

ShadowStats Flash Economic Commentary, Issue No. 1450

Third-Quarter 2020 GDP

October 30, 2020

Economic Rebound Continues to Falter

**Advance-Estimate, Third-Quarter 2020 GDP Growth
Exploded at an Unprecedented, Annualized Real Pace of 33.08%**

**The Third-Quarter 2020 GDP Annual Year-to-Year Decline Also
Narrowed to 1.78% (-1.78%), from 9.03% (-9.03%) in Second-Quarter 2020**

**Third-Quarter GDP Activity Held Well Shy of Recovery, Even Though It Rebounded
Sharply from a Record Annualized 31.38% (-31.38%) Second-Quarter Plunge**

**The Level of Real, Inflation-Adjusted Third-Quarter GDP
Was the Lowest Since First-Quarter 2018**

**Unlikely Annualized Fourth-Quarter 2020 Real GDP Growth of 15.2%
Still Would Be Needed for a Full Economic Recovery This Year**

**Instead, Key Monthly Economic Series Have Been Locking
Fourth-Quarter Activity Into a Faltering, L-Shaped Recovery**

Contents – Flash Economic Commentary (Issue No. 1450)

| | |
|--|-----------|
| Note to Subscribers | 4 |
| ShadowStats Broad Outlook for the Economy, Inflation and the Markets | 5 |
| Pandemic-Driven U.S. Economic Collapse Continues in a Protracted .. “L”-Shaped Recovery into Fourth-Quarter 2020 | 6 |
| Rebounding Against Unprecedented 31.4% (-31.4%) Annualized Second-Quarter Plunge, Soaring 33.1% Third-Quarter Rebound Fell Well Shy of Full Recovery | 6 |
| Current Level of Real GDP Has “Recovered” to Where It Was in First-Quarter 2018 | 6 |
| <i>Graph 1: Real Gross Domestic Product (1947 to “Advance” Estimate Third-Quarter 2020)</i> | <i>7</i> |
| <i>Graph 2: Real Gross Domestic Product, Year-to-Year Change (1948 to “Advance” Estimate Third-Quarter 2020)</i> | <i>7</i> |
| <i>Graph 3: Real Gross Domestic Product (2000 to “Advance” Estimate Third-Quarter 2020)</i> | <i>8</i> |
| <i>Graph 4: Real Gross Domestic Product, Year-to-Year Change (2000 to “Advance” Estimate Third-Quarter 2020)</i> | <i>8</i> |
| <i>Graph 5: ShadowStats Corrected-Inflation Real GDP (2000 to “Advance” Estimate Third-Quarter 2020)</i> | <i>9</i> |
| <i>Graph 6: ShadowStats Corrected-Inflation Real GDP, Yr-to-Yr (2000 to “Advance” Third-Quarter 2020)</i> | <i>9</i> |
| <i>Table I: GDP Growth Components, First-Quarter 2019 to “Advance” Estimate Third-Quarter 2020</i> | <i>10</i> |
| <i>Graph 7: Early-Trend Real Merchandise Trade Deficit ShadowStats Third-Quarter 2020 (Based on Two Months)</i> | <i>11</i> |
| <i>Graph 8: Real Net Exports, “Advance” Estimate of Third-Quarter 2020 GDP</i> | <i>11</i> |
| Decelerating Monthly Economic Recovery Foreshadows Fourth-Quarter 2020 GDP | 12 |
| <i>Graph 9: Real GDP (1q2019 to 3q2020)</i> | <i>13</i> |
| <i>Graph 10: Real GDP, Year-to-Year Change (1q2019 to 3q2020)</i> | <i>13</i> |
| <i>Graph 11: Payroll Employment (January 2019 to September 2020)</i> | <i>14</i> |
| <i>Graph 12: Payroll Employment, Year-to-Year Change (January 2019 to September 2020)</i> | <i>14</i> |
| <i>Graph 13: Index of Industrial Production (January 2019 to September 2020)</i> | <i>15</i> |
| <i>Graph 14: Index of Industrial Production, Year-to-Year Change (January 2019 to September 2020)</i> | <i>15</i> |
| Financial Markets | 16 |
| Irrespective of the Pending Election, Unfolding Inflation and Economic Signals Remain Bullish for .. Gold and Silver, Bearish for the U.S. Dollar | 16 |
| U.S. Dollar-Debasing Actions by the FOMC and U.S. Government Continue and Likely Will .. Intensify in Response to a Faltering Recovery from the Pandemic-Driven Economic Collapse | 16 |

| | |
|--|-----------|
| Financial Market Graphs Updated to October 30, 2020 | 17 |
| Physical Gold and Swiss Franc Continue to Protect U.S. Dollar Purchasing Power | 17 |
| Inflation Risks Intensify With High Gold and Silver Prices and a Weaker U.S. Dollar | 17 |
| <i>Graph 15: February 3 to October 30, 2020 Financial Markets (Dow Jones Industrial Average)</i> | <i>17</i> |
| DJIA and S&P 500 Continue Moving Off Recent Post-Pandemic Crash Highs | 18 |
| <i>Graph 16: February 3 to October 30, 2020 Financial Markets (S&P 500)</i> | <i>18</i> |
| <i>Graph 17: Dow Jones Industrial Average versus Gold (Monthly Average and Latest)</i> | <i>19</i> |
| <i>Graph 18: Total Return S&P 500® versus Gold (Month-End and Latest)</i> | <i>19</i> |
| <i>Graph 19: U.S. Financial- vs. Trade-Weighted U.S. Dollar</i> | <i>20</i> |
| <i>Graph 20: U.S. Financial- vs. Trade-Weighted U.S. Dollar, Year-to-Year Change</i> | <i>20</i> |
| <i>Graph 21: Gold versus Swiss Franc</i> | <i>21</i> |
| <i>Graph 22: Gold versus Silver</i> | <i>21</i> |
| <i>Graph 23: Gold versus Oil</i> | <i>22</i> |

Note to Subscribers

My apologies to subscribers for inconvenience caused by disruptions to the *ShadowStats.com* Website and related information in the last day or two. That circumstance arose from a major fire, which triggered the failure of the Server that hosts the ShadowStats Web Site on the Internet.

***Flash Commentary, Issue No. 1450* reviews yesterday's (October 29th) release of the "Advance" Estimate of Third-Quarter 2020 Gross Domestic Product (GDP). What had been planned as double issues, *Special Commentaries No. 1450-A* and *1450-B*, got bogged down in preparation and was overrun by oncoming new information. Those missives are being recombined as single large issue *No. 1451*, in the week after the November 3rd election, updating broad themes and elements of the ShadowStats outlook on the U.S. Economy, Inflation and Financial Markets, including Federal Reserve Monetary and Federal Government Fiscal Policies. The broad *ShadowStats Outlook* has not changed. Going forward, most regular *Commentaries* will be much shorter and more frequent than the pending *No. 1451*. – WJW**

New Circumstances, Breaking Economic News and ShadowStats Schedule Changes Are Highlighted, as They Happen, in the [Daily Update](#) Section of the [ShadowStats Home Page](#). Rapidly shifting headlines, reporting details, intervening events, unusual developments in the markets, with the FOMC or the economy, and *ShadowStats* scheduling—all are covered in the *Daily Update*. Initial assessments of headline details and any unusual twists in regular economic reporting or FOMC announcements also are reviewed in the *Daily Update*, standardly within a couple hours of the official posting of a given news release.

General background to the current *ShadowStats* outlook includes key economic, market and systemic assessments of recent months, including [Special Commentary, Issue No. 1429](#) (FOMC Panic), [Special Commentary, Issue No. 1430](#) (Systemic Solvency), [Flash Commentary, Issue No. 1433](#) (Retail Sales Benchmarking), [Flash Commentary No. 1434](#) (1q2000 GDP), [Special Economic Commentary, Issue No. 1437](#) (Economic Update), [Special Hyperinflation Commentary, Issue No. 1438](#) (Risks of a Hyperinflationary Economic Collapse), [Flash Commentary No. 1439](#) (Distorted May Labor Conditions, NBER Recession Call, FOMC Outlook), [Economic Commentary, Issue No. 1441](#) (Economic Update).

Consider as well, [Special Economic Commentary, Issue No. 1444](#), which examined the latest Systemic, Economic and Financial-system disruptions, particularly as reflected in the price of Gold. [Flash Commentary, Issue No. 1445](#) reviewed the GDP annual benchmarking and an updated outlook for Gold and Silver following the August 11th sell-off. [Special Economic Commentary, Issue No. 1446](#) assessed current and prospective economic and inflation conditions, with initial *ShadowStats* GDP forecasts for the balance of 2020. [Flash Commentary, Issue No. 1447](#) reviewed and updated ongoing statistical shenanigans with the New Claims for Unemployment Insurance for the week ended August 29th, and assessed economic implications of the August 2020 Payrolls and Unemployment and Employment

reporting, along with the July 2020 Merchandise Trade Deficit. [*Flash Commentary, Issue No. 1448*](#) reviewed the latest New Claims for Unemployment, August 2020 CPI- and PPI-Inflation and the Money Supply. [*Flash Commentary, Issue No. 1449*](#) reviewed developments from the September 2020 FOMC Meeting.

ShadowStats Broad Outlook for the Economy, Inflation and the Markets

With minimal evolution, the ShadowStats broad outlook in the weeks and months ahead remains for:

- A continuing and potentially hyperinflationary U.S. economic collapse, with significant bottom bouncing and an unfolding, troubled and protracted “L”-shaped recovery, reflected in
- Continued flight to safety in precious metals, with accelerating upside pressures on gold and silver prices, likely headed for new record high levels, irrespective of any temporary market interventions, machinations or corrections to the contrary,
- Mounting selling pressure on the U.S. dollar, against the Swiss Franc and as more broadly measured by the ShadowStats Financial-Weighted Dollar (FWD) and the Federal Reserve’s Trade-Weighted (AFE) Dollar.
- Despite recent extreme Stock Market volatility, continuing high risk of major instabilities and a pending massive liquidation of U.S. equities,
- Complicated by ongoing direct, supportive market interventions arranged by the U.S. Treasury Secretary, as head of the President's Working Group on Financial Markets (a.k.a. the “Plunge Protection Team”), and/or as otherwise gamed by the FOMC.

Your questions and comments always are welcomed. Please call or e-mail me any time. Leave a message if your call goes to Voicemail. I shall be back to you.

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Pandemic-Driven U.S. Economic Collapse Continues in a Protracted “L”-Shaped Recovery into Fourth-Quarter 2020

Rebounding Against Unprecedented 31.4% (-31.4%) Annualized Second-Quarter Plunge, Soaring 33.1% Third-Quarter Rebound Fell Well Shy of Full Recovery

Current Level of Real GDP Has “Recovered” to Where It Was in First-Quarter 2018

Third-Quarter 2020 GDP Rebounded at a Near-Consensus, Record Annualized Real Quarterly Gain of 33.1%, With an Annual Decline Narrowing to 1.8% (-1.8%). Reported October 29th by the Bureau of Economic Analysis (BEA), headline annualized inflation-adjusted, real quarter-to-quarter growth in Third-Quarter 2020 GDP surged by 33.08% against Consensus Expectations that were centered around 32%. The previously estimated annualized real decline in Second-Quarter GDP growth set a record negative annualized pace of decline of 31.38% (-31.38%), which also was near consensus, with a year-to-year annual quarterly contraction of 9.03% (-9.03%).

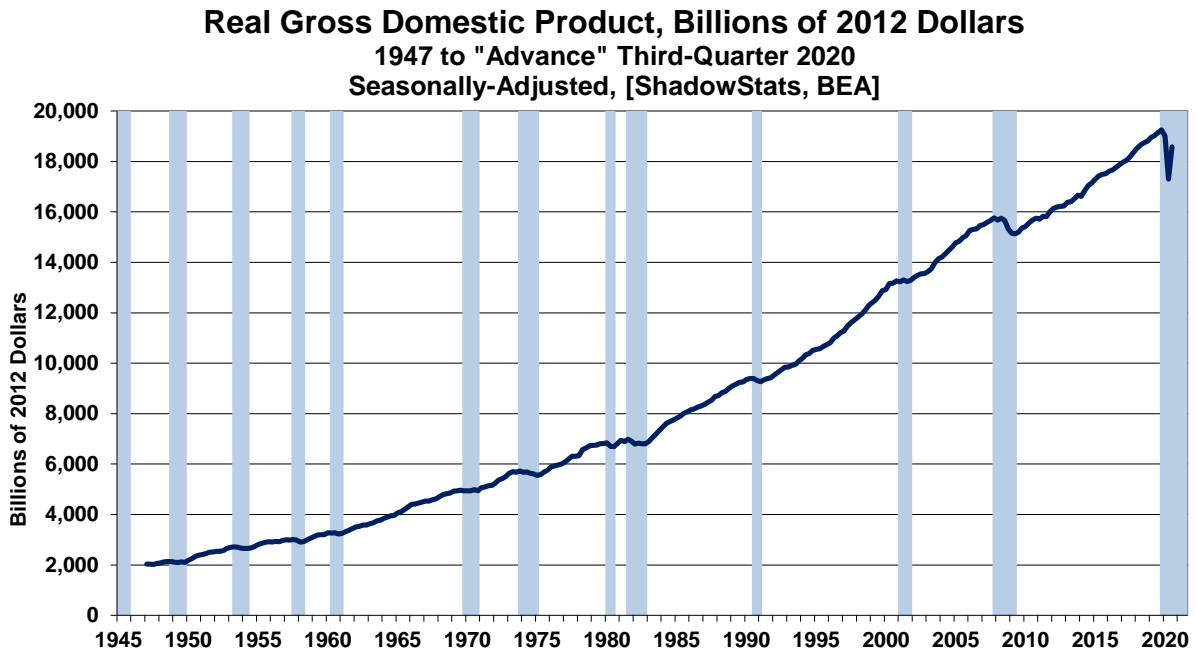
Nonetheless, headline GDP remained well shy of recovery, which increasingly has turned “L”-Shaped, as seen in underlying monthly data such as employment and production, through September (see discussion with the new series of *Graphs 9 to 14*, beginning on page 12. In constant dollars—adjusted for inflation—the level of Third-Quarter GDP was the lowest since First-Quarter 2018. It would take a highly unlikely annualized 15.2% pace of real growth in the current Fourth-Quarter 2020 to recover fully the Fourth-Quarter 2019 pre-Pandemic peak GDP level.

Overly Optimistic GDP Economic Guesstimates Out of the BEA? Increasingly, near-consensus headline economic reporting has become commonplace for major headline economic series that otherwise should have been so heavily distorted with extreme surveying disruptions during the Coronavirus Pandemic as to offer the unexpected. Instead of consistent Consensus versus Headline reporting, there should be some surprises in the headline detail, which otherwise would make the purported headline details more credible. The Census Bureau effectively admitted that its recent Annual Income and Poverty Report was so affected, with exaggerated headline growth in Income and exaggerated declines in Poverty.

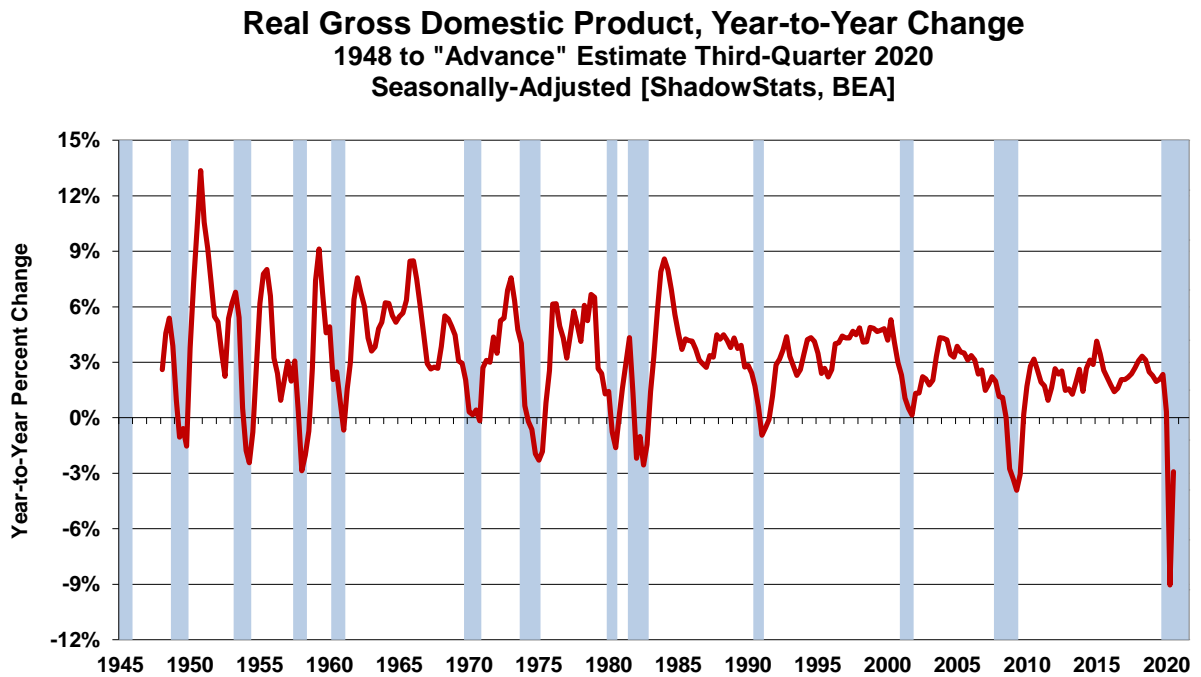
It has been my contention, as expressed in *ShadowStats*, that the BEA meaningfully has underestimated the headline pace of Second-Quarter 2020 GDP decline, as well as now meaningfully having overstated the pace of Third-Quarter 2020 GDP recovery. The issues there, however, will be explored in greater depth in pending *No. 1451*, covering specific Pandemic distortions in the Labor and CPI reporting.

Regular GDP Graphs 1 to 6 follow. The standard *ShadowStats* graphs of aggregate GDP level and annual percent change range from the full quarterly history, 1947 to date, as well as from 2020 to the headline Third-Quarter 2020 detail, begin on page 7. Reflected in *Table I* (page 10), covering ***GDP Growth Contribution by Major Economic Sector*** of the aggregate 33.08% headline real quarterly growth, larger growth contributions by subcategory included 7.61% from Healthcare, 6.62% from Inventory Buildup, 4.33% from Food Services and Accommodations, with a major subtraction of 3.09% (-3.09%) from a surging Trade Deficit (see later *Graphs 7 and 8*).

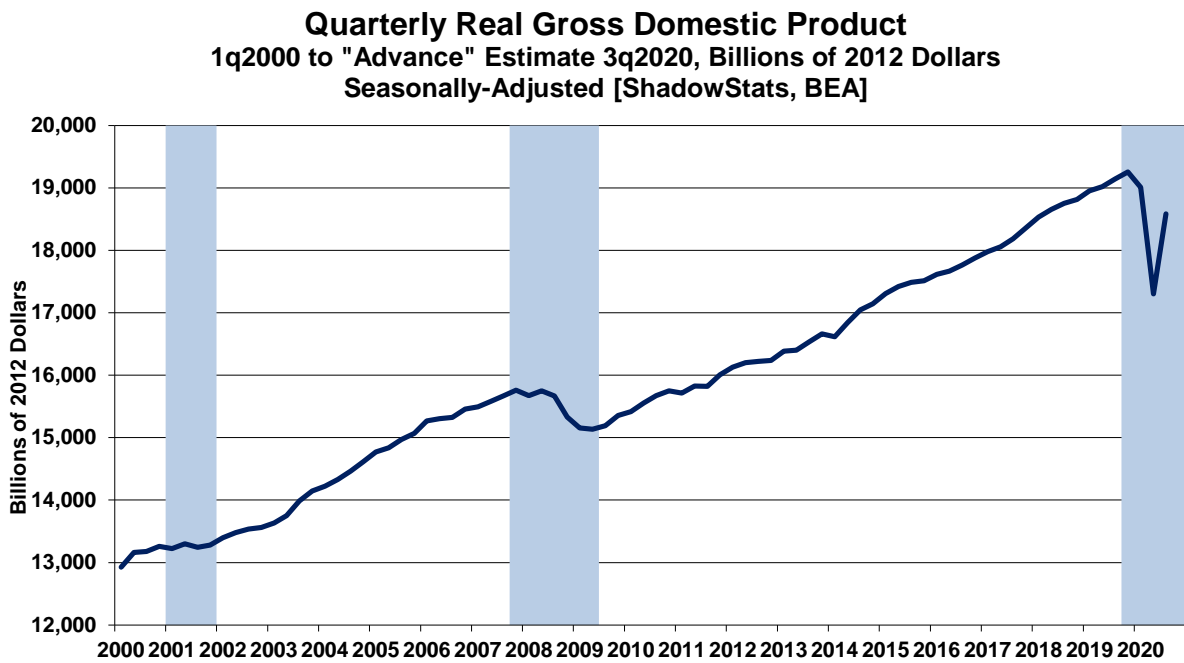
Graph 1: Real Gross Domestic Product (1947 to "Advance" Estimate Third-Quarter 2020)



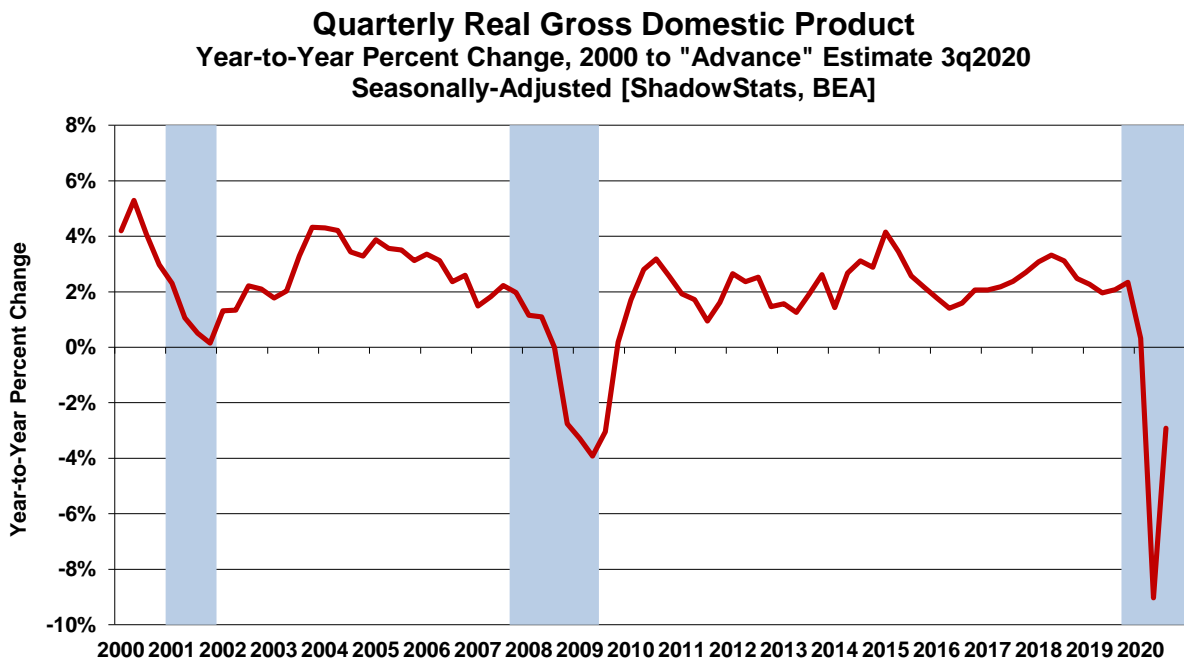
Graph 2: Real Gross Domestic Product, Year-to-Year Change (1948 to "Advance" Estimate Third-Quarter 2020)



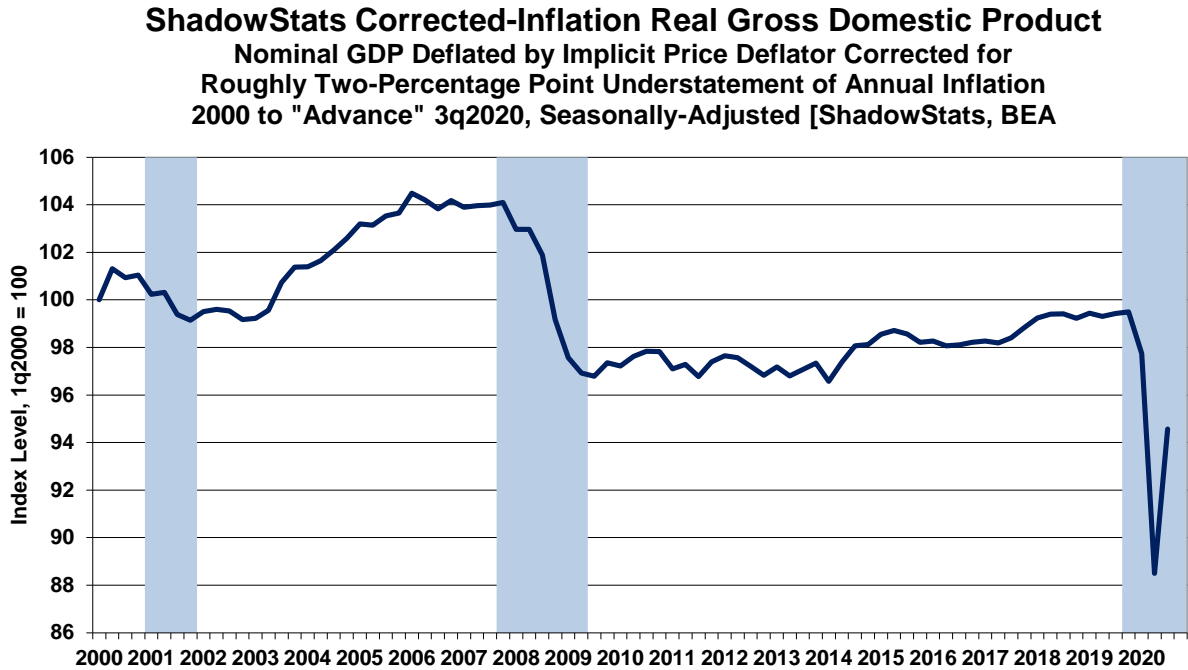
Graph 3: Real Gross Domestic Product (2000 to "Advance" Estimate Third-Quarter 2020)



Graph 4: Real Gross Domestic Product, Year-to-Year Change (2000 to "Advance" Estimate Third-Quarter 2020)



Graph 5: ShadowStats Corrected-Inflation Real GDP (2000 to "Advance" Estimate Third-Quarter 2020)



Graph 6: ShadowStats Corrected-Inflation Real GDP, Yr-to-Yr (2000 to "Advance" Third-Quarter 2020)

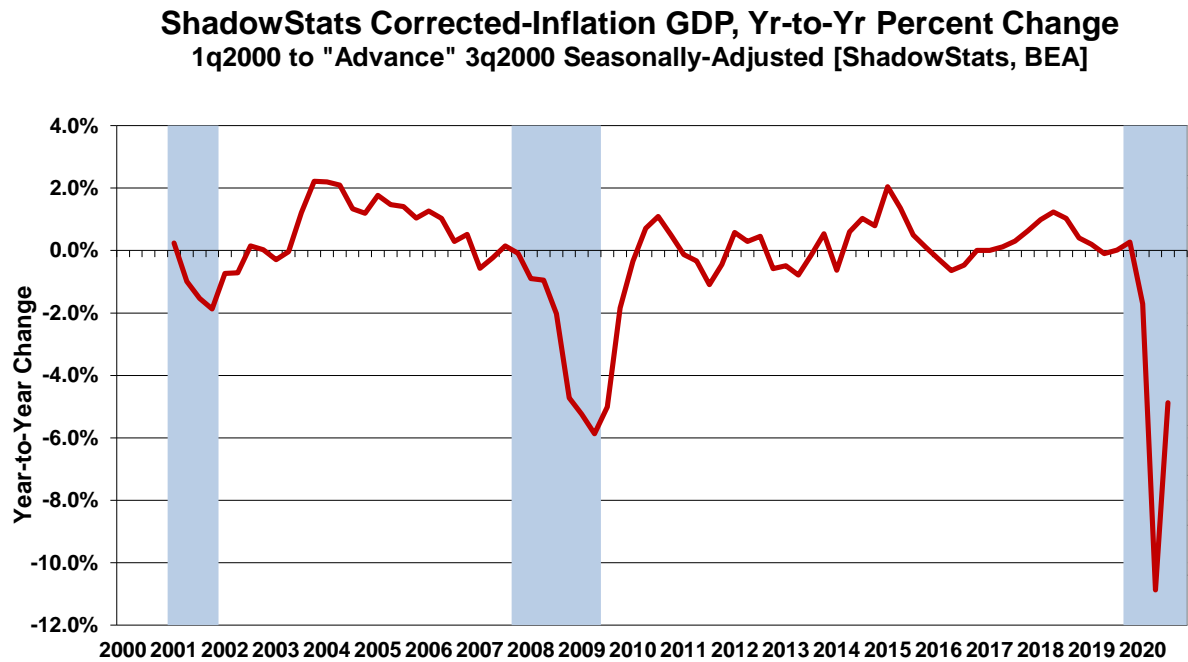


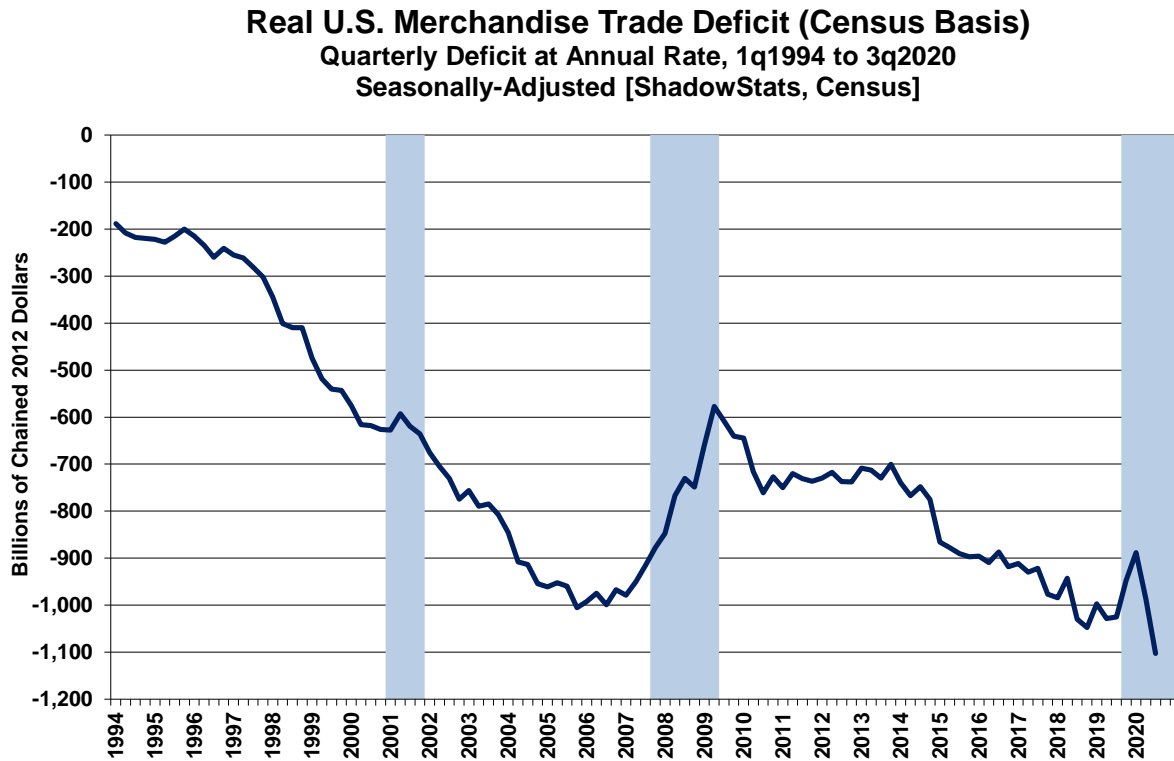
Table I: GDP Growth Components, First-Quarter 2019 to "Advance" Estimate Third-Quarter 2020

| Third-Quarter 2020 Real Gross Domestic Product, "Advance" Estimate Annualized Quarterly Real Growth Contribution by Economic and Product Sector | | | | | | | |
|--|------------------------------------|-------------------------------------|------------------------------------|-------------------------------------|------------------------------------|-------------------------------------|-----------------------------------|
| GDP COMPONENT GROWTH CONTRIBUTION BY SECTOR | First- Quarter 2019 | Second- Quarter 2019 | Third- Quarter 2019 | Fourth- Quarter 2019 | First- Quarter 2020 | Second- Quarter 2020 | Third Quarter 2020 |
| | Latest | Latest | Latest | Latest | Latest | Latest | Advance |
| ECONOMIC SECTOR | | | | | | | |
| Personal Consumption | | | | | | | |
| - Goods | 0.52% | 1.57% | 0.87% | 0.12% | 0.03% | -2.06% | 9.24% |
| -- <i>Motor Vehicles</i> | -0.31% | 0.26% | 0.01% | 0.08% | -0.78% | 0.05% | 1.80% |
| - Services | 0.73% | 0.90% | 0.96% | 0.96% | -4.78% | -21.95% | 16.04% |
| Gross Private Domestic Investment | | | | | | | |
| - Fixed Investment | 0.50% | -0.07% | 0.42% | 0.17% | -0.23% | -5.27% | 4.96% |
| -- <i>Residential</i> | -0.06% | -0.08% | 0.17% | 0.22% | 0.68% | -1.60% | -2.09% |
| - Change in Private Inventories | 0.21% | -0.97% | -0.09% | -0.82% | -1.34% | -3.50% | 6.62% |
| Net Exports of Goods and Services | 0.55% | -0.79% | 0.04% | 1.52% | 1.13% | 0.62% | -3.09% |
| Government Consumption | 0.43% | 0.86% | 0.37% | 0.42% | 0.22% | 0.77% | -0.68% |
| REAL GDP GROWTH (Qtr/Qtr) | 2.93% | 1.49% | 2.57% | 2.37% | -4.96% | -31.38% | 33.08% |
| Final Sales, GDP Less Inventories | 2.72% | 2.46% | 2.66% | 3.19% | -3.62% | -27.88% | 26.46% |
| PRODUCT SECTOR | | | | | | | |
| Goods | 1.72% | -0.13% | 1.23% | 0.94% | -0.98% | -7.40% | 16.75% |
| Services | 0.77% | 1.45% | 1.12% | 1.29% | -4.82% | -21.32% | 14.81% |
| Structures | 0.44% | 0.18% | 0.22% | 0.13% | 0.85% | -2.66% | 1.52% |
| REAL GDP GROWTH | 2.93% | 1.49% | 2.57% | 2.37% | -4.96% | -31.38% | 33.08% |
| SUPPLEMENTAL | | | | | | | |
| Annualized Quarter-to-Quarter Real GDP Change and Headline Implicit Price Deflator Inflation | | | | | | | |
| Gross Domestic Product (GDP) | 2.93% | 1.49% | 2.57% | 2.37% | -4.96% | -31.38% | 33.08% |
| Gross Domestic Income (GDI) | 2.21% | 1.20% | 0.82% | 3.30% | -2.53% | -33.53% | -- |
| Gross National Product (GNP) | 2.38% | 1.91% | 2.68% | 2.34% | -5.57% | -32.33% | -- |
| ShadowStats Corrected GDP* | 0.85% | 0.56% | 0.50% | 0.29% | -6.88% | -32.77% | 30.39% |
| Implicit Price Deflator (IPD) Inflation | 1.03% | 2.60% | 1.40% | 1.50% | 1.66% | -2.09% | 3.71% |
| Year-to-Year Real GDP Change and Headline Implicit Price Deflator Inflation | | | | | | | |
| Gross Domestic Product (GDP) | 2.27% | 1.96% | 2.08% | 2.34% | 0.32% | -9.03% | -1.78% |
| Gross Domestic Income (GDI) | 2.03% | 2.14% | 1.21% | 1.88% | 0.68% | -9.37% | -- |
| Gross National Product (GNP) | 1.88% | 1.82% | 2.13% | 2.33% | 0.28% | -9.48% | -- |
| ShadowStats Corrected GDP* | 0.20% | -0.10% | 0.01% | 0.27% | -1.71% | -10.87% | -4.88% |
| Implicit Price Deflator (IPD) Inflation | 2.00% | 1.78% | 1.73% | 1.63% | 1.79% | 0.60% | 1.17% |

Sources: Bureau of Economic Analysis, ShadowStats.com.

(*) Real GDP corrected for understated headline inflation, see Special Commentaries No. 968 / 983-B for background.

Graph 7: Early-Trend Real Merchandise Trade Deficit ShadowStats Third-Quarter 2020 (Based on Two Months)



Graph 8: Real Net Exports, "Advance" Estimate, Third-Quarter 2020 GDP



Decelerating Monthly Recovery Foreshadows Fourth-Quarter 2020 GDP

Key Patterns of October 2020 Economic Activity Show Slowing or Flattening Economic Recovery. *Graphs 9* and *10* plot the quarterly level of, and year-to-year percent change in real GDP from First-Quarter 2019 to the just published “Advance” Estimate of Third-Quarter 2020 GDP. Viewed quarterly, there is a nice “V”-shaped recovery underway, as seen in the preceding longer-term GDP graphs.

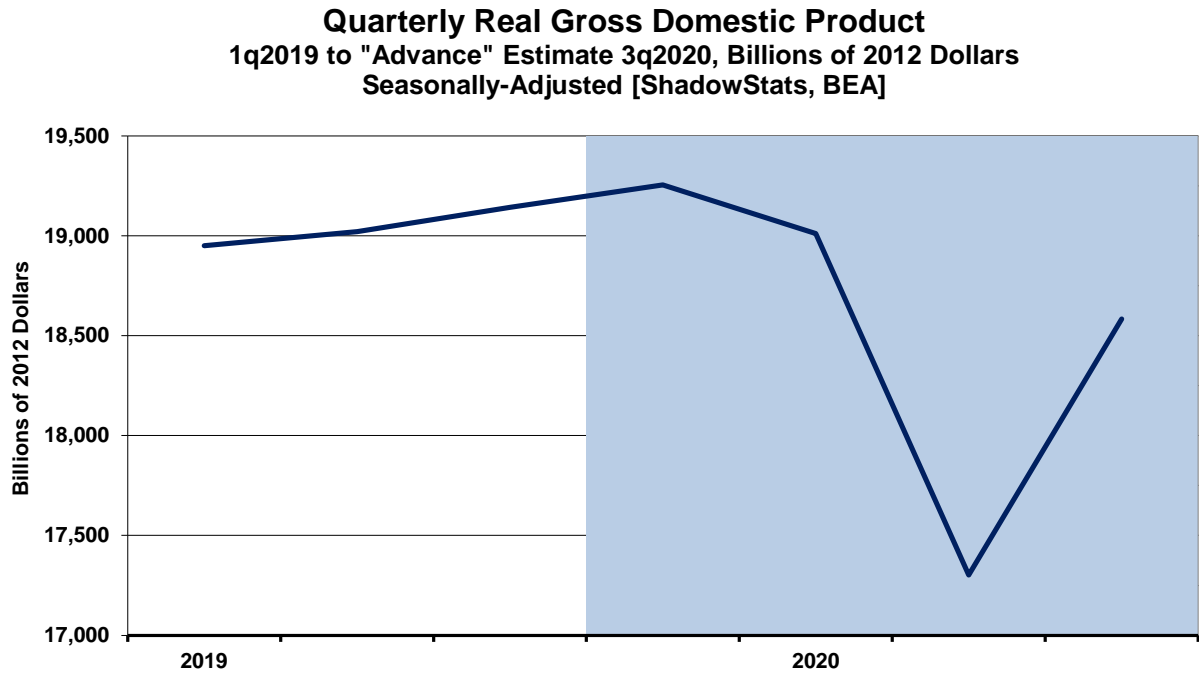
Graphs 11 through *14*, however, show monthly detail of two key economic series, Payroll Employment and Industrial Production, and those two series show that the “V”-shaped quarterly pattern, rapidly has been flattening month-to-month, turning “L”-shaped, which, in theory, should be mirrored in headline Fourth-Quarter 2020 GDP, come its initial release at the end of January 2021.

Looking at these graphs, keep in mind that the defining authority for U.S. Recessions (blue bars) is the National Bureau of Economic Research (NBER). The NBER defined the peak quarter before the Pandemic Recession as Fourth-Quarter 2019, while the peak month before the Pandemic Recession was February 2020. That is why the monthly and quarterly recession patterns do not match up well in these graphs.

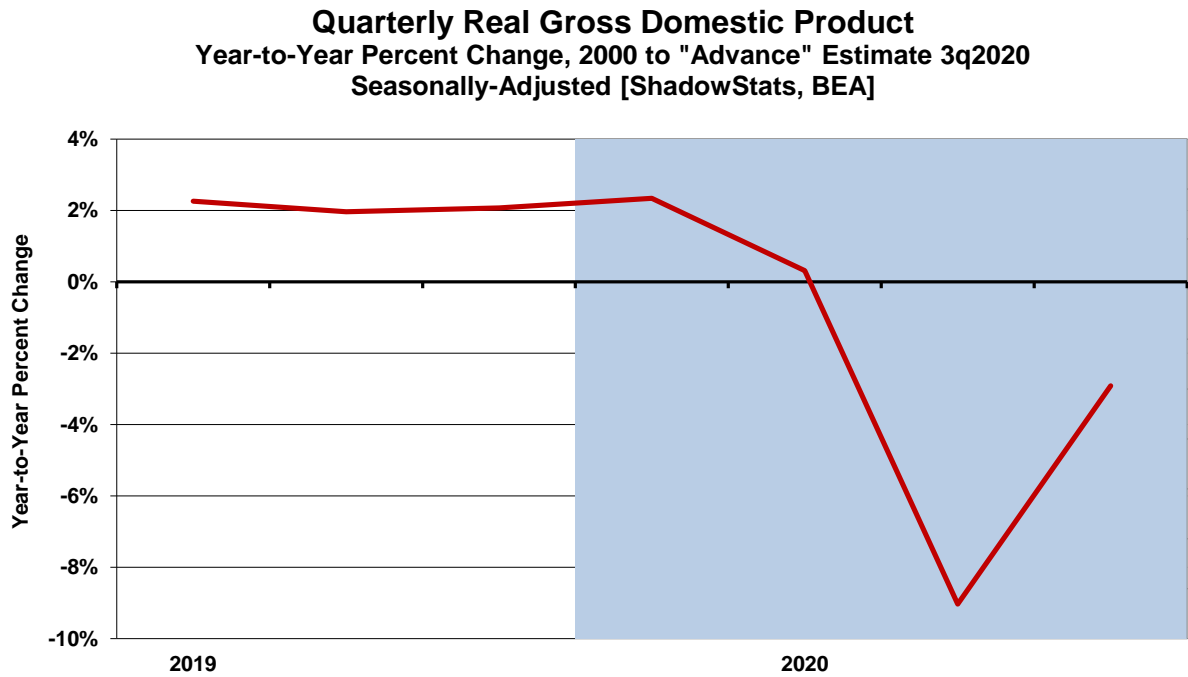
Again, extensive detail, reviewing other major economic series, follows in *No. 1451*.

[Graphs 9 to 14 begin on the next page.]

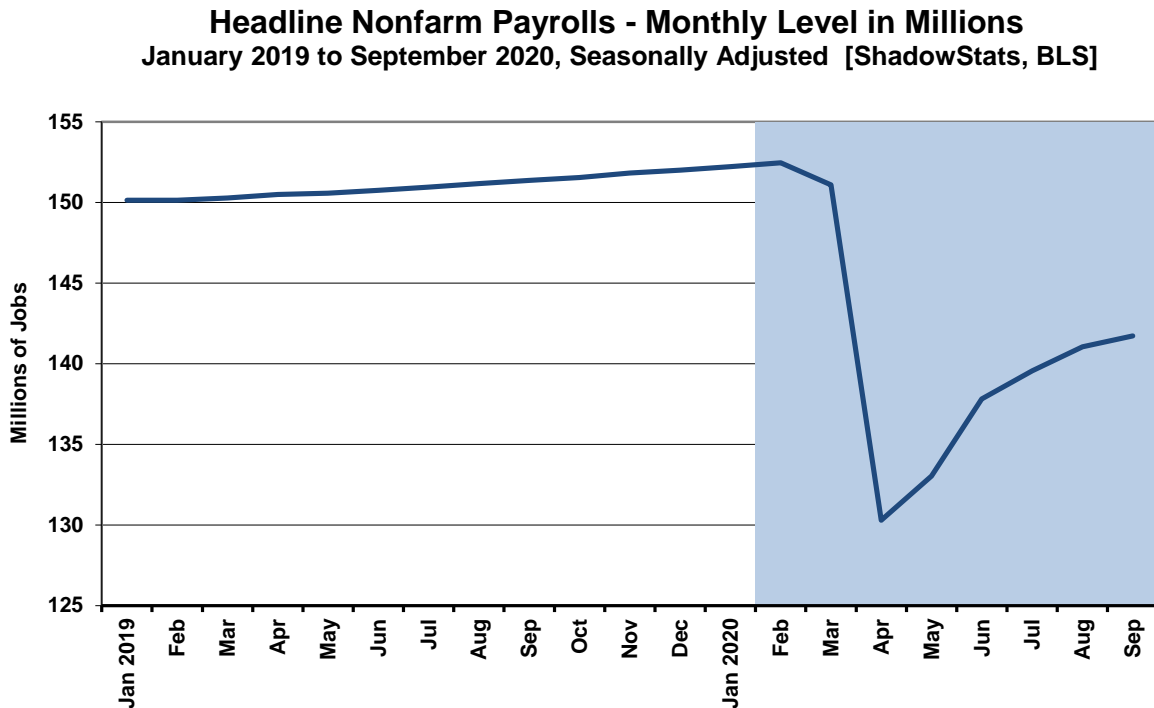
Graph 9: Real GDP (1q2019 to 3q2020)



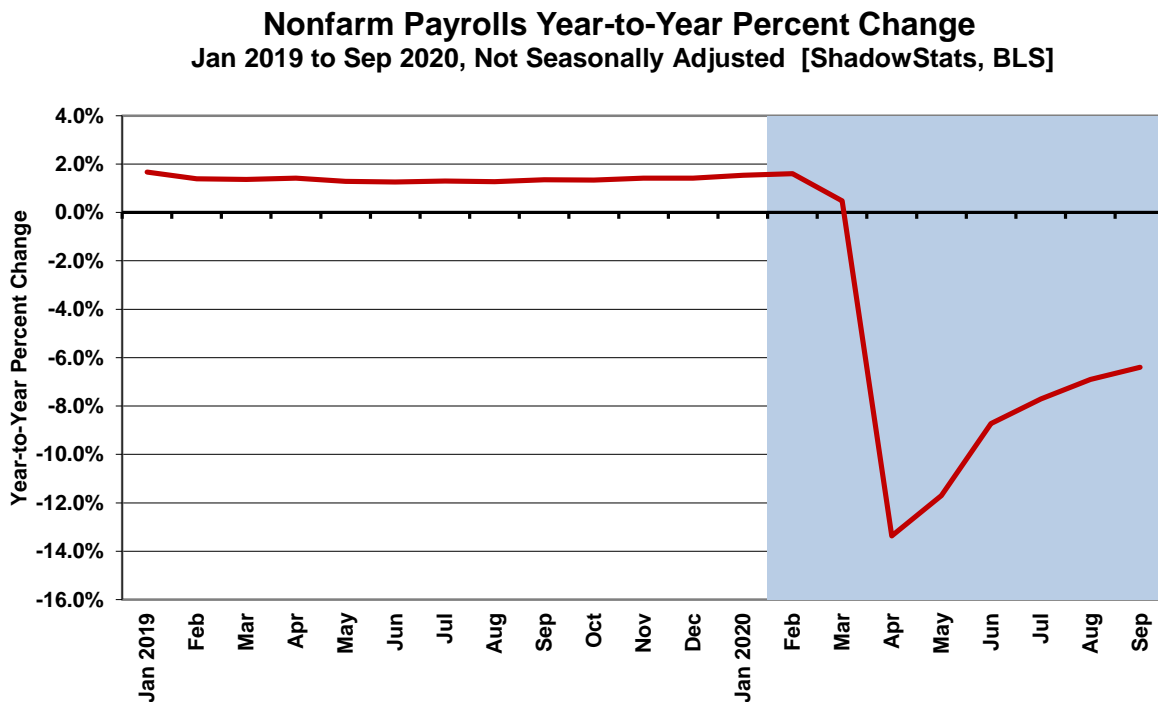
Graph 10: Real GDP, Year-to-Year Change (1q2019 to 3q2020)



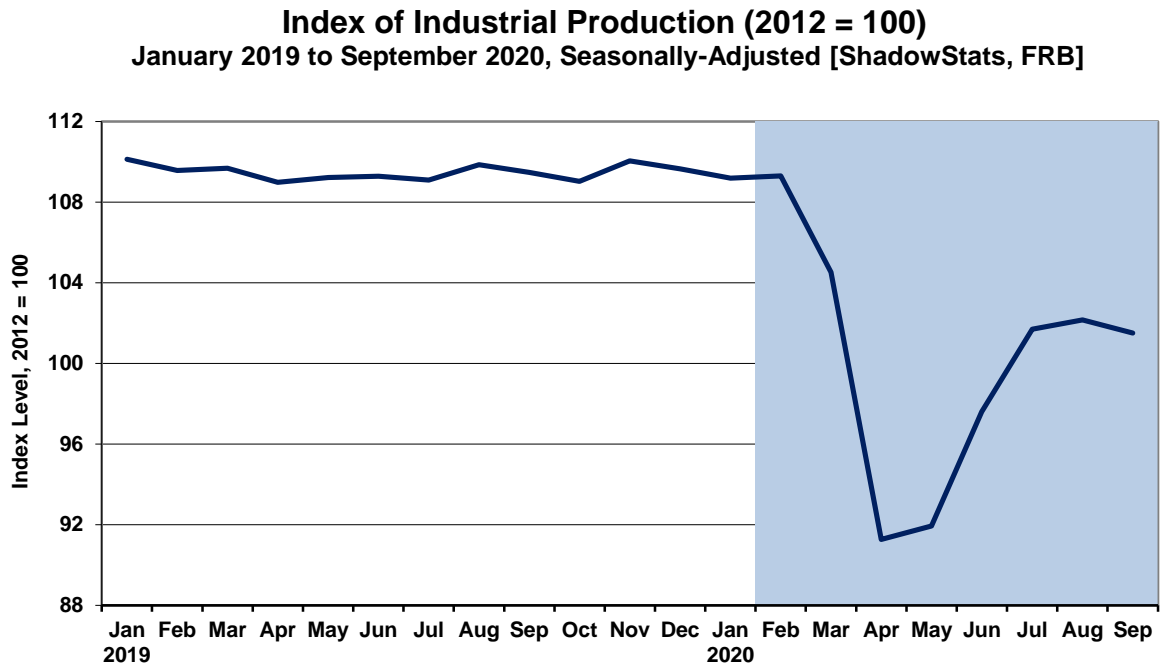
Graph 11: Payroll Employment (January 2019 to September 2020)



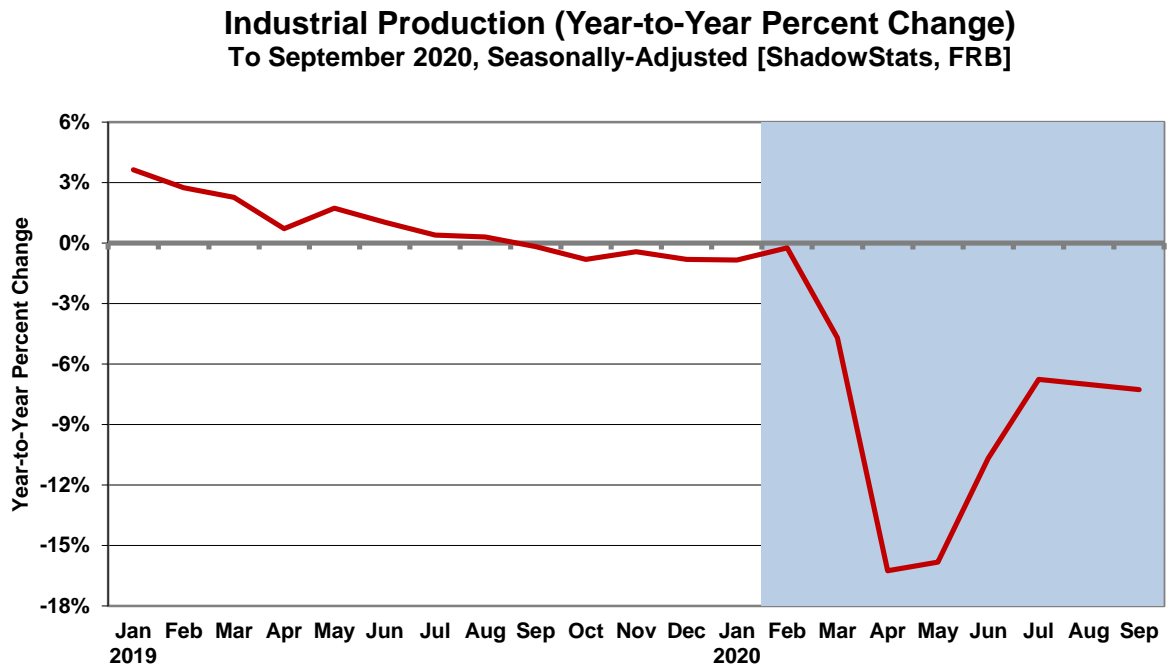
Graph 12: Payroll Employment, Year-to-Year Change (January 2019 to September 2020)



Graph 13: Index of Industrial Production (January 2019 to September 2020)



Graph 14: Index of Industrial Production, Year-to-Year Change (January 2019 to September 2020)



Financial Markets

Irrespective of the Pending Election, Unfolding Inflation and Economic Signals Remain Bullish for Gold and Silver, Bearish for the U.S. Dollar

U.S. Dollar-Debasing Actions by the FOMC and U.S. Government Continue and Likely Will Intensify In Response to a Faltering Recovery from the Pandemic-Driven Economic Collapse

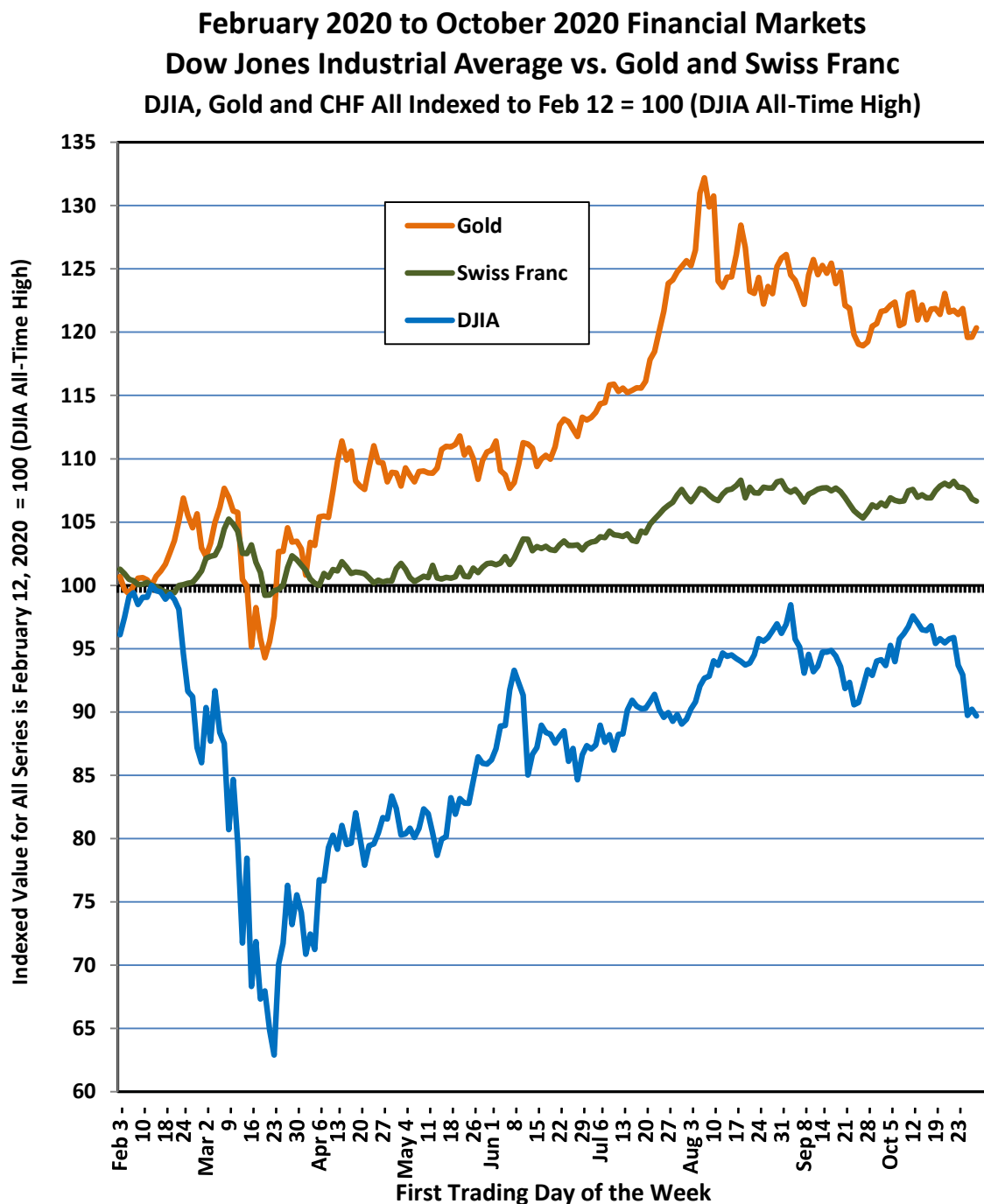
Surging Gold and Silver Prices, and the Tumbling U.S. Dollar Have Reflected Mounting Fears of Inflation and Systemic Instability. Despite mixed pressures in recent weeks, discussed previously in [*Special Hyperinflation Commentary, Issue No. 1438*](#) (Risks of a Hyperinflationary Economic Collapse), and in various subsequent writings, a rising gold price tends to lead a pick-up in inflation. In the context of continuing, soaring gold and silver prices and a weakening U.S. dollar, those mounting inflation concerns have been generated by explosive, uncontrolled Money Supply creation by the Federal Reserve, and by soaring, uncontrolled Deficit Spending by the Federal Government. Those official acts of U.S. Dollar debasement continue, having been designed to prevent or to mitigate systemic, economic and financial-market collapse, in the wake of the Coronavirus-Pandemic shutdown of the economy and regular social functioning in the United States. As the full reopening of the U.S. economy and hoped for economic recovery are not unfolding as well as had been expected by the markets, further stimulus action by the Fed and the Federal Government likely will surface, as needed, albeit with exacerbating impact on developing inflation and a weakening U.S. Dollar. Extended detail follows in extended *No. 1451*.

[Financial Market Graphs 15 to 23 begin on the next page.]

Financial Market Graphs Updated to October 30, 2020

**Physical Gold and Swiss Franc Continue to Protect U.S. Dollar Purchasing Power
Inflation Risks Intensify With High Gold and Silver Prices and a Weaker U.S. Dollar**

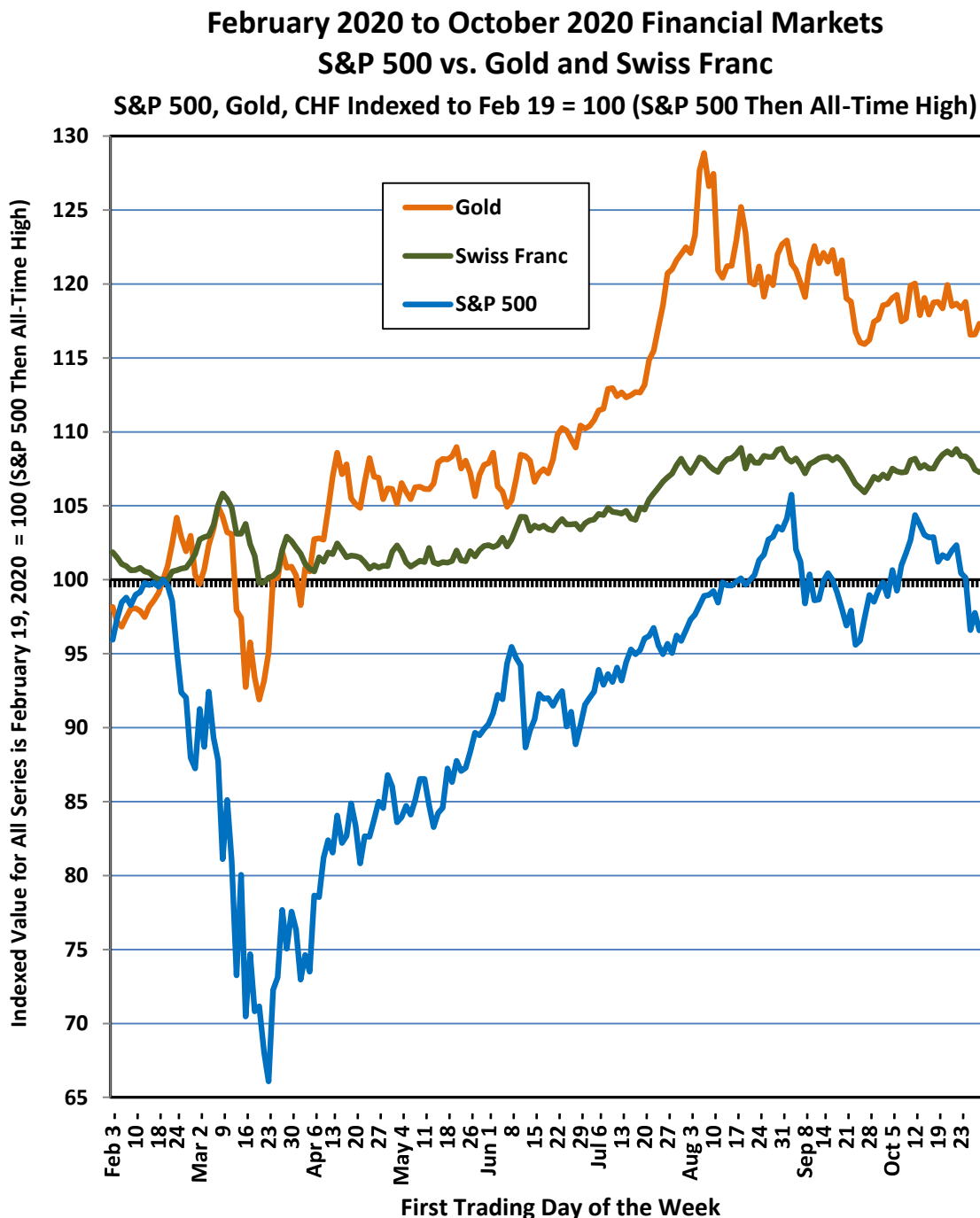
Graph 15: February 3 to October 30, 2020 Financial Markets (Dow Jones Industrial Average)



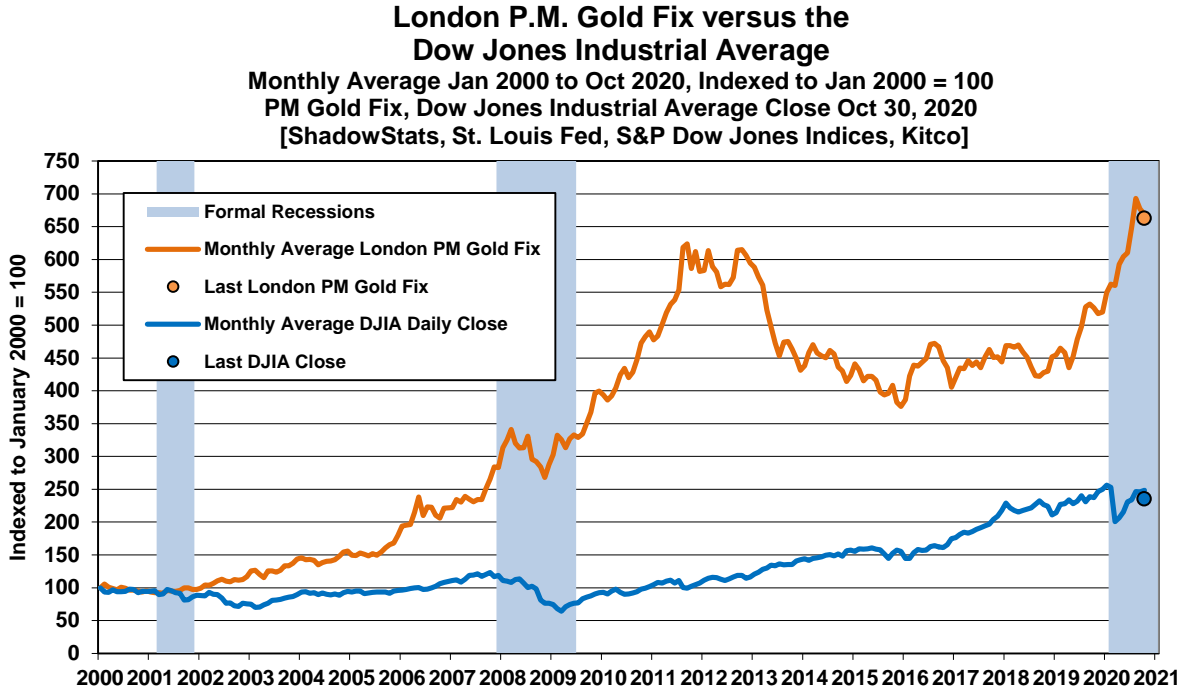
DJIA and S&P 500 Continue Moving Off Recent Post-Pandemic Crash Highs

With the Dow Jones Industrial Average (DJIA) currently shy by about 10% (-10%) of ever recovering its pre-Pandemic crash peak activity (see *Graph 15*) it had hit a post-crash high, before retreating in recent months, hitting a multi-month low today. The S&P 500 had broken about 6% above its pre-Pandemic high to record levels, before pulling back to about a 3% (-3%) loss, today, reflected in *Graph 16*. Where the DJIA and S&P 500 pre-Pandemic peaks were a week apart, the indexing of the pre-Pandemic peak close, and same-day Gold and Swiss Franc levels all to 100, varies slightly between *Graphs 15* and *16*.

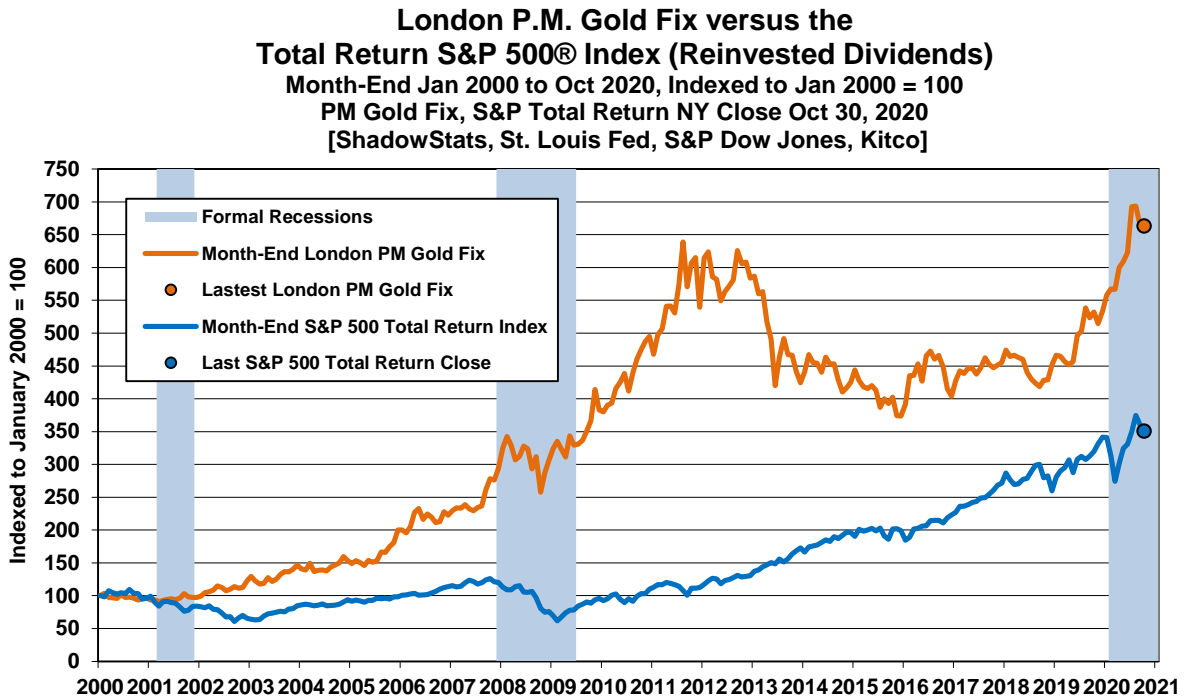
Graph 16: February 3 to October 30, 2020 Financial Markets (S&P 500)



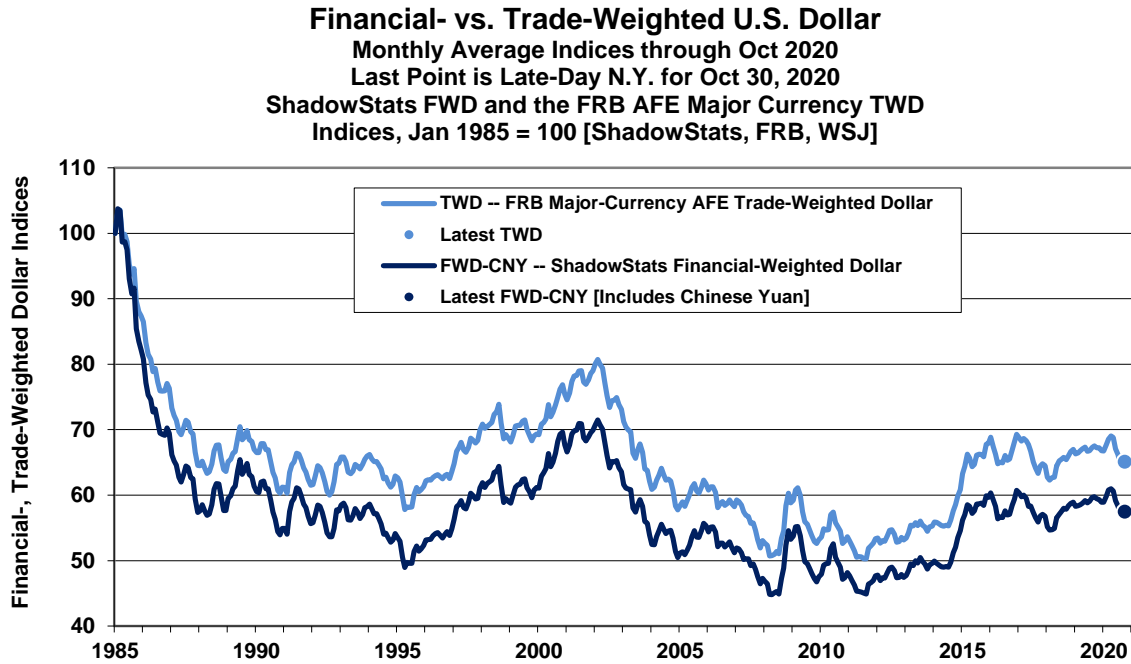
Graph 17: Dow Jones Industrial Average versus Gold (Monthly Average and Latest)



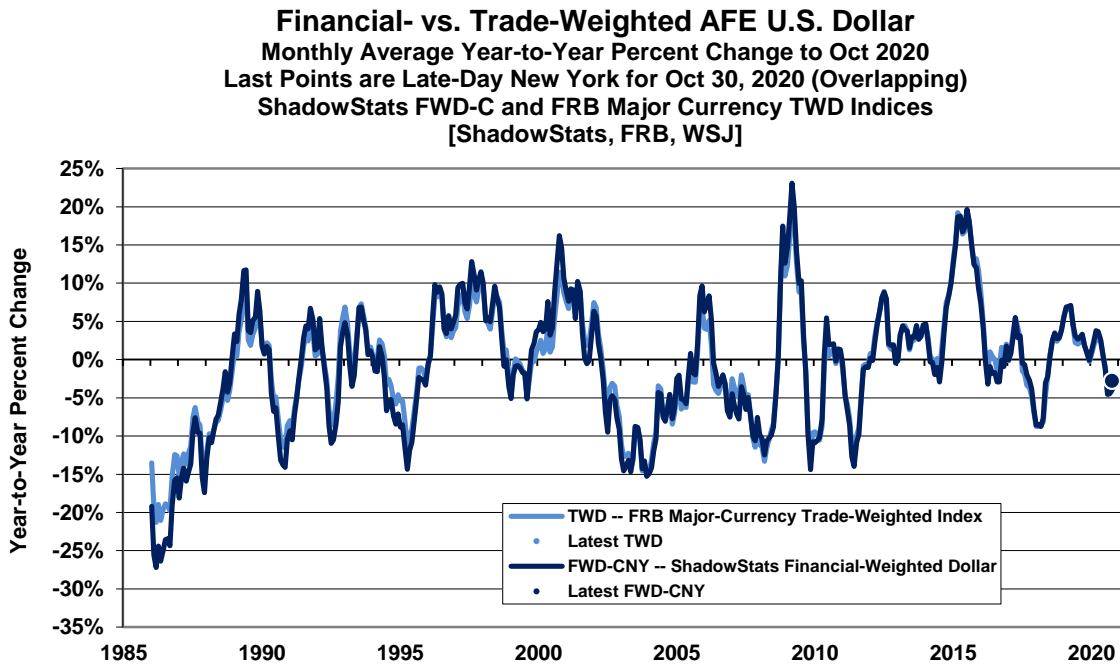
Graph 18: Total Return S&P 500® versus Gold (Month-End and Latest)



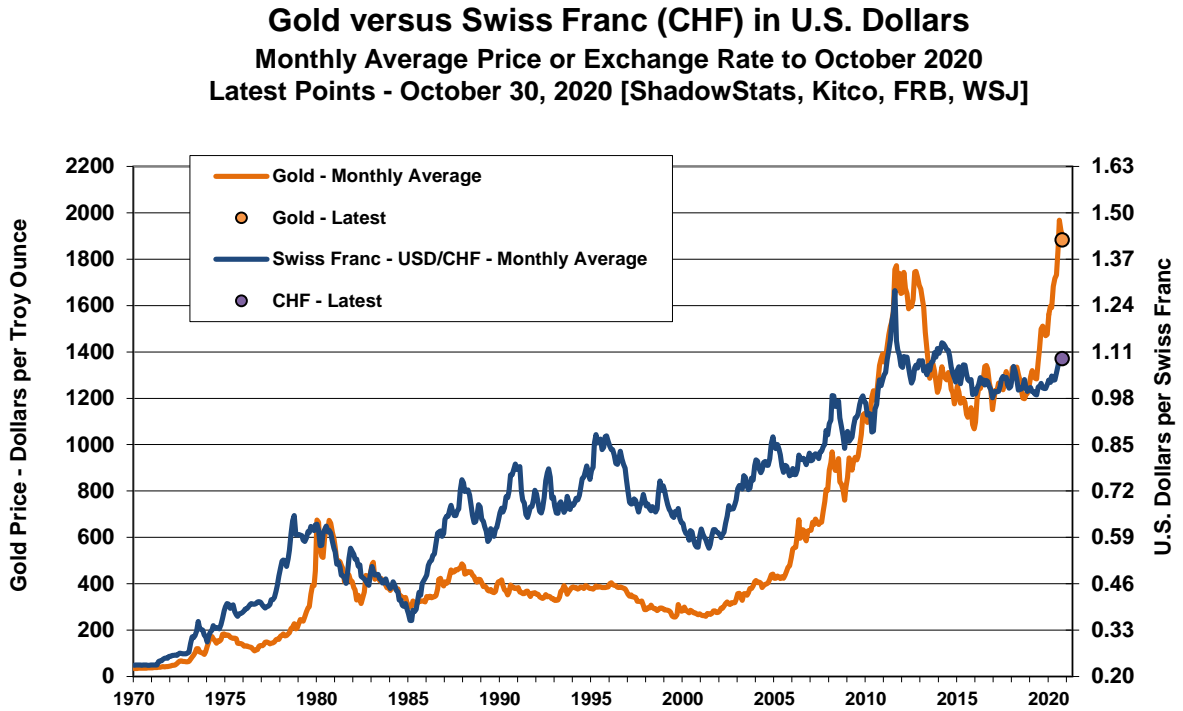
Graph 19: U.S. Financial- vs. Trade-Weighted U.S. Dollar



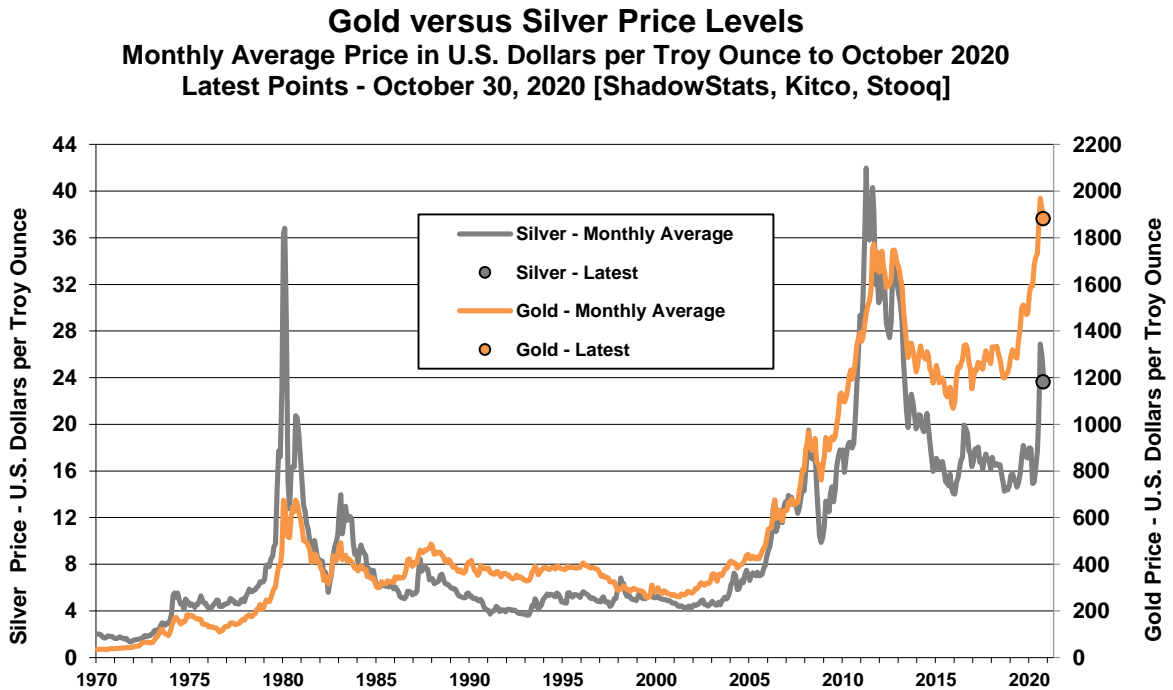
Graph 20: U.S. Financial- vs. Trade-Weighted U.S. Dollar, Year-to-Year Change



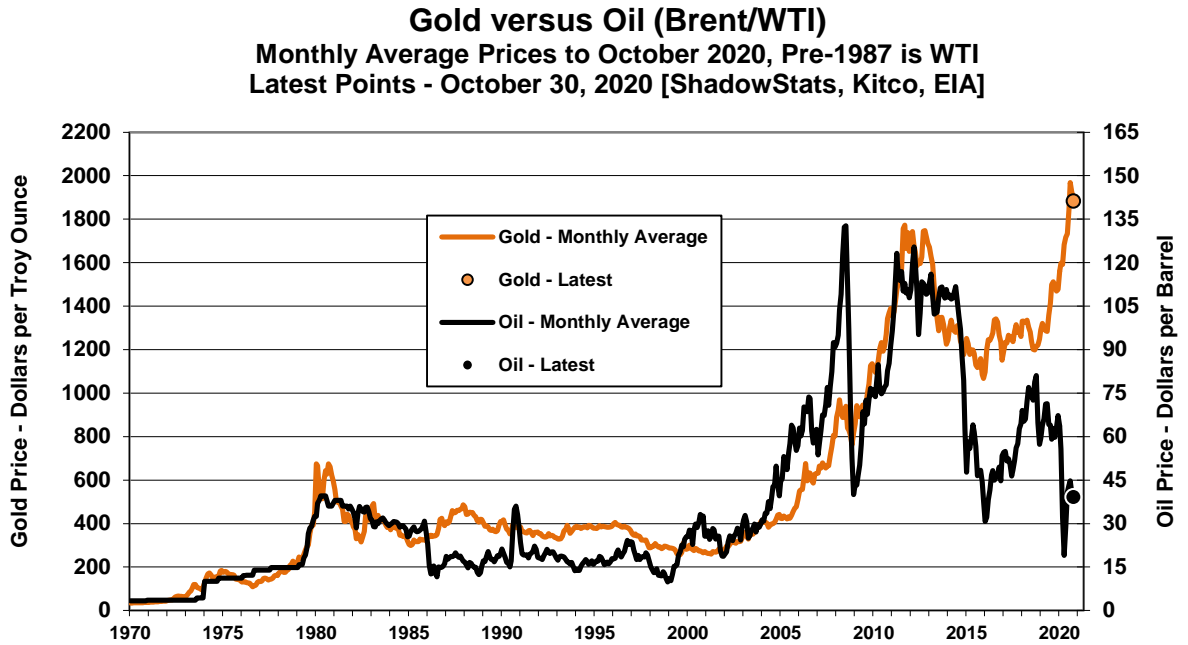
Graph 21: Gold versus Swiss Franc



Graph 22: Gold versus Silver



Graph 23: Gold versus Oil



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