

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

**COMMENTARY NUMBER 769**

**Revised Third-Quarter GDP, October Existing-Home Sales, November Confidence**

**November 24, 2015**

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**Third-Quarter Gross Domestic Product Revised to 2.08% from 1.49%,  
But the Initial Estimate of Broader Gross National Product Came in at 1.27%**

**Guesstimated Upside Inventory Revisions Dominated Downside GDP Revisions  
from Slackening Personal Consumption and a Widening Trade Deficit**

**Unfolding and Deepening Recession Continues**

**Signaling a Fourth-Quarter Contraction, October Existing-Home Sales  
Joined Declining Housing Starts, Real Retail Sales and Industrial Production**

**November Consumer Confidence Continued to Tumble**

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*PLEASE NOTE: The next regular Commentary, scheduled for tomorrow, Wednesday, November 25th, will cover October New Orders for Durable Goods and New-Home Sales.*

*Best wishes to all! — John Williams*

## OPENING COMMENTS AND EXECUTIVE SUMMARY

### **“New” Recession Continues to Unfold Despite Unusual GDP, GDI and GNP Revisions and Signals.**

Rarely noted for consistency or as meaningful estimates of real-world economic activity, the national income series of Gross Domestic Product (GDP), Gross National Product (GNP) and Gross Domestic Income (GDI) sent varying signals amidst second and first estimates reported today, November 24th, by the Bureau of Economic Analysis (BEA).

***Nonsense Reporting with a Cautionary Signal from GNP.*** Third-quarter 2015 headline growth in the popularly-followed headline GDP measure revised to 2.08% in its second estimate, from 1.49% in initial reporting, versus unrevised second-quarter growth of 3.92% and first-quarter growth of 0.64%. The third-quarter revision was dominated on the upside by inflated inventories, which more than offset downside revisions from weakening personal consumption and a widening trade deficit. Where the consumption and trade revisions at least were consistent with intervening reporting of retail sales and monthly trade detail, the inventory revision—a traditional BEA fudge factor—reflected heavy guesswork built upon extraordinarily-thin hard detail. Watch for an inventory-driven, downside revision to third-quarter 2015 GDP on December 22nd!

Third-quarter headline growth in the GDI, which is the income-side equivalent to the GDP’s consumption side, saw its first estimate of third-quarter 2015 growth at 3.10%, but that was on top of a previously unpublished upside revision to second-quarter 2015 GDI to 2.20% [previously up by 0.71%], versus unrevised growth of 0.42% in first-quarter 2015. The GDI growth and revisions were due to the Bureau of Labor Statistics (BLS) revising its income estimates much higher, in a questionable manner, inconsistent with other indicators and of a nature that exploded the statistical discrepancy between the GDI and the GDP.

The GDP is derived from the GNP. Third-quarter headline growth in the GNP—the broadest national income measure, including trade flows in interest and dividend payments—was reported with an initial estimate of 1.27% third-quarter 2015 growth, versus an unrevised 3.92% in second-quarter 2015 and a contraction in first-quarter 2015 of 0.15% (-0.15%). The headline GNP measure raised a cautionary signal as to net dollar outflows from the United States, a circumstance that most certainly would be of concern to the Federal Reserve and the U.S. Treasury, in terms of the domestic liquidity of U.S. corporations and various financial markets.

***Unhappy Developments in the Fourth Quarter.*** In the reporting of economic activity for October 2015—the first month of fourth-quarter 2015—each series of Existing Home Sales, Housing Starts, Real Retail Sales and Industrial Production has generated an early indication of quarter-to-quarter contraction. This is about as strong a signal as can be generated—at this stage of reporting—for a possible, related headline quarterly contraction in the GDP.

**Today’s Commentary (November 24th).** The balance of these *Opening Comments* provides summary coverage of the second estimate, first revision to third-quarter 2015 GDP and October Existing-Home Sales, along with a brief update to consumer conditions, reflecting November Consumer Confidence.

The *Hyperinflation Outlook Summary* is being updated for the latest economic and Federal Reserve developments, and will be posted anew with *Commentary No. 772* of December 11th. In the interim, the latest *Summary* (November 4, 2015 based) is available in [Commentary No. 768](#).

The *Week Ahead* previews October New Orders for Durable Goods and New-Home Sales.

**Gross Domestic Product (GDP)—Third-Quarter 2015 (Second Estimate, First Revision)—Inventory Guesses Boosted Revised GDP, GNP Suggested Global Instabilities.** While the headline growth in third-quarter 2015 gross domestic product (GDP) revised from 1.49% to 2.08% in its first revision, headline growth in third-quarter 2015 gross national product (GNP) was just 1.27% in its initial reporting today. GNP is the broader measure of economic activity, where GDP simply is GNP net of trade flows in factor income, or interest and dividend payments. The marked deterioration in GNP relative to GDP is suggestive of some global currency flows out of the U.S. dollar, a circumstance the Federal Reserve has attempted to avoid.

**GDP Headline Detail.** The second estimate, first revision to third-quarter 2015 GDP showed a statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 2.08%, previously reported as a 1.49% gain. Such still slowed versus unrevised headline growth of 3.92% in second-quarter 2015 GDP, although it was stronger than a previously benchmarked gain of 0.64% [it had shown a pre-benchmarking contraction of 0.17% (-0.17%)] in first-quarter 2015.

*Graphs 8 to 11* in the *Reporting Detail* section show the latest headline levels of real quarterly GDP activity, as well as year-to-year annual change. Revised third-quarter year-to-year real growth still slowed sharply to an upwardly-revised, headline 2.18%—the weakest growth in six quarters—down from annual growth of 2.72% in second-quarter 2015 and 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 (1948 in terms of available year-to-year growth).

**Third-Quarter 2015 GDP Revised 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 indicated by the Bureau of Economic Analysis (BEA). The second estimate of annualized quarterly third-quarter 2015 GDP growth was 2.08% (previously 1.49%), versus annualized quarterly real gains of 3.92% in second-quarter 2015 and 0.64% in first-quarter 2015.

The BEA's second guess at real third-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  $2.05\% - 0.05\% - 0.22\% + 0.29\% = 2.08\%$ , with a rounding difference. [Commentary No. 763](#) of October 29th detailed the growth-distribution estimate for the first estimate of third-quarter GDP.

**Revisions Dominated by Changing Guesstimates of Inventory Building.** The upside revision to headline third-quarter 2015 real GDP growth reflected a downside revision to personal consumption and a revised,

greater deterioration in the trade deficit, but those changes were more than offset by a downside revision to the magnitude of the slowing in guesstimated inventory buildup.

For clarification, inventories did not shrink in either the first or the second estimate of third-quarter GDP. What happened was a smaller inventory buildup in third- versus second-quarter activity, which is treated as a GDP-negative. In the second estimate, the inventory buildup still was weaker, \$90.2 billion (chained 2009 dollars) in the third quarter versus \$113.5 billion than in the second quarter, but not as weak as in the initial estimate of \$56.8 billion for the third quarter, versus \$113.5 billion in the second quarter. That second, relative-upside revision to inventory buildup contributed an additional 0.85% to the annualized third-quarter GDP growth rate, more than accounting for the entire 0.59% upside revision in the second growth estimate. Inventory estimates usually are guessed at, not based on hard numbers at this point of the reporting cycle. Accordingly, some downside revision in this area is good bet, come the next GDP revision on December 22nd.

Aggregate headline growth in third-quarter GDP still was generated primarily from growth in personal consumption, with gains in fixed investment offset by the reduced slowdown in inventory buildup, along with a deteriorating trade circumstance and an unrelated but roughly equal increase in spending by state and local governments.

- ***Consumer Spending Contributed 2.05% [previously 2.19%] to Third-Quarter GDP Growth; Second-Quarter Growth Contribution was 2.42%.*** Reduced slightly from the initial estimate, the contribution from personal consumption still was split about evenly between goods and services, with goods split about evenly between durable and nondurable goods, and with services split about evenly between health care and everything else.
- ***Business/Residential Investment Subtracted 0.05% (-0.05%) [previously 0.97% (-0.97%)] from Third-Quarter GDP Growth; Second-Quarter Growth Contribution was 0.85%.*** Fixed investment growth of 0.54% [previously 0.47%] reflected primarily construction and equipment investment, offset by an inventory-change swing that subtracted 0.59% (-0.59%) [previously 1.44% (-1.44%)] from aggregate GDP growth. As a result, final sales (GDP net of inventories) increased by a downwardly-revised 2.61% [previously 2.93%] in third-quarter 2015, versus 3.90% growth in second-quarter 2015 (see earlier comments on inventory buildup).
- ***Net Exports Subtracted 0.22 % (-0.22%) [previously 0.03% (-0.03%)] from Third-Quarter GDP Growth; Second-Quarter Growth Contribution Was 0.18%*** Reflecting weaker trade data than guessed at in the “advance” estimate of the September merchandise trade deficit, the first revision to third-quarter net-export activity more accurately reflected detail that already was available for the prior, initial reporting of third-quarter GDP.
- ***Government Spending Contributed 0.29% [previously 0.30%] to Third-Quarter GDP Growth; Second-Quarter Growth Contribution was 0.46%.*** Little revised from initial headline reporting, virtually all of the growth in the government sector was from state and local government spending.

***Gross National Product (GNP) Headline Detail.*** The first estimate of headline, annualized, real quarterly third-quarter 2015 GNP growth was 1.27%, down from an unrevised second-quarter 2015 estimate of 3.93%, and versus an annualized contraction of 0.15% (-0.15%) in first-quarter 2015. Year-to-year annual growth slowed to its weakest level in eight quarters, to 1.72% in third-quarter 2015, down

from 2.54% in second-quarter 2015 and 2.66% in first-quarter 2015.

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 about twenty-five years ago to reporting headline GDP instead of GNP.

**Gross Domestic Income (GDI) Headline Detail.** Dominated by highly-questionable revisions to income and wages as estimated by the Bureau of Labor Statistics (BLS), the first estimate of headline, annualized, real quarterly third-quarter 2015 GDI growth was 3.10%, up from a revised 2.20% [previously 0.71%] in second-quarter 2015 and an unrevised 0.42% in first-quarter 2015. Net of prior period revisions, headline third-quarter growth was a highly improbable 4.62%. Still, year-to-year annual GDI growth slowed to its weakest level in five quarters, to 2.15% in third-quarter 2015, down from 2.64% [previously 2.26%] in second-quarter 2015 and 3.18% in first-quarter 2015.

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. The third-quarter discrepancy widened to -\$227.4 billion in current dollars, versus what had been -\$114.4 billion before (-\$180.4 billion after) the BLS “revised” its income estimates.

**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, first revision of third-quarter 2015 GDP inflation, or the implicit price deflator (IPD), was an upwardly-revised annualized quarterly increase of 1.31%, versus 2.13% in second-quarter 2015 and a benchmarked gain of 0.12% in the first-quarter 2015. Year-to-year, third-quarter 2015 IPD inflation was an upwardly revised 0.91%, versus 0.98% in second-quarter 2015 and a benchmarked 1.01% annual gain in first-quarter 2015.

For purposes of comparison, headline CPI-U inflation (Bureau of Labor Statistics), showed an annualized, seasonally-adjusted, quarter-to-quarter gain of 1.58% in third-quarter 2015, versus a gain of 2.98% in second-quarter 2015 and a contraction of 3.01% (-3.01%) in first-quarter 2015. Unadjusted, year-to-year quarterly CPI-U inflation showed a year-to-year third-quarter 2015 gain of 0.11%, versus a second-quarter 2015 annual contraction of 0.04% (-0.04%) and a 0.10% (-0.10%) year-to-year decline in first-quarter 2015.

**Underlying Economic Reality.** The U.S. economy continues in an as-yet-unrecognized “new” recession, despite upwardly-revised 2.1% headline growth in the second estimate of third-quarter 2015 GDP activity. That followed a second-quarter gain of 3.9%. The headline GDP gains continue to run well above economic reality as signaled by a number of business indicators, such as corporate revenues, and a variety of better-quality economic series, such as industrial production and real retail sales.

Headline second-quarter 2015 national-income reporting had shown some respite from the surging, gimmicked GDP growth, with the GDI-equivalent Gross Domestic Income (GDI) showing flat economic activity for first-half 2015, but today’s initial reporting of third-quarter 2015 GDI also was higher, on top of an unusual upside revision to the second-quarter GDI activity.

Also released today, though, was the Gross National Product (GNP), which is the broadest measure of U.S. economic activity. GDP is GNP net of trade flows in factor income. GNP reporting was shifted to



GDP reporting some decades back, as a gimmick aimed at boosting the headline reporting of economic growth for net-debtor nations such as Greece and the United States.

In contrast to the second estimate of third-quarter real GDP growth revising to 2.08% from 1.49%, against unrevised second-quarter growth of 3.92%, and unrevised first-quarter growth of 0.64%, today's (November 24th) first estimate of third-quarter real GNP growth was 1.27%, down from an unrevised second-quarter growth of 3.93%, and versus an unrevised first-quarter contraction of 0.15% (-0.15%). Year-to-year annual GNP growth also slowed to its weakest level in eight quarters, to 1.72% in third-quarter 2015, versus year-to-year third-quarter GDP growth of 2.17%.

Noted separately in the opening paragraphs of these *Opening Comments*, the October Existing-Home Sales series has joined the ranks of Housing Starts, Real Retail Sales and Industrial Production series in generating an early signal for a fourth-quarter 2015 GDP contraction. Although the headline GDP and related detail and revisions remain mixed, there is enough sustained and fundamental weakness in the headline monthly economic detail to time this “new” recession from December 2014.

The broad ShadowStats economic outlook has not changed, and the gist of most of the following text remains along the lines of other recent GDP *Commentaries*. The details and numbers, however, are updated for the latest reporting.

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 the evolving, current downturn in broad, domestic economic activity, discussed previously in [No. 742 Special Commentary: A World Increasingly Out of Balance](#). Where again, the present “new” recession or multiple-dip downturn remains likely to be timed from December 2014, 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.

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. 765](#)), monthly real median household income and other consumer measures (see [Commentary No. 766](#)). 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. 768](#) 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, including more-normal credit functioning of the domestic banking system.

**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 third-quarter 2015 GDP.

The first set of graphs (2000-to-date) is the one that traditionally has been 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. 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, as detailed and published initially in [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#).

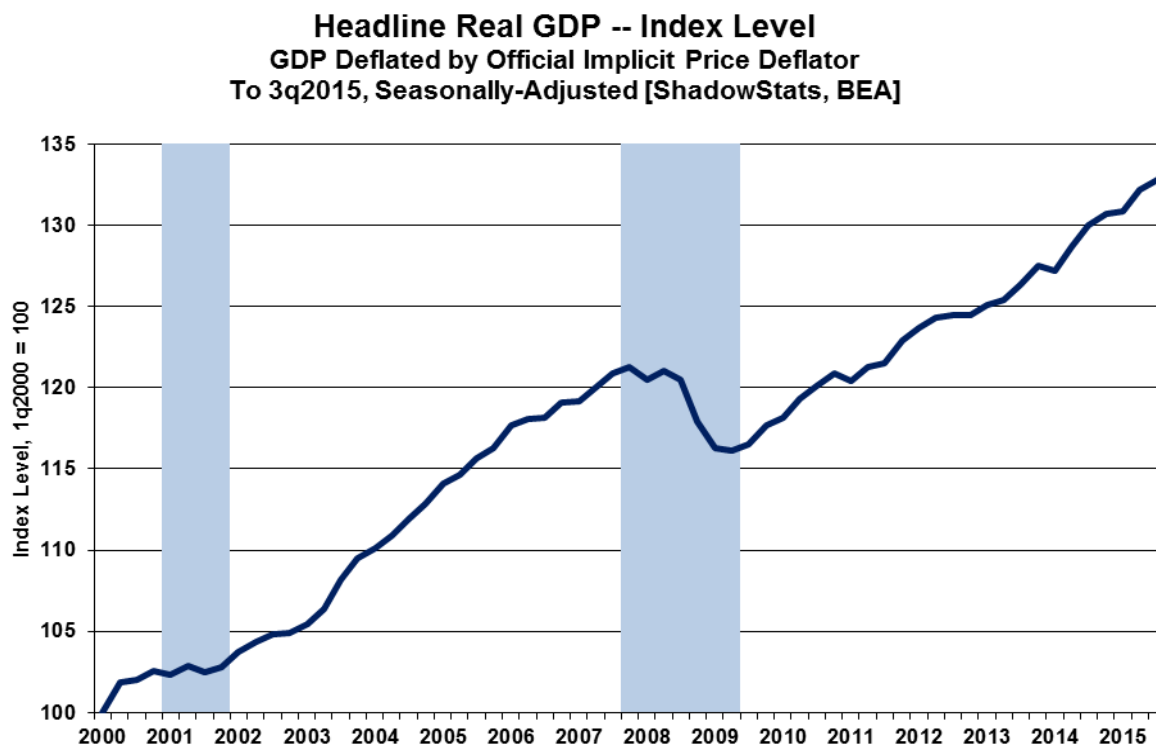
Shown in the first graph of each set (*Graphs 1* and *3*) of official *Headline Real GDP*, GDP activity has been reported above pre-2007 recession levels—in full recovery—since second-quarter 2011, and headline GDP has shown sustained growth since (growth pauses or interruptions for second-half 2012 and first-quarter 2014 excepted). Adjusted for official GDP inflation (the implicit price deflator - IPD), the headline third-quarter 2015 GDP currently stands at 9.5% 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 third-quarter 2015 GDP activity down by 6.9% (-6.9%), 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 (see respectively [Commentary No. 767](#) and [Commentary No. 762](#)). 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.”

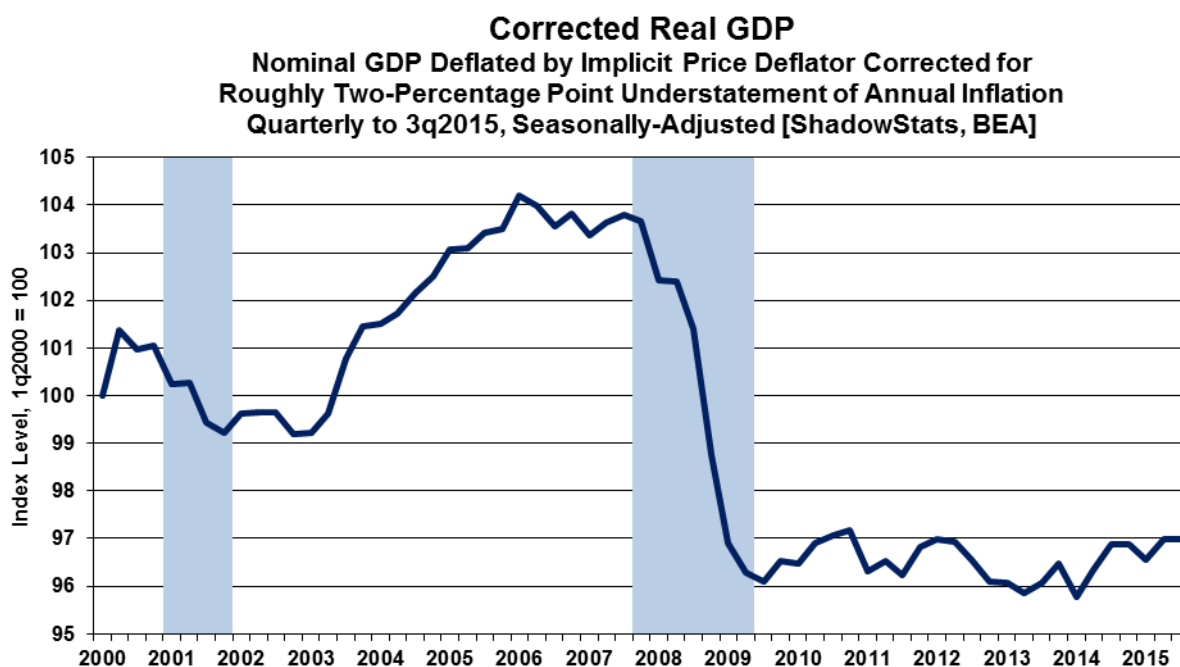
Again, the second graph in each series (*Graphs 2* and *4*) plots the *Corrected Real GDP*, corrected for the understatement inherent in official inflation estimates (see [Public Commentary on Inflation Measurement](#)), with the deflation by the implicit price deflator (IPD) adjusted for understatement 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 (2000-2015)**

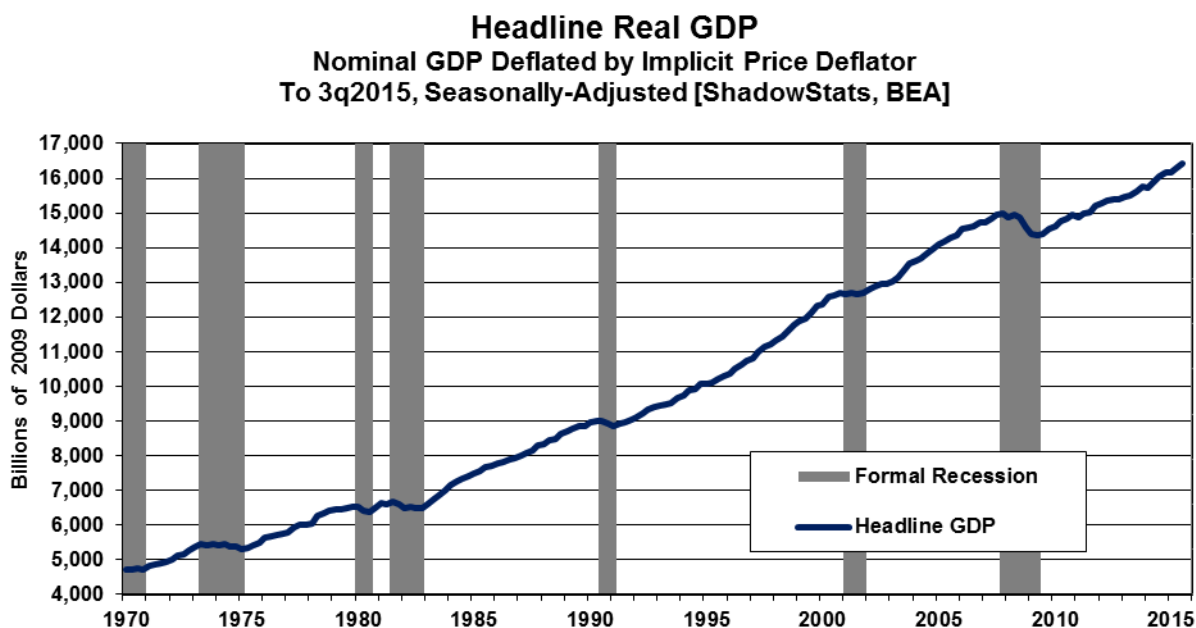


**Graph 2: "Corrected" Real GDP Index (2000-2015)**

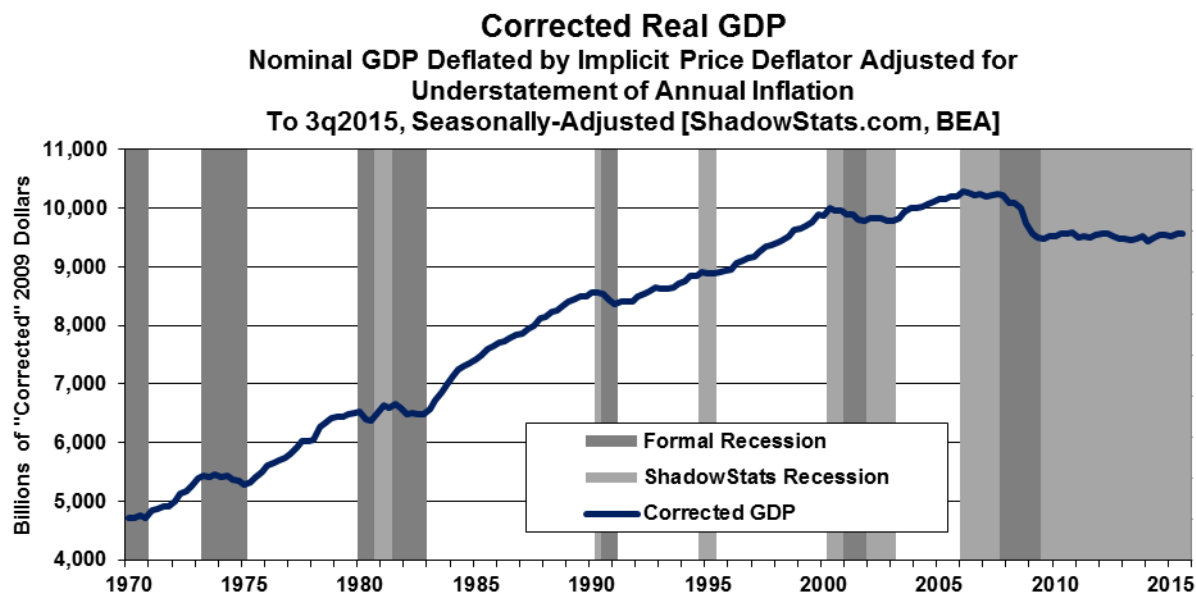




**Graph 3: Real GDP Index (1970-2015)**



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



**Existing-Home Sales—October 2015—Sales Fell by 3.4% (-3.4%) in October, Still Down by 26.3% (-26.3%) from Pre-Recession High.** In the context no revision to September's activity, October 2015 existing-home sales fell by 3.4% (-3.4%) to 5,360,000 million or 446.7 thousand units at a monthly pace as reflected in *Graph 5*. Off by 3.9% from the July 2015 near-term high for the series, sales remained

down by 26.3% (-26.3%) from the June 2005 pre-recession peak. In contrast, the October 2015 headline monthly housing starts remained down by 53.4% (-53.4%) versus its January 2006 pre-recession high.

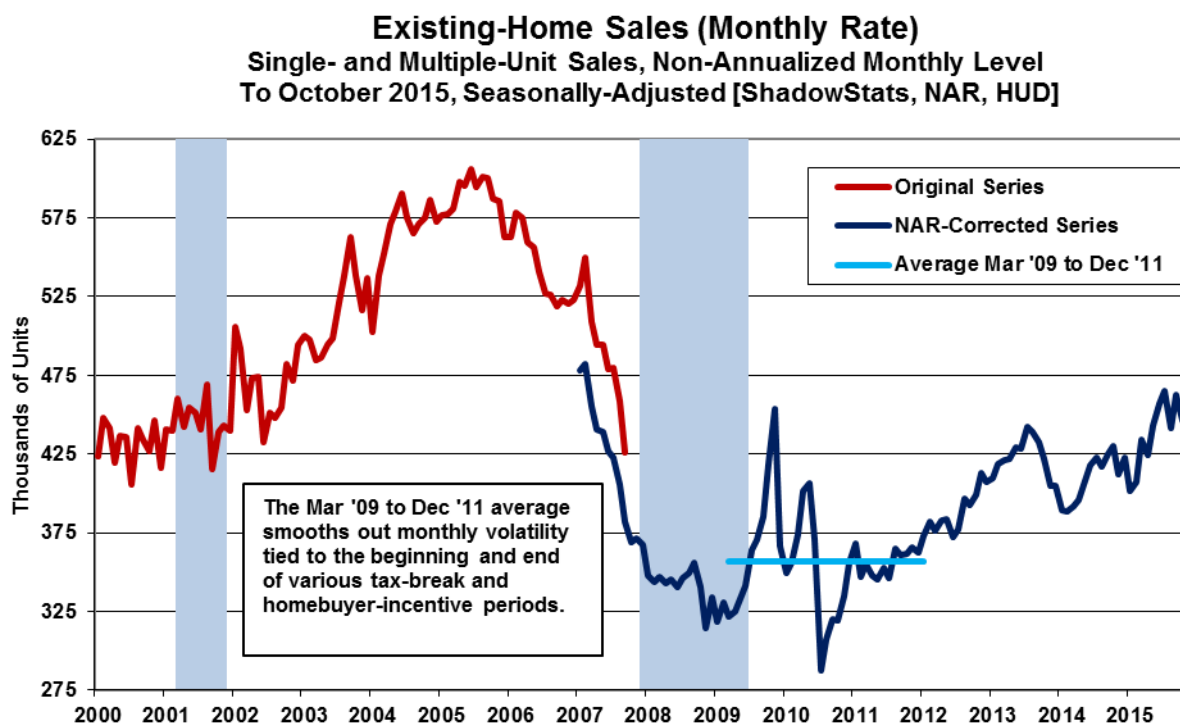
First-quarter 2015 showed an annualized quarterly contraction of 6.7% (-6.7%) in existing sales, with the second-quarter 2015 pace of annualized growth at 28.7%. Third-quarter 2015 growth slowed to an annualized pace of 14.3%, with an initial indication of relative fourth-quarter 2015 activity—based solely on October reporting—contracting at an annualized quarterly pace of 8.3% (-8.3%).

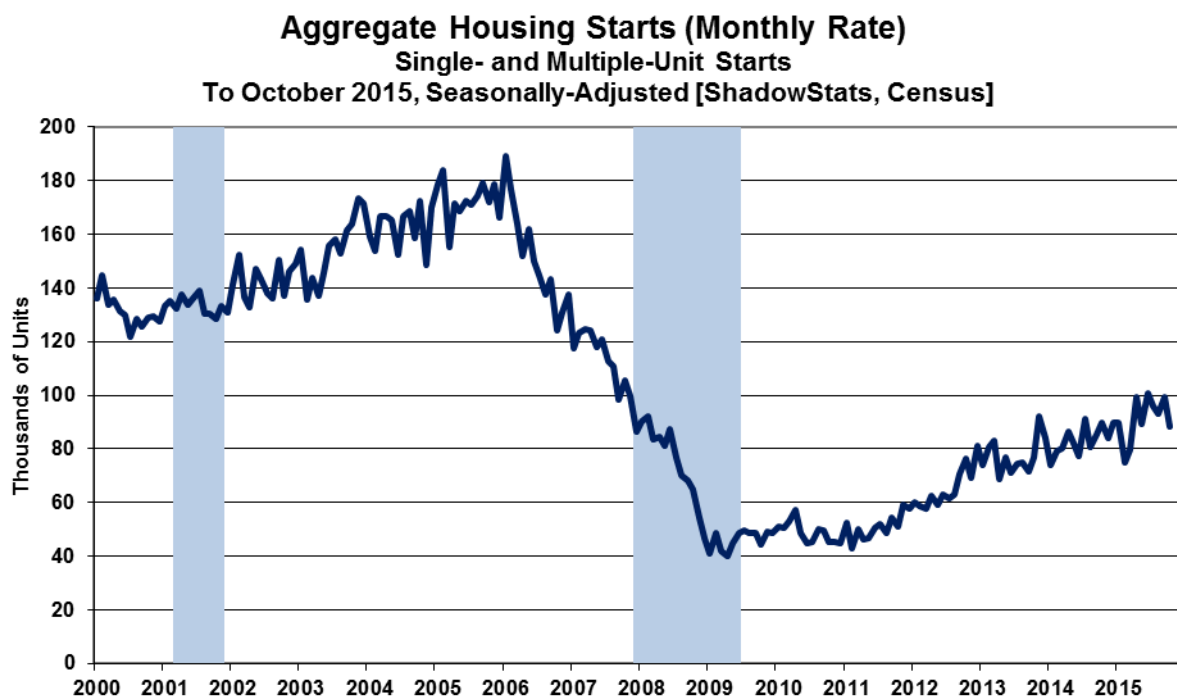
**Headline Detail for October 2015 Existing-Home Sales.** Headline October 2015 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted monthly drop of 3.4% (-3.4%), following an unrevised gain of 4.7% in September. Year-to-year, October 2015 annual sales growth slowed to 3.9%, from an unrevised 8.2% in September 2015.

The headline October sales data remained well within the normal scope of reporting volatility for this series. Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation, albeit still up-trending, again, as seen in *Graph 5*. The quality of data underlying this series, however, remains highly questionable.

**Proportion of Distressed Sales Declined, with All-Cash Sales Unchanged in October.** The NAR estimated the portion of October 2015 sales in “distress” eased by a notch, to the lowest reading since the NAR began surveying those numbers in October 2008. Reversing what had been a negative shift in the portion of September sales in foreclosure, October distressed sales eased to 6% (5% foreclosures, 1% short sales), from the September 2015 levels of 7% (6% foreclosures, 1% short sales) and versus October 2014 distressed sales of 9% (7% foreclosures, 2% short sales).

**Graph 5: Existing-Home Sales (Monthly Rate of Activity)**



**Graph 6: Aggregate Housing Starts (Monthly Rate of Activity)**

Reflecting continued lending problems and stresses within the financial system, including related banking-industry and consumer-solvency issues, as well as the ongoing influx of speculative investment money into the existing-housing market, the NAR estimated that all-cash sales in October 2015 held at a still-high 24% of total activity, same as in September 2015 but down from 27% in October 2014.

Updated briefly in the following *Consumer Conditions* section, and as discussed fully in [Commentary No. 766](#), there has been no improvement in underlying consumer liquidity conditions. Correspondingly, with no fundamental growth in liquidity to fuel increasing consumer activity, there is no basis for a current or imminent recovery in the housing market.

**Existing-Home Sales Graph.** The regular monthly graph of existing-home sales follows, along with a comparative graph of October 2015 aggregate housing starts activity from [Commentary No. 768](#). Both series reflect activity in terms of single- and multiple-housing units (see *Graphs 5 and 6*).

**Consumer Conditions—Update for November 2015 Consumer Confidence.** Consumer liquidity conditions, discussed broadly in [Commentary No. 766](#), are updated briefly here for the November 2015 Consumer Confidence measure published by the Conference Board.

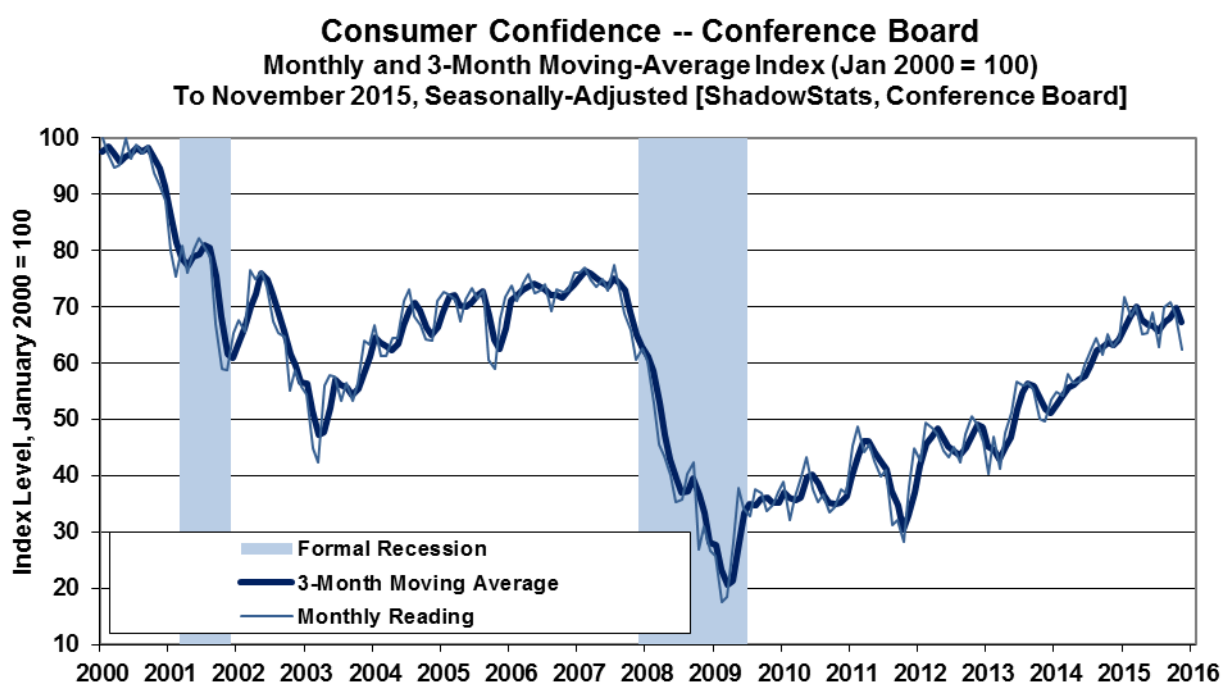
Without meaningful real (inflation-adjusted) growth in household income and without the ability or willingness to take on meaningful new debt, the consumer simply has not had the wherewithal to fuel a sustainable economic expansion. Impaired consumer liquidity and its direct restraints on consumption have been responsible for much of the economic turmoil of the last eight-plus years, driving the housing-

market collapse and ongoing stagnation in consumer-related real estate and construction activity, as well as constraining both nominal and real retail sales activity and the related, personal-consumption-expenditures and residential construction categories of the GDP. Together, those sectors account for more than 70% of total U.S. GDP activity.

Underlying economic fundamentals simply have not supported, and do not support a turnaround in broad economic activity. There has been no economic recovery, and there remains no chance of meaningful, broad economic growth without a fundamental upturn in consumer- and banking-liquidity conditions

***Consumer Confidence Collapsed Anew in November 2015.*** As plotted in *Graph 7* the November 2015 reading for the Conference Board's Consumer-Confidence measure plunged by 8.8% (-8.8%) from October, which in turn was down by 3.4% from a September 2015 level, which was the highest since January 2015. The November 2015 reading was the lowest since September 2014, declining both month-to-month and in its three-month moving average.

**Graph 7: Consumer Confidence to November 2015**



For purposes of plotting the Consumer Confidence and Consumer Sentiment (University of Michigan) measures on a comparable basis (Sentiment will be updated in the next *Commentary No. 770*), both measures have been re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index is set with 1985 = 100, while the University of Michigan's Consumer Sentiment Index is set with January 1966 = 100.

Both series generally have continued to move lower or to hold off near-term peaks, smoothed for their three-month and six-month moving-average readings. The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in [Commentary No. 764](#)), and often are highly volatile month-to-month, as a result. With increasingly-negative, headline financial and economic reporting and circumstances at hand and ahead, successive negative hits to both the confidence

and sentiment readings remain highly likely to continue in the months ahead.

*[The Reporting Detail section includes further graphs and added information on the GDP and Existing-Home Sales.]*

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## HYPERINFLATION WATCH

**HYPERINFLATION OUTLOOK SUMMARY.** In the process of being updated for the latest economic and Federal Reserve developments, this section will be posted anew with *Commentary No. 772* on December 11th. In the interim, the latest *Summary* (November 4, 2015-based) is available here: [Commentary No. 768](#).

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## REPORTING DETAIL

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

**Gross Domestic Product (GDP)—Third-Quarter 2015 (Second Estimate, First Revision)—Inventory Guesses Boosted Revised GDP, GNP Suggested Global Instabilities.** While the headline growth in third-quarter 2015 gross domestic product (GDP) revised from 1.49% to 2.08% in its first revision, headline growth in third-quarter 2015 gross national product (GNP) was at just 1.27% in its initial reporting today (November 24th). GNP is the broader measure of economic activity, where GDP simply is GNP net of trade flows in factor income, otherwise known as interest and dividend payments. The marked deterioration in GNP relative to GDP is suggestive of some global currency flows out of the U.S. dollar, a circumstance that should be concerning the Federal Reserve.



The nature of a variety of revisions and headline details in the November 24th update to national income reporting is discussed in the opening paragraphs of the *Opening Comments*, and is reviewed here in the *Reporting Detail* section that follows.

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, GNP or GDI to signal the onset of a “new” recession. That looms still in the months ahead.

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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  $1.01 \times 1.01 \times 1.01 \times 1.01 = 1.0406$  or 4.1%, instead of  $4 \times 1\% = 4\%$ .

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

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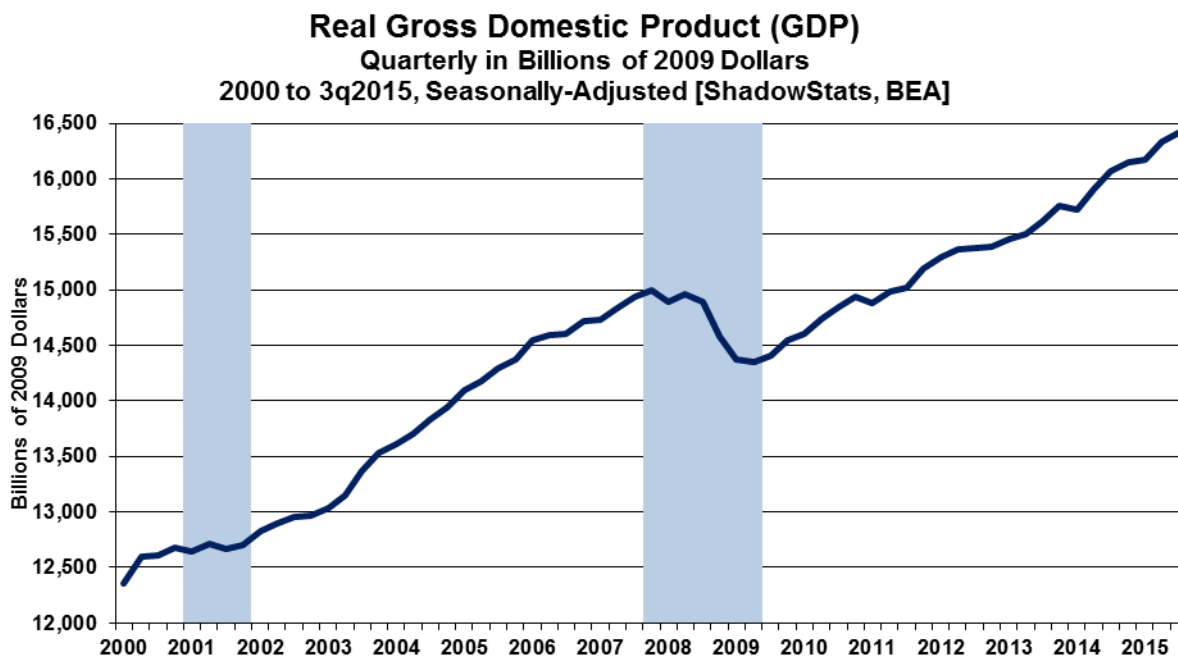
**Gross Domestic Product (GDP).** Published today, November 24th, by the Bureau of Economic Analysis (BEA), the second estimate, first revision to third-quarter 2015 GDP showed a statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 2.08% +/- 3.5% (95% confidence interval), previously reported as a 1.49% gain. Such still slowed versus unrevised headline growth of 3.92% in second-quarter 2015 GDP, but it was up from the previously benchmarked gain of 0.64% [it had shown a pre-benchmarking contraction of 0.17% (-0.17%)] in first-quarter 2015.

*Graphs 8 and 10* plot the latest headline levels of real quarterly GDP activity, respectively showing short-term (since 2000) and long-term (since the historical onset of the quarterly GDP series in 1947) perspectives. Revised distribution detail of third-quarter 2015 GDP growth is outlined in the *Opening Comments*.

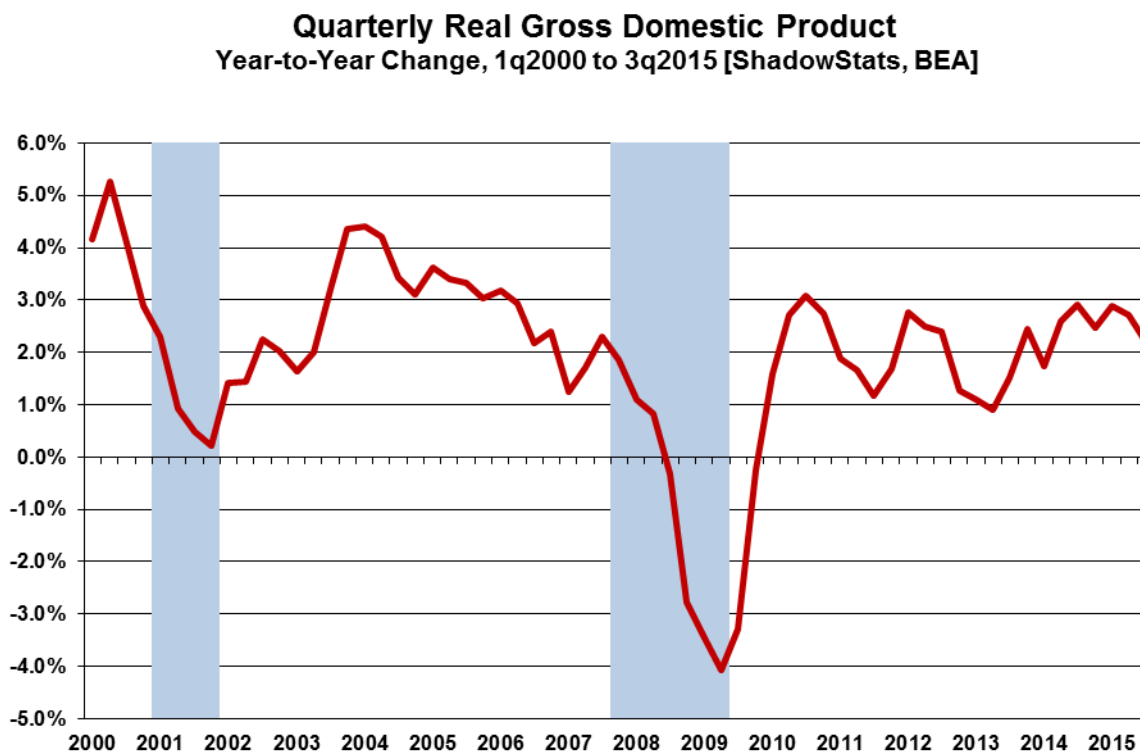
Shown in *Graphs 9 and 11*, headline year-to-year real growth in third-quarter 2015 still slowed sharply to an upwardly-revised 2.18% (previously 2.02%)—the weakest growth in six quarters—down from annual growth of 2.72% in second-quarter 2015 and from 2.88% in first-quarter 2015. The latest quarterly 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 (1948 in terms of available year-to-year detail).

*Graph 9* shows current year-to-year quarterly detail, from 2000-to-date, where *Graph 11* shows the same series in terms of its full quarterly, year-to-year history back to 1948.

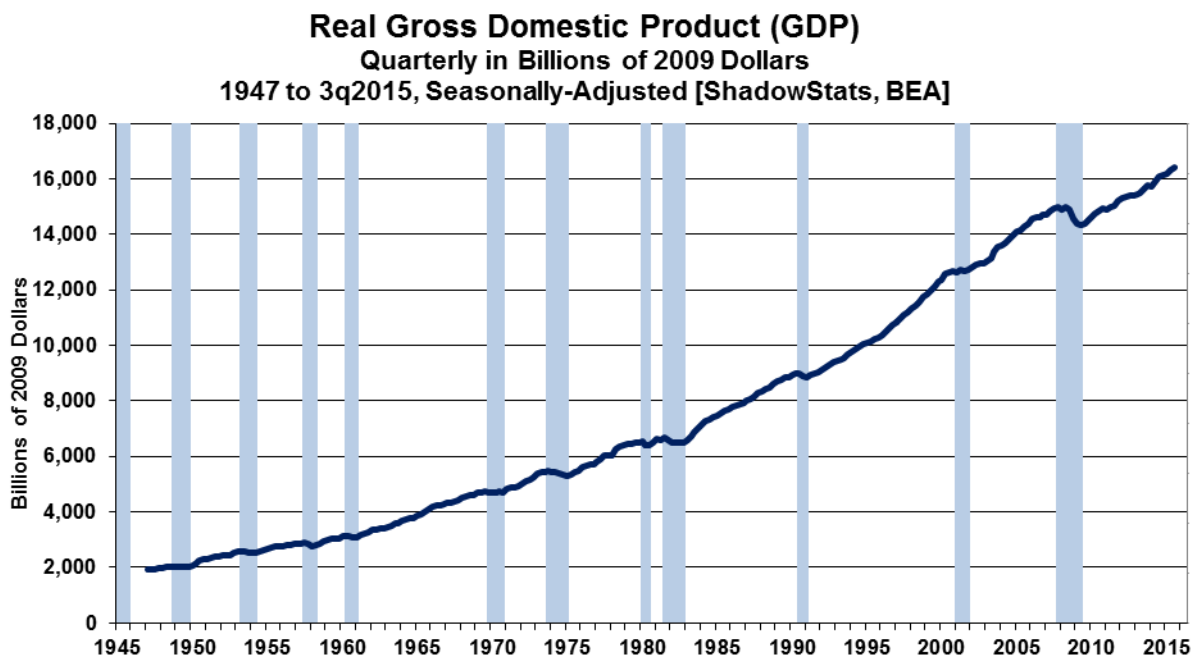
**Graph 8: Quarterly GDP in Billions of 2009 Dollars (2000 to Third-Quarter 2015)**



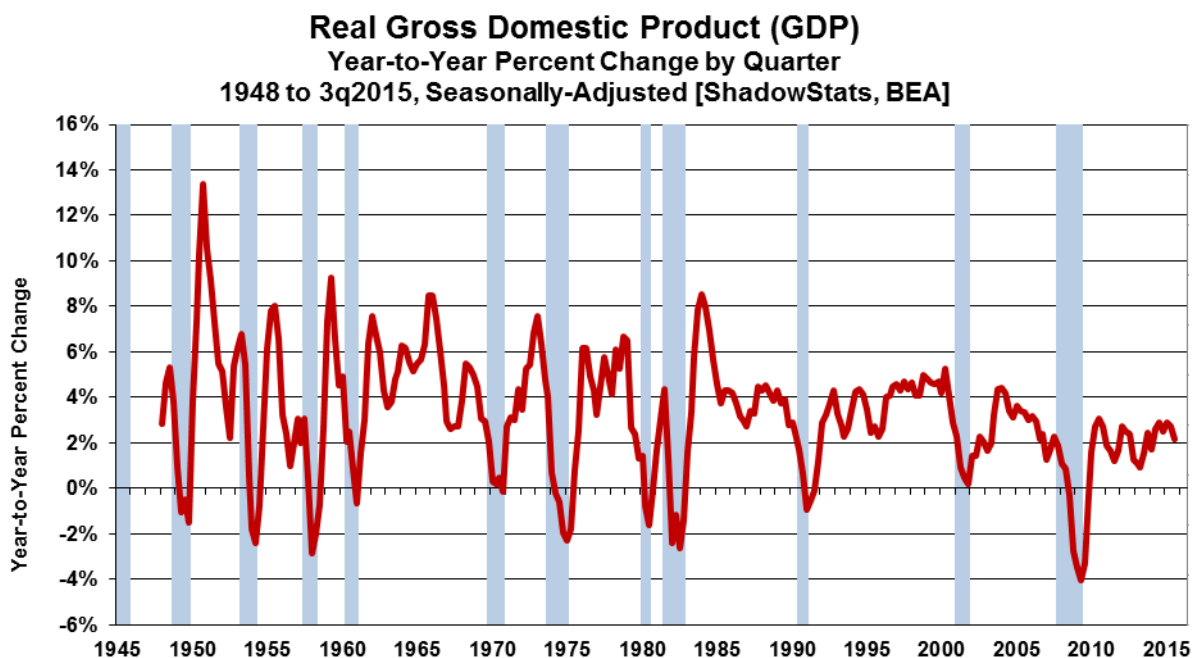
**Graph 9: Quarterly GDP Real Year-to-Year Change (2000 to Third-Quarter 2015)**



**Graph 10: Quarterly GDP in Billions of 2009 Dollars (1947-2015)**



**Graph 11: Quarterly GDP Real Year-to-Year Change (1948-2015)**



**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, first revision of third-quarter 2015 GDP inflation, or the implicit price deflator (IPD), was an upwardly-revised

annualized quarterly increase of 1.31% [previously 1.22 %], versus 2.13% in second-quarter 2015 and a benchmarked gain of 0.12% in the first-quarter 2015.

Year-to-year, third-quarter 2015 IPD inflation was an upwardly revised 0.91% [previously an annual gain of 0.88%], versus 0.98% in second-quarter 2015 and a benchmarked 1.01% annual gain in first-quarter 2015.

For purposes of comparison, headline CPI-U inflation (Bureau of Labor Statistics), showed an annualized, seasonally-adjusted, quarter-to-quarter gain of 1.58% in third-quarter 2015, versus a gain of 2.98% in second-quarter 2015 and a contraction of 3.01% (-3.01%) in first-quarter 2015. Unadjusted, year-to-year quarterly CPI-U inflation showed a year-to-year third-quarter 2015 gain of 0.11%, versus a second-quarter 2015 annual contraction of 0.04% (-0.04%) and a 0.10% (-0.10%) year-to-year decline in first-quarter 2015.

**Gross National Product (GNP).** The first estimate of headline, annualized, real quarterly third-quarter 2015 GNP growth was 1.27%, down from an unrevised second-quarter 2015 estimate of 3.93%, and versus an annualized contraction of 0.15% (-0.15%) in first-quarter 2015. Year-to-year annual growth also slowed to its weakest level in eight quarters, to 1.72% in third-quarter 2015, down from 2.54% in second-quarter 2015 and 2.66% in first-quarter 2015.

Gross National Product (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.

**Gross Domestic Income (GDI).** Dominated by highly-questionable revisions to income and wages as estimated by the Bureau of Labor Statistics (BLS), the first estimate of headline, annualized, real quarterly third-quarter 2015 GDI growth was 3.10%, up from a revised 2.20% [previously 0.71%] in second-quarter 2015 and an unrevised 0.42% in first-quarter 2015. Net of prior period revisions, headline third-quarter growth was a highly improbable 4.62%.

Still, year-to-year annual GDI growth slowed to its weakest level in five quarters, to 2.15% in third-quarter 2015, down from 2.64% [previously 2.26%] in second-quarter 2015 and 3.18% in first-quarter 2015.

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. The discrepancy in third-quarter 2015 widened to -\$227.4 billion in current dollars, versus what had been -\$114.4 billion before (-\$180.4 billion after) the BLS “revised” its income estimates.

**ShadowStats-Alternate GDP.** The ShadowStats-Alternate GDP estimate for third-quarter 2015 GDP remains a year-to-year contraction of 1.4% (-1.4%) versus the revised headline third-quarter GDP year-to-year gain of 2.2% [previously up by 2.0%]. That was against a ShadowStats estimate of a second-quarter



2015 year-to-year contraction of 1.2% (-1.2%) versus the headline second-quarter GDP year-to-year gain of 2.7% (see the [Alternate Data](#) tab).

While the annualized, real quarterly growth rate is not estimated formally on an alternate basis, the headline 2.1% annualized quarter-to-quarter gain in third-quarter 2015 most likely was much weaker, net of all the regular reporting gimmicks and still should revise lower in next month's reporting. 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 collapse 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 also 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.

## EXISTING-HOME SALES (October 2015)

**Existing-Home Sales Fell by 3.4% (-3.4%) in October, Still Down 26.3% (-26.3%) from Their Pre-Recession Peak.** In the context no revision to the prior month's initial reporting of sales activity, October 2015 existing-home sales fell by 3.4% (-3.4%) to 5,360,000 million or 446.7 thousand units at a monthly pace as reflected in the *Graph 5* in the *Opening Comments*. Off by 3.9% from the July 2015 near-term high for the series, sales remained down by 26.3% (-26.3%) from the June 2005 pre-recession peak. In contrast, the October 2015 headline monthly housing starts remained down by 53.4% (-53.4%) versus its January 2006 pre-recession high.

First-quarter 2015 showed an annualized quarterly contraction of 6.7% (-6.7%) in existing sales, with the second-quarter 2015 pace of annualized growth at 28.7%. Third-quarter 2015 growth slowed to an annualized pace of 14.3%, with an initial indication of relative fourth-quarter 2015 activity—based solely on October reporting—contracting at an annualized quarterly pace of 8.3% (-8.3%).

**Headline Detail for October 2015 Existing-Home Sales.** The November 23rd release of October 2015 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted, headline monthly drop of 3.4% (-3.4%), following an unrevised gain of 4.7% in September. On a year-to-year basis, October 2015 annual sales growth slowed to 3.9%, from an unrevised 8.2% in September 2015.

The headline October sales data remained well within the normal scope of reporting volatility for this series. Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation, albeit still up-trending, again, as seen in *Graph 5* in the *Opening Comments*. The quality of data underlying this series, however, remains highly questionable.

***Proportion of Distressed Sales Declined, with All-Cash Sales Unchanged in October.*** The NAR estimated the portion of October 2015 sales in “distress” eased by a notch, to the lowest reading since the NAR began surveying those numbers in October 2008. Reversing what had been an negative shift in the portion of September sales in foreclosure, October distressed sales eased to 6% (5% foreclosures, 1% short sales), from the September 2015 levels of 7% (6% foreclosures, 1% short sales) and versus October 2014 distressed sales of 9% (7% foreclosures, 2% short sales).

Reflecting continued lending problems and stresses within the financial system, including related banking-industry and consumer-solvency issues, as well as the ongoing influx of speculative investment money into the existing-housing market, the NAR estimated that all-cash sales in October 2015 held at a still-high 24% of total activity, same as in September 2015 but down from 27% in October 2014.

Updated briefly in the *Opening Comments*, and as discussed fully in [Commentary No. 766](#), there has been no improvement in underlying consumer liquidity conditions. Correspondingly, with no fundamental growth in liquidity to fuel increasing consumer activity, there is no basis for a current or imminent recovery in the housing market.

***Existing-Home Sales Graph.*** The regular monthly graph of existing-home sales is found in the *Opening Comments* section, accompanied by a comparative graph of October 2015 aggregate housing starts activity from [Commentary No. 768](#). Both series reflect activity in terms of single- and multiple-housing units (see *Graphs 5 and 6*).

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## WEEK AHEAD

**Economic Reporting Generally Should Trend Much Weaker than Expected; Inflation Will Rise Anew, Along with a Renewed Rebound in Oil Prices.** Still in a fluctuating, general trend to the downside, amidst mixed reporting in headline data, market expectations for business activity nonetheless can gyrate some with the latest economic hype in the popular media. That general effect holds the consensus outlook still at overly-optimistic levels, with current expectations still exceeding any potential, underlying economic reality. Where the net trend still has been towards weakening expectations, movement towards recession recognition has been at something of an accelerating pace.

Headline reporting of the regular monthly economic numbers increasingly should turn lower in the weeks and months ahead, along with likely downside revisions and otherwise much weaker-than-expected reporting for at least the next several quarters of GDP (and GDI and GNP) into 2016. That includes the

December 22nd second revision to the third-quarter 2015 GDP estimate, and early signals for a headline contraction in fourth-quarter 2015 GDP, to be released at the end of January 2016 (see GDP comments).

CPI-U consumer inflation—intermittently driven lower this year by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low. Annual CPI-U turned minimally positive in June 2015, for the first time in six months, notched somewhat higher in July and August, with a minimal fallback in September, tied to renewed weakness in gasoline prices. Gasoline prices appear to be bottoming out, again, with a combination of relatively stable gasoline prices and related, positive seasonal adjustments helping to boost headline October 2015 CPI-U annual inflation to 0.2%, and likely to hold gasoline-price impact at roughly neutral on headline annual inflation for the November CPI-U.

Significant upside inflation pressures should mount anew, once oil prices rebound meaningfully. Again, that process eventually should accelerate, along with a pending sharp downturn in the exchange-rate value of the U.S. dollar. Those 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](#) and in the *Hyperinflation Outlook Summary* of [Commentary No. 768](#).

**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:**

**New-Home Sales (October 2015).** The Census Bureau reports October 2015 New-Home Sales tomorrow, Wednesday, November 25th. Coverage in tomorrow's *Commentary No. 770* also will include a brief review of the Existing-Home Sales detail in today's *Commentary No. 769*.

The primary, underlying difficulty for the housing market remains intense, structural-liquidity constraints on the consumer. That circumstance, during the last eight-plus years of economic collapse and stagnation, has continued to prevent a normal recovery in broad U.S. business activity, as updated and discussed fully in [Commentary No. 766](#), with brief a consumer confidence update today. There remains no chance of a

near-term, sustainable turnaround in the housing market, until there has been a fundamental upturn in consumer and banking-liquidity conditions. Accordingly, prospects remain bleak for a fundamental upturn home-sales activity.

Smoothed for extreme and nonsensical monthly gyrations, a continuing pattern of stagnation or downturn in New-Home Sales is likely. Its pattern of stagnation turned from up-trending to down-trending in September. Monthly changes in activity here rarely are statistically-significant, amidst otherwise unstable headline monthly reporting and revisions. With deteriorating consumer issues, both New- and Existing-Home Sales generally should continue to see downside volatility in related headline reporting.

**New Orders for Durable Goods (October 2015).** The Census Bureau will report October 2015 new orders for durable goods, also tomorrow, Wednesday, November 25th. Net of irregular activity in commercial aircraft orders, aggregate orders likely continued a pattern of down-trending stagnation.

Net of commercial aircraft orders, real durable goods orders contracted quarterly in fourth-quarter 2014 and first-quarter 2015, but were to the upside in reporting for second- and third-quarter 2015, despite an intensifying plunge in year-to-year activity. Increasingly-negative annual growth in real orders, ex-commercial aircraft remains likely for the October 2015 detail, with a possible early signal for a fourth-quarter 2015 contraction.

Commercial aircraft orders are booked for the long-term—years in advance—so they have only limited impact on near-term production. Further, by their nature, these types of orders do not lend themselves to seasonal adjustment. As a result, the durable goods measure that best serves as a leading indicator to broad production—a near-term leading indicator of economic activity and GDP—is the activity in new orders, ex-commercial aircraft.

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