

# Technical Note

## Gross Domestic Product First Quarter of 2020 (Third Estimate)

June 25, 2020

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 and a summary of “highlights” are available on BEA's Web site at [www.bea.gov](http://www.bea.gov). BEA's source data and assumptions for the "third" estimate are shown in a "[Key Source Data and Assumptions](#)" table. 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").

### Coronavirus (COVID-19) Impact on First-Quarter 2020 GDP

Real GDP decreased 5.0 percent (annual rate) in the first quarter of 2020, following a 2.1 percent increase in the fourth quarter of 2019. The decline in first quarter GDP reflected the response to the spread of COVID-19, as governments issued “stay-at-home” orders in March. This led to rapid changes in demand, as businesses and schools switched to remote work or canceled operations, and consumers canceled, restricted, or redirected their spending. The first quarter decrease reflected declines in consumer spending, private inventory investment, exports, and nonresidential fixed investment that were partly offset by increases in residential fixed investment and government spending. Imports, which are a subtraction in the calculation of GDP, decreased. The full economic effects of the COVID-19 pandemic cannot be quantified in the GDP estimate for the first quarter of 2020 because the impacts are generally embedded in source data and cannot be separately identified.

### Sources of Revision to Real GDP

The 5.0 percent decrease in first-quarter real GDP was the same as in the “second” estimate. The updated estimates primarily reflected an upward revision to nonresidential fixed investment that was offset by downward revisions to private inventory investment, consumer spending, and exports.

- Within nonresidential fixed investment, the largest contributor to the upward revision was structures, notably, power and communication structures, based primarily on revised Census Bureau Value of Construction Put in Place data.
- Within private inventory investment, the largest contributors to the downward revision were wholesale trade and nondurable goods manufacturing inventories, based primarily on revised Census inventory book values for March.

- The revision to consumer spending primarily reflected a downward revision to services. Within services, the largest contributors to the downward revision were financial services, led by portfolio and investment advice services, and “other” services, led by social services as well as personal care. These downward revisions were partly offset by an upward revision to spending by nonprofit institutions on behalf of households for healthcare services. The revisions to services components primarily reflected new and updated first-quarter revenue and expense data from the Census Quarterly Services Report.
- Within exports, the downward revision was more than accounted for by goods, notably downward revisions to automotive vehicles and parts as well as to foods, feeds, and beverages, based on updated statistics from BEA’s International Transactions Accounts (ITAs).

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, decreased 5.7 percent in the first quarter, an upward revision of 0.2 percentage point.

### **Prices**

BEA’s featured measure of inflation in the U.S. economy, the price index for gross domestic purchases, increased 1.7 percent in the first quarter, the same as in the second estimate.

The price index for personal consumption expenditures (PCE) increased 1.3 percent, the same as in the second estimate. Excluding food and energy prices, the PCE price index increased 1.7 percent, an upward revision of 0.1 percentage point.

### **Gross Domestic Income and Corporate Profits**

Real gross domestic income (GDI), which measures the output of the economy as the incomes earned and costs incurred in the production of goods and services (as measured by GDP), decreased 4.4 percent in the first quarter, a downward revision of 0.2 percentage point from the previous estimate.

Profits from current production decreased \$262.8 billion, or 12.3 percent (quarterly rate), in the first quarter. Domestic profits of financial corporations decreased \$37.5 billion, domestic profits of nonfinancial corporations decreased \$181.8 billion, and rest-of-the-world profits fell \$43.5 billion.

- The decrease in first-quarter corporate profits was revised up \$32.6 billion from the preliminary estimate. The upward revision reflected upward revisions to domestic financial industries’ profits, based primarily on new Federal Reserve Board data, and to rest-of-the-world profits, based on updated ITA data. In contrast, domestic nonfinancial industries’ profits were revised down, based primarily on updated Census Quarterly Financial Report data.

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—decreased \$268.2 billion in the first quarter. First-quarter national after-tax profits (shown in line 11 of table 9 of the GDP news release) decreased 9.1 percent from the same quarter one year ago.

## **Federal Government Economic Response to the COVID-19 Pandemic**

Since the onset of the COVID-19 pandemic, several legislative acts, including the CARES 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 may be intermingled with other spending in the source data, BEA does not expect to be able to separately identify the total quarterly or annual effect of the acts on GDP growth. However, given the timing of the passage of the legislation, any impacts on first-quarter GDP growth were small.

BEA is actively tracking specific programs and provisions of the pandemic response legislation to accurately classify the various programs in the National Income and Product Accounts (NIPAs), including provisions associated with [Economic Impact Payments](#) to individuals, the expansion of [Unemployment Insurance Program](#) benefits, and the [Paycheck Protection Program](#). For more details, see "[COVID-19 Pandemic: Federal Recovery Legislation and the NIPAs](#)" on BEA's Web site.

## **Looking Ahead: 2020 Annual Update Scheduled for July 30th**

BEA will release results from the 2020 annual update of the NIPAs on July 30, 2020, in conjunction with the advance estimate of GDP for the second quarter of 2020. For estimates of real GDP and its major components, the span of the update will cover the most recent five years (2015-2019) and the first quarter of 2020. Estimates of income and saving will be subject to revision from 1999 through the first quarter of 2020. More information on the 2020 annual update is included in the May *Survey of Current Business* article, "[GDP and the Economy](#)."

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