

GDP and the Economy

Preliminary Estimates for the Third Quarter of 2008

THE ECONOMY declined in the third quarter of 2008, according to the “preliminary” estimates of the national income and product accounts.¹ Real gross domestic product (GDP) decreased at an annual rate of 0.5 percent in the third quarter 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 deceleration in exports, a smaller decrease in imports, and decelerations in nonresidential structures and in state and local government spending (see page 2).³ In contrast, inventory investment turned up, and federal government spending accelerated.

- Prices of goods and services purchased by U.S. residents increased 4.7 percent in the third quarter after increasing 4.2 percent in the second quarter (see page 8). Excluding food and energy, gross domestic purchases prices increased 3.0 percent after increasing 2.2 percent.
- Real disposable personal income (DPI) decreased 9.2 percent after increasing 10.7 percent (revised). The downturn reflected a downturn in current-dollar DPI as a result of a deceleration in personal income and an upturn in personal current taxes; both primarily reflected the second-quarter effects of the rebates from the Economic Stimulus Act of 2008.⁴
- Profits from current production decreased \$14.6 billion after decreasing \$60.2 billion. Third-quarter profits were reduced by about \$46 billion because of Hurricane Ike.
- The personal saving rate was 1.1 percent in the third quarter; in the second quarter, it was 2.5 percent (revised).

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.

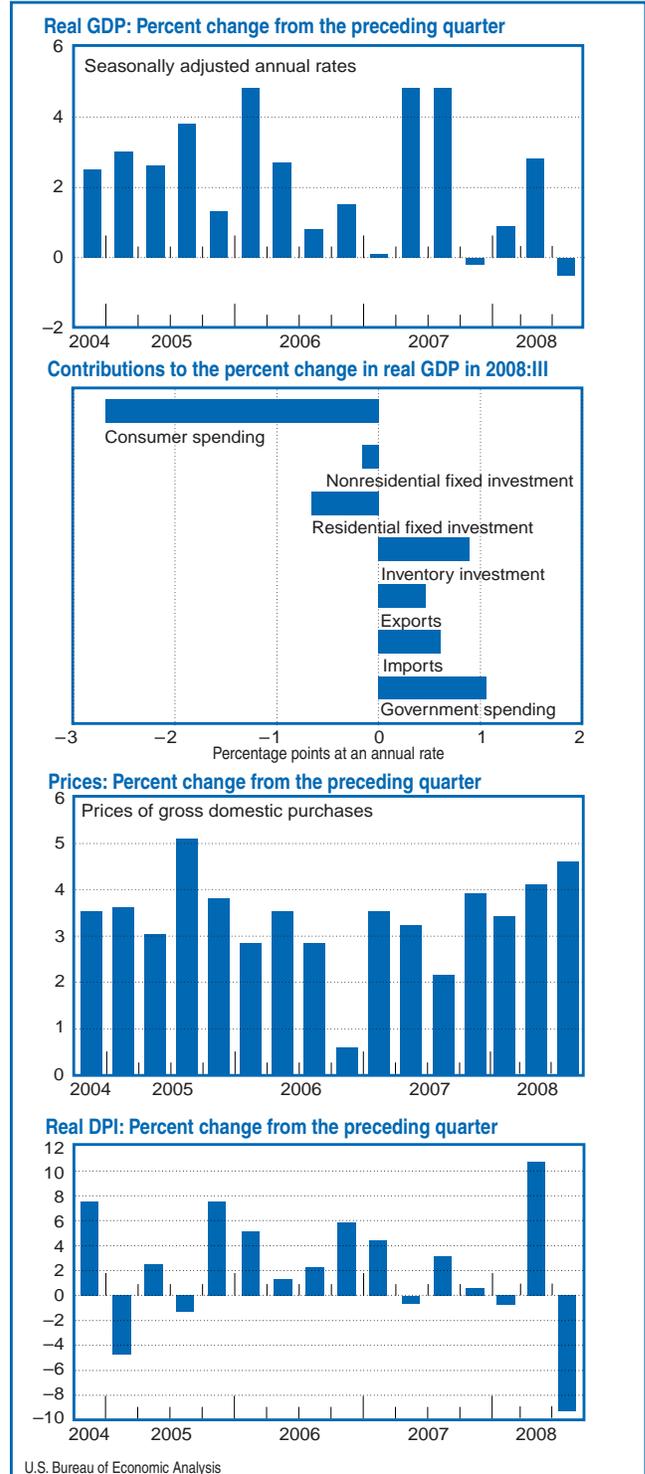
2. “Real” estimates are in chained (2000) dollars, and price indexes are chain-type measures.

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 rebates, 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	-0.5	-0.2	0.9	2.8	-0.5	
Personal consumption expenditures.....	70.5	1.0	0.9	1.2	-3.7	0.67	0.61	0.87	-2.69	
Durable goods.....	7.0	0.4	-4.3	-2.8	-15.2	0.03	-0.33	-0.21	-1.19	
Nondurable goods.....	21.1	0.3	-0.4	3.9	-6.9	0.05	-0.08	0.80	-1.51	
Services.....	42.4	1.4	2.4	0.7	0.0	0.59	1.02	0.28	0.00	
Gross private domestic investment.....	14.0	-11.9	-5.8	-11.5	0.4	-1.93	-0.89	-1.74	0.06	
Fixed investment.....	14.3	-6.2	-5.6	-1.7	-5.6	-0.97	-0.86	-0.25	-0.82	
Nonresidential.....	11.0	3.4	2.4	2.5	-1.5	0.36	0.26	0.27	-0.16	
Structures.....	3.9	8.5	8.6	18.5	6.6	0.29	0.30	0.64	0.25	
Equipment and software.....	7.0	1.0	-0.6	-5.0	-5.7	0.07	-0.04	-0.37	-0.41	
Residential.....	3.3	-27.0	-25.1	-13.3	-17.6	-1.33	-1.12	-0.52	-0.66	
Change in private inventories.....	-0.3	.....	.....	.....	.....	-0.96	-0.02	-1.50	0.89
Net exports of goods and services.....	-4.9	.....	.....	.....	.....	0.94	0.77	2.93	1.07
Exports.....	13.7	4.4	5.1	12.3	3.4	0.53	0.63	1.54	0.46	
Goods.....	9.5	5.1	4.5	16.3	3.9	0.43	0.39	1.39	0.36	
Services.....	4.1	2.7	6.4	3.8	2.4	0.10	0.24	0.15	0.10	
Imports.....	18.6	-2.3	-0.8	-7.3	-3.2	0.40	0.14	1.39	0.61	
Goods.....	15.6	-2.6	-2.0	-7.1	-4.4	0.38	0.29	1.14	0.70	
Services.....	2.9	-0.9	5.5	-8.0	3.2	0.02	-0.15	0.25	-0.09	
Government consumption expenditures and gross investment.....	20.4	0.8	1.9	3.9	5.4	0.16	0.38	0.78	1.06	
Federal.....	7.6	-0.5	5.8	6.6	13.6	-0.04	0.41	0.47	0.96	
National defense.....	5.3	-0.9	7.3	7.3	18.0	-0.04	0.34	0.36	0.85	
Nondefense.....	2.3	0.4	2.9	5.0	4.5	0.01	0.06	0.11	0.10	
State and local.....	12.8	1.6	-0.3	2.5	0.8	0.19	-0.03	0.31	0.10	

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 turned down sharply in the third quarter, decreasing 3.7 percent after increasing 1.2 percent. The decrease, the largest since the second quarter of 1980, reduced the third-quarter percent change in real GDP by 2.69 percentage points. It reflected a downturn in nondurable goods, a larger decrease in durable goods, and a slowdown in services.

Nonresidential fixed investment turned down, reflecting a notable deceleration in structures and a larger decrease in equipment and software.

Residential investment decreased more than in the second quarter, subtracting 0.66 percentage point from the percent change in real GDP after subtracting 0.52 percentage point.

Inventory investment turned up, adding 0.89 percentage point to the percent change in real GDP after subtracting 1.50 percentage points.

Exports slowed markedly, mainly reflecting a deceleration in exports of goods. Industrial supplies and materials slowed, and "other" goods exports turned down. Exports of services slowed.

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

Government spending accelerated, mainly reflecting a sharp acceleration in federal spending for national defense. State and local government spending slowed.

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	-0.5	-0.2	0.9	2.8	-0.5	
Final sales of domestic product.....	100.3	0.8	0.9	4.4	-1.4	0.79	0.89	4.32	-1.40	
Change in private inventories.....	-0.3	.....	.....	.....	.....	-0.96	-0.02	-1.50	0.89
Goods.....	30.1	0.0	0.9	4.9	-3.5	0.01	0.29	1.49	-1.09	
Services.....	60.5	1.3	2.7	1.7	1.6	0.79	1.62	1.02	0.94	
Structures.....	9.4	-9.3	-10.1	3.3	-3.7	-0.97	-1.03	0.32	-0.36	
Addenda:										
Motor vehicle output.....	2.3	-25.7	-14.2	-33.8	9.2	-0.86	-0.41	-1.01	0.20	
GDP excluding motor vehicle output.....	97.7	0.7	1.3	4.0	-0.7	0.69	1.28	3.84	-0.72	
Final sales of computers.....	0.6	23.7	8.2	28.4	4.0	0.14	0.05	0.17	0.03	
GDP excluding final sales of computers.....	99.4	-0.3	0.8	2.7	-0.5	-0.31	0.82	2.66	-0.54	

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, decreased 1.4 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 9.2 percent after decreasing 33.8 percent. It added 0.20 percentage point to the percent change in real GDP after subtracting 1.01 percentage points.

Final sales of computers slowed, increasing 4.0 percent after increasing 28.4 percent.

Consumer Spending

Table 3. Real Personal Consumption Expenditures (PCE)

[Seasonally adjusted at annual rates]

	Share of current-dollar PCE (percent)	Change from preceding period (percent)					Contribution to percent change in real PCE (percentage points)			
		2007		2008			2007		2008	
		III	IV	I	II	III	IV	I	II	III
PCE ¹	100.0	1.0	0.9	1.2	-3.7	1.0	0.9	1.2	-3.7	
Durable goods	10.0	0.4	-4.3	-2.8	-15.2	0.04	-0.47	-0.30	-1.65	
Motor vehicles and parts	3.7	-0.8	-10.7	-19.7	-26.4	-0.04	-0.49	-0.90	-1.14	
Furniture and household equipment	4.0	3.9	1.8	14.0	-8.9	0.16	0.07	0.55	-0.38	
Other ²	2.3	-3.6	-2.3	2.4	-5.6	-0.09	-0.05	0.06	-0.13	
Nondurable goods	30.0	0.3	-0.4	3.9	-6.9	0.08	-0.11	1.13	-2.10	
Food	13.9	2.8	1.3	4.1	-7.7	0.38	0.18	0.56	-1.10	
Clothing and shoes	3.7	-3.2	3.0	10.9	-13.5	-0.12	0.11	0.39	-0.53	
Gasoline, fuel oil, and other energy goods	4.6	-1.7	-6.0	-6.4	-10.0	-0.07	-0.26	-0.28	-0.46	
Other ³	7.7	-1.5	-1.8	6.2	-0.1	-0.12	-0.14	0.46	-0.01	
Services	60.1	1.4	2.4	0.7	0.0	0.84	1.44	0.40	0.01	
Housing	15.0	1.2	0.5	1.7	0.7	0.17	0.07	0.25	0.11	
Household operation	5.5	2.5	1.8	-4.3	-6.4	0.13	0.10	-0.24	-0.36	
Electricity and gas	2.3	0.5	7.4	-11.0	-16.4	0.01	0.16	-0.27	-0.41	
Other household operation	3.2	3.9	-2.1	1.0	1.8	0.12	-0.07	0.03	0.06	
Transportation	3.7	-0.8	1.7	-3.0	-1.9	-0.03	0.06	-0.11	-0.07	
Medical care	17.6	4.0	4.9	2.8	2.6	0.69	0.84	0.49	0.45	
Recreation	4.1	-0.4	-4.7	1.3	-1.5	-0.01	-0.20	0.05	-0.06	
Other ⁴	14.2	-0.8	4.1	-0.3	-0.5	-0.11	0.57	-0.05	-0.07	

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

2. Includes jewelry and watches, ophthalmic products and orthopedic equipment, books and maps, bicycles and motorcycles, guns and sporting equipment, photographic equipment, boats, and pleasure aircraft.

3. Includes tobacco, toilet articles, drug preparations and sundries, stationery and writing supplies, toys, film, flowers, cleaning preparations and paper products, semidurable house furnishings, and magazines and newspapers.

4. Includes personal care, personal business, education and research, religious and welfare activities, and net foreign travel.

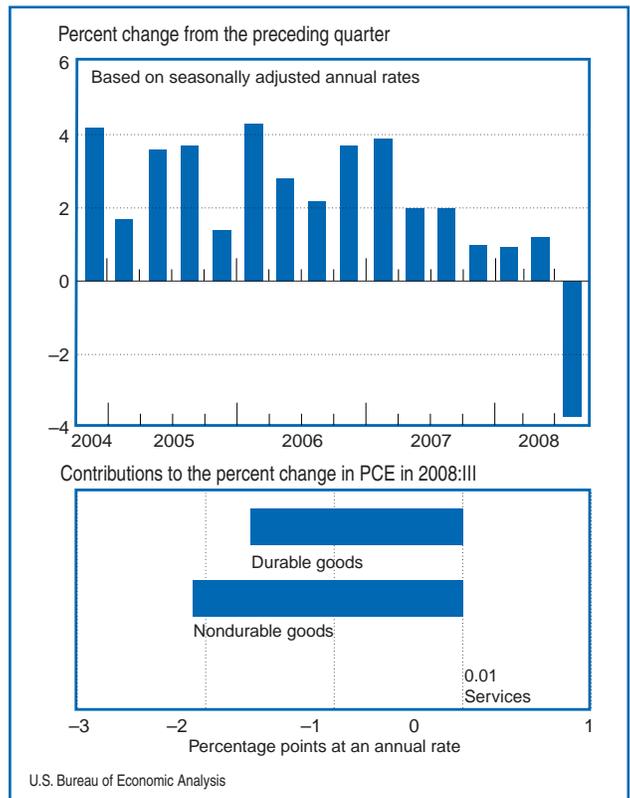
NOTE: Percent changes are from NIPA table 2.3.1, and contributions, from NIPA table 2.3.2; shares are calculated from NIPA table 2.3.5.

Spending for durable goods decreased 15.2 percent in the third quarter after decreasing 2.8 percent in the second quarter. Consumer spending for furniture and household equipment turned down and was the largest contributor to the third-quarter decrease. Spending for motor vehicles and parts decreased more than in the second quarter, and spending for "other" durable goods turned down.

Spending for nondurable goods turned down, decreasing 6.9 percent after increasing 3.9 percent. A downturn in spending for food was the largest contributor. Spending for clothing and shoes and for "other" nondurable goods also turned down.

Spending for services slowed, reflecting a slowdown in spending for housing. Spending for electricity and gas decreased more than in the second quarter, and spending for recreation services turned down.

Chart 2. Real Personal Consumption Expenditures



Private Fixed Investment

Table 4. Real Private Fixed Investment (PFI)

[Seasonally adjusted at annual rates]

	Share of current-dollar PFI (percent)		Change from preceding period (percent)					Contribution to percent change in real PFI (percentage points)		
	2008	2007	2008			2007		2008		
	III	IV	I	II	III	IV	I	II	III	
Private fixed investment¹	100.0	-6.2	-5.6	-1.7	-5.6	-6.2	-5.6	-1.7	-5.6	
Nonresidential	76.8	3.4	2.4	2.5	-1.5	2.40	1.77	1.84	-1.10	
Structures	27.6	8.5	8.6	18.5	6.6	1.94	2.04	4.36	1.73	
Commercial and health care	8.7	8.8	-3.6	0.2	-9.3	0.72	-0.32	0.02	-0.85	
Manufacturing	2.4	49.5	13.0	136.1	6.7	0.67	0.22	1.79	0.15	
Power and communication	3.7	16.2	23.2	0.5	-4.4	0.47	0.70	0.02	-0.16	
Mining exploration, shafts, and wells	7.4	-8.4	15.5	31.6	43.7	-0.49	0.84	1.72	2.52	
Other structures ²	5.3	13.2	12.8	17.3	1.3	0.58	0.59	0.81	0.07	
Equipment and software	49.2	1.0	-0.6	-5.0	-5.7	0.46	-0.27	-2.52	-2.83	
Information processing equipment and software	26.7	10.5	7.2	8.0	-0.6	2.44	1.77	2.01	-0.17	
Computers and peripheral equipment	4.4	19.3	16.1	13.0	-18.3	0.78	0.68	0.56	-0.91	
Software ³	11.9	9.9	9.9	2.1	1.7	1.02	1.07	0.24	0.19	
Other ⁴	10.3	7.3	0.2	13.0	5.5	0.63	0.02	1.20	0.54	
Industrial equipment	8.8	-14.3	0.8	-3.6	-8.7	-1.31	0.07	-0.32	-0.80	
Transportation equipment	5.1	-15.2	-14.0	-46.6	-45.3	-1.16	-1.04	-3.95	-3.27	
Other equipment ⁵	8.6	6.3	-12.5	-3.2	18.6	0.49	-1.07	-0.26	1.41	
Residential	23.3	-27.0	-25.1	-13.3	-17.6	-8.59	-7.40	-3.53	-4.47	
Structures	22.8	-27.3	-25.4	-13.7	-17.6	-8.58	-7.38	-3.57	-4.38	
Permanent site	10.8	-39.8	-40.8	-23.2	-26.5	-7.56	-6.94	-3.19	-3.36	
Single family	8.6	-42.8	-46.2	-30.7	-32.7	-7.16	-6.92	-3.66	-3.48	
Multifamily	2.2	-17.7	-1.1	24.7	5.6	-0.41	-0.02	0.47	0.12	
Other structures ⁶	12.0	-8.2	-3.6	-3.1	-8.4	-1.02	-0.44	-0.38	-1.03	
Equipment	0.4	-2.5	-4.9	8.0	-18.2	-0.01	-0.02	0.03	-0.09	

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

2. Consists primarily of religious, educational, vocational, lodging, railroads, farm, and amusement and recreational structures, net purchases of used structures, and brokers' commissions on the sale of structures.

3. Excludes software "embedded," or bundled, in computers and other equipment.

4. Includes communication equipment, nonmedical instruments, medical equipment and instruments, photocopy and related equipment, and office and accounting equipment.

5. Consists primarily of furniture and fixtures, agricultural machinery, construction machinery, mining and oilfield machinery, service industry machinery, and electrical equipment not elsewhere classified.

6. Consists primarily of manufactured homes, improvements, dormitories, net purchases of used structures, and brokers' commissions on the sale of residential structures.

NOTE: Percent changes are from NIPA table 5.3.1, contributions are from NIPA table 5.3.2, and shares are calculated from NIPA table 5.3.5.

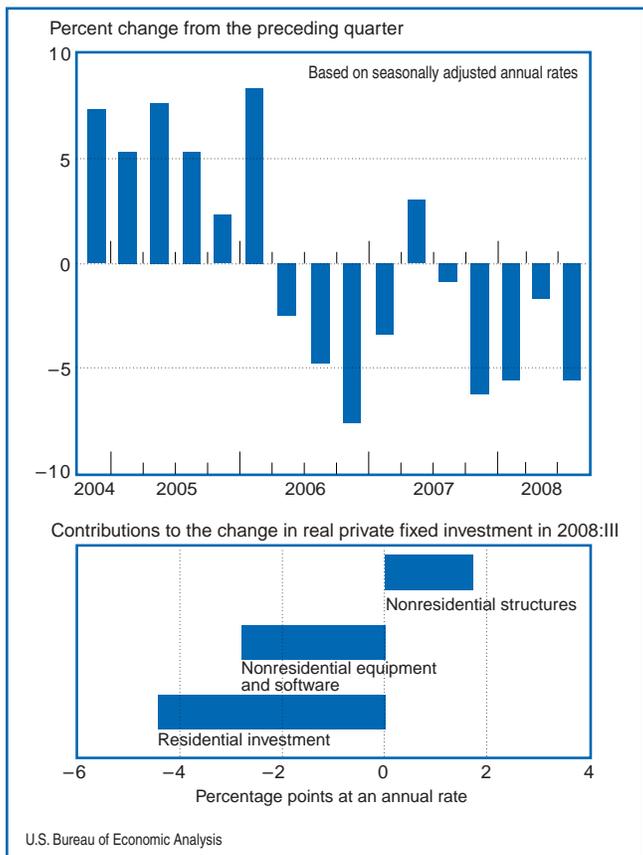
Nonresidential fixed investment turned down, decreasing 1.5 percent in the third quarter after increasing 2.5 percent in the second quarter. Investment in structures slowed, and investment in equipment and software decreased more than in the second quarter.

The slowdown in structures was led by a large deceleration in manufacturing structures. Commercial and health care structures turned down, and "other" structures slowed. Investment in mining exploration, shafts, and wells picked up.

The larger decrease in equipment and software was led by a downturn in information processing equipment and software, mainly reflecting a downturn in computers and peripheral equipment and a deceleration in "other" information processing equipment. In contrast, investment in "other" equipment turned up, especially agricultural machinery.

Residential investment decreased more than in the second quarter, mainly reflecting a larger decrease in "other" structures, especially improvements and brokers' commissions.

Chart 3. Real Private Fixed Investment



Inventory Investment

Table 5. Real Change in Private Inventories by Industry
 [Billions of chained (2000) dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter				
	2007		2008			2007		2008		
	III	IV	I	II	III	IV	I	II	III	
Change in private inventories¹	16.0	-8.1	-10.2	-50.6	-29.1	-24.1	-2.1	-40.4	21.5	
Farm.....	-2.5	10.5	6.0	2.4	-0.3	13.0	-4.5	-3.6	-2.7	
Mining, utilities, and construction.....	-2.3	-5.0	-9.4	-8.0	-7.7	-2.7	-4.4	1.4	0.3	
Manufacturing.....	-2.2	2.9	13.7	-26.0	-25.8	5.1	10.8	-39.7	0.2	
Durable-goods industries.....	-2.2	13.8	3.0	-14.4	-4.6	16.0	-10.8	-17.4	9.8	
Nondurable-goods industries.....	-0.2	-9.1	9.7	-11.3	-19.0	-8.9	18.8	-21.0	-7.7	
Wholesale trade.....	14.3	-1.5	-5.1	1.0	6.6	-15.8	-3.6	6.1	5.6	
Durable-goods industries.....	-1.7	3.5	5.6	2.3	20.2	5.2	2.1	-3.3	17.9	
Nondurable-goods industries.....	14.1	-4.2	-8.4	-0.8	-9.2	-18.3	-4.2	7.6	-8.4	
Retail trade.....	9.6	-20.2	-18.5	-16.0	4.8	-29.8	1.7	2.5	20.8	
Motor vehicle and parts dealers.....	10.7	-26.6	-10.3	-13.0	6.5	-37.3	16.3	-2.7	19.5	
Food and beverage stores.....	1.7	0.8	0.3	0.6	0.7	-0.9	-0.5	0.3	0.1	
General merchandise stores.....	-2.4	-1.0	-2.8	0.1	-0.9	1.4	-1.8	2.9	-1.0	
Other retail stores.....	0.4	3.9	-6.5	-5.1	-0.7	3.5	-10.4	1.4	4.4	
Other industries.....	1.5	2.1	0.3	-3.4	-1.0	0.6	-1.8	-3.7	2.4	
Residual ²	-1.1	3.2	2.3	0.0	-13.1	4.3	-0.9	-2.3	-13.1	
Addenda: Ratios of private inventories to final sales of domestic business:³										
Private inventories to final sales.....	2.39	2.38	2.37	2.32	2.34	.....	.....	.....	.....
Nonfarm inventories to final sales.....	2.21	2.20	2.19	2.14	2.15	.....	.....	.....	.....
Nonfarm inventories to final sales of goods and structures.....	3.56	3.55	3.56	3.45	3.49	.....	.....	.....	.....

1. The levels are from NIPA table 5.6.6B.
 2. The residual is the difference between the first line and the sum of the most detailed lines. It reflects that chained-dollar estimates are usually not additive, because they are based on quantity indexes that use weights of more than one period.
 3. The ratios are from NIPA table 5.7.6B.

Real inventory investment increased \$21.5 billion in the third quarter after decreasing \$40.4 billion in the second quarter. Businesses continued to draw down inventories but by a smaller amount.

Inventory investment in manufacturing industries increased \$0.2 billion in the third quarter after decreasing \$39.7 billion in the second quarter. A smaller drawdown in inventories in durable-goods industries was offset by a larger drawdown in inventories in non-durable-goods industries.

Inventory investment in wholesale trade industries increased \$5.6 billion in the third quarter, compared with \$6.1 billion in the second quarter. An accumulation of inventories in durable-goods industries was partially offset by a liquidation of inventories in non-durable-goods industries.

Retail trade inventory investment increased \$20.8 billion in the third quarter after increasing \$2.5 billion in the second quarter, reflecting an accumulation of inventories by motor vehicle and parts dealers following a drawdown in the second quarter.

Inventory Investment

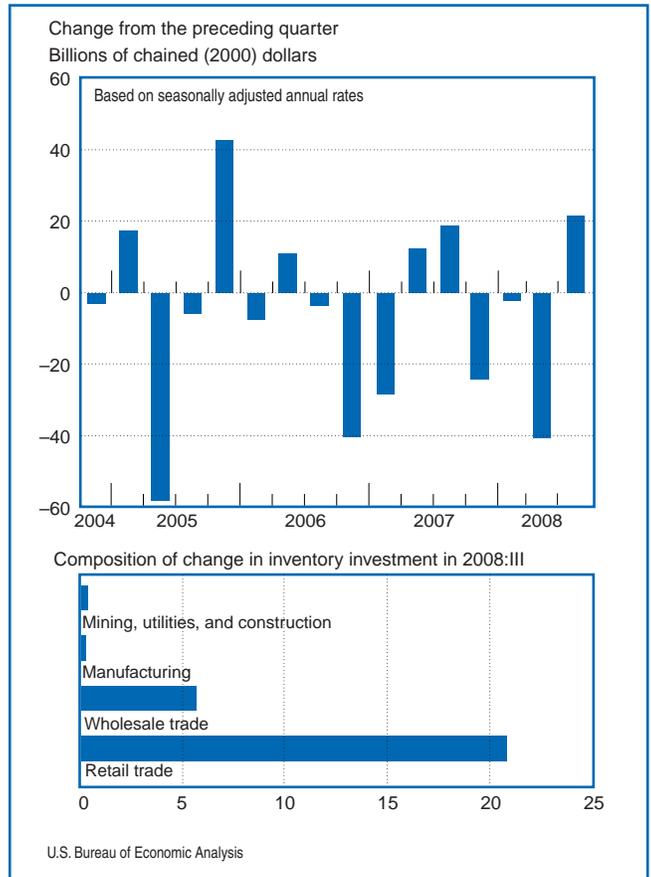
The real change in private inventories, often called real private inventory investment, represents the change in the physical stock of goods held by businesses. It includes finished goods, goods at various stages of production, and raw materials.

The change in private inventories is a key component of gross domestic product (GDP), which aims to measure output derived from current production. To include the value of currently produced goods that are not yet sold and to exclude the value of goods produced in previous periods, change in private inventories must be included in the GDP calculation.

Thus, GDP can also be seen as the sum of final sales of domestic product and the change in private inventories (table 2).

For most industries, the estimates of change in private inventories are prepared by revaluing book-value estimates of inventories from the Census Bureau to a replacement-cost basis and calculating the change over a quarter or year. BEA does not always have complete data for every industry.

Chart 4. Real Private Inventory Investment



Exports and Imports

Table 6. Real Exports and Imports of Goods and Services

[Seasonally adjusted at annual rates]

	Share of current-dollar exports and imports (percent)	Change from preceding period (percent)					Contribution to percent change in real exports and imports (percentage points)				
		2007		2008			2007		2008		
		III	IV	I	II	III	IV	I	II	III	
Exports of goods and services¹	100.0	4.4	5.1	12.3	3.4	4.4	5.1	12.3	3.4		
Exports of goods²	69.8	5.1	4.5	16.3	3.9	3.53	3.13	11.11	2.70		
Foods, feeds, and beverages	6.0	-12.0	14.3	8.7	-9.7	-0.69	0.77	0.52	-0.62		
Industrial supplies and materials	21.2	7.4	11.2	29.0	10.0	1.33	2.02	5.34	2.00		
Capital goods, except automotive	24.7	10.0	-3.6	11.2	4.2	2.59	-0.95	2.85	1.04		
Automotive vehicles, engines, and parts	6.7	-2.8	-11.5	4.3	25.8	-0.21	-0.84	0.29	1.52		
Consumer goods, except automotive	8.6	0.3	14.9	15.3	12.8	0.02	1.21	1.29	1.04		
Other	2.5	18.9	37.1	28.8	-55.7	0.48	0.92	0.82	-2.28		
Exports of services²	30.2	2.7	6.4	3.8	2.4	0.86	1.97	1.19	0.73		
Imports of goods and services¹	100.0	-2.3	-0.8	-7.3	-3.2	-2.30	-0.80	-7.30	-3.20		
Imports of goods²	84.1	-2.6	-2.0	-7.1	-4.4	-2.17	-1.65	-5.97	-3.75		
Foods, feeds, and beverages	3.4	-7.7	-5.2	4.7	-1.3	-0.27	-0.18	0.16	-0.04		
Industrial supplies and materials, except petroleum and products	12.6	-20.3	-17.3	-0.4	8.3	-2.76	-2.25	-0.03	0.99		
Petroleum and products	19.7	16.5	17.6	-38.1	-5.5	2.28	2.74	-8.59	-1.09		
Capital goods, except automotive	17.3	1.6	1.1	8.9	-5.4	0.29	0.21	1.52	-0.96		
Automotive vehicles, engines, and parts	8.7	-11.0	-7.9	-12.7	-25.2	-1.26	-0.85	-1.31	-2.61		
Consumer goods, except automotive	18.8	6.4	-6.5	8.2	4.1	1.22	-1.30	1.49	0.76		
Other	3.6	-34.3	-0.1	23.2	-19.7	-1.66	0.00	0.78	-0.79		
Imports of services²	15.9	-0.9	5.5	-8.0	3.2	-0.14	0.86	-1.29	0.50		
Addenda:											
Exports of agricultural goods ³	6.6	-18.6	11.8	10.5	-5.8						
Exports of nonagricultural goods	63.2	7.7	3.8	17.0	5.0						
Imports of nonpetroleum goods	64.4	-6.3	-6.4	4.0	-4.1						

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

2. Exports and imports of certain goods, primarily military equipment purchased and sold by the federal government, are included in services.

3. Includes parts of foods, feeds, and beverages, of nondurable industrial supplies and materials, and of nondurable nonautomotive consumer goods.

NOTE: Percent changes are from NIPA table 4.2.1, contributions are from NIPA table 4.2.2, and shares are calculated from NIPA table 4.2.5.

Real exports slowed, increasing 3.4 percent in the third quarter after increasing 12.3 percent in the second quarter. The slowdown mainly reflected a sharp deceleration in exports of goods. Exports of services also slowed.

Exports of goods decelerated sharply. The largest contributors to the deceleration were a deceleration in industrial supplies and materials and a downturn in "other" exports of goods. Exports of nonautomotive capital goods slowed, and food exports turned down. In contrast, automotive vehicles, engines, and parts accelerated.

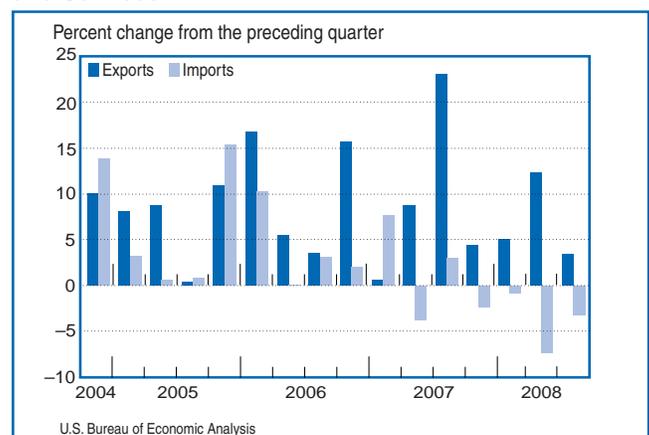
Exports of services slowed somewhat, mainly reflecting a deceleration in "other" private services. In contrast, transfers under U.S. agency sales contracts decreased less than in the second quarter.

Real imports decreased 3.2 percent after decreasing 7.3 percent. The smaller third-quarter decrease reflected a much smaller decrease in imports of goods and an upturn in imports of services.

Imports of goods decreased less than in the second quarter, primarily reflecting a much smaller decrease in imports of petroleum and products. An upturn in nonpetroleum industrial supplies and materials also contributed. In contrast, nonautomotive capital goods and "other" imports turned down, and automotive vehicles, engines, and parts decreased more than in the second quarter.

Imports of services turned up, mainly reflecting an acceleration in royalties and license fees that was primarily due to payments for the broadcast rights for the Summer Olympics.

Chart 5. Real Exports and Imports of Goods and Services



Government Spending

Table 7. Real Government Consumption Expenditures and Gross Investment (CEGI)

[Seasonally adjusted at annual rates]

	Share of current-dollar CEGI (percent)		Change from preceding period (percent)					Contribution to percent change in real CEGI (percentage points)				
	2008		2007		2008			2007		2008		
	III	IV	I	II	III	IV	I	II	III			
Government consumption expenditures and gross investment ¹	100.0	0.8	1.9	3.9	5.4	0.8	1.9	3.9	5.4			
Consumption expenditures.....	82.9	0.5	3.2	2.1	5.7	0.40	2.60	1.76	4.71			
Gross investment.....	17.1	2.3	-3.8	13.4	3.7	0.41	-0.67	2.18	0.64			
Federal	37.3	-0.5	5.8	6.6	13.6	-0.18	2.09	2.38	4.85			
National defense	25.8	-0.9	7.3	7.3	18.0	-0.22	1.76	1.81	4.33			
Consumption expenditures.....	22.4	-1.4	7.4	3.4	17.3	-0.31	1.58	0.75	3.63			
Gross investment.....	3.4	3.0	6.0	38.7	22.8	0.09	0.18	1.06	0.70			
Nondefense	11.5	0.4	2.9	5.0	4.5	0.04	0.33	0.57	0.52			
Consumption expenditures.....	10.0	-0.8	2.9	4.0	5.4	-0.08	0.29	0.40	0.54			
Gross investment.....	1.5	8.1	2.8	11.8	-1.6	0.12	0.04	0.17	-0.02			
State and local	62.7	1.6	-0.3	2.5	0.8	0.99	-0.16	1.56	0.50			
Consumption expenditures.....	50.5	1.6	1.4	1.2	1.1	0.80	0.73	0.61	0.55			
Gross investment.....	12.2	1.5	-6.8	7.8	-0.4	0.19	-0.89	0.95	-0.04			

1. The estimates under the contribution columns are also percent changes.
 NOTE. Percent changes are from NIPA table 3.9.1, contributions from NIPA table 3.9.2, and shares are calculated from NIPA table 3.9.5.

Real government spending picked up, increasing 5.4 percent in the third quarter after increasing 3.9 percent in the second quarter.

Federal government spending accelerated and was the largest contributor to the pickup in government spending. The acceleration primarily reflected a sharp acceleration in spending for national defense.

State and local government spending slowed, increasing 0.8 percent after increasing 2.5 percent. The deceleration primarily reflected a downturn in gross investment.

Government Spending

“Government consumption expenditures and gross investment,” or “government spending,” consists of two components: (1) consumption expenditures by federal government and by state and local governments and (2) gross investment by government and government-owned enterprises.

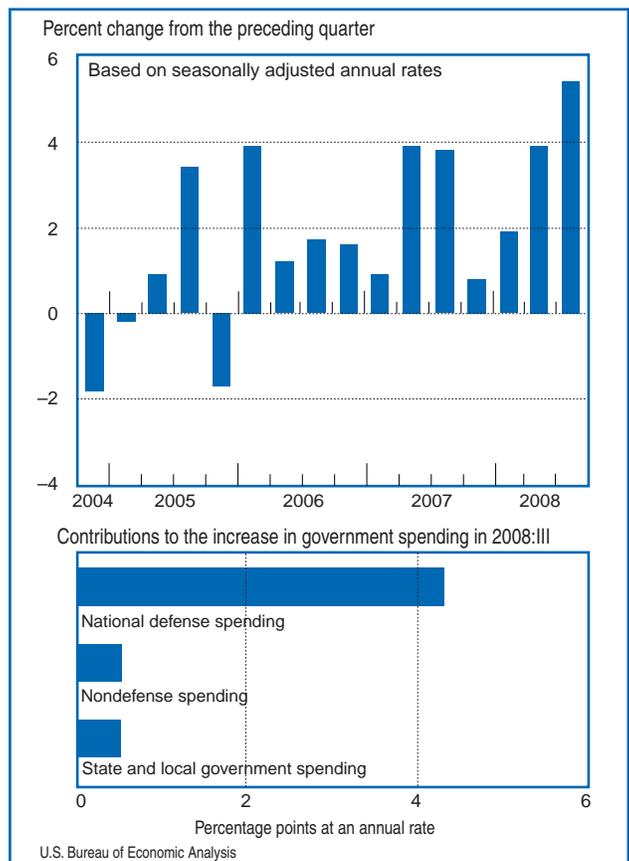
Government consumption expenditures consists of the goods and services that are produced by general government (less any sales to other sectors and investment goods produced by government itself). Governments generally provide services to the general public without charge. The value of government production—that is, government’s gross output—is measured as spending for labor and for intermediate goods and services and a charge for consumption of fixed capital.¹

Gross investment consists of new and used structures (such as highways and dams) and of equipment and software purchased or produced by government and government-owned enterprises.

Government consumption expenditures and gross investment excludes current transactions of government-owned enterprises, current transfer payments, interest payments, subsidies, and transactions in financial assets and nonproduced assets, such as land.

1. Consumption of fixed capital represents a partial measure of the services provided by government-owned fixed capital.

Chart 6. Real Government Consumption Expenditures and Gross Investment



Prices

Table 8. 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	4.7	4.0	3.5	4.2	4.7
Personal consumption expenditures	4.3	3.6	4.3	5.2	2.88	2.43	2.87	3.49
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	3.7	1.39	1.13	1.69	1.50
Gross private domestic investment	1.3	-0.5	0.4	2.6	0.20	-0.07	0.05	0.35
Fixed investment.....	1.2	-0.2	0.8	2.9	0.18	-0.03	0.11	0.40
Nonresidential.....	1.7	0.6	2.3	4.3	0.18	0.06	0.23	0.45
Structures.....	4.5	2.7	3.3	7.5	0.15	0.09	0.12	0.27
Equipment and software.....	0.4	-0.4	1.7	2.6	0.03	-0.03	0.12	0.18
Residential.....	0.0	-2.6	-3.5	-1.5	0.00	-0.10	-0.12	-0.05
Change in private inventories.....	.....	.....	.....	.....	0.02	-0.03	-0.06	-0.05
Government consumption expenditures and gross investment	5.1	6.2	7.0	4.5	0.94	1.15	1.32	0.88
Federal.....	2.3	5.6	5.1	2.7	0.15	0.38	0.36	0.20
National defense.....	3.1	5.1	6.3	3.1	0.14	0.24	0.29	0.15
Nondefense.....	0.5	6.8	2.8	2.0	0.01	0.15	0.06	0.04
State and local.....	6.8	6.6	8.1	5.6	0.79	0.77	0.96	0.68
Addenda:								
Gross domestic purchases:								
Food.....	4.3	4.7	6.1	8.5	0.41	0.44	0.57	0.80
Energy goods and services.....	35.1	24.2	35.5	25.2	1.58	1.21	1.79	1.35
Excluding food and energy.....	2.4	2.2	2.2	3.0	2.03	1.85	1.88	2.57
Personal consumption expenditures (PCE):								
Food.....	3.7	4.9	6.4	8.5	.....	.....	.....	.....
Energy goods and services.....	32.2	19.0	27.4	31.6	.....	.....	.....	.....
Excluding food and energy.....	2.5	2.3	2.2	2.6	.....	.....	.....	.....
Market-based PCE.....	4.4	3.7	4.3	5.7	.....	.....	.....	.....
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 4.7 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 3.0 percent after increasing 2.2 percent.

Consumer prices picked up, 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.

Consumer prices excluding food and energy, a measure of the "core" rate of inflation, picked up, increasing 2.6 percent after increasing 2.2 percent.

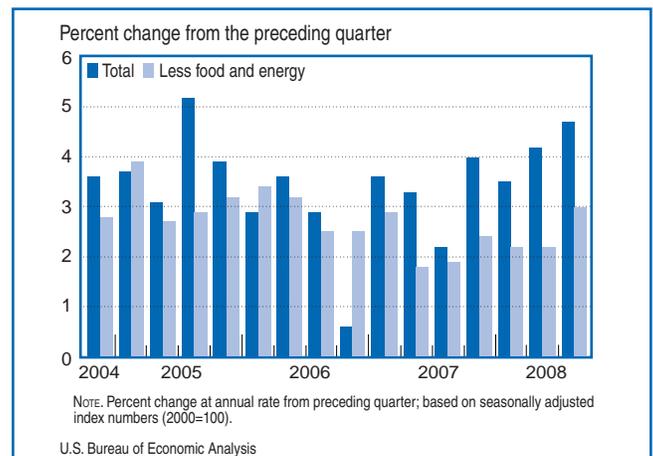
The GDP price index increased 4.2 percent in the third quarter, 0.5 percentage point less than the increase in the gross domestic purchases price index. The divergence reflected a larger increase in import prices than in export prices. (For more information about GDP prices and gross domestic purchases 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, regardless of whether those goods and services were produced domestically or imported. It is derived from prices of consumer spending, private investment, and government spending.

The GDP price index measures the prices of goods and services produced in the United States, including the prices of goods and services produced for export.

The difference between the gross domestic purchases price index and the GDP price index reflects the differences between the imports prices (included in the gross domestic purchases index) and the exports prices (included in the GDP price index). For other measures that are affected by import and export prices, see the dollar depreciation FAQ Answer ID 498 on BEA's Web site.

Chart 7. Gross Domestic Purchases Prices

Revisions

Table 9. Advance and Preliminary Estimates for the Third Quarter of 2008
[Seasonally adjusted at annual rates]

	Change from preceding quarter (percent)			Contribution to percent change in real GDP (percentage points)		
	Advance	Preliminary	Preliminary minus advance	Advance	Preliminary	Preliminary minus advance
Gross domestic product (GDP) ¹	-0.3	-0.5	-0.2	-0.3	-0.5	-0.2
Personal consumption expenditures	-3.1	-3.7	-0.6	-2.25	-2.69	-0.44
Durable goods	-14.1	-15.2	-1.1	-1.10	-1.19	-0.09
Nondurable goods	-6.4	-6.9	-0.5	-1.41	-1.51	-0.10
Services	0.6	0.0	-0.6	0.26	0.00	-0.26
Gross private domestic investment	-1.9	0.4	2.3	-0.27	0.06	0.33
Fixed investment	-5.6	-5.6	0.0	-0.83	-0.82	0.01
Nonresidential	-1.0	-1.5	-0.5	-0.11	-0.16	-0.05
Structures	7.9	6.6	-1.3	0.30	0.25	-0.05
Equipment and software	-5.5	-5.7	-0.2	-0.40	-0.41	-0.01
Residential	-19.1	-17.6	1.5	-0.72	-0.66	0.06
Change in private inventories				0.56	0.89	0.33
Net exports of goods and services				1.13	1.07	-0.06
Exports	5.9	3.4	-2.5	0.78	0.46	-0.32
Goods	7.5	3.9	-3.6	0.68	0.36	-0.32
Services	2.3	2.4	0.1	0.09	0.10	0.01
Imports	-1.9	-3.2	-1.3	0.35	0.61	0.26
Goods	-2.8	-4.4	-1.6	0.45	0.70	0.25
Services	3.5	3.2	-0.3	-0.10	-0.09	0.01
Government consumption expenditures and gross investment	5.8	5.4	-0.4	1.15	1.06	-0.09
Federal	13.8	13.6	-0.2	0.97	0.96	-0.01
National defense	18.1	18.0	-0.1	0.86	0.85	-0.01
Nondefense	4.8	4.5	-0.3	0.11	0.10	-0.01
State and local	1.4	0.8	-0.6	0.18	0.10	-0.08
Addenda:						
Final sales of domestic product	-0.8	-1.4	-0.6	-0.81	-1.40	-0.59
Gross domestic purchases price index	4.8	4.7	-0.1			
GDP price index	4.2	4.2	0.0			

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

Real GDP decreased 0.5 percentage point in the third-quarter preliminary estimate, 0.2 percentage point more of a decrease than in the advance estimate. The average revision (without regard to sign) between the “advance” estimate and the “preliminary” estimate is 0.5 percentage point. The downward revision to the percent change in real GDP primarily reflected downward revisions to consumer spending and to exports that were partly offset by an upward revision to inventory investment and a downward revision to imports.

The downward revision to consumer spending was widespread across services, nondurable goods, and durable goods.

The upward revision to inventory investment was more than accounted for by an upward revision to retail trade inventories.

The downward revision to exports was more than accounted for by goods exports and was widespread. The largest contributor to the revision was industrial supplies and materials (especially petroleum and petroleum products).

The downward revision to imports was mostly to goods and was widespread. The largest contributor to the revision was automotive vehicles, engines, and parts.

Source Data for the Preliminary Estimates

Personal consumption expenditures: Retail sales for August and September (revised). Motor vehicle registrations for September (new). Retail natural gas sales for August (new). Electricity sales for July–September (new).

Nonresidential fixed investment: Construction spending (value put in place) for July and August (revised) and September (new). Manufacturers’ shipments of machinery and equipment for August and September (revised). Exports and imports for August (revised) and September (new).

Residential investment: Construction spending (value put in place) for July and August (revised) and September (new).

Change in private inventories: Manufacturers’ inventories for July and August (revised) and September (new) and trade inventories for August (revised) and September (new).

Exports and imports of goods and services: International transactions for July and August (revised) and September (new).

Government consumption expenditures and gross investment: State and local construction spending (value put in place) for July and August (revised) and September (new).

Personal Income for the Second Quarter of 2008

With the release of the preliminary estimates of GDP, BEA also releases revised estimates of various income-related measures for the previous quarter. This revision reflects the incorporation of newly available second-quarter tabulations from the Quarterly Census of Employment and Wages from the Bureau of Labor Statistics.

Wage and salary disbursements increased \$13.3 billion in the second quarter, a downward revision of \$37.3 billion. Personal current taxes decreased \$188.9 billion, a downward revision of \$8.0 billion. Contributions for government social insurance, which are subtracted in calculating personal income, increased \$3.2 billion, an downward revision of \$1.6 billion. As a result of these revisions,

- Personal income increased \$191.7 billion, a downward revision of \$36.7 billion.
- Disposable personal income increased \$380.5 billion, a downward revision of \$28.8 billion.
- Personal saving increased \$247.3 billion, a downward revision of \$28.7 billion.
- The personal saving rate was 2.5 percent, a downward revision of 0.2 percentage point.

Corporate Profits

Table 10. Corporate Profits
[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change from preceding quarter (quarterly rate)				
	Level		Change from preceding quarter			2007		2008		
	2008	2007	2008			2007	2008			
	III	IV	I	II	III	IV	I	II	III	
Current production measures:										
Corporate profits.....	1,518.7	-57.2	-17.6	-60.2	-14.6	-3.4	-1.1	-3.8	-0.9	
Domestic industries.....	1,146.1	-122.2	5.4	-35.3	-13.7	-9.3	0.4	-3.0	-1.2	
Financial.....	315.0	-69.0	37.3	-31.0	-61.6	-15.7	10.1	-7.6	-16.3	
Nonfinancial.....	831.1	-53.1	-32.1	-4.2	47.9	-6.1	-3.9	-0.5	6.1	
Rest of the world.....	372.6	64.9	-22.8	-25.0	-0.9	18.2	-5.4	-6.3	-0.2	
Receipts from the rest of the world.....	547.8	24.7	3.7	8.9	-17.9	4.7	0.7	1.6	-3.2	
Less: Payments to the rest of the world.....	175.1	-40.2	26.5	33.9	-17.1	-23.4	20.1	21.4	-8.9	
Less: Taxes on corporate income	396.9	-17.6	-30.6	3.9	-9.9	-3.9	-7.0	1.0	-2.4	
Equals: Profits after tax.....	1,121.8	-39.7	13.0	-64.1	-4.7	-3.3	1.1	-5.4	-0.4	
Net dividends.....	841.4	18.8	16.1	13.9	-5.0	2.4	2.0	1.7	-0.6	
Undistributed profits from current production.....	280.4	-58.5	-3.1	-78.1	0.4	-13.9	-0.9	-21.8	0.1	
Net cash flow.....	1,320.0	-44.5	10.1	-60.5	43.5	-3.2	0.8	-4.5	3.4	
Industry profits:										
Profits with IVA.....	1,606.9	-45.9	-178.7	-45.5	10.9	-2.5	-9.8	-2.8	0.7	
Domestic industries.....	1,234.3	-110.8	-155.8	-20.6	11.8	-7.3	-11.1	-1.7	1.0	
Financial.....	322.7	-67.9	20.4	-29.6	-60.5	-14.7	5.2	-7.2	-15.8	
Nonfinancial.....	911.6	-42.8	-176.3	9.1	72.3	-4.1	-17.5	1.1	8.6	
Rest of the world.....	372.6	64.9	-22.8	-25.0	-0.9	18.2	-5.4	-6.3	-0.2	
Addenda:										
Profits before tax (without IVA and CCAAdj).....	1,699.3	-2.8	-143.4	-0.9	-50.7	-0.1	-7.6	-0.1	-2.9	
Profits after tax (without IVA and CCAAdj).....	1,302.4	14.8	-112.9	-4.8	-40.8	1.0	-7.7	-0.4	-3.0	
IVA.....	-92.4	-43.1	-35.3	-44.6	61.6	.....	.....	.....	.....
CCAAdj.....	-88.2	-11.4	161.2	-14.7	-25.5	.....	.....	.....	.....

NOTE. Levels of these and other profits series are shown in NIPA tables 1.12, 1.14, 1.15, and 6.16D.

IVA Inventory valuation adjustment
CCAAdj Capital consumption adjustment

Profits from current production decreased \$14.6 billion, or 0.9 percent at a quarterly rate, in the third quarter after decreasing \$60.2 billion in the second quarter. Third-quarter profits were reduced by about \$46 billion because of Hurricane Ike: benefit payments by insurance companies reduced profits by about \$22 billion, and uninsured losses reduced profits by about \$24 billion.

Domestic profits of financial corporations decreased \$61.6 billion, or 16.3 percent, after decreasing \$31.0 billion.

Domestic profits of nonfinancial corporations increased \$47.9 billion, or 6.1 percent, after decreasing \$4.2 billion.

Profits from the rest of the world decreased \$0.9 billion, or 0.2 percent, after decreasing \$25.0 billion. Receipts decreased \$17.9 billion, and payments decreased \$17.1 billion.

After-tax profits decreased \$4.7 billion, or 0.4 percent, after decreasing \$64.1 billion.

Undistributed corporate profits (a measure of net saving that equals after-tax profits less dividends) increased \$0.4 billion after decreasing \$78.1 billion.

Net cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$43.5 billion, or 3.4 percent, after decreasing \$60.5 billion.

Measuring Corporate Profits

Corporate profits is a widely followed economic indicator used to gauge corporate health, assess investment conditions, and analyze the effect on corporations of economic policies and conditions. In addition, corporate profits is an important component in key measures of income.

BEA's measure of corporate profits aims to capture the income earned by corporations from current production in a manner that is fully consistent with the national income and product accounts (NIPAs). The measure is defined as receipts arising from current production less associated expenses. Receipts exclude income in the form of dividends and capital gains, and expenses exclude bad debts, natural resource depletion, and capital losses.

Because direct estimates of NIPA-consistent corporate profits are unavailable, BEA derives these estimates in three steps.

First, BEA measures profits before taxes to reflect corporate income regardless of any redistributions of income through taxes. This measure is partly based on tax return

information from the Internal Revenue Service; BEA uses tax accounting measures as a source of information on profits for two reasons: They are based on well-specified accounting definitions, and they are comprehensive, covering all incorporated businesses—publicly traded and privately held—in all industries. BEA also uses other sources of information to estimate pretax profits, including information from the Census Bureau.

Second, to remove the effects of price changes on inventories valued at historical cost and of tax accounting for inventory withdrawals, BEA adds an inventory valuation adjustment that values inventories at current cost.

Third, to remove the effects of tax accounting on depreciation, BEA adds a capital consumption adjustment (CCAAdj). CCAAdj is defined as the difference between consumption of fixed capital (the decline in the value of the stock of assets due to wear and tear, obsolescence, accidental damage, and aging) and capital consumption allowances (tax return depreciation).