

GDP and the Economy

Third Estimates for the Second Quarter of 2009

REAL GROSS domestic product (GDP) decreased at an annual rate of 0.7 percent in the second quarter of 2009, according to the “third” estimates of the national income and product accounts (NIPAs) (chart 1 and table 1).¹ In the “second” estimate, real GDP decreased 1.0 percent. In the first quarter, real GDP decreased 6.4 percent.

The much smaller decrease in real GDP in the second quarter than in the first quarter primarily reflected much smaller decreases in nonresidential fixed investment and in exports, an upturn in federal government spending, a smaller decrease in private inventory investment, an upturn in state and local government spending, and a smaller decrease in residential fixed investment (see page 2). In contrast, imports decreased much less than in the first quarter, and consumer spending turned down.²

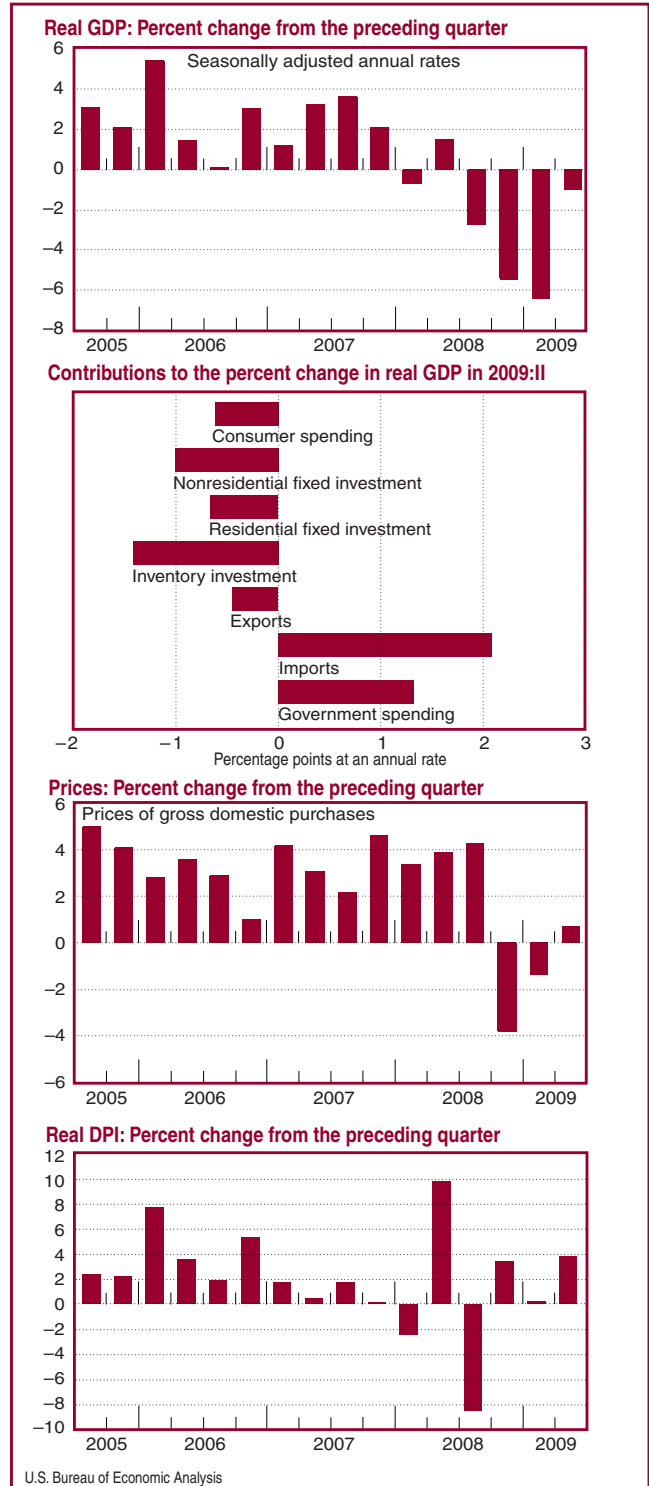
- Prices of goods and services purchased by U.S. residents increased 0.5 percent after decreasing 1.4 percent. Energy prices decreased much less, and food prices decreased more. Excluding food and energy, gross domestic purchases prices increased 0.8 percent after increasing 0.2 percent. The federal pay raise for civilian and military personnel added 0.3 percentage point to the change in the first-quarter gross domestic purchases price index.
- Real disposable personal income (DPI) increased 3.8 percent after increasing 0.2 percent. The acceleration primarily reflected an upturn in current-dollar DPI that mainly resulted from a sharp upturn in personal income that was partly offset by a smaller decrease in personal current taxes.
- The personal saving rate was 4.9 percent in the second quarter; in the first quarter it was 3.7 percent.
- Corporate profits slowed in the second quarter (see pages 4 and 5).

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,” “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)				
		2009		2008		2009	2008		2009		
		II	III	IV	I	II	III	IV	I	II	
Gross domestic product¹.....	100.0	-2.7	-5.4	-6.4	-0.7	-2.7	-5.4	-6.4	-0.7		
Personal consumption expenditures.....	70.7	-3.5	-3.1	0.6	-0.9	-2.49	-2.15	0.44	-0.62		
Goods.....	22.6	-7.7	-10.0	2.5	-3.1	-1.89	-2.41	0.56	-0.71		
Durable goods.....	7.1	-11.7	-20.3	3.9	-5.6	-0.95	-1.64	0.28	-0.41		
Nondurable goods.....	15.4	-5.6	-4.9	1.9	-1.9	-0.94	-0.78	0.29	-0.29		
Services.....	48.1	-1.3	0.5	-0.3	0.2	-0.60	0.26	-0.13	0.09		
Gross private domestic investment.....	11.0	-6.9	-24.2	-50.5	-23.7	-1.04	-3.91	-8.98	-3.10		
Fixed investment.....	12.3	-8.3	-20.2	-39.0	-12.5	-1.30	-3.28	-6.62	-1.68		
Nonresidential.....	9.8	-6.1	-19.5	-39.2	-9.6	-0.73	-2.47	-5.29	-1.01		
Structures.....	3.5	-0.1	-7.2	-43.6	-17.3	0.00	-0.31	-2.28	-0.69		
Equipment and software.....	6.3	-9.4	-25.9	-36.4	-4.9	-0.73	-2.15	-3.01	-0.32		
Residential.....	2.4	-15.9	-23.2	-38.2	-23.3	-0.57	-0.81	-1.33	-0.67		
Change in private inventories.....	-1.2	.....	.....	.....	.....	0.26	-0.64	-2.36	-1.42
Net exports of goods and services.....	-2.4	.....	.....	.....	.....	-0.10	0.45	2.64	1.65
Exports.....	10.6	-3.6	-19.5	-29.9	-4.1	-0.48	-2.67	-3.95	-0.45		
Goods.....	6.9	-1.8	-25.5	-36.9	-6.3	-0.17	-2.50	-3.41	-0.45		
Services.....	3.6	-7.7	-4.3	-13.6	0.1	-0.31	-0.17	-0.54	0.00		
Imports.....	13.0	-2.2	-16.7	-36.4	-14.7	0.38	3.12	6.58	2.09		
Goods.....	10.3	-3.7	-19.6	-41.0	-16.5	0.55	3.09	6.25	1.89		
Services.....	2.6	6.1	-0.9	-11.5	-7.5	-0.17	0.03	0.34	0.21		
Government consumption expenditures and gross investment.....	20.7	4.8	1.2	-2.6	6.7	0.95	0.24	-0.52	1.33		
Federal.....	8.0	13.2	6.5	-4.3	11.4	0.93	0.49	-0.33	0.85		
National defense.....	5.5	19.8	3.8	-5.1	14.0	0.93	0.20	-0.27	0.70		
Nondefense.....	2.6	0.1	12.7	-2.5	6.1	0.00	0.29	-0.06	0.15		
State and local.....	12.7	0.1	-2.0	-1.5	3.9	0.01	-0.25	-0.19	0.48		
Addenda:											
Final sales of domestic product.....	.....	-2.9	-4.7	-4.1	0.7	-2.94	-4.74	-4.07	0.68	
Gross domestic purchases.....	.....	-2.5	-5.5	-8.6	-2.3	.....	.....	.....	.....
Gross domestic purchases price index.....	.....	4.3	-3.8	-1.4	0.5	.....	.....	.....	.....
GDP price index.....	.....	4.0	0.1	1.9	0.0	.....	.....	.....	.....

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 turned down in the second quarter, subtracting 0.62 percentage point from the percent change in real GDP. Downturns in spending for both durable goods and nondurable goods were partly offset by an upturn in spending for services.

Nonresidential fixed investment decreased much less than in the first quarter, subtracting 1.01 percentage points from the percent change in real GDP after subtracting 5.29 percentage points.

Residential fixed investment also decreased less than in the first quarter, subtracting 0.67 percentage point from the percent change in real GDP after subtracting 1.33 percentage points.

Inventory investment reduced the percent change in second-quarter GDP by 1.42 percentage points after subtracting 2.36 percentage points.

Exports decreased much less than in the first quarter, reflecting a much smaller decrease in goods exports and an upturn in services. Within goods, industrial supplies and materials turned up, and automotive vehicles, engines, and parts decreased much less.

Imports also decreased much less than in the first quarter. All categories of goods imports except petroleum and products and imports of "other" goods contributed to the smaller decrease.

Federal government spending turned up, reflecting upturns in both national defense and nondefense spending.

Gross domestic purchases decreased 2.3 percent. The difference between this decrease and the 0.7 percent decrease in GDP reflects the much larger decrease in imports than in exports.

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 "Methodology Papers." 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 Second Quarter of 2009

[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	-1.0	-0.7	0.3	-1.0	-0.7	0.3
Personal consumption expenditures	-1.0	-0.9	0.1	-0.69	-0.62	0.07
Goods	-3.4	-3.1	0.3	-0.77	-0.71	0.06
Durable goods	-5.8	-5.6	0.2	-0.43	-0.41	0.02
Nondurable goods	-2.2	-1.9	0.3	-0.35	-0.29	0.06
Services	0.2	0.2	0.0	0.09	0.09	0.00
Gross private domestic investment	-24.4	-23.7	0.7	-3.20	-3.10	0.10
Fixed investment	-13.5	-12.5	1.0	-1.81	-1.68	0.13
Nonresidential	-10.9	-9.6	1.3	-1.15	-1.01	0.14
Structures	-15.1	-17.3	-2.2	-0.59	-0.69	-0.10
Equipment and software	-8.4	-4.9	3.5	-0.56	-0.32	0.24
Residential	-22.8	-23.3	-0.5	-0.66	-0.67	-0.01
Change in private inventories				-1.39	-1.42	-0.03
Net exports of goods and services				1.60	1.65	0.05
Exports	-5.0	-4.1	0.9	-0.54	-0.45	0.09
Goods	-7.0	-6.3	0.7	-0.50	-0.45	0.05
Services	-1.0	0.1	1.1	-0.04	0.00	0.04
Imports	-15.1	-14.7	0.4	2.14	2.09	-0.05
Goods	-16.5	-16.5	0.0	1.89	1.89	0.00
Services	-9.0	-7.5	1.5	0.25	0.21	-0.04
Government consumption expenditures and gross investment	6.4	6.7	0.3	1.27	1.33	0.06
Federal	11.0	11.4	0.4	0.82	0.85	0.03
National defense	13.3	14.0	0.7	0.67	0.70	0.03
Nondefense	6.2	6.1	-0.1	0.15	0.15	0.00
State and local	3.6	3.9	0.3	0.44	0.48	0.04
Addenda:						
Final sales of domestic product	0.4	0.7	0.3	0.37	0.68	0.31
Gross domestic purchases price index	0.5	0.5	0.0			
GDP price index	0.0	0.0	0.0			

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

Real GDP decreased 0.7 percent in the second-quarter third estimate, 0.3 percentage point less of a decrease than the second estimate. The average revision (without regard to sign) between the second estimate and the third estimate is 0.3 percentage point. The upward revision to the percent change in real GDP reflected an upward revision to nonresidential fixed investment.

The upward revision to nonresidential fixed investment reflected an upward revision to equipment and software that was partly offset by a downward revision to nonresidential structures. The revision to equipment and software was mostly to software, reflecting the incorporation of newly available data from the Census Bureau quarterly services survey. The revision to nonresidential structures was mostly to “commercial and health care” structures and to “other” structures, based on revised construction spending (value put in place) data for May and June from the Census Bureau.

Source Data for the Third Estimates

The third estimates of GDP for the second quarter of 2009 incorporated the following source data.

Personal consumption expenditures: Retail sales for June (revised) and Quarterly Services Survey for the second quarter (new), and motor vehicle registrations for June (revised).

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

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

Change in private inventories: USDA crop market sales and harvest quantities for April, May, and June (revised) and manufacturers' and trade inventories for June

(revised). Quarterly Financial Report data for mining for the second quarter (new) and Energy Information Administration data for natural gas and for coal and petroleum 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 spending (value put in place) data 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							
	2009		2008			2009				
	II	III	IV	I	II	III	IV	I	II	
Current production measures:										
Corporate profits.....	1,226.5	50.9	-331.0	59.1	43.8	3.6	-22.8	5.3	3.7	
Domestic industries.....	925.3	20.7	-266.1	75.7	58.3	2.0	-25.2	9.6	6.7	
Financial.....	266.3	-34.1	-167.9	115.9	28.5	-10.5	-57.9	95.0	12.0	
Nonfinancial.....	659.0	54.8	-98.2	-40.2	29.8	7.7	-12.8	-6.0	4.7	
Rest of the world.....	301.2	30.2	-64.8	-16.6	-14.6	8.2	-16.3	-5.0	-4.6	
Receipts from the rest of the world.....	409.9	-15.1	-79.4	-76.9	7.7	-2.6	-14.2	-16.1	1.9	
Less: Payments to the rest of the world.....	108.7	-45.3	-14.5	-60.4	22.3	-21.9	-9.0	-41.1	25.8	
Less: Taxes on corporate income.....	305.9	-12.7	-81.5	47.0	35.6	-4.0	-26.7	21.1	13.2	
Equals: Profits after tax.....	920.6	63.5	-249.4	12.0	8.2	5.8	-21.7	1.3	0.9	
Net dividends.....	556.0	-17.1	-6.7	-51.8	-62.1	-2.5	-1.0	-7.7	-10.0	
Undistributed profits from current production.....	364.5	80.6	-242.7	63.7	70.3	20.5	-51.3	27.7	23.9	
Net cash flow.....	1,544.9	77.0	59.8	16.2	-30.5	5.4	4.0	1.0	-1.9	

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 \$43.8 billion, or 3.7 percent at a quarterly rate, in the second quarter after increasing \$59.1 billion, or 5.3 percent, in the first quarter.

Domestic profits of financial corporations increased \$28.5 billion, or 12.0 percent, after increasing \$115.9 billion, or 95.0 percent.

Domestic profits of nonfinancial corporations increased \$29.8 billion, or 4.7 percent, after decreasing \$40.2 billion, or 6.0 percent.

Profits from the rest of the world decreased \$14.6 billion, or 4.6 percent, after decreasing \$16.6 billion. Receipts increased \$7.7 billion, and payments increased \$22.3 billion.

Undistributed corporate profits, a measure of net saving that equals after-tax profits less dividends, increased \$70.3 billion, or 23.9 percent, after increasing \$63.7 billion, or 27.7 percent.

Net cash flow, a profits-related measure of internal funds available for investment, decreased \$30.5 billion, or 1.9 percent, after increasing \$16.2 billion, or 1.0 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 Cen-

sus 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									
	2009	2008			2009		2008			2009	
	II	III	IV	I	II	III	IV	I	II		
Industry profits:											
Profits with IVA.....	1,355.1	58.4	-322.9	128.3	27.5	4.0	-21.2	10.7	2.1		
Domestic industries.....	1,053.9	28.2	-258.1	145.0	42.0	2.6	-22.9	16.7	4.2		
Financial.....	280.7	-33.3	-167.2	123.6	26.8	-10.1	-56.2	94.8	10.6		
Nonfinancial.....	773.3	61.5	-90.9	21.4	15.3	8.0	-11.0	2.9	2.0		
Utilities.....	53.4	0.4	-2.7	12.8	-0.2	0.9	-6.3	31.5	-0.3		
Manufacturing.....	132.3	45.6	-57.1	-27.0	10.7	28.4	-27.7	-18.2	8.8		
Wholesale trade.....	87.5	29.2	25.7	-17.5	-6.5	51.7	29.9	-15.7	-6.9		
Retail trade.....	95.1	-3.1	2.6	3.4	12.0	-3.9	3.4	4.2	14.4		
Transportation and warehousing.....	1.3	-2.7	2.3	-4.8	-5.4	-23.2	25.7	-41.7	-80.8		
Information.....	99.4	-19.9	-18.3	31.8	4.0	-19.6	-22.3	49.9	4.2		
Other nonfinancial ..	304.2	12.3	-43.6	22.8	0.6	3.9	-13.4	8.1	0.2		
Rest of the world.....	301.2	30.2	-64.8	-16.6	-14.6	8.2	-16.3	-5.0	-4.6		
Addenda:											
Profits before tax (without IVA and CCAdj).....	1,337.1	-16.9	-516.5	186.4	90.6	-1.1	-32.8	17.6	7.3		
Profits after tax (without IVA and CCAdj).....	1,031.1	-4.1	-435.1	139.3	55.0	-0.3	-34.2	16.6	5.6		
IVA.....	18.1	75.1	193.7	-58.1	-63.0	.....	.....	.....	.....
CCAdj.....	-128.6	-7.5	-8.0	-69.3	16.3	.....	.....	.....	.....

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

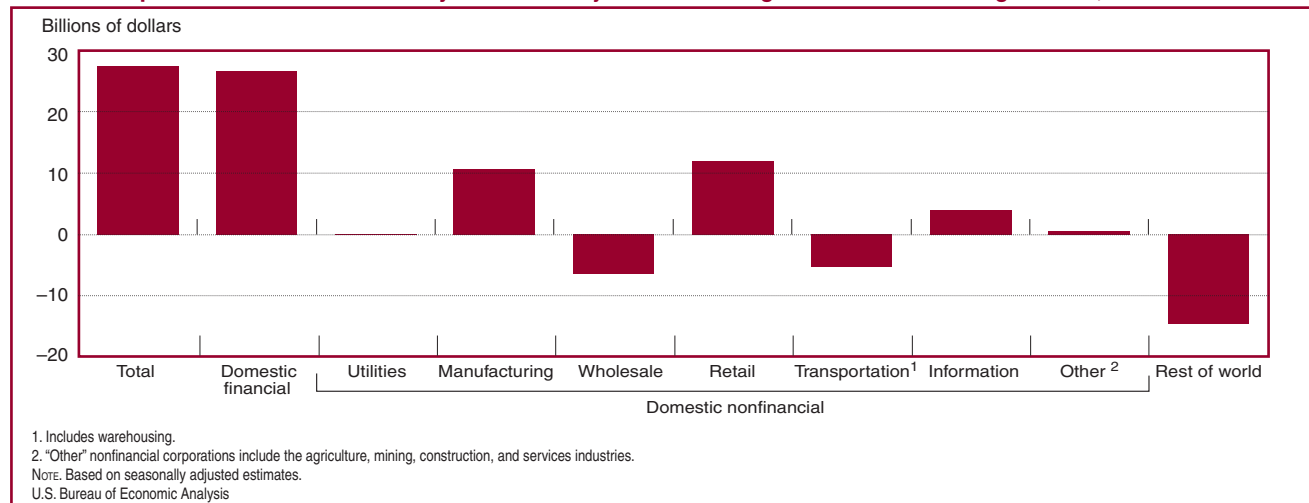
Profits with inventory valuation adjustment increased \$27.5 billion, or 2.1 percent at a quarterly rate, in the second quarter after increasing \$128.3 billion, or 10.7 percent, in the first quarter. The difference between this increase and the increase in profits from current production reflects the capital consumption adjustment, which increased \$16.3 billion in the second quarter.

Profits of domestic industries increased \$42.0 billion, or 4.2 percent, after increasing \$145.0 billion, or 16.7 percent.

Profits of domestic financial industries increased \$26.8 billion, or 10.6 percent, after increasing \$123.6 billion, or 94.8 percent.

Profits of domestic nonfinancial industries increased \$15.3 billion, or 2.0 percent, after increasing \$21.4 billion, or 2.9 percent. The slowdown reflected slow-downs in information industries and in "other" nonfinancial industries and a downturn in utilities. In contrast, profits in manufacturing industries turned up, profits in wholesale trade industries decreased less than in the first quarter, and retail trade profits picked up.

Chart 2. Corporate Profits With Inventory Valuation Adjustment: Change From the Preceding Quarter, 2009: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/methodologies/index.htm.