

Technical Note

Gross Domestic Product Second Quarter of 2018 (Third Estimate)

September 27, 2018

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 complete set of estimates for the second quarter is available on BEA's Web site at www.bea.gov; a brief summary of "highlights" is also posted on the Web site. BEA's source data and assumptions for the "third" estimate are shown in a "[Key Source Data and Assumptions](#)" table on the BEA Web site. In a few weeks, the *Survey of Current Business*, BEA's online monthly journal, will publish a more detailed analysis of the estimates ("GDP and the Economy").

Sources of Revision to Real GDP

Real GDP increased 4.2 percent (annual rate) in the second quarter of 2018, the same rate of increase as in the "second" estimate. The updated estimates reflected more consumer spending on goods, more investment by state and local governments, and less spending on imports, which are a subtraction in the calculation of GDP. These upward revisions were offset by less inventory investment.

- The upward revision to consumer spending for goods was mostly accounted for by gasoline and other energy goods, based on new June petroleum supply data from the Energy Information Administration.
- The upward revision to state and local government investment was primarily in structures, based on revised June data from the Census Bureau's construction spending report.
- The downward revision to imports was primarily within services, specifically, "other business services." Within business services, insurance services were revised down, based on updated first and second quarter data from BEA's International Transactions Accounts (ITAs).
 - The 2017 Tax Cut and Jobs Act introduced a "base erosion and anti-abuse tax" (BEAT). BEAT is a tax on certain payments from a U.S. company to a related foreign party, which can include premium payments for reinsurance. The [ITA release for the second quarter of 2018](#) noted that some U.S. insurance companies terminated intracompany reinsurance contracts in response to this new tax, resulting in revised estimates of imported insurance services.
- The downward revision to inventory investment was mostly accounted for by information industries, a component of "other" industries, based on updated second quarter inventory data from the Census Quarterly Financial Report.

Prices

The personal consumption expenditures (PCE) price index increased 2.0 percent in the second quarter, a 0.1 percentage point increase from earlier estimates. Excluding food and energy prices, the PCE price index increased 2.1 percent, also revised up 0.1 percentage point. The leading contributor to the upward revision was health care prices, based on revised producer price index data from the Bureau of Labor Statistics.

Gross Domestic Income and Corporate Profits

Real gross domestic income (GDI), which measures output of the economy as the incomes earned and costs incurred in the production of goods and services (as measured by GDP), increased 1.6 percent in the second quarter, a downward revision of 0.2 percentage point from earlier estimates. The downward revision primarily reflected downward revisions to corporate profits and proprietors' income.

Profits from current production increased \$65.0 billion, or 3.0 percent (quarterly rate), in the second quarter, a downward revision of \$7.4 billion. Domestic profits of financial corporations increased \$16.5 billion, domestic profits of nonfinancial corporations increased \$53.0 billion, and rest-of-the-world profits decreased \$4.5 billion.

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 \$63.3 billion in the second quarter, a downward revision of \$6.2 billion. Second quarter national after-tax profits (shown in line 11 of table 9 of the GDP news release) increased 6.4 percent from the same quarter one year ago.

The downward revisions to corporate profits primarily reflected updated Census Quarterly Financial Report data and newly available compilations of publicly traded corporate financial statements.

Proprietors' income increased \$18.6 billion in the second quarter, a downward revision of \$5.0 billion, based on new U.S. Department of Agriculture Farm Income Forecast data.

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