

Technical Note
Gross Domestic Product
First Quarter of 2005 (Final)
June 29, 2005

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 first quarter is available on BEA's Web site at www.bea.gov; a brief summary of "highlights" is also posted on the Web site. In a few weeks, the estimates will be published in BEA's monthly journal, the *Survey of Current Business*, along with a more detailed analysis of the estimates ("The Business Situation").

Sources of Revisions

Real GDP growth in the first quarter was revised from 3.5 percent to 3.8 percent. The upward revision to GDP growth reflected upward revisions to exports and to residential fixed investment.

- Exports of services were revised up, reflecting newly available data from the Department of Defense on military sales contracts and newly available data on the number of travelers for March. The revisions reflected the incorporation of the annual revision to the international transactions accounts on a best-change basis.
- Investment in residential structures was revised up, mainly on the basis of a downward revision to the Census price index for single-family houses.

The price index for gross domestic purchases increased 2.7 percent in the first quarter, 0.2 percentage point less than in the preliminary estimate. The downward revision primarily reflected downward revisions to the Census Bureau's price index for single-family houses and to the implicit price indexes for imputed financial services.

Corporate Profits

The current-production measure of corporate profits was revised up \$18.6 billion. The revision mainly reflected an upward revision to profits of domestic nonfinancial corporations; profits of domestic financial corporations and profits from the rest of the world were revised down. Profits from current production increased \$76.1 billion in the first quarter, following an increase of \$150.8 billion in the fourth.

Annual Revision Scheduled for July 29

The GDP news release on July 29 will present the regular annual revision of the national income and product accounts, covering the estimates from the first quarter of 2002 through the first quarter of 2005, as well as the advance estimates for the second quarter of 2005. The revision will incorporate source data that are more complete, more detailed, and otherwise more appropriate than those previously available, including:

- Census Bureau monthly survey of construction and annual surveys of manufactures, of merchant wholesale trade, of retail trade, of services, and of state and local governments;
- BEA international transactions accounts data;
- Federal Government budget data;

- C Internal Revenue Service tabulations of tax returns for corporations and for sole proprietorships and partnerships; and
- C Department of Agriculture farm income statistics.

The annual revision will also incorporate refinements to estimating methodologies, including the following:

- C Data from the Census Bureau's new quarterly services survey will be incorporated in the quarterly estimates of investment in software and of consumer spending for services. This new survey is the Federal Government's first new economic indicator in nearly thirty years and provides timely information on economic performance in the services industries.
- C The methods used for calculating the estimates of implicit services of commercial banks will be refined by removing mortgage-backed securities from the calculation of the reference rate of interest and by using a new indicator series for extrapolating quarterly depositor services. These refinements are expected to reduce the volatility of the price index for personal consumption expenditures.

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