



Corporate Profits in the GDP Accounts

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Economic Statistics...from Theory to Practice
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Profits Get Extensive Media Attention

- But what does this tell us about the economy?

| | | | | |
|----------------|-----------|---|---|--------|
| | 11 | 1 | 3 | |
| ↓ DJIA | 10,440.05 | | | -11.92 |
| ↑ NASDAQ | 2,015.27 | | | +19.53 |
| ↑ S&P 500 | 1,135.40 | | | +0.79 |
| ↑ Russell 3000 | 644.83 | | | +0.86 |

3:19 PM ET 4/19/04 © BigCharts.com



Why BEA Profits?

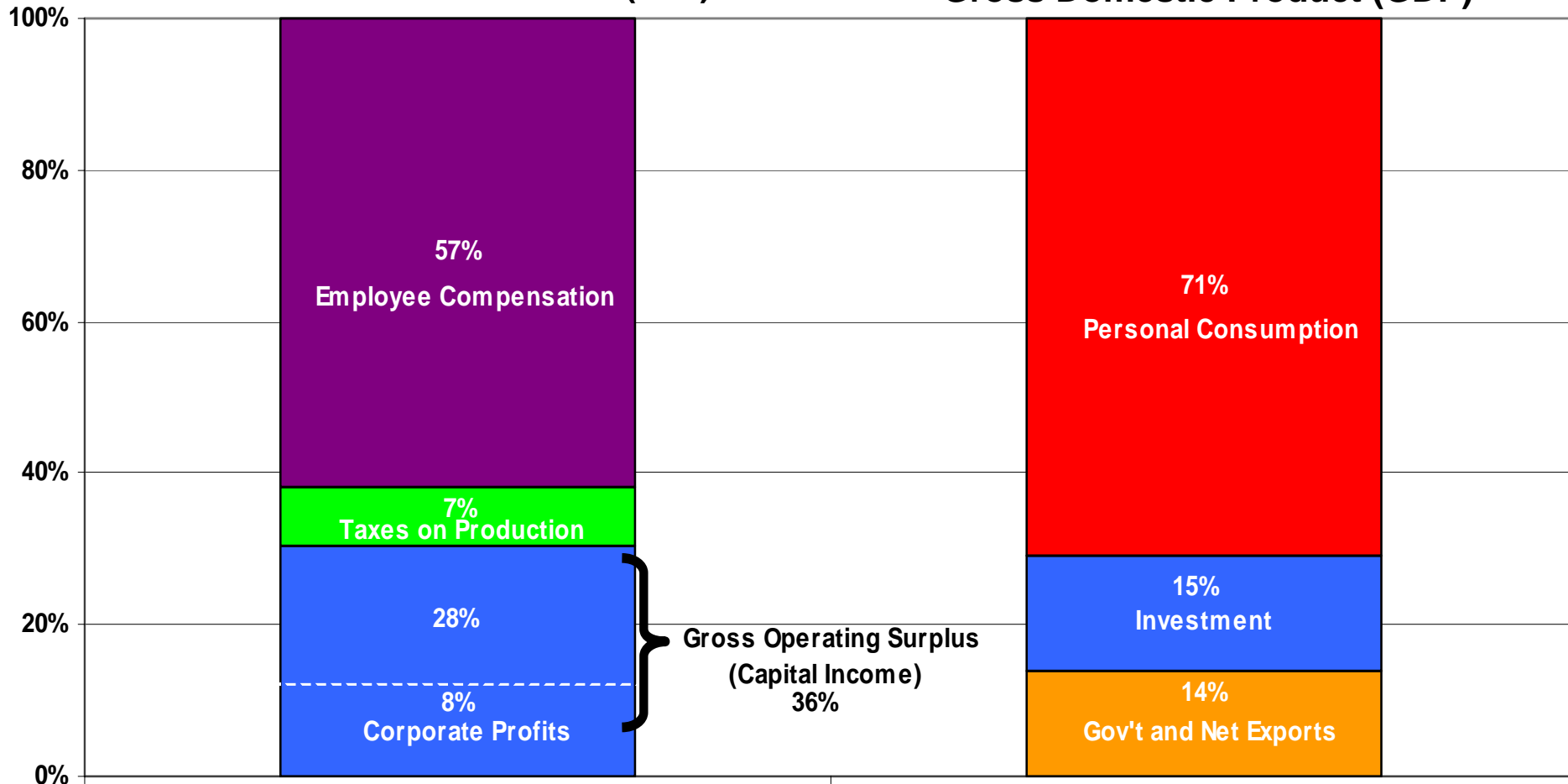
- **There is a need for a measure of corporate profits consistent with other macroeconomic measures in BEA's "U.S. economic accounts."**
- **BEA measure: Profits from Current Production (called "Corporate Profits with IVA and CCAAdj")**
 - Measures income earned by corporations from current production, before tax liability
 - Excludes financing flows and capital gains and losses
 - Values inventory withdrawals at current cost (adjustment called the "IVA")
 - Estimates economic depreciation at current cost (adjustment called the "CCAAdj")



U.S. Economic Accounts

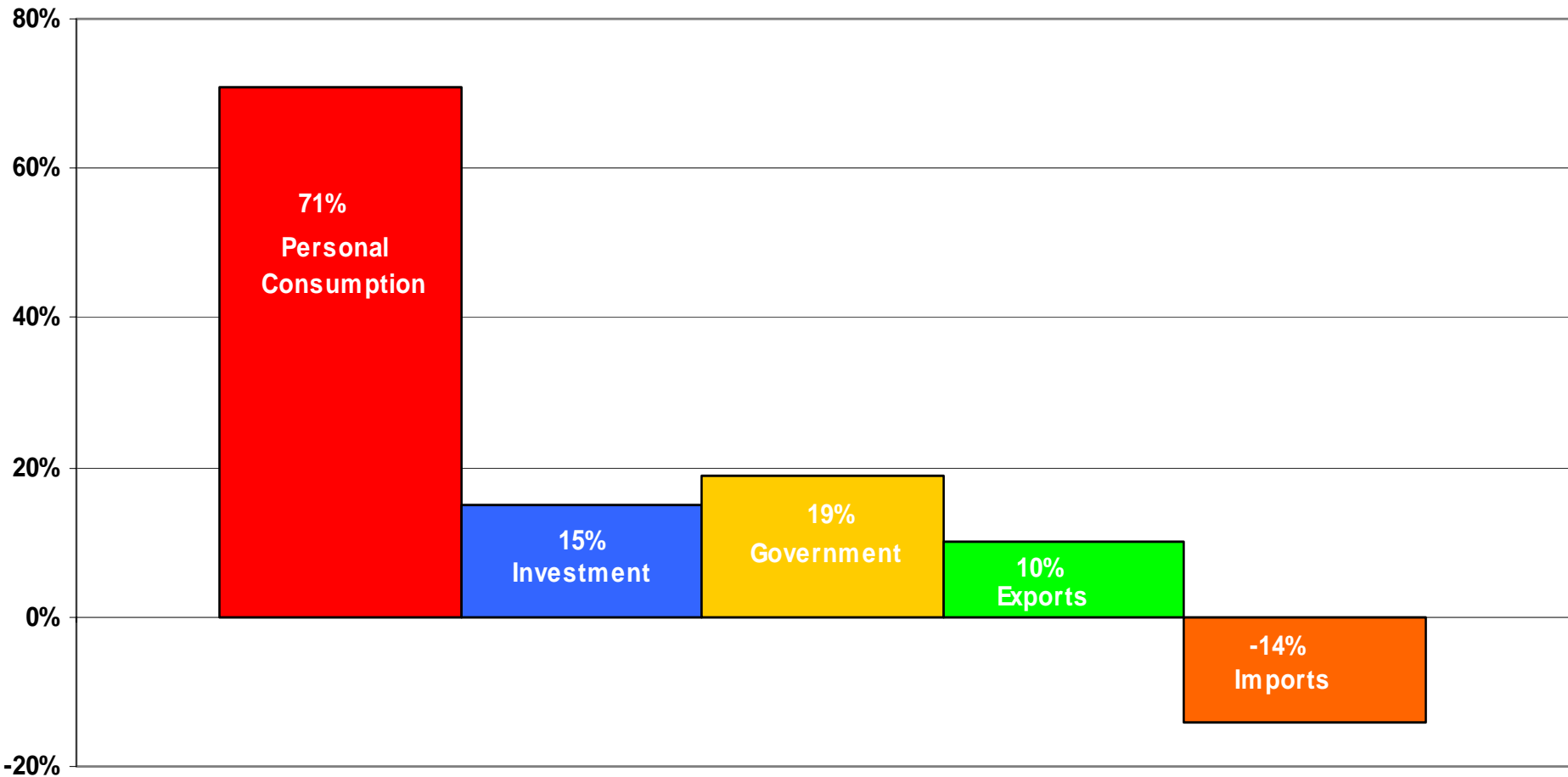
Gross Domestic Income (GDI)

Gross Domestic Product (GDP)





An Eye on GDP Components





How are Corporate Profits Used?

- *By Wall Street*, to track overall U.S. corporate financial health.
- *By industry analysts*, to track industry financial health.
- *By macro forecasters*, to project investment in plant and equipment.
- *By government policy-makers*, to project tax receipts.



There are Lots of Profits Reports

- Each corporation reports its profits in two different ways:
 - To the public to inform investors, and
 - To the IRS to report income for tax purposes
- BEA uses that information when it creates the U.S. economic accounts. In particular, it creates an economy-wide, consistent-over-time measure of total profits earned by all corporations.

Corporate Profits Reported to the Public

- Annual financial statements follow standards that emphasize consistency over time for each corporation.
- Flexibility allowed on methods and measures.
- Outside audits required to curb exploitation of flexibility.
- Uniformity across corporations is low.



Corporate Profits Reported to the IRS

- Both public and privately-held corporations file tax returns, which are confidential.
- Little-to-no flexibility allowed on methods and measures.
- Tax rates, income definition, and incentive provisions change, diminishing consistency over time.
- Statistical sample provides an economy-wide profits measure with a lag.

1120 U.S. Corporation Income Tax Return
OMB No. 1545-0123
For calendar year 2003 or tax year beginning 2003, ending 2003, ending 2003
▶ Instructions are separate. See page 29 for Paperwork Reduction Act Notice.

A Check it if a:
 1 Consolidated return (attach Form 9815) **Use IRS label.**
 2 Personal holding comp. (attach Sub. 970) **Other.**
 3 Personal service corp. (as defined in Regulations sec. 1.441-3(b)-1(c)) **Partnership.**

B Employer identification number _____
C Date incorporated _____
D Title assets (see page 8 of instructions) _____

E Check applicable boxes: Initial return Final return Name change Address change

| | | |
|--|---------------------------------------|------------|
| 1a Gross receipts or sales | 1b Less returns and allowances | 1c |
| 2 Cost of goods sold (Schedule A, line 8) | | 2 |
| 3 Gross profit. Subtract line 2 from line 1c | | 3 |
| 4 Dividends (Schedule C, line 19) | | 4 |
| 5 Interest | | 5 |
| 6 Gross rents | | 6 |
| 7 Gross royalties | | 7 |
| 8 Capital gain net income (attach Schedule D (Form 1120)) | | 8 |
| 9 Net gain or (loss) from Form 4797, Part II, line 19 (attach Form 4797) | | 9 |
| 10 Other income (see page 9 of instructions—attach schedule) | | 10 |
| 11 Total income. Add lines 3 through 10 | | 11 |
| 12 Compensation of officers (Schedule E, line 4) | | 12 |
| 13 Salaries and wages (less employment credits) | | 13 |
| 14 Repairs and maintenance | | 14 |
| 15 Bad debts | | 15 |
| 16 Rents | | 16 |
| 17 Taxes and licenses | | 17 |
| 18 Interest | | 18 |
| 19 Charitable contributions (see page 11 of instructions for 10% limitation) | | 19 |
| 20 Depreciation (attach Form 4562) | 20 | 20 |
| 21 Less depreciation claimed on Schedule A and elsewhere on return | 21a | 21b |
| 22 Depletion | | 22 |
| 23 Advertising | | 23 |
| 24 Pension, profit-sharing, etc. plans | | 24 |
| 25 Employee benefit programs | | 25 |
| 26 Other deductions (attach schedule) | | 26 |
| 27 Total deductions. Add lines 12 through 26 | | 27 |
| 28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11 | | 28 |
| 29 Less: a Net operating loss (NOL) deduction (see page 13 of instructions) 29a | | 29 |
| b Special deductions (Schedule C, line 20) 29b | | 29c |
| 30 Taxable income. Subtract line 29c from line 28 | | 30 |
| 31 Total tax (Schedule J, line 11) | | 31 |
| 32 Payments: a 2002 overpayment credited to 2003 32a | | 32 |
| b 2003 estimated tax payments 32b | | 32 |
| c Less 2003 refund applied for on Form 4466 32c | | 32d |
| d Total 32d | | 32 |
| e Tax deposited with Form 7004 | | 32e |
| f Credit for tax paid on undistributed capital gains (attach Form 2439) | | 32f |
| g Credit for Federal tax on fuels (attach Form 4136). See instructions 32g | | 32h |
| 33 Estimated tax penalty (see page 14 of instructions). Check if Form 2220 is attached <input type="checkbox"/> | | 33 |
| 34 Tax due, if line 32h is smaller than the total of lines 31 and 33, enter amount owed | | 34 |
| 35 Overpayment, if line 32h is larger than the total of lines 31 and 33, enter amount overpaid | | 35 |
| 36 Enter amount of line 35 you want: Credited to 2004 estimated tax ▶ Refunded ▶ | | 36 |

Sign Here ▶ Signature of officer _____ Date _____ Title _____
 Preparer's signature _____ Date _____ Check if self-employed Preparer's SSN or PTIN _____
 Preparer's name (or name of self-employed) _____ EIN _____
 Address and ZIP code _____ Phone no. () _____

Cat No 114500 Form 1120 (2003)



BEA: Economic, not Administrative

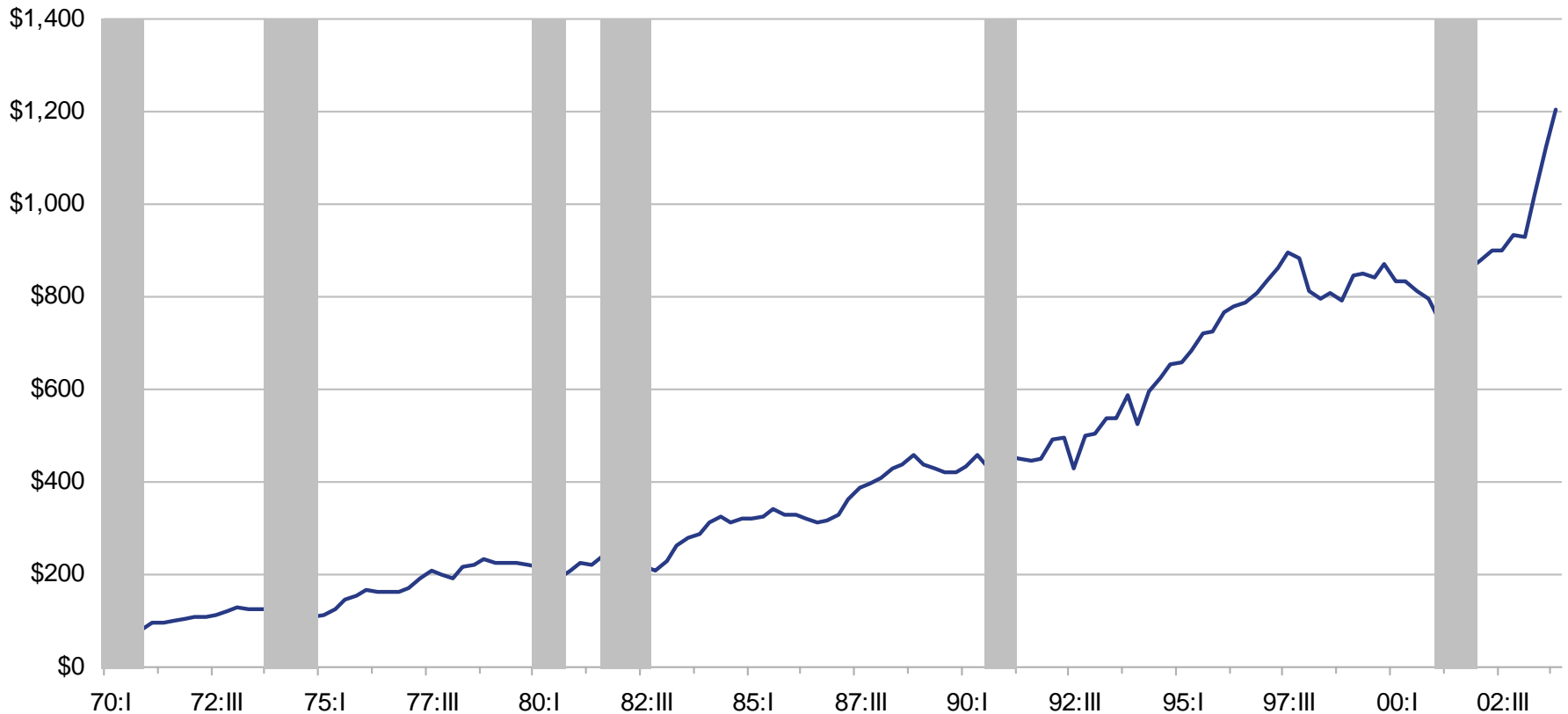
- Profits from Current Production are:
 - Unaffected by tax-law and reporting-rule changes.
 - Inclusive of income that escapes tax authorities.
 - Exclusive of dividends, capital gains and losses, and other flows arising from means of financing production.
 - Exclusive of financial adjustments reported for other purposes, such as deduction for “bad debt”.
 - Measured consistently, with data beginning in 1929.



Profits are Cyclically Sensitive

Profits from Current Production

(\$ in billions)





Disposition of Corporate Profits

In \$ Billions, 2003:4

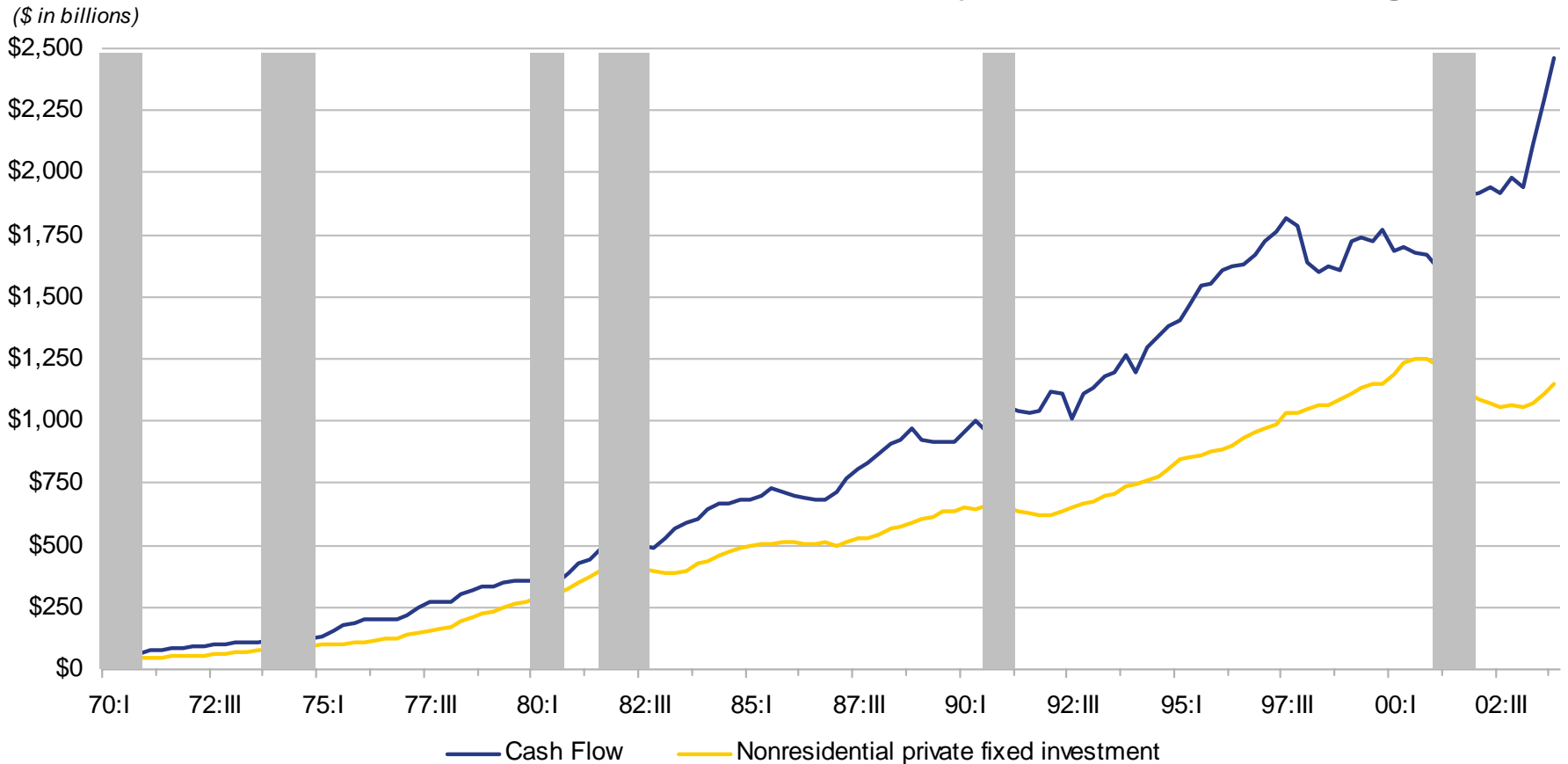
| | |
|---|-------|
| Profits from Current Production ("Corporate Profits with IVA and CCAAdj") | 1,206 |
| <u>Less:</u> Taxes | 244 |
| <u>Equals:</u> Profits after tax* | 962 |
| <u>Of which:</u> | |
| Dividends (net) | 442 |
| Undistributed profits* | 520 |
| ----- | |
| Internally-generated corporate funds available for investment, or "cash flow": | |
| Undistributed profits* | 520 |
| <u>Plus:</u> Consumption of fixed capital (or, depreciation) | 757 |
| <u>Equals:</u> Cash flow | 1,277 |

* Include IVA and CCAAdj



Corporate Cash Flow, A Source of Investment

Corporate Cash Flow and Investment (Adjusted for Price Change)





S&P 500 Index: Broad Measure, but Different

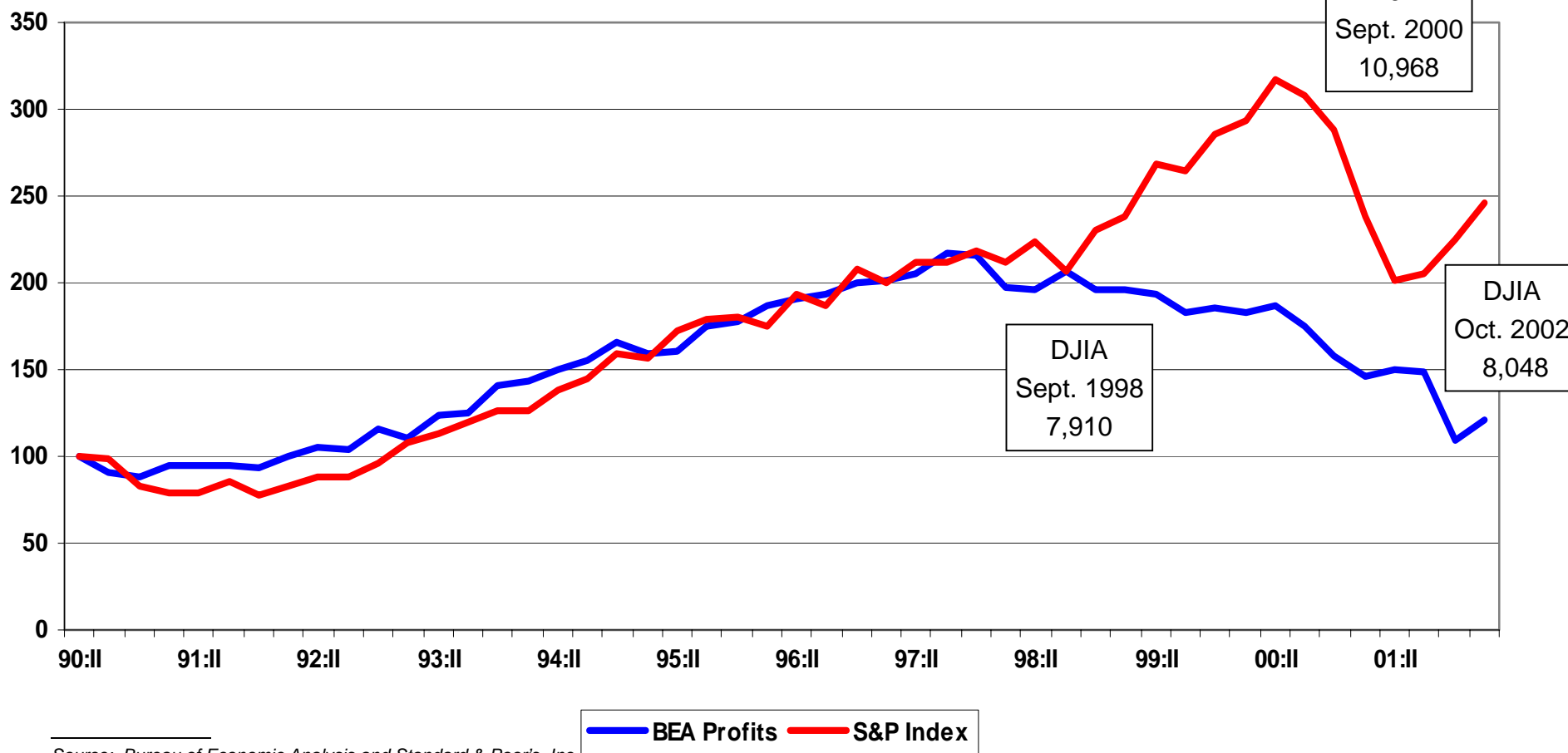
- Purpose: to benchmark performance of corporations in current year
- Composition: large representation of publicly-traded corporations, changing year-to-year as market values, capitalization, and trading activities change.
- Data base: after-tax income reported on financial statements.



Similar Trend with Notable Divergence

BEA Profits (Index) and Standard & Poor's Earnings Index

(Indexed, 1990:II = 100)



Source: Bureau of Economic Analysis and Standard & Poor's, Inc.



Data Sources Used to Estimate Profits

- **Financial-Accounting Data:**

- Census Bureau Quarterly Financial Reports (QFR)
 - Available quarterly, within several months of end of quarter
 - Cover manufacturing, mining, and trade - roughly 1/3 of profits
- Data from regulatory agencies, other source used to supplement QFR data

- **Tax-Accounting Data:**

- IRS Statistics of Income (SOI) Data:
 - Corporate income-tax return (annual) data
 - Available with a lag of two years

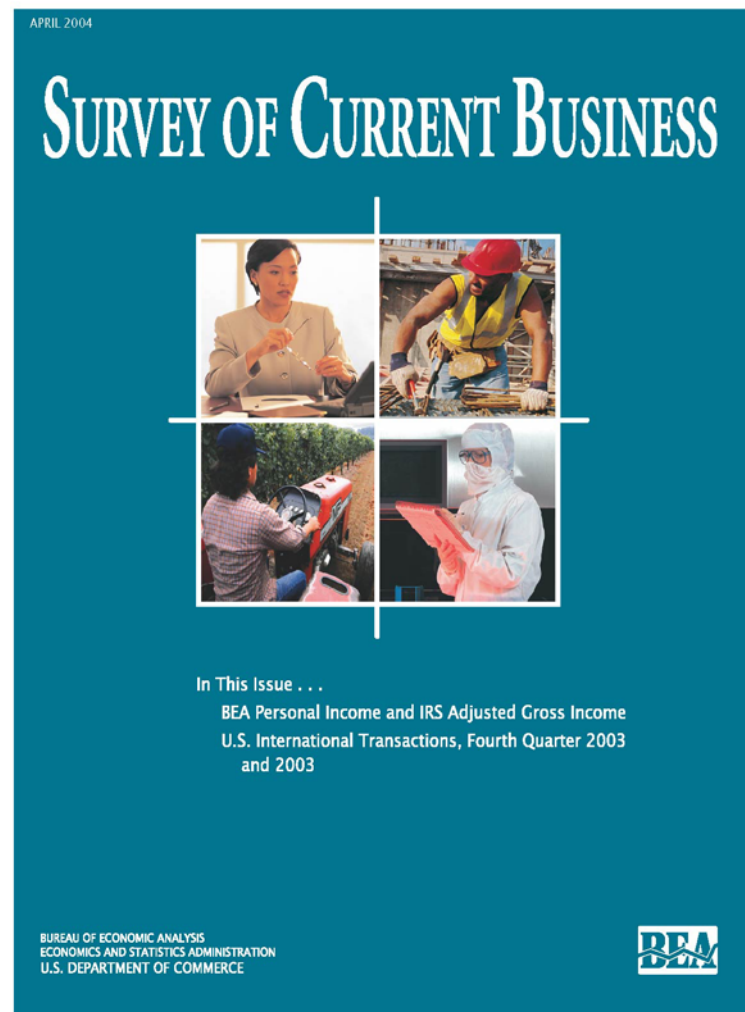


Corporate Profits Release Schedule

- Quarterly estimates are available quickly - two months after end of quarter
- Additional information is incorporated as it becomes available - revised estimates for the most recent three years released every summer.

And, BEA Reports on Profits

- “Business Situation” in the *Survey of Current Business*





BEA Web Site has Everything

U.S. Department of Commerce
Bureau of Economic Analysis

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Recently Issued Data on Multinational Companies

Enhanced Overview of the U.S. Economy

Latest Economic Indicators

Real GDP:
+4.1% in Q4 2003 (final)
[Released: 3/25/04]

Personal Income:
+0.4% in February 2004
[Released: 3/26/04]

Int'l Trade in Goods and Services:
Decrease in the deficit of \$1.4 billion to \$42.1 billion in February 2004(p)
[Released: 4/14/04]

U.S. Int'l Transactions:
Current-account deficit decreased \$7.8 billion to \$127.5 billion in Q4 2003(p). For the year 2003(p), the current account deficit increased \$61.0 billion to \$541.8 billion.
[Released: 3/12/04]

p=preliminary | r=revised





Go to Corporate Profits “Page”

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2003 Comprehensive Revision of the National Income and Product Accounts

Corporate Profits

- **Latest news release** -- 03/25/04
Profits from current production (corporate profits with inventory valuation and capital consumption adjustments) increased \$81.4 billion in the fourth quarter, compared with an increase of \$101.4 billion in the third.
 - [Technical note](#)
 - [Tables from news release, XLS](#)
- [Combined Effects of the Tax Acts of 2002 and 2003 on Selected Measures of Corporate Profits, XLS](#)
- [Interactive NIPA tables](#) -- view or download specific tables

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