GDP and the Economy

Final Estimates for the Fourth Quarter of 2008

REAL GROSS domestic product (GDP) decreased 6.3 percent in the fourth quarter after decreasing 0.5 percent in the third quarter, according to the "final" estimates of the national income and product accounts (chart 1 and table 1).[1] The fourth-quarter decrease, revised down 0.1 percentage point from the "preliminary" estimate, was the largest decrease since the first quarter of 1982.[2]

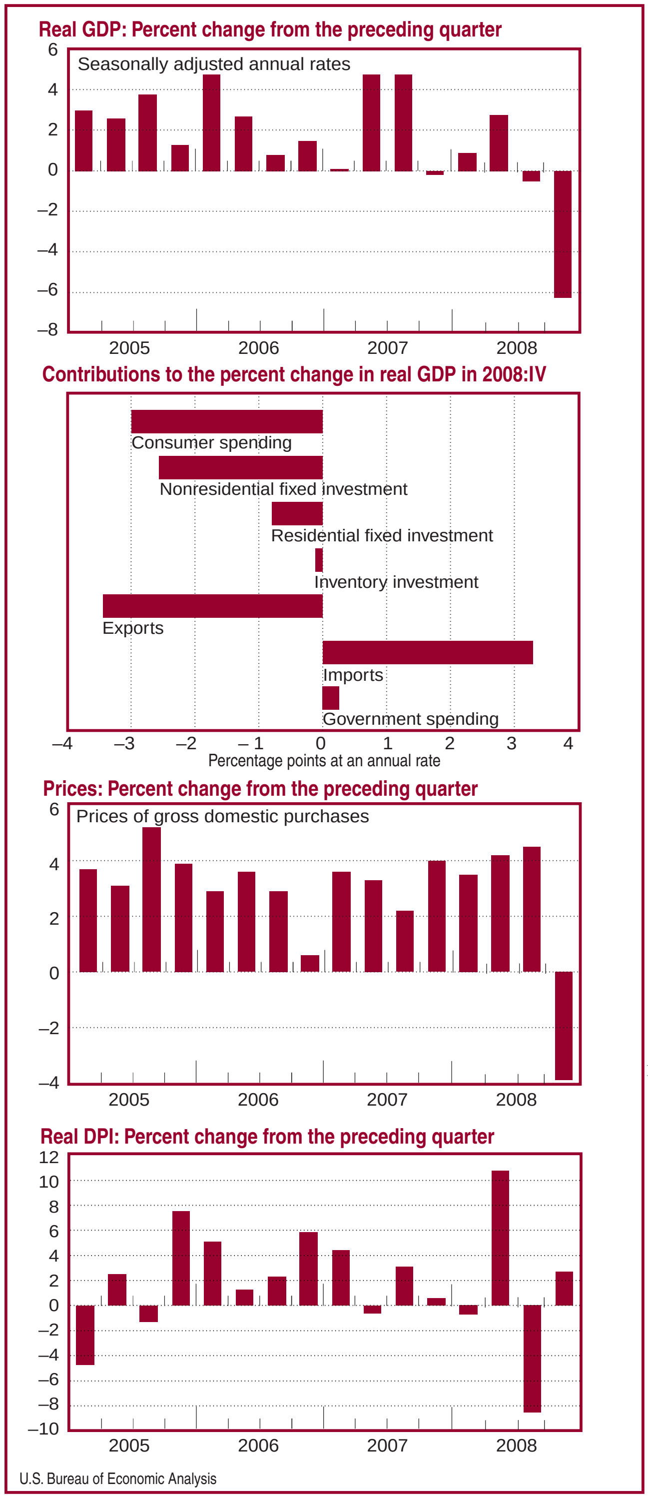
The larger fourth-quarter decrease in the percent change in real GDP primarily reflected a sharp downturn in exports and a much larger decrease in investment in equipment and software (see page 3). In contrast, imports decreased much more in the fourth quarter than in the third quarter.[3]

- Prices of goods and services purchased by U.S. residents decreased 3.9 percent in the fourth quarter after increasing 4.5 percent in the third quarter. Energy prices turned down sharply, and food prices decelerated. Excluding food and energy, gross domestic purchases prices increased 1.2 percent after increasing 2.8 percent.
- Real disposable personal income (DPI) increased 2.7 percent in the fourth quarter; in the third quarter, real DPI decreased 8.5 percent. The upturn reflected a sharp downturn in the personal consumption expenditures price deflator that is used to deflate current-dollar DPI and a smaller decrease in current-dollar DPI, which decreased 2.3 percent after decreasing 3.9 percent.
- The personal saving rate was 3.2 percent in the fourth quarter; in the third quarter, it was 1.3 percent.
- Corporate profits decreased $250.3 billion, or 16.5 percent at a quarterly rate, after decreasing $18.5 billion. The fourth-quarter decrease was the largest percentage decrease since the fourth quarter of 1953.

1. "Real" estimates are in chained (2000) dollars, and price indexes are chain-type measures.
2. Each GDP estimate for a quarter (advance, preliminary, and final) 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.
3. In this article, "consumer spending" refers to the "personal consumption expenditures," "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)			
	2008	2008				2008			
	IV	I	II	III	IV	I	II	III	IV
Gross domestic product [1]	**100.0**	**0.9**	**2.8**	**–0.5**	**–6.3**	**0.9**	**2.8**	**–0.5**	**–6.3**
Personal consumption expenditures	**69.9**	**0.9**	**1.2**	**–3.8**	**–4.3**	**0.61**	**0.87**	**–2.75**	**–2.99**
Durable goods	6.7	–4.3	–2.8	–14.8	–22.1	–0.33	–0.21	–1.16	–1.67
Nondurable goods	20.0	–0.4	3.9	–7.1	–9.4	–0.08	0.80	–1.57	–1.97
Services	43.3	2.4	0.7	–0.1	1.5	1.02	0.28	–0.03	0.66
Gross private domestic investment	**13.4**	**–5.8**	**–11.5**	**0.4**	**–23.0**	**–0.89**	**–1.74**	**0.06**	**–3.47**
Fixed investment	13.7	–5.6	–1.7	–5.3	–22.0	–0.86	–0.25	–0.79	–3.36
Nonresidential	10.6	2.4	2.5	–1.7	–21.7	0.26	0.27	–0.19	–2.56
Structures	4.0	8.6	18.5	9.7	–9.4	0.30	0.64	0.36	–0.38
Equipment and software	6.6	–0.6	–5.0	–7.5	–28.1	–0.04	–0.37	–0.55	–2.18
Residential	3.1	–25.1	–13.3	–16.0	–22.8	–1.12	–0.52	–0.60	–0.80
Change in private inventories	–0.3	....	....	....	....	–0.02	–1.50	0.84	–0.11
Net exports of goods and services	**–3.8**	....	....	....	....	**0.77**	**2.93**	**1.05**	**–0.15**
Exports	12.1	5.1	12.3	3.0	–23.6	0.63	1.54	0.40	–3.44
Goods	8.2	4.5	16.3	3.7	–32.0	0.39	1.39	0.34	–3.38
Services	4.0	6.4	3.8	1.4	–1.5	0.24	0.15	0.06	–0.06
Imports	16.0	–0.8	–7.3	–3.5	–17.5	0.14	1.39	0.65	3.29
Goods	13.1	–2.0	–7.1	–4.7	–19.6	0.29	1.14	0.74	3.09
Services	2.8	5.5	–8.0	3.3	–6.7	–0.15	0.25	–0.09	0.20
Government consumption expenditures and gross investment	**20.5**	**1.9**	**3.9**	**5.8**	**1.3**	**0.38**	**0.78**	**1.14**	**0.26**
Federal	7.8	5.8	6.6	13.8	7.0	0.41	0.47	0.97	0.52
National defense	5.3	7.3	7.3	18.0	3.4	0.34	0.36	0.85	0.18
Nondefense	2.5	2.9	5.0	5.1	15.3	0.06	0.11	0.12	0.34
State and local	12.7	–0.3	2.5	1.3	–2.0	–0.03	0.31	0.17	–0.25
Addenda:									
Final sales of domestic product	....	0.9	4.4	–1.3	–6.2	0.89	4.32	–1.35	–6.23
Gross domestic purchases price index	....	3.5	4.2	4.5	–3.9	....	....	....	....
GDP price index	....	2.6	1.1	3.9	0.5	....	....	....	....

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 decreased more in the fourth quarter than in the third quarter, the largest decrease since the second quarter of 1980. The decrease reduced the percent change in real GDP by 2.99 percentage points and reflected larger decreases in spending for goods. Spending for services turned up.

Nonresidential fixed investment decreased much more in the fourth quarter than in the third quarter. It was the largest decrease since the first quarter of 1975. The fourth-quarter decrease reflected a much larger decrease in equipment and software and a downturn in nonresidential structures.

Residential investment decreased 22.8 percent after decreasing 16.0 percent. It was the twelfth consecutive quarter of decline.

Inventory investment turned down. It reduced the percent change in real GDP by 0.11 percentage point after adding 0.84 percentage point.

Exports turned down sharply, the first decrease since the second quarter of 2003 and the largest decrease since the fourth quarter of 1971. The downturn reflected widespread downturns in exports of goods. Exports of services also turned down.

Imports decreased much more than in the third quarter, decreasing 17.5 percent after decreasing 3.5 percent. It was the fifth consecutive quarter of decline in imports and the largest decrease since the third quarter of 1980.

Federal government spending slowed, reflecting a deceleration in national defense spending that was partly offset by an acceleration in federal nondefense spending.

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/national/pdf/nipaguid.pdf. For a related discussion about GDP prices and gross domestic purchases prices, see FAQ 499.

Revisions to GDP

Table 2. Preliminary and Final Estimates for the Fourth Quarter of 2008

[Seasonally adjusted at annual rates]

	Change from preceding quarter (percent)			Contribution to percent change in real GDP (percentage points)		
	Prelim-inary	Final	Final minus prelim-inary	Prelim-inary	Final	Final minus prelim-inary
Gross domestic product (GDP) [1]	**–6.2**	**–6.3**	**–0.1**	**–6.2**	**–6.3**	**–0.1**
Personal consumption expenditures	**–4.3**	**–4.3**	**0.0**	**–3.01**	**–2.99**	**0.02**
Durable goods	–22.1	–22.1	0.0	–1.67	–1.67	0.00
Nondurable goods	–9.2	–9.4	–0.2	–1.95	–1.97	–0.02
Services	1.4	1.5	0.1	0.61	0.66	0.05
Gross private domestic investment	**–20.8**	**–23.0**	**–2.2**	**–3.11**	**–3.47**	**–0.36**
Fixed investment	–21.3	–22.0	–0.7	–3.26	–3.36	–0.10
Nonresidential	–21.1	–21.7	–0.6	–2.48	–2.56	–0.08
Structures	–5.9	–9.4	–3.5	–0.24	–0.38	–0.14
Equipment and software	–28.8	–28.1	0.7	–2.24	–2.18	0.06
Residential	–22.2	–22.8	–0.6	–0.78	–0.80	–0.02
Change in private inventories	....		....	0.16	–0.11	–0.27
Net exports of goods and services	....		....	**–0.46**	**–0.15**	**0.31**
Exports	–23.6	–23.6	0.0	–3.44	–3.44	0.00
Goods	–33.6	–32.0	1.6	–3.58	–3.38	0.20
Services	3.5	–1.5	–5.0	0.14	–0.06	–0.20
Imports	–16.0	–17.5	–1.5	2.99	3.29	0.30
Goods	–19.4	–19.6	–0.2	3.06	3.09	0.03
Services	2.7	–6.7	–9.4	–0.08	0.20	0.28
Government consumption expenditures and gross investment	**1.6**	**1.3**	**–0.3**	**0.32**	**0.26**	**–0.06**
Federal	6.7	7.0	0.3	0.50	0.52	0.02
National defense	3.1	3.4	0.3	0.16	0.18	0.02
Nondefense	15.1	15.3	0.2	0.34	0.34	0.00
State and local	–1.4	–2.0	–0.6	–0.18	–0.25	–0.07
Addenda:						
Final sales of domestic product	–6.4	–6.2	0.2	–6.41	–6.23	0.18
Gross domestic purchases price index	–4.1	–3.9	0.2	....	....	....
GDP price index	0.5	0.5	0.0	....	....	....

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

Real GDP decreased 6.3 percent in the fourth-quarter final estimate, 0.1 percentage point more than in the preliminary estimate. The average revision (without regard to sign) between the preliminary estimate and the final estimate is 0.3 percentage point. The downward revision to the percent change in real GDP primarily reflected downward revisions to inventory investment, to exports of services, and to nonresidential structures that were partly offset by a downward revision to imports of services and an upward revision to exports of goods.

The largest contributor to the downward revision to nonresidential structures was commercial and health care structures.

The downward revision to inventory investment was more than accounted for by a downward revision to manufacturing inventories.

The upward revision to exports of goods primarily reflected a revision to industrial supplies and materials.

The downward revision to exports of services was widespread. The largest contributor to the revision was “other” transportation.

The downward revision to imports of services was also widespread. The largest contributor to the revision was “other” transportation.

Source Data for the Final Estimates

The final estimates of gross domestic product for the fourth quarter of 2008 incorporated the following source data.

Personal consumption expenditures: Retail sales for December (revised) and quarterly services survey for the fourth quarter (new).

Nonresidential fixed investment: Construction spending (value put in place) for November and December (revised) and quarterly services survey for the fourth quarter (new).

Residential fixed investment: Construction spending (value put in place) for November and December (revised).

Change in private inventories: Manufacturers’ and trade inventories for November and December (revised) and Producer Price Index for October (revised).

Exports and imports of goods and services: International transactions accounts data for services for the third and fourth quarters (revised), goods data for December (revised), and export and import prices for October, November, and December (revised).

Government consumption expenditures and gross investment: State and local government construction spending (value put in place) for November and December (revised).

GDP prices: Export and import prices for October, November, and December (revised), unit value index for petroleum imports for December (revised), and prices of single-family houses under construction for the fourth quarter (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							
	2008	2008				2008			
	IV	I	II	III	IV	I	II	III	IV
Current production measures:									
Corporate profits	1,264.5	–17.6	–60.2	–18.5	–250.3	–1.1	–3.8	–1.2	–16.5
Domestic industries	868.6	5.4	–35.3	–23.4	–267.8	0.4	–3.0	–2.0	–23.6
Financial	122.4	37.3	–31.0	–75.5	–178.7	10.1	–7.6	–20.0	–59.3
Nonfinancial	746.2	–32.1	–4.2	52.1	–89.1	–3.9	–0.5	6.7	–10.7
Rest of the world	395.9	–22.8	–25.0	4.9	17.5	–5.4	–6.3	1.3	4.6
Receipts from the rest of the world	479.8	3.7	8.9	–10.4	–75.5	0.7	1.6	–1.8	–13.6
Less: Payments to the rest of the world	83.9	26.5	33.9	–15.3	–93.0	20.1	21.4	–8.0	–52.6
Less: Taxes on corporate income	263.2	–30.6	3.9	–13.3	–130.3	–7.0	1.0	–3.3	–33.1
Equals: Profits after tax	1,001.2	13.0	–64.1	–5.2	–120.1	1.1	–5.4	–0.5	–10.7
Net dividends	808.3	16.1	13.9	–5.3	–32.8	2.0	1.7	–0.6	–3.9
Undistributed profits from current production	192.9	–3.1	–78.1	0.3	–87.4	–0.9	–21.8	0.1	–31.2
Net cash flow	1,222.6	10.1	–60.5	43.1	–97.0	0.8	–4.5	3.4	–7.4

NOTE. Levels of these and other profits series are shown in NIPA tables 1.12, 1.14, 1.15, and 6.16D.

Corporate profits from current production decreased $250.3 billion, or 16.5 percent, in the fourth quarter after decreasing $18.5 billion, or 1.2 percent, in the third quarter. Third-quarter profits had been reduced by $46.2 billion because of Hurricane Ike.

Profits of domestic financial corporations decreased $178.7 billion, or 59.3 percent, after decreasing $75.5 billion, or 20.0 percent.

Profits of domestic nonfinancial corporations decreased $89.1 billion, or 10.7 percent, after increasing $52.1 billion, or 6.7 percent.

Profits from the rest of the world increased $17.5 billion, or 4.6 percent, after increasing $4.9 billion, or 1.3 percent. The acceleration reflected a larger decrease in payments than in receipts.

Taxes on corporate income decreased $130.3 billion, or 33.1 percent, after decreasing $13.3 billion, or 3.3 percent.

Net dividends decreased $32.8 billion, or 3.9 percent, after decreasing $5.3 billion, or 0.6 percent.

Undistributed corporate profits (a measure of net saving that equals after-tax profits less dividends) decreased $87.4 billion, or 31.2 percent, after increasing $0.3 billion, or 0.1 percent.

Net cash flow decreased $97.0 billion, or 7.4 percent, after increasing $43.1 billion, or 3.4 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							
	2008	2008				2008			
	IV	I	II	III	IV	I	II	III	IV
Industry profits:									
Profits with IVA	1,352.6	–178.7	–45.5	6.8	–250.2	–9.8	–2.8	0.4	–15.6
Domestic industries	956.7	–155.8	–20.6	1.9	–267.7	–11.1	–1.7	0.2	–21.9
Financial	130.9	20.4	–29.6	–74.4	–177.9	5.2	–7.2	–19.4	–57.6
Nonfinancial	825.8	–176.3	9.1	76.3	–89.8	–17.5	1.1	9.1	–9.8
Utilities	56.3	–17.0	10.5	2.4	–2.8	–26.9	22.8	4.1	–4.7
Manufacturing	231.2	–51.6	–25.6	57.7	–41.4	–17.7	–10.6	26.8	–15.2
Wholesale trade	105.2	–31.0	10.2	32.7	13.1	–38.7	20.7	55.1	14.2
Retail trade	75.8	–12.5	–19.3	–6.5	–10.4	–10.1	–17.3	–7.0	–12.1
Transportation and warehousing	24.4	–13.3	0.4	0.4	–0.8	–35.4	1.9	1.7	–3.4
Information	82.6	–11.9	9.0	–11.2	–21.2	–10.1	8.5	–9.7	–20.4
Other nonfinancial	250.4	–38.9	23.8	0.8	–26.2	–13.4	9.4	0.3	–9.5
Rest of the world	395.9	–22.8	–25.0	4.9	17.5	–5.4	–6.3	1.3	4.6
Addenda:									
Profits before tax (without IVA and CCAdj)	1,194.5	–143.4	–0.9	–56.3	–499.2	–7.6	–0.1	–3.2	–29.5
Profits after tax (without IVA and CCAdj)	931.2	–112.9	–4.8	–43.1	–368.9	–7.7	–0.4	–3.2	–28.4
IVA	158.1	–35.3	–44.6	63.1	249.0	....	....	....	....
CCAdj	–88.1	161.2	–14.7	–25.3	–0.1	....	....	....	....

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

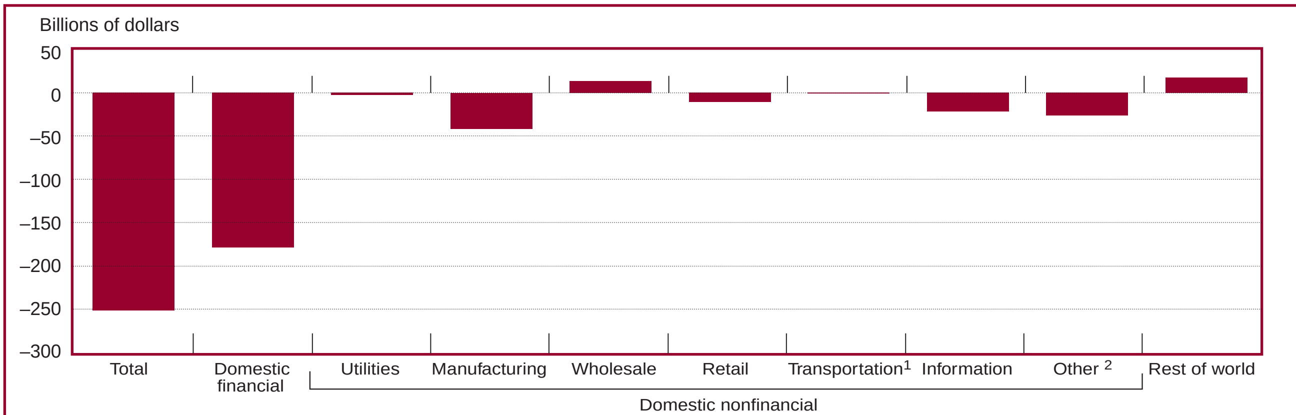
Profits with inventory valuation adjustment decreased $250.2 billion, or 15.6 percent in the fourth quarter. The difference between this decrease and the decrease in profits from current production reflects the capital consumption adjustment, which decreased $0.1 billion.

Profits of domestic industries decreased $267.7 billion, or 21.9 percent, after increasing $1.9 billion, or 0.2 percent.

Profits of domestic financial industries decreased $177.9 billion, or 57.6 percent, after decreasing $74.4 billion, or 19.4 percent.

Profits of domestic nonfinancial industries decreased $89.8 billion, or 9.8 percent, after increasing $76.3 billion, or 9.1 percent. The downturn mainly reflected downturns in manufacturing industries and in "other" nonfinancial industries, a slowdown in wholesale industries, and a larger decrease in information industries.

Chart 2. Corporate Profits With Inventory Valuation Adjustment: Change From the Preceding Quarter, 2008:IV



1. Includes warehousing.
2. "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 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 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/methdologies/index.htm.