

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

COMMENTARY NUMBER 962

Second-Quarter GDP and the Comprehensive Benchmark Revisions – First Cut

July 27, 2018

GDP Benchmark Revisions Showed the Economic Collapse into 2009 to be Shallower, With the Recovery and Expansion Somewhat Faster and Stronger

A Number of Pre-Announced Gimmicks, and Redefinitions Helped to Mute Slowing Growth, Such as “Seasonally Adjusting” Seasonal Adjustments

Underlying Downside Benchmark Revisions to Series Such as Industrial Production Had Limited Effect, Although Revised Trade Data Had Visible Impact

Second-Quarter 2018 Annualized Real GDP Growth Boomed by 4.06%, Versus a Revised 2.22% (Previously 1.99%) in First-Quarter 2018, a Revised 2.29% (Previously 2.89%) in Fourth-Quarter 2017 and a Revised 2.82% (Previously 3.16%) in Third-Quarter 2017

Nothing Like Avoiding a Downside Revision to Headline First-Quarter Activity by Lowering Growth in the Preceding Periods

Second-Quarter 2018 Real GDP Stood at 17.4% Above Its Pre-Recession Peak

Yet, No Major Underlying Economic Series or Broad Employment Measure Comes Close to Confirming Such Growth in this Most-Heavily Gimmicked of U.S. Statistics

PLEASE NOTE: Today's limited missive provides an early assessment of the "advance" estimate of Second-Quarter 2018 Gross Domestic Product, published today (July 27th) as part of the comprehensive GDP benchmark revision back to 1929. Extended coverage of the headline second-quarter GDP and revisions follows in *Special Commentary No. 964*, planned for Tuesday, July 31st.

In the interim, *Commentary No. 963*, planned for this weekend, will detail recently released June New Orders for Durable Goods, Industrial Production, Retail Sales and the Cass Freight Index™.

Commentary No. 965, planned for Friday, August 3rd, will provide at least an initial review of headline July Employment and Unemployment, and the June Trade Deficit and Construction Spending. Updated *Hyperinflation* and *Consumer Liquidity Watches* will follow shortly thereafter, likely early in the August 6th week.

Links to the most-recent *Watches*: [Hyperinflation Watch – No. 2](#) (July 20th) and [Consumer Liquidity Watch – No. 3](#) (July 18th). They always are available directly at www.shadowstats.com, along with your case-sensitive login and password. Updates are advised by e-mail, unless you request otherwise (send a note to johnwilliams@shadowstats.com).

Planned publication schedules, revisions to same and notes to subscribers are posted regularly in the top left hand-column (under the *Latest Commentaries* heading) of the [ShadowStats](#) home page.

Best wishes to all, John Williams (707) 763-5786

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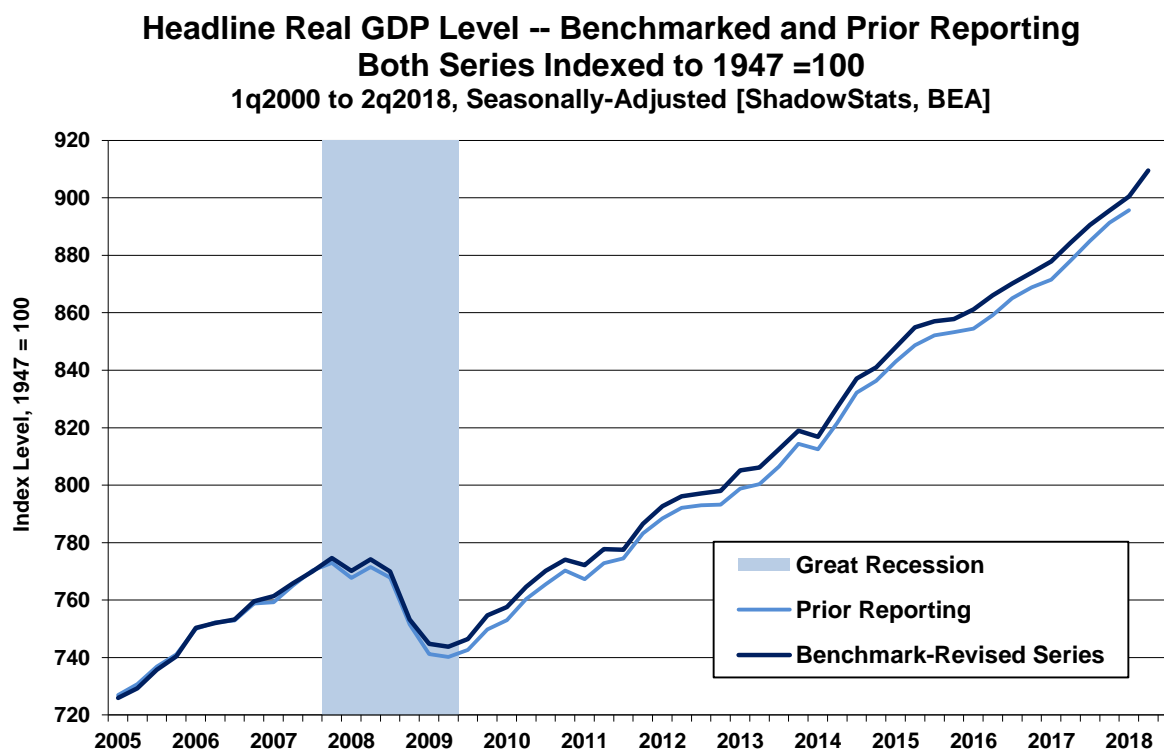
FIRST CUT ON THE GDP AND REVISIONS

Revising Prior Activity Lower Tends to Make Current Growth Look Stronger

Benchmark Revisions to Gross Domestic Product Restated U.S. Economic History Back to 1929, Upping the Relative Level of Activity Coming Out of the Economic Collapse into 2009. The Bureau of Economic Analysis (BEA) published its first estimate of Second-Quarter 2018 Gross Domestic Product (GDP) along with annual benchmark revisions, this morning, July 27th. Described in the [News Release](#), this comprehensive revision went back to the series' initial details of 1929, recasting not only the widely followed GDP measure, but also its theoretically equivalent Gross Domestic Income (GDI) and broader Gross National Product (GNP) measures.

Contrary to my forecasts and expectations, the benchmark revisions generally were positive, not negative, not showing headline potential, yet, for a new recession, and reflecting little obvious impact from negative benchmark revisions to underlying series such as Industrial Production. Also, the headline second-quarter GDP growth of 4.1% basically matched strong consensus expectations, albeit not without gimmicks.

Graph 1: Benchmark-Revised GDP, Plot of Comparative Indexed Levels of Activity Before and After Revisions



Material provided in this *Commentary* is preliminary and largely summary in nature, based on an early and ongoing assessment of a massive overhaul of data going back to 1929. Extended coverage is planned for *Commentary No. 964*, scheduled for Tuesday, July 31st.

Reviewed here first are elements of the benchmark revision, followed by some summary on the initial estimate of second-quarter GDP. Details of the GDI and GNP await *Commentary No. 964*.

The Benchmarked Data Are Not Compared Easily with Prior Reporting. The benchmarked real GDP series was recast with a base year for inflation at 2012, previously 2009. Separately, the Implicit Price Deflator (IPD), which is the GDP's inflation measure also was recast (see *Graphs 6 and 7*). Keep in mind that inflation revised lower means stronger real or inflation-adjusted growth, and vice versa. Where the GDP series was revised backed to 1929, only data beginning in 1947 are available on a quarterly basis.

With the pre- and post-benchmarked GDP series not directly comparable in terms of the reported real dollar levels, I indexed both real series to 100 for the year 1947, with reasonable results. The period after 2005 is shown in *Graph 1*.

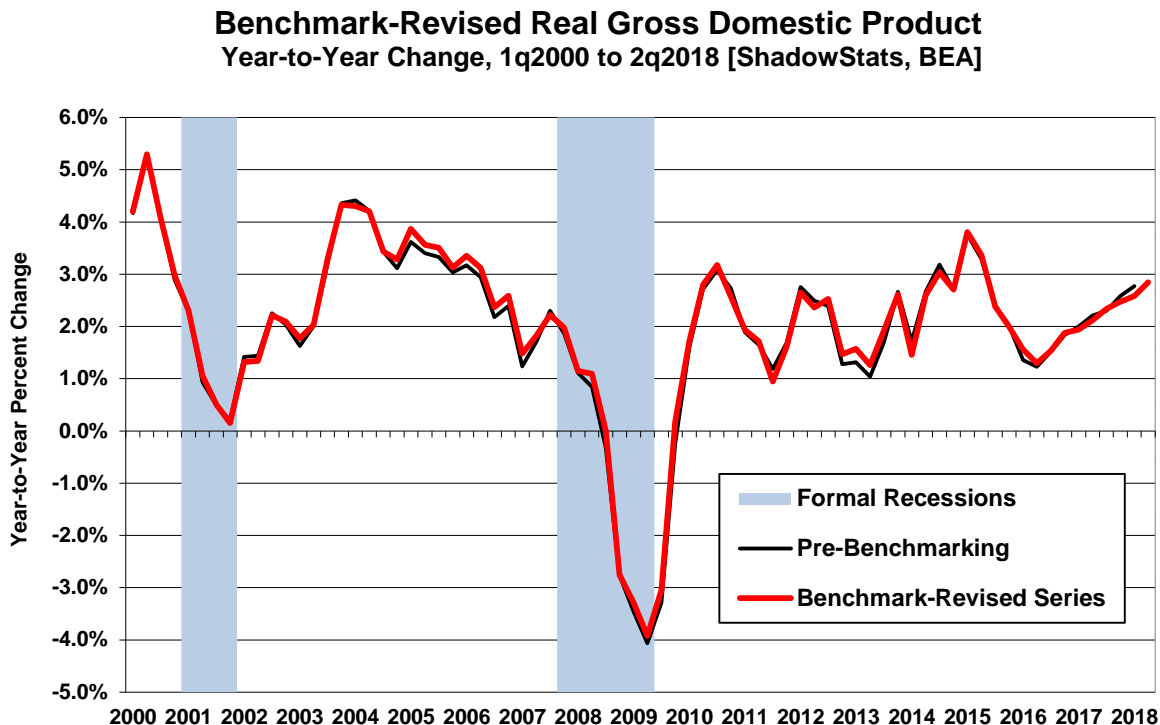
Based on that, the two series began to diverge, going through and coming out of the economic collapse from the end of 2007 into 2009. The revised series reflects a somewhat shallower downturn [down by 3.98% (-3.98%) peak-to-trough, which previously was down by 4.24% (-4.24%)] and recovering earlier than previously shown. That said, in the context of the subsequent recovery and headline surge in second-quarter GDP, real GDP currently stands at 17.42% above its pre-recession peak, which simply is not credible.

The problem here is that such relative economic strength is not confirmed in parallel by any other major economic series or broad employment indicator. The GDP is a political and Wall Street puff piece. It safely is the most heavily gimmicked and massaged economic number published by the U.S. government.

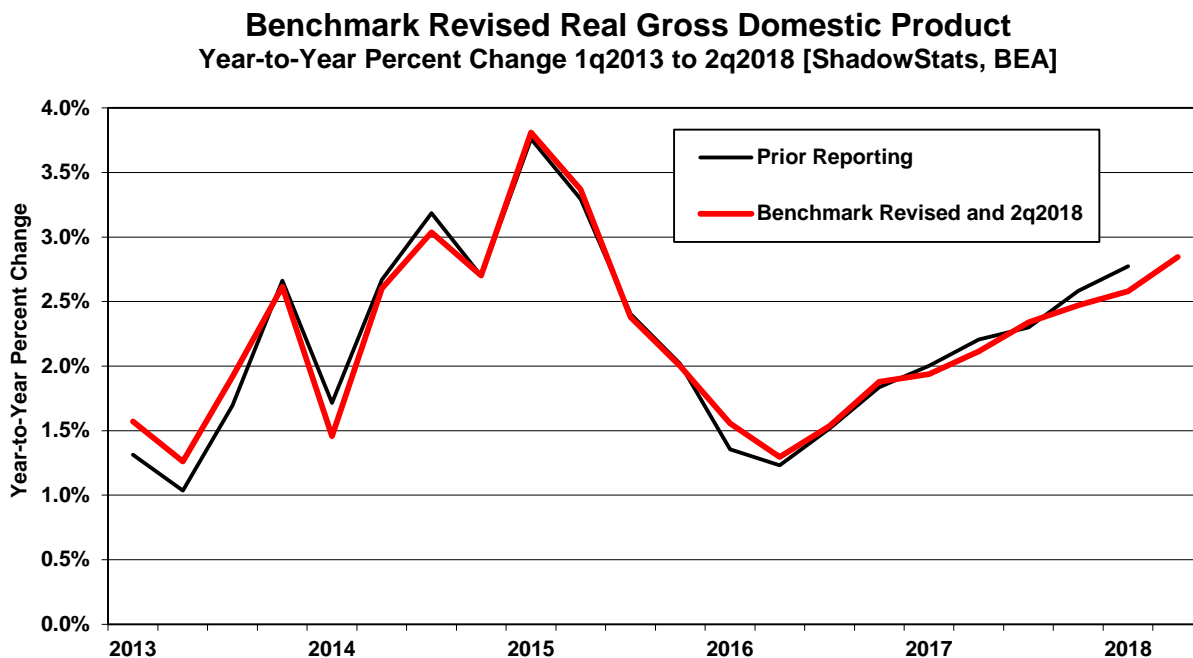
The Quarterly and Annual Revisions to Real GDP Growth Suggest Some Downside Growth Revisions in Fourth-Quarter GDP, Which Would Have Provided Some Relative First-Quarter 2018 Boost. Based on the narrowing of the space between the two lines going to into first-quarter 2018 (*Graph 1*), and what appears to be some relative narrowing in annual and quarterly growth rates going into first-quarter 2018 (*Graphs 2 to 5*), such movements would tend to boost relative quarterly growth in first-quarter 2018, which was seen, despite slowing year-to-year change.

[Graphs 2 to 7 begin on the next page.]

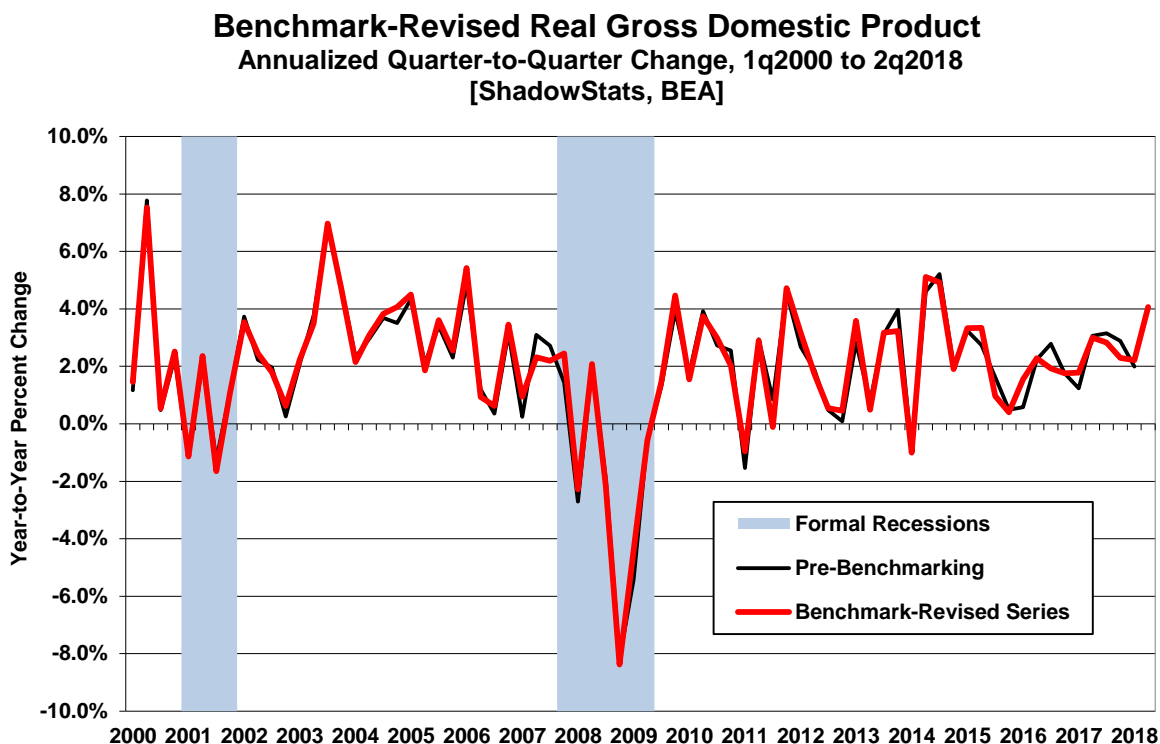
Graph 2: Benchmark-Revised Real Year-to-Year Percent Change in the GDP 2000 to Date



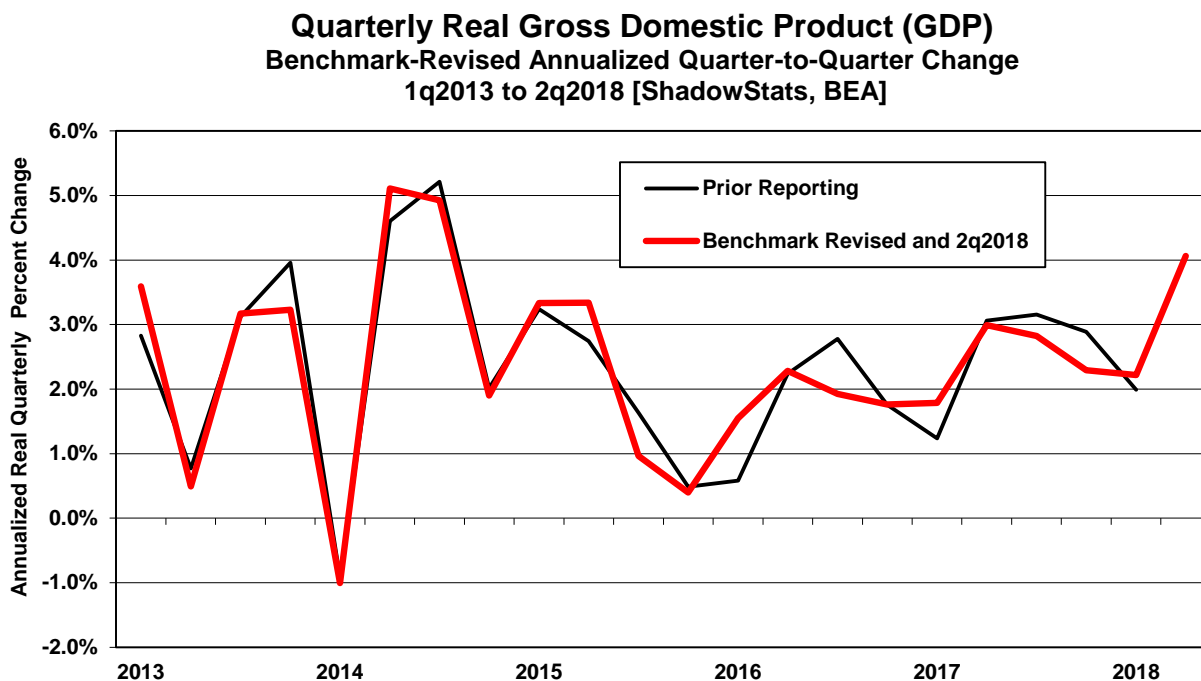
Graph 3: Benchmark-Revised Real Year-to-Year Percent Change in the GDP 2013 to Date



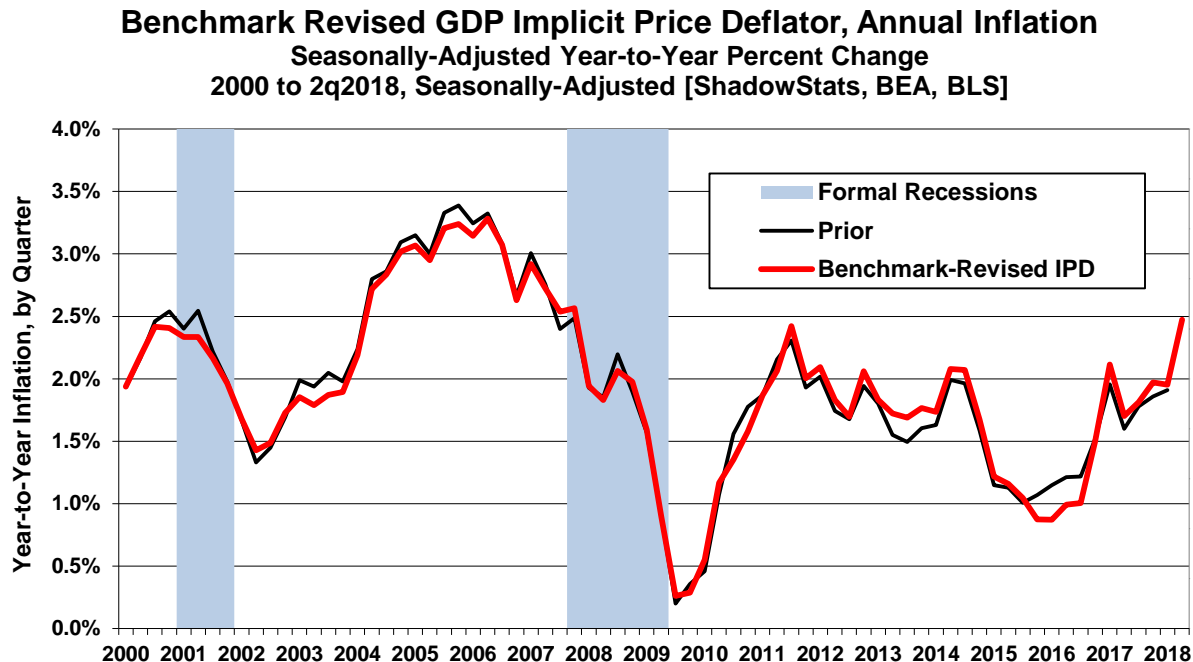
Graph 4: Benchmark-Revised Real Annualized Quarter-to-Quarter Change in the GDP, 2000 to 2018



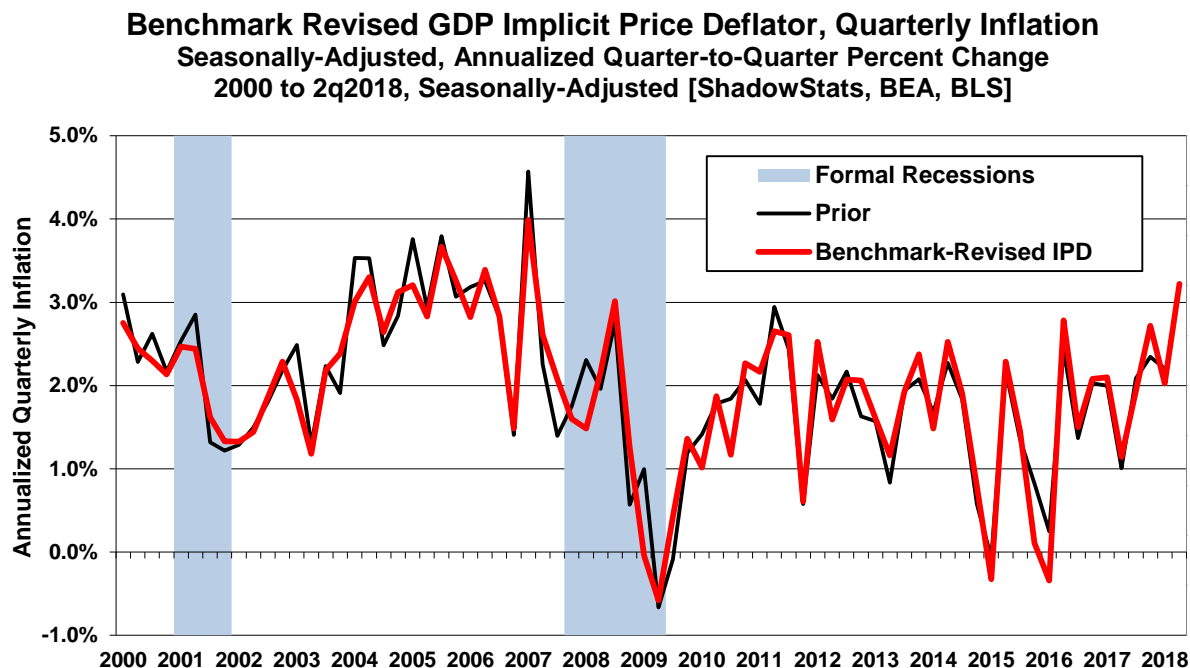
Graph 5: Benchmark-Revised Real Annualized Quarter-to-Quarter Change in the GDP, 2013 to 2018



Graph 6: Benchmark-Revised GDP Implicit Price Deflator (IPD), Year-to-Year GDP Inflation



Graph 7: Benchmark-Revised GDP Implicit Price Deflator (IPD), Annualized Quarterly GDP Inflation



SECOND QUARTER GROSS DOMESTIC PRODUCT

Booming 4.1% Real GDP Growth Was Topped by 5.2% Gain in Final Sales

Second-Quarter 2018 Real GDP Growth of 4.1% Jumped versus a First-Quarter Gain of 2.2%.

Headline details showed second-quarter 2018 annualized real growth of 4.06%—theoretically statistically significant—with annual growth of 2.85%. That was against upwardly-revised 2.22% (previously 1.99%) quarterly growth, and downwardly revised 2.58% (previously 2.77%) annual growth in first-quarter activity. Fourth-quarter annualized quarterly growth slowed to 2.29% (previously 2.89%).

Table 1: Second-Quarter 2018 and Revised GDP Growth Distributions Back to Third-Quarter 2017

Annualized Quarterly Real Growth in Headline Gross Domestic Product (GDP) Initial 2nd-Quarter 2018 GDP and Benchmark Revisions versus Prior Reporting Growth Contribution by Consumption and Product Sector							
	2nd-Q 2018 Initial Estimate	1st-Q 2018 Bench- Marked	1st-Q 2018 Prior	4th-Q 2017 Bench- Marked	4th-Q 2017 Prior	3rd-Q 2017 Bench- Marked	3rd-Q 2017 Prior
CONTRIBUTING ECONOMIC SECTOR							
Personal Consumption Expenditures							
- Goods	1.24%	-0.13%	-0.09%	1.42%	1.67%	0.86%	0.97%
- Services	1.46%	0.49%	0.69%	1.22%	1.08%	0.65%	0.52%
Gross Private Domestic Investment							
- Fixed Investment	0.94%	1.34%	1.23%	1.04%	1.31%	0.44%	0.40%
- Change in Private Inventories	-1.00%	0.27%	-0.01%	-0.91%	-0.53%	1.04%	0.79%
Net Exports of Goods and Services	1.06%	-0.02%	-0.04%	-0.89%	-1.16%	0.01%	0.36%
Government Consumption/Investment	0.37%	0.27%	0.22%	0.41%	0.51%	-0.18%	0.12%
GDP ANNUALIZED REAL GROWTH	4.06%	2.22%	1.99%	2.29%	2.89%	2.82%	3.16%
Final Sales, GDP Less Inventories	5.06%	1.95%	2.00%	3.20%	3.42%	1.78%	2.37%
CONTRIBUTING PRODUCT SECTOR							
Goods	1.81%	1.20%	0.73%	0.34%	0.78%	2.40%	2.74%
Services	1.85%	0.73%	0.82%	1.32%	1.18%	0.74%	0.93%
Structures	0.39%	0.28%	0.44%	0.64%	0.93%	-0.32%	-0.51%
GDP Annualized Real Growth	4.06%	2.22%	1.99%	2.29%	2.89%	2.82%	3.16%
Sources: Bureau of Economic Analysis (BEA), ShadowStats.							

Preceding *Table 1* provides a detailed breakout of annualized real growth distribution by major category in the headline GDP reporting, as shown for the “advance” reporting of second-quarter 2018, as well as for the benchmark-revised and as previously estimated growth distributions for third-quarter 2017 to first-quarter 2018.

Please note that the 4.06% headline annualized second-quarter growth was net of a 1.00% (-1.00%) growth subtraction for a decline in inventories. If these numbers were meaningful, other than for their hype value, which they are not, such would be an extraordinarily strong headline economic indicator.

Still going through the details, full coverage will follow here on Tuesday. --WJW
