

GDP and the Economy

Third Estimates for the Third Quarter of 2014

REAL GROSS domestic product (GDP) increased 5.0 percent at an annual rate in the third quarter of 2014, according to the third estimate of the national income and product accounts (NIPAs) (chart 1 and table 1).¹ In the second quarter, real GDP increased 4.6 percent.

The third estimate of real GDP growth was revised up 1.1 percentage points from the second estimate. The upward revision was due to increases in consumer spending and in nonresidential fixed investment that were larger than previously estimated (see table 2).

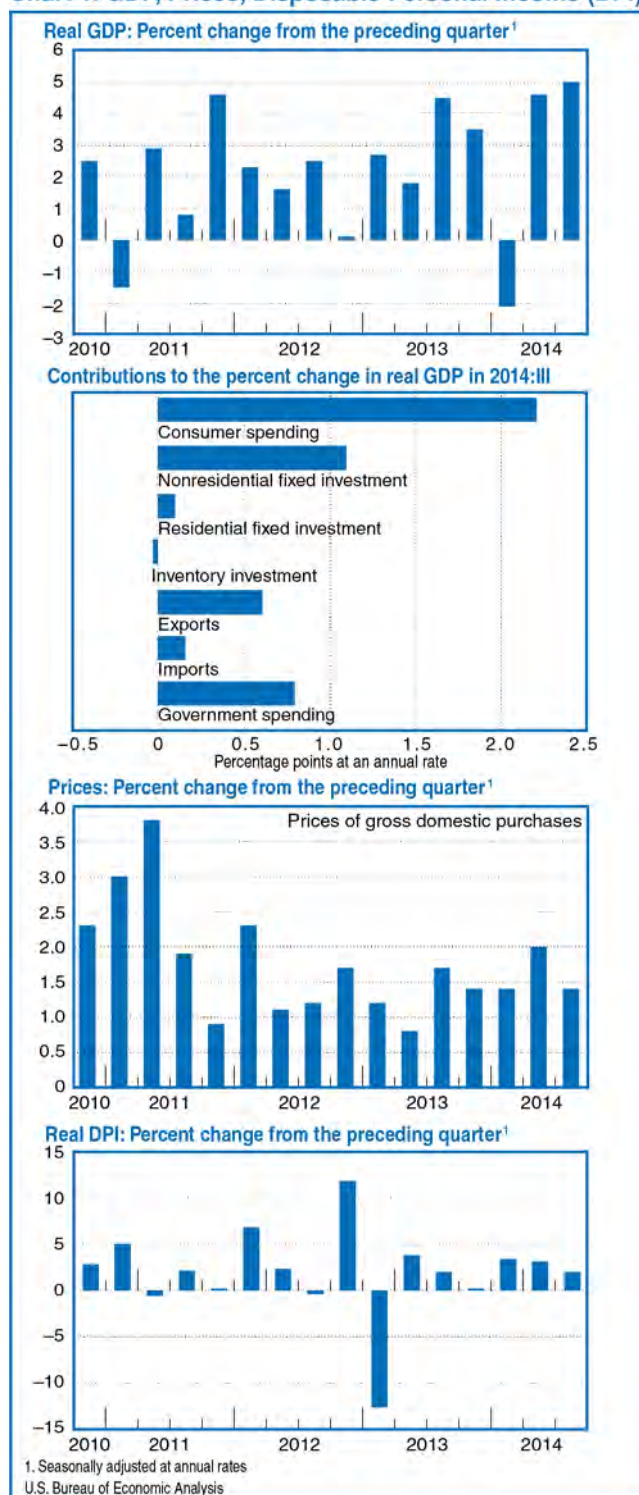
The increase in real GDP in the third quarter primarily reflected positive contributions from consumer spending, nonresidential fixed investment, federal government spending, exports, state and local government spending, and residential fixed investment. Imports, which are subtracted in the calculation of GDP, decreased.²

- Prices of goods and services purchased by U.S. residents, as measured by the gross domestic purchases price index, increased 1.4 percent in the third quarter after increasing 2.0 percent in the second quarter. Food prices decelerated, and energy prices turned down. Excluding food and energy, prices increased 1.6 percent in the third quarter after increasing 1.7 percent in the second quarter.
- Real disposable personal income (DPI) increased 2.0 percent in the third quarter, 0.3 percentage point less than in the second estimate, after increasing 3.1 percent in the second quarter. Current-dollar DPI increased 3.3 percent after increasing 5.5 percent.
- The personal saving rate, personal saving as a percentage of current-dollar DPI, was 4.7 percent in the third quarter; in the second quarter, the rate was 5.1 percent.
- Real gross domestic income increased 4.7 percent in the third quarter after increasing 4.0 percent in the second quarter.
- Corporate profits from current production increased \$64.5 billion in the third quarter after increasing \$164.1 billion in the second 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		2013		2014			2013		2014		
	III	IV	I	II	III	IV	I	II	III			
Gross domestic product ¹	100.0	3.5	-2.1	4.6	5.0	3.5	-2.1	4.6	5.0			
Personal consumption expenditures	68.2	3.7	1.2	2.5	3.2	2.51	0.83	1.75	2.21			
Goods.....	22.8	3.7	1.0	5.9	4.7	0.83	0.23	1.33	1.06			
Durable goods.....	7.5	5.7	3.2	14.1	9.2	0.42	0.23	0.99	0.67			
Nondurable goods.....	15.3	2.7	0.0	2.2	2.5	0.41	0.00	0.34	0.39			
Services.....	45.4	3.7	1.3	0.9	2.5	1.69	0.60	0.42	1.15			
Gross private domestic investment	16.5	3.8	-6.9	19.1	7.2	0.62	-1.13	2.87	1.18			
Fixed investment.....	16.0	6.3	0.2	9.5	7.7	0.95	0.03	1.45	1.21			
Nonresidential.....	12.8	10.4	1.6	9.7	8.9	1.23	0.20	1.18	1.10			
Structures.....	2.9	12.8	2.9	12.6	4.8	0.34	0.08	0.35	0.14			
Equipment.....	5.9	14.1	-1.0	11.2	11.0	0.76	-0.06	0.63	0.63			
Intellectual property products.....	3.9	3.6	4.6	5.5	8.8	0.14	0.18	0.21	0.34			
Residential.....	3.2	-8.5	-5.3	8.8	3.2	-0.28	-0.17	0.27	0.10			
Change in private inventories.....	0.5	.....	.....	.....	.....	-0.34	-1.16	1.42	-0.03
Net exports of goods and services	-2.9	.....	.....	.....	.....	1.08	-1.66	-0.34	0.78
Exports.....	13.4	10.0	-9.2	11.1	4.5	1.30	-1.30	1.43	0.61			
Goods.....	9.3	13.6	-11.9	14.3	7.5	1.20	-1.18	1.26	0.69			
Services.....	4.1	2.3	-2.8	4.0	-1.9	0.10	-0.12	0.17	-0.08			
Imports.....	16.4	1.3	2.2	11.3	-0.9	-0.22	-0.36	-1.77	0.16			
Goods.....	13.6	0.9	2.5	12.5	-1.3	-0.12	-0.33	-1.62	0.19			
Services.....	2.8	3.5	1.0	5.6	1.0	-0.09	-0.03	-0.15	-0.03			
Government consumption expenditures and gross investment	18.2	-3.8	-0.8	1.7	4.4	-0.71	-0.15	0.31	0.80			
Federal.....	7.1	-10.4	-0.1	-0.9	9.9	-0.79	-0.01	-0.06	0.68			
National defense.....	4.5	-11.4	-4.0	0.9	16.0	-0.55	-0.18	0.04	0.66			
Nondefense.....	2.6	-8.6	6.6	-3.8	0.4	-0.24	0.17	-0.10	0.01			
State and local.....	11.2	0.6	-1.3	3.4	1.1	0.07	-0.14	0.38	0.13			
Addenda:												
Final sales of domestic product.....	99.5	3.9	-1.0	3.2	5.0	3.84	-0.95	3.18	4.99			
Goods.....	30.7	8.1	-8.5	11.4	9.5	2.43	-2.69	3.34	2.87			
Services.....	61.6	1.8	1.4	0.6	3.0	1.10	0.86	0.40	1.84			
Structures.....	7.7	-0.4	-3.8	11.7	3.4	-0.03	-0.29	0.85	0.26			
Motor vehicle output.....	3.0	18.5	3.3	21.3	27.2	0.47	0.09	0.55	0.71			
GDP excluding motor vehicle output.....	97.0	3.1	-2.3	4.1	4.4	3.03	-2.20	4.05	4.25			
Final sales of computers.....	0.4	6.2	17.8	14.6	19.5	0.03	0.07	0.06	0.08			
GDP excluding final sales of computers.....	99.6	3.5	-2.2	4.6	4.9	3.47	-2.17	4.54	4.89			
Research and development (R&D).....	2.5	-0.8	2.9	3.4	6.6	-0.02	0.07	0.09	0.16			
GDP excluding R&D.....	97.5	3.6	-2.2	4.6	4.9	3.52	-2.18	4.51	4.80			
Gross domestic income (GDI) ².....	.....	1.8	-0.8	4.0	4.7	.....	.....	.....	.....

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.

The acceleration in real GDP growth reflected a downturn in imports, an upturn in federal government spending, and an acceleration in consumer spending that were partly offset by a downturn in private inventory investment and decelerations in exports, in state and local government spending, in residential fixed investment, and in nonresidential fixed investment.

The pickup in consumer spending reflected an acceleration in services (notably financial services and household utilities) that was partly offset by a slowdown in goods.

The deceleration in nonresidential fixed investment reflected decelerations in structures and in equipment that were partly offset by a pickup in intellectual property products.

The deceleration in residential fixed investment reflected a downturn in single-family structures and slowdowns in multifamily and "other" structures (notably improvements).

The downturn in inventory investment primarily reflected a downturn in manufacturing industries and a slowdown in construction, mining, and utilities.

The deceleration in exports reflected a deceleration in goods (notably industrial supplies and materials) and a downturn in services (notably business services).

The downturn in imports was driven by a downturn in goods and a slowdown in services (notably travel).

The upturn in federal government spending reflected an acceleration in defense spending and an upturn in nondefense spending.

The deceleration in state and local government spending was driven by a deceleration in gross investment (specifically structures).

Real final sales of domestic product, real GDP less inventory investment, increased 5.0 percent after increasing 3.2 percent.

Revisions to GDP

Table 2. Second and Third Estimates for the Third 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	3.9	5.0	1.1	3.9	5.0	1.1
Personal consumption expenditures	2.2	3.2	1.0	1.51	2.21	0.70
Goods	4.3	4.7	0.4	0.97	1.06	0.09
Durable goods	8.7	9.2	0.5	0.63	0.67	0.04
Nondurable goods	2.2	2.5	0.3	0.34	0.39	0.05
Services	1.2	2.5	1.3	0.54	1.15	0.61
Gross private domestic investment	5.1	7.2	2.1	0.85	1.18	0.33
Fixed investment	6.2	7.7	1.5	0.97	1.21	0.24
Nonresidential	7.1	8.9	1.8	0.88	1.10	0.22
Structures	1.1	4.8	3.7	0.03	0.14	0.11
Equipment	10.7	11.0	0.3	0.61	0.63	0.02
Intellectual property products	6.4	8.8	2.4	0.24	0.34	0.10
Residential	2.7	3.2	0.5	0.09	0.10	0.01
Change in private inventories				-0.12	-0.03	0.09
Net exports of goods and services				0.78	0.78	0.00
Exports	4.9	4.5	-0.4	0.65	0.61	-0.04
Goods	6.7	7.5	0.8	0.61	0.69	0.08
Services	1.0	-1.9	-2.9	0.04	-0.08	-0.12
Imports	-0.7	-0.9	-0.2	0.12	0.16	0.04
Goods	-1.4	-1.3	0.1	0.20	0.19	-0.01
Services	2.6	1.0	-1.6	-0.07	-0.03	0.04
Government consumption expenditures and gross investment	4.2	4.4	0.2	0.76	0.80	0.04
Federal	9.9	9.9	0.0	0.67	0.68	0.01
National defense	16.0	16.0	0.0	0.66	0.66	0.00
Nondefense	0.4	0.4	0.0	0.01	0.01	0.00
State and local	0.8	1.1	0.3	0.09	0.13	0.04
Addenda:						
Final sales of domestic product	4.1	5.0	0.9	4.01	4.99	0.98
Gross domestic income	-2.3	4.7	7.0			
Gross domestic purchases price index	1.4	1.4	0.0			
GDP price index	1.4	1.4	0.0			

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

The third estimate of the third-quarter change in real GDP was 1.1 percentage points higher than the second estimate released in November. The upward revision primarily reflected upward revisions to consumer spending, to nonresidential fixed investment, and to private 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 upward revision to consumer spending was primarily to spending for services that was due to upward revisions to spending for health care, for recreation services, and for financial services and insurance.

The upward revision to nonresidential fixed investment primarily reflected upward revisions to structures and to intellectual property products (notably software).

The upward revision to private inventory investment was primarily accounted for by wholesale trade industries (specifically nondurable-goods industries).

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 third quarter of 2014 incorporated the following source data.

Consumer spending: Census Bureau retail sales data for September (revised) and quarterly services survey data for the third quarter (new), Federal Deposit Insurance Corporation Call Report data for the third quarter (new), Energy Information Administration electricity and natural gas usage and unit value data for September (revised).

Nonresidential fixed investment: Census Bureau con-

struction spending data for September (revised) and quarterly services survey data for the third quarter (new).

Residential fixed investment: Census Bureau construction spending data for September (revised).

Inventory investment: Census Bureau manufacturers' and trade inventories for September (revised).

State and local government spending: Census Bureau construction spending data for September (revised).

Prices: Bureau of Labor statistics (BLS) export and import prices for July, August, and September (revised), BLS producer price indexes for July, August, and September (revised), and Securities and Exchange Commission FOCUS Report data for the third quarter (new).

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	2014			2013	2014			
	III	IV	I	II	III	IV	I	II	III	
Current production measures:										
Corporate profits	2,170.7	3.1	-201.7	164.1	64.5	0.1	-9.4	8.4	3.1	
Domestic industries.....	1,760.3	-10.8	-175.7	167.6	48.1	-0.6	-10.2	10.9	2.8	
Financial.....	468.1	-5.1	-86.2	33.3	16.1	-1.0	-17.1	7.9	3.6	
Nonfinancial	1,292.2	-5.6	-89.6	134.3	32.0	-0.5	-7.4	11.9	2.5	
Rest of the world	410.4	13.9	-26.0	-3.6	16.5	3.4	-6.1	-0.9	4.2	
Receipts from the rest of the world	685.8	14.7	-8.9	2.7	14.4	2.2	-1.3	0.4	2.1	
Less: Payments to the rest of the world	275.4	0.7	17.1	6.3	-2.1	0.3	6.7	2.3	-0.8	
Less: Taxes on corporate income	602.5	27.9	66.9	45.7	-5.5	6.0	13.5	8.1	-0.9	
Equals: Profits after tax.....	1,568.3	-24.7	-268.6	118.4	70.1	-1.5	-16.3	8.6	4.7	
Net dividends	898.4	80.6	-89.5	-0.5	-3.9	8.8	-9.0	-0.1	-0.4	
Undistributed profits from current production	669.8	-105.5	-178.9	118.8	73.9	-13.8	-27.3	24.9	12.4	
Net cash flow	2,099.8	-92.3	-163.0	133.4	46.9	-4.2	-7.8	6.9	2.3	

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 increased \$64.5 billion, or 3.1 percent at a quarterly rate, in the third quarter after increasing \$164.1 billion, or 8.4 percent, in the second quarter.

Domestic profits of financial corporations increased \$16.1 billion, or 3.6 percent, after increasing \$33.3 billion, or 7.9 percent.

Domestic profits of nonfinancial corporations increased \$32.0 billion, or 2.5 percent, after increasing \$134.3 billion, or 11.9 percent.

Profits from the rest of the world increased \$16.5 billion, or 4.2 percent, after decreasing \$3.6 billion, or 0.9 percent. In the third quarter, receipts increased \$14.4 billion, and payments decreased \$2.1 billion.

Taxes on corporate income decreased \$5.5 billion, or 0.9 percent, in the third quarter after increasing \$45.7 billion, or 8.1 percent, in the second quarter.

Net dividends decreased \$3.9 billion, or 0.4 percent, after decreasing \$0.5 billion, or 0.1 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					Percent change from preceding quarter (quarterly rate)				
		2014	2013	2014			2013	2014			
	III	IV	I	II	III	IV	I	II	III		
Industry profits:											
Profits with IVA.....	2,501.1	4.9	-6.0	164.8	63.7	0.2	-0.3	7.3	2.6		
Domestic industries.....	2,090.7	-9.1	20.0	168.4	47.2	-0.5	1.1	9.0	2.3		
Financial.....	530.7	-4.7	-68.6	33.7	16.2	-0.8	-12.5	7.0	3.1		
Nonfinancial.....	1,560.0	-4.4	88.5	134.7	31.1	-0.3	6.8	9.7	2.0		
Utilities.....	54.5	-14.2	26.5	8.1	4.1	-47.4	168.4	19.1	8.2		
Manufacturing.....	523.7	53.1	-12.9	71.9	19.3	13.5	-2.9	16.6	3.8		
Wholesale trade.....	174.4	-6.9	4.1	5.6	16.8	-4.4	2.8	3.7	10.6		
Retail trade.....	175.8	-11.2	3.9	8.6	-0.9	-6.4	2.4	5.1	-0.5		
Transportation and warehousing.....	82.1	2.9	7.9	9.9	-1.4	4.7	12.0	13.4	-1.6		
Information.....	129.1	2.4	17.4	19.9	-13.8	2.3	16.5	16.1	-9.7		
Other nonfinancial ...	420.5	-30.6	41.5	10.8	7.1	-7.8	11.5	2.7	1.7		
Rest of the world.....	410.4	13.9	-26.0	-3.6	16.5	3.4	-6.1	-0.9	4.2		
Addenda:											
Profits before tax (without IVA and CCAdj).....	2,497.1	10.7	15.6	152.9	47.0	0.5	0.7	6.7	1.9		
Profits after tax (without IVA and CCAdj).....	1,894.6	-17.3	-51.2	107.3	52.4	-1.0	-2.9	6.2	2.8		
IVA.....	4.0	-5.8	-21.6	11.9	16.7	.....	.....	.....	.....
CCAdj.....	-330.4	-1.7	-195.7	-0.8	0.9	.....	.....	.....	.....

Profits with inventory valuation adjustment (IVA) increased \$63.7 billion, or 2.6 percent at a quarterly rate, in the third quarter after increasing \$164.8 billion, or 7.3 percent, in the second quarter.

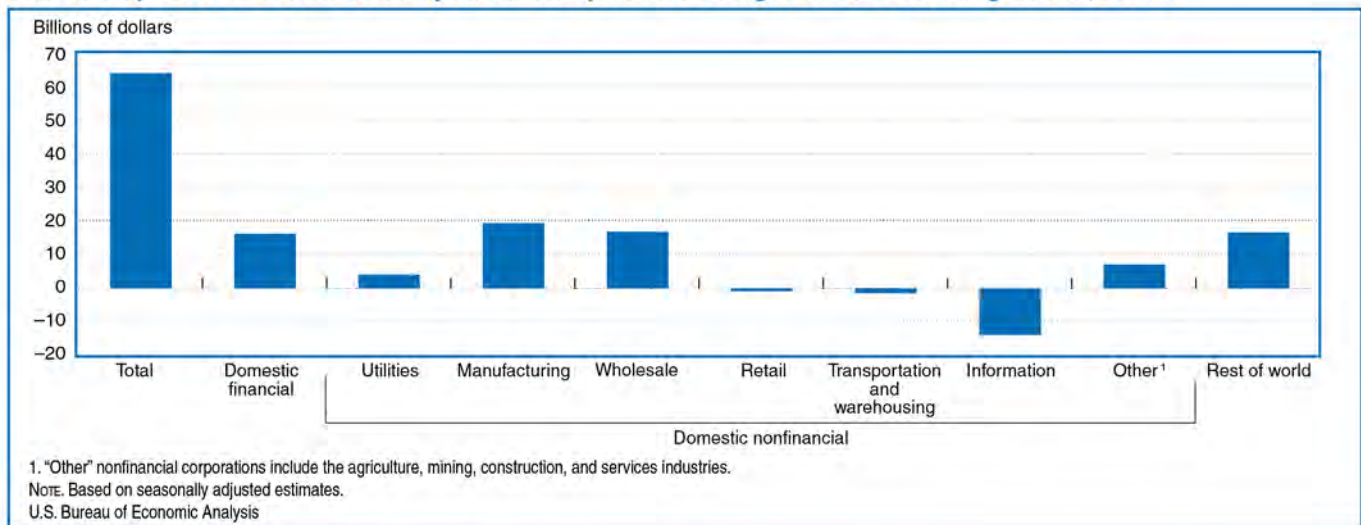
Profits of domestic industries increased \$47.2 billion, or 2.3 percent, after increasing \$168.4 billion, or 9.0 percent.

Profits of domestic financial industries increased \$16.2 billion, or 3.1 percent, after increasing \$33.7 billion, or 7.0 percent.

Profits of domestic nonfinancial industries increased \$31.1 billion, or 2.0 percent, after increasing \$134.7 billion, or 9.7 percent. The third-quarter increase primarily reflected increases in manufacturing, in wholesale trade, and in "other" nonfinancial industries that were partly offset by a decrease in information.

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

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



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.