

BUSINESS SITUATION

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GROWTH of the U.S. economy slowed in the third quarter, as private investment slowed sharply and Federal Government spending turned down. Inflation remained moderate.

Real gross domestic product (GDP) increased 2.4 percent in the third quarter of 2000, according to the "preliminary" estimates of the national income and product accounts (NIPAs), after increasing 5.6 percent in the second quarter (table 1 and chart 1); the "advance" third-quarter estimate of real GDP, reported in the November "Business Situation," had shown a 2.7-percent increase.¹ The downward revision to real GDP reflected an upward revision to imports and downward revisions to business investment in equipment and software

and to private investment in inventories that were partly offset by upward revisions to business investment in structures and to State and local government spending.²

Real final sales of domestic product was revised down, and real gross domestic purchases was revised up. The increases in the prices of gross domestic purchases and of GDP were revised down. (The sources of the revisions are discussed in the section "Revisions.")

2. In the NIPAs, business investment in equipment and software and in structures is shown as private nonresidential fixed investment, private inventory investment is shown as change in private inventories, and government spending is shown as government consumption expenditures and gross investment.

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates. Quarter-to-quarter dollar changes are the differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data unless otherwise specified.

Real estimates are calculated using a chain-type Fisher formula with annual weights for all years and quarterly weights for all quarters; real estimates are expressed both as index numbers (1996=100) and as chained (1996) dollars. Price indexes (1996=100) are also calculated using a chain-type Fisher formula.

Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers

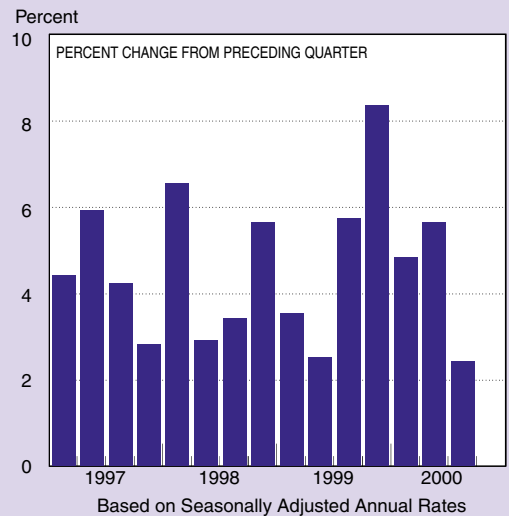
[Seasonally adjusted at annual rates]

| | Billions of chained (1996) dollars | | | | | Percent change from preceding quarter | | | |
|--|------------------------------------|-------------------------------|--------------|--------------|-------------|---------------------------------------|------------|------------|------------|
| | Level | Change from preceding quarter | | | | 1999 | | 2000 | |
| | | 2000 | 1999 | 2000 | | | IV | I | II |
| | | III | IV | I | II | III | | | |
| Gross domestic product | 9,373.5 | 178.3 | 107.7 | 127.1 | 54.6 | 8.3 | 4.8 | 5.6 | 2.4 |
| Less: Exports of goods and services | 1,162.7 | 25.8 | 16.4 | 37.0 | 40.9 | 10.3 | 6.3 | 14.3 | 15.4 |
| Plus: Imports of goods and services | 1,587.7 | 35.7 | 40.8 | 63.5 | 62.5 | 10.7 | 12.0 | 18.6 | 17.4 |
| Equals: Gross domestic purchases | 9,767.7 | 187.4 | 129.5 | 150.7 | 73.4 | 8.4 | 5.6 | 6.5 | 3.1 |
| Less: Change in private inventories | 73.5 | 41.8 | -44.3 | 42.0 | -5.1 | | | | |
| Nonfarm | 68.4 | 29.5 | -40.0 | 39.3 | -3.9 | | | | |
| Farm | 5.0 | 12.9 | -4.3 | 2.6 | -1.2 | | | | |
| Equals: Final sales to domestic purchasers... | 9,688.1 | 147.6 | 169.5 | 110.6 | 77.6 | 6.6 | 7.5 | 4.7 | 3.3 |
| Personal consumption expenditures | 6,330.5 | 87.2 | 112.5 | 47.1 | 69.9 | 5.9 | 7.6 | 3.1 | 4.5 |
| Durable goods | 904.1 | 25.6 | 46.4 | -11.5 | 17.4 | 13.0 | 23.6 | -5.0 | 8.1 |
| Nondurable goods | 1,883.1 | 32.0 | 26.7 | 16.3 | 22.0 | 7.4 | 6.0 | 3.6 | 4.8 |
| Services | 3,558.7 | 31.9 | 44.2 | 39.5 | 32.0 | 3.8 | 5.2 | 4.6 | 3.7 |
| Private fixed investment | 1,791.9 | 28.8 | 64.3 | 46.7 | 14.3 | 7.2 | 16.4 | 11.2 | 3.3 |
| Nonresidential | 1,439.4 | 29.3 | 63.5 | 47.2 | 26.9 | 9.5 | 21.0 | 14.6 | 7.8 |
| Structures | 286.8 | 6.0 | 13.4 | 3.0 | 9.8 | 9.7 | 22.3 | 4.4 | 14.9 |
| Equipment and software | 1,162.7 | 23.5 | 50.3 | 46.2 | 16.1 | 9.5 | 20.6 | 17.9 | 5.8 |
| Residential | 362.3 | .5 | 2.9 | 1.2 | -10.3 | .5 | 3.2 | 1.3 | -10.5 |
| Government consumption expenditures and gross investment | 1,577.7 | 31.7 | -4.4 | 18.6 | -6.0 | 8.5 | -1.1 | 4.8 | -1.5 |
| Federal | 545.8 | 17.1 | -21.0 | 21.7 | -13.0 | 13.2 | -14.2 | 17.2 | -9.0 |
| National defense | 346.2 | 10.5 | -19.4 | 13.6 | -8.9 | 12.6 | -19.8 | 16.9 | -9.6 |
| Nondefense | 199.4 | 6.6 | -1.7 | 8.2 | -4.2 | 14.4 | -3.3 | 17.8 | -8.0 |
| State and local | 1,031.4 | 14.8 | 16.2 | -2.8 | 6.8 | 6.1 | 6.6 | -1.1 | 2.7 |
| Addendum: Final sales of domestic product | 9,294.1 | 138.7 | 147.5 | 87.3 | 58.8 | 6.4 | 6.7 | 3.9 | 2.6 |

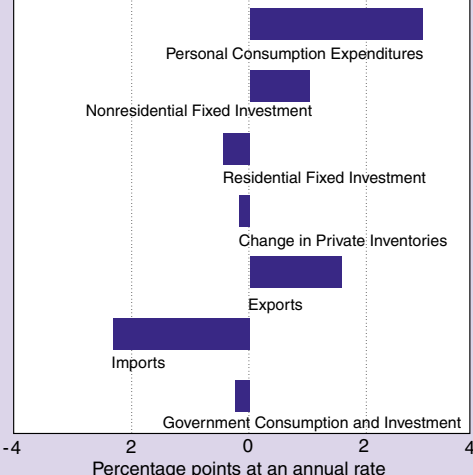
NOTE.—Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1. (See "Selected NIPA Tables," which begin on page D-2 in this issue.)

CHART 1

Real Gross Domestic Product



CONTRIBUTIONS TO 2.4-PERCENT INCREASE IN REAL GDP IN 2000:III



U.S. Department of Commerce, Bureau of Economic Analysis

The 2.4-percent increase in real GDP in the third quarter was the smallest increase in 4 years and was well below the 3.7-percent average annual growth rate over the current expansion, which began in the second quarter of 1991.

Overall, the picture of the economy that is presented by the preliminary estimates is similar to that presented by the advance estimates; however, revisions to some of the components of GDP were substantial and offsetting. The preliminary estimates showed the following:

- Real GDP growth decelerated in the third quarter. The deceleration was accounted for by downturns in private inventory investment, in Federal Government spending, and in private residential investment and by a deceleration in business investment in equipment and software. These changes were partly offset by an acceleration in consumer spending and by an upturn in State and local government spending.³
- Real motor vehicle output decreased 16.4 percent in the third quarter after decreasing 4.5 percent in the second. GDP less motor vehicles increased 3.1 percent after increasing 6.0 percent.
- Real final sales of computers increased 37.7 percent in the third quarter after increasing 55.4 percent in the second. GDP less final sales of

computers increased 2.0 percent after increasing 5.2 percent.

- Real final sales of domestic product decelerated less than GDP in the third quarter, as private inventory investment turned down.⁴ The growth in real final sales of domestic product was 0.2 percentage point higher than the growth in real GDP in the third quarter; in the second quarter, the growth in final sales was 1.7 percentage points lower than the growth in real GDP.
- Real gross domestic purchases decelerated slightly more than real GDP in the third quarter, reflecting a small deceleration in imports of goods and services and a small acceleration in exports of goods and services.⁵ Gross domestic purchases has grown faster than GDP for 7 consecutive quarters and for 14 of the past 15 quarters.
- The largest contributors to the third-quarter

4. Final sales of domestic product is calculated as GDP less change in private inventories.

5. Gross domestic purchases—a measure of purchases by U.S. residents regardless of where the purchased goods and services were produced—is calculated as the sum of personal consumption expenditures, gross private domestic investment, and government consumption expenditures and gross investment; thus, gross domestic purchases includes imports of goods and services, which are subtracted in the calculation of GDP, and does not include exports of goods and services, which are added in the calculation of GDP.

3. In the NIPA's, consumer spending is shown as personal consumption expenditures.

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

[Seasonally adjusted at annual rates]

| | 2000 | | | |
|--|-------|-------|-------|-------|
| | IV | I | II | III |
| Percent change at annual rate: | | | | |
| Gross domestic product | 8.3 | 4.8 | 5.6 | 2.4 |
| Percentage points at annual rates: | | | | |
| Personal consumption expenditures | 4.08 | 5.03 | 2.14 | 3.02 |
| Durable goods | 1.04 | 1.79 | -.42 | .64 |
| Nondurable goods | 1.47 | 1.19 | .74 | .95 |
| Services | 1.58 | 2.04 | 1.83 | 1.43 |
| Gross private domestic investment | 3.04 | .92 | 3.66 | .40 |
| Fixed investment | 1.26 | 2.68 | 1.93 | .58 |
| Nonresidential | 1.22 | 2.54 | 1.87 | 1.04 |
| Structures | .29 | .63 | .14 | .45 |
| Equipment and software | .94 | 1.91 | 1.73 | .59 |
| Residential | .03 | .14 | .06 | -.46 |
| Change in private inventories | 1.78 | -1.76 | 1.73 | -.18 |
| Net exports of goods and services | -.37 | -.94 | -1.00 | -.79 |
| Exports | 1.09 | .67 | 1.48 | 1.60 |
| Goods | .94 | .46 | 1.37 | 1.46 |
| Services | .15 | .21 | .11 | .15 |
| Imports | -1.45 | -1.61 | -2.48 | -2.39 |
| Goods | -1.28 | -1.28 | -2.26 | -1.95 |
| Services | -.17 | -.33 | -.22 | -.44 |
| Government consumption expenditures and gross investment | 1.50 | -.18 | .85 | -.26 |
| Federal | .79 | -.93 | .97 | -.57 |
| National defense | .48 | -.86 | .60 | -.38 |
| Nondefense | .30 | -.07 | .37 | -.19 |
| State and local | .71 | .75 | -.12 | .31 |

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

Table 3.—Percent Changes in Prices

[Annual rates, based on seasonally adjusted index numbers (1996=100)]

| | 2000 | | | |
|--|------|------|------|------|
| | IV | I | II | III |
| Gross domestic product | 1.6 | 3.3 | 2.4 | 1.9 |
| <i>Less:</i> Exports of goods and services | 2.7 | 1.9 | 1.9 | .8 |
| <i>Plus:</i> Imports of goods and services | 5.3 | 5.6 | .2 | 3.6 |
| Equals: Gross domestic purchases | 1.9 | 3.8 | 2.1 | 2.3 |
| <i>Less:</i> Change in private inventories | | | | |
| Equals: Final sales to domestic purchasers | 2.0 | 3.8 | 2.1 | 2.3 |
| Personal consumption expenditures | 2.2 | 3.5 | 2.1 | 2.1 |
| Durable goods | -1.8 | -2.0 | -.6 | -2.3 |
| Nondurable goods | 3.6 | 5.4 | 3.3 | 2.2 |
| Services | 2.3 | 3.7 | 2.0 | 3.0 |
| Private fixed investment | 0 | 2.6 | 1.9 | 2.3 |
| Nonresidential | -.8 | 1.8 | 1.6 | 2.2 |
| Structures | 3.6 | 4.7 | 3.7 | 4.9 |
| Equipment and software | -2.1 | .9 | 1.0 | 1.3 |
| Residential | 2.6 | 5.2 | 2.6 | 2.7 |
| Government consumption expenditures and gross investment | 3.0 | 6.4 | 2.7 | 3.2 |
| Federal | 2.2 | 7.7 | .6 | 2.7 |
| National defense | 2.4 | 7.1 | .8 | 2.9 |
| Nondefense | 1.9 | 8.9 | .4 | 2.4 |
| State and local | 3.5 | 5.7 | 3.8 | 3.4 |
| Addenda: | | | | |
| Gross domestic purchases: | | | | |
| Food | 2.3 | 2.3 | 2.3 | 3.5 |
| Energy | 12.0 | 37.7 | 11.2 | 11.1 |
| Less food and energy | 1.5 | 2.8 | 1.7 | 1.8 |
| PCE: | | | | |
| Food | 2.3 | 2.4 | 2.3 | 3.7 |
| Energy goods and services ¹ | 11.7 | 35.1 | 13.0 | 8.7 |
| Less food and energy | 1.7 | 2.2 | 1.4 | 1.5 |

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

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

increase in real GDP were consumer spending, exports of goods and services, and business fixed investment (table 2 and chart 1). The increase in GDP was moderated by an increase in imports.

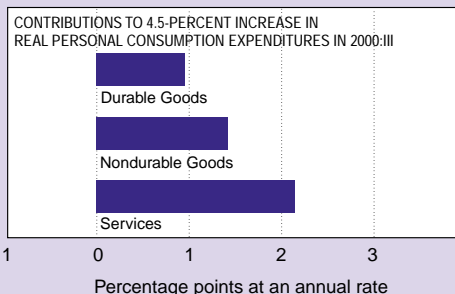
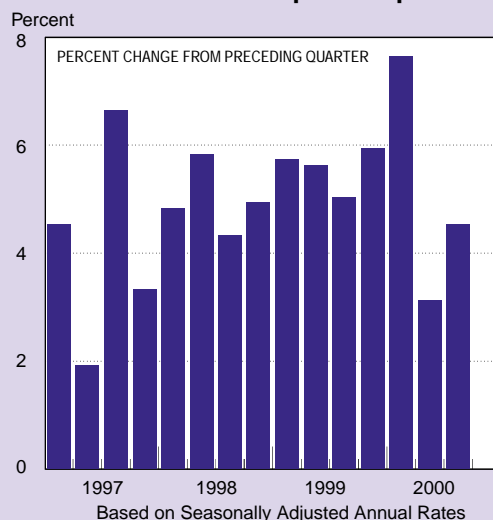
The prices of gross domestic purchases increased 2.3 percent in the third quarter after increasing 2.1 percent in the second (table 3); the small acceleration was primarily accounted for by an acceleration in the prices of PCE services, largely in medical care. The prices of gross domestic purchases excluding food and energy prices, which are more volatile than many other prices, increased 1.8 percent after increasing 1.7 percent.

GDP prices increased 1.9 percent in the third quarter after increasing 2.4 percent in the second. GDP prices decelerated while gross domestic purchases prices accelerated, because export prices decelerated and import prices accelerated; the acceleration in import prices primarily reflected a sharp step-up in petroleum prices.

Real disposable personal income increased 2.4 percent in the third quarter after increasing 3.7 percent in the second. The personal saving rate fell to -0.2 percent in the third-quarter from 0.3 percent in the second; the third-quarter rate was the only negative rate since 1946—the first year for which quarterly estimates are available.⁶ The national saving rate decreased to 18.5 percent from

CHART 2

Real Personal Consumption Expenditures



U.S. Department of Commerce, Bureau of Economic Analysis

6. The personal saving rate is measured as personal saving as a percentage of current-dollar disposable personal income.

Table 4.—Real Personal Consumption Expenditures

[Seasonally adjusted at annual rates]

| | Billions of chained (1996) dollars | | | | | Percent change from preceding quarter | | | |
|--|------------------------------------|-------------------------------|--------------|-------------|-------------|---------------------------------------|------------|------------|------------|
| | Level | Change from preceding quarter | | | | Percent change from preceding quarter | | | |
| | 2000 | 1999 | 2000 | | | 1999 | 2000 | | |
| | III | IV | I | II | III | IV | I | II | III |
| Personal consumption expenditures | 6,330.5 | 87.2 | 112.5 | 47.1 | 69.9 | 5.9 | 7.6 | 3.1 | 4.5 |
| Durable goods | 904.1 | 25.6 | 46.4 | -11.5 | 17.4 | 13.0 | 23.6 | -5.0 | 8.1 |
| Motor vehicles and parts | 342.3 | 6.0 | 20.9 | -15.9 | 6.4 | 7.7 | 27.7 | -16.9 | 7.8 |
| Of which: | | | | | | | | | |
| New autos | 101.3 | 5.1 | 5.6 | -3.7 | -4.0 | 22.4 | 23.6 | -13.0 | -14.4 |
| New light trucks | 107.6 | .2 | 10.3 | -7.8 | 7.0 | .9 | 49.2 | -25.7 | 30.7 |
| Furniture and household equipment | 387.6 | 14.3 | 15.9 | 5.2 | 8.3 | 17.7 | 19.1 | 5.6 | 9.0 |
| Other | 177.9 | 6.0 | 9.1 | 1.0 | 2.9 | 15.8 | 24.1 | 2.3 | 6.9 |
| Nondurable goods | 1,883.1 | 32.0 | 26.7 | 16.3 | 22.0 | 7.4 | 6.0 | 3.6 | 4.8 |
| Food | 879.2 | 19.3 | 6.2 | 4.3 | 2.7 | 9.4 | 2.9 | 2.0 | 1.2 |
| Clothing and shoes | 350.4 | 0 | 15.6 | 4.6 | 8.1 | -1 | 20.9 | 5.6 | 9.8 |
| Gasoline, fuel oil, and other energy goods | 149.2 | 1.9 | -5.7 | 1.7 | 1.7 | 5.1 | -14.0 | 4.5 | 4.7 |
| Other | 506.5 | 10.2 | 11.9 | 5.9 | 10.0 | 9.0 | 10.3 | 4.9 | 8.3 |
| Services | 3,558.7 | 31.9 | 44.2 | 39.5 | 32.0 | 3.8 | 5.2 | 4.6 | 3.7 |
| Housing | 851.8 | 5.8 | 4.9 | 5.6 | 4.8 | 2.8 | 2.4 | 2.7 | 2.3 |
| Household operation | 376.4 | -5.4 | 5.4 | 10.1 | 1.6 | -5.8 | 6.1 | 11.6 | 1.8 |
| Electricity and gas | 135.1 | -7.8 | 2.3 | 6.5 | -1.4 | -20.9 | 7.2 | 21.4 | -3.9 |
| Other household operation | 241.1 | 2.1 | 3.2 | 3.7 | 3.0 | 3.8 | 5.6 | 6.4 | 5.2 |
| Transportation | 250.9 | 2.3 | 2.5 | 2.4 | 1.0 | 3.7 | 4.2 | 3.9 | 1.6 |
| Medical care | 909.8 | 7.2 | 4.6 | 6.4 | 6.0 | 3.3 | 2.1 | 2.9 | 2.7 |
| Recreation | 237.0 | 2.1 | 5.1 | 4.9 | 4.8 | 3.9 | 9.6 | 9.0 | 8.6 |
| Other | 931.5 | 19.1 | 21.3 | 10.6 | 13.5 | 9.1 | 9.9 | 4.8 | 6.0 |

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 2.3 and 8.9B (motor vehicles). Percent changes in major aggregates are shown in NIPA table S.1.

18.6 percent; the national saving rate has ranged from 18.2 percent to 18.6 percent for the last six quarters after ranging from 18.7 percent to 19.0 percent for the preceding five quarters.⁷

Personal consumption expenditures

Real personal consumption expenditures (PCE) increased 4.5 percent in the third quarter after increasing 3.1 percent in the second (table 4 and chart 2). The acceleration was accounted for by an upturn in durable goods and by an acceleration in nondurable goods. Services decelerated.

Over the past four quarters, PCE increased 5.3 percent, well above its 3.8-percent average annual growth rate over the current expansion. The factors frequently considered in the analyses of consumer spending showed some strength from the third quarter of 1999 to the third quarter of 2000 (chart 3). The unemployment rate fell to 4.0 percent—its lowest quarterly rate since 1969—from

7. The national saving rate is measured as gross saving as a percentage of gross national product.

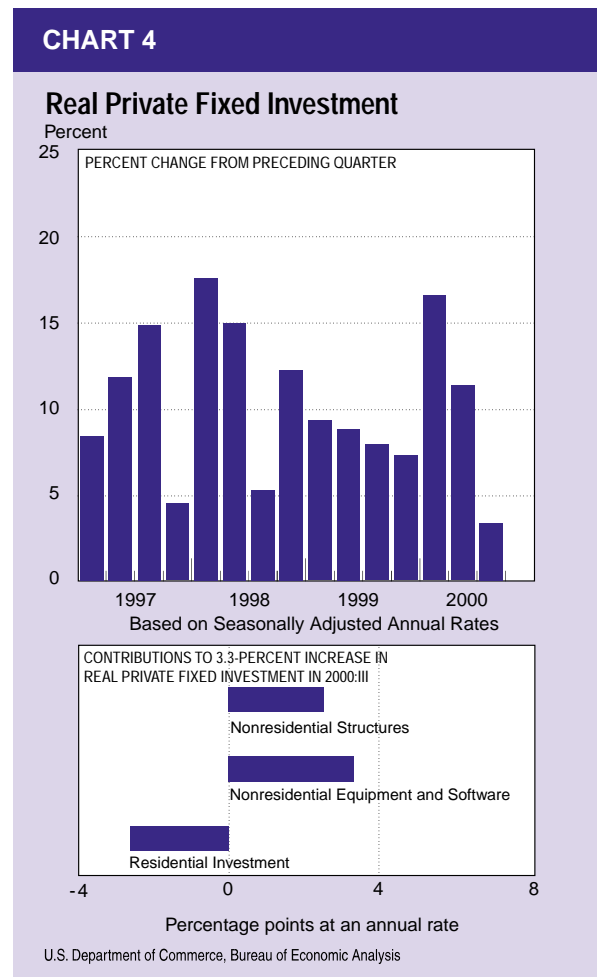
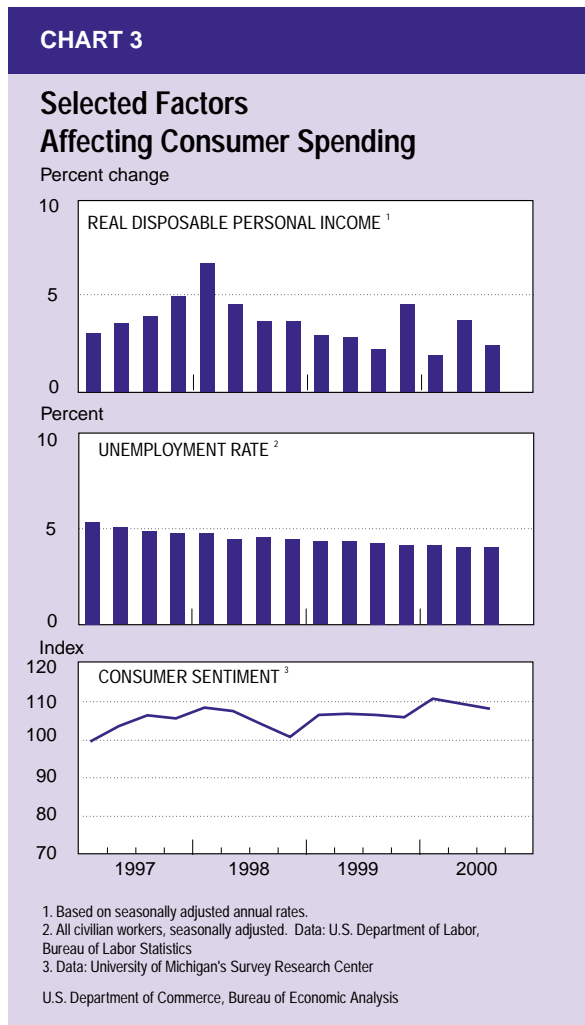
4.2 percent. Real disposable personal income increased 3.1 percent, which was slightly higher than the 2.9-percent average growth rate over the current expansion. The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center as a measure of consumer attitudes and expectations) decreased in three of the four quarters, but it remained at a high level.

Expenditures for durable goods increased 8.1 percent after decreasing 5.0 percent. The upturn was mostly accounted for by an upturn in motor vehicles and parts. However, furniture and household equipment and "other" durable goods increased more than in the second quarter.⁸

Expenditures for nondurable goods increased 4.8 percent after increasing 3.6 percent. Accelerations in "other" nondurable goods and in clothing and shoes more than offset a deceleration in food.⁹

8. "Other" durable goods 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.

9. "Other" nondurable goods 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.



Expenditures for services increased 3.7 percent after increasing 4.6 percent. A deceleration in household operation, largely reflecting a downturn in electricity and gas, more than offset an acceleration in "other" services.¹⁰

Private fixed investment

Real private fixed investment increased 3.3 percent in the third quarter after jumping 11.2 percent in the second (table 5 and chart 4). Nonresidential fixed investment decelerated, and residential investment turned down.

Nonresidential fixed investment.—Real private nonresidential fixed investment increased 7.8 percent in the third quarter after jumping 14.6 percent in the second. The deceleration reflected a deceleration in equipment and software that more than offset an acceleration in structures.

Over the past four quarters, nonresidential fixed investment increased 13.1 percent, somewhat more than its 9.3-percent average annual growth rate over the current expansion. Many of the factors that affect investment spending have shown strength over the past four quarters: Real final sales of domestic product increased 4.9 percent, domestic corporate profits increased 13.9 percent, and

the capacity utilization rate increased to 82.4 percent from 81.3 percent (chart 5). In contrast, long-term interest rates increased; for example, the yield on high-grade corporate bonds increased to 7.54 percent in the third quarter of 2000 from 7.31 percent in the third quarter of 1999.

Investment in equipment and software increased 5.8 percent in the third quarter after jumping 17.9 percent in the second. The slowdown was widespread, but it was most pronounced in transportation equipment and in "other" information processing equipment.¹¹

Investment in nonresidential structures jumped 14.9 percent after increasing 4.4 percent. The step-up was accounted for by upturns in utilities and in "other structures" and by an acceleration in nonresidential buildings.

Residential investment.—Real private residential investment decreased 10.5 percent in the third quarter after increasing 1.3 percent in the second (table 5 and chart 4). All the components of residential structures contributed to the downturn.

Single-family structures decreased 16.3 percent after decreasing 4.5 percent, and multifamily structures decreased 29.5 percent after decreasing 2.5 percent.

11. "Other information processing equipment" includes communication equipment, instruments, photocopy and related equipment, and office and accounting equipment.

10. "Other" services includes personal care, personal business, education and research, religious and welfare activities, and net foreign travel.

Table 5.—Real Private Fixed Investment

[Seasonally adjusted at annual rates]

| | Billions of chained (1996) dollars | | | | | Percent change from preceding quarter | | | |
|---|------------------------------------|-------------------------------|-------------|-------------|-------------|---------------------------------------|-------------|-------------|------------|
| | Level | Change from preceding quarter | | | | 1999 | | | |
| | 2000 | 1999 | 2000 | | | 2000 | | | |
| | III | IV | I | II | III | IV | I | II | III |
| Private fixed investment | 1,791.9 | 28.8 | 64.3 | 46.7 | 14.3 | 7.2 | 16.4 | 11.2 | 3.3 |
| Nonresidential | 1,439.4 | 29.3 | 63.5 | 47.2 | 26.9 | 9.5 | 21.0 | 14.6 | 7.8 |
| Structures | 286.8 | 6.0 | 13.4 | 3.0 | 9.8 | 9.7 | 22.3 | 4.4 | 14.9 |
| Nonresidential buildings, including farm | 204.0 | 1.9 | 11.4 | 3.0 | 4.5 | 4.0 | 27.1 | 6.2 | 9.4 |
| Utilities | 44.8 | .4 | .9 | -2.1 | 2.0 | 3.9 | 8.6 | -17.4 | 19.8 |
| Mining exploration, shafts, and wells | 30.5 | 3.3 | 1.5 | 2.3 | 2.1 | 78.2 | 27.0 | 40.9 | 33.2 |
| Other structures | 7.7 | .4 | -6 | -4 | 1.2 | 22.0 | -27.2 | -24.3 | 99.0 |
| Equipment and software | 1,162.7 | 23.5 | 50.3 | 46.2 | 16.1 | 9.5 | 20.6 | 17.9 | 5.8 |
| Information processing equipment and software | 696.1 | 26.8 | 41.5 | 39.7 | 27.0 | 20.5 | 31.4 | 27.7 | 17.1 |
| Computers and peripheral equipment ¹ | 322.9 | 12.9 | 20.3 | 33.2 | 25.6 | 24.2 | 37.8 | 60.5 | 39.2 |
| Software ² | 235.2 | 12.8 | 9.7 | 9.5 | 10.7 | 29.3 | 20.3 | 18.9 | 20.4 |
| Other | 197.5 | 3.5 | 15.7 | 9.3 | .9 | 8.7 | 41.9 | 21.4 | 1.8 |
| Industrial equipment | 167.8 | 3.9 | 6.1 | 5.1 | 3.8 | 10.8 | 16.9 | 13.5 | 9.6 |
| Transportation equipment | 190.5 | -3.2 | 1.4 | 1.9 | -8.7 | -6.3 | 2.9 | 3.9 | -16.4 |
| Of which: Motor vehicles | 154.4 | -3.6 | 4.4 | -8.0 | -4.4 | -8.4 | 11.4 | -17.8 | -10.7 |
| Other | 139.9 | -5 | 5.2 | 3.4 | -1.5 | -1.4 | 16.6 | 10.2 | -4.4 |
| Residential | 362.3 | .5 | 2.9 | 1.2 | -10.3 | .5 | 3.2 | 1.3 | -10.5 |
| Structures | 352.7 | .4 | 2.6 | 1.1 | -10.2 | .4 | 2.9 | 1.3 | -10.8 |
| Single-family | 185.1 | 3.2 | 7.0 | -2.3 | -8.4 | 7.1 | 15.6 | -4.5 | -16.3 |
| Multifamily | 21.6 | -3 | .8 | -2 | -2.0 | -5.1 | 14.7 | -2.5 | -29.5 |
| Other structures ³ | 146.0 | -2.6 | -5.5 | 3.7 | .3 | -6.7 | -13.9 | 10.6 | 1.0 |
| Equipment | 9.8 | .1 | .4 | 0 | .1 | 6.8 | 16.4 | 1.9 | 1.7 |

1. Includes new computers and peripheral equipment only.
 2. Excludes software "embedded," or bundled, in computers and other equipment.
 3. Other structures includes home improvements, new manufactured home sales, brokers' commissions on home sales, net purchases of used structures, and other residential structures (which consists primarily of dormitories and of fraternity and sorority houses).

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 5.5 and 8.9B (motor vehicles). Percent changes in major aggregates are shown in NIPA table S.1.

“Other” residential structures increased 1.0 percent after increasing 10.6 percent.¹² The deceleration resulted from a sharp slowdown in brokers’ commissions on home sales, which reflected a slowdown in existing home sales that occurred despite a decrease in the commitment rate on 30-year, fixed-rate mortgages from 8.3 percent to 7.9 percent.

Inventory investment

Real inventory investment decreased \$5.1 billion in the third quarter, as inventory accumulation stepped down to \$73.5 billion from \$78.6 billion. In-

12. “Other” residential structures includes home improvements, new manufactured home sales, brokers’ commissions on home sales, and other residential structures (which consists primarily of dormitories and of fraternity and sorority houses).

ventory investment had increased \$42.0 billion in the second quarter (table 6 and chart 6).

The third-quarter decrease in inventory investment reflected decreases of \$6.7 billion for wholesale trade, of \$3.6 billion for retail trade, and of \$1.2 billion for farm. These decreases were partly offset by increases of \$3.4 billion for manufacturing and of \$3.1 billion for “other” nonfarm industries.¹³

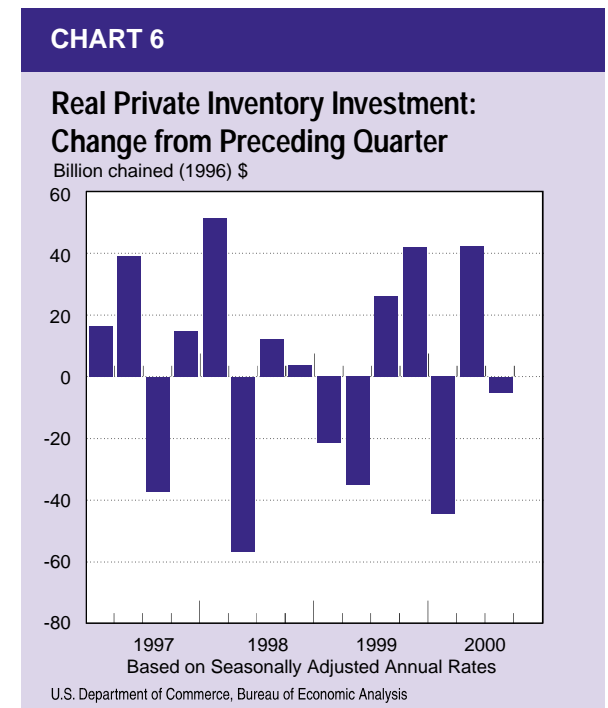
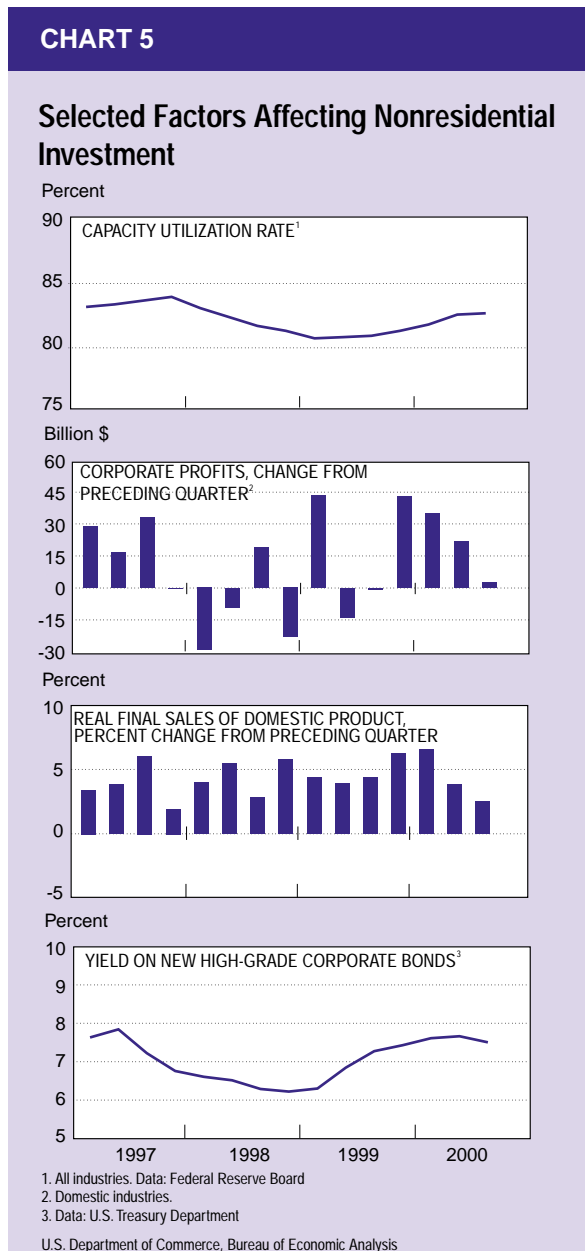
The stock of wholesale trade inventories increased \$25.8 billion after increasing \$32.5 billion. Inventories of merchant wholesalers increased \$18.8 billion after increasing \$28.9 billion; the slowdown was accounted for by durable goods, notably by motor vehicles and by machinery equipment.

The stock of retail trade inventories increased \$17.9 billion after increasing \$21.5 billion. Inventories of durable-goods retailers increased \$14.0 billion after increasing \$16.0 billion; the small slowdown was more than accounted for by inventories of furniture and furnishings stores. Inventories of nondurable-goods retailers increased \$4.1 billion after increasing \$5.7 billion.

Farm inventories increased \$5.0 billion after increasing \$6.2 billion. Crop inventories increased less than in the second quarter, and livestock inventories decreased more.

The stock of manufacturing inventories increased \$21.0 billion after increasing \$17.6 billion.

13. “Other” nonfarm industries include mining; construction; public utilities; transportation; communication; finance, insurance, and real estate; and services.



Inventories of durable-goods manufacturers increased \$15.9 billion after increasing \$11.3 billion; inventories of transportation equipment manufacturers (especially of aircraft manufacturers) decreased less than in the second quarter, and inventories of industrial-machinery manufacturers increased more than in the second quarter. Inventories of nondurable-goods manufacturers increased \$5.3 billion after increasing \$6.4 billion; inventories of petroleum refiners turned down.

“Other” nonfarm inventories increased \$4.0 billion after increasing \$0.9 billion.

The ratio of real private nonfarm inventories to real final sales of domestic businesses increased to 2.08 in the third quarter from 2.07 in the second and 2.06 in the first; the inventory-sales ratio that includes only final sales of goods and structures increased to 3.61 from 3.60 in the second quarter and 3.57 in the first (see NIPA table 5.13).¹⁴ The

14. Use of 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, use of 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 6.—Real Change in Private Inventories

[Billions of chained (1996) dollars; seasonally adjusted at annual rates]

| | Level | | | | | Change from preceding quarter | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------------------------|--------------|-------------|-------------|
| | 1999 | | 2000 | | | 1999 | | 2000 | |
| | III | IV | I | II | III | IV | I | II | III |
| Change in private inventories | 39.1 | 80.9 | 36.6 | 78.6 | 73.5 | 41.8 | -44.3 | 42.0 | -5.1 |
| Farm | -5.0 | 7.9 | 3.6 | 6.2 | 5.0 | 12.9 | -4.3 | 2.6 | -1.2 |
| Nonfarm | 43.5 | 73.0 | 33.0 | 72.3 | 68.4 | 29.5 | -40.0 | 39.3 | -3.9 |
| Manufacturing | 3.5 | 7.6 | 10.3 | 17.6 | 21.0 | 4.1 | 2.7 | 7.3 | 3.4 |
| Durable goods | 3.3 | 3.3 | 6.5 | 11.3 | 15.9 | 0 | 3.2 | 4.8 | 4.6 |
| Nondurable goods | 2 | 4.2 | 3.8 | 6.4 | 5.3 | 4.0 | -4 | 2.6 | -1.1 |
| Wholesale trade | 23.0 | 18.5 | 21.5 | 32.5 | 25.8 | -4.5 | 3.0 | 11.0 | -6.7 |
| Durable goods | 12.5 | 15.2 | 17.3 | 23.8 | 13.3 | 2.7 | 2.1 | 6.5 | -10.5 |
| Nondurable goods | 10.5 | 3.4 | 4.4 | 8.9 | 12.3 | -7.1 | 1.0 | 4.5 | 3.4 |
| Retail trade | 15.7 | 41.7 | -4.4 | 21.5 | 17.9 | 26.0 | -46.1 | 25.9 | -3.6 |
| Durable goods | 13.0 | 27.7 | -3.6 | 16.0 | 14.0 | 14.7 | -31.3 | 19.6 | -2.0 |
| Of which: Motor vehicle dealers | 9.7 | 14.7 | -6.4 | 9.7 | 10.0 | 5.0 | -21.1 | 16.1 | .3 |
| Nondurable goods | 2.9 | 14.2 | -.8 | 5.7 | 4.1 | 11.3 | -15.0 | 6.5 | -1.6 |
| Other | 1.1 | 4.2 | 6.1 | .9 | 4.0 | 3.1 | 1.9 | -5.2 | 3.1 |
| Durable goods | -.3 | 1.9 | 1.3 | -1.5 | .1 | 2.2 | -6 | -2.8 | 1.6 |
| Nondurable goods | 1.4 | 2.2 | 4.8 | 2.5 | 3.8 | .8 | 2.6 | -2.3 | 1.3 |
| Addenda: | | | | | | | | | |
| Motor vehicles | 9.1 | 14.4 | -2.0 | 14.7 | 6.4 | 5.3 | -16.4 | 16.7 | -8.3 |
| Autos | 1.8 | 4.7 | .4 | 2.3 | 8.9 | 2.9 | -4.3 | 1.9 | 6.6 |
| Trucks | 6.8 | 9.1 | -2.1 | 11.2 | -1.8 | 2.3 | -11.2 | 13.3 | -13.0 |

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 5.11 and 8.9B (motor vehicles).

Table 7.—Real Exports and Imports of Goods and Services

[Seasonally adjusted at annual rates]

| | Billions of chained (1996) dollars | | | | | Percent change from preceding quarter | | | |
|--|------------------------------------|-------------------------------|-------------|-------------|-------------|---------------------------------------|-------------|-------------|-------------|
| | Level | Change from preceding quarter | | | | 1999 | | 2000 | |
| | 2000 | 1999 | 2000 | | | IV | I | II | III |
| | | | III | IV | I | | | | |
| Exports of goods and services | 1,162.7 | 25.8 | 16.4 | 37.0 | 40.9 | 10.3 | 6.3 | 14.3 | 15.4 |
| Exports of goods ¹ | 872.1 | 23.1 | 11.6 | 35.4 | 38.6 | 12.6 | 6.0 | 19.0 | 19.8 |
| Foods, feeds, and beverages | 64.7 | -1.4 | 1.0 | -.5 | 5.8 | -8.8 | 6.4 | -3.3 | 45.7 |
| Industrial supplies and materials | 173.4 | 7.3 | 1.3 | 3.7 | 8.0 | 20.5 | 3.5 | 9.4 | 20.8 |
| Capital goods, except automotive | 415.5 | 7.8 | 2.8 | 34.3 | 20.0 | 9.2 | 3.2 | 43.6 | 21.9 |
| Automotive vehicles, engines, and parts | 78.8 | -2 | 2.6 | -.4 | .6 | -.9 | 14.3 | -2.1 | 3.0 |
| Consumer goods, except automotive | 90.6 | 2.7 | 3.5 | 1.2 | 2.8 | 14.1 | 17.9 | 5.7 | 13.7 |
| Other | 51.2 | 6.3 | .1 | -1.7 | 2.2 | 70.7 | .7 | -12.5 | 18.8 |
| Exports of services ¹ | 294.4 | 3.2 | 4.8 | 2.5 | 3.4 | 4.6 | 6.9 | 3.5 | 4.8 |
| Imports of goods and services | 1,587.7 | 35.7 | 40.8 | 63.5 | 62.5 | 10.7 | 12.0 | 18.6 | 17.4 |
| Imports of goods ¹ | 1,365.4 | 32.0 | 32.8 | 58.6 | 51.5 | 11.2 | 11.2 | 20.0 | 16.6 |
| Foods, feeds, and beverages | 51.1 | .3 | -.1 | 1.5 | 2.3 | 2.6 | -.3 | 13.0 | 20.0 |
| Industrial supplies and materials, except petroleum and products | 170.1 | 5.5 | 2.0 | -1.3 | 4.7 | 14.6 | 4.9 | -3.0 | 11.8 |
| Petroleum and products | 86.9 | -7.6 | 5.2 | 6.5 | -1.3 | -31.5 | 30.3 | 35.3 | -5.7 |
| Capital goods, except automotive | 481.5 | 16.8 | 13.9 | 33.7 | 27.9 | 18.3 | 14.4 | 36.2 | 27.0 |
| Automotive vehicles, engines, and parts | 199.7 | 1.0 | 4.9 | 1.4 | 7.7 | 2.2 | 11.1 | 3.1 | 16.9 |
| Consumer goods, except automotive | 292.6 | 9.5 | 8.7 | 17.7 | 4.4 | 16.0 | 13.9 | 28.9 | 6.3 |
| Other | 92.3 | 8.3 | -2.0 | 2.0 | 10.1 | 53.2 | -9.2 | 10.0 | 59.0 |
| Imports of services ¹ | 224.7 | 3.9 | 7.8 | 5.3 | 11.0 | 8.2 | 16.6 | 10.6 | 22.1 |

1. Exports and imports of certain goods, primarily military equipment purchased and sold by the Federal Government, are included in services.
NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996)

dollar levels and residuals are shown in NIPA table 4.4. Percent changes in major aggregates are shown in NIPA table S.1.

first-quarter levels of both ratios were the lowest since 1966.

Exports and imports

Real exports of goods and services increased 15.4 percent in the third quarter after increasing 14.3 percent in the second; exports of both goods and services accelerated (table 7). Real imports of goods and services increased 17.4 percent after increasing 18.6 percent; imports of goods decelerated, and imports of services accelerated.

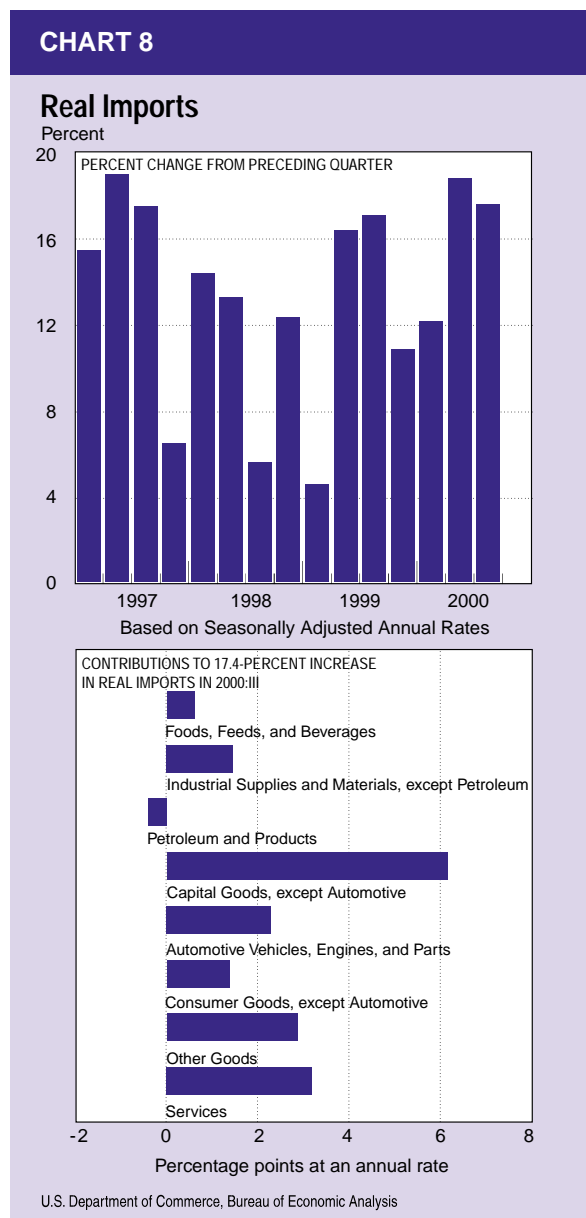
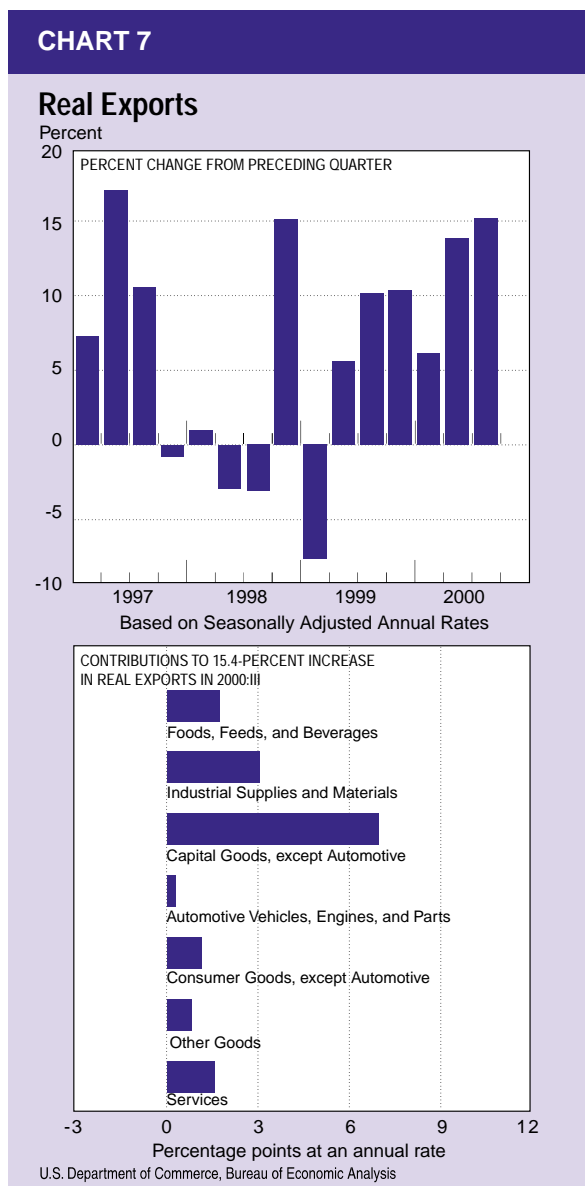
Exports of goods jumped 19.8 percent after jumping 19.0 percent (chart 7). A sharp slowdown in nonautomotive capital goods was more than offset by upturns in foods, feeds, and beverages, in “other” goods, and in automotive vehicles, engines, and parts and by accelerations in industrial

supplies and materials and in nonautomotive consumer goods.

Exports of services increased 4.8 percent after increasing 3.5 percent. The acceleration was largely accounted for by upturns in travel and in passenger fares and by an acceleration in “other” private services.¹⁵ In contrast, transfers under U.S. military agency sales contracts turned down, and royalties and license fees decelerated.

Imports of goods increased 16.6 percent after jumping 20.0 percent (chart 8). The slowdown was accounted for by decelerations in nonautomotive consumer goods and in nonautomotive capital goods and by a downturn in petroleum and products. In contrast, “other” goods and automotive

15. “Other” private services includes education; financial services; telecommunications; insurance; and business, professional, and technical services.



vehicles, engines, and parts accelerated, and non-petroleum industrial supplies and materials turned up.

Imports of services jumped 22.1 percent after increasing 10.6 percent. The step-up was largely in royalties and license fees, reflecting payments for the rights to broadcast the 2000 Summer Olympic Games, and in "other" private services, partly reflecting an acceleration in financial services.

Government spending

Real government spending decreased 1.5 percent in the third quarter after increasing 4.8 percent in the second (table 8 and chart 9). A downturn in Federal Government spending more than offset an upturn in State and local government spending.

Federal defense spending decreased 9.6 percent after increasing 16.9 percent. Consumption spending turned down, largely reflecting a downturn in "other services."¹⁶ Investment also turned down, reflecting a downturn in equipment and software.

Federal nondefense spending decreased 8.0 percent after increasing 17.8 percent. Both consumption spending and investment spending turned down. Most of the downturn in consumption spending was in compensation of employees and reflected the departure of most of the temporary workers hired for Census 2000.

State and local government spending increased 2.7 percent after decreasing 1.1 percent. Investment spending turned up, largely reflecting structures, which decreased considerably less than in the second quarter. Consumption spending increased slightly more than in the second quarter.

16. "Other services" includes contractual research and development, installation support, weapons support, personnel support, transportation of material, and travel of persons.

Revisions

The preliminary estimate of a 2.4-percent increase in real GDP in the third quarter is 0.3 percentage point lower than the advance estimate (table 9); for 1978-99, the average revision, without regard

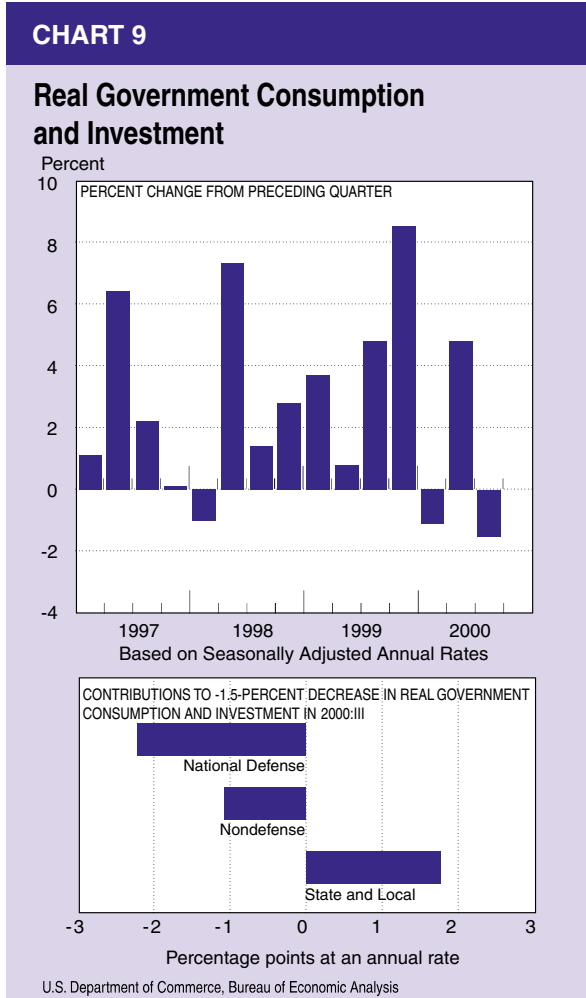


Table 8.—Real Government Consumption Expenditures and Gross Investment

[Seasonally adjusted at annual rates]

| | Billions of chained (1996) dollars | | | | | Percent change from preceding quarter | | | |
|---|------------------------------------|-------------------------------|-------------|-------------|-------------|---------------------------------------|-------------|------------|-------------|
| | Level | Change from preceding quarter | | | | | | | |
| | | 2000 | 1999 | 2000 | | | | | |
| | III | IV | I | II | III | 1999 | 2000 | | |
| | | | | | IV | I | II | III | |
| Government consumption expenditures and gross investment¹ | 1,577.7 | 31.7 | -4.4 | 18.6 | -6.0 | 8.5 | -1.1 | 4.8 | -1.5 |
| Federal | 545.8 | 17.1 | -21.0 | 21.7 | -13.0 | 13.2 | -14.2 | 17.2 | -9.0 |
| National defense | 346.2 | 10.5 | -19.4 | 13.6 | -8.9 | 12.6 | -19.8 | 16.9 | -9.6 |
| Consumption expenditures | 290.6 | 9.9 | -18.3 | 12.7 | -7.8 | 14.2 | -22.0 | 19.0 | -10.1 |
| Gross investment | 56.0 | .6 | -9 | .7 | -1.0 | 4.1 | -6.1 | 5.4 | -7.0 |
| Nondefense | 199.4 | 6.6 | -1.7 | 8.2 | -4.2 | 14.4 | -3.3 | 17.8 | -8.0 |
| Consumption expenditures | 151.9 | 2.1 | 1.1 | 5.4 | -3.5 | 6.0 | 3.0 | 15.1 | -8.8 |
| Gross investment | 48.3 | 4.7 | -3.1 | 3.0 | -7 | 49.5 | -22.4 | 27.7 | -5.4 |
| State and local | 1,031.4 | 14.8 | 16.2 | -2.8 | 6.8 | 6.1 | 6.6 | -1.1 | 2.7 |
| Consumption expenditures | 820.6 | 6.1 | 6.1 | 5.3 | 5.5 | 3.1 | 3.1 | 2.6 | 2.8 |
| Gross investment | 211.0 | 8.9 | 10.3 | -8.4 | 1.2 | 19.2 | 21.3 | -14.5 | 2.4 |

1. Gross government investment consists of general government and government enterprise expenditures for fixed assets; inventory investment is included in government consumption expenditures.

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA table 3.8. Percent changes in major aggregates are shown in NIPA table S.1.

to sign, from the advance estimate to the preliminary estimate was 0.5 percentage point.

The major contributors to the 0.3-percentage point downward revision were imports (which contributed -0.46 percentage point), equipment and software (-0.28 percentage point), and change in private inventories (-0.26 percentage point). The negative contributions of those components were partly offset by positive contributions of nonresidential structures (0.39 percentage point) and State and local government spending (0.31 percentage point).

The upward revision to imports of goods primarily reflected the incorporation of newly available Census Bureau data on trade in goods for

September and revised data for August.

The downward revision to private nonresidential investment in equipment and software primarily reflected the incorporation of newly available Census Bureau data on shipments for September and revised data for August.

The downward revision to private inventory investment primarily reflected the incorporation of newly available Census Bureau data on inventories for September and revised data for August and of newly available truck registration data from a trade source.

The upward revision to private nonresidential investment in structures reflected the incorporation of newly available Census Bureau data on construction put in place for September and revised data for July and August.

The upward revision to State and local government spending was to structures and reflected the incorporation of newly available Census Bureau data on construction put in place for September and revised data for July and August.

According to the preliminary estimates, real disposable personal income (DPI) increased 2.4 percent, and current-dollar DPI increased 4.6 percent; both estimates were 0.1 percentage point less than the advance estimates. Personal income was revised down slightly, and personal tax and nontax payments was revised little. The preliminary estimate of the personal saving rate was -0.2 percent, the same as the advance estimate.

Corporate Profits

In the third quarter, profits from current production increased \$7.6 billion, or 0.8 percent at a quarterly rate, after increasing \$27.3 billion, or 2.9 percent, in the second quarter (table 10).¹⁷

Profits from the rest of the world increased \$5.1 billion (3.8 percent) in the third quarter, as payments by U.S. affiliates of foreign corporations decreased more than receipts of earnings from foreign affiliates of U.S. corporations.¹⁸ Profits of domestic financial corporations increased \$4.4 billion (2.6 percent). These increases were partly offset by a \$1.8 billion (0.3 percent) decrease in

Table 9.—Revisions to Change in Real Gross Domestic Product and Prices, Third Quarter 2000

[Seasonally adjusted at annual rates]

| | Percent change from preceding quarter | | Preliminary estimate minus advance estimate | |
|--|---------------------------------------|----------------------|---|------------------------------------|
| | Advance estimate | Preliminary estimate | Percentage points | Billions of chained (1996) dollars |
| Gross domestic product | 2.7 | 2.4 | -0.3 | -8.7 |
| Less: Exports of goods and services | 16.2 | 15.4 | -.8 | -1.9 |
| Goods | 20.6 | 19.8 | -.8 | -1.5 |
| Services | 5.4 | 4.8 | -.6 | -.5 |
| Plus: Imports of goods and services | 13.8 | 17.4 | 3.6 | 12.2 |
| Goods | 13.0 | 16.6 | 3.6 | 10.8 |
| Services | 18.9 | 22.1 | 3.2 | 1.5 |
| Equals: Gross domestic purchases | 2.9 | 3.1 | .2 | 4.1 |
| Less: Change in private inventories | | | | -6.4 |
| Farm | | | | 0 |
| Nonfarm | | | | -6.5 |
| Equals: Final sales to domestic purchasers | 2.8 | 3.3 | .5 | 10.2 |
| Personal consumption expenditures | 4.5 | 4.5 | 0 | .1 |
| Durable goods | 7.5 | 8.1 | .6 | 1.2 |
| Nondurable goods | 4.9 | 4.8 | -.1 | -.2 |
| Services | 3.7 | 3.7 | 0 | -.6 |
| Fixed investment | 2.9 | 3.3 | .4 | 1.4 |
| Nonresidential | 6.9 | 7.8 | .9 | 3.1 |
| Structures | 1.7 | 14.9 | 13.2 | 8.6 |
| Equipment and software | 8.5 | 5.8 | -2.7 | -7.5 |
| Residential | -9.2 | -10.5 | -1.3 | -1.4 |
| Government consumption expenditures and gross investment | -3.6 | -1.5 | 2.1 | 8.3 |
| Federal | -10.1 | -9.0 | 1.1 | 1.6 |
| National defense | -10.2 | -9.6 | .6 | .5 |
| Nondefense | -9.9 | -8.0 | 1.9 | 1.0 |
| State and local | 0 | 2.7 | 2.7 | 6.8 |
| Addenda: | | | | |
| Final sales of domestic product | 2.7 | 2.6 | -.1 | -2.6 |
| Gross domestic purchases price index | 2.4 | 2.3 | -.1 | |
| GDP price index | 2.0 | 1.9 | -.1 | |

NOTE.—The preliminary estimates for the third quarter of 2000 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

Personal consumption expenditures: Retail sales for August and September (revised), consumers' share of new-car purchases for September, average unit value for domestic new autos for September (revised), and consumers' share of new-truck purchases for September.

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

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

Change in private inventories: Manufacturing and trade inventories for August (revised) and September.

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

Government consumption expenditures and gross investment: Monthly Treasury Statement detailed data for September, Department of Defense detailed financial reports for the third quarter, and State and local government construction put-in-place for July and August (revised) and September.

Wages and salaries: Employment, average hourly earnings, and average weekly hours for August and September (revised).

GDP prices: Detailed merchandise export and import price indexes for July through September (revised), unit-value index for petroleum imports for September, and housing prices for the third quarter.

17. 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 in NIPA tables 1.9, 1.14, 1.16, and 6.16C (see "Selected NIPA Tables," which begins on page D-2 of this issue) as corporate profits with inventory valuation and capital consumption adjustments.

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

18. 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.

profits of domestic nonfinancial corporations. Unit profits of these corporations decreased, as unit costs increased more than unit prices; the real product of these corporations increased 1.2 percent (or 4.7 percent at an annual rate).

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$19.6 billion after increasing \$35.3 billion.¹⁹ The ratio of cash flow to nonresidential fixed investment—an indicator of the share of the current level of investment that could be financed by internally generated funds—decreased from 74.3 percent to 73.9 percent, its lowest level since 1986.

Domestic industry profits and related measures.—Domestic industry profits increased \$7.4 billion after increasing \$27.7 billion.²⁰ Profits of domestic nonfinancial corporations increased \$1.4 billion after increasing \$31.6 billion. Profits of manufacturing and of the transportation and utilities group turned down. Profits of “other nonmanufacturing,” of wholesale trade, and of retail trade

increased less than in the second quarter.²¹ Profits of domestic financial corporations increased \$5.9 billion after decreasing \$3.8 billion.

Profits before tax (PBT) increased \$3.5 billion after increasing \$21.8 billion. For the third quarter, the difference between the increase in PBT and the increase in profits from current production reflected an increase in the inventory valuation adjustment that was partly offset by a decrease in the capital consumption adjustment.²²

Government Sector

The combined current surplus of the Federal Government and of State and local governments—the NIPA measure of net saving by government—increased \$17.4 billion, to \$318.5 billion, in the third quarter after increasing \$13.2 billion in the second

21. “Other nonmanufacturing” industries include agriculture, mining, construction, and services.

22. As prices change, companies that value inventory withdrawals at original acquisition (historical) costs may realize inventory profits or losses. Inventory profits—a capital-gains-like element in profits—result from an increase in inventory prices, and inventory losses—a capital-loss-like element in profits—result from a decrease in inventory prices. In the NIPA’s, inventory profits or losses are removed from business incomes by the inventory valuation adjustment (IVA); a negative IVA removes inventory profits, and a positive IVA removes inventory losses.

The capital consumption adjustment converts depreciation of fixed assets valued at historical cost and based on service lives and depreciation patterns specified in the tax code to depreciation valued at replacement cost and based on empirical evidence on the prices of used equipment and structures in resale markets. For more information on depreciation in the NIPAs, see Shelby W. Herman, “Fixed Assets and Consumer Durable Goods: Estimates for 1925–98,” SURVEY OF CURRENT BUSINESS 80 (April 2000): 17–30.

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

20. Domestic industry profits are estimated as the sum of corporate profits before tax with the inventory valuation adjustment; they are shown in NIPA table 6.16C (on page D–17 of this issue). Estimates of the capital consumption adjustment do not exist at a detailed industry level; they are available only for total financial and total nonfinancial industries.

Table 10.—Corporate Profits
[Seasonally adjusted]

| | Billions of dollars (annual rate) | | | | | Percent change (quarterly rate) | | | |
|--|-----------------------------------|-------------------------------|-------------|-------------|------------|---------------------------------|------------|------------|------------|
| | Level | Change from preceding quarter | | | | 1999 | 2000 | | |
| | 2000 | 1999 | 2000 | | | IV | I | II | III |
| | III | IV | I | II | III | | | | |
| Profits from current production | 971.2 | 51.2 | 43.1 | 27.3 | 7.6 | 6.1 | 4.8 | 2.9 | 0.8 |
| Domestic industries | 831.8 | 42.6 | 34.7 | 21.9 | 2.5 | 5.8 | 4.5 | 2.7 | .3 |
| Financial | 173.5 | 19.7 | 4.0 | -5.5 | 4.4 | 13.1 | 2.3 | -3.2 | 2.6 |
| Nonfinancial | 658.3 | 22.9 | 30.8 | 27.3 | -1.8 | 3.9 | 5.1 | 4.3 | -3 |
| Rest of the world | 139.4 | 8.6 | 8.4 | 5.4 | 5.1 | 7.6 | 7.0 | 4.2 | 3.8 |
| Receipts (inflows) | 206.1 | 5.3 | 13.1 | 12.0 | -7 | 3.0 | 7.2 | 6.2 | -4 |
| Payments (outflows) | 66.7 | -3.3 | 4.8 | 6.5 | -5.8 | -5.2 | 7.8 | 10.0 | -8.1 |
| IVA | -4.7 | .5 | -5.8 | 11.4 | 8.9 | ..... | ..... | ..... | ..... |
| CCAdj | 29.9 | -1.1 | -1.0 | -5.9 | -4.8 | ..... | ..... | ..... | ..... |
| Profits before tax | 946.0 | 51.7 | 50.0 | 21.8 | 3.5 | 6.3 | 5.7 | 2.4 | .4 |
| Profits tax liability | 291.9 | 16.6 | 15.5 | 5.7 | -1 | 6.6 | 5.7 | 2.0 | 0 |
| Profits after tax | 654.1 | 35.1 | 34.5 | 16.0 | 3.7 | 6.2 | 5.7 | 2.5 | .6 |
| Cash flow from current production | 1,029.1 | 34.8 | 37.7 | 35.3 | 19.6 | 3.9 | 4.0 | 3.6 | 1.9 |
| Domestic industry profits: | | | | | | | | | |
| Corporate profits of domestic industries with IVA | 801.9 | 43.6 | 35.8 | 27.7 | 7.4 | 6.3 | 4.9 | 3.6 | .9 |
| Financial | 194.0 | 20.1 | 4.6 | -3.8 | 5.9 | 12.0 | 2.5 | -2.0 | 3.2 |
| Nonfinancial | 607.9 | 23.6 | 31.1 | 31.6 | 1.4 | 4.5 | 5.7 | 5.5 | .2 |
| | Dollars | | | | | | | | |
| Unit price, costs, and profits of nonfinancial corporations: | | | | | | | | | |
| Unit price | 1.033 | 0.000 | 0.006 | 0.006 | 0.002 | ..... | ..... | ..... | ..... |
| Unit labor cost | .661 | -.003 | 0 | .001 | .002 | ..... | ..... | ..... | ..... |
| Unit nonlabor cost | .248 | .001 | .002 | .002 | .001 | ..... | ..... | ..... | ..... |
| Unit profits from current production | .124 | .002 | .004 | .004 | -.002 | ..... | ..... | ..... | ..... |

NOTE.—Levels of these and other profits series are shown in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

IVA Inventory valuation adjustment
CCAdj Capital consumption adjustment

(table 11).²³ The Federal Government current surplus increased more than in the second quarter, while the State and local government current surplus increased less.²⁴

23. Net saving equals gross saving less consumption of fixed capital (CFC); the estimates of gross saving, CFC, and net saving are shown in NIPA table 5.1.

For NIPA estimates of government current receipts, current expenditures, and the current surplus or deficit for 1998 and 1999, see NIPA tables 3.1, 3.2, and 3.3 in this issue.

Table 11.—Government Sector Current Receipts and Expenditures

[Billions of dollars, seasonally adjusted at annual rates]

| | Level | | Change from preceding quarter | | | |
|--|--------|-------|-------------------------------|-------|------|------|
| | 2000 | | 2000 | | | |
| | III | III | IV | I | II | III |
| Current Receipts | 3082.9 | 57.5 | 83.2 | 83.0 | 62.8 | 47.3 |
| Current expenditures | 2764.5 | 18.4 | 67.8 | 5.1 | 49.6 | 30.0 |
| Current surplus or deficit(-) | 318.5 | 39.2 | 15.3 | 77.9 | 13.2 | 17.4 |
| Social insurance funds | 111.1 | 8.6 | 8.4 | 3.4 | -2.5 | 7.5 |
| Other | 207.4 | 30.7 | 6.8 | 74.6 | 15.6 | 10.0 |
| Federal Government | | | | | | |
| Current Receipts | 2090.4 | 40.7 | 50.7 | 70.9 | 42.9 | 35.6 |
| Personal tax and nontax receipts | 1030.7 | 25.2 | 24.5 | 39.8 | 25.6 | 27.1 |
| Corporate profits tax accruals | 250.5 | 2.9 | 14.5 | 13.4 | 4.8 | 0 |
| Indirect business tax and nontax accruals | 109.1 | 2.5 | 2.5 | 2.9 | 2.1 | 0.2 |
| Contributions for social insurance | 700.1 | 10.0 | 9.2 | 14.9 | 10.3 | 8.3 |
| Current expenditures | 1836.1 | 10.9 | 54.6 | -21.7 | 37.9 | 22.2 |
| Consumption expenditures | 489.9 | 11.1 | 15.7 | -8.3 | 20.3 | -9.1 |
| National defense | 319.6 | 10.0 | 12.5 | -13.5 | 14.5 | -6.1 |
| Nondefense | 170.3 | 1.1 | 3.2 | 5.2 | 5.8 | -3.0 |
| Transfer payments (net) | 785.0 | 2.2 | 12.7 | 5.5 | 15.8 | 6.0 |
| To persons | 773.8 | 3.0 | 2.9 | 16.1 | 15.0 | 3.9 |
| To the rest of the world | 11.3 | -0.9 | 9.8 | -10.6 | 0.8 | 2.2 |
| Grants-in-aid to State and local governments | 251.2 | 12.6 | 4.8 | -3.8 | 5.9 | 10.3 |
| Net interest paid | 257.5 | -4.9 | -0.4 | 3.2 | -4.7 | -2.8 |
| Subsidies less current surplus of government enterprises | 52.5 | -10.2 | 21.8 | -18.2 | 0.5 | 17.9 |
| Subsidies | 58.6 | -9.8 | 22.4 | -16.9 | 0.8 | 17.5 |
| Of which: Agricultural subsidies | 35.7 | -9.9 | 22.5 | -16.8 | 0.8 | 17.4 |
| Less: Current surplus of government enterprises | 6.1 | 0.4 | 0.6 | 1.3 | 0.3 | -0.4 |
| Less: Wage accruals less disbursements | 0 | 0 | 0 | 0 | 0 | 0 |
| Current surplus or deficit (-) | 254.3 | 29.8 | -4.0 | 92.5 | 5.1 | 13.4 |
| Social insurance funds | 111.5 | 8.7 | 8.5 | 3.3 | -2.5 | 7.4 |
| Other | 142.8 | 21.1 | -12.5 | 89.3 | 7.6 | 5.9 |
| State and local governments | | | | | | |
| Current Receipts | 1243.8 | 29.5 | 37.3 | 8.3 | 25.8 | 22.1 |
| Personal tax and nontax receipts | 277.4 | 5.4 | 8.9 | 2.2 | 12.2 | 3.8 |
| Corporate profits tax accruals | 41.4 | 0.4 | 2.2 | 2.1 | 0.9 | -0.1 |
| Indirect business tax and nontax accruals | 663.8 | 11.1 | 21.4 | 7.6 | 6.5 | 8.1 |
| Contributions for social insurance | 10.0 | -0.1 | 0 | 0.2 | 0.2 | 0.1 |
| Federal grants-in-aid | 251.2 | 12.6 | 4.8 | -3.8 | 5.9 | 10.3 |
| Current expenditures | 1179.6 | 20.0 | 18.1 | 22.9 | 17.7 | 18.0 |
| Consumption expenditures | 925.7 | 15.9 | 14.3 | 20.1 | 13.8 | 14.4 |
| Transfer payments to persons | 269.6 | 4.8 | 4.0 | 3.1 | 4.0 | 4.0 |
| Net interest paid | -4.9 | -0.6 | -0.3 | -0.6 | -0.4 | -0.3 |
| Less: Dividends received by government | 0.4 | 0 | 0 | 0 | 0 | 0 |
| Subsidies less current surplus of government enterprises | -10.4 | 0 | 0.1 | 0.3 | 0.2 | 0 |
| Subsidies | 0.5 | 0 | 0 | 0 | 0 | 0 |
| Less: Current surplus of government enterprises | 10.9 | 0 | 0 | -0.3 | -0.2 | 0 |
| Less: Wage accruals less disbursements | 0 | 0 | 0 | 0 | 0 | 0 |
| Current surplus or deficit (-) | 64.2 | 9.4 | 19.2 | -14.6 | 8.1 | 4.1 |
| Social insurance funds | -0.4 | -0.1 | -0.1 | 0.1 | 0.1 | 0 |
| Other | 64.6 | 9.6 | 19.3 | -14.7 | 8.1 | 4.0 |
| Addendum: Net lending or net borrowing¹ | | | | | | |
| Net lending or net borrowing (-) | 230.4 | 36.4 | 5.9 | 70.3 | 20.5 | 17.9 |
| Federal government | 241.4 | 27.0 | -4.1 | 92.7 | 2.6 | 14.5 |
| State and local government | -11.0 | 9.4 | 10.0 | -22.4 | 17.9 | 3.4 |

1. "Net lending or borrowing" is conceptually similar to "net financial investment" in the flow-of-funds accounts prepared by the Board of Governors of the Federal Reserve System. 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.

Federal

The Federal Government current surplus increased \$13.4 billion, to \$254.3 billion, in the third quarter after increasing \$5.1 billion in the second. Current expenditures decelerated more than current receipts.

Current receipts.—Federal current receipts increased \$35.6 billion in the third quarter after increasing \$42.9 billion in the second. The deceleration was mostly accounted for by a deceleration in corporate profits tax accruals, but decelerations in contributions for social insurance and in indirect business tax and nontax accruals also contributed. In contrast, personal tax and nontax receipts accelerated.

Corporate profits tax accruals were unchanged after increasing \$4.8 billion, reflecting a deceleration in domestic corporate profits before tax.

Contributions for social insurance increased \$8.3 billion after increasing \$10.3 billion. The deceleration primarily reflected a deceleration in contributions for social security (old-age, survivors, disability, and health insurance), which increased \$7.4 billion after increasing \$9.8 billion.

Indirect business tax and nontax accruals increased \$0.2 billion after increasing \$2.1 billion. The deceleration was more than accounted for by a deceleration in customs duties, which increased \$0.2 billion after increasing \$2.4 billion.

Personal tax and nontax receipts increased \$27.1 billion after increasing \$25.6 billion. Receipts from income taxes increased \$27.0 billion after increasing \$25.5 billion. The acceleration was more than accounted for by "estimated income tax payments and final settlements, less refunds," which increased \$7.6 billion after increasing \$4.4 billion.

Current expenditures.—Current expenditures increased \$22.2 billion in the third quarter after increasing \$37.9 billion in the second. The deceleration was more than accounted for by a downturn in consumption expenditures and a deceleration in "transfer payments (net)." In contrast, "subsidies less current surplus of government enterprises" accelerated.

Consumption expenditures decreased \$9.1 billion after increasing \$20.3 billion. The downturn was mostly accounted for by defense consumption expenditures, which decreased \$6.1 billion after

24. The NIPA estimates for the government sector are based on financial statements for the Federal Government and for State and local governments, but they differ from them in several respects. For the major differences, see NIPA tables 3.18B on page 13 and 3.19 on page 14 of the October 2000 SURVEY.

increasing \$14.5 billion; within defense consumption expenditures, the downturn was more than accounted for by a downturn in “other” services.²⁵

Nondefense consumption expenditures also contributed to the downturn in consumption expenditures. Nondefense consumption expenditures decreased \$3.0 billion after increasing \$5.8 billion; the downturn was more than accounted for by employee compensation. Employee compensation decreased \$3.7 billion after increasing \$4.1 billion, reflecting lower employment levels at the Bureau of the Census after the departure of most of the temporary workers hired for Census 2000.

“Transfer payments (net)” increased \$6.0 billion after increasing \$15.8 billion. Transfer payments to persons increased \$3.9 billion after increasing \$15.0 billion; the deceleration was more than accounted for by a downturn in benefit payments for social security (old-age, survivors and disability insurance), which decreased \$0.8 billion in the third quarter after increasing \$12.4 billion in the second. The second-quarter increase included payments of \$9.2 billion (annual rate) as a result of the new Senior Citizens’ Freedom to Work Act of 2000.²⁶

“Subsidies less current surplus of government enterprises” increased \$17.9 billion after increasing \$0.5 billion. The acceleration was mostly accounted for by agricultural subsidies, which increased \$17.4 billion after increasing \$0.8 billion; the third-quarter increase reflects large special payments to farmers that resulted from the Agricultural Risk Protection Act of 2000.

State and local

The State and local government current surplus increased \$4.1 billion, to \$64.2 billion, in the third quarter after increasing \$8.1 billion in the second. Current receipts decelerated and current expenditures accelerated.

Current receipts.—State and local government current receipts increased \$22.1 billion after increasing \$25.8 billion. The deceleration was mostly accounted for by a deceleration in personal tax and nontax receipts, but a downturn in corporate profits tax accruals also contributed. In contrast, Federal grants-in-aid and indirect business tax and

nontax accruals accelerated.

Personal tax and nontax receipts increased \$3.8 billion after increasing \$12.2 billion. The deceleration was accounted for by personal income taxes, which increased \$3.0 billion after increasing \$11.5 billion.

Corporate profits tax accruals decreased \$0.1 billion after increasing \$0.9 billion. The downturn reflected a downturn in domestic corporate profits before tax.

Federal grants-in-aid increased \$10.3 billion after increasing \$5.9 billion. The acceleration was mostly attributable to a step-up in grants for Medicaid.

Indirect business tax and nontax accruals increased \$8.1 billion after increasing \$6.5 billion. The acceleration was accounted for by sales taxes, which increased \$4.2 billion after increasing \$2.4 billion; within sales taxes, general sales taxes accelerated, reflecting stronger general retail sales in the third quarter.


Current expenditures.—Current expenditures increased \$18.0 billion after increasing \$17.7 billion.

Consumption expenditures increased \$14.4 billion after increasing \$13.8 billion. The acceleration was more than accounted for by nondurable goods, which increased \$3.4 billion after increasing \$2.5 billion; within nondurable goods, petroleum products accelerated.

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 is derived as the current surplus plus the consumption of fixed capital and “capital transfers received (net)” less gross investment and net purchases of nonproduced assets.

Net lending increased \$17.9 billion after increasing \$20.5 billion. The deceleration was attributable to a deceleration in State and local government net borrowing, reflecting an upturn in gross investment and a deceleration in the current surplus. Federal Government net lending accelerated.

Gross investment increased \$1.7 billion after decreasing \$2.3 billion.²⁷ The upturn was attributable to State and local government gross investment, which increased \$2.7 billion after decreasing \$6.5 billion, reflecting a turnaround in structures. 

25. “Other” services includes services for research and development, for installation support, and for personnel support.

26. This act—which was signed into law April 7, 2000, and was effective retroactive to January 1, 2000—eliminated the “retirement earnings test” for beneficiaries aged 65 and older, allowing them to receive full benefits regardless of their earnings. Previously, benefits had been reduced \$1 for every \$3 earned over the annual earning limit, which was \$17,000 in 2000.

27. For NIPA estimates of government gross investment, see NIPA table 3.7 in this issue.