

Business Situation

Final Estimates for the Third Quarter of 2005

REAL gross domestic product (GDP) increased 4.1 percent in the third quarter of 2005 after increasing 3.3 percent in the second quarter, according to the “final” estimates of the national income and product accounts (NIPAs) (chart 1 and table 1).¹ The final estimate of real GDP growth was 0.2 percentage point less than the “preliminary” estimate released in November; it reflected downward revisions to consumer spending for durable goods and to residential fixed investment, but exports of services were revised up (table 2).²

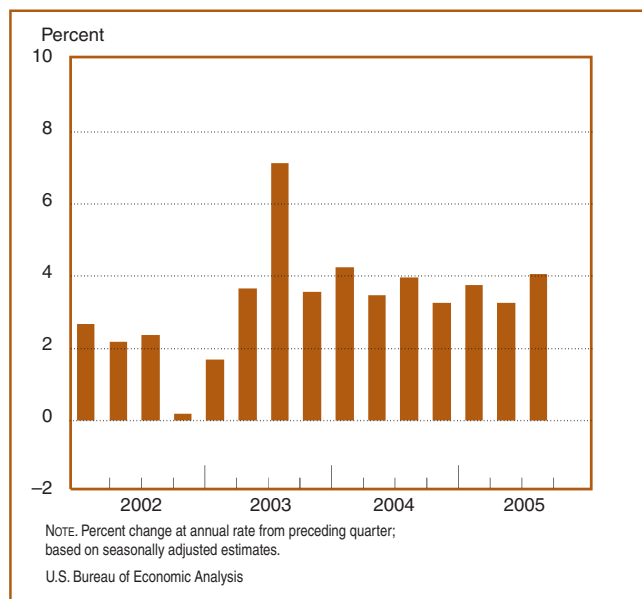
- Prices of goods and services purchased by U.S. residents increased 4.2 percent, 0.2 percentage point

1. Three sequential GDP estimates for each quarter are prepared—advance, preliminary, and final estimates. Each incorporates increasingly comprehensive and improved source data. Detailed information on BEA estimates, revisions, and accuracy can be found on BEA’s Web site at <www.bea.gov/bea/about/infoqual.htm> and at <www.bea.gov/bea/faq/national/gdp_accuracy.htm>. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter dollar changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized.

2. In this article, “consumer spending” is shorthand for the NIPA series “personal consumption expenditures,” government spending” is shorthand for “government consumption expenditures and gross investment,” and “inventory investment” is shorthand for “change in private inventories.”

Christopher Swann prepared this article.

Chart 1. Real Gross Domestic Product



more than in the preliminary estimate. In the second quarter, prices had increased 3.3 percent. The acceleration mainly reflected a sharp acceleration in energy prices.

- Real disposable personal income (DPI) decreased 2.0 percent in the third quarter, 1.3 percentage points more than in the preliminary estimate. Real DPI increased 0.2 percent in the second quarter.

The hurricanes that struck the Gulf states in the third quarter, like other natural disasters, exacted economic losses that have consequences for the regional and national economies. (See the section “Effects of the hurricanes.”)

The acceleration in real GDP growth in the third quarter primarily reflected a smaller decrease in private inventory investment and accelerations in consumer spending and in Federal Government spending that were partly offset by a deceleration in exports, by

Table 1. Real Gross Domestic Product and Components

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)				Share of current-dollar GDP (percent)
	2004		2005		2004		2005		
	IV	I	II	III	IV	I	II	III	
Gross domestic product ...	3.3	3.8	3.3	4.1	3.3	3.8	3.3	4.1	100.0
Personal consumption expenditures	4.3	3.5	3.4	4.1	3.01	2.44	2.35	2.85	70.2
Durable goods	5.5	2.6	7.9	9.3	0.45	0.22	0.64	0.76	8.3
Nondurable goods	5.5	5.3	3.6	3.5	1.09	1.07	0.74	0.73	20.7
Services	3.6	2.8	2.3	3.3	1.47	1.15	0.97	1.36	41.2
Gross private domestic investment	6.8	8.6	-3.7	5.3	1.11	1.42	-0.63	0.87	16.7
Fixed investment	7.2	7.0	9.5	8.0	1.13	1.12	1.51	1.31	16.8
Nonresidential	10.4	5.7	8.8	8.5	1.04	0.58	0.90	0.88	10.7
Structures	4.7	-2.0	2.7	2.2	0.12	-0.05	0.07	0.06	2.7
Equipment and software	12.4	8.3	10.9	10.6	0.92	0.64	0.83	0.82	8.0
Residential	1.6	9.5	10.8	7.3	0.09	0.54	0.62	0.43	6.1
Change in private inventories					-0.03	0.29	-2.14	-0.43	-0.2
Net exports of goods and services					-0.98	-0.40	1.11	-0.12	-5.8
Exports	7.1	7.5	10.7	2.5	0.70	0.74	1.07	0.26	10.4
Goods	3.7	5.3	16.0	3.2	0.25	0.37	1.08	0.23	7.3
Services	15.5	12.5	-0.4	1.0	0.44	0.37	-0.01	0.03	3.2
Imports	11.3	7.4	-0.3	2.4	-1.68	-1.14	0.04	-0.38	16.2
Goods	13.0	8.2	-1.1	3.5	-1.60	-1.05	0.15	-0.46	13.6
Services	3.1	3.7	4.4	-3.2	-0.08	-0.10	-0.11	0.09	2.6
Government consumption expenditures and gross investment	0.9	1.9	2.5	2.9	0.17	0.35	0.47	0.54	19.0
Federal	-0.6	2.4	2.4	7.4	-0.04	0.17	0.17	0.52	7.1
National defense	-3.3	3.0	3.7	10.0	-0.16	0.14	0.17	0.46	4.8
Nondefense	5.2	1.1	-0.2	2.4	0.12	0.03	-0.01	0.06	2.3
State and local	1.8	1.6	2.6	0.2	0.21	0.19	0.31	0.03	11.9

NOTE. Percent changes are from NIPA table 1.1.1, and contributions to percent change are from NIPA table 1.1.2. Shares are from NIPA table 1.1.10.

an upturn in imports, and by decelerations in state and local government spending and in residential fixed investment.

- Inventory investment subtracted 0.43 percentage point from real GDP growth after subtracting 2.14 percentage points in the second quarter. Upturns in inventory investment in durable-goods manufacturing and in retail motor vehicles were partly offset by a downturn in mining, utilities, and construction and in “other” retail stores. Real inventory stocks decreased \$13.3 billion in third quarter; stocks had decreased \$1.7 billion in the second quarter.
- Consumer spending accelerated, increasing 4.1 per-

cent after increasing 3.4 percent; it added 2.85 percentage points to real GDP growth after adding 2.35 percentage points in the second quarter. Spending for electricity and gas turned up in the third quarter, and spending for furniture and household equipment, for food, for motor vehicles and parts, and for medical services accelerated. Spending for “other” nondurable goods turned down.

- Federal Government spending increased 7.4 percent after increasing 2.4 percent in the second quarter and contributed 0.52 percentage point to real GDP growth after contributing 0.17 percentage point. The acceleration was primarily due to a step-up in defense spending.
- Net exports subtracted 0.12 percentage point from real GDP growth after adding 1.11 percentage points in the second quarter. Exports decelerated, increasing 2.5 percent after increasing 10.7 percent, and contributed 0.26 percentage point to real GDP growth after contributing 1.07 percentage points. The deceleration was primarily due to downturns in civilian aircraft, engines, and parts, in nondurable industrial supplies and materials, and in foods, feeds, and beverages. Travel services also turned down. The downturns were partly offset by an upturn in “other” private services and in automotive vehicles, engines and parts. Imports turned up, increasing 2.4 percent after decreasing 0.3 percent, primarily because of a smaller decrease in petroleum and products, upturns in “other” goods imports, in consumer durable goods, and in automotive vehicles, engines, and parts that were partly offset by downturns in consumer nondurable goods and in civilian aircraft, engines, and parts. Services imports also turned down. Imports subtracted 0.38 percentage point from real GDP growth in the third quarter after adding 0.04 percentage point in the second quarter.

- State and local government spending decelerated, increasing 0.2 percent after increasing 2.6 percent. The deceleration was primarily due to a downturn in investment in structures.
- Residential fixed investment increased 7.3 percent after increasing 10.8 percent and contributed 0.43 percentage point to real GDP growth after contributing 0.62 percentage point. The deceleration was primarily due to a sharp deceleration in brokers commissions on the sale of residential structures (in “other” structures) that was partly offset by an acceleration in single-family structures.

The final estimates for the third quarter also show the following:

- Real final sales of domestic product (real GDP less the change in private inventories) increased 4.6

Table 2. Final and Preliminary Estimates for the Third Quarter of 2005
[Seasonally adjusted at annual rates]

	Percent change from preceding quarter			Contribution to percent change in real GDP		
	Final estimate	Preliminary estimate	Final minus preliminary	Final estimate	Preliminary estimate	Final minus preliminary
Gross domestic product (GDP).....	4.1	4.3	-0.2	4.1	4.3	-0.2
Personal consumption expenditures.....	4.1	4.2	-0.1	2.85	2.97	-0.12
Durable goods.....	9.3	10.5	-1.2	0.76	0.85	-0.09
Nondurable goods.....	3.5	3.6	-0.1	0.73	0.74	-0.01
Services.....	3.3	3.3	0.0	1.36	1.38	-0.02
Gross private domestic investment.....	5.3	5.8	-0.5	0.87	0.96	-0.09
Fixed investment.....	8.0	8.6	-0.6	1.31	1.40	-0.09
Nonresidential.....	8.5	8.8	-0.3	0.88	0.91	-0.03
Structures.....	2.2	2.7	-0.5	0.06	0.07	-0.01
Equipment and software.....	10.6	10.8	-0.2	0.82	0.83	-0.01
Residential.....	7.3	8.4	-1.1	0.43	0.50	-0.07
Change in private inventories.....				-0.43	-0.44	0.01
Net exports of goods and services.....				-0.12	-0.25	0.13
Exports.....	2.5	0.8	1.7	0.26	0.09	0.17
Goods.....	3.2	3.0	0.2	0.23	0.22	0.01
Services.....	1.0	-3.9	4.9	0.03	-0.13	0.16
Imports.....	2.4	2.1	0.3	-0.38	-0.34	-0.04
Goods.....	3.5	3.3	0.2	-0.46	-0.44	-0.02
Services.....	-3.2	-3.9	0.7	0.09	0.10	-0.01
Government consumption expenditures and gross investment.....	2.9	3.2	-0.3	0.54	0.60	-0.06
Federal.....	7.4	8.1	-0.7	0.52	0.56	-0.04
National defense.....	10.0	10.3	-0.3	0.46	0.48	-0.02
Nondefense.....	2.4	3.6	-1.2	0.06	0.08	-0.02
State and local.....	0.2	0.4	-0.2	0.03	0.04	-0.01
Addenda:						
Final sales of domestic product.....	4.6	4.7	-0.1	4.58	4.73	-0.15
Gross domestic purchases price index.....	4.2	4.0	0.2			
GDP price index.....	3.3	3.0	0.3			

NOTE: The final estimates for the third quarter of 2005 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

Personal consumption expenditures: Retail sales for September (revised), sales of natural gas for August (revised) and September (newly available).

Nonresidential fixed investment: Construction put-in-place data for August and September (revised), and manufacturers' shipments of machinery and equipment for September (revised).

Residential fixed investment: Construction put-in-place data for August and September (revised).

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

Exports and imports of goods and services: International transactions data for services for the second and third quarters (revised) and goods data for September (revised).

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

Wages and salaries: Employment, average hourly earnings, and average weekly hours for July through September (revised), and data on employer costs for employee compensation for the third quarter (newly available).

GDP prices: Export and import prices for July through September (revised), unit-value index for petroleum imports for July through September (revised), and prices of single-family houses under construction for the quarter (revised).

percent after increasing 5.6 percent in the second quarter.

- Real gross domestic purchases (GDP less net exports) increased 4.0 percent after increasing 2.1 percent in the second quarter.
- Real gross national product (GNP) increased 4.4 percent after increasing 3.2 percent.³ The third-quarter increase in GNP is 0.3 percentage point more than the increase in GDP; an increase in income receipts from the rest of the world more than offset an increase in income payments to the rest of the world.
- The gross saving rate (saving from all sources as a percentage of gross national income) was 13.5 percent in the third quarter and 13.2 percent in the second quarter. The net saving rate turned down to a negative 1.3 percent from 1.4 percent, reflecting the destruction of assets from the hurricanes.⁴
- The personal saving rate was a negative 1.8 percent in the third quarter, 0.3 percentage point more negative than in the preliminary estimate; it was a negative 0.2 percent in the second quarter.

Effects of the hurricanes

Hurricanes, like other natural disasters, have a twofold effect on economic activity: They destroy property and thus reduce the stock of fixed assets, and they change the volume and pattern of current economic activity.

Destruction of property. The BEA measure of capital depreciation, the consumption of fixed capital (CFC), captures the reduction in the stock of fixed assets. A rise in CFC results in an equal decline in national income and net domestic product. In the third quarter, CFC rose \$383.8 billion (at an annual rate) because of the hurricanes.

The destruction of property also affected personal and business income and triggered payments of insurance benefits. BEA estimates of the affected net income flows are included in its estimates of proprietors' income, rental income, corporate profits, and business transfer payments (table 3).⁵ The estimates reflect uninsured losses resulting from the hurricanes as well as the treatment of insurance services that BEA introduced as part of its 2003 comprehensive revision of the

3. GNP is a measure of the goods and services produced by labor and property supplied by U.S. residents regardless of where they are located; in contrast, GDP is a measure of the goods and services produced by labor and property in the United States, regardless of nationality. The two measures are related as follows: GNP equals GDP plus income receipts from the rest of the world minus income payments to the rest of the world.

4. Net saving, which excludes the consumption of fixed capital, is a measure of the saving that is available for augmenting the stock of fixed assets.

5. See the box "The Impact of the Third-Quarter Hurricanes on the NIPAs," SURVEY OF CURRENT BUSINESS 85 (December 2005): 4. For a broader explanation of the effects of disasters on the NIPAs, see <www.bea.gov/beatfaq/national/FAQ.htm> on BEA's Web site.

NIPAs.⁶

Changed economic activity. Natural disasters have myriad economic consequences, as normal production and activities are curtailed or terminated. In the case of the hurricanes, for example, the reduction in incomes and tourism adversely affected consumer and business spending. Also, damages to assets adversely affected petroleum and chemicals production. However, as assets are restored, the effects of construction will be reflected in investment spending.

These kinds of changes in the current level and pattern of activity are not separately identifiable in the GDP estimate, because they cannot be isolated in the source data that are used to calculate the NIPA aggregates.

6. See Brent R. Moulton and Eugene P. Seskin, "Preview of the 2003 Comprehensive Revision of the National Income and Product Accounts: Changes in Definitions and Classifications," SURVEY 83 (June 2003): 17-34; and Baoline Chen and Dennis J. Fixler, "Measuring the Services of Property-Casualty Insurance in the NIPAs: Changes in Concepts and Methods," SURVEY 83 (October 2003): 10-26.

Table 3. Revised Hurricane Damages and Insurance Settlements for the Third Quarter of 2005¹

(Billions of dollars; quarterly estimates at annual rates)²

Line	Total	Damage to fixed assets	Insurance benefits ³
	Level		
1 Gross domestic product	0.0	0.0	0.0
2 <i>Less: Consumption of fixed capital (CFC)</i>	383.8	383.8	.....
3 Equals: Net domestic product/national income	-383.8	-383.8	0.0
4 Proprietors' income with capital consumption adjustment (CCAdj).....	-21.6	-51.0	29.4
5 Rental income of persons with CCAdj.....	-103.7	-229.4	125.7
6 Corporate profits with inventory valuation adjustment (IVA) and CCAdj.....	-165.3	-88.8	-76.5
7 Total payouts.....	.....	.....	-264.6
8 Insurance benefits received by corporations.....	.....	.....	60.2
9 National Flood Insurance Program.....	.....	.....	92.4
10 Louisiana Citizens Property Insurance Corporation.....	.....	.....	3.6
11 Reinsurance.....	.....	.....	32.0
12 Business current transfer payments (net).....	-78.7	.....	-78.7
13 Net insurance settlements to persons ⁴.....	.....	.....	45.5
14 Net insurance settlement to government.....	.....	.....	-87.8
15 Federal.....	.....	.....	-92.4
16 State and local.....	.....	.....	4.6
17 Net insurance settlements to the rest of the world.....	.....	.....	-36.4
18 Current surplus of government enterprises.....	-14.6	-14.6	.....
19 Federal (Postal Service).....	-0.4	-0.4	.....
20 State and local.....	-14.2	-14.2	.....
21 <i>Less: Corporate profits with CCAdj</i>	-165.3	-88.8	-76.5
22 Business current transfer payments to governments and to the rest of the world.....	-124.2	.....	-124.2
23 Current surplus of government enterprises.....	-14.6	-14.6	.....
24 Equals: Personal income	-79.8	-280.4	200.7
Addenda:			
25 Personal income.....	-79.8	-280.4	200.7
26 Proprietors' income with CCAdj.....	-21.6	-51.0	29.4
27 Rental income of persons with CCAdj.....	-103.7	-229.4	125.7
28 Net insurance settlements to persons.....	45.5	.....	45.5

1. Includes only explicit adjustments to source data for write-offs of nonrepairable damage and for insurance. Excludes impacts that are assumed to be reflected in source data.

2. The estimates of the actual damages and insurance settlements (not at an annual rate) can be derived by dividing the numbers shown in the table by 4; actual damages to fixed assets in personal income, for example, are estimated to be \$70.1 billion (\$280.4 billion at an annual rate).

3. Includes business interruption insurance.

4. Includes benefits paid to persons for the loss of personal property, such as motor vehicles and household furnishings and equipment.

NOTE: The estimates reflect the "final" GDP release on December 21, 2005.

Corporate Profits

Profits from current production decreased \$54.4 billion (4.0 percent at a quarterly rate) in the third quarter after increasing \$59.3 billion (4.6 percent) in the second quarter (table 4).⁷ In the third quarter, profits of domestic industries decreased \$80.4 billion after increasing \$55.5 billion. Profits from the rest of the world increased. Third-quarter profits were reduced by \$165.3 billion because of Hurricanes Katrina and Rita, reflecting the BEA adjustments to profits that are based on the net benefits paid by domestic insurance companies and the uninsured losses of corporate property.

The decrease in profits of domestic industries reflected decreases in the profits of both financial and

nonfinancial corporations that included the net losses as a result of the hurricanes. Profits of financial corporations decreased \$71.9 billion after decreasing \$26.9 billion in the second quarter. Profits of nonfinancial corporations decreased \$8.5 billion after increasing \$82.5 billion in the second quarter. Real gross value added of nonfinancial corporations increased, and profits per unit decreased. The decrease in unit profits reflected increases in both unit labor costs and unit nonlabor costs that were partly offset by an increase in unit prices.

Profits from the rest of the world increased \$25.9 billion (13.1 percent) in the third quarter after increasing \$3.7 billion (1.9 percent).⁸ The third-quarter increase reflected an increase in receipts from foreign affiliates of domestic parents and a reduction in payments by domestic affiliates to foreign parents. Receipts from foreign affiliates of domestic parents increased \$10.1 billion (3.1 percent) after increasing \$14.7 billion (4.7 percent). Payments by domestic affiliates to foreign parents decreased \$15.9 billion (12.1 percent) after increasing \$10.9 billion (9.1 percent).

Taxes on corporate income decreased \$12.2 billion (3.3 percent) in the third quarter after increasing \$9.9 billion (2.7 percent) in the second quarter. After-tax profits from current production decreased \$42.2 billion (4.3 percent) after increasing \$49.4 billion (5.3 percent).

Net dividends increased \$13.8 billion (2.7 percent) after increasing \$11.4 billion (2.3 percent) in the second quarter. Undistributed corporate profits (a measure of net saving that equals after-tax profits less dividends) decreased \$56.1 billion (12.0 percent) after increasing \$38.0 billion (8.8 percent).

Net cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$44.0 billion (3.4 percent) in the third quarter after increasing \$41.7 billion (3.4 percent) in the second quarter.⁹ The ratio of cash flow to nonresidential fixed investment, an indicator of the extent to which the current level of investment could be financed by internally generated corporate funds, increased to 98.2 in the third quarter from 97.5 in the second quarter.

8. Profits from the rest of the world is the difference between (1) receipts by U.S. residents of earnings from foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations and (2) payments by U.S. affiliates of earnings to foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA's international transactions accounts.

9. Cash flow from current production is undistributed profits with inventory valuation and capital consumption adjustments plus the consumption of fixed capital.

7. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown as "corporate profits with inventory valuation and capital consumption adjustments" in NIPA tables 1.7.5, 1.10-1.12, 1.14-1.16, and 6.16D. Percent changes in profits are shown at quarterly, not annual, rates.

Table 4. Corporate Profits
[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change from preceding quarter (quarterly rate)				
	Level		Change from preceding quarter			2004		2005		
	2005	2004	I	II	III	IV	I	II	III	
Current production measures:										
Corporate profits	1293.1	102.3	68.7	59.3	-54.4	9.2	5.6	4.6	-4.0	
Domestic industries	1069.9	109.6	53.9	55.5	-80.4	11.8	5.2	5.1	-7.0	
Financial	278.8	77.2	36.0	-26.9	-71.9	29.2	10.6	-7.1	-20.5	
Nonfinancial	791.1	32.4	17.8	82.5	-8.5	4.9	2.5	11.5	-1.1	
Rest of the world	223.1	-7.3	14.9	3.7	25.9	-3.9	8.3	1.9	13.1	
Receipts from the rest of the world ...	338.3	23.2	-19.1	14.7	10.1	7.5	-5.7	4.7	3.1	
Less: Payments to the rest of the world	115.1	30.4	-33.9	10.9	-15.9	24.6	-22.0	9.1	-12.1	
Less: Taxes on corporate income	360.3	34.0	69.6	9.9	-12.2	13.1	23.7	2.7	-3.3	
Equals: Profits after tax ...	932.8	68.2	-0.8	49.4	-42.2	8.0	-0.1	5.3	-4.3	
Net dividends	520.1	113.4	-94.4	11.4	13.8	23.8	-16.0	2.3	2.7	
Undistributed profits from current production	412.6	-45.1	93.5	38.0	-56.1	-11.8	27.7	8.8	-12.0	
Net cash flow	1324.9	-75.3	95.4	41.7	44.0	-6.2	8.3	3.4	3.4	
Industry profits:										
Profits with IVA	1365.1	98.4	259.5	54.1	-28.2	10.0	24.0	4.0	-2.0	
Domestic industries	1142.0	105.6	244.6	50.4	-54.1	13.3	27.2	4.4	-4.5	
Financial	278.7	76.6	57.8	-27.7	-70.8	31.5	18.1	-7.4	-20.3	
Nonfinancial	863.3	29.0	186.8	78.1	16.7	5.3	32.1	10.2	2.0	
Utilities	19.7	2.7	9.6	2.7	-6.7	23.2	68.3	11.4	-25.5	
Manufacturing	218.6	38.5	15.5	34.5	13.9	33.2	10.0	20.3	6.8	
Wholesale trade	95.4	-2.2	14.5	16.7	-2.7	-3.2	21.7	20.5	-2.7	
Retail trade	116.9	5.8	16.9	4.5	7.8	7.0	19.4	4.2	7.2	
Transportation and warehousing	32.9	-4.4	21.2	5.0	5.0	.....	.....	.....	.....
Information	50.2	-12.0	25.7	6.8	-3.3	.....	.....	.....	.....
Other nonfinancial	329.6	0.6	83.3	8.0	2.7	0.3	35.4	2.5	0.8	
Rest of the world	223.1	-7.3	14.9	3.7	25.9	-3.9	8.3	1.9	13.1	
Addenda:										
Profits before tax (without IVA and CCAdj)	1392.6	105.9	254.2	33.9	-19.6	10.4	22.6	2.5	-1.4	
Profits after tax (without IVA and CCAdj)	1032.3	71.9	184.6	24.0	-7.4	9.5	22.2	2.4	-0.7	
IVA	-27.5	-7.5	5.3	20.2	-8.6	.....	.....	.....	.....
CCAdj	-72.1	4.0	-190.8	5.2	-26.3	.....	.....	.....	.....

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
CCAdj Capital consumption adjustment

Industry profits. The current-production measure of profits is not available at the detailed industry level, because estimates of the capital consumption adjustment (CCAdj) at the detailed level are not available.¹⁰ (Estimates of the CCAdj are only available for total financial industries and for total nonfinancial industries.) Consequently, industry profits are best measured by profits with inventory valuation adjustment (IVA).¹¹

In the third quarter, industry profits with IVA decreased \$28.2 billion after increasing \$54.1 billion. For domestic nonfinancial corporations, profits with IVA increased \$16.7 billion after increasing \$78.1 billion. The largest increases in profits were in manufacturing and in retail trade industries. Profits in utilities, in information, and in wholesale trade industries decreased. For domestic financial industries, profits with IVA decreased \$70.8 billion after decreasing \$27.7 billion (chart 2).

The decrease in industry profits is smaller than the decrease in profits from current production, reflecting the differing estimates of depreciation that underlie the two measures. Profits from current production include the estimates of CCAdj, which decreased \$26.3 billion in the third quarter after increasing \$5.2 billion in the second quarter.

10. The CCAdj is 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).

11. The IVA adjusts the NIPA estimates of business income for inventory profits or losses; the IVA is the difference between the cost of inventory withdrawals valued at acquisition cost and the cost of inventory withdrawals valued at replacement cost.

Chart 2. Corporate Profits With Inventory Valuation Adjustment: Change From 2005:II to 2005:III

