

GDP and the Economy

Third Estimates for the First Quarter of 2010

REAL GROSS domestic product (GDP) increased 2.7 percent in the first quarter of 2010, according to the “third” estimates of the national income and product accounts (NIPAs) (chart 1 and table 1).¹ The increase was revised down 0.3 percentage point from the “second” estimate (see page 3). In the fourth quarter of 2009, real GDP increased 5.6 percent.

The deceleration in real GDP in the first quarter primarily reflected decelerations in inventory investment and in exports, a downturn in residential fixed investment, a deceleration in nonresidential fixed investment, and a larger decrease in state and local government spending that were partly offset by an acceleration in consumer spending.²

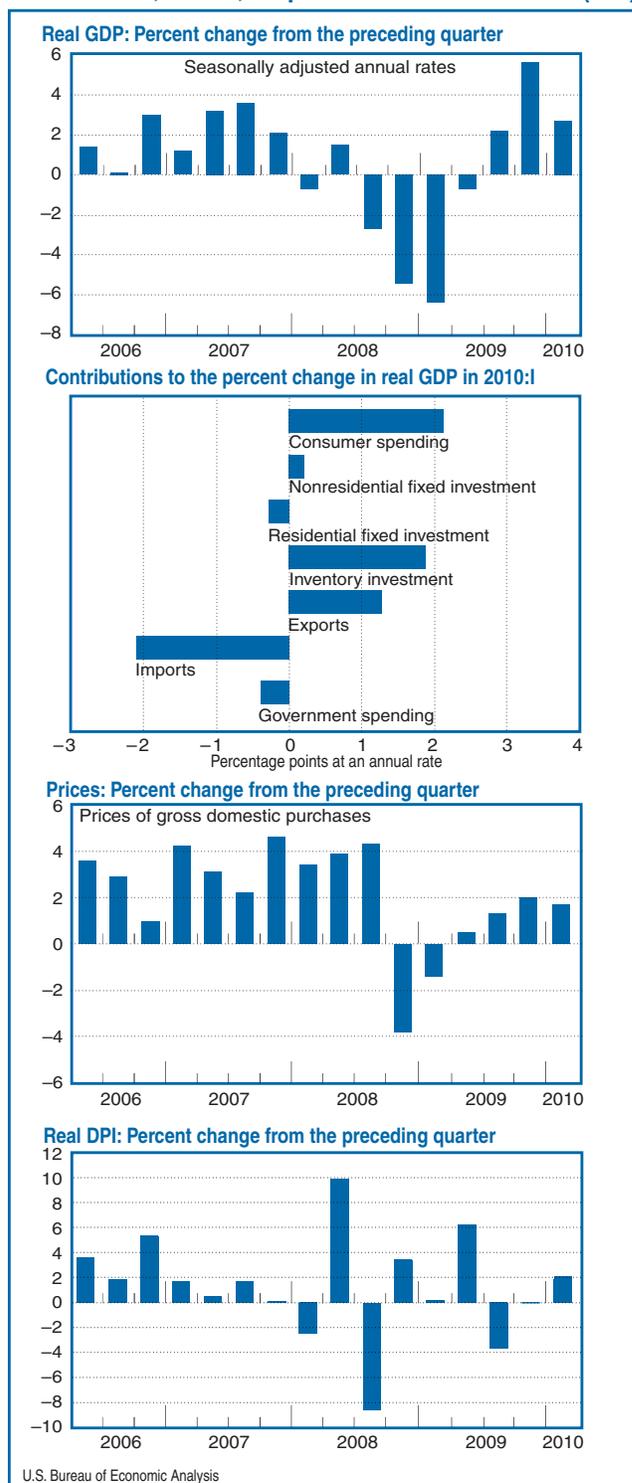
- Prices of goods and services purchased by U.S. residents increased 1.7 percent in the first quarter after increasing 2.0 percent. Energy prices decelerated in the first quarter, and food prices turned up. Excluding food and energy, gross domestic purchases prices increased 1.2 percent after increasing 1.5 percent. The federal pay raise for civilian and military personnel added 0.1 percentage point to the increase in the first-quarter gross domestic purchases price index.
- Real disposable personal income (DPI) increased 2.1 percent, 0.2 percentage point more than the second estimate. The revision reflected an upward revision to personal income that was mainly due to an upward revision to rental income of persons, resulting from a downward revision to contract interest. In the fourth quarter, real DPI was unchanged.
- The personal saving rate was 3.5 percent in the first quarter, 0.1 percentage point more than in the second estimate; in the fourth quarter, it was 3.7 percent.
- Corporate profits increased \$116.9 billion, or 8.0 percent at a quarterly rate, after increasing \$108.7 billion (see page 4).

1. “Real” estimates are in chained (2005) dollars, and price indexes are chain-type measures. Each GDP estimate for a quarter (advance, second, and third) incorporates increasingly comprehensive and improved source data. More information can be found at www.bea.gov/about/infoqual.htm and www.bea.gov/faq/national/gdp_accuracy.htm. Quarterly estimates are expressed at seasonally adjusted annual rates, which assumes that a rate of activity for a quarter is maintained for a year.

2. In this article, “consumer spending” refers to “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)				
	2010		2009		2010		2009			2010			
	I	II	III	IV	I	II	III	IV	I	II	III	IV	
Gross domestic product¹.....	100.0	-0.7	2.2	5.6	2.7	-0.7	2.2	5.6	2.7				
Personal consumption expenditures.....	71.0	-0.9	2.8	1.6	3.0	-0.62	1.96	1.16	2.13				
Goods.....	23.3	-3.1	7.2	2.8	6.3	-0.71	1.59	0.66	1.44				
Durable goods.....	7.3	-5.6	20.4	0.4	12.0	-0.41	1.36	0.03	0.83				
Nondurable goods.....	16.0	-1.9	1.5	4.0	3.9	-0.29	0.23	0.63	0.60				
Services.....	47.6	0.2	0.8	1.0	1.4	0.09	0.37	0.49	0.69				
Gross private domestic investment.....	12.1	-23.7	5.0	46.1	16.3	-3.10	0.54	4.39	1.82				
Fixed investment.....	11.8	-12.5	-1.3	5.0	-0.5	-1.68	-0.15	0.61	-0.06				
Nonresidential.....	9.4	-9.6	-5.9	5.3	2.2	-1.01	-0.59	0.51	0.21				
Structures.....	2.9	-17.3	-18.4	-18.0	-15.5	-0.69	-0.68	-0.62	-0.49				
Equipment and software.....	6.5	-4.9	1.5	19.0	11.4	-0.32	0.10	1.13	0.71				
Residential.....	2.4	-23.3	18.9	3.8	-10.3	-0.67	0.43	0.10	-0.27				
Change in private inventories.....	0.3	.....	.....	.....	.....	-1.42	0.69	3.79	1.88				
Net exports of goods and services.....	-3.5	.....	.....	.....	.....	1.65	-0.81	0.27	-0.82				
Exports.....	12.0	-4.1	17.8	22.8	11.3	-0.45	1.78	2.36	1.27				
Goods.....	8.2	-6.3	24.6	34.1	14.3	-0.45	1.58	2.26	1.08				
Services.....	3.8	0.1	5.6	2.6	5.0	0.00	0.20	0.10	0.19				
Imports.....	15.4	-14.7	21.3	15.8	14.8	2.09	-2.59	-2.09	-2.09				
Goods.....	12.7	-16.5	25.1	20.3	16.6	1.89	-2.41	-2.14	-1.90				
Services.....	2.7	-7.5	7.0	-1.9	7.3	0.21	-0.18	0.05	-0.19				
Government consumption expenditures and gross investment.....	20.4	6.7	2.6	-1.3	-1.9	1.33	0.55	-0.26	-0.39				
Federal.....	8.1	11.4	8.0	0.0	1.2	0.85	0.62	0.01	0.10				
National defense.....	5.5	14.0	8.4	-3.6	1.0	0.70	0.45	-0.20	0.06				
Nondefense.....	2.6	6.1	7.0	8.3	1.5	0.15	0.17	0.21	0.04				
State and local.....	12.3	3.9	-0.6	-2.2	-3.8	0.48	-0.08	-0.27	-0.48				
Addenda:													
Final sales of domestic product.....	99.7	0.7	1.5	1.7	0.8	0.68	1.54	1.77	0.86				
Gross domestic purchases.....	103.5	-2.3	3.0	5.2	3.5	.....	.....	.....	.....
Gross domestic purchases price index.....	.....	0.5	1.3	2.0	1.7	.....	.....	.....	.....
GDP price index.....	.....	0.0	0.4	0.5	1.1	.....	.....	.....	.....

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 accelerated in the first quarter of 2010, increasing 3.0 percent and adding 2.13 percentage points to real GDP growth. The acceleration reflected accelerations in durable goods and services.

Nonresidential fixed investment slowed, increasing 2.2 percent and adding 0.21 percentage point to real GDP growth, reflecting a slowdown in equipment and software that was partly offset by a smaller decrease in structures.

Residential fixed investment turned down and reduced real GDP growth by 0.27 percentage point, mainly reflecting a downturn in “other” structures, mainly brokers’ commissions.

Inventory investment decelerated, adding 1.88 percentage points to real GDP growth after adding 3.79 percentage points.

Exports decelerated, contributing 1.27 percentage points to real GDP growth. The deceleration reflected a deceleration in exports of goods. Exports of services picked up.

Imports slowed slightly, subtracting 2.09 percentage points from real GDP growth. The slowdown reflected a deceleration in imports of goods that was partly offset by an upturn in imports of services.

Federal government spending picked up, reflecting an upturn in national defense spending that was partly offset by a slowdown in nondefense spending.

State and local government spending decreased more than in the fourth quarter, subtracting 0.48 percentage point from real GDP growth.

Gross domestic purchases increased 3.5 percent, 0.8 percentage point more than real GDP, reflecting a larger increase in imports than in exports.

GDP and Gross Domestic Purchases

In addition to gross domestic product (GDP), another related measure of economic growth—gross domestic purchases—is included in the national income and product accounts (NIPAs).

GDP measures the market value of final goods and services produced by labor and property in the United States, including the goods that are added to, or subtracted from, inventories. GDP is defined as the sum of consumer spending, business and residential investment, inventory investment, government spending, and exports less imports.

Gross domestic purchases is defined as GDP less exports plus imports. It measures domestic demand for goods and services regardless of their origin. Exports represent foreign demand for U.S. goods and services. Subtracting exports

from GDP yields a measure of expenditures that focuses on domestic buyers. Imports can be viewed as the value of goods and services that exceed the domestic supply and that expand the consumption and investment alternatives for domestic purchasers.

Differences between GDP and gross domestic purchases reflect patterns in imports less exports: as imports exceed exports, gross domestic purchases exceeds GDP.

For annual and quarterly estimates of these measures, see NIPA tables 1.4.1 and 1.4.3–1.4.6.

See also “A Guide to the National Income and Product Accounts of the United States” at www.bea.gov under “Methodology Papers.” For a related discussion about GDP prices and gross domestic purchases prices, see FAQ 499.

Revisions to GDP

Table 2. Second and Third Estimates for the First Quarter of 2010

[Seasonally adjusted at annual rates]

	Change from preceding quarter (percent)			Contribution to percent change in real GDP (percentage points)		
	Second	Third	Third minus second	Second	Third	Third minus second
Gross domestic product (GDP) ¹	3.0	2.7	-0.3	3.0	2.7	-0.3
Personal consumption expenditures	3.5	3.0	-0.5	2.42	2.13	-0.29
Goods	6.5	6.3	-0.2	1.47	1.44	-0.03
Durable goods	12.2	12.0	-0.2	0.85	0.83	-0.02
Nondurable goods	4.0	3.9	-0.1	0.62	0.60	-0.02
Services	2.0	1.4	-0.6	0.96	0.69	-0.27
Gross private domestic investment	14.7	16.3	1.6	1.66	1.82	0.16
Fixed investment	0.1	-0.5	-0.6	0.01	-0.06	-0.07
Nonresidential	3.1	2.2	-0.9	0.29	0.21	-0.08
Structures	-15.3	-15.5	-0.2	-0.49	-0.49	0.00
Equipment and software	12.7	11.4	-1.3	0.78	0.71	-0.07
Residential	-10.7	-10.3	0.4	-0.28	-0.27	0.01
Change in private inventories				1.65	1.88	0.23
Net exports of goods and services				-0.66	-0.82	-0.16
Exports	7.2	11.3	4.1	0.82	1.27	0.45
Goods	8.9	14.3	5.4	0.68	1.08	0.40
Services	3.8	5.0	1.2	0.14	0.19	0.05
Imports	10.4	14.8	4.4	-1.48	-2.09	-0.61
Goods	10.7	16.6	5.9	-1.24	-1.90	-0.66
Services	9.0	7.3	-1.7	-0.24	-0.19	0.05
Government consumption expenditures and gross investment	-1.9	-1.9	0.0	-0.40	-0.39	0.01
Federal	1.2	1.2	0.0	0.10	0.10	0.00
National defense	1.1	1.0	-0.1	0.06	0.06	0.00
Nondefense	1.5	1.5	0.0	0.04	0.04	0.00
State and local	-3.9	-3.8	0.1	-0.49	-0.48	0.01
Addenda:						
Final sales of domestic product	1.4	0.8	-0.6	1.39	0.86	-0.53
Gross domestic purchases price index	1.7	1.7	0.0			
GDP price index	1.0	1.1	0.1			

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

Real GDP increased 2.7 percent, according to the third estimate for the first quarter, 0.3 percentage point lower than in the second estimate. The average revision (without regard to sign) between the second estimate and the third estimate is 0.3 percentage point. The downward revision to the percent change in real GDP primarily reflected an upward revision to imports and a downward revision to consumer spending that were partly offset by upward revisions to exports and to inventory investment.

The downward revision to consumer spending reflected widespread downward revisions within services. The largest contributor to the downward revision was electricity and gas services.

The upward revision to inventory investment primarily reflected upward revisions to retail trade inventories and to wholesale trade inventories that were partly offset by a downward revision to mining, utilities, and construction inventories.

The upward revision to exports reflected widespread upward revisions within exports of goods, but exports of services also contributed. The largest contributor to the upward revision to goods exports was "other" nonautomotive capital goods.

The upward revision to imports reflected widespread upward revisions within imports of goods; imports of services was revised down. The largest contributors to the upward revision to goods imports were automotive vehicles, engines, and parts and nonautomotive consumer goods and nonautomotive capital goods.

Source Data for the Third Estimates

The third estimates of GDP for the first quarter of 2010 incorporated the following source data.

Personal consumption expenditures: retail sales for March (revised) and quarterly services survey data for the first quarter (new), motor vehicle registrations for March (revised), and Energy Information Administration (EIA) natural gas usage data for March (new).

Nonresidential fixed investment: construction spending (value put in place) data for February and March (revised) and quarterly services survey data for the first quarter (new).

Residential fixed investment: construction spending (value put in place) data for February and March (revised).

Change in private inventories: manufacturers' and

trade inventories for March (revised), Quarterly Financial Report data for mining (new), and EIA data for utilities.

Exports and imports of goods and services: international transactions accounts data for October 2009 through March 2010 (revised).

Government consumption expenditures and gross investment: state and local government construction spending (value put in place) data for February and March (revised).

GDP prices: export and import prices for January, February, and March (revised), unit value index for petroleum imports for October, December, and March (revised), and prices of single-family houses under construction for the first quarter (revised).

Corporate Profits

Table 3. Corporate Profits
[Seasonally adjusted]

	Billions of dollars (annual rate)				Percent change from preceding quarter (quarterly rate)					
	Level	Change from preceding quarter								
	2010	2009				2010				
	I	II	III	IV	I	II	III	IV	I	
Current production measures:										
Corporate profits.....	1,584.5	43.8	132.4	108.7	116.9	3.7	10.8	8.0	8.0	
Domestic industries.....	1,251.3	58.3	110.4	124.7	90.9	6.7	11.9	12.0	7.8	
Financial.....	425.3	28.5	82.8	65.0	11.2	12.0	31.1	18.6	2.7	
Nonfinancial.....	826.0	29.8	27.6	59.8	79.6	4.7	4.2	8.7	10.7	
Rest of the world.....	333.2	-14.6	22.0	-16.1	26.1	-4.6	7.3	-5.0	8.5	
Receipts from the rest of the world.....	501.0	7.7	30.9	27.7	32.5	1.9	7.5	6.3	6.9	
Less: Payments to the rest of the world.....	167.8	22.3	8.9	43.8	6.4	25.8	8.2	37.3	4.0	
Less: Taxes on corporate income.....	423.2	35.6	15.1	40.9	61.3	13.2	4.9	12.7	16.9	
Equals: Profits after tax.....	1,161.3	8.2	117.3	67.8	55.6	0.9	12.7	6.5	5.0	
Net dividends.....	551.7	-62.1	-6.1	29.1	-27.3	-10.0	-1.1	5.3	-4.7	
Undistributed profits from current production.....	609.6	70.3	123.5	38.7	82.9	23.9	33.9	7.9	15.8	
Net cash flow.....	1,706.1	-30.5	28.4	69.1	63.7	-1.9	1.8	4.4	3.9	

NOTE. Levels of these and other profits series are shown in NIPA tables 1.12, 1.14, 1.15, and 6.16D.

Corporate profits from current production increased \$116.9 billion, or 8.0 percent at a quarterly rate, in the first quarter after increasing \$108.7 billion, or 8.0 percent, in the fourth quarter.

Domestic profits of financial corporations increased \$11.2 billion, or 2.7 percent, after increasing \$65.0 billion, or 18.6 percent.

Domestic profits of nonfinancial corporations increased \$79.6 billion, or 10.7 percent, after increasing \$59.8 billion, or 8.7 percent.

Profits from the rest of the world increased \$26.1 billion, or 8.5 percent, after decreasing \$16.1 billion, or 5.0 percent. The upturn reflected a larger increase in receipts and a deceleration in payments.

Taxes on corporate income increased \$61.3 billion, or 16.9 percent, after increasing \$40.9 billion, or 12.7 percent.

Net dividends decreased \$27.3 billion, or 4.7 percent, after increasing \$29.1 billion, or 5.3 percent.

Undistributed corporate profits (a measure of net saving that equals after-tax profits less dividends) increased \$82.9 billion, or 15.8 percent, after increasing \$38.7 billion, or 7.9 percent.

Net cash flow increased \$63.7 billion, or 3.9 percent, after increasing \$69.1 billion, or 4.4 percent.

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. Estimates for the current quarter are based on corporate earnings reports from sources including Cen-

sus Bureau quarterly financial reports, Federal Deposit Insurance Corporation call reports, other regulatory reports, and tabulations from corporate financial reports. The estimates are benchmarked to Internal Revenue Service data when the data are available for two reasons: the data are based on well-specified accounting definitions, and they are comprehensive, covering all incorporated businesses—publicly traded and privately held—in all industries.

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 (CCAdj). CCAdj is defined as the difference between capital consumption allowances (tax return depreciation) and consumption of fixed capital (the decline in the value of the stock of assets due to wear and tear, obsolescence, accidental damage, and aging).

