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

**COMMENTARY NUMBER 731**
**Second Revision to First-Quarter 2015 GDP**

**June 24, 2015**

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**Underlying Economic Reality Is Weak Enough to Pull the Heavily-Gimmicked, Headline GDP into Contraction**

**Adjusted for Inflation, First-Quarter GDP Fell by 0.17% (-0.17%); The Broader GNP Measure Fell by 0.98% (-0.98%)**

**Before Inflation Adjustment, First-Quarter GDP Fell by 0.23% (-0.23%); The Broader GNP Measure Fell by 1.06% (-1.06%)**

**Second-Quarter GDP Contraction and Formal "New" Recession Remain Likely**

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*PLEASE NOTE: The next regular* Commentary, *scheduled for Thursday, July 2nd, will cover June employment and unemployment and May construction spending. Due to holiday disruptions of data-release schedules, the June estimate of the ShadowStats Ongoing M3 Measure will be published with the July 7th* Commentary. *Separately, a* Public Commentary *on employment and unemployment measurement is pending.*

*Best wishes to all — John Williams*

## OPENING COMMENTS AND EXECUTIVE SUMMARY

**First Leg of the "New" Recession Is in Place.** First-quarter 2015 GDP contracted quarter-to-quarter in both nominal and real terms—before and after adjustment for inflation—within the standard three-month reporting cycle of the GDP. If the first-quarter contraction survives the pending July 30th GDP benchmark revision, and if second-quarter 2015 GDP also shows a real quarterly contraction (initial reporting on July 30th), the U.S. economy will have entered a formal "new" recession. That circumstance remains highly likely.

Discussed frequently, the GDP does not reflect properly or accurately the changes to the underlying fundamentals that drive the economy. Underlying, real-world economic activity shows that the broad economy began to turn down in 2006 and 2007, plunged into 2009, entered a protracted period of stagnation thereafter—never recovering as advertised with the headline GDP—and then began to turn down anew in recent quarters.

The GDP simply remains the most worthless of the popular government economic series, in terms of determining what really is happening to U.S. business activity. The series is the most heavily-modeled, politically-massaged and gimmicked government indicator of the economy. It has been so since at least the days when President Lyndon Johnson reportedly reviewed the numbers, before their release. He then would return them to the Commerce Department, if Commerce had gotten them "wrong." He kept repeating the process until Commerce got them "right."

Nonetheless, despite all the upside biases and gimmicks built into the current GDP reporting, the real world occasionally surfaces in headline reporting. Underlying economic reality now has become so weak, once again, to pull headline GDP activity into consecutive quarterly contractions.

***"New Recession."*** Discussed previously, "new" has quotation marks around it in the context of describing the unfolding recession, because ShadowStats contends that the U.S. economy never recovered from its collapse into 2008 and 2009. The current, depressed economic conditions reflect ongoing impact from the near-systemic failure and economic collapse that led into and coincided with the Panic of 2008. Such is covered in the *Economic Reality* section, later in these *Opening Comments*, and that circumstance is detailed more extensively in *2014 Hyperinflation Report—Great Economic Tumble – Second Installment* and *No. 692 Special Commentary: 2015 - A World Out of Balance*.

Financial-market implications from an unexpected, new or continuing economic downturn, versus the expected continuing economic "recovery" or "expansion," are discussed in *No. 692* (above) and in the *Hyperinflation Watch* section.

***Reporting through July 30th Benchmarking.*** With the third estimate of first-quarter 2015 showing a headline contraction of 0.2% (-0.2%), a quarterly contraction in first-quarter activity likely will survive next month's benchmark revisions. The Bureau of Economic Analysis (BEA) already has much of its benchmarking detail in place. The historical precedent with benchmarks has been to leave recent headline detail unmolested, maintaining appearances of series stability. Accordingly, if any major revamping of first-quarter GDP reporting were pending, it should have surfaced in today's (June 24th) headline revision.

In the weeks before July 30th, reporting of underlying monthly economic detail for May and June, including prior-month revisions, should do much to soften consensus expectations towards a second-quarter GDP contraction. For example, May and June reporting loom for the monthly trade deficit, where the June report will be the first monthly "advance" estimate ever published for the series. Such allows for three months of trade data being used to estimate second-quarter GDP, instead of the usual two months used before. Look for the real trade deficit to widen sharply, pummeling second-quarter GDP expectations and possibly making a still-further-negative contribution to first-quarter GDP.

Downside movements and revisions also are likely in the retail-sales and construction-series reporting. Industrial production and durable goods orders already are showing the recession, and the pending production benchmark revision could do much to soften further the pending downside revisions already in play for the GDP series (again, see *Economic Reality* later in these *Opening Comments*).

**Today's Missive (June 24th).** The balance of today's *Opening Comments* concentrates on the detail from the headline third estimate, second revision to first-quarter 2015 GDP.

The *Hyperinflation Outlook Summary* has been revised for some language clarification and to reflect the latest GDP circumstance. The *Week Ahead* section provides a preview of the June labor-data and May construction-spending releases.

**Gross Domestic Product (GDP)—First-Quarter 2015, Third Estimate, Second Revision—GDP and GNP Both Tumbled, Before and After Inflation Adjustment.** The revised headline contraction of 0.2% (-0.2%), in the third estimate of first-quarter 2015 GDP, matched consensus expectations as published by Bloomberg and MarketWatch. Downside reporting and revisions to underlying monthly economic series in the month head, however, should do much to cut sharply the consensus expectations for second-quarter GDP growth, as well as to push expectations for the benchmark revision to first-quarter 2015 into a somewhat, still-deeper contraction.

***Headline GDP Detail.*** The headline third estimate of first-quarter 2015 GDP was a revised, statistically-insignificant, real (inflation-adjusted), annualized quarterly contraction of 0.17% (-0.17%). Such followed annualized real growth of 2.22% in fourth-quarter 2014. These numbers face revisions in the annual benchmarking of July 30, 2015.

Headline year-to-year real growth in first-quarter 2015 revised to 2.88%, versus 2.38% in fourth-quarter 2014. The latest quarterly year-to-year growth remained below the near-term peak of 3.13% seen in fourth-quarter 2013. The current-cycle trough in annual change was in second-quarter 2009, reflecting a year-to-year decline of 4.09% (-4.09%). That was the deepest year-to-year contraction for any quarterly GDP in the history of the series, which began with first-quarter 1947, as reflected in the graphs of the *Reporting Detail* section.

Nominal Detail. As the cash register recorded business activity, nominal first-quarter 2015 GDP also fell at an annualized quarterly pace of 0.2% (-0.2%). With GDP inflation—the Implicit Price Deflator (IPD)—down by 0.06% (-0.06%) in the first quarter, the nominal (not-inflation-adjusted) GDP contracted at a revised annualized quarterly pace of 0.23% (-0.23%), at the second decimal point, versus a gain of 2.38% in fourth-quarter 2014. Year-to-year, nominal first-quarter 2015 GDP growth revised to a gain of 3.81%, versus a 3.66% gain in fourth-quarter 2014.

***Implicit Price Deflator (IPD).*** As general guidance, the weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth. The second estimate of first-quarter 2015 GDP inflation—the implicit price deflator (IPD)—was an annualized quarterly contraction of 0.06% (-0.06%), versus an annualized gain of 0.16% in fourth-quarter 2014. Year-to-year, first-quarter 2015 IPD inflation revised to a gain of 0.90%, versus 1.25% in fourth-quarter 2014.

For purposes of comparison, headline CPI-U inflation (Bureau of Labor Statistics), seasonally-adjusted, annualized quarter-to-quarter showed an annualized contraction of 3.01% (-3.01%) in first-quarter 2015, versus a contraction of 0.85% (-0.85%) in fourth-quarter 2014. Unadjusted, year-to-year quarterly CPI-U inflation was a contraction of 0.10% (-0.10%) in first-quarter 2015, versus a gain of 1.25% in fourth-quarter 2014.

***Gross National Product (GNP).*** Given the poor-quality of broad economic data available to the BEA, quarterly reportings of the GNP and GDI traditionally are delayed for release until the second estimate of the GDP (until the third-estimate at the end of the calendar-year). Accordingly, only the second estimates for first-quarter 2015 GNP and GDI were published today.

GNP is the broadest measure of U.S. economic activity, where GDP is GNP net of trade flows in factor income (interest and dividend payments). As a reporting gimmick aimed at boosting the headline reporting of economic growth for net-debtor nations such as Greece and the United States, international reporting standards were shifted some decades back to reporting headline GDP instead of GNP.

Headline, real first-quarter 2015 GNP contracted at a revised annualized pace of 0.98% (-0.98%), versus a headline gain of 1.36% in fourth-quarter 2014. Those numbers remained weaker than the respective annualized GDP first-quarter contraction and fourth-quarter growth rates of 0.17% (-0.17%) and 2.22%. Year-to-year, annual GDP growth was a revised 2.53% in first-quarter 2015, versus 2.05% in fourth-quarter 2014.

There has been a shift in global factor-income trends since third-quarter 2014, likely reflecting some impact from the recent relative strength in the U.S. dollar. The deeper contractions in GNP activity versus the GDP in both the first- and fourth-quarter numbers reflected rapidly declining income flows from the rest of the world to the United States, exacerbated by the U.S. making increased income payments to the rest of the world.

***Gross Domestic Income (GDI).*** GDI is the theoretical income-side equivalent of the consumption-side GDP estimate. The GDP and GDI are made to equal each other, every quarter, with the addition of a "statistical discrepancy" to the GDI-side of the equation, but the discrepancy just as easily could be added to the GDP number. Reflecting the horrendously-bad quality of GDP reporting, the GDP-GDI discrepancy keeps widening, having more than doubled in the last four-quarters from 0.9% of the GDP in second-quarter 2014, to 1.9% of the GDP in first-quarter 2015.

Headline, annualized, real first-quarter GDI growth was a revised, positive 1.95%, which slowed versus an unrevised 3.71% gain in fourth-quarter 2014. Year-to-year annual growth increased to a revised 3.70% in first-quarter 2015, versus an unrevised 3.00% in fourth-quarter 2014.

***Revised Distribution of Headline First-Quarter GDP Growth.*** Despite the severely-limited significance of the following detail, it is included for those interested in the reported internal patterns of GDP growth, as guessed at by the BEA. The third estimate of annualized quarterly change in first-quarter 2015 GDP was a revised contraction of 0.17% (-0.17%) [previously down by 0.75% (-0.75%, rounds to -0.7%), initially up by 0.25% (rounds to 0.2%)], following 2.22% growth in fourth-quarter 2014.

The BEA's third guess at the real first-quarter growth rate is detailed in the following aggregation of contributed growth. Please note that the annualized growth number in each sub-category is the additive contribution to the total, headline change in GDP, where 1.43% + 0.40% - 1.89% - 0.11% = -0.17%. *Commentary No. 723* detailed the prior growth-distribution estimate for first-quarter GDP.

The relative net increase of 0.58% (a less-negative contraction) in the revised quarterly GDP growth rate—from a contraction of 0.75% (-0.75%) to a contraction of 0.17% (-0.17%)—came from an added 0.20% growth contribution from consumer spending, an added 0.28% from business investment, an added 0.01% from a negligible narrowing of the next-export deficit and an added 0.09% from less-negative government spending.

- ***Consumer Spending Contributed 1.43% [Previously 1.23%, Initially 1.31%] to First-Quarter Growth; Contributed 2.98% to Fourth-Quarter.*** The upside second-revision to consumer spending was distributed widely over the consumption of goods and services categories, with larger gains including less-negative consumption of foods and beverages for off-premises consumption and increased transportation. Broad growth generally still came from the services sector in increased utility usage tied to unseasonably-bad weather (contributed 0.59% to the GDP growth rate), and the ongoing questionable economic growth being generated by the ACA (contributed well in excess of 0.62% to the GDP growth rate).

- ***Business/Residential Investment Contributed 0.40% [Previously 0.12%, Initially 0.34%] to First-Quarter Growth; Contributed 0.61% to Fourth-Quarter.*** The fudge-factor of inventory building in the first growth estimate, which contributed 0.74% of the initial GDP growth rate, was revised lower to a 0.33% growth-rate contribution in the first revision, but revised higher again to 0.45% in the second revision. Final sales (GDP minus inventory change) contracted at a revised annualized pace of 0.62% (-0.62) [previous down by 1.08% (-1.08%), and initially down by 0.49% (-0.49%)] having risen by 2.32% in fourth-quarter 2014. Other gains were widely spread, including more-positive residential construction and less-negative nonresidential construction.

- ***Net Exports Subtracted 1.89% (-1.89%) [Previously 1.90% (-1.90%), Initially 1.25% (-1.25%)] from First-Quarter Growth; Subtracted 1.03% (-1.03%) from Fourth-Quarter.*** Reflecting the faltering trade deficit circumstance discussed in *Commentary No. 724*, the net revision to the trade deficit here was nil.

- ***Government Spending Subtracted 0.11% (-0.11%) [previously 0.20% (-0.20%), Initially 0.15% (-0.15%)] from First-Quarter Growth; Subtracted 0.35% (-0.35%) from Fourth-Quarter.*** Where federal government consumption knocked 0.53% off the fourth-quarter's growth rate, such turned neutral and remained neutral in first-quarter 2015 reporting. The gain here in revision all was in a less-negative reading on gross investment by state and local governments.

***Economic Reality.*** With the third official estimate of first-quarter 2015 GDP activity showing a contraction of 0.2% (-0.2%), versus 2.2% headline growth in fourth-quarter 2014, the general outlook as to underlying economic reality has not changed.

Discussed earlier in these *Opening Comments*, and recently in *Commentary No. 726* and *No. 692 Special Commentary: 2015 - A World Out of Balance*, the broad economy is turning down anew, and that likely will be reflected in back-to-back headline contractions of first- and second-quarter 2015 GDP reporting. When the July 30th benchmark revisions are in place, headline first-quarter 2015 GDP real growth should remain solidly in negative territory, likely showing a deeper contraction than indicated in today's third-estimate detail. At the same time, an initial estimate for second-quarter 2015 GDP should show a second, consecutive real quarterly GDP decline, a circumstance that should gain recognition quickly as a formal recession.

Monthly economic detail of key series increasingly should confirm those patterns in the reporting of remaining-May and initial-June headline activity, along with accompanying prior-period revisions.

In advance of the annual GDP overhaul on July 30th, one major benchmark revision remains for key monthly underlying economic series; that is for industrial production on July 21st. Benchmark revisions to retail sales (*Commentary No. 716*), the trade deficit (*Commentary No. 724*) and new orders for durable goods (*Commentary No. 719*) all have been to the downside. The production revisions also should be GDP-negative in the government-shutdown-delayed, catch-up reporting. As a result, downside revisions to recent and current GDP reporting also are likely, along with shifting patterns of quarterly growth in the annual GDP benchmark revisions. ShadowStats will publish estimates of likely shifts in revised GDP growth patterns, once the new production detail is published.

With the ShadowStats broad outlook unchanged, the gist of much of the following text remains along the lines of other recent GDP *Commentaries*, but the details and numbers are updated for the latest reporting.

Again, the GDP does not reflect properly or accurately the changes to the underlying fundamentals that drive the economy. Fundamental, real-world economic activity shows 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 recent quarters. Irrespective of the reporting gimmicks introduced in the July 2013 and July 2014 GDP benchmark revisions, including a recent pattern of inclusion and estimation of highly-questionable data on the Affordable Care Act (ACA), a consistent, fundamental pattern of faltering historical activity is shown in the accompanying "corrected" GDP graphs.

Please note that the pattern of activity shown for the "corrected" GDP series is much closer to the patterns shown in the graphs of unemployment (see *Commentary No. 725*), monthly real median household income and other consumer measures (see the updated *Consumer Liquidity* section in *Commentary No. 729*). This also has been detailed in *No. 692 Special Commentary: 2015 - A World Out of Balance*. Similar patterns are found in recent indications of annual consumer expenditures (see *Commentary No. 656* and *Commentary No. 673*) and economic series not otherwise reliant on understated inflation for their reported growth, such as housing starts (see *Commentary No. 728* and *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*).

With liquidity-strapped consumers unable to fuel sustainable growth in consumption, a full business recovery could not have taken place since 2009, and a recovery will not be forthcoming until consumer structural income and liquidity problems are resolved.

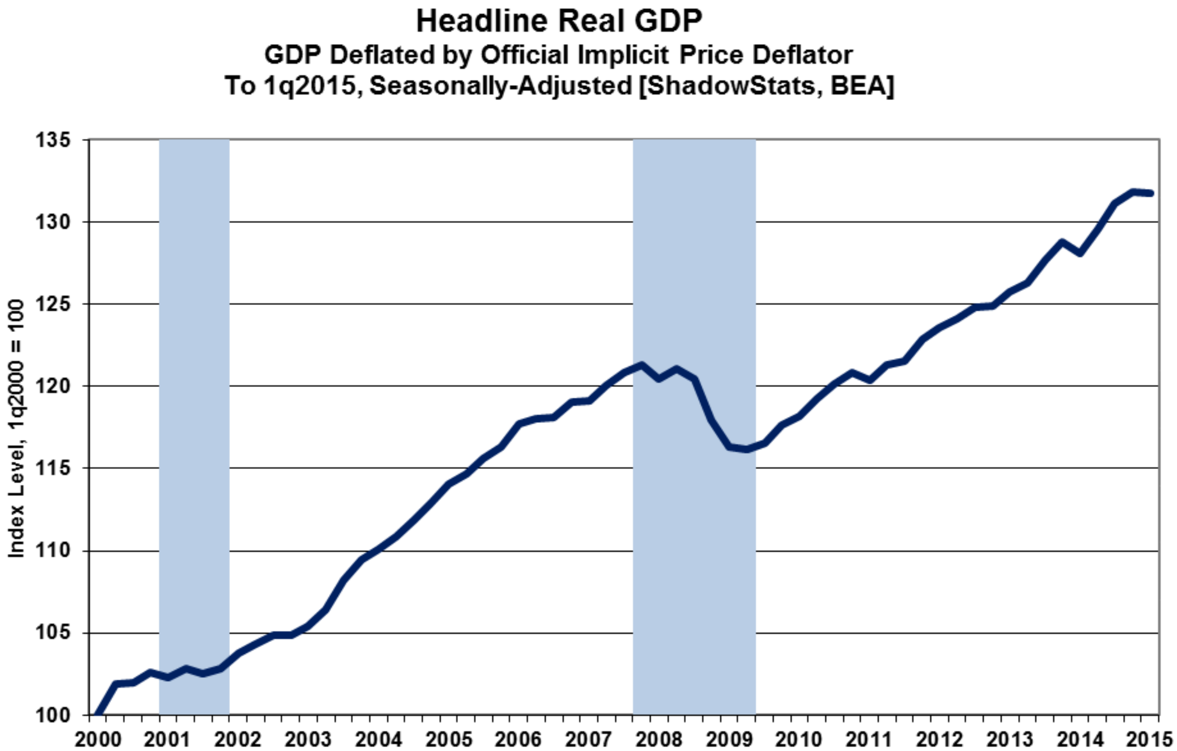
***Official and Corrected GDP.*** Usually discussed in these *Commentaries* covering the quarterly GDP reporting and monthly updates, the full economic recovery indicated by the official, real GDP numbers remains an illusion. It is a statistical illusion created by using too-low a rate of inflation in deflating (removing inflation effects) from the GDP series. The accompanying two sets of graphs tell that story, updated for today's third estimate of first-quarter 2015 GDP.

The first set of graphs (2000-to-date) is the one traditionally that has been incorporated in the GDP *Commentaries*. It shows short-term detail, expressed on an index base where first-quarter 2000 = 100.0. The second set of graphs updates the longer-term detail (1970-to-date), expressed in billions of 2009 dollars as used in headline GDP reporting, and as detailed and published initially in the second installment of the *Hyperinflation Report* and updated in *No. 692 Special Commentary* (both linked above). The graphs also show official periods of recession as shaded areas (the ShadowStats-defined recessions are indicated by the lighter shading in the second graph of the second set).

Shown in the first graph of official *Headline Real GDP*, GDP activity has been reported above pre-2007 recession levels—in full recovery—since second-quarter 2011, and headline GDP has shown sustained growth since (growth interruptions for first-quarter 2014 and first-quarter 2015 excepted). Adjusted for official GDP inflation (the implicit price deflator), the revised level of headline first-quarter 2015 GDP currently stands 8.6% [previously 8.5%, initially 8.8%] above its pre-recession peak-GDP estimate of fourth-quarter 2007. In contrast, the "corrected" GDP version, in the second graph, now shows first-quarter 2015 GDP activity down by 6.7% (-6.7%) [previously down by 6.9% (-6.9%), initially down 6.6% (-6.6%)] from its pre-recession peak of first-quarter 2006.

Further, discussed in the second installment of the *Hyperinflation Report*, and again in *No. 692 Special Commentary*, no other major economic series has shown a parallel pattern of official full economic recovery and meaningful expansion thereafter, consistent with the GDP reporting. Such is covered in the recent discussions on industrial production, real retail sales and real durable goods orders respectively in *Commentary No. 727*, *Commentary No. 729* and *Commentary No. 730*. 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 measure real-world activity. Flaws in the GDP inflation methodologies and simplifying reporting assumptions have created the "recovery."

The second graph in each series plots the *Corrected Real GDP*, corrected for the understatement inherent in official inflation estimates (see *Public Commentary on Inflation Measurement*), with the deflation by the implicit price deflator (IPD) adjusted for understatement of roughly two-percentage points of annual inflation in recent years. The inflation understatement has resulted from hedonic-quality adjustments, as discussed in the *Hyperinflation Reports*.


Headline Real GDP
GDP Deflated by Official Implicit Price Deflator
To 1q2015, Seasonally-Adjusted [ShadowStats, BEA]
Index Level, 1q2000 = 100
135
130
125
120
115
110
105
100
2000
2001
2002
2003
2004
2005
2006
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2008
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2011
2012
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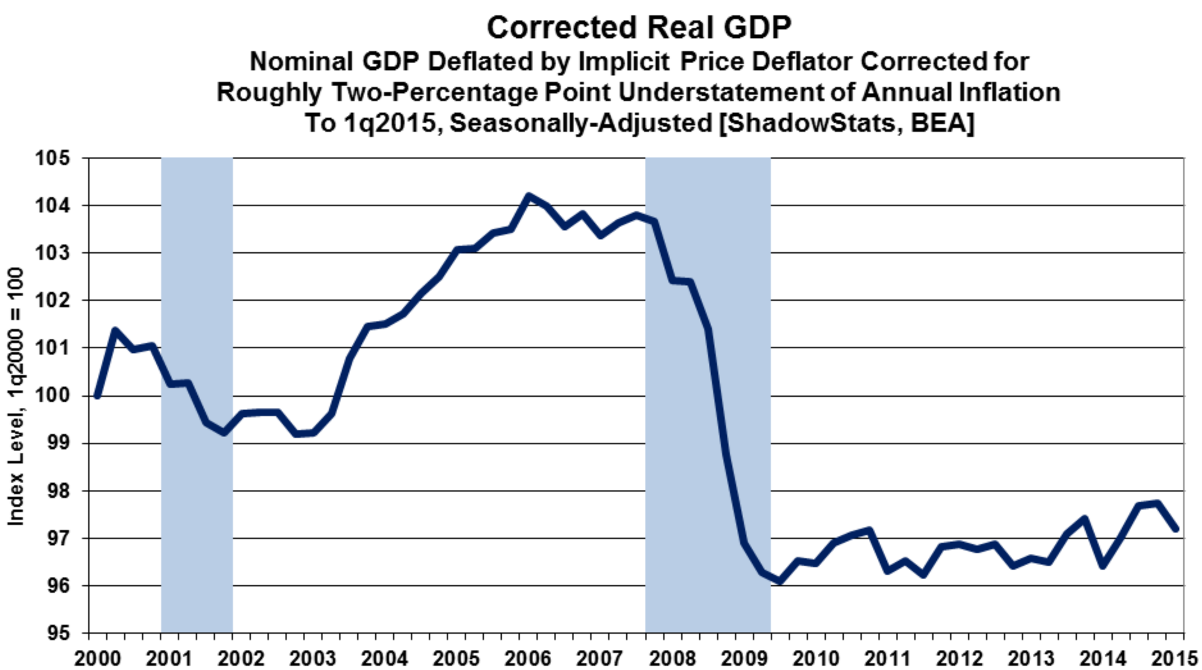
2014
2015


Corrected Real GDP
Nominal GDP Deflated by Implicit Price Deflator Corrected for
Roughly Two-Percentage Point Understatement of Annual Inflation
To 1q2015, Seasonally-Adjusted [ShadowStats, BEA]
Index Level, 1q2000 = 100
105
104
103
102
101
100
99
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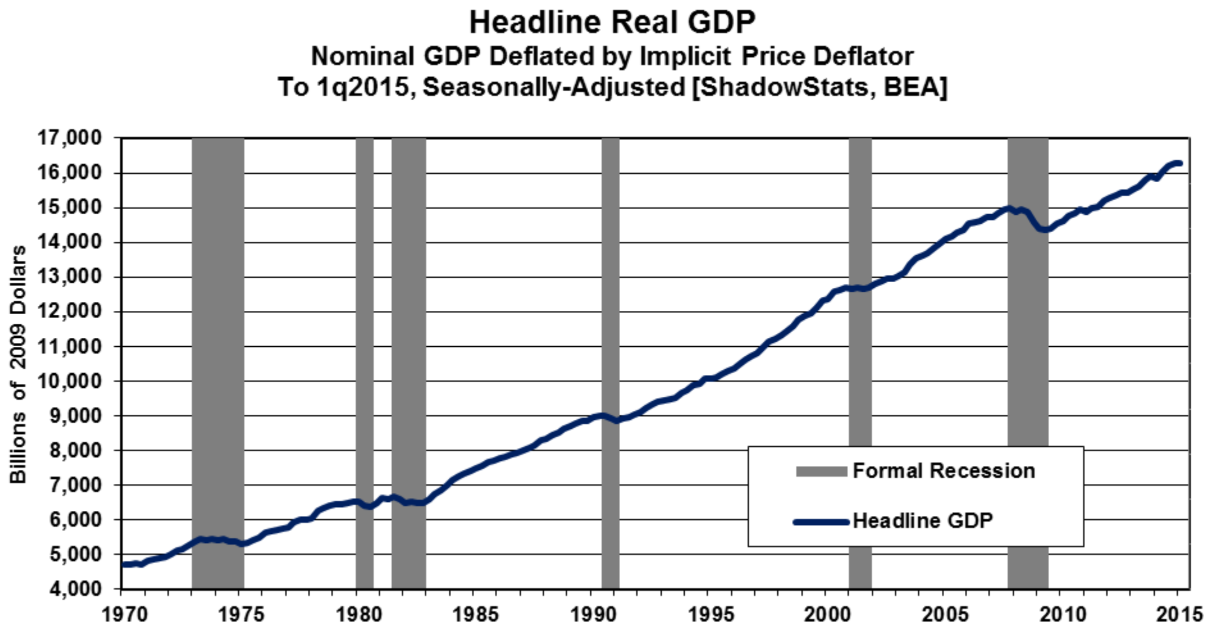


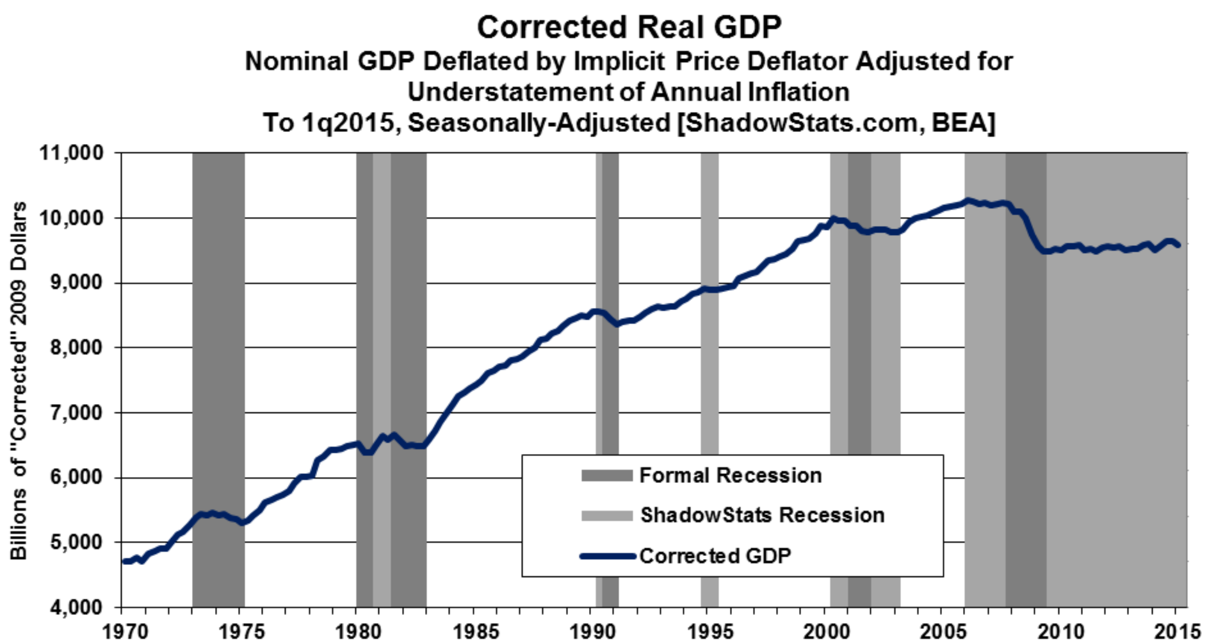


***[The* Reporting Detail *section includes further detail on the GDP revision.]***

## HYPERINFLATION WATCH

### HYPERINFLATION OUTLOOK SUMMARY

**Broad Outlook Is Unchanged: Economy Remains in Downturn; Dollar Faces Massive Decline with Ongoing Implications for a Hyperinflation Crisis.** The *Hyperinflation Outlook Summary* has been revised, updating the GDP condition and clarifying some language. Changes in the text are underlined.

The U.S. economy remains in ongoing downturn, while the U.S. dollar faces a massive decline, with implications for a meaningful upturn in inflation evolving into a great hyperinflationary crisis. Signs of systemic instability are increasing anew.

***Background.*** Underlying this missive, *No. 692 Special Commentary: 2015 - A World Out of Balance* of February 2, 2015 updated the *Hyperinflation 2014* reports and the broad economic outlook. Previously, the long-standing hyperinflation and economic outlooks were updated with the publication of *2014 Hyperinflation Report—The End Game Begins – First Installment Revised*, on April 2, 2014, and publication of *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*, on April 8, 2014. The outlooks also are updated regularly in the weekly *Commentaries*. The two *2014 Hyperinflation Report* installments, however, remain the primary background material for the hyperinflation and economic analyses and forecasts. One other reference should be considered here, in terms of underlying economic reality, and that is the *Public Commentary on Inflation Measurement*.

***Primary Summary.*** Current fiscal conditions show the effective long-term insolvency of the U.S. government, a circumstance that usually would have been met by unfettered monetization of the national debt and obligations, leading to an eventual hyperinflation by 2020, as first estimated by ShadowStats in 2004. That time horizon for the hyperinflation forecast was moved to 2014, as a result of the 2008 Panic, the near-collapse of the financial system, and official (U.S. government and Federal Reserve) response to same. That hyperinflation forecast remains in place, adjusted to 2015, as discussed in *No. 692*.

The primary and basic summary of the broad outlook and the story of how and why this fiscal, financial and economic crisis has unfolded and developed over the years—particularly in the last decade—is found in the *Opening Comments* and *Overview and Executive Summary* of the *Hyperinflation Report—First Installment Revised* (linked earlier). The following summarizes the underlying current circumstance and recent developments.

The U.S. dollar rallied sharply from mid-2014 into early-2015, initially reflecting likely covert financial sanctions and oil-price manipulations by the United States, aimed at creating financial stresses for Russia, in the context of the Ukraine situation. Relative U.S. economic strength, and the relative virtuousness of Fed monetary policy versus major U.S. trading partners, were heavily picked-up on and heavily over-estimated by the global markets looking to support the dollar. Yet structural faults started to appear in the foundation underpinning U.S. dollar strength (see *Commentary No. 711*).

Consistent with the above referenced *Special Commentaries*, the unfolding, weakening domestic-economic circumstance in 2015, in confluence with other fundamental issues, had begun to raise doubts in the markets as to the sustainability of the purported U.S. economic recovery, and as to the imminence of meaningful monetary tightening by the U.S. Federal Reserve. As a result, the U.S. dollar backed off its recent highs, with some related upside pressure having been seen on oil prices, but those changes have been relatively small, so far.

First-quarter 2015 U.S. GDP contracted by 0.2% (-0.2%) as per its second and "final" revision, other than for benchmark revisions due on July 30th (see *Opening Comments*). Although early reporting on the second-quarter economy indicated the likelihood of a second, consecutive quarterly GDP downturn, which would constitute a "new" recession, reporting of the last several weeks has been relatively strong, as discussed in the *Opening Comments* of *Commentary No. 726*. Such strong numbers should prove increasingly fleeting in the next four-to-five weeks, with a second-quarter GDP contraction still likely.

Nonetheless, the Fed could raise interest rates at any time, irrespective of economic activity. Where the stock and currency markets pretty much already have anticipated such action in their pricing, the big market moves ahead should come from areas such as downside surprises in U.S. economic reporting, which increasingly will show an ongoing contraction in activity.

Domestic economic data should continue to falter, increasingly moving market expectations towards an imminent new recession, not only further pummeling expectations for a significant tightening in Fed policy, if the Fed has not already tightened, but also renewing expectations for a more-accommodative or newly-accommodative Fed. While such could help to fuel further stock-market mania, any resulting rallies in equity prices likely will be more than offset in real terms, by percentage declines in the exchange-rate value of the U.S. dollar or in the eventual increases in headline consumer inflation.

Faltering expectations on the direction of domestic economic activity, should place mounting and eventually massive selling pressure on the U.S. dollar, as well as potentially resurrect elements of the Panic of 2008. Physical gold and silver, and holding assets outside the U.S. dollar, remain the ultimate primary hedges against an eventual total loss of U.S. dollar purchasing power. These circumstances should continue to unwind what had been the sharp and generally ongoing rally in the U.S. dollar's exchange rate since mid-2014, and the broadly-related selling pressures seen in the gold and silver markets.

A crash back to recognition of more-realistic domestic-economic circumstances began, then faltered recently, but should resume shortly, possibly a matter of weeks. It likely will be accompanied by a crash in the U.S. dollar versus major currencies, such as the Swiss franc, Canadian dollar and Australian dollar; and related rallies in precious metals and oil. Further, a sharp deterioration in the near-term outlook for domestic and global political stability continues and is of meaningful near-term risk for providing further fuel for heavy selling of the dollar.

***Current Economic Issues versus Underlying U.S. Dollar Fundamentals*.** U.S. economic activity is turning down anew, despite brief fluttering in unstable series. GDP and industrial production face heavy downside-benchmark revisions through the end of July. Other key series all have benchmarked to the downside. Weak, underlying economic reality generally has surfaced in headline reporting. That should become increasingly and painfully obvious to the financial markets in the detail and revisions of the weeks and months ahead, for series such as real retail sales, production, housing and construction, the trade deficit and payroll employment. Again, headline GDP will be in trouble.

As financial-market expectations resume shifting towards renewed or deepening recession, that circumstance, in confluence with other fundamental issues, particularly deteriorating domestic political conditions, should intensify mounting and eventually massive selling pressures against the U.S. dollar, more than fully reversing the dollar's gains since June 2014, and pushing the dollar once again to historic lows. Again, the nascent currency crisis also has meaningful potential to resurrect elements of the Panic of 2008.

Unexpected economic weakness intensifies the known stresses on an already-impaired banking system, increasing the perceived need for expanded, not reduced, quantitative easing. The highly touted "tapering" by the FOMC ran its course. Future, more-constructive Fed behavior—moving towards normal monetary conditions in what had been an unfolding, purportedly near-perfect economic environment—was pre-conditioned by a continued flow of "happy" economic news. Suggestions that all was right again with world were nonsense. Nonetheless, the Fed still likely would move to normalize interest rates (see *Opening Comments* of *Commentary No. 726*), if it could get away with it. The FOMC meeting of June 17th apparently concluded that the Fed could not get away with it (see *Opening Comments* of *Commentary No. 729*).

The Panic of 2008 never was resolved, and the Fed increasingly is finding that it has no easy escape from its quantitative easing (QE3), which continues. Only overt expansion of QE3 ceased; if the Fed does not act quickly to extricate itself from prior actions, QE4 will become the near-term question.

Unexpected economic weakness—a renewed downturn—also savages prospective federal budget deficit prognostications (particularly the 10-year versions). Such throws off estimates of U.S. Treasury funding needs and estimates as to how long the Treasury effectively can dodge the limits of the recently re-imposed debt ceiling. Current fiscal "good news" remains from cash-based, not GAAP-based and accounting projections and is heavily impacted by changes in business activity.

The economy has not recovered; the banking system is far from stable and solvent; and the Federal Reserve and the federal government still have no way out. Significant banking-system and other systemic (*i.e.* U.S. Treasury) liquidity needs will be provided, as needed, by the Fed, under the ongoing political cover of a weakening economy—a renewed, deepening contraction in business activity. The Fed has no choice. Systemic collapse is not an option for the Board of Governors. This circumstance simply does not have a happy solution.

Accordingly, any significant, renewed market speculation as to an added round of Federal Reserve quantitative easing, QE4, may become a major factor behind crashing the dollar and boosting the price of gold. The Fed has strung out its options for propping up the system as much as it thought it could, with continual, negative impact on the U.S. economy. The easings to date, however, appear to have been largely a prop to the increasingly unstable equity markets.

Again, in the event of a QE4, any resulting renewed boost to U.S. equities would be a fleeting illusion, at least in terms of real value (purchasing power of the dollar). Such gains would tend to be losses, in real terms, with the stocks valued in terms of Swiss francs, for example, or valued against what would become a rapidly-increasing pace of domestic U.S. inflation.

Strength in the U.S. dollar should continue to reverse sharply, in the context of underlying reality outlined here and in the sections that follow. The actual fundamental problems threatening the U.S. dollar could not be worse. The broad outlook has not changed; it is just a matter of market perceptions shifting anew, increasingly against the U.S. currency. That process may have started with the shift in Swiss National Bank policy early in the year, but it has become dominated by increasingly-negative global perceptions of stability in U.S. economic activity and the ability of the Federal Reserve to control its monetary policy. Key issues include, but are not limited to:

- ***A severely damaged U.S. economy, which never recovered post-2008, is turning down anew, with no potential for recovery in the near-term.*** The circumstance includes a renewed widening in the trade deficit, as well as ongoing severe, structural-liquidity constraints on the consumer, which are preventing a normal economic rebound in the traditional, personal-consumption-driven U.S. economy (see details in the *Opening Comments* of *Commentary No. 729*). Sharply-negative economic reporting shocks, versus softening consensus forecasts, still remain a heavily-favored, proximal trigger for the intensifying the unfolding dollar debacle.

- ***U.S. government unwillingness to address its long-term solvency issues.*** Those controlling the U.S. government have demonstrated not only a lack of willingness to address long-term U.S. solvency issues, but also the current political impossibility of doing so. The shift in control of Congress did not alter the systemic unwillingness to address underlying fundamental issues, specifically to bring the GAAP-based deficit into balance. Any current fiscal "good news" comes from cash-based, not GAAP-based accounting projections. The GAAP-based version continues to run around $5 trillion for the annual shortfall, while many in Washington look to continue increasing spending and to take on new, unfunded liabilities. The history and issues here are explored in the first installment of the *Hyperinflation Report*, as previously linked; the initial fiscal-2014 details were discussed in *Commentary No. 672*, and the official GAAP-based financial statements for 2014 will be discussed fully, soon (see *Commentary No. 702*). This circumstance now operates in the context of the formal constraint of a renewed debt ceiling.

- ***Monetary malfeasance by the Federal Reserve, as seen in central bank efforts to provide liquidity to a troubled banking system, and also to the U.S. Treasury.*** Despite the end of the Federal Reserve's formal asset purchases, the U.S. central bank monetized 78% of the U.S. Treasury's fiscal-2014 cash-based deficit (see *Commentary No. 672*). The quantitative easing QE3 asset purchase program effectively monetized 66% of the total net issuance of federal debt to be held by the public during the productive life of the program (beginning with the January 2013 expansion of QE3). The monetization process was completed with the Federal Reserve refunding the interest income it earned on the Treasury securities to the U.S. Treasury. With highly tenuous liquidity conditions for the banking system and the Treasury, it would not be surprising in this period of increasing instability to see covert Federal Reserve activities masked in the purchases of Treasury debt by nations or other entities financially friendly to or dependent upon the United States. If the Fed does not move soon to boost interest rates, it may be trapped in a renewed expansion to quantitative easing, given ongoing banking-system stresses, vulnerable stock markets and weakening, actual U.S. economic activity. As has been commonplace, the Fed likely would seek political cover for any new or expanded systemic accommodation in any "renewed" economic distress.

- ***Mounting domestic and global crises of confidence in a dysfunctional U.S. government.*** The positive rating by the public of the U.S. President tends to be an indicative measure of this circumstance, usually with a meaningful correlation with the foreign-exchange-rate strength of the U.S. dollar. The weaker the rating, the weaker tends to be the U.S. dollar. The positive rating for the President is off its historic low, but still at levels that traditionally are traumatic for the dollar. Chances of a meaningful shift towards constructive cooperation between the White House and the new Congress in addressing fundamental fiscal and economic issues are nil, except possibly for new trade legislation, which would compound domestic economic problems. Issues such as non-recovered, faltering economic activity, the consumer liquidity crisis, and the nation's long-range solvency should continue to devolve into extreme political crises.

- ***Mounting global political pressures contrary to U.S. interests.*** Downside pressures on the U.S. currency generally are mounting, or sitting in place, in the context of global political and military developments contrary to U.S. strategic, financial and economic interests. Current conditions include the ongoing situation versus Russia and extraordinarily-volatile circumstances in the Middle East. U.S. response to Russian activity in the Ukrainian situation likely was behind part of the recent strength in the U.S. dollar and related weakness in oil prices, with U.S. actions aimed at causing financial distress for Russia. These situations have yet to run their full courses, and they have the potential for rapid and massive negative impact on the financial and currency markets.

- ***Spreading global efforts to dislodge the U.S. dollar from its primary reserve-currency status.*** Active efforts or comments against the U.S. dollar continue to expand. In particular, anti-dollar rhetoric and actions have been seen with Russia, China, France, India and Iran, along with some regular rumblings in OPEC and elsewhere. Temporary, recent dollar strength may have bought some time versus those who have to hold dollars for various reasons. Nonetheless, developing short-term instabilities and a quick, significant reversal in the dollar's strength should intensify the "dump-the-dollar" rhetoric rapidly.

When the selling pressure breaks massively against the U.S. currency, the renewed and intensifying weakness in the dollar will place upside pressure on oil prices and other commodities, boosting domestic inflation and inflation fears. Domestic willingness to hold U.S. dollars will tend to move in parallel with global willingness, or lack of willingness, to do the same. These circumstances will trigger the early stages of a hyperinflation, likely in the year ahead.

Both the renewed dollar weakness and the resulting inflation spike should boost the prices of gold and silver, where physical holding of those key precious metals remains the ultimate hedge against the pending inflation and financial crises. Investors need to preserve the purchasing power and liquidity of their wealth and assets during the hyperinflation crisis ahead. Again, see Chapter 10, *2014 Hyperinflation Report—Great Economic Tumble* for detailed discussion on approaches to handing the hyperinflation crisis and *No. 692 Special Commentary: 2015 - A World Out of Balance*, for other factors afoot in the current environment.

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## REPORTING DETAIL

### GROSS DOMESTIC PRODUCT—GDP (First-Quarter 2015, Third Estimate, Second Revision)

**Headline Real and Nominal Contractions in First-Quarter GDP of 0.2% (-0.2%).** The headline contraction of 0.2% (-0.2%) in the second revision of first-quarter 2015 matched consensus expectations as published by Bloomberg and MarketWatch. What is not consensus, yet, as discussed in the opening paragraphs of the *Opening Comments* section, is that the headline second-quarter 2015 GDP likely will show a quarterly contraction, as well, setting up a "new" formal recession, with highly negative implications for the financial markets and system.

Discussed frequently, the GDP does not reflect properly or accurately the changes to the underlying fundamentals that drive the economy. Underlying real-world economic activity shows 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 recent quarters.

The GDP simply remains the most worthless of the popular government economic series, in terms of determining what really is happening to U.S. business activity. The series is the most heavily-modeled, politically-massaged and gimmicked government indicator of the economy. It has been so since at least the days when President Lyndon Johnson reportedly reviewed the numbers before their release, and then would return them to the Commerce Department, if Commerce had gotten them "wrong," and would keep doing so until Commerce got the numbers "right."

Nonetheless, despite all the upside biases and gimmicks built into the GDP reporting, the real world occasionally surfaces in the formal GDP estimates. Underlying economic reality has become weak enough, once again, to pull headline GDP activity into consecutive quarterly contractions.

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### *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 $60.4 billion in "residual," as of the second estimate of fourth-quarter 2014.*

***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.*

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***Gross Domestic Product (GDP).*** Published today, June 24th, by the Bureau of Economic Analysis (BEA), the third estimate of first-quarter 2015 GDP reflected a statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline contraction of 0.2% (-0.2%) [down by 0.17% (-0.17%) at the second decimal point] +/- 3.5% (95% confidence interval). Previously the first-quarter contraction had been estimated at 0.7% (-0.7%) [down by 0.75% (-0.75%) at the second decimal point, rounding to 0.7% (-0.7%)]. Initially, the first estimate had indicated a quarterly gain of 0.2% (0.25% at the second decimal point, rounding to 0.2%).

Such followed headline annualized real growth of 2.22% in fourth-quarter 2014, 4.97% real growth in third-quarter 2014, 4.59% real growth in second-quarter 2014, and a real annualized contraction of 2.11% (-2.11%) in first-quarter 2014. All the 2014 and first-quarter 2015 numbers face potentially meaningful (generally downside) revisions in the annual benchmarking of July 30, 2015. Distribution detail of the revised first-quarter 2015 GDP growth is outlined in the *Opening Comments*.

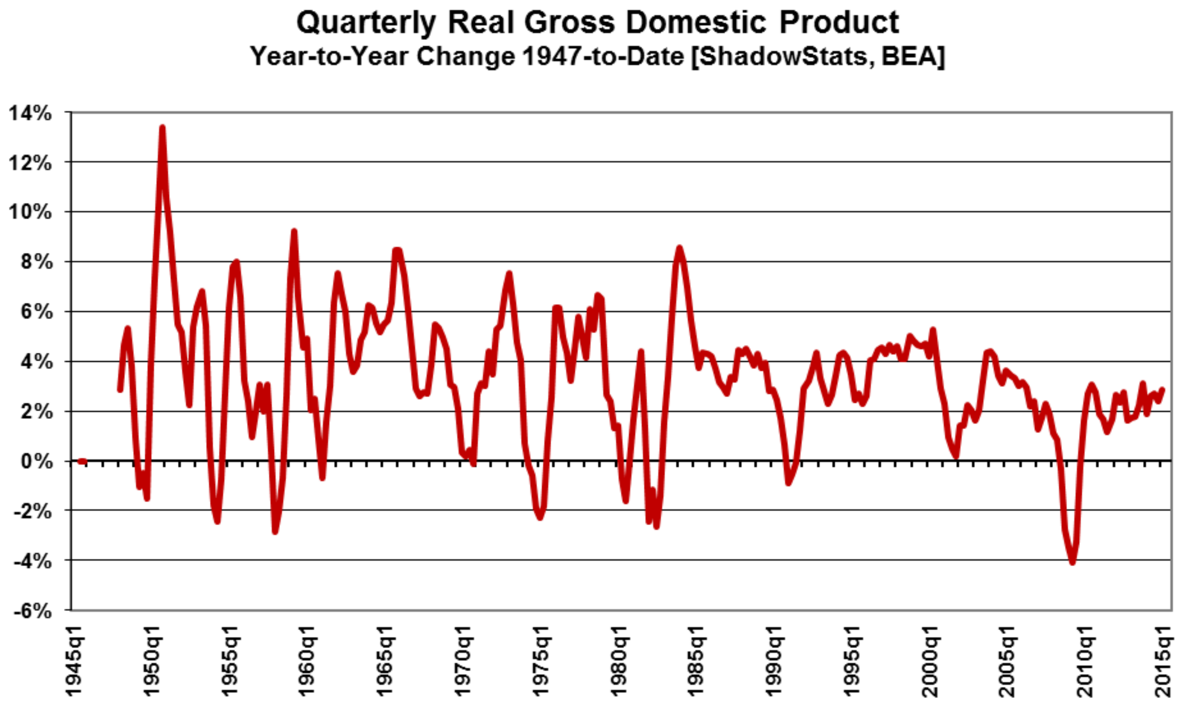
<u>Nominal Detail.</u> As the cash register recorded business activity, nominal first-quarter 2015 GDP also fell at an annualized quarterly pace of 0.2% (-0.2%). With headline GDP inflation—the Implicit Price Deflator (IPD)—down by a revised 0.06% (-0.06%) in the first quarter, indeed, the headline nominal (not-inflation-adjusted) GDP contracted at a revised annualized pace of 0.23% (-0.23%) [previously down by 0.87% (-0.87%), initially up by 0.14%], versus an annualized nominal gain of 2.38% in fourth-quarter 2014. Year-to-year, nominal annual growth in first-quarter 2015 GDP revised to a gain of 3.81%

[previously 3.64%, initially 3.91%], versus 3.66% in fourth-quarter 2014, 4.31% in third-quarter 2014, 4.27% in the second-quarter 2014 and 3.28% in the first-quarter 2014.

Real Year-to-Year Growth. Shown in the accompanying graphs, headline year-to-year real growth in first-quarter 2015 revised to 2.88% [up previously by 2.73%, initially up by 2.99%], versus 2.38% in fourth-quarter 2014, 2.70% in third-quarter 2014, 2.59% in the second-quarter 2014 and 1.89% in the first-quarter 2014.

The latest quarterly year-to-year growth remained below the near-term peak of 3.13% seen in fourth-quarter 2013. The current-cycle trough in annual change was in second-quarter 2009, reflecting a year-to-year decline of 4.09% (-4.09%). That was the deepest year-to-year contraction for any quarterly GDP in the history of the series, which began with first-quarter 1947.

The first graph following shows current year-to-year quarterly detail, from 2000-to-date, where the second graph shows the same series in terms of its full quarterly history.




***Implicit Price Deflator (IPD).*** As general guidance, the weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth. The second estimate of first-quarter 2015 GDP inflation, or the implicit price deflator (IPD), was an annualized quarterly contraction of 0.06% (-0.06%) [previously down by 0.12% (-0.12%), initially down by 0.10% (-0.10%)], versus an annualized gain of 0.16% in fourth-quarter 2014, 1.38% in third-quarter 2014, 2.15% in second-quarter 2014, and 1.33% in first-quarter 2014.

Year-to-year, first-quarter 2015 IPD inflation was revised to 0.90% [previously and initially at 0.89%], versus 1.25% in fourth-quarter 2014, 1.57% in third-quarter 2014, 1.64% in second-quarter 2014, 1.37% in first-quarter 2014.

For purposes of comparison, headline CPI-U inflation (Bureau of Labor Statistics), seasonally-adjusted, annualized quarter-to-quarter showed an annualized contraction 3.01% (-3.01%) in first-quarter 2015, versus a contraction of 0.85% (-0.85%) in fourth-quarter 2014, and annualized gains of 1.18% in third-quarter 2014, 2.44% in second-quarter 2014, and 2.09% in first-quarter 2014.

Unadjusted, year-to-year quarterly CPI-U inflation was a contraction of 0.10% (-0.10%) in first-quarter 2015, versus gains of 1.25% in fourth-quarter 2014, 1.78% in third-quarter 2014, 2.05% in second-quarter 2014, and 1.41% in first-quarter 2014.

***Gross National Product (GNP).*** Given the poor-quality of broad economic data available, quarterly reportings of the GNP and GDI traditionally are delayed for release until the second estimate of the GDP (until the third-estimate at the end of the calendar-year). Accordingly, only the second estimates for first-quarter 2015 were published today (June 24th) for both series.

GNP is the broadest measure of U.S. economic activity, where GDP is GNP net of trade flows in factor income (interest and dividend payments). As a reporting gimmick aimed at boosting the headline reporting of economic growth for net-debtor nations such as Greece and the United States, international reporting standards were shifted some decades back to reporting headline GDP instead of GNP.

Headline, real first-quarter 2015 GNP contracted at a revised annualized pace of 0.98% (-0.98%) previously down by1.40% (-1.40%)], versus a headline gain of 1.36% in fourth-quarter 2014. Those numbers remained weaker than the respective annualized GDP revised first-quarter contraction and fourth-quarter growth rates of 0.17% (-0.17%) and 2.22%. Year-to-year annual GDP growth was a revised 2.53% [previously 2.42%] in the first-quarter 2015, versus 2.05% in fourth-quarter 2014.

In nominal terms, the annualized first-quarter GNP contraction was 1.06% (-1.06%) [previously down by 1.54% (-1.54%)], versus a gain of 1.50% in the fourth quarter. Nominal annual growth was a revised 3.44% [previously 3.32%] in the first-quarter 2015, versus 3.32% in fourth-quarter 2014.

There has been a shift in global factor-income trends since third-quarter 2014, likely reflecting some impact from the recent relative strength in the U.S. dollar. The deeper contractions in GNP activity versus the GDP in both the first- and fourth-quarter numbers reflected declining income flows from the rest of the world to the United States, exacerbated by the U.S. making increased income payments to the rest of the world.

***Gross Domestic Income (GDI).*** GDI is the theoretical income-side equivalent of the consumption-side GDP estimate. The GDP and GDI are made to equal each other, every quarter, with the addition of a "statistical discrepancy" to the GDI-side of the equation, but the discrepancy just as easily could be added to the GDP number.

Headline, annualized, real first-quarter GDI growth was a revised 1.95% [previously up by 1.43%], slowing versus an unrevised 3.71% gain in fourth-quarter 2014. Year-to-year annual growth increased to a revised 3.70% [previously up by 3.56%] in first-quarter 2015, versus an unrevised 3.00% in fourth-quarter 2014.

Annualized nominal GDI growth in first-quarter 2015 was a revised 1.88% [previously up by 1.30%], versus 3.88% in the fourth-quarter. Year to year nominal growth was a revised 4.63% [previously 4.48%] in first-quarter 2015, versus 4.29% in fourth-quarter 2014.

Also in nominal terms, the statistical discrepancy was -325.9 (previously -328.3) billion dollars in first-quarter 2015, from an unrevised -231.6 billion dollars in fourth-quarter 2014. Highlighting the general insignificance of the GDP reporting, the statistical discrepancy—error—between the GDI and the GDP more than doubled in the last four-quarters from 0.9% of the GDP in second-quarter 2014, to 1.9% of the GDP in first-quarter 2015.

***ShadowStats-Alternate GDP.*** The ShadowStats-Alternate GDP estimate for first-quarter 2015 GDP remained a year-to-year contraction of 1.3% (-1.3%) versus the revised headline first-quarter GDP year-to-year gain of 2.9% [previously up by 2.7%, initially up by 3.0%]. Those first-quarter 2015 estimates were against a ShadowStats estimated 1.6% (-1.6%) year-to-year contraction and a headline year-to-year gain of 2.4% in fourth-quarter 2014 GDP (see the Alternate Data tab).

While the annualized, real quarterly growth rate is not estimated formally on an alternate basis, the revised headline 0.2% (-0.2%) annualized quarter-to-quarter contraction for first-quarter 2015 most likely was a much weaker, deeper contraction, net of all the regular reporting gimmicks. Separately, downside quarterly-growth revisions to earlier quarters should follow in the July 30, 2015 annual benchmark revision. That remains the most likely vehicle for moving recent, gimmicked headline quarterly growth rates to more-reasonable levels. An actual quarterly contraction appears to have been a realistic possibility for the real GDP in most quarters since the official, second-quarter 2009 end to the 2007 recession.

Adjusted for understated inflation and other methodological changes—such as the inclusion of intellectual property, software and recent accounting for the largely not-measurable and questionable impact of the Affordable Care Act (ACA)—the business downturn that began in 2006/2007 is ongoing; there has been no meaningful economic rebound. The "corrected" real GDP graph, and the longer-term "corrected" graph updated from *No. 692 Special Commentary: 2015 - A World Out of Balance* and *2014 Hyperinflation Report—Great Economic Tumble – Second Installment* (see the *Opening Comments* section) are 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.

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## WEEK AHEAD

**Headline Economic Reporting and Revisions Should Trend Much Weaker than Expected; Inflation Will Rise Anew, Along with Rising Oil Prices.** In a fluctuating trend to the downside, amidst still-predominantly-negative reporting and surprises in headline numbers, market expectations for business activity nonetheless respond to the latest market hype. The general effect tends to hold the market outlook at overly-optimistic levels. Expectations exceed any potential, underlying economic reality.

GDP excesses from 2014 should face downside adjustments in the July 30, 2015 GDP benchmark, and subsequent to the current headline contraction in first-quarter 2015 GDP, expectations for headline growth in second-quarter 2015 should resume shifting to the downside, increasingly towards (eventually into) negative territory, as headline economic reporting turns lower in the week and weeks ahead.

Headline CPI-U consumer inflation—recently driven lower by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low, having shown monthly declines in annual inflation of less than a full 0.1% (-0.1%) in the three months through March 2015, but dropping by 0.2% (-0.2%) in April 2015. A large jump in gasoline prices for May 2015 and a softening of negative seasonal-adjustments for gasoline promise generated a headline monthly increase in May 2015 CPI-U inflation of 0.4%, with annual inflation effectively pulling even with zero. Year-to-year CPI inflation increasingly will be going against negative year-ago numbers in the months ahead, and should move into relative positive territory with headline June 2015 reporting.

Significant upside inflation pressures are building, as oil prices rebound, a process that should accelerate rapidly with the eventual sharp downturn in the exchange-rate value of the U.S. dollar. These areas, the general economic outlook and longer range reporting trends are reviewed broadly in *No. 692 Special Commentary: 2015 - A World Out of Balance* and in the *Hyperinflation Outlook Summary*.

***A Note on Reporting-Quality Issues and Systemic-Reporting Biases***. Significant reporting-quality problems remain with most major economic series. Again, see *Commentary No. 722* as to recent market and political pressures on the Bureau of Economic Analysis (BEA) relative to GDP reporting. Any meaningful, overt shifts by the BEA in headline GDP reporting methodology, other than those already planned for the July 30, 2015 benchmarking, would be extraordinary in terms of BEA behavior and are not likely. Still, some gimmicked, less-negative summary numbers already have been planned for publication.

Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, ongoing headline reporting issues are tied largely to systemic distortions of monthly seasonal adjustments. Data instabilities were induced partially by the still-evolving economic turmoil of the last eight years, which has been without precedent in the post-World War II era of modern-economic reporting. The severity and ongoing nature of the downturn provide particularly unstable headline economic results, when concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data, explored in the labor-numbers related *Commentary No. 695*).

Combined with recent allegations of Census Bureau falsification of data in its monthly Current Population Survey (the source for the Bureau of Labor Statistics' Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series (see *Commentary No. 669*).

## *PENDING RELEASES:*

**Construction Spending (May 2015).** The Commerce Department will release its estimate of May 2015 construction spending on Wednesday, July 1st. Detail will be covered by ShadowStats in the employment/unemployment *Commentary* of Thursday, July 2nd. The headline construction numbers will include annual revisions on the monthly seasonally-adjusted and unadjusted detail back to January 2013.

The headline monthly changes, as usual, should not be statistically-significant, while previous data will be subject to particularly large and unstable revisions. Most frequently, revisions here are to the downside, but much of the benchmarking detail will be tied shifting around monthly seasonal adjustments.

 

Irrespective of almost perpetually-positive market expectations for this series [although the MarketWatch early-consensus is for a tepid 0.3% monthly gain], the detail tends to be in down-trending stagnation, net of inflation. Related inflation gained 0.09% month-to-month and 1.81% year-to-year, in May 2015, on a seasonally-adjusted basis, consistent with the headline construction spending number.

**Employment and Unemployment (May 2015).** The Bureau of Labor Statistics (BLS) will have an unusual Thursday release of its May 2015 labor data, on July 2nd, presumably to get ahead of the Fourth of July weekend and holiday. Both employment and unemployment numbers remain due for heavily-negative, headline surprises, given the ongoing, weak general tone of recent reporting of most other, regular economic series. Established monthly distortions to payroll employment (excessive upside biases, and publishing irregularities with the concurrent-seasonal-factor process) continue, however, as do the regular monthly distortions to headline unemployment (definitional issues with "discouraged workers," and publishing irregularities with the concurrent-seasonal-factor process).

Early-market expectations [MarketWatch] are for a slower pace of payroll growth in June 2015, up by 218,000, versus the initial headline gain of 280,000 jobs in May, with June's headline U.3 unemployment rate expected to narrow to 5.4%, from the headline 5.5% estimate in May.

As with the narrowing of the headline unemployment rate in recent months and years, any narrowing of June U.3 unemployment rate likely would encompass more employed being redefined off the unemployment rolls and out of the headline labor force, rather than gaining new employment.

Underlying economic fundamentals continue to suggest deterioration in the broader unemployment rates such as U.6 and the ShadowStats Alternate Unemployment measure, as well as slowing or negative month-to-month growth in headline payrolls.

ShadowStats pending *Public Commentary on Employment and Unemployment Measurement* should be published prior to the release of the headline June 2015 labor detail.

***Early-June Expectations Are Below the Implied Monthly Payroll Trend.*** As published previously by ShadowStats-affiliate www.ExpliStats.com, in its analysis of the biases built into the BLS's concurrent-seasonal-factor modeling of the May 2015 payroll-employment reporting, the built-in bias trend for June 2015 is for a headline monthly employment gain of 236,000 (see *Commentary No. 725*). Where consensus forecasts usually settle-in near the trend level, the early-consensus expectations level is 18,000 jobs below trend.

To the extent that underlying fundamentals will continue to shine through all the regular monthly volatility and distortions, headline activity should continue to favor much weaker-than-expected payroll gains, and higher-than-expected unemployment rates.

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