

GDP and the Economy

Third Estimates for the Fourth Quarter of 2011

REAL GROSS domestic product (GDP) increased at an annual rate of 3.0 percent in the fourth quarter of 2011, according to the third estimates of the national income and product accounts (chart 1 and table 1).¹ In the third quarter, real GDP increased 1.8 percent.

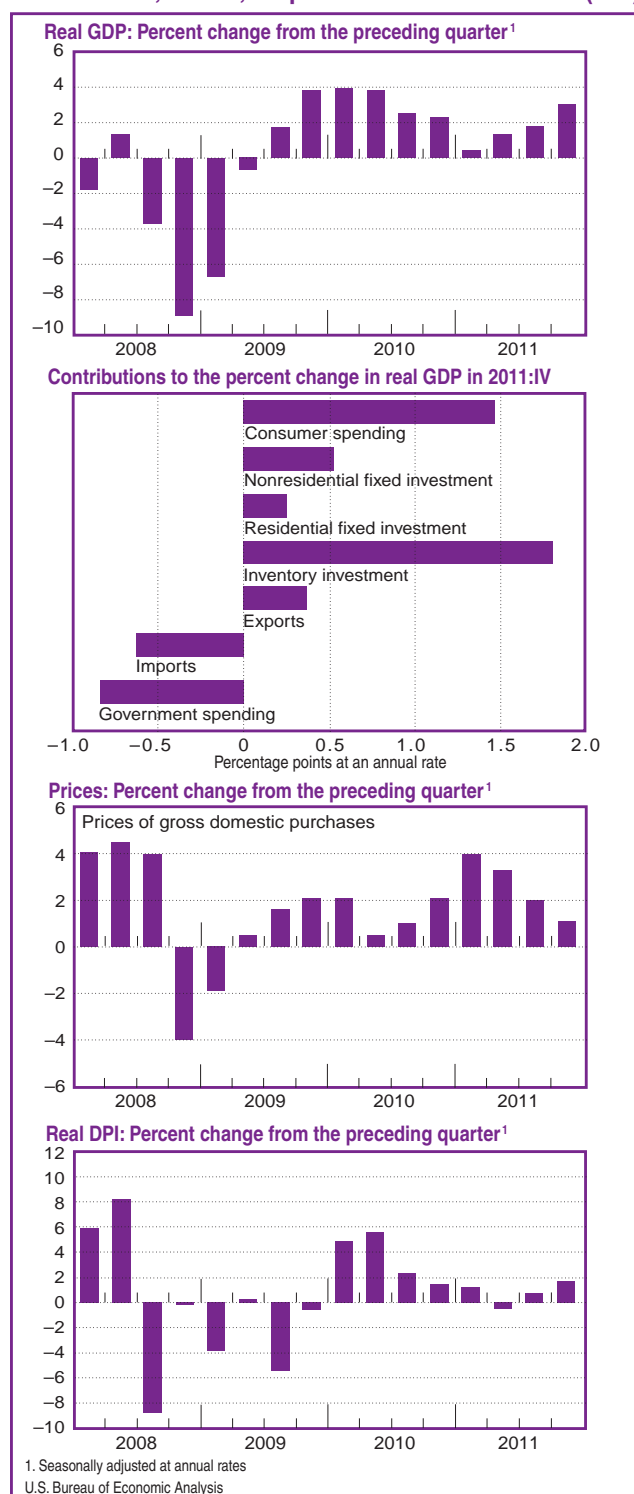
The third estimate of real GDP growth was the same as the second estimate, primarily reflecting a downward revision to exports that was offset by an upward revision to nonresidential fixed investment (page 3).²

- Prices of goods and services purchased by U.S. residents, as measured by the gross domestic purchases price index, increased 1.1 percent in the fourth quarter after increasing 2.0 percent in the third quarter. Energy prices turned down, and food prices decelerated in the fourth quarter. Excluding food and energy, gross domestic purchases prices increased 1.2 percent after increasing 1.8 percent.
- Real disposable personal income (DPI) increased 1.7 percent in the fourth quarter, 0.3 percentage point more than in the second estimate; in the third quarter, real DPI increased 0.7 percent. Current-dollar DPI increased 2.9 percent in the fourth quarter, also 0.3 percentage point more than in the second estimate, after increasing 3.1 percent. The upward revision to current-dollar DPI reflected a downward revision to personal current taxes and an upward revision to personal income. The fourth-quarter acceleration in real DPI, in contrast to the slight deceleration in current-dollar DPI, reflected a large deceleration in the implicit price deflator that is used to deflate DPI.
- The personal saving rate was 4.5 percent; in the third quarter, the rate was 4.6 percent.
- Real gross domestic income increased 4.4 percent in the fourth quarter after increasing 2.6 percent in the third quarter.
- Corporate profits increased \$16.8 billion in the fourth quarter after increasing \$32.5 billion in the third quarter (page 4).

1. "Real" estimates are in chained (2005) 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 (PCE)," "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)



Christopher Swann prepared this article.

Real GDP Overview

Table 1. Real Gross Domestic Product and Components

[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)			
	2011	2011					2011			
	IV	I	II	III	IV	I	II	III	IV	
Gross domestic product ¹	100.0	0.4	1.3	1.8	3.0	0.4	1.3	1.8	3.0	
Personal consumption expenditures ²	71.0	2.1	0.7	1.7	2.1	1.47	0.49	1.24	1.47	
Goods.....	24.2	4.7	-1.6	1.4	5.4	1.10	-0.38	0.33	1.29	
Durable goods.....	7.8	11.7	-5.3	5.7	16.1	0.85	-0.42	0.42	1.16	
Nondurable goods.....	16.4	1.6	0.2	-0.5	0.8	0.25	0.04	-0.09	0.13	
Services.....	46.7	0.8	1.9	1.9	0.4	0.36	0.87	0.90	0.19	
Gross private domestic investment	13.1	3.8	6.4	1.3	22.1	0.47	0.79	0.17	2.59	
Fixed investment.....	12.7	1.2	9.2	13.0	6.3	0.15	1.07	1.52	0.78	
Nonresidential.....	10.4	2.1	10.3	15.7	5.2	0.20	0.98	1.49	0.53	
Structures.....	2.8	-14.3	22.6	14.4	-0.9	-0.40	0.54	0.37	-0.02	
Equipment and software.....	7.6	8.7	6.2	16.2	7.5	0.60	0.44	1.12	0.55	
Residential.....	2.3	-2.4	4.2	1.3	11.6	-0.06	0.09	0.03	0.25	
Change in private inventories ²	0.4	.....	.....	.....	.....	0.32	-0.28	-1.35	1.81
Net exports of goods and services	-3.8	.....	.....	.....	.....	-0.34	0.24	0.43	-0.26
Exports.....	13.8	7.9	3.6	4.7	2.7	1.01	0.48	0.64	0.37	
Goods.....	9.7	10.6	2.5	5.0	3.6	0.94	0.24	0.48	0.36	
Services.....	4.1	1.7	6.2	4.0	0.4	0.07	0.24	0.16	0.02	
Imports.....	17.6	8.3	1.4	1.2	3.7	-1.35	-0.24	-0.21	-0.63	
Goods.....	14.8	9.5	1.6	0.5	3.3	-1.29	-0.23	-0.08	-0.48	
Services.....	2.8	2.2	0.4	4.8	5.6	-0.06	-0.01	-0.13	-0.15	
Government consumption expenditures and gross investment ²	19.7	-5.9	-0.9	-0.1	-4.2	-1.23	-0.18	-0.02	-0.84	
Federal.....	8.0	-9.4	1.9	2.1	-6.9	-0.82	0.16	0.17	-0.58	
National defense.....	5.3	-12.6	7.0	5.0	-12.1	-0.74	0.37	0.27	-0.70	
Nondefense.....	2.7	-2.7	-7.6	-3.8	4.5	-0.08	-0.22	-0.10	0.12	
State and local.....	11.7	-3.4	-2.8	-1.6	-2.2	-0.41	-0.34	-0.19	-0.26	

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

NOTE: Percent changes are from NIPA table 1.1.1, contributions are from NIPA table 1.1.2, and shares are from NIPA table 1.1.10.

The pickup in consumer spending reflected an acceleration in durable goods, mainly reflecting a pickup in motor vehicles and parts. In contrast, services slowed.

The deceleration in nonresidential fixed investment reflected a deceleration in equipment and software and a downturn in structures.

The pickup in residential fixed investment reflected an upturn in "other" structures that was more than accounted for by an upturn in improvements.

Inventory investment turned up sharply, reflecting upturns in both wholesale trade and manufacturing industries.

The slowdown in exports reflected slowdowns in both services and goods exports. A downturn in travel was the largest contributor to the slowdown in services. The slowdown in goods was led by a downturn in automotive vehicles, engines, and parts.

The pickup in imports primarily reflected a pickup in imports of goods that mainly reflected a smaller decrease in nonautomotive consumer goods, a pickup in nonautomotive capital goods, and an upturn in petroleum and products that were partly offset by a downturn in automotive vehicles, engines, and parts.

The downturn in federal government spending reflected a downturn in defense spending that was partly offset by an upturn in nondefense spending.

Table 2. 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)			
	2011	2011					2011			
	IV	I	II	III	IV	I	II	III	IV	
Gross domestic product ¹	100.0	0.4	1.3	1.8	3.0	0.4	1.3	1.8	3.0	
Final sales of domestic product.....	99.6	0.0	1.6	3.2	1.1	0.04	1.62	3.16	1.14	
Change in private inventories.....	0.4	.....	.....	.....	.....	0.32	-0.28	-1.35	1.81
Goods.....	28.6	4.9	-0.6	2.2	13.0	1.36	-0.17	0.62	3.49	
Services.....	64.5	-0.1	1.8	1.2	-1.0	-0.05	1.18	0.81	-0.67	
Structures.....	6.9	-13.1	5.0	5.8	2.0	-0.95	0.33	0.38	0.14	
Addenda:										
Motor vehicle output.....	2.6	59.2	-4.1	5.1	20.4	1.08	-0.10	0.12	0.47	
GDP excluding motor vehicle output.....	97.4	-0.7	1.5	1.7	2.5	-0.73	1.44	1.69	2.48	
Final sales of computers.....	0.6	14.7	13.0	42.1	21.2	0.08	0.07	0.22	0.12	
GDP excluding final sales of computers.....	99.4	0.3	1.3	1.6	2.8	0.27	1.26	1.60	2.83	
Gross domestic income (GDI) ².....	.....	2.4	0.2	2.6	4.4	.....	.....	.....	.....

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

2. GDI is deflated by the implicit price deflator for GDP. The fourth-quarter change reflects the incorporation of revised wage and salary estimates for the fourth quarter of 2011.

NOTE: For GDP and its components, percent changes are from NIPA table 1.2.1, contributions are from NIPA table 1.2.2, and shares are calculated from NIPA table 1.2.5. For GDI, percent changes are from NIPA table 1.7.1.

Real final sales of domestic product, real GDP less inventory investment, increased 1.1 percent after increasing 3.2 percent.

Motor vehicle output increased 20.4 percent and contributed 0.47 percentage point to real GDP growth after increasing 5.1 percent and contributing 0.12 percentage point to real GDP growth.

Final sales of computers increased 21.2 percent and contributed 0.12 percentage point to real GDP growth after increasing 42.1 percent and contributing 0.22 percentage point.

Real gross domestic income (GDI), which measures the output of the economy as the costs incurred and the incomes earned in the production of GDP, increased 4.4 percent after increasing 2.6 percent.

Revisions to GDP

Table 3. Second and Third Estimates for the Fourth Quarter of 2011

[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	3.0	3.0	0.0	3.0	3.0	0.0
Personal consumption expenditures	2.1	2.1	0.0	1.52	1.47	-0.05
Goods	4.9	5.4	0.5	1.17	1.29	0.12
Durable goods	15.3	16.1	0.8	1.10	1.16	0.06
Nondurable goods	0.4	0.8	0.4	0.06	0.13	0.07
Services	0.7	0.4	-0.3	0.35	0.19	-0.16
Gross private domestic investment	20.6	22.1	1.5	2.42	2.59	0.17
Fixed investment	4.3	6.3	2.0	0.53	0.78	0.25
Nonresidential	2.8	5.2	2.4	0.29	0.53	0.24
Structures	-2.6	-0.9	1.7	-0.07	-0.02	0.05
Equipment and software	4.8	7.5	2.7	0.36	0.55	0.19
Residential	11.5	11.6	0.1	0.25	0.25	0.00
Change in private inventories				1.88	1.81	-0.07
Net exports of goods and services				-0.07	-0.26	-0.19
Exports	4.3	2.7	-1.6	0.59	0.37	-0.22
Goods	4.9	3.6	-1.3	0.47	0.36	-0.11
Services	2.8	0.4	-2.4	0.11	0.02	-0.09
Imports	3.8	3.7	-0.1	-0.65	-0.63	0.02
Goods	3.4	3.3	-0.1	-0.49	-0.48	0.01
Services	6.0	5.6	-0.4	-0.16	-0.15	0.01
Government consumption expenditures and gross investment	-4.4	-4.2	0.2	-0.89	-0.84	0.05
Federal	-6.9	-6.9	0.0	-0.58	-0.58	0.00
National defense	-12.1	-12.1	0.0	-0.70	-0.70	0.00
Nondefense	4.4	4.5	0.1	0.12	0.12	0.00
State and local	-2.5	-2.2	0.3	-0.30	-0.26	0.04
Addenda:						
Final sales of domestic product	1.1	1.1	0.0	1.10	1.14	0.04
Gross domestic purchases price index	1.1	1.1	0.0			
GDP price index	0.9	0.9	0.0			

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

The percent change in real GDP was the same as in the second estimate and primarily reflected a downward revision to exports that was offset by an upward revision to nonresidential fixed investment; consumer spending was revised down slightly. The average revision (without regard to sign) between the second estimates and the third estimates is 0.3 percentage point.

The downward revision to consumer spending reflected a small downward revision to spending for services that was mostly offset by a small upward revision to spending for goods. In services, the largest contributors to the downward revision were recreation services and financial services and insurance, reflecting the incorporation of newly available fourth-quarter quarterly services survey (QSS) data from the Census Bureau. In goods the upward revision was widespread.

The upward revision to nonresidential fixed investment was primarily accounted for by an upward revision to equipment and software, mainly custom and prepackaged software, reflecting the incorporation of newly available fourth-quarter QSS data.

The downward revision to exports was to both goods and services. In goods, the revision was widespread; the largest contributor was "other" goods, primarily reflecting a downward revision to foreign military sales, based on the incorporation of newly available Department of Defense data for the fourth quarter. In services, the revision was also widespread; the largest contributor was travel, primarily reflecting the incorporation of revised quarterly data from the international transactions accounts.

Source Data for the Third Estimates

The third estimate of GDP for the fourth quarter of 2011 incorporated the following source data.

Personal consumption expenditures: Census Bureau quarterly services survey data for the fourth quarter (new) and Energy Information Administration (EIA) fuels data for December (new).

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

Residential fixed investment: Census Bureau construction spending (value put in place) data for November and December (revised).

Change in private inventories: manufacturers' and trade inventories for December (revised), Census

Bureau Quarterly Financial Report data for mining (new), and EIA coal and petroleum utility stock data for November (new) and EIA natural gas data for December (new).

Exports and imports of goods and services: international transactions accounts data for October, November, and December (revised) and data for goods for December (revised).

Government consumption expenditures and gross investment: Census Bureau construction spending (value put in place) data for November and December (revised).

GDP prices: export and import prices for October, November, and December (revised), unit value index for petroleum imports for December (revised).

Corporate Profits

Table 4. Corporate Profits
[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change from preceding quarter (quarterly rate)				
	Level	Change from preceding quarter								
	2011	2011				2011				
	IV	I	II	III	IV	I	II	III	IV	
Current production measures:										
Corporate profits	1,986.9	19.0	61.2	32.5	16.8	1.0	3.3	1.7	0.9	
Domestic industries.....	1,577.6	-18.8	26.5	27.1	58.3	-1.3	1.8	1.8	3.8	
Financial	458.2	-38.7	-54.2	9.2	29.9	-7.5	-11.5	2.2	7.0	
Nonfinancial	1,119.4	19.7	80.8	17.9	28.4	2.0	8.1	1.7	2.6	
Rest of the world.....	409.3	37.9	34.6	5.4	-41.5	10.2	8.4	1.2	-9.2	
Receipts from the rest of the world.....	625.2	20.3	49.0	-10.5	-25.2	3.4	8.0	-1.6	-3.9	
Less: Payments to the rest of the world.....	215.9	-17.7	14.4	-16.0	16.4	-8.1	7.2	-7.4	8.2	
Less: Taxes on corporate income.....	410.7	17.6	-1.8	-9.1	-0.7	4.3	-0.4	-2.2	-0.2	
Equals: Profits after tax.....	1,576.2	1.4	63.0	41.6	17.5	0.1	4.3	2.7	1.1	
Net dividends	831.7	19.0	13.6	14.0	10.3	2.5	1.7	1.7	1.3	
Undistributed profits from current production	744.5	-17.6	49.3	27.7	7.2	-2.6	7.5	3.9	1.0	
Net cash flow	1,892.8	21.1	86.2	35.8	44.8	1.2	5.0	2.0	2.4	

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 \$16.8 billion, or 0.9 percent at a quarterly rate, in the fourth quarter after increasing \$32.5 billion, or 1.7 percent, in the third quarter.

Domestic profits of financial corporations increased \$29.9 billion, or 7.0 percent, after increasing \$9.2 billion or 2.2 percent.

Domestic profits of nonfinancial corporations increased \$28.4 billion, or 2.6 percent, after increasing \$17.9 billion, or 1.7 percent.

Profits from the rest of the world decreased \$41.5 billion, or 9.2 percent, after increasing \$5.4 billion, or 1.2 percent. In the fourth quarter, receipts decreased \$25.2 billion, and payments increased \$16.4 billion.

Taxes on corporate income decreased \$0.7 billion, or 0.2 percent, after decreasing \$9.1 billion, or 2.2 percent.

Undistributed corporate profits, a measure of net saving that equals after-tax profits less dividends, increased \$7.2 billion, or 1.0 percent, after increasing \$27.7 billion, or 3.9 percent.

Net cash flow increased \$44.8 billion, or 2.4 percent, after increasing \$35.8 billion, or 2.0 percent. Net cash flow is a profits-related measure of the internal funds available for investment that equals undistributed profits (after dividends) plus capital consumption allowances less capital transfers paid.

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 data when the data are available for two reasons: the 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 5. Corporate Profits by Industry
[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change from preceding quarter (quarterly rate)			
	Level	Change from preceding quarter							
	2011	2011				2011			
	IV	I	II	III	IV	I	II	III	IV
Industry profits:									
Profits with IVA.....	1,886.0	108.9	69.1	37.2	18.6	6.6	3.9	2.0	1.0
Domestic industries.....	1,476.7	71.0	34.6	31.7	60.1	5.6	2.6	2.3	4.2
Financial.....	478.8	-29.3	-52.6	9.8	30.1	-5.6	-10.7	2.2	6.7
Nonfinancial.....	998.0	100.3	87.1	22.0	30.1	13.2	10.1	2.3	3.1
Utilities.....	19.9	7.8	0.3	-4.5	9.2	109.0	1.9	-29.4	86.1
Manufacturing.....	279.2	29.9	32.3	18.3	11.0	15.9	14.8	7.3	4.1
Wholesale trade.....	89.7	22.1	19.2	-5.2	4.1	44.6	26.9	-5.8	4.8
Retail trade.....	122.8	2.9	-7.5	-2.1	12.2	2.5	-6.2	-1.9	11.1
Transportation and warehousing.....	41.2	-4.7	3.3	6.7	7.7	-16.6	13.9	25.1	23.0
Information.....	105.7	19.8	4.7	-6.5	8.6	25.0	4.8	-6.2	8.8
Other nonfinancial	339.4	22.4	34.9	15.3	-22.8	7.8	11.2	4.4	-6.3
Rest of the world.....	409.3	37.9	34.6	5.4	-41.5	10.2	8.4	1.2	-9.2
Addenda:									
Profits before tax (without IVA and CCAj).....	1,904.6	134.6	13.5	22.3	-8.3	7.7	0.7	1.2	-0.4
Profits after tax (without IVA and CCAj).....	1,493.9	117.0	15.3	31.4	-7.6	8.7	1.1	2.1	-0.5
IVA.....	-18.6	-25.7	55.6	14.9	26.9	.....	.....	.....	.....
CCAj.....	100.9	-89.8	-8.1	-4.6	-1.8	.....	.....	.....	.....

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

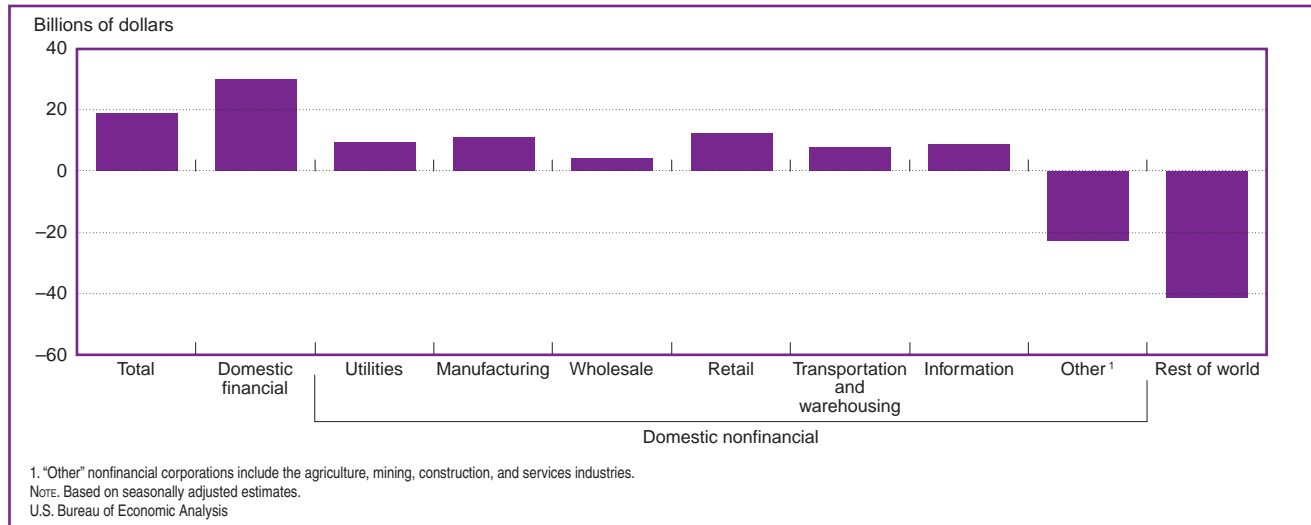
Profits with inventory valuation adjustment (IVA) increased \$18.6 billion, or 1.0 percent at a quarterly rate, in the fourth quarter, reflecting an increase in profits of domestic industries that was partly offset by a large decrease in profits from the rest of the world. The difference between this increase in profits and the increase in profits from current production reflects the capital consumption adjustment, which decreased \$1.8 billion. In the third quarter, profits with IVA increased \$37.2 billion, or 2.0 percent.

Profits of domestic industries increased \$60.1 billion, or 4.2 percent, after increasing \$31.7 billion, or 2.3 percent.

Profits of domestic financial industries increased \$30.1 billion, or 6.7 percent, after increasing \$9.8 billion, or 2.2 percent.

Profits of domestic nonfinancial industries increased \$30.1 billion, or 3.1 percent, after increasing \$22.0 billion, or 2.3 percent. The acceleration reflected upturns in information, in retail trade, in utilities, and in wholesale trade and a small pickup in transportation and warehousing. In contrast, profits of "other" nonfinancial industries turned down, and profits of manufacturing industries decelerated.

Chart 2. Corporate Profits With Inventory Valuation Adjustment: Change From the Preceding Quarter, 2011: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: Profits Before Tax, Profits Tax Liability, and Dividends" at www.bea.gov/methodologies/index.htm.