John Williams'

Shadow Government Statistics

Analysis Behind and Beyond Government Economic Reporting

ADVANCE COMMENTARY NUMBER 934-A

January Labor, Payroll Benchmark, Private Surveying, M3, December Construction Spending

February 2, 2018

Recession Signal Intensified from Sinking Annual Growth in Payrolls, Despite Upside Benchmark Revisions to Payroll Levels

Population Re-Estimation Added 488,000 Working-Age People

January 2018 Unemployment Rates Notched Higher Month-to-Month: U.3 Firmed to 4.15% from 4.07%, U.6 Rose to 8.19% from 8.08%, and the ShadowStats-Alternate Rose to 21.8% from 21.7%

Private Surveying of January Labor Conditions Showed Flat Activity with Annual Contraction/No Growth and Ongoing Non-Expansion

December Monthly Gain in Real Construction Spending Contracted Net of Downside Revisions

Annual Growth in Real Construction Spending Declined for Seventh Straight Month, an Intensifying Recession Signal Last Seen During the 2006 Housing Collapse

Real Spending Is Shy of Recovering Its Pre-Recession Peak by 21.4% (-21.4%)

Amidst Annual Benchmark Revisions by the Fed, January 2018 M3 Annual Growth Eased Back to 4.5%, with Monetary-Base Annual Growth Softening to 4.9%

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PLEASE NOTE: A Supplementary Commentary on Monday, February 5th, will provide expanded coverage of today's (February 2nd) January 2018 Employment and Unemployment reporting and the Payroll Benchmark Revision details. A Regular Commentary on Tuesday, February 6th, will cover the initial, full-estimate of the December Trade Deficit. The Special Commentary providing a review of 2017 and a preview of 2018 should be posted early in the February 5th week.

Best wishes — John Williams (707) 763-5786

Today's (February 2nd) *Opening Comments and Executive Summary.* The ***Opening Comments*** reviews the annual benchmark revisions to Payroll Employment and the annual "adjustment" to population estimates for the Household Survey, and as well as the January 2018 reporting of The Conference Board Help-Wanted Online Advertising®. The ***Executive Summary*** (page 8) provides highlights of the January 2018 Employment and Unemployment detail, as well December 2017 Construction Spending. Extended analysis both on the headline Labor detail and the Payroll Employment benchmarking will follow in *Commentary 934-B* of February 5th.

The ***Reporting Detail*** (page 15) reviews in greater depth the details of the Construction Spending data. Again, extended analysis of the Labor detail and the Payroll Employment benchmarking follow in *Commentary 934-B* of February 5th.

The ***Hyperinflation Watch*** updates monetary conditions, including the estimate of year-to-year change in the January 2018 ShadowStats Ongoing Money Supply M3 estimate, and some detail on the latest St. Louis Federal Reserve's Monetary Base (page 23).

The ***Consumer Liquidity Watch*** (page 27) has been updated for January 2018 estimates of the University of Michigan's Consumer Sentiment and the Conference Board's Consumer Confidence.

The ***Week, Month and Year Ahead*** (page 41) provides background on recent *Commentaries*, and previews the release next week of the December Trade Deficit.

OPENING COMMENTS

Payroll Benchmark Intensified the Recession Signal; Working-Age Population Revised Higher; Private Labor Surveying Continued in Non-Expansion. Coincident with this morning's release (February 2nd) of January 2018 employment (Payroll Survey) and unemployment (Household Survey), the Bureau of Labor Statistics (BLS) published its annual benchmark revisions to the Payroll Employment Survey, along with its annual re-estimation of the Civilian, Noninstitutional U.S. Population (effectively of working-age). The population count is used in the Household Survey (see *BLS Press Release*).

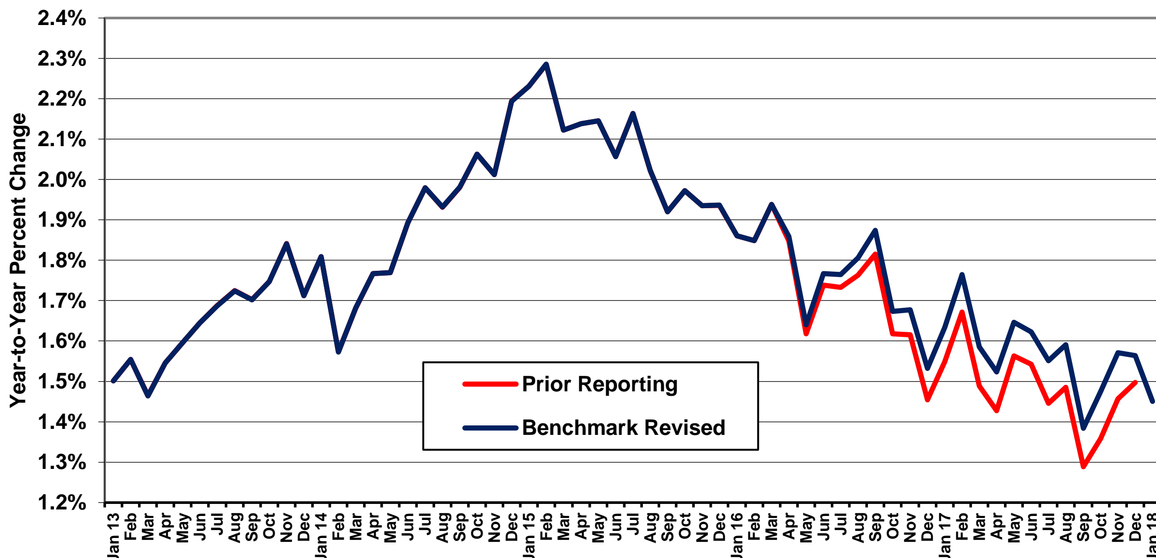
Working-Age U.S. Population Was Boosted by 488,000; Beware January vs. December Comparisons of Household-Survey Body Counts. The BLS revamps its population estimate each January, versus the prior December. While the changes can be large, the BLS does not revise historical reporting of the Household Survey. So, most headline December-to-January changes in survey-category numbers, such as the number of employed or unemployed, simply are not comparable with other months. Ratios such as the unemployment rate or the employment-to-population ratio, however, remain comparable.

On a comparative basis, the effective upside revision needed to the December 2017 population, in order to keep it on a parallel basis with the headline January 2018 detail, was 488,000, per the BLS. The reporting difference, if one compares the current "headline" January 2018 numbers with December 2017, is that the seasonally-adjusted month-to-month gain in the employed was 409,000, but that was just 91,000 after adjusting for the effects of the population revision. In like manner, the number of "headline" unemployed rose by 108,000 in the month, but it was up by 93,000 after adjustment for the population-change distortions, all as per BLS cautions.

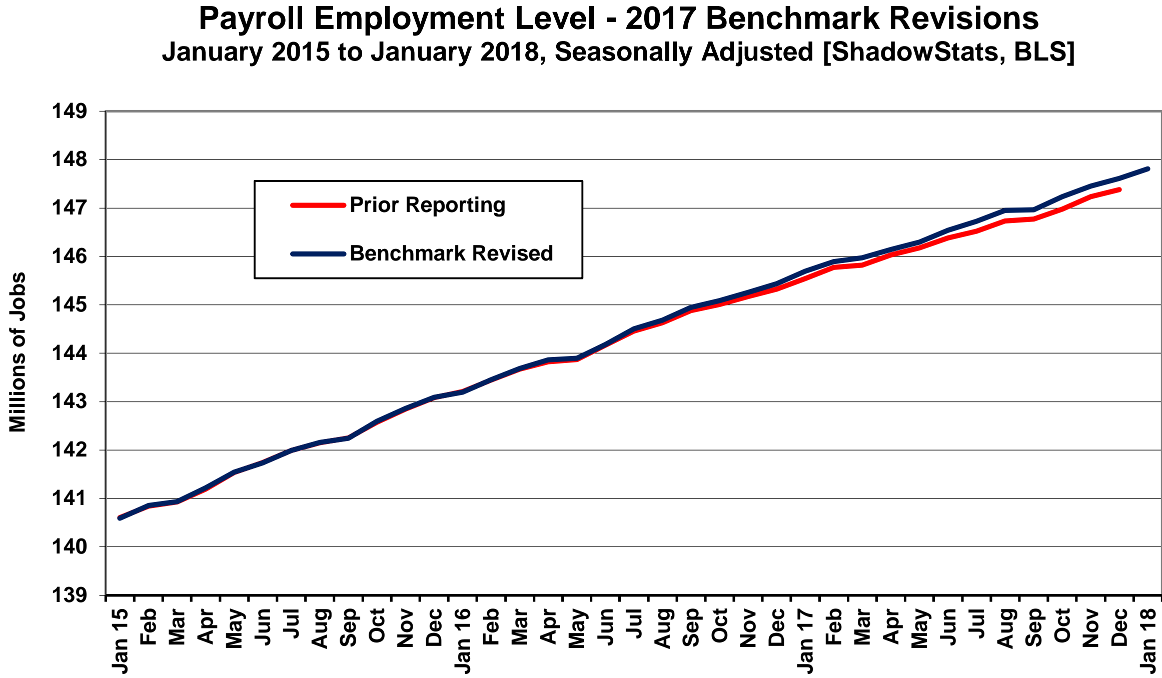
Payroll Benchmark Revisions Were Somewhat Stronger on than Initially Estimated. The initial upside revision to the level of payroll employment, in the benchmark month of March 2017, was announced as a not-seasonally-adjusted 95,000 (see *Commentary No. 908-B* of September 6, 2016). That ballooned to 138,000 in the current detail. The unadjusted payroll counts were revised back to April 2016, while annual seasonal-adjustment revisions went back to January 1990. In theory, those new, adjusted monthly numbers temporarily are reported on a consistent basis, which will disappear with next month's headline reporting (see *Supplemental Labor-Detail Background*, page 31 of *Commentary No. 930-B*, which will be updated in Monday's *No. 934-B*).

Graphs OC-1 to *OC-3* plot summary detail of the benchmark revisions, which, again, will be expanded upon in *No. 934-B*. Of particular note, although the unadjusted payroll data generally were revised higher, year-to-year growth in unadjusted payrolls sank to 1.45% in January 2018, the lowest level in standard headline-payroll reporting since August of 2011, when the economy purportedly was recovering from recession (the hurricane-depressed September 2017 year-to-year growth of 1.38% was the only lower reading). Discussed here frequently, that level of growth is seen only coming out of or going into a recession, it is not a level of sustainable, healthy employment or economic growth.

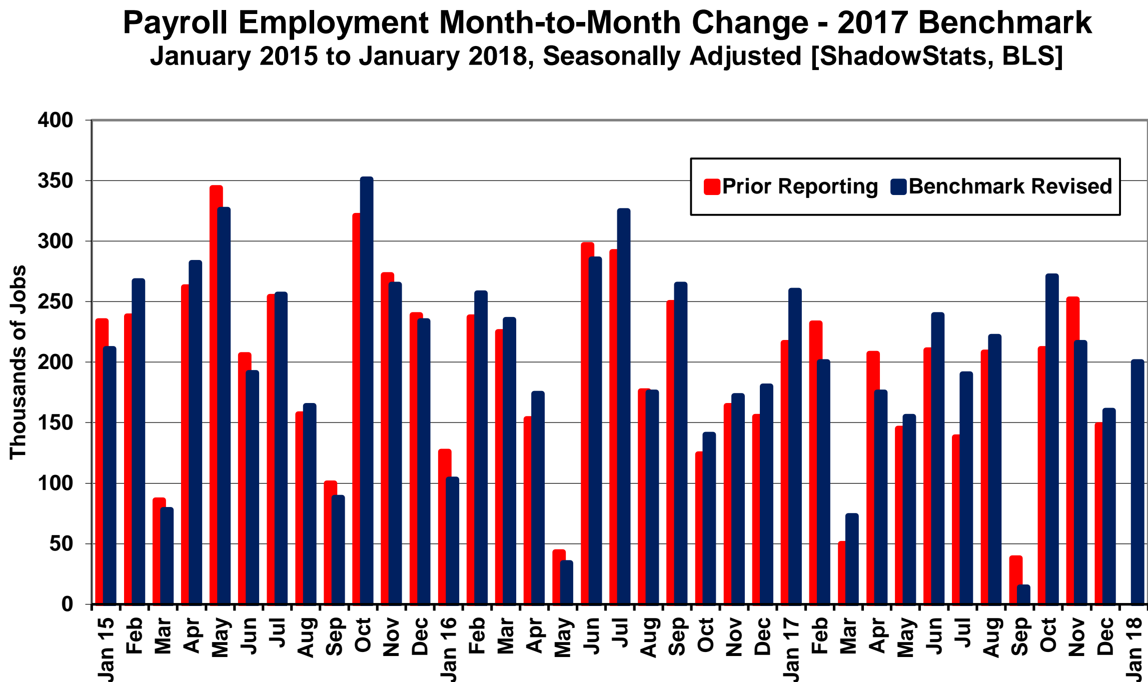
Graph OC-1: Payroll Employment, Not-Seasonally-Adjusted, Annual Percent Change — 2017 Benchmarking



Graph OC-2: Payroll Employment, Seasonally-Adjusted Level — 2017 Annual Benchmarking



Graph OC-3: Payroll Employment, Seasonally-Adjusted Monthly-to-Month Change — 2017 Annual Benchmarking



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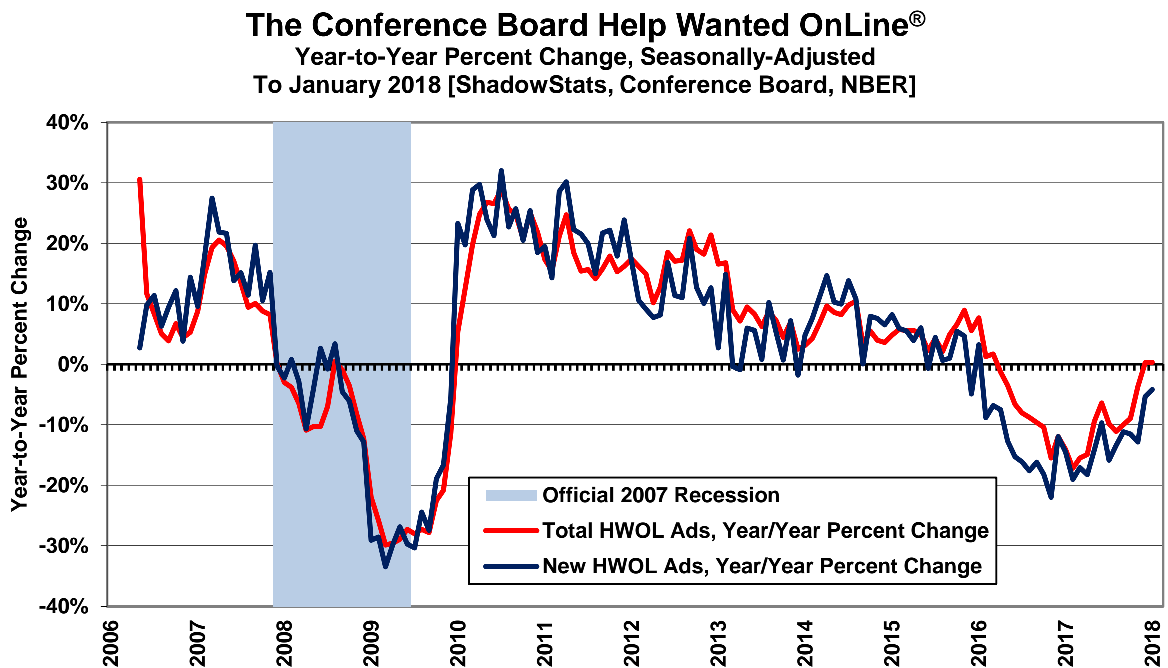
January 2018 Help-Wanted Advertising Was Flat for the Month, in Continuing Economic Non-Expansion. In the context of minimal, annual seasonal-adjustment revisions, "Total Ads" in The Conference Board Help-Wanted Online Advertising® (HWOL) for January 2018 effectively was flat month-to-month and year-to-year, while the "New Ads" jumped in the month but continued in annual contraction. Where "Total Ads" reflected a minimal year-to-year gain of 0.4% in January 2018, following 0.3% in December 2017, such followed 20 consecutive months of year-to-year decline. "New Ads" showed a second strong monthly gain, up by 7.2% in January 2018, but still down by 4.1% (-4.1%) year-to-year, its 24th consecutive month of annual decline. Although sharply improved in the month, ongoing year-to-year deterioration in labor-market demand reflected in "New Ads" remains a meaningfully-negative, leading indicator to broad economic activity. Against the November 2015 series peaks, January 2018 "Total Ads" remained down by 14.4% (-14.4%), with "New Ads" still down by 21.0% (-21.0%).

Graph OC-4: The Conference Board Help Wanted OnLine® to January 2018



ShadowStats follows a number of business indicators—both conventional and not—looking for reliable reporting of real-world economic activity and for indications of shifting patterns in same. The HWOL is one of the best, private leading-indicator measures. Increasingly, a number of major government economic indicators, including recent production, employment and housing and construction measures, had been showing "unexpected" weakness, or continued non-recovery and renewed downturn in the post-2007 economic collapse period. Those trends should continue in play net of short-lived, natural-disaster reporting disruptions, and the current, beginning unwinding of same (see the *Construction Spending* section in the *Reporting Detail*).

The Conference Board Help Wanted OnLine® Advertising, January 2018. With the counts of January 2018 "Total Ads" up by 0.4% and "New Ads" down by 4.1% (-4.1%), year-to-year, the annual changes broadly continued at levels seen coming out of the trough of the business collapse into 2009/2010. Where the annual contraction in January 2018 "Total Ads" higher from 0.3% in December 2017, the annual

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contraction in "New Ads" narrowed to 4.1% (-4.1%) versus a revised 5.3% (-5.3%) [previously down by 5.0% (-5.0%)]. The "New Ads" series provides the better indication of unfolding economic trends. Monthly volatility can take these series sharply either way in the next several months, but the current trend is positive.

Seasonally-adjusted, month-to-month change rose by 0.2% for "Total Ads," in January 2018, having gained 5.2% in December and 2.2% in November. Month-to-month change in January activity rose by 7.2%, versus 8.3% in December for "New Ads," having declined by 3.7% (-3.7%) in November. The monthly patterns continue to be irregular, with monthly gains and losses split evenly for both series in the last twelve months.

The tracked, seasonally-adjusted monthly measures, however, have declined year-to-year in each of the last twenty-one months prior to the December 2017 "Total Ads," and in each of the last twenty-four months (twenty-five of the last twenty-six months) for the "New Ads." Where the pattern of annual declines has narrowed recently, annual downturn generally had continued at or deeper than 10% (-10%) for both series, as reflected in *Opening Comments Graph OC-4*. Again, though, the annual changes improved sharply for both series in December 2017.

Annual growth began to slow in 2010 and turned negative year-to-year in late-2015 and early-2016. The shaded area in the graph reflects the formal bounds of the 2007 to 2009 recession. While the HWOL held in negative annual growth territory into early-2010, beyond the formal economic trough in June 2009, keep in mind that payroll employment—traditionally a coincident economic indicator to the general economy—did not hit its cycle trough until February 2010.

Many thanks to The Conference Board for permission to publish the accompanying graph of year-to-year change in its *Help Wanted OnLine®* data. The annual percentage change is plotted for two series: Total Ads (red line) and New Ads (blue line). Where, "Total ads are all unduplicated [online] ads appearing during the reference period. This figure includes ads from the previous months that have been reposted as well as new ads." While, "New ads are all unduplicated ads which did not appear during the previous reference period. An online help wanted ad is counted as 'New' only in the month it first appears." Related background details and reporting are found here: The Conference Board Help Wanted OnLine®.

While much of this text is repetitive of prior discussions in *Commentary No. 930-B*, *No. 852* and *No. 820*, the detail here has been updated for the latest information. These comments and analysis remain those of ShadowStats alone, not those of The Conference Board.

Historical Background. *[Please note: this section generally has been repeated, unrevised from prior reporting, other than for updated links. It provides general background and historical perspective for the series.]* The HWOL basic concept has proven itself over the last century, in the context of the closely-paralleled tallying of help-wanted advertising in newspapers. The current on-line series tracked the economic collapse into 2009, parallel with the last of the series based on newspaper help-wanted advertising. The beauty and benefit of a good leading indicator is that it provides a meaningful "advance" signal of a shift in economic activity, before that shift may become obvious in other series. Such is a particularly valuable commodity, when headline data out of the federal government increasingly are politicized and unreliable (see *Special Commentary No. 885*, *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*).

With the preceding ShadowStats comments in mind, the following caution, posted on the Conference Board's web site, speaks for itself:

> NOTE: Recently, the HWOL Data Series has experienced a declining trend in the number of online job ads that may not reflect broader trends in the U.S. labor market. Based on changes in how job postings appear online, The Conference Board is reviewing its HWOL methodology to ensure accuracy and alignment with market trends.

First fully covered by ShadowStats in *Commentary No. 820* of July 16, 2016, the HWOL is updated here through January 201 (released January 31st). As a leading economic indicator, help-wanted advertising had its roots as far back in time as the initial reporting of industrial production, post-World War I. The Conference Board has adapted the concept to reflect the fundamental shift of help-wanted advertising from printed newspapers to online advertising. The prior newspaper-based series simply was the best leading indicator of its day.

Back in the days when help-wanted advertising was the primary source of classified-advertising revenue for the physically-printed, folding newspapers, the Conference Board's Help-Wanted Advertising Index (newspapers) simply was the most reliable leading indicator available of broad economic activity. It was a component of the Commerce Department's Index of Leading Economic Indicators. It led activity in employment as well as the Gross National Product (GNP) and the now-headline Gross Domestic Product (GDP), which is a subcomponent of the GNP (ex-trade flows in factor income such as interest and dividend payments).

The National Bureau of Economic Research (NBER) has published detail with the St. Louis Federal Reserve on help-wanted advertising indices constructed back to 1919. From the post-World War I era into the 2000s, year-to-year change in the various historical help-wanted series always signaled what would become recognized eventually as a formal recession, when the annual change in the index contracted by 15% (-15%) or more, which has happened here.

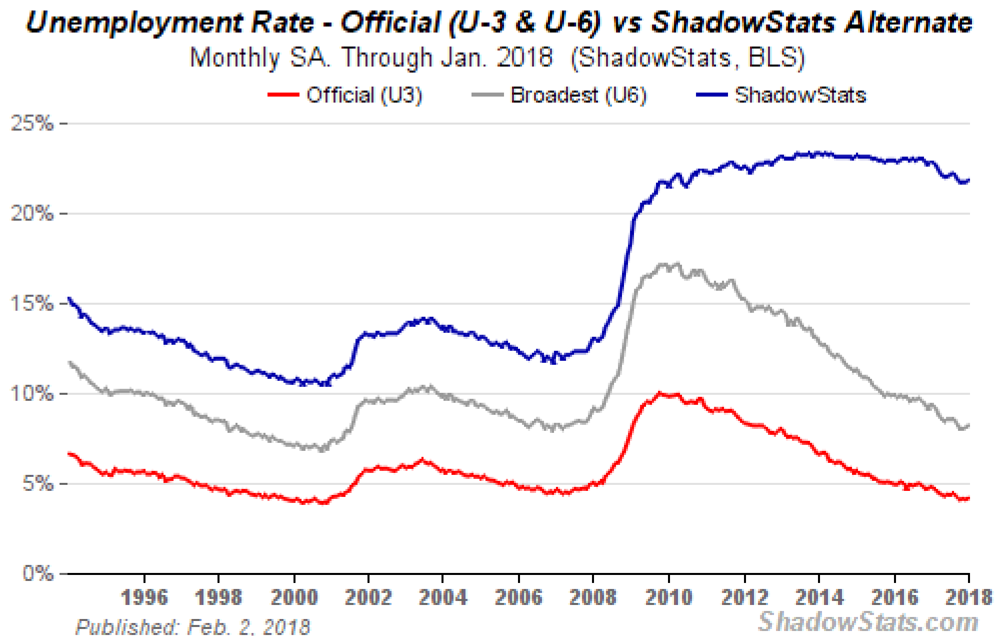
Since formal tracking switched to help-wanted advertising on the Internet, around 2005, as seen with The Conference Board Help Wanted OnLine®, that series has been through only one, formally-confirmed down-cycle in the economy. The year-to-year growth plots in the accompanying graph begin with the first annual-growth rate availability in May 2006. Even with a limited initial history, the new series tracked that headline downturn into 2009 (in tandem with the final surveys of newspaper help-wanted online advertising, which continued for a while), and it has tracked to the downside in the current environment of what appears to be a "new," still-unfolding recession (see *No. 859 Special Commentary*).

Time will establish new annual growth parameters that would signal a formal recession. My betting remains that they will look much like the earlier series, and much like the pattern seen in the present series in terms of year-to-year contraction. Those looking for independent confirmation of underlying economic conditions should find this series to be highly valuable. As for the BLS employment and unemployment series, they should still begin to catch up with the Conference Board's high-quality, independent leading indicator, despite the ongoing , heavy upside reporting biases deliberately structured into the BLS series and expanded anew into the initial 2017 payroll-survey benchmarking. See the discussions in *Special Commentary No. 885*, *Commentary No. 864* and in the *Birth-Death/Bias-Factor Adjustment (BDM)* section of the *Supplemental Labor-Detail Background* of *Commentary No. 930-B*.

EXECUTIVE SUMMARY: Employment and Unemployment—January 2018—Unemployment Notched Higher as Annual Payroll Growth Softened – a Hardening "Recession" Signal. In the context of annual benchmark revisions to payroll employment discussed in the *Opening Comments*, January 2018 payrolls rose month-to-month by 200,000, versus 160,000 (148,000 pre-benchmarking) in December and 216,000 (previously 252,000) in November. Annual payroll growth of 1.45% in January 2018, versus 1.56% (previously 1.50%) in December 2017 and 1.57% (previously 1.46%) in November 2017, broadly remained in a downtrend that has reached a level and pattern of growth the usually precedes and signals the onset of a recession (see discussion in the *Opening Comments*).

In the seasonally-adjusted Household Survey data, although the U.3 headline unemployment rate held at a 17-year low of 4.1% in January 2018, for the fourth straight month, it notched higher, when considered at the second decimal point, firming to 4.15% in January from 4.07% in December. That reading was shy of rounding to 4.2% by less than 3,000 unemployed out of the 6,684,000 "unemployed" individuals. The broader U.6 unemployment rate rose for the second month, to 8.19% from 8.08%, and the still-broader ShadowStats-Alternate rose to 21.8% from 21.7%, all as reflected in accompanying *Graph 1*.

Graph 1: Comparative Unemployment Rates U.3, U.6 and ShadowStats

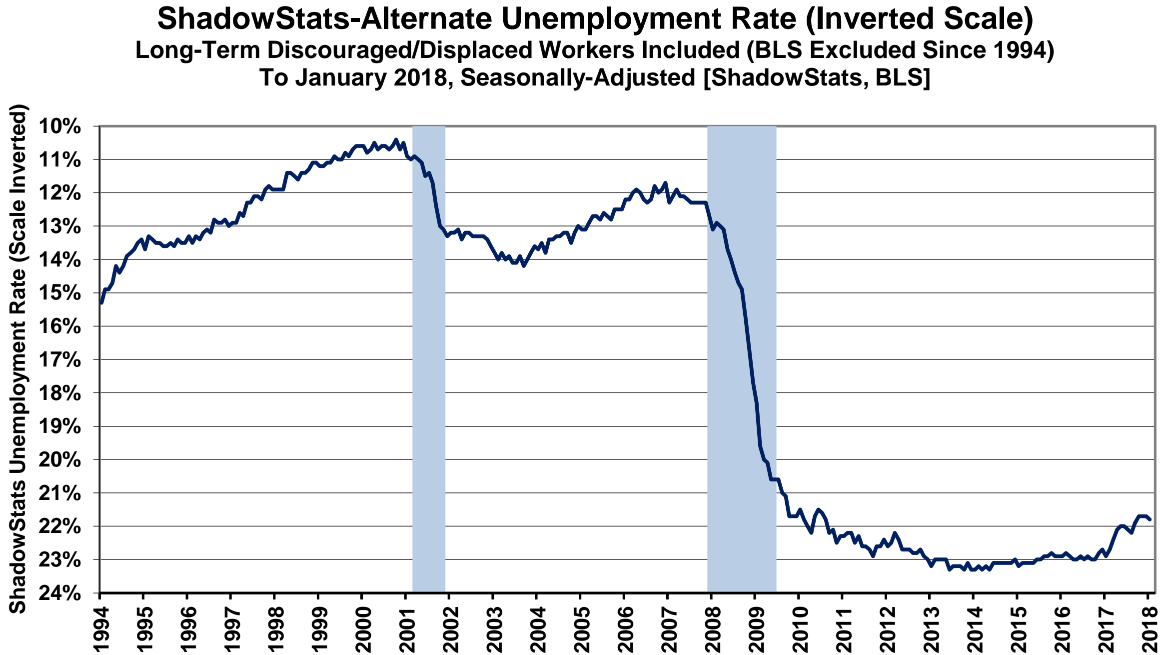


Despite continued, hyped speculation of the U.S. economy being at full employment, those latter two unemployment measures show that not to be the case. Such will be confirmed in expanded discussions tied to the employment-population ratio and the participation rate (planned for the *Reporting Detail* pending in *No. 934-B* of February 5th), as well as to the low level of headline year-to-year growth in payroll employment (see today's *Opening Comments*).

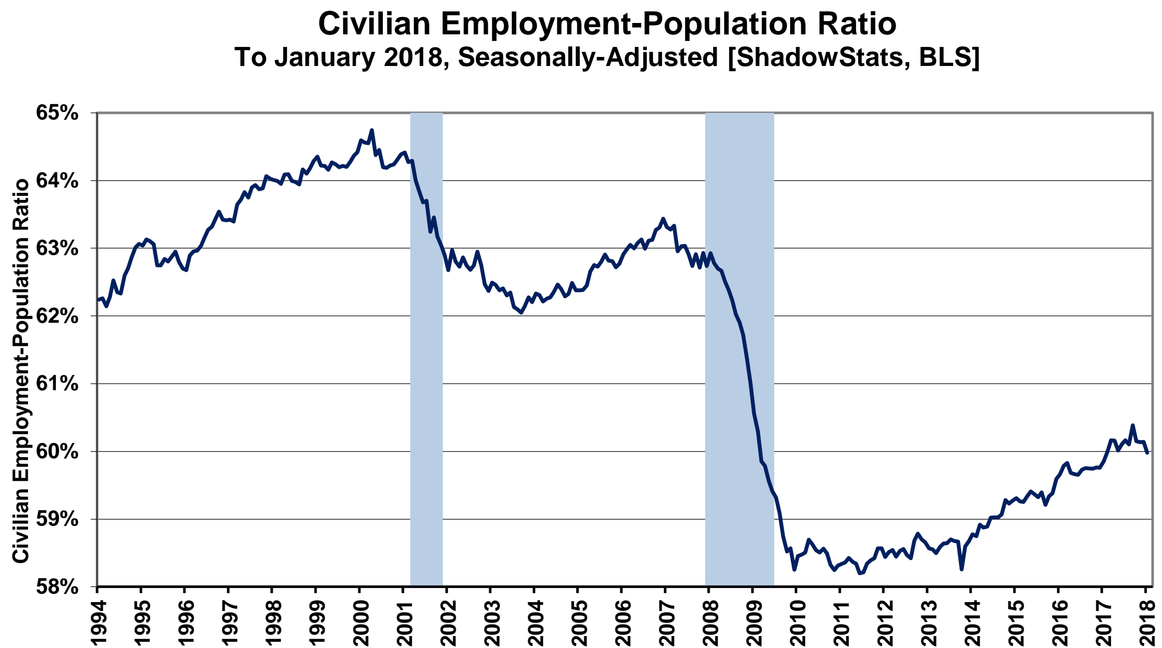
In the context of the regular reporting distortions discussed in *Special Commentary No. 885* as well as in the *Supplemental Labor-Detail Background* of *Commentary No. 930-B*, incorporated here by reference, broad labor circumstances generally have weakened sharply, irrespective of what may appear to be happy headline details, on the surface. The inverted-scale plot of the ShadowStats Alternate Unemployment Rate measure is shown in *Graph 2*, for comparison with the plots in *Graphs 3* and *4* of the Civilian

Employment-to-Population Ratio and the Labor-Force Participation rate. Where both those latter series gyrated around hurricane disruptions, they have weakened anew. The lower the reading of those ratios, the more-distressed are employment conditions, as correlated with the heavy impact of discouraged and displaced workers on the level of the ShadowStats Alternate Unemployment Measure.

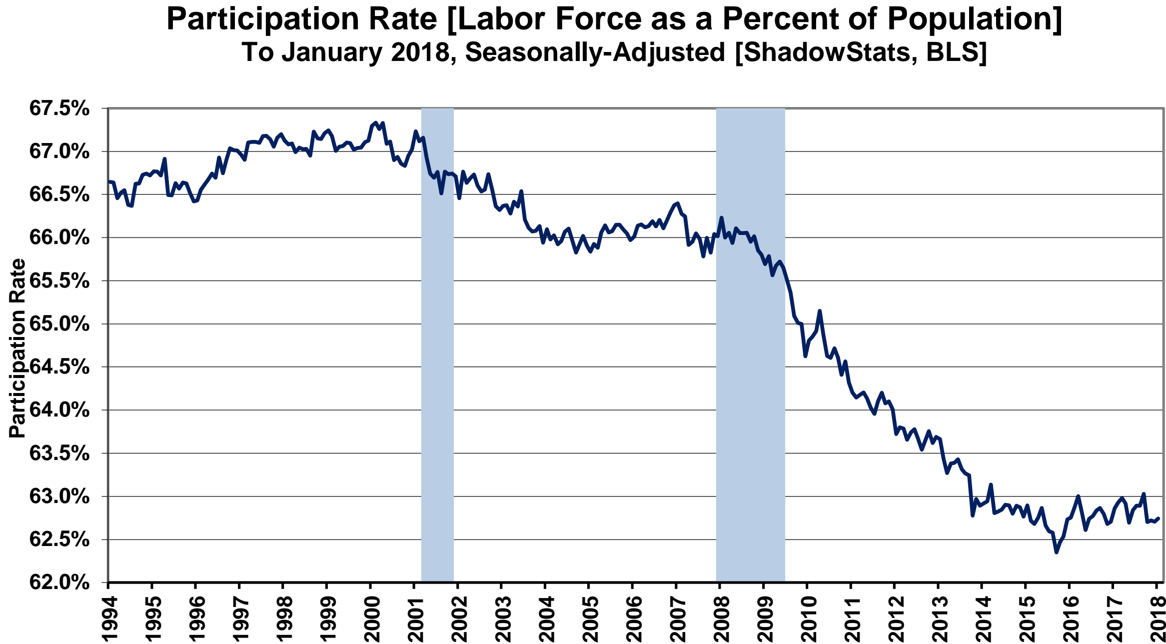
Graph 2: Inverted-Scale ShadowStats Alternate Unemployment Measure



Graph 3: Civilian Employment-to-Population Ratio

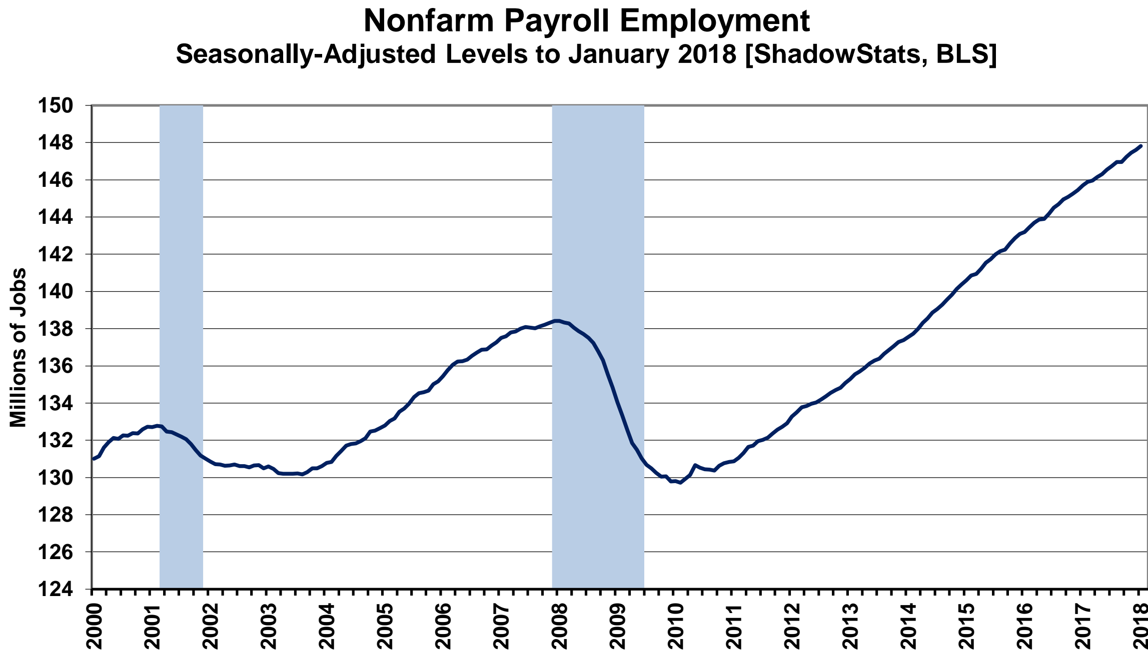


Graph 4: Labor-Force Participation Rate



Graphs 5 and *6* plot the headline, benchmarked payroll series detail, in terms of both seasonally-adjusted level and unadjusted year-to-year change. See related *Graphs OC-1* and *OC-2*, reflecting today's (February 2nd) payroll benchmark revisions, in the *Opening Comments* section.

Graph 5: Benchmarked Nonfarm Payroll Employment 2000 to Date



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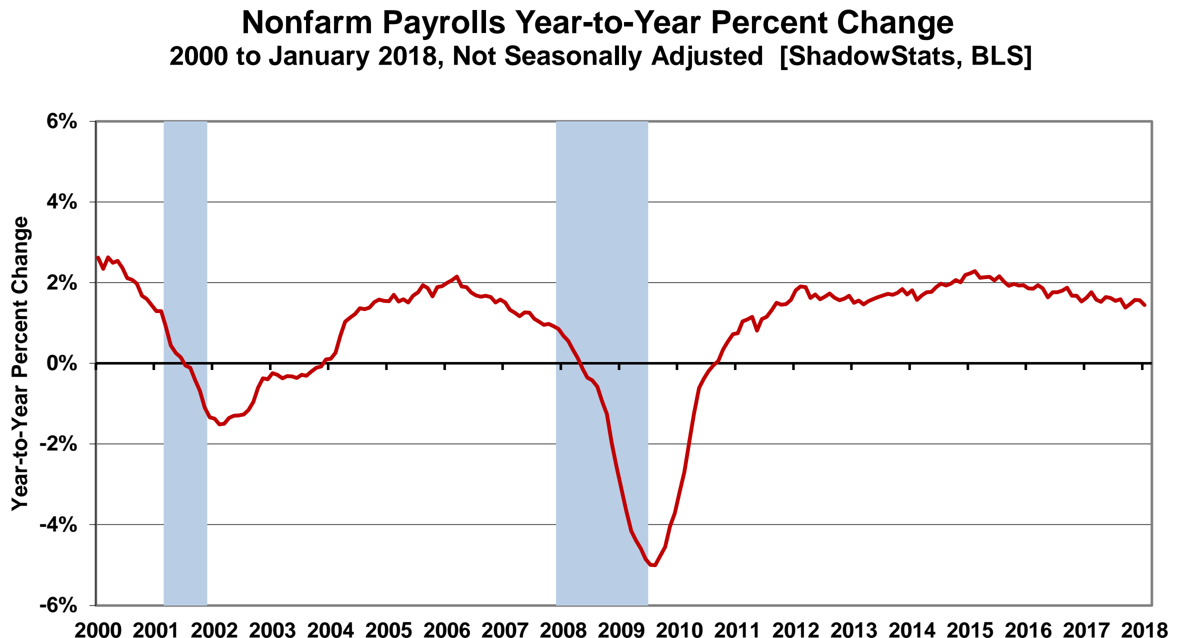
Graph 6: Benchmarked Payroll Employment, Year-to-Year Percent Change, 2000 to Date



Extended coverage on the January 2018 details of both the Household and Payroll Surveys, and on the annual Payroll Benchmark revisions, will follow in *Commentary No. 934-B* planned for February 5th.

Construction Spending—December 2017—Net of Downside Revisions, Monthly Gain Was a Contraction; Annual Contractions Send an Intensified Recession Signal. In the context of regular, unstable month-to-month reporting and downside revisions to November and October, the December 2017 construction spending series likely saw some unwinding of recent natural-disaster bloating that has inflated growth patterns of various construction, production and consumer series. With seven months of year-to-year contractions, annual contractions in third- and fourth-quarter GDP, the signals here remain for an intensifying downturn, as last seen in the housing collapse leading into the formal 2007 recession (see *Graph 7*).

At present, the headline real December 2017 monthly reading stood at 21.4% (-21.4%) below its pre-recession peak, in contrast to upwardly benchmarked January 2018 Construction Employment down by 8.1% (-8.1%) from recovering its pre-recession high.

December 2017 Construction Spending. In the context of the downside revisions to October and November activity, nominal construction spending rose month-to-month in December 2017 by a statistically-insignificant 0.7%, versus downwardly-revised gains of 0.6% in November and 0.1% in October. Those were inflation-adjusted real monthly changes of a 0.5% gain in December 2017, a 0.2% gain in November and an "unchanged" 0.0% in October.

Annual nominal growth rose by a statistically-significant 2.6% in December 2017, versus revised annual gains of 1.5% in November 2017, 2.6% in October 2017 and an unrevised 3.4% in September 2017. Net

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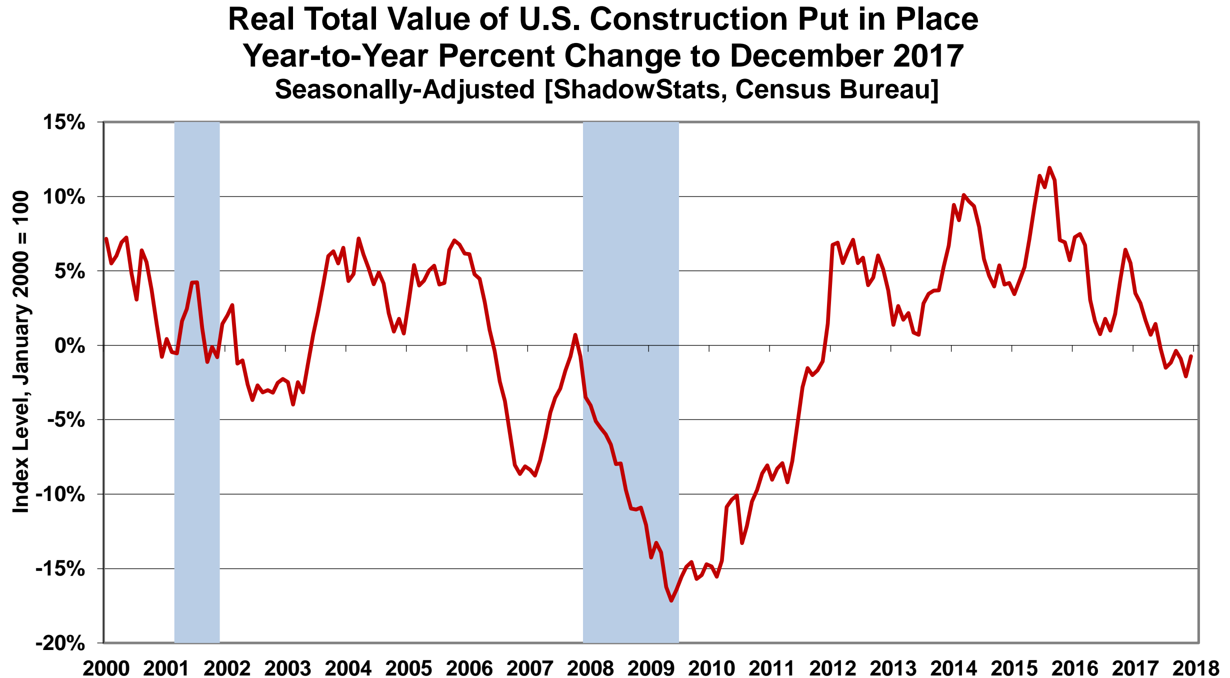
of inflation, December 2017 was down year-to-year by 0.7% (-0.7%), versus annual contractions of 2.1% (-2.1%) in November 2017 and 0.09% (-0.9%) in October 2017. The preceding headline details are reflected in accompanying *Graph 8.*

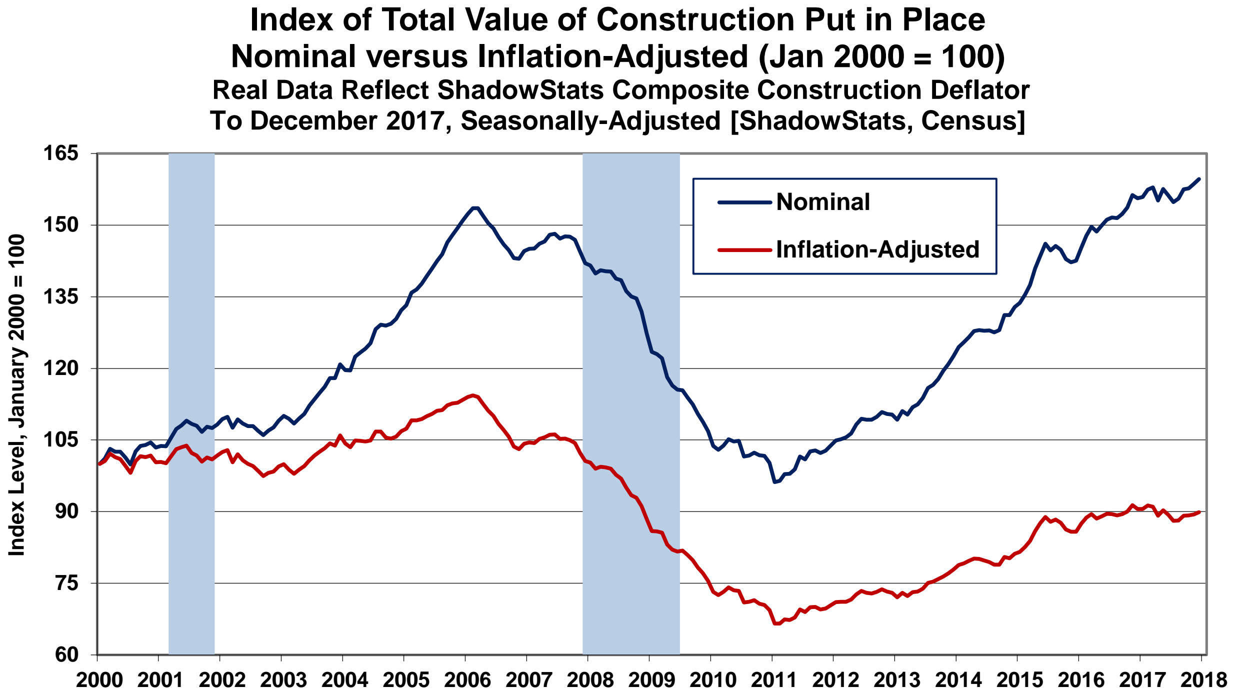
Graph 7: Total Real Construction Spending, Year-to-Year Percent Change
(Same as Graph 12 in the Reporting Detail section)



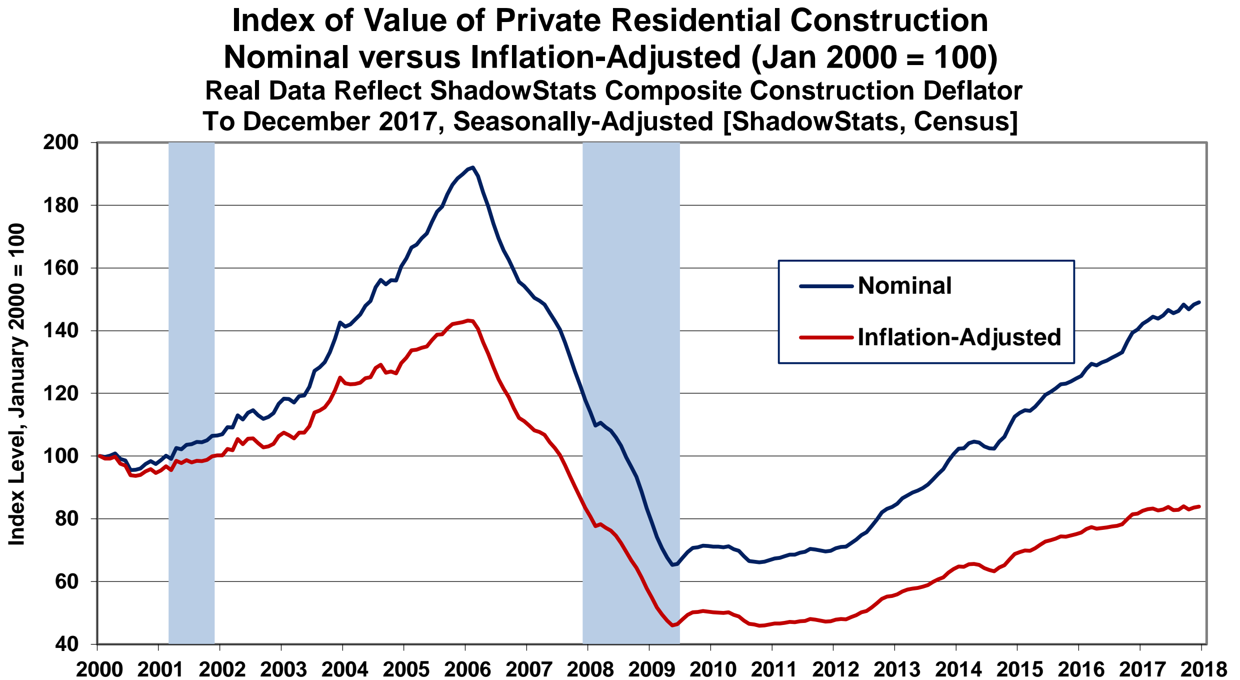
Reflected in accompanying *Graphs 8* to *11*, neither the aggregate inflation-adjusted real series (the red line in each graph), nor any of its major-subsidiary components, has recovered levels of pre-recession peak activity, with each element currently trending flat-to-lower, consistent with an unfolding new recession or re-intensifying downturn. This pattern is an element common to nearly all home-sales and housing-construction series (see *Commentary No. 932* and *Commentary No. 928*).

[Graphs 8 to 11 begin on the next page.]

Graph 8: Index, Nominal versus Real Value of Total Construction



Graph 9: Index, Nominal versus Real Value of Private Residential Construction



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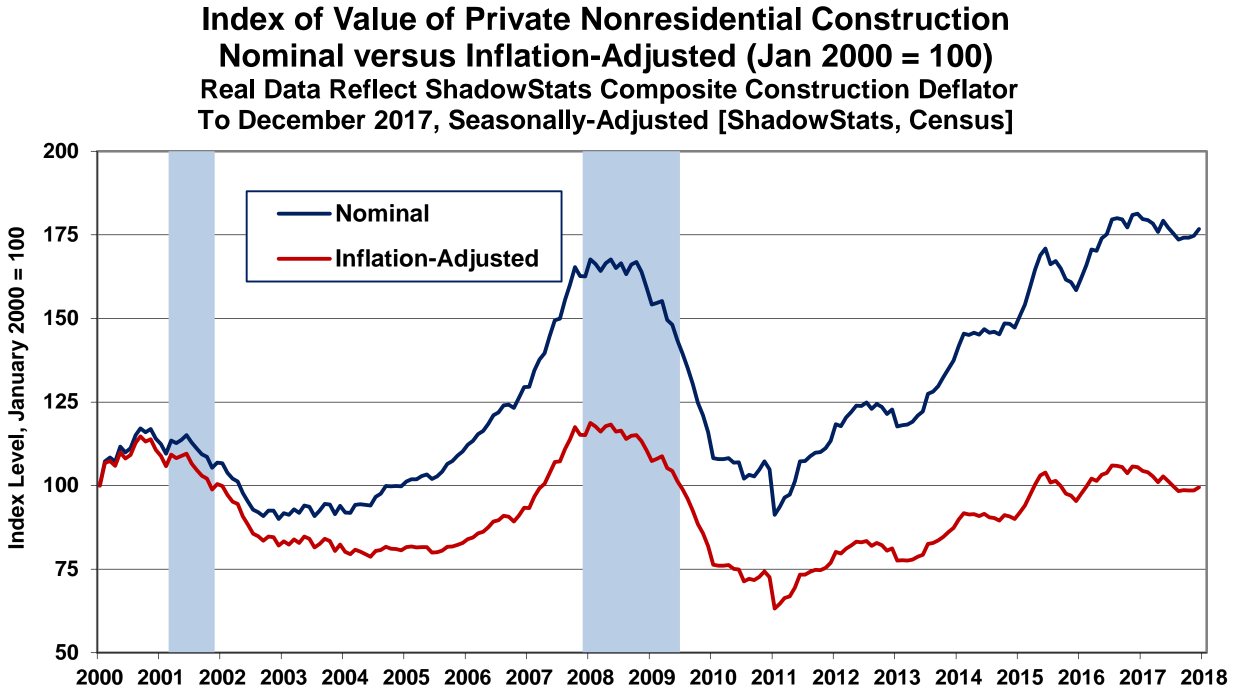
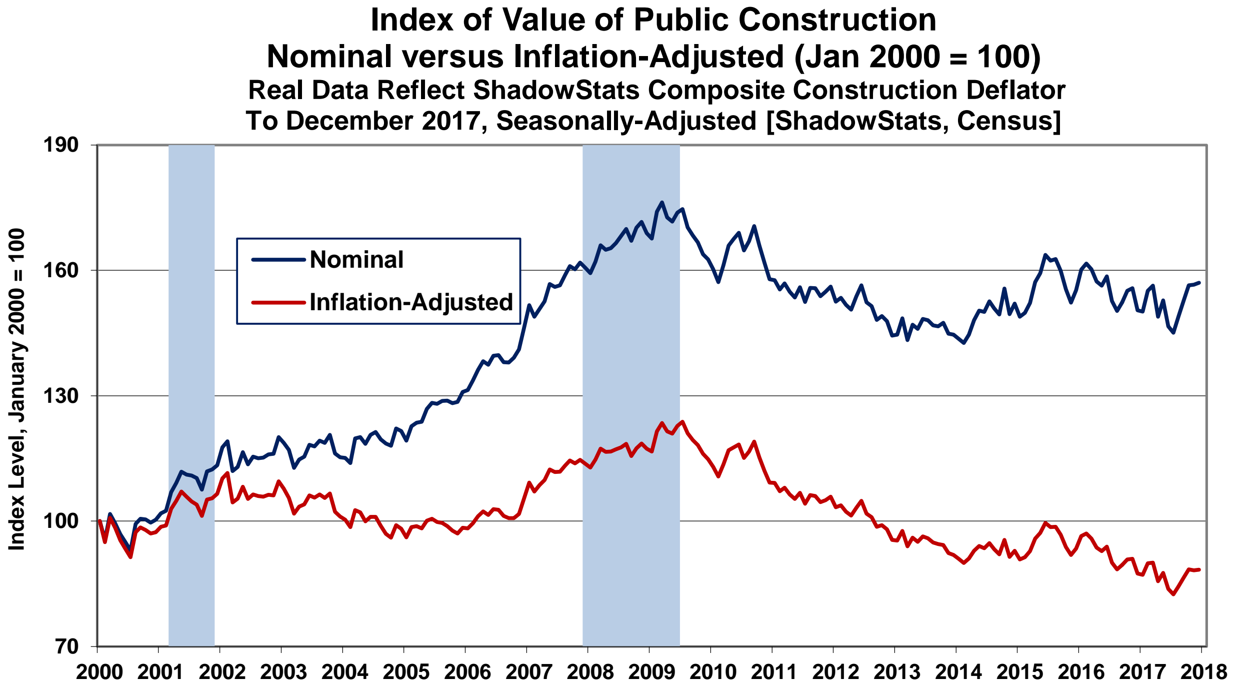
Graph 10: Index, Nominal versus Real Value of Private Nonresidential Construction



Graph 11: Index, Nominal versus Real Value of Public Construction



[Extended analysis and graphs of Construction Spending follow in the **Reporting Detail.***]*

REPORTING DETAIL

CONSTRUCTION SPENDING IN THE UNITED STATES (December 2017)

Monthly Gain Was a Contraction Net of Downside Revisions; Annual Change Declined for a Seventh Straight Month, Signaling a "New" Recession. In the context of regular, unstable month-to-month reporting and downside revisions to November and October, the December 2017 construction spending series likely saw some unwinding of recent natural-disaster bloating that has inflated growth patterns of various construction, production and consumer series.

With initial fourth-quarter 2017 activity for inflation-adjusted U.S. Construction Spending in annual contraction, following various annual and quarterly contractions in second- and third-quarter 2017 activity, the series is signaling a new recession. Current patterns of negative real activity were seen last during the housing collapse of 2006, leading into the formal 2007 recession. The signals here remain for an intensifying downturn.

In normal times, the Construction Spending series remains highly volatile, subject to unstable and extraordinarily-large monthly revisions. Aggregate revisions were to the downside for both October and November, along with the publication of the initial December 2017 detail. Revised declines were across most sectors. On top of the downside revisions to November and October activity, nominal December 2017 monthly activity increased by 0.7%, reflecting growth particularly in the residential construction.

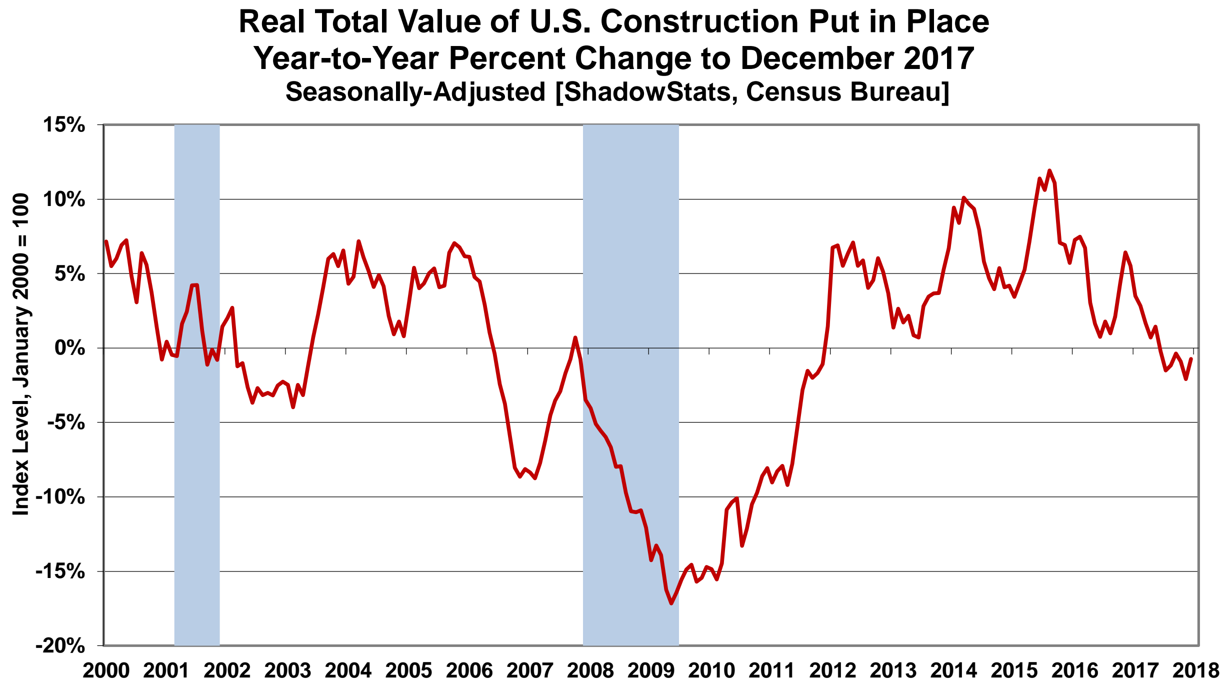
Contracting Annual Growth. With nominal annual growth in construction spending at 2.6% in December 2017, having revised to 1.5% [previously 2.4%] in November 2017 and to 2.6% [3.4% in October 2017], those months now are down year-to-year at a real pace—net of inflation—of 0.7% (-0.7%) in December 2017, 2.1% (-2.1%) in November 2017 and 0.9% (-0.9%) in October 2017. A string of monthly annual contractions has been in place for seven straight months.

Indeed, what had been an intensifying downside shift in trend in the inflation-adjusted real series continued with the headline December 2017 detail, in the context of some moderation with downside revisions to activity offset by some downside revision in annual inflation. That said, real year-to-year change continued in an annual contraction of a scope last seen during the housing collapse of 2006 (see *Graph 12*, and *Graph 7* in the *Executive Summary*), down year-to-year in each of the last seven consecutive months.

In tandem, the headline real December 2017 monthly reading stood at 21.4% (-21.4%) below its pre-recession peak, in contrast to upwardly benchmarked January 2018 Construction Employment down by 8.1% (-8.1%) [down by 8.6% (-8.6%) in December 2017] from recovering its pre-recession high. The

broad housing and related construction sector remain severely constrained by consumer liquidity issues, discussed in regularly in the *Consumer Liquidity Watch*.

Graph 12: Total Real Construction Spending, Year-to-Year Percent Change
(Same as Graph 7 in the Executive Summary)



December 2017 Construction Spending. The headline, seasonally-adjusted nominal December 2017 Value of Construction Put in Place in the United States rose to $1,253.3 billion from a downwardly-revised $1,245.1 [previously $1,257.0] billion in November 2017, versus a downwardly-revised $1,237.6 [previously $1,247.1, initially $1,241.5] billion in October 2017 and an unrevised $1,236.3 billion in September 2017.

In the context of the downside revisions to October and November activity, nominal construction spending rose month-to-month in December 2017 by a statistically-insignificant 0.7% +/- 1.8% (all confidence intervals are at the 95% level), versus downwardly-revised gains of 0.6% [previously 0.8%] in November, 0.1% [previously 0.9%, initially 1.4%] in October and an unrevised 1.3% in September. Net of the Composite Construction Deflator inflation (see the next section), those were real monthly changes of a 0.5% gain in December 2017, a 0.2% gain in November 2017, an "unchanged" 0.0% in October and a 1.2% gain in September.

Headline annual nominal growth rose by a statistically-significant 2.6% +/- 2.1% in December 2017, versus revised annual gains of 1.5% [previously 2.4%] in November 2017, 2.6% [previously 3.4%, initially 2.9%] in October 2017 and an unrevised 3.4% in September 2017. Net of inflation, December 2017 was down year-to-year by 0.7% (-0.7%), versus annual contractions of 2.1% (-2.1%) in November 2017, 0.09% (-0.9%) in October 2017 and 0.4% (-0.4%) in September 2017. The preceding headline details are reflected in accompanying *Graphs 13* to *16* and in *Graph 8* in the *Executive Summary.*

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The statistically-insignificant, nominal monthly gain of 0.7% in aggregate December 2017 spending, versus the revised 0.6% gain in aggregate November 2017 spending, included a headline monthly gain of 0.3% in December Public Construction Spending, which followed a monthly revised gain of 0.1% in November. Private Construction Spending gained by 0.8% in December, having gained a revised 0.6% in November. Within total Private Construction Spending, Residential Construction activity rose by 0.5% in December, having gained a revised 1.1% in November, while the Nonresidential Construction sector gained 1.1% in December, having gained a revised 0.3% in November.

The preceding headline details are reflected in accompanying *Graphs 15* and *16* and in *Graphs 8* to *11* in the *Executive Summary*, which show headline detail both before and after adjustment for inflation.

Construction Inflation—ShadowStats Composite Construction Deflator (CCD). ShadowStats produces a Composite Construction Deflator (CCD) for use in converting current-dollar or nominal (not-adjusted-for-inflation) headline construction spending into inflation-adjusted, real or constant-dollar terms. Detailed in *Commentary No. 829*, previously used measures from the Producer Price Index (PPI) lacked historical consistency and did not measure inflation appropriately for the construction-spending series.

Reflecting downside revisions to government numbers—the latest related price indices in the national-income reporting, and the latest private surveying, CCD year-to-year inflation was 3.35% for December 2017, 3.64% [previously 4.03%] for November 2017 and 3.51% [previously 3.79%} for October 2017. Month-to-month inflation was 0.15% for December 2017, 0.35% [previously 0.45%] for November 2017 and 0.09% [previously 0.20%] for October 2017. The effect of the downside inflation revisions was to boost real (inflation-adjusted) activity in revision, although not enough to offset the downside revision from the Census Bureau to the nominal activity in those same periods.

Mixed But Deepening Real Quarterly-Contractions. In the context of initial December 2017 reporting and downside revisions to November and 2017 activity, net of inflation, fourth-quarter activity grew at an annualized pace of 3.7%, having contracted year-to-year by 1.2% (-1.2%).

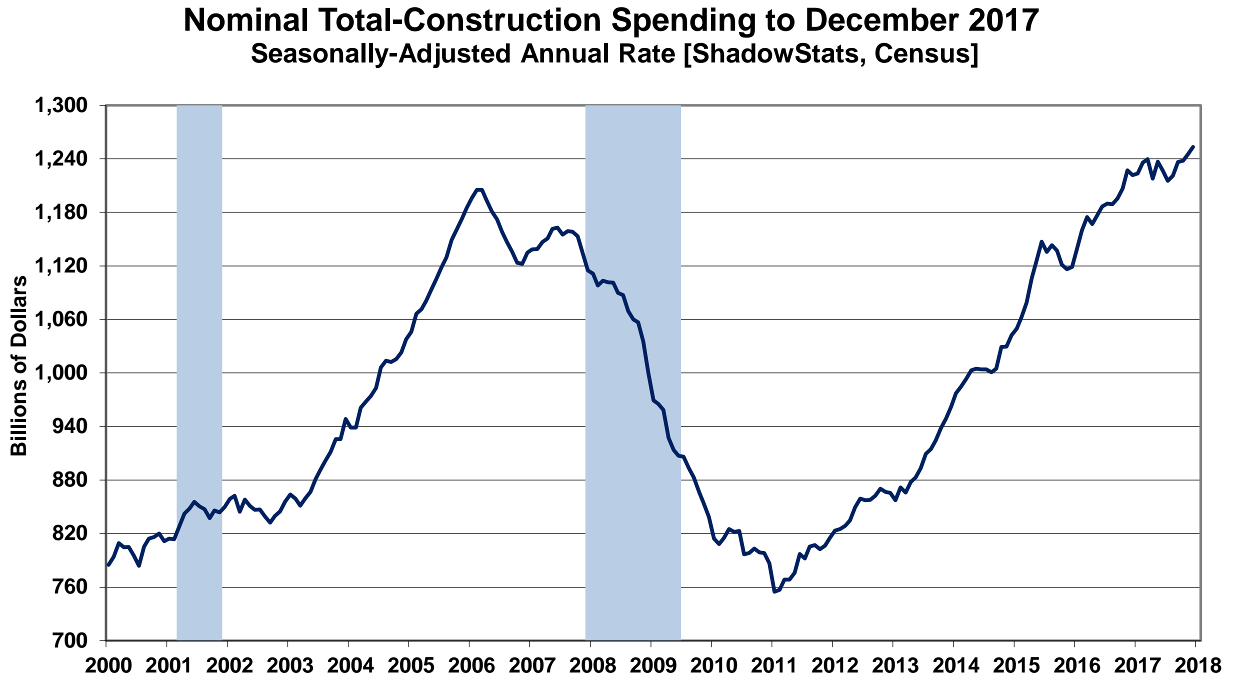
Third-quarter 2017, real growth contracted at a revised annualized quarterly pace of 4.0% (-4.0%) [previously down by 4.2% (-4.2%)] and contracted year-to-year by 0.8% (-0.8%).

Second-quarter 2017 growth contracted at revised annualized real pace of 5.7% (-5.7%) [previously 5.8% (-5.8%)], versus first-quarter 2017. Year-to-year real growth was 0.6%.

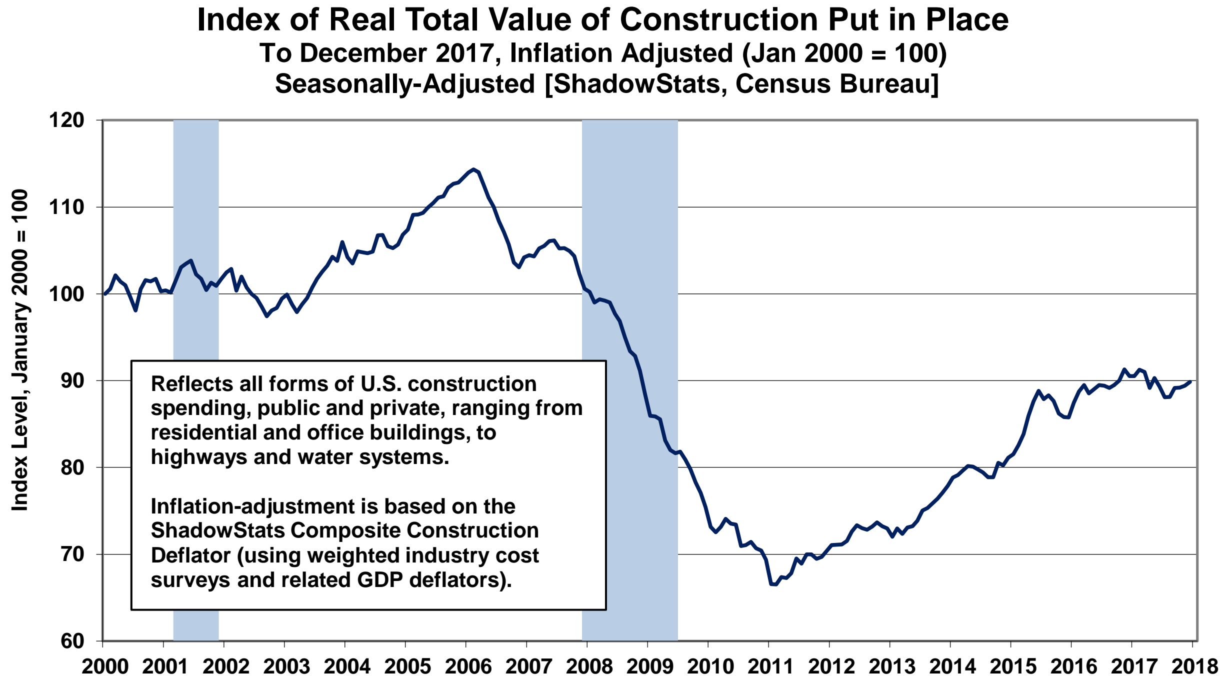
The pattern here, again, has been one of consistent annual slowdown, of form not seen since the housing crash before the headline 2007 recession.

[Graphs 13 to 16 begin on the next page.]

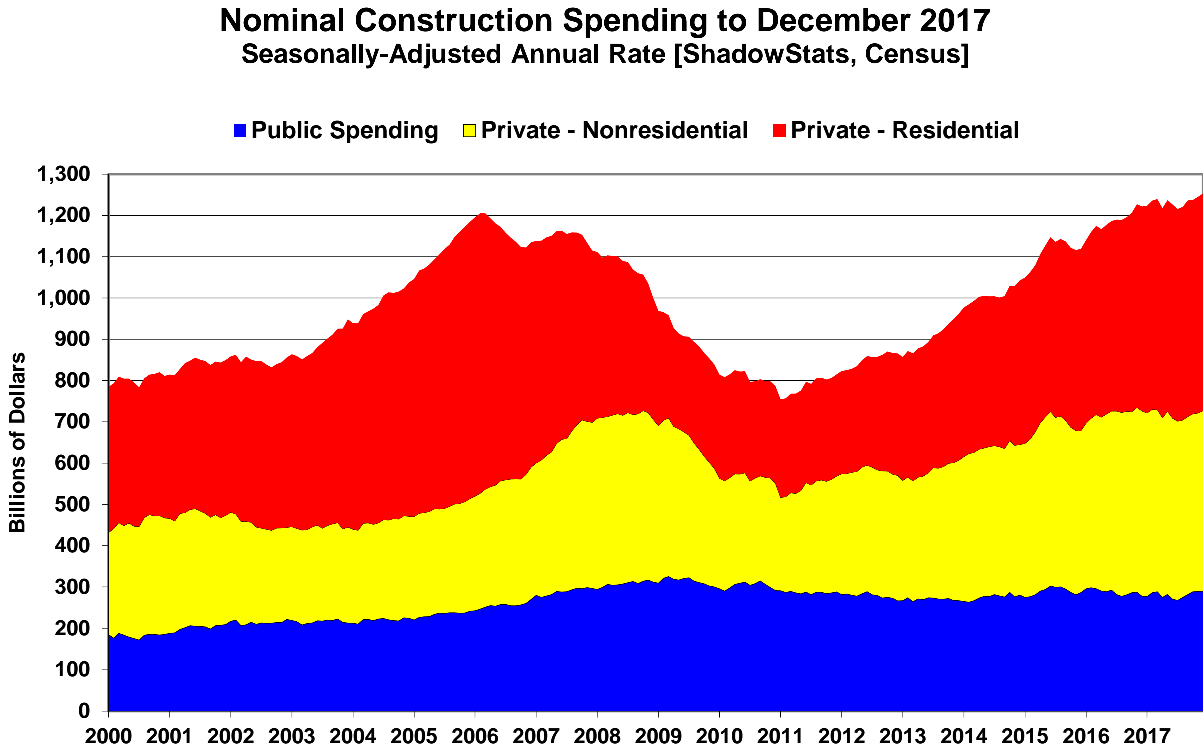
Graph 13: Total Nominal Construction Spending



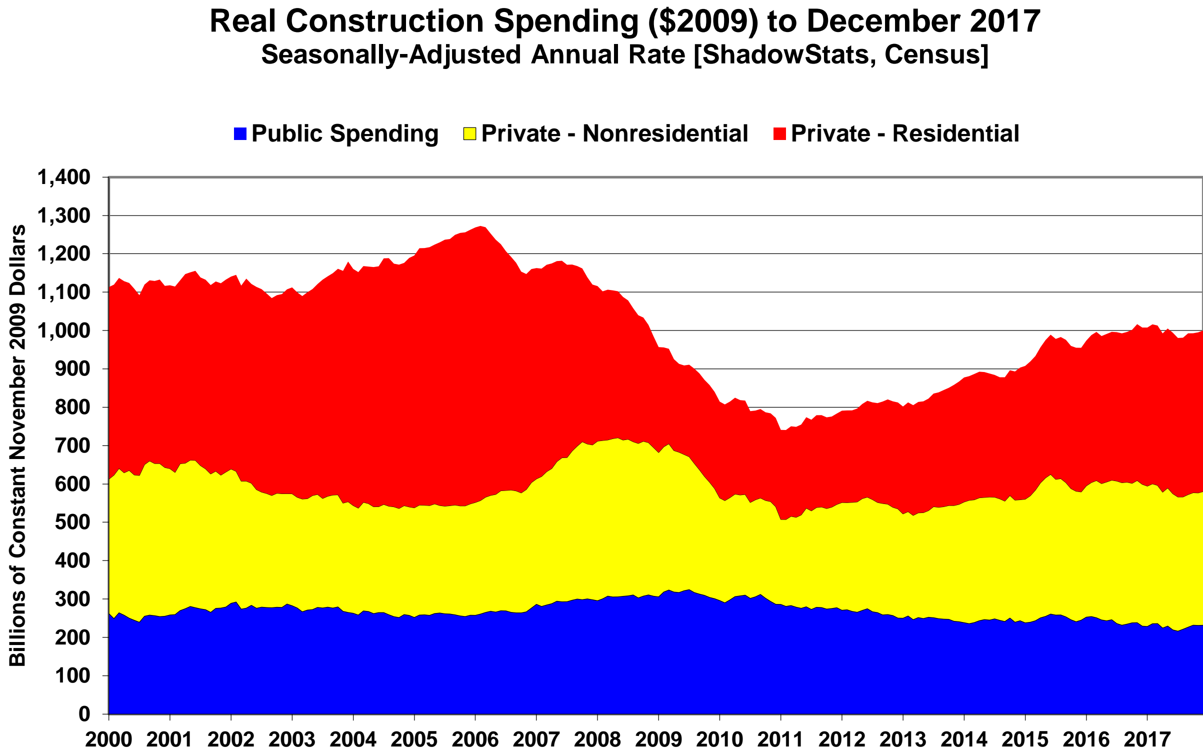
Graph 14: Index of Total Real Construction Spending



Graph 15: Aggregate Nominal Construction Spending by Major Category to Date



Graph 16: Aggregate Real Construction Spending by Major Category (Billions of November 2009 Dollars)



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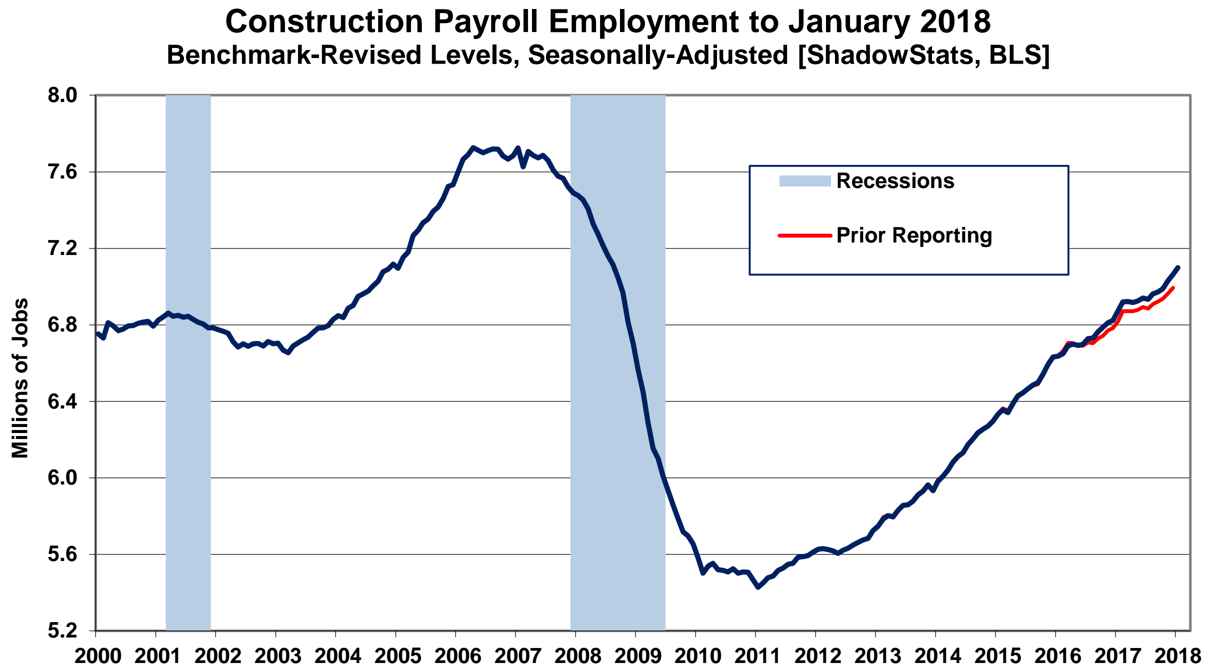
Upwardly-Benchmarked January 2018 Construction Payrolls Rose by 0.5% Month-to-Month and by 2.6% Year-to-Year, but Remained Down by 8.1% (-8.1%) from the Pre-Recession Peak. In the context of annual benchmark revisions to payroll employment (see the *Opening Comments*), construction payrolls were revised higher, as plotted in accompanying *Graph 17*. Details will be discussed in *Commentary No. 934-B*, planned for Monday, February 5th. The upwardly-revised, seasonally-adjusted January 2018 construction payroll employment level remained 8.10% (-8.10%) below the pre-recession high for the series.

Graph 17: Construction Employment (Payroll Survey) - Benchmarked, 2000 to Date



Construction Spending and Related Graphs. *Graphs 8* to *11* in the *Executive Summary* show comparative nominal and real construction activity for the aggregate series as well as for private residential- and nonresidential-construction and public-construction. Seen after adjustment for inflation, the real aggregate series generally have remained in low-level stagnation, now effectively flat to turning down, from mid-2015 into fourth-quarter 2017. Areas of recent relative strength in the major subcomponents generally have flattened out and have begun to turn down anew, after inflation adjustment.

The general pattern of real activity had been one of low-level, up-trending stagnation but, again, now has turned generally flat-to-minus. The aggregate nominal detail, before inflation adjustment, is shown in *Graph 13* of this *Reporting Detail*, with the real, inflation-adjusted activity plotted in *Graph 14*, while *Graphs 15* and *16* show the relative patterns of nominal and real activity aggregated by sector.

Construction and Related Graphs of Physical Activity. Again, *Graphs 13* and *15*, and *Graphs 15* and *16* reflect total construction spending through December 2017, both in the headline nominal dollar terms, and in real terms, after inflation adjustment. *Graph 14* is on an index basis, with January 2000 = 100.0, where

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Graph 12 reflects the same detail in terms of annual change. Adjusted for the CCD, real aggregate construction spending showed the economy slowing in 2006, plunging into 2011, then turning minimally higher in an environment of low-level stagnation, trending lower from late-2013 into mid-2014, then with some boost into early-2015. Activity declined in fourth-quarter 2015, with a rebound in 2016, sinking anew into 2017, with annual growth having turned negative, again as indicated in *Graph 12*. The pattern of non-recovered, inflation-adjusted construction spending turning down anew has continued to move contrary to the purported economic recovery and expansion indicated by headline GDP reporting (see *Commentary No. 933*).

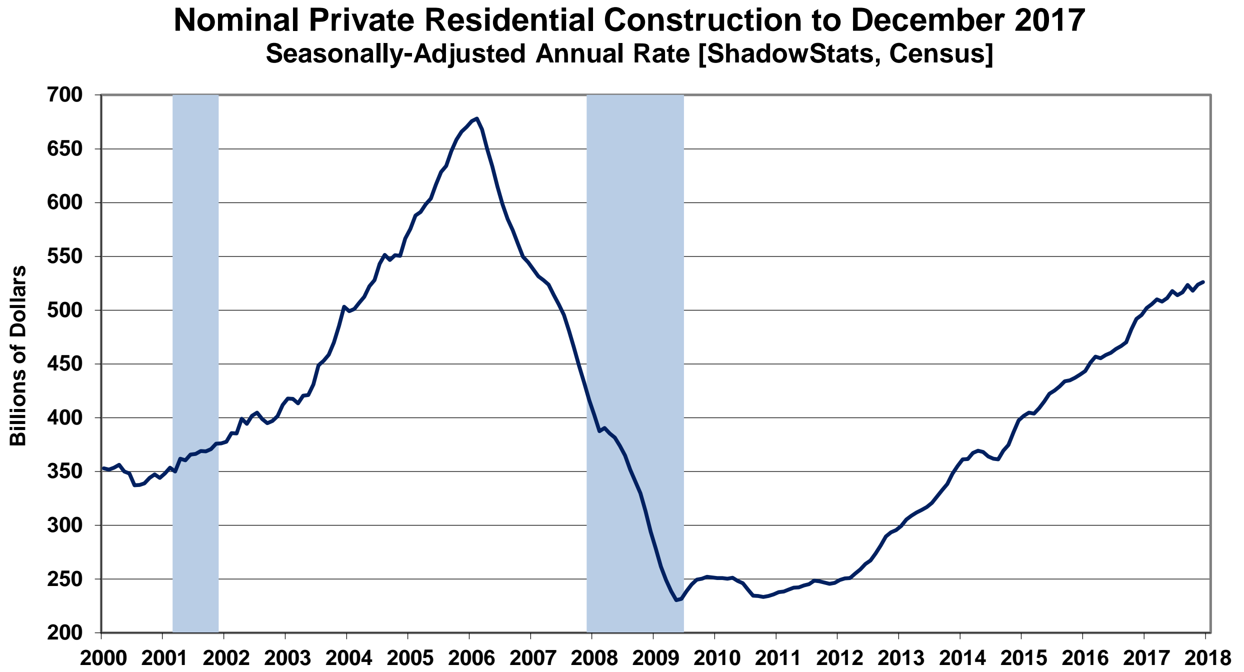
The Data and Graphs Here Reflect Monthly Levels, Not Smoothed, Moving Averages. Unlike the housing-starts and home-sales series—where ShadowStats smooths the irregular and continually-revised monthly data with accompanying plots of smoothed, six-month moving averages—the construction spending series is shown here only on a monthly basis, as published. While the spending series is extremely volatile in its monthly revisions, it tends to remain reasonably smooth in the residual month-to-month change.

Note the comparative monthly volatilities in the non-smoothed *Graphs 18* and *19*, which cover private residential construction spending, along with housing starts (combined single- and multiple-unit starts) for December 2017 (see *Commentary No. 932*). Keep in mind that the construction spending series is in nominal terms, while housing starts reflect unit volume, which should be parallel with the inflation-adjusted series shown in *Graph 9* in the *Executive Summary* section and *Graph 14* here.

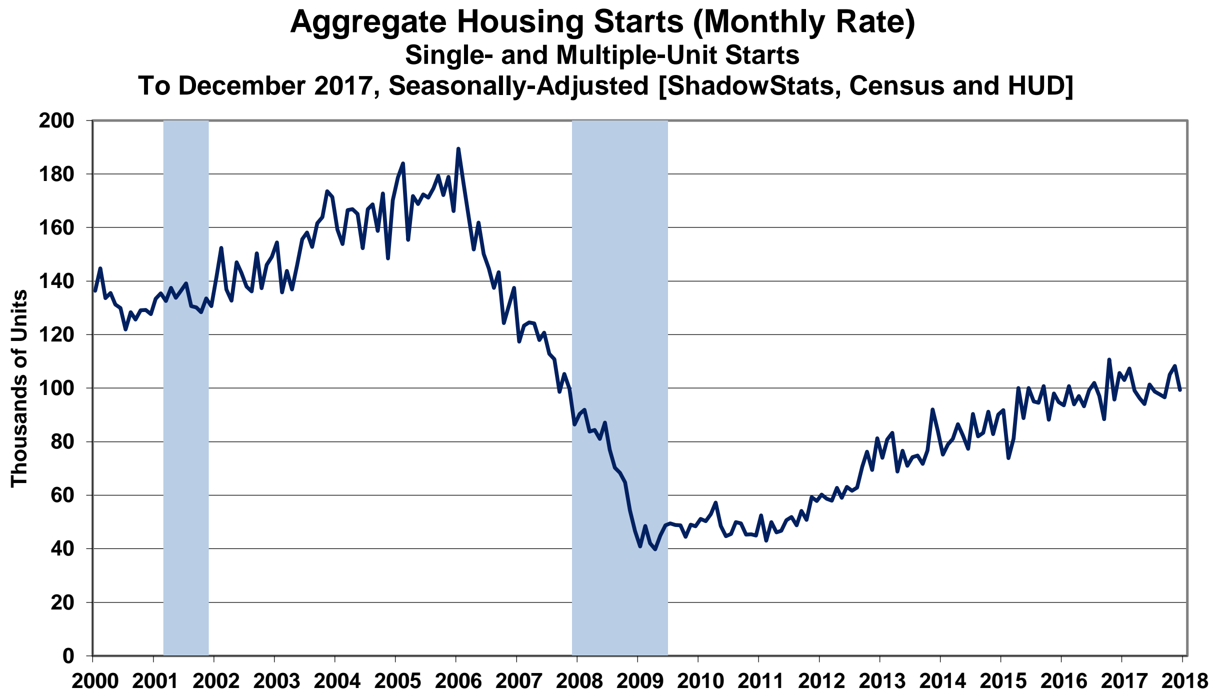
The final two graphs (*Graphs 20* and *21*) show the patterns of the monthly level of activity in nominal private nonresidential-construction spending and in public-construction spending. Private Non-Residential Construction spending surged beyond its pre-recession nominal peak in 2016, hitting a new high in December 2016 and broadly backing off same since. Public Construction spending, which is 98% nonresidential, had continued in a broad downtrend into 2014, with intermittent bouts of fluttering stagnation and then some upturn in 2015. In 2016 and into 2017, the nominal series still appeared to have fluttered into and out of a low-level top, now generally fluttering higher, though not meaningfully so, still shy of its pre-recession peak. Viewed net of inflation, in *Graphs 10* and *11* in the *Executive Summary* and in accompanying *Graph 15,* both series still appear stalled shy of their pre-recession peaks.

[Graphs 18 to 21 begin on the next page.]

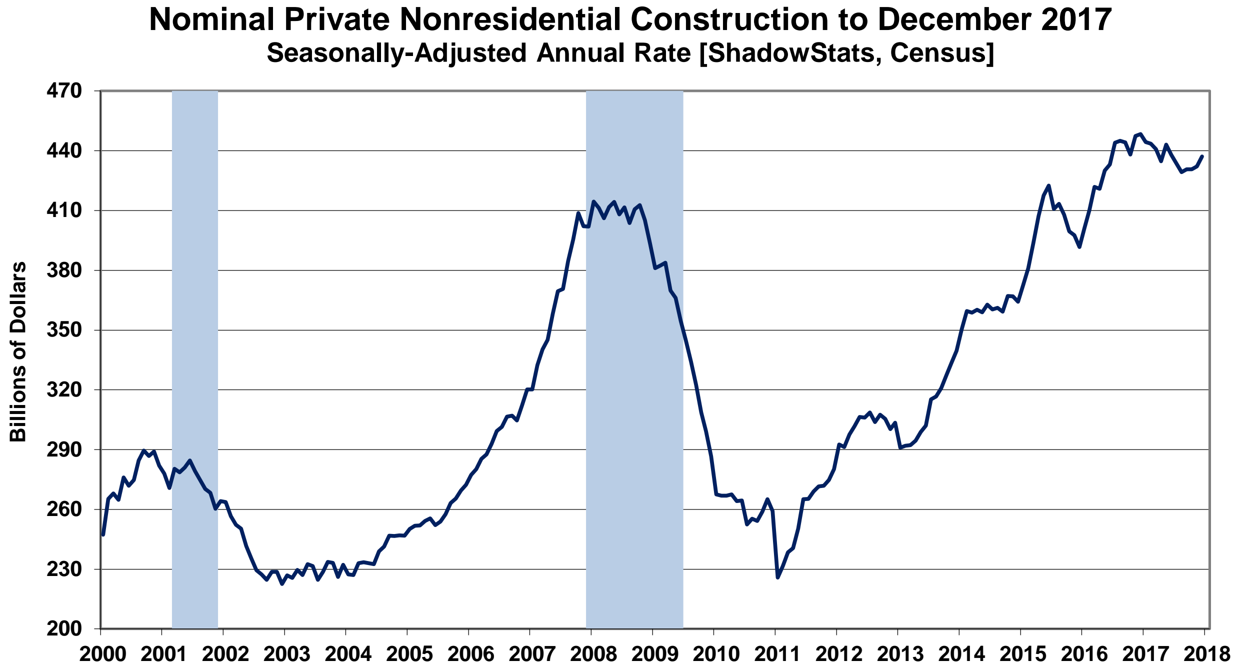
Graph 18: Nominal Private Residential Construction Spending to Date



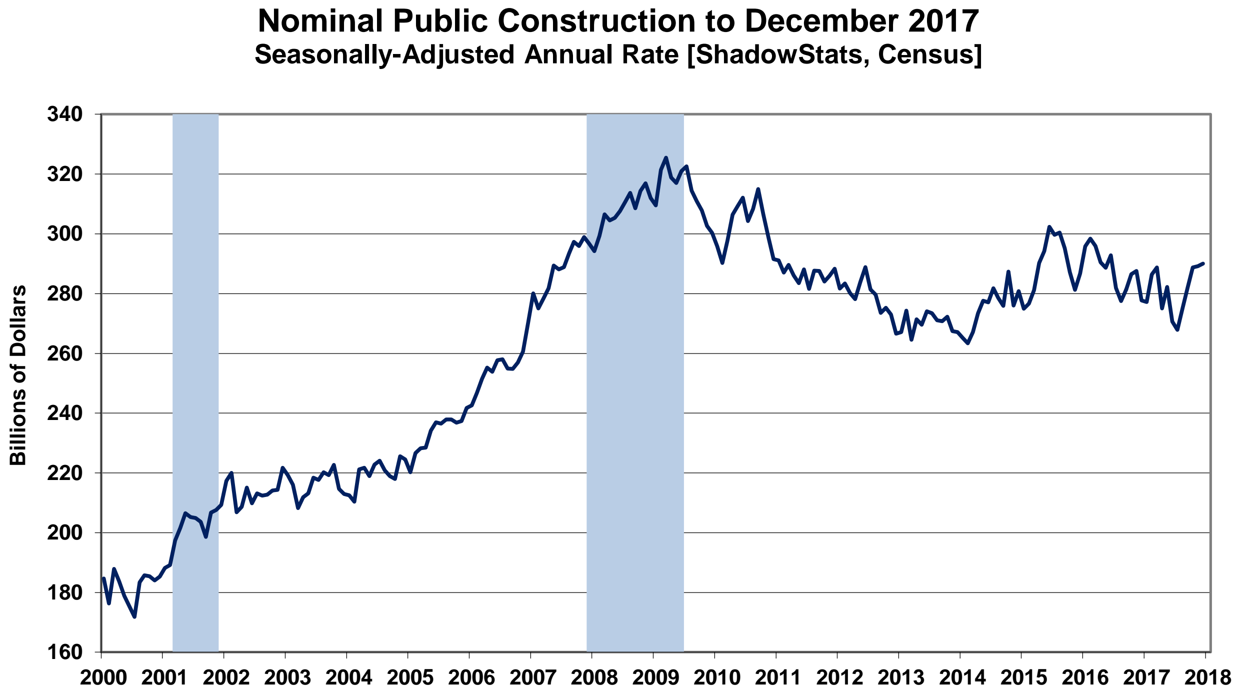
Graph 19: Combined Single- and Multiple-Unit Housing Starts to Date



Graph 20: Nominal Private Nonresidential Construction Spending to Date



Graph 21: Nominal Public Construction Spending to Date



[The **Hyperinflation Watch** *begins on the next page.]*

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HYPERINFLATION WATCH

MONETARY CONDITIONS

Fourth-Quarter 2017 Velocity of Money Rose Minimally for M1, Virtually Unchanged to M2 and M3. The quarterly Velocity of Money, the pace at which the money supply turns over in the broad economy, as measured by the Gross Domestic Product (GDP), changed little with last week's initial reporting of fourth-quarter GDP (see *Commentary No. 933*). That reporting did not change noticeably, in the context of just-published Federal Reserve benchmark revisions to its money supply reporting.

FOMC Should Face Some Major, Unexpected Policy Decisions Soon, in the Context of a Renewed Weakening in the U.S. Economy and Mounting Liquidity Stresses on the Banking System. The Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System hiked rates a quarter-point, as expected, on December 19th, with an indication of further rate hikes and balance-sheet liquidations to come. No change in policy came out of this last week's February meeting, other than continuing indications of more rate hikes this year.

Nonetheless, as regularly discussed here, and as will be reviewed in the pending *Special Commentary* on the year ahead, unexpected, negative economic shocks loom in the next several months, with retail sales and industrial production likely to show some negative catch up following recent hurricane distortions, as well as intensifying issues with the labor numbers. Systemic reporting distortions largely should have passed from the numbers by publication of headline January and February 2018 economic data.

As market sentiment increasingly shifts towards a weaker economy, pressure and expectations should mount on the FOMC to pull back from further tightening. That likely will come into play as an early consideration for the now-confirmed, next Fed Chairman Jerome Powell, who was President Trump's nominee for the position.

With the primary concern for the U.S. central bank continuing to be the maintenance of solvency and liquidity in a still-troubled banking system, intensifying economic difficulties remain likely to cause the FOMC to back off its formal, current pattern of promised rate hikes and balance-sheet liquidation, to revert again towards expanded quantitative easing, as openly allowed for in current FOMC policy.

January 2018 Money Supply M3 Annual Growth Eased to 4.5% from a Downwardly-Revised 4.6% in December 2017, with Monetary Base Annual Growth Dropping Back to 4.9% from 9.7%. Based on three-plus weeks of reporting, and in the context of the Federal Reserve's annual benchmark revisions

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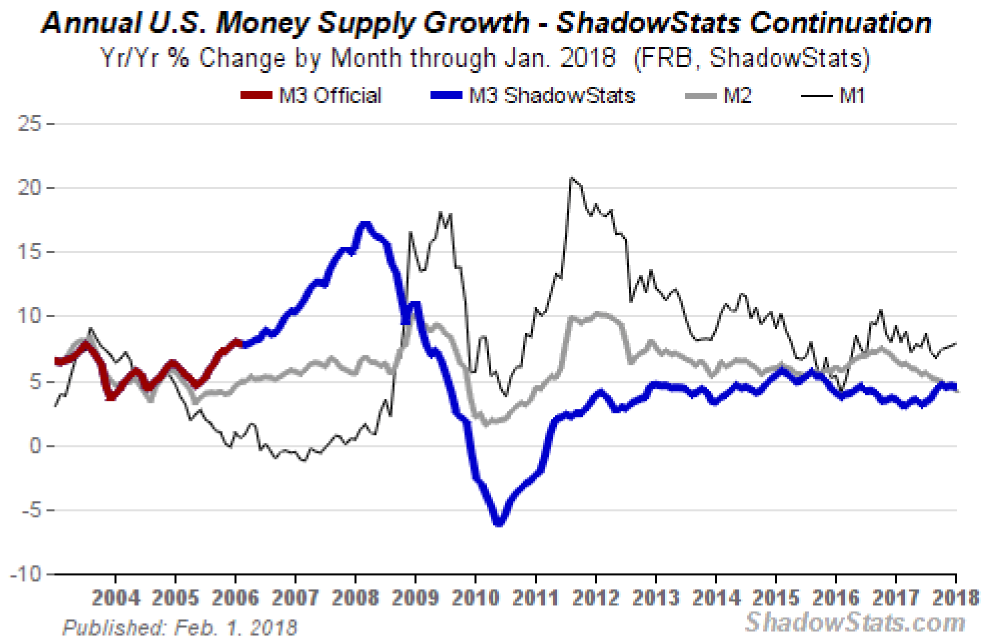
to unadjusted money supply activity and to seasonal adjustments, and with continued softening growth in the narrower M2 measure, the estimate of nominal annual growth for the ShadowStats Ongoing M3 Money Supply in January 2018 declined to 4.5%, from a revised 4.6% [previously 4.8%] in December 2017.

Those growth rates were against unrevised annual gains of 4.5% in November 2017 and 4.7% in October 2017. That October annual growth rate now was the highest level of year-to-year monthly growth since November 2015. Those M3 growth rates were against an unrevised annual gain of 4.2% in September 2017, an upwardly revised 3.6% [previously 3.5%] in August 2017 and irregular notching of annual growth lower back in time, until an unrevised 3.0% in March 2017. That had been the weakest year-to-year change since July 2012.

Separately, nominal year-to-year growth for M2 declined to 4.2% in January 2018, versus downwardly-revised gains of 4.7% [previously 4.9%] in December 2017 and 4.6% [previously 4.7%] in November 2017, versus unrevised gains of 5.0% in October 2017, 5.1% in September 2017, 5.3% in August 2017, 5.6% in July 2017, 5.6% in June 2017 and 5.9% in May 2017.

Annual nominal growth in January 2018 M1 rose to 7.9%, versus downwardly-revised annual gains of 7.7% [previously 9.0%] in December 2017, 7.6% [previously 8.2%] in November 2017, and 7.5% [previously 7.8%] in October 2017, versus unrevised gains of 6.8% in September 2017, 7.2% in August 2017, 8.7% in July 2017, a revised gain of 7.7% [previously 7.6%] in June 2017 and an unrevised 7.9% in May 2017.

Graph HW-1: Comparative Money Supply M1, M2 and M3 Yr-to-Yr Changes through January 2018



For those living in the headline money-supply world comprised of just the Fed's M1 and M2, annual money growth still had been relatively stronger for both M1 and M2, than for M3, although that difference has continued to narrow recently, with M3 growth picking up and now narrowly overtaking generally slowing annual M2 growth, but against an accelerating pace of annual growth in M1, reflecting

some movement into cash/near-cash. The relative weakness in annual M3 growth, versus M2 and M1 (M2 includes M1; M3 includes M2) had reflected a shift over time in funds from accounts included just in M3, such as large time deposits and institutional money funds, into accounts in M2 and M1. The recent relative gains in annual M3 growth have reflected a returning flow of cash from M2 back into M3 accounts, again, such as large-time deposits and institutional money funds. The latest estimates of level and annual changes for January 2018 M3, M2 and M1, and for earlier periods, are detailed in the Alternate Data tab of www.ShadowStats.com. See the *Money Supply Special Report* for full definitions of those measures.

Amidst Series Revisions, Annual Growth the Monetary Base Also Pulled Back in the Last Month. As annual growth in M3 jumped in recent months, so, too, had annual growth the Monetary Base. In the wake of near-term volatility surrounding recent rate hikes by the FOMC, and the related market efforts by New York Fed to establish or maintain consistent trading-range activity for the targeted federal funds rate, the level of the monetary base had been reasonably stable, with annual percentage change fluctuating around zero. Yet, recently the pace of annual growth had turned higher, rapidly moving to consecutive, multi-year highs, pulling back in just the two most-recent two-week reporting periods.

Aside from short-term gyrations around the timing of change in the targeted federal funds rate (as could have affected the late-December 2017, early-January 2018 data), circumstances generally should remain relatively stable, until the Fed begins to sell its Treasuries and Mortgage-Backed Securities more heavily, as part of its planned "balance sheet normalization," or otherwise to embark upon expanded quantitative easing, amidst increasing liquidity stresses in the banking system from deteriorating economic conditions.

Based on the latest Saint Louis Fed estimate (based on the two weeks ended January 31st, as we go to press), annual growth in the Monetary Base was 4.9%, down from 6.6% in the prior two-week period, and versus 9.7%, its highest level since October 2014, for the two weeks ended January 3rd. Accompanying *Graphs HW-2* and *HW-3*, reflect that detail.

The level of the Monetary Base remains well within the bounds of activity seen in the last several years. That said, prior to the institution of Quantitative Easing, changing the level of the Monetary Base had been the primary tool of the Federal Reserve Board's Federal Open Market Committee (FOMC) for targeting growth in the money supply. Whether the recent upside movements in annual growth for M3 and the Monetary Base resume or continue to soften, questions as to a potential covert shifts in FOMC policy (most-recently towards easing) still may arise.

[Graphs HW-2 and HW-3 follow on the next page.]

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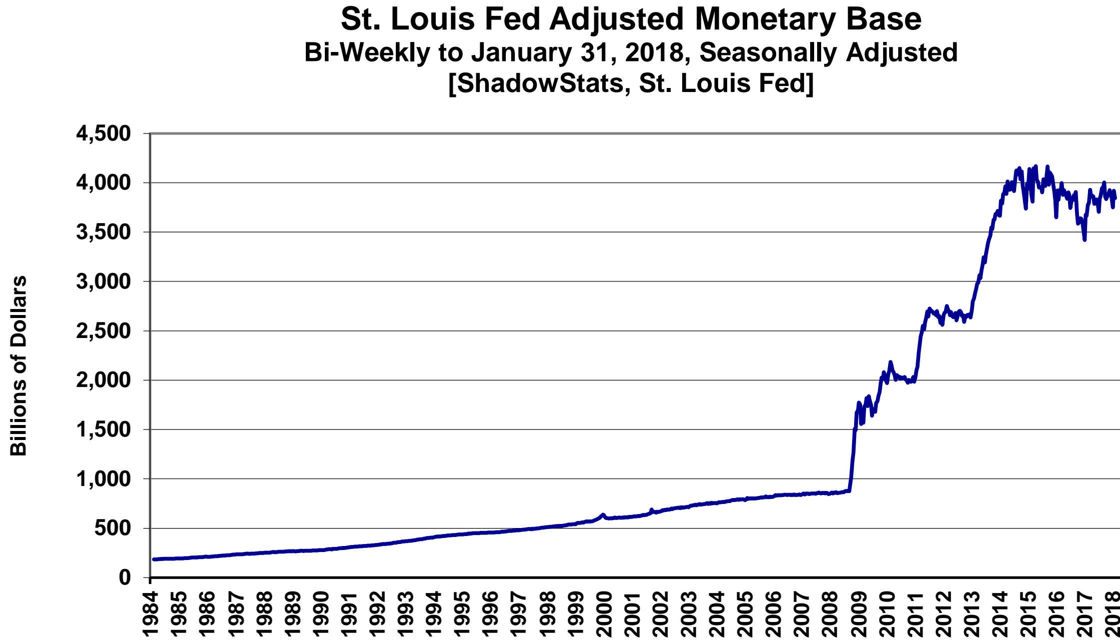
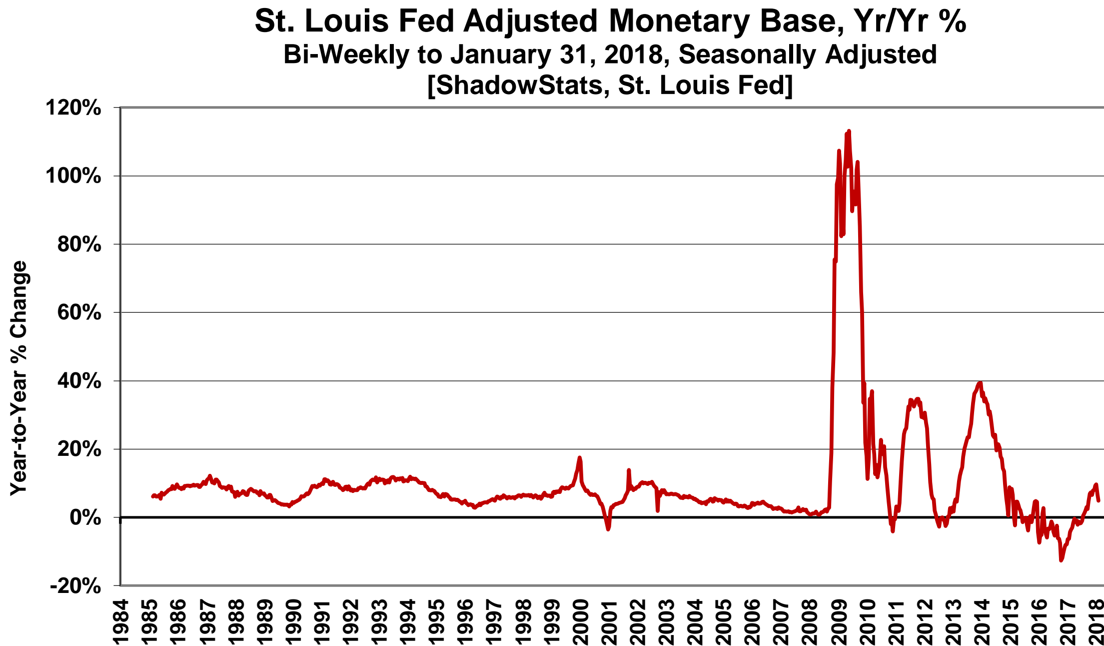
Graph HW-2: Saint Louis Fed Monetary Base, Billions of Dollars (1984 to January 31, 2018)



Graph HW-3: Year-to-Year Percent Change, Saint Louis Fed Monetary Base (1985 to January 31, 2018)



[The **Consumer Liquidity Watch** *begins on the next page.]*

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CONSUMER LIQUIDITY WATCH

CONSUMER LIQUIDITY CONDITIONS: INCOME, CREDIT AND RELATIVE OPTIMISM.
[The CLW *has been updated for the Conference Board's and University of Michigan's full-January 2018 Consumer Sentiment, along with updated text, references and links.]*

Continuing Consumer Liquidity Stresses Constrain Broad Economic Activity. The U.S. consumer faces ongoing financial stress, which recently had been mirrored in renewed softening of fundamental headline economic activity, including Payroll-Employment, Real Retail Sales, Housing and Construction, and the Manufacturing/Production sector, all pre-hurricane activity. Net of what have been mixed, but significant, near-term hurricane distortions, initial hits to activity were followed by related and transient economic boosts from recovery, replacement and restoration activity. Funded by insurance payments and savings liquidation, those distortions broadly should have passed from headline data by the February/ March reporting of January/February 2018-headline detail. Such effects have been, and will continue to be, discussed in the separate analyses of relevant series in covered in the regular *ShadowStats Commentaries*. Separately, as discussed ahead, there have been recent signals of faltering consumer liquidity as well as optimism, despite recent, albeit heavily distorted, positive economic reporting.

Monthly series that have faced the most severe, disaster-triggered reporting disruptions, where headline details have yet to stabilize or correct, include in particular Household Survey Employment and Unemployment (see the *Opening Comments* of *Commentary No. 930-B*) and Retail Sales (*Commentary No. 931*). December Industrial Production appeared to have stabilized in terms of surging activity, but it still needs to subside to levels stable with normal consumption activity and inventories (see *Commentary No. 932*). Despite the initial slowing in headline Fourth-Quarter 2017 GDP growth, the series remains heavily bloated from the disaster-distortions (see *Commentary No. 933*).

***Liquidity Issues Limit Economic Activity*.** Severe and persistent constraints on consumer liquidity of the last decade or so drove economic activity into collapse through 2009, and those conditions have prevented meaningful or sustainable economic rebound, recovery or ongoing growth since. The limited level of, and growth in, sustainable real income, and the inability and/or unwillingness of the consumer to take on new debt have remained at the root of the liquidity crisis and ongoing economic woes.

These underlying pocketbook issues contributed to the anti-incumbent electoral pressures in the 2016 presidential race. The post-election environment showed a near-term surge in both the consumer confidence and sentiment measures to levels generally not seen since before the formal onset of the recession in 2001, let alone 2007. Yet, underlying liquidity conditions, economic reality and lack of positive actions out of the government to turn the economy meaningfully, so far, all have continued to remain shy of consumer hopes, and those numbers have begun to stumble in recent detail.

A temporary liquidity boost fueled by recent disaster effects, such as insurance payments or savings drawdowns to fund replacement of storm-damaged assets, are of a one-time nature and short-lived in terms of ongoing economic impact. The underlying, fundamental longer-term liquidity issues remain in place. Nonetheless, mirroring the disaster-fueled economic hype in the popular press, consumer optimism had rallied strongly, albeit, again, now faltering, as discussed shortly.

Including the various consumer-income stresses discussed in *Special Commentary No. 888*, broad, underlying consumer-liquidity fundamentals simply have not supported, and still do not support a fundamental turnaround in general economic activity—a post "Great Recession" expansion—and broadly are consistent with a "renewed" downturn in that non-recovered economic activity. Indeed, never truly recovering post-Panic of 2008, limited growth in household income and credit have eviscerated and continue to impair broad, domestic U.S. business activity, which is driven by the relative financial health and liquidity of consumers. These underlying liquidity conditions and reality—particularly income and credit—remain well shy of average consumer hopes and needs, irrespective of the new tax laws.

The combined issues here have driven the housing-market collapse and ongoing, long-term stagnation in consumer-related real estate sales and construction activity, and have constrained both nominal and real retail sales. Related, personal-consumption-expenditure and residential-construction categories accounted for 73.1% of the headline real, fourth-quarter 2017 U.S. GDP.

Net of short-lived disaster distortions (insurance payments, savings liquidations), with the better-quality economic indicators and underlying economic reality never having recovered fully from the collapse into 2009, consumers increasingly should pull back on consumption in the months ahead. Underlying reality is evident in more-meaningful economic indicators—not the GDP—irrespective of the transient boosts from disasters or political gimmicks, discussed recently in *General Commentary No. 929* and the *Executive Summary* of *Commentary No. 928*.

Anecdotal Evidence of Business and Consumer Uncertainty Continue to Indicate a Seriously-Troubled Economy and Very Dangerous Financial Markets. Against what appears to be a headline economic consensus that all is right again, with the U.S. economy and financial markets, underlying real-world common experience suggests a much different outlook. Regularly discussed here, ongoing non-recovery, low-level stagnation and signs of renewed downturn remain patterns common to key elements of headline U.S. economic activity. Consider factors ranging from housing sales and broad construction activity, to headline reporting of domestic manufacturing, as well as those series that are heavily gimmicked, such as the Gross Domestic Product (GDP), also regularly discussed and dissected here.

Similar signals of such economic stress are seen in patterns of activity that move along with the real-world broad economy. They range from indicators such as freight volume and domestic consumption of petroleum to factors such as levels of real consumer debt outstanding, real average weekly earnings and measures of employment stress in the broad economy. Those stresses are reflected in historically-low levels of the employment-population ratio and the labor-force participation rate. With the liquidity-starved U.S. consumer driving three-quarters of the GDP, there is no way for the broad economy to boom—happy Retail Sales headlines aside—without some meaningful shift in underlying consumer circumstances. Links to background discussions in these various areas are found in the *Recent Commentaries* section of the *Week, Month and Year Ahead*, along with links to background discussions on the quality of the more-politicized GDP (*Commentary No. 928*) and employment/unemployment details discussed in the *Supplemental Labor-Detail Background* of *Commentary No. 930-B*.

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Beyond assessing headline economic numbers, ShadowStats also looks at anecdotal evidence, including comments by subscribers and clients, who live in the real world. Two broad observations have come from a number of recent conversations. First, real estate activity appears to be slowing in recently strong areas. Second, a number of major companies are "sitting on their hands," holding back on issuing new contracts to third-party vendors in areas such as upgrading computer systems and other consulting. The companies cite the slowdown in contracts as "due to uncertainty," an issue, as well with the U.S. consumer, where that uncertainty encompasses:

- Unfolding circumstances in the Washington, D.C. political arena.
- Where the manic financial markets are headed.
- Ultimately, what is, or will be, happening to near-term business activity?

Economic reporting, and business and financial-market stories sometimes receive happy year-end spikes in the press. That circumstance was supplemented in late-2017 by near-term hurricane boosts to, and distortions of, some current economic activity, such as the November Retail Sales reporting. The latter circumstance should prove fleeting. The underlying, broadly-faltering U.S. economy should be dominating headline economic reporting, once again, and all too soon, most likely early in 2018. That said, albeit reflecting some of the headline economic hype in the popular press, headline consumer optimism remains strong, albeit faltering most recently.

Consumer Optimism: Consumer Sentiment and Confidence Continue to Falter. On top of the full-month December 2017 readings pulling back sharply for both The Conference Board's Consumer-Confidence Index® (Confidence), and the University of Michigan's Consumer Sentiment Index (Sentiment), full-January 2018 Confidence and Sentiment (February 2nd) readings were minimally-positive and down. While January Confidence (January 30th) rose slightly, it did little to offset the December decline and was in the context of indications of mounting foreclosure activity in the homeowner real estate market (see *Existing Home Sales* in the *Reporting Detail* of *Commentary No. 933*).

Reflected in *Graphs CLW-1* and *CLW-2*, Confidence and Sentiment monthly readings had jumped sharply, respectively to multi-year highs in November and October. Yet, the December Confidence reading plunged, more than offsetting the November gain and most of the October gain, in context of a downside revision to the November reading. Similarly, November and December Sentiment readings, and now January also pulled back sharply or only minimally recovered, largely offsetting the October surge there. Nonetheless, the latest headline readings remained above their pre-2007 recession peaks.

The deepening monthly downturns in both the headline Sentiment and Confidence numbers are not consistent with headline, resurgent economic/employment activity, or with the popular media's heavily-touted, just-passed strong Holiday-Shopping Season.

For both the Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index® (*Graph CLW-1*), and the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph CLW-2*), the three-month moving averages also were above pre-2007 recession highs, yet the still-high moving averages—either flattened out or notched lower in January—having begun to falter in September 2017, before the storm-distorted, unusual headline surges in October and November activity.

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Smoothed for six-month moving averages (see *Graph CLW-3*), both series continued above their pre-2007 recession peaks, with the Confidence measure at its highest level since March 2001, as it had been plummeting into the onset 2001 recession. That said, on a monthly basis, the current January 2017 readings for both the Confidence and Sentiment measures were down respectively from their pre-2001 recession peaks of May and January 2000, by 15.7% (-15.7%) and 14.6% (-14.6%).

Pre-election, September 2016 Confidence and Sentiment jumped and then plunged in October 2016, likely reflecting concerns as to the direction of the presidential race. Post-election, both measures rallied sharply, reflecting surges in consumer optimism into early-2017. Both series then topped and pulled back, with mixed numbers into August and September 2017, but with the October 2017 Sentiment measure showing a large jump, purportedly because consumers were willing to accept diminished prospects for their living standards (see *Commentary No. 916*)? Nonetheless, the Sentiment measure retrenched in November and December. The Conference Board blamed hurricane impact in Texas and Florida for its downturn in September 2017 Confidence, but those numbers exploded into October and November 2017, again reversing largely with December's headline downturn.

Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs CLW-1* to *CLW-3* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index® is set with 1985 = 100, while the University of Michigan's Consumer Sentiment Index is set with January 1966 = 100.

The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in *Commentary No. 764*), and often are highly volatile month-to-month, as a result. Recent press has been highly positive on the headline economic and employment news, reflecting short-lived hurricane boosts to activity particularly on unemployment (not payroll employment), retail sales and industrial production. Headline financial and economic reporting in the next month or two should turn increasingly-negative and unstable. The current downturn in consumer outlook, despite euphoric headlines is unusual and likely reflects some deep-seated consumer liquidity concerns.

With near-term headline financial and economic reporting likely to turn increasingly negative in the next couple of months, successive negative hits to both the confidence and sentiment readings are likely to continue in the near future.

Broadly, though, the harder, financial consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth as suggested by headline GDP growth in 2014, for second-and third-quarter 2015 and for third-quarter 2016 and into third-quarter 2017. Beyond having happy feelings about the future, consumers still need actual income, cash-in-hand or credit in order to increase their spending.

Smoothed for irregular, short-term volatility, the two series still generally had held at levels seen typically in recessions, until the post-2016 election circumstance. Suggested in *Graph CLW-3*—plotted for the last 48 years—the latest readings of Confidence and Sentiment recently have recovered levels seen in periods of normal, positive economic activity of the last four decades, with their six-month moving averages at levels last seen going into the 2001 recession, although increasingly, they appear to be topping out.

[Graphs CLW-1 to CLW-3 begin on the next page.]

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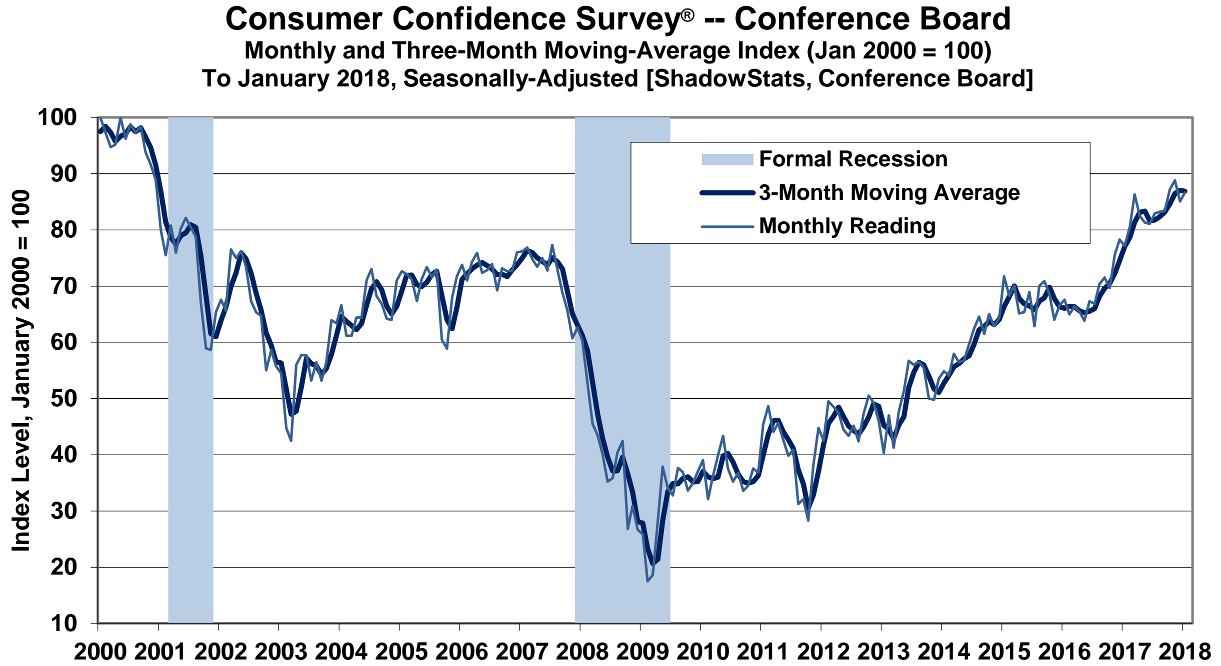
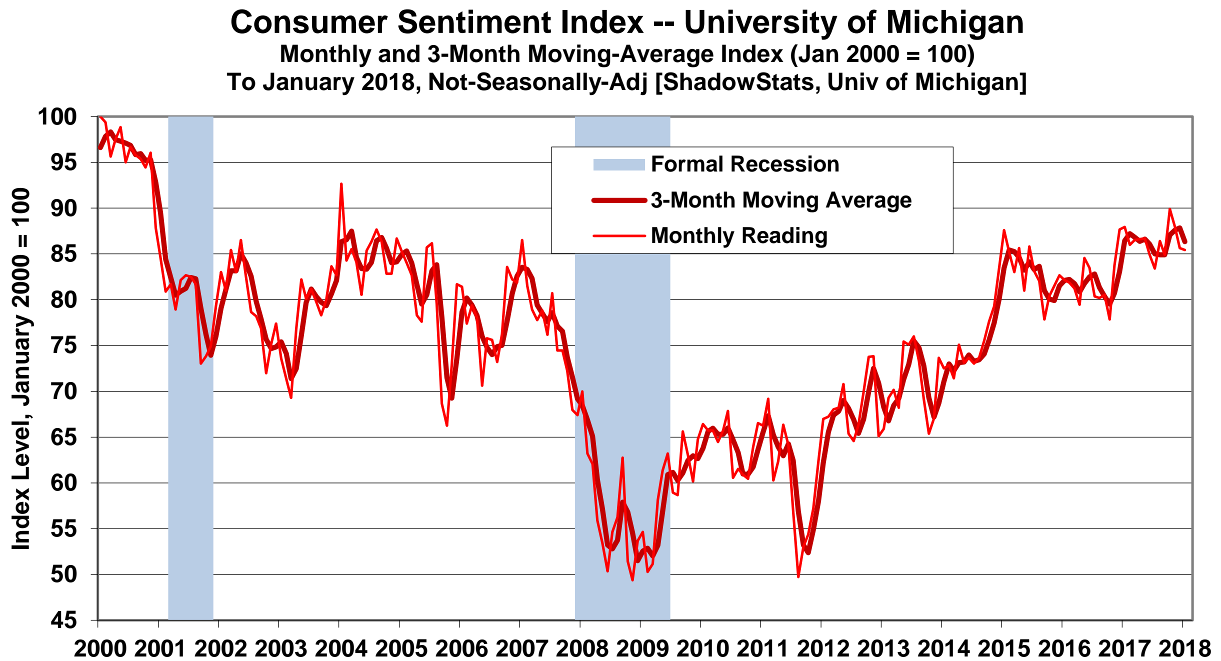
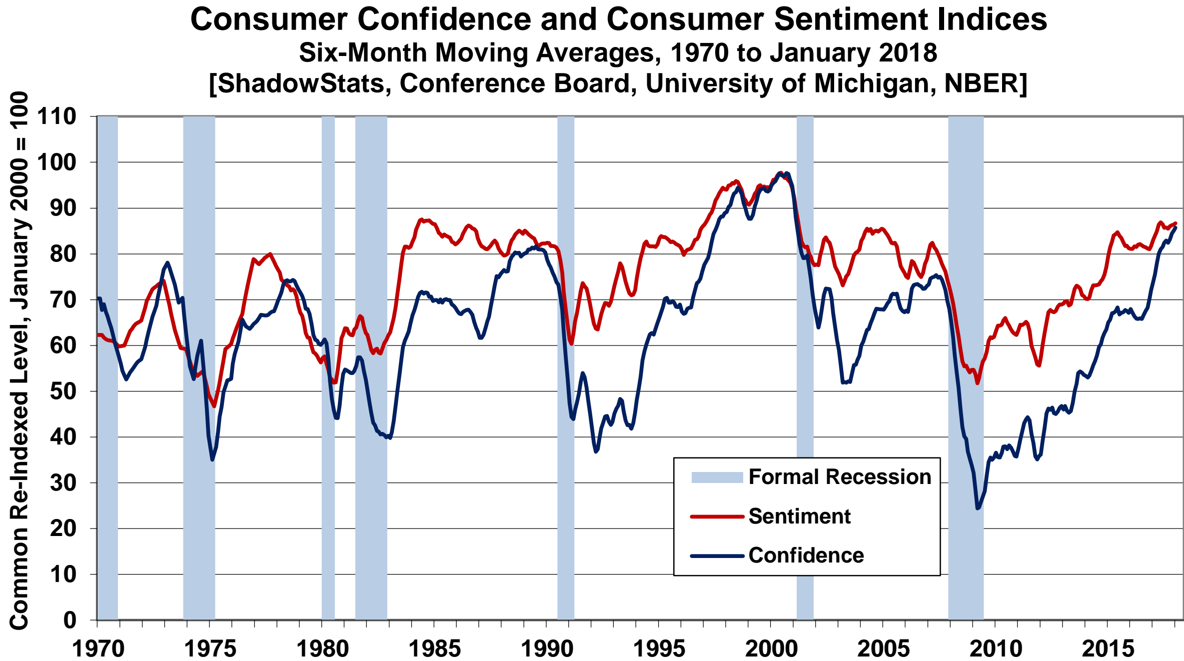
Graph CLW-1: Consumer Confidence (2000 to 2018)



Graph CLW-2: Consumer Sentiment (2000 to 2018)

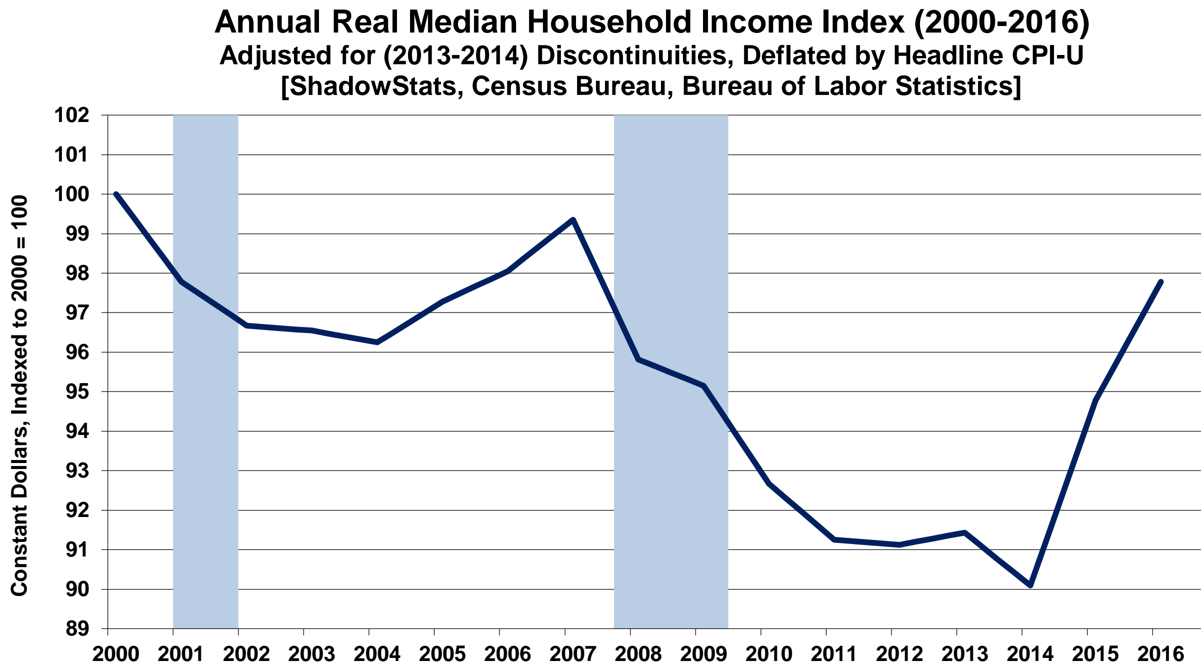


Graph CLW-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2018)



2016 Annual Real Median Household Income Still Was Below Its 2007 Pre-Recession High, Below Activity in the Late-1990s, About Even with the Mid-1970s. The measure of real monthly median household income, which was provided by www.SentierResearch.com, generally can be considered as a monthly version of the annual detail shown in *Graph CLW-4*, based on the most-recent annual detail released by the Census Bureau and as discussed the *Opening Comments* of *Commentary No. 909*.

Graph CLW-4: Annual Real Median U.S. Household Income (1967 to 2016)



Final Monthly Estimate Showed Stagnating Monthly Real Growth. Last reported by Sentier Research, in what appears to have been the final estimate for the series, May 2017 Real Median Household Income was statistically unchanged, despite a boost from falling gasoline prices. Discussed in *General Commentary No. 894*, and in the contexts of then-faltering gains in post-election consumer optimism, and inflation-adjusted activity boosted by declining headline Consumer Price Index (CPI-U) inflation (weakened by seasonally-adjusted gasoline price declines), May 2017 Real Median Monthly Household Income was "statistically unchanged" (a statistically-insignificant monthly gain of 0.10%). That followed a statistically-significant monthly gain of 1.00% in April 2017. Shown in *Graph CLW-4*, such enabled May 2017 real monthly median household income to hold a level regained in April and otherwise last seen in February 2002. Year-to-year real median household income rose to 2.44% in May 2017, the highest level since June 2016, following an annual gain of 1.57% in April 2017 (see *Graph CLW-5*).

Where real monthly median income plunged into the headline trough of the economic collapse in 2009, it did not then rebound in tandem with the headline GDP activity. When the GDP purportedly started its solid economic recovery in mid-2009, the monthly household income numbers nonetheless plunged to new lows, hitting bottom in 2011. The income series then held in low-level stagnation, until collapsing gasoline prices and the resulting negative CPI-U inflation drove a post-2014 uptrend in the inflation-adjusted monthly income index. The index approached pre-recession levels in the December 2015 reporting, but it remained minimally below the pre-recession highs for both the formal 2007 and 2001 recessions until recent months. Real median household income had the potential to resume turning down anew, as the headline pace of monthly consumer inflation picked up anew, with the August 2017 CPI.

Nonetheless, the most-recent recent "rebound" reported in the series still left consumers financially strapped. Where lower gasoline prices had provided some minimal liquidity relief to the consumer, indications are that any effective extra cash largely was used to help pay down unsustainable debt or other obligations, not to fuel new consumption. Except for mixed gyrations in first-half 2017, the effects of changing gasoline prices in the headline CPI-U generally had reversed, pushing headline consumer inflation higher and beginning to push real income lower.

Differences in the Monthly versus Annual Median Household Income. The general pattern of relative monthly historical weakness has been seen in the headline reporting of the annual Census Bureau numbers, again, shown in *Graph CLW-4*, with 2014 real annual median household income having hit a ten-year low, and, again, with the historically-consistent 2015 and 2016 annual number still holding below the 2007 pre-recession high.

The Sentier numbers had suggested a small increase in 2014 versus 2013 levels, low-inflation induced real increases in 2015 and 2016. Allowing for the direction difference in 2014, and continual redefinitions and gimmicks in the annual series (again, see the *Opening Comments* of Commentary No. 909) the monthly and annual series had remained broadly consistent, although based on separate questions within the Consumer Population Series (CPS), as conducted by the Census Bureau.

Where Sentier used monthly questions surveying current annual household income, the headline annual Census Bureau detail is generated by a once-per-year question in the March CPS survey, as to the prior year's annual household income. The Median Household Income surveying results are broadly consistent with Real Average Weekly Earnings.

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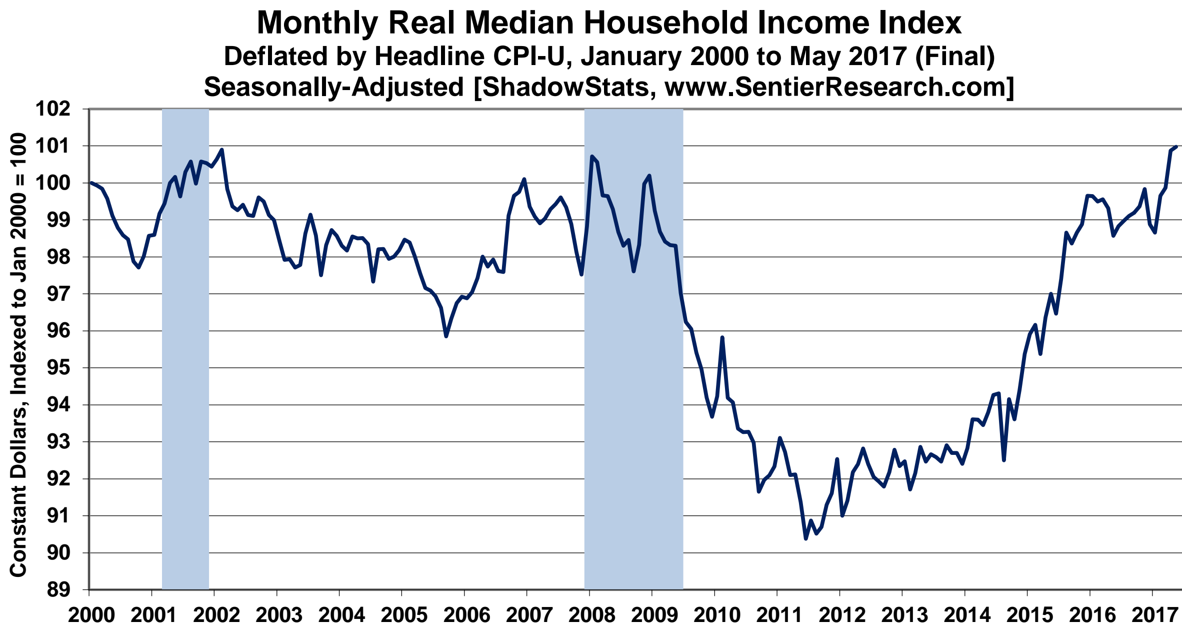
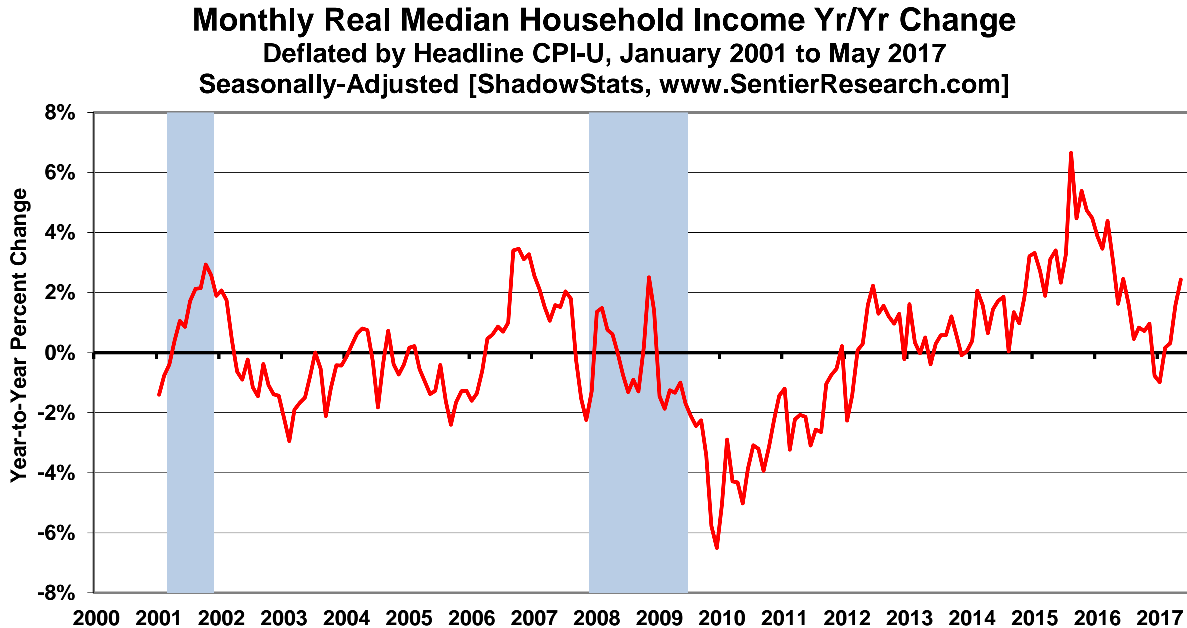
Graph CLW-5: Monthly Real Median Household Income (2000 to May 2017) Index, January 2000 = 100



Graph CLW-6: Monthly Real Median Household Income (2000 to May 2017) Year-to-Year Change



Real Average Weekly Earnings—December 2017—Contracted for the Second Consecutive Quarter. For the production and nonsupervisory employees category—the only series for which there is a meaningful history (see the discussion in *Reporting Detail* and *Opening Comments* of *Commentary No. 931*), the regularly-volatile, real average weekly earnings gained month-to-month in December 2017, but fourth-quarter 2017 earnings contracted quarter-to-quarter, for the second consecutive quarter, down at an annualized pace of 0.94% (-0.94%), having declined by 0.07% (-0.07%) in third-quarter 2017. In the

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broader all-employees category, fourth-quarter real average weekly earnings also contracted, down at an annualized pace of 1.16% (-1.16%), having gained 0.63% in third-quarter 2017 activity.

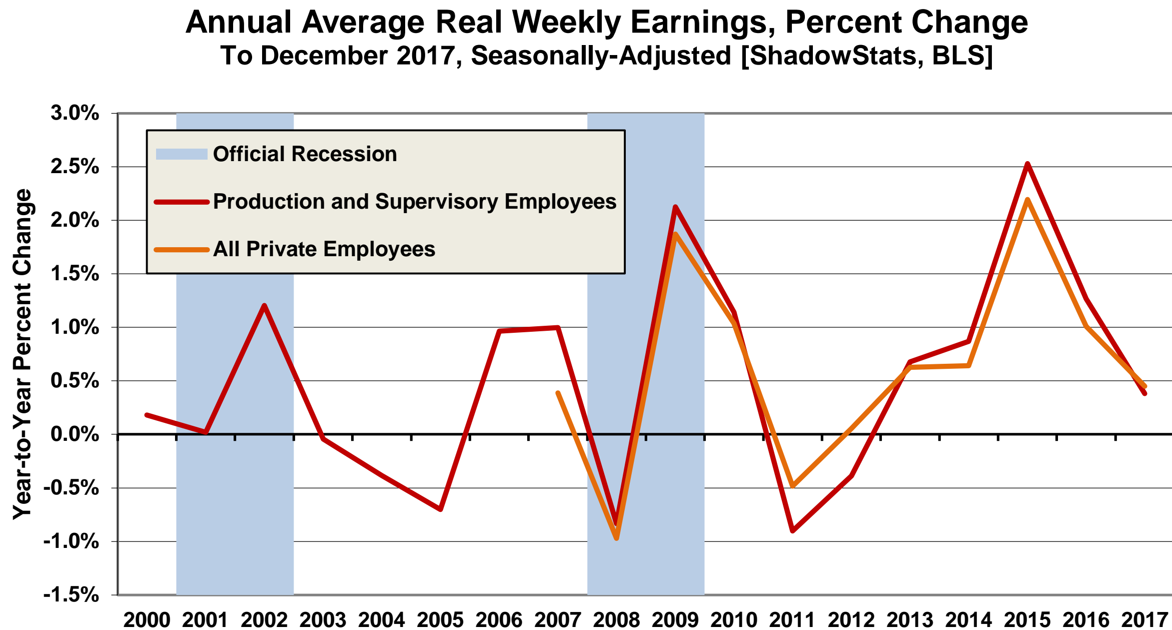
Graph CLW-7: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date

Graph CLW-7 plots the seasonally-adjusted earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating Social Security cost-of-living adjustments) helped to prop up the reported real earnings. Official real earnings today still have not recovered their inflation-adjusted levels of the early-1970s, and, at best, have been in a minimal uptrend for the last two decades (albeit spiked recently by negative headline inflation). Deflated by the ShadowStats (1990-Based) measure, real earnings have been in fairly-regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W. See the *Public Commentary on Inflation Measurement* for further detail.

Shown in *Graph CLW-8*, and as discussed in *Commentary No. 931*, both the "all-employees" and "production and nonsupervisory employees" categories showed a sharply slowing pace in annual growth in 2017. Presumably coming off more-positive economic circumstances, the patterns there are consistent with a renewed economic downturn, not with a new economic boom, and the current pace of decline is greater than the average tax reduction to be seen by consumers in the year ahead.

Not all economic downturns are reflected in the headline economic data. For example, industrial production indicated the U.S. economic downturn intensified in fourth-quarter 2014, enough to qualify as a new recession, which is consistent with the plot in *Graph CLW-8*. See the related discussions in the latest GDP missive *Commentary No. 928* and Industrial Production in today's *Reporting Detail*.

Graph CLW-8: Annual Average of Weekly Earnings, Annual Percent Change (2000 to 2017)



When income growth is inadequate to support consumption growth, consumers often make up the difference in debt expansion. Yet, real Consumer Credit Outstanding has shown a patterns of declining annual real growth for the last several quarters, irrespective of the specific series, as reflected in the plots of real monthly year-to-year change in *Graph CLW-12*.

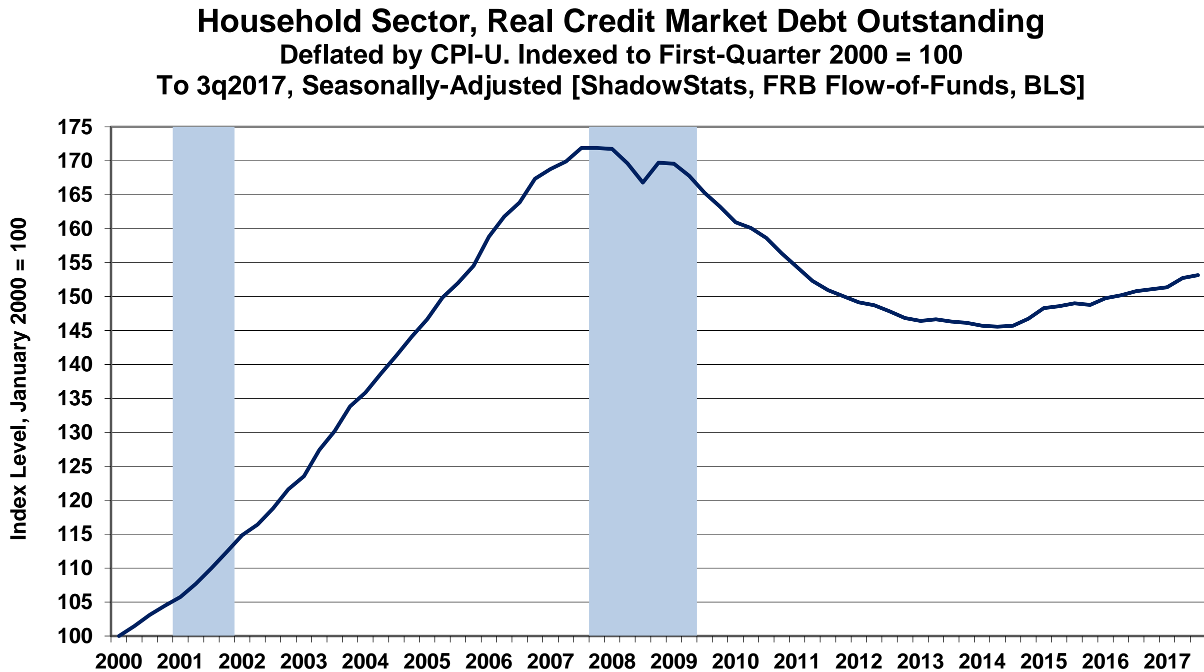
Consumer Credit: Lack of Meaningful Real Consumer Credit Growth Remains an Economic Constraint. The final four graphs on consumer conditions address consumer borrowing. Where debt expansion can help make up for a shortfall in income growth, adequate expansion of consumer debt, which would help fuel growth in personal consumption, has been lacking.

Quarterly Series. Consider *Graph CLW-9* of *Household Sector, Real Credit Market Debt Outstanding*. The level of real household debt declined in the period following the Panic of 2008, reflecting loan defaults and reduced banking lending, and it has not recovered fully, based on the Federal Reserve's flow-of-funds accounting through third-quarter 2017, released on December 7th. Household Sector, Real Credit Market Debt Outstanding in third-quarter 2017 still was down by 10.9% (-10.9%) from its pre-recession peak of third-quarter 2007. That was against a second-quarter 2017 decline of 11.2% (-11.2%). The flattened visual uptick at the latest point in *Graph CLW-9* reflected a slowing in real year-to-year change from 1.70% in second-quarter 2017, to 1.55% in third-quarter 2017.

The series includes mortgages, automobile and student loans, credit cards, secured and unsecured loans, etc., all deflated by the headline quarterly CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting, among other issues, lack of normal lending by the banking system into the regular flow of commerce. The slight upturn seen in the series through 2015 and into 2016 was due primarily to gasoline-price-driven, negative CPI inflation, which continued to impact the system

through second-quarter 2016 and intermittently into second-quarter 2017. Current activity also has reflected continuing relative strength from student loans, as shown in the *Graphs CLW-10* to *CLW-12*.

Graph CLW-9: Household Sector, Real Credit Market Debt Outstanding (2000 through Third-Quarter 2017)



Monthly Series. The ShadowStats analysis usually focuses on the particular current and continuing weakness in monthly levels of consumer credit, net of what has been rapidly expanding government-sponsored student loans. Where detail on that series is only available not-seasonally-adjusted, the following three graphs are so plotted.

Shown through the November 2017 reading (released January 8th), *Graph CLW-10* of monthly Consumer Credit Outstanding is a subcomponent of the preceding *Graph CLW-8* on real Household Sector debt. Where *Graph CLW-11* reflects the nominal reporting, real or inflation-adjusted activity for monthly Consumer Credit Outstanding is shown in terms of both level (*Graph CLW-11*) and year-to-year change (*Graph CLW-12*).

Post-2008 Panic, growth in outstanding consumer credit has continued to be dominated by growth in federally-held student loans, not in bank loans to consumers that otherwise would fuel broad consumption or housing growth. Although in slow uptrend, the nominal level of Consumer Credit Outstanding (ex-student loans) has not recovered since the onset of the recession. These disaggregated data are available and plotted only on a not-seasonally-adjusted basis, with the pattern of monthly levels during one year reflecting some regular, unadjusted seasonal dips or jumps.

Adjusted for inflation, the lack of recovery in the ex-student loan area is more obvious. Although the recent monthly upside move in the not-seasonally-adjusted consumer credit reflected a seasonal pattern, the pace of year-to-year growth has continued to slow sharply, suggesting some tightening of credit conditions. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in

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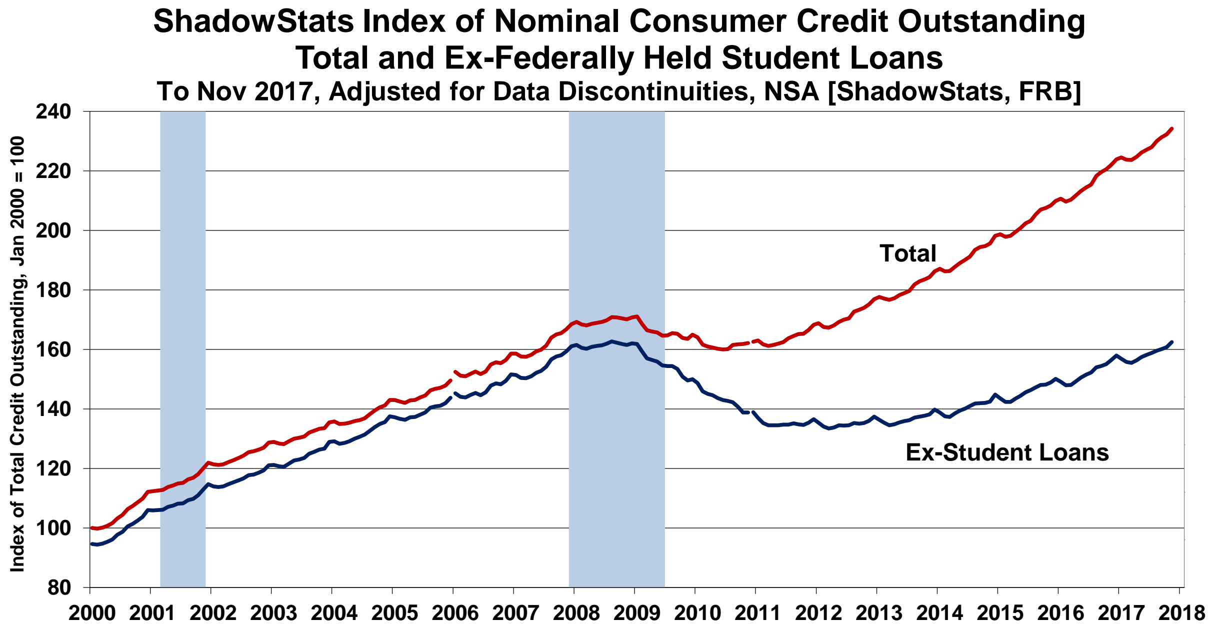
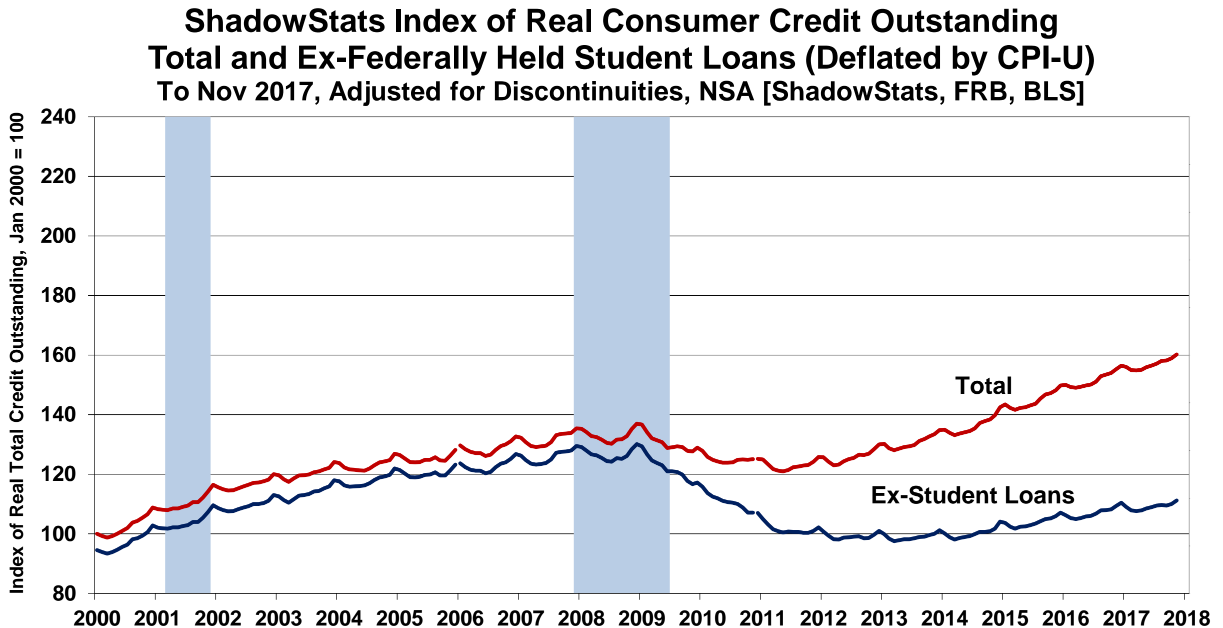
November 2017 was down from its December 2007 pre-recession peak by 14.1% (-14.1%). Year-to-year real growth shown in *Graph CLW-12* tends to resolve most of the monthly distortions in the not-seasonally-adjusted data.

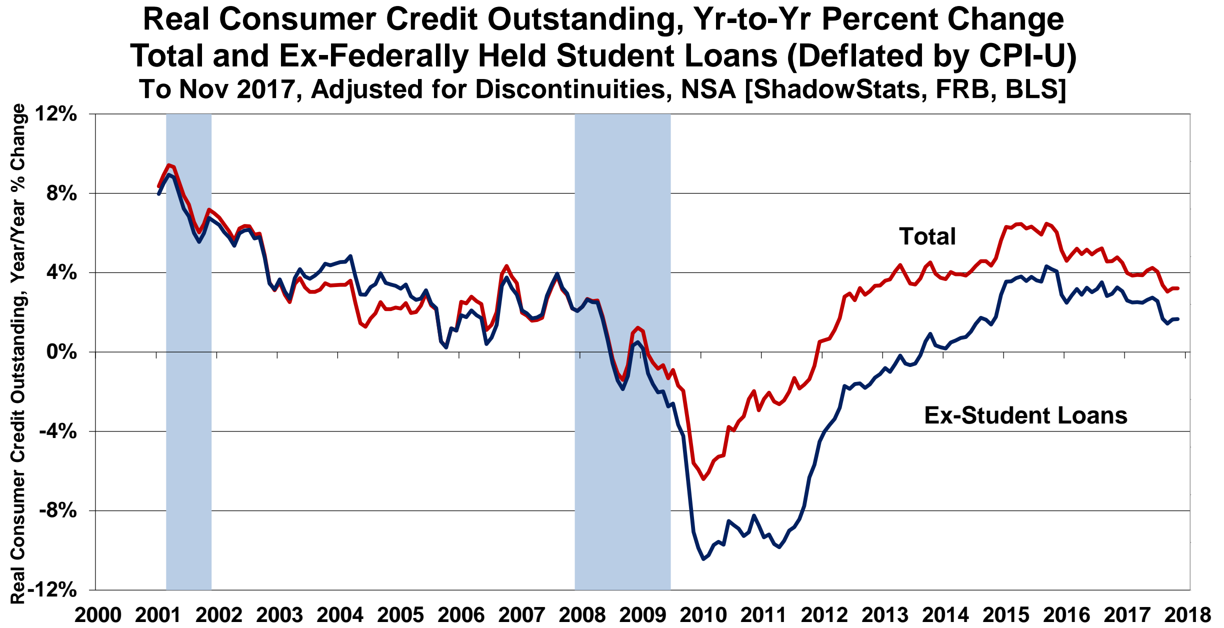
Graph CLW-10: Nominal Consumer Credit Outstanding (2000 to 2017)



Graph CLW-11: Real Consumer Credit Outstanding (2000 to 2017)



Graph CLW-12: Year-to-Year Percent Change, Real Consumer Credit Outstanding (2000 to 2017)



[The **Week, Month and Year Ahead** *begins on the next page.]*

WEEK, MONTH AND YEAR AHEAD

U.S. Dollar and Financial-Market Instabilities, and Turmoil Continue at High Risk, Along with Deterioration of Domestic and Global Economic and Political Circumstances. This entire section will be revised in pending *Special Commentary* due to be published next week.

The real-world economy is not recovering or booming as advertised, irrespective of some distortedly strong, recent economic numbers statistics, which have begun to reverse, despite heavy hype in the press of a booming, full-employment economy, and in the context recent FOMC tightening actions and the lame-duck Federal Reserve Chair Yellen's perception of a "highly uncertain" economic outlook.

Allowing for hurricane disruptions and recovery from same, most series should be back to normal, reflecting "unexpected" downtrending economic activity, by the headline reporting of January and February 2018 economic activity, as discussed in *General Commentary No. 929*. Nonetheless, misleading, current headline details have been contributing factors to the manic stock market, discussed in the *Opening Comments* and *Hyperinflation Watch* (pages 2 and 33) in *Commentary No. 931*.

An unhappy period of market readjustment to underlying real-world circumstances looms, where Wall Street's proponents of a never-ending stock-market rally have parlayed temporary, nonrecurring economic boosts from natural disasters into a year-end 2017 economic boom. Negative economic "surprises" increasingly should shock the markets and the U.S. dollar on the downside. As the reported economic downturn intensifies in the months ahead, the FOMC—under its new Chairman—should be forced into an "unexpected" policy retrenchment, moving back towards quantitative easing as discussed in the *Commentary No. 931 Hyperinflation Watch*.

In such circumstances, the U.S. dollar and financial markets remain at extraordinarily-high risk of panicked declines, again, increasingly likely in the very near term (see today's *Opening Comments*). The *Opening Comments* of *Commentary No. 930-B*, *General Commentary No. 929* and the *Opening Comments* and expanded *Hyperinflation Watch* of *Commentary No. 927* all reviewed background to real-world economic conditions, continuing from the *Opening Comments* and brief *Hyperinflation Watch* of *Commentary No. 925*. Those comments speak for themselves.

Holding physical gold and silver remain the ultimate hedges—stores of wealth—for preserving the purchasing power of one's U.S. dollar assets, in the context of liquidity and portability during times of high inflation and currency debasement, and/or political-system upheaval, as likely lie ahead and as discussed here regularly. See the comments linked to other recent *Hyperinflation Watches*, provided in the next section.

Following this note, other than for the *Pending Releases* and updated links, language changes in this section from the prior posting in *Commentary No. 931* are minimal. Please call (707) 763-5786, if you would like to discuss current circumstances, or otherwise. *Best wishes – John Williams*

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***Recent* Hyperinflation Watch *and* Special Comments.** Previous background to the markets and potential near-term FOMC activity have been reviewed recently in the *Hyperinflation Watches* of *Commentary No. 920* and *Special Commentary No. 918-B* of October 30th, with the nomination for the new Fed Chairman, as touched upon in the *Hyperinflation Watch* *Commentary No. 919-A* of November 3rd, not likely to have immediate, near-term market impact.

Discussed in *Hyperinflation Watch* of *Commentary No. 909*, given the continuing and broadening weakness in the U.S. economy and shifting political instabilities/circumstances in Washington, mixed pronouncements of sharp, near-term rate hikes and aggressive balance-sheet liquidation remain unlikely to solidify as promised. Accordingly, selling pressure against the U.S. dollar still should re-intensify, shortly, pressuring inflation and the prices of precious metals on the upside. Increasingly, foreign capital should flee the U.S. equity and credit markets at an accelerating pace.

In the context of the *Opening Comments* and *Hyperinflation Watch* of the August 14th *Special Commentary No. 904* and the *Opening Comments* of *Commentary No. 905*, underlying reality remains a weakening and vulnerable, seriously-impaired U.S. economy, as seen, for example with the latest employment and construction detail, and in likely weak data in the week ahead, all amidst continuing domestic and global political instabilities and unfolding natural disasters.

Unfolding circumstances still threaten the promised shift in FOMC policy, combined with the mounting political discord discussed in *Special Commentary No. 904* (see also the *Opening Comments* of *Commentary No. 901* and *Special Commentary No. 888*), odds continue to mount for intensifying financial-market turmoil in the near future, particularly as would be triggered by a market-related, intensifying heavy sell-off in the U.S. Dollar.

Broad economic activity never recovered fully from its crash into 2009, and it has started to turn down anew. As explored previously in the *Hyperinflation Watches* of *Commentary No. 899* and *General Commentary No. 894*, and further to the *Opening Comments* and *Hyperinflation Watch* of *Commentary No. 892*, headline economic reporting during June, July and early August of 2017, had shown a marked downturn versus consensus forecasts. While these circumstances usually signal an unfolding, major downshift in underlying economic reality, at present, they also forewarn of a potential shift in FOMC activity. Where such an event remains well removed from consensus expectations, at this time, in terms of Fed policy, that would mean a cessation of incremental rate hikes and a shift back towards expanded quantitative easing.

Immediate effects of such a policy change likely would include a massive sell-off in the U.S. dollar, which otherwise has been propped by recent FOMC rate hikes and continual jawboning for same. In parallel, heavy selling in the U.S. equity and credit markets would follow. As consensus economic forecasts have begun to soften, so too has the U.S. dollar exchange rate, while gold prices generally have firmed.

The circumstances here and the outlook still remain as broadly outlined in *No. 859 Special Commentary*; currently shifting headlines only reflect the continued movement and evolution forward in time of the Fed's difficulties discussed in that missive.

The problem for the Federal Reserve remains that faltering domestic economic activity stresses banking-system solvency. Aside from formal obligations of the Fed to maintain healthy domestic economic and inflation conditions, the central bank's primary function (in practice) always has been to keep the banking system afloat. The near-absolute failure of that function in 2008 remains the primary ongoing and

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unresolved problem for the Fed, and it continues as one of the ongoing primary issues preventing the return of U.S. economic activity to normal functioning. Contrary to the recent purported headline comments of "not in our lifetime" by Federal Reserve Chair Janet Yellen, the continued unfolding of "unexpected" economic deterioration suggests that the next major systemic financial crisis is likely to break in the next several months.

Generally, 2017 benchmark revisions to Construction Spending (see *Commentary No 897*), the Trade Deficit (*Commentary No. 890*), Industrial Production (*Commentary No. 877*), Manufacturers' Shipments (*Special Commentary No. 888*), Housing Starts (*Commentary No. 887*) and Retail Sales (*Commentary No. 882*), and reporting subsequent to the benchmarks, confirmed that historical activity in recent years has been overstated and/or that it was turning down anew, particularly in 2015, with the availability of better-quality historical detail. Again, that is despite some recent near-term improvement in details, such as the headline unemployment rate, which increasingly suffers from dysfunctional definitional and sampling issues, and the latest headline GDP detail.

The reporting patterns of the better-quality, less-gimmicked series likely will continue to weaken with increasing intensity in the weeks and months ahead. Adding a negative uncertainty to unfolding financial-market risks remains potential political surprise, discussed in *Special Commentary No. 888*. Otherwise, the broad outlook has not changed. Reflected in common experience, actual U.S. economic activity generally continues in stagnation or downturn, never having recovered its level of pre-economic-collapse (its pre-2007-recession peak), while the latest GDP reporting shows an otherwise unconfirmed economic expansion of 14.4%.

Discussed in *No. 859 Special Commentary*, the Trump Administration continues to face extraordinarily difficult times, but still has a chance to turn the tide on factors savaging the U.S. economy and on highly negative prospects for long-range U.S. Treasury solvency and stability. Any forthcoming economic stimulus faces a nine-month to one-year lead-time, once in play, before it meaningfully affects the broad economy. Increasing and continuing delays from political discord continue to push targeted programs back in time. Needed at the same time are a credible plan for bringing the U.S. long-term budget deficit (sovereign solvency issues) under control and action to bring the Federal Reserve under control and/or to reorganize the banking system. These actions broadly are necessary to restore domestic-economic and financial-system tranquility (see *No. 859*), but they cannot happen without the meaningful participation and cooperation of Congress. The financial crisis at hand likely will intensify well before the 2018 Congressional Election will have any chance to stabilize the political outlook for economic policy.

No. 859 Special Commentary updated the post-election, near-term economic and inflation conditions, including general economic, inflation and systemic distortions, which had evolved out of the Panic of 2008, have continued in play and, again, need to be addressed by the Trump Administration and Congress (see also the *Hyperinflation Watch* of *Commentary No. 862* and *Commentary No. 869*).

Contrary to the official reporting of an economy that collapsed from 2007 into 2009 and then recovered strongly into ongoing expansion, underlying domestic reality remained and remains that the U.S. economy started to turn down somewhat before 2007, collapsed into 2009 but never recovered fully. While the economy bounced off its 2009 trough, it entered a period of low-level stagnation and then began to turn down anew in December 2014, a month that eventually should mark the beginning of a "new" formal recession (see *General Commentary No. 867*). Formal economic expansion does not begin until economic recovery breaks above its pre-recession high.

Coincident with and tied to the economic crash and the Panic of 2008, the U.S. banking system moved to the brink of collapse, a circumstance from which U.S. and global central-bank policies never have recovered. Unwilling to admit its loss of systemic control, the Federal Reserve has made loud noises in the last year or so of needing to raise interest rates, in order to contain an "overheating" economy, but that "overheating" activity—never recognized by Main Street, U.S.A.—has been fading quickly. As this ongoing crisis evolves towards its unhappy end, the U.S. dollar ultimately should face unprecedented debasement with a resulting runaway domestic inflation.

Broad economic and systemic conditions are reviewed regularly, with the following *Commentaries* of particular note: *Commentary No. 902-B*, *General Commentary No. 894*, *Special Commentary No. 885*, *Commentary No. 869*, *No. 859 Special Commentary*, *No. 777 Year-End Special Commentary* (December 2015*)*, *No. 742 Special Commentary: A World Increasingly Out of Balance* (August 2015) and *No. 692 Special Commentary: 2015 - A World Out of Balance* (February 2015). Those publications updated hyperinflation and economic outlooks published in *2014 Hyperinflation Report—The End Game Begins – First Installment Revised* (April 2014) and *2014 Hyperinflation Report—Great Economic Tumble – Second Installment* (April 2014). The two *Hyperinflation* installments remain the primary background material for the hyperinflation circumstance. Other references on underlying economic reality are the *Public Commentary on Inflation Measurement* and the *Public Commentary on Unemployment Measurement*.

Recent Commentaries. *[Listed here are* Commentaries *of the last month or so, plus recent* Special Commentaries *and others covering a variety of non-monthly issues, including annual benchmark revisions, dating back through the beginning of 2017. Please Note: Complete ShadowStats archives back to 2004 are found at www.ShadowStats.com (left-hand column of home page).]*

Commentary No. 933 (January 26, 2018) covered December New Orders for Durable Goods, the Cass Freight Index™ and the first estimate of Fourth-Quarter 2017 GDP.

Commentary No. 932 (January 18, 2018) covered December Industrial Production and New Residential Construction (Housing Starts and Building Permits).

Commentary No. 931 (January 15, 2018) reviewed December 2017 Retail Sales and the CPI and PPI, along with an update on the U.S. dollar, the financial markets and gold graphs.

Commentary No. 930-B (January 8th) expanded upon the December 2017 Employment and Unemployment numbers and Household Survey benchmarking, Conference Board Help Wanted OnLine® Advertising, December Monetary Conditions and the November 2017 Trade Deficit and Construction Spending, otherwise headlined in *No. 930-A*.

Advance Commentary No. 930-A (January 5, 2018) provided a brief summary and/or comments (all expanded in *Commentary No. 930-B*) on December 2017 Employment and Unemployment numbers, Household Survey benchmarking, Conference Board Help Wanted OnLine® Advertising, December Monetary Conditions and the November 2017 Trade Deficit and Construction Spending.

General Commentary No. 929 (December 28, 2017) reviewed current economic and market conditions at year-end 2017.

Commentary No. 928 (December 22, 2017) covered November 2017 New Orders for Durable Goods, New- and Existing-Home Sales and the third estimate of Third-Quarter 2017 GDP.

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Commentary No. 927 (December 19, 2017) reviewed November 2017 New Residential Construction (Housing Starts and Building Permits) and Cass Freight Index™, along with an expanded discussion on underlying economic reality and the financial markets.

Commentary No. 926 (December 15, 2017) reviewed the headline November 2017 numbers for Retail Sales (both real and nominal), and Industrial Production, along a discussion on the dampening economic impact of business and consumer "uncertainty."

Commentary No. 925 (December 13th) reviewed November 2017 headline detail on the CPI and PPI, along with an update on the FOMC actions and the regular U.S. dollar, gold graphs.

Commentary No. 924 (December 8, 2017) discussed the November 2017 Employment and Unemployment details and Conference Board Help Wanted OnLine® Advertising, the October Trade Deficit and Construction Spending and updated Monetary Conditions in November.

Commentary No. 923 (November 29, 2017) covered the second estimate of Third-Quarter 2017 GDP, including initial estimates for Third-Quarter GNP, GDI and Per Capita Real Disposable Income, the October Trade Deficit, Cass Freight Index and New-Home Sales.

Commentary No. 919-B (November 6, 2017) provided more in-depth detail on the October 2017 labor detail.

Commentary No. 919-A (November 3, 2017) provided initial detail and background on October labor data, and reviewed the October 2017 Conference Board Help Wanted OnLine® Advertising, the September Cass Freight Index™, Trade Deficit and Construction Spending, and updated Monetary Conditions.

Special Commentary No. 918-B (October 30, 2017) provided a more comprehensive review of the initial third-quarter 2017 GDP detail, along with update versions of the *Hyperinflation Watch* and *Consumer Liquidity Watch*.

Commentary No. 917 (October 26/27, 2017) reviewed September Industrial Production, New Orders for Durable Goods, New Residential Construction (Housing Starts and Building Permits) and New- and Existing-Home Sales.

Commentary No. 916 (October 20th) reviewed the September 2017 Retail Sales details along with the headline Consumer and Producer Price Indices for September.

Commentary No. 915 (October 6, 3017) reviewed the September 2017 Employment and Unemployment details, along with September 2017 monetary conditions.

Commentary No. 913 (September 28, 2017) reviewed the third-estimate of second-quarter 2017 GDP, with a further consideration of some unusual economic reporting in the near future.

Commentary No. 910 (September 15, 2017) reviewed the August 2017 releases of Industrial Production and nominal and real Retail Sales.

Commentary No. 909 (September 14, 2017) assessed the annual release of 2016 Real Median Household Income, along with a review of August Consumer Price Index (CPI) and the Producer Price Index (PPI) and an updated *Alert* on the financial markets

Commentary No. 908-B (September 6, 2017) provided extended detail of the August 2017 Labor and Monetary conditions and July 2017 Construction Spending, along with coverage of the July 2017 Trade Deficit and the initial estimate of the 2017 Payroll Employment benchmarking.

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Special Commentary No. 904 (August 14, 2017) issued an "Alert" on the financial markets (including U.S. equities, the U.S. dollar gold and silver, as well as FOMC policy), in the context of historical activity and unfolding circumstances of deteriorating economic and political conditions. Separately, headline details were reviewed for the July Consumer Price Index (CPI) and the Producer Price Index (PPI).

Commentary No. 903 (August 7, 2017) discussed new signals of economic deterioration in terms of political and FOMC considerations, along with headline coverage of the July labor data, M3 and The Conference Board Help Wanted OnLine®, and June trade deficit and construction spending.

Commentary No. 902-B (July 31, 2017) reviewed the 2017 annual benchmark revisions of GDP and related series, along with the "advance" estimate of second-quarter 2017 GDP.

Commentary No. 900 (July 19, 2017) reviewed June 2017 New Residential Investment (Housing Starts and Building Permits), and previewed the upcoming annual GDP benchmark revisions and the coincident "advance" estimate of second-quarter 2017 GDP.

Commentary No. 897 (July 6, 2017) reviewed the headline May 2017 Construction Spending and the annual revisions to same, along the May Trade Deficit, and June The Conference Board Help Wanted OnLine® Advertising and the May Cass Freight Index™.

General Commentary No. 894 (June 23, 2017) reviewed unfolding economic, financial and political circumstances in the context of market expectations shifting towards an "unexpected" headline downturn in broad economic activity, along with headline details on May 2017 Real Median Household Income (Sentier Research) and New- and Existing-Home Sales.

Commentary No. 890 (June 5, 2017) covered the negative-downside annual benchmark revisions to the trade deficit, the May 2017 estimates of labor conditions, ShadowStats Ongoing Money Supply M3, The Conference Board Help Wanted OnLine® Advertising and April 2017 estimates of the Cass Freight Index™, and the monthly trade deficit and construction spending.

Special Commentary No. 888 (May 22, 2017) discussed evolving political circumstances that could impact the markets and the economy, reviewed the annual benchmark revisions to Manufacturers' Shipments and New Orders for Durable Goods and updated Consumer Liquidity Conditions.

Commentary No. 887 (May 18, 2017) reported on the April 2017 detail for Industrial Production and Residential Construction (Housing Starts), with some particular attention to historic, protracted periods of economic non-expansion, of which the current non-recovery is the most severe.

Special Commentary No. 885, entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, (May 8, 2017) reviewed the unusual nature of the headline reporting of the April 2017 employment and unemployment details.

Commentary No. 882 (April 27, 2017) summarized the annual benchmark revisions to Retail Sales and reviewed the March 2017 releases of New Orders for Durable Goods and New- and Existing-Home Sales.

Commentary No. 877 (April 2, 2017) outlined the nature of the downside annual benchmark revisions to industrial production, along with implications for pending annual revisions to Retail Sales, Durable Goods Orders and the GDP.

Commentary No. 876 (March 30, 2017) current headline economic activity in the context of formal definitions of the business cycle (no other major series come close to the booming GDP, which is covered in its third revision to fourth-quarter activity). Also the February 2017 SentierResearch reading on real median household income was highlighted.

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Commentary No. 875 (March 24, 2017) assessed and clarified formal definitions of the U.S. business cycle, which were expanded upon significantly, subsequently, in *No. 876*. It also provided the standard review of the headline February 2017 New Orders for Durable Goods, New- and Existing-Home Sales and the Cass Freight Index™.

General Commentary No. 867 (February 24, 2017) assessed mixed signals for a second bottoming of the economic collapse into 2009, which otherwise never recovered its level of pre-recession activity. Such was in the context of contracting and faltering industrial production that now rivals the economic collapse in the Great Depression as to duration. Also covered were the prior January 2017 New- and Existing Home Sales.

Commentary No. 864 (February 8, 2017) analyzed January 2017 Employment and Unemployment detail, including benchmark and population revisions, and estimates of December Construction Spending, Household Income, along with the prior update to Consumer Liquidity.

Commentary No. 861 (January 13, 2017) covered the December 2016 nominal Retail Sales, the PPI, with a brief look at some summary GAAP reporting on the U.S. government's fiscal 2016 operations.

No. 859 Special Commentary (January 8, 2017) reviewed and previewed economic, financial and systemic developments of the year passed and the post-election year ahead.

Note on Reporting-Quality Issues and Systemic-Reporting Biases. In the context of historical background provided in *Special Commentary No. 885*: *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, significant reporting-quality problems remain with most major economic series. Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, which have tended both to understate inflation and to overstate economic activity meaningfully—as generally viewed in the common experience of Main Street, U.S.A.—ongoing, near-term headline reporting issues often reflect systemic distortions of monthly seasonal adjustments.

Data instabilities—induced partially by the still-evolving economic turmoil of the last eleven years—have been without precedent in the post-World War II era of modern-economic reporting. The severity and ongoing nature of the downturn provide particularly unstable headline economic results, with the use of concurrent seasonal adjustments (as seen with retail sales, durable goods orders, employment and unemployment data). While historical seasonal-factor adjustments are revised every month, based on the latest, headline monthly data, the consistent, revamped historical data are not released or reported at the same time. That issue is discussed and explored in the labor-numbers related *Supplemental Commentary No. 784-A* and *Commentary No. 695*.

Further, discussed in *Commentary No. 778*, a heretofore unheard of spate of "processing errors" surfaced in 2016 surveys of earnings (Bureau of Labor Statistics) and construction spending (Census Bureau). This is suggestive of deteriorating internal oversight and control of the U.S. government's headline economic reporting. That construction-spending issue now appears to have been structured as a gimmick to help boost the July 2016 GDP benchmark revisions, aimed at smoothing the headline reporting of the GDP business cycle, instead of detailing the business cycle and reflecting broad economic trends accurately, as discussed in *Commentary No. 823*.

Combined with ongoing allegations in the last several years of Census Bureau falsification of data in its monthly Current Population Survey (the source for the BLS Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular -

economic series (see *Commentary No. 669*). Investigative-financial/business reporter John Crudele of the *New York Post* has written extensively on such reporting irregularities: *Crudele Investigation*, *Crudele on Census Bureau Fraud* and *John Crudele on Retail Sales*.

PENDING ECONOMIC RELEASES: Trade Deficit (December 2017). **U.S. Trade Deficit (December 2017).** The Commerce Department and Bureau of Economic Analysis (BEA) will release their full version of the monthly U.S. trade balance for December 2017 on Tuesday, February 6th, to be covered in a ShadowStats *Commentary* that date.

Discussed in *Commentary No. 933*, with both the "advance" December 2017 reading, and the initial fourth-quarter 2017 GDP reporting in place, the real fourth-quarter 2017 trade deficit was the worst since 2007, and December 2017 already has been indicated as the worst month of the quarter. Any major surprise against consensus here would tend to offer an early indication of the first revision to fourth-quarter GDP.

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