

John Williams'

Shadow Government Statistics

Analysis Behind and Beyond Government Economic Reporting

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This is the fourth section of this Issue.
To view all of the Newsletter, please visit <http://www.shadowstats.com/article/339>

Reporting/Market Focus

GDP Benchmark Revisions -- Weaker Historical Growth

Under normal political circumstances, the nature of the regular reporting of gross domestic product (GDP) and the broader gross national product (GNP), by the Bureau of Economic Analysis (BEA), is overstatement. This broadest of economic measures has become a tool of political propaganda over the years, particularly in the last two to three decades, although I recently heard a story concerning the 1960 presidential election from a former Department of Commerce official. He claimed that Richard Nixon blamed Democrats in his and President Eisenhower's Department of Commerce for the reporting of a rigged second-quarter 1960 GNP contraction. Nixon saw this as a direct effort by his political enemies to help elect John Kennedy, and the former official indicated that there was some substance to that claim.

As noted in Primer Series available at www.shadowstats.com, a former Department of Commerce economist told me the story of how President Lyndon Johnson would review the GNP reports before their release. If he did not like the

report, he would keep sending the GNP estimates back to the Commerce Department until they got the numbers "correct."

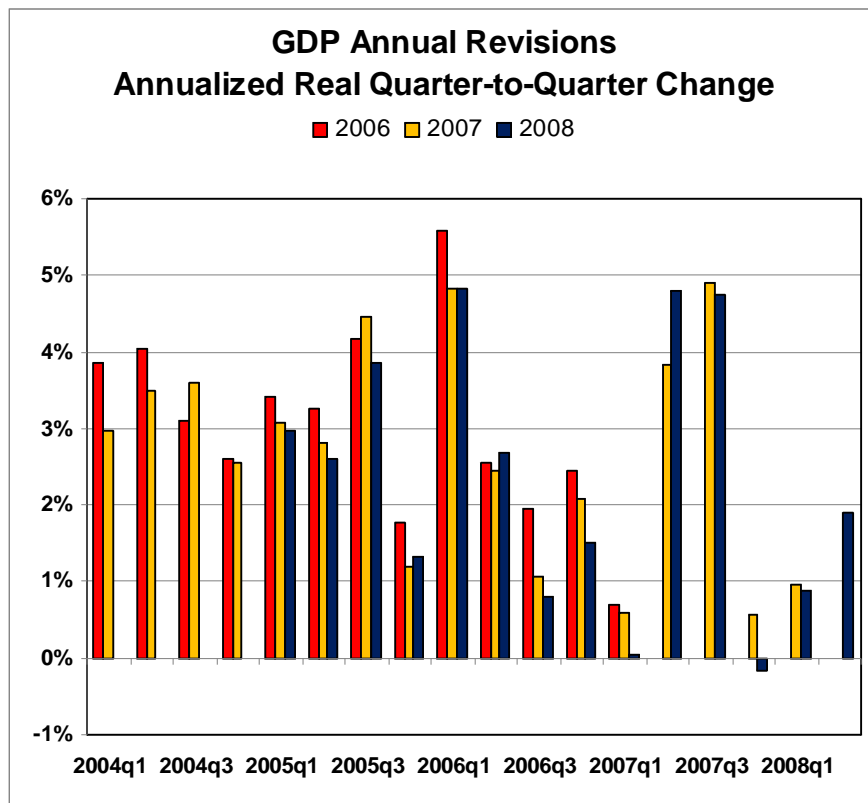
From people directly involved in the incident was story from near the end of the first Bush Administration, where an outside-the-system manipulation of the GDP was worked. A senior member of the Executive Branch approached a senior official of a large computer company and requested that reporting of computer sales to the BEA be inflated. This was done specifically to help with President Bush's reelection effort. The request was granted, and, thanks to the heavy leverage of computer deflation, reported GDP growth enjoyed an artificial spike. Nonetheless, Main Street U.S.A. rarely is fooled by statistics that vary widely from common experience, and Mr. Bush appeared to many voters to be out of touch with reality, as he touted an economic recovery.

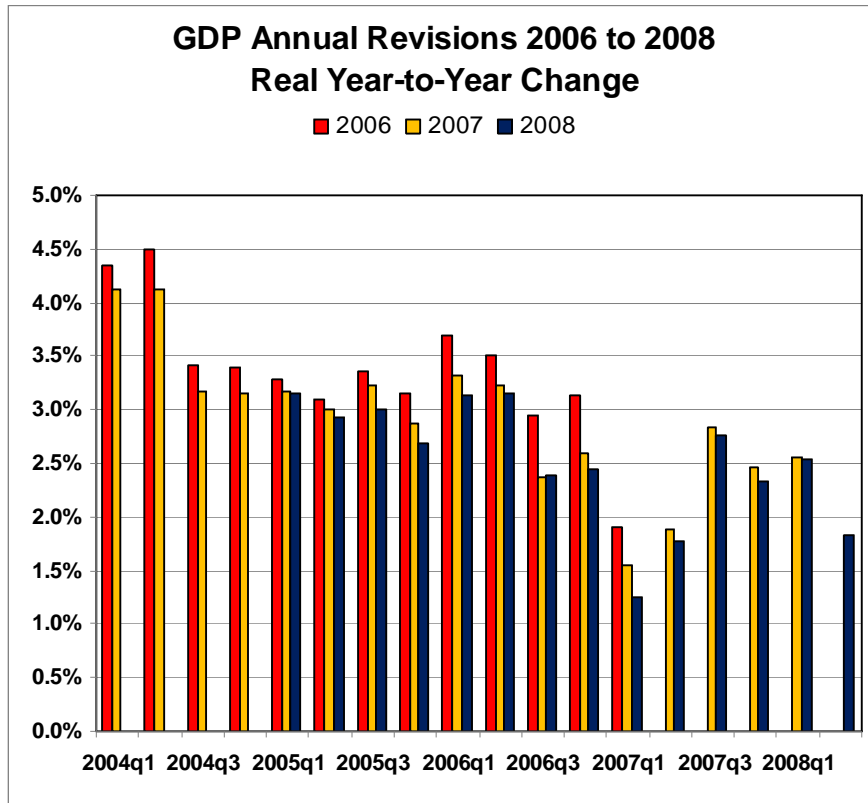
Most commonly, though, the GDP is given some up some upside bias in early reporting. As evidence of that, annual benchmark revisions to the series usually end up showing weaker than previously reported economic growth, and the July 31, 2008 revisions were no exception. As shown in the accompanying graphs, whether growth is on a quarter-to-quarter or year-to-year basis, revision patterns of the last several years generally have been to the downside. In the current revision, an overall downward revision of 0.5% was spread over three years, back to first-quarter 2005.

Note in the graph of comparative quarterly growth rates, and as discussed in the next section, that the revised reporting shows that first-quarter 2007 was close to no growth, that fourth-quarter 2007 now is in contraction, and that first-quarter 2008 growth remained below 1.0%. The downward

revisions to growth in those quarters were dominated by upward revisions to the reported trade deficit. Increasingly, the trade deficit appears to the preferred current tool for propping the pre-election GDP reporting.

Subsequent annual and grand-scale benchmark revisions to all the data have a fair shot at eventually showing a recession in place from some point in fourth-quarter 2006 through the present. Such revised reporting will be more likely if control of the White House shifts in the upcoming election, where blame for the ongoing downturn most likely would be placed on the prior Administration. Curiously, though, the current Bush Administration never made much of an effort to blame the 2001 recession on the Clinton Administration, even though the roots for same clearly were in place back in 2000.





Official GDP-Like Measures, GDI and GNP.

The official GDP-like measures include Gross Domestic Income (GDI), which is the theoretical income-side equivalent to the GDP's consumption-side measure, and Gross National Product (GNP), where GDP is GNP net of trade in factor income (interest and dividend payments). The BEA did not publish second-quarter GDI or GNP estimates along with the "advance" second-quarter GDP estimates, because of the lack of availability of meaningful data.

GDI. As described in the July 31st BEA press release: "The statistical discrepancy is current-dollar GDP less current-dollar gross domestic income (GDI). It arises because most components of GDP and of GDI are estimated independently. GDP measures final expenditures -- the sum of consumer spending, private investment, net exports, and government spending. GDI measures the incomes earned in the production of GDP. In concept, GDP is equal to GDI. In practice, they

differ because they are estimated using different source data and different methods.

"As a result of the annual revision, the statistical discrepancy as a percentage of GDP (without regard to sign) was revised from less than 0.1 percent to 0.6 percent for 2005, was revised from 0.1 percent to 1.2 percent for 2006, and was revised from 0.2 percent to 0.6 percent for 2007. For all 3 years, the revisions to the discrepancy reflected downward revisions to GDP and upward revisions to GDI."

Of some interest, the statistical discrepancy has widened in revision, instead of narrowing as might be hoped for with the introduction of more complete and presumably better data. Also, the deterioration in the statistical discrepancy has been moving consistently in a direction suggestive of relative overstatement of GDP to GDI growth since fourth-quarter 2006, the point in time from which I figure the current recession eventually will be timed.

Ignoring the nonsense of 2Q08 = 1.9%, for the moment, as currently reported, the annualized quarterly real growth rates for the GDP run as follows:

4Q06 = 1.5%, 1Q07 = 0.0%, 2Q07 = 4.8%, 3Q07 = 4.8%, 4Q07 = -0.2%, 1Q08 = 0.9%, while the annualized quarterly real growth rates for the GDI run as follows:
4Q06 = 2.2%, 1Q07 = -0.2%, 2Q07 = 3.4%, 3Q07 = 0.7%, 4Q07 = -0.8%, 1Q08 = 0.0%.

Somehow, the GDI missed the mid-2007 economic boom shown in the GDP, and is within a hair's breadth of showing a formal recession in 4Q07 and 1Q08, just shy of two consecutive quarters of contracting GDP growth. With the contraction in 1Q07 GDI, one more year's worth of revisions easily could show a recession in place that began at some point in 4Q06.

GNP. Net-debtor nations prefer expressing their economic growth in GDP instead of GNP, because the GDP does not reflect the drain on the

economic activity from the net outflow of funds from the system used to service foreign investment. Aside from the effects of Treasury yields depressed artificially by the forced investment of unwanted, foreign-held U.S. dollars in U.S. Treasury instruments, the GNP numbers have appeared to be sporadically out of traditional balance with GDP, which generally should be stronger than the GNP growth estimates.

As currently reported, annualized quarterly real growth rates for the GNP run as follows:
3Q06 = 0.2%, 4Q06 = 2.0%, 1Q07 = -0.3%, 2Q07 = 4.4%, 3Q07 = 6.3%, 4Q07 = 1.3%, 1Q08 = 0.1%.

SGS-Alternate GDP. As to the estimates of SGS-Alternate GDP growth, updated materials are included in the Alternate Realities section in the Opening Comments as well as in the GDP section of the Reporting Perspective. The revised data are available on the Alternate Data tab of www.shadowstats.com.

Upcoming Reporting/Market Focus

The next Reporting/Market Focus will be determined based on factors tied to the evolving market and financial-system foci and concerns of the time.

PLEASE NOTE: The next SGS Newsletter currently is targeted for the week of September 8th, following the release of the August employment report on September 5th. Intervening Flash Updates and Alerts will be posted in response to key economic or financial-market developments.

Earlier editions of the SGS writings referenced in the text can be found on the Archives tab at www.shadowstats.com.

Occasionally, important, brief updates are communicated directly by e-mail. If you are not receiving e-mail communications from us, please let us know at johnwilliams@shadowstats.com or by using the "Contact Us" option on www.shadowstats.com.