

GDP and the Economy

Third Estimates for the Third Quarter of 2016

REAL GROSS domestic product (GDP) increased 3.5 percent at an annual rate in the third quarter of 2016, according to the third estimates of the national income and product accounts (NIPAs) (chart 1 and table 1).¹ The third estimate of real GDP growth for the third quarter was revised up 0.3 percentage point from the second estimate of 3.2 percent. With the third estimate, the general picture of economic growth remains the same; nonresidential fixed investment, consumer spending, and state and local government spending increased more than previously estimated.

The third-quarter increase in real GDP primarily reflected positive contributions from consumer spending, exports, inventory investment, nonresidential fixed investment, and federal government spending that were partly offset by a negative contribution from residential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased.²

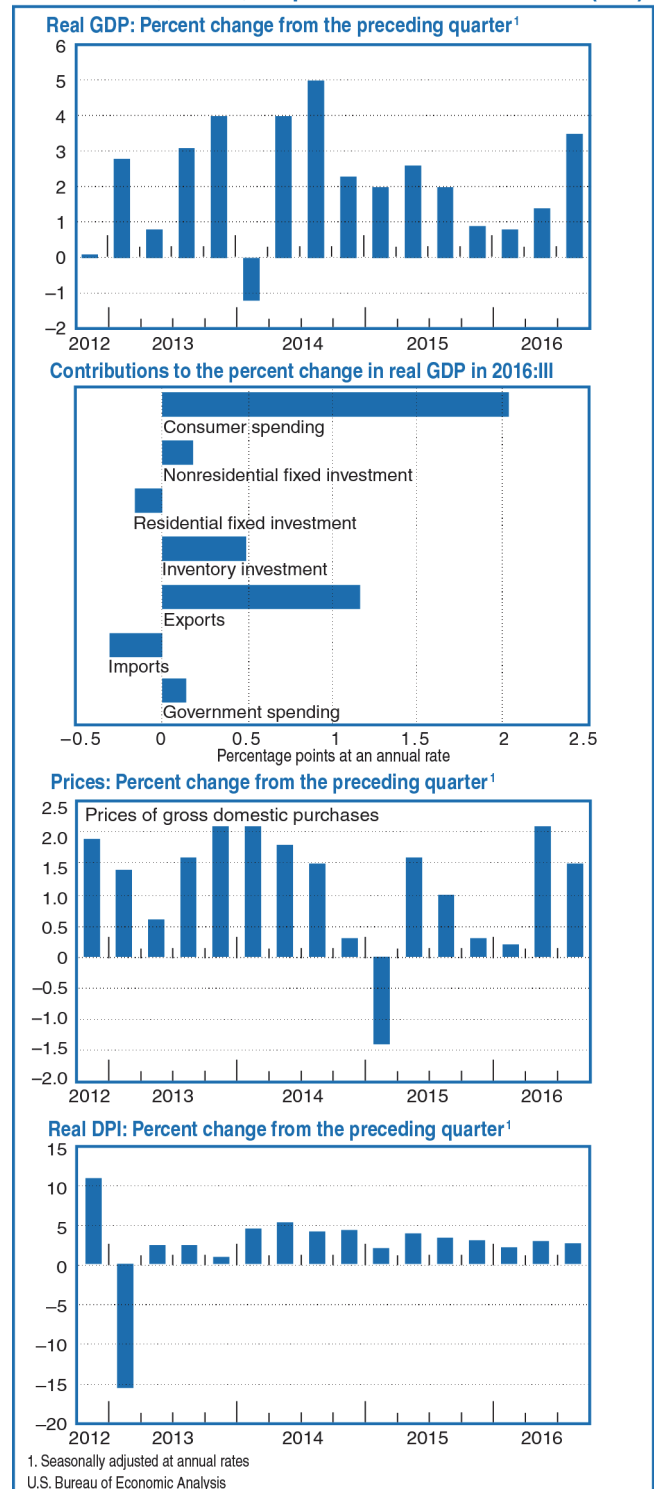
- Prices of goods and services purchased by U.S. residents increased 1.5 percent in the third quarter after increasing 2.1 percent in the second quarter.
- Real disposable personal income (DPI) increased 2.6 percent in the third quarter after increasing 2.9 percent in the second quarter.
- Profits from current production (corporate profits with inventory valuation adjustment and capital consumption adjustment) increased \$117.8 billion in the third quarter; in the second quarter, profits decreased \$12.5 billion.
- With the third estimate, the third-quarter growth in real gross domestic income was revised down 0.4 percentage point to 4.8 percent from the second estimate of 5.2 percent.

1. "Real" estimates are in chained (2009) 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 August 2014 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."

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



Real GDP Overview

Table 1. Real Gross Domestic Product (GDP) and Related Measures

[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)			
	2016	2015	2016			2015					
	III	IV	I	II	III	IV	I	II	III		
Gross domestic product ¹	100.0	0.9	0.8	1.4	3.5	0.9	0.8	1.4	3.5		
Personal consumption expenditures	68.7	2.3	1.6	4.3	3.0	1.53	1.11	2.88	2.03		
Goods.....	22.0	2.1	1.2	7.1	3.5	0.47	0.25	1.51	0.77		
Durable goods.....	7.6	4.0	-0.6	9.8	11.6	0.30	-0.05	0.70	0.84		
Nondurable goods.....	14.4	1.2	2.1	5.7	-0.5	0.17	0.30	0.80	-0.07		
Services.....	46.7	2.3	1.9	3.0	2.7	1.07	0.86	1.37	1.26		
Gross private domestic investment	16.2	-2.3	-3.3	-7.9	3.0	-0.39	-0.56	-1.34	0.50		
Fixed investment.....	16.1	-0.2	-0.9	-1.1	0.1	-0.03	-0.15	-0.18	0.02		
Nonresidential.....	12.4	-3.3	-3.4	1.0	1.4	-0.43	-0.44	0.12	0.18		
Structures.....	2.7	-15.2	0.1	-2.1	12.0	-0.45	0.00	-0.06	0.30		
Equipment.....	5.6	-2.6	-9.5	-2.9	-4.5	-0.16	-0.59	-0.17	-0.26		
Intellectual property products.....	4.1	4.6	3.7	9.0	3.2	0.18	0.15	0.35	0.13		
Residential.....	3.7	11.5	7.8	-7.7	-4.1	0.40	0.29	-0.31	-0.16		
Change in private inventories.....	0.0	.....	.....	.....	.....	-0.36	-0.41	-1.16	0.49
Net exports of goods and services	-2.5	.....	.....	.....	.....	-0.45	0.01	0.18	0.85
Exports.....	12.2	-2.7	-0.7	1.8	10.0	-0.34	-0.09	0.21	1.16		
Goods.....	8.0	-4.6	0.1	1.7	14.4	-0.38	0.01	0.13	1.08		
Services.....	4.2	1.0	-2.2	1.9	2.0	0.04	-0.09	0.08	0.08		
Imports.....	14.7	0.7	-0.6	0.2	2.2	-0.11	0.09	-0.03	-0.31		
Goods.....	11.9	0.7	-1.3	0.0	0.5	-0.09	0.16	0.00	-0.06		
Services.....	2.7	0.7	2.5	1.1	9.8	-0.02	-0.07	-0.03	-0.26		
Government consumption expenditures and gross investment	17.6	1.0	1.6	-1.7	0.8	0.18	0.28	-0.30	0.14		
Federal.....	6.7	3.8	-1.5	-0.4	2.4	0.25	-0.10	-0.02	0.16		
National defense.....	3.9	4.4	-3.2	-3.2	2.0	0.17	-0.13	-0.13	0.08		
Nondefense.....	2.8	2.8	0.9	3.8	3.0	0.08	0.03	0.10	0.08		
State and local.....	10.9	-0.6	3.5	-2.5	-0.2	-0.07	0.39	-0.28	-0.02		
Addenda:											
Gross domestic income (GDI) ².....	.....	1.5	0.8	0.7	4.8	.....	.....	.....	.....
Average of GDP and GDI.....	.....	1.2	0.8	1.1	4.1	.....	.....	.....	.....
Final sales of domestic product.....	100.0	1.2	1.2	2.6	3.0	1.24	1.24	2.57	3.03		
Goods.....	29.7	-0.8	-1.4	2.2	7.6	-0.24	-0.42	0.66	2.22		
Services.....	62.4	2.1	1.1	2.4	2.1	1.26	0.68	1.48	1.34		
Structures.....	7.9	-1.9	7.4	-8.7	-0.6	-0.15	0.57	-0.73	-0.05		
Motor vehicle output.....	2.9	-15.2	2.2	7.5	3.2	-0.49	0.06	0.21	0.09		
GDP excluding motor vehicle output.....	97.1	1.4	0.8	1.2	3.5	1.37	0.77	1.20	3.42		
Final sales of computers.....	0.4	2.9	54.3	17.8	-9.0	0.01	0.18	0.07	-0.04		
GDP excluding final sales of computers.....	99.6	0.9	0.7	1.3	3.6	0.86	0.65	1.34	3.55		
Research and development (R&D).....	2.6	4.7	0.6	11.8	-0.1	0.12	0.01	0.29	0.00		
GDP excluding R&D.....	97.4	0.8	0.8	1.2	3.6	0.76	0.82	1.12	3.52		

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

2. GDI is deflated by the implicit price deflator for GDP.

NOTE: For GDP and its components, percent changes are from NIPA tables 1.1.1 and 1.2.1, contributions to percent change are from NIPA tables 1.1.2 and 1.2.2, and shares are from NIPA table 1.1.10, or they are calculated from table 1.2.5. For GDI, percent changes are from NIPA table 1.7.1.

Real GDP picked up in the third quarter. The pickup primarily reflected an upturn in inventory investment, a pickup in exports, a smaller decrease in state and local government spending, an upturn in federal government spending, and a smaller decrease in residential investment that were partly offset by a slowdown in consumer spending and a pickup in imports.

The slowdown in consumer spending primarily reflected a downturn in spending for nondurable goods; the leading contributor was a downturn in spending for “other” nondurable goods (mainly pharmaceuticals, household supplies, and tobacco).

The smaller decrease in residential fixed investment primarily reflected a smaller decrease in investment in single-family structures.

The upturn in inventory investment primarily reflected upturns in manufacturing (mainly durable-goods industries) and in wholesale trade and a smaller decrease in retail trade. These movements were partly offset by a downturn in “other” industries.

The pickup in exports primarily reflected a pickup in goods exports. The main contributor to the pickup in goods exports was a pickup in exports of foods, feeds, and beverages, which was more than accounted for by a pickup in exports of soybeans.

The pickup in imports primarily reflected a pickup in services imports. The main contributors were an upturn in charges for the use of intellectual property, which reflected the fees paid for the broadcast rights to the 2016 Summer Olympics, and a pickup in travel.

The upturn in federal government spending reflected an upturn in national defense spending (mainly intermediate goods and services purchased) that was partly offset by a slowdown in nondefense spending.

The smaller decrease in state and local government spending primarily reflected a smaller decrease in structures investment.

Real gross domestic income, which measures the value of the costs incurred and the incomes earned in the production of goods and services in the nation’s economy, increased 4.8 percent in the third quarter after increasing 0.7 percent in the second quarter.

Revisions to GDP

Table 2. Second and Third Estimates for the Third Quarter of 2016

[Seasonally adjusted at annual rates]

	Change from preceding quarter (percent)			Contribution to percent change in real GDP (percentage points)		
	Second estimate	Third estimate	Third estimate minus second estimate	Second estimate	Third estimate	Third estimate minus second estimate
Gross domestic product (GDP) ¹.....	3.2	3.5	0.3	3.2	3.5	0.3
Personal consumption expenditures	2.8	3.0	0.2	1.89	2.03	0.14
Goods.....	3.4	3.5	0.1	0.74	0.77	0.03
Durable goods	11.6	11.6	0.0	0.83	0.84	0.01
Nondurable goods	-0.6	-0.5	0.1	-0.09	-0.07	0.02
Services	2.5	2.7	0.2	1.15	1.26	0.11
Gross private domestic investment	2.1	3.0	0.9	0.34	0.50	0.16
Fixed investment	-0.9	0.1	1.0	-0.15	0.02	0.17
Nonresidential	0.1	1.4	1.3	0.02	0.18	0.16
Structures	10.1	12.0	1.9	0.26	0.30	0.04
Equipment	-4.8	-4.5	0.3	-0.28	-0.26	0.02
Intellectual property products	1.0	3.2	2.2	0.04	0.13	0.09
Residential.....	-4.4	-4.1	0.3	-0.17	-0.16	0.01
Change in private inventories.....	.....	.....	.....	0.49	0.49	0.00
Net exports of goods and services .....	.....	.....	.....	0.87	0.85	-0.02
Exports.....	10.1	10.0	-0.1	1.18	1.16	-0.02
Goods.....	14.2	14.4	0.2	1.06	1.08	0.02
Services.....	2.9	2.0	-0.9	0.12	0.08	-0.04
Imports.....	2.1	2.2	0.1	-0.31	-0.31	0.00
Goods.....	0.7	0.5	-0.2	-0.08	-0.06	0.02
Services.....	8.6	9.8	1.2	-0.23	-0.26	-0.03
Government consumption expenditures and gross investment	0.2	0.8	0.6	0.05	0.14	0.09
Federal	2.5	2.4	-0.1	0.16	0.16	0.00
National defense.....	2.1	2.0	-0.1	0.08	0.08	0.00
Nondefense	3.0	3.0	0.0	0.08	0.08	0.00
State and local	-1.1	-0.2	0.9	-0.12	-0.02	0.10
Addenda:						
Final sales of domestic product	2.7	3.0	0.3	2.67	3.03	0.36
Gross domestic income (GDI).....	5.2	4.8	-0.4	.....	.....	.....
Average of GDP and GDI.....	4.2	4.1	-0.1	.....	.....	.....
Gross domestic purchases price index	1.5	1.5	0.0	.....	.....	.....
GDP price index.....	1.4	1.4	0.0	.....	.....	.....

The third estimate of the third-quarter change in real GDP was 0.3 percentage point higher than the second estimate released in November, but the general picture of economic growth remains the same. The average revision from the second estimate to third estimate for real GDP is 0.2 percentage point. The upward revision to the percent change in real GDP reflected upward revisions to nonresidential fixed investment, to consumer spending, and to state and local government spending.

The upward revision to consumer spending was primarily to services and reflected upward revisions to spending by nonprofit institutions and to consumer spending for financial services.

The largest contributor to the upward revision to nonresidential fixed investment was an upward revision to intellectual property products, which reflected updated R&D expense data from company financial reports and newly available Census Bureau data.

The upward revision to state and local government spending was primarily to investment in structures.

Source Data and Methodologies

For the details about the source data and the methodologies that are used for the estimates, see *Concepts and Methods of the U.S. National Income and Product Accounts* on BEA's Web site.

Source data for the third estimate. The third estimate of GDP for the third quarter of 2016 incorporated the following source data.

Consumer spending: Census Bureau retail sales data for September (revised) and quarterly services survey data for the third quarter (new), Federal Deposit Insurance Corporation Call Report data for the third quarter (new), Energy Information Administration electricity and natural gas usage and unit value data for September (revised).

Nonresidential fixed investment: Census Bureau con-

struction spending data for September (revised) and quarterly services survey data for the third quarter (new).

Residential fixed investment: Census Bureau construction spending data for September (revised).

Inventory investment: Census Bureau manufacturers' and trade inventories for September (revised).

State and local government spending: Census Bureau construction spending data for September (revised).

Prices: Bureau of Labor statistics (BLS) export and import prices for July, August, and September (revised), BLS producer price indexes for July, August, and September (revised), and Securities and Exchange Commission FOCUS Report data for the third quarter (new).

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							
	2016	2015	2016			2015	2016			
	III	IV	I	II	III	IV	I	II	III	
Current production measures:										
Corporate profits with IVA and CCAdj	2,138.8	-127.9	66.0	-12.5	117.8	-6.1	3.4	-0.6	5.8	
Domestic industries.....	1,729.9	-149.8	92.9	-50.5	116.5	-8.7	5.9	-3.0	7.2	
Financial.....	493.0	-18.2	8.1	5.6	50.1	-4.1	1.9	1.3	11.3	
Nonfinancial.....	1,236.9	-131.7	84.8	-56.1	66.4	-10.3	7.4	-4.6	5.7	
Rest of the world.....	408.9	22.0	-26.9	38.0	1.3	5.9	-6.8	10.3	0.3	
Receipts from the rest of the world.....	680.6	-19.9	8.7	37.5	-1.3	-3.0	1.4	5.8	-0.2	
Less: Payments to the rest of the world.....	271.6	-41.9	35.6	-0.5	-2.6	-14.9	14.9	-0.2	-0.9	
Less: Taxes on corporate income.....	563.4	44.9	-47.5	16.4	19.5	8.5	-8.3	3.1	3.6	
<i>Equals:</i> Profits after tax.....	1,575.4	-172.8	113.5	-28.9	98.3	-11.0	8.1	-1.9	6.7	
Net dividends.....	972.5	-20.8	7.3	-9.3	18.5	-2.1	0.8	-1.0	1.9	
Undistributed profits from current production.....	602.9	-152.0	106.1	-19.6	79.8	-25.8	24.3	-3.6	15.3	
Net cash flow.....	2,171.5	-141.1	112.6	-13.4	95.4	-6.7	5.7	-0.6	4.6	

IVA Inventory valuation adjustment

CCAdj Capital consumption adjustment

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

Profits from current production (corporate profits with inventory valuation adjustment and capital consumption adjustment) increased \$117.8 billion, or 5.8 percent at a quarterly rate, in the third quarter after decreasing \$12.5 billion, or 0.6 percent, in the second quarter.

Profits of domestic financial corporations increased \$50.1 billion, or 11.3 percent, after increasing \$5.6 billion, or 1.3 percent.

Profits of domestic nonfinancial corporations increased \$66.4 billion, or 5.7 percent, after decreasing \$56.1 billion, or 4.6 percent.

Profits from the rest of the world increased \$1.3 billion, or 0.3 percent, after increasing \$38.0 billion, or 10.3 percent. In the third quarter, receipts decreased \$1.3 billion and payments decreased \$2.6 billion.

Taxes on corporate income increased \$19.5 billion, or 3.6 percent, after increasing \$16.4 billion, or 3.1 percent. The pattern of taxes on corporate income reflects a federal corporate tax payment in the fourth quarter of 2015 by the Federal Reserve Banks to the U.S. Treasury; for details, see [“Why do federal corporate taxes increase in the fourth quarter of 2015.”](#)

Profits after tax with IVA and CCAdj increased \$98.3 billion, or 6.7 percent, after decreasing \$28.9 billion, or 1.9 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. 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).

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								
	2016	2015	2016			2015	2016			
	III	IV	I	II	III	IV	I	II	III	
Industry profits:										
Corporate profits with IVA	2,240.8	-130.8	69.5	-12.1	113.7	-5.9	3.4	-0.6	5.3	
Domestic industries.....	1,831.9	-152.8	96.3	-50.1	112.4	-8.4	5.8	-2.8	6.5	
Financial.....	534.0	-17.3	7.3	5.4	49.5	-3.5	1.5	1.1	10.2	
Nonfinancial.....	1,297.8	-135.5	89.0	-55.5	62.9	-10.1	7.4	-4.3	5.1	
Utilities.....	7.5	-15.9	15.3	-1.5	5.0			-37.9	197.3	
Manufacturing.....	387.3	-136.2	83.7	-10.5	3.4	-30.5	26.9	-2.7	0.9	
Wholesale trade.....	144.4	8.5	-4.8	-37.8	28.3	5.6	-3.0	-24.6	24.4	
Retail trade.....	193.0	-1.8	9.8	-3.8	11.5	-1.0	5.6	-2.0	6.3	
Transportation and warehousing.....	65.0	-2.9	0.4	-4.8	1.3	-4.1	0.6	-7.0	2.0	
Information.....	140.9	11.0	0.6	2.8	11.2	9.6	0.5	2.2	8.6	
Other nonfinancial.....	359.7	1.9	-15.9	0.0	2.3	0.5	-4.3	0.0	0.6	
Rest of the world.....	408.9	22.0	-26.9	38.0	1.3	5.9	-6.8	10.3	0.3	
Addenda:										
Profits before tax (without IVA and CCAdj).....	2,242.8	-142.5	79.6	102.6	62.2	-6.7	4.0	4.9	2.9	
Profits after tax (without IVA and CCAdj).....	1,679.4	-187.4	127.1	86.2	42.7	-11.6	8.9	5.6	2.6	
IVA.....	-2.0	11.7	-10.1	-114.7	51.5					
CCAdj.....	-102.0	2.9	-3.5	-0.4	4.2					

Profits with inventory valuation adjustment increased \$113.7 billion, or 5.3 percent at a quarterly rate, in the third quarter after decreasing \$12.1 billion, or 0.6 percent, in the second quarter.

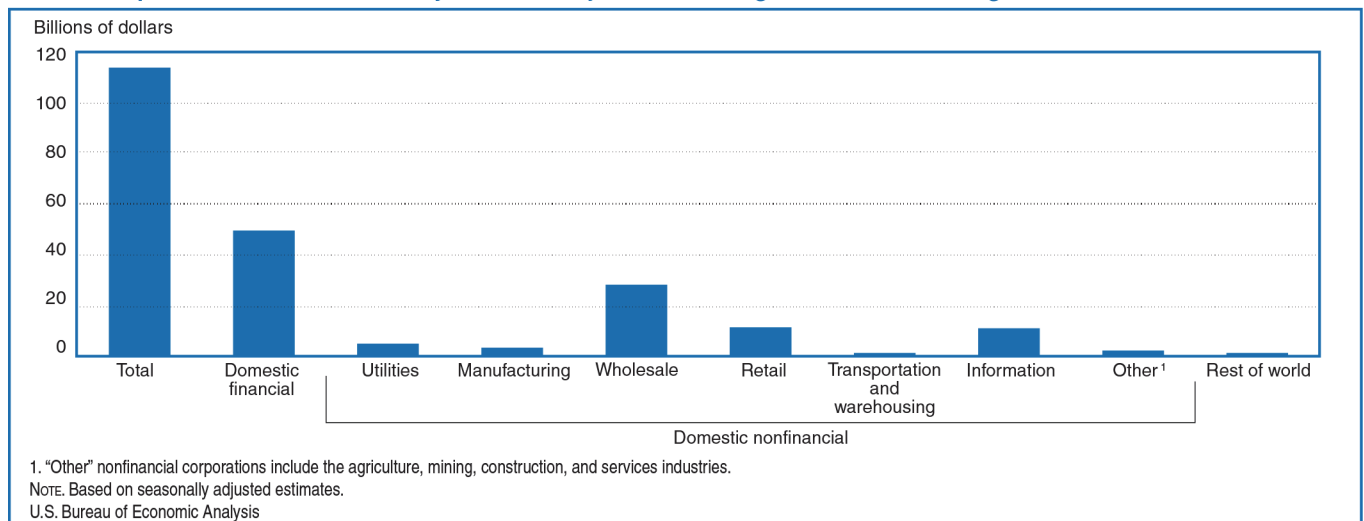
Profits of domestic industries increased \$112.4 billion, or 6.5 percent, after decreasing \$50.1 billion, or 2.8 percent.

Profits of domestic financial industries increased \$49.5 billion, or 10.2 percent, after increasing \$5.4 billion, or 1.1 percent.

Profits of domestic nonfinancial industries turned up, increasing \$62.9 billion, or 5.1 percent, after decreasing \$55.5 billion, or 4.3 percent. The upturn reflected upturns in most industries; the leading contributors were wholesale trade industries, retail trade industries, and manufacturing industries.

IVA Inventory valuation adjustment CCAdj Capital consumption adjustment
NOTE. Levels of these and other profits series are shown in NIPA tables 1.12, 1.14, 1.15, and 6.16D.

Chart 2. Corporate Profits With Inventory Valuation Adjustment: Change From the Preceding Quarter, 2016:III



Corporate Profits by Industry

Industry profits are corporate profits by industry with inventory valuation adjustment (IVA). The IVA removes the effect of price changes 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" in *Concepts and Methods of the U.S. National Income and Product Accounts* on BEA's Web site.