GDP and the Economy

Third Estimates for the Second Quarter of 2010

REAL GROSS domestic product (GDP) increased at an annual rate of 1.7 percent in the second quarter of 2010, according to the third estimates of the national income and product accounts (NIPAs) (chart 1 and table 1).[1] The third estimate of real GDP growth was revised up 0.1 percentage point from the second estimate (see page 3). In the first quarter of 2010, real GDP increased 3.7 percent.

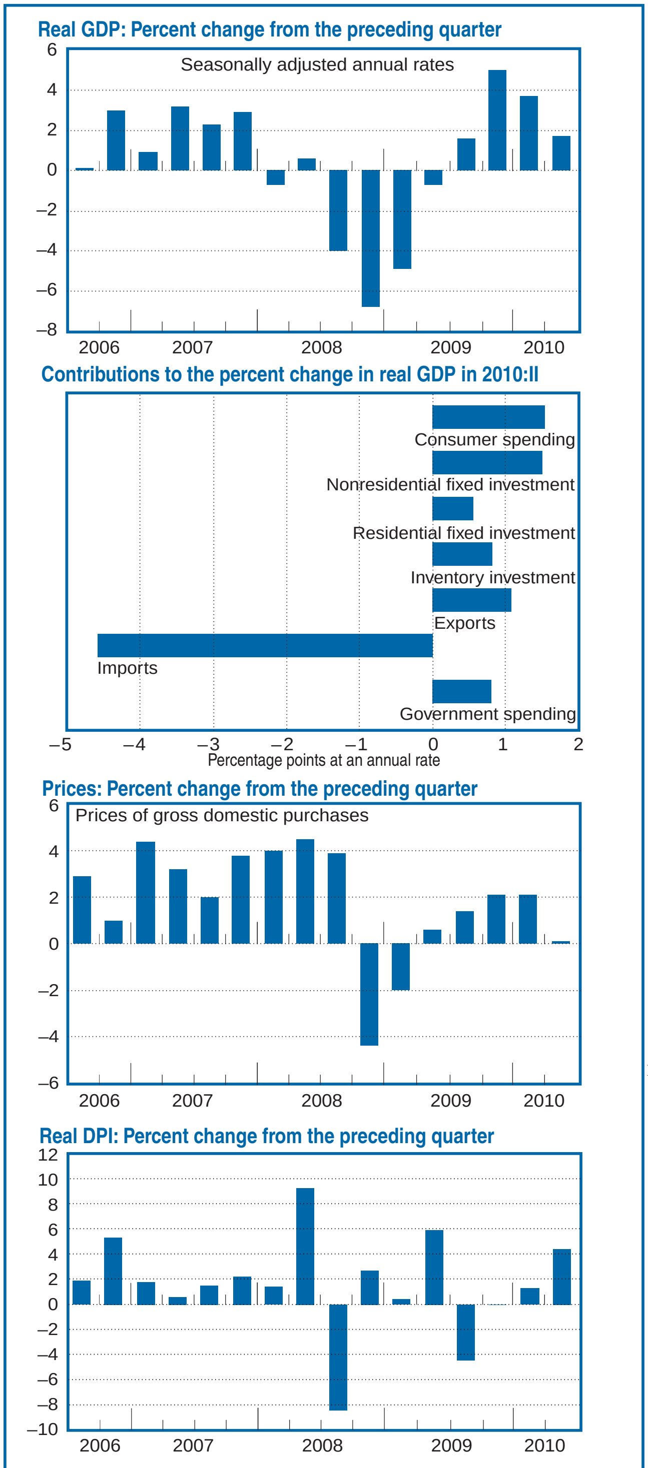
The deceleration in real GDP in the second quarter primarily reflected a sharp acceleration in imports and a sharp deceleration in inventory investment that were partly offset by an upturn in residential fixed investment, accelerations in nonresidential fixed investment and in federal government spending, and an upturn in state and local government spending.[2]

- Prices of goods and services purchased by U.S. residents increased 0.1 percent in the second quarter (unrevised) after increasing 2.1 percent. Energy prices turned down, and food prices increased at the same rate as in the first quarter. Excluding food and energy, gross domestic purchases prices increased 0.8 percent after increasing 1.6 percent in the first quarter. About 0.2 percentage point of the first-quarter increase in the gross domestic purchases price index was due to the federal pay raise for civilian and military personnel.
- Real disposable personal income (DPI) increased 4.4 percent in the second quarter, the same as in the second estimate; in the first quarter, real DPI increased 1.3 percent. The second-quarter acceleration resulted from a pickup in current-dollar personal income, and a deceleration in personal current taxes.
- The personal saving rate, personal saving as a percentage of current-dollar DPI, was 5.9 percent in the second quarter, revised down 0.2 percentage point; in the first quarter, it was 5.5 percent.

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.

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



U.S. Bureau of Economic Analysis

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)			
	2010	2009		2010		2009		2010	
	II	III	IV	I	II	III	IV	I	II
Gross domestic product [1]	**100.0**	**1.6**	**5.0**	**3.7**	**1.7**	**1.6**	**5.0**	**3.7**	**1.7**
Personal consumption expenditures	**70.6**	**2.0**	**0.9**	**1.9**	**2.2**	**1.41**	**0.69**	**1.33**	**1.54**
Goods	23.2	7.2	1.7	5.7	3.4	1.62	0.42	1.29	0.79
Durable goods	7.4	20.1	–1.1	8.8	6.8	1.35	–0.07	0.62	0.49
Nondurable goods	15.8	1.7	3.1	4.2	1.9	0.27	0.49	0.67	0.31
Services	47.4	–0.5	0.5	0.1	1.6	–0.21	0.27	0.03	0.75
Gross private domestic investment	**12.6**	**11.8**	**26.7**	**29.1**	**26.2**	**1.22**	**2.70**	**3.04**	**2.88**
Fixed investment	12.1	0.7	–1.3	3.3	18.9	0.12	–0.12	0.39	2.06
Nonresidential	9.6	–1.7	–1.4	7.8	17.2	–0.13	–0.10	0.71	1.51
Structures	2.6	–12.4	–29.2	–17.8	–0.5	–0.41	–1.01	–0.53	–0.01
Equipment and software	7.0	4.2	14.6	20.4	24.8	0.28	0.91	1.24	1.52
Residential	2.5	10.6	–0.8	–12.3	25.7	0.25	–0.02	–0.32	0.55
Change in private inventories	0.6	....	....	....	....	1.10	2.83	2.64	0.82
Net exports of goods and services	**–3.7**	....	....	....	....	**–1.37**	**1.90**	**–0.31**	**–3.50**
Exports	12.5	12.2	24.4	11.4	9.1	1.30	2.56	1.30	1.08
Goods	8.7	18.7	31.7	14.0	11.5	1.29	2.19	1.09	0.93
Services	3.8	0.1	10.2	5.8	3.9	0.01	0.37	0.21	0.15
Imports	16.2	21.9	4.9	11.2	33.5	–2.67	–0.66	–1.61	–4.58
Goods	13.4	27.4	6.2	12.0	40.5	–2.64	–0.68	–1.41	–4.46
Services	2.7	1.5	–0.5	7.8	4.3	–0.03	0.02	–0.20	–0.12
Government consumption expenditures and gross investment	**20.5**	**1.6**	**–1.4**	**–1.6**	**3.9**	**0.33**	**–0.28**	**–0.32**	**0.80**
Federal	8.3	5.7	0.0	1.8	9.1	0.45	0.01	0.15	0.72
National defense	5.6	9.0	–2.5	0.4	7.4	0.48	–0.13	0.02	0.40
Nondefense	2.7	–0.9	5.6	5.0	12.8	–0.03	0.14	0.13	0.32
State and local	12.2	–1.0	–2.3	–3.8	0.6	–0.12	–0.29	–0.48	0.08
Addenda:									
Final sales of domestic product	99.4	0.4	2.1	1.1	0.9	0.50	2.19	1.09	0.90
Gross domestic purchases	103.7	3.0	3.0	3.9	5.1	....	....	....	....
Gross domestic purchases price index	....	1.4	2.1	2.1	0.1	....	....	....	....
GDP price index	....	0.7	–0.2	1.0	1.9	....	....	....	....

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. An acceleration in spending for services was partly offset by slowdowns in spending for both nondurable and durable goods.

Nonresidential fixed investment accelerated, reflecting a smaller decrease in structures and a pickup in equipment and software.

Residential fixed investment turned up, mainly reflecting an upturn in “other” structures, especially in brokers’ commissions on the sale of residential structures and in improvements.

Inventory investment slowed, adding 0.82 percentage point to real GDP growth after adding 2.64 percentage points. The slowdown mainly reflected a deceleration in inventory investment in manufacturing industries, in retail trade industries, and in wholesale trade industries.

Exports slowed, reflecting slowdowns in both goods and services exports.

Imports accelerated sharply, mainly reflecting an acceleration in goods imports; services imports slowed.

Federal government spending accelerated, reflecting accelerations in both national defense and nondefense spending.

State and local government spending turned up, mainly reflecting an upturn in investment in structures.

Gross domestic purchases accelerated, increasing 5.1 percent after increasing 3.9 percent.

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 Second Quarter of 2010

[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]	**1.6**	**1.7**	**0.1**	**1.6**	**1.7**	**0.1**
Personal consumption expenditures	**2.0**	**2.2**	**0.2**	**1.38**	**1.54**	**0.16**
Goods	3.6	3.4	–0.2	0.82	0.79	–0.03
Durable goods	6.9	6.8	–0.1	0.49	0.49	0.00
Nondurable goods	2.1	1.9	–0.2	0.33	0.31	–0.02
Services	1.2	1.6	0.4	0.56	0.75	0.19
Gross private domestic investment	**25.0**	**26.2**	**1.2**	**2.75**	**2.88**	**0.13**
Fixed investment	19.5	18.9	–0.6	2.12	2.06	–0.06
Nonresidential	17.6	17.2	–0.4	1.54	1.51	–0.03
Structures	0.4	–0.5	–0.9	0.01	–0.01	–0.02
Equipment and software	24.9	24.8	–0.1	1.53	1.52	–0.01
Residential	27.2	25.7	–1.5	0.58	0.55	–0.03
Change in private inventories	....	....	....	0.63	0.82	0.19
Net exports of goods and services	....	....	....	**–3.37**	**–3.50**	**–0.13**
Exports	9.1	9.1	0.0	1.08	1.08	0.00
Goods	12.2	11.5	–0.7	0.99	0.93	–0.06
Services	2.5	3.9	1.4	0.09	0.15	0.06
Imports	32.4	33.5	1.1	–4.45	–4.58	–0.13
Goods	39.3	40.5	1.2	–4.34	–4.46	–0.12
Services	4.2	4.3	0.1	–0.11	–0.12	–0.01
Government consumption expenditures and gross investment	**4.3**	**3.9**	**–0.4**	**0.86**	**0.80**	**–0.06**
Federal	9.1	9.1	0.0	0.72	0.72	0.00
National defense	7.3	7.4	0.1	0.39	0.40	0.01
Nondefense	12.9	12.8	–0.1	0.32	0.32	0.00
State and local	1.2	0.6	–0.6	0.14	0.08	–0.06
Addenda:						
Final sales of domestic product	1.0	0.9	–0.1	0.99	0.90	–0.09
Gross domestic purchases price index	0.1	0.1	0.0	....	....	....
GDP price index	1.9	1.9	0.0	....	....	....

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

The third estimate of the second-quarter increase in real GDP was 0.1 percentage point more 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 slight upward revision to the percent change in real GDP primarily reflected upward revisions to inventory investment and to consumer spending that were partly offset by an upward revision to imports.

The upward revision to consumer spending was more than accounted for by spending for services. Within services, the revision primarily reflected upward revisions to health care and to recreation services that were partly offset by downward revisions to financial services and insurance and to "other" services.

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

The upward revision to imports was primarily to imports of goods. Within imports of goods, the upward revision primarily reflected upward revisions to nonpetroleum industrial supplies and materials and to petroleum and products.

Source Data for the Third Estimates

The third estimate of GDP for the second quarter of 2010 incorporated the following source data.

Personal consumption expenditures: retail sales for June (revised), quarterly services survey data for the second quarter (new), motor vehicle registrations for June (revised), and Energy Information Administration (EIA) natural gas usage data for June (new).

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

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

Change in private inventories: manufacturers' and trade inventories for June (revised), Quarterly Financial Report data for mining (revised), and EIA data for natural gas for June (new) and for coal and petroleum stocks for May (new).

Exports and imports of goods and services: international transactions accounts data for January 2010 through June 2010 (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							
	2010	2009		2010		2009		2010	
	II	III	IV	I	II	III	IV	I	II
Current production measures:									
Corporate profits	1,614.1	119.5	120.7	148.4	47.5	10.1	9.3	10.5	3.0
Domestic industries	1,222.7	88.4	122.5	122.4	44.6	10.5	13.1	11.6	3.8
Financial	334.2	58.7	46.3	5.2	–3.4	25.8	16.2	1.6	–1.0
Nonfinancial	888.6	29.7	76.1	117.2	48.2	4.8	11.8	16.2	5.7
Rest of the world	391.3	31.0	–1.6	25.9	2.8	9.3	–0.5	7.2	0.7
Receipts from the rest of the world	557.5	30.1	41.3	32.3	–3.9	6.6	8.5	6.1	–0.7
Less: Payments to the rest of the world	166.1	–0.8	42.9	6.4	–6.8	–0.7	34.7	3.9	–3.9
Less: Taxes on corporate income	405.6	32.9	63.4	84.1	2.4	14.8	24.8	26.4	0.6
Equals: Profits after tax	1,208.5	86.5	57.4	64.1	45.2	9.1	5.5	5.8	3.9
Net dividends	728.4	–20.1	8.9	11.8	8.1	–2.8	1.3	1.7	1.1
Undistributed profits from current production	480.1	106.7	48.4	52.4	37.1	45.3	14.2	13.4	8.4
Net cash flow	1,578.4	11.5	78.4	33.3	61.1	0.8	5.6	2.2	4.0

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 $47.5 billion, or 3.0 percent at a quarterly rate, in the second quarter of 2010 after increasing $148.4 billion, or 10.5 percent, in the first quarter.

Domestic profits of financial corporations decreased $3.4 billion, or 1.0 percent, after increasing $5.2 billion, or 1.6 percent.

Domestic profits of nonfinancial corporations increased $48.2 billion, or 5.7 percent at a quarterly rate, after increasing $117.2 billion, or 16.2 percent.

Profits from the rest of the world increased $2.8 billion, or 0.7 percent, after increasing $25.9 billion, or 7.2 percent. Receipts decreased $3.9 billion, but payments decreased $6.8 billion.

Taxes on corporate income increased $2.4 billion, or 0.6 percent, after increasing $84.1 billion, or 26.4 percent.

Undistributed corporate profits, a measure of net saving that equals after-tax profits less dividends, increased $37.1 billion, or 8.4 percent, after increasing $52.4 billion, or 13.4 percent.

Net cash flow, a profits-related measure of internal funds available for investment, increased $61.1 billion, or 4.0 percent, after increasing $33.3 billion, or 2.2 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							
	2010	2009		2010		2009		2010	
	II	III	IV	I	II	III	IV	I	II
Industry profits:									
Profits with IVA	1,784.7	110.7	120.7	255.3	48.2	8.9	8.9	17.2	2.8
Domestic industries	1,393.4	79.6	122.4	229.4	45.4	8.7	12.3	20.5	3.4
Financial	359.4	56.8	46.5	16.0	–3.3	23.4	15.5	4.6	–0.9
Nonfinancial	1,034.0	22.8	75.9	213.4	48.7	3.4	10.9	27.6	4.9
Utilities	32.8	–11.0	4.0	15.1	–8.7	–33.0	17.8	57.2	–21.1
Manufacturing	277.1	12.1	19.1	79.5	26.7	8.6	12.6	46.5	10.6
Wholesale trade	107.7	–3.0	2.2	18.5	16.2	–4.1	3.1	25.3	17.7
Retail trade	126.7	1.6	–4.2	32.0	–2.4	1.5	–4.1	32.9	–1.9
Transportation and warehousing	52.4	1.7	7.5	9.9	13.0	8.0	34.3	33.8	32.9
Information	104.9	7.3	27.7	3.9	–8.0	9.8	34.2	3.6	–7.1
Other nonfinancial	332.5	14.5	19.4	54.4	12.1	6.2	7.9	20.5	3.8
Rest of the world	391.3	31.0	–1.6	25.9	2.8	9.3	–0.5	7.2	0.7
Addenda:									
Profits before tax (without IVA and CCAdj)	1,788.2	150.0	179.2	224.5	15.3	12.3	13.1	14.5	0.9
Profits after tax (without IVA and CCAdj)	1,382.6	117.0	115.8	140.4	12.9	11.7	10.4	11.4	0.9
IVA	–3.5	–39.3	–58.5	30.8	32.9	....	....	....	....
CCAdj	–170.7	8.8	0.0	–106.9	–0.8	....	....	....	....

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

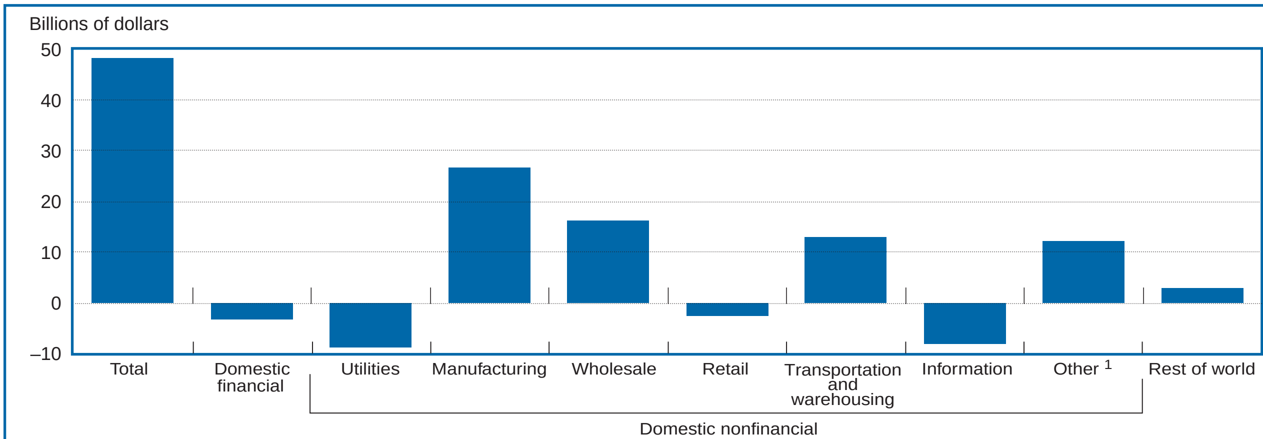
Profits with inventory valuation adjustment increased $48.2 billion, or 2.8 percent at a quarterly rate, in the second quarter after increasing $255.3 billion, or 17.2 percent in the first quarter. The difference between this increase and the increase in profits from current production reflects the capital consumption adjustment, which decreased $0.8 billion in the second quarter.

Profits of domestic industries increased $45.4 billion, or 3.4 percent, after increasing $229.4 billion, or 20.5 percent.

Profits of domestic financial industries decreased $3.3 billion, or 0.9 percent, after increasing $16.0 billion, or 4.6 percent.

Profits of domestic nonfinancial industries increased $48.7 billion, or 4.9 percent, after increasing $213.4 billion, or 27.6 percent. The slowdown reflected decelerations in manufacturing industries and in "other" nonfinancial industries and downturns in retail trade industries, in utilities, and in information industries. Profits in transportation and warehousing picked up.

Chart 2. Corporate Profits With Inventory Valuation Adjustment: Change From the Preceding Quarter, 2010:II



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.