

ShadowStats Flash Update No. 20

GDP, Construction Spending, Trade Deficit, Household Income

February 6, 2020

**2020: A Year of Deepening Economic, Fiscal and Financial-Market Turmoil,
Despite a Currently Booming, Headline Economy and Stock Market**

**The Fed Continues to Prop the Banks and the Financial Markets,
But Not the Consumer, Who Ultimately Drives Sustainable Economic Activity**

A Financially Healthy U.S. Consumer Remains Key to Stable Domestic Growth

**Despite a 50-Year Low in Headline Unemployment, the
FOMC-Impaired Economy Thwarts Consumer Liquidity Growth;
December Median Real Household Income Declined for a Second Straight Month**

**Coincident With the January 2020 Payroll Reporting,
2019 Payroll Benchmark Revisions Still Should Be Negative**

**Negative December Real Trade-Deficit Revisions
Promise Some Downside GDP Adjustments**

**Annualized Initial Real Fourth-Quarter GDP Growth of 2.08%
Appears Overly Optimistic Against Underlying Hard Numbers**

**2019 Annual GDP Growth at a Three-Year Low of 2.33%,
Faces Downside Revisions from Various Benchmarkings in Coming Months**

Overview

Outlook for 2020 Financial Markets and Economy Continues to Dim. In advance of next week's *Special Bullet Edition Commentary No. 19-B*, which will put all the numbers here and tomorrow's (February 7th) benchmarked payrolls and newly adjusted broader unemployment measures into context, against evolving Federal Reserve policies and pending benchmark revisions to major series such as Industrial Production. Today's *Flash Update No. 20* lays out the general numbers just published for Fourth-Quarter 2019 GDP, the headline December 2019 Trade Deficit and Construction Spending, along with December 2019 Real Median Household Income, which just was published by Sentier Research as we were going to press (see *Graphs 26* and *27* on page 22). Real Median Household Income dropped sharply for the second consecutive month. *Flash Update No. 21* will follow over the weekend, reviewing the Payroll Benchmark Revisions and other January 2020 labor data. Some of today's opening headlines suggest the general outlook for the year ahead, which tends to get darker the further one looks into the future.

To be detailed in *Special Bullet Edition Commentary No. 19-B*, the issues here go to a terribly mismanaged Federal Reserve, which oversaw the collapse of the domestic banking system in 2007/2008, bailed out the system in manner that doomed the regular economy and most consumers to a perpetual twilight of non-recovery, and now faces a day of reckoning that does not have an easy, and most likely not a happy resolution for the current U.S. Central bank.

Full details follow next week.

New data and developments are updated as they break, in the *Daily Update* section of the www.ShadowStats.com home page.

Please feel free to call any time with a question, or if you just would like to talk,

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

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The Latest Economic Numbers

Fourth-Quarter 2019 Gross Domestic Product and Related Series

Negative Trade Deficit Revisions

Residential Construction Spending in Annual Drop

Continued Indications of an Intensifying Economic Downturn

The “Advance” Fourth-Quarter 2019 Annualized Quarterly Real Gross Domestic Product (GDP) Gained a Consensus 2.1%. The Bureau of Economic Analysis (BEA) estimated January 30th that fourth-quarter 2019 real GDP grew an annualized quarterly pace of 2.1% [2.08% at the second decimal point], effectively “unchanged from 2.10% in Third-Quarter 2019.

That fourth-quarter 2019 quarter-to-quarter annualized Real GDP at 2.08%, versus 2.10% in 3q2019, 2.01% in 2q2019, 3.10% in 1q2019 and 1.09% in 4q2018, remained heavily bloated and not credible. Those aggregate numbers face major downside revisions, come the July 30, 2020 annual GDP benchmarking. Those revisions will reflect pending downside benchmark revisions to the subsidiary historical data of the last two years, and on likely downside revisions to current headline data, as discussed in [*Special Commentary No. 983-B*](#) and [*Special Commentary No. 985*](#).

Components of aggregate fourth-quarter growth shifted around from third-quarter activity, picking up 1.5% from a narrowed trade deficit, but losing 0.8% (-0.8%) from reduced goods consumption and 1.1% (-1.1%) from inventory reduction.

At the same time as the BEA reported its headline 2.08% growth estimate, the GDP Models of the Atlanta Fed and New York Fed indicated respective 1.7% and 1.2% annualized fourth-quarter real growth rates, based on the then latest underlying hard numbers (including the “Advance” December Trade Deficit) and before the Commerce Department’s formal data massaging. In terms of real year-to-year change, Fourth-Quarter 2019 GDP gained 2.32%, up from 2.07% in Third-Quarter 2019.

That said, still impaired by the continuing lack of new interest rate cuts from the Federal Reserve Board’s Federal Open Market Committee (FOMC), the headline full-year 2019 real GDP growth of 2.33% was the weakest annual showing, since 1.64% in 2016, irrespective of the 50-year low 3.50% headline U.3 unemployment rate in December 2019 (see **Table I** and **Graphs 1 to 25**).

2019 Trade Deficit Narrowed, Boosting Headline 2019 GDP, Yet the Hard December Trade Data Indicate Downside Revisions to Initial 2019 and Fourth-Quarter 2019 GDP Growth Estimates. The headline December 2019 Trade Deficit widened sharply to \$48.9 billion from a revised \$43.7 (previously \$43.1) billion in November, with the annual 2019 deficit narrowing to \$616.8 from \$627.7 billion, per Census Bureau and Bureau of Economic Analysis reporting of February 5th, yet, that trade data reflected deeper deficits than had been estimated in place for the initial 2019 and fourth-quarter GDP estimates. The effect of the revised, deeper deficits should be a downside revision to current real growth estimates of annual and fourth-quarter GDP.

Net of inflation, although improved on the \$1,005.7 billion deficit in 2018, the real merchandise trade deficit deepened to \$998 billion in 2019 (previously estimated at \$985 billion, reflected in the initial annual GDP reporting), with resulting downside GDP revisions ahead (see *Graphs 8 to 11*, on page 12).

Full-Year 2019 Total Construction Spending Declined by 0.3% (-0.3%) Before, and by 4.5% (-4.5%) After Inflation Adjustment. In like manner, full-year 2019 nominal Private Residential Construction dropped by 4.7% (-4.7%) against 2018 activity, before inflation, down by 8.8% (-8.8%) after construction inflation, per Census Bureau reporting of February 3rd. In contrast, nonsensically volatile unit volumes of Building Permits and Housing Starts, respectively, gained by 1.5% and by 0.8% in full-year 2019, versus the comparable full-year real spending decline of 8.8% (-8.8%).

Where full-year nominal Private Construction declined by 2.5% (-2.5%), dominated by the 4.7% (-4.7%) drop in Private Residential Construction, Nominal Public Construction gained by 7.1% in 2019, dominated by a 7.2% gain in Nonresidential Construction. December 2019 total real Construction Spending held shy by 23.1% (-23.1%) of ever having recovered its pre-recession peak activity (see *Graphs 12 to 15*, beginning on page 14).

Gross Domestic Product (GDP), “Advance” Estimate, Annual and Fourth-Quarter 2019

“Advance” Fourth-Quarter 2019 GDP also Completes the Initial Full-Year 2019 Estimate. Following *Table I* and *Graphs 1 to 25* visually detail the latest GDP reporting and related Trade Deficit and Residential Construction.

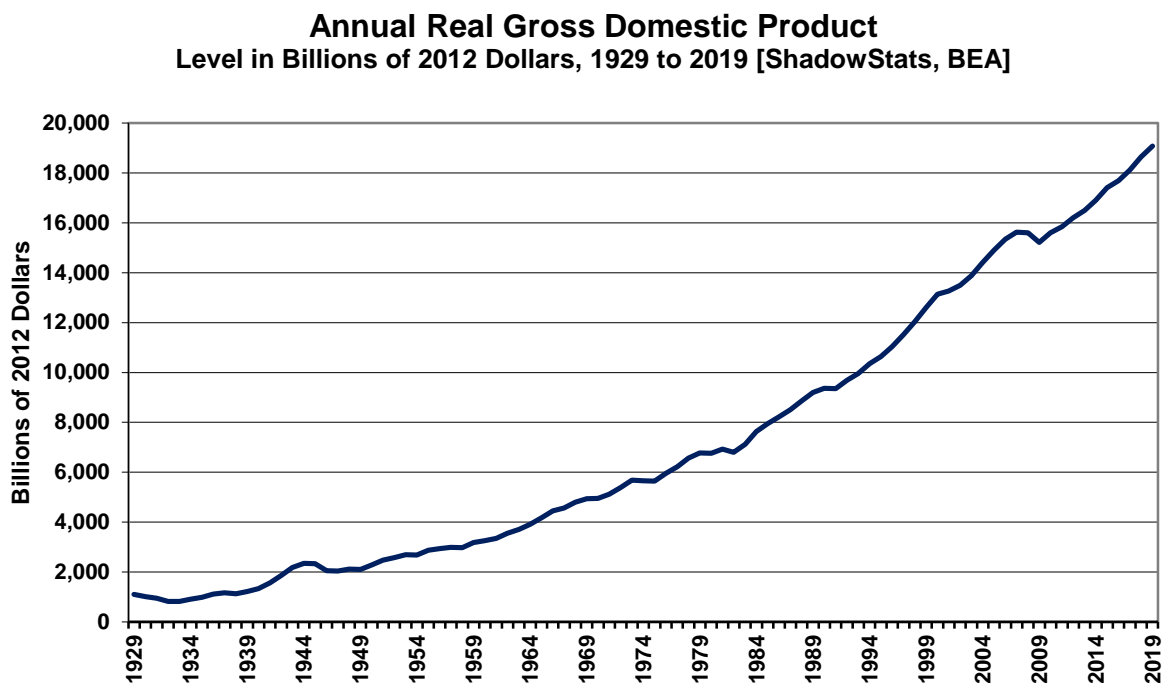
[Table I and Graphs 1 to 25 begin on the next page.]

Please Note: The "Advance" Estimate of Quarterly Gross Domestic Product (GDP) publishes at the end of the first month after a quarterly close. In the current circumstance, that was January 30th of 2020 for Fourth-Quarter 2019. The GDP purportedly is the broadest estimate of national economic activity; initially that was the GNP. The related first estimates of Gross Domestic Income (GDI) and Gross National Product (GNP) usually publish in the second month following a quarter's close (February 27th of 2020 for Fourth-Quarter GDP and GNP, along the first revision to the GDP, with subsequent revisions in the third month (and fourth month for just the GDI). Annual benchmark revisions usually follow in the first July reporting following the involved quarter (July 30th in 2020). GDI is the theoretical Income-Side equivalent of the Consumption-Side GDP. GNP is GDP net of the trade balance in Factor Income (Interest and Dividend Payments).

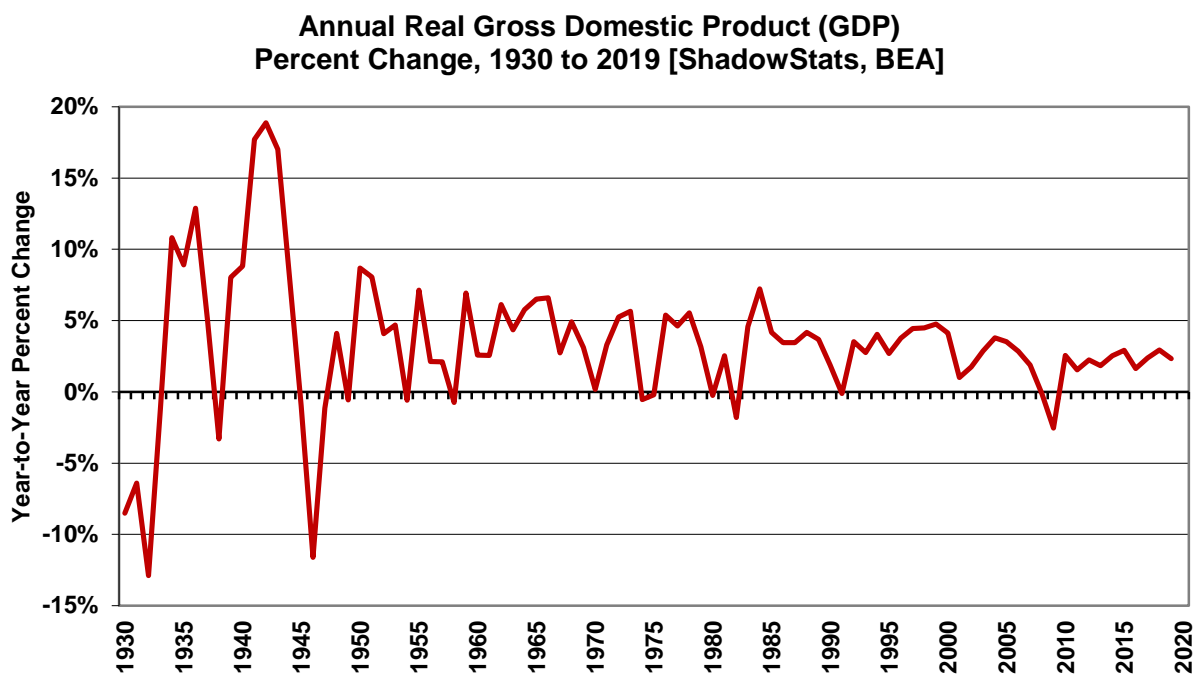
Table I: Gross Domestic Product and Related Component Contributions 1q2018 to "Advance" Estimate 4q2019

2018 and 2019 Real Gross Domestic Product, Through Initial Fourth-Quarter 2019 Reporting Annual and Annualized Quarterly Real Growth Contribution by Economic and Product Sector										
GDP COMPONENT GROWTH CONTRIBUTION BY SECTOR QUARTERLY AND ANNUAL	First- Quarter 2018	Second- Quarter 2018	Third- Quarter 2018	Fourth Quarter 2018	Annual 2018	First- Quarter 2019	Second- Quarter 2019	Third- Quarter 2019	Fourth Quarter 2019*	Annual 2019*
ECONOMIC SECTOR										
Personal Consumption										
- Goods	0.27%	1.13%	0.75%	0.33%	0.86%	0.32%	1.74%	1.09%	0.26%	0.79%
-- Motor Vehicles	-0.15%	0.18%	0.01%	0.07%	0.11%	-0.27%	0.37%	0.06%	0.02%	0.04%
- Services	0.88%	1.57%	1.59%	0.65%	1.18%	0.46%	1.29%	1.02%	0.94%	0.97%
Gross Private Domestic Investment										
- Fixed Investment	0.94%	0.89%	0.13%	0.46%	0.78%	0.56%	-0.25%	-0.14%	0.01%	0.23%
-- Residential	-0.21%	-0.15%	-0.16%	-0.18%	-0.06%	-0.04%	-0.11%	0.17%	0.21%	-0.06%
- Change in Private Inventories	0.13%	-1.20%	2.14%	0.07%	0.09%	0.53%	-0.91%	-0.03%	-1.09%	0.09%
Net Exports of Goods and Services	0.00%	0.67%	-2.05%	-0.35%	-0.29%	0.73%	-0.68%	-0.14%	1.48%	-0.16%
Government Consumption	0.33%	0.44%	0.36%	-0.07%	0.30%	0.50%	0.82%	0.30%	0.47%	0.41%
AGGREGATE REAL GDP GROWTH	2.55%	3.51%	2.93%	1.09%	2.93%	3.10%	2.01%	2.10%	2.08%	2.33%
Final Sales, GDP Less Inventories	2.42%	4.71%	0.79%	1.02%	2.86%	2.57%	2.92%	2.13%	3.17%	2.24%
PRODUCT SECTOR										
Goods	1.16%	1.55%	1.41%	1.39%	1.46%	2.12%	0.62%	1.20%	0.80%	1.37%
Services	1.24%	1.70%	1.73%	0.37%	1.40%	0.66%	1.66%	1.11%	1.29%	1.09%
Structures	0.15%	0.26%	-0.21%	-0.67%	0.07%	0.32%	-0.26%	-0.21%	0.00%	-0.13%
AGGREGATE REAL GDP GROWTH	2.55%	3.51%	2.93%	1.09%	2.93%	3.10%	2.01%	2.10%	2.08%	2.33%
SUPPLEMENTAL										
Annualized Quarter-to-Quarter Real GDP Change and Headline Implicit Price Deflator Inflation										
Gross Domestic Product (GDP)	2.55%	3.51%	2.93%	1.09%	na	3.10%	2.01%	2.10%	2.08%	na
Gross Domestic Income (GDI)	4.66%	0.71%	3.28%	0.78%	na	3.24%	0.87%	2.13%	na	na
Gross National Product (GNP)	2.85%	3.12%	3.00%	0.68%	na	3.09%	2.78%	2.20%	na	na
ShadowStats Corrected GDP**	0.48%	1.42%	0.84%	-0.96%	na	1.01%	-0.05%	0.04%	0.01%	na
Implicit Price Deflator (IPD) Inflation	2.38%	3.43%	1.78%	1.78%	na	0.78%	2.59%	1.71%	1.50%	na
Year-to-Year Real GDP Change and Headline Implicit Price Deflator Inflation										
Gross Domestic Product (GDP)	2.86%	3.20%	3.13%	2.52%	2.93%	2.65%	2.28%	2.07%	2.32%	2.33%
Gross Domestic Income (GDI)	2.69%	2.21%	2.83%	2.34%	2.52%	2.00%	2.04%	1.75%	na	na
Gross National Product (GNP)	3.08%	3.42%	3.17%	2.41%	2.93%	2.47%	2.38%	2.19%	na	na
ShadowStats Corrected GDP**	0.78%	1.11%	1.05%	0.44%	0.85%	0.58%	0.21%	0.01%	0.25%	0.26%
Implicit Price Deflator (IPD) Inflation	2.15%	2.67%	2.59%	2.34%	2.44%	1.94%	1.73%	1.70%	1.64%	1.75%
Sources: Bureau of Economic Analysis, ShadowStats.com. (*) Initial estimates of Fourth-Quarter 2019 and Annual 2019 GDP only.										
(**) Real GDP corrected for understated headline inflation, see Special Commentaries No. 968 and 983-B for background.										

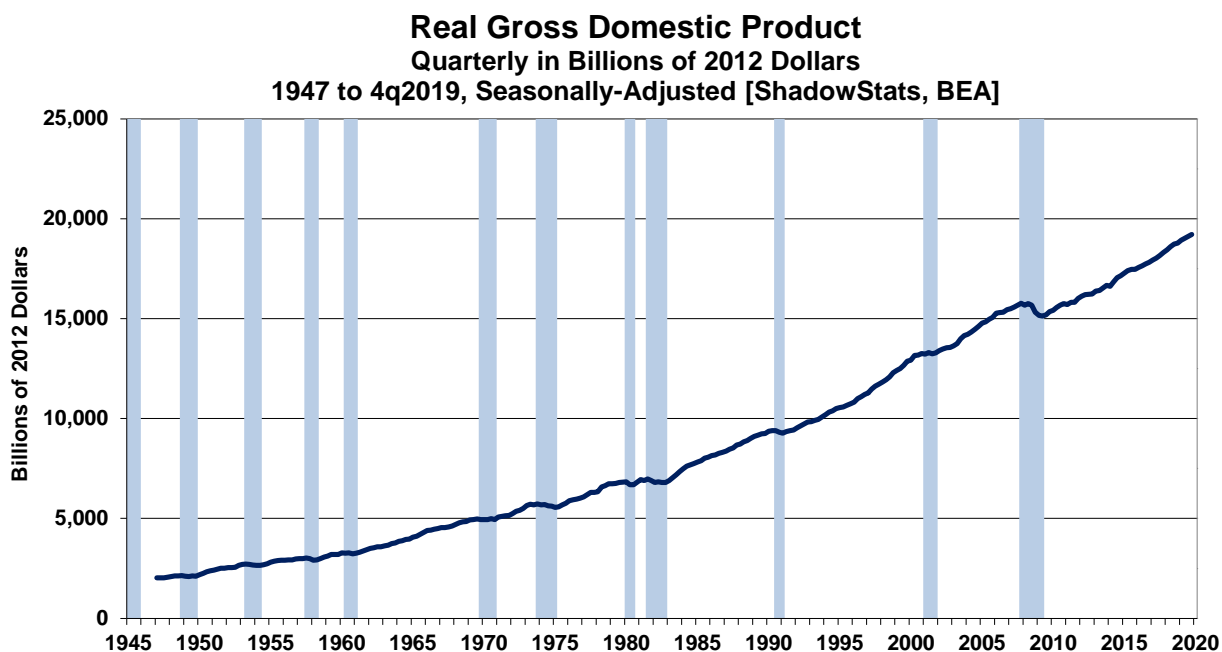
Graph 1: Headline Real GDP Level 1929 to 2019



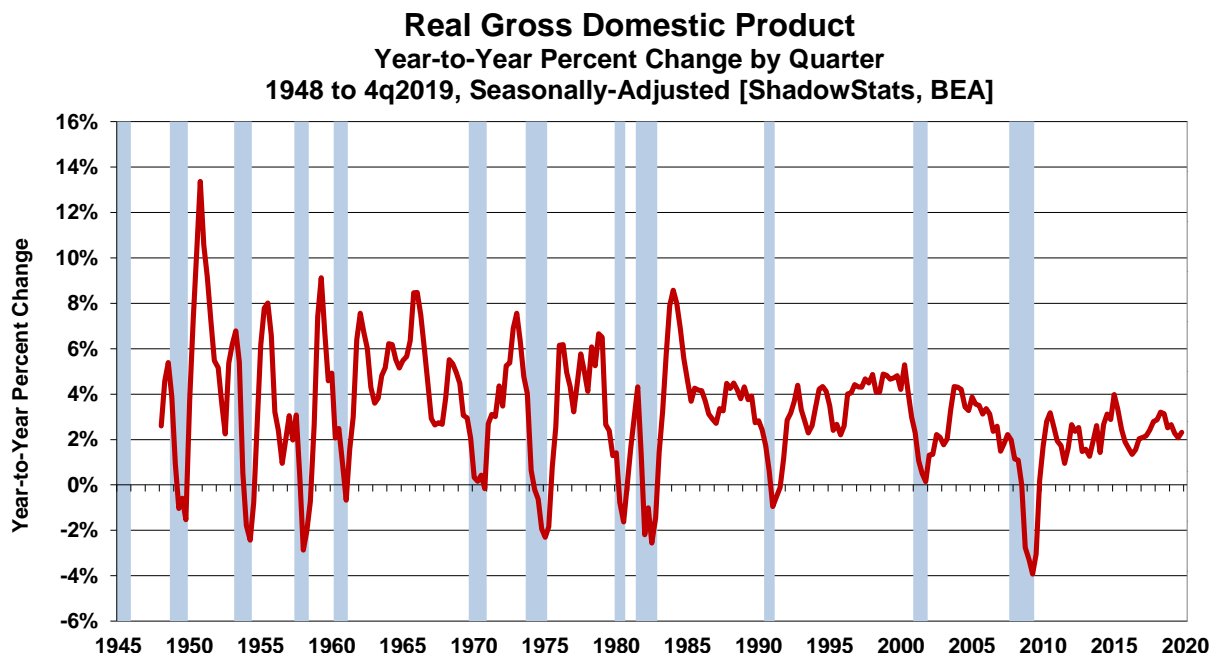
Graph 2: Headline Real GDP Annual Percent Change 1939 to 2019



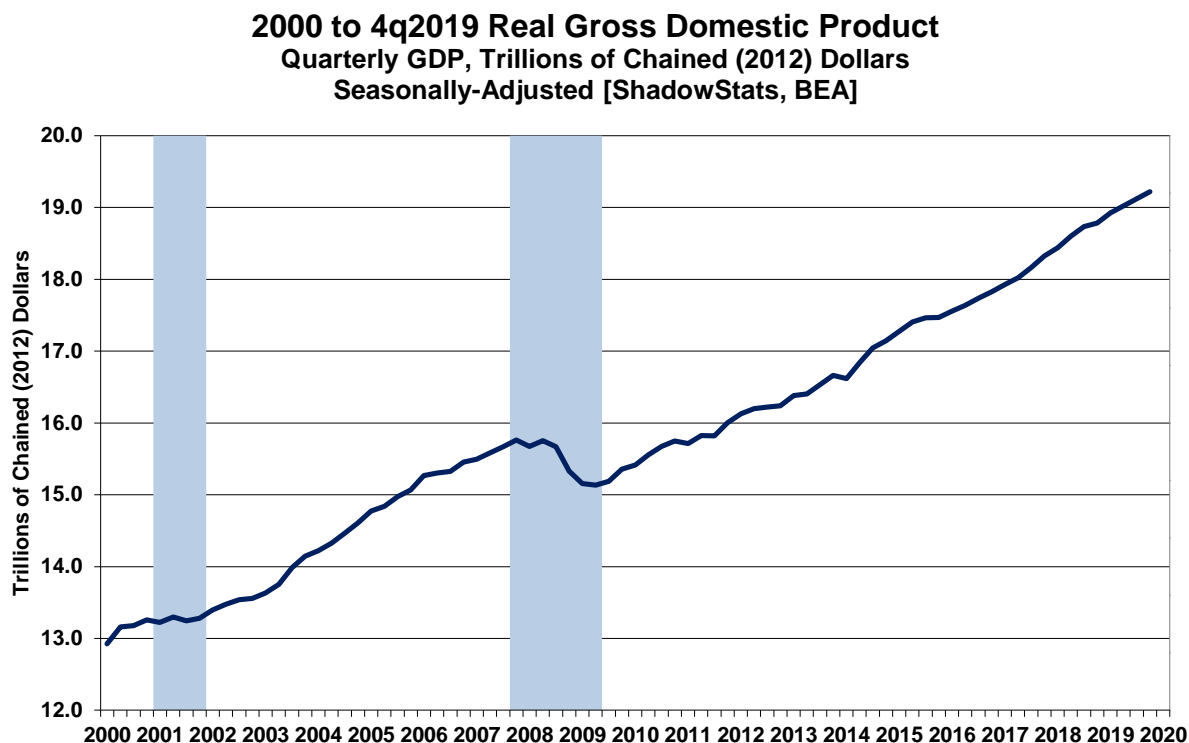
Graph 3: Headline Real Quarterly GDP 1947 to 4q2019



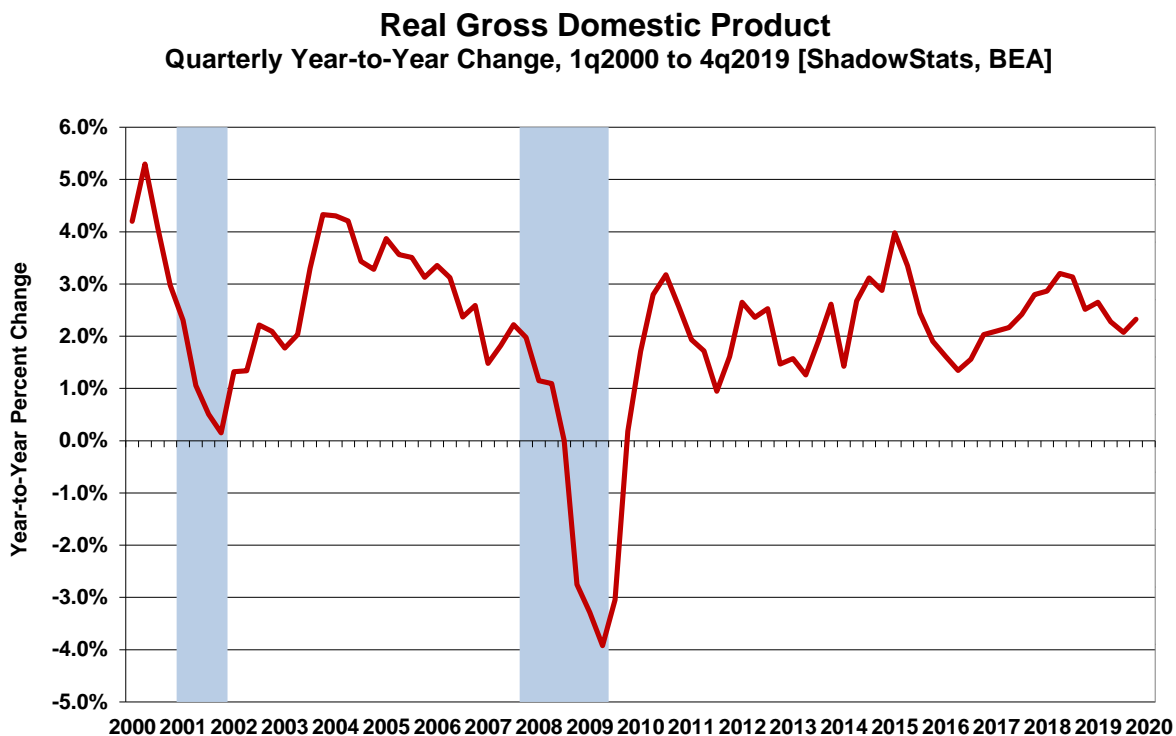
Graph 4: Headline Real GDP 1948 to 4q2019, Year-to-Year Percent Change by Quarter



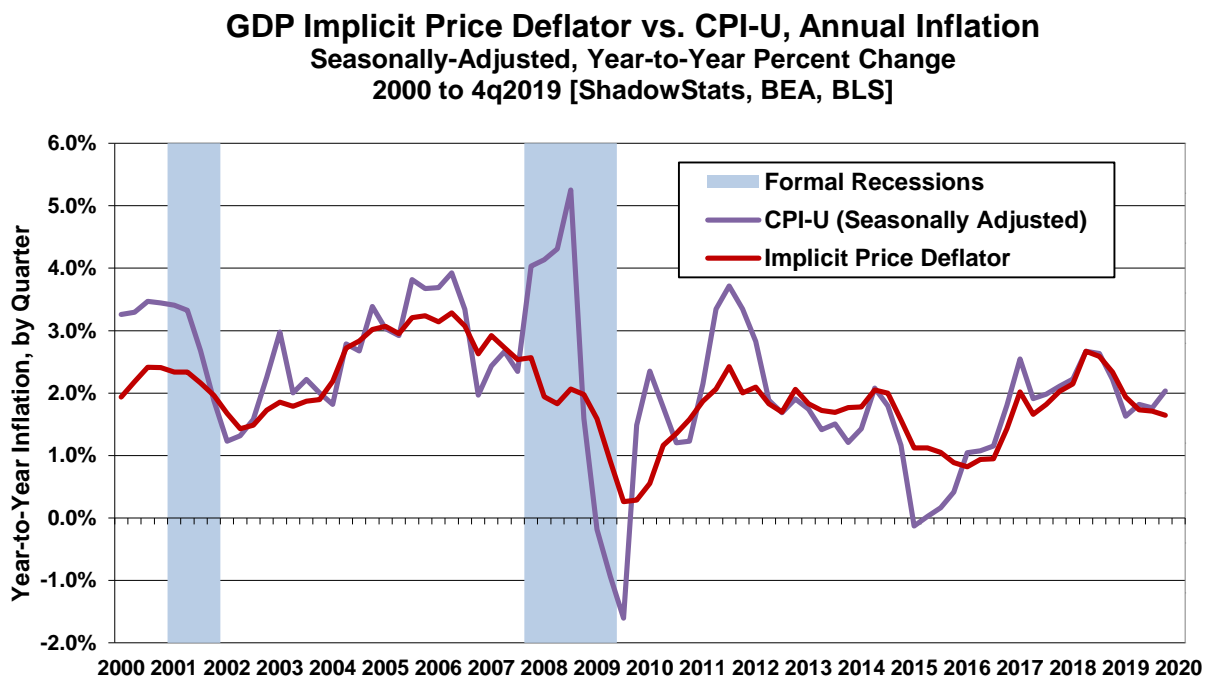
Graph 5: Real GDP, 2000 to Fourth-Quarter 2019



Graph 6: Real GDP, 2000 to Fourth-Quarter 2019, Year-to-Year Change



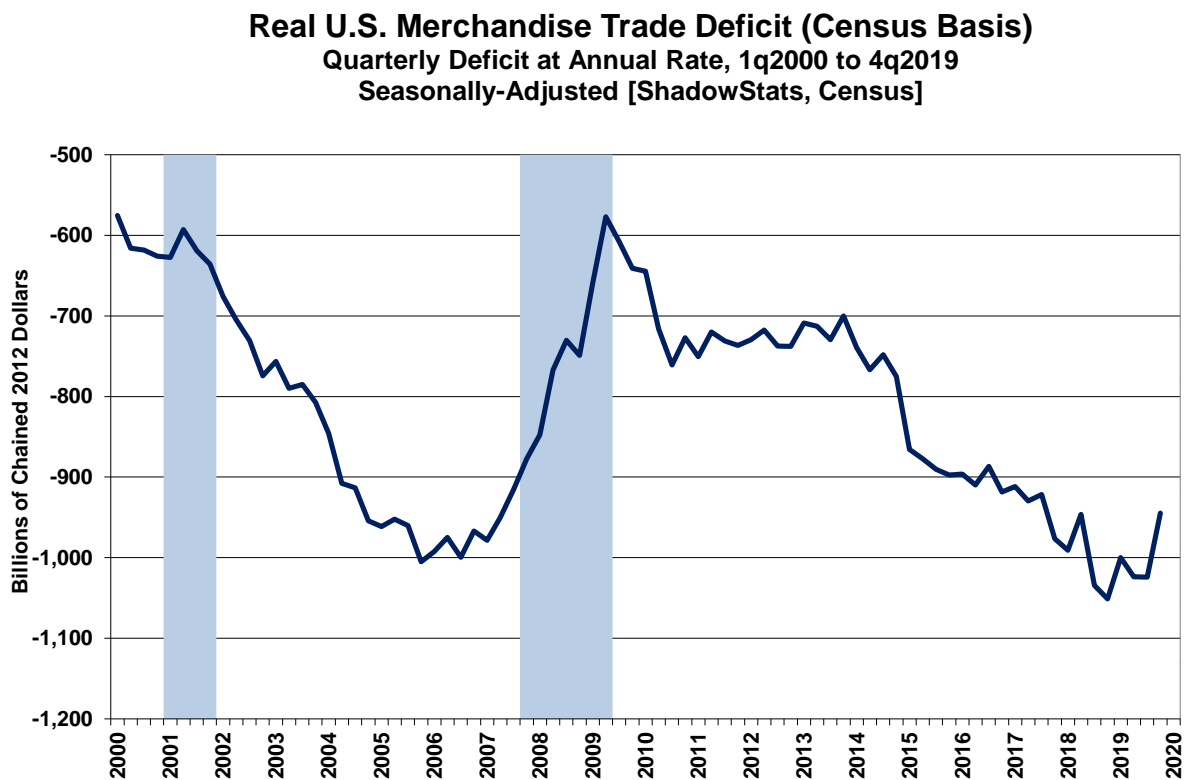
Graph 7: Annual Inflation - GDP Implicit Price Deflator vs. CPI-U, 2000 to Fourth-Quarter 2019



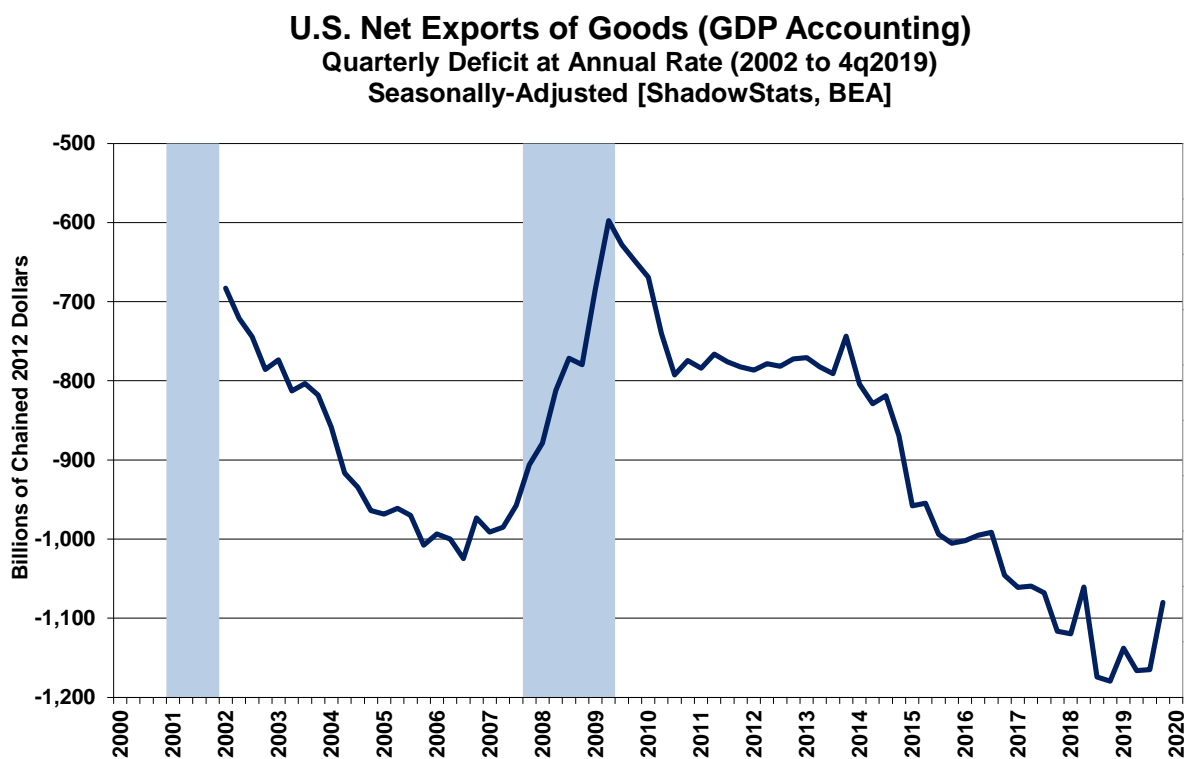
[Graphs of Trade Deficit and Net Exports Detail Begin on the Next Page.]

- Trade Deficit

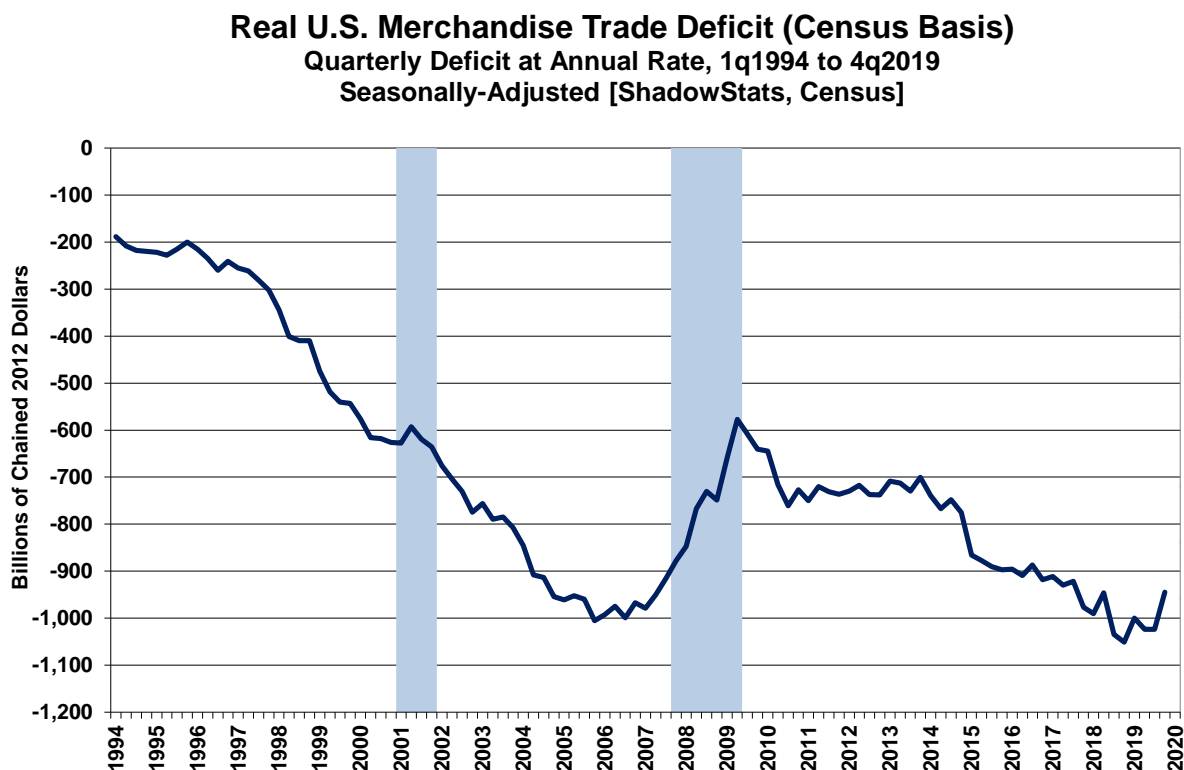
Graph 8: Real Merchandise Trade Deficit to 4q2019



Graph 9: Net Exports of Goods to 4q2019 (GDP Accounting)



Graph 10: Real Merchandise Trade Deficit, 1994 to 4q2019 (No Services. Trade Deficit Accounting)

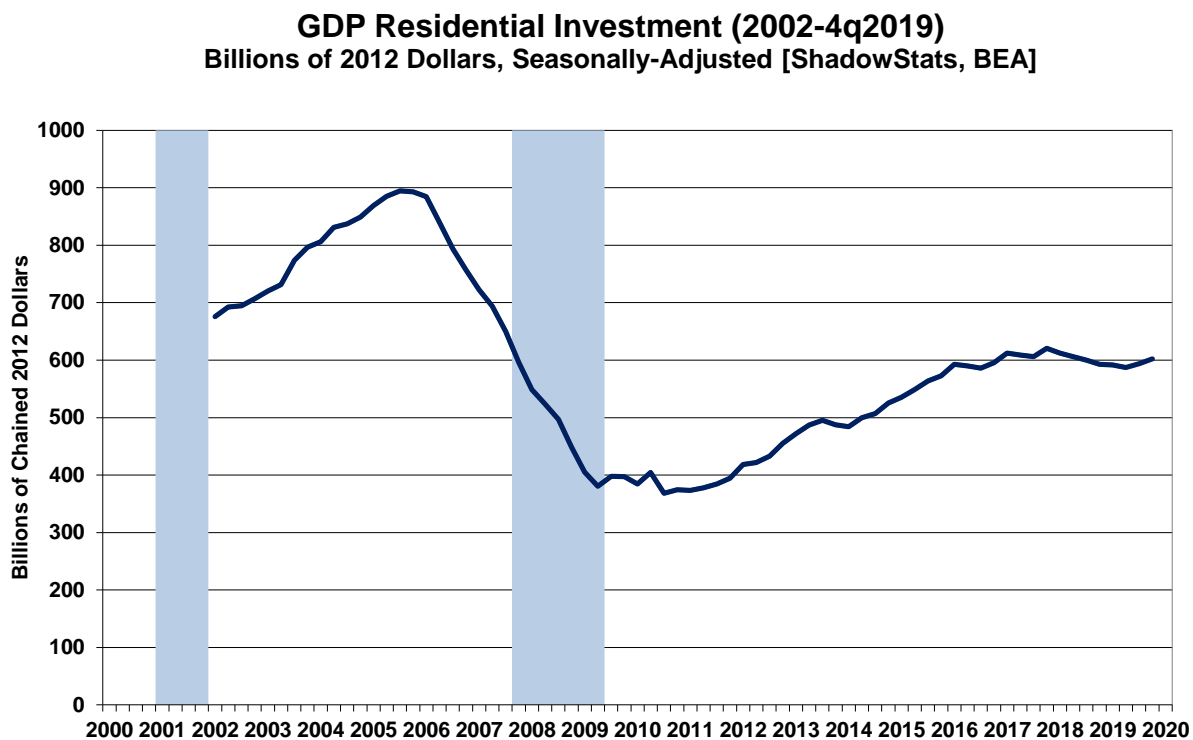


Graph 11: Net Exports of Goods and Services, 1994 to 4q2019 (GDP Accounting)



- Residential Construction

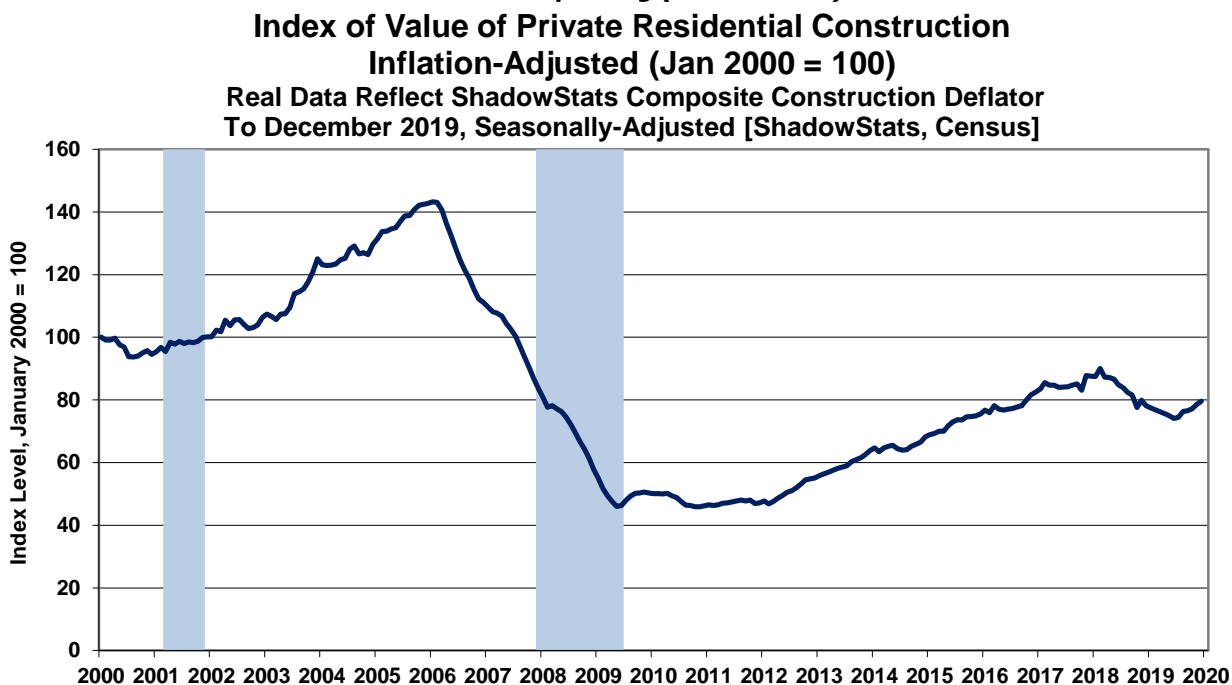
Graph 12: GDP Real Residential Investment (2002 to 2019)



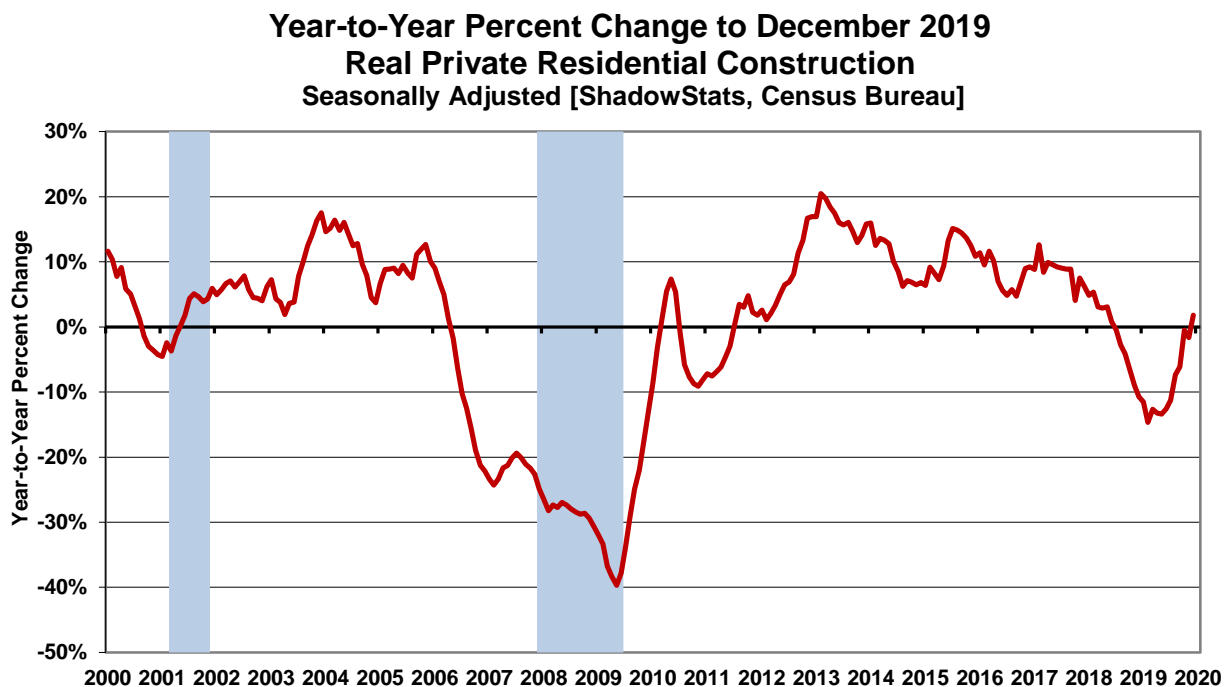
Graph 13: GDP Real Residential Investment, Year-to-Year Change (2003 to 2019)



Graph 14: Index of Real Residential Construction Spending (2000 to 2019)



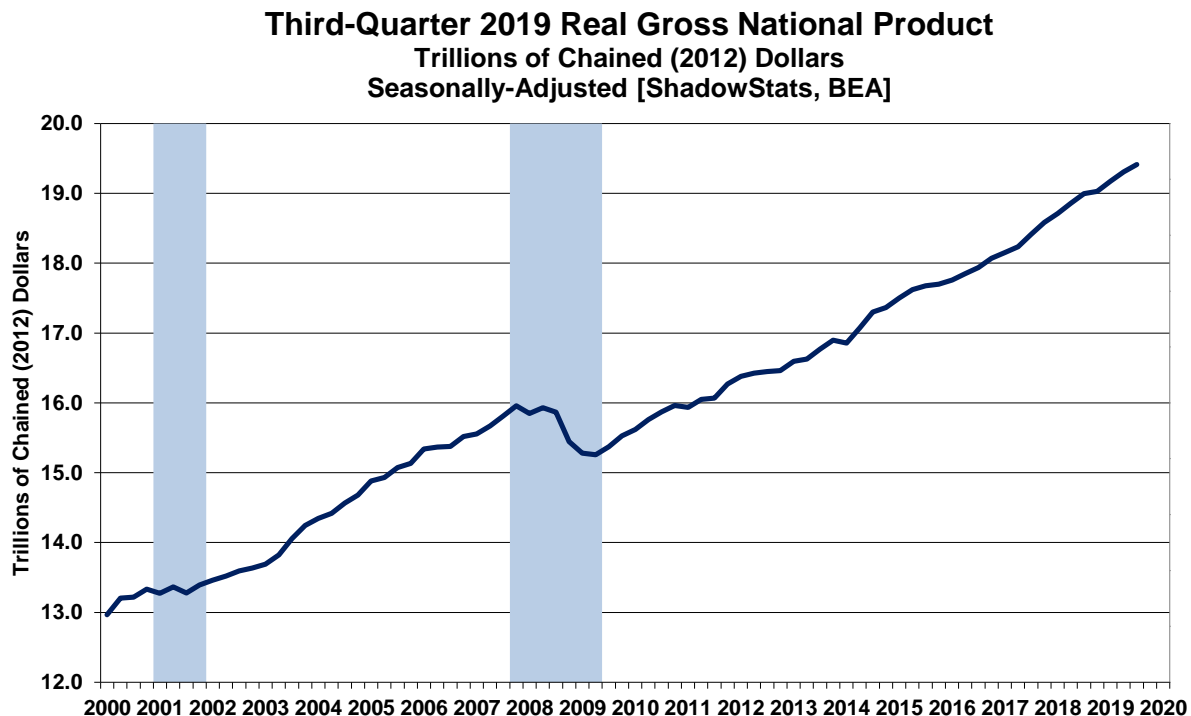
Graph 15: Real Residential Construction Spending, Year-to-Year Change (2000 to 2019)



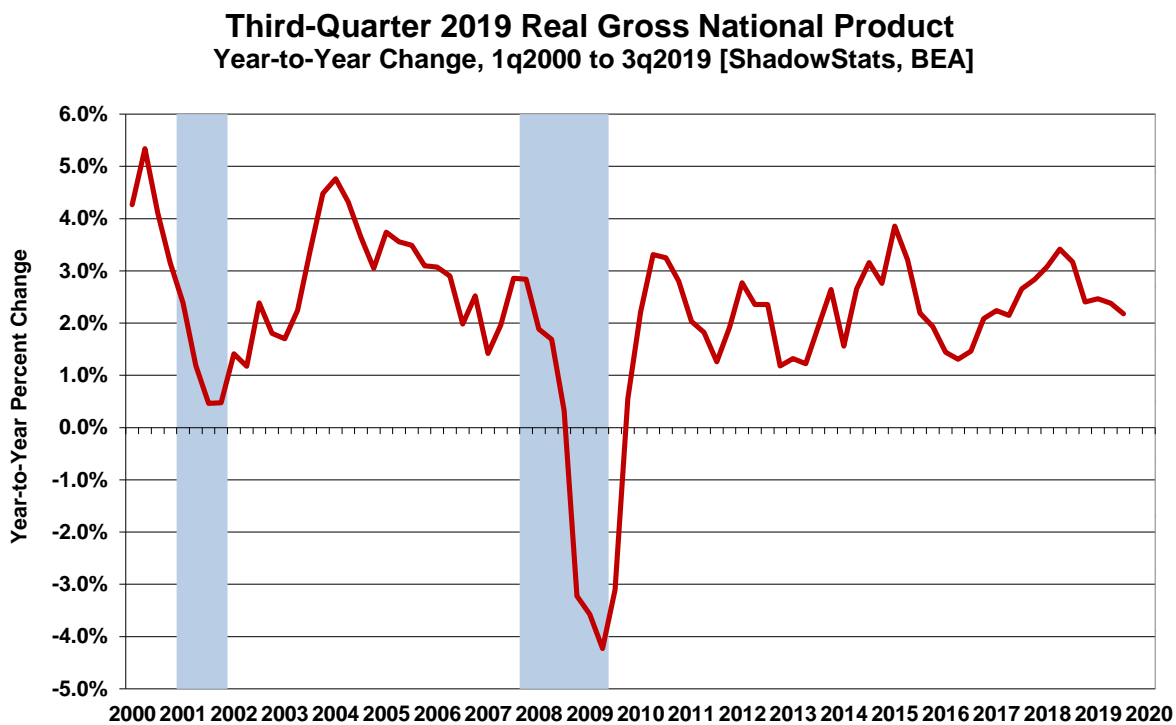
**[Unrevised Graphs of Third-Quarter 2019 Gross National Product and
Gross Domestic Income Begin on the Next Page.]**

Unrevised Third-Quarter 2019 Gross National Product (GNP)

Graph 16: Real GNP, 2000 to Third-Quarter 2019

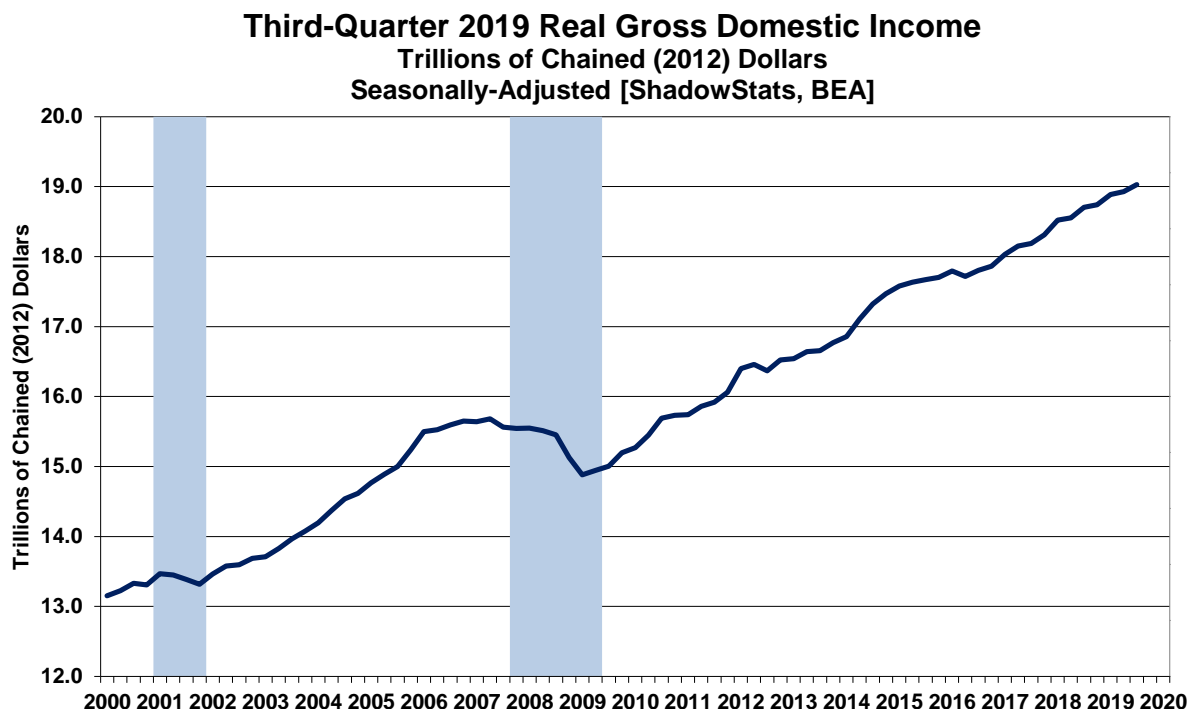


Graph 17: Real GNP, 2000 to Third-Quarter 2019, Year-to-Year Change

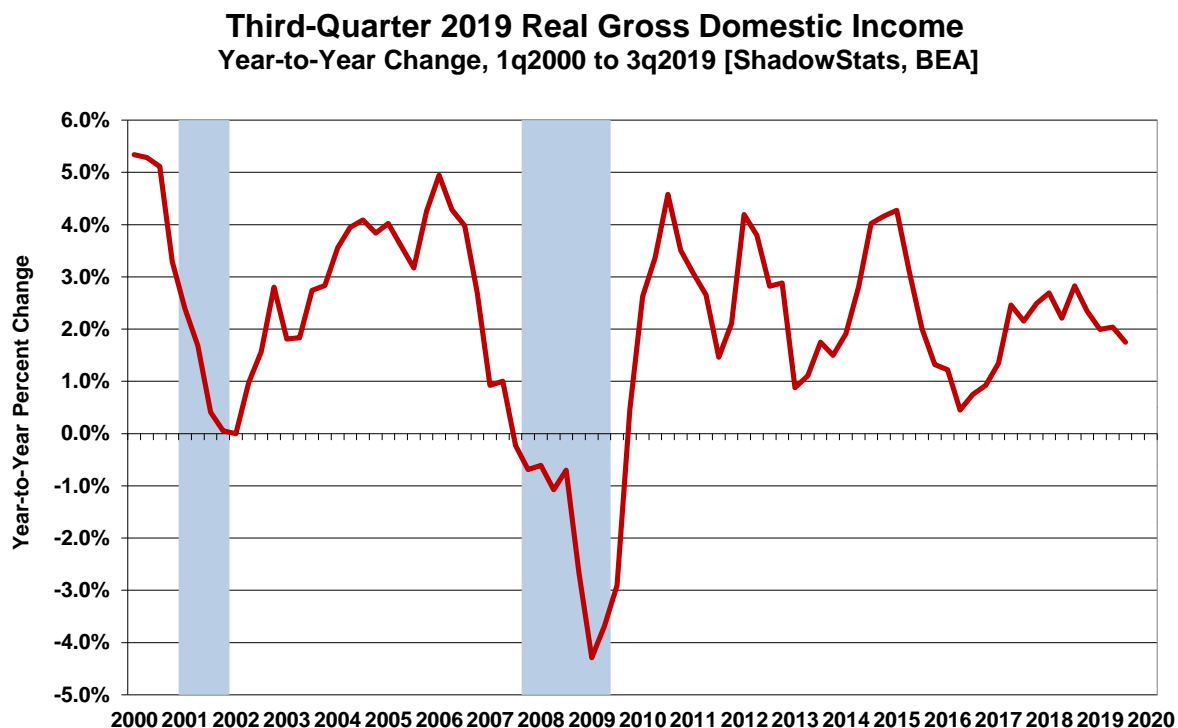


Unrevised Third-Quarter 2019 Gross Domestic Income (GDI)

Graph 18: Real GDI, 2000 to Third-Quarter 2019



Graph 19: Real GDI, 2000 to Third-Quarter 2019, Year-to-Year Change



Initial Fourth-Quarter and Annual 2019 ShadowStats Alternate GDP

Real GDP Shows No Economic Expansion, When Corrected for Understated Inflation

While Headline Real GDP Has Rallied by 27.0% Off Its Fourth-Quarter 2007 Pre-Recession Peak, No Other Series Has. *Graphs 5 to 6* plot the headline real quarterly GDP as published by the Bureau of Economic Analysis (BEA). Discussed in [*Special Commentary No. 983-B, Section 4: Underlying Reality*](#) (page 35), headline real GDP growth has been systematically overstated, through the recasting and understatement of headline GDP inflation. ShadowStats regularly restates the GDP series for the gimmicked inflation understatement of about two-percent, and has updated those graphs and calculations through fourth-quarter 2019 GDP (see *Graphs 21 and 23 to 25*). See [*Special Commentary No. 968-Extended*](#) for full background detail.

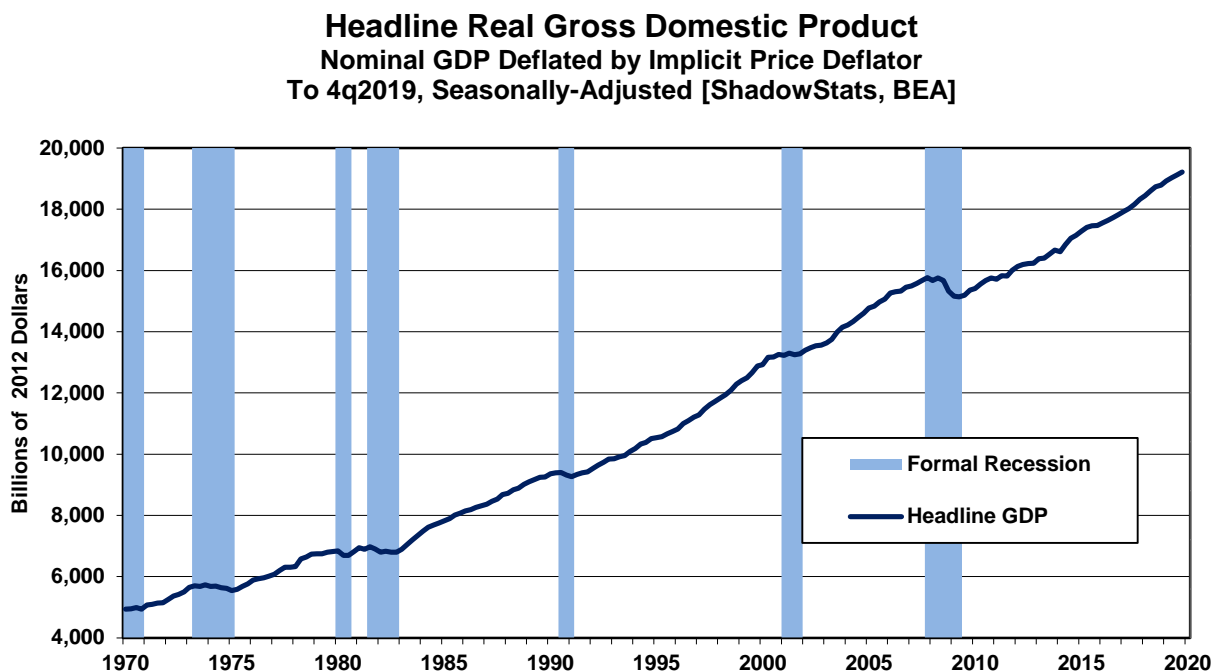
Updated from [*Bullet Edition No. 17*](#), headline, real Fourth-Quarter 2019 GDP has fully recovered its Fourth-Quarter 2007 pre-recession peak, and has expanded beyond that peak by 27.0%, growing at an annualized quarterly pace of 2.08%. In contrast, the ShadowStats Corrected-Inflation Measure, which shows a pattern of economic growth paralleling the Manufacturing Sector, remains shy of recovering its Fourth-Quarter 2007 peak by 4.6% (-4.6%), although off its trough by 2.5%, with respective annualized real Fourth-Quarter 2019 quarterly and year-to-year gains of 0.01% and 0.25%.

[Graphs 20 to 25 begin on the Next Page]

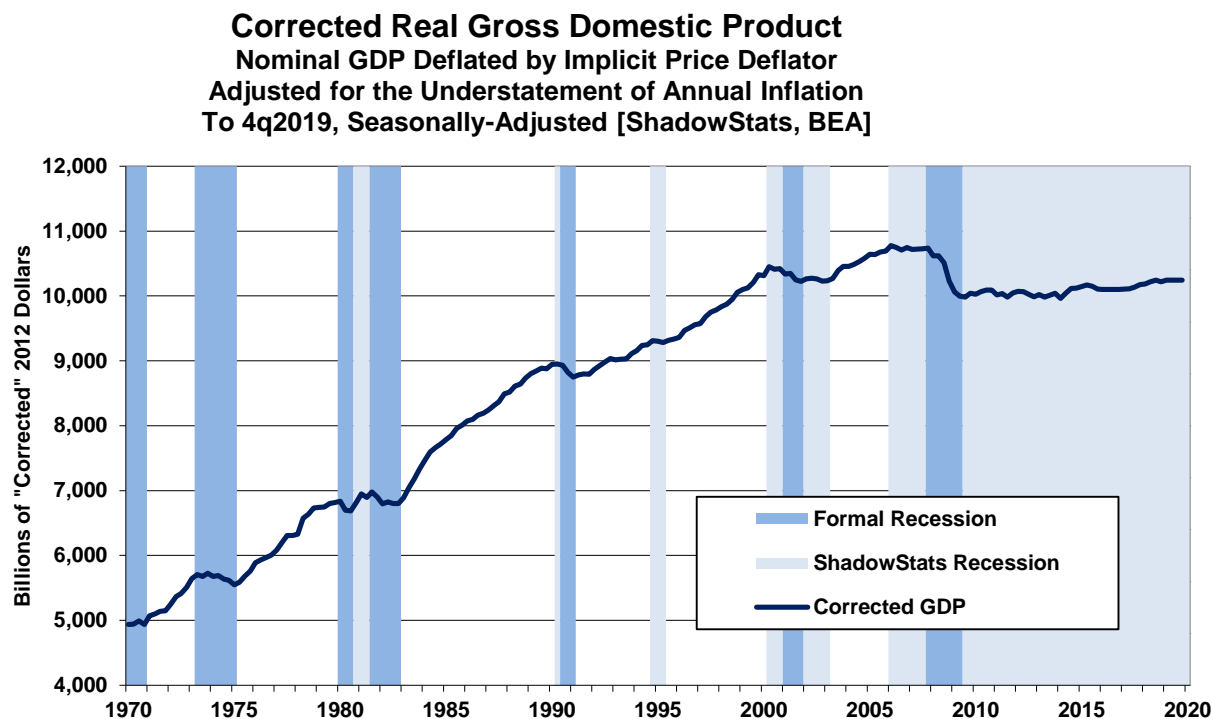
Underlying Economic Reality – Alternate Real GDP Using Corrected Inflation

The plots in Graphs 21 and 23 to 25 reflect GDP deflated by the Implicit Price Deflator corrected for understated annual inflation. For background, see [Special Commentary No. 983-B](#) and [Special Commentary No. 968-Extended](#).

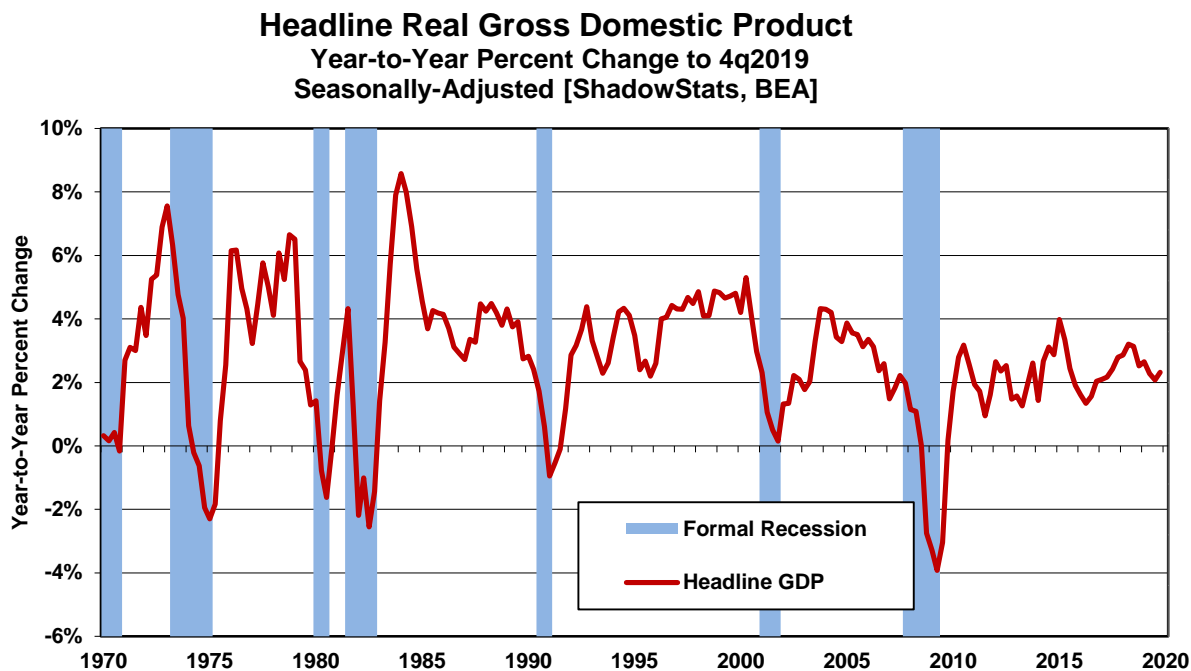
Graph 20: Real GDP 1970 to Fourth-Quarter 2019



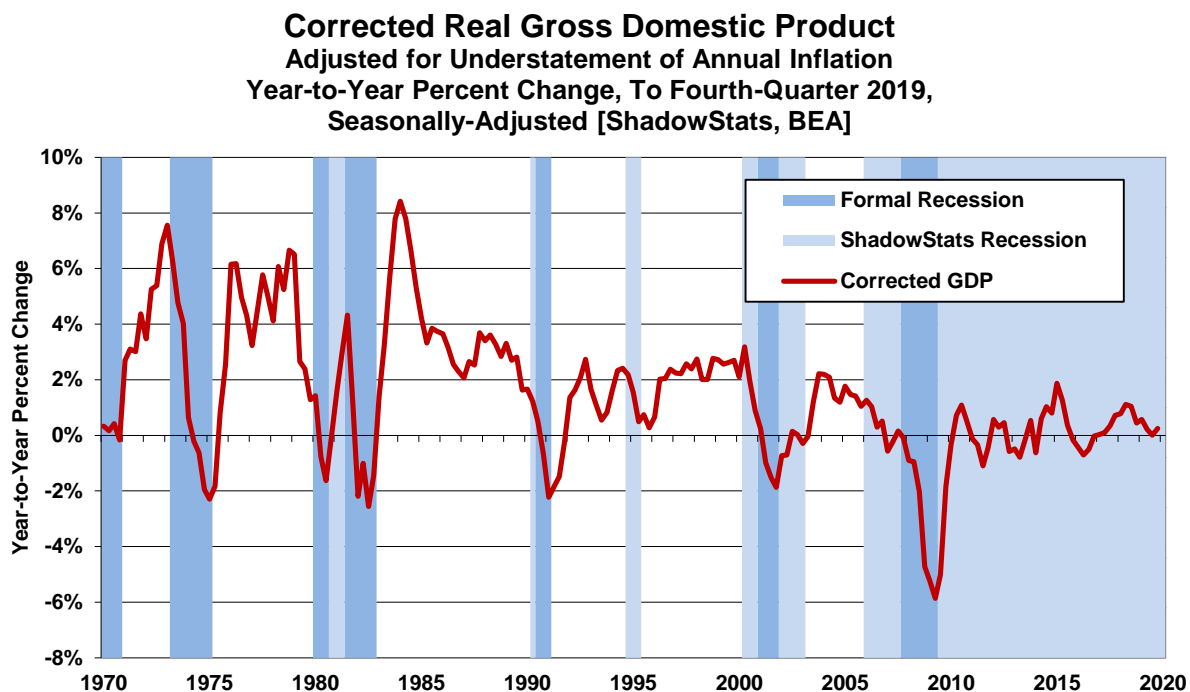
Graph 21: ShadowStats Alternate Real GDP, Year-to-Year Change, 1970 to Fourth-Quarter 2019



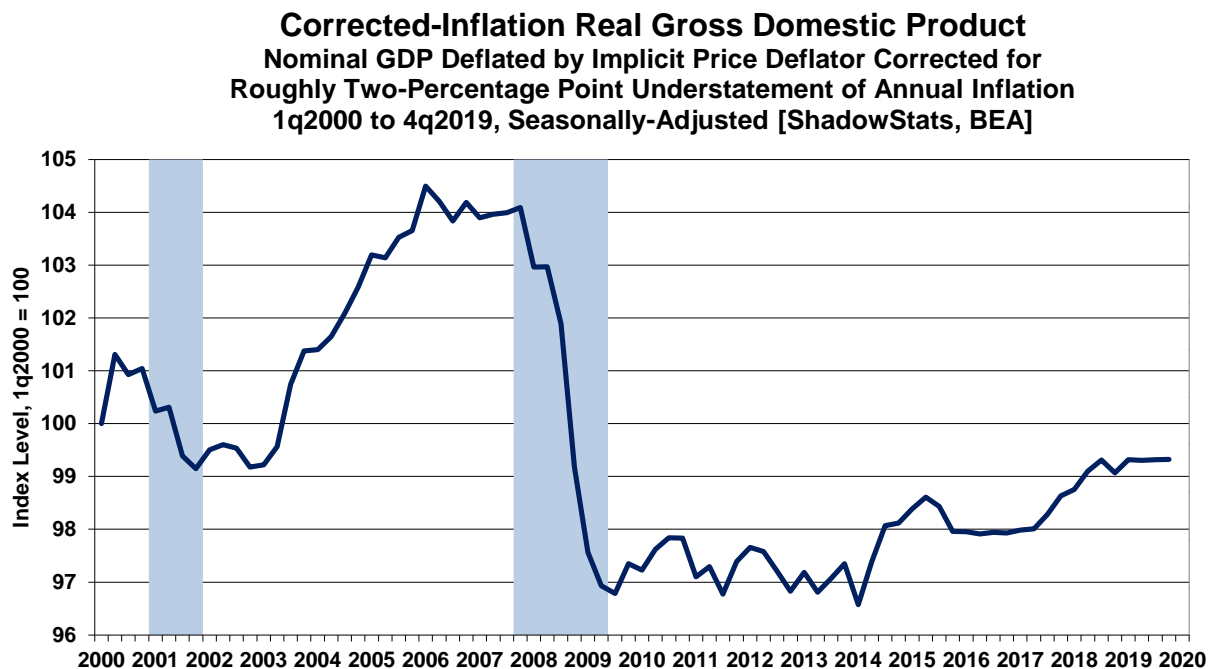
Graph 22: Real GDP 1970 to Fourth-Quarter 2019, Year-to-Year Percent Change



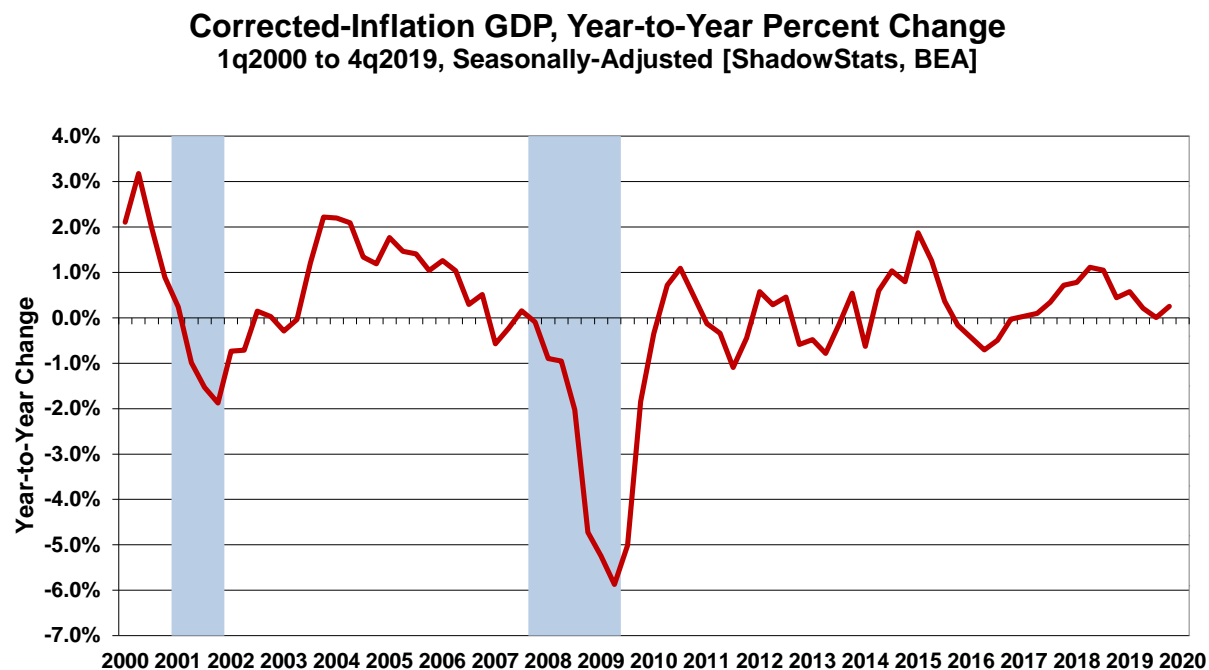
Graph 23: ShadowStats Alternate Real GDP 1970 to Fourth-Quarter 2019, Year-to-Year Percent Change



Graph 24: ShadowStats-Corrected Real GDP, 2000 to Fourth-Quarter 2019

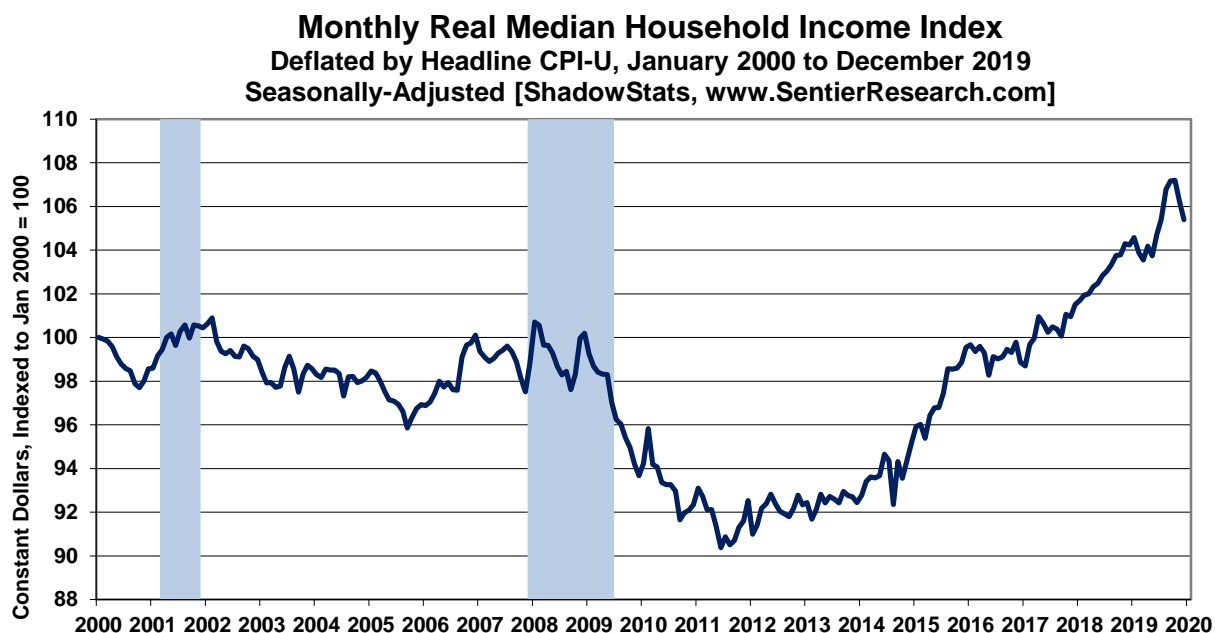


Graph 25: ShadowStats Corrected Real GDP, Year-to-Year Change, 2000 to Fourth-Quarter 2019

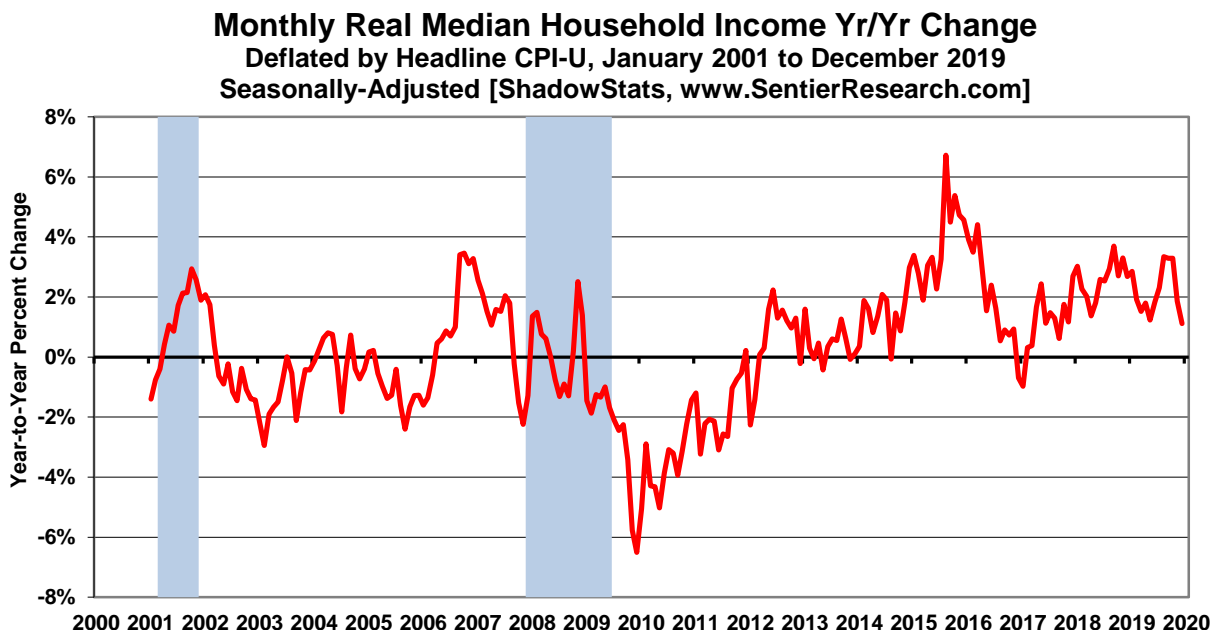


Sentier Research Real Median Household Income Drops for Second Month

Graph 26: Sentier Research, Monthly, Real Median Household Income to December 2019



Graph 27: Sentier Research, Year-to-Year Change in Monthly, Real Median Household Income to December 2019



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