

## Business Situation

### Final Estimates for the Third Quarter of 2002

THE picture of the economy shown in the final estimates of the national income and product accounts (NIPA's) for the third quarter of 2002 is virtually the same as the picture in the preliminary estimates released last month. The revisions to components of GDP were offsetting and generally small (see the section "Revisions").

Real GDP increased 4.0 percent in the third quarter, substantially more than in the second (table 1 and chart 1).<sup>1</sup> Consumer spending stepped up, and imports (which are subtracted in the calculation of GDP) slowed sharply.<sup>2</sup>

Consumer spending increased more than twice as much in the third quarter as in the second; it contributed 2.93 percentage points to GDP growth in the

third quarter after contributing 1.22 percentage points in the second (table 2). Half of the third-quarter increase was accounted for by purchases of motor vehicles and parts, which surged in response to generous rebates and below-market interest rates for new vehicles. Purchases of nondurable goods increased modestly after little change, and purchases of services slowed somewhat.

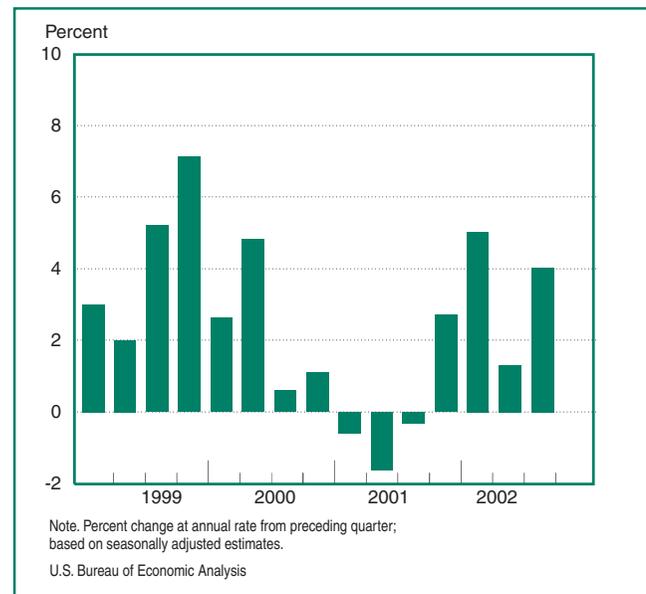
Private fixed investment changed little in the third quarter after declining for almost 2 years. Nonresidential structures continued to be the main source of weakness; investment in nonresidential equipment and

1. Quarterly estimates in the NIPA's 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.

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

*This article was prepared by Daniel Larkins.*

**Chart 1. Real Gross Domestic Product**



**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		2002
	III	IV	I	II	III	IV	I	II	III
<b>Gross domestic product</b> .....	<b>9,485.6</b>	<b>62.4</b>	<b>114.4</b>	<b>29.2</b>	<b>93.2</b>	<b>2.7</b>	<b>5.0</b>	<b>1.3</b>	<b>4.0</b>
Less: Exports of goods and services .....	1,077.7	-26.2	8.8	34.9	12.2	-9.6	3.5	14.3	4.6
Plus: Imports of goods and services .....	1,565.7	-19.8	29.9	75.8	12.8	-5.3	8.5	22.2	3.3
<b>Equals: Gross domestic purchases</b> .....	<b>9,934.7</b>	<b>69.5</b>	<b>132.9</b>	<b>62.6</b>	<b>93.9</b>	<b>2.9</b>	<b>5.6</b>	<b>2.6</b>	<b>3.9</b>
Less: Change in private inventories .....	18.8	-36.6	69.5	33.8	13.9	.....	.....	.....	.....
<b>Equals: Final sales to domestic purchasers</b> .....	<b>9,906.1</b>	<b>102.0</b>	<b>72.1</b>	<b>31.6</b>	<b>80.1</b>	<b>4.3</b>	<b>3.0</b>	<b>1.3</b>	<b>3.3</b>
Personal consumption expenditures .....	6,609.9	93.1	49.8	28.6	67.5	6.0	3.1	1.8	4.2
Durable goods .....	1,032.4	69.4	-16.1	4.8	51.7	33.6	-6.3	2.0	22.8
Nondurable goods .....	1,925.8	16.7	36.4	-0.5	4.9	3.6	7.9	-0.1	1.0
Services .....	3,687.0	19.1	25.6	24.0	20.8	2.1	2.9	2.7	2.3
Private fixed investment .....	1,571.6	-37.3	-2.0	-3.8	-1.0	-8.9	-0.5	-1.0	-0.3
Nonresidential .....	1,178.7	-35.3	-18.0	-7.3	-2.4	-10.9	-5.8	-2.4	-0.8
Structures .....	218.2	-23.6	-9.5	-11.5	-13.5	-30.1	-14.2	-17.6	-21.4
Equipment and software .....	977.2	-6.1	-6.6	7.7	15.8	-2.5	-2.7	3.3	6.7
Residential .....	387.1	-3.3	12.6	2.5	1.0	-3.5	14.2	2.7	1.1
Government consumption expenditures and gross investment .....	1,715.6	41.2	22.8	6.0	12.3	10.5	5.6	1.4	2.9
Federal .....	615.1	18.3	10.6	10.9	6.4	13.5	7.4	7.5	4.3
National defense .....	402.5	12.5	10.5	7.3	6.7	14.3	11.6	7.8	6.9
Nondefense .....	212.7	5.9	0.2	3.6	-0.2	12.1	0.4	6.9	-0.3
State and local .....	1,100.6	23.0	12.2	-4.6	5.9	8.9	4.6	-1.7	2.2
<b>Addendum: Final sales of domestic product</b> .....	<b>9,457.2</b>	<b>94.4</b>	<b>54.5</b>	<b>-1.5</b>	<b>79.3</b>	<b>4.2</b>	<b>2.4</b>	<b>-0.1</b>	<b>3.4</b>

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

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

[Seasonally adjusted at annual rates]

	2001		2002	
	IV	I	II	III
<b>Percent change at annual rate:</b>				
Gross domestic product .....	2.7	5.0	1.3	4.0
<b>Percentage points at annual rates:</b>				
Personal consumption expenditures .....	4.05	2.22	1.22	2.93
Durable goods .....	2.45	-0.55	0.16	1.74
Nondurable goods .....	0.73	1.57	-0.02	0.22
Services .....	0.87	1.20	1.08	0.97
Gross private domestic investment .....	-2.88	2.53	1.16	0.55
Fixed investment .....	-1.49	-0.07	-0.15	-0.03
Nonresidential .....	-1.33	-0.66	-0.27	-0.08
Structures .....	-1.12	-0.44	-0.53	-0.62
Equipment and software .....	-0.21	-0.22	0.26	0.53
Residential .....	-0.16	0.60	0.12	0.05
Change in private inventories .....	-1.39	2.60	1.31	0.58
Net exports of goods and services .....	-0.28	-0.75	-1.40	-0.01
Exports .....	-0.99	0.33	1.29	0.45
Goods .....	-0.56	-0.23	0.99	0.28
Services .....	-0.42	0.56	0.30	0.17
Imports .....	0.70	-1.08	-2.69	-0.47
Goods .....	0.37	-0.40	-2.74	-0.40
Services .....	0.33	-0.68	0.05	-0.07
Government consumption expenditures and gross investment .....	1.85	1.04	0.27	0.56
Federal .....	0.80	0.47	0.47	0.29
National defense .....	0.54	0.46	0.32	0.29
Nondefense .....	0.26	0.01	0.16	-0.01
State and local .....	1.05	0.56	-0.21	0.27

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.

software increased for the second quarter in a row. Residential investment posted a slight increase.

Private inventories increased more than in the second quarter. However, this step-up contributed less to GDP growth than a swing from liquidation to accumulation had contributed in the second quarter.<sup>3</sup>

Exports and imports both slowed substantially in the third quarter. The slowdown in imports was much sharper than the slowdown in exports.

Government spending increased about twice as much as in the second quarter. An upturn in investment by State and local governments more than offset a downturn in nondefense spending by the Federal Government.

The price index for gross domestic purchases increased 1.2 percent, about half as much as in the second quarter. 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.

3. In the NIPA's, the *change* in private inventories (inventory investment) affects the *level* of GDP; the "*change in the change*" in private inventories affects the *change* (or growth) in GDP.

## Revisions

The final estimate of third-quarter GDP growth, 4.0 percent, is the same as the preliminary estimate. (Over the past 20 years, the average revision to GDP growth, without regard to the sign, from the preliminary estimate to the final estimate was 0.3 percentage point.)

Upward revisions to exports and imports largely offset each other (table 3). The revision to exports added 0.12 percentage point to the revised estimate of GDP growth, while the revision to imports subtracted 0.14 percentage point. Both revisions mainly reflected the incorporation (on a “best-change” basis) of revised data on trade in services from BEA’s international transactions accounts.<sup>4</sup>

In addition, inventory investment was revised up, reflecting the incorporation of revised Census Bureau data for September.

The release of the final NIPA estimates also includes revised estimates of wages and salaries, personal taxes, and contributions for social insurance for the second quarter. The revision to wages and salaries was small and reflects the incorporation of the most recently available data from Bureau of Labor Statistics tabulations of private wages and salaries from the State unemployment insurance program. Personal taxes for the second and third quarters were revised down based on Federal income tax data from the Monthly Treasury Statement. The revision to contributions for social insurance was small.

4. Incorporating the source data on a best-change basis provides accurate measures of the *change* in the estimates for all periods, but it results in *levels* of estimates that are not fully consistent with the source data. In general, BEA incorporates source data on a best-change basis in order to preserve accurate estimates of growth and consistent time series. (For more information, see the box “Incorporating Source Data on the Basis of Best Change,” in Eugene P. Seskin and David F. Sullivan, “Annual Revision of the National Income and Product Accounts,” SURVEY OF CURRENT BUSINESS 80 (August 2000): 16.)

**Table 3. Revisions to Change in Real Gross Domestic Product and Prices,  
Third Quarter 2002**  
[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Final estimate minus preliminary estimate	
	Preliminary estimate	Final estimate	Percentage points	Billions of chained (1996) dollars
<b>Gross domestic product</b> .....	<b>4.0</b>	<b>4.0</b>	<b>0.0</b>	<b>1.6</b>
Less: Exports.....	3.3	4.6	1.3	3.4
Goods .....	4.3	4.1	-0.2	-0.4
Services .....	1.1	5.9	4.8	3.4
Plus: Imports .....	2.3	3.3	1.0	3.9
Goods .....	4.1	3.4	-0.7	-2.3
Services .....	-6.1	3.1	9.2	5.2
<b>Equals: Gross domestic purchases</b> .....	<b>3.8</b>	<b>3.9</b>	<b>0.1</b>	<b>2.0</b>
Less: Change in private inventories .....				3.3
<b>Equals: Final sales to domestic purchasers</b>	<b>3.4</b>	<b>3.3</b>	<b>-0.1</b>	<b>-1.2</b>
Personal consumption expenditures .....	4.1	4.2	0.1	0.7
Durable goods .....	23.1	22.8	-0.3	-0.6
Nondurable goods .....	0.9	1.0	0.1	0.5
Services .....	2.2	2.3	0.1	0.6
Private fixed investment .....	0.1	-0.3	-0.4	-1.5
Nonresidential .....	-0.7	-0.8	-0.1	-0.3
Structures .....	-20.6	-21.4	-0.8	-0.5
Equipment and software .....	6.6	6.7	0.1	0.4
Residential .....	2.1	1.1	-1.0	-1.0
Government consumption expenditures and gross investment .....	3.1	2.9	-0.2	-0.6
Federal .....	4.3	4.3	0.0	0.0
National defense .....	7.1	6.9	-0.2	-0.2
Nondefense .....	-0.7	-0.3	0.4	0.2
State and local .....	2.4	2.2	-0.2	-0.6
<b>Addendum:</b>				
Final sales of domestic product .....	3.5	3.4	-0.1	-1.6
Gross domestic purchases price index .....	1.2	1.2	0.0	.....
GDP price index .....	1.0	1.0	0.0	.....

NOTE: The final estimates for the third quarter of 2002 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 and bank services data for the quarter.

*Nonresidential fixed investment:* Revised construction put-in-place for August and September.

*Residential fixed investment:* Revised construction put-in-place for August and September.

*Change in private inventories:* Revised manufacturers’ and trade inventories for September.

*Exports and imports of goods and services:* New international transactions accounts data on services for the third quarter and revised data on services for the second.

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

*Wages and salaries:* Revised private wages and salaries for the second quarter, and revised employment, average hourly earnings, and average weekly hours for September.

*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.

## Gross National Product

Real gross national product (GNP) increased 4.4 percent in the third quarter, 0.4 percentage point more than real GDP, as income receipts from the rest of the world increased more than income payments to the rest of the world (table 4).<sup>5</sup> The increases in both receipts and payments were more than accounted for by receipts and payments of profits.

“Command-basis” GNP increased 4.3 percent (chart 2). This variant of GNP measures the purchasing power in world markets of the goods and services produced by the U.S. economy—in other words, the amount of goods and services that the United States could purchase, theoretically, as a result of its current production.

Changes in command-basis GNP reflect changes in the prices of traded goods and services as summarized by movements in the “terms of trade”—the ratio of export prices to import prices. When the terms of trade improve (that is, when export prices rise relative to import prices) the purchasing power, or command value,

5. GNP is a measure of goods and services produced by labor and property supplied by U.S. residents. It is equal to GDP plus income receipts from the rest of the world less income payments to the rest of the world.

**Table 4. Relation of Real Gross Domestic Product, Real Gross National Product, and Real Command-Basis Gross National Product**

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter						
	2002		2001			2002			
	III	IV	I	II	III	2001	2002		III
					IV	I	II	III	
<b>Gross domestic product</b> .....	<b>9,485.6</b>	<b>62.4</b>	<b>114.4</b>	<b>29.2</b>	<b>93.2</b>	<b>2.7</b>	<b>5.0</b>	<b>1.3</b>	<b>4.0</b>
Plus: Income receipts from the rest of the world .....	261.3	-30.7	-4.6	9.0	9.5	-37.4	-7.2	15.7	15.9
Less: Income payments to the rest of the world .....	269.5	-51.8	26.1	29.0	1.3	-58.1	58.7	58.2	1.9
<b>Equals: Gross national product</b>	<b>9,477.9</b>	<b>83.7</b>	<b>84.0</b>	<b>9.2</b>	<b>101.2</b>	<b>3.7</b>	<b>3.7</b>	<b>0.4</b>	<b>4.4</b>
Less: Exports of goods and services and income receipts from the rest of the world .....	1,334.2	-59.4	3.3	43.9	22.3	-16.8	1.1	14.6	7.0
Plus: Command-basis exports of goods and services and income receipts from the rest of the world <sup>1</sup> .....	1,365.6	-85.3	6.3	24.4	20.0	-22.2	1.9	7.6	6.1
<b>Equals: Command-basis gross national product</b> .....	<b>9,509.3</b>	<b>57.8</b>	<b>86.9</b>	<b>-10.3</b>	<b>99.0</b>	<b>2.5</b>	<b>3.8</b>	<b>-0.4</b>	<b>4.3</b>
<b>Addendum:</b>									
Terms of trade <sup>2</sup> .....	102.4	-1.7	0.2	-1.6	-0.2	-6.3	0.8	-6.0	-0.8

1. Exports of goods and services and income receipts deflated by the implicit price deflator for imports of goods and services and income payments.

2. Ratio of the implicit price deflator for exports of goods and services and income receipts to the corresponding implicit price deflator for imports divided by 100.

Note. See note to table 1 for an explanation of chained (1996) dollar series. Levels of these series are shown in NIPA tables 1.10 and 1.11.

of U.S. GNP in international markets increases by more than the production of goods and services valued in U.S. prices.<sup>6</sup> Conversely, when the terms of trade deteriorate (that is, when export prices fall relative to import prices) the purchasing power, or command value, of U.S. GNP in international markets increases by less than the production of goods and services valued in U.S. prices.

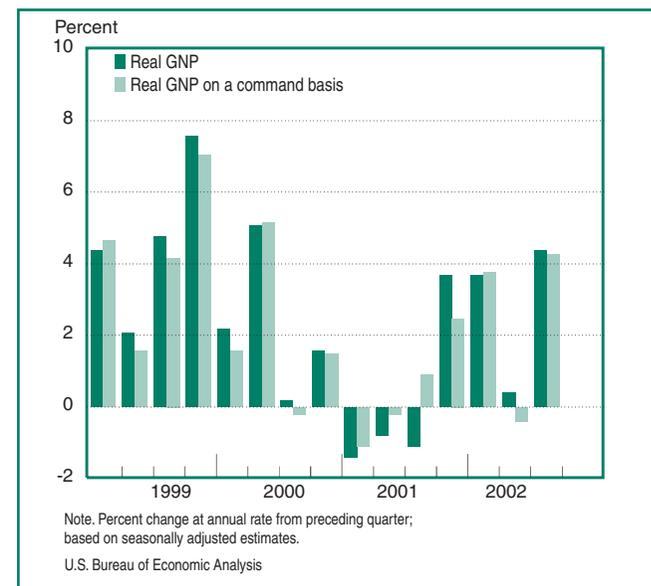
The national saving rate, which is measured as gross saving as a percentage of GNP, resumed its downtrend, dropping from 15.5 percent in the second quarter to 15.0 percent in the third. The rate had peaked at 18.5 percent in the third quarter of 2000.

6. In the estimates of command-basis GNP, the current-dollar value of the sum of exports of goods and services and income receipts is deflated by the implicit price deflator (IPD) for the sum of imports of goods and services and income payments.

The terms of trade is measured by the following ratio, with the decimal point shifted two places to the right: In the numerator, the IPD for the sum of exports of goods and services and of income receipts; in the denominator, the IPD for the sum of imports of goods and services and of income payments.

Changes in the terms of trade reflect the interaction of several factors, including movements in exchange rates, changes in the composition of the traded goods and services, and changes in producers' profit margins. For example, if the U.S. dollar depreciates against a foreign currency, a foreign manufacturer may choose to absorb this cost by reducing the profit margin on the product it sells to the United States, or it may choose to raise the price of the product and risk a loss in market share.

**Chart 2. Real Gross National Product**



## Corporate Profits

Profits from current production decreased \$14.0 billion (1.8 percent at a quarterly rate) in the third quarter after decreasing similar amounts in the first and second quarters (table 5).<sup>7</sup>

The revised third-quarter estimate is virtually the same as the preliminary estimate released last month. A \$3.9 billion downward revision to profits of domestic nonfinancial corporations was counterbalanced by a \$3.8 billion upward revision to profits of domestic financial corporations. Profits from the rest of the world were revised up \$0.2 billion.

As in the previous two quarters, the decrease in current-production profits contrasted with an increase in profits before tax (PBT).<sup>8</sup> In the second and third quarters, the difference between the changes in current-production profits and the 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.<sup>9</sup>

Current-production profits consists of profits of domestic corporations and profits from the rest of the world.<sup>10</sup>

Profits of domestic nonfinancial corporations decreased \$11.7 billion (2.5 percent), as prices dropped and unit costs increased. (The drop in prices was the fourth in a row.) The real gross product of these corporations increased in the third quarter.<sup>11</sup> Profits of do-

9. In recent quarters, changes in the capital consumption adjustment have been dominated by the effect of tax law changes that allow accelerated depreciation for certain investments. See the box "Effects of the Job Creation and Worker Assistance Act of 2002," in "Business Situation" SURVEY 82 (June 2002): 14.

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.

11. Gross product of nonfinancial corporations is a measure of the contribution, or value added, of these businesses to the Nation's output. Real estimates of the series were recently revised, beginning with 1999, to reflect new and revised estimates of the industry-based price index that usually becomes available about 4 months after the annual revision of the NIPA's (see "Updated NIPA Tables," SURVEY 82 (December 2002): 17).

**Table 5. Corporate Profits**

[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change (quarterly rate)			
	Level	Change from preceding quarter							
	2002	2001	2002						
	III	IV	I	II	III	IV	I	II	III
<b>Profits from current production</b> .....	<b>771.0</b>	<b>124.2</b>	<b>-13.8</b>	<b>-12.6</b>	<b>-14.0</b>	<b>18.1</b>	<b>-1.7</b>	<b>-1.6</b>	<b>-1.8</b>
Domestic industries .....	654.9	101.4	18.9	4.3	-15.0	18.6	2.9	0.7	-2.2
Financial .....	207.3	55.5	15.4	-2.5	-3.4	39.0	7.8	-1.2	-1.6
Nonfinancial .....	447.6	46.0	3.4	6.9	-11.7	11.4	0.8	1.5	-2.5
Rest of the world .....	116.1	22.9	-32.7	-16.9	1.0	16.1	-19.8	-12.8	0.9
Receipts (inflows) .....	185.9	-11.1	5.3	12.0	12.5	-6.6	3.4	7.4	7.2
Payments (outflows) .....	69.7	-33.8	37.9	28.9	11.4	-133.6	444.9	98.3	19.6
IVA .....	-15.1	18.3	-25.3	-7.6	-9.4				
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 .....	214.7	-25.6	31.8	11.3	1.0	-13.1	18.6	5.6	0.5
Profits after tax .....	453.8	-29.6	8.5	7.3	9.5	-6.5	2.0	1.7	2.1
<b>Profits from current production less tax liability</b> .....	<b>556.3</b>	<b>149.9</b>	<b>-45.6</b>	<b>-23.9</b>	<b>-15.0</b>	<b>30.5</b>	<b>-7.1</b>	<b>-4.0</b>	<b>-2.6</b>
Cash flow from current production .....	954.7	100.5	-36.3	-12.6	-12.0	11.0	-3.6	-1.3	-1.2
<b>Domestic industry profits:</b>									
Corporate profits of domestic industries with IVA .....	537.3	-59.8	47.7	27.8	0.2	-11.5	10.3	5.5	0.0
Financial .....	216.1	37.4	18.1	0.3	-2.4	23.0	9.0	0.2	-1.1
Nonfinancial .....	321.2	-97.2	29.6	27.5	2.6	-27.1	11.3	9.4	0.8
Manufacturing .....	100.5	-40.2	18.0	23.0	8.6	-44.2	35.4	33.4	9.3
Transportation and public utilities .....	13.2	-26.8	8.5	2.1	-3.9	-80.6	132.3	13.8	-22.9
Wholesale trade .....	44.5	1.0	-5.7	3.6	-0.3	2.2	-12.2	8.6	-0.7
Retail trade .....	82.5	-2.1	0.9	4.6	-3.5	-2.5	1.1	5.6	-4.0
Other .....	80.6	-29.0	7.9	-5.7	1.7	-27.4	10.3	-6.8	2.2
	Dollars								
<b>Unit price, costs, and profits of nonfinancial corporations:</b>									
Unit price .....	1.035	-0.009	-0.002	-0.001	-0.001				
Unit labor cost .....	0.681	-0.014	-0.002	-0.002	0.001				
Unit nonlabor cost .....	0.270	-0.004	0.000	0.001	0.001				
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

mestic financial corporations decreased \$3.4 billion (1.6 percent).

Profits from the rest of the world increased \$1.0 billion. Both receipts and payments posted sizable increases, but the increase in receipts was a little larger.

Cash flow from current production, a profits-related measure of internally generated funds available for investment, decreased \$12.0 billion, about the same as in the second quarter.<sup>12</sup> 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, declined to 86.0 percent from 86.6 percent. (During the expansion of the 1990s, the ratio averaged 82.2 percent.)

**Profits with inventory valuation adjustment (IVA).** The current-production measure of profits is

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

not available at the detailed industry level, because estimates of the capital consumption adjustment (CCAdj) do not exist at this level. (CCAdj is only available for total financial and total nonfinancial industries.) Consequently, industry profits are best measured by profits with IVA.

For financial industries, a substantial increase in profits of commercial banks was more than offset by a decrease in “other” financial corporations (which includes real estate investment trusts, federally sponsored credit agencies, and securities and commodities brokers).

For nonfinancial industries, an increase in manufacturing profits was largely offset by decreases in the transportation and public utilities group and in retail trade (chart 3). Within manufacturing, the largest increases were posted by manufacturers of electronic equipment and industrial machinery and by petroleum refiners; the largest decrease was posted by motor vehicle manufacturers.

**Chart 3. Corporate Profits with Inventory Valuation Adjustment: Change from 2002:II to 2002:III**

