

## **ShadowStats Flash Update No. 6**

**Revised Second-Quarter 2019 GDP, Initial Estimates of Second-Quarter GDI and GNP**

**August 29, 2019**

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**Second-Quarter 2019 GDP Revision to 2.04%, from 2.06%,  
Was Negligible and Ran Counter to Rapid Deterioration in Underlying Series**

**Initial 2q2019 Gross Domestic Income Was Estimated at 2.11%, with  
Initial Gross National Product at 3.18%**

**Yet, Manufacturing and Oil and Gas Production Are In Decline, on  
Top of Meaningful, Second-Quarter Downside Revisions**

**Real New Orders Are in Their Worst Contraction Since the Great Recession**

**Falling Construction Spending Is Worst Since the Great Recession**

**Downturn in Freight Activity Is Worst Since the Great Recession**

**Heavy Downside Revisions to Retail Trade Employment  
Suggest Some Recent Overstatement of Retail Sales Activity**

**Continued FOMC Easing Should Intensify Shortly;  
Renewed Quantitative Easing Remains a Good Bet**

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**Note to Subscribers:** *Flash Update No. 6* headlines key elements of today’s (August 29th) second estimate of the recently benchmarked Second-Quarter 2019 Gross Domestic Product (GDP), and the initial estimates of Second-Quarter Gross Domestic Income (GDI), the theoretical income-side equivalent of the consumption side GDP, and Gross National Product (GNP), which is the GDP plus the Trade Balance in Factor Income (Interest and Dividend Payments), as reported by the **Bureau of Economic Analysis**.

Pending in *Commentary No. 985*, which is in final preparation for posting over the Labor Day Weekend, are: (1) extended GDP coverage, including details of the recent GDP annual benchmark revisions, (2) ShadowStats’ expectations as to how the headline reporting of the deepening and currently unfolding recession likely will be timed, (3) an updated assessment of probable Federal Reserve actions through its Federal Open Market Committee (FOMC) in the months ahead, and (4) an updated ALERT on the financial markets.

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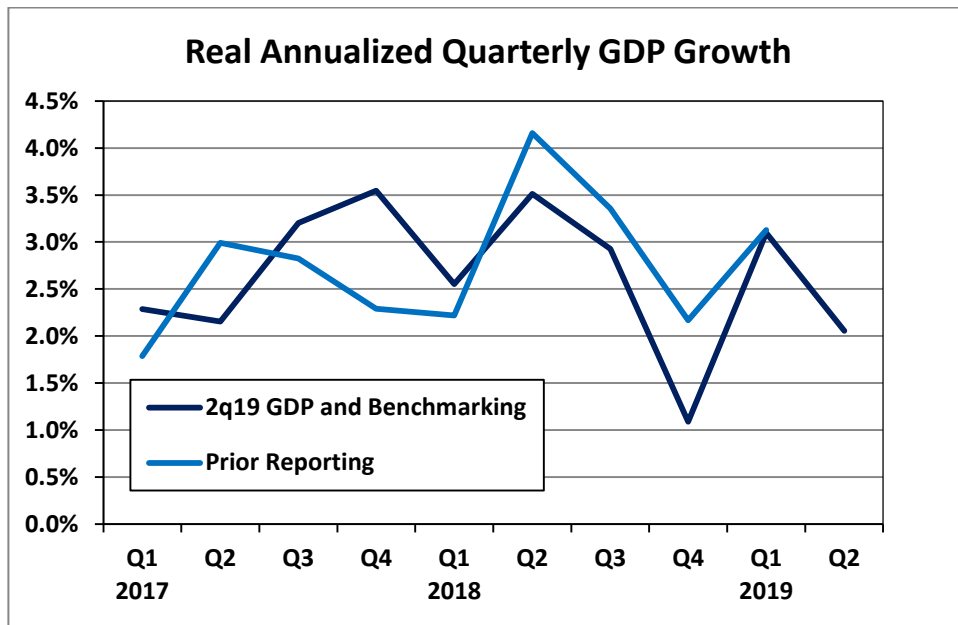
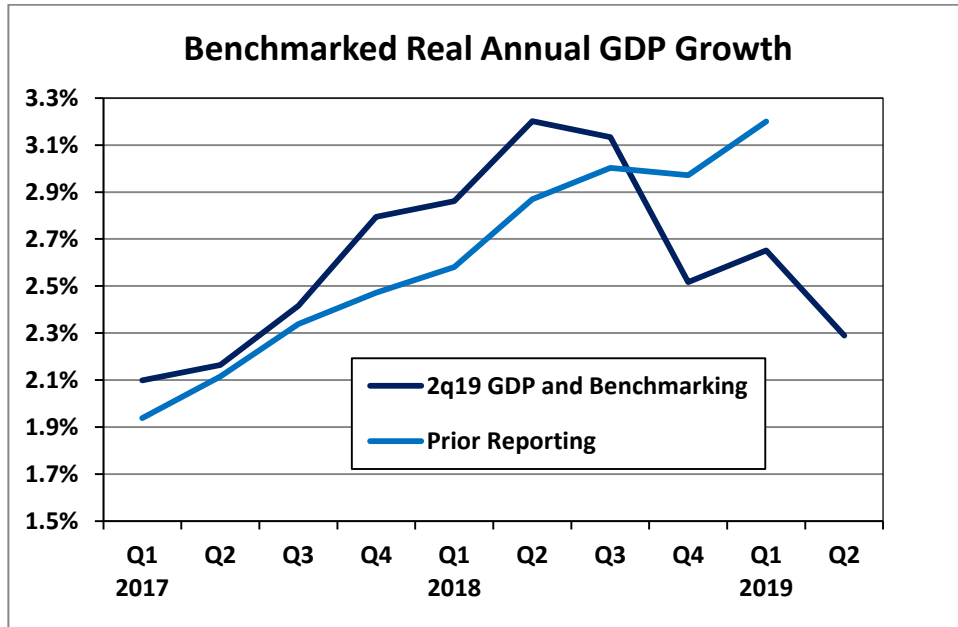
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## GDP Benchmarking Showed a Sharply Negative Turn in Real Annual Growth

**Uptrending Annual GDP Growth Suddenly Flipped to the Downside.** These simple summary graphs of the 2019 GDP benchmark revisions show the sudden and rapid revised downside flips in headline 2018 annual and quarterly real GDP growth rates that are now leading the broad economy into recession.



**Second-Quarter 2019 Gross Domestic Product Revisions Were Nil, With Mixed Initial GDI and GNP Estimates.** In the context of last month’s annual benchmark revisions to the GDP, sharply slowing annual real GDP growth remained in play, as reflected in the preceding graphs, with Third-Quarter 2018

real GDP slowing from 3.13%, to 2.52% in Fourth-Quarter 2018, holding at 2.65% in the heavily disrupted First-Quarter 2019 reporting, and easing to a minimally revised 2.28% [previously 2.29%] in the second estimate of Second-Quarter 2019 GDP, as reported August 29th by the Bureau of Economic Analysis (BEA).

Growth in annualized real quarterly GDP growth also revised minimally, to 2.04% from 2.06%, despite major downside revisions to related underlying series, such as Industrial Production.

**GNP and GDI Showed Varied Initial Estimates of Second-Quarter Activity.** Gross Domestic Income (GDI), the theoretical income-side equivalent of the consumption-side GDP, was reported with annualized quarterly real growth of 2.11%, versus a revised 3.24% [previously 3.18%] in the unstable First-Quarter 2019 accounting, with annual growth of 2.35%, up from a revised 2.00% [previously 1.98%] in First-Quarter 2019. Gross National Product (GNP), which is GDP plus the balance of trade in factor income (interest and dividend payments), came in at an initial Second-Quarter 2019 annualized 3.18%, versus 3.09% in First-Quarter 2019, with annual growth of 2.48% in Second-Quarter 2019, versus 2.47% in First-Quarter 2019.

**Extended Benchmarking Detail Follows.** The August 29th headline second-estimate of Second-Quarter 2019 numbers on the U.S. Gross Domestic Product (GDP)—discussed and plotted here—fully incorporates the recent benchmarking back to first-quarter 2014, which was published by the BEA on July 26th. Extended benchmarking coverage follows in the planned Labor Day publication of *Commentary No. 985*. Some initial analysis of the benchmarking was published in [Flash Update No. 1](#) of July 26th.

The latest key numbers are summarized in *Table 1* on page 5, including pre- and post-benchmarking detail for Third-Quarter 2018 to First-Quarter 2019. Numbers published after First-Quarter 2019 are fully in the context of the benchmarking, with any revisions reflecting standard monthly revisions to the quarterly numbers.

*Graphs 1 to 6* reflect the latest, standard headline detail. *Graphs 7 to 10*, reflect the *ShadowStats* series corrected for the understatement of headline inflation used in deflating the headline GDP series. Again, extended coverage follows in the pending Labor Day missive.

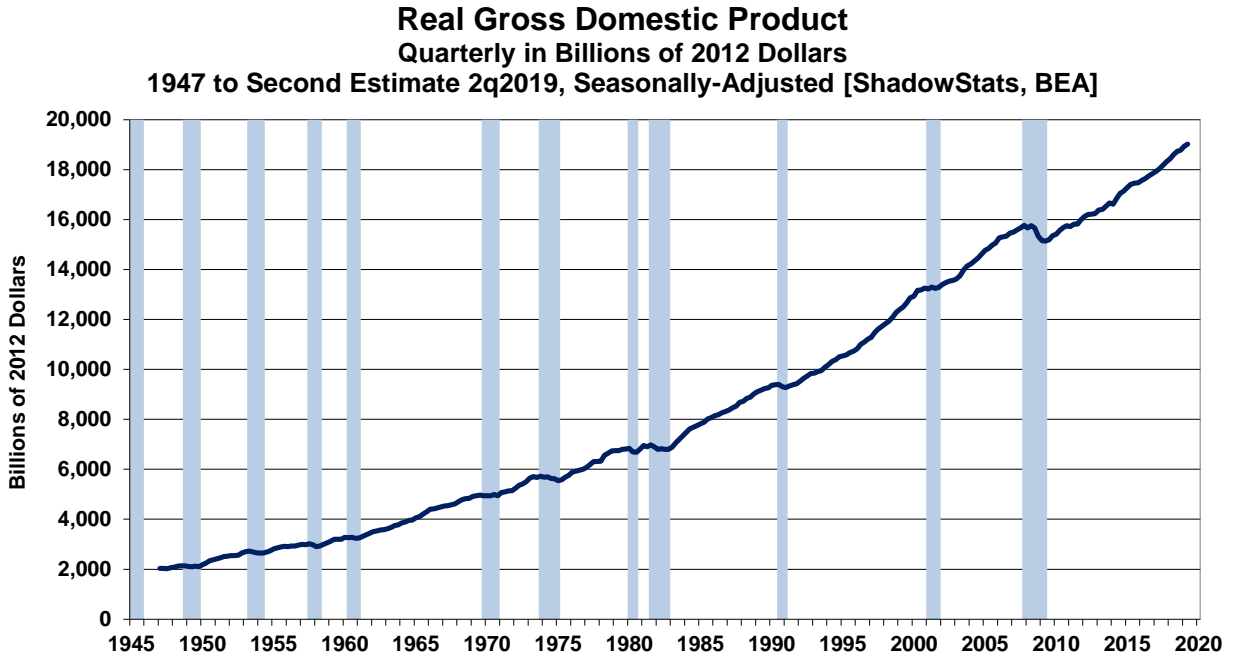
**Keep in Mind That Headline GDP Numbers Supposedly Reflect Real World Activity.** As discussed in [Flash Update No. 4](#) and [Flash Update No. 5](#), recent revisions and headline reporting in series ranging from Industrial Production, Freight Activity, New Orders for Durable Goods to Payroll Employment all have shown extremely negative headline details, often with downside revisions to second-quarter 2019 activity, where such reporting was subsequent to the initial GDP reporting for the quarter. The data eventually should move closer with each other, as various revisions work through the system.

**[ Table 1: GDP Quarterly Detail follows on the next page.]**

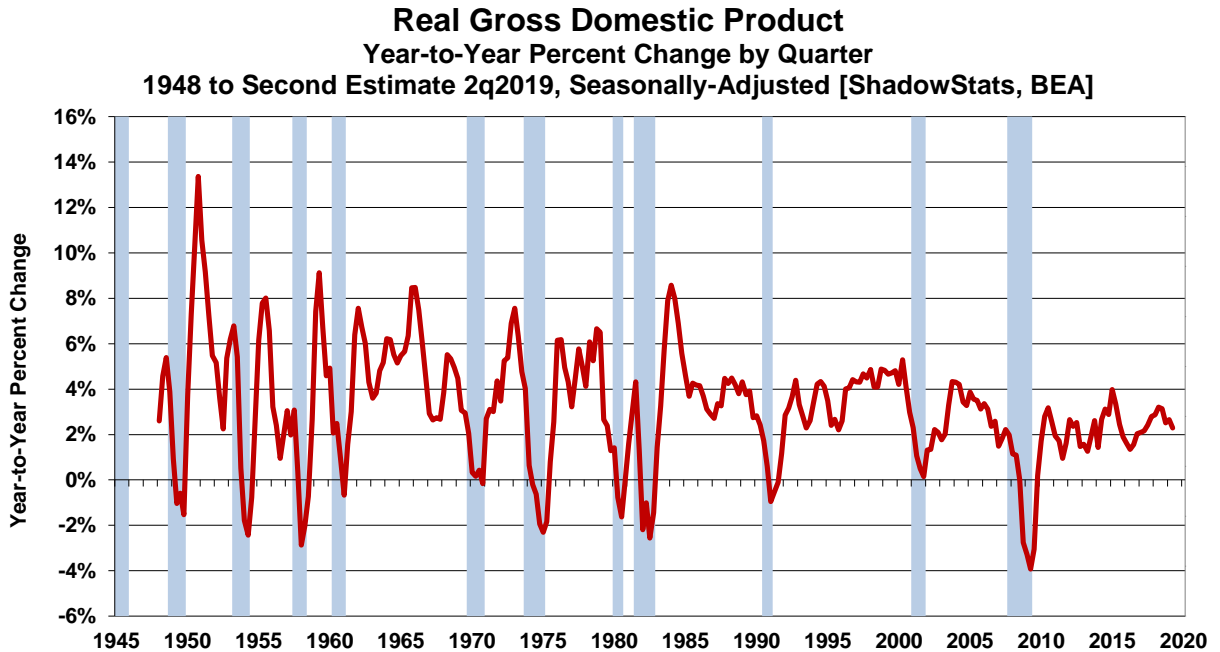
**Table 1: Gross Domestic Product, Benchmarked Third-Quarter 2018 to Second Estimate, Second-Quarter 2019**

Annualized Quarterly Real Growth in Headline Gross Domestic Product Second-Quarter 2019 GDP and 2019 Benchmark Revised Previously "Final" Data Growth Contribution by Consumption and Product Sector								
GDP COMPONENT GROWTH CONTRIBUTION BY SECTOR	Third-Quarter 2018		Fourth-Quarter 2018		First-Quarter 2019		Second-Quarter 2019	
	"Final"	Revised	"Final"	Revised	"Final"	Revised	Initial	2nd Est.
<b>ECONOMIC SECTOR</b>								
Personal Consumption								
- Goods	0.90%	0.75%	0.54%	0.33%	0.15%	0.32%	1.67%	1.78%
-- Motor Vehicles	-0.05%	0.01%	0.20%	0.07%	-0.46%	-0.27%	0.37%	0.37%
- Services	1.47%	1.59%	1.12%	0.65%	0.48%	0.46%	1.17%	1.32%
Gross Private Domestic Investment								
- Fixed Investment	0.21%	0.13%	0.54%	0.46%	0.53%	0.56%	-0.14%	-0.20%
-- Residential	-0.14%	-0.16%	-0.18%	-0.18%	-0.08%	-0.04%	-0.06%	-0.11%
- Change in Private Inventories	2.33%	2.14%	0.11%	0.07%	0.55%	0.53%	-0.86%	-0.91%
Net Exports of Goods and Services	-1.99%	-2.05%	-0.08%	-0.35%	0.94%	0.73%	-0.65%	-0.72%
Government Consumption	0.44%	0.36%	-0.07%	-0.07%	0.48%	0.50%	0.85%	0.77%
<b>GDP ANNUALIZED REAL GROWTH</b>	<b>3.36%</b>	<b>2.93%</b>	<b>2.17%</b>	<b>1.09%</b>	<b>3.13%</b>	<b>3.10%</b>	<b>2.06%</b>	<b>2.04%</b>
Final Sales, GDP Less Inventories	1.03%	0.79%	2.06%	1.02%	2.58%	2.57%	2.92%	2.95%
<b>PRODUCT SECTOR</b>								
Goods	1.76%	1.41%	1.66%	1.39%	2.11%	2.12%	0.70%	0.65%
Services	1.77%	1.73%	0.99%	0.37%	0.56%	0.66%	1.50%	1.63%
Structures	-0.17%	-0.21%	-0.48%	-0.67%	0.46%	0.32%	-0.15%	-0.24%
<b>GDP ANNUALIZED REAL GROWTH</b>	<b>3.36%</b>	<b>2.93%</b>	<b>2.17%</b>	<b>1.09%</b>	<b>3.13%</b>	<b>3.10%</b>	<b>2.06%</b>	<b>2.04%</b>
<b>SUPPLEMENTAL</b>								
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%	2.06%	2.04%
Gross Domestic Income (GDI)	4.56%	3.28%	0.52%	0.78%	1.00%	3.24% <sup>r</sup>	--	2.11%
Gross National Product (GNP)	3.05%	3.00%	2.12%	0.68%	3.16%	3.09%	--	3.18%
ShadowStats Corrected GDP*	1.27%	0.84%	0.10%	-0.96%	1.04%	1.01%	-0.01%	-0.03%
Implicit Price Deflator (IPD) Inflation	1.51%	1.78%	1.86%	1.78%	0.64%	0.78%	2.50%	2.54%
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%	2.29%	2.28%
Gross Domestic Income (GDI)	2.69%	2.83%	2.45%	2.34%	1.73%	2.00% <sup>r</sup>	--	2.35%
Gross National Product (GNP)	2.96%	3.17%	2.85%	2.41%	3.09%	2.47%	--	2.48%
ShadowStats Corrected GDP*	0.92%	1.05%	0.89%	0.44%	1.11%	0.58%	0.22%	0.22%
Implicit Price Deflator (IPD) Inflation	2.39%	2.59%	2.17%	2.34%	1.83%	1.94%	1.71%	1.72%
Sources: Bureau of Economic Analysis, www.ShadowStats.com (ShadowStats). r- previously 3.18% qq, 1.98% yy.								
*Real GDP corrected for understated headline inflation (Graphs 7 to 10), see Special Commentaries No. 968 and 983-B for background.								
Standard headline GDP is reflected in Graphs 1 to 6.								

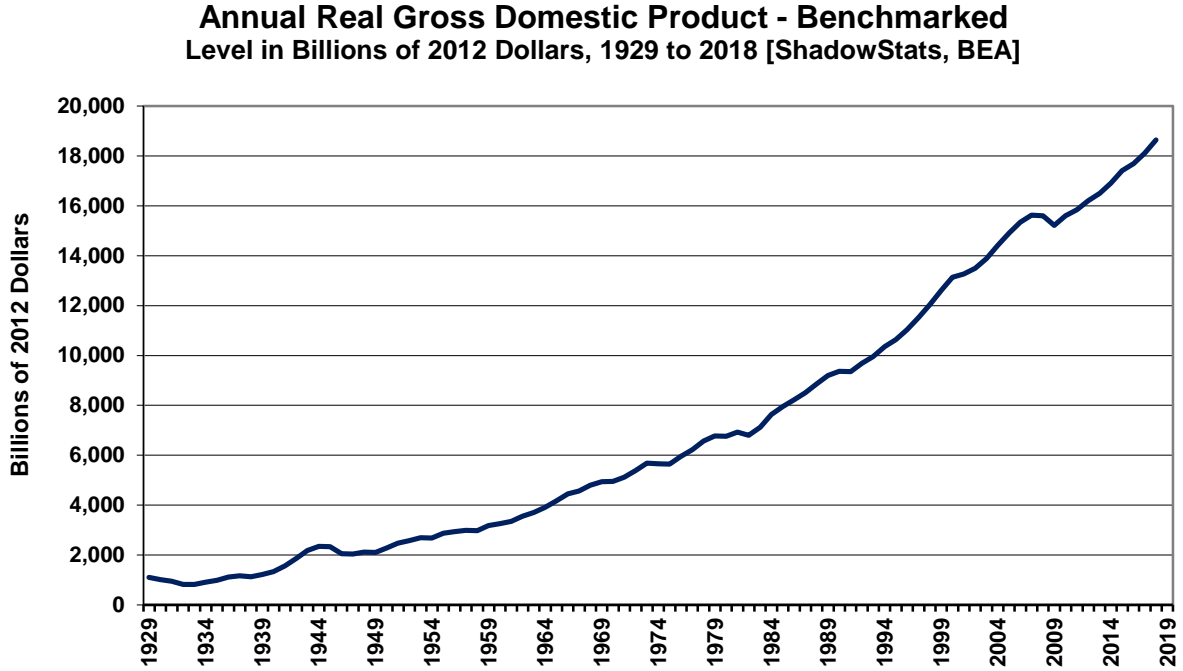
**Graph 1: Real GDP, 1947 to Second Estimate, Second-Quarter 2019**



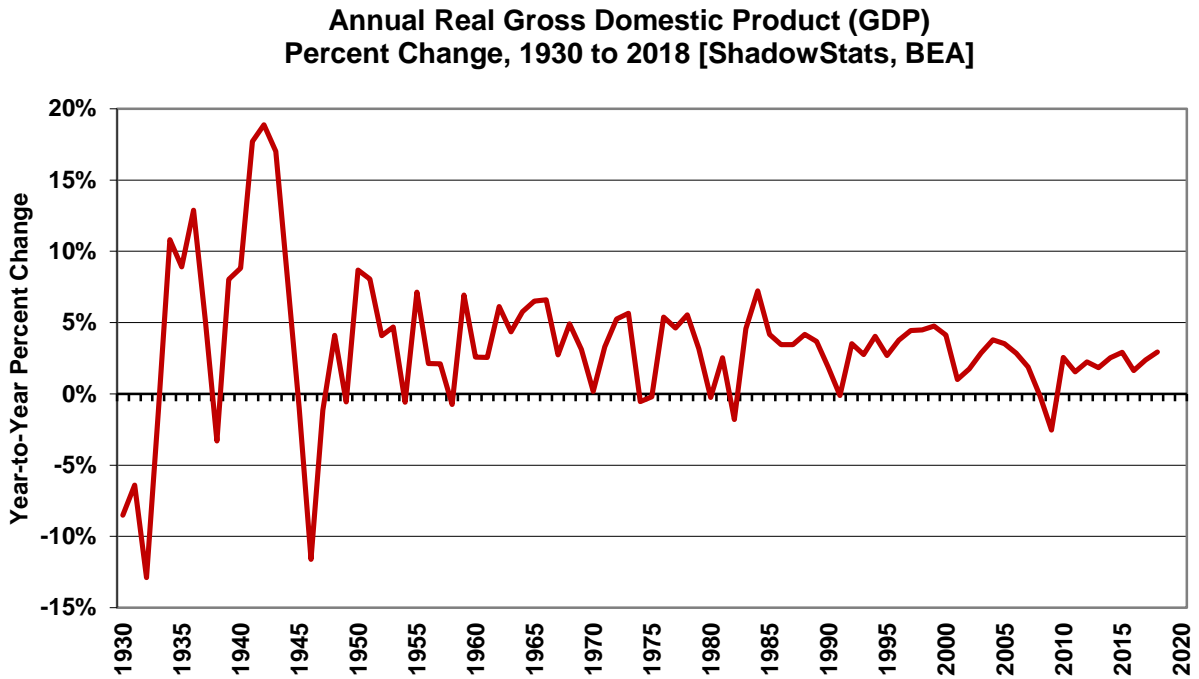
**Graph 2: Real GDP, Year-to-Year % Change, 1948 to Second Estimate, Second-Quarter 2019**



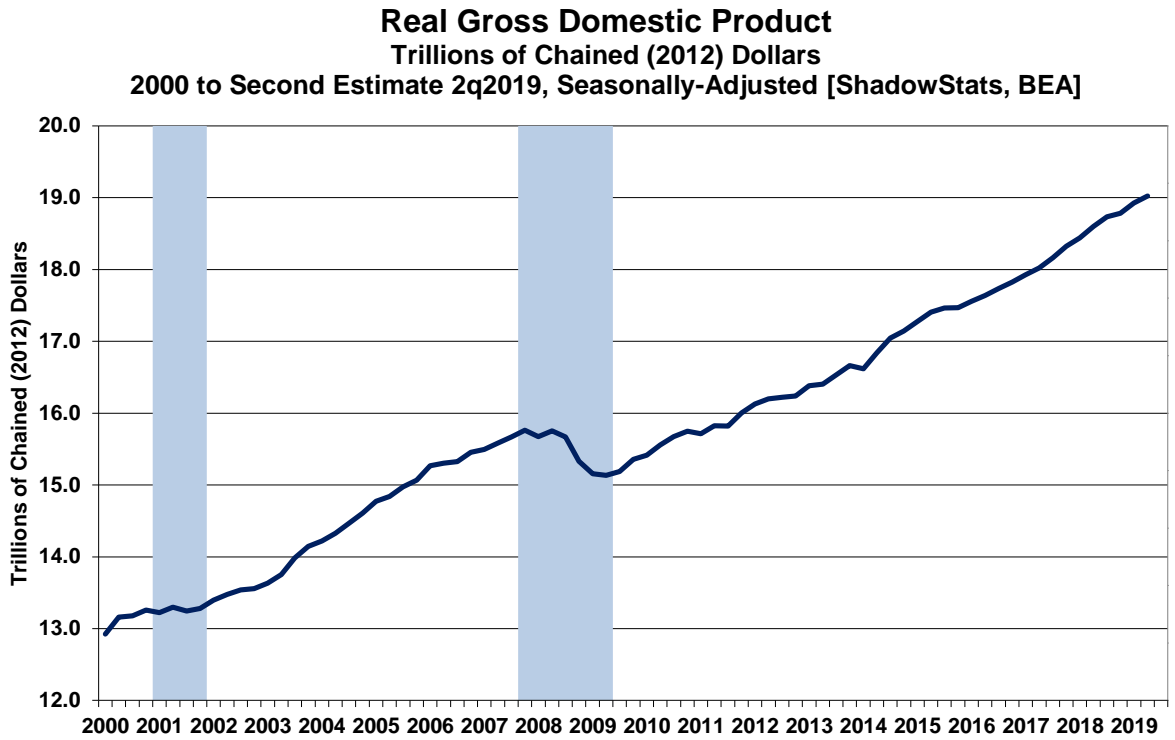
**Graph 3: Annual Real GDP, 1929 to 2018**



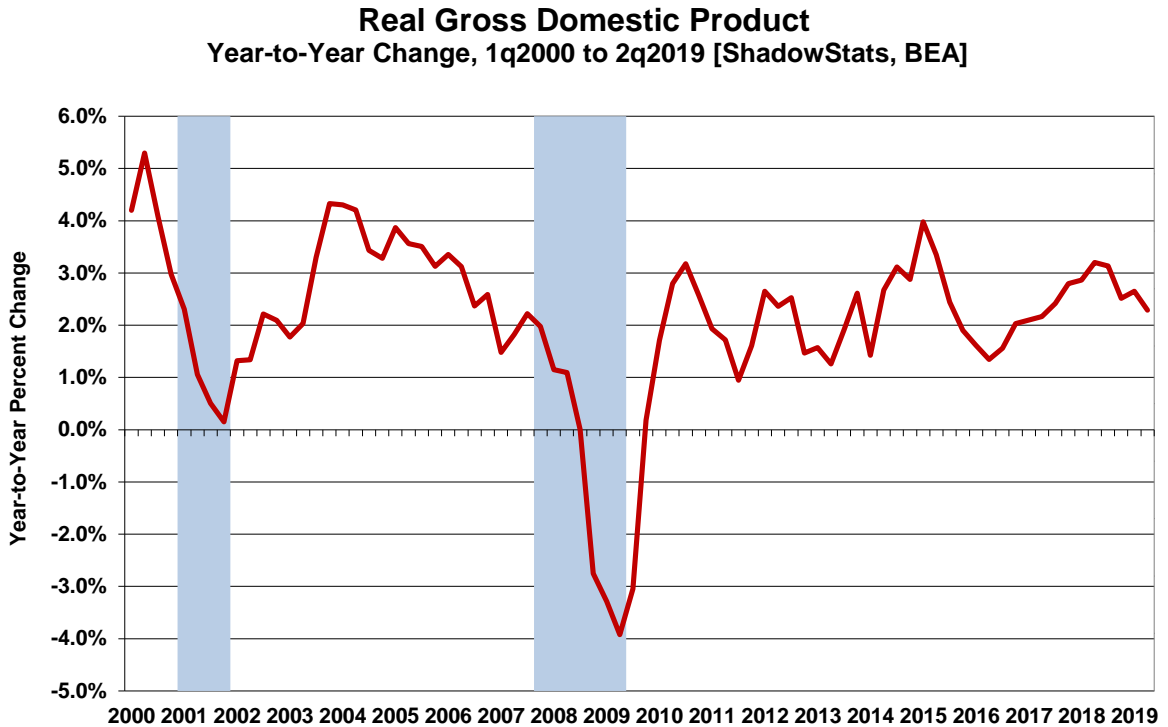
**Graph 4: Annual Real GDP, Percent Change 1930 to 2018**



**Graph 5: Real GDP, First-Quarter 2000 to Second Estimate, Second-Quarter 2019**



**Graph 6: Real GDP, Yr-to-Yr % Change, First-Quarter 2000 to Second Estimate, Second-Quarter 2019**





## **Real GDP Shows No Economic Expansion, When Corrected for Understated Inflation**

**While Headline Real GDP Has Rallied by 25.7% Off Its Fourth-Quarter 2007 Pre-Recession Peak, No Other Series Has.** *Graphs 1 to 6* plot the headline GDP as published today (August 29th) by the Bureau of Economic Analysis (BEA). Discussed in [Special Commentary No. 983-B, Section 4: Underlying Reality](#) (page 35), headline real GDP growth has been systematically overstated, through the recasting and understatement of headline GDP inflation. ShadowStats regularly restates the GDP series for the gimmicked inflation understatement of about two-percent, and has updated those graphs and calculations through second-quarter 2019 GDP (see *Graphs 7 to 10* here). See [Special Commentary No. 968-Extended](#) for full background detail.

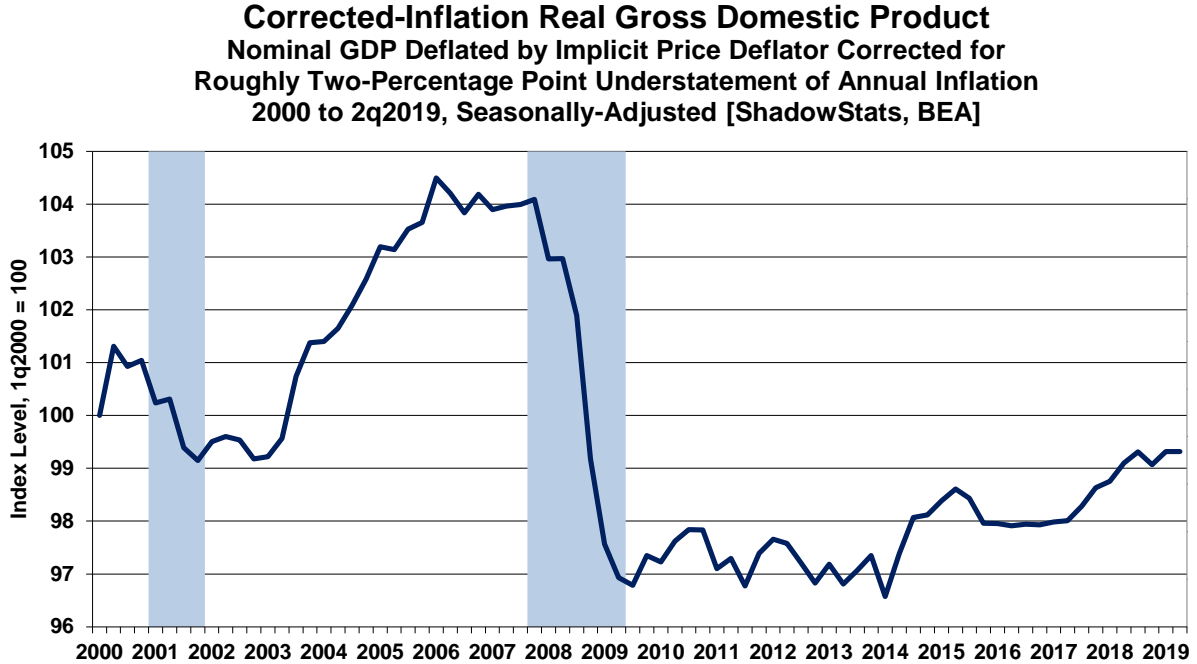
Updated from [Special Commentary No. 983-B](#), the headline real second-quarter 2019 GDP has fully recovered its fourth-quarter 2007 pre-recession peak, and has expanded beyond that peak by 25.7%, growing at an annualized quarterly pace of 2.0%. In contrast, the ShadowStats Corrected-Inflation Measure, which shows a pattern of economic growth paralleling the Manufacturing Sector, remains shy of recovering its fourth-quarter 2007 peak by 4.6% (-4.6%), with annualized real second-quarter 2019 growth unchanged at 0.0% [down by 0.03 (-0.03%) at the second decimal point].

**[Graphs 7 to 10 begin on the Next Page]**

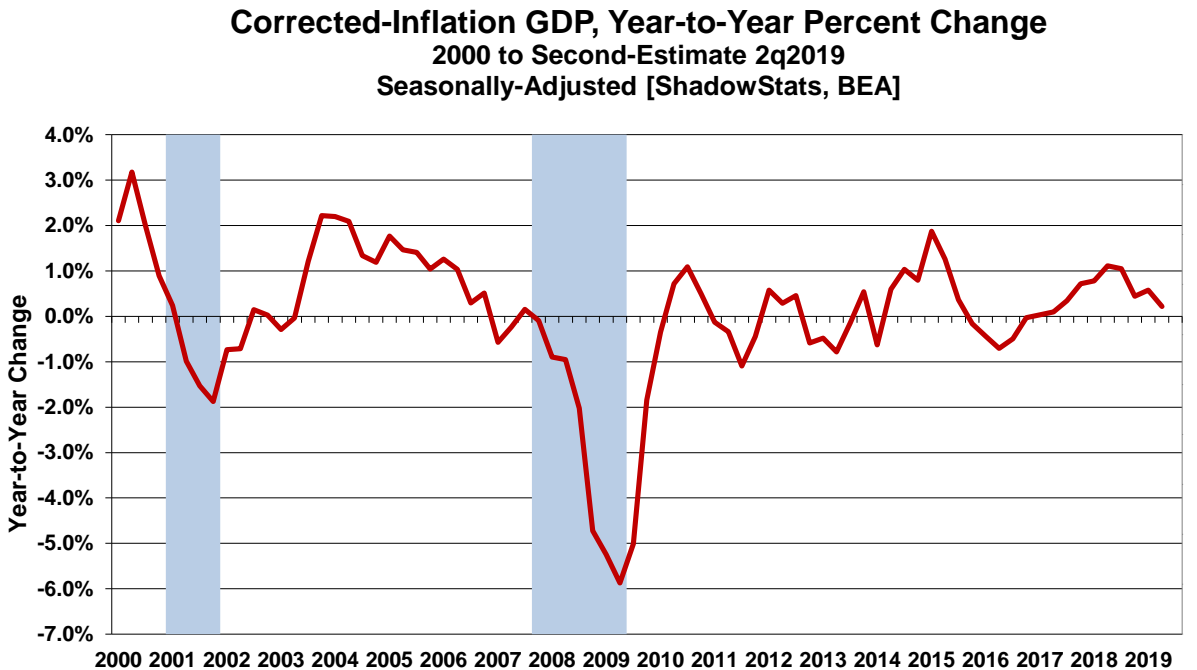
### Underlying Economic Reality – Alternate Real GDP Using Corrected Inflation

The plots in Graphs 7 to 10 reflect GDP deflated by the Implicit Price Deflator corrected for understated annual inflation. For background, see [Special Commentary No. 983-B](#) and [Special Commentary No. 968-Extended](#).

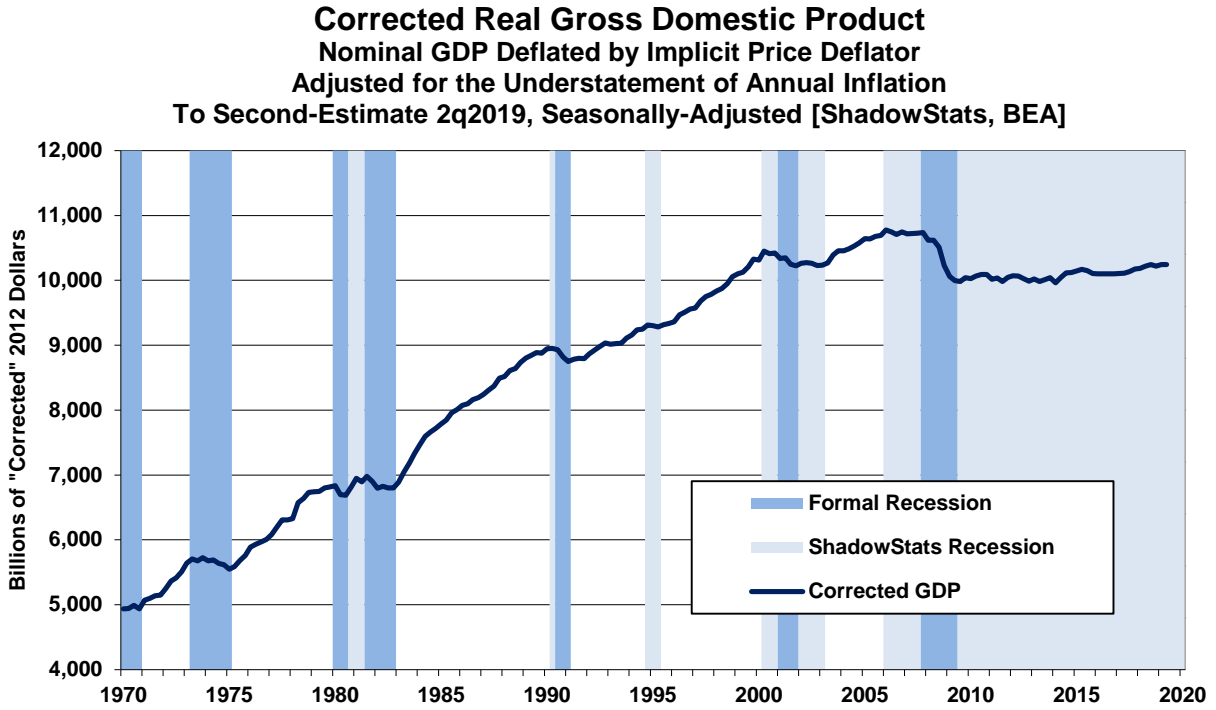
**Graph 7: Corrected-Inflation Based GDP, First-Quarter 2000 to Second-Estimate of Second-Quarter 2019**



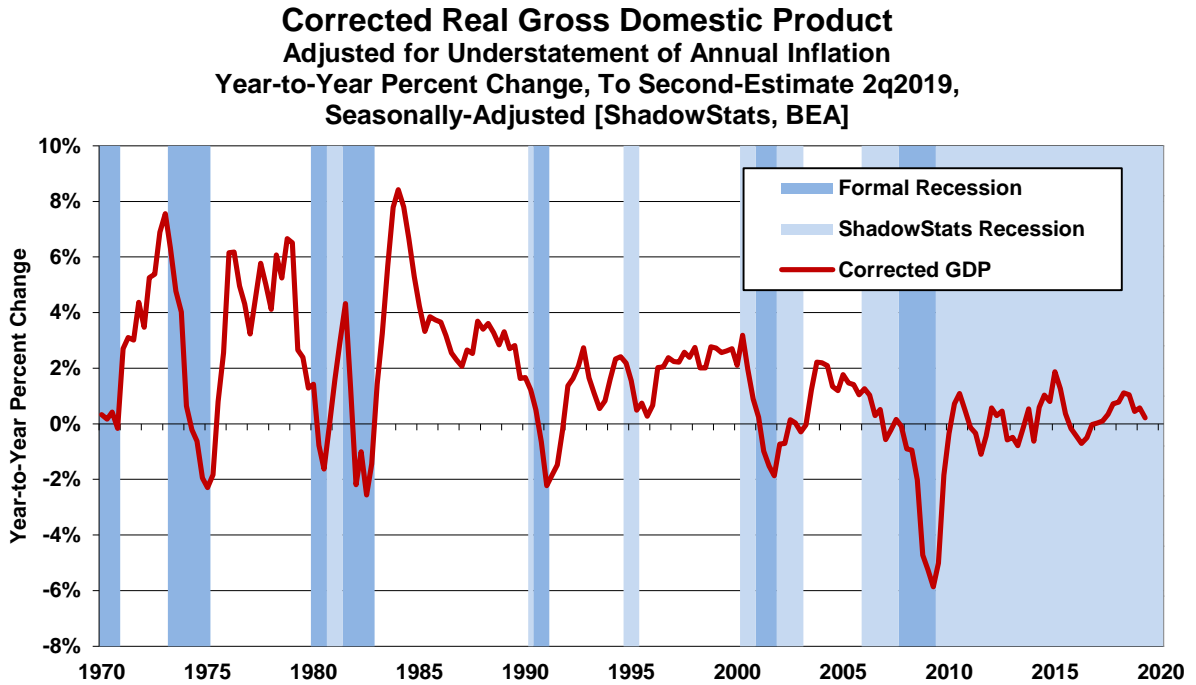
**Graph 8: Corrected-Inflation Based GDP, Yr-to-Yr % Change, 2000 to Second-Estimate Second-Quarter 2019**



**Graph 9: Corrected-Inflation Based GDP (1970 to Second-Estimate, Second-Quarter 2019)**



**Graph 10: Corrected-Inflation Based GDP, Yr-to-Yr % Change (1970 to Second-Estimate, Second-Quarter 2019)**



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