



Technical Note
Gross Domestic Product
First Quarter of 2006 (Final)
June 29, 2006

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 ("GDP and the Economy").

Sources of Revision to Components of Real GDP

Real GDP growth in the first quarter was 5.6 percent, which was 0.3 percentage point more than that in the preliminary estimate. The upward revision to real GDP mainly reflected a downward revision to imports:

- Imports of goods were revised down, reflecting the incorporation of the annual revision to the international transactions accounts on a best-change basis.

The price index for gross domestic purchases increased 2.6 percent in the first quarter, 0.2 percentage point less than in the preliminary estimate. The revision was primarily accounted for by downward revisions to the residential fixed investment price index, based on a revision to the Census one-unit deflator, and to the state and local consumption expenditures deflator, based on revised employer contributions for group health insurance, which affected current-dollar compensation but not real compensation.

Corporate Profits

Profits from current production increased \$176.7 billion, or 11.9 percent, in the first quarter, compared with an increase of \$185.8 billion, or 14.4 percent, in the fourth. Fourth-quarter profits were reduced by \$22.9 billion (at an annual rate) because of Hurricane Wilma, reflecting the net benefits paid by domestic insurance companies and the uninsured losses of corporate property. For further information on the treatment of the hurricanes in the national accounts, see the FAQs available on BEA's Web site, www.bea.gov.

Annual Revision Scheduled for July 28

The GDP news release on July 28 will present the regular annual revision of the national income and product accounts, covering the estimates from the first quarter of 2003 through the first quarter of 2006, as well as the advance estimates for the second quarter of 2006. 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;
- Internal Revenue Service tabulations of tax returns for corporations and for sole proprietorships and partnerships; and
- Department of Agriculture farm income statistics.

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

- The valuation of unit sales of light trucks and utility vehicles will be based on retail-transactions-price data from J.D. Power (the same data source that is currently used for automobiles). The use of these data is part of BEA's initiative to acquire and incorporate real-time data into the economic accounts to provide more accurate and reliable estimates in a timely fashion. Currently, the valuation is based on manufacturers' suggested retail prices.
- Data from the Census Bureau's expanded quarterly services survey (QSS) will be incorporated in the quarterly estimates of personal consumption expenditures (PCE) for hospitals and nursing homes. The percentage of quarterly PCE services that will be based on the QSS will increase from 6 percent to 17 percent. Currently, the quarterly estimates for hospitals and nursing homes are extrapolated using proxy data, such as the BLS employment cost index for hospitals and the Center for Medicare and Medicaid Services index of input prices.
- The method used for deriving the quarterly estimates of computers within private equipment and software investment will be modified. The estimates are based on a commodity-flow method that takes account of domestic shipments, imports, and exports. For the annual revision, the indicator for extrapolating quarterly domestic shipments of computers will be a weighted average of the Federal Reserve Board's Industrial Production Index (IPI) for computers and peripherals (weighted 75 percent) and the Census Bureau's Manufacturing Shipments (M3) for computers (weighted 25 percent). The IPI will be converted to current dollars using a BEA price index. Currently, only the M3 series is used for the extrapolation.

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