GDP and the Economy

Third Estimates for the Fourth Quarter of 2010

REAL GROSS domestic product (GDP) increased 3.1 percent in the fourth quarter of 2010, according to the third estimates of the national income and product accounts (NIPAs) (chart 1 and table 1).[1] The fourth-quarter increase was revised up 0.3 percentage point from the second estimate (see page 3). In the third quarter, real GDP increased 2.6 percent.

The fourth-quarter acceleration in real GDP primarily reflected a sharp downturn in imports, an acceleration in consumer spending, an upturn in residential fixed investment, and an acceleration in exports that were partly offset by downturns in inventory investment, in federal government spending, and in state and local government spending and a deceleration in nonresidential fixed investment.[2]

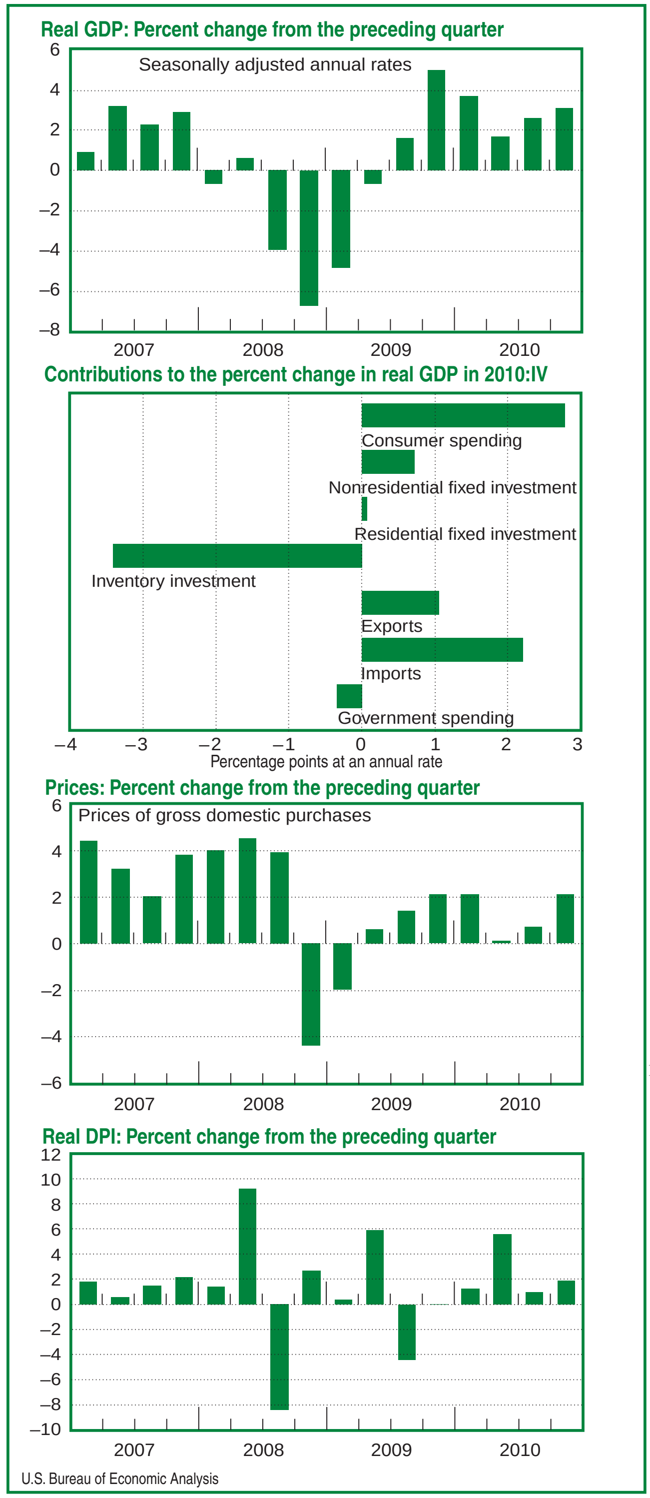
- Prices of goods and services purchased by U.S. residents increased 2.1 percent in the fourth quarter (unrevised), after increasing 0.7 percent in the third quarter. Energy prices and food prices both accelerated in the fourth quarter. Excluding food and energy, prices increased 1.1 percent in the fourth quarter after increasing 0.4 percent.
- Real disposable personal income (DPI) increased 1.9 percent, 0.5 percentage point more than in the second estimate. The revision to real DPI reflected an upward revision to current-dollar DPI, which in turn primarily reflected an upward revision to personal income (mainly from upward revisions to government social benefits to persons and to personal interest income).
- The personal saving rate, personal saving as a percentage of current-dollar DPI, was 5.6 percent, 0.2 percentage point more than in the second estimate; in the third quarter, the saving rate was 6.0 percent.
- Corporate profits increased $38.2 billion, or 2.3 percent at a quarterly rate, after increasing $26.0 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 (PCE),” “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)			
	2010	2010				2010			
	IV	I	II	III	IV	I	II	III	IV
Gross domestic product [1]	**100.0**	**3.7**	**1.7**	**2.6**	**3.1**	**3.7**	**1.7**	**2.6**	**3.1**
Personal consumption expenditures	**70.7**	**1.9**	**2.2**	**2.4**	**4.0**	**1.33**	**1.54**	**1.67**	**2.79**
Goods	23.7	5.7	3.4	4.1	9.3	1.29	0.79	0.94	2.10
Durable goods	7.6	8.8	6.8	7.6	21.1	0.62	0.49	0.54	1.45
Nondurable goods	16.1	4.2	1.9	2.5	4.1	0.67	0.31	0.39	0.65
Services	47.0	0.1	1.6	1.6	1.5	0.03	0.75	0.74	0.70
Gross private domestic investment	**12.2**	**29.1**	**26.2**	**15.0**	**–18.7**	**3.04**	**2.88**	**1.80**	**–2.61**
Fixed investment	12.1	3.3	18.9	1.5	6.8	0.39	2.06	0.18	0.80
Nonresidential	9.9	7.8	17.2	10.0	7.7	0.71	1.51	0.93	0.73
Structures	2.6	–17.8	–0.5	–3.5	7.6	–0.53	–0.01	–0.09	0.19
Equipment and software	7.2	20.4	24.8	15.4	7.7	1.24	1.52	1.02	0.54
Residential	2.3	–12.3	25.7	–27.3	3.3	–0.32	0.55	–0.75	0.07
Change in private inventories	0.1	....	....	....	....	2.64	0.82	1.61	–3.42
Net exports of goods and services	**–3.3**	....	....	....	....	**–0.31**	**–3.50**	**–1.70**	**3.27**
Exports	12.9	11.4	9.1	6.8	8.6	1.30	1.08	0.82	1.06
Goods	9.1	14.0	11.5	5.8	11.1	1.09	0.93	0.49	0.94
Services	3.9	5.8	3.9	8.9	3.0	0.21	0.15	0.33	0.12
Imports	16.3	11.2	33.5	16.8	–12.6	–1.61	–4.58	–2.53	2.21
Goods	13.5	12.0	40.5	17.4	–14.2	–1.41	–4.46	–2.16	2.10
Services	2.8	7.8	4.3	14.2	–4.1	–0.20	–0.12	–0.37	0.12
Government consumption expenditures and gross investment	**20.4**	**–1.6**	**3.9**	**3.9**	**–1.7**	**–0.32**	**0.80**	**0.79**	**–0.34**
Federal	8.3	1.8	9.1	8.8	–0.3	0.15	0.72	0.71	–0.02
National defense	5.6	0.4	7.4	8.5	–2.2	0.02	0.40	0.46	–0.12
Nondefense	2.7	5.0	12.8	9.5	3.7	0.13	0.32	0.25	0.10
State and local	12.1	–3.8	0.6	0.7	–2.6	–0.48	0.08	0.09	–0.31
Addenda:									
Final sales of domestic product	99.9	1.1	0.9	0.9	6.7	1.09	0.90	0.95	6.53
Gross domestic purchases	103.3	3.9	5.1	4.2	–0.2	....	....	....	....
Gross domestic purchases price index	....	2.1	0.1	0.7	2.1	....	....	....	....
GDP price index	....	1.0	1.9	2.1	0.4	....	....	....	....

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 4.0 percent in the fourth quarter, the largest percentage increase since the fourth quarter of 2006. In the third quarter of 2010, it increased 2.4 percent. The acceleration reflected pickups in durable and nondurable goods. Services slowed very slightly.

Nonresidential fixed investment slowed, mainly reflecting a slowdown in equipment and software that was partly offset by an upturn in structures.

Residential fixed investment turned up, mainly reflecting an upturn in "other" structures (in both brokers' commissions and improvements) and a smaller decrease in single-family structures.

Inventory investment turned down sharply and subtracted 3.42 percentage points from real GDP growth after adding 1.61 percentage points.

Exports picked up and contributed 1.06 percentage points to real GDP growth after contributing 0.82 percentage point. The pickup reflected an acceleration in exports of goods. Exports of services slowed.

Imports turned down sharply, reflecting downturns in both goods and services. The largest contributor to the downturn in goods imports was a downturn in petroleum and products.

Federal government spending turned down, reflecting a downturn in defense spending and a slowdown in nondefense spending.

State and local government spending turned down, mainly reflecting a downturn in investment in structures.

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 "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 Fourth Quarter of 2010

[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]	**2.8**	**3.1**	**0.3**	**2.8**	**3.1**	**0.3**
Personal consumption expenditures	**4.1**	**4.0**	**–0.1**	**2.88**	**2.79**	**–0.09**
Goods	9.8	9.3	–0.5	2.20	2.10	–0.10
Durable goods	21.0	21.1	0.1	1.44	1.45	0.01
Nondurable goods	4.8	4.1	–0.7	0.76	0.65	–0.11
Services	1.4	1.5	0.1	0.68	0.70	0.02
Gross private domestic investment	**–22.1**	**–18.7**	**3.4**	**–3.13**	**–2.61**	**0.52**
Fixed investment	4.8	6.8	2.0	0.57	0.80	0.23
Nonresidential	5.3	7.7	2.4	0.51	0.73	0.22
Structures	4.5	7.6	3.1	0.11	0.19	0.08
Equipment and software	5.5	7.7	2.2	0.39	0.54	0.15
Residential	2.8	3.3	0.5	0.06	0.07	0.01
Change in private inventories	....	....	....	–3.70	–3.42	0.28
Net exports of goods and services	....	....	....	**3.35**	**3.27**	**–0.08**
Exports	9.6	8.6	–1.0	1.18	1.06	–0.12
Goods	11.7	11.1	–0.6	0.99	0.94	–0.05
Services	5.0	3.0	–2.0	0.19	0.12	–0.07
Imports	–12.4	–12.6	–0.2	2.17	2.21	0.04
Goods	–14.1	–14.2	–0.1	2.07	2.10	0.03
Services	–3.7	–4.1	–0.4	0.11	0.12	0.01
Government consumption expenditures and gross investment	**–1.5**	**–1.7**	**–0.2**	**–0.31**	**–0.34**	**–0.03**
Federal	–0.2	–0.3	–0.1	–0.02	–0.02	0.00
National defense	–2.1	–2.2	–0.1	–0.12	–0.12	0.00
Nondefense	3.7	3.7	0.0	0.10	0.10	0.00
State and local	–2.4	–2.6	–0.2	–0.29	–0.31	–0.02
Addenda:						
Final sales of domestic product	6.7	6.7	0.0	6.49	6.53	0.04
Gross domestic purchases price index	2.1	2.1	0.0	....	....	....
GDP price index	0.4	0.4	0.0	....	....	....

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

Real GDP increased 3.1 percent in the third estimate for the fourth quarter, 0.3 percentage point more 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 upward revision to the percent change in real GDP primarily reflected upward revisions to inventory investment and to nonresidential fixed investment that were partly offset by a downward revision to exports of goods and services.

The upward revision to nonresidential fixed investment primarily reflected upward revisions to software and to computers and peripheral equipment.

The upward revision to inventory investment primarily reflected upward revisions to wholesale trade inventories and to retail trade inventories.

The downward revision to exports was to both goods and services. Within exports of goods, the largest contributor was "other" goods. Within exports of services, the largest contributor was "other" transportation.

Source Data for the Third Estimates

The third estimate of GDP for the fourth quarter of 2010 incorporated the following source data.

Personal consumption expenditures: retail sales for December (revised), quarterly services survey data for the fourth quarter (new), and Energy Information Administration (EIA) fuels data for December (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 (revised), and EIA coal and petroleum utility stock data for November (new).

Exports and imports of goods and services: international transactions accounts data for October-December (revised) and data for goods 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).

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							
	2010	2010				2010			
	IV	I	II	III	IV	I	II	III	IV
Current production measures:									
Corporate profits	1,678.3	148.4	47.5	26.0	38.2	10.5	3.0	1.6	2.3
Domestic industries	1,305.3	122.4	44.6	35.0	47.6	11.6	3.8	2.9	3.8
Financial	426.5	5.2	–3.4	34.6	57.7	1.6	–1.0	10.4	15.6
Nonfinancial	878.8	117.2	48.2	0.3	–10.1	16.2	5.7	0.0	–1.1
Rest of the world	373.0	25.9	2.8	–8.9	–9.4	7.2	0.7	–2.3	–2.5
Receipts from the rest of the world	589.0	32.3	–3.9	8.8	22.7	6.1	–0.7	1.6	4.0
Less: Payments to the rest of the world	216.0	6.4	–6.8	17.8	32.1	3.9	–3.9	10.7	17.4
Less: Taxes on corporate income	428.1	84.1	2.4	23.8	–1.3	26.4	0.6	5.9	–0.3
Equals: Profits after tax	1,250.2	64.1	45.2	2.2	39.5	5.8	3.9	0.2	3.3
Net dividends	745.4	11.8	8.1	8.1	8.9	1.7	1.1	1.1	1.2
Undistributed profits from current production	504.8	52.4	37.1	–5.9	30.6	13.4	8.4	–1.2	6.5
Net cash flow	1,546.9	33.3	61.1	–68.4	36.9	2.2	4.0	–4.3	2.4

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 $38.2 billion, or 2.3 percent at a quarterly rate, in the fourth quarter after increasing $26.0 billion, or 1.6 percent, in the third quarter.

Profits of domestic financial corporations increased $57.7 billion, or 15.6 percent, after increasing $34.6 billion, or 10.4 percent.

Profits of domestic nonfinancial corporations decreased $10.1 billion, or 1.1 percent, after increasing $0.3 billion.

Profits from the rest of the world decreased $9.4 billion, or 2.5 percent, after decreasing $8.9 billion, or 2.3 percent.

Taxes on corporate income decreased $1.3 billion, or 0.3 percent, after increasing $23.8 billion, or 5.9 percent.

Profits after tax increased $39.5 billion, or 3.3 percent, after increasing $2.2 billion, or 0.2 percent.

Undistributed corporate profits (a measure of net saving that equals after-tax profits less dividends) increased $30.6 billion, or 6.5 percent, after decreasing $5.9 billion, or 1.2 percent.

Net cash flow increased $36.9 billion, or 2.4 percent, after decreasing $68.4 billion, or 4.3 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							
	2010	2010				2010			
	IV	I	II	III	IV	I	II	III	IV
Industry profits:									
Profits with IVA	1,694.1	255.3	48.2	24.6	–115.2	17.2	2.8	1.4	–6.4
Domestic industries	1,321.1	229.4	45.4	33.6	–105.9	20.5	3.4	2.4	–7.4
Financial	435.8	16.0	–3.3	34.3	42.1	4.6	–0.9	9.5	10.7
Nonfinancial	885.4	213.4	48.7	–0.7	–147.9	27.6	4.9	–0.1	–14.3
Utilities	22.5	15.1	–8.7	2.4	–12.7	57.2	–21.1	7.4	–36.0
Manufacturing	241.5	79.5	26.7	–7.9	–27.7	46.5	10.6	–2.8	–10.3
Wholesale trade	44.7	18.5	16.2	–17.5	–45.5	25.3	17.7	–16.3	–50.4
Retail trade	121.2	32.0	–2.4	–3.5	–2.0	32.9	–1.9	–2.8	–1.6
Transportation and warehousing	38.2	9.9	13.0	1.9	–16.1	33.8	32.9	3.6	–29.7
Information	104.7	3.9	–8.0	9.7	–9.9	3.6	–7.1	9.3	–8.7
Other nonfinancial	312.6	54.4	12.1	14.1	–34.0	20.5	3.8	4.2	–9.8
Rest of the world	373.0	25.9	2.8	–8.9	–9.4	7.2	0.7	–2.3	–2.5
Addenda:									
Profits before tax (without IVA and CCAdj)	1,797.4	224.5	15.3	57.5	–48.3	14.5	0.9	3.2	–2.6
Profits after tax (without IVA and CCAdj)	1,369.3	140.4	12.9	33.7	–47.0	11.4	0.9	2.4	–3.3
IVA	–103.2	30.8	32.9	–32.9	–66.8	....	....	....	....
CCAdj	–15.8	–106.9	–0.8	1.4	153.5	....	....	....	....

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

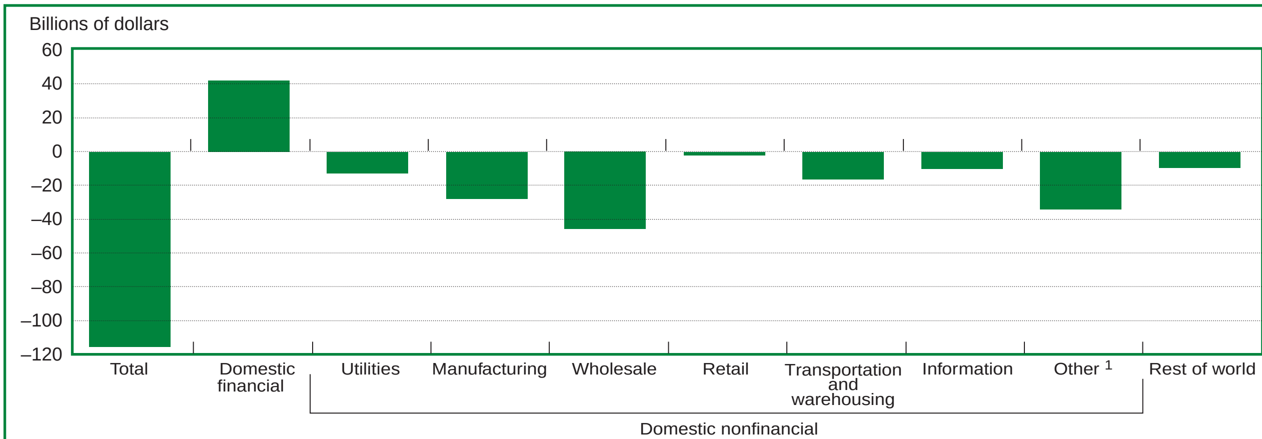
Profits with inventory valuation adjustment decreased $115.2 billion, or 6.4 percent at a quarterly rate, after increasing $24.6 billion, or 1.4 percent. The difference between the fourth-quarter decrease and the increase in profits from current production reflects the capital consumption adjustment, which increased $153.5 billion, mainly because of additional estimated tax depreciation resulting from the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (see FAQ 955 on BEA's Web site).

Profits of domestic industries decreased $105.9 billion, or 7.4 percent, after increasing $33.6 billion, or 2.4 percent.

Profits of domestic financial industries increased $42.1 billion, or 10.7 percent, after increasing $34.3 billion, or 9.5 percent.

Profits of domestic nonfinancial industries decreased $147.9 billion, or 14.3 percent, after decreasing $0.7 billion, or 0.1 percent. The larger decrease reflected a downturn in profits of "other" nonfinancial industries, larger decreases in wholesale trade and in manufacturing industries, and downturns in information, in transportation and warehousing, and in utilities industries. Profits of retail trade industries decreased less than in the third quarter.

Chart 2. Corporate Profits With Inventory Valuation Adjustment: Change From the Preceding Quarter, 2010: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 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.