

GDP and the Economy

Third Estimates for the Fourth Quarter of 2014

REAL GROSS domestic product (GDP) increased 2.2 percent at an annual rate in the fourth quarter of 2014, 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 5.0 percent.

The third estimate of real GDP growth was unrevised from the second estimate, and the general picture of the economy for the fourth quarter remains the same (see table 2).

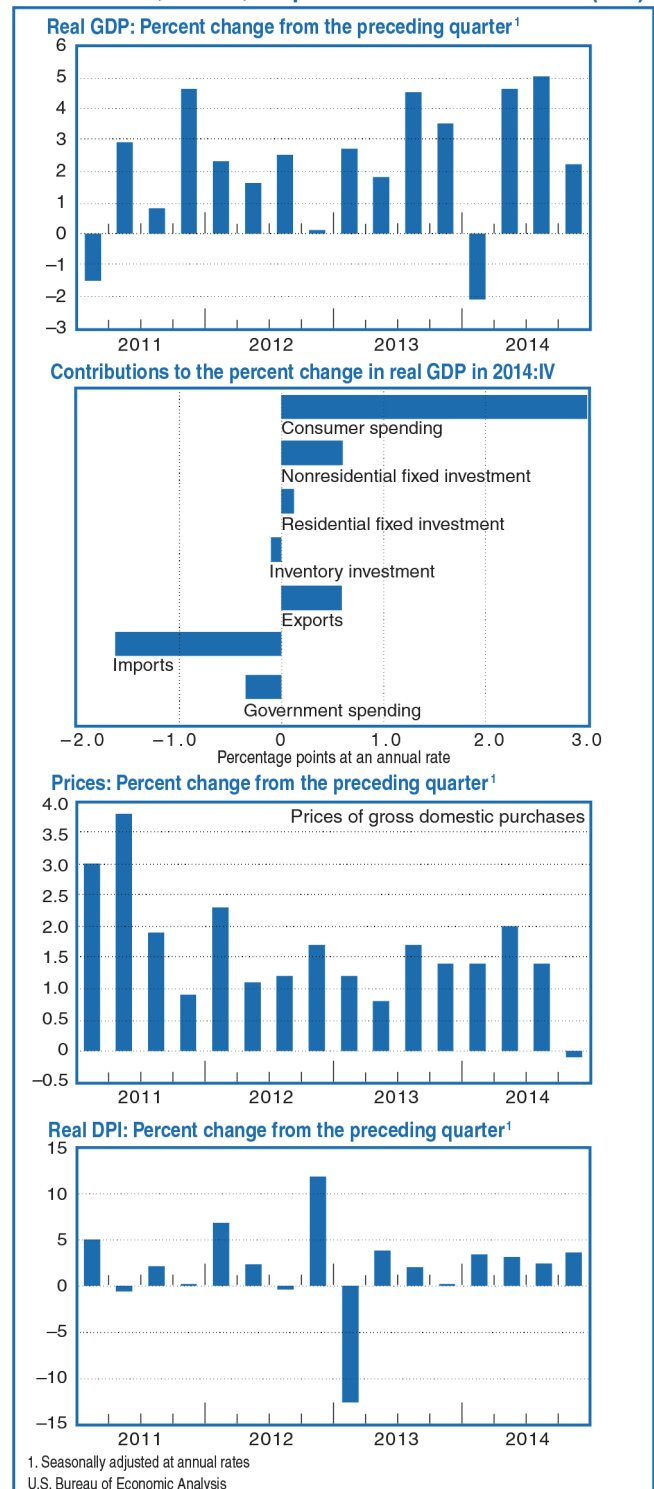
The increase in real GDP in the fourth quarter reflected positive contributions from consumer spending, nonresidential fixed investment, exports, state and local government spending, and residential fixed investment that were partly offset by negative contributions from federal government spending and inventory investment. Imports, which are a subtraction in the calculation of GDP, increased.²

- Prices of goods and services purchased by U.S. residents, as measured by the gross domestic purchases price index, decreased 0.1 percent in the fourth quarter, the same decrease as in the second estimate; in the third quarter, this index increased 1.4 percent. The downturn partly reflected a larger decrease in energy prices in the fourth quarter. Excluding food and energy, prices increased 0.7 percent after increasing 1.6 percent.
- Real disposable personal income (DPI) increased 3.6 percent in the fourth quarter, 0.2 percentage point lower than the second estimate. In the third quarter, real DPI increased 2.4 percent. Current-dollar DPI increased 3.2 percent after increasing 3.6 percent.
- Real gross domestic income rose 3.1 percent in the fourth quarter after increasing 5.2 percent in the third quarter.
- Corporate profits from current production decreased \$30.4 billion in the fourth quarter after increasing \$64.5 billion in the third quarter (see table 3).

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 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.”

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



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)			
	2014	2014					2014			
	IV	I	II	III	IV	I	II	III	IV	
Gross domestic product ¹	100.0	-2.1	4.6	5.0	2.2	-2.1	4.6	5.0	2.2	
Personal consumption expenditures	68.5	1.2	2.5	3.2	4.4	0.83	1.75	2.21	2.98	
Goods.....	22.6	1.0	5.9	4.7	4.8	0.23	1.33	1.06	1.07	
Durable goods.....	7.5	3.2	14.1	9.2	6.2	0.23	0.99	0.67	0.45	
Nondurable goods.....	15.1	0.0	2.2	2.5	4.1	0.00	0.34	0.39	0.61	
Services.....	45.8	1.3	0.9	2.5	4.3	0.60	0.42	1.15	1.91	
Gross private domestic investment	16.6	-6.9	19.1	7.2	3.7	-1.13	2.87	1.18	0.61	
Fixed investment.....	16.1	0.2	9.5	7.7	4.5	0.03	1.45	1.21	0.72	
Nonresidential.....	12.8	1.6	9.7	8.9	4.7	0.20	1.18	1.10	0.60	
Structures.....	2.9	2.9	12.6	4.8	5.9	0.08	0.35	0.14	0.17	
Equipment.....	5.9	-1.0	11.2	11.0	0.6	-0.06	0.63	0.63	0.04	
Intellectual property products.....	4.0	4.6	5.5	8.8	10.3	0.18	0.21	0.34	0.39	
Residential.....	3.3	-5.3	8.8	3.2	3.8	-0.17	0.27	0.10	0.12	
Change in private inventories.....	0.5	.....	.....	.....	.....	-1.16	1.42	-0.03	-0.10
Net exports of goods and services	-3.1	.....	.....	.....	.....	-1.66	-0.34	0.78	-1.03
Exports.....	13.3	-9.2	11.1	4.5	4.5	-1.30	1.43	0.61	0.59	
Goods.....	9.1	-11.9	14.3	7.5	2.4	-1.18	1.26	0.69	0.22	
Services.....	4.2	-2.8	4.0	-1.9	9.2	-0.12	0.17	-0.08	0.37	
Imports.....	16.4	2.2	11.3	-0.9	10.4	-0.36	-1.77	0.16	-1.62	
Goods.....	13.6	2.5	12.5	-1.3	10.4	-0.33	-1.62	0.19	-1.35	
Services.....	2.8	1.0	5.6	1.0	10.0	-0.03	-0.15	-0.03	-0.27	
Government consumption expenditures and gross investment	18.0	-0.8	1.7	4.4	-1.9	-0.15	0.31	0.80	-0.35	
Federal.....	6.9	-0.1	-0.9	9.9	-7.3	-0.01	-0.06	0.68	-0.53	
National defense.....	4.3	-4.0	0.9	16.0	-12.2	-0.18	0.04	0.66	-0.57	
Nondefense.....	2.6	6.6	-3.8	0.4	1.5	0.17	-0.10	0.01	0.04	
State and local.....	11.1	-1.3	3.4	1.1	1.6	-0.14	0.38	0.13	0.18	
Addenda:										
Final sales of domestic product.....	99.5	-1.0	3.2	5.0	2.3	-0.95	3.18	4.99	2.32	
Goods.....	30.4	-8.5	11.4	9.5	1.1	-2.69	3.34	2.87	0.34	
Services.....	61.8	1.4	0.6	3.0	2.5	0.86	0.40	1.84	1.52	
Structures.....	7.8	-3.8	11.7	3.4	4.7	-0.29	0.85	0.26	0.36	
Motor vehicle output.....	2.9	3.3	21.3	27.2	-17.6	0.09	0.55	0.71	-0.57	
GDP excluding motor vehicle output.....	97.1	-2.3	4.1	4.4	2.9	-2.20	4.05	4.25	2.79	
Final sales of computers.....	0.3	17.8	14.6	19.5	-41.2	0.07	0.06	0.08	-0.20	
GDP excluding final sales of computers.....	99.7	-2.2	4.6	4.9	2.4	-2.17	4.54	4.89	2.42	
Research and development (R&D).....	2.6	2.9	3.4	6.6	12.3	0.07	0.09	0.16	0.30	
GDP excluding R&D.....	97.4	-2.2	4.6	4.9	2.0	-2.18	4.51	4.80	1.92	
Gross domestic income (GDI) ².....	.....	-0.8	4.0	5.2	3.1	.....	.....	.....	.....

Real GDP decelerated in the fourth quarter, primarily reflecting an upturn in imports, a downturn in federal government spending, a slowdown in nonresidential fixed investment, and a larger decrease in inventory investment that were partly offset by accelerations in consumer spending and in state and local government spending.

The pickup in consumer spending primarily reflected a pickup in spending for services.

The slowdown in nonresidential fixed investment primarily reflected a slowdown in equipment (mainly industrial equipment and transportation equipment) that was partly offset by a pickup in intellectual property products.

The larger decrease in inventory investment was more than accounted for by a downturn in farm industries.

The upturn in imports reflected an upturn in goods and a pickup in services.

The downturn in federal government spending was more than accounted for by a downturn in national defense spending.

The acceleration in state and local government spending reflected a pickup in gross investment (mainly in structures).

Real final sales of domestic product, real GDP less inventory investment, increased 2.3 percent after increasing 5.0 percent.

In the fourth quarter, real gross domestic income, which measures the output of the economy as the incomes earned and costs incurred in production, increased 3.1 percent after increasing 5.2 percent in the third quarter.

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.

Revisions to GDP

Table 2. Second and Third Estimates for the Fourth Quarter of 2014

[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	2.2	2.2	0.0	2.2	2.2	0.0
Personal consumption expenditures	4.2	4.4	0.2	2.83	2.98	0.15
Goods	4.5	4.8	0.3	1.01	1.07	0.06
Durable goods	6.0	6.2	0.2	0.44	0.45	0.01
Nondurable goods	3.8	4.1	0.3	0.57	0.61	0.04
Services	4.1	4.3	0.2	1.82	1.91	0.09
Gross private domestic investment	5.1	3.7	-1.4	0.84	0.61	-0.23
Fixed investment	4.5	4.5	0.0	0.71	0.72	0.01
Nonresidential	4.8	4.7	-0.1	0.61	0.60	-0.01
Structures	5.0	5.9	0.9	0.14	0.17	0.03
Equipment	0.9	0.6	-0.3	0.05	0.04	-0.01
Intellectual property products	10.9	10.3	-0.6	0.41	0.39	-0.02
Residential	3.4	3.8	0.4	0.11	0.12	0.01
Change in private inventories				0.12	-0.10	-0.22
Net exports of goods and services				-1.15	-1.03	0.12
Exports	3.2	4.5	1.3	0.42	0.59	0.17
Goods	2.3	2.4	0.1	0.22	0.22	0.00
Services	5.1	9.2	4.1	0.21	0.37	0.16
Imports	10.1	10.4	0.3	-1.58	-1.62	-0.04
Goods	11.1	10.4	-0.7	-1.43	-1.35	0.08
Services	5.3	10.0	4.7	-0.14	-0.27	-0.13
Government consumption expenditures and gross investment	-1.8	-1.9	-0.1	-0.32	-0.35	-0.03
Federal	-7.5	-7.3	0.2	-0.54	-0.53	0.01
National defense	-12.4	-12.2	0.2	-0.58	-0.57	0.01
Nondefense	1.4	1.5	0.1	0.04	0.04	0.00
State and local	2.0	1.6	-0.4	0.22	0.18	-0.04
Addenda:						
Final sales of domestic product	2.1	2.3	0.2	2.07	2.32	0.25
Gross domestic income		3.1				
Gross domestic purchases price index	-0.1	-0.1	0.0			
GDP price index	0.1	0.1	0.0			

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

The third estimate of the fourth-quarter percent change in real GDP was unrevised from the second estimate released in February. Upward revisions to exports and to consumer spending were mostly offset by a downward revision to inventory investment. For 1993–2013, the average revision (without regard to sign) between the second estimate and the third estimate is 0.2 percentage point.

The largest contribution to the upward revision to consumer spending was an upward revision to spending for services; spending for goods was also revised up.

The upward revision to spending for services was primarily due to an upward revision to spending for health care that was partly offset by a downward revision to spending for financial services.

The downward revision to inventory investment primarily reflected downward revisions to mining (in mining, utilities, and construction), to information (in “other” industries), and to wholesale trade.

The upward revision to exports primarily reflected an upward revision to exports of services, most notably travel.

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 fourth quarter of 2014 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 con-

struction 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).

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							
	2014	2014				2014			
	IV	I	II	III	IV	I	II	III	IV
Current production measures:									
Corporate profits	2,140.3	-201.7	164.1	64.5	-30.4	-9.4	8.4	3.1	-1.4
Domestic industries.....	1,766.0	-175.7	167.6	48.1	5.7	-10.2	10.9	2.8	0.3
Financial.....	455.6	-86.2	33.3	16.1	-12.5	-17.1	7.9	3.6	-2.7
Nonfinancial	1,310.3	-89.6	134.3	32.0	18.1	-7.4	11.9	2.5	1.4
Rest of the world	374.3	-26.0	-3.6	16.5	-36.1	-6.1	-0.9	4.2	-8.8
Receipts from the rest of the world.....	649.3	-8.9	2.7	14.4	-36.5	-1.3	0.4	2.1	-5.3
Less: Payments to the rest of the world.....	275.0	17.1	6.3	-2.1	-0.4	6.7	2.3	-0.8	-0.1
Less: Taxes on corporate income.....	597.7	66.9	45.7	-5.5	-4.8	13.5	8.1	-0.9	-0.8
Equals: Profits after tax.....	1,542.5	-268.6	118.4	70.1	-25.8	-16.3	8.6	4.7	-1.6
Net dividends	917.0	-89.5	-0.5	-3.9	18.6	-9.0	-0.1	-0.4	2.1
Undistributed profits from current production.....	625.5	-178.9	118.8	73.9	-44.3	-27.3	24.9	12.4	-6.6
Net cash flow	2,112.0	-163.0	133.4	46.9	12.2	-7.8	6.9	2.3	0.6

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 \$30.4 billion, or 1.4 percent at a quarterly rate, in the fourth quarter after increasing \$64.5 billion, or 3.1 percent, in the third quarter.

Profits of domestic financial corporations decreased \$12.5 billion, or 2.7 percent, after increasing \$16.1 billion, or 3.6 percent.

Profits of domestic nonfinancial corporations increased \$18.1 billion, or 1.4 percent, after increasing \$32.0 billion, or 2.5 percent.

Profits from the rest of the world decreased \$36.1 billion, or 8.8 percent, after increasing \$16.5 billion, or 4.2 percent. In the fourth quarter, receipts decreased \$36.5 billion, and payments decreased \$0.4 billion.

Taxes on corporate income decreased \$4.8 billion, or 0.8 percent, in the fourth quarter after decreasing \$5.5 billion, or 0.9 percent, in the third quarter.

Net dividends increased \$18.6 billion, or 2.1 percent, after decreasing \$3.9 billion, or 0.4 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 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				2014			
		2014							
	2014	2014				2014			
IV	I	II	III	IV	I	II	III	IV	
Industry profits:									
Profits with IVA.....	2,466.8	-6.0	164.8	63.7	-34.3	-0.3	7.3	2.6	-1.4
Domestic industries.....	2,092.5	20.0	168.4	47.2	1.8	1.1	9.0	2.3	0.1
Financial.....	517.7	-68.6	33.7	16.2	-13.0	-12.5	7.0	3.1	-2.4
Nonfinancial.....	1,574.7	88.5	134.7	31.1	14.7	6.8	9.7	2.0	0.9
Utilities.....	42.9	26.5	8.1	4.1	-11.6	168.4	19.1	8.2	-21.3
Manufacturing.....	527.9	-12.9	71.9	19.3	4.2	-2.9	16.6	3.8	0.8
Wholesale trade.....	178.1	4.1	5.6	16.8	3.7	2.8	3.7	10.6	2.1
Retail trade.....	192.6	3.9	8.6	-0.9	16.8	2.4	5.1	-0.5	9.6
Transportation and warehousing.....	73.1	7.9	9.9	-1.4	-9.0	12.0	13.4	-1.6	-11.1
Information.....	128.5	17.4	19.9	-13.8	-0.6	16.5	16.1	-9.7	-0.5
Other nonfinancial ..	431.7	41.5	10.8	7.1	11.2	11.5	2.7	1.7	2.7
Rest of the world.....	374.3	-26.0	-3.6	16.5	-36.1	-6.1	-0.9	4.2	-8.8
Addenda:									
Profits before tax (without IVA and CCAj).....	2,435.3	15.6	152.9	47.0	-61.8	0.7	6.7	1.9	-2.5
Profits after tax (without IVA and CCAj).....	1,837.5	-51.2	107.3	52.4	-57.1	-2.9	6.2	2.8	-3.0
IVA.....	31.5	-21.6	11.9	16.7	27.5	.....	.....	.....	.....
CCAj.....	-326.5	-195.7	-0.8	0.9	3.9	.....	.....	.....	.....

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 CCAj Capital consumption adjustment

Profits with inventory valuation adjustment (IVA) decreased \$34.3 billion, or 1.4 percent at a quarterly rate, in the fourth quarter after increasing \$63.7 billion, or 2.6 percent, in the third quarter.

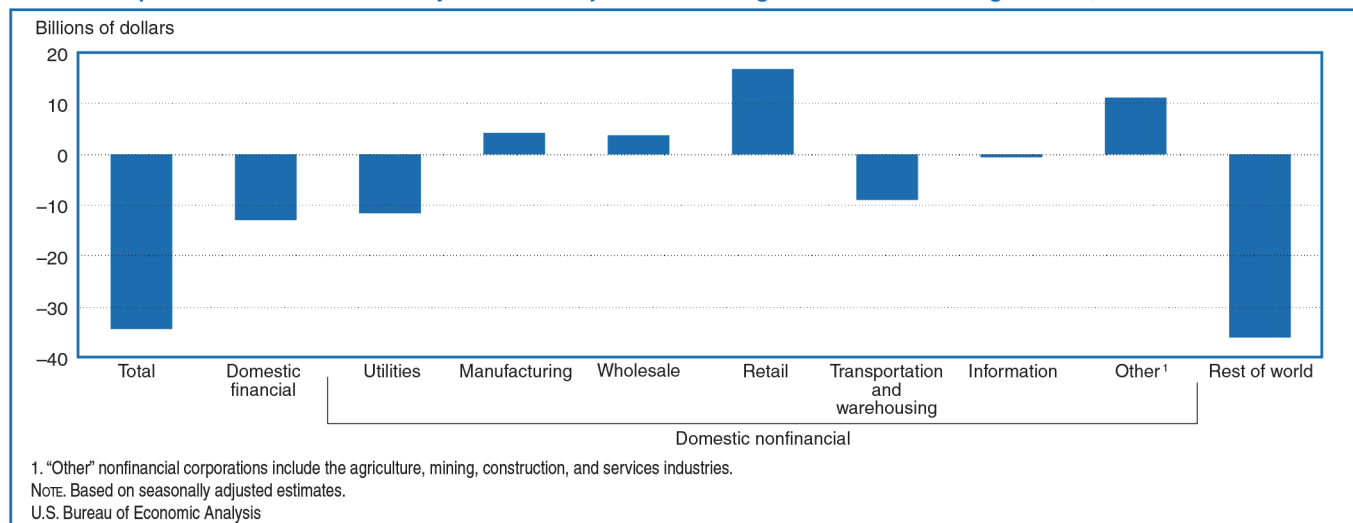
Profits of domestic industries increased \$1.8 billion, or 0.1 percent, after increasing \$47.2 billion, or 2.3 percent.

Profits of domestic financial industries decreased \$13.0 billion, or 2.4 percent, after increasing \$16.2 billion, or 3.1 percent.

Profits of domestic nonfinancial industries increased \$14.7 billion, or 0.9 percent, after increasing \$31.1 billion, or 2.0 percent. The fourth-quarter increase primarily reflected increases in retail trade industries and in “other” nonfinancial industries that were partly offset by decreases in utilities industries and in transportation and warehousing industries.

Profits from the rest of the world decreased \$36.1 billion, or 8.8 percent, in the fourth quarter after increasing \$16.5 billion, or 4.2 percent, in the third quarter. This measure is calculated as the difference between receipts from rest of the world and payments to rest of the world.

Chart 2. Corporate Profits With Inventory Valuation Adjustment: Change From the Preceding Quarter, 2014:IV



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 (CCAj) for each industry. However, estimates of the CCAj 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.