

Technical Note
Gross Domestic Product, First Quarter 2002 (Preliminary)
May 24, 2002

This technical note provides background information about the source data and estimating methods used to produce the estimates presented in the GDP news release; the note also provides some perspective on the estimates. Additional material will become available in the next several days; much of it will be posted to BEA's Web site <www.bea.gov>. In a few weeks, the estimates will be published in BEA's monthly journal, the *Survey of Current Business*. The *Survey* also will provide a more detailed analysis of the estimates ("The Business Situation").

Real GDP (revised): Real GDP is now estimated to have increased 5.6 percent (annual rate) in the first quarter of 2002 after increasing 1.7 percent in the fourth quarter of 2001. The revised estimate for the first quarter compares with a 5.8-percent increase shown in the advance estimate released a month ago. The 5.6-percent increase in real GDP is the strongest showing for GDP since the second quarter of 2000, when it increased 5.7 percent.

Real final sales of domestic product -- GDP less the change in private inventories -- increased 2.0 percent in first quarter; the advance estimate had shown a 2.6-percent increase. Real final sales increased 3.8 percent in the fourth quarter. Inventories were drawn down for the fifth consecutive quarter, though the pace of liquidation slowed sharply.

Disposable personal income (revised): Current-dollar disposable personal income -- personal income less personal tax and nontax payments -- increased 14.6 percent in the first quarter, 3.5 percentage points more than in the advance estimate. The upward revision reflected a downward revision to personal taxes of \$60.7 billion. The revision to taxes was mainly accounted for by federal nonwithheld income taxes and was based on actual collections data through April from the Monthly Treasury Statement and projections for the remainder of the calendar year based on historical collection patterns; in the advance estimate, the tax estimate was based on BEA projections from the Federal budget.

Corporate Profits and GNP

The news release that presents the preliminary estimate of first-quarter GDP also presents BEA's first estimates of corporate profits and gross national product (GNP) for the quarter.

Corporate Profits: Profits from current production (that is, "corporate profits with inventory valuation and capital consumption adjustments") increased 0.5 percent (quarterly rate) in the first quarter after increasing 17.9 percent in the fourth.

Profits were 4.6 percent higher in the first quarter of 2002 than in the first quarter of 2001. The current-production measure differs from profits as they are usually reported in corporate financial statements. It excludes non-operating items, such as special charges and capital gains and losses, and is based on depreciation of fixed assets and inventory withdrawals valued at current cost, rather than on a tax-return basis valued at historical cost.

Provisions of the Job Creation and Worker Assistance Act of 2002: Estimates of corporate profits for the first quarter reflect certain provisions of the Job Creation and Worker Assistance Act of 2002, which was signed into law on March 9, 2002. The act includes the following provisions that are related to depreciation and to the carryback period for net operating losses:

- o An immediate writeoff of 30 percent is allowed on certain investments contracted for after September 10, 2001 and before September 11, 2004;
- o Tax benefits retroactive to September 11th are included for the area of New York City that was damaged in the terrorist attacks; and
- o For tax year 2002 and for tax year 2001, the period for carrying back net operating losses is temporarily extended from 2 years to 5 years.

These provisions increased the depreciation that corporations could claim in the first quarter by \$125.5 billion and, thus, reduced *profits before tax (PBT)* by the same amount (see table B). (PBT is based on the depreciation-accounting practices used for federal corporate income tax returns.) As a result, *profits tax liability* was reduced \$30.3 billion, and *profits after tax* were reduced \$95.3 billion.

Profits from current production were not affected by the act, because they do not depend on the depreciation-accounting practices used for federal income tax purposes; instead, this measure of profits is based on an estimate of the value of fixed capital actually used up in the production process. However, because the act did reduce tax liability, profits from current production *on an after-tax basis* were raised \$30.3 billion.

Real GNP: Real GNP increased 4.1 percent in the first quarter after increasing 2.6 percent in the fourth quarter. GNP equals GDP plus incomes, mainly on investments, earned abroad by U.S. residents less similar incomes earned in the United States by foreign residents. Net receipts of income from the rest of the world decreased \$33.7 billion in the first quarter after increasing \$21.0 billion in the fourth.

Sources of Revision to Real GDP

The downward revision to first-quarter real GDP reflected the incorporation of revised and newly available source data for several of the major GDP components:

- o Business investment in equipment and software was revised down, reflecting the incorporation of newly available Census Bureau exports and imports data for March. Also, business investment in structures was revised down; the revision was primarily to utilities and reflected newly available Census value-put-in-place data for March and revised data for January and February.
- o State and local government spending was revised down, reflecting newly available Census value-put-in-place data for March and revised data for January and February.
- o Consumer spending for durable goods was revised down, reflecting revised Census retail sales data. The retail sales data were based on benchmark data from the annual retail trade survey, which were incorporated on a best-change basis.
- o Inventory investment was revised up, reflecting newly available Census data for March and revised data for earlier months based on the annual retail and wholesale trade surveys and on manufacturers' inventories for February.
- o Imports (which are subtracted in the calculation of GDP) were revised down, reflecting the incorporation of newly available Census goods data for March.

Table A shows both the BEA assumptions used for the advance estimate of GDP and the newly available and revised source data incorporated for the preliminary estimate for selected key series.

Brent R. Moulton
Associate Director for National Economic Accounts
Bureau of Economic Analysis
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Table A.--SOURCE DATA FOR THE ADVANCE AND PRELIMINARY ESTIMATES OF GDP FOR THE FIRST QUARTER OF 2002

This table shows the actual data used for the preliminary estimate of GDP for the first quarter of 2002. For these key series, actual data for March were not available in time for inclusion in the advance GDP estimate released on April 26, 2002, and BEA made assumptions for these source data. The numbers in brackets show the March values that had been assumed for the advance estimate. For most series, the data incorporated for February and, in some cases, for January, were preliminary, and the numbers shown in brackets are the values used last month.

All series shown in the table are in billions of dollars, seasonally adjusted at annual rates, and are published by the Bureau of the Census.

	Oct.	2001 Nov.	Dec.	Jan.	2002 Feb.	Mar.
Private fixed investment:						
Nonresidential structures:						
Buildings:						
1 Value of new nonresidential construction put in place.....	198.1	193.0	190.8	191.7 {187.5}	182.5 {181.9}	181.9 {181.0}
Equipment and software:						
2 Manufacturers' shipments of complete aircraft.....	44.9	49.1	36.8	36.6	39.2 {39.2}	43.9 {43.3}
Residential structures:						
Value of new residential construction put in place:						
3 1-unit structures.....	248.9	247.9	246.6	251.0 {250.9}	259.0 {258.7}	260.4 {259.3}
4 2-unit-or-more.....	31.5	32.1	34.7	35.9 {35.3}	34.3 {34.7}	34.1 {34.8}
Change in private inventories:						
5 Change in inventories for nondurable manufacturing.....	-14.8	-21.2	-13.9	-11.0	-6.1 {-4.2}	-1.4 {-5.9}
5a Change in inventories for merchant wholesale and retail industries other than motor vehicles and equipment..	-44.9 {-52.3}	-52.6 {-58.0}	-19.9 {-17.9}	-0.2 {-8.0}	-29.4 {-21.0}	-0.7 {-20.9}
Net exports:						
Exports of goods:						
6 U.S. exports of goods, international-transactions-accounts basis.....	677.5	672.2	659.5	660.0	658.8 {661.4}	660.7 {667.8}

6a	Excluding gold.....	675.0	669.2	656.4	657.6	656.4 {659.0}	658.0 {665.4}
Imports of goods:							
7	U.S. imports of goods, international-transactions- accounts basis.....	1098.4	1083.4	1031.2	1065.4	1101.9 {1104.6}	1105.9 {1135.4}
7a	Excluding gold.....	1095.5	1080.5	1029.8	1063.7	1099.9 {1102.6}	1103.5 {1132.9}
8	Net exports of goods.....	-421.0	-411.3	-371.8	-405.3	-443.1 {-443.2}	-445.2 {-467.5}
8a	Excluding gold.....	-420.5	-411.3	-373.5	-406.2	-443.5 {-443.6}	-445.5 {-467.5}
Government:							
State and local:							
Structures:							
9	Value of new construction put in place.....	183.1	189.5	192.7	200.4 {204.0}	201.8 {199.9}	191.3 {201.4}

**Table B.--Effects of the Job Creation and Worker Assistance Act of 2002
on Selected Measures of Corporate Profits**
[Seasonally adjusted at annual rates]

	Billions of dollars					Percent Change 1/	
	Level			Change		Q 4, 2001	Q 1, 2002
	Q 3, 2001	Q 4, 2001	Q 1, 2002	Q 4, 2001	Q 1, 2002		
Profits before tax	680.6	619.4	642.4	-61.2	23.0	-9.0%	3.7%
Tax effect *	-----	-146.5	-125.5				
Excluding tax effect	680.6	765.9	767.9	85.3	2.0	12.5%	0.3%
Tax liability	204.9	194.1	213.5	-10.8	19.4	-5.3%	10.0%
Tax effect *	-----	-35.3	-30.3				
Excluding tax effect	204.9	229.4	243.8	24.5	14.4	12.0%	6.3%
Profits after tax	475.6	425.2	428.9	-50.4	3.7	-10.6%	0.9%
Tax effect *	-----	-111.2	-95.3				
Excluding tax effect	475.6	536.4	524.2	60.8	-12.2	12.8%	-2.3%
Profits from current production 2/	697.0	822.0	826.1	125.0	4.1	17.9%	0.5%
Tax effect *	-----	0.0	0.0				
Excluding tax effect	697.0	822.0	826.1	125.0	4.1	17.9%	0.5%
Profits from current production less tax liability 2/	492.0	627.9	612.5	135.9	-15.4	27.6%	-2.4%
Tax effect *	-----	35.3	30.3				
Excluding tax effect	492.1	592.6	582.2	100.5	-10.4	20.4%	-1.8%

* Estimated impact of the retroactive provisions of the Job Creation and Worker Assistance Act of 2002

1/ At quarterly rates.

2/ Profits from current production are corporate profits with inventory valuation and capital consumption adjustments.