Technical Note

Gross Domestic Product
Third Quarter of 2018 (Advance Estimate)
October 26, 2018

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 complete set of estimates for the third quarter is available on BEA's Web site at www.bea.gov; a brief summary of "highlights" is also posted on the Web site. In a few weeks, the *Survey of Current Business*, BEA's online monthly journal, will publish a more detailed analysis of the estimates ("GDP and the Economy").

Key Source Data and Assumptions for the Advance Estimate

The advance GDP estimate for the third quarter of 2018 is based on source data that are incomplete and subject to updates. Three months of source data were available for consumer spending on goods; shipments of capital equipment; motor vehicle sales and inventories; durable goods manufacturing inventories; wholesale and retail trade inventories; exports and imports of goods; federal government outlays; and consumer, producer, and international prices. For major source data series for which only two months of data were available, BEA's key assumptions for the third month are shown in the "Key Source Data and Assumptions" table on the BEA Web site.

Real GDP and related aggregates

Real GDP increased 3.5 percent (annual rate) in the third quarter of 2018, following an increase of 4.2 percent in the second. The increase in real GDP in the third quarter primarily reflected positive contributions from consumer spending and private inventory investment that were partly offset by a negative contribution from exports. Imports, which are a subtraction in the calculation of GDP, increased.

The deceleration in real GDP growth in the third quarter primarily reflected a downturn in exports and an upturn in imports that were partly offset by an upturn in private inventory investment.

- Within exports, the downturn primarily reflected downturns in foods, feeds, and beverages (primarily soybeans), in petroleum and products, and in non-automotive capital goods.
- The upturn in imports was mostly accounted for by consumer goods and motor vehicles.
- The upturn in private inventory investment was widespread. The leading contributors were wholesale trade (notably farm products) and manufacturing industries.

Prices

BEA's featured measure of inflation in the U.S. economy, the price index for gross domestic purchases, measures the prices of goods and services purchased by U.S. residents, regardless of where the goods and services are produced. In the third quarter, this index increased 1.7 percent, compared with a 2.4 percent increase in the second. Excluding food and energy, gross domestic purchases prices increased 1.7 percent, after increasing 2.5 percent in the second quarter.

The PCE price index increased 1.6 percent in the third quarter, following an increase of 2.0 percent Excluding food and energy prices, the PCE price index increased 1.6 percent after increasing 2.1 percent.

Disposable Personal Income

Real disposable personal income increased 2.5 percent in the third quarter, the same increase as in the second quarter. The personal saving rate was 6.4 percent in the third quarter, compared with 6.8 percent in the second.

Impact of Hurricane Florence on Third Quarter 2018 Estimates

Hurricane Florence made its initial landfall on September 14th, causing damage and flooding in parts of the southeastern United States, most notably, the Carolinas. This natural disaster disrupted consumption and business activities, including utilities. In contrast, provision of emergency and remediation services likely increased in response to the disaster. These impacts on production are included, but not separately identified, in the source data that BEA uses to prepare the estimates of GDP; consequently, it is not possible to estimate the overall impact of Hurricane Florence on 2018 third quarter GDP.

The destruction of fixed assets, such as residential and nonresidential structures, does not directly affect GDP or personal income. BEA estimates disaster losses in NIPA table 5.1, "Saving and Investment". BEA's preliminary estimates show that Hurricane Florence resulted in losses of $35.0 billion in privately-owned fixed assets ($140.0 billion at an annual rate) and $2.0 billion in state and local government-owned fixed assets ($8.0 billion at an annual rate).

BEA also estimates the insurance benefits paid and received as a result of major disasters. These benefits are recorded on an accrual basis in the quarter in which the disaster occurred and are classified as capital transfers; they do not directly affect the measures of GDP, personal income, or saving. BEA's preliminary estimates, presented in NIPA table 5.11U, "Capital Transfers," show domestic insurance companies expect to pay benefits for disaster losses related to Hurricane Florence in the amount of $4.9 billion ($19.8 billion at an annual rate). The federal government's National Flood Insurance Program expects to pay an additional $5.0 billion ($20.0 billion at an annual rate); and foreign insurance companies expect to pay $0.6 billion ($2.2 billion at an annual rate). These estimates can be found in NIPA Table 5.11U.

For additional information, see "How are the measures of production and income in the national accounts affected by a natural or man-made disaster?

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