

GDP and the Economy

Third Estimates for the Second Quarter of 2016

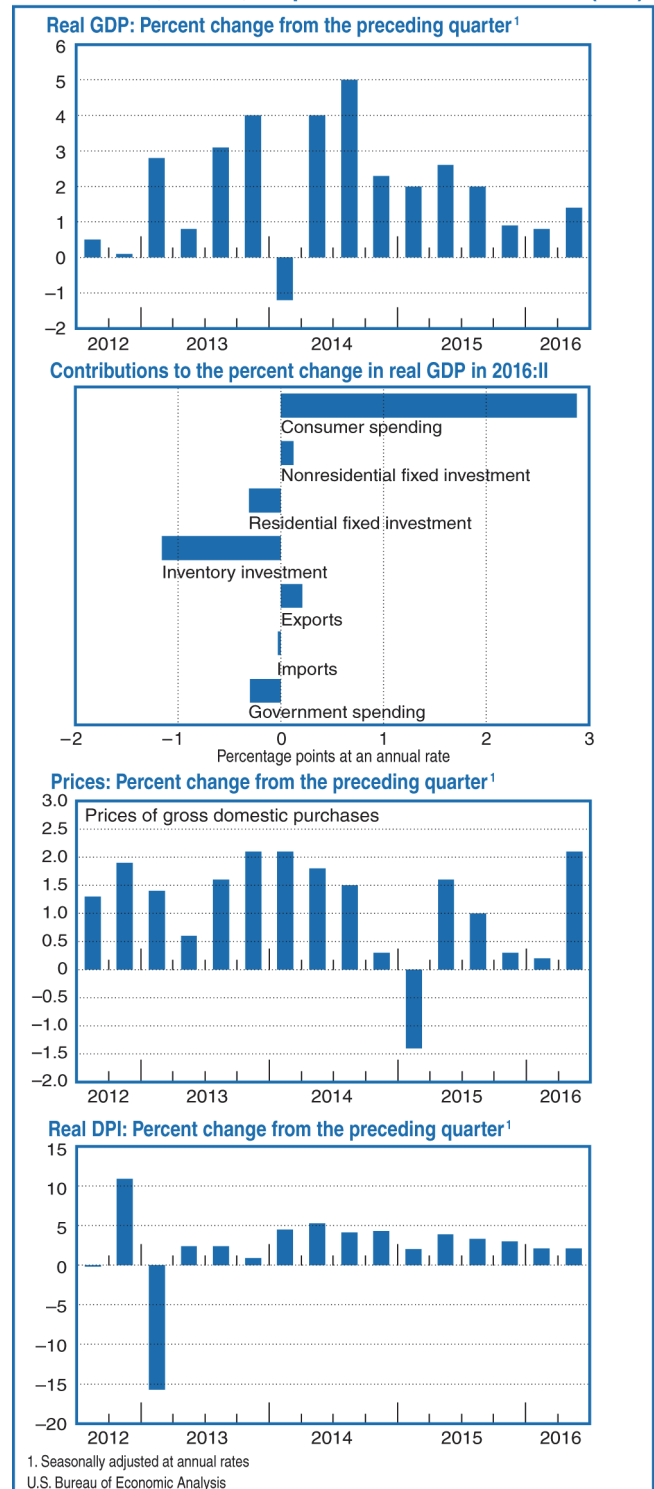
REAL GROSS domestic product (GDP) increased 1.4 percent at an annual rate in the second quarter of 2016, according to the third estimates of the national income and product accounts (NIPAs) (chart 1 and table 1).¹ The third estimate of real GDP growth was revised up 0.3 percentage point from the second estimate of 1.1 percent; the upward revision primarily reflected upward revisions to nonresidential fixed investment, private inventory investment, and exports.² In the first quarter of 2016, real GDP increased 0.8 percent.

- The second-quarter increase in real GDP reflected positive contributions from consumer spending, exports, and nonresidential fixed investment. These contributions were partly offset by negative contributions from private inventory investment, residential fixed investment, and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased.
- Prices of goods and services purchased by U.S. residents, as measured by the gross domestic purchases price index, increased 2.1 percent in the second quarter after an increase of 0.2 percent in the first quarter. Energy prices turned up in the second quarter, while food prices decreased more in the second quarter than in the first quarter. Excluding food and energy, prices increased 2.0 percent in the second quarter after increasing 1.4 percent in the first quarter.
- Real disposable personal income (DPI) increased 2.1 percent in the second quarter, the same increase as in the first quarter. Current-dollar DPI increased 4.1 percent after increasing 2.4 percent.
- Real gross domestic income decreased 0.2 percent after increasing 0.8 percent.
- Corporate profits from current production decreased \$12.5 billion in the second quarter after increasing \$66.0 billion in the first 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 reflect a rate of activity for a quarter as if it were 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)



Lisa S. Mataloni prepared this article.

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)			
	2016	2015		2016		2015		2016	
		II	III	IV	I	II	III	IV	I	II
Gross domestic product ¹	100.0	2.0	0.9	0.8	1.4	2.0	0.9	0.8	1.4
Personal consumption expenditures	68.8	2.7	2.3	1.6	4.3	1.81	1.53	1.11	2.88
Goods.....	22.1	4.2	2.1	1.2	7.1	0.92	0.47	0.25	1.51
Durable goods.....	7.5	6.2	4.0	-0.6	9.8	0.45	0.30	-0.05	0.70
Nondurable goods.....	14.6	3.2	1.2	2.1	5.7	0.47	0.17	0.30	0.80
Services.....	46.7	2.0	2.3	1.9	3.0	0.89	1.07	0.86	1.37
Gross private domestic investment	16.2	2.0	-2.3	-3.3	-7.9	0.35	-0.39	-0.56	-1.34
Fixed investment.....	16.3	5.7	-0.2	-0.9	-1.1	0.92	-0.03	-0.15	-0.18
Nonresidential.....	12.5	3.9	-3.3	-3.4	1.0	0.49	-0.43	-0.44	0.12
Structures.....	2.6	-4.3	-15.2	0.1	-2.1	-0.12	-0.45	0.00	-0.06
Equipment.....	5.7	9.1	-2.6	-9.5	-2.9	0.53	-0.16	-0.59	-0.17
Intellectual property products.....	4.1	2.1	4.6	3.7	9.0	0.08	0.18	0.15	0.35
Residential.....	3.8	12.6	11.5	7.8	-7.7	0.43	0.40	0.29	-0.31
Change in private inventories.....	-0.1	.....	.....	.....	.....	-0.57	-0.36	-0.41	-1.16
Net exports of goods and services	-2.7	.....	.....	.....	.....	-0.52	-0.45	0.01	0.18
Exports.....	12.0	-2.8	-2.7	-0.7	1.8	-0.36	-0.34	-0.09	0.21
Goods.....	7.8	-3.1	-4.6	0.1	1.7	-0.26	-0.38	0.01	0.13
Services.....	4.2	-2.3	1.0	-2.2	1.9	-0.10	0.04	-0.09	0.08
Imports.....	14.6	1.1	0.7	-0.6	0.2	-0.16	-0.11	0.09	-0.03
Goods.....	11.9	-0.1	0.7	-1.3	0.0	0.02	-0.09	0.16	0.00
Services.....	2.7	6.9	0.7	2.5	1.1	-0.18	-0.02	-0.07	-0.03
Government consumption expenditures and gross investment	17.7	1.9	1.0	1.6	-1.7	0.34	0.18	0.28	-0.30
Federal.....	6.7	1.0	3.8	-1.5	-0.4	0.06	0.25	-0.10	-0.02
National defense.....	4.0	-1.2	4.4	-3.2	-3.2	-0.05	0.17	-0.13	-0.13
Nondefense.....	2.8	4.2	2.8	0.9	3.8	0.11	0.08	0.03	0.10
State and local.....	11.0	2.5	-0.6	3.5	-2.5	0.27	-0.07	0.39	-0.28
Addenda:									
Gross domestic income (GDI) ².....	.....	2.5	1.5	0.8	-0.2	.....	.....	.....	.....
Average of GDP and GDI.....	.....	2.2	1.2	0.8	0.6	.....	.....	.....	.....
Final sales of domestic product.....	100.1	2.6	1.2	1.2	2.6	2.55	1.24	1.24	2.57
Goods.....	29.6	2.5	-0.8	-1.4	2.2	0.75	-0.24	-0.42	0.66
Services.....	62.4	1.5	2.1	1.1	2.4	0.92	1.26	0.68	1.48
Structures.....	8.0	3.9	-1.9	7.4	-8.7	0.31	-0.15	0.57	-0.73
Motor vehicle output.....	2.9	16.5	-15.2	2.2	7.5	0.46	-0.49	0.06	0.21
GDP excluding motor vehicle output.....	97.1	1.6	1.4	0.8	1.2	1.52	1.37	0.77	1.20
Final sales of computers.....	0.4	4.7	2.9	54.3	17.8	0.02	0.01	0.18	0.07
GDP excluding final sales of computers.....	99.6	2.0	0.9	0.7	1.3	1.07	0.86	0.65	1.34
Research and development (R&D).....	2.6	3.3	4.7	0.6	11.8	0.08	0.12	0.01	0.29
GDP excluding R&D.....	97.4	2.0	0.8	0.8	1.2	1.90	0.76	0.82	1.12

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.

The pickup in real GDP in the second quarter primarily reflected a pickup in consumer spending and upturns in nonresidential fixed investment and in exports that were partly offset by a larger decrease in private inventory investment, downturns in state and local government spending and in residential fixed investment, and an upturn in imports.

The pickup in consumer spending reflected pickups in spending for both goods and services. The pickup in spending for goods reflected an upturn in spending for durable goods and a pickup in spending for nondurable goods.

The upturn in spending for durable goods primarily reflected an upturn in spending for motor vehicles and parts.

The pickup in spending for nondurable goods was mainly due to a pickup in spending for “other” nondurable goods that primarily reflected an upturn in spending for pharmaceuticals and other medical products.

The pickup in spending for services primarily reflected an upturn in spending for electricity and gas.

The upturn in nonresidential fixed investment reflected a smaller decrease in equipment and a pickup in intellectual property products that were partly offset by a downturn in structures.

The downturn in residential fixed investment primarily reflected a downturn in “other” structures (mainly due to a downturn in improvements and a slowdown in brokers’ commissions), a larger decrease in single-family structures, and a slowdown in multi-family structures.

The larger decrease in inventory investment reflected a larger decrease in nonfarm inventory investment that was partly offset by an upturn in farm inventory investment. The larger decrease in nonfarm inventory investment was mainly due to a downturn in retail trade and larger decreases in manufacturing and in wholesale trade.

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

The upturn in imports reflected an upturn in goods imports that was partly offset by a slowdown in services imports.

The downturn in state and local government spending primarily reflected a downturn in investment in structures.

Revisions to GDP

Table 2. Second and Third Estimates for the Second Quarter of 2016

[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	1.1	1.4	0.3	1.1	1.4	0.3
Personal consumption expenditures	4.4	4.3	-0.1	2.94	2.88	-0.06
Goods	7.1	7.1	0.0	1.52	1.51	-0.01
Durable goods	9.9	9.8	-0.1	0.71	0.70	-0.01
Nondurable goods	5.7	5.7	0.0	0.81	0.80	-0.01
Services	3.1	3.0	-0.1	1.42	1.37	-0.05
Gross private domestic investment	-9.7	-7.9	1.8	-1.67	-1.34	0.33
Fixed investment	-2.5	-1.1	1.4	-0.42	-0.18	0.24
Nonresidential	-0.9	1.0	1.9	-0.11	0.12	0.23
Structures	-8.4	-2.1	6.3	-0.23	-0.06	0.17
Equipment	-3.7	-2.9	0.8	-0.22	-0.17	0.05
Intellectual property products	8.6	9.0	0.4	0.34	0.35	0.01
Residential	-7.7	-7.7	0.0	-0.30	-0.31	-0.01
Change in private inventories .....	.....	.....	.....	-1.26	-1.16	0.10
Net exports of goods and services .....	.....	.....	.....	0.10	0.18	0.08
Exports	1.2	1.8	0.6	0.14	0.21	0.07
Goods	1.7	1.7	0.0	0.13	0.13	0.00
Services	0.1	1.9	1.8	0.00	0.08	0.08
Imports	0.3	0.2	-0.1	-0.04	-0.03	0.01
Goods	0.0	0.0	0.0	0.00	0.00	0.00
Services	1.4	1.1	-0.3	-0.04	-0.03	0.01
Government consumption expenditures and gross investment	-1.5	-1.7	-0.2	-0.27	-0.30	-0.03
Federal	-0.3	-0.4	-0.1	-0.02	-0.02	0.00
National defense	-3.1	-3.2	-0.1	-0.12	-0.13	-0.01
Nondefense	3.8	3.8	0.0	0.10	0.10	0.00
State and local	-2.2	-2.5	-0.3	-0.25	-0.28	-0.03
Addenda:						
Final sales of domestic product	2.4	2.6	0.2	2.35	2.57	0.22
Gross domestic income (GDI)	0.2	-0.2	-0.4	.....	.....	.....
Average of GDP and GDI	0.6	0.6	0.0	.....	.....	.....
Gross domestic purchases price index	2.1	2.1	0.0	.....	.....	.....
GDP price index	2.3	2.3	0.0	.....	.....	.....

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

The third estimate of the second-quarter change in real GDP was 0.3 percentage point higher than the second estimate released in August, but the general picture of economic growth remains the same. The average revision from the second estimate to third estimate for real GDP is 0.2 percentage point. The upward revision to the percent change in real GDP primarily reflected upward revisions to nonresidential fixed investment, to private inventory investment, and to exports.

The upward revision to nonresidential fixed investment primarily reflected an upward revision to investment in structures; the largest contributors to the upward revision were commercial and health care structures and “other” structures.

The upward revision to inventory investment reflected an upward revision to farm inventories that was partly offset by a downward revision to nonfarm inventories. The downward revision to nonfarm inventories was primarily to “mining, utilities, and construction.”

The upward revision to exports was primarily to exports of services (specifically, travel and government goods and services).

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 second quarter of 2016 incorporated the following source data.

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

Nonresidential fixed investment: Census Bureau construction spending data for May and June (revised) and quarterly services survey data for the second quarter (new).

Residential fixed investment: Census Bureau construction spending data for May and June (revised).

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

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

Government spending: Census Bureau construction spending data for May and June (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						
	2016	2015		2016		2015		2016	
	II	III	IV	I	II	III	IV	I	II
Current production measures:									
Corporate profits.....	2,021.0	-17.0	-127.9	66.0	-12.5	-0.8	-6.1	3.4	-0.6
Domestic industries.....	1,613.4	-8.9	-149.8	92.9	-50.5	-0.5	-8.7	5.9	-3.0
Financial.....	442.8	-17.1	-18.2	8.1	5.6	-3.7	-4.1	1.9	1.3
Nonfinancial.....	1,170.5	8.2	-131.7	84.8	-56.1	0.6	-10.3	7.4	-4.6
Rest of the world.....	407.6	-8.1	22.0	-26.9	38.0	-2.1	5.9	-6.8	10.3
Receipts from the rest of the world.....	681.9	-9.5	-19.9	8.7	37.5	-1.4	-3.0	1.4	5.8
Less: Payments to the rest of the world.....	274.2	-1.4	-41.9	35.6	-0.5	-0.5	-14.9	14.9	-0.2
Less: Taxes on corporate income	543.9	-13.8	44.9	-47.5	16.4	-2.5	8.5	-8.3	3.1
Equals: Profits after tax.....	1,477.1	-3.3	-172.8	113.5	-28.9	-0.2	-11.0	8.1	-1.9
Net dividends.....	954.0	13.7	-20.8	7.3	-9.3	1.4	-2.1	0.8	-1.0
Undistributed profits from current production.....	523.1	-17.0	-152.0	106.1	-19.6	-2.8	-25.8	24.3	-3.6
Net cash flow.....	2,076.1	0.9	-141.1	112.6	-13.4	0.0	-6.7	5.7	-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 \$12.5 billion, or 0.6 percent at a quarterly rate, in the second quarter after increasing \$66.0 billion, or 3.4 percent, in the first quarter.

Profits of domestic financial corporations increased \$5.6 billion, or 1.3 percent, after increasing \$8.1 billion, or 1.9 percent.

Profits of domestic nonfinancial corporations decreased \$56.1 billion, or 4.6 percent, after increasing \$84.8 billion, or 7.4 percent.

Profits from the rest of the world increased \$38.0 billion, or 10.3 percent, after decreasing \$26.9 billion, or 6.8 percent. In the second quarter, receipts increased \$37.5 billion, and payments decreased \$0.5 billion.

Taxes on corporate income increased \$16.4 billion, or 3.1 percent, in the second quarter after decreasing \$47.5 billion, or 8.3 percent, in the first quarter.

Net dividends decreased \$9.3 billion, or 1.0 percent, after increasing \$7.3 billion, or 0.8 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 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							
	2016	2015		2016		2015		2016	
	II	III	IV	I	II	III	IV	I	II
Industry profits:									
Profits with IVA.....	2,127.1	-14.3	-130.8	69.5	-12.1	-0.6	-5.9	3.4	-0.6
Domestic industries.....	1,719.5	-6.2	-152.8	96.3	-50.1	-0.3	-8.4	5.8	-2.8
Financial.....	484.6	-15.1	-17.3	7.3	5.4	-3.0	-3.5	1.5	1.1
Nonfinancial.....	1,234.9	8.9	-135.5	89.0	-55.5	0.7	-10.1	7.4	-4.3
Utilities.....	2.5	-4.7	-15.9	15.3	-1.5	-50.3	.....	.....	-37.9
Manufacturing.....	384.0	10.5	-136.2	83.7	-10.5	2.4	-30.5	26.9	-2.7
Wholesale trade.....	116.1	7.7	8.5	-4.8	-37.8	5.4	5.6	-3.0	-24.6
Retail trade.....	181.5	3.8	-1.8	9.8	-3.8	2.2	-1.0	5.6	-2.0
Transportation and warehousing.....	63.8	7.3	-2.9	0.4	-4.8	11.4	-4.1	0.6	-7.0
Information.....	129.8	-5.5	11.0	0.6	2.8	-4.6	9.6	0.5	2.2
Other nonfinancial.....	357.3	-10.2	1.9	-15.9	0.0	-2.7	0.5	-4.3	0.0
Rest of the world.....	407.6	-8.1	22.0	-26.9	38.0	-2.1	5.9	-6.8	10.3
Addenda:									
Profits before tax (without IVA and CCAdj).....	2,180.6	-67.2	-142.5	79.6	102.6	-3.0	-6.7	4.0	4.9
Profits after tax (without IVA and CCAdj).....	1,636.7	-53.5	-187.4	127.1	86.2	-3.2	-11.6	8.9	5.6
IVA.....	-53.5	52.9	11.7	-10.1	-114.7	.....	.....	.....	.....
CCAdj.....	-106.1	-2.7	2.9	-3.5	-0.4	.....	.....	.....	.....

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

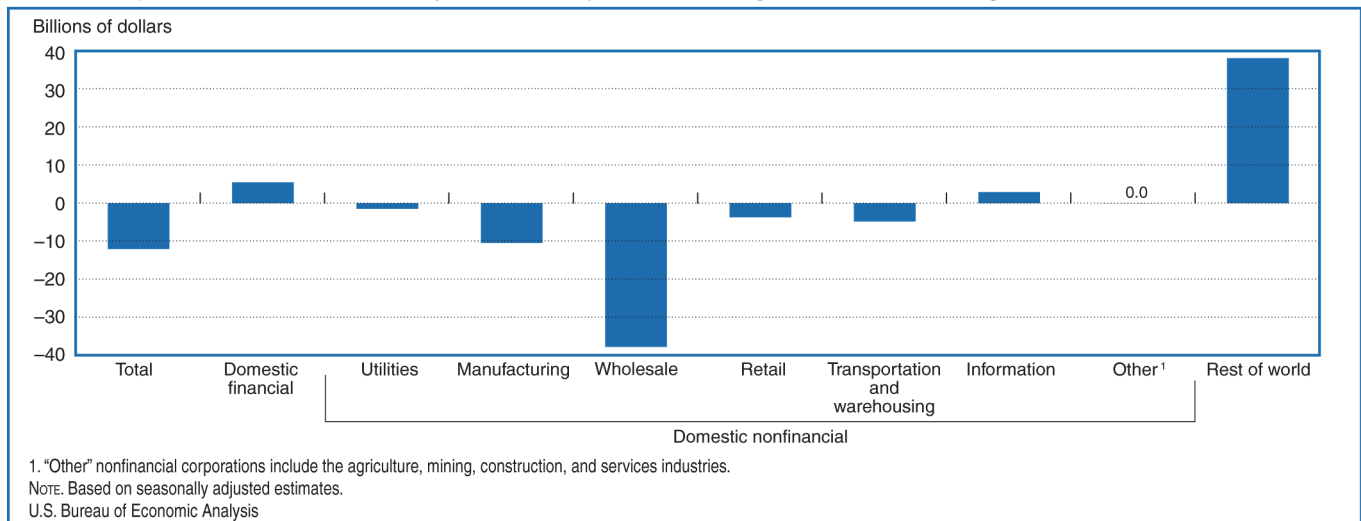
Profits with inventory valuation adjustment (IVA) decreased \$12.1 billion, or 0.6 percent at a quarterly rate, in the second quarter after increasing \$69.5 billion, or 3.4 percent, in the first quarter.

Profits of domestic industries decreased \$50.1 billion, or 2.8 percent, after increasing \$96.3 billion, or 5.8 percent.

Profits of domestic financial industries increased \$5.4 billion, or 1.1 percent, after increasing \$7.3 billion, or 1.5 percent.

Profits of domestic nonfinancial industries decreased \$55.5 billion, or 4.3 percent, after increasing \$89.0 billion, or 7.4 percent; the downturn primarily reflected a downturn in manufacturing industries (mainly due to a significant slowdown in petroleum and coal products) and a larger decrease in wholesale trade industries.

Chart 2. Corporate Profits With Inventory Valuation Adjustment: Change From the Preceding Quarter, 2016:II



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* on BEA's Web site.