

an upturn in imports, and by decelerations in state and local government spending and in residential fixed investment.

- Inventory investment subtracted 0.43 percentage point from real GDP growth after subtracting 2.14 percentage points in the second quarter. Upturns in inventory investment in durable-goods manufacturing and in retail motor vehicles were partly offset by a downturn in mining, utilities, and construction and in “other” retail stores. Real inventory stocks decreased \$13.3 billion in third quarter; stocks had decreased \$1.7 billion in the second quarter.
- Consumer spending accelerated, increasing 4.1 per-

cent after increasing 3.4 percent; it added 2.85 percentage points to real GDP growth after adding 2.35 percentage points in the second quarter. Spending for electricity and gas turned up in the third quarter, and spending for furniture and household equipment, for food, for motor vehicles and parts, and for medical services accelerated. Spending for “other” nondurable goods turned down.

- Federal Government spending increased 7.4 percent after increasing 2.4 percent in the second quarter and contributed 0.52 percentage point to real GDP growth after contributing 0.17 percentage point. The acceleration was primarily due to a step-up in defense spending.
- Net exports subtracted 0.12 percentage point from real GDP growth after adding 1.11 percentage points in the second quarter. Exports decelerated, increasing 2.5 percent after increasing 10.7 percent, and contributed 0.26 percentage point to real GDP growth after contributing 1.07 percentage points. The deceleration was primarily due to downturns in civilian aircraft, engines, and parts, in nondurable industrial supplies and materials, and in foods, feeds, and beverages. Travel services also turned down. The downturns were partly offset by an upturn in “other” private services and in automotive vehicles, engines and parts. Imports turned up, increasing 2.4 percent after decreasing 0.3 percent, primarily because of a smaller decrease in petroleum and products, upturns in “other” goods imports, in consumer durable goods, and in automotive vehicles, engines, and parts that were partly offset by downturns in consumer nondurable goods and in civilian aircraft, engines, and parts. Services imports also turned down. Imports subtracted 0.38 percentage point from real GDP growth in the third quarter after adding 0.04 percentage point in the second quarter.

- State and local government spending decelerated, increasing 0.2 percent after increasing 2.6 percent. The deceleration was primarily due to a downturn in investment in structures.
- Residential fixed investment increased 7.3 percent after increasing 10.8 percent and contributed 0.43 percentage point to real GDP growth after contributing 0.62 percentage point. The deceleration was primarily due to a sharp deceleration in brokers commissions on the sale of residential structures (in “other” structures) that was partly offset by an acceleration in single-family structures.

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

- Real final sales of domestic product (real GDP less the change in private inventories) increased 4.6

Table 2. Final and Preliminary Estimates for the Third Quarter of 2005
[Seasonally adjusted at annual rates]

	Percent change from preceding quarter			Contribution to percent change in real GDP		
	Final estimate	Preliminary estimate	Final minus preliminary	Final estimate	Preliminary estimate	Final minus preliminary
Gross domestic product (GDP).....	4.1	4.3	-0.2	4.1	4.3	-0.2
Personal consumption expenditures.....	4.1	4.2	-0.1	2.85	2.97	-0.12
Durable goods.....	9.3	10.5	-1.2	0.76	0.85	-0.09
Nondurable goods.....	3.5	3.6	-0.1	0.73	0.74	-0.01
Services.....	3.3	3.3	0.0	1.36	1.38	-0.02
Gross private domestic investment.....	5.3	5.8	-0.5	0.87	0.96	-0.09
Fixed investment.....	8.0	8.6	-0.6	1.31	1.40	-0.09
Nonresidential.....	8.5	8.8	-0.3	0.88	0.91	-0.03
Structures.....	2.2	2.7	-0.5	0.06	0.07	-0.01
Equipment and software.....	10.6	10.8	-0.2	0.82	0.83	-0.01
Residential.....	7.3	8.4	-1.1	0.43	0.50	-0.07
Change in private inventories.....				-0.43	-0.44	0.01
Net exports of goods and services.....				-0.12	-0.25	0.13
Exports.....	2.5	0.8	1.7	0.26	0.09	0.17
Goods.....	3.2	3.0	0.2	0.23	0.22	0.01
Services.....	1.0	-3.9	4.9	0.03	-0.13	0.16
Imports.....	2.4	2.1	0.3	-0.38	-0.34	-0.04
Goods.....	3.5	3.3	0.2	-0.46	-0.44	-0.02
Services.....	-3.2	-3.9	0.7	0.09	0.10	-0.01
Government consumption expenditures and gross investment.....	2.9	3.2	-0.3	0.54	0.60	-0.06
Federal.....	7.4	8.1	-0.7	0.52	0.56	-0.04
National defense.....	10.0	10.3	-0.3	0.46	0.48	-0.02
Nondefense.....	2.4	3.6	-1.2	0.06	0.08	-0.02
State and local.....	0.2	0.4	-0.2	0.03	0.04	-0.01
Addenda:						
Final sales of domestic product.....	4.6	4.7	-0.1	4.58	4.73	-0.15
Gross domestic purchases price index.....	4.2	4.0	0.2			
GDP price index.....	3.3	3.0	0.3			

NOTE: The final estimates for the third quarter of 2005 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), sales of natural gas for August (revised) and September (newly available).

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

Residential fixed investment: Construction put-in-place data for August and September (revised).

Change in private inventories: Manufacturers' and trade inventories for September (revised).

Exports and imports of goods and services: International transactions data for services for the second and third quarters (revised) and goods data for September (revised).

Government consumption expenditures and gross investment: State and local construction put-in-place data for August and September (revised).

Wages and salaries: Employment, average hourly earnings, and average weekly hours for July through September (revised), and data on employer costs for employee compensation for the third quarter (newly available).

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

percent after increasing 5.6 percent in the second quarter.

- Real gross domestic purchases (GDP less net exports) increased 4.0 percent after increasing 2.1 percent in the second quarter.
- Real gross national product (GNP) increased 4.4 percent after increasing 3.2 percent.³ The third-quarter increase in GNP is 0.3 percentage point more than the increase in GDP; an increase in income receipts from the rest of the world more than offset an increase in income payments to the rest of the world.
- The gross saving rate (saving from all sources as a percentage of gross national income) was 13.5 percent in the third quarter and 13.2 percent in the second quarter. The net saving rate turned down to a negative 1.3 percent from 1.4 percent, reflecting the destruction of assets from the hurricanes.⁴
- The personal saving rate was a negative 1.8 percent in the third quarter, 0.3 percentage point more negative than in the preliminary estimate; it was a negative 0.2 percent in the second quarter.

Effects of the hurricanes

Hurricanes, like other natural disasters, have a twofold effect on economic activity: They destroy property and thus reduce the stock of fixed assets, and they change the volume and pattern of current economic activity.

Destruction of property. The BEA measure of capital depreciation, the consumption of fixed capital (CFC), captures the reduction in the stock of fixed assets. A rise in CFC results in an equal decline in national income and net domestic product. In the third quarter, CFC rose \$383.8 billion (at an annual rate) because of the hurricanes.

The destruction of property also affected personal and business income and triggered payments of insurance benefits. BEA estimates of the affected net income flows are included in its estimates of proprietors' income, rental income, corporate profits, and business transfer payments (table 3).⁵ The estimates reflect uninsured losses resulting from the hurricanes as well as the treatment of insurance services that BEA introduced as part of its 2003 comprehensive revision of the

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

4. Net saving, which excludes the consumption of fixed capital, is a measure of the saving that is available for augmenting the stock of fixed assets.

5. See the box "The Impact of the Third-Quarter Hurricanes on the NIPAs," SURVEY OF CURRENT BUSINESS 85 (December 2005): 4. For a broader explanation of the effects of disasters on the NIPAs, see <www.bea.gov/bea/fq/national/FAQ.htm> on BEA's Web site.

NIPAs.⁶

Changed economic activity. Natural disasters have myriad economic consequences, as normal production and activities are curtailed or terminated. In the case of the hurricanes, for example, the reduction in incomes and tourism adversely affected consumer and business spending. Also, damages to assets adversely affected petroleum and chemicals production. However, as assets are restored, the effects of construction will be reflected in investment spending.

These kinds of changes in the current level and pattern of activity are not separately identifiable in the GDP estimate, because they cannot be isolated in the source data that are used to calculate the NIPA aggregates.

6. See Brent R. Moulton and Eugene P. Seskin, "Preview of the 2003 Comprehensive Revision of the National Income and Product Accounts: Changes in Definitions and Classifications," SURVEY 83 (June 2003): 17–34; and Baoline Chen and Dennis J. Fixler, "Measuring the Services of Property-Casualty Insurance in the NIPAs: Changes in Concepts and Methods," SURVEY 83 (October 2003): 10–26.

Table 3. Revised Hurricane Damages and Insurance Settlements for the Third Quarter of 2005¹

(Billions of dollars; quarterly estimates at annual rates)²

Line	Total	Damage to fixed assets	Insurance benefits ³	Level			
1	0.0	0.0	0.0				
2	383.8	383.8	.....			
3	-383.8	-383.8	0.0				
4	.....	.....	.....	
5	-103.7	-229.4	125.7				
6	.....	.....	.....	
7	-165.3	-88.8	-76.5				
8	.....	.....	-264.6				
9	.....	.....	60.2				
10	.....	.....	92.4				
11	.....	.....	3.6				
12	.....	.....	32.0				
13	-78.7	.....	-78.7				
14	.....	.....	45.5				
15	.....	.....	-87.8				
16	.....	.....	-92.4				
17	.....	.....	4.6				
18	.....	.....	-36.4				
19	-14.6	-14.6	.....			
20	-0.4	-0.4	.....			
21	-14.2	-14.2	.....			
22	-165.3	-88.8	-76.5				
23	-124.2	.....	-124.2				
24	-14.6	-14.6	.....			
25	-79.8	-280.4	200.7				
26	.....	.....	.....	
27	-79.8	-280.4	200.7				
28	-21.6	-51.0	29.4				
29	-103.7	-229.4	125.7				
30	45.5	.....	45.5				

1. Includes only explicit adjustments to source data for write-offs of nonrepairable damage and for insurance. Excludes impacts that are assumed to be reflected in source data.

2. The estimates of the actual damages and insurance settlements (not at an annual rate) can be derived by dividing the numbers shown in the table by 4; actual damages to fixed assets in personal income, for example, are estimated to be \$70.1 billion (\$280.4 billion at an annual rate).

3. Includes business interruption insurance.

4. Includes benefits paid to persons for the loss of personal property, such as motor vehicles and household furnishings and equipment.

NOTE: The estimates reflect the "final" GDP release on December 21, 2005.

