Business Situation

Final Estimates for the First Quarter of 2003

ACCORDING to the "final" estimates of the national income and product accounts (NIPA's), real GDP increased 1.4 percent in the first quarter of 2003, half a percentage point less than in last month's "preliminary" estimates and the same as in the fourth quarter of 2002 (table 1 and chart 1).[1]

As discussed in the section "Revisions," inventory investment accounted for most of the revision to GDP; real final sales of domestic product was revised down only 0.1 percentage point.[2] Thus, aside from inventory investment, the picture of the economy shown in the final estimates is very similar to that shown in the preliminary estimates. In both sets of estimates,

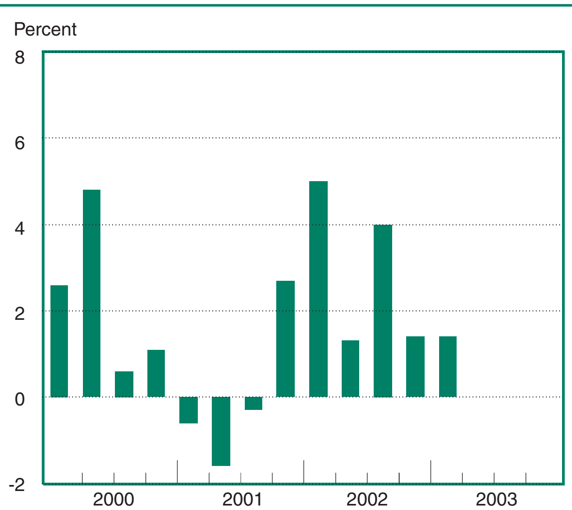
- Consumer spending and residential investment contributed substantially to first-quarter growth.
- Inventory accumulation slowed (though more in the final estimates than in the preliminary), nonresidential fixed investment decreased, and government spending posted a small increase.
- The price index for gross domestic purchases increased about twice as much as in the fourth quarter.

1. Quarterly estimates in the NIPA's are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter dollar changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized. "Real" estimates are in chained (1996) dollars, and price indexes are chain-type measures.

2. In this article, "inventory investment" is shorthand for the NIPA series "change in private inventories," "consumer spending" is shorthand for "personal consumption expenditures," and "government spending" is shorthand for "government consumption expenditures and gross investment."

This article was prepared by Daniel Larkins.

Chart 1. Real Gross Domestic Product



Note. Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

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Table 1. Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2003	2002			2003	2002			2003
	I	II	III	IV	I	II	III	IV	I
Gross domestic product	**9,552.0**	**29.2**	**93.2**	**32.6**	**33.8**	**1.3**	**4.0**	**1.4**	**1.4**
Less: Exports of goods and services	1,058.1	34.9	12.2	–16.1	–3.5	14.3	4.6	–5.8	–1.3
Plus: Imports of goods and services	1,568.4	75.8	12.8	28.1	–25.4	22.2	3.3	7.4	–6.2
Equals: Gross domestic purchases	**10,020.7**	**62.6**	**93.9**	**70.8**	**15.2**	**2.6**	**3.9**	**2.9**	**0.6**
Less: Change in private inventories	4.8	33.8	13.9	7.0	–21.0	....	....	....	....
Equals: Final sales to domestic purchasers	**10,004.7**	**31.6**	**80.1**	**64.0**	**34.6**	**1.3**	**3.3**	**2.6**	**1.4**
Personal consumption expenditures	6,670.9	28.6	67.5	28.0	33.0	1.8	4.2	1.7	2.0
Durable goods	1,005.4	4.8	51.7	–21.8	–5.2	2.0	22.8	–8.2	–2.0
Nondurable goods	1,978.9	–0.5	4.9	24.2	28.9	–0.1	1.0	5.1	6.1
Services	3,714.9	24.0	20.8	20.0	7.9	2.7	2.3	2.2	0.9
Private fixed investment	1,587.9	–3.8	–1.0	16.9	–0.6	–1.0	–0.3	4.4	–0.1
Nonresidential	1,172.1	–7.3	–2.4	6.6	–13.2	–2.4	–0.8	2.3	–4.4
Structures	211.0	–11.5	–13.5	–5.6	–1.6	–17.6	–21.4	–9.9	–2.9
Equipment and software	979.9	7.7	15.8	14.9	–12.2	3.3	6.7	6.2	–4.8
Residential	405.5	2.5	1.0	8.8	9.6	2.7	1.1	9.4	10.1
Government consumption expenditures and gross investment	1,736.7	6.0	12.3	19.4	1.7	1.4	2.9	4.6	0.4
Federal	632.5	10.9	6.4	16.3	1.1	7.5	4.3	11.0	0.7
National defense	409.7	7.3	6.7	10.7	–3.5	7.8	6.9	11.0	–3.3
Nondefense	222.8	3.6	–0.2	5.6	4.5	6.9	–0.3	11.1	8.4
State and local	1,104.6	–4.6	5.9	3.4	0.6	–1.7	2.2	1.2	0.2
Addendum: Final sales of domestic product	**9,536.2**	**–1.5**	**79.3**	**25.9**	**53.1**	**–0.1**	**3.4**	**1.1**	**2.3**

NOTE. Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1. (See "Selected NIPA Tables," which begins on page D–2 in this issue.)

According to the final estimates for the first quarter,

- Consumer spending contributed 1.40 percentage points to first-quarter growth, and residential investment contributed 0.45 percentage point; each had contributed somewhat less in the fourth quarter (table 2).
- Inventory investment and nonresidential fixed investment each subtracted from growth in the first quarter after adding to growth in the fourth.
- Imports, which are subtracted in the calculation of GDP, and exports both decreased. The decrease in imports was considerably larger than that in exports.
- The price index for gross domestic purchases increased 3.4 percent after increasing 1.8 percent. Most of the step-up was due to a jump in energy prices. Excluding the prices of food and energy, the index increased 1.8 percent after increasing 1.5 percent, and much of this small step-up was due to a pay raise for Federal civilian and military personnel.

Table 2. Contributions to Percent Change in Real Gross Domestic Product

[Seasonally adjusted at annual rates]

	2002			2003
	II	III	IV	I
Percent change at annual rate:				
Gross domestic product	1.3	4.0	1.4	1.4
Percentage points at annual rates:				
Personal consumption expenditures	1.22	2.93	1.19	1.40
Durable goods	0.16	1.74	–0.72	–0.17
Nondurable goods	–0.02	0.22	1.01	1.21
Services	1.08	0.97	0.90	0.36
Gross private domestic investment	1.16	0.55	0.93	–0.83
Fixed investment	–0.15	–0.03	0.65	–0.02
Nonresidential	–0.27	–0.08	0.24	–0.47
Structures	–0.53	–0.62	–0.25	–0.07
Equipment and software	0.26	0.53	0.49	–0.40
Residential	0.12	0.05	0.41	0.45
Change in private inventories	1.31	0.58	0.28	–0.82
Net exports of goods and services	–1.40	–0.01	–1.59	0.78
Exports	1.29	0.45	–0.59	–0.13
Goods	0.99	0.28	–0.82	0.13
Services	0.30	0.17	0.23	–0.25
Imports	–2.69	–0.47	–1.00	0.91
Goods	–2.74	–0.40	–0.71	0.81
Services	0.05	–0.07	–0.30	0.10
Government consumption expenditures and gross investment	0.27	0.56	0.85	0.08
Federal	0.47	0.29	0.70	0.05
National defense	0.32	0.29	0.46	–0.15
Nondefense	0.16	–0.01	0.25	0.20
State and local	–0.21	0.27	0.15	0.03

NOTE. More detailed contributions to percent change in real gross domestic product are shown in NIPA table 8.2. Contributions to percent change in major components of real gross domestic product are shown in tables 8.3 through 8.6.

Revisions

The final estimate of first-quarter GDP growth, 1.4 percent, is 0.5 percentage point lower than the preliminary estimate (table 3). Over the past 20 years, the average revision to GDP growth, without regard to the sign, from the preliminary estimate to the final estimate was 0.3 percentage point.

Inventory investment subtracted 0.34 percentage point more from GDP growth in the final estimate than in the preliminary estimate. The revision mainly reflected the incorporation of

- Newly available data from the Energy Information Administration on the stocks of coal and petroleum at electric utilities for January and February, and
- Revised data from the Census Bureau on manufacturing inventories for March.

Imports added 0.13 percentage point less to GDP growth in the final estimate than in the preliminary estimate. The revision mainly reflected the incorporation of revised source data on trade in goods and services from BEA's annual revision of the international transactions accounts (ITA's).[3]

The effects of the inventory and import revisions were partly offset by an upward revision to investment in equipment and software that reflected the incorporation of revised source data on the price of prepackaged software.

The increase in the price index for gross domestic purchases was revised down to 3.4 percent from 3.6 percent. The revision mainly reflected the revised software prices and a revision to the implicit price for imputed financial services based on newly available *Call Report* data from the Federal Deposit Insurance Corporation.

The release of the final NIPA estimates for the first quarter also included revised estimates for several fourth-quarter income flows. Wages and salaries were revised down, reflecting the most recently available data from Bureau of Labor Statistics tabulations of private wages and salaries from the state unemployment insurance program. Personal taxes and contributions for social insurance were revised to reflect the revision to wages and salaries. Real disposable personal income (DPI) in the fourth quarter is now estimated to have increased 1.4 percent (revised down from 2.4 percent); real DPI in the first quarter is now estimated to have increased 2.1 percent (revised down from 2.3 percent).

Table 3. Revisions to Change in Real Gross Domestic Product and Prices, First Quarter 2003

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Final estimate minus preliminary estimate	
	Preliminary estimate	Final estimate	Percentage points	Billions of chained (1996) dollars
Gross domestic product	**1.9**	**1.4**	**–0.5**	**–10.9**
Less: Exports	–1.4	–1.3	0.1	0.2
Goods	0.1	1.9	1.8	3.4
Services	–4.6	–8.0	–3.4	–2.9
Plus: Imports	–7.1	–6.2	0.9	3.6
Goods	–7.3	–6.7	0.6	2.3
Services	–5.9	–4.0	1.9	1.2
Equals: Gross domestic purchases	**0.9**	**0.6**	**–0.3**	**–8.0**
Less: Change in private inventories	....	....	....	–8.4
Equals: Final sales to domestic purchasers	**1.4**	**1.4**	**0.0**	**0.1**
Personal consumption expenditures	2.0	2.0	0.0	–0.7
Durable goods	–1.8	–2.0	–0.2	–0.6
Nondurable goods	6.4	6.1	–0.3	–1.4
Services	0.7	0.9	0.2	1.1
Private fixed investment	–0.2	–0.1	0.1	0.2
Nonresidential	–4.8	–4.4	0.4	1.3
Structures	0.4	–2.9	–3.3	–1.7
Equipment and software	–6.3	–4.8	1.5	3.9
Residential	11.0	10.1	–0.9	–0.9
Government consumption expenditures and gross investment	0.3	0.4	0.1	0.5
Federal	0.9	0.7	–0.2	–0.3
National defense	–3.4	–3.3	0.1	0.1
Nondefense	9.1	8.4	–0.7	–0.4
State and local	–0.1	0.2	0.3	0.8
Addendum:				
Final sales of domestic product	2.4	2.3	–0.1	–2.9
Gross domestic purchases price index	3.6	3.4	–0.2	....
GDP price index	2.5	2.4	–0.1	....

NOTE. The final estimates for the first quarter of 2003 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

Personal consumption expenditures: Revised retail sales for March.

Nonresidential fixed investment: Revised construction put-in-place for February and March.

Residential fixed investment: Revised construction put-in-place for February and March.

Change in private inventories: Revised manufacturers' and trade inventories for March, and stocks of coal and petroleum at electric utilities for January and February.

Exports and imports of goods and services: Revised data on exports and imports of goods and services for October 2002 through March 2003 that include the incorporation (on a "best-change" basis) of the results of the annual revision of BEA's international transactions accounts.

Government consumption expenditures and gross investment: Revised state and local construction put–in–place for February and March.

Wages and salaries: Revised private wages and salaries for the fourth quarter, and revised employment, average hourly earnings, and average weekly hours for October 2002 through March 2003 that reflect the incorporation (on a best-change basis) of the results of the Bureau of Labor Statistics annual benchmark revisions to the establishment payroll survey.

GDP prices: Revised export and import prices for January through March, revised unit-value index for petroleum imports for March, revised prices of single-family houses under construction for the quarter, bank services data for the quarter, and revised prices for prepackaged software.

3. For the relationship between ITA estimates and NIPA estimates, see table 2 in Appendix A (page D–62). For more information, see "Annual Revision of the U.S. International Accounts, 1992–2002" in this issue.

The revised ITA data were incorporated on a "best-change" basis—that is, the change in the revised source data from the fourth quarter of 2002 to the first quarter of 2003 is incorporated into the NIPA estimates. The *level* of imports (and of exports) in the NIPA's will be revised in December's comprehensive revision of the NIPA's.

Gross National Product, next page.

Gross National Product

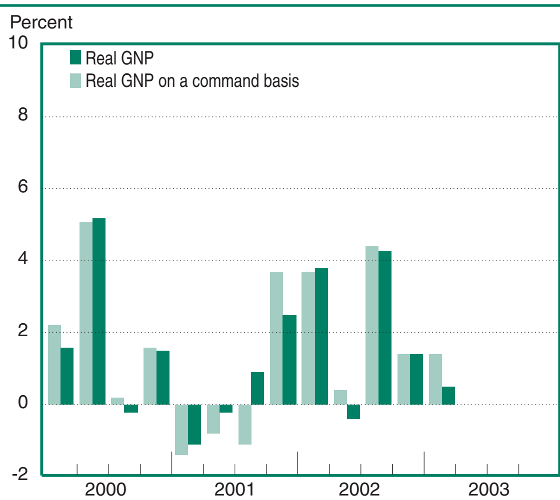
Real gross national product (GNP) increased 1.4 percent in the first quarter, the same as in the fourth quarter and the same as GDP (table 4). GNP is a measure of the goods and services produced by labor and property supplied by U.S. residents; it differs from GDP by the addition of income receipts from the rest of the world and the subtraction of income payments to the rest of the world. Income receipts and payments decreased by similar amounts in the first quarter, and the decreases in both reflected decreases in interest income.

"Command-basis" GNP increased 0.5 percent (chart 2). This variant of GNP measures the change in the purchasing power in world markets of the goods and services that are produced by the U.S. economy—in other words, the change in the quantity of goods and services that could be purchased by the United States as a result of its current production.

Changes in command-basis GNP reflect changes in the prices of traded goods and services as summarized by movements in the "terms of trade"—the ratio of export prices to import prices. When the terms of trade improve (that is, when export prices rise relative to import prices) the purchasing power, or command value, of U.S. GNP in international markets increases by more than the production of goods and services valued in U.S. prices.[4] Conversely, when the terms of trade deteriorate (that is, when export prices fall relative to import prices) the purchasing power, or command value, of U.S. GNP in international markets increases by less than the production of goods and services valued in U.S. prices.

The national saving rate, which is measured as gross saving as a percentage of GNP, continued its downtrend, dropping from 14.3 percent (revised) in the fourth quarter to 14.0 percent in the first. The rate had peaked at 18.5 percent in the third quarter of 2000.

Chart 2. Real Gross National Product



Note. Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

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4. In the estimates of command-basis GNP, the current-dollar value of the sum of exports of goods and services and income receipts is deflated by the implicit price deflator (IPD) for the sum of imports of goods and services and income payments.

The terms of trade is measured by the following ratio, with the decimal point shifted two places to the right: In the numerator, the IPD for the sum of exports of goods and services and of income receipts; in the denominator, the IPD for the sum of imports of goods and services and of income payments.

Changes in the terms of trade reflect the interaction of several factors, including movements in exchange rates, changes in the composition of the traded goods and services, and changes in producers' profit margins. For example, if the U.S. dollar depreciates against a foreign currency, a foreign manufacturer may choose to absorb this cost by reducing the profit margin on the product it sells to the United States, or it may choose to raise the price of the product and risk a loss in market share.

Table 4. Relation of Real Gross Domestic Product, Real Gross National Product, and Real Command-Basis Gross National Product

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2003	2002			2003	2002			2003
	I	II	III	IV	I	II	III	IV	I
Gross domestic product	**9,552.0**	**29.2**	**93.2**	**32.6**	**33.8**	**1.3**	**4.0**	**1.4**	**1.4**
Plus: Income receipts from the rest of the world	252.5	9.0	9.5	–3.8	–5.0	15.7	15.9	–5.7	–7.5
Less: Income payments to the rest of the world	260.4	29.0	1.3	–5.3	–3.8	58.2	1.9	–7.6	–5.6
Equals: Gross national product	**9,544.7**	**9.2**	**101.2**	**34.2**	**32.6**	**0.4**	**4.4**	**1.4**	**1.4**
Less: Exports of goods and services and income receipts from the rest of the world	1,305.5	43.9	22.3	–19.8	–8.9	14.6	7.0	–5.8	–2.7
Plus: Command–basis exports of goods and services and income receipts from the rest of the world [1]	1,316.2	24.4	20.0	–20.2	–29.2	7.6	6.1	–5.8	–8.4
Equals: Command-basis gross national product	**9,555.4**	**–10.3**	**99.0**	**33.8**	**12.3**	**–0.4**	**4.3**	**1.4**	**0.5**
Addendum:									
Terms of trade [2]	**100.8**	**–1.6**	**–0.2**	**0.0**	**–1.6**	**–6.0**	**–0.8**	**0.0**	**–6.1**

1. Exports of goods and services and income receipts deflated by the implicit price deflator for imports of goods and services and income payments.

2. The terms of trade is the following ratio, with the decimal point shifted two places to the right: In the numerator, the implicit price deflator (IPD) for the sum of exports of goods and services and of income receipts; in the denominator, the IPD for the sum of imports of goods and services and of income payments.

NOTE. See note to table 1 for an explanation of chained (1996) dollar series. Levels of these series are shown in NIPA tables 1.10 and 1.11.

Corporate Profits

Profits from current production increased $20.4 billion (2.6 percent at a quarterly rate) in the first quarter, a little less than in the fourth quarter (table 5).[5]

The revised first-quarter estimate is $12.5 billion higher than the preliminary estimate. Profits of domestic nonfinancial corporations were revised up $6.6 billion, and profits of domestic financial corporations were revised up $4.9 billion. Profits from the rest of the world were revised up $0.9 billion.

Profits of domestic financial corporations increased $15.9 billion (7.7 percent). Most of the increase was accounted for by "other" financial corporations.

Profits of domestic nonfinancial corporations increased $12.1 billion (2.5 percent), as output and profits per unit rose.[6] The increase in profits per unit reflected a combination of higher unit prices and lower unit costs.

Profits from the rest of the world decreased $7.6 billion, as payments by domestic affiliates to their foreign parents increased more than receipts by domestic parents from foreign affiliates.[7]

Cash flow from current production, a profits-related measure of internally generated funds available for investment, decreased $4.0 billion—the fourth decrease in five quarters.[8] The ratio of cash flow to nonresidential fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, increased to 87.4 percent in the first quarter from 86.7 percent in the fourth. The ratio has hovered in the range of 86 to 89 percent range for a year and a half; during the expansion of the 1990s, it averaged 82.2 percent.

Profits with inventory valuation adjustment (IVA). The current-production measure of profits is not

5. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown in NIPA tables 1.9, 1.14, 1.16, and 6.16C (see "Selected NIPA Tables," which begins on page D–2 of this issue) as corporate profits with inventory valuation and capital consumption adjustments.

Percent changes in profits are shown at quarterly, not annual, rates.

6. "Output" here is the gross product of nonfinancial corporations. It measures the contribution, or value added, of these businesses to the Nation's output, and it is measured as the sum of incomes generated by these businesses.

7. Profits from the rest of the world is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA's international transactions accounts.

8. Cash flow from current production is undistributed profits with inventory valuation and capital consumption adjustments plus the consumption of fixed capital.

Table 5. Corporate Profits

[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change (quarterly rate)			
	Level	Change from preceding quarter							
	2003	2002			2003	2002			2003
	I	II	III	IV	I	II	III	IV	I
Profits from current production	**816.5**	**–12.6**	**–14.0**	**25.1**	**20.4**	**–1.6**	**–1.8**	**3.2**	**2.6**
Domestic industries	710.0	4.3	–15.0	27.1	28.0	0.7	–2.2	4.1	4.1
Financial	223.5	–2.5	–3.4	0.3	15.9	–1.2	–1.6	0.1	7.7
Nonfinancial	486.5	6.9	–11.7	26.8	12.1	1.5	–2.5	6.0	2.5
Rest of the world	106.5	–16.9	1.0	–2.0	–7.6	–12.8	0.9	–1.8	–6.6
Receipts (inflows)	193.0	12.0	12.5	1.4	5.7	7.4	7.2	0.8	3.1
Payments (outflows)	86.6	28.9	11.4	3.6	13.3	98.3	19.6	5.0	18.1
IVA	–26.9	–7.6	–9.4	6.6	–18.4	....	....	....	....
CCAdj	115.3	–23.5	–15.2	–7.9	5.6	....	....	....	....
Profits before tax	728.1	18.5	10.6	26.4	33.2	2.9	1.6	3.9	4.8
Profits tax liability	237.8	11.3	1.0	7.7	15.4	5.6	0.5	3.6	6.9
Profits after tax	490.2	7.3	9.5	18.7	17.7	1.7	2.1	4.1	3.8
Profits from current production less tax liability	**578.6**	**–23.9**	**–15.0**	**17.4**	**4.9**	**–4.0**	**–2.6**	**3.1**	**0.9**
Cash flow from current production	964.7	–12.6	–12.0	14.0	–4.0	–1.3	–1.2	1.5	–0.4
Domestic industry profits:									
Corporate profits of domestic industries with IVA	594.7	27.8	0.2	35.0	22.4	5.5	0.0	6.5	3.9
Financial	230.3	0.3	–2.4	0.4	13.8	0.2	–1.1	0.2	6.4
Nonfinancial	364.4	27.5	2.6	34.6	8.6	9.4	0.8	10.8	2.4
Manufacturing	122.0	23.0	8.6	8.4	13.1	33.4	9.3	8.4	12.0
Transportation and public utilities	20.1	2.1	–3.9	8.3	–1.4	13.8	–22.9	63.2	–6.3
Wholesale trade	51.4	3.6	–0.3	14.4	–7.5	8.6	–0.7	32.4	–12.7
Retail trade	74.8	4.6	–3.5	–7.4	–0.3	5.6	–4.0	–9.0	–0.4
Other	96.1	–5.7	1.7	10.9	4.6	–6.8	2.2	13.5	5.0
	Dollars								
Unit price, costs, and profits of nonfinancial corporations:									
Unit price	1.039	–0.001	–0.001	0.002	0.002	....	....	....	....
Unit labor cost	0.679	–0.002	–0.001	–0.001	0.001	....	....	....	....
Unit nonlabor cost	0.269	0.001	0.002	0.000	–0.002	....	....	....	....
Unit profits from current production	0.090	0.001	–0.003	0.005	0.001	....	....	....	....

NOTE. Levels of these and other profits series are shown in NIPA tables 1.14, 1.16, 6.16C, and 7.15.
IVA Inventory valuation adjustment
CCAdj Capital consumption adjustment

available at the detailed industry level, because estimates of the capital consumption adjustment (CCAdj) do not exist at this level. (CCAdj is only available for total financial and total nonfinancial industries.) Consequently, industry profits are best measured by profits with IVA.

For financial industries, the substantial increase in profits of "other" financial corporations was largely accounted for by real estate investment trusts and by securities and commodities brokers.

For nonfinancial industries, increases in manufacturing and in "other" nonfinancial corporations (which includes services and mining) were partly offset by decreases in wholesale trade and in the transportation and utilities group (chart 3). In manufacturing, the largest increases were posted by petroleum refiners and motor vehicle manufacturers; these increases were partly offset by decreases in "other" durable manufacturing (which includes other transportation equipment and lumber) and in "other" nondurable manufacturing (which includes paper products, printing, and rubber). The decrease in wholesale trade followed a sharp fourth-quarter increase. The decrease in the transportation and utilities group reflected a decrease in transportation that was partly offset by an increase in utilities.

Profits before and after tax. Profits before tax (PBT) increased $33.2 billion in the first quarter. The difference between this increase and the smaller increase in profits from current production reflected a decrease in the inventory valuation adjustment that was only partly offset by an increase in the capital consumption adjustment.[9]

Profits after tax (PBT less profits tax liability) increased 3.8 percent in the first quarter after increasing 4.1 percent in the fourth. (As explained in the accompanying box, estimates of corporate profits for the second quarter will reflect provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003.)

9. Profits before tax is based on inventory and depreciation practices used in tax accounting, whereas the current-production measure—which excludes nonoperating items, such as special charges and capital gains and losses—is based on depreciation of fixed assets and inventory withdrawals valued at current cost.

Chart 3. Corporate Profits with Inventory Valuation Adjustment: Change from 2002:IV to 2003:I

1. Also includes communications and public utilities.
2. "Other" nonfinancial corporations includes the agriculture, mining, construction, and services industries, along with some activities included in the "finance, insurance, and real estate" group.
Note. Based on seasonally adjusted estimates.

U.S. Bureau of Economic Analysis

Jobs and Growth Tax Relief Reconciliation Act of 2003

Estimates of corporate profits and nonfarm proprietors' income for the *second* quarter of 2003 and estimates of personal income taxes for the *third* quarter of 2003 will reflect provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003, which was signed into law on May 28, 2003.

Corporate profits and nonfarm proprietors' income. Estimates of corporate profits and nonfarm proprietors' income through the first quarter of 2003 already reflect the "bonus" depreciation provisions of the Job Creation and Worker Assistance Act of 2002. Under that act, an immediate depreciation writeoff of 30 percent is allowed on certain investments contracted for after September 10, 2001, and before September 11, 2004.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 provides for an additional first-year bonus depreciation provision by increasing the immediate depreciation writeoff from 30 percent to 50 percent for property acquired after May 5, 2003, and placed in service before January 1, 2005. Based on preliminary estimates, this provision will increase the depreciation that corporations claim in the second quarter of 2003 by $75.2 billion (annual rate) and, thus, reduce profits before tax (PBT) by the same amount. (PBT is based on the inventory-accounting and depreciation-accounting practices used for Federal corporate income tax returns.) As a result, profits tax liability will be reduced by $18.8 billion, and profits after tax will be reduced by $56.4 billion.

Profits from current production will not be affected by the act, because they do not depend on the depreciation-accounting practices used for Federal income tax purposes; instead, this measure of profits is based on an estimate of the value of fixed capital actually used up in the production process.[1] However, because the act will reduce tax liability, profits from current production *on an after-tax basis* will be raised by $18.8 billion.

The capital consumption adjustment (CCAdj) is the difference between the depreciation specified in the tax code and the depreciation underlying profits from current production. Because the act will raise tax depreciation by $75.2 billion, the CCAdj will increase by the same amount.

As with profits from current production, the bonus depreciation provisions of the act do not affect nonfarm proprietors' income with IVA and CCAdj. In the second quarter of 2003, nonfarm proprietors' income without IVA and CCAdj—which does not depend on the depreciation-accounting practices used for Federal income tax purposes—will be reduced by $14.2 billion, and the related CCAdj will be increased by the same amount.

Personal taxes. Estimates of personal income taxes for the *third* quarter will also reflect a number of provisions of the act.[2] Estimates of *withheld* income taxes for the third quarter will reflect reductions in marginal tax rates, an expansion of the 10-percent tax bracket, and an acceleration in "marriage penalty" relief.[3] Estimates of *nonwithheld* income taxes for the third quarter will reflect advance payments of the child tax credit that will be sent to eligible taxpayers beginning in July 2003,[4] increases in the exemption amounts of the alternative minimum tax,[5] and reduced tax rates on dividends and capital gains.

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1. This estimate is derived by valuing assets at current cost and by using consistent depreciation profiles based on used-asset prices.

2. Income tax rate reductions took effect in June 2003, but the impact on the second-quarter tax estimates is expected to be small.

3. A marriage penalty exists when the combined tax liability of a married couple filing jointly is greater than the sum of their tax liabilities computed as though they were unmarried filers.

4. Under the new law, up to $400 per child will be paid in advance, on the basis of information contained in the taxpayer's 2002 tax return.

5. The alternative minimum tax is designed to ensure that individuals who have large income tax deductions or credits pay a minimum amount of tax.