

GDP and the Economy

Preliminary Estimates for the Third Quarter of 2006

REAL gross domestic product (GDP) slowed and inflation abated in the third quarter of 2006, according to the “preliminary” estimates of the national income and product accounts (NIPAs).¹ Real GDP increased 2.2 percent after increasing 2.6 percent in the second quarter (chart 1 and table 1).²

The slowdown primarily reflected an acceleration in imports (subtracted in the derivation of GDP), a larger decrease in residential investment, and decelerations in inventory investment, consumer spending for services, and state and local government spending. These changes were partly offset by upturns in investment in equipment and software, consumer spending for durable goods, and Federal Government spending.³

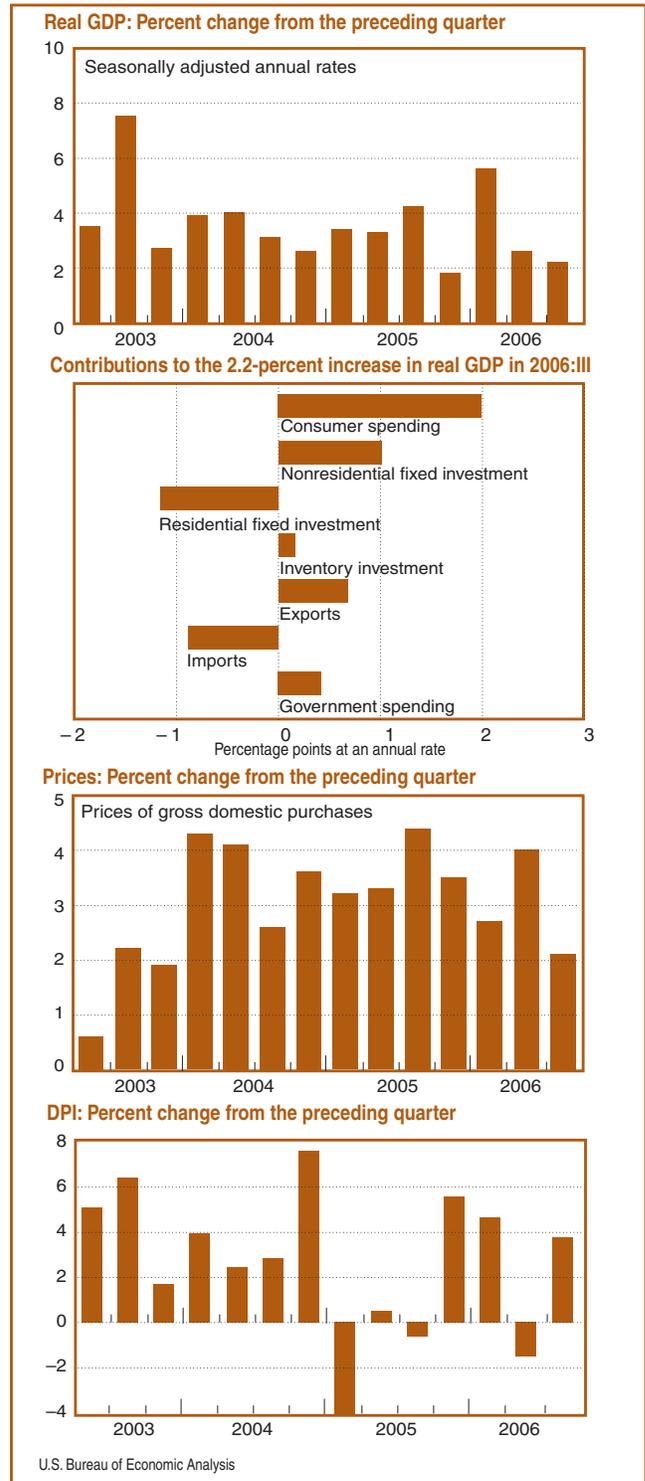
- Corporate profits increased \$66.2 billion in the third quarter, compared with an increase of \$22.7 billion in the second quarter.
- Prices of goods and services purchased by U.S. residents increased 2.1 percent, following a 4.0-percent increase. Energy prices decelerated sharply, but food prices accelerated.
- Real disposable personal income (DPI) increased 3.7 percent; in the second quarter, it decreased 1.5 percent (revised).
- The personal saving rate, personal saving as a percentage of current-dollar DPI, was -1.3 percent; in the second quarter, it was -1.4 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 show the value that would be registered if the rate of activity that is measured for a quarter were 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,” “Federal Government spending” refers to “Federal Government consumption expenditures and gross investment,” and “state and local government spending” refers to “state and local government consumption and investment.”

Chart 1. GDP, Prices, Disposable Personal Income (DPI)



Christopher Swann prepared this article.

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)		
			2006					2005		
	2006	2005	I	II	III	IV	I	II	III	
Gross domestic product¹....	100.0	1.8	5.6	2.6	2.2	1.8	5.6	2.6	2.2	
Personal consumption expenditures.....	70.2	0.8	4.8	2.6	2.9	0.53	3.38	1.81	1.99	
Durable goods.....	8.1	-12.3	19.8	-0.1	6.0	-1.08	1.50	-0.01	0.47	
Nondurable goods.....	20.6	3.9	5.9	1.4	1.1	0.79	1.20	0.30	0.23	
Services.....	41.5	2.0	1.6	3.7	3.1	0.83	0.67	1.52	1.29	
Gross private domestic investment.....	16.8	16.2	7.8	1.0	0.0	2.51	1.31	0.17	0.01	
Fixed investment.....	16.3	2.8	8.2	-1.6	-0.9	0.46	1.34	-0.27	-0.15	
Nonresidential.....	10.7	5.2	13.7	4.4	10.0	0.52	1.36	0.45	1.01	
Structures.....	3.2	12.0	8.7	20.3	16.7	0.31	0.25	0.56	0.49	
Equipment and software.....	7.4	2.8	15.6	-1.4	7.2	0.21	1.11	-0.10	0.52	
Residential.....	5.6	-0.9	-0.3	-11.1	-18.0	-0.06	-0.02	-0.72	-1.16	
Change in private inventories.....	0.5	.....	.....	.....	.....	2.05	-0.03	0.44	0.16
Net exports of goods and services.....	-6.0	.....	.....	.....	.....	-1.07	-0.04	0.42	-0.21
Exports.....	11.2	9.6	14.0	6.2	6.3	0.97	1.41	0.66	0.68	
Goods.....	7.9	11.5	17.3	6.0	9.4	0.80	1.20	0.45	0.71	
Services.....	3.2	5.5	6.7	6.7	-1.0	0.17	0.21	0.21	-0.03	
Imports.....	17.2	13.2	9.1	1.4	5.3	-2.04	-1.46	-0.24	-0.89	
Goods.....	14.5	14.1	9.4	-0.1	6.9	-1.84	-1.27	0.01	-0.96	
Services.....	2.6	8.3	7.4	9.9	-2.7	-0.20	-0.19	-0.25	0.07	
Government consumption expenditures and gross investment.....	19.1	-1.1	4.9	0.8	2.2	-0.21	0.94	0.16	0.42	
Federal.....	7.0	-4.6	8.8	-4.5	1.5	-0.33	0.61	-0.32	0.10	
National defense.....	4.6	-9.9	8.9	-2.0	-1.1	-0.49	0.41	-0.09	-0.05	
Nondefense.....	2.3	7.1	8.5	-9.3	6.8	0.16	0.20	-0.23	0.15	
State and local.....	12.1	1.0	2.7	4.0	2.6	0.13	0.33	0.48	0.32	

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)		
			2006					2005		
	2006	2005	I	II	III	IV	I	II	III	
Gross domestic product¹.....	100.0	1.8	5.6	2.6	2.2	1.8	5.6	2.6	2.2	
Final sales of domestic product....	99.5	-0.3	5.6	2.1	2.1	-0.28	5.61	2.11	2.06	
Change in private inventories.....	0.5	.....	.....	.....	.....	2.05	-0.03	0.44	0.16
Goods.....	31.3	3.1	12.8	3.6	3.7	0.97	3.86	1.12	1.15	
Services.....	57.9	0.8	2.4	2.4	3.0	0.46	1.39	1.40	1.73	
Structures.....	10.8	3.1	2.9	0.3	-5.9	0.33	0.33	0.04	-0.66	
Addenda:										
Motor vehicle output.....	3.2	-19.1	3.8	-9.4	27.2	-0.71	0.12	-0.31	0.76	
GDP excluding motor vehicle output	96.8	2.6	5.6	3.0	1.5	2.47	5.46	2.87	1.45	
Final sales of computers.....	0.6	33.8	9.5	6.7	15.8	0.20	0.07	0.04	0.09	
GDP excluding final sales of computers.....	99.4	1.6	5.6	2.5	2.1	1.56	5.52	2.51	2.12	

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 accelerated slightly and contributed 1.99 percentage points to third-quarter real GDP growth. An upturn in motor vehicles and parts, especially light trucks, led to an upturn in durable goods. Nondurable goods decelerated, mainly because of a downturn in spending for food. Services also decelerated.

Nonresidential fixed investment accelerated, reflecting an upturn in equipment and software. Transportation equipment and information processing equipment and software turned up.

Residential investment decreased 18.0 percent, following an 11.1-percent decrease, primarily reflecting a larger decrease in single-family structures.

Inventory investment decelerated, primarily reflecting downturns by mining, utilities, and construction industries and by "other" industries and a larger decrease by retail motor vehicle and parts dealers.

Exports growth was virtually unchanged. An acceleration in goods exports was largely offset by a downturn in services exports.

Imports accelerated, reflecting upturns in petroleum and products and in nonpetroleum industrial supplies and materials and an acceleration in nonautomotive consumer goods. Imports of services turned down.

Federal Government spending turned up, the result of an upturn in nondefense spending and a smaller reduction in defense spending.

State and local government spending decelerated, primarily reflecting a deceleration in structures.

Real final sales of domestic product, real GDP less inventory investment, increased 2.1 percent, the same as in the second quarter.

Motor vehicle output turned up sharply, primarily reflecting a strong upturn in light trucks. (See FAQ number 323 on BEA's Web site.)

Final sales of computers accelerated sharply, increasing 15.8 percent after increasing 6.7 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)		
			2006					2005		
	2006	2005	I	II	III	IV	I	II	III	
	III	IV	I	II	III	IV	I	II	III	
PCE ¹	100.0	0.8	4.8	2.6	2.9	0.8	4.8	2.6	2.9	
Durable goods	11.5	-12.3	19.8	-0.1	6.0	-1.54	2.14	-0.01	0.68	
Motor vehicles and parts	4.8	-34.9	18.9	-1.2	8.8	-2.15	0.85	-0.06	0.41	
Furniture and household equipment	4.3	11.6	22.8	3.3	5.6	0.47	0.92	0.14	0.24	
Other ²	2.4	6.1	16.3	-3.7	1.0	0.14	0.37	-0.09	0.02	
Nondurable goods	29.4	3.9	5.9	1.4	1.1	1.12	1.71	0.42	0.33	
Food	13.7	4.1	6.7	2.0	-1.2	0.55	0.92	0.27	-0.17	
Clothing and shoes	3.8	10.3	8.6	-3.8	5.3	0.38	0.33	-0.15	0.20	
Gasoline, fuel oil, and other energy goods	4.0	-2.3	-1.3	0.7	4.9	-0.09	-0.05	0.03	0.19	
Other ³	7.9	3.6	6.4	3.4	1.5	0.28	0.51	0.27	0.12	
Services	59.2	2.0	1.6	3.7	3.1	1.18	0.96	2.17	1.85	
Housing	14.9	1.7	2.3	2.4	2.6	0.25	0.34	0.36	0.38	
Household operation	5.5	0.3	-14.0	8.4	10.7	0.02	-0.84	0.44	0.56	
Electricity and gas	2.3	2.0	-29.7	15.8	22.7	0.05	-0.83	0.34	0.47	
Other household operation	3.2	-0.8	-0.1	3.4	2.7	-0.03	0.00	0.11	0.09	
Transportation	3.6	-0.2	4.0	1.7	1.1	-0.01	0.15	0.06	0.04	
Medical care	17.1	3.7	4.3	2.6	2.9	0.62	0.74	0.44	0.50	
Recreation	4.1	1.5	3.1	0.8	3.0	0.06	0.13	0.03	0.12	
Other ⁴	13.9	1.7	3.2	6.1	1.8	0.23	0.45	0.83	0.25	

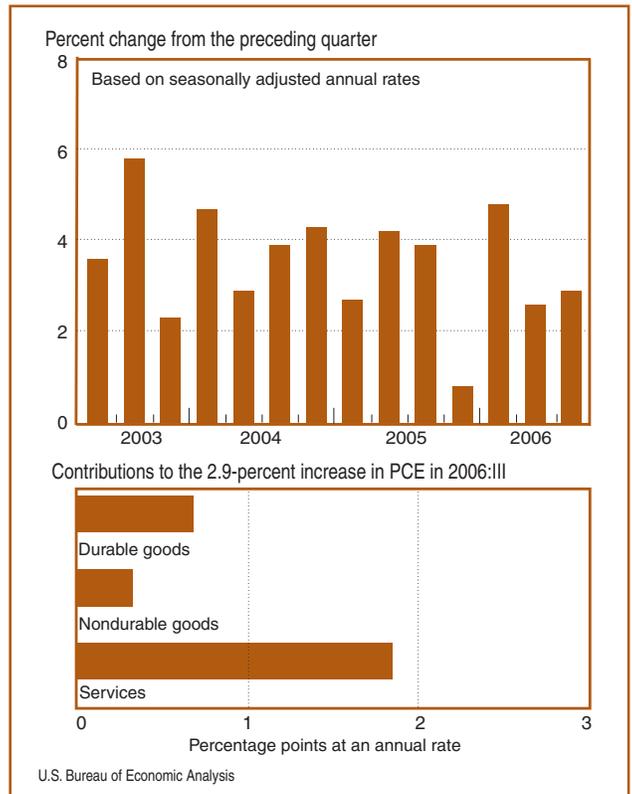
Consumer spending for durable goods turned up, reflecting a sharp upturn in motor vehicles and parts, especially light trucks. Spending for furniture and household equipment accelerated, and “other” durable goods turned up.

Spending for nondurable goods decelerated slightly, mainly reflecting a downturn in spending for food. Spending for clothing and shoes turned up.

Spending for services decelerated, primarily reflecting a downturn in net foreign travel.

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.

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)			
	2006	2005	2006			2005	2006		
	III	IV	I	II	III	IV	I	II	III
Private fixed investment¹ ...	100.0	2.8	8.2	-1.6	-0.9	2.8	8.2	-1.6	-0.9
Nonresidential	65.4	5.2	13.7	4.4	10.0	3.19	8.30	2.72	6.14
Structures	19.7	12.0	8.7	20.3	16.7	1.92	1.50	3.34	2.97
Commercial and health care	7.4	3.2	7.1	11.7	29.1	0.21	0.46	0.74	1.81
Manufacturing.....	1.4	32.0	-1.7	28.0	7.7	0.34	-0.02	0.32	0.10
Power and communication ...	2.1	12.4	14.3	4.9	13.8	0.23	0.27	0.10	0.27
Mining exploration, shafts, and wells.....	5.2	22.4	2.0	28.0	10.0	0.81	0.09	1.16	0.48
Other structures ²	3.7	11.1	23.6	35.1	9.0	0.33	0.71	1.03	0.31
Equipment and software	45.7	2.8	15.6	-1.4	7.2	1.27	6.80	-0.62	3.17
Information processing equipment and software ...	22.5	7.0	21.8	-1.1	9.5	1.50	4.52	-0.24	2.03
Computers and peripheral equipment.....	4.1	27.1	24.9	4.7	26.5	0.98	0.94	0.18	0.94
Software ³	9.6	2.8	12.2	4.2	3.2	0.26	1.12	0.39	0.30
Other ⁴	8.8	3.0	31.6	-9.0	9.5	0.25	2.46	-0.82	0.79
Industrial equipment.....	7.9	16.2	-3.6	13.6	0.3	1.16	-0.28	0.98	0.02
Transportation equipment.....	7.2	-21.8	27.7	-22.8	11.8	-1.89	1.90	-1.91	0.80
Other equipment ⁵	8.1	6.6	8.5	7.4	4.1	0.50	0.66	0.56	0.32
Residential.....	34.6	-0.9	-0.3	-11.1	-18.0	-0.36	-0.11	-4.33	-7.04
Structures	34.2	-1.1	-0.5	-11.2	-18.2	-0.40	-0.17	-4.32	-7.03
Permanent site.....	21.1	5.6	0.8	-17.6	-24.0	1.30	0.19	-4.46	-5.99
Single family	18.5	4.8	-1.8	-19.2	-27.7	1.02	-0.39	-4.39	-6.24
Multifamily.....	2.6	12.5	25.7	-2.6	10.0	0.29	0.58	-0.07	0.25
Other structures ⁶	13.0	-11.6	-2.7	1.1	-7.6	-1.70	-0.36	0.14	-1.03
Equipment	0.5	9.9	13.6	-2.9	-3.1	0.04	0.06	-0.01	-0.01

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.

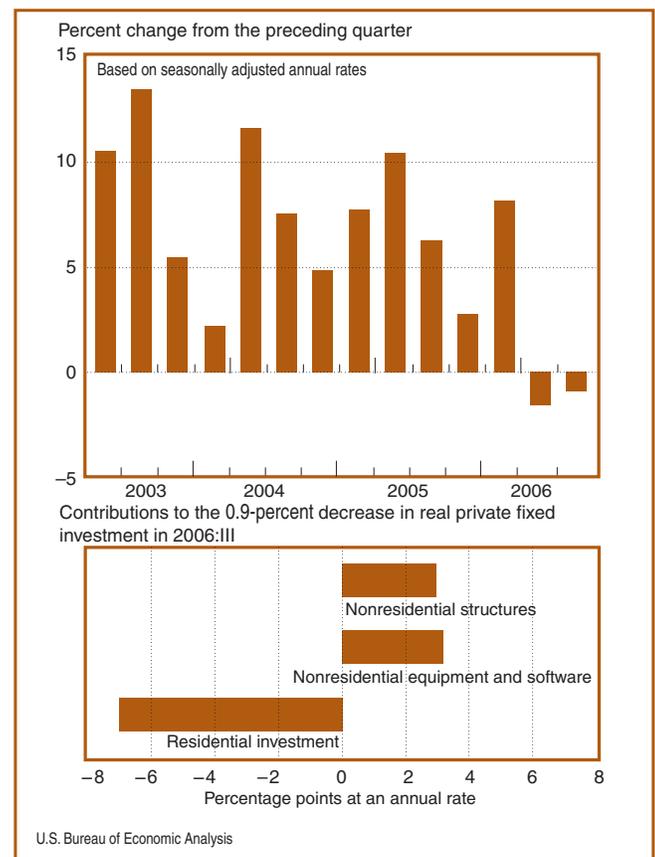
Private nonresidential investment accelerated, mainly reflecting a sharp upturn in business investment in equipment and software.

Investment in nonresidential structures decelerated somewhat. Decelerations in mining exploration, shafts, and wells and in "other" structures were offset somewhat by an acceleration in commercial and health care structures.

Investment in equipment and software turned up, reflecting upturns in information processing equipment and software, notably in communications equipment, and in transportation equipment.

Residential investment decreased more in the third quarter than in the second, primarily reflecting a larger decrease in single-family structures and a downturn in "other" structures.

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				
	2005		2006			2005		2006		
	III	IV	I	II	III	IV	I	II	III	
Change in private inventories¹	-12.7	43.5	41.2	53.7	58.0	56.2	-2.3	12.5	4.3	
Farm	1.1	4.8	4.3	1.9	2.4	3.7	-0.5	-2.4	0.5	
Mining, utilities, and construction	-1.1	-0.5	-2.0	5.4	1.6	0.6	-1.5	7.4	-3.8	
Manufacturing	-12.2	0.5	7.6	11.1	11.5	12.7	7.1	3.5	0.4	
Durable-goods industries	0.6	-1.3	-0.1	5.7	9.6	-1.9	1.2	5.8	3.9	
Nondurable-goods industries	-11.8	1.5	7.1	5.2	2.2	13.3	5.6	-1.9	-3.0	
Wholesale trade	10.2	13.3	15.0	19.3	35.9	3.1	1.7	4.3	16.6	
Durable-goods industries	7.5	17.8	6.4	15.3	28.3	10.3	-11.4	8.9	13.0	
Nondurable-goods industries	2.8	-3.3	8.2	4.5	8.5	-6.1	11.5	-3.7	4.0	
Retail trade	-9.2	26.4	12.8	7.8	1.1	35.6	-13.6	-5.0	-6.7	
Motor vehicle and parts dealers	-13.3	19.8	5.5	1.0	-7.4	33.1	-14.3	-4.5	-8.4	
Food and beverage stores	-1.5	1.3	1.0	1.0	0.3	2.8	-0.3	0.0	-0.7	
General merchandise stores	3.1	1.1	-4.7	-0.5	4.6	-2.0	-5.8	4.2	5.1	
Other retail stores	1.8	5.1	10.8	6.1	2.9	3.3	5.7	-4.7	-3.2	
Other industries	-1.6	0.8	5.2	7.4	5.1	2.4	4.4	2.2	-2.3	
Residual ²	-0.3	-3.6	-0.5	0.7	-0.1	-3.3	3.1	1.2	-0.8	
Addenda: Ratios of private inventories to final sales of domestic business:³										
Private inventories to final sales	2.40	2.42	2.40	2.40	2.41	.....	.....	.....	.....
Nonfarm inventories to final sales	2.20	2.22	2.20	2.20	2.21	.....	.....	.....	.....
Nonfarm inventories to final sales of goods and structures	3.51	3.55	3.48	3.50	3.53	.....	.....	.....	.....

Inventory investment slowed, increasing \$4.3 billion, compared with an increase of \$12.5 billion in the second quarter.

Inventory investment in the mining, utilities, and construction industries turned down, decreasing \$3.8 billion after increasing \$7.4 billion.

Inventory investment in manufacturing slowed, reflecting a deceleration in inventory investment in durable-goods industries and a larger decrease in nondurable-goods industries.

Inventory investment in wholesale trade accelerated, reflecting upturns in nonmerchant wholesale and in nondurable-goods industries.

Inventory investment in retail trade decreased more than in the second quarter, primarily reflecting a larger decrease in investment by retail motor vehicle dealers.

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.

Inventory Investment

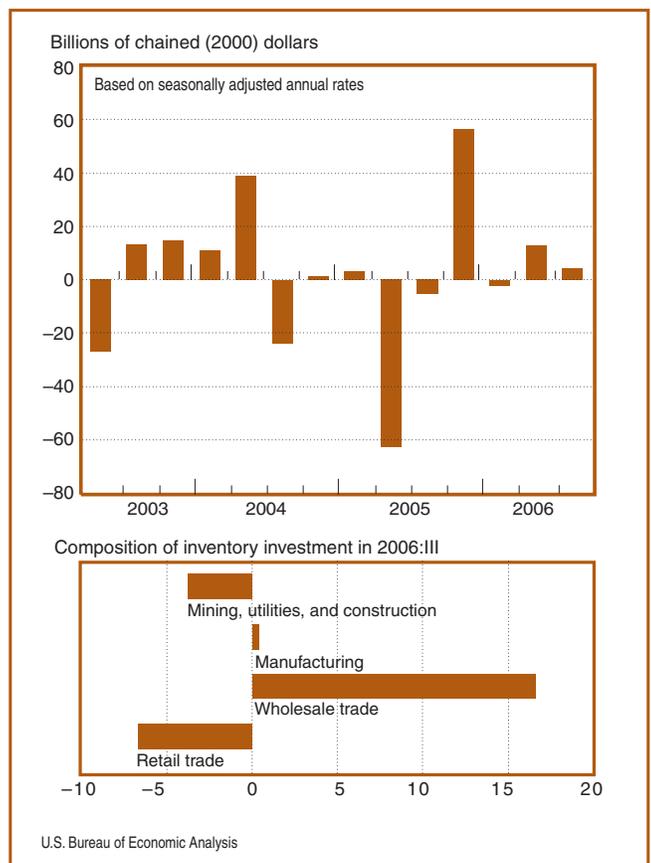
The real change in private inventories, often called real private inventory investment, represents the change in the physical stock of goods held by businesses. It includes finished goods, goods at various stages of production, and raw materials.

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)			
		2005		2006			2005		2006	
		III	IV	I	II	III	IV	I	II	III
Exports of goods and services¹	100.0	9.6	14.0	6.2	6.3	9.6	14.0	6.2	6.3	
Exports of goods²	71.0	11.5	17.3	6.0	9.4	7.94	11.92	4.22	6.56	
Foods, feeds, and beverages ..	4.7	11.8	15.8	20.7	12.3	0.52	0.69	0.86	0.55	
Industrial supplies and materials.....	18.6	-10.3	26.5	14.4	2.9	-1.86	4.36	2.48	0.55	
Capital goods, except automotive.....	28.1	28.3	16.3	6.6	5.6	7.24	4.59	1.85	1.59	
Automotive vehicles, engines, and parts	7.5	13.6	2.7	-4.6	26.7	1.02	0.22	-0.35	1.79	
Consumer goods, except automotive.....	8.9	11.7	15.7	1.1	15.6	1.02	1.39	0.10	1.31	
Other	3.4	0.2	20.5	-19.7	25.5	0.01	0.68	-0.72	0.77	
Exports of services²	29.0	5.5	6.7	6.7	-1.0	1.71	2.07	1.97	-0.29	
Imports of goods and services¹	100.0	13.2	9.1	1.4	5.3	13.2	9.1	1.4	5.3	
Imports of goods²	84.7	14.1	9.4	-0.1	6.9	11.88	7.90	-0.05	5.75	
Foods, feeds, and beverages ..	3.3	1.9	16.5	-4.8	9.9	0.07	0.54	-0.16	0.32	
Industrial supplies and materials, except petroleum and products	13.3	15.6	1.9	-1.2	13.4	2.03	0.27	-0.15	1.67	
Petroleum and products	14.7	40.6	-4.8	-18.3	7.0	4.85	-0.67	-2.78	1.00	
Capital goods, except automotive.....	18.8	9.7	16.1	11.6	13.6	1.82	2.88	2.05	2.42	
Automotive vehicles, engines, and parts	11.1	15.6	14.3	-1.3	-8.6	1.81	1.65	-0.15	-1.02	
Consumer goods, except automotive.....	19.6	12.1	8.4	5.7	14.9	2.38	1.64	1.07	2.74	
Other	3.9	-22.4	44.1	1.9	-28.8	-1.06	1.61	0.08	-1.39	
Imports of services²	15.3	8.3	7.4	9.9	-2.7	1.32	1.15	1.49	-0.42	
Addenda:										
Exports of agricultural goods ³	5.1	6.4	23.8	19.1	1.4	.....	.....	.....	.....
Exports of nonagricultural goods	65.9	11.9	16.8	5.1	10.1	.....	.....	.....	.....
Imports of nonpetroleum goods	70.0	9.7	12.3	3.9	6.8	.....	.....	.....	.....

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 export growth increased 6.3 percent, slightly more than in the second quarter.

Exports of goods accelerated, increasing 9.4 percent, compared with a 6.0-percent increase in the second quarter. The acceleration reflected upturns in automotive vehicles, engines, and parts, in "other" goods, and in civilian aircraft, engines, and parts. An acceleration in nonautomotive consumer goods also contributed to real export growth.

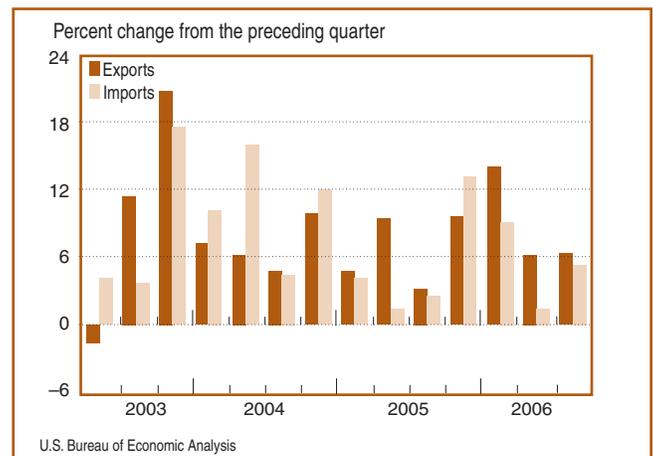
Exports of services turned down, primarily reflecting a downturn in travel, a deceleration in "other" private services, and a larger decrease in transfers under U.S. military agency sales.

Real imports accelerated, increasing 5.3 percent after a 1.4-percent increase.

Imports of goods turned up, reflecting upturns in petroleum and products and in nonpetroleum industrial supplies and materials and an acceleration in nonautomotive consumer goods. Imports of "other" goods turned down and automotive vehicles, engines, and parts decreased more than in the second quarter.

Imports of services turned down, mainly reflecting downturns in travel and in passenger fares.

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)		
	2006	2005	2006			2005		2006		
	III	IV	I	II	III	IV	I	II	III	
Government consumption expenditures and gross investment¹.....	100.0	-1.1	4.9	0.8	2.2	-1.1	4.9	0.8	2.2	
Consumption expenditures.....	82.9	-2.1	4.4	-0.5	2.5	-1.74	3.65	-0.41	2.07	
Gross investment.....	17.1	4.0	7.6	7.4	0.8	0.66	1.26	1.22	0.14	
Federal.....	36.5	-4.6	8.8	-4.5	1.5	-1.73	3.17	-1.69	0.54	
National defense.....	24.3	-9.9	8.9	-2.0	-1.1	-2.57	2.15	-0.50	-0.27	
Consumption expenditures.....	21.2	-10.8	9.1	-4.1	-1.0	-2.47	1.91	-0.91	-0.21	
Gross investment.....	3.1	-3.1	7.9	14.1	-1.8	-0.10	0.24	0.41	-0.06	
Nondefense.....	12.2	7.1	8.5	-9.3	6.8	0.84	1.02	-1.19	0.80	
Consumption expenditures.....	10.6	2.4	8.1	-5.0	7.4	0.25	0.85	-0.55	0.76	
Gross investment.....	1.5	43.8	10.8	-32.9	3.2	0.59	0.18	-0.65	0.05	
State and local.....	63.5	1.0	2.7	4.0	2.6	0.66	1.74	2.50	1.67	
Consumption expenditures.....	51.1	1.0	1.7	2.1	3.0	0.49	0.89	1.05	1.52	
Gross investment.....	12.4	1.4	7.0	12.5	1.2	0.17	0.85	1.46	0.15	

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 accelerated, increasing 2.2 percent after increasing 0.8 percent.

Federal Government spending turned up, reflecting an upturn in nondefense spending that was due to upturns in consumption expenditures and in gross investment. Defense spending decreased 1.1 percent, following a decrease of 2.0 percent in the second quarter.

State and local government spending decelerated, mainly reflecting a sharp deceleration in investment in structures.

Government Spending

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

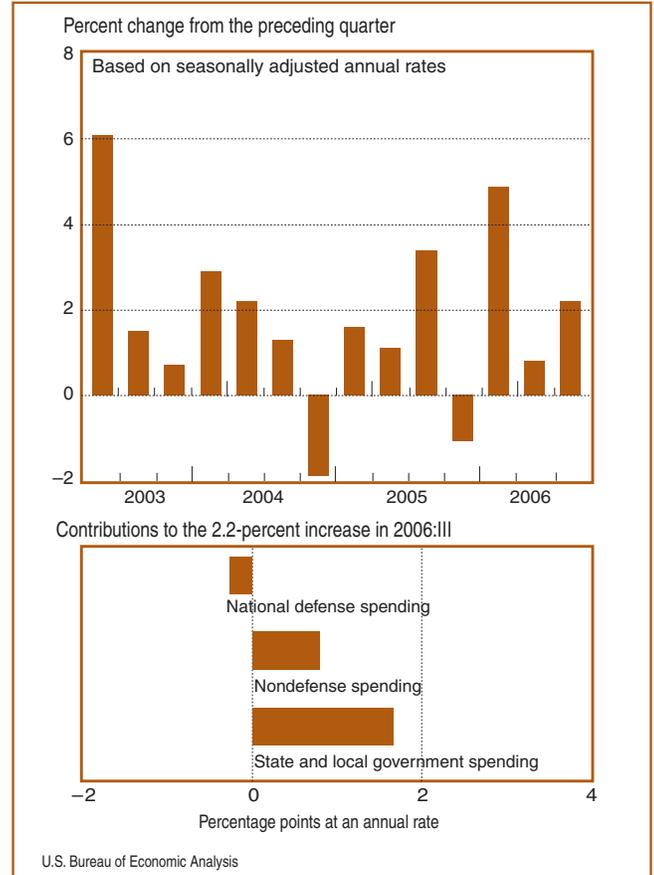
Government consumption expenditures consists of the goods and services that are produced by general government (less any sales to other sectors and investment goods produced by government itself). Governments generally provide services to the general public without charge. The value of government production—that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

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

Government consumption 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. Capital services is also known as consumption of fixed capital (depreciation) and 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)			
	2005		2006		2005		2006	
	IV	I	II	III	IV	I	II	III
Gross domestic purchases¹	3.5	2.7	4.0	2.1	3.5	2.7	4.0	2.1
Personal consumption expenditures	2.9	2.0	4.0	2.4	1.93	1.35	2.66	1.60
Durable goods	-1.3	-1.0	-0.8	-1.1	-0.10	-0.07	-0.06	-0.08
Nondurable goods	0.6	1.1	8.3	2.3	0.11	0.21	1.58	0.46
Services	5.0	3.1	2.9	3.1	1.92	1.22	1.15	1.22
Gross private domestic investment	4.3	3.7	3.1	0.5	0.68	0.58	0.50	0.08
Fixed investment	4.6	3.8	3.0	0.4	0.71	0.59	0.47	0.07
Nonresidential	3.5	3.7	3.0	0.8	0.34	0.36	0.30	0.08
Structures	16.8	12.4	10.7	5.2	0.41	0.32	0.29	0.15
Equipment and software	-1.0	0.6	0.1	-1.0	-0.07	0.04	0.01	-0.07
Residential	6.3	3.8	2.9	-0.3	0.37	0.23	0.17	-0.02
Change in private inventories					-0.03	-0.01	0.03	0.02
Government consumption expenditures and gross investment	4.7	4.4	4.8	2.1	0.84	0.79	0.86	0.38
Federal	0.4	7.6	3.8	1.6	0.03	0.49	0.25	0.10
National defense	1.0	6.7	4.1	2.1	0.04	0.29	0.18	0.09
Nondefense	-0.7	9.5	3.2	0.6	-0.01	0.20	0.07	0.01
State and local	7.3	2.6	5.4	2.4	0.81	0.30	0.61	0.27
Addenda:								
Gross domestic purchases:								
Food	2.3	2.6	1.7	3.0	0.22	0.24	0.16	0.28
Energy goods and services	14.8	-2.4	30.6	0.6	0.70	-0.11	1.37	0.04
Excluding food and energy	3.0	3.0	2.9	2.0	2.54	2.59	2.49	1.74
Personal consumption expenditures (PCE):								
Food	2.2	2.7	1.7	2.9				
Energy goods and services	9.8	0.1	29.7	3.7				
Excluding food and energy	2.5	2.1	2.7	2.2				
"Market-based" PCE	2.5	1.7	4.2	2.2				
Excluding food and energy	1.9	1.6	2.7	1.9				
Gross domestic product	3.3	3.3	3.3	1.8				

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

NOTE. All the percent changes except those for PCE for food and energy goods and services and for PCE excluding food and energy are from NIPA table 1.6.7; the changes for PCE are calculated from index numbers in NIPA table 2.3.4. The contributions are from NIPA table 1.6.8.

Inflation, as measured by the price index for gross domestic purchases, was 2.1 percent, the slowest rate of inflation since the fourth quarter of 2003. In the second quarter, it was 4.0 percent.

Consumer prices decelerated, primarily reflecting a sharp deceleration in prices paid for gasoline, fuel oil, and other energy goods.

Prices of fixed investment decelerated, reflecting a deceleration in the prices paid for nonresidential structures and downturns in the prices paid for equipment and software and for residential investment.

Prices paid by government slowed, reflecting decelerations in the prices paid by the Federal Government and by state and local governments.

Energy prices increased 0.6 percent after increasing 30.6 percent. Food prices accelerated.

Excluding food and energy prices, inflation was 2.0 percent, slower than the 2.9 percent registered in the second quarter.

Consumer prices excluding food and energy, a measure of the "core" rate of inflation, increased 2.2 percent, following a 2.7-percent increase.

The "market-based" PCE price index increased 2.2 percent; excluding food and energy, it increased 1.9 percent.

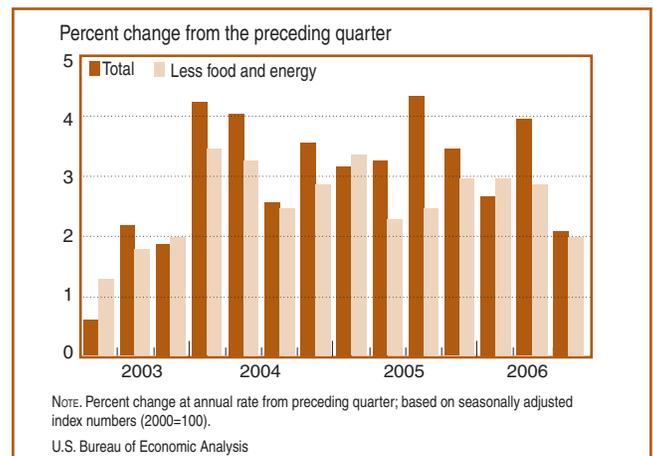
Note on Prices

BEA's gross domestic purchases price index is the most comprehensive index of prices paid by U.S. residents for all goods and services purchased in the United States. It is derived from prices of consumer spending, private investment, government spending, all of which include prices of imports.

The GDP price index measures the prices paid for all the goods and services produced in the United States, and it includes the prices of goods and services that are exported.

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).

Chart 7. Gross Domestic Purchases Prices



Revisions

Table 9. Advance and Preliminary Estimates for the Third Quarter of 2006

[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	1.6	2.2	0.6	1.6	2.2	0.6
Personal consumption expenditures	3.1	2.9	-0.2	2.13	1.99	-0.14
Durable goods	8.4	6.0	-2.4	0.66	0.47	-0.19
Nondurable goods	1.6	1.1	-0.5	0.33	0.23	-0.10
Services	2.8	3.1	0.3	1.15	1.29	0.14
Gross private domestic investment	-2.0	0.0	2.0	-0.34	0.01	0.35
Fixed investment	-1.4	-0.9	0.5	-0.24	-0.15	0.09
Nonresidential	8.6	10.0	1.4	0.88	1.01	0.13
Structures	14.0	16.7	2.7	0.41	0.49	0.08
Equipment and software	6.4	7.2	0.8	0.46	0.52	0.06
Residential	-17.4	-18.0	-0.6	-1.12	-1.16	-0.04
Change in private inventories				-0.10	0.16	0.26
Net exports of goods and services				-0.58	-0.21	0.37
Exports	6.5	6.3	-0.2	0.70	0.68	-0.02
Goods	10.0	9.4	-0.6	0.75	0.71	-0.04
Services	-1.5	-1.0	0.5	-0.05	-0.03	0.02
Imports	7.8	5.3	-2.5	-1.28	-0.89	0.39
Goods	9.5	6.9	-2.6	-1.31	-0.96	0.35
Services	-1.0	-2.7	-1.7	0.03	0.07	0.04
Government consumption expenditures and gross investment	2.0	2.2	0.2	0.37	0.42	0.05
Federal	1.7	1.5	-0.2	0.12	0.10	-0.02
National defense	-0.7	-1.1	-0.4	-0.03	-0.05	-0.02
Nondefense	6.9	6.8	-0.1	0.15	0.15	0.00
State and local	2.1	2.6	0.5	0.25	0.32	0.07
Addenda:						
Final sales of domestic product	1.7	2.1	0.4	1.68	2.06	0.38
Gross domestic purchases price index	2.0	2.1	0.1			
GDP price index	1.8	1.8	0.0			

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

The 2.2-percent preliminary estimate of real GDP growth is 0.6 percentage point more than the advance estimate. The upward revision primarily reflected a downward revision to imports of goods and upward revisions to inventory investment and to consumer spending for services; these changes were partly offset by a downward revision to consumer spending for durable goods. For the period 1978-2005, the revisions, without regard to sign, averaged 0.5 percentage point from the advance to the preliminary estimates.

The downward revision to consumer spending for durable goods was widespread; the largest contributor was motor vehicles and parts.

The upward revision to consumer spending for services was primarily due to upward revision to electricity and gas services.

The upward revision to inventory investment was mainly due to an upward revision to wholesale trade inventories.

The downward revision to imports of goods was widespread; the largest contributor was nonpetroleum industrial supplies and materials.

Source Data for the Preliminary Estimates

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

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

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

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

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

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

Personal Income for the Second Quarter

With the release of the preliminary estimates of GDP, BEA also releases revised estimates of various income-related series 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.

Wages and salaries increased \$10.8 billion in the second quarter, a downward revision of \$100.3 billion. Personal current taxes increased \$28.4 billion, a downward revision of \$17.6 billion. Contributions for government social insurance—a subtraction in calculating personal income—increased \$2.1 billion, a downward revision of \$14.1 billion. As a result of these revisions

- Personal income increased \$85.9 billion, a downward revision of \$93.7 billion.
- Disposable personal income increased \$57.4 billion, a downward revision of \$76.2 billion.
- Personal saving decreased \$101.1 billion, a downward revision of \$76.2 billion.
- The personal saving rate was -1.4 percent, a downward revision of 0.8 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			2005		2006		
	2006	2005	2006			2005	2006			
	III	IV	I	II	III	IV	I	II	III	
Current production measures:										
Corporate profits	1,658.0	127.2	175.6	22.7	66.2	10.0	12.6	1.4	4.2	
Domestic industries.....	1,420.9	154.3	145.8	8.9	69.0	14.8	12.2	0.7	5.1	
Financial.....	481.7	94.7	51.4	41.7	-2.2	32.0	13.1	9.4	-0.4	
Nonfinancial	939.2	59.6	94.5	-32.8	71.1	8.0	11.7	-3.6	8.2	
Rest of the world	237.1	-27.1	29.8	13.8	-2.8	-12.1	15.2	6.1	-1.2	
Receipts from the rest of the world	407.5	16.6	15.7	25.7	5.5	4.8	4.4	6.8	1.4	
Less: Payments to the rest of the world	170.5	43.7	-14.0	11.9	8.4	36.3	-8.5	7.9	5.1	
Less: Taxes on corporate income	491.1	45.7	32.3	19.2	15.0	12.1	7.6	4.2	3.2	
Equals: Profits after tax.....	1,166.8	81.4	143.2	3.6	51.1	9.2	14.8	0.3	4.6	
Net dividends	650.4	17.0	14.7	15.4	19.3	2.9	2.5	2.5	3.0	
Undistributed profits from current production.....	516.5	64.4	128.5	-11.8	31.9	21.2	34.9	-2.4	6.6	
Net cash flow	1,384.8	-6.8	125.3	1.1	34.5	-0.5	10.2	0.1	2.6	
Industry profits:										
Profits with IVA	1,820.5	114.2	158.6	34.9	67.9	7.9	10.2	2.0	3.9	
Domestic industries.....	1,583.5	141.3	128.8	21.1	70.8	11.6	9.5	1.4	4.7	
Financial	507.1	95.9	50.6	44.3	-1.1	30.2	12.2	9.5	-0.2	
Nonfinancial.....	1,076.4	45.3	78.3	-23.2	71.9	5.0	8.2	-2.3	7.2	
Rest of the world	237.1	-27.1	29.8	13.8	-2.8	-12.1	15.2	6.1	-1.2	
Addenda:										
Profits before tax (without IVA and CCAAdj)	1,857.8	122.5	142.3	70.9	46.3	8.3	8.9	4.1	2.6	
Profits after tax (without IVA and CCAAdj)	1,366.6	76.8	110.0	51.7	31.2	7.0	9.4	4.0	2.3	
IVA	-37.2	-8.3	16.3	-36.0	21.7	.....	.....	.....	.....
CCAAdj	-162.6	13.0	17.0	-12.2	-1.8	.....	.....	.....	.....

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 increased \$66.2 billion, or 4.2 percent at a quarterly rate, in the third quarter after increasing \$22.7 billion, or 1.4 percent. Compared with the same quarter a year ago, profits increased 30.9 percent. The strong year-over-year growth reflected the effects of Hurricanes Katrina and Rita, which reduced third-quarter 2005 profits about \$165 billion.

Profits of domestic financial corporations decreased \$2.2 billion, or 0.4 percent.

Profits of domestic nonfinancial corporations increased \$71.1 billion, or 8.2 percent.

Taxes on corporate income increased \$15.0 billion, or 3.2 percent, compared with an increase of \$19.2 billion, or 4.2 percent.

After-tax profits increased \$51.1 billion, or 4.6 percent after increasing \$3.6 billion, or 0.3 percent.

Undistributed corporate profits (a measure of net saving that equals after-tax profits less dividends) increased \$31.9 billion, or 6.6 percent, in contrast to a decrease of \$11.8 billion, or 2.4 percent.

Net cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$34.5 billion, or 2.6 percent after increasing \$1.1 billion, or 0.1 percent.

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), which 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).