

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

FLASH COMMENTARY NUMBER 968-Advance

Second-Quarter 2018 Revised GDP, Initial GDI and GNP

August 29, 2018

**A Mixed Consumer Outlook Was Signaled in August, with Optimism Broadly
At or Off High Levels Last Seen Crashing into the 2001 Recession, Before 9/11**

**Second-Quarter 2018 Gross Domestic Product (GDP) Inflation-Adjusted Real Growth
Revised to an Annualized 4.23% (Previously 4.06%), versus a First-Quarter 2.22%**

**Yet, Growth in Second-Quarter “GDP Equivalent” Gross Domestic Income (GDI)
Came in at 1.81%, Down from a First-Quarter 3.90%**

**Broader Second-Quarter Gross National Product (GNP) Real Growth
(GDP Net of International Flows in Interest and Dividend Payments),
Was an Initial 4.07%, versus 2.20% in the First Quarter**

**Headline GDP Now Stands 17.46% Above Its Pre-Recession Peak, but
No Major Underlying Economic Series or Broad Employment Measure Confirms
Such a Level of Recovery in this Most-Heavily Gimmicked of U.S. Statistics**

**Better Quality, Broad Economic Measures Suggest that
Real-World Activity Has Yet to Recover Its Pre-Recession High**

**The ShadowStats Real GDP, Corrected for Understated Inflation,
Continued Off Bottom, Growing Quarter-to-Quarter and Year-to-Year,
Yet It Remained Well Shy of Recovering Pre-Recession Levels**

PLEASE NOTE: Today's *FLASH Commentary No. 968-Advance* provides initial coverage of today's (August 29th) revised second-quarter GDP and related initial estimates of GDI and GNP, in advance of *Special Commentary No. 968* (planned for Friday, August 31st). *No. 968* will provide a more-comprehensive review of the latest National Income detail, in the context of an updated broad economic outlook and extended coverage of the GDP Comprehensive Benchmark Revisions back to 1929, as published July 27th. See [Commentary No. 962](#) for the initial coverage of those revisions.

Today's GDP coverage reviews headline details for the first-revision to Second-Quarter 2018 Gross Domestic Product (GDP), and for the initial estimates of Second-Quarter 2018 Gross Domestic Income (GDI) and Gross National Product (GNP). Where the GDI's income-side measure is the theoretical equivalent to the GDP's consumption-side measure, the two measures rarely come close to showing similar quarterly growth patterns. The GNP is the broadest National Income measure, reflecting GDP plus the net international trade-flows of factor income, specifically interest and dividend payments.

Links to the most-recent *Watches*: [Hyperinflation Watch – No. 3](#) (August 12th), [Consumer Liquidity Watch – No. 4](#) (August 10th). Updates will follow early in September.

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.

The regular *Opening Comments*, *Reporting Detail* and *Week, Month and Year Ahead* sections return with *Special Commentary No. 968*.

Best wishes to all for a most-enjoyable Labor Day Weekend — John Williams (707) 763-5786

Flash Commentary No. 968-Advance contents, graphs and tables, are indexed and linked on following page.

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Second-Quarter 2018 GDP (First Revision), Initial GDI and GNP

Small Revisions, Unstable Reporting

Second-Quarter Gross Domestic Product Revised Minimally Higher, In Wild Gyration versus the Theoretically Identical GDI. These summary highlights will be expanded upon in *Special Commentary No. 968* (planned for August 31st), along with an updated, broad economic review, all in the context of extended coverage of the Comprehensive Benchmark GDP Revisions (see [Commentary No. 962](#)) of July 27th. Reported this morning (August 29th) by the Bureau of Economic Analysis (BEA), headline revisions to Second-Quarter 2018 Gross Domestic Product (GDP) were relatively minimal, published along with the initial headline estimates of Second-Quarter 2018 Gross Domestic Income (GDI) and Gross National Product (GNP). Only the initial estimate of second-quarter 2018 GDP coincided with the July 27th benchmarking. The initial estimates of second-quarter 2018 GDI and GNP, again, just were published with the first-revision to second-quarter 2018 GDP.

Gross Domestic Product (GDP). The second estimate, first revision to second-quarter 2018 real GDP showed a revised annualized quarterly growth rate of 4.23% [previously 4.06%], versus unrevised gains of 2.22% in first-quarter 2018 and 2.29% in fourth-quarter 2017 (see detail in *Table 1*). Year-to-year real growth in second-quarter 2018 GDP was a revised 2.89% [previously 2.85%], versus 2.58% in first-quarter 2018 and 2.47% in fourth-quarter 2017. GDP inflation (the Implicit Price Deflator) for the second quarter was negligibly revised, holding at 3.2% quarter-to-quarter and 2.5% year-to-year.

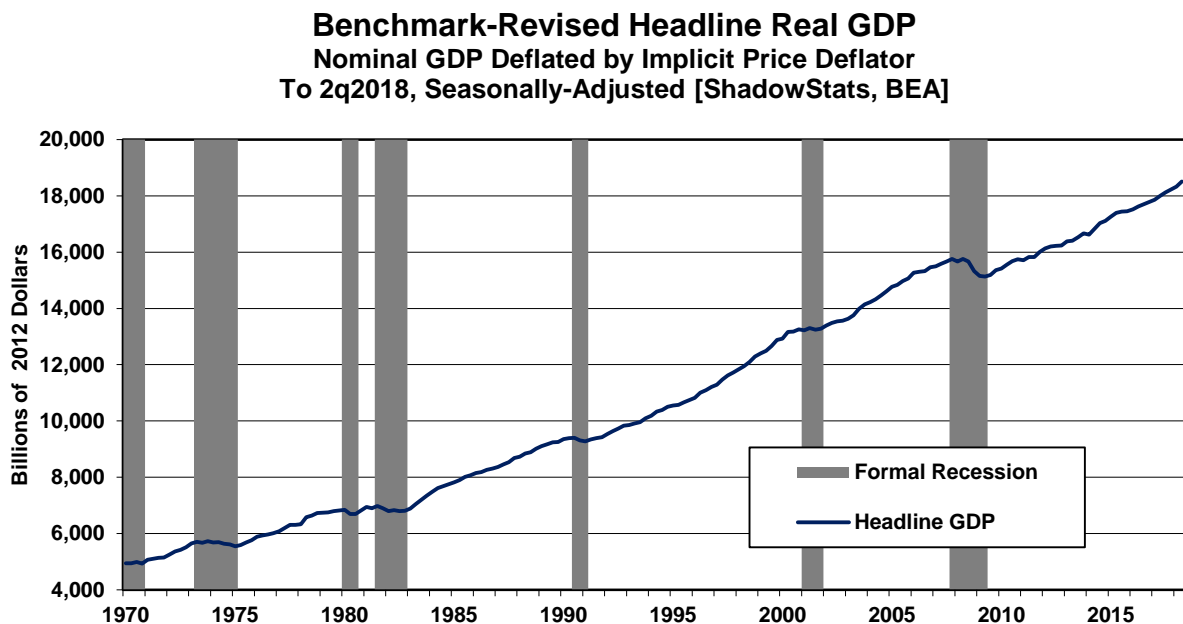
The GDP (or the broader GNP detail headlined in earlier decades) remains the most worthless of the popular government economic series, in terms of determining what really is happening to U.S. business activity. The series is the most-heavily-modeled, politically-massaged and gimmicked government indicator of the economy. It has been so since at least the 1960s (see [Special Commentary No. 885](#)).

Among a number of other issues, inflation-adjusted real GDP growth is biased heavily to the upside, by the use of understated inflation in deflating the nominal GDP activity (artificially boosting real activity). Introduced during the various Bush and Clinton administrations, a number of changes were made to inflation-estimation methodology so as to reduce the level of reported headline inflation. The lowered inflation reporting boosted headline reporting of growth for the inflation-adjusted “real” economic statistics, particularly the GDP, as touted, for example, in the 1999 *Economic Report of the President* (see the extended discussion in the [Public Commentary on Inflation Measurement](#)).

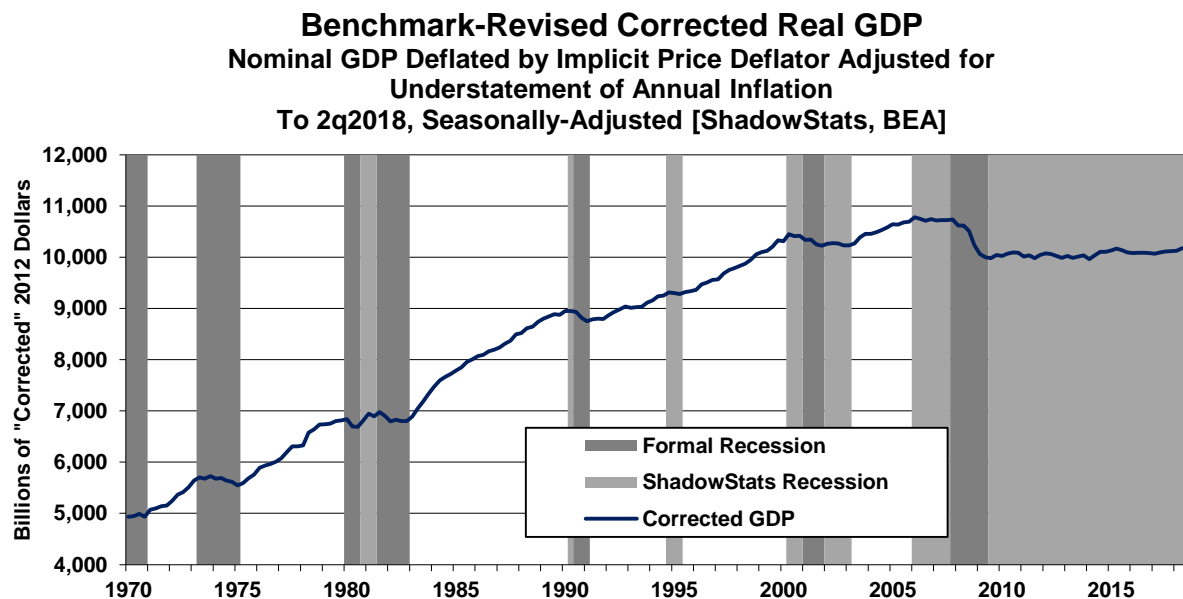
Reflected in *Graphs 1* and *2* are two versions of the GDP, as usually published in the monthly GDP *Commentaries* (see [Commentary No. 957](#) for prior detail). Updated for today’s headline details and the annual benchmark revisions, as will be fully expanded upon in *Special Commentary No. 968*, *Graph 1*

plots the headline GDP and formal recessions, while *Graph 2* plots the ShadowStats versions of same corrected for the use of understated inflation used by the BEA in estimating its headline inflation-adjusted GDP levels.

Graph 1: Real GDP (1970 -2018), Second-Estimate of Second-Quarter 2018



Graph 2: "Corrected" Real GDP (1970 -2018), Second-Estimate of Second-Quarter 2018



Headline Second Estimate of Second-Quarter 2018 GDP by Sector. Detailed in *Table 1*, the headline second estimate of Second-Quarter 2018 GDP revised to a somewhat stronger annualized real quarterly growth rate of 4.23% [previously 4.06%], up from a benchmarked 2.22% in first-quarter 2018 and 2.29% in fourth-quarter 2017. *Table 1* shows the breakout of GDP growth by quarter, by economic sector and by general product sector. The second estimate of second-quarter GDP at a 4.23% annualized aggregate real quarterly growth rate was depressed by a decline in inventories that subtracted 0.97% from Final Sales. Indeed the real Final Sales number (GDP growth minus Inventory change) was at an incredibly high (as in not credible) 5.20%. Again, that circumstance will be reviewed in *Special Commentary No. 968*. Otherwise, the unusually strong GDP growth was fairly evenly distributed across the major categories.

Table 1: Second Estimate of Second-Quarter 2018 GDP, Revised Growth Distribution versus Recent Quarters

Annualized Quarterly Real Growth in Headline Gross Domestic Product (GDP) First Revision 2nd-Quarter 2018 GDP and July 27th Benchmark Revisions Growth Contribution by Consumption and Product Sector						
GDP COMPONENTS	2nd-Q 2018 Second Estimate	2nd-Q 2018 First Estimate	1st-Q 2018 Bench- Marked	1st-Q 2018 Original	4th-Q 2017 Bench- Marked	4th-Q 2017 Original
CONTRIBUTING ECONOMIC SECTOR						
Personal Consumption Expenditures						
- Goods	1.12%	1.24%	-0.13%	-0.09%	1.42%	1.67%
- Services	1.43%	1.46%	0.49%	0.69%	1.22%	1.08%
Gross Private Domestic Investment						
- Fixed Investment	1.07%	0.94%	1.34%	1.23%	1.04%	1.31%
- Change in Private Inventories	-0.97%	-1.00%	0.27%	-0.01%	-0.91%	-0.53%
Net Exports of Goods and Services	1.17%	1.06%	-0.02%	-0.04%	-0.89%	-1.16%
Government Consumption/Investment	0.41%	0.37%	0.27%	0.22%	0.41%	0.51%
GDP ANNUALIZED REAL GROWTH	4.23%	4.06%	2.22%	1.99%	2.29%	2.89%
Final Sales, GDP Less Inventories	5.20%	5.06%	1.95%	2.00%	3.20%	3.42%
CONTRIBUTING PRODUCT SECTOR						
Goods	2.05%	1.81%	1.20%	0.73%	0.34%	0.78%
Services	1.78%	1.85%	0.73%	0.82%	1.32%	1.18%
Structures	0.39%	0.39%	0.28%	0.44%	0.64%	0.93%
GDP Annualized Real Growth	4.23%	4.06%	2.22%	1.99%	2.29%	2.89%
Sources: Bureau of Economic Analysis (BEA), ShadowStats.						

Gross Domestic Income (GDI). Where the GDI's income-side measure is the theoretical equivalent to the GDP's consumption-side measure, the two measures rarely come close to showing similar quarterly growth patterns, with some relatively wild quarterly swings in the current numbers. Against the headline 4.23% second-quarter GDP growth, up from 2.22% in the first quarter 2018 and versus 2.29% in fourth-quarter 2017, second-quarter GDI grew at an annualized pace of 1.81%, down from a revised 3.90% [previously 3.89%] in first quarter 2018 and against 1.49% in fourth-quarter 2017. Annual GDI growth rose by 2.12% in second-quarter 2018, versus a revised 2.36% [previously 2.33%] in first-quarter 2018 and 2.25% in fourth-quarter 2017.

Gross National Product (GNP). The GNP is the broadest National Income measure, reflecting GDP plus the net international trade-flows of factor income, specifically interest and dividend payments. Accordingly, with no unusually large swings in factor income, headline second-quarter GNP reporting moved largely along with the GDP. The initial estimate of second-quarter 2018 GNP showed annualized quarterly real growth of 4.07%, versus 2.20% in first-quarter 2018 and 2.57% in fourth-quarter 2017. Year-to-year growth rose to 3.10% in second-quarter 2018, versus 2.73% in first-quarter 2018 and 2.56% in fourth-quarter 2017.

Flash Update on Liquidity Measures

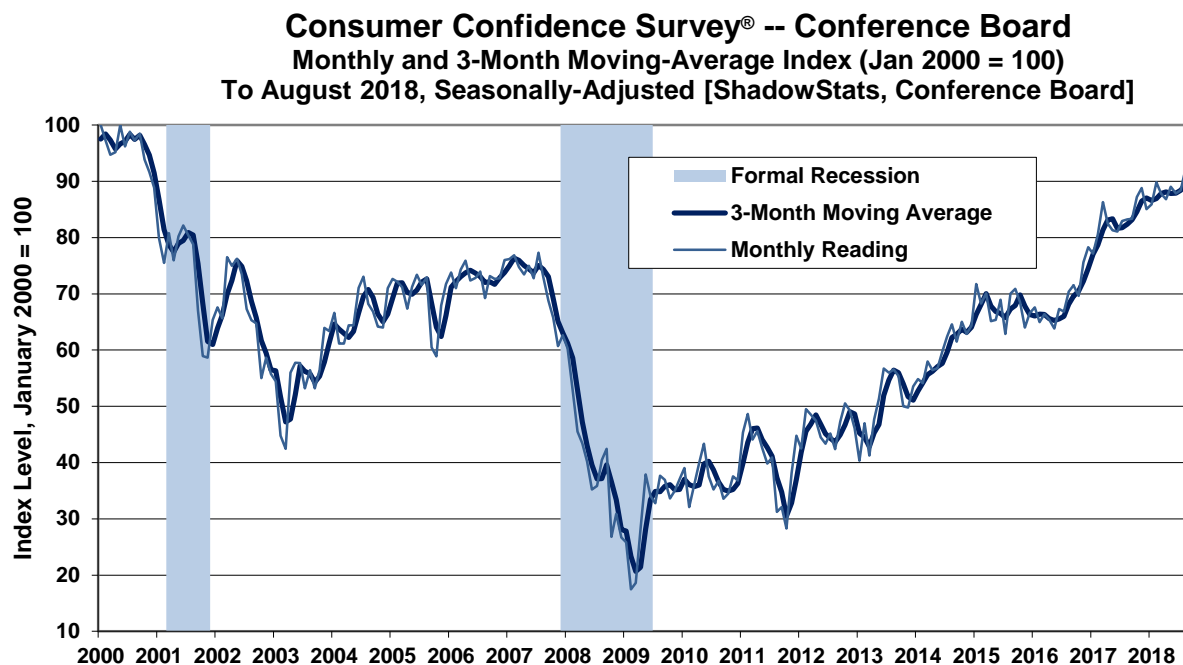
Major Measures of Consumer Outlook Showed Mixed Trends

Interim Liquidity Measures Were Mixed. Pending revisions to [Consumer Liquidity Watch – No. 4](#), will incorporate interim data releases in its early-September update, including an increase in real monthly median Household Income through July 2018, as published by Sentier Research, as well as the August levels of relative consumer optimism. Reflected in *Graphs 3 and 4*, the Conference Board's Consumer Confidence Survey® in August to rose to its highest level since October 2000, while the early-August measure (final estimate due on August 31st) for the University of Michigan's Consumer Sentiment Index turned lower in the month, although it had hit a similar historical 2000 comparison earlier in 2018. The two series are showing opposite trends, at the moment.

At the recent highs of these series (current for the Conference Board), though, levels of optimism were at their highest since the U.S. economy was collapsing into the 2001 recession, which was well in place before September 11, 2001, although circumstances certainly were exacerbated by the horrendous events and aftermath of that date.

Separately, the Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see the discussion in [Commentary No. 764](#)), and often are highly volatile month-to-month, as a result. Recent press has been highly positive on the headline economic and employment news, particularly with recent GDP and unemployment details. As headline financial and economic numbers turn increasingly-negative and unstable, so too should the recently-contained "optimism." A consistent downturn in consumer outlook easily could accelerate, despite any euphoric headlines, reflecting deep-seated consumer liquidity stresses.

Graph 3: Consumer Confidence (2000 to 2018)



Graph 4: Consumer Sentiment (2000 to 2018)

