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

COMMENTARY NUMBER 907

Second-Quarter Revised GDP, Initial GDI and GNP, Private Jobs Surveying

August 30, 2017

Private Surveying of August Labor Conditions Suggests Continuing Collapse

Despite Booming Real Gross Domestic Product (GDP),
Negligible Real Annual Growth in Per Capita Disposable Income
Signaled an Imminent Recession or One Already in Play

Second-Quarter 2017 GDP Revised to 3.03% (Previously 2.57%),
Versus 1.24% in First-Quarter

Second-Quarter Gross Domestic Income (GDI) Hit 2.88%,
Versus 2.68% (Previously 2.63%) in First-Quarter

Second-Quarter Gross National Product (GNP) Hit 2.80%,
Versus 0.94% in First-Quarter

Better-Quality Measures than the Upwardly-Biased GDP Show
No Full Recovery from the Collapse, No Economic Expansion and
Real-World Activity Increasingly Stagnant or in Renewed Downturn

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PLEASE NOTE: The next Commentary*, planned for Friday, September 1st, will be an early and brief "Advance" Commentary, providing summary coverage of the August 2017 Labor Data and July Construction Spending released on that date, along with annual growth in August M3 and the Updated Monetary Base. Given the amount of new material and the Labor Day Weekend, a more-detailed analysis of the labor and construction conditions will follow in a* Regular Commentary *on Wednesday, September 6th, which also will cover the initial 2017 Benchmark Revisions to Payroll Employment and the July Trade Deficit, as released on that date.*

Best wishes to all — John Williams (707) 763-5786

Today's *Opening Comments and Executive Summary* (August 30th). The ***Opening Comments*** reviews the latest economic trends in the context of the headline GDP reporting, along with the just-released August 2017 estimate of The Conference Board's Help Wanted OnLine®. The *Executive Summary* (page 6) provides summary detail and highlights of the second estimate of second-quarter GDP and the related initial quarterly estimates of the Gross Domestic Income (GDI) and Gross National Product (GNP) series, including graphs of the latest numbers.

The ***Reporting Detail*** (page 17) provides extended analysis of the GDP, GDI and GNP data.

The ***Consumer Liquidity Watch*** (page 26) has been updated for the August reading of The Conference Board's Consumer-Confidence Index®.

The ***Week, Month and Year Ahead*** (page 36) provides links to recent *Commentaries* and previews releases of August 2017 Employment (including the initial payroll benchmark revisions) and Unemployment, and the July Trade Deficit and Construction Spending.

OPENING COMMENTS AND EXECUTIVE SUMMARY

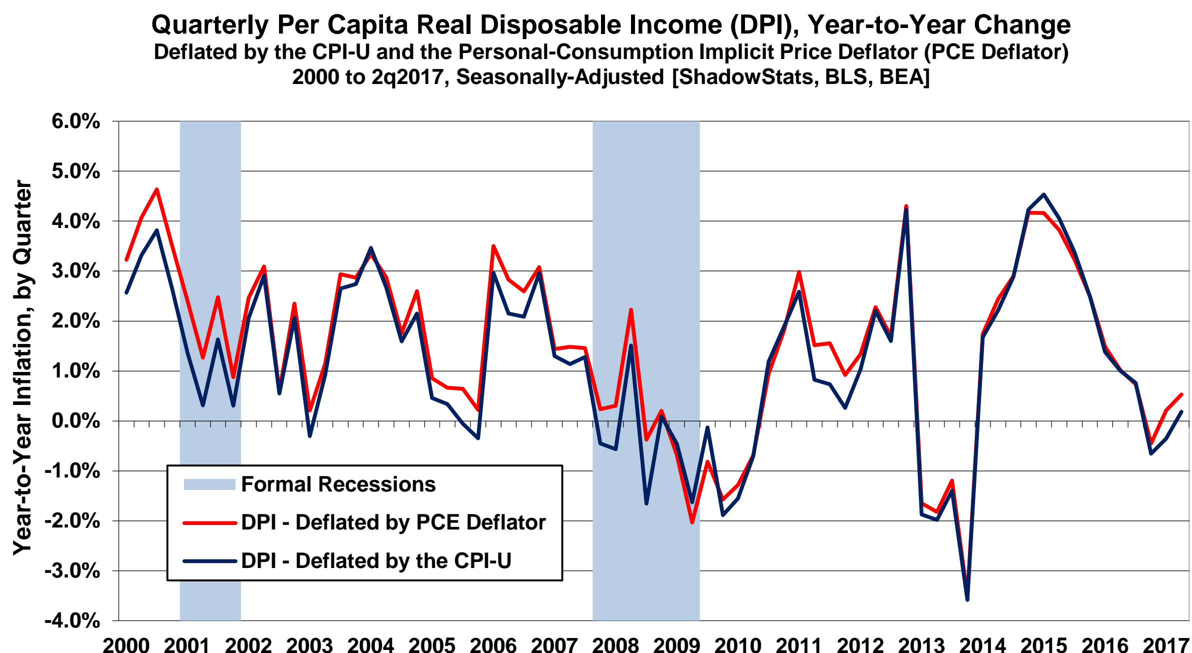
Economic Troubles Continue to Surface. In the context of the August 14th "Alert", incorporated here by reference (see *Special Commentary No. 904*), today's (August 30th) economic reporting showed a stronger-than-expected upside revision to Second-Quarter 2017 GDP, despite an accompanying, heavily–negative signal from real Per Capita Disposable Personal Income. At the same time, The Conference Board Help-Wanted Online Advertising® for August continued to show significant deterioration in labor-market demand, a meaningfully-negative leading indicator to broad economic activity.

Reporting in the week ahead should not be as robust as today's heavily-upside-biased fluff out of the GDP and related series. While Friday's (September 1st) reporting of the August 2017 labor-market detail also will be in the context of built-in, heavily-positive biases, some of that could be deflated with next week's September 6th benchmark revisions to the payroll employment series.

Despite Booming Real Headline GDP Growth, Negligible Annual Real Growth in Per Capita Disposable Personal Income—Take-Home Pay—Signaled Imminent or Current Recession. Noted in *Commentary No. 903*, the second round of annual benchmark revisions to the National Income Accounts on August 1st, covering Personal Income and related real (inflation-adjusted) Disposable Personal Income (DPI), effectively take-home pay, net of taxes, were revised at the monthly level back through 2014. Those indicators are components of Gross Domestic Income (GDI), which is the theoretically-equal, income-side measure of the U.S. economy, to the consumption-side's more-popularly-followed Gross Domestic Product (GDP) measure.

Also, as noted in *Commentary No. 902-B* (see *Graphs 4* to *6* there), the annual benchmarking to the quarterly GDI series had been unusually violent. The formal, second-quarter 2017 GDI estimate was published today, August 30th, along with a further first-quarter GDI revision, as updated here for the discussion of inflation-adjusted real Per Capita DPI.

Graph OC-1: Real Year-to-Year Change in Per Capita Disposable Personal (2000 to Second-Quarter 2017)



Real Per Capita Disposable Income (Take Home Pay) Was Benchmarked Sharply Lower, With Annual Growth Now Holding at Traditional Recession Levels. The nominal and inflation-adjusted real growth rates in these headline numbers broadly are overstated versus common experience, heavily bloated by a variety of underlying assumptions and reporting gimmicks. Specific to the real numbers is the understatement of inflation used in calculating inflation-adjusted economic growth. When understated inflation is used in deflating an economic series, real growth in the resulting adjusted series is overstated. Such overstatement of the real GDP and the related real DPI (see the GDP background discussion today's *Executive Summary*), as well results using the headline Consumer Price Index (CPI-U), which also commonly is used to deflate income estimates, are reflected in the headline detail plotted in *Graph OC-1*. Accordingly, when such headline detail signals a recession, the likelihood is that underlying economic reality already is in one.

Consider the following sampling of data. Pre-benchmarking, Real Per Capita Disposable Personal Income (DPI)—effectively the average level of inflation-adjusted, individual take-home pay—rose by a sub-standard, headline 1.92% in calendar year 2016. That detail was weak enough (below 3.0%) to indicate voters would tend to turn against the incumbent party in the 2016 presidential election, which they did. Post-benchmarking, the headline real annual growth in 2016 revised lower to 0.69%, from the previous estimate of 1.92%.

Circumstances have not improved. Pre-benchmarking, year-to-year real growth in first-quarter 2017 was headlined at 1.11%. Post-benchmarking, that revised to 0.20%, with second-quarter 2017 indicated with a tentative, initial estimate of 0.51% (full monthly detail had not been published then). That detail was updated today, showing revised annual real growth in first-quarter 2017 at 0.21% and at 0.53% for full second-quarter 2017. As now reported and as reflected in *Graph OC-1*, headline real year-to-year growth in Per Capita DPI hit a peak of 4.17% in fourth-quarter 2014 and declined steadily to a trough in fourth-

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quarter 2016, with an annual contraction then of 0.45% (-0.45%). While there are a number of issues with these series, including variability with shifting tax policies and payroll-tax deductions (specifically, shifting payroll-tax policy accounted for much of the annual-growth volatility in the 2011 to 2013 period), real growth levels. Where individuals' consumption and investment tend to move with their disposable income, the weak real DPI circumstance is consistent with periods of historical recession and faltering real economic activity. The increasingly-positive headline GDP reporting remains nonsensical, heavily bloated with inflated reporting gimmicks and definitions tied to "Intellectual Property" and to the handling and definition of the services sector ranging from "Health Care" to "Financial Services."

Intensifying Signal of Deepening/Renewed Recession Continued With Help-Wanted Advertising. ShadowStats follows a number of business indicators—both conventional and not—looking for reliable reporting of real-world economic activity and for indications of shifting patterns in same. Recent details of, and related benchmark revisions to, a number of economic indicators have indicated ongoing, non-recovery or renewed downturn in the post-2007 economic collapse period, with "unexpected" headline weakness seen in a variety of major economic series (see *Commentary No. 900*, *Commentary No. 903* and the discussion in today's *Executive Summary*).

The Conference Board Help Wanted OnLine® Advertising, August 2017. The HWOL basic concept has proven itself over the last century, in the context of the closely-paralleled concept of measuring help-wanted advertising in newspapers. The current on-line series tracked the economic collapse into 2009, parallel with the last of the series based on newspaper help-wanted advertising. The beauty and benefit of a good leading indicator is that it provides a meaningful "advance" signal of a shift in economic activity, before that shift may become obvious in other series. Such is a particularly valuable commodity, when headline data out of the federal government increasingly are politicized and unreliable (see *Special Commentary No. 885*, *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*).

With the preceding ShadowStats comments in mind, the following caution, posted on the Conference Board's web site, speaks for itself:

> NOTE: Recently, the HWOL Data Series has experienced a declining trend in the number of online job ads that may not reflect broader trends in the U.S. labor market. Based on changes in how job postings appear online, The Conference Board is reviewing its HWOL methodology to ensure accuracy and alignment with market trends.

First fully covered by ShadowStats in *Commentary No. 820* of July 16, 2016, the HWOL is updated here through August 2017 (published this morning, August 30th). As a leading economic indicator, help-wanted advertising had its roots as far back in time as the initial reporting of industrial production, post-World War I. The Conference Board has adapted the concept to reflect the fundamental shift of help-wanted advertising from printed newspapers to online advertising. The prior newspaper-based series simply was the best leading indicator of its day.

Many thanks to The Conference Board for permission to publish the following graph of year-to-year change in its *Help Wanted OnLine®* data. The annual percentage change is plotted for two series: Total Ads (red line) and New Ads (blue line). Where, "Total ads are all unduplicated [online] ads appearing during the reference period. This figure includes ads from the previous months that have been reposted as well as new ads." While, "New ads are all unduplicated ads which did not appear during the previous

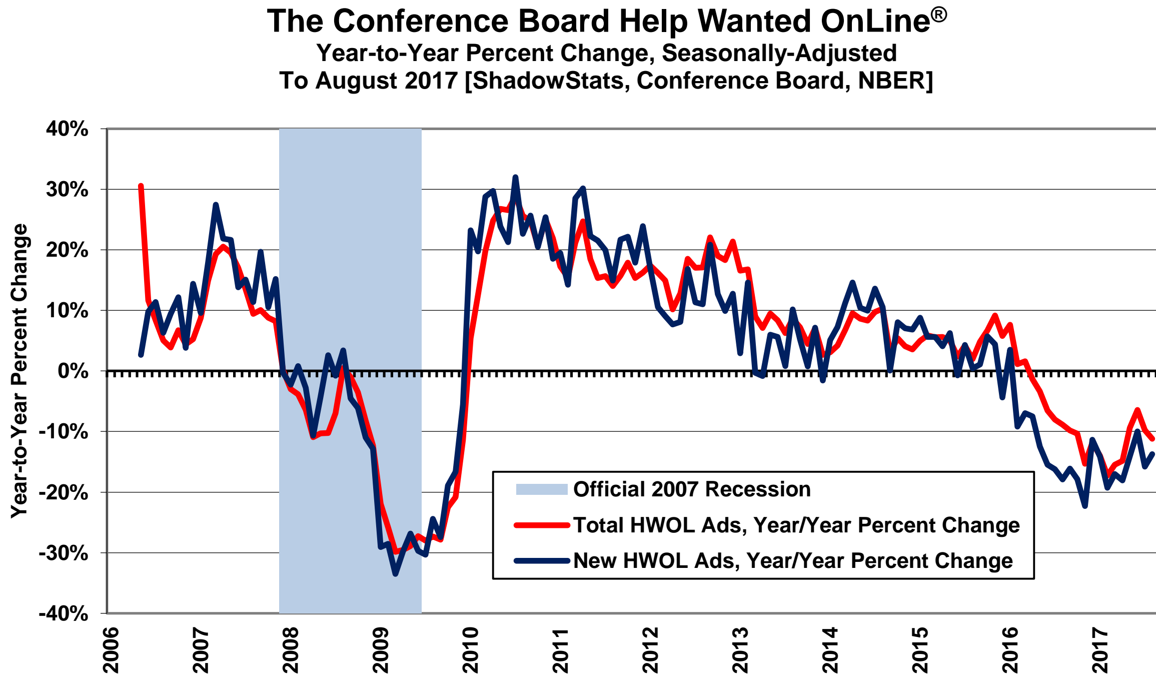
reference period. An online help wanted ad is counted as 'New' only in the month it first appears." Related background details and reporting are found here: The Conference Board Help Wanted OnLine®.

The tracked seasonally-adjusted monthly measures have declined year-to-year in each of the last seventeen months for the total ads, and in each of the last nineteen months (twenty of the last twenty-one months) for the new ads, including August 2017. Although the annual decline had narrowed recently, annual change generally continued to sink July, along with a mixed deepening downturn in August 2017 as seen in *Graph OC-2*. Annual growth began to slow in 2010 and turned negative year-to-year in late-2015 and early-2016. The shaded area in the graph reflects the formal bounds of the 2007 to 2009 recession. While the HWOL held in negative annual growth territory into early-2010, beyond the formal economic trough in June 2009, keep in mind that payroll employment—traditionally a coincident economic indicator to the general economy—did not hit its cycle trough until February 2010.

With August 2017 "Total Ads" and "New Ads" counts down year-to-year respectively by 11.2% (-11.2%) and 13.7% (-13.7%), the annual contractions have hit depths last seen going into the trough of the business collapse into 2009/2010. Month-to-month changes have been irregular, down in fourteen of the last twenty-one months for the "Total" and down twelve out of the last twenty-one months for the "New." Both series showed month-to-month declines in the seasonally-adjusted August 2017 detail for the third straight month, with the "Total Ads" series at its lowest level since May of 2012 and the "New Ads" series at its lowest level since February of 2011.

While much of this text is repetitive of prior discussions in *Commentary No. 903*, No. 852 and No. 820, the detail has been updated for the latest information. These comments and analysis remain those of ShadowStats alone, not those of The Conference Board.

Graph OC-2: The Conference Board Help Wanted OnLine® to August 2017



Historical Background. Back in the days when help-wanted advertising was the primary source of classified-advertising revenue for the physically-printed, folding newspapers, the Conference Board's Help-Wanted Advertising Index (newspapers) simply was the most reliable leading indicator available of broad economic activity. It was a component of the Commerce Department's Index of Leading Economic Indicators. It led activity in employment as well as the Gross National Product (GNP) and the now-headline Gross Domestic Product (GDP), which is a subcomponent of the GNP (ex-trade flows in factor income such as interest and dividend payments).

The National Bureau of Economic Research (NBER) has published detail with the St. Louis Federal Reserve on help-wanted advertising indices constructed back to 1919. From the post-World War I era into the 2000s, year-to-year change in the various historical help-wanted series always signaled what would become recognized as a formal recession, when the annual change in the index contracted by 15% (-15%) or more.

Since formal tracking switched to help-wanted advertising on the Internet, around 2005, as seen with The Conference Board Help Wanted OnLine®, that series has been through only one, formally-confirmed down-cycle in the economy. The year-to-year growth plots in the accompanying graph begin with the first annual-growth rate availability in May 2006. Even with a limited initial history, the new series tracked that headline downturn into 2009 (in tandem with the final surveys of newspaper help-wanted online advertising, which continued for a while), and it has tracked to the downside in the current environment of what appears to be a "new," still-unfolding recession (again, see *No. 859 Special Commentary*).

Time will establish new annual growth parameters that would signal a formal recession. My betting remains that they will look much like the earlier series, and much like the pattern seen in the present series in terms of year-to-year contraction. Those looking for independent confirmation of underlying economic conditions should find this series to be highly valuable. As for the BLS employment and unemployment series, they should begin to catch up with the Conference Board's high-quality, independent leading indicator, despite the heavy upside reporting biases deliberately structured into the BLS series and expanded anew into the 2016 payroll-survey benchmarking. See the discussions in *Special Commentary No. 885*, *Commentary No. 864* and in *Birth-Death/Bias-Factor Adjustment (BDM)* section in *Commentary No. 903*. Separately, the BLS has announced it will publish its preliminary 2017 benchmark-revision numbers for the payroll data on September 6, 2017, subsequent to the headline regular headline reporting of August 2017 payrolls on September 1st, which will be covered in the next two *Commentaries* of those dates.

EXECUTIVE SUMMARY: Gross Domestic Product (GDP)—Second-Quarter 2017, Second Estimate—Stronger Growth Ran Counter to Anecdotal Evidence, with Headline Detail Fraught with Reporting Gimmicks and Real World Contradictions. In the context of last month's annual GDP benchmark revisions through first-quarter 2017 and the "advance" estimate of second quarter GDP (see *Commentary No. 902-B*), the second estimate of second-quarter 2017 GDP showed a statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 3.03% [previously 2.57%], versus gains of 1.24% in first-quarter 2017, 1.76% in fourth-quarter 2016 and 2.78% in third-quarter 2016. Year-to-year annual growth revised to 2.20% [previously 2.08%], versus 2.00% in first-quarter 2017, 1.84% in fourth-quarter 2016 and 1.52% in third-quarter 2016.

Second-Quarter 2017 GDP, Second Estimate – Growth Distribution. The second estimate of second-quarter 2017 GDP revised higher to 3.03%, which topped consensus expectations of 2.8% [initially reported at 2.57%], reflected combined revised 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 2.28% + 0.60% + 0.21% - 0.05% = 3.03% (with a rounding difference). Based on the first estimate of second-quarter 2017, the growth contributions had been 1.93% + 0.34% + 0.18% + 0.12% = 2.57% (see also *Table 1*).

Regrouped by the general nature of product sector activity, the second estimate was that the headline second-quarter 2017 GDP gain of 3.03% [previously 2.57%] encompassed a growth-rate contribution of 1.30% [previously 1.22%] from the services sector, 2.13% [previously 1.62%] from the goods sector and a negative contribution of 0.39% (-0.39%) [previously 0.27% (-0.27%)] from the structures sector, again, with a rounding differential. *Commentary No. 896* of June 29th detailed the growth-distributions for the pre-benchmark, third estimate of first-quarter 2017 GDP (see also *Table 1*).

Contributing Growth Factors. Headline second-quarter 2017 GDP growth remained dominated by sharp growth in personal consumption, split fairly evenly between goods and services, contributions from business (or fixed) investment and net exports, with negligible impact from slightly weaker government spending. The net upside revision to second-quarter growth was split between personal consumption and business investment.

- ***Consumer Spending Contributed 2.28% [previously 1.93%] to Second-Quarter 2017 Growth, First-Quarter 2017 Growth Contribution Was 1.32%.*** Consumer spending was dominated by motor-vehicle sales, despite downside revisions in that area recently to manufacturers' orders, shipments and to both imports and exports, that was along with unseasonably-strong electricity consumption. Healthcare activity took an unusual hit.

- ***Business/Residential Investment Contributed 0.60% [previously 0.34%] to Second-Quarter 2017 Growth, Subtracted 0.20% (-0.20%) from First-Quarter 2017 Growth.*** With some downside revision, nonresidential structures still surged in the quarter, contrary to private indications. Such was helped in offset by an upside revision to intellectual property. Largely-unrevised strength in equipment purchases accounted for the bulk of the growth in this economic sector. Inventory change was nil (plus 0.02%), which left headline final sales—GDP growth net of inventory change—at an annualized quarterly growth rate of 3.01%, versus 2.59% in first-quarter activity.

- ***Net Exports Contributed 0.21% [previously 0.18%] to Second-Quarter 2017 Growth, Contributed 0.22% to First-Quarter 2017 Growth.*** Also continuing to run counter to more-negative headline indications, net-export activity remained in largely unrevised positive territory, reflecting what eventually should prove to faux trade surpluses in the recent quarter.

- ***Government Spending Subtracted 0.05% (-0.05%) from [previously contributed 0.12%] to Second-Quarter 2017 Growth, Subtracted 0.11% (-0.11%) from First-Quarter 2017 Growth.*** Federal government spending still contributed 0.13% to headline second-quarter GDP growth, more than accounted for by an increase in defense spending. A more than offsetting, deepened-negative growth contribution of 0.18% (-0.18%) in state and local government spending, primarily

in the nebulous and irregularly-volatile "investment" area, more than offset the federal spending increase.

Again, the headline second estimate of second-quarter 2017 real GDP growth at 3.03% was dominated by surging growth in personal consumption expenditures and business investment, helped along by a cessation of the inventory liquidation seen in the first-quarter, and by declining local government investment. *Table 1* shows comparative growth contributions with recent quarters.

Table 1: Recent Quarterly Comparisons of Growth Distribution, Post-July 28, 2017 Benchmarking

Annualized Quarterly Real Growth in Headline Gross Domestic Product Growth Contribution by Consumption and Product Sector					
	2nd-Q 2017 Second Estimate	2nd-Q 2017 First Estimate	1st-Q 2017	4th-Q 2016	3rd-Q 2016
CONTRIBUTING ECONOMIC SECTOR					
Personal Consumption Expenditures					
- Goods	1.27%	1.02%	0.15%	1.03%	0.69%
- Services	1.00%	0.91%	1.17%	0.97%	1.23%
Gross Private Domestic					
- Fixed Investment	0.58%	0.36%	1.27%	0.28%	0.23%
- Change in Private Inventories	0.02%	-0.02%	-1.46%	1.06%	0.16%
Net Exports of Goods and Services	0.21%	0.18%	0.22%	-1.61%	0.36%
Government Consumption/Investment	-0.05%	0.12%	-0.11%	0.03%	0.09%
GDP Annualized Real Growth	3.03%	2.57%	1.24%	1.76%	2.78%
Final Sales, GDP Less Inventories	3.01%	2.59%	2.70%	0.70%	2.62%
CONTRIBUTING PRODUCT SECTOR					
Goods	2.13%	1.62%	-0.47%	0.88%	1.39%
Services	1.30%	1.22%	0.91%	0.61%	1.39%
Structures	-0.39%	-0.27%	0.80%	0.27%	0.01%
GDP Annualized Real Growth	3.03%	2.57%	1.24%	1.76%	2.78%
Sources: Bureau of Economic Analysis (BEA), ShadowStats.					

Second-Quarter 2017 Implicit Price Deflator (IPD) revisions and ***Gross National Product (GNP)/Gross Domestic Income (GDI)*** initial estimates are covered in the *Reporting Detail* section.

Underlying Economic Reality. *[Note: In the context of the above-consensus, upwardly-revised headline growth for the second estimate second-quarter 2017 GDP, much of the following section, is repeated from*

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Commentary No. 902-B, which reviewed the initial second-quarter 2017 detail and annual revisions. All details and graphs have been updated to reflect the latest developments and economic detail (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, Commentary No. 876 *and* Commentary No. 900*, all incorporated here by reference).*

Despite the revised increase in the headline, real annualized second-quarter 2017 GDP growth to 3.03%, from 1.24% growth in first-quarter 2017, 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). While the recent 2017 GDP benchmarking did show some slowing in previously-reported 2016 and 2017 growth, activity in 2014 and 2015—otherwise heavily revised to downside in series-specific benchmarkings (again, see *Commentary No. 900*)—revised higher with the GDP benchmarking.

This remains in place despite some corrective actions and efforts taken by the Trump Administration, and new policies in development to generate economic stimulus. Assuming some eventual legislative cooperation from Congress—despite the current, significant political discord—and given basic economic lead times, the first major, positive impact on the economy from that now would be late-2018 to early-2019, at the earliest. Despite the relatively happy second-quarter 2017 GDP details, 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 *Commentary No. 903*).

Discussed back 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. *Commentary No. 902-B* offered similar comments on the 2017 benchmarking, where "formal" recession recognition of a post-fourth-quarter 2014 recession is not imminent.

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), honest post-2007 historical GDP reporting should be confirming a non-recovering, multiple-dip economic collapse including a "new" or ongoing downturn post-fourth-quarter 2014.

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, albeit not imminent, 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

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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, including the GDP benchmarking. 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 into early-2017.

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 the *Consumer Liquidity Watch*, 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 2017 GDP benchmarking and the second estimate of second-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. Revised for the small changes revisions to headline GDP data, 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 second-quarter 2017 GDP currently stands 13.6% above its pre-recession peak-GDP estimate of fourth-quarter 2007. Again, no other major economic indicators show 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 to pre-recession highs, let alone formal economic expansion.

In contrast, the "corrected" GDP version, in the second graph of each set (*Graphs 2* and *4*), shows second -quarter 2017 GDP activity to be down by 6.8% (-6.8%) from its pre-recession peak of first-quarter 2006. Noted in *General Commentary No. 867*, *Commentary No. 869* and *Commentary No. 905*, 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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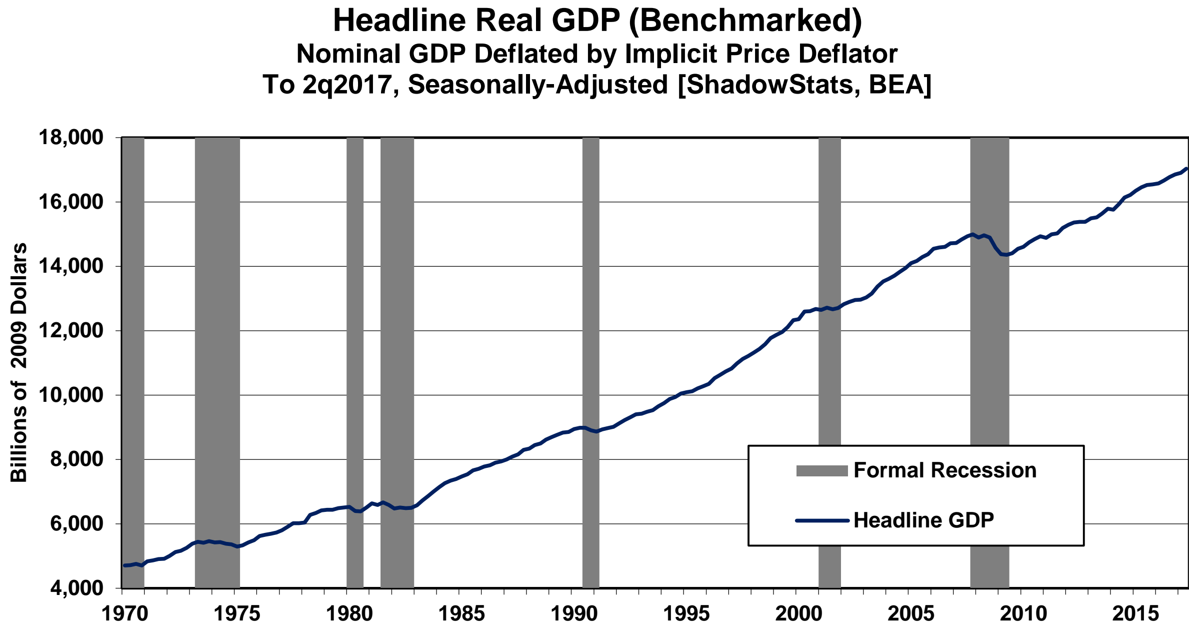
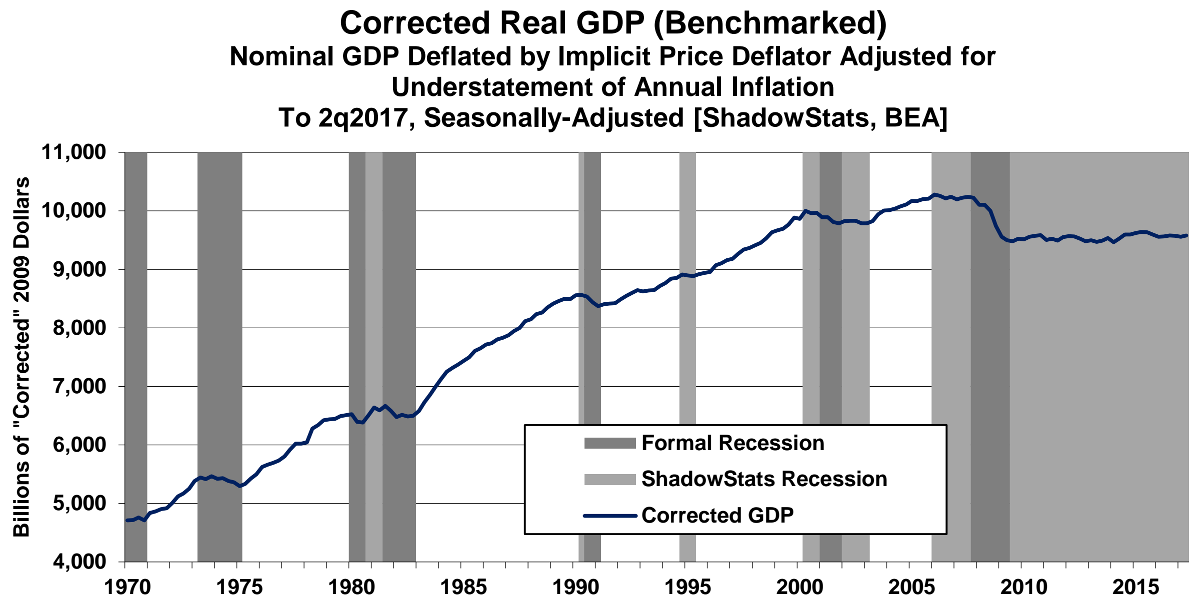
Graph 1: Real GDP (1970 -2017), Second Estimate of Second-Quarter 2017



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



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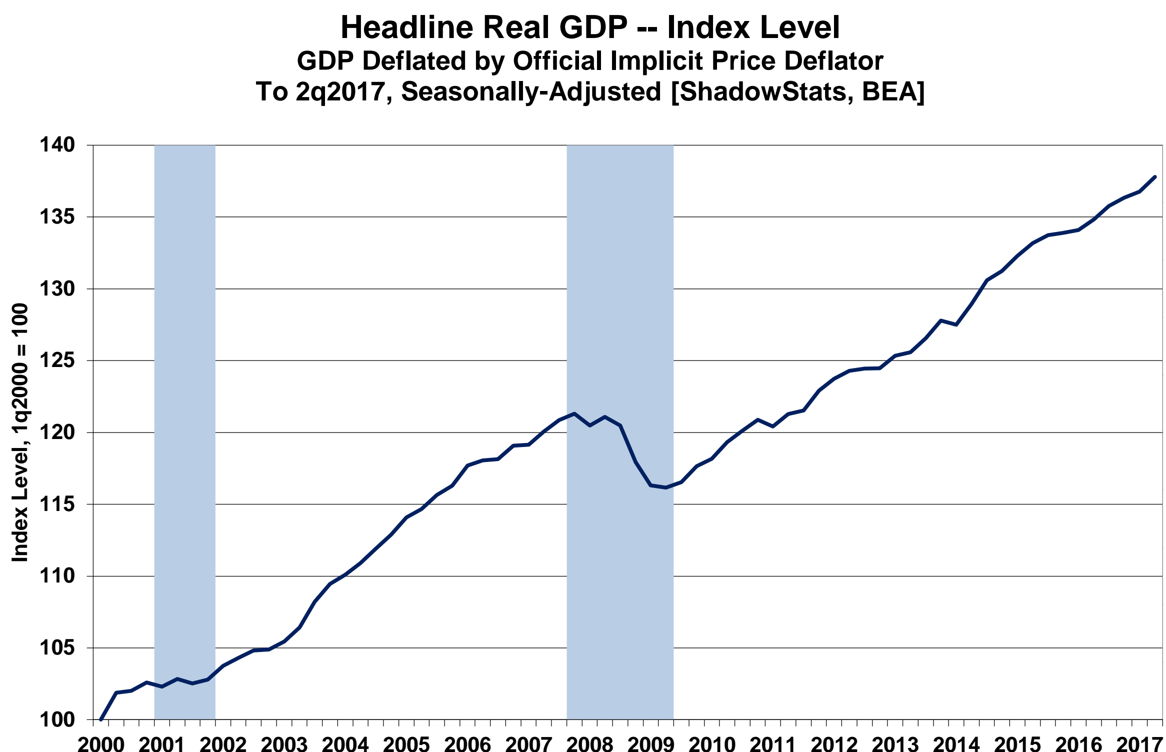
Graph 3: Real GDP Index – Headline Real GDP through Second Estimate of Second-Quarter 2017



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 July 2017 (see *Commentary No. 905*), 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. *Graph 7* of U.S. Petroleum Consumption and *Graph 8* of inflation-adjusted total U.S. Construction Spending, 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/downturn.

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 July 2017.

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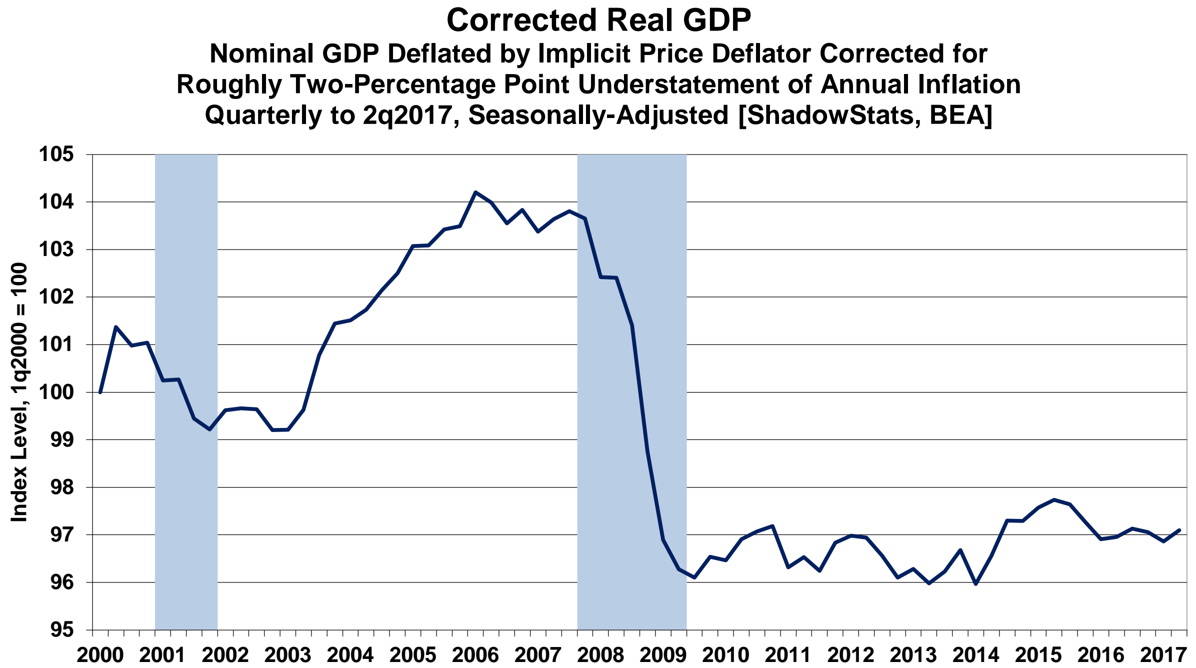
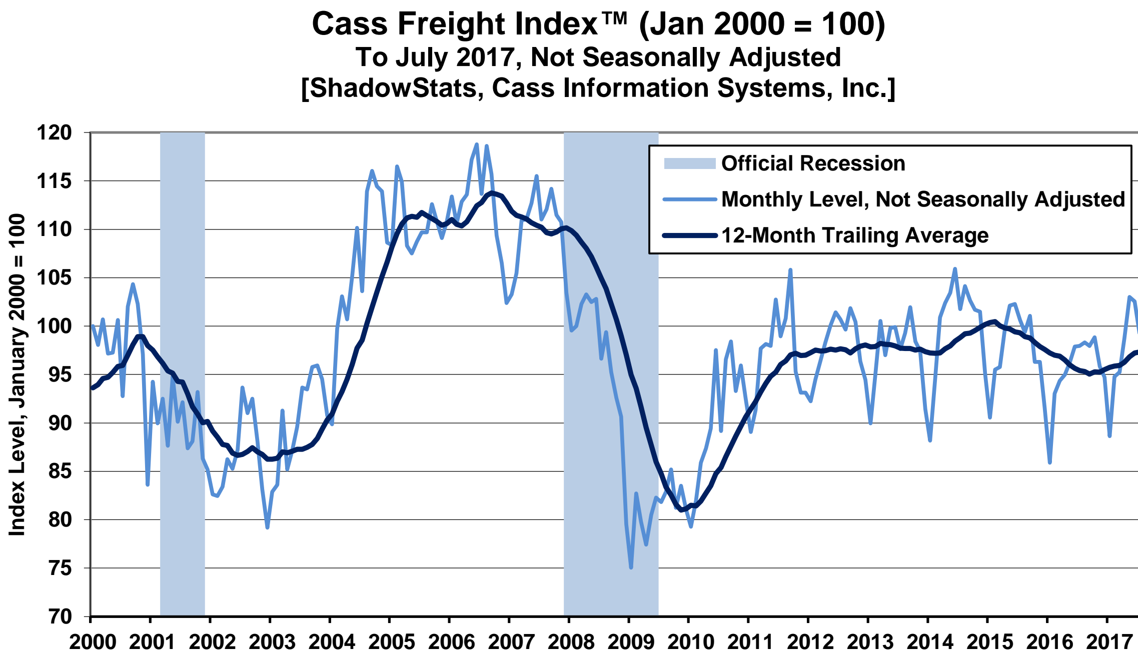
Graph 4: "Corrected" Real GDP Index (2000 - 2017), Second Estimate of Second-Quarter 2017



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

(Graph OC-1, page 4 Commentary No. 905)



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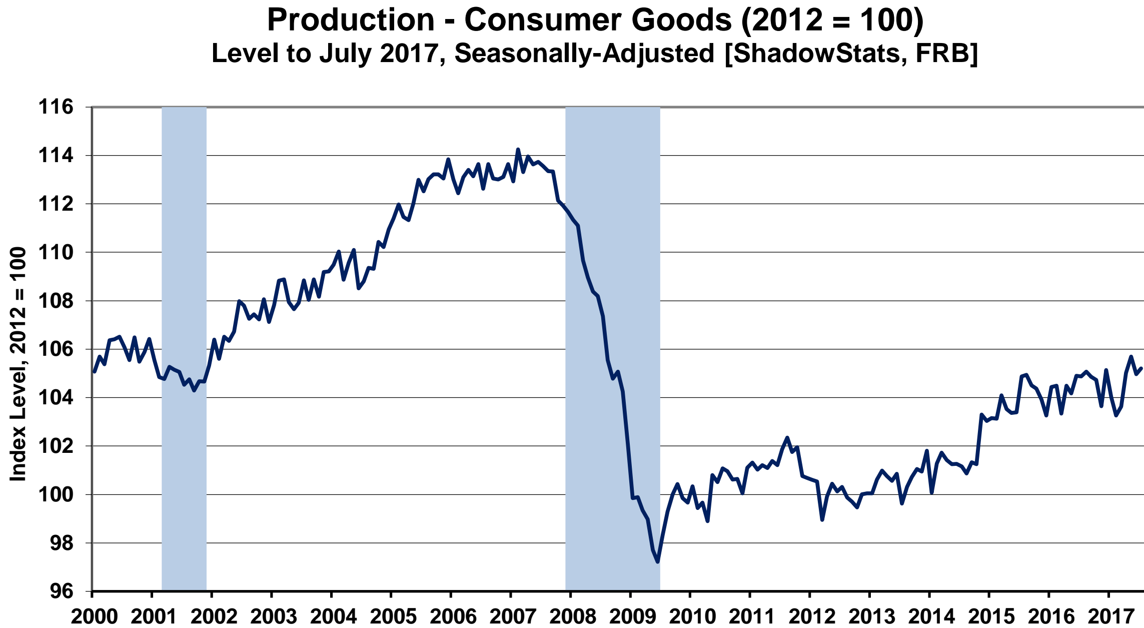
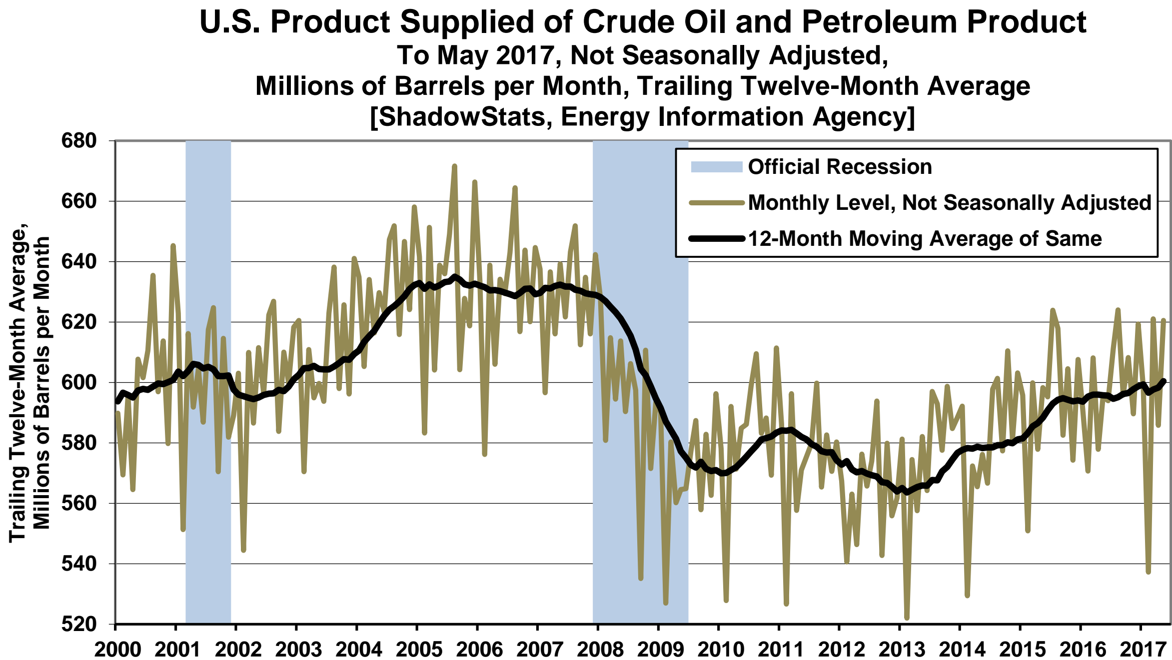
Graph 6: Industrial Production – Consumer Goods (2000 - July 2017)

(Graph 19, page 26 Commentary No. 905)



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



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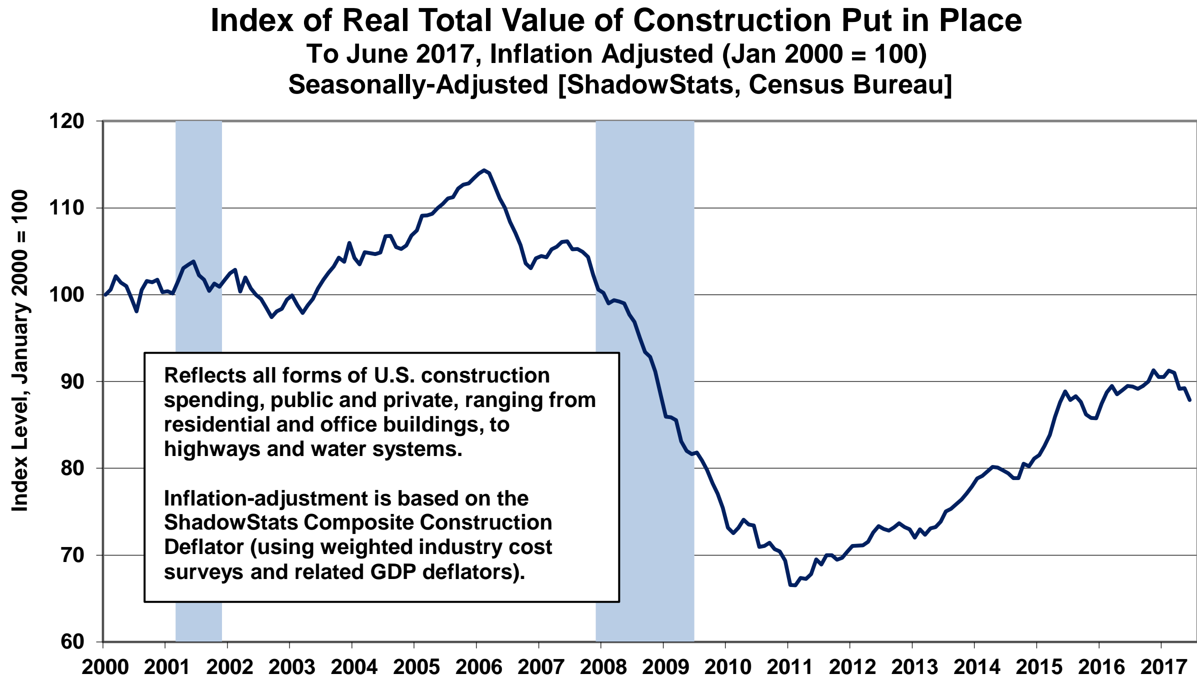
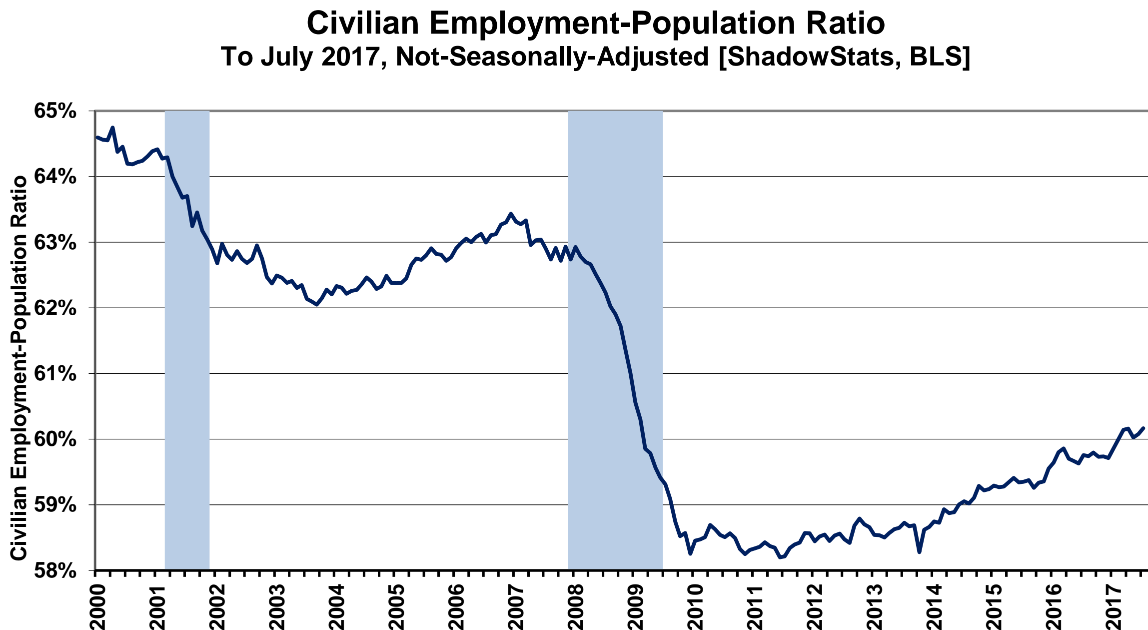
Graph 8: Real Total U.S. Construction Spending (2000 - 2017)

(Graph 28, page 41 [Commentary No. 903](#))



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

(Graph 5, page 11 [Commentary No. 903](#))



[Extended analysis and graphs follow in the **Reporting Detail.** *]*

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REPORTING DETAIL

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

Strong Second-Quarter GDP Revision Reflected Gimmicks and Real World Contradictions; Underlying Recession Continued in Play. In the context of the annual benchmark revisions of July 28th (see *Commentary No. 902-B*), the Second-Quarter 2017 GDP real growth first revision to 3.0%, from the initial estimate of 2.6%, topped consensus expectations, but did not alter underlying economic reality. Headline issues with GDP deflator estimates, and related 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*. Today's second-estimate of second-quarter 2017 Gross Domestic Product (GDP) was accompanied by initial estimates of second-quarter Gross Domestic Income (GDI) and Gross National Product (GNP), which also came in well above credibility, as discussed later.

***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 formal economic Expansion—and then began to turn down anew in late-2014. That said, the 2017 revisions reflected, revised slowing growth in 2016 into first-quarter 2017, in the context of upside revisions to 2014 and 2015, which appear far-removed from reality (see *Commentary No. 902-B* and *Commentary No. 900*).

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 both the 2016 and recently-published 2017 benchmarkings (see the *Opening Commentary No. 902-B*, those of *Commentary No. 823*, and *Special Commentary No. 885*, entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play.*

[Notes on GDP-Related Nomenclature and Definitions follow on the next page.]

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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 $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 (August 30th) by the Bureau of Economic Analysis (BEA), in the context of the prior-month's annual benchmark revisions (*Commentary No. 902-B*), the second estimate of second-quarter 2017 GDP showed a revised, statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 3.03% (previously 2.57%) +/- 3.5% (95% confidence interval), which topped consensus expectations of 2.8%. That was against quarterly growth of 1.24% in first-quarter 2017, 1.76% in fourth-quarter 2016, 2.78% in third-quarter 2016, 2.24% in second-quarter 2016, 0.58% in first-quarter 2016, 0.49% in fourth-quarter 2015 and 1.63% in third-quarter 2016.

Distribution of second-quarter 2017 GDP growth by major category is detailed in the *Executive Summary*.

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.

Shown in *Graphs 11* and *13*, headline year-to-year real GDP growth in the second estimate of second-quarter 2017 revised to 2.20% [previously 2.08%], versus 2.00% in first-quarter-2017, 1.84% in fourth-quarter 2016, 1.52% in third-quarter 2016, 1.23% in second-quarter 2016, 1.36% in first-quarter 2016, 2.02% in fourth-quarter 2015 and 2.40% in third-quarter 2015.

Graphs 14 and *15* respectively show the levels of annual real GDP activity, as well as annual percent change, as estimated beginning in 1929.

A sharp downtrend in annual growth is common at the onset of formal recessions. Reflected in *Graph 15*, annual-average real GDP growth in 2016 slowed to 1.49%, versus 2.86% in 2015 and versus 2.57% in 2014. The annual growth rate of 1.49% in 2016 was the 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 the revised 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. Shown in *Graph 15*, the annual 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 16 begin on the following page.]

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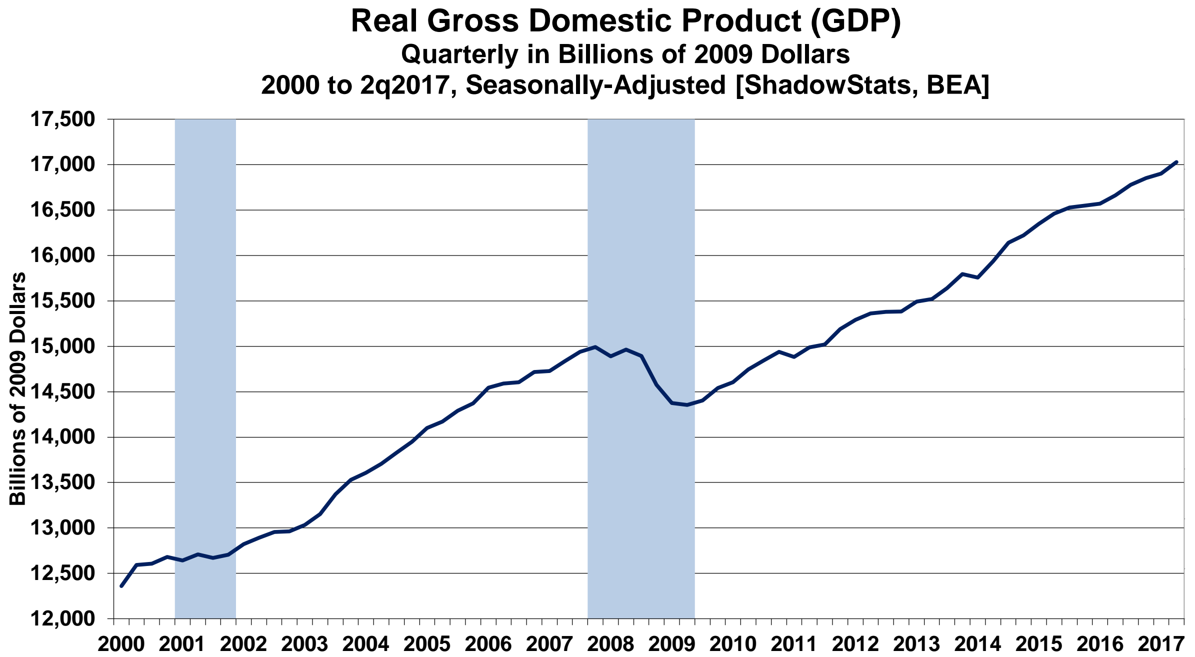
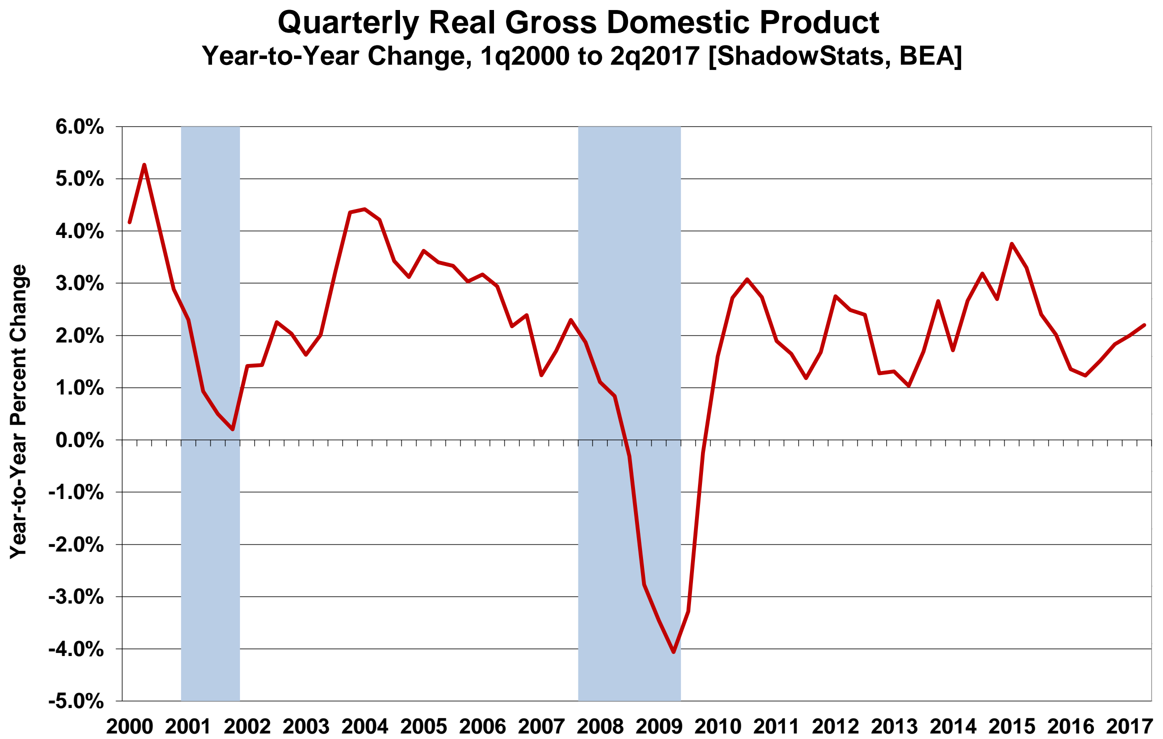
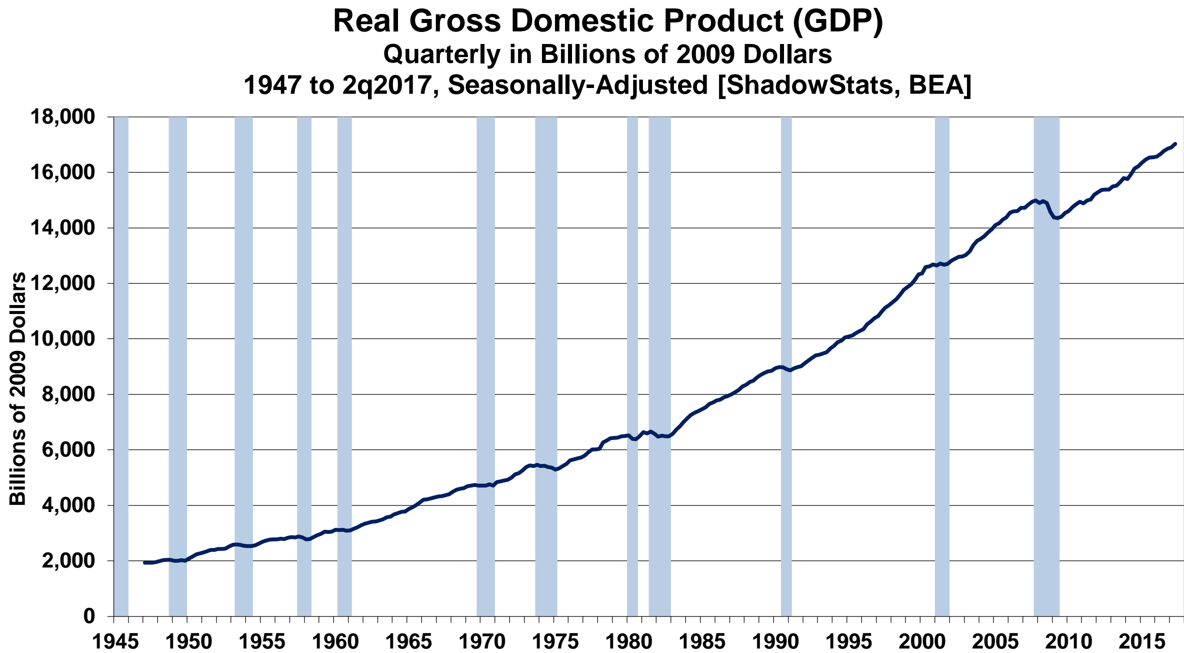
Graph 10: Quarterly GDP in Billions of 2009 Dollars (2000 to 2017), Second Estimate of Second-Quarter 2017



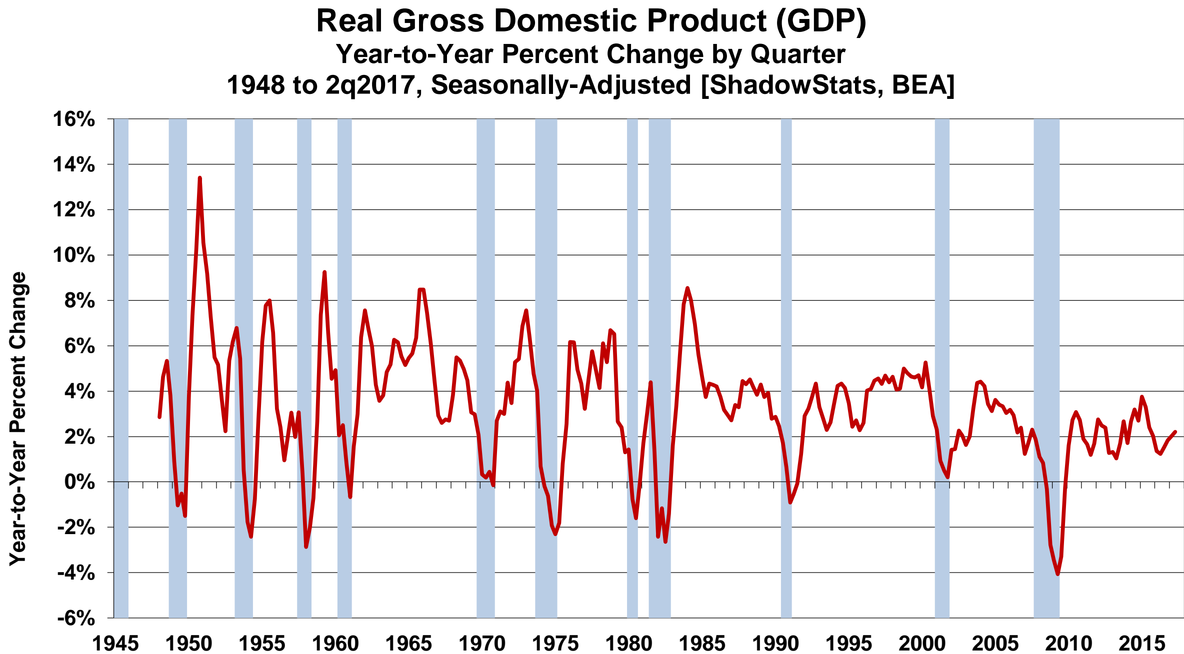
Graph 11: Quarterly GDP Real Year-to-Year Change (2000 to 2017), Second Estimate of Second-Quarter 2017



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



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



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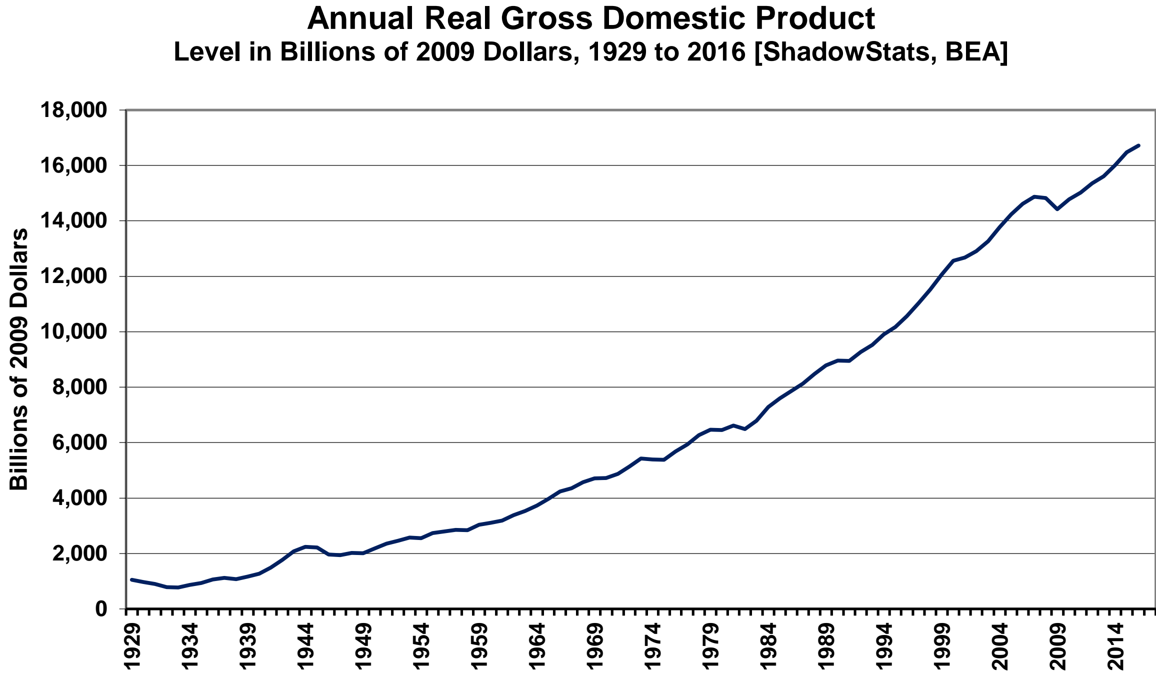
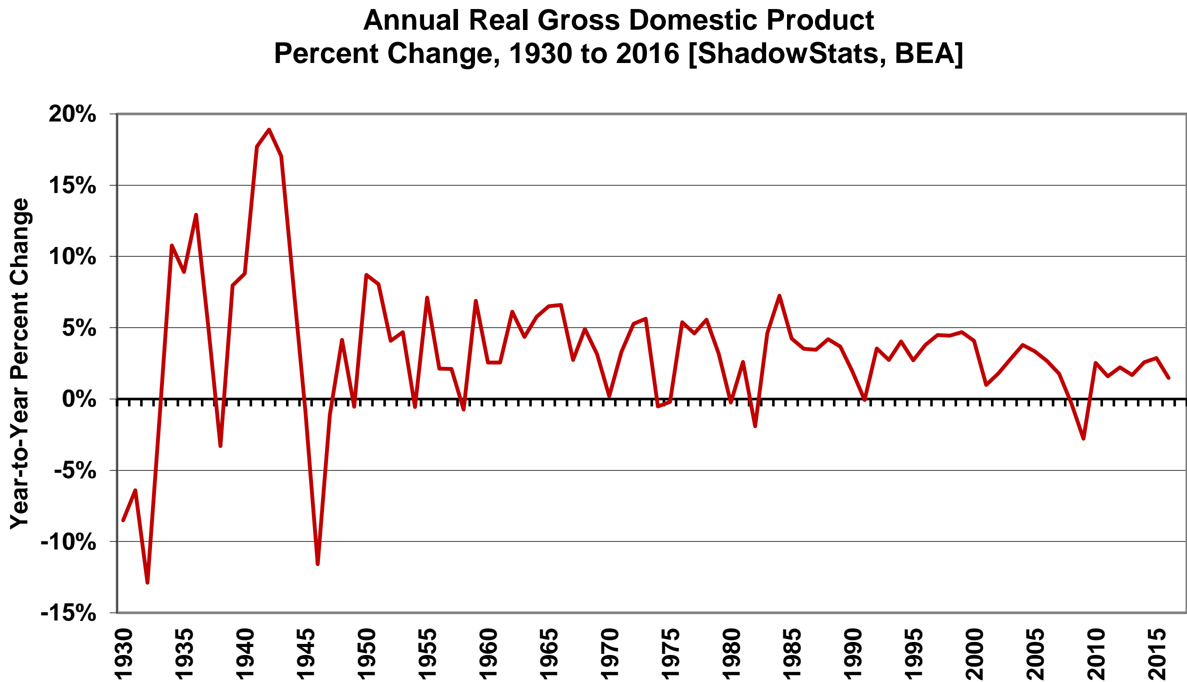
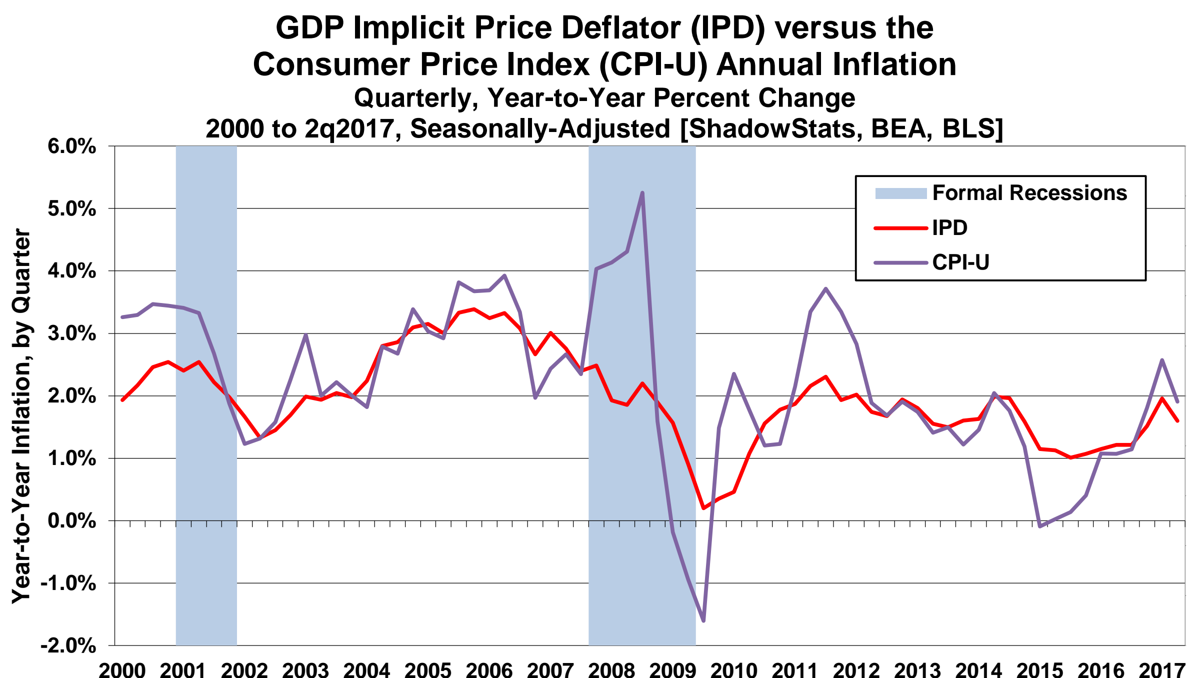
Graph 14: Annual GDP in Billions of 2009 Dollars (1929-2016)



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



Graph 16: Year-to-Year Inflation, Quarterly IPD versus CPI-U, Seasonally-Adjusted (2000-2017)



Implicit Price Deflator (IPD). The second estimate of second-quarter 2017 GDP inflation, or the implicit price deflator (IPD), was a revised 0.96% [previously 1.00%], versus 2.00% in first-quarter 2017, 2.03% in fourth-quarter 2016, 1.37% in third-quarter 2016, 2.43% in second-quarter 2016, 0.25% in first-quarter 2016, 0.82% in fourth-quarter 2015, 1.35% in third-quarter 2015, 2.18% in second-quarter 2015 and down by 0.06% (-0.06%) in first-quarter 2015. This is a broader IPD measure than Personal Consumption IPD use to deflate Per Capita Disposable Personal Income in *Graph OC-1* (heavily correlated with the CPI-U); that is the measure used by the BEA in that particular calculation.

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 quarter, weaker second-quarter inflation effectively accounted for the increased headline gain in quarterly real GDP growth.

Year-to-year, the second estimate of second-quarter 2017 IPD inflation was a revised 1.59% [previously 1.60%], versus annual gains of 1.96% in first-quarter 2017, 1.52% in fourth-quarter 2016, 1.22% in third-quarter 2016, 1.21% in second-quarter 2016, 1.15% in first-quarter 2016, 1.07% in fourth-quarter 2015, 1.01% in third-quarter 2015, 1.13% in second-quarter 2015 and 1.05% in first-quarter 2015. In terms of year-over-year, average annual inflation, the 2016 IPD inflation was 1.11%, versus 1.10% in 2015 and 1.09% in 2014.

For purposes of comparison, the seasonally-adjusted Consumer Price Index CPI-U contracted at an annualized pace of 0.31% (-0.31%) in second-quarter 2017, versus annualized gains of 3.15% in first-quarter 2017, 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 1.91% in second-quarter 2017, versus 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 (see *Graph 16*).

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). Initial second-quarter estimates of GNP and GDI were released this morning, August 30th.

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.

Initial, annualized real second-quarter GNP growth was 2.80%, versus 0.94% in first-quarter 2017, 2.58% in fourth-quarter 2016 and 2.59% in third-quarter 2016. Real year-to-year growth was 2.22% in second-quarter 2017, versus 2.18% in first-quarter 2017, 1.86% in fourth-quarter 2016 and 1.47% in third-quarter 2016.

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.

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. As an indication of the "nonsense" reporting here, the nominal "statistical discrepancy" between the headline level of first-quarter 2017 GDP minus GDI deepened to -328.7 versus a revised -205.7 (previously estimated -124.6) billion dollars in last month's benchmark reporting. That was -102.4 billion dollars in today's revised first-quarter headline detail, with initial second-quarter reporting of -96.0 billion dollars.

Indicative of the lack of reporting stability in all these series, consider that where headline first-quarter 2017 annualized real GDP growth revised to 1.24% from 1.42%, the theoretically-equivalent real GDI revised from 1.01% to 2.63% (now 2.68%), while the broader real GNP revised to 0.94% from 1.07%.

Initial, annualized real second-quarter GDI growth was 2.88%, versus a revised 2.68% in first-quarter 2017, a contraction of 1.66% (-1.66%) % in fourth-quarter 2016 and 4.12% in third-quarter 2016. Real year-to-year growth was 1.98% in second-quarter 2017, versus 1.30% in first-quarter 2017, 0.55% in fourth-quarter 2016 and 1.35% in third-quarter 2016.

ShadowStats Alternate GDP. The ShadowStats-Alternate GDP second-quarter 2017 GDP estimate remains a year-to-year contraction of 1.8% (-1.8%), versus a revised annual GDP headline gain of 2.2%

[previously 2.1%], that was against an unrevised ShadowStats annual decline of 1.9% (-1.9%) in first-quarter 2017, versus an annual real headline GDP gain of 2.0%.

While the annualized, real quarterly growth rate is not estimated formally on an alternate basis, the statistically-insignificant, second-estimate of annualized, headline quarter-to-quarter gain of 3.0% in second-quarter 2017 likely was much weaker, net of all the happy assumptions, regular reporting gimmicks in 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.

[The* Consumer Liquidity Watch *begins on the next page.]

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CONSUMER LIQUIDITY WATCH

CONSUMER LIQUIDITY CONDITIONS: INCOME, CREDIT AND RELATIVE OPTIMISM.

[The Consumer Liquidity Watch *has been updated for the August Consumer Confidence measure.]*

Liquidity Stresses Mounted Amidst Faltering Optimism. The U.S. consumer faces continuing financial stress, increasingly reflected in the renewed softening of headline economic activity, including Real Retail Sales, Home Sales and impacted construction series and as reflected ultimately in affected broader-based economic series such as Industrial Production.

Liquidity Issues Limit Economic Activity. Severe and persistent constraints on consumer liquidity of the last decade or so drove economic activity into collapse through 2009, and those conditions have prevented meaningful or sustainable economic rebound, recovery or ongoing growth since. The limited level of, and growth in, sustainable real income, and the inability and/or unwillingness of the consumer to take on new debt have remained at the root of the liquidity crisis and ongoing economic woes.

These same pocket-book issues contributed to the anti-incumbent electoral pressures in the 2016 presidential race. The post-election environment showed a near-term surge in both the consumer confidence and sentiment measures to levels generally not seen since before the formal onset of the recession in 2002, let alone 2007. Yet, underlying liquidity conditions, economic reality and lack of positive actions out of the government to turn the economy meaningfully, all have continued to remain shy of consumer hopes. Not surprisingly, consumer optimism has begun to falter anew.

Including the various consumer income stresses discussed in *Special Commentary No. 888*, broad, underlying consumer-liquidity fundamentals simply have not supported, and still do not support a turnaround in general economic activity—a post "Great Recession" expansion—and broadly are consistent with a "renewed" downturn in that non-recovered economic activity. Indeed, never truly recovering post-Panic of 2008, limited growth in household income and credit have eviscerated and continue to impair broad, domestic U.S. business activity, which is driven by the relative financial health and liquidity of consumers. These underlying liquidity conditions and reality—particularly income and credit—remain well shy of consumer hopes and needs.

The combined issues here have driven the housing-market collapse and ongoing, long-term stagnation in consumer-related real estate sales and construction activity, and have constrained both nominal and real retail sales. Related, personal-consumption-expenditure and residential-construction categories accounted for 73.1% of the headline real (73.0% of nominal), second-quarter 2017 U.S. GDP.

With the better-quality economic indicators and underlying economic reality never having recovered fully from the collapse into 2009, consumers increasingly should pull back on consumption in the months ahead. Underlying reality is evident in more-meaningful economic indicators—not the GDP—

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irrespective of the transient, gimmicked boosts to, and current headline slowing in, that most worthless of economic series, discussed most recently in *Commentary No. 902-B*.

Consumer Optimism: August Consumer Confidence and Early-August Consumer Sentiment Measures Both Jumped. This detail incorporates the August 2017 reading of The Conference Board's Consumer-Confidence Index® (Confidence) of August 29th, as well as the previously updated early-August 2017 reading for the University of Michigan's Consumer Sentiment Index (Sentiment) of August 18th. Reflected in *Graphs CL-1* and *CL-2*, both Confidence and Sentiment rose in September 2016 and plunged in October, likely reflecting concerns as to the direction of the presidential race. Post-election, both measures rallied sharply, reflecting a surge in consumer optimism into early 2017. Both series appeared to have topped and pulled back in June, but the July Confidence number rebounded anew, with August continuing to rebound, yet with each rebound being on top of a lesser downside revision to the prior month. Where the full-July Sentiment number pulled back, the Early-August Sentiment reading jumped anew. Nonetheless, both the latest Confidence and Sentiment levels remained off their respective post-election, euphoric peaks of March 2017 (Confidence) and January 2017 (Sentiment).

The Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index® (*Graph CL-1*), and the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph CL-2*), again, both soared post-election, into early 2017, with Confidence booming into and topping in March and with sentiment booming into and topping in January 2017. The three-month moving averages in both series also had broken to pre-recession highs, with the Confidence hitting levels not seen since before the 2001 recession, but the moving averages also have begun to falter, although still at high levels.

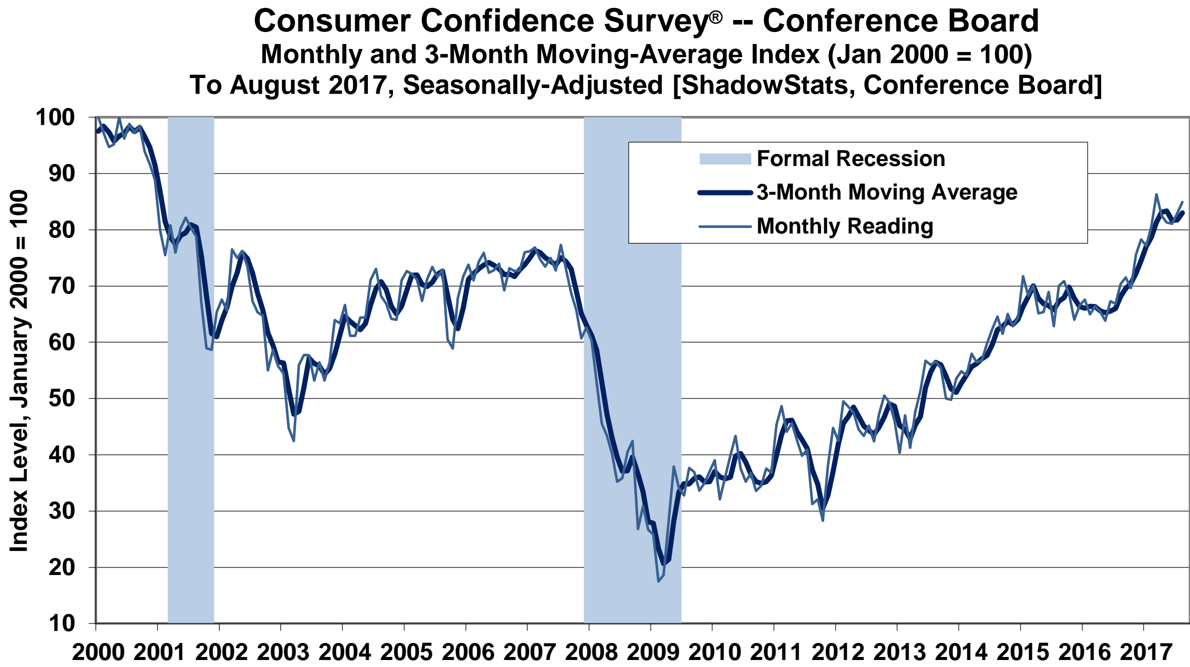
Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs CL-1* to *CL-3* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index® is set with 1985 = 100, while the University of Michigan's Consumer Sentiment Index is set with January 1966 = 100.

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 what should become increasingly-negative, unstable and uncertain headline financial and economic reporting in the months ahead—beyond the early change-in-government euphoria—continued, successive negative hits to both the confidence and sentiment readings remain increasingly likely in the near future.

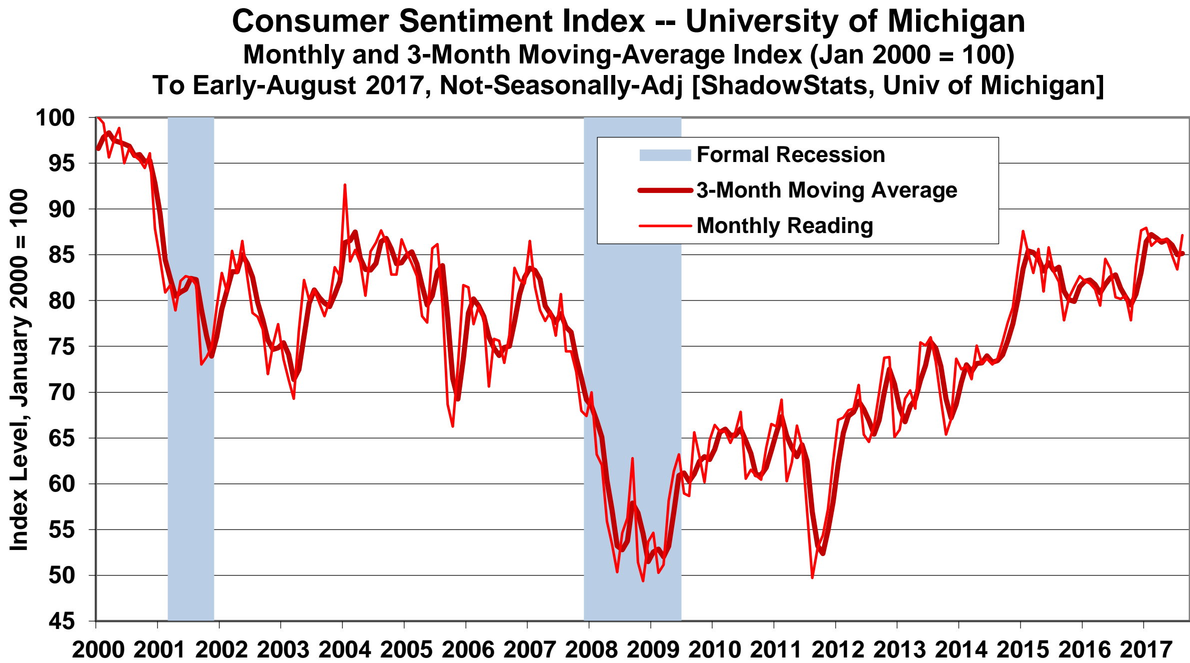
Smoothed for irregular, short-term volatility, the two series still generally had held at levels seen typically in recessions, until the post-2016 election circumstance. Suggested in *Graph CL-3*—plotted for the last 47 years—the latest readings of Confidence and Sentiment recently have recovered levels seen in periods of normal, positive economic activity of the last four decades, with their six-month moving averages at levels last seen going into the 2001 recession, although they appear to be topping out.

Broadly, though, the harder, financial consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth as suggested by headline GDP growth in 2014, for second-and third-quarter 2015 and for third-quarter 2016. Beyond having happy feelings about the future, consumers still need actual income, cash-in-hand or credit in order to increase their spending.

Graph CL-1: Consumer Confidence (2000 to 2017)



Graph CL-2: Consumer Sentiment (2000 to 2017)



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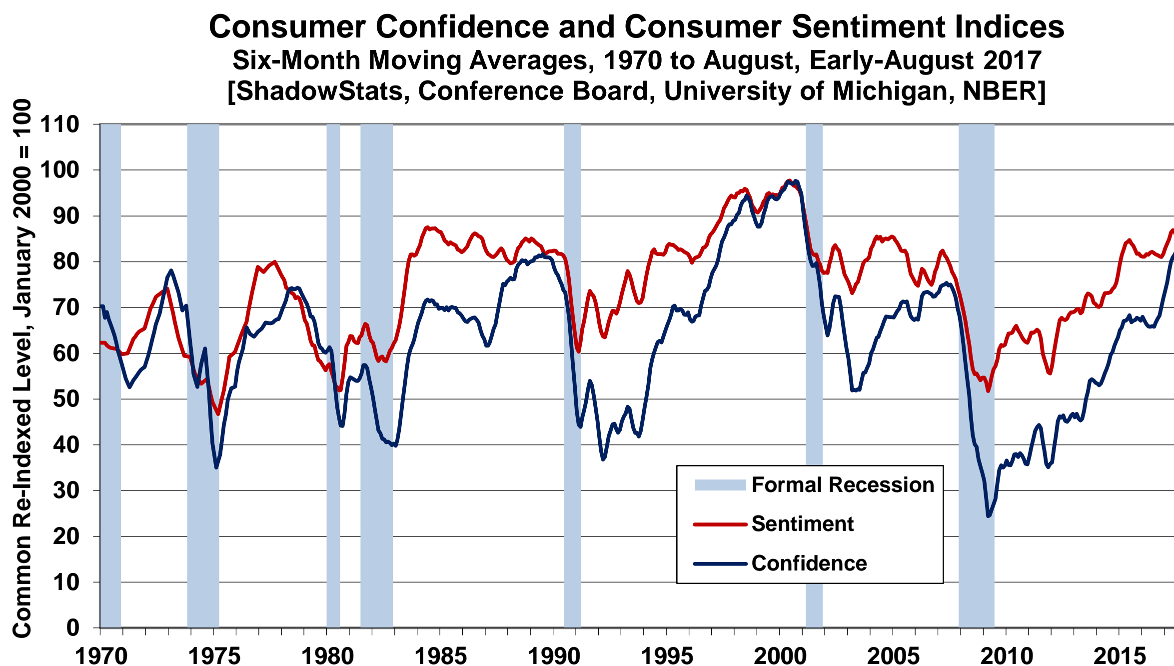
Graph CL-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2017)



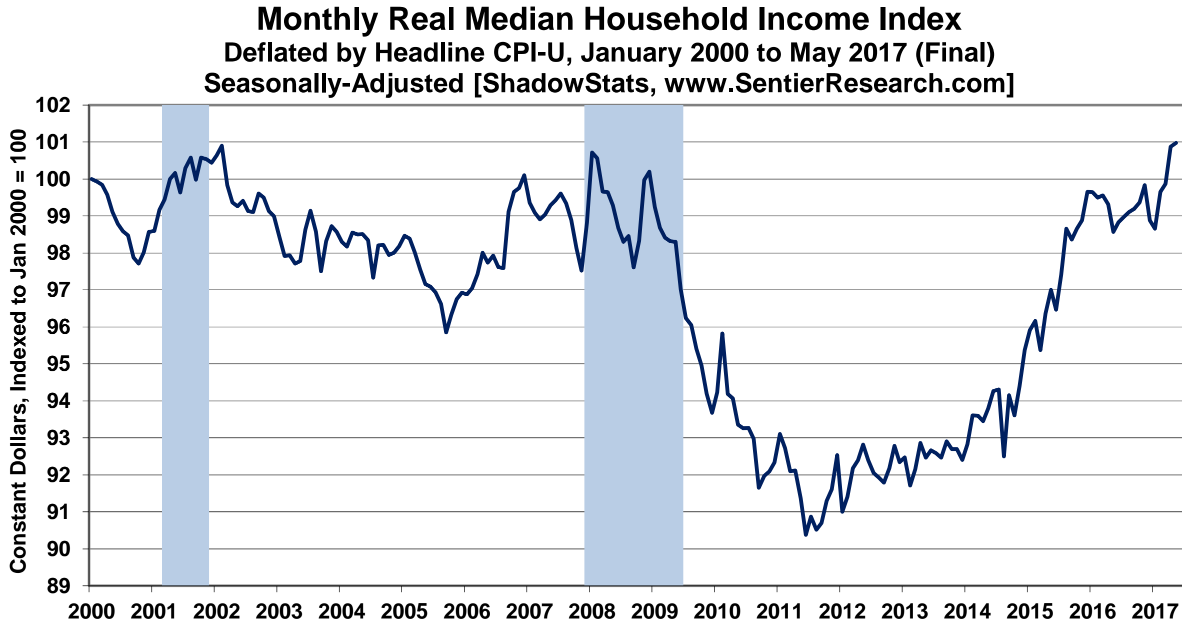
Consumer Income: May 2017 Real Median Household Income Was Statistically Unchanged, Despite a Boost from Falling Gasoline Prices. Discussed in *General Commentary No. 894*, and in the contexts of continued, faltering gains in post-election consumer optimism, and inflation-adjusted activity boosted by declining headline Consumer Price Index (CPI-U) inflation (weakened by seasonally-adjusted gasoline price declines), May 2017 Real Median Monthly Household Income was "statistically unchanged" (a statistically-insignificant monthly gain of 0.10%), as reported by www.SentierResearch.com. That followed a statistically-significant monthly gain of 1.00% in April 2017. Shown in *Graph CL-4*, such enabled May 2017 real monthly median household income to hold a level regained in April and otherwise last seen in February 2002. Year-to-year real median household income rose to 2.44% in May 2017, the highest level since June 2016, following an annual gain of 1.57% in April 2017 (see *Graph CL-5*). The May detail, however, may be the final reporting of the monthly series (see the following *Special Note*).

Where real median income plunged into the headline trough of the economic collapse in 2009, it did not then rebound in tandem with the headline GDP activity. When the GDP purportedly started its solid economic recovery in mid-2009, the monthly household income numbers nonetheless plunged to new lows, hitting bottom in 2011. The income series then held in low-level stagnation, until collapsing gasoline prices and the resulting negative CPI-U inflation drove a post-2014 uptrend in the inflation-adjusted monthly income index. The index approached pre-recession levels in the December 2015 reporting, but it remained minimally below the pre-recession highs for both the formal 2007 and 2001 recessions until recent months. Real median household income had the potential to resume turning down anew, as the headline pace of monthly consumer inflation picked up anew, with the July 2017 CPI.

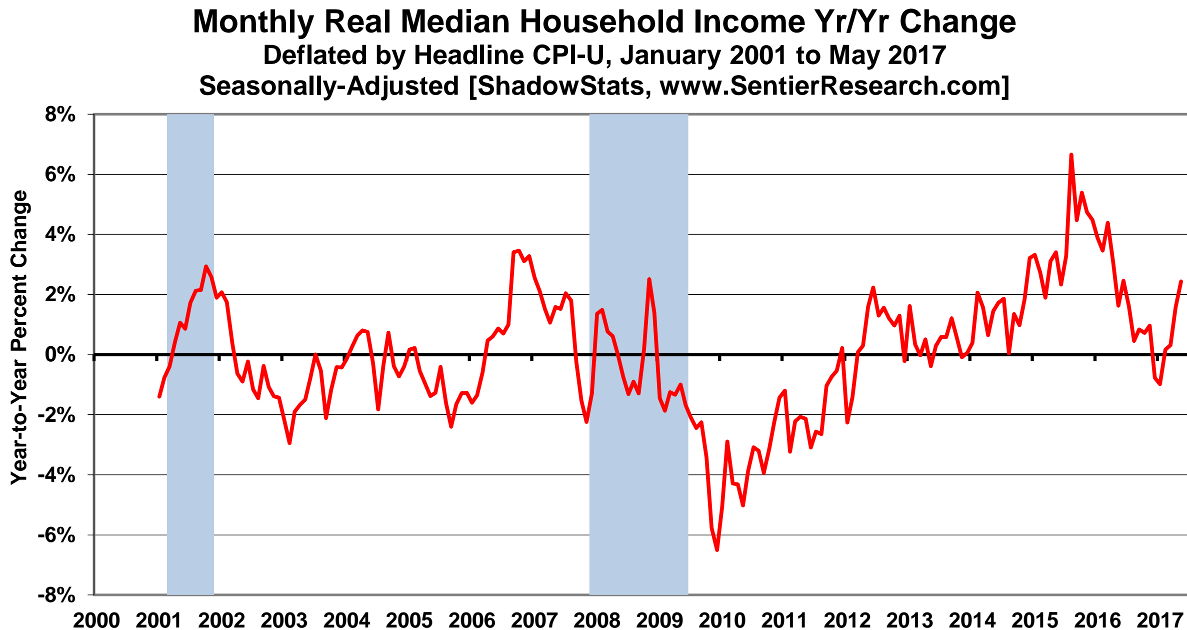
Nonetheless, the most-recent recent "rebound" reported in the series still left consumers financially strapped. Where lower gasoline prices had provided some minimal liquidity relief to the consumer, indications are that any effective extra cash largely was used to help pay down unsustainable debt or other

obligations, not to fuel new consumption. Except for mixed gyrations in first-half 2017, the effects of changing gasoline prices in the headline CPI-U generally had reversed, pushing headline consumer inflation higher and beginning to push real income lower.

Graph CL-4: Monthly Real Median Household Income (2000 to 2017) Index, January 2000 = 100



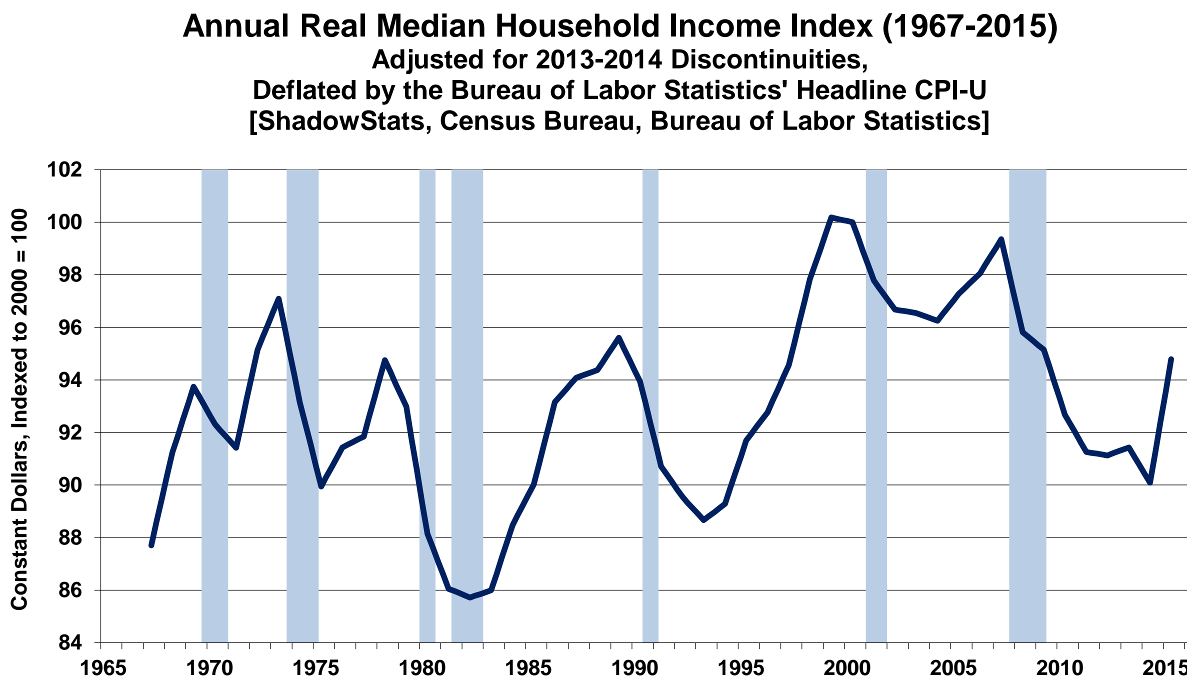
Graph CL-5: Monthly Real Median Household Income (2000 to 2017) Year-to-Year Change



This measure of real monthly median household income generally can be considered as a monthly version of the annual detail shown in *Graph CL-6*, which was updated ten months ago for 2015 detail (see the full analysis of the 2015 annual household income reporting in *Commentary No. 833*, including an analysis of annual detail on income variance or "inequality"). The relative jump seen in the headline annual 2015

median income, despite formal adjustment for discontinuities in the recent annual reporting, was due largely to series redefinitions, not due to a sudden change in consumer liquidity, other than as tied to the collapse in gasoline prices and a related spike in the inflation-adjusted numbers. The level of real annual median household income for 2015, not only was below that seen at the purported trough of the economic collapse into 2009, but also it was below levels seen in the early-1970s and the late 1980s.

Graph CL-6: Annual Real Median U.S. Household Income (1967 to 2015)



***Special Note*:** Accompanying the release of the May 2017 data by Sentier Research was this Notice of Final Report:

> Dear Friends, This will be our final report in the monthly series of median household income. We can no longer afford to provide these estimates given our current level of resources. We believe, as we hope you do, that these estimates provided an important new dimension regarding the economic situation of American households as we slowly climbed out of the Great Recession. The story continues but we must move on. Our hope is that someone will be able to continue this work. Should you or someone you know be interested please contact us. Thanks to all of you for your kind support.. John and Gordon

ShadowStats hopes a circumstance will unfold that enables continued reporting of this extraordinarily valuable and timely indicator of consumer liquidity. Gordon Green and John Coder, the authors of the monthly report, both are former senior officials at the U.S. Census Bureau and have a unique understanding of the underlying monthly data. The Census Bureau publishes a broadly-similar series on an annual basis, but with an extraordinary time lag. The 2016 Census annual detail is due for release and publication in September 2017. Again, see *Commentary No. 833* for the 2015 detail published in 2016.

Differences in the Monthly versus Annual Median Household Income. The general pattern of relative historical weakness also has been seen in the headline reporting of the annual Census Bureau numbers,

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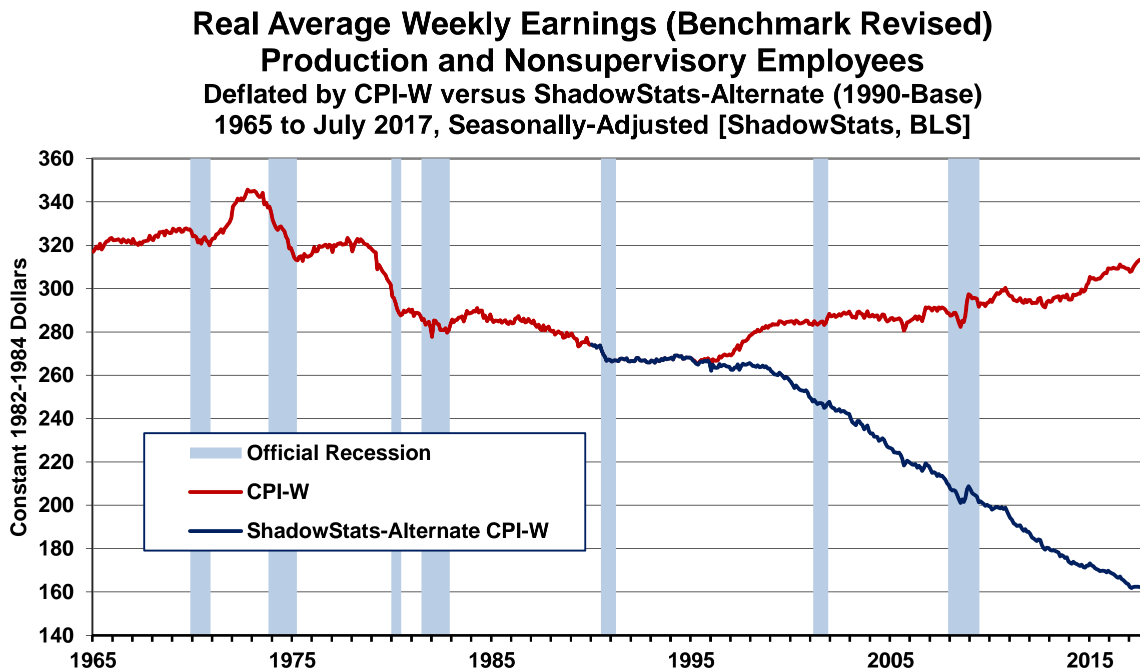
again, shown in preceding *Graph CL-6*, with 2014 real annual median household income having hit a ten-year low, and, again, with the historically-consistent 2015 annual number still holding below that seen when the collapsing economy hit its purported trough in 2009. The Sentier numbers had suggested a small increase in 2014 versus 2013 levels. Still, the monthly and annual series remain broadly consistent, although based on separate questions within the monthly Consumer Population Series (CPS), as conducted by the Census Bureau.

Where Sentier used monthly questions surveying current annual household income, the headline annual Census Bureau detail is generated by a once-per-year question in the March CPS survey, as to the prior year's annual household income. The Median Household Income surveying results are broadly consistent with Real Average Weekly Earnings.

Real Average Weekly Earnings—July 2017—Month-to-Month Real Earnings Rose. For the production and nonsupervisory employees category—the only series for which there is a meaningful history (see the full discussion on page 12 of *Special Commentary No. 904*), the regularly-volatile real average weekly earnings were up by 0.18% in July 2017 (as reported by the Bureau of Labor Statistics on August 11th). That was against a downwardly-revised 0.27% monthly gain in June and a revised 0.34% gain in May. The adjusted July 2017 year-to-year real change slowed to 0.71%, versus a revised 1.14% in June 2017 and a revised 0.89% gain in May 2017.

Graph CL-7: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date



Based solely on volatile initial reporting for July 2017, the early-trend for real third-quarter 2017 activity was for an annualized real quarterly gain of 1.89%. Second-quarter 2017 activity reflected a revised, annualized real quarterly gain of 4.49%, following unrevised contractions in first-quarter 2017 of 1.13% (-1.13%), in fourth-quarter 2016 of 1.36% (-1.36%), third-quarter 2016 growth of 1.48%, a second-quarter 2016 contraction of 0.11% (-0.11%) and first-quarter 2016 annualized growth of 1.81%.

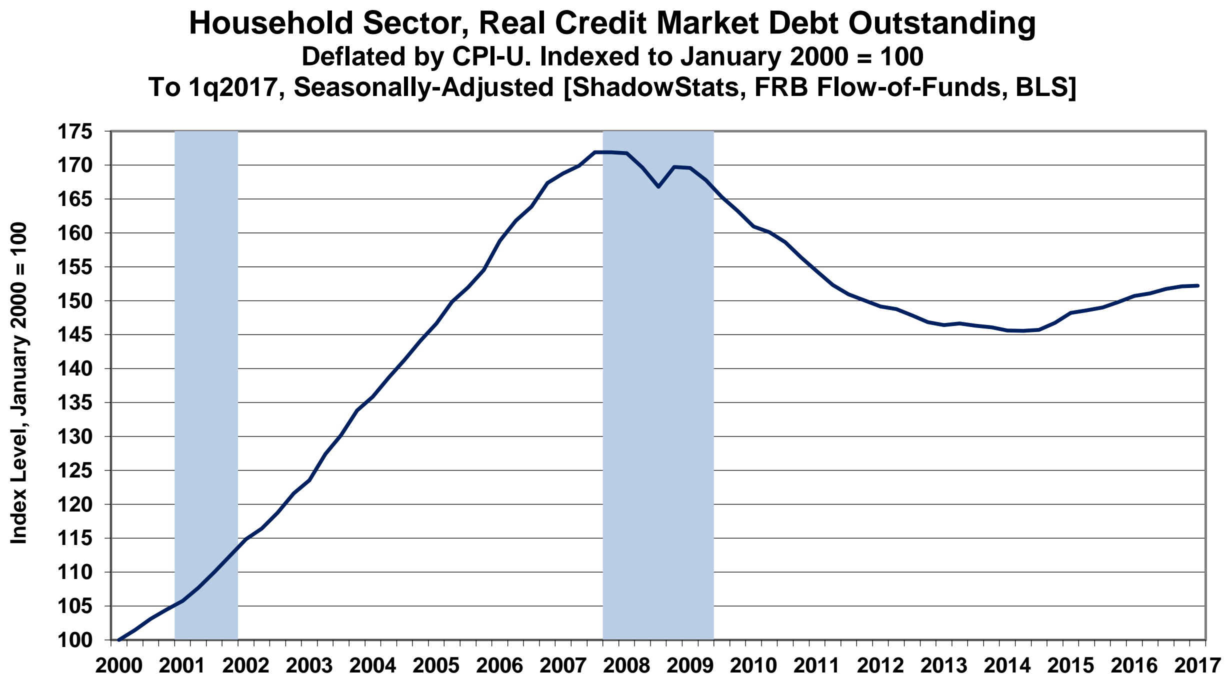
The early-trend for third-quarter 2017 year-to-year real earnings growth was 0.94%, while second-quarter 2017 earnings rose by a revised 0.84%, following an unrevised annual contraction of 0.29% (-0.29%) in first-quarter 2017, the first annual or year-to-year quarterly contraction since fourth-quarter 2012, when the real GDP effectively was unchanged quarter-to-quarter. The signal there highlighted financial stresses on the consumer and major downside risk to headline real GDP reporting.

The 2015 rally in real annual income and the subsequent slowdown in latter 2016 and pickup in 2017 pickup all were tied and continue to be tied directly to the impact of irregularly-collapsing/rising gasoline prices, with subsequent rebound/decline in inflation-adjusted income.

Graph CL-7 plots the seasonally-adjusted earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating Social Security cost-of-living adjustments) helped to prop up the reported real earnings. Official real earnings today still have not recovered their inflation-adjusted levels of the early-1970s, and, at best, have been in a minimal uptrend for the last two decades (albeit spiked recently by negative headline inflation). Deflated by the ShadowStats (1990-Based) measure, real earnings have been in fairly-regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W. See the *Public Commentary on Inflation Measurement* for further detail.

Consumer Credit: Lack of Meaningful Real Consumer Credit Growth Remains an Economic Constraint. The final four graphs on consumer conditions address consumer borrowing. Where debt expansion can help make up for a shortfall in income growth, adequate expansion of consumer debt, which would help fuel growth in personal consumption, has been lacking.

Graph CL-8: Household Sector, Real Credit Market Debt Outstanding (2000 through First-Quarter 2017)



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Consider *Graph CL-8* of *Household Sector, Real Credit Market Debt Outstanding*. The level of real household debt declined in the period following the Panic of 2008, reflecting loan defaults and reduced banking lending, and it has not recovered fully, based on the Federal Reserve's flow-of-funds accounting through first-quarter 2017. Household Sector, Real Credit Market Debt Outstanding in first-quarter of 2017 still was down by 11.5% (-11.5%) from its pre-recession peak of third-quarter 2007, the same as in fourth-quarter 2016.

The series includes mortgages, automobile and student loans, credit cards, secured and unsecured loans, etc., all deflated by the headline quarterly CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting, among other issues, lack of normal lending by the banking system into the regular flow of commerce. The slight upturn seen in the series through 2015 and into 2016 was due primarily to gasoline-price-driven, negative CPI inflation, which continued to impact the system through second-quarter 2016. Current activity also has reflected continued relative strength from student loans, as shown in the *Graphs CL-9* to *CL-11*.

The ShadowStats analysis usually focuses on the particular current weakness in monthly levels of consumer credit, net of what has been rapidly expanding government-sponsored student loans. Where detail on that series is only available not-seasonally-adjusted, the following graphs are so plotted.

Shown through the latest reporting (June 2017), *Graph CL-9* of monthly Consumer Credit Outstanding is a subcomponent of *Graph CL-8* on real Household Sector debt. Where *Graph CL-9* reflects the nominal reporting, not adjusted for inflation, inflation-adjusted real activity for monthly Consumer Credit Outstanding is shown in terms of both level (Graph CL-10) and year-to-year change (*Graph CL-11*).

Post-2008 Panic, growth in outstanding consumer credit has continued to be dominated by growth in federally-held student loans, not in bank loans to consumers that otherwise would fuel broad consumption or housing growth. Although in slow uptrend, the nominal level of Consumer Credit Outstanding (ex-student loans) has not recovered since the onset of the recession. These disaggregated data are available and plotted only on a not-seasonally-adjusted basis, with the pattern of monthly levels during one year reflecting some regular, unadjusted seasonal dips or jumps.

Adjusted for inflation, the lack of recovery in the ex-student loan area is more obvious. Although the recent monthly dips in the not-seasonally-adjusted consumer credit reflect a seasonal pattern, the pace of year-to-year growth continues to slow, suggesting some tightening of credit conditions. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in June 2017 (released August 7th) was down from its December 2007 pre-recession peak by 12.3% (-12.3%). Year-to-year growth in *Graph CL-11* tends to resolve most of the monthly distortions in the not-seasonally-adjusted data.

[Graphs CL-9 to CL-11 begin on the next page.]

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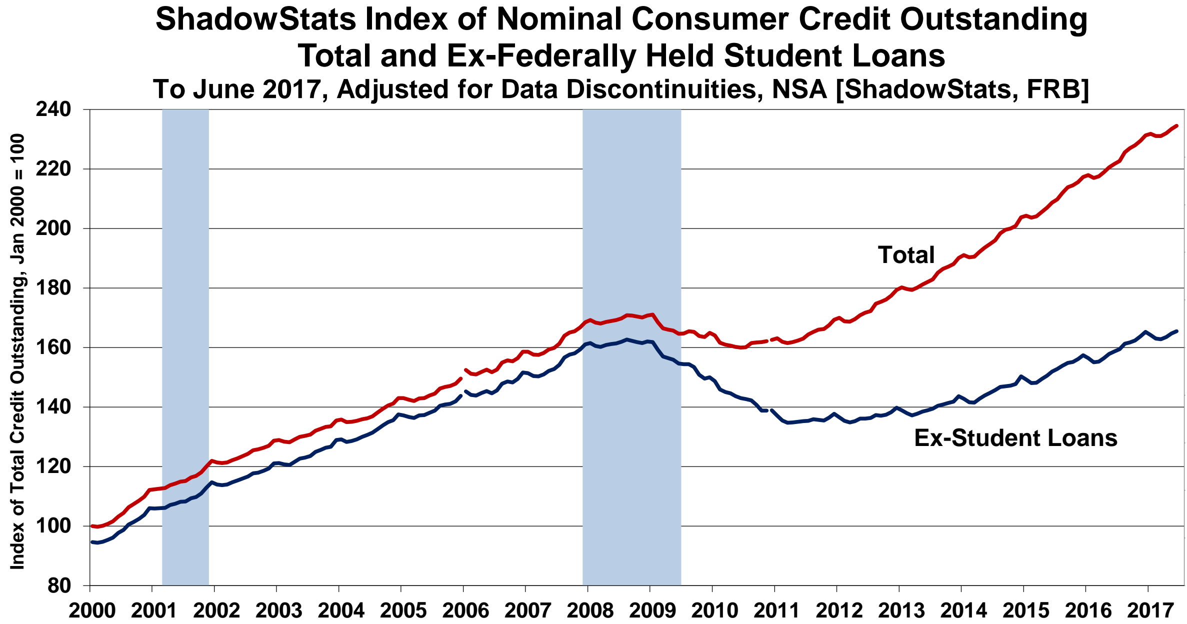
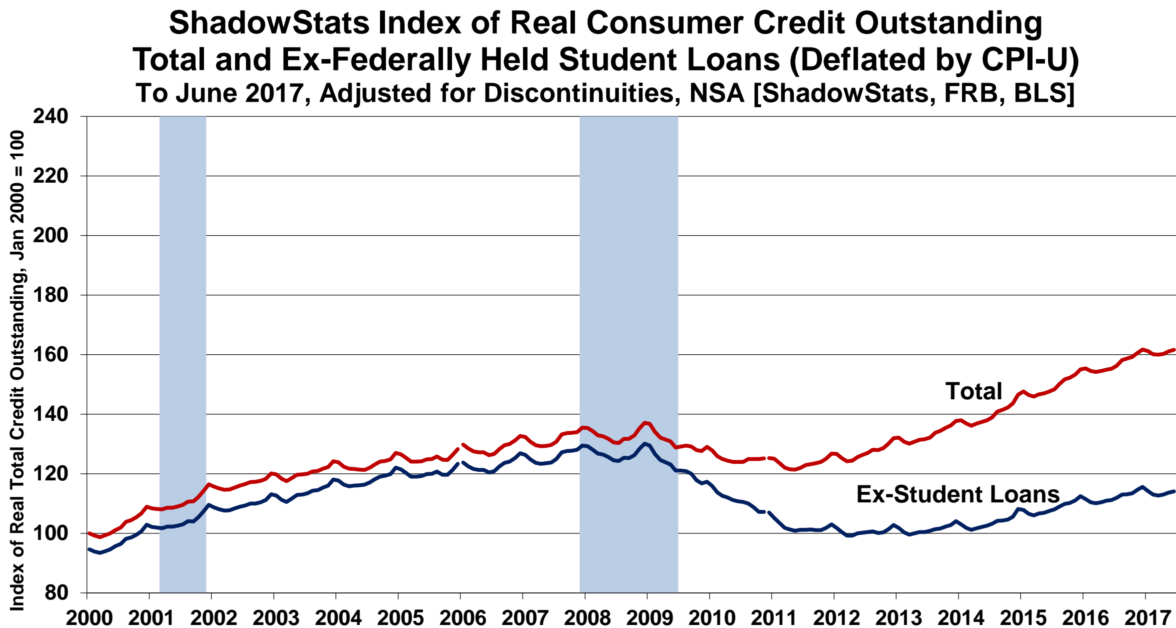
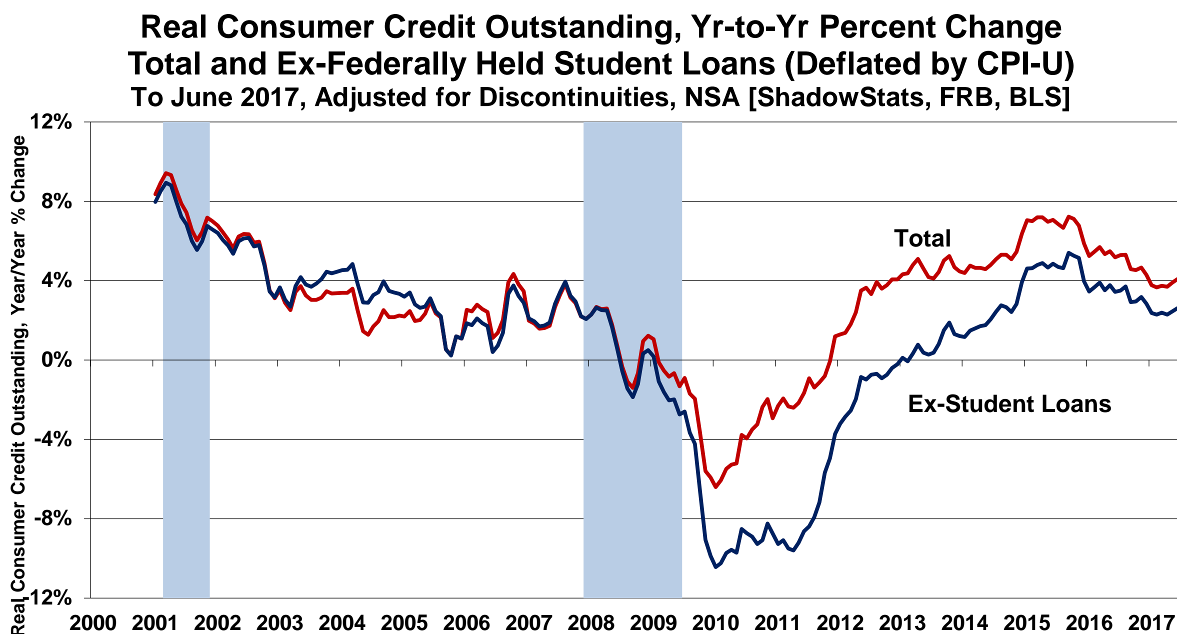
Graph CL-9: Nominal Consumer Credit Outstanding (2000 to 2017)



Graph CL-10: Real Consumer Credit Outstanding (2000 to 2017)



Graph CL-11: Year-to-Year Percent Change, Real Consumer Credit Outstanding (2000 to 2017)



WEEK, MONTH AND YEAR AHEAD

Exacerbated by Deteriorating Domestic and Global Political Circumstances, Continued Softening of Underlying Economic Activity Should Compromise Fed Policies, Pummel the Dollar, Boost the Price of Gold and Foster Other Financial-Market Turmoil. Irrespective of the stronger GDP data in today's (August 30th) headline reporting, meaningful new data will be published in the week ahead, and some downside shocks easily may be in the offing. Accordingly, there are no meaningful revisions to the text here, other than for the *Pending Releases.* Supplemental to the *Opening Comments* and *Hyperinflation Watch* of the August 14th *Special Commentary No. 904* and the *Opening Comments* of *Commentary No. 905*, underlying reality remains a weakening and vulnerable, seriously-impaired U.S. economy, as seen, for example in the latest housing and construction series. Key economic releases in the week and month ahead are at high risk of disappointing market expectations, where weaker-than-expected reporting likely would intensify/accelerate the negative shift in market economic outlook.

With that circumstance threatening a change in FOMC policy, combined with the mounting political discord discussed in *Special Commentary No. 904* (see also the *Opening Comments* of *Commentary No. 901* and *Special Commentary No. 888*), odds continue to mount for financial-market turmoil in the near future, particularly as would be triggered by a market-related, heavy sell-off in the U.S. Dollar.

Irrespective of the GDP benchmarking, subsequent and the heavily-gimmicked July labor numbers discussed in *Commentary No. 902-B* and *Commentary No. 903*, broad economic activity never has recovered fully recovered from its crash into 2009, and it has started to turn down anew. As explored previously in the *Hyperinflation Watches* of *Commentary No. 899* and *General Commentary No. 894*, and further to the *Opening Comments* and *Hyperinflation Watch* of *Commentary No. 892*, headline economic reporting during June, July and early August of 2017, has shown a marked downturn versus consensus forecasts. While these circumstances usually signal an unfolding, major downshift in underlying economic reality, at present, they also forewarn of a potential shift in FOMC activity. Where such an event remains well removed from consensus expectations, at this time, in terms of Fed policy, that would mean a cessation of incremental rate hikes and a shift back towards expanded quantitative easing.

Immediate effects of such a policy change likely would include 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. As consensus economic forecasts have begun to soften, so too has the U.S. dollar exchange rate, while gold prices generally have firmed.

The circumstances here and the outlook still remain as broadly outlined in *No. 859 Special Commentary*; currently shifting headlines only reflect the continued 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 continued unfolding of "unexpected" economic deterioration suggests that the next major systemic financial crisis is likely to break in the next several months.

Separately, recent benchmark revisions to Construction Spending (see *Commentary No 897*), the Trade Deficit (*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*), and reporting subsequent to the benchmarks, broadly have confirmed that historical activity in recent years has been overstated and/or that it is turning down anew, particularly in 2015, with the availability of better-quality historical detail. Again, that is despite recent near-term improvement in some headline details, such as the headline unemployment rate, which increasingly suffers from dysfunctional definitional and sampling issues, and the latest headline GDP detail.

The reporting patterns of the better-quality, less-gimmicked series 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 latest GDP reporting shows an otherwise unconfirmed economic expansion of 13.5%.

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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. Increasing 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 they 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 the outlook for 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 not 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: *Commentary No. 902-B*, *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 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. *[Listed here are* Commentaries *of the last month, plus recent* Special Commentaries *and others covering a variety of non-monthly issues, including annual benchmark revisions, dating back through the beginning of 2017. Please Note: Complete ShadowStats archives back to 2004 are found at www.ShadowStats.com (left-hand column of home page).]*

Commentary No. 906 (August 25th) covered July 2017 New Orders for Durable Goods and New- and Existing-Home Sales, with further discussion of the unfolding "new" downturn in economic activity.

Commentary No. 905 (August 17th) reviewed the headline detail of for July 2017 Industrial Production, Retail Sales (Nominal and Real), New Residential Construction and the Cass Freight Index™.

Special Commentary No. 904 (August 14th) issued an "Alert" on the financial markets (including U.S. equities, the U.S. dollar gold and silver, as well as FOMC policy), in the context of historical activity and unfolding circumstances of deteriorating economic and political conditions. Separately, headline details were reviewed for the July Consumer Price Index (CPI) and the Producer Price Index (PPI).

Commentary No. 903 (August 7, 2017) discussed new signals of economic deterioration in terms of political and FOMC considerations, along with headline coverage of the July labor data, M3 and The Conference Board Help Wanted OnLine®, and June trade deficit and construction spending.

Commentary No. 902-B (July 31, 2017) reviewed the 2017 annual benchmark revisions of GDP and related series, along with the "advance" estimate of second-quarter 2017 GDP.

Advance Commentary No. 902-A (July 28, 2017) provided an initial assessment and highlights of the first-estimate of Second-Quarter 2017, along with the accompanying annual benchmark revisions, more-fully reviewed in *Commentary No. 902-B*.

Commentary No. 901 (July 27, 2017) discussed possible financial-market impact on continuing political discord in Washington, and reviewed the June 2017 Cass Freight Index, New Orders for Durable Goods and New- and Existing Home Sales.

Commentary No. 900 (July 19, 2017) reviewed June 2017 New Residential Investment (Housing Starts and Building Permits), and previewed the upcoming annual GDP benchmark revisions and the coincident "advance" estimate of second-quarter 2017 GDP.

Commentary No. 899 (July 17, 2017) covered headline June 2017 Retail Sales, Industrial Production, the Consumer Price Index (CPI) and the Producer Price Index (PPI), along with a review of current circumstances affecting the markets, U.S. dollar, gold and silver and the FOMC.

Commentary No. 897 (July 6, 2017) reviewed the headline May 2017 Construction Spending and the annual revisions to same, along the May Trade Deficit, and June The Conference Board Help Wanted OnLine® Advertising and the May Cass Freight Index™.

Commentary No. 896 (June 29, 2017) reviewed the third estimate of first-quarter 2017 GDP.

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. 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.

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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.

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.

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. 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 New- and Existing-Home Sales.

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™.

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.

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.

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: ***Updated*** **- Employment and Unemployment (August 2017) and the "Advance" 2017 Payroll Employment Benchmark Revision.** 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 August 2017 labor data on Friday, September 1st. Separately, the BLS will release its 2017 summary benchmark revisions to Payroll Employment on Wednesday September 6th. The August monthly labor data will be highlighted in the *"Advance" Commentary No. 908-A* of September 1st, with full coverage along with details of the benchmarking data in *Commentary No. 908-B* of September 6th.

Both the more-inclusive unemployment-rate numbers, as well as the headline payroll-employment details, remain open for negative headline surprises in August, given the increasingly stagnant-to-weakening tone in a number of the better business indicators.

Specifically, headline detail likely should turn weaker, despite relatively neutral consensus expectations for a gain of 175,000 to 185,000 in payroll jobs—in the realm of recent reporting—versus the heavily-

bloated, headline monthly gain of 209,000 in July. There is a fair chance that headline growth, well below consensus, would push annual growth down to a clear recession signal.

Separately, the outlook for the headline U.3 unemployment rate appears to be for it to hold at the July level of 4.3%. Nonetheless, month-to-month, seasonally-adjusted headline unemployment-rate details are not comparable, as discussed in the usual monthly *Commentaries* covering the series, and recent lows have stretched series credulity—severely—irrespective of the various reporting gimmicks.

Due to the excessively-positive bias factors regularly built into the headline monthly payroll employment numbers, the annual benchmark revisions usually are to the downside.

***Updated* - Construction Spending (July 2017).** The Commerce Department will release its estimate of July 2017 construction spending on Friday, September 1st. Detail will be highlighted in *"Advance" Commentary No. 908-A* of that date, with full coverage in *Commentary No. 908-B* of September 6th. The June 2017 release (see *Commentary No. 903*) provided a number of signals for an intensifying downturn in the construction industry. Barring major upside revisions to this regularly-volatile series, serious signals of a new, unfolding industry downturn are fair bet, particularly in real terms, net of inflation. After falling last month, headline nominal spending is expected to increase month-to-month, but such likely would not exceed monthly, and almost certainly would not exceed year-to-year estimates of July construction inflation.

***Updated* - U.S. Trade Deficit (July 2017).** The Commerce Department and Bureau of Economic Analysis (BEA) will release their full version of the monthly U.S. trade balance for July 2017, on Wednesday, September 6th, to be covered in ShadowStats *Commentary No. 908-B* of that date. Based on an unexpected widening in the often-worthless "advance" estimate of August 28th, two days before the GDP revision, July exports of Automobiles fell at a faster pace than July imports of automobiles. Irrespective of this "advance" guessing, the headline monthly trade detail is due for some net deterioration, and that is a fair bet for the July 2017 full headline reporting.

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