

ShadowStats Flash Update (Corrected)
Gross Domestic Product and Related Benchmark Revisions

July 28, 2019 (Initially July 26th)

**Late-2018 Real GDP Growth Revised Sharply Lower,
Slowing Rapidly Quarter-to-Quarter and Year-to-Year**

**First Quarter 2019 Real GDP Growth Revised Lower Year-to-Year,
To 2.62% from 3.20%, With Quarterly Growth Effectively Unrevised at 3.12%**

**Second-Quarter 2019 Quarterly Growth Slowed to a Near-Consensus 2.06%,
With Annual Growth Slowing to 2.29%, Lowest Growth Rates Since Early 2017**

The ShadowStats Recession Forecast Remains in Place

FOMC Easing Looms

Gross Domestic Product Benchmark Revisions - Initial Second Quarter GDP

***Special Note to Subscribers:** I made a mistake in my initial July 26th posting on the headline 2019 GDP benchmark revisions, having misread the direction of the GDP inflation revisions (Implicit Price Deflator) as showing weaker headline inflation, rather than stronger inflation, in the last year, with implications that should have been for downside revisions to inflation-weakened headline revised GDP growth, not for boosting same. I apologize most deeply to all for the error. The balance of this Flash Update stands and is heavily supplemented. **Commentary No. 985** should publish with full Benchmark Revision detail by Tuesday, July 30th, including some extended detail and graphs added here. Please feel free to call anytime to discuss what is happening or with any questions.*

– Best regards, John Williams (707) 763-5786, johnwilliams@shadowstats.com

Second-Quarter Gross Domestic Product and Annual Benchmark Revisions Showed a Sharply Slowing Economy; Recession Forecast Remains in Place; FOMC Easing Expected on Wednesday Should Begin the Process of Moving Back to Quantitative Easing. In the context of annual benchmark revisions back to First-Quarter 2014, the Bureau of Economic Analysis (BEA) reported July 26th that headline Second-Quarter 2019 Gross Domestic Product (GDP) growth slowed to near-consensus annualized real growth rate of 2.1%, down from a headline unrevised 3.1% in First-Quarter 2019.

At the second decimal point, Second-Quarter 2019 GDP showed 2.06% annualized real growth, down from 3.10% (previously 3.13%) in First-Quarter 2019, but up from a downwardly revised 1.09% (previously 2.17%) in fourth-quarter 2018, while real year-to-year growth slowed to 2.29% in Second-Quarter 2019 from a revised 2.65% (previously 3.20%) in First-Quarter 2019 and a revised 2.52% (previously 2.97%) in Fourth-Quarter 2018.

More broadly, growth by quarter slowed markedly in the year coming into the “unrevised” First-Quarter 2019 and initial headline Second-Quarter 2019 GDP. In terms of annualized real quarter-to-quarter growth, consider that while First-Quarter 2018 GDP revised from 2.2% to 2.5%, Second-Quarter 2018 revised from 4.2% to 3.5%, Third-Quarter 2018 revised from 3.4% to 2.9%, Fourth-Quarter 2018 revised from 2.2% to 1.1%, with First-Quarter 2019, again, unrevised at 3.1% and initial Second-Quarter 2019 at 2.1%.

In terms of real year-to-year GDP growth, annual growth began to slow markedly in Fourth-Quarter 2018. First-Quarter 2018 annual GDP revised higher from 2.6% to 2.9%, Second-Quarter 2018 revised from 2.9% to 3.2%, Third-Quarter 2018 revised from 3.0% to 3.1%, but Fourth-Quarter 2018 revised from 3.0% to 2.5%, with First-Quarter 2019 revising from 3.2% to 2.7% and with the initial estimate of 2q2019 annual real growth slowing further to 2.3% (see *Graphs 1* and *2*).

Gross National Product (GDP) and Gross Domestic Income (GDI) Showed Varying Revisions. The BEA also benchmarked Gross Domestic Income (GDI), which is the theoretical income-side equivalent of the consumption-side GDP (see *Graphs 3* and *4*), and Gross National Product (GNP see *Graphs 5* and *6*),

which is GDP plus the balance of trade in factor income (interest and dividend payments). The BEA will not issue initial second-quarter estimates for those series until August 29th.

The BEA appears to have altered what consistently had been the weaker GDI calculations so as to have them in better alignment with its more widely followed GDP-sister series. Fourth-Quarter 2018 GDI quarterly growth revised higher to 0.78% (previously 0.52%), with First-Quarter 2019 quarterly growth revising higher to 3.18%, from 1.00%. Fourth-quarter annual growth was revised to 2.34% (previously 2.45%), with first-quarter activity up by a revised 1.98% (previously 1.73%).

The downside revision in quarter-to-quarter Fourth-Quarter 2018 GNP to an annualized 0.68%, effectively signaled the onset of the recession. Although quarter-to-quarter First-Quarter 2019 GNP rebounded to a revised 3.09% (previously 3.16%), year-to-year annual growth slowed to a revised fourth-quarter 2.40% (previously 2.85%), with a subsequent first-quarter revision to 2.47% (previously 3.09%).

Recession Forecast Remains in Place; GDP Benchmarking Appeared to Confirm a Fourth-Quarter 2018 Onset; Renewed FOMC Easing Should Follow on July 31st. The full review of these revisions is near completion, where this *Flash Update* will be updated fully and expanded upon in pending *Commentary No. 985*, early in the week ahead, along with an assessment of the new headline composition of the GDP and details. *No. 985* will include an updated Recession outlook, the ShadowStats forecast of which remains in place, along with an updated outlook on pending FOMC easings, where a reasonable Consensus Outlook appears to be in place for a quarter-point interest rate cut on July 31st, coming out of this week's FOMC Meeting.

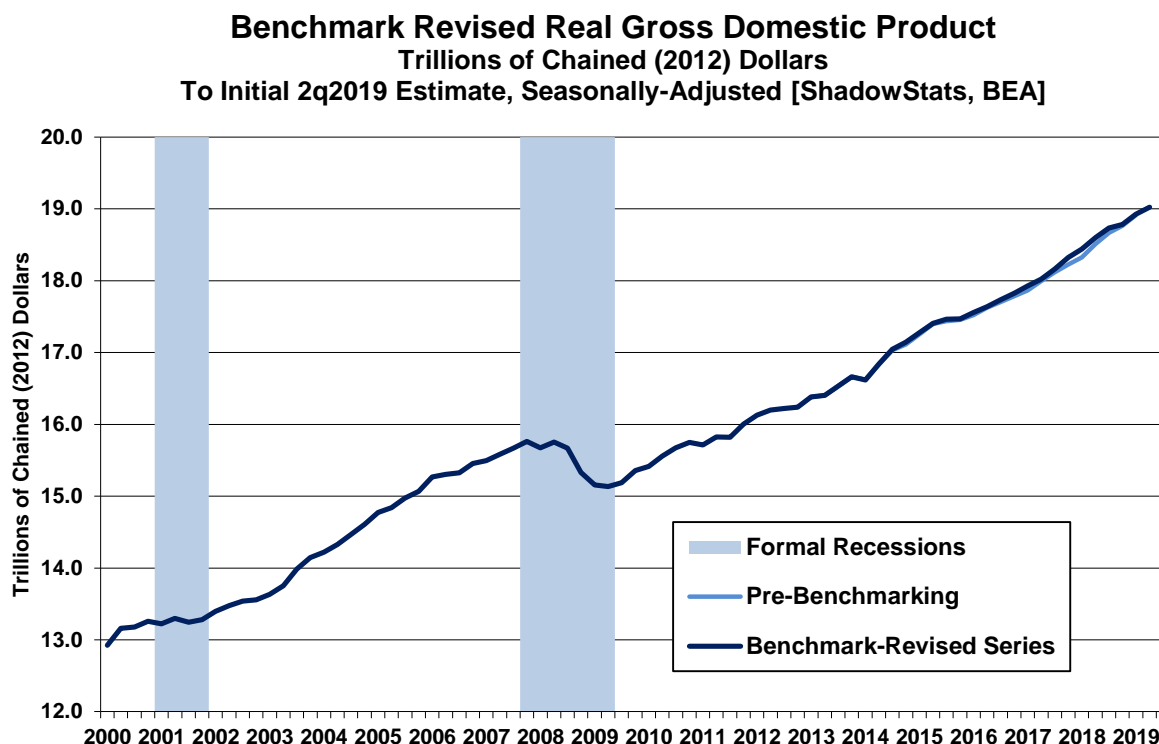
The *ShadowStats* general outlook has not changed, specifically including a deepening U.S. economic downturn, mounting downside pressures on the U.S. dollar and stock market, and upside pressures on gold and silver prices in the weeks and months ahead.

Your comments and suggestions are invited; always happy to discuss what is happening.

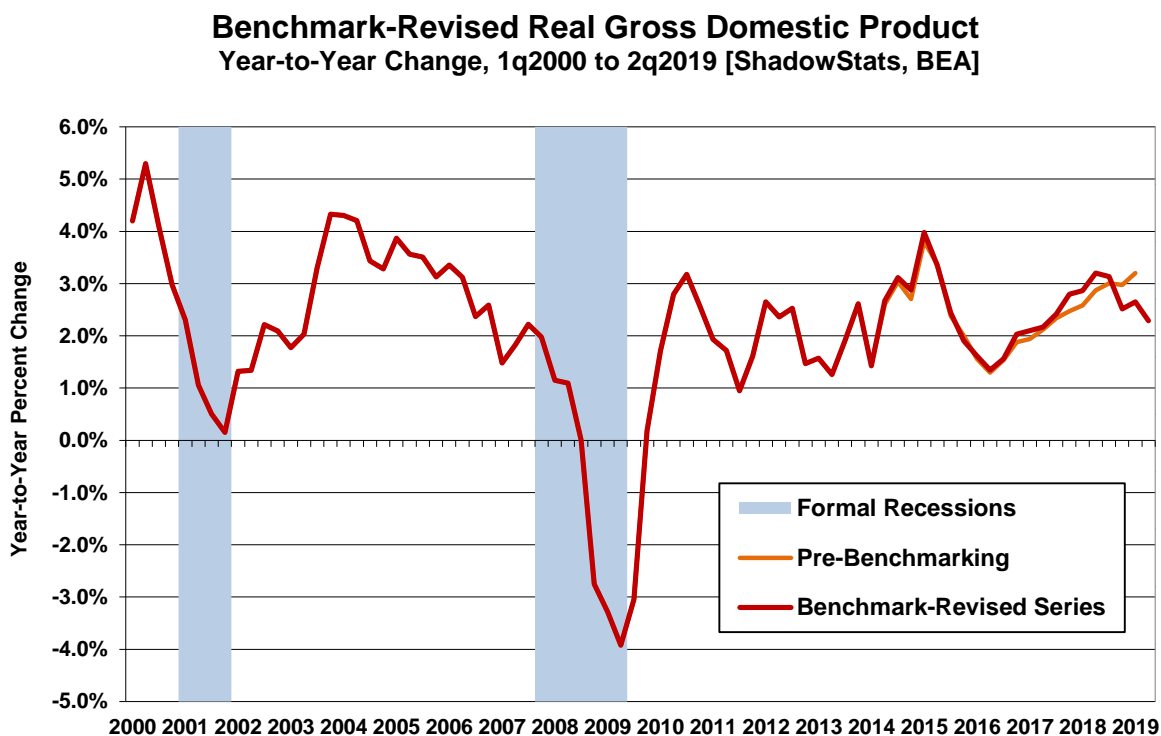
Best Wishes — John Williams (707) 763-5786, johnwilliams@shadowstats.com

(Graphs 1 to 6 begin on the next page.)

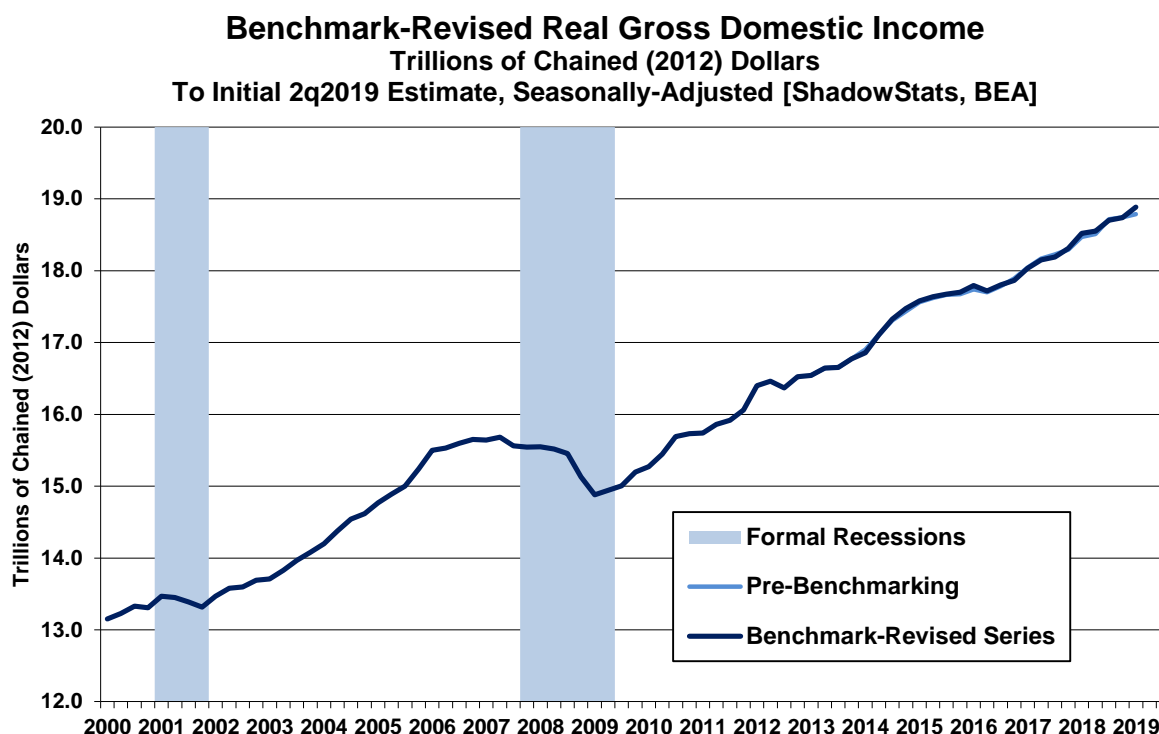
Graph 1: Real GDP Level - 2019 Benchmarking, Initial 2q2019



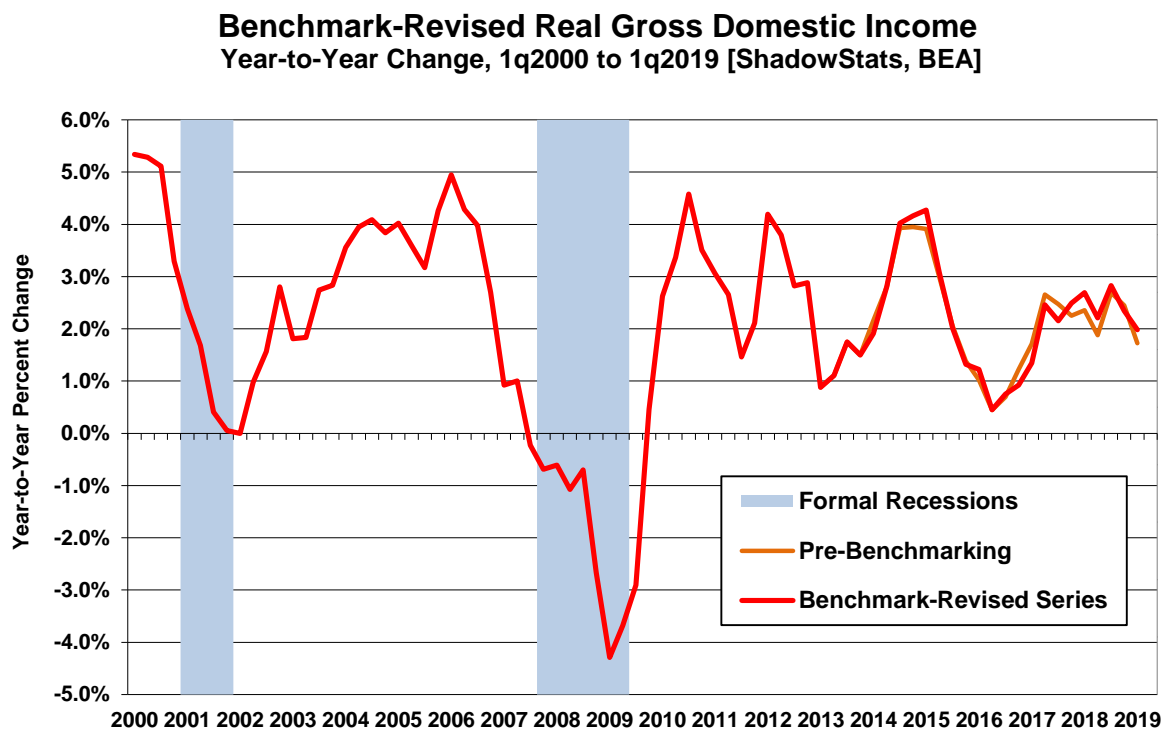
Graph 2: Real GDP Year-to-Year Percent Change - 2019 Benchmarking, Initial 2q2019



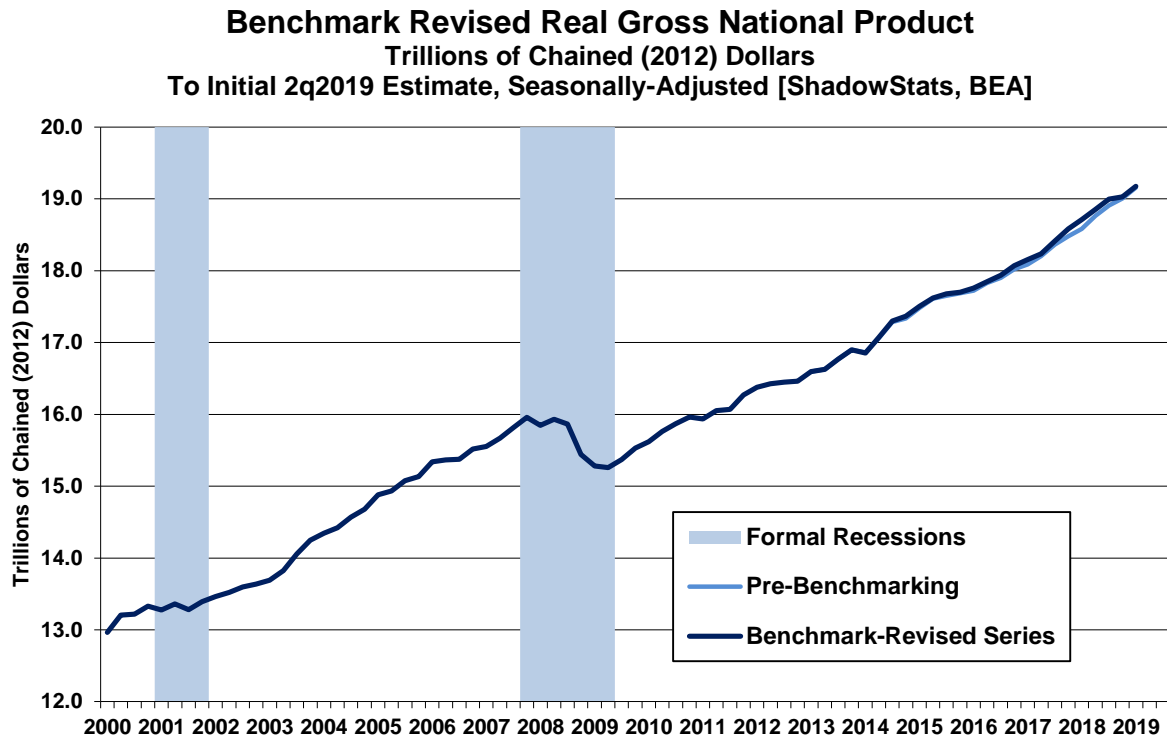
Graph 3: Real GDI Level - 2019 Benchmarking



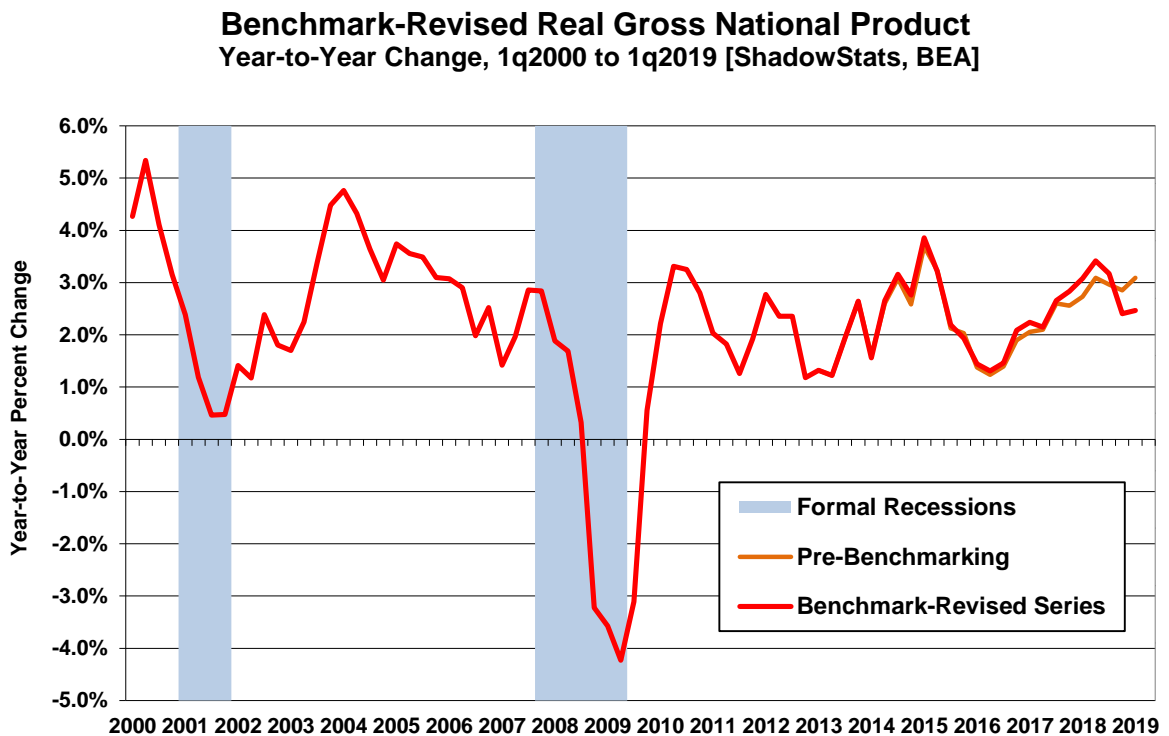
Graph 4: Real GDI Year-to-Year Percent Change - 2019 Benchmarking



Graph 5: Real GNP Level - 2019 Benchmarking



Graph 6: Real GNP Year-to-Year Percent Change - 20019 Benchmarking



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