GDP and the Economy

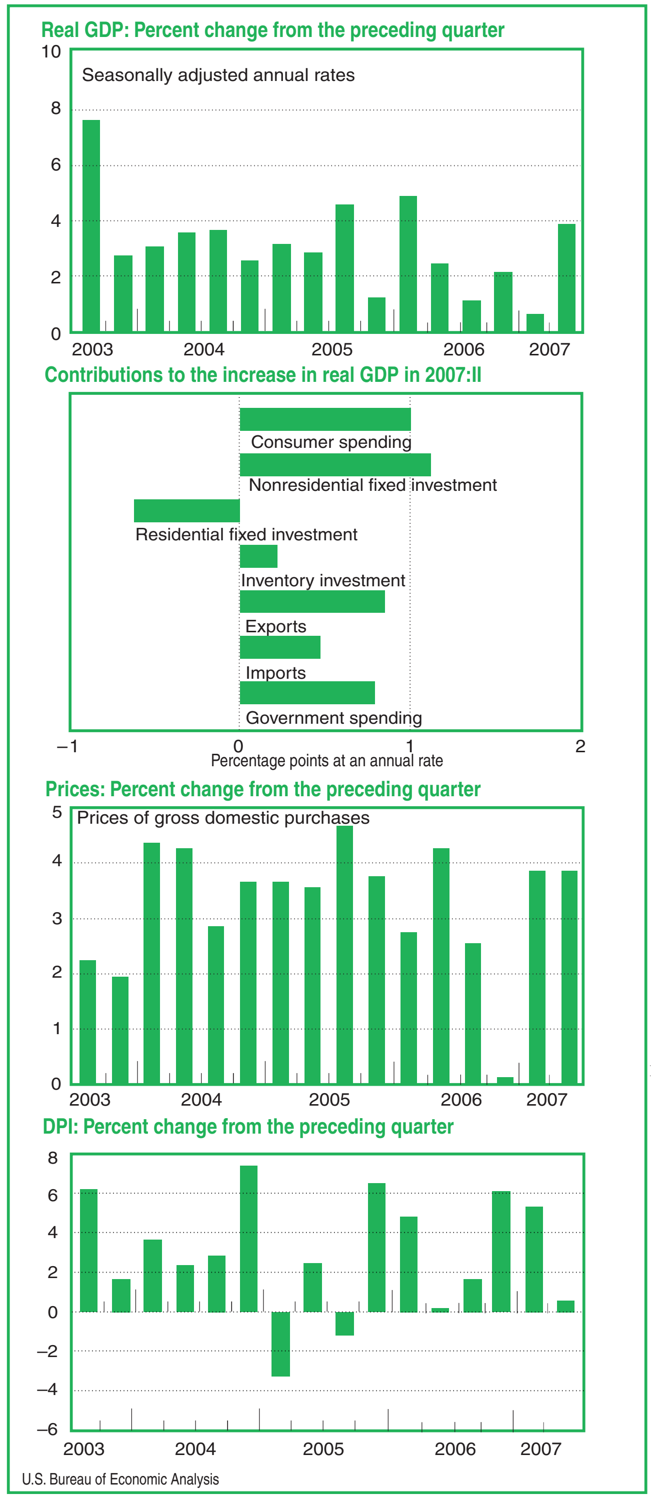
Final Estimates for the Second Quarter of 2007

ECONOMIC growth accelerated in the second quarter, according to the "final" estimates of the national income and produce accounts (NIPAs). Real gross domestic product (GDP) increased 3.8 percent after increasing 0.6 percent in the first quarter.[1] The second-quarter growth rate was revised down 0.2 percentage point from the "preliminary" estimate (see page 3).[2]

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

- Prices of goods and services purchased by U.S. residents increased 3.8 percent, the same rate as in the first quarter. Energy prices accelerated sharply, and food prices decelerated slightly. Excluding food and energy, prices increased 1.5 percent after increasing 3.1 percent.
- Real disposable personal income (DPI) increased 0.6 percent after increasing 5.4 percent. The slower real growth reflected a deceleration in current-dollar DPI and accelerating prices (as measured by the PCE implicit price deflator used to deflate DPI).
- The personal saving rate, personal saving as a percentage of current-dollar DPI, was 0.6 percent in the second quarter; in the first quarter, it was 1.0 percent.
- Corporate profits increased $94.7 billion in the second quarter, following an increase of $16.5 billion (see pages 4 and 5).

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.gove/bea/about/infoqual.htm> and <www.bea.gove/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.

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
Gross domestic product [1]	**100.0**	**1.1**	**2.1**	**0.6**	**3.8**	**1.1**	**2.1**	**0.6**	**3.8**
Personal consumption expenditures	**70.3**	**2.8**	**3.9**	**3.7**	**1.4**	**1.88**	**2.68**	**2.56**	**1.00**
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	–0.5	0.64	0.86	0.61	–0.10
Services	42.0	2.0	3.7	3.1	2.3	0.81	1.52	1.28	0.96
Gross private domestic investment	**15.5**	**–4.1**	**–14.1**	**–8.2**	**4.6**	**–0.70**	**–2.50**	**–1.36**	**0.71**
Fixed investment	15.5	–4.7	–7.1	–4.4	3.2	–0.80	–1.19	–0.70	0.49
Nonresidential	10.7	5.1	–1.4	2.1	11.0	0.53	–0.15	0.22	1.12
Structures	3.4	10.8	7.4	6.4	26.2	0.31	0.23	0.20	0.78
Equipment and software	7.3	2.9	–4.9	0.3	4.7	0.21	–0.38	0.02	0.34
Residential	4.8	–20.4	–17.2	–16.3	–11.8	–1.33	–1.04	–0.93	–0.62
Change in private inventories	0.0	....	....	....	....	0.10	–1.31	–0.65	0.22
Net exports of goods and services	**–5.2**	....	....	....	....	**–0.25**	**1.25**	**–0.51**	**1.32**
Exports	11.6	5.7	14.3	1.1	7.5	0.62	1.51	0.13	0.85
Goods	8.1	7.4	9.6	0.9	6.6	0.56	0.73	0.07	0.53
Services	3.5	2.0	26.0	1.6	9.6	0.07	0.78	0.05	0.33
Imports	16.8	5.4	1.6	3.9	–2.7	–0.88	–0.26	–0.63	0.47
Goods	14.1	6.2	–0.6	4.2	–2.9	–0.84	0.09	–0.57	0.42
Services	2.7	1.3	14.2	2.3	–1.7	–0.03	–0.35	–0.06	0.05
Government consumption expenditures and gross investment	**19.4**	**0.8**	**3.5**	**–0.5**	**4.1**	**0.14**	**0.66**	**–0.09**	**0.79**
Federal	7.0	0.9	7.3	–6.3	6.0	0.06	0.50	–0.46	0.41
National defense	4.8	–1.5	16.9	–10.8	8.5	–0.07	0.74	–0.54	0.39
Nondefense	2.3	6.0	–10.0	3.8	0.9	0.14	–0.24	0.08	0.02
State and local	12.4	0.7	1.3	3.0	3.0	0.08	0.16	0.36	0.37
Addenda:									
Final sales of domestic product	....	1.0	3.5	1.3	3.6	0.96	3.40	1.25	3.60
Gross domestic purchases price index	....	2.5	0.1	3.8	3.8	....	....	....	....
GDP price index	....	2.4	1.7	4.2	2.6	....	....	....	....

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 in the second quarter, increasing 1.4 percent after increasing 3.7 percent, but it still added 1.00 percentage point to real GDP growth. Spending for nondurable goods turned down, and spending for both durable goods and services decelerated.

Nonresidential fixed investment accelerated and added 1.12 percentage points to real GDP growth. Investment in structures and in equipment and software accelerated. The second-quarter increase in investment in structures was the largest percentage-point increase since the fourth quarter of 1981.

Residential investment continued to decline; however, the second-quarter decrease was less than the first-quarter decrease. It subtracted 0.62 percentage point from real GDP growth.

Inventory investment turned up and added 0.22 percentage point to real GDP growth.

Exports accelerated, reflecting pickups in exports of goods and services, and contributed 0.85 percentage point to real GDP growth.

Imports turned down, decreasing 2.7 percent after increasing 3.9 percent. Both imports of goods and services turned down.

Federal Government spending turned up, increasing 6.0 percent after decreasing 6.3 percent.

Real final sales of domestic product (real GDP less inventory investment) increased 3.6 percent, following a 1.3-percent increase.

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 Second Quarter of 2007

[Seasonally adjusted at annual rates]

	Change from preceding quarter (percent)			Contribution to percent change in real GDP (percentage points)		
	Prelim-inary	Final	Final minus prelim-inary	Prelim-inary	Final	Final minus prelim-inary
Gross domestic product (GDP) [1]	**4.0**	**3.8**	**–0.2**	**4.0**	**3.8**	**–0.2**
Personal consumption expenditures	**1.4**	**1.4**	**0.0**	**1.03**	**1.00**	**–0.03**
Durable goods	1.7	1.7	0.0	0.14	0.14	0.00
Nondurable goods	–0.3	–0.5	–0.2	–0.07	–0.10	–0.03
Services	2.3	2.3	0.0	0.96	0.96	0.00
Gross private domestic investment	**4.7**	**4.6**	**–0.1**	**0.72**	**0.71**	**–0.01**
Fixed investment	3.3	3.2	–0.1	0.51	0.49	–0.02
Nonresidential	11.1	11.0	–0.1	1.12	1.12	0.00
Structures	27.7	26.2	–1.5	0.82	0.78	–0.04
Equipment and software	4.3	4.7	0.4	0.31	0.34	0.03
Residential	–11.6	–11.8	–0.2	–0.61	–0.62	–0.01
Change in private inventories	....	....	....	0.21	0.22	0.01
Net exports of goods and services	....	....	....	**1.42**	**1.32**	**–0.10**
Exports	7.6	7.5	–0.1	0.86	0.85	–0.01
Goods	7.3	6.6	–0.7	0.58	0.53	–0.05
Services	8.3	9.6	1.3	0.28	0.33	0.05
Imports	–3.2	–2.7	0.5	0.56	0.47	–0.09
Goods	–3.1	–2.9	0.2	0.46	0.42	–0.04
Services	–3.8	–1.7	2.1	0.11	0.05	–0.06
Government consumption expenditures and gross investment	**4.1**	**4.1**	**0.0**	**0.79**	**0.79**	**0.00**
Federal	5.9	6.0	0.1	0.41	0.41	0.00
National defense	8.6	8.5	–0.1	0.40	0.39	–0.01
Nondefense	0.5	0.9	0.4	0.01	0.02	0.01
State and local	3.0	3.0	0.0	0.38	0.37	–0.01
Addenda:						
Final sales of domestic product	3.7	3.6	–0.1	3.75	3.60	–0.15
Gross domestic purchases price index	3.8	3.8	0.0	....	....	....
GDP price index	2.7	2.6	–0.1	....	....	....

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

The final estimate of real GDP growth for the second quarter is 3.8 percent, 0.2 percentage point less than the preliminary estimate. The downward revision primarily reflected an upward revision to imports, which are subtracted in the calculation of GDP, and a downward revision to nonresidential structures that was muted by an upward revision to equipment and software. From 1978 to 2005, the average revision, without regard to sign, has been 0.3 percentage point from the "preliminary" estimates to the "final" estimates.

The downward revision to nonresidential structures reflected a downward revision to commercial and health care structures.

The largest contributors to the upward revision to equipment and software investment were aircraft in transportation equipment and software in information processing equipment and software.

The upward revision to imports was accounted for by upward revisions to services and goods. For services, the largest contributor to the revision was travel; for goods, the largest contributor was nonautomotive consumer goods.

Source Data for the Final Estimates

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

Personal consumption expenditures: Retail sales for May and June (revised). Quarterly services survey for the second quarter (new).

Nonresidential fixed investment: Construction put in place for May and June (revised). Quarterly services survey for the second quarter (new).

Residential fixed investment: Construction put in place for May and June (revised).

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

Exports and imports of goods and services: International transactions accounts data for the first and second quarters (revised).

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

GDP prices: Export and import prices for the second quarter (revised). Unit value index for petroleum imports for June (revised). Prices of single-family houses under construction for the second 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		2007	
	II	III	IV	I	II	III	IV	I	II
Current production measures:									
Corporate profits	1,642.4	17.0	–61.3	16.5	94.7	1.1	–3.9	1.1	6.1
Domestic industries	1,327.8	26.7	–89.3	–3.7	78.0	2.0	–6.7	–0.3	6.2
Financial	521.4	–22.3	19.3	–26.9	52.7	–4.5	4.0	–5.4	11.2
Nonfinancial	806.4	48.9	–108.5	23.2	25.3	6.0	–12.5	3.1	3.2
Rest of the world	314.6	–9.6	28.0	20.1	16.7	–3.7	11.2	7.2	5.6
Receipts from the rest of the world	482.6	5.3	12.8	10.0	33.9	1.3	3.0	2.3	7.6
Less: Payments to the rest of the world	168.0	14.9	–15.2	–10.1	17.2	9.3	–8.7	–6.3	11.4
Less: Taxes on corporate income	490.1	10.4	–18.0	0.1	37.6	2.3	–3.8	0.0	8.3
Equals: Profits after tax	1,152.2	6.5	–43.3	16.4	57.0	0.6	–3.9	1.5	5.2
Net dividends	784.2	25.5	25.3	23.0	24.8	3.7	3.6	3.1	3.3
Undistributed profits from current production	368.0	–18.9	–68.7	–6.6	32.2	–4.4	–16.7	–1.9	9.6
Net cash flow	1,288.9	–5.9	–57.0	0.2	37.4	–0.4	–4.4	0.0	3.0

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

Profits from current production increased $94.7 billion, or 6.1 percent, after increasing $16.5 billion, or 1.1 percent, in the first quarter.

Profits from the rest of the world (net corporate profits earned abroad) slowed somewhat, increasing $16.7 billion, or 5.6 percent, after increasing $20.1 billion. Receipts from the rest of the world accelerated, increasing $33.9 billion after increasing $10.0 billion. However, payments to the rest of the world turned up, increasing $17.2 billion after decreasing $10.1 billion.

Taxes on corporate income increased $37.6 billion, following a small increase of $0.1 billion.

Profits after tax accelerated, increasing $57.0 billion, or 5.2 percent, after increasing $16.4 billion.

Undistributed corporate profits (a measure of net savings that equals after-tax profits less dividends) increased $32.2 billion after decreasing $6.6 billion.

Net cash flow, a profits-related measure of internally generated funds available for investment, increased $37.4 billion after increasing $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 (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		2007	
	II	III	IV	I	II	III	IV	I	II
Industry profits:									
Profits with IVA	1,876.8	31.6	–48.0	7.4	101.2	1.8	–2.6	0.4	5.7
Domestic industries	1,562.1	41.2	–76.0	–12.7	84.4	2.7	–4.9	–0.9	5.7
Financial	546.4	–20.7	20.7	–28.0	53.4	–4.0	4.1	–5.4	10.8
Nonfinancial	1,015.7	61.9	–96.6	15.2	31.0	6.2	–9.1	1.6	3.2
Utilities	41.2	2.5	0.0	–1.4	4.8	7.0	0.0	–3.8	13.3
Manufacturing	347.0	21.5	–39.3	18.7	48.1	7.2	–12.3	6.7	16.1
Wholesale trade	104.9	32.7	–27.0	6.7	7.1	38.3	–22.9	7.4	7.3
Retail trade	134.4	7.3	5.2	2.2	0.1	6.1	4.1	1.6	0.1
Transportation and warehousing	45.8	1.8	–7.7	–0.9	6.7	4.0	–16.1	–2.4	17.2
Information	92.9	–1.7	10.0	18.0	–16.6	–2.0	12.3	19.6	–15.2
Other nonfinancial	249.5	–2.2	–37.8	–28.0	–19.2	–0.7	–11.3	–9.4	–7.1
Rest of the world	314.6	–9.6	28.0	20.1	16.7	–3.7	11.2	7.2	5.6
Addenda:									
Profits before tax (without IVA and CCAdj)	1,931.5	9.1	–62.2	26.6	115.7	0.5	–3.4	1.5	6.4
Profits after tax (without IVA and CCAdj)	1,441.4	–1.4	–44.2	26.5	78.1	–0.1	–3.2	2.0	5.7
IVA	–54.7	22.5	14.2	–19.2	–14.5	....	....	....	....
CCAdj	–234.4	–14.6	–13.3	9.1	–6.5	....	....	....	....

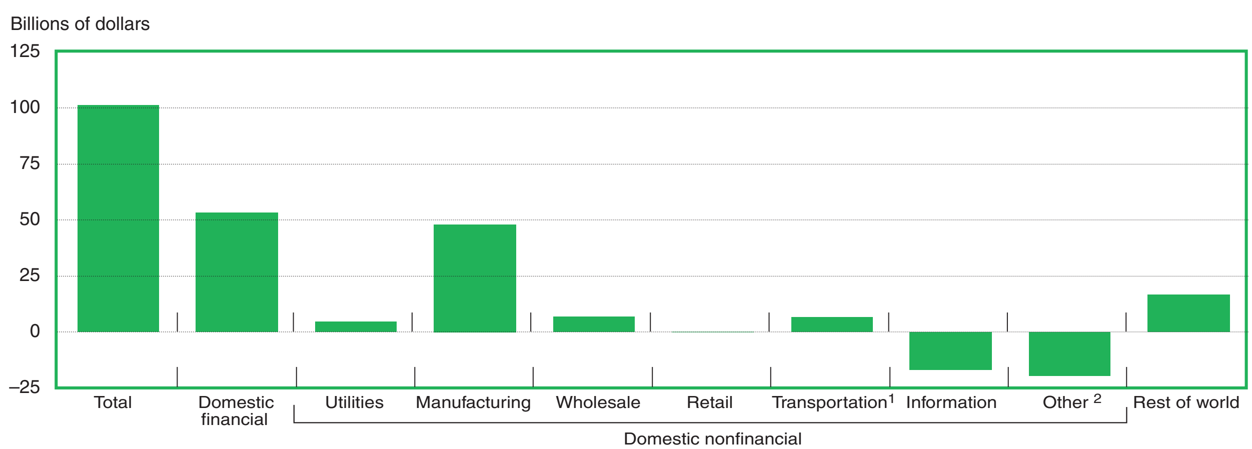
NOTE. Levels of these and other profits series are shown in NIPA tables 1.12, 1.14, 1.15, and 6.16D.
IVA Inventory valuation adjustment CCAdj Capital consumption adjustment

Industry profits with inventory valuation adjustment increased $101.2 billion, or 5.7 percent. The second-quarter increase was larger than the increase in profits from current production because industry profits exclude the capital consumption adjustment, which decreased $6.5 billion in the second quarter.

Profits of domestic financial industries turned up, increasing $53.4 billion, or 10.8 percent, after decreasing $28.0 billion.

Profits of domestic nonfinancial industries accelerated, increasing $31.0 billion, or 3.2 percent, after increasing $15.2 billion. Profits of manufacturing industries accelerated, and profits of transportation and warehousing industries and of utilities turned up. Profits of "other nonfinancial" industries decreased for the fifth consecutive quarter but by less than in the first quarter. Profits of information industries turned down.

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



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>.