

## Business Situation

### Final Estimates for the Third Quarter of 2001

REAL gross domestic product (GDP) decreased 1.3 percent in the third quarter, according to the “final” estimates of the national income and product accounts (NIPA’s) (table 1 and chart 1).<sup>1</sup> Last month’s “preliminary” estimate had shown a 1.1-percent decrease. (The source data underlying the revision to GDP and its components are discussed in the section “Revisions.”)

The third-quarter decrease was the weakest showing for real GDP since a 2.0-percent decline in the first quarter of 1991. The decrease followed four quarters of

*Daniel Larkins and Frederick von Batchelder prepared this article.*

slow growth that averaged only 1.2 percent, far below the 3.6-percent average growth rate over the first 37 quarters of the 1990s expansion.

The final and preliminary estimates are similar in many important respects. In both estimates,

- Real GDP—a measure of domestic production of goods and services—turned down from the second quarter to the third, and the decrease in the third quarter was the largest in over 10 years.
- The largest contributors to the decrease in GDP were exports, nonresidential fixed investment, and private inventory investment (table 2). The main offset to these decreases was an increase in con-

**Table 1. Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers**  
(Seasonally adjusted at annual rates)

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2001	2000	2001						
	III	IV	I	II	III	2000	2001		
						IV	I	II	III
<b>Gross domestic product</b> .....	<b>9,310.4</b>	<b>43.8</b>	<b>30.6</b>	<b>7.2</b>	<b>-31.3</b>	<b>1.9</b>	<b>1.3</b>	<b>0.3</b>	<b>-1.3</b>
Less: Exports of goods and services	1,052.2	-11.8	-3.4	-35.8	-56.1	-4.0	-1.2	-11.9	-18.8
Plus: Imports of goods and services	1,463.2	-2.1	-19.9	-33.6	-51.8	-0.5	-5.0	-8.4	-13.0
<b>Equals: Gross domestic purchases</b> .....	<b>9,695.1</b>	<b>52.9</b>	<b>16.0</b>	<b>10.0</b>	<b>-25.3</b>	<b>2.2</b>	<b>0.7</b>	<b>0.4</b>	<b>-1.0</b>
Less: Change in private inventories	-61.9	-8.9	-69.9	-11.2	-23.6	.....	.....	.....	.....
<b>Equals: Final sales to domestic purchasers</b> .....	<b>9,737.5</b>	<b>64.6</b>	<b>76.7</b>	<b>19.9</b>	<b>-6.2</b>	<b>2.7</b>	<b>3.2</b>	<b>0.8</b>	<b>-0.3</b>
Personal consumption expenditures .....	6,443.9	49.0	47.4	39.9	15.5	3.1	3.0	2.5	1.0
Durable goods .....	940.2	-4.7	23.0	15.7	2.1	-2.1	10.6	7.0	0.9
Nondurable goods .....	1,882.0	2.7	11.2	1.4	2.6	0.6	2.4	0.3	0.6
Services .....	3,640.4	48.6	16.3	24.7	10.6	5.6	1.8	2.8	1.2
Private fixed investment .....	1,671.6	2.0	8.2	-43.9	-24.8	0.5	1.9	-9.7	-5.7
Nonresidential .....	1,292.0	3.4	-0.6	-53.0	-28.9	1.0	-0.2	-14.6	-8.5
Structures .....	276.8	5.1	8.4	-9.4	-5.5	7.6	12.3	-12.2	-7.5
Equipment and software .....	1,019.4	-3.0	-11.6	-44.5	-23.8	-1.1	-4.1	-15.4	-8.8
Residential .....	380.5	-1.0	7.6	5.4	2.2	-1.1	8.5	5.9	2.4
Government consumption expenditures and gross investment .....	1,624.1	12.8	20.6	19.6	1.1	3.3	5.3	5.0	0.3
Federal .....	559.6	6.1	4.3	2.5	4.9	4.6	3.2	1.8	3.6
National defense .....	365.3	8.7	6.5	2.1	2.9	10.5	7.5	2.3	3.2
Nondefense .....	194.3	-2.5	-2.2	0.5	2.0	-5.1	-4.3	0.9	4.2
State and local .....	1,063.8	6.7	16.2	16.9	-3.6	2.7	6.4	6.6	-1.3
<b>Addendum: Final sales of domestic product</b> .....	<b>9,352.5</b>	<b>55.4</b>	<b>91.1</b>	<b>17.0</b>	<b>-12.3</b>	<b>2.4</b>	<b>4.0</b>	<b>0.7</b>	<b>-0.5</b>

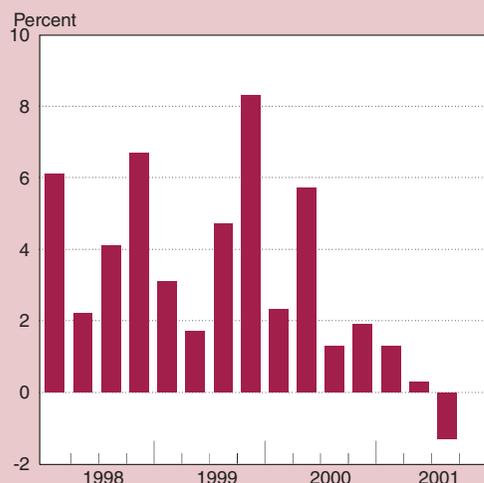
NOTE. Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar 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 begins on page D-2 in this issue.)

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

Real estimates are calculated using a chain-type Fisher formula with annual weights for all years and quarterly weights for all quarters; real estimates are expressed both as index numbers (1996=100) and as chained (1996) dollars. Price indexes (1996=100) are also calculated using a chain-type Fisher formula.

**CHART 1**

### Real Gross Domestic Product



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

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sumer spending.<sup>2</sup> Imports, which are subtracted in the calculation of GDP, decreased.

- The swing from positive to negative growth in GDP reflected weakening in consumer spending, in State and local government spending, and in exports.<sup>3</sup> The weakness in these components was partly offset

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

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

	2000	2001		
	IV	I	II	III
<b>Percent change at annual rate:</b>				
Gross domestic product.....	1.9	1.3	0.3	-1.3
<b>Percentage points at annual rates:</b>				
Personal consumption expenditures .....	2.14	2.05	1.72	0.67
Durable goods .....	-0.17	0.83	0.56	0.07
Nondurable goods .....	0.12	0.49	0.06	0.12
Services.....	2.19	0.73	1.10	0.48
Gross private domestic investment.....	-0.42	-2.28	-2.16	-1.79
Fixed investment.....	0.09	0.33	-1.74	-0.97
Nonresidential.....	0.13	-0.02	-1.99	-1.08
Structures .....	0.24	0.39	-0.44	-0.26
Equipment and software .....	-0.11	-0.41	-1.55	-0.82
Residential.....	-0.05	0.35	0.25	0.10
Change in private inventories .....	-0.50	-2.61	-0.42	-0.81
Net exports of goods and services .....	-0.39	0.63	-0.12	-0.27
Exports .....	-0.46	-0.13	-1.37	-2.13
Goods .....	-0.58	-0.19	-1.45	-1.55
Services.....	0.12	0.06	0.08	-0.58
Imports.....	0.07	0.76	1.25	1.86
Goods.....	0.07	0.87	1.21	1.20
Services.....	0	-0.11	0.05	0.66
Government consumption expenditures and gross investment.....	0.58	0.92	0.87	0.05
Federal.....	0.27	0.19	0.11	0.21
National defense .....	0.38	0.28	0.09	0.12
Nondefense.....	-0.11	-0.09	0.02	0.09
State and local .....	0.31	0.73	0.76	-0.16

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.

by nonresidential fixed investment, which did not decrease as much as in the second quarter. Imports decreased much more than in the second quarter.

- Private inventories were liquidated for the third consecutive quarter.
- Real gross domestic purchases—a measure of domestic demand for goods and services regardless of where they are produced—decreased for the first time since 1991.<sup>4</sup>
- The price index for gross domestic purchases decreased slightly after increasing. The downturn partly reflected the NIPA treatment of insurance benefits related to the terrorist attacks of September 11<sup>th</sup>.<sup>5</sup> Excluding the effect of these payments, the price index increased 0.6 percent.
- The personal saving rate and the rate of growth of real disposable personal income jumped sharply. Both movements reflected taxpayer refunds under the Economic Growth and Tax Relief Reconciliation Act of 2001.

3. In the NIPA's, government spending is shown as government consumption expenditures and gross investment.

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

5. For more information, see "The Terrorist Attacks of September 11<sup>th</sup> as Reflected in the National Income and Product Accounts," SURVEY OF CURRENT BUSINESS 81 (November 2001): 2–3. Revised estimates were presented in "Adjustments for the Terrorist Attacks," SURVEY, 81 (December 2001): 2.

## Revisions

The 0.2-percentage-point downward revision to real GDP growth in the third quarter is a little smaller than average (table 3). In the past 20 years, the average revision (without regard to sign) from the preliminary to the final estimate has been 0.3 percentage point.

**Table 3. Revisions to Change in Real Gross Domestic Product and Prices, Third Quarter 2001**

[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> .....	-1.1	-1.3	-0.2	-6.4
<i>Less: Exports</i> .....	-17.7	-18.8	-1.1	-3.3
Goods .....	-19.5	-19.4	0.1	0.2
Services .....	-13.5	-17.2	-3.7	-3.2
<i>Plus: Imports</i> .....	-12.9	-13.0	-0.1	-0.5
Goods .....	-9.7	-10.0	-0.3	-1.0
Services .....	-29.8	-29.1	0.7	0.5
<b>Equals: Gross domestic purchases</b> .....	-0.9	-1.0	-0.1	-4.0
<i>Less: Change in private inventories</i> .....				-1.8
<b>Equals: Final sales to domestic purchasers</b> .....	-0.2	-0.3	-0.1	-2.4
Personal consumption expenditures .....	1.1	1.0	-0.1	-2.6
Durable goods .....	0.7	0.9	0.2	0.4
Nondurable goods .....	0.5	0.6	0.1	0.2
Services .....	1.5	1.2	-0.3	-3.1
Fixed investment .....	-6.3	-5.7	0.6	2.7
Nonresidential .....	-9.3	-8.5	0.8	2.9
Structures .....	-9.3	-7.5	1.8	1.3
Equipment and software .....	-9.3	-8.8	0.5	1.3
Residential .....	2.5	2.4	-0.1	-0.1
Government consumption expenditures and gross investment .....	0.8	0.3	-0.5	-2.1
Federal .....	2.7	3.6	0.9	1.2
National defense .....	2.6	3.2	0.6	0.6
Nondefense .....	2.8	4.2	1.4	0.7
State and local .....	-0.1	-1.3	-1.2	-3.2
<b>Addenda:</b>				
Final sales of domestic product .....	-0.3	-0.5	-0.2	-4.9
Gross domestic purchases price index .....	-0.2	-0.1	0.1	.....
GDP price index .....	2.2	2.3	0.1	.....

NOTE: The final estimates for the third quarter of 2001 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

*Personal consumption expenditures:* Retail sales for September (revised), natural gas sales for July, bank services data for the third quarter, and brokerage services data for the third quarter.

*Nonresidential fixed investment:* Construction put-in-place for August and September (revised) and manufacturers' shipments of machinery and equipment for September (revised).

*Residential fixed investment:* Construction put-in-place for August and September (revised) and sales of new houses for July, August, and September (revised).

*Exports and imports of goods and services:* International transactions data for the second quarter (revised) and the third quarter (new).

*Government consumption expenditures and gross investment:* Construction put-in-place for August and September (revised), detailed data on Federal civilian employment for August and September (revised), and detailed financial data for the third quarter from the Department of Defense.

*Wages and salaries:* Employment, average hourly earnings, and average weekly hours for September (revised).

*GDP prices:* Workers' compensation for September (revised), price index for prepackaged software applications (revised), export and import prices for July through September (revised), unit-value index for petroleum imports for September (revised), prices of single-family houses under construction for the quarter (revised).

The third-quarter revision mainly reflected the following components, each of which contributed about -0.15 percentage point to the revision.

- State and local government gross investment in structures was revised down, mainly on the basis of revised Census Bureau data on construction put-in-place for August and September.
- Exports of services was revised down, mainly on the basis of newly available Department of Defense data on exports under U.S. military agency sales contracts for the third quarter and revised data for the second quarter.
- Consumer spending on services was revised down, mainly on the basis of newly available data on natural gas sales for July from the Energy Information Administration and newly available call report data on bank service charges for the third quarter from the Federal Deposit Insurance Corporation.

The largest offsets to these revisions, each of which contributed about 0.05 percentage point, were the following.

- Nonresidential equipment and software was revised up, mainly on the basis of a revised price index for prepackaged software applications.
- Nonresidential structures was revised up, mainly on the basis of revised Census Bureau data on construction put-in-place for August and September.
- Federal Government spending was revised up, mainly on the basis of revised Census Bureau data on construction put-in-place for August and September, revised data on employment for August and September from the Office of Personnel Management, and newly available financial data for the quarter from the Department of Defense.

The price index for gross domestic purchases decreased 0.1 percent according to the final estimate; the preliminary estimate had shown a 0.2-percent decrease. The small revision primarily reflected revisions to prices for services purchased by consumers—specifically for workers' compensation, reflecting revised BEA estimates of benefit payments resulting from the September 11<sup>th</sup> attacks.

## Gross National Product

Real gross national product (GNP) decreased 1.3 percent in the third quarter, its first drop since a 2.7-percent decline in the first quarter of 1991 (table 4).<sup>6</sup> The decrease in GNP was the same as the decrease in GDP because income receipts from the rest of the world and income payments to the rest of the world decreased by roughly equal amounts. For both receipts and payments, net interest income decreased more than corporate profits.

In contrast to the decline in real GNP, “command-basis” GNP—which measures the purchasing power of goods and services produced by the U.S. economy—increased 0.6 percent (chart 2). The difference between the two measures reflects an improvement in the terms of trade.<sup>7</sup> The terms of trade had

6. 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.

also improved, though considerably less, in the first and second quarters.

The national saving rate—gross saving as a percentage of GNP—held steady at 17.2 percent, its lowest level since the second quarter of 1996.

7. 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 a measure of the relationship between the prices that are received by U.S. producers for exports of goods and services and the prices that are paid by U.S. purchasers for imports of goods and services. It 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.

**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			2000		2001	
	2001	2000	2001			2000	2001		
	III	IV	I	II	III	IV	I	II	III
<b>Gross domestic product</b> .....	<b>9,310.4</b>	<b>43.8</b>	<b>30.6</b>	<b>7.2</b>	<b>-31.3</b>	<b>1.9</b>	<b>1.3</b>	<b>0.3</b>	<b>-1.3</b>
<i>Plus:</i> Income receipts from the rest of the world.....	296.2	12.7	-24.0	-30.7	-23.4	14.8	-23.2	-30.7	-26.3
<i>Less:</i> Income payments to the rest of the world.....	301.8	-7.9	-10.6	-29.5	-23.9	-8.2	-11.1	-29.3	-26.2
<b>Equals: Gross national product</b> .....	<b>9,304.9</b>	<b>64.5</b>	<b>17.4</b>	<b>6.4</b>	<b>-30.6</b>	<b>2.8</b>	<b>0.8</b>	<b>0.3</b>	<b>-1.3</b>
<i>Less:</i> Exports of goods and services and income receipts from the rest of the world.....	1,347.8	2.0	-29.1	-68.2	-80.2	0.5	-7.4	-17.0	-20.6
<i>Plus:</i> Command-basis exports of goods and services and income receipts from the rest of the world <sup>1</sup> .....	1,432.9	2.5	-20.5	-54.4	-34.4	0.7	-5.2	-13.6	-9.0
<b>Equals: Command-basis gross national product</b> .....	<b>9,390.1</b>	<b>65.0</b>	<b>26.1</b>	<b>20.2</b>	<b>15.2</b>	<b>2.8</b>	<b>1.1</b>	<b>0.9</b>	<b>0.6</b>
<b>Addendum:</b>									
<b>Terms of trade</b> <sup>2</sup> .....	<b>106.3</b>	<b>0</b>	<b>0.6</b>	<b>1.1</b>	<b>3.5</b>	<b>0</b>	<b>2.4</b>	<b>4.4</b>	<b>14.3</b>

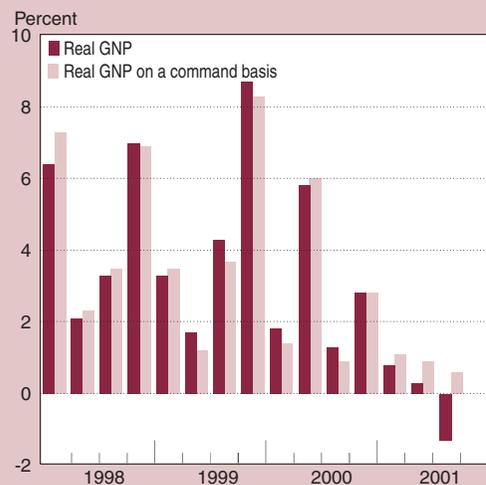
1. Exports of goods and services and income receipts deflated by the implicit price deflator for imports of goods and services and income payments.

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.

**CHART 2**

## Real Gross National Product



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

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## Corporate Profits

Corporate profits decreased again in the third quarter. The current-production measure of profits decreased \$62.8 billion (or 8.3 percent at a quarterly rate)—about twice as much as in the second quarter (table 5).<sup>8</sup> After four consecutive quarterly decreases, profits were 22.1 percent below the level of a year earlier.

This revised estimate of corporate profits for the third quarter is \$0.3 billion less negative than the preliminary estimate. A \$3.2 billion upward revision to profits from the rest of the world was largely offset by downward revisions to profits of domestic nonfinancial corporations (\$2.0 billion) and to profits of domestic financial corporations (\$0.9 billion).

Profits of domestic financial corporations decreased \$29.3 billion (17.7 percent). Profits of insurance carriers were reduced by the payments of insurance benefits associated with the terrorist attacks; current information suggests that these payments, net of foreign reinsurance, amounted to about \$40 billion (annual rate).

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

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

(In the NIPA's, benefit payments are recorded in the period in which the event occurs, and they reflect the full expected loss, regardless of when the payments are actually made.) In the second quarter, corporate profits had been reduced about \$19 billion by damage caused by Tropical Storm Allison and other severe storms.<sup>9</sup>

Profits of domestic nonfinancial corporations decreased \$35.6 billion (7.9 percent). The decrease would have been larger but for \$20 billion in subsidies that were received by airlines as a result of a bill passed by Congress after the September 11<sup>th</sup> attacks. Unit profits of nonfinancial corporations decreased for the fifth consecutive quarter, as unit costs increased more than prices. The real output of domestic nonfinancial corporations decreased for the first time since early 1993.<sup>10</sup>

Rest-of-the-world profits increased a little, as payments by U.S. affiliates of foreign corporations de-

9. Of this amount, payments of storm-related insurance benefits accounted for about \$18 billion, and uninsured losses accounted for about \$1 billion.

10. Output is defined here as real gross product of nonfinancial corporate business. It is a measure of the contribution, or value added, of nonfinancial corporations to the Nation's output, and it is calculated as the sum of incomes generated by these businesses.

**Table 5. Corporate Profits**  
[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change (quarterly rate)			
	Level	Change from preceding quarter				2000	2001		
		2001	2000	2001			IV	I	II
		III	IV	I	II	III	IV	I	II
<b>Profits from current production</b> .....	697.0	-47.4	-57.8	-30.0	-62.8	-5.3	-6.8	-3.8	-8.3
Domestic industries.....	550.9	-63.2	-41.1	-33.9	-64.9	-8.4	-5.9	-5.2	-10.5
Financial.....	136.1	0.3	-2.6	-19.5	-29.3	0.2	-1.3	-10.6	-17.7
Nonfinancial.....	414.8	-63.4	-38.6	-14.4	-35.6	-11.2	-7.7	-3.1	-7.9
Rest of the world.....	146.1	15.8	-16.8	4.0	2.1	11.2	-10.7	2.9	1.5
Receipts (inflows).....	185.9	5.4	-9.4	-7.0	-8.1	2.6	-4.5	-3.5	-4.2
Payments (outflows).....	39.8	-10.4	7.4	-11.0	-10.2	-16.2	13.7	-18.0	-20.5
IVA.....	3.1	-3.7	5.4	-6.9	11.9	.....	.....	.....	.....
CCAdj.....	13.4	-2.0	-2.4	-5.7	-16.9	.....	.....	.....	.....
Profits before tax.....	680.6	-41.8	-60.8	-17.4	-57.7	-4.9	-7.4	-2.3	-7.8
Profits tax liability.....	204.9	-21.4	-16.7	-8.8	-23.1	-7.8	-6.6	-3.7	-10.1
Profits after tax.....	475.6	-20.4	-44.1	-8.6	-34.7	-3.5	-7.8	-1.7	-6.8
Cash flow from current production.....	918.6	-23.2	-35.1	-6.5	13.5	-2.4	-3.7	-0.7	1.5
<b>Domestic industry profits:</b>									
Corporate profits of domestic industries with IVA.....	537.5	-61.2	-38.6	-28.4	-47.9	-8.6	-5.9	-4.6	-8.2
Financial.....	153.4	1.3	-2.2	-18.9	-29.9	0.7	-1.1	-9.3	-16.3
Nonfinancial.....	384.1	-62.6	-36.4	-9.5	-18.0	-12.3	-8.1	-2.3	-4.5
Manufacturing.....	84.0	-40.0	-29.0	3.0	-9.4	-25.1	-24.3	3.4	-10.0
Transportation and public utilities.....	54.8	-3.2	-0.9	-3.8	-7.8	-4.5	-1.3	-5.7	-12.5
Wholesale trade.....	45.4	-7.8	-15.6	-6.3	11.4	-12.2	-28.0	-15.6	33.4
Retail trade.....	87.3	-8.2	8.6	0.7	1.7	-9.7	11.3	0.8	2.0
Other.....	112.6	-3.4	0.6	-3.2	-13.9	-2.5	0.4	-2.4	-11.0
Unit price, costs, and profits of nonfinancial corporations:									
Unit price.....	1.069	0.004	0.005	0.006	0.007	.....	.....	.....	.....
Unit labor cost.....	0.721	0.015	0.009	0.004	0.007	.....	.....	.....	.....
Unit nonlabor cost.....	0.269	0.002	0.003	0.005	0.008	.....	.....	.....	.....
Unit profits from current production.....	0.080	-0.012	-0.008	-0.003	-0.006	.....	.....	.....	.....

NOTE: Levels of these and other profits series are shown in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

IVA Inventory valuation adjustment  
CCAdj Capital consumption adjustment

creased more than receipts from foreign affiliates of U.S. corporations.<sup>11</sup>

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$13.5 billion after decreasing \$6.5 billion.<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, increased from 71.8 percent to 74.6 percent. In 1991–99, the ratio averaged 84 percent and ranged from a low of 72 percent to a high of 94 percent.

**Domestic industry profits and related measures.** Domestic industry profits decreased \$47.9 billion, a little more than the average decrease of \$42.7 billion over the three preceding quarters.<sup>13</sup> The largest change in the third quarter was a decrease in profits of financial

corporations, reflecting the effect of the terrorist attacks on insurance company profits (chart 3). Profits of nonfinancial corporations also decreased; within nonfinancial corporations, decreases in manufacturing, transportation and public utilities, and “other” nonfinancial corporations were only partly offset by increases in wholesale trade and retail trade. Profits of most manufacturing industries decreased; a notable exception was profits of motor vehicle manufacturers, which posted its sharpest increase since late 1992.

Profits before tax decreased almost as much as profits from current production. The relatively small difference between the two measures reflected a decrease in the capital consumption adjustment that was partly offset by an increase in the inventory valuation adjustment.<sup>14</sup>

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

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

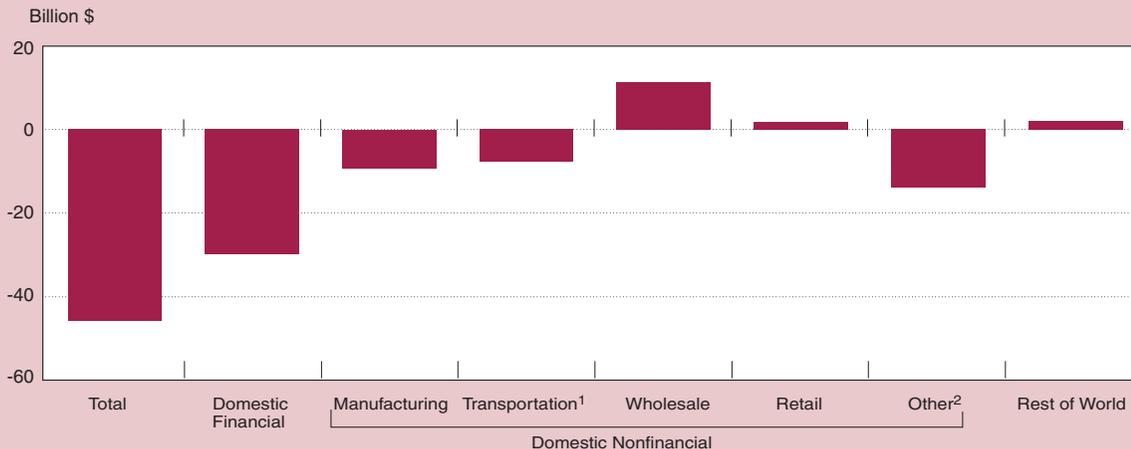
13. Domestic industry profits are estimated as the sum of corporate profits before tax and the inventory valuation adjustment; they are shown in NIPA table 6.16C (on page D–16 of this issue). Estimates of the capital consumption adjustment do not exist at a detailed industry level; they are available only for total financial and total nonfinancial industries.

14. As prices change, companies that value inventory withdrawals at original acquisition (historical) costs may realize inventory profits or losses. Inventory profits—a capital-gains-like element in profits—result from an increase in inventory prices, and inventory losses—a capital-loss-like element in profits—result from a decrease in inventory prices. In the NIPAs, inventory profits or losses are removed from business incomes by the inventory valuation adjustment (IVA); a negative IVA removes inventory profits, and a positive IVA removes inventory losses.

The capital consumption adjustment converts depreciation valued at historical cost and based on service lives and depreciation patterns specified in the tax code to depreciation valued at current cost and based on empirical evidence on the prices of used equipment and structures in resale markets. For information on depreciation in the NIPAs, see Arnold J. Katz and Shelby W. Herman, “Improved Estimates of Fixed Reproducible Tangible Wealth, 1929–95,” *SURVEY 77* (May 1997): 69–92.

**CHART 3**

**Corporate Profits with Inventory Valuation Adjustment:  
Change from 2001:II to 2001:III**



1. Also includes communications and public utilities.

2. “Other” nonfinancial corporations includes the agriculture, mining, construction, and services industries, along with some activities included in the “finance, insurance, and real estate” group.

Note.—Based on seasonally adjusted estimates.