

# GDP and the Economy

## Preliminary Estimates for the Second Quarter of 2007

REAL gross domestic product (GDP) increased 4.0 percent in the second quarter, according to the “preliminary” estimates of the national income and product accounts (NIPAs); it increased 0.6 percent in the first quarter (chart 1 and table 1).<sup>1</sup> The second-quarter growth rate was revised up 0.6 percentage point from the “advance” estimate (see “Revisions” on page 9).<sup>2</sup>

The acceleration in real GDP growth in the second quarter primarily reflected a downturn in imports (subtracted in the derivation of GDP), upturns in Federal Government spending and in inventory investment, accelerations in exports and in nonresidential structures, and a smaller decrease in residential investment (page 2). In contrast, consumer spending decelerated markedly (page 3).<sup>3</sup>

- Prices of goods and services purchased by U.S. residents increased 3.8 percent in the second quarter, the same as in the first quarter. Energy prices accelerated sharply, and food prices decelerated somewhat. Excluding food and energy, prices increased 1.6 percent, following an increase of 3.1 percent in the first quarter.
- Real disposable personal income (DPI) increased 0.1 percent after increasing 5.4 percent (revised) in the first quarter. Current-dollar DPI decelerated, and prices (as measured by the PCE implicit price deflator used to deflate DPI) accelerated, resulting in the slowing of the overall real measure.
- The personal saving rate, personal saving as a percentage of current-dollar DPI, was 0.5 percent in the second quarter; in the first quarter, it was 1.0 percent (revised).

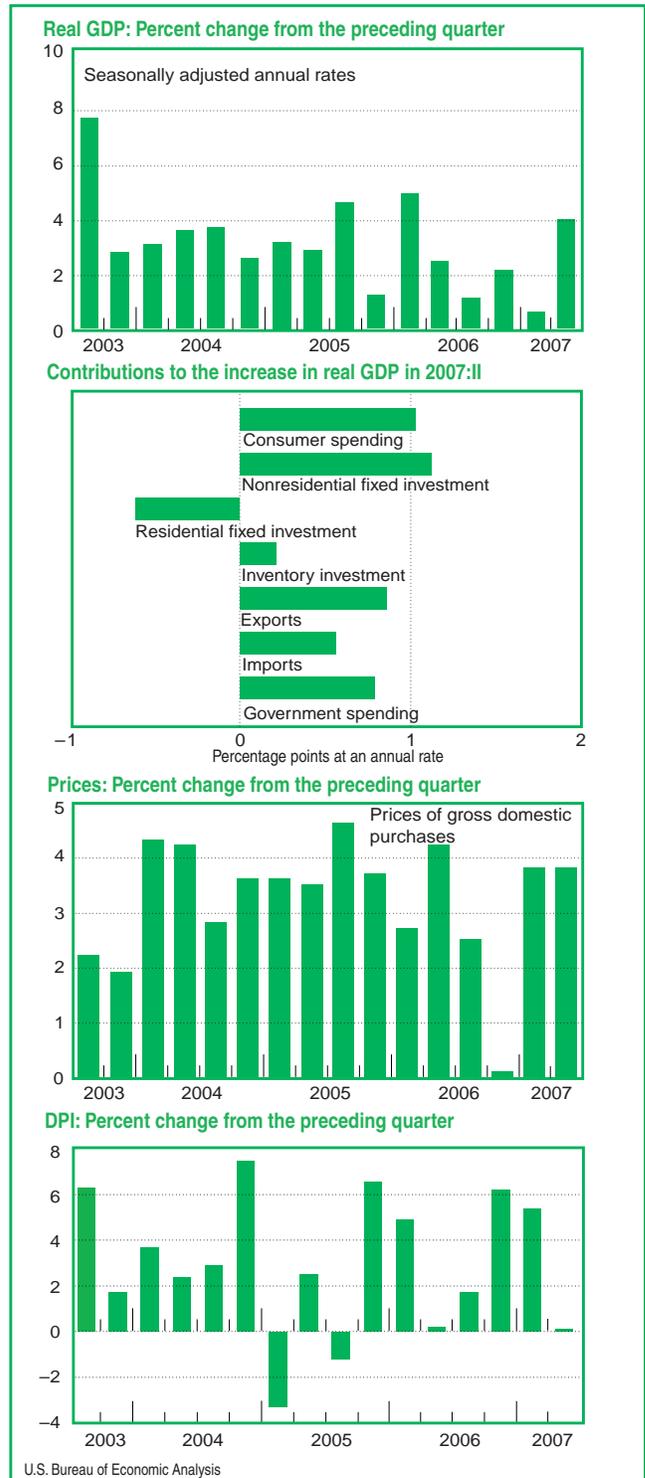
1. “Real” estimates are in chained (2000) dollars, and price indexes are chain-type measures.

2. 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](http://www.bea.gov/bea/about/infoqual.htm)> and <[www.bea.gov/bea/faq/national/gdp\\_accuracy.htm](http://www.bea.gov/bea/faq/national/gdp_accuracy.htm)>. Quarterly estimates are expressed at seasonally adjusted annual rates, which assume that a rate of activity for a quarter is maintained for a year.

3. In this article, “consumer spending” refers to the NIPA series “personal consumption expenditures (PCE),” “inventory investment” refers to “change in private inventories,” and “government spending” refers to “government consumption expenditures and gross investment.”

Christopher Swann prepared this article.

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



## 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)			
	2007		2006		2007		2006		2007	
	II	III	IV	I	II	III	IV	I	II	
<b>Gross domestic product<sup>1</sup> .....</b>	<b>100.0</b>	<b>1.1</b>	<b>2.1</b>	<b>0.6</b>	<b>4.0</b>	<b>1.1</b>	<b>2.1</b>	<b>0.6</b>	<b>4.0</b>	
<b>Personal consumption expenditures .....</b>	<b>70.2</b>	<b>2.8</b>	<b>3.9</b>	<b>3.7</b>	<b>1.4</b>	<b>1.88</b>	<b>2.68</b>	<b>2.56</b>	<b>1.03</b>	
Durable goods .....	7.8	5.6	3.9	8.8	1.7	0.43	0.30	0.67	0.14	
Nondurable goods .....	20.5	3.2	4.3	3.0	-0.3	0.64	0.86	0.61	-0.07	
Services .....	41.9	2.0	3.7	3.1	2.3	0.81	1.52	1.28	0.96	
<b>Gross private domestic investment .....</b>	<b>15.5</b>	<b>-4.1</b>	<b>-14.1</b>	<b>-8.2</b>	<b>4.7</b>	<b>-0.70</b>	<b>-2.50</b>	<b>-1.36</b>	<b>0.72</b>	
Fixed investment .....	15.5	-4.7	-7.1	-4.4	3.3	-0.80	-1.19	-0.70	0.51	
Nonresidential .....	10.7	5.1	-1.4	2.1	11.1	0.53	-0.15	0.22	1.12	
Structures .....	3.4	10.8	7.4	6.4	27.7	0.31	0.23	0.20	0.82	
Equipment and software .....	7.3	2.9	-4.9	0.3	4.3	0.21	-0.38	0.02	0.31	
Residential .....	4.8	-20.4	-17.2	-16.3	-11.6	-1.33	-1.04	-0.93	-0.61	
Change in private inventories .....	0.0	.....	.....	.....	.....	0.10	-1.31	-0.65	0.21	
<b>Net exports of goods and services .....</b>	<b>-5.2</b>	.....	.....	.....	.....	<b>-0.25</b>	<b>1.25</b>	<b>-0.51</b>	<b>1.42</b>	
Exports .....	11.6	5.7	14.3	1.1	7.6	0.62	1.51	0.13	0.86	
Goods .....	8.1	7.4	9.6	0.9	7.3	0.56	0.73	0.07	0.58	
Services .....	3.5	2.0	26.0	1.6	8.3	0.07	0.78	0.05	0.28	
Imports .....	16.8	5.4	1.6	3.9	-3.2	-0.88	-0.26	-0.63	0.56	
Goods .....	14.1	6.2	-0.6	4.2	-3.1	-0.84	0.09	-0.57	0.46	
Services .....	2.6	1.3	14.2	2.3	-3.8	-0.03	-0.35	-0.06	0.11	
<b>Government consumption expenditures and gross investment .....</b>	<b>19.4</b>	<b>0.8</b>	<b>3.5</b>	<b>-0.5</b>	<b>4.1</b>	<b>0.14</b>	<b>0.66</b>	<b>-0.09</b>	<b>0.79</b>	
Federal .....	7.0	0.9	7.3	-6.3	5.9	0.06	0.50	-0.46	0.41	
National defense .....	4.8	-1.5	16.9	-10.8	8.6	-0.07	0.74	-0.54	0.40	
Nondefense .....	2.3	6.0	-10.0	3.8	0.5	0.14	-0.24	0.08	0.01	
State and local .....	12.4	0.7	1.3	3.0	3.0	0.08	0.16	0.36	0.38	

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.

Consumer spending decelerated sharply, increasing 1.4 percent in the second quarter after increasing 3.7 percent, but it still added 1.03 percentage points to real GDP growth. Spending for nondurable goods turned down, and spending for both durable goods and services decelerated.

Nonresidential investment accelerated and added 1.12 percentage points to real GDP growth. Investment in structures accelerated; it was the largest percentage increase since the fourth quarter of 1981. Investment in equipment and software also accelerated.

Residential investment decreased 11.6 percent after a 16.3-percent decrease. It subtracted 0.61 percentage point from real GDP growth in the second quarter.

Inventory investment turned up in the second quarter and added 0.21 percentage point to real GDP growth.

Exports accelerated, increasing 7.6 percent after increasing 1.1 percent in the first quarter. Exports added 0.86 percentage point to real GDP growth in the second quarter. Exports of both goods and services accelerated.

Imports turned down, decreasing 3.2 percent after a 3.9-percent increase in the first quarter. Imports of both goods and services turned down.

Federal Government spending turned up, increasing 5.9 percent after a 6.3-percent decrease in the first quarter. An upturn in defense spending was moderated by a deceleration in nondefense spending.

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)			
	2007		2006		2007		2006		2007	
	II	III	IV	I	II	III	IV	I	II	
<b>Gross domestic product<sup>1</sup> .....</b>	<b>100.0</b>	<b>1.1</b>	<b>2.1</b>	<b>0.6</b>	<b>4.0</b>	<b>1.1</b>	<b>2.1</b>	<b>0.6</b>	<b>4.0</b>	
Final sales of domestic product .....	100.0	1.0	3.5	1.3	3.7	0.96	3.40	1.25	3.75	
Change in private inventories .....	0.0	.....	.....	.....	.....	0.10	-1.31	-0.65	0.21	
Goods .....	30.8	3.4	1.1	0.2	5.6	1.06	0.36	0.06	1.71	
Services .....	58.8	2.0	4.4	2.1	3.2	1.15	2.50	1.21	1.89	
Structures .....	10.4	-9.9	-7.0	-6.2	3.4	-1.14	-0.77	-0.68	0.36	
<b>Addenda:</b>										
Motor vehicle output .....	2.9	15.1	-21.6	6.2	0.8	0.44	-0.74	0.18	0.02	
GDP excluding motor vehicle output .....	97.1	0.6	2.9	0.4	4.1	0.63	2.84	0.42	3.93	
Final sales of computers .....	0.7	5.1	27.0	-1.3	36.4	0.03	0.16	-0.01	0.21	
GDP excluding final sales of computers .....	99.3	1.0	1.9	0.6	3.8	1.04	1.93	0.61	3.75	

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.

Real final sales of domestic product, real GDP less inventory investment, accelerated, increasing 3.7 percent after increasing 1.3 percent.

Motor vehicle output slowed, increasing 0.8 percent after increasing 6.2 percent in the first quarter.

Final sales of computers rebounded, increasing 36.4 percent after decreasing 1.3 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		2007			2006		2007		
		II	III	IV	I	II	III	IV	I	II	
<b>PCE</b> <sup>1</sup> .....	<b>100.0</b>	<b>2.8</b>	<b>3.9</b>	<b>3.7</b>	<b>1.4</b>	<b>2.8</b>	<b>3.9</b>	<b>3.7</b>	<b>1.4</b>		
<b>Durable goods</b> .....	<b>11.1</b>	<b>5.6</b>	<b>3.9</b>	<b>8.8</b>	<b>1.7</b>	<b>0.63</b>	<b>0.44</b>	<b>0.97</b>	<b>0.19</b>		
Motor vehicles and parts .....	4.6	4.9	0.1	11.3	-2.8	0.23	0.01	0.51	-0.13		
Furniture and household equipment .....	4.3	8.3	8.5	9.5	4.2	0.35	0.36	0.40	0.18		
Other <sup>2</sup> .....	2.3	2.3	3.0	2.7	6.7	0.05	0.07	0.06	0.15		
<b>Nondurable goods</b> .....	<b>29.2</b>	<b>3.2</b>	<b>4.3</b>	<b>3.0</b>	<b>-0.3</b>	<b>0.93</b>	<b>1.26</b>	<b>0.88</b>	<b>-0.10</b>		
Food .....	13.7	2.6	7.3	1.7	-1.4	0.35	0.98	0.23	-0.19		
Clothing and shoes .....	3.8	5.5	3.8	8.4	2.5	0.21	0.15	0.32	0.09		
Gasoline, fuel oil, and other energy goods .....	3.9	1.8	-5.6	2.4	-3.4	0.07	-0.21	0.08	-0.12		
Other <sup>3</sup> .....	7.8	3.7	4.3	3.1	1.6	0.30	0.34	0.25	0.12		
<b>Services</b> .....	<b>59.7</b>	<b>2.0</b>	<b>3.7</b>	<b>3.1</b>	<b>2.3</b>	<b>1.18</b>	<b>2.21</b>	<b>1.86</b>	<b>1.35</b>		
Housing .....	15.0	1.8	2.0	2.5	2.7	0.27	0.30	0.37	0.41		
Household operation .....	5.4	4.4	3.6	1.0	0.6	0.23	0.20	0.05	0.03		
Electricity and gas .....	2.3	11.3	4.2	1.6	1.0	0.24	0.09	0.04	0.02		
Other household operation .....	3.1	-0.4	3.2	0.5	0.3	-0.01	0.10	0.01	0.01		
Transportation .....	3.7	2.2	4.2	2.6	4.2	0.08	0.16	0.10	0.15		
Medical care .....	17.3	1.0	2.8	3.9	2.9	0.17	0.49	0.68	0.51		
Recreation .....	4.1	6.7	10.8	2.1	-1.1	0.27	0.43	0.09	-0.05		
Other <sup>4</sup> .....	14.1	1.1	4.5	4.0	2.1	0.16	0.63	0.57	0.30		

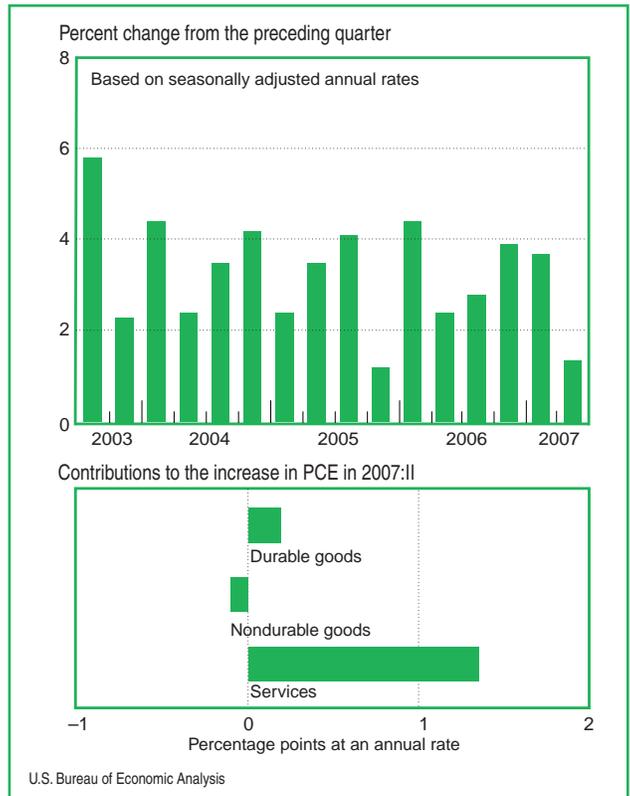
Spending for durable goods slowed, reflecting a downturn in spending for motor vehicles and parts and a deceleration in spending for furniture and household equipment. Spending for durable goods contributed 0.19 percentage point to growth in real consumer spending after contributing 0.97 percentage point in the first quarter.

Spending for nondurable goods turned down and subtracted 0.10 percentage point from growth in real consumer spending. The downturn primarily reflected a downturn in spending for food, a deceleration in spending for clothing and shoes, and a downturn in spending for gasoline, fuel oil, and other energy goods.

Spending for services slowed, mainly reflecting decelerations in spending for "other" services and for medical care and a downturn in spending for recreation. Spending for services contributed 1.35 percentage points to growth in real consumer spending after contributing 1.86 percentage points in the first quarter.

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)			
	2007		2006		2007		2006		2007	
	II	III	IV	I	II	III	IV	I	II	
<b>Private fixed investment</b> <sup>1</sup> .....	<b>100.0</b>	<b>-4.7</b>	<b>-7.1</b>	<b>-4.4</b>	<b>3.3</b>	<b>-4.7</b>	<b>-7.1</b>	<b>-4.4</b>	<b>3.3</b>	
<b>Nonresidential</b> .....	<b>68.8</b>	<b>5.1</b>	<b>-1.4</b>	<b>2.1</b>	<b>11.1</b>	<b>3.22</b>	<b>-0.90</b>	<b>1.42</b>	<b>7.21</b>	
<b>Structures</b> .....	<b>21.8</b>	<b>10.8</b>	<b>7.4</b>	<b>6.4</b>	<b>27.7</b>	<b>1.91</b>	<b>1.40</b>	<b>1.28</b>	<b>5.24</b>	
Commercial and health care .....	8.2	23.1	3.7	14.7	5.3	1.48	0.27	1.09	0.43	
Manufacturing .....	1.4	21.6	-19.3	-2.2	21.3	0.25	-0.27	-0.03	0.26	
Power and communication .....	2.7	5.5	9.6	11.6	49.1	0.12	0.21	0.26	1.02	
Mining exploration, shafts, and wells .....	5.5	0.1	13.4	-3.6	48.6	-0.02	0.63	-0.19	2.12	
Other structures <sup>2</sup> .....	4.1	2.6	17.9	4.0	43.3	0.09	0.57	0.14	1.41	
<b>Equipment and software</b> .....	<b>47.0</b>	<b>2.9</b>	<b>-4.9</b>	<b>0.3</b>	<b>4.3</b>	<b>1.31</b>	<b>-2.30</b>	<b>0.15</b>	<b>1.97</b>	
Information processing equipment and software .....	23.8	6.9	-1.6	16.7	9.9	1.47	-0.36	3.54	2.24	
Computers and peripheral equipment .....	4.5	14.1	4.2	43.0	12.6	0.55	0.17	1.56	0.54	
Software <sup>3</sup> .....	10.1	3.2	2.4	9.3	10.0	0.30	0.22	0.86	0.96	
Other <sup>4</sup> .....	9.1	7.6	-8.3	13.5	8.4	0.62	-0.75	1.11	0.73	
Industrial equipment .....	8.2	-3.0	-6.5	-2.9	15.9	-0.24	-0.52	-0.23	1.20	
Transportation equipment .....	7.2	8.2	-13.3	-15.2	-25.3	0.62	-1.11	-1.27	-2.17	
Other equipment <sup>5</sup> .....	7.8	-6.6	-3.9	-21.3	9.5	-0.55	-0.31	-1.88	0.71	
<b>Residential</b> .....	<b>31.2</b>	<b>-20.4</b>	<b>-17.2</b>	<b>-16.3</b>	<b>-11.6</b>	<b>-7.93</b>	<b>-6.20</b>	<b>-5.79</b>	<b>-3.91</b>	
<b>Structures</b> .....	<b>30.8</b>	<b>-20.6</b>	<b>-17.3</b>	<b>-16.6</b>	<b>-11.6</b>	<b>-7.93</b>	<b>-6.17</b>	<b>-5.80</b>	<b>-3.89</b>	
Permanent site .....	17.4	-28.2	-29.4	-27.7	-13.9	-7.07	-6.84	-6.05	-2.67	
Single family .....	15.0	-30.4	-34.0	-29.8	-14.3	-6.90	-7.15	-5.71	-2.37	
Multifamily .....	2.4	-7.1	13.3	-12.6	-11.5	-0.18	0.32	-0.34	-0.30	
Other structures <sup>6</sup> .....	13.4	-6.4	5.1	1.8	-8.5	-0.86	0.67	0.25	-1.21	
<b>Equipment</b> .....	<b>0.5</b>	<b>-0.3</b>	<b>-6.5</b>	<b>3.7</b>	<b>-5.8</b>	<b>0.00</b>	<b>-0.03</b>	<b>0.02</b>	<b>-0.03</b>	

Private nonresidential investment picked up in the second quarter; business investment in structures and in equipment and software accelerated.

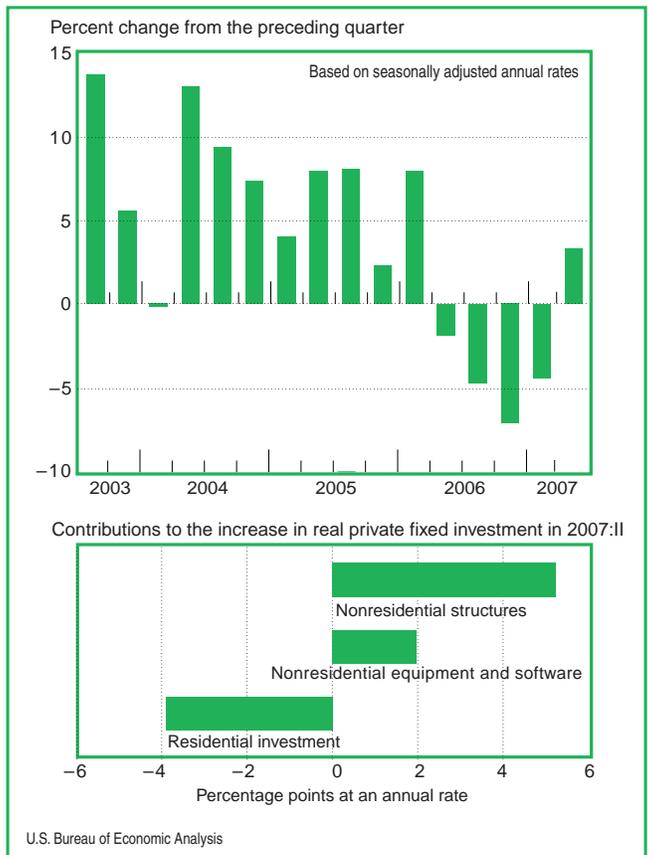
Investment in nonresidential structures picked up sharply and contributed 5.24 percentage points to real private fixed investment growth in the second quarter after contributing 1.28 percentage points in the first. The pickup mainly reflected an upturn in mining exploration, shafts, and wells and accelerations in "other" structures and in power and communication structures.

Investment in equipment and software accelerated and contributed 1.97 percentage points to real private fixed investment growth. The acceleration mainly reflected upturns in "other" equipment investment and in industrial equipment investment.

Residential investment decreased less than in the first quarter, reflecting a smaller decrease in single-family structures. Investment in "other" residential structures (mainly brokers' commissions) turned down.

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.

**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					
	2006			2007		2006		2007		
	II	III	IV	I	II	III	IV	I	II	
<b>Change in private inventories<sup>1</sup></b>	<b>51.4</b>	<b>53.9</b>	<b>17.4</b>	<b>0.1</b>	<b>5.4</b>	<b>2.5</b>	<b>-36.5</b>	<b>-17.3</b>	<b>5.3</b>	
Farm .....	-5.5	-2.9	3.8	5.0	4.1	2.6	6.7	1.2	-0.9	
Mining, utilities, and construction .....	6.2	4.9	5.4	4.3	0.1	-1.3	0.5	-1.1	-4.2	
Manufacturing .....	12.4	8.9	-1.8	-5.0	-4.2	-3.5	-10.7	-3.2	0.8	
Durable-goods industries .....	5.4	11.7	9.7	0.8	-7.6	6.3	-2.0	-8.9	-8.4	
Nondurable-goods industries .....	6.8	-2.0	-10.3	-5.3	2.8	-8.8	-8.3	5.0	8.1	
Wholesale trade .....	23.1	36.1	6.5	4.4	1.7	13.0	-29.6	-2.1	-2.7	
Durable-goods industries .....	15.8	32.0	5.4	8.7	-10.3	16.2	-26.6	3.3	-19.0	
Nondurable-goods industries .....	7.5	5.5	1.3	-3.4	10.1	-2.0	-4.2	-4.7	13.5	
Retail trade .....	8.2	1.1	0.1	-13.5	2.6	-7.1	-1.0	-13.6	16.1	
Motor vehicle and parts dealers .....	0.3	-8.7	-11.2	-15.4	-5.9	-9.0	-2.5	-4.2	9.5	
Food and beverage stores .....	1.0	0.1	-0.3	-0.1	0.4	-0.9	-0.4	0.2	0.5	
General merchandise stores .....	-0.3	5.7	5.0	2.3	3.2	6.0	-0.7	-2.7	0.9	
Other retail stores .....	6.8	3.3	5.5	-1.5	4.1	-3.5	2.2	-7.0	5.6	
Other industries .....	5.9	5.0	2.0	2.3	0.6	-0.9	-3.0	0.3	-1.7	
Residual <sup>2</sup> .....	1.5	-0.7	1.1	2.4	3.8	-2.2	1.8	1.3	1.4	
<b>Addenda: Ratios of private inventories to final sales of domestic business:<sup>3</sup></b>										
Private inventories to final sales .....	2.43	2.45	2.43	2.43	2.40					
Nonfarm inventories to final sales .....	2.24	2.26	2.24	2.24	2.21					
Nonfarm inventories to final sales of goods and structures .....	3.59	3.62	3.61	3.61	3.57					

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.

Real inventory investment increased \$5.3 billion in the second quarter after decreasing \$17.3 billion in the first quarter, reflecting an upturn in retail trade industries.

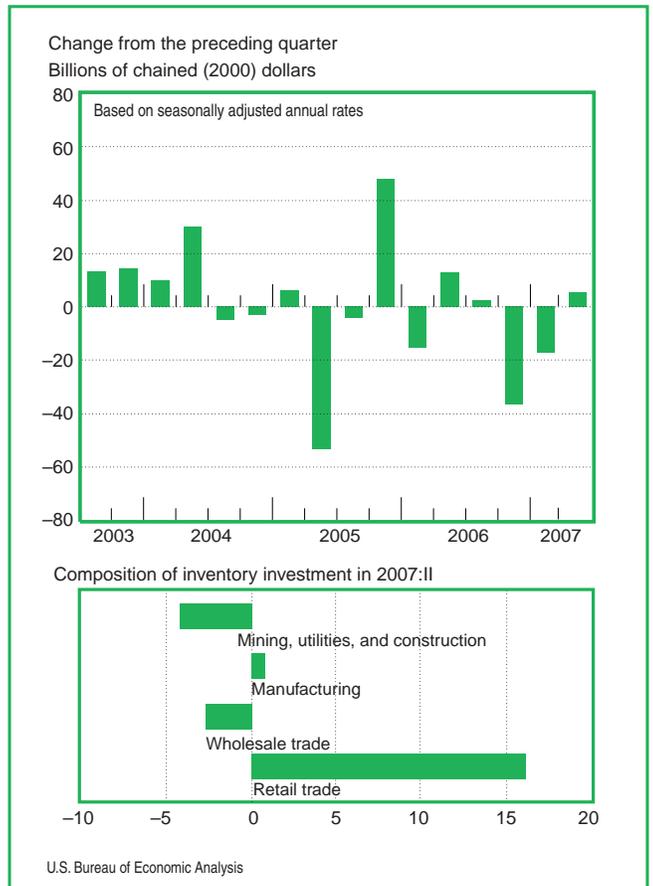
Inventory investment in the mining, utilities, and construction industries decreased \$4.2 billion after decreasing \$1.1 billion in the first quarter.

Inventory investment in manufacturing industries increased \$0.8 billion after decreasing \$3.2 billion. Inventory investment in durable-goods industries declined for the third straight quarter. Inventory investment in nondurable-goods industries picked up.

Inventory investment in wholesale trade industries decreased \$2.7 billion in the second quarter after decreasing \$2.1 billion. Inventory investment in durable-goods industries turned down, and inventory investment in nondurable-goods industries turned up.

Inventory investment in retail trade industries turned up, primarily reflecting upturns in motor vehicle and parts dealerships and in "other" retail stores.

**Chart 4. Real Private Inventory Investment**



### 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.

## 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)				
		2006		2007			2006		2007		
		II	III	IV	I	II	III	IV	I	II	
<b>Exports of goods and services</b> <sup>1</sup>	<b>100.0</b>	<b>5.7</b>	<b>14.3</b>	<b>1.1</b>	<b>7.6</b>	<b>5.7</b>	<b>14.3</b>	<b>1.1</b>	<b>7.6</b>		
<b>Exports of goods</b> <sup>2</sup>	<b>69.8</b>	<b>7.4</b>	<b>9.6</b>	<b>0.9</b>	<b>7.3</b>	<b>5.14</b>	<b>6.91</b>	<b>0.65</b>	<b>5.10</b>		
Foods, feeds, and beverages	5.0	11.6	-12.6	2.8	26.6	0.50	-0.61	0.13	1.18		
Industrial supplies and materials	18.5	0.1	15.0	-7.6	7.6	0.03	2.71	-1.44	1.38		
Capital goods, except automotive	27.0	4.7	14.5	-2.0	5.2	1.34	4.03	-0.56	1.43		
Automotive vehicles, engines, and parts	7.4	22.1	-3.3	5.9	24.5	1.49	-0.24	0.41	1.64		
Consumer goods, except automotive	9.0	11.6	12.6	12.0	4.5	0.99	1.11	1.02	0.41		
Other	3.0	28.2	-3.0	40.3	-25.9	0.79	-0.09	1.08	-0.94		
<b>Exports of services</b> <sup>2</sup>	<b>30.2</b>	<b>2.0</b>	<b>26.0</b>	<b>1.6</b>	<b>8.3</b>	<b>0.61</b>	<b>7.35</b>	<b>0.48</b>	<b>2.49</b>		
<b>Imports of goods and services</b> <sup>1</sup>	<b>100.0</b>	<b>5.4</b>	<b>1.6</b>	<b>3.9</b>	<b>-3.2</b>	<b>5.4</b>	<b>1.6</b>	<b>3.9</b>	<b>-3.2</b>		
<b>Imports of goods</b> <sup>2</sup>	<b>84.2</b>	<b>6.2</b>	<b>-0.6</b>	<b>4.2</b>	<b>-3.1</b>	<b>5.19</b>	<b>-0.52</b>	<b>3.49</b>	<b>-2.62</b>		
Foods, feeds, and beverages	3.5	7.4	-1.0	8.1	-6.0	0.24	-0.03	0.27	-0.22		
Industrial supplies and materials, except petroleum and products	13.0	14.4	-19.3	-17.8	22.6	1.71	-2.86	-2.47	2.57		
Petroleum and products	13.5	3.3	-6.9	29.6	-22.5	0.48	-0.95	3.21	-3.30		
Capital goods, except automotive	19.0	11.8	0.6	9.8	1.4	2.16	0.11	1.82	0.28		
Automotive vehicles, engines, and parts	10.9	-5.1	9.5	-11.0	-3.0	-0.58	1.03	-1.33	-0.33		
Consumer goods, except automotive	20.4	13.3	13.6	4.7	-4.3	2.54	2.60	0.98	-0.89		
Other	3.9	-28.4	-10.2	27.9	-16.8	-1.36	-0.42	1.01	-0.73		
<b>Imports of services</b> <sup>2</sup>	<b>15.8</b>	<b>1.3</b>	<b>14.2</b>	<b>2.3</b>	<b>-3.8</b>	<b>0.21</b>	<b>2.15</b>	<b>0.38</b>	<b>-0.61</b>		
<b>Addenda:</b>											
Exports of agricultural goods <sup>3</sup>	5.5	1.9	-12.4	-4.1	37.4						
Exports of nonagricultural goods	64.4	7.8	11.5	1.3	5.1						
Imports of nonpetroleum goods	70.7	6.8	0.7	0.3	0.9						

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 exports picked up in the second quarter, increasing 7.6 percent after increasing 1.1 percent.

Exports of goods accelerated and contributed 5.10 percentage points to growth in real exports of goods and services. The acceleration reflected upturns in industrial supplies and materials and in nonautomotive capital goods and accelerations in automotive vehicles, engines, and parts and in foods, feeds, and beverages. In contrast, "other" exports turned down, and nonautomotive consumer goods slowed.

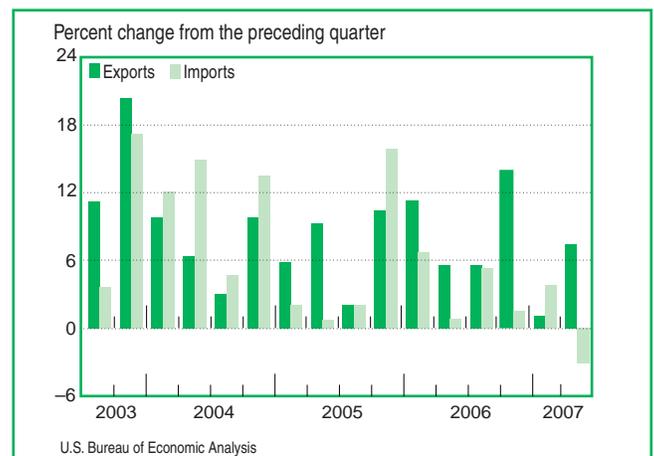
Exports of services accelerated, mainly reflecting accelerations in other private services and in travel services. Passenger fares turned up.

Real imports turned down, decreasing 3.2 percent after increasing 3.9 percent.

Imports of goods turned down, mainly reflecting downturns in petroleum and products, in nonautomotive consumer goods, and in "other" imports. Nonautomotive capital goods decelerated, largely because of a downturn in imports of computers, peripherals, and parts. In contrast, imports of industrial supplies and materials turned up.

Imports of services turned down, primarily reflecting a larger decrease in travel services and downturns in direct defense expenditures 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)				
	2007		2006		2007			2006		2007		
	II	III	IV	I	II	III	IV	I	II			
<b>Government consumption expenditures and gross investment<sup>1</sup></b>	<b>100.0</b>	<b>0.8</b>	<b>3.5</b>	<b>-0.5</b>	<b>4.1</b>	<b>0.8</b>	<b>3.5</b>	<b>-0.5</b>	<b>4.1</b>			
Consumption expenditures.....	82.6	2.0	3.6	-0.4	3.4	1.63	2.95	-0.33	2.80			
Gross investment.....	17.4	-5.0	3.0	-0.9	7.4	-0.87	0.52	-0.15	1.27			
<b>Federal</b>	<b>36.3</b>	<b>0.9</b>	<b>7.3</b>	<b>-6.3</b>	<b>5.9</b>	<b>0.34</b>	<b>2.64</b>	<b>-2.37</b>	<b>2.12</b>			
<b>National defense</b>	<b>24.5</b>	<b>-1.5</b>	<b>16.9</b>	<b>-10.8</b>	<b>8.6</b>	<b>-0.37</b>	<b>3.91</b>	<b>-2.81</b>	<b>2.06</b>			
Consumption expenditures.....	21.5	0.1	15.5	-9.2	8.8	0.01	3.14	-2.09	1.83			
Gross investment.....	3.0	-11.6	27.0	-20.6	7.6	-0.39	0.77	-0.72	0.22			
<b>Nondefense</b>	<b>11.8</b>	<b>6.0</b>	<b>-10.0</b>	<b>3.8</b>	<b>0.5</b>	<b>0.72</b>	<b>-1.27</b>	<b>0.44</b>	<b>0.06</b>			
Consumption expenditures.....	10.3	6.5	-10.7	7.3	-0.9	0.67	-1.19	0.73	-0.09			
Gross investment.....	1.4	3.0	-5.4	-18.0	10.9	0.05	-0.09	-0.30	0.15			
<b>State and local</b>	<b>63.7</b>	<b>0.7</b>	<b>1.3</b>	<b>3.0</b>	<b>3.0</b>	<b>0.41</b>	<b>0.83</b>	<b>1.88</b>	<b>1.95</b>			
Consumption expenditures.....	50.8	1.9	1.9	2.0	2.1	0.95	0.99	1.02	1.06			
Gross investment.....	12.9	-4.2	-1.3	7.1	7.0	-0.53	-0.16	0.86	0.89			

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 turned up, mainly reflecting an upturn in Federal Government spending.

The upturn in Federal Government spending reflected an upturn in national defense spending, which increased 8.6 percent after a 10.8-percent decrease in the first quarter. Nondefense spending slowed, increasing 0.5 percent after a 3.8-percent increase in the first quarter.

State and local government spending increased 3.0 percent, the same rate as in the first quarter.

### 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.

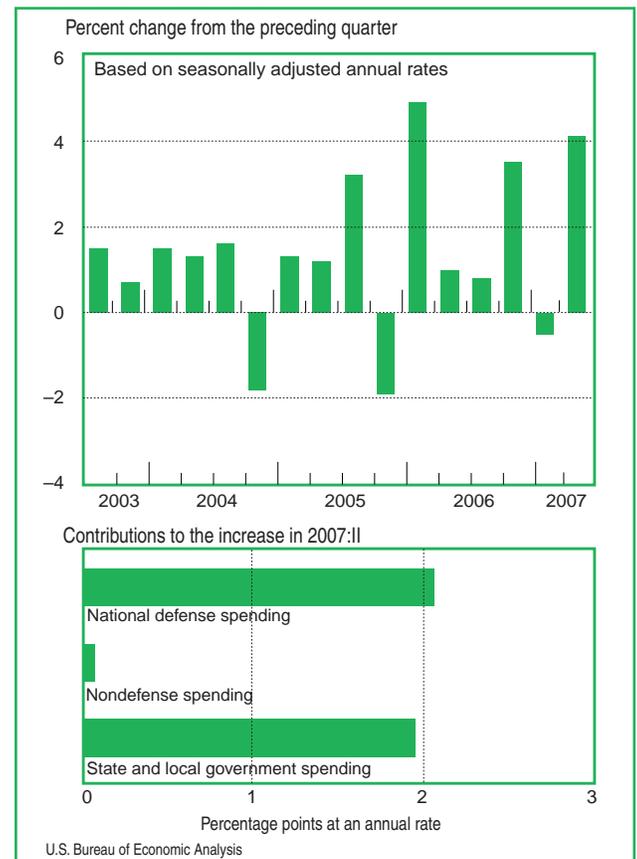
Government consumption expenditures consists of the goods and services that are produced by general government (less any sales to other sectors and investment goods produced by government itself). Governments generally provide services to the general public without charge. The value of government production—that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

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)			
	2006		2007		2006		2007	
	III	IV	I	II	III	IV	I	II
<b>Gross domestic purchases<sup>1</sup></b> .....	<b>2.5</b>	<b>0.1</b>	<b>3.8</b>	<b>3.8</b>	<b>2.5</b>	<b>0.1</b>	<b>3.8</b>	<b>3.8</b>
<b>Personal consumption expenditures</b> .....	<b>2.6</b>	<b>-0.9</b>	<b>3.5</b>	<b>4.2</b>	<b>1.72</b>	<b>-0.60</b>	<b>2.32</b>	<b>2.82</b>
Durable goods .....	-1.3	-2.7	-1.9	-1.4	-0.09	-0.21	-0.14	-0.10
Nondurable goods .....	2.8	-7.9	5.0	10.0	0.55	-1.58	0.96	1.89
Services .....	3.2	3.0	3.8	2.6	1.26	1.19	1.49	1.04
<b>Gross private domestic investment</b> .....	<b>1.6</b>	<b>2.2</b>	<b>2.0</b>	<b>-0.2</b>	<b>0.24</b>	<b>0.33</b>	<b>0.30</b>	<b>-0.03</b>
Fixed investment .....	1.5	2.0	1.9	-0.1	0.23	0.30	0.29	-0.01
Nonresidential .....	1.9	2.0	1.9	-0.1	0.19	0.20	0.19	-0.01
Structures .....	5.6	4.6	4.1	-1.5	0.16	0.14	0.13	-0.05
Equipment and software .....	0.4	0.8	1.0	0.6	0.03	0.06	0.07	0.04
Residential .....	0.8	2.1	2.0	-0.1	0.04	0.11	0.10	0.00
Change in private inventories .....					0.01	0.03	0.01	-0.01
<b>Government consumption expenditures and gross investment</b> .....	<b>3.0</b>	<b>2.1</b>	<b>6.4</b>	<b>5.6</b>	<b>0.54</b>	<b>0.38</b>	<b>1.15</b>	<b>1.02</b>
Federal .....	1.3	0.5	5.3	3.8	0.09	0.03	0.35	0.25
National defense .....	1.6	-0.1	5.0	4.1	0.07	-0.01	0.23	0.18
Nondefense .....	0.7	1.7	5.9	3.4	0.02	0.04	0.13	0.07
State and local .....	4.0	3.1	7.0	6.6	0.46	0.35	0.80	0.77
<b>Addenda:</b>								
Gross domestic purchases:								
Food .....	3.0	2.1	5.0	4.8	0.27	0.19	0.47	0.44
Energy goods and services .....	2.3	-34.4	14.9	49.6	0.12	-2.04	0.65	2.02
Excluding food and energy .....	2.5	2.3	3.1	1.6	2.12	1.96	2.65	1.35
Personal consumption expenditures (PCE):								
Food .....	3.0	1.9	4.8	4.7				
Energy goods and services .....	5.1	-36.6	16.1	51.3				
Excluding food and energy .....	2.3	1.9	2.4	1.3				
"Market-based" PCE .....	2.4	-1.6	3.6	4.6				
Excluding food and energy .....	2.1	1.6	2.4	1.1				
Gross domestic product .....	2.4	1.7	4.2	2.7				

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.

Prices paid by domestic purchasers increased 3.8 percent, the same rate as in the first quarter. Energy prices accelerated, and food prices decelerated somewhat. Excluding food and energy, gross domestic purchases prices increased 1.6 percent after increasing 3.1 percent.

Consumer prices, as measured by the PCE price index, accelerated, mainly reflecting an acceleration in energy prices. In contrast, consumer prices paid for medical care services slowed.

Prices paid for nonresidential investment turned down, mainly reflecting a downturn in the prices paid for nonresidential structures.

Prices paid for residential investment turned down, decreasing 0.1 percent after increasing 2.0 percent.

Prices paid by government slowed slightly. Prices paid by the Federal Government decelerated, increasing 3.8 percent after increasing 5.3 percent. (First-quarter prices were boosted by the Federal pay raise in January.) Prices paid by state and local governments also decelerated, increasing 6.6 percent after increasing 7.0 percent.

Consumer prices excluding food and energy, a measure of the "core" rate of inflation, slowed, increasing 1.3 percent after increasing 2.4 percent.

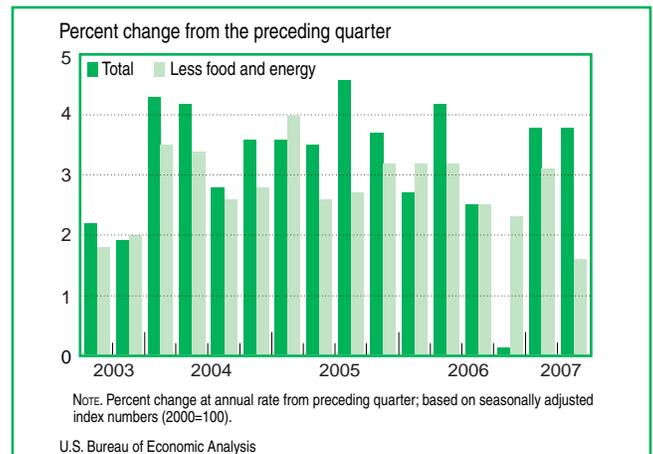
### Note on Prices

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, and prices paid for 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 Second Quarter of 2007**

[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
<b>Gross domestic product (GDP) <sup>1</sup></b> .....	<b>3.4</b>	<b>4.0</b>	<b>0.6</b>	<b>3.4</b>	<b>4.0</b>	<b>0.6</b>
<b>Personal consumption expenditures</b> .....	<b>1.3</b>	<b>1.4</b>	<b>0.1</b>	<b>0.89</b>	<b>1.03</b>	<b>0.14</b>
Durable goods.....	1.6	1.7	0.1	0.13	0.14	0.01
Nondurable goods.....	-0.8	-0.3	0.5	-0.16	-0.07	0.09
Services.....	2.2	2.3	0.1	0.92	0.96	0.04
<b>Gross private domestic investment</b> .....	<b>3.1</b>	<b>4.7</b>	<b>1.6</b>	<b>0.49</b>	<b>0.72</b>	<b>0.23</b>
Fixed investment.....	2.2	3.3	1.1	0.34	0.51	0.17
Nonresidential.....	8.1	11.1	3.0	0.83	1.12	0.29
Structures.....	22.1	27.7	5.6	0.66	0.82	0.16
Equipment and software.....	2.3	4.3	2.0	0.17	0.31	0.14
Residential.....	-9.3	-11.6	-2.3	-0.49	-0.61	-0.12
Change in private inventories.....				0.15	0.21	0.06
<b>Net exports of goods and services</b> .....				<b>1.18</b>	<b>1.42</b>	<b>0.24</b>
Exports.....	6.4	7.6	1.2	0.73	0.86	0.13
Goods.....	6.1	7.3	1.2	0.48	0.58	0.10
Services.....	7.2	8.3	1.1	0.25	0.28	0.03
Imports.....	-2.6	-3.2	-0.6	0.45	0.56	0.11
Goods.....	-2.4	-3.1	-0.7	0.34	0.46	0.12
Services.....	-4.0	-3.8	0.2	0.11	0.11	0.00
<b>Government consumption expenditures and gross investment</b> .....	<b>4.2</b>	<b>4.1</b>	<b>-0.1</b>	<b>0.82</b>	<b>0.79</b>	<b>-0.03</b>
Federal.....	6.7	5.9	-0.8	0.47	0.41	-0.06
National defense.....	9.5	8.6	-0.9	0.44	0.40	-0.04
Nondefense.....	1.3	0.5	-0.8	0.03	0.01	-0.02
State and local.....	3.0	3.0	0.0	0.35	0.38	0.03
<b>Addenda:</b>						
Final sales of domestic product.....	3.2	3.7	0.5	3.24	3.75	0.51
Gross domestic purchases price index.....	3.9	3.8	-0.1			
GDP price index.....	2.7	2.7	0.0			

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

The 4.0-percent preliminary estimate of real GDP growth is 0.6 percentage point more than the advance estimate. The average revision (without regard to sign) between the “advance” and “preliminary” estimates is 0.5 percentage point. The upward revision reflected upward revisions to nonresidential structures, to equipment and software investment, and to exports and a downward revision to imports.

The upward revision to business investment in nonresidential structures mainly reflected an upward revision to commercial and health care structures.

The main contributors to the upward revision to equipment and software investment were information processing equipment and software and transportation equipment.

The largest contributor to the downward revision to residential investment was “other” structures, mainly brokers’ commissions.

The upward revision to exports was primarily in goods; the largest contributor to the revision was industrial supplies and materials.

The downward revision to imports was more than accounted for by goods. The largest contributor to the revision was nonautomotive consumer goods.

**Source Data for the Preliminary Estimates**

*Personal consumption expenditures:* Retail sales for May and June (revised). Motor vehicle registrations for April and May (revised) and for June (new). Retail electricity sales for May (new) and natural gas sales for May (new).

*Nonresidential fixed investment:* Construction put in place for April and May (revised) and for June (new). Manufacturers’ shipments of machinery and equipment for April, May, and June (revised). Exports and imports for May (revised) and for June (new).

*Residential investment:* Construction put in place for April and May (revised) and for June (new). New and existing home sales data for May and June (revised).

*Change in private inventories:* Manufacturers’ inventories for May and June (revised) and trade inventories for May (revised) and for June (new).

*Exports and imports of goods and services:* International transactions accounts for April and May (revised) and for June (new).

*Government consumption expenditures and gross investment:* State and local government construction put in place for April and May (revised) and for June (new).

**Personal Income for the First Quarter**

As usual, BEA also released revised estimates of income measures for the previous quarter, reflecting newly available data from the Quarterly Census of Employment and Wages from the Bureau of Labor Statistics.

Among notable revisions, wages and salary disbursements increased \$141.4 billion in the first quarter, a downward revision of \$17.0 billion, and wage and salary accruals increased \$91.4 billion, an upward revision of \$33.0 billion. The difference between the revisions to wage disbursements and wage accruals reflects a BEA adjustment of about \$25 billion (revised down from the previous adjustment of about \$50 billion) for bonus payments that accrued in the fourth quarter of 2006 and were disbursed in the first quarter of 2007.

As a result of revisions to all components, personal income increased \$269.0 billion, a downward revision of \$14.9 billion; disposable personal income increased \$215.3 billion, a downward revision of \$10.6 billion; personal saving increased \$55.0 billion, a downward revision of \$10.6 billion; and the personal saving rate was 1.0 percent, a downward revision of 0.1 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								
	2007	2006		2007		2006		2007		
	II	III	IV	I	II	III	IV	I	II	
<b>Current production measures:</b>										
Corporate profits .....	1,646.0	17.0	-61.3	16.5	98.3	1.1	-3.9	1.1	6.4	
Domestic industries.....	1,331.8	26.7	-89.3	-3.7	82.0	2.0	-6.7	-0.3	6.6	
Financial .....	525.4	-22.3	19.3	-26.9	56.7	-4.5	4.0	-5.4	12.1	
Nonfinancial .....	806.4	48.9	-108.5	23.2	25.3	6.0	-12.5	3.1	3.2	
Rest of the world.....	314.1	-9.6	28.0	20.1	16.2	-3.7	11.2	7.2	5.4	
Receipts from the rest of the world .....	474.7	5.3	12.8	10.0	26.0	1.3	3.0	2.3	5.8	
Less: Payments to the rest of the world .....	160.6	14.9	-15.2	-10.1	9.8	9.3	-8.7	-6.3	6.5	
Less: Taxes on corporate income .....	491.9	10.4	-18.0	0.1	39.4	2.3	-3.8	0.0	8.7	
Equals: Profits after tax.....	1,154.1	6.5	-43.3	16.4	58.9	0.6	-3.9	1.5	5.4	
Net dividends .....	784.1	25.5	25.3	23.0	24.7	3.7	3.6	3.1	3.3	
Undistributed profits from current production.....	370.0	-18.9	-68.7	-6.6	34.2	-4.4	-16.7	-1.9	10.2	
Net cash flow .....	1,292.1	-5.9	-57.0	0.2	40.6	-0.4	-4.4	0.0	3.2	
<b>Industry profits:</b>										
Profits with IVA.....	1,881.7	31.6	-48.0	7.4	106.1	1.8	-2.6	0.4	6.0	
Domestic industries.....	1,567.5	41.2	-76.0	-12.7	89.8	2.7	-4.9	-0.9	6.1	
Financial .....	550.6	-20.7	20.7	-28.0	57.6	-4.0	4.1	-5.4	11.7	
Nonfinancial.....	1,016.9	61.9	-96.6	15.2	32.2	6.2	-9.1	1.6	3.3	
Rest of the world .....	314.1	-9.6	28.0	20.1	16.2	-3.7	11.2	7.2	5.4	
<b>Addenda:</b>										
Profits before tax (without IVA and CCAadj) .....	1,935.8	9.1	-62.2	26.6	120.0	0.5	-3.4	1.5	6.6	
Profits after tax (without IVA and CCAadj) .....	1,443.9	-1.4	-44.2	26.5	80.6	-0.1	-3.2	2.0	5.9	
IVA .....	-54.1	22.5	14.2	-19.2	-13.9	.....	.....	.....	.....	
CCAadj .....	-235.7	-14.6	-13.3	9.1	-7.8	.....	.....	.....	.....	

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 \$98.3 billion, or 6.4 percent at a quarterly rate, in the second quarter, following an increase of \$16.5 billion.

Domestic profits of financial corporations increased \$56.7 billion, or 12.1 percent, following a decrease of \$26.9 billion.

Domestic profits of nonfinancial corporations increased \$25.3 billion, or 3.2 percent, following an increase of \$23.2 billion.

Profits from the rest of the world (net corporate profits earned abroad) increased \$16.2 billion, or 5.4 percent, following an increase of \$20.1 billion. Receipts from the rest of the world increased more than payments to the rest of the world.

Taxes on corporate income increased \$39.4 billion, or 8.7 percent, following an increase of \$0.1 billion.

After-tax profits increased \$58.9 billion, or 5.4 percent, following an increase of \$16.4 billion.

Undistributed corporate profits (a measure of net saving that equals after-tax profits less dividends) increased \$34.2 billion, or 10.2 percent, following a decrease of \$6.6 billion.

Net cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$40.6 billion, or 3.2 percent, following an increase of \$0.2 billion.

### 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). CCAadj 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).