

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

COMMENTARY NUMBER 913

Second-Quarter 2017 Gross Domestic Product (GDP), Third Estimate

September 28, 2017

Unusual Labor Statistics Ahead?

Second-Quarter 2017 GDP Growth

Revised to 3.06% (Previously 3.03%), Versus 1.24% in First-Quarter

Second-Quarter Gross Domestic Income (GDI)

Revised to 2.89% (Previously 2.88%), Versus 2.68% in First-Quarter

Second-Quarter Gross National Product (GNP)

Revised to 2.77% (Previously 2.80%), Versus 0.94% in First-Quarter

Better-Quality Measures than the Upwardly-Biased GDP Series

Show No Full Recovery from the Collapse into 2009 and No Economic Expansion, with Stagnant Real-World Activity Turning Increasingly to Renewed, Deepening Downturn

PLEASE NOTE: The next regular Commentary, Thursday, October 5th, will cover the August Trade Deficit and Construction Spending, followed by a Commentary on October 6th, covering the September 2017 Employment and Unemployment detail.

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

Today's (September 28th) *Opening Comments and Executive Summary*. The *Opening Comments* discusses the general economic circumstance, including some potentially unusual labor data in the week ahead. The *Executive Summary* covers highlights of the third estimate of Second-Quarter 2017 Gross Domestic Product (GDP) and headline detail on the second estimates of Second-Quarter Gross Domestic Income (GDI) and Gross National Product (GNP).

The *Reporting Detail* (page 14) provides a more-detailed analysis of the headline third estimate of Second-Quarter 2017 GDP and second estimates of the GDI and GNP.

The *Consumer Liquidity Watch* (page 23) provided as general background material has not been revised since its prior version in *Commentary No. 912*.

The *Week, Month and Year Ahead* (page 33) provides links to recent *Commentaries* and previews next week's September employment and unemployment and the August trade deficit and construction spending details.

OPENING COMMENTS AND EXECUTIVE SUMMARY

Near-Term Headline Economic Activity May Be Unusual. In the context of the August 14th "Alert," incorporated here by reference (see [Special Commentary No. 904](#)), pre-hurricane headline economic details broadly have continued to show downturns and downside revisions, in series such as payroll employment, retail sales and statistics related to the housing market. Other series such as manufacturing and durable goods orders have remained stagnant, never having recovered pre-recession highs from before the economic collapse into 2009.

Deteriorating, underlying economic fundamentals have not changed, but a short-lived wildcard has been added to the headline circumstance, from looming hurricane impact on near-term monthly economic data. At the same time, recent comments by the Fed Chair are suggestive of weaker-than-anticipated headline labor data ahead, separate from considerations of heavy weather distortions.

Discussed in the *Opening Comments* of yesterday's (September 27th) [Commentary No. 912](#), headline economic detail in the next several months should reflect mixed impact from damages done in the United States by Hurricanes Harvey and Irma. Reconstruction and rebuilding should offer relatively fast, positive offsets to negative, downside disruptions in production and normal business activity. Headline September labor conditions, due for release next Friday, October 6th, will be the first major series to show full impact from storm-related damages (see discussion in the *Week, Month and Year Ahead* section).

Separately, unusual remarks by Federal Reserve Chair Janet Yellen, before National Association for Business Economics on September 26th, have received some press. In particular, she noted, "My colleagues and I may have misjudged the strength of the labor market, the degree to which longer-run inflation expectations are consistent with our inflation objective, or even the fundamental forces driving inflation."

ShadowStats position on the Fed’s “misreading” of the labor market is discussed regularly in the monthly *Commentaries* covering headline employment and unemployment data out of the Bureau of Labor Statistics (BLS), as seen for example in [Commentary No. 908-B](#). Chair Yellen’s comments were unusual enough to suggest the potential that some weakening, headline employment and unemployment detail may be in the offing. That circumstance combined, with hurricane distortions, provides the opportunity for near-term, weather-related alibis for otherwise weakened economic statistics. Within several months, though, weather-related gyrations will have smoothed out and the still-faltering, non-recovering broad economic trends will remain and visibly intensify.

With that as background, consider that today’s headline GDP revisions, aside from coming in at consensus expectations, were absolutely minimal, across-the-board, not only mirrored in the related GDI and GDP series, but even in the growth distribution of the major GDP components. As a result, the descriptive text here on the headline GDP reporting is not much changed from last month’s version, although there are some twists, and all the data and graphs reflect the latest material. For example, while the headline real GDP detail was little changed, such was in the context of a small upside revision to nominal (not adjusted for inflation) GDP growth, which was offset directly by an upside revision to the GDP’s inflation measure, the Implicit Price Deflator (IPD), which brought real growth back to non-revised levels.

EXECUTIVE SUMMARY: Gross Domestic Product (GDP)—Second-Quarter 2017, Third Estimate—Effectively Unrevised, Strong 3.06% Annualized Growth Continued to Run Counter to Anecdotal Evidence and Common Experience; Detail Fraught with Gimmicks and Real World Contradictions. In the context of the July 28th annual GDP benchmark revisions, through first-quarter 2017, the “advance” estimate of second quarter GDP (see [Commentary No. 902-B](#)) and the subsequent second estimate of second-quarter 2017 GDP (see [Commentary No. 907](#)), the third-estimate of second-quarter 2017 GDP showed a negligibly-revised, statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 3.06% [previously 3.03%, initially 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 was a revised 2.21% [previously 2.20%, initially 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, Third Estimate – Growth Distribution. The third estimate of second-quarter 2017 GDP revised negligibly higher to 3.06%, from 3.03% [initially reported at 2.57%], which matched consensus expectations of 3.0% to 3.1%. That minimally adjusted aggregate growth 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 (net exports) and government spending is additive, summing in combination to the total headline change in GDP, where $2.24\% + 0.64\% + 0.21\% - 0.03\% = 3.06\%$ (see *Table 1* for further background).

Regrouped by the general nature of product sector activity, the third estimate was that the headline second-quarter 2017 GDP gain of 3.06% encompassed a growth-rate contribution of 1.32% from the services sector, 2.10% from the goods sector and a negative contribution of 0.36% (-0.36%) from the structures sector. [Commentary No. 896](#) of June 29th detailed the growth-distributions for the pre-benchmark, third estimate of first-quarter 2017 GDP (see *Table 1* for subsequent benchmark revisions and headline reporting).

Table 1: Recent Quarterly Comparisons of GDP 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 Third Estimate	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	1.16%	1.27%	1.02%	0.15%	1.03%	0.69%
- Services	1.08%	1.00%	0.91%	1.17%	0.97%	1.23%
Gross Private Domestic Investment						
- Fixed Investment	0.53%	0.58%	0.36%	1.27%	0.28%	0.23%
- Change in Private Inventories	0.12%	0.02%	-0.02%	-1.46%	1.06%	0.16%
Net Exports of Goods and Services	0.21%	0.21%	0.18%	0.22%	-1.61%	0.36%
Government Consumption/Investment	-0.03%	-0.05%	0.12%	-0.11%	0.03%	0.09%
GDP Annualized Real Growth	3.06%	3.03%	2.57%	1.24%	1.76%	2.78%
Final Sales, GDP Less Inventories	2.94%	3.01%	2.59%	2.70%	0.70%	2.62%
CONTRIBUTING PRODUCT SECTOR						
Goods	2.10%	2.13%	1.62%	-0.47%	0.88%	1.39%
Services	1.32%	1.30%	1.22%	0.91%	0.61%	1.39%
Structures	-0.36%	-0.39%	-0.27%	0.80%	0.27%	0.01%
GDP Annualized Real Growth	3.06%	3.03%	2.57%	1.24%	1.76%	2.78%
Sources: Bureau of Economic Analysis (BEA), ShadowStats.						

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 second revision to second-quarter growth was negligible.

- **Consumer Spending Contributed 2.24% [Previously 2.28%, Initially 1.93%] to Second-Quarter 2017 Growth; First-Quarter 2017 Growth Contribution Was 1.32%.** Consumer spending remained dominated by motor-vehicle sales, despite continuing, related downside revisions in that period to manufacturers' orders, shipments and to both imports and exports, along with unseasonably-strong electricity consumption. Healthcare activity had taken an unusual hit in the prior reporting, but that recovered to a gain in the second revision.

- ***Business/Residential Investment Contributed 0.64% [Previously 0.60%, Initially 0.34%] to Second-Quarter 2017 Growth, Subtracted 0.20% (-0.20%) from First-Quarter 2017 Growth.*** Minimally revised, nonresidential structures still surged in the quarter, contrary to private indications. Such was helped by gains in intellectual property. Strength in equipment purchases, however, still accounted for the bulk of the growth in this economic sector. Inventory change increased from a 0.02% contribution to 0.12%, which left headline final sales—GDP growth net of inventory change—at an annualized quarterly growth rate of 2.94% [previously 3.01%].
- ***Net Exports Contributed 0.21% [Previously 0.21%, Initially 0.18%] to Second-Quarter 2017 Growth, Contributed 0.22% to First-Quarter 2017 Growth.*** Still running counter to more-negative headline indications, net-export activity remained in unrevised positive territory, reflecting what eventually should prove to faux trade surpluses in the recent quarter.
- ***Government Spending Subtracted 0.03% (-0.03%) [Previously Subtracted 0.05% (-0.05%) Initially Contributed 0.12%] from Second-Quarter 2017 Growth, Subtracted 0.11% (-0.11%) from First-Quarter 2017 Growth.*** Federal government spending remained a 0.13% contribution to headline second-quarter GDP growth, more than accounted for by defense spending. A more than offsetting, minimally-narrowed, negative-growth contribution of 0.16% (-0.16%) 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 third estimate of second-quarter 2017 real GDP growth at 3.06% 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, with some offset from declining local government investment. *Table 1* shows comparative growth contributions with recent quarters.

Second-Quarter 2017 Implicit Price Deflator (IPD) and Gross National Product (GNP)/Gross Domestic Income (GDI). The third-estimate of the annualized quarterly inflation pace for the second-quarter 2017 IPD revised to 1.01% [previously 0.96%]. The second estimate of annualized real growth for second-quarter GDI (the theoretical income-side equivalent of the consumption-side GDP) revised to 2.89% [previously 2.88%]. The second estimate of annualized real growth for second-quarter GNP (the broader measure of the GDP) revised to 2.77% [previously 2.80%]. Details are covered in the *Reporting Detail* section.

Underlying Economic Reality. [Note: In the context of effectively unrevised headline growth for the third estimate of second-quarter 2017 GDP, the following section, largely is repeated from [Commentary No. 907](#) covering the first revision, and the earlier [Commentary No. 902-B](#), which reviewed the initial second-quarter 2017 details 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 minimally-revised headline, real annualized second-quarter 2017 GDP growth of 3.06%, versus 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 promised by the Trump Administration, and with promised new policies aimed at generating economic stimulus. Assuming some eventual legislative movement in the Congress—despite the current, continuing significant political discord—and given basic economic lead times, the first major, positive impact on the economy from that now would be after the mid-term 2018 Congressional election, likely in early-2019, at the earliest. Despite the relatively happy second-quarter 2017 GDP headline 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 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 a bit, and, again, the gist of most of following text remains along the lines as expounded upon in [No. 859](#). The details and numbers here, however, are updated for the latest headline information. In combination, these various collapsing economic indicators eventually should engender a formal recession call, irrespective of the timing of actual, if any, headline quarterly contractions in real GDP, or what may be continued political gaming of the GDP data.

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 third 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 today’s minimal changes to the 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 third 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 or in [No. 859](#) has shown a significant recovery to pre-recession highs, let alone formal economic expansion.

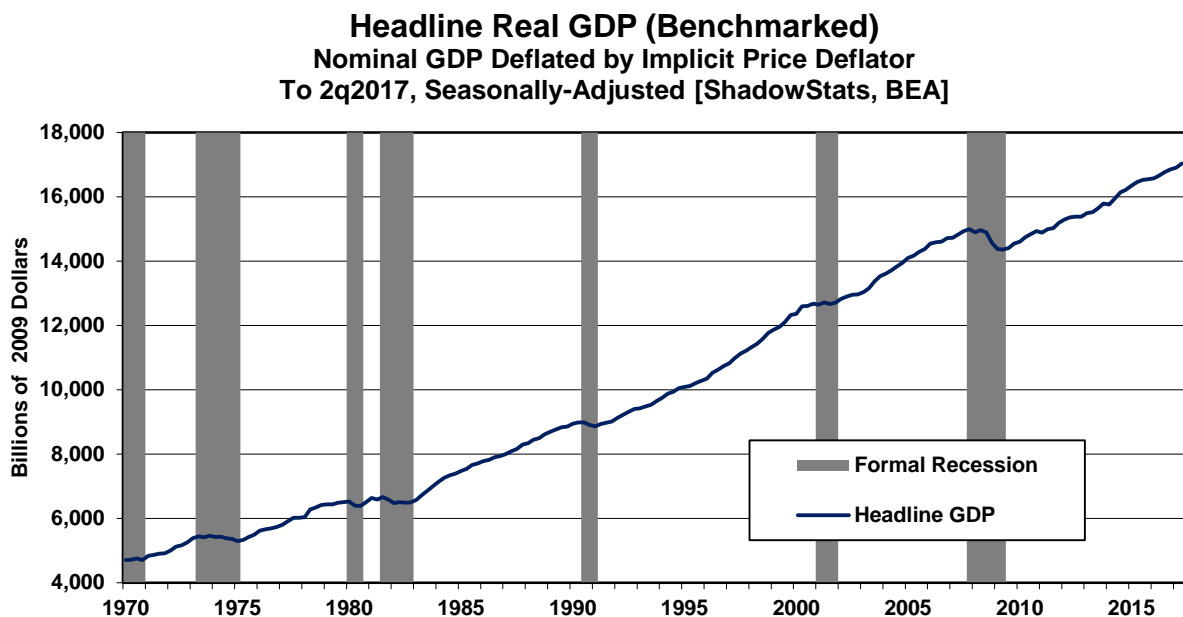
In contrast, the “corrected” GDP version, in the second graph of each set (*Graphs 2 and 4*), shows unrevised, third-estimate, second-quarter 2017 GDP activity still to be down by 6.8% (-6.8%) from its pre-recession peak of first-quarter 2006. Noted in [General Commentary No. 867](#), [Commentary No. 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*.

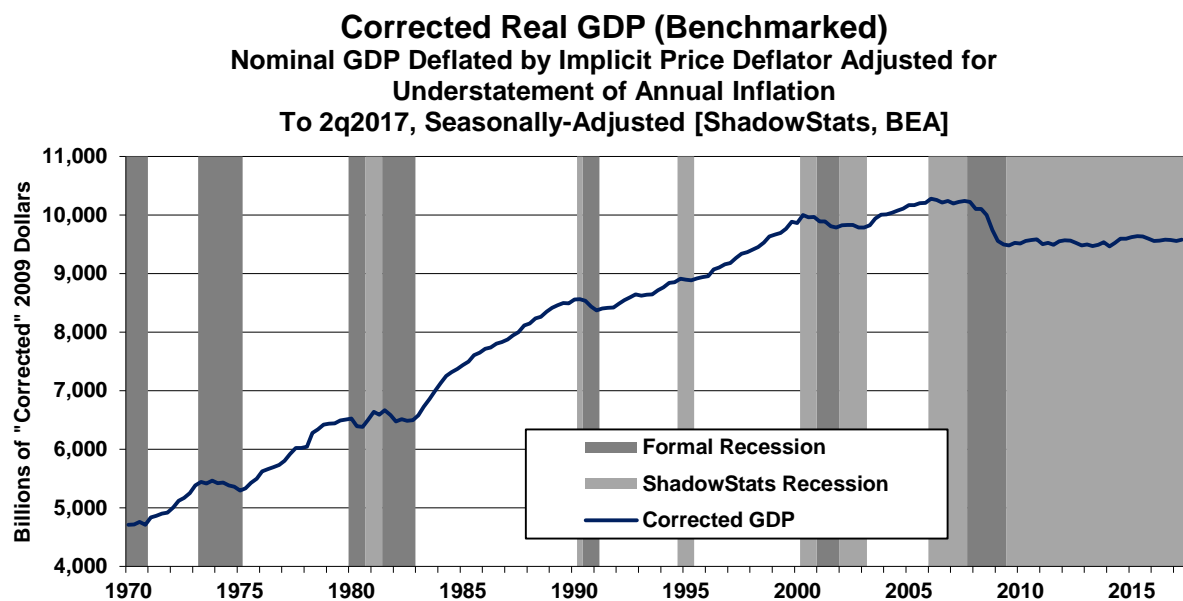
The pattern of economic collapse into 2009, followed by some minimal recovery, low-level stagnation and renewed contraction is seen with many series. As shown in *Graphs 5 to 9* (again also see [No. 859](#) more-extensive background), better-quality independent numbers—including some U.S. government—put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

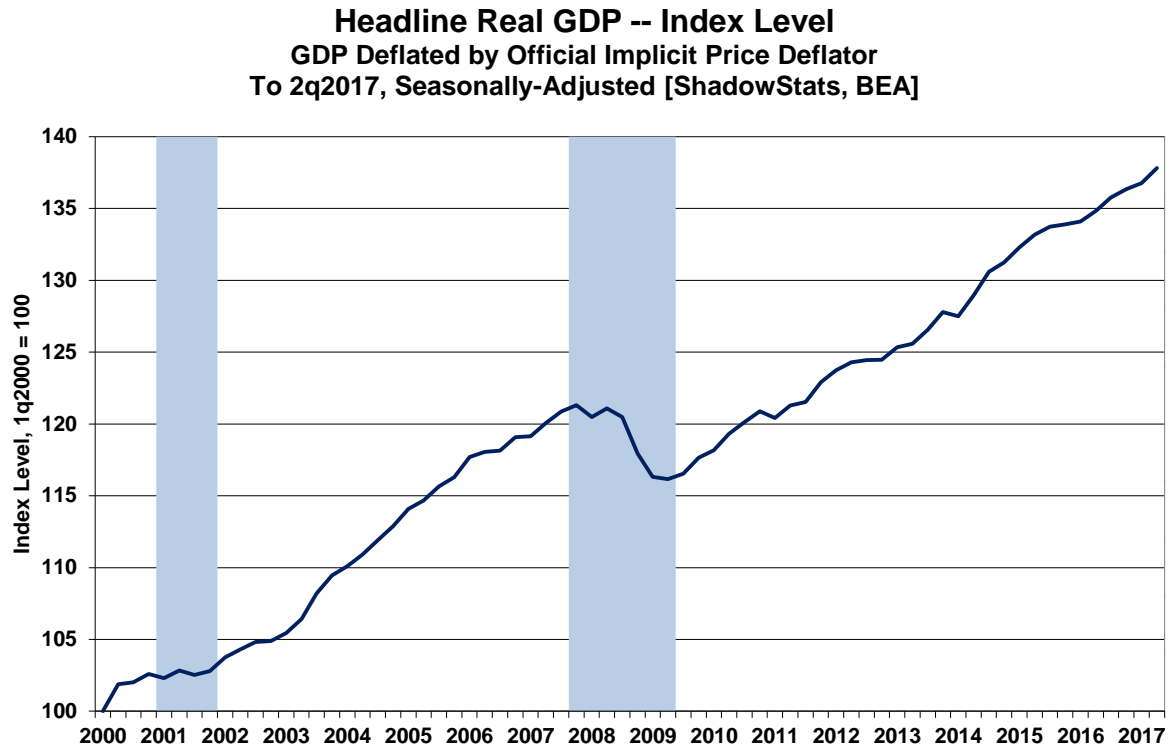
[Graphs 1 to 9 begin on the following page.]

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



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



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

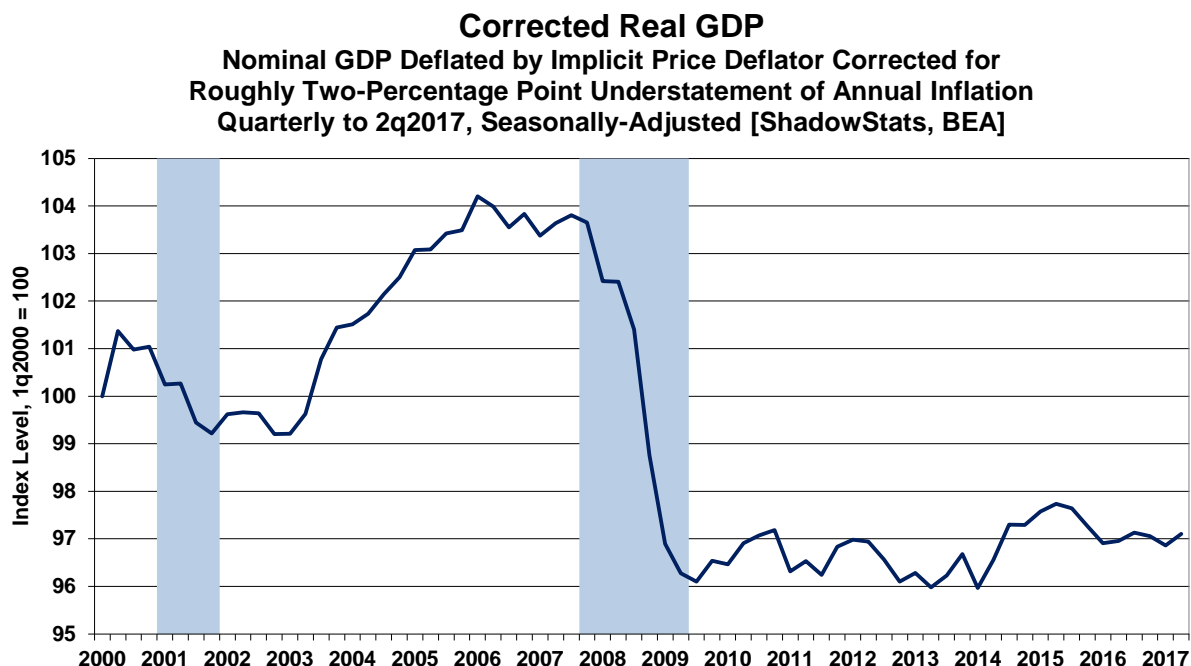
Comparative Indicators. Graph 4 of the “corrected” GDP series follows, along with a sampling of comparative economic indicators (see the expanded coverage in [No. 859](#)). The comparative indicators here generally confirm the story from the “corrected” GDP graph that the economy never recovered from 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 August 2017 (see [Commentary No. 911](#)), 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.

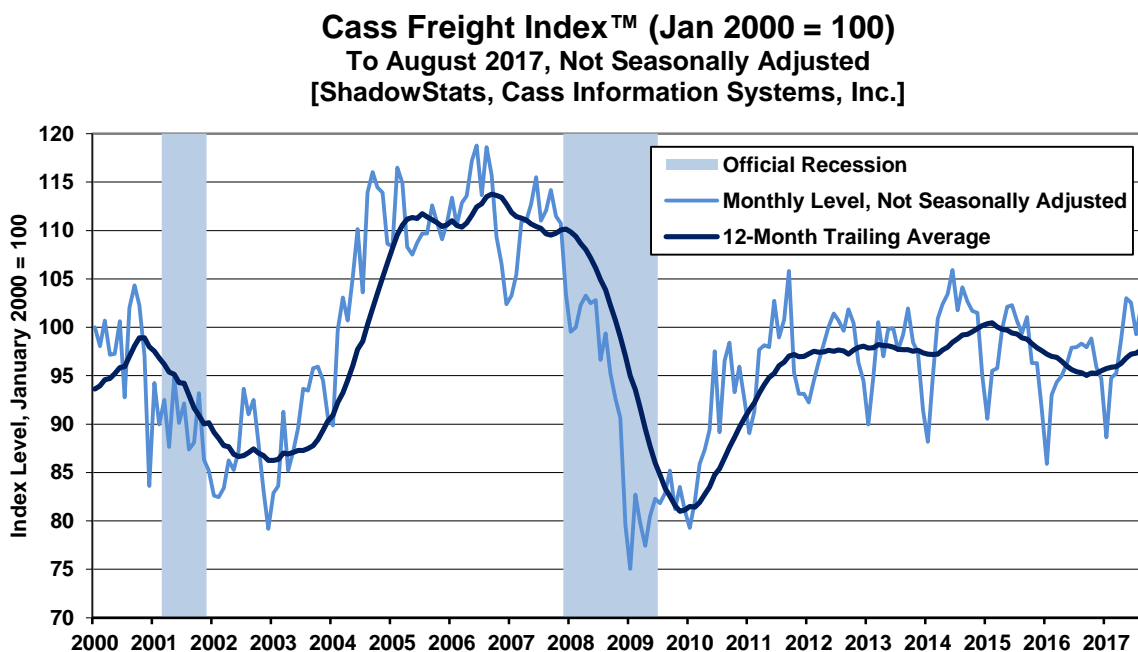
Graph 9 of the employment-to-population ratio remains a solid indicator of underlying labor conditions in the context of the broad population and long-term discouraged and displaced workers, reflected there through August 2017.

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

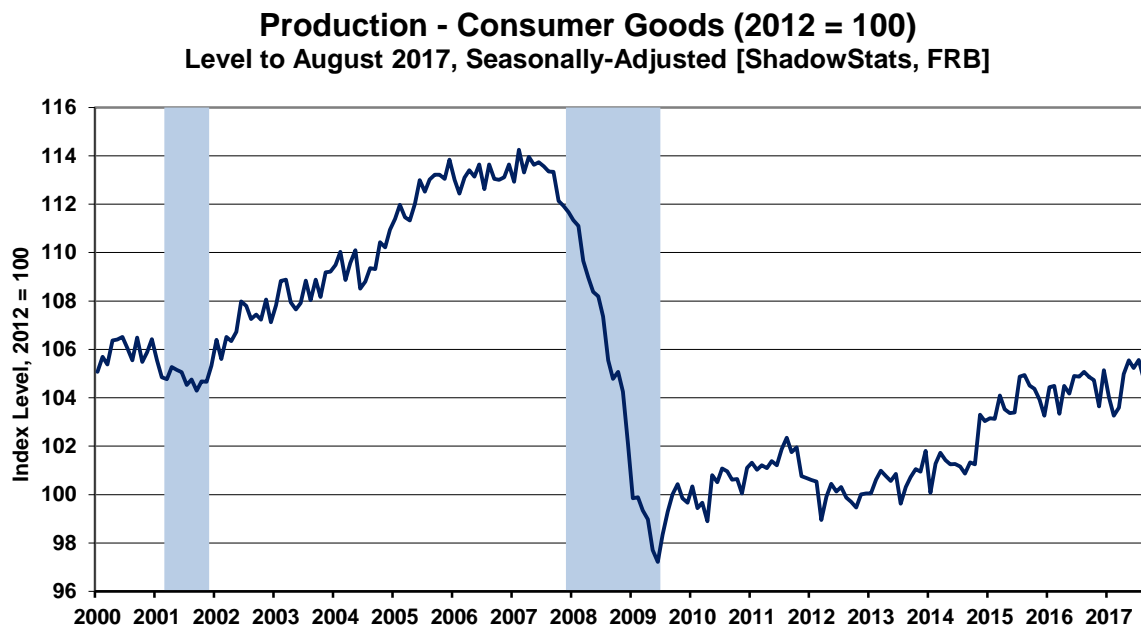


Graph 5: Cass Freight Index™ (2000 - August 2017)

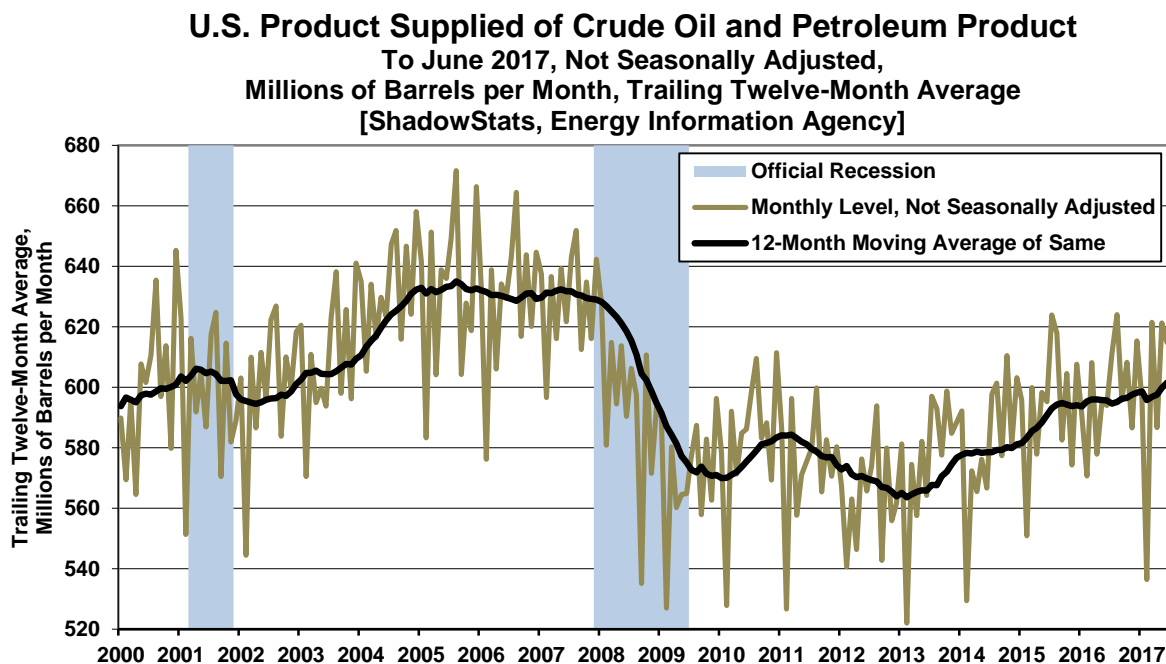
(Graph OC-1 on page 3 of [Commentary No. 911](#))



Graph 6: Industrial Production – Consumer Goods (2000 - August 2017)
(Graph 11, page 15 [Commentary No. 910](#))

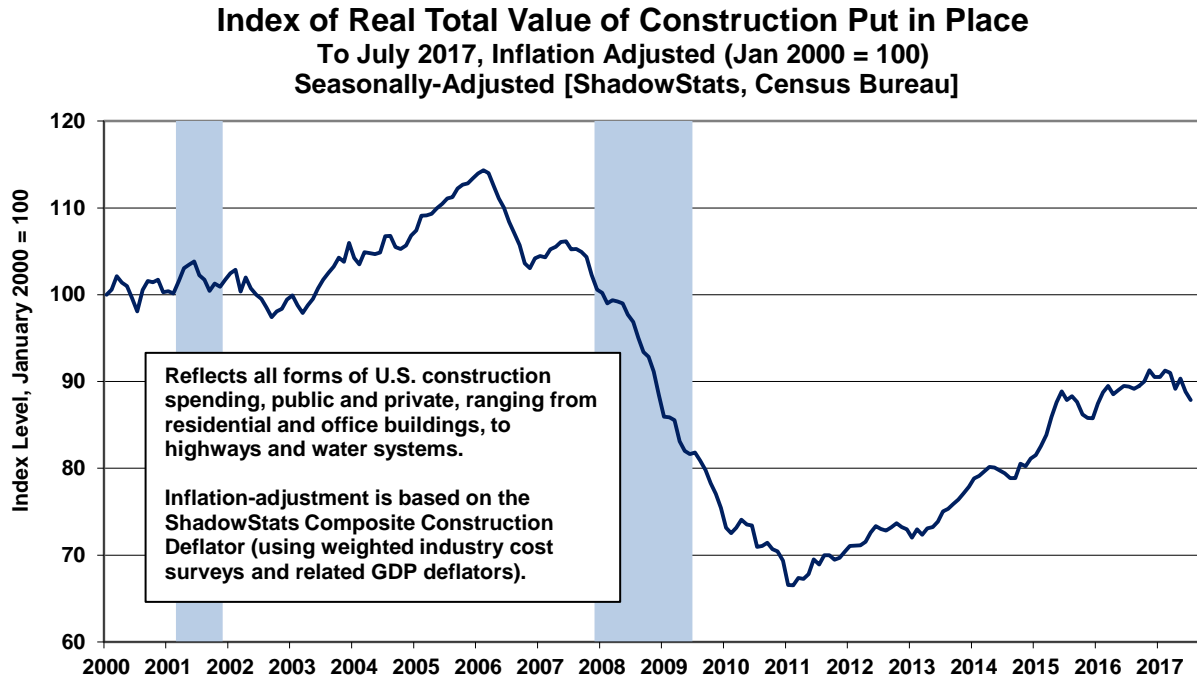


Graph 7: U.S. Petroleum Consumption (2000 - June 2017)



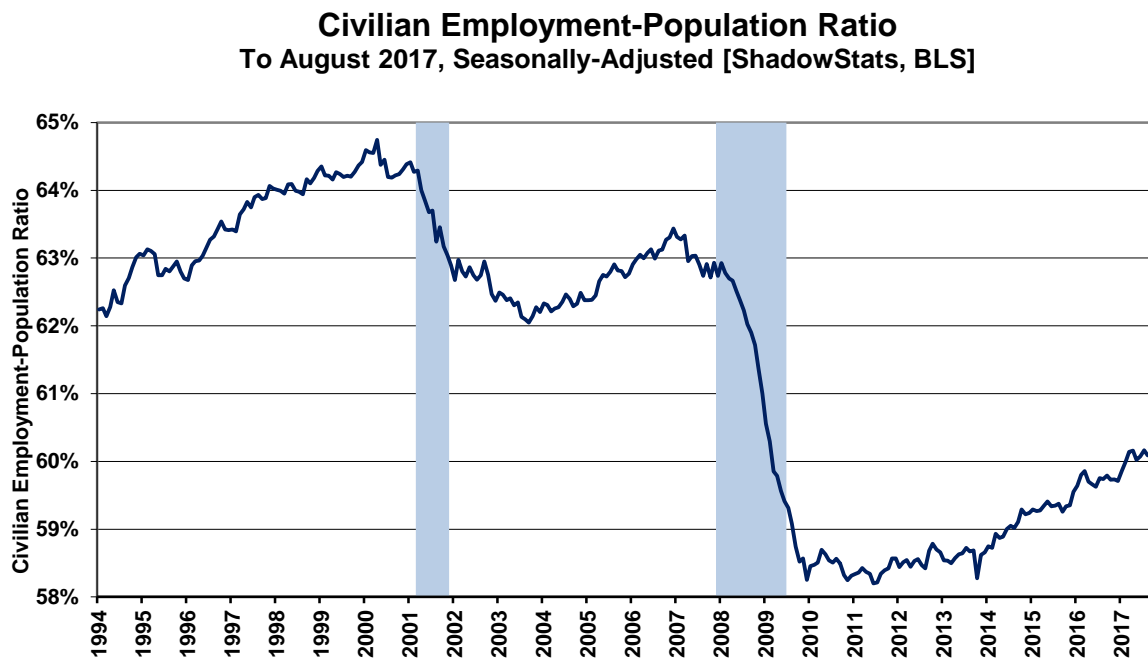
Graph 8: Real Total U.S. Construction Spending (2000 - 2017)

(Graph 20, page 30 [Commentary No. 908-B](#))



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

(Graph 4, page 9 [Commentary No. 908-B](#))



[Extended analysis and graphs follows in the Reporting Detail.]

REPORTING DETAIL

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

Second Revision to Second-Quarter GDP Was Negligible; Yet, Underlying Real-World Recession Continued in Play. Against the initial, 2.6% headline estimate of annualized second-quarter 2017 GDP growth, which accompanied the annual GDP benchmark revisions of July 28th (see [Commentary No. 902-B](#)), and against the subsequent second estimate of 3.0% headline second-quarter 2017 GDP growth (see [Commentary No. 907](#)), today's (September 28th) "upside" headline revision to 3.1%, was consensus, but with a negligible revision (from 3.03% to 3.06%), which reflected only minor differences in rounding to the first decimal point, for the headline detail. In like manner, the revised growth distributions for major the GDP components, and for the GDI and GNP revisions were unusually minimal.

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 third-estimate of second-quarter 2017 Gross Domestic Product (GDP) was accompanied by the second estimates of second-quarter Gross Domestic Income (GDI) and Gross National Product (GNP), which also were well above credibility.

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 benchmark 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 2017 benchmarkings (see the *Opening Comments* of [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.]

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 $1.01 \times 1.01 \times 1.01 \times 1.01 = 1.0406$ or 4.1%, instead of $4 \times 1\% = 4\%$.

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

Gross Domestic Product (GDP). Published this morning (September 28th) by the Bureau of Economic Analysis (BEA), the third estimate of second-quarter 2017 GDP showed a revised, statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 3.06% (previously 3.03%, initially 2.57%) +/- 3.5% (95% confidence interval), which matched consensus expectations of 3.0% to 3.1%. 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 revised 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 third estimate of second-quarter 2017 revised to 2.21% [previously 2.20%, initially 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.

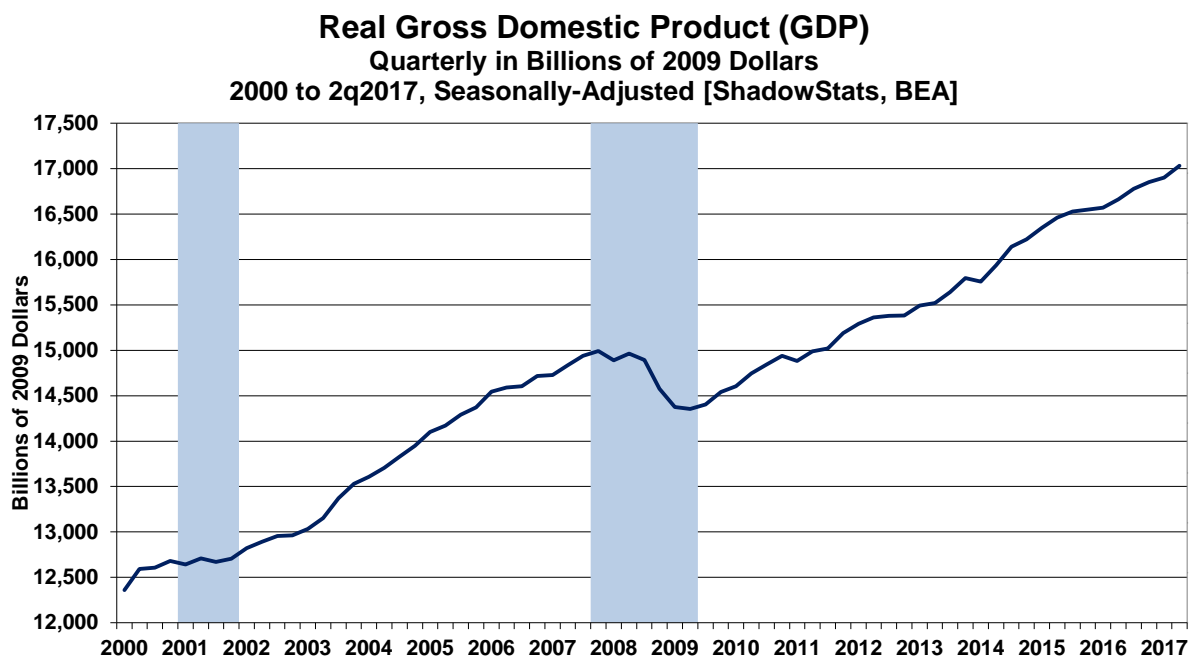
Graphs 14 and *15* respectively show the levels of annual real GDP activity, as well as annual percent change, as estimated beginning in 1929.

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.”

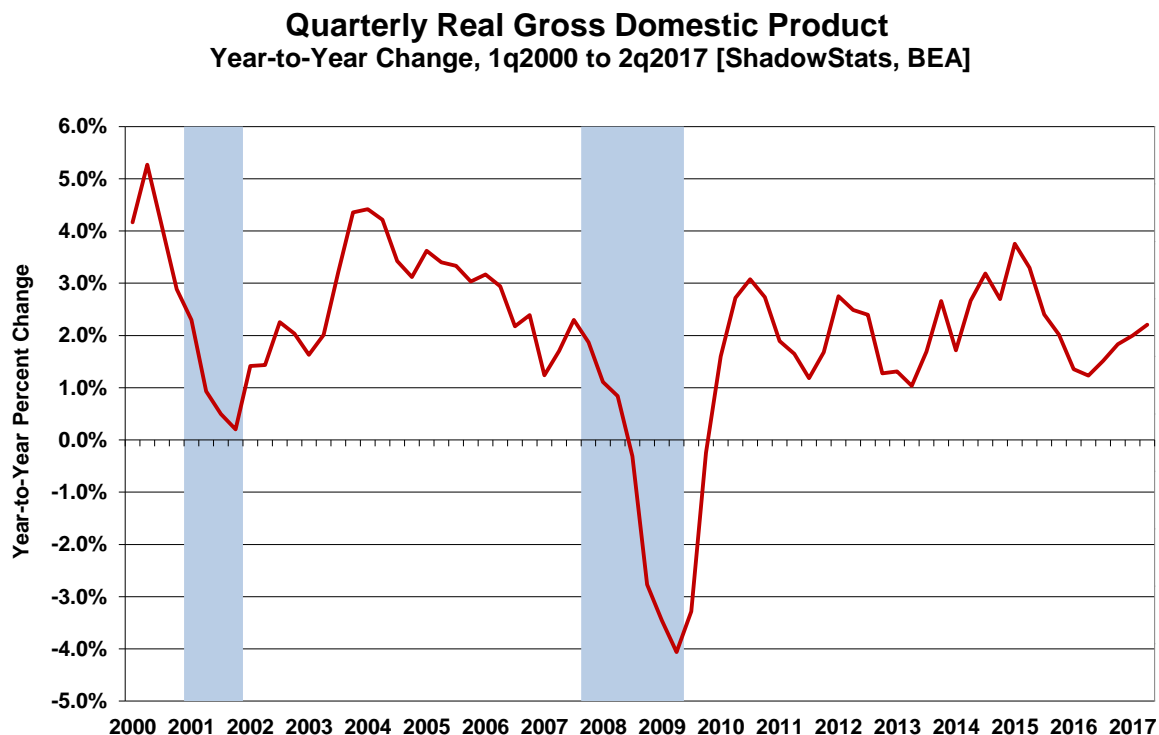
The current-cycle trough in quarterly annual change was in second-quarter 2009 (see *Graphs 11* and *13*), reflecting a year-to-year decline of 4.09% (-4.09%). That was the deepest year-to-year contraction for any quarterly GDP in the history of the series, which began with first-quarter 1947 (1948 in 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.]

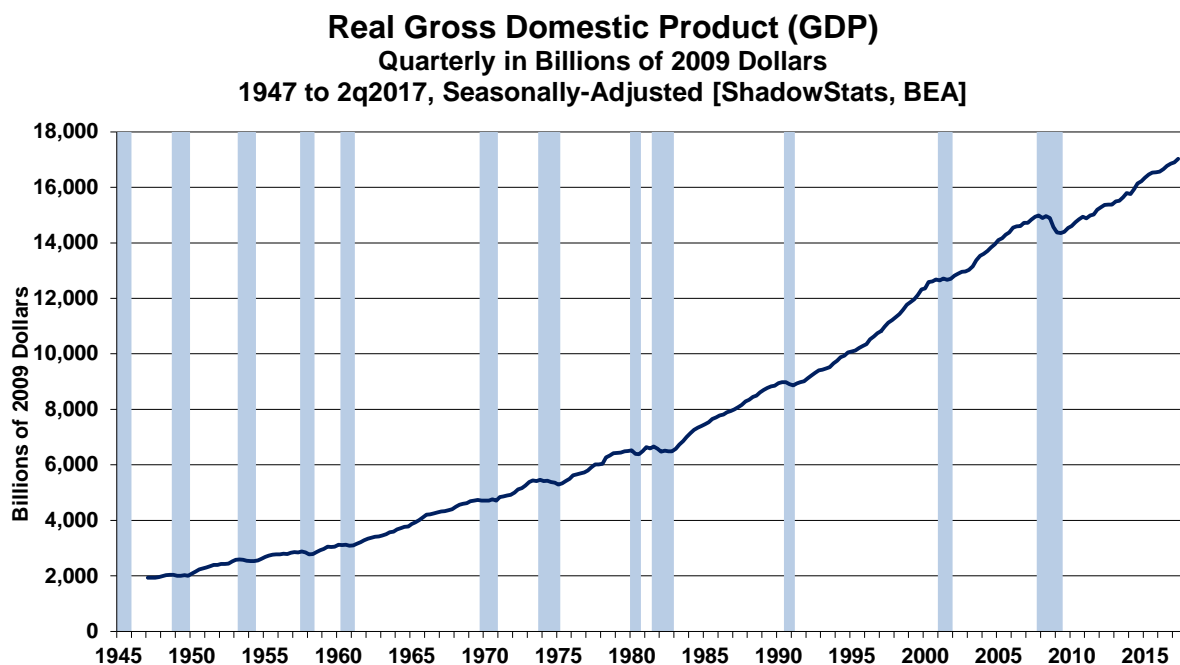
Graph 10: Quarterly GDP in Billions of 2009 Dollars (2000 to 2017), Third-Estimate of Second-Quarter 2017



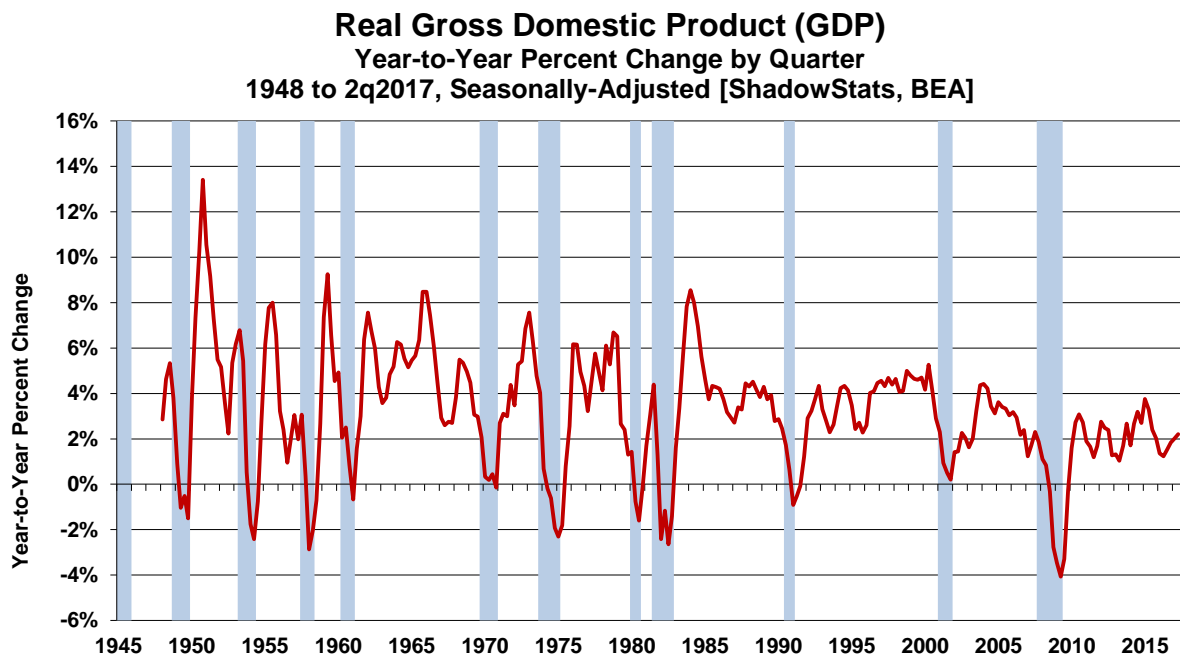
Graph 11: Quarterly GDP Real Year-to-Year Change (2000 to 2017), Third-Estimate of Second-Quarter 2017



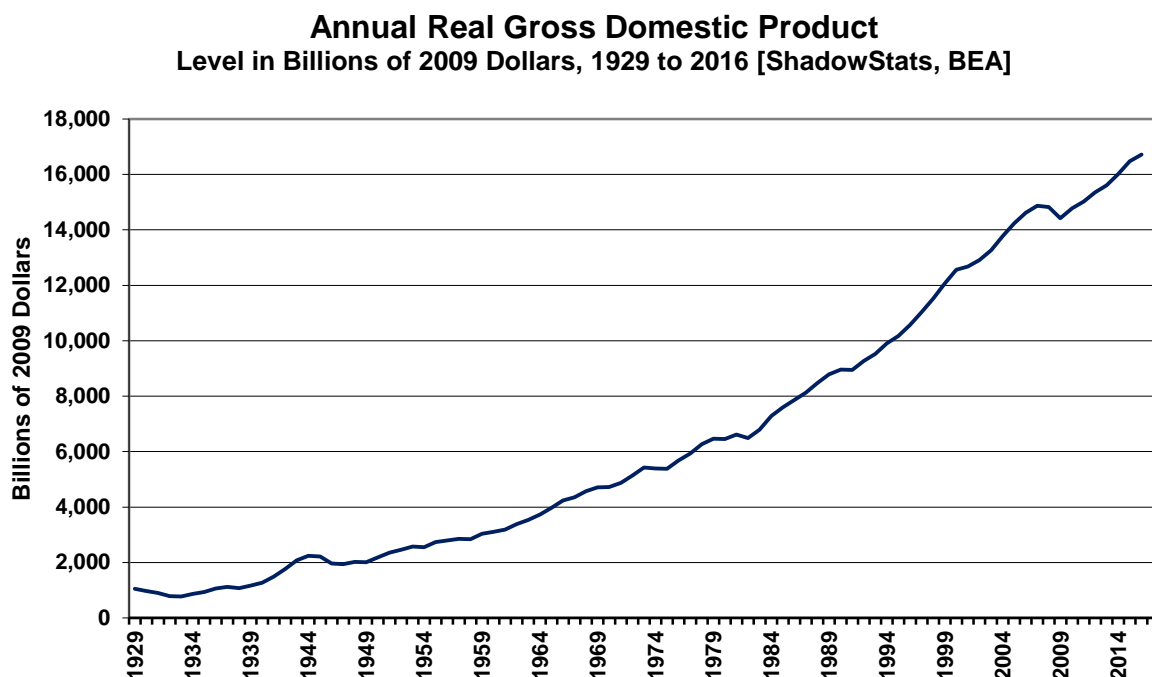
Graph 12: Quarterly GDP in Billions of 2009 Dollars (1947-2017), Third-Estimate of Second-Quarter 2017



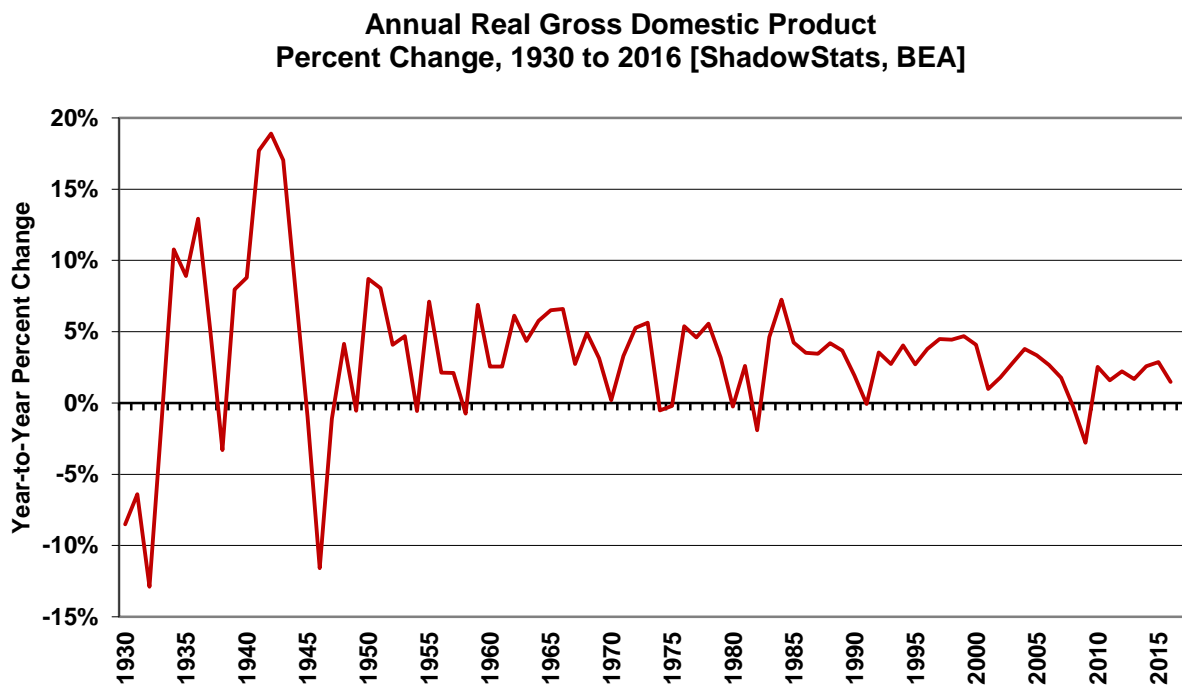
Graph 13: Year-to-Year GDP Real Change (1948-2017), Third-Estimate of Second-Quarter 2017

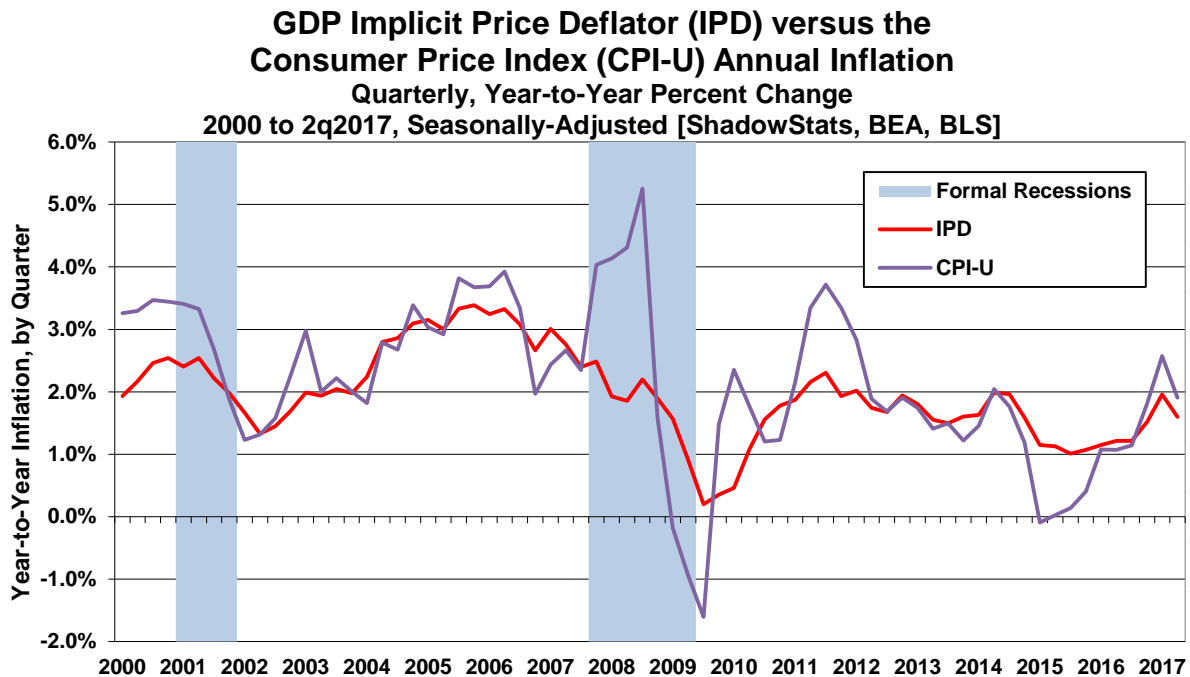


Graph 14: Annual GDP in Billions of 2009 Dollars (1929-2016)



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 third estimate of second-quarter 2017 GDP inflation, or the implicit price deflator (IPD), was a revised 1.01% [previously 0.96%, initially 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.

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 second revision, somewhat stronger second-quarter inflation effectively offset somewhat stronger nominal GDP growth, leaving the headline real GDP growth effectively unrevised.

Year-to-year, the third estimate of second-quarter 2017 IPD inflation was a revised 1.60% [previously 1.59%, initially 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). The second estimates of and the only regular quarterly revisions to second-quarter estimates of GNP and GDI were released this morning, September 28th.

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.

The revised, annualized real second-quarter GNP growth was 2.77% [previously 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 revised to 2.22% [previously 2.23%] 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, presently at a revised -95.4 billion (previously -96.0 billion) current dollars. Variations between quarters, or even between revised estimates for the same quarter, commonly swing in excess of a \$100 billion, enough to vary annualized quarterly growth rates by more than two-percentage points.

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.

That said, the revised annualized real second-quarter GDI growth was 2.89% [previously 2.88%], versus 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 remained a year-to-year contraction of 1.8% (-1.8%), versus an unrevised “third-estimate” annual GDP headline gain of 2.2%, that was against a 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, third-estimate of annualized, headline quarter-to-quarter gain of 3.1% 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.]

CONSUMER LIQUIDITY WATCH

CONSUMER LIQUIDITY CONDITIONS: INCOME, CREDIT AND RELATIVE OPTIMISM.

[This Consumer Liquidity Watch has not been revised from its prior version in Commentary No. 912.]

Liquidity Stresses Continue to Mount, Amidst Faltering Optimism, Aggravated Temporarily by Natural Disasters. The U.S. consumer faces continuing financial stress, increasingly reflected in renewed softening of headline economic activity, including Employment conditions, Real Retail Sales, Home Sales and related construction indicators, and ultimately as reflected in broader-based economic series such as Industrial Production. Liquidity stresses have intensified, at least temporarily, in hurricane-hit regions of the United States.

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—irrespective of the transient, gimmicked boosts to, and current headline slowing in, that most worthless of economic series, discussed most recently in [Commentary No. 907](#).

Consumer Optimism: September Consumer Confidence and Sentiment Measures Have Weakened.

This detail includes the initial September 2017 reading of The Conference Board's Consumer-Confidence Index® (Confidence) of September 26th, as well as the September 15th advance-September 2017 reading for the University of Michigan's Consumer Sentiment Index (Sentiment). Reflected in *Graphs CLW-1* and *CLW-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 then appeared to have topped and pulled back in June, with some mixed rebound into August, with the numbers now turning lower in September 2017. Blaming the impact of hurricanes on Confidence in Texas and Florida, the Conference Board just reported a downturn in September 2017, in the context of a sharp downside revision to the previously strong gain estimated with the headline August reading. Nonetheless, both the latest Confidence and Sentiment levels remained off their respective post-election, euphoric peaks of March 2017 (Confidence) and January 2017 (Sentiment). Although annual growth is its weakest since the onset of the Post-Election euphoria, and levels of confidence/sentiment remain above pre-recession peaks.

The Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index® (*Graph CLW-1*), and the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph CLW-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, yet the still-high moving averages also have begun to falter.

Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs CLW-1* to *CLW-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.

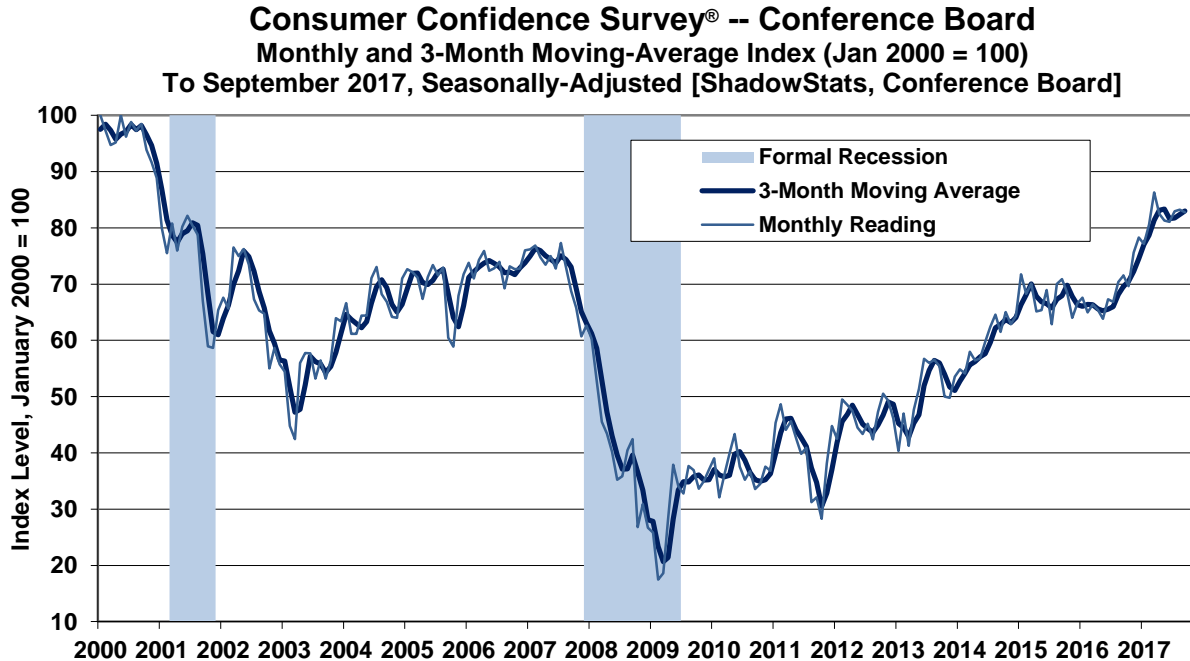
The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in [Commentary No. 764](#)), and often are highly volatile month-to-month, as a result. With what should continue as increasingly-negative, unstable and uncertain headline financial 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 CLW-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.

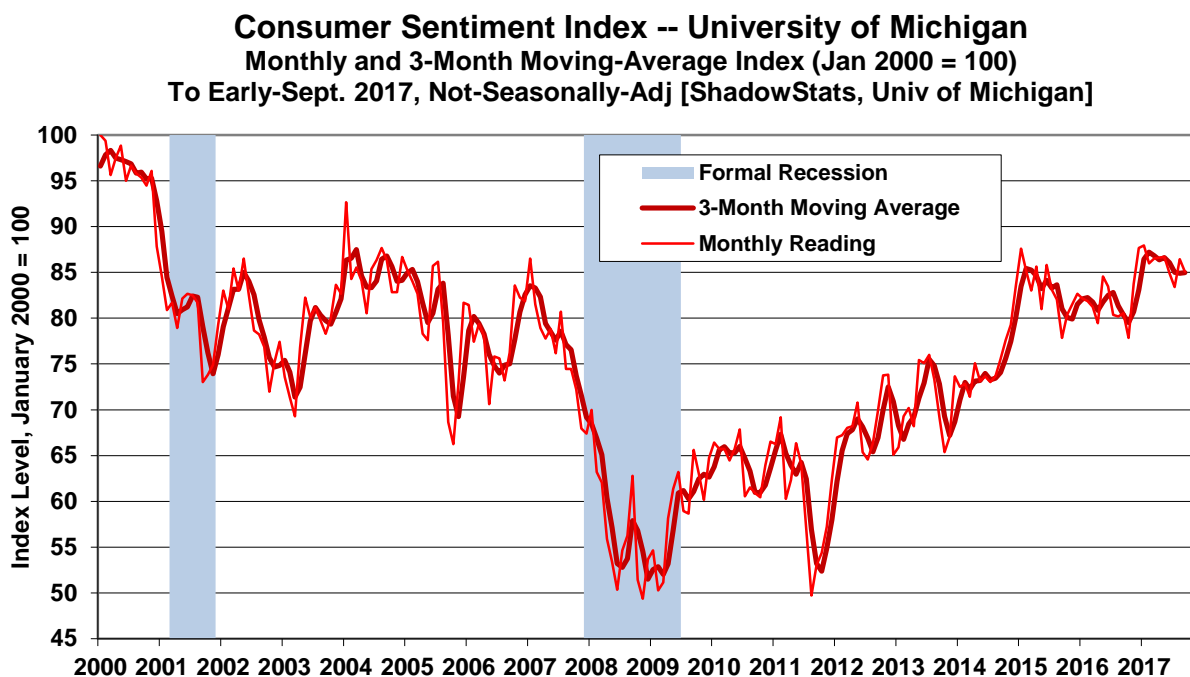
Broadly, though, the harder, financial consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth as suggested by headline GDP growth in 2014, for

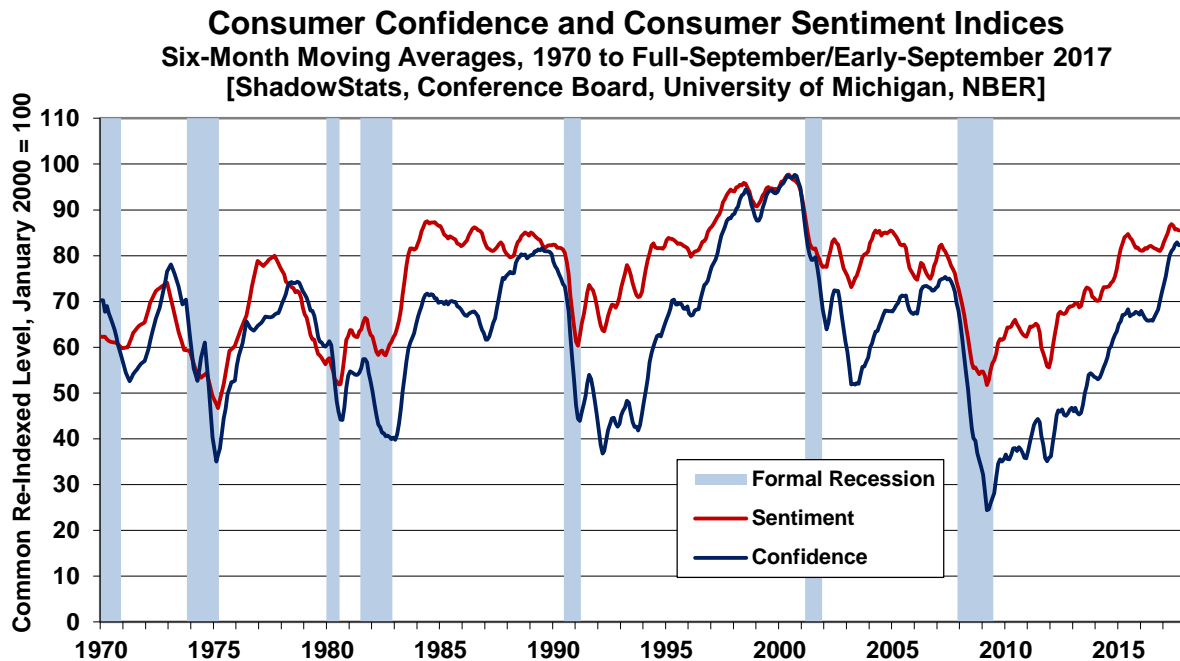
second-and third-quarter 2015 and for third-quarter 2016 and unfolding for second-quarter 2017. Beyond having happy feelings about the future, consumers still need actual income, cash-in-hand or credit in order to increase their spending.

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



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

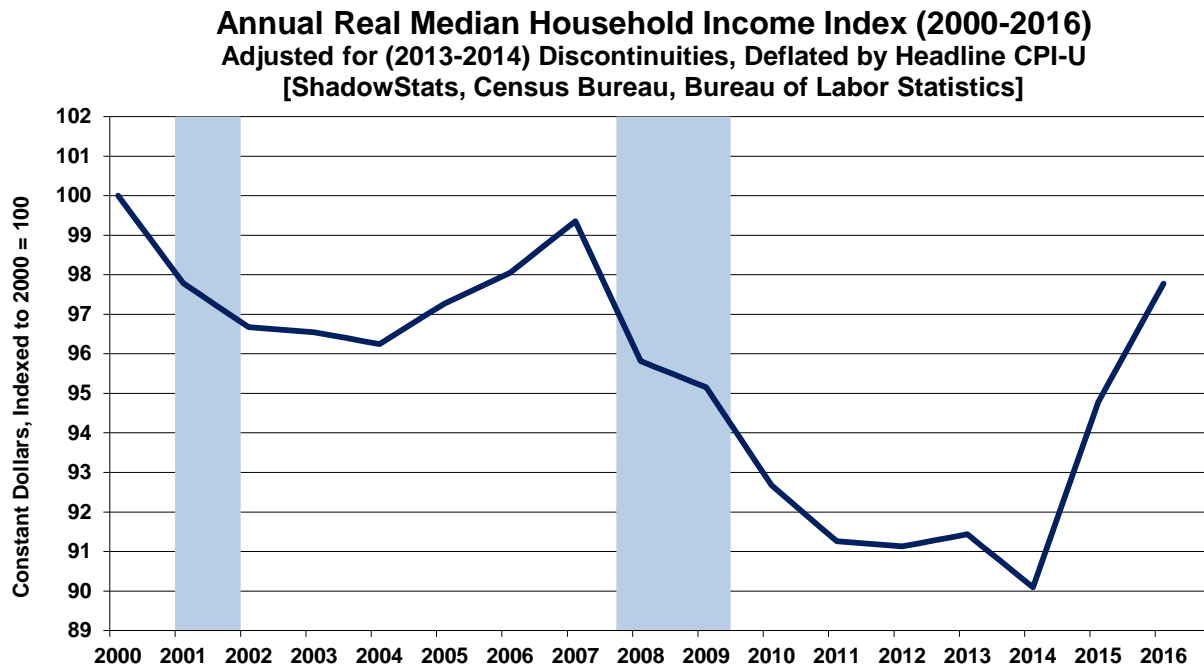


Graph CLW-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2017)

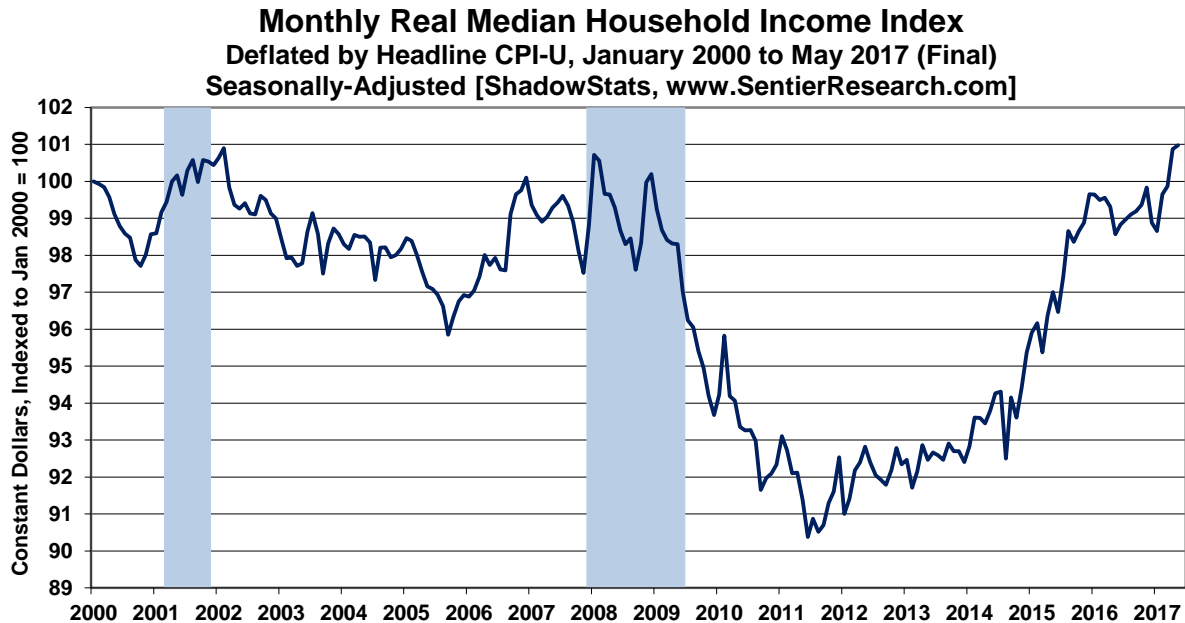
2016 Annual Real Median Household Income Still Was Below Its 2007 Pre-Recession High, Below Activity in the Late-1990s, About Even with the Mid-1970s. The measure of real monthly median household income, which has been provided by www.SentierResearch.com, generally can be considered as a monthly version of the annual detail shown in *Graph CLW-4*, based on the annual detail recently released by the Census Bureau and as discussed the *Opening Comments* of [Commentary No. 909](#). The 3.16% headline gain in 2016 real annual median household income for 2016 left the level of income not only below that seen at the purported pre-recession peak of 2007, but also below levels seen in the late-1990s, and minimally above activity seen in the mid-1970s (see *Graph OC-1* in *No. 909*). The Sentier details, as far as they go, from January 2000 to May 2017, suggested annual real median income was on track for further increase in 2017, having also indicated the 2015 and 2016 annual increases.

Last Monthly Estimate Showed Stagnating Monthly Real Growth. As last reported by Sentier Research, 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 then-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%). That followed a statistically-significant monthly gain of 1.00% in April 2017. Shown in *Graph CLW-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 CLW-5*). The May detail, however, may have been the final reporting of the monthly series (see the *Special Note* that follows).

Graph CLW-4: Annual Real Median U.S. Household Income (1967 to 2016)



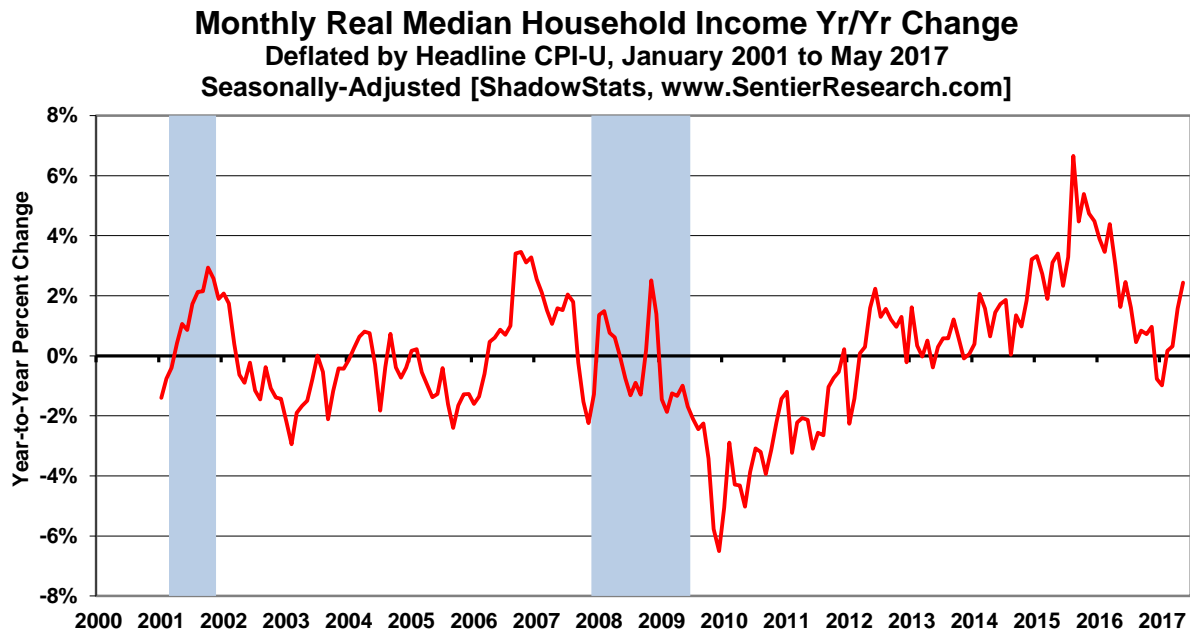
Graph CLW-5: Monthly Real Median Household Income (2000 to 2017) Index, January 2000 = 100



Where real monthly 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 August 2017 CPI.

Graph CLW-6: Monthly Real Median Household Income (2000 to 2017) Year-to-Year Change



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.

Differences in the Monthly versus Annual Median Household Income. The general pattern of relative monthly historical weakness has been seen in the headline reporting of the annual Census Bureau numbers, again, shown in *Graph CLW-4*, with 2014 real annual median household income having hit a ten-year low, and, again, with the historically-consistent 2015 and 2016 annual number still holding below the 2007 pre-recession high. The Sentier numbers had suggested a small increase in 2014 versus 2013 levels, low-inflation induced real increases in 2015 and 2016. Allowing for the direction difference in 2014, and continual redefinitions and gimmicks in the annual series (again, see the *Opening Comments* of [Commentary No. 909](#)) the monthly and annual series had remained broadly consistent, although based on separate questions within the 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.

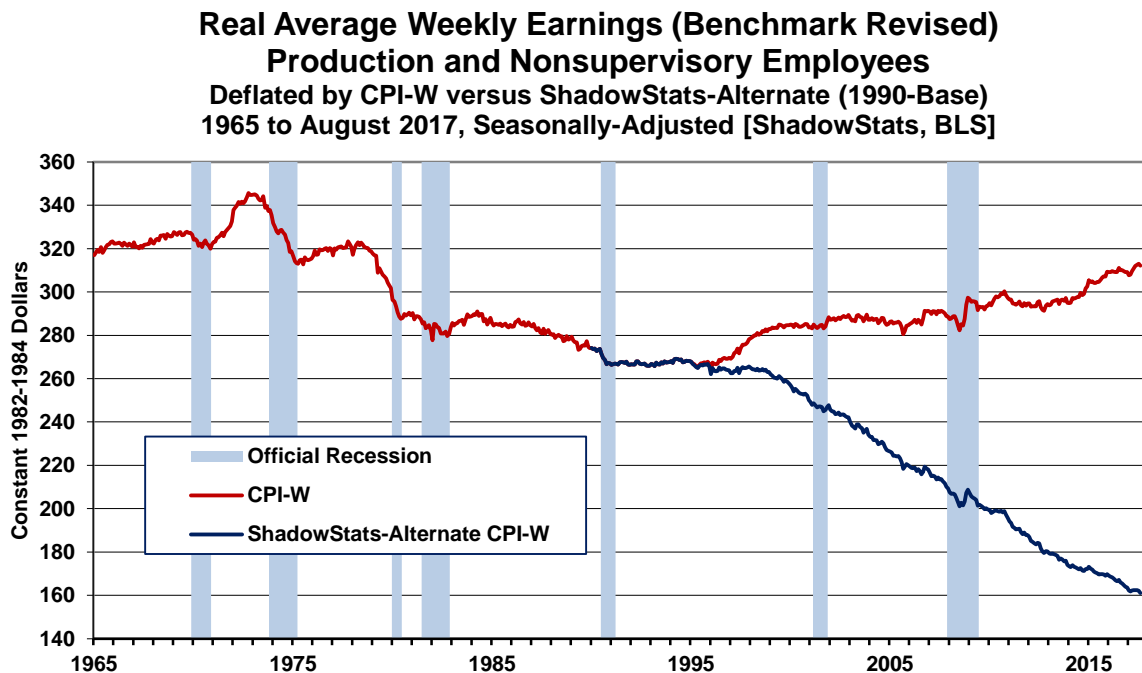
Special Note: Accompanying the release of the May 2017 data by Sentier Research was this [Notice of Final Report](#):

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.

Real Average Weekly Earnings—August 2017—Month-to-Month Real Earnings Declined. For the production and nonsupervisory employees category—the only series for which there is a meaningful history (see the full discussion on page 16 of [Commentary No. 909](#)), the regularly-volatile real average weekly earnings fell month-to-month by 0.28% (-0.28%) in August 2017, versus downwardly-revised gains of 0.13% in July and 0.23% in June. Year-to-year, the adjusted August 2017 real change rose to 0.68%, versus a downwardly revised gains of 0.62% in July 2017 and 1.10% in June 2017.

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



Based solely on volatile initial reporting for July and August 2017, the early-trend for real third-quarter 2017 activity is for an annualized quarterly gain of 1.01%. Second-quarter 2017 activity reflected a revised, annualized real quarter-to-quarter gain of 4.43%, following contractions in first-quarter 2017 of

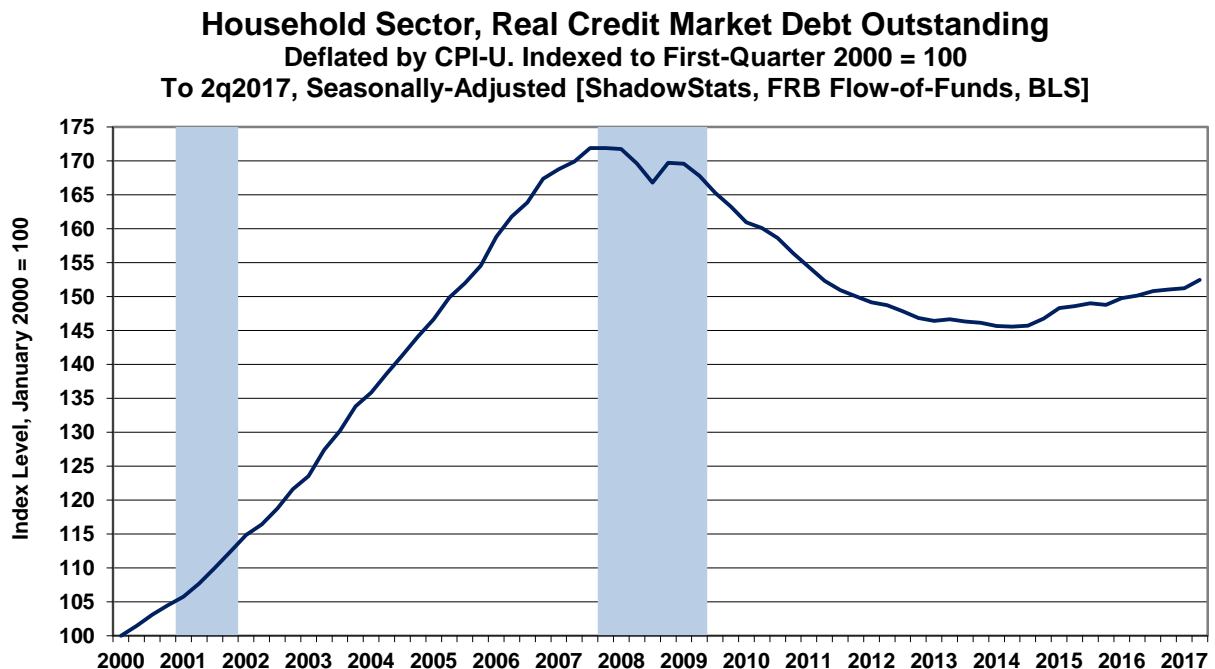
1.13% (-1.13%), in fourth-quarter 2016 of 1.36% (-1.36%), and third-quarter 2016 growth of 1.48%, a second-quarter 2016 contraction of 0.11% (-0.11%) and first-quarter 2016 annualized growth of 1.81%.

Year-to-year change in third-quarter 2017 was on early track for 0.71%, where second-quarter 2017 real earnings rose by a revised 0.83%, following an annual contraction of 0.29% (-0.29%) in first-quarter 2017, the first annual or year-to-year quarterly contraction since fourth-quarter 2012. 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 CLW-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 (see today's *Opening Comments*), 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 CLW-8: Household Sector, Real Credit Market Debt Outstanding (2000 through Second-Quarter 2017)



Consider *Graph CLW-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 second-quarter 2017, released on September 21st. Household Sector, Real Credit Market Debt Outstanding in second-quarter 2017 still was down by 11.3% (-11.3%) from its pre-recession peak of third-quarter 2007. That was against an initial first-quarter 2017 decline of 11.5% (-11.5%), just revised to 11.3% (-11.3%). The visual uptick in the latest point in *Graph CLW-8* a lowered estimate of first-quarter activity (consumer credit revised lower by more than the upside revision mortgages), with second-quarter inflation-adjusted level of activity boosted by a relatively-rare, annualized quarterly contraction in the seasonally-adjusted second-quarter CPI-U.

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 CLW-9 to CLW-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.

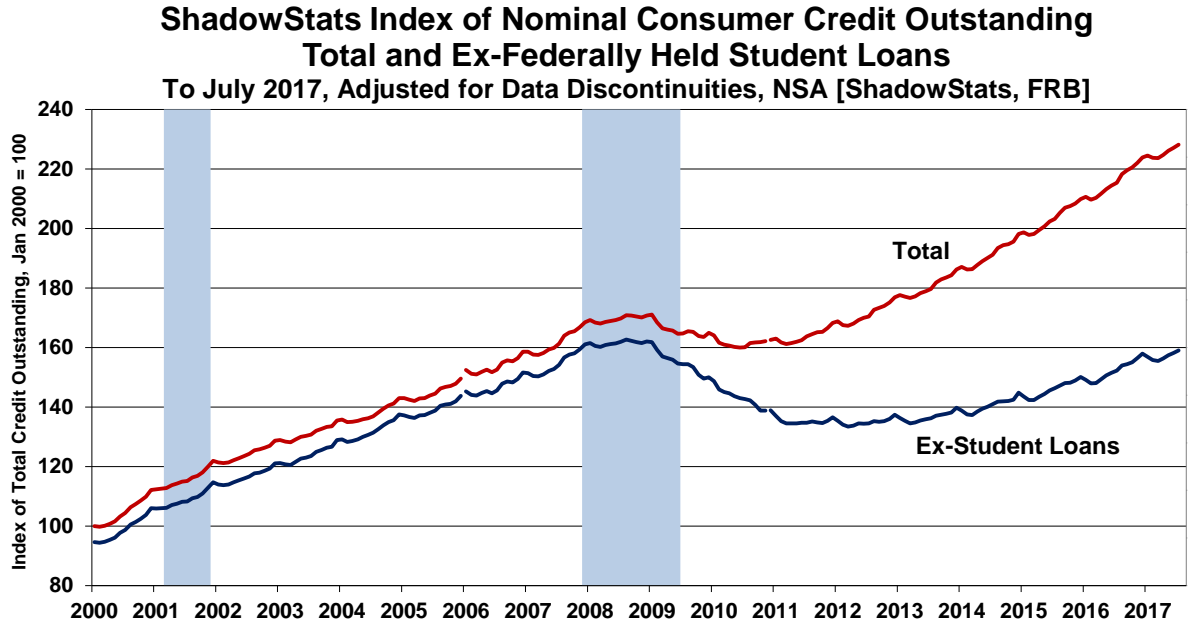
Shown through the July 2017 reporting, *Graph CLW-9* of monthly Consumer Credit Outstanding is a subcomponent of *Graph CLW-8* on real Household Sector debt. Where *Graph CLW-9* reflects the nominal reporting, not adjusted for inflation, inflation-adjusted real activity for monthly Consumer Credit Outstanding is shown in terms of both level (*Graph CLW-10*) and year-to-year change (*Graph CLW-11*). The August detail includes a downside revision to the last five years of total credit outstanding.

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.

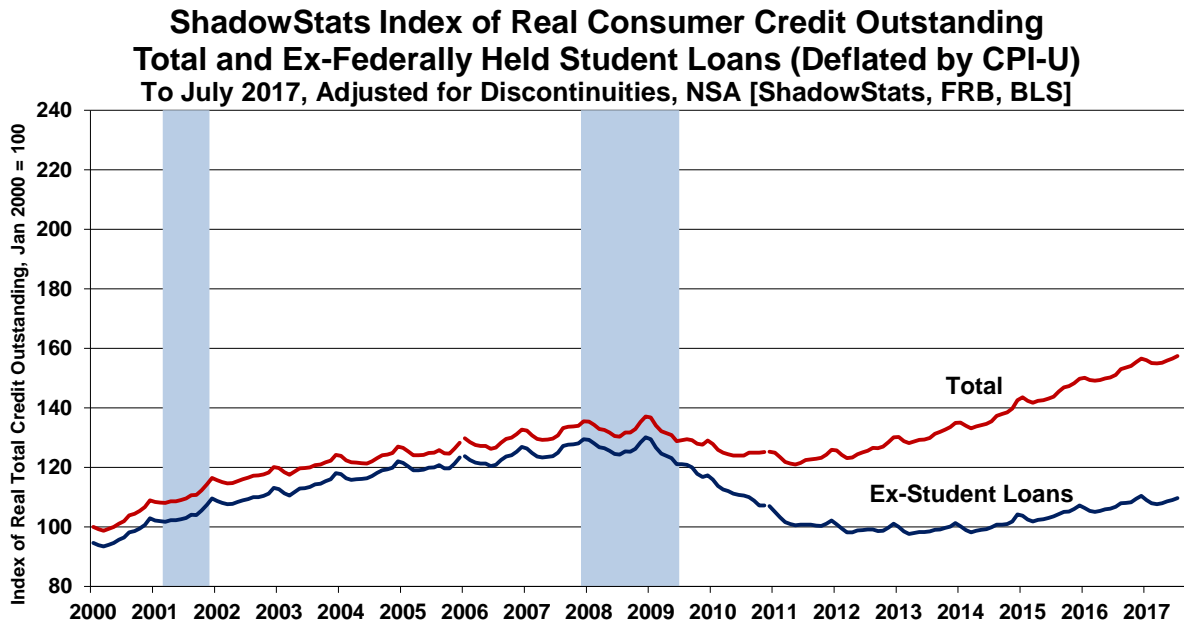
Adjusted for inflation, the lack of recovery in the ex-student loan area is more obvious. Although the recent monthly upside move in the not-seasonally-adjusted consumer credit reflected a seasonal pattern, the pace of year-to-year growth continued to slow, suggesting some tightening of credit conditions. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in July 2017 (released September 8th) was down from its December 2007 pre-recession peak by 15.3% (-15.3%) [that previously had been down by 12.3% (-12.3%) in June 2017, before the recent downside revisions to the last five years of activity]. Year-to-year real growth shown in *Graph CLW-11* tends to resolve most of the monthly distortions in the not-seasonally-adjusted data.

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

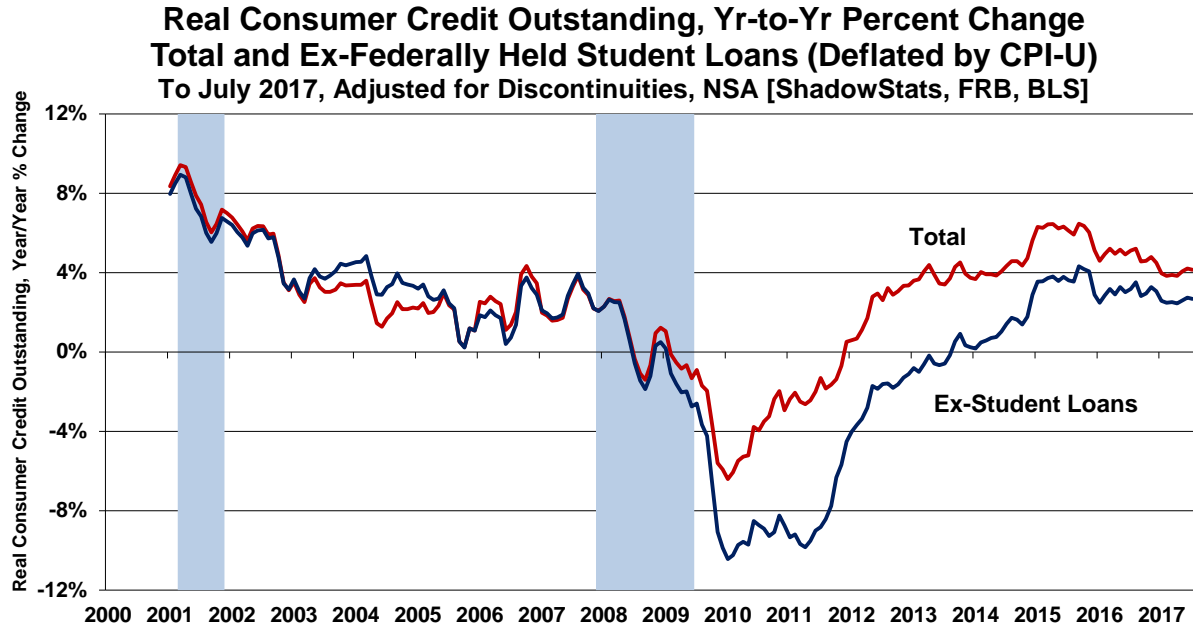
Graph CLW-9: Nominal Consumer Credit Outstanding (2000 to 2017)



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



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



WEEK, MONTH AND YEAR AHEAD

Deteriorating Domestic and Global Political Circumstances and Continued Softening of the Economy Increasingly Should Pummel the Dollar, Boost the Price of Gold and Foster Financial-Market Turmoil. In brief, irrespective of continued nonsense reporting of the GDP, and net of hurricane distortions, the economy still is getting worse, rapidly. The financial markets remain at high risk of panicked declines. Holding physical gold and silver remain the ultimate hedges—stores of wealth—for preserving purchasing power of your assets, in the context of liquidity and portability. Other than for the *Pending Release* paragraph, changes to this section from its prior version in *No. 912*, simply are nil other than for the updating of references.

Please call me at (707) 763-5786 if you would like to discuss current circumstances, or otherwise.

-Best wishes – John Williams

The *Hyperinflation Watch* of [Commentary No. 909](#) speaks for itself. Given the continuing and broadening weakness in the U.S. economy, despite varied impact in the next several months, from a disastrous hurricane season (see *Opening Comments*), given shifting political instabilities/circumstances in Washington and unusual noises from Federal Reserve Chair Janet Yellen, sharp, near-term rate hikes and aggressive balance-sheet liquidation remain unlikely, in the near-term, despite mixed pronouncements to the contrary. Accordingly, selling pressure against the U.S. dollar still should intensify, pressuring inflation and the prices of precious metals on the upside. Increasingly, foreign capital should flee the U.S. equity and credit markets at an accelerating pace. Tax and pending economic proposals by the Administration will be considered and the broad outlook reviewed in *Commentary No. 915*, planned for October 6th.

In the context of 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 with the latest employment and construction detail, and in likely weak data in the week ahead, all amidst continuing domestic and global political instabilities and unfolding natural disasters. .

Unfolding circumstances still threaten a shift 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 intensifying financial-market turmoil in the near future, particularly as would be triggered by a market-related, intensifying heavy sell-off in the U.S. Dollar.

Broad economic activity never recovered fully 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, had 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, 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 13.6%.

Discussed in [No. 859 Special Commentary](#), the Trump Administration continues to face extraordinarily difficult times, but still 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 intensify 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. 912](#) (September 27th) reviewed likely impact on economic reporting from the so-far, highly destructive hurricane season. Headline details of August New- and Existing-Home Sales and New Orders for Durable Goods were covered.

[Commentary No. 911](#) (September 19th) covered detail on August New Residential Construction, including monthly Building Permits and Housing starts, and the August Cass Freight Index™.

[Commentary No. 910](#) (September 15th) reviewed the August 2017 releases of Industrial Production and nominal and real Retail Sales.

[Commentary No. 909](#) (September 14th) assessed the annual release of 2016 Real Median Household Income, along with a review of August Consumer Price Index (CPI) and the Producer Price Index (PPI) and an update *Alert* on the financial markets

[Commentary No. 908-B](#) (September 6th) provided extended detail of the August 2017 Labor and Monetary conditions and July 2017 Construction Spending, along with coverage of the July 2017 Trade Deficit and the initial estimate of the 2017 Payroll Employment benchmarking.

[Advance Commentary No. 908-A](#) (September 1st) provided summary coverage of the headline reporting on August 2017 Labor and Monetary conditions and July 2017 Construction Spending.

[Commentary No. 907](#) (August 30th) reviewed the second estimate of, first revision to Second-Quarter 2017 GDP and initial quarterly reporting of the related GDI and GNP series.

[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.

[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.

[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. 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[™].

[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. 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: Construction Spending (August 2017). The Commerce Department releases its estimate of August 2017 construction spending on Monday, October 2nd. Detail will be covered in *Commentary No. 914* of October 5th. The June and July releases provided a number of continuing signals for an intensifying downturn in the construction industry. Barring major upside revisions to this regularly-volatile series, continued serious signals of a new, unfolding industry downturn remain a fair bet, particularly in real terms, net of inflation.

Where consensus expectations perpetually are to the upside, there could be some minimal downside hit in August from initial Hurricane Harvey disruptions. Discussed in prior [Commentary No. 912](#), however, construction spending should receive boosts in the next several months from rebuilding, reconstruction and repairs to damages from both Hurricanes Harvey and Irma.

U.S. Trade Deficit (August 2017). The Commerce Department and Bureau of Economic Analysis (BEA) will release their full version of the monthly U.S. trade balance for August 2017, on Thursday, October 5th, to be covered in *ShadowStats Commentary No. 914* of that date. Based on this morning's release of the often-worthless "advance" estimate of the August goods deficit, the "advance" narrowing of the August deficit (higher exports, lower imports) promises that consensus expectations will be for a parallel narrowing of the headline deficit.

The Census Bureau indicated there may have been some Hurricane Harvey impact, but such is not obvious in the headline detail. It would have affected both import and export flows and paperwork, with likely limited near-term impact, on the net trade balance.

Employment and Unemployment (September 2017). In the context of impact from two major hurricanes, and otherwise distorted by 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 the headline September 2017 labor data on Friday, October 6th, which will be covered in *Commentary No. 915* of that date. Irrespective of some negative storm impact, background reporting issues persist and will continue to overstate employment and to understate unemployment.

The headline September labor details will reflect effects of both Hurricane Harvey and Hurricane Irma. Where BLS surveying will be distorted by both storms, the issues may be more reporting-related than people actually being counted as out of work, although reported wages could be depressed. The August Payroll and Household Surveys were completed before Hurricane Harvey hit Texas. Both storms, however, had hit either before or coincident with the September employment and unemployment surveying. As described by the BLS in its [Press Release](#) of last month:

In the establishment survey, the reference period is the pay period that includes the 12th of the month. Unusually severe weather is more likely to have an impact on average weekly hours than

on employment. Average weekly hours are estimated for paid time during the pay period, including pay for holidays, sick leave, or other time off. The impact of severe weather on hours estimates typically, but not always, results in a reduction in average weekly hours. For example, some employees may be off work for part of the pay period and not receive pay for the time missed, while some workers, such as those dealing with cleanup or repair, may work extra hours. Typically, it is not possible to precisely quantify the effect of extreme weather on payroll employment estimates. In order for severe weather conditions to reduce employment estimates, employees have to be off work without pay for the entire pay period. Employees who receive pay for any part of the pay period, even 1 hour, are counted in the payroll employment figures.

In the household survey, the reference period is generally the calendar week that includes the 12th of the month. Persons who miss the entire week's work for weather-related events are counted as employed whether or not they are paid for the time off. The household survey collects data on the number of persons who had a job but were not at work due to bad weather. It also provides a measure of the number of persons who usually work full time but had reduced hours due to bad weather.

In the normal course of reporting, both the more-inclusive unemployment-rate numbers, as well as the headline payroll-employment details, would remain open for negative headline surprises in September, given what otherwise has been an increasingly stagnant-to-weakening tone in a number of the better business indicators (see the *Opening Comments*). The complicating effects of the hurricanes, however, likely will dominate and confuse consensus speculations, and will provide excuses for any negative shocks seen in the headline details.
