

Technical Note
Gross Domestic Product, Third Quarter 2002 (Preliminary)
November 26, 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 (revised): Real GDP is now estimated to have increased 4.0 percent (annual rate) in the third quarter of 2002 after increasing 1.3 percent in the second. The revised estimate for the third quarter compares with a 3.1-percent increase shown in the advance estimate released a month ago. As in the advance estimate, the largest contributors to the third-quarter acceleration were consumer spending and imports.

Prices (revised): The price index for gross domestic purchases increased 1.2 percent in the third quarter, 0.2 percentage point less than in the advance estimate. This index increased 2.3 percent in the second quarter.

Corporate Profits

The news release that presents the preliminary estimate of third-quarter GDP also presents BEA's first estimates of corporate profits for the quarter.

Corporate Profits: Profits from current production (that is, "corporate profits with inventory valuation and capital consumption adjustments") decreased 1.8 percent (quarterly rate) in the third quarter after decreasing 1.6 percent in the second. Third-quarter profits were 12.2 percent higher than profits in the third quarter of 2001. The current-production measure differs from profits as they are usually reported in corporate financial statements. It excludes non-operating items, such as special charges and capital gains and losses, and is based on depreciation of fixed assets and inventory withdrawals valued at current cost, rather than on a tax-return basis valued at historical cost.

Real Gross Product of Nonfinancial Corporations: Real gross product of nonfinancial corporations increased 4.3 percent (annual rate), and their profits per unit of real product decreased in the third quarter. The decrease in unit profits reflected a decrease in unit prices and an increase in nonlabor costs; unit labor costs were unchanged.

For 1999-2001 and the first two quarters of 2002, the annual and quarterly estimates of real gross product of nonfinancial corporations have been revised to reflect new and revised estimates of the industry-based price index used for deflation, which become available about four months after the annual revision of the national income and product accounts (NIPA's). The use of the industry-based price index was introduced in the 1999 comprehensive revision of the NIPA's to better reflect the changing industrial composition of this sector and to provide better measures of productivity, costs, and profits per unit of gross product. For the quarters of 2002, the index is extrapolated using the price index for goods and structures.

The revised estimates are shown in table 12 of the GDP news release. The annual growth rate of real gross product of nonfinancial corporate business was revised from 5.1 percent to 5.2 percent for 1999, was revised from 3.7 percent to 5.0 percent for 2000, and was revised from -0.5 percent to -0.1 percent for 2001.

Sources of Revision to Real GDP

The upward revision to third-quarter real GDP reflected the incorporation of revised and newly available source data for several of the major GDP components:

- o Inventory investment was revised up, reflecting the incorporation of revised Census Bureau data on book value of inventories for August and newly available data for September.
- o State and local government spending and residential investment were revised up, reflecting the incorporation of revised Census Bureau construction data for July and August and newly available data for September.

Table A shows both the BEA assumptions used for the advance estimate of GDP and the newly available and revised source data incorporated for the preliminary estimate for selected key series.

Upcoming Comprehensive Revision of the National Income and Product Accounts

Next year, BEA will undertake its twelfth comprehensive, or benchmark, revision of the national income and product accounts. Comprehensive revisions are prepared about every 5 years to incorporate changes in definitions, new and improved tables, and improvements in methodology and source data. Among the improvements being considered for next year's revision are a change in the definition of insurance output, new tables on nonprofit institutions, and the incorporation of new, quality-adjusted, price indexes. For information on these and other changes under consideration, see "Note on the Upcoming Comprehensive Revision of the National Income and Product

Accounts" in the November 2002 *Survey of Current Business*, available on BEA's Web site at <www.bea.gov/bea/pub/1102cont.htm>.

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Table A.--SOURCE DATA FOR THE ADVANCE AND PRELIMINARY
ESTIMATES OF GDP FOR THE THIRD QUARTER OF 2002

This table shows the actual data used for the preliminary estimate of GDP for the second quarter of 2002. For these key series, actual data for September were not available in time for inclusion in the advance GDP estimate released on October 31, 2002, and BEA made assumptions for these source data. The numbers in brackets show the September values that had been assumed for the advance estimate. For most series, the data incorporated for August and, in some cases, for July, were preliminary, and the numbers shown in brackets are the values used last month.

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.

| | Apr. | May | 2002 | | Aug. | Sept. |
|---|--------|--------|--------|---------|----------|----------|
| | | | Jun. | Jul. | | |
| Private fixed investment: | | | | | | |
| Nonresidential structures: | | | | | | |
| Buildings: | | | | | | |
| 1 Value of new nonresidential construction put in place..... | 179.6 | 170.5 | 166.7 | 163.7 | 158.9 | 156.2 |
| | | | | {162.4} | {159.2} | {159.4} |
| Equipment and software: | | | | | | |
| 2 Manufacturers' shipments of complete aircraft..... | 39.1 | 29.0 | 35.0 | 38.6 | 28.6 | 30.4 |
| | | | | | {28.5} | {28.7} |
| Residential structures: | | | | | | |
| Value of new residential construction put in place: | | | | | | |
| 3 1-unit structures..... | 260.5 | 260.5 | 260.0 | 261.8 | 259.2 | 263.9 |
| | | | | {260.2} | {258.3} | {261.4} |
| 4 2-unit-or-more..... | 35.1 | 34.4 | 32.8 | 33.4 | 33.5 | 33.6 |
| | | | | {32.9} | {34.6} | {34.9} |
| Change in private inventories: | | | | | | |
| 5 Change in inventories for nondurable manufacturing..... | 0.0 | -2.0 | 6.9 | 10.2 | 10.9 | 11.9 |
| | | | | | {6.6} | {-1.0} |
| 5a Change in inventories for merchant wholesale and retail industries other than motor vehicles and equipme | -22.9 | 6.8 | 20.1 | 31.0 | 12.4 | 29.6 |
| | | | | | {7.2} | {1.0} |
| Net exports: | | | | | | |
| Exports of goods: | | | | | | |
| 6 U.S. exports of goods, international-transactions-accounts basis..... | 682.2 | 687.9 | 699.0 | 709.3 | 699.3 | 700.1 |
| | | | | | {695.8} | {698.9} |
| 6a Excluding gold..... | 678.8 | 683.9 | 696.1 | 705.3 | 696.0 | 696.6 |
| | | | | | {692.4} | {695.9} |
| Imports of goods: | | | | | | |
| 7 U.S. imports of goods, international-transactions-accounts basis..... | 1164.0 | 1188.3 | 1186.4 | 1177.7 | 1207.4 | 1201.7 |
| | | | | | {1203.1} | {1214.6} |
| Excluding gold..... | 1160.8 | 1184.5 | 1183.0 | 1174.6 | 1204.3 | 1198.9 |
| | | | | | {1199.9} | {1211.6} |
| 8 Net exports of goods..... | -481.8 | -500.4 | -487.4 | -468.4 | -508.0 | -501.6 |
| | | | | | {-507.3} | {-515.7} |
| 8a Excluding gold..... | -482.1 | -500.6 | -486.9 | -469.3 | -508.3 | -502.3 |
| | | | | | {-507.5} | {-515.7} |
| Government: | | | | | | |
| State and local: | | | | | | |
| Structures: | | | | | | |
| 9 Value of new construction put in place..... | 183.6 | 187.9 | 182.6 | 185.8 | 187.3 | 192.6 |
| | | | | {184.9} | {186.5} | {185.7} |