

John Williams'  
**Shadow Government Statistics**  
*Analysis Behind and Beyond Government Economic Reporting*

**COMMENTARY NUMBER 817**  
**GDP Revision, Consumer Confidence, Evolving Global Circumstances**  
**June 28, 2016**

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**Brexit Impact Should Stabilize, with Implications for a  
Long-Overdue Reorganization and Overhaul of the EU and Euro**

**U.S. Long-Term Solvency and Dollar Issues Remain Greatest Threat  
To Global-Economic and Financial-Market Stability**

**In Final Reporting Before the July 29th GDP Benchmarking,  
U.S. Economy Was Stagnant in First-Quarter 2016,  
Reflecting No Statistically-Significant Change**

**Real GDP Revision from 0.84% to 1.07% Reflected Weaker Inflation;  
Real Growth Was Upped by 0.23% as Inflation Revised Lower by 0.22% (-0.22%)**

**Broader Gross National Product (GNP) Growth Revised to a 0.21% Gain,  
Having Declined Initially by 0.21% (-0.21%)**

**At the Expenditure-Category Level, GDP Revisions  
Could Be Described as Bizarre and Inconsistent**

**Shifting Political Perceptions May Have Boosted Consumer Confidence**

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*PLEASE NOTE: The next regular Commentary, scheduled for Wednesday July 6th, will cover May Construction Spending and Revisions and full reporting on the May Trade Deficit. A subsequent Commentary on July 8th will cover June Employment and Unemployment conditions.*

*Best wishes to all for a Happy Fourth of July! — John Williams*

## OPENING COMMENTS AND EXECUTIVE SUMMARY

**Brexit Turmoil and Rising U.S. Consumer Confidence.** Today's (June 28th) release of a strong Consumer Confidence number out of the Conference Board reflected U.S. domestic circumstances before the Brexit vote. The sharp jump in the June confidence reading likely did not get its boost from weakening economic data, such as the miserable jobs creation at the beginning of the month. In catching up with the month-earlier upside jump in the May University of Michigan's Consumer Sentiment Measure (see [Commentary No. 806](#)), it could reflect a perceived shift in political circumstances. With Donald Trump becoming the presumptive Republican nominee, those who have been suffered in a weak economy—drained of higher paying jobs that have disappeared offshore—might see some hope of change, after decades of bad trade deals sponsored by both major political parties.

These same people likely re-entered the U.S. electoral process in the primaries, voting against the usual establishment candidates. Indeed, there may be some parallels here with the Brexit circumstance.

Abusive free-trade policies have damaged otherwise prosperous and relatively strong economies in recent decades, as has been seen in the United States and the United Kingdom. The underlying free-trade theory is overly simplistic. Two countries are not trading, but have respective relative efficiencies in producing certain goods and services that the other country lacks. They begin to trade openly and freely. Production shifts between the two nations for maximum production and efficiency in the system, creating more total products and wealth for both countries than was produced previously, without the trade.

Nice theory, but it has one major flaw. A precondition to the theoretical happy results is that both countries have to be at full employment, a circumstance currently not seen with major economies in the real world (unless you gimmick the unemployment rate down to 4.7% by not counting the long-term displaced workers). In real-world circumstances, the result is that the low-cost, minimally-regulated producer gains at the expense of the high-cost, highly-regulated producer, with the otherwise productive wealth of a country, such as the United States, being drained offshore to low-wage trading partners in areas ranging from Mexico and Central America to Asia, the Indian subcontinent, etc.

***Private Enterprise Should Do Much Resolve Perceived Systemic Disruptions from Brexit.*** Despite intervening uncertainties and ongoing vitriol from certain European Union officials and/or members, the United Kingdom's economy should do well, going forward. That includes ongoing trade activity with the rest of the world. As usual, the private sector should become extraordinarily creative in addressing and overcoming problems being thrown at the UK or as promised for the Brexit.

The European Union never was practical from the standpoint of merging countries such as Germany and Italy in terms of their fiscal policies, for example. As such, the future for the EU well could see some further break-up or reorganization along the lines of fiscal and political compatibility. As that likely would involve countries with currencies in the euro, a reorganization or break-up of the euro remains a fair possibility.

Whether the solution is dissolution of the monetary union, a true fiscal union of the involved sovereign states, or something in between—the strongest players in the current currency union (such as Germany) still would remain the strongest players, in whatever circumstance should follow. In the view of the global markets, a reorganized euro, with fiscally stronger surviving euro entities, likely would not face the debilitating sovereign solvency issues savaging the weaker euro players, and also the United States.

A strong currency usually reflects strong trade surpluses, prudent fiscal policies and a stable government. Wealth creation is common to those circumstances as well. In contrast, the United States government deliberately has run extreme deficits in both its trade and fiscal operations, destroying national wealth and ultimately destroying its currency. Accordingly, with a meaningful reorganization of the euro, global concerns likely would shift at an accelerating pace, focusing anew on the proverbial elephant in the bathtub of sovereign solvency risk: the U.S. dollar. More will follow in a *Special Report*.

**Today's Commentary (June 28th).** The balance of these *Opening Comments* provides a summary of the third estimate of, second revision to first-quarter 2016 GDP, along with a brief update to *Consumer Liquidity* measures covering June 2016 Consumer Confidence.

The most-recent *Hyperinflation Outlook Summary* is found in [Commentary No. 783](#), with [Commentary No. 814](#), [General Commentary No. 811](#), [Commentary No. 799](#) and [No. 777 Year-End Special Commentary](#) as background to the unfolding financial circumstances. These documents will be updated and consolidated shortly in a new *Special Report*, when first half-2016 economic detail is in place.

The *Week and Month Ahead* section previews the *Pending Releases* in the week ahead of May Construction Spending, the full-detail May Trade Deficit and June labor market conditions.

**Gross Domestic Product (GDP)—First-Quarter 2016 (Third Estimate, Second Revision)—Negligible Growth, Bizarre Revisions and a Looming Benchmarking.** Aside from the headline 1.07% second revision to annualized real quarterly growth in first-quarter 2016 Gross Domestic Product (GDP) being no more than statistical noise, the detail remained nonsense in the context of the ongoing headline “guesstimates” of the Bureau of Economic Analysis (BEA). Internally, this third round of estimation, the second round of revisions, was unusually volatile and inconsistent with prior quarters’ reporting. Clean reporting here should have shown a headline first-quarter 2016 contraction in excess of 1.0% (-1.0%).

Specifically, the 0.23% upside revision to headline real growth, from 0.84% to 1.07%, reflected no more than a downside shift of 0.22% (-0.22%) in the GDP inflation rate, as measured by the Implicit Price Deflator (IPD). The lower the inflation rate used to deflate the GDP, the stronger will be the resulting real

growth. Accordingly, in nominal terms, before inflation adjustment, annualized first-quarter 2016 nominal growth revised higher by just 0.01%.

Still well shy of negative reality, and built upon the underlying GDP revisions, Gross National Product (GNP)—the broadest measure of U.S. economic activity—revised to a headline real gain of 0.21%, having declined at an annualized real pace of 0.21% (-0.21%) in last month's initial reporting.

The theoretical GDP-equivalent Gross Domestic Income (GDI) exploded further in unstable and wildly gyrating volatility to a first revision of 2.90%, following an initial first-quarter gain of 2.23%. Heavily warped by highly questionable, upside income-bias estimates out of the Bureau of Labor Statistics (BLS), the BEA might do well to suspend its GDI reporting. One would expect subsequent reporting of first-quarter GDP and GDI "equivalents" to come closer to together, not to widen in their differences.

Irrespective of the heavily-gimmicked GDP detail, underlying reality remains that broad U.S. economic activity has entered a renewed downturn, never having recovered its pre-recession peak. First-quarter 2016 GDP activity and other recent GDP reporting since first-quarter 2013 (an artificial time limit set by the BEA) likely will revise to headline quarterly contractions, come the July 29, 2016 benchmarking, as will be detailed in a separate, mid-July ShadowStats assessment.

In this most-politically-sensitive of popularly followed domestic economic series, the GDP does not reflect properly or accurately the changes to the underlying fundamentals that drive the economy. Underlying real-world economic activity has shown that the broad economy began to turn down in 2006 and 2007, plunged into 2009, entered a protracted period of stagnation thereafter—never recovering—and then began to turn down anew in late-2014.

The GDP (or the broader GNP headlined in earlier decades) simply remains the most worthless of the popular government economic series, in terms of determining what really is happening to U.S. business activity. The series is the most-heavily-modeled, politically-massaged and gimmicked government indicator of the economy. It has been so since at least the 1960s.

Back in the days when GNP was the headline U.S. economic measure, President Lyndon Johnson purportedly reviewed the numbers before their release, and he would return them to the Commerce Department, if Commerce had gotten them "wrong." He would keep doing so until Commerce got the numbers "right." Johnson may not have been the first, but he definitely was not the last president to have a direct interest in headline GNP reporting, or what since has become the generally more-positive, but less-substantive headline GDP reporting in today's political environment.

Nonetheless, despite all the upside biases and gimmicks built into the GDP reporting, the real world occasionally surfaces in formal GDP estimates, when there is a severe enough downturn in underlying detail. That likely is happening now, with a "new" recession in the process of official unfolding. Major monthly economic series such as retail sales, industrial production, durable goods orders and housing-market measures have been showing reasonably regular quarterly contractions. Underlying reality has become weak enough, once again, for the headline GDP and related series to show an ongoing, formal downtown. That initial recognition likely should follow in the aftershocks of the GDP benchmarking.

**Headline GDP Detail.** The third estimate of, second revision to first-quarter 2016 GDP showed a statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 1.07%. The

upwardly-revised headline quarterly growth still was the lowest level in a year, down sharply from the headline annualized gains of 1.39% in fourth-quarter 2015, 1.98% in third-quarter 2015 and 3.92% in second-quarter 2015 GDP, but several notches higher than the headline 0.64% growth in first-quarter 2015.

Headline year-to-year real GDP growth in first-quarter 2016 revised minimally higher to 2.08%, up slightly from the 1.98% annual growth in fourth-quarter 2015, but still down from 2.15% in third-quarter 2015, from 2.72% in second-quarter 2015 and from 2.88% in first-quarter 2015. Aside from the slightly weaker fourth-quarter 2015 annual growth, the first-quarter 2016 annual growth was the weakest in two years.

Related *Graphs 9* and *11* in the *Reporting Detail* plot the latest headline levels of real quarterly GDP activity, while *Graphs 10* and *12* show plots of year-to-year change.

***First-Quarter 2016 GDP, Second Estimate - Growth Distribution—Highly Unusual Revisions.*** The third estimate, second revision of annualized quarterly real growth for first-quarter 2016 GDP revised to 1.07% [previously 0.84%, initially 0.54%], versus 1.39% in fourth-quarter 2015, 1.98% in third-quarter 2015, 3.92% in second-quarter 2015 and 0.64% in first-quarter 2015.

With extraordinary, internal volatility in these revisions, including some that are out of context from recent benchmark revisions (such as trade), the BEA's third guess at real first-quarter GDP growth is without much meaning, but it is detailed as published in the following aggregation of contributed growth, broken out by Personal Consumption, Business Investment, Net Exports and Government Spending.

The annualized growth number in each sub-category is the additive contribution to the total, headline change in GDP, where  $1.02\% - 0.29\% + 0.12\% + 0.23\% = 1.07\%$ , with the usual rounding difference. [Commentary No. 809](#) of May 27th detailed the growth-distribution estimate for the second estimate of first-quarter GDP.

Regrouped by general product line, the BEA estimated that the headline 1.07% quarterly GDP growth rate included a 0.79% [previously 1.01%, initially 1.04%] growth-rate contribution from services and a 0.51% [previously 0.50%, initially 0.41%] contribution from structures, with a growth-rate subtraction of 0.23% (-0.23%) [previously down by 0.67% (-0.67%), initially down 0.91% (-0.91%)] from goods.

***Contributing Growth Factors.*** The headline, upside revisions to first-quarter 2016 GDP were inconsistent, nonsensical and internally volatile, almost as if the BEA were playing pre-benchmarking games with the data. Limited highlights are provided for some of the absurdities, simply as examples.

- ***Consumer Spending Contributed a Revised 1.02% [Previously 1.29%, Initially 1.27%] to First-Quarter GDP 2016 Growth; Fourth-Quarter Growth Contribution was 1.66%.*** Consider that in the second estimate of the first-quarter 2016, Health Care contributed 0.25% to the 0.84% GDP growth rate; that now is contributing 0.63% of the total 1.07% GDP growth rate.
- ***Business/Residential Investment Subtracted a Revised 0.29% (-0.29%)[Previously Subtracted 0.45% (-0.45%), Initially 0.60% (-0.60%)] from First-Quarter 2016 GDP Growth; Subtracted 0.16% (-0.16%) from Fourth-Quarter GDP Growth.*** In the second estimate, Intellectual Property contributed 0.00% to the 0.84% GDP growth rate, in the third estimate, it contributed 0.18% to the



1.07% GDP growth rate. Normally-volatile inventories were little revised in the third estimate, subtracting 0.23% (-0.23%) [previously 0.20% (-0.20%)] from the GDP growth rate. Accordingly, headline final sales—GDP net of inventory change—rose at a revised annualized quarterly pace of 1.30% [previously up by 1.04%, initially 0.87%] in first-quarter 2016.

- ***Net Exports Added a Revised 0.12% to [Previously Subtracted 0.21% (-0.21%), Initially 0.34% (-0.34%) from] First-Quarter 2016 GDP Growth; Subtracted 0.14% (-0.14%) from Fourth-Quarter Growth.*** This flip-flop reflected the trade-deficit benchmark revision ([Commentary No. 810](#)). Normally, that would have been reflected first in the GDP benchmarking, along with a directly related downside revision to fourth-quarter 2015 GDP growth. Instead, the first-quarter 2016 number now is inconsistent and not comparable with fourth-quarter 2015 reporting. The same can be said for the revised, aggregate first-quarter GDP estimate.
- ***Government Spending Contributed a Revised 0.23% [Previously and Initially 0.20%] to First-Quarter 2016 GDP Growth; Contributed 0.02% to Fourth-Quarter Growth.*** Reflecting no meaningful changes from prior reporting, seasonally-adjusted federal government spending subtracted an unrevised 0.11% (-0.11%), with balance of the series' contribution in an increase to state and local government spending.

***Implicit Price Deflator (IPD).*** As general guidance, again, the weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth. The third reading on first-quarter 2016 GDP inflation, or the implicit price deflator (IPD), was a downwardly-revised, annualized quarterly increase of 0.37%. That downside inflation revision accounted for 0.22% of the 0.23% upside revision to the real first-quarter's annualized real GDP growth rate. Such followed annualized IPD inflation of 0.94% in fourth-quarter 2015, versus 1.30% in third-quarter 2015, 2.13% in second-quarter 2015 and a benchmarked gain of 0.12% in the first-quarter 2015.

Year-to-year, first-quarter IPD inflation revised to 1.18%, versus 1.12% in fourth-quarter 2015, 0.90% in third-quarter 2015, 0.98% in second-quarter 2015 and a benchmarked 1.01% annual gain in first-quarter 2015. Comparative CPI-U inflation numbers are found in the *Reporting Detail*.

***Gross National Product (GNP).*** Gross National Product (GNP) remains the broadest measure of U.S. economic activity, where GDP is GNP net of trade flows in factor income (interest and dividend payments). The headline second estimate of first-quarter 2016 GNP showed a revised, annualized real first-quarter gain of 0.21%, versus an upwardly revised 1.07% gain in the headline GDP. That GNP growth was against unrevised quarterly gains of 1.13% [GDP at 1.39%] in fourth-quarter 2015, 1.35% [GDP at 1.98%] in third-quarter 2015, 3.93% [GDP at 3.92%] in second-quarter 2015 and an unrevised quarterly contraction of 0.15% (-0.15%) [GDP at 0.64%] in first-quarter 2015.

Built on top the GDP and its revisions, first-quarter 2016 headline detail also reflected a revised relative boost in income flows from the rest of the world.

On a year-to year basis, the second headline estimate of first-quarter 2016 GNP showed a year-to-year gain of 1.64% [GDP was 2.08%], versus gains of 1.55% [GDP at 1.98%] in fourth-quarter 2015, 1.74% [GDP at 2.15%] in third-quarter 2015, 2.54% [GDP at 2.72%] in second-quarter 2015 and 2.66% [GDP at 2.88%] in first-quarter 2015.

**Gross Domestic Income (GDI).** Heavily touted by the BEA, for the moment, as *the* GDP counterpart, the increasingly unstable GDI has been bloated by effectively-worthless income reporting out of the Bureau of Labor Statistics (BLS).

Gross Domestic Income (GDI) is the theoretical income-side equivalent to the consumption-side GDP estimate. The GDP and GDI are made to equal each other, every quarter, with the addition of a “statistical discrepancy” to the GDI-side of the equation, but the discrepancy just as easily could be added to the GDP number.

Reflecting significant overstatement of income growth in the GDI, and other instabilities in the headline reporting, the first-quarter 2016 “statistical discrepancy” widened to -\$294.3 billion in revision, from initial reporting for the quarter of -\$264.7 billion, and from -\$210.8 billion in fourth-quarter 2015. These numbers are in nominal terms, with quarterly revisions and swings that dwarf the \$65.3 billion annualized nominal growth for the revised first-quarter GDP. One would expect that the later GDI and GDP reporting would get better in quality, not worse, with the statistical discrepancy narrowing, not widening, as is the current circumstance.

The first revision to first-quarter 2016 real annualized GDI growth was 2.90%, versus 1.95% in the fourth-quarter, 2.04% in third-quarter 2015. Year-to-year GDI growth stood at 2.27% for first-quarter 2016, up from 1.65% in fourth-quarter 2015 and 1.89% in third-quarter 2015.

**Underlying Economic Reality.** The U.S. economy continued in a deepening and as-yet-unrecognized “new” recession, although headline monthly reporting activity in subsidiary economic series broadly has continued to move market expectations in that direction (the ShadowStats contention remains that the “new” downturn is in reality just a continuation of the economic crash into 2009). The third guesstimate of first-quarter 2016 GDP at 1.07% was still statistically-insignificant. In positive territory for the first three estimates, that growth rate is a fair bet to revise into negative territory in the July 29th GDP benchmark revisions, at least minimally, along with quarterly contractions in revision for first-quarter 2015 and fourth-quarter 2015.

The reporting wake of the July 2016 benchmarking serves as an outside timing for triggering formal recognition of a “new” recession that likely will be clocked from December 2014.

Formal headline GDP activity continues to run well above economic reality as signaled by a number of business indicators, such as corporate revenues, domestic freight activity (see *Graph 3*), domestic consumption of petroleum products and a variety of better-quality economic series, such as industrial production, new orders for durable goods and real retail sales. These circumstances have been detailed most recently in [Commentary No. 810](#), [Commentary No. 813](#), [Commentary No. 814](#), [Commentary No. 815](#), [Commentary No. 816](#).

Accordingly, the broad ShadowStats economic outlook has not changed, and the gist of most of the following text remains along the lines of other recent *GDP Commentaries*. The details and numbers, however, are updated to reflect today’s reporting.

Discussed in [Commentary No. 739](#), which covered the 2015 GDP annual benchmark revisions, annual benchmarkings increasingly are reshaping the GDP-reporting history into a post-2007 collapse pattern of successive multiple dips. The looming July 29, 2016 revisions should do more of the same, but only back through 2013. By the likely next comprehensive GDP benchmark revision in July 2018, post-2007

historical GDP reporting should be confirming a non-recovering, multiple-dip economic collapse, although this year's benchmarking should leave the new historical headline detail showing at least a "new" recession.

That circumstance should encompass the evolving, current downturn in broad, domestic economic activity, discussed previously in [No. 777](#) and [No. 742 Special Commentary: A World Increasingly Out of Balance](#). Where again, the present "new" recession or multiple-dip downturn remains likely to be timed from December 2014, without headline back-to-back contractions of quarterly GDP currently in place, formal recognition of same remains pending, although the consecutive quarterly GDP contractions no longer are necessary for formal recession recognition. Recognition of the onset of the December 2007 recession was not formalized until November 28, 2008, but did have consecutive GDP contractions.

Ongoing monthly economic-reporting detail for key series, however, increasingly confirm the patterns of declining economic activity, which should engender a formal recession call, irrespective of the timing of actual, headline quarterly contractions in real GDP.

Fundamental, real-world economic activity shows that the broad economy began to turn down in 2006 and 2007, plunged into 2009, entered a protracted period of stagnation thereafter—never recovering—and then began to turn down anew in recent quarters. Irrespective of the reporting gimmicks introduced in the July 2013 and July 2014 GDP benchmark revisions—including a recent pattern of inclusion and estimation of highly-questionable data on the Affordable Care Act (ACA)—a consistent, fundamental pattern of faltering historical activity is shown in the accompanying "corrected" GDP graphs.

Please note that the pattern of activity shown for the "corrected" GDP series is much closer to the patterns shown in the graphs of unemployment (see [No. 810](#)), monthly real median household income and other consumer measures (see the following section on *Consumer Liquidity*, [No. 816](#), [No. 811](#) and [No. 777](#)). This also has been detailed in [No. 742 Special Commentary: A World Increasingly Out of Balance](#) and [No. 692 Special Commentary: 2015 - A World Out of Balance](#). Similar patterns are found in economic series not otherwise reliant on understated inflation for their reported growth, such as housing starts (see [No. 807](#) and [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#)).

With liquidity-strapped consumers unable to fuel sustainable growth in consumption, a full business recovery could not have taken place since 2009, and a recovery will not be forthcoming until consumer structural income and liquidity problems are resolved, including more-normal credit functioning of the domestic banking system.

**Official and Corrected GDP.** Usually discussed in these *Commentaries* covering the quarterly GDP reporting and monthly updates, the full economic recovery indicated by the official, real GDP numbers remains an illusion. It is a statistical illusion created at least partially by using a too-low rate of inflation in deflating (removing certain inflation effects) from the GDP series. The accompanying graphs tell that story, updated for today's third estimate of first-quarter 2016 GDP.

The first set of graphs (2000-to-date) is the one that traditionally has been incorporated in the GDP *Commentaries*. *Graphs 1* and *2* show short-term detail, expressed on an index base where first-quarter 2000 = 100.0. Added for comparison is the Cass Freight Index<sup>TM</sup>, a measure of North American freight volume as calculated by, and used with the permission of Cass Information Systems, Inc. Shown in



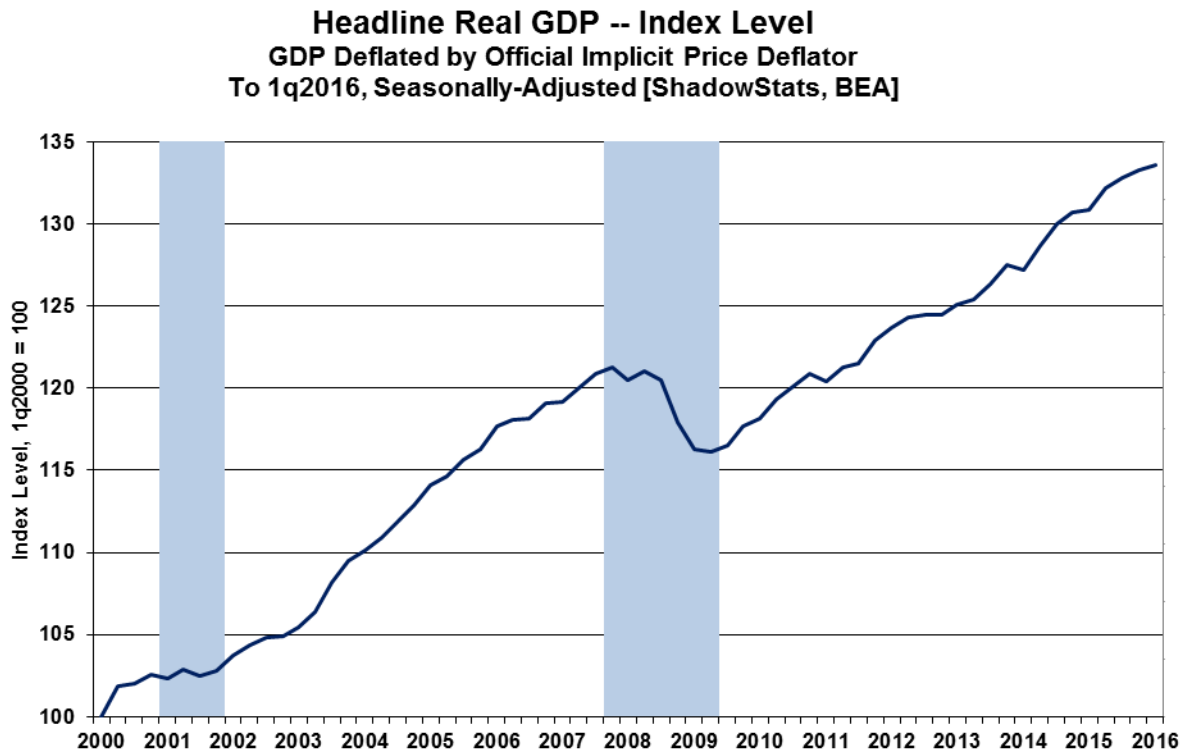
*Graph 3*, the freight index, as a broad measure of basic domestic economic activity, has much more in common with the “corrected” GDP of *Graph 2*, than the headline GDP of *Graph 1*.

The second set of graphs (*Graphs 4 and 5*) updates the detail 1970-to-date, expressed in billions of 2009 dollars as used with the headline GDP. The graphs show official periods of recession as shaded areas, with ShadowStats-defined recessions indicated by the lighter shading in *Graph 5*, the second graph of the second set, as published initially in [2014 Hyperinflation Report—Great Economic Tumble](#).

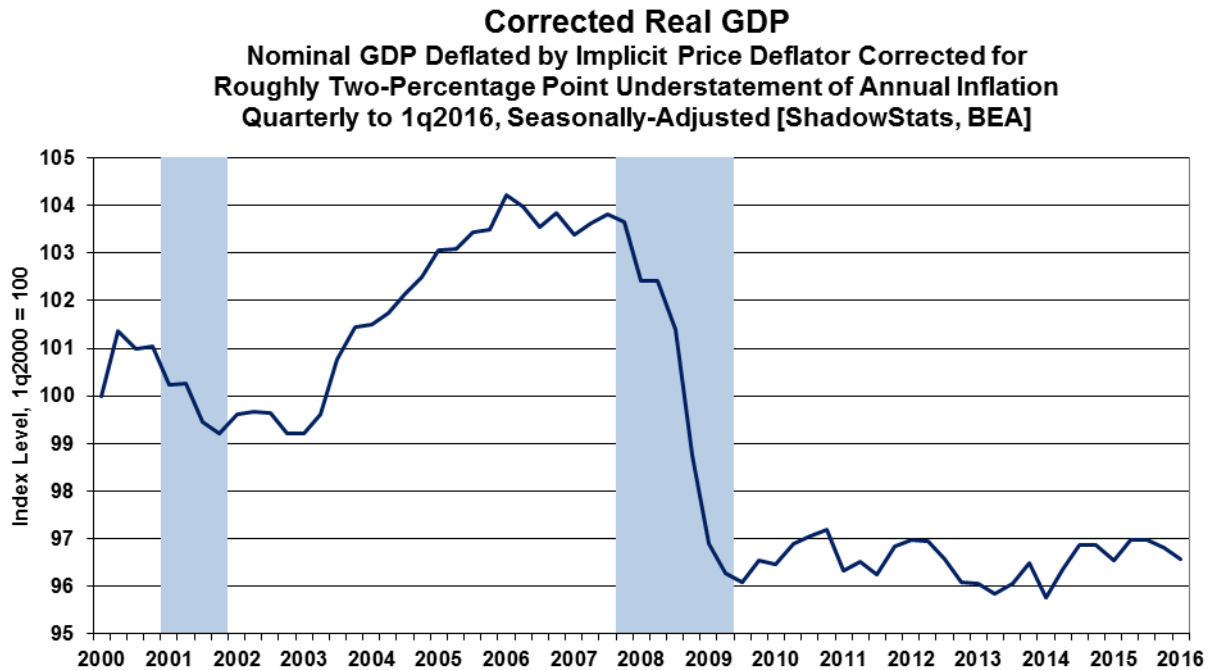
Shown in the first graph of each set (*Graphs 1 and 4*) of official *Headline Real GDP*, GDP activity has been reported above pre-2007 recession levels—in full recovery—since second-quarter 2011, and headline GDP has shown sustained growth since (growth pauses or interruptions for second-half 2012 and first-quarter 2014 excepted). Adjusted for GDP inflation (the implicit price deflator - IPD), headline first-quarter 2015 GDP currently stands 10.2% above its pre-recession peak-GDP estimate of fourth-quarter 2007. In contrast, the “corrected” GDP version, in the second graph of each set (*Graphs 2 and 5*), shows first-quarter 2016 GDP activity down by 7.3% (-7.3%) from its pre-recession peak of first-quarter 2006.

Again, the second graph in each series (*Graphs 2 and 5*) plots the *Corrected Real GDP*, corrected for the understatement inherent in official inflation estimates (see [Public Commentary on Inflation Measurement](#)), with the deflation by the implicit price deflator (IPD) adjusted for understatement of roughly two-percentage points of annual inflation in recent years. The inflation understatement has resulted from hedonic-quality adjustments, also as discussed in the *Hyperinflation Reports*.

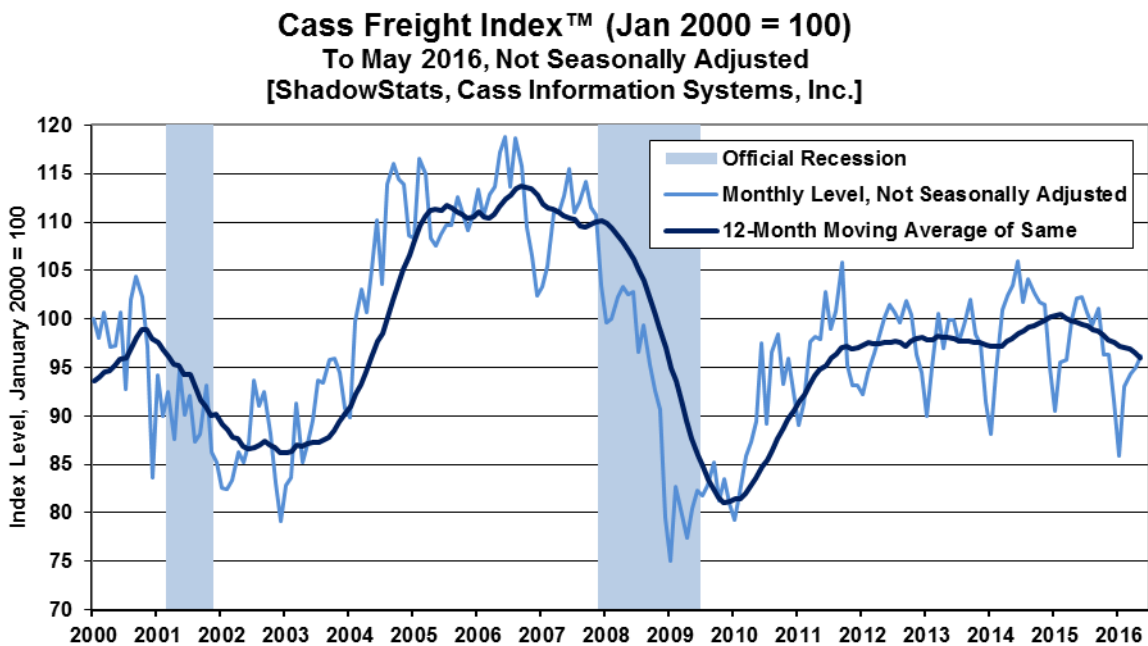
**Graph 1: Real GDP Index – Headline Real GDP (2000-2016), Third Estimate to First-Quarter 2016**



**Graph 2: "Corrected" Real GDP Index (2000-2016), Third Estimate to First-Quarter 2016**



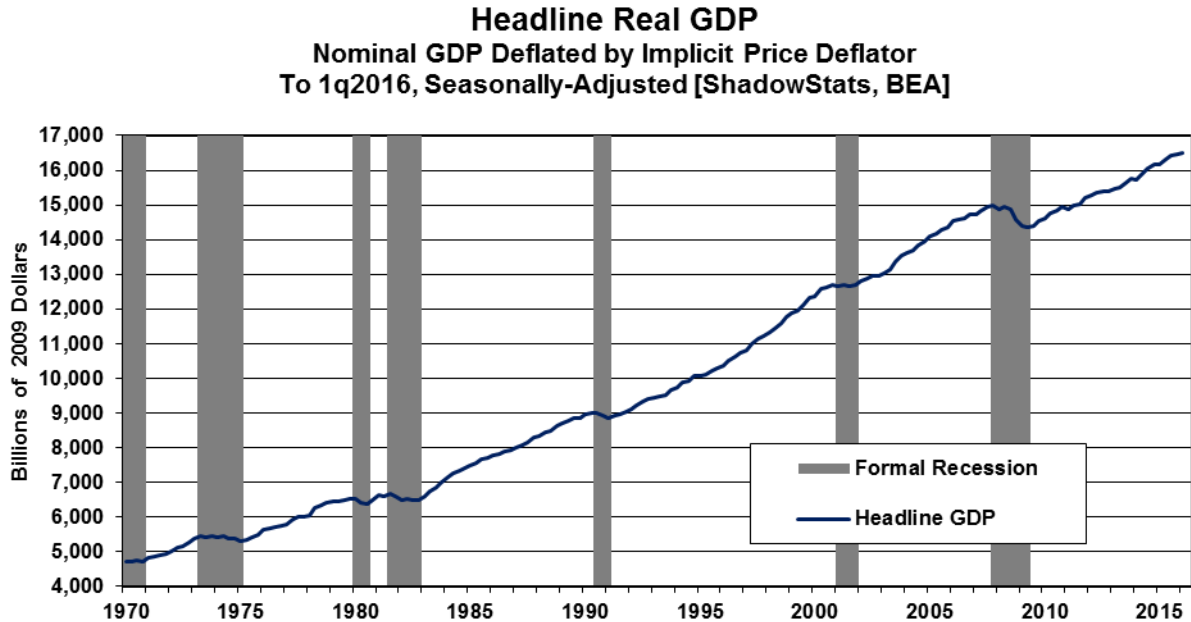
**Graph 3: Cass Freight Index™ (2000-May 2016)**



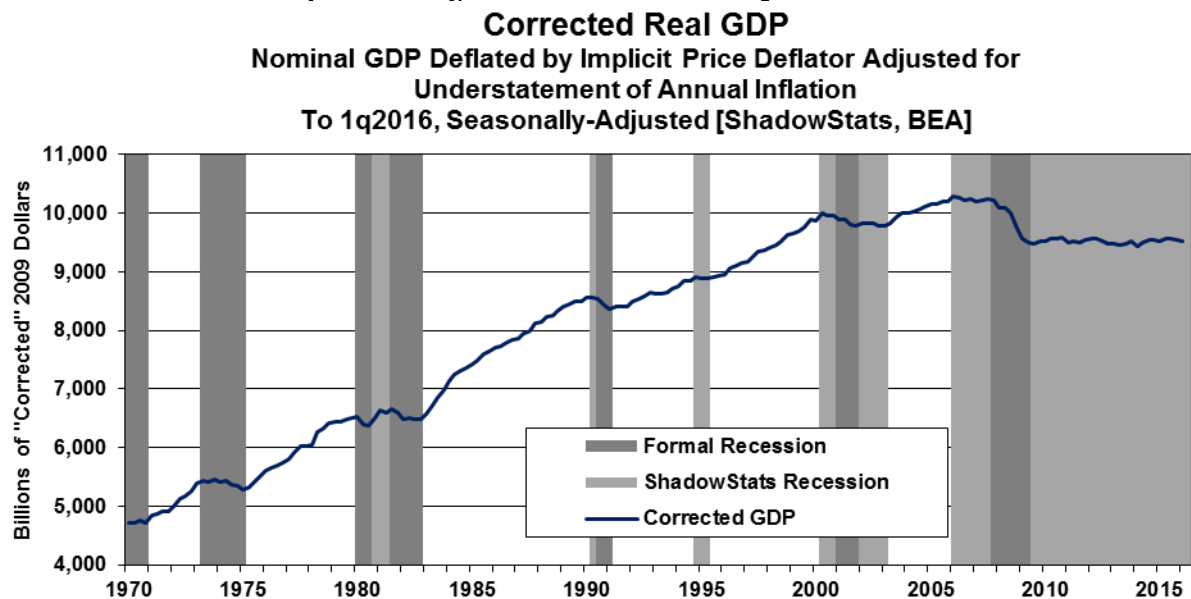
Further, discussed broadly in the second installment of the *Hyperinflation Report*, no other major economic series has shown a pattern of official full economic recovery and meaningful expansion thereafter, consistent with the headline GDP reporting. Such is covered in the recent discussions on

industrial production, real retail sales and real durable goods orders (see [No. 813](#), [No. 814](#) and [No. 816](#)). Either the GDP reporting is wrong, or all other major economic series are wrong. While the GDP is heavily modeled, imputed, theorized and gimmicked, it also encompasses reporting from those various major economic series and private surveys, which still attempt to measure real-world activity. Flaws in the GDP inflation methodologies and simplifying reporting assumptions have created the “recovery.”

**Graph 4: Real GDP Index (1970-2016), Third Estimate of First-Quarter 2016**



**Graph 5: "Corrected" Real GDP (1970-2016), Third Estimate of First-Quarter 2016**



The pattern of economic collapse into 2009, followed by some minimal recovery, low-level stagnation and renewed contraction is a common condition with many series, as shown regularly in the *Opening Comments* of the unemployment and employment related *Commentaries* such as [Commentary No. 810](#). These often independent numbers—non-U.S. government—such as the Cass Freight Index (copied here from prior [Commentary No. 816](#), put the lie to the gimmicked headline reporting that has been massaged for decades by government agencies and consulting academics, often publishing numbers adjusted for economic theories that have limited application to real word activity.

**Consumer Liquidity Conditions Update—June 2016 Consumer Confidence.** Briefly updated here for June 2016 Consumer Confidence, following the updated Median Real Monthly Household Income and Consumer Sentiment and Confidence details in prior [Commentary No. 816](#), consumer liquidity conditions last were reviewed fully in [General Commentary No. 811](#) of June 10th. More extensive general background detail is available in [No. 777 Year-End Special Commentary](#).

Underlying fundamentals to consumer economic activity, such as liquidity, have been severely impaired in the last decade or so, driving economic activity into collapse and preventing meaningful or sustainable economic rebound, recovery or ongoing growth. The level of and growth in sustainable real income, and the ability and willingness of the consumer to take on new debt remain at the root of the liquidity issues.

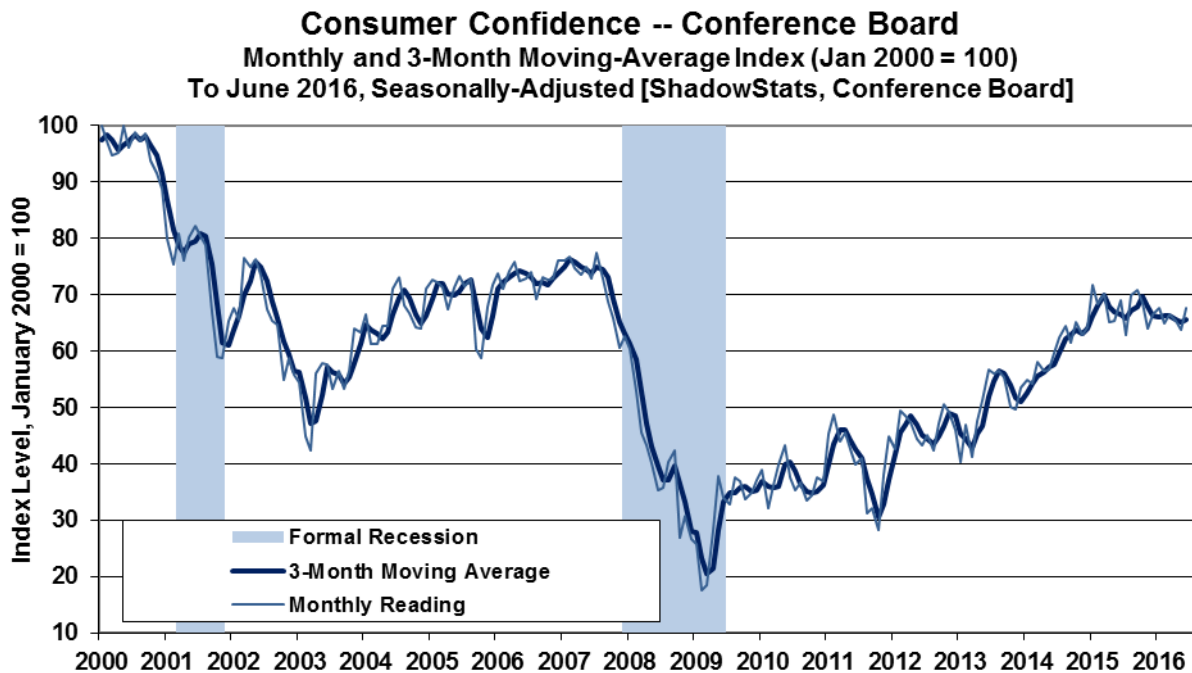
Generally, the higher and stronger those measures are, the healthier is consumer spending. Most measures of consumer liquidity and attitudes remain off their lows, and one—real monthly median household income—actually had spiked recently to pre-recession levels, reflecting the temporary collapse in gasoline prices and deflation by the otherwise underestimated headline CPI-U inflation. It has since begun to tumble lower, again, with a pickup in inflation (see [No. 816](#), *Graph 17*). Yet, these underlying economic fundamentals simply have not supported, and do not support a turnaround in broad economic activity. Never truly recovering in the post-Panic era, limited growth in household income and credit, and a still broadly faltering consumer outlook, have eviscerated and continue to impair the personal consumption and residential real estate sectors, which feed off the financial health and liquidity of consumers and account for more than 70% of total GDP activity in the United States.

Now, with the economy never having recovered fully from the collapse into 2009, consumers again are pulling back on consumption, as evidenced by a renewed slowdown in broad economic activity. There has been no economic recovery, and there remains no chance of meaningful, broad economic growth, without a meaningful, fundamental upturn in consumer- and banking-liquidity conditions.

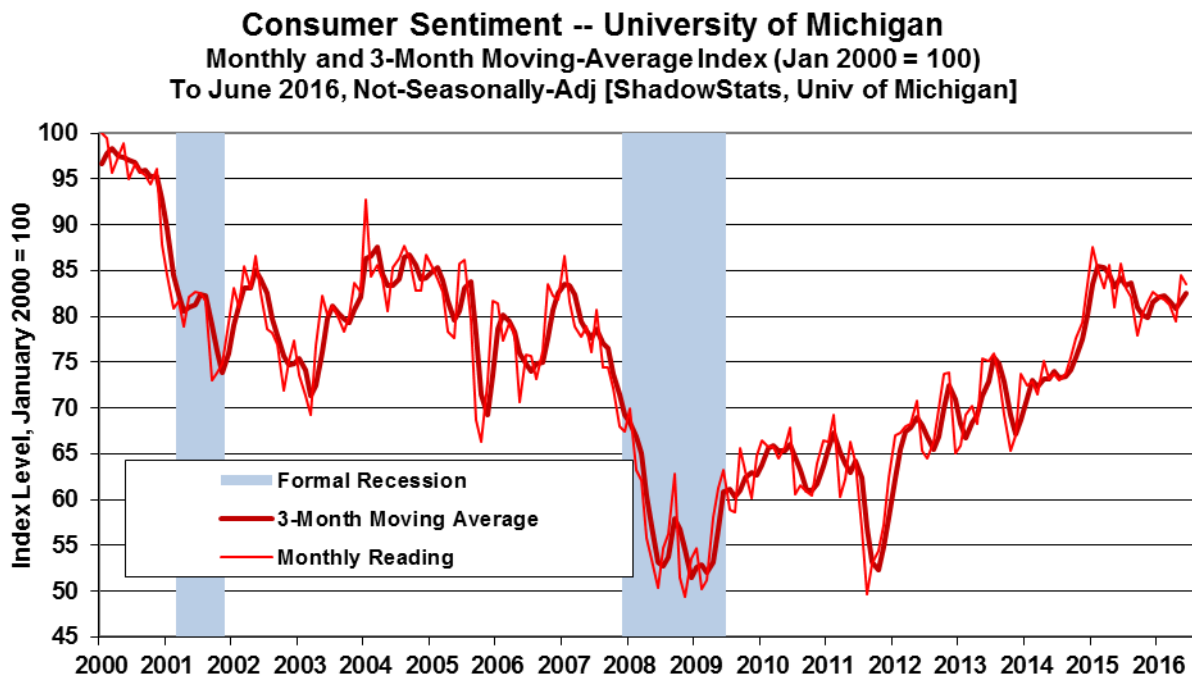
**Consumer Confidence and Sentiment.** Today's headline June 2016 reading for the Conference Board's Consumer-Confidence measure and the full-June 2016 reading for the University of Michigan's Consumer-Sentiment measure are reflected in *Graphs 6 to 8*. Confidence jumped sharply for the month of June, as Sentiment did in May and held at somewhat elevated levels into June (see the opening paragraphs of these *Opening Comments*, concerning shifting political circumstances).

Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs 6 to 8* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index is set with 1985 = 100, while the University of Michigan's Consumer Sentiment Index is set with January 1966 = 100.

**Graph 6: Consumer Confidence to June 2016**



**Graph 7: Consumer Sentiment to June 2016**



Where the Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index (*Graph 6*) declined in both April and May rebounding sharply in June 2016, with the three-month moving average still down by 5.9% (-5.9%) from its peak in March 2015.



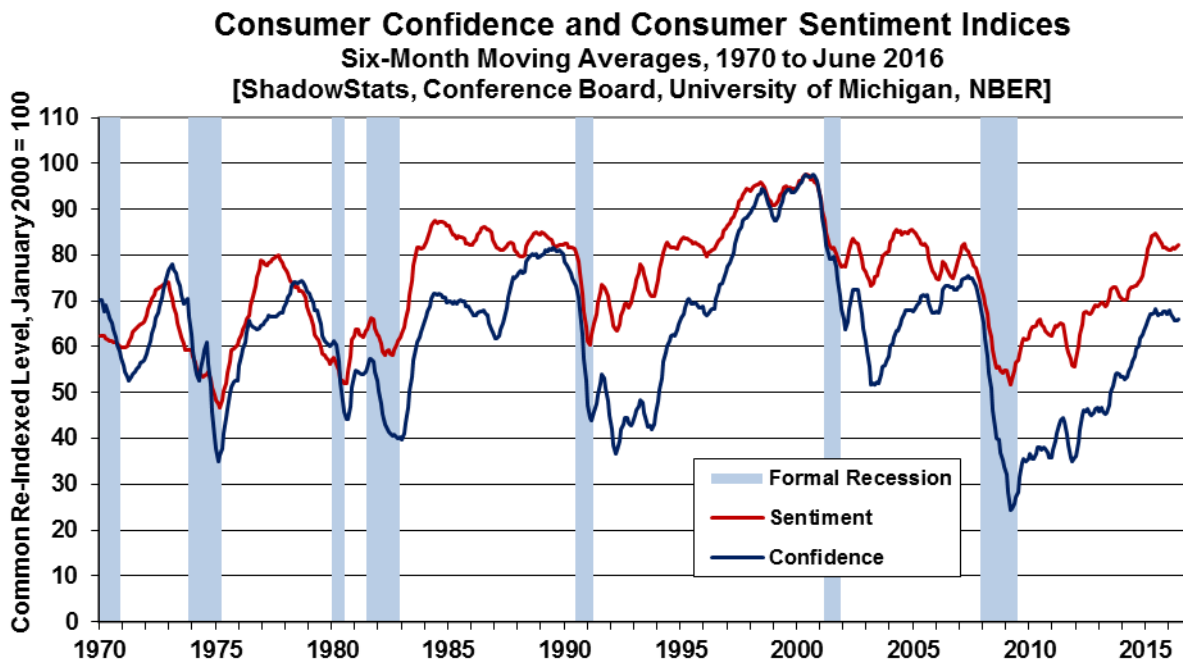
Previously reported ([No. 816](#)), the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph 7*) soared in the early-May 2016 reading, eased back slightly in its final version, moved minimally lower in early-June and again in full-June, with its three month-moving average for all of June 2016 down by 3.4% (-3.4%) from its February 2015 peak.

Both series also continued to hold off near-term peaks, as smoothed for six-month moving-average readings (*Graph 8*), with the average measures down respectively by 3.3% (-3.3%) for Confidence, and by 3.0% (-3.0%) for Sentiment, from their June 2015 highs.

The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in [Commentary No. 764](#)), and often are highly volatile month-to-month, as a result. With increasingly-negative, unstable and uncertain headline financial and economic reporting and developments at hand and ahead, successive negative hits to both the confidence and sentiment readings remain increasingly likely in the months ahead, other than for possible continued significant shifts in perceptions of the political environment.

Smoothed for irregular, short-term volatility, the two series still remain at levels seen typically in recessions. Suggested in *Graph 8*—plotted for the last 45 years—the latest readings of Confidence and Sentiment generally have not recovered levels preceding most formal recessions of the last four decades. Broadly, the consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth seen in 2014 and as indicated for second-and third-quarter 2015 GDP growth.

**Graph 8: Comparative Confidence and Sentiment (6-Month Moving Averages) since 1970**



*[The Reporting Detail section contains significant additional GDP statistical analysis and graphs.]*

## REPORTING DETAIL

### GROSS DOMESTIC PRODUCT—GDP (First-Quarter 2016, Third Estimate, Second Revision)

**Gross Domestic Product—Nominal GDP Growth Effectively Was Unrevised; Real Growth Was Boosted by Downwardly Revised Inflation; Downside Benchmarking Looms on July 29th.** *[This section through the “Notes” comes largely from elements of the Opening Comments.]* Aside from the headline 1.07% second revision to annualized real quarterly growth in first-quarter 2016 Gross Domestic Product (GDP) being no more than statistical noise, the detail remained nonsense in the context of the ongoing “fluff” built into the headline “guesstimates” of the Bureau of Economic Analysis (BEA). Internally, this third round of estimation, the second round of revisions was extraordinarily volatile and inconsistent with prior quarters’ reporting. Clean reporting here still would have shown a headline first-quarter 2016 contraction well in excess of 1.0% (-1.0%).

Specifically, the 0.23% upside revision to headline real growth, from 0.84% to 1.07%, reflected no more than a downside shift of 0.22% (-0.22%) in the GDP inflation rate, as measured by the Implicit Price Deflator (IPD). The lower the inflation rate used to deflate the GDP, the stronger will be the real growth.

Accordingly, in nominal terms, before inflation adjustment, annualized first-quarter 2016 nominal growth revised higher by just 0.01%.

Still well shy of negative reality, and built upon the underlying GDP revisions, Gross National Product (GNP)—the broadest measure of U.S. economic activity—revised to a headline real gain of 0.21%, having declined at an annualized real pace of 0.21% (-0.21%) in last month’s initial reporting.

The theoretical GDP-equivalent Gross Domestic Income (GDI) exploded further in unstable and wildly gyrating volatility to a first revision of 2.90%, following an initial first-quarter gain of 2.23%. Heavily warped by highly questionable upside-bias estimates out of the Bureau of Labor Statistics (BLS), the BEA might do well to suspend its GDI reporting until the BLS can straighten out its internal reporting distortions. One would expect subsequent reporting of first-quarter GDP and GDI to come closer to together, not to widen in their differences.

Irrespective of the heavily gimmicked GDP detail, underlying reality remains that broad U.S. economic activity has entered a renewed downturn, never having recovered its pre-recession peak. First-quarter 2016 GDP activity and other recent GDP reporting since first-quarter 2013 (an artificial time limit set by the BEA) likely will revise to headline quarterly contractions, come the July 29, 2016 GDP benchmarking, as will be detailed in a separate, mid-July ShadowStats assessment.

In this most-politically-sensitive of popularly followed domestic economic series, the GDP does not reflect properly or accurately the changes to the underlying fundamentals that drive the economy.

Underlying real-world economic activity has shown that the broad economy began to turn down in 2006 and 2007, plunged into 2009, entered a protracted period of stagnation thereafter—never recovering—and then began to turn down anew in late-2014.

The GDP (or the broader GNP headlined in earlier decades) simply remains the most worthless of the popular government economic series, in terms of determining what really is happening to U.S. business activity. The series is the most-heavily-modeled, politically-massaged and gimmicked government indicator of the economy. It has been so since at least the 1960s.

Back in the days when GNP was the headline U.S. economic measure, President Lyndon Johnson purportedly reviewed the numbers before their release, and he would return them to the Commerce Department, if Commerce had gotten them “wrong.” He would keep doing so until Commerce got the numbers “right.” Johnson may not have been the first, but he definitely was not the last president to have a direct interest in headline GNP reporting, or what since has become the generally more-positive, but less-substantive headline GDP reporting in today’s political environment.

Nonetheless, despite all the upside biases and gimmicks built into the GDP reporting, the real world occasionally surfaces in formal GDP estimates, when there is a severe enough downturn in underlying detail. That likely is happening now, with a “new” recession in the process of official unfolding. Major monthly economic series such as retail sales, industrial production, durable goods orders and housing-market measures have been showing reasonably regular quarterly contractions. Underlying reality has become weak enough, once again, for the headline GDP and related series to show an ongoing, formal downturn. That initial recognition likely will follow in the aftershocks of the July GDP benchmarking.

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### **Notes on GDP-Related Nomenclature and Definitions**

*For purposes of clarity and the use of simplified language in the text of the GDP analysis, here are definitions of several key terms used related to GDP reporting:*

**Gross Domestic Product (GDP)** is the headline number and the most widely followed broad measure of U.S. economic activity. It is published quarterly by the Bureau of Economic Analysis (BEA), with two successive monthly revisions, and with an annual revision in the following July.

**Gross Domestic Income (GDI)** is the theoretical equivalent to the GDP, but the popular press generally does not follow it. Where GDP reflects the consumption side of the economy and GDI reflects the offsetting income side. When the series estimates do not equal each other, which almost always is the case, since the series are surveyed separately, the difference is added to or subtracted from the GDI as a “statistical discrepancy.” Although the BEA touts the GDP as the more accurate measure, the GDI is relatively free of the monthly political targeting the GDP goes through.

**Gross National Product (GNP)** is the broadest measure of the U.S. economy published by the BEA. Once the headline number, now it rarely is followed by the popular media. GDP is the GNP net of trade in factor income (interest and dividend payments). GNP growth usually is weaker than GDP growth for net-debtor nations. Games played with money flows between the United States and the rest of the world tend to mute that impact on the reporting of U.S. GDP growth.

**Real (or Constant Dollars)** means the data have been adjusted, or deflated, to reflect the effects of inflation.

**Nominal (or Current Dollars)** means growth or level has not been adjusted for inflation. This is the way a business normally records revenues or an individual views day-to-day income and expenses.

**GDP Implicit Price Deflator (IPD)** is the inflation measure used to convert GDP data from nominal to real. The adjusted numbers are based on “Chained 2009 Dollars,” as introduced with the 2013 comprehensive revisions, where 2009 is the base year for inflation. “Chained” refers to the substitution methodology, which gimmicks the reported numbers so much that the aggregate of the deflated GDP sub-series missed adding to the theoretically-equivalent deflated total GDP series by \$60.4 billion in “residual,” as of the second estimate of fourth-quarter 2014.

**Quarterly** growth, unless otherwise stated, is in terms of seasonally-adjusted, annualized quarter-to-quarter growth, i.e., the growth rate of one quarter over the prior quarter, raised to the fourth power, a compounded annual rate of growth. While some might annualize a quarterly growth rate by multiplying it by four, the BEA uses the compounding method, raising the quarterly growth rate to the fourth power. So a one percent quarterly growth rate annualizes to  $1.01 \times 1.01 \times 1.01 \times 1.01 = 1.0406$  or 4.1%, instead of  $4 \times 1\% = 4\%$ .

**Annual** growth refers to the year-to-year change of the referenced period versus the same period the year before.

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**Gross Domestic Product (GDP).** Published today, June 28th, by the Bureau of Economic Analysis (BEA), the third estimate of, second revision to first-quarter 2016 GDP showed a statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 1.07% [previously up by 0.84%, initially up by 0.54%] +/- 3.5% (95% confidence interval). Distribution of the revised first-quarter 2016 GDP growth by major category is detailed in the *Opening Comments*.

The upwardly-revised headline quarterly growth still was the lowest level in a year, down sharply from the headline annualized gains of 1.39% in fourth-quarter 2015, 1.98% in third-quarter 2015 and 3.92% in second-quarter 2015 GDP, but several notches higher now, than the headline 0.64% growth in first-quarter 2015.

*Graphs 9 and 11* plot the latest headline levels of real quarterly GDP activity, respectively showing short-term (since 2000) and long-term (since the historical onset of the quarterly GDP series in 1947) perspectives.

Shown in *Graphs 10 and 12*, headline year-to-year real GDP growth in first-quarter 2016 revised minimally higher to 2.08% [previously up by 2.03%, initially up by 1.95%], up slightly from the 1.98% annual growth in fourth-quarter 2015, but still down from 2.15% in third-quarter 2015, from 2.72% in second-quarter 2015 and from 2.88% in first-quarter 2015. Aside from the slightly weaker fourth-quarter 2015 annual growth, the first-quarter 2016 annual growth was the weakest in two years.

The current quarterly year-to-year growth remained well below the near-term peak of 3.08% in third-quarter 2010. The current-cycle trough in annual change was in second-quarter 2009, reflecting a year-to-year decline of 4.09% (-4.09%). That was the deepest year-to-year contraction for any quarterly GDP in the history of the series, which began with first-quarter 1947 (1948 in terms of available year-to-year detail).

*Graph 10* shows current year-to-year quarterly detail, from 2000-to-date, where *Graph 12* shows the same series in terms of its full quarterly, year-to-year history back to 1948.

**Implicit Price Deflator (IPD).** As general guidance, again, the weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth. The third reading on first-

quarter 2016 GDP inflation, or the implicit price deflator (IPD), was an annualized quarterly increase of 0.37% [previously up by 0.59%, initially up by 0.70%]. That downside revision to inflation accounted for 0.22% of the 0.23% upside revision to the real first-quarter's annualized real GDP growth rate. Such followed annualized IPD inflation of 0.94% in fourth-quarter 2015, versus 1.30% in third-quarter 2015, 2.13% in second-quarter 2015 and a benchmarked gain of 0.12% in the first-quarter 2015.

Year-to-year, first-quarter IPD inflation revised to 1.18% [previously 1.24%, initially 1.27%], versus 1.12% in fourth-quarter 2015, 0.90% in third-quarter 2015, 0.98% in second-quarter 2015 and a benchmarked 1.01% annual gain in first-quarter 2015.

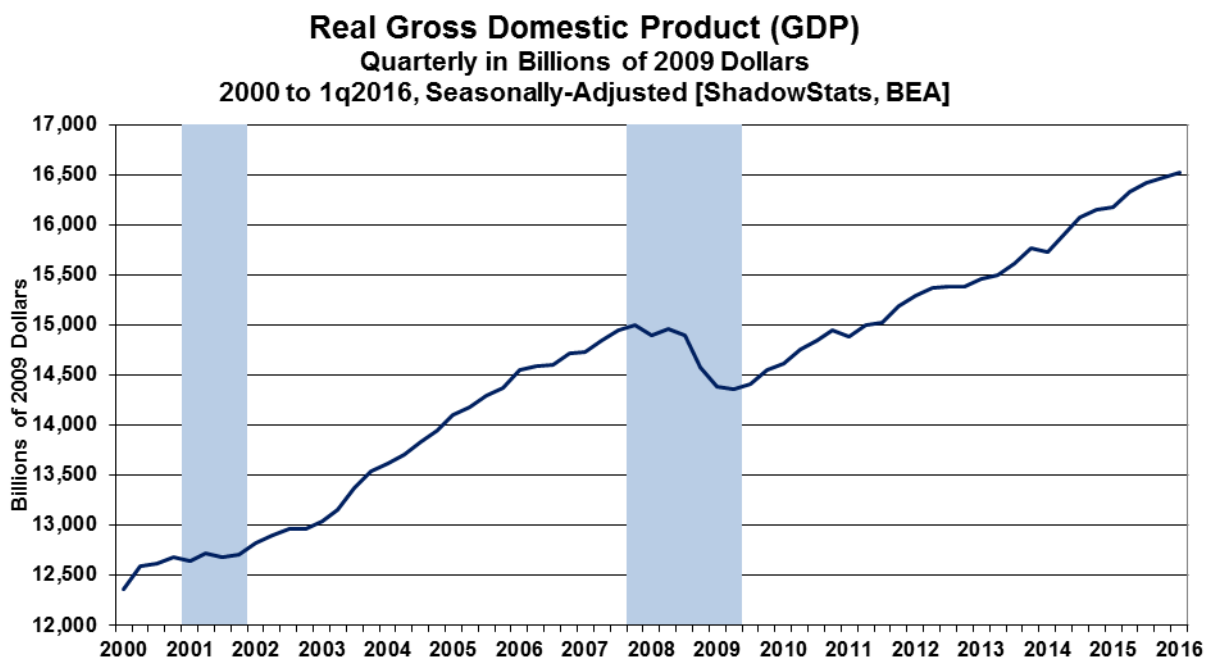
For purposes of comparison, on an annualized quarter-to-quarter basis, the seasonally-adjusted Consumer Price Index CPI-U fell by 0.31% (-0.31%) in first-quarter 2016, versus a 0.77% gain in fourth-quarter 2015, 1.38% gain in the third quarter, 2.44% gain in the second quarter and a quarterly contraction of 2.86% (-2.86%) in the first quarter of 2015.

Unadjusted, year-to-year quarterly CPI-U inflation showed a year-to-year first-quarter 2016 gain of 1.08%, versus a fourth-quarter 2015 gain of 0.47%, a third-quarter 2015 gain of 0.11%, an annual contraction of 0.04% (-0.04%) in second-quarter 2015 and a year-to-year decline of 0.06% (-0.06%) in first-quarter 2015 (see [Commentary No. 799](#)).

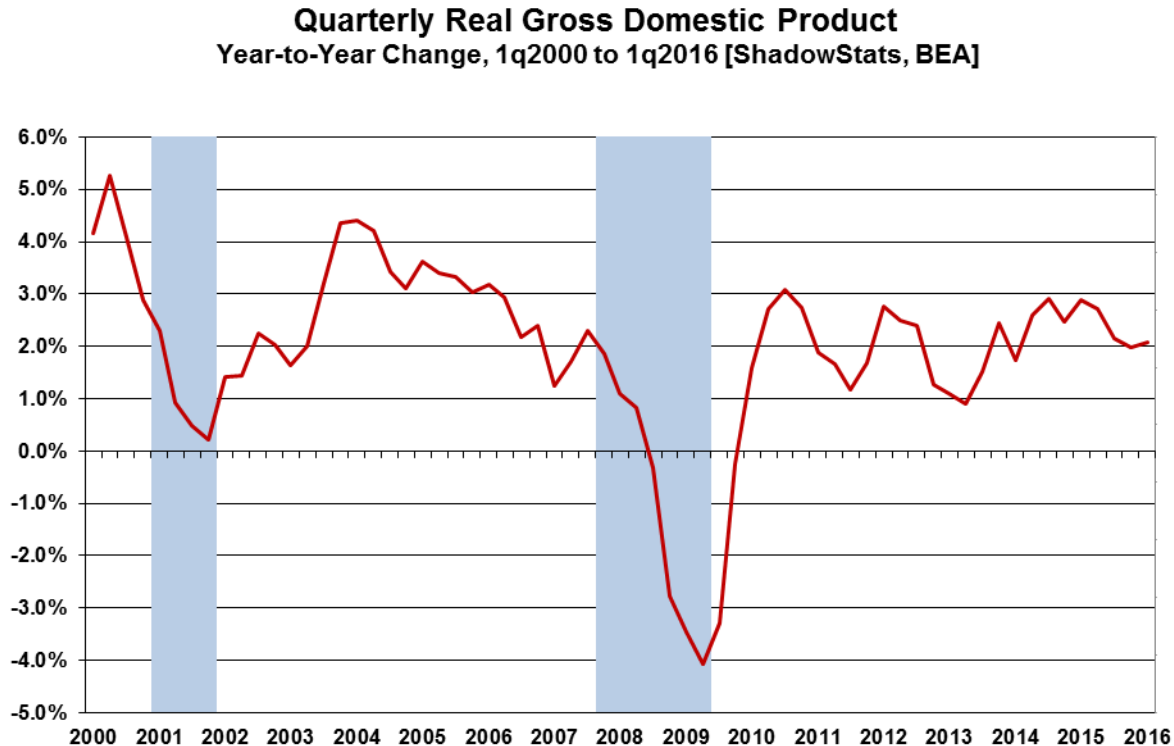
[Graphs 9 to 12 begin on the next page]



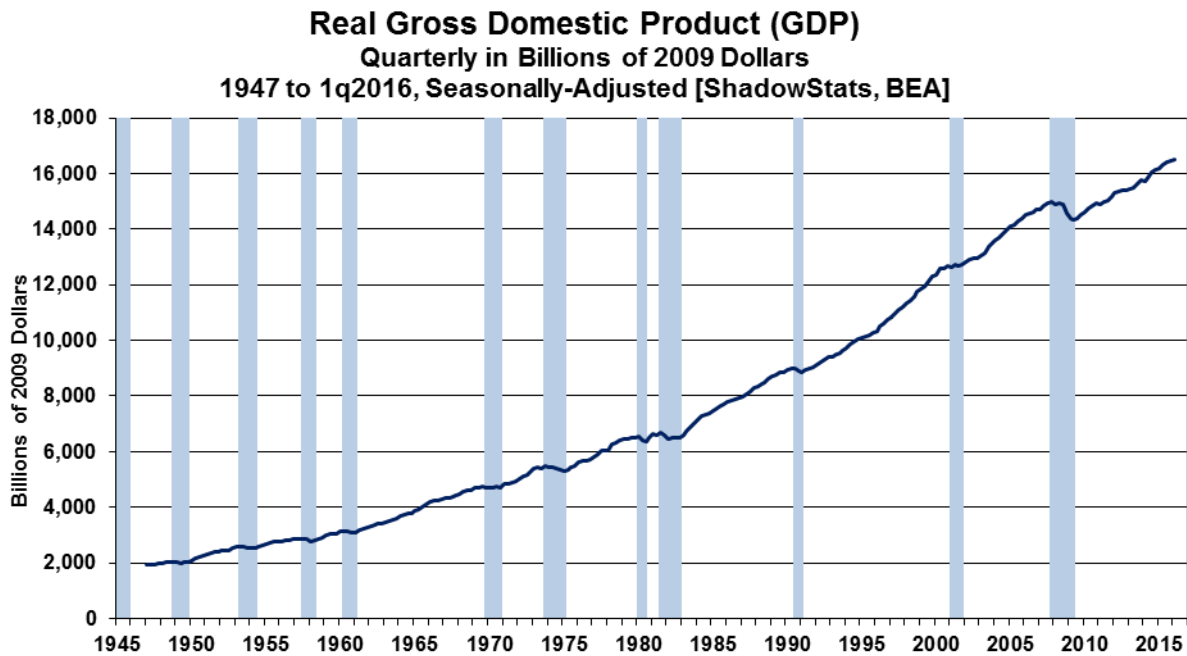
**Graph 9: Quarterly GDP in Billions of 2009 Dollars (2000 to 2016), Third Estimate of First-Quarter 2016**



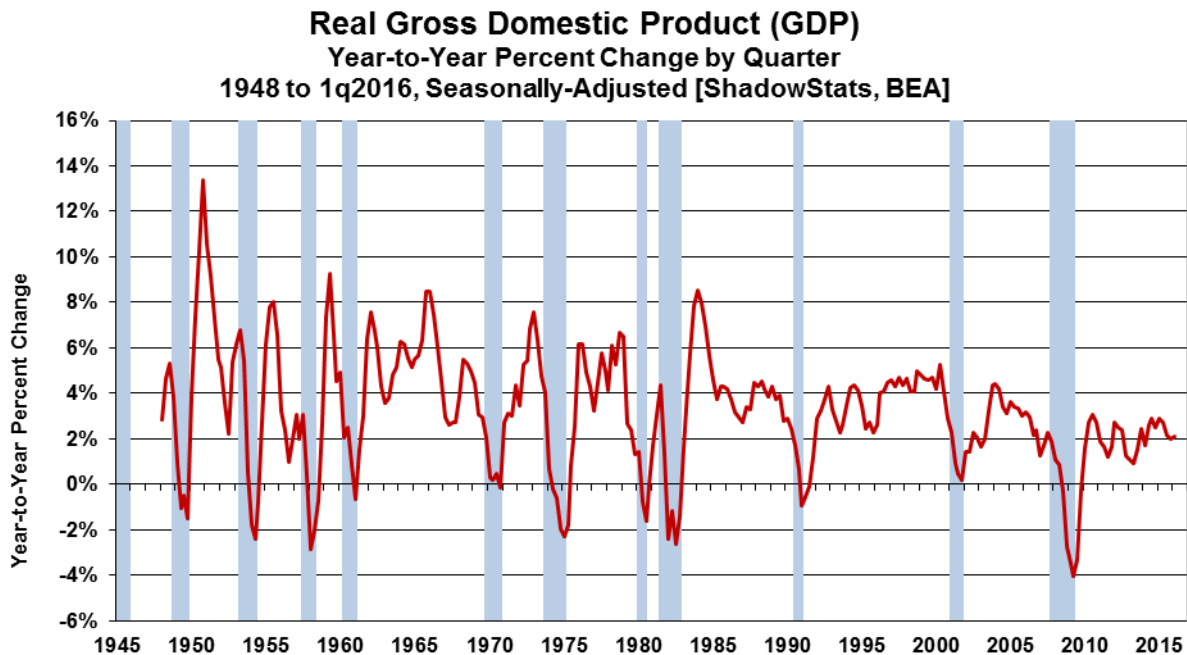
**Graph 10: Quarterly GDP Real Year-to-Year Change (2000 to 2016), Third Estimate of First-Quarter 2016**



**Graph 11: Quarterly GDP in Billions of 2009 Dollars (1947-2016), Third Estimate of First-Quarter 2016**



**Graph 12: Quarterly GDP Real Year-to-Year Change (1948-2016), Third Estimate of First-Quarter 2016**



**Gross National Product (GNP).** The headline second estimate of first-quarter 2016 GNP showed an revised, annualized real first-quarter gain of 0.21% [previously a contraction of 0.21% (-0.21%)], again versus an upwardly revised 1.07% [previously 0.84%] in the headline GDP. That GNP growth was

against unrevised quarterly gains of 1.13% [GDP at 1.39%] in fourth-quarter 2015, 1.35% [GDP at 1.98%] in third-quarter 2015, 3.93% [GDP at 3.92%] in second-quarter 2015 and an unrevised quarterly contraction of 0.15% (-0.15%) [GDP at 0.64%] in first-quarter 2015.

On a year-to year basis, the second headline estimate of first-quarter 2016 GNP showed a year-to-year gain of 1.64% [previously 1.54% [GDP was 2.08%, previously 2.03%], versus gains of 1.55% [GDP at 1.98%] in fourth-quarter 2015, 1.74% [GDP at 2.15%] in third-quarter 2015, 2.54% [GDP at 2.72%] in second-quarter 2015 and 2.66% [GDP at 2.88%] in first-quarter 2015.

Built on top the GDP and its revisions, the headline detail also reflected a revised relative boost in income flows from the rest of the world.

Gross National Product (GNP) remains the broadest measure of U.S. economic activity, where GDP is GNP net of trade flows in factor income (interest and dividend payments). As a reporting gimmick aimed at boosting the headline reporting of economic growth for net-debtor nations such as the United States, international reporting standards were shifted some decades back to reporting headline GDP instead of what standardly had become a relatively weaker GNP.

**Gross Domestic Income (GDI).** Heavily touted by the BEA, for the moment, as *the* GDP counterpart, the increasingly unstable GDI has been bloated by effectively-worthless income reporting out of the Bureau of Labor Statistics (BLS). The purported income gains reflect heavily-upside-biased income estimates out of the otherwise-rigged nonfarm payroll survey, held in almost perpetual growth by built-in upside biases (see [Commentary No. 810](#), *Birth-Death/Bias Factor* discussion on page 39).

Gross Domestic Income (GDI) is the theoretical income-side equivalent to the consumption-side GDP estimate. The GDP and GDI are made to equal each other, every quarter, with the addition of a “statistical discrepancy” to the GDI-side of the equation, but the discrepancy just as easily could be added to the GDP number.

Reflecting significant overstatement of income growth in the GDI, and other instabilities in the headline reporting, the first-quarter 2016 “statistical discrepancy” widened to -\$294.3 billion in revision, from initial reporting for the quarter of -\$264.7 billion, and from -\$210.8 billion in fourth-quarter 2015. These numbers are in nominal terms, with quarterly revisions and swings that dwarf the \$65.3 billion annualized nominal growth for the revised first-quarter GDP. One would expect that the later GDI and GDP reporting would get better in quality, not worse, with the statistical discrepancy narrowing, not widening, as is the current circumstance.

The first revision to first-quarter 2016 real annualized GDI growth was 2.90% [previously 2.23%], versus 1.95% in the fourth-quarter, 2.04% in third-quarter 2015. Year-to-year GDI growth stood at 2.27% [previously 2.10%] for first-quarter 2016, up from 1.65% in fourth-quarter 2015 and 1.89% in third-quarter 2015.

**ShadowStats-Alternate GDP.** The ShadowStats-Alternate GDP estimate for first-quarter 2016 GDP remained a year-to-year contraction of 1.8% (-1.8%) versus the revised annual gain of 2.1% [previously 2.0%] seen in the headline number. Such was against a ShadowStats estimate of a 1.7% (-1.7%) annual decline in fourth-quarter 2015, versus the official fourth-quarter GDP year-to-year gain of 2.0% (see the [Alternate Data](#) tab). The differences between the ShadowStats estimate and the current headline reporting should narrow markedly come the annual GDP benchmark revisions scheduled for July 29, 2016.

While the annualized, real quarterly growth rate is not estimated formally on an alternate basis, the 1.1% annualized, headline quarter-to-quarter gain in first-quarter 2016 was much weaker, net of all the happy assumptions and regular reporting gimmicks coming into today. It is of high risk of revising into an outright quarterly contraction in the annual benchmark revisions. Actual quarterly contractions appear to have been a realistic possibility for inflation-adjusted GDP in most quarters since the official, second-quarter 2009 end to the 2007 recession.

Adjusted for understated inflation and other methodological changes—such as the inclusion of intellectual property, software and recent accounting for the largely not-measurable and questionable impact of the Affordable Care Act (ACA)—the business collapse that began in 2006/2007 is ongoing; there has been no meaningful economic rebound. The “corrected” real GDP graph, and the longer-term “corrected” graph (see *Graphs 2 and 5 in the Opening Comments*), updated from [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#), are based on the removal of the impact of hedonic quality adjustments that have reduced the reporting of official annual GDP inflation by roughly two-percentage points. It is not the same measure as the ShadowStats-Alternate GDP, here, which reflects reversing additional methodological distortions (“Pollyanna Creep”) of recent decades.

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## WEEK AND MONTH AHEAD

**Economic Deterioration Should Intensify in the Weeks and Month Ahead, Increasingly Pummeling the U.S. Dollar and Boosting Gold, Silver and Oil Prices.** Market expectations for business activity should deteriorate at an accelerating pace, amidst intensifying, negative headline economic reporting and continued Fed-policy retrenchment in the near term. The general trend in weakening expectations for business activity and movement towards looming recession recognition, reflect a broad spectrum of market-disappointing headline data. That unfolding circumstance has been detailed in [Commentary No. 816](#), [Commentary No. 815](#), [Commentary No. 814](#), [Commentary No. 813](#), [Commentary No. 812](#), [General Commentary No. 811](#), [Commentary No. 810](#), [Supplemental Commentary No. 807-A](#), [Commentary No. 800](#), [Commentary No. 799](#), [Commentary No. 796-A](#), [Commentary No. 796](#) and [No. 777 Year-End Special Commentary](#).

Allowing for near-term, likely short-lived gyrations generated by the Brexit vote (see the *Opening Comments*), and otherwise in response to perpetual U.S. economic non-recovery and a renewed, intensifying downtrend in underlying economic activity, negative market reactions have surfaced in trading of the U.S. dollar and in related financial markets, with upside pressures on gold, silver and oil prices. Market activity has been mixed, somewhat on oil, at the moment (see *Opening Comments*), as discussed in [No. 814](#), [No. 811](#), [No. 807](#) and [No. 799](#). These market reactions reflect, at least in part, the

intensifying sense of Federal Reserve impotence, with bleak longer term implications for the U.S. dollar. Further tightening by the Fed prior to the election remains unlikely, instead, renewed quantitative easing could become a target of intensified market speculation as the deepening recession unfolds and becomes increasingly obvious in the next several months.

Rapidly weakening, regular monthly economic reporting should be accompanied by much worse-than-expected—negative—reporting for at least the next several quarters of GDP (and GDI and GNP), as seen with the small initial reporting of a first-quarter 2016 contraction in the Gross National Product (GNP)—the broadest measure of U.S. economic activity—discussed in [No. 809](#), which revised minimally into positive territory with today’s inflation-adjustment gimmicks (see the *Opening Comments*).

Pending are meaningful downside revisions to GDP history (including likely headline quarterly contractions in first-quarter 2015, fourth-quarter 2015 and first-quarter 2016), come the July 29, 2016 annual GDP benchmark revisions, again, as discussed in [Commentary No. 815](#). A review of likely revisions in the pending benchmarking (limited to 2013 to date) will be published mid-July.

Consistent with the relatively neutral benchmark revisions to retail sales and housing starts, and in line with recent sharp downside revisions to industrial production, durable goods orders, the annual revisions to the real merchandise-trade deficit and likely negative benchmark revisions to construction spending next month, expectations for the GDP benchmarking also should fall sharply. Discussed in the *Opening Comments* of [No. 810](#), upside redefinitions to the service-sector trade surplus could have some minimal upside revision impact pre-2015. Nonetheless, that GDP benchmarking now appears to be the most-likely point at which the elements for a “formal” recession call will be in full play.

CPI-U consumer inflation—intermittently driven lower in 2015 and early-2016 by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low. Headline monthly March to May 2016 detail moved into positive headline territory, in tandem with rising gasoline prices. CPI inflation is on track to rise minimally in June and likely going forward, still boosted by a weakening U.S. dollar environment, and a continued, related upturn in oil prices and other commodities. Gasoline price seasonal adjustments also shift to the plus-side in July. Fundamental reporting issues with the headline CPI are discussed here: [Public Commentary on Inflation Measurement](#).

**Note on Reporting-Quality Issues and Systemic-Reporting Biases.** Significant reporting-quality problems remain with most major economic series. Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, which have tended to understate actual inflation and to overstate actual economic activity, ongoing headline reporting issues are tied largely to systemic distortions of monthly seasonal adjustments.

Data instabilities—induced partially by the still-evolving economic turmoil of the last nine-to-eleven years—have been without precedent in the post-World War II era of modern-economic reporting. The severity and ongoing nature of the downturn provide particularly unstable headline economic results, when concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data). That was discussed and explored in the labor-numbers related [Supplemental Commentary No. 784-A](#) and [Commentary No. 695](#).

Further, discussed in [Commentary No. 778](#), a heretofore unheard of spate of “processing errors” surfaced in recent surveys of earnings (Bureau of Labor Statistics) and construction spending (Census Bureau).



This is suggestive of deteriorating internal oversight and control of the U.S. government's headline economic reporting. At the same time, it indicates an increasing openness of the involved statistical agencies in revealing the reporting-quality issues.

Combined with ongoing allegations in the last year or two of Census Bureau falsification of data in its monthly Current Population Survey (the source for the BLS Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series (see [Commentary No. 669](#)). John Crudele of the *New York Post* continues his investigations in reporting irregularities: [Crudele Investigation](#).

### ***PENDING RELEASES:***

**Construction Spending (May 2016).** The Commerce Department will release its estimate of May 2016 construction spending—including annual revisions—on Friday, July 1st. Detail will be covered in the ShadowStats *Commentary No. 818* of July 6th. As usual, headline monthly changes should not be statistically-significant. Irrespective of almost perpetually-positive market expectations for this series, the detail should continue in down-trending stagnation, net of a continued positive trend in related headline inflation.

In what will have some impact on the nominal (not-inflation-adjusted) growth, relative to real (inflation-adjusted) growth, May 2016 inflation (PPI – Final Demand Construction) rose month-to-month by a seasonally-adjusted 0.09% (April was up by 0.79% for the month) in the aggregate construction spending category. That will reduce the headline monthly real spending growth rate, accordingly, versus the nominal performance. In the aggregate construction category, seasonally-adjusted and unadjusted annual inflation for May 2016 was 1.87% (same level as in April 2016), still two percentage points or so shy of private surveying. The headline annual inflation will subtract accordingly from the nominal annual growth to generate the real year-to-year growth rate.

**U.S. Trade Balance (May 2016).** The Commerce Department and Bureau of Economic Analysis (BEA) will release their full version of the monthly U.S. trade balance for May 2016 on Wednesday, July 6th, which will be covered in *Commentary No. 818* of that date. Such also will update the relative quarter-to-quarter trade deterioration in first-quarter 2016, and generate a second signal of the trend in second-quarter 2016 trade activity. The full version of the May 2016 deficit will revise the generally worthless June 27th “advance” estimate in merchandise trade, which showed a somewhat greater-than-expected monthly deterioration. The headline May 2016 detail will be in the context of last month's annual revisions to series as detailed in [Commentary No. 810](#).

**Employment and Unemployment (June 2016).** The Bureau of Labor Statistics (BLS) will publish its June 2016 labor data on Friday, July 8th. Headline detail will be covered in *Commentary No. 819* of that date. Both the more-inclusive unemployment-rate numbers, as well as the headline payroll-employment details, are open for negative headline surprises, given the ongoing, general weakening tone in a number of business indicators.

Such is despite the low, market-shocking 38,000 jobs gain [jobs dropped by 50,000 (-50,000) net of revisions to April] in May 2016, and a 35,000 jobs boost the June 2016 data from returning Verizon strikers ([Commentary No. 810](#)).

The nonsensical decline in the May headline unemployment rate to 4.7% from 5.0%, driven by the disappearance of 460,000 unemployed from labor force who did not find employment, could have reflected severe month-to-month non-comparability issues and/or unusual “discouraged worker” shifts. If the unemployment rate jumps back sharply in June, month-to-month comparability will be the likely distortion.

Established monthly distortions to payroll employment (excessive upside biases, and publishing irregularities with the concurrent-seasonal-factor process) continue, as do the regular monthly distortions to headline unemployment (definitional issues with “discouraged workers,” and publishing irregularities with the concurrent-seasonal-factor process).

Underlying economic fundamentals continue to deteriorate, suggesting continued slowing or negative month-to-month growth in headline payrolls, as well as stagnation or deterioration in the broader unemployment rates such as U.6 and particularly the ShadowStats Alternate Unemployment Measure.

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