GDP and the Economy

Third Estimates for the Second Quarter of 2011

REAL GROSS domestic product (GDP) increased 1.3 percent in the second quarter of 2011, according to the third estimates of the national income and product accounts (NIPAs) (chart 1, table 1).[1] The third estimate of real GDP growth was revised up 0.3 percentage point from the second estimate (see page 3). In the first quarter, real GDP increased 0.4 percent.

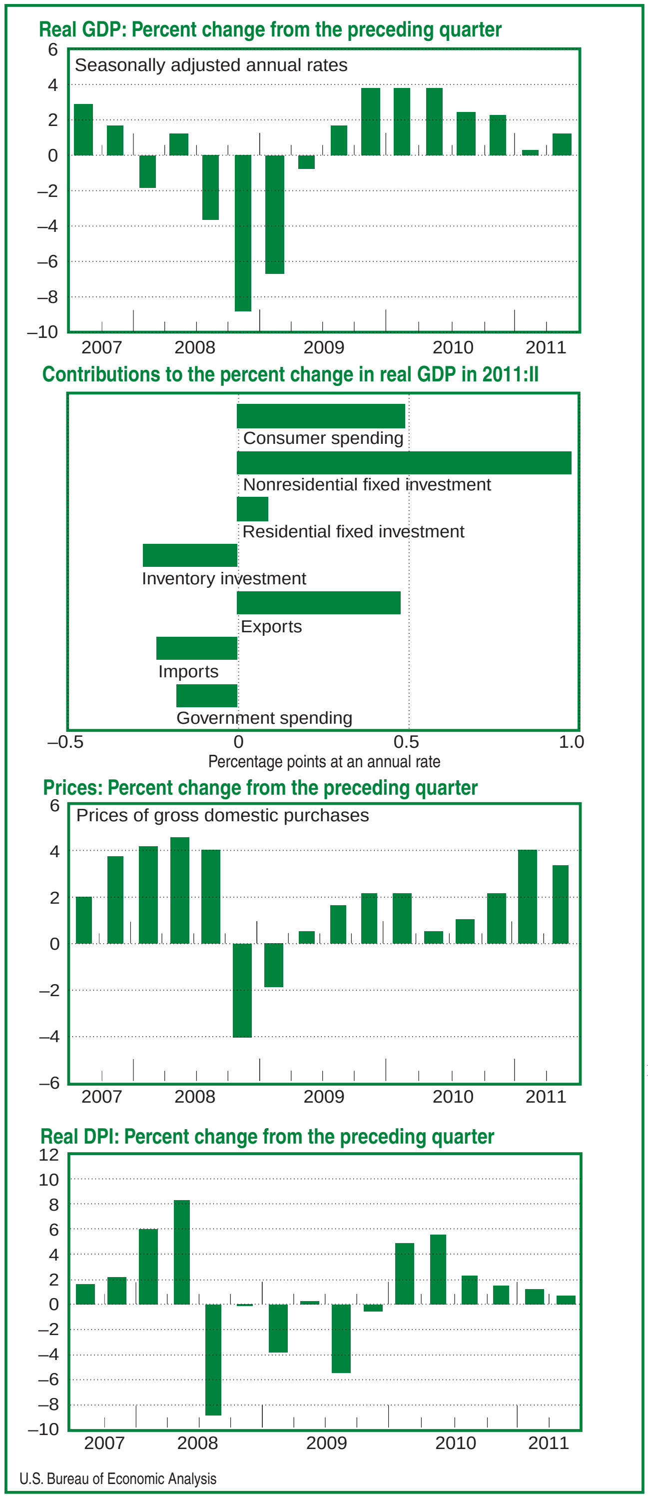
The acceleration in real GDP in the second quarter primarily reflected a deceleration in imports, an upturn in federal government spending, and an acceleration in nonresidential fixed investment that were partly offset by a deceleration in consumer spending, a downturn in inventory investment, and a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

- Prices of goods and services purchased by U.S. residents increased 3.3 percent in the second quarter after increasing 4.0 percent in the first quarter. Both energy prices and food prices slowed. Excluding food and energy, gross domestic purchases prices increased 2.7 percent after increasing 2.4 percent. About 0.1 percentage point of the first-quarter increase in the gross domestic purchases price index had been accounted for by the federal pay raise for military personnel.
- Real disposable personal income (DPI) increased 0.6 percent in the second quarter, 0.4 percentage point less than in the second estimate, after increasing 1.2 percent. The slowdown reflected a slowdown in current-dollar DPI that was moderated by a smaller slowdown in the PCE implicit price deflator used in deriving real DPI. The downward revision to second-quarter current-dollar DPI primarily reflected an upward revision to personal current taxes.
- The personal saving rate, personal saving as a percentage of current-dollar DPI, was 5.1 percent in the second quarter, revised down 0.1 percentage point; in the first quarter, the saving rate was 5.0 percent.
- Profits from current production increased $61.2 billion in the second quarter after increasing $19.0 billion (see page 4).

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."

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



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	
	II	III	IV	I	II	III	IV	I	II
Gross domestic product [1]	**100.0**	**2.5**	**2.3**	**0.4**	**1.3**	**2.5**	**2.3**	**0.4**	**1.3**
Personal consumption expenditures	**71.1**	**2.6**	**3.6**	**2.1**	**0.7**	**1.85**	**2.48**	**1.47**	**0.49**
Goods	24.1	4.8	8.3	4.7	–1.6	1.09	1.87	1.10	–0.38
Durable goods	7.6	8.8	17.2	11.7	–5.3	0.63	1.20	0.85	–0.42
Nondurable goods	16.5	3.0	4.3	1.6	0.2	0.47	0.67	0.25	0.04
Services	47.0	1.6	1.3	0.8	1.9	0.75	0.61	0.36	0.87
Gross private domestic investment	**12.6**	**9.2**	**–7.1**	**3.8**	**6.4**	**1.14**	**–0.91**	**0.47**	**0.79**
Fixed investment	12.3	2.3	7.5	1.2	9.2	0.28	0.88	0.15	1.07
Nonresidential	10.0	11.3	8.7	2.1	10.3	1.04	0.82	0.20	0.98
Structures	2.7	4.2	10.5	–14.3	22.6	0.10	0.26	–0.40	0.54
Equipment and software	7.3	14.1	8.1	8.7	6.2	0.94	0.56	0.60	0.44
Residential	2.2	–27.7	2.5	–2.4	4.2	–0.76	0.06	–0.06	0.09
Change in private inventories	0.4	....	....	....	....	0.86	–1.79	0.32	–0.28
Net exports of goods and services	**–4.0**	....	....	....	....	**–0.68**	**1.37**	**–0.34**	**0.24**
Exports	13.9	10.0	7.8	7.9	3.6	1.21	0.98	1.01	0.48
Goods	9.8	8.9	9.2	10.6	2.5	0.75	0.79	0.94	0.24
Services	4.1	12.6	4.7	1.7	6.2	0.46	0.18	0.07	0.24
Imports	17.9	12.3	–2.3	8.3	1.4	–1.89	0.39	–1.35	–0.24
Goods	15.0	12.4	–0.5	9.5	1.6	–1.58	0.08	–1.29	–0.23
Services	2.8	11.6	–10.4	2.2	0.4	–0.31	0.31	–0.06	–0.01
Government consumption expenditures and gross investment	**20.2**	**1.0**	**–2.8**	**–5.9**	**–0.9**	**0.20**	**–0.58**	**–1.23**	**–0.18**
Federal	8.2	3.2	–3.0	–9.4	1.9	0.26	–0.26	–0.82	0.16
National defense	5.5	5.7	–5.9	–12.6	7.0	0.31	–0.34	–0.74	0.37
Nondefense	2.7	–1.8	3.1	–2.7	–7.6	–0.05	0.09	–0.08	–0.22
State and local	12.0	–0.5	–2.7	–3.4	–2.8	–0.06	–0.33	–0.41	–0.34
Addenda:									
Final sales of domestic product	99.6	1.7	4.2	0.0	1.6	1.65	4.14	0.04	1.62
Gross domestic purchases	104.0	3.1	0.9	0.7	1.0	....	....	....	....
Gross domestic purchases price index	....	1.0	2.1	4.0	3.3	....	....	....	....
GDP price index	....	1.4	1.9	2.5	2.5	....	....	....	....

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 second quarter, reflecting a downturn in durable goods and a slowdown in nondurable goods; services picked up. A downturn in spending for motor vehicles and parts was the largest contributor to the slowdown in consumer spending.

Nonresidential fixed investment picked up, reflecting an upturn in structures that was partly offset by a slowdown in equipment and software. The contributions to the upturn in structures were widespread.

Residential fixed investment turned up, primarily reflecting an upturn in "other" structures (specifically residential improvements and brokers' commissions on the sale of residential structures). In contrast, single-family structures turned down.

Inventory investment turned down, subtracting 0.28 percentage point from real GDP growth after adding 0.32 percentage point.

Exports slowed, reflecting a slowdown in exports of goods that was partly offset by a pickup in services. Within goods, industrial supplies and materials, "other" exports, and automotive vehicles, engines, and parts turned down.

Imports slowed, reflecting slowdowns in both imports of goods and services. Within goods, automotive vehicles, engines, and parts and petroleum and products turned down.

Federal government spending turned up, reflecting an upturn in national defense spending that was partly offset by a larger decrease in nondefense spending.

State and local government spending decreased less than in the first quarter, mainly reflecting a smaller decrease in gross investment in structures.

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 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]	**1.0**	**1.3**	**0.3**	**1.0**	**1.3**	**0.3**
Personal consumption expenditures	**0.4**	**0.7**	**0.3**	**0.30**	**0.49**	**0.19**
Goods	–1.4	–1.6	–0.2	–0.34	–0.38	–0.04
Durable goods	–5.1	–5.3	–0.2	–0.40	–0.42	–0.02
Nondurable goods	0.4	0.2	–0.2	0.07	0.04	–0.03
Services	1.4	1.9	0.5	0.64	0.87	0.23
Gross private domestic investment	**6.4**	**6.4**	**0.0**	**0.78**	**0.79**	**0.01**
Fixed investment	8.7	9.2	0.5	1.01	1.07	0.06
Nonresidential	9.9	10.3	0.4	0.94	0.98	0.04
Structures	15.7	22.6	6.9	0.38	0.54	0.16
Equipment and software	7.9	6.2	–1.7	0.55	0.44	–0.11
Residential	3.4	4.2	0.8	0.08	0.09	0.01
Change in private inventories	....	....	....	–0.23	–0.28	–0.05
Net exports of goods and services	....	....	....	**0.09**	**0.24**	**0.15**
Exports	3.1	3.6	0.5	0.41	0.48	0.07
Goods	2.7	2.5	–0.2	0.26	0.24	–0.02
Services	3.9	6.2	2.3	0.15	0.24	0.09
Imports	1.9	1.4	–0.5	–0.33	–0.24	0.09
Goods	1.9	1.6	–0.3	–0.28	–0.23	0.05
Services	1.6	0.4	–1.2	–0.04	–0.01	0.03
Government consumption expenditures and gross investment	**–0.9**	**–0.9**	**0.0**	**–0.18**	**–0.18**	**0.00**
Federal	2.0	1.9	–0.1	0.16	0.16	0.00
National defense	7.1	7.0	–0.1	0.38	0.37	–0.01
Nondefense	–7.5	–7.6	–0.1	–0.21	–0.22	–0.01
State and local	–2.8	–2.8	0.0	–0.34	–0.34	0.00
Addenda:						
Final sales of domestic product	1.2	1.6	0.4	1.22	1.62	0.40
Gross domestic purchases price index	3.3	3.3	0.0	....	....	....
GDP price index	2.4	2.5	0.1	....	....	....

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 0.3 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 upward revision to the percent change in real GDP primarily reflected an upward revision to consumer spending, a downward revision to imports, and an upward revision to exports.

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

Within nonresidential fixed investment, an upward revision to structures, which was widespread, was largely offset by a downward revision to equipment and software (mainly software).

The upward revision to exports reflected an upward revision to services that was partly offset by a downward revision to goods. Within services, upward revisions to travel and to royalties and license fees were partly offset by a downward revision to "other" private services. The revision to goods was more than accounted for by a downward revision to industrial supplies and materials.

The downward revision to imports reflected downward revisions to both goods (mainly to petroleum and products) and services. The revision to services was more than accounted for by a downward revision to "other" private services.

Source Data for the Third Estimates

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

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

Exports and imports of goods and services: international transactions accounts data for January 2011 through June 2011(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							
	2011	2010		2011		2010		2011	
	II	III	IV	I	II	III	IV	I	II
Current production measures:									
Corporate profits	1,937.6	47.3	24.3	19.0	61.2	2.6	1.3	1.0	3.3
Domestic industries	1,492.2	42.6	46.7	–18.8	26.5	3.1	3.3	–1.3	1.8
Financial	419.1	7.3	52.0	–38.7	–54.2	1.6	11.3	–7.5	–11.5
Nonfinancial	1,073.1	35.3	–5.2	19.7	80.8	3.7	–0.5	2.0	8.1
Rest of the world	445.4	4.7	–22.4	37.9	34.6	1.2	–5.7	10.2	8.4
Receipts from the rest of the world	660.9	9.6	16.1	20.3	49.0	1.7	2.8	3.4	8.0
Less: Payments to the rest of the world	215.5	5.0	38.5	–17.7	14.4	2.9	21.3	–8.1	7.2
Less: Taxes on corporate income	420.5	30.7	–25.6	17.6	–1.8	7.7	–5.9	4.3	–0.4
Equals: Profits after tax	1,517.1	16.5	49.9	1.4	63.0	1.2	3.6	0.1	4.3
Net dividends	807.4	31.2	14.3	19.0	13.6	4.3	1.9	2.5	1.7
Undistributed profits from current production	709.6	–14.7	35.6	–17.6	49.3	–2.2	5.5	–2.6	7.5
Net cash flow	1,812.2	–61.6	16.0	21.1	86.2	–3.5	1.0	1.2	5.0

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 $61.2 billion, or 3.3 percent at a quarterly rate, in the second quarter after increasing $19.0 billion, or 1.0 percent in the first quarter.

Domestic profits of financial corporations decreased $54.2 billion, or 11.5 percent, after decreasing $38.7 billion, or 7.5 percent.

Domestic profits of nonfinancial corporations increased $80.8 billion, or 8.1 percent, after increasing $19.7 billion, or 2.0 percent.

Profits from the rest of the world increased $34.6 billion, or 8.4 percent, after increasing $37.9 billion, or 10.2 percent. Receipts increased $49.0 billion, and payments increased $14.4 billion.

Taxes on corporate income decreased $1.8 billion, or 0.4 percent, after increasing $17.6 billion, or 4.3 percent.

Undistributed corporate profits, a measure of net saving that equals after-tax profits less dividends, increased $49.3 billion, or 7.5 percent, after decreasing $17.6 billion, or 2.6 percent.

Net cash flow, a profits-related measure of internal funds available for investment, increased $86.2 billion, or 5.0 percent, after increasing $21.1 billion, or 1.2 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 Report, 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	
	II	III	IV	I	II	III	IV	I	II
Industry profits:									
Profits with IVA	1,830.2	–47.3	–160.4	108.9	69.1	–2.5	–8.8	6.6	3.9
Domestic industries	1,384.9	–52.0	–138.0	71.0	34.6	–3.5	–9.7	5.6	2.6
Financial	438.9	–2.8	33.0	–29.3	–52.6	–0.6	6.8	–5.6	–10.7
Nonfinancial	945.9	–49.2	–171.0	100.3	87.1	–5.0	–18.4	13.2	10.1
Utilities	15.2	9.8	–20.9	7.8	0.3	53.6	–74.6	109.0	1.9
Manufacturing	249.9	–10.1	–39.5	29.9	32.3	–4.3	–17.4	15.9	14.8
Wholesale trade	90.8	–21.6	–39.9	22.1	19.2	–19.5	–44.6	44.6	26.9
Retail trade	112.7	–6.4	–1.7	2.9	–7.5	–5.1	–1.5	2.5	–6.2
Transportation and warehousing	26.8	1.6	–11.1	–4.7	3.3	4.2	–28.3	–16.6	13.9
Information	103.6	–6.9	–7.5	19.8	4.7	–7.4	–8.7	25.0	4.8
Other nonfinancial	346.9	–15.6	–50.4	22.4	34.9	–4.4	–14.8	7.8	11.2
Rest of the world	445.4	4.7	–22.4	37.9	34.6	1.2	–5.7	10.2	8.4
Addenda:									
Profits before tax (without IVA and CCAdj)	1,890.6	–21.0	–102.0	134.6	13.5	–1.1	–5.5	7.7	0.7
Profits after tax (without IVA and CCAdj)	1,470.1	–51.7	–76.4	117.0	15.3	–3.5	–5.4	8.7	1.1
IVA	–60.4	–26.4	–58.3	–25.7	55.6	....	....	....	....
CCAdj	107.3	94.6	184.7	–89.8	–8.1	....	....	....	....

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

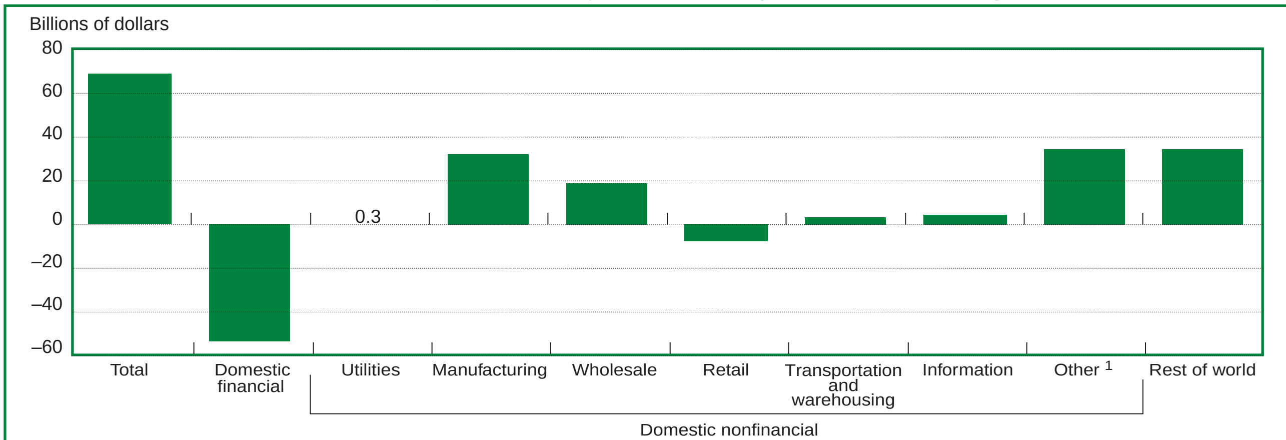
Profits with inventory valuation adjustment (IVA) increased $69.1 billion, or 3.9 percent, in the second quarter after increasing $108.9 billion, or 6.6 percent. The second-quarter difference between the increase in profits with IVA and the increase in profits from current production reflects the capital consumption adjustment, which decreased $8.1 billion after decreasing $89.8 billion.

Profits of domestic industries increased $34.6 billion, or 2.6 percent, after increasing $71.0 billion, or 5.6 percent.

Profits of domestic financial industries decreased $52.6 billion, or 10.7 percent, after decreasing $29.3 billion, or 5.6 percent.

Profits of domestic nonfinancial industries increased $87.1 billion, or 10.1 percent, after increasing $100.3 billion, or 13.2 percent. Information industries slowed, and retail trade industries turned down. Utilities and wholesale trade industries also slowed. In contrast, "other" nonfinancial industries accelerated, and transportation and warehousing turned up. Manufacturing industries picked up somewhat; the largest contributor was petroleum and products.

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