GDP and the Economy

Third Estimates for the Fourth Quarter of 2009

REAL GROSS domestic product (GDP) increased 5.6 percent in the fourth quarter of 2009, according to the "third" estimates of the national income and product accounts (NIPAs) (chart 1 and table 1).[1] The increase was revised down 0.3 percentage point from the second estimate (see page 3). In the third quarter, real GDP increased 2.2 percent.

The acceleration in real GDP in the fourth quarter primarily reflected an acceleration in private inventory investment, an upturn in nonresidential fixed investment, an acceleration in exports, and a deceleration in imports that were partly offset by decelerations in consumer spending and federal government spending.[2]

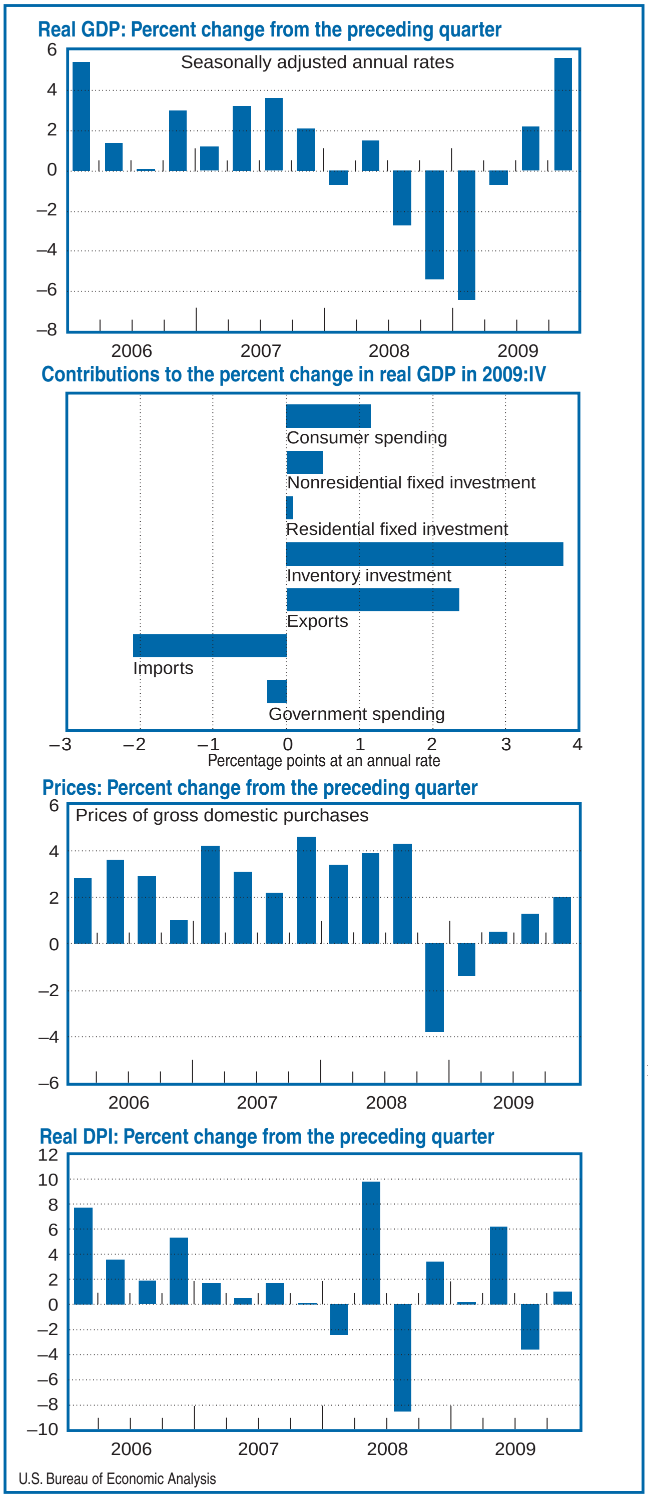
- Prices of goods and services purchased by U.S. residents increased 2.0 percent in the fourth quarter, an upward revision of 0.1 percentage point, after increasing 1.3 percent in the third quarter. Energy prices decelerated in the fourth quarter, and food prices decreased less than in the third quarter. Excluding food and energy prices, gross domestic purchases prices increased 1.5 percent after increasing 0.3 percent.
- Real disposable personal income (DPI) increased 1.0 percent, 0.9 percentage point less than the second estimate. The revision to real DPI corresponded to the revision to current-dollar DPI, which in turn reflected a downward revision to personal income (mainly government social benefits to persons) and an upward revision to personal current taxes (mainly state and local income taxes).
- The personal saving rate was 3.9 percent in the fourth quarter, 0.2 percentage point less than the second estimate; in the third quarter, it was also 3.9 percent.
- Corporate profits increased $108.7 billion, or 8.0 percent at a quarterly rate, after increasing $132.4 billion (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," "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)			
	2009	2009				2009			
	IV	I	II	III	IV	I	II	III	IV
Gross domestic product [1]	**100.0**	**–6.4**	**–0.7**	**2.2**	**5.6**	**–6.4**	**–0.7**	**2.2**	**5.6**
Personal consumption expenditures	**70.8**	**0.6**	**–0.9**	**2.8**	**1.6**	**0.44**	**–0.62**	**1.96**	**1.16**
Goods	23.1	2.5	–3.1	7.2	2.8	0.56	–0.71	1.59	0.66
Durable goods	7.3	3.9	–5.6	20.4	0.4	0.28	–0.41	1.36	0.03
Nondurable goods	15.8	1.9	–1.9	1.5	4.0	0.29	–0.29	0.23	0.63
Services	47.7	–0.3	0.2	0.8	1.0	–0.13	0.09	0.37	0.49
Gross private domestic investment	**11.8**	**–50.5**	**–23.7**	**5.0**	**46.1**	**–8.98**	**–3.10**	**0.54**	**4.39**
Fixed investment	12.0	–39.0	–12.5	–1.3	5.0	–6.62	–1.68	–0.15	0.61
Nonresidential	9.5	–39.2	–9.6	–5.9	5.3	–5.29	–1.01	–0.59	0.51
Structures	3.0	–43.6	–17.3	–18.4	–18.0	–2.28	–0.69	–0.68	–0.62
Equipment and software	6.5	–36.4	–4.9	1.5	19.0	–3.01	–0.32	0.10	1.13
Residential	2.5	–38.2	–23.3	18.9	3.8	–1.33	–0.67	0.43	0.10
Change in private inventories	–0.2	....	....	....	....	–2.36	–1.42	0.69	3.79
Net exports of goods and services	**–3.1**	....	....	....	....	**2.64**	**1.65**	**–0.81**	**0.27**
Exports	11.6	–29.9	–4.1	17.8	22.8	–3.95	–0.45	1.78	2.36
Goods	7.9	–36.9	–6.3	24.6	34.1	–3.41	–0.45	1.58	2.26
Services	3.7	–13.6	0.1	5.6	2.6	–0.54	0.00	0.20	0.10
Imports	14.7	–36.4	–14.7	21.3	15.8	6.58	2.09	–2.59	–2.09
Goods	12.0	–41.0	–16.5	25.1	20.3	6.25	1.89	–2.41	–2.14
Services	2.7	–11.5	–7.5	7.0	–1.9	0.34	0.21	–0.18	0.05
Government consumption expenditures and gross investment	**20.5**	**–2.6**	**6.7**	**2.6**	**–1.3**	**–0.52**	**1.33**	**0.55**	**–0.26**
Federal	8.1	–4.3	11.4	8.0	0.0	–0.33	0.85	0.62	0.01
National defense	5.5	–5.1	14.0	8.4	–3.6	–0.27	0.70	0.45	–0.20
Nondefense	2.6	–2.5	6.1	7.0	8.3	–0.06	0.15	0.17	0.21
State and local	12.4	–1.5	3.9	–0.6	–2.2	–0.19	0.48	–0.08	–0.27
Addenda:									
Final sales of domestic product	100.2	–4.1	0.7	1.5	1.7	–4.07	0.68	1.54	1.77
Gross domestic purchases	103.1	–8.6	–2.3	3.0	5.2	....	....	....	....
Gross domestic purchases price index	....	–1.4	0.5	1.3	2.0	....	....	....	....
GDP price index	....	1.9	0.0	0.4	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 increased 1.6 percent in the fourth quarter after increasing 2.8 percent. The slowdown was mainly due to a sharp deceleration in durable goods that primarily reflected a sharp downturn in motor vehicles and parts. Both nondurable goods and services picked up.

Nonresidential fixed investment turned up, increasing 5.3 percent after decreasing 5.9 percent. The upturn mainly reflected a sharp acceleration in equipment and software.

Residential fixed investment increased 3.8 percent after increasing 18.9 percent, mainly reflecting decelerations in single-family and "other" structures.

Inventory investment accelerated, reflecting a much slower drawdown in inventories than in the third quarter. The fourth-quarter change added 3.79 percentage points to real GDP growth.

Exports increased 22.8 percent after increasing 17.8 percent and added 2.36 percentage points to real GDP growth, reflecting a pickup in goods exports; exports of services slowed somewhat.

Imports increased 15.8 percent after increasing 21.3 percent, reflecting a slowdown in imports of goods and a downturn in imports of services.

Federal government spending decelerated, reflecting a downturn in national defense spending that was partly offset by a pickup in nondefense spending.

State and local government spending decreased more than in the third quarter.

Gross domestic purchases increased 5.2 percent, 0.4 percentage point less than real GDP, reflecting a larger increase in exports than in imports.

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 "Methodology Papers." 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 Fourth Quarter of 2009

[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]	**5.9**	**5.6**	**–0.3**	**5.9**	**5.6**	**–0.3**
Personal consumption expenditures	**1.7**	**1.6**	**–0.1**	**1.23**	**1.16**	**–0.07**
Goods	2.8	2.8	0.0	0.66	0.66	0.00
Durable goods	0.2	0.4	0.2	0.02	0.03	0.01
Nondurable goods	4.1	4.0	–0.1	0.64	0.63	–0.01
Services	1.2	1.0	–0.2	0.57	0.49	–0.08
Gross private domestic investment	**48.9**	**46.1**	**–2.8**	**4.63**	**4.39**	**–0.24**
Fixed investment	6.2	5.0	–1.2	0.75	0.61	–0.14
Nonresidential	6.5	5.3	–1.2	0.62	0.51	–0.11
Structures	–13.9	–18.0	–4.1	–0.47	–0.62	–0.15
Equipment and software	18.2	19.0	0.8	1.09	1.13	0.04
Residential	5.0	3.8	–1.2	0.13	0.10	–0.03
Change in private inventories	....	....	....	3.88	3.79	–0.09
Net exports of goods and services	....	....	....	**0.30**	**0.27**	**–0.03**
Exports	22.4	22.8	0.4	2.32	2.36	0.04
Goods	34.2	34.1	–0.1	2.27	2.26	–0.01
Services	1.4	2.6	1.2	0.05	0.10	0.05
Imports	15.3	15.8	0.5	–2.02	–2.09	–0.07
Goods	20.2	20.3	0.1	–2.13	–2.14	–0.01
Services	–3.9	–1.9	2.0	0.11	0.05	–0.06
Government consumption expenditures and gross investment	**–1.2**	**–1.3**	**–0.1**	**–0.23**	**–0.26**	**–0.03**
Federal	0.1	0.0	–0.1	0.02	0.01	–0.01
National defense	–3.5	–3.6	–0.1	–0.19	–0.20	–0.01
Nondefense	8.3	8.3	0.0	0.21	0.21	0.00
State and local	–2.0	–2.2	–0.2	–0.25	–0.27	–0.02
Addenda:						
Final sales of domestic product	1.9	1.7	–0.2	2.04	1.77	–0.27
Gross domestic purchases price index	1.9	2.0	0.1	....	....	....
GDP price index	0.4	0.5	0.1	....	....	....

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

Real GDP increased 5.6 percent in the third estimate for the fourth quarter, 0.3 percentage point lower than in the second estimate. The average revision (without regard to sign) between the second estimate and the third estimate is 0.3 percentage point. The downward revision to the percent change in real GDP primarily reflected downward revisions to nonresidential fixed investment, to inventory investment, and to consumer spending.

The downward revision to consumer spending was accounted for by services, primarily financial services and insurance.

The revision to nonresidential fixed investment primarily reflected a downward revision to nonresidential structures, mainly manufacturing structures and commercial and health care structures.

The revision to inventory investment primarily reflected small downward revisions to wholesale trade industries, to manufacturing industries, and to construction, mining, and utilities industries that were partly offset by a small upward revision to retail trade industries.

Source Data for the Third Estimates

The third estimates of GDP for the fourth quarter of 2009 incorporated the following source data.

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

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

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

Change in private inventories: Manufacturers' and trade inventories for December (revised), Quarterly Financial Report data for mining, Energy Information Administration utility stock data for November and December (new), and Producer Price Indexes for October (revised).

Exports and imports of goods and services: International transactions accounts data for services for the third and fourth quarters (revised) and goods data for December (revised).

Government consumption expenditures and gross investment: State and local government construction spending (value put in place) data 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							
	2009	2009				2009			
	IV	I	II	III	IV	I	II	III	IV
Current production measures:									
Corporate profits	1,467.6	59.1	43.8	132.4	108.7	5.3	3.7	10.8	8.0
Domestic industries	1,160.4	75.7	58.3	110.4	124.7	9.6	6.7	11.9	12.0
Financial	414.1	115.9	28.5	82.8	65.0	95.0	12.0	31.1	18.6
Nonfinancial	746.4	–40.2	29.8	27.6	59.8	–6.0	4.7	4.2	8.7
Rest of the world	307.1	–16.6	–14.6	22.0	–16.1	–5.0	–4.6	7.3	–5.0
Receipts from the rest of the world	468.5	–76.9	7.7	30.9	27.7	–16.1	1.9	7.5	6.3
Less: Payments to the rest of the world	161.4	–60.4	22.3	8.9	43.8	–41.1	25.8	8.2	37.3
Less: Taxes on corporate income	361.9	47.0	35.6	15.1	40.9	21.1	13.2	4.9	12.7
Equals: Profits after tax	1,105.7	12.0	8.2	117.3	67.8	1.3	0.9	12.7	6.5
Net dividends	579.0	–51.8	–62.1	–6.1	29.1	–7.7	–10.0	–1.1	5.3
Undistributed profits from current production	526.7	63.7	70.3	123.5	38.7	27.7	23.9	33.9	7.9
Net cash flow	1,642.4	16.2	–30.5	28.4	69.1	1.0	–1.9	1.8	4.4

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 increased $108.7 billion, or 8.0 percent at a quarterly rate, in the fourth quarter after increasing $132.4 billion, or 10.8 percent, in the third quarter.

Profits of domestic financial corporations increased $65.0 billion, or 18.6 percent, after increasing $82.8 billion, or 31.1 percent.

Profits of domestic nonfinancial corporations increased $59.8 billion, or 8.7 percent, after increasing $27.6 billion, or 4.2 percent.

Profits from the rest of the world decreased $16.1 billion, or 5.0 percent, after increasing $22.0 billion, or 7.3 percent. The downturn reflected an acceleration in payments and a small deceleration in receipts.

Taxes on corporate income increased $40.9 billion, or 12.7 percent, after increasing $15.1 billion, or 4.9 percent.

Net dividends increased $29.1 billion, or 5.3 percent, after decreasing $6.1 billion, or 1.1 percent.

Undistributed corporate profits (a measure of net saving that equals after-tax profits less dividends) increased $38.7 billion, or 7.9 percent, after increasing $123.5 billion, or 33.9 percent.

Net cash flow increased $69.1 billion, or 4.4 percent, after increasing $28.4 billion, or 1.8 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 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							
	2009	2009				2009			
	IV	I	II	III	IV	I	II	III	IV
Industry profits:									
Profits with IVA	1,586.3	128.3	27.5	122.7	108.5	10.7	2.1	9.1	7.3
Domestic industries	1,279.2	145.0	42.0	100.7	124.6	16.7	4.2	9.6	10.8
Financial	427.9	123.6	26.8	81.7	65.5	94.8	10.6	29.1	18.1
Nonfinancial	851.4	21.4	15.3	18.9	59.2	2.9	2.0	2.5	7.5
Utilities	47.8	12.8	–0.2	8.1	–13.7	31.5	–0.3	15.1	–22.2
Manufacturing	160.5	–27.0	10.7	–2.6	30.8	–18.2	8.8	–2.0	23.8
Wholesale trade	89.5	–17.5	–6.5	–6.9	8.9	–15.7	–6.9	–7.9	11.0
Retail trade	87.8	3.4	12.0	3.7	–11.0	4.2	14.4	4.0	–11.2
Transportation and warehousing	10.8	–4.8	–5.4	3.5	6.0	–41.7	–80.8	271.9	126.7
Information	133.9	31.8	4.0	7.6	26.9	49.9	4.2	7.7	25.1
Other nonfinancial	321.0	22.8	0.6	5.7	11.1	8.1	0.2	1.9	3.6
Rest of the world	307.1	–16.6	–14.6	22.0	–16.1	–5.0	–4.6	7.3	–5.0
Addenda:									
Profits before tax (without IVA and CCAdj)	1,632.0	186.4	90.6	157.9	137.0	17.6	7.3	11.8	9.2
Profits after tax (without IVA and CCAdj)	1,270.1	139.3	55.0	142.8	96.2	16.6	5.6	13.8	8.2
IVA	–45.6	–58.1	–63.0	–35.2	–28.5	....	....	....	....
CCAdj	–118.8	–69.3	16.3	9.7	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

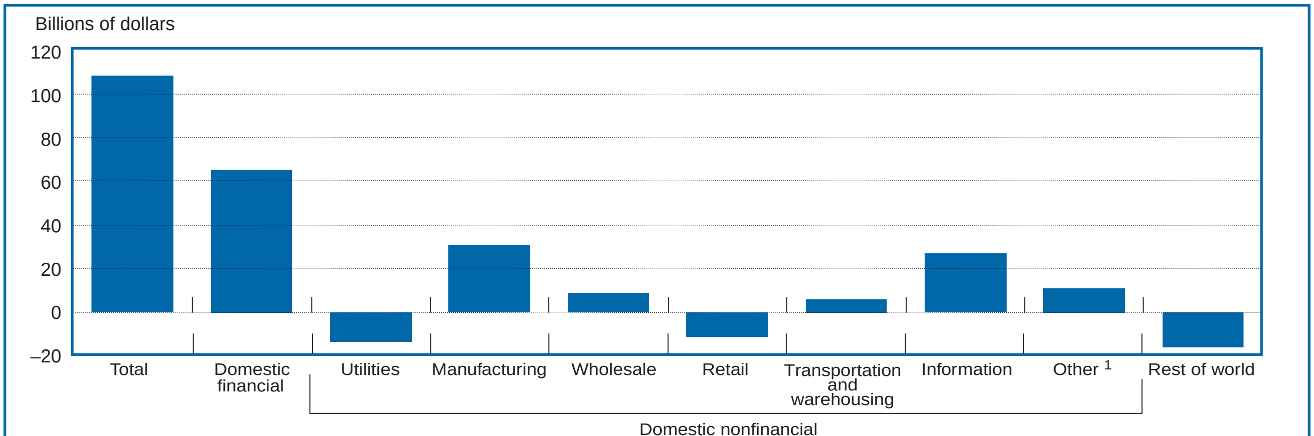
Profits with inventory valuation adjustment increased $108.5 billion, or 7.3 percent at a quarterly rate, after increasing $122.7 billion, or 9.1 percent. The difference between this increase and the increase in profits from current production reflects the capital consumption adjustment, which increased $0.1 billion.

Profits of domestic industries increased $124.6 billion, or 10.8 percent, after increasing $100.7 billion, or 9.6 percent.

Profits of domestic financial industries increased $65.5 billion, or 18.1 percent, after increasing $81.7 billion, or 29.1 percent.

Profits of domestic nonfinancial industries increased $59.2 billion, or 7.5 percent, after increasing $18.9 billion, or 2.5 percent. The acceleration reflected an upturn in profits of manufacturing industries, an acceleration in information industries, an upturn in wholesale trade industries, and an acceleration in "other" nonfinancial industries. In contrast, profits of utilities industries and retail trade industries turned down.

Chart 2. Corporate Profits With Inventory Valuation Adjustment: Change From the Preceding Quarter, 2009:IV



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 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/methodologies/index.htm.