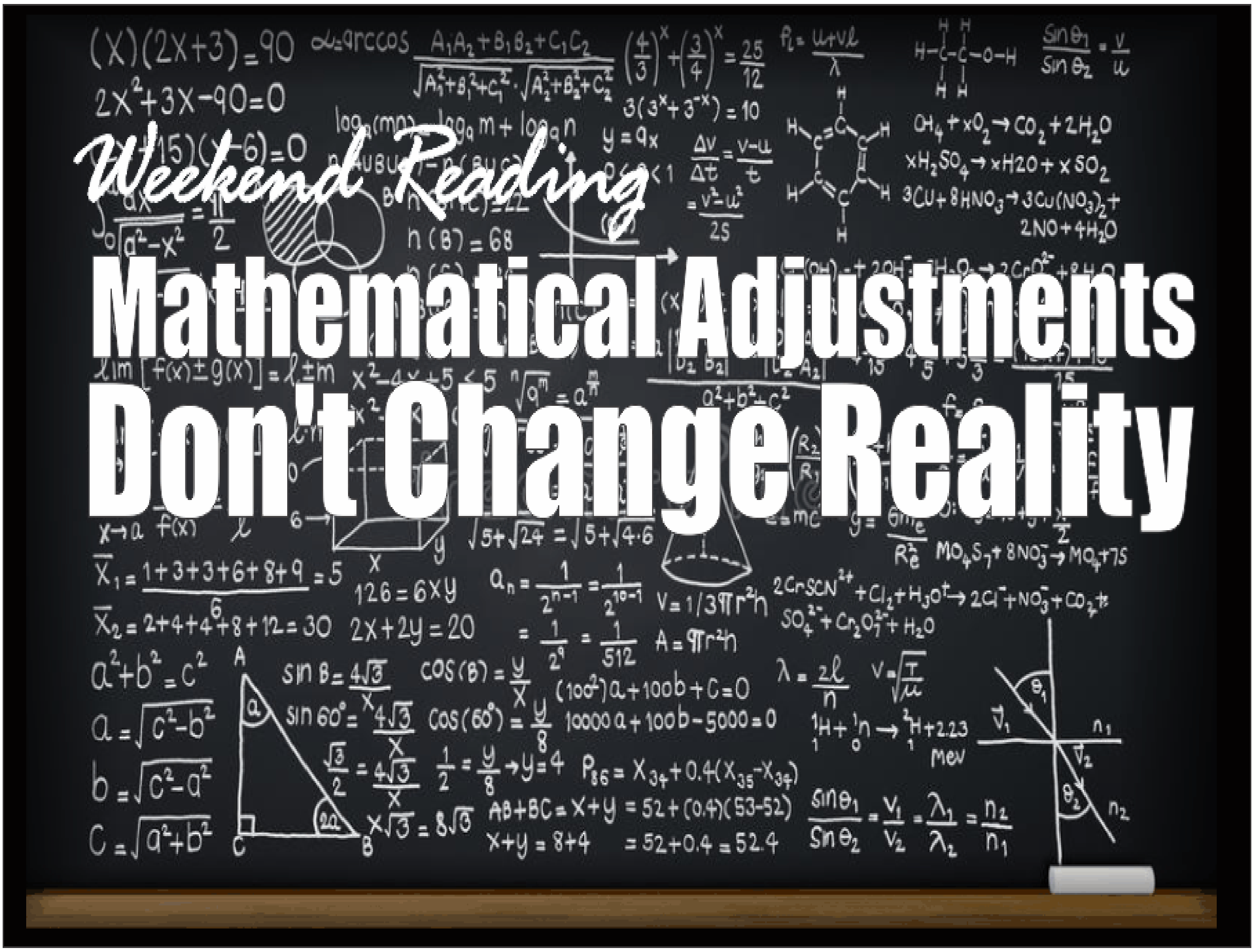
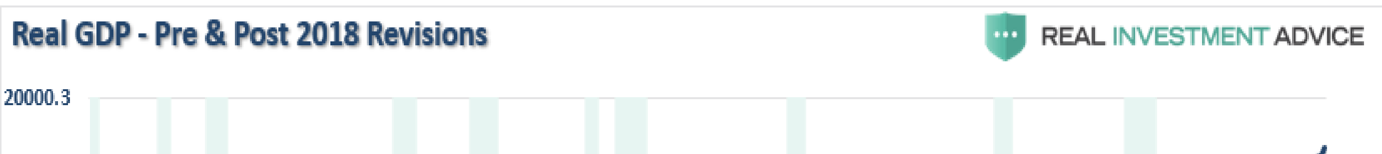
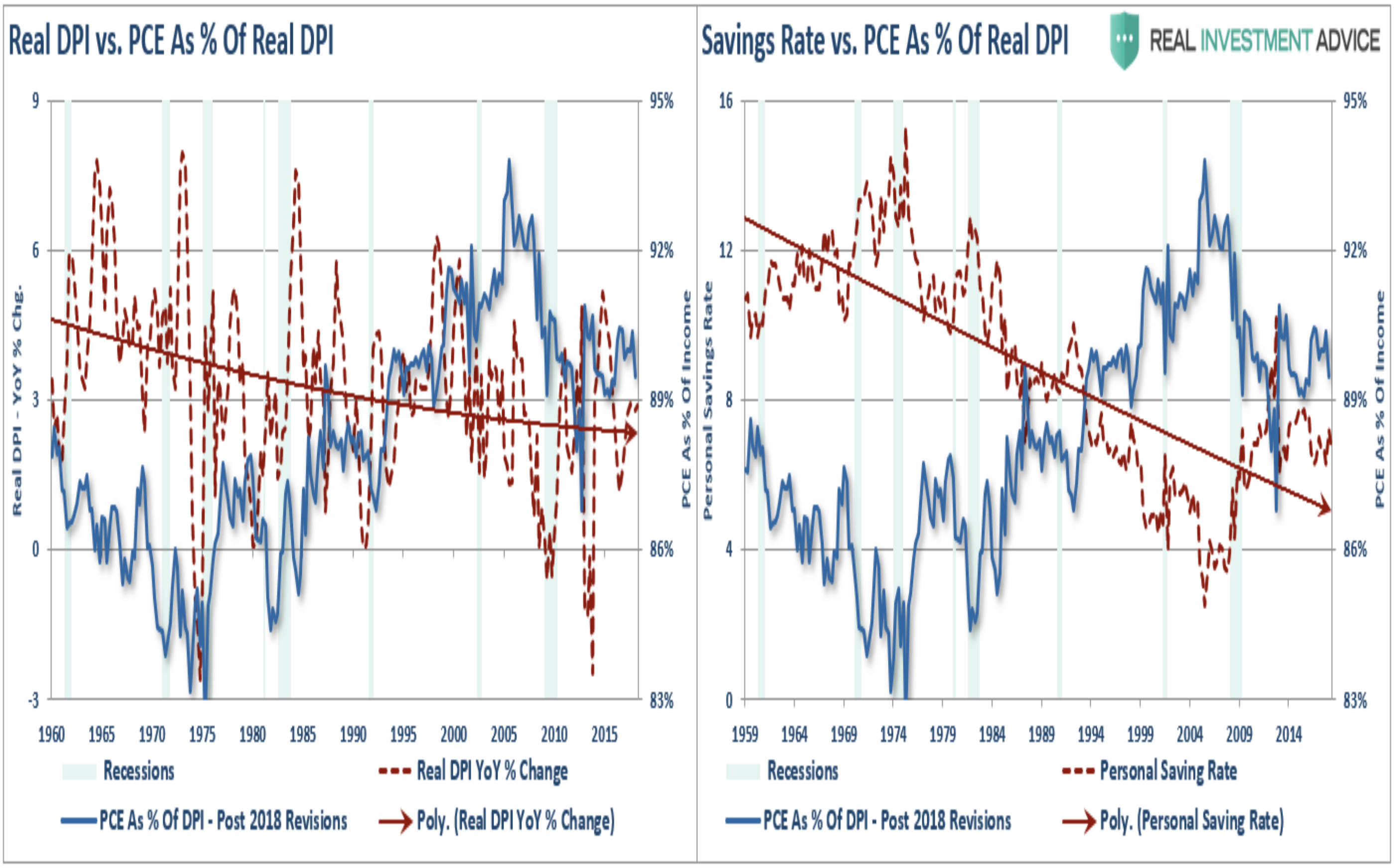


Yesterday, I discussed•the mathematical adjustment to the GDP calculation that added $1 trillion to economic growth. To wit:

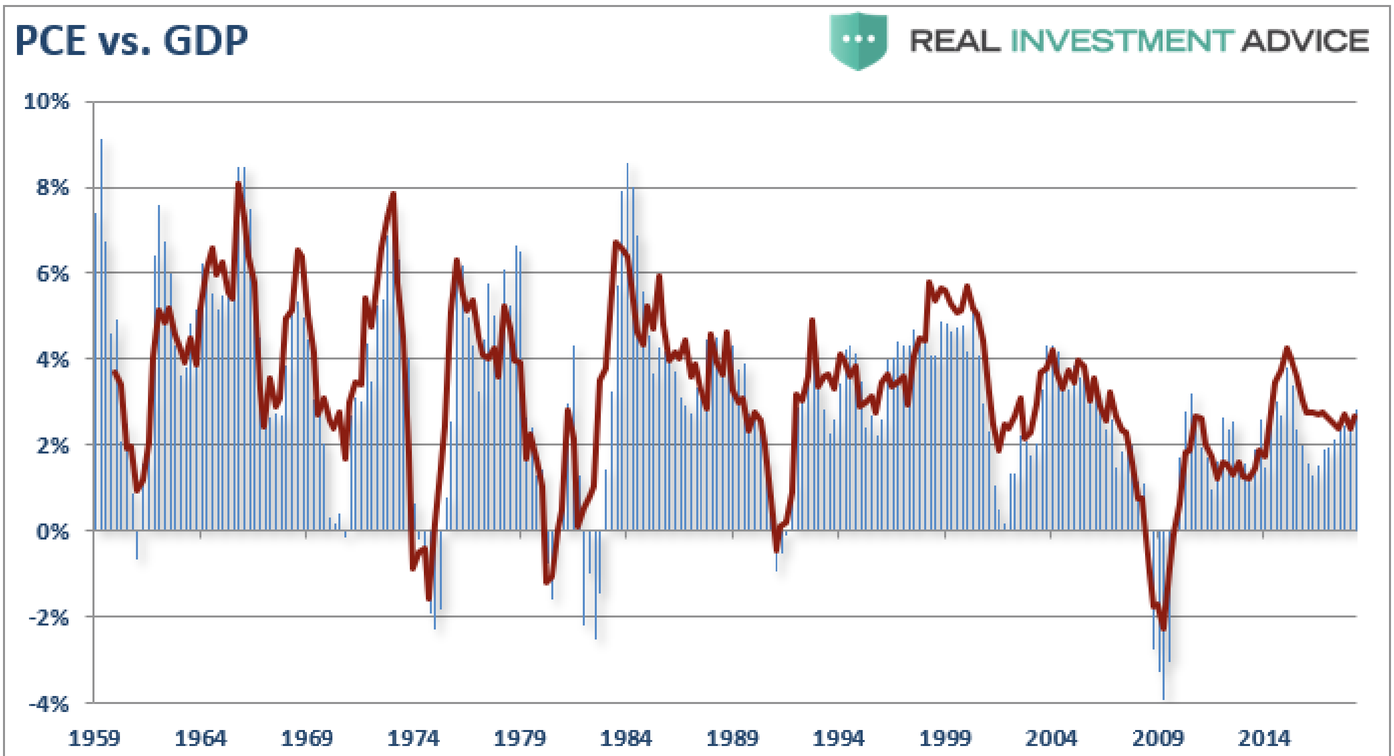
> *"Where did a bulk of the change come from?* ***A change in the calculation of "real" GDP from using 2009 dollars to 2012 dollars which boosted growth strictly from a lower rate of inflation.*** *• As noted by the BEA:*
>
> > *"For 2012-2017, the average rate of change in the prices paid by U.S. residents, as measured by the gross domestic purchasers' price index,* ***was 1.2 percent, 0.1 percentage point lower than in the previously published estimates."***
>
> *Of course, when you ask the average household about "real inflation," in terms of healthcare costs, insurance, food, energy, etc., they are likely to give you quite an earful that the cost of living is substantially higher than 1.2%. Nonetheless, the chart below shows "real" GDP both pre- and post-2018 revisions."*



Importantly, the entire revision is almost entirely due to a change in the inflation rate. On a nominal basis, there was virtually no real change at all. **In other words, stronger economic growth came from a mathematical adjustment rather than increases in actual economic activity.** The change to a lower inflation rate also boosted disposable incomes and personal consumption expenditures which also boosted the savings rate. **However, what doesn't change is economic reality.** The chart below shows what we call *"real DPI"* or rather it is disposable incomes *(which is gross income minus taxes)* less spending. What we have left over after paying our bills, healthcare costs, food, tuition, etc. is what is really disposable for spending on other *"stuff"* or *"saving."*



Despite the adjusted bump in savings, consumer activity continues to remain weak. Given that roughly 70% of the economic calculation comes from personal consumption, watching consumer activity is a good leading indicator of where the economy is headed next. PCE figures also suggest the recent bump in economic growth is likely transitory. Looking back historically, GDP tends to follow PCE and not vice-versa.



More importantly, weaker economic growth rates will also be met with much tougher year-over-year comparisons on corporate earnings which likely further hamper equity returns in the near term. As we summed up yesterday:

> *"As an investor, it is important to remember that in the end corporate earnings and profits are a function of the economy and not the other way around.* ***Historically,•GDP growth and revenues have grown at roughly equivalent rates.*** *Forget the optimism surrounding•?'Trumpenomics'•and focus on longer-term economic trends which have been declining for the past 30+ years. The economic trend is a function of a growing burden of debt, increasing demographic headwinds and, very importantly, declining productivity growth. I see little to make me believe these are changing in a meaningful way."*

Changing the math doesn't change reality. Just something to think about as you catch up on your weekend reading list.

Economy & Fed

- **What The GDP Report Doesn't Tell You** by Danielle DiMartino-Booth via Linked-In
- **Trump Tipped His Hand** by Caroline Baum via MarketWatch
- **QE Turns 10** by Stephen Roach via Project Syndicate
- **Did Trump Actually Create An Economic Boom?** by James Pethokoukis via The Week
- **National Debt Issue About To Roar Back To Life** by Maya McGuinness via CNN
- **"Where's Our Bailout"** by Ed Kilgore via NewYork Magazine
- **The "New Normal" ... Not** by Richard Rahn via The Washington Times
- **GDP Bump Was Not Due To Trump** by Jordon Weissmann via Slate
- **US Trade Policy: Stupid & Hypocritical** by Mike "Mish" Shedlock via TheMaven
- **$100 Billion Tax Cut For The Wealthy** by Tyler Durden via Zerohedge
- **US At Risk Of Losing Trade War With China** by Joseph Stiglitz via Project Syndicate
- **GDP Report Proves Tump's Policies Are Working** by Jonathon Trugman via NY Post
- **Socialism Rises From The Grave** by Richard Ebeling via FEE
- **The Biggest Economic Booms By President** by Justin Fox via Bloomberg
- **What Will Cause The Next Recession?** by Neil Irwin via NYT

Markets

- **Morgan Stanley: It's Different This Time** by Tyler Durden via Zerohedge
- **Cliff Hangers**•by Eric Cinnamond
- **Investing Tips From Warren Buffett** by Shawn Langlois via MarketWatch
- **Hussman: Market Will Drop By 50%** by Sue Chang via MarketWatch
- **Tech Rally Getting Extended** by Dana Lyons via The Lyons Share
- **Not So Predictable** by Jonathan Clements via Humble Dollar
- **Gold Could Be In A Prolonged Tailspin** by Simon Constable via Barron's
- **Investors May Cheer Q2 Earnings But Beware Q3** by Ryan Vlastelica via MarketWatch
- **A 2019 Recession Is The Most Likely Outcome** by Paul Kasriel via Financial Sense
- **The Guy Betting Against Elon Musk** by Mark Decambre via MarketWatch
- **What Happened To Summer Doldrums?** by Liz Ann Sonders via Charles Schwab
- **Warning Signs Are Very Pronounced** by Sven Henrich via NorthmanTrader.com

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Most Read On RIA

- **The Problem With Passive** by L. Roberts, M. Lebowitz & J. Coumarianos
- **Are Market Generals Leading Us To War** by Michael Lebowitz
- **We May Be In A Topping Process** by Doug Kass
- **What Is The "Williams %R"** by Lance Roberts
- **Tariff Turbulence, Mollified Market** by John Coumarianos
- **The U.S. Household Wealth Bubble Part 2** by Jesse Colombo
- **Was Q2-GDP Really All That Extraordinary?** by Lance Roberts

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Research•/ Interesting•Reads

- **Where Are The 17,000 Cars Tesla "Produced"** by Wolf Richter via Wolf Street
- **Bank Squeeze Consumers On Savings & Rates** by Patrick Hill via The Progressive Ensign
- **$5 Trillion: Pensions Are Doomed** by Tyler Durden via Zerohedge
- **New Housing Play: Long Distance Landlord** by Andrea Riquier via MarketWatch
- **Playing For A Yield Curve Inversion** by Seth Levine via The Integrating Investor
- **Are Stock Buybacks Starving The Economy** by Annie Lowrey via The Atlantic
- **Child Care And Low-Income Households** by Julia Henly via NYT
- **Brain Gain: Why You Can't Just Be A Savant** by Darold Treffert via Scientific American
- **Roth Or Traditional 401-k?** by IBD
- **Retiree's Misconceptions About Finances** by Dan Moisand via FA Mag
- **Mind The Trap Door (Understanding Valuations)** by John Hussman via Hussman Funds

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?Everything eventually reverts to the mean." - *Frank Holmes*

Questions, comments, suggestions ? please email me.