GDP and the Economy

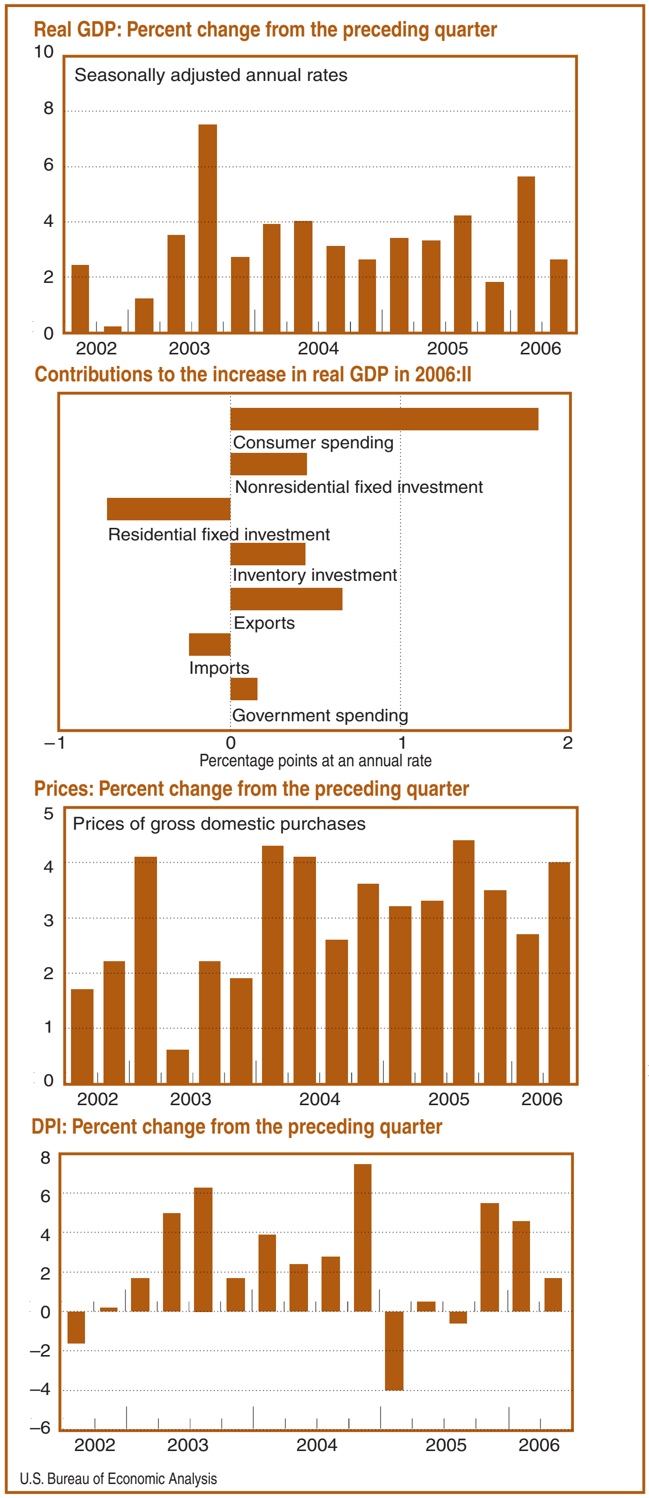
Final Estimates for the Second Quarter of 2006

REAL gross domestic product (GDP) slowed and inflation accelerated in the second quarter of 2006, according to the "final" estimates of the national income and product accounts (NIPAs).[1] Real GDP increased 2.6 percent, revised down 0.3 percentage point from the "preliminary" estimate, after a 5.6-percent increase in the first quarter (chart 1 and table 1).[2]

The slowdown primarily reflected downturns in consumer spending for durable goods, in business investment in equipment and software, and in Federal Government spending; decelerations in consumer spending for nondurable goods and in exports; and a larger decrease in residential fixed investment. The slowdown was softened somewhat by a deceleration in imports, an acceleration in consumer spending for services, and an upturn in inventory investment.[3]

- Corporate profits increased $22.7 billion (1.4 percent at a quarterly rate) after increasing $175.6 billion (12.6 percent) in the first quarter.
- Prices of goods and services purchased by U.S. residents increased 4.0 percent, following a 2.7-percent increase. The acceleration reflected a sharp upturn in energy prices that was muted somewhat by a deceleration in food prices.
- Real disposable personal income (DPI) increased 1.7 percent, 0.2 percentage point more than the "preliminary" estimate, following a 4.6-percent increase (revised).
- The personal saving rate, personal saving as a percentage of current-dollar DPI, was –0.6 percent; in the first quarter, it was –0.3 percent.
- Real gross national product (GNP) increased 2.3 percent in the second quarter, compared with a 6.1-percent increase.

Chart 1. GDP, Prices, Disposable Personal Income (DPI)



1. Each GDP estimate for a quarter (advance, preliminary, and final) incorporates increasingly comprehensive and improved source data. More information can be found at <www.bea.gov/bea/about/infoqual.htm> and <www.bea.gov/bea/faq/national/gdp_accuracy.htm>. Quarterly estimates are expressed at seasonally adjusted annual rates, a value that assumes the rate of activity for a quarter were maintained for a year.

2. "Real" estimates are in chained (2000) dollars, and price indexes are chain-type measures.

3. In this article, "consumer spending" refers to the NIPA series "personal consumption expenditures," "inventory investment" refers to the NIPA series "change in private inventories," and "Federal Government spending" refers to "Federal Government consumption expenditures and gross investment."

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)			
	2006	2005		2006		2005		2006	
	II	III	IV	I	II	III	IV	I	II
Gross domestic product[1]	**100.0**	**4.2**	**1.8**	**5.6**	**2.6**	**4.2**	**1.8**	**5.6**	**2.6**
Personal consumption expenditures	**69.9**	**3.9**	**0.8**	**4.8**	**2.6**	**2.76**	**0.53**	**3.38**	**1.81**
Durable goods	8.0	9.0	–12.3	19.8	–0.1	0.74	–1.08	1.50	–0.01
Nondurable goods	20.6	3.4	3.9	5.9	1.4	0.70	0.79	1.20	0.30
Services	41.3	3.2	2.0	1.6	3.7	1.32	0.83	0.67	1.52
Gross private domestic investment	**17.0**	**5.2**	**16.2**	**7.8**	**1.0**	**0.84**	**2.51**	**1.31**	**0.17**
Fixed investment	16.5	6.3	2.8	8.2	–1.6	1.02	0.46	1.34	–0.27
Nonresidential	10.5	5.9	5.2	13.7	4.4	0.59	0.52	1.36	0.45
Structures	3.1	–7.0	12.0	8.7	20.3	–0.20	0.31	0.25	0.56
Equipment and software	7.4	11.0	2.8	15.6	–1.4	0.78	0.21	1.11	–0.10
Residential	6.0	7.1	–0.9	–0.3	–11.1	0.43	–0.06	–0.02	–0.72
Change in private inventories	0.5	....	....	....	....	–0.18	2.05	–0.03	0.44
Net exports of goods and services	**–5.9**	....	....	....	....	**–0.06**	**–1.07**	**–0.04**	**0.42**
Exports	11.0	3.2	9.6	14.0	6.2	0.33	0.97	1.41	0.66
Goods	7.7	3.7	11.5	17.3	6.0	0.27	0.80	1.20	0.45
Services	3.3	2.1	5.5	6.7	6.7	0.06	0.17	0.21	0.21
Imports	16.9	2.5	13.2	9.1	1.4	–0.39	–2.04	–1.46	–0.24
Goods	14.2	2.7	14.1	9.4	–0.1	–0.36	–1.84	–1.27	0.01
Services	2.7	1.2	8.3	7.4	9.9	–0.03	–0.20	–0.19	–0.25
Government consumption expenditures and gross investment	**19.0**	**3.4**	**–1.1**	**4.9**	**0.8**	**0.64**	**–0.21**	**0.94**	**0.16**
Federal	7.0	9.6	–4.6	8.8	–4.5	0.66	–0.33	0.61	–0.32
National defense	4.7	11.2	–9.9	8.9	–2.0	0.52	–0.49	0.41	–0.09
Nondefense	2.3	6.2	7.1	8.5	–9.3	0.14	0.16	0.20	–0.23
State and local	12.1	–0.1	1.0	2.7	4.0	–0.01	0.13	0.33	0.48
Addenda:									
Final sales of domestic product	....	4.4	–0.3	5.6	2.1	4.36	–0.28	5.61	2.11
Gross domestic purchases price index	....	4.4	3.5	2.7	4.0	....	....	....	....
GDP price index	....	3.3	3.3	3.3	3.3	....	....	....	....

1. The estimates for 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.

Consumer spending decelerated, increasing 2.6 percent after increasing 4.8 percent, and accounted for about half of the slowdown in real GDP. Durable goods spending turned down, reflecting a downturn in motor vehicles and parts and a slowdown in furniture and household equipment. Nondurable-goods spending decelerated. Spending for services accelerated, driven by an upturn in electricity and gas.

Nonresidential fixed investment slowed, increasing 4.4 percent after increasing 13.7 percent. The slowdown was attributable to a downturn in investment in equipment and software, which was moderated by a sharp acceleration in investment in structures.

Residential investment decreased 11.1 percent, the third consecutive decrease and the largest decrease since the second quarter of 1995.

Inventory investment turned up, adding 0.44 percentage point to real GDP growth; inventory investment by mining, utilities, and construction industries and by merchant wholesalers increased.

Exports slowed, increasing 6.2 percent after increasing 14.0 percent; goods exports decelerated sharply.

Imports decelerated, increasing 1.4 percent after a 9.1-percent increase, reflecting a downturn in goods imports. In contrast, services imports accelerated.

Federal Government spending turned down, decreasing 4.5 percent after increasing 8.8 percent.

Real final sales of domestic product (real GDP less inventory investment) slowed, increasing 2.1 percent after increasing 5.6 percent.

GDP and Gross Domestic Purchases

In addition to gross domestic product (GDP), another related measure of economic growth—gross domestic purchases—is included in the national income and product accounts (NIPAs).

GDP measures the market value of final goods and services produced by labor and property in the United States, including the goods that are added to, or subtracted from, inventories. GDP is defined as the sum of consumer spending, business and residential investment, inventory investment, government spending, and exports less imports.

Gross domestic purchases is defined as GDP less exports plus imports. It measures domestic demand for goods and services regardless of their origin. Exports represent foreign demand for U.S. goods and services. Subtracting exports from GDP yields a measure of expenditures that focuses on domestic buyers. Imports can be viewed as the value of goods and services that exceed the domestic supply and that expand the consumption and investment alternatives for domestic purchasers.

Differences between GDP and gross domestic purchases reflect patterns in imports less exports: As imports exceed exports, gross domestic purchases exceeds GDP.

For annual and quarterly estimates of these measures, see NIPA tables 1.4.1 and 1.4.3–1.4.6.

For more information on GDP and gross domestic purchases, see also "A Guide to National Income and Product Accounts of the United States" on BEA's Web site at <www.bea.gov/bea/an/nipaguid.pdf>.

Revisions to GDP

Table 2. Preliminary and Final Estimates for the Second Quarter of 2006

[Seasonally adjusted at annual rates]

	Change from preceding quarter (percent)			Contribution to percent change in real GDP (percentage points)		
	Prelim-inary	Final	Final minus prelim-inary	Prelim-inary	Final	Final minus prelim-inary
Gross domestic product (GDP)[1]	**2.9**	**2.6**	**–0.3**	**2.9**	**2.6**	**–0.3**
Personal consumption expenditures	**2.6**	**2.6**	**0.0**	**1.80**	**1.81**	**0.01**
Durable goods	0.5	–0.1	–0.6	0.04	–0.01	–0.05
Nondurable goods	1.7	1.4	–0.3	0.34	0.30	–0.04
Services	3.5	3.7	0.2	1.42	1.52	0.10
Gross private domestic investment	**2.8**	**1.0**	**–1.8**	**0.47**	**0.17**	**–0.30**
Fixed investment	–0.9	–1.6	–0.7	–0.15	–0.27	–0.12
Nonresidential	4.7	4.4	–0.3	0.48	0.45	–0.03
Structures	22.2	20.3	–1.9	0.60	0.56	–0.04
Equipment and software	–1.6	–1.4	0.2	–0.12	–0.10	0.02
Residential	–9.8	–11.1	–1.3	–0.63	–0.72	–0.09
Change in private inventories	....	....	....	0.63	0.44	–0.19
Net exports of goods and services	....	....	....	**0.44**	**0.42**	**–0.02**
Exports	5.1	6.2	1.1	0.54	0.66	0.12
Goods	5.5	6.0	0.5	0.42	0.45	0.03
Services	3.9	6.7	2.8	0.13	0.21	0.08
Imports	0.6	1.4	0.8	–0.10	–0.24	–0.14
Goods	–0.1	–0.1	0.0	0.02	0.01	–0.01
Services	4.5	9.9	5.4	–0.12	–0.25	–0.13
Government consumption expenditures and gross investment	**0.9**	**0.8**	**–0.1**	**0.18**	**0.16**	**–0.02**
Federal	–4.3	–4.5	–0.2	–0.31	–0.32	–0.01
National defense	–1.8	–2.0	–0.2	–0.08	–0.09	–0.01
Nondefense	–9.3	–9.3	0.0	–0.23	–0.23	0.00
State and local	4.2	4.0	–0.2	0.49	0.48	–0.01
Addenda:						
Final sales of domestic product	2.3	2.1	–0.2	2.27	2.11	–0.16
Gross domestic purchases price index	4.0	4.0	0.0	....	....	....
GDP price index	3.3	3.3	0.0	....	....	....

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

The 2.6-percent final estimate of real GDP growth is 0.3 percentage point less than the preliminary estimate. The downward revision primarily reflected a downward revision to private inventory investment, an upward revision to imports of services, and a downward revision to residential fixed investment. An upward revision to PCE for services muted the downward revisions. For 1978–2005, the revisions, without regard to sign, averaged 0.3 percentage point from the preliminary to final estimates.

PCE for services was revised up 0.2 percentage point, reflecting upward revisions to "other" household operation and to recreation.

Residential fixed investment was revised down 1.3 percentage points, largely reflecting a revision to single-family structures.

The downward revision to private inventory investment reflected revisions to both nonfarm and farm industries. Within nonfarm industries, the largest contributor to the downward revision was durable-goods manufacturing.

Imports of services was revised up 5.4 percentage points. The largest contributor was royalties and license fees.

Source Data for the Final Estimates

The final estimates of gross domestic product for the second quarter incorporated the following source data.

Personal consumption expenditures: Retail sales for June (revised). Quarterly services survey for the second quarter (new).

Nonresidential fixed investment: Construction put-in-place data for May and June (revised).

Residential fixed investment: Construction put-in-place data for May and June (revised).

Change in private inventories: Manufacturers' and trade inventories for June (revised).

Exports and imports of goods and services: International transactions accounts data for the first and second quarters (revised).

Government consumption expenditures and gross investment: State and local government construction put-in-place data for May and June (revised).

GDP prices: Export and import prices for April through June (revised), unit value index for petroleum imports for June (revised), and prices of single-family houses under construction for the second quarter (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							
	2006	2005		2006		2005		2006	
	II	III	IV	I	II	III	IV	I	II
Current production measures:									
Corporate profits	1,591.8	–76.6	127.2	175.6	22.7	–5.7	10.0	12.6	1.4
Domestic industries	1,351.9	–114.8	154.3	145.8	8.9	–9.9	14.8	12.2	0.7
Financial	483.9	–77.2	94.7	51.4	41.7	–20.7	32.0	13.1	9.4
Nonfinancial	868.1	–37.5	59.6	94.5	–32.8	–4.8	8.0	11.7	–3.6
Rest of the world	239.9	38.2	–27.1	29.8	13.8	20.6	–12.1	15.2	6.1
Receipts from the rest of the world	402.0	16.6	16.6	15.7	25.7	5.1	4.8	4.4	6.8
Less: Payments to the rest of the world	162.1	–21.7	43.7	–14.0	11.9	–15.2	36.3	–8.5	7.9
Less: Taxes on corporate income	476.1	–13.9	45.7	32.3	19.2	–3.5	12.1	7.6	4.2
Equals: Profits after tax	1,115.7	–62.6	81.4	143.2	3.6	–6.6	9.2	14.8	0.3
Net dividends	631.1	15.8	17.0	14.7	15.4	2.8	2.9	2.5	2.5
Undistributed profits from current production	484.6	–78.4	64.4	128.5	–11.8	–20.5	21.2	34.9	–2.4
Net cash flow	1,350.3	20.9	–6.8	125.3	1.1	1.7	–0.5	10.2	0.1

NOTE. Levels of these and other profits series are shown in NIPA tables 1.12, 1.14, 1.15, and 6.16D.

Corporate profits from current production increased $22.7 billion, or 1.4 percent at a quarterly rate, after increasing $175.6 billion, or 12.6 percent.

Profits of financial corporations increased 9.4 percent after increasing 13.1 percent.

Profits of nonfinancial corporations decreased 3.6 percent after increasing 11.7 percent.

Taxes on corporate income increased 4.2 percent after increasing 7.6 percent.

After-tax profits increased 0.3 percent, following a 14.8-percent increase.

Undistributed corporate profits (a measure of net saving that equals after-tax profits less dividends) decreased 2.4 percent, following a 34.9-percent increase.

Net cash flow from current production (a profits-related measure of internally generated funds available for investment) increased 0.1 percent after increasing 10.2 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. This measure is partly based on tax return information from the Internal Revenue Service; BEA uses tax accounting measures as a source of information on profits for two reasons: They are based on well-specified accounting definitions, and they are comprehensive, covering all incorporated businesses—publicly traded and privately held—in all industries. BEA also uses other sources of information to estimate pretax profits, including information from the Census Bureau.

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 consumption of fixed capital (the decline in the value of the stock of assets due to wear and tear, obsolescence, accidental damage, and aging) and capital consumption allowances (tax return depreciation).

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							
	2006	2005		2006		2005		2006	
	II	III	IV	I	II	III	IV	I	II
Industry profits:									
Profits with IVA	1,752.6	−42.5	114.2	158.6	34.9	−2.9	7.9	10.2	2.0
Domestic industries	1,512.7	−80.7	141.3	128.8	21.1	−6.2	11.6	9.5	1.4
Financial	508.2	−74.3	95.9	50.6	44.3	−19.0	30.2	12.2	9.5
Nonfinancial	1,004.5	−6.4	45.3	78.3	−23.2	−0.7	5.0	8.2	−2.3
Utilities	46.8	−8.5	15.9	1.4	7.1	−27.5	71.4	3.7	17.7
Manufacturing	289.9	−3.3	−1.8	41.8	−10.8	−1.3	−0.7	16.1	−3.6
Wholesale trade	98.3	−8.0	11.8	1.3	−8.9	−7.8	12.5	1.1	−8.3
Retail trade	121.2	8.6	13.2	−6.1	−1.8	8.0	11.3	−4.7	−1.4
Transportation and warehousing	38.6	1.1	−4.1	8.3	11.3	5.3	−17.8	43.4	41.4
Information	85.9	−2.1	5.8	6.2	−3.9	−2.6	7.5	7.4	−4.4
Other nonfinancial	323.9	5.8	4.5	25.5	−16.2	1.9	1.4	8.1	−4.7
Rest of the world	239.9	38.2	−27.1	29.8	13.8	20.6	−12.1	15.2	6.1
Addenda:									
Profits before tax (without IVA and CCAdj)	1,811.5	−32.5	122.5	142.3	70.9	−2.2	8.3	8.9	4.1
Profits after tax (without IVA and CCAdj)	1,335.4	−18.6	76.8	110.0	51.7	−1.7	7.0	9.4	4.0
IVA	−58.9	−9.9	−8.3	16.3	−36.0	....	....	....	....
CCAdj	−160.8	−34.1	13.0	17.0	−12.2	....	....	....	....

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

Industry profits with inventory valuation adjustment increased $34.9 billion, or 2.0 percent at a quarterly rate. This increase is larger than the increase in profits from current production because it excludes the capital consumption adjustment, which fell $12.2 billion in the second quarter.

Profits of domestic financial industries decelerated, increasing $44.3 billion, or 9.5 percent.

Profits of utilities industries accelerated, increasing $7.1 billion, or 17.7 percent.

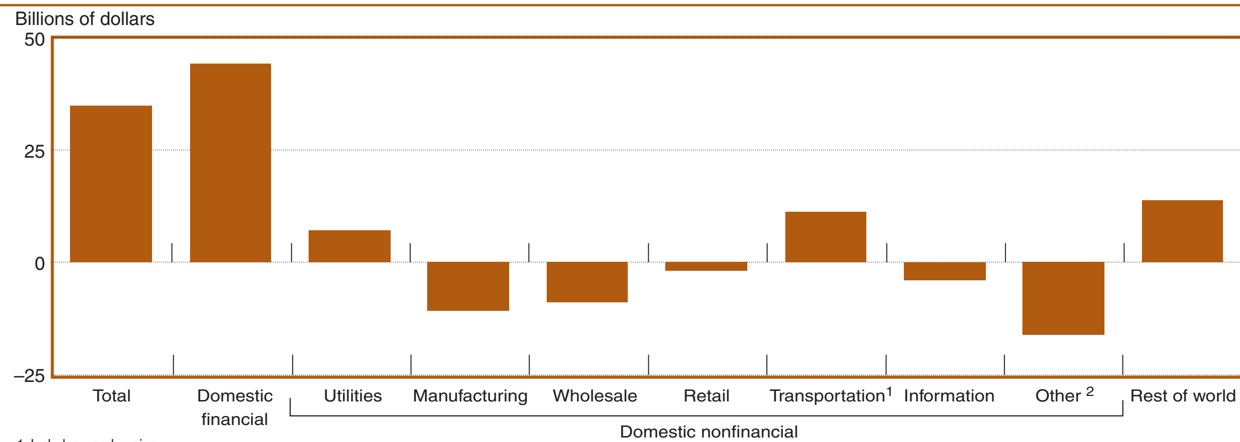
Profits of manufacturing industries turned down, decreasing $10.8 billion, or 3.6 percent.

Profits of wholesale trade industries turned down, decreasing $8.9 billion, or 8.3 percent.

Profits of transportation and warehousing industries accelerated, increasing $11.3 billion, or 41.4 percent.

Profits from the rest of the world decelerated, increasing $13.8 billion, or 6.1 percent.

Chart 2. Corporate Profits With Inventory Valuation Adjustment: Change From the Preceding Quarter, 2006:II



1. Includes warehousing.
2. "Other" nonfinancial corporations include the agriculture, mining, construction, and services industries.
NOTE. Based on seasonally adjusted estimates.

U.S. Bureau of Economic Analysis

Corporate Profits by Industry

Industry profits are corporate profits by industry with inventory valuation adjustment (IVA). The IVA removes the effect of prices 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: Profits Before Tax, Profits Tax Liability, and Dividends" at <www.bea.gov/bea/mp_national.htm>.