

**Technical Note**  
**Gross Domestic Product, Second Quarter 2003 (Final)**  
**September 26, 2003**

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 be posted to BEA's Web site <[www.bea.gov](http://www.bea.gov)> as it becomes available over the next few days. 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 at an annual rate of 3.3 percent in the second quarter, 0.2 percentage point more than in the preliminary estimate released last month. As in the preliminary estimate, consumer spending on durable goods and federal spending on national defense were the major contributors to the second-quarter increase. Real GDP increased 1.4 percent in the first quarter.

Prices (revised): The chain-type price index for gross domestic purchases is now estimated to have increased 0.4 percent in the second quarter; the preliminary estimate had shown an increase of 0.2 percent. The index had increased 3.4 percent in the first quarter. Much of the slowdown from the first quarter to the second was due to a downturn in energy prices.

Corporate Profits (revised): Profits from current production (that is, "corporate profits with inventory valuation and capital consumption adjustments") increased 9.9 percent (quarterly rate) in the second quarter, 0.9-percentage point less than in the estimate released last month. Profits increased 2.6 percent in the first quarter; they are now 14.3 percent higher than in the second quarter of 2002.

As was explained in more detail in last month's Technical Note, the Jobs and Growth Tax Relief Reconciliation Act of 2003 (signed into law on May 28, 2003) increased the immediate depreciation writeoff that corporations could claim for property acquired after May 5, 2003, and placed in service before January 1, 2005. As a result, depreciation increased by an estimated \$75.2 billion at an annual rate (\$18.8 billion at a quarterly rate) in the second quarter, and tax liability decreased by an estimated \$18.8 billion at an annual rate (\$4.7 billion at a quarterly rate). The before-tax level of profits from current production was not affected by the increase in depreciation because profits from current production are based on a different measure of depreciation—one that approximates the value of fixed capital actually used up in the production process. On an after-tax basis, however, profits from current production were raised \$18.8 billion at an annual rate, the same amount that tax liability was reduced.

## Source of Revisions

The small upward revision to GDP reflected offsetting revisions to a number of components.

- Inventory investment was revised up, reflecting the incorporation of revised and newly available Energy Information Administration data on coal and petroleum stocks for April and May.
- Residential construction was revised up, reflecting the incorporation of revised Census Bureau data on construction spending for May and June.
- Imports, which are subtracted in the calculation of GDP, were revised up, mainly on the basis of newly available Commerce Department data on the number of international travelers for June.

The upward revision to the price index for gross domestic purchases primarily reflected revisions to prices for PCE services and for residential construction.

- The implicit price for imputed financial services was revised up based on newly available FDIC *Call Report* data, and
- the price of housing construction was revised up based on the revised single-family deflator from the Census Bureau.

The news release that presents final estimates for a quarter also presents revised estimates of wages and salaries, personal taxes, and contributions for social insurance for the preceding quarter. First-quarter wages and salaries were revised down, reflecting the incorporation of the most recently available BLS tabulations of private wages and salaries from the state unemployment insurance program. Revisions to personal taxes and to contributions for social insurance for the first quarter reflected the revisions to wages and salaries. Real disposable personal income is now estimated to have increased 1.6 percent in the first quarter (revised down from 2.1 percent) and 2.6 percent in the second quarter (revised down from 2.8 percent).

Comprehensive revision: On December 10, 2003, BEA plans to release the results of its 12th comprehensive (or benchmark) revision of the national income and product accounts (NIPA's). A series of articles providing detailed discussion of the revision is available on the BEA Web site at <[www.bea.gov/bea/dn/2003benchmark/CR2003.htm](http://www.bea.gov/bea/dn/2003benchmark/CR2003.htm)>. The latest article in the series, taken from the September *Survey*, describes statistical changes that will improve the quality of the NIPA estimates by incorporating data from new sources and by introducing new methods and techniques.

Brent R. Moulton  
Associate Director for National Economic Accounts  
Bureau of Economic Analysis  
(202) 606-9606  
September 26, 2003