

Technical Note

Gross Domestic Product (Second Estimate) Corporate Profits (Preliminary Estimate) Second Quarter 2022

August 25, 2022

This technical note provides background information about the source data and estimating methods used to produce the estimates presented in the GDP news release; a brief summary of "highlights" is available on BEA's website at www.bea.gov.

Economic Factors and Second-Quarter 2022 GDP

Real GDP decreased 0.6 percent at an annual rate (0.1 percent at a quarterly rate¹) in the second quarter of 2022, following a decrease of 1.6 percent at an annual rate (0.4 percent at a quarterly rate) in the first quarter. The second-quarter decrease occurred amid continued inflation, low unemployment, ongoing supply-chain challenges, and rising interest rates. The economic effects of these factors cannot be quantified in the GDP estimate for the second quarter of 2022 because the impacts are generally embedded in source data and cannot be separately identified. For more information about COVID-19 impacts, refer to [Federal Recovery Programs and BEA Statistics](#) on our website. Real GDP for the second quarter of 2022 is 2.6 percent above the level of real GDP for the fourth quarter of 2019².

The decrease in real GDP for the second quarter reflected decreases in private inventory investment, residential fixed investment, federal government spending, and state and local government spending that were partly offset by increases in exports and consumer spending. Imports, which are a subtraction in the calculation of GDP, increased.

Sources of Revision to Real GDP

The decrease in second-quarter real GDP was revised up 0.3 percentage point from the "advance" estimate, primarily reflecting upward revisions to consumer spending, private inventory investment, and state and local government spending that were partly offset by downward revisions to residential fixed investment, federal government spending, and exports. Imports were revised down.

- Within consumer spending, an upward revision to goods was partly offset by a downward revision to services.

¹ Percent changes in quarterly seasonally adjusted series are displayed at annual rates, unless otherwise specified. For more information, refer to the FAQ [Why does BEA publish percent changes in quarterly series at annual rates?](#).

² The fourth quarter of 2019 was the most recent quarter prior to the onset of the COVID-19 pandemic. Calculated as the percent change from the fourth quarter of 2019 to the second quarter of 2022 in news release table 3, line 1.

- Within goods, both durable and nondurable goods were revised up, based on updated Census Bureau Monthly Retail Trade Survey data. Within durable goods, the leading contributor to the upward revision was recreational goods and vehicles (mainly information processing equipment). Within nondurable goods, the revision was led by "other" nondurable goods (notably, newspapers and periodicals, personal care products, and recreational items).
- Within services, revisions primarily reflected new second-quarter Census Quarterly Services Survey (QSS) data, led by a downward revision to health care (notably, nonprofit hospital services).
- Within private inventory investment, upward revisions to retail trade and manufacturing were partly offset by a downward revision to wholesale trade, based primarily on new and revised Census Bureau inventory data.
- The revision to state and local government spending primarily reflected an upward revision to structures investment based on new June and revised April and May Census Value of Construction Put in Place (VPIIP) data.
- The revision to residential fixed investment primarily reflected downward revisions to single-family structures, based on new and updated VPIIP data, and improvements, based on Bureau of Labor Statistics (BLS) remodelers' payroll data.
- Within federal government spending, the downward revision was led by defense consumption expenditures, notably compensation, based on new employment data from the Department of Defense.
- For both exports and imports, the downward revisions were led by goods, based primarily on new and updated Census trade in goods data for June.
 - Within exports, the downward revision to goods was led by nonautomotive capital goods. An upward revision to services (notably travel) was partly offsetting, based on updated data from BEA's International Transactions Accounts.
 - Within imports, the downward revision to goods was led by durable consumer goods.

Real final sales to private domestic purchasers, which measures private demand in the domestic economy and is derived as the sum of consumer spending and private fixed investment, increased 0.2 percent in the second quarter, an upward revision of 0.2 percentage point, primarily reflecting the upward revision to consumer spending.

Prices

BEA's featured measure of inflation in the U.S. economy, the price index for gross domestic purchases, increased 8.4 percent in the second quarter, an upward revision of 0.2 percentage point from the

advance estimate. Excluding food and energy, gross domestic purchases prices increased 6.8 percent, an upward revision of 0.2 percentage point. The leading contributors to the upward revision were state and local government compensation, primarily reflecting new BLS Employment Cost Index data for state and local government employees, and residential investment, primarily reflecting a revised price index for new single-family houses under construction from the Census Bureau.

The price index for personal consumption expenditures (PCE) increased 7.1 percent in the second quarter, unrevised from the advance estimate. Excluding food and energy, the “core” PCE price index increased 4.4 percent, also unrevised. For a comparison of PCE prices to BLS consumer price indexes, refer to NIPA [Table 9.1U. Reconciliation of Percent Change in the CPI with Percent Change in the PCE Price Index](#).

Gross Domestic Income and Corporate Profits

Real gross domestic income (GDI), which measures output of the economy as the costs incurred and the incomes earned in the production of goods and services (as measured by GDP), increased 1.4 percent at an annual rate (0.3 percent at a quarterly rate) in the second quarter following an increase of 1.8 percent at an annual rate (0.4 percent at a quarterly rate) in the first quarter. The average of real GDP and real GDI increased 0.4 percent at an annual rate (0.1 percent at a quarterly rate) in the second quarter, following an increase of 0.1 percent at an annual rate (less than 0.1 percent at a quarterly rate) in the first quarter.

The increase in current-dollar GDI for the second quarter primarily reflected increases in compensation, based primarily on employment, hours, and earnings data from the BLS Current Employment Statistics, and corporate profits, based primarily on preliminary Census Quarterly Financial Report data and tabulations of publicly traded companies’ earnings reports.

Profits from current production increased \$175.2 billion, or 6.1 percent (quarterly rate), in the second quarter. Domestic profits of financial corporations decreased \$24.2 billion, domestic profits of nonfinancial corporations increased \$173.9 billion, and rest-of-the-world profits increased \$25.5 billion.

Estimates of corporate profits were affected by legal settlements in the second quarter. Settlements are recorded in the national income and product accounts (NIPAs) on an accrual basis in the quarter when the settlement is finalized, regardless of when they are recorded on a company's financial statement.

- In May 2022, Allianz Global Investors U.S. LLC agreed to pay approximately \$6 billion in fines and restitution to the U.S. Securities and Exchange Commission and investors.
- In June 2022, a settlement of approximately \$1 billion was reached between insurance companies and victims of the Surfside, Florida condominium collapse.

These legal settlements paid by domestic corporations reduced financial corporate profits for the second quarter by \$7.0 billion (\$27.9 billion at an annual rate). The estimate of GDI was not impacted because the settlements were recorded in the NIPAs as business current transfer payments to government and to persons, which offset the reductions to corporate profits.

BEA's profits measure that is conceptually most similar to S&P 500 profits—national after-tax profits without inventory valuation and capital consumption adjustments—increased \$284.9 billion in the second quarter. Second-quarter national after-tax profits (shown in line 11 of table 9 of the GDP news release) increased 11.9 percent from the same quarter one year ago.

Second-Quarter 2022 Capital Transfers to State and Local Governments

Capital transfers received by state and local government are presented in [NIPA table 5.11U](#). Typically, these transactions reflect federal capital grants (which includes investment grants and other capital transfers for transportation, housing and community services, and general public service), disaster related insurance benefits, and other specified transfers. In the second quarter of 2022, capital transfers to state and local government increased \$468.1 billion (annual rate), primarily reflecting increases in capital grants from federal government and “other” capital transfers.

- Capital grants from federal government (presented on line 42 of 5.11U) increased \$363.9 billion (annual rate) in the second quarter, primarily reflecting distributions from the Coronavirus State and Local Fiscal Recovery Funds program funded by the American Rescue Plan that support future capital expenditures, including investments in property, facilities, or equipment. More information can be found in the FAQ [“How was federal assistance to the states authorized by the American Rescue Plan recorded in the NIPAs?”](#)
- The increase in “other” capital transfers (line 43) reflects the National Opioid Settlement, a legal settlement between state and local governments and four U.S. corporations, drug distributors Cardinal Health, McKesson, and AmerisourceBergen, and drug manufacturer Johnson & Johnson, that provides \$26.0 billion (\$104.0 billion at an annual rate) for opioid epidemic remediation. Settlements are recorded in the NIPAs on an accrual basis in the quarter when the settlement is finalized. The settlement was classified as a capital transfer from corporate business to state and local government. More information can be found in the FAQ [“How does the 2022 national opioid settlement impact the NIPAs?”](#)

Updates to First-Quarter Wages and Salaries

BEA's standard practice for first quarter estimates of wages and salaries is to incorporate data from the Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW) program with the publication of the annual update. For the first quarter of 2022, new QCEW data will be incorporated into next month's release of the 2022 Annual Update of the National Economic Accounts (refer to “Looking Ahead” for details).

Looking Ahead: 2022 Annual Update of the National Economic Accounts

BEA will release results from the 2022 annual update of the National Economic Accounts, which includes the National Income and Product Accounts as well as the Industry Economic Accounts, on September 29, 2022. The update will present revised statistics for GDP, GDP by Industry, and gross domestic income that cover the first quarter of 2017 through the first quarter of 2022. For details, refer to [Information on Updates to the National Economic Accounts](#).

More Information

The complete set of statistics for the second quarter is available on [BEA's website](#), along with a table presenting the "[Key Source Data and Assumptions](#)" that underlie the statistics. In a few weeks, the Survey of Current Business, BEA's online monthly journal, will present a more detailed analysis of the estimates ("GDP and the Economy").

Erich H. Strassner
Associate Director, National Economic Accounts
Bureau of Economic Analysis
(301) 278-9612