

GDP and the Economy

Third Estimates for the Third Quarter of 2009

REAL GROSS domestic product (GDP) increased 2.2 percent at an annual rate in the third quarter of 2009, according to the “third” estimates of the national income and product accounts (NIPAs) (chart 1 and table 1).¹ The increase was 0.6 percentage point less than in the “second” estimate (see page 3). In the second quarter, real GDP decreased 0.7 percent.

The upturn in real GDP in the third quarter primarily reflected upturns in consumer spending, exports, inventory investment, and residential fixed investment and a smaller decrease in nonresidential fixed investment. In contrast, imports turned up, state and local government spending turned down, and federal government spending slowed.²

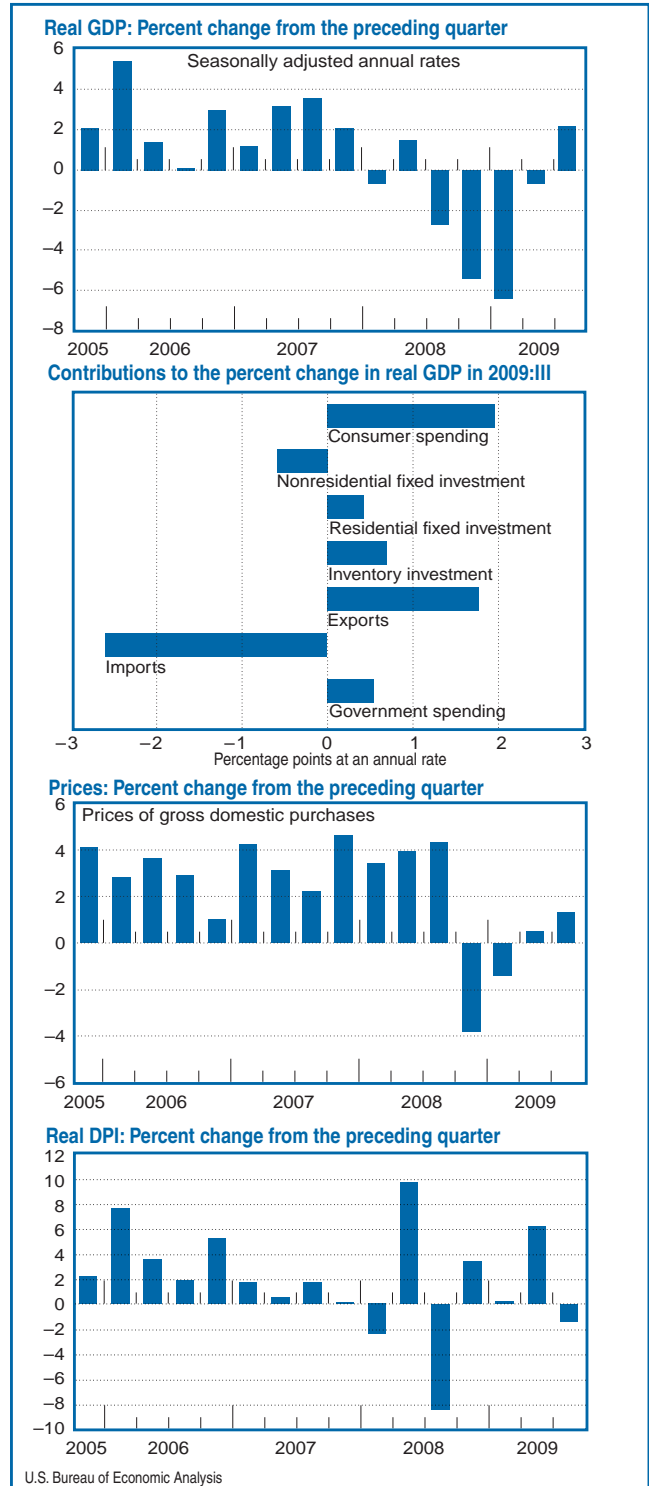
- Prices of goods and services purchased by U.S. residents increased 1.3 percent in the third quarter after increasing 0.5 percent in the second quarter. Energy prices turned up sharply, and food prices decreased less than in the second quarter. Excluding food and energy, gross domestic purchases prices increased 0.3 percent in the third quarter after increasing 0.8 percent in the second quarter.
- Real disposable personal income (DPI) decreased 1.4 percent, 0.1 percentage point less of a decrease than in the second estimate; in the second quarter, it increased 6.2 percent. The downturn primarily reflected a slowdown in current-dollar personal income, an upturn in personal current taxes, and an acceleration in the PCE implicit price deflator that is used to deflate DPI.
- The personal saving rate, personal saving as a percentage of current-dollar DPI, was 4.5 percent in the third quarter; in the second quarter, it was 5.4 percent.
- Corporate profits picked up in the third quarter, increasing \$132.4 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.”

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		2009					2009				
	III	IV	I	II	III	IV	I	II	III			
Gross domestic product¹.....	100.0	-5.4	-6.4	-0.7	2.2	-5.4	-6.4	-0.7	2.2			
Personal consumption expenditures.....	71.1	-3.1	0.6	-0.9	2.8	-2.15	0.44	-0.62	1.96			
Goods.....	23.1	-10.0	2.5	-3.1	7.2	-2.41	0.56	-0.71	1.59			
Durable goods.....	7.4	-20.3	3.9	-5.6	20.4	-1.64	0.28	-0.41	1.36			
Nondurable goods.....	15.7	-4.9	1.9	-1.9	1.5	-0.78	0.29	-0.29	0.23			
Services.....	48.0	0.5	-0.3	0.2	0.8	0.26	-0.13	0.09	0.37			
Gross private domestic investment.....	10.9	-24.2	-50.5	-23.7	5.0	-3.91	-8.98	-3.10	0.54			
Fixed investment.....	12.0	-20.2	-39.0	-12.5	-1.3	-3.28	-6.62	-1.68	-0.15			
Nonresidential.....	9.5	-19.5	-39.2	-9.6	-5.9	-2.47	-5.29	-1.01	-0.59			
Structures.....	3.2	-7.2	-43.6	-17.3	-18.4	-0.31	-2.28	-0.69	-0.68			
Equipment and software.....	6.3	-25.9	-36.4	-4.9	1.5	-2.15	-3.01	-0.32	0.10			
Residential.....	2.5	-23.2	-38.2	-23.3	18.9	-0.81	-1.33	-0.67	0.43			
Change in private inventories.....	-1.1	.....	.....	.....	.....	-0.64	-2.36	-1.42	0.69
Net exports of goods and services.....	-2.8	.....	.....	.....	.....	0.45	2.64	1.65	-0.81
Exports.....	11.1	-19.5	-29.9	-4.1	17.8	-2.67	-3.95	-0.45	1.78			
Goods.....	7.3	-25.5	-36.9	-6.3	24.6	-2.50	-3.41	-0.45	1.58			
Services.....	3.7	-4.3	-13.6	0.1	5.6	-0.17	-0.54	0.00	0.20			
Imports.....	13.9	-16.7	-36.4	-14.7	21.3	3.12	6.58	2.09	-2.59			
Goods.....	11.2	-19.6	-41.0	-16.5	25.1	3.09	6.25	1.89	-2.41			
Services.....	2.7	-0.9	-11.5	-7.5	7.0	0.03	0.34	0.21	-0.18			
Government consumption expenditures and gross investment.....	20.8	1.2	-2.6	6.7	2.6	0.24	-0.52	1.33	0.55			
Federal.....	8.2	6.5	-4.3	11.4	8.0	0.49	-0.33	0.85	0.62			
National defense.....	5.6	3.8	-5.1	14.0	8.4	0.20	-0.27	0.70	0.45			
Nondefense.....	2.6	12.7	-2.5	6.1	7.0	0.29	-0.06	0.15	0.17			
State and local.....	12.6	-2.0	-1.5	3.9	-0.6	-0.25	-0.19	0.48	-0.08			
Addenda:												
Final sales of domestic product.....	101.1	-4.7	-4.1	0.7	1.5	-4.74	-4.07	0.68	1.54			
Gross domestic purchases.....	102.8	-5.5	-8.6	-2.3	3.0	.....	.....	.....	.....
Gross domestic purchases price index.....	.....	-3.8	-1.4	0.5	1.3	.....	.....	.....	.....
GDP price index.....	.....	0.1	1.9	0.0	0.4	.....	.....	.....	.....

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 up in the third quarter, primarily reflecting an upturn in spending for goods; it added 1.96 percentage points to real GDP growth after subtracting 0.62 percentage point.

Nonresidential fixed investment decreased less than in the second quarter, subtracting 0.59 percentage point from real GDP growth after subtracting 1.01 percentage points. The smaller decrease reflected an upturn in equipment and software.

Residential fixed investment turned up, increasing 18.9 percent, the first increase in 15 quarters, after decreasing 23.3 percent. The upturn reflected upturns in single-family and "other" structures.

Inventory investment turned up, adding 0.69 percentage point to real GDP growth after subtracting 1.42 percentage points.

Exports turned up, adding 1.78 percentage points to real GDP growth after subtracting 0.45 percentage point. Exports of goods turned up, and exports of services accelerated.

Imports also turned up, subtracting 2.59 percentage points from real GDP growth after adding 2.09 percentage points; both imports of goods and services turned up.

Federal government spending slowed, reflecting a deceleration in national defense spending.

State and local government spending turned down, reflecting a deceleration in investment in structures and a downturn in consumption expenditures.

Gross domestic purchases increased 3.0 percent, 0.8 percentage point more than real GDP, reflecting a larger increase in imports than 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 Third 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	2.8	2.2	-0.6	2.8	2.2	-0.6
Personal consumption expenditures	2.9	2.8	-0.1	2.07	1.96	-0.11
Goods	7.2	7.2	0.0	1.60	1.59	-0.01
Durable goods	20.1	20.4	0.3	1.34	1.36	0.02
Nondurable goods	1.7	1.5	-0.2	0.26	0.23	-0.03
Services	1.0	0.8	-0.2	0.47	0.37	-0.10
Gross private domestic investment	8.4	5.0	-3.4	0.91	0.54	-0.37
Fixed investment	0.3	-1.3	-1.6	0.04	-0.15	-0.19
Nonresidential	-4.1	-5.9	-1.8	-0.40	-0.59	-0.19
Structures	-15.1	-18.4	-3.3	-0.55	-0.68	-0.13
Equipment and software	2.3	1.5	-0.8	0.15	0.10	-0.05
Residential	19.5	18.9	-0.6	0.45	0.43	-0.02
Change in private inventories				0.87	0.69	-0.18
Net exports of goods and services				-0.83	-0.81	0.02
Exports	17.0	17.8	0.8	1.71	1.78	0.07
Goods	24.5	24.6	0.1	1.57	1.58	0.01
Services	3.8	5.6	1.8	0.14	0.20	0.06
Imports	20.8	21.3	0.5	-2.53	-2.59	-0.06
Goods	25.6	25.1	-0.5	-2.45	-2.41	0.04
Services	3.0	7.0	4.0	-0.08	-0.18	-0.10
Government consumption expenditures and gross investment	3.1	2.6	-0.5	0.63	0.55	-0.08
Federal	8.3	8.0	-0.3	0.65	0.62	-0.03
National defense	8.9	8.4	-0.5	0.48	0.45	-0.03
Nondefense	6.9	7.0	0.1	0.17	0.17	0.00
State and local	-0.1	-0.6	-0.5	-0.02	-0.08	-0.06
Addenda:						
Final sales of domestic product	1.9	1.5	-0.4	1.92	1.54	-0.38
Gross domestic purchases price index	1.4	1.3	-0.1			
GDP price index	0.5	0.4	-0.1			

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

Real GDP increased 2.2 percent in the “third” estimate for the third quarter, 0.6 percentage point less than the “second” estimate; the revision primarily reflected downward revisions to nonresidential fixed investment, inventory investment, and consumer spending. The average revision (without regard to sign) from the second estimate to the third estimate is 0.3 percentage point.

The revision to consumer spending reflected a downward revision to consumer spending for services, mainly to spending for health care.

The revision to nonresidential fixed investment was primarily accounted for by downward revisions to structures (mainly commercial and health care structures and manufacturing structures) and to equipment and software (mainly software).

The revision to inventory investment was primarily accounted for by a downward revision to nonfarm inventories (mainly manufacturing).

Source Data for the Third Estimates

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

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

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

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

Change in private inventories: USDA crop market sales and harvest quantities for the third quarter (revised) and manufacturers’ and trade inventories for September

(revised). Quarterly Financial Report data for mining for the third quarter (new) and Energy Information Administration data for natural gas for September (new) and for coal and petroleum for August (new).

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) data 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 September (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			2008	2009			
	III	IV	I	II	III	IV	I	II	III	
Current production measures:										
Corporate profits	1,358.9	-331.0	59.1	43.8	132.4	-22.8	5.3	3.7	10.8	
Domestic industries.....	1,035.7	-266.1	75.7	58.3	110.4	-25.2	9.6	6.7	11.9	
Financial.....	349.1	-167.9	115.9	28.5	82.8	-57.9	95.0	12.0	31.1	
Nonfinancial.....	686.6	-98.2	-40.2	29.8	27.6	-12.8	-6.0	4.7	4.2	
Rest of the world.....	323.2	-64.8	-16.6	-14.6	22.0	-16.3	-5.0	-4.6	7.3	
Receipts from the rest of the world.....	440.8	-79.4	-76.9	7.7	30.9	-14.2	-16.1	1.9	7.5	
Less: Payments to the rest of the world.....	117.6	-14.5	-60.4	22.3	8.9	-9.0	-41.1	25.8	8.2	
Less: Taxes on corporate income.....	321.0	-81.5	47.0	35.6	15.1	-26.7	21.1	13.2	4.9	
Equals: Profits after tax.....	1,037.9	-249.4	12.0	8.2	117.3	-21.7	1.3	0.9	12.7	
Net dividends	549.9	-6.7	-51.8	-62.1	-6.1	-1.0	-7.7	-10.0	-1.1	
Undistributed profits from current production	488.0	-242.7	63.7	70.3	123.5	-51.3	27.7	23.9	33.9	
Net cash flow	1,573.3	59.8	16.2	-30.5	28.4	4.0	1.0	-1.9	1.8	

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 \$132.4 billion, or 10.8 percent at a quarterly rate, in the third quarter after increasing \$43.8 billion, or 3.7 percent, in the second quarter.

Domestic profits of financial corporations increased \$82.8 billion, or 31.1 percent, after increasing \$28.5 billion, or 12.0 percent.

Domestic profits of nonfinancial corporations increased \$27.6 billion, or 4.2 percent, after increasing \$29.8 billion, or 4.7 percent.

Profits from the rest of the world increased \$22.0 billion, or 7.3 percent, after decreasing \$14.6 billion, or 4.6 percent. Receipts increased \$30.9 billion, and payments increased \$8.9 billion.

After-tax profits increased \$117.3 billion, or 12.7 percent, after increasing \$8.2 billion, or 0.9 percent.

Undistributed corporate profits, a measure of net saving that equals after-tax profits less dividends, increased \$123.5 billion, or 33.9 percent, after increasing \$70.3 billion, or 23.9 percent.

Net cash flow, a profits-related measure of internal funds available for investment, increased \$28.4 billion, or 1.8 percent, after decreasing \$30.5 billion, or 1.9 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						
	III	IV	I	II	III	IV	I	II	III	
Industry profits:										
Profits with IVA.....	1,477.8	-322.9	128.3	27.5	122.7	-21.2	10.7	2.1	9.1	
Domestic industries.....	1,154.6	-258.1	145.0	42.0	100.7	-22.9	16.7	4.2	9.6	
Financial.....	362.4	-167.2	123.6	26.8	81.7	-56.2	94.8	10.6	29.1	
Nonfinancial.....	792.2	-90.9	21.4	15.3	18.9	-11.0	2.9	2.0	2.4	
Utilities.....	61.5	-2.7	12.8	-0.2	8.1	-6.3	31.5	-0.3	15.2	
Manufacturing.....	129.7	-57.1	-27.0	10.7	-2.6	-27.7	-18.2	8.8	-2.0	
Wholesale trade.....	80.6	25.7	-17.5	-6.5	-6.9	29.9	-15.7	-6.9	-7.9	
Retail trade.....	98.8	2.6	3.4	12.0	3.7	3.4	4.2	14.4	3.9	
Transportation and warehousing.....	4.8	2.3	-4.8	-5.4	3.5	25.7	-41.7	-80.8	269.2	
Information.....	107.0	-18.3	31.8	4.0	7.6	-22.3	49.9	4.2	7.6	
Other nonfinancial ..	309.9	-43.6	22.8	0.6	5.7	-13.4	8.1	0.2	1.9	
Rest of the world.....	323.2	-64.8	-16.6	-14.6	22.0	-16.3	-5.0	-4.6	7.3	
Addenda:										
Profits before tax (without IVA and CCAdj).....	1,495.0	-516.5	186.4	90.6	157.9	-32.8	17.6	7.3	11.8	
Profits after tax (without IVA and CCAdj).....	1,173.9	-435.1	139.3	55.0	142.8	-34.2	16.6	5.6	13.8	
IVA.....	-17.1	193.7	-58.1	-63.0	-35.2	.....	.....	.....	.....
CCAdj.....	-118.9	-8.0	-69.3	16.3	9.7	.....	.....	.....	.....

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

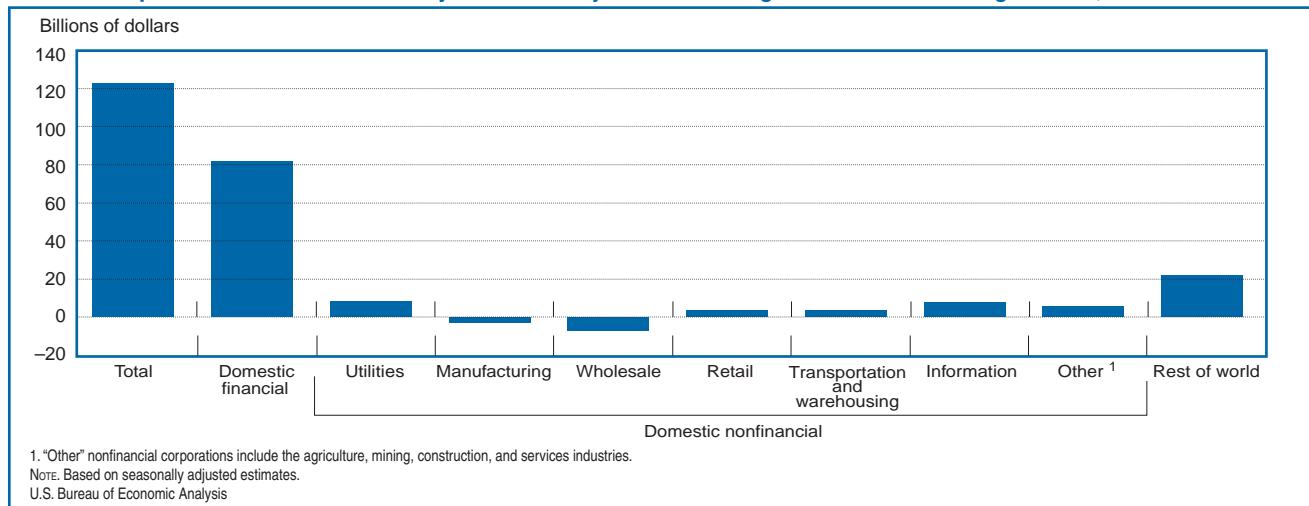
Profits with inventory valuation adjustment increased \$122.7 billion, or 9.1 percent at a quarterly rate, in the third quarter after increasing \$27.5 billion, or 2.1 percent, in the second quarter. The difference between this increase and the increase in profits from current production reflects the capital consumption adjustment, which increased \$9.7 billion in the third quarter.

Profits of domestic industries increased \$100.7 billion, or 9.6 percent, after increasing \$42.0 billion, or 4.2 percent.

Profits of domestic financial industries increased \$81.7 billion, or 29.1 percent, after increasing \$26.8 billion, or 10.6 percent.

Profits of domestic nonfinancial industries increased \$18.9 billion, or 2.4 percent, after increasing \$15.3 billion, or 2.0 percent. The small pickup reflected upturns in transportation and warehousing industries and in utilities and accelerations in "other" nonfinancial industries and in information industries. In contrast, profits of manufacturing industries turned down, and profits of retail trade industries slowed.

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