

BUSINESS SITUATION

This article was prepared by Daniel Larkins and Shelly Smith, assisted by Frederick von Batchelder.

REAL gross domestic product (GDP) decreased 1.1 percent (revised) in the third quarter, the weakest showing since a 2.0-percent decrease in the first quarter of 1991 (table 1 and chart 1).¹

The third-quarter decline followed four quarters of anemic growth that averaged 1.2 percent, far below the 3.6-percent average growth rate over the earlier part of the just-ended expansion.

The "preliminary" estimate of a 1.1-percent decline is steeper than the 0.4-percent decline shown in last month's "advance" estimate of the national income and product accounts (NIPAs).² Despite

this larger-than-usual revision, the preliminary and advance estimates paint pictures of the economy that are similar in broad outline and in many important details. In both estimates,

- Real GDP—a measure of domestic production of goods and services—turned down from the second to the third quarter, and the third-quarter decrease was the largest in 10 years.

- The largest contributors to the drop in GDP were exports, nonresidential fixed investment, and

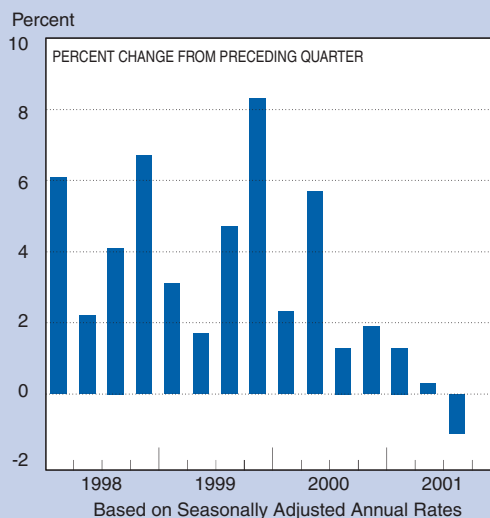
1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates. Quarter-to-quarter dollar changes are the differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data unless otherwise specified.

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.

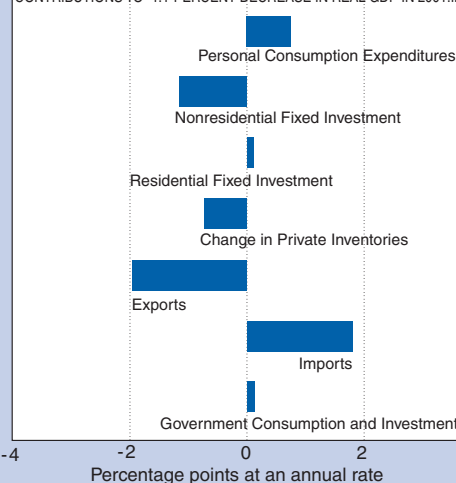
2. The source data underlying the revision to GDP and its components are discussed in the section "Revisions."

CHART 1

Real Gross Domestic Product



CONTRIBUTIONS TO -1.1-PERCENT DECREASE IN REAL GDP IN 2001:III



U.S. Bureau of Economic Analysis

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						
	2001	2000	2001			2000	2001		
	III	IV	I	II	III	IV	I	II	III
Gross domestic product	9,316.8	43.8	30.6	7.2	-24.9	1.9	1.3	0.3	-1.1
Less: Exports of goods and services.....	1,055.5	-11.8	-3.4	-35.8	-52.8	-4.0	-1.2	-11.9	-17.7
Plus: Imports of goods and services.....	1,463.7	-2.1	-19.9	-33.6	-51.3	-0.5	-5.0	-8.4	-12.9
Equals: Gross domestic purchases	9,699.1	52.9	16.0	10.0	-21.3	2.2	0.7	0.4	-0.9
Less: Change in private inventories.....	-60.1	-8.9	-69.9	-11.2	-21.8	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	9,739.9	64.6	76.7	19.9	-3.8	2.7	3.2	0.8	-0.2
Personal consumption expenditures....	6,446.5	49.0	47.4	39.9	18.1	3.1	3.0	2.5	1.1
Durable goods.....	939.8	-4.7	23.0	15.7	1.7	-2.1	10.6	7.0	0.7
Nondurable goods.....	1,881.8	2.7	11.2	1.4	2.4	0.6	2.4	0.3	0.5
Services.....	3,643.5	48.6	16.3	24.7	13.7	5.6	1.8	2.8	1.5
Private fixed investment.....	1,668.9	2.0	8.2	-43.9	-27.5	0.5	1.9	-9.7	-6.3
Nonresidential.....	1,289.1	3.4	-0.6	-53.0	-31.8	1.0	-0.2	-14.6	-9.3
Structures.....	275.5	5.1	8.4	-9.4	-6.8	7.6	12.3	-12.2	-9.2
Equipment and software.....	1,018.1	-3.0	-11.6	-44.5	-25.1	-1.1	-4.1	-15.4	-9.3
Residential.....	380.6	-1.0	7.6	5.4	2.3	-1.1	8.5	5.9	2.5
Government consumption expenditures and gross investment	1,626.2	12.8	20.6	19.6	3.2	3.3	5.3	5.0	0.8
Federal.....	558.4	6.1	4.3	2.5	3.7	4.6	3.2	1.8	2.7
National defense.....	364.7	8.7	6.5	2.1	2.3	10.5	7.5	2.3	2.6
Nondefense.....	193.6	-2.5	-2.2	0.5	1.3	-5.1	-4.3	0.9	2.8
State and local.....	1,067.0	6.7	16.2	16.9	-0.4	2.7	6.4	6.6	-0.1
Addendum: Final sales of domestic product	9,357.4	55.4	91.1	17.0	-7.4	2.4	4.0	0.7	-0.3

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 begins on page D-2 in this issue.)

inventory investment. The main offset to these decreases was an increase in consumer spending (table 2).³ Imports, which are subtracted in the calculation of GDP, decreased.

3. In the NIPA's, consumer spending is shown as personal consumption expenditures, government spending is shown as government consumption expenditures and gross investment, and inventory investment is shown as change in private inventories.

Adjustments for the Terrorist Attacks of September 11th

The economic effects of the September 11th attacks are captured in the national income and product account estimates for the third quarter.¹ Most of these effects are reflected in the regularly incorporated source data; for certain components of GDP and gross domestic income, BEA prepared adjustments for the effects that were not captured in the source data. These adjustments were revised slightly for the preliminary estimate (see the accompanying table).

1. See the box "The Terrorist Attacks of September 11th as Reflected in the National Income and Product Accounts," SURVEY OF CURRENT BUSINESS 81 (November 2001): 2-3.

Adjustments to the NIPA's for the Impact of the September 11th Terrorist Attacks Not Captured by Regular Source Data, 2001:III

[Billions of dollars at annual rates]

	Adjustment
Product side:	
Personal consumption expenditures ^r	-20.6
Insurance *.....	-19.9
Motor vehicle insurance.....	-0.1
Homeowners insurance.....	-2.2
Workers' compensation.....	-7.1
Expense of handling life insurance and pension plans.....	-10.5
Other services.....	-0.7
Net exports.....	44.0
Imports of services *.....	-44.0
Government consumption expenditures and gross investment.....	0
State and local compensation.....	0.8
State and local general government insurance *.....	-0.8
Income side:	
Wages and salaries.....	-2.5
Private.....	-3.3
State and local government.....	0.8
Proprietors' income with IVA and CCAadj.....	0
Consumption of fixed capital.....	-2.2
Insurance benefits received.....	2.2
Corporate profits with IVA and CCAadj ^r	-38.8
Consumption of fixed capital.....	-53.8
Insurance benefits received.....	53.8
Benefits paid by insurance companies.....	-82.8
Payments received from foreign reinsurers.....	44.0
Consumption of fixed capital, total.....	62.1
Private.....	56.0
Government enterprises.....	6.1
Surplus of government enterprises.....	0
Consumption of fixed capital.....	-6.1
Insurance benefits received.....	6.1

^r Revised

* These adjustments affect current-dollar estimates and prices; they do not affect real GDP (see the box "The Terrorist Attacks of September 11th as Reflected in the National Income and Product Accounts," SURVEY OF CURRENT BUSINESS 81 (November 2001): 2-3.

IVA Inventory valuation adjustment
CCAadj Capital consumption adjustment

• The swing from positive to negative growth in GDP reflected weakening consumer spending, State and local government spending, and exports. The developments in these components were partly offset by nonresidential fixed investment, which decreased less than in the second quarter. Imports decreased much more than in the second quarter.

• By type of product, decreases in the production of goods and structures were only partly offset by an increase in the production of services (table 3).

• Private inventories were liquidated for the third consecutive quarter.

• Real final sales of computers decreased less than in the second quarter, and real motor vehicle output slowed.

• Real gross domestic purchases—a measure of domestic demand for goods and services regardless of where they are produced—decreased for the first time since 1991.⁴

4. Gross domestic purchases is calculated as the sum of personal consumption expenditures, gross private domestic investment, and government consumption expenditures and gross investment; thus, it includes imports of goods and services, which are subtracted in the calculation of GDP, and excludes exports of goods and services, which are added in the calculation of GDP.

Table 2.—Contributions to Percent Change in Real Gross Domestic Product
[Seasonally adjusted at annual rates]

	2000		2001	
	IV	I	II	III
Percent change at annual rate:				
Gross domestic product.....	1.9	1.3	0.3	-1.1
Percentage points at annual rates:				
Personal consumption expenditures.....	2.14	2.05	1.72	0.78
Durable goods.....	-0.17	0.83	0.56	0.06
Nondurable goods.....	0.12	0.49	0.06	0.11
Services.....	2.19	0.73	1.10	0.61
Gross private domestic investment.....	-0.42	-2.28	-2.16	-1.83
Fixed investment.....	0.09	0.33	-1.74	-1.08
Nonresidential.....	0.13	-0.02	-1.99	-1.19
Structures.....	0.24	0.39	-0.44	-0.32
Equipment and software.....	-0.11	-0.41	-1.55	-0.87
Residential.....	-0.05	0.35	0.25	0.11
Change in private inventories.....	-0.50	-2.61	-0.42	-0.75
Net exports of goods and services.....	-0.39	0.63	-0.12	-0.16
Exports.....	-0.46	-0.13	-1.37	-2.01
Goods.....	-0.58	-0.19	-1.45	-1.55
Services.....	0.12	0.06	0.08	-0.45
Imports.....	0.07	0.76	1.25	1.85
Goods.....	0.07	0.87	1.21	1.17
Services.....	0	-0.11	0.05	0.68
Government consumption expenditures and gross investment.....	0.58	0.92	0.87	0.14
Federal.....	0.27	0.19	0.11	0.16
National defense.....	0.38	0.28	0.09	0.10
Nondefense.....	-0.11	-0.09	0.02	0.06
State and local.....	0.31	0.73	0.76	-0.02

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.

● The price index for gross domestic purchases decreased slightly after increasing. The downturn partly reflected the NIPA treatment of insurance benefits related to the terrorist attacks.

● The personal saving rate and the rate of growth of real disposable personal income jumped sharply. Both movements reflected taxpayer

refunds under the Economic Growth and Tax Relief Reconciliation Act of 2001.⁵

5. The personal saving rate is measured as personal saving as a percentage of current-dollar disposable personal income. The *national* saving rate is measured as gross saving as a percentage of gross national product; it is not available at the time of the advance estimate. In the third quarter, this rate decreased to 17.1 percent from 17.2 percent.

Table 3.—Real Gross Domestic Product by Type of Product
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2001	2000	2001			2000	2001		
	III	IV	I	II	III	IV	I	II	III
Gross domestic product	9,316.8	43.8	30.6	7.2	-24.9	1.9	1.3	0.3	-1.1
Goods.....	3,629.7	-22.6	-24.1	-34.0	-42.5	-2.4	-2.6	-3.6	-4.6
Services	4,875.6	57.4	26.2	32.3	27.2	4.9	2.2	2.7	2.3
Structures	808.5	4.4	23.3	4.2	-13.3	2.2	12.3	2.0	-6.3
Addenda:									
Motor vehicle output.....	340.8	-19.1	-15.0	18.0	4.7	-19.9	-16.9	24.7	5.8
Gross domestic product									
less motor vehicle output.....	8,975.8	61.3	44.2	-9.1	-29.1	2.8	2.0	-0.4	-1.3
Final sales of computers.....	.....	.....	.....	.....	.....	30.0	9.0	-26.5	-9.4
Gross domestic product									
less final sales of computers .....	.....	.....	.....	.....	.....	1.6	1.2	0.6	-1.0

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals for most items are shown in NIPA table 1.4. Detail on motor vehicle output is shown in NIPA table 8.9B.

Personal Consumption Expenditures

Real personal consumption expenditures (PCE) increased 1.1 percent, less than half as much as in the second quarter and its smallest increase since the first quarter of 1993 and (table 4 and chart 2). Durable goods and services accounted for the deceleration; nondurable goods, in contrast, increased a little more than in the second quarter.

Expenditures for durable goods increased 0.7 percent after increasing 7.0 percent. Motor vehicles and parts turned down, primarily reflecting a downturn in net purchases of used autos. Furniture and household equipment increased only a

third as much as in the second quarter, and "other" durable goods decreased after increasing.

Expenditures for services increased 1.5 percent after increasing 2.8 percent. A sharp deceleration in "other" services was more than accounted for by downturns in foreign travel by U.S. residents and in brokerage and investment counseling. Transportation, medical care, and recreation also contributed to the slowdown in services.

Expenditures for nondurable goods increased 0.5 percent after increasing 0.3 percent. The small step-up was more than accounted for by an upturn

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							
	2001	2000	2001			2000	2001		
	III	IV	I	II	III	IV	I	II	III
Personal consumption expenditures	6,446.5	49.0	47.4	39.9	18.1	3.1	3.0	2.5	1.1
Durable goods.....	939.8	-4.7	23.0	15.7	1.7	-2.1	10.6	7.0	0.7
Motor vehicles and parts	361.3	-7.3	13.1	4.9	-0.6	-8.1	16.1	5.6	-0.6
<i>Of which:</i>									
New autos.....	102.1	-1.2	4.1	-3.0	-2.5	-4.4	16.6	-10.7	-9.2
New light trucks.....	127.4	-2.7	7.4	4.2	4.3	-9.2	29.5	14.9	14.7
Furniture and household equipment.....	403.6	2.5	7.2	9.5	3.1	2.7	7.7	10.0	3.2
Other ¹	179.1	1.1	2.1	2.0	-0.4	2.4	5.0	4.6	-0.8
Nondurable goods.....	1,881.8	2.7	11.2	1.4	2.4	0.6	2.4	0.3	0.5
Food.....	884.1	0.2	0.9	-1.2	-2.0	0.1	0.4	-0.5	-0.9
Clothing and shoes.....	344.7	0.1	2.8	1.4	0.6	0.2	3.3	1.8	0.6
Gasoline, fuel oil, and other energy goods.....	152.0	-0.6	1.7	-2.5	1.9	-1.7	4.7	-6.5	5.4
Other ²	503.1	3.0	5.9	4.1	1.7	2.5	4.9	3.4	1.3
Services.....	3,643.5	48.6	16.3	24.7	13.7	5.6	1.8	2.8	1.5
Housing.....	868.4	4.7	4.7	3.6	3.5	2.2	2.2	1.7	1.6
Household operation.....	389.1	13.6	-1.1	-5.3	2.1	15.1	-1.0	-5.3	2.2
Electricity and gas.....	135.1	8.6	-4.3	-5.1	0.1	27.8	-11.2	-13.8	0.3
Other household operation.....	254.7	4.8	3.6	0.4	2.0	8.1	6.0	0.5	3.3
Transportation.....	252.0	2.1	0.6	-0.2	-2.2	3.4	1.0	-0.4	-3.5
Medical care.....	940.7	8.1	6.6	10.5	8.6	3.6	2.9	4.6	3.7
Recreation.....	231.4	1.3	3.7	0.6	-1.4	2.4	6.5	1.0	-2.4
Other ³	961.0	19.2	1.5	14.9	3.3	8.6	0.6	6.5	1.4

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.

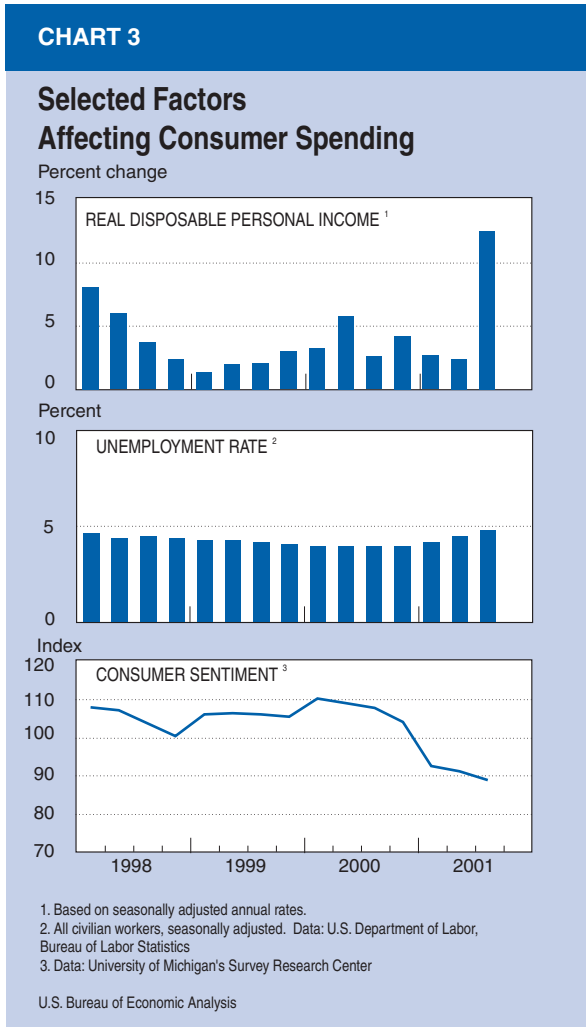
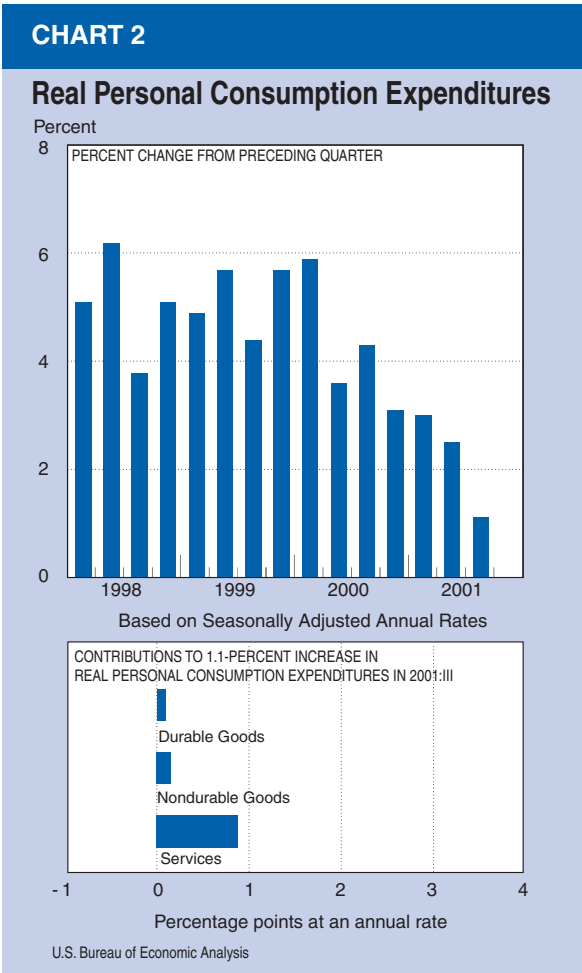
3. Includes personal care, personal business, education and research, religious and welfare activities, and net foreign travel.

NOTE.—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.

in energy products. Food decreased more than in the second quarter, while clothing and shoes and “other” nondurable goods slowed.

Several factors frequently considered in the analysis of consumer spending became less favorable in the third quarter (chart 3). The unemployment rate increased for the third consecutive

quarter, reaching 4.8 percent, the highest rate since 1997. The Index of Consumer Sentiment (prepared by the University of Michigan’s Survey Center) decreased for the sixth consecutive quarter. In contrast, real disposable personal income jumped, reflecting tax refunds under the Economic Growth and Tax Relief Reconciliation Act of 2001.



Private Fixed Investment

Real private fixed investment decreased in the third quarter, but not as much as in the second quarter; the back-to-back decreases were the first since 1991 (table 5 and chart 4). Nonresidential investment decreased less than in the second quarter. Residential investment slowed.

Nonresidential fixed investment.—Real private nonresidential fixed investment decreased 9.3 percent after decreasing 14.6 percent. Spending on equipment and software and spending on structures both decreased less than in the second quarter.

Computers and “other” information processing equipment fell less than in the second quarter, and software increased slightly after a decline. Transportation equipment also decreased less than in the second quarter, reflecting an upturn in aircraft.

Nonresidential buildings and public utilities both decreased more than in the second quarter,

and mining exploration, shafts and wells turned down. In contrast, “other” structures turned up sharply. The upturn reflected the lease of properties by the Port Authority of New York to private corporations.⁶

The investment climate has generally been unfavorable in recent quarters. Profits of domestic corporations and the capacity utilization rate in manufacturing, mining, and utilities have decreased for five consecutive quarters, and real final sales of domestic product has faltered.⁷ Long-term interest rates have trended down, but only modestly; for example, the yield on high-grade corpo-

6. In July 2001, the Port Authority leased properties at the World Trade Center to two private corporations. In the NIPAs, this lease was treated as the sale of an asset. As a result, net purchases of used structures increased \$12.8 billion (in current dollars at an annual rate). (The structures component of State and local government gross investment decreased by the same amount; thus, the lease transaction did not affect the level of GDP.)

7. The growth of real final sales has averaged 1.8 percent over the last five quarters; it averaged 3.5 percent over the first 37 quarters of the most recent expansion.

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								
	2001	2000	2001			2000	2001			
	III	IV	I	II	III	IV	I	II	III	
Private fixed investment	1,668.9	2.0	8.2	-43.9	-27.5	0.5	1.9	-9.7	-6.3	
Nonresidential	1,289.1	3.4	-0.6	-53.0	-31.8	1.0	-0.2	-14.6	-9.3	
Structures	275.5	5.1	8.4	-9.4	-6.8	7.6	12.3	-12.2	-9.2	
Nonresidential buildings, including farm	179.3	1.6	2.9	-10.4	-12.3	3.2	5.9	-19.0	-23.2	
Utilities	50.1	4.5	2.6	-1.1	-4.9	42.7	20.6	-7.6	-31.3	
Mining exploration, shafts, and wells	30.0	-0.5	3.5	2.1	-0.4	-7.5	68.1	33.7	-5.3	
Other structures	17.0	-0.1	-0.7	-0.4	11.1	-6.3	-33.1	-21.4	(¹)	
Equipment and software	1,018.1	-3.0	-11.6	-44.5	-25.1	-1.1	-4.1	-15.4	-9.3	
Information processing equipment and software	570.8	20.8	-20.9	-32.8	-17.3	14.1	-12.4	-19.5	-11.3	
Computers and peripheral equipment ²	266.5	12.4	-3.2	-27.1	-20.8	17.1	-3.9	-30.3	-25.9	
Software ³	192.0	6.3	-3.1	-1.8	0.9	14.0	-6.3	-3.7	2.0	
Other	158.0	5.5	-12.4	-14.9	-7.9	12.2	-23.3	-29.1	-17.7	
Industrial equipment	151.3	0.5	5.1	-9.5	-9.9	1.4	12.9	-20.5	-22.5	
Transportation equipment	173.7	-17.0	1.2	-3.0	-0.7	-30.8	2.8	-6.6	-1.5	
Of which: Motor vehicles	133.6	-16.7	2.0	-1.3	-6.9	-36.3	5.7	-3.6	-18.2	
Other	142.3	-1.7	-1.1	-2.2	1.2	-4.7	-3.0	-6.0	3.6	
Residential	380.6	-1.0	7.6	5.4	2.3	-1.1	8.5	5.9	2.5	
Structures	371.0	-1.0	7.5	5.3	2.4	-1.2	8.7	6.0	2.6	
Single-family	193.6	-1.2	6.1	1.7	0.8	-2.6	13.9	3.5	1.7	
Multifamily	24.5	0.7	1.1	0.9	0.3	13.8	20.2	18.2	4.3	
Other structures ⁴	152.9	-0.6	0.3	2.6	1.3	-1.5	0.6	7.3	3.4	
Equipment	9.7	0	0.1	0	0	2.1	0.7	2.8	-3.2	

1. The percent change is not calculated for the third quarter of 2001; as a result of the leasing of properties described in footnote 6 of the text, the percent change calculation is of little value.

2. Includes new computers and peripheral equipment only.

3. Excludes software “embedded,” or bundled, in computers and other equipment.

4. 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.

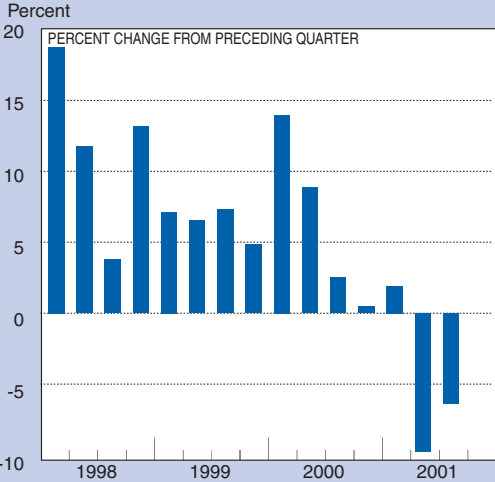
rate bonds decreased from 7.75 percent in June 2000 to 6.83 percent in September 2001 (chart 5).

down in improvements; in contrast, sales of manufactured homes turned up.

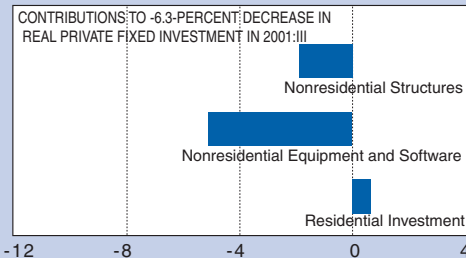
Residential investment.—Real private residential investment increased 2.5 percent—less than half its increase in the second quarter (table 5 and chart 4). Single-family structures, multifamily structures, and “other” structures all slowed. The slowdown in “other” structures reflected a downturn in brokers’ commissions on home sales and a slow-

CHART 4

Real Private Fixed Investment



Based on Seasonally Adjusted Annual Rates

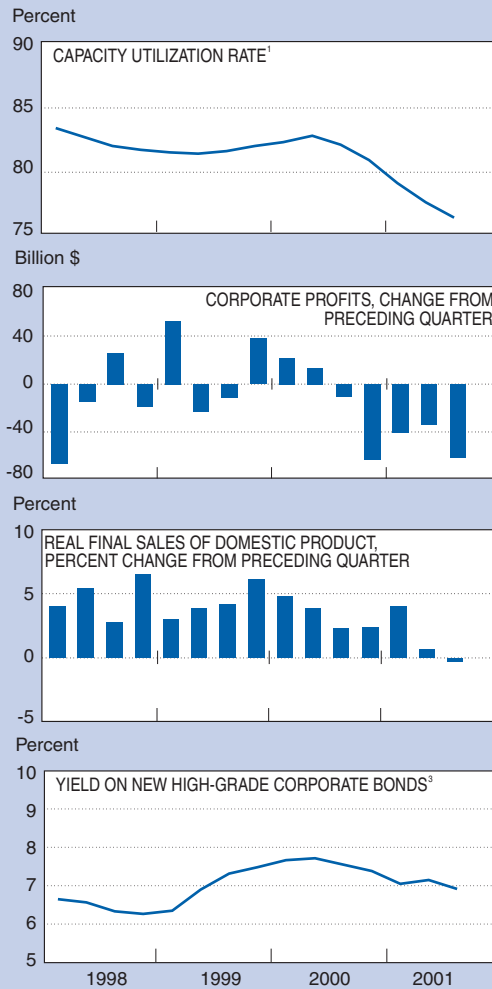


Percentage points at an annual rate

U.S. Bureau of Economic Analysis

CHART 5

Selected Factors Affecting Nonresidential Investment



1. All industries. Data: Federal Reserve Board
 2. Domestic industries.
 3. Data: U.S. Treasury Department
 U.S. Bureau of Economic Analysis

Inventory Investment, next page

Inventory Investment

Real inventory stocks decreased \$60.1 billion in the third quarter after decreasing \$38.3 billion in the second (table 6 and chart 6). The larger decrease in the third quarter than in the second subtracted 0.75 percentage point from third-quarter GDP growth; in the second quarter, inventory investment had subtracted 0.42 percentage point.

The third-quarter decrease in inventory investment was dominated by wholesale trade inventories, which decreased \$17.4 billion after increasing \$2.6 billion, and by manufacturing inventories, which decreased \$47.2 billion after decreasing \$35.6 billion.

In wholesale trade, durable-goods inventories decreased twice as much as in the second quarter, partly reflecting a swing from accumulation to liquidation in inventories of computer equipment and software. Accumulation of nondurable-goods inventories slowed, partly reflecting swings to liquidation in apparel and in grocery inventories.

Inventories of durable-goods manufacturers decreased considerably more than in the second quarter, mainly reflecting a stepped-up pace of liquidation of computer inventories. Inventories of nondurable-goods manufacturers decreased a little less than in the second quarter despite a swing from accumulation to liquidation in food inventories.

Retail trade inventories increased a little after decreasing. Inventories of motor vehicle dealers were the most important contributor to the upswing.

Farm inventories decreased a little more than in the second quarter, reflecting a steeper decline in crop inventories. Livestock inventories turned up.

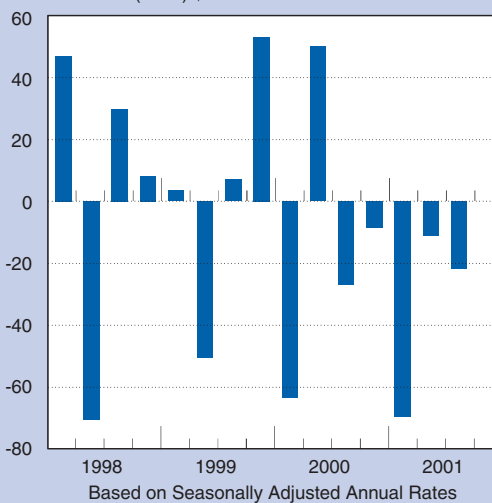
The ratio of real private nonfarm inventories to final sales of goods and structures decreased to 3.66 from 3.67 (see NIPA table 5.13). A ratio that includes all final sales of domestic businesses decreased to 2.06 from 2.08.⁸ Both ratios are at their lowest levels in 35 years.

8. 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

Billion chained (1996) \$



Based on Seasonally Adjusted Annual Rates
U.S. Bureau of Economic Analysis

Table 6.—Real Change in Private Inventories
[Billions of chained (1996) dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter				
	2000		2001			2000	2001			
	III	IV	I	II	III	IV	I	II	III	
Change in private inventories	51.7	42.8	-27.1	-38.3	-60.1	-8.9	-69.9	-11.2	-21.8	
Farm	-5.4	3.0	0.2	-2.5	-2.9	8.4	-2.8	-2.7	-0.4	
Construction, mining, and utilities.....	0.1	-6.8	1.9	6.8	3.0	-6.9	8.7	4.9	-3.8	
Manufacturing	12.0	12.9	-15.0	-35.6	-47.2	0.9	-27.9	-20.6	-11.6	
Durable goods industries	10.8	17.9	-10.5	-25.3	-39.0	7.1	-28.4	-14.8	-13.7	
Nondurable goods industries	1.3	-4.4	-4.5	-10.2	-8.3	-5.7	-0.1	-5.7	1.9	
Wholesale trade.....	18.2	12.5	-3.0	2.6	-17.4	-5.7	-15.5	5.6	-20.0	
Durable goods industries	10.2	5.5	-3.7	-11.6	-23.1	-4.7	-9.2	-7.9	-11.5	
Nondurable goods industries	8.0	6.8	0.6	12.8	4.4	-1.2	-6.2	12.2	-8.4	
Retail trade	18.7	19.3	-15.3	-13.2	1.0	0.6	-34.6	2.1	14.2	
Of which: Motor vehicle dealers.....	10.4	8.4	-19.6	-5.6	1.7	-2.0	-28.0	14.0	7.3	
Other industries ¹	7.7	2.8	3.6	1.2	0.7	-4.9	0.8	-2.4	-0.5	
Addenda:										
Motor vehicles.....	4.1	6.4	-22.6	-8.3	3.2	2.3	-29.0	14.3	11.5	
Autos.....	6.7	2.5	-9.5	-4.2	2.4	-4.2	-12.0	5.3	6.6	
Trucks.....	-1.9	3.6	-12.1	-3.8	0.9	5.5	-15.7	8.3	4.7	

1. Includes inventories held by establishments in the following industries: Transportation; communication; finance, insurance, and real estate; and 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 tables 5.11B and 8.9B (motor vehicles).

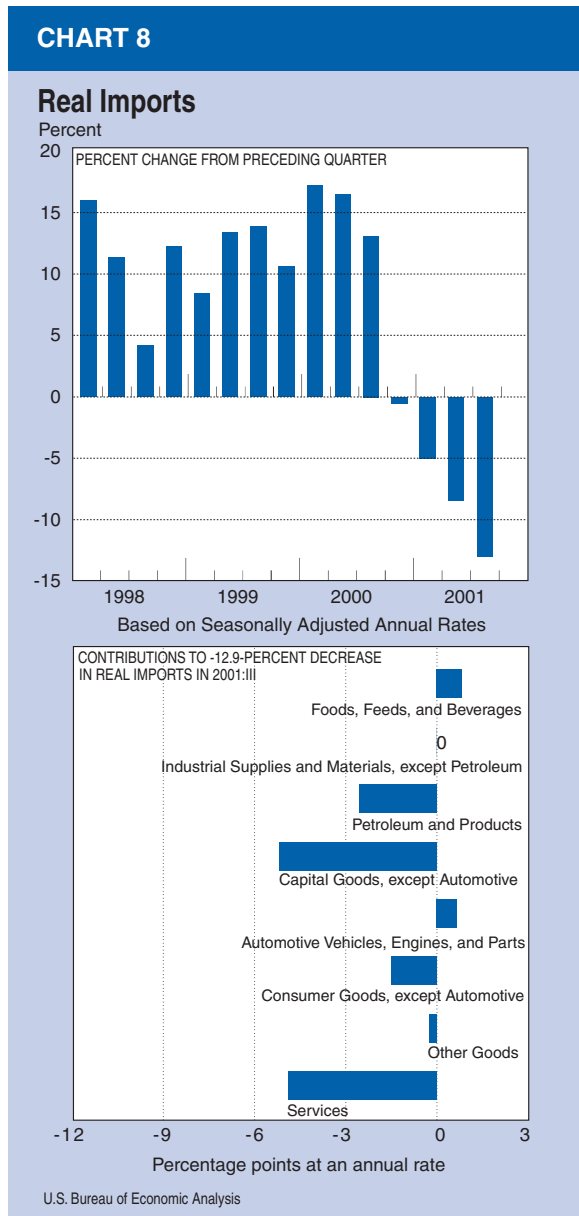
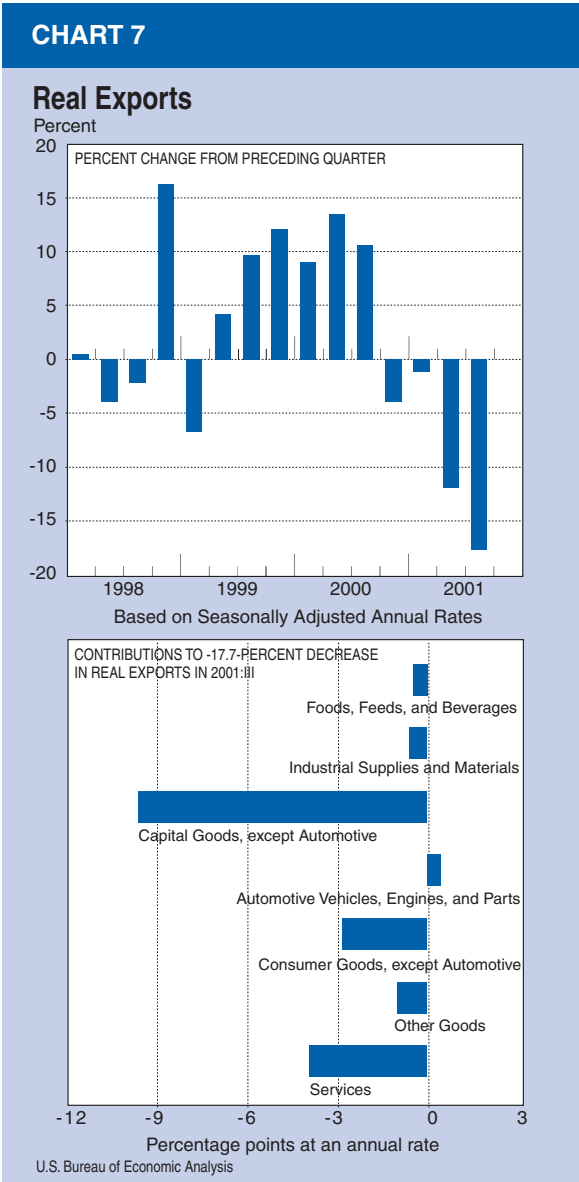
Exports and Imports

Real exports and real imports declined sharply; for each, it was the fourth consecutive quarterly decline.

Exports and imports of goods both decreased about as much as they had in the second quarter (table 7 and charts 7 and 8). In exports, smaller decreases in nonautomotive capital goods and in industrial supplies and materials were largely offset by a slowdown in autos and by bigger decreases in

nonautomotive consumer goods and in “other” exports. In imports, nonautomotive capital goods decreased much less than in the second quarter, but most other major categories were weaker than in the second quarter; for example, petroleum imports decreased after increasing slightly.

Exports of services turned down sharply, and imports of services dropped much more than in the second quarter. In both exports and imports,



travel and passenger fees were the major contributors; the percentage decreases in these items were

comparable to the decreases in the first quarter of 1991 during the Gulf War.

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							
	2001	2000	2001			2000	2001		
	III	IV	I	II	III	IV	I	II	III
Exports of goods and services	1,055.5	-11.8	-3.4	-35.8	-52.8	-4.0	-1.2	-11.9	-17.7
Exports of goods ¹	762.7	-15.3	-5.1	-39.2	-42.5	-6.9	-2.4	-17.3	-19.5
Foods, feeds, and beverages	59.4	-3.2	2.3	-1.0	-1.7	-18.8	15.9	-6.0	-11.1
Industrial supplies and materials	160.6	-0.5	-3.4	-6.0	-2.1	-1.1	-7.8	-13.5	-5.1
Capital goods, except automotive	337.9	-9.3	0.9	-37.9	-29.4	-8.7	0.8	-32.4	-28.4
Automotive vehicles, engines, and parts	75.1	-3.2	-5.4	4.2	0.9	-15.7	-25.6	26.4	5.0
Consumer goods, except automotive	85.6	-1.5	3.4	-0.2	-7.7	-6.2	16.1	-0.8	-29.3
Other	44.2	1.9	-1.9	-0.1	-2.8	17.0	-14.5	-0.8	-22.2
Exports of services ¹	292.8	2.7	1.3	1.8	-10.8	3.7	1.8	2.4	-13.5
Imports of goods and services	1,463.7	-2.1	-19.9	-33.6	-51.3	-0.5	-5.0	-8.4	-12.9
Imports of goods ¹	1,257.6	-2.1	-23.1	-32.7	-32.5	-0.6	-6.7	-9.5	-9.7
Foods, feeds, and beverages	53.7	-0.2	-0.7	0.9	3.1	-1.2	-5.4	6.8	27.3
Industrial supplies and materials, except petroleum and products	166.2	-2.2	-2.2	1.5	-0.3	-5.1	-5.1	3.6	-0.7
Petroleum and products	84.8	-1.8	5.4	0.9	-7.4	-7.7	27.1	4.3	-28.6
Capital goods, except automotive	375.4	2.4	-13.5	-56.2	-25.0	2.1	-11.0	-40.9	-22.7
Automotive vehicles, engines, and parts	190.2	-5.2	-6.1	4.9	1.9	-10.4	-12.1	10.9	4.2
Consumer goods, except automotive	294.7	7.5	-0.8	-4.7	-6.0	10.5	-1.1	-6.0	-7.8
Other	84.2	-0.5	-9.0	7.6	-1.0	-2.2	-35.5	45.1	-4.4
Imports of services ¹	207.1	0.1	2.7	-1.2	-19.1	0	4.9	-2.0	-29.8

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.

Government Spending

Government spending increased 0.8 percent in the third quarter after increasing 5.0 percent in the second. Federal Government spending increased more than in the second quarter, but State and local government spending changed little after increasing (table 8 and chart 9).

Federal defense spending increased about as much as in the second quarter. Consumption expenditures accelerated, mainly reflecting an upturn in research and development and step-ups in employee compensation and in expenditures for aircraft; these developments were partly offset by a downturn in purchases of nondurable goods. Gross investment changed little after increasing; the deceleration mainly reflected a slowdown in equipment and software.

Federal nondefense spending accelerated; an upturn in gross investment more than offset a downturn in consumption expenditures. In investment, equipment and software stepped up, and structures increased slightly after decreasing. In consumption, services other than compensation of Government employees turned down.

State and local government spending dipped slightly after increasing. An increase in consumption expenditures was more than offset by a drop in gross investment that reflected the sale of the World Trade Center (see footnote 6).

CHART 9

Real Government Consumption and Investment

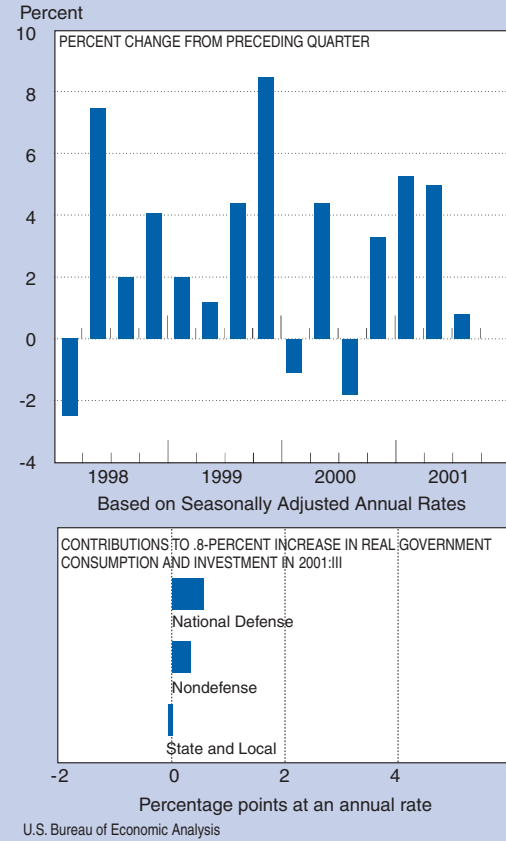


Table 8.—Real Government Consumption Expenditures and Gross Investment
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2001	2000	2001			2000	2001		
	III	IV	I	II	III	IV	I	II	III
Government consumption expenditures and gross investment¹	1,626.2	12.8	20.6	19.6	3.2	3.3	5.3	5.0	0.8
Federal	558.4	6.1	4.3	2.5	3.7	4.6	3.2	1.8	2.7
National defense	364.7	8.7	6.5	2.1	2.3	10.5	7.5	2.3	2.6
Consumption expenditures	306.9	3.0	8.4	0.2	2.3	4.2	11.8	0.2	3.1
Gross investment	58.2	6.2	-2.3	2.1	0	56.4	-14.6	16.0	-0.3
Nondefense	193.6	-2.5	-2.2	0.5	1.3	-5.1	-4.3	0.9	2.8
Consumption expenditures	149.4	-2.9	-2.3	0.5	-0.6	-7.3	-5.9	1.4	-1.5
Gross investment	44.9	0.4	0.3	-0.1	2.1	4.6	2.1	-0.7	21.1
State and local	1,067.0	6.7	16.2	16.9	-0.4	2.7	6.4	6.6	-0.1
Consumption expenditures	855.8	5.9	8.6	7.8	8.9	2.9	4.2	3.8	4.3
Gross investment	211.3	0.8	7.7	9.4	-9.7	1.6	16.1	18.9	-16.4

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.

Prices

The price index for gross domestic purchases, which measures the prices of goods and services purchased by U.S. residents, decreased 0.2 percent in the third quarter after increasing 1.3 percent in the second (table 9 chart 10). Two factors were mainly responsible for the downturn.

- Consumer prices declined, reflecting the NIPA treatment of insurance benefit payments associated with the September 11th terrorist attacks.⁹ Excluding the effect of these payments, the price index for gross domestic purchases increased 0.6 percent.

- Energy prices dropped after increasing. Excluding food prices (which stepped up) and energy prices, the price index increased 0.5 percent after increasing 0.9 percent.

Prices of personal consumption expenditures (PCE) decreased 0.3 percent after increasing 1.3

percent. PCE energy prices decreased sharply after increasing. Food prices increased more than in the second quarter.

The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 2.2 percent, about the same as in the second quarter. (Excluding the insurance-related price effects, the index increased 1.2 percent.) This index, unlike the price index for gross domestic purchases, excludes the prices of imports and includes the prices of exports. Import prices decreased much more than in the second quarter, mainly because of the insurance-related price effects; prices of imported goods decreased about as much as in the second quarter.

9. See the box "The Terrorist Attacks of September 11th as Reflected in the National Income and Product Accounts," SURVEY OF CURRENT BUSINESS 81 (November 2001): 2–3.

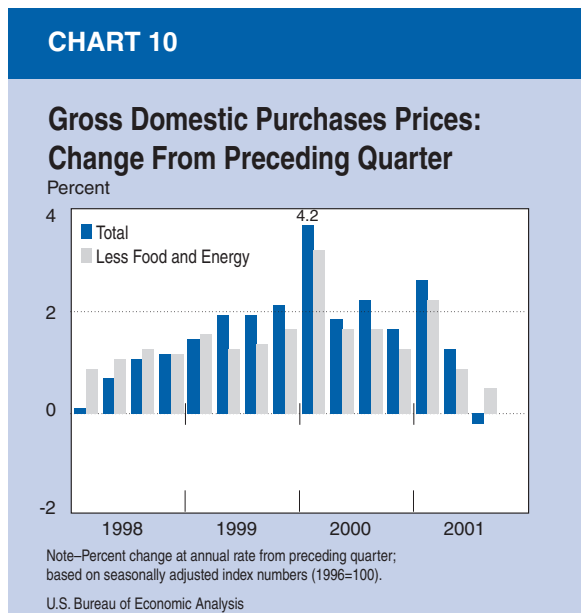


Table 9.—Percent Changes in Prices

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

	2000	2001		
	IV	I	II	III
Gross domestic product	1.8	3.3	2.1	2.2
Less: Exports of goods and services	0.5	-0.1	-1.0	-1.8
Plus: Imports of goods and services	0.4	-3.0	-6.0	-17.0
Equals: Gross domestic purchases	1.7	2.7	1.3	-0.2
Less: Change in private inventories				
Equals: Final sales to domestic purchasers	1.8	2.6	1.3	-0.2
Personal consumption expenditures	2.0	3.2	1.3	-0.3
Durable goods	-1.2	-0.7	-3.5	-2.8
Nondurable goods	2.0	1.9	2.7	-1.5
Services	2.6	4.7	1.7	0.8
Private fixed investment	0.8	-0.4	0.6	0.1
Nonresidential	0.0	-1.9	-0.1	-0.5
Structures	4.7	6.2	4.7	2.1
Equipment and software	-1.5	-4.6	-1.9	-1.4
Residential	3.5	4.6	2.6	1.6
Government consumption expenditures and gross investment	1.9	3.5	1.8	0.1
Federal	0.4	4.4	1.2	0.3
National defense	1.0	3.6	1.0	0.4
Nondefense	-0.7	5.8	1.7	0.2
State and local	2.7	3.0	2.1	0
Addenda:				
Gross domestic purchases:				
Food	1.6	4.1	2.6	3.7
Energy	11.3	9.3	6.1	-20.9
Less food and energy	1.3	2.3	0.9	0.5
Personal consumption expenditures:				
Food	1.6	4.0	2.6	3.8
Energy goods and services ¹	10.5	11.7	9.2	-20.7
Less food and energy	1.5	2.6	0.7	0.4

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.

Revisions

The preliminary estimate of a 1.1-percent decrease in real GDP in the third quarter is 0.7 percentage point larger than the 0.4-percent decrease in the advance estimate (table 10). In the past 20 years, the average revision, without regard to sign, from the advance estimate to the preliminary estimate has been 0.5 percentage point.

A downward revision to the change in private nonfarm inventories contributed -0.40 percentage point to the revision to GDP, and an upward revision to imports of goods contributed -0.36 percentage point. Revisions to government spending, exports, and consumer spending also reduced GDP. The main offset to these negative contributions was an upward revision to private fixed investment, which contributed 0.37 percentage point.

The downward revision to private inventory investment reflected the incorporation of newly available Census Bureau data on inventories for September and revised data for August; the largest downward revision was to retail trade inventories.

The upward revision to imports of goods mainly affected nonautomotive consumer goods and nonautomotive capital goods; it primarily reflected the incorporation of newly available Census Bureau data on trade in goods for September.

The upward revision to private fixed investment was concentrated in nonresidential equipment and software, primarily reflecting newly available data on software companies' revenue for the third quarter, revised retail sales data on business software from a trade source, and newly available Census Bureau data on aircraft shipments, exports, and imports for September.

**Table 10.—Revisions to Change in Real Gross Domestic Product and Prices,
Third Quarter 2001**

[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	-0.4	-1.1	-0.7	-16.6
<i>Less: Exports</i>	-16.6	-17.7	-1.1	-3.5
Goods	-18.2	-19.5	-1.3	-3.0
Services	-12.9	-13.5	-0.6	-0.5
<i>Plus: Imports</i>	-15.2	-12.9	2.3	9.7
Goods	-12.6	-9.7	2.9	10.2
Services	-29.0	-29.8	-0.8	-0.6
Equals: Gross domestic purchases	-0.7	-0.9	-0.2	-5.4
<i>Less: Change in private inventories</i> .....	.....	.....	.....	-9.7
Equals: Final sales to domestic purchasers	-0.3	-0.2	0.1	3.3
Personal consumption expenditures	1.2	1.1	-0.1	-1.3
Durable goods	1.7	0.7	-1.0	-2.2
Nondurable goods	0.6	0.5	-0.1	-0.3
Services	1.4	1.5	0.1	0.9
Fixed investment	-8.4	-6.3	2.1	9.4
Nonresidential	-11.9	-9.3	2.6	9.3
Structures	-12.1	-9.2	2.9	2.2
Equipment and software	-11.8	-9.3	2.5	7.1
Residential	1.9	2.5	0.6	0.6
Government consumption expenditures and gross investment	1.8	0.8	0	0
Federal	4.6	2.7	-1.0	-3.9
National defense	5.0	2.6	-1.9	-2.6
Nondefense	3.9	2.8	-2.4	-2.1
State and local	0.4	-0.1	-1.1	-0.5
.....	.....	.....	-0.5	-1.4
Addenda:				
Final sales of domestic product	0	-0.3	-0.3	-7.8
Gross domestic purchases price index	-0.3	-0.2	0.1	.....
GDP price index	2.1	2.2	0.1	.....

NOTE.—The preliminary estimates for the third quarter of 2001 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 and September (revised), manufacturers' shipments of complete civilian aircraft for August (revised) and September, software company revenue data for the third quarter, and revised retail sales data on business software from a trade source for the third quarter.

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 Army 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 August (revised) and September, and housing prices for the third quarter.

Corporate Profits

Corporate profits decreased again in the third quarter. The current production measure decreased \$63.1 billion (or 8.3 percent at a quarterly rate)—about twice as much as in the second quarter (table 11). After four consecutive quarterly decreases, profits were 22.2 percent below the level of a year earlier.¹⁰

Profits of domestic financial corporations decreased \$28.4 billion (17.2 percent). Profits of insurance carriers were reduced by the payment of insurance benefits associated with the terrorist attacks; current information suggests that these payments, net of foreign reinsurance, amounted to about \$40 billion (annual rate). (In the NIPAs, benefit payments are recorded in the period in which the event occurs to reflect the full expected loss, regardless of when the payments are actually made.) In the second quarter, profits had been reduced about \$19 billion by damage caused by Tropical Storm Allison and other severe storms.

Profits of domestic nonfinancial corporations decreased \$33.6 billion (7.5 percent). The decrease

was moderated by \$20 billion of subsidies received by airlines as part of a bill passed by Congress after the September 11th attacks.

Rest-of-the-world profits registered a small drop, as receipts from foreign affiliates of U.S. corporations decreased more than payments by U.S. affiliates of foreign corporations.¹¹

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$12.3 billion after decreasing \$6.5 billion.¹² 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, increased from 71.8 percent to 74.7 percent. During 1991–99, the ratio fluctuated between 72 percent and 94 percent, and it averaged 84 percent.

10. 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) as corporate profits with inventory valuation and capital consumption adjustments.

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

11. 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.

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

Table 11.—Corporate Profits
[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change (quarterly rate)			
	Level	Change from preceding quarter							
	2001	2000	2001			2000	2001		
	III	IV	I	II	III	IV	I	II	III
Profits from current production	696.7	-47.4	-57.8	-30.0	-63.1	-5.3	-6.8	-3.8	-8.3
Domestic industries	553.8	-63.2	-41.1	-33.9	-62.0	-8.4	-5.9	-5.2	-10.1
Financial	137.0	0.3	-2.6	-19.5	-28.4	0.2	-1.3	-10.6	-17.2
Nonfinancial	416.8	-63.4	-38.6	-14.4	-33.6	-11.2	-7.7	-3.1	-7.5
Rest of the world	142.9	15.8	-16.8	4.0	-1.1	11.2	-10.7	2.9	-0.8
Receipts (inflows)	185.5	5.4	-9.4	-7.0	-8.5	2.6	-4.5	-3.5	-4.4
Payments (outflows)	42.5	-10.4	7.4	-11.0	-7.5	-16.2	13.7	-18.0	-14.9
IVA	3.3	-3.7	5.4	-6.9	12.1	.....	.....	.....	.....
CCAdj	13.3	-2.0	-2.4	-5.7	-17.0	.....	.....	.....	.....
Profits before tax	680.1	-41.8	-60.8	-17.4	-58.2	-4.9	-7.4	-2.3	-7.9
Profits tax liability	206.0	-21.4	-16.7	-8.8	-22.0	-7.8	-6.6	-3.7	-9.7
Profits after tax	474.1	-20.4	-44.1	-8.6	-36.2	-3.5	-7.8	-1.7	-7.1
Cash flow from current production	917.4	-23.2	-35.1	-6.5	12.3	-2.4	-3.7	-0.7	1.4
Domestic industry profits:									
Corporate profits of domestic industries with IVA	540.5	-61.2	-38.6	-28.4	-44.9	-8.6	-5.9	-4.6	-7.7
Financial	154.4	1.3	-2.2	-18.9	-28.9	0.7	-1.1	-9.3	-15.8
Nonfinancial	386.1	-62.6	-36.4	-9.5	-16.0	-12.3	-8.1	-2.3	-4.0
	Dollars								
Unit price, costs, and profits of nonfinancial corporations:									
Unit price	1.062	0.004	0.005	0.006	0	.....	.....	.....	.....
Unit labor cost	0.716	0.015	0.009	0.004	0.002	.....	.....	.....	.....
Unit nonlabor cost	0.266	0.002	0.003	0.005	0.005	.....	.....	.....	.....
Unit profits from current production	0.080	-0.012	-0.008	-0.003	-0.006	.....	.....	.....	.....

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

Government Sector

The fiscal position of the government sector, as measured by the combined current surplus of the Federal Government and of State and local governments, shifted from a current surplus of \$208.0 billion in the second quarter to a current deficit of \$8.0 billion in the third—the first current deficit since the fourth quarter of 1997 (table 12).¹³ The third-quarter shift was mostly attributable to the Federal sector. A larger decrease in the State and local current surplus in the third quarter also contributed to the shift.

The third-quarter shift in the combined position reflected the effects of advance refund checks sent to taxpayers in the third quarter as part of the Economic Growth and Tax Relief Reconciliation Act of 2001, which lowered net personal tax receipts by \$140.7 billion. Excluding this special factor, the combined current surplus declined \$75.2 billion in the third quarter.

Federal

Fueled by a sharp downturn in current receipts, the fiscal position of the Federal Government shifted from a current surplus of \$186.7 billion to a current deficit of \$10.2 billion—the first current deficit since the fourth quarter of 1997. In the second quarter, the Federal current surplus had decreased \$18.6 billion.

Current receipts.—Federal current receipts decreased \$182.8 billion in the third quarter after increasing \$4.1 billion in the second. The downturn was mostly accounted for by a downturn in personal tax and nontax receipts. Corporate profits tax accruals decreased more in the third quarter than in the second. Contributions for social insurance decelerated in the third quarter, and indirect business tax and nontax accruals decreased more in the third quarter than in the second.

Personal tax and nontax receipts decreased \$162.8 billion after increasing \$8.6 billion. The sharp downturn was accounted for by income taxes, which decreased \$162.6 billion after increasing \$8.7 billion, as a result of provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001. Beginning in mid-July, advance refund checks of up to \$300 for single taxpayers and up to \$600 for families were sent to taxpayers; refunds,

which are an offset to income tax receipts, were boosted \$140.7 billion as a result of this provision. Additionally, the Act lowered income tax rates.

Corporate profits tax accruals decreased \$19.0 billion after decreasing \$7.7 billion, reflecting a larger decline in domestic corporate profits before tax in the third quarter than in the second.

Contributions for social insurance increased \$0.3 billion after increasing \$3.4 billion. The decel-

Table 12.—Government Sector Current Receipts and Expenditures
[Billions of dollars, seasonally adjusted at annual rates]

	Level	Change from preceding quarter				
		2001	2000	2001		
				III	IV	I	II	III
Current receipts.....	2,929.5	26.2	22.9	7.7		-175.0
Current expenditures.....	2,937.4	39.7	46.5	27.3		40.9
Current surplus or deficit (-).....	-8.0	-13.5	-23.6	-19.6		-216.0
Social insurance funds.....	104.3	5.1	-8.4	-2.7		-8.7
Other.....	-112.3	-18.7	-15.1	-16.8		-207.4
Federal Government						
Current receipts.....	1,908.7	13.2	9.9	4.1		-182.8
Personal tax and nontax receipts.....	897.2	20.7	10.9	8.6		-162.8
Corporate profits tax accruals.....	178.3	-18.2	-14.4	-7.7		-19.0
Indirect business tax and nontax accruals.....	110.6	0.8	-0.5	-0.2		-1.4
Contributions for social insurance.....	772.5	9.9	13.9	3.4		0.3
Current expenditures.....	1,918.8	20.6	27.1	22.6		14.1
Consumption expenditures.....	512.7	0.5	13.4	2.6		2.6
National defense.....	342.5	4.3	13.0	1.2		3.0
Nondefense.....	170.2	-3.7	0.4	1.4		-0.4
Transfer payments (net).....	837.4	22.4	8.8	11.6		14.1
To persons.....	830.8	8.7	28.4	10.5		14.5
To the rest of the world.....	6.6	13.7	-19.7	1.3		-0.5
Grants-in-aid to State and local governments.....	266.4	-0.8	13.9	17.2		-14.8
Net interest paid.....	232.5	-3.0	-6.4	-11.0		-10.0
Subsidies less current surplus of government enterprises.....	69.8	1.6	-2.7	2.2		22.2
Subsidies.....	60.7	-1.4	-2.1	0.1		20.7
Of which: Agricultural subsidies.....	18.5	-1.6	-2.7	-0.3		0.4
Less: Current surplus of government enterprises.....	-9.1	-3.0	0.5	-2.1		-1.4
Less: Wage accruals less disbursements.....	0	0	0	0		0
Current surplus or deficit (-).....	-10.2	-7.4	-17.2	-18.6		-196.9
Social insurance funds.....	104.4	5.2	-8.6	-2.9		-8.7
Other.....	-114.6	-12.6	-8.6	-15.7		-188.2
State and local governments						
Current receipts.....	1,287.2	12.1	27.0	20.9		-7.1
Personal tax and nontax receipts.....	298.3	8.9	4.5	-2.4		6.9
Corporate profits tax accruals.....	27.7	-3.2	-2.3	-1.1		-3.0
Indirect business tax and nontax accruals.....	684.1	7.2	10.6	6.9		3.7
Contributions for social insurance.....	10.8	0.1	0.2	0.3		0.2
Federal grants-in-aid.....	266.4	-0.8	13.9	17.2		-14.8
Current expenditures.....	1,285.0	18.3	33.3	21.9		12.0
Consumption expenditures.....	991.5	13.4	16.7	14.6		10.2
Transfer payments to persons.....	292.8	5.1	5.1	5.4		4.5
Net interest paid.....	-0.9	0	-0.3	-0.3		-0.1
Less: Dividends received by government.....	0.4	0	0	0		0
Subsidies less current surplus of government enterprises.....	2.0	-0.2	11.8	2.2		-2.6
Subsidies.....	11.9	0	12.2	2.5		-3.2
Less: Current surplus of government enterprises.....	9.9	0.3	0.3	0.3		-0.6
Less: Wage accruals less disbursements.....	0	0	0	0		0
Current surplus or deficit (-).....	2.2	-6.2	-6.3	-1.0		-19.1
Social insurance funds.....	-0.1	-0.1	0.2	0.1		0.1
Other.....	2.3	-6.0	-6.5	-1.2		-19.1
Addendum:						
Net lending or net borrowing (-) ¹	-91.9	-18.4	-23.3	-34.0		-205.3
Federal Government.....	-29.7	-13.7	-10.3	-26.0		-204.3
State and local government.....	-62.2	-4.7	-13.0	-8.0		-1.0

13. 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 1999 and 2000, see NIPA tables 3.1, 3.2, and 3.3 in this issue.

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.

eration primarily reflected a deceleration in contributions for social security (old-age, survivors, disability, and health insurance), which increased \$0.2 billion after increasing \$3.6 billion.

Indirect business tax and nontax accruals decreased \$1.4 billion after decreasing \$0.2 billion. The larger decline was more than accounted for by a downturn in excise taxes, which decreased \$1.6 billion after increasing \$0.7 billion. Within excise taxes, air transport turned down, as a result of airport closures caused by the terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001, and of fewer passengers after airports reopened. Gasoline excise taxes also turned down, decreasing \$0.3 billion after a \$1.0 billion increase. In contrast, customs duties were unchanged after decreasing \$1.3 billion.

Current expenditures.—Current expenditures increased \$14.1 billion in the third quarter after increasing \$22.6 billion in the second. The deceleration was more than accounted for by a sharp downturn in grants-in-aid to State and local governments. In contrast, “subsidies less current surplus of government enterprises” accelerated in the third quarter.

Grants-in-aid to State and local governments turned down in the third quarter, decreasing \$14.8 billion after increasing \$17.2 billion. Grants for health and hospitals (including payments to States for children’s health insurance programs), for State Medicaid programs, for education, and for welfare and social services turned down in the third quarter.

“Subsidies less current surplus of government enterprises” increased \$22.2 billion after increasing \$2.2 billion. The sharp acceleration was more than accounted for by subsidies, which increased \$20.7 billion after increasing \$0.1 billion. In the third quarter, airlines received \$5.0 billion (\$20.0 billion at an annual rate) in direct aid from the Federal Government as part of the Air Transportation Safety and System Stabilization Act.¹⁴ The current surplus of government enterprises, which is an offset to subsidies, decreased \$1.4 billion after a \$2.1 billion decrease. Within enterprises, the U.S. Postal Service current surplus decreased \$1.2 billion after a \$2.0 billion decrease. A rate increase on some classes of mail effective in July, 2001, boosted the

U.S. Postal Service current surplus by \$1.0 billion in the third quarter.

“Transfer payments (net)” increased \$14.1 billion after increasing \$11.6 billion. Transfer payments to persons increased \$14.5 billion after increasing \$10.5 billion. The acceleration was accounted for by an acceleration in benefit payments for social security (old-age, survivors and disability insurance), which increased \$4.4 billion after increasing \$2.0 billion; one-time retroactive payments were made in July to correct for the underpayment of benefits associated with an error in the indexing of these benefits.

Net interest paid decreased \$10.0 billion in the third quarter, following an \$11.0 billion decrease. Gross interest paid decreased \$9.3 billion after decreasing \$10.9 billion, reflecting smaller decreases in interest paid to persons and business.

State and local

The State and local government current surplus decreased \$19.1 billion, to \$2.2 billion, in the third quarter after decreasing \$1.0 billion in the second. Current receipts turned down, and current expenditures decelerated.

Current receipts.—State and local government current receipts decreased \$7.1 billion after increasing \$20.9 billion. The deceleration was more than accounted for by a downturn in Federal grants-in-aid. Indirect business tax and nontax accruals decelerated, and corporate profits tax accruals declined more in the third quarter than in the second. In contrast, personal tax and nontax receipts turned up.

Indirect business tax and nontax accruals increased \$3.7 billion after increasing \$6.9 billion. The deceleration was accounted for by sales taxes, which increased \$0.2 billion after increasing \$3.0 billion. Within sales taxes, general sales taxes turned down, reflecting a downturn in general retail sales in the third quarter.

Corporate profits tax accruals decreased \$3.0 billion after a \$1.1 billion decrease in the second quarter, as domestic corporate profits before tax declined more in the third quarter than in the second.

Personal tax and nontax receipts increased \$6.9 billion after decreasing \$2.4 billion. The upturn was accounted for by personal income taxes, which increased \$6.1 billion after decreasing \$3.2 billion. The second-quarter decrease included the return

14. In the NIPAs, subsidies other than agricultural subsidies are recorded on an accrual basis.

by some States of excess revenues in the form of one-time refund payments.

Current expenditures.—Current expenditures increased \$12.0 billion after increasing \$21.9 billion. The deceleration was accounted for by a downturn in “subsidies less current surplus of government enterprises” and a deceleration in consumption expenditures.

“Subsidies less current surplus of government enterprises” decreased \$2.6 billion after increasing \$2.2 billion. The downturn was more than accounted for by subsidies, which decreased \$3.2 billion after increasing \$2.5 billion; electricity purchases by the State of California turned down in the third quarter. The current surplus of government enterprises, which is offset against subsidies, turned down, decreasing \$0.6 billion after increasing \$0.3 billion; enterprise revenues fell \$0.8 billion, as the result of reduced airport and tunnel revenues stemming from the events of September 11, 2001, and the subsequent reduction in air traffic.

Consumption expenditures increased \$10.2 billion after increasing \$14.6 billion. The deceleration was largely accounted for by nondurable goods, which decreased \$1.8 billion after increasing \$2.4 billion. Within nondurable goods, petroleum products turned down.

Transfer payments to persons decelerated in the third quarter, increasing \$4.5 billion after a \$5.4 billion increase. The deceleration was attributable to a deceleration in disaster assistance payments.

The events of September 11th had little impact on these payments in the third quarter.

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.

The Government fiscal position shifted from net lending of \$113.4 billion to net borrowing of \$91.9 billion, fueled by a sharp shift in the Federal Government fiscal position. State and local government net lending continued to decrease in the third quarter.

Government gross investment decreased \$8.6 billion after increasing \$13.2 billion.¹⁵ The downturn was mostly attributable to State and local government gross investment, which decreased \$10.5 billion after increasing \$11.1 billion. The downturn was accounted for by investment in structures and reflected the lease of the World Trade Center by the Port Authority of New York to two private corporations in July; in the NIPA’s, the lease was treated as a sale of an existing asset, and State and local gross investment in structures was reduced by \$12.8 billion at an annual rate.

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