

GDP and the Economy

Final Estimates for the Fourth Quarter of 2007

ECONOMIC growth decelerated sharply in the fourth quarter, increasing 0.6 percent after increasing 4.9 percent in the third quarter, according to the “final” estimates of the national income and product accounts (NIPAs) (chart 1 and table 1).¹ GDP growth was unrevised from the “preliminary” estimate.²

The deceleration in real GDP growth reflected a downturn in inventory investment and decelerations in exports, federal government spending, and consumer spending.³ Imports turned down.

- Fourth-quarter corporate profits decreased \$52.9 billion, or 3.3 percent at a quarterly rate, after decreasing \$20.5 billion in the third quarter (see page 4).
- Prices of goods and services purchased by U.S. residents increased 3.7 percent in the fourth quarter after increasing 1.8 percent in the third quarter. In the fourth quarter, energy prices turned up, and food prices decelerated. Excluding food and energy, gross domestic purchases prices increased 2.3 percent after increasing 1.9 percent in the third quarter.
- Real disposable personal income (DPI) increased 0.1 percent in the fourth quarter after increasing 4.0 percent in the third quarter. The deceleration reflected a slowdown in current-dollar DPI and an acceleration in the personal consumption expenditures implicit price deflator used to deflate current-dollar DPI. The slowdown in current-dollar DPI reflected a deceleration in current-dollar personal income and an acceleration in current personal taxes.
- The personal saving rate was zero in the fourth quarter, unrevised from the preliminary estimate; it was 0.4 percent in the third quarter.

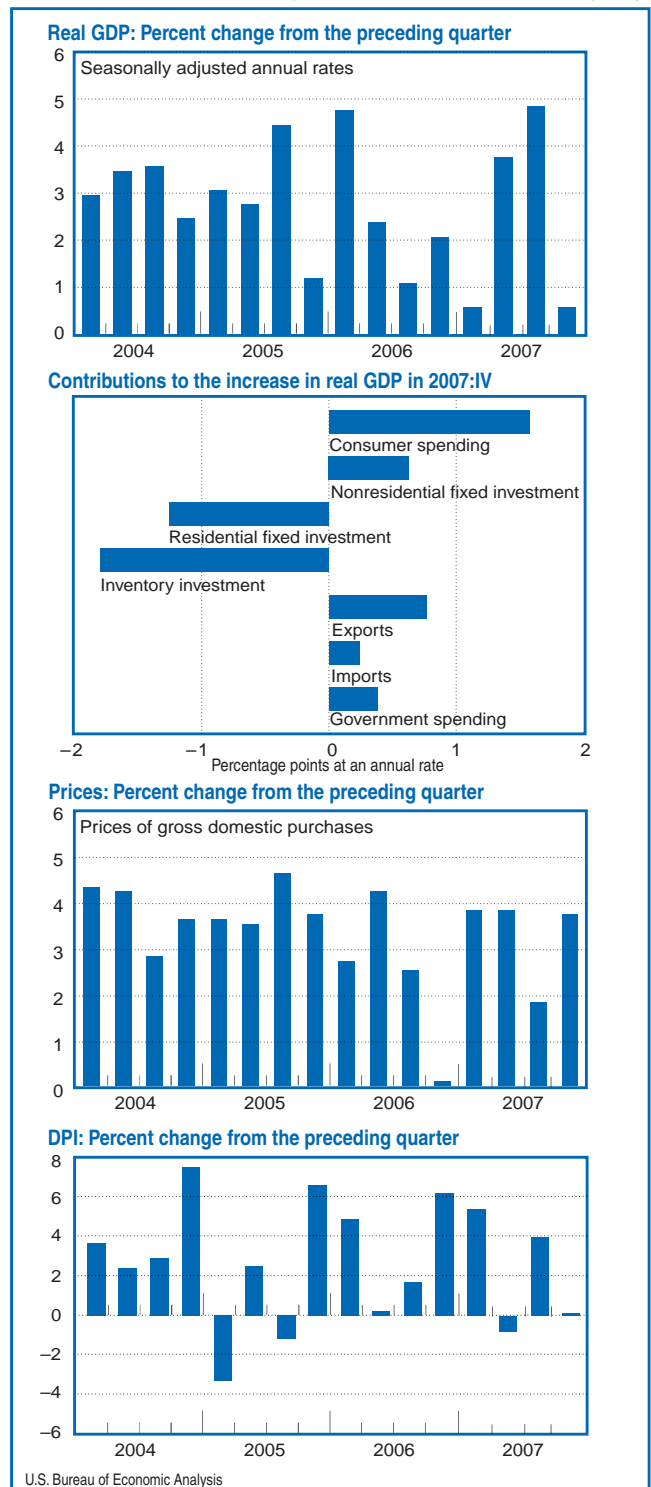
1. “Real” estimates are in chained (2000) dollars, and price indexes are chain-type measures.

2. 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, which assume that a rate of activity for a quarter is maintained for a year.

3. 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.”

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)			
	2007	2007				2007			
	IV	I	II	III	IV	I	II	III	IV
Gross domestic product ¹	100.0	0.6	3.8	4.9	0.6	0.6	3.8	4.9	0.6
Personal consumption expenditures	70.6	3.7	1.4	2.8	2.3	2.56	1.00	2.01	1.58
Durable goods	7.7	8.8	1.7	4.5	2.0	0.67	0.14	0.35	0.15
Nondurable goods	20.6	3.0	-0.5	2.2	1.2	0.61	-0.10	0.46	0.25
Services	42.3	3.1	2.3	2.8	2.8	1.28	0.96	1.20	1.18
Gross private domestic investment	14.8	-8.2	4.6	5.0	-14.6	-1.36	0.71	0.77	-2.40
Fixed investment	15.0	-4.4	3.2	-0.7	-4.0	-0.70	0.49	-0.11	-0.62
Nonresidential	10.8	2.1	11.0	9.3	6.0	0.22	1.12	0.96	0.63
Structures	3.6	6.4	26.2	16.4	12.4	0.20	0.78	0.52	0.41
Equipment and software	7.3	0.3	4.7	6.2	3.1	0.02	0.34	0.44	0.22
Residential	4.1	-16.3	-11.8	-20.5	-25.2	-0.93	-0.62	-1.08	-1.25
Change in private inventories	-0.2	.....	.....	.....	.....	-0.65	0.22	0.89	-1.79
Net exports of goods and services	-5.0	.....	.....	.....	.....	-0.51	1.32	1.38	1.02
Exports	12.3	1.1	7.5	19.1	6.5	0.13	0.85	2.10	0.77
Goods	8.7	0.9	6.6	26.2	3.9	0.07	0.53	1.96	0.33
Services	3.7	1.6	9.6	4.0	13.2	0.05	0.33	0.14	0.45
Imports	17.4	3.9	-2.7	4.4	-1.4	-0.63	0.47	-0.72	0.24
Goods	14.6	4.2	-2.9	4.8	-2.6	-0.57	0.42	-0.67	0.39
Services	2.7	2.3	-1.7	1.7	5.5	-0.06	0.05	-0.05	-0.15
Government consumption expenditures and gross investment	19.6	-0.5	4.1	3.8	2.0	-0.09	0.79	0.74	0.38
Federal	7.1	-6.3	6.0	7.1	0.5	-0.46	0.41	0.50	0.04
National defense	4.8	-10.8	8.5	10.1	-0.5	-0.54	0.39	0.47	-0.03
Nondefense	2.3	3.8	0.9	1.1	2.8	0.08	0.02	0.03	0.06
State and local	12.6	3.0	3.0	1.9	2.8	0.36	0.37	0.24	0.34
Addenda:									
Final sales of domestic product .....	.....	1.3	3.6	4.0	2.4	1.25	3.60	4.02	2.36
Gross domestic purchases price index .....	.....	3.8	3.8	1.8	3.7	.....	.....	.....	.....
GDP price index .....	.....	4.2	2.6	1.0	2.4	.....	.....	.....	.....

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.

Consumer spending slowed in the fourth quarter, increasing 2.3 percent after increasing 2.8 percent in the third quarter. It contributed 1.58 percentage points to real GDP growth after contributing 2.01 percentage points. The slowdown mainly reflected slowdowns in spending for nondurable goods and durable goods.

Nonresidential fixed investment decelerated, increasing 6.0 percent after increasing 9.3 percent.

Residential fixed investment decreased more in the fourth quarter than in third quarter. The 25.2 percent decrease subtracted 1.25 percentage points from real GDP growth and was the largest percentage decrease since the fourth quarter of 1981.

Inventory investment turned down, mainly reflecting downturns in retail motor vehicle and parts dealers and in wholesale trade nondurable goods. The inventory change subtracted 1.79 percentage points from real GDP growth.

Exports slowed markedly, mainly reflecting a widespread deceleration in goods exports. Exports of services picked up.

Imports turned down, mainly reflecting a downturn in goods imports despite an upturn in petroleum and products imports. Imports of services accelerated somewhat.

Federal government spending decelerated as spending for national defense turned down.

Real final sales of domestic product, real GDP less inventory investment, increased 2.4 percent after increasing 4.0 percent.

GDP and Gross Domestic Purchases

In addition to gross domestic product (GDP), a 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; it includes the goods that are added to inventories but excludes the goods that are 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, 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 the 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 Fourth Quarter of 2007

[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	0.6	0.6	0.0	0.6	0.6	0.0
Personal consumption expenditures	1.9	2.3	0.4	1.32	1.58	0.26
Durable goods	2.3	2.0	-0.3	0.18	0.15	-0.03
Nondurable goods	1.4	1.2	-0.2	0.28	0.25	-0.03
Services	2.1	2.8	0.7	0.86	1.18	0.32
Gross private domestic investment	-12.5	-14.6	-2.1	-2.02	-2.40	-0.38
Fixed investment	-3.5	-4.0	-0.5	-0.53	-0.62	-0.09
Nonresidential	6.9	6.0	-0.9	0.72	0.63	-0.09
Structures	14.7	12.4	-2.3	0.48	0.41	-0.07
Equipment and software	3.3	3.1	-0.2	0.24	0.22	-0.02
Residential	-25.2	-25.2	0.0	-1.25	-1.25	0.00
Change in private inventories				-1.49	-1.79	-0.30
Net exports of goods and services				0.90	1.02	0.12
Exports	4.8	6.5	1.7	0.57	0.77	0.20
Goods	4.0	3.9	-0.1	0.34	0.33	-0.01
Services	6.8	13.2	6.4	0.24	0.45	0.21
Imports	-1.9	-1.4	0.5	0.32	0.24	-0.08
Goods	-2.1	-2.6	-0.5	0.31	0.39	0.08
Services	-0.3	5.5	5.8	0.01	-0.15	-0.16
Government consumption expenditures and gross investment	2.2	2.0	-0.2	0.43	0.38	-0.05
Federal	0.9	0.5	-0.4	0.06	0.04	-0.02
National defense	-0.3	-0.5	-0.2	-0.01	-0.03	-0.02
Nondefense	3.4	2.8	-0.6	0.07	0.06	-0.01
State and local	3.0	2.8	-0.2	0.37	0.34	-0.03
Addenda:						
Final sales of domestic product	2.1	2.4	0.3	2.11	2.36	0.25
Gross domestic purchases price index	3.9	3.7	-0.2			
GDP price index	2.7	2.4	-0.3			

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

The 0.6 percent final estimate of real GDP growth is the same as the preliminary estimate, primarily reflecting a downward revision to private inventory investment that was largely offset by upward revisions to consumer spending and exports. The average revision (without regard to sign) between the preliminary estimate and the final estimate is 0.3 percentage point.

Consumer spending was revised up, primarily reflecting an upward revision to spending for services. The largest contributors to the upward revision to services were medical care services and electricity and gas services.

Inventory investment was revised down, mainly reflecting a downward revision to inventories in mining, utilities, and construction.

Exports was revised up, mainly reflecting an upward revision to services exports. The largest contributor to the upward revision was "other private services."

Source Data for the Final Estimates

The final estimates of gross domestic product for the fourth quarter of 2007 incorporated the following source data.

Personal consumption expenditures: Retail sales for November and December (revised) and quarterly services survey for the fourth quarter (new).

Nonresidential fixed investment: Construction put in place for November and December (revised) and quarterly services survey for the fourth quarter (new).

Residential fixed investment: Construction put in place for November and December (revised) and Producer Price Index for October (revised).

Change in private inventories: Manufacturers' and trade inventories for December (revised) and Producer Price

Index for October (revised) and January 2008 (new).

Exports and imports of goods and services: International transactions accounts data for services for the third and fourth quarters (revised) and goods data for December (revised).

Government consumption expenditures and gross investment: State and local government construction put in place for November and December (revised).

GDP prices: Export and import prices for the October, November, and December (revised), unit value index for petroleum imports for December (revised), and prices of single-family houses under construction for the fourth 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							
	2007	2007				2007			
	IV	I	II	III	IV	I	II	III	IV
Current production measures:									
Corporate profits	1,569.0	16.5	94.7	-20.5	-52.9	1.1	6.1	-1.2	-3.3
Domestic industries	1,172.2	-3.7	78.0	-46.9	-108.7	-0.3	6.2	-3.5	-8.5
Financial	414.5	-26.9	52.7	-32.5	-74.4	-5.4	11.2	-6.2	-15.2
Nonfinancial	757.7	23.2	25.3	-14.4	-34.3	3.1	3.2	-1.8	-4.3
Rest of the world	396.8	20.1	16.7	26.4	55.8	7.2	5.6	8.4	16.4
Receipts from the rest of the world	522.5	10.0	33.9	27.6	12.3	2.3	7.6	5.7	2.4
Less: Payments to the rest of the world	125.7	-10.1	17.2	1.1	-43.4	-6.3	11.4	0.7	-25.7
Less: Taxes on corporate income	454.4	0.1	37.6	-20.7	-15.0	0.0	8.3	-4.2	-3.2
Equals: Profits after tax	1,114.6	16.4	57.0	0.3	-37.9	1.5	5.2	0.0	-3.3
Net dividends	829.4	23.0	24.8	23.5	21.7	3.1	3.3	3.0	2.7
Undistributed profits from current production	285.2	-6.6	32.2	-23.3	-59.5	-1.9	9.6	-6.3	-17.3
Net cash flow	1,212.1	0.2	37.4	-21.1	-55.7	0.0	3.0	-1.6	-4.4

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 decreased \$52.9 billion, or 3.3 percent, in the fourth quarter after decreasing \$20.5 billion, or 1.2 percent, in the third quarter. The fourth-quarter estimates were adjusted to exclude unusually large asset write-downs and large provisions for loan losses. Unlike the profits reported in corporate financial statements, the NIPAs do not treat write-downs and loan losses as charges against earnings, because they do not reflect losses from current production. As a result, aggregate profits based on financial statements declined more than the NIPA measure of profits.

Profits of domestic financial corporations decreased \$74.4 billion, or 15.2 percent, after decreasing \$32.5 billion.

Profits of domestic nonfinancial corporations decreased \$34.3 billion, or 4.3 percent, after decreasing \$14.4 billion.

Profits from the rest of the world accelerated, increasing \$55.8 billion, or 16.4 percent, after increasing \$26.4 billion. The acceleration reflected a large downturn in payments that more than offset a slowdown in receipts.

Net cash flow decreased \$55.7 billion, or 4.4 percent, in the fourth quarter after decreasing \$21.1 billion in the third quarter.

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							
	2007	2007				2007			
	IV	I	II	III	IV	I	II	III	IV
Industry profits:									
Profits with IVA.....	1,810.5	7.4	101.2	-17.4	-48.9	0.4	5.7	-0.9	-2.6
Domestic industries.....	1,413.7	-12.7	84.4	-43.8	-104.6	-0.9	5.7	-2.8	-6.9
Financial.....	440.3	-28.0	53.4	-32.2	-73.9	-5.4	10.8	-5.9	-14.4
Nonfinancial.....	973.4	15.2	31.0	-11.6	-30.7	1.6	3.2	-1.1	-3.1
Utilities.....	53.7	-1.4	4.8	5.2	7.3	-3.8	13.3	12.7	15.7
Manufacturing.....	280.3	18.7	48.1	-50.2	-16.5	6.7	16.1	-14.5	-5.6
Wholesale trade.....	82.2	6.7	7.1	4.9	-27.6	7.4	7.3	4.6	-25.2
Retail trade.....	141.3	2.2	0.1	5.8	1.1	1.6	0.1	4.3	0.8
Transportation and warehousing.....	48.3	-0.9	6.7	9.6	-7.1	-2.4	17.2	21.1	-12.9
Information.....	110.4	18.0	-16.6	7.9	9.6	19.6	-15.2	8.5	9.5
Other nonfinancial.....	257.2	-28.0	-19.2	5.2	2.5	-9.4	-7.1	2.1	1.0
Rest of the world.....	396.8	20.1	16.7	26.4	55.8	7.2	5.6	8.4	16.4
Addenda:									
Profits before tax (without IVA and CCAdj).....	1,879.9	26.6	115.7	-51.8	0.2	1.5	6.4	-2.7	0.0
Profits after tax (without IVA and CCAdj).....	1,425.5	26.5	78.1	-31.2	15.3	2.0	5.7	-2.2	1.1
IVA.....	-69.4	-19.2	-14.5	34.4	-49.1				
CCAdj.....	-241.5	9.1	-6.5	-3.0	-4.1				

Profits with inventory valuation adjustment decreased \$48.9 billion, or 2.6 percent. The difference between this decrease and the decrease in profits from current production reflects the capital consumption adjustment, which decreased \$4.1 billion.

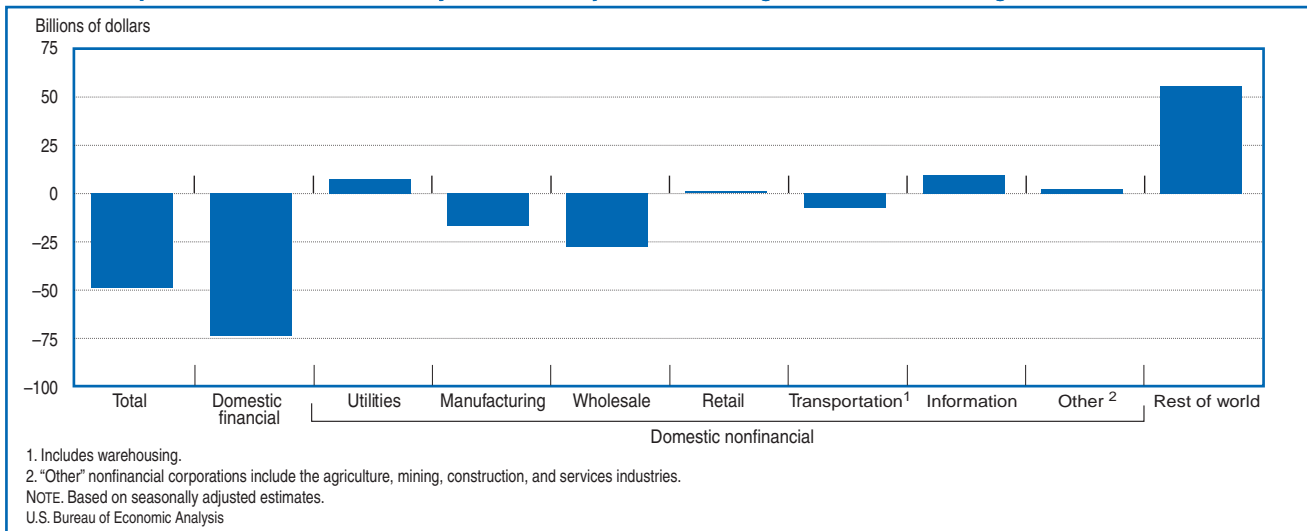
Profits of domestic industries decreased \$104.6 billion, or 6.9 percent, in the fourth quarter, following a \$43.8 billion decrease in the third quarter.

Profits of domestic financial industries decreased \$73.9 billion, or 14.4 percent, in the fourth quarter after decreasing \$32.2 billion in the third quarter.

Profits of domestic nonfinancial industries decreased \$30.7 billion, or 3.1 percent, in the fourth quarter after decreasing \$11.6 billion in the third quarter. The larger decrease primarily reflected downturns in wholesale trade and in transportation and warehousing that were partly offset by a smaller decrease in manufacturing, especially in petroleum and coal products industries.

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, 2007:IV



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>.