John Williams'

Shadow Government Statistics

Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 795
Fourth-Quarter 2015 GNP, GDP, GDI

March 25, 2016

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

Upside Revision to Fourth-Quarter GDP Growth Was Not Meaningful

Revisions Were Driven by Soft Data Elements Such as Guesstimated Services and "Other Goods"

Quarterly Growth Rates in the Broader Gross National Product (1.1%) and the GDP-"Equivalent" Gross Domestic Income (0.9%) Were Weaker than the Headline Gross Domestic Product (1.4%)

Net of Revisions, GDI Growth Was 0.3%

Annual Real GDP Growth Still the Weakest Since First-Quarter 2014

PLEASE NOTE: The next regular Commentary, *scheduled for Friday, April 1st, will cover March Employment and Unemployment and February Construction Spending.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Nonsense GDP Reporting in an Environment of Highly-Charged Political Circumstances and Highly-Vulnerable Financial Markets. Annualized real quarterly growth in fourth-quarter 2015 Gross Domestic Product (GDP) revised to 1.39%, up from 1.01% in its second estimate and from 0.69% in its advance reporting, but that gain still was no more than statistical noise.

Irrespective of the heavily gimmicked GDP detail, underlying reality remains that broad U.S. economic activity has entered a renewed downturn, never having recovered its pre-recession peak. Headline fourth-quarter 2015 GDP activity and other recent GDP reporting likely will revise into headline quarterly contractions in the July 29, 2016 GDP benchmarking. Further, based on monthly reporting of subsidiary economic measures, first-quarter 2016 GDP already has developed a trend towards quarterly contraction, which could be headlined as such even before the benchmarking.

Noted in yesterday's *Commentary No. 794*, market consensus increasingly should move in the direction of meaningfully-negative GDP benchmarking and formal recession recognition, given highly likely, near-term historical downside annual benchmark revisions pending for the industrial production, retail sales, construction and durable goods orders series during April and May. All will affect the revisions to the headline Gross Domestic Product (GDP) series. Enough downside revisions loom in the GDP series, in the context of weakening first-quarter 2016 activity, for a comfortable consensus call on a recession, after, if not before the GDP benchmarking.

In today's (March 25th) revisions of this most-politically-sensitive of the popularly followed domestic economic series, two elements of note arose with the new headline detail. First, the headline upside revisions were heavily in the in soft "services" and "other goods" data, generally fluff-based guesstimates (see the *Growth Distribution* section later in these *Opening Comments*). Second, today's initial headline estimates of fourth-quarter 2015 Gross National Product (GNP) and Gross Domestic Income (GDI), respectively a broader measure than the GDP and a theoretical GDP-equivalent measure, showed weaker fourth-quarter activity than did the revised headline GDP.

In the context of upwardly-revised, annualized real fourth-quarter GDP growth slowing to 1.4% from 2.0% in the third quarter, initial reporting of fourth-quarter GNP growth slowed to 1.1% from 1.3%, while GDI growth slowed to 0.9% from 2.0% (fourth-quarter GDI slowed to 0.3% net of prior-period revisions).

Discussed frequently, the GDP does not reflect properly or accurately the changes to underlying fundamentals that drive the economy. 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 late-2014.

The GDP (or the broader GNP headlined in earlier decades) simply remains the most worthless of the popular government economic series, in terms of determining what really is happening to U.S. business activity. Indeed, 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." Johnson may not have been the first, but he definitely was not the last president to have a direct interest in the headline GNP or GDP reporting.

Nonetheless, despite all the upside biases and gimmicks built into the GDP reporting, the real world occasionally surfaces in the formal GDP estimates. That likely remains close, even if we should be in a Johnsonian environment. The "new" recession remains in the process of official unfolding. With major monthly economic series such as retail sales, industrial production, durable goods orders and housing-market measures showing or suggesting regular quarterly contractions, underlying reality has become weak enough, once again, for headline GDP, GNP and/or GDI to show an ongoing, formal downtown. That initial recognition likely looms within the now-unfolding timeframe of the first-quarter 2016 GDP and its revisions, and with high probability no later than in wake of the July GDP benchmarking.

Today's *Commentary* (March 25th). The balance of these *Opening Comments* provides summary coverage of the third estimate, second revision to third-quarter 2015 GDP. The most recent *Hyperinflation Outlook Summary* is found in *Commentary No. 783*, again with *No. 777 Year-End Special Commentary* as background to currently unfolding financial-market circumstances. The *Week Ahead* section previews the reporting of March labor conditions and February construction spending.

Gross Domestic Product (GDP)—Fourth-Quarter 2015, Third Estimate, Second Revision—Gross National Product and Gross Domestic Income Indicate a GDP Overstatement. The headline fourth-quarter 2015 GDP showed an upwardly-revised, statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 1.39%, which still was down sharply from the headline annualized gains of 1.98% in third-quarter 2015 and 3.92% in second-quarter 2015 GDP, but it was higher than the first-quarter 2015 benchmarked gain of 0.64% [a pre-benchmark contraction of 0.17% (-0.17%)].

Headline year-to-year real growth in fourth-quarter 2015 still slowed markedly to an upwardly-revised 1.98%, the slowest annual growth rate in seven quarters, since the headline quarterly GDP contraction of first-quarter 2014. The latest annual growth rate 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 2.43% versus 2014, which now is the same as the headline annual GDP growth rate of 2.43% in 2014 versus 2013.

Graphs 5 to *9* in the *Reporting Detail* show levels of and year-to-year changes in headline GDP, using various time scales, back to the beginning of the series.

Fourth-Quarter 2015 GDP, Third 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 third estimate of annualized quarterly growth in fourth-quarter 2015 real GDP was 1.39%, versus 1.01% in the second estimate, and 0.69% in the first estimate. 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 third guess at real fourth-quarter GDP growth is detailed in the following aggregation of contributed growth, broken out by Personal Consumption, Business Investment, Net Exports and Government Spending. The annualized growth number in each sub-category is the additive contribution to the total, headline change in GDP, where 1.66% - 0.16% - 0.14% + 0.02% = 1.39%, with the usual rounding difference. *Commentary No. 789* of February 26th detailed the growth-distribution estimate for the second estimate of fourth-quarter GDP.

Regrouped by general product line, the BEA estimates that the headline 1.39% quarterly growth rate included a 1.54% growth-rate contribution from services and 0.05% contribution from structures, with a negative 0.20% (-0.20%) growth-rate contribution from goods. The bulk of the upside 0.37% revision in aggregate quarterly growth came from an upside revision of 0.42% in the services-growth contribution (primarily in recreation and transportation).

Contributing Revision Factors. Headline growth still was dominated by personal consumption, which added an upwardly revised 1.66% to the headline GDP growth rate. A reduction in the pace of trade deficit deterioration and a minimal upside revision to government spending also were positive contributors. Offsetting somewhat on the downside was a downside revision to business investment, reflecting weaker inventory building. The revised boost in headline growth came primarily from the surging guesstimates in the services sector.

- ***Consumer Spending Contributed 1.66% [Previously 1.38%, Initially 1.46%] to Fourth-Quarter GDP Growth; Third-Quarter Growth Contribution was 2.04%.*** With previous and equally strong growth contributions from consumer goods and health-care services holding in place, the contribution from non-healthcare services surged. Soaring recreation and transportation services respectively contributed 0.35% and 0.14% to the GDP growth rate, and 0.22% and 0.10%, or 0.32% to the aggregate upside growth revision of 0.38%.

- ***Business/Residential Investment Subtracted 0.16% (-0.16%) [Previously 0.12% (-0.12%), Initially 0.41% (-0.41%)] from Fourth-Quarter GDP Growth; Subtracted 0.11% (-0.11%) from Third-Quarter GDP Growth.*** Reflecting minimal catch-up, the dominant change here was in less-positive inventory building than previously guessed, with an offset from stronger residential construction. The revisions took the pace inventory building to a more-negative level, from down by 0.14% (-0.14%) to down by 0.22% (-0.22%) in terms of GDP-growth contribution. As a result, final sales (GDP net of inventories) increased by 1.69% (previously up by 1.15%, initially up by 1.14%) in fourth-quarter 2015, down from 2.69% in third-quarter 2015.

- ***Net Exports Subtracted 0.14% (-0.14%) [Previously 0.25% (-0.25%), Initially 0.47% (-0.47%)] from Fourth-Quarter GDP Growth; Subtracted 0.26% (-0.26%) from Third-Quarter Growth.*** In an extremely questionable narrowing of the trade deficit, in revision, a further positive 0.11% growth swing went in favor of the revised headline GDP growth. The revisions generally were in the guesstimated and otherwise largely not-measurable services sector or in plug-factors tied to the nebulous "other goods" categories. The trade circumstance will be reviewed and updated in *Commentary No. 797* of April 5th, accompanying the release of the full February 2016 trade-deficit detail. The trade deficit appears to be in ongoing deterioration—not improvement—both before and after consideration for inflation.

- ***Government Spending Contributed 0.02% [Previously subtracted 0.01% (-0.01%), Initially Contributed 0.12%] to Fourth-Quarter GDP Growth; Contributed 0.32% to Third-Quarter Growth.*** Still dominated by seasonally-adjusted defense spending, federal government spending added an unrevised 0.15% to the headline GDP growth. What had been a more-than-offsetting contraction of 0.16% (-0.16%) in state spending, narrowed slightly to 0.13% (-0.13%).

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 third estimate of fourth-quarter 2015 GDP inflation, or the implicit price deflator (IPD), was an annualized quarterly increase of 0.94%, versus 1.30% in third-quarter 2015, 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 was unrevised at 1.12%, versus 0.90% in third-quarter 2015, 0.98% in second-quarter 2015 and a benchmarked 1.01% annual gain in first-quarter 2015. In terms of annual average inflation, the third estimate of the 2015 IPD was unrevised at 1.00%, versus 1.64% in 2014.

For purposes of comparison, on an annualized quarter-to-quarter basis, the seasonally-adjusted Consumer Price Index CPI-U rose by a 0.77% in fourth-quarter 2015, versus 1.38% in the third quarter, 2.44% in the second quarter and a quarterly contraction of 2.86% (-2.86%) in the first quarter. Unadjusted, year-to-year quarterly CPI-U inflation showed a year-to-year fourth-quarter 2015 gain of 0.47%, versus a third-quarter 2015 gain of 0.11%, an annual contraction of 0.04% (-0.04%) in second-quarter 2015 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 (see *Commentary No. 787*).

Gross National Product (GNP) Headline Detail. 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 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.

The first and only estimate of headline, annualized, quarterly real third-quarter 2015 GNP growth was 1.13%, down from a third-quarter estimate of 1.35% (rounds to 1.3%), a second-quarter estimate of 3.93% and an annualized contraction of 0.15% (-0.15%) in first-quarter 2015. Year-to-year annual growth slowed to its weakest level in ten quarters, to 1.55% in fourth-quarter 2015, down from 1.74% in third-quarter 2015, 2.54% in second-quarter 2015 and 2.66% in first-quarter 2015. Annual-average real GNP gained 2.12% in 2015 versus 2014, where 2014 had gained 2.45% versus 2013. Again, in contrast, annual-average GDP growth for 2015 and 2014 was 2.43% for both years.

Gross Domestic Income (GDI) Headline Detail. GDI is the theoretical income-side equivalent of the consumption-side GDP estimate. Still reflecting highly-questionable income and wage estimates by the Bureau of Labor Statistics (BLS)—with historical errors recently being acknowledged by the BLS—the first estimate of headline, annualized real fourth-quarter 2015 GDI growth was 0.91%, down from the third estimate of third-quarter 2015 growth (released today) of 2.04% [previously 2.66%]. Net of prior period revisions, fourth-quarter 2015 annualized GDI growth was 0.30%.

As revised, the headline 0.91% fourth-quarter 2015 growth was down from third-quarter growth of 2.04% and 2.20% in second-quarter 2015 growth, but it was up from and 0.42% annualized growth in first-quarter 2015.

Year-to-year annual GDI growth slowed to 1.39%, its lowest reading in eight quarters, down from a revised 1.89% in third-quarter 2015, down from 2.64% in second-quarter 2015 and from 3.18% in first-quarter 2015. In terms of annual-average real growth, 2015 GDI gained 2.29% versus 2014, where 2014 had gained 2.60% versus annual-average 2013 GDI. In contrast, annual-average GDP growth for 2015 and 2014 was 2.43% for both years.

Underlying Economic Reality. The U.S. economy continues in an as-yet-unrecognized "new" recession, although headline monthly reporting activity generally has continued to move market expectations towards a "new" recession (the ShadowStats contention remains that the "new" downturn is in reality just a continuation of the economic crash into 2009). The third estimate of fourth-quarter 2015 GDP growth at 1.39%, versus the prior 1.01% and initial 0.69% guesses, however, was more-positive once again, versus market expectations that had been for no revision, and contrary to ShadowStats expectations for a downside revision. Nonetheless, the headline revisions and related current activity still were not statistically significant. An eventual fourth-quarter 2015 GDP contraction most likely now will come out of pending GDP benchmarking, discussed in the opening paragraphs of these *Opening Comments*. Separately, headline-monthly detail on first-quarter 2016 business activity already is trending negative, suggestive of a likely first-quarter 2016 GDP contraction.

The third estimate of 1.39% 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 GDP benchmarking of July 2015. The July 2016 benchmarking should not be so kind, and 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 could follow shortly upon any earlier reporting of a GDP contraction, such as may be seen for first-quarter 2016.

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 signaled fourth-quarter contractions, again with current headline reporting also trending towards a first-quarter 2016 contraction. These circumstances have been detailed recently in *Commentary No. 790*, *No. 791*, *No. 793* and *No. 794*.

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 benchmark revisions, annual benchmarkings increasingly are reshaping the GDP-reporting history into a post-2007 collapse pattern of successive multiple dips. The looming July 2016 revisions should do more of the same. 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, although the consecutive quarterly GDP contractions no longer are necessary for formal recession recognition. Recognition of the onset of the December 2007 recession was not formalized until November 28, 2008, but did have GDP contractions.

Ongoing monthly economic-reporting detail for key series, however, increasingly are confirming 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.

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 *No. 790*), monthly real median household income and other consumer measures (see *No. 777*). 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. 793* 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 certain inflation effects) from the GDP series. The accompanying two sets of graphs tell that story, updated for today's third 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 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*.

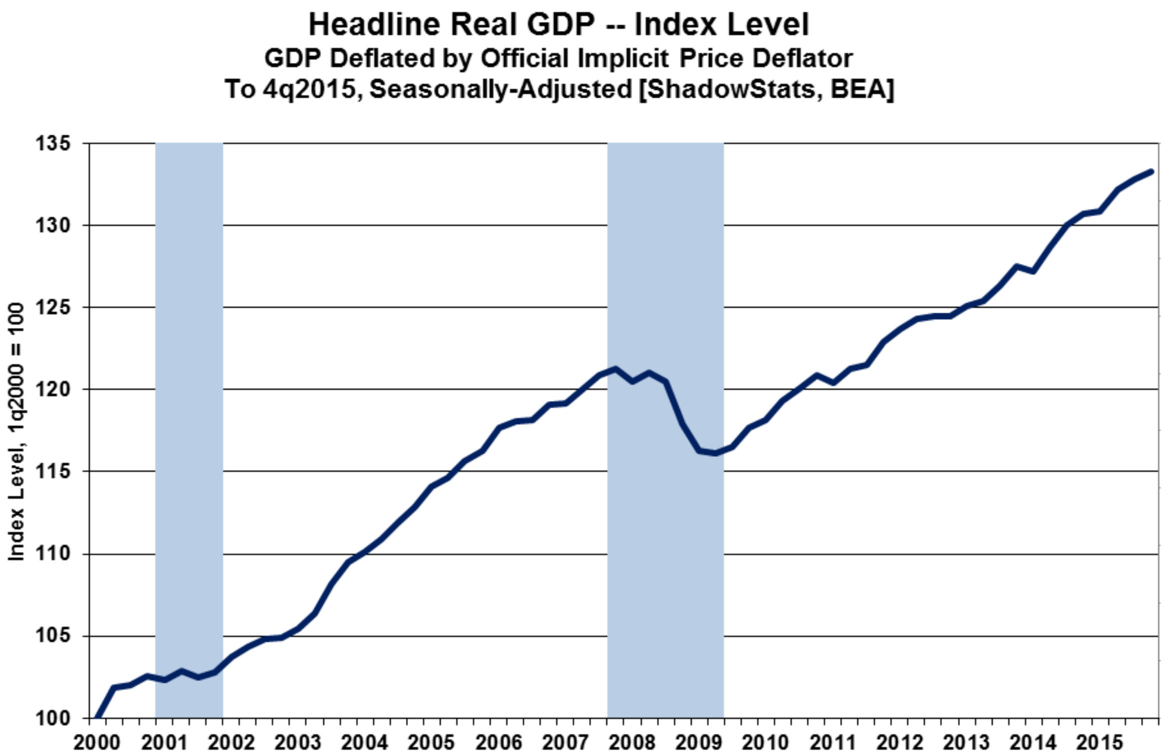
Shown in the first graph of each set (*Graphs 1* and *3*) of official *Headline Real GDP*, GDP activity has been reported above pre-2007 recession levels—in full recovery—since second-quarter 2011, and headline GDP has shown sustained growth since (growth pauses or interruptions for second-half 2012 and first-quarter 2014 excepted). Adjusted for official GDP inflation (the implicit price deflator - IPD), the headline fourth-quarter 2015 GDP currently stands at 9.9% above its pre-recession peak-GDP estimate of fourth-quarter 2007. In contrast, the "corrected" GDP version, in the second graph of each set (*Graphs 2* and *4*), shows fourth-quarter 2015 GDP activity down by 7.1% (-7.1%), 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 *No. 793* and *No. 794*). 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."

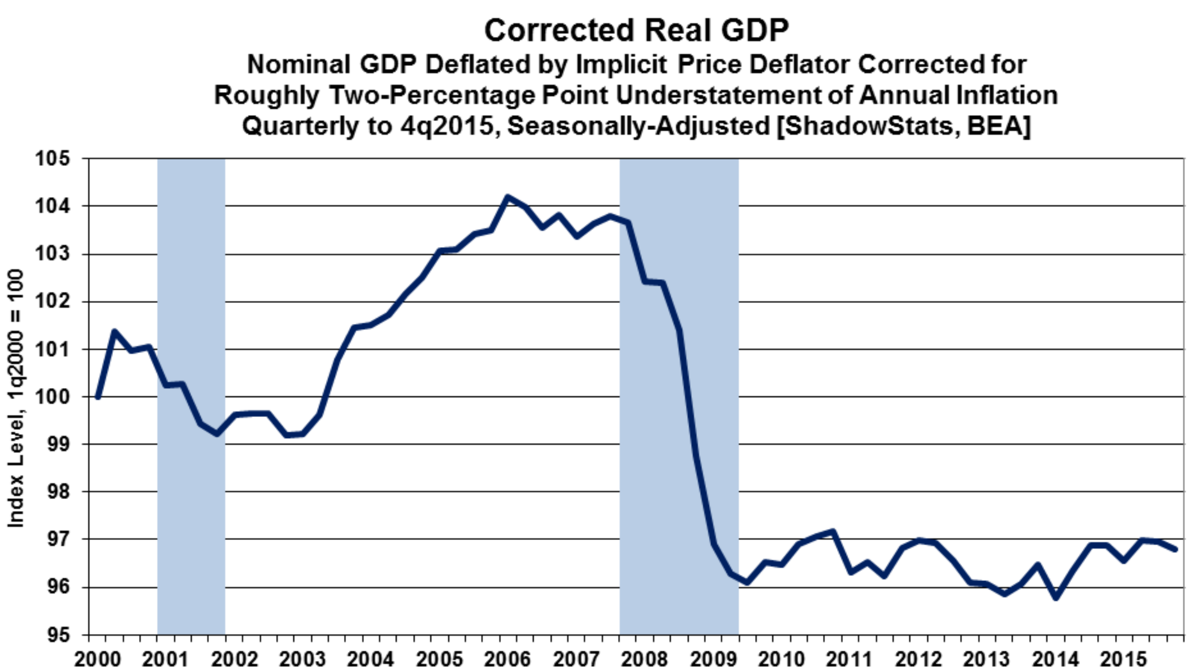
Again, the second graph in each series (*Graphs 2* and *4*) plots the *Corrected Real GDP*, corrected for the understatement inherent in official inflation estimates (see *Public Commentary on Inflation Measurement*), with the deflation by the implicit price deflator (IPD) adjusted for understatement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

[See Graphs 1 to 4 starting on the next page.]

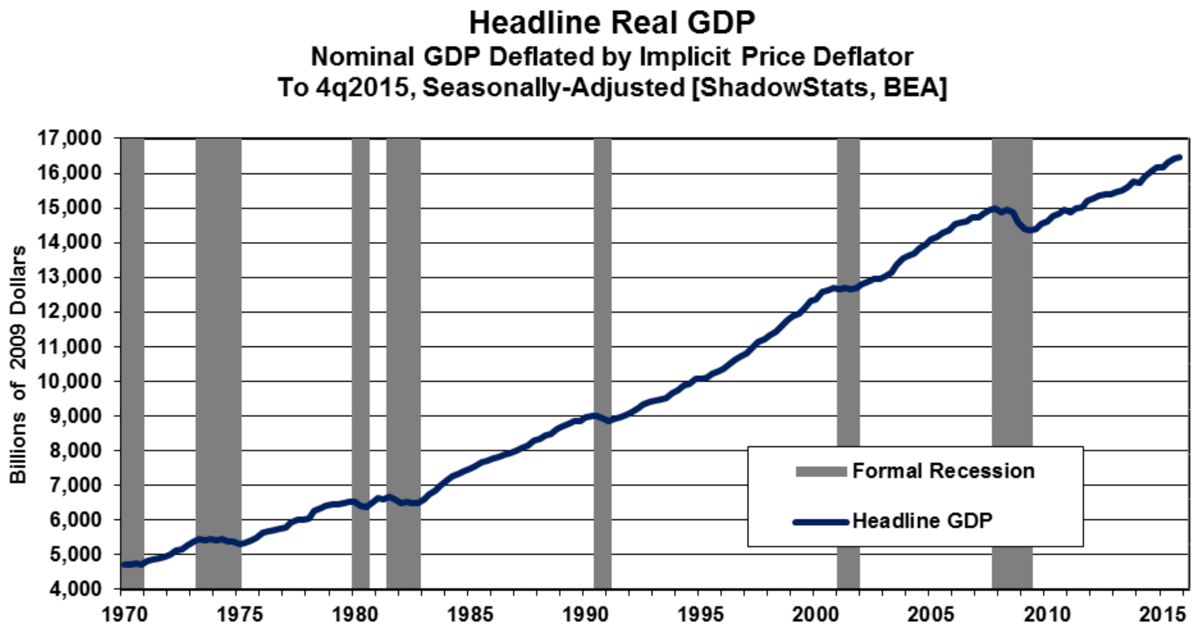
Graph 1: Real GDP Index – Headline Real GDP (2000-2015)



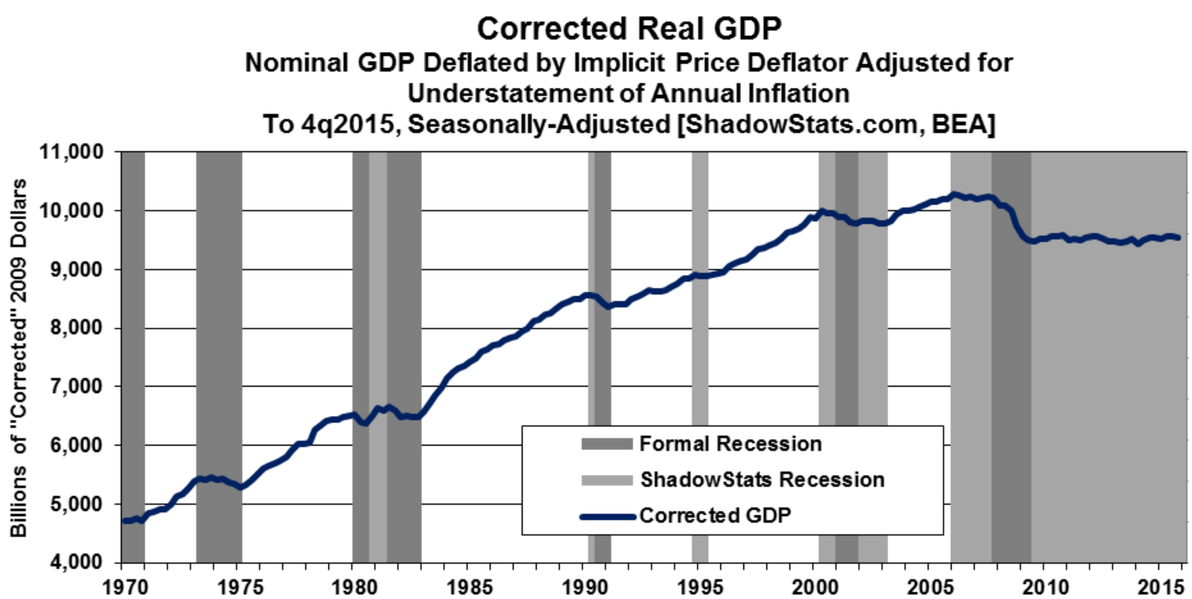
Graph 2: "Corrected" Real GDP Index (2000-2015)



Graph 3: Real GDP Index (1970-2015)



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



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

REPORTING DETAIL

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

Gross Domestic Product—Nonsense Reporting Continued in an Environment of Highly-Charged Political Circumstances and Highly-Vulnerable Financial Markets. *[This section through the "Notes" comes largely from elements of the* Opening Comments.*]* The headline 1.39% third estimate of annualized real quarterly growth in fourth-quarter 2015 Gross Domestic Product (GDP) remained no more than statistical noise, having revised higher from 1.01% in its second estimate, and from 0.69% in its advance reporting.

Irrespective of heavily gimmicked GDP detail, underlying reality remains that broad U.S. economic activity has entered a renewed downturn, never having recovered its pre-recession peak. Headline fourth-quarter 2015 GDP activity and other recent GDP reporting likely revise into headline quarterly contractions in the July 29, 2016 GDP benchmarking. Further, based on monthly reporting of subsidiary economic measures, first-quarter 2016 GDP already has developed a trend towards quarterly contraction, which could be headlined as such even before the benchmarking (see the opening paragraphs of the *Opening Comments*).

In this most-politically-sensitive of the popularly followed domestic economic series, two elements of note arose with the new headline detail. First, the headline upside revisions were heavily in the in soft "services" and "other goods" data, generally fluff-based guesstimates (see the *Growth Distribution* section in the *Opening Comments*). Second, today's initial headline estimates of fourth-quarter 2015 Gross National Product (GNP) and Gross Domestic Income (GDI), respectively a broader measure than the GDP and a theoretical GDP-equivalent, showed weaker fourth-quarter activity than did the revised headline GDP.

In the context of upwardly-revised, annualized real fourth-quarter GDP growth slowing to 1.4% from 2.0% in the third quarter, initial reporting of fourth-quarter GNP growth slowed to 1.1% from 1.3%, while GDI growth slowed to 0.9% from 2.0% (fourth-quarter GDI slowed to 0.3% net of prior-period revisions).

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 late-2014.

The GDP (or the broader GNP headlined in earlier decades) 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." Johnson may not have been the first, but he definitely was not the last president to have a direct interest in the headline GNP or GDP reporting.

Nonetheless, despite all the upside biases and gimmicks built into the GDP reporting, the real world occasionally surfaces in the formal GDP estimates. That likely remains close, even if we should be in a Johnsonian environment. The "new" recession remains in the process of official unfolding. With major monthly economic series such as retail sales, industrial production, durable goods orders and housing-market measures showing or suggesting regular quarterly contractions, underlying reality has become weak enough, once again, for headline GDP, GNP and/or GDI to show an ongoing, formal downtown. That initial recognition likely looms within the now-unfolding timeframe of the first-quarter 2016 GDP and its revisions, and with high probability no later than in wake of the July GDP benchmarking.

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, March 25th, by the Bureau of Economic Analysis (BEA), the third estimate of, second revision to fourth-quarter 2015 GDP showed a statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 1.39% +/- 3.5% (95% confidence interval). Previously fourth-quarter growth had shown a gain of 1.01%, initially reported up by 0.69%. Revised distribution detail of fourth-quarter 2015 GDP growth is outlined in the *Opening Comments*.

The new headline growth still was down sharply from the headline annualized gains of 1.98% in third-quarter 2015 and 3.92% in second-quarter 2015 GDP, but it was higher than the first-quarter 2015 benchmarked gain of 0.64% [a pre-benchmark quarterly contraction of 0.17% (-0.17%)].

Graphs 5 and *7* 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.

Shown in *Graphs 6, 8* and *9*, headline year-to-year real growth in fourth-quarter 2015 slowed markedly to 1.98% [previously 1.88%, initially 1.80%], still the slowest annual growth in seven quarters, since the headline quarterly GDP contraction in first-quarter 2014. The latest annual growth rate was down from 2.15% in third-quarter 2015, from 2.72% in second-quarter 2015 and from 2.88% in first-quarter 2015.

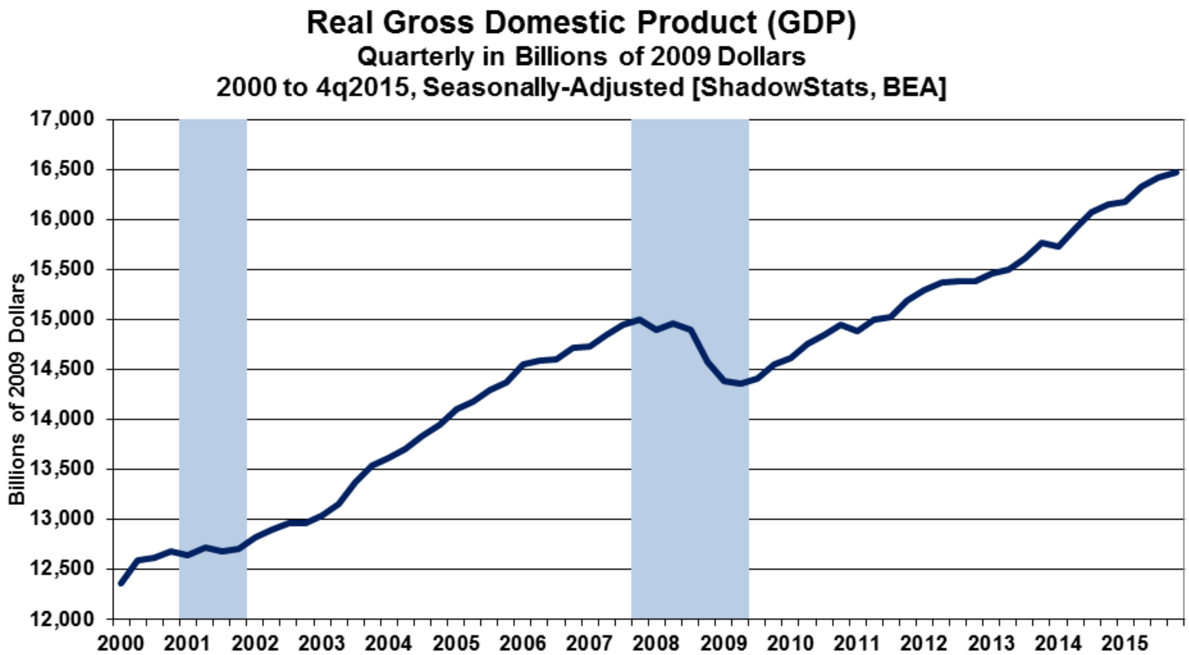
The current quarterly year-to-year growth remained well below the near-term peak of 3.08% in third-quarter 2010. The current-cycle trough in annual change was in second-quarter 2009, reflecting a year-to-year decline of 4.09% (-4.09%). That was the deepest year-to-year contraction for any quarterly GDP in the history of the series, which began with first-quarter 1947 (1948 in terms of available year-to-year detail).

In terms of annual-average real growth, 2015 GDP gained a revised 2.43% [previously up by 2.40%, initially up 2.38%] and now is unchanged from the headline annual GDP growth rate in 2014, which also was 2.43%.

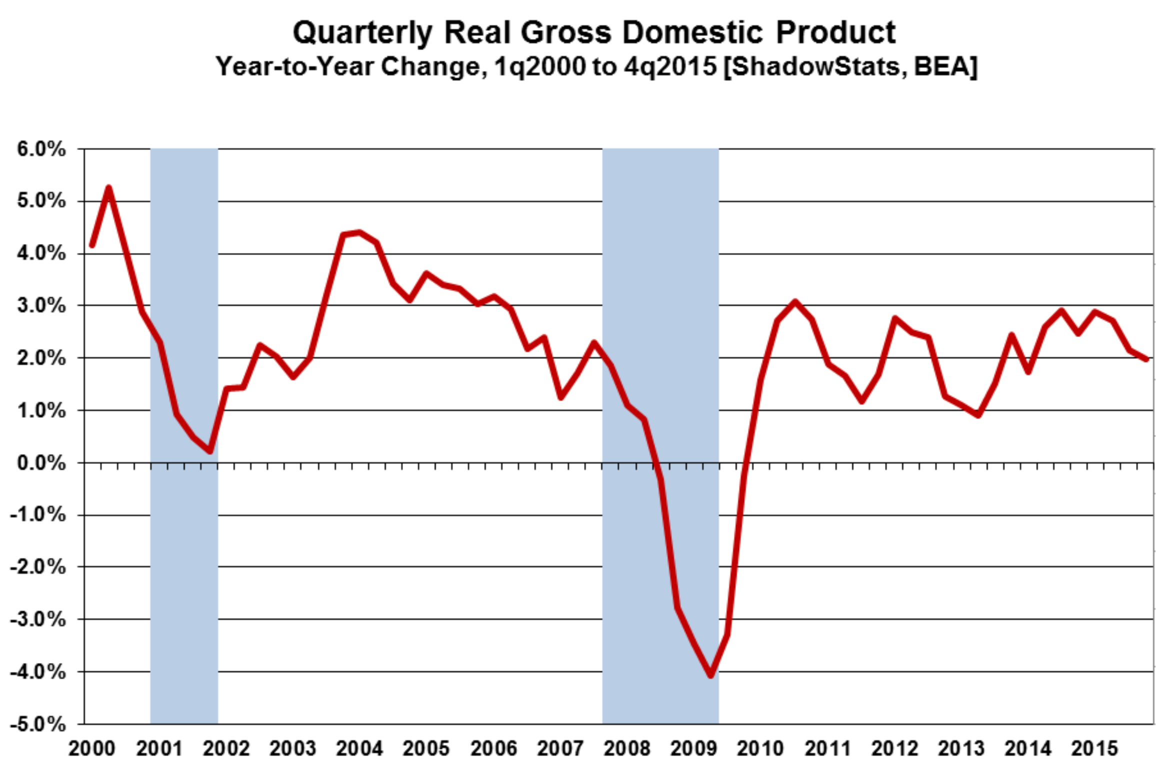
Graph 6 shows current year-to-year quarterly detail, from 2000-to-date, where *Graph 8* shows the same series in terms of its full quarterly, year-to-year history back to 1948. *Graph 9* shows full annual-growth detail for 1940 to date.

[Graphs 5 to 9 begin on the following page]

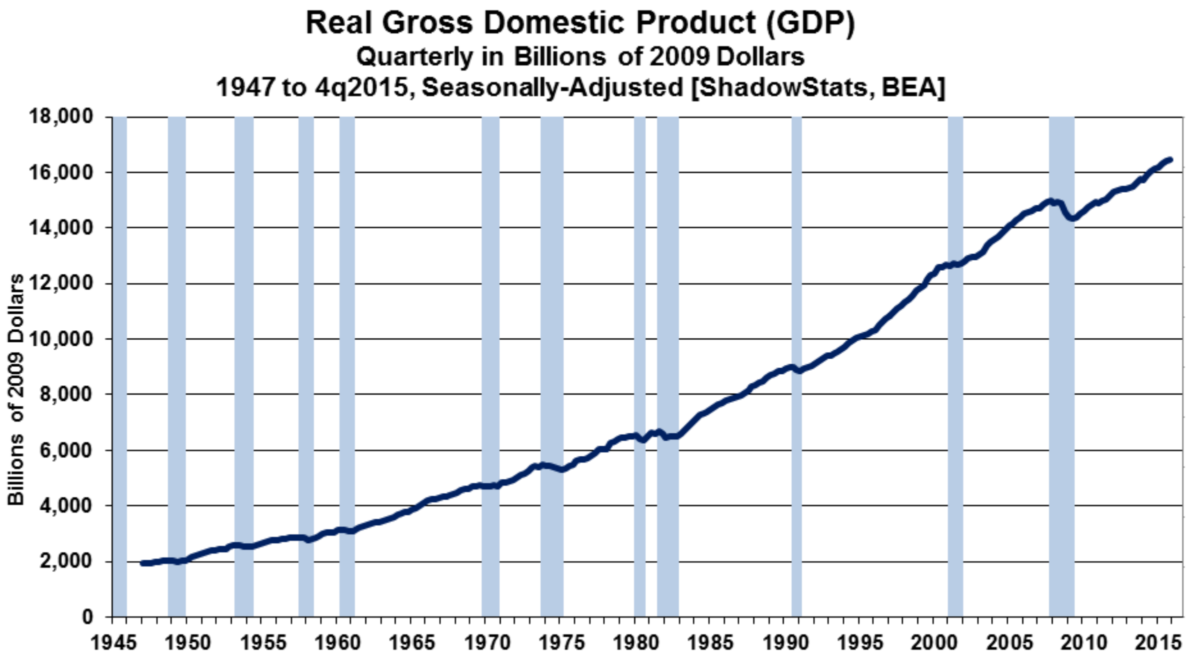
Graph 5: Quarterly GDP in Billions of 2009 Dollars (2000 to Fourth-Quarter 2015)



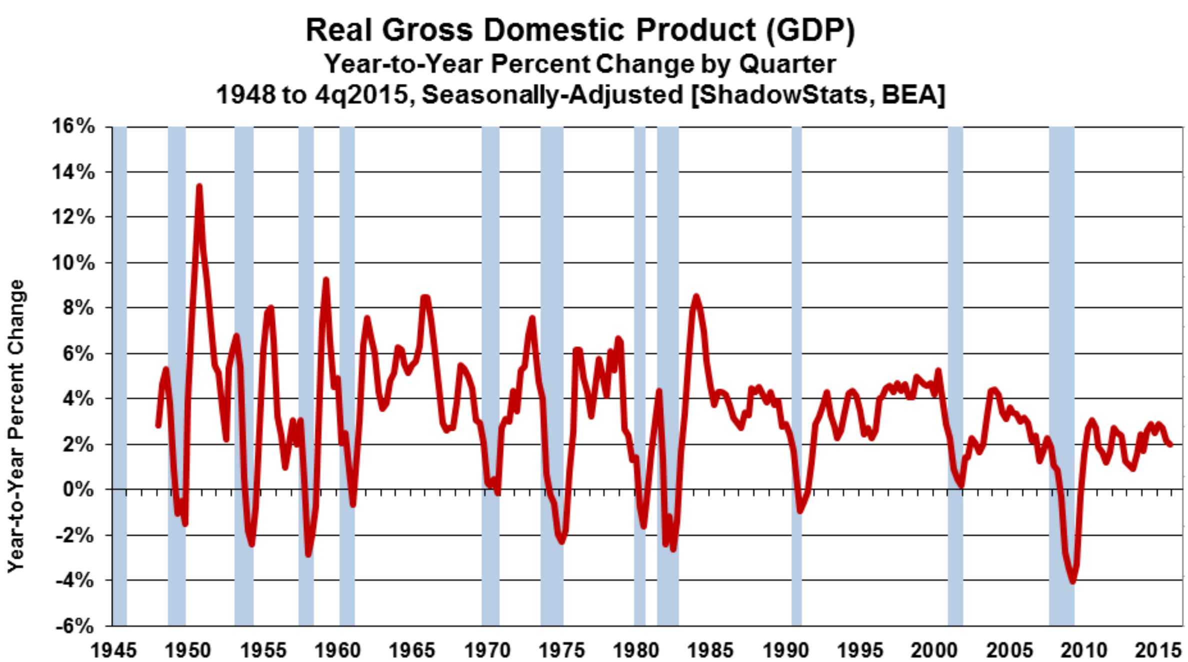
Graph 6: Quarterly GDP Real Year-to-Year Change (2000 to Fourth-Quarter 2015)



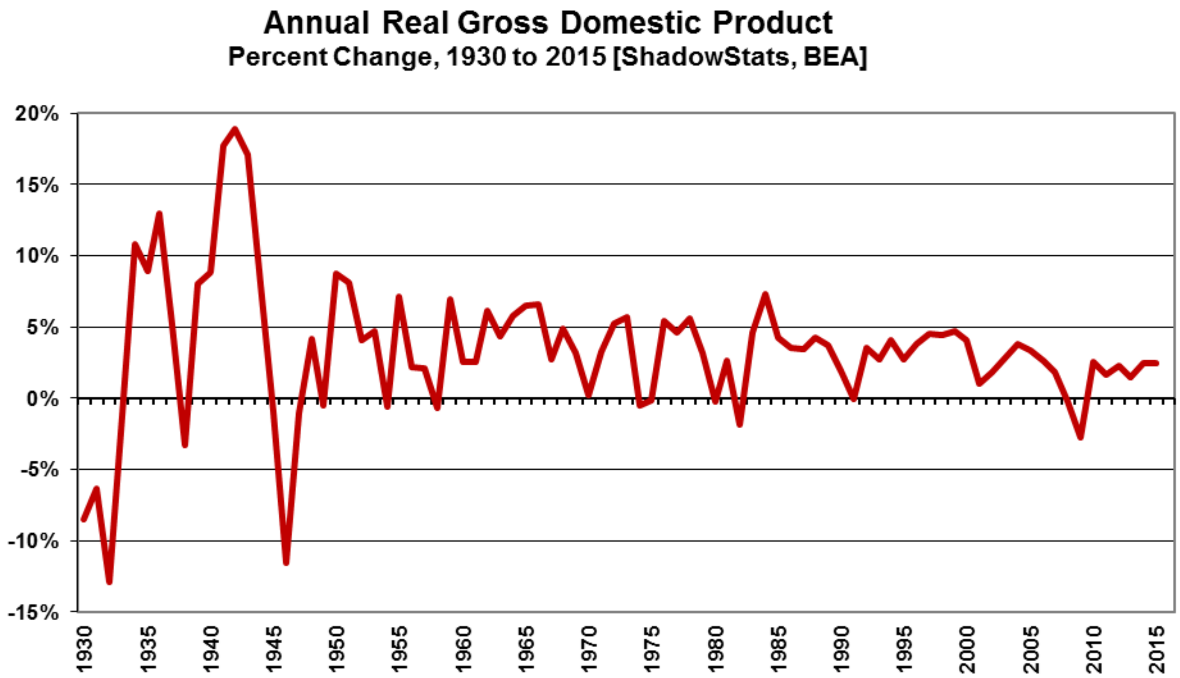
Graph 7: Quarterly GDP in Billions of 2009 Dollars (1947-2015)



Graph 8: Quarterly GDP Real Year-to-Year Change (1948-2015)



Graph 9: 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 third estimate of fourth-quarter 2015 GDP inflation, or the implicit price deflator (IPD), was an annualized quarterly increase of 0.94% [previously up by 0.95%, initially up by 0.82%], versus 1.30% in third-quarter 2015, 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 was unrevised at 1.12% [initially 1.08%], versus 0.90% in third-quarter 2015, 0.98% in second-quarter 2015 and a benchmarked 1.01% annual gain in first-quarter 2015.

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

For purposes of comparison, on an annualized quarter-to-quarter basis, the seasonally-adjusted Consumer Price Index CPI-U rose by a 0.77% in fourth-quarter 2015, versus 1.38% in the third quarter, 2.44% in the second quarter and a quarterly contraction of 2.86% (-2.86%) in the first quarter.

Unadjusted, year-to-year quarterly CPI-U inflation showed a year-to-year fourth-quarter 2015 gain of 0.47%, versus a third-quarter 2015 gain of 0.11%, an annual contraction of 0.04% (-0.04%) in second-quarter 2015 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 (see *Commentary No. 787*).

Gross National Product (GNP) Headline Detail. 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 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.

The first and only estimate of headline, annualized, real quarterly third-quarter 2015 GNP growth was 1.13%, down from a third-quarter estimate of 1.35% (rounds to 1.3%), a second-quarter estimate of 3.93% and an annualized contraction of 0.15% (-0.15%) in first-quarter 2015. Year-to-year annual growth slowed to its weakest level in ten quarters, to 1.55% in fourth-quarter 2015, down from 1.74% in third-quarter 2015, 2.54% in second-quarter 2015 and 2.66% in first-quarter 2015.

Annual-average real GNP gained 2.12% in 2015 versus 2014, where 2014 had gained 2.45% versus 2013. Again, in contrast, annual-average GDP growth for 2015 and 2014 was 2.43% for both years.

Gross Domestic Income (GDI) Headline Detail. GDI is the theoretical income-side equivalent of the consumption-side GDP estimate. Still reflecting highly-questionable income and wage estimates by the Bureau of Labor Statistics (BLS)—with historical errors recently being acknowledged by the BLS—the first estimate of headline, annualized real fourth-quarter 2015 GDI growth was 0.91%, down from the third estimate of third-quarter 2015 growth (released today) of 2.04% [previously 2.66%, initially up by 3.10%]. Net of prior period revisions, fourth-quarter 2015 annualized GDI growth was 0.30%.

As revised the headline 0.91% fourth-quarter 2015 growth, was down from third-quarter growth of 2.04% and 2.20% second-quarter 2015 growth, but it was up from and 0.42% annualized growth in first-quarter 2015.

Year-to-year annual GDI growth slowed to 1.39%, its lowest reading in eight quarters, down from a revised 1.89% [previously up by 2.04%, initially up by 2.15%] in third-quarter 2015, down from 2.64% in second-quarter 2015 and from 3.18% in first-quarter 2015.

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 fourth-quarter 2015 discrepancy narrowed to -$163.9 billion in current dollars, versus a revised third-quarter discrepancy of -$184.4 [previously -$211.9 billion, initially -$227.4 billion], but it widened versus -$114.4 billion in second-quarter 2015.

In terms of annual-average real growth, 2015 GDI gained 2.29% versus 2014, where 2014 had gained 2.60% versus annual-average 2013 GDI. In contrast, annual-average GDP growth for 2015 and 2014 was 2.43% for both years.

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 2.0% [previously 1.9%, initially 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). The differences between the ShadowStats estimate and the current headline reporting should narrow markedly in the annual GDP benchmark revision scheduled for July 29, 2016.

While the annualized, real quarterly growth rate is not estimated formally on an alternate basis, the revised 1.4% 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 into an outright quarterly contraction with the benchmark revisions. 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 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.

WEEK AHEAD

Economic Reporting Generally Should Continue on the Downside of Expectations, Increasingly Pummeling the Dollar and Boosting Gold, Silver and Oil Prices. Likely moving to the downside, amidst intensifying, negative headline reporting in the weeks and months ahead, market expectations for business activity should deteriorate sharply. The broad trend in weakening expectations for business activity, and movement towards looming recession recognition continue, despite a second upside revision to fourth-quarter GDP, as discussed in the *Opening Comments*, *Commentary No. 794*, *Commentary No. 789* and in *No. 777 Year-End Special Commentary*. In response to continuing non-recovery and down-trending in underlying economic activity, increasingly-negative reactions have surfaced in trading of the U.S. dollar and in related financial markets, with some upside movement in prices for gold and silver. Circumstances here also should limit further heavy selling in the oil market, increasingly turning oil prices to the upside in response to intensified dollar selling.

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). That includes an eventual outright quarterly contraction in fourth-quarter 2015 GDP activity, as well as other pending downside revisions to GDP history in the 2016 annual benchmark revisions, due on July 29th.

In conjunction with earlier, pending downside benchmark revisions to industrial production, retail sales, construction and durable goods orders, expectations for the GDP benchmarking should fall sharply. That benchmarking also likely will be the point at which the currently-positive headline fourth-quarter 2015 GDP growth revises to contraction. Separately, the potential for a first-quarter 2016 headline GDP contraction, before the benchmarking, also is very much in play.

CPI-U consumer inflation—intermittently driven lower in 2015 and early-2016 by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low. Although headline monthly February inflation was negative, annual inflation remained positive. Monthly prices should turn positive, again, as early as the headline March detail, in tandem with rising gasoline prices. Inflation will rise more sharply, going forward, pending a weakening U.S. dollar environment, and a continued, related upturn in oil prices and other commodities. Fundamental reporting issues with the headline CPI also 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 nine-to-eleven 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*.

Further, 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 (February 2016). The Commerce Department will release its estimate of February 2016 construction spending on Friday, April 1st. Detail will be covered in ShadowStats *Commentary No. 796* of that date.

As usual, headline monthly changes should not be statistically-significant. Previous data often are 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 continue to have mixed impact on nominal (not-inflation-adjusted) growth, relative to real (inflation-adjusted) growth, inflation (PPI – Final Demand Construction) in February 2016 fell month-to-month by a seasonally-adjusted 0.09% (-0.09%) in each of the major construction spending categories. That will boost the headline monthly real growth, accordingly, versus the nominal performance. Depending on the construction category, related annual inflation for February 2016 ranged from 0.89% to 0.98%, which will subtract accordingly from the nominal annual growth to generate the real year-to-year growth rate.

Employment and Unemployment (March 2016). The Bureau of Labor Statistics (BLS) will publish its March 2016 labor data also on Friday, April 1st. Headline detail will be covered in *Commentary No. 796* of the same date. Both the more-inclusive unemployment-rate numbers, as well as the headline payroll-employment details, remain open for negative, headline surprises, given the ongoing, general weakening tone in a number of business indicators other than headline employment and 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 particularly 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 February 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 come in below what was a heavily-overstated, headline payroll gain of 242,000 in February 2016.