

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

**COMMENTARY NUMBER 809**  
**Revised First-Quarter Gross Domestic Product and Initial Gross National Product**  
**May 27, 2016**

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**U.S. Economy Contracted in First-Quarter 2016**  
**First-Quarter Gross National Product (GNP) Declined by 0.21% (-0.21%)**  
**Gross Domestic Product (GDP) Growth Revised to 0.84% from 0.54%**  
**GNP Is the Broadest Measure of U.S. Economic Activity, but like Other**  
**Net-Debtor Nations, the United States Prefers to Tout Its Headline GDP**  
**July 29th GDP Benchmark Revisions Promise**  
**Downside Corrections to Headline GDP Activity Since 2013**

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*PLEASE NOTE: The next regular Commentary, scheduled for Friday, June 3rd, will review the May Employment and Unemployment numbers, the April Trade Deficit and related annual benchmark revisions, and April Construction Spending.*

*Best wishes to all for a most enjoyable Memorial Day Weekend! — John Williams*

## OPENING COMMENTS AND EXECUTIVE SUMMARY

**Where Is Lyndon Johnson When You Need Him?** Not headlined in the Gross Domestic Product (GDP) [Press Release](#), where upwardly-revised first-quarter GDP growth of 0.8% and a massively distorted Gross Domestic Income (GDI) surge of 2.2% were publicized heavily for national-media consumption, the broadest U.S. economic measure of Gross National Product (GNP) declined in first-quarter 2016 by 0.2% (-0.2%). That information was found only in the detailed tables (Table III).

Discussed in the ShadowStats main text, GDP is the GNP net of trade flows in “factor income” such as interest and dividend payments. Accordingly, GDP is the preferred headline broad-economic measure for net-debtor nations such as the United States and Greece.

Back in the days when GNP was the headline U.S. economic measure, President Lyndon Johnson purportedly reviewed the numbers before their release, and he would return them to the Commerce Department, if Commerce had gotten them “wrong.” He 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 headline GNP reporting, or what since has become the generally more-positive, but less-substantive headline GDP reporting in today’s political environment.

***Downside Revisions Loom for the GDP—Continued Nonsense Reporting in the Context of Highly-Charged Political Circumstances and Highly-Vulnerable Financial Markets.*** Nonetheless, some dumbed-down analysts have no concept of the GNP and concentrate on just the headline GDP detail. Aside from the revised headline 0.84% second estimate of annualized real quarterly growth in first-quarter 2015 Gross Domestic Product (GDP) still being no more than statistical noise, the popular headline detail was nonsense in the context of the “fluff” built into the revised “guesstimate” by the Bureau of Economic Analysis (BEA). Clean reporting still would have shown a headline quarterly GDP contraction well in excess of 1.0% (-1.0%).

At least in the right direction, but still well shy of reality, Gross National Product (GNP)—the broadest measure of U.S. economic activity—declined at an annualized real pace of 0.21% (-0.21%). While the theoretical GDP-equivalent Gross Domestic Income (GDI) exploded in unstable and wildly gyrating volatility to an initial first-quarter gain of 2.23%. Heavily distorted by atrocious, upside-bias estimates out of the Bureau of Labor Statistics (BLS), the GDI reporting properly should be suspended by the BEA, until the BLS can straighten out its apparent internal reporting distortions.

Regardless 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. First-quarter 2016 GDP activity and other recent GDP reporting since first-quarter 2013 (an artificial time limit set by the BEA) likely will revise sharply lower, into headline quarterly contractions, come the July 29, 2016 benchmark revisions, although first-quarter 2016 GDP still could fall into contraction with its June 28th revision.

In this most-politically-sensitive of popularly followed domestic economic series, 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

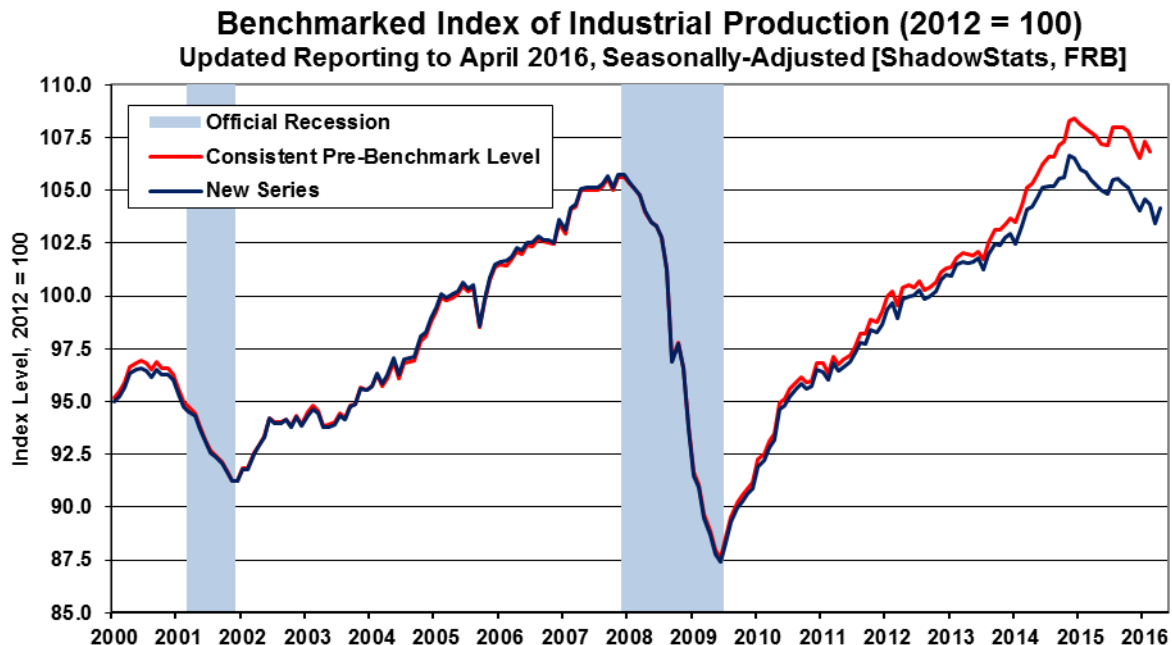
and 2007, plunged into 2009, entered a protracted period of stagnation thereafter—never recovering—and then began to turn down anew in late-2014.

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 1960s (see the opening paragraphs).

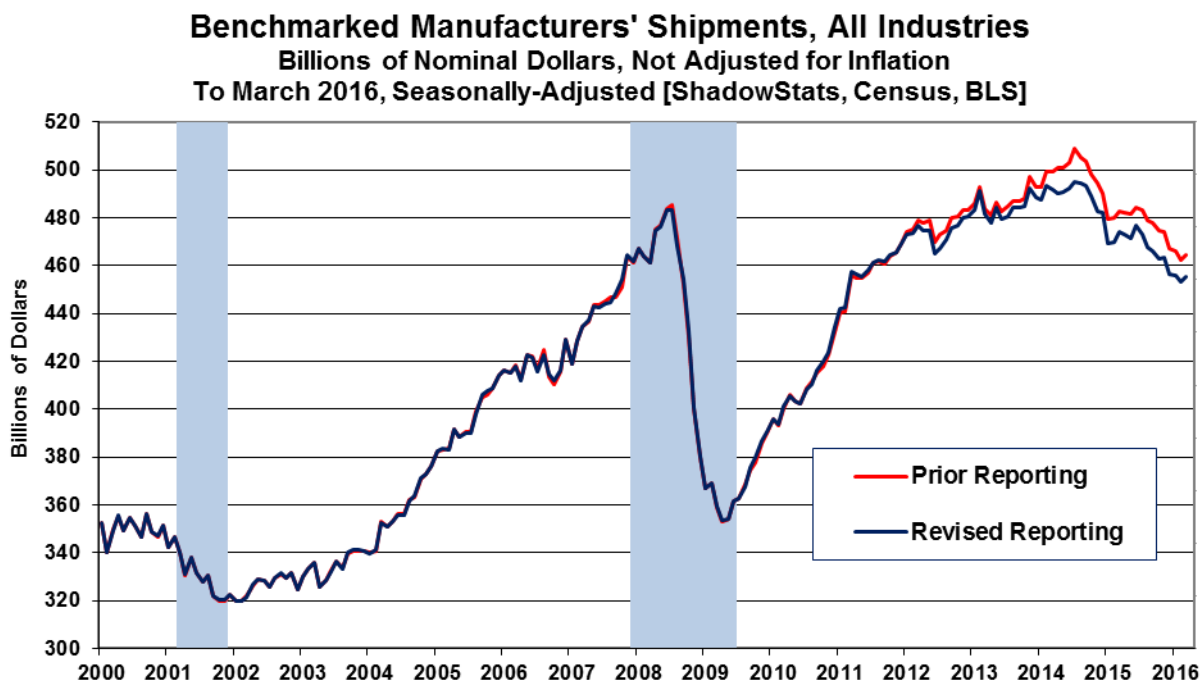
Nonetheless, despite all the upside biases and gimmicks built into the GDP reporting, the real world occasionally surfaces in formal GDP estimates, with a severe enough downturn. That likely is happening now, with a “new” recession in the process of officially unfolding. Major monthly economic series such as retail sales, industrial production, durable goods orders and housing-market measures have been showing reasonably regular quarterly contractions. Underlying reality has become weak enough, once again, for headline the GDP and related series to show an ongoing, formal downturn. Again, that initial recognition likely looms within the timeframe from now through the aftershocks of the July GDP benchmarking.

While the pending overhaul to historical GDP reporting will begin with first-quarter 2013, that artificial time constraint that will be lifted in the next comprehensive benchmarking of 2018. Recent benchmarkings to industrial production (*Graph 1*) and manufacturers’ shipments (*Graphs 2 and 3*) give some clue as to what will happen with the July 29th GDP revisions. Specifically, currently positive real growth should revise into quarterly contractions. Minimally affected quarters will be first-quarter 2015, fourth-quarter 2015 and first-quarter 2016, enough to push headline economic conditions into a formal recession. Further detail can be found in [Supplemental Commentary No. 807-A](#) and [Commentary No. 796-A](#).

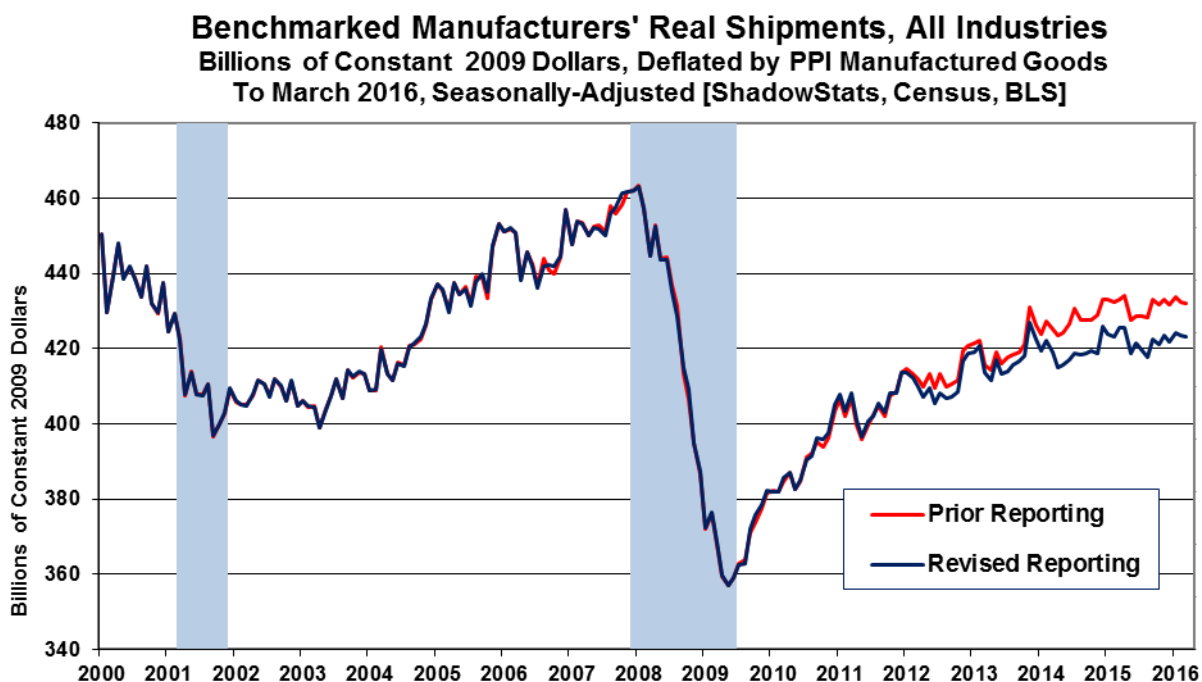
**Graph 1: Benchmarked Industrial Production and Subsequent Reporting through April 2016**



**Graph 2: Benchmarked Manufacturers' Shipment – Nominal Terms**



**Graph 3: Benchmarked Manufacturers' Shipments – Constant 2009 Dollars**



Further clarification on the GDP benchmarking should come from the June 3rd annual benchmark revisions to the trade deficit detail, which generally should be negative and which also should suggest likely quarters where the historical GDP would be subject to massive revisions.

**Today's Commentary (May 27th).** The balance of today's *Opening Comments* provides a summary of the first revision to first-quarter 2016 GDP and related GDI and GNP series.

The most recent *Hyperinflation Outlook Summary* is found in [Commentary No. 783](#), with [Commentary No. 807](#), [Commentary No. 799](#) and [No. 777 Year-End Special Commentary](#) as background to the currently unfolding financial circumstances. These documents will be updated shortly in a new *Special Report*.

The *Week Ahead* section previews next week's reporting of May labor conditions and the April trade deficit and construction spending details.

**Gross Domestic Product (GDP)—First-Quarter 2016 (Second Estimate, First Revision)—Minimal Upside GDP Revision in the Context of Contracting GDP.** The second estimate, first-revision to first-quarter 2016 GDP showed a statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 0.84% [previously up by 0.54%]. Distribution of the revised first-quarter 2016 GDP growth by major category is detailed in next section.

The new headline quarterly growth was at its lowest level in a year, down sharply from the headline annualized gains of 1.39% in fourth-quarter 2015, 1.98% in third-quarter 2015 and 3.92% in second-quarter 2015 GDP, but a notch or two higher now than the headline 0.64% growth in first-quarter 2015.

*Graphs 9 to 12* in the *Reporting Detail* show the latest headline levels of real quarterly GDP activity, both in terms of dollar level and annual change. Year-to-year real GDP growth in first-quarter 2016 revised minimally higher to 2.03%, slightly higher than the 1.98% annual growth in fourth-quarter 2015, but still 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).

**First-Quarter 2016 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, first revision of annualized quarterly real growth for first-quarter 2016 GDP was a revised 0.84% [previously 0.54%], versus 1.39% in fourth-quarter 2015, 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 first-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  $1.29\% - 0.45\% - 0.21\% + 0.20\% = 0.84\%$ , with the usual rounding difference. [Commentary No. 803](#) of April 28th detailed the growth-distribution estimate for the "advance" estimate of first-quarter GDP.

Regrouped by general product line, the BEA estimated that the headline 0.84% quarterly GDP growth rate included a 1.01% [previously 1.04%] growth-rate contribution from services and a 0.50% [previously 0.41%] contribution from structures, with a growth-rate subtraction of 0.67% (-0.67%) [previously down 0.91% (-0.91%)] from goods.

**Contributing Growth Factors.** The headline, upside revisions to first-quarter 2016 GDP growth rate were dominated by less-negative trade-deficit and inventory contributions and by more-positive residential construction, none of which were credible.

- **Consumer Spending Contributed a Revised 1.29% [Initially 1.27%] to First-Quarter GDP 2016 Growth; Fourth-Quarter Growth Contribution was 1.66%.** With only 0.09% being contributed to GDP growth from personal consumption of goods, the less-productive personal consumption of services still dominated the headline growth contribution. Minimally revised, the unseasonable weather boosted utilities usage by a transient 0.25% of GDP growth contribution. Unrevised, the 0.37% “contribution” from the highly-questionable reporting of health services (ACA, health care and hospitals), remained a dead weight on economic activity. The not accountable “other” services category contributed a slightly greater 0.20% to the GDP growth rate. The remaining 0.38% growth contribution remained fairly evenly spread between financial and insurance, food, accommodation, recreational and transportation services.
- **Business/Residential Investment Subtracted a revised 0.45% (-0.45%) [initially 0.60% (-0.60%)] from First-Quarter 2016 GDP Growth; Subtracted 0.16% (-0.16%) from Fourth-Quarter GDP Growth.** Quarterly contractions were seen in nearly all areas, including a narrowed contraction in inventory building, with the major exception of somewhat stronger 0.56% growth contribution to the GDP from residential investment. With a revised slowing in inventory building reflecting a negative GDP growth contribution of 0.20% (-0.20%) [previously 0.33% (-0.33%)], headline final sales—GDP net of inventory change—rose at a revised annualized quarterly pace of 1.04% [previously up by 0.87%] in first-quarter 2016.
- **Net Exports Subtracted a Revised 0.21% (-0.21%) [Initially 0.34% (-0.34%)] from First-Quarter 2016 GDP Growth; Subtracted 0.14% (-0.14%) from Fourth-Quarter Growth.** In a highly-questionable narrowing of the estimated first-quarter trade deficit, the BEA picked up enough relative activity to provide more than a third of the upside growth revision to first-quarter GDP.
- **Government Spending Contributed an Unrevised 0.20% to First-Quarter 2016 GDP Growth; Contributed 0.02% to Fourth-Quarter Growth.** Reflecting no changes from prior reporting at the first decimal point, seasonally-adjusted federal government spending subtracted 0.11% (-0.11%), of which defense spending subtracted 0.15% (-0.15%) from the headline GDP growth rate, while state and local government spending contributed 0.31% to the headline growth number, dominated by the “gross investment” category.

**GDP Implicit Price Deflator (IPD).** The second reading of first-quarter 2016 GDP inflation, or the implicit price deflator (IPD), was a downwardly revised, annualized quarterly increase of 0.59%. That downside revision to inflation accounted for 0.11% of the 0.30% upside revision to the real first-quarter’s annualized real GDP growth rate. Such followed annualized IPD inflation of 0.94% in fourth-quarter 2015, 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, first-quarter IPD inflation revised lower to 1.24%, versus



1.12% in fourth-quarter 2015, 0.90% in third-quarter 2015, 0.98% in second-quarter 2015 and a benchmarked 1.01% annual gain in first-quarter 2015.

For purposes of comparison, on an annualized quarter-to-quarter basis, the seasonally-adjusted Consumer Price Index CPI-U fell by 0.31% (-0.31%) in first-quarter 2016, versus a 0.77% gain in fourth-quarter 2015, 1.38% in the third quarter, 2.44% in the second quarter and a of 2.86% (-2.86%) in the first quarter. Unadjusted, year-to-year quarterly CPI-U inflation showed a year-to-year first-quarter 2016 gain of 1.08%, versus a fourth-quarter 2015 gain of 0.47%, 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.

**Gross National Product (GNP).** The initial headline estimate of first-quarter 2016 GNP showed an annualized real first-quarter contraction of 0.21% (-0.21%), again versus an upwardly revised 0.84% headline GDP gain. That GNP growth was against unrevised quarterly gains of 1.13% [GDP at 1.39%] in fourth-quarter 2015, 1.35% [GDP at 1.98%] in third-quarter 2015, 3.93% [GDP at 3.92%] in second-quarter 2015 and an unrevised quarterly contraction of 0.15% (-0.15%) [GDP at plus 0.64%] in first-quarter 2015.

On a year-to year basis, the initial headline estimate of first-quarter 2016 GNP showed a year-to-year gain of 1.54% [GDP was revised upwardly to 2.03%], versus unrevised gains of 1.55% [GDP at 1.98%] in fourth-quarter 2015, 1.74% [GDP at 2.15%] in third-quarter 2015, 2.54% [GDP at 2.72%] in second-quarter 2015 and 2.66% [GDP at 2.88%] in first-quarter 2015.

Gross National Product (GNP) remains 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 the United States, international reporting standards were shifted some decades back to reporting headline GDP instead of what standardly had become a relatively weaker GNP.

**Gross Domestic Income (GDI).** Heavily touted by the BEA, for the moment, as *the* GDP counterpart, the increasingly unstable GDI has been bloated by effectively-worthless income reporting out of the Bureau of Labor Statistics (BLS). The purported income gains reflect heavily-upside-biased income estimates out of the otherwise-rigged nonfarm payroll survey, held in almost perpetual growth by built-in upside biases (see [Commentary No. 805](#), *Birth-Death/Bias Factor* discussion on page 26).

Gross Domestic Income (GDI) is the theoretical income-side equivalent to the consumption-side GDP estimate. The GDP and GDI are made to equal each other, every quarter, with the addition of a “statistical discrepancy” to the GDI-side of the equation, but the discrepancy just as easily could be added to the GDP number. Reflecting significant overstatement and overestimation of income growth in the GDI, among other instabilities in the headline reporting, the first-quarter 2016 “statistical discrepancy” widened to -\$264.7 billion, from -\$210.8 billion in fourth-quarter 2015, but the fourth-quarter discrepancy also just widened from -\$163.9 billion, in revision. In perspective, these numbers are in nominal terms, with quarterly revisions and swings that dwarf the \$64.7 billion annualized, headline nominal growth for the revised first-quarter GDP.

The only prior estimate of headline, annualized real fourth-quarter 2015 GDI growth had been 0.91%, down from a third-quarter 2015 annualized growth estimate of 2.04%. That was revised to a nonsensical

1.95% in the fourth-quarter 2015, followed by an initial first-quarter 2016 annualized headline growth rate of 2.23%. Without the upside revision to fourth-quarter activity, the headline first-quarter growth rate would have been a booming 3.28%. Year-to-year GDI growth stood at 2.10% for first-quarter 2016, up from an upwardly revised 1.65% in fourth-quarter 2015, versus an unrevised annual gain of 1.89% in third-quarter 2015.

***Underlying Economic Reality.*** The U.S. economy continued in a deepening and as-yet-unrecognized “new” recession, although headline monthly reporting activity in subsidiary economic series broadly has continued to move market expectations in that direction (the ShadowStats contention remains that the “new” downturn is in reality just a continuation of the economic crash into 2009). The second guesstimate of first-quarter 2016 GDP of 0.84% was still statistically-insignificant. In positive territory for the first two estimates, that growth rate is a fair bet to revise into negative territory in the June 28th second revision or otherwise to be among highly-likely headline quarterly contractions that loom in the July 29th GDP benchmark revisions, slated at least minimally for first-quarter 2015, fourth-quarter 2015 and first-quarter 2016.

The second estimate of 0.84% [previously 0.54%] first-quarter 2016 GDP growth followed headline growth of 1.39% fourth-quarter 2015 GDP, 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 looming July 2016 benchmarking should not be so kind, and serves as an outside event for triggering formal 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 first-quarter 2016 GDP contraction, as could be seen with the June 28th first revision.

Formal headline GDP activity continues to run well above economic reality as signaled by a number of business indicators, such as corporate revenues, domestic freight activity (see *Graph 6*), domestic consumption of petroleum products and a variety of better-quality economic series, such as industrial production, new orders for durable goods and real retail sales. Even housing starts signaled a fourth-quarter 2015 contraction. These circumstances have been detailed most recently in [Commentary No. 808](#), [Supplemental Commentary No. 807-A](#), [Commentary No. 807](#), [Commentary No. 806](#), [Commentary No. 805](#), [Commentary No. 800](#), [Commentary No. 799](#), [Commentary No. 796](#) and [Commentary No. 796-A](#).

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, are 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 29, 2016 revisions should do more of the same, but only back through 2013. 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, although this year’s benchmarking should leave the new historical headline detail showing at least a “new” recession.

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 consecutive GDP contractions.

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

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. 805](#)), monthly real median household income and other consumer measures (see [No. 806](#), [No. 808](#) and [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. 807](#) 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 a too-low 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 second estimate of first-quarter 2016 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. Added for comparison is the [Cass Freight Index](#)<sup>TM</sup>, a measure of North American freight volume as calculated by, and used with the permission of Cass Information Systems, Inc. Shown in *Graph 6*, the freight index, as a broad measure of basic domestic economic activity, has much more in common with the “corrected” GDP of *Graph 5*, than the headline GDP of *Graph 4*.

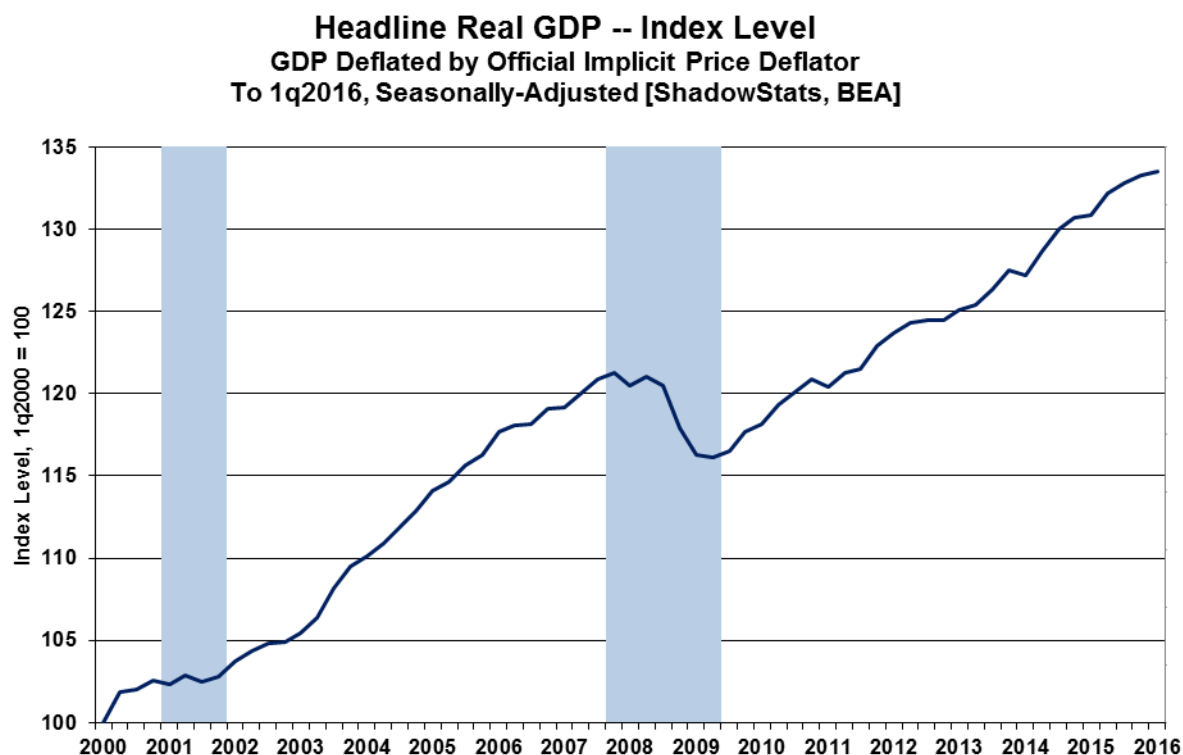
The second set of graphs (*Graphs 7 and 8*) updates the detail 1970-to-date, expressed in billions of 2009 dollars as used with the headline GDP. The graphs show official periods of recession as shaded areas, with ShadowStats-defined recessions indicated by the lighter shading in *Graph 8*, the second graph of the second set, as published initially in [2014 Hyperinflation Report—Great Economic Tumble](#).

Shown in the first graph of each set (*Graphs 4 and 7*) 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 GDP inflation (the implicit price deflator - IPD), headline first-quarter 2015 GDP currently stands 10.1% 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 8*), shows first-quarter 2016 GDP activity down by 7.4% (-7.4%) from its pre-recession peak of first-quarter 2006.

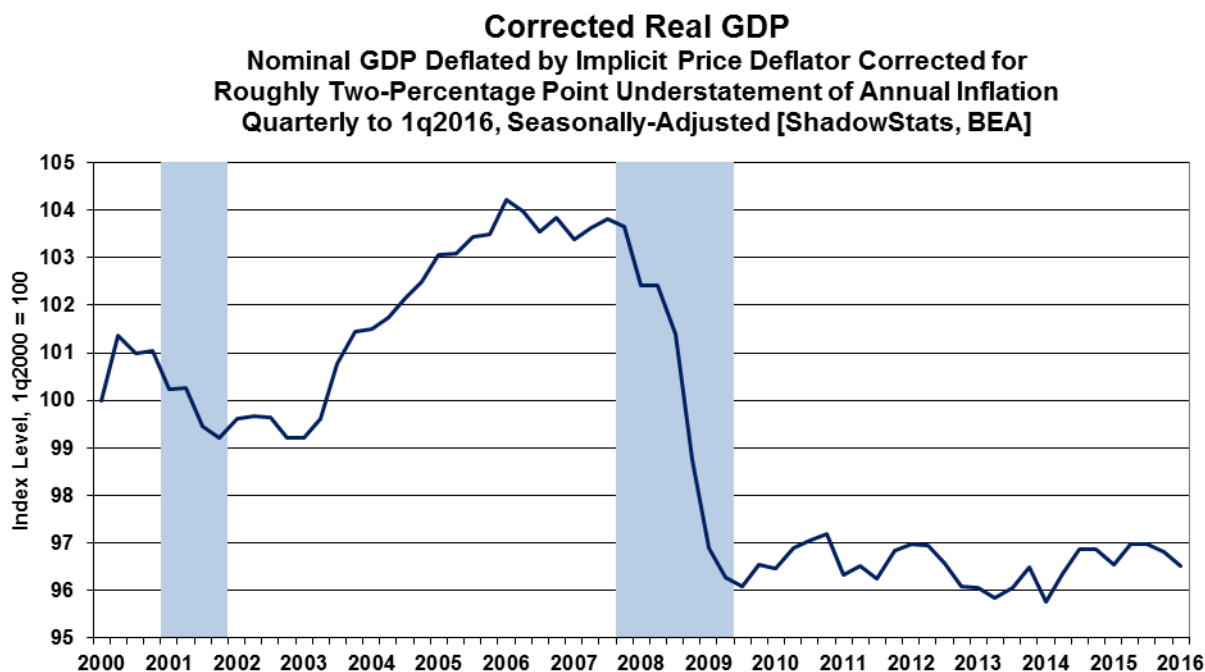
Further, discussed broadly in the second installment of the *Hyperinflation Report*, no other major economic series has shown a pattern of official full economic recovery and meaningful expansion thereafter, consistent with the headline GDP reporting. Such is covered in the recent discussions on industrial production, real retail sales and real durable goods orders (see [No. 807](#) and [No. 808](#)). 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 8*) plots the *Corrected Real GDP*, corrected for the understatement inherent in official inflation estimates (see [Public Commentary on Inflation Measurement](#)), with the deflation by the implicit price deflator (IPD) adjusted for understatement of roughly two-percentage points of annual inflation in recent years. The inflation understatement has resulted from hedonic-quality adjustments, also as discussed in the *Hyperinflation Reports*.

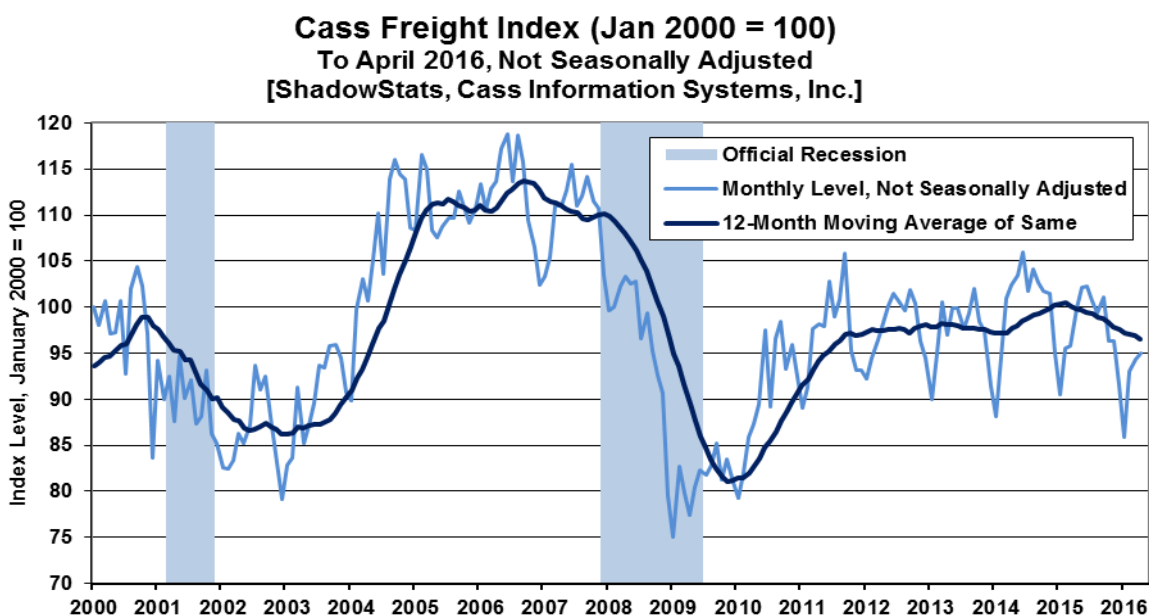
**Graph 4: Real GDP Index – Headline Real GDP (2000-2016), First Revision to First-Quarter 2016**



**Graph 5: "Corrected" Real GDP Index (2000-2016), First Revision to First-Quarter 2016**



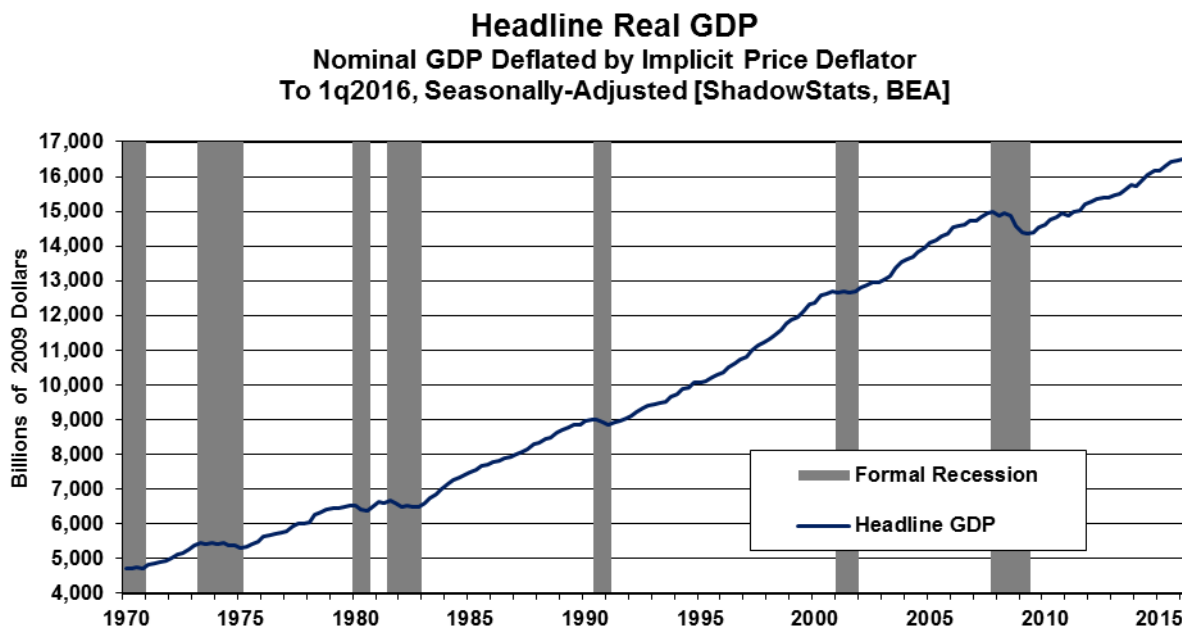
**Graph 6: Cass Freight Index™ (2000-April 2016)**



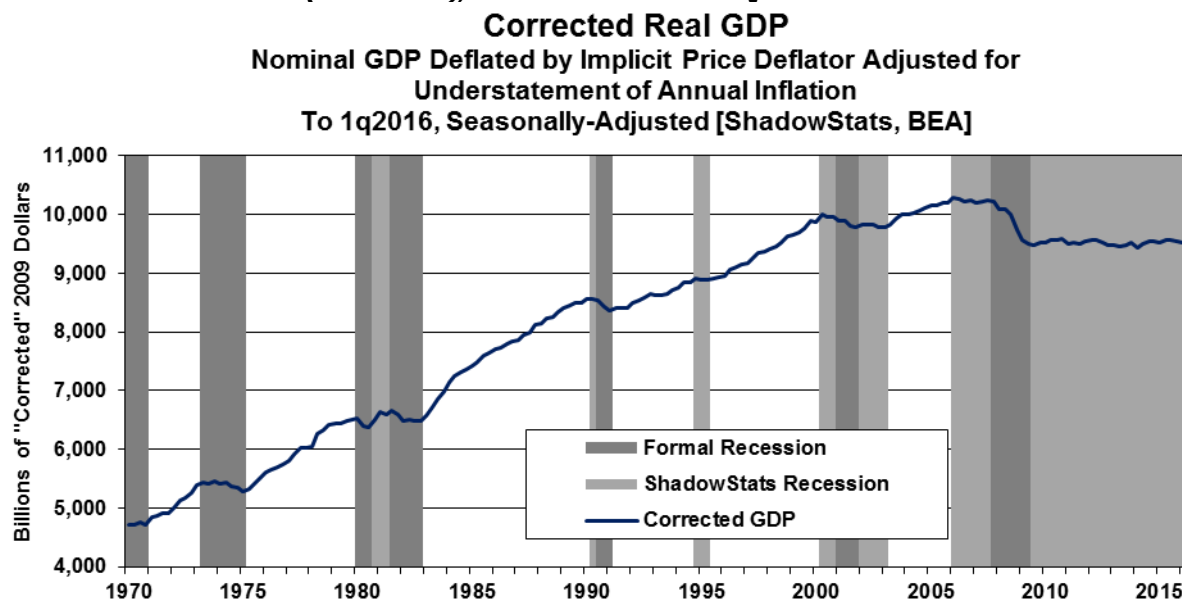
The pattern of economic collapse into 2009, followed by some minimal recovery, low-level stagnation and renewed contraction is a common condition with many series, as shown regular in the *Opening Comments* of the unemployment and employment related *Commentaries* such as [Commentary No. 805](#). These often independent numbers—non-U.S. government—such as the Cass Freight Index, put the lie to

the gimmicked headline reporting that has been massaged for decades by government agencies and consulting academics, often publishing numbers adjusted for economic theories that have limited application to real word activity.

**Graph 7: Real GDP Index (1970-2016), First Revision to First-Quarter 2016**



**Graph 8: "Corrected" Real GDP (1970-2016), First Revision to First-Quarter 2016**



[The *Reporting Detail* section includes significant additional GDP information and graphics.]

## REPORTING DETAIL

### GROSS DOMESTIC PRODUCT—GDP (First-Quarter 2016, Second Estimate, First Revision)

**Gross Domestic Product—Continued Nonsense Reporting in the Context of Highly-Charged Political Circumstances and Highly-Vulnerable Financial Markets.** *[This section through the “Notes” comes largely from elements of the Opening Comments.]* Aside from the revised headline 0.84% second estimate of annualized real quarterly growth in first- quarter 2015 Gross Domestic Product (GDP) still being no more than statistical noise, the detail was nonsense in the context of the “fluff” still built into the headline “guesstimate” by the Bureau of Economic Analysis (BEA). Clean reporting would have shown a headline quarterly contraction well in excess of 1.0% (-1.0%).

At least in the right direction, but still well shy of reality, Gross National Product (GNP)—the broadest measure of U.S. economic activity—declined at an annualized real pace of 0.21% (-0.21%). The theoretical GDP-equivalent Gross Domestic Income (GDI) exploded in unstable and wildly gyrating volatility to an initial first-quarter gain of 2.23%. Heavily distorted by atrocious, upside bias estimates out of the Bureau of Labor Statistics (BLS), the BEA might do well to suspend its GDI reporting until the BLS can straighten out its apparent internal reporting distortions.

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. First-quarter 2016 GDP activity and other recent GDP reporting since first-quarter 2013 (an artificial time limit set by the BEA) likely will revise to headline quarterly contractions in the July 29, 2016 GDP benchmarking, although the first-quarter 2016 GDP still could fall into contraction in its June 28th revision.

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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 1960s (see the opening paragraphs of the *Opening Comments*).

Nonetheless, despite all the upside biases and gimmicks built into the GDP reporting, the real world occasionally surfaces in formal GDP estimates, with a severe enough downturn. That likely is happening now, with a “new” recession in the process of official unfolding. Major monthly economic series such as



retail sales, industrial production, durable goods orders and housing-market measures have been showing reasonably regular quarterly contractions. Underlying reality has become weak enough, once again, for headline the GDP and related series to show an ongoing, formal downtown. That initial recognition likely looms within the timeframe from now through the aftershocks of the July GDP 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  $1.01 \times 1.01 \times 1.01 \times 1.01 = 1.0406$  or 4.1%, instead of  $4 \times 1\% = 4\%$ .

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

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**Gross Domestic Product (GDP).** Published today, May 27th, by the Bureau of Economic Analysis (BEA), the second estimate of first-revision to first-quarter 2016 GDP showed a statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 0.84% [previously up by 0.54%] +/- 3.5%

(95% confidence interval). Distribution of the revised first-quarter 2016 GDP growth by major category is detailed in the *Opening Comments*.

The new headline quarterly growth at its lowest level in a year, down sharply from the headline annualized gains of 1.39% in fourth-quarter 2015, 1.98% in third-quarter 2015 and 3.92% in second-quarter 2015 GDP, but a notch or two higher now, than the headline 0.64% growth in first-quarter 2015.

*Graphs 9* and *11* 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 10* and *12*, headline year-to-year real GDP growth in first-quarter 2016 revised minimally higher to 2.03% [previously up by 1.95%], now up slightly from the 1.98% annual growth in fourth-quarter 2015, but still 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).

*Graph 10* shows current year-to-year quarterly detail, from 2000-to-date, where *Graph 12* shows the same series in terms of its full quarterly, year-to-year history back to 1948.

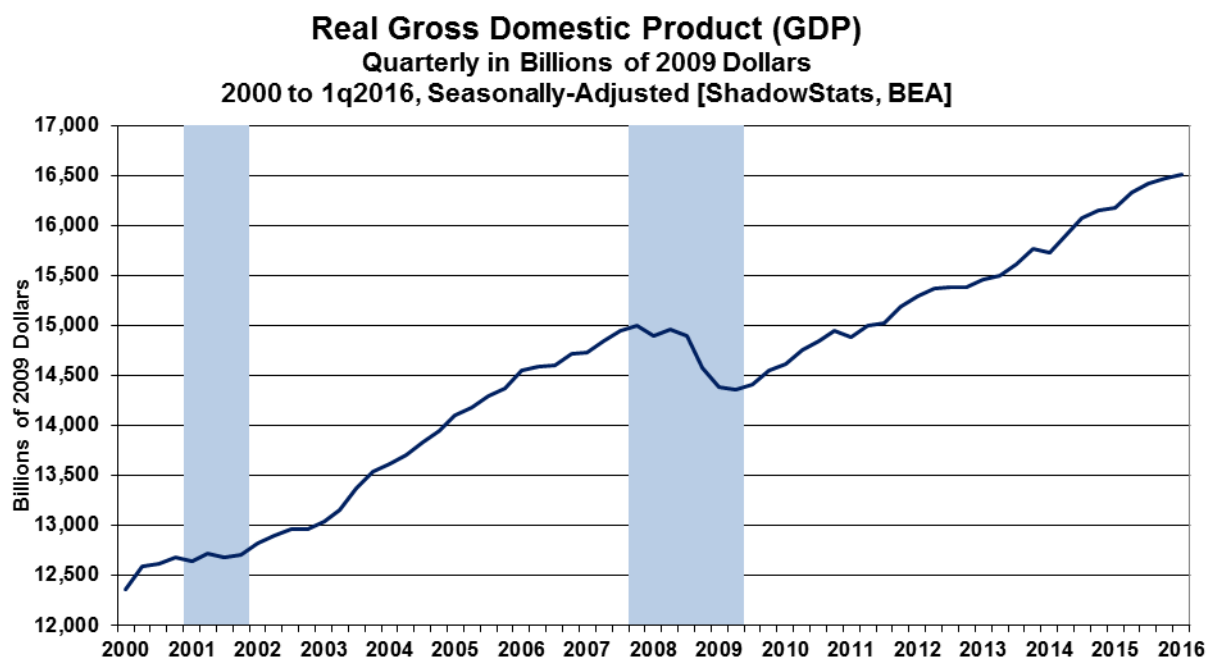
***Implicit Price Deflator (IPD).*** As general guidance, the weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth. The second reading on first-quarter 2016 GDP inflation, or the implicit price deflator (IPD), was an annualized quarterly increase of 0.59% [previously up by 0.70%]. That downside revision to inflation accounted for 0.11% of the 0.30% upside revision to the real first-quarter's annualized real GDP growth rate. Such followed annualized IPD inflation of 0.94% in fourth-quarter 2015, 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, first-quarter IPD inflation revised to 1.24% [previously 1.27%], versus 1.12% in fourth-quarter 2015, 0.90% in third-quarter 2015, 0.98% in second-quarter 2015 and a benchmarked 1.01% annual gain in first-quarter 2015.

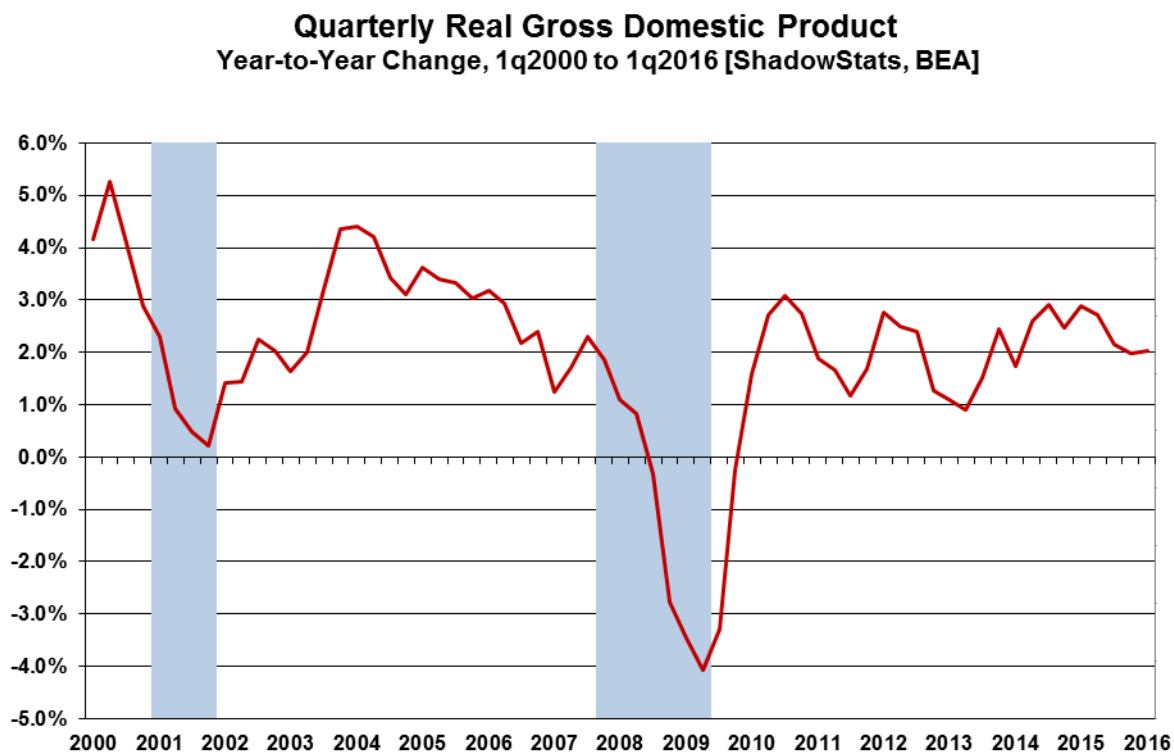
For purposes of comparison, on an annualized quarter-to-quarter basis, the seasonally-adjusted Consumer Price Index CPI-U fell by 0.31% (-0.31%) in first-quarter 2016, versus a 0.77% gain in fourth-quarter 2015, 1.38% in the third quarter, 2.44% in the second quarter and a quarterly contraction of 2.86% (-2.86%) in the first quarter.

Unadjusted, year-to-year quarterly CPI-U inflation showed a year-to-year first-quarter 2016 gain of 1.08%, versus a fourth-quarter 2015 gain of 0.47%, 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 (see [Commentary No. 799](#)).

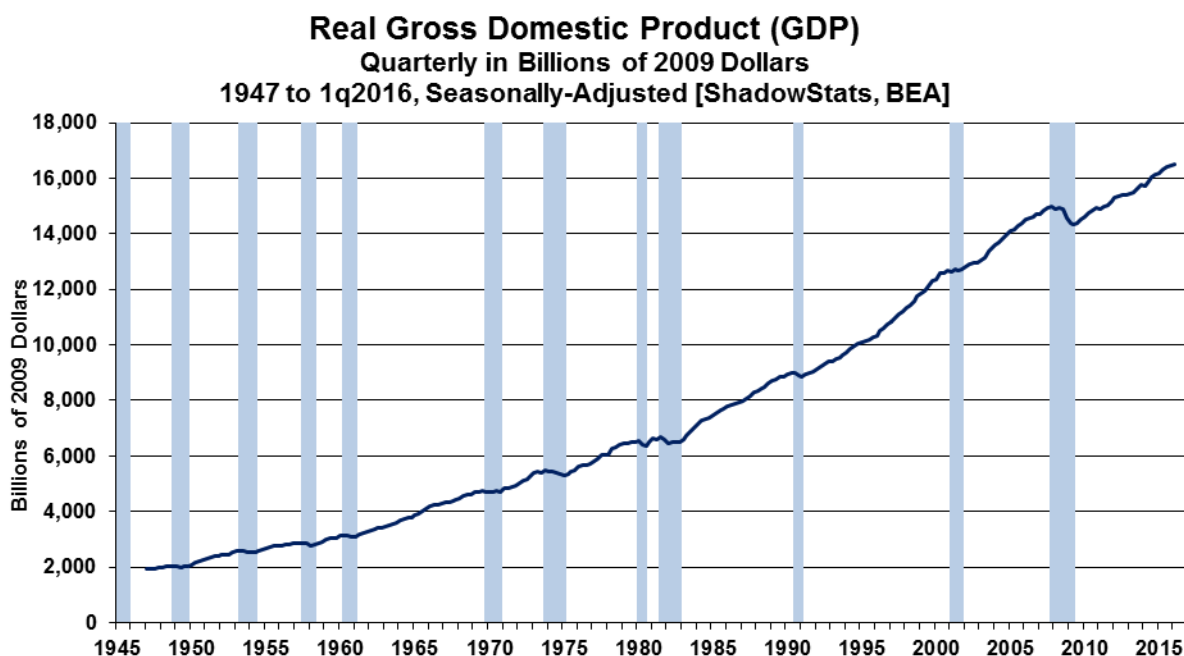
**Graph 9: Quarterly GDP in Billions of 2009 Dollars (2000 to 2016), First Revision to First-Quarter 2016**



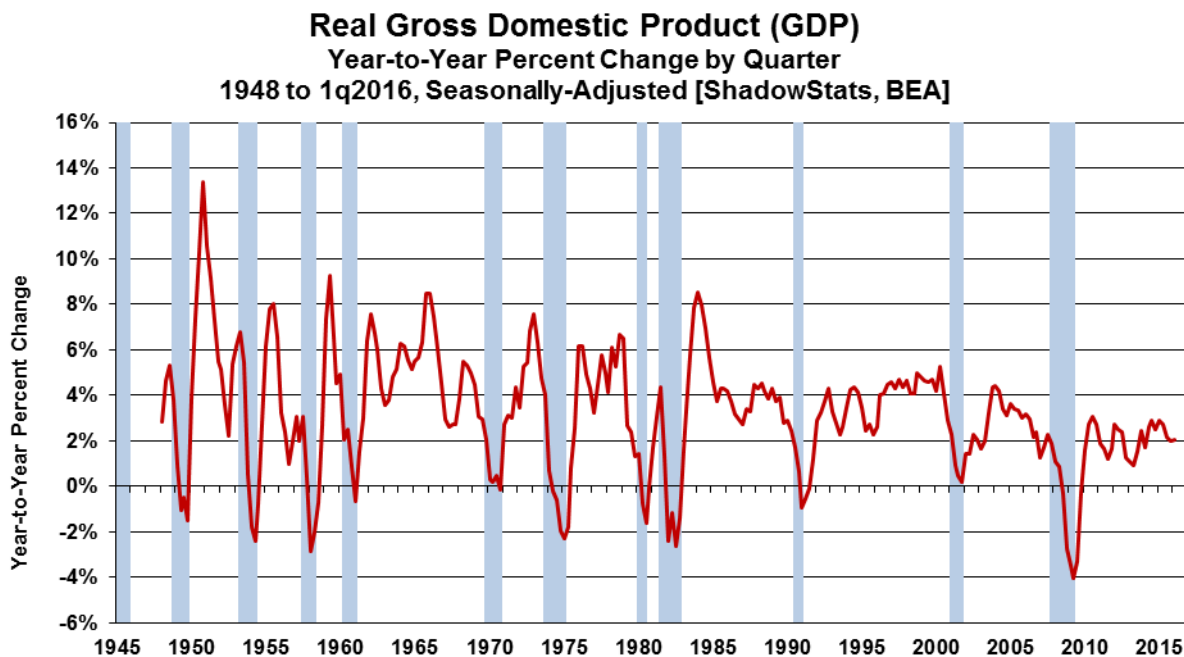
**Graph 10: Quarterly GDP Real Year-to-Year Change (2000 to 2016), First Revision to First-Quarter 2016**



**Graph 11: Quarterly GDP in Billions of 2009 Dollars (1947-2016), First Revision to First-Quarter 2016**



**Graph 12: Quarterly GDP Real Year-to-Year Change (1948-2016), First Revision to First-Quarter 2016**



**Gross National Product (GNP).** The initial headline estimate of first-quarter 2016 GNP showed an annualized real first-quarter contraction of 0.21% (-0.21%), again versus an upwardly revised 0.84% [previously up by 0.54%] in the headline GDP. That GNP growth was against unrevised quarterly gains

of 1.13% [GDP at 1.39%] in fourth-quarter 2015, 1.35% [GDP at 1.98%] in third-quarter 2015, 3.93% [GDP at 3.92%] in second-quarter 2015 and an unrevised quarterly contraction of 0.15% (-0.15%) [GDP at 0.64%] in first-quarter 2015.

On a year-to year basis, the initial headline estimate of first-quarter 2016 GNP showed a year-to-year gain of 1.54% [GDP was 2.03%, previously 1.95%], versus unrevised gains of 1.55% [GDP at 1.98%] in fourth-quarter 2015, 1.74% [GDP at 2.15%] in third-quarter 2015, 2.54% [GDP at 2.72%] in second-quarter 2015 and 2.66% [GDP at 2.88%] in first-quarter 2015.

Gross National Product (GNP) remains 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 the United States, international reporting standards were shifted some decades back to reporting headline GDP instead of what standardly had become a relatively weaker GNP.

**Gross Domestic Income (GDI).** Heavily touted by the BEA, for the moment, as *the* GDP counterpart, the increasingly unstable GDI has been bloated by effectively-worthless income reporting out of the Bureau of Labor Statistics (BLS). The purported income gains reflect heavily-upside-biased income estimates out of the otherwise-rigged nonfarm payroll survey, held in almost perpetual growth by built-in upside biases (see [Commentary No. 805](#), *Birth-Death/Bias Factor* discussion on page 26).

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

Reflecting significant overstatement of income growth in the GDI, and other instabilities in the headline reporting, the first-quarter 2016 “statistical discrepancy” widened to -\$264.7 billion, from -\$210.8 billion in fourth-quarter 2015, but the fourth-quarter discrepancy also just widened from -\$163.9 billion, in revision. These numbers are in nominal terms, with quarterly revisions and swings that dwarf the \$64.7 billion annualized nominal growth for the revised first-quarter GDP.

The only prior estimate of headline, annualized real fourth-quarter 2015 GDI growth had been 0.91%, down from a third-quarter 2015 annualized growth estimate of 2.04%. That was revised today to a nonsensical 1.95% in the fourth-quarter 2015, followed by an initial first-quarter 2016 annualized headline growth rate of 2.23%. Without the upside revision to fourth-quarter activity, the headline first-quarter growth rate would have been a booming 3.28%. Year-to-year GDI growth stood at 2.10% for first-quarter 2016, up from a revised 1.65% [previously 1.39%] in fourth-quarter 2015, versus an unrevised annual gain of 1.89% in third-quarter 2015.

**ShadowStats-Alternate GDP.** The ShadowStats-Alternate GDP estimate for first-quarter 2016 GDP remained a year-to-year contraction of 1.8% (-1.8%) versus the annual gain of 2.0% seen in the headline number. Such was against a ShadowStats estimate of a 1.7% (-1.7%) annual decline in fourth-quarter 2015, versus the official fourth-quarter GDP year-to-year gain of 2.0% (see the [Alternate Data](#) tab). The differences between the ShadowStats estimate and the current headline reporting should narrow markedly come the annual GDP benchmark revisions scheduled for July 29, 2016.



While the annualized, real quarterly growth rate is not estimated formally on an alternate basis, the 0.8% annualized, headline quarter-to-quarter gain in first-quarter 2016 was much weaker, net of all the happy assumptions and regular reporting gimmicks coming into today. It is of risk of revising into an outright quarterly contraction in the third estimate, due on June 28th, and certainly in the benchmark revisions, if it has not happened prior to same. 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 8*), 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 Deterioration Should Intensify, Increasingly Pummeling the U.S. Dollar and Boosting Gold, Silver and Oil Prices.** Market expectations for business activity should deteriorate at an accelerating pace, amidst intensifying, negative headline economic reporting and Fed-policy waffling in the weeks and months ahead. The broad trend in weakening expectations for business activity, and in movement towards looming recession recognition, continues, as discussed in today’s *Opening Comments*, [Commentary No. 808](#), [Supplemental Commentary No. 807-A](#), [Commentary No. 807](#), [Commentary No. 806](#), [Commentary No. 805](#), [Commentary No. 804](#), [Commentary No. 800](#), [Commentary No. 799](#), [Commentary No. 796-A](#), [Commentary No. 796](#) and [No. 777 Year-End Special Commentary](#).

In response to perpetual non-recovery and an intensifying downtrend in underlying economic activity, negative market reactions generally have surfaced in trading of the U.S. dollar and in related financial markets, with upside pressures on gold, silver and oil prices—although market activity is somewhat mixed at the moment—as discussed in [Commentary No. 807](#) and [Commentary No. 799](#). These reactions reflect, at least in part, a solidifying sense of Federal Reserve impotence, despite any near-term games being played by the U.S. central bank. Further tightening by the Fed before the election remains unlikely—despite the continued “good cop” versus “bad cop” routine being used by Fed officials at the

moment with the investment community—and despite the rising chorus of “rates are going up in June,” renewed quantitative easing could become a target of intensified market speculation as the deepening recession unfolds.

Increasingly-weak headline reporting of the regular monthly economic numbers should be accompanied by much worse-than-expected—negative—reporting for at least the next several quarters of GDP (and GDI and GNP), as seen with today’s initial reporting of a first-quarter 2016 contraction in the GNP. That includes good odds of a reported outright quarterly contraction as well in first-quarter 2016 GDP in the June 28th second monthly revision, as well as pending downside revisions to GDP history (including headline quarterly contractions in first-quarter 2015, fourth-quarter 2015 and first-quarter 2016, should it still be in positive territory) come the July 29th annual GDP benchmark revisions.

Consistent with the relatively neutral benchmark revisions to retail sales and housing starts, and in line with recent sharp downside revisions to industrial production and durable goods orders, and likely pending negative benchmark revisions to construction spending and trade, expectations for the GDP benchmarking also should fall sharply. That GDP benchmarking now appears to be the most-likely point at which the elements for a “formal” recession call will be in full 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. Headline March and April 2016 detail moved into positive headline territory, in tandem with rising gasoline prices. CPI inflation is on track to rise further in May and likely going forward, still boosted by 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” 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](#)). John Crudele of the *New York Post* continues his investigations in reporting irregularities: [Crudele Investigation](#).

### **PENDING RELEASES:**

**Construction Spending (April 2016).** The Commerce Department will release its estimate of April 2016 construction spending on Wednesday, June 1st. Detail will be covered in ShadowStats *Commentary No. 810* of June 3rd. 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 a sudden spike in headline inflation.

In what will have some impact on the nominal (not-inflation-adjusted) growth, relative to real (inflation-adjusted) growth, April 2016 inflation (PPI – Final Demand Construction) rose month-to-month by a seasonally-adjusted 0.79% in the aggregate construction spending category. That will reduce the headline monthly real growth, accordingly, versus the nominal performance. Again, in the aggregate construction category, seasonally-adjusted annual inflation for April 2016 was 1.87%, still two to three percentage points shy of private surveying, but higher than has been used recently in deflating this series. The headline annual inflation will subtract accordingly from the nominal annual growth to generate the real year-to-year growth rate.

**U.S. Trade Balance (April 2016).** The Commerce Department and Bureau of Economic Analysis (BEA) will release their full version of the monthly U.S. trade balance for April 2016 on Friday, June 3rd, along with annual benchmark revisions to the series back to 2013, all to be covered in *Commentary No. 810* of that date. Such also will update the relative quarter-to-quarter trade deterioration in first-quarter 2016, with potential negative implications for the next revision to first-quarter GDP growth.

That said, the nature of significant, pending historical trade revisions should be towards deeper historical trade deficits, with major negative impact likely on the pending July 29th GDP benchmark revisions, as touched upon in the opening paragraphs of the *Opening Comments*.

**Employment and Unemployment (May 2016).** The Bureau of Labor Statistics (BLS) will publish its May 2016 labor data on Friday, June 3rd. Headline detail also will be covered in *Commentary No. 810* of that date. Both the more-inclusive unemployment-rate numbers, as well as the headline payroll-employment details, remain open for further, negative headline surprises, given the ongoing, general weakening tone in a number of business indicators, other than has been seen yet fully in the headline employment and unemployment detail.

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 deteriorate, suggesting 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 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 5.0% of March 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 May activity again should favor much weaker-than-expected payroll gains and unemployment changes. Consensus forecasts likely will come in somewhat higher than the heavily-overstated, headline payroll gain of 160,000 in April 2016, while those in the markets who expected a headline drop in U.3 unemployment to 4.9%, last month, likely still will be looking for that.

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