

Technical Note
Gross Domestic Product, Second Quarter 2002 (Advance)
July 31, 2002

This technical note provides background information about the source data and estimating methods used to produce the estimates presented in the GDP news release; the note also provides some perspective on the estimates. Additional material will become available in the next several days; much of it will be posted to BEA's Web site <www.bea.gov>. In a few weeks, the estimates will be published in BEA's monthly journal, the *Survey of Current Business*. The *Survey* also will provide a more detailed analysis of the estimates ("The Business Situation").

Real GDP: Based on data available at this time, BEA estimates that real GDP increased 1.1 percent (annual rate) in the second quarter of 2002, after increasing 5.0 percent (revised) in the first quarter. The largest contributors to the slowdown were imports, inventory investment, and personal consumption expenditures (PCE).

Real final sales of domestic product -- GDP less change in private inventories -- decreased 0.1 percent in the second quarter, following an increase of 2.4 percent in the first. Inventory investment added 1.15 percentage points to the second-quarter real GDP growth. In the first quarter, a reduction in inventory liquidation had added 2.60 percentage points to GDP growth.

Prices: The price index for gross domestic purchases increased 2.1 percent in the second quarter, after increasing 1.2 percent in the first. Excluding food and energy prices, which are more volatile than most other prices, the index increased 1.3 percent in the second quarter, following an increase of 1.4 percent in the first.

Disposable personal income and personal saving: Real disposable personal income (DPI) increased 3.8 percent in the second quarter, after increasing 14.6 percent in the first. Current-dollar DPI increased 6.5 percent, following an increase of 15.9 percent. (The sharp first-quarter increase in DPI had reflected a sharp decrease in personal tax payments for the quarter.) Personal saving -- current-dollar DPI less personal outlays -- was \$307.9 billion in the second quarter, compared with \$272.0 billion in the first. The personal saving rate -- saving as a percentage of DPI -- was 4.0 percent in the second quarter, compared with 3.5 percent in the first.

Source Data for the Advance Estimate

The advance GDP estimate for the second quarter is based on source data that are incomplete and that are subject to revision. Three months of source data are available for consumer spending on goods; investment in private equipment other than aircraft; motor vehicle sales and inventories; manufacturing durables inventories; federal government outlays; and consumer, producer, and international prices. Only two months of data are available for most other key data sources; BEA's assumptions for the third month are shown in table A.

- For the change in nondurable manufacturing inventories, an increase was assumed for June;
- For the change in non-motor-vehicle merchant wholesale and retail inventories, a decrease was assumed for June;
- For exports of goods, excluding gold, an increase was assumed, and for imports of goods, excluding gold, a smaller increase was assumed, resulting in a small improvement in the trade balance for June.

Sources of Revision to Real GDP, First Quarter, 2002

Real GDP for the first quarter of 2002 is now estimated to have increased 5.0 percent, 1.1 percentage points less than the estimate that BEA released on June 27. The revision to first-quarter GDP reflected both the effects of the annual revision of the national income and product accounts (NIPA's) and the incorporation of new and revised source data. The largest contributors to the downward revision were inventory investment and PCE for services. The revision to inventory investment reflected a correction to the calculation of the inventory valuation adjustment.

Annual Revision of the NIPA's

The NIPA estimates released today also present the results of a regular annual revision covering the estimates from the first quarter of 1999 through the first quarter of 2002. The annual revision incorporates more comprehensive source data than those that are available for the quarterly estimates. The text of today's news release includes an overview of the impact of the revision. In a few weeks an article will be published in the *Survey of Current Business* that will provide a detailed description of the revisions.

As a result of the revisions, the average annual growth of real GDP from 1998 to 2001 was revised down from 3.1 percent to 2.7 percent. For 2001 the annual percent change in real GDP was revised down from 1.2 percent to 0.3 percent. For 2001, the largest contributors to the downward revision to real GDP growth were PCE for services, business investment in equipment and software, and inventory investment.

According to the revised estimates, GDP declined for three quarters in 2001, rather than for one quarter (the third quarter of 2001) in the previously published estimates. Real GDP reached a peak in the fourth quarter of 2000 and decreased 0.6 percent in the first quarter of 2001, decreased 1.6 percent in the second quarter, and 0.3 percent in the third quarter.

The annual revision also included changes in methodology and a change to the revision schedule for the estimates of wages and salaries:

- Newly available producer price indexes from BLS were incorporated into the estimates of brokerage services within PCE, exports, and imports, and into the estimates of insurance services within exports and imports.
- Beginning in September, for "final" GDP estimates, BEA will release revised estimates of wages and salaries and related income components for the previous quarter, along with the revised estimate of GDP for a current quarter. These revised estimates will incorporate more comprehensive source data than are available for the current quarter--specifically, seasonally adjusted quarterly data derived from Bureau of Labor Statistics (BLS) tabulations of wages and salaries of employees covered by unemployment insurance. Previously, these data were incorporated in the NIPA estimates only on an annual basis as part of the annual revision. These quarterly data have been incorporated in the pattern of quarter-to-quarter wage changes for 1999-2001.

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Table A. KEY ASSUMPTIONS FOR THE ADVANCE ESTIMATE OF GDP
FOR THE SECOND QUARTER OF 2002

For many of the key series used to prepare the advance estimate of GDP, including sales of retail stores, unit automobile and truck sales and inventories, manufacturers' shipments of nondefense capital goods (other than aircraft), manufacturers' inventories of durable goods, federal defense spending, and consumer and producer price indexes, actual data are available for all months of the quarter.

For the key series shown in this table, actual data for the third month of the quarter usually are not available in time for inclusion in the advance GDP estimate. BEA makes assumptions for the source data that are not yet available; assumptions for June 2002 are shown in the last column of the table. For most series shown, the data for May are preliminary and subject to further revision. Occasionally, the data for earlier months are also subject to revision.

All series shown in the table are in billions of dollars, seasonally adjusted at annual rates, and are published by the Bureau of the Census.

	Jan.	Feb.	2002 Mar.	Apr.	May	Jun.*
Private fixed investment:						
Nonresidential structures:						
Buildings:						
1 Value of new nonresidential construction put in place.....	185.6	183.2	178.5	178.6	173.0	173.8
Equipment and software:						
2 Manufacturers' shipments of complete aircraft.....	40.1	40.8	43.9	39.1	28.8	29.6
Residential structures:						
Value of new residential construction put in place:						
3 1-unit structures.....	251.6	260.0	261.7	260.7	260.7	259.7
4 2-unit-or-more.....	35.4	33.9	33.7	36.2	36.2	36.9
Change in private inventories:						
5 Change in inventories for nondurable manufacturing.....	-11.7	-7.9	1.5	0.0	-7.7	2.1
5a Change in inventories for merchant wholesale and retail industries other than motor vehicles and equipment..	-0.2	-29.4	-12.9	-22.9	9.1	-4.5
Net exports:						
Exports of goods:						

6 U.S. exports of goods, international-transactions- accounts basis.....	660.2	655.9	659.7	682.2	687.1	694.3
6a Excluding gold.....	657.7	653.4	657.1	678.8	683.7	690.9
Imports of goods:						
7 U.S. imports of goods, international-transactions- accounts basis.....	1061.8	1092.1	1099.0	1164.0	1185.5	1190.3
7a Excluding gold.....	1060.1	1090.1	1096.6	1160.8	1181.8	1186.8
8 Net exports of goods.....	-401.6	-436.2	-439.2	-481.8	-498.4	-495.9
8a Excluding gold.....	-402.4	-436.6	-439.6	-482.1	-498.1	-495.9
Government:						
State and local:						
Structures:						
9 Value of new construction put in place.....	193.0	197.2	183.1	183.5	187.3	185.4

*Assumption.