Technical Note

Gross Domestic Product (Second Estimate)
Corporate Profits (Preliminary Estimate)
Third Quarter 2022

November 30, 2022

This technical note provides background information about the source data and estimating methods used to produce the estimates presented in the GDP news release; a brief summary of "highlights" is available on BEA's website at www.bea.gov.

Economic Factors and Third-Quarter 2022 GDP

Real GDP increased 2.9 percent at an annual rate (0.7 percent at a quarterly rate[1]) in the third quarter of 2022, in contrast to a decrease of 0.6 percent at an annual rate (0.1 percent at a quarterly rate) in the second quarter. The increase occurred amid continued inflation, a strengthening dollar, low unemployment, supply-chain disruptions, and rising interest rates. The economic effects of these factors cannot be quantified in the GDP estimate for the third quarter of 2022 because the impacts are generally embedded in source data and cannot be separately identified.

Real GDP turned up in the third quarter, compared to the second quarter. The upturn primarily reflected a smaller decrease in private inventory investment, an acceleration in nonresidential fixed investment, and upturns in federal government as well as state and local government spending that were partly offset by a larger decrease in residential fixed investment and a deceleration in consumer spending. Imports, which are a subtraction in the calculation of GDP, turned down.

The increase in real GDP for the third quarter reflected increases in exports, consumer spending, nonresidential fixed investment, state and local government spending, and federal government spending, that were partly offset by decreases in residential fixed investment and private inventory investment. Imports decreased.

Sources of Revision to Real GDP

The increase in third-quarter real GDP was revised up 0.3 percentage point from the “advance” estimate. The updated estimates primarily reflected upward revisions to consumer spending, nonresidential fixed investment, state and local government spending, and exports that were partly

[1] Percent changes in quarterly seasonally adjusted series are displayed at annual rates, unless otherwise specified. For more information, refer to the FAQ “Why does BEA publish percent changes in quarterly series at annual rates?”

offset by downward revisions to private inventory investment. Imports decreased more than previously estimated.

- Within consumer spending, an upward revision to goods was partly offset by a downward revision to services, based primarily on revised Census Bureau Monthly Retail Trade Survey (MRTS) data. Within goods, recreational goods and vehicles, food and beverages, clothing and footwear, as well as “other” nondurable goods were leading contributors. Gasoline and other energy goods was also revised up, based on new Energy Information Administration (EIA) data. Within services, the leading contributor to the downward revision was housing and utilities (notably, natural gas), based on EIA data. Food services and accommodations (led by food services) was revised up, based on revised MRTS data.

- Within nonresidential fixed investment, the revised estimates reflected an upward revision to structures that was partly offset by a downward revision to intellectual property products.

    - For structures, the upward revision was led by manufacturing structures, based primarily on new September and revised July and August Census Construction Value Put in Place (VPIP) data.

    - Within intellectual property products, a downward revision to research and development (R&D), based primarily on new third-quarter R&D expense data from publicly traded companies’ financial statements, was partly offset by an upward revision to software, based primarily on new Census Quarterly Services Survey data.

- The upward revision to state and local government spending primarily reflected an upward revision to structures investment (notably, highway and street construction), based on Census VPIP data.

- For both exports and imports, the revised estimates primarily reflected updated data from BEA’s International Transactions Accounts as well as new and revised Census trade in goods data for September.

    - Within exports, both goods (led by nonpetroleum industrial supplies and materials) and services (led by travel) were revised up.

    - Within imports, both goods (led by computers, peripherals, and parts as well as durable goods industrial supplies and materials) and services (led by transport) were revised down.

- The revision to private inventory investment was led by downward revisions to "other" industries (notably, information) and wholesale trade, based primarily on new and updated Census inventory data.

Prices

BEA's featured measure of inflation in the U.S. economy, the price index for gross domestic purchases, increased 4.7 percent in the third quarter, an upward revision of 0.1 percentage point from the advance estimate. Excluding food and energy, gross domestic purchases prices increased 5.0 percent, an upward revision of 0.2 percentage point. The leading contributor to the upward revision was state and local government compensation, primarily reflecting new Bureau of Labor Statistics (BLS) Employment Cost Index data for government workers.

The price index for personal consumption expenditures (PCE) increased 4.3 percent in the third quarter, revised up 0.1 percentage point from the advance estimate. Excluding food and energy, the "core" PCE price index increased 4.6 percent, also revised up 0.1 percentage point. For a comparison of PCE prices to BLS consumer price indexes, refer to NIPA Table 9.1U. Reconciliation of Percent Change in the CPI with Percent Change in the PCE Price Index.

Gross Domestic Income and Corporate Profits

Real gross domestic income (GDI), which measures output of the economy as the costs incurred and the incomes earned in the production of goods and services (as measured by GDP), increased 0.3 percent at an annual rate in the third quarter, following a decrease of 0.8 percent (revised) in the second quarter. The average of real GDP and real GDI increased 1.6 percent at an annual rate in the third quarter, following a decrease of 0.7 percent (revised) in the second quarter.

Current-dollar GDI increased $289.4 billion in the third quarter and primarily reflected an increase in compensation, based on employment, hours, and earnings data from the BLS Current Employment Statistics, that was partly offset by decreases in net interest paid and corporate profits.

Profits from current production decreased $31.6 billion, or 1.1 percent (quarterly rate), in the third quarter. Domestic profits of financial corporations decreased $32.9 billion, domestic profits of nonfinancial corporations increased $6.1 billion, and rest-of-the-world profits decreased $4.7 billion.

Estimates of corporate profits were affected by several settlements that were finalized in the third quarter. Settlements are recorded in the national income and product accounts (NIPAs) on an accrual basis in the quarter when the settlement is finalized, regardless of when they are recorded on a company's financial statement. In the third quarter, the following settlements reduced financial corporate profits by approximately $1.9 billion ($7.6 billion at an annual rate):

- Several broker-dealers and an affiliated investment adviser agreed to pay penalties and fines totaling approximately $1.3 billion ($5.2 billion at an annual rate) for violations of U.S. Securities and Exchange Commission regulatory requirements to maintain and preserve electronic communications.

- Credit Suisse agreed to pay $495 million ($2.0 billion at an annual rate) to settle a case with the New Jersey Attorney General's office related to residential mortgage-backed securities business.

- Navient (formerly Sallie Mae) agreed to pay $95 million ($0.4 billion at an annual rate) in restitution for borrowers who were steered into costly repayment plans and predatory loans.

The estimate of GDI was not impacted because the settlements were recorded in the NIPAs as business current transfer payments to government and to persons, which offset the reductions to corporate profits.

BEA's profits measure that is conceptually most similar to S&P 500 profits—national after-tax profits without inventory valuation and capital consumption adjustments (shown in line 11 of table 9 of the GDP news release)—decreased $179.1 billion in the third quarter. Third-quarter national after-tax profits increased 1.3 percent from the same quarter one year ago.

One-Time Refundable Tax Credits Issued by States

Beginning in the third quarter of 2022, several state governments provided relief to the residents of their states by way of one-time refundable tax credits that were distributed directly to individuals. Refundable tax credits typically allow taxpayers who meet certain eligibility criteria to reduce the amount they are required to pay in income taxes, and if the credits exceed the taxpayer's total tax liability, the excess is paid to them as a refund.

Data typically are not available to separately estimate the value of these payments to individuals. The value of tax credits, which reduce the taxes received by governments, is generally embedded in the source data used to measure state and local income tax payments in the NIPAs. However, a combination of media reports and state-level administrative data were available to estimate the value of these one-time refundable tax credits issued in 2022. As a result, BEA recorded them as an increase in government expenditures (specifically as government social benefits to persons), rather than as a reduction in government receipts. Recording these payments as government social benefits provides a clearer picture of the amount of benefits received by qualified individuals and is consistent with the recording of federal refundable tax credits in the NIPAs and with national accounting guidelines.

As a result, within the government receipts and expenditures account, BEA estimates of state and local government social benefit payments (NIPA table 3.3, line 26) and personal current tax receipts (NIPA table 3.3, line 26) were revised up in the third quarter.

Updates to Second-Quarter Wages and Salaries

In addition to presenting updated estimates for the third quarter, today's release presents revised estimates of second-quarter wages and salaries, personal taxes, and contributions for government social insurance, based on updated data from the BLS Quarterly Census of Employment and Wages program. Wages and salaries are now estimated to have increased $132.5 billion in the second quarter of 2022, a downward revision of $50.4 billion. Real GDI decreased 0.8 percent (annual rate) in the second quarter, a downward revision of 0.9 percentage point from the previously published estimate.

Impact of Hurricane Ian on Third Quarter 2022 Estimates

Hurricane Ian struck central and southwest Florida on September 28, and South Carolina on September 30, causing extensive wind, flood, and storm surge damage across the southeastern United States. This disaster disrupted usual consumer and business activities and prompted emergency services and remediation activities. These responses to this disaster 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 Ian on third quarter GDP. The destruction of fixed assets, such as residential and nonresidential structures, does not directly affect GDP or personal income. BEA estimates of disaster losses are presented in NIPA table 5.1, "Saving and Investment." BEA's preliminary estimates show that Hurricane Ian resulted in losses of $57.0 billion in privately-owned fixed assets ($228.0 billion at an annual rate) and $3.0 billion in state and local government-owned fixed assets ($12.0 billion at an annual rate).

BEA also estimates the insurance benefits paid and received because 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 Ian in the amount of $24.7 billion ($98.9 billion at an annual rate). The federal government's National Flood Insurance Program expects to pay an additional $10.0 billion ($40.0 billion at an annual rate); Florida Citizens Property Insurance Corporation expects to pay $2.5 billion ($10.0 billion at an annual rate); and foreign insurance companies expect to pay $9.1 billion ($36.3 billion at an annual rate).

For additional information, refer to "How are the measures of production and income in the national accounts affected by a disaster?" and "How are the fixed assets accounts (FAAs) and consumption of fixed capital (CFC) impacted by disasters?"

More Information

The complete set of statistics for the third quarter is available on BEA's website, along with a table presenting the "Key Source Data and Assumptions" that underlie the statistics. In a few weeks, the Survey of Current Business, BEA's online monthly journal, will present a more detailed analysis of the estimates ("GDP and the Economy").

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