

GDP and the Economy

Final Estimates for the First Quarter of 2007

ECONOMIC growth slowed in the first quarter of 2007, according to the “final” estimates of the national income and product accounts (NIPAs). Real gross domestic product (GDP) increased 0.7 percent after increasing 2.5 percent in the fourth quarter of 2006 (chart 1 and table 1).¹ The first-quarter growth rate was revised up 0.1 percentage point from the “preliminary” estimate (page 3).²

The deceleration in first-quarter real GDP growth reflected an upturn in imports, a deceleration in exports, a downturn in Federal Government spending, and a deceleration in consumer spending for nondurable goods. In contrast, investment in equipment and software turned up, residential fixed investment decreased less than in the fourth quarter, consumer spending for durable goods accelerated, inventory investment decreased less than in the fourth quarter, and consumer spending for services accelerated.³

- Prices of goods and services purchased by U.S. residents increased 3.7 percent after increasing 0.2 percent. Energy prices turned up sharply after turning down sharply, and food prices accelerated.
- Real disposable personal income (DPI) rose 4.8 percent, 0.1 percentage point more than the preliminary estimate; in the fourth quarter, it increased 6.4 percent. Current-dollar DPI increased 8.5 percent in the first quarter, 0.3 percentage point more than the preliminary estimate. In the fourth quarter, it increased 5.4 percent. A sharp upturn in prices (as measured by the PCE implicit price deflator used to deflate DPI) resulted in the real DPI slowdown.
- Personal saving as a percentage of current-dollar DPI was -0.7 percent, compared with -0.9 percent.
- Corporate profits increased \$23.0 billion after decreasing \$4.9 billion (page 4).

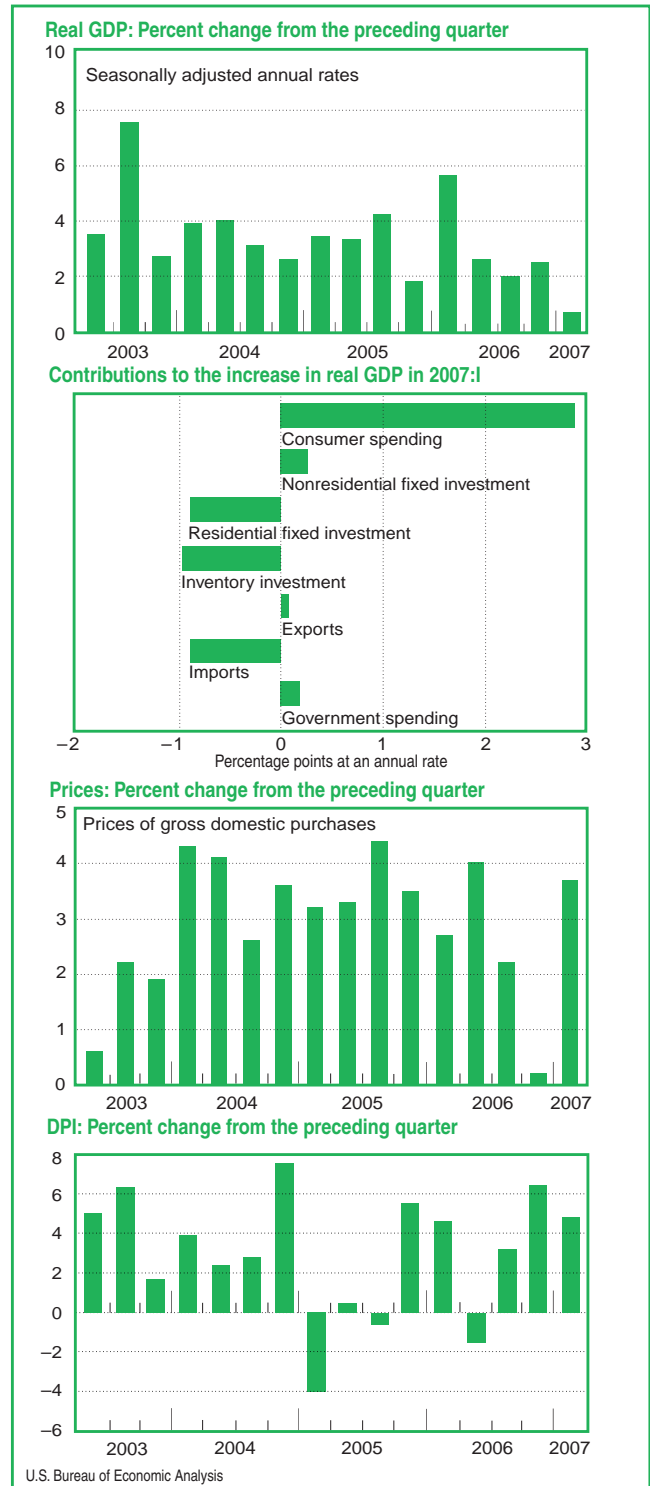
1. “Real” estimates are in chained (2000) dollars, and price indexes are chain-type measures.

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> and at <www.bea.gov/bea/faq/national/gdp_accuracy.htm>. Quarterly estimates are expressed at seasonally adjusted annual rates, which show the value of an activity if the quarterly rate were 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	
	I	II	III	IV	I	II	III	IV	I	
Gross domestic product ¹	100.0	2.6	2.0	2.5	0.7	2.6	2.0	2.5	0.7	
Personal consumption expenditures	70.5	2.6	2.8	4.2	4.2	1.81	1.96	2.93	2.89	
Durable goods.....	8.1	-0.1	6.4	4.4	8.7	-0.01	0.50	0.35	0.67	
Nondurable goods.....	20.5	1.4	1.5	5.9	3.2	0.30	0.32	1.18	0.65	
Services.....	42.0	3.7	2.8	3.4	3.8	1.52	1.14	1.41	1.57	
Gross private domestic investment	15.6	1.0	-0.8	-15.2	-9.6	0.17	-0.13	-2.71	-1.59	
Fixed investment.....	15.6	-1.6	-1.2	-9.1	-3.9	-0.27	-0.19	-1.54	-0.62	
Nonresidential.....	10.5	4.4	10.0	-3.1	2.6	0.45	1.01	-0.34	0.27	
Structures.....	3.2	20.3	15.7	0.8	4.8	0.56	0.46	0.03	0.15	
Equipment and software.....	7.3	-1.4	7.7	-4.8	1.7	-0.10	0.55	-0.36	0.12	
Residential.....	5.1	-11.1	-18.7	-19.8	-15.8	-0.72	-1.20	-1.21	-0.89	
Change in private inventories.....	-0.1	.....	.....	.....	.....	0.44	0.06	-1.16	-0.97
Net exports of goods and services	-5.3	.....	.....	.....	.....	0.42	-0.19	1.59	-0.81
Exports.....	11.3	6.2	6.8	10.6	0.7	0.66	0.73	1.14	0.08	
Goods.....	8.0	6.0	9.4	8.4	0.2	0.45	0.71	0.65	0.01	
Services.....	3.3	6.7	0.8	16.3	1.9	0.21	0.03	0.50	0.06	
Imports.....	16.6	1.4	5.6	-2.6	5.5	-0.24	-0.93	0.45	-0.88	
Goods.....	13.9	-0.1	7.1	-4.1	6.0	0.01	-1.00	0.61	-0.81	
Services.....	2.6	9.9	-2.6	6.2	2.8	-0.25	0.07	-0.16	-0.07	
Government consumption expenditures and gross investment	19.2	0.8	1.7	3.4	1.0	0.16	0.32	0.64	0.19	
Federal.....	6.9	-4.5	1.3	4.6	-3.9	-0.32	0.09	0.31	-0.28	
National defense.....	4.7	-2.0	-1.2	12.3	-7.4	-0.09	-0.06	0.55	-0.36	
Nondefense.....	2.3	-9.3	6.5	-9.6	3.6	-0.23	0.15	-0.23	0.08	
State and local.....	12.3	4.0	1.9	2.7	3.9	0.48	0.23	0.33	0.47	
Addenda:										
Final sales of domestic product.....		2.1	1.9	3.7	1.7	2.11	1.90	3.62	1.66	
Gross domestic purchases price index.....		4.0	2.2	0.2	3.7	.....	.....	.....	.....
GDP price index.....		3.3	1.9	1.7	4.2	.....	.....	.....	.....

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 grew 4.2 percent in the first quarter, the same rate as in the fourth quarter. Accelerations in spending for durable goods and for services were partly offset by a deceleration in spending for nondurable goods

Nonresidential fixed investment turned up and added 0.27 percentage point to real GDP growth after subtracting 0.34 percentage point. Equipment and software turned up, and structures accelerated.

Residential investment decreased for the sixth consecutive quarter, though the decrease was less in the first quarter than in the fourth quarter.

Inventory investment decreased somewhat less than in the fourth quarter and subtracted 0.97 percentage point from real GDP growth.

Exports slowed, increasing 0.7 percent after a 10.6-percent increase. The slowdown reflected sharp decelerations in exports of both goods and services.

Imports increased 5.5 percent after decreasing 2.6 percent, reflecting an upturn in goods imports.

Federal Government spending decreased 3.9 percent after increasing 4.6 percent. A downturn in defense spending more than offset an upturn in nondefense spending.

State and local government spending accelerated and added 0.47 percentage point to real GDP growth.

Real final sales of domestic product, real GDP less inventory investment, slowed, increasing 1.7 percent after increasing 3.7 percent.

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.

For more information on GDP and gross domestic purchases, see also “A Guide to the National Income and Product Accounts of the United States” on BEA’s Web site at www.bea.gov/bea/an/nipaguid.pdf.

Revisions to GDP

Table 2. Preliminary and Final Estimates for the First Quarter of 2007

[Seasonally adjusted at annual rates]

	Change from preceding quarter (percent)			Contribution to percent change in real GDP (percentage points)		
	Preliminary	Final	Final minus preliminary	Preliminary	Final	Final minus preliminary
Gross domestic product (GDP) ¹	0.6	0.7	0.1	0.6	0.7	0.1
Personal consumption expenditures	4.4	4.2	-0.2	3.01	2.89	-0.12
Durable goods	8.8	8.7	-0.1	0.68	0.67	-0.01
Nondurable goods	3.5	3.2	-0.3	0.71	0.65	-0.06
Services	4.0	3.8	-0.2	1.63	1.57	-0.06
Gross private domestic investment	-9.3	-9.6	-0.3	-1.55	-1.59	-0.04
Fixed investment	-3.5	-3.9	-0.4	-0.57	-0.62	-0.05
Nonresidential	2.9	2.6	-0.3	0.31	0.27	-0.04
Structures	5.1	4.8	-0.3	0.16	0.15	-0.01
Equipment and software	2.0	1.7	-0.3	0.14	0.12	-0.02
Residential	-15.4	-15.8	-0.4	-0.87	-0.89	-0.02
Change in private inventories				-0.98	-0.97	0.01
Net exports of goods and services				-1.00	-0.81	0.19
Exports	-0.6	0.7	1.3	-0.07	0.08	0.15
Goods	-0.6	0.2	0.8	-0.05	0.01	0.06
Services	-0.6	1.9	2.5	-0.02	0.06	0.08
Imports	5.7	5.5	-0.2	-0.93	-0.88	0.05
Goods	6.2	6.0	-0.2	-0.84	-0.81	0.03
Services	3.3	2.8	-0.5	-0.09	-0.07	0.02
Government consumption expenditures and gross investment	1.0	1.0	0.0	0.19	0.19	0.00
Federal	-3.9	-3.9	0.0	-0.28	-0.28	0.00
National defense	-7.3	-7.4	-0.1	-0.36	-0.36	0.00
Nondefense	3.6	3.6	0.0	0.08	0.08	0.00
State and local	3.9	3.9	0.0	0.47	0.47	0.00
Addenda:						
Final sales of domestic product	1.6	1.7	0.1	1.63	1.66	0.03
Gross domestic purchases price index	3.6	3.7	0.1			
GDP price index	4.0	4.2	0.2			

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

The final estimate of real GDP growth in the fourth quarter is 0.7 percent, 0.1 percentage point more than the preliminary estimate. For the period 1978–2005, the revisions, without regard to sign, averaged 0.3 percentage point from the preliminary estimates to the final estimates.

The small upward revision to the percent change in real GDP primarily reflected an upward revision to exports of goods and services and was based on the incorporation of revised estimates from the annual revision of BEA's international transactions accounts on a best-change basis. (See "Annual Revision of the U.S. International Accounts, 1997–2007" in this issue.)

The price index for gross domestic purchases increased 3.7 percent in the first quarter, 0.1 percentage point more than the preliminary estimate. The revision was primarily accounted for by an upward revision to the price index for personal consumption expenditures for services, based on a revision to the producer price index for physicians' services.

Source Data for the Final Estimates

The final estimates of gross domestic product for the first quarter of 2007 incorporated the following source data.

Personal consumption expenditures: Retail sales for February and March (revised) Quarterly services survey for the first quarter (new).

Nonresidential fixed investment: Construction put in place for February and March (revised). Quarterly services survey for the first quarter (new).

Residential fixed investment: Construction put in place for February and March (revised).

Change in private inventories: Manufacturers' and trade inventories for March (revised). Producer Price Index for

January (revised).

Exports and imports of goods and services: International transactions accounts data for October 2006 through March 2007 (revised).

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

GDP prices: Export and import prices for January, February, and March (revised). Unit value index for petroleum imports for March (revised). 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						
	2007		2006		2007		2006		
	I	II	III	IV	I	II	III	IV	I
Current production measures:									
Corporate profits	1,671.4	22.7	61.5	-4.9	23.0	1.4	3.9	-0.3	1.4
Domestic industries.....	1,379.3	8.9	66.8	-42.1	2.7	0.7	4.9	-3.0	0.2
Financial.....	472.2	41.7	-9.1	20.5	-23.1	9.4	-1.9	4.3	-4.7
Nonfinancial	907.0	-32.8	75.8	-62.6	25.7	-3.6	8.7	-6.6	2.9
Rest of the world.....	292.1	13.8	-5.3	37.3	20.2	6.1	-2.2	15.9	7.4
Receipts from the rest of the world	438.2	25.7	6.9	19.2	10.1	6.8	1.7	4.7	2.4
Less: Payments to the rest of the world	146.1	11.9	12.1	-18.0	-10.1	7.9	7.5	-10.3	-6.5
Less: Taxes on corporate income	479.7	19.2	14.5	-14.4	3.5	4.2	3.0	-2.9	0.7
Equals: Profits after tax.....	1,191.7	3.6	47.0	9.6	19.4	0.3	4.2	0.8	1.7
Net dividends.....	692.0	15.4	19.3	21.0	20.6	2.5	3.1	3.2	3.1
Undistributed profits from current production.....	499.7	-11.8	27.8	-11.5	-1.2	-2.4	5.7	-2.2	-0.2
Net cash flow	1,382.9	1.1	30.2	-1.1	3.5	0.1	2.2	-0.1	0.3

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 \$23.0 billion, or 1.4 percent, after decreasing \$4.9 billion, or 0.3 percent.

Domestic profits of financial corporations decreased \$23.1 billion, or 4.7 percent, following an increase of \$20.5 billion, or 4.3 percent.

Profits of domestic nonfinancial corporations increased \$25.7 billion, or 2.9 percent, following a decrease of \$62.6 billion, or 6.6 percent.

Rest-of-the-world profits increased \$20.2 billion, or 7.4 percent.

Taxes on corporate income increased \$3.5 billion, or 0.7 percent, in contrast to a decrease of \$14.4 billion, or 2.9 percent, in the fourth quarter.

Undistributed corporate profits (a measure of net saving that equals after-tax profits less dividends) decreased \$1.2 billion, after decreasing \$11.5 billion.

Net cash flow with inventory valuation and capital consumption adjustments (a measure of internally generated funds available for investment) increased \$3.5 billion, or 0.3 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. 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 (CCAdj). CCAdj 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).

Corporate Profits by Industry

Table 4. Corporate Profits by Industry
[Seasonally adjusted]

	Billions of dollars (annual rate)				Percent change from preceding quarter (quarterly rate)				
	Level	Change from preceding quarter							
	2007	2006			2007	2006			
	I	II	III	IV	I	II	III	IV	I
Industry profits:									
Profits with IVA.....	1,828.8	34.9	63.2	4.4	8.6	2.0	3.6	0.2	0.5
Domestic industries.....	1,536.7	21.1	68.4	-32.8	-11.6	1.4	4.5	-2.1	-0.7
Financial.....	498.9	44.3	-8.1	22.6	-23.8	9.5	-1.6	4.5	-4.6
Nonfinancial.....	1,037.7	-23.2	76.5	-55.4	12.1	-2.3	7.6	-5.1	1.2
Utilities.....	52.5	7.1	6.0	2.1	-2.4	17.7	12.8	4.1	-4.3
Manufacturing.....	346.1	-10.8	42.0	-7.4	21.6	-3.6	14.5	-2.2	6.7
Wholesale trade.....	103.3	-8.9	26.8	-31.4	9.6	-8.3	27.2	-25.1	10.3
Retail trade.....	138.7	-1.8	10.1	13.7	-6.3	-1.4	8.3	10.4	-4.3
Transportation and warehousing.....	31.5	11.3	1.0	-6.3	-1.8	.....	.....	.....	.....
Information.....	106.6	-3.9	-2.6	8.6	14.7	.....	.....	.....	.....
Other nonfinancial.....	258.9	-16.2	-6.8	-34.9	-23.3	-4.7	-2.1	-11.0	-8.3
Rest of the world.....	292.1	13.8	-5.3	37.3	20.2	6.1	-2.2	15.9	7.4
Addenda:									
Profits before tax (without IVA and CCAAdj).....	1,861.6	70.9	42.5	-16.4	24.0	4.1	2.3	-0.9	1.3
Profits after tax (without IVA and CCAAdj).....	1,382.0	51.7	28.0	-1.9	20.5	4.0	2.1	-0.1	1.5
IVA.....	-32.8	-36.0	20.7	20.7	-15.3	.....	.....	.....	.....
CCAAdj.....	-157.4	-12.2	-1.6	-9.3	14.3	.....	.....	.....	.....

Industry profits with inventory valuation adjustment increased \$8.6 billion, compared with a \$4.4 billion increase. The first-quarter increase was smaller than the increase in profits from current production because it excludes the capital consumption adjustment, which increased \$14.3 billion in the first quarter.

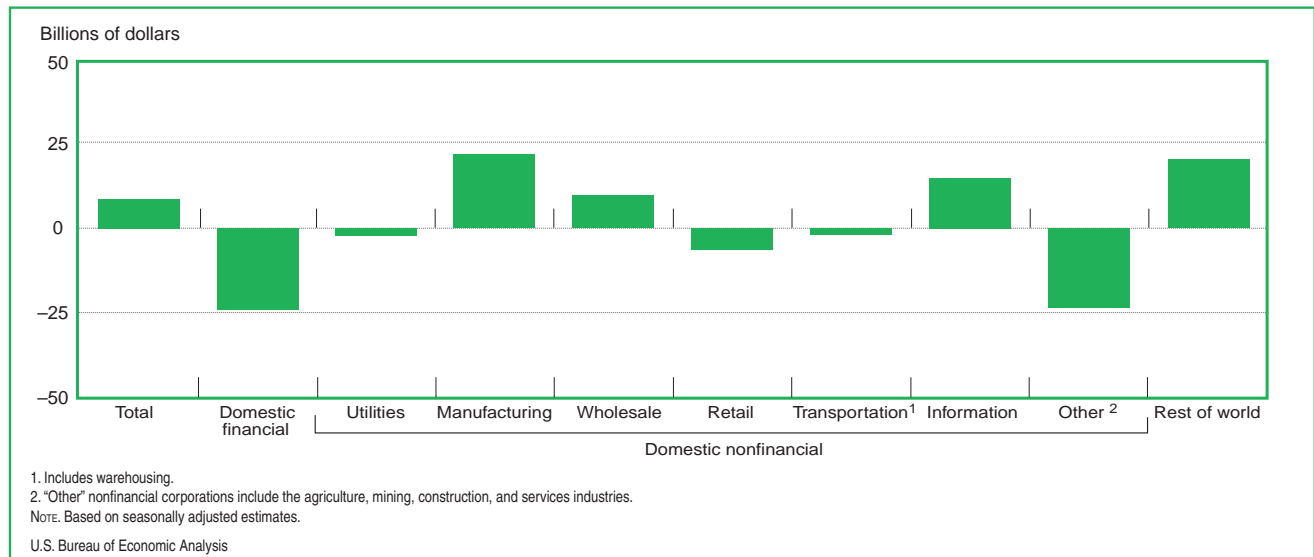
Profits of domestic industries decreased \$11.6 billion, compared with a decrease of \$32.8 billion.

Profits of domestic financial industries turned down, decreasing \$23.8 billion, after increasing \$22.6 billion.

In contrast, profits of domestic nonfinancial industries turned up, increasing \$12.1 billion, after decreasing \$55.4 billion. The upturn primarily reflected rebounds in manufacturing and wholesale trade industries, an acceleration in information industries, and a smaller decrease in "other nonfinancial" industries. In contrast, profits of retail trade industries turned down.

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

Chart 2. Corporate Profits With Inventory Valuation Adjustment: Change From the Preceding Quarter, 2007:I



Corporate Profits by Industry

Industry profits are corporate profits by industry with inventory valuation adjustment (IVA). The IVA removes the effect of prices on inventories. The IVA is the difference between the cost of inventory withdrawals at acquisition cost and replacement cost. Ideally, BEA would also add the capital consumption adjustment (CCAAdj) for each indus-

try. However, estimates of the CCAAdj are only available for two broad categories: Total financial industries and total nonfinancial industries. For more information about BEA's methodology, see "Corporate Profits: Profits Before Tax, Profits Tax Liability, and Dividends" at <www.bea.gov/bea/mp_national.htm>.