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

COMMENTARY NUMBER 546
GDP and Revisions, Mounting Consumer- and Systemic-Liquidity Issues

August 1, 2013

Federal Reserve Monetization Hits 103.4% of Net U.S. Treasury Debt Issuance in 2013

Redefined GDP Moved Ever Further from Real-World Experience, Beset by Expanded Inflation Shenanigans

Second-Quarter GDP Reflected Patterns of Sharply Slowing Activity

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PLEASE NOTE: The next regular Commentary *is scheduled for tomorrow, Friday, August 2nd, covering July employment and unemployment, and June construction spending.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Upping reported U.S. economic growth by redefining the gross domestic product (GDP) series, instead of by reversing economy-damaging trade and immigration policies or by lowering tax or regulatory burdens on businesses and individuals, is symptomatic of a failing and impotent political system. The resulting gains in reported economic activity are of no more substance than have been the efforts to balance the government's fiscal conditions by playing economic-assumption and games and/or by continuously pushing meaningful decisions into the future.

The extraordinary intervention and liquidity actions taken to avoid systemic collapse at the time of the 2008 panic succeeded in pushing the causal problems into the future, not resolving them. The economic and systemic-solvency crises that led to the turmoil continue, largely unabated. Given the political inability of the current government, and the functional inability of the central bank, to resolve the crucial issues facing the wellbeing of the nation, the unfortunate and still highly likely end result is a systemic collapse in a hyperinflationary great depression (see *Hyperinflation 2012*). The ShadowStats outlook there has not changed.

The comprehensive benchmark revision to the GDP gave a boost to the reporting of near-term economic growth, even though the substantive—as opposed to definitional—revisions generally were to the downside. Details of the revised GDP series are discussed in these *Opening Comments*, as is the initial reporting of second-quarter 2013 GDP (also covered in the *Reporting Detail* section).

Other reporting—tied to consumer conditions—has continued to signal a liquidity-strapped consumer, who is unable to support sustained growth in broad consumption. As a result, the post-2009 recovery hyped by the government and Wall Street never took place, and the hoped-for recovery still is not pending. Related plots on June 2013 real median household income and on July consumer confidence and sentiment are shown at the end of the *Opening Comments.*

The *Hyperinflation Watch* section covers the latest in the Fed's monetization of Treasury debt, which now exceeds 100% for calendar year 2013. Signs of banking-system stress continue to increase, as the monetary base has continued to soar.

Separately, incorporating the GDP redefinitions are revised plots on the federal debt and federal obligations ratios to GDP, as well updated and revised velocity details for money supply M2 and M3. Other than there being new numbers to look at, though, there is no substance to the changes, since there is no substance to the enhanced definitional growth in the GDP. The *Hyperinflation Outlook* has been updated to reflect revised GDP comments.

Comprehensive GDP Benchmark Revision. The comprehensive benchmark revision to gross domestic product (GDP) and related reporting was released, along with the first estimate of second-quarter 2013 GDP, by the Bureau of Economic Analysis (BEA) on July 31st. Some of the basic results of that revision follow, most frequently in graphic form. Given the changes, historical GDP reporting has moved increasingly away from underlying, real-world economic activity and common experience. Despite even greater understatement of GDP inflation (overstatement of inflation-adjusted growth), the revised GDP detail shows relatively-weak, recent headline quarterly growth, in conjunction with a sharp slowing in year-to-year growth for the series.

Nonetheless, in the context of the revisions, 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. Based on the new reporting, second-quarter 2013 GDP was 4.4% above the pre-recession GDP peak activity of fourth-quarter 2007.

With common experience and the vast bulk of other economic data showing no recovery, the headline upswing in GDP 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 still indicates 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. The official GDP continues to be the most worthless, and the most-heavily-modeled, massaged and politically-manipulated of the major economic series published by the U.S. government.

Pollyanna Creep. The system of National Income and Product Accounts—gross domestic product (GDP) is the most recognized account therein—is a theoretical construct created in academia and the private sector. While it is a masterful accounting system, it rarely has reflected real-world activity or experience since the 1980s. Such problems often arise with academic approaches to economic issues. In recent decades, the introduction of hedonic quality adjustments and other changes to inflation measurement in those accounts have accelerated the movement of GDP reporting away from common experience.

Pollyanna Creep--GNP/GDP Comprehensive Revisions
Have a Tendency to Increase Levels of Previously Estimated Historical Growth
As Positive Assumptions/Changes Are Built into Latest Reporting Methodologies
(GNP/GDP Expressed in Billions of Current Dollars)

GNP for Year	(1) As Reported In 1950	(2) As Reported In 1984	(3) As Reported In 2004	(4) As Reported In 2013	(3) vs (2) Revision to Reporting 2004/1984	(4) vs (2) Revision to Reporting 2013/1984
1929	103.8	103.4	104.4	104.6	0.97%	1.16%
1933	55.8	55.8	56.7	57.5	1.61%	3.05%
1940	101.4	100.0	101.7	103.2	1.70%	3.20%
1950	284.2	286.5	295.2	301.6	3.04%	5.27%
1960	n.a	506.5	529.5	546.4	4.54%	7.88%
1970	n.a	992.7	1,044.9	1,082.3	5.26%	9.03%
1980	n.a	2,631.7	2,823.7	2,896.7	7.30%	10.07%
GDP for Year	**(1) As Reported In 1992**	**(2) As Reported In 2004**	**(3) As Reported In 2013**	**(2) vs (1) Revision to Reporting 2004/1992**	**(3) vs (1) Revision to Reporting 2013/1992**	**(3) vs (2) Revision to Reporting 2013/2004**
1980	2,708.0	2,785.5	2,862.5	2.86%	5.71%	2.76%
1990	5,513.8	5,803.1	5,979.6	5.25%	8.45%	3.04%
2000	n.a	9,817.0	10,289.7	n.a.	n.a.	4.82%

Sources: ShadowStats.com, U.S. Department of Commerce.

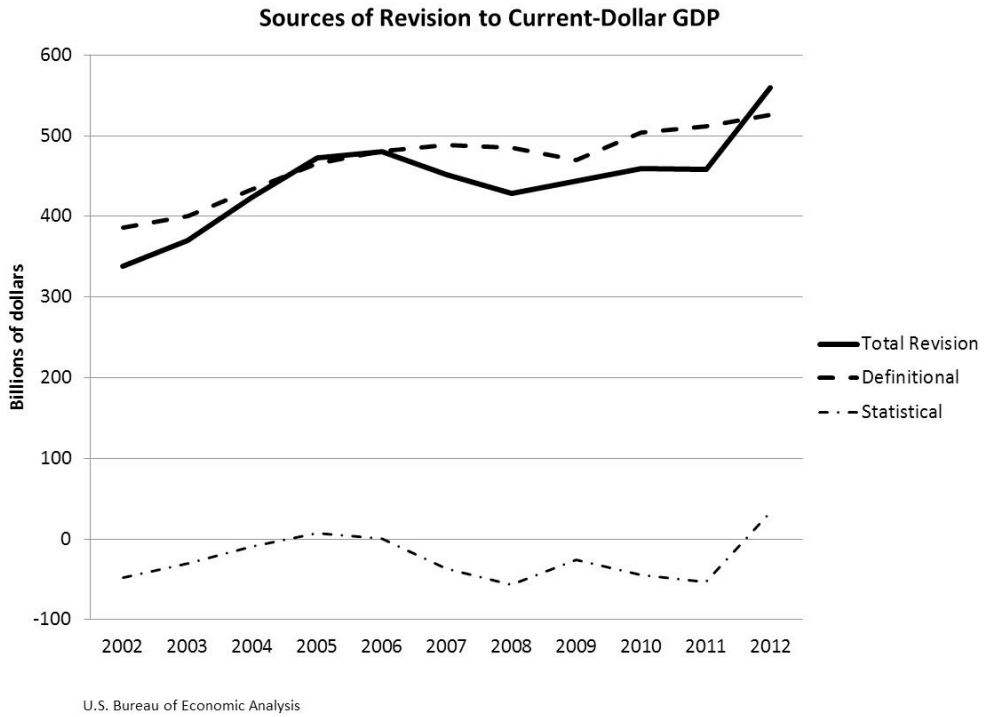
As has been discussed in the ShadowStats *Primer Series* on the GNP/GDP, varied academic theories, often with strong political biases, have been used to alter the GDP model over the years, resulting in "Pollyanna Creep," where changes made to the series invariably have had the effect of upping near-term

economic growth. Whether the change was to deflate GDP using "chain-weighted" instead of "fixed-weighted" inflation measures, to capitalize rather than expense computer software purchases, or to smooth away the economic impact of the September 11th terrorist attacks, upside growth biases have been built into reported GDP with increasing regularity since the mid-1980s. The 2013 revisions were unusually substantial, including capitalization of research and development costs, and literary and movie rights.

The accompanying table (updated from the *Primer*) shows the net impact of non-inflation-related definitional changes over time. The GNP level for various years from 1929 through 1980 (GNP was the standard until 1991), and GDP for 1980, 1990 and 2000 are shown in billions of current dollars (not adjusted for inflation). Once set, these GNP/GDP levels generally should not change. With regular redefinitions and methodological shifts, however, earlier periods have been restated so as to be on a consistent basis with the latest reporting. Accordingly, the GNP/GDP levels in the table are shown as they were reported variously in 1950, 1984, 2004 and 2013.

What becomes evident, when looking at these data, is that the biggest definitional reporting changes have taken place since 1984, with upside growth changes accelerating, coming forward in time. Consider first the minimal shifts in the GNP data between 1950 reporting and 1984 reporting, and the acceleration in growth thereafter. Consider, too, that the 1980 GDP that had been reported as $2.708 trillion in 1992 had crept up by 2.9% to $2.786 trillion based on 2004 reporting, and up by a cumulative 5.7% to $2.862 trillion in 2013. The 1990 GDP, however, had "Pollyanna Creep" of 8.5% over the same period.

The "2007 Recession" Officially Was Shallower, and Complete Recovery Came Two Quarters Earlier Than Previously Reported. Details on the components and methodological changes in the 2013 comprehensive revision are available at *GDP Revisions* and the *BEA News Release*. With several exceptions, what follows here is detail that generally is not shown in the news release. The first exception is the following graph from the BEA news release.

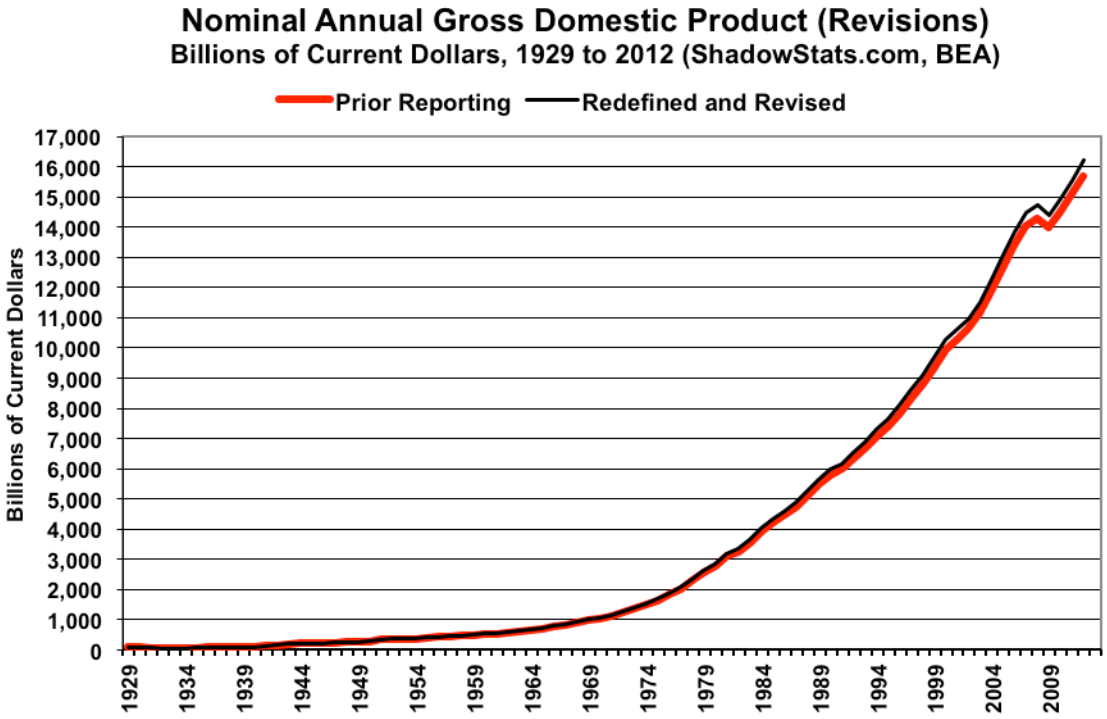


It shows simply that the basic statistical revisions (standard benchmark changes reflecting the availability of better-quality data) to the GDP in recent years were to the downside. Those effects, however, were heavily offset to the upside by the definitional changes.

As a result of the comprehensive benchmark revision, all data were revised back to the beginning of the official GDP series, which is to 1929 on an annual basis and to first-quarter 1947 on a quarterly basis.

The first two sets of graphs following reflect annual GDP in terms of level and annual growth, both in nominal (current dollar, not adjusted for inflation) and real (constant-dollar, chain-weighted 2009 dollars, inflation-adjusted) terms. The narrow, black lines represent the revised data. Note the increasing pace of growth in terms of level, as well as the happy annual spike reflected in the 2012 numbers. As seen in the traditional "Pollyanna Creep," the redefinitions most likely were added specifically to boost current and near-term economic reporting, irrespective of what happens otherwise to the underlying economy.

Following those two sets of graphs of annual data, there is graph of real year-to-year change in quarterly GDP data, beginning right after the post-World War II production shutdown. In nominal terms, the revised level of GDP in first-quarter 2013 was 3.45% higher than the prior estimate, while the revised real level was 3.66% higher. Those effectively are the aggregate upside revisions to the GDP series.


Nominal Annual Gross Domestic Product (Revisions)
Billions of Current Dollars, 1929 to 2012 (ShadowStats.com, BEA)
Prior Reporting
Redefined and Revised
Billions of Current Dollars
17,000
16,000
15,000
14,000
13,000
12,000
11,000
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
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1929
1934
1939
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1959
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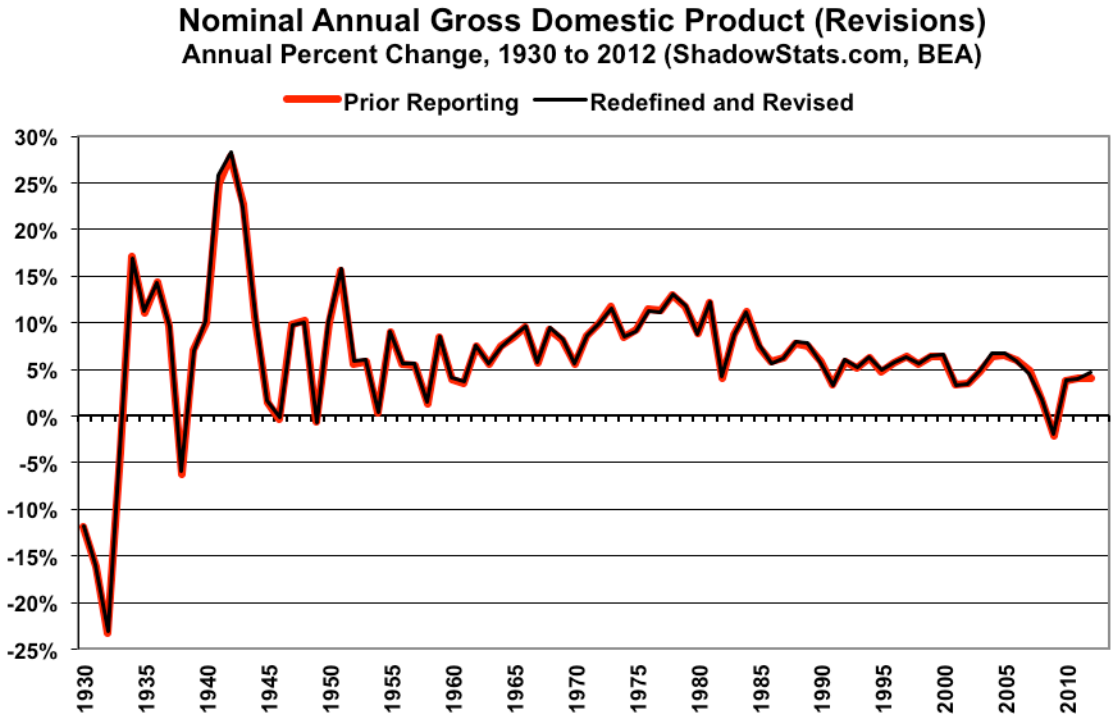
1999
2004
2009


Nominal Annual Gross Domestic Product (Revisions)
Annual Percent Change, 1930 to 2012 (ShadowStats.com, BEA)
Prior Reporting
Redefined and Revised
30%
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%
-20%
-25%
1930
1935
1940
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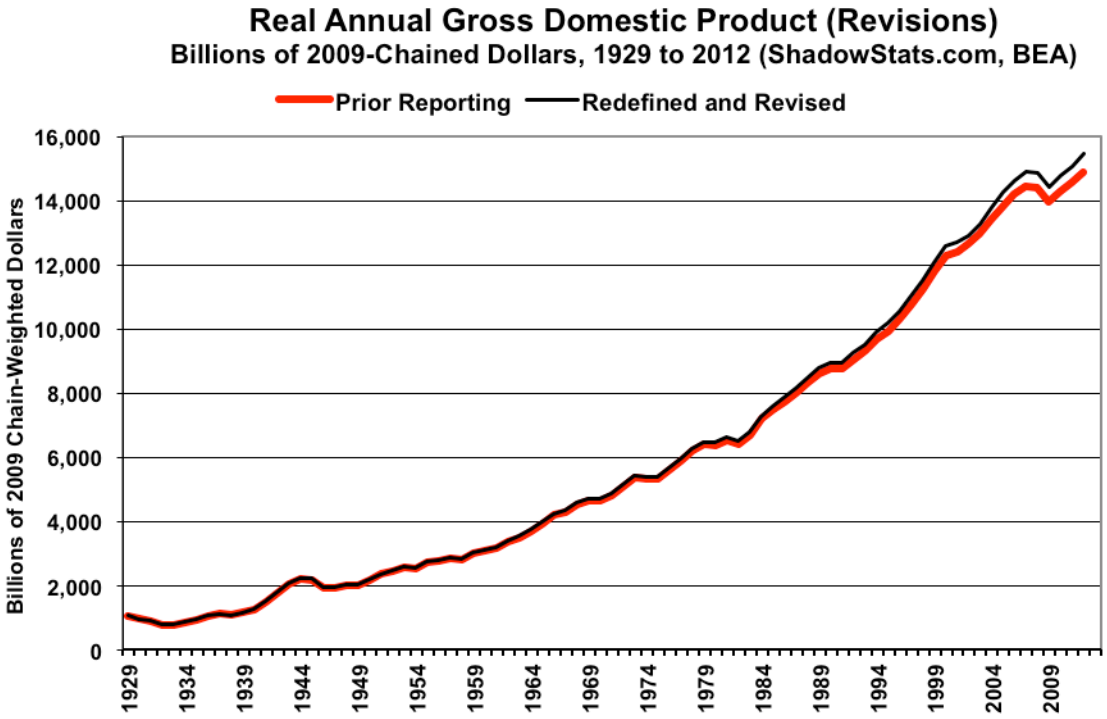
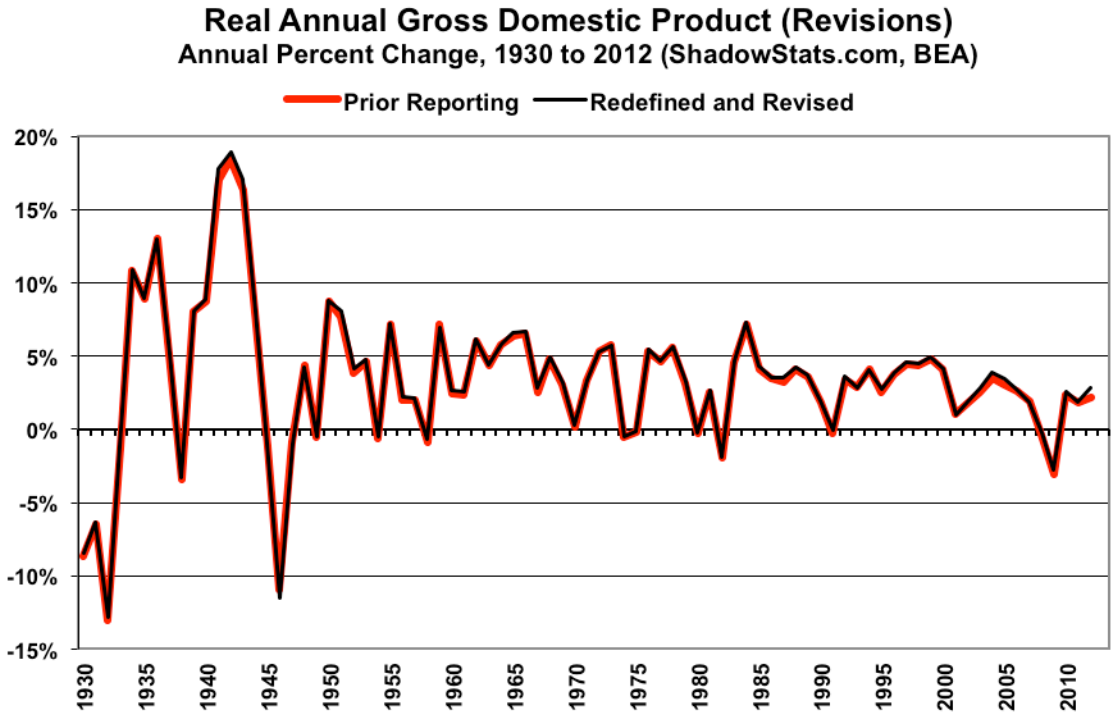
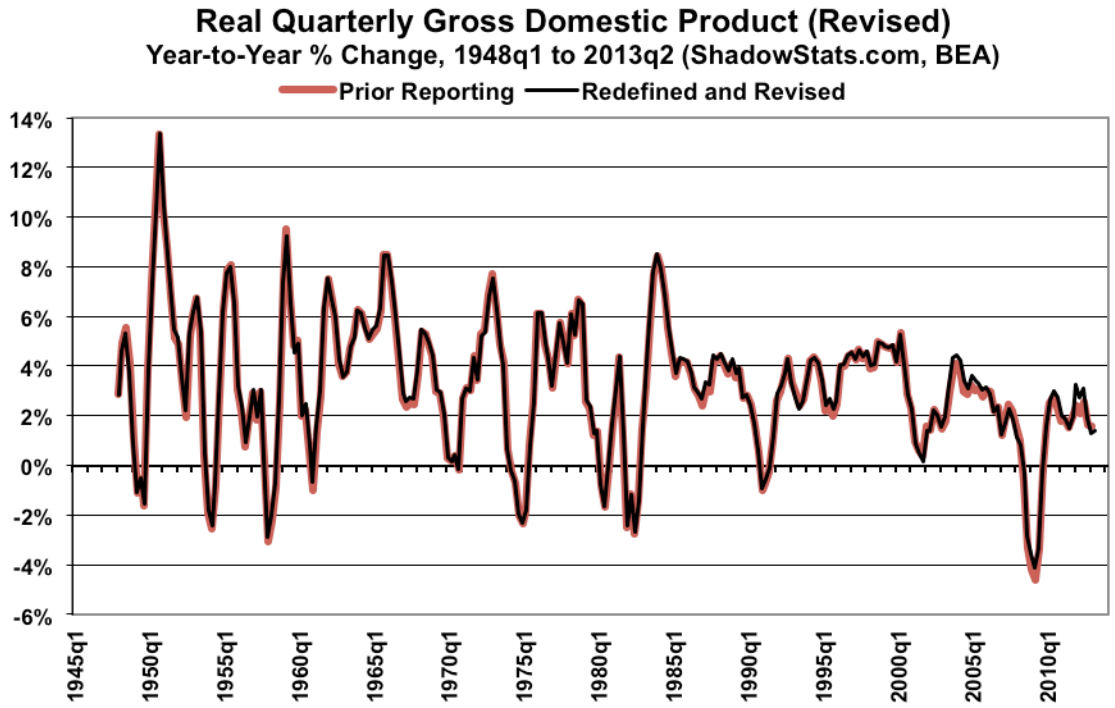






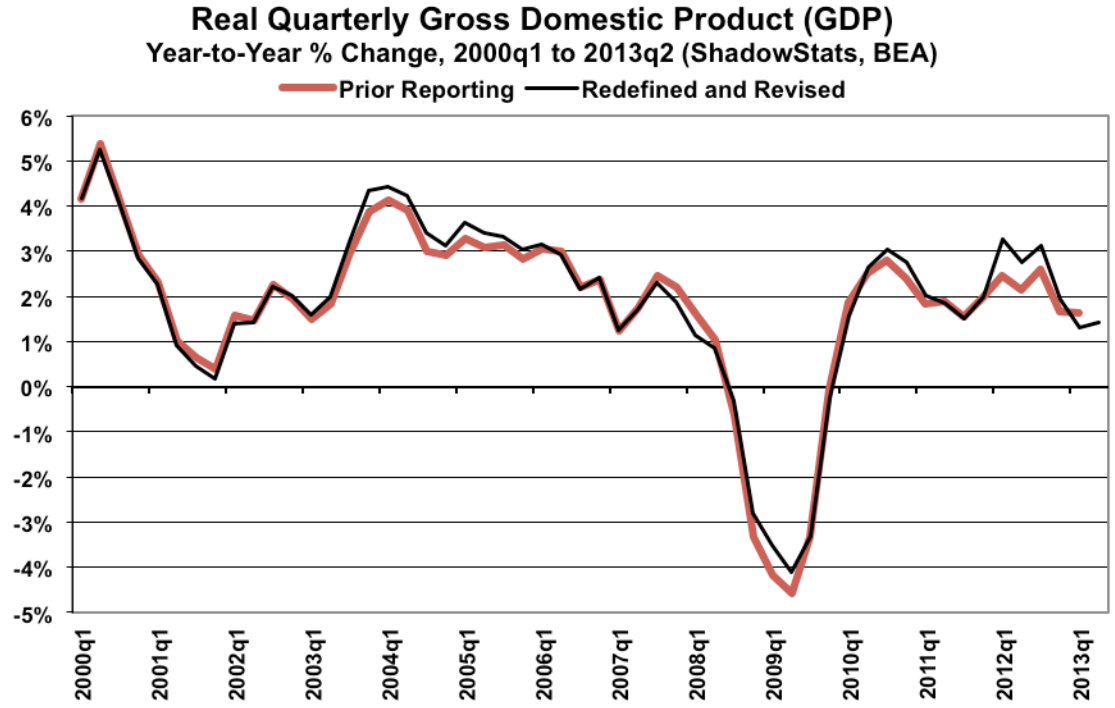
Finer detail for the real quarterly series is shown in the two graphs following, which plot the history for the more-limited period of 2000 through 2013. The first graph in the series shows year-to-year change, the second graph shows the annualized quarter-to-quarter change. The peak-to-trough contraction in the formal 2007-to-2009 recession narrowed from 4.69% to 4.26%, with full recovery (regaining the pre-recession peak in activity) in second-quarter 2011, instead of the previously-reported fourth-quarter 2011.

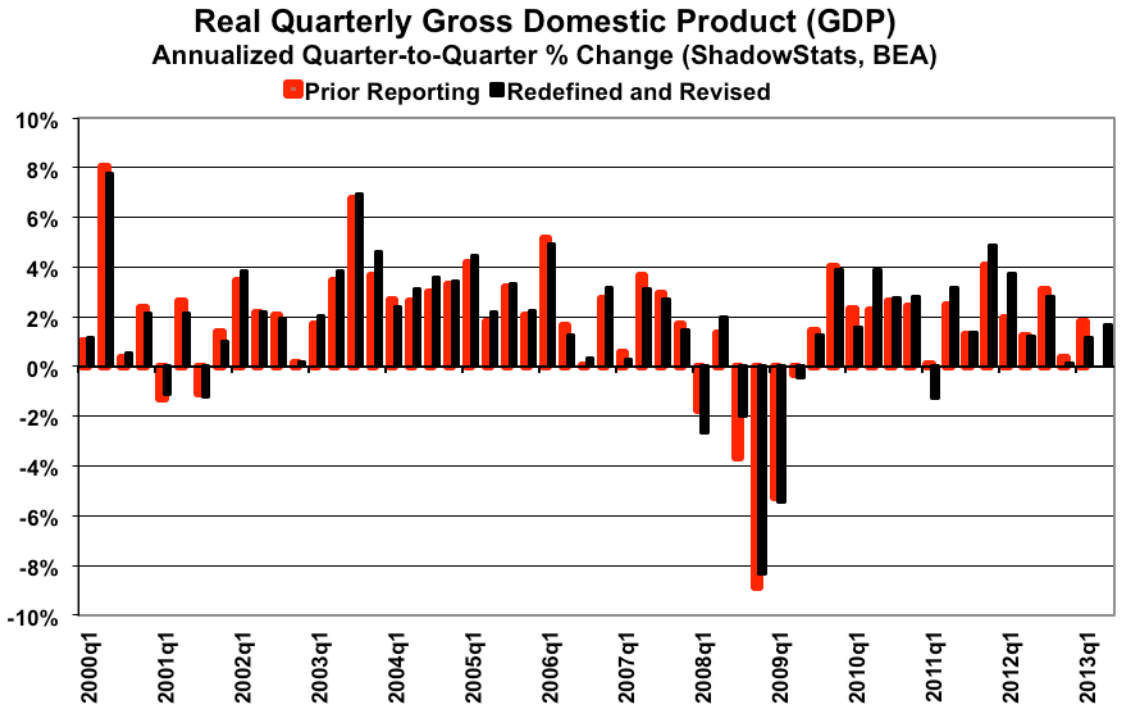
As of second-quarter 2013, real GDP was 4.35% above its pre-recession high, up from 3.92% in the first-quarter. In the pre-benchmark reporting, first-quarter 2013 activity had been 3.00% above the pre-recession high.

Note in the second graph that what had been real annualized quarterly growth of 0.08% in first-quarter 2011 revised to a contraction of 1.29%, the only official quarterly contraction in the "recovery." Separately though, annualized real growth in fourth-quarter 2012 revised to a negligible 0.14%, from 0.38% in prior reporting.

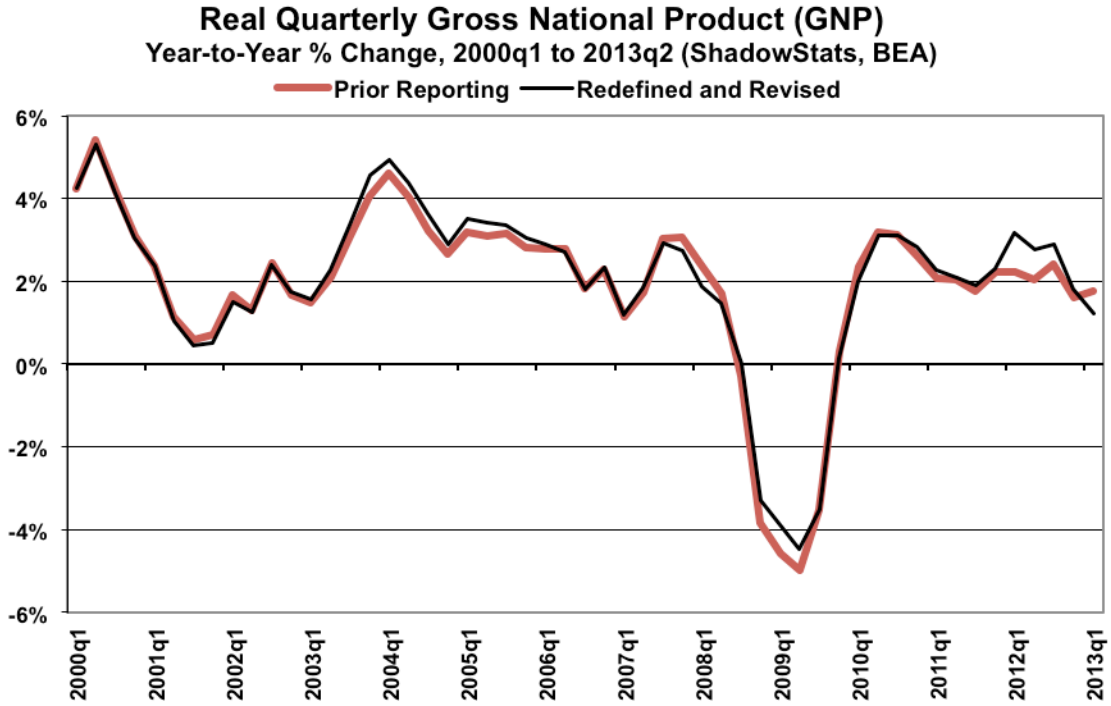
A close look at the revision detail also will show a sharp slowing in both the quarterly and annual real growth in the most-recent two quarters.

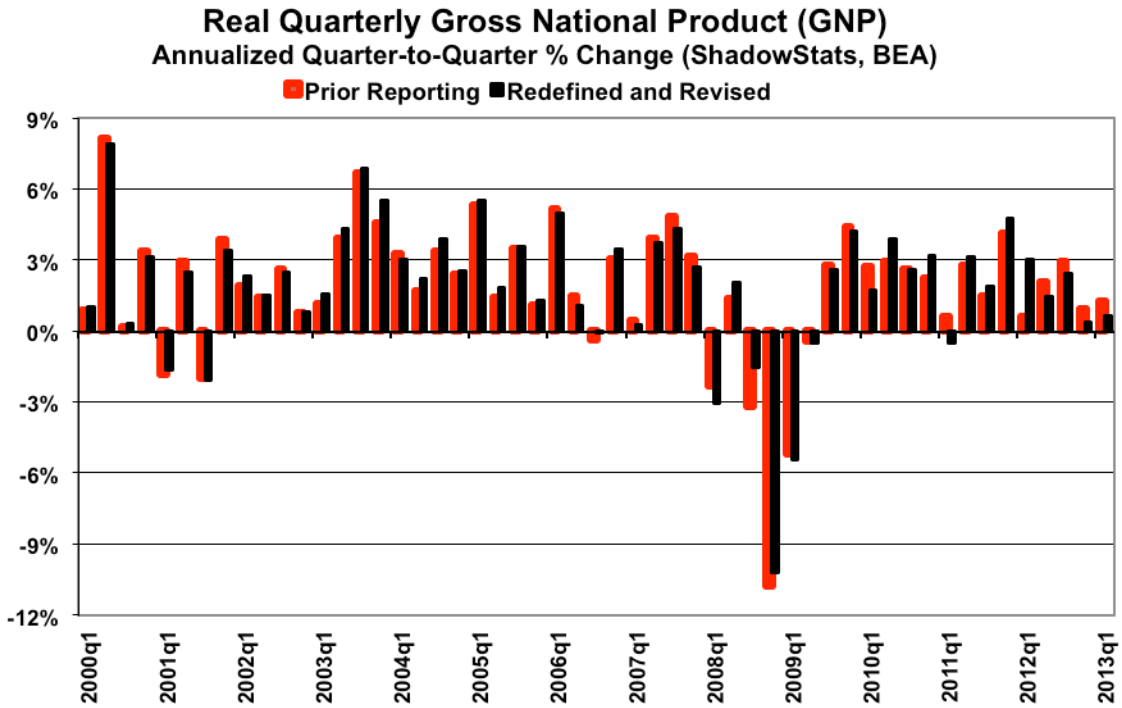
This set of time-limited graphs is repeated for the gross national product (GNP), gross domestic income (GDI) and the GDP inflation measure, the implicit price deflator (IPD). Of particular import is the IPD series, which shows downside revisions in annual inflation since 2002. Use of understated inflation means overstated inflation-adjusted growth. Despite protestations to the contrary, by the BEA, as to its definitional changes, a fair portion of the upside benchmark revision to real growth was generated by the old BEA gimmick of understating inflation.



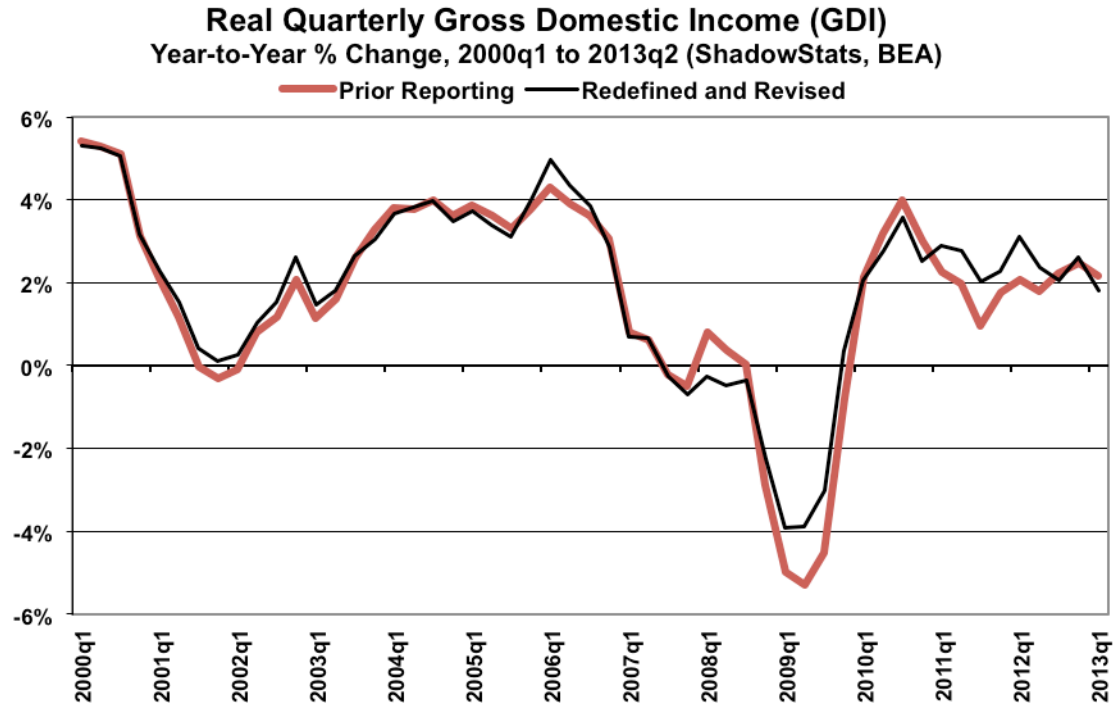


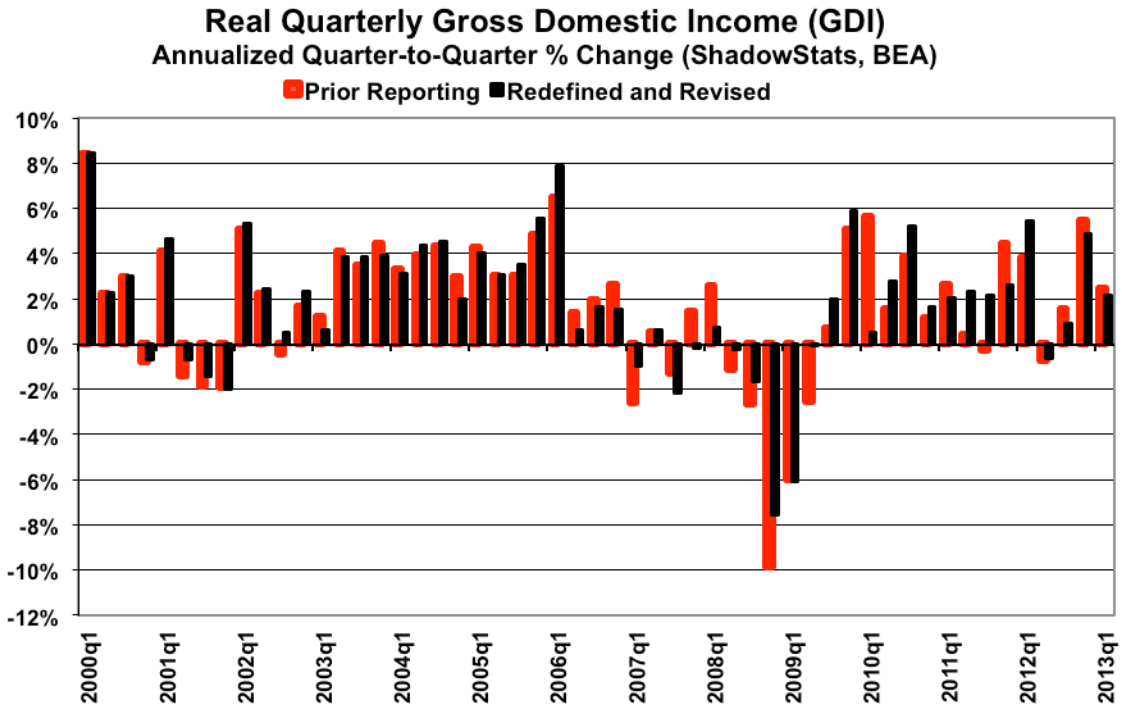
Revisions to gross national product (GNP) were not accompanied by an initial estimate for second-quarter 2013 activity. GNP is the broadest measure of the U.S. economy, where GDP is GNP net of trade in factor-income (interest and dividend payments).



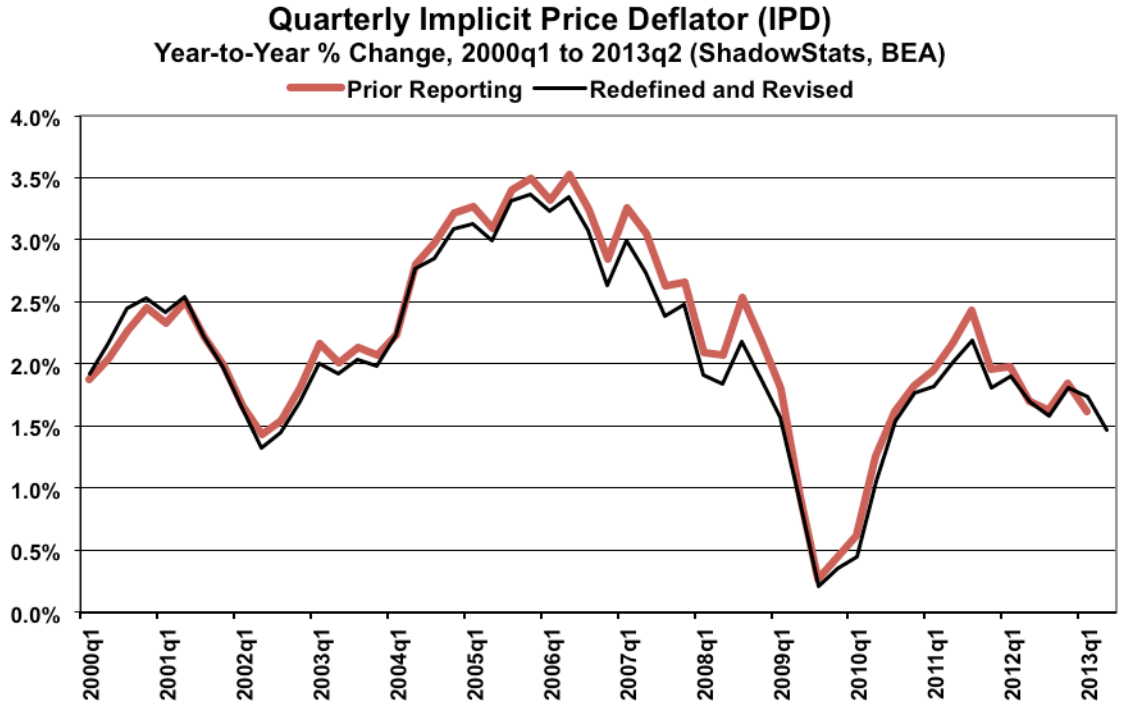


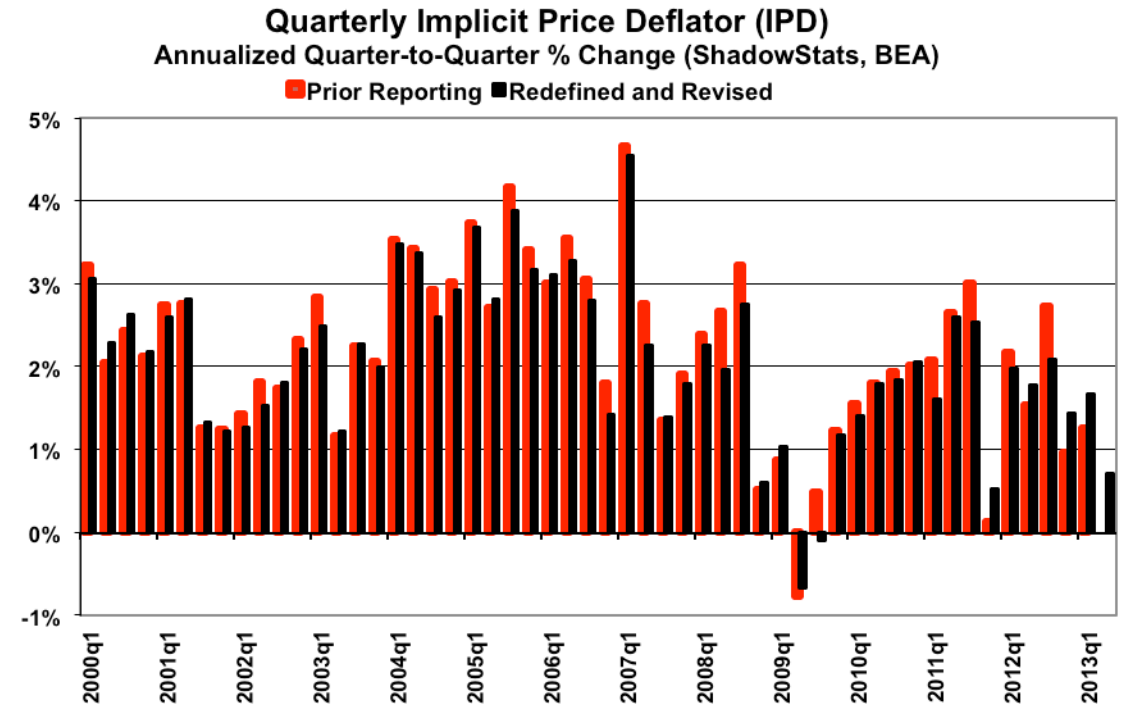
Revisions to gross domestic income (GDI) were not accompanied by an initial estimate for second-quarter 2013 activity. The GDI is the income-side reporting equivalent of the consumption-side GDP.





The GDP's inflation measure is known as the implicit price deflator (IPD). Changes here have a one-to-one impact on reported real (inflation-adjusted) growth. A 0.1% reduction in the IPD increases the respective real GDP growth by 0.1%. Lowered annual inflation, post-2002, boosted revised real GDP.





Gross Domestic Product—GDP (Second-Quarter 2013, First or "Advance" Estimate). In the context of the comprehensive benchmark revision to the GDP**,** the first estimate of second-quarter 2013 GDP showed statistically-insignificant, real (inflation-adjusted), annualized quarterly growth of 1.67%. That was against a benchmark-revised 1.15% (previously 1.78%) headline gain in first-quarter 2013.

For nearly all of the sixteen quarters in the official economic-recovery period, headline growth rates have been little more than statistical noise around the unchanged level. Those include a post-benchmark revised second-quarter 2011 GDP that now shows a headline 1.3% contraction, and a fourth-quarter 2012 annualized headline growth of just 0.1%

As graphed in the preceding *Comprehensive GDP Benchmark Revision* section and the *Reporting Detail* section, the initial estimate of year-to-year growth for second-quarter 2013 GDP was 1.43%, up from a benchmark-revised 1.32% (previously 1.62%) pace of annual growth in first-quarter 2013 GDP. The latest year-to-year growth is well off the near-term peak of 3.13% growth in third-quarter 2012.

Implicit Price Deflator (IPD). Second-quarter 2013 GDP inflation, or the implicit price deflator was reported at an annualized pace of 0.71%, versus a revised 1.67% (pre-benchmark 1.26%) in the first-quarter. Year-to-year, second-quarter 2013 IPD inflation was 1.47%, versus a benchmark-revised 1.74% (previously 1.62%) in the first-quarter. For comparison purposes, the annualized seasonally-adjusted quarterly inflation for the CPI-U in second-quarter 2013 was a 0.03% contraction, versus 1.44% positive inflation in first-quarter 2013, with year-to-year second-quarter 2013 CPI-U (unadjusted) at 1.39%, versus 1.68% in the first-quarter.

Gross Domestic Income (GDI) and Gross National Product (GNP). Initial estimates on the GDI, which is the income-side reporting equivalent of the consumption-side GDP; and the GNP, where GDP is GNP net of trade in factor-income (interest and dividend payments); will not be published until the next GDP release on August 29th. Related benchmark revisions through first-quarter 2013, however, are shown in the preceding *Comprehensive GDP Benchmark Revision* section.

Distribution of Headline GDP Growth. Despite the limited significance of the following detail, it is included for those subscribers interested in the reported internal patterns of GDP growth, as guessed at by the BEA. In the context of the comprehensive benchmark revision, the statistically-insignificant, "advance" headline second-quarter GDP growth of 1.67% 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 1.22% + 1.34% - 0.81% - 0.08% = 1.67%, versus a benchmark-revised aggregate first-quarter growth rate of 1.15% (previously 1.78%):

- ***Consumer Spending Contributed 1.22% to Second-Quarter Growth (Revised 1.54%, Previously 1.83% in First-Quarter).*** Recreational goods/vehicles, clothing, healthcare, and financial services were among the larger contributing elements to second-quarter growth in personal consumption.
- ***Business/Residential Investment Contributed 1.34% to Second-Quarter Growth (Revised 0.71%, Previously 0.96% in First-Quarter).*** Growth in the business sector reflected a relative increase in inventories, plus gain in residential and nonresidential construction. The construction numbers, however, ran contrary to weakness reported in today's (August 1st) June construction-spending release. Details there will follow in tomorrow's *Commentary*.

- ***Net Exports Subtracted 0.81% from Second-Quarter Growth (Revised 0.28%, Previously 0.09% Subtraction from First-Quarter).*** The larger subtraction reflected the ongoing widening of trade deficit in monthly reporting (see *Week Ahead* section).
- ***Government Spending Subtracted 0.08% from Second-Quarter Growth (Revised 0.82%, Previously 0.93% Subtraction from First Quarter).*** Following sharp declines in first-quarter defense spending, government outlays were little changed in second-quarter reporting.

Economic Reality. The GDP remains the most-worthless and most-heavily-politicized of government economic series. It does not reflect properly or accurately the changes to the underlying fundamentals that drive the economy. 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*). Most-recent reporting of underlying fundamentals suggests ongoing quarterly contractions, irrespective of the revamped GDP reporting gimmicks. The consistent fundamental pattern is shown in the accompanying "corrected" GDP graph, reflecting both pre-revision and post-benchmark revision levels.

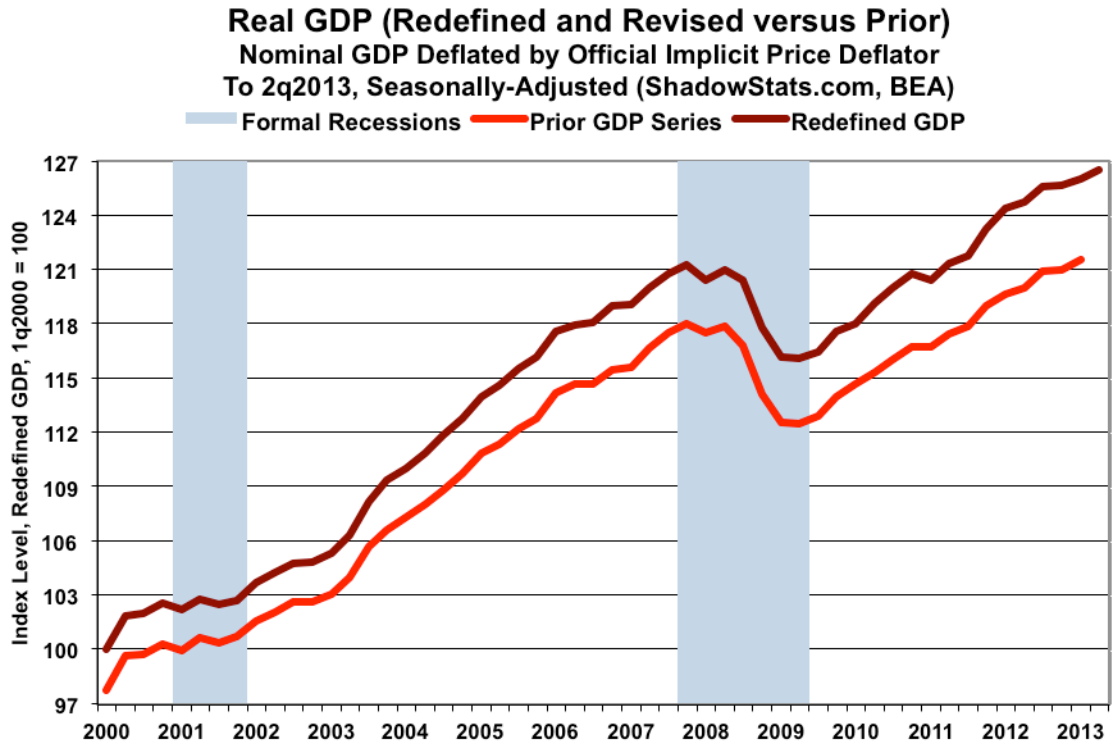
Please note that the pattern of activity shown for the "corrected" GDP series is much closer to the patterns shown in the graphs of real median household income and of the consumer confidence and sentiment measures shown in the *Consumer Liquidity* section at the end of these *Opening Comments*, than is the accompanying plot of indexed headline real GDP growth.

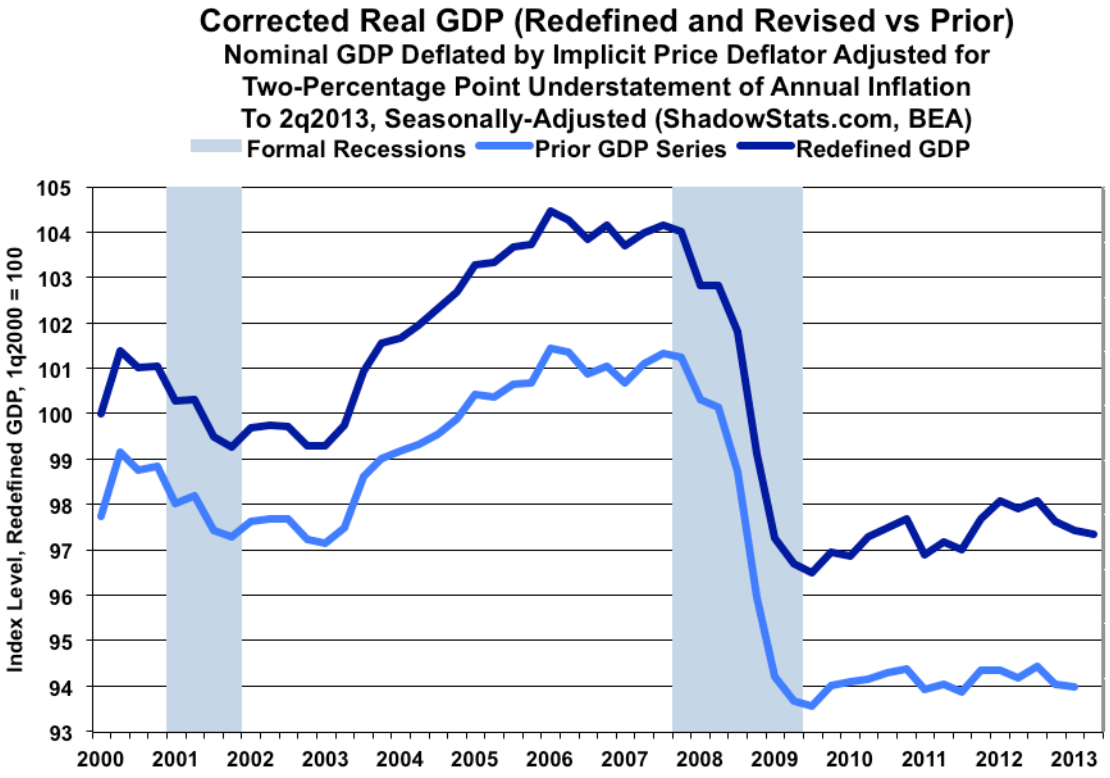
As suggested by the latest detail on consumer liquidity (see also *No. 527: Special Commentary*), a sustainable business recovery could not have taken place since 2009, and a recovery will not be forthcoming until the consumer's structural income and liquidity problems are resolved.

Corrected GDP. 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 first estimate of second-quarter 2013 GDP, as well as reflecting both pre- and post benchmark revision levels. These graphs update those in *No. 527: Special Commentary*.

Shown in the first graph, the benchmark-revised, official real GDP activity has been reported above pre-2007 recession levels—in full recovery—since second-quarter 2011 (it had been fourth-quarter 2011 before the benchmarking), and the GDP has shown sustained growth since. Adjusted for official GDP inflation (the implicit price deflator), the level of second-quarter 2013 GDP is 4.4% 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—a coincident indicator of GDP activity—recently moved minimally past that full-recovery point, such happened seven quarters after the GDP reached that point. 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 still attempt to survey real-world activity. Flaws in the GDP inflation methodologies have created the "recovery."

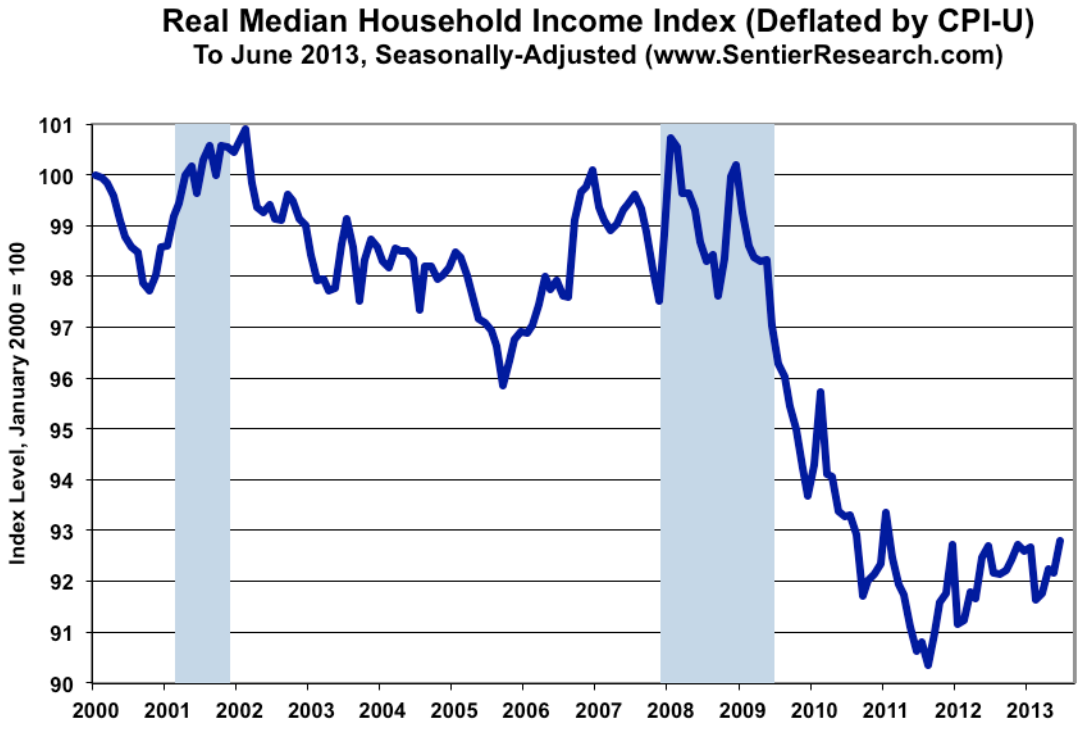




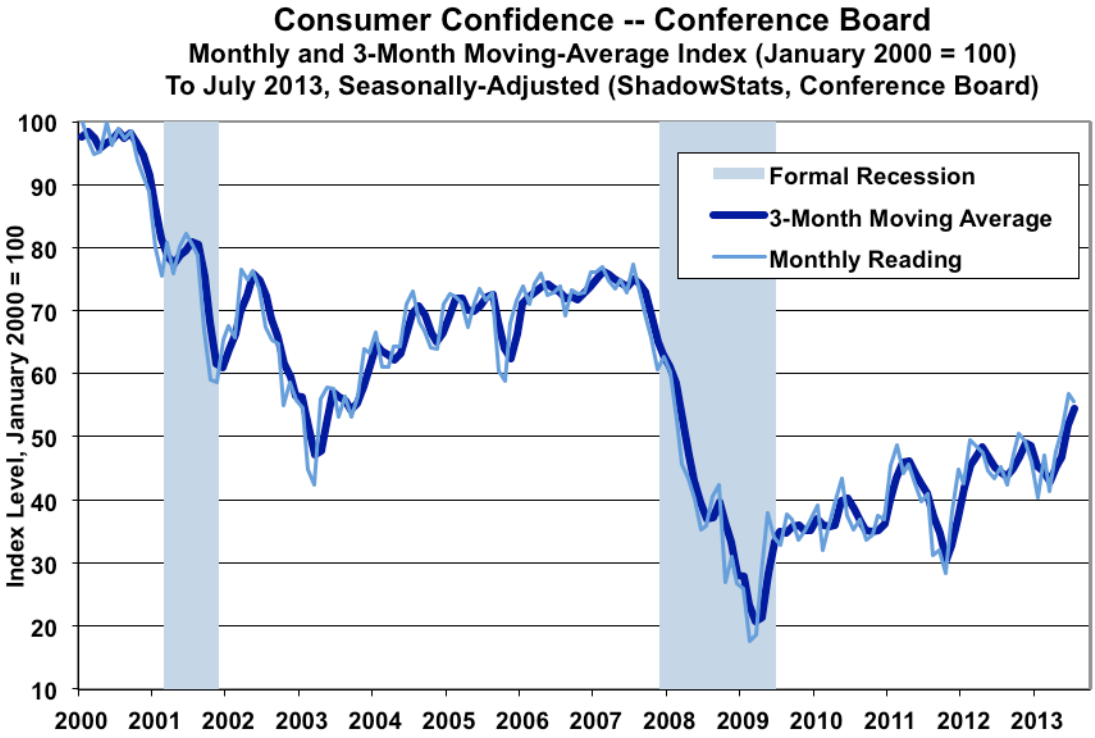
The second graph plots the GDP corrected for the understatement inherent in official inflation estimates, with the deflation by the implicit price deflator (IPD) adjusted for understatement of roughly two-percentage points of annual inflation. The inflation understatement has resulted from hedonic-quality 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.

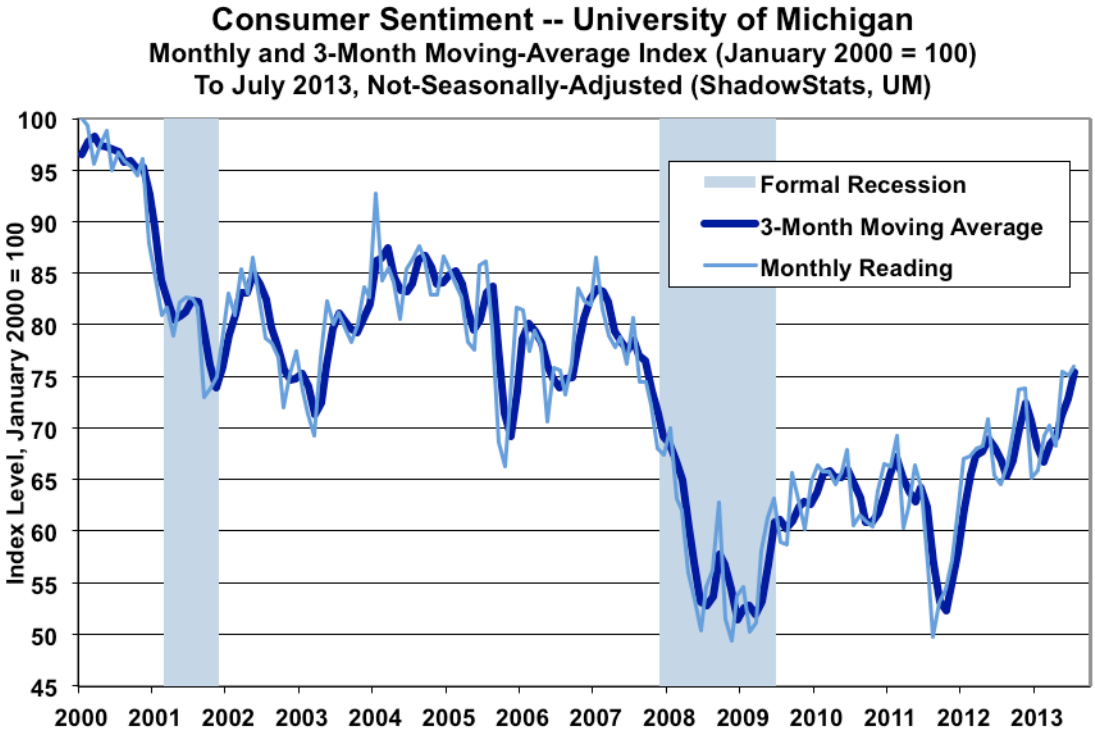
Consumer Liquidity Remains Structurally Impaired. The most-recent details on household income and consumer confidence continue to highlight the structural liquidity impairments constraining consumer ability to generate sustainable growth in consumption and broad economic activity. Without sustainable growth in real (inflation-adjusted) income, growth in real consumption cannot be sustained, although short-term growth conceivably could be borrowed from the future, through debt expansion.

As shown in the first graph of real median household income, updated for June 2013 (data courtesy of www.SentierResearch.com), median household income remains stagnant, near its cycle low. As graphed and discussed in *Commentary No. 541*, all the post-2008-crisis growth in consumer credit outstanding has been in government-owned student loans, not in consumer lending that would fuel broad consumption.



Separately, as shown in the second and third graphs, respectively, of the July Conference Board's consumer confidence and the University of Michigan's consumer sentiment measures, despite recent upticks in the series, the mood of consumers remains at levels commonly seen in post-World War II recessions, not in expanding recoveries.





[For further detail on the first estimate of second-quarter GDP, see the **Reporting Detail** *section.]*

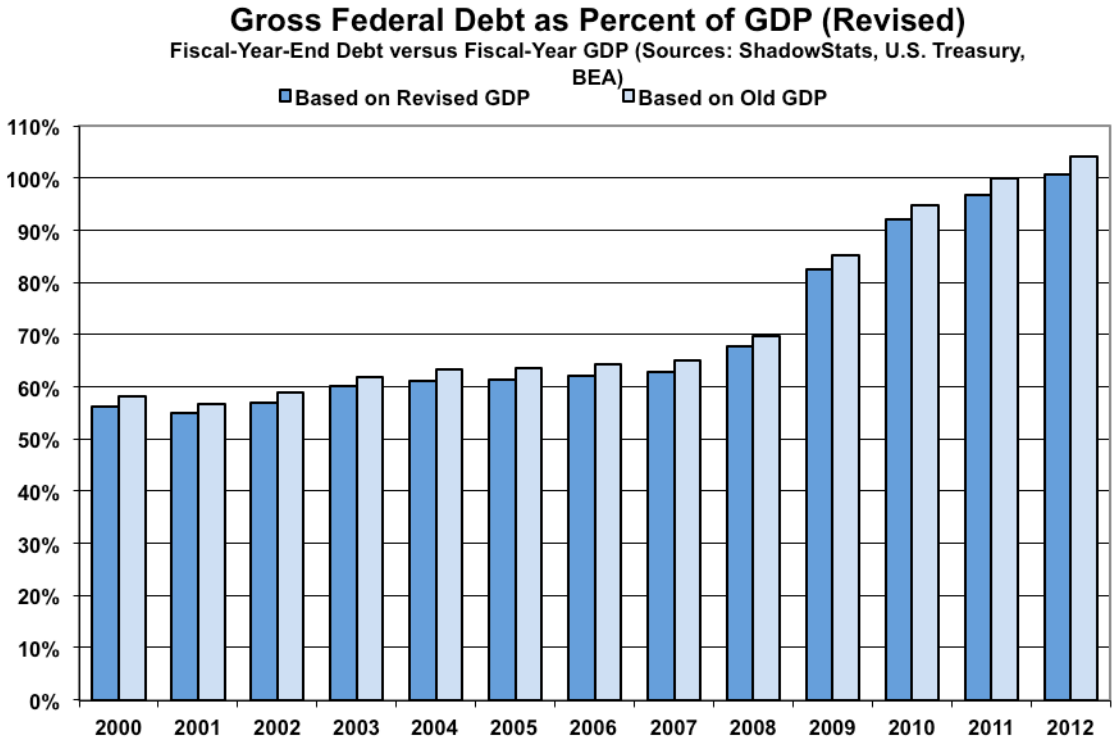
HYPERINFLATION WATCH

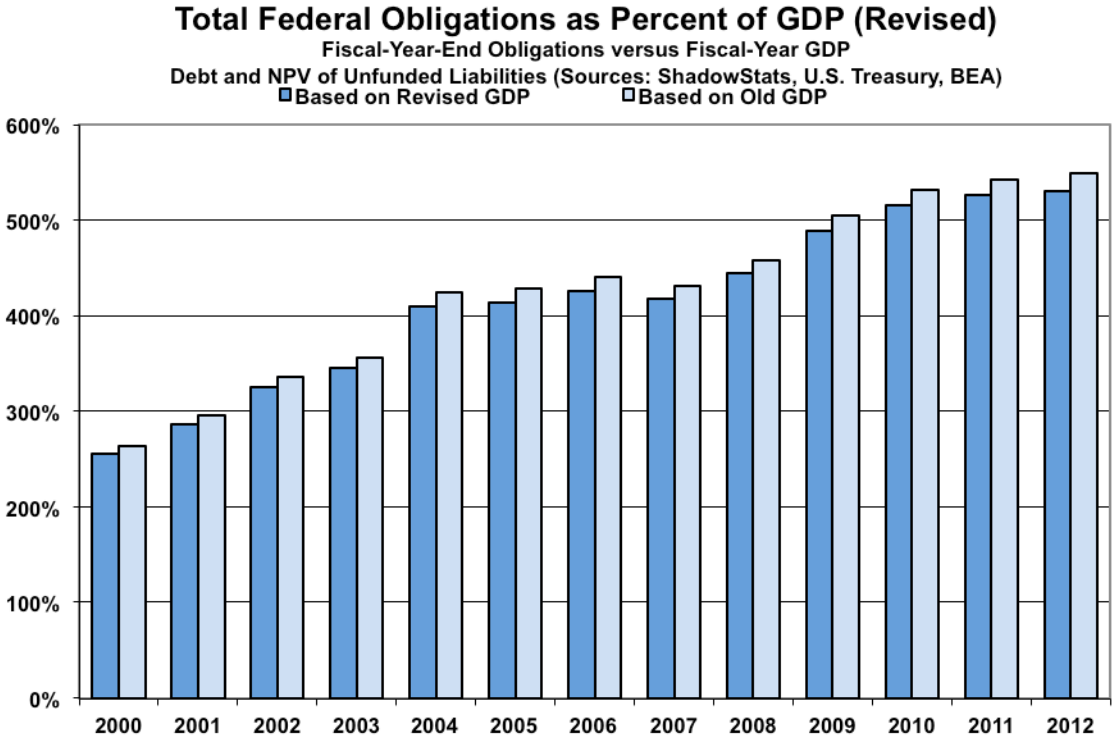
Federal Reserve Treasury-Debt Monetization Watch: 103.4% as of July 31st. With the Federal Reserve barreling ahead with its regular purchases of U.S. Treasury securities, the U.S. Treasury remains constrained in new borrowings, backed-up against the debt ceiling. Accordingly, the Federal Reserve's monetization of the net issuance of gross federal debt, since the activation of expanded QE3 at the beginning of calendar year 2013, has been accelerating, and it just topped 100%, at 103.4% as of July 31st. At the same time, the Fed's custody holdings of marketable Treasury securities for foreign official and international accounts has been falling at the fastest pace in the early days of QE3.

Separately, signs of mounting banking-system stress are evident in the continued minimal response of broad money supply growth to the ongoing, explosive growth in the monetary base. As discussed in the *Hyperinflation Outlook*, the Federal Reserve's quantitative easing program reflects efforts at maintaining banking-system liquidity and solvency, not at stimulating economic growth. The Fed uses the still-weakening economy as political cover for those liquidity actions.

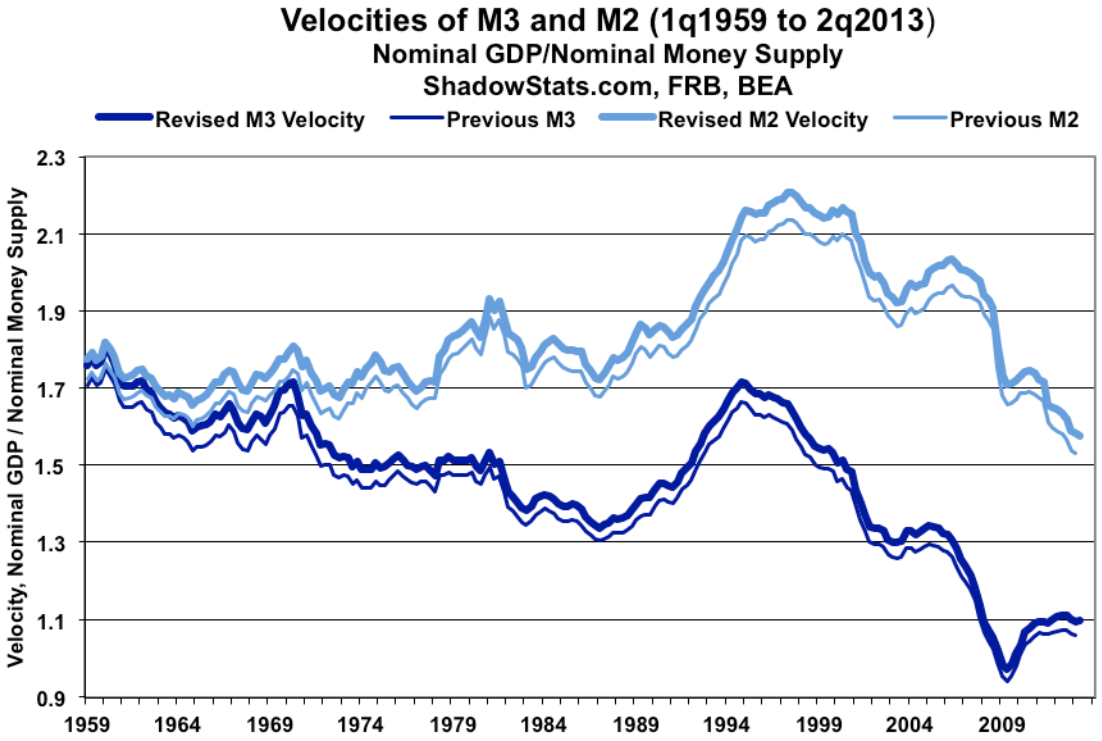
Where the changes reflected in the following two subsections are due to redefinition of the GDP, as opposed to changes in underlying economic activity, the following graphs largely are for informational purposes, reiterating earlier information, as opposed to signaling new developments.

Federal Debt and Obligations versus GDP. The following graphs show the latest ratios of gross federal debt and total federal obligations to nominal GDP. The debt and obligations are as of the September 30th fiscal year end of the federal government. The revised and prior nominal GDP numbers used in the ratios are the average levels for the government's fiscal year. Again, the changes are not meaningful. See *No. 500: Special Commentary* for further detail.





Revised Money Supply Velocity. Incorporating today's nominal data on second-quarter 2013 GDP, as well the comprehensive historical revisions to the GDP, updated estimates of money velocity for money supply M2 and M3 are graphed below. The decline seen in first-quarter 2013 velocity continued in second-quarter 2013 for M2, but velocity ticked higher for M3 (using the ShadowStats Ongoing-M3 Measure), as shown in the accompanying graph.



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.

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.

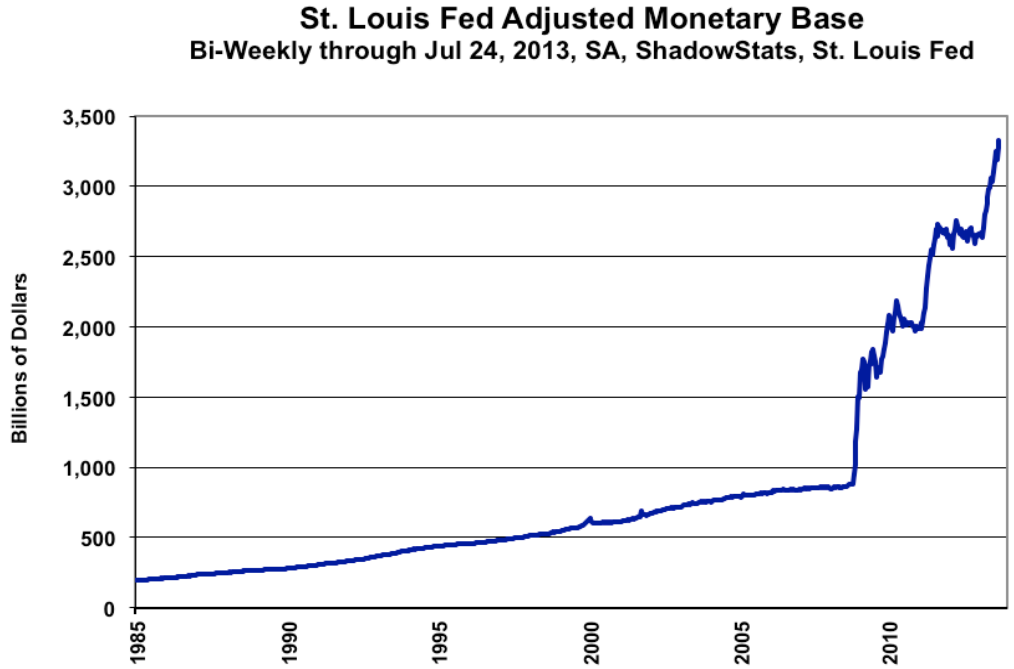
M3 and M2 had been showing opposite patterns in 2011 and 2012, because growth in M3 had been much weaker than growth in M2. The reason behind that difference was that much of the relatively stronger M2 growth reflected cash moving out of M3 categories—such as large time deposits and institutional money 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

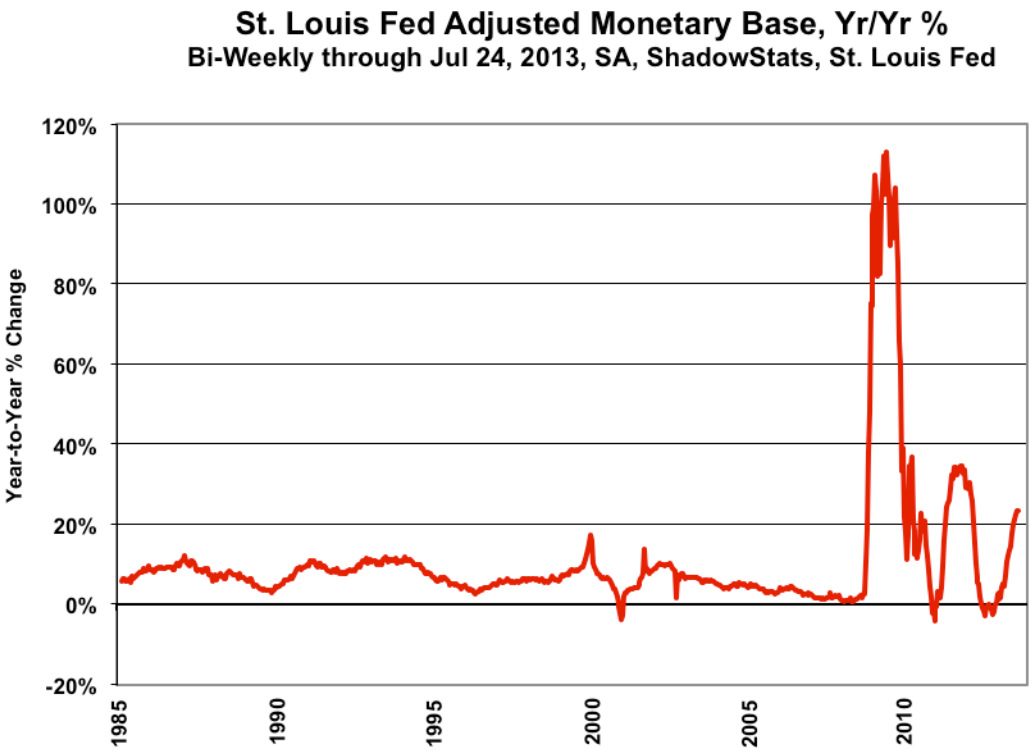
still tracks what had been the broadest money measure (M3) available. Again, full definitions can be found in the *Money Supply Special Report*.

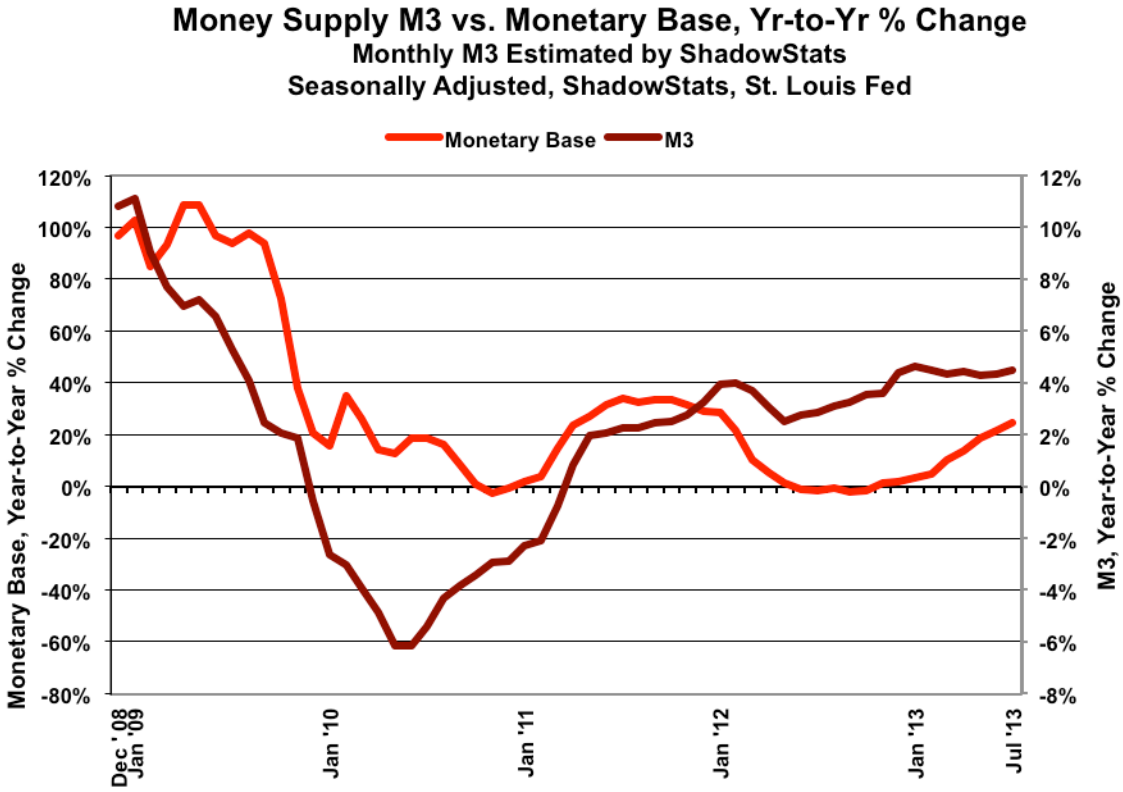
Latest Monetary Base and Systemic Stress. Along with the Federal Reserve's monetization topping 100%, the monetary base has continued to soar, both in terms of level and year-to-year growth, as reflected in the accompanying graphs. At the same time, though, annual growth has flattened out for the broad money supply (M3), as seen in recent reporting of the ShadowStats Ongoing-M3 Estimate. There is a relationship between growth in the monetary base and the growth in M3. When the patterns diverge, they can signal mounting liquidity stresses in the banking system.

The variance between the behavior of M3 and the monetary base likely is a result of the lack of normal bank lending, and the nature of the increasing variance is suggestive of mounting banking-system instabilities. It is in the promotion of banking-system stability, not in attempting to lower unemployment or to contain inflation, that Mr. Bernanke introduced his quantitative easing (see *No. 527: Special Commentary*). Accordingly, there is nothing here to suggest an imminent end to QE3.

The monetary base is currency in circulation (part of M1 money supply) plus bank reserves (not part of the money supply) (see a more-complete definition in the *Money Supply Special Report*). Traditionally, the Federal Reserve has used the monetary base to increase or decrease growth in the money supply, but such has not had its normal impact in the post-2008 crisis period. Instead, financially troubled banks have been holding their excess reserves with the Federal Reserve, not lending the available cash into the normal flow of commerce. When the Fed monetizes U.S. Treasury securities, as it has been doing, that usually adds directly to the broad money supply, and it contributes to selling pressure against the U.S. dollar. Faltering year-to-year broad money supply growth in this circumstance, as seen at present, tends to be an indication of mounting systemic stress in the banking industry.




St. Louis Fed Adjusted Monetary Base, Yr/Yr %
Bi-Weekly through Jul 24, 2013, SA, ShadowStats, St. Louis Fed
Year-to-Year % Change
120%
100%
80%
60%
40%
20%
0%
-20%
1985
1990
1995
2000
2005
2010


Money Supply M3 vs. Monetary Base, Yr-to-Yr % Change
Monthly M3 Estimated by ShadowStats
Seasonally Adjusted, ShadowStats, St. Louis Fed
Monetary Base
M3
Monetary Base, Year-to-Year % Change
M3, Year-to-Year % Change
120%
100%
80%
60%
40%
20%
0%
-20%
-40%
-60%
-80%
12%
10%
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
Dec '08
Jan '09
Jan '10
Jan '11
Jan '12
Jan '13
Jul '13

In the post-2008 period of extreme accommodation by the Fed, there has been some correlation between annual growth in the St. Louis Fed's monetary base and annual growth in M3, as measured by the ShadowStats-Ongoing M3 Estimate. The correlations between the growth rates are 58.1% for M3, 39.9% for M2 and 36.7% for M1, on a coincident basis, with annual M3 growth plotted versus annual growth in the monetary base shown in the accompanying graph

While there has been no significant flow-through to the broad money supply from the expanded monetary base—banks still are not lending normally into the regular flow of commerce—there appears to have been some minor effect. The ShadowStats contention, again, has been that the Fed's easing activity has been aimed primarily at supporting banking-system solvency and liquidity, not at propping the economy or containing inflation. When the Fed boosts its easing, but money growth does not pick up, as seen at present, there is a potential indication of mounting financial stress within the banking system.

Hyperinflation Outlook—Updated GDP Comment. *[Other than for a brief update to the GDP comments (underlined), this* Outlook *summary is unchanged from* Commentary No. 544 *of July 17th]*. The comments here are intended as background material for new subscribers and for those looking for a brief summary of the broad outlook of the economic, systemic and inflation crises that face the United States in the year or so ahead.

Background Material. *No. 527: Special Commentary* (May 2013) supplemented *No. 485: Special Commentary* (November 2012), reviewing shifting market sentiment on a variety of issues affecting the U.S. dollar and prices of precious metals. *No. 485*, in turn, updated *Hyperinflation 2012* (January 2012)—the base document for the hyperinflation story—and the broad outlook for the economy and inflation, as well as for systemic-stability and the U.S. dollar. Of some use, here, also is the *Public Comment on Inflation*.

These are the primary articles outlining current conditions and the background to the hyperinflation forecast, and they are suggested reading for subscribers who have not seen them and/or for those who otherwise are trying to understand the basics of the hyperinflation outlook. The fundamentals have not changed in recent years, other than events keep moving towards the circumstance of a domestic U.S. hyperinflation by the end of 2014. Nonetheless, a fully-updated hyperinflation report is planned for the near future.

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

Typical of an approaching, major turning point in the domestic- and global-market perceptions, bouts of extreme volatility and instability have been seen with increasing frequency in the financial markets, including equities, currencies and the monetary precious metals (gold and silver). Consensus market expectations on the economy and Federal Reserve policy also have been in increasing flux. The FOMC and Federal Reserve Chairman Ben Bernanke have put forth a plan for reducing and eventually ending quantitative easing in the form of QE3. The tapering or cessation of QE3 is contingent upon the U.S. economy performing in line with overly-optimistic economic projections provided by the Fed. Initially,

market reaction pummeled stocks, bonds and gold. The talk of ending QE3 still appears to be little more than jawboning, aimed a placating Fed critics. As part of the mind-game with the public, various Fed officials regularly offer contradictory stories, when the stock market needs a boost or distraction.

Underlying economic reality remains much weaker than Fed projections. As actual economic conditions gain broader recognition, market sentiment should shift increasingly towards no imminent end to QE3, and then to expansion of QE3. The markets and the Fed are stuck with underlying economic reality, and, eventually, they will have to recognize same. Business activity remains in continued and deepening trouble, and the Federal Reserve—despite currency-market platitudes to the contrary—is locked into quantitative easing by persistent problems now well beyond its control. Specifically, banking-system solvency and liquidity remain the primary concerns for the Fed, driving the quantitative easing. Economic issues are secondary concerns for the Fed; they are used as political cover for QE3. That cover will continue for as long as the Fed needs it.

At the same time, deteriorating expectations for domestic political stability reflect widening government scandals, in addition to the dominant global-financial-market concern of there being no viable prospect of those controlling the U.S. government addressing the long-range sovereign-solvency issues of the United States government. All these factors, in combination, show the end game to be nearing.

The most visible and vulnerable financial element to suffer early in this crisis likely will be the U.S. dollar in the currency markets (all dollar references here are to the U.S. dollar, unless otherwise stated). Heavy dollar selling should evolve into massive dumping of the dollar and dollar-denominated paper assets. Dollar-based commodity prices, such as oil, should soar, accelerating the pace of domestic inflation. In turn, that circumstance likely will trigger some removal of the U.S. dollar from its present global-reserve-currency status, which would further exacerbate the currency and inflation problems tied to the dollar.

This still-forming great financial tempest has cleared the horizon; its impact on the United States and those living in a dollar-based world will dominate and overtake the continuing economic and systemic-solvency crises of the last eight years. The issues that never were resolved in the 2008 panic and its aftermath are about to be exacerbated. Based on the precedents established in 2008, likely reactions from the government and the Fed would be to throw increasingly worthless money at the intensifying crises. Attempts to save the system all have inflationary implications. A domestic hyperinflationary environment should evolve from something akin to these crises before the end of next year (2014). The shifting underlying fundamentals are discussed in *No. 527: Special Commentary*; some of potential breaking crises will be expanded upon in the next revision to the hyperinflation report.

Still Living with the 2008 Crisis. Despite the happy news from the redefined GDP series that the recession was shallower, and the recovery more rapid, than previously estimated, there still never has been an actual recovery following the economic downturn that began in 2006, and collapsed into 2008 and 2009. No other major economic series has confirmed the pattern of activity now being reported in the GDP.

Instead, what followed was a protracted period of business stagnation that began to turn down anew in second- and third-quarter 2012 (see the corrected GDP graph in the *Opening Comments* section). The official recovery seen in GDP has been a statistical illusion generated by the use of understated inflation in calculating key economic series (see *No. 527: Special Commentary*, *Commentary No. 528* and *Public*

Comment on Inflation). Nonetheless, given the nature of official reporting, the renewed downturn still should gain eventual 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 ongoing panicked actions by the Federal Reserve, where it still proactively is monetizing U.S. Treasury debt at a pace suggestive of a Treasury that is unable to borrow otherwise.

Before and since the mid-April rout in gold prices, there had and has been mounting hype about the Fed potentially pulling back on its "easing" and a coincident Wall Street push to talk-down gold prices. Again, as discussed in *No. 527: Special Commentary*, those factors appeared to be little more than platitudes to the Fed's critics and intensified 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, and Mr. Bernanke's press conference following the June 19th FOMC meeting, 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 (see *No. 527: Special Commentary*).

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 soft annual growth in the broad money supply, despite a soaring pace of annual growth in the monetary base, and in global banking-system stress that followed the crisis in Cyprus and continuing, related aftershocks.

Still Living with the U.S. Government's Fiscal Crisis. Again, as covered in *No. 527: Special Commentary*, the U.S. Treasury still is in the process of going through extraordinary accounting gimmicks, at present, in order to avoid exceeding the federal-debt ceiling. Early-September appears to be the deadline for resolving the issues tied to the debt ceiling, including—in theory—significant budget-deficit cuts.

Both Houses of Congress have put forth outlines of ten-year budget proposals that still 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. There still appears to be no chance of a forthcoming, substantive agreement on balancing the federal deficit.

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, including briefly postponing conflict over the Treasury's debt ceiling, bought the politicians in Washington minimal time in the global financial markets, but the time 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*.

U.S. Dollar Remains Proximal Hyperinflation Trigger. 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 has given way to mounting instabilities, and severe market turmoil likely looms, despite the tactics of delay by the politicians and ongoing obfuscation by the Federal Reserve.

This should become increasingly evident as the disgruntled global markets begin to move sustainably against the U.S. dollar. As discussed earlier, a dollar-selling panic is likely this year—still of reasonably high risk in the next month or so—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 intermittent panicked selling of gold has not been. 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 (Second-Quarter 2013, First Estimate)

Continuing Pattern of Expanded Gimmicks Further Distorts GDP Reporting. The detail of the comprehensive benchmark revision to gross domestic product (GDP) and related reporting, released along with the first estimate of second-quarter 2013 GDP by the Bureau of Economic Analysis (BEA), on July 31st, is covered in the *Opening Comments* section. As a result of those revisions, historical GDP reporting has moved increasingly away from underlying real-world economic activity and common experience. Despite even greater understatement of GDP inflation (overstatement of inflation-adjusted growth), the revised GDP detail shows relatively-weak, recent quarterly headline growth in conjunction with a sharp slowing in year-to-year growth for the series.

Nonetheless, in the context of the revisions, 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. Based on new reporting, second-quarter 2013 GDP was at 4.4% above the pre-recession GDP peak activity, designated as fourth-quarter 2007. With common experience and the vast bulk of other economic data showing no recovery, the headline upswing in GDP activity, since mid-2009, has been no more than a statistical illusion created by the use of bad-quality inflation data.

The GDP continues to be the most worthless, and the most-heavily modeled, massaged and politically-manipulated of the major economic series published by the U.S. government.

Underlying real-world economic activity still indicates 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 *No. 527: Special Commentary*, *No. 485: Special Commentary* and *Hyperinflation 2012*). The ShadowStats estimate of "corrected" GDP also is plotted in the *Opening Comments.*

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 2009 Dollars," as introduced with the 2013 comprehensive revisions, where 2009 is the base year for inflation. "Chained" refers to the substitution methodology which gimmicks the reported numbers so much that the aggregate of the deflated GDP sub-series missed adding to the theoretically-equivalent deflated total GDP series by $41.8 billion in "residual," as of the initial estimate of second-quarter 2013.*

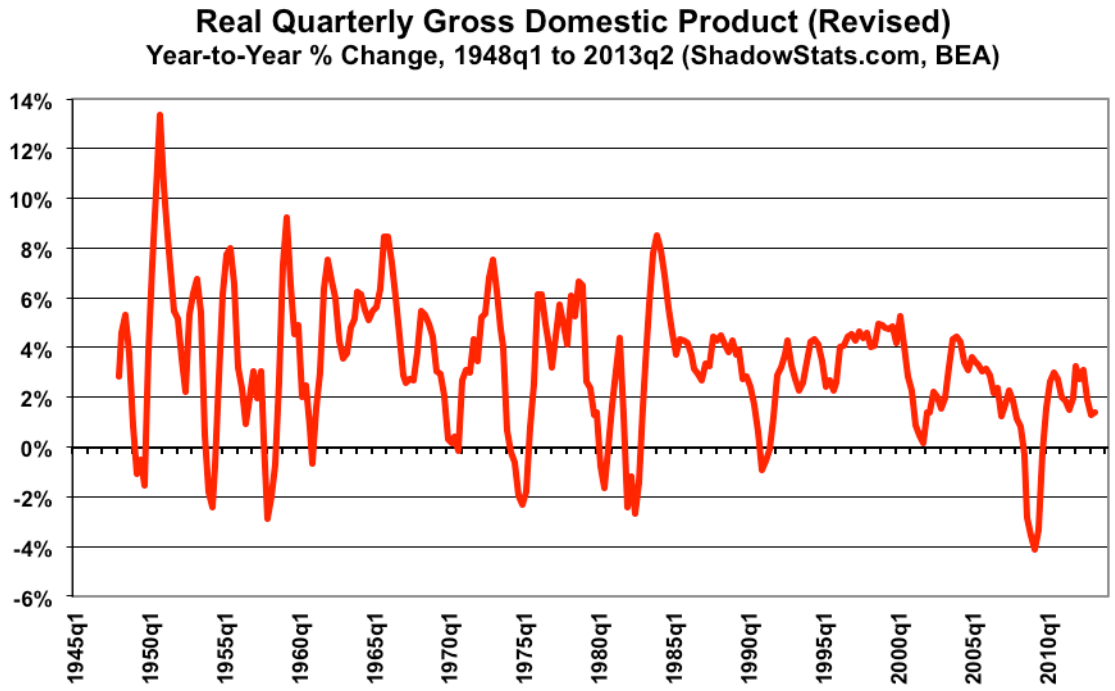
***Quarterly** growth, unless otherwise stated, is in terms of seasonally-adjusted, annualized quarter-to-quarter growth, i.e., the growth rate of one quarter over the prior quarter, raised to the fourth power, a compounded annual rate of growth. While some might annualize a quarterly growth rate by 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 x 1.01 x 1.01 x 1.01 = 1.0406 or 4.1%, instead of 4 x 1% = 4%.*

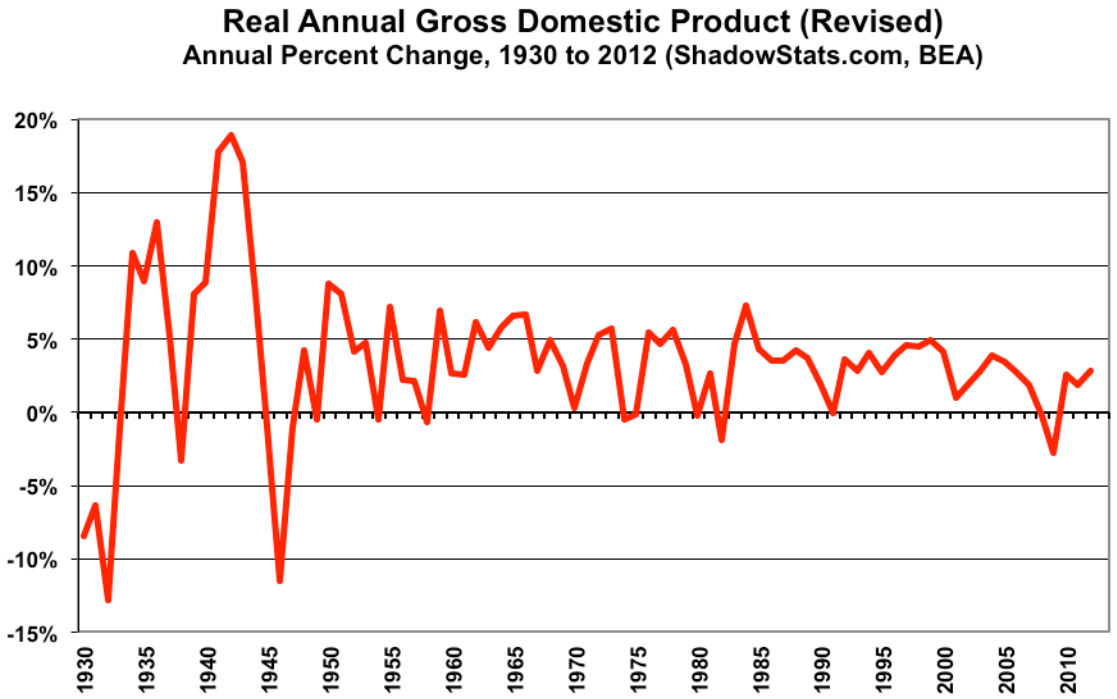
***Annual** growth refers to the year-to-year change of the referenced period versus the same period the year before.*

Gross Domestic Product (GDP). Published July 31st, by the Bureau of Economic Analysis (BEA), the first estimate of second-quarter 2013 GDP showed statistically-insignificant, real (inflation-adjusted), annualized quarterly growth of 1.67% +/- 3.5% (95% confidence interval). That was against a benchmark-revised 1.15% (previously 1.78%) headline gain in first-quarter 2013.

For nearly all of the sixteen quarters of the post-second-quarter 2009 official recovery period, headline 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, positive territory as much as possible. Even so, with the benchmark revisions, second-quarter 2011 GDP now shows a headline 1.3% contraction, and fourth-quarter 2012 shows annualized headline growth of just 0.1%. Those quarterly changes, though, also remain in the realm of being statistically-insignificant.

Shown in the accompanying graph is the revised, year-to-year real change for the GDP series, where revision detail is provided in the *Opening Comments*. For second-quarter 2013 GDP, the initial estimate of year-to-year growth was 1.43%, up from a benchmark-revised 1.32% (previously 1.62%) pace of annual growth in first-quarter 2013 GDP. The latest year-to-year growth is well off the near-term peak of 3.13% growth in third-quarter 2012, where the pre-benchmark peak had been 2.80% in third-quarter 2010. The current cycle trough was in second-quarter 2009 at a revised 4.09% (previously 4.58%) year-to-year decline. That remained the deepest annual contraction seen for any quarterly GDP in the history of the series, which began with first-quarter 1947.





The second graph reflects the revised average annual growth of real GDP back through the first annual growth reading of the series in 1930. The revised near-term trough in annual change in 2009 of a 2.80% contraction (previously a 3.07% contraction), remained the deepest annual contraction since a revised 11.59% (previously 10.94%) post-World War II plunge in activity, in 1946, as war production was shut down. Shy of the war effects, the 2009 annual GDP contraction was the steepest since the Great Depression.

Implicit Price Deflator (IPD). Second-quarter 2013 GDP inflation, or the implicit price deflator (IPD), was reported at an annualized pace of 0.71%, versus a revised 1.67% (pre-benchmark 1.26%) in the first-quarter. Year-to-year, second-quarter 2013 IPD inflation was 1.47%, versus a benchmark-revised 1.74% (previously 1.62%) in the first-quarter.

For comparison purposes, the annualized seasonally-adjusted quarterly inflation for the CPI-U in second-quarter 2013 was a 0.03% contraction, versus 1.44% positive inflation in first-quarter 2013, with year-to-year second-quarter 2013 CPI-U (unadjusted) at 1.39%, versus 1.68% in the first-quarter.

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

ShadowStats-Alternate GDP. The ShadowStats-Alternate GDP estimate for second-quarter 2013 is a 1.8% annual contraction, versus a headline year-to-year gain of 1.4%. The alternate first-quarter estimate remains 2.0% year-to-year contraction, versus the revised headline gain of 1.3%, which previously was 1.6% (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 second-quarter 2013, as it has been for most quarters since the official second-quarter 2009 end to the recession.

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 ("Pollyanna Creep") of recent decades.

Gross Domestic Income (GDI) and Gross National Product (GNP). Until the second estimate of second-quarter GDP on August 29th, the BEA will not publish initial estimates for either the GDI, which is the income-side reporting equivalent of the consumption-side GDP, or the GNP, where GDP is GNP net of trade in factor-income (interest and dividend payments). The related benchmark revisions through first-quarter 2013 are discussed in the *Opening Comments* section.

WEEK AHEAD

Weaker-Economic and Stronger-Inflation Data Are Likely in the Months Ahead. Given underlying economic activity that continues to appear weaker than overly-optimistic market expectations, and given underlying fundamentals that are suggestive of deteriorating business activity, weaker-than-consensus economic reporting should be the continuing trend.

Separately, given that energy-inflation-related seasonal-adjustment factors now are on the plus-side for a couple of months, combined with stable or higher oil and gasoline prices, higher headline CPI and PPI reporting is likely in the months ahead.

Reflecting the still-likely negative impact on the U.S. dollar in the currency markets from continuing QE3 and the still-festering fiscal crisis/debt-ceiling debacle (see *Hyperinflation Outlook* section), reporting in the ensuing months and year ahead generally should reflect much higher-than-expected inflation (see *No. 527: Special Commentary*).

Where market expectations for economic data in the months and year ahead should begin to soften, weaker-than-expected economic results remain likely, given the still-intensifying structural liquidity constraints on the consumer, as discussed in the *Opening Comments* section.

[Except for new detail (underlined) on pending reporting, the remaining Week Ahead *section is unchanged from the prior* Commentary.*]*

Reporting Quality Issues and Systemic Reporting Biases. Significant reporting-quality problems remain with most major economic series. Headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were induced by the still-ongoing economic turmoil of the last six-to-seven years, which has been without precedent in the post-World War II era of modern economic reporting. These impaired reporting methodologies provide particularly unstable headline economic results, where concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data), and they have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

With an increasing trend towards downside surprises in near-term economic reporting, recognition of an intensifying double-dip recession should continue to gain. Nascent concerns of a mounting inflation threat, though muted, increasingly have been rekindled by the Fed's monetary policies. Again, though, significant inflation shocks are looming in response to the fiscal crisis and a likely, severely-negative response in the global currency markets against the U.S. dollar.

The political system and Wall Street would like to see the issues disappear, and the popular media do their best to avoid publicizing unhappy economic news, putting out happy analyses on otherwise negative numbers. Pushing the politicians and media, the financial markets and their related spinmeisters do their best to hype anything that can be given a positive spin, to avoid recognition of serious problems for as long as possible. Those imbedded, structural problems, though, have horrendous implications for the markets and for systemic stability, as discussed in *Hyperinflation 2012*, *No. 485: Special Commentary* and *No. 527: Special Commentary*.

Employment and Unemployment (July 2013). The July labor data are due for release on Friday, August 2nd, 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 July 2013 payroll trend number is for a 175,000 jobs gain, versus June reporting of 195,000 (see *Commentary No. 540*), and, indeed, the market consensus for July appears to have settled in at that trend number. Separately, the markets appear to be looking for the headline July unemployment rate to notch lower to 7.5%, from the headline 7.6% U.3 level estimate for June.

Reflecting underlying fundamental economic activity that is weaker than consensus expectations, reporting risks continue to the downside of expectations for payrolls and to the upside for the unemployment rate.

Although the unemployment rate should move higher—at least in its broader measures that include discouraged workers—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.

U.S. Trade Balance (June 2013). The June trade deficit is scheduled for release on Tuesday, August 6th, by the Census Bureau and the Bureau of Economic Analysis (BEA). The aggregate two months of inflation-adjusted merchandise trade deficit deterioration in April and May set a negative trend for net exports and provided a negative contribution to the headline second-quarter 2013 GDP growth estimate (see *Opening Comments*. Accordingly, significant trade deterioration (or improvement) in the June deficit would be suggestive of a negative (or positive) contribution to the second estimate (first revision) of second-quarter GDP growth, scheduled for release on August 29th. Underlying fundamentals and long-term trends continue to favor trade deterioration.

