

# GDP and the Economy

## Advance Estimates for the Third Quarter of 2007

IN THE third quarter of 2007, real gross domestic product (GDP) increased 3.9 percent, according to the “advance” estimates of the national income and product accounts (NIPAs).<sup>1</sup> In the second quarter, real GDP increased 3.8 percent.<sup>2</sup>

The third-quarter growth in real GDP reflected a rebound in consumer spending, a surge in exports of goods, an increase in Federal spending, and an increase in equipment and software investment (chart 1 and table 1).<sup>3</sup> Third-quarter GDP growth was tempered by a decline in residential investment and an increase in imports, which are subtracted in the calculation of GDP (see page 2).

- Exports of goods rose 23.0 percent after rising 6.6 percent in the second quarter. The increase was the largest since the fourth quarter of 1996.
- Prices of goods and services purchased by U.S. residents increased 1.6 percent after increasing 3.8 percent in the second quarter (see page 3). Energy prices turned down, and food prices increased at the same rate as in the second quarter. Excluding food and energy, prices increased 1.7 percent, following an increase of 1.5 percent.
- Real disposable personal income (DPI)—income adjusted for inflation and taxes—increased 4.4 percent, following an increase of 0.6 percent in the second quarter. The pickup reflected an acceleration in current-dollar personal income, a deceleration in personal taxes (see page 4), and a deceleration in inflation.
- The personal saving rate, personal saving as a share of current-dollar DPI, was 0.8 percent in the third quarter; in the second quarter, it was 0.6 percent.

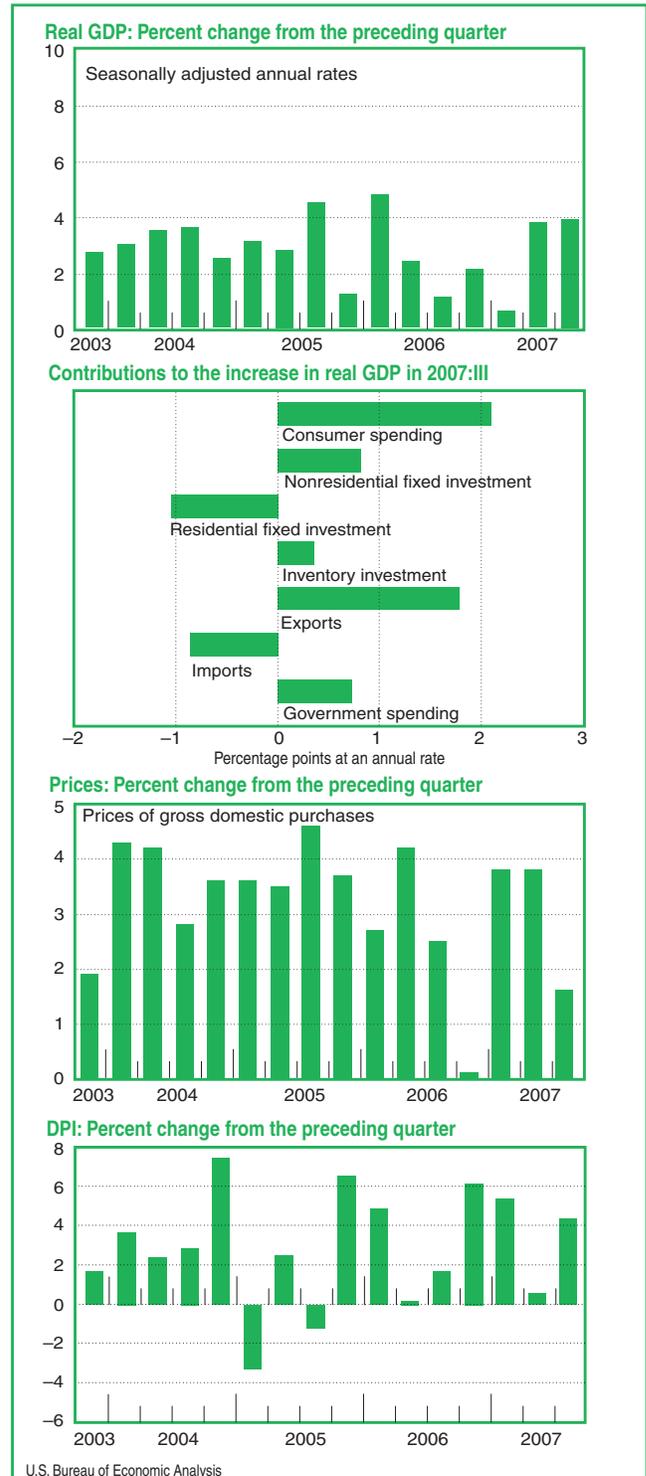
1. Each GDP estimate for a quarter (advance, preliminary, and final) incorporates increasingly comprehensive and improved source data. More information can be found at [www.bea.gov/bea/about/infoqual.htm](http://www.bea.gov/bea/about/infoqual.htm) and [www.bea.gov/bea/faq/national/gdp\\_accuracy.htm](http://www.bea.gov/bea/faq/national/gdp_accuracy.htm). Quarterly estimates are expressed at seasonally adjusted annual rates, which assume that a rate of activity for a quarter is maintained for a year.

2. “Real” estimates are in chained (2000) dollars, and price indexes are chain-type measures.

3. In this article, “consumer spending” refers to the NIPA series “personal consumption expenditures,” “inventory investment” refers to “change in private inventories,” and “government spending” refers to “government consumption expenditures and gross investment.”

*Christopher Swann prepared this article.*

**Chart 1. GDP, Prices, Disposable Personal Income (DPI)**



## Real GDP Overview

Table 1. Real Gross Domestic Product and Components

[Seasonally adjusted at annual rates]

	Share of current-dollar GDP (percent)	Change from preceding period (percent)					Contribution to percent change in real GDP (percentage points)			
	2007	2006	2007			2006	2007			
	III	IV	I	II	III	IV	I	II	III	
<b>Gross domestic product<sup>1</sup>.....</b>	<b>100.0</b>	<b>2.1</b>	<b>0.6</b>	<b>3.8</b>	<b>3.9</b>	<b>2.1</b>	<b>0.6</b>	<b>3.8</b>	<b>3.9</b>	
<b>Personal consumption expenditures.....</b>	<b>70.3</b>	<b>3.9</b>	<b>3.7</b>	<b>1.4</b>	<b>3.0</b>	<b>2.68</b>	<b>2.56</b>	<b>1.00</b>	<b>2.11</b>	
Durable goods.....	7.8	3.9	8.8	1.7	4.4	0.30	0.67	0.14	0.35	
Nondurable goods.....	20.5	4.3	3.0	-0.5	2.7	0.86	0.61	-0.10	0.56	
Services.....	42.0	3.7	3.1	2.3	2.9	1.52	1.28	0.96	1.20	
<b>Gross private domestic investment.....</b>	<b>15.4</b>	<b>-14.1</b>	<b>-8.2</b>	<b>4.6</b>	<b>0.8</b>	<b>-2.50</b>	<b>-1.36</b>	<b>0.71</b>	<b>0.13</b>	
Fixed investment.....	15.2	-7.1	-4.4	3.2	-1.5	-1.19	-0.70	0.49	-0.23	
Nonresidential.....	10.7	-1.4	2.1	11.0	7.9	-0.15	0.22	1.12	0.82	
Structures.....	3.4	7.4	6.4	26.2	12.3	0.23	0.20	0.78	0.40	
Equipment and software.....	7.3	-4.9	0.3	4.7	5.9	-0.38	0.02	0.34	0.42	
Residential.....	4.5	-17.2	-16.3	-11.8	-20.1	-1.04	-0.93	-0.62	-1.05	
Change in private inventories.....	0.1	.....	.....	.....	.....	-1.31	-0.65	0.22	0.36	
<b>Net exports of goods and services.....</b>	<b>-5.1</b>	.....	.....	.....	.....	<b>1.25</b>	<b>-0.51</b>	<b>1.32</b>	<b>0.93</b>	
Exports.....	12.0	14.3	1.1	7.5	16.2	1.51	0.13	0.85	1.79	
Goods.....	8.5	9.6	0.9	6.6	23.0	0.73	0.07	0.53	1.73	
Services.....	3.5	26.0	1.6	9.6	1.6	0.78	0.05	0.33	0.06	
Imports.....	17.2	1.6	3.9	-2.7	5.2	-0.26	-0.63	0.47	-0.86	
Goods.....	14.5	-0.6	4.2	-2.9	6.2	0.09	-0.57	0.42	-0.86	
Services.....	2.7	14.2	2.3	-1.7	0.4	-0.35	-0.06	0.05	-0.01	
<b>Government consumption expenditures and gross investment.....</b>	<b>19.5</b>	<b>3.5</b>	<b>-0.5</b>	<b>4.1</b>	<b>3.7</b>	<b>0.66</b>	<b>-0.09</b>	<b>0.79</b>	<b>0.73</b>	
Federal.....	7.1	7.3	-6.3	6.0	6.8	0.50	-0.46	0.41	0.48	
National defense.....	4.8	16.9	-10.8	8.5	9.7	0.74	-0.54	0.39	0.45	
Nondefense.....	2.3	-10.0	3.8	0.9	0.9	-0.24	0.08	0.02	0.02	
State and local.....	12.4	1.3	3.0	3.0	2.0	0.16	0.36	0.37	0.25	

1. The estimates of GDP under the contribution columns are also percent changes.

NOTE: Percent changes are from NIPA table 1.1.1, contributions are from NIPA table 1.1.2, and shares are from NIPA table 1.1.10.

Consumer spending accelerated sharply in the third quarter, increasing 3.0 percent after a 1.4-percent increase in the second quarter. The pickup added 2.11 percentage points to real GDP growth, compared with 1.00 percentage point in the second quarter. The pickup reflected an upturn in nondurable goods and accelerations in both durable goods and services.

Nonresidential fixed investment slowed, increasing 7.9 percent after increasing 11.0 percent. The pullback was primarily due to a slowdown in structures.

Residential fixed investment fell for the seventh straight quarter, decreasing 20.1 percent after decreasing 11.8 percent. The third-quarter decrease subtracted 1.05 percentage points from real GDP growth.

Inventory investment accelerated slightly, adding 0.36 percentage point to real GDP growth after adding 0.22 percentage point.

Exports rose 16.2 percent after rising 7.5 percent. Goods exports picked up markedly; services exports slowed. The third-quarter increase in exports was the largest since the fourth quarter of 2003 and contributed 1.79 percentage points to real GDP growth.

Imports turned up in the third quarter, increasing 5.2 percent after decreasing 2.7 percent. The turnabout, which was mainly due to an upturn in goods imports, subtracted 0.86 percentage point from real GDP growth.

Federal Government spending accelerated, reflecting an acceleration in national defense expenditures.

Table 2. Real Gross Domestic Product (GDP) by Type of Product

[Seasonally adjusted at annual rates]

	Share of current-dollar GDP (percent)	Change from preceding period (percent)					Contribution to percent change in real GDP (percentage points)			
	2007	2006	2007			2006	2007			
	III	IV	I	II	III	IV	I	II	III	
<b>Gross domestic product<sup>1</sup>.....</b>	<b>100.0</b>	<b>2.1</b>	<b>0.6</b>	<b>3.8</b>	<b>3.9</b>	<b>2.1</b>	<b>0.6</b>	<b>3.8</b>	<b>3.9</b>	
Final sales of domestic product.....	99.9	3.5	1.3	3.6	3.5	3.40	1.25	3.60	3.53	
Change in private inventories.....	0.1	.....	.....	.....	.....	-1.31	-0.65	0.22	0.36	
Goods.....	30.9	1.1	0.2	5.4	8.8	0.36	0.06	1.65	2.63	
Services.....	59.0	4.4	2.1	3.1	3.0	2.50	1.21	1.85	1.80	
Structures.....	10.1	-7.0	-6.2	3.0	-5.1	-0.77	-0.68	0.32	-0.53	
<b>Addenda:</b>										
Motor vehicle output.....	3.0	-21.6	6.2	1.0	12.0	-0.74	0.18	0.03	0.33	
GDP excluding motor vehicle output.....	97.0	2.9	0.4	3.9	3.7	2.84	0.42	3.79	3.56	
Final sales of computers.....	0.7	27.0	-1.3	35.7	51.1	0.16	-0.01	0.21	0.29	
GDP excluding final sales of computers.....	99.3	1.9	0.6	3.6	3.6	1.93	0.61	3.61	3.61	

1. The estimates of GDP under the contribution columns are also percent changes.

NOTE: Percent changes are from NIPA table 1.2.1, contributions are from NIPA table 1.2.2, and shares are calculated from NIPA table 1.2.5.

Real final sales of domestic product, real GDP less inventory investment, increased 3.5 percent after increasing 3.6 percent in the second quarter.

Motor vehicle output accelerated sharply, increasing 12.0 percent, following a 1.0-percent increase in the second quarter.

Final sales of computers stepped up, increasing 51.1 percent after increasing 35.7 percent.

## Prices

Table 3. Prices for Gross Domestic Purchases

[Percent change at annual rates; based on seasonally adjusted index numbers (2000=100)]

	Change from preceding period (percent)				Contribution to percent change in gross domestic purchases prices (percentage points)			
	2006		2007		2006		2007	
	IV	I	II	III	IV	I	II	III
<b>Gross domestic purchases<sup>1</sup></b> .....	<b>0.1</b>	<b>3.8</b>	<b>3.8</b>	<b>1.6</b>	<b>0.1</b>	<b>3.8</b>	<b>3.8</b>	<b>1.6</b>
<b>Personal consumption expenditures</b> .....	<b>-0.9</b>	<b>3.5</b>	<b>4.3</b>	<b>1.7</b>	<b>-0.60</b>	<b>2.32</b>	<b>2.84</b>	<b>1.11</b>
Durable goods .....	-2.7	-1.9	-1.4	-1.8	-0.21	-0.14	-0.11	-0.13
Nondurable goods .....	-7.9	5.0	10.0	1.1	-1.58	0.96	1.89	0.22
Services .....	3.0	3.8	2.6	2.6	1.19	1.49	1.06	1.02
<b>Gross private domestic investment</b> .....	<b>2.2</b>	<b>2.0</b>	<b>-0.4</b>	<b>-0.7</b>	<b>0.30</b>	<b>0.30</b>	<b>-0.05</b>	<b>-0.10</b>
Fixed investment .....	2.0	1.9	-0.3	-0.7	0.30	0.29	-0.04	-0.10
Nonresidential .....	2.0	1.9	0.0	-0.7	0.20	0.19	0.00	-0.07
Structures .....	4.6	4.1	-1.1	0.2	0.14	0.13	-0.04	0.01
Equipment and software .....	0.8	1.0	0.5	-1.1	0.06	0.07	0.03	-0.07
Residential .....	2.1	2.0	-0.8	-0.8	0.11	0.10	-0.04	-0.03
Change in private inventories .....					0.03	0.01	-0.01	0.00
<b>Government consumption expenditures and gross investment</b> .....	<b>2.1</b>	<b>6.4</b>	<b>5.5</b>	<b>3.0</b>	<b>0.38</b>	<b>1.15</b>	<b>1.00</b>	<b>0.56</b>
Federal .....	0.5	5.3	3.8	1.5	0.03	0.35	0.26	0.10
National defense .....	-0.1	5.0	4.1	1.7	-0.01	0.23	0.18	0.08
Nondefense .....	1.7	5.9	3.3	1.0	0.04	0.13	0.07	0.02
State and local .....	3.1	7.0	6.5	4.0	0.35	0.80	0.74	0.46
<b>Addenda:</b>								
Gross domestic purchases:								
Food .....	2.1	5.0	4.8	4.8	0.19	0.47	0.44	0.44
Energy goods and services .....	-34.4	14.9	49.6	-5.5	-2.04	0.65	2.02	-0.29
Excluding food and energy .....	2.3	3.1	1.5	1.7	1.96	2.65	1.32	1.41
Personal consumption expenditures (PCE):								
Food .....	1.9	4.8	4.7	4.7				
Energy goods and services .....	-36.6	16.1	51.3	-6.7				
Excluding food and energy .....	1.9	2.4	1.4	1.8				
"Market-based" PCE .....	-1.6	3.6	4.7	1.4				
Excluding food and energy .....	1.6	2.4	1.2	1.5				
Gross domestic product .....	1.7	4.2	2.6	0.8				

1. The estimates under the contribution columns are also percent changes.

NOTE: Most percent changes are from NIPA table 1.6.7; percent changes for PCE for food and energy goods and services and for PCE excluding food and energy are calculated from index numbers in NIPA table 2.3.4. Contributions are from NIPA table 1.6.8.

Inflation, as measured by the gross domestic purchases price index, decelerated sharply. Prices paid by domestic purchasers increased 1.6 percent after increasing 3.8 percent. Energy prices turned down in the third quarter, and food prices increased at the same rate as in the second quarter. Excluding food and energy, gross domestic purchases prices increased 1.7 percent, following a 1.5-percent increase.

Consumer prices slowed markedly, increasing 1.7 percent after increasing 4.3 percent in the second quarter. The larger decrease in durable-goods prices mainly reflected a larger decrease in furniture and household equipment prices. The sharp deceleration in nondurable-goods prices mainly reflected a downturn in prices paid for gasoline, fuel oil, and other energy goods.

Prices of nonresidential fixed investment turned down, primarily reflecting a larger decrease in prices paid for transportation equipment.

Prices paid for residential fixed investment decreased the same as in the second quarter.

Prices paid by government slowed. The slowdown was widespread across Federal and state and local government goods and services.

Consumer prices excluding food and energy, a measure of the "core" rate of inflation, accelerated somewhat, increasing 1.8 percent after increasing 1.4 percent.

The GDP price index increased 0.8 percent, 0.8 percentage point less than the increase in the price index for gross domestic purchases, reflecting a larger increase in import prices than in export prices.

## Note on Prices

BEA's gross domestic purchases price index is the most comprehensive index of prices paid by U.S. residents for all goods and services. It is derived from the prices of personal consumption expenditures (PCE), private investment, and government consumption and investment.

BEA also produces price indexes for all components of GDP. The PCE price index is a measure of the total cost of consumer goods and services, including durable goods, nondurable goods, and services. PCE prices for food, energy goods and services, and for all items except food and energy are also estimated and reported. However, because prices for food and energy can be volatile, the price measure that excludes food and energy is often used as a measure of underlying, or "core," inflation.

BEA also prepares a supplemental PCE price index, the "market-based" PCE price index, which is based on market transactions for which there are corresponding price measures. This index excludes many imputed expenditures, such as services furnished without charge by financial intermediaries, that are included in PCE and the PCE price index. BEA also prepares a market-based measure that excludes food and energy.

More information on these market-based measures is available on BEA's Web site at <[www.bea.gov/bea/faq/national/markbsdPCE.htm](http://www.bea.gov/bea/faq/national/markbsdPCE.htm)>. For a comparison of price measures, including a comparison of the PCE price index and the Consumer Price Index, visit <[www.bea.gov/bea/papers.htm](http://www.bea.gov/bea/papers.htm)>.

## Personal Income

**Table 4. Personal Income and Its Disposition**

[Billions of dollars; quarterly estimates are seasonally adjusted at annual rates]

	Level		Change from preceding period		
	2007	2006	2007		
	III	IV	I	II	III
<b>Personal income</b> .....	<b>11,784.4</b>	<b>169.3</b>	<b>269.0</b>	<b>150.0</b>	<b>165.2</b>
Compensation of employees, received .....	7,947.9	157.4	165.0	85.0	98.0
Wage and salary disbursements .....	6,445.1	137.2	141.4	69.3	81.4
Private industries .....	5,372.0	126.9	127.0	59.1	70.2
Goods-producing industries .....	1,232.6	32.9	17.5	16.4	7.3
Manufacturing .....	770.2	19.0	12.1	10.5	4.3
Services-producing industries .....	4,139.4	94.1	109.5	42.6	62.9
Trade, transportation, and utilities .....	1,046.5	16.4	17.8	12.0	14.5
Other services-producing industries .....	3,093.0	77.7	91.6	30.7	48.5
Government .....	1,073.1	10.2	14.5	10.2	11.2
Supplements to wages and salaries .....	1,502.9	20.2	23.6	15.7	16.7
Proprietors' income with IVA and CCAj .....	1,045.7	6.2	17.6	11.0	7.3
Farm .....	38.4	5.8	5.2	4.0	5.3
Nonfarm .....	1,007.3	0.3	12.5	7.0	2.0
Rental income of persons with CCAj .....	67.6	-2.0	2.3	8.9	5.5
Personal income receipts on assets .....	1,969.3	8.5	46.3	47.1	39.3
Personal interest income .....	1,164.3	-16.9	23.3	22.3	15.9
Personal dividend income .....	805.0	25.4	23.0	24.8	23.4
Personal current transfer receipts .....	1,742.3	17.1	63.0	6.4	25.2
Less: Contributions for government social insurance .....	988.4	17.8	25.2	8.6	10.0
Less: Personal current taxes .....	1,499.6	45.8	53.7	30.9	14.0
<b>Equals: Disposable personal income</b> .....	<b>10,284.8</b>	<b>123.4</b>	<b>215.3</b>	<b>119.1</b>	<b>151.2</b>
<b>Less: Personal outlays</b> .....	<b>10,198.3</b>	<b>80.1</b>	<b>160.3</b>	<b>151.7</b>	<b>129.1</b>
<b>Equals: Personal saving</b> .....	<b>86.5</b>	<b>43.4</b>	<b>55.0</b>	<b>-32.6</b>	<b>22.1</b>
<b>Addenda: Special factors in personal income</b>					
In government wages and salaries:					
Federal pay raise .....	5.9	0.0	5.1	0.8	0.0
Reservists' pay .....	5.2	0.0	5.3	-1.0	0.7
In private wages and salaries:					
Irregular pay (bonuses and stock option exercise gains) .....	0.0	0.0	0.0	-25.0	0.0
In supplements to wages and salaries:					
Employer contributions for social insurance .....	2.4	0.0	2.4	0.0	0.0
In personal current transfer receipts:					
Social security retroactive payments .....	0.0	0.0	2.2	-2.2	0.0
Cost-of-living adjustments under Federal transfer programs .....	21.0	0.0	21.0	0.0	0.0
In contributions for government social insurance:					
Increase in taxable wage base .....	4.8	0.0	4.8	0.0	0.0
Changes in premium for supplementary medical insurance .....	3.4	0.0	3.4	0.0	0.0
In personal current taxes:					
Federal tax law changes .....	-4.0	0.0	-4.0	0.0	0.0
Refunds, settlements, and other .....	4.1	0.0	4.1	0.0	0.0

NOTE: Dollar levels are from NIPA tables 2.1 and 2.2B.  
IVA Inventory valuation adjustment

CCAj Capital consumption adjustment

Personal income, which is measured in current dollars, increased \$165.2 billion after increasing \$150.0 billion. The acceleration reflected accelerations in wage and salary disbursements and in personal current transfer receipts.

Wage and salary disbursements increased \$81.4 billion, compared with an increase of \$69.3 billion. The acceleration primarily reflected an acceleration in wages and salaries of services-producing industries.

Nonfarm proprietors' income slowed in the third quarter, increasing \$2.0 billion after an increase of \$7.0 billion in the second quarter.

Personal income receipts on assets slowed, mainly reflecting a deceleration in interest income.

The acceleration in personal current transfer receipts reflected an upturn in state and local government Medicaid payments.

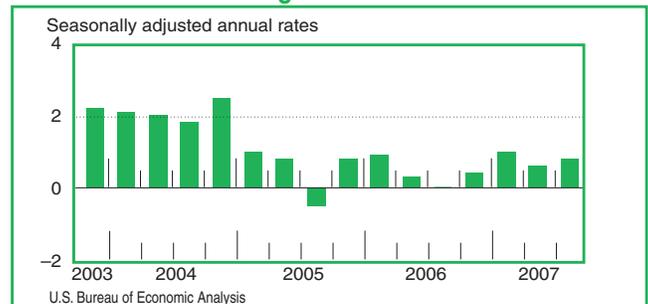
Personal current taxes decelerated, primarily reflecting a downturn in state and local income taxes.

Current-dollar disposable personal income accelerated, increasing \$151.2 billion after increasing \$119.1 billion. The acceleration reflected both the acceleration in personal income and the deceleration in personal current taxes.

### Saving

Personal saving—disposable personal income less personal outlays—was \$86.5 billion in the third quarter; it has been positive for four consecutive quarters. Saving from current income may be near zero or negative when outlays are financed by borrowing, by selling investments or other assets, or by using saving from previous periods. See “Alternative Measures of Personal Saving” in the February 2007 SURVEY OF CURRENT BUSINESS.

**Chart 2. Personal Saving Rate**



## Source Data for the Advance Estimates

**Table 5. Monthly Advance Estimates of Key NIPA Components Based on Partial Data, 2007:III**

[Billions of dollars, seasonally adjusted at annual rates]

	2007					
	April	May	June	July	August	Sept. <sup>1</sup>
<b>Private fixed investment:</b>						
Nonresidential structures:						
Value of new nonresidential construction put in place .....	336.3	343.3	346.3	345.5	353.4	349.5
Equipment and software:						
Manufacturers' shipments of complete aircraft .....	39.8	39.1	41.3	42.4	51.7	34.7
Residential structures:						
Value of new residential construction put in place:						
Single family .....	326.9	320.3	315.0	308.5	298.1	285.6
Multifamily.....	51.1	50.3	49.7	49.2	49.1	48.5
<b>Change in private inventories:</b>						
Change in inventories for nondurable manufacturing.....	13.1	22.0	14.1	3.9	-4.7	0.3
Change in inventories for merchant wholesale and retail industries other than motor vehicles and equipment .....	50.8	44.9	21.5	18.8	-6.8	16.2
<b>Net exports:<sup>2</sup></b>						
Exports of goods:						
U.S. exports of goods, international-transactions-accounts basis .....	1091.2	1121.3	1139.5	1183.3	1187.5	1183.1
Excluding gold .....	1073.4	1107.4	1121.8	1171.4	1170.2	1168.7
Imports of goods:						
U.S. imports of goods, international-transactions-accounts basis .....	1899.3	1943.1	1960.1	1996.5	1986.4	2006.2
Excluding gold .....	1886.7	1932.0	1954.6	1984.5	1977.1	1996.0
Net exports of goods.....	-808.1	-821.8	-820.6	-813.2	-799.0	-823.1
Excluding gold .....	-813.3	-824.6	-832.8	-813.1	-806.9	-827.3
<b>State and local government structures:</b>						
Value of new construction put in place.....	260.3	265.0	265.9	269.4	270.6	270.0

1. Assumption.

2. Nonmonetary gold is included in balance-of-payments exports and im-

ports, but it is not used directly in estimating exports and imports in the national income and product accounts.

### Summary of the Source Data for the Advance Estimates of GDP

The advance estimates of many components of GDP are based on 3 months of source data, but the estimates of some components are based on only 2 months of data. For the following items, the number of months for which data are available is shown in parentheses.

*Personal consumption expenditures:* Sales of retail stores (3), unit auto and truck sales (3), and consumers' shares of auto and truck sales (2);

*Nonresidential fixed investment:* Unit auto and truck sales (3), construction put in place (2), manufacturers' shipments of machinery and equipment other than aircraft (3), shipments of civilian aircraft (2), and exports and imports of machinery and equipment (2);

*Residential investment:* Construction put in place (2), single-family housing starts (3), sales of new homes (3), and sales of existing houses (3);

*Change in private inventories:* Trade and nondurable-goods manufacturing inventories (2), durable-goods manufacturing inventories (3), and unit auto and truck inventories (3);

*Net exports of goods and services:* Exports and imports of goods and services (2);

*Government consumption expenditures and gross investment:* Federal outlays (3), state and local government construction put in place (2), and state and local government employment (3);

*Compensation:* Employment, average hourly earnings, and average weekly hours (3);

*GDP prices:* Consumer price indexes (3), producer price indexes (3), and values and quantities of petroleum imports (2).

#### Unavailable source data

When source data were unavailable, BEA made various assumptions for September, including the following:

- A small increase in nondurable-goods manufacturing inventories,
- An increase in nonmotor vehicle merchant wholesale and retail inventories, and
- A decrease in exports of goods excluding gold and an increase in imports of goods excluding gold.

Table 5 shows the assumptions for key series; a more comprehensive list is available on BEA's Web site at [www.bea.gov/national/index.htm#supp](http://www.bea.gov/national/index.htm#supp).