GDP and the Economy

Third Estimates for the Third Quarter of 2010

REAL GROSS domestic product (GDP) increased at an annual rate of 2.6 percent in the third 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 second quarter of 2010, real GDP increased 1.7 percent.

The acceleration in real GDP in the third quarter primarily reflected a sharp deceleration in imports and an acceleration in inventory investment that were partly offset by a downturn in residential fixed investment and decelerations in nonresidential fixed investment and in exports.[2]

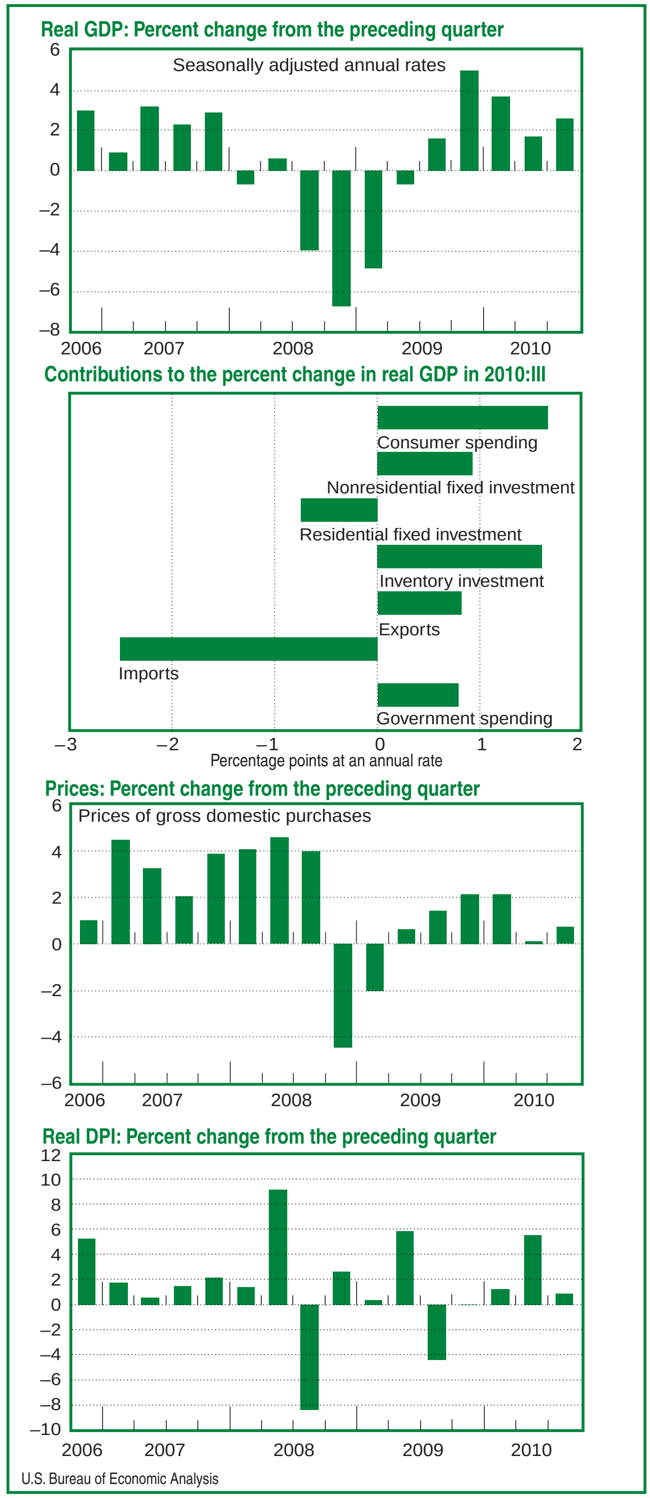
- Prices of goods and services purchased by U.S. residents increased 0.7 percent in the third quarter after increasing 0.1 percent in the second quarter. Energy prices turned up in the third quarter, and food prices decelerated slightly. Excluding food and energy, gross domestic purchases prices increased 0.4 percent after increasing 0.8 percent.
- Real disposable personal income (DPI) increased 0.9 percent in the third quarter, the same increase as in the second estimate; in the second quarter, real DPI increased 5.6 percent. The sharp deceleration reflected a deceleration in personal income, an acceleration in personal current taxes, and an acceleration in the PCE implicit price deflator, which is used to deflate current-dollar DPI.
- The personal saving rate, personal saving as a percentage of current-dollar DPI, was 5.9 percent in the third quarter; in the second quarter, it was 6.2 percent.
- Corporate profits from current production increased $26.0 billion in the third quarter after increasing $47.5 billion in the second quarter (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)			
	2010	2009	2010			2009	2010		
	III	IV	I	II	III	IV	I	II	III
Gross domestic product [1]	**100.0**	**5.0**	**3.7**	**1.7**	**2.6**	**5.0**	**3.7**	**1.7**	**2.6**
Personal consumption expenditures	**70.3**	**0.9**	**1.9**	**2.2**	**2.4**	**0.69**	**1.33**	**1.54**	**1.67**
Goods	23.2	1.7	5.7	3.4	4.1	0.42	1.29	0.79	0.94
Durable goods	7.4	–1.1	8.8	6.8	7.6	–0.07	0.62	0.49	0.54
Nondurable goods	15.8	3.1	4.2	1.9	2.5	0.49	0.67	0.31	0.39
Services	47.1	0.5	0.1	1.6	1.6	0.27	0.03	0.75	0.74
Gross private domestic investment	**12.9**	**26.7**	**29.1**	**26.2**	**15.0**	**2.70**	**3.04**	**2.88**	**1.80**
Fixed investment	12.0	–1.3	3.3	18.9	1.5	–0.12	0.39	2.06	0.18
Nonresidential	9.8	–1.4	7.8	17.2	10.0	–0.10	0.71	1.51	0.93
Structures	2.6	–29.2	–17.8	–0.5	–3.5	–1.01	–0.53	–0.01	–0.09
Equipment and software	7.2	14.6	20.4	24.8	15.4	0.91	1.24	1.52	1.02
Residential	2.2	–0.8	–12.3	25.7	–27.3	–0.02	–0.32	0.55	–0.75
Change in private inventories	0.9	....	....	....	....	2.83	2.64	0.82	1.61
Net exports of goods and services	**–3.7**	....	....	....	....	**1.90**	**–0.31**	**–3.50**	**–1.70**
Exports	12.5	24.4	11.4	9.1	6.8	2.56	1.30	1.08	0.82
Goods	8.7	31.7	14.0	11.5	5.8	2.19	1.09	0.93	0.49
Services	3.8	10.2	5.8	3.9	8.9	0.37	0.21	0.15	0.33
Imports	16.3	4.9	11.2	33.5	16.8	–0.66	–1.61	–4.58	–2.53
Goods	13.5	6.2	12.0	40.5	17.4	–0.68	–1.41	–4.46	–2.16
Services	2.8	–0.5	7.8	4.3	14.2	0.02	–0.20	–0.12	–0.37
Government consumption expenditures and gross investment	**20.5**	**–1.4**	**–1.6**	**3.9**	**3.9**	**–0.28**	**–0.32**	**0.80**	**0.79**
Federal	8.4	0.0	1.8	9.1	8.8	0.01	0.15	0.72	0.71
National defense	5.6	–2.5	0.4	7.4	8.5	–0.13	0.02	0.40	0.46
Nondefense	2.7	5.6	5.0	12.8	9.5	0.14	0.13	0.32	0.25
State and local	12.1	–2.3	–3.8	0.6	0.7	–0.29	–0.48	0.08	0.09
Addenda:									
Final sales of domestic product	99.1	2.1	1.1	0.9	0.9	2.19	1.09	0.90	0.95
Gross domestic purchases	103.7	3.0	3.9	5.1	4.2	....	....	....	....
Gross domestic purchases price index	....	2.1	2.1	0.1	0.7	....	....	....	....
GDP price index	....	–0.2	1.0	1.9	2.1	....	....	....	....

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 somewhat in the third quarter, reflecting pickups in spending for nondurable goods and for durable goods. Spending for services grew at the same rate as in the second quarter.

Nonresidential fixed investment slowed, reflecting a deceleration in spending for equipment and software and a larger decrease in spending for structures.

Residential investment turned down, mainly reflecting downturns in "other" structures, notably in brokers' commissions, in improvements, and in single-family structures.

Inventory investment accelerated and added 1.61 percentage points to real GDP growth after adding 0.82 percentage point.

Exports slowed, reflecting a slowdown in exports of goods that was partly offset by a pickup in exports of services.

Imports slowed, reflecting a slowdown in imports of goods that was partly offset by a pickup in imports of services.

Federal government spending slowed slightly. A deceleration in nondefense spending was mostly offset by a pickup in national defense spending.

The GDP price index increased 2.1 percent, 1.4 percentage points more than the gross domestic purchases price index, reflecting a decrease in import prices (8.1 percent) and a slight increase in export prices (0.2 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 Third 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]	**2.5**	**2.6**	**0.1**	**2.5**	**2.6**	**0.1**
Personal consumption expenditures	**2.8**	**2.4**	**–0.4**	**1.97**	**1.67**	**–0.30**
Goods	3.5	4.1	0.6	0.81	0.94	0.13
Durable goods	7.4	7.6	0.2	0.53	0.54	0.01
Nondurable goods	1.8	2.5	0.7	0.28	0.39	0.11
Services	2.5	1.6	–0.9	1.16	0.74	–0.42
Gross private domestic investment	**12.4**	**15.0**	**2.6**	**1.51**	**1.80**	**0.29**
Fixed investment	1.7	1.5	–0.2	0.20	0.18	–0.02
Nonresidential	10.3	10.0	–0.3	0.96	0.93	–0.03
Structures	–5.7	–3.5	2.2	–0.15	–0.09	0.06
Equipment and software	16.8	15.4	–1.4	1.11	1.02	–0.09
Residential	–27.5	–27.3	0.2	–0.75	–0.75	0.00
Change in private inventories	....	....	....	1.30	1.61	0.31
Net exports of goods and services	....	....	....	**–1.76**	**–1.70**	**0.06**
Exports	6.3	6.8	0.5	0.77	0.82	0.05
Goods	5.5	5.8	0.3	0.47	0.49	0.02
Services	8.1	8.9	0.8	0.30	0.33	0.03
Imports	16.8	16.8	0.0	–2.52	–2.53	–0.01
Goods	17.5	17.4	–0.1	–2.17	–2.16	0.01
Services	13.7	14.2	0.5	–0.36	–0.37	–0.01
Government consumption expenditures and gross investment	**4.0**	**3.9**	**–0.1**	**0.81**	**0.79**	**–0.02**
Federal	8.9	8.8	–0.1	0.71	0.71	0.00
National defense	8.5	8.5	0.0	0.46	0.46	0.00
Nondefense	9.5	9.5	0.0	0.25	0.25	0.00
State and local	0.8	0.7	–0.1	0.10	0.09	–0.01
Addenda:						
Final sales of domestic product	1.2	0.9	–0.3	1.22	0.95	–0.27
Gross domestic purchases price index	0.8	0.7	–0.1	....	....	....
GDP price index	2.3	2.1	–0.2	....	....	....

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

The third estimate of the third-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 estimates and the third estimates is 0.3 percentage point. The slight upward revision to the percent change in real GDP primarily reflected an upward revision to inventory investment that was largely offset by a downward revision to consumer spending.

The downward revision to consumer spending reflected a downward revision to consumer spending for services that was partly offset by an upward revision to consumer spending for goods. Within services, the revision primarily reflected downward revisions to health care services and to financial services and insurance. Within goods, the largest contributor to the upward revision was nondurable goods, specifically, motor vehicle fuels, lubricants, and fluids.

The upward revision to inventory investment was primarily accounted for by upward revisions to wholesale trade inventories and to manufacturing inventories.

Source Data for the Third Estimates

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

Personal consumption expenditures: retail sales for September (revised), quarterly services survey data for the third quarter (new), and Energy Information Administration (EIA) fuels data for September (new).

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: manufacturers' and trade inventories for September (revised), Quarterly Financial Report data for mining (revised), and EIA data for natural gas for September (new) and for coal and petroleum stocks for August (new).

Exports and imports of goods and services: international transactions accounts data 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 the September (new).

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		
	III	IV	I	II	III	IV	I	II	III
Current production measures:									
Corporate profits	1,640.1	120.7	148.4	47.5	26.0	9.3	10.5	3.0	1.6
Domestic industries	1,257.7	122.5	122.4	44.6	35	13.1	11.6	3.8	2.9
Financial	368.8	46.3	5.2	–3.4	34.6	16.2	1.6	–1.0	10.4
Nonfinancial	888.9	76.1	117.2	48.2	0.3	11.8	16.2	5.7	0.0
Rest of the world	382.4	–1.6	25.9	2.8	–8.9	–0.5	7.2	0.7	–2.3
Receipts from the rest of the world	566.3	41.3	32.3	–3.9	8.8	8.5	6.1	–0.7	1.6
Less: Payments to the rest of the world	183.9	42.9	6.4	–6.8	17.8	34.7	3.9	–3.9	10.7
Less: Taxes on corporate income	429.4	63.4	84.1	2.4	23.8	24.8	26.4	0.6	5.9
Equals: Profits after tax	1,210.7	57.4	64.1	45.2	2.2	5.5	5.8	3.9	0.2
Net dividends	736.5	8.9	11.8	8.1	8.1	1.3	1.7	1.1	1.1
Undistributed profits from current production	474.2	48.4	52.4	37.1	–5.9	14.2	13.4	8.4	–1.2
Net cash flow	1,510.0	78.4	33.3	61.1	–68.4	5.6	2.2	4.0	–4.3

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 $26.0 billion, or 1.6 percent at a quarterly rate, in the third quarter after increasing $47.5 billion, or 3.0 percent, in the second quarter.

Domestic profits of financial corporations increased $34.6 billion, or 10.4 percent, after decreasing $3.4 billion, or 1.0 percent.

Domestic profits of nonfinancial corporations increased $0.3 billion after increasing $48.2 billion.

Profits from the rest of the world decreased $8.9 billion, or 2.3 percent, after increasing $2.8 billion, or 0.7 percent. In the third quarter, receipts increased $8.8 billion, and payments increased $17.8 billion.

Taxes on corporate income increased $23.8 billion, or 5.9 percent, after increasing $2.4 billion, or 0.6 percent.

Undistributed corporate profits, a measure of net saving that equals after-tax profits less dividends, decreased $5.9 billion, or 1.2 percent, after increasing $37.1 billion, or 8.4 percent.

Net cash flow, a profits-related measure of the internal funds available for investment, decreased $68.4 billion, or 4.3 percent, after increasing $61.1 billion, or 4.0 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		
	III	IV	I	II	III	IV	I	II	III
Industry profits:									
Profits with IVA	1,809.3	120.7	255.3	48.2	24.6	8.9	17.2	2.8	1.4
Domestic industries	1,427.0	122.4	229.4	45.4	33.6	12.3	20.5	3.4	2.4
Financial	393.7	46.5	16.0	–3.3	34.3	15.5	4.6	–0.9	9.5
Nonfinancial	1,033.3	75.9	213.4	48.7	–0.7	10.9	27.6	4.9	–0.1
Utilities	35.2	4.0	15.1	–8.7	2.4	17.8	57.2	–21.1	7.4
Manufacturing	269.2	19.1	79.5	26.7	–7.9	12.6	46.5	10.6	–2.8
Wholesale trade	90.2	2.2	18.5	16.2	–17.5	3.1	25.3	17.7	–16.3
Retail trade	123.2	–4.2	32.0	–2.4	–3.5	–4.1	32.9	–1.9	–2.8
Transportation and warehousing	54.3	7.5	9.9	13.0	1.9	34.3	33.8	32.9	3.6
Information	114.6	27.7	3.9	–8.0	9.7	34.2	3.6	–7.1	9.3
Other nonfinancial	346.6	19.4	54.4	12.1	14.1	7.9	20.5	3.8	4.2
Rest of the world	382.4	–1.6	25.9	2.8	–8.9	–0.5	7.2	0.7	–2.3
Addenda:									
Profits before tax (without IVA and CCAdj)	1,845.7	179.2	224.5	15.3	57.5	13.1	14.5	0.9	3.2
Profits after tax (without IVA and CCAdj)	1,416.3	115.8	140.4	12.9	33.7	10.4	11.4	0.9	2.4
IVA	–36.4	–58.5	30.8	32.9	–32.9	....	....	....	....
CCAdj	–169.3	0.0	–106.9	–0.8	1.4	....	....	....	....

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

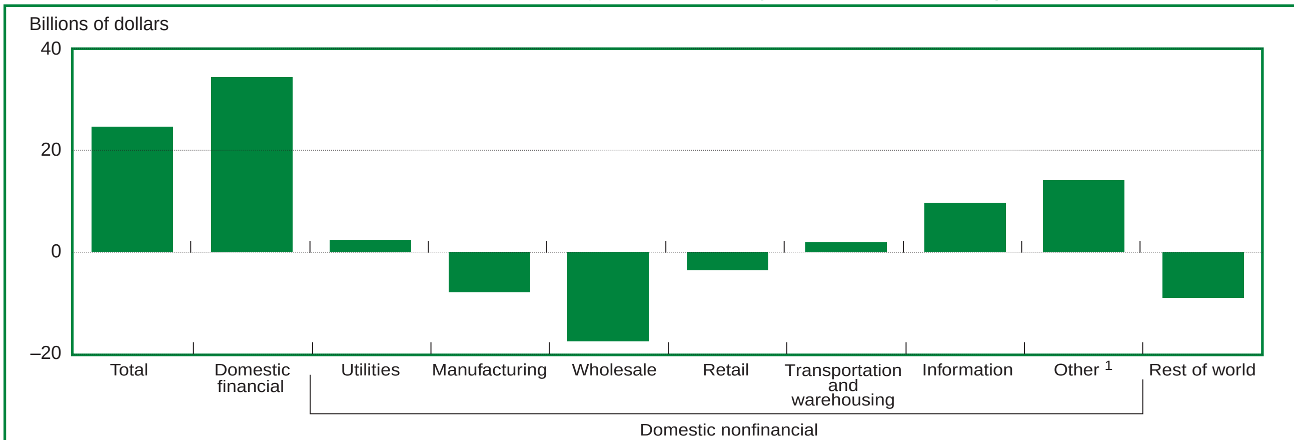
Profits with inventory valuation adjustment increased $24.6 billion, or 1.4 percent at a quarterly rate, in the third quarter. The difference between this increase in profits and the increase in profits from current production reflects the capital consumption adjustment, which increased $1.4 billion.

Profits of domestic industries increased $33.6 billion, or 2.4 percent, after increasing $45.4 billion, or 3.4 percent.

Profits of domestic financial industries increased $34.3 billion, or 9.5 percent, after decreasing $3.3 billion, or 0.9 percent.

Profits of domestic nonfinancial industries decreased $0.7 billion, or 0.1 percent, after increasing $48.7 billion, or 4.9 percent. The downturn mainly reflected a downturn in wholesale trade, a deceleration in transportation and warehousing, and a downturn in manufacturing that were partly offset by upturns in information and in utilities. In manufacturing, the downturn was more than accounted for by a downturn in petroleum and coal products.

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



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.