Chronicling 100 Years of the U.S. Economy

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GDP and the Economy

Second Estimates for the Second Quarter of 2020

Real gross domestic product (GDP) decreased at an annual rate of 31.7 percent in the second quarter of 2020, according to the second estimates of the National Income and Product Accounts (NIPAs) (chart 1 and table 1).[1] With the second estimate, real GDP growth for the second quarter was revised up by 1.2 percentage points. In the first quarter of 2020, real GDP decreased 5.0 percent.

The decrease in real GDP in the second quarter reflected negative contributions from consumer spending, exports, nonresidential fixed investment, inventory investment, residential fixed investment, and state and local government spending that were partly offset by a positive contribution from federal government spending.[2] Imports, which are a subtraction in the calculation of GDP, decreased (chart 2 and table 1).

Chart 1. Real GDP: Percent Change From Preceding Quarter

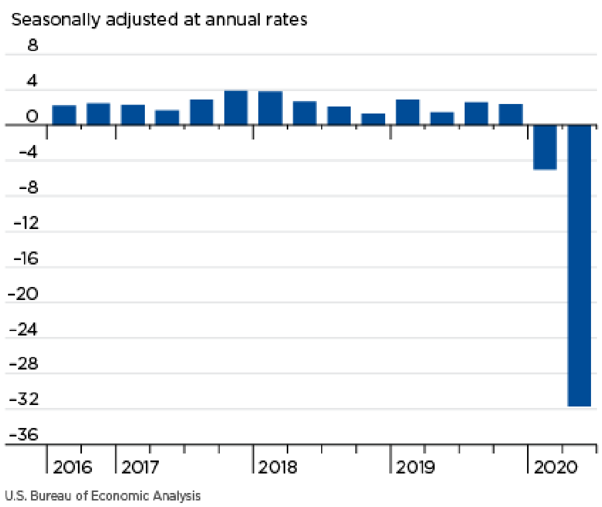
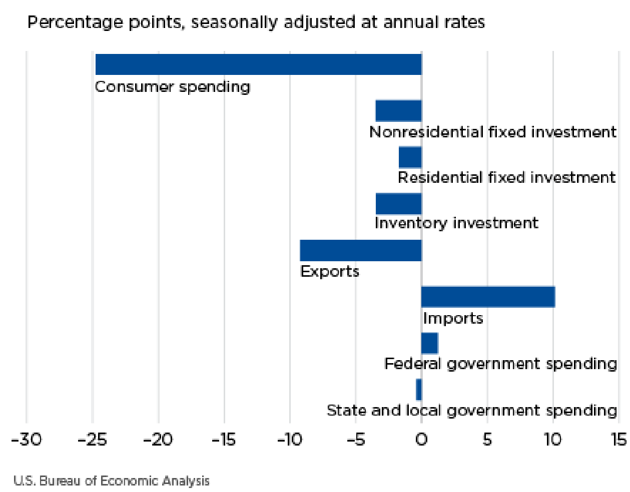


Chart 2. Real GDP: Contributions to the Percent Change in 2020:II



Impact of the Coronavirus (COVID-19) Pandemic on the Second-Quarter 2020 GDP Estimate

The decline in second-quarter GDP reflected the response to COVID-19, as "stay-at-home" orders issued in March and April were partially lifted in some areas of the country in May and June, and government pandemic assistance payments were distributed to households and businesses. This led to rapid shifts in activity, as businesses and schools continued remote work and consumers and businesses canceled, restricted, or redirected their spending. The full economic effects of the COVID-19 pandemic cannot be quantified in the GDP estimate for the second quarter of 2020, because the impacts are generally embedded in source data and cannot be separately identified. More information can be found in the "Technical Note" for the advance estimate of second-quarter 2020 GDP.

GDP Component Detail

With the exception of federal government spending, all GDP components contributed to the larger decrease in real GDP in the second quarter. Imports decreased more in the second quarter than in the first quarter.

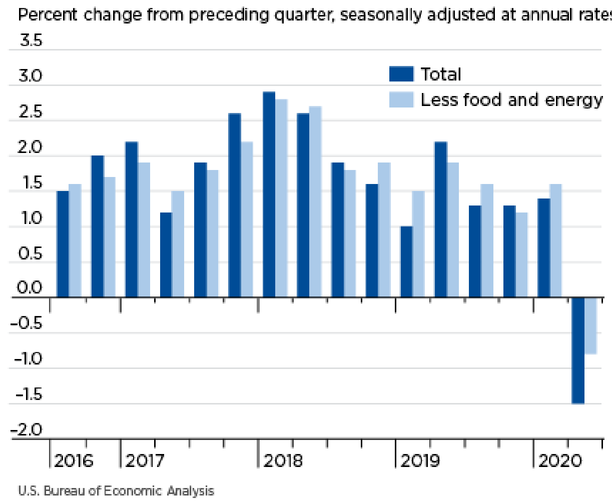
- Consumer spending was the main contributor to the larger decrease in real GDP. Consumer spending decreased more in the second quarter than in the first quarter, reflecting a larger decrease in spending on services and a downturn in spending on goods.
  - The main contributors to the larger decrease in services were health care (mainly hospitals and outpatient services), food services and accommodations (led by spending on purchased meals and beverages), recreation services (led by spending on membership clubs, sports centers, parks, theaters, and museums), and "other" services (mainly personal care services, which includes hairdressing salons and personal grooming establishments), as stay-at-home orders to protect against COVID-19 affected both the availability of and demand for services in these categories (see "Impact of the Coronavirus (COVID-19) Pandemic on the Second-Quarter 2020 GDP Estimate").
  - The main contributors to the downturn in goods were a downturn in food and beverages purchased for off-premises consumption, a slowdown in other nondurable goods (more than accounted for by pharmaceutical products), and a larger decrease in gasoline and other energy goods. Notable offsets to the downturn in goods included an upturn in motor vehicles and parts and an acceleration in spending on recreational goods and vehicles.
- Exports decreased more in the second quarter than in the first quarter, reflecting larger decreases in exports of both goods and services.
  - The larger decrease in goods exports primarily reflected larger decreases in nonautomotive capital goods and in automotive vehicles, engines, and parts and a downturn in industrial supplies and materials (primarily petroleum and related products).
  - Larger decreases in travel services and transport services led the larger decrease in exports of services.
- Nonresidential fixed investment decreased more in the second quarter than in the first quarter; all subcomponents contributed to the slowdown.

    - The larger decrease in equipment primarily reflected larger decreases in transportation equipment, other equipment (mainly mining and oilfield machinery, furniture and fixtures, and construction machinery excluding tractors), and industrial equipment. A notable offset to these decreases was an upturn for investment in information processing equipment (mainly computers and peripheral equipment), as many businesses shifted to virtual and remote operations in response to the COVID-19 pandemic.
    - The larger decrease in structures investment was led by a large downturn in mining exploration, shafts, and wells.
    - Investment in intellectual property products turned down, with all subcomponents contributing.
- The larger decrease in inventory investment primarily reflected a downturn in retail trade (led by motor vehicle and parts dealers) that was partly offset by an upturn in nondurable goods manufacturing (mainly reflecting an upturn in petroleum and coal product manufacturing).
- The downturn in residential investment primarily reflected a downturn in single-family structures and a downturn in brokers' commissions and other ownership transfer costs.
- State and local government spending turned down in the second quarter, reflecting a downturn in gross investment and a larger decrease in consumption expenditures.
- The larger increase in federal government spending was led by a larger increase in federal nondefense consumption expenditures, primarily for intermediate services purchased by government, which in turn reflected payments to lending institutions for administering loans provided through the Paycheck Protection Program. For additional details, see "How does the Paycheck Protection Program of 2020 impact the national income and product accounts (NIPAs)?"
- Imports decreased more in the second quarter than in the first quarter, reflecting larger decreases in imports of both goods and services.
    - The larger decrease in imports of goods primarily reflected a larger decrease in imports of automotive vehicles, engines, and parts.
    - The larger decrease in imports of services was led by larger decreases in both travel and transport services.

Prices

Prices for gross domestic purchases, goods and services purchased by U.S. residents, decreased 1.5 percent in the second quarter after increasing 1.4 percent in the first quarter (table 2 and chart 3). Downturns in the prices paid for consumer spending and for state and local government spending were partly offset by an acceleration in the prices paid for investment in intellectual property products.

Chart 3. Prices for Gross Domestic Purchases



Food prices increased 15.7 percent in the second quarter after increasing 3.2 percent in the first quarter. Prices for energy goods and services decreased 45.7 percent after decreasing 7.0 percent. Gross domestic purchases prices excluding food and energy turned down, decreasing 0.8 percent after increasing 1.6 percent.

Consumer prices excluding food and energy, a measure of the “core” rate of inflation, turned down, decreasing 1.0 percent in the second quarter after increasing 1.6 percent in the first quarter.

Updates

Real GDP decreased 31.7 percent in the second quarter of 2020, an upward revision of 1.2 percentage points from the advance estimate (table 4). The revision primarily reflected upward revisions to inventory investment, consumer spending, exports, and nonresidential fixed investment.

- Within inventory investment, nonfarm inventories was revised up. The largest contributors to the upward revision were wholesale trade and nondurable goods manufacturing (led by petroleum products).
- Consumer spending for both goods and services was revised up.
  - Within goods, the leading contributor to the upward revision was other nondurable goods.
  - Within services, the largest contributor to the upward revision was spending on health care, by both nonprofit institutions and households. Spending on air transportation was also revised up.
- Industrial supplies and materials led the upward revision to exports.
- The upward revision to nonresidential fixed investment reflected upward revisions to equipment and structures. Information processing equipment, notably computers and communication equipment, led the upward revision to equipment. Within structures, the leading contributors to the upward revision were commercial and health care structures as well as power structures.

Note on 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).

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1. "Real" estimates are in chained (2012) 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 "The Revisions to GDP, GDI, and Their Major Components" in the January 2018 *Survey of Current Business*. Quarterly estimates are expressed at seasonally adjusted annual rates, which reflect a rate of activity for a quarter as if it were maintained for a year.
2. In this article, "consumer spending" refers to "personal consumption expenditures," "inventory investment" refers to "change in private inventories," and "government spending" refers to "government consumption expenditures and gross investment."