

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

COMMENTARY NUMBER 519
First-Quarter 2013 GDP, Median Household Income

April 26, 2013

**2.5% GDP Gain Was Statistically-Insignificant,
Ongoing Stagnation and Renewed Downturn Are the Underlying Reality**

Official Recovery Is Not Supported by Underlying Numbers

Median Household Income Remained Structurally Impaired in March

PLEASE NOTE: The next regular Commentary is scheduled for Thursday, May 2nd, covering March construction spending and the March trade deficit. A subsequent Commentary on May 3rd will cover the employment and unemployment detail for April.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

A Seriously-Troubled Economy. The March 2013 reporting of real median household income highlighted the ongoing severity of the consumer's structural liquidity problems. Related impairments of consumer income and credit mean that the purported "recovery" in economic activity never took place; it is not taking place, and it is not about to take place, as discussed in these *Opening Comments*. The

official recovery has been dependent on non-existent consumer financial strength and on questionable hedonic quality adjustments to GDP inflation.

In the context of that environment, this morning's (April 26th) advance estimate of first-quarter 2013 GDP was not meaningful. While the headline growth rate of 2.5% came in below market expectations, it was statistically insignificant, as is usual for the series. Nonetheless, the regular details for this broadest of government economic series are reviewed here, although their existence will be transient. Pending, massive GDP revisions are a fair bet to show that the economic downturn has been more severe and more protracted than previously has been estimated.

Related to the new GDP data, updated estimates for the velocity of the money supply (how many times per year the money supply turns over in the economy) are shown in the *Hyperinflation Watch*. Declining velocities for M2 and M3 have flattened out.

First-Quarter 2013 GDP. The headline 2.50% annualized, real (inflation-adjusted) “advance” growth estimate of first-quarter 2013, was weaker than expected by the financial markets, but, as usual, it was not statistically significant. The headline first-quarter growth was against a 0.38% headline quarterly gain in fourth-quarter 2012, with first-quarter 2013 year-to-year growth estimated at 1.80%, versus 1.67% in the fourth-quarter.

In terms of inflation, the implicit price deflator (IPD or GDP inflation), was reported at an annualized pace of 1.20%, versus 0.97% in the fourth-quarter. Year-to-year IPD inflation was 1.60% in the first-quarter, versus 1.84% in the fourth-quarter.

Distribution of GDP Headline Growth. For whatever it may be worth, the headline first-quarter GDP annualized growth rate of 2.50% reflected the following aggregation of contributed growth. Please note that the growth number in each sub-category is the additive contribution to the aggregate, headline change in GDP, where $2.24\% + 1.56\% - 0.50\% - 0.80\% = +2.50\%$:

- ***Consumer Spending Contributed 2.24% to Growth.*** Although consumption slowed some in the consumer goods sector, somewhat in parallel with retail sales reporting, consumption in the heavily-modeled and guessed-at services sector contributed 1.58% of the headline GDP gain. The biggest categories contributing to the services growth were problematic, including jumps in utility usage (due to unseasonably cold weather) and the heavily guesstimated financial-services and health-care categories.
- ***Business/Residential Investment Contributed 1.56% to Growth.*** The dominant factor in this sector was a 1.03% contribution from a renewed build-up in the highly-volatile and unreliable “change in business inventories,” plus increased residential investment.
- ***Net Exports Subtracted 0.50% from Growth.*** Consistent with trade-deficit deterioration indicated as of the most-recent monthly reporting (February 2013), the net-export account reduced aggregate GDP growth, due to faster growth in imports than in exports.
- ***Government Spending Subtracted 0.80% from Growth.*** Of the 0.80% reduction to aggregate GDP growth from cuts in government consumption, 0.60% was attributed to reduced defense spending. The balance of government cuts largely was at the state and local levels.

The preceding numbers are official detail, subject to two regular revisions in the next two months, and to a full revamping and restatement at the end of July.

Comprehensive GDP Benchmark Revision on July 31st. As more-fully discussed in the *Reporting Detail* section, the annual GDP revisions due for release on July 31st will redefine the GDP series and restate historical information back to 1929. Revised economic data of recent years should show the severe recession to have been more protracted and more intense than previously reported, along with a fair chance of suggesting that the official GDP started to turn down anew, in 2012. Such revisions would be consistent with what likely will become recognized as the second dip in a double- or multiple-dip recession, co-joined to the formal 2007-to-2009 recession.

Economic Reality. This most-worthless and most-heavily-politicized of government economic series does not reflect properly or accurately the changes to the underlying fundamentals that drive the numbers. Underlying real-world economic activity suggests 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 second- and third-quarter 2012 (see [Special Commentary \(No. 485\)](#) and [Hyperinflation 2012](#)). That pattern is shown in the “corrected” GDP graph in the next sub-section.

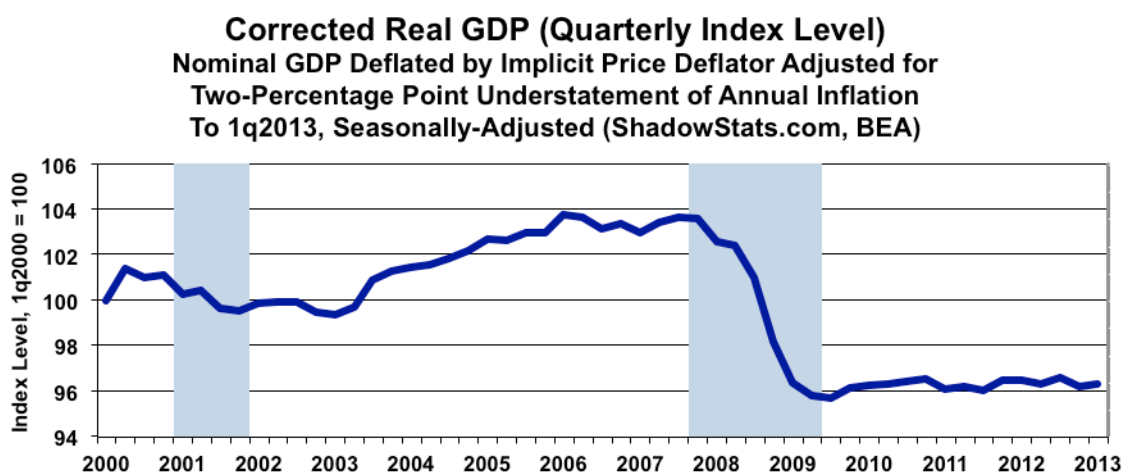
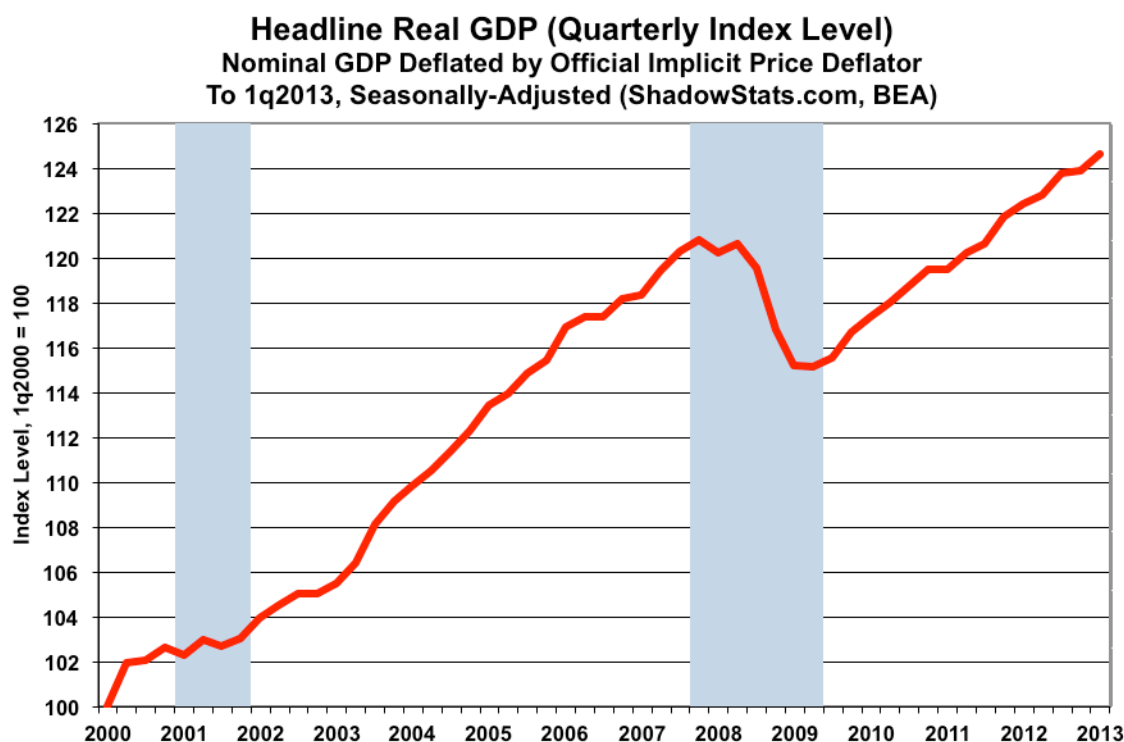
As suggested by the latest detail on household income, seen later in the *Opening Comments*, a sustainable recovery could not have taken place since 2009, and a recovery will not be forthcoming until the consumer’s structural income and liquidity problems are resolved.

Corrected Gross Domestic Product. As usually discussed in the *Commentaries* covering the monthly GDP reporting and revisions, the full economic recovery indicated by the official, real GDP numbers remains an illusion. It is a statistical illusion created by using too-low a rate of inflation in deflating (removing inflation effects) from the GDP series. The following two graphs tell that story, updated for the initial estimate of first-quarter 2013 GDP.

Shown in the first graph, official real GDP activity has been reported above pre-2007 recession levels—in full recovery—since fourth-quarter 2011, and has shown sustained growth since. Adjusted for official gains in GDP inflation, the level of first-quarter 2013 GDP is now 3.2% above the pre-recession, peak-GDP estimate of fourth-quarter 2007.

No other major economic series has shown a parallel pattern of full economic recovery and beyond (although uncorrected real retail sales are just at that full-recovery point, but not beyond, five quarters later). Either the GDP reporting is wrong, or all other major economic series are wrong. While the GDP is heavily modeled, imputed, theorized and gimmicked, it also encompasses reporting from those various major economic series and private surveys, which attempt to survey real-world activity. Flaws in the GDP inflation methodologies have created the “recovery.”

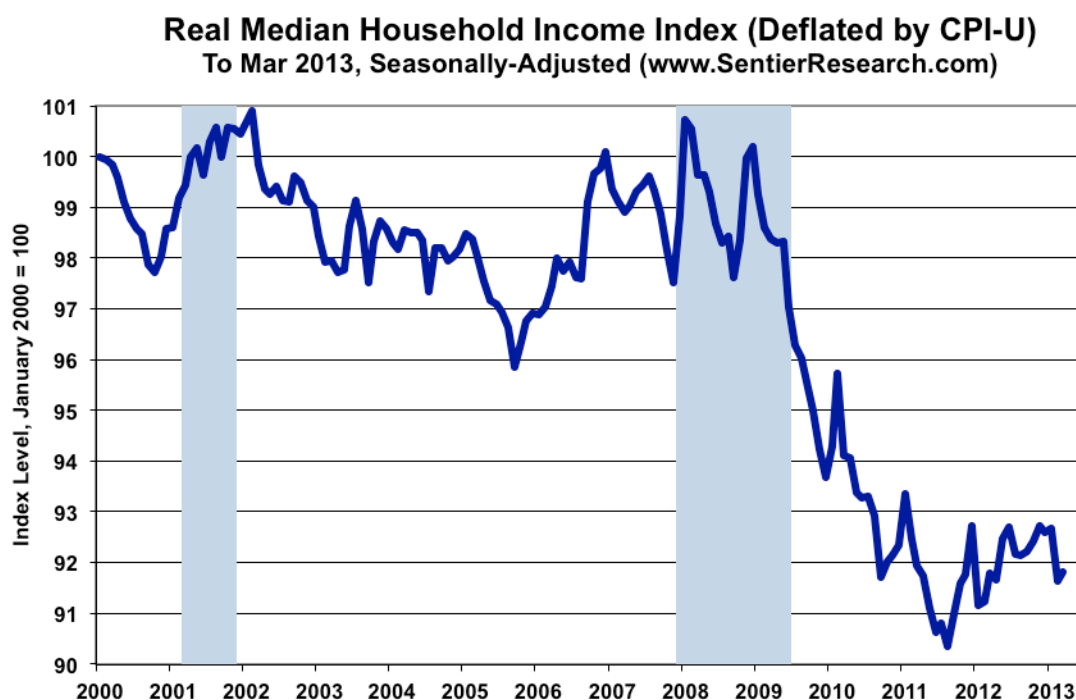
The second graph plots the GDP corrected for the understatement inherent in official inflation estimates, with the deflation by the implicit price deflator (IPD) adjusted for understatement of roughly two-percentage points of annual inflation. The inflation understatement has resulted from hedonic-quality adjustments, as discussed in [Hyperinflation 2012, No. 485: Special Commentary](#) and [Public Comment on Inflation](#). Both graphs here are indexed to first-quarter 2000 = 100, with the plots to consistent scales.



March 2013 Real Median Household Income. As provided by www.SentierResearch.com, real (adjusted for official CPI-U inflation) median household income held even in February 2013 (a small month-to-month notch to the upside was statistically insignificant). Indeed, allowing for normal series volatility, income is at or near the low of its cycle. Without real growth in income, and without the ability to expand credit, the consumer cannot fuel a sustainable recovery in real consumption (see related details in [Commentary No. 513](#)).

These income and credit constraints have been in place for the entire period of the purported economic recovery, since June of 2009. With the consumer accounting directly for 74% of real GDP activity (personal consumption plus residential investment), and indirectly for the bulk of the remaining GDP, that means that the official GDP recovery should have been based largely on something other than consumer activity. Comparing real first-quarter 2013 GDP, though, with second-quarter 2009—the recession-trough quarter—77% of the intervening GDP recovery was directly accounted for by gains in personal consumption and residential investment. The other big segment of the recovery was in business purchases of computers and software, an area that enjoys the benefits of hedonic-quality-adjusted inflation estimates. Artificially reduced inflation generates artificially-inflated real growth.

The post-2009 recovery—heavily touted by politicians, the Fed and Wall Street—never took place.

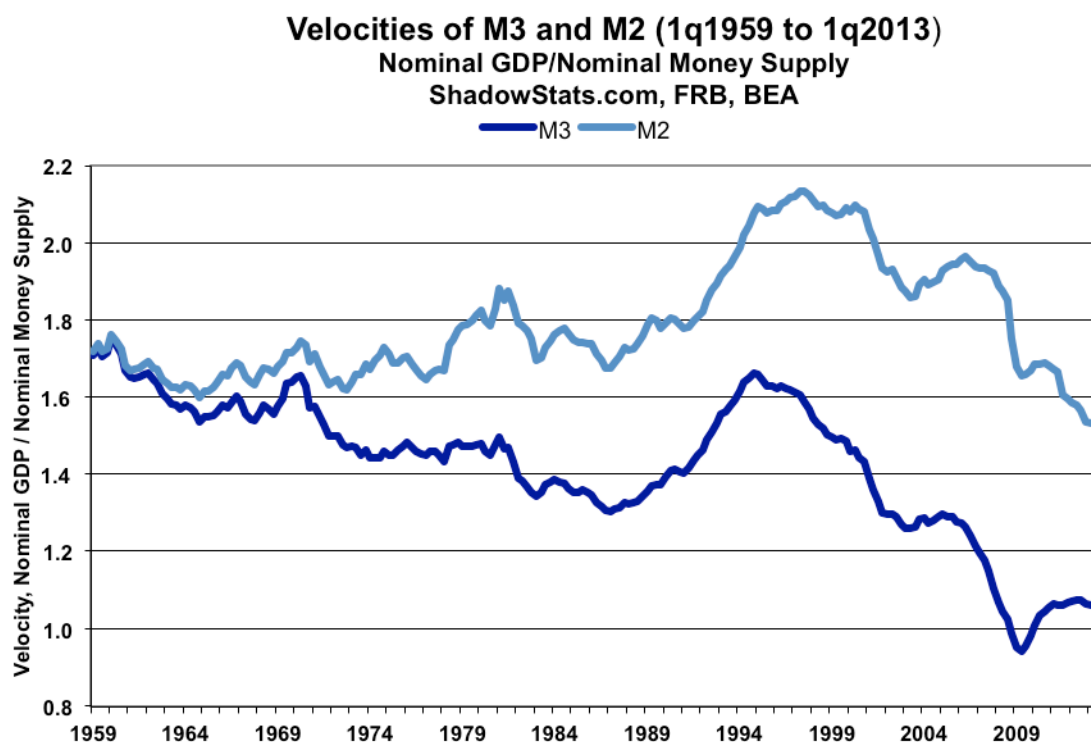


[Further details on the “advance” estimate of first-quarter 2013 GDP are found in the Reporting Detail section.]

HYPERINFLATION WATCH

Updated Money Velocity Numbers. Incorporating today's nominal data on first-quarter 2013 GDP, as well as recent regular revisions to underlying money data published by the Federal Reserve, updated estimates of money velocity for money supply M2 and M3 are graphed below. The pace of decline seen in fourth-quarter 2012 velocity flattened out in first-quarter 2013, reflecting somewhat stronger GDP growth and weaker M2 and M3 growth in the first-quarter.

Subscribers frequently ask for specifics on the velocity of the money supply, with the result that this section has become a standard feature for *Commentaries* covering the first GDP reporting of a quarter. The nature of velocity is discussed in some detail in the 2008 [Money Supply Special Report](#). Velocity simply is the number of times the money supply turns over in the economy in a given year, or the ratio in nominal terms (not adjusted for inflation) of GDP to the money supply. At present, the velocity of M2 and the velocity of M3 (using the ShadowStats Ongoing-M3 Measure) declined in first-quarter 2013, albeit at slower rates of decline than seen in the fourth-quarter, as shown in the accompanying graph.



Velocity has theoretical significance, where, in combination with money-supply growth, it should be a driving force behind inflation. Yet, since velocity is a ratio of two numbers that are not particularly well

or realistically measured, its actual estimate is of limited value. As an inflation predictor, it has to be viewed in the context of accompanying money-supply growth.

M3 velocity hit its near-term peak in first-quarter 2005, bottomed in second-quarter 2009 and generally had been flat or rising through third-quarter 2012. It has been slightly weaker since, turning lower in fourth-quarter 2012, reflecting a pattern of accelerating M3 growth and decelerating GDP growth. Those patterns largely reversed in first-quarter 2013. M2 velocity hit its near-term peak in second-quarter 2006, and—other than for a brief bump—it has been declining since.

M3 and M2 had been showing opposite patterns in 2011 and 2012, because growth in M3 had been much weaker than growth in M2. The reason behind that difference was that much of the relatively stronger M2 growth reflected cash moving out of M3 categories—such as large time deposits and institutional money funds—into M2 or M1 accounts. M3 contains M2, and M2 contains M1. The effect of the funds shift had no impact on M3, but it spiked M2 growth. The clarity of what happened there is why ShaowStats still tracks what had been the broadest money measure (M3) available. Again, full definitions can be found in the [Money Supply Special Report](#).

Hyperinflation Outlook—Unchanged. *This synopsis is unchanged from that published in Commentary No. 517 of April 17th. The summary outlook here is intended for new subscribers and for readers looking for a condensed version of the broad overview of economic, inflation and financial circumstances, or who otherwise are not familiar with the hyperinflation report or special commentaries, linked below. Those latter documents are suggested as background reading on the financial turmoil and currency upheaval facing the United States in the next year or two.*

The November 27, 2012 [Special Commentary \(No. 485\)](#) updated [Hyperinflation 2012](#) and the broad outlook for the economy and inflation, as well as for systemic stability and the U.S. dollar. These remain the two primary articles outlining current conditions and the background to the hyperinflation forecast. The basics have not changed here, other than events keep moving towards the circumstance of a domestic hyperinflation by the end of 2014. Nonetheless, the next fully-updated hyperinflation report is targeted for publication around mid-May.

Nothing is normal: not the economy, not the financial system, not the financial markets and not the political system. The system remains still in the throes and aftershocks of the 2008 panic and the near-systemic collapse, and from the ongoing responses to same by the Federal Reserve and federal government. Further panic is possible and hyperinflation is inevitable.

The economic and systemic solvency crises of the last eight years continue. There never was an actual recovery following the economic downturn that began in 2006 and collapsed into 2008 and 2009. What followed was a protracted period of business stagnation that began to turn down anew in second- and third-quarter 2012. The official recovery seen in GDP has been a statistical illusion generated by the use of understated inflation in calculating key economic series (see [Public Comment on Inflation](#)). Nonetheless, given the nature of official reporting, the renewed downturn likely will gain recognition as the second-dip in a double- or multiple-dip recession.

What continues to unfold in the systemic and economic crises is just an ongoing part of the 2008 turmoil. All the extraordinary actions and interventions bought a little time, but they did not resolve the various

crises. That the crises continue can be seen in deteriorating economic activity and in the panicked actions by the Federal Reserve, where it proactively is monetizing U.S. Treasury debt at a pace suggestive of a Treasury that is unable to borrow otherwise.

Before the mid-April rout in gold prices, there had been mounting hype about the Fed potentially pulling back on its “easing” and a coincident Wall Street push to talk-down gold prices. Those factors still appear to be little more than hype, designed for jawboning to support the U.S. dollar and to soften gold, in advance of the still-festering crises in the federal-budget and debt-ceiling negotiations. Despite orchestrated public calls for “prudence” by the Fed, the underlying and deteriorating financial-system and economic instabilities have self-trapped the Fed into an expanding-liquidity or easing role that likely will not be escaped until the ultimate demise of the U.S. dollar. Further complicating the circumstance for the U.S. currency is the increasing tendency of major U.S. trading partners to move away from using the dollar in international trade, such as seen most recently in the developing relationship between France and China.

The Fed’s recent and ongoing liquidity actions themselves suggest a signal of deepening problems in the financial system. Mr. Bernanke admits that the Fed can do little to stimulate the economy, but it can create systemic liquidity and inflation. Accordingly, the Fed’s continuing easing moves appear to have been primarily an effort to prop-up the banking system and also to provide back-up liquidity to the U.S. Treasury, under the political cover of a “weakening economy.” Mounting signs of intensifying domestic banking-system stress are seen in a renewed weakening of broad money growth, despite a soaring monetary base, and in global banking-system stress, as reflected in the recent Cyprus crisis and its ongoing aftershocks.

Both Houses of Congress recently put forth outlines of ten-year budget proposals that are shy on detail. The ten-year plan by the Republican-controlled House proposes to balance the cash-based deficit as well as to address issues related to unfunded liabilities. The plan put forth by the Democrat-controlled Senate does not look to balance the cash-based deficit. Given continued political contentiousness and the use of unrealistically positive economic assumptions to help the budget projections along, little but gimmicked numbers and further smoke-and-mirrors are likely to come out of upcoming negotiations. With the release of the Administration’s budget for fiscal-year 2014, these issues should be coming to a head, now, in April and May; there still appears to be no chance of a substantive agreement.

Indeed, ongoing and deepening economic woes assure that the usual budget forecasts—based on overly-optimistic economic projections—will fall far short of fiscal balance and propriety. Chances also remain nil for the government fully addressing the GAAP-based deficit that hit \$6.6 trillion in 2012, let alone balancing the popularly-followed, official cash-based accounting deficit that was \$1.1 trillion in 2012 (see [No. 500: Special Commentary](#)).

Efforts at delaying meaningful fiscal action, and at briefly postponing conflict over the Treasury’s debt ceiling, have bought the politicians in Washington minimal time in the global financial markets, but the time largely has run out and patience in the global markets is near exhaustion. The continuing unwillingness and political inability of the current government to address seriously the longer-range U.S. sovereign-solvency issues, only pushes along the regular unfolding of events that eventually will trigger a domestic hyperinflation, as discussed in [Commentary No. 491](#).

The unfolding fiscal catastrophe, in combination with the Fed's direct monetization of Treasury debt, eventually (more likely sooner rather than later) will savage the U.S. dollar's exchange rate, boosting oil and gasoline prices, and boosting money supply growth and domestic U.S. inflation. Relative market tranquility likely will not last much longer, despite the tactics of delay by the politicians and obfuscation by the Federal Reserve.

This should become increasingly evident as the disgruntled global markets begin to move sustainably against the U.S. dollar. A dollar-selling panic is likely this year—of reasonably high risk in the next month or two—with its effects and aftershocks setting hyperinflation into action in 2014. Gold remains the primary and long-range hedge against the upcoming debasement of the U.S. dollar, irrespective of any near-term price gyrations in the gold market.

The rise in the price of gold in recent years was fundamental. The recent panicked sell-off in gold was not. With the underlying fundamentals of ongoing dollar-debasement in place, the upside potential for gold, in dollar terms, is limited only by its inverse relationship to the purchasing power of the U.S. dollar (eventually headed effectively to zero). Again, physical gold—held for the longer term—remains as a store of wealth, the primary hedge against the loss of U.S. dollar purchasing power.

REPORTING DETAIL

GROSS DOMESTIC PRODUCT—GDP (First-Quarter 2013, “Advance” or First Estimate)

First-Quarter Headline GDP Growth Was Statistically Insignificant. Somewhat weaker than consensus estimates, the headline 2.5% growth reported for first-quarter 2013 GDP, was not meaningful, as usually is the case with GDP reporting. With a 95% confidence interval of +/- 3.5%, the headline growth could have been negative or zero within the scope of the reliability of the government's reporting. Annual, or year-to-year growth picked up slightly from 1.7% in the fourth-quarter to 1.8% in the first-quarter.

The headline-growth distribution by major sub-category is covered in the *Opening Comments*.

This most-worthless and most-heavily-politicized of government economic series does not reflect properly or accurately the changes to the underlying fundamentals that drive the series. The GDP remains the only major economic series to show a full economic recovery and meaningful renewed expansion, since the onset of official recession in December 2007. Adjusted for official gains in GDP inflation, first-quarter 2013 GDP is 3.2% above the pre-recession GDP peak estimate of fourth-quarter 2007.

Either the GDP numbers are wrong, or all the other major economic releases are wrong. As discussed and graphed in the *Opening Comments*, the real GDP's upswing in activity since mid-2009 has been no more than a statistical illusion resulting from the use of bad-quality inflation data.

Underlying real-world economic activity suggests 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 second- and third-quarter 2012 (see [Special Commentary \(No. 485\)](#) and [Hyperinflation 2012](#)). The “comprehensive” GDP revisions, due to be published on July 31st, should alter historical GDP reporting so that it is more in line with those described patterns of activity

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 it generally is not followed by the popular press. 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 2005 Dollars,” at present, where the 2005 is the base year for inflation, and “chained” refers to the methodology which gimmicks the reported numbers so much that the total of the deflated GDP sub-series misses the total of the deflated total GDP series by nearly \$107 billion in “residual” as of fourth-quarter 2011.

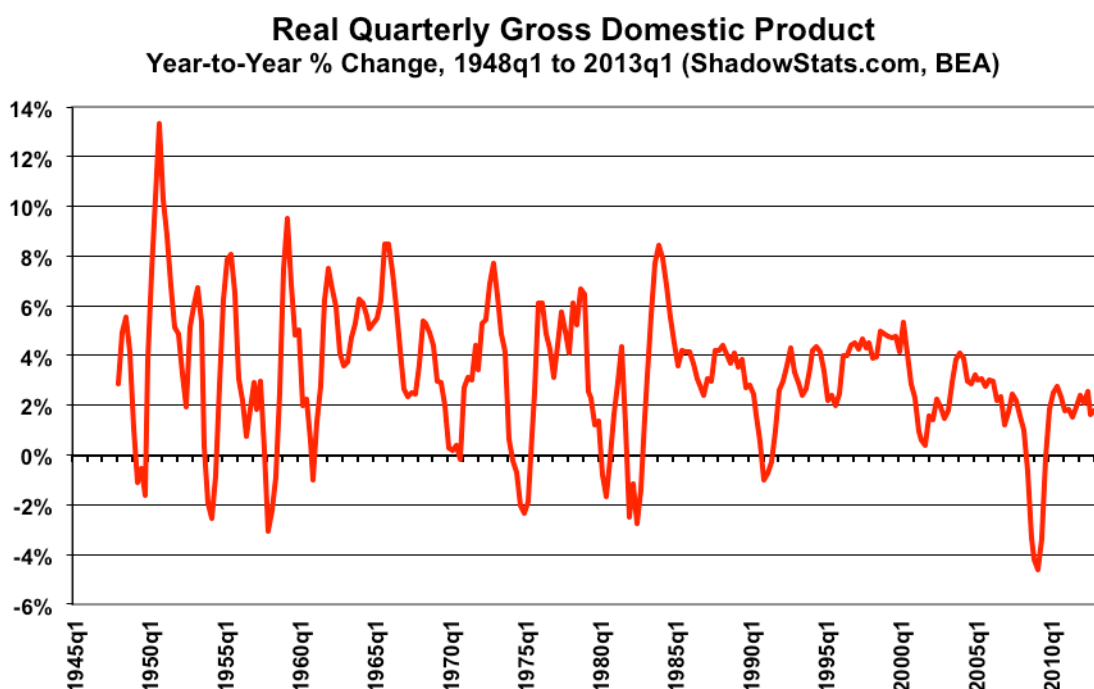
Quarterly growth, unless otherwise stated, is in terms of seasonally-adjusted, annualized quarter-to-quarter growth, i.e., the growth rate of one quarter over the prior quarter, raised to the fourth power, a compounded annual rate of growth. While some might annualize a quarterly growth rate by multiplying 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.

GDP. Published this morning, April 26th, by the Bureau of Economic Analysis (BEA), the “advance” estimate of first-quarter 2013 gross domestic product (GDP) showed statistically-insignificant, real (inflation-adjusted), annualized quarterly growth of 2.50% +/- 3.5% (95% confidence interval). That was against a 0.38% headline gain in fourth-quarter 2012. Those numbers and all related data released today will be fully revamped with the July 31st “comprehensive revision” and redefinition of the GDP series, with all data re-estimated back to 1929.

For eight of the nine quarters since first-quarter 2011 (fourth-quarter 2011 excepted), officially-estimated growth rates have been little more than statistical noise around the unchanged level, and these heavily guessed-at numbers possibly were massaged to keep the quarterly growth rates in politically-desirable territory.

Added to the accompanying graph is the year-to-year real change in first-quarter 2013 GDP. First-quarter year-to-year growth was 1.80%, versus 1.67% in fourth-quarter 2012. The latest year-to-year growth remains well off the near-term peak of 2.80% reported during third-quarter 2010. The current cycle trough was in second-quarter 2009 at a 4.58% year-to-year decline. That was the deepest annual contraction seen for any quarterly GDP in the history of the series, which began with first-quarter 1947.



Implicit Price Deflator (IPD). First-quarter 2013 GDP inflation, or the implicit price deflator (IPD), was reported at an annualized pace of 1.20%, versus 0.97% in the fourth-quarter. Year-to-year IPD inflation was 1.60% in the first-quarter, versus 1.84% in the fourth-quarter. Again, these numbers will be revamped on July 31st.

For comparison purposes, the annualized seasonally-adjusted quarterly inflation for the CPI-U in first-quarter 2013 was 1.44%, versus 2.19% in fourth-quarter 2012, with year-to-year first-quarter CPI-U (unadjusted) at 1.68%, versus annual inflation of 1.89% in the fourth-quarter.

The weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth.

Pending GDP “Comprehensive Revision” and Redefinitions. The July 31st GDP overhaul will reflect much more than the revisions to existing GDP data, based on the availability of better-quality underlying data, and a restating of the real or inflation-adjusted numbers from a 2005- to a 2009-base. Better-quality underlying data for the current GDP series should result in downside revisions to reported economic activity of recent years, showing the economic downturn since 2006 to have been deeper and more-protracted than previously estimated. There is a fair chance of those revisions showing that the economy started to turn down anew, officially, in 2012.

Beyond the standard data revisions, the BEA also is redefining and recalculating the GDP back to 1929, so as to include “capitalization of research and development expenditures,” “capitalization of entertainment, literary and other artistic originals,” and “capitalization of ownership transfer costs of residential fixed assets.” Those three items previously were expensed. By themselves, they are estimated to add about \$430 billion or 2.7% to the current GDP level, per the BEA.

Where the impact of the definitional changes on estimated quarterly growth rates most likely will be positive, that effects of better-quality data revisions still should dominate the revamped historical reporting of recent years, showing weaker than previously estimated economic growth. The redefinition issues also were discussed in [Commentary No. 518](#), where, for example it was noted that the resulting:

“...higher level of nominal (not-adjusted-for-inflation) GDP will reduce slightly the federal debt-to-GDP ratio. It also will increase estimates of the velocity of money (GDP/money supply), or how many times the money supply turns over in the economy in a given year [see *Hyperinflation Watch*]. Separately, the changes will boost the reported size of the U.S. economy on a comparative basis versus the rest of the world, although the underlying economic reality will not have changed at all.

“These methodological shifts also should result in the reporting of a somewhat less-severe Great Depression, as a result of ‘Pollyanna Creep’ that is discussed in the [GDP Primer Series](#).”

The BEA description of the pending changes can be found here: [GDP Comprehensive Revision](#).

ShadowStats-Alternate GDP. The ShadowStats-Alternate GDP estimate for first-quarter 2013 is a 2.0% year-to-year contraction, versus the headline gain of 1.8%. The alternate first-quarter estimate is a narrower contraction than the 2.2% estimated for fourth-quarter 2012, versus the official estimate then of 1.7% year-to-year growth (see the [Alternate Data](#) tab).

While annualized real quarterly growth is not estimated formally on an alternate basis, a quarter-to-quarter contraction once again appears to have been a realistic possibility for first-quarter 2013, as it has been for eight of the last nine quarters, a period of protracted business bottom-bouncing in the real world.

Adjusted for gimmicked inflation and other methodological changes, the business downturn that began in 2006/2007 is ongoing; there has been no meaningful economic rebound. The corrected real GDP graph

(see the *Opening Comments* section and [Hyperinflation 2012](#) and [No. 485: Special Commentary](#)) is 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, which reflects reversing additional methodological distortions of recent decades.

GDI and GDP. The BEA's advance estimate of first-quarter 2013 gross domestic product (GDP) growth largely is a guess, and it usually is targeted at consensus forecasts. That said, the BEA does not even try to put out early estimates of gross domestic income (GDI), which is the income-side reporting equivalent of the consumption-side GDP; or of gross national product (GNP), which is the broadest measure of U.S. economic activity, where GDP is GNP net of trade in factor-income (interest and dividend payments).

The BEA will not publish first-quarter estimates of the GDI and GDP for another month. The BEA's rationale for not publishing advance estimates here for those series is that it lacks the data needed to make those measures meaningful. Unfortunately, those same qualifications apply to the advance-GDP reporting. Nonetheless, this most-worthless of major government series has been guessed at and published, today, for a quarter that ended just 30 days ago.

WEEK AHEAD

Weaker Economic and Stronger Inflation Data Should Surface in the Near-Term. *Reflecting the intensifying structural liquidity constraints on the consumer, and in anticipation of the likely negative impact, of the continuing and expanded QE3 and the still-pending fiscal crisis/debt-ceiling negotiations, on the U.S. dollar in the currency markets, reporting in the months and year ahead generally should reflect higher-than-expected inflation and weaker-than-expected economic results. Increasingly, previous estimates of economic activity should revise lower, particularly in upcoming annual benchmark revisions, as was seen for industrial production, and as pending for new orders for durable goods (May 17th), retail sales (May 31st), trade deficit (June 4th) and GDP (July 31st—comprehensive overhaul and redefinition back to 1929).*

Significant reporting-quality problems continue with most major economic series. Headline reporting issues remain tied largely to systemic distortions of seasonal adjustments, distortions that have been induced by the still-ongoing economic turmoil of the last five years. The recent economic collapse has been without precedent in the post-World War II era of modern economic reporting. These distortions have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series. In any event, where reported numbers are too far removed from common experience, they tend to be viewed by the public with extreme skepticism.

Still, recognition of an intensifying double-dip recession continues to gain, while recognition of a mounting inflation threat has been rekindled by the Fed's monetary policies. The political system would like to see the issues disappear, and it still appears to be trying to work numerical slight-of-hand with series such as the GDP and related projections of the federal budget deficit. The media do their best to avoid publicizing unhappy economic news or, otherwise, they put a happy spin on the numbers. Pushing the politicians and media, the financial markets and related spinmeisters do their best to avoid recognition of the problems for as long as possible, problems that have horrendous implications for the markets and for systemic stability, as discussed in [Hyperinflation 2012](#) and [No. 485: Special Commentary](#).

Construction Spending (March 2013). Due for release on Wednesday, May 1st, by the Commerce Department, March construction spending should continue its trend of month-to-month stagnation, despite a tendency for upside, prior-period revisions, and particularly after adjustment for inflation. As usually is the case, reported monthly changes are not likely to be statistically significant.

U.S. Trade Balance (March 2013). The March trade deficit is scheduled for release on Thursday, May 2nd. With the U.S. trade deficit continuing in fundamental deterioration, the March reporting is at serious risk of showing a meaningful deterioration versus the existing February deficit estimate. Such would be a negative reporting surprise versus what appears to be a developing consensus of a minor narrowing in the monthly trade shortfall.

Any significant narrowing or widening of the March trade deficit—beyond market expectations—respectively would tend to boost or impair the outlook for the first revision to the just-reported “advance” estimate of first-quarter 2013 GDP growth.

Employment and Unemployment (April 2013). The April labor data are due for release on Friday, May 4th, from the Bureau of Labor Statistics (BLS). Most commonly, the consensus jobs estimate settles around the trend estimate from the BLS seasonal-adjustment models. The April 2013 payroll trend number is for a 120,000 jobs gain, versus March reporting of 88,000 (see [Commentary No. 514](#)). The developing early consensus appears to be well above the trend, at the moment. The markets appear to be expecting the April unemployment rate to hold at the 7.6% headline U.3 number reported in March.

Reflecting underlying fundamental economic activity that remains much weaker than consensus expectations, reporting risks are to the downside for payrolls and to the upside for the unemployment rate.

Although the unemployment rate should move higher, there is a persistent reporting problem that has been discussed frequently with this series (see [Commentary No. 451](#) and [Commentary No. 487](#), for example). Month-to-month comparisons of the headline unemployment data cannot be made legitimately. The headline change in the unemployment rate is of no meaning, other than in misguided-media and market reactions. Specifically, all the recent historical unemployment rates are re-calculated each month as part of the concurrent-seasonal-adjustment process, but where the BLS publishes the new headline unemployment rate, it does not publish, and it does not make available, the revised number from the month before, which would be consistent with the new number.