

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

COMMENTARY NUMBER 631

Revised First-Quarter GDP

May 29, 2014

It's the Consumer, Not the Weather!

Weakening Economy Should Hit U.S. Dollar Hard, Boost Gold

**First-Quarter Gross Domestic Product Fell by 1.0%;
Gross National Product Tumbled by 2.1%; Gross Domestic Income Dropped by 2.3%**

Before Inflation Adjustment, Nominal First-Quarter GDP Gained Just 0.3%

**Pending Trade Data and Revisions Should Help to Set Negative Tone for
Second-Quarter GDP and the GDP Benchmark Revision**

PLEASE NOTE: The next regular Commentary is scheduled for Wednesday, June 4th, covering the April trade deficit and annual revisions, and April construction spending, followed by one on June 6th, covering May employment and unemployment.

Best wishes to all! — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

First Contemporary Reporting of Real GDP Contraction Since the Formal Recession. Revised first-quarter 2014 gross domestic product (GDP) contracted at a 1.0% annualized pace, versus a 2.6% gain in fourth-quarter 2013. The broader economic measure of gross national product (GNP)—reflecting deteriorating global flows of interest and dividend payments—contracted at an annualized pace of 2.1% in first-quarter 2014, following a 3.1% gain in the fourth-quarter. Although economic reality is much weaker than the headline reporting, actual activity is being hit hard enough for the aggregate downturn to show up in the official numbers. As such, the headline U.S. economy has entered a period that fairly rapidly should gain official recognition as a “new” recession, with headline second-quarter 2014 GDP likely to follow in contraction.

Discussed in [Commentary No. 629](#) (background on the expected revision), a negative first-quarter 2014 GDP would be, and it is, the first contemporary reporting of a quarterly GDP contraction since the recession formally ended in second-quarter 2009. Before inflation adjustment, nominal first-quarter annualized growth of 0.3% also was the weakest contemporary reporting since the end of the recession. Where present GDP history shows a one-quarter annualized real contraction of 1.3% in first-quarter 2011, that contraction was reported only after three annual benchmark revisions. On an initial, contemporary basis, it was reported as 1.8% real growth.

More Contemporary Contractions Ahead. Conventional wisdom appears to be that bad weather pummeled first-quarter activity, and that a second-quarter rebound is underway. The bad weather did have negative impact, but with offsets. The 0.8% growth contribution from increased utility usage, incorporated in the aggregate first-quarter GDP contraction, largely offset related negative weather effects. Today’s (May 29th) downside GDP revision from plus 0.1% to minus 1.0% was fully accounted for by a revised reduction in inventory growth (a 1.62% negative contribution to the aggregate headline contraction), which was more a function of the effects of limited consumer liquidity, and businesses adjusting for same, than it was a function of unseasonable weather. In like manner, the 0.95% negative contribution to the first-quarter contraction from the widening trade deficit largely was independent of weather effects. Trade deterioration and slower inventory growth, or outright inventory liquidation, likely will continue in the current quarter.

In the weeks and month ahead, look for weaker-than-expected numbers in the trade and labor data (see *Week Ahead* section), retail sales, production and housing, to start moving market expectations on the broad economy sharply to the downside. *[PLEASE NOTE: New material will be made available shortly to ShadowStats subscribers, on the analysis of payroll-employment trends, from our affiliate www.ExpliStats.com. A separate e-mail will follow, advising details.]*

The issue for the economy is not the first-quarter’s bad weather and a potential second-quarter recovery from same, but rather ongoing, severe structural liquidity constraints on the consumer, as last discussed in [Commentary No. 626](#) and [Commentary No. 628](#), where nothing positive is happening. The liquidity issues will be updated in the next *Commentary No. 632*. Lacking real growth in income and available

credit, combined with confidence levels that remain deep in recession territory, the consumer is unable to fuel actual, positive growth in inflation-adjusted personal consumption.

In related, recently-released detail that also has some negative implications for the pending GDP benchmark revisions (see prior [Commentary No. 630](#)), in the twelve months through June 2013, year-to-year income, before taxes, fell by 0.2%, while average annual expenditures rose by 1.5%, per average consumer unit, per the Bureau of Labor Statistics (BLS). Where CPI-U inflation was up 1.7% for the same period, that means the reported income and expenditures both were down year-to-year, after adjustment for official inflation. It is impossible to have a series turn negative year-to-year without there also having been at least one quarter-to-quarter contraction.

GDP Benchmark Could Show Deeper and More-Protracted Current Downturn. Incorporating benchmark revisions from other series, including the pending June 4th benchmark revision to the trade data (see *Week Ahead* section), the July 30th GDP benchmark should show a weaker pattern of growth in recent years, with downside revision patterns and trends leading into second-quarter 2014 GDP reporting. The revisions could show the “renewed” recession to have been in place before first-quarter 2014. Accordingly, odds are high that the market outlook and consensus will have moved into the renewed-recession camp by the July GDP benchmark, if not before then.

Negative News for the U.S. Dollar and Inflation, Positive Implications for Gold. Indeed, market expectations should move at an accelerating pace into the “renewed” recession camp, as a result of June and July economic reporting, culminating in the July 30th GDP annual revisions and the first estimate of second-quarter 2014 GDP, which, again, should provide a second consecutive quarterly GDP contraction.

As sentiment shifts in that direction, global markets should respond with increased selling pressure against the U.S. dollar, with resulting upside inflationary pressures on oil and other commodities. In turn gold and silver prices should rally in response to the global weakness in the dollar and to the nascent, rising inflationary pressures. Physical gold and silver remain the primary hedges against the financial and inflation turmoil ahead. Please see [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#), and [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#) for details.

Headline Gross Domestic Product (GDP)—First Revision. The second estimate of, first revision to first-quarter 2014 GDP showed a revised, statistically-insignificant, real (inflation-adjusted), annualized, quarterly contraction of 0.98%. Previously, the headline first-quarter change in activity had been a gain of 0.11%. That was against a 2.63% headline gain in fourth-quarter 2013, a 4.13% gain in third-quarter 2013, a 2.48% increase in second-quarter 2013 and a 1.15% gain in the first-quarter.

In terms of year-to-year growth, first-quarter 2014 GDP revised to 2.05% (previously 2.33%), versus 2.59% in fourth-quarter 2013, 1.97% in the third-quarter, 1.63% in the second-quarter and 1.32% in the first-quarter 2013.

Implicit Price Deflator (IPD). The second estimate of first-quarter 2014 GDP inflation, or the implicit price deflator (IPD), was at a revised annualized quarterly pace of 1.27% (previously 1.30%), versus 1.58% in fourth-quarter 2013, 1.97% in the third-quarter, 0.58% in the second-quarter and against 1.67%

in the first-quarter. Year-to-year, first-quarter 2014 IPD inflation was a revised 1.35% (previously 1.36%), versus 1.45% in fourth-quarter 2013, 1.41% in the third-quarter, 1.44% in the second-quarter and 1.74% in the first-quarter 2013. Generally, the weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth.

Gross National Product (GNP). The initial estimate of first-quarter 2014 real GNP showed an annualized quarter-to-quarter contraction of 2.11%, following a 3.06% gain in fourth-quarter 2013. In terms of year-to-year change, annual growth slowed to 1.98% in first-quarter 2014, from 2.69% in fourth-quarter 2013. Again, for purposes of comparison, annualized first-quarter GDP change was a 0.98% contraction, versus a 2.63% gain in the fourth-quarter.

GNP is the broadest measure of U.S. economic activity, where GDP is GNP net of trade flows in factor income (interest and dividend payments). As a reporting gimmick aimed at boosting the headline reporting of economic growth for net-debtor nations such as Greece and the United States, international reporting standards were shifted some decades back to reporting headline GDP instead of GNP.

The relatively greater quarterly contraction in U.S. first-quarter 2014 GNP, versus the GDP, fully reflected a sharp deterioration in the net flow of factor income between the United States and the rest of the world. The net deterioration was due to a large falloff in U.S. receipts from the rest of the world in first-quarter 2014, plus a second quarterly increase in U.S. payments to the rest of the world.

Gross Domestic Income (GDI). GDI is the theoretical income-side equivalent of the consumption-side GDP estimate. The GDP and GDI are made to equal each other, every quarter, with the addition of a “statistical discrepancy” to the GDI-side of the equation, but the discrepancy just as easily could be added to the GDP number. Net of the statistical discrepancy, the initial estimate of headline real GDI annualized quarterly change for first-quarter 2014 was a contraction of 2.26%, versus growth of 2.60% in the fourth quarter. Year-to-year annual growth slowed to 1.31% in first-quarter 2014, versus 2.51% in the fourth-quarter.

Distribution of Headline GDP Growth. Despite the severely-limited significance of the following detail, it is included for those interested in the reported internal patterns of GDP growth, as guessed at by the BEA. The second estimate of headline change in first-quarter 2014 GDP was a contraction of 0.98%. That annualized contraction rate is detailed in the following aggregation of contributed growth. Please note that the annualized growth number in each sub-category is the additive contribution to the aggregate, headline change in GDP, where $2.09\% - 1.98\% - 0.95\% - 0.15\% = \text{minus } 0.99\%$ (a rounding difference versus minus 0.98% [0.9849%]). The aggregate headline GDP growth was estimated at 0.11% for the initial first-quarter estimate, and at 2.63% in fourth-quarter 2013:

- **Consumer Spending Contributed 2.09% (Previously 2.04%) to First-Quarter Growth; 2.22% in Fourth-Quarter.** Consumer-dependent personal consumption accounts for 68% of the GDP, but the outright contraction in first-quarter retail sales was not evident in the first-quarter personal-consumption headline reporting or detail. As with the fourth-quarter detail—and little revised from the initial estimate—rising healthcare costs and spiked utility usage dominated personal-consumption services data, and accounted for a positive 1.78% (previously 1.83%) in the composite 0.98% GDP contraction. Net of the highly questionable “contribution” and accounting for the Affordable Care Act, the GDP contraction would have been 1.99%.

- ***Business/Residential Investment Subtracted 1.98% (Previously 1.01%) from First-Quarter Growth; Contributed 0.41% to Fourth-Quarter.*** The contraction in private investment included falling computer sales and a continued contraction in residential investment. The net revision in this was largely in a continued relative slowdown in inventory build-up, which knocked 1.62% (previously 0.57%) off the headline GDP growth rate, a difference that fully accounted for the aggregate downside revision. Accordingly “final sales”—GDP net of inventory change—was at a revised, annualized 0.64% (previously a 0.68%) pace of growth, versus 2.61% growth in fourth-quarter 2013.
- ***Net Exports Subtracted 0.95% (Previously 0.83%) from First-Quarter Growth; Contributed 0.99% to Fourth-Quarter.*** Consistent with full quarterly trade data (only two months were available for the initial first-quarter 2014 estimate), which showed a quarterly deterioration in the trade deficit, the net-export account subtracted 0.95% (previously 0.83%) from the headline GDP growth, where the same account had added 0.99% to the headline growth rate of the fourth-quarter.
- ***Government Spending Subtracted 0.15% (Previously 0.09%) from First-Quarter Growth; Subtracted 0.99% in Fourth-Quarter.*** Federal government spending made an unrevised 0.05% positive contribution to first-quarter GDP growth (0.16% positive from nondefense, 0.11% negative from defense), otherwise dominated by a revised 0.20% (previously 0.14%) negative contribution from spending by state and local governments.

Economic Reality. With first-quarter 2014 GDP growth formally in contraction, the general outlook has not been altered. The broad economy has turned down anew, and the second-quarter GDP is likely to follow the first-quarter in contraction. Accordingly, the gist of much of the following text is along the lines of other recent GDP commentaries, but the details and numbers have been updated for today’s second reporting of aggregate first-quarter 2014 economic activity.

The GDP remains the most-worthless and the most-heavily modeled, massaged and politically-manipulated of government economic series. It does not reflect properly or accurately the changes to the underlying fundamentals that drive the economy. Underlying real-world economic activity suggests that the broad economy began to turn down in 2006 and 2007, plunged into 2009, entered a protracted period of stagnation thereafter—never recovering—and then began to turn down anew in second- and third-quarter 2012 (see [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#), and [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#)). Irrespective of the reporting gimmicks introduced in the July 2013 GDP benchmark revision, the consistent, fundamental pattern of historical activity is shown in the accompanying two sets of “corrected” GDP graphs.

Please note that the pattern of activity shown for the “corrected” GDP series is much closer to the patterns shown in the graphs of monthly real median household income and other liquidity measures (again, see [Commentary No. 626](#) and [Commentary No. 628](#)) and of economic series not otherwise reliant on understated inflation for their reported growth (see the second installment of the *Hyperinflation Report*). A sustainable business recovery could not have taken place since 2009, and a recovery will not be forthcoming until the consumer’s structural income and liquidity problems are resolved.

Official and Corrected GDP. As usually discussed in the *Commentaries* covering the quarterly GDP reporting and monthly revisions, the full economic recovery indicated by the official, real GDP numbers remains an illusion. It is a statistical illusion created by using too-low a rate of inflation in deflating

(removing inflation effects) from the GDP series. The accompanying two sets of graphs tell that story, updated for the second estimate of first-quarter 2014 GDP.

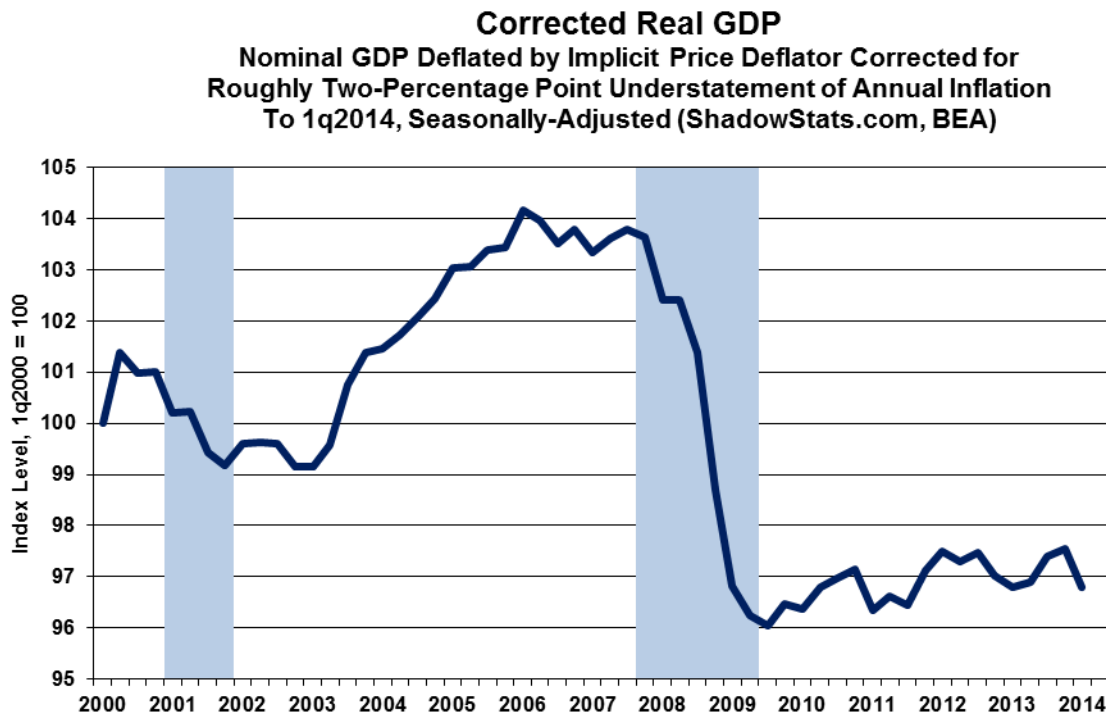
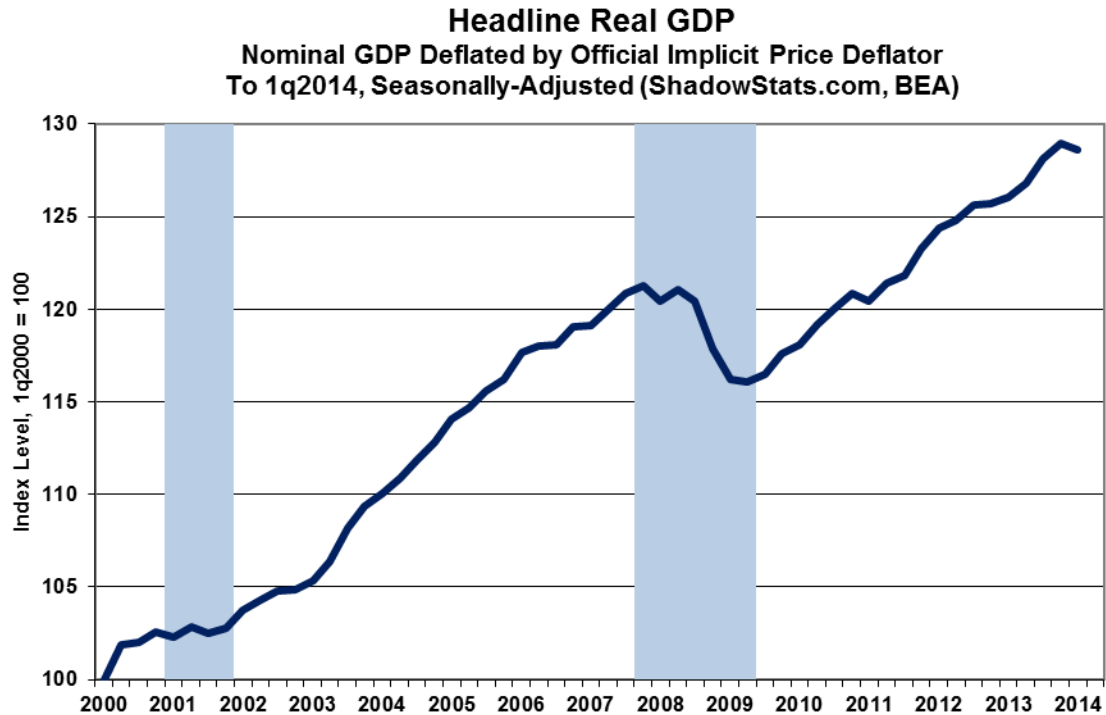
The first set of graphs is the one usually incorporated in the *GDP Commentaries*, 2000-to-date. The second set updates the longer-term graphs, 1970-to-date, published in [2014 Hyperinflation Report—Great Economic Tumble](#) – *Second Installment*.

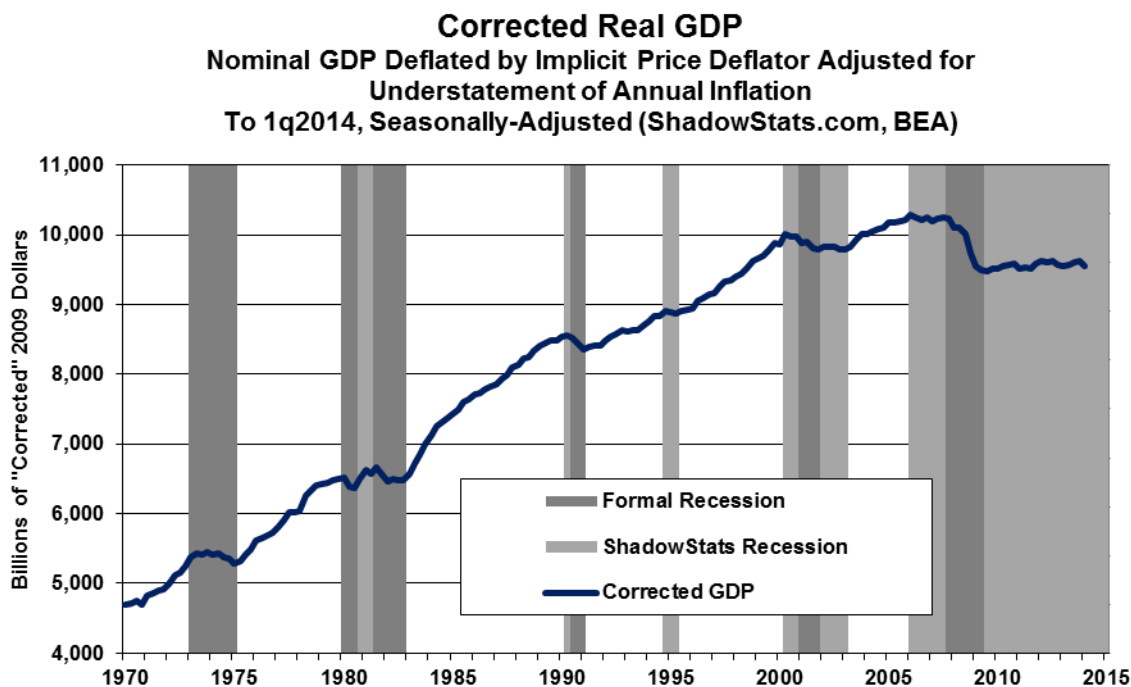
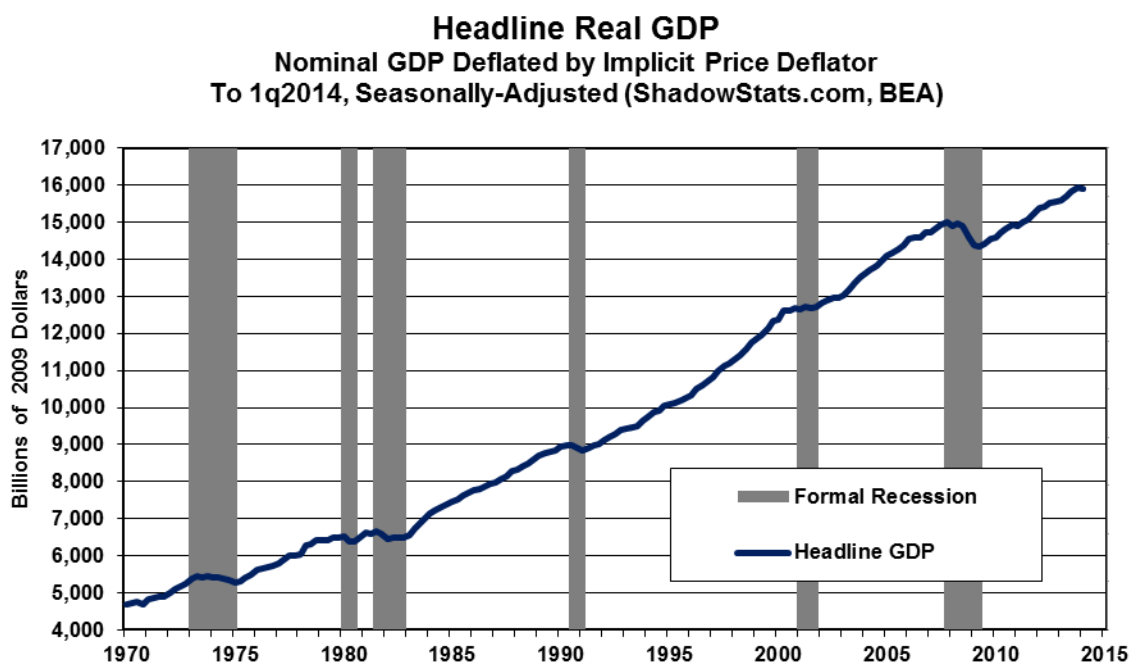
Shown in the first graph of official *Headline Real GDP*, GDP activity has been reported above pre-2007 recession levels—in full recovery—since second-quarter 2011 (it had been fourth-quarter 2011 before the July 2013 benchmarking), and headline GDP had shown sustained growth since, now turning down with the first-quarter 2014 revision. Adjusted for official GDP inflation (the implicit price deflator), the level of first-quarter 2014 GDP now stands at 6.0% (previously 6.3%) above the pre-recession peak-GDP estimate of fourth-quarter 2007. In contrast, the “corrected” GDP version, in the second graph, shows fourth-quarter GDP activity at 7.1% below the pre-recession peak of first-quarter 2006.

Also, as discussed in the second installment of the *Hyperinflation Report*, no other major economic series has shown a parallel pattern of official full economic recovery and meaningful expansion beyond, consistent with the GDP reporting. Either the GDP reporting is wrong, or all other major economic series are wrong. While the GDP is heavily modeled, imputed, theorized and gimmicked, it also encompasses reporting from those various major economic series and private surveys, which still attempt to survey real-world activity. Flaws in the GDP inflation methodologies and simplifying reporting assumptions have created the “recovery.”

The second graph in each series plots the *Corrected Real GDP*, corrected for the understatement inherent in official inflation estimates (see [Public Commentary on Inflation Measurement](#)), with the deflation by the implicit price deflator (IPD) adjusted for understatement of roughly two-percentage points of annual inflation. The inflation understatement has resulted from hedonic-quality adjustments, as discussed in the hyperinflation reports. Both graphs in the first set are indexed to first-quarter 2000 = 100, and show official periods of recession as shaded areas.

The shaded areas in the “corrected” graph in the second set reflect official as well as ShadowStats-defined recessions, as discussed in the second installment of the *Hyperinflation Report*.





*[For further detail on the second estimate of first-quarter 2014 GDP,
see the Reporting Detail section.]*

HYPERINFLATION WATCH

Hyperinflation Summary Outlook. The hyperinflation and economic outlooks were updated with the publication of [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#), on April 2nd, and publication of [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#), on April 8th. A basic summary of the broad outlook is found in the *Opening Comments* and *Overview and Executive Summary* in the *First Installment Revised*. The broad outlook for a hyperinflationary great depression beginning this year has not changed—only evolved—with various details continuing to fall into place. A formal and more-condensed summary of the extraordinarily-difficult times ahead will take over this section, soon. What follows here is detail on the evolving economic disaster, all to be incorporated into that summary.

Economy Turns Down Anew. Consistent with the above *Special Commentaries*, a renewed U.S. business slowdown/downturn was evident in the revised headline contraction of 1.0% in first-quarter 2014 GDP, versus 2.6% growth in fourth-quarter 2013 (see the *Opening Comments*). As the patterns of headline growth in economic reporting continue to slow and to turn down, financial-market expectations increasingly should shift towards renewed or deepening recession. That circumstance, in turn, in confluence with other fundamental issues, should place mounting and massive selling pressure on the U.S. dollar, as well as potentially resurrect elements of the 2008-Panic.

Intensifying weakness in the U.S. dollar will place upside pressure on oil prices and other commodities, boosting inflation and inflation fears. Both the dollar weakness and resulting higher inflation should boost the prices of gold and silver, where physical holding of those key precious metals remains the primary hedge against the pending inflation and financial crises.

The fundamental issues threatening the dollar, again, include, but are not limited to: the U.S. government not addressing its long-term solvency issues; monetary malfeasance by the Federal Reserve seeking to provide liquidity to a troubled banking system, and to the U.S. Treasury, with a current pace of 70% monetization of effective net issuance of public federal debt; a mounting domestic and global crisis of confidence in a dysfunctional U.S. government; mounting global political pressures contrary to U.S. interests; and a severely damaged U.S. economy, which never recovered post-2008 and is turning down anew (including a widening trade deficit).

Pending GDP Contractions. Generally reflecting weaker data in revisions to underlying data, downside revisions to recent GDP reporting are likely in the July 30th annual benchmark revisions. Specifically, underlying current economic activity actually is deteriorating and weak enough that the benchmark GDP revision likely will be accompanied by an initial headline contraction in second-quarter 2014 GDP, on top of the first-quarter 2014 GDP contraction, which still faces two further near-term revisions (including the benchmark).

Despite the unstable, questionable and otherwise horrendous unemployment reporting for April 2014 (see [Commentary No. 624](#)), the subsequent headline downturns in April industrial production and real retail sales, and the headline upturns in the CPI and PPI, even weaker economic data and stronger inflation are likely in the weeks and months ahead. If those patterns continue, market expectations—and related financial-market reactions—should move into the “renewed recession” camp, before or coincident with the July 30th annual revisions to GDP.

REPORTING DETAIL

GROSS DOMESTIC PRODUCT—GDP (First-Quarter 2014, Second Estimate, First Revision)

First Contemporary Reporting of Real GDP Contraction Since the Formal Recession. Revised first-quarter 2014 gross domestic product contracted at a 1.0% annualized pace, versus a 2.6% gain in fourth-quarter 2013. The broader economic measure of gross national product—reflecting deteriorating global flows of interest and dividend payments—contracted at an annualized pace of 2.1% in first-quarter 2014, following a 3.1% gain in the fourth-quarter. Although economic reality is much weaker than the headline reporting, actual activity is being hit hard enough for the aggregate downturn to show up in the official numbers. As such, the headline U.S. economy has entered a period that fairly rapidly should gain official recognition as a “new” recession, with the headline second-quarter 2014 GDP likely to follow in contraction.

As discussed in the *Opening Comments*, the issue for the economy is not the first-quarter’s bad weather and a potential second-quarter recovery from same, but rather ongoing, severe structural liquidity constraints on the consumer, as last discussed in [Commentary No. 626](#) and [Commentary No. 628](#), where nothing positive is happening. The liquidity issues will be updated in the next *Commentary No. 632*. Lacking real growth in income and available credit, combined with confidence levels that remain deep in recession territory, the consumer is unable to fuel actual, positive growth in inflation-adjusted personal consumption.

As to the weather, a surge in utility usage largely offset the negative impact from the unseasonable weather on other areas during the first-quarter. Little affected by the weather, a slowdown in inventory growth and a marked deterioration in the trade deficit accounted for the bulk of the weakness reported in first-quarter GDP. The inventory and trade factors should be ongoing issues in second-quarter GDP reporting.

Otherwise, the GDP remains the most-worthless and the most-heavily modeled, massaged and politically-manipulated of government economic series. It does not reflect properly or accurately the changes to the

underlying fundamentals that drive the economy. Underlying real-world economic activity suggests that the broad economy began to turn down in 2006 and 2007, plunged into 2009, entered a protracted period of stagnation thereafter—never recovering—and then began to turn down anew in second- and third-quarter 2012 (see [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#), and [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#)).

Notes on GDP-Related Nomenclature and Definitions

For purposes of clarity and the use of simplified language in the text of the GDP analysis, here are definitions of several key terms used related to GDP reporting:

Gross Domestic Product (GDP) is the headline number and the most widely followed broad measure of U.S. economic activity. It is published quarterly by the Bureau of Economic Analysis (BEA), with two successive monthly revisions, and with an annual revision in the following July.

Gross Domestic Income (GDI) is the theoretical equivalent to the GDP, but it generally is not followed by the popular press. Where GDP reflects the consumption side of the economy and GDI reflects the offsetting income side. When the series estimates do not equal each other, which almost always is the case, since the series are surveyed separately, the difference is added to or subtracted from the GDI as a “statistical discrepancy.” Although the BEA touts the GDP as the more accurate measure, the GDI is relatively free of the monthly political targeting the GDP goes through.

Gross National Product (GNP) is the broadest measure of the U.S. economy published by the BEA. Once the headline number, now it rarely is followed by the popular media. GDP is the GNP net of trade in factor income (interest and dividend payments). GNP growth usually is weaker than GDP growth for net-debtor nations. Games played with money flows between the United States and the rest of the world tend to mute that impact on the reporting of U.S. GDP growth.

Real (or Constant Dollars) means the data have been adjusted, or deflated, to reflect the effects of inflation.

Nominal (or Current Dollars) means growth or level has not been adjusted for inflation. This is the way a business normally records revenues or an individual views day-to-day income and expenses.

GDP Implicit Price Deflator (IPD) is the inflation measure used to convert GDP data from nominal to real. The adjusted numbers are based on “Chained 2009 Dollars,” as introduced with the 2013 comprehensive revisions, where 2009 is the base year for inflation. “Chained” refers to the substitution methodology which gimmicks the reported numbers so much that the aggregate of the deflated GDP sub-series missed adding to the theoretically-equivalent deflated total GDP series by \$41.8 billion in “residual,” as of the initial estimate of second-quarter 2013.

Quarterly growth, unless otherwise stated, is in terms of seasonally-adjusted, annualized quarter-to-quarter growth, i.e., the growth rate of one quarter over the prior quarter, raised to the fourth power, a compounded annual rate of growth. While some might annualize a quarterly growth rate by multiplying it by four, the BEA uses the compounding method, raising the quarterly growth rate to the fourth power. So a one percent quarterly growth rate annualizes to $1.01 \times 1.01 \times 1.01 \times 1.01 = 1.0406$ or 4.1%, instead of $4 \times 1\% = 4\%$.

Annual growth refers to the year-to-year change of the referenced period versus the same period the year before.

Gross Domestic Product (GDP). Published this morning, May 29th, by the Bureau of Economic Analysis (BEA), the second estimate of, first revision to first-quarter 2014 GDP showed a revised, statistically-insignificant, real (inflation-adjusted), annualized, quarterly contraction of 0.98% +/- 3.5% (95% confidence interval). Previously, the headline first-quarter change in activity had been a gain of

0.11%. That was against a 2.63% headline gain in fourth-quarter 2013, a 4.13% gain in third-quarter 2013, a 2.48% increase in second-quarter 2013 and a 1.15% gain in the first-quarter.

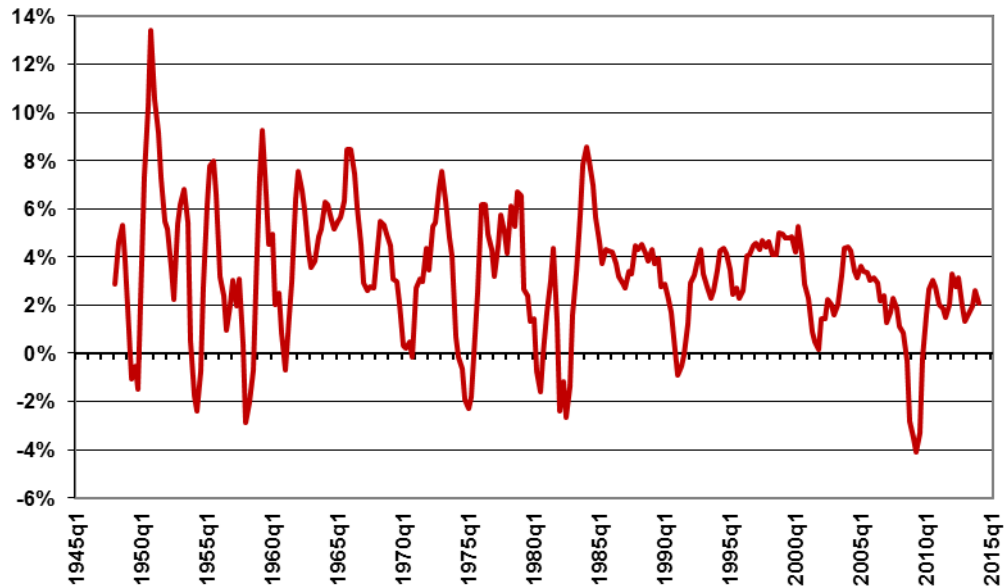
Distribution of the headline quarterly GDP growth rate, by major component, is detailed in the *Opening Comments* section.

Shown in the following two graphs are the latest year-to-year or annual real rates of change for the GDP series. First-quarter 2014 GDP year-to-year growth was a revised 2.05% (previously 2.33%), versus 2.59% in fourth-quarter 2013, 1.97% in the third-quarter, 1.63% in the second-quarter and 1.32% in the first-quarter 2013.

The first graph shows near-term historical detail since 2000. The second graph shows the full history of the series. The latest quarterly year-to-year growth remained below the near-term peak of 3.13% growth reported for third-quarter 2012. The current-cycle trough was in second-quarter 2009 at a 4.09% year-to-year decline. That was the deepest annual contraction seen for any quarterly GDP in the history of the series, which began with first-quarter 1947.



Quarterly Real Gross Domestic Product
Year-to-Year Change 1947-to-Date (ShadowStats, BEA)



Implicit Price Deflator (IPD). The second estimate of first-quarter 2014 GDP inflation, or the implicit price deflator (IPD), was at a revised annualized quarterly pace of 1.27% (previously 1.30%), versus 1.58% in fourth-quarter 2013, 1.97% in the third-quarter, 0.58% in the second-quarter and against 1.67% in the first-quarter. Year-to-year, first-quarter 2014 IPD inflation was a revised 1.35% (previously 1.36%), versus 1.45% in fourth-quarter 2013, 1.41% in the third-quarter, 1.44% in the second-quarter and 1.74% in the first-quarter 2013.

For comparison purposes, on a seasonally-adjusted, annualized quarter-to-quarter basis, CPI-U inflation published by the Bureau of Labor Statistics (BLS), headline CPI-U inflation was up by 1.91% in first-quarter 2014, versus 1.14% in fourth-quarter 2013, 2.16% in the third-quarter, 0.40% in the second-quarter, and 1.19% in the first-quarter. On a year-to-year basis, first-quarter 2014 CPI-U (unadjusted) inflation was 0.86%, versus 1.23% in fourth-quarter 2013, versus 1.55% in the third-quarter, 1.39% in the second-quarter, and 1.68% in the first-quarter 2013.

The weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth.

ShadowStats-Alternate GDP. The ShadowStats-Alternate GDP estimate for first-quarter 2014 GDP remains a 1.9% year-to-year contraction, versus a revised headline year-to-year gain of 2.0% (previously 2.3%). The alternate fourth-quarter 2013 estimate was a 1.4% year-to-year contraction, versus a headline year-to-year gain of 2.6% (see the [Alternate Data](#) tab). The July 30th benchmark revisions to GDP reporting of recent years generally should be to the downside and should bring the historical series more in line with the ShadowStats estimates.

While annualized real quarterly growth is not estimated formally on an alternate basis, the headline quarter-to-quarter contraction for the first-quarter likely was even deeper, net of all the regular reporting gimmicks. An actual quarterly contraction appears to have been a realistic possibility for the real GDP in most quarters since the official second-quarter 2009 end to the recession.

Adjusted for understated inflation and other methodological changes (such as the inclusion of intellectual property, including software), the business downturn that began in 2006/2007 is ongoing; there has been no meaningful economic rebound. The “corrected” real GDP graph, and the longer-term “corrected” graph updated from [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#) (see the *Opening Comments* section) is based on the removal of the impact of hedonic quality adjustments that have reduced the reporting of official annual GDP inflation by roughly two-percentage points. It is not the same measure as the ShadowStats-Alternate GDP, which reflects reversing additional methodological distortions (“Pollyanna Creep”) of recent decades.

Gross National Product (GNP). The initial estimate of first-quarter 2014 real GNP showed an annualized quarter-to-quarter contraction of 2.11%, following a 3.06% gain in fourth-quarter 2013. In terms of year-to-year change, annual growth slowed to 1.98% in first-quarter 2014, from 2.69% in fourth-quarter 2013. Again, annualized first-quarter GDP was a 0.98% contraction, versus a 2.63% gain in the fourth-quarter.

GNP is the broadest measure of U.S. economic activity, where GDP is GNP net of trade flows in factor income (interest and dividend payments). As a reporting gimmick aimed at boosting the headline reporting of economic growth for net-debtor nations such as Greece and the United States, international reporting standards were shifted some decades back to reporting headline GDP instead of GNP.

The relatively greater quarterly contraction in U.S. first-quarter 2014 GNP, versus the GDP, fully reflected a sharp deterioration in the net flow of factor income between the United States and the rest of the world. The net deterioration was due to a large falloff in U.S. receipts from the rest of the world in first-quarter 2014, plus a second quarterly increase in U.S. payments to the rest of the world.

Gross Domestic Income (GDI). GDI is the theoretical income-side equivalent of the consumption-side GDP estimate. The GDP and GDI are made to equal each other, every quarter, with the addition of a “statistical discrepancy” to the GDI-side of the equation, but the discrepancy just as easily could be added to the GDP number. Net of the statistical discrepancy, the initial estimate of headline real GDI annualized quarterly change for first-quarter 2014 was a contraction of 2.26%, versus growth of 2.60% in the fourth-quarter. Year-to-year annual growth slowed to 1.31% in first-quarter 2014, versus 2.51% in the fourth-quarter.

WEEK AHEAD

Much-Weaker-Economic and Stronger-Inflation Reporting Likely in the Months and Year Ahead.

Although shifting to the downside, market expectations generally still appear to be overly optimistic as to the economic outlook. Expectations should continue to be hammered, though, by ongoing downside corrective revisions and an accelerating pace of downturn in headline economic activity. The initial stages of that process have been seen in the recent headline reporting of many major economic series (see [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#)), including the second estimate of real first-quarter 2014 GDP, which was the first contemporary reporting of a quarterly contraction since the formal end of the 2007 recession in mid-2009.

Weakening, underlying economic fundamentals indicate still further deterioration in business activity. Accordingly, weaker-than-consensus economic reporting should become the general trend until such time as the unfolding “new” recession receives general recognition.

Stronger inflation reporting also remains likely. Upside pressure on oil-related prices should reflect intensifying impact from a weakening U.S. dollar in the currency markets, and from ongoing global political instabilities. Food inflation has been picking up as well. The dollar faces pummeling from the weakening economy, continuing QE3, the ongoing U.S. fiscal-crisis debacle, and deteriorating U.S. and global political conditions (see [Hyperinflation 2014—The End Game Begins \(Updated\) – First Installment](#)). Particularly in tandem with a weakened dollar, reporting in the year ahead generally should reflect much higher-than-expected inflation.

A Note on Reporting-Quality Issues and Systemic-Reporting Biases. Significant reporting-quality problems remain with most major economic series. Ongoing headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were induced by the still-evolving economic turmoil of the last eight years, which has been without precedent in the post-World War II era of modern economic reporting. These impaired reporting methodologies provide particularly unstable headline economic results, where concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data), and they have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

PENDING RELEASES:

Construction Spending (April 2014). The Commerce Department has scheduled its release of April 2014 construction spending for Monday, June 2nd. The headline monthly changes, as usual, should not be statistically significant, while previous data again may be subject to unusually large and unstable

revisions. Annual revisions are due with the next month's reporting and generally should show weaker historical numbers than had been reported previously.

U.S. Trade Deficit (April 2014, Annual Revisions). The Commerce Department and Bureau of Economic Analysis (BEA) will release their estimate of the April 2014 trade-balance data on Wednesday, June 4th. Expectations appear to be for the headline monthly deficit holding near March's level. Any surprise widening or narrowing would have implications for the market outlook for second-quarter 2014 GDP. A significant widening in the deficit, which is the more-likely case, would have negative GDP implications. A significant deficit narrowing would provide a positive indication for the pending second-quarter 2014 GDP.

As discussed in the *Opening Comments*, the monthly release also will incorporate annual revisions to the trade in goods and services data back to 1999. While some revamping of definitions likely will be designed to narrow current- and historical-deficit reporting, recent relative changes, period-to-period, likely will deteriorate in revision, setting a more-negative tone for the upcoming benchmark revision to the historical GDP data on July 30th.

Employment/Unemployment (May 2014). The Bureau of Labor Statistics (BLS) will release its May 2014 labor data on Friday, June 6th. Following April's stronger-than-consensus and artificially-bloated 288,000 gain in payroll employment, a weaker May number is a good bet. The headline reporting also should be to the downside of expectations, an event that likely would temper still-strongly-positive consensus estimates for second-quarter GDP, on top of whatever impact is seen from the trade data.

Based on the headline payroll employment reporting in April, the BLS trend model indicates a 235,000 headline jobs gain for May 2014, as indicated by ShadowStats affiliate www.ExpliStats.com. The consensus outlook tends to settle in near the trend number, and that appears to be the case for the current circumstance. *[PLEASE NOTE: New material will be made available shortly to ShadowStats subscribers, on the analysis of payroll-employment trends, from our affiliate www.ExpliStats.com. A separate e-mail will follow, advising details.]*

Expectations also appear to be for the headline April U.3 unemployment rate to rise a notch from April's highly-troubled 6.3% reading (see the discussion in [Commentary No. 624](#)). Underlying fundamentals would suggest a generally upturn in U.3, but the BLS's continuing purge of discouraged workers from the unemployment rolls and headline labor force would argue in favor of a lower rate. Separately, as discussed regularly in the employment/unemployment-related *Commentaries*, month-to-month comparisons of U.3 are of no meaning, because of the standard, inconsistent reporting calculations that leave the monthly data not comparable.

If U.3 drops, further, there likely would be additional labor-force loss associated with those relative, but still-not-comparable numbers. The broader U.6 and ShadowStats unemployment measures would tend to hold, or increase anew, at their broader and higher respective levels. All these Labor Department numbers remain unsettled and could come in well outside general expectations.