

GDP and the Economy

Advance Estimates for the Third Quarter of 2008

THE ECONOMY contracted in the third quarter of 2008, according to the “advance” estimates of the national income and product accounts (NIPAs).¹ Real gross domestic product (GDP) decreased 0.3 percent after increasing 2.8 percent in the second quarter (chart 1 and table 1).²

The third-quarter downturn in real GDP primarily reflected a sharp downturn in consumer spending, a smaller decrease in imports, a deceleration in exports, a downturn in nonresidential fixed investment, and a larger decrease in residential investment (see page 2). In contrast, inventory investment turned up, and federal government spending accelerated.³

- Prices of goods and services purchased by U.S. residents increased 4.8 percent after increasing 4.2 percent (see page 3). Food prices accelerated, and energy prices decelerated in the third quarter. Excluding food and energy, gross domestic purchases prices increased 3.1 percent in the third quarter after increasing 2.2 percent in the second.
- Real disposable personal income (DPI) decreased 8.7 percent in the third quarter after increasing 11.9 percent in the second quarter, reflecting a downturn in current-dollar DPI and an acceleration in the personal consumption expenditures implicit price deflator used to deflate DPI. Current-dollar DPI turned down sharply, reflecting a sharp deceleration in personal income and a sharp upturn in personal current taxes (see page 4); both primarily reflected the second-quarter effects of the rebate payments to individuals from the Economic Stimulus Act of 2008.⁴
- The personal saving rate was 1.3 percent in the third quarter; in the second quarter, it was 2.7 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 and www.bea.gov/bea/faq/national/gdp_accuracy.htm. Quarterly estimates are expressed at seasonally adjusted annual rates, which assumes that a rate of activity for a quarter is maintained for a year.

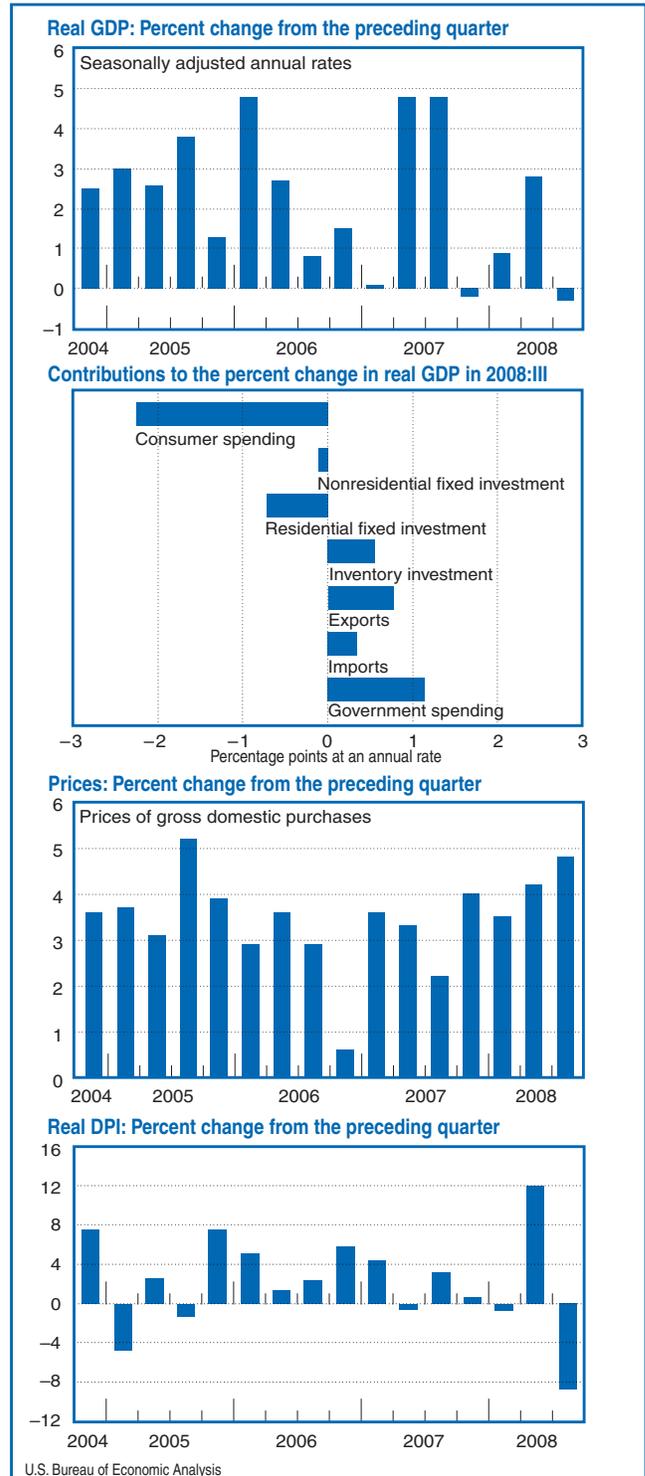
2. “Real” estimates are in chained (2000) dollars, and price indexes are chain-type measures.

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.”

4. For more information about these rebate payments, see FAQ 490 on BEA’s Web site.

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)			
		2008	2007	2008			2007	2008		
				III	IV	I		II	III	IV	I	II	III
Gross domestic product¹.....	100.0	-0.2	0.9	2.8	-0.3	-0.2	0.9	2.8	-0.3	
Personal consumption expenditures.....	70.6	1.0	0.9	1.2	-3.1	0.67	0.61	0.87	-2.25	
Durable goods.....	7.1	0.4	-4.3	-2.8	-14.1	0.03	-0.33	-0.21	-1.10	
Nondurable goods.....	21.1	0.3	-0.4	3.9	-6.4	0.05	-0.08	0.80	-1.41	
Services.....	42.4	1.4	2.4	0.7	0.6	0.59	1.02	0.28	0.26	
Gross private domestic investment.....	13.9	-11.9	-5.8	-11.5	-1.9	-1.93	-0.89	-1.74	-0.27	
Fixed investment.....	14.3	-6.2	-5.6	-1.7	-5.6	-0.97	-0.86	-0.25	-0.83	
Nonresidential.....	11.0	3.4	2.4	2.5	-1.0	0.36	0.26	0.27	-0.11	
Structures.....	4.0	8.5	8.6	18.5	7.9	0.29	0.30	0.64	0.30	
Equipment and software.....	7.0	1.0	-0.6	-5.0	-5.5	0.07	-0.04	-0.37	-0.40	
Residential.....	3.3	-27.0	-25.1	-13.3	-19.1	-1.33	-1.12	-0.52	-0.72	
Change in private inventories.....	-0.4	.....	.....	.....	.....	-0.96	-0.02	-1.50	0.56
Net exports of goods and services.....	-4.9	.....	.....	.....	.....	0.94	0.77	2.93	1.13
Exports.....	13.7	4.4	5.1	12.3	5.9	0.53	0.63	1.54	0.78	
Goods.....	9.6	5.1	4.5	16.3	7.5	0.43	0.39	1.39	0.68	
Services.....	4.1	2.7	6.4	3.8	2.3	0.10	0.24	0.15	0.09	
Imports.....	18.6	-2.3	-0.8	-7.3	-1.9	0.40	0.14	1.39	0.35	
Goods.....	15.7	-2.6	-2.0	-7.1	-2.8	0.38	0.29	1.14	0.45	
Services.....	3.0	-0.9	5.5	-8.0	3.5	0.02	-0.15	0.25	-0.10	
Government consumption expenditures and gross investment.....	20.4	0.8	1.9	3.9	5.8	0.16	0.38	0.78	1.15	
Federal.....	7.6	-0.5	5.8	6.6	13.8	-0.04	0.41	0.47	0.97	
National defense.....	5.3	-0.9	7.3	7.3	18.1	-0.04	0.34	0.36	0.86	
Nondefense.....	2.3	0.4	2.9	5.0	4.8	0.01	0.06	0.11	0.11	
State and local.....	12.8	1.6	-0.3	2.5	1.4	0.19	-0.03	0.31	0.18	

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.

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)			
		2008	2007	2008			2007	2008		
				III	IV	I		II	III	IV	I	II	III
Gross domestic product¹.....	100.0	-0.2	0.9	2.8	-0.3	-0.2	0.9	2.8	-0.3	
Final sales of domestic product.....	100.4	0.8	0.9	4.4	-0.8	0.79	0.89	4.32	-0.81	
Change in private inventories.....	-0.4	.....	.....	.....	.....	-0.96	-0.02	-1.50	0.56
Goods.....	30.0	0.0	0.9	4.9	-3.7	0.01	0.29	1.49	-1.14	
Services.....	60.5	1.3	2.7	1.7	2.0	0.79	1.62	1.02	1.22	
Structures.....	9.4	-9.3	-10.1	3.3	-3.5	-0.97	-1.03	0.32	-0.33	
Addenda:										
Motor vehicle output.....	2.3	-25.7	-14.2	-33.8	4.1	-0.86	-0.41	-1.01	0.09	
GDP excluding motor vehicle output.....	97.7	0.7	1.3	4.0	-0.3	0.69	1.28	3.84	-0.34	
Final sales of computers.....	0.6	23.7	8.2	28.4	10.2	0.14	0.05	0.17	0.06	
GDP excluding final sales of computers.....	99.4	-0.3	0.8	2.7	-0.3	-0.31	0.82	2.66	-0.31	

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.

Consumer spending turned down sharply in the third quarter, reducing the change in real GDP by 2.25 percentage points. The downturn was the largest since the second quarter of 1980. A downturn in nondurable goods reflected downturns in food, clothing and shoes, and "other" nondurable goods. A larger decrease in durable goods reflected a downturn in furniture and household equipment and a larger decrease in motor vehicles and parts. Spending for services grew about the same rate as in the second quarter.

Nonresidential fixed investment turned down, primarily reflecting a deceleration in structures.

Residential investment decreased more than in the second quarter, subtracting 0.72 percentage point from the change in real GDP after subtracting 0.52 percentage point.

Inventory investment turned up, adding 0.56 percentage point to the change in real GDP after subtracting 1.50 percentage points.

Exports slowed, mainly reflecting a deceleration in goods exports. "Other" goods exports turned down, and both industrial supplies and materials and nonautomotive capital goods decelerated. Exports of services slowed.

Imports decreased less than in the second quarter, mainly reflecting a much smaller third-quarter decrease in petroleum and petroleum products. Imports of services turned up.

Government spending picked up, mainly reflecting an acceleration in federal defense spending. State and local government spending slowed.

Real final sales of domestic product, real GDP less inventory investment, decreased 0.8 percent, the largest decrease since the first quarter of 1991. In the second quarter, final sales increased 4.4 percent.

Motor vehicle output turned up, increasing 4.1 percent after decreasing 33.8 percent. It added 0.09 percentage point to the change in real GDP after subtracting 1.01 percentage points.

Final sales of computers slowed, increasing 10.2 percent after increasing 28.4 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)			
	2007		2008		2007		2008	
	IV	I	II	III	IV	I	II	III
Gross domestic purchases¹	4.0	3.5	4.2	4.8	4.0	3.5	4.2	4.8
Personal consumption expenditures	4.3	3.6	4.3	5.4	2.88	2.43	2.87	3.63
Durable goods	-1.6	-0.1	-1.6	-0.6	-0.11	-0.01	-0.11	-0.04
Nondurable goods	8.4	6.7	6.5	10.3	1.60	1.30	1.29	2.03
Services	3.5	2.8	4.2	4.0	1.39	1.13	1.69	1.64
Gross private domestic investment	1.3	-0.5	0.4	2.3	0.20	-0.07	0.05	0.31
Fixed investment	1.2	-0.2	0.8	2.9	0.18	-0.03	0.11	0.39
Nonresidential	1.7	0.6	2.3	4.2	0.18	0.06	0.23	0.43
Structures	4.5	2.7	3.3	7.2	0.15	0.09	0.12	0.26
Equipment and software	0.4	-0.4	1.7	2.5	0.03	-0.03	0.12	0.17
Residential	0.0	-2.6	-3.5	-1.2	0.00	-0.10	-0.12	-0.04
Change in private inventories .....	.....	.....	.....	.....	0.02	-0.03	-0.06	-0.09
Government consumption expenditures and gross investment	5.1	6.2	7.0	4.3	0.94	1.15	1.32	0.84
Federal	2.3	5.6	5.1	2.6	0.15	0.38	0.36	0.19
National defense	3.1	5.1	6.3	2.9	0.14	0.24	0.29	0.15
Nondefense	0.5	6.8	2.8	1.7	0.01	0.15	0.06	0.04
State and local	6.8	6.6	8.1	5.4	0.79	0.77	0.96	0.65
Addenda:								
Gross domestic purchases:								
Food	4.3	4.7	6.1	8.4	0.41	0.44	0.57	0.79
Energy goods and services	35.1	24.2	35.5	25.1	1.58	1.21	1.79	1.35
Excluding food and energy	2.4	2.2	2.2	3.1	2.03	1.85	1.88	2.63
Personal consumption expenditures (PCE):								
Food	3.8	4.9	6.5	8.5	.....	.....	.....	.....
Energy goods and services	32.2	19.0	27.4	31.6	.....	.....	.....	.....
Excluding food and energy	2.5	2.3	2.2	2.9	.....	.....	.....	.....
"Market-based" PCE	4.4	3.7	4.3	5.6	.....	.....	.....	.....
Excluding food and energy	2.2	2.1	1.8	2.6	.....	.....	.....	.....
Gross domestic product	2.8	2.6	1.1	4.2	.....	.....	.....	.....

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.

The price index for gross domestic purchases increased 4.8 percent in the third quarter after increasing 4.2 percent in the second quarter. Food prices accelerated and energy prices decelerated. Excluding food and energy, gross domestic purchases prices increased 3.1 percent after increasing 2.2 percent.

Consumer prices accelerated, mainly reflecting an acceleration in the prices of nondurable goods. Prices paid for gasoline, fuel oil, and other energy goods accelerated, prices paid for clothing and shoes turned up, and food prices picked up.

Prices of nonresidential fixed investment accelerated, reflecting pickups in prices paid for both structures and equipment and software.

Prices paid for residential fixed investment decreased less than in the second quarter.

Prices paid by government slowed, reflecting decelerations in prices paid by state and local government and by the federal government (mainly defense).

Consumer prices excluding food and energy, a measure of the "core" rate of inflation, picked up, increasing 2.9 percent after increasing 2.2 percent.

The GDP price index increased 4.2 percent in the third quarter, 0.6 percentage point less than the increase in the gross domestic purchases price index, reflecting a larger increase in import prices than in export prices. (For more information about GDP prices and gross domestic purchase prices, see FAQ 499 on BEA's Web site.)

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. 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 the prices of 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 price measure that excludes food and energy. For more information about these measures, see FAQ 83 "What is the Market-Based PCE Price Index?" on BEA's Web site.

See also "Comparing the Consumer Price Index and the Personal Consumption Expenditures Price Index" in the November 2007 SURVEY OF CURRENT BUSINESS.

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		
	2008	2007	2008		
	III	IV	I	II	III
Personal income	12,219.9	141.7	88.4	228.4	31.0
Compensation of employees, received	8,135.6	101.7	68.7	62.1	63.8
Wage and salary disbursements	6,623.2	87.8	52.5	50.6	54.6
Private industries	5,485.1	76.4	34.9	37.0	39.8
Goods-producing industries	1,223.7	13.9	-0.5	-1.4	7.4
Manufacturing	749.2	6.8	-1.8	0.1	0.7
Services-producing industries	4,261.4	62.7	35.2	38.5	32.4
Trade, transportation, and utilities	1,051.3	13.0	2.1	-1.1	2.0
Other services-producing industries	3,210.1	49.5	33.3	39.5	30.4
Government	1,138.2	11.3	17.6	13.7	14.8
Supplements to wages and salaries	1,512.4	13.9	16.2	11.4	9.3
Proprietors' income with IVA and CCAj	1,080.0	10.0	-2.1	5.2	3.1
Farm	31.2	-0.3	-5.5	-3.6	-6.8
Nonfarm	1,048.8	10.3	3.4	8.9	9.8
Rental income of persons with CCAj	64.3	-3.2	0.5	19.5	5.7
Personal income receipts on assets	2,070.6	25.3	-2.1	-1.8	18.3
Personal interest income	1,232.3	6.5	-18.1	-15.9	23.6
Personal dividend income	838.3	18.8	16.0	14.1	-5.3
Personal current transfer receipts	1,871.6	17.2	40.3	148.2	-54.7
Less: Contributions for government social insurance	1,002.2	9.3	16.9	4.8	5.2
Less: Personal current taxes	1,487.5	18.9	14.5	-180.9	133.4
Equals: Disposable personal income	10,732.4	122.7	74.0	409.3	-102.4
Less: Personal outlays	10,592.7	127.2	95.7	133.3	54.5
Equals: Personal saving	139.7	-4.4	-21.8	276.0	-156.9
Addenda: Special factors in personal income					
In government wages and salaries:					
Federal pay raise	8.1	0.0	7.8	0.3	0.0
Reservists' pay	7.4	0.0	6.2	0.6	0.6
In private wages and salaries:					
Strikes	-0.4	0.0	0.0	0.0	-0.4
In supplements to wages and salaries:					
Employer contributions for social insurance	2.7	0.0	2.7	0.0	0.0
In nonfarm proprietors' income:					
Disasters	-2.9	0.0	0.0	0.0	-2.9
In rental income of persons:					
Disasters	-8.9	0.0	0.0	0.0	-8.9
In personal current transfer receipts:					
Social security retroactive payments	0.0	2.3	-2.3	0.0	0.0
Cost-of-living adjustments under federal transfer programs	15.5	0.0	15.5	0.0	0.0
Emergency unemployment compensation	13.7	0.0	0.0	0.0	13.7
Disasters	9.0	0.0	0.0	0.0	9.0
Economic Stimulus Act of 2008 rebate payments	4.4	0.0	0.0	112.3	-107.8
In contributions for government social insurance:					
Increase in taxable wage base	5.7	0.0	5.7	0.0	0.0
Changes in premium for supplementary medical insurance	2.5	0.0	2.5	0.0	0.0
In personal current taxes:					
Federal tax law changes	-4.1	0.0	-4.1	0.0	0.0
Refunds, settlements, and other	6.7	0.0	6.7	0.0	0.0
Economic Stimulus Act of 2008 rebate payments	-57.0	0.0	0.0	-199.3	142.3

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

CCAj Capital consumption adjustment

Personal income, which is only measured in current dollars, increased \$31.0 billion in the third quarter after increasing \$228.4 billion in the second quarter. The sharp deceleration primarily reflected a downturn in personal current transfer receipts and a deceleration in rental income of persons. In contrast, personal interest income turned up.

Wage and salary disbursements increased \$54.6 billion after increasing \$50.6 billion, primarily reflecting an upturn in wages and salaries of goods-producing industries.

Nonfarm proprietors' income increased \$9.8 billion after increasing \$8.9 billion. The third-quarter estimate reflected damages to uninsured business property as a result of Hurricane Ike (see the addenda to table 4).

Rental income of persons decelerated, increasing \$5.7 billion after increasing \$19.5 billion. Much of the deceleration reflected damages to uninsured residential property as a result of Hurricane Ike (see the addenda to table 4).

Personal income receipts on assets turned up, increasing \$18.3 billion after decreasing \$1.8 billion. The upturn reflected an upturn in personal interest income.

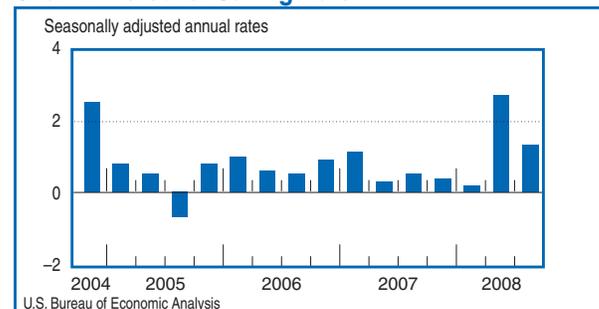
Personal current transfer receipts turned down, decreasing \$54.7 billion, after increasing \$148.2 billion. The downturn primarily reflected the rebates to individuals made in the second quarter. However, the third-quarter receipts were boosted by payments to individuals for the loss of personal property and emergency unemployment compensation (see the addenda to table 4).

Personal current taxes turned up sharply, following the large decrease in the second quarter that primarily reflected the second-quarter rebate payments that were treated as an offset to taxes.

The Effects of Natural Disasters on Personal Income

Natural disasters, like hurricanes, affect personal and business income and trigger payments of insurance benefits. BEA estimates of the affected net income flows are included in its estimates of proprietors' income, rental income of persons, corporate profits, and business current transfer payments. For estimates of damages and insurance settlements from Hurricane Ike, see FAQ 57 on BEA's Web site.

Chart 2. Personal Saving Rate



Source Data for the Advance Estimates

Table 5. Monthly Advance Estimates of Key NIPA Components Based on Partial Data, 2008:III

[Billions of dollars, seasonally adjusted at annual rates]

	2008					
	April	May	June	July	August	Sept. ¹
Private fixed investment:						
Nonresidential structures:						
Value of new nonresidential construction put in place	400.2	412.8	424.0	419.3	416.0	415.6
Equipment and software:						
Manufacturers' shipments of complete aircraft	41.6	45.9	41.9	41.9	47.9	14.0
Residential structures:						
Value of new residential construction put in place:						
Single family	203.6	198.2	191.4	184.7	176.9	168.4
Multifamily	44.3	45.8	45.7	46.6	44.6	42.4
Change in private inventories:						
Change in inventories for nondurable manufacturing	-24.0	20.1	49.2	4.6	10.3	-42.0
Change in inventories for merchant wholesale and retail industries other than motor vehicles and equipment	80.0	39.8	54.6	91.3	31.7	-8.2
Net exports:²						
Exports of goods:						
U.S. exports of goods, international-transactions-accounts basis	1,320.7	1,332.0	1,395.1	1,450.0	1,411.7	1,331.7
Excluding gold	1,296.1	1,312.7	1,381.8	1,427.8	1,400.4	1,309.5
Imports of goods:						
U.S. imports of goods, international-transactions-accounts basis	2,196.1	2,197.3	2,250.3	2,339.4	2,262.5	2,167.9
Excluding gold	2,177.3	2,187.7	2,240.8	2,325.9	2,255.6	2,151.9
Net exports of goods	-875.4	-865.3	-855.2	-889.4	-850.8	-836.2
Excluding gold	-881.2	-875.0	-859.0	-898.1	-855.1	-842.5
State and local government structures:						
Value of new construction put in place	278.9	281.5	283.3	286.2	288.5	287.3

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 spending (value 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 spending (value 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 spending (value 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).

Effects of Hurricane Ike on economic activity

During the third quarter, Hurricane Ike struck the Gulf Coast region, especially impacting coastal Texas and Louisiana. Because the effects of storms are not separately identified in BEA's source data, it is not possible to estimate their overall effect on GDP, but their impact is included in the GDP estimates. In particular, disruptions to oil and gas extraction and to petroleum and petrochemical production are reflected in BEA's estimates for inventory change in the nondurable manufacturing and wholesale trade industries. For more information, see also FAQ 55 "How is GDP Affected by a Disaster?" on BEA's Web site.