

# Business Situation

## Final Estimates for the Third Quarter of 2004

ACCORDING to the “final” estimates of the national income and product accounts (NIPAs), real GDP increased 4.0 percent in the third quarter of 2004 (chart 1 and table 1).<sup>1</sup> The “preliminary” estimates of GDP released in November showed a 3.9-percent increase for the quarter (for the details, see the December SURVEY OF CURRENT BUSINESS). The slight upward revision

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

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

	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)				Share of current-dollar GDP (percent)
	2003		2004		2003		2004		
	IV	I	II	III	IV	I	II	III	III
<b>Gross domestic product (GDP)</b> .....	<b>4.2</b>	<b>4.5</b>	<b>3.3</b>	<b>4.0</b>	<b>4.2</b>	<b>4.5</b>	<b>3.3</b>	<b>4.0</b>	<b>100.0</b>
<b>Personal consumption expenditures</b> .....	<b>3.6</b>	<b>4.1</b>	<b>1.6</b>	<b>5.1</b>	<b>2.50</b>	<b>2.90</b>	<b>1.10</b>	<b>3.57</b>	<b>70.1</b>
Durable goods .....	3.9	2.2	-0.3	17.2	0.33	0.19	-0.02	1.37	8.5
Nondurable goods .....	5.1	6.7	0.1	4.7	1.01	1.33	0.03	0.94	20.2
Services .....	2.8	3.3	2.7	3.0	1.15	1.39	1.10	1.26	41.4
<b>Gross private domestic investment</b> .....	<b>13.9</b>	<b>12.3</b>	<b>19.0</b>	<b>2.4</b>	<b>2.04</b>	<b>1.86</b>	<b>2.85</b>	<b>0.40</b>	<b>16.5</b>
Fixed investment .....	10.5	4.5	13.9	8.8	1.57	0.69	2.07	1.37	16.2
Nonresidential .....	11.0	4.2	12.5	13.0	1.07	0.42	1.21	1.27	10.5
Structures .....	7.9	-7.6	6.9	-1.1	0.18	-0.19	0.16	-0.03	2.4
Equipment and software .....	12.0	8.0	14.2	17.5	0.89	0.61	1.05	1.30	8.1
Residential .....	9.6	5.0	16.5	1.6	0.50	0.27	0.86	0.09	5.7
Change in private inventories .....					0.47	1.17	0.78	-0.97	0.3
<b>Net exports of goods and services</b> .....					<b>-0.66</b>	<b>-0.76</b>	<b>-1.06</b>	<b>-0.10</b>	<b>-5.2</b>
Exports .....	17.5	7.3	7.3	6.0	1.55	0.70	0.70	0.59	10.1
Goods .....	16.1	9.1	6.0	9.5	1.00	0.60	0.41	0.64	7.1
Services .....	20.6	3.4	10.2	-1.8	0.56	0.10	0.30	-0.06	3.0
Imports .....	17.1	10.6	12.6	4.6	-2.22	-1.46	-1.77	-0.69	15.2
Goods .....	18.4	12.7	13.0	5.0	-1.96	-1.43	-1.52	-0.62	12.8
Services .....	11.1	1.2	10.6	2.8	-0.26	-0.03	-0.25	-0.07	2.5
<b>Government consumption expenditures and gross investment</b> .....	<b>1.6</b>	<b>2.5</b>	<b>2.2</b>	<b>0.7</b>	<b>0.31</b>	<b>0.48</b>	<b>0.41</b>	<b>0.13</b>	<b>18.6</b>
Federal .....	4.8	7.1	2.7	4.8	0.33	0.48	0.18	0.33	6.9
National defense .....	11.6	10.6	1.9	10.1	0.50	0.47	0.09	0.45	4.7
Nondefense .....	-7.5	0.2	4.4	-5.3	-0.18	0.00	0.10	-0.12	2.2
State and local .....	-0.1	0.0	1.9	-1.7	-0.02	0.00	0.23	-0.20	11.7

NOTE: Percent changes are from NIPA table 1.1.1, and contributions to percent change are from NIPA table 1.1.2. Shares are from NIPA table 1.1.10.

mainly reflected a revision to imports (table 2).<sup>2</sup>

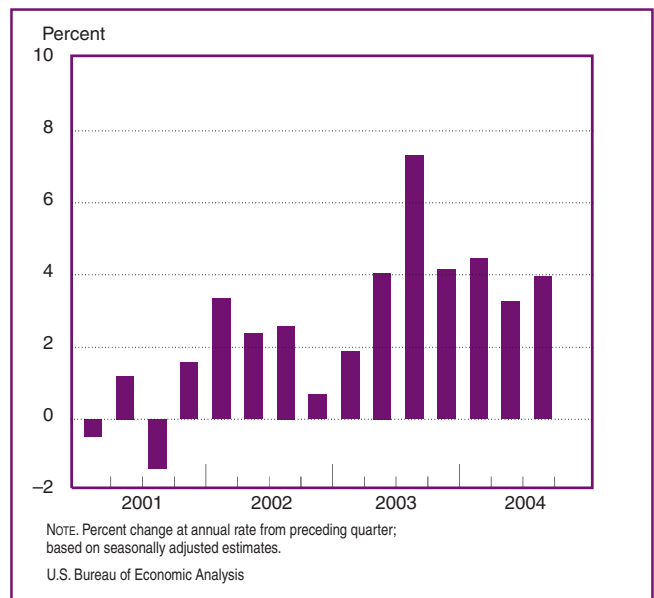
- Real GDP increased 4.0 percent in the third quarter after increasing 3.3 percent in the second.
- Prices of goods and services purchased by U.S. residents increased 1.9 percent, 0.1 percentage point more than the preliminary estimate. In the second quarter, prices increased 3.5 percent.
- Real disposable personal income (DPI) increased 2.0 percent, the same as the preliminary estimate. In the second quarter, real DPI increased 2.8 percent.

The insurance transactions associated with the hurricanes that struck portions of the southern and eastern United States in August and September did not

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

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**Chart 1. Real Gross Domestic Product**



directly affect third-quarter GDP because of the treatment of insurance services in the NIPAs.<sup>3</sup> Estimates of other, indirect, effects of the hurricanes are not avail-

3. This treatment, which was introduced as part of the 2003 comprehensive revision of the NIPAs, incorporates *expected*, rather than *actual*, losses and thus eliminates the large swings in measured insurance services that had previously been associated with catastrophes. For more information, see Brent R. Moulton and Eugene P. Seskin, "Preview of the 2003 Comprehensive Revision of the National Income and Product Accounts: Changes in Definitions and Classifications," SURVEY OF CURRENT BUSINESS 83 (June 2003): 17-34; and Baoline Chen and Dennis J. Fixler, "Measuring the Services of Property-Casualty Insurance in the NIPAs: Changes in Concepts and Methods," SURVEY 83 (October 2003): 10-26.

**Table 2. Final and Preliminary Estimates for the Third Quarter of 2004**

(Seasonally adjusted at annual rates)

	Percent change from preceding quarter			Contribution to percent change in real GDP		
	Final estimate	Preliminary estimate	Final minus preliminary	Final estimate	Preliminary estimate	Final minus preliminary
<b>Gross domestic product (GDP)</b> .....	<b>4.0</b>	<b>3.9</b>	<b>0.1</b>	<b>4.0</b>	<b>3.9</b>	<b>0.1</b>
<b>Personal consumption expenditures</b> .....	<b>5.1</b>	<b>5.1</b>	<b>0.0</b>	<b>3.57</b>	<b>3.53</b>	<b>0.04</b>
Durable goods.....	17.2	17.2	0.0	1.37	1.37	0.00
Nondurable goods.....	4.7	4.8	-0.1	0.94	0.96	-0.02
Services.....	3.0	2.9	0.1	1.26	1.21	0.05
<b>Gross private domestic investment</b> .....	<b>2.4</b>	<b>2.8</b>	<b>-0.4</b>	<b>0.40</b>	<b>0.46</b>	<b>-0.06</b>
Fixed investment.....	8.8	8.8	0.0	1.37	1.37	0.00
Nonresidential.....	13.0	12.9	0.1	1.27	1.27	0.00
Structures.....	-1.1	-0.3	-0.8	-0.03	-0.01	-0.02
Equipment and software ..	17.5	17.2	0.3	1.30	1.28	0.02
Residential.....	1.6	1.7	-0.1	0.09	0.10	-0.01
Change in private inventories ..				-0.97	-0.91	-0.06
<b>Net exports of goods and services</b> .....				<b>-0.10</b>	<b>-0.27</b>	<b>0.17</b>
Exports.....	6.0	6.3	-0.3	0.59	0.62	-0.03
Goods.....	9.5	9.1	0.4	0.64	0.62	0.02
Services.....	-1.8	0.2	-2.0	-0.06	0.01	-0.07
Imports.....	4.6	6.0	-1.4	-0.69	-0.89	0.20
Goods.....	5.0	5.6	-0.6	-0.62	-0.69	0.07
Services.....	2.8	8.3	-5.5	-0.07	-0.20	0.13
<b>Government consumption expenditures and gross investment</b> .....	<b>0.7</b>	<b>1.2</b>	<b>-0.5</b>	<b>0.13</b>	<b>0.23</b>	<b>-0.10</b>
Federal.....	4.8	4.7	0.1	0.33	0.32	0.01
National defense.....	10.1	9.8	0.3	0.45	0.44	0.01
Nondefense.....	-5.3	-5.2	-0.1	-0.12	-0.12	0.00
State and local.....	-1.7	-0.8	-0.9	-0.20	-0.09	-0.11
<b>Addenda:</b>						
Final sales of domestic product	5.0	4.9	0.1	4.97	4.86	0.11
Gross domestic purchases						
price index.....	1.9	1.8	0.1			
GDP price index.....	1.4	1.3	0.1			

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

*Personal consumption expenditures:* Revised retail sales for September.  
*Nonresidential fixed investment:* Revised construction put-in-place data for August and September and revised manufacturers' shipments of machinery and equipment for September.

*Residential fixed investment:* Revised construction put-in-place data for August and September.  
*Change in private inventories:* Revised manufacturers' and trade inventories for September and newly available data on used vehicle inventories for September.

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

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

*Wages and salaries:* Revised employment, average hourly earnings, and average weekly hours for September, and newly available data on employer costs for employee compensation for the third quarter.

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

able, because these effects may occur with a lag and because they generally cannot be disentangled from the regular source data that BEA uses to prepare the GDP estimates. However, some income measures were affected by the hurricanes, and estimates of those effects have been incorporated into the NIPA estimates for the third quarter (see the section on corporate profits).

The acceleration in third-quarter GDP growth reflected a step-up in consumer spending and a slowdown in imports.

- Consumer spending increased 5.1 percent after increasing 1.6 percent in the second quarter, and it contributed 3.57 percentage points to GDP growth in the third quarter. The acceleration was mainly accounted for by an upturn in purchases of durable goods, specifically purchases of motor vehicles.
- Imports increased 4.6 percent, substantially less than in the second quarter, and subtracted 0.69 percentage point from GDP growth. In the second quarter, imports had subtracted 1.77 percentage points from GDP growth. The deceleration was due primarily to a downturn in imports of nonautomotive consumer goods and a deceleration in imports of nonautomotive capital goods.

The contributions of these components to the acceleration in GDP growth were partly offset by a downturn in inventory investment and by a slowdown in residential investment.

- Investment in private inventories subtracted 0.97 percentage point from third-quarter GDP growth after adding 0.78 percentage point to second-quarter growth. The downturn was mainly accounted for by a swing from accumulation to liquidation of motor vehicle dealers' inventories.
  - Residential fixed investment increased 1.6 percent after increasing 16.5 percent in the second quarter and contributed 0.09 percentage point to third-quarter GDP growth. The slowdown mainly reflected a downturn in brokers' commissions on home sales.
- Government spending and exports slowed somewhat in the third quarter, and nonresidential fixed investment increased at about the same rate as in the second quarter.
- Government spending increased 0.7 percent and contributed 0.13 percentage point to third-quarter GDP growth, 0.28 percentage point less than it had

contributed to second-quarter growth. The slowdown was more than accounted for by a downturn in state and local government spending; investment in structures turned down. Federal Government spending accelerated.

- Exports slowed, contributing 0.11 percentage point less to third-quarter GDP growth than to second-quarter growth.

Nonresidential fixed investment increased 13.0 percent and contributed 1.27 percentage points to GDP growth, slightly more than it had contributed in the second quarter. Investment in equipment and software accelerated, and investment in structures decreased slightly after increasing.

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

- Real final sales of domestic product (GDP less the change in private inventories) increased 5.0 percent after increasing 2.5 percent.
- Real gross domestic purchases increased 3.9 percent after increasing 4.2 percent.
- Real gross national product (GNP) increased 4.0

percent after increasing 1.9 percent.<sup>4</sup> The increase in third-quarter GNP is the same as the increase in GDP; an increase in income receipts from the rest of the world was offset by an increase in income payments to the rest of the world.

- The gross saving rate—saving from all sources as a percentage of gross national income—was 13.6 percent. The net saving rate decreased to 0.9 percent from 2.1 percent in the second quarter. Net saving is a measure of the saving that is available for augmenting the stock of fixed assets; it equals gross saving less consumption of fixed capital (CFC). The decrease in the net saving rate reflected a large increase in CFC that resulted from the estimated damage to the stock of private fixed assets that was caused by the hurricanes in the third quarter.

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4. GNP is a measure of the goods and services produced by labor and property supplied by U.S. residents regardless of where they are located; in contrast, GDP is a measure of the goods and services produced by labor and property in the United States, regardless of nationality. The two measures are related as follows: GNP equals GDP *plus* income receipts from the rest of the world *minus* income payments to the rest of the world.

## Corporate Profits

Profits from current production decreased \$55.9 billion (4.8 percent at a quarterly rate) in the third quarter after increasing \$8.3 billion (0.7 percent) in the second quarter (table 3).<sup>5</sup> The decrease reflected a decrease in profits of domestic corporations that was partly offset by an increase in profits from the rest of the world.<sup>6</sup>

The third-quarter profits of domestic corporations were reduced \$79.7 billion (annual rate) because of the effects of Hurricanes Charley, Frances, Ivan, and Jeanne. Specifically,

- Benefits paid by domestic insurance companies reduced their profits by \$69.3 billion.
- The uninsured losses of corporations reduced corporate profits by an additional \$10.4 billion.<sup>7</sup>

Overall, the total decrease in third-quarter profits of domestic industries reflected a decrease in the profits of financial corporations that was partly offset by an increase in the profits of nonfinancial corporations.

Profits of financial corporations decreased \$68.7 billion (19.7 percent) in the third quarter, because of the effect of the hurricanes on the profits of insurance companies. In the second quarter, profits of financial corporations decreased \$7.9 billion (2.2 percent).

Profits of nonfinancial corporations increased \$9.4 billion (1.5 percent) in the third quarter after increasing \$36.2 billion (6.0 percent) in the second. The third-quarter increase reflected an increase in gross value added; profits per unit were unchanged.

Profits from the rest of the world increased \$3.4 billion (1.8 percent) after decreasing \$20.0 billion (9.7 percent). The upturn stemmed from a sharp deceleration in payments by domestic affiliates to their foreign parents that are deducted in the calculation of profits from the rest of the world. These payments increased

\$4.2 billion (3.5 percent) after increasing \$26.6 billion (28.4 percent). Receipts from foreign affiliates of domestic parents increased at about the same rate in the third quarter as in the second.

Taxes on corporate income decreased \$17.9 billion (6.6 percent) in the third quarter, and after-tax profits from current production decreased \$38.0 billion (4.2 percent).

Net cash flow from current production, a profits-related measure of internally generated funds available for investment, decreased \$1.6 billion.<sup>8</sup> The ratio of

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

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

	Billions of dollars (annual rate)					Percent change from preceding quarter (quarterly rate)				
	Level		Change from preceding quarter			2003		2004		
	2004	2003	2004			2003	2004			
	III	IV	I	II	III	IV	I	II	III	
<b>Current production measures:</b>										
Corporate profits .....	1,118.0	72.0	36.5	8.3	-55.9	6.8	3.2	0.7	-4.8	
Domestic industries .....	929.3	29.6	47.0	28.3	-59.3	3.3	5.1	2.9	-6.0	
Financial .....	279.1	-0.5	19.8	-7.9	-68.7	-0.1	5.9	-2.2	-19.7	
Nonfinancial .....	650.2	30.0	27.3	36.2	9.4	5.5	4.7	6.0	1.5	
Rest of the world .....	188.7	42.4	-10.5	-20.0	3.4	24.4	-4.9	-9.7	1.8	
Receipts from the rest of the world .....	313.1	40.3	5.6	6.6	7.5	15.9	1.9	2.2	2.5	
Less: Payments to the rest of the world .....	124.5	-2.2	16.2	26.6	4.2	-2.7	20.8	28.4	3.5	
Less: Taxes on corporate income .....	253.3	13.6	4.2	14.7	-17.9	5.7	1.6	5.7	-6.6	
Equals: Profits after tax .....	864.7	58.4	32.3	-6.4	-38.0	7.1	3.7	-0.7	-4.2	
Net dividends .....	424.0	2.3	7.0	9.8	10.8	0.6	1.8	2.4	2.6	
Undistributed profits from current production .....	440.7	56.2	25.3	-16.2	-48.8	13.2	5.3	-3.2	-10.0	
Net cash flow .....	1,271.8	63.2	5.9	-5.7	-1.6	5.2	0.5	-0.4	-0.1	
<b>Industry profits:</b>										
Profits with IVA .....	895.0	64.7	-16.5	15.2	-45.6	7.4	-1.8	1.6	-4.8	
Domestic industries .....	706.3	22.3	-6.1	35.2	-48.9	3.2	-0.8	4.9	-6.5	
Financial .....	237.6	-0.8	8.4	-7.3	-68.8	-0.3	2.7	-2.3	-22.5	
Nonfinancial .....	468.7	23.1	-14.3	42.4	19.9	5.8	-3.4	10.4	4.4	
Utilities .....	21.1	5.7	-1.1	-1.7	-0.4	30.6	-4.8	-7.1	-2.0	
Manufacturing .....	105.0	26.6	-11.9	13.3	10.2	40.0	-12.8	16.4	10.7	
Wholesale trade .....	61.1	-3.0	-4.1	6.2	8.9	-5.6	-8.3	13.7	17.0	
Retail trade .....	64.7	-4.2	5.3	-6.9	-8.4	-5.3	7.2	-8.6	-11.5	
Transportation and warehousing .....	7.3	0.5	-0.7	3.8	-8.2	4.1	-6.1	33.0	-53.1	
Information .....	21.6	-7.7	-5.6	23.1	5.1	.....	.....	.....	.....	
Other nonfinancial .....	187.9	5.1	3.9	4.4	12.8	3.1	2.3	2.6	7.3	
Rest of the world .....	188.7	42.4	-10.5	-20.0	3.4	24.4	-4.9	-9.7	1.8	
<b>Addenda:</b>										
Profits before tax (without IVA and CCAj) .....	932.8	85.2	-3.8	25.9	-55.5	9.7	-0.4	2.7	-5.6	
Profits after tax (without IVA and CCAj) .....	679.5	71.6	-8.0	11.2	-37.6	11.2	-1.1	1.6	-5.3	
IVA .....	-37.8	-20.5	-12.7	-10.8	10.0	.....	.....	.....	.....	
CCAj .....	223.0	7.3	53.0	-6.9	-10.3	4.1	28.3	-2.9	-4.4	

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

5. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown as "corporate profits with inventory valuation and capital consumption adjustments" in NIPA tables 1.7.5, 1.10-1.12, 1.14-1.16, and 6.16D. Percent changes in profits are shown at quarterly, not annual, rates.

6. Profits from the rest of the world is the difference between (1) receipts by U.S. residents of earnings from foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations and (2) payments by U.S. affiliates of earnings to foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA's international transactions accounts.

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

cash flow to nonresidential fixed investment, an indicator of the extent to which the current level of investment could be financed by internally generated corporate funds, decreased to 102.7 in the third quarter from 106.2 in the second. However, the ratio remained above 100 for the eighth consecutive quarter.

**Revisions.** The revised third-quarter estimate of profits from current production is \$28.3 billion less than the preliminary estimate released in November. Profits of domestic financial corporations were revised down \$22.0 billion, and profits from the rest of the world were revised down \$5.4 billion. Profits of domestic nonfinancial corporations were revised down slightly.

**Industry profits.** The current-production measure of profits is not available at the detailed industry level, because estimates of the capital consumption adjustment (CCAdj) are not available at this level. (CCAdj is only available for total financial industries and for total

nonfinancial industries). Consequently, industry profits are best measured by profits with inventory valuation adjustment (IVA).

In the third quarter, total domestic industry profits with IVA decreased \$48.9 billion.

For domestic financial industries, profits with IVA decreased \$68.8 billion (chart 2). The decrease was accounted for by profits of property and casualty insurance carriers, reflecting the effect of the hurricanes.

For domestic nonfinancial corporations, profits with IVA increased \$19.9 billion. Increases in the profits of “other” nonfinancial industries (specifically, professional and technical services and real estate industries), of manufacturing industries (specifically, durable-goods manufacturing), of the wholesale trade industry, and of the information industries were partly offset by decreases in the profits of the retail trade industry and of the transportation and warehousing industries.

**Chart 2. Corporate Profits with Inventory Valuation Adjustment: Change From 2004:II to 2004:III**

