

# Business Situation

## Preliminary Estimates for the Fourth Quarter of 2003

ACCORDING to the “preliminary” estimates of the national income and product accounts (NIPAs), U.S. economic growth slowed in the fourth quarter of 2003 after posting its largest increase in 20 years in the third quarter, and inflation continued to be modest. Much the same picture was shown in the “advance” estimates released a month ago (chart 1 and table 1).<sup>1</sup>

- Real GDP increased 4.1 percent—half as much as in the third quarter, but more than its 3.4-percent

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. “Real” estimates are in chained (2000) dollars, and price indexes are chain-type measures.

*This article was prepared by Daniel Larkins.*

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

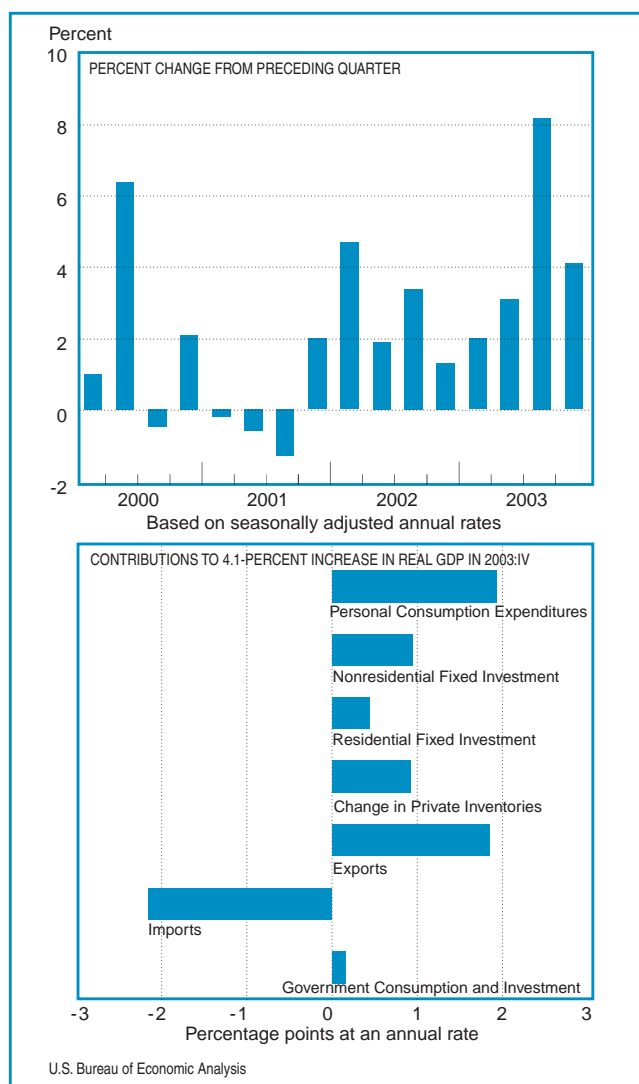
	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)				Share of current-dollar GDP (percent)
	2003				2003				2003
	I	II	III	IV	I	II	III	IV	IV
<b>Gross domestic product (GDP)</b> .....	<b>2.0</b>	<b>3.1</b>	<b>8.2</b>	<b>4.1</b>	<b>2.0</b>	<b>3.1</b>	<b>8.2</b>	<b>4.1</b>	<b>100</b>
<b>Personal consumption expenditures</b> .....	<b>2.5</b>	<b>3.3</b>	<b>6.9</b>	<b>2.7</b>	<b>1.80</b>	<b>2.34</b>	<b>4.89</b>	<b>1.93</b>	<b>70.2</b>
Durable goods.....	0.5	17.7	28.0	-0.1	0.04	1.38	2.23	-0.01	8.6
Nondurable goods.....	5.7	1.2	7.3	5.2	1.13	0.25	1.48	1.04	20.1
Services.....	1.5	1.7	2.8	2.2	0.63	0.71	1.19	0.91	41.6
<b>Gross private domestic investment</b> .....	<b>-3.5</b>	<b>4.7</b>	<b>14.8</b>	<b>15.8</b>	<b>-0.57</b>	<b>0.73</b>	<b>2.17</b>	<b>2.31</b>	<b>15.7</b>
Fixed investment.....	1.1	6.1	15.8	9.3	0.16	0.90	2.30	1.39	15.6
Nonresidential.....	-0.6	7.0	12.8	9.6	-0.06	0.68	1.25	0.95	10.3
Structures.....	-4.0	3.9	-1.8	-7.1	-0.10	0.09	-0.04	-0.17	2.3
Equipment and software.....	0.5	8.0	17.6	15.1	0.04	0.59	1.30	1.12	8.0
Residential.....	4.5	4.5	21.9	8.6	0.22	0.22	1.05	0.44	5.3
Change in private inventories.....	.....	.....	.....	.....	-0.74	-0.17	-0.13	0.92	0.1
<b>Net exports of goods and services</b> .....	<b>.....</b>	<b>.....</b>	<b>.....</b>	<b>.....</b>	<b>0.81</b>	<b>-1.34</b>	<b>0.80</b>	<b>-0.30</b>	<b>-4.4</b>
Exports.....	-2.0	-1.1	9.9	21.0	-0.19	-0.11	0.92	1.85	9.8
Goods.....	1.9	-1.7	8.6	21.2	0.13	-0.11	0.56	1.28	6.8
Services.....	-10.1	0.2	12.7	20.7	-0.31	0.01	0.36	0.57	3.0
Imports.....	-6.8	9.1	0.8	16.4	1.00	-1.24	-0.12	-2.15	14.2
Goods.....	-6.6	13.7	-1.5	18.1	0.81	-1.51	0.18	-1.95	11.8
Services.....	-7.5	-10.9	13.4	8.6	0.19	0.27	-0.30	-0.20	2.4
<b>Government consumption expenditures and gross investment</b> .....	<b>-0.4</b>	<b>7.4</b>	<b>1.8</b>	<b>0.8</b>	<b>-0.07</b>	<b>1.36</b>	<b>0.34</b>	<b>0.16</b>	<b>18.5</b>
Federal.....	-0.2	23.5	1.2	1.6	-0.01	1.46	0.09	0.11	6.9
National defense.....	-5.6	41.9	-1.3	4.2	-0.25	1.58	-0.06	0.19	4.6
Nondefense.....	10.5	-5.0	6.5	-3.3	0.24	-0.12	0.15	-0.08	2.3
State and local.....	-0.5	-0.8	2.1	0.4	-0.06	-0.10	0.25	0.05	11.6

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.

average rate for the past 10 years. The advance estimate had shown a 4.0-percent increase in the fourth quarter.

- Prices of goods and services purchased by U.S. residents increased 1.1 percent after increasing 1.8 percent. (The advance estimate had shown a fourth-quarter increase of 1.0 percent.) The deceleration mainly reflected a downturn in energy prices.

**Chart 1. Real Gross Domestic Product**



The deceleration in real GDP growth in the fourth quarter mainly reflected slower growth in consumer spending; other contributors were a deterioration in the trade balance and slower growth in residential and nonresidential fixed investment and in government spending.<sup>2</sup> These developments were partly offset by an upturn in inventory investment.

- Consumer spending increased 2.7 percent in the fourth quarter after increasing 6.9 percent in the third quarter, the largest increase in 17 years. Consumer spending contributed 1.93 percentage points to GDP growth in the fourth quarter after contributing 4.89 percentage points in the third.
- The trade balance (net exports) turned down as imports stepped up much more than exports. Trade subtracted 0.30 percentage point from GDP growth in the fourth quarter after adding 0.80 percentage point in the third.
- Residential investment increased 8.6 percent; it contributed 0.44 percentage point to GDP growth after contributing 1.05 percentage points. The slowdown was primarily accounted for by brokers' commissions.
- Nonresidential fixed investment increased 9.6 percent; it contributed 0.95 percentage point to GDP growth after contributing 1.25 percentage points. Equipment and software increased less than in the third quarter, and structures decreased more than in the third quarter.
- Government spending increased 0.8 percent; it contributed 0.16 percentage point to GDP growth after contributing 0.34 percentage point.
- Inventories were built up in the fourth quarter after being reduced in the third. Inventory investment added 0.92 percentage point to GDP growth after subtracting 0.13 percentage point.

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

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

- Real final sales of domestic product (GDP less the change in private inventories) increased 3.2 percent after increasing 8.3 percent (table 2).
- Real gross domestic purchases increased 4.2 percent after increasing 7.0 percent.
- The production of goods and of structures slowed, while the production of services increased slightly more than in the third quarter.
- Motor vehicle output increased modestly after a sharp increase. Excluding motor vehicles, real GDP increased 4.2 percent after increasing 7.6 percent.
- Final sales of computers slowed sharply after registering an unusually large increase in the third quarter. Excluding final sales of computers, real GDP increased 3.9 percent after increasing 7.6 percent.
- Real disposable personal income was unchanged in the fourth quarter after increasing in the third; this pattern primarily reflected the pattern of the advance payments of child tax credits associated with the Jobs and Growth Tax Relief Reconciliation Act of 2003.
- The personal saving rate—personal saving as a percentage of current-dollar disposable personal income—decreased from 2.3 percent to 1.6 percent.

**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				2003				2003
	I	II	III	IV	I	II	III	IV	IV
<b>Gross domestic product (GDP) ...</b>	<b>2.0</b>	<b>3.1</b>	<b>8.2</b>	<b>4.1</b>	<b>2.0</b>	<b>3.1</b>	<b>8.2</b>	<b>4.1</b>	<b>100</b>
Final sales of domestic product	2.7	3.3	8.3	3.2	2.71	3.25	8.34	3.19	99.9
Change in private inventories	.....	.....	.....	.....	-0.74	-0.17	-0.13	0.92	0.1
Goods.....	4.3	2.2	18.3	7.8	1.37	0.75	5.67	2.54	33.0
Services.....	1.0	3.6	2.1	2.3	0.62	2.08	1.27	1.32	57.5
Structures.....	-0.3	2.8	13.9	2.6	-0.02	0.26	1.27	0.25	9.5
<b>Addenda:</b>									
Motor vehicle output.....	-6.4	2.1	26.6	2.9	-0.23	0.07	0.82	0.10	3.5
GDP excluding motor vehicle output...	2.3	3.1	7.6	4.2	2.20	3.01	7.39	4.01	96.5
Final sales of computers.....	34.6	32.8	93.4	31.5	0.26	0.25	0.65	0.28	1.0
GDP excluding final sales of computers.....	1.7	2.8	7.6	3.9	1.71	2.83	7.56	3.82	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

In the fourth quarter, real personal consumption expenditures slowed to a 2.7-percent increase (table 3 and chart 2). (Over the preceding 10 years, consumption spending increased at an average annual rate of 3.8 percent.) Purchases of durable goods decreased slightly in the fourth quarter after a strong increase in the third, and purchases of nondurable goods and of services slowed.

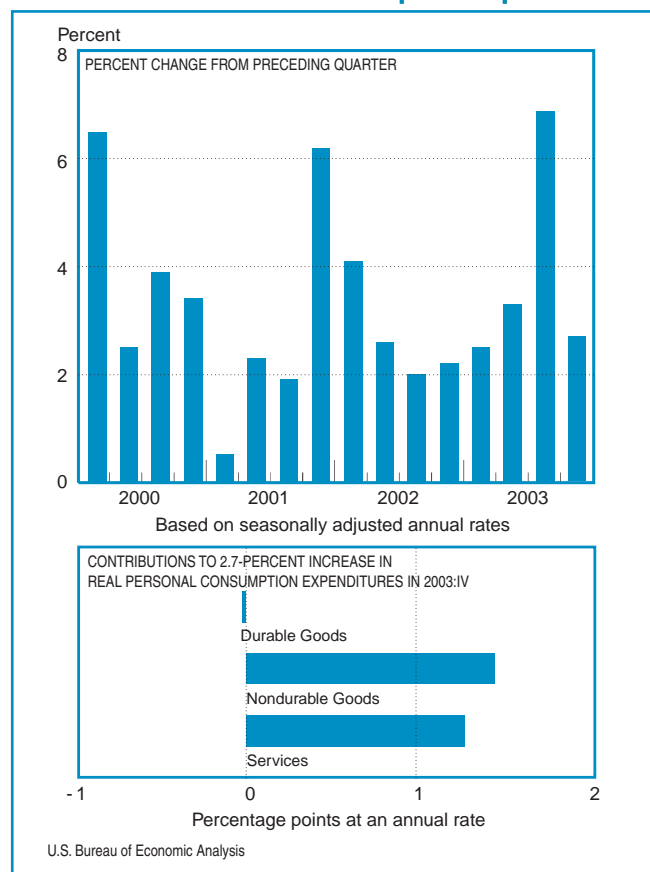
Most of the downturn in durable goods was accounted for by motor vehicles and parts; new light trucks—pickups, vans, and sport utility vehicles—and new autos both decreased after increasing. Furniture and household equipment and “other” durable goods each increased about half as much as in the third quar-

ter; within each, the slowdown was widespread. In furniture and household equipment, the sharpest deceleration was in video and audio goods (which includes computers, peripherals and software). In other durable goods, the sharpest deceleration was in the category that includes sports equipment and motorcycles.

In nondurable goods, slowdowns in purchases of food, clothing, and “other” nondurable goods were partly offset by a step-up in purchases of gasoline and oil.

In services, spending on electricity and gas turned down and spending on “other” services and on housing increased less than in the third quarter. The deceleration in other services reflected slowdowns in foreign

**Chart 2. Real Personal Consumption Expenditures**



**Table 3. Real Personal Consumption Expenditures**

[Seasonally adjusted at annual rates]

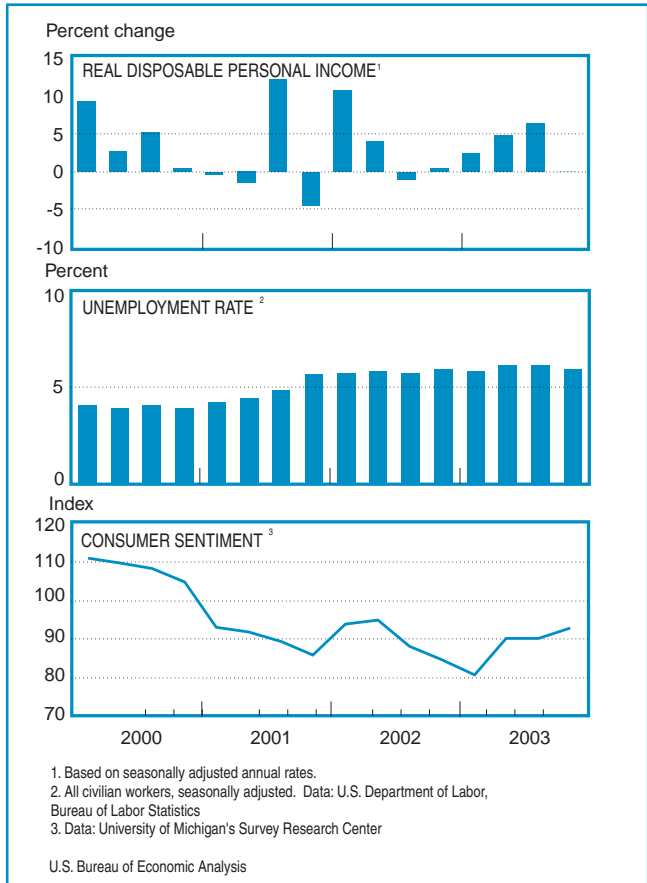
	Change from preceding period (percent)				Contribution to percent change in real PCE (percentage points)				Share of current-dollar PCE (percent)
	2003				2003				2003
	I	II	III	IV	I	II	III	IV	IV
<b>Personal consumption expenditures (PCE) .....</b>	<b>2.5</b>	<b>3.3</b>	<b>6.9</b>	<b>2.7</b>	<b>2.5</b>	<b>3.3</b>	<b>6.9</b>	<b>2.7</b>	<b>100</b>
<b>Durable goods .....</b>	<b>0.5</b>	<b>17.7</b>	<b>28.0</b>	<b>-0.1</b>	<b>0.06</b>	<b>1.98</b>	<b>3.13</b>	<b>-0.02</b>	<b>12.2</b>
Motor vehicles and parts .....	-4.2	15.3	39.7	-9.7	-0.23	0.77	1.92	-0.57	5.5
Furniture and household equipment .....	1.3	19.4	22.9	9.8	0.06	0.77	0.92	0.41	4.4
Other <sup>1</sup> .....	11.0	20.0	12.5	6.2	0.24	0.43	0.29	0.15	2.4
<b>Nondurable goods .....</b>	<b>5.7</b>	<b>1.2</b>	<b>7.3</b>	<b>5.2</b>	<b>1.59</b>	<b>0.35</b>	<b>2.08</b>	<b>1.46</b>	<b>28.6</b>
Food .....	6.7	2.4	7.3	3.8	0.89	0.32	0.99	0.52	13.9
Clothing and shoes .....	3.0	7.8	9.4	0.9	0.12	0.30	0.37	0.03	4.0
Gasoline, fuel oil, and other energy goods .....	4.2	-18.6	3.7	17.6	0.11	-0.56	0.10	0.44	2.7
Other <sup>2</sup> .....	5.9	3.6	7.6	6.0	0.47	0.29	0.61	0.47	8.1
<b>Services .....</b>	<b>1.5</b>	<b>1.7</b>	<b>2.8</b>	<b>2.2</b>	<b>0.88</b>	<b>1.02</b>	<b>1.68</b>	<b>1.29</b>	<b>59.2</b>
Housing .....	2.3	1.8	2.2	1.6	0.36	0.28	0.35	0.25	15.4
Household operation .....	1.0	-3.3	3.5	0.5	0.06	-0.18	0.20	0.02	5.4
Electricity and gas .....	0.4	-12.7	4.1	-1.2	0.01	-0.29	0.09	-0.03	2.1
Other household operation .....	1.4	3.2	3.2	1.5	0.05	0.11	0.11	0.05	3.3
Transportation .....	0.5	-4.0	-2.2	-2.4	0.02	-0.16	-0.08	-0.09	3.7
Medical care .....	5.1	4.6	5.0	5.0	0.84	0.75	0.84	0.83	17.0
Recreation .....	0.0	3.6	2.6	4.0	0.00	0.15	0.11	0.16	4.1
Other <sup>3</sup> .....	-2.8	1.3	1.9	0.8	-0.39	0.18	0.27	0.11	13.5

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.

travel by U.S. residents and in brokerage charges and investment counseling; these slowdowns were partly offset by an upturn in expenditures on social welfare. The slowdown in housing was accounted for by expenditures for lodging at hotels and motels.

Factors frequently considered in the analysis of consumer spending were mixed in the fourth quarter (chart 3). Real disposable personal income was flat, but the unemployment rate decreased, and the Index of Consumer Sentiment (from by the University of Michigan's Survey Research Center) increased modestly.

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



### Private Fixed Investment

Real private fixed investment increased 9.3 percent in the fourth quarter—less than in the third quarter but above its 5.7-percent average annual rate for the past 10 years (table 4 and chart 4).

**Nonresidential.** Equipment and software increased almost as much as in the third quarter, but the weakness in structures became more pronounced.

Slower growth in information processing equipment and software and in “other” equipment and a downturn in industrial equipment were partly offset by an upturn in transportation equipment. In information processing equipment, the slowdown was accounted for by communication equipment and by computers and peripheral equipment. In other equipment, the biggest slowdown was in construction machinery. The downturn in industrial equipment was more than accounted for by special industry equip-

ment, which includes equipment for the manufacture of semiconductors. The upturn in transportation equipment mainly reflected upturns in aircraft and in light trucks that were partly offset by a downturn in autos and a deceleration in heavy trucks.

In structures, the larger fourth-quarter decrease mainly reflected a downturn in commercial and health care facilities. Most other components of structures were also weaker in the fourth quarter than in the third, but power and communication decreased less than in the third quarter.

Conditions that are frequently considered in the analysis of investment spending have been mixed in recent quarters (chart 5). The capacity utilization rate for manufacturing, mining, and utilities increased modestly in the third and fourth quarters, but over the past 2 years, the series has shown little, if any, trend. Domestic corporations’ profits from current production posted large increases in the second and third quarters

**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				2003				2003
	I	II	III	IV	I	II	III	IV	IV
<b>Private fixed investment (PFI)</b> .....	1.1	6.1	15.8	9.3	1.1	6.1	15.8	9.3	100.0
<b>Nonresidential</b> .....	-0.6	7.0	12.8	9.6	-0.39	4.64	8.59	6.33	65.9
<b>Structures</b> .....	-4.0	3.9	-1.8	-7.1	-0.66	0.62	-0.27	-1.10	14.7
Commercial and health care	-16.6	-2.4	2.2	-7.3	-1.24	-0.16	0.15	-0.47	6.1
Manufacturing.....	-16.6	8.8	-2.8	-15.9	-0.15	0.07	-0.02	-0.13	0.8
Power and communication	12.2	-24.0	-16.0	-5.8	0.37	-0.85	-0.50	-0.16	2.7
Mining exploration, shafts, and wells	30.1	89.1	8.9	0.1	0.41	1.10	0.16	0.00	1.8
Other structures <sup>1</sup> .....	-0.9	13.6	-1.4	-9.4	-0.03	0.46	-0.05	-0.33	3.3
<b>Equipment and software</b> .....	0.5	8.0	17.6	15.1	0.26	4.02	8.85	7.43	51.2
Information processing equipment and software	17.3	16.8	27.1	17.1	4.29	4.35	7.16	4.59	28.0
Computers and peripheral equipment	29.2	48.6	53.4	30.6	1.38	2.26	2.68	1.67	6.1
Software <sup>2</sup> .....	11.6	9.9	15.2	15.7	1.18	1.05	1.65	1.64	10.8
Other <sup>3</sup> .....	17.4	9.7	26.8	11.7	1.73	1.04	2.83	1.28	11.2
Industrial equipment	-7.4	-1.3	1.5	-0.9	-0.65	-0.11	0.13	-0.07	7.6
Transportation equipment	-27.4	-7.6	-4.8	23.7	-2.48	-0.57	-0.34	1.59	7.5
Other equipment <sup>4</sup> .....	-10.5	4.3	25.2	17.2	-0.89	0.34	1.91	1.32	8.0
<b>Residential</b> .....	4.5	4.5	21.9	8.6	1.46	1.50	7.18	2.94	34.1
<b>Structures</b> .....	4.5	4.2	22.0	8.6	1.43	1.40	7.08	2.88	33.6
Permanent site	8.2	-0.4	20.8	21.3	1.56	-0.08	4.04	4.05	20.8
Single family	8.5	0.1	21.5	24.7	1.45	0.02	3.73	4.16	18.8
Multifamily	5.7	-4.8	15.1	-5.5	0.11	-0.10	0.31	-0.11	2.0
Other structures <sup>5</sup> .....	-1.0	11.8	23.8	-8.6	-0.13	1.49	3.04	-1.17	12.8
<b>Equipment</b> .....	6.5	21.3	19.3	12.3	0.03	0.10	0.09	0.06	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.

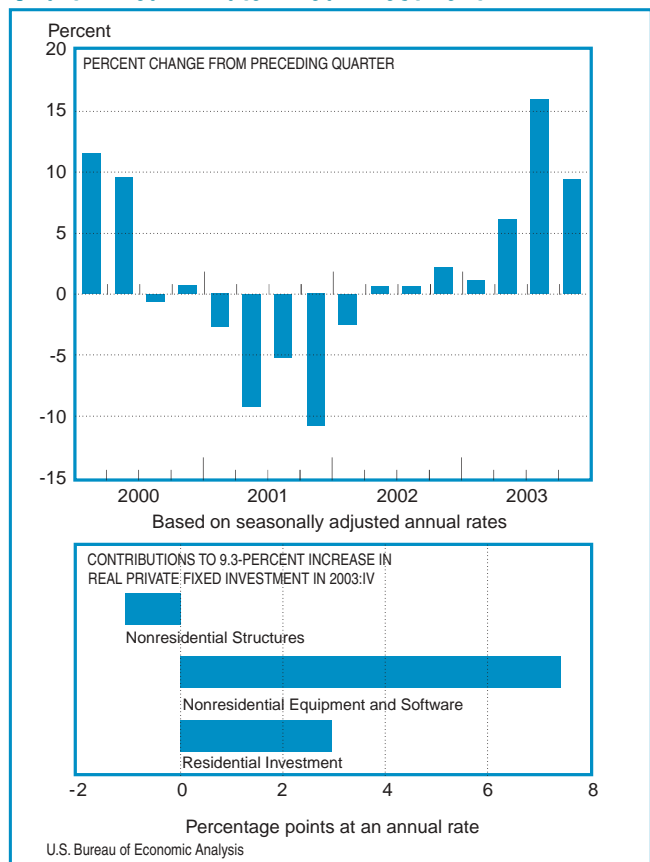
3. Includes communication equipment, nonmedical instruments, medical equipment and instruments, photocopy and related equipment, and office and accounting equipment.

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**

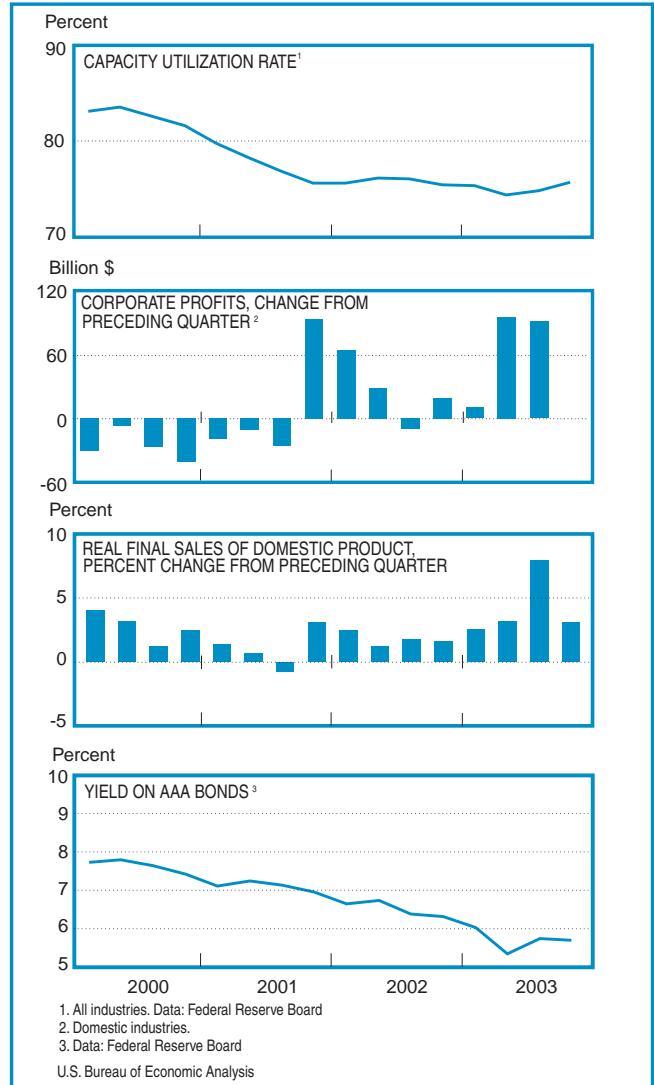


U.S. Bureau of Economic Analysis

(the last quarters for which data are available). Long-term interest rates remained close to the lows recorded earlier in 2003. The growth of real final sales of domestic product slowed in the fourth quarter but remained close to its long-run average.

**Residential.** Real private residential investment increased 8.6 percent in the fourth quarter after increasing 21.9 percent in the third. Single-family construction increased more than in the third quarter, but “other” structures and multifamily construction turned down. The downturn in other structures mainly reflected a downturn in brokers’ commissions, as house sales dropped from a record level in the third quarter.

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



### Inventory Investment

Real inventory investment increased in the fourth quarter, as inventory liquidation gave way to inventory accumulation (table 5 and chart 6). In the third quarter, inventory investment had decreased, reflecting a step-up in the pace of liquidation.

Manufacturing inventories decreased less than in the third quarter. Inventories of computer manufacturers and of machinery manufacturers turned up, and inventories of fabricated metal product manufacturers and of transportation equipment manufactures decreased less than in the third quarter. These changes were partly offset by a downturn in inventories of petroleum manufacturers, faster liquidation by manufacturers of nonmetallic mineral products, and a downturn in inventories of beverage and tobacco product manufacturers.

Wholesale trade inventories increased after decreasing. In merchant wholesaling, inventories in a number of industries turned up, most notably motor vehicles. These changes were partly offset by downturns in inventories of drugs and sundries, of professional and

commercial equipment, and of miscellaneous nondurable goods. Inventories of nonmerchant wholesalers turned up.

Retail trade inventories increased more than in the third quarter. Inventories of general merchandise stores increased after a slight decrease, and accumulation by motor vehicle dealers stepped up. These changes were partly offset by a swing from accumulation to liquidation in the inventories of food and beverage stores and a slowdown in accumulation by building and garden equipment stores.

Farm inventories decreased less than in the third quarter. Livestock inventories turned up, and crop inventories decreased a little less than in the third quarter.

The ratio of real private nonfarm inventories to final sales of goods and structures decreased to 3.54 from 3.57. A ratio that includes all final sales of domestic businesses decreased to 2.21 from 2.22.<sup>3</sup> Both ratios have been trending down for decades.

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

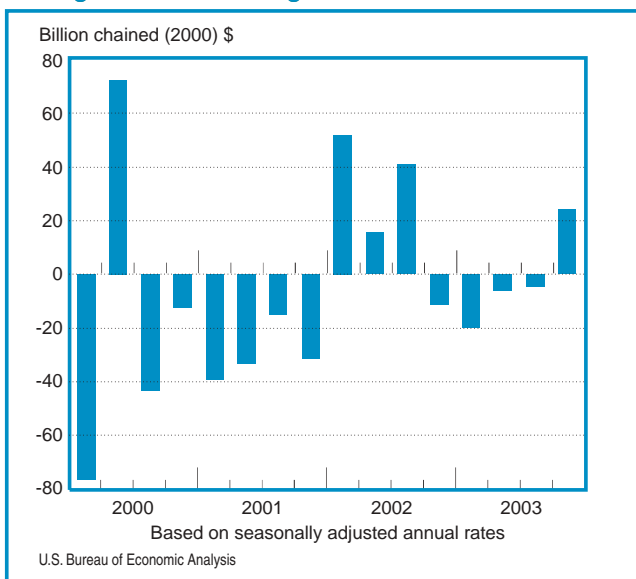
[Billions of chained (2000) dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter				
	2002	2003				2003				
		IV	I	II	III	IV	I	II	III	IV
<b>Change in private inventories (CPI)</b>	<b>21.5</b>	<b>1.6</b>	<b>-4.5</b>	<b>-9.1</b>	<b>14.9</b>	<b>-19.9</b>	<b>-6.1</b>	<b>-4.6</b>	<b>24.0</b>	
Farm .....	-3.5	1.2	-2.0	-2.8	-0.6	4.7	-3.2	-0.8	2.2	
Mining, utilities, and construction .....	-3.3	-6.9	-2.2	-0.2	-0.1	-3.6	4.7	2.0	0.1	
Manufacturing .....	-3.8	-12.2	-15.1	-15.8	-5.9	-8.4	-2.9	-0.7	9.9	
Durable goods industries .....	1.9	-13.4	-14.0	-15.9	-1.4	-15.3	-0.6	-1.9	14.5	
Nondurable goods industries .....	-5.7	1.0	-1.3	-0.2	-4.4	6.7	-2.3	1.1	-4.2	
Wholesale trade .....	6.5	-4.7	-4.6	-1.3	6.2	-11.2	0.1	3.3	7.5	
Durable goods industries .....	4.0	0.6	-5.2	-7.6	7.0	-3.4	-5.8	-2.4	14.6	
Nondurable goods industries .....	2.5	-5.1	0.4	5.8	-0.6	-7.6	5.5	5.4	-6.4	
Retail trade .....	26.6	27.1	15.3	11.0	15.2	0.5	-11.8	-4.3	4.2	
Motor vehicle and parts dealers .....	20.4	19.1	15.4	1.2	4.8	-1.3	-3.7	-14.2	3.6	
Food and beverage stores .....	-0.4	0.8	-0.9	1.4	-2.3	1.2	-1.7	2.3	-3.7	
General merchandise stores .....	4.7	0.3	-0.5	-0.1	3.7	-4.4	-0.8	0.4	3.8	
Other retail stores .....	2.2	7.2	1.6	8.5	9.3	5.0	-5.6	6.9	0.8	
Other industries .....	-0.7	-2.1	4.7	0.6	0.7	-1.4	6.8	-4.1	0.1	
Residual <sup>1</sup> .....	-0.6	-1.1	-0.5	0.2	-1.2	-0.5	0.6	0.7	-1.4	
<b>Addenda: Ratios of private inventories to final sales of domestic business:</b>										
Private inventories to final sales .....	2.53	2.51	2.49	2.42	2.40	.....	.....	.....	.....	
Nonfarm inventories to final sales .....	2.32	2.30	2.29	2.22	2.21	.....	.....	.....	.....	
Nonfarm inventories to final sales of goods and structures .....	3.79	3.75	3.72	3.57	3.54	.....	.....	.....	.....	

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 5.6.7B.

3. 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.

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



### Exports and Imports

Real exports of goods and services increased about twice as much as in the third quarter; the increase was the largest since the fourth quarter of 1996. Exports of goods and exports of services both stepped up (table 6 and chart 7).

Capital goods contributed the most to the step-up in exports of goods. The automotive category turned up, and industrial supplies and materials increased more than in the third quarter.

In services, “other transportation” and “other private services” contributed the most to the fourth-quarter step-up.

Real imports of goods and services also increased more than in the third quarter; the increase was the largest since the second quarter of 2002 (table 6 and chart 8). An upturn in imports of goods was partly offset by a deceleration in imports of services.

In goods, all categories except petroleum products

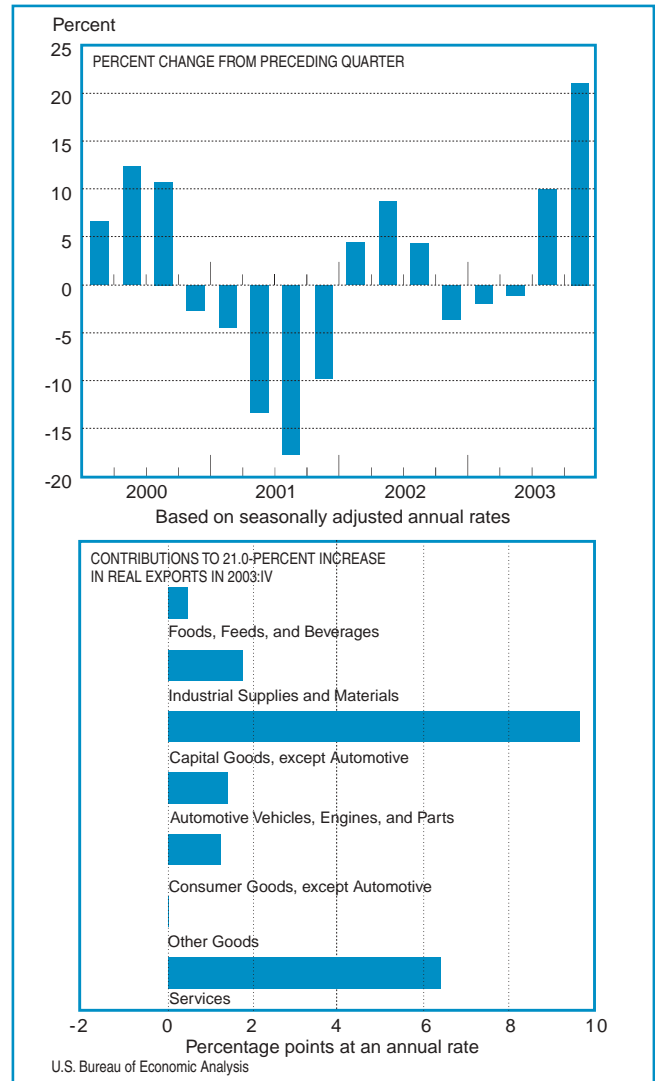
**Table 6. Real Exports and Imports of Goods and Services**

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real exports or imports (percentage points)				Share of current-dollar exports or imports (percent)	
	2003				2003					2003
	I	II	III	IV	I	II	III	IV		IV
<b>Exports of goods and services.....</b>	<b>-2.0</b>	<b>-1.1</b>	<b>9.9</b>	<b>21.0</b>	<b>-2.0</b>	<b>-1.1</b>	<b>9.9</b>	<b>21.0</b>	<b>100</b>	
<b>Exports of goods <sup>1</sup>.....</b>	<b>1.9</b>	<b>-1.7</b>	<b>8.6</b>	<b>21.2</b>	<b>1.31</b>	<b>-1.18</b>	<b>6.01</b>	<b>14.58</b>	<b>69.1</b>	
Foods, feeds, and beverages	14.5	-12.1	7.6	8.5	0.68	-0.65	0.39	0.47	5.3	
Industrial supplies and materials.....	7.5	-3.6	1.1	10.7	1.15	-0.59	0.18	1.77	15.7	
Capital goods, except automotive.....	-2.5	-1.1	19.7	36.4	-0.70	-0.31	5.19	9.66	28.5	
Automotive vehicles, engines, and parts.....	5.9	-0.4	-6.2	18.5	0.45	-0.03	-0.48	1.40	7.4	
Consumer goods, except automotive.....	5.4	7.4	12.2	14.1	0.44	0.61	1.04	1.25	8.5	
Other.....	-16.4	-4.9	-8.0	0.9	-0.71	-0.19	-0.31	0.04	3.5	
<b>Exports of services <sup>1</sup>.....</b>	<b>-10.1</b>	<b>0.2</b>	<b>12.7</b>	<b>20.7</b>	<b>-3.29</b>	<b>0.07</b>	<b>3.86</b>	<b>6.42</b>	<b>30.9</b>	
<b>Imports of goods and services.....</b>	<b>-6.8</b>	<b>9.1</b>	<b>0.8</b>	<b>16.4</b>	<b>-6.8</b>	<b>9.1</b>	<b>0.8</b>	<b>16.4</b>	<b>100</b>	
<b>Imports of goods <sup>1</sup>.....</b>	<b>-6.6</b>	<b>13.7</b>	<b>-1.5</b>	<b>18.1</b>	<b>-5.49</b>	<b>11.04</b>	<b>-1.28</b>	<b>14.92</b>	<b>83.1</b>	
Foods, feeds, and beverages	12.5	5.2	4.0	18.0	0.42	0.19	0.14	0.64	3.6	
Industrial supplies and materials, except petroleum an.....	-7.4	0.5	10.0	0.2	-0.85	0.09	1.10	0.07	11.2	
Petroleum and products.....	-12.6	55.5	-3.0	-16.1	-1.11	3.99	-0.27	-1.49	8.1	
Capital goods, except automotive.....	-2.0	12.6	5.0	27.3	-0.38	2.33	0.94	4.99	19.5	
Automotive vehicles, engines, and parts.....	-8.6	13.8	-14.0	35.0	-1.21	1.83	-2.04	4.34	13.8	
Consumer goods, except automotive.....	6.4	1.0	-0.2	27.9	1.35	0.21	-0.04	5.67	21.8	
Other.....	-51.3	57.5	-19.3	13.8	-3.71	2.39	-1.12	0.70	5.0	
<b>Imports of services <sup>1</sup>.....</b>	<b>-7.5</b>	<b>-10.9</b>	<b>13.4</b>	<b>8.6</b>	<b>-1.28</b>	<b>-1.91</b>	<b>2.13</b>	<b>1.52</b>	<b>16.9</b>	
<b>Addenda:</b>										
Exports of agricultural goods <sup>2</sup> .....	11.5	-3.9	14.7	-5.2					5.9	
Exports of nonagricultural goods.....	1.1	-1.5	8.1	23.9					63.2	
Imports of nonpetroleum goods.....	-5.9	9.5	-1.4	22.8					75.0	

1. Exports and imports of certain goods, primarily military equipment purchased and sold by the Federal Government, are included in services. Beginning with 1986, repairs and alterations of equipment are reclassified from goods to 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.

**Chart 7. Real Exports**

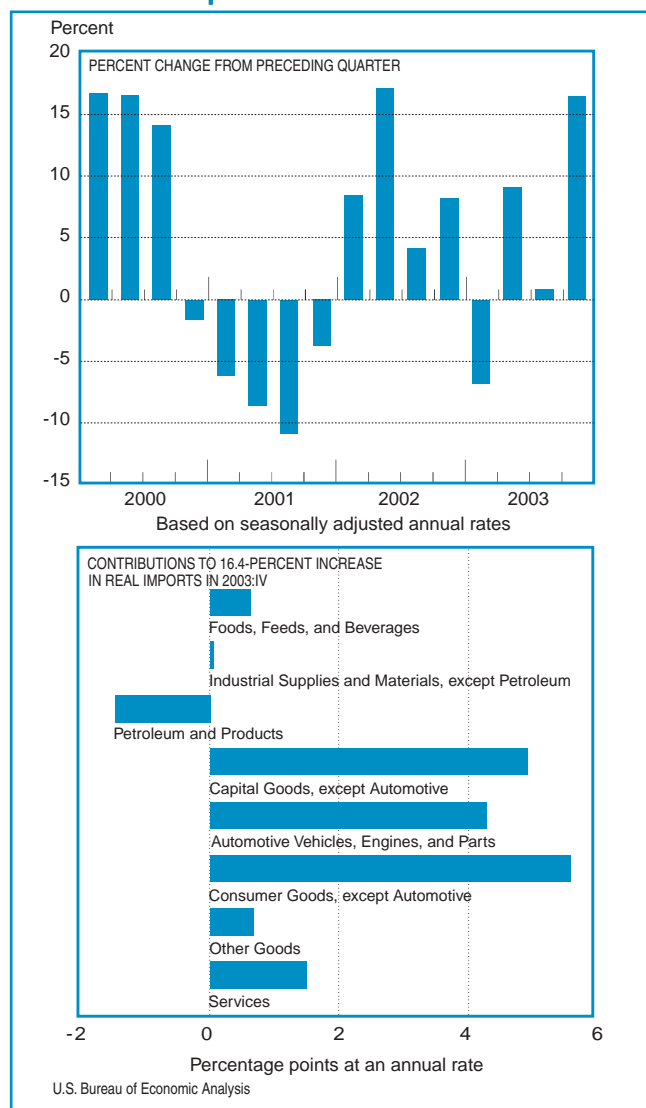




and industrial supplies and materials contributed to the fourth-quarter upturn. The largest contributions to the upturn were made by upturns in the automotive and consumer goods categories and by a step-up in capital goods. Petroleum imports decreased more than in the third quarter, and imports of industrial supplies and materials changed little after a strong increase.

In services, travel made the largest contribution to the fourth-quarter slowdown.

**Chart 8. Real Imports**



### Government Spending

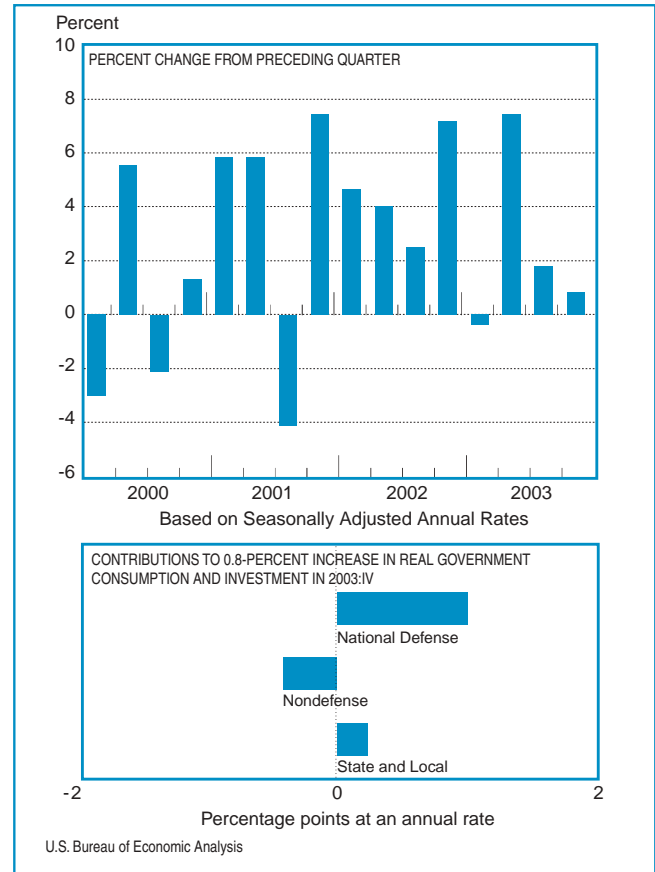
Government spending increased 0.8 percent in the fourth quarter, 1 percentage point less than in the third (table 7 and chart 9). Spending by state and local governments slowed; spending by the Federal Government stepped up modestly.

At the Federal level, an upturn in spending on national defense was partly offset by a downturn in non-defense spending. The upturn in defense spending was more than accounted for by consumption expenditures, especially expenditures on services, including research and development. The drop in Federal nondefense spending was more than accounted for by consumption expenditures, especially purchases of ser-

vices; gross investment increased after decreasing.

At the state and local level, gross investment slowed, while consumption expenditures turned up. The slowdown in gross investment was mainly accounted for by investment in structures.

**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				2003				2003
	I	II	III	IV	I	II	III	IV	IV
<b>Government consumption expenditures and gross investment (CEGI).....</b>	<b>-0.4</b>	<b>7.4</b>	<b>1.8</b>	<b>0.8</b>	<b>-0.4</b>	<b>7.4</b>	<b>1.8</b>	<b>0.8</b>	<b>100</b>
Consumption expenditures.....	0.8	7.1	0.1	0.2	0.64	5.95	0.07	0.21	82.8
Gross investment.....	-5.9	9.0	10.4	3.7	-1.03	1.49	1.68	0.63	17.2
<b>Federal.....</b>	<b>-0.2</b>	<b>23.5</b>	<b>1.2</b>	<b>1.6</b>	<b>-0.06</b>	<b>7.95</b>	<b>0.46</b>	<b>0.60</b>	<b>37.2</b>
<b>National defense.....</b>	<b>-5.6</b>	<b>41.9</b>	<b>-1.3</b>	<b>4.2</b>	<b>-1.33</b>	<b>8.59</b>	<b>-0.33</b>	<b>1.02</b>	<b>24.7</b>
Consumption expenditures.....	-4.8	41.9	-4.7	4.3	-1.00	7.57	-1.03	0.90	21.6
Gross investment.....	-11.2	42.1	26.4	3.8	-0.33	1.02	0.70	0.11	3.1
<b>Nondefense.....</b>	<b>10.5</b>	<b>-5.0</b>	<b>6.5</b>	<b>-3.3</b>	<b>1.27</b>	<b>-0.64</b>	<b>0.79</b>	<b>-0.42</b>	<b>12.5</b>
Consumption expenditures.....	12.8	-11.7	11.9	-7.4	1.34	-1.37	1.23	-0.84	10.8
Gross investment.....	-4.1	53.7	-22.8	28.7	-0.07	0.73	-0.44	0.42	1.7
<b>State and local.....</b>	<b>-0.5</b>	<b>-0.8</b>	<b>2.1</b>	<b>0.4</b>	<b>-0.32</b>	<b>-0.52</b>	<b>1.29</b>	<b>0.24</b>	<b>62.8</b>
Consumption expenditures.....	0.6	-0.5	-0.3	0.3	0.31	-0.25	-0.13	0.15	50.4
Gross investment.....	-4.9	-2.2	12.2	0.7	-0.63	-0.26	1.42	0.09	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.

### Prices

Inflation as measured by the price index for gross domestic purchases slowed from 1.8 percent in the third quarter to 1.1 percent in the fourth (table 8). The slowdown mainly reflected a downturn in energy prices; excluding food and energy items, prices increased 1.2 percent after increasing 1.3 percent (chart 10).

Prices of goods and services purchased by consumers increased 0.7 percent after increasing 1.8 percent.

**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				2003			
	I	II	III	IV	I	II	III	IV
<b>Gross domestic purchases</b> .....	<b>3.4</b>	<b>0.4</b>	<b>1.8</b>	<b>1.1</b>	<b>3.4</b>	<b>0.4</b>	<b>1.8</b>	<b>1.1</b>
<b>Personal consumption expenditures</b> .....	<b>2.8</b>	<b>0.5</b>	<b>1.8</b>	<b>0.7</b>	<b>1.87</b>	<b>0.29</b>	<b>1.18</b>	<b>0.45</b>
Durable goods.....	-4.4	-3.9	-4.0	-3.9	-0.37	-0.33	-0.34	-0.33
Nondurable goods.....	5.1	-2.1	3.8	0.5	0.96	-0.42	0.71	0.10
Services.....	3.2	2.7	2.0	1.7	1.28	1.05	0.81	0.68
<b>Gross private domestic investment</b> .....	<b>1.3</b>	<b>0.0</b>	<b>2.0</b>	<b>3.5</b>	<b>0.24</b>	<b>0.07</b>	<b>0.29</b>	<b>0.52</b>
Fixed investment.....	1.9	0.0	2.1	3.7	0.26	-0.01	0.30	0.53
Nonresidential.....	-0.3	-1.2	1.6	1.7	-0.03	-0.11	0.15	0.17
Structures.....	3.8	1.1	2.7	4.7	0.09	0.02	0.06	0.10
Equipment and software.....	-1.6	-1.8	1.2	0.9	-0.12	-0.14	0.09	0.07
Residential.....	6.4	2.2	3.1	7.5	0.29	0.10	0.15	0.36
Change in private inventories.....	.....	.....	.....	.....	-0.02	0.07	-0.01	-0.02
<b>Government consumption expenditures and gross investment</b> .....	<b>7.3</b>	<b>0.1</b>	<b>1.7</b>	<b>0.5</b>	<b>1.27</b>	<b>0.01</b>	<b>0.31</b>	<b>0.09</b>
Federal.....	7.7	1.4	1.3	0.2	0.48	0.09	0.09	0.02
National defense.....	8.0	1.2	1.3	0.4	0.32	0.05	0.06	0.02
Nondefense.....	7.2	1.6	1.3	0.0	0.16	0.04	0.03	0.00
State and local.....	7.1	-0.7	2.0	0.6	0.79	-0.08	0.22	0.07
<b>Addenda:</b>								
Gross domestic purchases:								
Food.....	1.8	2.4	2.5	4.0	0.17	0.22	0.23	0.37
Energy goods and services.....	52.5	-14.1	11.2	-8.0	1.66	-0.62	0.42	-0.32
Excluding food and energy.....	1.8	0.9	1.3	1.2	1.56	0.77	1.13	1.00
Personal consumption expenditures:								
Food.....	1.7	2.4	2.5	4.0	.....	.....	.....	.....
Energy goods and services.....	45.3	-8.6	12.3	-9.5	.....	.....	.....	.....
Excluding food and energy.....	0.9	0.8	1.0	0.7	.....	.....	.....	.....
Gross domestic product.....	2.3	1.1	1.6	1.2	.....	.....	.....	.....

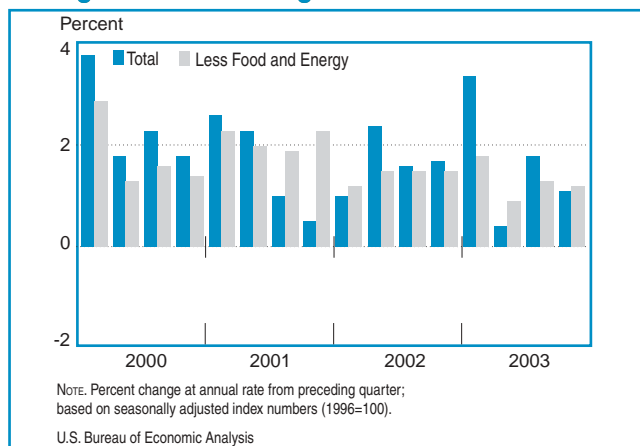
NOTE: Most percent changes are from NIPA table 1.6.7; percent changes for personal consumption expenditures for energy goods and services and for personal consumption expenditures excluding food and energy are calculated from index numbers in NIPA table 2.3.4. Contributions to percent change are from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

The price of gasoline and oil turned down, as did the price of electricity and gas. Food prices, in contrast, increased more than in the third quarter. The price of consumer purchases excluding food and energy, which is sometimes viewed as an indicator of the “underlying” rate of inflation, increased 0.7 percent after increasing 1.0 percent.

Prices of private nonresidential fixed investment increased 1.7 percent after increasing 1.6 percent. Prices of structures increased 4.7 percent, the largest increase in more than 2 years. Prices of equipment and software increased a little less than in the third quarter; the rare back-to-back increases mainly reflected increases in the prices of transportation equipment.

Prices paid by government increased 0.5 percent after increasing 1.7 percent. The slowdown was evident at both the Federal level and at the state and local level.

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



## Revisions

The preliminary estimate of a 4.1-percent increase in real GDP in the fourth quarter is 0.1 percentage point higher than the advance estimate released last month (table 9). In the past 20 years, the average revision, without regard to sign, from the advance estimate to the preliminary estimate was 0.5 percentage point.

The upward revision to fourth-quarter real GDP reflected upward revisions to equipment and software investment, to inventory investment, and to exports that were mostly offset by an upward revision to imports.

The revision to equipment and software contributed an additional 0.36 percentage point to real GDP growth. It primarily reflected the incorporation of Census Bureau data for December, specifically, newly available and revised data on shipments and newly available data on exports and imports.

The revision to inventory investment contributed an additional 0.31 percentage point to real GDP growth. It primarily reflected the incorporation of newly available and revised Census Bureau data on inventories for November and December.

The revision to exports contributed an additional 0.16 percentage point to real GDP growth, and the revision to imports reduced GDP by an additional 0.65 percentage point. Both of these revisions primarily reflect the incorporation of newly available Census Bureau data for December and revised data for November.

**Table 9. Preliminary and Advance Estimates for the Fourth Quarter of 2003**

[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>4.1</b>	<b>4.0</b>	<b>0.1</b>	<b>4.1</b>	<b>4.0</b>	<b>0.1</b>
<b>Personal consumption expenditures</b> .....	<b>2.7</b>	<b>2.6</b>	<b>0.1</b>	<b>1.93</b>	<b>1.84</b>	<b>0.09</b>
Durable goods .....	-0.1	0.9	-1.0	-0.01	0.08	-0.09
Nondurable goods .....	5.2	4.4	0.8	1.04	0.89	0.15
Services.....	2.2	2.1	0.1	0.91	0.87	0.04
<b>Gross private domestic investment</b> .....	<b>15.8</b>	<b>12.4</b>	<b>3.4</b>	<b>2.31</b>	<b>1.84</b>	<b>0.47</b>
Private fixed investment.....	9.3	8.1	1.2	1.39	1.23	0.16
Nonresidential.....	9.6	6.9	2.7	0.95	0.69	0.26
Structures .....	-7.1	-3.0	-4.1	-0.17	-0.07	-0.10
Equipment and software	15.1	10.0	5.1	1.12	0.76	0.36
Residential.....	8.6	10.6	-2.0	0.44	0.54	-0.10
Change in private inventories	.....	.....	.....	0.92	0.61	0.31
<b>Net exports of goods and services</b> .....	.....	.....	.....	<b>-0.30</b>	<b>0.19</b>	<b>-0.49</b>
Exports .....	21.0	19.1	1.9	1.85	1.69	0.16
Goods .....	21.2	19.2	2.0	1.28	1.17	0.11
Services.....	20.7	18.9	1.8	0.57	0.52	0.05
Imports .....	16.4	11.3	5.1	-2.15	-1.50	-0.65
Goods .....	18.1	12.2	5.9	-1.95	-1.34	-0.61
Services.....	8.6	7.0	1.6	-0.20	-0.16	-0.04
<b>Government consumption expenditures and gross investment</b> .....	<b>0.8</b>	<b>0.8</b>	<b>0.0</b>	<b>0.16</b>	<b>0.16</b>	<b>0.00</b>
Federal.....	1.6	0.7	0.9	0.11	0.05	0.06
National defense.....	4.2	1.8	2.4	0.19	0.08	0.11
Nondefense.....	-3.3	-1.6	-1.7	-0.08	-0.04	-0.04
State and local.....	0.4	0.9	-0.5	0.05	0.11	-0.06
<b>Addenda:</b>						
Final sales of domestic product	3.2	3.4	-0.2	.....	.....	.....
Gross domestic purchases price index .....	1.1	1.0	0.1	.....	.....	.....
GDP price index.....	1.2	1.1	0.1	.....	.....	.....

NOTE: The preliminary estimates for the fourth quarter of 2003 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 November and December, and revised estimates of electricity usage for October.

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

*Residential fixed investment:* Revised construction put-in-place data for October and November (revised) and December.

*Change in private inventories:* Manufacturers and trade inventories for November (revised) and December (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 November (revised) and December.

*Government consumption expenditures and gross investment:* Revised state and local construction put-in-place data for October and November (revised) and December.

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

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