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

COMMENTARY NUMBER 896
First-Quarter 2017 GDP, Third Estimate

June 29, 2017

Continued Nonsense in Gross Domestic Product (GDP) Reporting

First-Quarter 2017 Nominal GDP Did Not Revise;
Upside Revision in Real GDP Growth, from 1.15% to 1.42%,
All Was in Reduced Inflation, Which Revised from 2.22% to 1.94%

Real First-Quarter Gross Domestic Income (GDI) Growth,
Theoretical Equivalent of the GDP, Revised Higher to 1.01%, but
Still Was Down from Third-Quarter 2016 GDI by 0.19% (-0.19%)

Revised First-Quarter Gross National Product (GNP),
Broader than the GDP, Revised Lower in Nominal Terms but was
Boosted to Revised 1.07% Real Growth by the Reduced Inflation

Headline First-Quarter Details Still Indicative of a Stalling Economy

Better-Quality Series Show Continuing, Protracted Economic Collapse, with
No Recovery of Pre-Recession Highs and No Economic Expansion

PLEASE NOTE: The next regular Commentary, *scheduled for Thursday, July 6th, will cover the May 2017 Trade Deficit and Construction Spending, followed by a missive on Friday, July 7th, covering the June 2017 Employment and Unemployment reporting.*

Best wishes to all for a Happy Fourth of July! — John Williams (707) 763-5786

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Today's *Opening Comments and Executive Summary* (June 29th) focuses on the third estimate of, second revision to First-Quarter 2017 GDP in the context of a rapidly intensifying pattern of a broad slowing/downturn in U.S. economic activity.

The ***Reporting Detail*** (beginning page 13) provides extended detail on "final" [as in pre-benchmarking] estimates of the first-quarter GDP, GDI and GNP details.

The ***Week, Month and Year Ahead*** (beginning page 21) reviews recent *Commentaries* and previews next week's reporting of the May 2017 Trade Deficit, Construction Spending and the June 2017 Payroll and Unemployment numbers.

OPENING COMMENTS AND EXECUTIVE SUMMARY

Unexpected "Upside" GDP Revisions Were Not Quite as Hyped. Despite a number of near-term data revisions to the underlying economic series and related negative benchmarking to historical data, suggestive of some downside revision-potential to today's (June 29th) third-estimate of first-quarter 2017 Gross Domestic Product (GDP), growth revised higher. Revisions to the real (inflation-adjusted) headline, annualized quarter-to-quarter growth were to the upside, moving from the prior estimate of 1.15% to 1.42%, still down from headline real growth of 2.08% in fourth-quarter 2016, as reported by the Bureau of Economic Analysis (BEA).

Per the headline real details, the bulk of the upside growth revision was accounted for by an upwardly revised surge in health-care activity, along with an upwardly revised surge in economic-growth contributions from the securities and insurance industries, none of which, including the happy economic contributions from mounting healthcare-insurance woes, are meaningfully defined, measured or surveyed.

That nonsense, aside, however, what has not been seen in a while with boosted real activity was that nominal (not-adjusted-for-inflation) GDP growth was unrevised. All of the upside revision to the real growth came from an unusual downside revision to headline inflation, the Implicit Price Deflator (IPD), where the annualized headline GDP inflation rate revised lower, from 2.22% to 1.94%. Reduce the inflation rate, and real growth inflates in parallel.

First-Quarter 2017 GDI Remained Below Headline Third-Quarter 2016 Activity. The lower IPD also boosted headline real-growth rates in the revisions to Gross Domestic Income (GDI), the theoretical income-side equivalent of the consumption-side GDP, and in the Gross National Product (GNP), the broadest National Income measure, which incorporates the GDP plus the net trade flows in factor income (interest and dividend payments).

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First-quarter 2017 nominal GNP actually revised lower, with the reduced inflation boosting headline real GNP growth to 1.07% from the prior 0.99% estimate, still down from a quarterly gain of 2.88% in fourth-quarter 2016. In like manner, first-quarter 2017 nominal GDI actually revised lower, with the same reduced-inflation rate boosting headline real GDI growth to 1.01% from the prior 0.85% estimate, following a quarterly contraction in fourth-quarter 2016 of 1.38% (-1.38%).

A dichotomy exists in these headline details, however, where the real first-quarter 2017 GDI has not recovered its third-quarter 2016 historic high. Real first-quarter 2017 GDI was down at an annualized pace of 0.19% (-0.19%) versus third-quarter 2016. Where first-quarter 2017 is two quarters later than third-quarter 2016, that annualized rate of contraction was calculated to the second power, where direct quarter-quarter annualized growth rates are calculated to the fourth power.

Potentially Market-Moving Releases Due the End of Next Week. In the context of a continued light calendar of economic releases in the pre-July 4th holiday period, and beyond the usual reporting nonsense, this relatively short *Commentary* reviews the latest headline GDP detail, as reported, and against a number of better-quality series as usually contrasted in these regular GDP *Commentaries*.

Updating *Consumer Liquidity Conditions* discussed in *Commentary No. 893* The Conference Board reported on Tuesday, June 27th, that its June 2017 Consumer Confidence Index® rose by 1.1% from a minimally, downwardly-revised reading in May. Nonetheless, that still was down by 4.8% (-4.8%) from the March 2017 peak in post-election consumer euphoria. Liquidity conditions will be updated fully in *Commentary No. 897* of July 6th (also covering the headline May 2017 Trade Deficit and Construction Spending) reflecting the full-June 2017 detail for the indicators of the consumer outlook from both the Conference Board and University of Michigan (to be released, tomorrow, June 30th). Too late for inclusion in today's *Commentary* (also to be covered in *No. 897*) is the literally, just-released Cass Freight Index for May (see *Graph 5* for April). The basic patterns held in place, along with a continuing pick up in annual growth. In particular, negative surprises next week to the headline trade detail, or to the June labor conditions due on July 7th (*Commentary No. 898)*, could do much to weaken economic expectations further and to foment looming financial-market difficulties (see *General Commentary No. 894*).

Executive Summary: Gross Domestic Product (GDP)—First-Quarter 2017, Third Estimate, Second Revision—Headline Detail of Minimal Substance or Significance. The third estimate of, second revision to first-quarter 2017 GDP showed a statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 1.42% [previously 1.15%, initially at 0.69%]. As noted in the *Opening Comments*, nominal growth did not revise, while the full upside revision to real growth was accounted for by a downside revision to headline inflation. That headline first-quarter 2017 real growth of 1.42% was down from 2.08% in fourth-quarter 2016, 3.51% in third-quarter 2016, 1.42% in second-quarter 2016 and 0.83% in first-quarter 2016.

The third estimate of year-to-year real GDP growth in first-quarter 2017 notched minimally higher to 2.10% [previously 2.04%, initially 1.92%], versus 1.96% in fourth-quarter 2016, 1.65% in third-quarter 2016, 1.28% in second-quarter 2016 and 1.57% in first-quarter 2016. Details of the real level of and annual growth in the headline series are graphed in the *Reporting Detail* section (see *Graphs 10* to *15*, along with comparative *Graphs 1* to *9*, later in this *Executive Summary*.

First-Quarter 2017 GDP, Third Estimate - Growth Distribution. The third estimate of first-quarter 2017 GDP at 1.42% [previously 1.15%, initially 0.69%] reflected combined growth patterns from four sub-categories. The annualized growth contribution from each sub-category of consumer spending, business/residential investment, trade deficit and government spending is additive, summing in combination to the total headline change in GDP, where 0.75% + 0.60% + 0.23% - 0.16% = 1.42%. Commentary No. 889 of May 26th detailed the growth-distribution for the second estimate of first-quarter 2017 GDP (prior-estimate contributions are noted in the accompanying detail).

Regrouped by general product line, the third estimate was that the headline first-quarter gain of 1.42% [previously 1.15%, initially 0.69%] GDP encompassed a growth-rate contribution of 0.44% [previously 0.21%, initially 0.03%] from services, a positive contribution of 0.07% [previously negative contributions of 0.08% (-0.08%), initially 0.13% (-0.13%)] from goods and a 0.91% contribution [previously 1.02%, initially 0.80%] from structures.

Contributing Growth Factors. Headline first-quarter 2017 GDP growth remained dominated by a sharp decline in inventory building, declining auto sales, weather-induced declining utility usage and declining government spending, offset by surging investment in structures and equipment, healthcare and a small trade surplus. The net upside "second revision" was concentrated in upside revisions to the poorly defined and measured—effectively meaningless—economic contributions from the services components tied to insurance, healthcare insurance and healthcare.

- ***Consumer Spending Contributed 0.75% [previously 0.44%, initially 0.23%] to First-Quarter 2017 Growth, Fourth-Quarter 2016 Growth Contribution Was 2.40%.*** Consumer spending category remained dominated by declining motor vehicle sales (some recreational vehicle offset), declining energy consumption, along with surging upside revisions to effectively meaningless measures of the economic contribution from healthcare and related healthcare insurance woes.

- ***Business/Residential Investment Contributed 0.60% [previously 0.78%, initially 0.69%] to First-Quarter 2017 Growth, Fourth-Quarter 2016 Growth Contribution Was 1.40%.*** With minimal revisions, real estate investment in both residential and nonresidential structures surged in the quarter, along with investment in equipment. Those areas more than offset a revised negative growth contribution of 1.11% (-1.11%) [previously 1.07% (-1.07%), initially 0.93% (-0.93%)] from declining inventory growth. Accordingly, headline final sales—GDP growth net of inventory change—revised to an annualized quarterly growth rate of 2.53% [previously 2.22%, initially 1.62%], versus a 1.07% growth in fourth-quarter 2016.

- ***Net Exports Contributed 0.23% [previously 0.13%, initially 0.07%] to First-Quarter 2017 Growth, Subtracted 1.82% (-1.82%) from Fourth-Quarter 2016 GDP Growth.*** Also continuing to run counter to more-negative headline indications, net-export activity turned more-positive, quarter-to-quarter, reflecting what eventually should prove to be a faux trade surplus in the quarter (see Commentary No. 890).

- ***Government Spending Subtracted 0.16% (-0.16%) [previously 0.20% (-0.20%), 0.30% (-0.30%) initially] from First-Quarter 2017 Growth, Fourth-Quarter 2016 Growth Contribution Was 0.03%.*** Federal government spending still subtracted 0.14% (-0.14%) from the headline first-quarter GDP growth, largely in reduced defense spending. The continued, narrowing negative

contribution of 0.02% (-0.02%) in state and local government spending was in the nebulous and irregularly-volatile “investment” area.

Implicit Price Deflator (IPD) and ***Gross National Product (GNP) and Gross Domestic Income (GDI)*** revisions are covered in the *Reporting Detail*, in the context of the discussion in today’s *Opening Comments*.

Underlying Economic Reality. *NOTE: With the minimal upside revision in the third estimate of first-quarter 2017 GDP, much of the following section is repeated from the second-estimate* Commentary No. 889*, but all details and graphs have been updated to reflect the latest developments and economic reporting (also, for background, see the* ECONOMY *section of* No. 859 Special Commentary*, and related headline issues raised in* Special Commentary No. 888*,* Commentary No. 887*,* Special Commentary No. 885*,* Commentary No. 877 *and* Commentary No. 876 *all incorporated here by reference).*

NOTE: Separately, the National Income series all are due for annual benchmark revisions on July 28th, which will revise GDP history back to 2014, likely showing a weaker economic story, in the context of recent annual revisions to Industrial Production, Retail Sales, Manufacturers’ Shipments and the Trade Deficit (see Commentary No. 877*,* Commentary No. 882, Special Commentary No. 888 *and* Commentary No. 890*). It will be the next comprehensive GDP benchmarking in 2018, though, with revisions back to 1929, that most likely will show a more realistic picture of the economic collapse into 2009. ShadowStats will preview the pending GDP benchmarking in* Commentary No. 900, *planned for July 19th.*

Despite the booming 3.51% real annualized GDP growth in third-quarter 2016, a fourth-quarter 2016 gain of 2.08% and a revised headline gain of 1.42% in first-quarter 2017 detail, realistic, underlying U.S. economic activity has continued in a deepening-to-flattening and as-yet-unrecognized “new” recession. Headline monthly reporting activity in better-quality subsidiary economic series continues to confirm that general direction (the ShadowStats contention remains that the “new” downturn is in reality just a continuation of the economic crash into 2009, from which the aggregate real-world economy never fully recovered).

Such is despite some corrective actions taken by the Trump Administration, and new policies in development to generate new economic stimulus. Assuming eventual legislative cooperation from Congress, and given basic economic lead times, the first major, positive impact on the economy from that would be late-2018, at the earliest. Interim economic activity and even headline GDP reporting still should turn lower in the next several quarters, as increasingly has been signaled by a number of indicators (see *General Commentary No. 894*).

Discussed in *Commentary No. 823*, the 2016 GDP benchmark revisions effectively were neutral in aggregate, with the business-cycle reporting “smoothed” by the BEA. The revisions were not of a nature to trigger formal immediate recognition of a “new” or double-dip recession, which likely still will be clocked from December 2014. While that should happen eventually, the focus now should be on the rapidly weakening economy in the months ahead, with initial second-quarter 2017 GDP reporting and accompanying 2017 annual benchmark revisions, since first-quarter 2014, which still could trigger a “formal” recession recognition.

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Beyond the smoothing gimmicks of the 2016 benchmarking, the prior year's 2015 GDP annual benchmark revisions coverage—in *Commentary No. 739*—noted that annual benchmarkings increasingly were reshaping the GDP-reporting history into a post-2007 collapse pattern of successive multiple dips. By the next "comprehensive" GDP benchmark revision in July 2018 (a restatement of activity back to 1929), post-2007 historical GDP reporting should be confirming a non-recovering, multiple-dip economic collapse including a "new" or ongoing recession.

That circumstance should encompass the evolving, current downturn in broad, domestic economic activity, discussed in *No. 859 Special Commentary*. Again, the present, unofficial "new" recession or multiple-dip downturn remains likely to be timed from December 2014, even without headline back-to-back contractions of quarterly GDP currently in place. Formal recognition of same remains pending, where consecutive quarterly GDP contractions no longer are necessary for formal recession recognition (see the opening paragraphs of *Commentary No. 823*).

Headline Aggregate GDP Remains Heavily Overstated versus Underlying Reality. Formal headline GDP activity continues to run well above economic reality as signaled by a number of better-quality business indicators, as reviewed here and in *No. 859 Special Commentary*. A sampling of those indicators—plotted in this section—includes such varied series as domestic freight activity (*Graph 5*), industrial production of consumer goods (*Graph 6*), U.S. petroleum consumption (*Graph 7*), total real U.S. construction spending (*Graph 8*) and the employment-population ratio (*Graph 9*). Either the GDP reporting is wrong, or most other major economic series are wrong (see *Commentary No. 876* and *Commentary No. 877*).

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 headline post-2009 faux ongoing economic recovery and expansion.

Accordingly, the broad ShadowStats economic outlook has not changed, and, again, the gist of most of following text remains along the lines as expounded upon in *No. 859*. The details and numbers here, however, are updated for the latest headline information. In combination, these various collapsing economic indicators eventually should engender a formal recession call, irrespective of the timing of actual, if any, headline quarterly contractions in real GDP, or what likely was related political gaming of the GDP data through year-end 2016.

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 late-2014, early-2015. Irrespective of the reporting gimmicks introduced in the July 2013, July 2014 and July 2016 GDP benchmark revisions—including a recent pattern of inclusion and estimation of highly-questionable data on the Affordable Care Act (ACA) and related healthcare spending—a consistent, fundamental pattern of faltering historical activity is shown in the accompanying "corrected" GDP graphs (see *Graphs 2* and *4*).

Discussed in *Consumer Liquidity Conditions* section of *Commentary No. 893*, with liquidity-strapped consumers unable to fuel sustainable growth in consumption, a full business recovery could not have taken place since 2009. A "Recovery" and renewed economic "Expansion" (see *Commentary No. 875* for

definitions) 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. Reviewed and graphed in the *Opening Comments* of *Commentary No. 876*, the full economic Recovery and post-third-quarter 2011 Expansion indicated by headline real GDP numbers, remains an illusion. In scope, it is not supported by other major economic series. It is a statistical mirage created at least partially by using a too-low rate of inflation in deflating (removing certain inflation effects) from the GDP series. Today's accompanying graphs also tell that story, updated for the third estimate of first-quarter 2017 GDP, as well as reflecting a sampling of other elements of economic reality.

The first set of graphs (*Graphs 1* and *2*) 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 2*, the second graph of the first set, as published initially in *2014 Hyperinflation Report—Great Economic Tumble*.

The second set of graphs (2000-to-date) is the one that traditionally has been incorporated in the GDP *Commentaries*. *Graphs 3* and *4* show short-term detail, expressed on an index base where first-quarter 2000 = 100.0.

Shown in the first graph of each set (*Graphs 1* and *3*) of official *Headline Real GDP*, GDP activity has been reported above pre-2007 recession levels—fully recovered and in economic expansion—since third-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 or IPD), the second estimate of first-quarter 2017 GDP currently stands 12.6% above its pre-recession peak-GDP estimate of fourth-quarter 2007. Again, no other major economic indicators are showing recovery or expansion close to the GDP's. None of the series covered in this section and in *No. 859* has shown a significant recovery.

In contrast, the "corrected" GDP version, in the second graph of each set (*Graphs 2* and *4*), shows first-quarter 2017 GDP activity to be down by 7.2% (-7.2%) from its pre-recession peak of first-quarter 2006. Noted in *General Commentary No. 867*, *Commentary No. 869*, *Commentary No. 887* and *Commentary No. 892*, headline Industrial Production and the related Manufacturing series have rivaled, and in the case of manufacturing, have exceeded the Great Depression in terms of the number of quarters or months of non-Expansion.

Again, the second graph in each series (*Graphs 2* and *4*) plots the *Corrected Real GDP*, adjusted 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*.

The pattern of economic collapse into 2009, followed by some minimal recovery, low-level stagnation and renewed contraction is seen with many series. As shown in *Graphs 5* to *9* (again also see *No. 859* more-extensive background), better-quality independent numbers—including some U.S. government—put the lie to the gimmicked headline reporting that has been massaged for decades by government agencies and consulting academics (*Graphs 1* to *9* begin on the following page).

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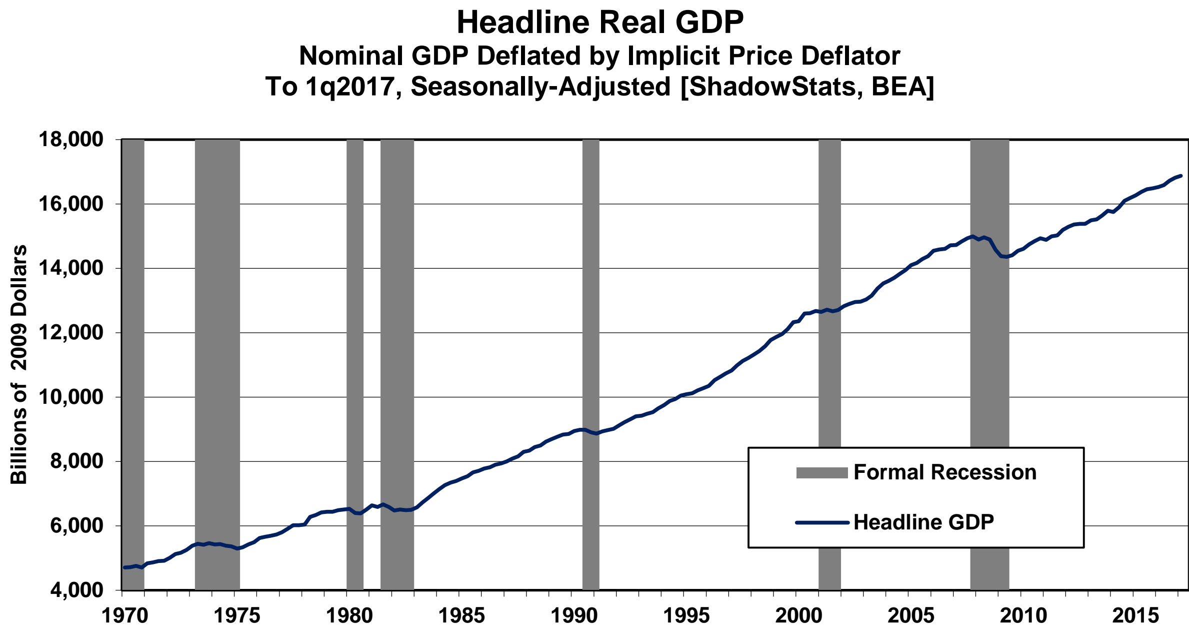
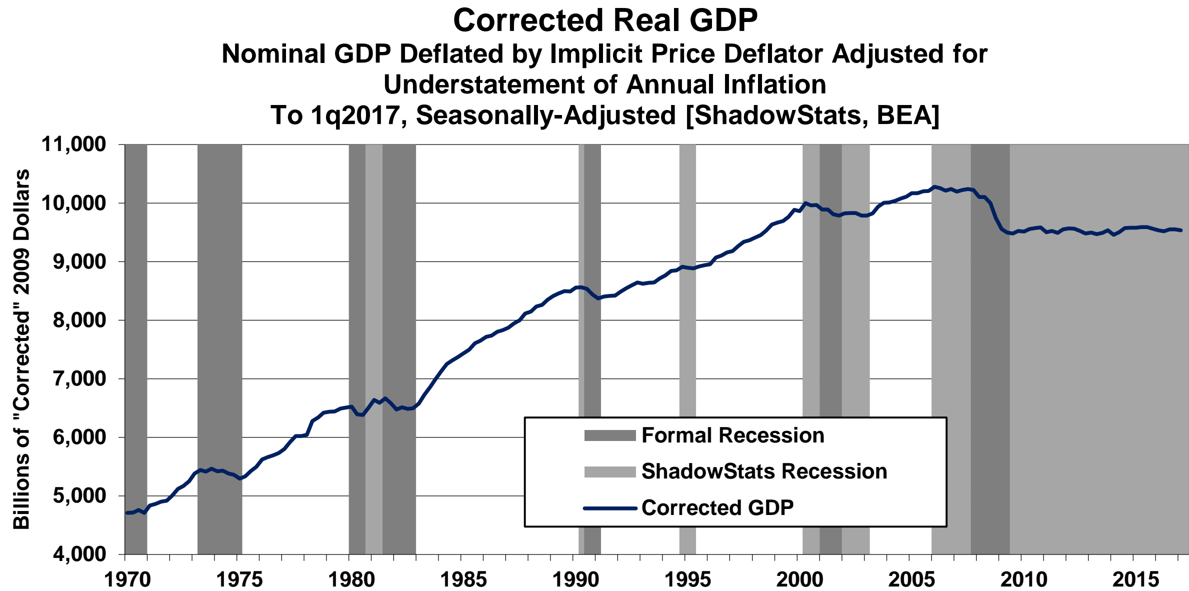
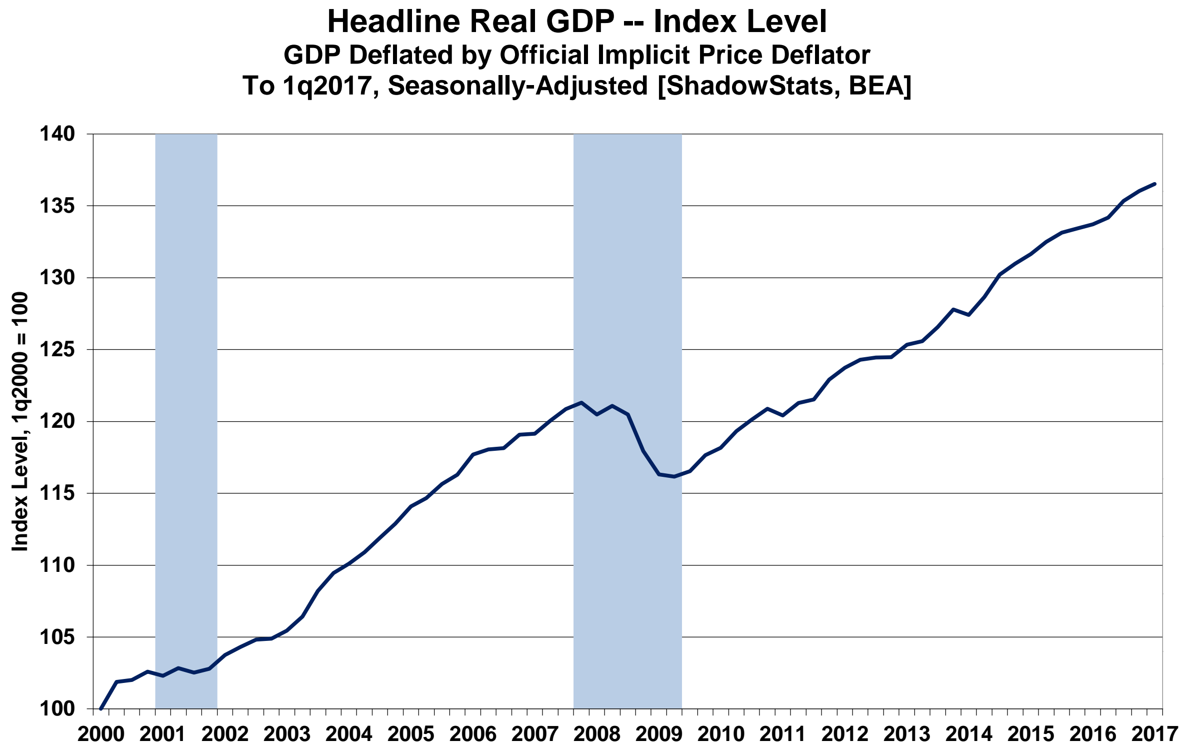
Graph 1: Real GDP Index (1970-2017), Third Estimate of First-Quarter 2017



Graph 2: "Corrected" Real GDP (1970-2017), Third Estimate of First-Quarter 2017



Graph 3: Real GDP Index – Headline Real GDP through Third Estimate of First-Quarter 2017



Comparative Indicators. *Graph 4* of the "corrected" GDP series follows, along with a sampling of comparative economic indicators (see the expanded coverage in *No. 859*). The comparative indicators here generally confirm the story from the "corrected" GDP graph that the economy never recovered from its collapse into 2009 and is either in renewed downturn or in continuing low-level stagnation, albeit some of the latter may be slightly up-trending.

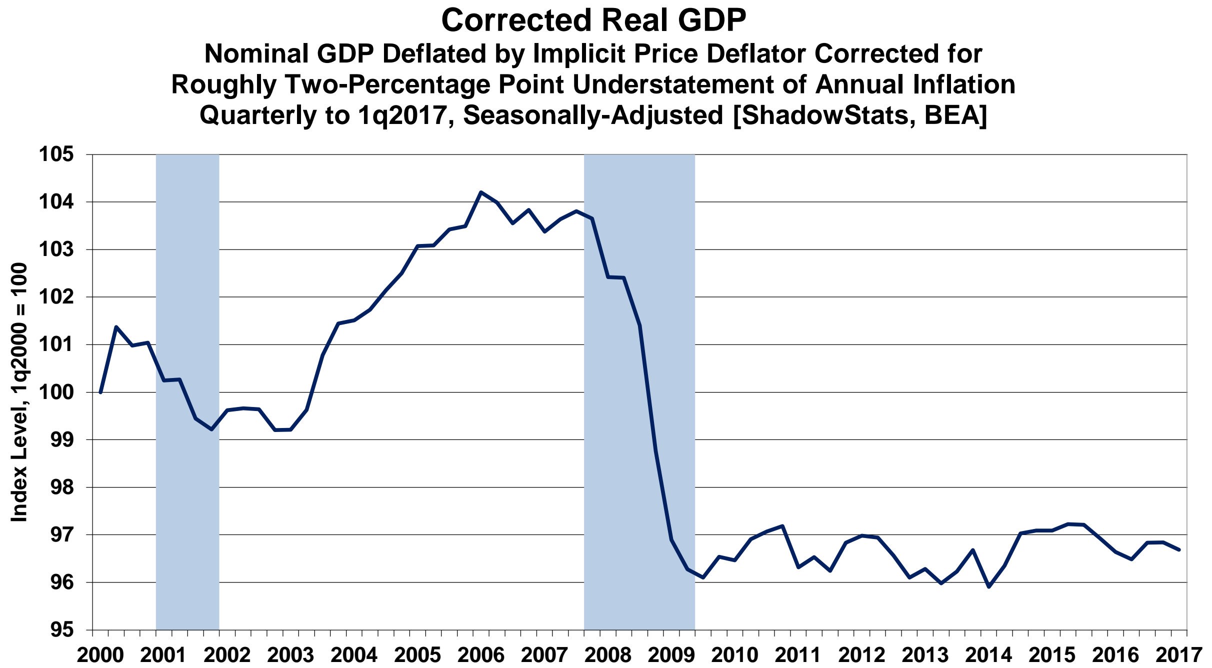
Graph 5 shows the Cass Freight Index™ measure of North American freight volume through April 2017 (see *Commentary No. 890*), used with the permission of Cass Information Systems, Inc. Few measures better reflect the actual flow of goods in commerce than freight activity. As a broad measure of basic domestic economic activity, the index has much more in common with the "corrected" GDP in *Graph 4*, than with the headline GDP of *Graph 3*.

Graph 6 plots the latest headline level of activity for industrial production of consumer goods, which represents 17% of GDP (see *Commentary No. 892*).

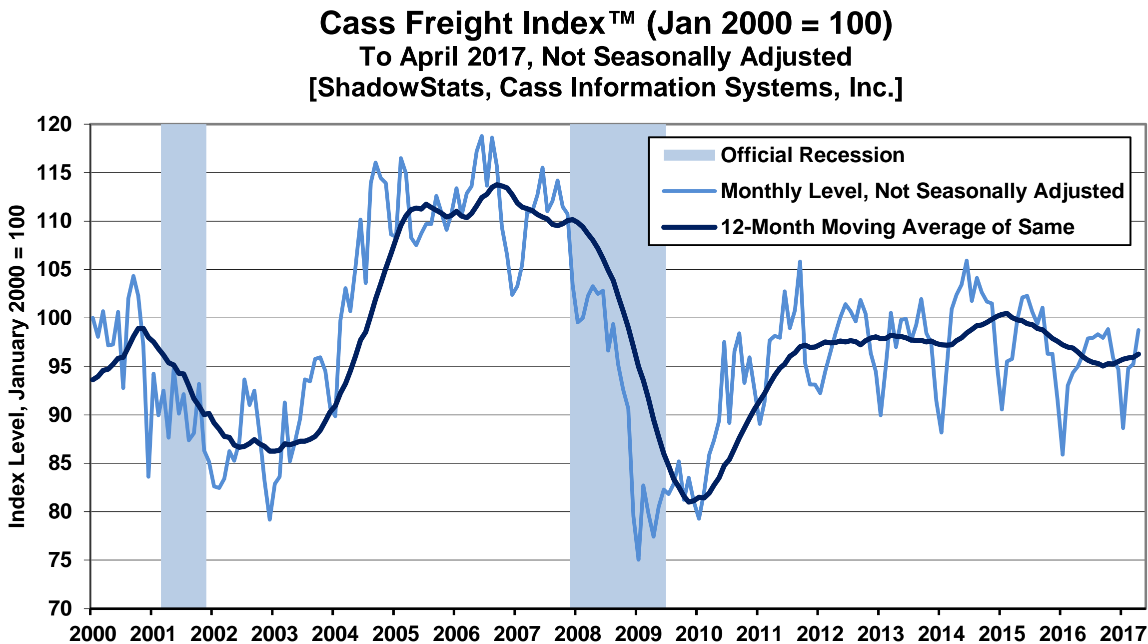
Graph 7 of U.S. Petroleum Consumption and *Graph 8* of inflation-adjusted total U.S. Construction Spending (see *Commentary No. 890*, including everything from roads and office buildings to residential construction) are among the variety of indicators that show patterns of economic collapse into 2009/2011, followed by some minimal (not full) recovery and ongoing stagnation.

Graph 9 of the employment-to-population ratio remains a solid indicator of underlying labor conditions in the context of the broad population and long-term discouraged and displaced workers, reflected there through May 2017 (see *Special Commentary No. 885*).

Graph 4: "Corrected" Real GDP Index (2000-2017), Third Estimate of First-Quarter 2017

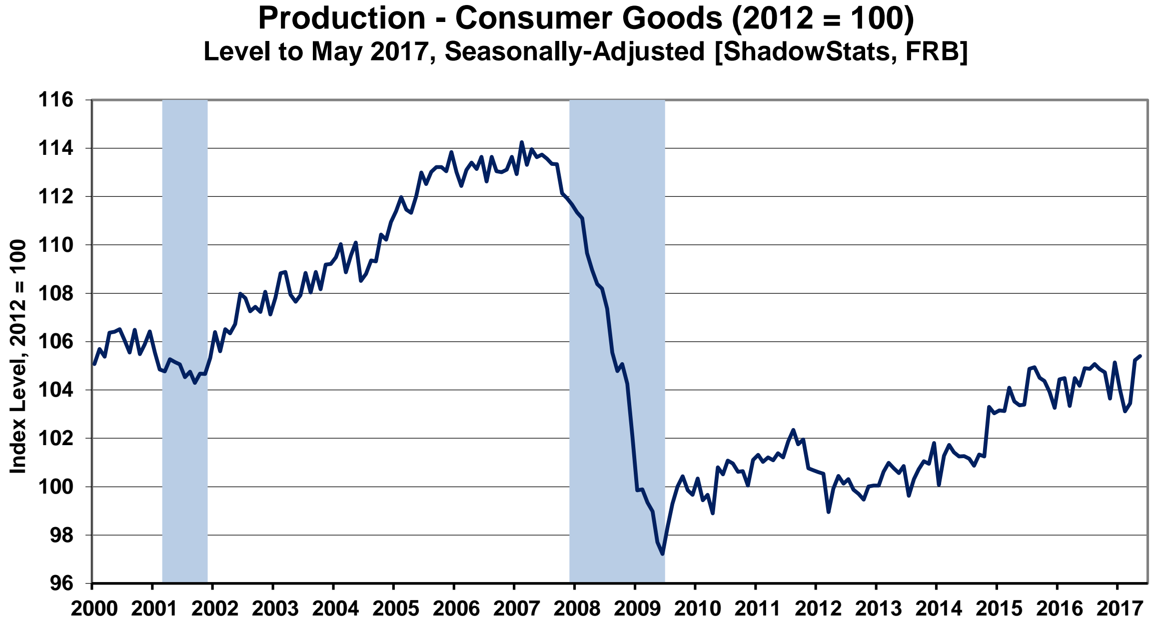


Graph 5: Cass Freight Index ™ (2000-April 2017)

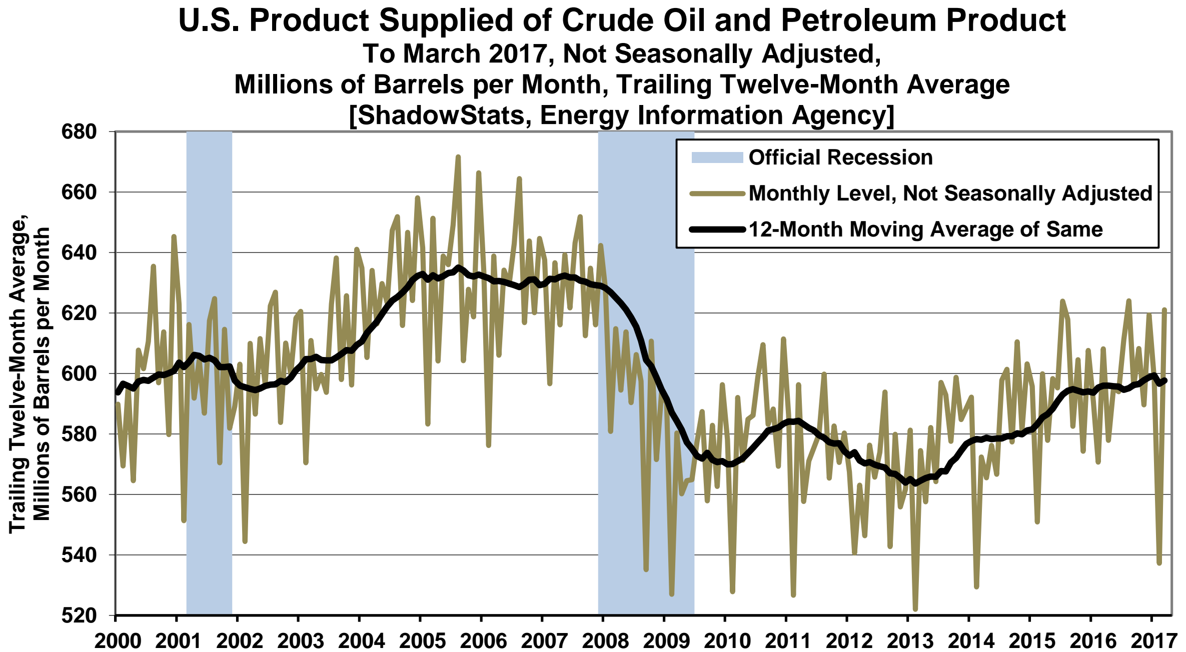


Graph 6: Industrial Production – Consumer Goods (2000-2017)

(Graph 14 on page 16 of [Commentary No. 892](#))



Graph 7: U.S. Petroleum Consumption (2000 – 2017)



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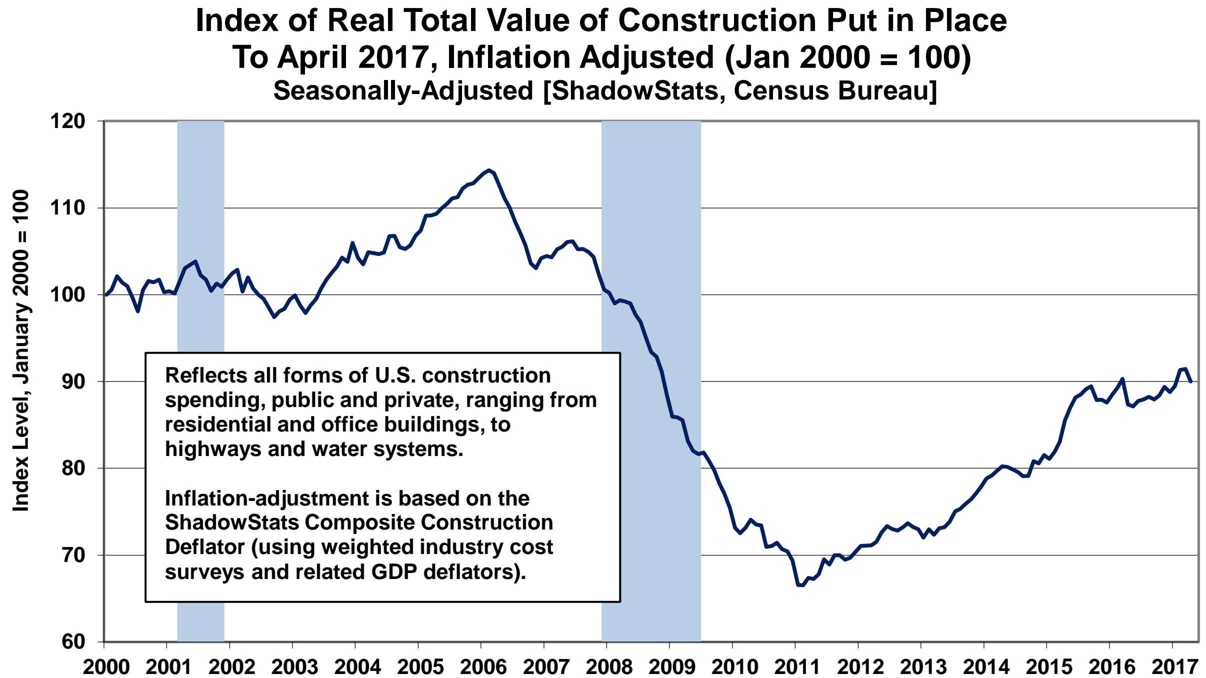
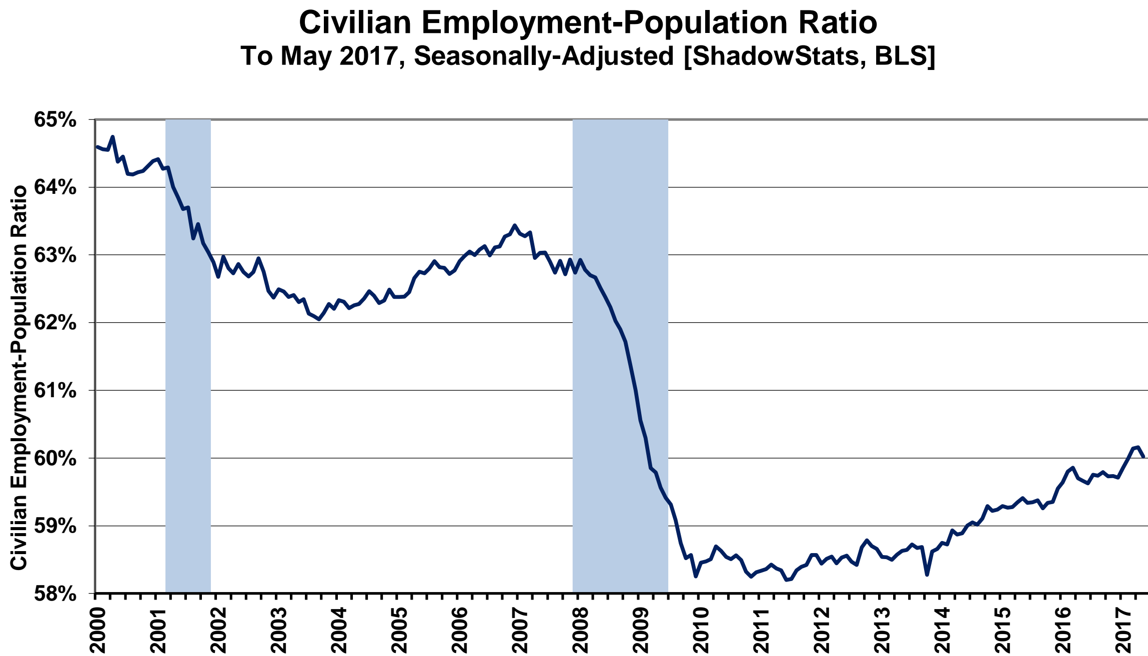
Graph 8: Real Total U.S. Construction Spending (2000 - 2017)

(Graph 27 on page 46 of Commentary No. 890)



Graph 9: Civilian Employment-Population Ratio (2000-2017)

(Graph 6 on page 13 of Commentary No. 890)



[The **Reporting Detail** *contains extended analysis and graphs of the GDP-related reporting.]*

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REPORTING DETAIL

GROSS DOMESTIC PRODUCT—GDP (First-Quarter 2017, Third Estimate, Second Revision)

Underlying Recession Continued in Play, Despite the Still Heavily Bloated GDP Detail and Absurd Reporting Instabilities. Irrespective of the stronger-than-expected upside revision to 1.4% (previously 1.2%) annualized, quarterly real growth in the third-estimate of headline reporting of first-quarter 2017 GDP, underlying reality remained that broad U.S. economic activity never recovered fully from its crash into 2009, never entered a period of formal, new economic expansion, and that it began to turn down anew in December 2014. Near-term headline issues with GDP deflator estimates were reviewed extensively in today's *Opening Comments*, while exaggerations of GDP recovery from the economic collapse into 2009 have been and are reviewed here frequently, including *Commentary No. 876*, the *ECONOMY* section of *No. 859 Special Commentary* and in today's *Executive Summary* (see the discussion there surrounding *Graphs 1* to *9*.

***Heavily Followed but of Extremely Poor Quality*.** In this most-politically-sensitive of popularly followed economic series, the GDP does not reflect properly or accurately the changes to the underlying economic fundamentals and measures that drive the broad economy. Again, as discussed and as reflected in the graphs of the *Executive Summary*, various separately-reported measures of real-world economic activity have shown that the general economy began to turn down in 2006 and 2007, plunged into 2009, entered a protracted period of stagnation thereafter—never recovering fully, never entering a phase of economic Expansion—and then began to turn down anew in late-2014.

The GDP (or the broader GNP detail 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, and that reporting quality deteriorated anew, sharply in 2016 benchmarking (see the *Opening Comments* of *Commentary No. 823*).

Pending Annual Benchmark Revisions. The headline release of the "advance" estimate of second-quarter 2017 on July 28th will be coincident with, and in the context of, annual benchmark revisions to the GDP series back to 2014. The likely negative benchmark revisions are discussed in briefly in the opening *General Comments* of prior *General Commentary No. 894*, and will be assessed in some detail in a *Commentary No. 900*, scheduled for July 19th. The next "comprehensive" revision to the GDP series, back to 1929, is planned for July 2018 back through 1929 and offers the federal government statisticians an opportunity to shift the headline GDP reporting back towards a more-meaningful, credible indicator of near-term economic activity, instead of its current status as an instrument primarily of political and financial-market hype.

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 $105.5 billion in "residual," as of the second estimate of second-quarter 2016.*

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 x 1.01 x 1.01 x 1.01 = 1.0406 or 4.1%, instead of 4 x 1% = 4%.*

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

Gross Domestic Product (GDP). Published this morning (June 29th) by the Bureau of Economic Analysis (BEA), the third estimate of, second revision to first-quarter 2017 GDP showed a statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 1.42% +/- 3.5% (95% confidence interval), previously estimated at 1.15%, initially at 0.69%. That was down from 2.08% in fourth-quarter 2016. Distribution of first-quarter 2017 GDP growth by major category is detailed in the *Executive Summary*. The current headline detail is in the context of the July 29, 2016 annual GDP benchmark revisions discussed in *Commentary No. 889*, and is the final revision in this round of GDP reporting. The next revision to the first-quarter 2017 GDP will be in the annual GDP benchmarking

(2014 to date) scheduled for July 28, 2017, coincident with the "advance" or first estimate of second-quarter 2017 GDP.

As discussed in the *Opening Comments*, the headline revision to 1.4%, from 1.2%, topped consensus expectations an unchanged 1.2%, at a continuing, still-not-credibly-positive pace of headline activity. The headline first-quarter 2017 annualized real growth of 1.42% followed gains of 2.08% in fourth-quarter 2016, 3.51% in third-quarter 2016, 1.42% in second-quarter 2016, 0.83% in first-quarter 2016 and 0.87% in fourth-quarter 2015.

The still-slackening, headline first-quarter 2017 GDP growth remained dominated by a sharp decline in inventory building, declining auto sales, weather-induced declining utility usage and declining government spending, offset by surging investment in residential and nonresidential structures and equipment, surging healthcare spending and a small trade surplus.

Graphs 10 and *12* plot 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. *Graph 14* shows the level of annual real GDP activity, as estimated beginning in 1929.

Shown in *Graphs 11* and *13*, headline year-to-year real GDP growth in the third estimate of first-quarter 2017 notched minimally higher to 2.10% [previously 2.04%, initially 1.92%], versus 1.96% in fourth-quarter 2016, up from 1.65% in third-quarter 2016, 1.28% in second-quarter 2016 and 1.57% in first-quarter 2016. Through second-quarter 2016 reporting, real annual growth had been in a continual slowing pattern since the near-term peak of 3.31% in first-quarter 2015, the post-recession high annual growth for the series. A sharp downtrend in annual growth is common at the onset of formal recessions. Shown in *Graph 15*, annual-average real GDP growth in 2016 slowed to 1.62%, versus 2.60% in 2015, effectively tied with 2011 for slowest pace of annual growth in the post-2009 "recovery."

The current-cycle trough in quarterly annual change was in second-quarter 2009 (see *Graphs 11* and *13*), 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 11* shows current year-to-year quarterly detail, from 2000-to-date, where *Graph 13* shows the same series in terms of its full quarterly, year-to-year history back to 1948. In annual terms (*Graph 15*), the year-to-year decline of 2.78% (-2.78%) in 2009 was the steepest regular annual drop in economic activity since the Great Depression. The 1946 production shutdown and economic reorganization following World War II, however, resulted in an annual GDP decline of 11.58% (-11.58%), minimally narrower than the 1932 annual economic crash of 12.89% (-12.89%).

[Graphs 10 to 15 begin on the following page.]

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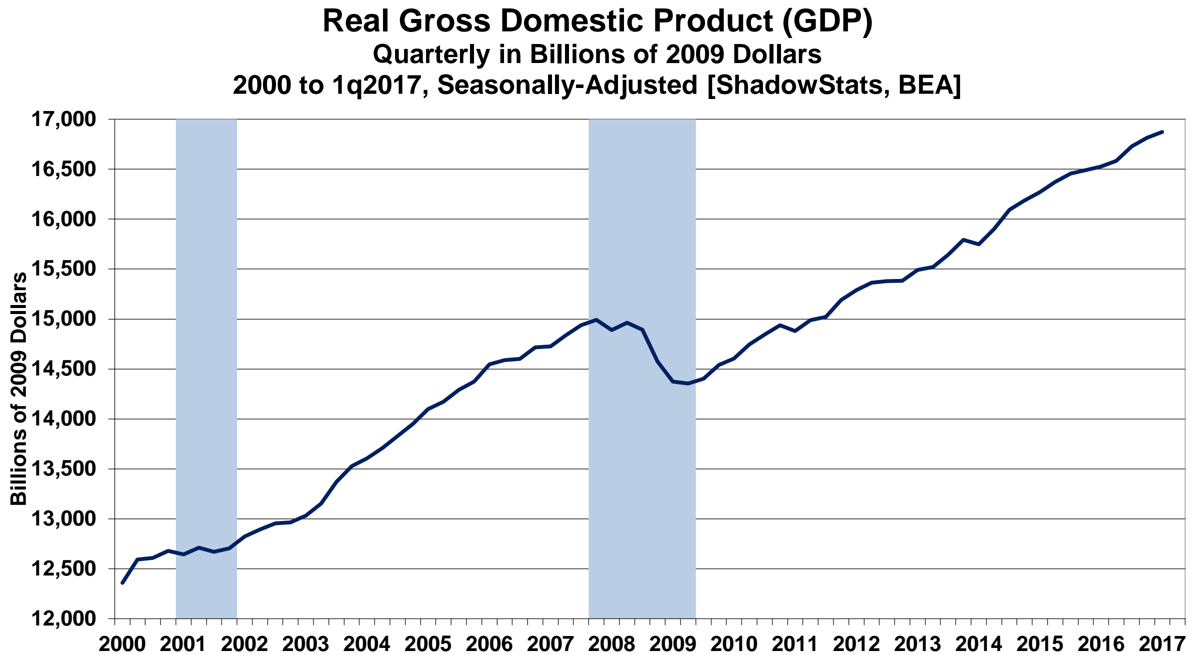
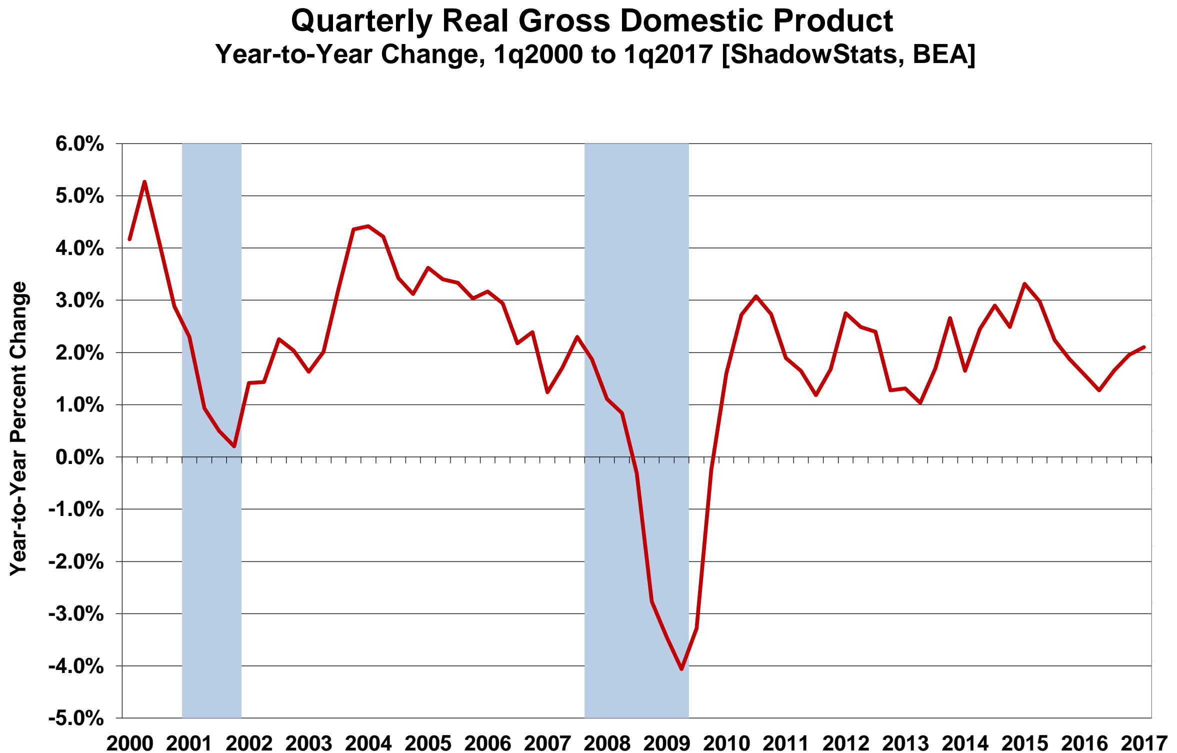
Graph 10: Quarterly GDP in Billions of 2009 Dollars (2000 to 2017), Third Estimate of First-Quarter 2017



Graph 11: Quarterly GDP Real Year-to-Year Change (2000 to 2017), Third Estimate of First-Quarter 2017



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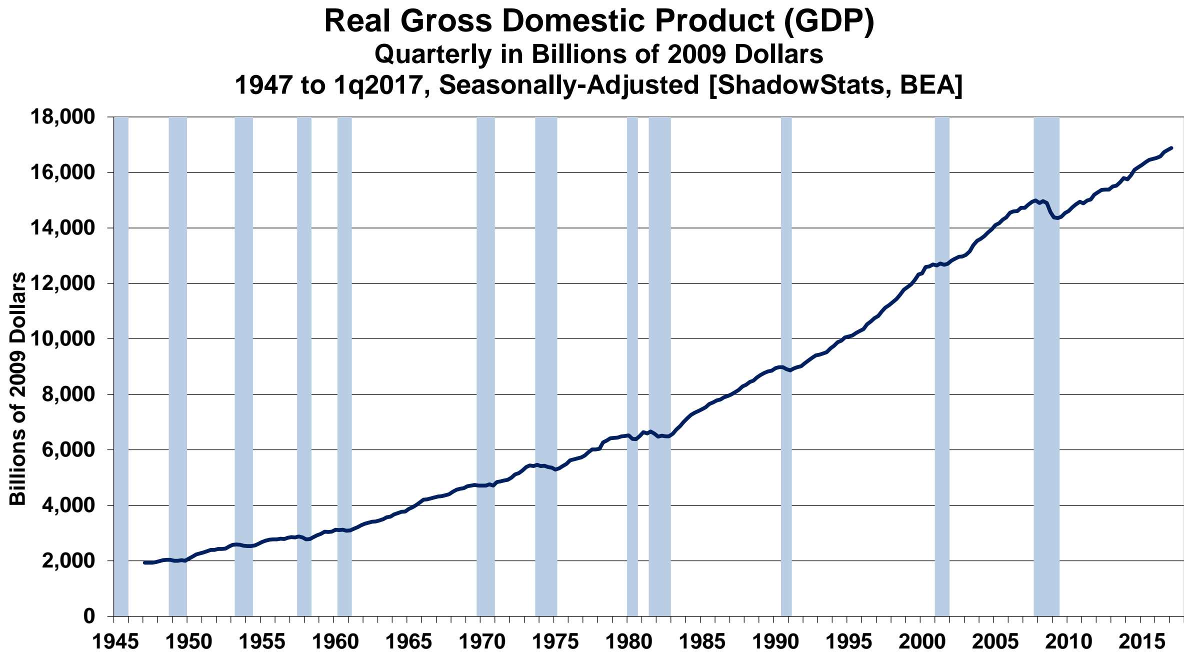
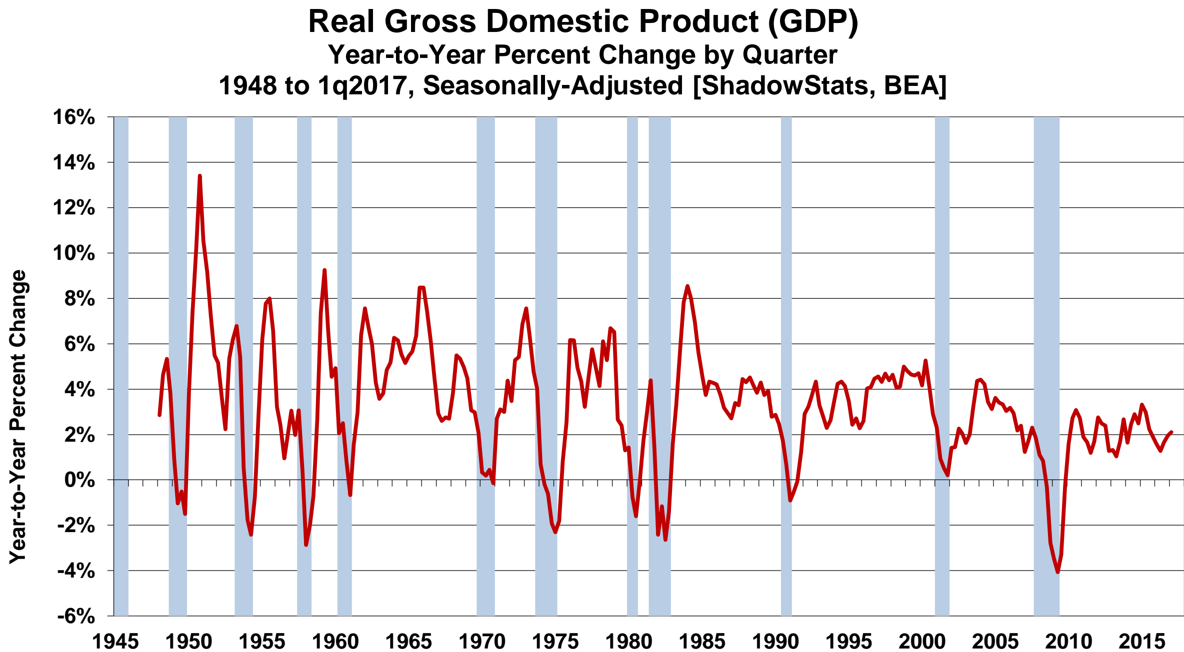
Graph 12: Quarterly GDP in Billions of 2009 Dollars (1947-2017), Third Estimate of First-Quarter 2017



Graph 13: Year-to-Year GDP Real Change (1948-2017), Third Estimate of First-Quarter 2017



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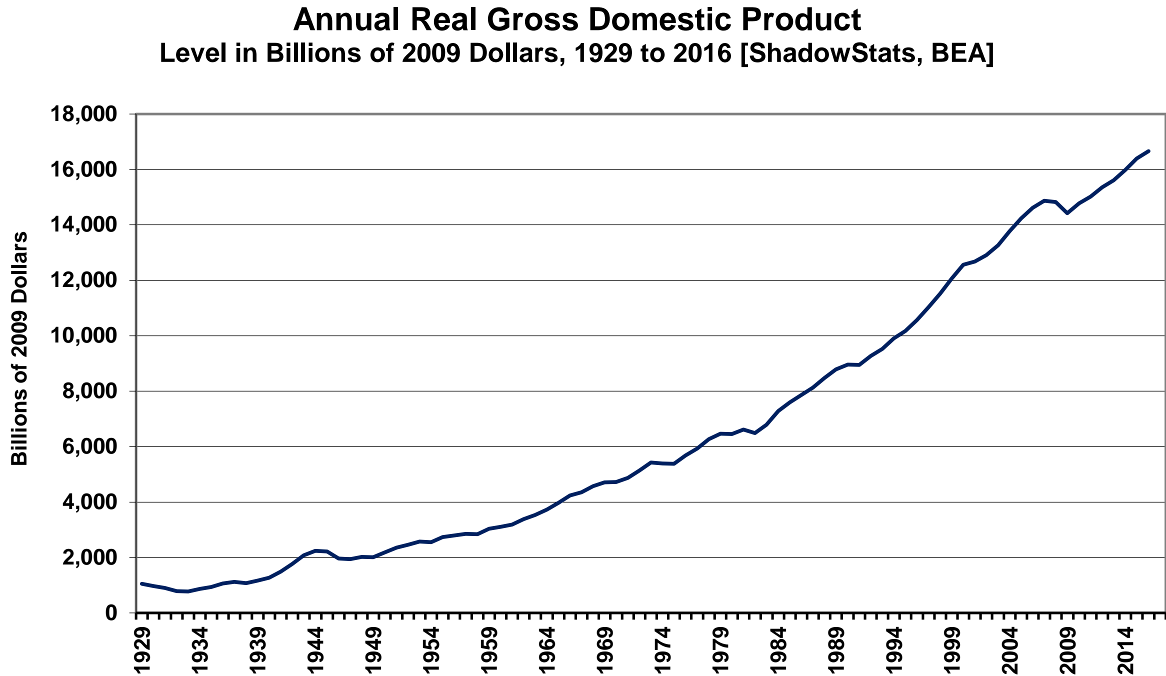
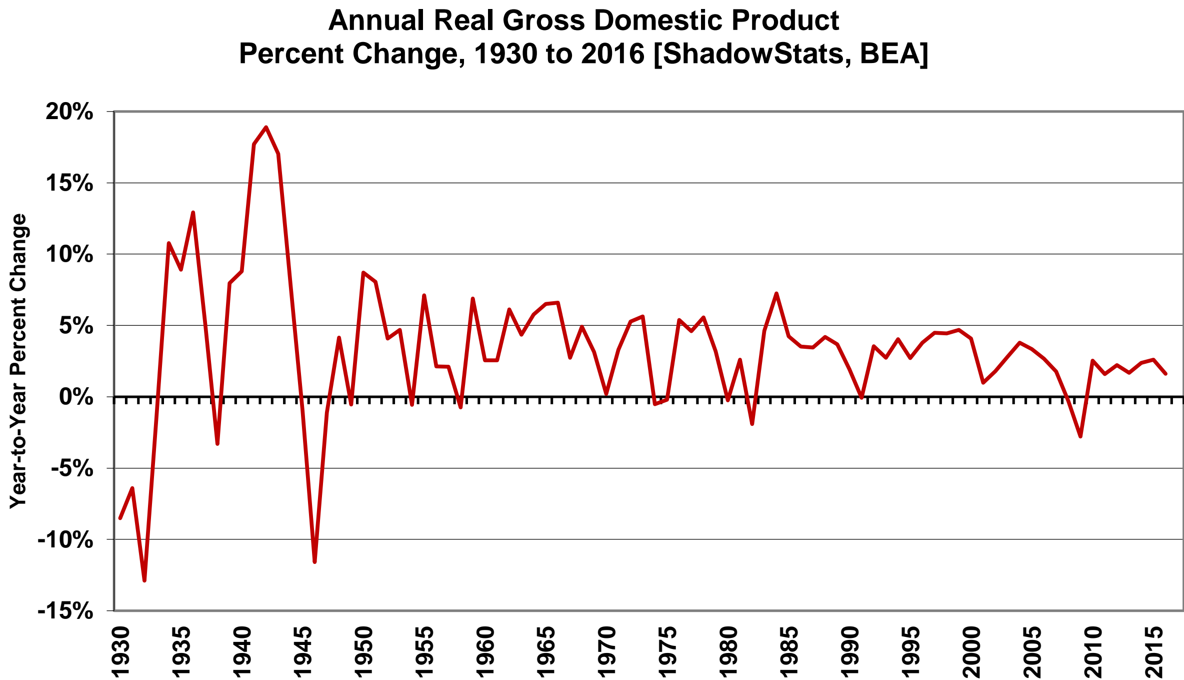
Graph 14: Annual GDP in Billions of 2009 Dollars (1929-2016)



Graph 15: GDP Real Annual Percent Change (1930-2016)



Implicit Price Deflator (IPD). The third estimate of first-quarter 2017 GDP inflation, or the implicit price deflator (IPD), showed a downwardly-revised annualized quarterly inflation rate of 1.94% [previously 2.22%, initially 2.25%], versus an annualized 2.10% in fourth-quarter 2016, 1.41% in third-quarter 2016, 2.29% in second-quarter 2016, 0.46% in first-quarter 2016, 0.91% in fourth-quarter 2015, 1.22% in third-quarter 2015, 2.25% in second-quarter 2015 and 0.04% in first-quarter 2015.

As general guidance, the weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth, and vice versa. In the current circumstance, the headline revision accounted fully for the headline, upside revision to first-quarter real GDP growth (see the *Opening Comments*).

Year-to-year, the headline first-quarter 2017 IPD inflation revised to 1.93% [previously 2.00%, initially 2.01%], versus 1.56% in fourth-quarter 2016, 1.27% in third-quarter 2016, 1.22% in second-quarter 2016, 1.21% in first-quarter 2016, 1.10% in fourth-quarter 2015, 1.00% in third-quarter 2015, 1.11% in second-quarter 2015 and 1.10% in first-quarter 2015.

In terms of year-over-year, average annual inflation, the 2016 IPD inflation was unrevised at 1.30%, versus 1.08% in 2015 and 1.79% in 2014.

For purposes of comparison, the seasonally-adjusted Consumer Price Index CPI-U rose by an annualized 3.15% in first-quarter 2017, versus 3.04% in fourth-quarter 2016, 1.78% in third-quarter 2016, 2.33% in second-quarter 2016, 0.11% in first-quarter 2016, 0.35% in fourth-quarter 2015, 1.50% in the third-quarter 2015, 2.35% in second-quarter 2015 and a quarterly contraction of 2.52% (-2.52%) in first quarter of 2015.

Unadjusted, year-to-year quarterly CPI-U inflation showed annual gains of 2.54% in first-quarter 2017, 1.80% in fourth-quarter 2016, 1.12% in third-quarter 2016, 1.05% in second-quarter 2016, 1.08% in first-quarter 2016, 0.47% in fourth-quarter 2015, 0.11% in third-quarter 2015, and quarterly contractions of 0.04% (-0.04%) in second-quarter 2015 and 0.06% (-0.06%) in first-quarter 2015.

In terms of year-over-year, average annual inflation, the 2016 CPI-U inflation was 1.26%, versus 0.12% in 2015 and 1.62% in 2014 (see *Commentary No. 862* and *Commentary No. 866*).

Gross National Product (GNP) and Gross Domestic Income (GDI). Affected by inflation revisions, the second estimates of first-quarter GNP and GDI were released today (June 29th), coincident with the headline release of the third estimate of first-quarter GDP (see the discussion in today's *Opening Comments*).

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 had become a relatively weaker GNP. Boosted by downside revisions to inflation, headline, annualized real first-quarter 2017 GNP growth came in at revised 1.07% [previously 0.99%], versus 2.88% in fourth-quarter 2016 and 3.38% in third-quarter 2016. Year-to-year, first-quarter 2017 real growth revised to 2.37% [previously 2.35%], versus 2.09% in fourth-quarter 2016 and 1.71% in third-quarter 2016. For all of 2016, annual real GNP growth was 1.60%, versus 2.33% in 2015.

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. Boosted by a downside revision to inflation, first-quarter 2017 real GDI rose at a revised annualized pace of 1.01% [previously 0.85%], versus an annualized quarterly contraction of 1.38% (-1.38%) in fourth-quarter 2016 and 5.01% growth in third-quarter 2016. Year-to-year, first-quarter 2017 real growth revised to 1.31% [previously 1.27%], versus a 1.26% in fourth-quarter 2016 and 1.98% in third-quarter 2016. For all of 2016, annual real GDI growth was 1.48%, versus 2.52% in 2015.

Increasingly touted by the BEA as *the* GDP counterpart, the regularly-unstable GDI has been bloated heavily by effectively-worthless income reporting out of the Bureau of Labor Statistics (BLS). The purported income gains have reflected heavily-upside-biased income estimates out of the otherwise-rigged nonfarm payroll survey. Reflecting those instabilities, the nominal "statistical discrepancy" between the headline level of GDP minus GDI narrowed to a revised -124.6 billion dollars, from a previously estimated -129.9 billion dollars in first-quarter 2017, versus a -143.1 billion dollars in fourth-quarter 2016 and -304.7 billion dollars in third-quarter 2016.

ShadowStats Alternate GDP. The ShadowStats-Alternate GDP first-quarter 2017 GDP estimate is a year-to-year contraction of 1.9% (-1.9%), versus a second estimate of a first-quarter 2017 annual real headline GDP gain of 2.1%. That circumstance was against a ShadowStats 1.8% (-1.8%) annual-decline estimate for fourth-quarter 2016, versus the official headline annual gain of 2.0% in fourth-quarter 2016 GDP.

While the annualized, real quarterly growth rate is not estimated formally on an alternate basis, the statistically-insignificant, third-estimate of annualized, headline quarter-to-quarter gain of 1.4% in first-quarter 2017 was much weaker, net of all the happy assumptions, regular reporting gimmicks and any short-term political gaming coming into the headline detail. 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, as discussed in today's *Opening Comments and Executive Summary*. The "corrected" real GDP *Graphs 2* and *4* in the *Executive Summary* (see also the *ECONOMY* section in *No. 859 Special Commentary* and *2014 Hyperinflation Report—Great Economic Tumble*), 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, highlighted in the Alternate Data tab on the GDP on the www.ShadowStats.com home page.

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WEEK, MONTH AND YEAR AHEAD

Rapidly Softening Economic Reporting Should Compromise Fed Policies, Pummel the Dollar, Boost the Price of Gold and Foster Other Financial-Market Tumult. Discussed in *General Commentary No. 894*, and further to the discussions in the *Opening Comments* and *Hyperinflation Watch* of *Commentary No. 892*, headline economic reporting of the last month has shown a marked downturn versus consensus forecasts. While such usually signals an unfolding, major downshift in underlying economic reality, in the current circumstance that also forewarns of a potential shift in FOMC activity, which is well removed from consensus expectations, at this time. In terms of Fed policy, that would be a cessation of incremental rate hikes and a shift back towards expanded quantitative easing.

The effect of such a policy change by the U.S. central bank likely would be a massive sell-off in the U.S. dollar, which otherwise has been propped by recent FOMC rate hikes and continual jawboning for same. In parallel, heavy selling in the U.S. equity and credit markets would follow. The circumstances here and the outlook remain as broadly outlined in *No. 859 Special Commentary*; the shift in current headlines only reflects the movement and evolution forward in time of the Fed's difficulties discussed in that missive.

The problem for the Federal Reserve remains that faltering domestic economic activity stresses banking-system solvency. Aside from formal obligations of the Fed to maintain healthy domestic economic and inflation conditions, the central bank's primary function, in practice, always has been to keep the banking system afloat. The near-absolute failure of that function in 2008 remains the primary ongoing and unresolved problem for the Fed, and it continues as one of the ongoing primary issues preventing the return of U.S. economic activity to normal functioning. Contrary to the recent purported headline comments of "not in our lifetime" by Federal Reserve Chair Janet Yellen, the next major systemic financial crisis is likely to break in the next several months.

Separately, recent benchmark revisions to the Trade Deficit (see *Commentary No. 890*), Industrial Production (*Commentary No. 877*), Manufacturers' Shipments (*Special Commentary No. 888*), Housing Starts (*Commentary No. 887*) and Retail Sales (*Commentary No. 882*) broadly have confirmed that historical activity in recent years has been overstated and/or that it is turning down anew. Such is despite near-term improvement in some headline details, such as the May unemployment rate, which increasingly are suffers from dysfunctional definitional and sampling issues. Again, reporting patterns likely will continue to weaken with increasing intensity in the weeks and months ahead. Adding a negative uncertainty to unfolding financial-market risks remains potential political surprise, discussed in *Special Commentary No. 888*. Otherwise, the broad outlook has not changed.

Reflected in common experience, actual U.S. economic activity generally continues in stagnation or downturn, never having recovered its level of pre-economic-collapse (its pre-2007-recession peak). While the today's GDP reporting shows economic expansion of 12.6% (see today's *Executive Summary* and *Commentary No. 869*).

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Discussed in *No. 859 Special Commentary*, the Trump Administration continues to face extraordinarily difficult times, but has a chance to turn the tide on factors savaging the U.S. economy and on highly negative prospects for long-range U.S. Treasury solvency and stability. Any forthcoming economic stimulus faces a nine-month to one-year lead-time, once in play, before it meaningfully affects the broad economy. Delays from political discord continue to push targeted programs back in time. Needed at the same time are a credible plan for bringing the U.S. long-term budget deficit (sovereign solvency issues) under control and action to bring the Federal Reserve under control and/or to reorganize the banking system. These actions broadly are necessary to restore domestic-economic and financial-system tranquility (see *No. 859*), but cannot happen without the meaningful participation and cooperation of Congress. The financial crisis at hand likely will break well before the 2018 Congressional Election will have a chance to stabilize economic policy objectives.

No. 859 Special Commentary updated the post-election, near-term economic and inflation conditions, including general economic, inflation and systemic distortions, which had evolved out of the Panic of 2008, have continued in play and, again, need to be addressed by the Trump Administration and Congress (see also the *Hyperinflation Watch* of *Commentary No. 862* and *Commentary No. 869*).

Contrary to the official reporting of an economy that collapsed from 2007 into 2009 and then recovered strongly into ongoing expansion, underlying domestic reality remained and remains that the U.S. economy started to turn down somewhat before 2007, collapsed into 2009 but never recovered fully. While the economy bounced off its 2009 trough, it entered a period of low-level stagnation and then began to turn down anew in December 2014, a month that eventually should mark the beginning of a "new" formal recession (see *General Commentary No. 867*). Formal economic expansion does begin until economic recovery breaks above its pre-recession high.

Coincident with and tied to the economic crash and the Panic of 2008, the U.S. banking system moved to the brink of collapse, a circumstance from which U.S. and global central-bank policies never have recovered. Unwilling to admit its loss of systemic control, the Federal Reserve has made loud noises in the last year or so of needing to raise interest rates, in order to contain an "overheating" economy, but that "overheating" activity—never recognized by Main Street, U.S.A.—has been fading quickly. As this ongoing crisis evolves towards its unhappy end, the U.S. dollar ultimately should face unprecedented debasement with a resulting runaway domestic inflation.

Broad economic and systemic conditions are reviewed regularly, with the following *Commentaries* of particular note: *General Commentary No. 894*, *Special Commentary No. 885*, *Commentary No. 869*, *No. 859 Special Commentary*, *No. 777 Year-End Special Commentary* (December 2015*)*, *No. 742 Special Commentary: A World Increasingly Out of Balance* (August 2015) and *No. 692 Special Commentary: 2015 - A World Out of Balance* (February 2015). Those publications updated the long-standing hyperinflation and economic outlooks published in *2014 Hyperinflation Report—The End Game Begins – First Installment Revised* (April 2014) and *2014 Hyperinflation Report—Great Economic Tumble – Second Installment* (April 2014). The two *Hyperinflation* installments remain the primary background material for the hyperinflation circumstance. Other references on underlying economic reality are the *Public Commentary on Inflation Measurement* and the *Public Commentary on Unemployment Measurement*.

Recent Commentaries (Covering Headline Details and/or Special Features). *[Pease Note: The complete ShadowStats archives, from 2004 forward, are found at www.ShadowStats.com (left-hand column of home page).]*

Commentary No. 895 (June 26, 2017) covered May 2017 New Orders for Durable Goods.

General Commentary No. 894 (June 23, 2017) reviewed unfolding economic, financial and political circumstances in the context of market expectations shifting towards an “unexpected” headline downturn in broad economic activity, along with headline details on May 2017 Real Median Household Income (Sentier Research) and New- and Existing-Home Sales.

Commentary No. 893 (June 16, 2017) assessed May 2017 New Residential Construction (Housing Starts) and updated *Consumer Liquidity Conditions*.

Commentary No. 892 (June 15, 2017) reviewed May 2017 Industrial Production and assessed current circumstances and likely pending shifts in FOMC policy, in the context of rapidly-deteriorating, headline economic data.

Commentary No. 891 (June 14, 2017) covered the May 2017 CPI and PPI, along with real and nominal retail sales, along with a quick comment on the FOMC rate hike.

Commentary No. 890 (June 5, 2017) covered the negative-downside annual benchmark revisions to the trade deficit, the May 2017 estimates of labor conditions, ShadowStats Ongoing Money Supply M3, The Conference Board Help Wanted OnLine® Advertising and April 2017 estimates of the Cass Freight Index™, and the monthly trade deficit and construction spending.

Commentary No. 889 (May 26, 2017) reviewed the second-estimate, first-revision to first-quarter 2017 GDP, and the April 2017 estimates of New Orders for Durable Goods and New- and Existing Home Sales and Sentier Research’s April Real Median Household income.

Special Commentary No. 888 (May 22, 2017) discussed evolving political circumstances that could impact the markets and the economy, reviewed the annual benchmark revisions to Manufacturers’ Shipments and New Orders for Durable Goods and updated Consumer Liquidity Conditions.

Commentary No. 887 (May 18, 2017) reported on the April 2017 detail for Industrial Production and Residential Construction (Housing Starts), with some particular attention to historic, protracted periods of economic non-expansion, of which the current non-recovery is the most severe.

Commentary No. 886 (May 16, 2017) reviewed the headline details of the April 2017 CPI and PPI detail, along with headline reporting of nominal and real Retail Sales, real Average Weekly Earnings and regular monthly review of U.S. dollar conditions and prospects.

Special Commentary No. 885, entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, (May 8, 2017) reviewed the unusual nature of the headline reporting of the April 2017 employment and unemployment details.

Commentary No. 884 (May 4, 2017) reviewed the March 2017 details for the U.S. Trade Deficit and Construction Spending and the Conference Boards’ reporting of April 2017 Help Wanted OnLine.

Commentary No. 883 (April 29, 2017) covered the headline detail for the “advance” or first-estimate of first-quarter GDP, along with an update to *Consumer Liquidity Conditions*.

Commentary No. 882 (April 27, 2017) summarized the annual benchmark revisions to Retail Sales and reviewed the March 2017 releases of New Orders for Durable Goods and for New- and Existing-Home Sales.

Commentary No. 881 (April 19, 2017) reviewed the prior March 2017 Industrial Production, Housing Starts and the Cass Freight Index™, along with an economic update in advance of the initial first-quarter 2017 GDP estimate.

Commentary No. 880 (April 15, 2017) detailed the prior March 2017 headline reporting the of both Real and Nominal Retail Sales, Real Earnings, the CPI, the PPI and updated Consumer Liquidity, where mounting stresses on consumer income and credit are signaling major economic issues ahead.

Commentary No. 879 (April 7, 2017) covered March 2007 Employment and Unemployment, Help-Wanted Advertising and an update on monetary policy and Money Supply M3 (the ShadowStats Ongoing Measure).

Commentary No. 877 (April 2, 2017) outlined the nature of the downside annual benchmark revisions to industrial production, along with implications for pending annual revisions to Retail Sales, Durable Goods Orders and the GDP.

Commentary No. 876 (March 30, 2017) current headline economic activity in the context of formal definitions of the business cycle (no other major series come close to the booming GDP, which is covered in its third revision to fourth-quarter activity. Also the February 2017 SentierResearch reading on real median household income was highlighted.

Commentary No. 875 (March 24, 2017) assessed and clarified formal definitions of the U.S. business cycle, which were expanded upon significantly, subsequently, in *No. 876*. It also provided the standard review of the headline February 2017 New Orders for Durable Goods, New- and Existing-Home Sales and the Cass Freight Index™.

Commentary No. 873 (March 16, 2017) discussed prospects for future tightening and/or a return to quantitative easing by the FOMC, along with the prior review of the February 2017 Residential Construction reporting.

Commentary No. 872 (March 15, 2017) offered some initial comment on the FOMC rate hike, in conjunction with the review of last month's February 2017 Retail Sales (real and nominal), Real Earnings and the CPI and PPI.

Commentary No. 871 (March 10, 2017) covered reporting of February Labor Conditions, updated Consumer Liquidity and the ShadowStats Ongoing M3 Measure for February 2017, and a revised FOMC outlook.

General Commentary No. 867 (February 24, 2017) assessed mixed signals for a second bottoming of the economic collapse into 2009, which otherwise never recovered its level of pre-recession activity. Such was in the context of contracting and faltering industrial production that now rivals the economic collapse in the Great Depression as to duration. Also covered were the prior January 2017 New- and Existing Home Sales.

Commentary No. 864 (February 8, 2017) analyzed January 2017 Employment and Unemployment detail, including benchmark and population revisions, and estimates of December Construction Spending, Household Income, along with the prior update to Consumer Liquidity.

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Commentary No. 861 (January 13, 2017) covered the December 2016 nominal Retail Sales, the PPI, with a brief look at some summary GAAP reporting on the U.S. government's fiscal 2016 operations. The GAAP-detail will be reviewed in a *Special Commentary*.

No. 859 Special Commentary (January 8, 2017) reviewed and previewed economic, financial and systemic developments of the year passed and the post-election year ahead.

Note on Reporting-Quality Issues and Systemic-Reporting Biases. In the context of historical background provided in *Special Commentary No. 885*: *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, 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 both to understate inflation and to overstate economic activity meaningfully—as generally viewed in the common experience of Main Street, U.S.A.—ongoing, near-term headline reporting issues often reflect systemic distortions of monthly seasonal adjustments.

Data instabilities—induced partially by the still-evolving economic turmoil of the last 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, with the use of concurrent seasonal adjustments (as seen with retail sales, durable goods orders, employment and unemployment data). While historical seasonal-factor adjustments are revised every month, based on the latest, headline monthly data, the consistent, revamped historical data are not released or reported at the same time. That issue is 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 2016 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. That construction-spending issue now appears to have been structured as a gimmick to help boost the July 2016 GDP benchmark revisions, aimed at smoothing the headline reporting of the GDP business cycle, instead of detailing the business cycle and reflecting broad economic trends accurately, as discussed in *Commentary No. 823*.

Combined with ongoing allegations in the last several years 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*). Investigative-financial/business reporter John Crudele of the *New York Post* has written extensively on such reporting irregularities: *Crudele Investigation*, *Crudele on Census Bureau Fraud* and *John Crudele on Retail Sales*.

PENDING ECONOMIC RELEASES: Construction Spending (May 2017). The Commerce Department will release its estimate of May 2017 construction spending, including annual revisions to the series back through 2014, on Monday, July 3rd. Detail will be covered in the ShadowStats *Commentary No. 897* of July 6th. As usual, headline monthly changes should not be statistically-significant. Irrespective of almost perpetually-positive market expectations for this series, the benchmark-revised

detail generally should continue in flat-to-downtrending stagnation, particularly in real terms, net of inflation. The net annual revisions could up prior-year reporting, but should lower current real annual growth rates, with more than theoretically-negative implications for the July 28th GDP benchmark revisions.

U.S. Trade Deficit (May 2017) and Annual Revisions. The Commerce Department and Bureau of Economic Analysis (BEA) will release their full version of the monthly U.S. trade balance for May 2017, on Thursday, July 6th, to be covered in ShadowStats *Commentary No. 897* of that date. Such will be in the context of the June 2nd annual benchmark revisions and initial headline reporting of April 2017 detail (*Commentary No. 890*). That estimate also will revise the often worthless "advance" estimate in merchandise trade, which otherwise showed a narrowing of $1.2 billion in the month-to-month goods deficit for May, as released June 28th, also in the context of the June 2nd benchmarking.

To the extent that "advance" number has any credibility, the deficit narrowed due to the monthly decline in exports exceeding the decline in monthly imports.

Employment and Unemployment (June 2017). In the context of reporting issues discussed in *Special Commentary No. 885*: *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, the Bureau of Labor Statistics (BLS) will publish its headline June 2017 labor data on Friday, July 7th, to be covered in ShadowStats *Commentary No. 898* of that date. Both the more-inclusive unemployment-rate numbers, as well as the headline payroll-employment details, remain open for negative headline surprises, given the increasingly stagnant-to-weakening tone in a number of the better business indicators.

Specifically, headline detail likely should turn weaker, not stronger, soon, despite the headline decline to 4.3% in the May 2017 U.6 unemployment rate. Month-to-month headline unemployment-rate details are not comparable, as discussed in the monthly *Commentaries* covering the series, and the 16-year low there in May 2017 stretched credulity—severely—irrespective of a variety of reporting gimmicks. Where headline payroll employment gains have disappointed expectations in recent months that likely will continue, with annual growth sinking to levels usually seen only at the onset of formal recessions.

Underlying Reality Remains to the Downside of Expectations. In the context of recent the extreme volatility and inconsistencies in payroll and unemployment detail, almost anything remains possible within near-term BLS reporting. Where, underlying reality remains a much weaker-than-expected economy, such increases the odds of negative surprises to the headline reporting of both the payroll and household-survey detail, against what likely still will be relatively strong consensus expectations.

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