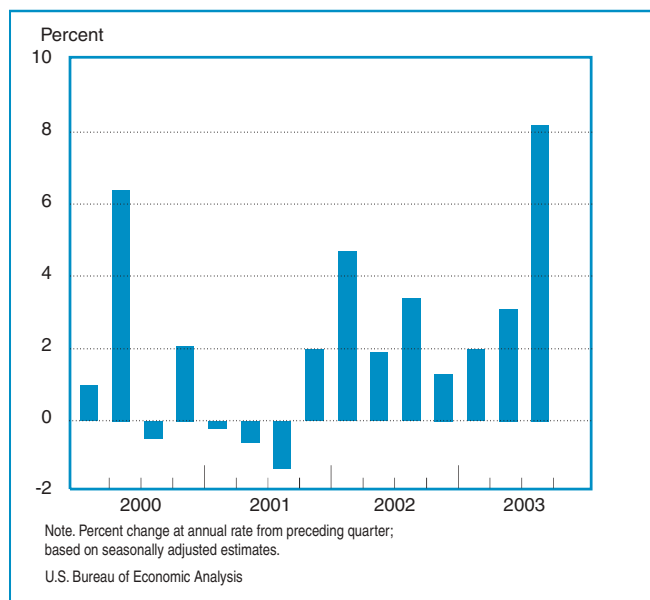
1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter dollar changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized. “Real” estimates are in chained (2000)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

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

For information on the comprehensive revision, see “Initial Results of the 2003 Comprehensive Revision of the National Income and Product Accounts,” SURVEY OF CURRENT BUSINESS (December 2003): 1–42.

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**Chart 1. Real Gross Domestic Product**



The third-quarter increase of 8.2 percent followed a second-quarter increase of 3.1 percent.<sup>3</sup> Real disposable personal income also increased more in the third quarter than in the second, as did inflation (measured by the price index for gross domestic purchases).

The acceleration in real GDP growth in the third quarter mainly reflected stronger growth in consumer

3. All historical NIPA estimates, including estimates for the second quarter, have been revised; see “Initial Results of the 2003 Comprehensive Revision.”

**Table 1. Real Gross Domestic Product and Components**

(Seasonally adjusted at annual rates)

	Change from preceding quarter (percent)				Contribution to percent change in real GDP (percentage points)				Share of current-dollar GDP (percent)
	2002		2003		2002		2003		2003
	IV	I	II	III	IV	I	II	III	III
<b>Gross domestic product ....</b>	<b>1.3</b>	<b>2.0</b>	<b>3.1</b>	<b>8.2</b>	<b>1.3</b>	<b>2.0</b>	<b>3.1</b>	<b>8.2</b>	<b>100.0</b>
<b>Personal consumption expenditures .....</b>	<b>2.2</b>	<b>2.5</b>	<b>3.3</b>	<b>6.9</b>	<b>1.57</b>	<b>1.80</b>	<b>2.34</b>	<b>4.89</b>	<b>70.6</b>
Durable goods .....	0.3	0.5	17.7	28.0	0.02	0.04	1.38	2.23	8.8
Nondurable goods .....	4.6	5.7	1.2	7.3	0.90	1.13	0.25	1.48	20.1
Services .....	1.5	1.5	1.7	2.8	0.65	0.63	0.71	1.19	41.7
<b>Gross private domestic investment .....</b>	<b>-0.6</b>	<b>-3.5</b>	<b>4.7</b>	<b>14.8</b>	<b>-0.09</b>	<b>-0.57</b>	<b>0.73</b>	<b>2.17</b>	<b>15.2</b>
Fixed investment .....	2.1	1.1	6.1	15.8	0.31	0.16	0.90	2.30	15.3
Nonresidential .....	-0.1	-0.6	7.0	12.8	-0.01	-0.06	0.68	1.25	10.1
Structures .....	-5.6	-4.0	3.9	-1.8	-0.14	-0.10	0.09	-0.04	2.3
Equipment and software .....	1.7	0.5	8.0	17.6	0.13	0.04	0.59	1.30	7.8
Residential .....	6.8	4.5	4.5	21.9	0.32	0.22	0.22	1.05	5.2
Change in private inventories .....	.....	.....	.....	.....	-0.40	-0.74	-0.17	-0.13	-0.1
<b>Net exports of goods and services .....</b>	<b>-3.7</b>	<b>-2.0</b>	<b>-1.1</b>	<b>9.9</b>	<b>-1.47</b>	<b>0.81</b>	<b>-1.34</b>	<b>0.80</b>	<b>-4.4</b>
Exports .....	-3.7	-2.0	-1.1	9.9	-0.37	-0.19	-0.11	0.92	9.4
Goods .....	-9.1	1.9	-1.7	8.6	-0.64	0.13	-0.11	0.56	6.5
Services .....	9.4	-10.1	0.2	12.7	0.27	-0.31	0.01	0.36	2.9
Imports .....	8.2	-6.8	9.1	0.8	-1.10	1.00	-1.24	-0.12	13.9
Goods .....	7.4	-6.6	13.7	-1.5	-0.83	0.81	-1.51	0.18	11.5
Services .....	12.2	-7.5	-10.9	13.4	-0.27	0.19	0.27	-0.30	2.4
<b>Government consumption expenditures and gross investment .....</b>	<b>7.1</b>	<b>-0.4</b>	<b>7.4</b>	<b>1.8</b>	<b>1.29</b>	<b>-0.07</b>	<b>1.36</b>	<b>0.34</b>	<b>18.7</b>
Federal .....	18.2	-0.2	23.5	1.2	1.11	-0.01	1.46	0.09	6.9
National defense .....	22.1	-5.6	41.9	-1.3	0.85	-0.25	1.58	-0.06	4.6
Nondefense .....	11.4	10.5	-5.0	6.5	0.26	0.24	-0.12	0.15	2.4
State and local .....	1.5	-0.5	-0.8	2.1	0.18	-0.06	-0.10	0.25	11.7
<b>Addenda:</b>									
Final sales of domestic product .....	1.7	2.7	3.3	8.3	.....	.....	.....	.....	.....
Gross national product (GNP) ..	2.0	1.5	3.3	8.3	.....	.....	.....	.....	.....

NOTE: The percent changes are from NIPA table 1.1.1, and the contributions to percent change are from NIPA table 1.1.2. The shares are from NIPA table 1.1.10. See “Preview of the Selected Tables From the 2003 Comprehensive Revision of the National Income and Product Accounts,” which begins on page 6 of this issue.

spending and an improvement in the trade balance, but residential investment and nonresidential investment in equipment and software also contributed. These developments were partly offset by a slowdown in government spending and a downturn in nonresidential investment in structures. In the final estimates,

**Table 2. Final and Preliminary Estimates for the Third Quarter of 2003**  
[Seasonally adjusted at annual rates]

	Percent change from preceding quarter			Contribution to percent change in real GDP		
	Final estimate	Preliminary estimate	Final minus preliminary	Final estimate	Preliminary estimate	Final minus preliminary
<b>Gross domestic product...</b>	<b>8.2</b>	<b>8.2</b>	<b>0</b>	<b>8.2</b>	<b>8.2</b>	<b>0</b>
<b>Personal consumption expenditures</b>	<b>6.9</b>	<b>6.4</b>	<b>0.5</b>	<b>4.89</b>	<b>4.55</b>	<b>0.34</b>
Durable goods .....	28.0	26.5	1.5	2.23	2.02	0.21
Nondurable goods .....	7.3	7.6	-0.3	1.48	1.56	-0.08
Services .....	2.8	2.1	0.7	1.19	0.96	0.23
<b>Gross private domestic investment</b>	<b>14.8</b>	<b>18.2</b>	<b>-3.4</b>	<b>2.17</b>	<b>2.58</b>	<b>-0.41</b>
Private fixed investment .....	15.8	16.7	-0.9	2.30	2.42	-0.12
Nonresidential .....	12.8	14.0	-1.2	1.25	1.40	-0.15
Structures .....	-1.8	0.2	-2.0	-0.04	0.00	-0.04
Equipment and software .....	17.6	18.4	-0.8	1.30	1.39	-0.09
Residential .....	21.9	22.7	-0.8	1.05	1.02	0.03
Change in private inventories .....	.....	.....	.....	-0.13	0.16	-0.29
<b>Net exports of goods and services</b>	<b>.....</b>	<b>.....</b>	<b>.....</b>	<b>0.80</b>	<b>0.79</b>	<b>0.01</b>
Exports .....	9.9	11.0	-1.1	0.92	1.03	-0.11
Goods .....	8.6	8.9	-0.3	0.56	0.59	-0.03
Services .....	12.7	15.7	-3.0	0.36	0.45	-0.09
Imports .....	0.8	1.5	-0.7	-0.12	-0.25	0.13
Goods .....	-1.5	-1.4	-0.1	0.18	0.14	0.04
Services .....	13.4	16.5	-3.1	-0.30	-0.38	0.08
<b>Government consumption expenditures and gross investment</b>	<b>1.8</b>	<b>1.3</b>	<b>0.5</b>	<b>0.34</b>	<b>0.30</b>	<b>0.04</b>
Federal .....	1.2	-0.4	1.6	0.09	-0.01	0.10
National defense .....	-1.3	-1.6	0.3	-0.06	-0.07	0.01
Nondefense .....	6.5	2.2	4.3	0.15	0.06	0.09
State and local .....	2.1	2.3	-0.2	0.25	0.31	-0.06
<b>Addenda:</b>						
Final sales of domestic product .....	8.3	8.0	0.3	.....	.....	.....
Gross domestic purchases price index .....	1.8	1.8	0.0	.....	.....	.....
GDP price index .....	1.6	1.7	-0.1	.....	.....	.....

NOTE: The final estimates for the third quarter of 2003 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

*Personal consumption expenditures:* Revised retail sales for September and bank services data for the quarter.

*Nonresidential fixed investment:* Revised construction put-in-place data for August and September.

*Residential fixed investment:* Revised construction put-in-place data for August and September.

*Change in private inventories:* Revised manufacturers' and trade inventories for September, and new inventories of electric utilities for July and August.

*Exports and imports of goods and services:* Revised international transactions accounts data on services for the second and third quarters, and revised data on goods for September.

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

*Wages and salaries:* Revised employment, average hourly earnings, and average weekly hours for September

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

- Consumer spending increased 6.9 percent in the third quarter and contributed 4.89 percentage points to GDP growth, more than twice as much as it contributed in the second quarter. Purchases of durable goods, of nondurable goods, and of services all increased more than in the second quarter. Motor vehicles accounted for most of the step-up in durable goods; the step-ups in nondurable goods and in services were widespread.
- Exports turned up, and imports increased less than in the second quarter. Both movements contributed to the GDP step-up (imports are subtracted in the calculation of GDP). Exports contributed 0.92 percentage point to GDP growth after subtracting 0.11 percentage point from growth in the second quarter; imports subtracted 0.12 percentage point in third quarter, but they had subtracted much more in the second. Taken together, exports and imports added 0.80 percentage point to GDP growth in the third quarter after subtracting 1.34 percentage points in the second.
- Residential investment increased for the seventh consecutive quarter and contributed 1.05 percentage points to third-quarter GDP growth after contributing 0.22 percentage point to second-quarter growth. Most of the step-up was accounted for by construction of single-family housing units.
- Investment in equipment and software increased 17.6 percent and contributed 1.30 percentage point to GDP growth. In contrast, investment in structures turned down. The increase in equipment and software was the biggest since early 1998; the decrease in structures was the ninth in the last 11 quarters.
- Government spending slowed and contributed 0.34 percentage point to third-quarter GDP growth after contributing 1.36 percentage points to second-quarter growth. National defense spending dipped after increasing very sharply, but Federal nondefense spending and spending by states and localities turned up.

- Inventory investment subtracted 0.13 percentage point from GDP growth in the third quarter, about the same amount as in the second quarter.

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

- Real final sales of domestic product (GDP less the change in private inventories) increased 8.3 percent after increasing 3.3 percent.
- Real gross national product (GNP) also increased 8.3 percent after increasing 3.3 percent. GNP differs from GDP by the addition of income receipts from the rest of the world and the subtraction of income payments to the rest of the world.<sup>4</sup>

- Real gross domestic purchases increased 7.0 percent after increasing 4.3 percent.
- The personal saving rate held steady at 2.3 percent.
- The price index for gross domestic purchases increased 1.8 percent after increasing 0.4 percent; the step-up partly reflected an upturn in energy prices.
- Real disposable personal income increased 6.3 percent after increasing 4.9 percent; the step-up partly reflected the effects of tax legislation enacted in the spring of 2003.

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4. Thus, GNP is a measure of the goods and services produced by labor and property supplied by U.S. residents, regardless of where they are located; GDP is a measure of the goods and services produced by labor and property in the United States, regardless of nationality.

## Corporate Profits

Profits from current production increased \$101.4 billion (9.9 percent at a quarterly rate) in the third quarter (table 3).<sup>5</sup> Profits were 24.9 percent higher than a year ago.

5. 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 1.12, 1.14, 1.15, and 6.16D (see "Preview of the Selected Tables From the 2003 Comprehensive Revision," which begins on page 6 of this issue).

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

**Table 3. Corporate Profits**  
[Seasonally adjusted]

	Billions of dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2003	2002	2003			2002	2003		
	III	IV	I	II	III	IV	I	II	III
<b>Current production measures:</b>									
Corporate profits .....	1,124.2	35.1	-7.8	95.7	101.4	3.9	-0.8	10.3	9.9
Domestic industries .....	966.5	19.2	10.5	95.9	92.2	2.6	1.4	12.3	10.5
Financial .....	299.2	-3.9	19.8	11.2	19.6	-1.5	8.0	4.2	7.0
Nonfinancial .....	667.3	23.2	-9.3	84.7	72.6	4.7	-1.8	16.6	12.2
Rest of the world .....	157.7	15.8	-18.2	-0.2	9.2	10.5	-10.9	-0.1	6.2
Receipts from the rest of the world .....	236.2	1.0	1.4	5.4	15.4	0.5	0.7	2.5	7.0
Less: Payments to the rest of the world .....	78.4	-14.8	19.6	5.7	6.1	-23.9	41.7	8.6	8.4
Less: Taxes on corporate income .....	230.6	4.3	11.0	-2.5	19.2	2.2	5.5	-1.2	9.0
<b>Equals: Profits after tax .....</b>	<b>893.7</b>	<b>30.8</b>	<b>-18.8</b>	<b>98.1</b>	<b>82.4</b>	<b>4.4</b>	<b>-2.6</b>	<b>13.8</b>	<b>10.1</b>
Net dividends .....	434.3	8.8	7.2	7.2	6.8	2.2	1.8	1.7	1.6
Undistributed profits from current production .....	459.3	22.0	-26.0	90.9	75.5	7.4	-8.2	31.0	19.7
Net cash flow .....	1,206.6	21.8	-27.5	86.1	77.2	2.1	-2.6	8.3	6.8
<b>Industry profits:</b>									
Profits with IVA .....	864.2	39.1	-3.3	12.7	70.6	5.2	-0.4	1.6	8.9
Domestic industries .....	706.4	23.2	14.9	13.0	61.3	3.9	2.4	2.1	9.5
Financial .....	274.6	-5.6	18.4	-1.2	14.0	-2.2	7.6	-0.5	5.4
Nonfinancial .....	431.8	28.9	-3.6	14.2	47.3	8.4	-1.0	3.8	12.3
Utilities .....	21.5	1.3	5.3	-7.0	0.4	6.0	23.2	-24.9	1.9
Manufacturing .....	97.7	7.9	-8.0	-6.8	17.4	9.1	-8.4	-7.8	21.7
Wholesale trade .....	51.0	2.2	-8.1	2.8	8.4	4.8	-16.9	7.0	19.7
Retail trade .....	84.3	-3.6	-1.0	12.1	-0.7	-4.6	-1.4	16.6	-0.8
Transportation and warehousing .....	14.7	5.9	3.2	7.3	1.8	.....	133.3	130.4	14.0
Information .....	2.3	7.5	1.2	3.4	10.3	.....	.....	.....	.....
Other nonfinancial .....	160.2	7.7	3.7	2.6	9.5	5.6	2.6	1.8	6.3
Rest of the world .....	157.7	15.8	-18.2	-0.2	9.2	10.5	-10.9	-0.1	6.2
<b>Addenda:</b>									
Profits before tax (without IVA and CCAj) .....	865.9	38.7	14.0	-16.5	73.4	5.1	1.8	-2.0	9.3
Profits after tax (without IVA and CCAj) .....	635.4	34.4	2.9	-14.0	54.4	6.2	0.5	-2.4	9.4
IVA .....	-1.8	0.3	-17.3	29.3	-3.0	.....	.....	.....	.....
CCAj .....	260.1	-4.0	-4.4	82.9	30.9	-2.6	-2.9	56.7	13.5

NOTE: Levels of these and other profits series are shown in NIPA tables 1.12, 1.14, 1.15, and 6.16D. Beginning with the 2003 comprehensive revision to the NIPAs, industry classifications are based on the *North American Industry Classification System, 1997*.

IVA Inventory valuation adjustment

CCAj Capital consumption adjustment

According to this revised estimate, the increase in profits is \$4.1 billion less than that in the preliminary estimate. The increase in profits of domestic corporations was revised down \$11.9 billion, while the increase in profits from the rest of the world was revised up \$7.8 billion. For domestic industries, most of the revision was accounted for by nonfinancial corporations; for profits from the rest of the world, the revision was accounted for by receipts.

Taxes on corporate income increased \$19.2 billion (9.0 percent). After-tax profits from current production increased \$82.4 billion (10.1 percent).

Profits of domestic nonfinancial corporations increased \$72.6 billion (12.2 percent), and profits of domestic financial corporations increased \$19.6 billion (7.0 percent). Profits from the rest of the world increased \$9.2 billion (6.2 percent), as an increase in receipts by domestic parents from their foreign affiliates was partly offset by an increase in payments by domestic affiliates to their foreign parents.<sup>6</sup>

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$77.2 billion.<sup>7</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 funds, rose to a record 107.3 in the third quarter from 103.9 in the second; the ratio has risen steadily since the third quarter of 2000 when it stood at 69.2.

**Industry profits.** The current-production measure of profits is not available at the detailed industry level, because estimates of the capital consumption adjustment (CCAj) do not exist at this level (CCAj is only available for total financial and total nonfinancial industries). Consequently, industry profits are best measured by profits with inventory valuation adjustment (IVA).

6. Profits from the rest of the world is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their 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.

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

In the third quarter, profits with IVA of domestic industries increased \$61.3 billion. For domestic financial industries, profits with IVA increased \$14.0 billion. The increase was spread across securities and commodity brokers, depository and nondepository credit intermediaries, and property and casualty insurance companies.

For domestic nonfinancial industries, profits with IVA increased \$47.3 billion. A \$17.4 billion increase in

manufacturing profits was largely accounted for by manufacturers of chemical products and by manufacturers of “other durable goods,” which includes wood products. Sizable increases were also posted by the information sector (which includes publishing, telecommunications, and related industries), “other non-financial” industries (including real estate), and wholesale trade (chart 2).

**Chart 2. Corporate Profits with Inventory Valuation Adjustment: Change from 2003:II to 2003:III**

