The advance third-quarter estimate of GDP growth is 4.8%, slightly higher than economists’ expectations. Growth was broad based, with strong gains of 14.9% in business fixed investment and 12.4% in exports. The latter was more than offset, however, by imports’ 17.2% advance, the strongest gain in two years. Personal consumption expenditures increased 4.3%.

The third-quarter estimates include revisions to the methodology of the National Income and Product Accounts, as far back as 1959 in some cases and 1929 in others. The change most likely to have a significant impact on GDP estimates is the reclassification of business and government expenditures for computer software as fixed, depreciable capital investments rather than as intermediate inputs in calculating GDP.

For the most part, these revisions raise output by increasing business investment. Second-quarter growth is raised to 1.9% (from 1.6%), although first-quarter growth is reduced to 3.7% (from 4.3%); 1998 growth now is 4.3% (up from 3.9%). All told, the revisions increase the average annual rate of GDP growth since the beginning of the current economic expansion in 1991 from 3.1% to 3.5%.

(continued on next page)
Business purchases of software now can be readily identified as one component of nonresidential investment. In 1999:IIIQ, software expenditures were $147.7 billion, while expenditures on computers and peripheral equipment were $106 billion (both at annual rates).

Business software expenditures have been growing at very strong rates, between 7% and 20% annually. Reclassification of this item as a component of investment would raise corporate profits to the extent that the value of new software exceeds software depreciation, all else being equal. The comprehensive revision raises estimates of personal income and savings (see page 15), principally because software purchases are no longer treated as an expense, but as a depreciable investment. Partly for this reason, profits of financial corporations and proprietors’ income are higher. For nonfinancial corporations, however, profit estimates are lower because other changes offset the positive contribution from the new treatment of software.

Revisions aside, these initial readings of 1999:IIIQ economic activity do show one weak area: Expenditures on nonresidential structures declined for the third consecutive quarter. In addition, expenditures on residential structures fell, after nearly three years of uninterrupted strong increases.