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

COMMENTARY NUMBER 851
Third-Quarter GDP, Freight Index, Consumer Conditions, U.S. Solvency Issues

November 29, 2016

In Context of Pending Fiscal Stimulus,
Long-Term U.S. Sovereign Solvency Issues Have to Be Addressed

October Freight Index Continued in Low-Level Non-Recovery

Post-Election Consumer Expectations Brightened Sharply,
Although October Real, Median Household Income Continued to Stagnate

Non-Credible and Unstable Third-Quarter Reporting Showed Growth of
3.2% for GDP, 5.2% for GDI and 3.1% for GNP

Underlying Reality Remains Far from a Surging Economic Recovery

Headline GDP Growth Remained Massively Inconsistent with Recession in
Freight Traffic, Petroleum Usage, Corporate Revenues, Construction,
Industrial Production and Broad Employment Indicators

PLEASE NOTE: The next regular Commentary, *scheduled for Friday, December 2nd, will cover October construction spending, and November employment and unemployment and the ShadowStats Ongoing M3 Estimate. Please call at (707) 763-5786 if you have questions or would like to discuss current issues or otherwise. Best wishes to all — John Williams*

OPENING COMMENTS AND EXECUTIVE SUMMARY

Fiscal Stimulus Looms in 2017, but the New Administration Needs to Develop an Accompanying Long-Range U.S. Sovereign Solvency Plan to Forestall a Dollar Disaster. Heavily manipulated by the Federal Reserve, a U.S. dollar crisis has been holding in the background since early-2014. It remains in play, due to unresolved issues from the outgoing Administration and a befuddled Federal Reserve, including ongoing systemic-solvency issues for the banking system, ongoing and protracted economic collapse and long-range sovereign-solvency issues facing the U.S. government.

Despite expectations for improved business conditions under a Trump Administration, a deteriorating market outlook for near-term (not long-term) business activity should resurface and continue to falter, amidst what should be ongoing and intensifying, negative headline economic reporting in place for the next twelve months or so. Such are the limits of lead times tied to attempting to alter the course of U.S. economic activity. Today's (November 29th) revised, strong 3.2% third-quarter real GDP growth was not credible. Yet, it will help to set up a much weaker, possibly negative fourth-quarter 2016 GDP, as hinted at by an extremely-negative shift in the "advance" October trade deficit. Of course, fourth-quarter 2016 GDP gets its "advance" unveiling on January 27th, one week after Mr. Trump's Inauguration.

New fiscal stimulus under consideration by the incoming Administration will have at least a nine-month lead-time before its impact will surface in headline economic activity, most likely not before early-2018. Accordingly, the new administration could face deteriorating funding needs for its own Treasury. In the near-term, the federal deficit should swell, reflecting revenue flows already impaired by the current economic downturn, as well as taking an initial hit from any new federal spending and or from new tax relief, before hoped-for increased tax revenues begin to flow in from a strengthened economy.

Separately, and most dangerously, the Trump Administration will have a difficult time working with or around the Federal Reserve's self-created quagmire of continuing domestic and global banking-system illiquidity issues. Where the apparent, "post-election euphoria" related to the U.S. dollar began before Mr. Trump was declared the "unexpected" victor, there remain unusual crosscurrents in the markets aimed at keeping the U.S. dollar strong.

With continued hinting of an imminent rate hike in this last year, but never delivering on same, the Fed provided a psychological prop under the U.S. dollar, without having to deliver the promised action. With $2.5 trillion of Treasuries still in the hands of the Fed, such has taken some funding pressures off the U.S. Treasury, temporarily deflecting global market concerns as to the long-term solvency issues facing the United States. Expectations now are high for an FOMC rate hike on December 14th. Such, however, would not provide central banks with needed global banking-system stability or solvency, and it would not prevent the Fed from re-expanding quantitative easing as the deepening economic crisis intensifies liquidity concerns for the banking system and the U.S. Treasury.

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Irrespective of mounting talk of a December FOMC rate hike, the still-ongoing and deepening domestic economic downturn promises continuing and intensified stress on systemic liquidity. That circumstance ultimately—sooner rather than later—dooms the U.S. central bank to an intensified quantitative easing, regardless of any near-term rate hike, foreshadowing U.S. dollar and systemic crises in 2017, as discussed in the *Hyperinflation Watch* of *Commentary No. 849*.

Expanded Fiscal Stimulus Likely Will Return Currency-Market Focus to Long-Range U.S. Sovereign Solvency Issues. As the U.S. expands fiscal stimulus, such should bring currency-market focus back to U.S. sovereign solvency issues. If the concerns are not addressed effectively, intense flight from the U.S. dollar should follow, such as was seen around the S&P downgrade of U.S. Treasuries in August 2011.

While U.S. fiscal-policy likely will focus initially on early, upfront economic stimulus, such has to be worked into a longer-range package in the context of reassuring the global markets of long-term U.S. sovereign solvency. That is a difficult circumstance, where unfunded liabilities for programs covering Medicare and Social Security, for example, have pushed the net-present value of the U.S. government's financial obligations in excess of $100 trillion. If a satisfactory resolution cannot be achieved—consider that the various Congresses and Administration of recent years never developed a meaningful package, a long-range solution—then everything else is just short-lived window dressing. Perceived U.S. financial stability is needed to draw in whatever long-term capital is needed to cover forward-investments in economic activity. Otherwise, massive dollar debasement, rapid domestic inflation and flight to safety in physical gold and silver will follow.

Today's *Commentary* (November 29th). The balance of these *Opening Comments* covers summary detail of the first revision to third-quarter 2016 GDP, and initial estimates of GDI and GNP for the same quarter, as well as detail on the October CASS Freight Index and November consumer conditions. The GDP numbers are expanded upon in the *Reporting Detail*.

The *Week, Month and Year Ahead* previews October construction spending and November labor conditions to be released respectively on Thursday and Friday.

Gross Domestic Product (GDP)—Third-Quarter 2016, First Revision, Second Estimate—Unstable and Nonsensical. The revised headline, annualized, real third-quarter 2016 Gross Domestic Product (GDP) growth was 3.2%, up from 1.4% in second-quarter 2016. Such ran counter to better-quality, private- and public-economic indicators that continue to reflect ongoing, non-recovering recession. Yet, initial reporting of third-quarter Gross Domestic Income (GDI), the income-side equivalent to the GDP's consumption-side, was as unstable and wild enough as to raise questions as to why the Bureau of Economic Analysis (BEA) even bothers to pretend these "equivalent" series have any significance.

Initial, annualized real third-quarter 2016 GDI growth came in at 5.2%, versus a revised 0.71% in the second quarter, which previously had been a contraction of 0.2% (-0.2%). Net of prior-period revisions, third-quarter 2016 GDI was up at an annualized pace of 6.1%.

Headline Gross Domestic Product (GDP). The second estimate of, first revision to third-quarter 2016 GDP showed a statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 3.16%, previously estimated at 2.90%. Such followed gains of 1.42% in second quarter 2016, 0.83% in first-quarter 2016 and 0.87% in fourth-quarter 2015.

Year-to-year real growth in third-quarter 2016 GDP rose to an upwardly revised 1.57%, from 1.28% in second-quarter 2016, but even with 1.57% annual growth in first-quarter 2016, and 1.88% in fourth-quarter 2015.

In the *Reporting Detail*, *Graphs 16* and *18* plot headline levels of real quarterly GDP activity, while *Graphs 17* and *19* show headline year-to-year real GDP growth.

Third-Quarter 2016 GDP, Second Estimate - Growth Distribution. The second estimate of third-quarter 2016 GDP was a revised annualized real growth rate of 3.16% [previously 2.90%]. Such was against growth of 1.42% in second-quarter 2016.

The annualized growth number in each sub-category of consumer spending, business/residential investment, trade deficit and government spending is the additive contribution to the total, headline change in GDP, where 1.89% + 0.34% + 0.87% + 0.05% = 3.16%, with a rounding difference. *Commentary No. 844* of October 28th detailed the growth-distribution for the first estimate of third-quarter GDP.

Regrouped by general product line, the BEA estimated that the headline 3.16% quarterly GDP growth rate included a 1.30% growth-rate contribution from services and a 2.05% contribution from goods, with a growth-rate subtraction of 0.20% (-0.20%) from structures (again, a rounding difference).

Contributing Growth Factors. The latest headline increase in third-quarter 2016 GDP was dominated by a sharp, upwardly-revised gain in personal consumption, and additional faux trade contribution, with reduced gains in business/residential investment and government spending.

- ***Consumer Spending Contributed 1.89% (previously 1.47%) to Third-Quarter 2016 GDP Growth; Second-Quarter Growth Contribution was 2.88%.*** The largest GDP growth contribution came from the consumer spending category, with heavy upside revisions to motor vehicles (contrary to the latest durable goods reporting), weather-induced, surging utility usage and from the nebulous, non-productive and heavily-guesstimated healthcare sector.

- ***Business/Residential Investment Contributed 0.34% (previously 0.52%) to Third-Quarter 2016 GDP Growth; Subtracted 1.34% (-1.34%) from Second-Quarter Growth.*** Inventory growth was a less positive 0.49% (previously 0.61%) contributor to the GDP growth rate. Accordingly, headline final sales—GDP net of inventory change—revised to an annualized quarterly growth rate of 2.67% (previously 2.29%), versus 2.57% in second-quarter 2016.

- ***Net Exports Added 0.87% (previously 0.83%) to Third-Quarter 2016 GDP Growth; Added 0.18% to Second-Quarter Growth.*** The improvement here remained heavily distorted, first with a one-time surge in soybean exports, and second from highly-suspect, improved reporting of the September trade deficit (see *Commentary No. 845*). Further detail will follow with coverage of

December 6th release of the October trade deficit, which is indicated as having deteriorated markedly.

- ***Government Spending Added 0.05% (previously 0.09%) to Third-Quarter 2016 GDP Growth, It Subtracted 0.30% (-0.30%) from Second-Quarter Growth.*** Federal government spending contributed 0.16% to the GDP growth rate, split evenly between defense and nondefense spending. The offsetting decline to the aggregate here was in more-negative state and local gross investment, net of somewhat higher consumption.

Implicit Price Deflator (IPD). The second estimate of third-quarter 2016 GDP inflation, or the implicit price deflator (IPD), showed a revised, annualized quarterly change of 1.38% (previously estimated at 1.49%), versus an annualized 2.29% in second-quarter 2016 and 0.46% in first-quarter 2016.

As general guidance, the weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth, and vice versa. The downside revision of 0.11% (-0.11%) in the third-quarter IPD accounted for somewhat shy of half the upside boost to the revised real third-quarter GDP growth. More-extensive detail and quarterly comparisons with the CPI-U are found in the *Reporting Detail*.

Gross National Product (GNP) and Gross Domestic Income (GDI). Standardly, the first estimates of third-quarter GNP and GDI are published with the second headline estimate of third-quarter GDP. That circumstance is due to quality issues with the available "advance" data, a problem also common to the GDP reporting. Initial third-quarter 2016 estimates of GNP and GDI follow. Previously reported details on the GNP and GDI are found in *Commentary No. 836*.

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

The initial, annualized real third-quarter 2016 GNP growth came in at 3.13%, versus 2.16% in second-quarter 2016 and an "unchanged" 0.00% [a fractional annualized contraction of 0.003% (-0.003%)] in first-quarter 2016. Initial reporting of year-to-year GNP growth rose to 1.65% in third-quarter 2016 from 1.28% in second-quarter 2016 and 1.31% in first-quarter 2016, reflecting primarily the gains in the underlying GDP base; the quarterly shifts in in factor income trade flows were negligible.

Gross Domestic Income. GDI is the theoretical income-side equivalent to the consumption-side GDP estimate. The GDP and GDI are made to equal each other, every quarter, with the addition of a "statistical discrepancy" to the GDI-side of the equation, which widened to a negative $327.8 billion in third-quarter 2016 from a revised negative $233.9 billion in second-quarter 2016 [previously a negative $192.6 billion].

Headline, annualized real third-quarter 2016 GDI growth came in at an initial reading of 5.16% , versus a revised 0.71% [previously an annualized real contraction of 0.18% (-0.18%)] in second-quarter 2016 GDI and a gain of 0.81% in first-quarter GDI. Net of prior-period revisions, third-quarter 2016 GDI was up at an annualized pace of 6.10%.

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In terms of year-to-year change, third-quarter 2016 GDI stood at 2.02%, versus an upwardly revised 1.36% [previously up by 1.14%] in second-quarter 2016 and 1.33% in first-quarter 2016.

Increasingly touted by the BEA as *the* GDP counterpart, the regularly-unstable GDI has been bloated heavily by effectively-worthless income reporting out of the Bureau of Labor Statistics (BLS). The purported income gains have reflected heavily-upside-biased income estimates out of the otherwise-rigged nonfarm payroll survey, held in almost perpetual growth by built-in upside biases (see the *Birth-Death/Bias Factor* discussion in *Commentary No. 845*).

Underlying Economic Reality. Despite the broadly neutral, and artificially-smoothed 2016 GDP benchmark revisions of July 29th (see *Commentary No. 823*), and the upwardly-revised 3.16% real annualized growth for third-quarter 2016, the U.S. economy has continued in a deepening and as-yet-unrecognized "new" recession. Headline monthly reporting activity in better-quality subsidiary economic series continue to move market expectations in that general direction (the ShadowStats contention remains that the "new" downturn is in reality just a continuation of the economic crash into 2009). Such is despite recent headline gimmicks bloating key data, and the current post-election surge in consumer expectations. Given basic economic lead times, likely new fiscal stimulus from the incoming Administration should have its first major impact in early-2018, not much before.

The revised estimate of third-quarter 2016 GDP at an annualized real quarterly pace of 3.16% still was statistically-insignificant. That followed annualized real quarterly growth of 1.42% in second-quarter 2016, versus benchmarked annualized gains of 0.83% in first-quarter 2016 and 0.87% in fourth-quarter 2015. The three consecutive quarters through second-quarter 2016 were the weakest three quarters of real GDP growth since 2012 and otherwise since formally exiting the 2007 recession. Where third-quarter 2016 GDP likely will not revise meaningfully to the downside now, before the July 28, 2017 benchmark revisions, fourth-quarter 2016 activity should slow sharply, or contract, based on what has been suggested by an early indication of sharp deterioration (a return to more-normal levels) in the October 2016 trade deficit. That detail will be reported fully on December 6th and covered in *Commentary No. 853* of that date.

Discussed in the 2016 benchmarking *Commentary No. 823*, those revisions effectively were neutral in aggregate, with the business-cycle reporting "smoothed" by the BEA. The revisions were not of a nature to trigger formal immediate recognition of a "new" recession, which likely will be clocked from December 2014. While such eventually should happen, the focus now shifts to the rapidly weakening economy in the next several months (fourth-quarter 2016 GDP), which could trigger the "formal" recession recognition.

Formal headline GDP activity continues to run well above economic reality as signaled by a number of better-quality business indicators, such as domestic freight activity (*Graph 5*), consumer goods manufacturing (*Graph 6*), domestic consumption of petroleum products (*Graph 7*), corporate revenues (*Graph 8*) and the employment-population ratio (*Graph 9*). A variety of better-quality government economic series, including broad industrial production and manufacturing, new orders for durable goods and real retail sales also confirm lack of economic recovery, as detailed most recently in *Commentary No. 848*, *Commentary No. 850* and *Commentary No. 849*.

Either the GDP reporting is wrong, or all other major economic series are wrong. While the GDP is heavily modeled, imputed, theorized and gimmicked, it also encompasses reporting from those various

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major economic series and private surveys, which still attempt to measure real-world activity. Flaws in the GDP inflation methodologies and simplifying reporting assumptions have created the headline post-2009 "recovery."

Accordingly, the broad ShadowStats economic outlook has not changed, and the gist of most of this and following text remains along the lines of other recent GDP *Commentaries*. The details and numbers, however, are updated to reflect the latest headline detail.

Discussed in *Commentary No. 739*, which covered last year's 2015 GDP annual benchmark revisions, annual benchmarkings increasingly are reshaping the GDP-reporting history into a post-2007 collapse pattern of successive multiple dips, irrespective of the current gimmicked revisions. By the next comprehensive GDP benchmark revision in July 2018, post-2007 historical GDP reporting should be confirming a non-recovering, multiple-dip economic collapse including a "new" or ongoing recession.

That circumstance should encompass the evolving, current downturn in broad, domestic economic activity, discussed previously in *No. 777* and *No. 742 Special Commentary: A World Increasingly Out of Balance*. Where again, the present "new" recession or multiple-dip downturn remains likely to be timed from December 2014, without headline back-to-back contractions of quarterly GDP currently in place. Formal recognition of same remains pending, where consecutive quarterly GDP contractions no longer are necessary for formal recession recognition (see the opening paragraphs of *Commentary No. 823*). Recognition of the onset of the prior December 2007 recession was not formalized until November 28, 2008, but it did have consecutive GDP contractions.

Ongoing monthly economic-reporting details for key series, public and private, increasingly confirm the patterns of declining or collapsing economic activity. For example, consider the discussion in *Commentary No. 820* on The Conference Board Help Wanted OnLine® Advertising, which was generating a signal for an economic downturn. October detail was published on November 7th, and a review of those numbers shows that the year-to-year declines in the monthly data continue unabated. Historically, such activity has been among the best of the leading indicators to an unfolding economic

In combination, these various collapsing economic indicators eventually should engender a formal recession call, irrespective of the timing of actual, headline quarterly contractions in real GDP, or what likely has been related political gaming of the data in Washington.

Fundamental, real-world economic activity shows that the broad economy began to turn down in 2006 and 2007, plunged into 2009, entered a protracted period of stagnation thereafter—never recovering—and then began to turn down anew in recent quarters. Irrespective of the reporting gimmicks introduced in the July 2013, July 2014 and July 2016 GDP benchmark revisions—including a recent pattern of inclusion and estimation of highly-questionable data on the Affordable Care Act (ACA) and related healthcare spending—a consistent, fundamental pattern of faltering historical activity is shown in the accompanying "corrected" GDP graphs.

Please note that the pattern of activity shown for the "corrected" GDP series is much closer to the patterns shown in the graphs of unemployment (see *Graph 9* and *Commentary No. 845*), monthly real median household income and other consumer measures (see the *Consumer Liquidity Update* in a later section and the full liquidity review in *Commentary No. 846*). This also has been detailed in *No. 742 Special Commentary: A World Increasingly Out of Balance* and *No. 692 Special Commentary: 2015 - A World*

Out of Balance. Similar patterns are found in economic series not otherwise reliant on understated inflation for their reported growth, such as housing starts (see *Commentary No. 849* and *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*).

With liquidity-strapped consumers unable to fuel sustainable growth in consumption, a full business recovery could not have taken place since 2009, and a recovery will not be forthcoming until consumer structural income and liquidity problems are resolved, including more-normal credit functioning of the domestic banking system.

Official and Corrected GDP. Usually discussed in these *Commentaries* covering the quarterly GDP reporting and monthly updates, the full economic recovery indicated by the official, real GDP numbers remains an illusion. It is a statistical illusion created at least partially by using a too-low rate of inflation in deflating (removing certain inflation effects) from the GDP series. The accompanying graphs tell that story, updated for the second estimate of third-quarter 2016, as well as reflecting other elements of economic reality.

The first set of graphs (*Graphs 1* and *2*) updates the detail 1970-to-date, expressed in billions of 2009 dollars as used with the headline GDP. The graphs show official periods of recession as shaded areas, with ShadowStats-defined recessions indicated by the lighter shading in *Graph 2*, the second graph of the first set, as published initially in *2014 Hyperinflation Report—Great Economic Tumble*.

The second set of graphs (2000-to-date) is the one that traditionally has been incorporated in the GDP *Commentaries*. *Graphs 3* and *4* show short-term detail, expressed on an index base where first-quarter 2000 = 100.0.

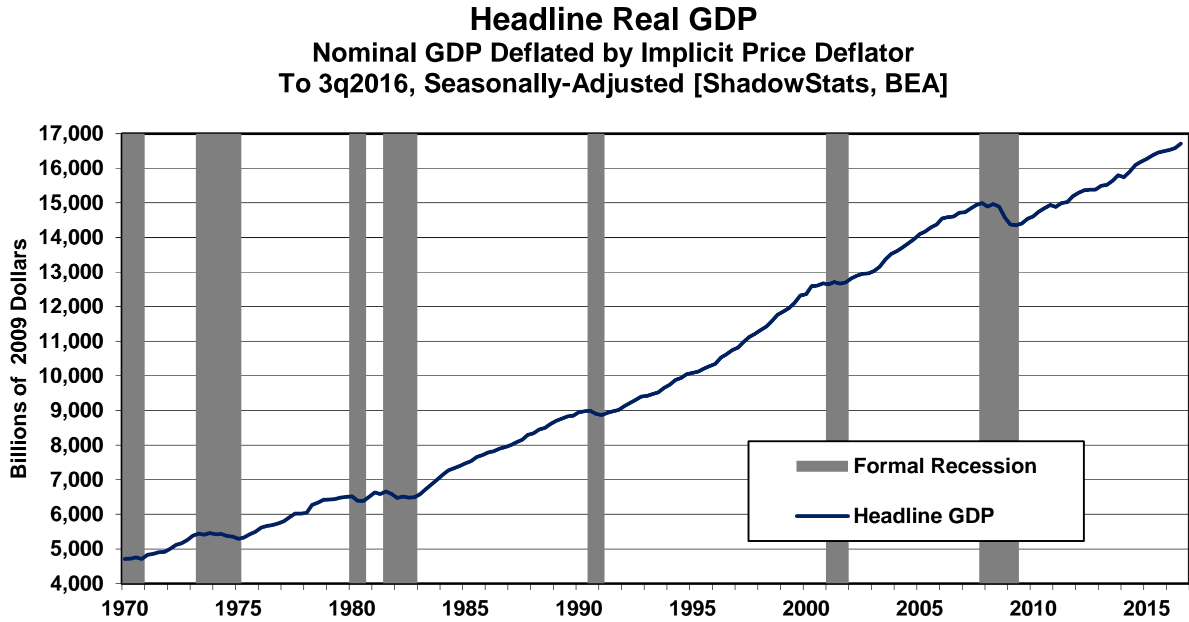
Shown in the first graph of each set (*Graphs 1* and *3*) of official *Headline Real GDP*, GDP activity has been reported above pre-2007 recession levels—in full recovery—since second-quarter 2011, and headline GDP has shown sustained growth since (growth pauses or interruptions for second-half 2012 and first-quarter 2014 excepted). Adjusted for GDP inflation (the implicit price deflator - IPD), the second-estimate headline third-quarter 2016 GDP currently stands 11.5% above its pre-recession peak-GDP estimate of fourth-quarter 2007. As discussed in the opening details of *Commentary No. 844*, no major traditional GDP components or indicators are showing recovery close to the GDP's. None of the series covered here have shown significant recoveries, and many remain well shy of ever having recovered.

In contrast, the "corrected" GDP version, in the second graph of each set (*Graphs 2* and *4*), shows third-quarter 2016 GDP activity to be down from its pre-recession peak of first-quarter 2006 by 7.2% (-7.2%).

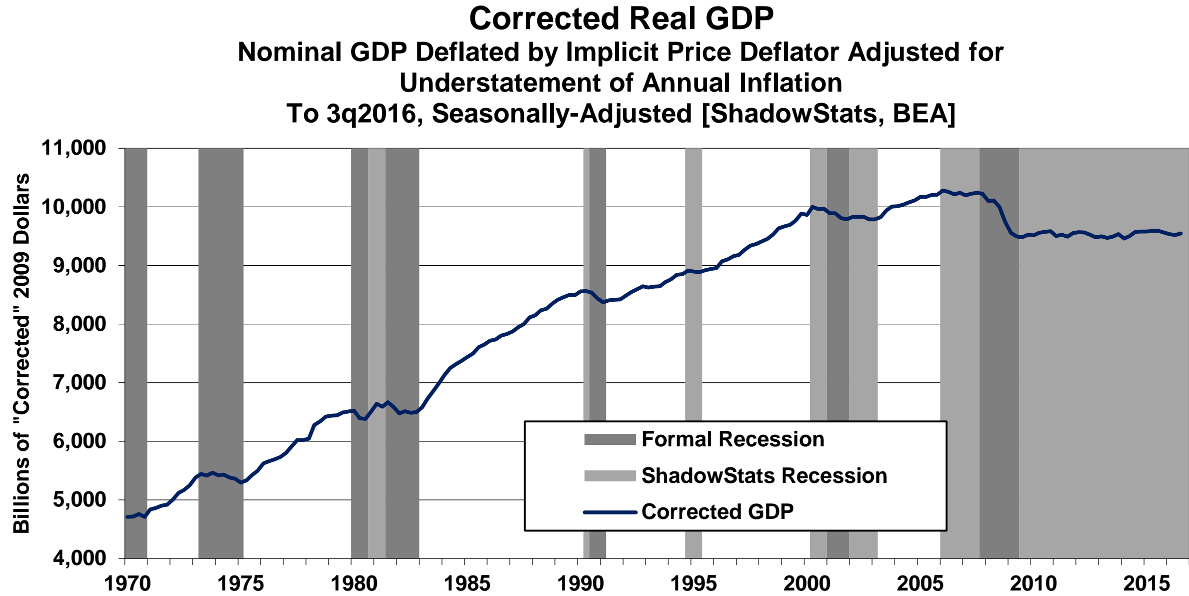
Again, the second graph in each series (*Graphs 2* and *4*) plots the *Corrected Real GDP*, adjusted for the understatement inherent in official inflation estimates (see *Public Commentary on Inflation Measurement*), with the deflation by the implicit price deflator (IPD) adjusted for understatement of roughly two-percentage points of annual inflation in recent years. The inflation understatement has resulted from hedonic-quality adjustments, also as discussed in the *Hyperinflation Reports*.

The pattern of economic collapse into 2009, followed by some minimal recovery, low-level stagnation and renewed contraction is seen with many series. As shown in *Graphs 5* to *9*, better-quality independent numbers—including some U.S. government—put the lie to the gimmicked headline reporting that has been massaged for decades by government agencies and consulting academics.

Graph 1: Real GDP Index (1970-2016), Second Estimate of Third-Quarter 2016



Graph 2: "Corrected" Real GDP (1970-2016), Second Estimate of Third-Quarter 2016



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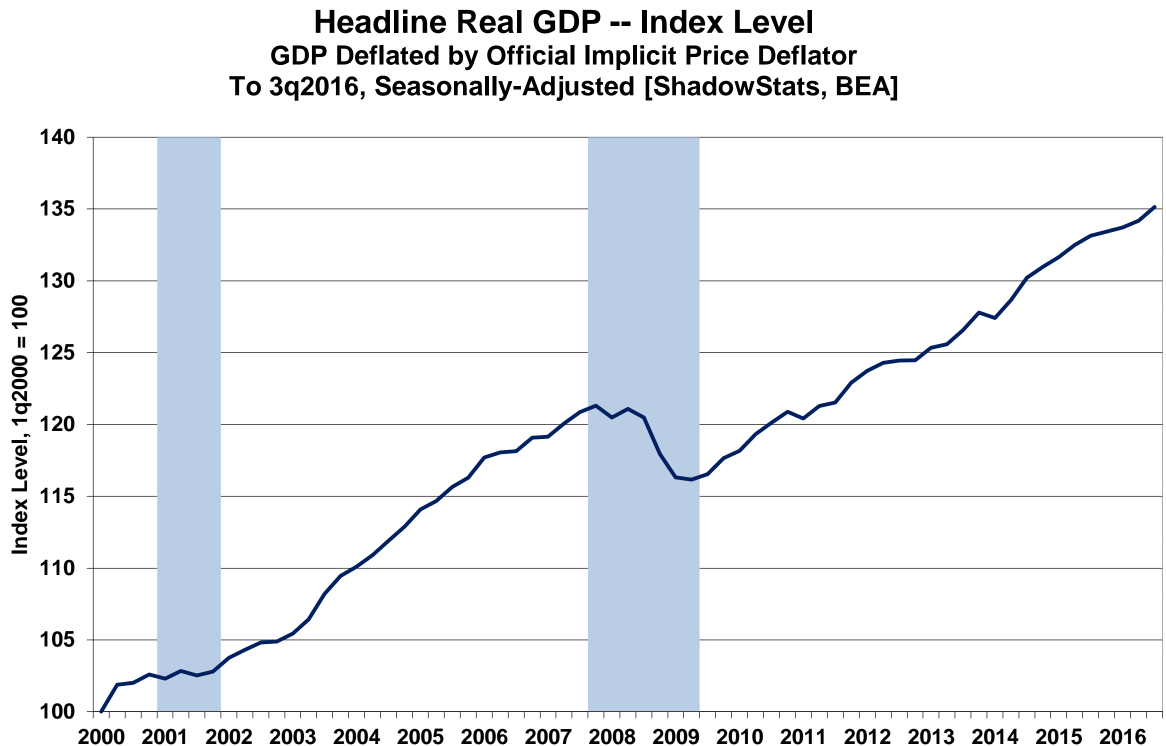
Graph 3: Real GDP Index – Headline Real GDP through Second Estimate of Third-Quarter 2016



Comparative Indicators. *Graph 4* of the "corrected" GDP series follows on the next page. Several graphs are added thereafter for economic comparison. Updated from the prior two *Commentaries*, *Graph 5* is the Cass Freight Index™ measure of North American freight volume, used with the permission of Cass Information Systems, Inc. (see detail on the headline October 2016 index in the following *CASS Freight Index ...* section, as released late-afternoon of November 23rd). Few measures better reflect the actual flow of goods in commerce than freight activity. As a broad measure of basic domestic economic activity, the index has much more in common with the "corrected" GDP in *Graph 4*, than with the headline GDP of *Graph 3*.

Graph 6 of Consumer Goods Manufacturing and *Graphs 7* to *9* have been lifted respectively from (and are described in) earlier *Commentary No. 848* and *Commentary No. 845*. They generally confirm the story from the "corrected" GDP graph, that the economy never recovered from its collapse into 2009 and is either in renewed downturn or in continuing low-level stagnation, albeit some of the latter is slightly up-trending. The U.S. aggregate consumption of crude oil petroleum product (*Graph 7*), for example, measured in physical barrel count, is an extraordinarily broad indicator of general activity [U.S. Energy Information Agency (EIA)].

As with the CASS index, where the monthly data are not seasonally adjusted, ShadowStats has plotted the petroleum series using a trailing twelve-month average, through the latest headline monthly detail of August 2016. The resulting smoothed pattern reflects the economic collapse into 2009, followed by a protracted period of variable, low-level stagnation, and an upside notch into first-half 2016. In contrast,

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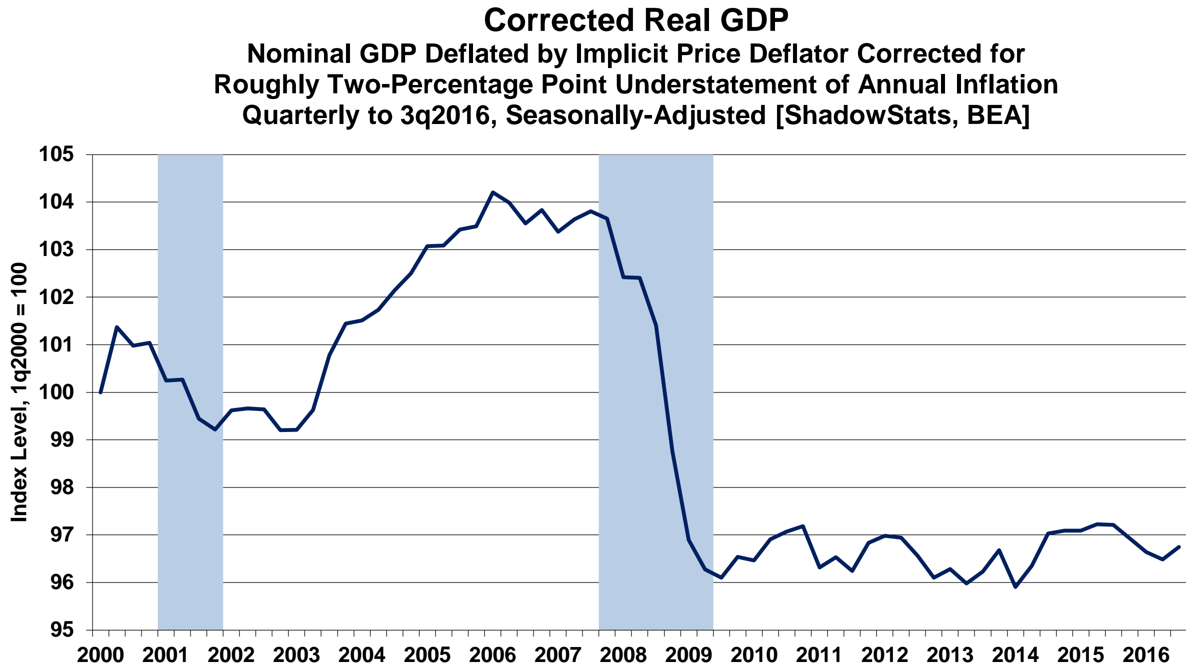
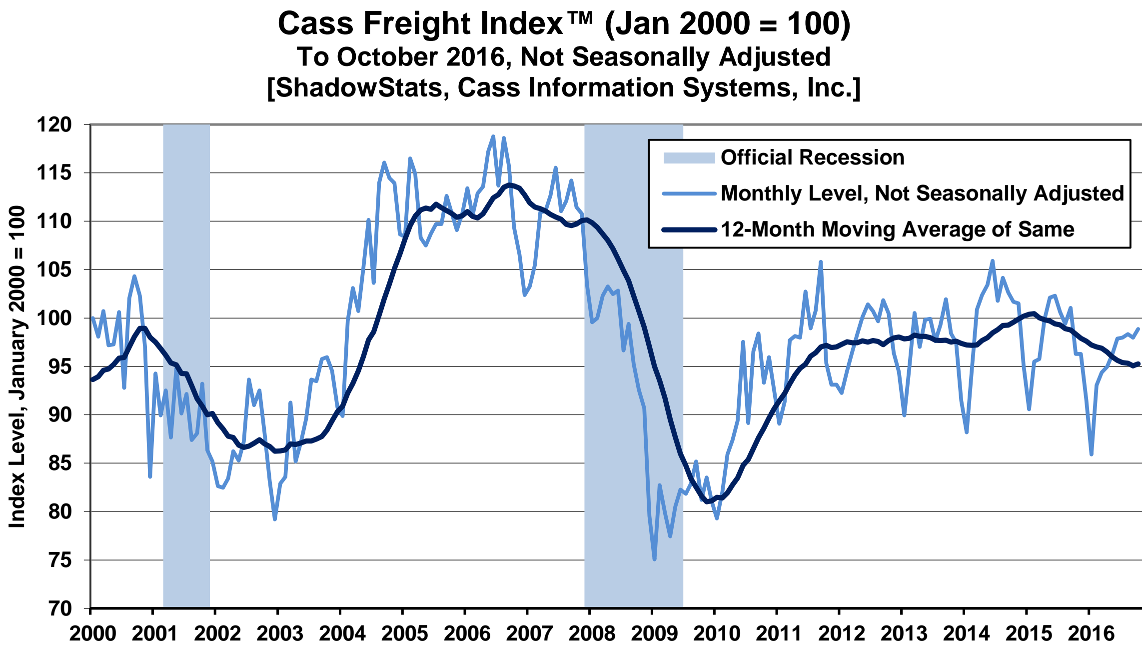
the CASS index continues to turn down in its twelve-month trailing average, with monthly year-to-year contractions through September 2016 (third-quarter 2016), with a minimal uptick in October.

Graph 4: "Corrected" Real GDP Index (2000-2016), Second Estimate of Third-Quarter 2016



Graph 5: Cass Freight Index ™ (2000-October 2016)



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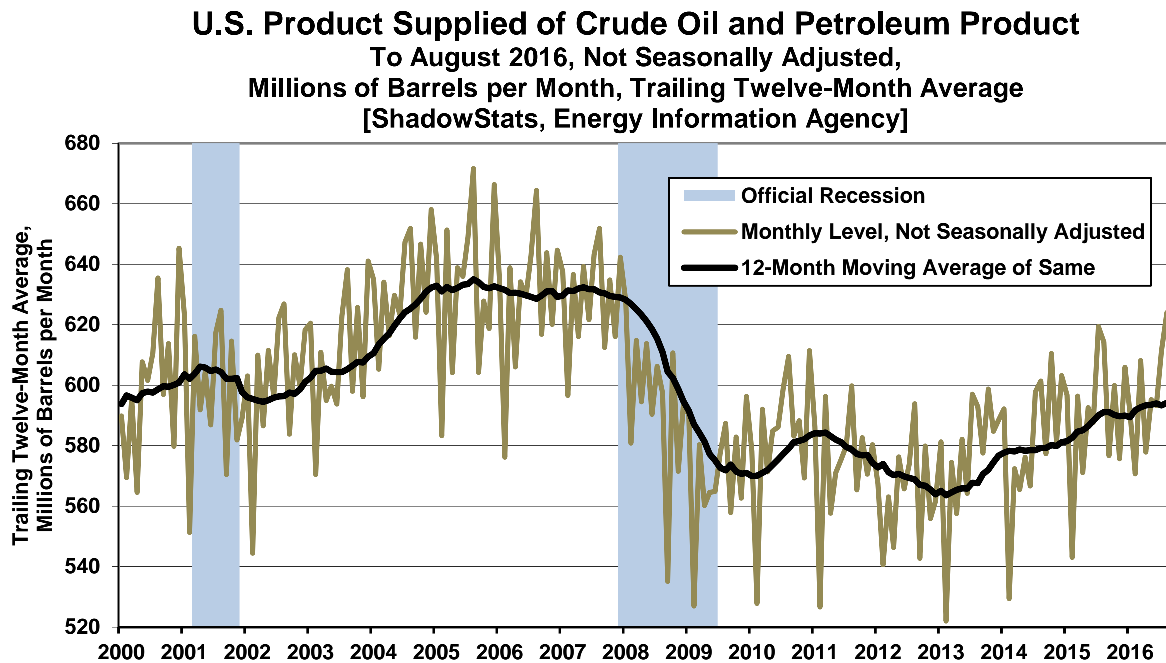
Graph 6: U.S. Industrial Production – Manufacturing, Consumer Goods to October 2016

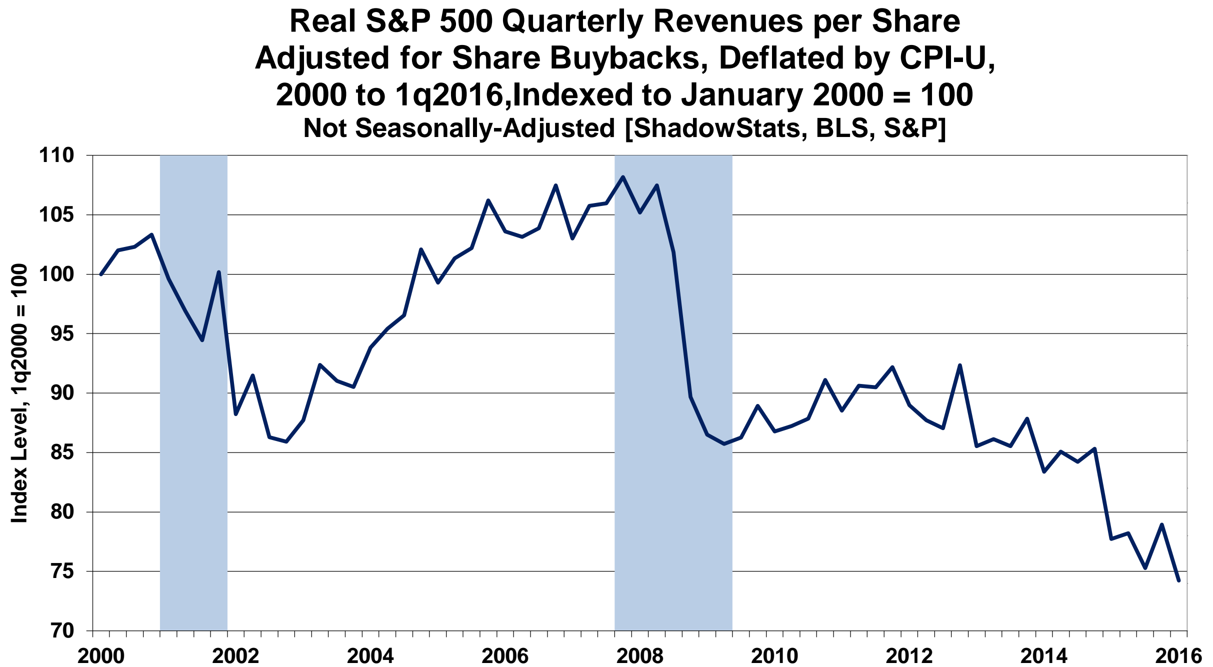
Graph 7: U.S. Petroleum Consumption to August 2016



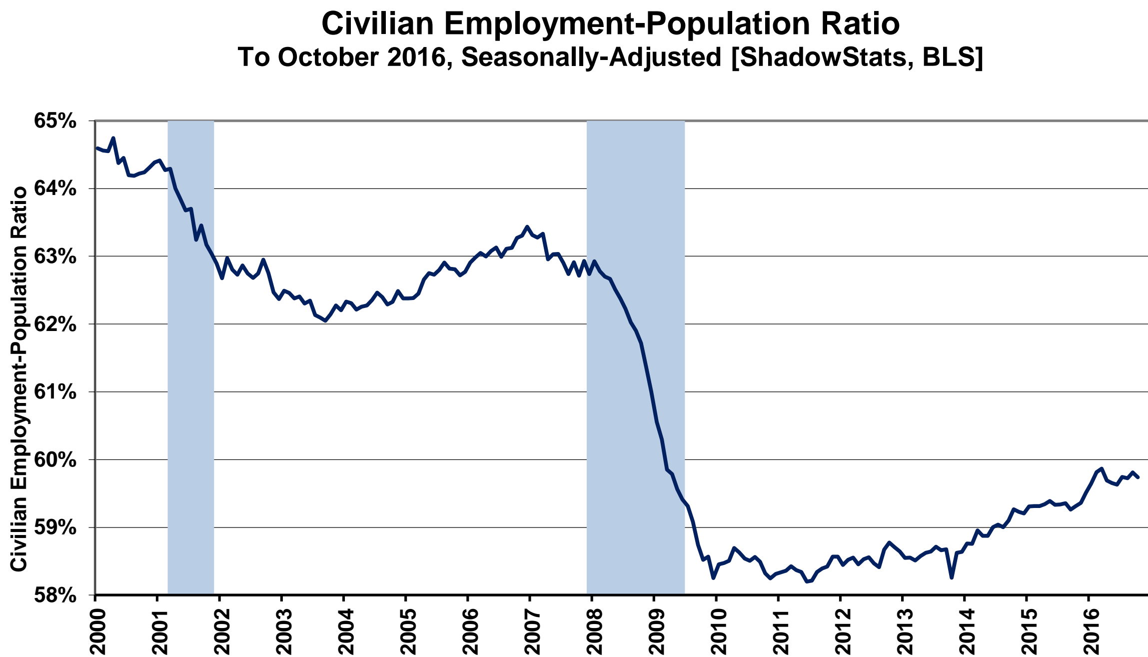
Graph 8 of S&P 500 revenues is plotted (not seasonally adjusted) on a quarterly basis, adjusted for the estimated impact of share buybacks and inflation. *Graph 9* of the employment to population ratio is a solid indicator of underlying labor conditions in the context of the broad population and long-term

discouraged and displaced workers, reflected here through October 2016, to be updated through November in next *Commentary No. 851*.

Graph 8: Real S&P 500 Sales Adjusted for Share Buybacks (2000 - 2015), Indexed to January 2000 = 100



Graph 9: Civilian Employment-Population Ratio



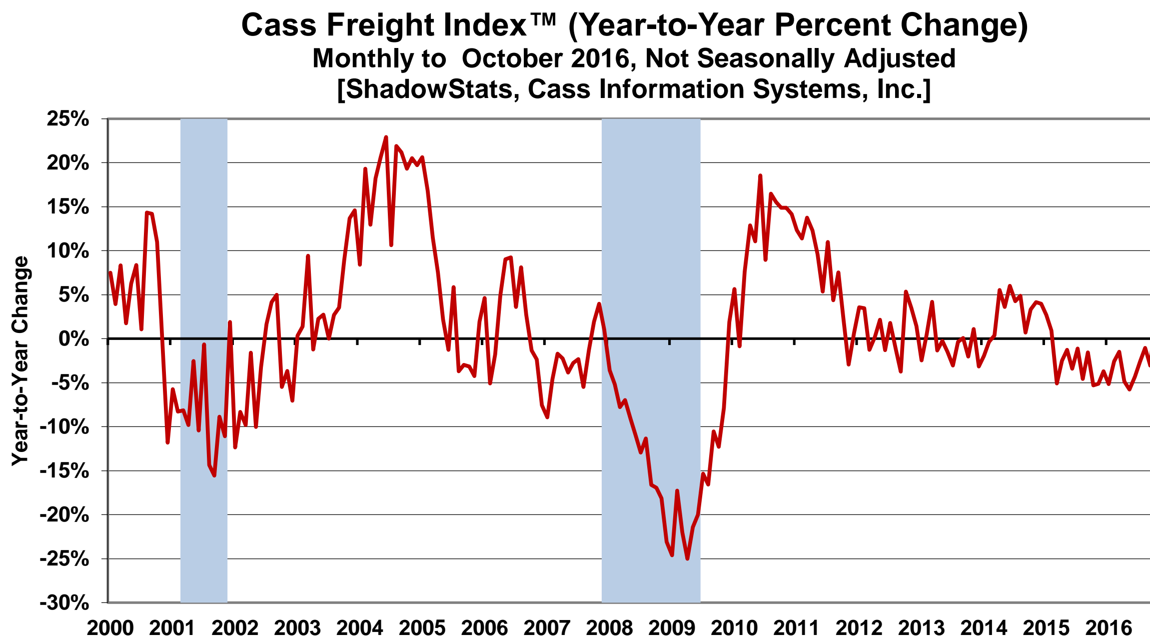
Though Showing a Small Annual Gain in October 2016, the Freight Index Continued in Low-Level Stagnant Non-Recovery. Patterns of non-recovery in the general economy and business activity were confirmed and reflected in the headline detail of the October 2016 Cass Freight Index™, although the index showed some minimal, relative, comparative strength versus September 2016.

Beginning with *Commentary No. 782* (further background available there), ShadowStats published the graphic detail on the Cass Index, a measure of North American freight volume as calculated by, and used with the permission of Cass Information Systems, Inc. As background, freight activity is a basic, underlying indicator of commercial activity and broad GDP. Of the combined U.S. and Canadian (North American) GDP in 2014, roughly 91% was attributable to the United States.

Shown in *Graph 5* of the preceding *GDP* ... section, the plot reflects the monthly numbers updated through October 2016. While adjusted for factors such as days in a month, the headline monthly detail is not adjusted for broad seasonality patterns, such as retailers stocking for the holiday shopping season. Accordingly, ShadowStats plots the series using a trailing twelve-month average, which tends to neutralize regular seasonal patterns over the period of a year, along with the unadjusted monthly detail plotted in the background. ShadowStats also has re-indexed the series to January 2000 = 100, so as to be consistent with other graphs used. The headline index published by Cass is based at January 1990 = 100.

In *Graph 5*, the trailing twelve-month average of the freight index peaked in February 2015 and had been slowing since, through September 2016, with the twelve-month average to October 2016 showing a somewhat narrowed decline of 5.2% (-5.2%) [September had been down by 5.4% (-5.4%)] from the February 2015 peak. The October 2016 average also was down by 3.1% (-3.1%) year-to-year, where the September 2016 average reading had been down 3.8% (-3.8%) on a year-to-year basis.

Graph 10: CASS Freight Index, Year-to-Year Percent Change, Monthly through October 2016



Another approach to assessing not-seasonally-adjusted monthly detail is to look at year-to-year change by individual month, as plotted in *Graph 10*. The unadjusted monthly detail had been in continual year-to-year decline since March of 2015, down by an intensified 3.1% (-3.1%) year-to-year in September 2016, but it rallied to an annual gain of 2.7% in October 2016.

In combination, *Graphs 5* and *10* remain consistent with a pattern of collapsing economic and business activity into 2009, low-level stagnation thereafter and a renewed downturn effectively coincident with a "new" recession, which likely still will be timed from December 2014.

Consumer Outlook Showed Some Post-Election Euphoria, but Liquidity Conditions Continue to Constrain Individual Consumption and Broad Economic Activity. Underlying fundamentals to consumer economic activity, such as liquidity, have been impaired severely in the last decade or so, driving economic activity into collapse and preventing meaningful or sustainable economic rebound, recovery or ongoing growth. The level of and growth in sustainable real income, and the ability and willingness of the consumer to take on new debt remain at the root of the liquidity crisis, where the issues generally continue to intensify. These same conditions have intensified or have reflected deteriorating consumer attitudes and pocket-book issues, all of which contributed to the anti-incumbent electoral pressures. The post-election environment has reflected a near-term surge in consumer optimism, but liquidity conditions have not yet caught up with consumer hopes.

This limited update of consumer conditions and liquidity (last fully updated in *Commentary No. 846*), covers the November 2016 detail on the Conference Board's Consumer-Confidence Index® (released this morning, November 29th) and the full-month November 2016 University of Michigan's Consumer Sentiment Index (released November 23rd), and October 2016 Real Monthly Median Household Income, released by www.SentierResearch.com, also this morning

Generally, the higher and stronger these measures are, the healthier is consumer spending. Most measures of consumer liquidity and attitudes remain off their lows, and one—real monthly median household income—actually had spiked recently to pre-recession levels, reflecting the temporary collapse in gasoline prices and deflation by the otherwise underestimated headline CPI-U inflation. Real monthly median income, however, generally has begun to move lower, stagnating at the moment, along with a developing pickup in consumer inflation.

Still, the broad underlying consumer liquidity fundamentals simply have not supported, and do not support a turnaround in broad economic activity. Never truly recovering in the post-Panic of 2008 era, limited growth in household income and credit, have eviscerated and continue to impair broad, domestic U.S. business activity, which feeds off the financial health and liquidity of consumers. This remains in play in the context of a post-election surge in consumer expectations that still is shy of pre-recession levels.

These factors have driven the housing-market collapse and ongoing stagnation in consumer-related real estate sales and construction activity, as well as having constrained both nominal and real retail sales activity and the related, personal-consumption-expenditures and residential-construction categories of the Gross Domestic Product (GDP). Together, those sectors account for more than 70% of total U.S. GDP activity.

Now, with the economy never having recovered fully from the collapse into 2009, consumers again have been pulling back on consumption, as evidenced by a renewed slowdown in broad economic activity, where that reality is evident in more-meaningful series—not the GDP—as covered earlier in today's *Commentary,* irrespective of the revised, gimmicked boost to third-quarter 2016 GDP, headlined today.

Consumer Confidence and Sentiment. This detail incorporates the full-month November 2016 readings for the Conference Board's Consumer-Confidence and University of Michigan Consumer-Sentiment measures. Reflected in *Graphs 11* to *13*, where both confidence and sentiment rose in September, they plunged in October, likely reflecting concerns as to the direction of the presidential race. The November measures, however, rallied sharply, reflecting post-election, increased consumer optimism, and generally consistent with post-election stock-market reaction. As with the markets, though, the initial surge in early-November consumer sentiment was all pre-election (see *Commentary No. 849* for comments on the post-election market rallies).

The Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index® (*Graph 11*), and the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph 12*) both rose in September, only to collapse in October and then soar in November. The three-month moving average in sentiment held below its February 2015 near-term peak, but the three-month moving average in confidence broke to a new post-recession high.

Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs 11* to *13* 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.

Consumer Sentiment continued to hold off its June 2015 near-term peak, smoothed for its six-month moving-average reading, but Confidence, again, broke to a new post-recession high (*Graph 13*).

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. With still increasingly-negative, unstable and uncertain headline financial and economic reporting, and beyond the immediate, post-election euphoria, successive negative hits to both the confidence and sentiment readings remain increasingly likely in the months ahead, once again, as the still-faltering economy takes a renewed toll on the consumer's outlook.

Smoothed for irregular, short-term volatility, the two series remain at levels seen typically in recessions. Suggested in *Graph 13*—plotted for the last 45 years—the latest readings of Confidence and Sentiment generally have not recovered levels preceding most formal recessions of the last four decades. Broadly, the consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth as suggested by headline GDP growth in 2014, and for second-and third-quarter 2015 and today's revised third-quarter 2016 estimate.

[Graphs 11 to 13 begin on the following page.]

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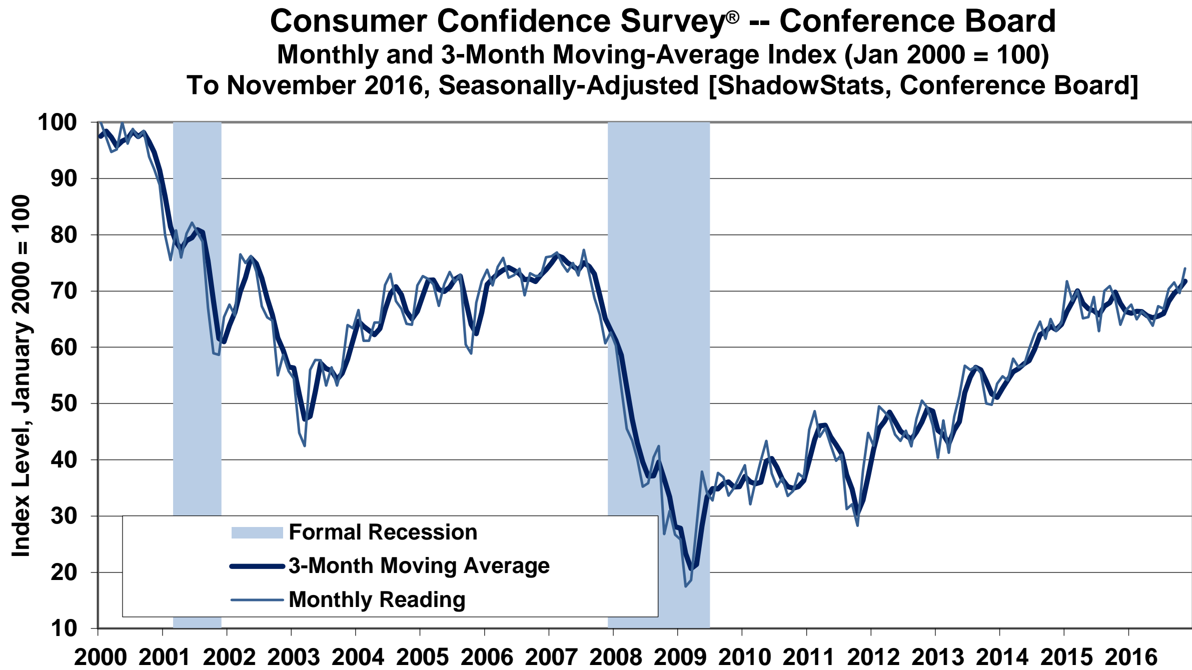
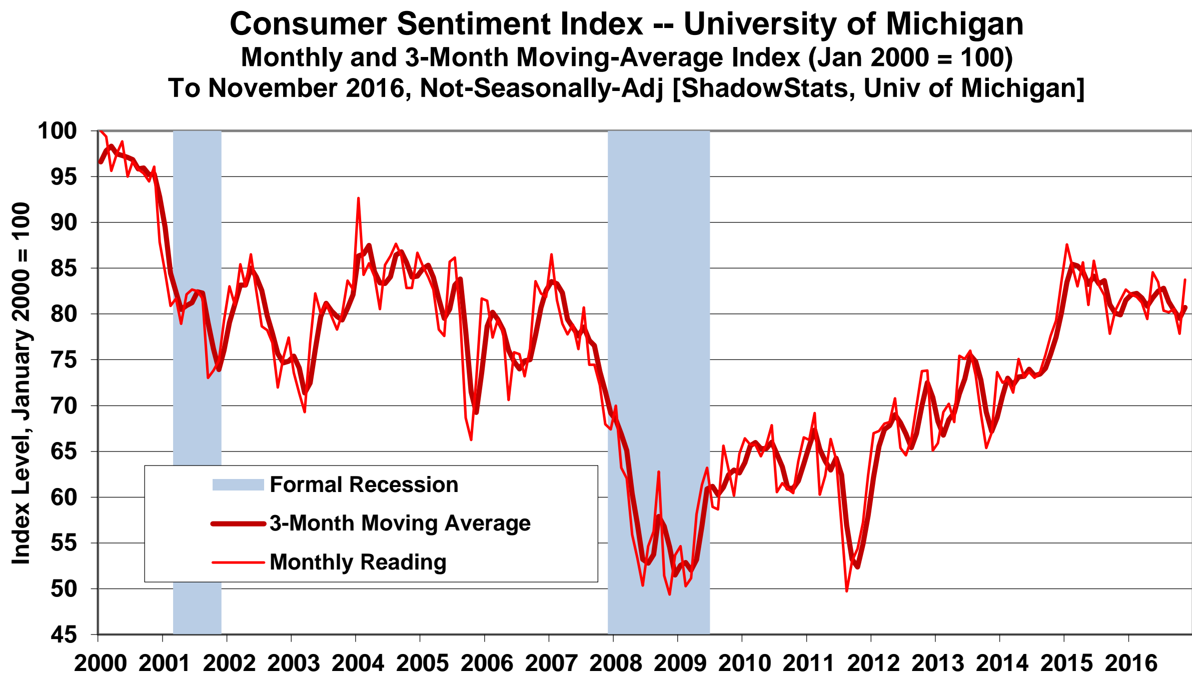
Graph 11: Consumer Confidence to November 2016



Graph 12: Consumer Sentiment to November 2016



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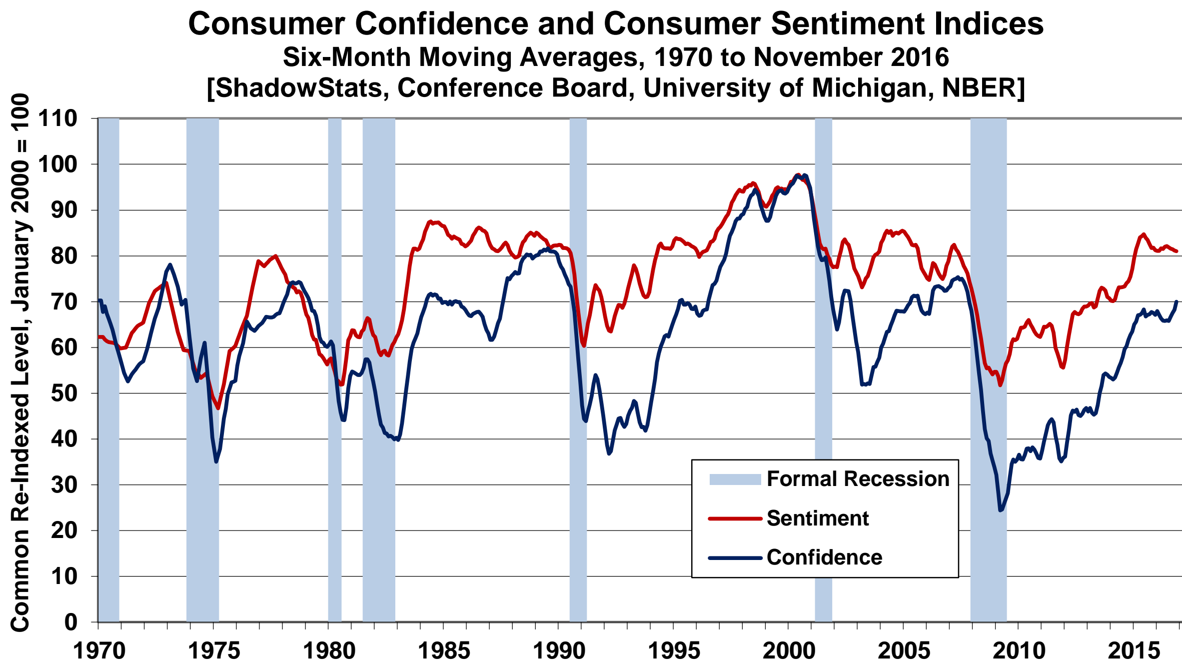
Graph 13: Comparative Confidence and Sentiment (6-Month Moving Averages) since 1970



Despite Near-Term Optimism, Monthly Household Income Still Signals Broadly-Based Economic Difficulties. Beyond the happy expectations building up in anticipation of the Trump Administration, the median U.S. household today still indicated liquidity problems in October 2016. Shown in *Graph 14* is the monthly real median household income detail for October 2016, as published this morning by Sentier Research (www.SentierResearch.com). Headline median household income had turned down anew, with a statistically-significant monthly decline in May 2016, after several months of statistically-insignificant flutterings around its near-term January 2016 peak. Still stagnating at the moment, statistically-insignificant flutterings have continued from June through today's headline October 2016 detail.

On a monthly basis, when headline GDP purportedly started its solid economic recovery in mid-2009, the monthly household income number nonetheless plunged to new lows. Generally, the income series had been in low-level stagnation, with the recent uptrend in the monthly index boosted specifically by collapsing gasoline prices and the related, negative headline CPI-U consumer inflation. The index reached pre-recession levels in the December 2015 reporting, but it remains minimally below the pre-recession highs for both the formal 2007 and 2001 recessions. It should continue turning down anew, as headline monthly consumer inflation picks up at an accelerating pace.

Where lower gasoline prices had provided some minimal liquidity relief to the consumer, indications are that any effective extra cash generally was used to help pay down unsustainable debt or other obligations, not to fuel new consumption. Again, the effects of lower gasoline prices have bottomed out and begun to reverse, pushing headline consumer inflation higher.

This measure of real monthly median household income generally can be considered as a monthly version of the annual detail shown in *Graph 15*, which was updated recently for 2015 detail (see the full analysis of the 2015 annual household income reporting in *Commentary No. 833*).

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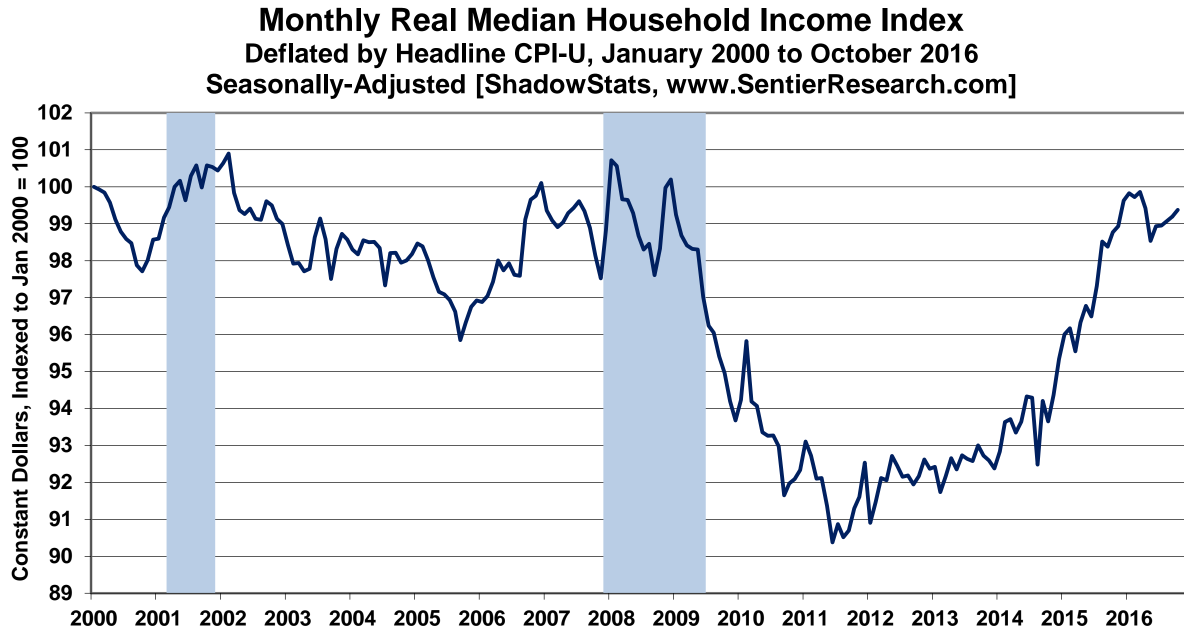
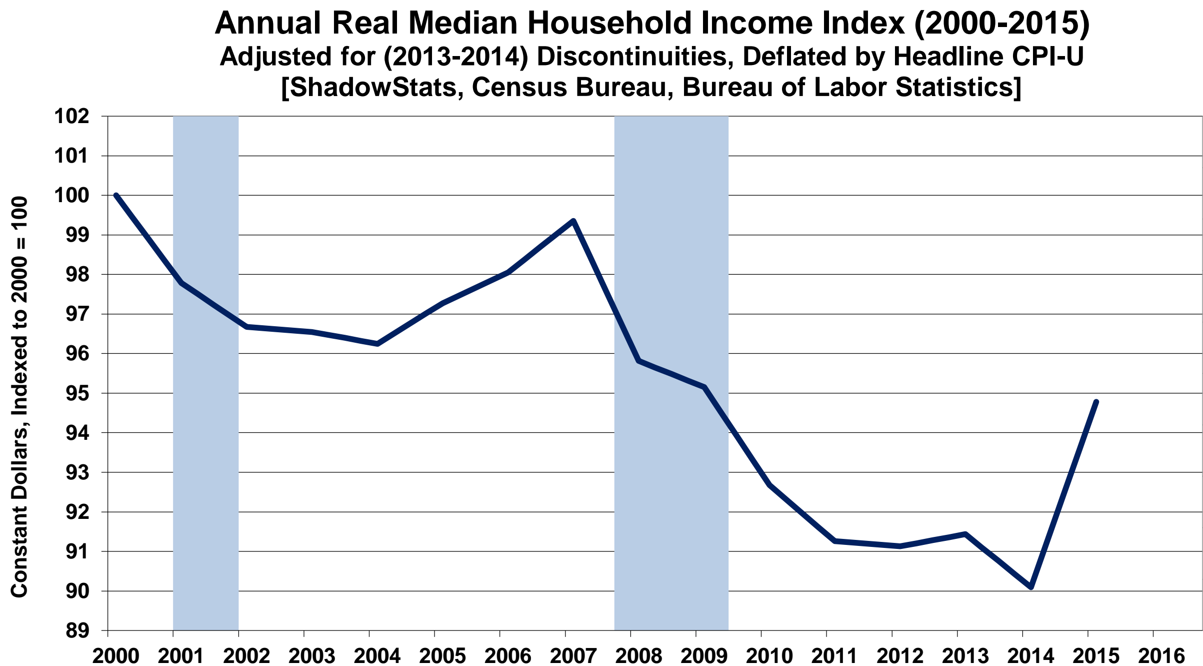
Graph 14: Monthly Real Median Household Income through October 2016



Graph 15: Annual Real Median Household Income through 2015, Discontinuities Removed



Differences in the Monthly versus Annual Median Household Income. The general pattern of relative historical weakness also has been seen in the headline reporting of the annual Census numbers, shown in *Graph 15*, with 2014 real annual median household income having hit a ten-year low, and with the new, historically consistent 2015 annual number still holding below that seen when the collapsing economy hit its purported trough in 2009. The Sentier numbers had suggested a small increase in 2014 versus 2013

levels. Still, the monthly and annual series remain broadly consistent, although based on separate questions within the monthly Consumer Population Series (CPS), as conducted by the Census Bureau. Where Sentier uses monthly questions surveying current annual household income, the headline annual Census detail is generated by a once-per-year question in the March CPS survey, as to the prior year's annual household income.

[The* Reporting Detail *section contains extended GDP analysis and graphs.]

REPORTING DETAIL

GROSS DOMESTIC PRODUCT—GDP (Third-Quarter 2016, Second Estimate, First Revision)

Underlying Recession Continued in Play, Despite Heavily-Massaged and Bloated GDP Detail. Broad economic weakness has continued in underlying, fundamental economic series such as industrial production, new orders for durable goods, broad unemployment indicators and better-quality construction reporting, along with a variety of private indicators ranging from S&P 500® revenues and the Cass Freight Index™ to domestic petroleum consumption and the Conference Board's Help Wanted OnLine® advertising survey. Where a number of series have shown clear and continuing recession, the real-world U.S. economy has been in a "new" recession since December 2014. Recent, unusual reporting in real retail sales and trade-balance activity, however, have been used to boost headline, pre- and post-election third-quarter 2016 GDP growth estimates.

That said, the second estimate of third-quarter 2016 Gross Domestic Product (GDP) and related detail jumped sharply from minimal 1.4% second-quarter 2016 activity, to 3.2%, previously reported as 2.9%. There is no recession, yet, showing in the headline GDP numbers. Discussed in the *Opening Comments*, it is difficult to reconcile the GDP's headline recovery from the 2007 recession and subsequent expansion, with the better-quality government and private economic surveys just mentioned.

Heavily Followed but of Extremely Poor Quality. In this most-politically-sensitive of popularly followed economic series, the GDP does not reflect properly or accurately the changes to the underlying economic fundamentals and measures that drive the broad economy. Separately reported, real-world economic activity has shown that the general economy began to turn down in 2006 and 2007, plunged into 2009, entered a protracted period of stagnation thereafter—never recovering—and then began to turn down anew in late-2014 (see graphs in the *Opening Comments* section).

The GDP (or the broader GNP detail headlined in earlier decades) simply remains the most worthless of the popular government economic series, in terms of determining what really is happening to U.S. business activity. The series is the most-heavily-modeled, politically-massaged and gimmicked government indicator of the economy. It has been so since at least the 1960s, and that reporting quality deteriorated anew, sharply in 2016 benchmarking (see the *Opening Comments* of Commentary No. 823).

Notes on GDP-Related Nomenclature and Definitions

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

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

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

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

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

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

GDP Implicit Price Deflator (IPD) *is the inflation measure used to convert GDP data from nominal to real. The adjusted numbers are based on "Chained 2009 Dollars," as introduced with the 2013 comprehensive revisions, where 2009 is the base year for inflation. "Chained" refers to the substitution methodology, which gimmicks the reported numbers so much that the aggregate of the deflated GDP sub-series missed adding to the theoretically-equivalent deflated total GDP series by $105.5 billion in "residual," as of the second estimate of second-quarter 2016.*

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

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

Gross Domestic Product (GDP). Published today, November 29th, by the Bureau of Economic Analysis (BEA), the second estimate of, first revision to third-quarter 2016 GDP showed a statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 3.16% +/- 3.5% (95% confidence interval), previously estimated at 2.90%. Distribution of the revised third-quarter 2016 GDP growth by major category is detailed in the *Opening Comments*. The current headline detail remains in the context of the July 29th annual GDP benchmark revisions discussed in *Commentary No. 823*.

The second estimate of third-quarter growth was in line consensus expectations of 3.1%, a continuing, politically fortuitous circumstance. Behind the upside revision were revisions in personal consumption, including motor vehicles, utility usage and healthcare. Utility usage varies randomly with weather conditions, while motor vehicle sales and the healthcare data remain extremely gimmicked to the upside. Third-quarter Final Sales (GDP net of inventory change) grew at a revised annualized real quarterly pace of 2.67% (previously 2.29%), versus 2.57% in second-quarter 2016.

The revised headline third-quarter 2016 annualized real growth of 3.16%, followed gains of 1.42% in second quarter 2016, 0.83% in first-quarter 2016 and 0.87% in fourth-quarter 2015.

Graphs 16 and *18* plot headline levels of real quarterly GDP activity, respectively showing short-term (since 2000) and long-term (since the historical onset of the quarterly GDP series in 1947) perspectives.

Shown in *Graphs 17* and *19*, headline year-to-year real GDP growth in third-quarter 2016 rose to a revised 1.57% [previously 1.50%], from 1.28% in second-quarter 2016, but it was even with 1.57% annual growth in first-quarter 2016, and 1.88% in fourth-quarter 2015. Through second-quarter 2016 reporting, real annual growth had been in continual decline since the near-term peak of 3.31% in first-quarter 2015, the post-recession high annual growth for the series. A sharp downtrend in annual growth is common at the onset of formal recessions.

The current-cycle trough in annual change was in second-quarter 2009 (see *Graphs 17* and *19*), reflecting a year-to-year decline of 4.09% (-4.09%). That was the deepest year-to-year contraction for any quarterly GDP in the history of the series, which began with first-quarter 1947 (1948 in terms of available year-to-year detail). *Graph 17* shows current year-to-year quarterly detail, from 2000-to-date, where *Graph 19* shows the same series in terms of its full quarterly, year-to-year history back to 1948.

Implicit Price Deflator (IPD). The second estimate of third-quarter 2016 GDP inflation, or the implicit price deflator (IPD), showed a revised, annualized quarterly change of 1.38% (previously estimated at 1.49%), versus an annualized 2.29% in second-quarter 2016, 0.46% in first-quarter 2016, 0.91% in fourth-quarter 2015, 1.22% in third-quarter 2015, 2.25% in second-quarter 2015 and 0.04% in first-quarter 2015.

As general guidance, the weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth, and vice versa. The revised downside movement in the third-quarter versus second-quarter 2016 IPD of 0.91% was worth a relative, parallel boost in real growth versus nominal growth for third-quarter 2016 relative to the second-quarter 2016, with downside revision of 0.11% (-0.11%) in the third-quarter IPD accounted for somewhat shy of half the upside boost to the revised real third-quarter GDP growth.

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Year-to-year, headline third-quarter 2016 IPD inflation revised to 1.26% (previously 1.29%), versus 1.22% in second-quarter 2016, 1.21% in first-quarter 2016, 1.10% in fourth-quarter 2015, 1.00% in third-quarter 2015, 1.11% in second-quarter 2015 and 1.10% in first-quarter 2015.

For purposes of comparison, the seasonally-adjusted Consumer Price Index CPI-U rose by an annualized 1.63% in third-quarter 2016, versus a revised gain of 2.53% (previously 2.54%) in second-quarter 2016, a decline of 0.31% (-0.31%) in first-quarter 2016, a 0.77% gain in fourth-quarter 2015, a 1.38% gain in the third quarter, a 2.44% gain in the second quarter and a quarterly contraction of 2.86% (-2.86%) in the first quarter of 2015.

Unadjusted, year-to-year quarterly CPI-U inflation showed a year-to-year third-quarter 2016 gain of 1.12%, versus a second-quarter 2016 gain of 1.05%, a first-quarter 2016 gain of 1.08%, a fourth-quarter 2015 gain of 0.47%, a third-quarter 2015 gain of 0.11%, an annual contraction of 0.04% (-0.04%) in second-quarter 2015 and a year-to-year decline of 0.06% (-0.06%) in first-quarter 2015 (see *Commentary No. 841*)

[Graphs 16 to 19 begin on the next page]

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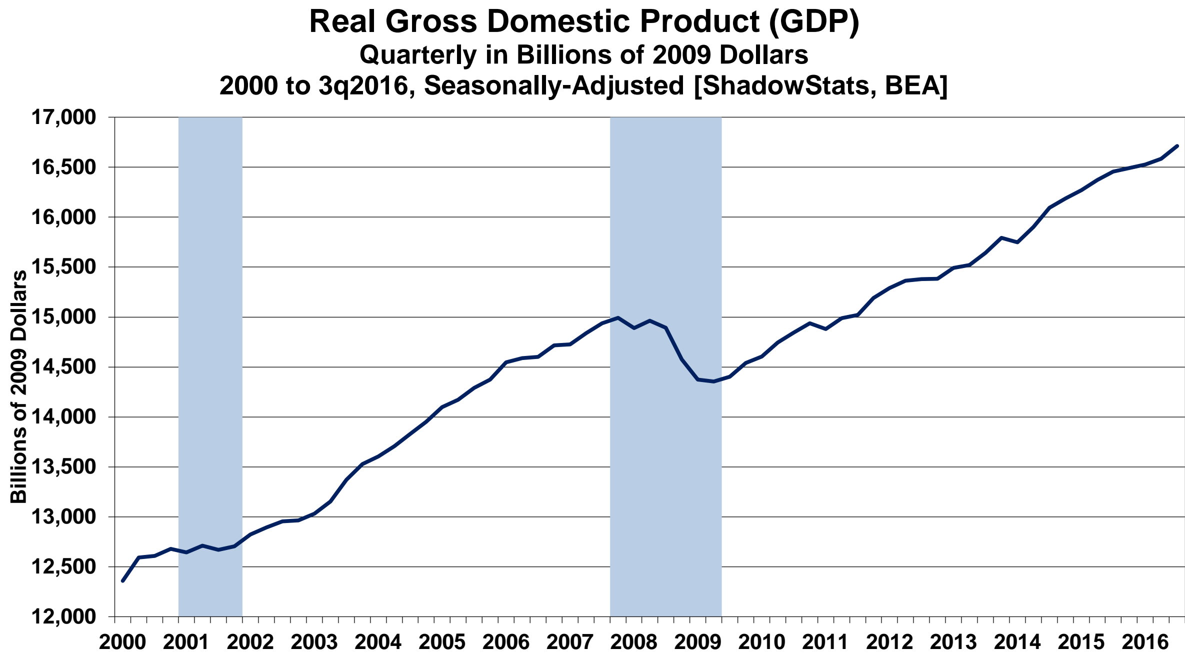
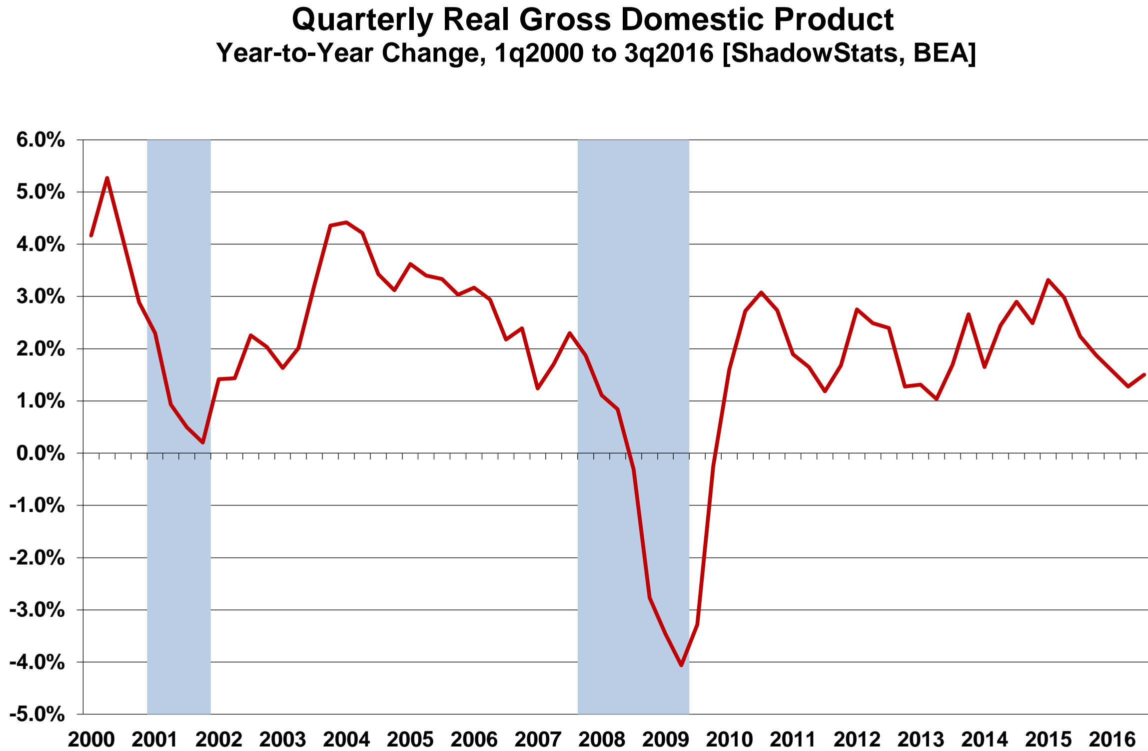
Graph 16: Quarterly GDP in Billions of 2009 Dollars (2000 to 2016), Second Estimate of Third-Quarter 2016



Graph 17: Quarterly GDP Real Year-to-Year Change (2000 to 2016), Second Estimate of Third-Quarter 2016



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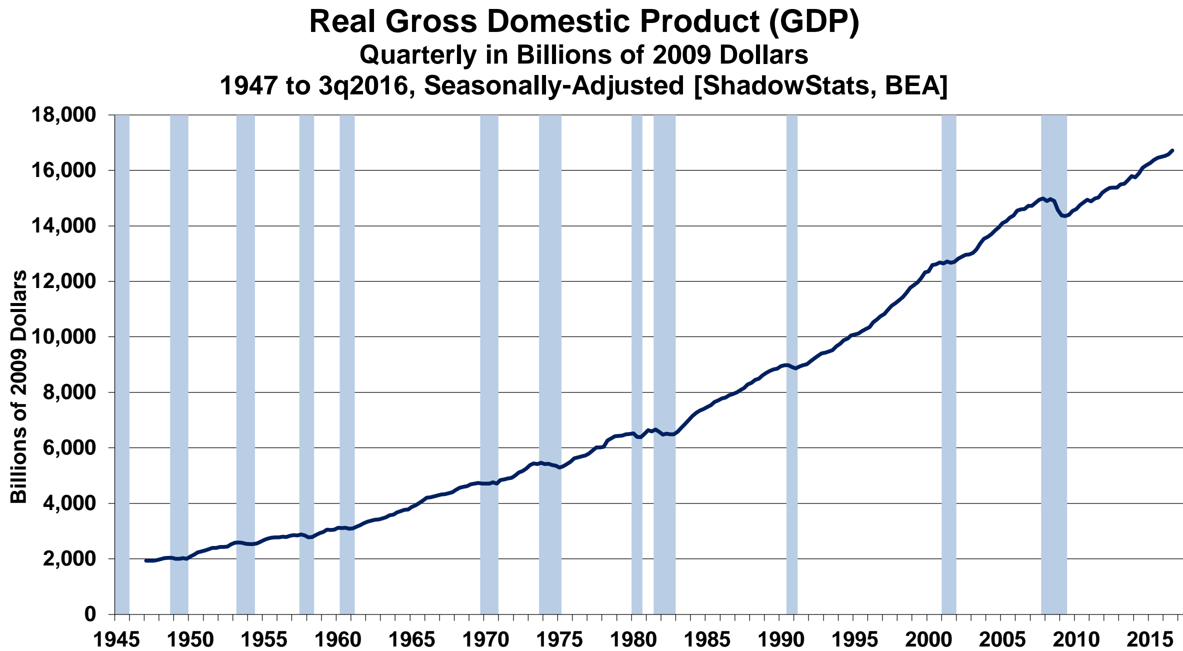
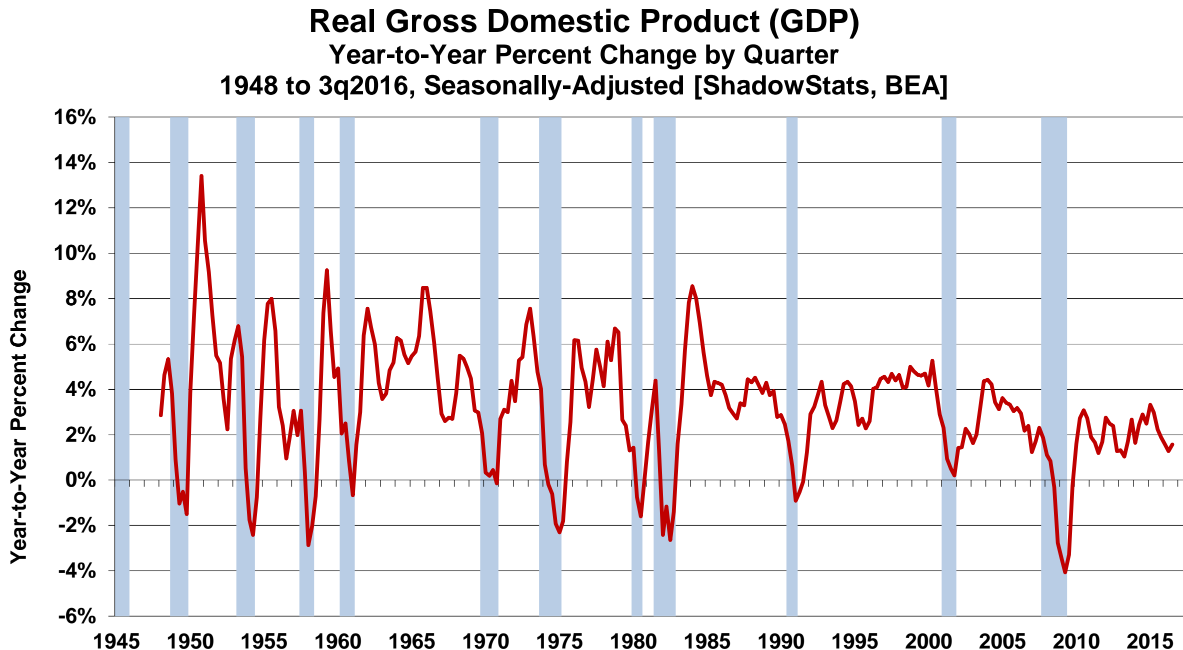
Graph 18: Quarterly GDP in Billions of 2009 Dollars (1947-2016), Second Estimate of Third-Quarter 2016



Graph 19: Year-to-Year GDP Real Change (1948-2016), Second Estimate of Third-Quarter 2016



Gross National Product (GNP) and Gross Domestic Income (GDI). Standardly, the first estimates of third-quarter GNP and GDI are published with the second headline estimate of third-quarter GDP. That circumstance is due to quality issues with the available "advance" data, a problem also common to the

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GDP reporting. Initial third-quarter 2016 estimates of GNP and GDI follow. Previously reported details on the GNP and GDI are found in Commentary No. 836.

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

Headline, annualized real third-quarter 2016 GNP growth came in at an initial reading of 3.13%, versus 2.16% in second-quarter 2016 and an "unchanged" 0.00% [a fractional annualized quarterly contraction of 0.003% (-0.003%)] in first-quarter 2016. Initial reporting of year-to-year GNP growth rose to 1.65% in third-quarter 2016 from 1.28% in second-quarter 2016 and 1.31% in first-quarter 2016, reflecting primarily the gains in the underlying GDP base; the quarter shifts in in factor income trade flows were negligible/

Gross Domestic Income. GDI is the theoretical income-side equivalent to the consumption-side GDP estimate. The GDP and GDI are made to equal each other, every quarter, with the addition of a "statistical discrepancy" to the GDI-side of the equation, which widened to a negative $327.8 billion in third-quarter 2016 from a revised negative $233.9 billion in second-quarter 2016 [previously a negative $192.6 billion].

Headline, annualized real third-quarter 2016 GDI growth came in at an initial reading of 5.16% , versus a revised 0.71% [previously an annualized real contraction of 0.18% (-0.18%)] in second-quarter 2016 GDI and a gain of 0.81% in first-quarter GDI. Net of prior-period revisions, third-quarter 2016 GDI was up at an annualized pace of 6.10%.

In terms of year-to-year change, third-quarter 2016 GDI stood at 2.02%, versus an upwardly revised 1.36% [previously up by 1.14%] in second-quarter 2016 and 1.33% in first-quarter 2016.

Increasingly touted by the BEA as *the* GDP counterpart, the regularly-unstable GDI has been bloated heavily by effectively-worthless income reporting out of the Bureau of Labor Statistics (BLS). The purported income gains have reflected heavily-upside-biased income estimates out of the otherwise-rigged nonfarm payroll survey, held in almost perpetual growth by built-in upside biases (see the *Birth-Death/Bias Factor* discussion in Commentary No. 845).

ShadowStats-Alternate GDP. The ShadowStats-Alternate GDP estimate for third-quarter 2016 GDP remains a year-to-year contraction of 1.9% (-1.9%), versus the second estimate of the third-quarter 2016 annual real headline GDP gain of 1.6% (previously up by 1.5%). That circumstance was against a ShadowStats 2.0% (-2.0%) annual decline estimate for second-quarter 2016, versus the official headline gain of 1.3% in second-quarter 2016 GDP.

While the annualized, real quarterly growth rate is not estimated formally on an alternate basis, the statistically-insignificant revised 3.2% annualized, headline quarter-to-quarter gain in third-quarter 2016 was much weaker, net of all the happy assumptions, regular reporting gimmicks and any short-term political gaming coming into the headline detail. Actual quarterly contractions appear to have been a realistic possibility for inflation-adjusted GDP in most quarters since the official, second-quarter 2009 end to the 2007 recession.

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Adjusted for understated inflation and other methodological changes—such as the inclusion of intellectual property, software and recent accounting for the largely not-measurable and questionable impact of the Affordable Care Act (ACA)—the business collapse that began in 2006/2007 is ongoing; there has been no meaningful economic rebound. The "corrected" real GDP graphs (see *Graphs 2* and *4* in the *Opening Comments*), updated from *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*, are based on the removal of the impact of hedonic quality adjustments that have reduced the reporting of official annual GDP inflation by roughly two-percentage points. It is not the same measure as the ShadowStats-Alternate GDP, here, which reflects reversing additional methodological distortions ("Pollyanna Creep") of recent decades.

WEEK, MONTH AND YEAR AHEAD

New Fiscal Stimulus Looms, but Trump Administration Needs to Develop a Credible, Long-Range U.S. Solvency Plan to Forestall a Dollar Disaster. A looming U.S. dollar crisis already is in play from the outgoing Administration and a befuddled Federal Reserve. Despite expectations of better business conditions under a Trump Administration, market expectations for near-term (not long-term) business activity should continue to falter, amidst what should be ongoing and intensifying, negative headline economic reporting that should continue to play out for the next twelve months or so.

New fiscal stimulus under consideration by the incoming Administration will have at least a nine-month lead-time before its impact will surface in headline economic activity, most likely not before early-2018. Accordingly, the new administration could face deteriorating funding needs for its own Treasury. In the near-term, the federal deficit should swell, reflecting revenue flows already impaired by the current economic downturn, as well as taking an initial hit from any new federal spending and or new tax relief, before hoped-for increased tax revenues begin to flow from a strengthened economy (see *Commentary No. 846*).

Irrespective of mounting talk of a December FOMC rate hike, the still-ongoing and deepening domestic economic downturn promises continuing and intensified stress on systemic liquidity. That circumstance ultimately—sooner rather than later—dooms the U.S. central bank to an intensified quantitative easing, irrespective of any near-term rate hike.

These circumstances reflect unusual crosscurrents in the markets, which, when combined with an impotent Fed and a re-intensifying banking and fiscal crises, foreshadow U.S. dollar and systemic crises in 2017. Separately, and most dangerously, the Trump Administration will have a difficult time working with or around the Federal Reserve's self-created quagmire of continuing domestic and global banking-

system illiquidity issues. See today's *Opening Comments* and the *Hyperinflation Watch* in of *Commentary No. 849*.

Prior *Commentary No. 850* reviewed October new orders for durable goods and new- and existing-home sales, where the latest details showed continuing non-recovery in all the covered series. Unfolding annual and quarterly contractions in new orders signaled negative pressures for first-quarter 2017 industrial production. Separately, downside revisions to shipments and orders suggested that surging auto sales, which have been boosting headline GDP and retail sales reporting, might not have been as strong as advertised.

Commentary No. 848 covered October industrial production and the PPI, where industrial production confirmed ongoing recession, and the PPI showed energy-related inflation turning positive year-to-year, for the first time since the 2014 collapse in oil prices. *Commentary No. 847* reviewed the highly-suspect headline surge in nominal October retail sales.

Covered in *Commentary No. 845*, October employment and unemployment and September construction spending did not offer a brightening economic outlook. The sharp narrowing in the September and third-quarter 2016 trade deficit generally reflected nonrecurring elements of highly-suspect quality.

Reviewed in *Commentary No. 844,* the above-consensus "advance" estimate of third-quarter 2016 GDP also is revisited in today's *Reporting Detail*.

Commentary No. 843 offered a *Special Comment* on background economic circumstances and the then pending election, following up on *No. 841*. Headline related details from September new- and existing-home sales and from new orders for durable goods reporting also were reviewed. That followed *Commentary No. 842*, which assessed the negative shifts in monthly, quarterly and annual growth patterns of the housing-starts series.

Noted in *Commentary No. 841*, consumer inflation started to rebound, along with higher gasoline prices, yet the economy continued to falter as indicated in September freight activity, and as seen in the headline detail of September housing starts. The *Special Comments* in *No. 841* also looked a little deeper into the likely impact of unusually protracted and negative economic conditions on the presidential election and on the post-election environment for the U.S. dollar and precious metals.

September industrial production detail disappointed market expectations and deteriorated sharply in the context of downside, prior-period revisions. Such was reviewed in *Commentary No. 840*. *Commentary No. 839* provided the opening salvo of comments on the November 8th election and potential aftermath for the economy and the markets. Consumer liquidity conditions also were updated, along with a review of September 2016 nominal Retail Sales and the PPI.

September employment and unemployment circumstances were covered in *Commentary No. 838*. Fed-policy retrenchment should remain very much alive, shifting towards that renewed quantitative easing, in the post-election environment, as discussed in the *Opening Comments* of *No. 839*, and those of *Commentary No. 837* and *Commentary No. 835*, which respectively also reviewed the August trade deficit and construction spending, and August durable goods orders, home-sales activity and the most-recent FOMC inaction.

The general trend in weakening expectations for business activity and movement towards looming recession recognition, reflect an ongoing broad spectrum of market-disappointing headline data, such as seen in the industrial production detail (*No. 840*) and in *Commentary No. 832*. Earlier FOMC considerations also were covered in *Commentary No. 831*, while the initial payroll benchmark revision for 2016 was discussed in *Commentary No. 830*.

Broad economic and systemic details otherwise have been reviewed regularly in *Commentary No. 827*, *Commentary No. 826*, *Commentary No. 825*, *Commentary No. 824*, *Commentary No. 823*, *Commentary No. 822*, *Commentary No. 821*, *Commentary No. 820*, *Commentary No. 818*, *Commentary No. 817*, *General Commentary No. 811*, *Supplemental Commentary No. 807-A*, *Commentary No. 800*, *Commentary No. 799*, *Commentary No. 796-A*, *Commentary No. 796* and *No. 777 Year-End Special Commentary*.

Post-election market activity has seen positive boosts to the equity markets and the U.S. dollar, with sharply negative impact on prices of precious metals. Again, severe market concerns as to the Federal Reserve's quagmire should resurface fairly quickly, where negative market reactions had surfaced in trading of the U.S. dollar and in related financial markets, with some upside pressure on gold, silver and oil prices, subsequent to pre-election, weaker-than-expected headline economic data or suggestions of a less-aggressive tightening stance by the Fed. Then, Fed rate-hike jawboning put a temporary flutter into those market movements, placing some Fed-desired support under the U.S. currency.

Again, though, the fundamental liquidity issues facing the Fed remain dominated by perpetual U.S. economic non-recovery and a renewed, intensifying downturn. Even if the Fed should raise rates this month, or otherwise in the near future, ongoing negative economic pressures still will mount, forcing the U.S. central bank back into a position of having to support domestic financial- and banking-system liquidity needs. Effectively, the Fed will have no way out other than eventually to return to some form of expanded quantitative easing.

Temporary jawboning aside, market reactions into 2017 increasingly should reflect a renewed sense of Federal Reserve impotence, with bleak longer-term implications for the U.S. dollar. Irrespective of any near-term, one-shot rate hike, renewed quantitative easing increasingly should become the target of post-election speculation, as the deepening recession continues to unfold.

Rapidly weakening, regular monthly economic reporting should continue and result in much worse-than-expected—increasingly negative—reporting, beginning with fourth-quarter 2016 and for at least the next several quarters of GDP (and GDI and GNP). Although such was far from being in place with the headline, second-estimate of third-quarter 2016, quarterly economic contractions remain fair bets in fourth-quarter 2016 and first-quarter 2017.

CPI-U consumer inflation—intermittently driven lower in 2015 and early-2016 by collapsing prices for gasoline and other oil-price related commodities—has seen its near-term, year-to-year low. Headline monthly March to June 2016 detail moved into positive headline territory, in tandem with rising gasoline prices. CPI inflation was "unchanged"—minimally negative—with a switch to positive seasonal adjustments for gasoline prices only partially offsetting the unadjusted monthly drop in gasoline prices in July. August CPI was boosted by "core" inflation, while the September and October CPIs were spiked by gasoline prices and positive seasonal adjustments. Going forward, a weakening U.S. dollar increasingly should boost inflation, with a related upturn in oil prices, gasoline and other commodities. The *Public Commentary on Inflation Measurement* reviews fundamental reporting issues with the headline CPI.

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Note on Reporting-Quality Issues and Systemic-Reporting Biases. 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 to understate actual inflation and to overstate actual economic activity, ongoing headline reporting issues are tied largely to systemic distortions of monthly seasonal adjustments.

Data instabilities—induced partially by the still-evolving economic turmoil of the last nine-to-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). 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 recent 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 recently-published 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 year or two 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*). John Crudele of the *New York Post* continues his investigations in reporting irregularities: *Crudele Investigation,* and as updated on October 24th: *Crudele*. In Mr. Crudele's latest investigation, he has focused on retail sales reporting, as discussed in the *Opening Comments*: *John Crudele on Retail Sales*.

PENDING RELEASES:

Construction Spending (October 2016). The Commerce Department will release its estimate of October 2016 construction spending on Thursday, December 1st. Detail will be covered in ShadowStats *Commentary No. 852* of December 2nd. As usual, headline monthly changes should not be statistically-significant. Irrespective of almost perpetually-positive market expectations for this series, the detail generally should continue in down-trending stagnation, particularly in real terms, net of inflation.

***Updated* - Employment and Unemployment (November 2016).** The Bureau of Labor Statistics (BLS) will publish its post-election November 2016 labor data on Friday, December 2nd. Headline detail will be covered in *Commentary No. 852* of that date. Both the more-inclusive unemployment-rate numbers, as well as the headline payroll-employment details, are open for continuing negative headline surprises, given the ongoing, general weakening tone in a number of business indicators. Consensus expectations are for a payroll gain of roughly 170,000 to 180,000, previously up by 161,000, with headline U.3 unemployment holding at 4.9%.

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Otherwise, in the context of recent the extreme volatility and inconsistencies in the last several months of payroll and unemployment detail, almost anything is possible with the BLS. Underlying reality remains a much weaker-than-expected economy, which increases the odds of a hefty downside surprise to the headline payroll change in November.

Where the headline unemployment detail remains completely unstable and not comparable month-to-month, due to the inconsistent use of published seasonally-adjusted numbers, that detail is particularly vulnerable to political massaging. Near-term instabilities have been demonstrated in recent reporting, as discussed fully in *Commentary No. 819*. That said, again, anything is possible in the next month, but increasingly, the Household-Survey data also should trend weaker than expected.

Better-quality, underlying economic fundamentals continue to weaken (such as the Conference Board's Help Wanted Online® survey through October 2016), suggesting continued slowing or negative annual and month-to-month growth in headline payrolls, as well as stagnation or deterioration in the broader unemployment rates such as U.6 and particularly the ShadowStats Alternate Unemployment Measure.

PENDING SHADOWSTATS UPDATES: Comprehensive *Special Report* and ShadowStats Website. ShadowStats will update fully, into one, massive background piece—a comprehensive *Special Report (Commentary)*—encompassing the latest broad outlook for the U.S. and global economies, financial markets and systems, and inflation (U.S. hyperinflation). Where publication scheduled for November 30th was pushed back, given problems with an intensifying, seasonal malady that now has started to improve, mid-December is the likely new publication date. Watch this section for details.

The *Special Commentary* will include the latest outlook and will incorporate fully revised materials from the *2014 Hyperinflation Report—The End Game Begins*, *2014 Hyperinflation Report—Great Economic Tumble*, *No. 777 Year-End Special Commentary* and other intervening missives, including the most-recent *Hyperinflation Outlook Summary* as found in *Commentary No. 783*. It will include updated, consistent GAAP-based financial detail on the U.S. government's financial condition through September 30, 2015 and initial prospects for the fiscal year ended September 30, 2016. Subsequently, various background articles available at the www.ShadowStats.com site also will be updated, staggered through year-end.

The *Special Commentary* also will include a section with links to books and articles that we and/or our readers have found of particular interest and substance. Many thanks to those who already have submitted recommendations of specific books and publications. Anyone with materials they would like to have considered for inclusion should send details in an e-mail to johnwilliams@shadowstats.com or call John Williams directly at (707) 763-5786.

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