Technical Note

Gross Domestic Product (Second Estimate)
Corporate Profits (Preliminary Estimate)
Second Quarter 2021

August 26, 2021

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.

COVID-19 Impact on Second-Quarter 2021 GDP

Real GDP increased 6.6 percent at an annual rate (1.6 percent at a quarterly rate[1]) in the second quarter of 2021, following an increase of 6.3 percent at an annual rate (1.5 percent at a quarterly rate) in the first quarter. The increase in second quarter GDP reflected the continued economic recovery, reopening of establishments, and continued government response related to the COVID-19 pandemic. In the second quarter, government assistance payments in the form of loans to businesses and grants to state and local governments increased, while social benefits to households, such as the direct economic impact payments, declined. Real GDP for the second quarter of 2021 is 0.8 percent above the level of real GDP for the fourth quarter of 2019[2].

The increase in real GDP in the second quarter reflected increases in consumer spending, nonresidential fixed investment, exports, and state and local government spending that were partly offset by decreases in private inventory investment, residential fixed investment, and federal government spending. Imports, which are a subtraction in the calculation of GDP, increased. The full economic effects of the COVID-19 pandemic cannot be quantified in the GDP estimate for the second quarter of 2021 because the impacts are generally embedded in source data and cannot be separately identified.

Sources of Revision to Real GDP

The increase in second-quarter real GDP was revised up 0.1 percentage point from the "advance" estimate. The updated estimates primarily reflected upward revisions to nonresidential fixed investment, exports, and consumer spending that were partly offset by downward revisions to private inventory investment, residential fixed investment, and state and local government spending. Imports were revised down.

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[1] Percent changes in quarterly seasonally adjusted series are displayed at annual rates, unless otherwise specified. For more information, see 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 2021 in news release table 3, line 1.

- Within nonresidential fixed investment, an upward revision to intellectual property products was partly offset by a downward revision to equipment. For intellectual property products the leading contributors to the upward revision were software, based on new Census Quarterly Services Survey (QSS) data, and research and development, based on second-quarter company financial reports. For equipment, the leading contributor to the downward revision was computers and peripherals, primarily reflecting updated Census trade in goods data for June.

- For both exports and imports, the revised estimates primarily reflected updated data from BEA's International Transactions Accounts as well as new and revised Census trade in goods data for June. Within exports, both goods and services were revised up. The leading contributor to the upward revision to goods was nondurable industrial supplies and materials. The leading contributor to the upward revision to services was travel. Within imports, the leading contributors to the downward revision were durable industrial supplies and materials as well as "other" goods.

- Within consumer spending, an upward revision to goods was mostly offset by a downward revision to services. Within goods, the leading contributors to the upward revision were recreational goods and vehicles (notably, computer software and accessories) and clothing and footwear, based on updated Census Monthly Retail Trade Survey data. The leading contributors to the downward revision to services were "other" services (notably, legal services), based on new Census QSS data, as well as housing and utilities (notably, electricity and gas), based on new usage data from the Energy Information Administration.

- The revision to private inventory investment was more than accounted for by a downward revision to retail inventories, notably motor vehicle dealers, based on updated Census and Wards Intelligence inventory data.

- Within residential fixed investment, the leading contributor to the downward revision was improvements, based primarily on new June and revised May payroll data from the Bureau of Labor Statistics (BLS).

- The revision to state and local government spending primarily reflected a downward revision to structures investment (notably, highway and street construction), based on new June and revised April and May Census Value of Construction Put in Place data.

Prices

BEA's featured measure of inflation in the U.S. economy, the price index for gross domestic purchases, increased 5.8 percent in the second quarter, an upward revision of 0.1 percentage point.

The price index for personal consumption expenditures (PCE) increased 6.5 percent, an upward revision of 0.1 percentage point. Excluding food and energy prices, the PCE price index increased 6.1 percent, unrevised from the previous estimate.

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 1.6 percent at an annual rate (0.4 percent at a quarterly rate) in the second quarter, following an increase of 6.3 percent (revised) at an annual rate (1.5 percent at a quarterly rate) in the first quarter. The average of real GDP and real GDI increased 4.0 percent at an annual rate (1.0 percent at a quarterly rate) in the second quarter, following an increase of 6.3 percent at an annual rate (1.5 percent at a quarterly rate) in the first quarter. The increase in current-dollar GDI for the second quarter primarily reflected increases in corporate profits, compensation, and proprietors' income.

- Within corporate profits, the leading contributor to the increase was nonfinancial industry profits, based primarily on preliminary Census Quarterly Financial Report data and tabulations of publicly traded companies' earnings reports.

- Within compensation, the leading contributor to the increase was wages and salaries. Both private and government wages increased based primarily on employment, hours, and earnings data from the BLS Current Employment Statistics.

- Within proprietors' income, the increase reflected increases in both nonfarm and farm proprietors' income.

Subsidies, which are a subtraction in the calculation of GDI, increased in the second quarter. Corporate profits and proprietors' income were in part bolstered by provisions from federal government pandemic response programs such as the Paycheck Protection Program and tax credits for paid sick leave. More information on federal subsidy programs and their impacts on income measures is presented in Effects of Selected Federal Pandemic Response Programs on Federal Government Receipts, Expenditures, and Saving on BEA's website.

Profits from current production increased $234.5 billion, or 9.2 percent (quarterly rate), in the second quarter. Domestic profits of financial corporations increased $53.7 billion, domestic profits of nonfinancial corporations increased $169.8 billion, and rest-of-the-world profits increased $11.0 billion.

Estimates of corporate profits were affected by legal settlements in the second quarter. The national income and product accounts (NIPAs) record these settlements on an accrual basis in the quarter when the settlement is finalized, regardless of when they are recorded on a company's financial statement. A legal settlement paid by Johnson & Johnson reduced nonfinancial corporate profits for the second quarter by $2.1 billion ($8.5 billion at an annual rate). The estimate of GDI was not impacted because the settlement was recorded in the NIPAs as a business current transfer payment to persons, which offset the reduction in 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 $303.6 billion in the second quarter. Second-quarter national after-tax profits (shown in line 11 of table 9 of the GDP news release) increased 69.3 percent from the same quarter one year ago.

Updates to First-Quarter Disposable Personal Income

In addition to presenting updated estimates for the second quarter, today's release presents revised estimates of first-quarter personal current taxes, notably federal declarations, settlements, and refunds, based on updated data from the Treasury Department's Office of Tax Analysis. The updated estimates show that personal current taxes increased $152.3 billion in the first quarter, an upward revision of $93.4 billion. As a result, real disposable personal income is now estimated to have increased 54.7 percent in the first quarter, a downward revision of 2.9 percentage points, and the personal saving rate was 20.5 percent, compared with 20.8 percent in the previously published estimates.

Federal Government Economic Response to the COVID-19 Pandemic

Since the onset of the COVID-19 pandemic, several legislative acts, including the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act, and the American Rescue Plan (ARP) Act, were signed into law. The Acts established several temporary programs and provided additional funding for existing federal programs to support individuals, communities, and businesses impacted by the pandemic. Because the effects of the Acts were in the form of transfers to individuals, subsidies to businesses, and grants to state and local governments, their effects on GDP show up indirectly through the components of GDP, such as consumer spending, business investment, and government spending. Thus, BEA cannot separately identify the total effect of the Acts on changes in GDP.

It is possible, however, to identify the impacts of select recovery programs on aggregate federal government spending. In the second quarter, there was a decrease in social benefit payments to persons provided through the Unemployment Insurance Program. Federal government subsidies to businesses increased, specifically in the form of additional Paycheck Protection Program loans and through the Restaurant Revitalization Fund, as authorized by the ARP.

Further information on these and other pandemic response programs, including estimates of the effects of these programs on federal government spending, is available in Effects of Selected Federal Pandemic Response Programs on Federal Government Receipts, Expenditures, and Saving.

More Information

The complete set of statistics for the second quarter is available on BEA's website. 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").

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