

GDP and the Economy

Final Estimates for the First Quarter of 2006

REAL gross domestic product (GDP) accelerated in the first quarter of 2006, and inflation moderated, according to the “final” estimates of the national income and product accounts (NIPAs).¹ Real GDP increased 5.6 percent, the fastest rate of growth since the third quarter of 2003 (chart 1 and table 1).² The final estimate of GDP was 0.3 percentage point more than the “preliminary” estimate released in May. The revision to the final estimate primarily reflected a downward revision to imports.

The first-quarter step-up in real GDP mainly reflected an upturn in consumer spending on durable goods, an acceleration in exports, an upturn in Federal Government spending, and a pickup in equipment and software investment. Growth was muted by a downturn in inventory investment.

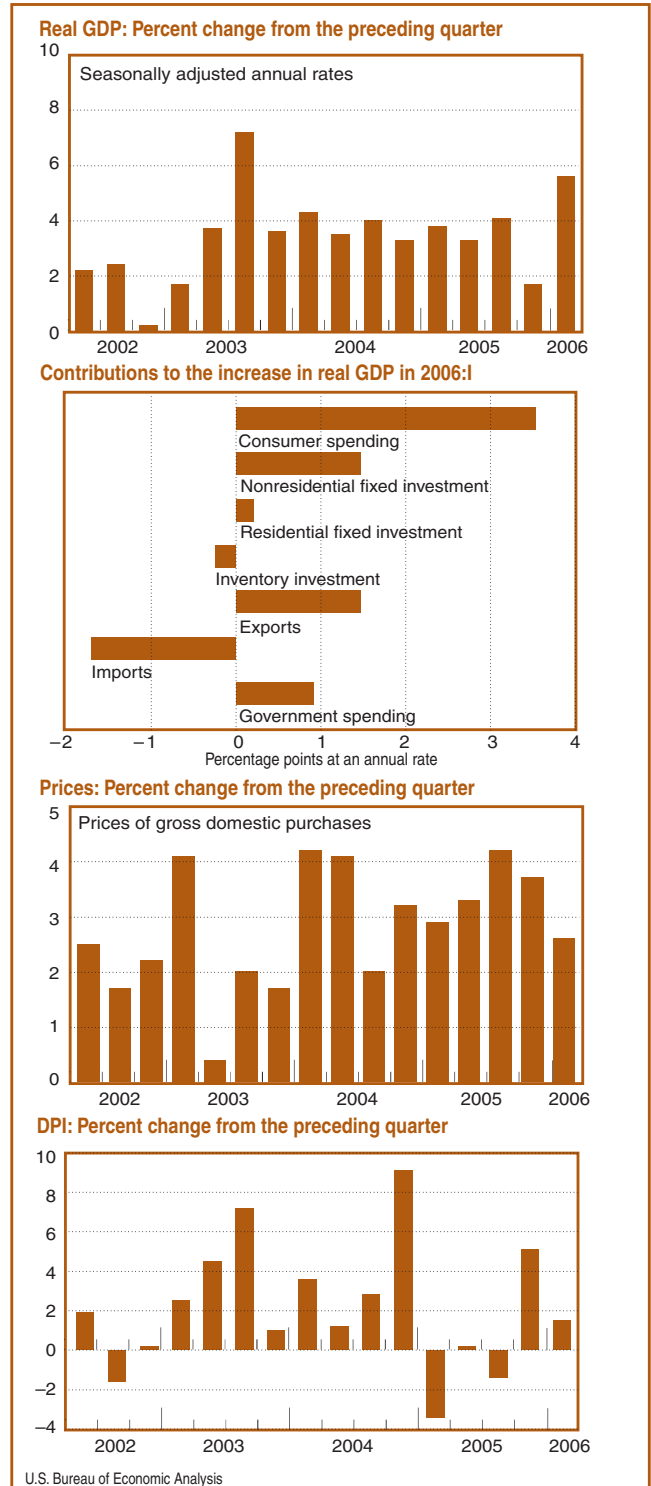
- Corporate profits increased \$176.7 billion (11.9 percent at a quarterly rate) after increasing \$185.8 billion (14.4 percent) in the fourth quarter (page 4).
- Prices of goods and services purchased by U.S. residents increased 2.6 percent, 0.2 percentage point less than the preliminary estimate, after increasing 3.7 percent in the fourth quarter. The deceleration primarily reflected the quarterly pattern of food and energy prices. Excluding food and energy prices, prices rose 3.0 percent after increasing 3.2 percent.
- Real disposable personal income (DPI) increased 1.5 percent, 0.6 percentage point less than the preliminary estimate, mainly because of a downward revision to current-dollar DPI that reflected downward revisions to supplements to wages and salaries and to personal interest income. Real DPI increased 5.1 percent in the fourth quarter.
- Real gross national product increased 6.2 percent after increasing 0.7 percent. The first-quarter increase is 0.6 percentage point more than the increase in real GDP, reflecting an increase in net receipts of income from the rest of the world.

1. Three GDP estimates for each quarter are prepared—advance, preliminary, and final estimates. Each incorporates increasingly comprehensive and improved source data. Quarterly estimates are expressed at seasonally adjusted annual rates. Additional information can be found at <www.bea.gov/bea/about/infoqual.htm> and at <www.bea.gov/bea/faq/national/gdp_accuracy.htm>.

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

Christopher Swann prepared this article.

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



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				
	I	II	III	IV	I	II	III	IV	I	II	III	IV	
Gross domestic product¹.....	100.0	3.3	4.1	1.7	5.6	3.3	4.1	1.7	5.6	3.3	4.1	1.7	5.6
Personal consumption expenditures.....	69.6	3.4	4.1	0.9	5.1	2.35	2.85	0.62	3.53				
Durable goods.....	8.0	7.9	9.3	-16.6	20.3	0.64	0.76	-1.47	1.51				
Nondurable goods.....	20.6	3.6	3.5	5.0	5.9	0.74	0.73	1.02	1.21				
Services.....	41.0	2.3	3.3	2.6	1.9	0.97	1.36	1.08	0.81				
Gross private domestic investment.....	17.4	-3.7	5.3	16.1	8.4	-0.63	0.87	2.54	1.44				
Fixed investment.....	17.2	9.5	8.0	3.9	10.1	1.51	1.31	0.65	1.68				
Nonresidential.....	11.0	8.8	8.5	4.5	14.2	0.90	0.88	0.48	1.47				
Structures.....	2.9	2.7	2.2	3.1	12.5	0.07	0.06	0.09	0.34				
Equipment and software.....	8.1	10.9	10.6	5.0	14.8	0.83	0.82	0.39	1.13				
Residential.....	6.2	10.8	7.3	2.8	3.3	0.62	0.43	0.17	0.21				
Change in private inventories.....	0.2					-2.14	-0.43	1.89	-0.24				
Net exports of goods and services.....	-6.0					1.11	-0.12	-1.36	-0.24				
Exports.....	10.7	10.7	2.5	5.1	14.7	1.07	0.26	0.52	1.47				
Goods.....	7.5	16.0	3.2	8.0	18.5	1.08	0.23	0.56	1.27				
Services.....	3.1	-0.4	1.0	-1.4	6.3	-0.01	0.03	-0.05	0.19				
Imports.....	16.7	-0.3	2.4	12.1	10.7	0.04	-0.38	-1.88	-1.70				
Goods.....	14.1	-1.1	3.5	13.5	11.1	0.15	-0.46	-1.76	-1.49				
Services.....	2.6	4.4	-3.2	4.8	8.5	-0.11	0.09	-0.12	-0.21				
Government consumption expenditures and gross investment.....	19.0	2.5	2.9	-0.8	4.8	0.47	0.54	-0.15	0.91				
Federal.....	7.1	2.4	7.4	-2.6	10.5	0.17	0.52	-0.18	0.72				
National defense.....	4.7	3.7	10.0	-8.9	9.6	0.17	0.46	-0.44	0.44				
Nondefense.....	2.4	-0.2	2.4	11.7	12.2	-0.01	0.06	0.26	0.28				
State and local.....	11.9	2.6	0.2	0.2	1.6	0.31	0.03	0.03	0.19				
Addenda:													
Final sales of domestic product ..		5.6	4.6	-0.2	5.9	5.45	4.58	-0.24	5.88				
Gross domestic purchases price index.....		3.3	4.2	3.7	2.6								
GDP price index.....		2.6	3.3	3.5	3.1								

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

NOTE. Percent changes are from NIPA table 1.1.1, and contributions to percent change are from NIPA table 1.1.2. Shares are from NIPA table 1.1.10.

Consumer spending accelerated sharply, increasing 5.1 percent and contributing 3.53 percentage points to real GDP growth after increasing 0.9 percent and contributing 0.62 percentage point. The surge mainly reflected an upturn in motor vehicles and parts, particularly in spending for trucks and recreational vehicles and for new cars.

Nonresidential fixed investment increased 14.2 percent and contributed 1.47 percentage points to real GDP growth. The pickup reflected upturns in transportation equipment and in other information processing equipment and software.

Inventory investment turned down and subtracted 0.24 percentage point from real GDP growth, reflecting a downturn by retail automobile dealers.

Exports accelerated sharply, increasing 14.7 percent and contributing 1.47 percentage points to real GDP growth. Goods exports surged. Nondurable industrial supplies and materials and "other" exports turned up. Foods, feeds, and beverages accelerated. "Other" capital goods and automotive vehicles, engines, and parts decelerated. Services exports turned up.

Imports decelerated, increasing 10.7 percent and subtracting 1.70 percentage points from real GDP growth. The deceleration mainly reflected a deceleration in goods imports, which primarily reflected downturns in petroleum and products and in nondurable nonpetroleum industrial supplies and materials.

Federal spending increased 10.5 percent and contributed 0.72 percentage point to real GDP growth.

Real final sales of domestic product—real GDP less the change in private inventories—turned up.

Measuring Saving

The gross saving rate (saving from all sources as a percentage of gross national income) was 14.1 percent in the first quarter of 2006, compared with 13.3 percent in the fourth quarter of 2005.

Net saving, which excludes the consumption of fixed capital, is a measure of the saving that is available for augmenting the stock of fixed assets. The net saving rate was 2.5 percent, compared with -1.3 percent in the fourth quarter.

Personal saving is defined as disposable personal income less consumer spending, interest paid by persons, and personal transfer payments to the rest of the world. The per-

sonal saving rate, which measures personal saving as a percentage of disposable personal income, was -1.4 percent in the first quarter. The rate has been negative for the last four quarters and has been declining steadily since the 1980s.

For more information, see Marshall Reinsdorf, "Saving, Wealth, Investment, and the Current-Account Deficit," SURVEY OF CURRENT BUSINESS 85 (April 2005): 3. Compare personal saving in the NIPAs with personal saving in the Federal Reserve Board's flow of funds accounts at <www.bea.gov/bea/dn/nipaweb/Nipa-Frb.asp>.

Revisions to GDP

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

[Seasonally adjusted at annual rates]

	Change from preceding quarter (percent)			Contribution to percent change in real GDP (percentage points)		
	Preliminary	Final	Final minus preliminary	Preliminary	Final	Final minus preliminary
Gross domestic product (GDP)¹	5.3	5.6	0.3	5.3	5.6	0.3
Personal consumption expenditures	5.2	5.1	-0.1	3.63	3.53	-0.10
Durable goods.....	20.5	20.3	-0.2	1.51	1.51	0.00
Nondurable goods.....	5.7	5.9	0.2	1.18	1.21	0.03
Services.....	2.2	1.9	-0.3	0.94	0.81	-0.13
Gross private domestic investment	8.3	8.4	0.1	1.41	1.44	0.03
Fixed investment.....	9.3	10.1	0.8	1.56	1.68	0.12
Nonresidential.....	13.1	14.2	1.1	1.37	1.47	0.10
Structures.....	11.3	12.5	1.2	0.31	0.34	0.03
Equipment and software.....	13.8	14.8	1.0	1.05	1.13	0.08
Residential.....	3.1	3.3	0.2	0.19	0.21	0.02
Change in private inventories.....				-0.14	-0.24	-0.10
Net exports of goods and services				-0.55	-0.24	0.31
Exports.....	14.7	14.7	0.0	1.47	1.47	0.00
Goods.....	20.8	18.5	-2.3	1.42	1.27	-0.15
Services.....	1.5	6.3	4.8	0.05	0.19	0.14
Imports.....	12.8	10.7	-2.1	-2.02	-1.70	0.32
Goods.....	13.9	11.1	-2.8	-1.85	-1.49	0.36
Services.....	6.9	8.5	1.6	-0.17	-0.21	-0.04
Government consumption expenditures and gross investment	4.3	4.8	0.5	0.82	0.91	0.09
Federal.....	10.5	10.5	0.0	0.71	0.72	0.01
National defense.....	9.6	9.6	0.0	0.43	0.44	0.01
Nondefense.....	12.2	12.2	0.0	0.28	0.28	0.00
State and local.....	0.8	1.6	0.8	0.10	0.19	0.09
Addenda:						
Final sales of domestic product.....	5.5	5.9	0.4	5.45	5.88	0.43
Gross domestic purchases price index.....	2.8	2.6	-0.2			
GDP price index.....	3.3	3.1	-0.2			

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

The final estimate of real GDP growth is 0.3 percentage point more than the preliminary estimate. The upward revision primarily reflects a downward revision to imports. (For the period 1978–2004, the revisions—without regard to sign—averaged 0.3 percentage point from the preliminary estimates to the final estimates.)

Imports were revised down 2.1 percentage points, primarily reflecting downward revisions to nonautomotive consumer goods and to nonpetroleum industrial supplies and materials.

The revision to the gross domestic purchases price index was primarily accounted for by downward revisions to the residential fixed investment price index, which was based on a revision to the Census Bureau's one-unit deflator, and to the state and local consumption expenditures deflator, which was based on revised employer contributions for group health insurance.

Source Data for the Final Estimates

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

Personal consumption expenditures: Retail sales for March (revised). Gasoline sales for March (revised). Electricity and natural gas sales to residential consumers for March (new).

Nonresidential fixed investment: Construction put-in-place data for February and March (revised) and manufacturers' shipments of machinery and equipment for March (revised). Exports and imports of equipment and software for March (revised).

Residential investment: Construction put in place for February and March (revised).

Change in private inventories: Manufacturers' and trade inventories for March (revised). Mining inventories for the first quarter (new).

Exports and imports of goods and services: Exports and imports of goods and services for October 2005 through March 2006, reflecting (on a "best-change" basis) the annual revision of BEA's international transactions accounts.

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

Compensation: Employment, average hourly earnings, and average weekly hours for March (revised) and data on employer costs for employee compensation for the first quarter (new).

GDP prices: Export and import prices for January through March (revised), unit value index for petroleum imports for March (revised), and prices of single-family houses under construction for the first 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		
	I	II	III	IV	I	II	III	IV	I
Current production measures:									
Corporate profits.....	1,655.6	59.3	-54.4	185.8	176.7	4.6	-4.0	14.4	11.9
Domestic industries.....	1,416.9	55.5	-80.4	200.4	146.6	5.1	-7.0	18.7	11.5
Financial.....	447.2	-26.9	-71.9	104.9	63.5	-7.1	-20.5	37.6	16.5
Nonfinancial.....	969.8	82.5	-8.5	95.5	83.2	11.5	-1.1	12.1	9.4
Rest of the world.....	238.7	3.7	25.9	-14.5	30.1	1.9	13.1	-6.5	14.4
Receipts from the rest of the world.....	372.6	14.7	10.1	18.3	16.0	4.7	3.1	5.4	4.5
Less: Payments to the rest of the world.....	134.0	10.9	-15.9	32.9	-14.0	9.1	-12.1	28.5	-9.5
Less: Taxes on corporate income....	447.7	9.9	-12.2	56.8	30.6	2.7	-3.3	15.8	7.3
Equals: Profits after tax.....	1207.9	49.4	-42.2	129.0	146.1	5.3	-4.3	13.8	13.8
Net dividends.....	548.8	11.4	13.8	15.3	13.4	2.3	2.7	2.9	2.5
Undistributed profits from current production.....	659.0	38.0	-56.1	113.8	132.6	8.8	-12.0	27.6	25.2
Net cash flow.....	1504.3	41.7	44.0	43.1	136.3	3.4	3.4	3.3	10.0

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 \$176.7 billion, or 11.9 percent at a quarterly rate, after increasing \$185.8 billion, or 14.4 percent, in the fourth quarter.

Profits of domestic industries increased \$146.6 billion, or 11.5 percent.

Profits of domestic financial corporations increased \$63.5 billion, or 16.5 percent.

Profits of domestic nonfinancial corporations increased \$83.2 billion, or 9.4 percent.

Profits from the rest of the world turned up, increasing \$30.1 billion, or 14.4 percent, after a 14.5-percent decline in the fourth quarter.

Taxes on corporate income increased 7.3 percent, compared with a 15.8-percent increase.

Undistributed corporate profits (a measure of net saving that equals after-tax profits less dividends) increased 25.2 percent, following a 27.6-percent increase.

Net cash flow from current production, a profits-related measure of internally generated funds available for investment, accelerated sharply, increasing \$136.3 billion, or 10.0 percent. In the fourth quarter, net cash flow increased \$43.1 billion, or 3.3 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			
	I	II	III	IV	I	II	III	IV	I	
Industry profits:										
Profits with IVA.....	1,686.8	54.1	-28.2	164.6	157.1	4.0	-2.0	12.1	10.3	
Domestic industries.....	1,448.2	50.4	-54.1	179.1	127.1	4.4	-4.5	15.7	9.6	
Financial.....	444.1	-27.7	-70.8	104.0	61.4	-7.4	-20.3	37.3	16.0	
Nonfinancial.....	1,004.1	78.1	16.7	75.0	65.8	10.2	2.0	8.7	7.0	
Utilities.....	39.9	2.7	-6.7	19.9	0.3	11.4	-25.5	100.6	0.8	
Manufacturing.....	273.1	34.5	13.9	19.7	34.8	20.3	6.8	9.0	14.6	
Wholesale trade.....	100.2	16.7	-2.7	5.2	-0.4	20.5	-2.7	5.4	-0.4	
Retail trade.....	122.8	4.5	7.8	13.5	-7.6	4.2	7.2	11.5	-5.8	
Transportation and warehousing.....	37.0	5.0	5.0	-3.8	7.9	21.6	18.1	-11.6	27.2	
Information.....	58.7	6.8	-3.3	3.8	4.7	14.5	-6.2	7.6	8.7	
Other nonfinancial.....	372.4	8.0	2.7	16.8	26.0	2.5	0.8	5.1	7.5	
Rest of the world.....	238.7	3.7	25.9	-14.5	30.1	1.9	13.1	-6.5	14.4	
Addenda:										
Profits before tax (without IVA and CCAdj).....	1,707.8	33.9	-19.6	177.5	137.7	2.5	-1.4	12.7	8.8	
Profits after tax (without IVA and CCAdj).....	1,260.1	24.0	-7.4	120.7	107.1	2.4	-0.7	11.7	9.3	
IVA.....	-21.0	20.2	-8.6	-12.9	19.4	
CCAdj.....	-31.3	5.2	-26.3	21.4	19.4	

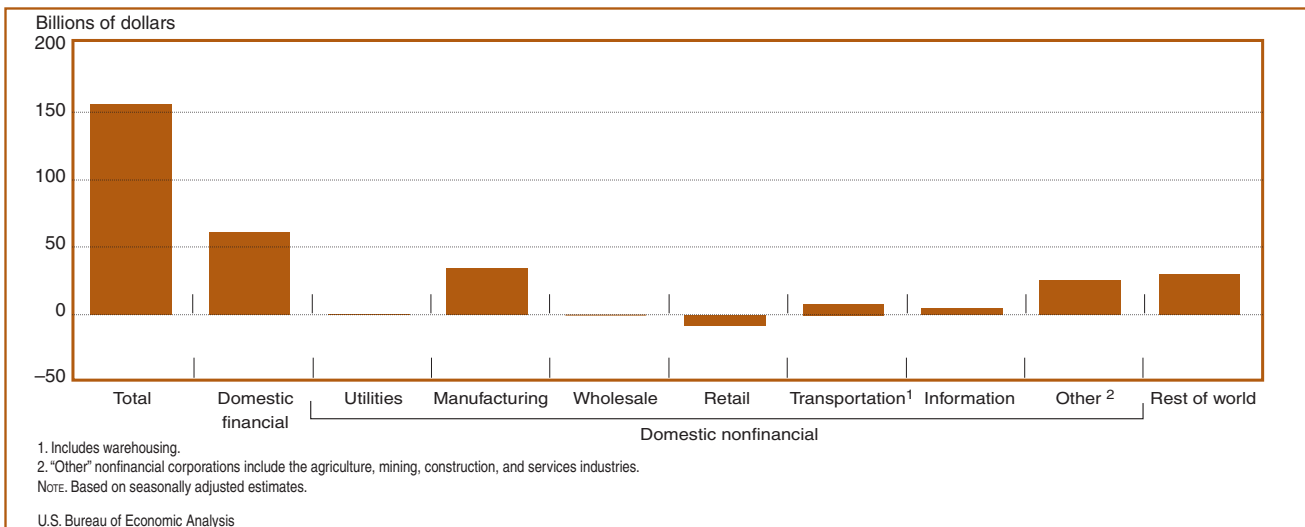
Industry profits with inventory valuation adjustment increased \$157.1 billion, or 10.3 percent at a quarterly rate. This increase is smaller than the increase in profits from current production because it excludes the estimates of capital consumption adjustment, which increased \$19.4 billion in the first quarter.

Profits of manufacturing industries accelerated, increasing \$34.8 billion, or 14.6 percent.

Profits of "other" nonfinancial industries accelerated, increasing \$26.0 billion, or 7.5 percent.

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, 2006:I



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 indus-

try. 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/beam_p_national.htm>.