

GDP and the Economy

Third Estimates for the First Quarter of 2014

REAL GROSS domestic product (GDP) decreased 2.9 percent at an annual rate in the first quarter of 2014, according to the third estimates of the national income and product accounts (NIPAs) (chart 1 and table 1).¹ In the fourth quarter of 2013, real GDP increased 2.6 percent.

The third estimate of real GDP growth was revised down 1.9 percentage points from the second estimate. The increase in consumer spending was smaller than previously estimated, and the decline in exports was larger than previously estimated (see table 2).²

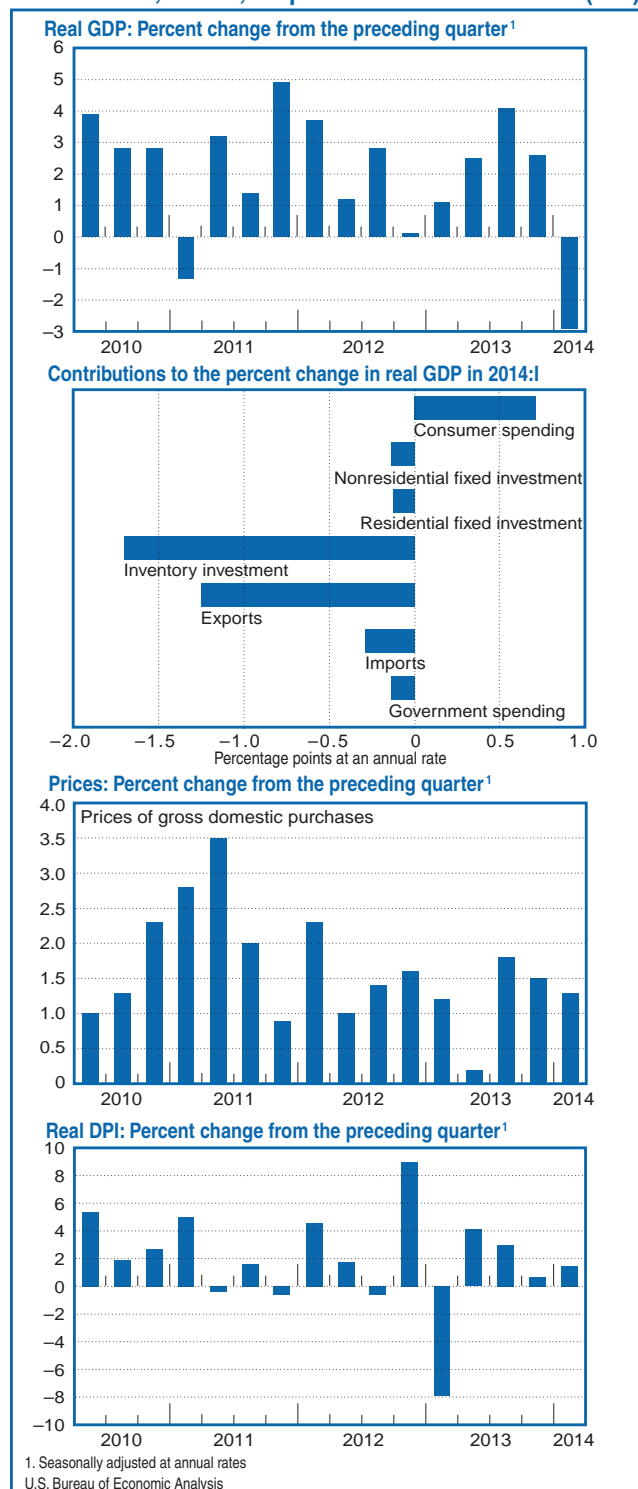
The decrease in real GDP in the first quarter primarily reflected negative contributions from inventory investment, exports, state and local government spending, nonresidential fixed investment, and residential fixed investment that were partly offset by a positive contribution from consumer spending.

- Prices of goods and services purchased by U.S. residents, as measured by the gross domestic purchases price index, increased 1.3 percent in the first quarter, the same increase as in the second estimate; in the fourth quarter, this index increased 1.5 percent. Both energy prices and food prices turned up in the first quarter. Excluding food and energy, prices increased 1.3 percent after increasing 1.8 percent.
- Real disposable personal income (DPI) increased 1.5 percent in the first quarter after increasing 0.7 percent in the fourth quarter. Current-dollar DPI increased 2.9 percent after increasing 1.8 percent.
- The personal saving rate, personal saving as a percentage of current-dollar DPI, was 4.4 percent in the first quarter; in the fourth quarter, the rate was 4.3 percent.
- Real gross domestic income decreased 2.6 percent in the first quarter after increasing 2.6 percent in the fourth quarter.
- Corporate profits from current production decreased \$198.3 billion in the first quarter after increasing \$47.1 billion in the fourth 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 "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."

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		2013		2014		2013		2014			
	I	II	III	IV	I	II	III	IV	I			
Gross domestic product ¹	100.0	2.5	4.1	2.6	-2.9	2.5	4.1	2.6	-2.9			
Personal consumption expenditures	68.9	1.8	2.0	3.3	1.0	1.24	1.36	2.22	0.71			
Goods.....	23.1	3.1	4.5	2.9	0.2	0.71	1.03	0.66	0.04			
Durable goods.....	7.5	6.2	7.9	2.8	1.2	0.46	0.58	0.21	0.09			
Nondurable goods.....	15.6	1.6	2.9	2.9	-0.3	0.26	0.46	0.45	-0.05			
Services.....	45.9	1.2	0.7	3.5	1.5	0.53	0.32	1.57	0.67			
Gross private domestic investment	15.8	9.2	17.2	2.5	-11.7	1.38	2.56	0.41	-1.97			
Fixed investment.....	15.5	6.5	5.9	2.8	-1.8	0.96	0.89	0.43	-0.27			
Nonresidential.....	12.3	4.7	4.8	5.7	-1.2	0.56	0.58	0.68	-0.14			
Structures.....	2.7	17.6	13.4	-1.8	-7.7	0.43	0.35	-0.05	-0.22			
Equipment.....	5.6	3.3	0.2	10.9	-2.8	0.18	0.02	0.58	-0.16			
Intellectual property products.....	4.0	-1.5	5.8	4.0	6.3	-0.06	0.22	0.15	0.24			
Residential.....	3.2	14.2	10.3	-7.9	-4.2	0.40	0.31	-0.26	-0.13			
Change in private inventories.....	0.4	.....	.....	.....	.....	0.41	1.67	-0.02	-1.70
Net exports of goods and services	-3.1	.....	.....	.....	.....	-0.07	0.14	0.99	-1.53
Exports.....	13.4	8.0	3.9	9.5	-8.9	1.04	0.52	1.23	-1.25			
Goods.....	9.3	9.4	5.6	11.8	-11.4	0.84	0.52	1.06	-1.12			
Services.....	4.1	4.8	0.1	4.2	-2.9	0.20	0.01	0.17	-0.12			
Imports.....	16.5	6.9	2.4	1.5	1.8	-1.10	-0.39	-0.24	-0.29			
Goods.....	13.7	7.5	2.4	1.3	1.9	-1.00	-0.32	-0.18	-0.25			
Services.....	2.8	4.0	2.5	2.2	1.3	-0.11	-0.07	-0.06	-0.03			
Government consumption expenditures and gross investment	18.3	-0.4	0.4	-5.2	-0.8	-0.07	0.08	-0.99	-0.14			
Federal.....	7.2	-1.6	-1.5	-12.8	0.6	-0.12	-0.11	-1.00	0.05			
National defense.....	13.4	8.0	3.9	9.5	-8.9	-0.03	-0.02	-0.70	-0.11			
Nondefense.....	2.8	-3.1	-3.1	-10.0	5.9	-0.09	-0.09	-0.29	0.16			
State and local.....	11.1	0.4	1.7	0.0	-1.7	0.05	0.19	0.00	-0.18			
Addenda:												
Final sales of domestic product.....	99.6	2.1	2.5	2.7	-1.3	2.07	2.47	2.64	-1.23			
Goods.....	30.5	3.9	10.7	6.9	-9.9	1.20	3.19	2.11	-3.19			
Services.....	62.1	0.7	0.2	1.5	1.4	0.46	0.14	0.92	0.84			
Structures.....	7.4	11.9	11.1	-5.3	-7.6	0.82	0.80	-0.41	-0.58			
Motor vehicle output.....	2.7	12.1	-12.9	19.0	-8.7	0.32	-0.38	0.47	-0.25			
GDP excluding motor vehicle output.....	97.3	2.2	4.7	2.2	-2.8	2.16	4.51	2.15	-2.68			
Final sales of computers.....	0.4	15.4	-12.4	-3.7	12.7	0.06	-0.05	-0.01	0.05			
GDP excluding final sales of computers.....	99.6	2.4	4.2	2.6	-3.0	2.42	4.19	2.64	-2.98			
Research and development (R&D).....	2.6	1.9	3.0	2.1	6.8	0.05	0.08	0.05	0.17			
GDP excluding R&D.....	97.4	2.5	4.2	2.6	-3.2	2.43	4.06	2.57	-3.10			
Gross domestic income (GDI) ².....	.....	3.2	1.8	2.6	-2.6	.....	.....	.....	.....

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 turned down in the first quarter. The downturn primarily reflected a downturn in exports, a larger decrease in inventory investment, a slowdown in consumer spending, and downturns in nonresidential fixed investment and in state and local government spending that were partly offset by an upturn in federal government spending.

The slowdown in consumer spending reflected slowdowns in spending both for services and for goods. The slowdown in spending for services primarily reflected downturns in spending for health care and for food services and accommodations that were partly offset by an upturn in spending for natural gas. The slowdown in spending for goods primarily reflected a widespread downturn in nondurable goods.

The downturn in nonresidential fixed investment primarily reflected a downturn in investment in equipment.

The larger decrease in inventory investment primarily reflected downturns in retail trade industries (mainly in motor vehicle dealers) and in nondurable-goods wholesale trade industries.

The downturn in exports primarily reflected a downturn in goods exports (primarily industrial supplies and materials and foods, feeds, and beverages).

The upturn in federal government spending reflected a smaller decrease in national defense spending and an upturn in nondefense spending.

The upturn in nondefense spending primarily reflected a rebound from the effects of the partial federal government shutdown in the fourth quarter of 2013 (see "Note on the Effects of the Partial Government Shutdown" in the February 2014 SURVEY). Compensation of general government employees turned up in the first quarter as the number of hours worked by these employees returned to normal levels.

The downturn in state and local government spending was primarily accounted for by a larger decrease in investment in structures.

Real final sales of domestic product, real GDP less inventory investment, decreased 1.3 percent after increasing 2.7 percent.

Real gross domestic income, which measures the output of the economy as the incomes earned and costs incurred in production, decreased 2.6 percent.

Revisions to GDP

Table 2. Second and Third Estimates for the First 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	-1.0	-2.9	-1.9	-1.0	-2.9	-1.9
Personal consumption expenditures	3.1	1.0	-2.1	2.09	0.71	-1.38
Goods	0.7	0.2	-0.5	0.16	0.04	-0.12
Durable goods	1.4	1.2	-0.2	0.11	0.09	-0.02
Nondurable goods	0.4	-0.3	-0.7	0.06	-0.05	-0.11
Services	4.3	1.5	-2.8	1.93	0.67	-1.26
Gross private domestic investment	-11.7	-11.7	0.0	-1.98	-1.97	0.01
Fixed investment	-2.3	-1.8	0.5	-0.36	-0.27	0.09
Nonresidential	-1.6	-1.2	0.4	-0.20	-0.14	0.06
Structures	-7.5	-7.7	-0.2	-0.21	-0.22	-0.01
Equipment	-3.1	-2.8	0.3	-0.18	-0.16	0.02
Intellectual property products	5.1	6.3	1.2	0.19	0.24	0.05
Residential	-5.0	-4.2	0.8	-0.16	-0.13	0.03
Change in private inventories				-1.62	-1.70	-0.08
Net exports of goods and services				-0.95	-1.53	-0.58
Exports	-6.0	-8.9	-2.9	-0.83	-1.25	-0.42
Goods	-9.8	-11.4	-1.6	-0.97	-1.12	-0.15
Services	3.2	-2.9	-6.1	0.13	-0.12	-0.25
Imports	0.7	1.8	1.1	-0.12	-0.29	-0.17
Goods	1.0	1.9	0.9	-0.14	-0.25	-0.11
Services	-0.6	1.3	1.9	0.02	-0.03	-0.05
Government consumption expenditures and gross investment	-0.8	-0.8	0.0	-0.15	-0.14	0.01
Federal	0.7	0.6	-0.1	0.05	0.05	0.00
National defense	-2.4	-2.5	-0.1	-0.11	-0.11	0.00
Nondefense	5.9	5.9	0.0	0.16	0.16	0.00
State and local	-1.8	-1.7	0.1	-0.20	-0.18	0.02
Addenda:						
Final sales of domestic product	0.6	-1.3	-1.9	0.64	-1.23	-1.87
Gross domestic income	-2.3	-2.6	-0.3			
Gross domestic purchases price index	1.3	1.3	0.0			
GDP price index	1.3	1.3	0.0			

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

The third estimate of the first-quarter change in real GDP was 1.9 percentage points lower than the second estimate released last month. The downward revision primarily reflected downward revisions to consumer spending and to exports and an upward revision to imports. For 1983–2012, the average revision (without regard to sign) between the second estimate and the third estimate is 0.3 percentage point.

The downward revision to consumer spending was primarily accounted for by a downward revision to spending for services.

The downward revision to services primarily reflected a downward revision to household spending for health care services as a result of the incorporation of newly available Census Bureau quarterly services survey data for the first quarter. The previously published estimates of spending on health care services were based on information on Medicaid benefits and on Affordable Care Act insurance exchange enrollments.

The downward revision to exports reflected downward revisions to both exports of services and exports of goods. The largest contributors to the revision to exports of services were “other” private services and transfers under U.S. military agency sales contracts. The largest contributors to the revision to exports of goods were industrial supplies and materials and foods, feeds, and beverages.

The upward revision to imports reflected upward revisions to both imports of goods and imports of services. Within imports of goods, the largest contributors were nonautomotive capital goods and automotive vehicles, engines, and parts. Within imports of services, the largest contributor was 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* at www.bea.gov/methodologies/index.htm.

Source data for the third estimate. The third estimate of GDP for the first quarter of 2014 incorporated the following source data.

Consumer spending: Census Bureau retail sales for January through March (revised) and quarterly services survey data for the first quarter (new), Energy Information Administration electricity and natural gas usage and unit value data for February (revised) and March (new), and Securities and Exchange Commission FOCUS report for the first quarter (new).

Nonresidential fixed investment: Census Bureau construction spending data for February and March (revised) and quarterly services survey data for the first quarter (new).

Residential fixed investment: Census Bureau construction spending data for February and March (revised)

Inventory investment: Census Bureau manufacturers’ and trade inventories for March (revised) and *Quarterly Financial Report* data for the first quarter (revised).

Exports and imports: Bureau of Economic Analysis international transactions accounts data for January through March (reflects the annual revision).

Government spending: Census Bureau construction spending data for February and March (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		2013		2013		2014		
	I	II	III	IV	I	II	III	IV	I
Current production measures:									
Corporate profits	1,975.4	66.8	39.2	47.1	-198.3	3.3	1.9	2.2	-9.1
Domestic industries.....	1,558.4	62.2	22.5	24.1	-172.5	3.8	1.3	1.4	-10.0
Financial.....	400.7	24.5	9.7	6.1	-71.3	5.7	2.1	1.3	-15.1
Nonfinancial	1,157.7	37.8	12.7	18.1	-101.2	3.2	1.0	1.5	-8.0
Rest of the world	417.0	4.6	16.7	22.9	-25.7	1.2	4.1	5.5	-5.8
Receipts from the rest of the world	689.5	1.2	8.3	31.2	-8.7	0.2	1.3	4.7	-1.2
Less: Payments to the rest of the world	272.5	-3.4	-8.4	8.2	17.1	-1.3	-3.3	3.3	6.7
Less: Taxes on corporate income	458.9	10.0	-0.4	13.3	27.8	2.4	-0.1	3.2	6.4
Equals: Profits after tax.....	1,516.5	56.9	39.5	33.8	-226.0	3.5	2.4	2.0	-13.0
Net dividends	861.7	273.5	-179.0	90.5	-87.1	35.8	-17.3	10.5	-9.2
Undistributed profits from current production	654.7	-216.6	218.6	-56.7	-139.1	-25.5	34.6	-6.7	-17.5
Net cash flow	2,121.9	-205.3	231.1	-43.0	-119.5	-9.1	11.3	-1.9	-5.3

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 \$198.3 billion, or 9.1 percent at a quarterly rate, in the first quarter after increasing \$47.1 billion, or 2.2 percent, in the fourth quarter.

Domestic profits of financial corporations decreased \$71.3 billion, or 15.1 percent, after increasing \$6.1 billion, or 1.3 percent.

Domestic profits of nonfinancial corporations decreased \$101.2 billion, or 8.0 percent, after increasing \$18.1 billion, or 1.5 percent.

Profits from the rest of the world decreased \$25.7 billion, or 5.8 percent, after increasing \$22.9 billion, or 5.5 percent. In the first quarter, receipts decreased \$8.7 billion, and payments increased \$17.1 billion.

Taxes on corporate income increased \$27.8 billion, or 6.4 percent, in the first quarter after increasing \$13.3 billion, or 3.2 percent, in the fourth quarter.

Net dividends decreased \$87.1 billion, or 9.2 percent, after increasing \$90.5 billion, or 10.5 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).

