GDP and the Economy

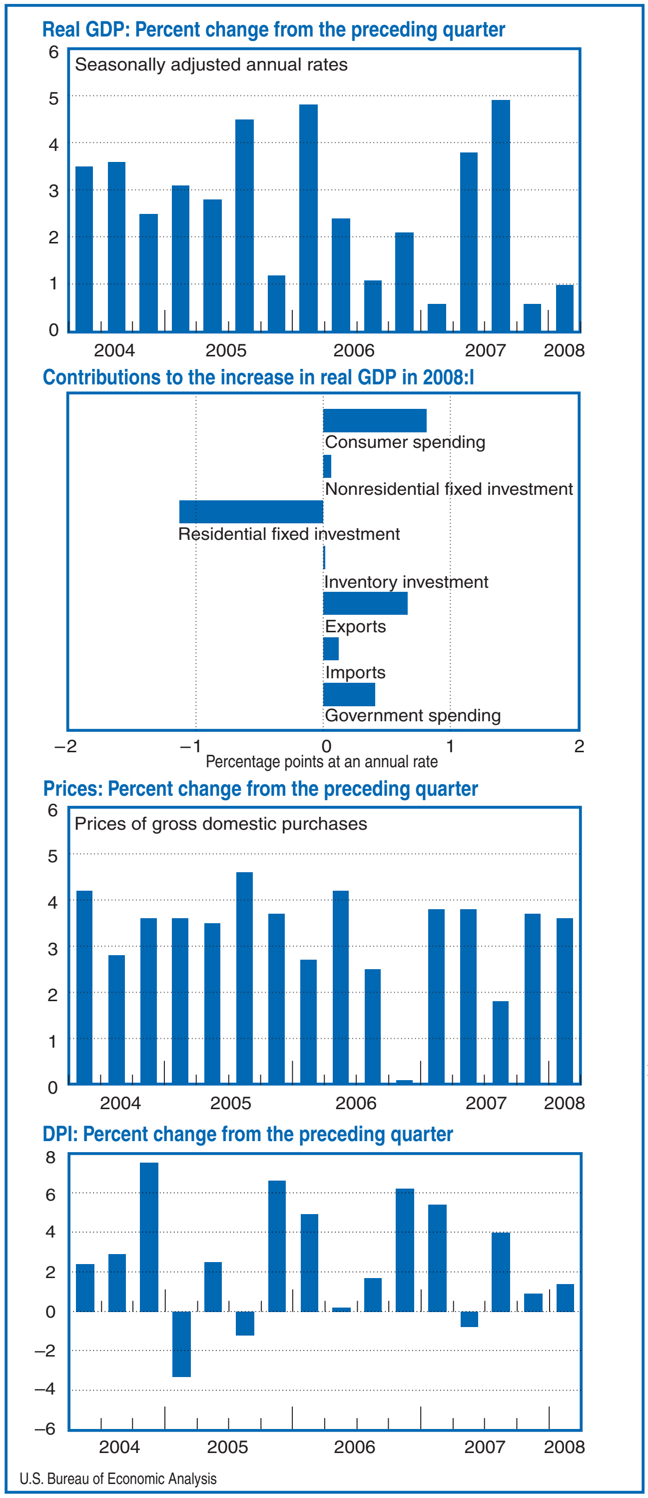
Final Estimates for the First Quarter of 2008

REAL GROSS domestic product (GDP) increased 1.0 percent in the first quarter of 2008 after increasing 0.6 percent in the fourth quarter of 2007, according to the "final" estimates of the national income and product accounts (NIPAs) (chart 1 and table 1).[1] The final GDP growth was revised up 0.1 percentage point from the "preliminary" estimate (page 3).[2]

The small acceleration in real GDP growth primarily reflected an upturn in inventory investment that was muted by a deceleration in consumer spending.[3]

- Prices of goods and services purchased by U.S. residents increased 3.6 percent after increasing 3.7 percent in the fourth quarter. The first-quarter increase was revised up 0.1 percentage point from the "preliminary" estimate. Energy prices decelerated, and food prices picked up slightly. Excluding food and energy, gross domestic purchases prices increased 2.3 percent. About 0.3 percentage point of the first-quarter increase was accounted for by the pay raise for federal civilian and military personnel.
- Real disposable personal income (DPI) increased 1.4 percent, a downward revision of 0.4 percentage point from the "preliminary" estimate; in the fourth quarter, it increased 0.9 percent. The pickup reflected a small acceleration in current-dollar DPI that was due to a deceleration in personal current taxes that exceeded a deceleration in personal income.
- The personal saving rate was 0.4 percent in the first quarter, compared with 0.2 percent in the fourth quarter. The first-quarter estimate was 0.2 percentage point less than the "preliminary" estimate.
- Corporate profits fell $5.2 billion in the first quarter after falling $52.9 billion in the fourth quarter. First-quarter profits reflected the effects of the Economic Stimulus Act of 2008 (see the box on page 4).

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



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 <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 "personal consumption expenditures," inventory investment" refers to "change in private inventories," and "government spending" refers to "government consumption expenditures and gross investment."

Christopher Swann prepared this article.

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)			
	2008	2007			2008	2007			2008
	I	II	III	IV	I	II	III	IV	I
Gross domestic product [1]	**100.0**	**3.8**	**4.9**	**0.6**	**1.0**	**3.8**	**4.9**	**0.6**	**1.0**
Personal consumption expenditures	**70.8**	**1.4**	**2.8**	**2.3**	**1.1**	**1.00**	**2.01**	**1.58**	**0.81**
Durable goods	7.5	1.7	4.5	2.0	–6.0	0.14	0.35	0.15	–0.47
Nondurable goods	20.8	–0.5	2.2	1.2	–0.2	–0.10	0.46	0.25	–0.03
Services	42.5	2.3	2.8	2.8	3.1	0.96	1.20	1.18	1.31
Gross private domestic investment	**14.4**	**4.6**	**5.0**	**–14.6**	**–6.9**	**0.71**	**0.77**	**–2.40**	**–1.04**
Fixed investment	14.6	3.2	–0.7	–4.0	–6.9	0.49	–0.11	–0.62	–1.06
Nonresidential	10.8	11.0	9.3	6.0	0.6	1.12	0.96	0.63	0.06
Structures	3.6	26.2	16.4	12.4	1.2	0.78	0.52	0.41	0.04
Equipment and software	7.2	4.7	6.2	3.1	0.2	0.34	0.44	0.22	0.02
Residential	3.8	–11.8	–20.5	–25.2	–24.6	–0.62	–1.08	–1.25	–1.12
Change in private inventories	–0.2	....	....	....	....	0.22	0.89	–1.79	0.02
Net exports of goods and services	**–5.0**					**1.32**	**1.38**	**1.02**	**0.79**
Exports	12.7	7.5	19.1	6.5	5.4	0.85	2.10	0.77	0.66
Goods	8.9	6.6	26.2	3.9	4.4	0.53	1.96	0.33	0.38
Services	3.8	9.6	4.0	13.2	7.9	0.33	0.14	0.45	0.28
Imports	17.7	–2.7	4.4	–1.4	–0.7	0.47	–0.72	0.24	0.12
Goods	14.9	–2.9	4.8	–2.6	–1.9	0.42	–0.67	0.39	0.28
Services	2.8	–1.7	1.7	5.5	6.0	0.05	–0.05	–0.15	–0.16
Government consumption expenditures and gross investment	**19.9**	**4.1**	**3.8**	**2.0**	**2.1**	**0.79**	**0.74**	**0.38**	**0.41**
Federal	7.2	6.0	7.1	0.5	4.3	0.41	0.50	0.04	0.30
National defense	4.9	8.5	10.1	–0.5	5.6	0.39	0.47	–0.03	0.27
Nondefense	2.3	0.9	1.1	2.8	1.7	0.02	0.03	0.06	0.04
State and local	12.7	3.0	1.9	2.8	0.8	0.37	0.24	0.34	0.10
Addenda:									
Final sales of domestic product	....	3.6	4.0	2.4	0.9	3.60	4.02	2.36	0.94
Gross domestic purchases price index	....	3.8	1.8	3.7	3.6	....	....	....	....
GDP price index	....	2.6	1.0	2.4	2.7	....	....	....	....

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 slowed in the first quarter, as spending for durable goods and nondurable goods turned down. Spending for services picked up. The 1.1 percent increase added 0.81 percentage point to real GDP growth. In the fourth quarter, consumer spending increased 2.3 percent and added 1.58 percentage points to real GDP growth.

Nonresidential fixed investment decelerated, reflecting slowdowns in investment in structures and in equipment and software.

Residential fixed investment decreased slightly less in the first quarter than in the fourth quarter, reducing real GDP growth by 1.12 percentage points.

Inventory investment turned up, mainly reflecting an upturn in retail trade and a smaller decrease in wholesale trade. In retail trade, the upturn mainly reflected an upturn in motor vehicle and parts dealers.

Exports slowed somewhat, mainly reflecting a deceleration in exports of services. Foreign travel in the United States turned down, and "other" private services slowed. Exports of goods picked up.

Imports decreased in the first quarter but by less than in the fourth quarter, reflecting the quarter-to-quarter changes in the imports of goods. Imports of services picked up slightly.

Federal government spending accelerated, increasing 4.3 percent after increasing 0.5 percent. National defense spending turned up.

State and local government spending slowed, reflecting a downturn in gross investment.

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 2008

[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]	**0.9**	**1.0**	**0.1**	**0.9**	**1.0**	**0.1**
Personal consumption expenditures	**1.0**	**1.1**	**0.1**	**0.70**	**0.81**	**0.11**
Durable goods	–6.2	–6.0	0.2	–0.49	–0.47	0.02
Nondurable goods	–0.3	–0.2	0.1	–0.07	–0.03	0.04
Services	3.0	3.1	0.1	1.25	1.31	0.06
Gross private domestic investment	**–6.5**	**–6.9**	**–0.4**	**–0.98**	**–1.04**	**–0.06**
Fixed investment	–7.8	–6.9	0.9	–1.20	–1.06	0.14
Nonresidential	–0.2	0.6	0.8	–0.03	0.06	0.09
Structures	1.1	1.2	0.1	0.04	0.04	0.00
Equipment and software	–0.9	0.2	1.1	–0.07	0.02	0.09
Residential	–25.5	–24.6	0.9	–1.17	–1.12	0.05
Change in private inventories	....	....	....	0.21	0.02	–0.19
Net exports of goods and services	....	....	....	**0.80**	**0.79**	**–0.01**
Exports	2.8	5.4	2.6	0.34	0.66	0.32
Goods	1.5	4.4	2.9	0.13	0.38	0.25
Services	5.8	7.9	2.1	0.21	0.28	0.07
Imports	–2.6	–0.7	1.9	0.46	0.12	–0.34
Goods	–3.6	–1.9	1.7	0.54	0.28	–0.26
Services	2.8	6.0	3.2	–0.08	–0.16	–0.08
Government consumption expenditures and gross investment	**2.0**	**2.1**	**0.1**	**0.38**	**0.41**	**0.03**
Federal	4.4	4.3	–0.1	0.31	0.30	–0.01
National defense	5.6	5.6	0.0	0.27	0.27	0.00
Nondefense	1.8	1.7	–0.1	0.04	0.04	0.00
State and local	0.6	0.8	0.2	0.08	0.10	0.02
Addenda:						
Final sales of domestic product	0.7	0.9	0.2	0.69	0.94	0.25
Gross domestic purchases price index	3.5	3.6	0.1	....	....	....
GDP price index	2.6	2.7	0.1	....	....	....

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

The “final” real GDP growth estimate is 0.1 percentage point more than the “preliminary” estimate. Upward revisions to exports, consumer spending, and investment in equipment and software were largely offset by an upward revision to imports and a downward revision to inventory investment. The average revision (without regard to sign) historically from the preliminary to the final estimate is 0.3 percentage point.

The largest contributor to the upward revision to consumer spending was medical care services, specifically hospitals and nursing homes.

The largest contributor to the upward revision to equipment and software was prepackaged software.

The largest contributor to the downward revision to inventory investment was “mining, utilities, and construction inventories.”

The revision to exports was to goods and services. In goods, the upward revisions were widespread; computers, peripherals, and parts was revised down. In services, “other” transportation, “other” private services, and transfers under U.S. military agency sales contracts were revised up; passenger fares were revised down.

The revision to imports was to goods and services. In goods, the revision primarily reflected upward revisions to nonautomotive consumer goods and to automotive vehicles, engines, and parts. These revisions were partly offset by downward revisions to computers, peripherals, and parts and to nonpetroleum industrial supplies and materials. In services, travel and “other” transportation services were revised up. “Other” private services was revised down.

Source Data for the Final Estimates

The final estimates of gross domestic product for the first quarter of 2008 incorporated the following source data.

Personal consumption expenditures: Retail sales for March (revised) and quarterly services survey for the first quarter (new), motor vehicle registrations for March (revised), and retail natural gas sales for March (new).

Nonresidential fixed investment: Construction put in place for February and March (revised) and 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), Quarterly Financial Report data for mining, and Energy Information Administration data for utilities.

Exports and imports of goods and services: International transactions accounts data for October 2007–March 2008 (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), 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							
	2008	2007			2008	2007			2008
	I	II	III	IV	I	II	III	IV	I
Current production measures:									
Corporate profits	1,563.8	94.7	–20.5	–52.9	–5.2	6.1	–1.2	–3.3	–0.3
Domestic industries	1,189.8	78.0	–46.9	–108.7	17.6	6.2	–3.5	–8.5	1.5
Financial	428.7	52.7	–32.5	–74.4	14.2	11.2	–6.2	–15.2	3.4
Nonfinancial	761.1	25.3	–14.4	–34.3	3.4	3.2	–1.8	–4.3	0.4
Rest of the world	374.0	16.7	26.4	55.8	–22.8	5.6	8.4	16.4	–5.7
Receipts from the rest of the world	526.2	33.9	27.6	12.3	3.7	7.6	5.7	2.4	0.7
Less: Payments to the rest of the world	152.2	17.2	1.1	–43.4	26.5	11.4	0.7	–25.7	21.1
Less: Taxes on corporate income	421.8	37.6	–20.7	–15.0	–32.6	8.3	–4.2	–3.2	–7.2
Equals: Profits after tax	1,141.9	57.0	0.3	–37.9	27.3	5.2	0.0	–3.3	2.5
Net dividends	846.2	24.8	23.5	21.7	16.8	3.3	3.0	2.7	2.0
Undistributed profits from current production	295.8	32.2	–23.3	–59.5	10.6	9.6	–6.3	–17.3	3.7
Net cash flow	1,227.2	37.4	–21.1	–55.7	15.1	3.0	–1.6	–4.4	1.3

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
CCAdj Capital consumption adjustment

Profits from current production fell $5.2 billion, or 0.3 percent at a quarterly rate, in the first quarter; in the fourth quarter, profits fell $52.9 billion. Profits in the first quarter reflected the effects of the Economic Stimulus Act of 2008 (see the box).

Profits of domestic financial corporations rose $14.2 billion, or 3.4 percent, after decreasing $74.4 billion.

Profits of domestic nonfinancial corporations increased $3.4 billion, or 0.4 percent, after decreasing $34.3 billion.

Profits from the rest of the world decreased $22.8 billion, or 5.7 percent, after increasing $55.8 billion. The decrease was accounted for by a much smaller increase in receipts than in payments.

Taxes on corporate income decreased $32.6 billion, or 7.2 percent, after decreasing $15.0 billion.

Profits after tax increased $27.3 billion, or 2.5 percent, after decreasing $37.9 billion.

Net cash flow, a profits-related measure of internally generated funds available for investment, rose $15.1 billion, or 1.3 percent, after falling $55.7 billion.

The Effects of the Economic Stimulus Act of 2008 on Corporate Profits

As of the first quarter of 2008, NIPA corporate profits reflect bonus depreciation provisions and higher ceilings for small business expenses provided by the Economic Stimulus Act of 2008. The law offers a first-year bonus depreciation of 50 percent for qualifying property purchased and put in place in 2008. It also raises the ceiling for small business expenses under Internal Revenue Code Section 179 from $128,000 to $250,000. Because the deductible amount summed across 2008 and future tax years equals the cost of the property, the accelerated deductions in 2008 will lead to lower deductions in the future.

Profits from current production were not affected by the act, because they do not depend on the depreciation-accounting practices used for federal taxes. This profits measure includes inventory valuation and capital consumption adjustments to put it on an economic-accounting basis, not a tax basis. But industry profits adjusted for inventory valuations and profits before taxes are affected by the inventory and depreciation-accounting practices used for federal corporate taxes.

The act's provisions increased the depreciation that corporations could claim in the first quarter by $139.7 billion, thus reducing profits before taxes by the same amount. As a result, taxes on profits was reduced $37.8 billion, and profits after tax was reduced $102.0 billion.

The capital consumption adjustment (CCAdj) is the difference between the tax-based depreciation and economic-accounting depreciation. Because the tax-based depreciation estimate was raised by $139.7 billion, the CCAdj was raised by the same amount.

Historically, similar adjustments were made for the Job Creation and Worker Assistance Act of 2002 (see the April 2002 Survey of Current Business) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (see the July 2003 Survey).

The effects are net of offsetting bonus depreciation that was claimed in earlier years. See the table "Net Effects of the Tax Acts of 2002, 2003, and 2008 on Selected Measures of Corporate Profits" at <www.bea.gov/national/xls/technote_tax_acts.xls>.

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							
	2008	2007			2008	2007			2008
	I	II	III	IV	I	II	III	IV	I
Industry profits:									
Profits with IVA	1,637.6	101.2	–17.4	–48.9	–172.9	5.7	–0.9	–2.6	–9.5
Domestic industries	1,263.6	84.4	–43.8	–104.6	–150.1	5.7	–2.8	–6.9	–10.6
Financial	435.9	53.4	–32.2	–73.9	–4.4	10.8	–5.9	–14.4	–1.0
Nonfinancial	827.7	31.0	–11.6	–30.7	–145.7	3.2	–1.1	–3.1	–15.0
Utilities	36.1	4.8	5.2	7.3	–17.6	13.3	12.7	15.7	–32.8
Manufacturing	224.3	48.1	–50.2	–16.5	–56.0	16.1	–14.5	–5.6	–20.0
Wholesale trade	57.0	7.1	4.9	–27.6	–25.2	7.3	4.6	–25.2	–30.6
Retail trade	130.6	0.1	5.8	1.1	–10.7	0.1	4.3	0.8	–7.6
Transportation and warehousing	28.8	6.7	9.6	–7.1	–19.5	17.2	21.1	–12.9	–40.4
Information	115.3	–16.6	7.9	9.6	4.9	–15.2	8.5	9.5	4.4
Other nonfinancial	235.7	–19.2	5.2	2.5	–21.5	–7.1	2.1	1.0	–8.4
Rest of the world	374.0	16.7	26.4	55.8	–22.8	5.6	8.4	16.4	–5.7
Addenda:									
Profits before tax (without IVA and CCAdj)	1,735.7	115.7	–51.8	0.2	–144.2	6.4	–2.7	0.0	–7.7
Profits after tax (without IVA and CCAdj)	1,313.8	78.1	–31.2	15.3	–111.7	5.7	–2.2	1.1	–7.8
IVA	–98.1	–14.5	34.4	–49.1	–28.7	....	....	....	....
CCAdj	–73.8	–6.5	–3.0	–4.1	167.7	....	....	....	....

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 CCAdj Capital consumption adjustment

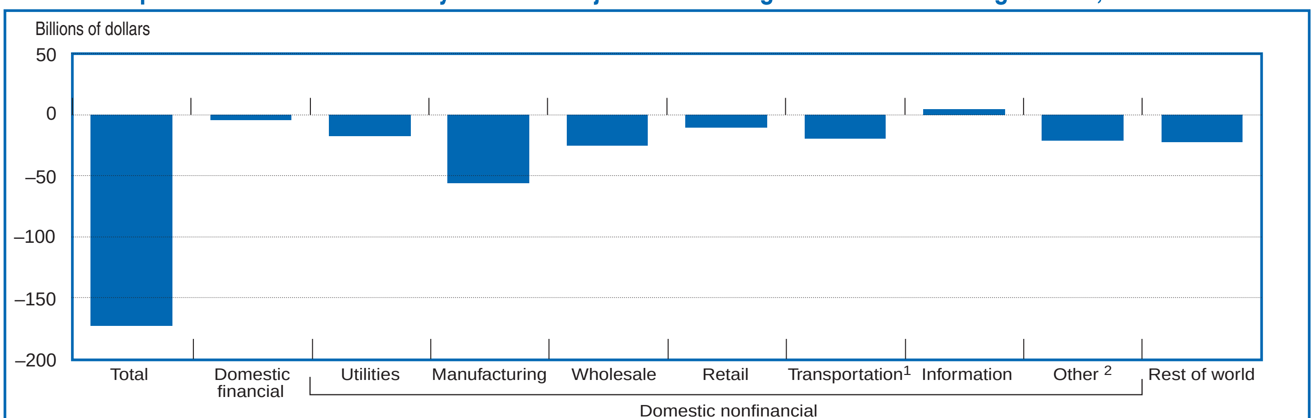
Profits with inventory valuation adjustment decreased $172.9 billion, or 9.5 percent, in the first quarter after decreasing $48.9 billion in the fourth quarter. The difference between the first-quarter decrease in this measure of profits and the $5.2 billion decrease in profits from current production reflects the capital consumption adjustment, which increased $167.7 billion (see the box on page 4).

Profits from domestic industries decreased $150.1 billion, or 10.6 percent, following a $104.6 billion decrease.

Profits of domestic financial industries decreased $4.4 billion, or 1.0 percent, after decreasing $73.9 billion.

Profits of domestic nonfinancial industries decreased $145.7 billion, or 15.0 percent, following a $30.7 billion decrease in the fourth quarter. The larger first-quarter decrease reflected a larger decrease in manufacturing, downturns in utilities and in "other" industries, a larger decrease in transportation and warehousing, and a downturn in retail trade.

Chart 2. Corporate Profits With Inventory Valuation Adjustment: Change From the Preceding Quarter, 2008:I



1. Includes warehousing.
2. "Other" nonfinancial corporations include the agriculture, mining, construction, and services industries.
NOTE. Based on seasonally adjusted estimates.
U.S. Bureau of Economic Analysis

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 (CCAdj) for each industry. However, estimates of the CCAdj 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>.