

# GDP and the Economy

## Third Estimates for the Third Quarter of 2011

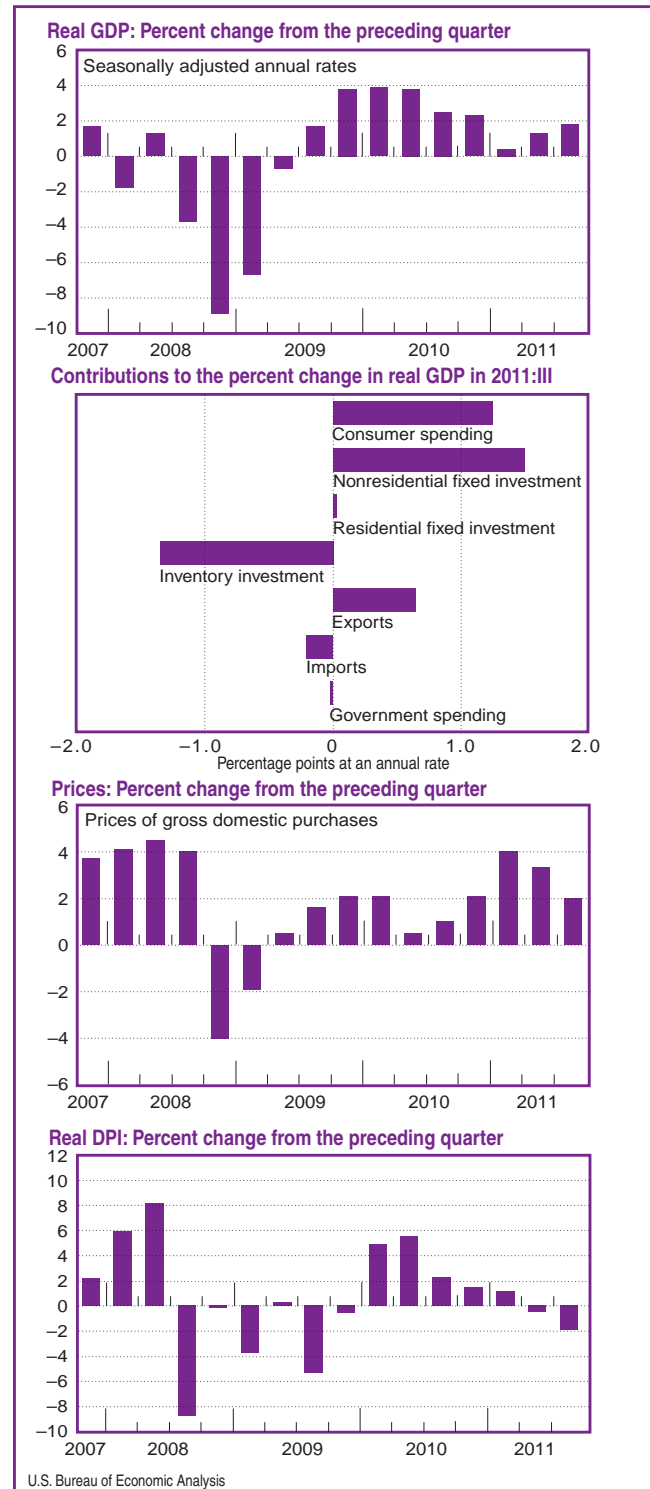
**R**EAL GROSS domestic product (GDP) increased at an annual rate of 1.8 percent in the third quarter of 2011, according to the third estimates of the national income and product accounts (chart 1 and table 1).<sup>1</sup> The third estimate of real GDP growth was revised down 0.2 percentage point from the second estimate, primarily reflecting a downward revision to consumer spending that was partly offset by an upward revision to inventory investment (see page 3).<sup>2</sup> In the second quarter of 2011, real GDP had increased 1.3 percent.

- Prices of goods and services purchased by U.S. residents, as measured by the gross domestic purchases price index, increased 2.0 percent in the third quarter, 0.1 percentage point more than in the second estimate; energy prices and food prices decelerated. Excluding food and energy, prices increased 1.8 percent. In the second quarter, gross domestic purchases prices increased 3.3 percent.
- Real disposable personal income (DPI) decreased 1.9 percent in the third quarter, 0.2 percentage point less of a decrease than in the second estimate; in the second quarter, real DPI decreased 0.5 percent. The larger third-quarter decrease primarily reflected a sharp deceleration in current-dollar DPI. The upward revision to current-dollar DPI primarily reflected an upward revision to personal income, which in turn reflected an upward revision to government social benefits to persons, specifically Medicaid payments.
- The personal saving rate, personal saving as a percentage of current-dollar DPI, was 3.9 percent in the third quarter, 0.1 percentage point more than in the second estimate. In the second quarter, it was 4.8 percent.
- Real gross domestic income rose 0.2 percent in the third quarter, the same rate as in the second quarter.
- Corporate profits increased \$32.5 billion in the third quarter after increasing \$61.2 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; for more information, see “Revisions to GDP, GDI, and Their Major Components” in the July 2011 SURVEY OF CURRENT BUSINESS. 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,” “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		2011					2011		
	III	IV	I	II	III	IV	I	II	III	
<b>Gross domestic product</b> <sup>1</sup> .....	<b>100.0</b>	<b>2.3</b>	<b>0.4</b>	<b>1.3</b>	<b>1.8</b>	<b>2.3</b>	<b>0.4</b>	<b>1.3</b>	<b>1.8</b>	
<b>Personal consumption expenditures</b> .....	<b>71.1</b>	<b>3.6</b>	<b>2.1</b>	<b>0.7</b>	<b>1.7</b>	<b>2.48</b>	<b>1.47</b>	<b>0.49</b>	<b>1.24</b>	
Goods.....	24.1	8.3	4.7	-1.6	1.4	1.87	1.10	-0.38	0.33	
Durable goods.....	7.6	17.2	11.7	-5.3	5.7	1.20	0.85	-0.42	0.42	
Nondurable goods.....	16.5	4.3	1.6	0.2	-0.5	0.67	0.25	0.04	-0.09	
Services.....	46.9	1.3	0.8	1.9	1.9	0.61	0.36	0.87	0.90	
<b>Gross private domestic investment</b> .....	<b>12.6</b>	<b>-7.1</b>	<b>3.8</b>	<b>6.4</b>	<b>1.3</b>	<b>-0.91</b>	<b>0.47</b>	<b>0.79</b>	<b>0.17</b>	
Fixed investment.....	12.6	7.5	1.2	9.2	13.0	0.88	0.15	1.07	1.52	
Nonresidential.....	10.3	8.7	2.1	10.3	15.7	0.82	0.20	0.98	1.49	
Structures.....	2.8	10.5	-14.3	22.6	14.4	0.26	-0.40	0.54	0.37	
Equipment and software.....	7.5	8.1	8.7	6.2	16.2	0.56	0.60	0.44	1.12	
Residential.....	2.2	2.5	-2.4	4.2	1.3	0.06	-0.06	0.09	0.03	
Change in private inventories.....	0.0	.....	.....	.....	.....	-1.79	0.32	-0.28	-1.35	
<b>Net exports of goods and services</b> .....	<b>-3.7</b>	.....	.....	.....	.....	<b>1.37</b>	<b>-0.34</b>	<b>0.24</b>	<b>0.43</b>	
Exports.....	14.0	7.8	7.9	3.6	4.7	0.98	1.01	0.48	0.64	
Goods.....	9.9	9.2	10.6	2.5	5.0	0.79	0.94	0.24	0.48	
Services.....	4.1	4.7	1.7	6.2	4.0	0.18	0.07	0.24	0.16	
Imports.....	17.7	-2.3	8.3	1.4	1.2	0.39	-1.35	-0.24	-0.21	
Goods.....	14.8	-0.5	9.5	1.6	0.5	0.08	-1.29	-0.23	-0.08	
Services.....	2.8	-10.4	2.2	0.4	4.8	0.31	-0.06	-0.01	-0.13	
<b>Government consumption expenditures and gross investment</b> .....	<b>20.1</b>	<b>-2.8</b>	<b>-5.9</b>	<b>-0.9</b>	<b>-0.1</b>	<b>-0.58</b>	<b>-1.23</b>	<b>-0.18</b>	<b>-0.02</b>	
Federal.....	8.2	-3.0	-9.4	1.9	2.1	-0.26	-0.82	0.16	0.17	
National defense.....	5.6	-5.9	-12.6	7.0	5.0	-0.34	-0.74	0.37	0.27	
Nondefense.....	2.7	3.1	-2.7	-7.6	-3.8	0.09	-0.08	-0.22	-0.10	
State and local.....	11.9	-2.7	-3.4	-2.8	-1.6	-0.33	-0.41	-0.34	-0.19	
<b>Addenda:</b>										
Final sales of domestic product.....	100.0	4.2	0.0	1.6	3.2	4.14	0.04	1.62	3.16	
Gross domestic purchases.....	103.7	0.1	0.1	1.0	1.3	.....	.....	.....	.....	
Gross domestic purchases price index.....	.....	2.1	4.0	3.3	2.0	.....	.....	.....	.....	
GDP price index.....	.....	1.9	2.5	2.5	2.6	.....	.....	.....	.....	

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 in the third quarter, mainly reflecting an upturn in durable goods, which in turn reflected a rebound in spending for motor vehicles and parts. Nondurable goods turned down, and services grew at the same rate as in the second quarter.

Nonresidential fixed investment accelerated, reflecting an acceleration in equipment and software that was partly offset by a deceleration in structures. The largest contributors to the acceleration in equipment and software were upturns in “other” equipment and in industrial equipment and an acceleration in transportation equipment.

Inventory investment decreased more than in the second quarter and subtracted 1.35 percentage points from real GDP growth after subtracting 0.28 percentage point.

Exports of goods and services picked up, reflecting a pickup in exports of goods; exports of services slowed.

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

Federal government spending picked up slightly. A smaller decrease in nondefense spending was partly offset by a slowdown in defense spending.

State and local government spending decreased less than in the second quarter, reflecting an upturn in gross investment that was partly offset by a larger decrease in consumption expenditures.

The GDP price index increased 2.6 percent, 0.6 percentage point more than the gross domestic purchases price index, reflecting a decrease in import prices (1.3 percent) and an increase in export prices (1.9 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](http://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 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
<b>Gross domestic product (GDP) <sup>1</sup></b> .....	<b>2.0</b>	<b>1.8</b>	<b>-0.2</b>	<b>2.0</b>	<b>1.8</b>	<b>-0.2</b>
<b>Personal consumption expenditures</b> .....	<b>2.3</b>	<b>1.7</b>	<b>-0.6</b>	<b>1.63</b>	<b>1.24</b>	<b>-0.39</b>
Goods .....	1.3	1.4	0.1	0.30	0.33	0.03
Durable goods .....	5.5	5.7	0.2	0.41	0.42	0.01
Nondurable goods .....	-0.6	-0.5	0.1	-0.11	-0.09	0.02
Services .....	2.9	1.9	-1.0	1.33	0.90	-0.43
<b>Gross private domestic investment</b> .....	<b>-0.9</b>	<b>1.3</b>	<b>2.2</b>	<b>-0.10</b>	<b>0.17</b>	<b>0.27</b>
Fixed investment .....	12.3	13.0	0.7	1.45	1.52	0.07
Nonresidential .....	14.8	15.7	0.9	1.41	1.49	0.08
Structures .....	12.6	14.4	1.8	0.33	0.37	0.04
Equipment and software .....	15.6	16.2	0.6	1.08	1.12	0.04
Residential .....	1.6	1.3	-0.3	0.04	0.03	-0.01
Change in private inventories .....				-1.55	-1.35	0.20
<b>Net exports of goods and services</b> .....				<b>0.49</b>	<b>0.43</b>	<b>-0.06</b>
Exports .....	4.3	4.7	0.4	0.59	0.64	0.05
Goods .....	4.9	5.0	0.1	0.48	0.48	0.00
Services .....	2.7	4.0	1.3	0.11	0.16	0.05
Imports .....	0.5	1.2	0.7	-0.09	-0.21	-0.12
Goods .....	0.3	0.5	0.2	-0.04	-0.08	-0.04
Services .....	2.0	4.8	2.8	-0.06	-0.13	-0.07
<b>Government consumption expenditures and gross investment</b> .....	<b>-0.1</b>	<b>-0.1</b>	<b>0.0</b>	<b>-0.02</b>	<b>-0.02</b>	<b>0.00</b>
Federal .....	1.9	2.1	0.2	0.15	0.17	0.02
National defense .....	4.7	5.0	0.3	0.26	0.27	0.01
Nondefense .....	-3.8	-3.8	0.0	-0.10	-0.10	0.00
State and local .....	-1.4	-1.6	-0.2	-0.17	-0.19	-0.02
<b>Addenda:</b>						
Final sales of domestic product .....	3.6	3.2	-0.4	3.55	3.16	-0.39
Gross domestic purchases price index .....	1.9	2.0	0.1			
GDP price index .....	2.5	2.6	0.1			

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 0.2 percentage point less than the second estimate, primarily reflecting a downward revision to consumer spending that was partly offset by an upward revision to inventory investment. The average revision (without regard to sign) between the second estimates and the third estimates is 0.3 percentage point.

The downward revision to consumer spending was more than accounted for by a downward revision to spending for services. Within services, the largest contributor to the revision was spending for health care, mainly for nonprofit hospital services, that was based on the incorporation of newly available quarterly services survey data.

The upward revision to inventory investment was primarily accounted for by an upward revision to farm inventories, specifically crop inventories, that was based on the incorporation of newly available 2011 Farm Income Forecast.

## Source Data for the Third Estimates

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

*Personal consumption expenditures:* Census Bureau quarterly services survey data for the third quarter (new), and Energy Information Administration (EIA) natural gas data for September (new).

*Nonresidential fixed investment:* Census Bureau 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:* Census Bureau construction spending (value put in place) data for August and September (revised).

*Change in private inventories:* manufacturers' and trade inventories for September (revised), Census

Bureau Quarterly Financial Report data for mining (revised), and EIA coal and petroleum utility stock data for August (new) and natural gas data for September (new). U.S. Department of Agriculture 2011 Farm Income Forecast (new).

*Exports and imports of goods and services:* international transactions accounts data for July, August, and September (revised) and data for goods for September (revised).

*Government consumption expenditures and gross investment:* Census Bureau construction spending (value put in place) data for state and local government for August and September (revised).

*GDP prices:* Federal Reserve Board Call Report for the third quarter (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						
	2011	2010	2011			2010	2011		
	III	IV	I	II	III	IV	I	II	III
<b>Current production measures:</b>									
Corporate profits.....	1,970.1	24.3	19.0	61.2	32.5	1.3	1.0	3.3	1.7
Domestic industries.....	1,519.3	46.7	-18.8	26.5	27.1	3.3	-1.3	1.8	1.8
Financial.....	428.3	52.0	-38.7	-54.2	9.2	11.3	-7.5	-11.5	2.2
Nonfinancial.....	1,091.0	-5.2	19.7	80.8	17.9	-0.5	2.0	8.1	1.7
Rest of the world.....	450.8	-22.4	37.9	34.6	5.4	-5.7	10.2	8.4	1.2
Receipts from the rest of the world.....	650.4	16.1	20.3	49.0	-10.5	2.8	3.4	8.0	-1.6
Less: Payments to the rest of the world.....	199.5	38.5	-17.7	14.4	-16.0	21.3	-8.1	7.2	-7.4
Less: Taxes on corporate income.....	411.4	-25.6	17.6	-1.8	-9.1	-5.9	4.3	-0.4	-2.2
Equals: Profits after tax.....	1,558.7	49.9	1.4	63.0	41.6	3.6	0.1	4.3	2.7
Net dividends.....	821.4	14.3	19.0	13.6	14.0	1.9	2.5	1.7	1.7
Undistributed profits from current production.....	737.3	35.6	-17.6	49.3	27.7	5.5	-2.6	7.5	3.9
Net cash flow.....	1,848.0	16.0	21.1	86.2	35.8	1.0	1.2	5.0	2.0

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 \$32.5 billion, or 1.7 percent at a quarterly rate, in the third quarter after increasing \$61.2 billion, or 3.3 percent, in the second quarter.

Domestic profits of financial corporations increased \$9.2 billion, or 2.2 percent, after decreasing \$54.2 billion, or 11.5 percent.

Domestic profits of nonfinancial corporations increased \$17.9 billion, or 1.7 percent, after increasing \$80.8 billion, or 8.1 percent.

Profits from the rest of the world increased \$5.4 billion, or 1.2 percent, after increasing \$34.6 billion, or 8.4 percent. In the third quarter, receipts decreased \$10.5 billion, and payments decreased \$16.0 billion.

Taxes on corporate income decreased \$9.1 billion, or 2.2 percent, after decreasing \$1.8 billion, or 0.4 percent.

Undistributed corporate profits, a measure of net saving that equals after-tax profits less dividends, increased \$27.7 billion, or 3.9 percent, after increasing \$49.3 billion, or 7.5 percent.

Net cash flow increased \$35.8 billion, or 2.0 percent, after increasing \$86.2 billion, or 5.0 percent. It is a profits-related measure of the internal funds available for investment that equals undistributed profits (after dividends) plus capital consumption allowances less capital transfers paid.

### 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 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			
	III	IV	I	II	III	IV	I	II	III		
<b>Industry profits:</b>											
Profits with IVA.....	1,867.4	-160.4	108.9	69.1	37.2	-8.8	6.6	3.9	2.0		
Domestic industries.....	1,416.6	-138.0	71.0	34.6	31.7	-9.7	5.6	2.6	2.3		
Financial.....	448.7	33.0	-29.3	-52.6	9.8	6.8	-5.6	-10.7	2.2		
Nonfinancial.....	967.9	-171.0	100.3	87.1	22.0	-18.4	13.2	10.1	2.3		
Utilities.....	10.7	-20.9	7.8	0.3	-4.5	-74.6	109.0	1.9	-29.4		
Manufacturing.....	268.2	-39.5	29.9	32.3	18.3	-17.4	15.9	14.8	7.3		
Wholesale trade.....	85.6	-39.9	22.1	19.2	-5.2	-44.6	44.6	26.9	-5.8		
Retail trade.....	110.6	-1.7	2.9	-7.5	-2.1	-1.5	2.5	-6.2	-1.9		
Transportation and warehousing.....	33.5	-11.1	-4.7	3.3	6.7	-28.3	-16.6	13.9	25.1		
Information.....	97.1	-7.5	19.8	4.7	-6.5	-8.7	25.0	4.8	-6.2		
Other nonfinancial .....	362.2	-50.4	22.4	34.9	15.3	-14.8	7.8	11.2	4.4		
Rest of the world .....	450.8	-22.4	37.9	34.6	5.4	-5.7	10.2	8.4	1.2		
<b>Addenda:</b>											
Profits before tax (without IVA and CCAdj).....	1,912.9	-102.0	134.6	13.5	22.3	-5.5	7.7	0.7	1.2		
Profits after tax (without IVA and CCAdj).....	1,501.5	-76.4	117.0	15.3	31.4	-5.4	8.7	1.1	2.1		
IVA.....	-45.5	-58.3	-25.7	55.6	14.9						
CCAdj.....	102.7	184.7	-89.8	-8.1	-4.6						

Profits with inventory valuation adjustment increased \$37.2 billion, or 2.0 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 decreased \$4.6 billion.

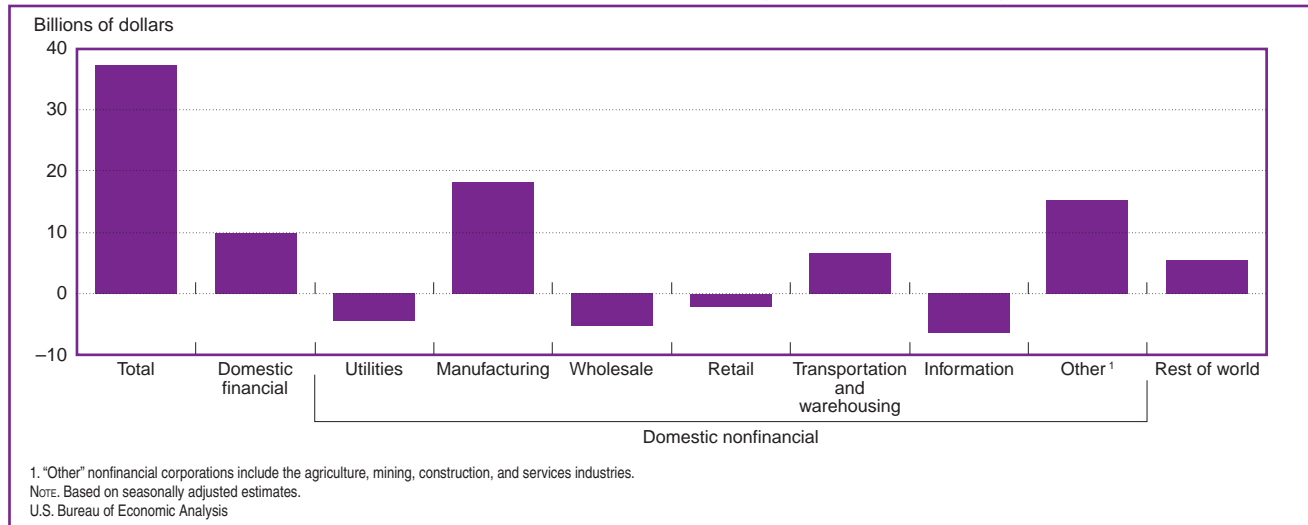
Profits of domestic industries increased \$31.7 billion, or 2.3 percent, after increasing \$34.6 billion, or 2.6 percent.

Profits of domestic financial industries increased \$9.8 billion, or 2.2 percent, after decreasing \$52.6 billion, or 10.7 percent.

Profits of domestic nonfinancial industries increased \$22.0 billion, or 2.3 percent, after increasing \$87.1 billion, or 10.1 percent. The deceleration reflected a downturn in wholesale trade, decelerations in “other” nonfinancial industries and in manufacturing, and downturns in information and in utilities. In contrast, retail trade decreased less than in the second quarter, and transportation and warehousing picked up.

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, 2011:III**



### 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](http://www.bea.gov/methodologies/index.htm).