

GDP and the Economy

Final Estimates for the Third Quarter of 2008

REAL GROSS domestic product (GDP) decreased 0.5 percent in the third quarter after increasing 2.8 percent in the second quarter, according to the “final” estimates of the national income and product accounts (chart 1 and table 1).¹ The rate of change in GDP was unrevised from the “preliminary” estimate (page 3).²

The downturn in real GDP primarily reflected a sharp downturn in consumer spending, a deceleration in exports, a smaller decrease in imports, a deceleration in nonresidential structures, a larger decrease in equipment and software, and a deceleration in state and local government spending.³ In contrast, inventory investment turned up, and federal government spending accelerated.

- Prices of goods and services purchased by U.S. residents increased 4.5 percent after increasing 4.2 percent. Food prices accelerated, and energy prices decelerated. Excluding food and energy, gross domestic purchases prices increased 2.8 percent after increasing 2.2 percent.
- Real disposable income (DPI) decreased 8.8 percent after increasing 10.7 percent. The downturn reflected a downturn in current-dollar DPI that resulted from a deceleration in personal income and an upturn in personal current taxes; both primarily reflected the second-quarter effects of the rebates from the Economic Stimulus Act of 2008.⁴
- The personal saving rate, personal saving as a percentage of current-dollar DPI, was 1.2 percent; in the second quarter, it was 2.5 percent.
- Profits from current production decreased \$18.5 billion, or 1.2 percent at a quarterly rate, after decreasing \$60.2 billion.

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

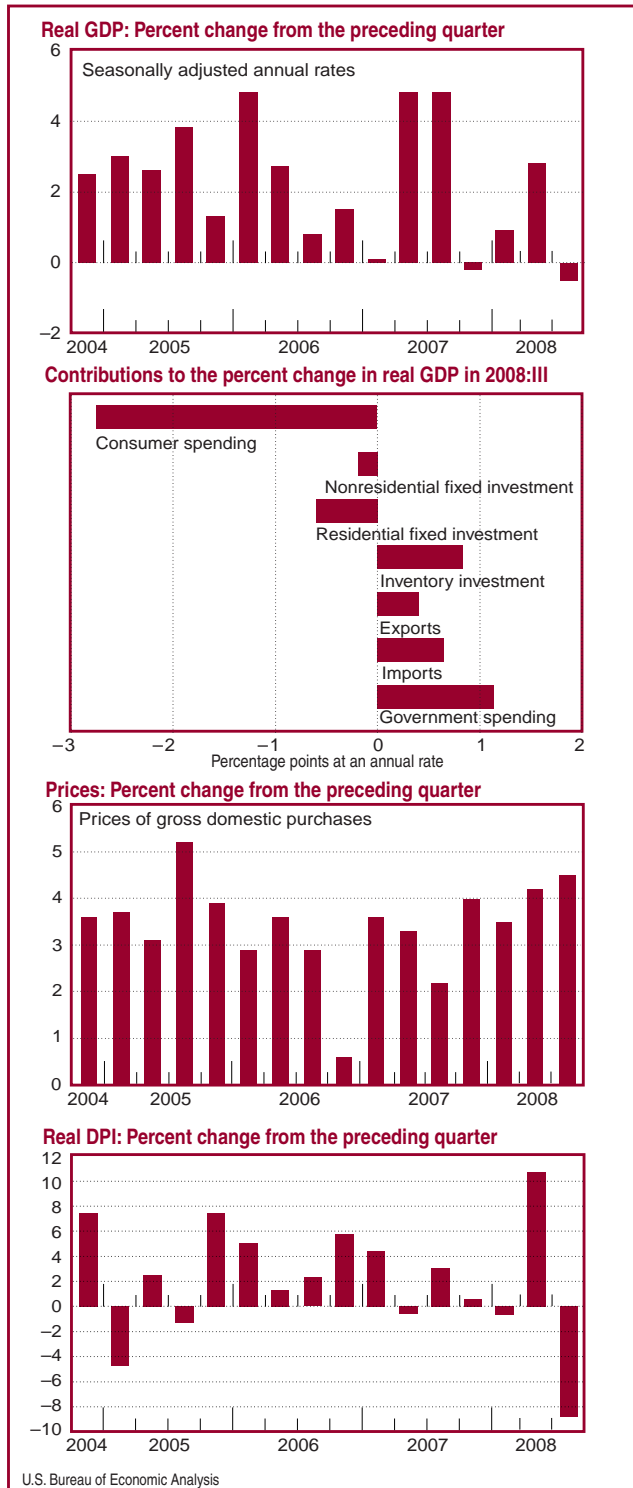
2. Each GDP estimate for a quarter (advance, preliminary, and final) incorporates increasingly comprehensive and improved source data. More information can be found at www.bea.gov/bea/about/infoqual.htm and www.bea.gov/bea/faq/national/gdp_accuracy.htm. Quarterly estimates are expressed at seasonally 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. For more information about these rebates, see FAQ 490 on BEA’s Web site.

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			
	III	IV	I	II	III	IV	I	II	III		
Gross domestic product ¹	100.0	-0.2	0.9	2.8	-0.5	-0.2	0.9	2.8	-0.5		
Personal consumption expenditures	70.5	1.0	0.9	1.2	-3.8	0.67	0.61	0.87	-2.75		
Durable goods	7.1	0.4	-4.3	-2.8	-14.8	0.03	-0.33	-0.21	-1.16		
Nondurable goods	21.1	0.3	-0.4	3.9	-7.1	0.05	-0.08	0.80	-1.57		
Services	42.3	1.4	2.4	0.7	-0.1	0.59	1.02	0.28	-0.03		
Gross private domestic investment	14.0	-11.9	-5.8	-11.5	0.4	-1.93	-0.89	-1.74	0.06		
Fixed investment	14.3	-6.2	-5.6	-1.7	-5.3	-0.97	-0.86	-0.25	-0.79		
Nonresidential	11.0	3.4	2.4	2.5	-1.7	0.36	0.26	0.27	-0.19		
Structures	4.0	8.5	8.6	18.5	9.7	0.29	0.30	0.64	0.36		
Equipment and software	7.0	1.0	-0.6	-5.0	-7.5	0.07	-0.04	-0.37	-0.55		
Residential	3.3	-27.0	-25.1	-13.3	-16.0	-1.33	-1.12	-0.52	-0.60		
Change in private inventories	-0.3	.....	.....	.....	.....	-0.96	-0.02	-1.50	0.84
Net exports of goods and services	-4.9	.....	.....	.....	.....	0.94	0.77	2.93	1.05
Exports	13.7	4.4	5.1	12.3	3.0	0.53	0.63	1.54	0.40		
Goods	9.5	5.1	4.5	16.3	3.7	0.43	0.39	1.39	0.34		
Services	4.1	2.7	6.4	3.8	1.4	0.10	0.24	0.15	0.06		
Imports	18.6	-2.3	-0.8	-7.3	-3.5	0.40	0.14	1.39	0.65		
Goods	15.6	-2.6	-2.0	-7.1	-4.7	0.38	0.29	1.14	0.74		
Services	3.0	-0.9	5.5	-8.0	3.3	0.02	-0.15	0.25	-0.09		
Government consumption expenditures and gross investment	20.4	0.8	1.9	3.9	5.8	0.16	0.38	0.78	1.14		
Federal	7.6	-0.5	5.8	6.6	13.8	-0.04	0.41	0.47	0.97		
National defense	5.3	-0.9	7.3	7.3	18.0	-0.04	0.34	0.36	0.85		
Nondefense	2.3	0.4	2.9	5.0	5.1	0.01	0.06	0.11	0.12		
State and local	12.8	1.6	-0.3	2.5	1.3	0.19	-0.03	0.31	0.17		
Addenda:											
Final sales of domestic product		0.8	0.9	4.4	-1.3	0.79	0.89	4.32	-1.35		
Gross domestic purchases price index		4.0	3.5	4.2	4.5	.....	.....	.....	.....
GDP price index		2.8	2.6	1.1	3.9	.....	.....	.....	.....

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 turned down sharply in the third quarter, decreasing 3.8 percent after increasing 1.2 percent. The decrease, the largest since the second quarter of 1980, reduced the third-quarter percent change in real GDP by 2.75 percentage points. It reflected a downturn in nondurable goods, a larger decrease in durable goods, and a downturn in services.

Nonresidential fixed investment turned down, reflecting a notable deceleration in structures and a larger decrease in equipment and software. The downturn subtracted 0.19 percentage point from the percent change in real GDP after adding 0.27 percentage point.

Residential investment decreased more than in the second quarter, subtracting 0.60 percentage point from the third-quarter percent change in real GDP after subtracting 0.52 percentage point.

Inventory investment turned up, adding 0.84 percentage point to the percent change in real GDP after subtracting 1.50 percentage points.

Exports slowed, mainly reflecting a deceleration in exports of goods. Industrial supplies and materials slowed, and "other" goods exports turned down. Exports of services decelerated.

Imports decreased less than in the second quarter, primarily reflecting a much smaller third-quarter decrease in petroleum and petroleum products. Imports of services turned up.

Government spending accelerated, mainly reflecting a sharp acceleration in federal spending for national defense. State and local government spending slowed.

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/beanipaguid.pdf. For a related discussion about GDP prices and gross domestic purchases prices, see FAQ 499.

Revisions to GDP

Table 2. Preliminary and Final Estimates for the Third 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	-0.5	-0.5	0.0	-0.5	-0.5	0.0
Personal consumption expenditures	-3.7	-3.8	-0.1	-2.69	-2.75	-0.06
Durable goods	-15.2	-14.8	0.4	-1.19	-1.16	0.03
Nondurable goods	-6.9	-7.1	-0.2	-1.51	-1.57	-0.06
Services	0.0	-0.1	-0.1	0.00	-0.03	-0.03
Gross private domestic investment	0.4	0.4	0.0	0.06	0.06	0.00
Fixed investment	-5.6	-5.3	0.3	-0.82	-0.79	0.03
Nonresidential	-1.5	-1.7	-0.2	-0.16	-0.19	-0.03
Structures	6.6	9.7	3.1	0.25	0.36	0.11
Equipment and software	-5.7	-7.5	-1.8	-0.41	-0.55	-0.14
Residential	-17.6	-16.0	1.6	-0.66	-0.60	0.06
Change in private inventories				0.89	0.84	-0.05
Net exports of goods and services				1.07	1.05	-0.02
Exports	3.4	3.0	-0.4	0.46	0.40	-0.06
Goods	3.9	3.7	-0.2	0.36	0.34	-0.02
Services	2.4	1.4	-1.0	0.10	0.06	-0.04
Imports	-3.2	-3.5	-0.3	0.61	0.65	0.04
Goods	-4.4	-4.7	-0.3	0.70	0.74	0.04
Services	3.2	3.3	0.1	-0.09	-0.09	0.00
Government consumption expenditures and gross investment	5.4	5.8	0.4	1.06	1.14	0.08
Federal	13.6	13.8	0.2	0.96	0.97	0.01
National defense	18.0	18.0	0.0	0.85	0.85	0.00
Nondefense	4.5	5.1	0.6	0.10	0.12	0.02
State and local	0.8	1.3	0.5	0.10	0.17	0.07
Addenda:						
Final sales of domestic product	-1.4	-1.3	0.1	-1.40	-1.35	0.05
Gross domestic purchases price index	4.7	4.5	-0.2			
GDP price index	4.2	3.9	-0.3			

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

The final estimate of the third-quarter real GDP decline was the same as the preliminary estimate. Upward revisions to nonresidential structures and to farm inventory investment were offset by downward revisions to private nonfarm inventory investment and to equipment and software. The average revision (without regard to sign) from the preliminary estimate to the final estimate is 0.3 percentage point.

The upward revision to nonresidential structures was primarily to power and communication structures and to manufacturing structures.

The downward revision to equipment and software primarily reflected a downward revision to prepackaged software.

The downward revision to inventory investment was primarily to wholesale trade and to retail trade inventories; the revision was partly offset by an upward revision to farm crop inventories.

Source Data for the Final Estimates

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

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

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

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

Change in private inventories: Crop market sales data for

September (new) and manufacturers' and trade inventories for September (revised).

Exports and imports of goods and services: International transactions accounts data for services for July–September (revised) and data for goods for September (revised).

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

GDP prices: Export and import prices for July, August, and September (revised), unit value index for petroleum imports for September (revised), and 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							
	2008	2007	2008			2007	2008			
	III	IV	I	II	III	IV	I	II	III	
Current production measures:										
Corporate profits	1,514.80	-57.2	-17.6	-60.2	-18.5	-3.4	-1.1	-3.8	-1.2	
Domestic industries.....	1,136.40	-122.2	5.4	-35.3	-23.4	-9.3	0.4	-3.0	-2.0	
Financial.....	301.10	-69.0	37.3	-31.0	-75.5	-15.7	10.1	-7.6	-20.0	
Nonfinancial.....	835.30	-53.1	-32.1	-4.2	52.1	-6.1	-3.9	-0.5	6.7	
Rest of the world.....	378.40	64.9	-22.8	-25.0	4.9	18.2	-5.4	-6.3	1.3	
Receipts from the rest of the world.....	555.30	24.7	3.7	8.9	-10.4	4.7	0.7	1.6	-1.8	
Less: Payments to the rest of the world.....	176.90	-40.2	26.5	33.9	-15.3	-23.4	20.1	21.4	-8.0	
Less: Taxes on corporate income.....	393.50	-17.6	-30.6	3.9	-13.3	-3.9	-7.0	1.0	-3.3	
Equals: Profits after tax.....	1,121.30	-39.7	13.0	-64.1	-5.2	-3.3	1.1	-5.4	-0.5	
Net dividends	841.10	18.8	16.1	13.9	-5.3	2.4	2.0	1.7	-0.6	
Undistributed profits from current production	280.30	-58.5	-3.1	-78.1	0.3	-13.9	-0.9	21.8	0.1	
Net cash flow	1,319.60	-44.5	10.1	-60.5	43.1	-3.2	0.8	-4.5	3.4	

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 \$18.5 billion, or 1.2 percent at a quarterly rate, in the third quarter after decreasing \$60.2 billion. Third-quarter profits were reduced by \$46.2 billion because of Hurricane Ike: benefit payments by insurance companies reduced profits by \$22.0 billion, and uninsured losses reduced profits by \$24.2 billion.

Profits of domestic financial corporations decreased \$75.5 billion, or 20.0 percent, after decreasing \$31.0 billion.

Profits of domestic nonfinancial corporations increased \$52.1 billion, or 6.7 percent, after decreasing \$4.2 billion.

Profits from the rest of the world increased \$4.9 billion, or 1.3 percent, after decreasing \$25.0 billion.

Taxes on corporate income decreased \$13.3 billion, or 3.3 percent, after increasing \$3.9 billion.

After-tax profits decreased \$5.2 billion, or 0.5 percent, after decreasing \$64.1 billion.

Undistributed corporate profits (a measure of net saving that equals after-tax profits less dividends) increased \$0.3 billion, or 0.1 percent, after decreasing \$78.1 billion.

Net cash flow, a profits-related measure of internally generated funds available for investment, increased \$43.1 billion, or 3.4 percent, after decreasing \$60.5 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		
	III	IV	I	II	III	IV	I	II	III	
Industry profits:										
Profits with IVA.....	1,602.8	-45.9	-178.7	-45.5	6.8	-2.5	-9.8	-2.8	0.4	
Domestic industries.....	1,224.4	-110.8	-155.8	-20.6	1.9	-7.3	-11.1	-1.7	0.2	
Financial.....	308.8	-67.9	20.4	-29.6	-74.4	-14.7	5.2	-7.2	-19.4	
Nonfinancial.....	915.6	-42.8	-176.3	9.1	76.3	-4.1	-17.5	1.1	9.1	
Utilities.....	59.1	4.5	-17.0	10.5	2.4	7.7	-26.9	22.8	4.1	
Manufacturing.....	272.6	-14.5	-51.6	-25.6	57.7	-4.7	-17.7	-10.6	26.8	
Wholesale trade.....	92.1	-28.9	-31.0	10.2	32.7	-26.5	-38.7	20.7	55.1	
Retail trade.....	86.2	-1.5	-12.5	-19.3	-6.5	-1.2	-10.1	-17.3	-7.0	
Transportation and warehousing.....	25.2	-9.3	-13.3	0.4	0.4	-19.9	-35.4	1.9	1.7	
Information.....	103.8	9.5	-11.9	9.0	-11.2	8.8	-10.1	8.5	-9.7	
Other nonfinancial ...	276.6	-2.6	-38.9	23.8	0.8	-0.9	-13.4	9.4	0.3	
Rest of the world.....	378.4	64.9	-22.8	-25.0	4.9	18.2	-5.4	-6.3	1.3	
Addenda:										
Profits before tax (without IVA and CCAdj).....	1,693.7	-2.8	-143.4	-0.9	-56.3	-0.1	-7.6	-0.1	-3.2	
Profits after tax (without IVA and CCAdj).....	1,300.1	14.8	-112.9	-4.8	-43.1	1.0	-7.7	-0.4	-3.2	
IVA.....	-90.9	-43.1	-35.3	-44.6	63.1	.....	.....	.....	.....
CCAdj.....	-88.0	-11.4	161.2	-14.7	-25.3	.....	.....	.....	.....

Profits with inventory valuation adjustment increased \$6.8 billion, or 0.4 percent at a quarterly rate, in the third quarter after decreasing \$45.5 billion in the second quarter. The difference between the third-quarter decrease in this measure of profits and the \$18.5 billion decrease in profits from current production reflects the capital consumption adjustment, which decreased \$25.3 billion.

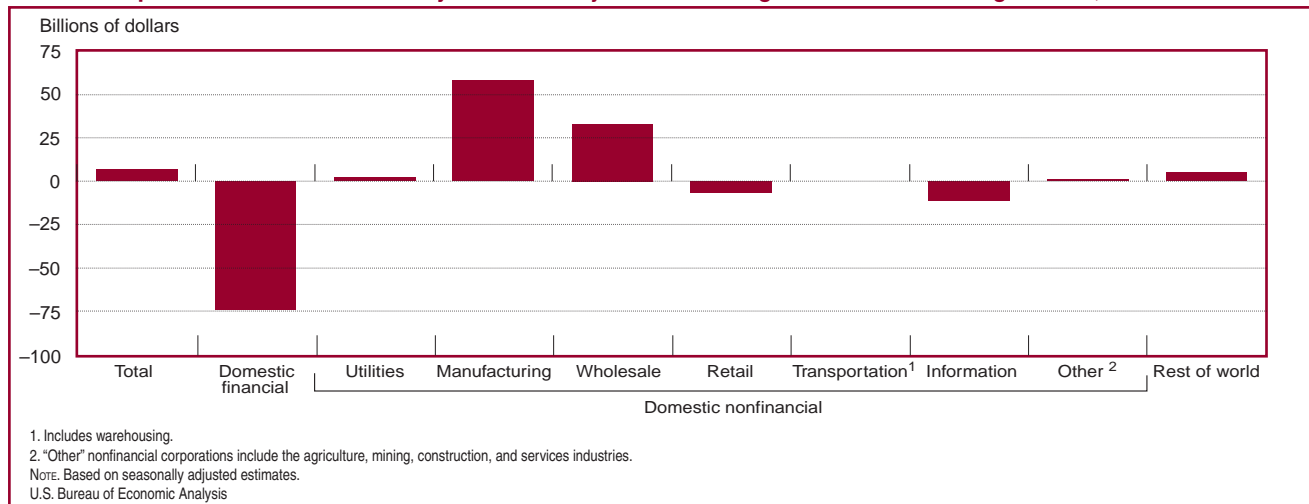
Profits of domestic industries increased \$1.9 billion, or 0.2 percent, after decreasing \$20.6 billion.

Profits of domestic financial industries decreased \$74.4 billion, or 19.4 percent, after decreasing \$29.6 billion.

Profits of domestic nonfinancial industries increased \$76.3 billion, or 9.1 percent, after increasing \$9.1 billion. The acceleration mainly reflected an upturn in the profits of manufacturing industries and an acceleration in the profits of wholesale trade industries. In contrast, profits of utilities industries slowed, and profits of information industries turned down. Profits of "other" nonfinancial industries also 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 CCAdj Capital consumption adjustment

Chart 2. Corporate Profits With Inventory Valuation Adjustment: Change From the Preceding Quarter, 2008: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 (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/beam_p_national.htm.