

**ADVANCE COMMENTARY NUMBER 918-A**

**First Estimate of Third-Quarter 2017 Gross Domestic Product (GDP)**

**October 27, 2017**

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**First Estimate of Third-Quarter 2017 GDP Growth Was 2.99%  
Versus 3.06% in Second-Quarter, 1.24% in First-Quarter**

**Third-Quarter 2017 Final Sales Growth (GDP Net of Inventories) Was 2.26%  
Versus 2.94% in Second-Quarter, 2.70% in First-Quarter**

**No GDP Hurricane-Impact Was Discussed by the Issuing Bureau of Economic Analysis**

**Headline Details Do Not Make Sense in Terms of Underlying Series**

**Natural-Disaster-Scrambled Data Suggest Major Revisions Loom for  
Recent Headline Data, Ranging from Retail Sales to the GDP**

**Better-Quality Economic Measures Continue to Show  
No Full Recovery from the Collapse into 2009 and No Economic Expansion, with  
Stagnant Real-World Activity Increasingly Indicating a Renewed, Deepening Downturn**

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*PLEASE NOTE: A “Special Commentary” on Monday, October 30th will update fully the general economic outlook and GDP, consumer liquidity conditions, financial-market conditions and the outlook for potential FOMC activity. That will be followed by a “Regular Commentary” on Friday, November 3rd, covering October employment and unemployment, the September trade deficit and construction spending.*

*Today’s “Advance Commentary” provides a quick review of the first estimate of Third-Quarter 2017 GDP. Again, more-complete GDP detail and analysis—including third-quarter money-supply velocities, will follow in Monday’s “Special Commentary.”*

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

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## “ADVANCE” ESTIMATE, THIRD-QUARTER 2017 GDP

**Gross Domestic Product (GDP)—Third-Quarter 2017, “Advance” or First Estimate—2.99% Annualized Growth Ran Counter to Related Underlying Reporting, Anecdotal Evidence and Common Experience.** In the context of more-substantially prepared economic data series, such as the Federal Reserve’s Industrial Production series, today’s (October 27th) headline “advance” estimate of 3.0% annualized Third-Quarter 2017 GDP real growth went far beyond its normal nonsense, suggestive of major inconsistencies between it and likely poor-quality, hurricane-disrupted subsidiary series such as Retail Sales. As reporting details stabilize, recent headline economic activity likely will face major revisions in the month or two ahead, including today’s initial third-quarter GDP estimate.

Consider the Federal Reserve’s September Industrial Production Index ([Commentary No. 917](#)), which is one of the more-comprehensive and carefully prepared monthly economic series. The Fed indicated that Industrial Production—accounting for more than half of the GDP—contracted at an annualized pace of 1.5% (-1.5%) in Third-Quarter 2017. The Fed also estimated that quarterly growth would have exceeded 0.5%, net of those hurricane disruptions.

September Retail Sales (Census Bureau, see [Commentary No. 916](#)) boomed, reflecting auto sales that replaced vehicles destroyed in the hurricanes. Yet, that circumstance had to draw down inventories. Nonetheless, auto sales in the third-quarter 2017 boomed at an annualized pace of 14.7%, adding 0.35% to the quarterly GDP growth, while nonfarm inventories added 0.65% further to the quarterly GDP growth rate, accounting for one-third of the aggregate, headline growth of 3.0% in the GDP.

Apparently, the Bureau of Economic Analysis (BEA), which publishes the GDP, has no way of estimating the impact of the storms on quarterly growth, making no comment on same. As a result, with currently unstable reporting in series such as Retail Sales and the GDP, look for some major, near-term

revisions to current estimates of headline economic growth in the month or two ahead, as better-quality numbers gel and interrelationships between the various series stabilize.

Consider, as shown in *Table 1*, that although headline third-quarter GDP growth continued to boom along at 3.0%, versus 3.1% in the second quarter, “final sales,” which is the GDP net of changes in inventories, slowed to 2.3% in third-quarter 2017, from 2.9% in second-quarter 2017.

**Table 1: Headline “Advance” Third-Quarter 2017 GDP Growth Distribution versus Recent Quarters**

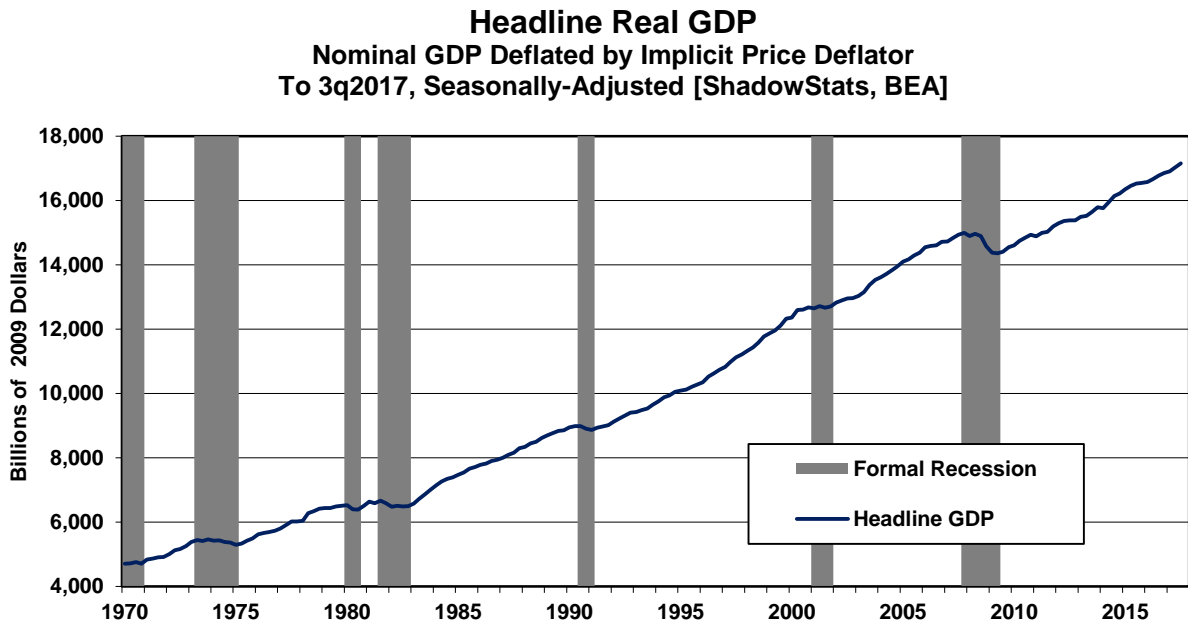
Annualized Quarterly Real Growth in Headline Gross Domestic Product Growth Contribution by Consumption and Product Sector					
	3rd-Q 2017 Advance Estimate	2nd-Q 2017	1st-Q 2017	4th-Q 2016	3rd-Q 2016
<b>CONTRIBUTING ECONOMIC SECTOR</b>					
<b>Personal Consumption Expenditures</b>					
- Goods	0.92%	1.16%	0.15%	1.03%	0.69%
- Services	0.70%	1.08%	1.17%	0.97%	1.23%
<b>Gross Private Domestic Investment</b>					
- Fixed Investment	0.25%	0.53%	1.27%	0.28%	0.23%
- Change in Private Inventories	0.73%	0.12%	-1.46%	1.06%	0.16%
<b>Net Exports of Goods and Services</b>	0.41%	0.21%	0.22%	-1.61%	0.36%
<b>Government Consumption/Investment</b>	-0.02%	-0.03%	-0.11%	0.03%	0.09%
<b>GDP Annualized Real Growth</b>	2.99%	3.06%	1.24%	1.76%	2.78%
<b>Final Sales, GDP Less Inventories</b>	2.26%	2.94%	2.70%	0.70%	2.62%
<b>CONTRIBUTING PRODUCT SECTOR</b>					
<b>Goods</b>	2.49%	2.10%	-0.47%	0.88%	1.39%
<b>Services</b>	1.15%	1.32%	0.91%	0.61%	1.39%
<b>Structures</b>	-0.64%	-0.36%	0.80%	0.27%	0.01%
<b>GDP Annualized Real Growth</b>	2.99%	3.06%	1.24%	1.76%	2.78%
<b>Sources: Bureau of Economic Analysis (BEA), ShadowStats.</b>					

**Headline GDP Reporting.** The Bureau of Economic Analysis (BEA) reported this morning, October 27th, that the first or “advance” estimate of third-quarter 2017 grew at a 2.99% annualized pace of real growth, versus 3.06% in second-quarter 2017 and 1.24% in first-quarter 2017. Year-to-year growth rose to 2.26% in third-quarter 2017, versus 2.21% in second-quarter 2017 and 2.00% in first-quarter 2017.

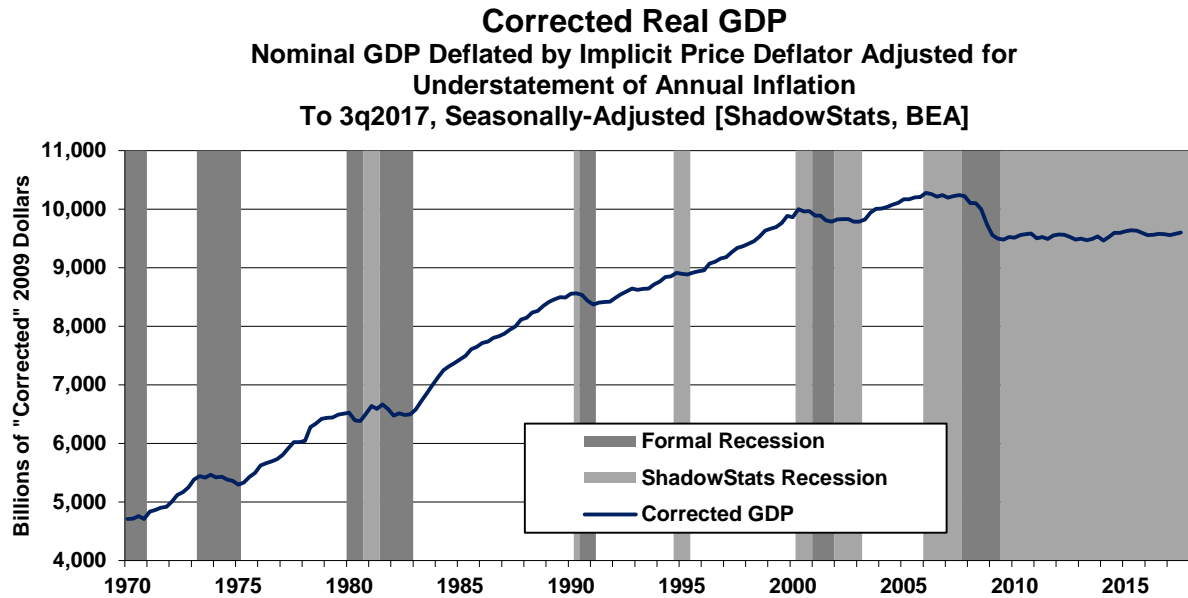
Those details are reflected in *Graphs 1* and *3*. With today’s headline detail, Third-Quarter 2017 GDP stands at 14.4% above the pre-2007-recession peak of the series, an incredible (as in not believable) pace of economic expansion not seen otherwise in other major economic reporting, as regularly discussed here.

*Graphs 2* and *4*, reflect the ShadowStats alternative estimates of GDP growth, corrected for the understatement of annual inflation used in deflating real GDP growth (see [Commentary No. 913](#)).

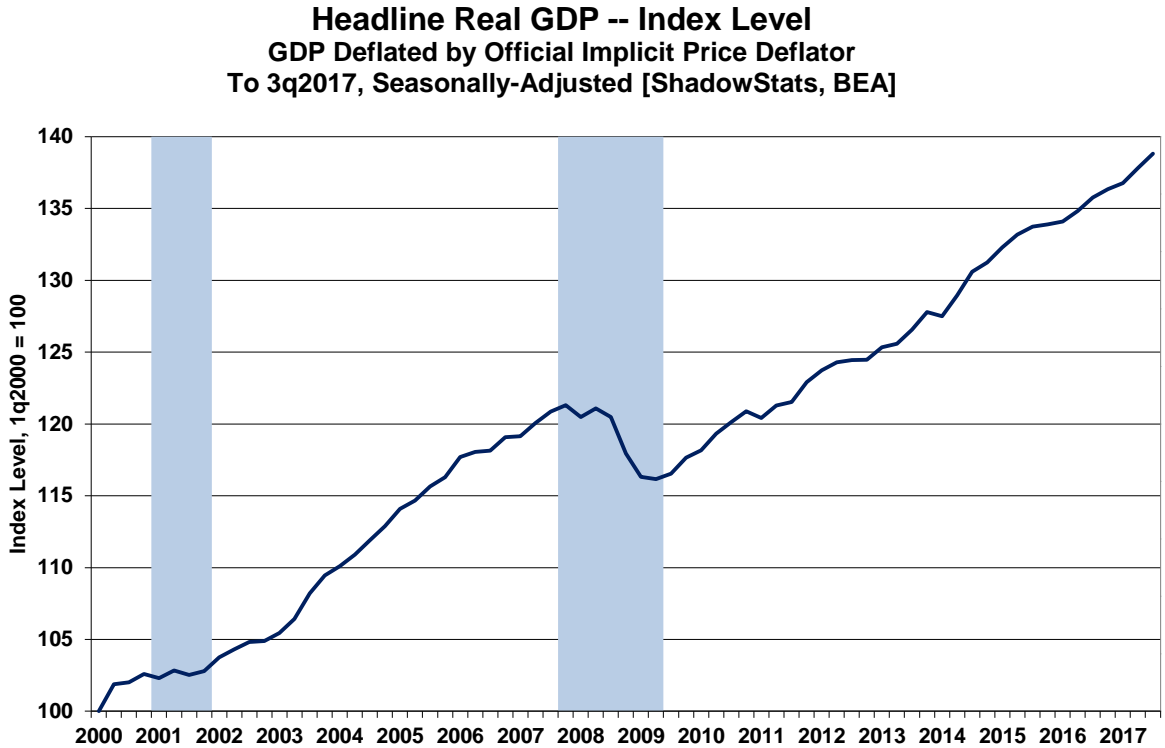
**Graph 1: Real GDP (1970 -2017), First-Estimate of Third-Quarter 2017**



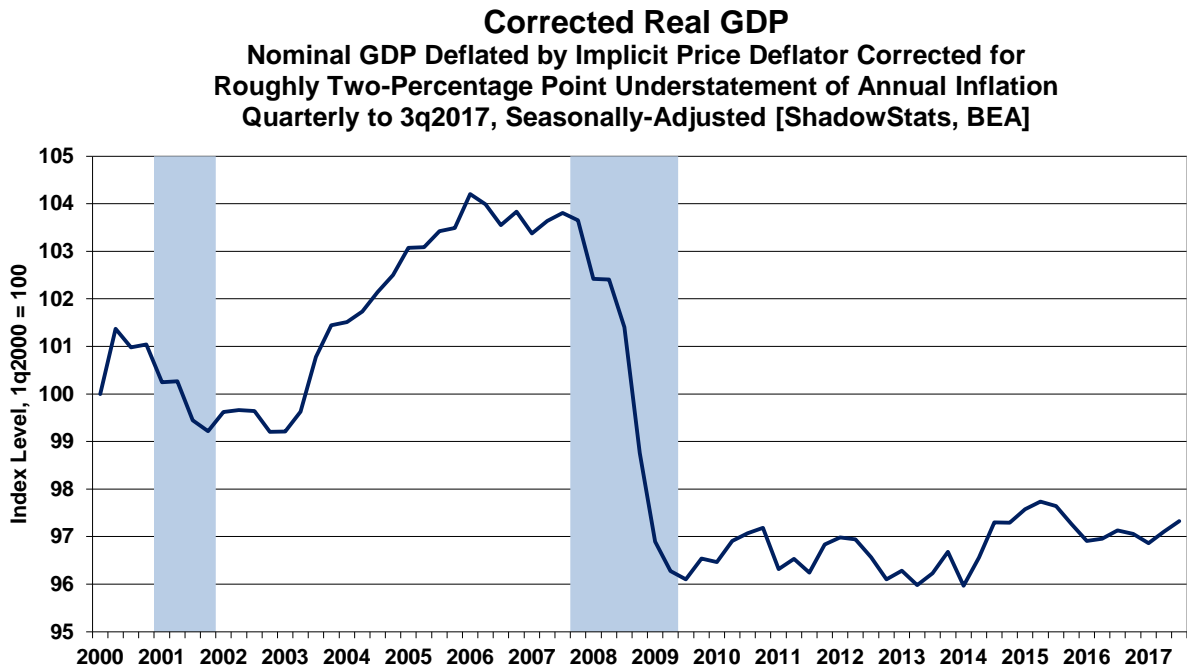
**Graph 2: "Corrected" Real GDP (1970 -2017), First-Estimate of Third-Quarter 2017**



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

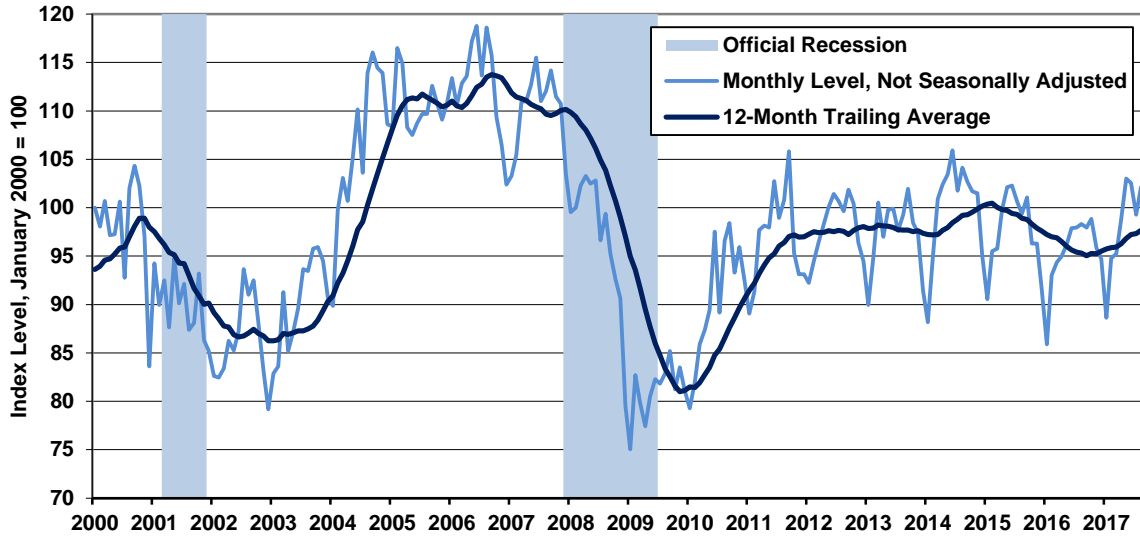


**Graph 4: "Corrected" Real GDP Index (2000 - 2017), First-Estimate of Third-Quarter 2017**



**Graph 5: Cass Freight Index™ (2000 - August 2017)**  
 (Graph OC-1 on page 3 of [Commentary No. 911](#))

**Cass Freight Index™ (Jan 2000 = 100)**  
**To August 2017, Not Seasonally Adjusted**  
 [ShadowStats, Cass Information Systems, Inc.]



**Comparative Indicators.** *Graph 4* of the “corrected” GDP series is shown along with an example of the regular, comparative economic indicators (again, see [Commentary No. 913](#) and the expanded coverage in [No. 859](#)), which generally confirm the broad 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.

The comparative *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*.

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*This Advance Commentary provides a quick review of the “Advance” Third-Quarter 2017 GDP. More-complete detail and regular GDP analysis, including the implicit price deflator and quarterly money supply velocity updates follow in Monday’s (October 30th) Special Commentary No. 918-B.*

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