GDP and the Economy

Third Estimates for the Fourth Quarter of 2013

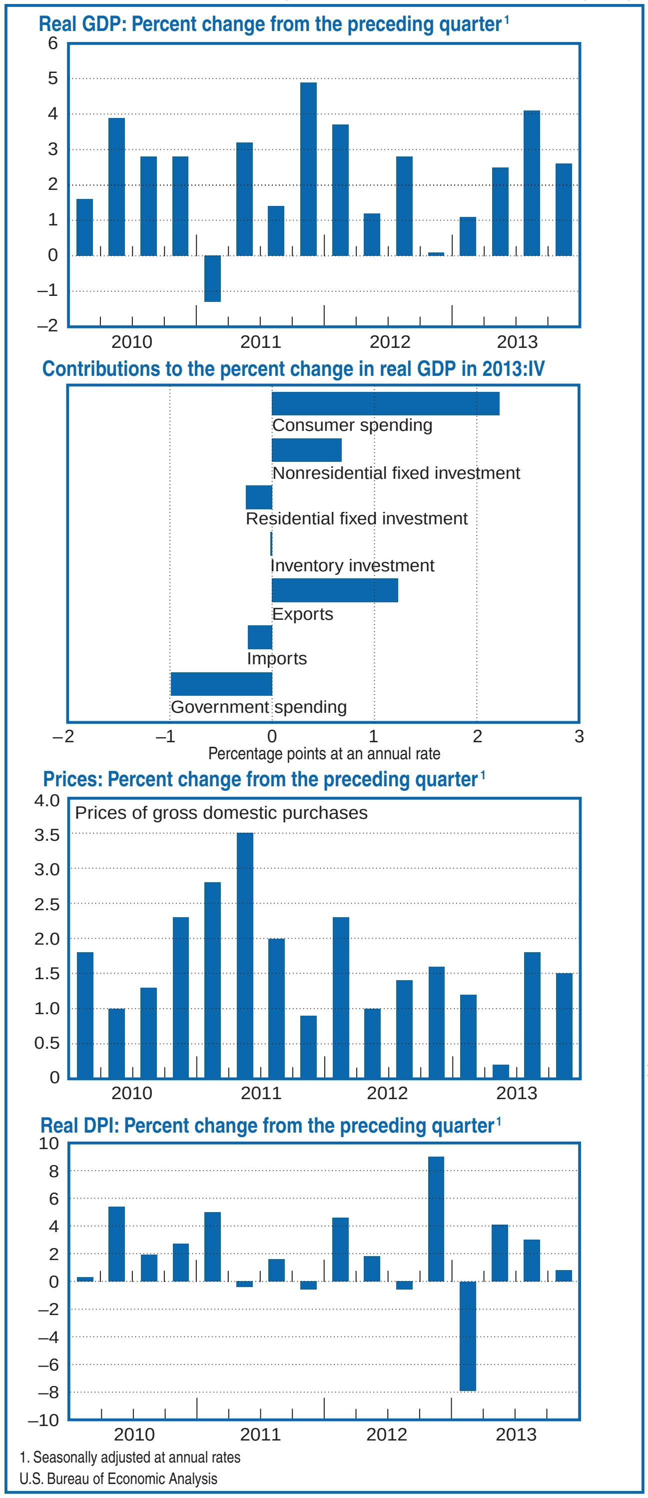
REAL GROSS domestic product (GDP) increased 2.6 percent at an annual rate in the fourth quarter of 2013, according to the third estimates of the national income and product accounts (NIPAs) (chart 1 and table 1).[1] In the third quarter, real GDP increased 4.1 percent.

The third estimate of real GDP growth was revised up 0.2 percentage point from the second estimate, but the upward revision did not change the general picture of economic growth (see table 2).

The increase in real GDP in the fourth quarter primarily reflected positive contributions from consumer spending, exports, and nonresidential fixed investment that were partly offset by negative contributions from federal government spending, residential fixed investment, and imports.[2]

- Prices of goods and services purchased by U.S. residents, as measured by the gross domestic purchases price index, increased 1.5 percent in the fourth quarter, the same increase as in the second estimate; in the third quarter, this index increased 1.8 percent. Energy prices and food prices both turned down in the fourth quarter. Excluding food and energy, prices increased 1.8 percent after increasing 1.5 percent.
- Real disposable personal income (DPI) increased 0.8 percent in the fourth quarter after increasing 3.0 percent in the third quarter. Current-dollar DPI increased 1.8 percent after increasing 4.9 percent. The sharper deceleration in current-dollar DPI than in real DPI reflected a deceleration in the implicit price deflator for consumer spending, which is used to deflate DPI.
- The personal saving rate, personal saving as a percentage of current-dollar DPI, was 4.3 percent in the fourth quarter; in the third quarter, the rate was 4.9 percent.
- Real gross domestic income rose 2.7 percent in the fourth quarter after rising 1.8 percent in the third quarter.
- Corporate profits from current production increased $47.1 billion in the fourth quarter after increasing $39.2 billion in the third quarter (see table 3).

Chart 1. GDP, Prices, Disposable Personal Income (DPI)



1. Seasonally adjusted at annual rates
U.S. Bureau of Economic Analysis

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 "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," "inventory investment" refers to "change in private inventories," and "government spending" refers to "government consumption expenditures and gross investment."

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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)			
	2013	2013				2013			
	IV	I	II	III	IV	I	II	III	IV
Gross domestic product [1]	**100.0**	**1.1**	**2.5**	**4.1**	**2.6**	**1.1**	**2.5**	**4.1**	**2.6**
Personal consumption expenditures	**68.2**	**2.3**	**1.8**	**2.0**	**3.3**	**1.54**	**1.24**	**1.36**	**2.22**
Goods	23.0	3.7	3.1	4.5	2.9	0.85	0.71	1.03	0.66
Durable goods	7.5	5.8	6.2	7.9	2.8	0.43	0.46	0.58	0.21
Nondurable goods	15.5	2.7	1.6	2.9	2.9	0.43	0.26	0.46	0.45
Services	45.2	1.5	1.2	0.7	3.5	0.69	0.53	0.32	1.57
Gross private domestic investment	**16.2**	**4.7**	**9.2**	**17.2**	**2.5**	**0.71**	**1.38**	**2.56**	**0.41**
Fixed investment	15.4	–1.5	6.5	5.9	2.8	–0.23	0.96	0.89	0.43
Nonresidential	12.3	–4.6	4.7	4.8	5.7	–0.57	0.56	0.58	0.68
Structures	2.8	–25.7	17.6	13.4	–1.8	–0.80	0.43	0.35	–0.05
Equipment	5.6	1.6	3.3	0.2	10.9	0.09	0.18	0.02	0.58
Intellectual property products	3.9	3.7	–1.5	5.8	4.0	0.14	–0.06	0.22	0.15
Residential	3.1	12.5	14.2	10.3	–7.9	0.34	0.40	0.31	–0.26
Change in private inventories	0.8	....	....	....	....	0.93	0.41	1.67	–0.02
Net exports of goods and services	**–2.7**	....	....	....	....	**–0.28**	**–0.07**	**0.14**	**0.99**
Exports	13.6	–1.3	8.0	3.9	9.5	–0.18	1.04	0.52	1.23
Goods	9.5	–2.8	9.4	5.6	11.8	–0.27	0.84	0.52	1.06
Services	4.1	2.2	4.8	0.1	4.2	0.09	0.20	0.01	0.17
Imports	16.3	0.6	6.9	2.4	1.5	–0.10	–1.10	–0.39	–0.24
Goods	13.5	–0.2	7.5	2.4	1.3	0.03	–1.00	–0.32	–0.18
Services	2.7	5.0	4.0	2.5	2.2	–0.13	–0.11	–0.07	–0.06
Government consumption expenditures and gross investment	**18.2**	**–4.2**	**–0.4**	**0.4**	**–5.2**	**–0.82**	**–0.07**	**0.08**	**–0.99**
Federal	7.2	–8.4	–1.6	–1.5	–12.8	–0.68	–0.12	–0.11	–1.00
National defense	4.4	–11.2	–0.6	–0.5	–14.4	–0.57	–0.03	–0.02	–0.70
Nondefense	2.8	–3.6	–3.1	–3.1	–10.0	–0.11	–0.09	–0.09	–0.29
State and local	11.1	–1.3	0.4	1.7	0.0	–0.14	0.05	0.19	0.00
Addenda:									
Final sales of domestic product	99.2	0.2	2.1	2.5	2.7	0.21	2.07	2.47	2.64
Goods	31.2	5.5	3.9	10.7	6.9	1.63	1.20	3.19	2.11
Services	61.3	0.3	0.7	0.2	1.5	0.21	0.46	0.14	0.92
Structures	7.5	–9.2	11.9	11.1	–5.3	–0.70	0.82	0.80	–0.41
Motor vehicle output	2.8	9.2	12.1	–12.9	19.0	0.24	0.32	–0.38	0.47
GDP excluding motor vehicle output	97.2	0.9	2.2	4.7	2.2	0.91	2.16	4.51	2.15
Final sales of computers	0.4	17.5	15.4	–12.4	–3.7	0.07	0.06	–0.05	–0.01
GDP excluding final sales of computers	99.6	1.1	2.4	4.2	2.6	1.08	2.42	4.19	2.64
Research and development (R&D)	2.6	–0.2	1.9	3.0	2.1	0.00	0.05	0.08	0.05
GDP excluding R&D	97.4	1.2	2.5	4.2	2.6	1.15	2.43	4.06	2.57
Gross domestic income (GDI) [2]	....	2.4	3.2	1.8	2.7	....	....	....	....

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.

Real GDP decelerated in the fourth quarter. The deceleration reflected a downturn in inventory investment, a larger decrease in federal government spending, a downturn in residential fixed investment, and a slowdown in state and local government spending that were partly offset by pickups in consumer spending and in exports, a slowdown in imports, and a pickup in nonresidential fixed investment.

The pickup in consumer spending was more than accounted for by a pickup in services.

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

The downturn in residential fixed investment primarily reflected downturns in brokers' commissions and other ownership transfer costs and in improvements.

The downturn in inventory investment primarily reflected downturns in mining, utilities, and construction industries, in "other" nonfarm industries (specifically information), and in manufacturing industries.

The pickup in exports reflected pickups in both goods exports and services exports.

The slowdown in imports primarily reflected a slowdown in goods imports; services imports slowed slightly.

National defense spending decreased more than in the third quarter, fense spending primarily reflected a downturn in intermediate services purchased.

Nondefense spending decreased more than in the third quarter, primarily reflecting a larger decrease in compensation of general government employees in the fourth quarter due to a reduction in hours worked related to the partial government shutdown in October 2013 (see the box "Note on the Effects of the Partial Government Shutdown" in the February 2014 SURVEY).

The slowdown in state and local government spending was more than accounted for by a slowdown in investment in structures.

Revisions to GDP

Table 2. Second and Third Estimates for the Fourth Quarter of 2013

[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]	**2.4**	**2.6**	**0.2**	**2.4**	**2.6**	**0.2**
Personal consumption expenditures	**2.6**	**3.3**	**0.7**	**1.73**	**2.22**	**0.49**
Goods	3.2	2.9	–0.3	0.72	0.66	–0.06
Durable goods	2.5	2.8	0.3	0.19	0.21	0.02
Nondurable goods	3.5	2.9	–0.6	0.54	0.45	–0.09
Services	2.2	3.5	1.3	1.00	1.57	0.57
Gross private domestic investment	**4.5**	**2.5**	**–2.0**	**0.72**	**0.41**	**–0.31**
Fixed investment	3.8	2.8	–1.0	0.58	0.43	–0.15
Nonresidential	7.3	5.7	–1.6	0.87	0.68	–0.19
Structures	0.2	–1.8	–2.0	0.01	–0.05	–0.06
Equipment	10.6	10.9	0.3	0.56	0.58	0.02
Intellectual property products	8.0	4.0	–4.0	0.30	0.15	–0.15
Residential	–8.7	–7.9	0.8	–0.29	–0.26	0.03
Change in private inventories	....	....	....	0.14	–0.02	–0.16
Net exports of goods and services	....	....	....	**0.99**	**0.99**	**0.00**
Exports	9.4	9.5	0.1	1.22	1.23	0.01
Goods	11.7	11.8	0.1	1.04	1.06	0.02
Services	4.4	4.2	–0.2	0.18	0.17	–0.01
Imports	1.5	1.5	0.0	–0.24	–0.24	0.00
Goods	1.5	1.3	–0.2	–0.20	–0.18	0.02
Services	1.3	2.2	0.9	–0.04	–0.06	–0.02
Government consumption expenditures and gross investment	**–5.6**	**–5.2**	**0.4**	**–1.05**	**–0.99**	**0.06**
Federal	–12.8	–12.8	0.0	–1.00	–1.00	0.00
National defense	–14.4	–14.4	0.0	–0.70	–0.70	0.00
Nondefense	–10.1	–10.0	0.1	–0.30	–0.29	0.01
State and local	–0.5	0.0	0.5	–0.05	0.00	0.05
Addenda:						
Final sales of domestic product	2.3	2.7	0.4	2.24	2.64	0.40
Gross domestic income	....	2.7	....	....	....	....
Gross domestic purchases price index	1.5	1.5	0.0	....	....	....
GDP price index	1.6	1.6	0.0	....	....	....

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

The third estimate of the fourth-quarter change in real GDP was 0.2 percentage point higher than the second estimate released last month. An upward revision to consumer spending was partly offset by downward revisions to nonresidential fixed investment and to inventory investment. For 1983–2012, the average revision (without regard to sign) between the second estimate and the third estimate is 0.3 percentage point.

The upward revision to consumer spending was more than accounted for an upward revision to spending for services.

The upward revision to services primarily reflected upward revisions to household spending for health care services (mainly hospitals and nursing home services), to financial services and insurance (mainly portfolio management and investment advice services), and to electricity.

The downward revision to nonresidential fixed investment primarily reflected a downward revision to intellectual property products, specifically software.

The downward revision to inventory investment was more than accounted for by "other" nonfarm industries, specifically information.

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 fourth quarter of 2013 incorporated the following source data.

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

Nonresidential fixed investment: Census Bureau construction spending data for November and December (revised) and quarterly services survey data for the fourth quarter (new).

Residential fixed investment: Census Bureau construction spending data for November and December (revised) and existing home sales data for December (revised).

Inventory investment: Census Bureau manufacturers' and trade inventories for December (revised) and *Quarterly Financial Report* data for the fourth quarter (new).

Exports and imports: Bureau of Economic Analysis international transactions accounts data for October–December (revised).

Government spending: Census Bureau construction spending data for November and 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							
	2013	2013				2013			
	IV	I	II	III	IV	I	II	III	IV
Current production measures:									
Corporate profits	2,173.7	−26.6	66.8	39.2	47.1	−1.3	3.3	1.9	2.2
Domestic industries	1,730.9	−7.0	62.2	22.5	24.1	−0.4	3.8	1.3	1.4
Financial	472.0	−4.1	24.5	9.7	6.1	−0.9	5.7	2.1	1.3
Nonfinancial	1,258.9	−3.1	37.8	12.7	18.1	−0.3	3.2	1.0	1.5
Rest of the world	442.7	−19.6	4.6	16.7	22.9	−4.7	1.2	4.1	5.5
Receipts from the rest of the world	698.2	−19.7	1.2	8.3	31.2	−2.9	0.2	1.3	4.7
Less: Payments to the rest of the world	255.4	−0.1	−3.4	−8.4	8.2	0.0	−1.3	−3.3	3.3
Less: Taxes on corporate income	431.1	−25.0	10.0	−0.4	13.3	−5.8	2.4	−0.1	3.2
Equals: Profits after tax	1,742.5	−1.7	56.9	39.5	33.8	−0.1	3.5	2.4	2.0
Net dividends	948.8	−103.8	273.5	−179.0	90.5	−12.0	35.8	−17.3	10.5
Undistributed profits from current production	793.8	102.1	−216.6	218.6	−56.7	13.7	−25.5	34.6	−6.7
Net cash flow	2,241.4	140.7	−205.3	231.1	−43.0	6.6	−9.1	11.3	−1.9

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 $47.1 billion, or 2.2 percent at a quarterly rate, in the fourth quarter after increasing $39.2 billion, or 1.9 percent, in the third quarter.

Domestic profits of financial corporations increased $6.1 billion, or 1.3 percent, after increasing $9.7 billion, or 2.1 percent.

Domestic profits of nonfinancial corporations increased $18.1 billion, or 1.5 percent, after increasing $12.7 billion, or 1.0 percent.

Profits from the rest of the world increased $22.9 billion, or 5.5 percent, after increasing $16.7 billion, or 4.1 percent. In the fourth quarter, receipts increased $31.2 billion, and payments increased $8.2 billion.

Taxes on corporate income increased $13.3 billion, or 3.2 percent, in the fourth quarter after decreasing $0.4 billion, or 0.1 percent, in the third quarter.

Net dividends increased $90.5 billion, or 10.5 percent, after decreasing $179.0 billion, or 17.3 percent. The pattern of net dividends in the second, third, and fourth quarters reflects the pattern of dividends paid by Freddie Mac and Fannie Mae to the federal government under the stock purchase agreement authorized by the Housing and Economic Recovery Act of 2008.

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							
	2013	2013				2013			
	IV	I	II	III	IV	I	II	III	IV
Industry profits:									
Profits with IVA	2,336.8	–41.1	68.6	39.6	48.6	–1.8	3.1	1.8	2.1
Domestic industries	1,894.0	–21.5	64.0	22.9	25.6	–1.2	3.6	1.2	1.4
Financial	527.7	–5.2	25.0	9.7	6.1	–1.0	5.1	1.9	1.2
Nonfinancial	1,366.3	–16.3	39.0	13.2	19.5	–1.2	3.0	1.0	1.4
Utilities	36.1	4.7	8.9	3.0	–14.1	13.9	23.3	6.5	–28.1
Manufacturing	438.8	–20.4	–7.9	10.6	46.4	–5.0	–2.0	2.8	11.8
Wholesale trade	152.7	5.8	0.9	3.6	–2.0	4.0	0.6	2.4	–1.3
Retail trade	160.1	–10.1	21.0	–3.9	–5.9	–6.3	14.1	–2.3	–3.5
Transportation and warehousing	61.2	7.4	3.1	3.7	–0.1	15.8	5.7	6.4	–0.1
Information	123.8	21.7	7.6	–13.5	5.5	21.1	6.1	–10.2	4.7
Other nonfinancial	393.6	–25.3	5.3	9.7	–10.3	–6.1	1.4	2.4	–2.6
Rest of the world	442.7	–19.6	4.6	16.7	22.9	–4.7	1.2	4.1	5.5
Addenda:									
Profits before tax (without IVA and CCAdj)	2,335.6	–36.4	46.6	46.9	49.0	–1.6	2.1	2.1	2.1
Profits after tax (without IVA and CCAdj)	1,904.5	–11.6	36.6	47.3	35.8	–0.6	2.1	2.6	1.9
IVA	1.2	–4.6	21.9	–7.2	–0.5	....	....	....	....
CCAdj	–163.1	14.4	–1.6	–0.5	–1.5	....	....	....	....

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

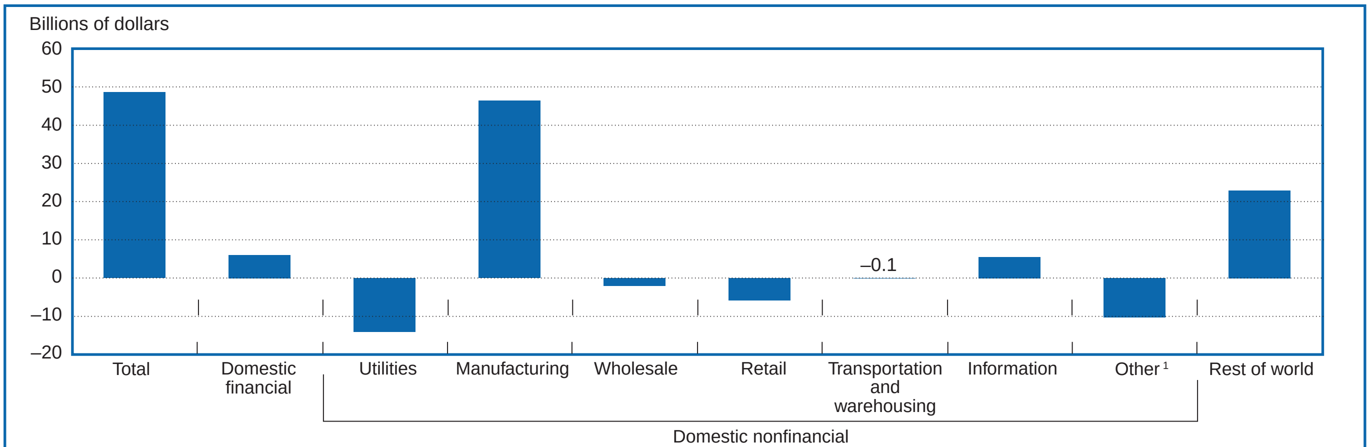
Profits with inventory valuation adjustment (IVA) increased $48.6 billion, or 2.1 percent at a quarterly rate, in the fourth quarter after increasing $39.6 billion, or 1.8 percent, in the third quarter.

Profits of domestic industries increased $25.6 billion, or 1.4 percent, after increasing $22.9 billion, or 1.2 percent.

Profits of domestic financial industries increased $6.1 billion, or 1.2 percent, after increasing $9.7 billion, or 1.9 percent.

Profits of domestic nonfinancial industries increased $19.5 billion, or 1.4 percent, after increasing $13.2 billion, or 1.0 percent. The fourth-quarter increase primarily reflected an increase in manufacturing that was partly offset by decreases in utilities and in "other" nonfinancial industries. In manufacturing, the largest increase was in petroleum and coal products.

Chart 2. Corporate Profits With Inventory Valuation Adjustment: Change From the Preceding Quarter, 2013: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" in *Concepts and Methods of the U.S. National Income and Product Accounts* at www.bea.gov/methodologies/index.htm.