

GDP and the Economy

Final Estimates for the Second Quarter of 2008

REAL GROSS domestic product (GDP) increased 2.8 percent in the second quarter after increasing 0.9 percent in the first quarter, according to the “final” estimates of the national income and product accounts (NIPAs) (chart 1 and table 1).¹ The final GDP growth rate was revised down 0.5 percentage point from the “preliminary” estimate (page 3).²

The acceleration in real GDP growth primarily reflected a larger decrease in imports, an acceleration in exports, a smaller decrease in residential fixed investment, an acceleration in nonresidential structures, an upturn in state and local government spending, and an acceleration in consumer spending. In contrast, inventory investment and investment in equipment and software decreased more than in the first quarter.³

- Prices of goods and services purchased by U.S. residents increased 4.2 percent after increasing 3.5 percent. Both energy prices and food prices accelerated. Excluding food and energy, gross domestic purchases prices increased 2.2 percent, the same increase as in the first quarter.
- Real disposable personal income (DPI) increased 11.9 percent; in the first quarter, DPI decreased 0.7 percent. Current-dollar DPI accelerated, reflecting a sharp acceleration in personal income and a sharp downturn in personal current taxes; both primarily reflected the rebates provided by the Economic Stimulus Act of 2008.⁴
- The personal saving rate, personal saving as a percentage of current-dollar DPI, was 2.7 percent; in the first quarter, it was 0.2 percent.
- Profits from current production fell \$60.2 billion, or 3.8 percent at a quarterly rate, in the second quarter.

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

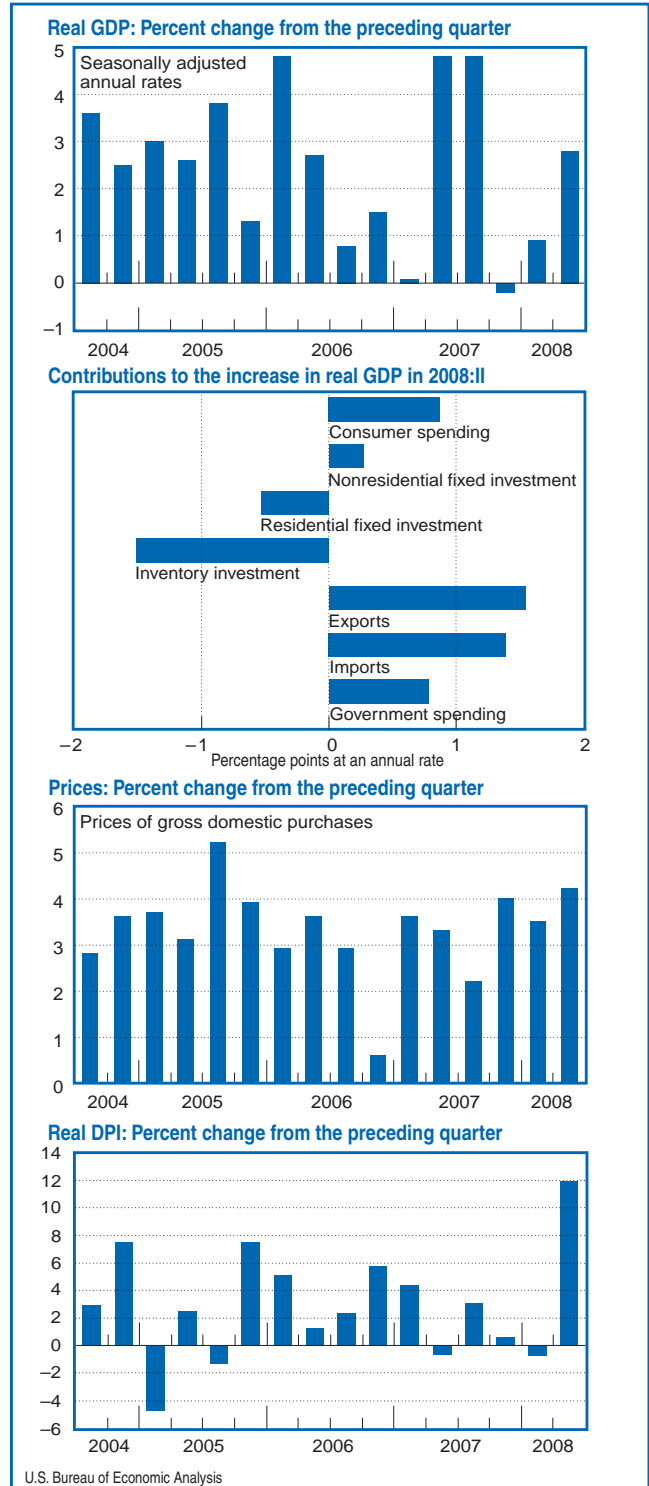
2. Each GDP estimate for a quarter (advance, preliminary, and final) incorporates increasingly comprehensive and improved source data. More information can be found at <www.bea.gov/bea/about/infoqual.htm> and <www.bea.gov/bea/faq/national/gdp_accuracy.htm>. Quarterly estimates are expressed at seasonally adjusted annual rates, which assumes 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,” “inventory investment” refers to “change in private inventories,” and “government spending” refers to “government consumption expenditures and gross investment.”

4. See “How Will the Rebates for Individuals in the 2008 Economic Stimulus Act Be Recorded in the NIPAs?” at <www.bea.gov> by clicking on “FAQ.”

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) | | | |
|---|---------------------------------------|------------|--|-------------|--------------|-------------|--|--------------|--------------|--|
| | 2008 | | 2007 | | 2008 | | 2007 | | 2008 | |
| | II | III | IV | I | II | III | IV | I | II | |
| Gross domestic product ¹ | 100.0 | 4.8 | -0.2 | 0.9 | 2.8 | 4.8 | -0.2 | 0.9 | 2.8 | |
| Personal consumption expenditures | 70.9 | 2.0 | 1.0 | 0.9 | 1.2 | 1.44 | 0.67 | 0.61 | 0.87 | |
| Durable goods | 7.4 | 2.3 | 0.4 | -4.3 | -2.8 | 0.19 | 0.03 | -0.33 | -0.21 | |
| Nondurable goods | 21.2 | 1.2 | 0.3 | -0.4 | 3.9 | 0.25 | 0.05 | -0.08 | 0.80 | |
| Services | 42.3 | 2.4 | 1.4 | 2.4 | 0.7 | 1.00 | 0.59 | 1.02 | 0.28 | |
| Gross private domestic investment | 14.0 | 3.5 | -11.9 | -5.8 | -11.5 | 0.54 | -1.93 | -0.89 | -1.74 | |
| Fixed investment | 14.5 | -0.9 | -6.2 | -5.6 | -1.7 | -0.15 | -0.97 | -0.86 | -0.25 | |
| Nonresidential | 11.0 | 8.7 | 3.4 | 2.4 | 2.5 | 0.91 | 0.36 | 0.26 | 0.27 | |
| Structures | 3.8 | 20.5 | 8.5 | 8.6 | 18.5 | 0.65 | 0.29 | 0.30 | 0.64 | |
| Equipment and software | 7.2 | 3.6 | 1.0 | -0.6 | -5.0 | 0.26 | 0.07 | -0.04 | -0.37 | |
| Residential | 3.5 | -20.6 | -27.0 | -25.1 | -13.3 | -1.06 | -1.33 | -1.12 | -0.52 | |
| Change in private inventories | -0.5 | ..... | ..... | ..... | ..... | 0.69 | -0.96 | -0.02 | -1.50 | |
| Net exports of goods and services | -5.0 | ..... | ..... | ..... | ..... | 2.03 | 0.94 | 0.77 | 2.93 | |
| Exports | 13.5 | 23.0 | 4.4 | 5.1 | 12.3 | 2.54 | 0.53 | 0.63 | 1.54 | |
| Goods | 9.4 | 21.8 | 5.1 | 4.5 | 16.3 | 1.66 | 0.43 | 0.39 | 1.39 | |
| Services | 4.1 | 25.9 | 2.7 | 6.4 | 3.8 | 0.88 | 0.10 | 0.24 | 0.15 | |
| Imports | 18.5 | 3.0 | -2.3 | -0.8 | -7.3 | -0.51 | 0.40 | 0.14 | 1.39 | |
| Goods | 15.6 | 2.4 | -2.6 | -2.0 | -7.1 | -0.34 | 0.38 | 0.29 | 1.14 | |
| Services | 2.9 | 6.3 | -0.9 | 5.5 | -8.0 | -0.17 | 0.02 | -0.15 | 0.25 | |
| Government consumption expenditures and gross investment | 20.1 | 3.8 | 0.8 | 1.9 | 3.9 | 0.75 | 0.16 | 0.38 | 0.78 | |
| Federal | 7.4 | 7.2 | -0.5 | 5.8 | 6.6 | 0.51 | -0.04 | 0.41 | 0.47 | |
| National defense | 5.1 | 10.2 | -0.9 | 7.3 | 7.3 | 0.48 | -0.04 | 0.34 | 0.36 | |
| Nondefense | 2.3 | 1.2 | 0.4 | 2.9 | 5.0 | 0.03 | 0.01 | 0.06 | 0.11 | |
| State and local | 12.7 | 1.9 | 1.6 | -0.3 | 2.5 | 0.24 | 0.19 | -0.03 | 0.31 | |
| Addenda: | | | | | | | | | | |
| Final sales of domestic product ..... | ..... | 4.0 | 0.8 | 0.9 | 4.4 | 4.07 | 0.79 | 0.89 | 4.32 | |
| Gross domestic purchases price index ..... | ..... | 2.2 | 4 | 3.5 | 4.2 | ..... | ..... | ..... | ..... |  |
| GDP price index ..... | ..... | 1.5 | 2.8 | 2.6 | 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 picked up slightly in the second quarter and contributed 0.87 percentage point to real GDP growth; the pickup was primarily due to an upturn in spending for nondurable goods. Spending for durable goods decreased less than in the first quarter. Spending for services decelerated.

Nonresidential fixed investment grew at about the same rate as in the first quarter. An acceleration in structures was mostly offset by a larger decrease in equipment and software.

Residential fixed investment decreased less than in the first quarter; it subtracted 0.52 percentage point from real GDP growth after subtracting 1.12 percentage points.

Inventory investment decreased much more in the second quarter than in the first quarter; it subtracted 1.50 percentage points from real GDP growth after subtracting 0.02 percentage point.

Exports accelerated in the second quarter, reflecting a sharp acceleration in exports of goods. The acceleration in exports added 1.54 percentage points to real GDP growth after adding 0.63 percentage point. Exports of services slowed.

Imports decreased much more than in the first quarter. Import of goods decreased, recording the largest decrease since the third quarter of 2001. Imports of services turned down.

Government spending accelerated in the second quarter, primarily reflecting an upturn in state and local government spending.

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/bea/an/nipaguid.pdf>. For a related discussion about GDP prices and gross domestic purchases prices, see the FAQ 499.

Revisions to GDP

Table 2. Preliminary and Final Estimates for the Second 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 | 3.3 | 2.8 | -0.5 | 3.3 | 2.8 | -0.5 |
| Personal consumption expenditures | 1.7 | 1.2 | -0.5 | 1.24 | 0.87 | -0.37 |
| Durable goods | -2.5 | -2.8 | -0.3 | -0.19 | -0.21 | -0.02 |
| Nondurable goods | 4.2 | 3.9 | -0.3 | 0.87 | 0.80 | -0.07 |
| Services | 1.3 | 0.7 | -0.6 | 0.56 | 0.28 | -0.28 |
| Gross private domestic investment | -12.0 | -11.5 | 0.5 | -1.82 | -1.74 | 0.08 |
| Fixed investment | -2.5 | -1.7 | 0.8 | -0.38 | -0.25 | 0.13 |
| Nonresidential | 2.2 | 2.5 | 0.3 | 0.25 | 0.27 | 0.02 |
| Structures | 13.7 | 18.5 | 4.8 | 0.48 | 0.64 | 0.16 |
| Equipment and software | -3.2 | -5.0 | -1.8 | -0.24 | -0.37 | -0.13 |
| Residential | -15.7 | -13.3 | 2.4 | -0.62 | -0.52 | 0.10 |
| Change in private inventories | | | | -1.44 | -1.50 | -0.06 |
| Net exports of goods and services | | | | 3.10 | 2.93 | -0.17 |
| Exports | 13.2 | 12.3 | -0.9 | 1.65 | 1.54 | -0.11 |
| Goods | 16.6 | 16.3 | -0.3 | 1.42 | 1.39 | -0.03 |
| Services | 5.9 | 3.8 | -2.1 | 0.23 | 0.15 | -0.08 |
| Imports | -7.6 | -7.3 | 0.3 | 1.45 | 1.39 | -0.06 |
| Goods | -7.6 | -7.1 | 0.5 | 1.21 | 1.14 | -0.07 |
| Services | -7.6 | -8.0 | -0.4 | 0.23 | 0.25 | 0.02 |
| Government consumption expenditures and gross investment | 3.9 | 3.9 | 0.0 | 0.76 | 0.78 | 0.02 |
| Federal | 6.8 | 6.6 | -0.2 | 0.49 | 0.47 | -0.02 |
| National defense | 7.4 | 7.3 | -0.1 | 0.36 | 0.36 | 0.00 |
| Nondefense | 5.5 | 5.0 | -0.5 | 0.12 | 0.11 | -0.01 |
| State and local | 2.2 | 2.5 | 0.3 | 0.27 | 0.31 | 0.04 |
| Addenda: | | | | | | |
| Final sales of domestic product | 4.8 | 4.4 | -0.4 | 4.72 | 4.32 | -0.40 |
| Gross domestic purchases price index | 4.2 | 4.2 | 0.0 | | | |
| GDP price index | 1.2 | 1.1 | -0.1 | | | |

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

The 2.8 percent final estimate of real GDP growth is 0.5 percentage point less than the preliminary estimate. The downward revision primarily reflected downward revisions to consumer spending, to investment in equipment and software, and to exports that were partly offset by an upward revision to nonresidential structures. The average revision (without regard to sign) from the preliminary estimate to the final estimate is 0.3 percentage point.

Consumer spending was revised down 0.5 percentage point. The downward revision was primarily to services, specifically, electricity and gas services.

Nonresidential investment in structures was revised up 4.8 percentage points. The largest contributor to the upward revision was manufacturing structures.

Nonresidential investment in equipment and software was revised down 1.8 percentage points. The downward revision was primarily to prepackaged and custom software.

Exports was revised down 0.9 percentage point, mainly reflecting a downward revision to exports of services. The largest contributor to the downward revision to services exports was to transfers under U.S. military agency sales contracts.

Source Data for the Final Estimates

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

Personal consumption expenditures: Retail sales for June (revised) and quarterly services survey for the second quarter (new), motor vehicle registrations for June (revised) and electricity sales data for April and May (new).

Nonresidential fixed investment: Construction put in place for May and June (revised) and 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), Quarterly Financial Report data for mining for May (new) and coal and petroleum data for May (new).

Exports and imports of goods and services: International transactions accounts data for services for January–June (revised) and data for goods for June (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 April, May, and June (revised), unit value index for petroleum imports for June (revised), and 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 | | | | | | | |
| | 2008 | | 2007 | | | 2007 | | 2008 | | |
| | II | III | IV | I | II | III | IV | I | II | |
| Current production measures: | | | | | | | | | | |
| Corporate profits | 1,533.3 | -4.2 | -57.2 | -17.6 | -60.2 | -0.3 | -3.4 | -1.1 | -3.8 | |
| Domestic industries..... | 1,159.8 | -57.8 | -122.2 | 5.4 | -35.3 | -4.2 | -9.3 | 0.4 | -3.0 | |
| Financial..... | 376.6 | -33.8 | -69.0 | 37.3 | -31.0 | -7.1 | -15.7 | 10.1 | -7.6 | |
| Nonfinancial..... | 783.2 | -24.0 | -53.1 | -32.1 | -4.2 | -2.7 | -6.1 | -3.9 | -0.5 | |
| Rest of the world..... | 373.5 | 53.5 | 64.9 | -22.8 | -25.0 | 17.7 | 18.2 | -5.4 | -6.3 | |
| Receipts from the rest of the world..... | 565.7 | 33.7 | 24.7 | 3.7 | 8.9 | 6.8 | 4.7 | 0.7 | 1.6 | |
| Less: Payments to the rest of the world..... | 192.2 | -19.8 | -40.2 | 26.5 | 33.9 | -10.3 | -23.4 | 20.1 | 21.4 | |
| Less: Taxes on corporate income | 406.8 | -17.4 | -17.6 | -30.6 | 3.9 | -3.7 | -3.9 | -7.0 | 1.0 | |
| Equals: Profits after tax..... | 1,126.5 | 13.3 | -39.7 | 13.0 | -64.1 | 1.1 | -3.3 | 1.1 | -5.4 | |
| Net dividends..... | 846.4 | 18.4 | 18.8 | 16.1 | 13.9 | 2.4 | 2.4 | 2.0 | 1.7 | |
| Undistributed profits from current production..... | 280.0 | -5.1 | -58.5 | -3.1 | -78.1 | -1.2 | -13.9 | -0.9 | -21.8 | |
| Net cash flow | 1,276.5 | 8.2 | -44.5 | 10.1 | -60.5 | 0.6 | -3.2 | 0.8 | -4.5 | |

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 from current production fell \$60.2 billion, or 3.8 percent at a quarterly rate, in the second quarter; in the first quarter, profits fell \$17.6 billion.

Profits of domestic financial corporations decreased \$31.0 billion, or 7.6 percent, after increasing \$37.3 billion.

Profits of domestic nonfinancial corporations decreased \$4.2 billion, or 0.5 percent, after decreasing \$32.1 billion.

Profits from the rest of the world decreased \$25.0 billion, or 6.3 percent, after decreasing \$22.8 billion. Payments to the rest of the world increased more than receipts from the rest of the world.

Taxes on corporate income increased \$3.9 billion, or 1.0 percent, after decreasing \$30.6 billion.

After-tax profits decreased \$64.1 billion, or 5.4 percent, after increasing \$13.0 billion.

Undistributed corporate profits (a measure of net saving that equals after-tax profits less dividends) decreased \$78.1 billion, or 21.8 percent, after decreasing \$3.1 billion.

Net cash flow from current production, a profits-related measure of internally generated funds available for investment, decreased \$60.5 billion, or 4.5 percent, after increasing \$10.1 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 | | | | | | | | |
| | 2008 | 2007 | | 2008 | | 2007 | | 2008 | | |
| | II | III | IV | I | II | III | IV | I | II | |
| Industry profits: | | | | | | | | | | |
| Profits with IVA..... | 1,596.0 | 6.6 | -45.9 | -178.7 | -45.5 | 0.4 | -2.5 | -9.8 | -2.8 | |
| Domestic industries..... | 1,222.5 | -47.0 | -110.8 | -155.8 | -20.6 | -3.0 | -7.3 | -11.1 | -1.7 | |
| Financial..... | 383.2 | -32.4 | -67.9 | 20.4 | -29.6 | -6.6 | -14.7 | 5.2 | -7.2 | |
| Nonfinancial..... | 839.3 | -14.7 | -42.8 | -176.3 | 9.1 | -1.4 | -4.1 | -17.5 | 1.1 | |
| Utilities..... | 56.7 | 4.0 | 4.5 | -17.0 | 10.5 | 7.2 | 7.7 | -26.9 | 22.8 | |
| Manufacturing..... | 214.9 | -44.2 | -14.5 | -51.6 | -25.6 | -12.6 | -4.7 | -17.7 | -10.6 | |
| Wholesale trade..... | 59.4 | -3.6 | -28.9 | -31.0 | 10.2 | -3.2 | -26.5 | -38.7 | 20.7 | |
| Retail trade..... | 92.7 | -19.9 | -1.5 | -12.5 | -19.3 | -13.6 | -1.2 | -10.1 | -17.3 | |
| Transportation and warehousing..... | 24.8 | 1.6 | -9.3 | -13.3 | 0.4 | 3.7 | -19.9 | -35.4 | 1.9 | |
| Information..... | 115.0 | 23.4 | 9.5 | -11.9 | 9.0 | 27.5 | 8.8 | -10.1 | 8.5 | |
| Other nonfinancial..... | 275.8 | 24.1 | -2.6 | -38.9 | 23.8 | 8.9 | -0.9 | -13.4 | 9.4 | |
| Rest of the world..... | 373.5 | 53.5 | 64.9 | -22.8 | -25.0 | 17.7 | 18.2 | -5.4 | -6.3 | |
| Addenda: | | | | | | | | | | |
| Profits before tax (without IVA and CCAdj)..... | 1,750.0 | -17.7 | -2.8 | -143.4 | -0.9 | -0.9 | -0.1 | -7.6 | -0.1 | |
| Profits after tax (without IVA and CCAdj)..... | 1,343.2 | -0.2 | 14.8 | -112.9 | -4.8 | 0.0 | 1.0 | -7.7 | -0.4 | |
| IVA..... | -154.0 | 24.3 | -43.1 | -35.3 | -44.6 | | | | | |
| CCAdj..... | -62.7 | -10.8 | -11.4 | 161.2 | -14.7 | | | | | |

Profits with inventory valuation adjustment decreased \$45.5 billion, or 2.8 percent, in the second quarter after decreasing \$178.7 billion in the first quarter. The difference between the second-quarter decrease in this measure of profits and the \$60.2 billion decrease in profits from current production reflects the capital consumption adjustment, which decreased \$14.7 billion.

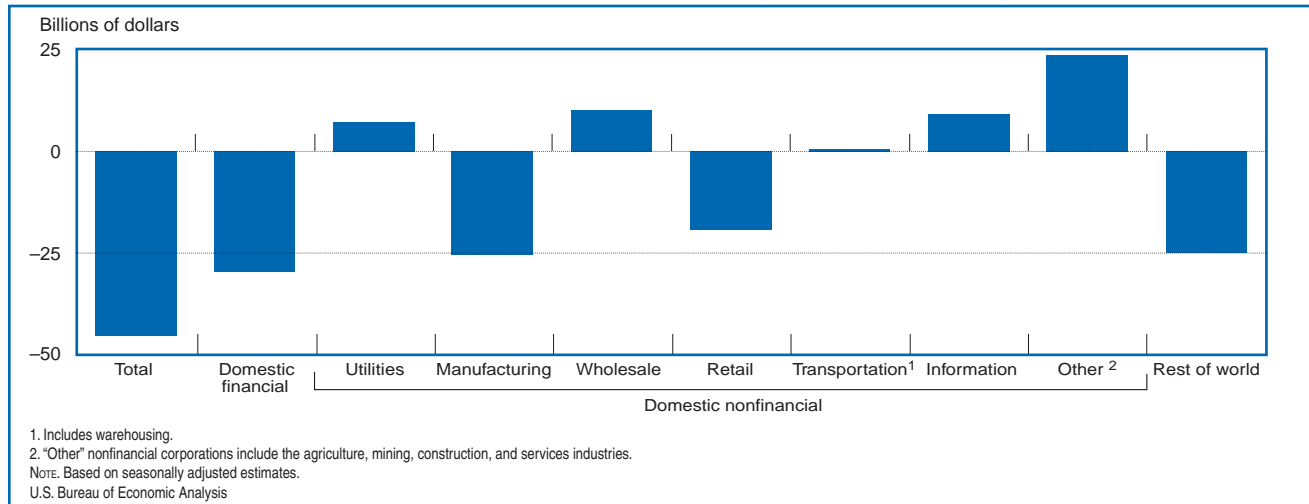
Profits from domestic industries decreased \$20.6 billion, or 1.7 percent, after decreasing \$155.8 billion.

Profits of domestic financial industries decreased \$29.6 billion, or 7.2 percent, after increasing \$20.4 billion.

Profits of domestic nonfinancial industries increased \$9.1 billion, or 1.1 percent, after decreasing \$176.3 billion. The second-quarter upturn reflected upturns in profits of "other" nonfinancial industries (such as construction and mining), wholesale trade, and utilities, a smaller decrease in manufacturing, and upturns in information industries and transportation and warehousing. In contrast, profits of retail industries decreased more than in the first quarter.

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

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



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 indus-

try. 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/beamn_national.htm>.