



# Corporate Profits in the GDP Accounts

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*Economic Statistics...from Theory to Practice*  
National Association of Business Economics  
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# Profits Get Extensive Media Attention

- But what does this tell us about the economy?

	11	1	3	
↓ DJIA	10,440.05	-11.92		
↑ NASDAQ	2,015.27	+19.53		
↑ S&P 500	1,135.40	+0.79		
↑ Russell 3000	644.83	+0.86		

3:19 PM ET 4/19/04 © BigCharts.com



## Why BEA Profits?

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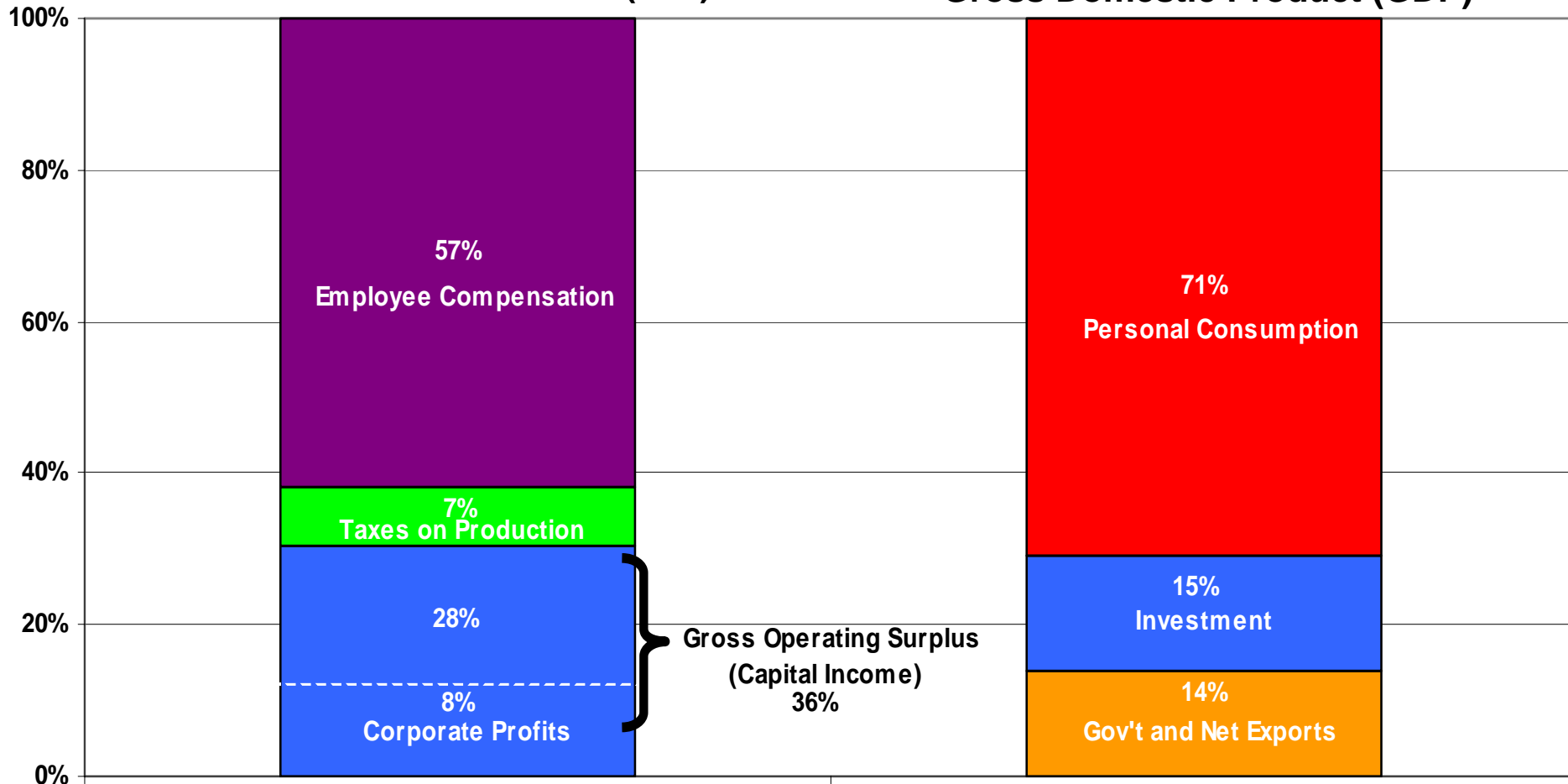
- **There is a need for a measure of corporate profits consistent with other macroeconomic measures in BEA's "U.S. economic accounts."**
- **BEA measure: Profits from Current Production (called "Corporate Profits with IVA and CCAAdj")**
  - Measures income earned by corporations from current production, before tax liability
  - Excludes financing flows and capital gains and losses
  - Values inventory withdrawals at current cost (adjustment called the "IVA")
  - Estimates economic depreciation at current cost (adjustment called the "CCAAdj")



# U.S. Economic Accounts

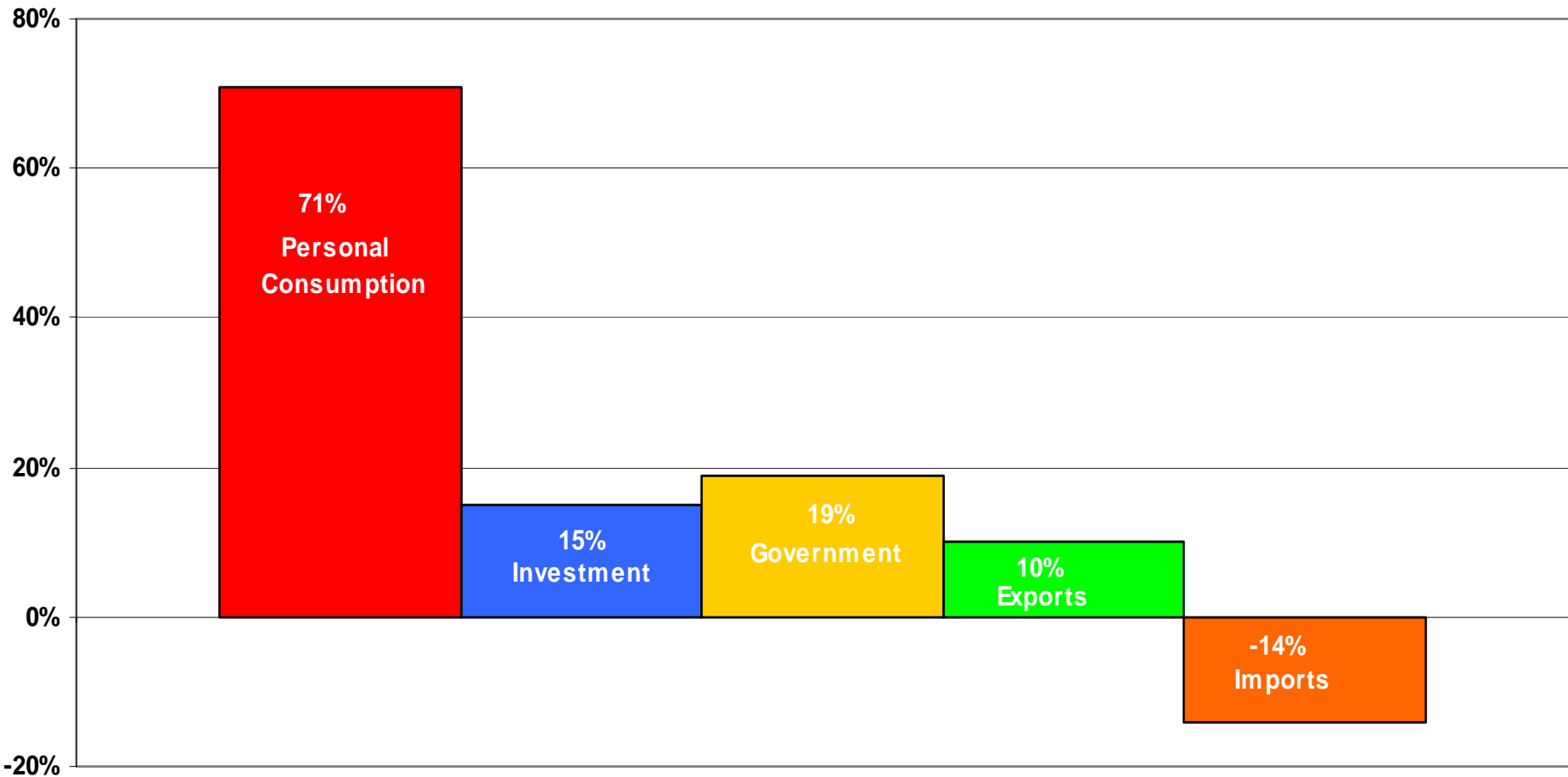
## Gross Domestic Income (GDI)

## Gross Domestic Product (GDP)





# An Eye on GDP Components





## How are Corporate Profits Used?

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- *By Wall Street*, to track overall U.S. corporate financial health.
- *By industry analysts*, to track industry financial health.
- *By macro forecasters*, to project investment in plant and equipment.
- *By government policy-makers*, to project tax receipts.



## There are Lots of Profits Reports

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- Each corporation reports its profits in two different ways:
  - To the public to inform investors, and
  - To the IRS to report income for tax purposes
- BEA uses that information when it creates the U.S. economic accounts. In particular, it creates an economy-wide, consistent-over-time measure of total profits earned by all corporations.

# Corporate Profits Reported to the Public

- Annual financial statements follow standards that emphasize consistency over time for each corporation.
- Flexibility allowed on methods and measures.
- Outside audits required to curb exploitation of flexibility.
- Uniformity across corporations is low.





# Corporate Profits Reported to the IRS

- Both public and privately-held corporations file tax returns, which are confidential.
- Little-to-no flexibility allowed on methods and measures.
- Tax rates, income definition, and incentive provisions change, diminishing consistency over time.
- Statistical sample provides an economy-wide profits measure with a lag.

**1120** U.S. Corporation Income Tax Return  
OMB No. 1545-0123  
2003

Form 1120  
Department of the Treasury  
Internal Revenue Service

For calendar year 2003 or tax year beginning ..... 2003, ending ..... 2003  
▶ Instructions are separate. See page 29 for Paperwork Reduction Act Notice.

**A Check if a:**  
 1 Consolidated return (attach Form 9815)  **Use IRS label.**  
 2 Personal holding (attach Sub. 701)  **Other.**  
 3 Personal service corp. (as defined in Regulations sec. 1.441-3(b)-1(c))  **Partnership.**

**B Employer identification number** \_\_\_\_\_  
**C Date incorporated** \_\_\_\_\_  
**D Title assets (see page 8 of instructions)** \_\_\_\_\_

**E Check applicable boxes:**  Initial return  Final return  Name change  Address change

1a	1b	1c
Gross receipts or sales	Less returns and allowances	
2		2
3		3
4		4
5		5
6		6
7		7
8		8
9		9
10		10
11		11
12		12
13		13
14		14
15		15
16		16
17		17
18		18
19		19
20		20
21a		21a
21b		21b
22		22
23		23
24		24
25		25
26		26
27		27
28		28
29a		29a
29b		29b
29c		29c
30		30
31		31
32a		32a
32b		32b
32c		32c
32d		32d
32e		32e
32f		32f
32g		32g
33		33
34		34
35		35
36		36

**Sign Here**  
 Signature of officer \_\_\_\_\_ Date \_\_\_\_\_ Title \_\_\_\_\_  
 Preparer's signature \_\_\_\_\_ Date \_\_\_\_\_ Check if self-employed  Preparer's SSN or PTIN \_\_\_\_\_  
 Firm's name (or your self-employed address) and ZIP code \_\_\_\_\_ Phone no. ( ) \_\_\_\_\_

Cat No 114500 Form 1120 (2003)



## BEA: Economic, not Administrative

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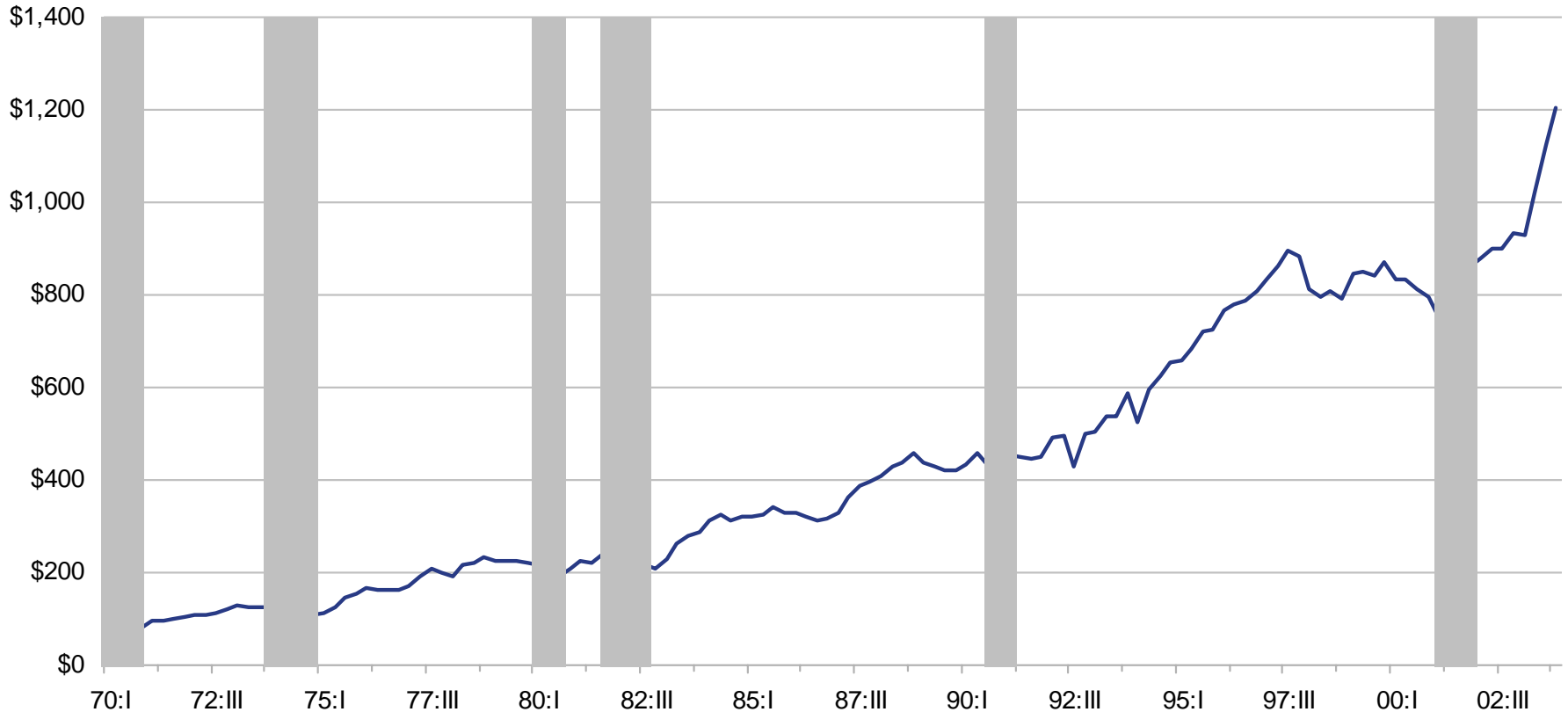
- Profits from Current Production are:
  - Unaffected by tax-law and reporting-rule changes.
  - Inclusive of income that escapes tax authorities.
  - Exclusive of dividends, capital gains and losses, and other flows arising from means of financing production.
  - Exclusive of financial adjustments reported for other purposes, such as deduction for “bad debt”.
  - Measured consistently, with data beginning in 1929.



# Profits are Cyclically Sensitive

## Profits from Current Production

(\$ in billions)





# Disposition of Corporate Profits

*In \$ Billions, 2003:4*

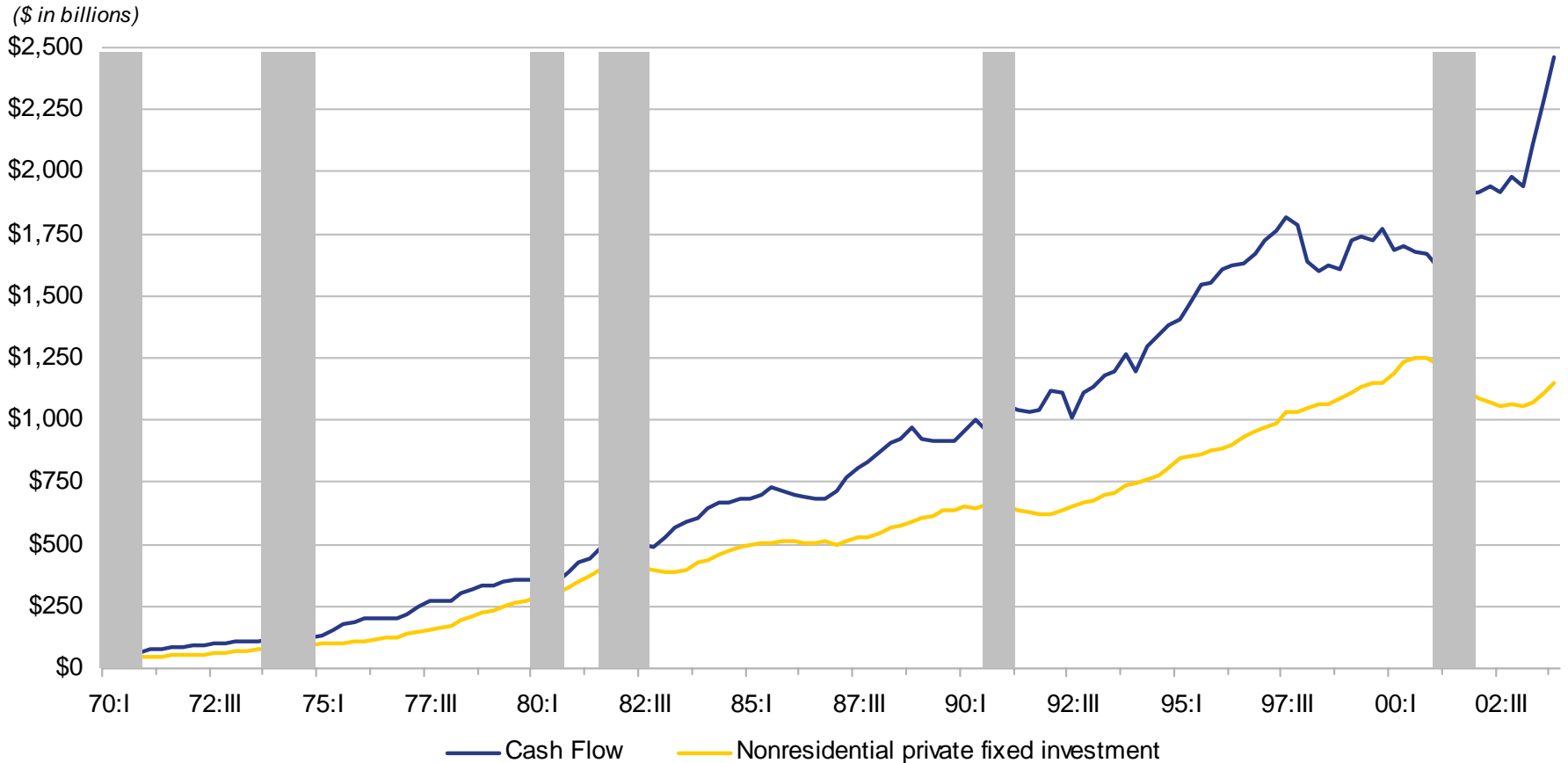
Profits from Current Production ("Corporate Profits with IVA and CCAAdj")	1,206
<u>Less:</u> Taxes	244
<u>Equals:</u> Profits after tax*	962
<u>Of which:</u>	
Dividends (net)	442
Undistributed profits*	520
Internally-generated corporate funds available for investment, or "cash flow":	
Undistributed profits*	520
<u>Plus:</u> Consumption of fixed capital (or, depreciation)	757
<u>Equals:</u> Cash flow	1,277

\* Include IVA and CCAAdj



# Corporate Cash Flow, A Source of Investment

## Corporate Cash Flow and Investment (Adjusted for Price Change)





## S&P 500 Index: Broad Measure, but Different

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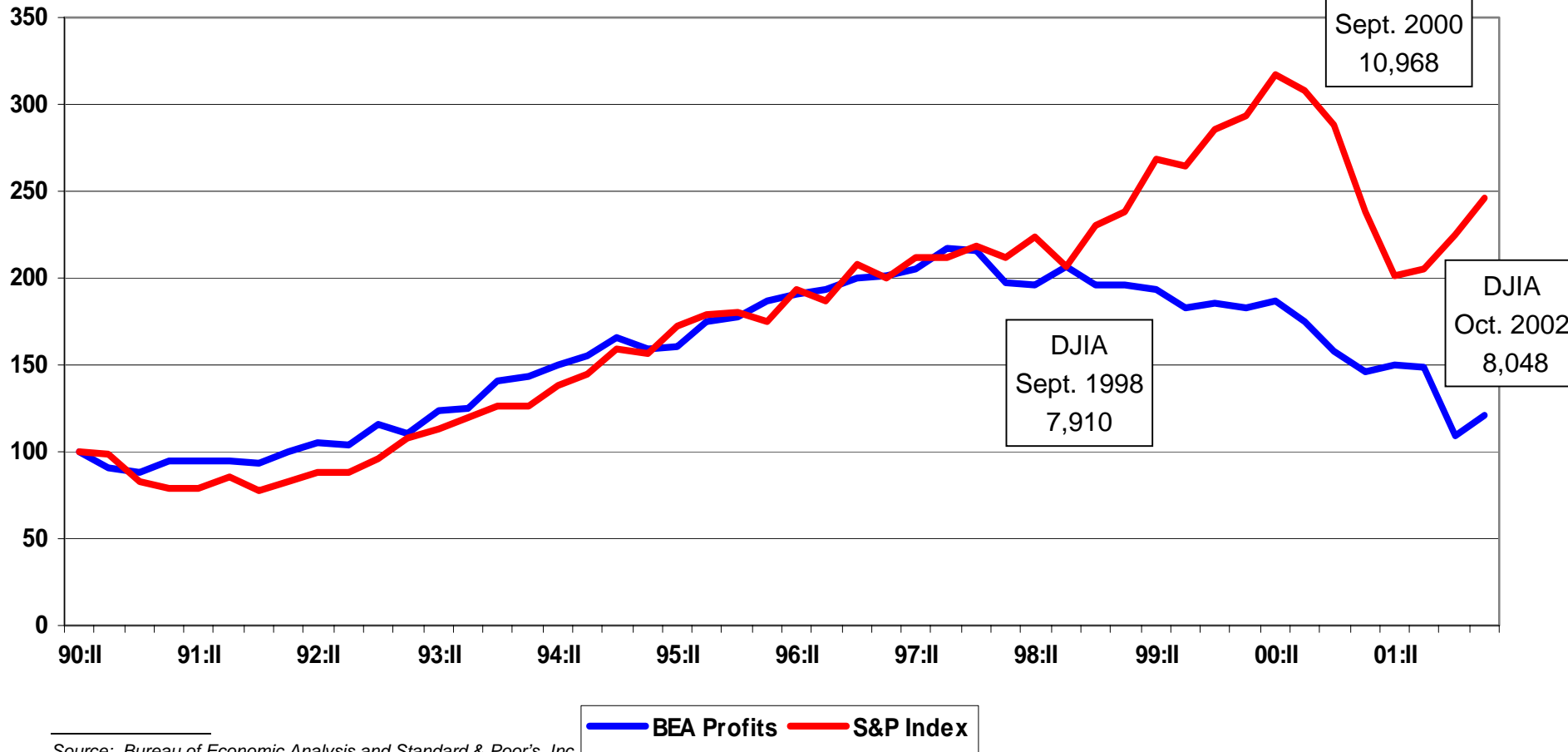
- Purpose: to benchmark performance of corporations in current year
- Composition: large representation of publicly-traded corporations, changing year-to-year as market values, capitalization, and trading activities change.
- Data base: after-tax income reported on financial statements.



# Similar Trend with Notable Divergence

## BEA Profits (Index) and Standard & Poor's Earnings Index

(Indexed, 1990:II = 100)



Source: Bureau of Economic Analysis and Standard & Poor's, Inc.



# Data Sources Used to Estimate Profits

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- **Financial-Accounting Data:**
  - Census Bureau Quarterly Financial Reports (QFR)
    - Available quarterly, within several months of end of quarter
    - Cover manufacturing, mining, and trade - roughly 1/3 of profits
  - Data from regulatory agencies, other source used to supplement QFR data
- **Tax-Accounting Data:**
  - IRS Statistics of Income (SOI) Data:
    - Corporate income-tax return (annual) data
    - Available with a lag of two years





# Corporate Profits Release Schedule

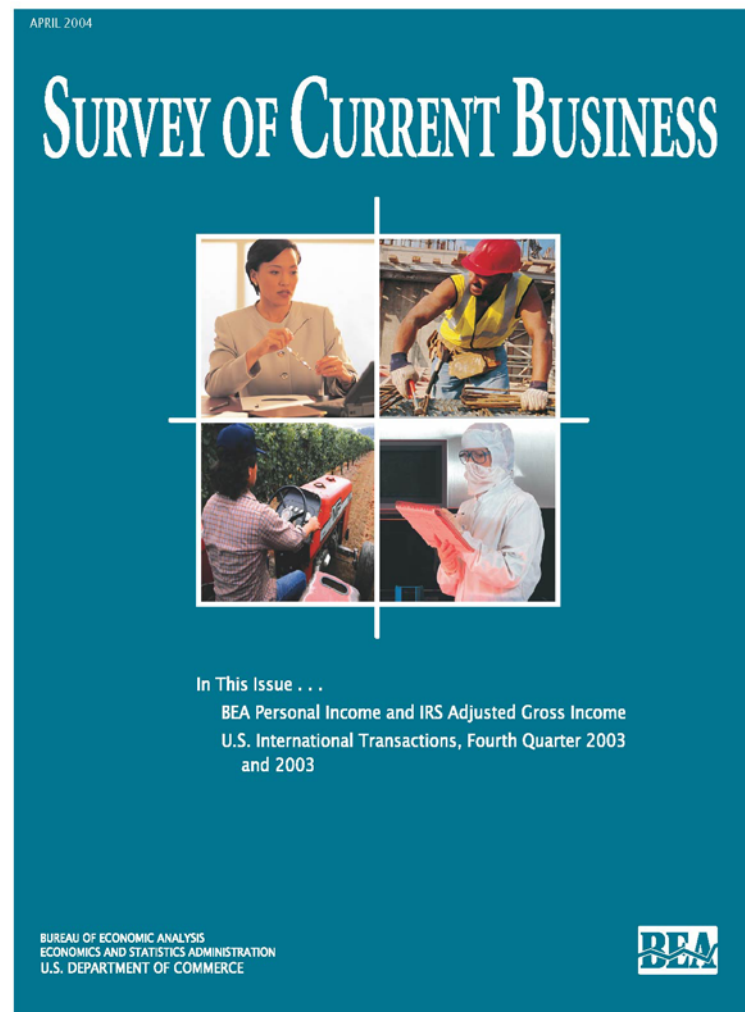
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- Quarterly estimates are available quickly - two months after end of quarter
- Additional information is incorporated as it becomes available - revised estimates for the most recent three years released every summer.

# And, BEA Reports on Profits

- “Business Situation” in the *Survey of Current Business*





# BEA Web Site has Everything

The screenshot shows the BEA website homepage. At the top is the BEA logo and the text "U.S. Department of Commerce Bureau of Economic Analysis". Below this is a navigation menu with links for "News", "Publications", "Methodologies", "Glossary", "FAQs", "About BEA", and "Jobs". The main content area is divided into three columns. The left column contains "U.S. Economic Accounts" with sub-sections for "National", "Regional", and "International". The middle column contains "International" with sub-sections for "Balance of Payments", "Trade in Goods and Services", "International Investment Position", "Direct Investment", and "More ...". The right column contains "Industry" with sub-sections for "Input-Output Accounts", "GDP by Industry", "Capital Flow", "Travel and Tourism", and "More ...". A green arrow points from the "International" sub-section to "Corporate Profits" in the "National" sub-section. On the far right, there is a sidebar with "A-Z Site Index", "Recently Issued Data on Multinational Companies", "Enhanced Overview of the U.S. Economy", "Latest Economic Indicators", and "Real GDP: +4.1% in Q4 2003 (final) [Released: 3/25/04]".





# Go to Corporate Profits “Page”

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[Home](#) > [National Economic Accounts](#) > [Corporate Profits](#)

**2003 Comprehensive Revision of the National Income and Product Accounts**

## Corporate Profits

- **Latest news release** -- 03/25/04  
Profits from current production (corporate profits with inventory valuation and capital consumption adjustments) increased \$81.4 billion in the fourth quarter, compared with an increase of \$101.4 billion in the third.
  - [Technical note](#)
  - [Tables from news release, XLS](#)
- [Combined Effects of the Tax Acts of 2002 and 2003 on Selected Measures of Corporate Profits, XLS](#)
- [Interactive NIPA tables](#) -- view or download specific tables

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