Bureau of Economic Analysis
U.S. DEPARTMENT OF COMMERCE

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Technical Note

Gross Domestic Product (Third Estimate), Corporate Profits (Revised), and GDP by Industry, Third Quarter 2020

December 22, 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; a brief summary of "highlights" is available on BEA's website at www.bea.gov.

COVID-19 Impact on Third-Quarter 2020 GDP

Real GDP increased 33.4 percent at an annual rate (7.5 percent at a quarterly rate[1]) in the third quarter of 2020, following a decrease of 31.4 percent at an annual rate (9.0 percent at a quarterly rate) in the second quarter. The increase in third quarter GDP reflected continued efforts to reopen businesses and resume activities that were postponed or restricted due to COVID-19. Real GDP for the third quarter of 2020 is 3.4 percent below the level of real GDP for the fourth quarter of 2019 [2].

The increase in real GDP reflected increases in consumer spending, private inventory investment, exports, nonresidential fixed investment, and residential fixed investment that were partly offset by decreases in both federal and state and local 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 third quarter of 2020 because the impacts are generally embedded in source data and cannot be separately identified.

Sources of Revision to Real GDP

The increase in third-quarter real GDP was revised up 0.3 percentage point from the “second” estimate. The updated estimates primarily reflected upward revisions to consumer spending and nonresidential fixed investment that were partly offset by a downward revision to exports.

- Within consumer spending, both services and goods were revised up.
    - For services, the revision primarily reflected upward revisions to the output of nonprofit hospitals and spending for “other” services. Within other services, the leading

[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 third quarter of 2020 in news release table 3, line 1.

contributors to the upward revision were professional and social services (notably, legal services and childcare). These upward revisions were partly offset by downward revisions to health care (notably, home health care as well as physician services) and recreation services (notably, casino gambling as well as live entertainment). The revised estimates were based primarily on new and revised third-quarter Quarterly Services Survey (QSS) data from the Census Bureau.

  - For goods, the largest contributors to the upward revision were food and beverages as well as clothing and footwear, based on revised Census Monthly Retail Trade Survey data.

- The upward revision to nonresidential fixed investment reflected upward revisions to intellectual property products (notably, research and development), primarily based on new QSS data, and equipment (notably, aircraft) primarily based on revised Census shipments data and updated data from BEA's International Transactions Accounts (ITAs). These upward revisions were partly offset by a downward revision to structures, based primarily on revised Census Value of Construction Put in Place data.

- Within exports, downward revisions to other business services and transport services were partly offset by an upward revision to royalties and license fees, primarily based on updated data from BEA's 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, increased 39.0 percent in the third quarter, an upward revision of 0.5 percentage point.

Prices

BEA's featured measure of inflation in the U.S. economy, the price index for gross domestic purchases, increased 3.3 percent in the third quarter and was unrevised from the second estimate.

The price index for personal consumption expenditures (PCE) increased 3.7 percent, unrevised from the second estimate. Excluding food and energy prices, the PCE price index increased 3.4 percent, a downward revision of 0.1 percentage point from the second estimate, reflecting a revision to financial services prices based on new third quarter Call Report data from the Federal Reserve Board.

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 25.8 percent at an annual rate (5.9 percent at a quarterly rate) in the third quarter. The third-quarter increase in real GDI was revised up 0.3 percentage point from the previous estimate, and primarily reflected an upward revision to state and local taxes on production and imports, based on new third-quarter data from the Census Quarterly Summary of State and Local Tax Revenue.

Profits from current production increased $499.6 billion, or 27.4 percent (quarterly rate), in the third quarter. Domestic profits of financial corporations increased $12.1 billion, domestic profits of nonfinancial corporations increased $436.2 billion, and rest-of-the-world profits increased $51.3 billion. Profits were boosted by provisions from the Paycheck Protection Program.

- The increase in third-quarter corporate profits was revised up $4.3 billion from the preliminary estimate, reflecting upward revisions to domestic nonfinancial industries and to rest-of-the-world profits that were partly offset by a downward revision to domestic financial industries profits. For nonfinancial profits, the revised estimates were based primarily on updated Census Quarterly Financial Report data. For both financial and rest of the world profits, the revised estimates were based primarily on updated ITA data.

- Estimates of corporate profits were affected by legal settlements in the third quarter. The national income and product accounts 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. The estimates of financial corporate profits were reduced by $3.4 billion ($13.7 billion at an annual rate), reflecting two legal settlements: one with J.P. Morgan and the U.S. government and a second with Goldman Sachs and the Malaysian government. The settlements were recorded as business current transfer payments to the federal government and to the rest of the world, respectively. These current transfer payments offset the reduction in corporate profits, and as a result, did not affect the estimate of GDI.

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 $561.8 billion in the third quarter. Third-quarter national after-tax profits (shown in line 11 of table 9 of the GDP news release) increased 10.3 percent from the same quarter one year ago.

Bringing Together National, Industry, and State GDP Statistics

BEA now releases its industry and state GDP statistics to align with the quarterly estimates of national GDP. GDP by industry statistics are issued on the same day – and in the same news release – as the third estimate of national GDP. Third-quarter GDP by state statistics will follow in a separate news release within one business day. These three major dimensions of GDP are now synchronized to cover the same quarter, giving users a fuller and more timely view of the U.S. economy.

Real GDP by Industry

Today's release includes estimates of GDP by industry, or value added—a measure of an industry's contribution to GDP (shown in table 12 of the news release). Private goods-producing industries increased 47.2 percent at an annual rate (10.1 percent at a quarterly rate), private services-producing industries increased 35.1 percent (7.8 percent at a quarterly rate), and government increased 10.1 percent (2.4 percent at a quarterly rate).

Overall, 21 of 22 industry groups contributed to the third-quarter increase in real GDP (table 13). The leading contributors to the increase in real GDP were health care and social assistance (led by ambulatory health care services), durable goods manufacturing (led by motor vehicles, bodies and trailers, and parts), accommodation and food services (led by food services and drinking places), retail trade (led by other retail) and wholesale trade. Mining was the only industry that decreased in the third quarter (led by support activities for mining).

Real value added for these industry groups generally reflected increases in gross operating surplus and compensation. Subsidies, which are a subtraction in the calculation of value added, increased in the third quarter, as many industries received assistance through various provisions of the CARES Act. Estimates for subsidies associated with forgivable Paycheck Protection Program loans are available by industry in "Paycheck Protection Program Subsidies by Industry in the National Accounts, 2020Q3".

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 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 quarterly or annual 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 third quarter, expanded Unemployment Insurance Program benefits boosted the level of government social benefits, and the portion of forgivable loans to businesses and nonprofits provided through the Paycheck Protection Program raised government subsidies and social benefit payments, respectively. 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" on BEA's website.

More Information

The complete set of statistics for the third quarter is available on BEA's website along with a table presenting the "Key Source Data and Assumptions" that underlie the statistics. 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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