

GDP and the Economy

Third Estimates for the Third Quarter of 2012

REAL GROSS domestic product (GDP) increased at an annual rate of 3.1 percent in the third quarter of 2012, according to the third estimates of the national income and product accounts (NIPAs) (chart 1 and table 1).¹ In the second quarter, real GDP increased 1.3 percent.

The third estimate of real GDP growth was revised up 0.4 percentage point from the second estimate, but the general picture of the economy for the third quarter did not change significantly. However, consumer spending now shows a modest pickup, and imports now shows a downturn (see page 3).²

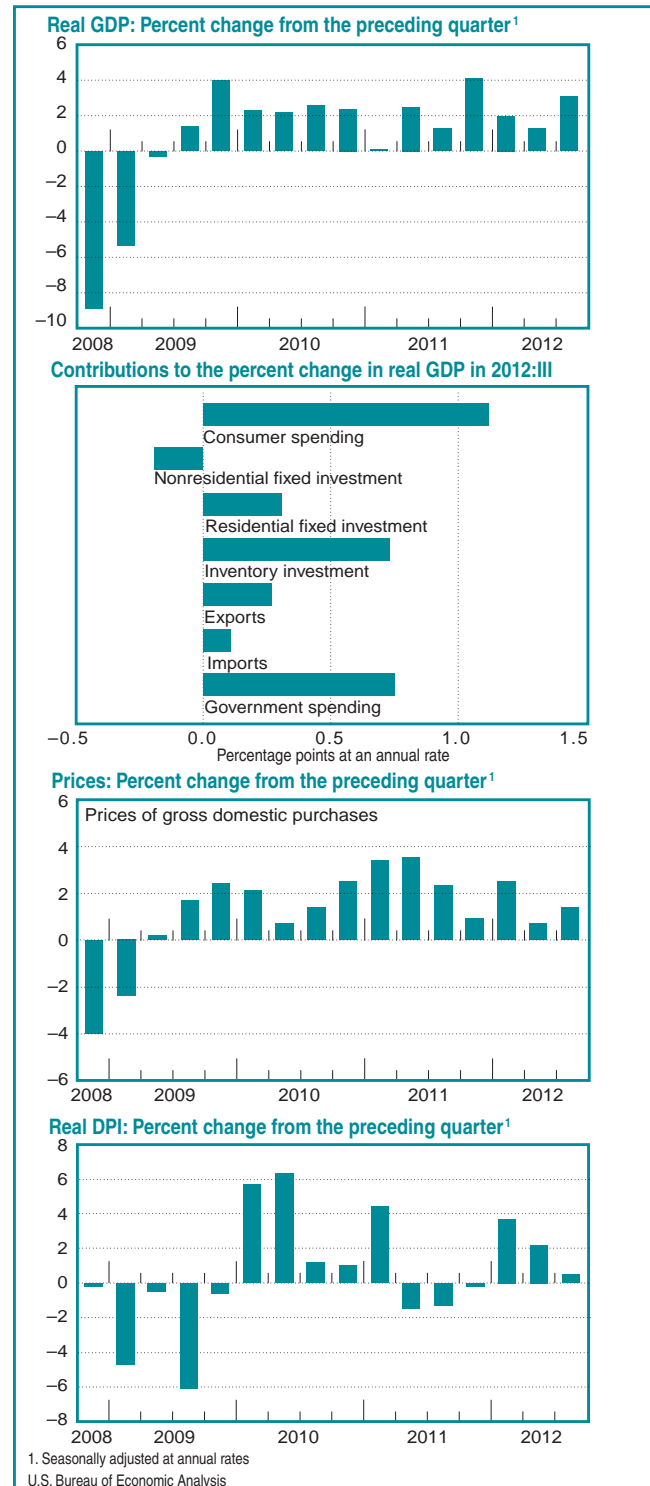
- Prices of goods and services purchased by U.S. residents increased 1.4 percent in the third quarter, the same increase as the second estimate; in the second quarter, prices increased 0.7 percent. Energy prices turned up in the third quarter, and food prices turned down. Excluding food and energy, prices increased 1.2 percent after increasing 1.4 percent in the second quarter.
- Real disposable personal income (DPI) increased 0.5 percent in the third quarter, the same increase as the second estimate; in the second quarter, real DPI increased 2.2 percent. Current-dollar DPI increased 2.1 percent in the third quarter; in the second quarter, current-dollar DPI increased 2.9 percent.
- The personal saving rate, personal saving as a percentage of current-dollar DPI, was 3.6 percent in the third quarter; in the second quarter, the rate was 3.8 percent.
- Real gross domestic income rose 1.4 percent in the third quarter after falling 0.7 percent in the second quarter.
- Profits from current production increased \$45.7 billion in the third quarter after increasing \$21.8 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 (PCE),” “government spending” refers to “government consumption expenditures and gross investment,” and “inventory investment” refers to “change in private inventories.”

Shelly Smith 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)		
	2012		2012					2012		
	III	IV	I	II	III	IV	I	II	III	
Gross domestic product ¹	100.0	4.1	2.0	1.3	3.1	4.1	2.0	1.3	3.1	
Personal consumption expenditures	70.5	2.0	2.4	1.5	1.6	1.45	1.72	1.06	1.12	
Goods	24.0	5.4	4.7	0.3	3.6	1.29	1.11	0.08	0.85	
Durable goods	7.7	13.9	11.5	-0.2	8.9	1.00	0.85	-0.02	0.66	
Nondurable goods	16.3	1.8	1.6	0.6	1.2	0.29	0.26	0.10	0.19	
Services	46.6	0.3	1.3	2.1	0.6	0.16	0.61	0.99	0.26	
Gross private domestic investment	13.2	33.9	6.1	0.7	6.6	3.72	0.78	0.09	0.85	
Fixed investment	12.6	10.0	9.8	4.5	0.9	1.19	1.18	0.56	0.12	
Nonresidential	10.2	9.5	7.5	3.6	-1.8	0.93	0.74	0.36	-0.19	
Structures	2.9	11.5	12.9	0.6	0.0	0.31	0.35	0.02	0.00	
Equipment and software	7.3	8.8	5.4	4.8	-2.6	0.62	0.39	0.35	-0.19	
Residential	2.5	12.1	20.5	8.5	13.5	0.26	0.43	0.19	0.31	
Change in private inventories	0.5	.....	.....	.....	.....	2.53	-0.39	-0.46	0.73
Net exports of goods and services	-3.3	.....	.....	.....	.....	-0.64	0.06	0.23	0.38
Exports	13.9	1.4	4.4	5.3	1.9	0.21	0.60	0.72	0.27	
Goods	9.8	6.0	4.0	7.0	1.1	0.58	0.39	0.67	0.11	
Services	4.1	-8.8	5.2	1.1	4.0	-0.38	0.21	0.05	0.16	
Imports	17.2	4.9	3.1	2.8	-0.6	-0.85	-0.54	-0.49	0.11	
Goods	14.3	6.3	2.0	2.9	-1.2	-0.90	-0.29	-0.42	0.18	
Services	2.9	-1.7	9.0	2.3	2.6	0.05	-0.25	-0.07	-0.07	
Government consumption expenditures and gross investment	19.6	-2.2	-3.0	-0.7	3.9	-0.43	-0.60	-0.14	0.75	
Federal	7.9	-4.4	-4.2	-0.2	9.5	-0.35	-0.34	-0.02	0.71	
National defense	5.3	-10.6	-7.1	-0.2	12.9	-0.60	-0.39	-0.01	0.64	
Nondefense	2.6	10.2	1.8	-0.4	3.0	0.25	0.05	-0.01	0.08	
State and local	11.7	-0.7	-2.2	-1.0	0.3	-0.08	-0.26	-0.12	0.04	

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.

Table 2. Real Gross Domestic Product (GDP) and Related Measures

[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)		
	2012		2012					2012		
	III	IV	I	II	III	IV	I	II	III	
Gross domestic product ¹	100.0	4.1	2.0	1.3	3.1	4.1	2.0	1.3	3.1	
Final sales of domestic product	99.5	1.5	2.4	1.7	2.4	1.56	2.35	1.71	2.37	
Change in private inventories	0.5	.....	.....	.....	.....	2.53	-0.39	-0.46	0.73
Goods	28.7	16.1	3.9	1.3	6.1	4.23	1.09	0.38	1.73	
Services	64.3	-1.0	0.6	1.2	1.7	-0.62	0.38	0.76	1.11	
Structures	7.0	7.2	7.4	1.7	3.9	0.49	0.50	0.12	0.27	
Addenda:										
Motor vehicle output	2.7	24.0	30.9	7.3	-8.6	0.55	0.72	0.20	-0.25	
GDP excluding motor vehicle output	97.3	3.6	1.3	1.1	3.5	3.54	1.23	1.06	3.36	
Final sales of computers	0.4	31.1	4.5	-19.9	29.5	0.12	0.20	-0.10	0.11	
GDP excluding final sales of computers	99.6	4.0	1.9	1.4	3.0	3.97	1.94	1.35	2.99	
Gross domestic income (GDI) ² .....	.....	4.5	3.8	-0.7	1.4	.....	.....	.....	.....

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

2. GDI is deflated by the implicit price deflator for GDP.

NOTE: For GDP and its components, percent changes are from NIPA table 1.2.1, contributions are from NIPA table 1.2.2, and shares are calculated from NIPA table 1.2.5. For GDI, percent changes are from NIPA table 1.7.1.

Consumer spending accelerated slightly in the third quarter, adding 1.12 percentage points to real GDP growth after adding 1.06 percentage points.

Nonresidential fixed investment turned down, subtracting 0.19 percentage point from real GDP growth after adding 0.36 percentage point. The downturn primarily reflected a downturn in equipment and software.

Inventory investment turned up, adding 0.73 percentage point to real GDP growth after subtracting 0.46 percentage point. An upturn in nonfarm inventory investment was partly offset by a larger decrease in farm inventory investment that reflected the continuing effects of this summer's drought.

Exports slowed, adding 0.27 percentage point to real GDP growth after adding 0.72 percentage point. A slowdown in goods exports was partly offset by a pickup in services exports.

Imports turned down, adding 0.11 percentage point to real GDP growth after subtracting 0.49 percentage point. The downturn was accounted for by goods imports. Services imports increased at about the same rate as in the second quarter.

Government spending turned up, reflecting upturns in both federal government spending and in state and local government spending. The upturn in federal spending primarily reflected an upturn in defense spending, but nondefense spending also turned up. The upturn in state and local spending primarily reflected an upturn in consumption expenditures (specifically, compensation of employees).

Real final sales of domestic product, GDP less inventory investment, accelerated, increasing 2.4 percent in the third quarter after increasing 1.7 percent.

Motor vehicle output turned down, subtracting 0.25 percentage point from real GDP growth after adding 0.20 percentage point.

Final sales of computers turned up, adding 0.11 percentage point to real GDP growth after subtracting 0.10 percentage point.

Real gross domestic income, which measures the output of the economy as the incomes earned and costs incurred from production, increased 1.4 percent after decreasing 0.7 percent.

Revisions to GDP

Table 3. Second and Third Estimates for the Third Quarter of 2012

[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	2.7	3.1	0.4	2.7	3.1	0.4
Personal consumption expenditures	1.4	1.6	0.2	0.99	1.12	0.13
Goods	3.5	3.6	0.1	0.83	0.85	0.02
Durable goods	8.7	8.9	0.2	0.64	0.66	0.02
Nondurable goods	1.1	1.2	0.1	0.18	0.19	0.01
Services	0.3	0.6	0.3	0.16	0.26	0.10
Gross private domestic investment	6.7	6.6	-0.1	0.86	0.85	-0.01
Fixed investment	0.7	0.9	0.2	0.10	0.12	0.02
Nonresidential	-2.2	-1.8	0.4	-0.23	-0.19	0.04
Structures	-1.1	0.0	1.1	-0.03	0.00	0.03
Equipment and software	-2.7	-2.6	0.1	-0.20	-0.19	0.01
Residential	14.2	13.5	-0.7	0.32	0.31	-0.01
Change in private inventories				0.77	0.73	-0.04
Net exports of goods and services				0.14	0.38	0.24
Exports	1.1	1.9	0.8	0.16	0.27	0.11
Goods	0.2	1.1	0.9	0.03	0.11	0.08
Services	3.2	4.0	0.8	0.13	0.16	0.03
Imports	0.1	-0.6	-0.7	-0.02	0.11	0.13
Goods	-1.0	-1.2	-0.2	0.15	0.18	0.03
Services	5.9	2.6	-3.3	-0.17	-0.07	0.10
Government consumption expenditures and gross investment	3.5	3.9	0.4	0.67	0.75	0.08
Federal	9.5	9.5	0.0	0.71	0.71	0.00
National defense	12.9	12.9	0.0	0.64	0.64	0.00
Nondefense	3.0	3.0	0.0	0.08	0.08	0.00
State and local	-0.4	0.3	0.7	-0.04	0.04	0.08
Addenda:						
Final sales of domestic product	1.9	2.4	0.5	1.90	2.37	0.47
Gross domestic purchases price index	1.4	1.4	0.0			
GDP price index	2.7	2.7	0.0			

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

The third estimate of the percent change in real GDP was 0.4 percentage point higher than the second estimate. The average revision (without regard to sign) from the second estimate to the third estimate is 0.3 percentage point. The upward revision to the percent change in real GDP primarily reflected an upward revision to consumer spending, a downward revision to imports, and upward revisions to exports and to state and local government spending.

The revision to consumer spending primarily reflected an upward revision to health care services that was partly offset by a downward revision to recreation services.

The revision to exports reflected upward revisions to both goods and services exports. The largest contributors to the upward revision to goods exports were industrial supplies and materials and "other" goods. The largest contributor to the upward revision to services exports was transfers under U.S. military agency sales contracts.

The revision to imports reflected downward revisions to both services and goods imports. The largest contributors to the downward revision to services imports were travel and royalties and license fees. The largest contributor to the downward revision to goods imports was nonpetroleum industrial supplies and materials.

The revision to state and local government spending primarily reflected an upward revision to investment in structures.

Source Data and Methodologies

For the details about the source data and the methodologies that are used for the estimates, see *Concepts and Methods of the U.S. National Income and Product Accounts* at www.bea.gov/methodologies/index.htm.

Source data for the third estimate. The third estimate of GDP for the third quarter of 2012 incorporated the following source data.

Consumer spending: Census Bureau retail sales for September (revised) and quarterly services survey data for the third quarter (new) and Energy Information Administration electricity and natural gas usage and unit value data for August (revised) and September (new).

Nonresidential fixed investment: Census Bureau construction spending data for August and September (revised) and quarterly services survey data for the third quarter (new).

Residential fixed investment: Census Bureau construction spending data for August and September (revised).

Inventory investment: Census Bureau manufacturers' and trade inventories for September (revised) and *Quarterly Financial Report* data for the third quarter (revised) and U.S. Department of Agriculture farm income statistics for 2012 (revised).

Exports and imports: Bureau of Economic Analysis international transactions accounts data for July–September (revised) and Bureau of Labor Statistics (BLS) exports and import prices for July–September (revised).

Government spending: Census Bureau construction spending data for August and September (revised).

Prices: BLS export and import prices for July–September (revised) and producer price indexes for July (revised).

Corporate Profits

Table 4. Corporate Profits
[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change from preceding quarter (quarterly rate)			
	Level		Change from preceding quarter						
	2012	2011	2012			2011	2012		
	III	IV	I	II	III	IV	I	II	III
Current production measures:									
Corporate profits	1,967.6	122.6	-53.0	21.8	45.7	6.7	-2.7	1.1	2.4
Domestic industries.....	1,539.3	119.5	-5.0	-11.9	54.0	8.6	-0.3	-0.8	3.6
Financial	457.3	88.0	-12.3	-39.7	68.1	24.9	-2.8	-9.3	17.5
Nonfinancial	1,082.0	31.4	7.3	27.8	-14.1	3.1	0.7	2.6	-1.3
Rest of the world.....	428.3	3.1	-48.0	33.6	-8.2	0.7	-10.7	8.4	-1.9
Receipts from the rest of the world.....	645.7	-5.0	-13.7	10.0	4.2	-0.8	-2.1	1.6	0.6
Less: Payments to the rest of the world.....	217.4	-8.2	34.4	-23.6	12.4	-4.0	17.7	-10.3	6.0
Less: Taxes on corporate income.....	452.4	8.4	83.2	-10.3	9.1	2.3	22.5	-2.3	2.0
Equals: Profits after tax.....	1,515.2	114.3	-136.2	31.9	36.7	7.8	-8.6	2.2	2.5
Net dividends	760.3	12.0	9.2	20.4	12.8	1.7	1.3	2.8	1.7
Undistributed profits from current production	754.8	102.3	-145.5	11.6	23.8	13.4	-16.8	1.6	3.3
Net cash flow	1,874.3	139.4	-169.8	6.0	32.5	7.5	-8.5	0.3	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 \$45.7 billion, or 2.4 percent at a quarterly rate, in the third quarter after increasing \$21.8 billion, or 1.1 percent, in the second quarter.

Domestic profits of financial corporations increased \$68.1 billion, or 17.5 percent, after decreasing \$39.7 billion, or 9.3 percent.

Domestic profits of nonfinancial corporations decreased \$14.1 billion, or 1.3 percent, after increasing \$27.8 billion, or 2.6 percent.

Profits from the rest of the world decreased \$8.2 billion, or 1.9 percent, in the third quarter after increasing \$33.6 billion, or 8.4 percent, in the second quarter. In the third quarter, receipts increased \$4.2 billion, and payments increased \$12.4 billion.

Taxes on corporate income increased \$9.1 billion, or 2.0 percent, after decreasing \$10.3 billion, or 2.3 percent.

Net dividends increased \$12.8 billion, or 1.7 percent, after increasing \$20.4 billion, or 2.8 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 the

Census 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 (IRS) data when these data are available for two reasons: the IRS 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 5. Corporate Profits by Industry
[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change from preceding quarter (quarterly rate)				
	Level	Change from preceding quarter								
	2012	2011	2012			2011	2012			
	III	IV	I	II	III	IV	I	II	III	
Industry profits:										
Profits with IVA.....	2,167.5	124.7	177.3	23.5	43.2	6.9	9.2	1.1	2.0	
Domestic industries.....	1,739.2	121.5	225.4	-10.2	51.5	9.0	15.3	-0.6	3.1	
Financial.....	509.6	88.3	12.1	-39.3	67.7	23.2	2.6	-8.2	15.3	
Nonfinancial.....	1,229.6	33.2	213.4	29.0	-16.2	3.4	21.3	2.4	-1.3	
Utilities.....	42.0	4.9	23.2	3.0	0.7	47.2	154.4	7.7	1.9	
Manufacturing.....	367.6	37.0	77.6	9.3	-5.2	14.9	27.2	2.5	-1.4	
Wholesale trade.....	130.2	0.7	28.6	15.0	-19.4	0.6	27.0	11.2	-12.9	
Retail trade.....	138.3	17.1	17.7	-2.2	1.9	16.5	14.7	-1.6	1.4	
Transportation and warehousing.....	54.6	3.9	7.2	-1.7	-0.4	8.6	14.4	-3.0	-0.7	
Information.....	118.1	-2.1	24.4	8.8	-0.5	-2.4	28.5	8.0	-0.4	
Other nonfinancial	378.7	-28.3	34.7	-3.1	6.5	-7.7	10.2	-0.8	1.8	
Rest of the world.....	428.3	3.1	-48.0	33.6	-8.2	0.7	-10.7	8.4	-1.9	
Addenda:										
Profits before tax (without IVA and CCAAdj).....	2,194.4	97.1	188.1	-16.3	86.2	5.3	9.7	-0.8	4.1	
Profits after tax (without IVA and CCAAdj).....	1,742.0	88.8	104.8	-6.0	77.1	6.0	6.7	-0.4	4.6	
IVA.....	-26.8	27.7	-10.8	39.7	-42.8	.....	.....	.....	.....
CCAAdj.....	-200.0	-2.1	-230.3	-1.7	2.4	.....	.....	.....	.....

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 CCAAdj Capital consumption adjustment

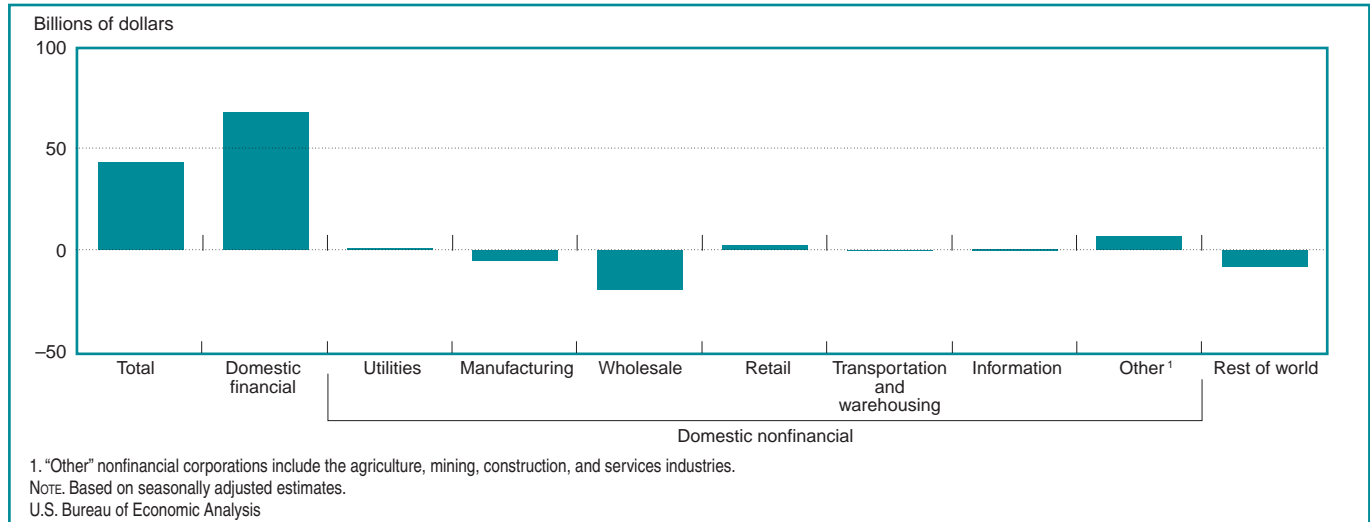
Profits with inventory valuation adjustment (IVA) increased \$43.2 billion, or 2.0 percent at a quarterly rate, in the third quarter after increasing \$23.5 billion, or 1.1 percent, in the second quarter.

Profits of domestic industries increased \$51.5 billion, or 3.1 percent, after decreasing \$10.2 billion, or 0.6 percent.

Profits of domestic financial industries increased \$67.7 billion, or 15.3 percent, after decreasing \$39.3 billion, or 8.2 percent.

Profits of domestic nonfinancial industries decreased \$16.2 billion, or 1.3 percent, after increasing \$29.0 billion, or 2.4 percent. The decrease primarily reflected decreases in wholesale trade industries and in manufacturing industries that were partly offset by an increase in "other" nonfinancial industries. In manufacturing industries, most of the decrease was accounted for by durable-goods industries. In nondurable-goods industries, a notable decrease in chemical products was largely offset by increases in "other" nondurable goods and in petroleum and coal products.

Chart 2. Corporate Profits With Inventory Valuation Adjustment: Change From the Preceding Quarter, 2012: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 (CCAAdj) for

each industry. However, estimates of the CCAAdj are only available for two broad categories: total financial industries and total nonfinancial industries. For more information about BEA's methodology, see "Corporate Profits" in *Concepts and Methods of the U.S. National Income and Product Accounts* at www.bea.gov/methodologies/index.htm.