

# Technical Note

## Gross Domestic Product First Quarter of 2018 (Second Estimate) May 30, 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 first quarter is available on BEA's Web site at [www.bea.gov](http://www.bea.gov); a summary of "highlights" is also posted on the 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").

### Updates to Real GDP

Real GDP increased 2.2 percent (annual rate) in the first quarter of 2018, a downward revision of 0.1 percentage point from the advance estimate. The revision primarily reflected less private investment in inventories and less consumer spending on services. Revised data also showed more nonresidential fixed investment and more consumer spending on goods.

- The downward revision to private inventory investment reflected a revision to wholesale trade inventories based on revised data from the Census Bureau's Manufacturing and Trade Inventories and Sales report. Updated wholesale trade, manufacturing, and retail trade inventories estimates reflected data that were benchmarked to the most recent annual surveys and were incorporated on a best-change basis.
- The downward revision to consumer spending on services reflected a revision to healthcare spending based on the new Census Advance Quarterly Services Report (QSR).
- The upward revision to nonresidential fixed investment reflected a revision to intellectual property products (IPP). Within IPP, software investment was revised up, based on the new Census QSR. In addition, research and development (R&D) was revised up, based on new R&D expense data from company financial reports.
- The upward revision to consumer spending on goods reflected a revision to motor vehicles and parts (specifically, used motor vehicles) based on the revised Census Monthly Retail Sales report. The updated consumer spending estimates also reflected benchmarked Census retail sales data.

## 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 2.8 percent in the first quarter. The average of real GDP and real GDI increased 2.5 percent.

Profits from current production decreased \$12.4 billion, or 0.6 percent (quarterly rate), in the first quarter. Domestic profits of financial corporations increased \$2.2 billion, domestic profits of nonfinancial corporations decreased \$19.0 billion, and rest-of-the-world profits increased \$4.4 billion.

National after-tax profits without inventory valuation and capital consumption adjustments (shown in line 45 of NIPA table 1.12 “National Income by Type of Income”), conceptually closest to S&P 500 profits, increased \$131.6 billion in the first quarter, following a \$178.1 billion decrease in the fourth quarter.

## First-Quarter Impacts of the 2017 Tax Cuts and Jobs Act

The 2017 Tax Cuts and Jobs Act (TCJA) resulted in significant movements among the components of domestic corporate profits, including taxes on corporate income and net dividends. Because BEA’s featured measure of corporate profits reflects profits before subtracting taxes and payments to shareholders, GDI was not directly impacted by the TCJA.

- Taxes on corporate income decreased \$117.4 billion in the first quarter. The large decline primarily reflected a reduction in the federal domestic corporate income tax rate that decreased from 35 to 21 percent. The lower corporate tax rate took effect on January 1, 2018.
- Net dividends (paid) by domestic corporations decreased \$1.1 trillion in the first quarter (line 18, table 1.10, “Gross Domestic Income by Type of Income”), reflecting an increase in dividends received from the rest of the world (line 11, table 4.1, “Foreign Transactions in the National Income and Product Accounts”). The large increase in dividends received from the rest of the world was based on preliminary data from BEA’s International Transactions Accounts and reflected changes in U.S. tax law that eliminated taxes on repatriated profits to U.S. multinationals from their affiliates abroad.

For more information, see [“How does the 2017 Tax Cuts and Jobs Act affect BEA’s business income statistics?”](#) and [“How are the International Transactions Accounts affected by an increase in direct investment dividend receipts?”](#).

## Updates to Wages and Salaries, Disposable Personal Income, and GDI

First quarter wages and salaries increased \$119.5 billion, an upward revision of \$3.1 billion from earlier estimates. The updated first quarter estimate primarily reflected the incorporation of revised data for the months of January through March from the Bureau of Labor Statistics (BLS) Current Employment Statistics (CES) report. The first-quarter estimate also included a \$10.0 billion (annual rate) upward adjustment to account for bonuses that are not included in the monthly CES data. This adjustment reflected one-time bonus payments reported by businesses in response to the TCJA. The adjustment was derived from news reports covering estimates of the number of employees receiving bonuses and payment amounts.

On July 27, BEA will release updated wages and salaries estimates that incorporate first-quarter BLS Quarterly Census of Employment and Wages (QCEW) data. The QCEW captures irregular payments, such as bonuses and gains from the exercise of stock options, and will reflect both regular and TCJA-related bonus activity that took place in the first quarter.

In addition to presenting updated estimates for the first quarter, today's release presents revised estimates of fourth-quarter wages and salaries, personal taxes, and contributions for government social insurance. These estimates reflect new wage and salary tabulations for the fourth quarter from the QCEW.

- Wages and salaries are now estimated to have increased \$100.4 billion in the fourth quarter of 2017, an upward revision of \$7.8 billion.
- Real disposable personal income is now estimated to have increased 1.2 percent (annual rate) in the fourth quarter and 3.3 percent in the first. (By comparison, the estimates that were available last month showed increases of 1.1 percent in the fourth quarter and 3.4 percent in the first.)
- The revision to fourth-quarter wages and salaries also resulted in a revision to gross domestic income. Real GDI is now estimated to have increased 1.0 percent in the fourth quarter, an upward revision of 0.1 percentage point.

### **Comprehensive Update Scheduled for July 27**

On July 27, BEA will present the results of its 15th comprehensive (or benchmark) update of the National Income and Product Accounts (NIPAs), in addition to presenting the advance estimate of GDP for the second quarter of 2018. The full historical time span of the NIPAs, 1929-2017 and the first quarter of 2018, will be open for revision. More details on the scope of the update are available in the April Survey of Current Business article "[Preview of the 2018 Comprehensive Update of the National Income and Product Accounts](#)."

The comprehensive update will reflect:

- The incorporation of the 2012 benchmark input-output accounts
- Enhanced seasonally adjusted estimates
- Improved price indexes for software, medical equipment, and communications equipment
- The introduction of new not seasonally adjusted estimates for GDP, GDI, and their major components
- An updated reference year for chain-type quantity and price indexes and chained-dollar estimates from 2009 to 2012

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