

ShadowStats Flash Commentary, Issue No. 1440

FOMC, Money Supply and Inflation, Markets and the Economy

June 13, 2020

June FOMC Outlook: Deepening Near-Term Economic Collapse, Protracted Recovery

Unlimited Money Creation and 0.00% to 0.25% Fed Funds Promised for Foreseeable Future

May 2020 Money Supply M1, M2 and M3 Annual Growth Rates Accelerated to Record Highs

Additional Explosive U.S. Government Deficit Spending and Debt Expansion Likely Follow

Early Inflation-Danger Signal: Monthly May Producer Price Inflation for Goods Spiked at a Record Pace, Reflecting Shortage-Induced 44% Surge in Meat Prices

Fed Chairman Powell Confirmed Second-Quarter 2020 Real Gross Domestic Product Likely Will Show Its Deepest Quarterly Contraction in History

ShadowStats Forecast for Second-Quarter 2020 Real GDP Contraction Remains Order of Magnitude 50% (-50%) Annualized Quarter/Quarter, 16% (-16%) Year/Year

Third- and Fourth-Quarter GDP Could See Some Bottom Bouncing, Depending on the Magnitude and Success of Reopening Efforts

Federal Reserve Board Members Forecast Fourth-Quarter 2020 Real GDP Annual Decline of 6.5% (-6.5%), Worst in Modern Quarterly Reporting, Other Than for Likely Deeper, Intervening Second- and Third-Quarter Annual Contractions

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Overview

FOMC Will Keep Rates at Zero and Create Excessive Money As Long As Needed

Headline Second-Quarter Real GDP Contraction Will Be Worst Ever

ShadowStats Looks for Possible GDP Bottom-Bouncing in Third- and Fourth-Quarter GDP

Economic Recovery Will Be Protracted

Uncontrolled Inflation Begins to Show Its Head

June FOMC Meeting Returned to Somewhat Normal Functioning, Issuing the First FRB Economic Forecasts Since the Heady Days of December 2019. The June 2020 meeting of the Federal Reserve Board's Federal Open Market Committee (FOMC) confirmed that its extraordinarily expansive, accommodative Money Policies, and its Fed Funds targeted rate of 0.00% to 0.25%, would continue for the duration of the Pandemic-Driven Economic Collapse, likely for years.

After reconfirming existing FOMC policies at his June 10th press conference, Fed Chairman Jerome Powell indicated Second-Quarter 2020 GDP likely faced its deepest quarterly contraction in history. He added that U.S. economic recovery could begin in Second-Half 2020, but that recovery likely would take years, likely beyond 2022. While the Federal Reserve Board (FRB) economic projections are on the optimistic side, they generally are in line with the ShadowStats forecasts (see [Special Hyperinflation Commentary, Issue No. 1438](#) discussion beginning there on page 13).

Severe GDP Contractions Ahead. ShadowStats projects a roughly 50% (-50%) annualized quarterly real GDP contraction, a 16% (-16%) year-to-year drop, for Second-Quarter 2020 GDP, to be reported on July 30th. That would be the worst GDP decline ever indicated. The FRB has predicted nothing formally for the second quarter. Yet, the Atlanta Fed and the New York Fed both run models, based only on the latest underlying hard numbers. As we go to press June 13th the [Atlanta](#) model is predicting a Second-Quarter 2020 annualized real contraction of 48.5% (-48.5%), with the [New York](#) model predicting a 25.9% (-25.9%) contraction in Second-Quarter 2020 and 12.5% (-12.5%) in Third-Quarter 2020. That pretty much covers the range of current “consensus” forecasts for Second-Quarter 2020.

A Recovery that Looks Like the Onset of the Great Depression? That said, the FOMC just did publish a projection for a 6.5% (-6.5%) real year-to-year contraction for Fourth-Quarter 2020 GDP, which was the

middle estimate of the Federal Reserve Board members and Federal Reserve Bank presidents. Fourth-Quarter 2020 is the FOMC's expected second-consecutive quarter of economic recovery. Consider that if such came to pass, that annual contraction would be the worst in modern quarterly GDP reporting, (back to 1948) other than for likely deeper, intervening Second- and Third-Quarter annual contractions. It would have some parallels from the old annual-GDP reporting of annual contractions in the first three years of the Great Depression, or in the 1946 shutdown of the war-time economy.

Ongoing ShadowStats Outlook: Economic and Systemic Crashes Should Intensify, Moving Towards a Hyperinflationary Economic Collapse. Economic, FOMC, financial-market, political and social circumstances continue to evolve, but broadly not with much on the positive side, at the moment. The broad ShadowStats outlook has not changed. Systemic turmoil is just beginning, with the Fed and U.S. Government driving uncontrolled U.S. dollar creation, with annual Money Supply growth soaring to successive record highs.

In the context of:

- Still evolving Coronavirus-Pandemic driven U.S. economic collapse
- Open-ended Federal Reserve Money Supply Creation and Financial-System Bailout
- Unconstrained Federal Government Deficit Spending and Federal Debt Expansion

Near-term financial-market risks from negative economic, liquidity and political issues are exacerbated by potential Hyperinflation, long viewed by ShadowStats as the ultimate fate of the U.S. Dollar. That said, the ShadowStats broad outlook in the weeks and months ahead continues for:

- Intensifying economic and systemic crashes should move towards a U.S. Hyperinflationary economic collapse, reflected in
- Continuing flight to safety in precious metals, with accelerating upside pressures on Gold and Silver prices
- Mounting selling pressure on the U.S. dollar, against the Swiss Franc, and
- Despite recent extreme Stock Market volatility, continuing high risk of major instabilities and an eventual heavy Stock Market selling panic,
- Complicated by ongoing direct, supportive market interventions arranged by the U.S. Treasury Secretary, as head of the President's Working Group on Financial Markets (a.k.a. the "Plunge Protection Team") or as otherwise gamed by the FOMC.

Again, in the context of the June FOMC Meeting and [*Special Hyperinflation Commentary, Issue No. 1438*](#), today's *Flash Commentary, Issue No. 1440* reviews and graphs the May 2020 Money Supply numbers, beginning on *Page 7*). Inflation details from and graphs of the May 2020 Consumer and Producer Price Indices begin on *Page 13*, along with the usual, fully updated financial-market related graphs beginning on *Page 18*.

For the Benefit of Subscribers, New Circumstances, Including Breaking News, Are Highlighted in the [Daily Update](#). Rapidly shifting headlines, reporting details, intervening events, unusual developments and schedule changes—all are covered in the *Daily Update* section of the [ShadowStats Home Page](#). For example, any unusual developments in next week's reporting of the major monthly economic indicators for May (Cass Freight Index[®], Retail Sales, Industrial Production, Housing Starts) will be highlighted with an initial assessment in the *Daily Update*, usually within a couple hours or so of release.

For recent economic and the latest market and systemic assessments, see [Special Commentary, Issue No. 1429](#) (FOMC Panic), [Special Commentary, Issue No. 1430](#) (Systemic Solvency), [Flash Commentary, Issue No. 1433](#) (Retail Sales Benchmarking), [Flash Commentary No. 1434](#) (1q2000 GDP), [Flash Commentary No. 1436](#) (Cass Freight Index[®]), [Special Economic Commentary, Issue No. 1437](#) (Economic Update), [Special Hyperinflation Commentary, Issue No. 1438](#) (Risks of a Hyperinflationary Economic Collapse) and [Flash Commentary No. 1439](#) (Distorted May Labor Conditions, Recession Call, FOMC Outlook).

Your questions and comments always are welcomed. Please call or e-mail me any time. Leave a message if your call goes to Voicemail. I shall be back to you.

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**[June 2020 FOMC and the Developing Inflation Problem
begins on the next page.]**

June 2020 FOMC and the Developing Inflation Problem

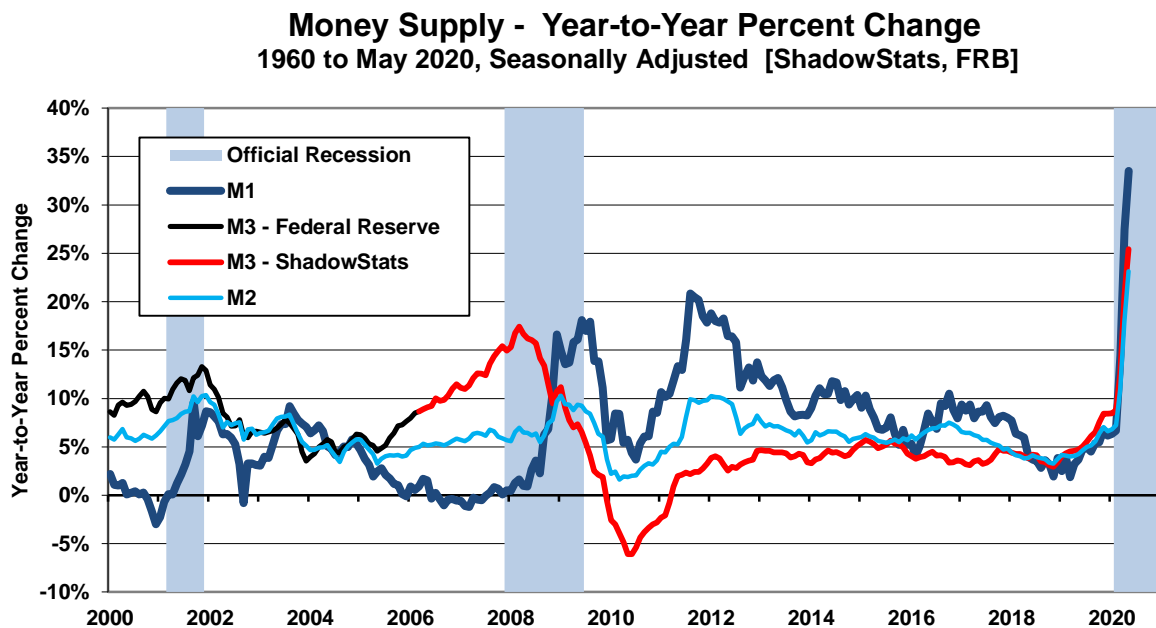
FOMC's Bearish Economic Outlook and Cautions Were Reasonable

Unlimited Money Growth and Budget Deficit Spending Promise Surging Inflation

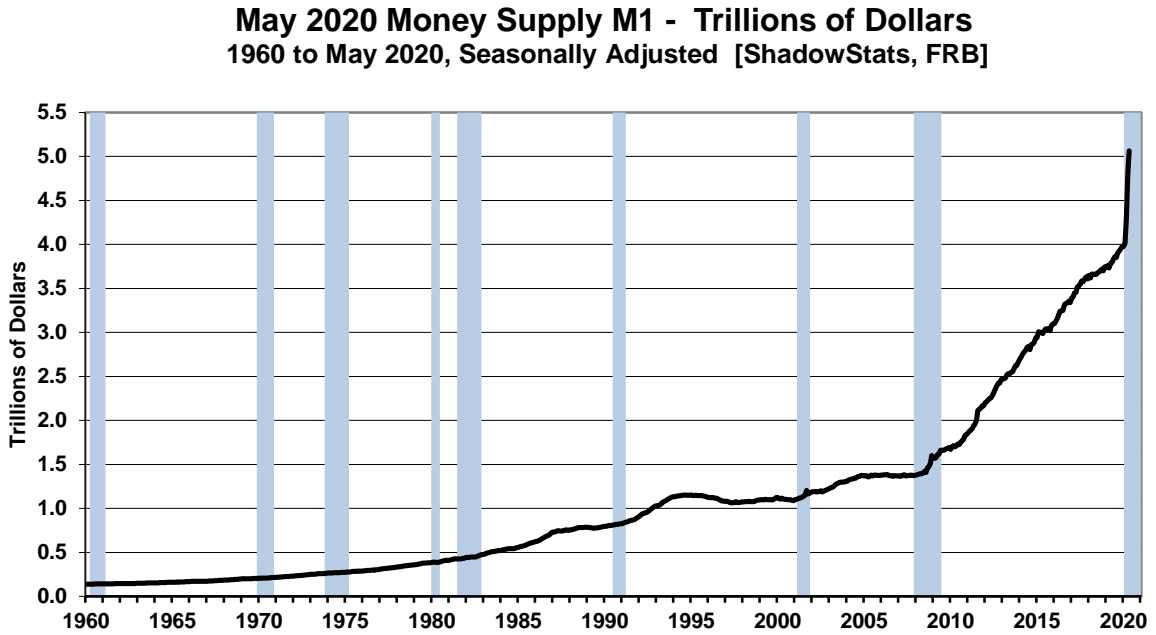
Record-High Annual Money Supply Growth Continues to Accelerate

May 2020 Money Supply Growth Turned Exponential. Updated from [Special Hyperinflation Commentary, Issue No. 1438](#) [see *Graphs 20 to 30* of the early-estimates of May 2020 Money Supply M1, M2 and the ShadowStats Alternate of M3 and related series, beginning there on *Page 31*], *Graphs 1 to 7*, here, reflect the revised, full-May 2020 Money Supply Charts, which closely matched the earlier estimates in *No. 1438*. *Graphs 8 to 11* of the Federal Reserve's Monetary Base and Total Assets of All Federal Reserve Banks showed a period-to-period flattening in the latest weekly or bi-weekly reading, which shall be watched carefully in week and weeks ahead, for any covert shift in policy. That said, the FOMC's fueled headline growth in the Money Supply has turned exponential, as can be seen in the May detail, and which raises nascent inflation concerns going forward.

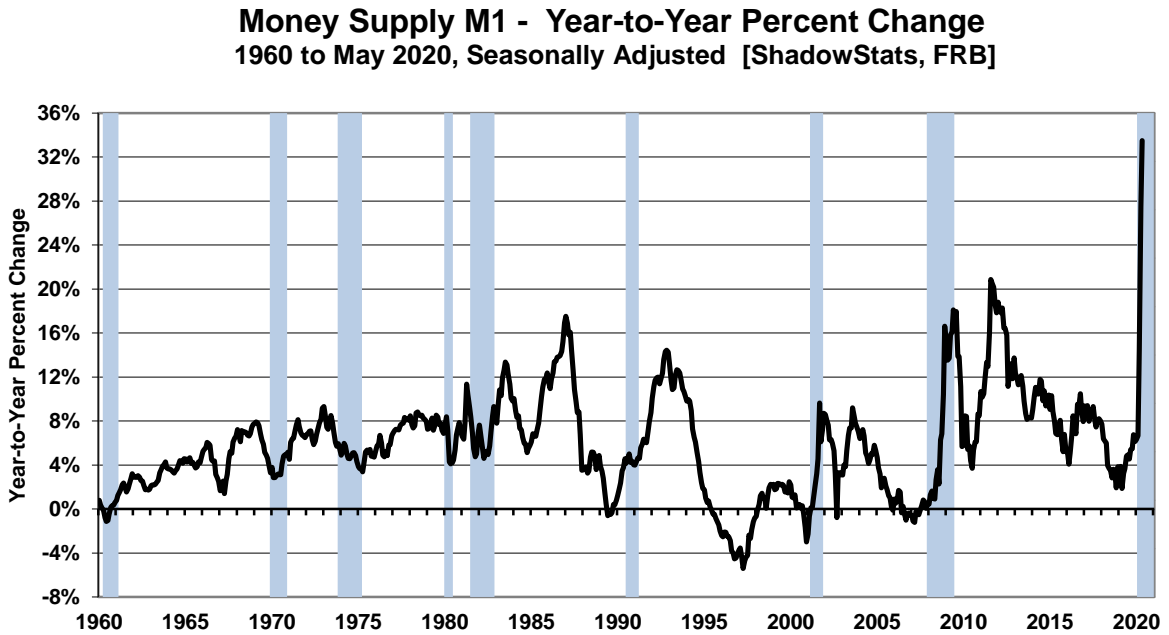
Graph 1: Money Supply M1, M2 and M3 and ShadowStats Continuing M3, Monthly Yr-to-Yr Growth to May 2020



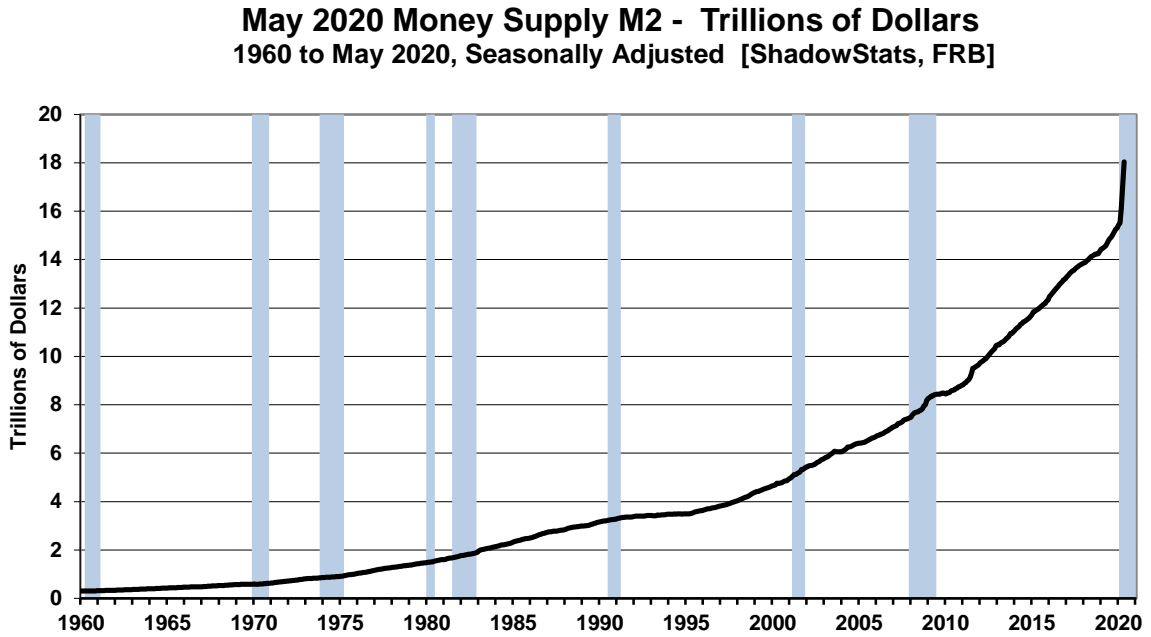
Graph 2: Money Supply M1, 1960 to Date



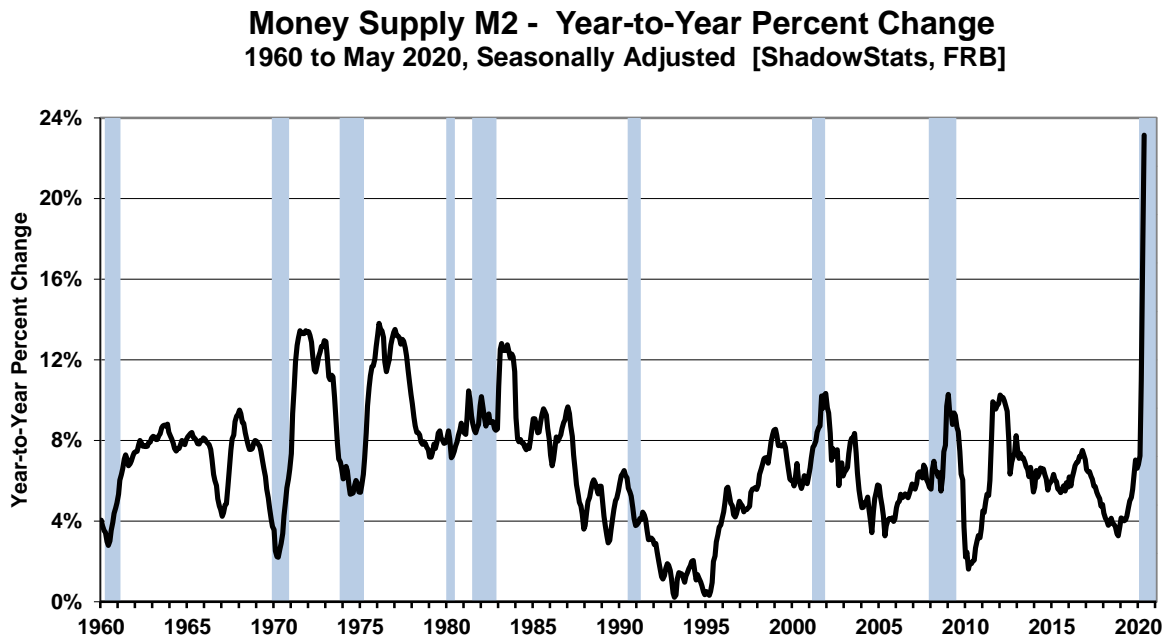
Graph 3: Money Supply M1, 1960 to Date, Year-to-Year Change



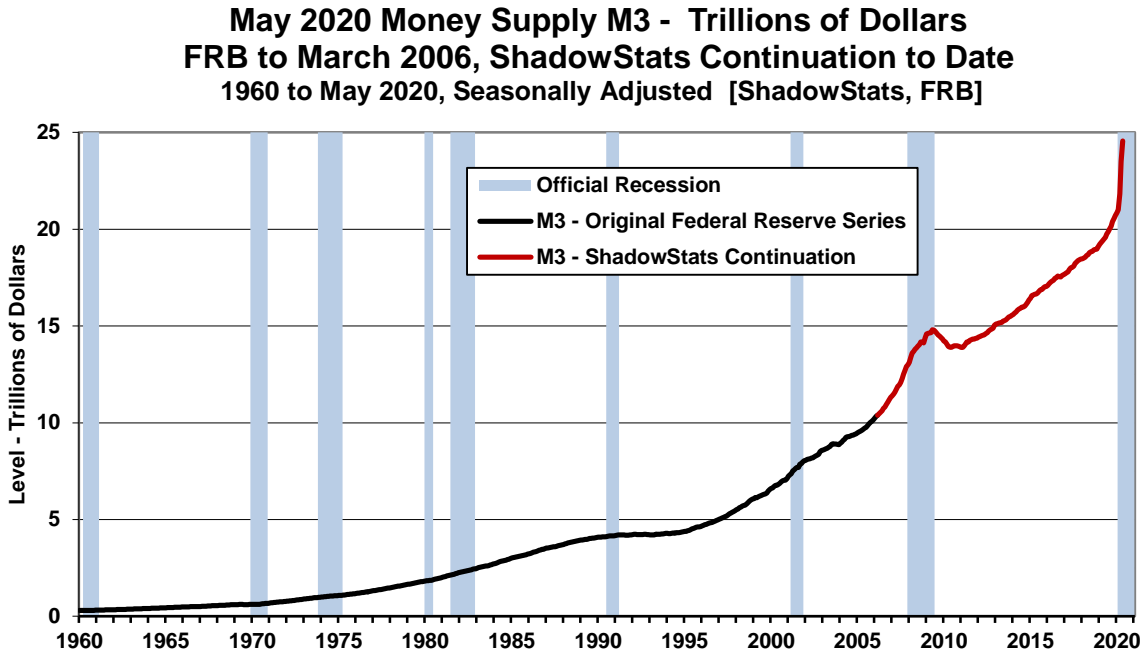
Graph 4: Money Supply M2, 1960 to Date



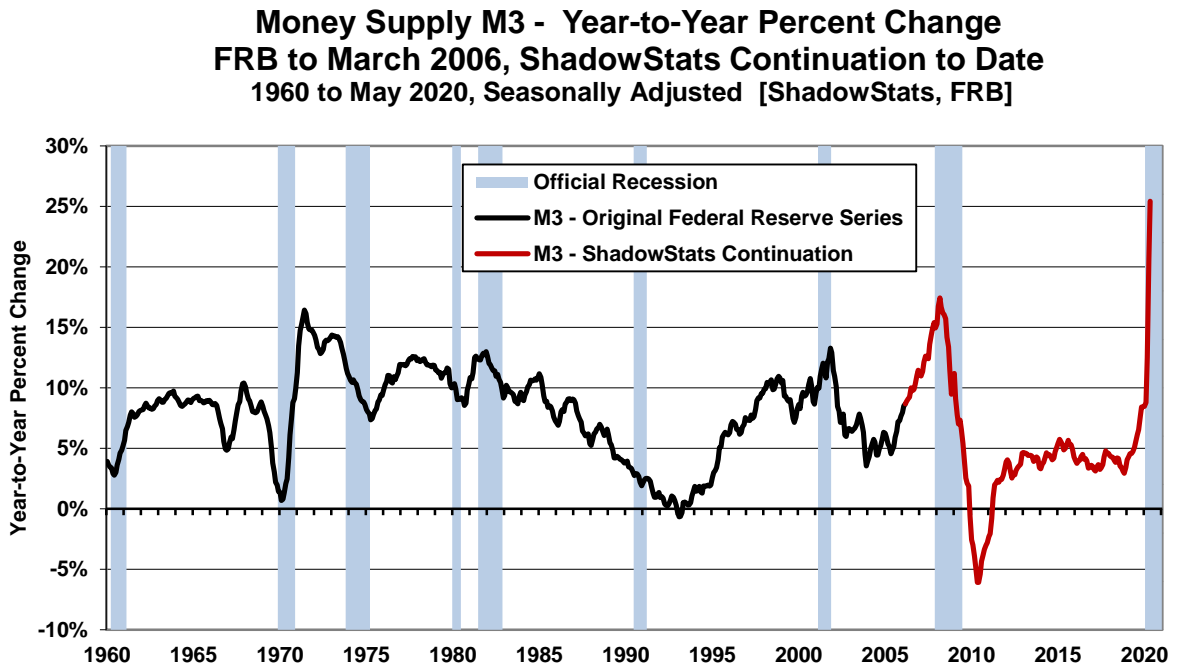
Graph 5: Money Supply M2, 1960 to Date, Year-to-Year Change



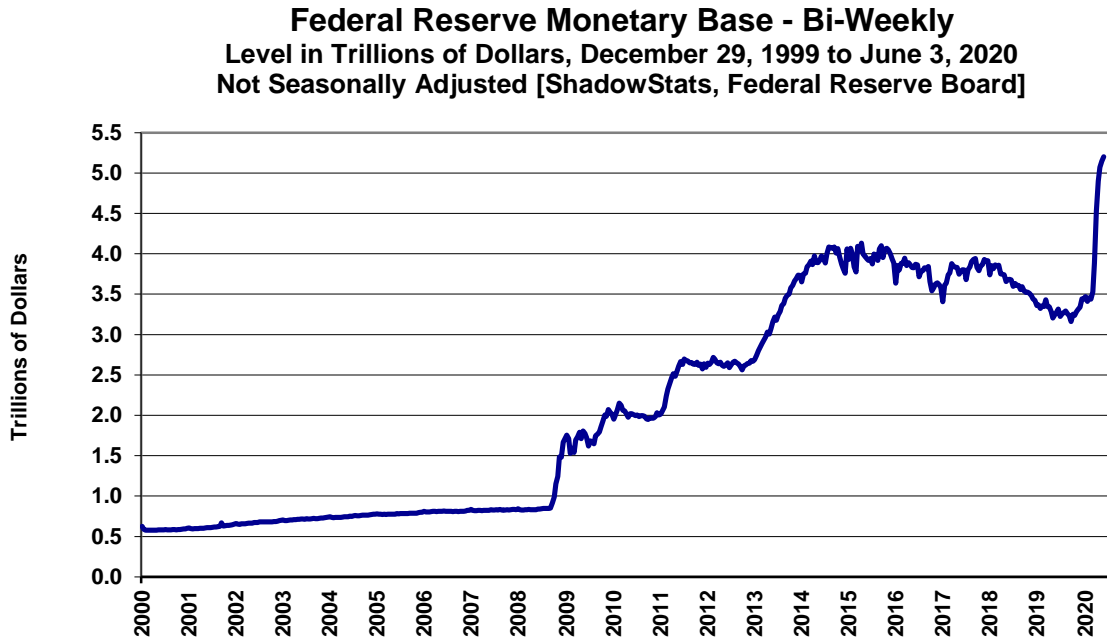
Graph 6: Money Supply M3, 1960 to 2006, With ShadowStats Continuation to Date



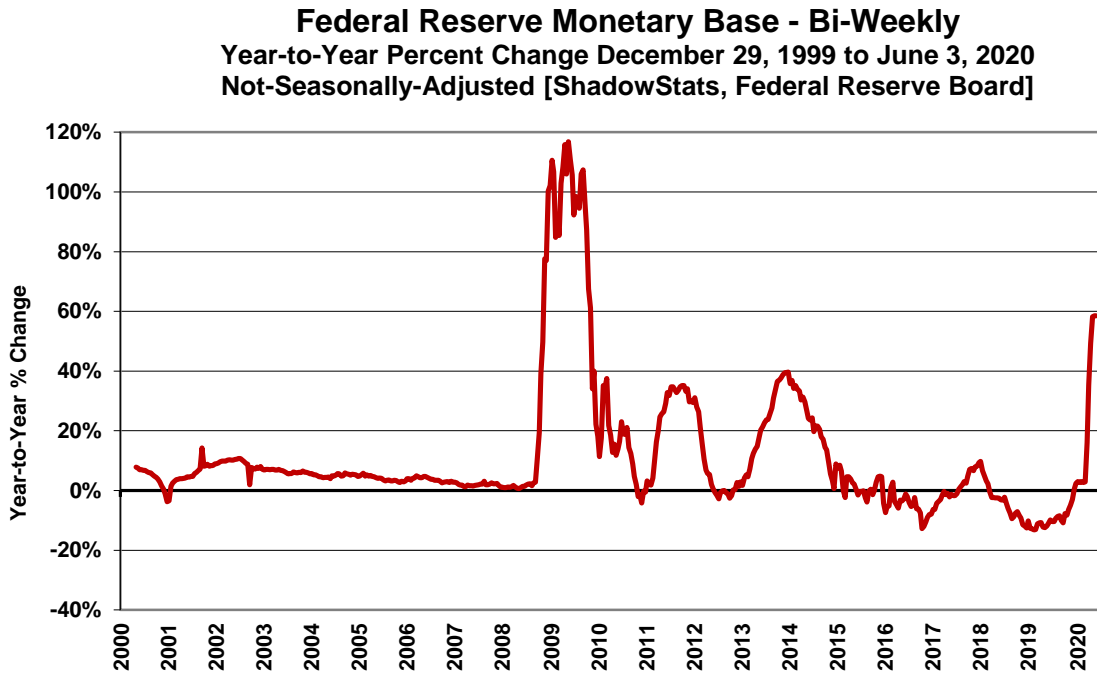
Graph 7: Money Supply M3, 1960 to 2006, With ShadowStats Continuation to Date, Year-to-Year Change



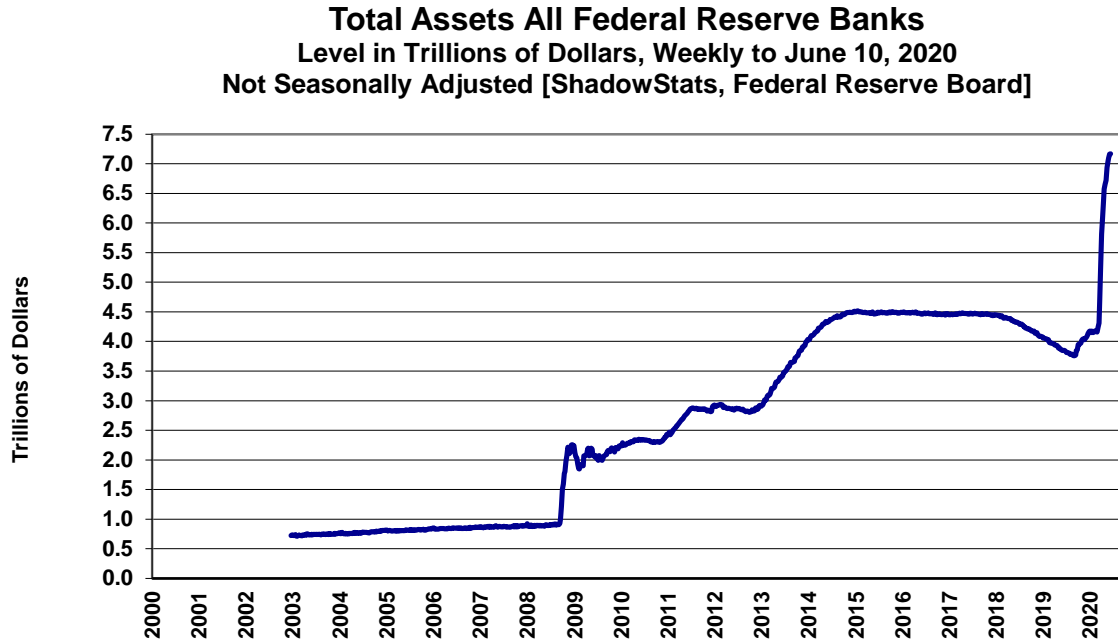
Graph 8: Federal Reserve Monetary Base, 2000 to Date



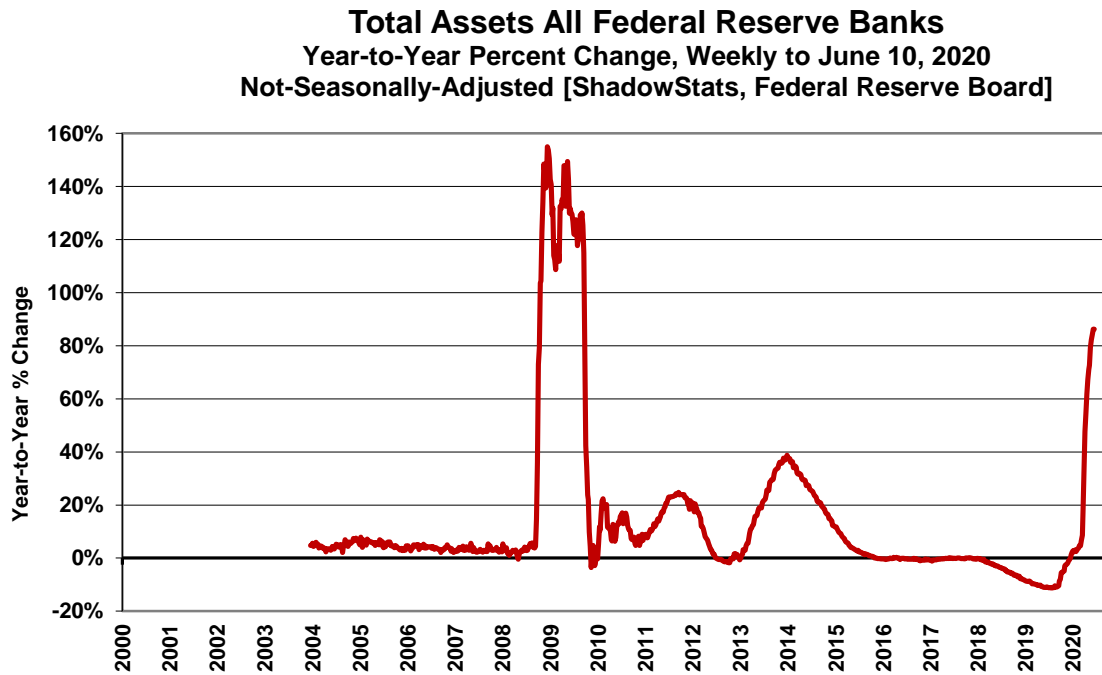
Graph 9: Federal Reserve Monetary Base, 2000 to Date, Year-to-Year Change



Graph 10: Total Assets All Federal Reserve Banks, 2000 to Date



Graph 11: Total Assets All Federal Reserve Banks, 2000 to Date, Year-to-Year Change



Excessive Money Supply vs. Product Shortages Begins to Spike Prices

Consumer and Producer Prices Showed Internal Indications of Mounting Inflation Stress

Recent Headline Inflation Has Gyrrated Wildly, Along With Oil-Price War Disrupted Gasoline Prices. Unadjusted gasoline prices have swung from a year-to-year gain of 12.83% in January 2020 to an annual decline of 33.79% (-33.79%) in May 2020, thanks to the recent oil price war between Russia and Saudi Arabia, largely coincident with the Coronavirus Pandemic. Some signs of abatement may be surfacing, where unadjusted domestic gasoline prices have risen in each of the last five weeks, and separately, as reflected in the later financial-market *Graph 21* of Brent crude oil prices, on *Page 20*, which appear to have moved off bottom.

The May 2020 Consumer Price Index Still Was Depressed by Lower Energy Inflation, Despite Shortage-Spiked Beef Prices. May CPI-U inflation fell for a third month, down by 0.05% (-0.05%), sharply narrowed from 0.80% (-0.80%) in April, with annual inflation slowing to 0.12% from 0.33%. The monthly decline in Energy prices narrowed from a 10.14% (-10.14%) in April to 1.85% (-1.85%) in May. Yet, at the same time, shortages spiked annual Food inflation to 4.00% from 3.50%, with the Beef component of the Food at Home Index jumping 18.2% year-to-year (see related comments in the PPI section). The Fed's favored "Core" annual inflation concept—Ex- Food and Energy—slowed to 1.22% in May, from April's 1.43%, well below the 2.0% FOMC target.

Separately, May 2020 Real Average Weekly Earnings growth slowed to 0.5% in the month, versus a 5.9% jump in April and a 0.1% gain in March. Those gyrations, however, reflected primarily Pandemic-disrupted employment patterns, not so much shifting monthly inflation, discussed in the later *Pandemic-Disrupted Jobs Caused Real Average Earnings to Somersault* section with *Graph 16* on *Page 17*.

May 2020 ShadowStats Alternate CPI Declined to 7.7% Annual Inflation, from 7.9% in April, on Top of Pandemic-Disrupted Price Surveying and Oil-Price Induced Slowing in the May CPI-U. Detailed on the [Alternate Data Tab – Inflation](#) of the [ShadowStats Website](#), and as discussed there in [Public Comment on Inflation Measurement](#), ShadowStats estimates the Consumer Price for today as if it were calculated the same way it was in 1980. The ShadowStats Alternate CPI (1980-Base) is plotted here against the headline CPI-U in *Graph 12* on *Page 15*, reflecting the CPI calculated using the methodologies in place in 1980. In general, terms, methodological shifts and redefinitions in government inflation reporting have depressed headline reported inflation, moving the concept of the CPI away from being a measure of the cost of living needed to maintain a constant standard of living.

May 2020 Producer Price Index-Final Demand Goods Surged a Series-Record 1.63%, as Monthly Meat Inflation Turned Hyperbolic. Primarily reflecting a shortage-driven 40.4% explosion in monthly meat prices, which translated into a 5.98% jump in foods, and exacerbated by a 4.52% jump in energy prices, the monthly increase of 1.63% in the May Producer Price Index, Final-Demand Goods (PPI-FD

Goods) Sector was the highest ever, per the BLS (June 11th). Such is in context of the current PPI series being established as of November 2009. April 2020 PPI-FD Goods had declined by 3.32% (-3.32%) in the month, dominated by declining energy prices. Unadjusted, year-to-year Goods inflation fell by 3.26% (-3.26%) in May 2020, having dropped by 4.99% (-4.99%) in April. In theory, there should be something of a leading relationship between the PPI and the CPI. Also, see the discussion in [*Special Hyperinflation Commentary, Issue No. 1438*](#) on too much money chasing too few goods,

Plots of year-to-year and month-to-month headline inflation for the entire history of the PPI-FD Goods series are shown respectively in *Graphs 13* and *15*, grouped for comparison with *Graphs 12* and *14* of the CPI-U.

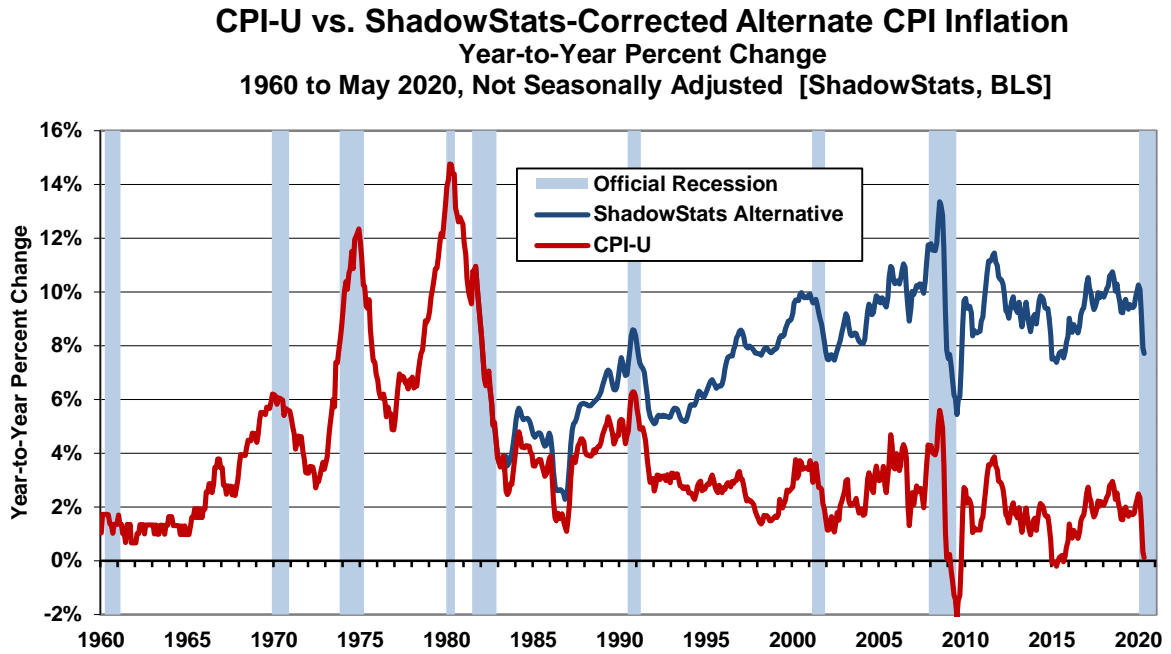
Construction. Separately, annual PPI Construction Inflation eased to 2.52% in May 2020, versus 2.76% in April. Monthly readings in this series are not comparable month-to-month.

Services. The mal-defined, dominant Services Sector of the PPI-FD, measures profit margins in key series—not prices—where headline monthly “inflation” declined by 0.17% (-0.17%) in May, thanks to surging monthly Energy Prices. Annual inflation slowed to 0.34% year-to-year. In April, the Services Sector was down by a monthly 0.25% (-0.25%) and up by an annual 0.76%, dominated by collapsing Transportation and Warehousing costs, although the aggregate number was boosted by declining energy costs in the Trade Sector.

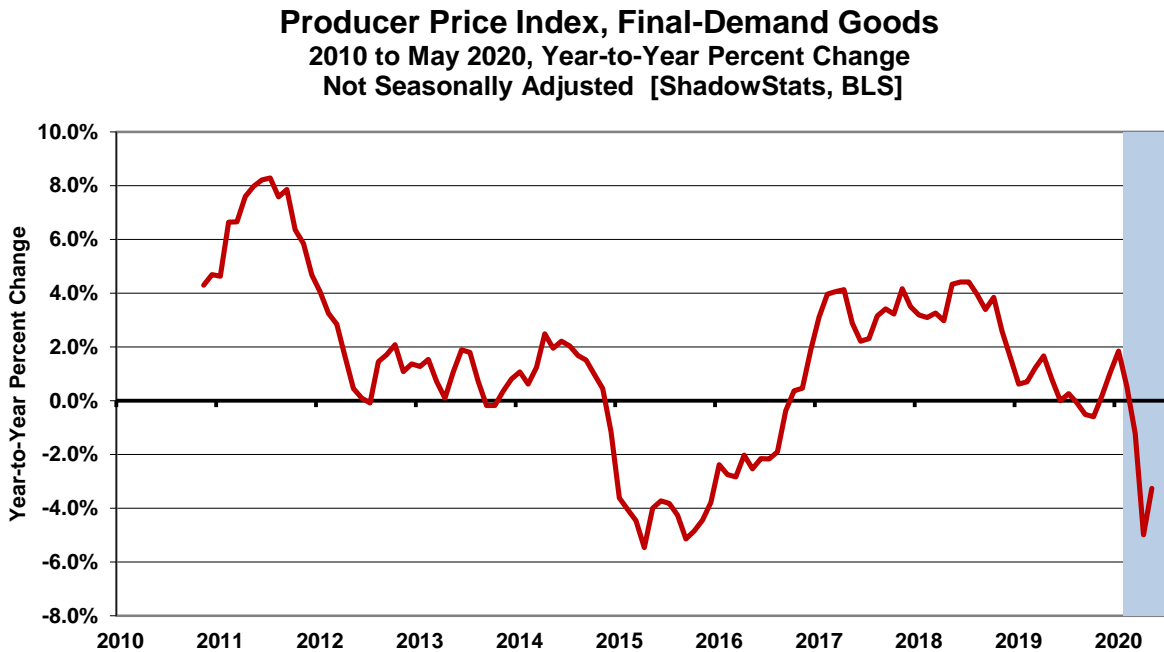
Total Producer Price Index, Final Demand. The aggregate May 2020 PPI-FD inflation (Goods plus Services and Construction) is so heavily warped by the dominant Services Sector as to be of limited meaning. That said, the aggregate PPI-FD gained month-to-month by 0.43% in May 2020, versus an April decline of 1.27% (-1.27%), with annual inflation down by 0.84% (-0.84%) in May versus 1.18% (-1.18%) in April.

[Graphs 12 to 15 begin on the next page.]

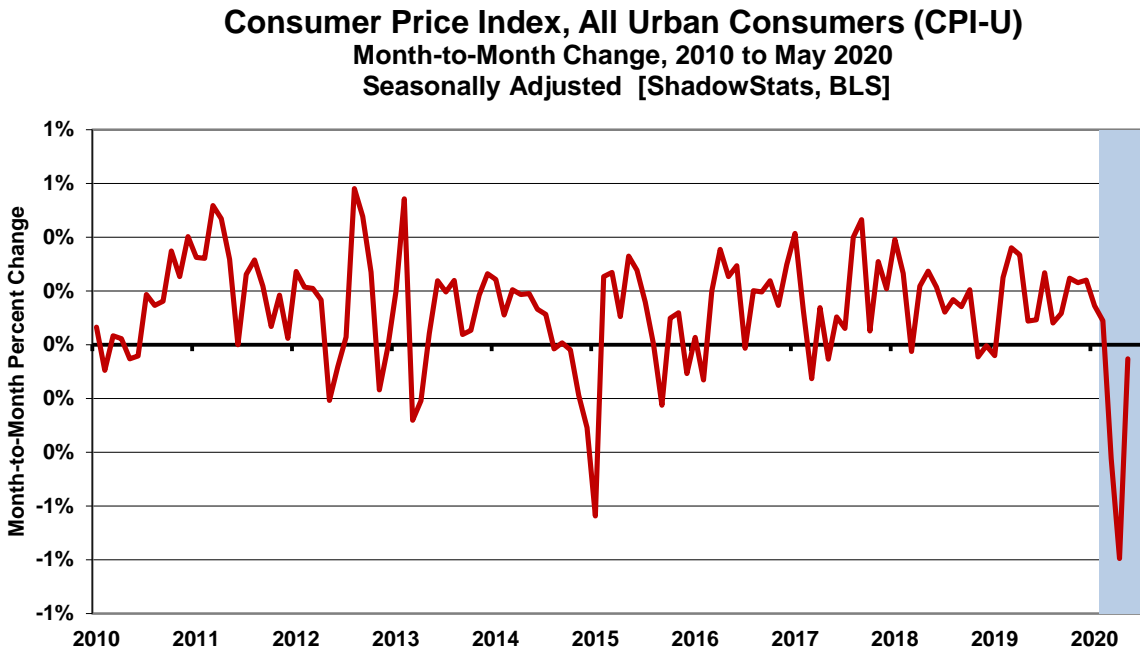
Graph 12: ShadowStats Alternate CPI versus Headline CPI-U (1960 to Date)



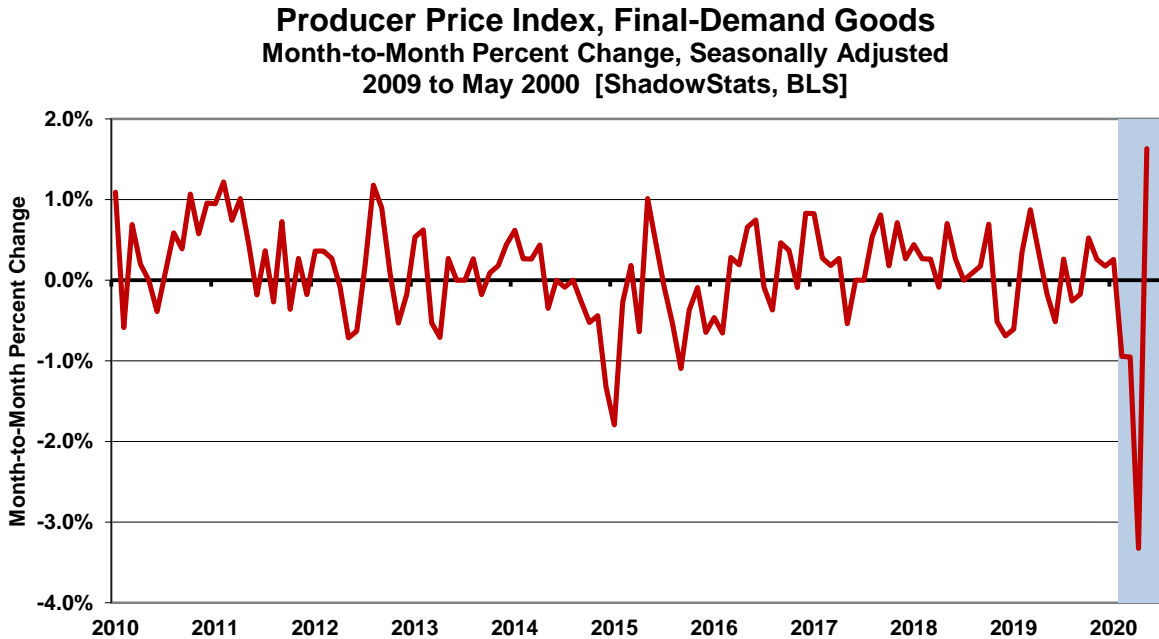
Graph 13: Producer Price Index, Final-Demand Goods, Year-to-Year Change (Full History, 2010 to May 2020)



Graph 14: Consumer Price Index, Month-to-Month Change (2009 to May 2020)



Graph 15: PPI Final-Demand Goods (Full History 2009 to May 2020)



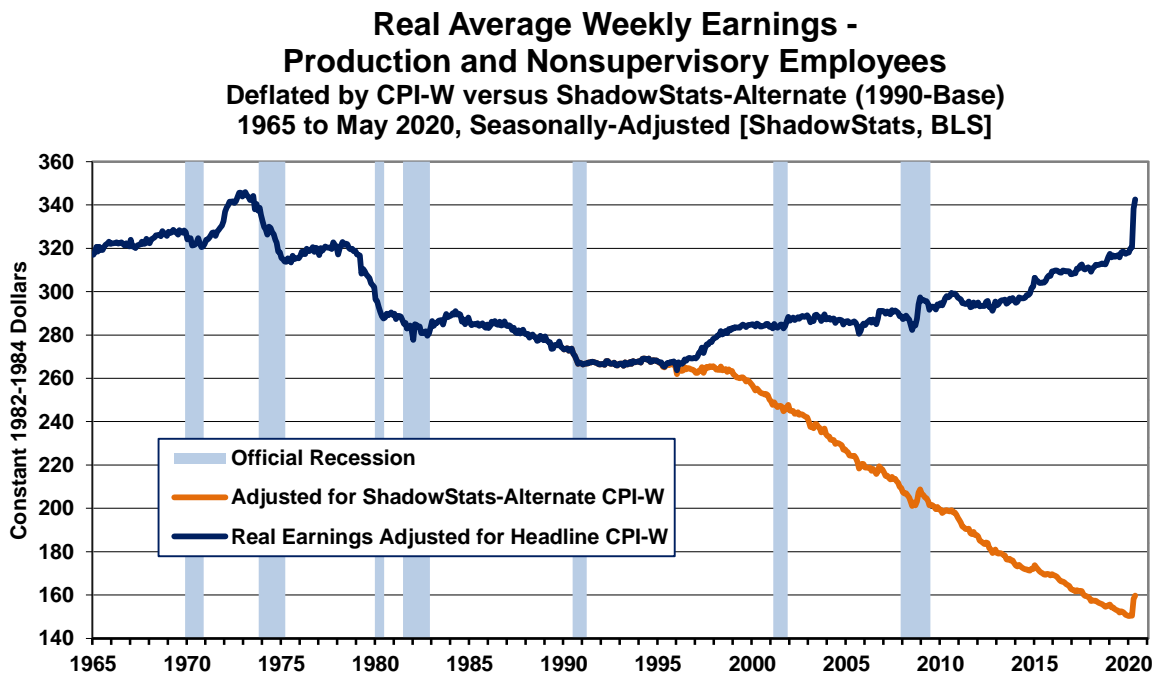
Pandemic-Disrupted Jobs Caused Real Average Earnings to Somersault

Real Average Weekly Earnings Gyated Sharply With Pandemic-Related Layoffs and Rehiring That Were Weighted Heavily Towards Low-Wage Employees. Noted on page 3, in the May 2020 [Employment Report](#), page 4, “In May, average hourly earnings for all employees on private nonfarm payrolls fell by 29 cents to \$29.75, following a gain of \$1.35 in April. Average hourly earnings of private-sector production and nonsupervisory employees decreased by 14 cents to \$25.00 in May. The decreases in average hourly earnings largely reflect job gains among lower-paid workers; this change put downward pressure on the average hourly earnings estimates.” While the discussion and graphing here is for related series, the effects are the same.

Related to the above, reported along with the May 2020 CPI series, May 2020 Real Average Weekly Earnings growth slowed to 0.5% (0.0% unadjusted) in the month, versus an April 2020 surge of 5.9%, up from a 0.1% gain March. Where movement in this series usually reflects some combination of changes in inflation, wages and/or hours worked, the current reporting was indeed warped by gyrations in heavy layoffs and some relative rehiring of lower-paid or minimum-wage hourly workers.

Heavy layoffs in the April 2020 Payroll Survey were skewed to low-wage or minimum-wage workers. That had the effect of boosting Real Average Weekly Earnings. In like manner, where those recalled in May also were weighted more heavily to the low-wage worker, such suppressed the change. **Graph 16** plots Real Average Weekly for Production and Nonsupervisory Employees, both as headlined and as adjusted for the ShadowStats Alternate CPI-W. Using the understated government inflation for deflation has the effect of overstating growth in the headline inflation-adjusted series.

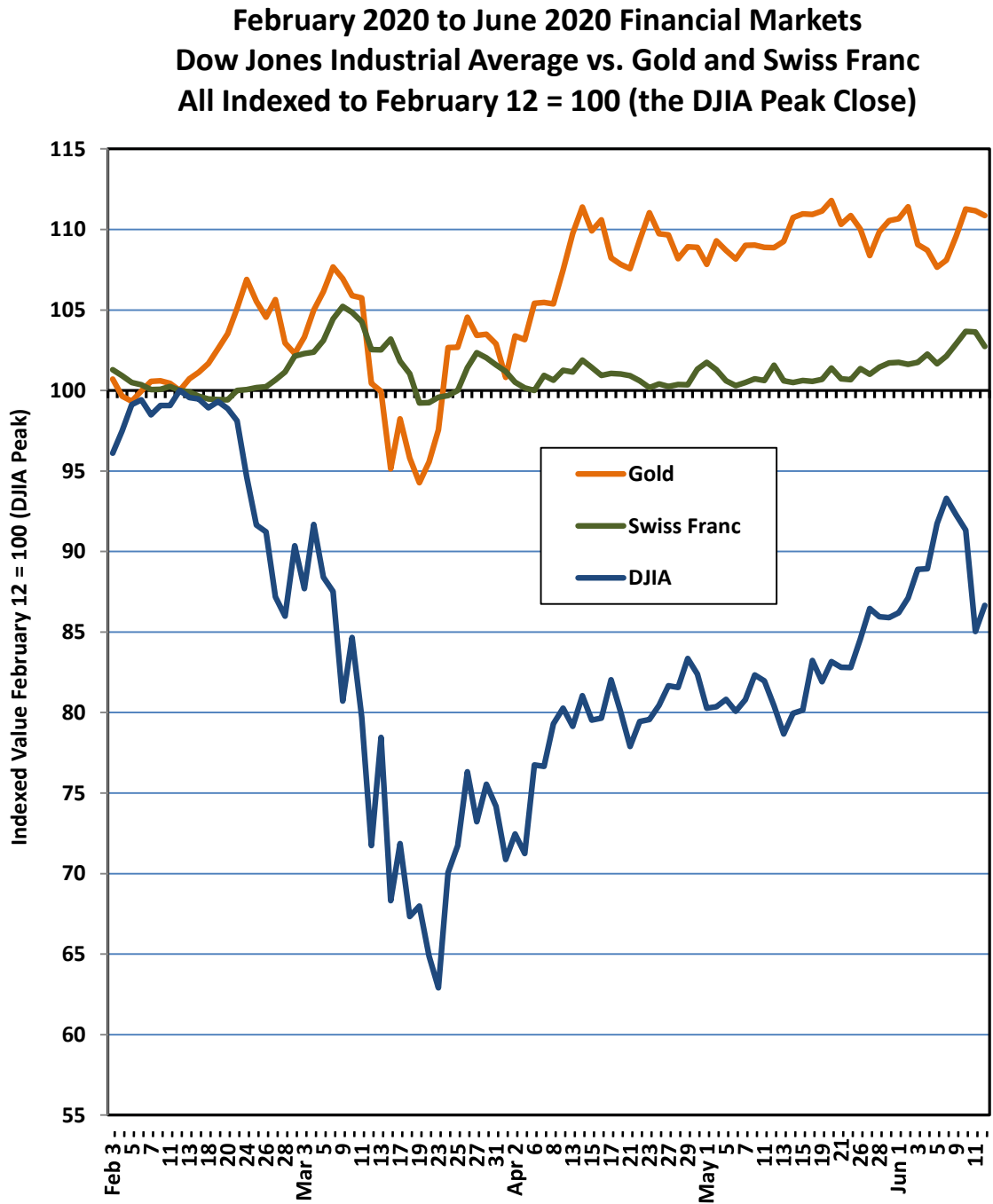
Graph 16: Real Average Weekly Earnings, 1950 to May 2010



Latest Financial Market and Commodity-Price Graphs

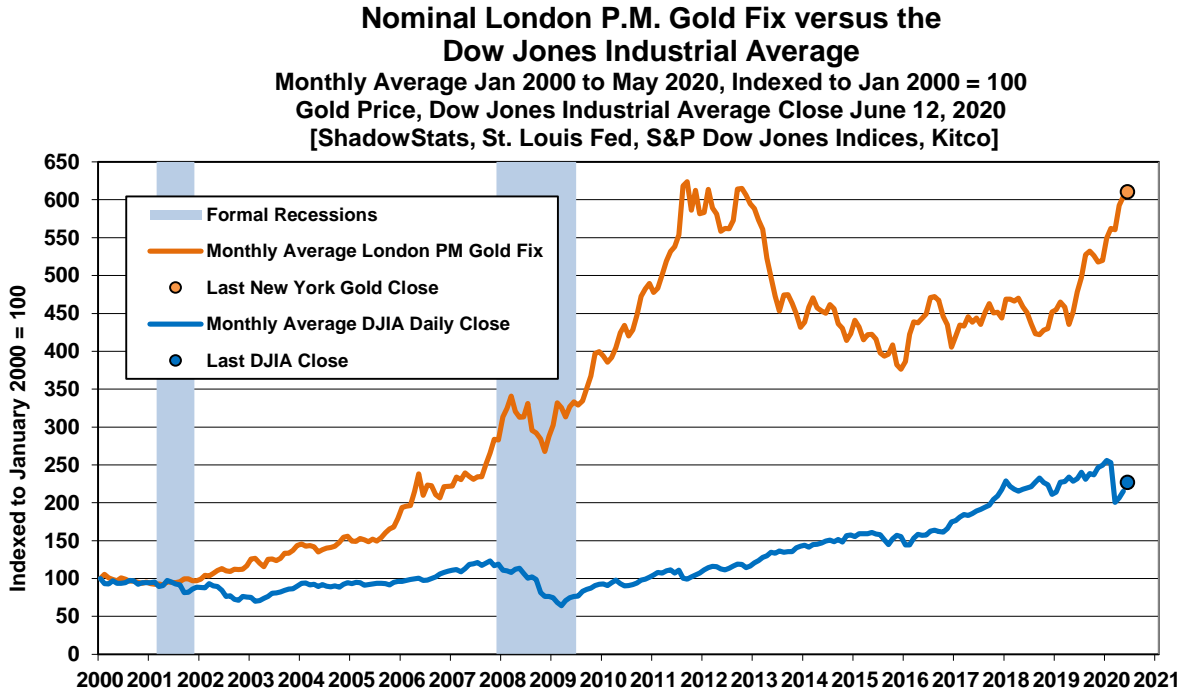
Physical Gold and Swiss Franc Continue to Protect U.S. Dollar Purchasing Power

Graph 17: February 2020 to June 12, 2020 Financial Markets

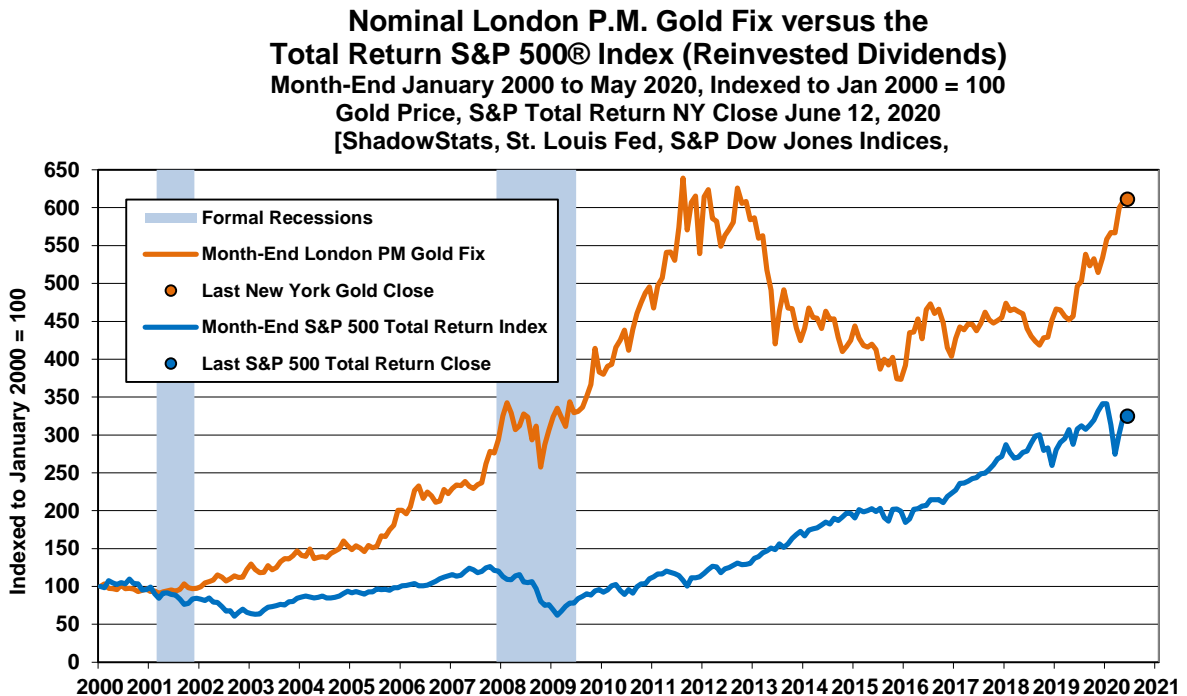


Latest Plots of Key Market Measures. This section provides plots of the latest market numbers and commodity prices graphed regularly by ShadowStats through the close of business on June 12th. Please advise of any new graphs that you would like to see here on a regular basis.

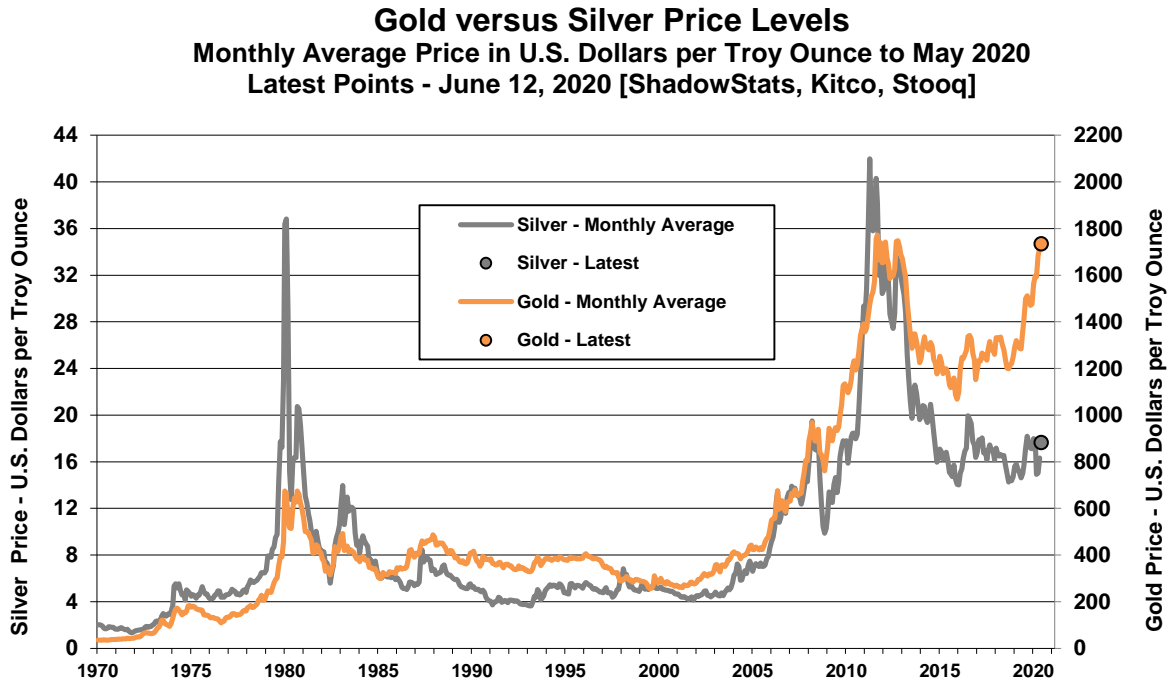
Graph 18: Gold versus the Dow Jones Industrial Average



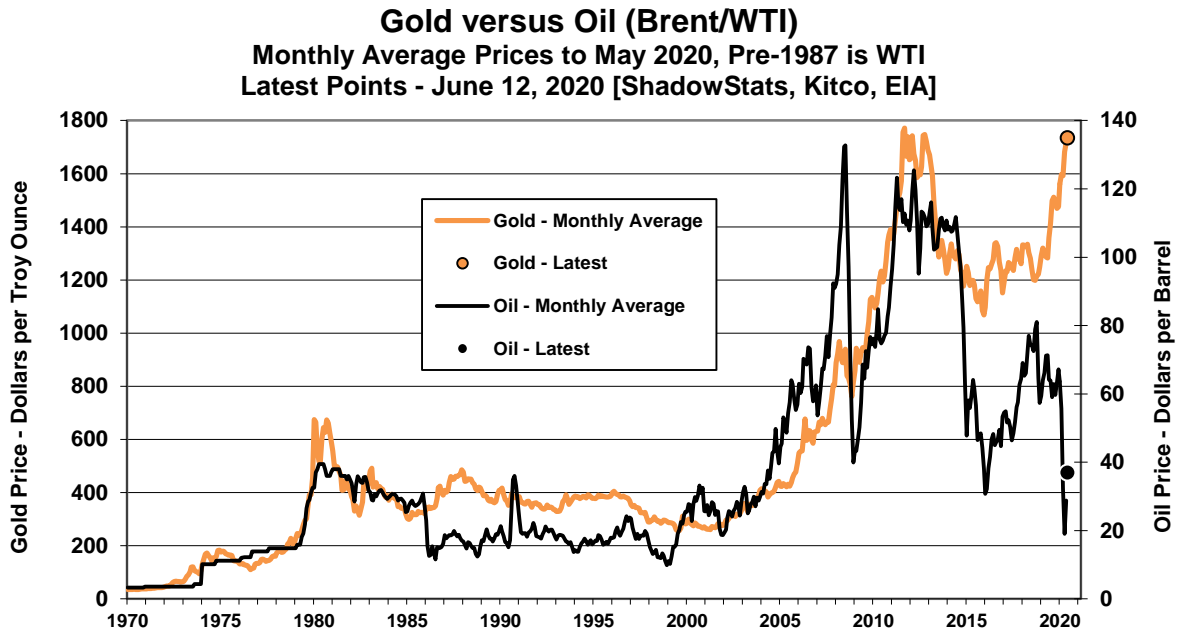
Graph 19: Gold versus the Total Return S&P 500 (Reinvested Dividends)



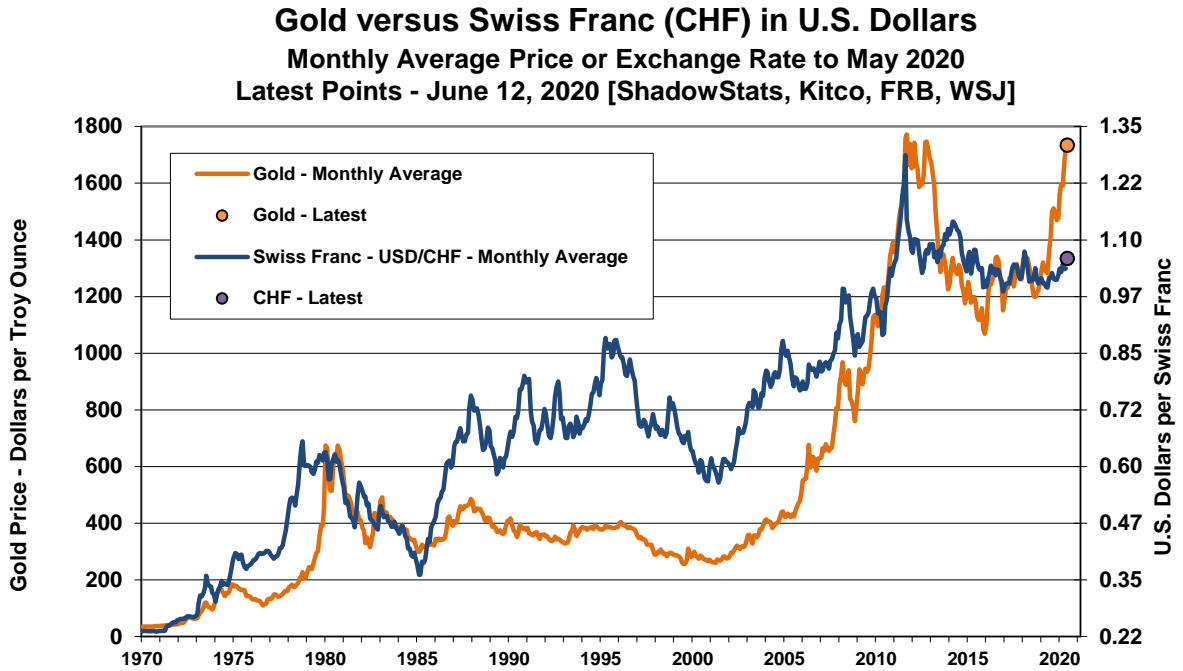
Graph 20: Gold versus Silver Prices in U.S. Dollars



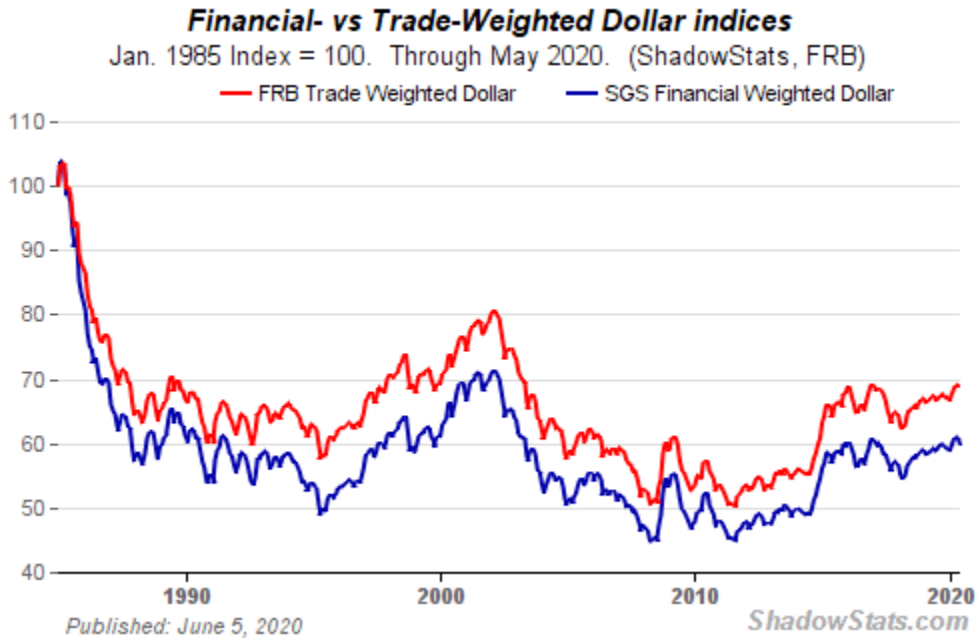
Graph 21: Gold Price versus Crude Oil in U.S. Dollars



Graph 22: Gold versus Swiss Franc in U.S. Dollars



Graph 23: Financial- Versus Trade-Weighted U.S. Dollar



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