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

**COMMENTARY NUMBER 789**
**Fourth-Quarter GDP – First Revision**

**February 26, 2016**

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**GDP Revision from 0.69% to 1.01% Was No More than Statistical Noise**

**Confidence Interval Around the Headline Growth Encompasses Both Growth and Contraction**

**U.S. Economic Reality Remains Non-Recovery and Renewed Downturn**

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*PLEASE NOTE: The next regular* Commentary, *Friday, March 4th will cover February 2016 labor conditions and the January Trade Deficit and Construction Spending.*

*Best wishes to all — John Williams*

## OPENING COMMENTS AND EXECUTIVE SUMMARY

**Bad Advice Out of the Bureau of Economic Analysis.** First, an apology to my readers. Noted in last month's Gross Domestic Product (GDP) *Commentary No. 783*, the first estimates of fourth-quarter Gross National Product (GNP) and Gross Domestic Income (GDI) were not to be published until the third GDP estimate of March 25th, due to a lack of meaningful, underlying data (a regular problem also with headline GDP reporting). That advice was correct. Where the lag in GDI and GNP reporting is one month in the first three-quarters of the year, the lag traditionally has been two months with year-end reporting. Reconfirming the timing with the Bureau of Economic Analysis (BEA), I was advised instead that both the GNP and GDI would be published today, February 26th, and I passed that long in recent *Commentaries*. The GNP and GDI were not published today.

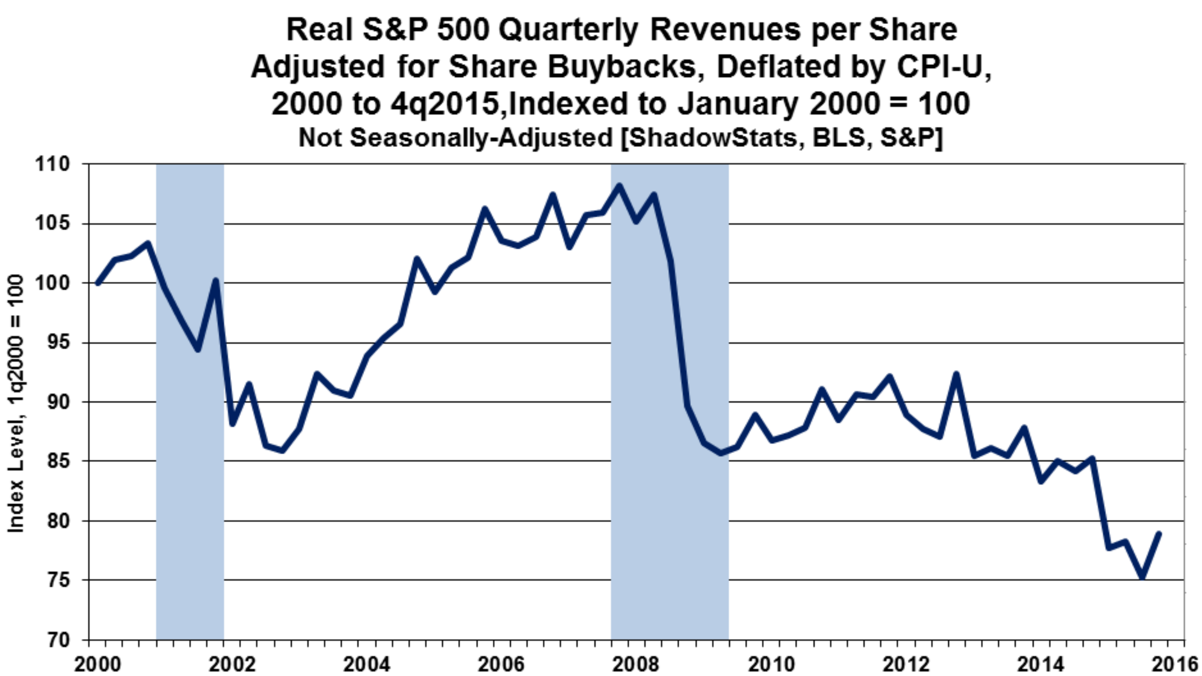
 

Although the first-revision to fourth-quarter 2015 GDP took the annualized growth rate to 1.01% from the initial headline growth of 0.69%, neither the revision nor the headline growth rate was anything more than statistical noise. Within traditional confidence intervals, headline fourth-quarter GDP either expanded or contracted. Underlying, better-quality data show the economy to be in contraction, and the headline downturn in fourth-quarter GDP could be seen with the harder detail of the March 25th revision; it almost certainly will be seen in the July 29th benchmarking. Any near-term games being played with the economic numbers—possibly related to perceived systemic-solvency, financial-market or political needs—will not gain credibility against the better-quality, independent indicators of business activity.

***Confirmation of Non-Recovery in Broad Economic Activity and Renewed Downturn.*** Fortuitously, indications of underlying economic conditions are available from sources other than U.S. government's statistical bureaus. Economic conditions on Main Street U.S.A. broadly are reflected in the political arena. If enough financial pain is being felt among the public, the electorate invariably turns against incumbents, as seen in national elections since 2008 (see *Commentary No. 672*). The current upheaval in domestic U.S. politics-as-usual simply is indicative of the extraordinary and ongoing economic and financial turmoil, in the wake of the Panic of 2008 (see *No. 777 Year-End Special Commentary*).

Consumer attitudes also can be reflected in the popular measures of consumer confidence or sentiment, as updated in yesterday's *Commentary No. 788*. Those measures also move with the tone of stories on the economy in the popular media and with developments in the stock market. Irrespective of what occasionally may be irrational movements in the equity markets, actual business activity for a large number of publicly-held companies generally is a solid indicator of underlying economic reality.

***Graph 1: Real S&P 500 Sales Adjusted for Share Buybacks (2000 - 2015), Indexed to January 2000 = 100***

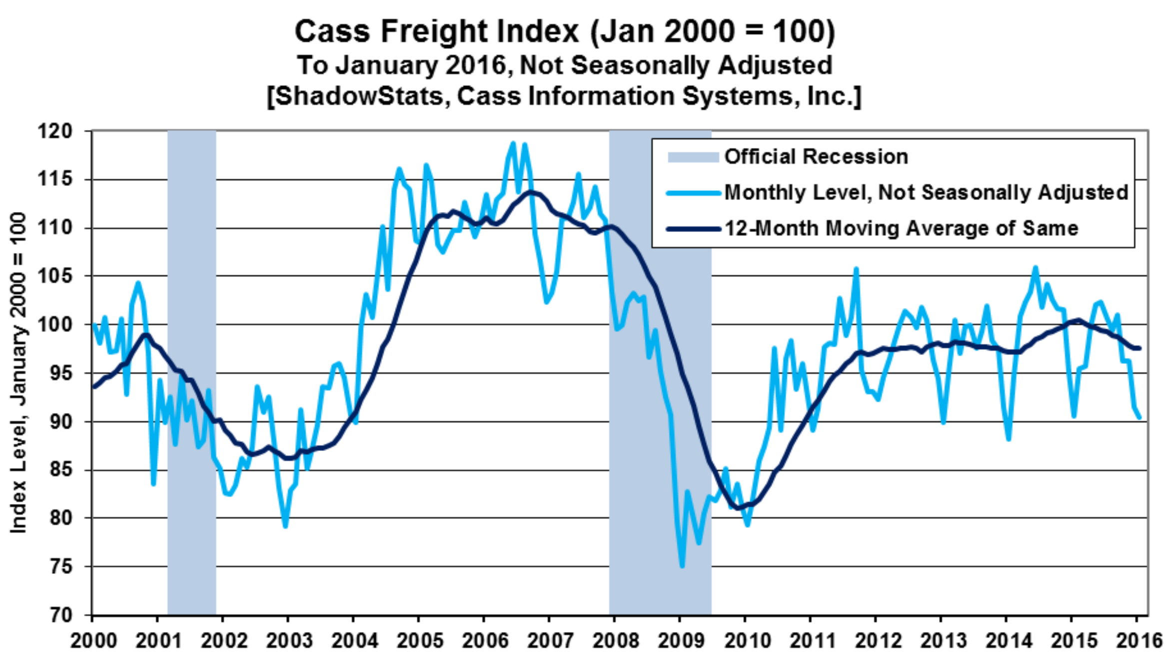



Updated for fourth-quarter 2015 revenue estimates, consider *Graph 1* of S&P 500 revenues (originally published in *No. 777*). Plotted are quarterly S&P revenues per share, where the numbers have been adjusted and estimated for the heavy share-buyback activity of recent years in corporate America. Reduce the number of shares outstanding and factors such as earnings per share and revenue per share are inflated artificially, when viewed in the context of per-share performance before any buyback. The numbers in the graph also have been deflated by headline, not-seasonally-adjusted CPI-U inflation.

When real sales of corporate America decline, so too does the broad U.S. economy. The S&P 500 plot is not seasonally-adjusted, where a traditional relative spike in the fourth-quarter, calendar year-end reporting is evident. Separately, recent negative or weak annual CPI-U inflation used in deflating the details has muted the pace of real decline in annual activity. Allowing for those factors, the detail does not follow closely the headline GDP, shown in *Graph 4*, but it does bear a striking resemblance to the "corrected" GDP in *Graph 5* (corrected the for the understatement of GDP inflation). Even so, the headline GDP, however viewed, is not falling off sharply "anew," yet, in the latest activity. Still, the annual decline in S&P 500 revenues appears to have continued in fourth-quarter 2015, and generally has remained consistent with declining industrial production activity and weakness in real retail sales.

Separately, in *Commentary No. 782* (updated in *Commentary No. 785*, ShadowStats began publishing graphic detail on the Cass Freight Index™, a measure of North American freight volume, as calculated by, and used with the permission of Cass Information Systems, Inc. Few measures better reflect the actual flow of goods in commerce than freight activity.

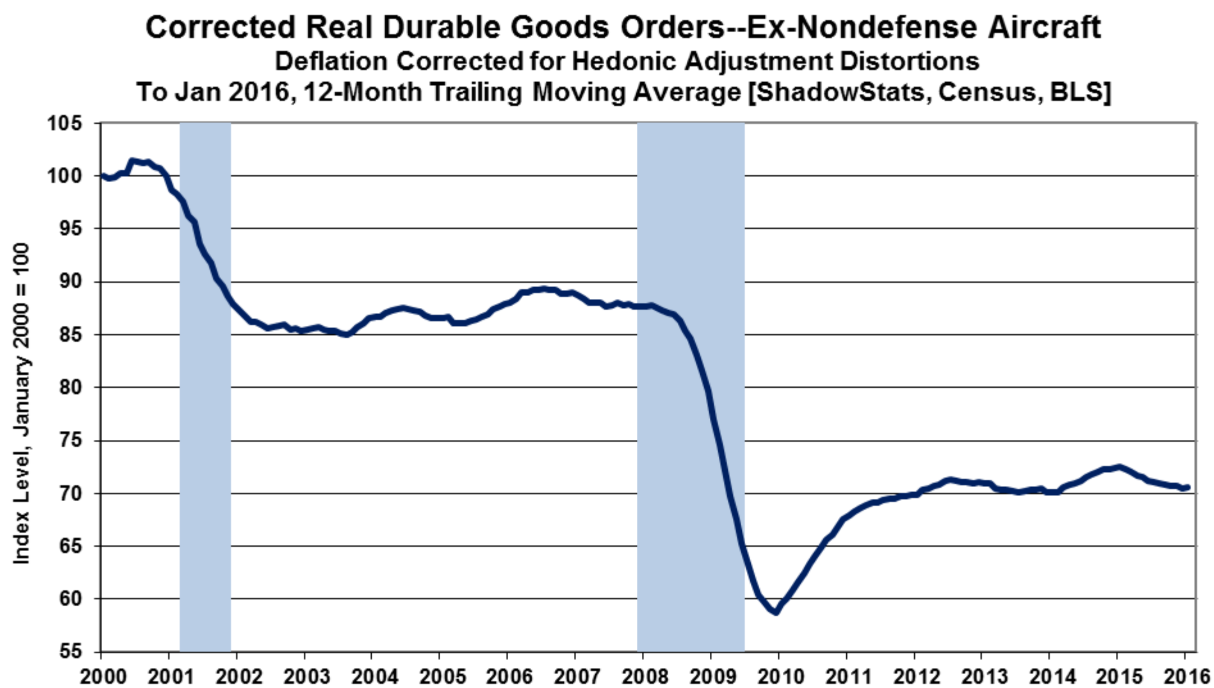
***Graph 2: Cass Freight Index to (2000-2016), Trailing 12-Month Average vs. Unadjusted Monthly Index***




The plot in *Graph 2* includes monthly numbers that are not adjusted for broad seasonal patterns, such as retailers stocking for the holiday shopping season, so ShadowStats also has plotted the series using a trailing twelve-month average. For comparison purposes, *Graph 3* shows the ShadowStats Corrected

Real Durable Goods Orders Series, Ex-Commercial Aircraft also smoothed using a twelve-month moving average (based on detail covered in yesterday's *Commentary No. 788*).

***Graph 3: Corrected Durable Goods Orders – Ex-Commercial Aircraft, Trailing 12-Month Average***




As with *Graph 1* of the S&P 500 revenues, *Graphs 2* and *3*, show little in common with the plot of headline GDP activity in *Graph 4*, yet the plotted patterns tend to move more closely with *Graph 5* of the "corrected" GDP series.

**Today's *Commentary* (February 26th).** The balance of these *Opening Comments* provides summary coverage of the second estimate, first revision to fourth-quarter GDP. The *Week Ahead* previews February Employment and Unemployment, and the January Trade Deficit and Construction Spending. The latest *Hyperinflation Outlook Summary* is found in *Commentary No. 783*.

**Gross Domestic Product (GDP)—Fourth-Quarter 2015, Second Estimate, First Revision—Neither the Revision Nor Headline Growth Was Meaningful.** In the context of the discussion in the opening paragraphs of these *Opening Comments*, the second estimate of, first revision to fourth-quarter 2015 GDP showed a statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 1.01%. Such was an upside revision from the previously-reported headline gain of 0.69%, but it still was down sharply from headline growth of 1.98% in third-quarter 2015 and 3.92% in second-quarter 2015 GDP, but it was minimally higher than first-quarter 2015 benchmarked gain of 0.64% [a pre-benchmark quarterly contraction of 0.17% (-0.17%)].

Also revised minimally to the upside, headline year-to-year real growth in fourth-quarter 2015 still slowed markedly to 1.88%, the slowest annual growth in seven quarters, since the quarterly GDP contraction in first-quarter 2014. It was down from 2.15% in third-quarter 2015, from 2.72% in second-quarter 2015 and from 2.88% in first-quarter 2015. In terms of annual-average real growth, 2015 GDP gained at a minimally higher revised annual pace of 2.40% versus 2014, which had gained 2.43% versus 2013.

The latest headline levels of real quarterly GDP activity and year-to-year and annual change are graphed in the *Reporting Detail* section.

***Fourth-Quarter 2015 GDP, Second Estimate - 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 fourth-quarter 2015 real GDP growth was 1.01%, versus the first estimate of 0.69%. That was against annualized quarterly real gains of 1.98% in third-quarter 2015, 3.92% in second-quarter 2015 and 0.64% in first-quarter 2015.

The BEA's second guess at real fourth-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 1.38% - 0.12% - 0.25% - 0.01% = 1.01%, with a rounding difference. *Commentary No. 783* of January 29th detailed the growth-distribution estimate for the first estimate of fourth-quarter GDP.

***Contributing Revision Factors.*** Headline growth still came largely from personal consumption, which added 1.38% to the headline GDP growth rate, down from 1.46% in the initial reporting. Weaker inventory building, a reduction in the pace of trade deficit deterioration, and local government spending turning negative comprised the major revisions. The revised boost in headline growth came primarily from the less-negative inventories and trade deficit.

- ***Consumer Spending Contributed 1.38% [Previously 1.46%] to Fourth-Quarter GDP Growth; Third-Quarter Growth Contribution was 2.04%.*** The contribution from personal consumption continued to be split about evenly between goods, non-healthcare services and healthcare, with the generally nonproductive healthcare contributing 0.41% to the revised 1.01% GDP growth rate.

- ***Business/Residential Investment Subtracted 0.12% (-0.12%) [Previously 0.41% (-0.41%)] from Fourth-Quarter GDP Growth; Subtracted 0.11% (-0.11%) from Third-Quarter GDP Growth.*** Contrary to underlying detail that suggested an even greater reduction in inventory building, the revisions took inventory building to a less negative level, from down by 0.45% (-0.45%) to down by 0.14% (-0.14%). As a result, final sales (GDP net of inventories) increased by 1.15% (previously up by 1.14%) in fourth-quarter 2015, down from 2.69% in third-quarter 2015. Otherwise, residential (real estate) investment and nonresidential (structures, equipment and intellectual property) investment still largely offset each other.

- ***Net Exports Subtracted 0.25% (-0.25%) [Previously 0.47% (-0.47%)] from Fourth-Quarter GDP Growth; Subtracted 0.26% (-0.26%) from Third-Quarter Growth.*** In a questionable narrowing of the trade deficit, in revision, a positive 0.22% growth swing went in favor of the revised headline GDP growth (see the *Week Ahead*).

- ***Government Spending Subtracted 0.01% (-0.01%) [Previously Contributed 0.12%] to Fourth-Quarter GDP Growth; Contributed 0.32% to Third-Quarter Growth.*** Dominated by seasonally-adjusted defense spending, federal government spending added 0.15% (previously 0.18%) to the headline GDP growth. What had been a minimally-offsetting, negative GDP growth contribution of 0.06% (-0.06%) by state and local governments, expanded to a more-than-offsetting contraction of 0.16% (-0.16%) versus federal activity.

***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 fourth-quarter 2015 GDP inflation, or the implicit price deflator (IPD), was an upwardly annualized quarterly increase of 0.95% [previously up by 0.82%], versus 1.30% in third-quarter 2015, versus 2.13% in second-quarter 2015 and a benchmarked gain of 0.12% in the first-quarter 2015. Year-to-year, fourth-quarter 2015 IPD revised to 1.12% [previously 1.08%], versus 0.90% in third-quarter 2015, versus 0.98% in second-quarter 2015 and a benchmarked 1.01% annual gain in first-quarter 2015. In terms of annual average inflation, the second estimate of the 2015 IPD was 1.00% [previously up by 0.99%], versus 1.64% in 2014. For revised CPI-U comparisons, see the *Reporting Detail*.

***Gross National Product (GNP) and Gross Domestic Income (GDI).*** Again, the initial estimates of fourth-quarter 2015 GNP and GDI likely will not be published until March 25th (see the opening paragraphs of these *Opening Comments* and the *Reporting Detail* for further information on these series).

***Underlying Economic Reality.*** The U.S. economy continues in an as-yet-unrecognized "new" recession, although headline monthly reporting activity generally has been moving at rapid pace towards such recognition. The second estimate of fourth-quarter 2015 GDP growth of 1.01%, versus the initial 0.69%, went contrary to market expectations for slower growth, and contrary to ShadowStats expectations for an outright quarterly contraction. Nonetheless, the revisions and current headline activity were not statistically significant. A quarterly contraction here still remains a fair bet in the March 25th revision, a virtual certainty for same with the July 29th benchmarking, again, as discussed in the opening paragraphs of these *Opening Comments.*

The second estimate of 1.01% fourth-quarter GDP followed headline growth of 1.98% in third-quarter 2015, 3.92% in second-quarter 2015 and 0.64% in first-quarter 2015. First-quarter 2015 GDP had turned negative in its first revision, only to be pushed back into positive territory with the 2015 GDP benchmarking in July 2015. The pending GDP benchmarking of July 29, 2016 should not be so kind, and that date serves as an outside event for triggering recognition of a "new" recession that likely will be timed from December 2014. Recognition of the "new" recession otherwise should follow shortly upon revised fourth-quarter 2015 GDP turning negative, quarter-to-quarter.

Formal headline activity continues to run well above economic reality as signaled by a number of business indicators, such as corporate revenues, domestic freight activity and a variety of better-quality economic series, such as industrial production, new orders for durable goods and real retail sales. Even housing starts and construction spending are signaling a fourth-quarter contraction. These circumstances have been detailed recently in the *Opening Comments*, *Commentary No. 784*, *No. 786*, *No. 787* and *No. 788*. Early indications also are for an outright contraction in first-quarter 2016 GDP activity.

Accordingly, 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, have been updated to reflect today's reporting.

Discussed in *Commentary No. 739*, which covered the 2015 GDP annual revisions, 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. 777* and *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 remains pending. Recognition of the onset of the December 2007 recession was not formalized until November 28, 2008. Ongoing monthly economic-reporting detail for key series, however, 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. Again, 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. 784*), monthly real median household income and other consumer measures (see *No. 777* and *No. 788*). 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 economic series not otherwise reliant on understated inflation for their reported growth, such as housing starts (see *No. 786* 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 fourth-quarter 2015 GDP.

The first set of graphs (2000-to-date) is the one that traditionally has been incorporated in the GDP *Commentaries*. *Graphs 4* and *5* show short-term detail, expressed on an index base where first-quarter 2000 = 100.0. The second set of graphs (*Graphs 6* and *7*) 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 7*, the second graph of the second set, as detailed and published initially in *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*.

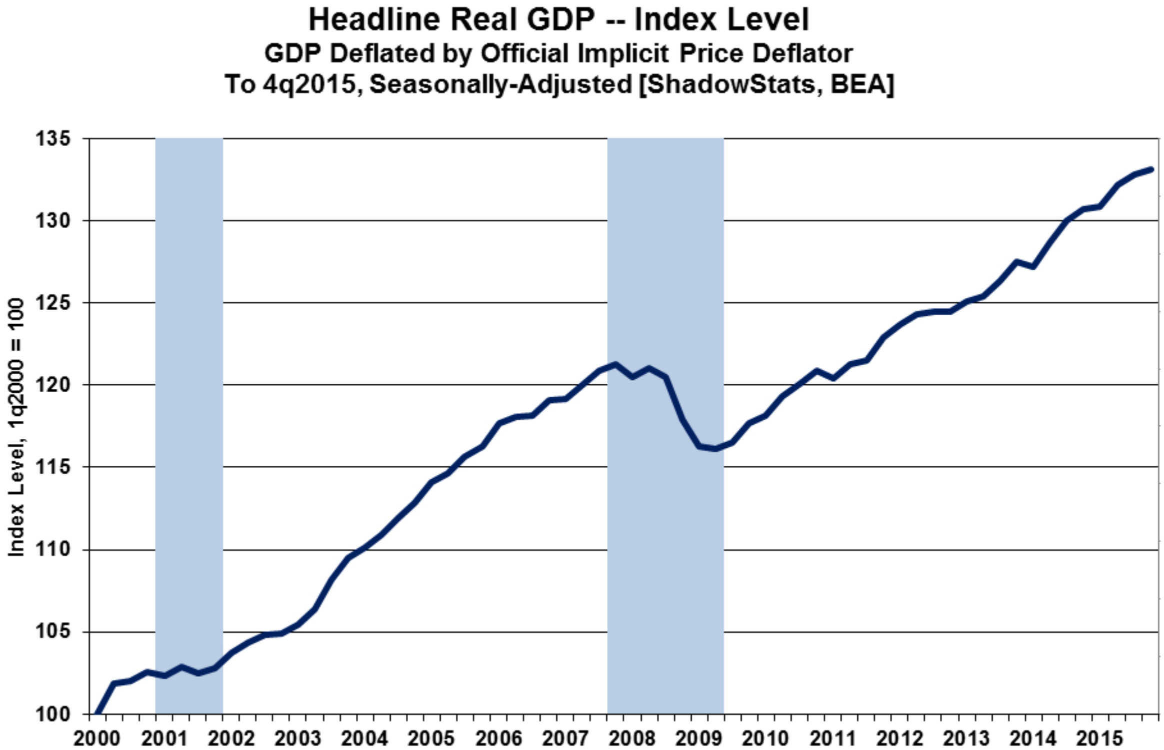
Shown in the first graph of each set (*Graphs 4* and *6*) of official *Headline Real GDP*, GDP activity has been reported above pre-2007 recession levels—in full recovery—since second-quarter 2011, and headline GDP has shown sustained growth since (growth pauses or interruptions for second-half 2012 and first-quarter 2014 excepted). Adjusted for official GDP inflation (the implicit price deflator - IPD), the headline fourth-quarter 2015 GDP currently stands at 9.8% 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 5* and *7*), shows fourth-quarter 2015 GDP activity down by 7.2% (-7.2%), 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 (again, see respectively *No. 786*, *No. 787* and *No. 788*. 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."

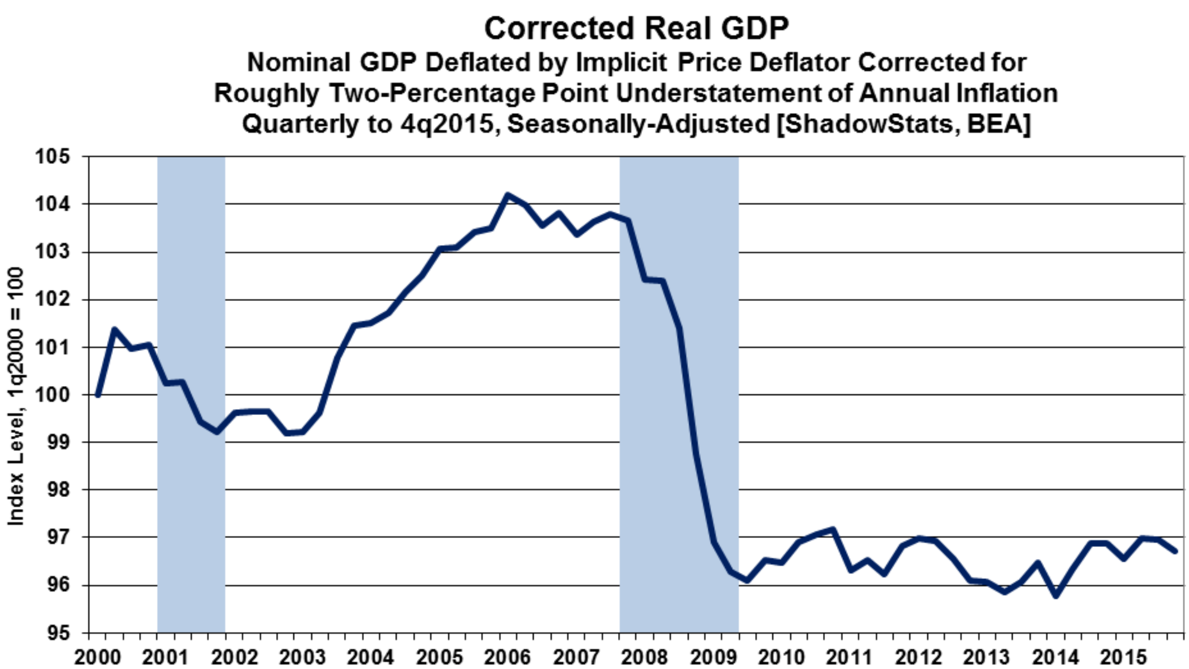
Again, the second graph in each series (*Graphs 5* and *7*) plots the *Corrected Real GDP*, corrected for the understatement inherent in official inflation estimates (see *Public Commentary on Inflation Measurement*), with the deflation by the implicit price deflator (IPD) adjusted for understatement 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*.

[See Graphs 4 to 7 starting on the next page.]

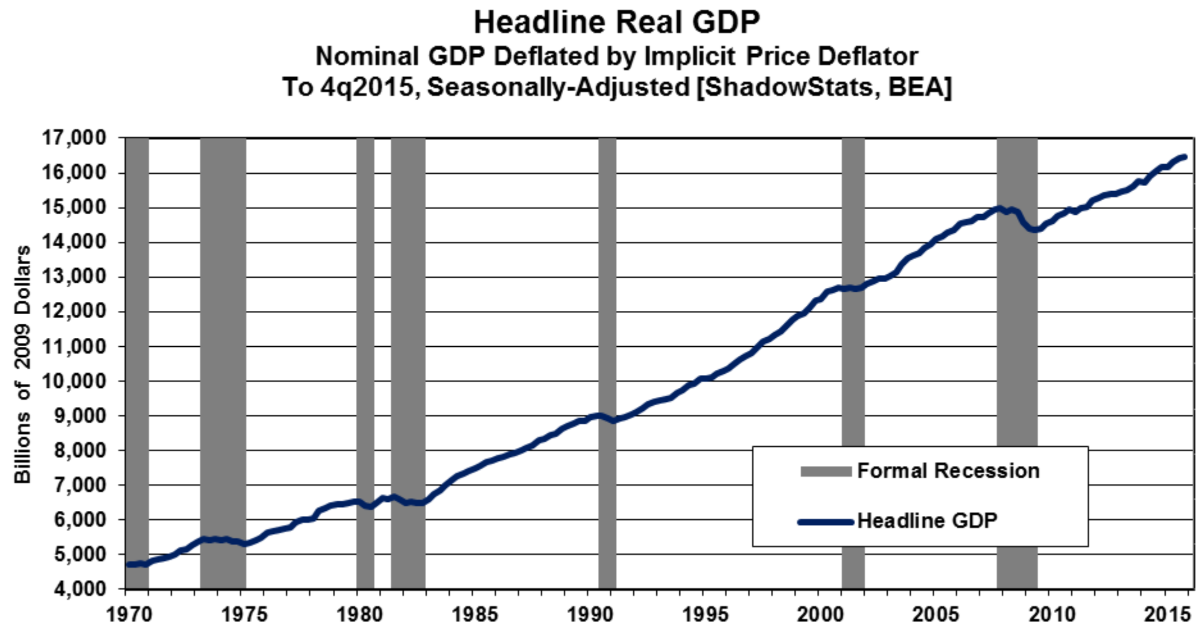
***Graph 4: Real GDP Index – Headline Real GDP (2000-2015)***



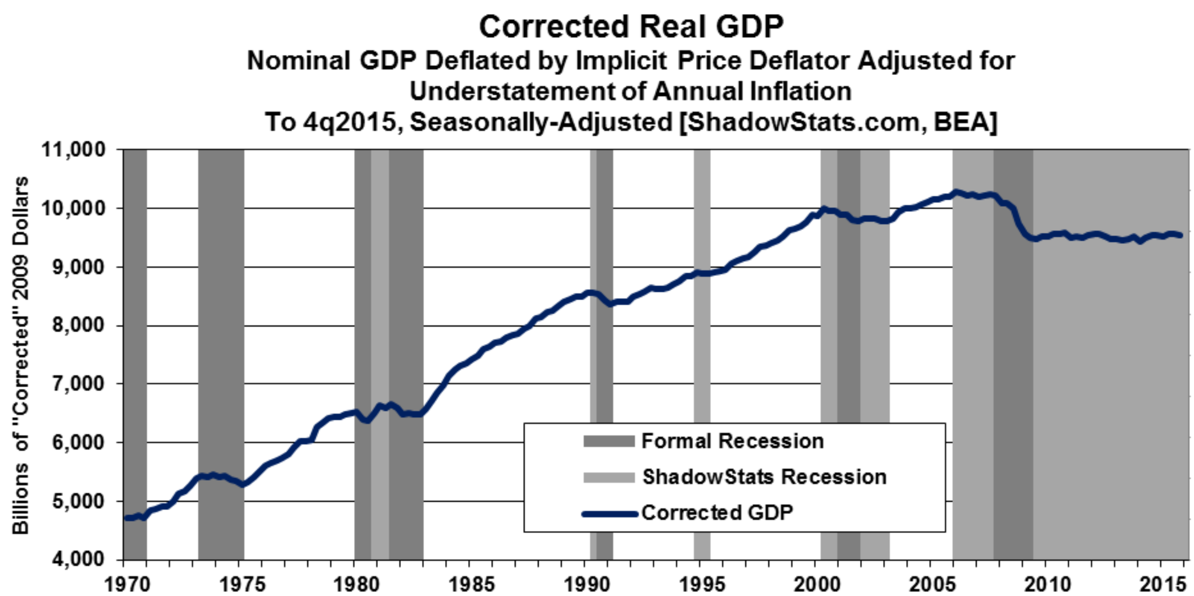

***Graph 5: "Corrected" Real GDP Index (2000-2015)***



***Graph 6: Real GDP Index (1970-2015)***




***Graph 7: "Corrected" Real GDP (1970-2015)***




**[The *Reporting Detail* section includes additional detail and graphs on the GDP reporting.]**

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## REPORTING DETAIL

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

**Gross Domestic Product—Nonsense Reporting in an Environment of Highly-Charged Political Circumstances and Highly Vulnerable Financial Markets.** Neither the headline level of, nor the first revision to, fourth-quarter 2015 Gross Domestic Product (GDP) was anything more than statistical noise. Simply put, there was no statistically-significant difference between the revised headline quarterly gain of 1.01% [previously 0.69%] and an outright quarterly contraction. With more-reliable, better-quality underlying economic series showing renewed downturn, an outright contraction still looms for fourth-quarter 2015 activity. Such could wait, however, for the July 29th annual benchmarking of the series. These areas and issues are discussed and expanded upon in the opening paragraphs of the *Opening Comments.*

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 has shown 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 the last year.

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, and that is close, but still in the process of unfolding. With major monthly economic series such as retail sales, industrial production, durable goods orders and housing-market measures showing or suggesting regular contractions, underlying reality has become weak enough, once again, for headline GDP, GNP and/or GDI to show an ongoing, formal "new" recession. That initial recognition likely looms within the now-unfolding reporting timeframe of the first-quarter 2016 GDP and its revisions, and likely no later than in wake of the July 29th benchmarking.

 

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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 the popular press generally does not follow it. Where GDP reflects the consumption side of the economy and GDI reflects the offsetting income side. When the series estimates do not equal each other, which almost always is the case, since the series are surveyed separately, the difference is added to or subtracted from the GDI as a "statistical discrepancy." Although the BEA touts the GDP as the more accurate measure, the GDI is relatively free of the monthly political targeting the GDP goes through.*

***Gross National Product (GNP)*** *is the broadest measure of the U.S. economy published by the BEA. Once the headline number, now it rarely is followed by the popular media. GDP is the GNP net of trade in factor income (interest and dividend payments). GNP growth usually is weaker than GDP growth for net-debtor nations. Games played with money flows between the United States and the rest of the world tend to mute that impact on the reporting of U.S. GDP growth.*

***Real*** *(or **Constant Dollars**) means the data have been adjusted, or deflated, to reflect the effects of inflation.*

***Nominal*** *(or **Current Dollars**) means growth or level has not been adjusted for inflation. This is the way a business normally records revenues or an individual views day-to-day income and expenses.*

***GDP Implicit Price Deflator (IPD)*** *is the inflation measure used to convert GDP data from nominal to real. The adjusted numbers are based on "Chained 2009 Dollars," as introduced with the 2013 comprehensive revisions, where 2009 is the base year for inflation. "Chained" refers to the substitution methodology, which gimmicks the reported numbers so much that the aggregate of the deflated GDP sub-series missed adding to the theoretically-equivalent deflated total GDP series by $60.4 billion in "residual," as of the second estimate of fourth-quarter 2014.*

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

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

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***Gross Domestic Product (GDP).*** Published today, February 26th, by the Bureau of Economic Analysis (BEA), the second estimate of, first revision to fourth-quarter 2015 GDP showed a statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 1.01% +/- 3.5% (95% confidence interval). Such was an upside revision from the previously-reported headline gain of 0.69%, but still was down sharply from headline growth of 1.98% in third-quarter 2015 and 3.92% in second-quarter 2015 GDP, but it was minimally higher than first-quarter 2015 benchmarked gain of 0.64% [a pre-benchmark quarterly contraction of 0.17% (-0.17%)].

*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 fourth-quarter 2015 GDP growth is outlined in the *Opening Comments*.

Shown in *Graphs 9*, *11* and *12*, headline year-to-year real growth in fourth-quarter 2015 still slowed markedly to 1.88% [previously 1.80%], the slowest annual growth in seven quarters, since the quarterly GDP contraction in first-quarter 2014. It was down from 2.15% in third-quarter 2015, from 2.72% in second-quarter 2015 and from 2.88% in first-quarter 2015.

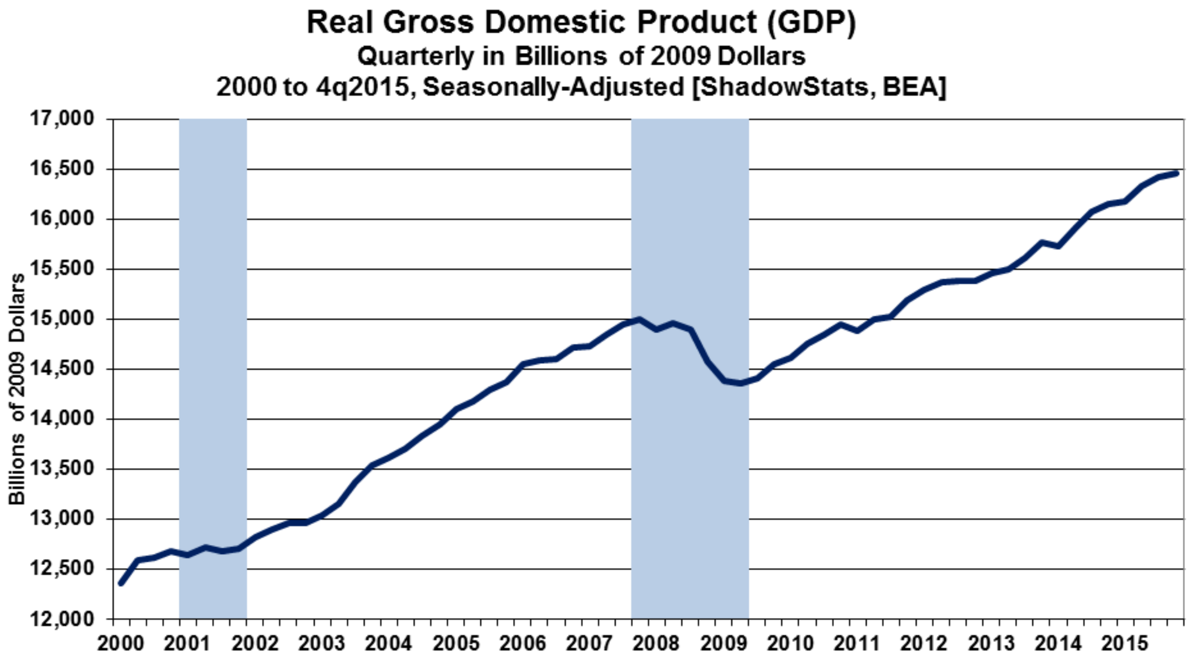
In terms of annual-average real growth, 2015 GDP gained a revised 2.40% [previously 2.38%] versus 2014, where 2014 gained 2.43% versus 2013.

The latest quarterly year-to-year growth remained well 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).

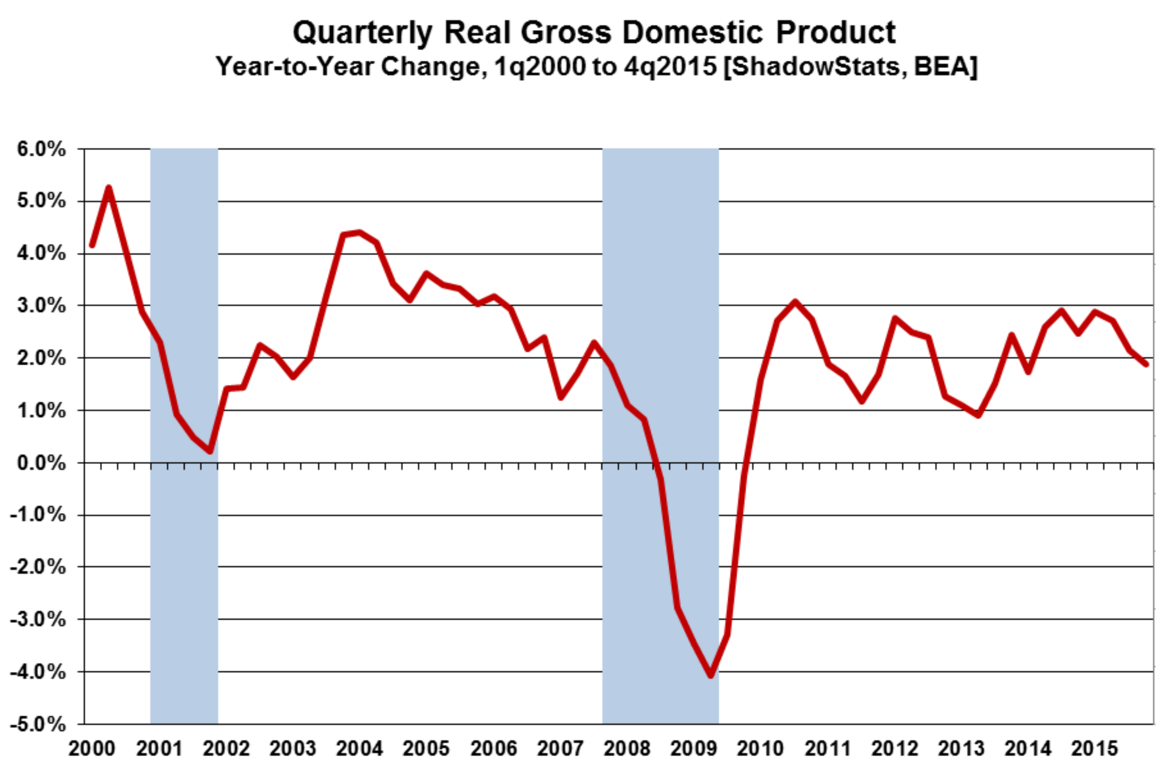
*Graph 9* shows current year-to-year quarterly detail, from 2000-to-date, where *Graph 11* shows the same series in terms of its full quarterly, year-to-year history back to 1948. *Graph 12* shows full annual-growth detail for 1940 to date.

[Graphs 8 to 12 begin on the following page]

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

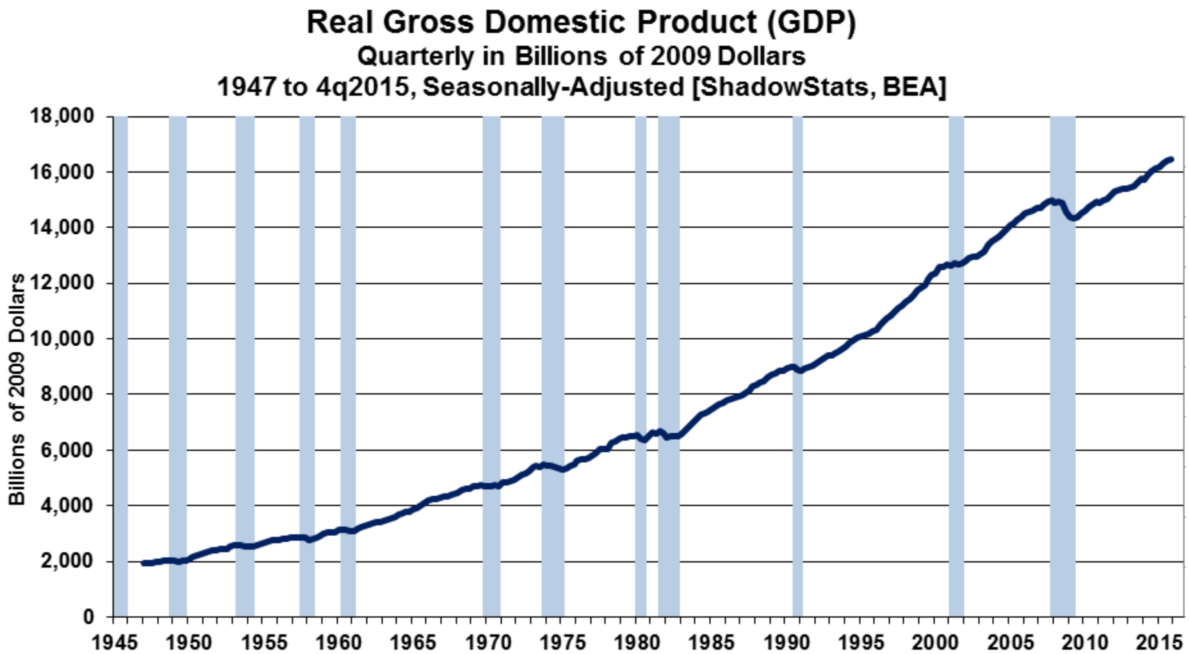



***Graph 9: Quarterly GDP Real Year-to-Year Change (2000 to Fourth-Quarter 2015)***

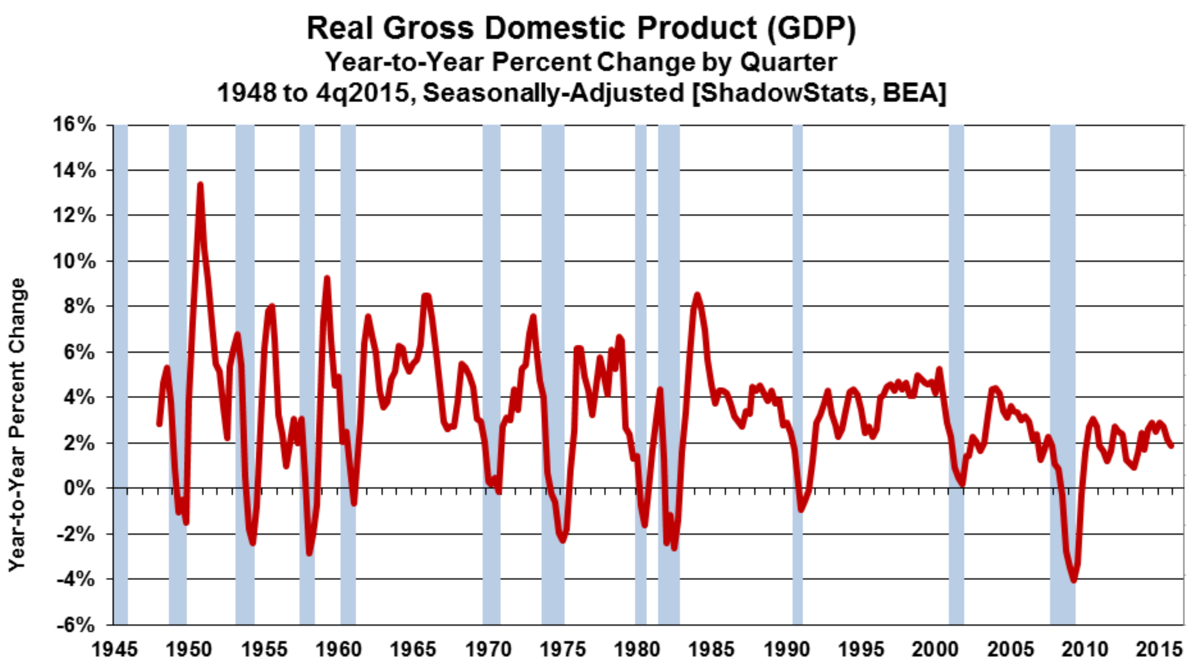


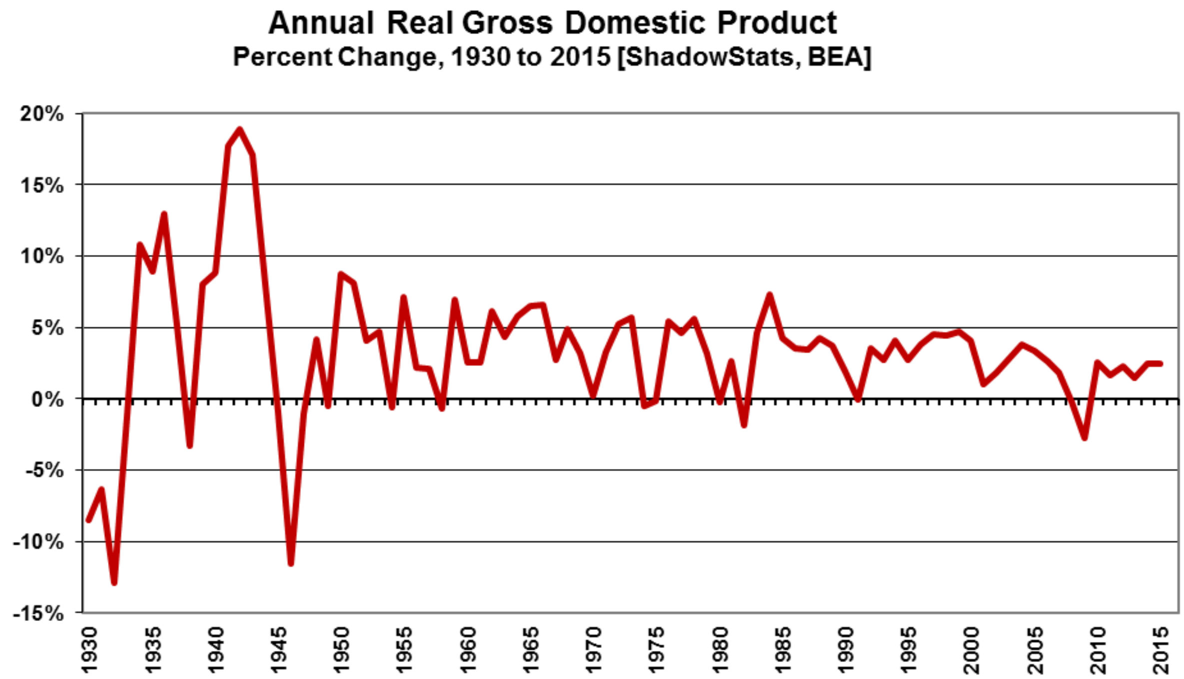
***Graph 10: Quarterly GDP in Billions of 2009 Dollars (1947-2015)***




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



***Graph 12: Annual-Average GDP Real Percent Change (1930-2015)***




***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 fourth-quarter 2015 GDP inflation, or the implicit price deflator (IPD), was an annualized quarterly increase of 0.95% [previously up by 0.82%], versus 1.30% in third-quarter 2015, versus 2.13% in second-quarter 2015 and a benchmarked gain of 0.12% in the first-quarter 2015.

Year-to-year, fourth-quarter 2015 IPD revised to 1.12% [previously 1.08%], versus 0.90% in third-quarter 2015, versus 0.98% in second-quarter 2015 and a benchmarked 1.01% annual gain in first-quarter 2015.

In terms of annual average inflation, the second estimate of the 2015 IPD was 1.00% [previously up by 0.99%], versus 1.64% in 2014.

Noted in *Commentary No. 787*, the seasonally-adjusted Consumer Price Index (CPI) just went through its annual revisions to seasonal adjustments. For purposes of comparison, on an annualized quarter-to-quarter basis, the seasonally-adjusted CPI-U rose by a revised 0.77% [previously up by 0.23%] in fourth-quarter 2015, up by 1.38% [previously up by 1.58%] in the third quarter, up by 2.44% [previously up by 2.98%] in the second quarter and down in the first quarter by a revised 2.86% (-2.86%) [previously down by 3.06% (-3.06%)].

Unadjusted, year-to-year quarterly CPI-U inflation was not revised, showing a year-to-year fourth-quarter 2015 gain of 0.47%, versus a third-quarter 2015 gain of 0.11%, versus a second-quarter 2015 annual contraction of 0.04% (-0.04%) and a year-to-year decline of 0.06% (-0.06%) in first-quarter 2015.

Annual average CPI-U inflation in 2015 was 0.12% versus 1.62% in 2014.

***Gross National Product (GNP).*** Contrary to intervening bad advice out of the BEA, the initial estimate of fourth-quarter 2015 GNP will not be published until March 25th, given data-quality issues, a problem common with the headline GDP. 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. The unrevised, headline third-quarter 2015 annualized real growth was 1.35%, versus 3.92% in second-quarter 2015 and an annualized contraction of 0.15% (-0.15%) in first-quarter 2015.

***Gross Domestic Income (GDI).*** Also contrary to intervening bad advice out of the BEA, the initial estimate of fourth-quarter 2015 GDI will not be published until March 25th, given data-quality issues, a problem consistent with the headline GDP. 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 unrevised headline third-quarter 2015 annualized real growth was 2.66%, versus 2.20% in second-quarter 2015 and 0.42% in first-quarter 2015.

***ShadowStats-Alternate GDP.*** The ShadowStats-Alternate GDP estimate for fourth-quarter 2015 GDP remained a year-to-year contraction of 1.7% (-1.7%) versus the upwardly revised, but still softer annual gain of 1.9% [previously up by 1.8%] seen in the revised headline number. Such was against a ShadowStats estimate of a 1.4% (-1.4%) annul decline in third-quarter 2015, versus the official third-quarter GDP year-to-year gain of 2.1% (see the Alternate Data tab).

While the annualized, real quarterly growth rate is not estimated formally on an alternate basis, the revised 1.0% annualized, headline quarter-to-quarter gain in fourth-quarter 2015 was much weaker, net of all the happy assumptions and regular reporting gimmicks coming into today. It still should revise lower in next month's reporting, eventually into an outright quarterly contraction that may have to wait for the July 29th benchmarking. Actual quarterly contractions appear 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 5* and *7*), 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.

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## WEEK AHEAD

**Economic Reporting Should Continue on the Downside of Expectations, Pummeling the Dollar and Boosting Gold, Silver and Oil Prices.** Moving to the downside, amidst intensifying, negative headline reporting, market expectations for business activity are deteriorating, even as reviewed in the popular media. The broad trend in weakening expectations for business activity has continued, and movement towards looming recession recognition has accelerated, as discussed in *Commentary No. 783* and in *No. 777 Year-End Special Commentary*. Nascent negative reaction has surfaced in trading of the U.S. dollar, in related financial markets, with some upside movement recently in prices for gold and silver (see the *Hyperinflation Watch*, *Commentary No. 784* and *Commentary No. 785*). Circumstances here also should limit further heavy selling in the oil market and begin to turn pricing there to the upside, once the dollar comes under heavy selling pressure.

Weaker headline reporting of the regular monthly economic numbers increasingly should be accompanied by much worse-than-expected—negative—reporting for at least the next several quarters of GDP (and GDI and GNP), still for fourth-quarter 2015 and well into 2016. That includes an eventual outright quarterly contraction in revised fourth-quarter 2015 GDP activity, as well as pending downside revisions to recent GDP history in the 2016 annual benchmark revision, due on July 29th.

CPI-U consumer inflation—intermittently driven lower in 2015 by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low. Although month-to-month headline inflation was unchanged for January 2016, annual CPI-U jumped sharply, against year-ago weak inflation, to a 15-month high. Eventually, prices should turn sharply positive, again, pending an environment of a weakening U.S. dollar and a related upturn in otherwise battered oil prices and other commodities. Separately, fundamental reporting issues with the CPI are discussed here: *Public Commentary on Inflation Measurement*.

***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). That has been discussed and explored in the labor-numbers related *Supplemental Commentary No. 784-A* and *Commentary No. 695*.

Separately, discussed in *Commentary No. 778*, a heretofore unheard of spate of "processing errors" has surfaced in recent surveys of earnings (Bureau of Labor Statistics) and construction spending (Census Bureau). This is suggestive of deteriorating internal oversight and control of the U.S. government's headline economic reporting. At the same time, it indicates an openness of the involved statistical agencies in revealing the reporting-quality issues.

Combined with ongoing allegations in the last year or two of Census Bureau falsification of data in its monthly Current Population Survey (the source for the BLS 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 (January 2016).** The Commerce Department will release its estimate of January 2016 construction spending on Tuesday, March 1st. The detail will be covered in ShadowStats *Commentary No. 790* of Friday, March 4th.

As usual, headline monthly changes here 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, the detail should continue in down-trending stagnation, net of inflation.

In what will have mixed impact on nominal (not-inflation-adjusted) growth, relative to real (inflation-adjusted) growth, related inflation (PPI – Final Demand Construction) declined by 0.35% (-0.35%) month-to-month in January, but rose by 1.16% year-to-year for January 2016, on a seasonally-adjusted basis, consistent with the headline construction-spending numbers.

**U.S. Trade Balance (January 2016).** The Commerce Department and Bureau of Economic Analysis (BEA) will release their full version of the monthly U.S. trade balance for January 2016 on Friday, March 4th, updating the limited and highly questionable "advance" January merchandise trade detail published this morning, February 26th. Where the "advance" report indicated some deficit deterioration in January, the BEA pulled enough relative "improvement" out of prior-period revisions to contribute 0.2% to an upside growth revision in the second estimate of fourth-quarter GDP.

The "advance" deficit estimate has had negligible reporting stability and significance since its creation last year. Look for greater than promised trade deterioration here, along with the potential for a related downside revision to the third-estimate (March 25th) of fourth-quarter GDP growth. The broad trend going forward should remain for regular monthly and quarterly deteriorations in the real trade deficit. The more-complete headline January trade detail will be covered in ShadowStats *Commentary No. 790* of March 4th.

**Employment and Unemployment (February 2016).** The Bureau of Labor Statistics (BLS) will publish its February 2016 labor data on Friday, March 4th. Headline detail will be covered in *Commentary No. 790* of the same date. Both employment and the broader unemployment-rate numbers remain open for negative, headline surprises, given the ongoing, general weakening tone in a number of business indicators other than headline unemployment.

Established monthly distortions to payroll employment (excessive upside biases, and publishing irregularities with the concurrent-seasonal-factor process) continue, as do the regular monthly distortions to headline unemployment (definitional issues with "discouraged workers," and publishing irregularities with the concurrent-seasonal-factor process).

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

As seen with earlier reductions in the narrowly-defined, headline U.3 unemployment rate of recent months and years, any near-term reduction in the U.3 unemployment rate, from the headline 4.9% of January 2016, likely would encompass more unemployed being redefined off the headline unemployment rolls and out of the headline labor force, than the number of unemployed gaining employment.

To the extent that underlying fundamentals continue to shine through all the regular monthly volatility and distortions, headline activity should continue to favor much weaker-than-expected payroll gains, where consensus forecasts likely will be for solid jump from the weaker-than-expected headline payroll gain of 151,000 in January 2016.