GDP and the Economy

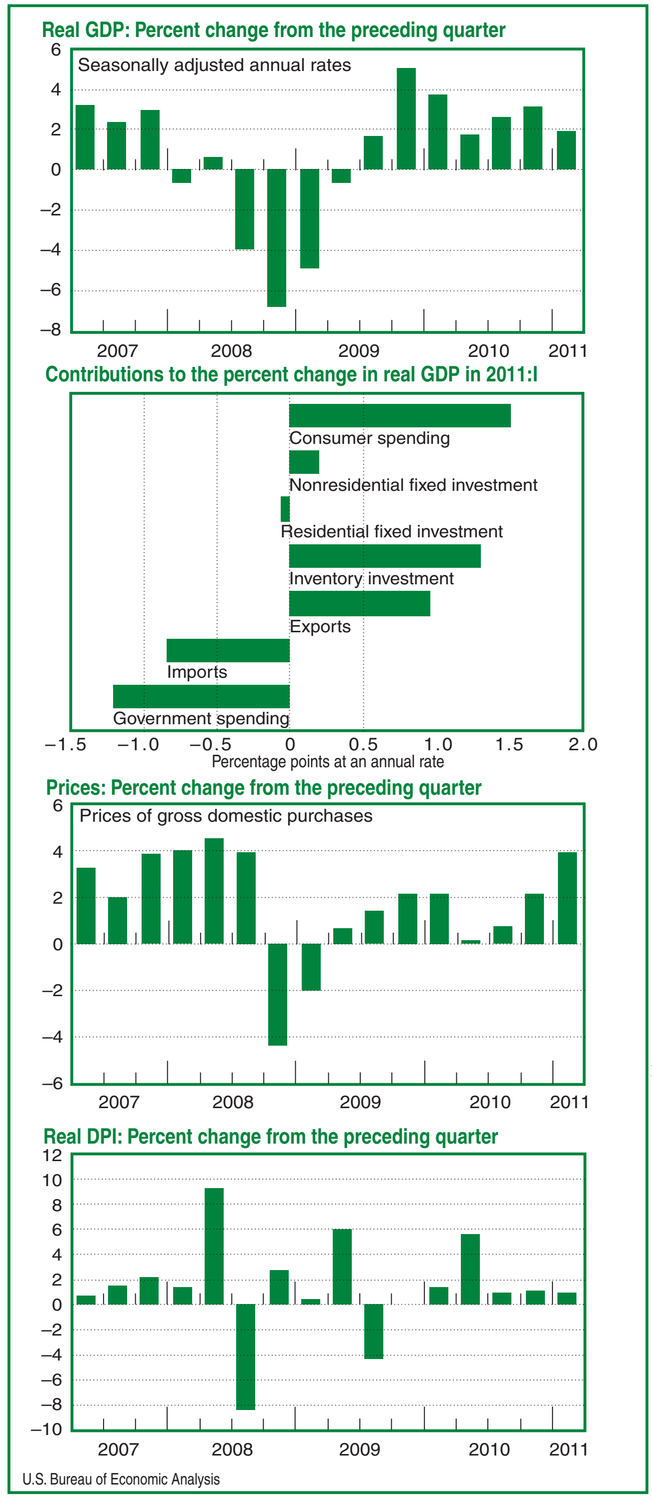
Third Estimates for the First Quarter of 2011

REAL GROSS domestic product (GDP) increased 1.9 percent in the first quarter of 2011, according to the third estimates of the national income and product accounts (NIPAs) (chart 1 and table 1).[1] The increase in real GDP was revised up 0.1 percentage point from the second estimate (see page 3). In the fourth quarter of 2010, real GDP increased 3.1 percent.

The deceleration in real GDP in the first quarter primarily reflected a sharp upturn in imports, a deceleration in consumer spending, a larger decrease in federal government spending, and a deceleration in nonresidential fixed investment that were partly offset by a sharp upturn in inventory investment.[2]

- Prices of goods and services purchased by U.S. residents increased 3.9 percent in the first quarter, 0.1 percentage point more than in the second estimate; in the fourth quarter, prices increased 2.1 percent. Both energy prices and food prices accelerated in the first quarter. Excluding food and energy, gross domestic purchases prices increased 2.3 percent after increasing 1.1 percent. The federal pay raise for military personnel added about 0.1 percentage point to the first-quarter increase in the gross domestic purchases price index.
- Real disposable personal income (DPI) increased 0.9 percent in the first quarter, revised up 0.1 percentage point, after increasing 1.1 percent. Current-dollar DPI increased 4.8 percent, revised up 0.2 percentage point, after increasing 2.8 percent. The slight deceleration in real DPI, in contrast to the acceleration in current-dollar DPI, reflected a sharp increase in the PCE implicit price deflator that is used to deflate current-dollar DPI.
- The personal saving rate, personal saving as a percentage of current-dollar DPI, was 5.1 percent; in the fourth quarter, the rate was 5.4 percent.
- Profits from current production increased \$48.7 billion in the first quarter after increasing \$38.2 billion in the fourth quarter (see page 4).

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



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.

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)			
	2011	2010			2011	2010			2011
	I	II	III	IV	I	II	III	IV	I
Gross domestic product [1]	**100.0**	**1.7**	**2.6**	**3.1**	**1.9**	**1.7**	**2.6**	**3.1**	**1.9**
Personal consumption expenditures	**71.1**	**2.2**	**2.4**	**4.0**	**2.2**	**1.54**	**1.67**	**2.79**	**1.52**
Goods	24.2	3.4	4.1	9.3	3.9	0.79	0.94	2.10	0.91
Durable goods	7.7	6.8	7.6	21.1	9.3	0.49	0.54	1.45	0.68
Nondurable goods	16.4	1.9	2.5	4.1	1.4	0.31	0.39	0.65	0.23
Services	46.9	1.6	1.6	1.5	1.3	0.75	0.74	0.70	0.61
Gross private domestic investment	**12.5**	**26.2**	**15.0**	**–18.7**	**12.4**	**2.88**	**1.80**	**–2.61**	**1.46**
Fixed investment	12.1	18.9	1.5	6.8	1.3	2.06	0.18	0.80	0.16
Nonresidential	9.9	17.2	10.0	7.7	2.0	1.51	0.93	0.73	0.20
Structures	2.5	–0.5	–3.5	7.6	–14.8	–0.01	–0.09	0.19	–0.41
Equipment and software	7.3	24.8	15.4	7.7	8.8	1.52	1.02	0.54	0.61
Residential	2.2	25.7	–27.3	3.3	–2.0	0.55	–0.75	0.07	–0.05
Change in private inventories	0.5	....	....	....	....	0.82	1.61	–3.42	1.31
Net exports of goods and services	**–3.7**	....	....	....	....	**–3.50**	**–1.70**	**3.27**	**0.14**
Exports	13.4	9.1	6.8	8.6	7.6	1.08	0.82	1.06	0.97
Goods	9.5	11.5	5.8	11.1	10.2	0.93	0.49	0.94	0.91
Services	3.9	3.9	8.9	3.0	1.8	0.15	0.33	0.12	0.07
Imports	17.2	33.5	16.8	–12.6	5.1	–4.58	–2.53	2.21	–0.84
Goods	14.4	40.5	17.4	–14.2	5.8	–4.46	–2.16	2.10	–0.78
Services	2.8	4.3	14.2	–4.1	1.8	–0.12	–0.37	0.12	–0.05
Government consumption expenditures and gross investment	**20.2**	**3.9**	**3.9**	**–1.7**	**–5.8**	**0.80**	**0.79**	**–0.34**	**–1.20**
Federal	8.1	9.1	8.8	–0.3	–8.1	0.72	0.71	–0.02	–0.69
National defense	5.4	7.4	8.5	–2.2	–11.8	0.40	0.46	–0.12	–0.69
Nondefense	2.7	12.8	9.5	3.7	0.0	0.32	0.25	0.10	0.00
State and local	12.0	0.6	0.7	–2.6	–4.2	0.08	0.09	–0.31	–0.51
Addenda:									
Final sales of domestic product	99.5	0.9	0.9	6.7	0.6	0.90	0.95	6.53	0.61
Gross domestic purchases	103.7	5.1	4.2	–0.2	1.7	....	....	....	....
Gross domestic purchases price index	....	0.1	0.7	2.1	3.9	....	....	....	....
GDP price index	....	1.9	2.1	0.4	2.0	....	....	....	....

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 of 2011, reflecting slowdowns in durable goods, in nondurable goods, and in services. The largest contributor to the slowdown in consumer spending was a slowdown in motor vehicles and parts.

Nonresidential fixed investment slowed, reflecting a downturn in structures. In contrast, equipment and software picked up slightly.

Residential fixed investment turned down, mainly reflecting downturns in “other” structures and in multifamily structures; single-family structures turned up.

Inventory investment turned up, adding 1.31 percentage points to real GDP growth after subtracting 3.42 percentage points.

Exports slowed, reflecting slowdowns in exports of both goods and services. “Other” private services was the largest contributor to the slowdown in exports of services. Downturns in food, feeds, and beverages and in nonautomotive consumer goods were partly offset by an upturn in “other” exports of goods.

Imports turned up, reflecting upturns in imports of both goods and services. A smaller decrease in imports of petroleum and products was the largest contributor to the upturn in imports.

Federal government spending decreased more than in the fourth quarter and was the largest decrease since the first quarter of 2000. The first-quarter decrease mainly reflected a downturn in defense spending.

State and local government spending decreased more than in the fourth quarter and was the largest decrease since the second quarter of 1981.

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 “Methodologies.” 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 2011

[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]	**1.8**	**1.9**	**0.1**	**1.8**	**1.9**	**0.1**
Personal consumption expenditures	**2.2**	**2.2**	**0.0**	**1.53**	**1.52**	**–0.01**
Goods	3.5	3.9	0.4	0.83	0.91	0.08
Durable goods	8.9	9.3	0.4	0.66	0.68	0.02
Nondurable goods	1.1	1.4	0.3	0.17	0.23	0.06
Services	1.5	1.3	–0.2	0.69	0.61	–0.08
Gross private domestic investment	**12.3**	**12.4**	**0.1**	**1.45**	**1.46**	**0.01**
Fixed investment	2.1	1.3	–0.8	0.26	0.16	–0.10
Nonresidential	3.4	2.0	–1.4	0.33	0.20	–0.13
Structures	–16.8	–14.8	2.0	–0.48	–0.41	0.07
Equipment and software	11.6	8.8	–2.8	0.81	0.61	–0.20
Residential	–3.3	–2.0	1.3	–0.07	–0.05	0.02
Change in private inventories	....	....	....	1.19	1.31	0.12
Net exports of goods and services	....	....	....	**–0.06**	**0.14**	**0.20**
Exports	9.2	7.6	–1.6	1.16	0.97	–0.19
Goods	13.2	10.2	–3.0	1.16	0.91	–0.25
Services	0.0	1.8	1.8	0.00	0.07	0.07
Imports	7.5	5.1	–2.4	–1.22	–0.84	0.38
Goods	9.5	5.8	–3.7	–1.27	–0.78	0.49
Services	–1.8	1.8	3.6	0.05	–0.05	–0.10
Government consumption expenditures and gross investment	**–5.1**	**–5.8**	**–0.7**	**–1.07**	**–1.20**	**–0.13**
Federal	–7.9	–8.1	–0.2	–0.68	–0.69	–0.01
National defense	–11.7	–11.8	–0.1	–0.68	–0.69	–0.01
Nondefense	0.1	0.0	–0.1	0.00	0.00	0.00
State and local	–3.2	–4.2	–1.0	–0.39	–0.51	–0.12
Addenda:						
Final sales of domestic product	0.6	0.6	0.0	0.65	0.61	–0.04
Gross domestic purchases price index	3.8	3.9	0.1	....	....	....
GDP price index	1.9	2.0	0.1	....	....	....

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

Real GDP increased 1.9 percent, 0.1 percentage point more 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 slight upward revision to the percent change in real GDP primarily reflected a downward revision to imports and an upward revision to inventory investment that were largely offset by downward revisions to exports, to nonresidential fixed investment, and to state and local government spending.

The downward revision to nonresidential fixed investment was more than accounted for by a downward revision to equipment and software (mainly software).

The upward revision to inventory investment primarily reflected upward revisions to wholesale trade inventories and to manufacturing inventories.

The downward revision to exports was to exports of goods. Within goods exports, the largest contributors were "other" nonautomotive capital goods; automotive vehicles, engines, and parts; and industrial supplies and materials.

The downward revision to imports was to imports of goods and was widespread; the largest contributor was petroleum and products.

The downward revision to state and local government spending was primarily to gross investment in structures.

Source Data for the Third Estimates

The third estimate of GDP for the first quarter of 2011 incorporated the following source data.

Personal consumption expenditures: quarterly services survey data for the first quarter (new), and Energy Information Administration (EIA) electricity data for February (revised) and natural gas 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 (revised), and EIA coal and petroleum utility stock data for February (new) and natural gas data for March (new).

Exports and imports of goods and services: international transactions accounts data for October 2010 through March 2011(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 March (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							
	2011	2010			2011	2010			2011
	I	II	III	IV	I	II	III	IV	I
Current production measures:									
Corporate profits	1,727.0	47.5	26.0	38.2	48.7	3.0	1.6	2.3	2.9
Domestic industries	1,299.7	44.6	35.0	47.6	–5.6	3.8	2.9	3.8	–0.4
Financial	360.2	–3.4	34.6	57.7	–66.3	–1.0	10.4	15.6	–15.5
Nonfinancial	939.5	48.2	0.3	–10.1	60.7	5.7	0.0	–1.1	6.9
Rest of the world	427.4	2.8	–8.9	–9.4	54.4	0.7	–2.3	–2.5	14.6
Receipts from the rest of the world	609.3	–3.9	8.8	22.7	20.3	–0.7	1.6	4.0	3.5
Less: Payments to the rest of the world	182.0	–6.8	17.8	32.1	–34.0	–3.9	10.7	17.4	–15.7
Less: Taxes on corporate income	461.3	2.4	23.8	–1.3	33.2	0.6	5.9	–0.3	7.8
Equals: Profits after tax	1,265.7	45.2	2.2	39.5	15.5	3.9	0.2	3.3	1.2
Net dividends	760.2	8.1	8.1	8.9	14.8	1.1	1.1	1.2	2.0
Undistributed profits from current production	505.5	37.1	–5.9	30.6	0.7	8.4	–1.2	6.5	0.1
Net cash flow	1,563.6	61.1	–68.4	36.9	16.7	4.0	–4.3	2.4	1.1

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 $48.7 billion, or 2.9 percent at a quarterly rate, in the first quarter after increasing $38.2 billion, or 2.3 percent, in the fourth quarter.

Domestic profits of financial corporations decreased $66.3 billion, or 15.5 percent, after increasing $57.7 billion, or 15.6 percent.

Domestic profits of nonfinancial corporations increased $60.7 billion, or 6.9 percent, after decreasing $10.1 billion, or 1.1 percent.

Profits from the rest of the world increased $54.4 billion, or 14.6 percent, after decreasing $9.4 billion, or 2.5 percent. The first-quarter increase reflected an increase in receipts and a decrease in payments.

Taxes on corporate income rose $33.2 billion, or 7.8 percent, after falling $1.3 billion, or 0.3 percent.

Net dividends increased $14.8 billion, or 2.0 percent, after increasing $8.9 billion, or 1.2 percent.

Undistributed corporate profits (a measure of net saving that equals after-tax profits less dividends) increased $0.7 billion, or 0.1 percent, after increasing $30.6 billion, or 6.5 percent.

Net cash flow increased $16.7 billion, or 1.1 percent, after increasing $36.9 billion, or 2.4 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 Census 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).

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							
	2011	2010			2011	2010			2011
	I	II	III	IV	I	II	III	IV	I
Industry profits:									
Profits with IVA	1,833.3	48.2	24.6	–115.2	139.2	2.8	1.4	–6.4	8.2
Domestic industries	1,406.0	45.4	33.6	–105.9	84.9	3.4	2.4	–7.4	6.4
Financial	378.4	–3.3	34.3	42.1	–57.4	–0.9	9.5	10.7	–13.2
Nonfinancial	1,027.5	48.7	–0.7	–147.9	142.1	4.9	–0.1	–14.3	16.1
Utilities	31.9	–8.7	2.4	–12.7	9.4	–21.1	7.4	–36.0	41.5
Manufacturing	280.6	26.7	–7.9	–27.7	39.1	10.6	–2.8	–10.3	16.2
Wholesale trade	73.5	16.2	–17.5	–45.5	28.8	17.7	–16.3	–50.4	64.2
Retail trade	124.0	–2.4	–3.5	–2.0	2.8	–1.9	–2.8	–1.6	2.3
Transportation and warehousing	37.3	13.0	1.9	–16.1	–0.9	32.9	3.6	–29.7	–2.2
Information	123.3	–8.0	9.7	–9.9	18.6	–7.1	9.3	–8.7	17.8
Other nonfinancial	357.0	12.1	14.1	–34.0	44.4	3.8	4.2	–9.8	14.2
Rest of the world	427.4	2.8	–8.9	–9.4	54.4	0.7	–2.3	–2.5	14.6
Addenda:									
Profits before tax (without IVA and CCAdj)	1,937.7	15.3	57.5	–48.3	140.3	0.9	3.2	–2.6	7.8
Profits after tax (without IVA and CCAdj)	1,476.4	12.9	33.7	–47.0	107.1	0.9	2.4	–3.3	7.8
IVA	–104.4	32.9	–32.9	–66.8	–1.2	....	....	....	....
CCAdj	–106.3	–0.8	1.4	153.5	–90.5	....	....	....	....

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 increased $139.2 billion, or 8.2 percent, after decreasing $115.2 billion, or 6.4 percent. The first-quarter difference between the increase in profits with inventory valuation and the increase in profits from current production reflects the capital consumption adjustment (CCAdj), which decreased $90.5 billion (see below).

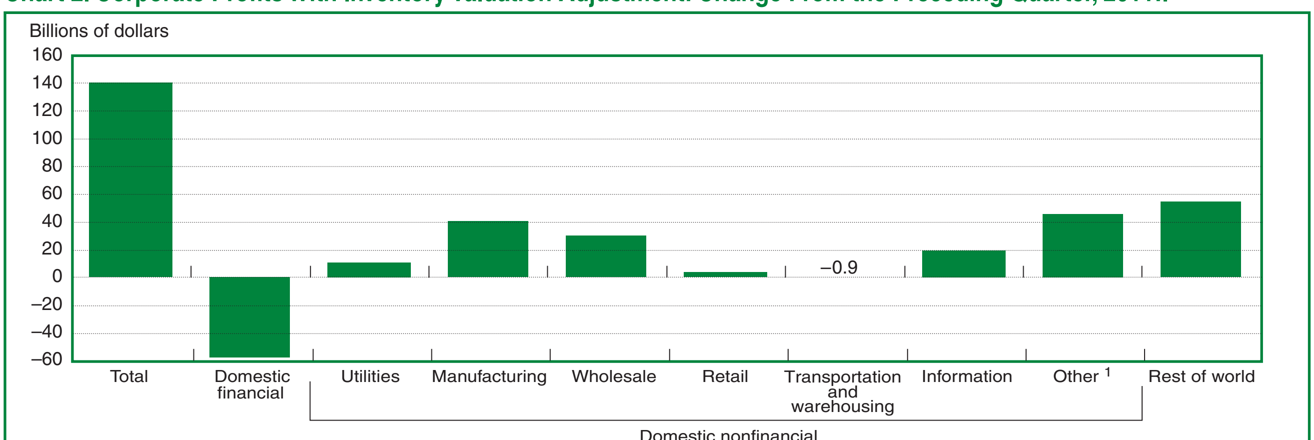
Profits of domestic industries increased $84.9 billion, or 6.4 percent, after decreasing $105.9 billion, or 7.4 percent.

Profits of domestic financial industries decreased $57.4 billion, or 13.2 percent, after increasing $42.1 billion, or 10.7 percent.

Profits of domestic nonfinancial industries increased $142.1 billion, or 16.1 percent, after decreasing $147.9 billion, or 14.3 percent. The large upturn reflected widespread upturns in nonfinancial industries; transportation and warehousing profits decreased less than in the fourth quarter.

The CCAdj decreased $90.5 billion in the first quarter. The large decrease reflects the expiration of “bonus depreciation” claimed under the Small Business Jobs and Credit Act of 2010 (see FAQ 955 on BEA’s Web site).

Chart 2. Corporate Profits With Inventory Valuation Adjustment: Change From the Preceding Quarter, 2011:I



1. “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 price changes 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/methodologies/index.htm.