

GDP and the Economy

Third Estimates for the Third Quarter of 2015

REAL GROSS domestic product (GDP) increased 2.0 percent at an annual rate in the third quarter of 2015, according to the third estimates of the national income and product accounts (NIPAs) (chart 1 and table 1).¹ In the second quarter of 2015, real GDP increased 3.9 percent. The third estimate of real GDP growth in the third quarter was revised down 0.1 percentage point from the second estimate that was released in November. Inventory investment decreased more than previously estimated.²

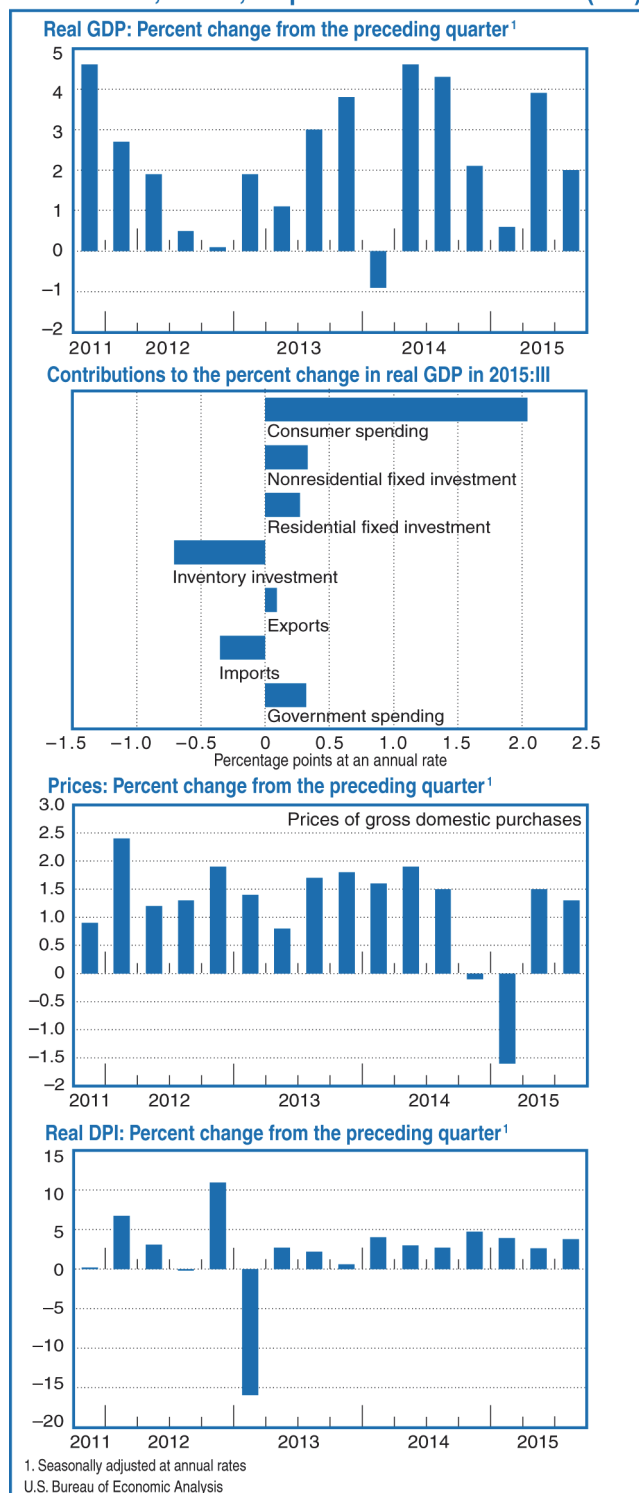
The third-quarter increase in real GDP primarily reflected positive contributions from consumer spending, nonresidential fixed investment, state and local government spending, residential fixed investment, and exports that were partly offset by a negative contribution from private inventory investment. Imports, which are a subtraction in the calculation of GDP, increased.

- Prices of goods and services purchased by U.S. residents increased 1.3 percent in the third quarter after an increase of 1.5 percent in the second quarter. Energy prices turned down in the third quarter, while food prices turned up. Excluding food and energy, prices increased 1.3 percent in the third quarter after increasing 1.2 percent in the second quarter.
- Real disposable personal income (DPI) increased 3.8 percent in the third quarter after increasing 2.6 percent in the second quarter. Current-dollar DPI increased 5.1 percent after increasing 4.9 percent. The differences in the movements in real DPI and current-dollar DPI reflected a smaller increase in the implicit price deflator for consumer spending, which is used to deflate DPI.
- Corporate profits from current production decreased \$33.0 billion in the third quarter after increasing \$70.4 billion in the second quarter (see table 3).
- Real gross domestic income increased 2.7 percent in the third quarter after increasing 2.2 percent in the second quarter.

1. “Real” estimates are in chained (2009) 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 “The Revisions to GDP, GDI, and Their Major Components” in the August 2014 SURVEY OF CURRENT BUSINESS. Quarterly estimates are expressed at seasonally adjusted annual rates, which reflect a rate of activity for a quarter as if it were 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)



Marissa J. Crawford prepared this article.

Real GDP Overview

Table 1. 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)			
		2015	2014	2015			2014	2015		
		III	IV	I	II	III	IV	I	II	III
Gross domestic product ¹	100.0	2.1	0.6	3.9	2.0	2.1	0.6	3.9	2.0	
Personal consumption expenditures	68.4	4.3	1.8	3.6	3.0	2.86	1.19	2.42	2.04	
Goods.....	22.3	4.1	1.1	5.5	5.0	0.91	0.25	1.20	1.08	
Durable goods.....	7.4	6.1	2.0	8.0	6.6	0.44	0.14	0.57	0.47	
Nondurable goods.....	14.9	3.2	0.7	4.3	4.2	0.47	0.10	0.62	0.61	
Services.....	46.2	4.3	2.1	2.7	2.1	1.95	0.94	1.23	0.96	
Gross private domestic investment	16.8	2.1	8.6	5.0	-0.7	0.36	1.39	0.85	-0.11	
Fixed investment.....	16.3	2.5	3.3	5.2	3.7	0.39	0.52	0.83	0.60	
Nonresidential.....	12.8	0.7	1.6	4.1	2.6	0.09	0.20	0.53	0.33	
Structures.....	2.7	4.3	-7.4	6.2	-7.2	0.12	-0.22	0.18	-0.21	
Equipment.....	6.0	-4.9	2.3	0.3	9.9	-0.30	0.14	0.03	0.57	
Intellectual property products.....	4.1	6.9	7.4	8.3	-0.8	0.27	0.29	0.33	-0.03	
Residential.....	3.4	10.0	10.1	9.3	8.2	0.31	0.32	0.30	0.27	
Change in private inventories.....	0.5	.....	.....	.....	.....	-0.03	0.87	0.02	-0.71
Net exports of goods and services	-2.9	.....	.....	.....	.....	-0.89	-1.92	0.18	-0.26
Exports.....	12.5	5.4	-6.0	5.1	0.7	0.71	-0.81	0.64	0.09	
Goods.....	8.4	3.9	-11.7	6.5	-0.9	0.36	-1.10	0.55	-0.07	
Services.....	4.2	8.9	7.3	2.3	3.9	0.35	0.30	0.10	0.16	
Imports.....	15.4	10.3	7.1	3.0	2.3	-1.60	-1.12	-0.46	-0.35	
Goods.....	12.7	9.9	7.2	3.2	1.4	-1.29	-0.93	-0.41	-0.18	
Services.....	2.8	11.9	6.7	2.0	6.4	-0.31	-0.18	-0.05	-0.17	
Government consumption expenditures and gross investment	17.7	-1.4	-0.1	2.6	1.8	-0.26	-0.01	0.46	0.32	
Federal.....	6.8	-5.7	1.1	0.0	0.2	-0.41	0.08	0.00	0.02	
National defense.....	4.1	-10.3	1.0	0.3	-1.4	-0.47	0.04	0.01	-0.06	
Nondefense.....	2.7	2.1	1.2	-0.5	2.8	0.06	0.03	-0.01	0.08	
State and local.....	10.9	1.3	-0.8	4.3	2.8	0.15	-0.09	0.46	0.30	
Addenda:										
Gross domestic income (GDI) ².....	.....	2.9	0.4	2.2	2.7	.....	.....	.....	.....
Average of GDP and GDI.....	.....	2.5	0.5	3.0	2.3	.....	.....	.....	.....
Final sales of domestic product.....	99.5	2.1	-0.2	3.9	2.7	2.10	-0.23	3.90	2.70	
Goods.....	30.4	-0.2	-1.8	5.9	2.2	-0.06	-0.57	1.79	0.67	
Services.....	61.8	2.7	2.1	2.0	1.8	1.63	1.28	1.24	1.12	
Structures.....	7.8	6.8	-0.9	12.2	2.5	0.50	-0.07	0.90	0.19	
Motor vehicle output.....	3.1	-11.3	1.4	14.5	19.2	-0.35	0.04	0.40	0.53	
GDP excluding motor vehicle output.....	96.9	2.5	0.6	3.6	1.5	2.42	0.60	3.52	1.45	
Final sales of computers.....	0.4	-26.7	29.8	41.5	5.0	-0.12	0.10	0.13	0.02	
GDP excluding final sales of computers.....	99.6	2.2	0.5	3.8	2.0	2.19	0.55	3.78	1.96	
Research and development (R&D).....	2.6	5.5	5.2	9.7	-0.7	0.14	0.13	0.25	-0.02	
GDP excluding R&D.....	97.4	2.0	0.5	3.8	2.1	1.93	0.51	3.67	2.00	

1. The estimates of GDP 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 tables 1.1.1 and 1.2.1, contributions to percent change are from NIPA tables 1.1.2 and 1.2.2, and shares are from NIPA table 1.1.10, or they are calculated from table 1.2.5. For GDI, percent changes are from NIPA table 1.7.1.

The slowdown in real GDP in the third quarter primarily reflected a downturn in private inventory investment and slowdowns in exports, in consumer spending, in nonresidential fixed investment, and in state and local government spending that were partly offset by a slowdown in imports.

The slowdown in consumer spending reflected slowdowns in both spending for services and goods.

The slowdown in goods primarily reflected slowdowns in motor vehicles and parts (primarily used motor vehicles), in food and beverages purchased for off-premises consumption, and in clothing and footwear that were partly offset by a pickup in "other" nondurable goods and an upturn in motor vehicle fuels, lubricants, and fluids.

The slowdown in services primarily reflected slowdowns in food services and accommodations and in "other" services (mainly communication services) and a downturn in financial services and insurance that were partly offset by an acceleration in nonprofit institutions serving households (health care) and an upturn in housing and utilities (specifically electricity and natural gas).

The slowdown in nonresidential fixed investment primarily reflected downturns in structures and in intellectual property products that were partly offset by a pickup in equipment.

The downturn in private inventory investment reflected a downturn in nonfarm inventory investment that was partly offset by an upturn in farm inventory investment.

The slowdown in exports of goods and services reflected a downturn in goods exports that was partly offset by a pickup in services exports. Notable contributors to the downturn in goods exports were downturns in nonautomotive capital goods and in industrial supplies and materials (notably petroleum and products) and slowdowns in "other" goods and in foods, feeds and beverages.

The slowdown in imports of goods and services reflected a slowdown in goods imports that was partly offset by a pickup in services imports. Notable contributors to the slowdown in goods imports were a slowdown in automotive vehicles, engines and parts and a downturn in nonautomotive capital goods.

The slowdown in state and local government spending primarily reflected a slowdown in structures investment that was partly offset by a pickup in compensation.

Revisions to GDP

Table 2. Second and Third Estimates for the Third Quarter of 2015

[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	2.1	2.0	-0.1	2.1	2.0	-0.1
Personal consumption expenditures	3.0	3.0	0.0	2.05	2.04	-0.01
Goods.....	4.8	5.0	0.2	1.05	1.08	0.03
Durable goods.....	6.5	6.6	0.1	0.47	0.47	0.00
Nondurable goods.....	4.0	4.2	0.2	0.58	0.61	0.03
Services.....	2.2	2.1	-0.1	1.00	0.96	-0.04
Gross private domestic investment	-0.3	-0.7	-0.4	-0.05	-0.11	-0.06
Fixed investment.....	3.4	3.7	0.3	0.54	0.60	0.06
Nonresidential.....	2.4	2.6	0.2	0.31	0.33	0.02
Structures.....	-7.1	-7.2	-0.1	-0.21	-0.21	0.00
Equipment.....	9.5	9.9	0.4	0.55	0.57	0.02
Intellectual property products.....	-0.8	-0.8	0.0	-0.03	-0.03	0.00
Residential.....	7.3	8.2	0.9	0.24	0.27	0.03
Change in private inventories.....	.....	.....	.....	-0.59	-0.71	-0.12
Net exports of goods and services.....	.....	.....	.....	-0.22	-0.26	-0.04
Exports.....	0.9	0.7	-0.2	0.11	0.09	-0.02
Goods.....	-0.5	-0.9	-0.4	-0.04	-0.07	-0.03
Services.....	3.7	3.9	0.2	0.15	0.16	0.01
Imports.....	2.1	2.3	0.2	-0.33	-0.35	-0.02
Goods.....	1.3	1.4	0.1	-0.16	-0.18	-0.02
Services.....	6.2	6.4	0.2	-0.17	-0.17	0.00
Government consumption expenditures and gross investment	1.7	1.8	0.1	0.29	0.32	0.03
Federal.....	0.1	0.2	0.1	0.01	0.02	0.01
National defense.....	-1.5	-1.4	0.1	-0.06	-0.06	0.00
Nondefense.....	2.6	2.8	0.2	0.07	0.08	0.01
State and local.....	2.6	2.8	0.2	0.29	0.30	0.01
Addenda:						
Final sales of domestic product.....	2.7	2.7	0.0	2.67	2.70	0.03
Gross domestic income (GDI).....	3.1	2.7	-0.4	.....	.....	.....
Average of GDP and GDI.....	2.6	2.3	-0.3	.....	.....	.....
Gross domestic purchases price index.....	1.3	1.3	0.0	.....	.....	.....
GDP price index.....	1.3	1.3	0.0	.....	.....	.....

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

The third estimate of the third-quarter change in real GDP was 0.1 percentage point lower than the second estimate released in November, but the general picture of economic growth remains the same. The average revision from the second estimate to third estimate for real GDP is 0.2 percentage point. The downward revision primarily reflected a downward revision to private inventory investment.

In consumer spending, a small downward revision to services was mostly offset by a small upward revision to goods.

Nonresidential fixed investment was revised up, primarily reflecting an upward revision to equipment.

Residential fixed investment was revised up, primarily reflecting upward revisions to single-family and to multifamily structures.

In private inventory investment, the downward revision was more than accounted for by a downward revision to nonfarm inventory investment, specifically, to wholesale trade and to manufacturing industries.

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* on BEA's Web site.

Source data for the third estimate. The third estimate of GDP for the third quarter of 2015 incorporated the following source data.

Consumer spending: Census Bureau retail sales data for September (revised) and quarterly services survey data for the third quarter (new), Federal Deposit Insurance Corporation Call Report data for the third quarter (new), Energy Information Administration electricity and natural gas usage and unit value data for September (revised).

Nonresidential fixed investment: Census Bureau con-

struction spending data for September (revised) and quarterly services survey data for the third quarter (new).

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

Inventory investment: Census Bureau manufacturers' and trade inventories for September (revised).

State and local government spending: Census Bureau construction spending data for September (revised).

Prices: Bureau of Labor statistics (BLS) export and import prices for July, August, and September (revised), BLS producer price indexes for July, August, and September (revised), and Securities and Exchange Commission FOCUS Report data 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						
	2015	2014	2015			2014	2015		
	III	IV	I	II	III	IV	I	II	III
Current production measures:									
Corporate profits.....	2,049.9	-25.5	-123.0	70.4	-33.0	-1.2	-5.8	3.5	-1.6
Domestic industries.....	1,667.9	-21.1	-93.9	59.0	-10.0	-1.2	-5.5	3.6	-0.6
Financial.....	396.9	-22.6	-23.4	34.6	1.8	-5.6	-6.1	9.6	0.5
Nonfinancial.....	1,271.0	1.5	-70.5	24.3	-11.8	0.1	-5.3	1.9	-0.9
Rest of the world.....	382.0	-4.4	-29.0	11.4	-23.1	-1.0	-6.9	2.9	-5.7
Receipts from the rest of the world.....	671.4	-13.5	-40.0	24.9	-3.5	-1.9	-5.8	3.8	-0.5
Less: Payments to the rest of the world.....	289.3	-9.1	-11.0	13.4	19.5	-3.3	-4.1	5.2	7.2
Less: Taxes on corporate income.....	542.2	-6.1	5.5	31.3	-6.9	-1.2	1.1	6.0	-1.2
Equals: Profits after tax.....	1507.7	-19.5	-128.4	39.2	-26.2	-1.2	-7.9	2.6	-1.7
Net dividends.....	905.7	18.6	6.3	1.2	26.0	2.2	0.7	0.1	3.0
Undistributed profits from current production.....	602.1	-38.1	-134.7	38.0	-52.2	-4.8	-17.9	6.2	-8.0
Net cash flow.....	2,126.1	18.7	-135.5	48.1	-35.1	0.8	-6.0	2.3	-1.6

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 \$33.0 billion, or 1.6 percent at a quarterly rate, in the third quarter after increasing \$70.4 billion, or 3.5 percent, in the second quarter.

Profits of domestic financial corporations increased \$1.8 billion, or 0.5 percent, after increasing \$34.6 billion, or 9.6 percent.

Profits of domestic nonfinancial corporations decreased \$11.8 billion, or 0.9 percent, after increasing \$24.3 billion, or 1.9 percent.

Profits from the rest of the world decreased \$23.1 billion, or 5.7 percent, after increasing \$11.4 billion, or 2.9 percent. In the third quarter, receipts decreased \$3.5 billion, and payments increased \$19.5 billion.

Taxes on corporate income decreased \$6.9 billion, or 1.2 percent, in the third quarter after increasing \$31.3 billion, or 6.0 percent, in the second quarter.

Net dividends increased \$26.0 billion, or 3.0 percent, after increasing \$1.2 billion, or 0.1 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 4. Corporate Profits by Industry
[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change from preceding quarter (quarterly rate)					
	Level	Change from preceding quarter					Percent change from preceding quarter (quarterly rate)				
		2015	2014	2015			2014	2015			
	III	IV	I	II	III	IV	I	II	III		
Industry profits:											
Profits with IVA.....	2,382.5	-28.7	85.2	62.7	-31.7	-1.3	3.8	2.7	-1.3		
Domestic industries.....	2,000.4	-24.3	114.2	51.3	-8.7	-1.3	6.2	2.6	-0.4		
Financial.....	458.6	-22.4	-3.1	34.3	2.5	-5.0	-0.7	8.1	0.5		
Nonfinancial.....	1,541.8	-2.0	117.3	17.0	-11.1	-0.1	8.3	1.1	-0.7		
Utilities.....	13.2	-6.2	8.0	3.5	-15.3	-26.9	47.4	14.2	-53.7		
Manufacturing.....	532.9	8.1	68.5	2.3	-4.1	1.8	14.7	0.4	-0.8		
Wholesale trade.....	168.2	-9.6	8.5	-5.6	4.8	-5.6	5.3	-3.3	2.9		
Retail trade.....	180.6	21.1	10.6	-14.3	5.5	13.4	5.9	-7.5	3.1		
Transportation and warehousing.....	97.4	-11.7	22.7	3.1	11.0	-16.2	37.5	3.7	12.8		
Information.....	146.7	-2.3	22.0	7.8	-3.9	-1.8	18.2	5.4	-2.6		
Other nonfinancial.....	402.9	-1.5	-23.0	20.2	-9.2	-0.4	-5.5	5.2	-2.2		
Rest of the world.....	382.0	-4.4	-29.0	11.4	-23.1	-1.0	-6.9	2.9	-5.7		
Addenda:											
Profits before tax (without IVA and CCAAdj).....	2,326.0	-66.7	39.5	141.4	-67.7	-2.9	1.8	6.3	-2.8		
Profits after tax (without IVA and CCAAdj).....	1,783.8	-60.7	34.0	110.2	-60.8	-3.4	2.0	6.4	-3.3		
IVA.....	56.5	38.0	45.7	-78.7	35.9	.....	.....	.....	.....
CCAAdj.....	-332.6	3.2	-208.1	7.7	-1.3	.....	.....	.....	.....

Profits with inventory valuation adjustment (IVA) decreased \$31.7 billion, or 1.3 percent at a quarterly rate, in the third quarter after increasing \$62.7 billion, or 2.7 percent, in the second quarter.

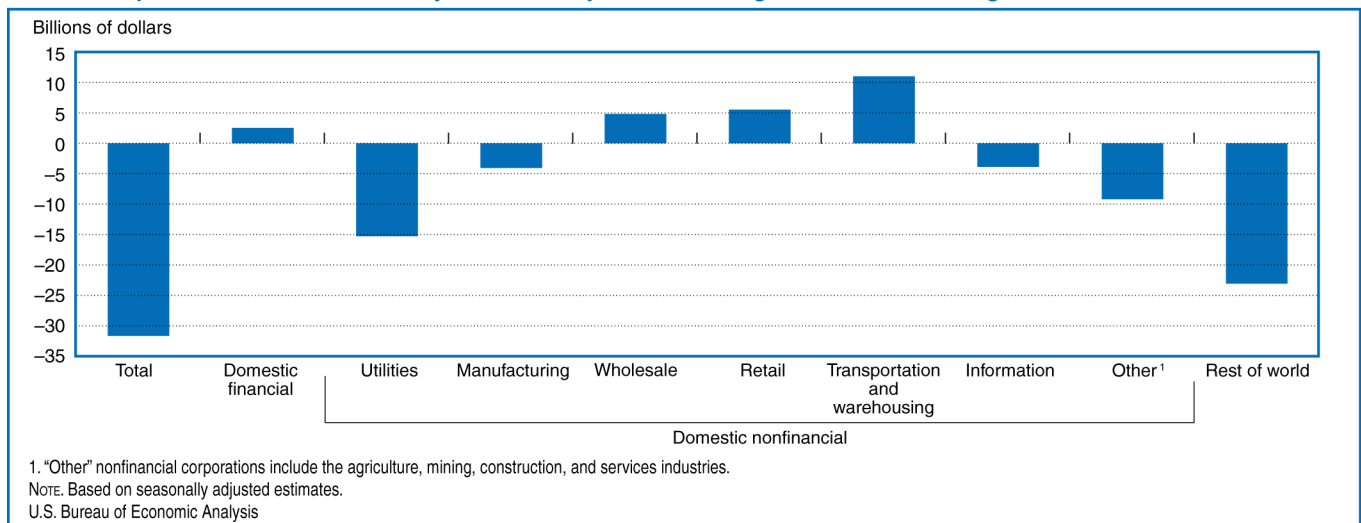
Profits of domestic industries decreased \$8.7 billion, or 0.4 percent, after increasing \$51.3 billion, or 2.6 percent.

Profits of domestic financial industries increased \$2.5 billion, or 0.5 percent, after increasing \$34.3 billion, or 8.1 percent.

Profits of domestic nonfinancial industries decreased \$11.1 billion, or 0.7 percent, after increasing \$17.0 billion, or 1.1 percent. The decrease reflected downturns in "other" nonfinancial industries, in utilities, in information industries, and in manufacturing that were partly offset by upturns in retail trade industries and in wholesale trade industries and by a pickup in transportation and warehousing industries.

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

Chart 2. Corporate Profits With Inventory Valuation Adjustment: Change From the Preceding Quarter, 2015: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* on BEA's Web site.