

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

**COMMENTARY NUMBER 892**  
**May Industrial Production, FOMC, U.S. Dollar and Gold**

**June 15, 2017**

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**FOMC Faces Deteriorating Economic Conditions and  
Renewed Solvency Stresses in the Banking System**

**June 14th Rate Hike Could Be the Last One for This Cycle**

**U.S. Dollar Near a Peak? Gold Price Near a Trough?**

**Headline Unchanged Production and Drop of 0.4% (-0.4%) in Manufacturing  
Were Boosted by Downside Revisions to March and April Activity**

**Still No Full Economic Recovery as of May 2017 Reporting, with  
Production and Manufacturing Down Respectively by Deepened, Net  
Contractions of 0.3% (-0.3%) and 6.1% (-6.1%) from Pre-Recession Highs**

**With No End in Sight, 113 Months of Continual Non-Expanding Manufacturing Is the  
Longest Period of Non-Recovery in the 99-Year History of U.S. Industrial Production,  
Topping the 96-Month Post-World War II Manufacturing Realignment and the  
88-Month Slump in the First Down-Leg of the Great Depression**

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*PLEASE NOTE: The next regular Commentary scheduled for tomorrow, Friday, June 16th, will review the details for May 2017 New Residential Construction (Housing Starts), including an updated review of Consumer Liquidity Conditions.*

*Best wishes to all — John Williams (707) 763-5786*

**Today's Commentary (June 15th).** In the context of deteriorating, non-recovering economic activity, current FOMC activity is reviewed in the *Opening Comments*, with expanded discussion in the *Hyperinflation Watch*. The *Executive Summary* covers summary details for May Industrial Production.

The *Reporting Detail* (beginning page 9) provides extended analysis and additional graphics of the new Industrial Production detail.

The *Hyperinflation Watch* (beginning page 5) expands upon the *Opening Comments*, assessing FOMC policy and related circumstances with the U.S. dollar and gold and silver prices.

The *Week, Month and Year Ahead* (beginning page 23) summarizes recent *Commentaries* and updates the preview of May Housing Starts to be released tomorrow.

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## OPENING COMMENTS AND EXECUTIVE SUMMARY

**Downside Surprises in Production and Retail Sales Reporting Have Rattled the Consensus Outlook, Threatening Future FOMC Rate Hikes.** On top of yesterday's much weaker-than-consensus May 2017 Retail Sales and Consumer Prices (see prior [Commentary No. 891](#)), today's (June 15th) headline May Industrial Production—a Federal Reserve series—also came in below expectations, particularly when viewed net of prior-period revisions. Beyond continuing month-to-month plunges in the definitionally-challenged headline unemployment rate, the unstable, unreliable and heavily-bloated payroll reporting also has been sending sharply-negative signals recently that have rattled consensus forecasters (see [Commentary No. 890](#)). These numbers—if not the gist of pending details—certainly were known to the Federal Reserve Board's Federal Open Market Committee (FOMC) before the quarter-point hike in the targeted federal funds rate on June 14th.

Where currently unfolding, headline business conditions likely would qualify as the “substantially adverse economic circumstances” the FOMC has allowed as a trigger for renewed and expanded quantitative easing, the June 14th rate hike well could be the last one for some time. The recent series of rate hikes has provided the FOMC with a minimal policy cushion for the increasingly difficult times ahead.

The U.S. central bank's primary concern remains the continuation and maintenance of a stable domestic banking system. While domestic economic stability and strength is an extremely important issue, it is secondary in the Fed's consideration to maintaining banking-system stability, strength and solvency. The big problem for the Fed remains that a weak economy stresses banking-system solvency issues. Expanded quantitative easing addresses banking-system liquidity and solvency, not economic growth.

The issues here, tied particularly to the stability or lack of same in the U.S. dollar, are discussed in the *Hyperinflation Watch* (page 5).

**Executive Summary: Industrial Production—May 2017—Activity Weakened “Unexpectedly” in the Context of Continuing Non-Expansion.** Net of downside revisions to both March and April production and manufacturing activity, May 2017 production and manufacturing fell respectively by 0.1% (-0.1%) and 0.5% (-0.5%), instead of the headline “unchanged” production and 0.4% (-0.4%) decline in monthly manufacturing. However viewed, those numbers disappointed consensus expectations.

Both production and manufacturing remained below pre-recession peak-activity levels, with the Manufacturing sector showing its longest stretch of economic non-expansion in the 99-year history of Industrial Production, now at 113-months and counting. In contrast, it took the post-war U.S. economy 96-months to rebuild manufacturing to its World War II peak. In the first down-leg of the Great Depression, it took 88-months to recover the pre-collapse high.

**Headline Industrial Production.** May 2017 production was unchanged at 0.00% for the month, following monthly gains of 1.13% in April and 0.11% in March. Detailed by major industry sector (see *Graphs 10, 12, 17 and 19* in the *Reporting Detail*), the headline May 2017 monthly aggregate “unchanged” production was composed of a monthly decline of 0.37% (-0.37%) in the Manufacturing sector, offset by gains of 0.45% in the Utilities sector and 1.57% in the Mining sector.

Year-to-year change in May 2017 industrial production was a gain of 2.21%, versus gains of 2.10% in April 2017 and 1.30% in March 2017.

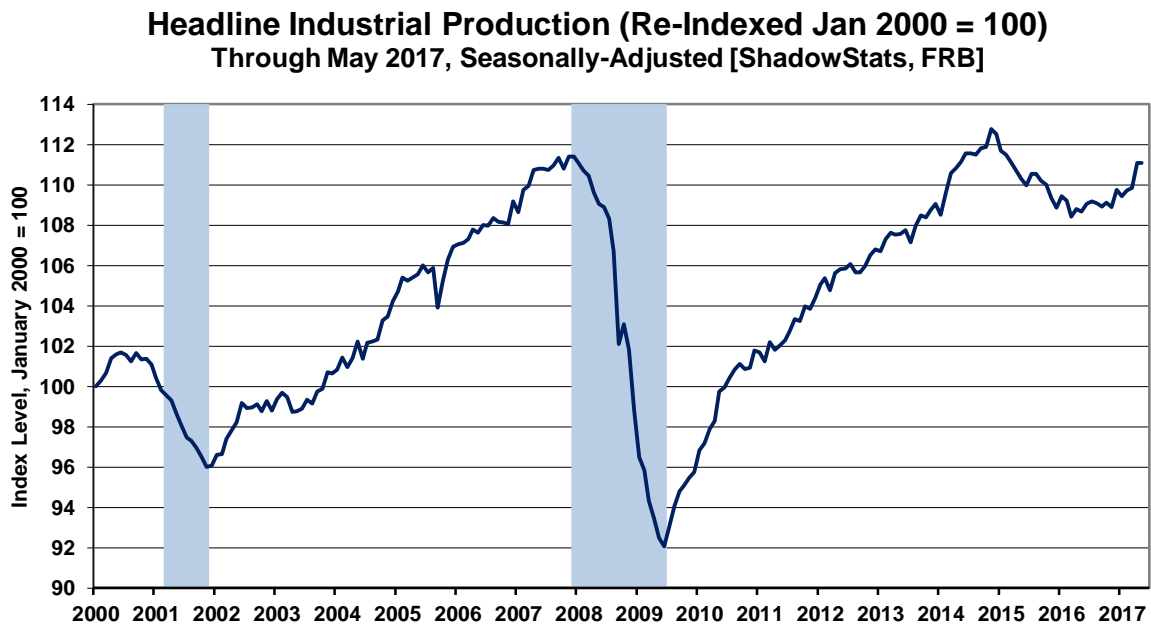
**Production Activity and Graphs—Corrected and Otherwise.** In the context of the downside 2017 benchmark revisions to production of March 31st (see [Commentary No. 877](#)), and the subsequent regular monthly reporting of March and April activity, today’s headline production activity for May 2017 and annual growth detail are found and plotted in the *Reporting Detail* (*Graphs 8 to 11*), along with the drill-down graphs of major subcomponents of the production series (*Graphs 12 to 25*).

The level of headline production showed a topping-out process in third- and fourth-quarter 2014, followed by deepening quarterly downturns into first- and second-quarter 2015, with the second-quarter 2015 also beginning a string of quarterly year-to-year contractions. Third-quarter 2015 showed some bounce, but activity in fourth-quarter 2015 and in first- and second-quarter 2016 turned down anew, dropping sharply into negative quarter-to-quarter growth and continuing year-to-year decline. Third-quarter 2016 growth was positive on a quarter-to-quarter basis, but continued in annual contraction. That pattern repeated in fourth-quarter 2016. That seventh straight quarter of annual contraction was a circumstance never seen in industrial production surveying outside of periods that eventually were recognized formally as recessions.

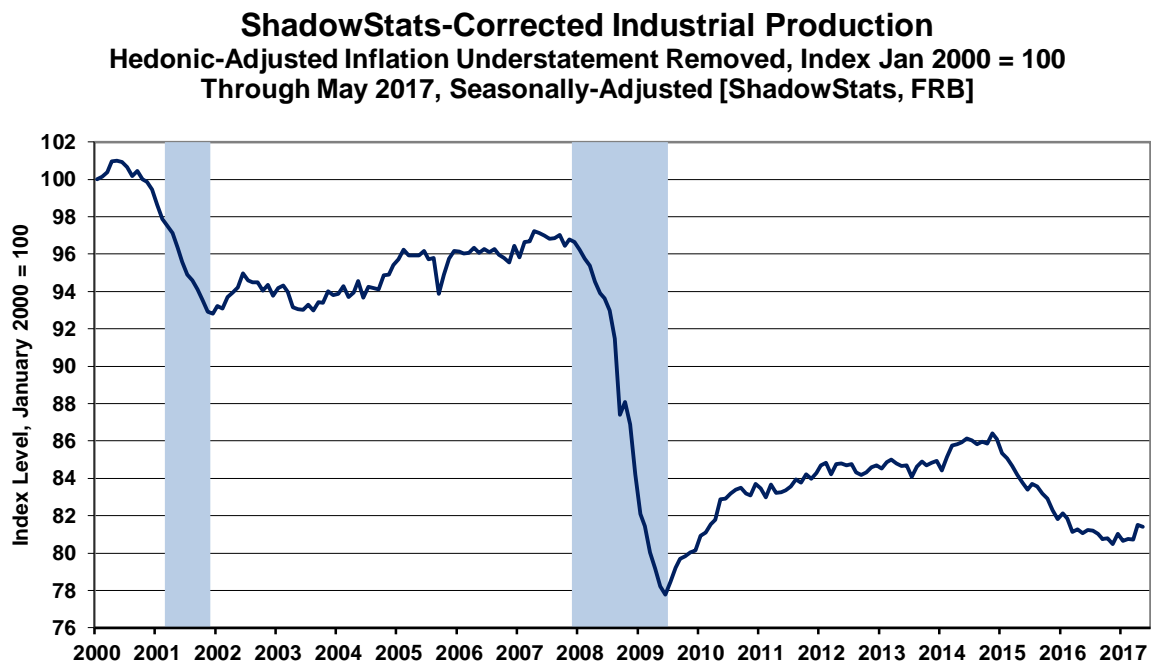
With the reporting of headline first-quarter 2017 detail, production activity showed both annual and quarterly gains, although the headline quarterly activity remained below pre-recession highs seen in 2007, the headline detail was boosted again in April 2017 but held flat in May 2017.

*Graphs 1 and 2*, which follow in this section, address reporting quality issues tied just to the overstatement of headline growth in the total series that results directly from the Federal Reserve Board using too-low an estimate of inflation in deflating some components of its production estimates into real dollar terms, for inclusion in the Index of Industrial Production. Hedonic quality adjustments to the inflation estimates understate the inflation rates used in deflating those components; thus overstating the resulting inflation-adjusted growth in the headline industrial production series (see [Public Comment on Inflation](#) and *Chapter 9* of [2014 Hyperinflation Report—Great Economic Tumble](#)).

**Graph 1: Indexed Headline Level of Industrial Production (Jan 2000 = 100)**



**Graph 2: Headline ShadowStats-Corrected Level of Industrial Production (Jan 2000 = 100)**



Graph 1 shows official, headline industrial production reporting, but indexed to January 2000 = 100, instead of the Fed's formal index that is set at 2012 = 100. The 2000 indexing simply provides for some consistency in the series of revamped "corrected" graphics including real retail sales (see prior

[Commentary No. 891](#)), new orders for durable goods and the GDP (see [Commentary No. 889](#)) and as broadly covered in the *ECONOMY* section of [No. 859 Special Commentary](#). It does not affect the appearance of the graph or reported growth rates (as can be seen with a comparison of *Graph 1* here to *Graph 10* in the *Reporting Detail* section).

*Graph 2* is a recast version of *Graph 1*, corrected for the estimated understatement of the inflation used in deflating certain components of the production index. Estimated hedonic-inflation adjustments have been backed-out of the official industrial-production deflators used for headline reporting.

This “corrected” *Graph 2* shows some growth in the period subsequent to the official June 2009 trough in production activity, but that upturn has been far shy of the short-lived full recovery and the renewed expansion reported in official GDP estimation (see [Commentary No. 869](#) and the *ECONOMY* section of [No. 859 Special Commentary](#)). Unlike the headline industrial production data and the headline GDP numbers, corrected production levels never recovered pre-recession highs, although the headline aggregate production index quickly backed off its official two-month “recovery” in October and November 2014, and the headline manufacturing sector never has recovered fully. Instead, the “corrected” series entered a period of protracted low-level, but up-trending, stagnation in 2010, with irregular quarterly contractions seen through 2013, an irregular uptrend into 2014, a topping-out in late-2014, generally turning lower through fourth-quarter 2016 and into early-2017, with an uptick in April.

Where the corrected series has remained well shy of a formal recovery, both the official and corrected series suffered an outright contraction in both first- and second-quarter 2015; that is a pattern of severe economic weakness last seen during the economic collapse. Despite the brief third-quarter 2015 quarter-to-quarter uptick, headline fourth-quarter 2015 and first- and second-quarter 2016 industrial production continued in quarter-to-quarter contractions, but rallied thereafter. A string of seven quarters of year-to-year contraction began in second-quarter 2015 and continued through fourth-quarter 2016. First-quarter 2017 GDP grew both quarter-to-quarter and year-to-year, with second-quarter 2017 in a parallel early-trend, as discussed in the *Reporting Detail*.

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

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## HYPERINFLATION WATCH

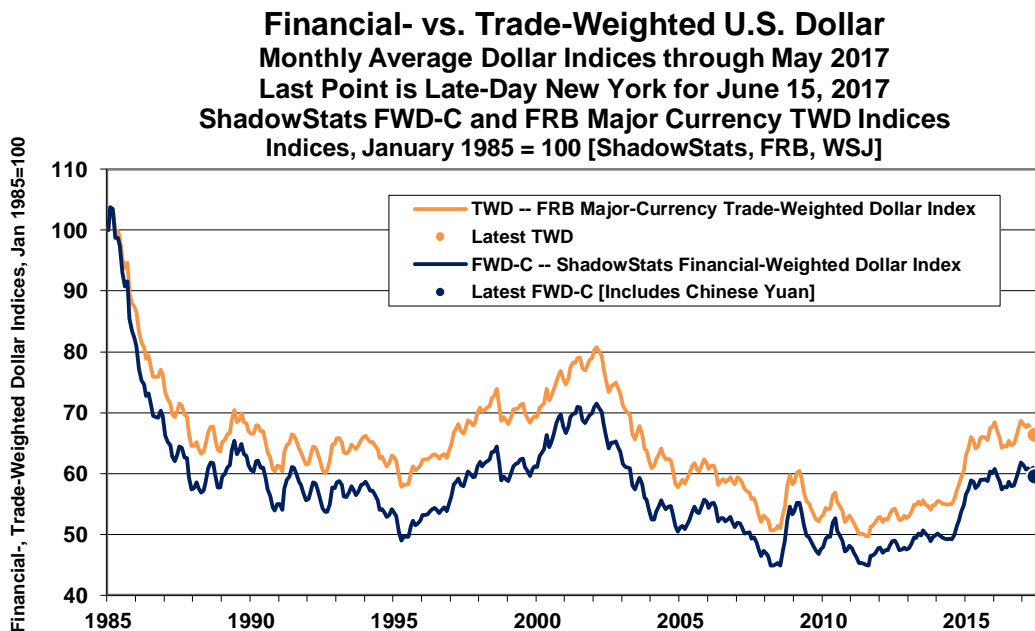
**Rapidly Weakening Economy Should Shift Headline FOMC Concerns from Boosting Rates and Reducing Its Balance Sheet, to Renewed Support of Banking-System Liquidity.** Discussed in the *Opening Comments*, significant “unexpected” weakness reported in recent headline economic reporting, ranging from May payroll employment growth to retail sales and industrial production activity, to consumer inflation, has begun to shift consensus expectations towards a rapidly-faltering U.S. economy

and underlying business-cycle downturn. The U.S. central bank's primary concern remains the continuation and maintenance of a stable domestic banking system. Propping the domestic economy remains secondary to the Fed's consideration of banking-system stability, strength and solvency. The big problem for the Fed remains that a weakening economy stresses that banking-system solvency and liquidity, which the Fed then views as requiring expanded quantitative easing. Again, quantitative easing addresses banking-system solvency; it does nothing to address basic economic growth.

What has started to unfold in headline reporting should qualify as the “substantially adverse economic circumstances” foreseen by the Federal Reserve Board's Federal Open Market Committee (FOMC), which would allow the central bank to trigger renewed and expanded quantitative easing, instead of reducing its balance sheet as was hyped otherwise along with yesterday's (June 14th) rate-hike. With the various recent rate hikes providing the Fed with a minimal policy cushion for the increasingly difficult times ahead, yesterday's June 14th rate hike likely will prove to be last one for some time.

Other than for circumstances simply moving forward, little has changed in the outlook here from the discussion in [Commentary No. 880](#) (also see the *Hyperinflation Watch* of [Commentary No. 879](#)). As noted there, in the context of recent rate hikes, the FOMC had allowed, again, that “substantially adverse economic circumstances” not only could thwart tentative considerations to begin normalizing the Fed's balance sheet by year-end, but also could trigger renewed buying of assets, effectively returning the U.S. central bank's monetary policy to some form of expanded quantitative easing.

**Graph 3: Financial- versus Trade-Weighted U.S. Dollar**

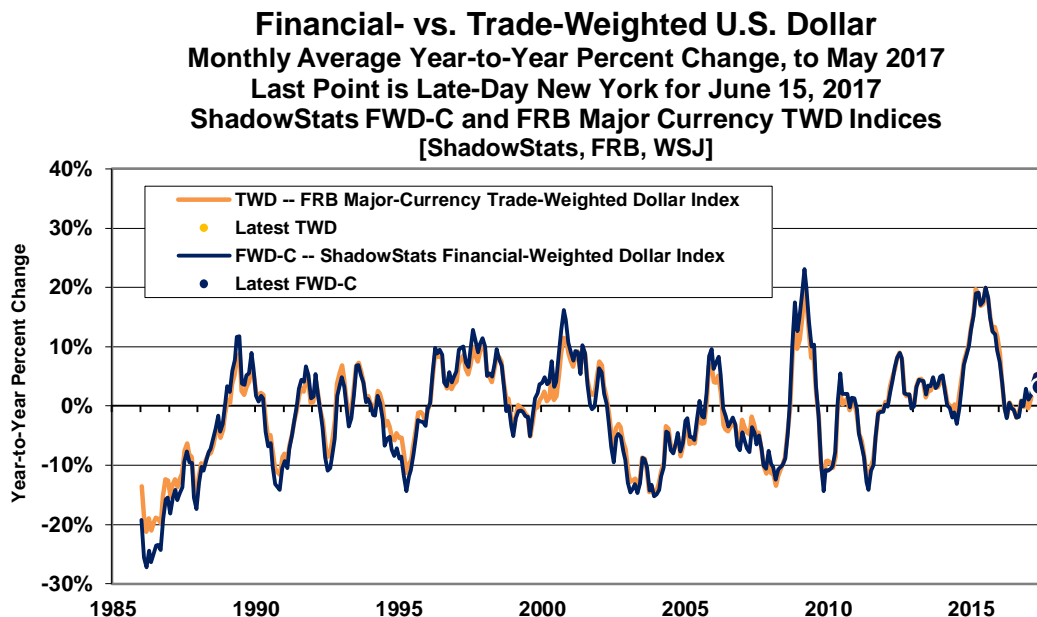


**Dollar Value Near a Peak, Gold and Silver Prices Near Troughs.** The financial markets have responded to the Fed's announcements and Federal Reserve Chair Janet Yellen's press conference yesterday with buying of the U.S. dollar and selling of gold and silver. The current, rapid headline deterioration in key economic series, however, should accelerate in the near term, increasingly and sharply shifting market sentiment away from further FOMC tightening and towards renewed easing. Financial market reaction should reflect increasingly heavy flight from, not to, the U.S. dollar, with heavy buying of physical gold



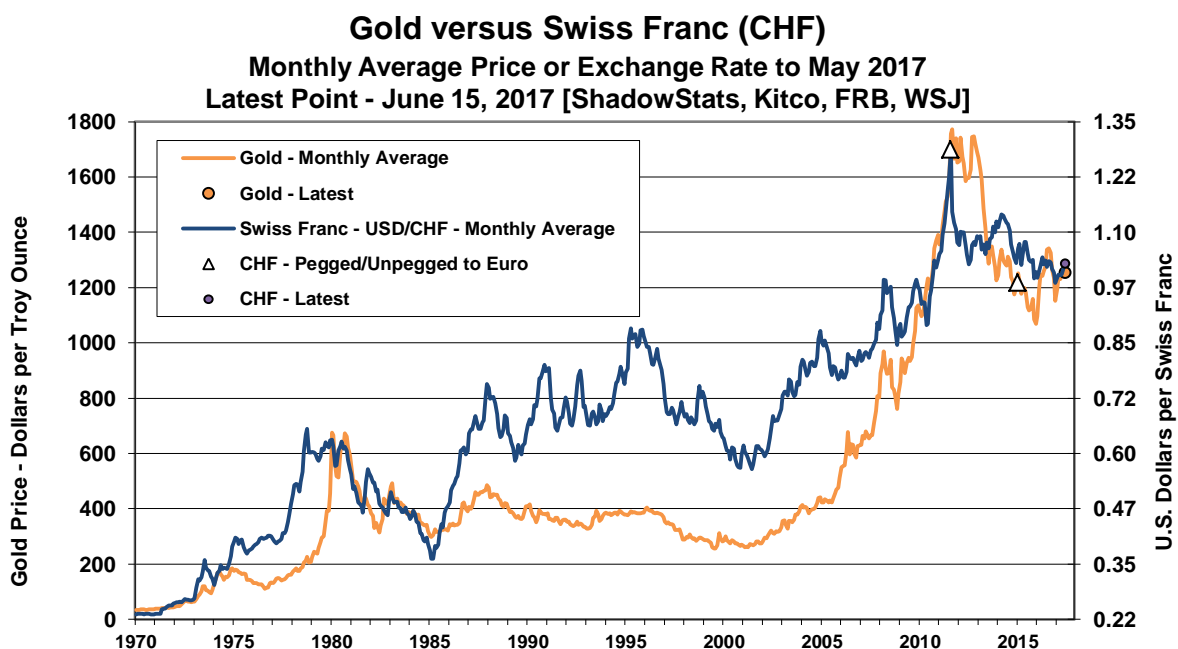
and silver. Accordingly, the U.S. dollar likely is very close to a high, with gold and silver prices very close to lows. Increasingly-negative economic news in the month ahead should do much to establish that. More follows in the *General Commentary No. 894* of June 23rd.

**Graph 4: Year-to-Year Change, Financial- versus Trade-Weighted U.S. Dollar**

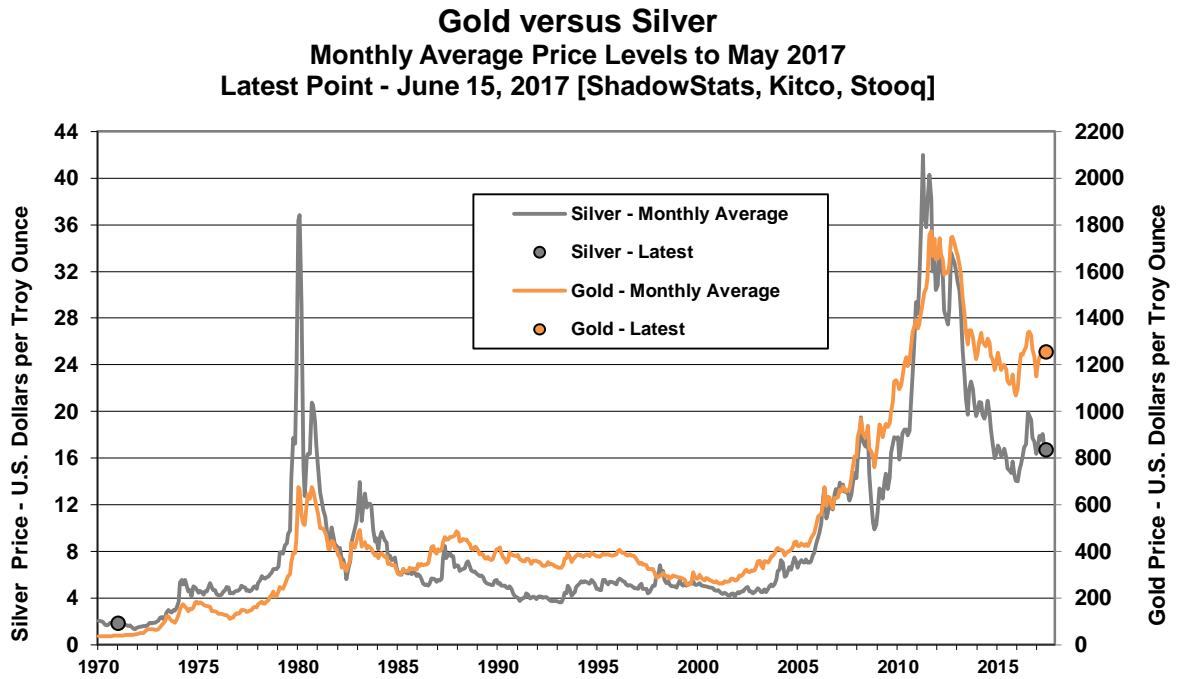


The updated U.S. dollar and gold graphs show monthly-average plots of prices covering the U.S. Dollar (*Graphs 3 and 4*), along with gold (*Graphs 5, 6 and 7*), where the June points on the graphs reflect late-day New York prices for Thursday, June 15th.

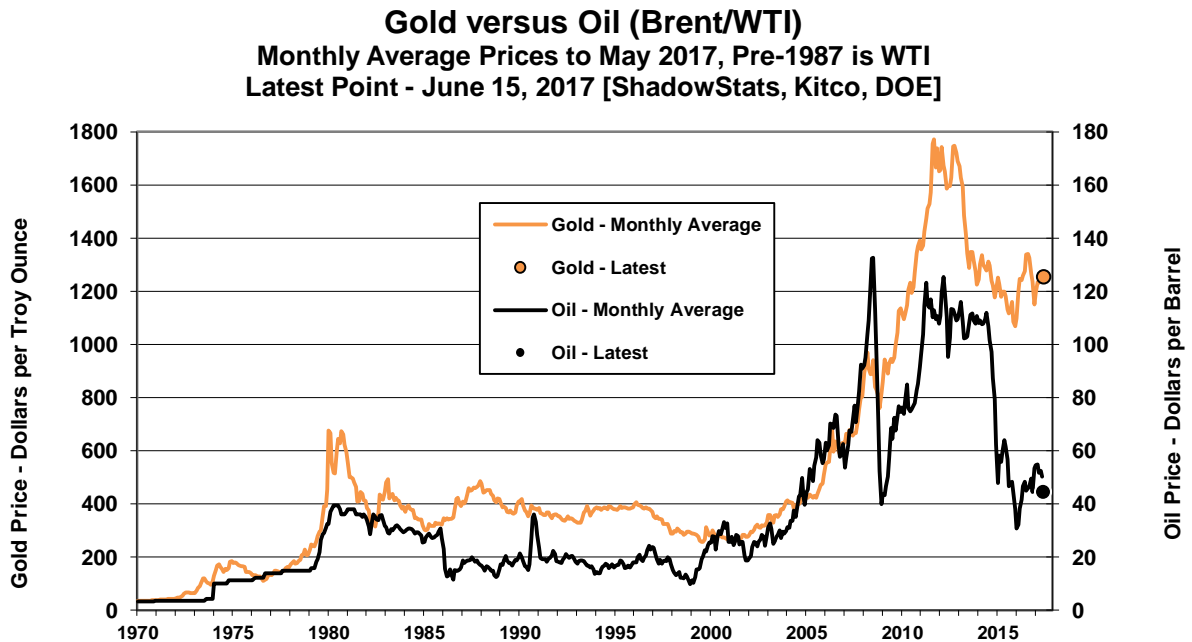
**Graph 5: Gold versus the Swiss Franc**



**Graph 6: Gold versus Silver**



**Graph 7: Gold versus Oil**





## REPORTING DETAIL

### INDUSTRIAL PRODUCTION (May 2017)

#### **May Production Picture Weakened “Unexpectedly” in the Context of Continuing Non-Expansion.**

Net of downside revisions to production and manufacturing activity in both March and April, monthly May 2017 production and manufacturing respectively contracted by 0.1% (-0.1%) and 0.5% (-0.5%), instead of the headline “unchanged” production and monthly decline of 0.4% (-0.4%) in manufacturing. Viewed either way, the hard numbers disappointed consensus expectations for monthly gains in the range of 0.1% to 0.2% for both the headline production and its dominant manufacturing component.

Headline monthly growth in April 2017 revised higher to 1.1% versus its initial reporting of 1.0%. That gain, though, again was bloated by a downside revision to the level of previously-reported March activity. Net of the revision, the new April gain was a still-strong 0.9%, instead of the headline 1.1%.

Nonetheless, both production and manufacturing remained below pre-recession peak-activity levels. In terms of protracted, economic non-expansion, the Manufacturing sector has seen its longest stretch of non-recovery in the 99-year history of Industrial Production, now at 113-months and still counting. In contrast, it took the post-war U.S. economy 96-months to rebuild production to its World War II peak. In the first down-leg of the Great Depression, it took 88-months to recover the pre-collapse high.

May 2017 headline manufacturing remained 6.1% (-6.1%) below its December 2007 pre-recession peak. Unlike the Industrial Production series, which had a brief respite in 2014 before turning down anew, parallel and rivaling the pattern of the Great Depression economy, the Manufacturing sector never has regained its prior high, even for one month (see [Commentary No. 876](#)).

***One of the Better-Quality Series, Industrial Production Still Overstates Headline Activity.*** Despite the March 31st benchmark revisions (see [Commentary No. 877](#)), which hit historical production detail hard, current headline production reporting still overstates economic activity. With the benchmarked 2016 industrial production representing 59% of the real value of Gross Domestic Product (GDP), the broad economy remains in the harsh reality of ongoing recession, one that has continued from somewhat before 2007. Although never recovering, a renewed downturn in activity has been underway since December 2014, following a period of low-level, non-recovered economic stagnation.

That is irrespective of the continuing happy hype out of the Bureau of Economic Analysis (BEA), which has guesstimated first-quarter 2017 real GDP activity at 12.5% above its pre-recession peak (see [Commentary No. 889](#)). No other major economic series shows anything close to that purported level of recovery, while industrial production has shown a renewed and continuing downturn (see also the discussions in [Commentary No. 877](#) and [No. 859 Special Commentary](#)).

As of headline May 2017 reporting, the Industrial Production Index (2012 = 100) stood at 105.028, below its formal pre-recession high by 0.29% (-0.29%) and was down from its one-month “expansion” peak level of November 2014 by 1.49% (-1.49%).

The dominant Manufacturing sector (76.4% of Industrial Production, 45% of GDP, as weighted in 2016) never has recovered, with March 2017 manufacturing activity still down by 6.08% (-6.08%) from reclaiming its pre-recession peak level of activity.

Those issues also were expanded upon in [Commentary No. 869](#), where the pre-benchmark, but still-relevant pattern of industrial production, in the historical context of that series and broad domestic economic activity, demonstrated that headline GDP activity no longer has any meaningful relationship to underlying economic reality.

Even so, allowing for the merits of the Industrial Production series, the understatement of inflation used in estimating some components of production still results in overstatement of headline production growth, as discussed in the *Executive Summary* and plotted there in *Graphs 1* and *2*.

An overriding issue continuing to hamper policies of the Federal Reserve, as well as the dominant contributing factor behind the major political shift seen with the 2016 presidential election (see [Commentary No. 846](#)), is that the U.S. economy never really has recovered from the “2007 Recession.” The unfolding “new” downturn, intensifying in the most-recent headline data, remains no more than another down-leg in the economic collapse that began to surface in 2005 and 2006 (again, see [No. 859 Special Commentary](#)).

Headline Industrial Production (not the ShadowStats-corrected series), again, recovered its pre-recession high only for only two months, in October and November 2014 and has been in fairly-consistent monthly decline ever since, falling month-to-month in 19 out of 29 months, with year-to-year decline following in 20 of the last 25 months. That said, in the context of positive year-to-year change in headline production since February 2017, declining activity could be in the process of bottoming out.

**Headline Industrial Production—May 2017.** The Federal Reserve Board released its first estimate of seasonally-adjusted, May 2017 Industrial Production on June 15th. Headline May 2017 production was unchanged at 0.00%, following revised monthly gains of 1.13% [previously 0.98%] in April, of 0.11% [previously 0.41%, initially 0.55%] in March, of 0.27% [previously 0.18%, initially 0.06%] in February and a revised monthly decline in January 2017 of 0.29% (-0.29%) [benchmarked at 0.27% (-0.27%)]. Net of prior-period revisions, May 2017 production declined month-to-month by 0.09% (-0.09%). Other revisions again were discussed in the opening remarks of this *Reporting Detail*.

Detailed by major industry group (see *Graphs 10, 12, 17* and *19*), the headline May 2017 monthly aggregate “unchanged” was composed of a monthly decline of 0.37% (-0.37%) in manufacturing activity, offset by a 0.45% gain in utilities activity and a gain of 1.57% in mining activity (including oil and gas production). The decline in manufacturing was broadly based.

Year-to-year change in May 2017 industrial production was a gain of 2.21%, versus a downwardly-revised 2.10% [previously 2.19%] in April 2017, versus a downwardly-revised gain of 1.30% [previously 1.54%, initially 1.53%] in March 2017, a revised gain of 0.46% [previously 0.40%, initially 0.25%] in February 2017 and a revised contraction of 0.02% (-0.02%) [previously a gain of 0.02%, initially a benchmarked decline of 0.01% (-0.01%)] in January 2017.

***Quarterly and Annual Production Changes.*** Year-to-year growth rates in quarterly production had continued to slow and then decline, ranging from a positive 1.72% in first-quarter 2015, to annual declines of 0.76% (-0.76%) in second-quarter 2015, 1.08% (-1.08%) in third-quarter 2015 and by 2.66% (-2.66%) in fourth-quarter 2015.

The annual declines continued, down by 2.17% (-2.17%) in first-quarter 2016, by 1.34% (-1.34%) in second-quarter 2016 and by 1.24% (-1.24%) in third-quarter 2016. Fourth-quarter 2016 production contracted year-to-year for the seventh-straight quarter by 0.14% (-0.14%).

Year-to-Year Change for First-Quarter 2017. Given the second revision to first-quarter 2017 detail, annual change by quarter rose by a revised 0.58% [previously 0.65%, initially 0.59%], the first annual gain since first-quarter 2015. With just two months of reporting in place, second-quarter 2017 production was on early track for an annual gain of 2.05%.

Annualized Quarter-to-Quarter. Going back to first-quarter 2015 industrial production contracted at an annualized quarterly pace of 3.30% (-3.30%), having gained by 2.72% in fourth-quarter 2014. That was followed by a quarterly contraction of 3.97% (-3.97%) in second-quarter 2015, with a third-quarter 2015 production gain of 0.37%, followed by a fourth-quarter 2015 contraction of 3.66% (-3.66%).

The first-quarter 2016 declined by 1.34% (-1.34%), quarter-to-quarter, with a second-quarter 2016 quarterly decline of 0.68% (-0.68%). Third-quarter 2016 industrial production expanded at an annualized pace of 0.78%, with the fourth-quarter 2016 gain a revised 0.70% [previously 0.71%, initially 0.74%].

Annualized First-Quarter 2017. With the second revision to first-quarter 2017 detail, the annualized quarterly gain eased back to 1.53% [previously 1.80%, initially 1.53%]. With just two months of reporting in place, second-quarter 2017 production was on early track for an annualized gain of 5.28%.

***Production Graphs.*** The regular two sets of long- and short-term plots of industrial production levels and annual growth rates (*Graphs 8 to 11*) set the background for the drill-down detail graphs of various components of the aggregate industrial series (*Graphs 12 to 25*).

*Graphs 8 and 9, and Graphs 10 and 11* show headline industrial production activity to date. *Graph 9* shows the monthly year-to-year percent change in the aggregate series, in historical context since World War II. Post-benchmarking, activity was somewhat stronger coming into 2014, but much weaker going into 2015, as detailed in [Commentary No. 877](#).

*Graph 8* shows the monthly level of the production index post-World War II, with a topping-out and renewed downturn—deepening quarterly contractions in first- and second-quarter 2015, with a bounce in third-quarter 2015, followed by renewed and deeper contractions in fourth-quarter 2015 and first- and second-quarter 2016, a bounce back in third-quarter with gains into 2017. Such patterns of monthly, quarterly and annual declines since late-2014 still were seen last in the economic collapse into 2009, and historically never seen outside of what would be recognized as formal recessions. *Graphs 10 and 11* show the same series in near-term detail, beginning in January 2000.

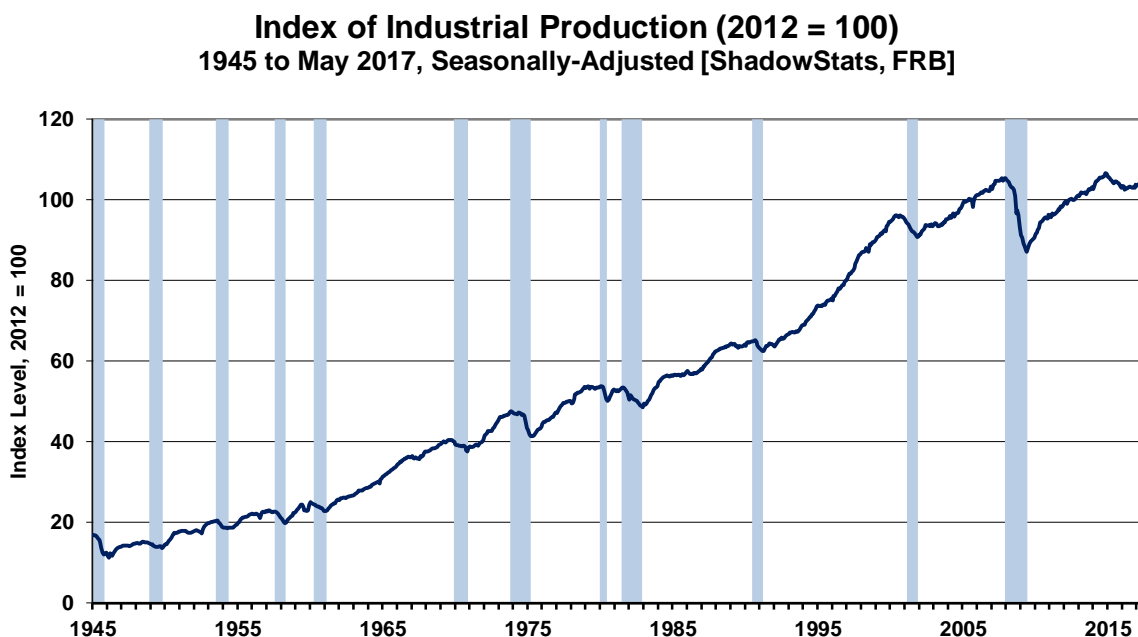
Seen most clearly in *Graph 11*, year-to-year activity dipped anew in 2013, to levels usually seen at the onset of recent recessions, bounced higher into mid-2014, fluctuated thereafter, turning negative, again, into 2015 and through 2016 as seen only in formal recessions. In the context of the 2017 benchmark revisions, year-to-year growth remains well off the recent relative peak for the series, which was 8.55% in

June 2010, going against the official June 2009 trough of the economic collapse. Indeed, as shown in *Graph 9*, the June 2009 (the end of second-quarter 2009) year-to-year contraction of 15.43% (-15.43%) was the steepest annual decline in production since the shutdown of wartime production following World War II.

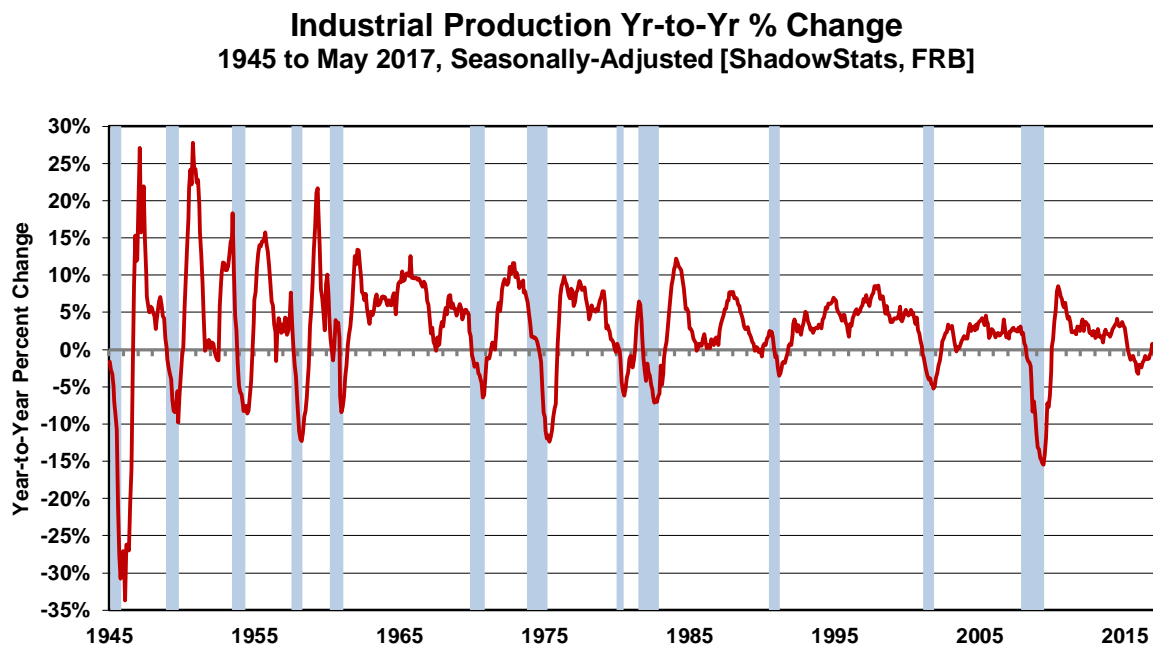
Although generally now-faltering, official production levels had moved higher since the June 2009 trough, corrected for the understatement of inflation used in deflating portions of the industrial production index (see the *Executive Summary* section, *Graph 2*). That series has shown more of a pattern of stagnation with a slow upside trend, since 2009, with irregular quarterly contractions interspersed. The slow uptrend continued into a topping out pattern in late-2014. Headline growth—purportedly already neutered of any inflation impact—contracted in both first- and second-quarter 2015, moved minimally higher into third-quarter 2015, contracted into second-quarter 2016, and turned positive in third-quarter 2016 through early 2017. The “corrected” series has contracted quarter-to-quarter throughout 2016 and into 2017.

[Graphs 8 and 9 follow on the next page.]

**Graph 8: Index of Industrial Production (Aggregate) since 1945**

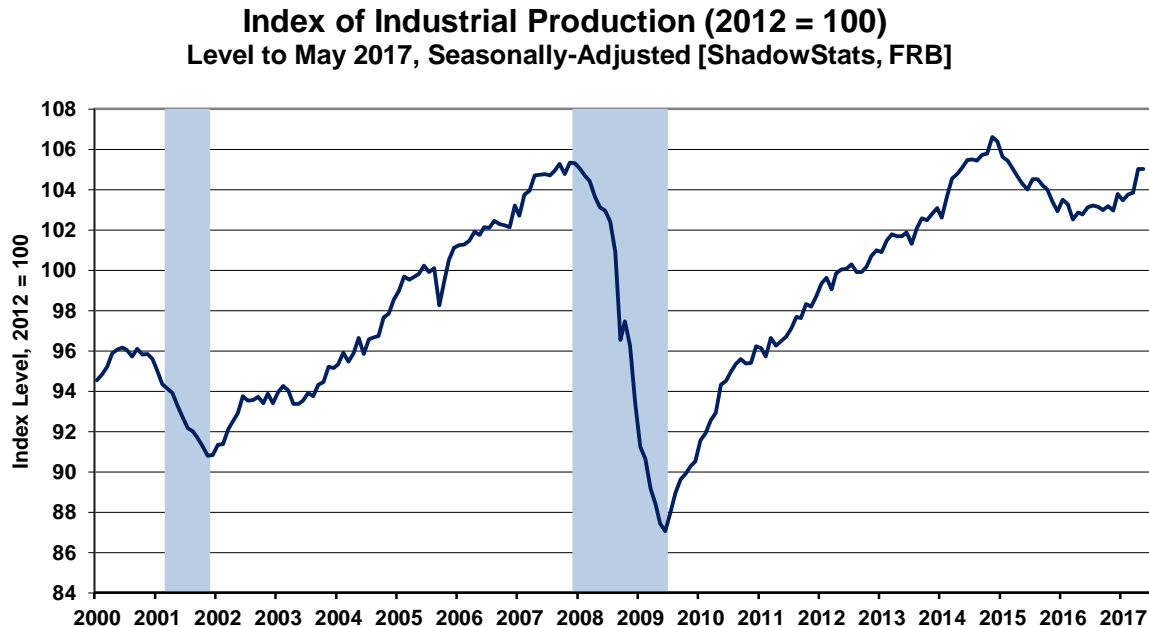


**Graph 9: Industrial Production, Year-to-Year Percent Change since 1945**

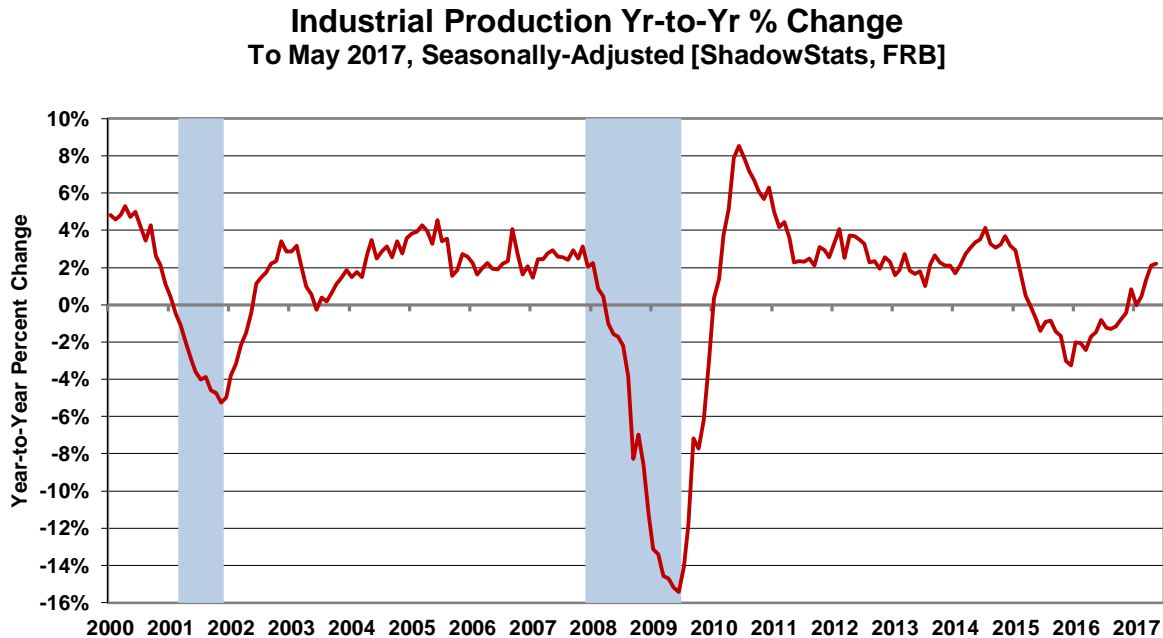


**Drilling Down into the May 2017 U.S. Industrial Production Detail.** Graphs 10, 12, 17 and 19 show headline reporting of industrial production and its major components.

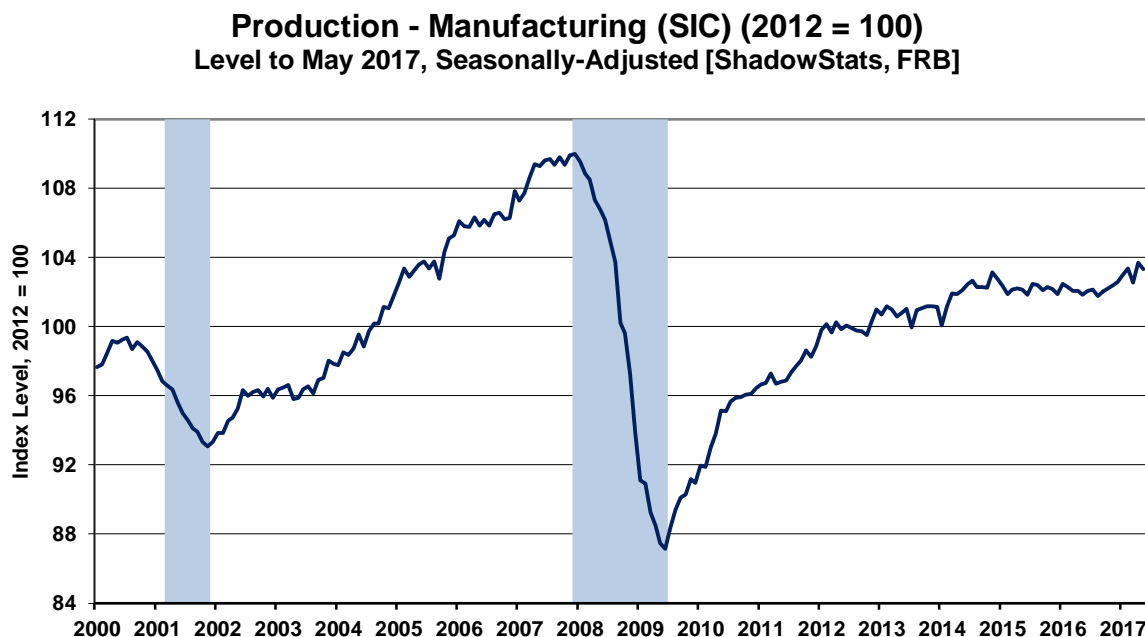
**Graph 10: Index of Aggregate Industrial Production since 2000**



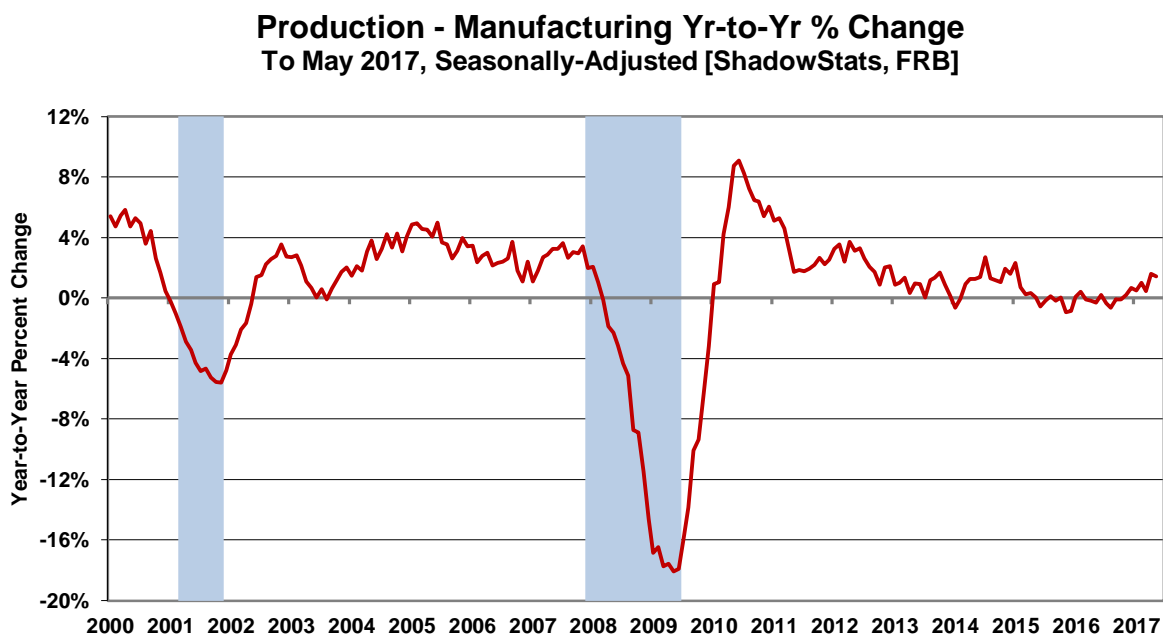
**Graph 11: Aggregate Industrial Production, Year-to-Year Percent Change since 2000**



**Graph 12: Industrial Production - Manufacturing (76.4% of the IIP in 2016)**



**Graph 13: Industrial Production - Manufacturing, Year-to-Year Percent Change Since 2000**



The aggregate index (*Graph 10*) contracted quarter-to-quarter in both first- and second-quarter 2015, with a third-quarter 2015 bounce, followed by ongoing, consecutive quarterly contractions from fourth-quarter 2015 through second-quarter 2016. Year-to-year declines by quarter were seen for seven consecutive



quarters, from second-quarter 2015 through fourth-quarter 2016, with first-quarter 2017 activity positive on both a quarterly and annual basis, a trend continuing into early second-quarter 2017. Nonetheless, production levels through May 2017 still held below the peak activity seen before the collapse into 2009.

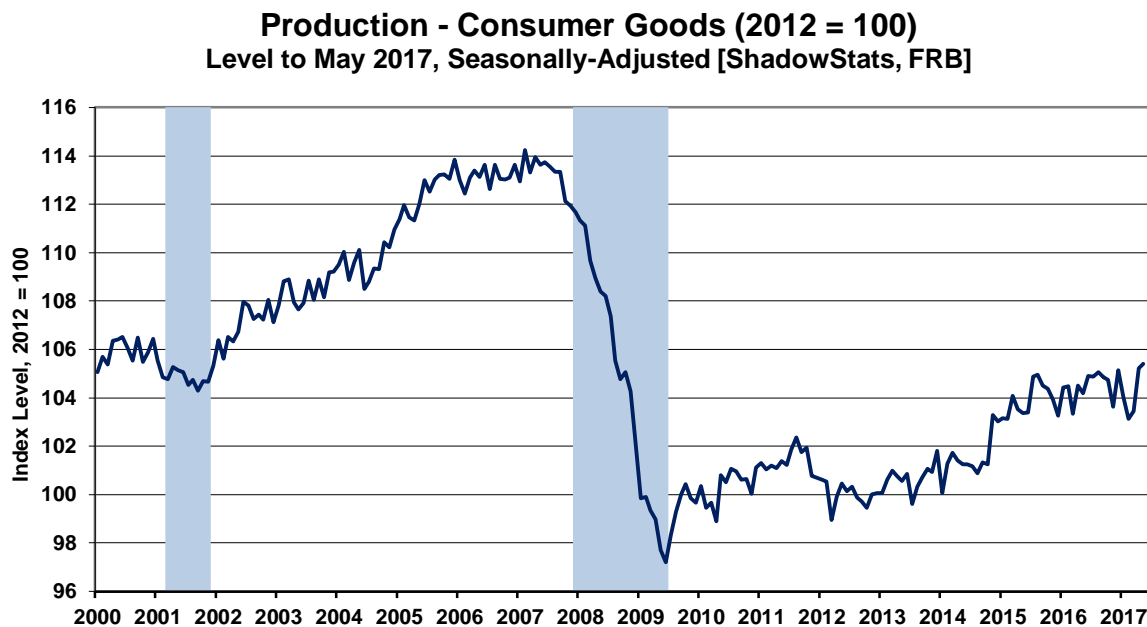
Shown in *Graphs 12, 17 and 19*, of the three major industry sectors, Manufacturing, Utilities and mining, Manufacturing declined, while Utilities and Mining rose month-to-month in May 2017 reporting.

*Graph 12* of the dominant Manufacturing sector showed a month-to-month decline of 0.37% (-0.37%) in May 2017, which was broadly based, including a sharp drop in automobile production in consumer durable goods. Manufacturing had gained by 1.11% in April, but declining by 0.77% (-0.77%) in March. *Graph 13* reflects annual growth patterns in manufacturing, which backed off a stronger showing in April 2017. It had been fluttering at low levels since an initial bounce off the 2009 trough, down year-to-year in the six months through October 2016, turning to the plus-side in November 2016 to date.

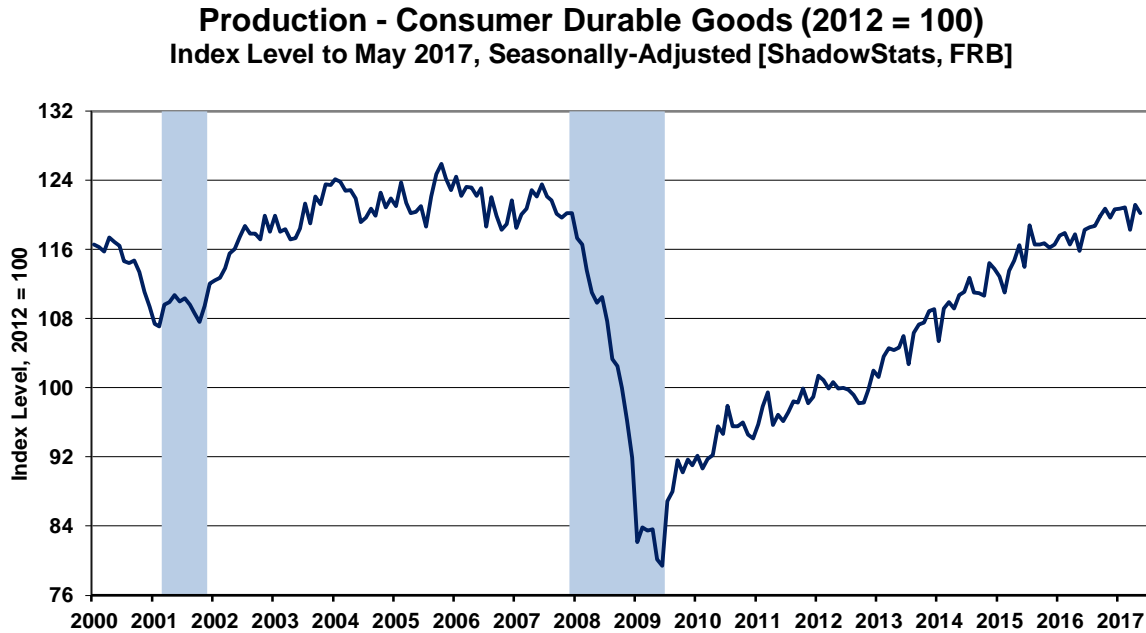
Consumer Goods production increased month-to-month by 0.16% in May 2017, having gained a revised 1.72% [previously 1.51%] in April and a revised 0.32% [previously 1.43%] in March (see *Graphs 14 to 16*).

Headline May 2017 Consumer Goods detail reflected a monthly drop of 0.79% (-0.79%) in Durable Goods, tied to declining auto production, with Nondurable Goods gaining 0.44%, reflected in *Graph 15* and *Graph 16*.

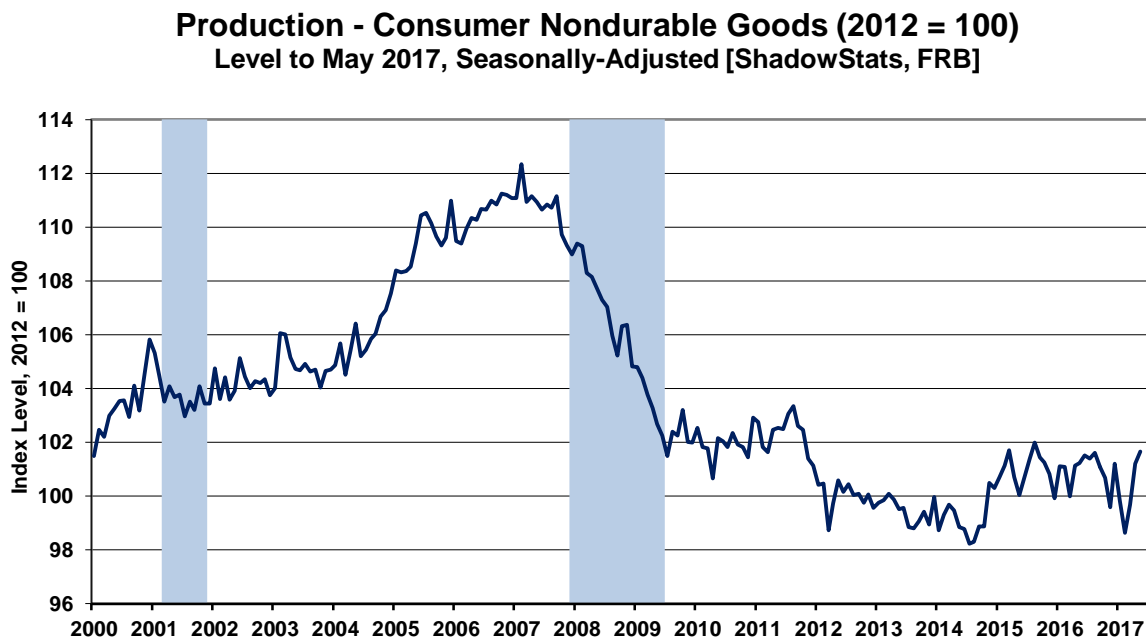
***Graph 14: Consumer Goods (28.2% of the Aggregate in 2016)***



**Graph 15: Durable Consumer Goods (6.3% of the Aggregate in 2016)**



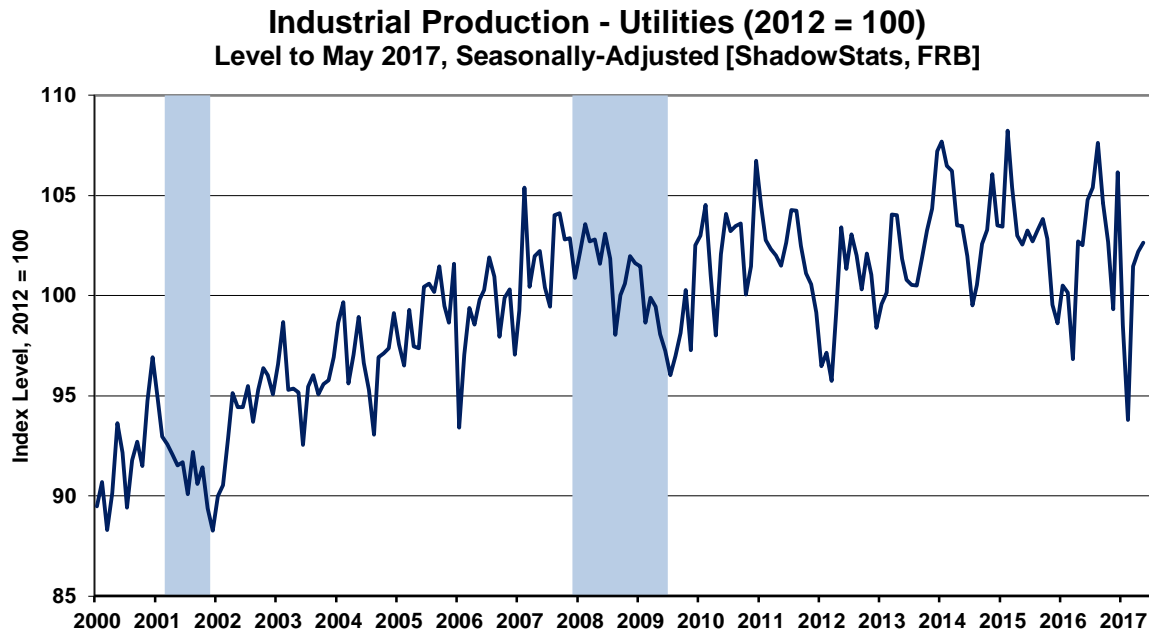
**Graph 16: Nondurable Consumer Goods (21.9% of the Aggregate in 2016)**



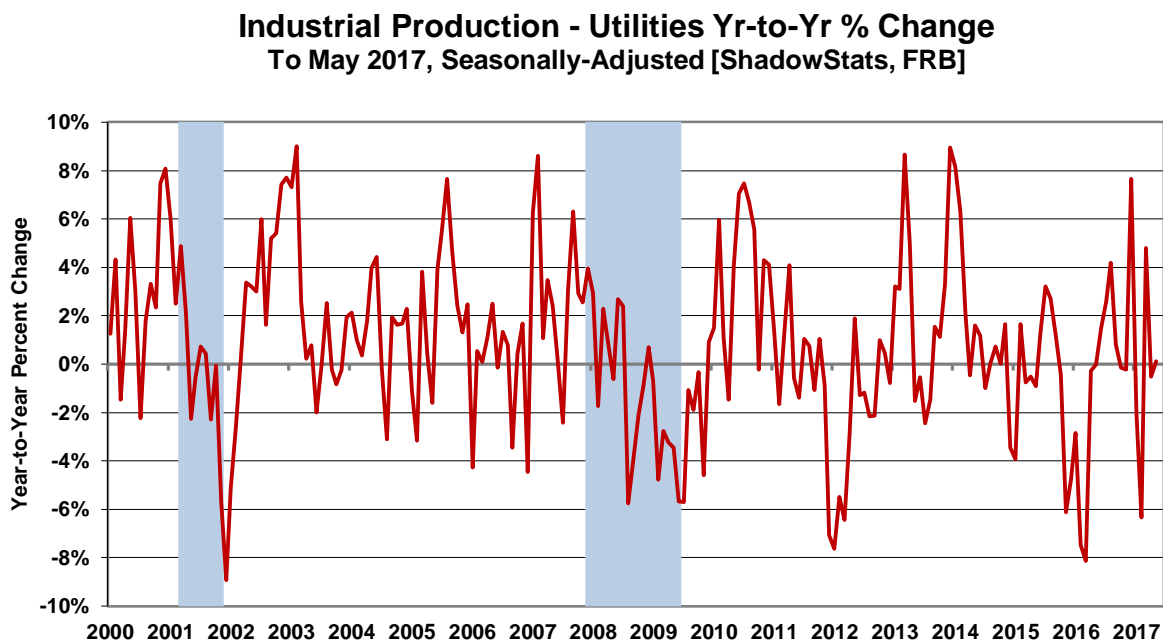
Monthly volatility in the utilities sector (*Graph 17*) usually reflects unseasonable shifts in weather conditions and reversals of same. The headline gain of 0.45% in May 2017, on top of a revised monthly gain of 0.73% [previous 0.69%] in April reflected a return to more-normal activity, where the revised 8.15% [previous 8.16%, initially 8.62%] monthly gain in March had been the largest monthly gain in the

history of the series, sharply offsetting a revised plunges of 4.81% (-4.81%) [previously 5.19% (-5.19%)] in February and 7.18% (-7.18%) [previously 6.79% (-6.79%)] in January 2017. Such distortions tend to balance out over the period of a year.

**Graph 17: Industrial Production - Utilities (10.6% of the Aggregate in 2016)**

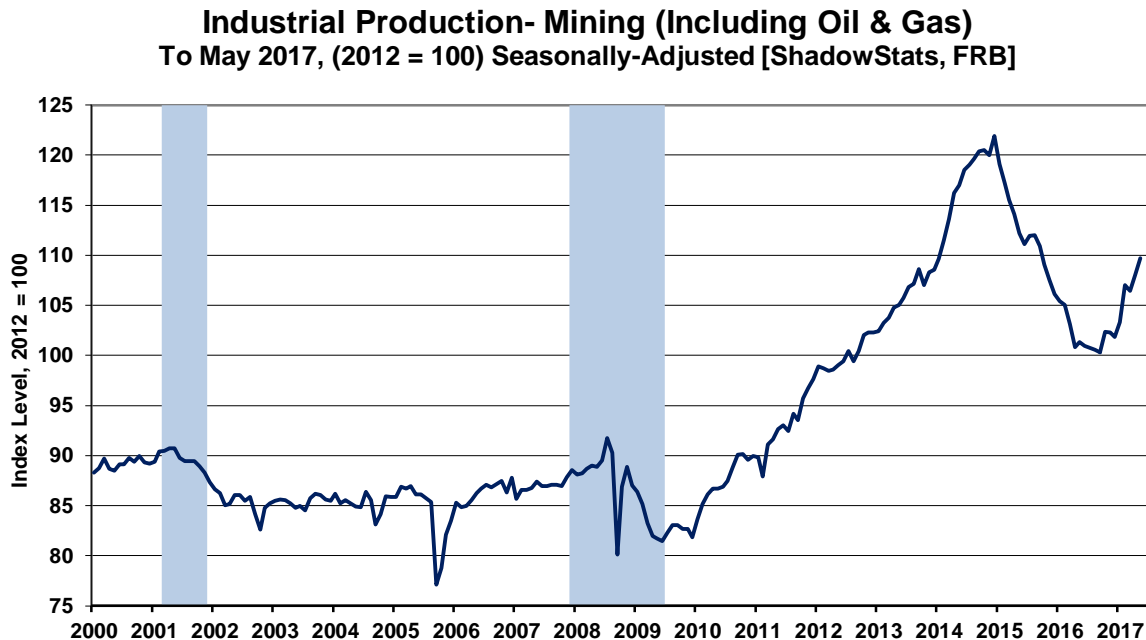


**Graph 18: Industrial Production - Utilities, Year-to-Year Percent Change Since 2000**

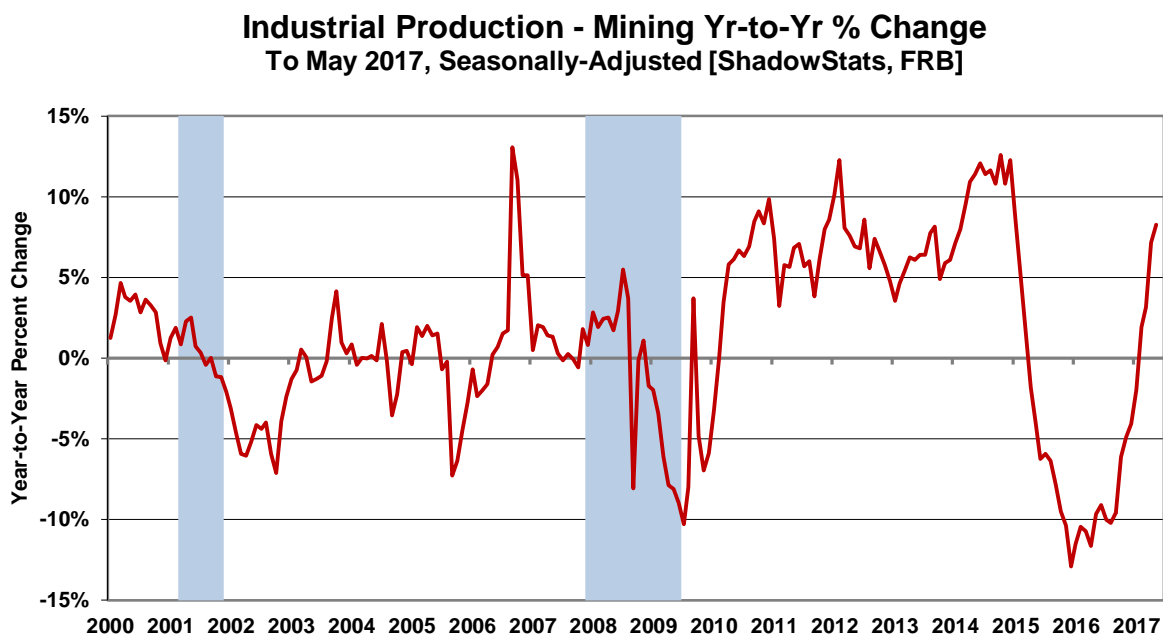


Activity in the mining sector (*Graph 19*), particularly in oil and gas exploration and production, and increasingly in gold and coal mining, remains the near-term focus of this analysis.

**Graph 19: Industrial Production - Mining, Including Oil and Gas (12.9% of the Aggregate in 2016)**



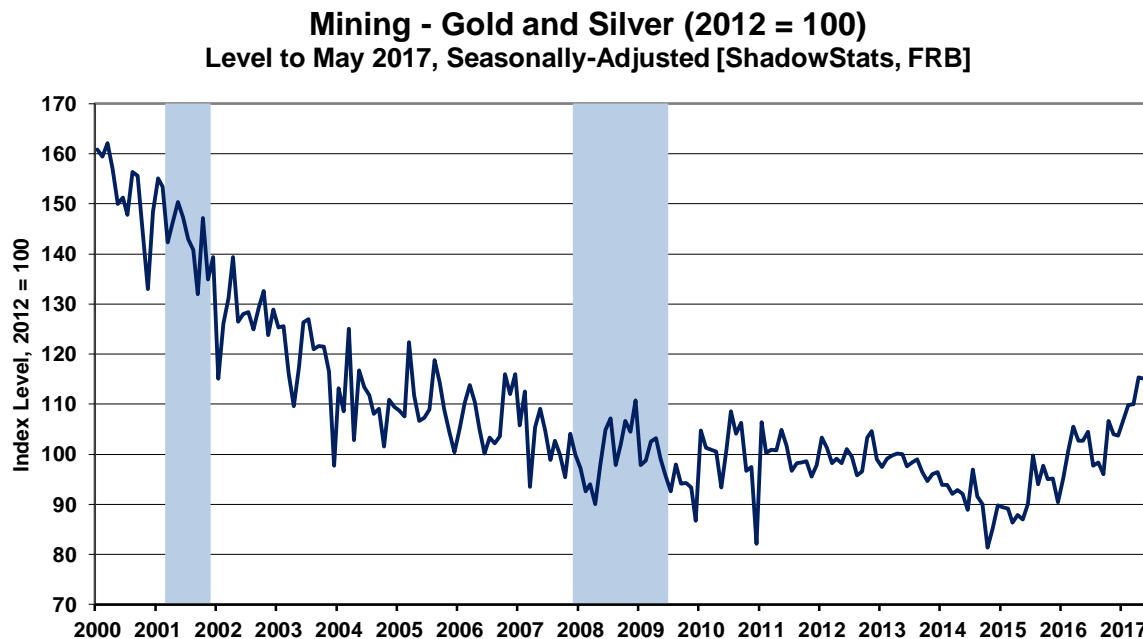
**Graph 20: Industrial Production - Mining, Year-to-Year Percent Change**



The mining sector, including oil and gas production, easily recovered its pre-recession high and accounted for the full “recovery,” albeit extremely short-lived (just the months of October and November 2014), as seen in the aggregate Industrial Production detail since the economic collapse (see detail in [Commentary No. 877](#)). Since then, however, mining production turned down sharply, reflecting a number of factors, including the impact of largely orchestrated lower oil prices, which subsequently have fluctuated, tied to dollar and oil-supply issues, as well as U.S. government actions during the Obama Administration to limit coal consumption and production. Year-to-year Mining Sector activity in (*Graph 20*) in February 2017 broke to the plus-side, to a downwardly revised 1.92%, for the first time since February 2015, up by a downwardly-revised 3.17% in March 2017 and 7.15% in April 2017, with May 2017 annual growth at 8.37%. Mining has moved off bottom, thanks to a general rebound in coal production and bottoming and monthly upturns in oil and gas extraction and exploration and an upturn in gold and silver production (see *Graphs 21* through *25*). That said, beyond minimally-weaker monthly production in May 2017 coal, gold and silver mining, oil and gas extraction and drilling boosted monthly mining activity by 1.57%.

*Graph 21* reflects generally increasing gold and silver mining activity (revised to an uptrend with the benchmark revision). Headline May 2017 detail was on the downside of flat, but otherwise the strongest level of gold and silver mining since December 2008, irrespective of the pummeling given the prices of precious metals in recent years with central-bank orchestrated market manipulations as well as recent price volatility in the markets.

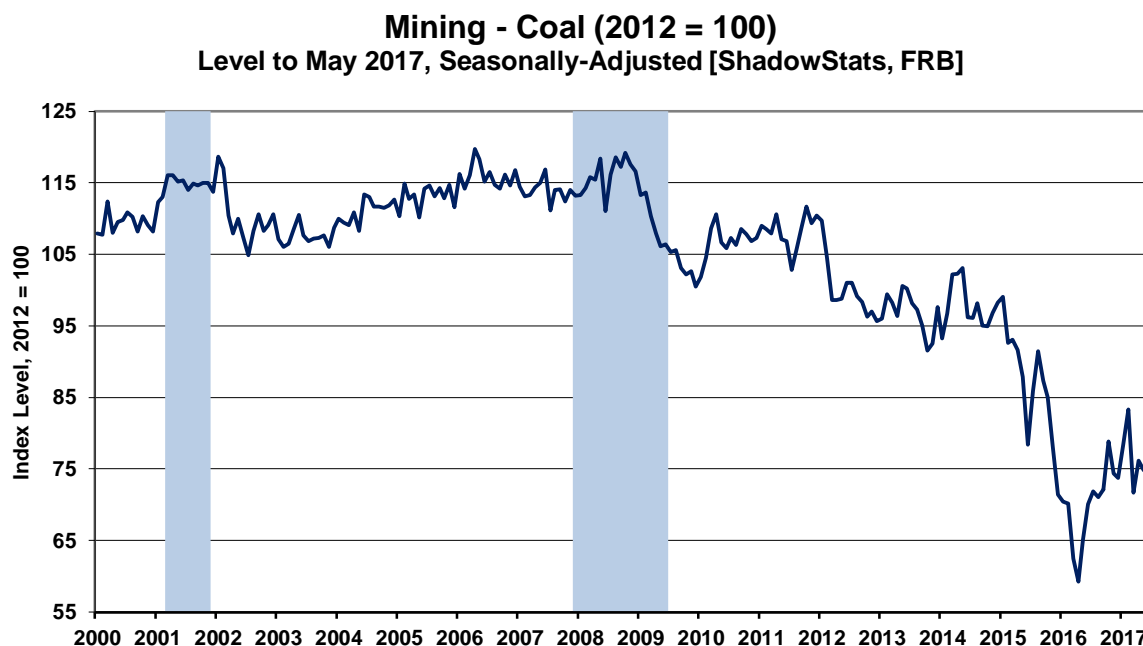
**Graph 21: Mining – Gold and Silver Mining (Since 2000)**



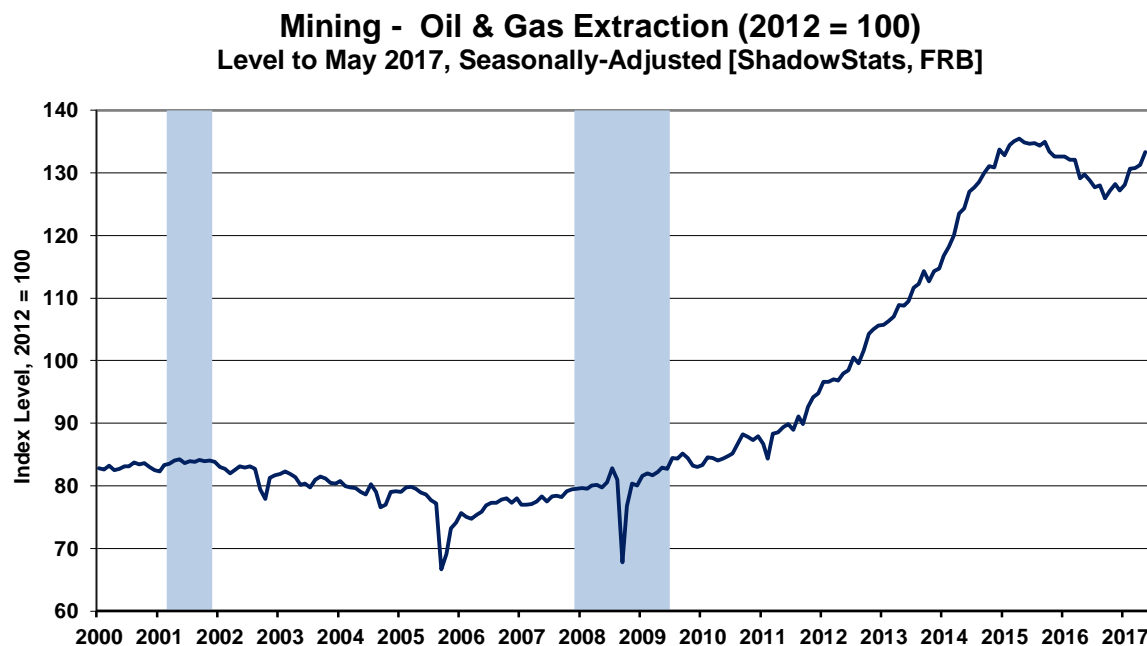
As with gold and silver mining, coal mining was benchmarked higher in recent years. *Graph 22* still shows a general rebound in the level of monthly coal production, with May 2017 activity off for the month by 1.79% (-1.79%), having gained 6.26% in April after an extremely large monthly hit of 14.01% (-14.01%) in March, having gained by 6.26% in February and 6.37% in January. Despite annual growth

in May 2017 dropping back to 15.00%, from 28.59% in April 2017, current activity still is down sharply, by 27.43% (-27.43%), from its near-term production peak in May 2014.

**Graph 22: Mining - Coal Mining (Since 2000)**



**Graph 23: Mining – U.S. Oil & Gas Extraction (Since 2000)**

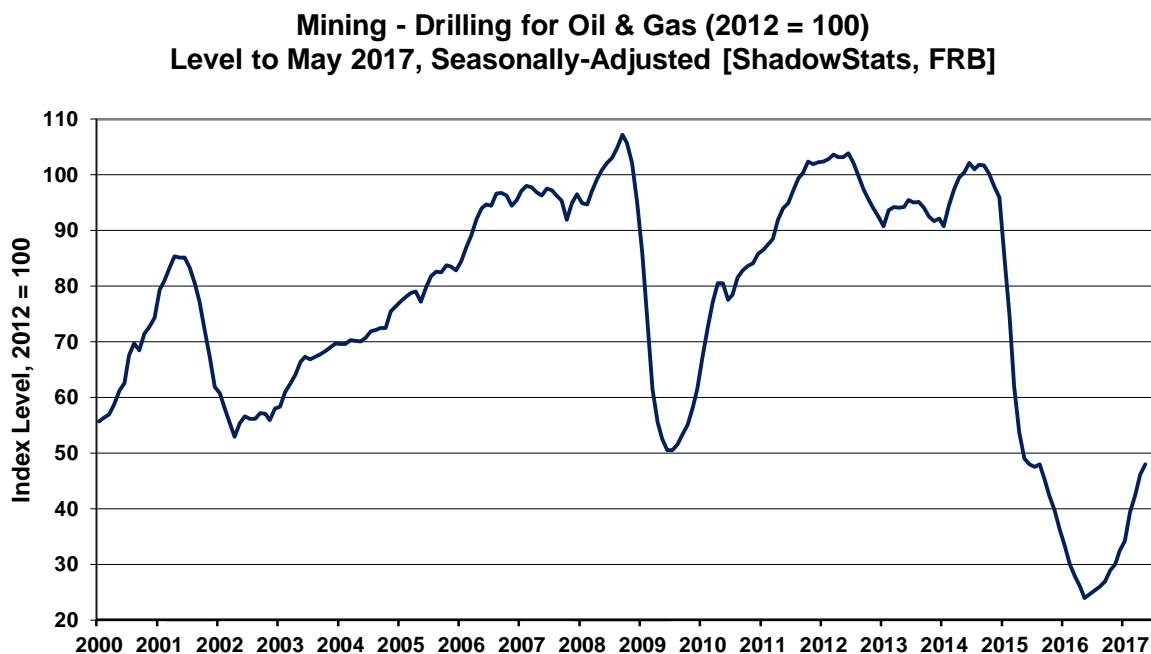


With oil prices still fluctuating above recent lows, May 2017 oil and gas extraction gained 1.53% in the month, having gained a revised 0.41% in April and 0.07% in March. May 2017 activity, however, remained 1.65% (-1.65%) off its all-time high of April 2015.

Exploration in terms of oil and gas drilling (*Graph 24*) has continued to rise in what increasingly looks like a bottoming process, up by 3.84% month-to-month in May 2017, having gained 9.02% in April 2017, having gained 7.71% in March and 15.09% in February. The series remains collapsed, although year-to-year growth broke to the plus-side by 2.42% in January 2017, soaring to 31.13% in February 2017, 52.46% in March 2017, 77.51% in April 2017 and 100.53% in May 2017.

Regularly discussed here, the collapse in drilling largely was an artefact of the massive U.S. dollar rally and oil-price plunge that began in July 2014. Those shifts appeared, at least initially, to be U.S.-orchestrated covert actions designed to stress Russia, financially, in response to the circumstance in Ukraine. From the related June 2014 peak in oil drilling, May 2017 activity was down by 53.08% (-53.08%).

**Graph 24: U.S. Drilling for Oil & Gas (Since 2000)**



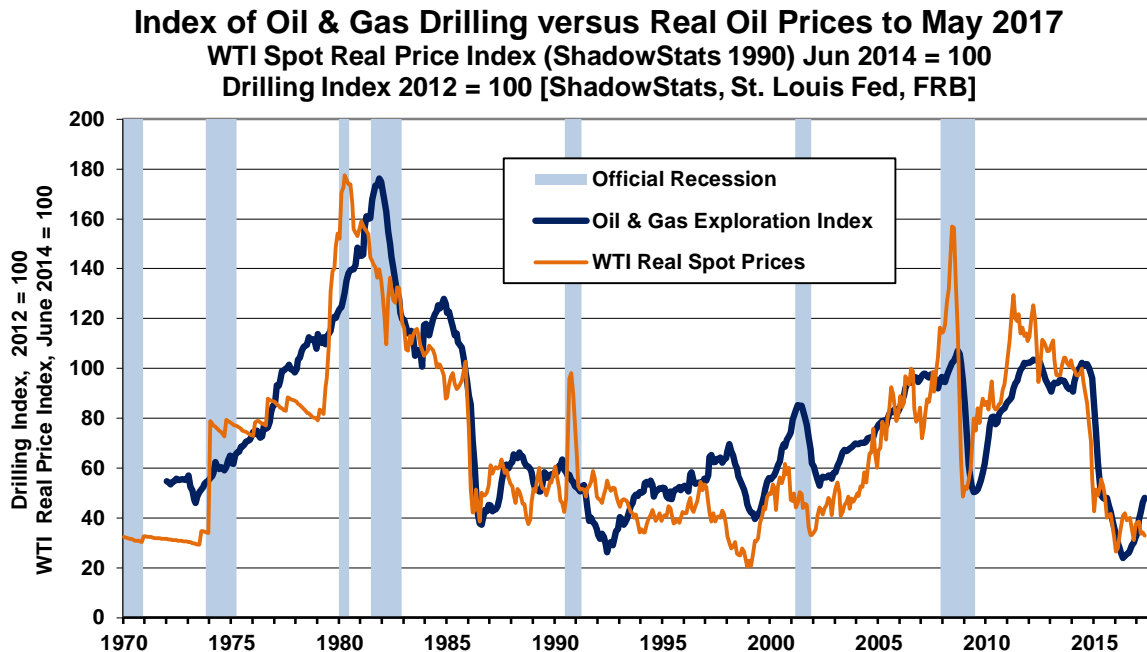
Shown in *Graph 25*, with some lag following sharp movements in oil prices, oil and gas exploration tends to move in tandem, and an upswing in exploration, indeed, continues to be in its early stages in response to the recent bottoming in oil price. The oil price index used here is for the West Texas Intermediate (WTI) monthly average spot price, deflated using the ShadowStats Alternate CPI measure (1990 Base). The graph lines have been highlighted to show more clearly the price-level movement, which visually has coincided graphically with the movement in the drilling levels in some recent months.

When the dollar weakens, dollar-denominated oil prices also begin to strengthen, even in a circumstance with excess supply conditions. At such time as the U.S. dollar declines meaningfully—ShadowStats looks for a massive sell-off in the dollar in the year ahead (see the *Hyperinflation Watch*)—U.S. dollar-



denominated oil prices should rally sharply (see also [General Commentary No. 811](#)). That said, post-election, the U.S. dollar had rallied, but there had not been quite a commensurate decline in oil prices. Instead, with supply being tightened artificially (see the discussion in [No. 859 Special Commentary](#)), oil prices generally have increased and oil and gas extraction and exploration have picked up accordingly, with some lag. As the dollar weakens anew, artificial supply constraints likely will ease.

**Graph 25: Mining – U.S. Drilling for Oil & Gas versus Real Oil Prices (WTI ShadowStats 1990 Base)**



## WEEK, MONTH AND YEAR AHEAD

**Rapidly Softening Economic Reporting Should Compromise Fed Policies, Pummel the U.S. Dollar and Boost the Price of Gold.** *[Please Note: Today's discussions of shifting FOMC policy in the Opening Comments and Hyperinflation Watch speak for themselves, and otherwise will be absorbed into the text here in next week's General Commentary No. 894. The broad outlook has not changed; it just has begun to move forward. Accordingly, other than for the Pending Economic Releases section and this paragraph, text here has not been changed meaningfully from prior [Commentary No. 891](#).*

Recent benchmark revisions to the Trade Deficit (see [Commentary No. 890](#)), Industrial Production ([Commentary No. 877](#)), Manufacturers' Shipments ([Special Commentary No. 888](#)), Housing Starts ([Commentary No. 887](#)) and Retail Sales ([Commentary No. 882](#)) broadly have confirmed that recent

historical activity has been overstated and/or that it is turning down anew, despite near-term improvement in some headline details, such as the May unemployment rate and April industrial production. Reporting patterns likely will continue to weaken in the next month or so, which should trigger anew financial-market concerns as to the direction of pending Fed policy actions. Adding uncertainty are risks of political surprise, as discussed in [Special Commentary No. 888](#). Otherwise, the broad outlook has not shifted.

In the context of the *Opening Special Comments* of [Special Commentary No. 885](#), and as discussed in the *Opening Comments* of [Commentary No. 883](#), the still-unfolding downshift in economic expectations increasingly should move market expectations for Federal Reserve policy away from rate hikes and the normalization of the Fed's balance sheet, towards renewed quantitative easing. The problem for the U.S. central bank remains that faltering domestic economic activity stresses banking-system solvency. Aside from formal obligations of the Fed to maintain healthy domestic economic and inflation conditions, the central bank's primary function, in practice, always has been to keep the banking system afloat. The near-absolute failure of that function in 2008 remains the primary ongoing and unresolved problem for the Fed, and it is one of the ongoing primary issues preventing the return of U.S. economic activity to normal functioning.

The outlook for future FOMC activity was updated in the *Hyperinflation Watch* of [Commentary No. 886](#), and remains otherwise as reviewed in the *Opening Comments* and *Hyperinflation Watch* of [Commentary No. 880](#), and as previously reviewed in [Commentary No. 873](#). The circumstances and outlook remain as broadly outlined in [No. 859 Special Commentary](#).

As reflected in common experience, actual U.S. economic activity generally continues in stagnation or downturn, never having recovered fully its level of pre-economic-collapse (its pre-2007-recession peak). While the latest headline GDP shows economic expansion of 12.5% since that series purportedly recovered its 2007-pre-recession high in 2011, no other "recovered" economic series has come close to showing that expansion either in terms of magnitude or in the purported brevity of the depression. Most of the better-quality series have remained in continuing, not-recovered status, in a period of protracted downturn that now rivals that of the Great Depression (see [Commentary No. 887](#) and [Commentary No. 869](#)). With intensifying signals, near-term economic woes, the FOMC soon should come under pressure to shift policies, once again, reverting to some form of quantitative easing, in an effort to address related, intensifying solvency risks in the domestic banking system.

Discussed in [No. 859 Special Commentary](#), the Trump Administration continues to face extraordinarily difficult times, but has a chance to turn the tide on factors savaging the U.S. economy and on highly negative prospects for long-range U.S. Treasury solvency and stability and strength in the U.S. dollar. Any forthcoming economic stimulus faces a nine-month to one-year lead-time, once in play, before it meaningfully affects the broad economy. Delays from political discord continue to push targeted programs back in time. Needed at the same time are a credible plan for bringing the U.S. long-term budget deficit (sovereign solvency issues) under control, and action to bring the Federal Reserve under control and/or to reorganize the banking system. These actions broadly are necessary to restore domestic-economic and financial-system tranquility (see [No. 859](#)), but they will not happen without the cooperation of Congress.

**Prior General Background.** [No. 859 Special Commentary](#) updated near-term economic and inflation conditions, and the outlook for same, including the general economic, inflation and systemic distortions

evolving out of the Panic of 2008 that have continued in play, and which, again, need to be addressed by the new Administration in the immediate future (see also the *Hyperinflation Watch* of [Commentary No. 862](#) and [Commentary No. 869](#)).

Contrary to the official reporting of an economy that collapsed from 2007 into 2009 and then recovered strongly into ongoing expansion, underlying domestic reality remains that the U.S. economy started to turn down somewhat before 2007, collapsed into 2009 but never recovered fully. While the economy bounced off its 2009 trough, it entered a period of low-level stagnation and then began to turn down anew in December 2014, a month that eventually should mark the beginning of a “new” formal recession (see [General Commentary No. 867](#)).

Coincident with and tied to the economic crash and the Panic of 2008, the U.S. banking system moved to the brink of collapse, a circumstance from which U.S. and global central-bank policies never have recovered. Unwilling to admit its loss of systemic control, the Federal Reserve had been making loud noises of continuing to raise interest rates, in order to contain an overheating economy, but that “overheating” activity has started to fade. As this ongoing crisis evolves towards its unhappy end, the U.S. dollar ultimately should face unprecedented debasement with a resulting runaway domestic inflation.

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

**Recent Commentaries (Covering Recent Headline Details and/or Special Features).** [*Pease Note: Complete ShadowStats archives, from 2004 forward, are found at [www.ShadowStats.com](http://www.ShadowStats.com) (left-hand column of home page).*]

[Commentary No. 891](#) (June 14, 2017) covered the May 2017 CPI and PPI, along with real and nominal retail sales, along with a quick comment on the FOMC rate hike.

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

[Commentary No. 889](#) (May 26, 2017) reviewed the second-estimate, first-revision to first-quarter 2017 GDP, and the April 2017 estimates of New Orders for Durable Goods and New- and Existing Home Sales.

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

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

[Commentary No. 886](#) (May 16, 2017) reviewed the headline details of the April 2017 CPI and PPI detail, along with headline reporting of nominal and real Retail Sales, real Average Weekly Earnings and regular monthly review of U.S. dollar conditions and prospects.

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

[Commentary No. 884](#) (May 4, 2017) reviewed the March 2017 details for the U.S. Trade Deficit and Construction Spending and the Conference Boards' reporting of April 2017 Help Wanted OnLine.

[Commentary No. 883](#) (April 29, 2017) covered the headline detail for the “advance” or first-estimate of first-quarter GDP, along with an update to *Consumer Liquidity Conditions*.

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

[Commentary No. 881](#) (April 19, 2017) reviewed the prior March 2017 Industrial Production, Housing Starts and the Cass Freight Index™, along with an economic update in advance of the initial first-quarter 2017 GDP estimate.

[Commentary No. 880](#) (April 15, 2017) detailed the prior March 2017 headline reporting the of both Real and Nominal Retail Sales, Real Earnings, the CPI, the PPI and updated Consumer Liquidity, where mounting stresses on consumer income and credit are signaling major economic issues ahead.

[Commentary No. 879](#) (April 7, 2017) covered March 2007 Employment and Unemployment, Help-Wanted Advertising and an update on monetary policy and Money Supply M3 (the ShadowStats Ongoing Measure).

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

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

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

[Commentary No. 873](#) (March 16, 2017) discussed prospects for future tightening and/or a return to quantitative easing by the FOMC, along with the prior review of the February 2017 Residential Construction reporting.

[Commentary No. 872](#) (March 15, 2017) offered some initial comment on the FOMC rate hike, in conjunction with the review of last month's February 2017 Retail Sales (real and nominal), Real Earnings and the CPI and PPI.

[Commentary No. 871](#) covered (March 10, 2017) reporting of February Labor Conditions, updated Consumer Liquidity and the ShadowStats Ongoing M3 Measure for February 2017, and a revised FOMC outlook.

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

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

[Commentary No. 861](#) (January 13, 2017) covered the December 2016 nominal Retail Sales, the PPI, with a brief look at some summary GAAP reporting on the U.S. government's fiscal 2016 operations. The GAAP-detail will be reviewed in a *Special Commentary*.

[No. 859 Special Commentary](#) (January 8, 2017) reviewed and previewed economic, financial and systemic developments of the year passed and the year or so ahead.

**Note on Reporting-Quality Issues and Systemic-Reporting Biases.** With some historical detail updated recently [Special Commentary No. 885](#): *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, significant reporting-quality problems remain with most major economic series. Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, which have tended to understate inflation and to overstate economic activity—as generally viewed in the common experience of Main Street, U.S.A.—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 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 2016 surveys of earnings (Bureau of Labor Statistics) and construction spending (Census Bureau). This is suggestive of deteriorating internal oversight and control of the U.S. government's headline economic reporting. That construction-spending issue now appears to have been structured as a gimmick to help boost the July 2016 GDP benchmark revisions, aimed at smoothing the headline reporting of the GDP business cycle, instead of detailing the business cycle and reflecting broad economic trends accurately, as discussed in [Commentary No. 823](#).



Combined with ongoing allegations in the last 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* has continued his investigations in reporting irregularities: [Crudele Investigation](#), [Crudele on Census Bureau Fraud](#) and [John Crudele on Retail Sales](#) (worth a review in the context of the recently-published 2017 retail sales benchmarking).

**PENDING ECONOMIC RELEASE: *Updated - Residential Construction—Housing Starts (May 2017)*.** The Census Bureau will release May 2017 residential construction detail, including Housing Starts, tomorrow, Friday, June 16th, to be covered in *Commentary No. 893* of that date. In line with common-reporting experience of recent years, monthly results are likely to be unstable and not statistically meaningful, holding in a general pattern of down-trending stagnation. That said, in the wake of the nonsensical extreme swings in recent months and relatively meaningless annual benchmark revisions, almost anything remains possible in this unstable series, despite what are relatively strong, positive catch up consensus expectations for the headline detail.

Irrespective of the generally meaninglessness of that headline detail, the broad pattern of housing starts still should remain consistent with the low-level, stagnant activity, as seen at present, where last month's, downside April 2017 activity was down by 48% (-48%) from recovering the pre-recession high of the series. That stagnation is particularly evident with the headline detail viewed in the context of a six-month moving average. Again, this series remains subject to regular and extremely-large, prior-period revisions.

Per the updated *Consumer Liquidity Conditions* in [Special Commentary No. 888](#), without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for an income shortfall, the liquidity-strapped U.S. consumer remains unable to sustain growth in broad economic activity, including demand for residential construction.

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