John Williams'

Shadow Government Statistics

Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 747
Revised Second-Quarter GDP

August 27, 2015

Gross Domestic Income (GDI) Confirmed Stagnant First-Half Economy,
Largely Consistent with Reporting of Industrial Production and Real-Retail Sales

Upside Revision to Gross Domestic Product (GDP) Was Unstable and Nonsensical

Second-Quarter GDP Now Shows Above-Average Economic Growth;
Headline First-Quarter Activity Was Stagnant

GDI Activity Was Stagnant in Both First- and Second-Quarter Reporting

GDP and GDI Are Theoretical Equivalents and
Equally Legitimate Measures of Broad U.S. Economic Activity

PLEASE NOTE: The next regular Commentary*, on Thursday, September 3rd will cover the July 2015 trade deficit and construction spending, followed by a missive on Friday, September 4th, covering August employment and unemployment.*

The release of the July 2015 Household Income Index apparently has been rescheduled from today (August 27th) to September 10th. ShadowStats will cover the number when it is published.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

GDP Reporting Nonsense. The second estimate of second-quarter 2015 Gross Domestic Product (GDP) revised the headline annualized quarterly real (inflation-adjusted) growth rate to 3.69%, from the "advance" estimate of 2.32%. Not only was that revision unbelievable, it also ran counter to the indication of stagnant economic activity seen in the initial estimate of second-quarter 2015 Gross Domestic Income (GDI), the theoretical and a practical equivalent to the GDP. The pattern of GDI stagnation for first-half 2015—not the faux surge in second-quarter GDP—is consistent with better-quality monthly reporting seen in series such as industrial production and real retail sales.

The upside GDP revision was unusually large at 1.37%. Where the average "advance" to "second" GDP estimate revision is 0.1%; the average revision without regard to sign is 0.5%; and 95% of the revisions without regard to sign are less than 0.8%, today's (August 27th) revision by the Bureau of Economic Analysis (BEA) was a statistical outlier.

The headline GDP revisions covered a number of areas. Contrary to earlier, headline trade-deficit reporting, the headline net-export-account deficit narrowed more than previously estimated. Inventories—traditionally of poor-quality estimation and a regular BEA fudge-factor—revised higher, while other, traditionally-gimmicked components of business investment, including growth in intellectual property and computers, revised higher or were less-negative in revision. Separately, "other" categories in personal consumption, and the nebulous "gross investment" category for state and local governments also jumped in revision.

The consumption-side GDP theoretically is equivalent to the income-side GDI in the national income accounts, although they rarely are equal and sometimes vary widely, as seen in the current circumstance. Consider that while first-quarter 2015 GDP purportedly rose by 0.64%, and second-quarter GDP rose by 3.69% in revision [previously up by 2.32%], first-quarter GDI rose by 0.41%, and second-quarter GDI rose by 0.63%, in today's initial second-quarter reporting of the GDI series. In the context of these growth rates being annualized—quarter-to-quarter growth raised to the fourth power—GDP grew at an above-average pace in the second quarter, having been effectively stagnant in the first quarter. GDI activity, on other hand, now has been effectively stagnant for both the first and second quarters, for first-half 2015. That generally is consistent with the first-half 2015 contraction seen in headline reporting of industrial production, and the first-quarter contraction, second-quarter gain (a stagnant first-half 2015) in real retail sales (see *Commentary No. 743* and *Commentary No. 745*).

The broadest measure of domestic economic activity is Gross National Product (GNP), where GDP is GNP net of trade flows in factor income (interest and dividend payments). Where GNP includes the GDP calculation, its growth is bloated along with the GDP overstatement. Nonetheless, given the deteriorating international payments circumstance for the United States, GNP growth remains weaker than the headline GDP activity. The initial estimate of second-quarter 2015 GNP headline growth was 3.41%, up from a first-quarter contraction of 0.15% (-0.15%). Again, the respective GDP growth rates for the second and first quarters of 2015 were 3.69% and 0.64%.

Today's *Commentary* (August 27th). The balance of today's *Opening Comments* concentrates on the reporting of the first revision to second-quarter 2015 GDP. The *Hyperinflation Outlook Summary* will return shortly, excerpted from *No. 742 Special Commentary: A World Increasingly Out of Balance* and *Commentary No. 743*, and addressing the still-evolving financial-market instabilities and crises.

The *Week Ahead* section provides a preview of next week's estimates of the July Trade Deficit and Construction Spending, and the reporting of August labor-market conditions.

Gross Domestic Product (GDP)—Second-Quarter 2015, Second Estimate, First Revision—GDI Is Giving the Better-Quality Economic Estimate. The revised headline gain of 3.7% in second-quarter 2015 GDP was above consensus expectations (Bloomberg at 3.2%, MarketWatch at 3.3%), but it was largely nonsense. Headline reporting of second-quarter Gross Domestic Income (GDI) showed stagnant activity for first-half 2015, broadly consistent with some of the better-quality monthly economic reporting, as described in the opening paragraphs of these *Opening Comments.*

Gross Domestic Product (GDP). The second estimate of, first revision to second-quarter 2015 GDP reflected a statistically-significant, real (inflation-adjusted), annualized, quarterly headline gain of 3.69%. That followed a headline first-quarter annualized gain of 0.64%. Year-to-year real growth in second-quarter 2015 revised upwardly to 2.66%, but it still was down from 2.88% in first-quarter 2015.

The latest quarterly year-to-year growth remained below the near-term peak of 3.08% in third-quarter 2010. 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 (see *Graphs 5* and *6* in the *Reporting Detail*).

Gross National Product (GNP). 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.

Initial reporting of second-quarter 2015 GDP showed annualized quarterly real growth of 3.41%, versus an annualized first-quarter 2015 contraction of 0.15% (-0.15%). Year-to-year growth was 2.41% in initial second-quarter 2015 reporting, down from 2.66% in first-quarter 2015.

Gross Domestic Income (GDI). Gross Domestic Income (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 or subtracted from the GDP number.

Initial reporting of second-quarter 2015 GDI showed an annualized real quarterly growth rate of 0.63%, versus a revised 0.42% annualized gain in first-quarter 2015. Headline year-to-year growth was 2.25% in initial second-quarter 2015 reporting, down sharply from a revised 3.28% in first-quarter 2015.

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 second-quarter 2015 GDP inflation, or the implicit price deflator (IPD), was a revised annualized quarterly increase of 2.09%, versus an increase of 0.12% in the first-quarter 2015 IPD. Year-to-year, revised second-quarter 2015 IPD inflation was 0.97%, versus a 1.01% annual gain in first-quarter 2015.

For purposes of comparison, headline CPI-U inflation (Bureau of Labor Statistics), seasonally-adjusted, annualized quarter-to-quarter showed an annualized gain of 2.98% in second-quarter 2015, versus a contraction of 3.01% (-3.01%) in first-quarter 2015. Unadjusted, year-to-year quarterly CPI-U inflation showed a year-to-year second-quarter 2015 contraction of 0.04% (-0.04%), versus a 0.10% (-0.10%) year-to-year drop in first-quarter 2015.

Revised First-Quarter 2015 GDP Growth Distribution. 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 second estimate of annualized quarterly growth in second-quarter 2015 GDP was 3.69% [initially 2.32%] versus a first-quarter 2015 annualized real gain of 0.64% [previously a contraction of 0.17% (-0.17%) in the pre-benchmarking environment before July 30th].

The BEA's second guess at real second-quarter GDP growth is detailed in the following aggregation of contributed growth. The annualized growth number in each sub-category is the additive contribution to the total, headline change in GDP, where 2.11% + 0.88% + 0.23% + 0.47% = 3.69%. The July 30th *Commentary No. 739* detailed the prior growth-distribution estimate, as well as the 2015 benchmark revisions to the GDP series.

The upside revisions to second-quarter 2015 GDP growth were in areas that generally cannot be verified independently, at this point in the reporting process.

- ***Consumer Spending Contributed 2.11% [Initially 1.99%] to Second-Quarter GDP Growth; First-Quarter Growth Contribution was 1.19%.*** Growth remained fairly evenly split between goods and services, with upside revisions largely in the nebulous "other" categories.

- ***Business/Residential Investment Contributed 0.88% [Initially 0.06%] to Second-Quarter GDP Growth; First-Quarter Growth Contribution was 1.39%.*** The largest contributing components remained the gimmicked "intellectual property" field and residential investment. Upside revisions were seen in the intellectual properties category, with less-negative results in equipment purchases, and an upside revision to inventories, the BEA's traditional growth fudge-factor.

- ***Net Exports Contributed 0.23% [Initially 0.13%] to Second-Quarter GDP Growth; First-Quarter Growth Subtraction Was 1.92% (-1.92%).*** Going counter to the last headline trade-deficit reporting, the relatively small narrowing of the deficit in the net-export account may reflect trade detail still to be published in the next several days (see *Commentary No. 740* and the *Week Ahead* section).

- ***Government Spending Contributed 0.47% [Initially 0.14%] to Second-Quarter GDP Growth; First-Quarter Growth Subtraction was 0.01% (-0.01%).*** The upside revisions to government spending reflected an increase in federal-government defense spending, and a nebulous surge in gross investment by state and local governments, with no other detail available at present.

Economic Reality. Despite the second estimate of second-quarter 2015 GDP activity showing an upwardly-revised, headline quarterly growth of 3.7%, following a first-quarter gain of 0.6%, the broad outlook has not changed. Noted in the opening paragraphs, the GDI, which is the theoretical equivalent of the GDP and is just as valid a measure of broad U.S. economic activity, has shown the domestic economy to be stagnant in first-half 2015. More in line with the better-quality monthly economic reporting, that GDI circumstance currently is much closer to reality than is the headline GDP indication.

Discussed in *Commentary No. 739*, which covered the 2015 GDP annual revisions, the annual benchmarkings increasingly are reshaping the GDP-reporting history into a post-2007 collapse pattern of successive multiple dips. By the likely next comprehensive GDP benchmark revision in July 2018, post-2007 historical GDP reporting should be confirming a non-recovering, multiple-dip economic collapse.

That circumstance should encompass an evolving, current downturn in broad, domestic economic activity, discussed previously in *No. 742 Special Commentary: A World Increasingly Out of Balance*. The present "new" recession or multiple-dip downturn still remains likely to be timed from December 2014, although without headline back-to-back contractions of quarterly GDP currently in place, formal recognition of same still could be delayed for months. Recognition of the onset of the December 2007 recession was not formalized until November 28, 2008. Ongoing monthly economic-reporting detail for key series increasingly should confirm the patterns of declining economic activity, which should engender a formal recession call, irrespective of the timing of actual, headline quarterly contractions in real GDP.

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 second estimate of, first revision to headline, second-quarter 2015 GDP reporting.

Frequently discussed here, the headline GDP does not reflect properly or accurately the changes to the underlying fundamentals that drive the economy, at present. 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. 741*), monthly real median household income and other consumer measures (see *Commentary No. 743*). This also has been detailed in *No. 742 Special Commentary: A World Increasingly Out of Balance* and *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. 744* 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 at least partially 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 second estimate of second-quarter 2015 GDP.

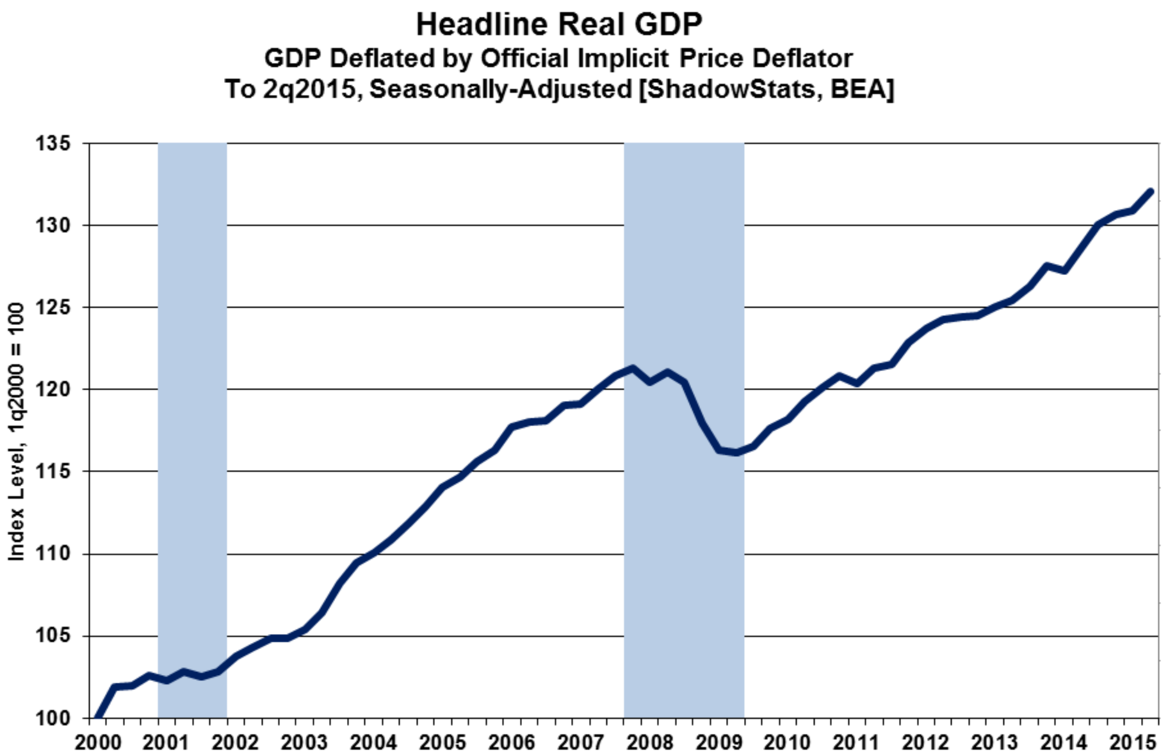
The first set of graphs (2000-to-date) is the one traditionally incorporated in the GDP *Commentaries*. *Graphs 1* and *2* show short-term detail, expressed on an index base where first-quarter 2000 = 100.0. The second set of graphs (*Graphs 3* and *4*) updates the longer-term detail (1970-to-date), expressed in billions of 2009 dollars as used in the headline GDP reporting, and as detailed and published initially in *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*. The graphs also show official periods of recession as shaded areas, with ShadowStats-defined recessions indicated by the lighter shading in *Graph 4*, the second graph of the second set.

Shown in the first graph of each set (*Graphs 1* and *3*) 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 pauses or interruptions for second-half 2012 and first-quarter 2014 excepted). Adjusted for official GDP inflation (the implicit price deflator - IPD), the headline second-quarter 2015 GDP currently stands at 8.9% above its pre-recession peak-GDP estimate of fourth-quarter 2007. In contrast, the "corrected" GDP version, in the second graph of each set (*Graphs 2* and *4*), now shows second-quarter 2015 GDP activity down by 7.0% (-7.0%), from its pre-recession peak of first-quarter 2006.

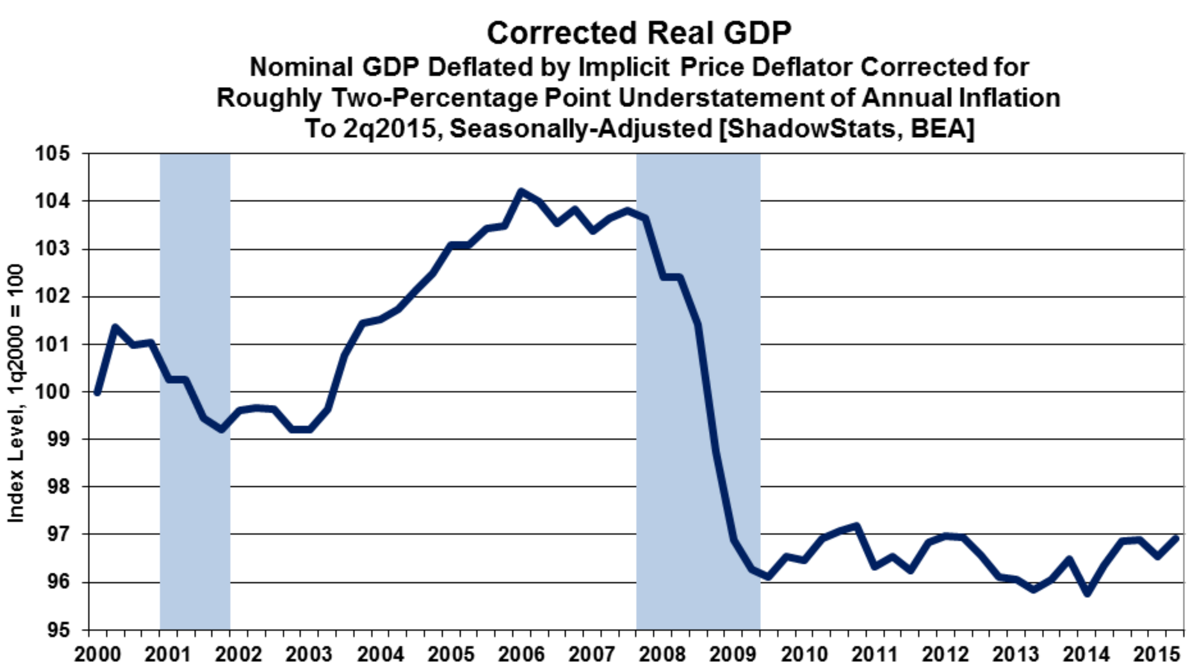
Further, discussed broadly in the second installment of the *Hyperinflation Report*, no other major economic series has shown a pattern of official full economic recovery and meaningful expansion thereafter, consistent with the headline GDP reporting. Such is covered in the recent discussions on industrial production, real retail sales and real durable goods orders respectively in *Commentary No. 743*, *Commentary No. 745* and *Commentary No. 746*. 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.”

Again, the second graph in each series (*Graphs 2* and *4*) 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, also as discussed in the *Hyperinflation Reports*.

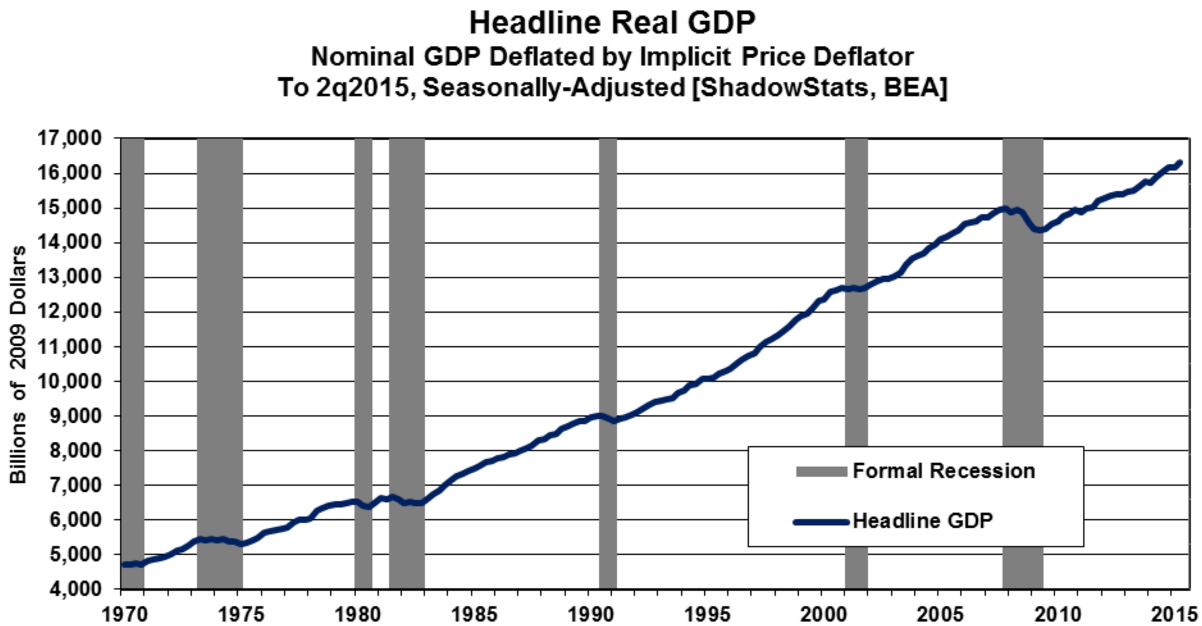
Graph 1: Real GDP Index – Headline Real GDP



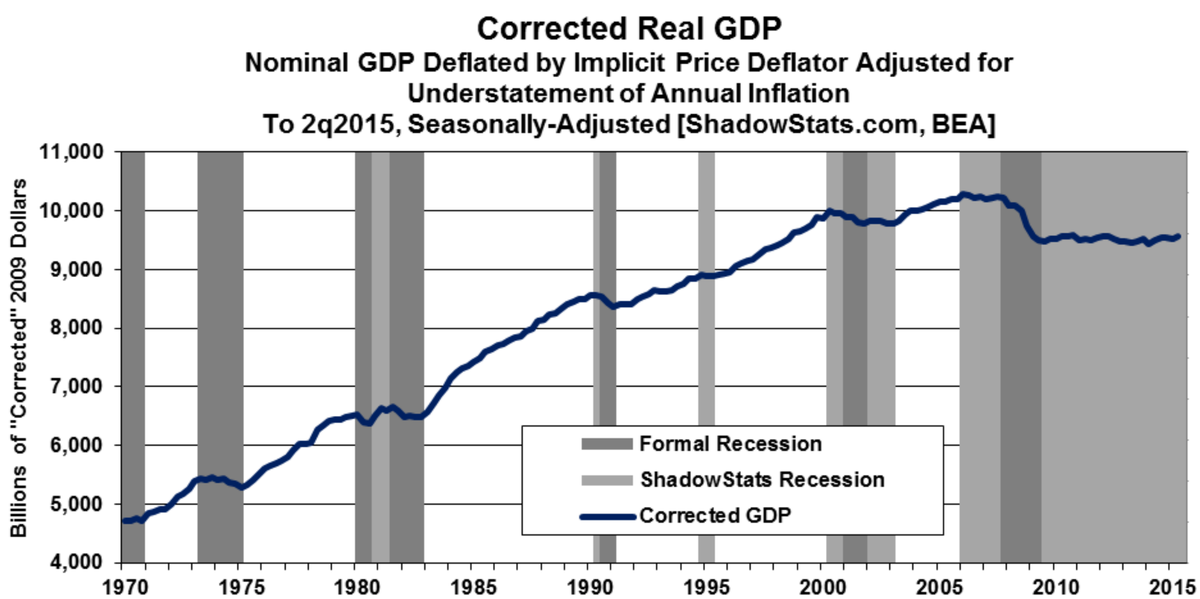
Graph 2: "Corrected" Real GDP Index



Graph 3: Real GDP Index (1970-2015)



Graph 4: "Corrected" Real GDP (1970-2015)



[The **Reporting Detail** *section includes expanded detail of the GDP Revision.]*

REPORTING DETAIL

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

Gross Domestic Income Is the Better Indicator of Actual Economic Activity, at Present, Reflecting a Stagnant First-Half 2015. *[Note: The text in the next several paragraphs largely repeats material otherwise in the* Opening Comments*]*. The revised headline gain of 3.7% in second-quarter 2015 GDP was above consensus expectations (Bloomberg at 3.2%, MarketWatch at 3.3%), but it largely was nonsense, as described in the opening paragraphs of the *Opening Comments*.

The second estimate of second-quarter 2015 Gross Domestic Product (GDP) revised the headline annualized quarterly real (inflation-adjusted) growth rate to 3.69%, from the "advance" estimate of 2.32%. Not only was that revision unbelievable, it also ran counter to indications of stagnant economic activity seen in the initial estimate of second-quarter 2015 Gross Domestic Income (GDI), the theoretical equivalent of the GDP. The pattern of GDI stagnation for first-half 2015—not the faux surge in second-quarter GDP—is consistent with better-quality monthly reporting seen in series such as industrial production and real retail sales (see *Commentary No. 743* and *Commentary No. 745*).

The upside second-quarter GDP revision also was unusually large, at 1.37%. Where the average "advance" to "second" GDP estimate revision is 0.1%; the average revision without regard to sign is 0.5%; and 95% of the revisions without regard to sign are less than 0.8%; the headline revision by the Bureau of Economic Analysis (BEA) was a statistical outlier.

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 formal GDP estimates. With major monthly economic series, such as retail sales, industrial production and durable goods orders showing regular contractions, underlying reality has become weak enough, once again, for headline GDP or GDI to signal the onset of a "new" recession.

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.*

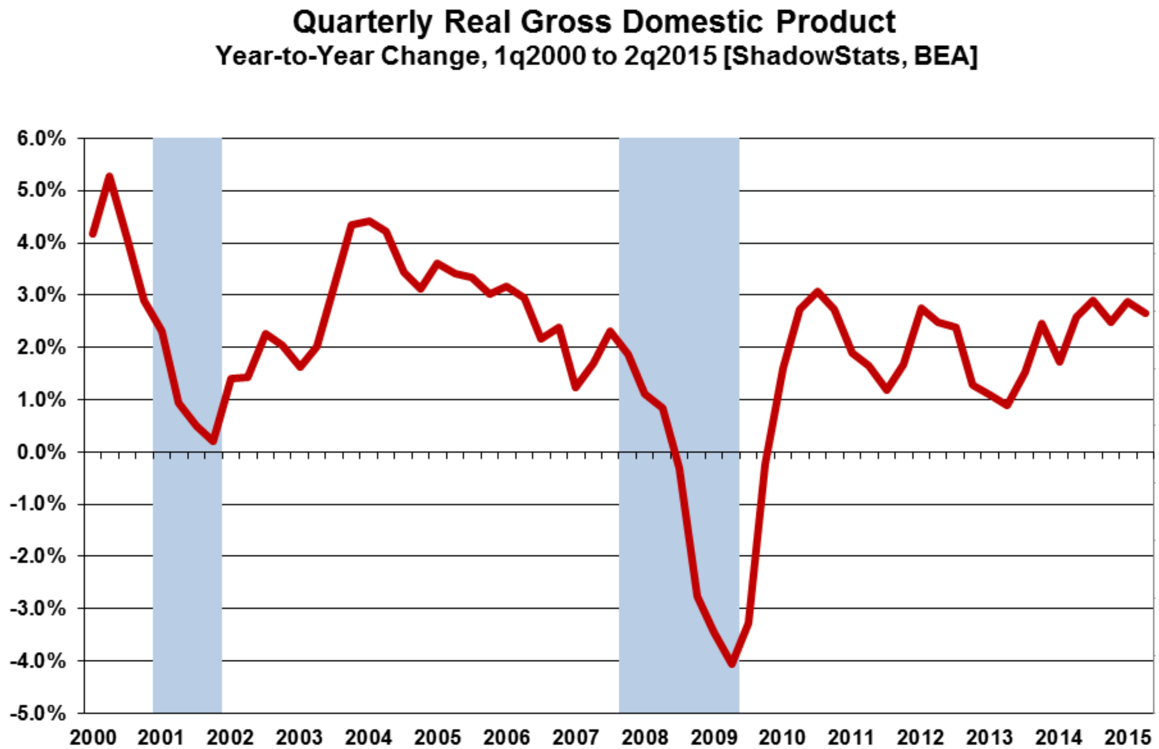
GDP Implicit Price Deflator (IPD) *is the inflation measure used to convert GDP data from nominal to real. The adjusted numbers are based on "Chained 2009 Dollars," as introduced with the 2013 comprehensive revisions, where 2009 is the base year for inflation. "Chained" refers to the substitution methodology, 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%.*

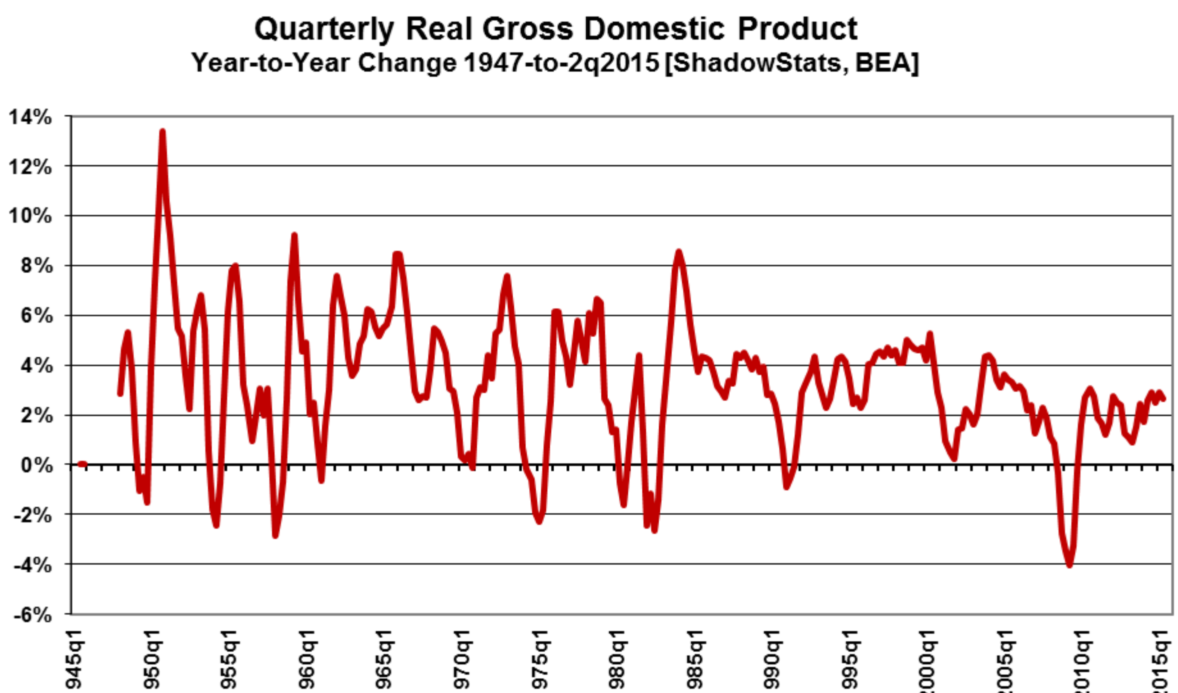
Annual *growth refers to the year-to-year change of the referenced period versus the same period the year before.*

Gross Domestic Product (GDP). Published today, August 27th, by the Bureau of Economic Analysis (BEA), the second estimate of, first revision to second-quarter 2015 GDP reflected a statistically-significant, real (inflation-adjusted), annualized, quarterly headline gain of 3.69% +/- 3.5% (95% confidence interval). Previously reported up by 2.32%, the revised second-quarter GDP growth followed a benchmark revised gain of 0.64% [a pre-benchmarking contraction of 0.17% (-0.17%)] in first-quarter 2015. Distribution detail of the revised second-quarter 2015 GDP growth is outlined in the *Opening Comments*.

Graph 5: Quarterly GDP Real Year-to-Year Change (2000-2015)



Graph 6: Quarterly GDP Real Year-to-Year Change (1947-2015)



Shown in the preceding *Graphs 5* and *6*, headline year-to-year real growth in second-quarter 2015 revised to 2.66% [previously up by 2.32%], but still was down from 2.88% in first-quarter 2015.

The latest quarterly year-to-year growth remained below the near-term peak of 3.08% in third-quarter 2010. 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.

Graph 5 shows current year-to-year quarterly detail, from 2000-to-date, where *Graph 6* shows the same series in terms of its full quarterly history back to 1947.

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 second-quarter 2015 GDP inflation, or the implicit price deflator (IPD), was a revised annualized quarterly increase of 2.09% [previously 2.04%], versus a benchmarked gain of 0.12% in the first-quarter 2015 IPD.

Year-to-year, revised second-quarter 2015 IPD inflation was 0.97% [previously 0.96%], versus a benchmarked 1.01% annual gain in first-quarter 2015.

For purposes of comparison, headline CPI-U inflation (Bureau of Labor Statistics), seasonally-adjusted, annualized quarter-to-quarter showed an annualized gain of 2.98% in second-quarter 2015, versus a contraction of 3.01% (-3.01%) in first-quarter 2015. Unadjusted, year-to-year quarterly CPI-U inflation showed a year-to-year second-quarter 2015 contraction of 0.04% (-0.04%), versus a 0.10% (-0.10%) year-to-year drop in first-quarter 2015.

Gross National Product (GNP). 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.

Initial reporting of second-quarter 2015 GDP showed annualized quarterly real growth of 3.41%, versus an annualized first-quarter 2015 contraction of 0.15% (-0.15%). Year-to-year growth was 2.41% in initial second-quarter 2015 reporting, down from 2.66% in first-quarter 2015.

Gross Domestic Income (GDI). Gross Domestic Income (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.

Initial reporting of second-quarter 2015 GDI showed an annualized real quarterly growth rate of 0.63%, versus a revised 0.42% [previously up by 0.28%] annualized gain in first-quarter 2015. Headline year-to-year growth was 2.25% in initial second-quarter 2015 reporting, down sharply from a revised 3.28% [previously 3.25%] in first-quarter 2015.

ShadowStats-Alternate GDP. The ShadowStats-Alternate GDP estimate for second-quarter 2015 GDP remained a year-to-year contraction of 1.2% (-1.2%) versus the revised headline second-quarter GDP year-to-year gain of 2.7% [previously 2.3%]. That was against a ShadowStats estimate of a first-quarter 2015 year-to-year contraction of 1.3% (-1.3%), versus the headline first-quarter GDP year-to-year gain of 2.9% (see the Alternate Data tab).

While the annualized, real quarterly growth rate is not estimated formally on an alternate basis, the headline revised 3.7% [previously 2.3%] annualized quarter-to-quarter gain in second-quarter 2015 most likely was much weaker, net of all the regular reporting gimmicks. An actual quarterly contraction appears to have been a realistic possibility for inflation-adjusted 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 (see *Graphs 2* and *4*), updated from *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, here, which reflects reversing additional methodological distortions ("Pollyanna Creep") of recent decades.

WEEK AHEAD

Economic Reporting Generally Should Trend Much Weaker than Expected; Inflation Will Rise Anew, Along with Higher Oil Prices. In a fluctuating trend to the downside, amidst mixed reporting in headline data, market expectations for business activity nonetheless tend to respond to the latest economic hype in the popular media. That general effect holds the consensus outlook at overly-optimistic levels, with current expectations still exceeding any potential, underlying economic reality. Still, the expectations trend generally has continued to soften.

Headline reporting of the regular monthly economic numbers increasingly should turn lower in the weeks and months ahead, along with an eventual downside revision to the just-upwardly-revised second-quarter GDP estimate, and along with likely downside or otherwise much weaker-than-expected reporting for at least the next several quarters of GDP (and GDI and GDP) into 2016.

CPI-U consumer inflation—driven lower earlier this year by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low, having turned positive in June 2015, for the first time in six months, having notched somewhat higher in July.

Upside inflation pressures should continue to build, particularly as oil prices begin to rebound, once again, a process that eventually should accelerate rapidly, along with the pending sharp downturn in the exchange-rate value of the U.S. dollar. These areas, the general economic outlook and longer range reporting trends were reviewed broadly, recently, in *No. 742 Special Commentary: A World Increasingly Out of Balance* and *No. 692 Special Commentary: 2015 - A World Out of Balance*.

A Note on Reporting-Quality Issues and Systemic-Reporting Biases. Significant reporting-quality problems remain with most major economic series. Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, which have tended to understate actual inflation and to overstate actual economic activity, ongoing headline reporting issues are tied largely to systemic distortions of monthly seasonal adjustments. Data instabilities—induced partially by the still-evolving economic turmoil of the last eight-to-ten years—have 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, discussed and 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 (July 2015). The Commerce Department will release its estimate of July 2015 construction spending on Tuesday, September 1st. Detail will be covered by ShadowStats in *Commentary No. 748* of Thursday, September 3rd.

The headline monthly changes, as usual, should not be statistically-significant, while previous data will be subject to large and irregular revisions. Irrespective of almost perpetually-positive market expectations for this series [MarketWatch early-consensus is for a 0.9% monthly gain], the detail tends to continue in down-trending stagnation, net of inflation.

In what would be net subtractions to nominal (not-inflation-adjusted) growth, relative to real (inflation-adjusted) growth, related inflation (PPI – Final Demand Construction) jumped by 0.53% month-to-month and 1.99% year-to-year for July 2015, on a seasonally-adjusted basis, consistent with the headline construction spending number.

U.S. Trade Balance (July 2015). The Commerce Department and Bureau of Economic Analysis (BEA) will release their full version of the July trade deficit on Thursday, September 3rd, following what will be a highly limited "advance" version to be released tomorrow, Friday, August 28th.

The monthly trade shortfall should have widened in July. While some revised deterioration in the June number had been indicated also would be expected, the headline second-quarter GDP revision detail (see the *Opening Comments*) suggested otherwise, with some minor narrowing of the second-quarter net-export-account deficit, in the revised GDP detail.

Despite what likely expectations for a narrowed deficit in July, significant, catch-up deterioration in the headline monthly trade deficit is due, both in nominal and real (inflation-adjusted) terms. The broad trend going forward still should be for regular monthly and quarterly deteriorations in the real trade deficit.

Employment and Unemployment (August 2015). The Bureau of Labor Statistics (BLS) will publish its August 2015 labor data on Friday, September 4th. Both employment and unemployment numbers remain due for heavily-negative, headline surprises, given the ongoing general weak tone of recent reporting of most other, regular monthly 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 August 2015, up by 195,000 versus the initial headline gain of 215,000 jobs in July, with August's headline U.3 unemployment rate expected to hold at 5.3%, versus the 5.3% estimate in July.

As with the narrowing of the headline unemployment rate in recent months and years, any further narrowing of the August 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.

Early-August Payroll Gain Expectations Fall Below 200,000, in Line with Implied Monthly 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 July 2015 payroll-employment reporting, the built-in-bias trend for August 2015 is for a headline monthly employment gain of 198,000 (see *Commentary No. 741*). Where consensus forecasts usually settle-in near the trend level, the early-consensus expectations level is just 3,000 jobs shy of the trend number, at present.

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.