

# GDP and the Economy

## Final Estimates for the Third Quarter of 2007

Economic growth accelerated in the third quarter, according to the “final” estimates of the national income and product accounts (NIPAs). Real gross domestic product (GDP) increased 4.9 percent after increasing 3.8 percent.<sup>1</sup> The third-quarter growth rate was unrevised from the “preliminary” estimate (see page 3).<sup>2</sup>

The third-quarter acceleration in real GDP growth primarily reflected accelerations in exports, consumer spending, and inventory investment. In contrast, imports (which are subtracted in the calculation of GDP) turned up, residential investment decreased more than in the second quarter, and nonresidential structures slowed.<sup>3</sup>

- Prices of goods and services purchased by U.S. residents slowed, increasing 1.8 percent after increasing 3.8 percent in the second quarter. Energy prices turned down, and food prices increased at the same rate as in the second quarter. Excluding food and energy, prices increased 1.9 percent after increasing 1.5 percent.
- Real disposable personal income (DPI)—income adjusted for inflation and taxes—increased 4.5 percent in the third quarter after decreasing 0.8 percent in the second quarter. The upturn reflected an acceleration in current-dollar DPI and a deceleration in prices (as measured by the PCE price index).
- Corporate profits decreased \$20.5 billion in the third quarter after increasing \$94.7 billion in the second quarter (see page 4).
- The personal saving rate, personal saving as a percentage of current-dollar DPI, was 0.6 percent in the third quarter; in the second quarter, it was 0.3 percent.

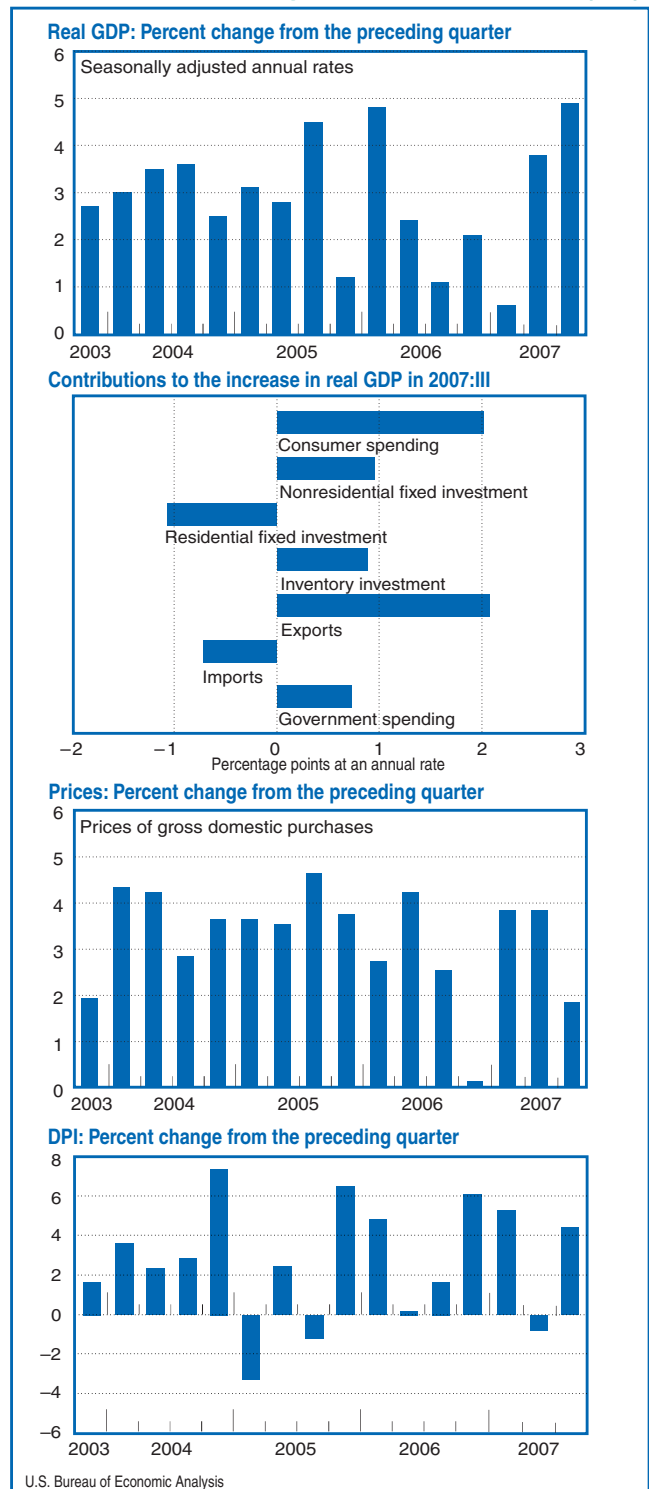
1. “Real” estimates are in chained (2000) dollars, and price indexes are chain-type measures.

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](http://www.bea.gov/bea/about/infoqual.htm)> and <[www.bea.gov/bea/faq/national/gdp\\_accuracy.htm](http://www.bea.gov/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 the “change in private inventories,” and “government spending” refers to “government consumption expenditures and gross investment.”

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**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)			
	2007		2006		2007			2006		2007	
	III	IV	I	II	III	IV	I	II	III		
<b>Gross domestic product<sup>1</sup>....</b>	<b>100.0</b>	<b>2.1</b>	<b>0.6</b>	<b>3.8</b>	<b>4.9</b>	<b>2.1</b>	<b>0.6</b>	<b>3.8</b>	<b>4.9</b>		
<b>Personal consumption expenditures.....</b>	<b>70.0</b>	<b>3.9</b>	<b>3.7</b>	<b>1.4</b>	<b>2.8</b>	<b>2.68</b>	<b>2.56</b>	<b>1.00</b>	<b>2.01</b>		
Durable goods.....	7.7	3.9	8.8	1.7	4.5	0.30	0.67	0.14	0.35		
Nondurable goods.....	20.4	4.3	3.0	-0.5	2.2	0.86	0.61	-0.10	0.46		
Services.....	41.9	3.7	3.1	2.3	2.8	1.52	1.28	0.96	1.20		
<b>Gross private domestic investment.....</b>	<b>15.5</b>	<b>-14.1</b>	<b>-8.2</b>	<b>4.6</b>	<b>5.0</b>	<b>-2.50</b>	<b>-1.36</b>	<b>0.71</b>	<b>0.77</b>		
Fixed investment.....	15.2	-7.1	-4.4	3.2	-0.7	-1.19	-0.70	0.49	-0.11		
Nonresidential.....	10.7	-1.4	2.1	11.0	9.3	-0.15	0.22	1.12	0.96		
Structures.....	3.5	7.4	6.4	26.2	16.4	0.23	0.20	0.78	0.52		
Equipment and software.....	7.3	-4.9	0.3	4.7	6.2	-0.38	0.02	0.34	0.44		
Residential.....	4.5	-17.2	-16.3	-11.8	-20.5	-1.04	-0.93	-0.62	-1.08		
Change in private inventories.....	0.3	.....	.....	.....	.....	-1.31	-0.65	0.22	0.89		
<b>Net exports of goods and services.....</b>	<b>-5.0</b>	.....	.....	.....	.....	<b>1.25</b>	<b>-0.51</b>	<b>1.32</b>	<b>1.38</b>		
Exports.....	12.1	14.3	1.1	7.5	19.1	1.51	0.13	0.85	2.10		
Goods.....	8.5	9.6	0.9	6.6	26.2	0.73	0.07	0.53	1.96		
Services.....	3.5	26.0	1.6	9.6	4.0	0.78	0.05	0.33	0.14		
Imports.....	17.0	1.6	3.9	-2.7	4.4	-0.26	-0.63	0.47	-0.72		
Goods.....	14.4	-0.6	4.2	-2.9	4.8	0.09	-0.57	0.42	-0.67		
Services.....	2.7	14.2	2.3	-1.7	1.7	-0.35	-0.06	0.05	-0.05		
<b>Government consumption expenditures and gross investment.....</b>	<b>19.4</b>	<b>3.5</b>	<b>-0.5</b>	<b>4.1</b>	<b>3.8</b>	<b>0.66</b>	<b>-0.09</b>	<b>0.79</b>	<b>0.74</b>		
Federal.....	7.1	7.3	-6.3	6.0	7.1	0.50	-0.46	0.41	0.50		
National defense.....	4.8	16.9	-10.8	8.5	10.1	0.74	-0.54	0.39	0.47		
Nondefense.....	2.3	-10.0	3.8	0.9	1.1	-0.24	0.08	0.02	0.03		
State and local.....	12.4	1.3	3.0	3.0	1.9	0.16	0.36	0.37	0.24		
<b>Addenda:</b>											
Final sales of domestic product.....	.....	3.5	1.3	3.6	4.0	3.40	1.25	3.60	4.02		
Gross domestic purchases price index.....	.....	0.1	3.8	3.8	1.8	.....	.....	.....	.....		
GDP price index.....	.....	1.7	4.2	2.6	1.0	.....	.....	.....	.....		

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 accelerated, increasing 2.8 percent in the third quarter after increasing 1.4 percent; it added 2.01 percentage points to real GDP growth in the third quarter. Spending for nondurable goods turned up, and spending for both services and durable goods accelerated.

Nonresidential fixed investment slowed, increasing 9.3 percent after increasing 11.0 percent. The deceleration was primarily due to a slowdown in structures.

Residential fixed investment fell for the seventh straight quarter, decreasing 20.5 percent and subtracting 1.08 percentage points from real GDP growth.

Inventory investment picked up, adding 0.89 percentage point to real GDP growth after adding 0.22 percentage point.

Exports rose sharply, increasing 19.1 percent after increasing 7.5 percent. The third-quarter increase was the largest since the fourth quarter of 2003 and contributed 2.10 percentage points to real GDP growth. Goods exports picked up markedly; services exports slowed.

Imports turned up, increasing 4.4 percent after decreasing 2.7 percent. The upturn was mainly due to an upturn in goods imports.

Federal government spending picked up, primarily reflecting an acceleration in national defense expenditures.

Real final sales of domestic product (real GDP less inventory investment) increased 4.0 percent after increasing 3.6 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.

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](http://www.bea.gov/bea/an/nipaguid.pdf)>.

## Revisions to GDP

Table 2. Preliminary and Final Estimates for the Third Quarter of 2007

[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
<b>Gross domestic product (GDP) <sup>1</sup></b> .....	<b>4.9</b>	<b>4.9</b>	<b>0.0</b>	<b>4.9</b>	<b>4.9</b>	<b>0.0</b>
<b>Personal consumption expenditures</b> .....	<b>2.7</b>	<b>2.8</b>	<b>0.1</b>	<b>1.88</b>	<b>2.01</b>	<b>0.13</b>
Durable goods .....	4.0	4.5	0.5	0.31	0.35	0.04
Nondurable goods .....	1.9	2.2	0.3	0.39	0.46	0.07
Services .....	2.8	2.8	0.0	1.18	1.20	0.02
<b>Gross private domestic investment</b> .....	<b>5.9</b>	<b>5.0</b>	<b>-0.9</b>	<b>0.92</b>	<b>0.77</b>	<b>-0.15</b>
Fixed investment .....	-0.4	-0.7	-0.3	-0.06	-0.11	-0.05
Nonresidential .....	9.4	9.3	-0.1	0.97	0.96	-0.01
Structures .....	14.3	16.4	2.1	0.46	0.52	0.06
Equipment and software .....	7.2	6.2	-1.0	0.51	0.44	-0.07
Residential .....	-19.7	-20.5	-0.8	-1.03	-1.08	-0.05
Change in private inventories .....				0.98	0.89	-0.09
<b>Net exports of goods and services</b> .....				<b>1.37</b>	<b>1.38</b>	<b>0.01</b>
Exports .....	18.9	19.1	0.2	2.08	2.10	0.02
Goods .....	25.8	26.2	0.4	1.94	1.96	0.02
Services .....	4.0	4.0	0.0	0.14	0.14	0.00
Imports .....	4.3	4.4	0.1	-0.70	-0.72	-0.02
Goods .....	4.9	4.8	-0.1	-0.68	-0.67	0.01
Services .....	0.9	1.7	0.8	-0.02	-0.05	-0.03
<b>Government consumption expenditures and gross investment</b> .....	<b>3.9</b>	<b>3.8</b>	<b>-0.1</b>	<b>0.75</b>	<b>0.74</b>	<b>-0.01</b>
Federal .....	7.0	7.1	0.1	0.49	0.50	0.01
National defense .....	10.1	10.1	0.0	0.47	0.47	0.00
Nondefense .....	0.9	1.1	0.2	0.02	0.03	0.01
State and local .....	2.1	1.9	-0.2	0.26	0.24	-0.02
<b>Addenda:</b>						
Final sales of domestic product .....	3.9	4.0	0.1	3.95	4.02	0.07
Gross domestic purchases price index .....	1.6	1.8	0.2			
GDP price index .....	0.9	1.0	0.1			

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

The final estimate of real GDP growth in the third quarter is the same as the preliminary estimate. A small upward revision to consumer spending was offset by a small downward revision to inventory investment. The average revision without regard to sign between the “preliminary” estimate and the “final” estimate is 0.3 percentage point.

The small upward revision to consumer spending was widespread; the most notable revisions were in durable and nondurable goods.

The small downward revision to inventory investment was primarily due to small downward revisions to retail trade inventories and to wholesale trade inventories.

## Source Data for the Final Estimates

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

*Personal consumption expenditures:* Retail sales for September (revised). Quarterly services survey for the third quarter (new).

*Nonresidential fixed investment:* Construction put in place for August and September (revised). Quarterly services survey for the third quarter (new).

*Residential fixed investment:* Construction put in place for August and September (revised).

*Change in private inventories:* Manufacturers’ and trade inventories for September (revised). Producer Price Index

for July (revised).

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

*Government consumption expenditures and gross investment:* State and local government construction put in place for August and September (revised).

*GDP prices:* Export and import prices for the third quarter (revised). Unit value index for petroleum imports for September (revised). Prices of single-family houses under construction for the third 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			
	III	IV	I	II	III	IV	I	II	III	
<b>Current production measures:</b>										
Corporate profits .....	1,621.9	-61.3	16.5	94.7	-20.5	-3.9	1.1	6.1	-1.2	
Domestic industries.....	1,280.9	-89.3	-3.7	78.0	-46.9	-6.7	-0.3	6.2	-3.5	
Financial.....	488.9	19.3	-26.9	52.7	-32.5	4.0	-5.4	11.2	-6.2	
Nonfinancial.....	792.0	-108.5	23.2	25.3	-14.4	-12.5	3.1	3.2	-1.8	
Rest of the world.....	341.0	28.0	20.1	16.7	26.4	11.2	7.2	5.6	8.4	
Receipts from the rest of the world.....	510.2	12.8	10.0	33.9	27.6	3.0	2.3	7.6	5.7	
Less: Payments to the rest of the world.....	169.1	-15.2	-10.1	17.2	1.1	-8.7	-6.3	11.4	0.7	
Less: Taxes on corporate income....	469.4	-18.0	0.1	37.6	-20.7	-3.8	0.0	8.3	-4.2	
Equals: Profits after tax.....	1,152.5	-43.3	16.4	57.0	0.3	-3.9	1.5	5.2	0.0	
Net dividends.....	807.7	25.3	23.0	24.8	23.5	3.6	3.1	3.3	3.0	
Undistributed profits from current production.....	344.7	-68.7	-6.6	32.2	-23.3	-16.7	-1.9	9.6	-6.3	
Net cash flow.....	1,267.8	-57.0	0.2	37.4	-21.1	-4.4	0.0	3.0	-1.6	

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 decreased \$20.5 billion, or 1.2 percent at quarterly rates, in the third quarter after increasing \$94.7 billion in the second quarter.

Domestic profits of financial corporations decreased \$32.5 billion, or 6.2 percent, after increasing \$52.7 billion in the second quarter.

Domestic profits of nonfinancial corporations decreased \$14.4 billion, or 1.8 percent, after increasing \$25.3 billion.

Profits from the rest of the world (net corporate profits earned abroad) increased \$26.4 billion, or 8.4 percent, after increasing \$16.7 billion. Receipts from the rest of the world slowed much less than payments to the rest of the world.

Taxes on corporate income decreased \$20.7 billion, or 4.2 percent, after increasing \$37.6 billion.

Undistributed corporate profits decreased \$23.3 billion, or 6.3 percent, after increasing \$32.2 billion.

Net cash flow from current production, a profits-related measure of internally generated funds available for investment, decreased \$21.1 billion, or 1.6 percent, after increasing \$37.4 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			2006		2007		
	2007	2006	2007			2006	2007			
	III	IV	I	II	III	IV	I	II	III	
<b>Industry profits:</b>										
Profits with IVA.....	1,859.4	-48.0	7.4	101.2	-17.4	-2.6	0.4	5.7	-0.9	
Domestic industries.....	1,518.3	-76.0	-12.7	84.4	-43.8	-4.9	-0.9	5.7	-2.8	
Financial.....	514.2	20.7	-28.0	53.4	-32.2	4.1	-5.4	10.8	-5.9	
Nonfinancial.....	1,004.1	-96.6	15.2	31.0	-11.6	-9.1	1.6	3.2	-1.1	
Utilities.....	46.4	0.0	-1.4	4.8	5.2	0.0	-3.8	13.3	12.7	
Manufacturing.....	296.8	-39.3	18.7	48.1	-50.2	-12.3	6.7	16.1	-14.5	
Wholesale trade.....	109.8	-27.0	6.7	7.1	4.9	-22.9	7.4	7.3	4.6	
Retail trade.....	140.2	5.2	2.2	0.1	5.8	4.1	1.6	0.1	4.3	
Transportation and warehousing.....	55.4	-7.7	-0.9	6.7	9.6	-16.1	-2.4	17.2	21.1	
Information.....	100.8	10.0	18.0	-16.6	7.9	12.3	19.6	-15.2	8.5	
Other nonfinancial.....	254.7	-37.8	-28.0	-19.2	5.2	-11.3	-9.4	-7.1	2.1	
Rest of the world.....	341.0	28.0	20.1	16.7	26.4	11.2	7.2	5.6	8.4	
<b>Addenda:</b>										
Profits before tax (without IVA and CCAj).....	1,879.7	-62.2	26.6	115.7	-51.8	-3.4	1.5	6.4	-2.7	
Profits after tax (without IVA and CCAj).....	1,410.2	-44.2	26.5	78.1	-31.2	-3.2	2.0	5.7	-2.2	
IVA.....	-20.3	14.2	-19.2	-14.5	34.4	.....	.....	.....	.....	
CCAj.....	-237.4	-13.3	9.1	-6.5	-3.0	.....	.....	.....	.....	

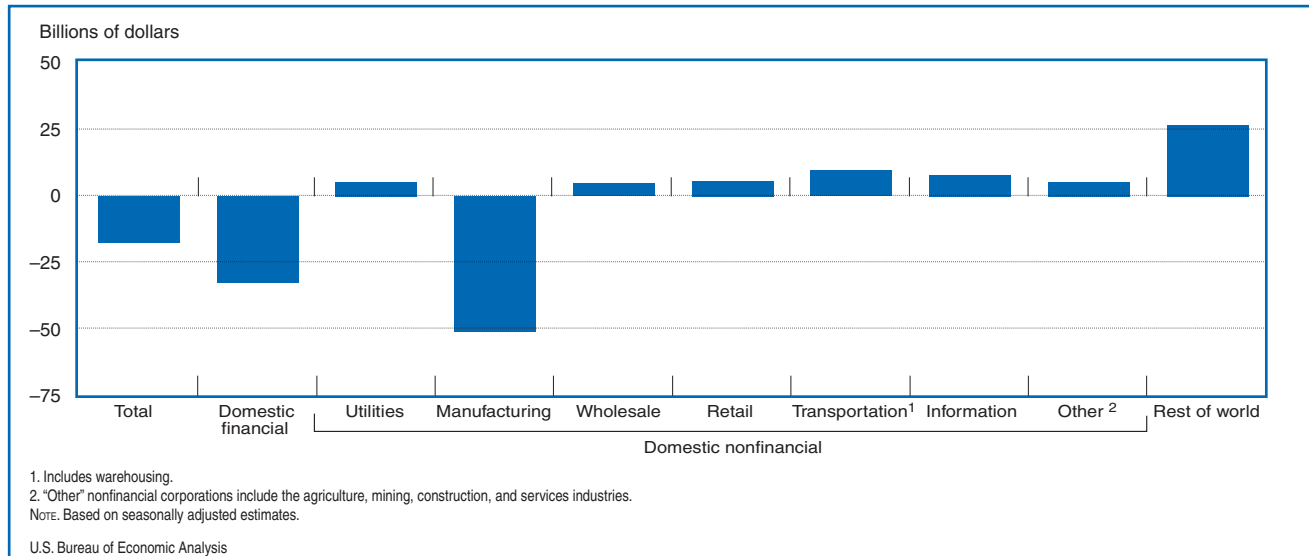
Industry profits with inventory valuation adjustment decreased \$17.4 billion, or 0.9 percent at quarterly rates, after increasing \$101.2 billion. This decrease is smaller than the decrease in profits from current production because industry profits exclude the capital consumption adjustment, which decreased \$3.0 billion in the third quarter.

Profits of domestic financial industries decreased \$32.2 billion, or 5.9 percent, after increasing \$53.4 billion.

Profits of domestic nonfinancial industries decreased \$11.6 billion, or 1.1 percent, after increasing \$31.0 billion. The downturn reflected a downturn in the profits of manufacturing industries. In contrast, profits of information industries and other nonfinancial industries turned up. Profits of retail trade industries, of transportation and warehousing industries, and of utilities accelerated. Profits of wholesale trade industries slowed.

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 CCAj Capital consumption adjustment

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



### 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 (CCAj) for each indus-

try. However, estimates of the CCAj 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/beam\\_p\\_national.htm](http://www.bea.gov/beam_p_national.htm)>.