

Business Situation

Preliminary Estimates for the Third Quarter of 2002

PRELIMINARY estimates of the national income and product accounts (NIPAs) show a bigger step-up in economic growth than was reported in last month's "advance" estimates.

- Real gross domestic product (GDP) increased 4.0 percent in the third quarter of 2002 after increasing 1.3 percent in the second quarter (table 1 and chart 1).¹ Since the trough in real GDP in the third quarter of last year, growth has averaged 3.2 percent.

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter dollar changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized. "Real" estimates are in chained (1996) dollars, and price indexes are chain-type measures.

This article was prepared by Daniel Larkins and Raymen G. Labella.

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						
	2002	2001	2002			2001			
	III	IV	I	II	III	IV	I	II	III
Gross domestic product	9,484.0	62.4	114.4	29.2	91.6	2.7	5.0	1.3	4.0
Less: Exports of goods and services.....	1,074.3	-26.2	8.8	34.9	8.8	-9.6	3.5	14.3	3.3
Plus: Imports of goods and services.....	1,561.8	-19.8	29.9	75.8	8.9	-5.3	8.5	22.2	2.3
Equals: Gross domestic purchases	9,932.7	69.5	132.9	62.6	91.9	2.9	5.6	2.6	3.8
Less: Change in private inventories.....	15.5	-36.6	69.5	33.8	10.6	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	9,907.3	102.0	72.1	31.6	81.3	4.3	3.0	1.3	3.4
Personal consumption expenditures.....	6,609.2	93.1	49.8	28.6	66.8	6.0	3.1	1.8	4.1
Durable goods.....	1,033.0	69.4	-16.1	4.8	52.3	33.6	-6.3	2.0	23.1
Nondurable goods.....	1,925.3	16.7	36.4	-0.5	4.4	3.6	7.9	-0.1	0.9
Services.....	3,686.4	19.1	25.6	24.0	20.2	2.1	2.9	2.7	2.2
Private fixed investment.....	1,573.1	-37.3	-2.0	-3.8	0.5	-8.9	-0.5	-1.0	0.1
Nonresidential.....	1,179.0	-35.3	-18.0	-7.3	-2.1	-10.9	-5.8	-2.4	-0.7
Structures.....	218.7	-23.6	-9.5	-11.5	-13.0	-30.1	-14.2	-17.6	-20.6
Equipment and software.....	976.8	-6.1	6.6	7.7	15.4	-2.5	-2.7	3.3	6.6
Residential.....	388.1	-3.3	12.6	2.5	2.0	-3.5	14.2	2.7	2.1
Government consumption expenditures and gross investment.....	1,716.2	41.2	22.8	6.0	12.9	10.5	5.6	1.4	3.1
Federal.....	615.1	18.3	10.6	10.9	6.4	13.5	7.4	7.5	4.3
National defense.....	402.7	12.5	10.5	7.3	6.9	14.3	11.6	7.8	7.1
Nondefense.....	212.5	5.9	0.2	3.6	-0.4	12.1	0.4	6.9	-0.7
State and local.....	1,101.2	23.0	12.2	-4.6	6.5	8.9	4.6	-1.7	2.4
Addendum: Final sales of domestic product	9,458.8	94.4	54.5	-1.5	80.9	4.2	2.4	-0.1	3.5

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.)

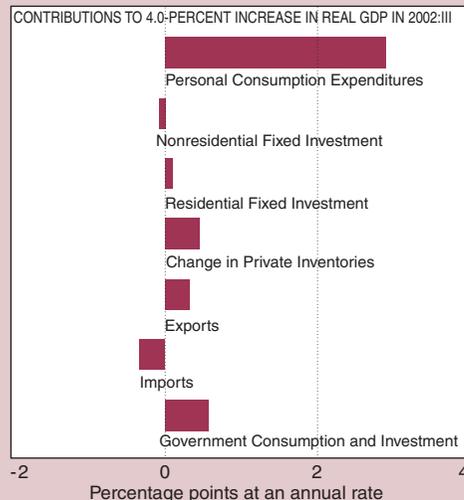
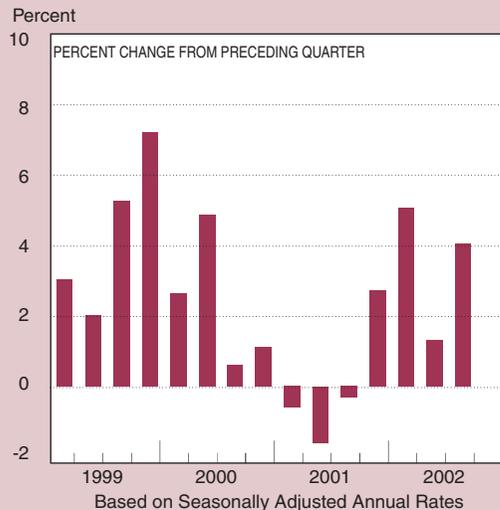
- Gross domestic purchases increased 3.8 percent after increasing 2.6 percent.

Inflation slowed; the price index for gross domestic purchases increased 1.2 percent after increasing 2.3 percent. Real disposable personal income moderated, increasing 2.9 percent after increasing 3.6 percent.

The preliminary estimate of GDP growth is 0.9 percentage point higher than the advance estimate; for gross domestic purchases, the preliminary estimate is

CHART 1

Real Gross Domestic Product



0.7 percentage point higher than the advance estimate.²

Despite the larger-than-usual revisions, the general picture presented in the preliminary estimates is similar to that in the advance estimates. In both, for example, consumer spending stepped up substantially, and imports (which are subtracted in the calculation of GDP) slowed sharply.³ According to the preliminary estimates,

- Consumer spending contributed 2.90 percentage points to third-quarter growth after contributing 1.22 percentage points to second-quarter growth (table 2). Auto and truck purchases surged, mainly in response to aggressive sales-incentive programs that included generous rebates and zero-rate financing.
- The slowdown in imports was sharp. Exports also slowed, but less than half as much as imports.⁴
- Spending by State and local governments turned up, adding 0.30 percentage point to third-quarter growth after subtracting 0.21 percentage point from second-quarter growth. Consumption expenditures increased about the same amount in each quarter, but gross investment increased after decreasing.

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

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

4. Imports of goods and services are included in gross domestic purchases but not in GDP. Exports of goods and services are included in GDP but not in gross domestic purchases.

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

[Seasonally adjusted at annual rates]

	2001		2002	
	IV	I	II	III
Percent change at annual rate:				
Gross domestic product.....	2.7	5.0	1.3	4.0
Percentage points at annual rates:				
Personal consumption expenditures.....	4.05	2.22	1.22	2.90
Durable goods.....	2.45	-0.55	0.16	1.76
Nondurable goods.....	0.73	1.57	-0.02	0.20
Services.....	0.87	1.20	1.08	0.94
Gross private domestic investment.....	-2.88	2.53	1.16	0.48
Fixed investment.....	-1.49	-0.07	-0.15	0.03
Nonresidential.....	-1.33	-0.66	-0.27	-0.07
Structures.....	-1.12	-0.44	-0.53	-0.59
Equipment and software.....	-0.21	-0.22	0.26	0.52
Residential.....	-0.16	0.60	0.12	0.10
Change in private inventories.....	-1.39	2.60	1.31	0.45
Net exports of goods and services.....	-0.28	-0.75	-1.40	0.00
Exports.....	-0.99	0.33	1.29	0.33
Goods.....	-0.56	-0.23	0.99	0.29
Services.....	-0.42	0.56	0.30	0.04
Imports.....	0.70	-1.08	-2.69	-0.33
Goods.....	0.37	-0.40	-2.74	-0.47
Services.....	0.33	-0.68	0.05	0.15
Government consumption expenditures and gross investment.....	1.85	1.04	0.27	0.58
Federal.....	0.80	0.47	0.47	0.28
National defense.....	0.54	0.46	0.32	0.30
Nondefense.....	0.26	0.01	0.16	-0.01
State and local.....	1.05	0.56	-0.21	0.30

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.

- Nonresidential investment in equipment and software increased twice as much as in the second quarter. In contrast, nonresidential structures decreased for the fourth quarter in a row.
- The production of goods increased 8.4 percent after increasing 0.4 percent (table 3). The production of services slowed, and the construction of structures decreased, though not as much as in the second quarter.
- Real motor vehicle output increased 37.8 percent after increasing 8.1 percent. GDP less motor vehicle output increased 3.0 percent after increasing 1.0 percent.
- Inventory accumulation picked up, adding 0.45 percentage point to third-quarter GDP growth. In the second quarter, a swing from liquidation to accumulation had added 1.31 percentage points to growth.
- Final sales of domestic product—GDP less inventory investment—increased 3.5 percent after little change.
- Real final sales of computers increased 81.6 percent—the biggest increase since early 1995—after being stalled for five quarters. The price index for private fixed investment in computers and peripheral equipment decreased more than in the second quarter and more than it did, on average, over the past 4 years. (However, the recent price decreases were not as large as those registered in the mid-1990s.)
- Personal saving as a percentage of current-dollar disposable personal income decreased to 3.8 percent from 4.0 percent. Gross saving as a percentage of gross national product, which is not available when the advance estimate is prepared, dropped to 15.0 percent from 15.5 percent, continuing its downward trend from a peak of 19.1 percent in the first quarter of 1999.

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		2002	
		2002	2001	2002		2001	2002		
	III	IV	I	II	III	IV	I	II	III
Gross domestic product.....	9,484.0	62.4	114.4	29.2	91.6	2.7	5.0	1.3	4.0
Goods.....	3,749.5	37.9	72.6	3.6	75.1	4.3	8.3	0.4	8.4
Services.....	4,977.2	38.2	34.1	42.3	31.7	3.2	2.8	3.5	2.6
Structures.....	766.2	-11.3	11.6	-17.2	-8.7	-5.6	6.1	-8.4	-4.4
Addenda:									
Motor vehicle output.....	376.1	12.4	7.9	6.7	28.9	16.3	9.9	8.1	37.8
Gross domestic product less motor vehicle output.....	9,111.9	51.2	106.9	23.3	66.0	2.3	4.9	1.0	3.0
Final sales of computers.....						28.9	-7.8	13.1	81.6
Gross domestic product less final sales of computers.....						2.6	5.1	1.2	3.6

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 4.1 percent in the third quarter, more than twice as much as in the second (table 4 and chart 2). Purchases of motor vehicles and parts, which surged in response to generous rebates and below-market interest rates for new vehicles, accounted for more than half of the third-quarter increase in PCE. Purchases of nondurable goods increased modestly after little change, and purchases of services slowed somewhat.

Among durable goods excluding motor vehicles, computer equipment (in "furniture and household equipment") increased more than in the second quarter but fell far short of the increases in 1987-2000, which averaged over 40 percent. The "other" category

of durable goods, which includes items as dissimilar as books and motorcycles, increased after little change.

In nondurable goods, purchases of clothing and of fuels and lubricants turned up. "Other" nondurable goods increased more than in the second quarter.

The mild slowdown in services partly reflected a deceleration in hospital services (in "medical care"), a downturn in telephone bills (in "other household operation"), and a downturn in movie admissions (in "recreation").

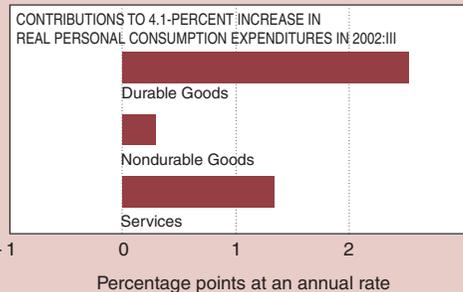
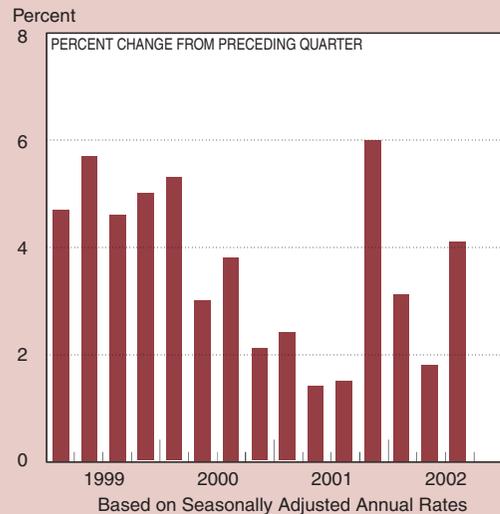
Table 4. Real Personal Consumption Expenditures
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2002	2001		2002		2001		2002	
	III	IV	I	II	III	IV	I	II	III
Personal consumption expenditures.....	6,609.2	93.1	49.8	28.6	66.8	6.0	3.1	1.8	4.1
Durable goods.....	1,033.0	69.4	-16.1	4.8	52.3	33.6	-6.3	2.0	23.1
Motor vehicles and parts	407.8	47.6	-30.4	-0.9	38.7	66.0	-27.1	-1.0	49.0
Of which:									
New autos.....	113.7	17.0	-12.5	-1.0	7.9	85.0	-35.9	-3.7	33.4
New light trucks.....	155.6	30.6	-15.8	-3.1	26.9	153.1	-36.4	-9.2	113.9
Furniture and household equipment.....	441.4	14.1	14.6	7.0	6.2	14.9	14.9	6.7	5.8
Other ¹	187.3	3.9	5.3	-0.1	3.2	9.1	12.4	-0.1	7.1
Nondurable goods.....	1,925.3	16.7	36.4	-0.5	4.4	3.6	7.9	-0.1	0.9
Food.....	897.1	2.8	14.3	-2.2	-2.1	1.3	6.6	-0.9	-1.0
Clothing and shoes.....	355.6	7.7	11.0	-0.7	0.5	9.5	13.5	-0.9	0.6
Gasoline, fuel oil, and other energy goods.....	157.6	1.5	3.8	-0.7	1.1	4.0	10.5	-1.9	2.8
Other ²	518.1	5.5	8.1	3.0	5.0	4.6	6.6	2.3	4.0
Services.....	3,686.4	19.1	25.6	24.0	20.2	2.1	2.9	2.7	2.2
Housing.....	882.1	2.5	4.4	4.5	3.6	1.2	2.1	2.1	1.7
Household operation.....	384.0	-4.2	3.6	1.6	1.1	-4.3	3.9	1.7	1.2
Electricity and gas.....	135.6	-2.2	3.3	0.1	2.0	-6.4	10.4	0.5	5.9
Other household operation.....	248.6	-2.1	0.2	1.5	-0.9	-3.2	0.4	2.3	-1.4
Transportation.....	249.8	-1.4	2.3	-0.6	-0.5	-2.2	3.8	-1.0	-0.8
Medical care.....	984.9	10.6	8.5	11.3	10.2	4.6	3.6	4.8	4.3
Recreation.....	237.1	2.7	0.8	1.5	0.0	4.8	1.3	2.5	0.0
Other ³	946.5	8.2	6.1	5.7	5.5	3.6	2.7	2.4	2.4

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.

CHART 2

Real Personal Consumption Expenditures



U.S. Bureau of Economic Analysis

Private Fixed Investment

Real private fixed investment changed little in the third quarter after declining for almost 2 years. Nonresidential structures continued to be the main source of weakness; investment in nonresidential equipment and software increased moderately, and residential investment posted another modest increase (table 5 and chart 4).

Nonresidential. Buildings, especially commercial buildings, accounted for most of the third-quarter drop in structures. After declining for seven quarters, investment in commercial buildings is about two-thirds of its level in the fourth quarter of 2000 and is lower than at any time since early 1996. Investment in industrial buildings, which is much smaller than investment in commercial buildings, has fallen even more precipitously: It is less than half of its level in the fourth quarter of 2000 and is lower than at any time since the beginning of the chained (1996) dollar series in 1987.

Information processing equipment increased 14.4 percent in the third quarter, a little more than in the second; computer equipment accounted for more than

half of the third-quarter increase. Transportation equipment decreased despite a strong increase in motor-vehicle purchases; as in the second quarter, the motor-vehicle increase was more than offset by a sharp drop in aircraft investment, which fell to its lowest level in almost 5 years. In industrial equipment, the up-and-down pattern of recent quarters continued, as a 5.5-percent increase followed a 7.1-percent decrease; "special industry machinery" (which includes equipment for manufacturing semiconductors) posted a strong gain in the third quarter.

In recent quarters, conditions that are frequently considered in the analysis of investment spending have been mixed (chart 5). The capacity utilization rate for manufacturing, mining, and utilities remains almost 10 percent below the level reached in the expansion of the 1990s, but it has increased a little in each of the past three quarters. Domestic corporations' profits from current production are also well below the levels reached in the 1990s, but they are up more than 20 percent from the third quarter of last year. Growth of real final sales of domestic product averaged 2.5

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							
	2002	2001	2002			2001	2002		
	III	IV	I	II	III	IV	I	II	III
Private fixed investment.....	1,573.1	-37.3	-2.0	-3.8	0.5	-8.9	-0.5	-1.0	0.1
Nonresidential.....	1,179.0	-35.3	-18.0	-7.3	-2.1	-10.9	-5.8	-2.4	-0.7
Structures.....	218.7	-23.6	-9.5	-11.5	-13.0	-30.1	-14.2	-17.6	-20.6
Nonresidential buildings, including farm.....	138.9	-10.7	-6.4	-8.9	-9.3	-22.3	-14.8	-20.8	-22.7
Utilities.....	46.1	-0.4	1.5	-2.4	-2.3	-2.7	12.7	-18.2	-17.4
Mining exploration, shafts, and wells.....	30.4	-1.1	-4.6	0.1	0.1	-12.1	-43.0	1.0	2.4
Other structures.....	4.8	-12.0	0.0	0.0	-1.5	-98.6 (1)	1.7	-3.1	-65.0
Equipment and software.....	976.8	-6.1	-6.6	7.7	15.4	-2.5	-2.7	3.3	6.6
Information processing equipment and software.....	576.0	-1.6	8.6	16.6	19.0	-1.2	6.7	12.9	14.4
Computers and peripheral equipment ²						37.8	34.8	15.4	46.7
Software ²						0.3	-3.6	12.4	11.3
Other ²						-17.5	7.8	12.2	4.0
Industrial equipment.....	147.6	-4.5	3.6	-2.7	2.0	-11.5	10.4	-7.1	5.5
Transportation equipment.....	141.0	5.4	-13.9	-8.1	-2.4	14.3	-29.7	-19.7	-6.4
Of which: Motor vehicles.....	128.9	1.5	-10.9	5.9	7.2	4.8	-30.2	21.9	25.8
Other.....	140.4	-4.8	-1.6	5.5	0.3	-12.9	-4.6	17.5	0.7
Residential.....	388.1	-3.3	12.6	2.5	2.0	-3.5	14.2	2.7	2.1
Structures.....	378.4	-3.5	12.4	2.5	2.0	-3.7	14.4	2.7	2.1
Single-family.....	200.4	-2.8	5.9	1.2	2.0	-5.6	12.9	2.5	4.0
Multifamily.....	26.5	0.8	1.9	-0.2	-0.3	13.2	34.7	-2.6	-5.1
Other structures ³	151.4	-1.4	4.5	1.4	0.4	-4.0	13.1	3.9	1.1
Equipment.....	9.7	0.2	0.1	0.0	0.0	6.7	4.1	3.1	-0.3

1. The large decrease reflects a return to more normal levels after the leasing of properties at the World Trade Center in the third quarter of 2001 (described in the March and June "Business Situations"). At a quarterly rate (not annualized), the decrease is 65.2 percent.

2. "Computers and peripheral equipment" include new items only; "software" excludes software embedded, or bundled, in computers and other equipment. Because of the large price changes that characterize the components of information processing equipment, the nonadditivity of the chained-dollar estimates is substantial, and the relative importance of the components cannot be inferred on the

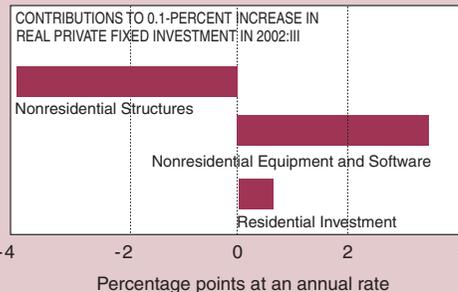
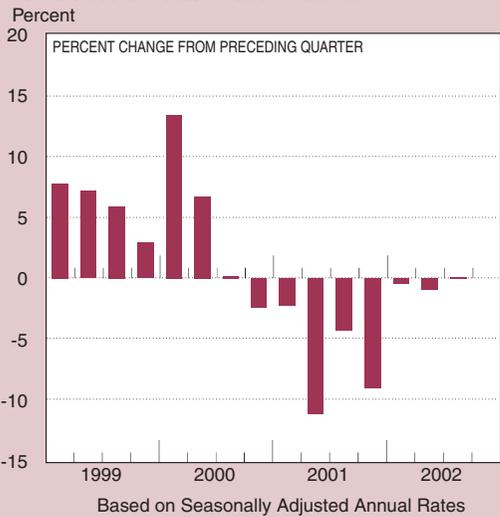
basis of these estimates. Contributions may be taken directly from NIPA table 8.4.

3. 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.

CHART 4

Real Private Fixed Investment



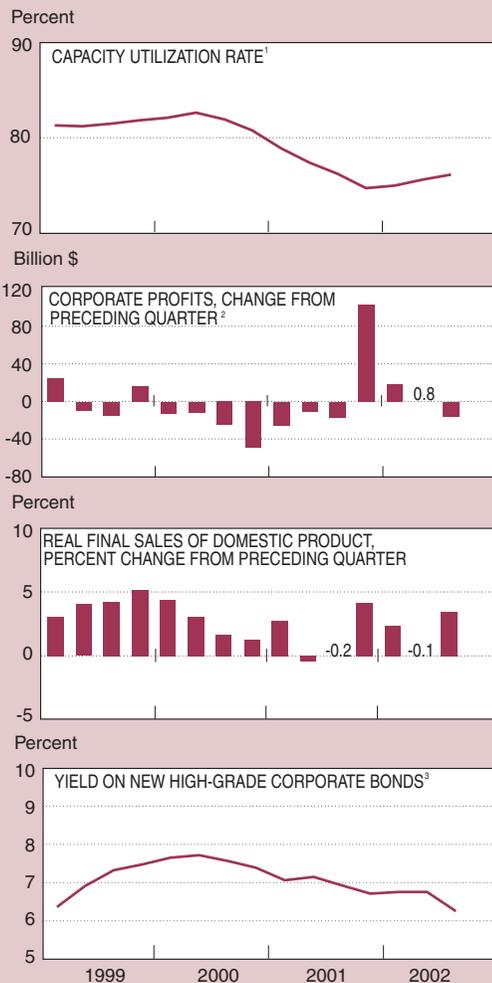
percent over the past four quarters, compared with a 3.4-percent average over the most recent expansion. Long-term interest rates have trended down, but not dramatically; the rate in the third quarter was 78 basis points lower than a year ago and 133 basis points lower than 2 years ago.

Residential. Real private residential investment in-

creased 2.1 percent, somewhat less than in the second quarter; it had surged in the first quarter (table 5 and chart 4). Single-family investment increased more than in the second quarter, while “other” structures increased less. The deceleration in “other” structures mainly reflected a downturn in brokers’ commissions on home sales.

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

Real inventories increased more in the third quarter than in the second (table 6 and chart 6). The step-up, which contributed 0.45 percentage point to GDP growth in the third quarter, reflected inventory changes in wholesale trade and in manufacturing.⁶

Liquidation of wholesale trade inventories in the second quarter gave way to accumulation in the third quarter. Upturns in the inventories of electrical goods wholesalers and apparel wholesalers were noteworthy, and inventories of machinery equipment wholesalers decreased less than in the second quarter. In contrast, inventories of farm products decreased more than in the second quarter, and inventories of professional and commercial equipment (including computers) wholesalers increased less than in the second quarter.

Inventory liquidation in manufacturing slowed to less than half of its second-quarter pace. Inventories of chemical manufacturers and of fabricated metal product manufacturers increased after decreasing, and inventories of computer manufacturers and of machinery manufacturers decreased less than in the second quarter. These increases in inventory investment were partly offset by inventories of "other" trans-

portation equipment (including civilian aircraft) manufacturers, which decreased about twice as much as in the second quarter, and by inventories of food manufacturers, which were virtually unchanged after increasing.

Retail inventories increased less than in the second quarter. Accumulation by motor vehicle dealers slowed sharply; accumulation by clothing stores also slowed. In contrast, inventories of department stores increased in the third quarter after decreasing in the second.

Farm inventories were drawn down in the third quarter after a small increase in the second. Crop inventories more than accounted for the swing.

The ratio of real private nonfarm inventories to final sales of goods and structures decreased to 3.61 from 3.64 (see NIPA table 5.13B). A ratio that includes all final sales of domestic businesses slipped to 2.01 from 2.02.⁷ Both ratios have been trending down since the mid-1970s.

6. In the NIPAs, the *change* in private inventories affects the *level* of GDP; the "*change in the change*" in private inventories affects the *change* (or growth) in GDP.

7. 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

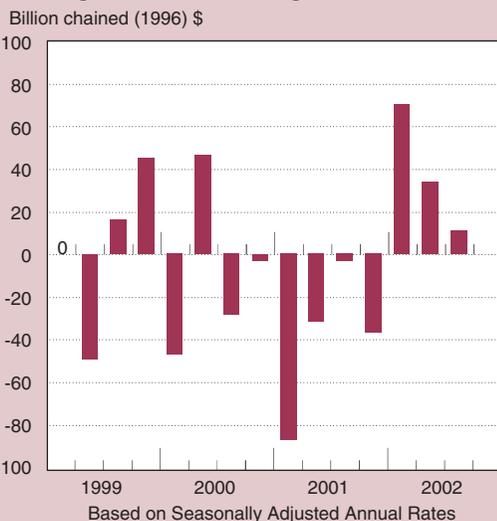


Table 6. Real Change in Private Inventories

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

	Level					Change from preceding quarter			
	2001		2002			2001		2002	
	III	IV	I	II	III	IV	I	II	III
Change in private inventories	-61.8	-98.4	-28.9	4.9	15.5	-36.6	69.5	33.8	10.6
Farm	2.0	3.6	6.4	0.8	-2.2	1.6	2.8	-5.6	-3.0
Construction, mining, and utilities	5.7	4.3	1.6	-1.0	-3.6	-1.4	-2.7	-2.6	-2.6
Manufacturing	-44.1	-40.2	-31.9	-14.1	-4.9	3.9	8.3	17.8	9.2
Durable goods industries	-41.0	-35.2	-25.9	-15.0	-11.3	5.8	9.3	10.9	3.7
Nondurable goods industries	-3.7	-5.1	-6.0	0.8	6.1	-1.4	-0.9	6.8	5.3
Wholesale trade	-25.1	-26.8	-19.8	-8.7	8.1	-1.7	7.0	11.1	16.8
Durable goods industries	-27.5	-29.9	-17.0	-7.7	7.3	-2.4	12.9	9.3	15.0
Nondurable goods industries	1.2	1.9	-3.2	-1.3	1.0	0.7	-5.1	1.9	2.3
Retail trade	-3.3	-40.6	13.8	22.0	15.6	-37.3	54.4	8.2	-6.4
Of which: Motor vehicle dealers	-1.2	-34.8	14.0	15.6	6.3	-33.6	48.8	1.6	-9.3
Other industries ¹	2.2	2.3	0.0	5.0	2.4	0.1	-2.3	5.0	-2.6
Addenda:									
Motor vehicles	-0.4	-33.5	10.2	20.1	7.4	-33.1	43.7	9.9	-12.7
Autos	0.7	-12.7	7.8	10.8	7.3	-13.4	20.5	3.0	-3.5
Trucks	-0.9	-18.8	2.8	8.7	0.9	-17.9	21.6	5.9	-7.8

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 both slowed substantially in the third quarter (table 7 and charts 7 and 8). The slowdown in imports was much sharper than the slowdown in exports.

Imports of goods increased 4.1 percent after jumping 27.9 percent. All major end-use categories contrib-

uted to the slowdown. Capital goods, consumer goods, and autos—the three largest categories of imports—made the biggest contributions. Petroleum imports turned down. Industrial supplies and materials weakened slightly. Imports of services decreased 6.1 percent after decreasing 2.1 percent; the larger decrease was

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			Percent change from preceding quarter				
	2002	2001	2002			2001	2002			
	III	IV	I	II	III	IV	I	II	III	
Exports of goods and services...	1,074.3	-26.2	8.8	34.9	8.8	-9.6	3.5	14.3	3.3	
Exports of goods ¹	773.9	-15.4	-6.5	27.7	8.1	-7.9	-3.4	15.9	4.3	
Foods, feeds, and beverages	59.6	2.5	0.3	-2.1	-1.7	17.7	1.5	-12.1	-11.0	
Industrial supplies and materials.....	163.3	0.9	-1.3	7.3	-2.5	2.2	-3.1	19.5	-5.9	
Capital goods, except automotive.....	336.8	-16.8	-4.9	11.7	9.1	-18.5	-5.9	15.6	11.5	
Automotive vehicles, engines, and parts.....	79.9	-2.7	-0.6	6.4	1.8	-13.9	-3.2	40.5	9.9	
Consumer goods, except automotive.....	86.0	-1.3	-1.6	2.2	1.5	-5.6	-7.5	11.2	7.3	
Other.....	47.6	2.1	1.7	1.3	-0.3	21.3	15.8	11.5	-2.4	
Exports of services ¹	300.6	-10.5	14.0	7.5	0.9	-13.8	21.7	10.7	1.1	
Imports of goods and services...	1,561.8	-19.8	29.9	75.8	8.9	-5.3	8.5	22.2	2.3	
Imports of goods ¹	1,342.6	-10.5	11.3	79.2	13.4	-3.3	3.7	27.9	4.1	
Foods, feeds, and beverages	54.9	-1.0	0.6	1.4	0.3	-6.9	4.7	10.5	2.5	
Industrial supplies and materials, except petroleum and products.....	168.9	-0.6	2.3	4.3	3.8	-1.4	5.9	11.1	9.5	
Petroleum and products.....	85.5	0.8	-4.4	6.3	-3.1	3.9	-19.0	34.5	-13.4	
Capital goods, except automotive.....	395.5	-6.4	10.6	16.1	-2.7	-6.5	11.8	17.9	-2.6	
Automotive vehicles, engines, and parts.....	206.7	-4.9	3.1	16.5	2.9	-9.9	6.8	40.4	5.8	
Consumer goods, except automotive.....	335.4	-2.2	8.2	24.0	9.0	-3.0	11.6	35.8	11.5	
Other.....	86.6	2.8	-7.2	7.6	2.6	14.9	-30.3	46.3	12.8	
Imports of services ¹	220.8	-9.7	16.6	-1.2	-3.5	-16.5	35.7	-2.1	-6.1	

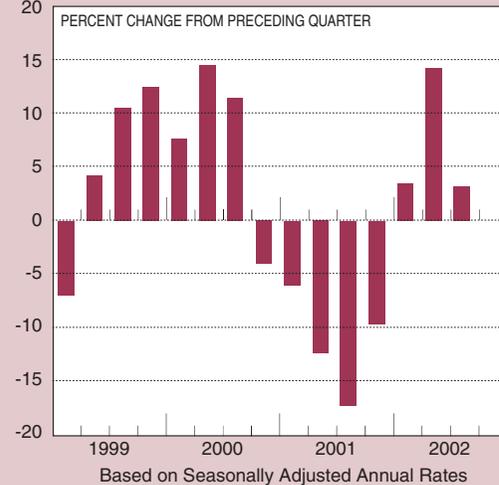
1. Exports and imports of certain goods, primarily military equipment purchased and sold by the Federal Government, are included in services.

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.

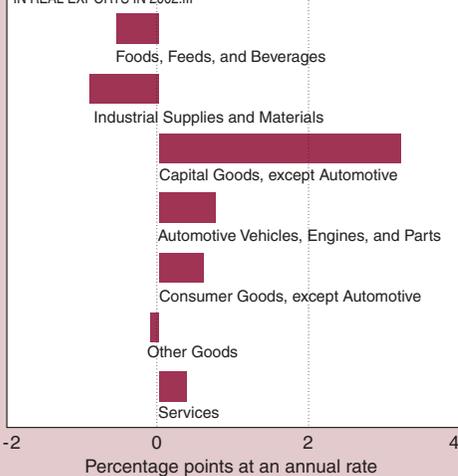
CHART 7

Real Exports

Percent



CONTRIBUTIONS TO 3.3-PERCENT INCREASE IN REAL EXPORTS IN 2002:III

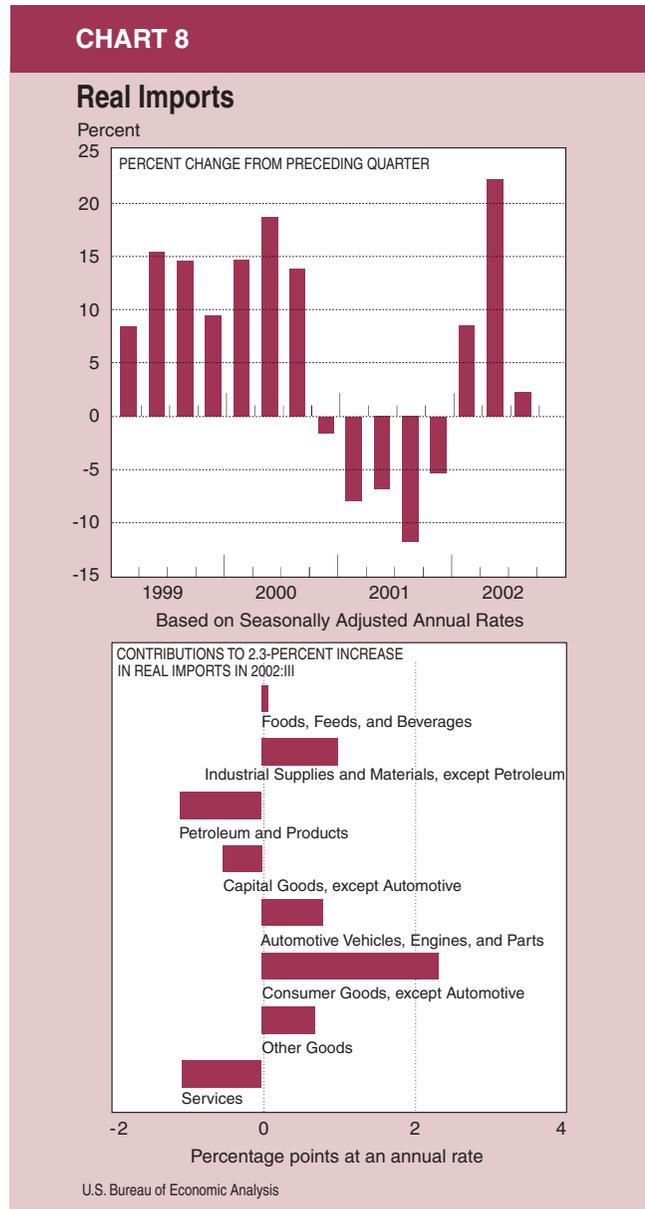


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mainly accounted for by a downturn in “other transportation.”

Exports of goods increased 4.3 percent after increasing 15.9 percent. A downturn in exports of industrial supplies and materials and a slowdown in auto exports

accounted for much of the deceleration. Exports of services increased 1.1 percent after increasing 10.1 percent; “other private services” and royalties and license fees mainly accounted for the slowdown.



Government Spending

Government spending increased 3.1 percent in the third quarter, about twice as much as in the second (table 8 and chart 9). An upturn in investment by State and local governments more than offset a slight downturn in nondefense spending by the Federal Government.

State and local government spending increased 2.4 percent after decreasing 1.7 percent. Gross investment increased 5.8 percent after decreasing more than twice that much; the upturn mainly reflected spending on road projects. Consumption expenditures increased modestly, as they had in the second quarter.

Spending by the Federal Government slowed. The downturn in nondefense spending mainly reflected a downturn in gross investment in equipment and software; it also reflected a downturn in purchases by the

Commodity Credit Corporation. Defense spending moderated slightly, reflecting a slowdown in expenditures on services.

Table 8. Real Government Consumption Expenditures and Gross Investment

[Seasonally adjusted at annual rates]

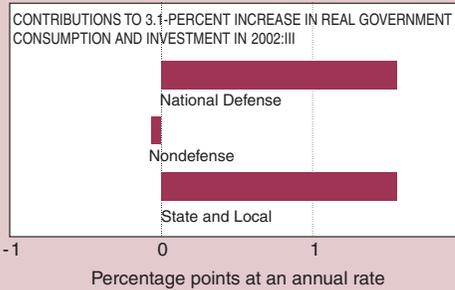
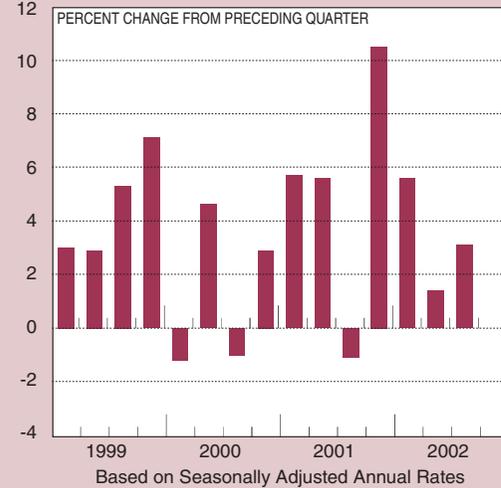
	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter						
	2002		2002			2001		2002	
	III	IV	I	II	III	IV	I	II	III
Government consumption expenditures and gross investment¹	1,716.2	41.2	22.8	6.0	12.9	10.5	5.6	1.4	3.1
Federal	615.1	18.3	10.6	10.9	6.4	13.5	7.4	7.5	4.3
National defense	402.7	12.5	10.5	7.3	6.9	14.3	11.6	7.8	7.1
Consumption expenditures	338.1	11.9	7.6	7.2	4.2	16.4	9.8	9.1	5.1
Gross investment	65.2	0.3	3.2	0.0	3.0	2.1	23.5	-0.4	20.6
Nondefense	212.5	5.9	0.2	3.6	-0.4	12.1	0.4	6.9	-0.7
Consumption expenditures	167.7	2.4	0.6	2.2	1.2	6.0	1.5	5.3	3.0
Gross investment	45.1	3.8	-0.5	1.6	-1.9	41.6	-4.0	14.0	-15.2
State and local	1,101.2	23.0	12.2	-4.6	6.5	8.9	4.6	-1.7	2.4
Consumption expenditures	882.9	8.9	5.2	3.5	3.5	4.2	2.4	1.6	1.6
Gross investment	218.3	14.5	7.2	-8.4	3.0	32.1	14.0	-14.3	5.8

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.

CHART 9

Real Government Consumption and Investment

Percent



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Prices

The price index for gross domestic purchases increased 1.2 percent in the third quarter, about half as much as in the second. The slowdown was largely accounted for by a moderation in the prices of energy goods and services. Prices of gross domestic purchases less food and energy increased 1.2 percent after increasing 1.5 percent (table 9 and chart 10).

Prices of goods and services purchased by consumers increased 1.7 percent after increasing 2.7 percent. Energy prices slowed sharply, mainly reflecting a much smaller increase in the price of gasoline and oil (the average retail price of regular gasoline changed little in the third quarter after increasing almost 25 cents per gallon in the second). Food prices increased less than 1 percent for the second quarter in a row. Prices of other consumer purchases increased 1.8 percent, about the same as in the second quarter.

Prices paid by government increased 1.4 percent, half as much as in the second quarter. Prices slowed

substantially at both the Federal and the State and local levels, partly in response to moderating energy costs.

Prices of residential investment decreased for the first time since early 1992. Prices had been flat in the first quarter of this year and up moderately in the second. In the first three quarters of 2002, prices of residential investment increased at an annual rate of only 0.6 percent.

Prices of private nonresidential fixed investment decreased for the fifth quarter in a row. Prices of equipment and software were mainly responsible for the most recent decrease. A decrease in prices of transportation equipment—the largest in 30 years—mainly reflected a decline in motor vehicle prices. Computer prices decreased more than in the second quarter.

The GDP price index (which, unlike the index for gross domestic purchases, includes the prices of exports and excludes the prices of imports) increased 1.0 percent in the third quarter. Import prices and export prices both increased, but the increase in import prices was somewhat larger than the increase in export prices. The price of imported petroleum increased, though much less than in the second quarter.

Table 9. Percent Changes in Prices

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

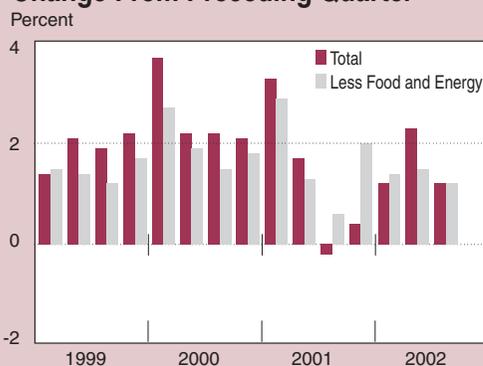
	2001		2002	
	IV	I	II	III
Gross domestic product.....	-0.5	1.3	1.2	1.0
Less: Exports of goods and services	-3.8	-0.8	3.0	3.5
Plus: Imports of goods and services	4.7	-1.6	11.1	4.5
Equals: Gross domestic purchases	0.4	1.2	2.3	1.2
Less: Change in private inventories				
Equals: Final sales to domestic purchasers	0.5	1.1	2.3	1.3
Personal consumption expenditures	0.8	1.1	2.7	1.7
Durable goods	-1.5	-4.2	-2.9	-1.9
Nondurable goods	-3.5	0.2	4.6	0.6
Services	3.5	2.7	3.0	3.1
Private fixed investment	-0.1	-1.5	-0.2	-1.2
Nonresidential	-1.6	-2.0	-1.4	-1.4
Structures	-1.6	-3.6	0.7	-0.1
Equipment and software	-1.6	-1.5	-2.1	-1.8
Residential	3.7	0	2.6	-0.8
Government consumption expenditures and gross investment	-0.3	3.6	2.8	1.4
Federal	-0.4	8.4	2.3	1.2
National defense	-1.1	7.3	2.0	1.3
Nondefense	0.7	10.4	2.9	0.9
State and local	-0.3	1.1	3.1	1.6
Addenda:				
Gross domestic purchases:				
Food	2.3	2.4	0.4	0.7
Energy	-33.0	-8.7	29.9	3.7
Less food and energy	2.0	1.4	1.5	1.2
Personal consumption expenditures:				
Food	2.4	2.4	0.5	0.9
Energy goods and services ¹	-32.1	-9.1	29.6	3.3
Less food and energy	2.7	1.4	1.9	1.8

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.

CHART 10

Gross Domestic Purchases Prices: Change From Preceding Quarter



Note—Percent change at annual rate from preceding quarter; based on seasonally adjusted index numbers (1996=100).

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Revisions

The preliminary estimate of a 4.0-percent increase in real GDP in the third quarter is 0.9 percentage point higher than last month's advance estimate (table 10). In the past 20 years, the average revision, without regard to sign, from the advance estimate to the preliminary estimate was 0.5 percentage point.

An upward revision to inventory investment, which added 0.52 percentage point to real GDP growth, reflected the incorporation of revised Census Bureau data for August and newly available data for Septem-

ber. Upward revisions were also made to State and local government spending (a 0.14-percentage-point contribution to GDP growth) and to residential investment (0.13 percentage point), mainly on the basis of revised data for July and August and newly available data for September from the Census Bureau on the value of construction put in place. Put-in-place data also accounted for a downward revision to nonresidential fixed investment.

Table 10. Revisions to Change in Real Gross Domestic Product and Prices, Third Quarter 2002
[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	3.1	4.0	0.9	18.8
<i>Less: Exports</i>	2.1	3.3	1.2	3.1
Goods.....	3.8	4.3	0.5	0.9
Services.....	-1.6	1.1	2.7	2.1
<i>Plus: Imports</i>	2.5	2.3	-0.2	-0.6
Goods.....	4.5	4.1	-0.4	-1.3
Services.....	-7.1	-6.1	1.0	0.6
Equals: Gross domestic purchases	3.1	3.8	0.7	15.7
<i>Less: Change in private inventories</i>				13.6
Equals: Final sales to domestic purchasers	3.2	3.4	0.2	3.4
Personal consumption expenditures.....	4.2	4.1	-0.1	-1.6
Durable goods.....	22.7	23.1	0.4	1.0
Nondurable goods.....	1.3	0.9	-0.4	-1.9
Services.....	2.3	2.2	-0.1	-0.5
Private fixed investment.....	0.2	0.1	-0.1	-0.3
Nonresidential.....	0.6	-0.7	-1.3	-3.8
Structures.....	-16.0	-20.6	-4.6	-3.1
Equipment and software.....	6.5	6.6	0.1	0.1
Residential.....	-0.8	2.1	2.9	2.7
Government consumption expenditures and gross investment.....	1.8	3.1	1.3	5.1
Federal.....	2.9	4.3	1.4	2.0
National defense.....	5.1	7.1	2.0	1.9
Nondefense.....	-0.9	-0.7	0.2	0.1
State and local.....	1.2	2.4	1.2	3.1
Addenda:				
Final sales of domestic product.....	3.2	3.5	0.3	6.6
Gross domestic purchases price index.....	1.4	1.2	-0.2	0.0
GDP price index.....	1.1	1.0	-0.1	.....

NOTE: The preliminary estimates for the third quarter of 2002 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), local and long-distance telephone revenue for the third quarter from company reports, and residential electricity revenue for July from the Energy Information Administration.

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), and manufacturers' shipments of complete civilian aircraft 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, 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

Profits from current production decreased \$14.1 billion (1.8 percent at a quarterly rate) in the third quarter after decreasing similar amounts in the first and second quarters (table 11).⁸

As in the previous two quarters, the third-quarter decrease in current-production profits contrasted with an increase in profits before tax (PBT).⁹ In the second and third quarters, the difference between changes in current-production profits and changes in PBT mainly reflected decreases in the capital consumption adjustment; in the first quarter, a decrease in the inventory valuation adjustment was almost as important.

Current-production profits consists of profits of domestic corporations and profits from the rest of the world.¹⁰ Profits of domestic financial corporations and nonfinancial corporations accounted about equally for the third-quarter decrease in current-production profits; profits from the rest of the world increased slightly.

8. 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.

9. Profits before tax is based on inventory and depreciation practices used in tax accounting, whereas the current-production measure—which excludes nonoperating items, such as special charges and capital gains and losses—is based on depreciation of fixed assets and inventory withdrawals valued at current cost.

10. 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.

The decrease in profits of domestic nonfinancial corporations reflected an increase in unit costs and a decline (the fourth in a row) in unit prices. The real gross product of these corporations increased in the third quarter.¹¹

In the financial sector, weakness was widespread. Lower profits were posted by commercial banks, Federal Reserve banks, property and casualty insurance companies, and "other" financial corporations (such as real estate investment trusts and federally sponsored credit agencies).

The small increase in profits from the rest of the world reflected a bigger increase in receipts than in payments.

Cash flow from current production, a profits-related measure of internally generated funds available for investment, decreased \$12.2 billion, about the same as in the second quarter.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, slipped to 86.0 percent from 86.6 percent. (During the expansion of the 1990s, the ratio averaged 82.2 percent.)

11. Gross product of nonfinancial corporations is a measure of the contribution, or value added, of these businesses to the Nation's output. On November 26, 2002, real estimates of the series were revised, beginning with 1999, to reflect new and revised estimates of the industry-based price index used for deflation that usually become available about 4 months after the annual revision of the NIPAs.

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

Government Sector, next page.

Table 11. Corporate Profits

[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change (quarterly rate)			
	Level	Change from preceding quarter							
	2002	2001	2002			2001	2002		
	III	IV	I	II	III	IV	I	II	III
Profits from current production	770.9	124.2	-13.8	-12.6	-14.1	18.1	-1.7	-1.6	-1.8
Domestic industries.....	655.0	101.4	18.9	4.3	-14.9	18.6	2.9	0.7	-2.2
Financial.....	203.5	55.5	15.4	-2.5	-7.2	39.0	7.8	-1.2	-3.4
Nonfinancial.....	451.5	46.0	3.4	6.9	-7.8	11.4	0.8	1.5	-1.7
Rest of the world.....	115.9	22.9	-32.7	-16.9	0.8	16.1	-19.8	-12.8	0.7
Receipts (inflows).....	181.1	-11.1	5.3	12.0	7.7	-6.6	3.4	7.4	4.4
Payments (outflows).....	65.2	-33.8	37.9	28.9	6.9	-133.6	444.9	98.3	11.8
IVA.....	-15.2	18.3	-25.3	-7.6	-9.5	.....	.....	.....	.....
CCAdj.....	117.6	161.2	-28.8	-23.5	-15.2	.....	.....	.....	.....
Profits before tax.....	668.5	-55.2	40.3	18.5	10.6	-8.4	6.7	2.9	1.6
Profits tax liability.....	214.8	-25.6	31.8	11.3	1.1	-13.1	18.6	5.6	0.5
Profits after tax.....	453.7	-29.6	8.5	7.3	9.4	-6.5	2.0	1.7	2.1
Profits from current production less tax liability	556.1	149.9	-45.6	-23.9	-15.2	30.5	-7.1	-4.0	-2.7
Cash flow from current production.....	954.5	100.5	-36.3	-12.6	-12.2	11.0	-3.6	-1.3	-1.3
	Dollars								
Unit price, costs, and profits of nonfinancial corporations:									
Unit price.....	1.034	-0.009	-0.002	-0.001	-0.002	.....	.....	.....	.....
Unit labor cost.....	0.680	-0.014	-0.002	-0.002	0	.....	.....	.....	.....
Unit nonlabor cost.....	0.271	-0.004	0	0.001	0.002	.....	.....	.....	.....
Unit profits from current production.....	0.084	0.008	-0.001	0.001	-0.003	.....	.....	.....	.....

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 combined current deficit of the Federal Government and of State and local governments increased \$6.7 billion, to \$242.1 billion, in the third quarter after increasing \$33.8 billion in the second (table 12).¹³ The third-quarter increase was accounted for by the State and local current deficit, which increased in the third quarter after decreasing in the second. The Federal current deficit was unchanged in the third quarter after increasing in the second.

Federal

The Federal Government current deficit was unchanged, at \$190.3 billion, in the third quarter after increasing \$44.5 billion in the second. Current receipts and current expenditures both turned down.

Current receipts. Federal current receipts decreased \$4.2 billion in the third quarter after increasing \$4.3 billion in the second. The downturn was more than accounted for by a deceleration in corporate profits tax accruals and by a larger decrease in personal tax and nontax receipts in the third quarter than in the second. In contrast, indirect business tax and nontax accruals and contributions for social insurance accelerated slightly.

Corporate profits tax accruals increased \$0.9 billion after increasing \$9.7 billion. The deceleration reflected the smaller increase in domestic corporate profits before tax.

Personal tax and nontax receipts decreased \$13.8 billion after decreasing \$12.9 billion. The larger decrease was accounted for by personal income taxes. Within personal income taxes, nonwithheld income taxes decreased \$12.1 billion after decreasing \$9.6 billion. Withheld income taxes decreased \$1.2 billion after decreasing \$2.8 billion.

Indirect business tax and nontax accruals increased \$2.5 billion after increasing \$1.8 billion. The acceleration primarily reflected an acceleration in custom duties, which increased \$3.0 billion after increasing \$0.6 billion. In contrast, excise taxes decelerated, increasing \$0.2 billion after increasing \$1.5 billion. Within excise taxes, air transport excise taxes turned down after a second-quarter increase that reflected the Passenger Civil Aviation Security Service Fee, which became effective on February 18, 2002.

Contributions for social insurance increased \$6.1 billion after increasing \$5.6 billion. The acceleration was accounted for by contributions for social security (old-age, survivors, disability, and health insurance

trust funds), which increased \$6.2 billion after increasing \$5.5 billion, reflecting an acceleration in wage and salary disbursements.

Current expenditures. Current expenditures decreased \$4.3 billion in the third quarter after increasing \$48.8 billion in the second. The downturn was mostly accounted for by downturns in grants-in-aid to State and local governments and in net interest paid, but decelerations in consumption expenditures and in transfer payments and a larger decrease in "subsidies less

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

	Level	Change from preceding quarter				
	2002	2001	2002			
	III	IV	I	II	III	
Current receipts.....	2,892.9	107.9	-120.4	16.3	10.9	
Current expenditures.....	3,135.0	18.8	72.4	50.1	17.6	
Current surplus or deficit (-).....	-242.1	89.0	-192.7	-33.8	-6.7	
Social insurance funds.....	51.5	-12.1	-12.4	-14.3	1.9	
Other.....	-293.6	101.2	-180.4	-19.4	-8.7	
Federal						
Current receipts.....	1,884.8	96.3	-107.6	4.3	-4.2	
Personal tax and nontax receipts.....	848.1	125.1	-150.7	-12.9	-13.8	
Corporate profits tax accruals.....	181.1	-25.1	27.6	9.7	0.9	
Indirect business tax and nontax accruals.....	112.7	-2.2	1.1	1.8	2.5	
Contributions for social insurance.....	742.8	-1.5	14.5	5.6	6.1	
Current expenditures.....	2,075.0	23.3	59.5	48.8	-4.3	
Consumption expenditures.....	589.6	15.7	22.7	14.7	8.6	
National defense.....	388.9	12.6	16.1	10.4	6.4	
Nondefense.....	200.7	3.0	6.7	4.4	2.1	
Transfer payments (net).....	934.8	21.6	46.0	10.7	7.2	
To persons.....	924.2	15.2	38.5	22.9	7.2	
To the rest of the world.....	10.5	6.4	7.5	-12.2	-0.1	
Grants-in-aid to State and local governments.....	305.0	18.0	2.9	17.3	-4.6	
Net interest paid.....	205.7	-12.0	-13.1	6.4	-9.2	
Subsidies less current surplus of government enterprises.....	39.9	-20.0	1.1	-0.3	-6.4	
Subsidies.....	45.0	-19.2	1.8	0.6	-0.5	
Of which: Agricultural subsidies.....	20.8	0.1	1.0	0.1	-0.8	
Less: Current surplus of government enterprises.....	5.0	0.7	0.7	1.0	5.7	
Less: Wage accruals less disbursements.....	0.0	0.0	0.0	0.0	0.0	
Current surplus or deficit (-).....	-190.3	73.0	-167.1	-44.5	0.0	
Social insurance funds.....	51.6	-12.1	-12.3	-14.4	1.9	
Other.....	-241.9	85.1	-154.8	-30.1	-1.9	
State and local						
Current receipts.....	1,313.2	29.6	-9.9	29.2	10.7	
Personal tax and nontax receipts.....	269.9	2.7	-22.3	3.2	4.7	
Corporate profits tax accruals.....	33.7	-0.5	4.3	1.5	0.2	
Indirect business tax and nontax accruals.....	695.2	9.3	5.3	7.1	10.3	
Contributions for social insurance.....	9.4	-0.1	0.1	0.1	0.0	
Federal grants-in-aid.....	305.0	18.0	2.9	17.3	-4.6	
Current expenditures.....	1,365.1	13.5	15.8	18.5	17.5	
Consumption expenditures.....	1,039.6	8.1	9.5	12.9	9.0	
Transfer payments to persons.....	338.8	6.9	8.0	7.3	8.1	
Net interest paid.....	-1.9	0.2	-0.1	-0.1	0.1	
Less: Dividends received by government.....	0.5	0.0	0.0	0.1	0.0	
Subsidies less current surplus of government enterprises.....	-10.9	-1.7	-1.5	-1.6	0.3	
Subsidies.....	1.6	-1.4	-1.5	-0.9	1.1	
Less: Current surplus of government enterprises.....	12.5	0.4	0.0	0.7	0.8	
Less: Wage accruals less disbursements.....	0.0	0.0	0.0	0.0	0.0	
Current surplus or deficit (-).....	-51.8	16.0	-25.6	10.7	-6.7	
Social insurance funds.....	-0.1	-0.1	0.0	0.1	0.0	
Other.....	-51.7	16.1	-25.6	10.6	-6.7	
Addendum:						
Net lending or net borrowing (-) ¹	-339.9	66.4	-200.0	-30.4	-4.0	
Federal.....	-213.4	72.5	-172.7	-48.4	4.4	
State and local.....	-126.5	-6.1	-27.3	18.0	-8.4	

13. The combined current surplus or deficit of the Federal Government and State and local governments is the NIPA measure of net saving by government. Net saving equals gross saving less consumption of fixed capital. These estimates are shown in NIPA table 5.1.

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.

current surplus of government enterprises” also contributed.

Grants-in-aid to State and local governments decreased \$4.6 billion after increasing \$17.3 billion. Grants for State Medicaid programs, for education, for natural resources, for central executive, legislative, and judicial activities, and for housing and community services all turned down. Net interest paid decreased \$9.2 billion after an increase of \$6.4 billion. Gross interest paid decreased \$7.8 billion after increasing \$6.3 billion, primarily reflecting a downturn in interest paid to persons and business.

Consumption expenditures increased \$8.6 billion after a \$14.7 billion increase. The deceleration was mostly accounted for by defense consumption expenditures. Within defense consumption expenditures, services decelerated, increasing \$4.5 billion after a \$9.4 billion increase. Within services, “other services” (which includes expenditures for research and development, for transportation of materials, for travel of persons, and for other services) increased \$3.2 billion after a \$7.0 billion increase. Also within services, compensation of employees decelerated, increasing \$1.1 billion after a \$2.3 billion increase. In contrast, durable goods accelerated, increasing \$1.6 billion after a \$0.2 billion increase; spending on parts for aircraft, for ships, and for electronics accelerated, and spending on parts for missiles and for other durable goods turned up.

Nondefense consumption expenditures increased \$2.1 billion after an increase of \$4.4 billion. The deceleration was mostly accounted for by a downturn in nondurable goods. Within nondurable goods, strategic petroleum reserve purchases turned down, and Commodity Credit Corporation inventory change turned down, decreasing \$0.4 billion after increasing \$0.5 billion.

“Subsidies less current surplus of government enterprises” decreased \$6.4 billion after decreasing \$0.3 billion. The decrease was more than accounted for by an acceleration in “current surplus of government enterprises.” Within “current surplus of government enterprises,” the Postal Service current surplus increased \$4.9 billion after increasing \$0.8 billion. The acceleration reflected the postal rate increase for all classes of mail that went into effect on June 30, 2002.

“Transfer payments (net)” increased \$7.2 billion after increasing \$10.7 billion. Transfer payments to persons decelerated sharply, mostly because of a slowdown in unemployment benefits, which increased \$0.2 billion after increasing \$15.0 billion. Transfer payments to the rest of the world changed little after a substantial decrease. The second-quarter decrease followed a first-quarter increase that included a pay-

ment of \$2.4 billion (\$9.6 billion at an annual rate) to Israel for economic support.

State and local

The State and local government current deficit increased \$6.7 billion in the third quarter after decreasing \$10.7 billion in the second. Current receipts decelerated more than current expenditures.

Current receipts. State and local government current receipts increased \$10.7 billion after increasing \$29.2 billion. The deceleration was more than accounted for by the downturn in Federal grants-in-aid.

Corporate profits tax accruals decelerated, increasing \$0.2 billion after increasing \$1.5 billion.

Indirect business tax and nontax increased \$10.3 billion after increasing \$7.1 billion. The acceleration was more than accounted for by sales taxes, which increased \$6.7 billion after increasing \$3.2 billion. Law changes in twelve States boosted sales taxes on tobacco products by \$2.3 billion in the third quarter.

Personal tax and nontax receipts increased \$4.7 billion after increasing \$3.2 billion. The acceleration was mostly accounted for by personal income taxes, which increased \$3.8 billion after increasing \$2.4 billion, reflecting an acceleration in wages and salary disbursements.

Current expenditures. Current expenditures increased \$17.5 billion after increasing \$18.5 billion. The deceleration was more than accounted for by a deceleration in consumption expenditures. In contrast, “subsidies less current surplus of government enterprises” turned up, and transfer payments accelerated.

Consumption expenditures increased \$9.0 billion after increasing \$12.9 billion. The deceleration was accounted for by decelerations in nondurable goods, which increased \$2.4 billion after increasing \$4.9 billion, and in services, which increased \$6.4 billion after increasing \$7.8 billion. Within nondurable goods, petroleum products decelerated, and within services, “other services” turned down.

“Subsidies less current surplus of government enterprises” increased \$0.3 billion after decreasing \$1.6 billion. Subsidies increased \$1.1 billion after decreasing \$0.9 billion, reflecting an upturn in electricity subsidies by the State of California.

Transfer payments to persons increased \$8.1 billion after an increase of \$7.3 billion. The acceleration was mostly accounted for by Medicaid payments.

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.¹⁴

The government financing requirement continued to deteriorate; net borrowing increased \$4.0 billion in the third quarter after increasing \$30.4 billion in the second. Federal net borrowing decreased \$4.4 billion

as a result of an increase in capital transfers received, reflecting an upturn in estate and gift taxes. State and local net borrowing increased \$8.4 billion mainly as a result of the increase in the current deficit.

Government gross investment increased \$4.3 billion after decreasing \$7.2 billion. The upturn was more than accounted for by State and local government gross investment, mainly by investment in structures, which increased \$3.8 billion after decreasing \$8.1 billion.

14. Net lending or net borrowing estimates are shown in NIPA tables 3.1-3.3.