

GDP and the Economy

Third Estimates for the Fourth Quarter of 2012

REAL GROSS domestic product (GDP) rose at an annual rate of 0.4 percent in the fourth quarter of 2012, according to the third estimates of the national income and product accounts (chart 1 and table 1).¹ In the third quarter, real GDP rose 3.1 percent.

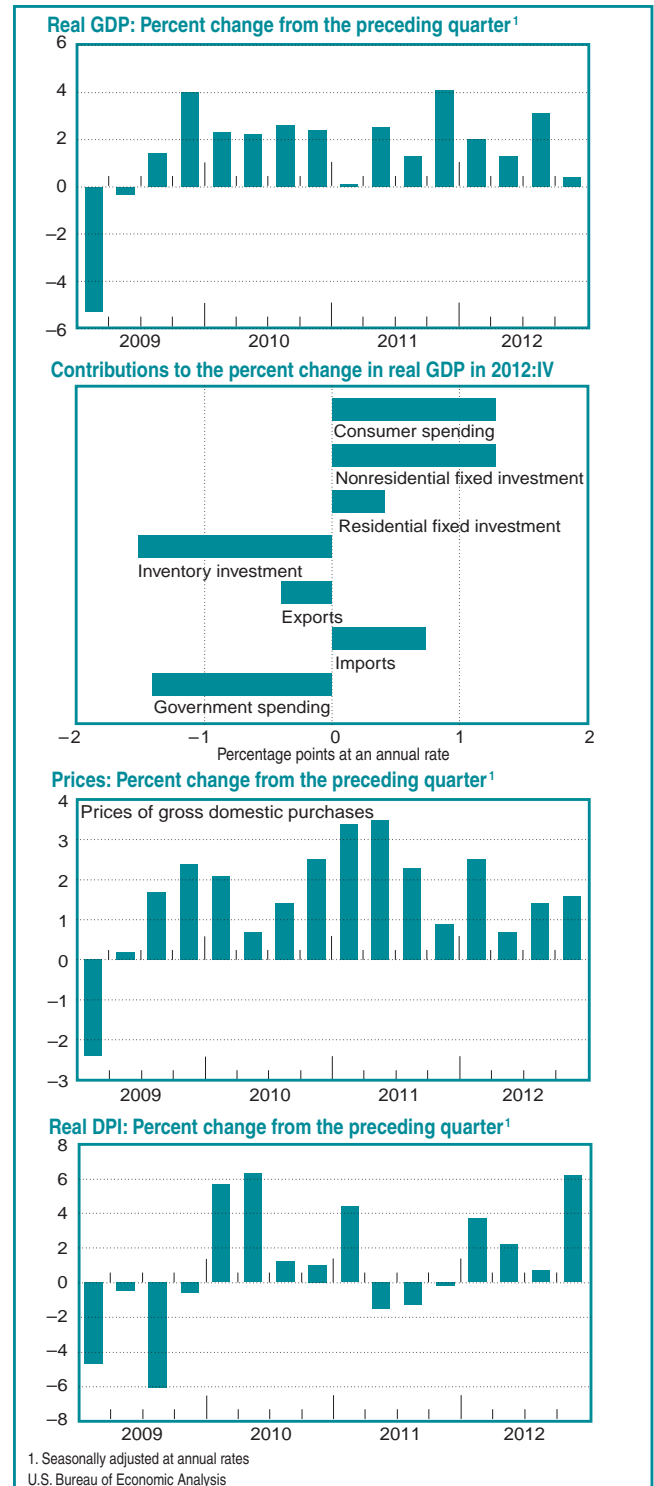
The third estimate of real GDP growth was revised up 0.3 percentage point from the second estimate, but the upward revision did not change the general picture of the economy (see page 3).²

- Real final sales of domestic product, GDP less inventory investment, rose 1.9 percent in the fourth quarter after rising 2.4 percent in the third quarter.
- Prices of goods and services purchased by U.S. residents, as measured by the gross domestic purchases price index, increased 1.6 percent in the fourth quarter after increasing 1.4 percent in the third quarter. Energy prices decelerated and food prices turned up in the fourth quarter. Excluding food and energy, prices increased 1.2 percent, the same increase as in the third quarter.
- Real disposable personal income (DPI) increased 6.2 percent in the fourth quarter after increasing 0.7 percent in the third quarter. Current-dollar DPI increased 7.9 percent after increasing 2.3 percent. The sharp acceleration in fourth-quarter DPI reflected a sharp acceleration in personal income that was partly offset by an acceleration in personal current taxes (see “Special Factors Affecting Disposable Personal Income” in the March 2013 SURVEY OF CURRENT BUSINESS).
- The personal saving rate, personal saving as a percent of current-dollar DPI, was 4.7 percent in the fourth quarter; in the third quarter, the rate was 3.6 percent.
- Real gross domestic income rose 2.6 percent in the fourth quarter after rising 1.6 percent in the third quarter.
- Corporate profits from current production increased \$45.4 billion in the fourth quarter after increasing \$45.7 billion in the third quarter (see 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)



Lisa S. Mataloni 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)			
		2012					2012			
	2012	I	II	III	IV	I	II	III	IV	
Gross domestic product ¹	100.0	2.0	1.3	3.1	0.4	2.0	1.3	3.1	0.4	
Personal consumption expenditures	70.9	2.4	1.5	1.6	1.8	1.72	1.06	1.12	1.28	
Goods	24.2	4.7	0.3	3.6	4.3	1.11	0.08	0.85	1.02	
Durable goods	7.9	11.5	-0.2	8.9	13.6	0.85	-0.02	0.66	1.00	
Nondurable goods	16.3	1.6	0.6	1.2	0.1	0.26	0.10	0.19	0.02	
Services	46.7	1.3	2.1	0.6	0.6	0.61	0.99	0.26	0.27	
Gross private domestic investment	13.2	6.1	0.7	6.6	1.3	0.78	0.09	0.85	0.17	
Fixed investment	13.1	9.8	4.5	0.9	14.0	1.18	0.56	0.12	1.69	
Nonresidential	10.5	7.5	3.6	-1.8	13.2	0.74	0.36	-0.19	1.28	
Structures	3.0	12.9	0.6	0.0	16.7	0.35	0.02	0.00	0.46	
Equipment and software	7.5	5.4	4.8	-2.6	11.8	0.39	0.35	-0.19	0.82	
Residential	2.6	20.5	8.5	13.5	17.6	0.43	0.19	0.31	0.41	
Change in private inventories	0.1	.....	.....	.....	.....	-0.39	-0.46	0.73	-1.52
Net exports of goods and services	-3.3	.....	.....	.....	.....	0.06	0.23	0.38	0.33
Exports	13.8	4.4	5.3	1.9	-2.8	0.60	0.72	0.27	-0.40	
Goods	9.7	4.0	7.0	1.1	-5.0	0.39	0.67	0.11	-0.50	
Services	4.1	5.2	1.1	4.0	2.5	0.21	0.05	0.16	0.10	
Imports	17.2	3.1	2.8	-0.6	-4.2	-0.54	-0.49	0.11	0.73	
Goods	14.3	2.0	2.9	-1.2	-3.9	-0.29	-0.42	0.18	0.57	
Services	2.8	9.0	2.3	2.6	-5.6	-0.25	-0.07	-0.07	0.17	
Government consumption expenditures and gross investment	19.2	-3.0	-0.7	3.9	-7.0	-0.60	-0.14	0.75	-1.41	
Federal	7.5	-4.2	-0.2	9.5	-14.8	-0.34	-0.02	0.71	-1.23	
National defense	5.0	-7.1	-0.2	12.9	-22.1	-0.39	-0.01	0.64	-1.28	
Nondefense	2.6	1.8	-0.4	3.0	1.7	0.05	-0.01	0.08	0.04	
State and local	11.7	-2.2	-1.0	0.3	-1.5	-0.26	-0.12	0.04	-0.18	

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.

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)			
		2012					2012			
	2012	I	II	III	IV	I	II	III	IV	
Gross domestic product ¹	100.0	2.0	1.3	3.1	0.4	2.0	1.3	3.1	0.4	
Final sales of domestic product	99.9	2.4	1.7	2.4	1.9	2.35	1.71	2.37	1.89	
Change in private inventories	0.1	.....	.....	.....	.....	-0.39	-0.46	0.73	-1.52
Goods	28.6	3.9	1.3	6.1	1.4	1.09	0.38	1.73	0.40	
Services	64.2	0.6	1.2	1.7	-1.3	0.38	0.76	1.11	-0.84	
Structures	7.2	7.4	1.7	3.9	12.1	0.50	0.12	0.27	0.82	
Addenda:										
Motor vehicle output	2.8	30.9	7.3	-8.6	6.8	0.72	0.20	-0.25	0.18	
GDP excluding motor vehicle output	97.2	1.3	1.1	3.5	0.2	1.23	1.06	3.36	0.20	
Final sales of computers	0.4	4.5	-19.9	29.5	26.5	0.02	-0.10	0.11	0.10	
GDP excluding final sales of computers	99.6	1.9	1.4	3.0	0.3	1.94	1.35	2.99	0.28	
Gross domestic income (GDI) ² .....	.....	3.8	-0.7	1.6	2.6	.....	.....	.....	.....

1. The estimates 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 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.

Consumer spending picked up in the fourth quarter. The pickup was more than accounted for by an acceleration in durable goods that mainly reflected an acceleration in motor vehicles and parts. Services increased 0.6 percent, the same as in the third quarter.

Nonresidential fixed investment turned up, adding 1.28 percentage points to the change in real GDP after subtracting 0.19 percentage point. The upturn primarily reflected an upturn in equipment and software, mainly due to an upturn in information processing equipment and software. In addition, structures accelerated primarily because of an upturn in power and communication structures.

Inventory investment turned down, subtracting 1.52 percentage points from the change in real GDP after adding 0.73 percentage point; the downturn reflected a downturn in nonfarm inventory investment that was partly offset by an upturn in farm inventory investment. In nonfarm industries, the downturn primarily reflected downturns in manufacturing industries and in wholesale trade industries.

Exports turned down, subtracting 0.40 percentage point from the change in real GDP after adding 0.27 percentage point, reflecting a downturn in goods exports and a deceleration in services exports.

Imports decreased 4.2 percent after decreasing 0.6 percent; the larger decrease primarily reflected a larger decrease in goods and a downturn in services that was primarily in royalties and licenses fees; in the third quarter, these fees reflected payments for broadcast rights for the Summer Olympics.

Federal government spending turned down, reflecting a sharp downturn in national defense spending and a deceleration in nondefense spending. (See “[Federal Government Defense Spending](#)” in the March 2013 SURVEY).

Real final sales of domestic product, GDP less inventory investment, increased 1.9 percent in the fourth quarter after increasing 2.4 percent.

Motor vehicle output turned up, increasing 6.8 percent in the fourth quarter after decreasing 8.6 percent.

Real gross domestic income, which measures the output of the economy as the incomes earned and the costs incurred from production, increased 2.6 percent after increasing 1.6 percent.

Revisions to GDP

Table 3. Second and Third Estimates for the Fourth Quarter of 2012

[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	0.1	0.4	0.3	0.1	0.4	0.3
Personal consumption expenditures	2.1	1.8	-0.3	1.47	1.28	-0.19
Goods	4.3	4.3	0.0	1.03	1.02	-0.01
Durable goods	13.8	13.6	-0.2	1.01	1.00	-0.01
Nondurable goods	0.1	0.1	0.0	0.02	0.02	0.00
Services	0.9	0.6	-0.3	0.44	0.27	-0.17
Gross private domestic investment	-1.5	1.3	2.8	-0.20	0.17	0.37
Fixed investment	11.2	14.0	2.8	1.36	1.69	0.33
Nonresidential	9.7	13.2	3.5	0.96	1.28	0.32
Structures	5.8	16.7	10.9	0.16	0.46	0.30
Equipment and software	11.3	11.8	0.5	0.79	0.82	0.03
Residential	17.5	17.6	0.1	0.40	0.41	0.01
Change in private inventories				-1.55	-1.52	0.03
Net exports of goods and services				0.24	0.33	0.09
Exports	-3.9	-2.8	1.1	-0.55	-0.40	0.15
Goods	-5.5	-5.0	0.5	-0.56	-0.50	0.06
Services	0.1	2.5	2.4	0.00	0.10	0.10
Imports	-4.5	-4.2	0.3	0.79	0.73	-0.06
Goods	-4.1	-3.9	0.2	0.60	0.57	-0.03
Services	-6.6	-5.6	1.0	0.19	0.17	-0.02
Government consumption expenditures and gross investment	-6.9	-7.0	-0.1	-1.38	-1.41	-0.03
Federal	-14.8	-14.8	0.0	-1.23	-1.23	0.00
National defense	-22.0	-22.1	-0.1	-1.28	-1.28	0.00
Nondefense	1.8	1.7	-0.1	0.04	0.04	0.00
State and local	-1.3	-1.5	-0.2	-0.15	-0.18	-0.03
Addenda:						
Final sales of domestic product	1.7	1.9	0.2	1.68	1.89	0.21
Gross domestic purchases price index	1.5	1.6	0.1			
GDP price index	0.9	1.0	0.1			

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

The third estimate of the fourth-quarter change in real GDP is 0.3 percentage point more than the second estimate, primarily reflecting upward revisions to nonresidential fixed investment and to exports that were partly offset by a downward revision to consumer spending. 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 primarily reflected a downward revision to spending for services. In services, the downward revision was primarily accounted for by downward revisions to the final consumption expenditures of nonprofit institutions serving households for health care services and household spending for recreation services.

The upward revision to nonresidential fixed investment was primarily accounted for by an upward revision to power structures (both electric and "other" power).

The upward revision to exports was due to upward revisions to both services and goods. In services, the largest contributor was an upward revision to transfers under U.S. military agency sales contracts. In goods, the largest contributor was "other" goods.

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 fourth quarter of 2012 incorporated the following source data.

Consumer spending: Census Bureau retail sales for December (revised) and quarterly services survey data for the fourth quarter (new), Energy Information Administration electricity and natural gas usage and unit value data for December (new), and Federal Reserve Board *Call Report* data for the fourth quarter (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 (revised).

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 4. Corporate Profits

[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change from preceding quarter (quarterly rate)			
	Level	Change from preceding quarter							
	2012	2012				2012			
	IV	I	II	III	IV	I	II	III	IV
Current production measures:									
Corporate profits	2,013.0	-53.0	21.8	45.7	45.4	-2.7	1.1	2.4	2.3
Domestic industries.....	1,560.6	-5.0	-11.9	54.0	21.3	-0.3	-0.8	3.6	1.4
Financial	453.8	-12.3	-39.7	68.1	-3.5	-2.8	-9.3	17.5	-0.8
Nonfinancial	1,106.8	7.3	27.8	-14.1	24.8	0.7	2.6	-1.3	2.3
Rest of the world	452.4	-48.0	33.6	-8.2	24.1	-10.7	8.4	-1.9	5.6
Receipts from the rest of the world	681.4	-13.7	10.0	4.2	35.7	-2.1	1.6	0.6	5.5
Less: Payments to the rest of the world.....	229.0	34.4	-23.6	12.4	11.6	17.7	-10.3	6.0	5.3
Less: Taxes on corporate income	448.0	83.2	-10.3	9.1	-4.4	22.5	-2.3	2.0	-1.0
Equals: Profits after tax.....	1,565.0	-136.2	31.9	36.7	49.8	-8.6	2.2	2.5	3.3
Net dividends	884.6	9.2	20.4	12.8	124.3	1.3	2.8	1.7	16.3
Undistributed profits from current production	680.5	-145.5	11.6	23.8	-74.3	-16.8	1.6	3.3	-9.9
Net cash flow	1,784.5	-169.8	6.0	32.5	-89.8	-8.5	0.3	1.8	-4.8

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 \$45.4 billion, or 2.3 percent at a quarterly rate, in the fourth quarter after increasing \$45.7 billion, or 2.4 percent, in the third quarter.

Domestic profits of financial corporations decreased \$3.5 billion, or 0.8 percent, after increasing \$68.1 billion, or 17.5 percent.

Domestic profits of nonfinancial corporations increased \$24.8 billion, or 2.3 percent, after decreasing \$14.1 billion, or 1.3 percent.

Profits from the rest of the world increased \$24.1 billion, or 5.6 percent, after decreasing \$8.2 billion, or 1.9 percent. In the fourth quarter, receipts increased \$35.7 billion, and payments increased \$11.6 billion.

Dividends increased \$124.3 billion, or 16.3 percent, after increasing \$12.8 billion, or 1.7 percent. The large fourth-quarter increase reflected accelerated and special dividends paid by corporations at the end of 2012 in anticipation of changes to individual income tax rates.

Net cash flow decreased \$89.8 billion, or 4.8 percent, after increasing \$32.5 billion, or 1.8 percent. Net cash flow is a profits-related measure of the internal funds available to corporations for investment.

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 5. Corporate Profits by Industry
[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change from preceding quarter (quarterly rate)			
	Level	Change from preceding quarter							
	2012	2012				2012			
	IV	I	II	III	IV	I	II	III	IV
Industry profits:									
Profits with IVA.....	2,212.5	177.3	23.5	43.2	45.0	9.2	1.1	2.0	2.1
Domestic industries.....	1,760.1	225.4	-10.2	51.5	20.9	15.3	-0.6	3.1	1.2
Financial.....	506.2	12.1	-39.3	67.7	-3.4	2.6	-8.2	15.3	-0.7
Nonfinancial.....	1,253.9	213.4	29.0	-16.2	24.3	21.3	2.4	-1.3	2.0
Utilities.....	34.6	23.2	3.0	0.7	-7.4	154.4	7.7	1.9	-17.6
Manufacturing.....	382.9	77.6	9.3	-5.2	15.3	27.2	2.5	-1.4	4.2
Wholesale trade.....	142.7	28.6	15.0	-19.4	12.5	27.0	11.2	-12.9	9.6
Retail trade.....	146.4	17.7	-2.2	1.9	8.1	14.7	-1.6	1.4	5.9
Transportation and warehousing.....	51.3	7.2	-1.7	-0.4	-3.3	14.4	-3.0	-0.7	-6.0
Information.....	103.2	24.4	8.8	-0.5	-14.9	28.5	8.0	-0.4	-12.6
Other nonfinancial...	392.6	34.7	-3.1	6.5	13.9	10.2	-0.8	1.8	3.7
Rest of the world.....	452.4	-48.0	33.6	-8.2	24.1	-10.7	8.4	-1.9	5.6
Addenda:									
Profits before tax (without IVA and CCAAdj).....	2,221.7	188.1	-16.3	86.2	27.3	9.7	-0.8	4.1	1.2
Profits after tax (without IVA and CCAAdj).....	1,773.7	104.8	-6.0	77.1	31.7	6.7	-0.4	4.6	1.8
IVA.....	-9.2	-10.8	39.7	-42.8	17.6	.....	.....	.....	.....
CCAAdj.....	-199.5	-230.3	-1.7	2.4	0.5	.....	.....	.....	.....

Profits with inventory valuation adjustment (IVA) increased \$45.0 billion, or 2.1 percent at a quarterly rate, in the fourth quarter after increasing \$43.2 billion, or 2.0 percent, in the third quarter.

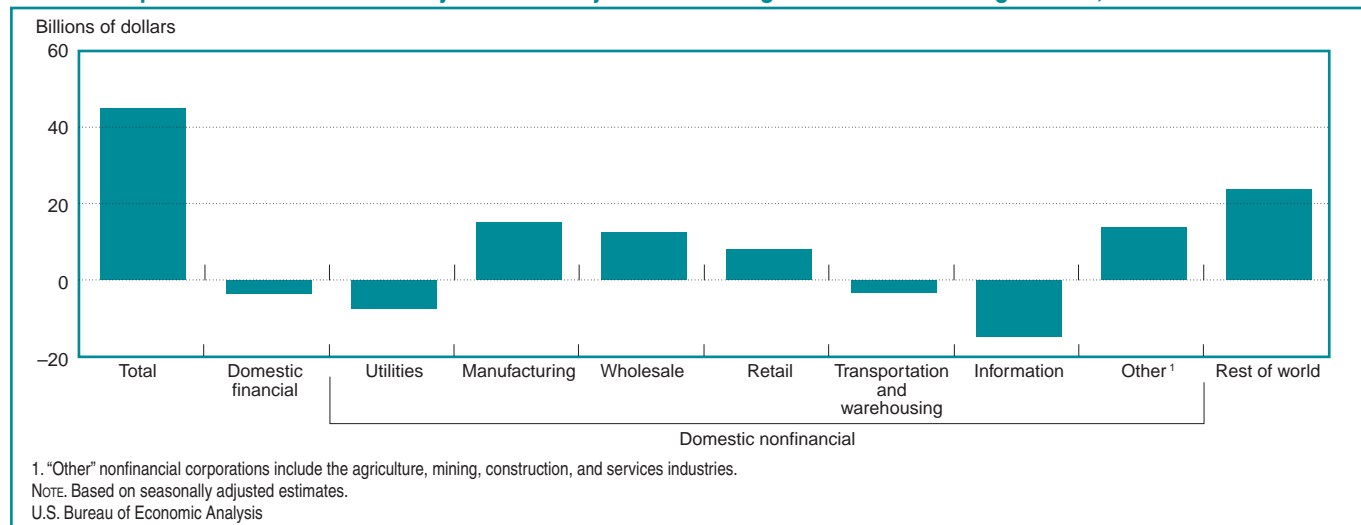
Profits of domestic industries increased \$20.9 billion, or 1.2 percent, after increasing \$51.5 billion, or 3.1 percent.

Profits of domestic financial industries decreased \$3.4 billion, or 0.7 percent, after increasing \$67.7 billion, or 15.3 percent.

Profits of domestic nonfinancial industries increased \$24.3 billion, or 2.0 percent, after decreasing \$16.2 billion, or 1.3 percent. The increase primarily reflected increases in manufacturing, in "other" nonfinancial, and in wholesale trade that were partly offset by a decrease in information. In manufacturing, the largest increase was in petroleum and coal products.

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
CCAAdj Capital consumption adjustment

Chart 2. Corporate Profits With Inventory Valuation Adjustment: Change From the Preceding Quarter, 2012: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 (CCAAdj) for

each industry. However, estimates of the CCAAdj 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* at www.bea.gov/methodologies/index.htm.