

ShadowStats Flash Update No. 15

Revised Third-Quarter GDP, October New Orders for Durable Goods

November 27, 2019

An Unfolding, Deepening Recession

**Upside Revision to Third-Quarter Gross Domestic Product, from 1.9% to 2.1%,
Reflected No More Than an Involuntary Build-Up in Unsold Inventories**

Net of Inventory Change, Third-Quarter Final Sales Declined Minimally

**Second-Quarter Gross Domestic Income, Theoretical GDP Equivalent,
Revised Down to 0.9% from 1.8% Annualized Real Growth**

**October 2019 Real New Orders for Durable Goods, Ex-Commercial Aircraft,
Continued to Plunge, Despite Major Downside Revisions to Prior Months**

**October CASS Freight Index Dropped Year-to-Year for the 11th Straight Month;
Indicating a Deepening Downturn and Risks of a Fourth-Quarter GDP Contraction**

**With the FOMC-Proclaimed Sustainable Moderate Expansion Evaporating,
Expectations Should Shift in Favor of a More-Accommodative Fed**

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Flash Update No. 15 provides some detail on and background to today's headline reporting of the Second Estimate of Third-Quarter 2019 Gross Domestic Product (GDP), and the initial estimates of Third-Quarter Gross Domestic Income (GDI), Gross National Product (GNP), as well as headline October 2019 New Orders for Durable Goods and some comparative graphs with the October CASS™ Freight Index.

A full review and update of U.S. economic conditions, including the deepening economic downturn and pending major downside historical benchmark revisions, will publish in the long-delayed **Commentary No. 985** over this Thanksgiving Weekend.

Happy Thanksgiving!

Best Wishes -- John Williams (707) 763-5786, johnwilliams@shadowstats.com

Overview

Despite Today's Happy Headlines, U.S. Economic Conditions Continued to Deteriorate. Any signs of unexpected strength in the initial revision to Third-Quarter 2019 GDP or the headline October 2019 New Orders for Durable Goods largely were artefacts of meaningful downside revisions to prior activity, or unwanted inventory building. It remains ShadowStats' contention that broad U.S. economic activity peaked in Fourth-Quarter 2018 and largely has been in a deepening economic recession ever since, a circumstance that is fully reviewed and updated in this weekend's pending *Commentary No. 985*.

Where broad financial-market recognition of the unfolding recession appears to be increasing rapidly, so, too, should market expectations for expanded FOMC accommodation coming out of the December 10th and 11th meeting, irrespective of current protestations to the contrary. Separately, as discussed in *No. 985* although the downturn has started to surface, and likely will gain sharply in the months ahead, given the lagged nature of the reporting and revisions still to come, irrespective of near-term market acceptance, and even quasi-FOMC recognition of the 2018/2019 Recession, formal recognition likely will not follow until after the 2020 election.

Third-Quarter 2019 Gross Domestic Product – Second Estimate

Recession Continued to Unfold, Amidst Sharply Deteriorating Monthly Numbers, and with Shifting Underlying Fundamentals and Headline GDP Components. The second-estimate of Third-Quarter 2019 Real GDP picked up a stronger-than-expected upside revision of 0.20% in headline annualized quarterly real growth, from 1.92% to 2.12%. Yet, that reflected no more than an involuntary build up in unsold inventories, which contributed 0.17% to headline growth, having subtracted 0.05% (-0.05%) in the first estimate, all as reported by the Bureau of Economic Analysis (BEA) on November 27th, and as detailed in *Table I*, which breaks out the headline GDP growth contribution by quarter and by sector. Final Sales (GDP net of inventory change) declined minimally from 1.97% to 1.95%. Against the revised third-quarter GDP growth of 2.12%, the unrevised second quarter GDP growth held at 2.01%, down from 3.10% in First-Quarter 2019.

The initial estimate of Third-Quarter 2019 Gross Domestic Income (GDI), the theoretical income-side equivalent to the GDP's consumption side, rose to 2.39% from a downwardly revised 0.87% (previously 1.82%) in Second-Quarter 2019. Consistent with that earlier entrenched estimate, Third-Quarter 2019 GDI would have gained 1.43%, instead of the headline 2.39%.

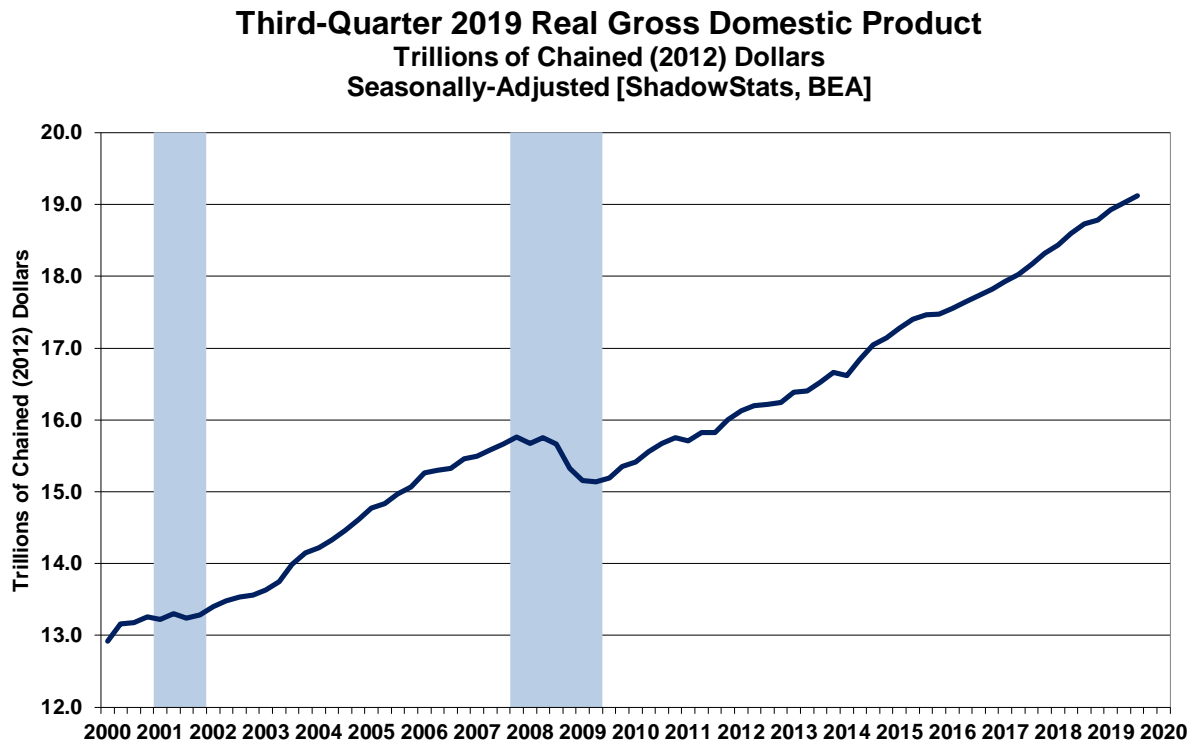
Initial reporting of Third-Quarter 2019 Gross National Product (GNP), which is GDP net of Factor Income (the trade balance in interest and dividend payments), fell to a headline 2.19%, from its unrevised Second-Quarter 2019 estimate of 2.78%. The latest levels, and the year-to-year of changes in real GDP, GDI and GNP follow in *Graphs 1 to 2* and *5 to 8*. The ShadowStats Corrected-Inflation GDP, corrected for understated headline GDP inflation (Implicit Price Deflator), discussed in *Special Commentaries 968* and *983-B* is plotted in *Graphs 3* and *4*, with details in *Table I*.

Table I: Real GDP and Breakout of Related Detail, Third-Quarter 2018 to Second-Estimate, Third-Quarter 2019

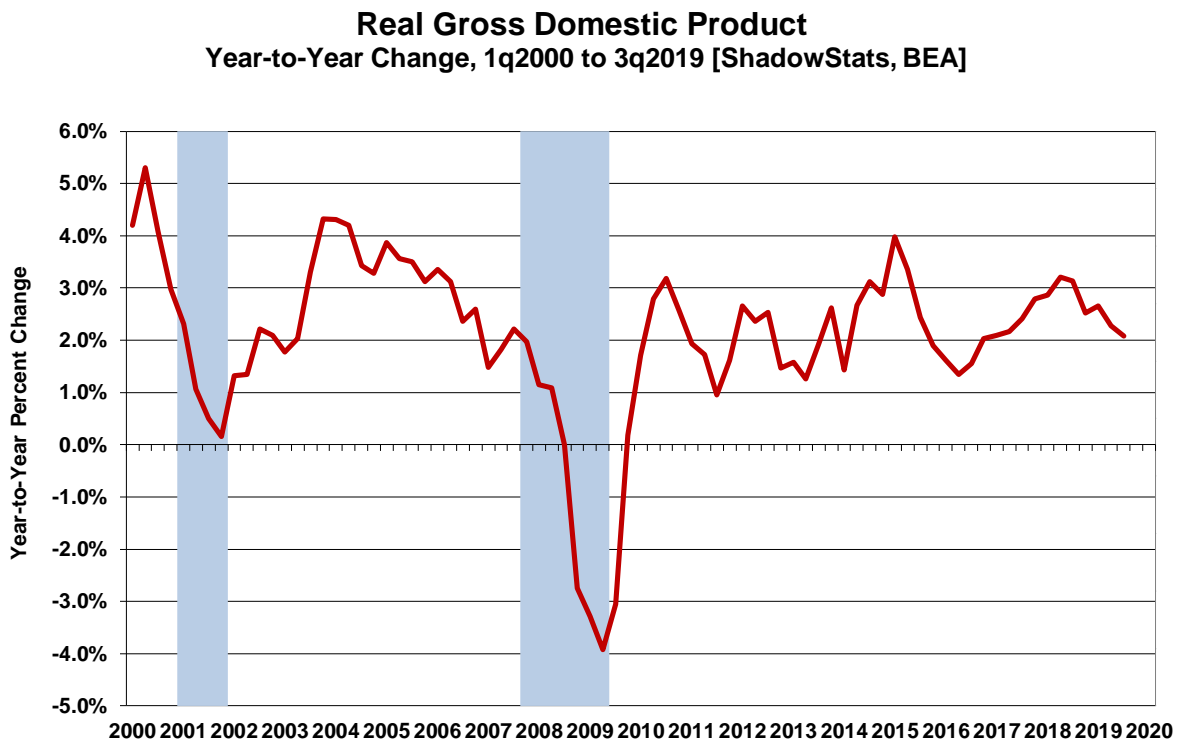
Annualized Quarterly Real Growth in Headline Gross Domestic Product Benchmark Revised Third-Quarter 2018 to First-Quarter 2019 and "Final" Second-Quarter and "Second Estimate" Third-Quarter 2019 Growth Contribution by Consumption and Product Sector									
GDP COMPONENT GROWTH CONTRIBUTION BY SECTOR	Third-Quarter 2018		Fourth-Quarter 2018		First-Quarter 2019		Second- Quarter	Third-Quarter	
	Old "Final"	Revised "Final"	Old "Final"	Revised "Final"	Old "Final"	Revised "Final"	2019 "Final"	First Estimate	Second Estimate
ECONOMIC SECTOR									
Personal Consumption									
- Goods	0.90%	0.75%	0.54%	0.33%	0.15%	0.32%	1.74%	1.14%	1.17%
-- Motor Vehicles	-0.05%	0.01%	0.20%	0.07%	-0.46%	-0.27%	0.37%	0.02%	0.07%
- Services	1.47%	1.59%	1.12%	0.65%	0.48%	0.46%	1.29%	0.79%	0.80%
Gross Private Domestic Investment									
- Fixed Investment	0.21%	0.13%	0.54%	0.46%	0.53%	0.56%	-0.25%	-0.22%	-0.18%
-- Residential	-0.14%	-0.16%	-0.18%	-0.18%	-0.08%	-0.04%	-0.11%	0.18%	0.18%
- Change in Private Inventories	2.33%	2.14%	0.11%	0.07%	0.55%	0.53%	-0.91%	-0.05%	0.17%
Net Exports of Goods and Services	-1.99%	-2.05%	-0.08%	-0.35%	0.94%	0.73%	-0.68%	-0.08%	-0.11%
Government Consumption	0.44%	0.36%	-0.07%	-0.07%	0.48%	0.50%	0.82%	0.35%	0.28%
GDP ANNUALIZED REAL GROWTH	3.36%	2.93%	2.17%	1.09%	3.13%	3.10%	2.01%	1.92%	2.12%
Final Sales, GDP Less Inventories	1.03%	0.79%	2.06%	1.02%	2.58%	2.57%	2.92%	1.97%	1.95%
PRODUCT SECTOR									
Goods	1.76%	1.41%	1.66%	1.39%	2.11%	2.12%	0.62%	1.35%	1.51%
Services	1.77%	1.73%	0.99%	0.37%	0.56%	0.66%	1.66%	0.91%	0.90%
Structures	-0.17%	-0.21%	-0.48%	-0.67%	0.46%	0.32%	-0.26%	-0.33%	-0.29%
GDP ANNUALIZED REAL GROWTH	3.36%	2.93%	2.17%	1.09%	3.13%	3.10%	2.01%	1.92%	2.12%
SUPPLEMENTAL									
Annualized Quarter-to-Quarter Real GDP Change and Headline Implicit Price Deflator Inflation									
Gross Domestic Product (GDP)	3.36%	2.93%	2.17%	1.09%	3.13%	3.10%	2.01%	1.92%	2.12%
Gross Domestic Income (GDI)	4.56%	3.28%	0.52%	0.78%	1.00%	3.24%	r0.87%	--	*2.39%
Gross National Product (GNP)	3.05%	3.00%	2.12%	0.68%	3.16%	3.09%	2.78%	--	2.19%
ShadowStats Corrected GDP**	1.27%	0.84%	0.10%	-0.96%	1.04%	1.01%	-0.05%	-0.14%	0.06%
Implicit Price Deflator (IPD) Inflation	1.51%	1.78%	1.86%	1.78%	0.64%	0.78%	2.59%	1.57%	1.68%
Year-to-Year Real GDP Change and Headline Implicit Price Deflator Inflation									
Gross Domestic Product (GDP)	3.00%	3.13%	2.97%	2.52%	3.20%	2.65%	2.28%	2.03%	2.08%
Gross Domestic Income (GDI)	2.69%	2.83%	2.45%	2.34%	1.73%	2.00%	r2.04%	--	*1.81%
Gross National Product (GNP)	2.96%	3.17%	2.85%	2.41%	3.09%	2.47%	2.38%	--	2.18%
ShadowStats Corrected GDP**	0.92%	1.05%	0.89%	0.44%	1.11%	0.58%	0.21%	-0.04%	0.01%
Implicit Price Deflator (IPD) Inflation	2.39%	2.59%	2.17%	2.34%	1.83%	1.94%	1.73%	1.68%	1.70%
Sources: Bureau of Economic Analysis, ShadowStats.com. (r) Prior 2q2019 GDI Q/Q 1.82%, Y/Y 2.28%. (*) 3q2019 Q/Q was 1.43% net of prior revisions, 3q2019 Y/Y unaffected. (**) Real GDP corrected for understated headline inflation, see Special Commentaries No. 968 and 983-B for background.									

Consistent to each of the GDP, GDI and GNP measures is a continuing sharp downturn in real year-to-year change.

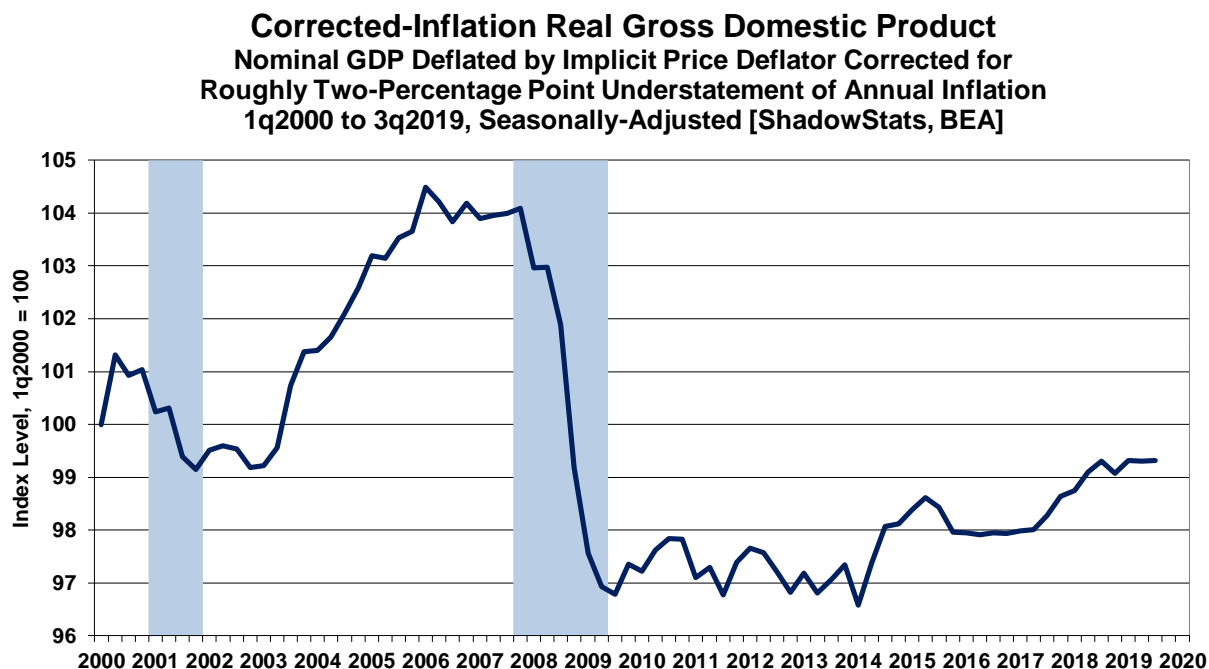
Graph 1: Real Gross Domestic Product, First-Quarter 2000 to Third-Quarter 2019



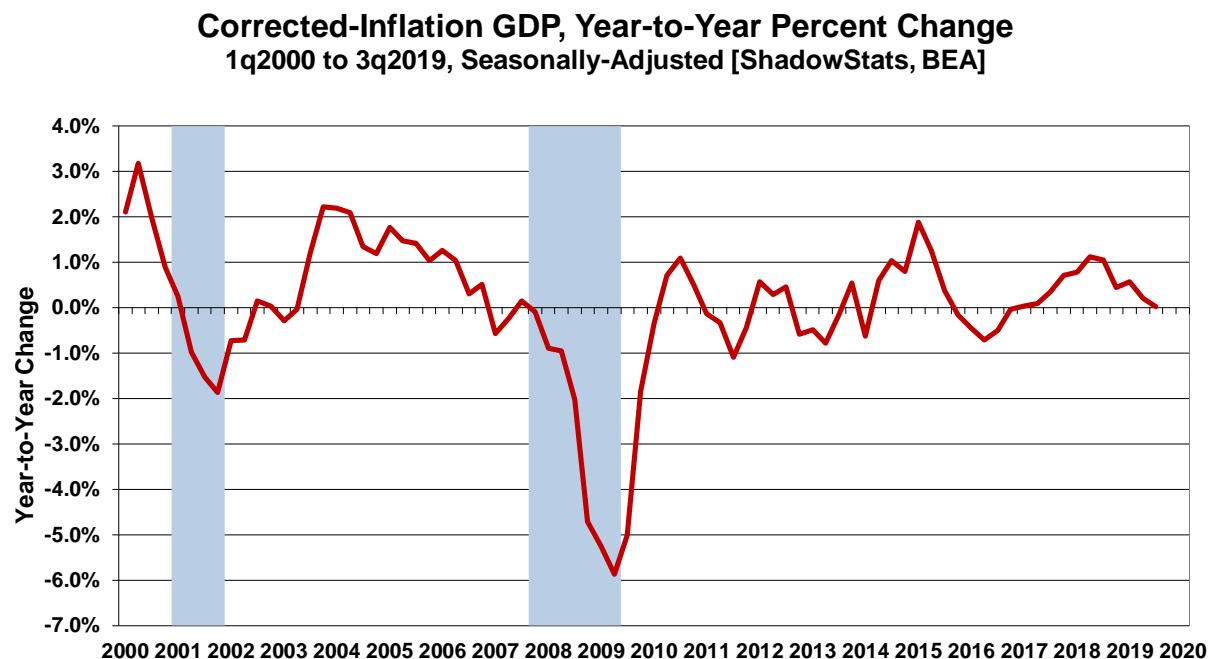
Graph 2: Real Gross Domestic Product, Year-to-Year Percent Change, First-Quarter 2000 to Third-Quarter 2019



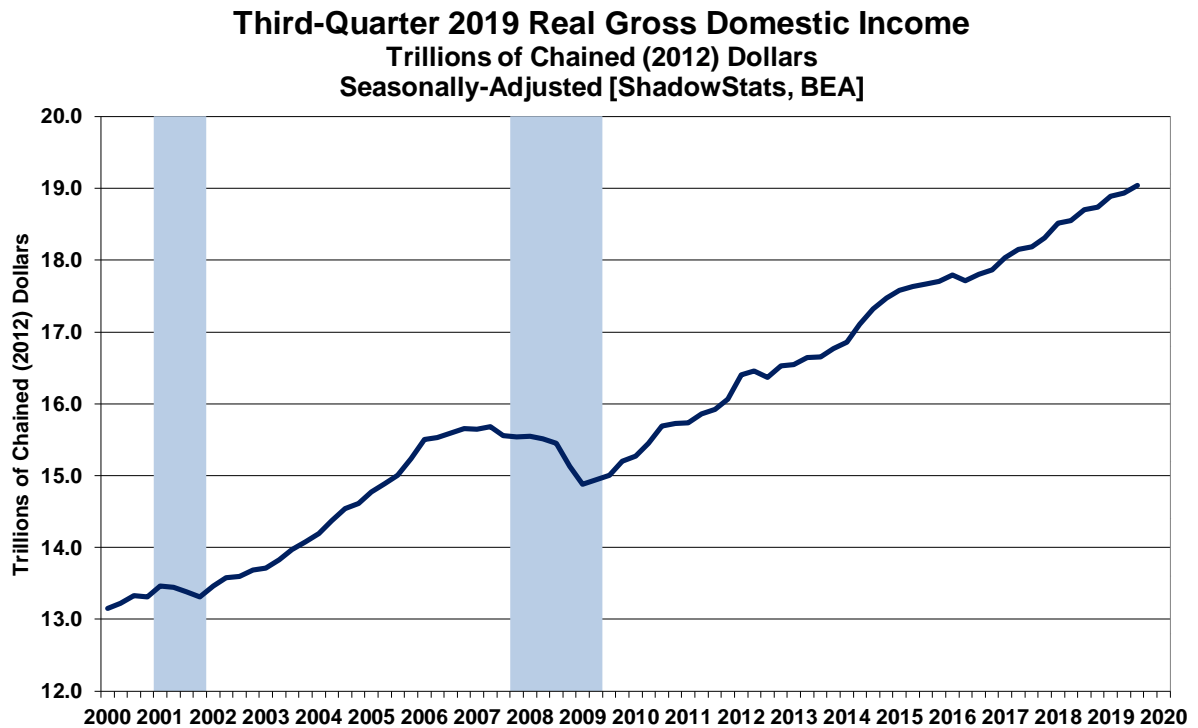
Graph 3: ShadowStats Corrected-Inflation Real GDP, 1q2000 to 3q2019



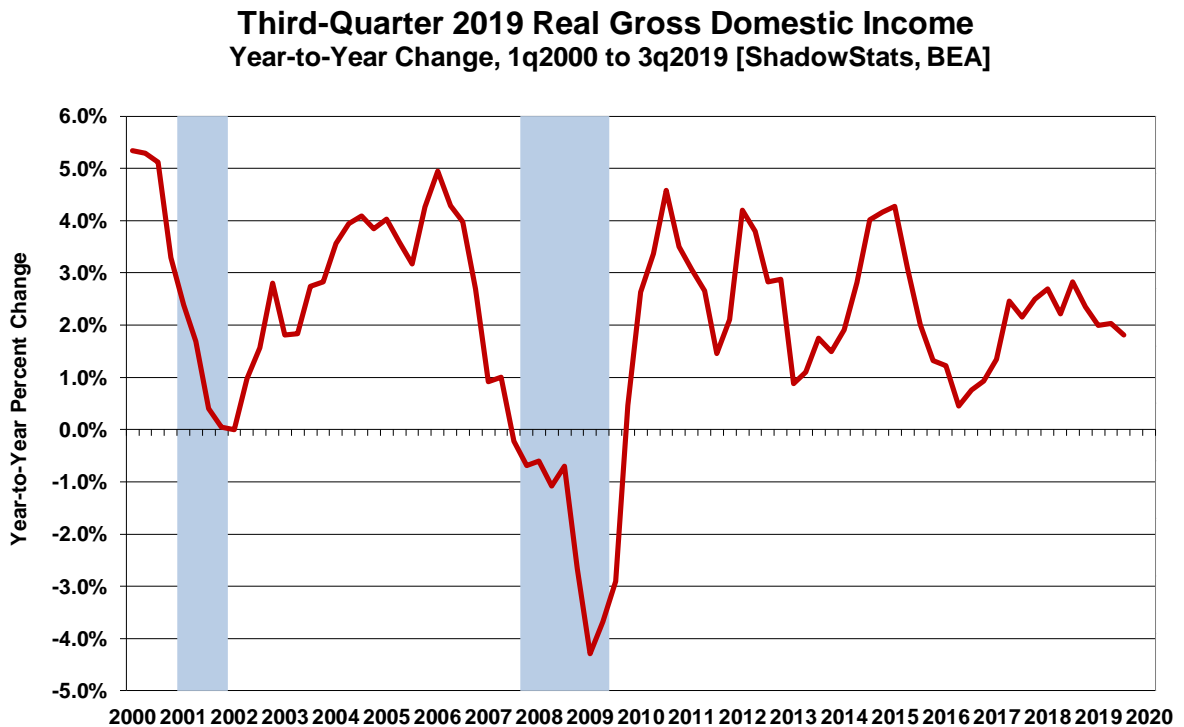
Graph 4: ShadowStats Corrected-Inflation Real GDP, 1q2000 to 3q2019, Year-to-Year Percent Change



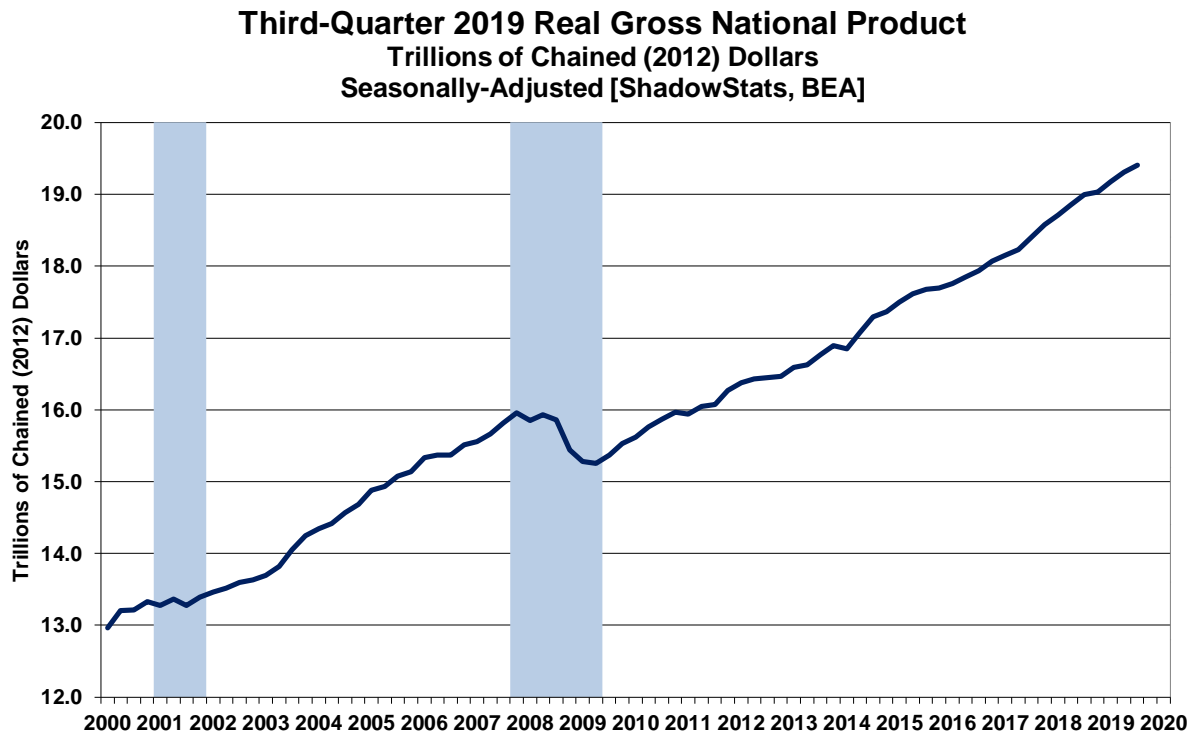
Graph 5: Real Gross Domestic Income, First-Quarter 2000 to Third-Quarter 2019



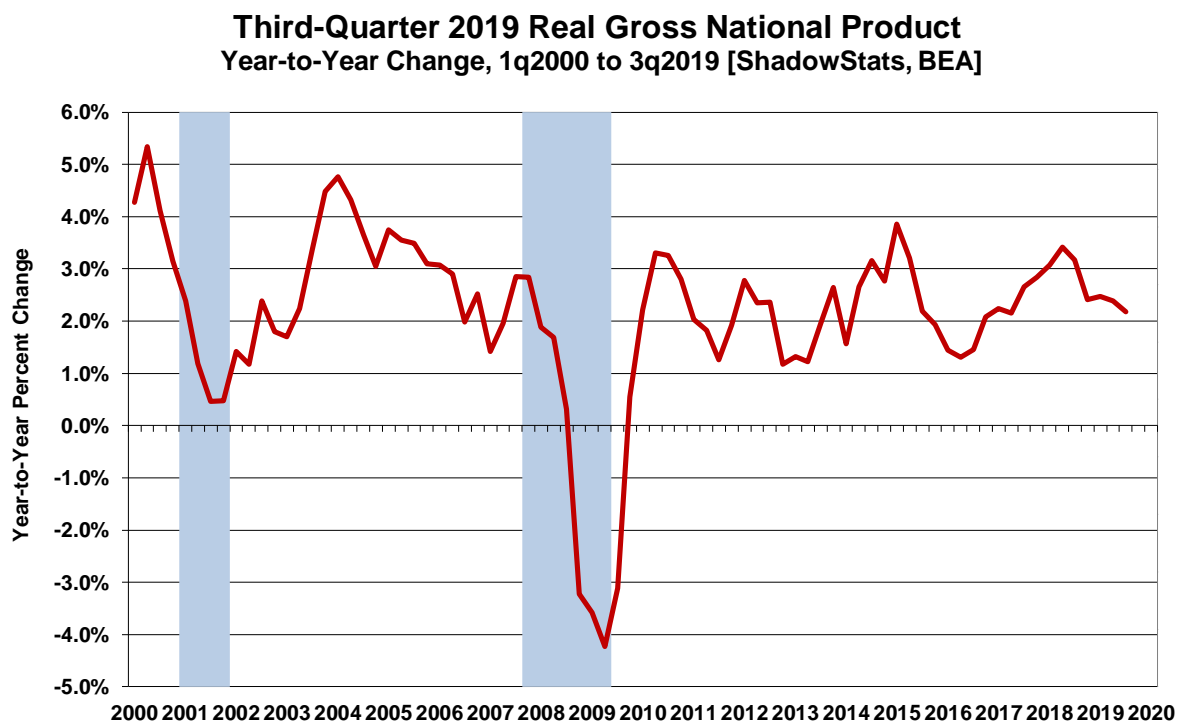
Graph 6: Real Gross Domestic Income, Year-to-Year Percent Change, First-Quarter 2000 to Third-Quarter 2019



Graph 7: Real Gross National Product, First-Quarter 2000 to Third-Quarter 2019



Graph 8: Real Gross National Product, Year-to-Year Percent Change, First-Quarter 2000 to Third-Quarter 2019



October 2019 New Orders for Durable Goods and the CASS™ Freight Index

October Real New Orders for Durable Goods, Ex-Commercial Aircraft, Continued to Plunge, Despite Major Downside Revisions to Prior Months. Aggregate October 2019 Real New Orders for Durable Goods continued in still-deepening recession, with aggregate monthly nominal gains reflecting no more than major downside revisions to prior months, as reported by the Census Bureau on November 27th. *Table II* details key measures of New Orders, both before and after consideration for inflation, and for the highly volatile Commercial Aircraft sector.

Table II: October 2019 New Orders for Durable Goods

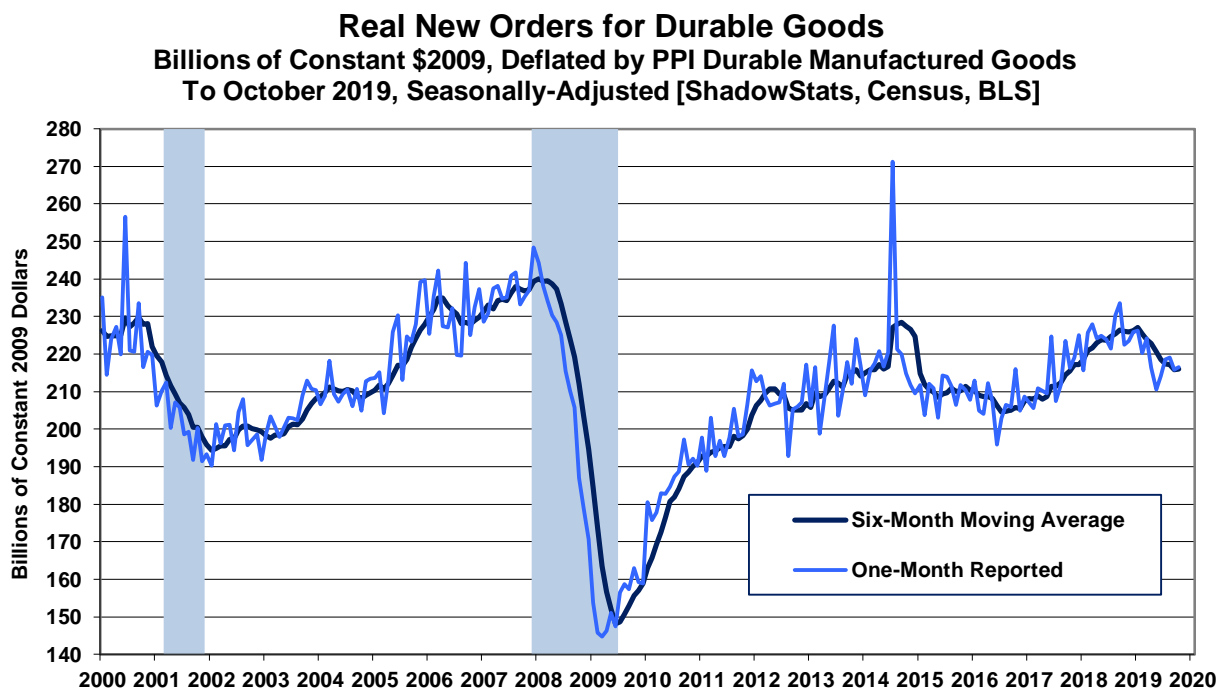
New Orders for Durable Goods (October 2019 Reporting)					
Month	Nominal Millions of Current Dollars			Real Millions of Constant 2009 Dollars	
	Total New Orders	Commercial Aircraft	Ex- Commercial Aircraft	Total New Orders	Ex- Commercial Aircraft
Aug 19	250.733	9.059	241.674	218.981	211.070
Sep 19	247.265	7.340	239.925	215.764	209.359
Oct 19	248.746	8.112	240.634	215.778	208.741
	Percent Change			Percent Change	
	Mo/Mo	Mo/Mo	Mo/Mo	Mo/Mo	Mo/Mo
Aug 19	0.16%	-17.16%	0.95%	0.22%	1.01%
Sep 19	-1.38%	-18.98%	-0.72%	-1.47%	-0.81%
Oct 19	0.60%	10.52%	0.30%	0.01%	-0.29%
Prior M/M					
Aug 19	0.27%	-17.16%	1.07%	0.33%	1.12%
Sep 19	-1.13%	-11.83%	-0.73%	-1.22%	-0.82%
	Yr/Yr		Yr/Yr	Yr/Yr	Yr/Yr
Aug 19	-2.96%		-0.03%	-4.90%	-2.03%
Sep 19	-5.698%		-3.40%	-7.62%	-5.37%
Oct 19	-0.721%		0.36%	-3.04%	-1.98%
Prior Y/Y					
Aug 19	-2.85%		0.08%	-4.80%	-1.93%
Sep 19	-5.35%		-3.30%	-7.28%	-5.27%
Sources: Commerce Department, Bureau of Labor Statistics, ShadowStats.com					

The plunge in orders reflected year-to-year contractions in both the Second- and was on track for Third-Quarter 2019 Real New Orders, both before and after consideration of Commercial Aircraft. Real Orders have contracted quarterly and/or annually in each the last five quarters, consistent with annual declines in freight and manufacturing activity as last seen in the 2014-2016 mini-recession, and with the onset of a new recession, as highly correlated with the CASS Freight Index. *Graphs 9 to 13* plot both the New Orders and CASS Freight Index for comparison. Detail on how these patterns reveal an unfolding recession will be discussed in pending *Commentary No. 985*.

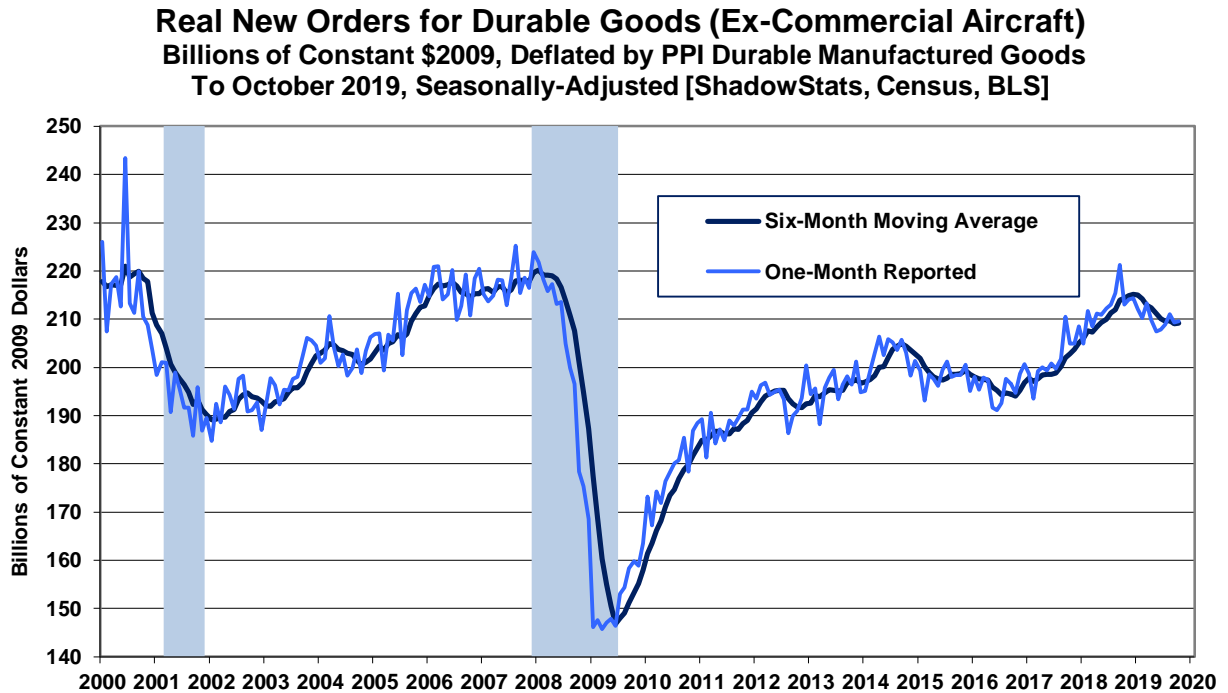
The Highly Correlated CASS Freight Index Dropped Year-to-Year in October 2019, for the 11th Straight Month, Amidst Indications of a Deepening Downturn and Risks of a Fourth-Quarter GDP Contraction. The [October 2019 CASS Freight Index](https://www.cassinfo.com) showed its 11th-straight month of annual decline, as published by www.CassInfo.com on November 14th. The October Index declined year-to-year for the eleventh straight month, down by 5.9% (-5.9%), paralleling the pattern of annual declines seen at the onset of the Great Recession. After warning for the fifth straight month that its Index was “signaling an economic contraction,” CASS also noted: “... material increases in the rates of decline, signal... the contraction is getting worse,” and added “... we see a growing risk that GDP will go negative by year’s end.”

Separately, the Index’s twelve-month moving average (calculated by ShadowStats) declined month-to-month for its eleventh straight month. Those year-to-year and twelve-month-moving-average metrics neutralize seasonality in this unadjusted series. ShadowStats regularly follows and analyzes the CASS Index as a highest-quality coincident/leading indicator of underlying economic reality. We thank CASS for their permission to graph and to use their numbers in our Commentaries.

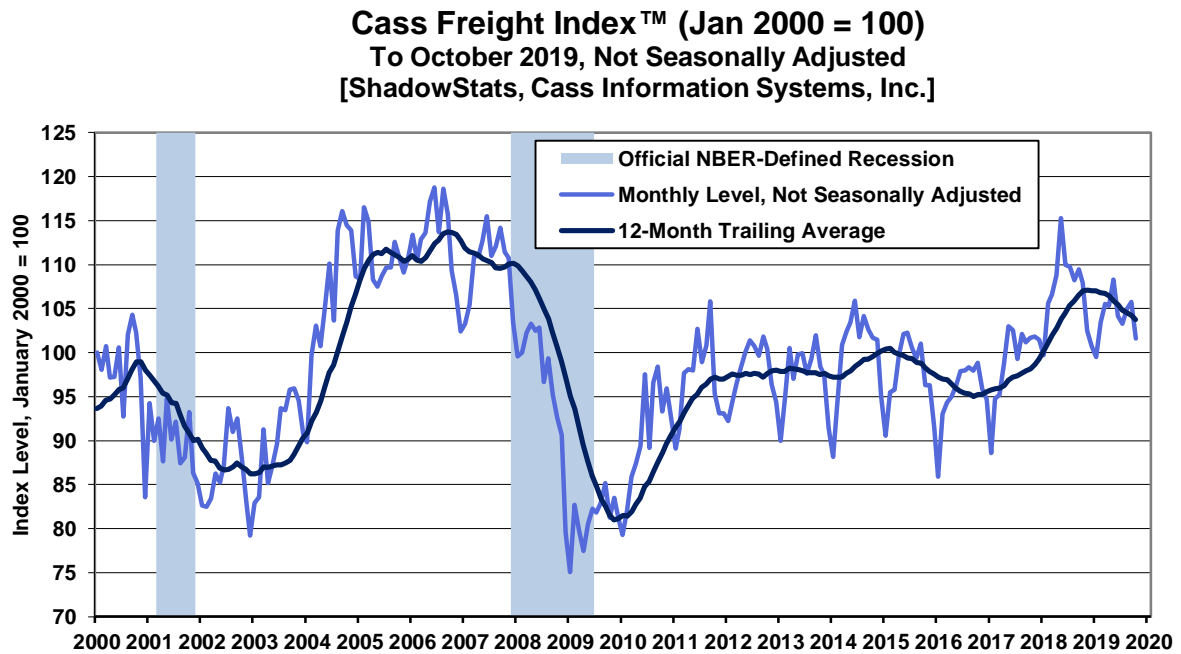
Graph 9: Real New Orders for Durable Goods



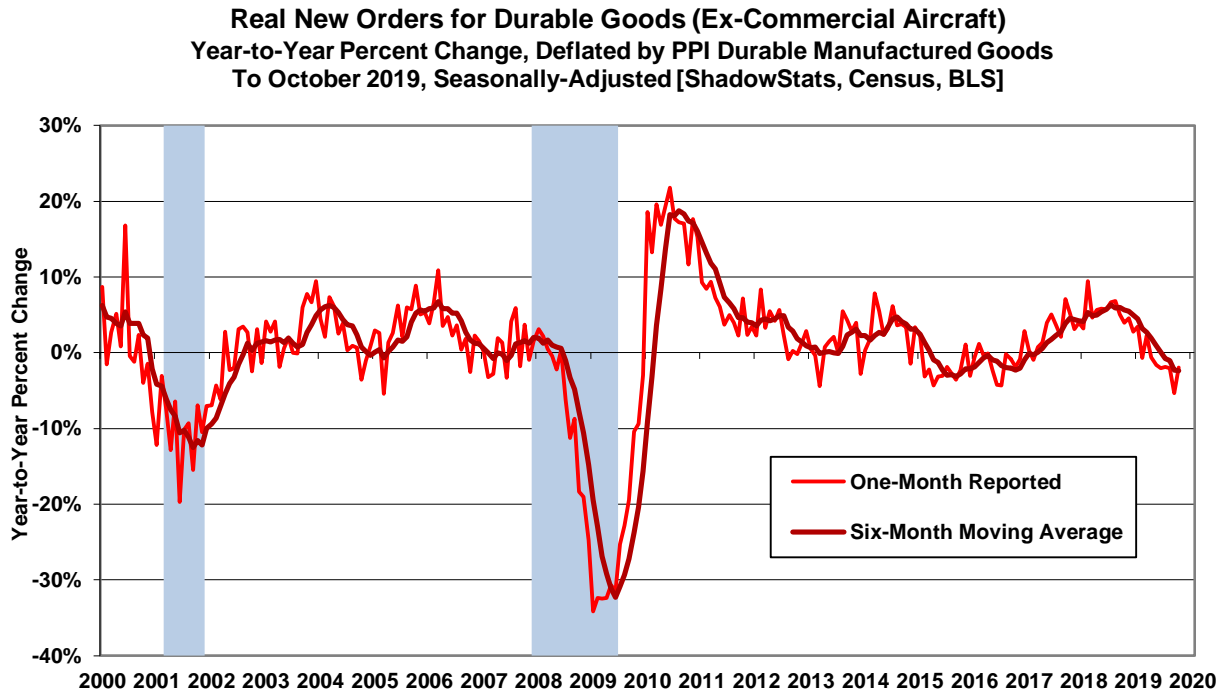
Graph 10: Real New Orders for Durable Goods (Ex-Commercial Aircraft)



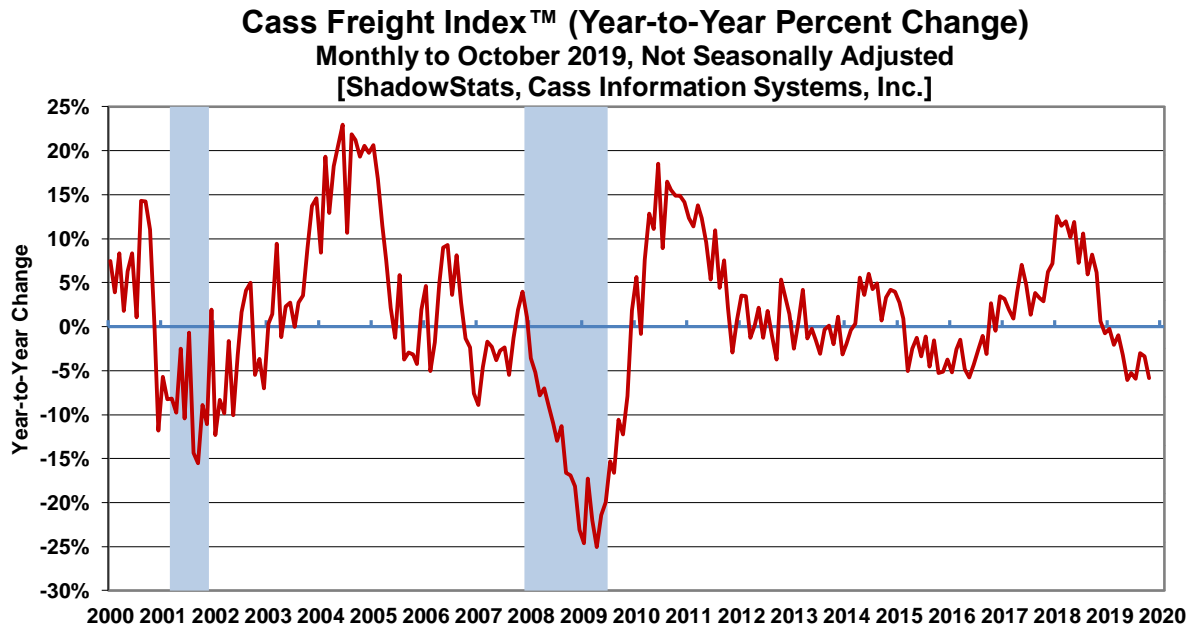
Graph 11: CASS Freight Index™, 2000 to Date



Graph 12: Real New Orders for Durable Goods (Ex-Commercial Aircraft), Year-to-Year Percent Change



Graph 13: CASS Freight Index™, Year-to-Year Percent Change, 2000 to Date



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