

**COMMENTARY NUMBER 914**

**August Trade Deficit, Construction Spending, September Private Labor Surveying**

**October 5, 2017**

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**U.S. Economy Remains in Serious Trouble: Non-Recovered, Non-Expanding and Turning Down Anew, Separate from Near-Term, Temporary Weather Impact**

**Private Surveying of September Labor Conditions Signaled Continued Downturn**

**Headline Real Merchandise Trade Deficits in July and August Were Worse than Suggested by the Advance Estimate of the August Goods Trade Deficit**

**Most-Recent Four Quarters of Real Trade Deficit through Second-Quarter Remained Worst Since 2007, with the Trend Intensifying in Third-Quarter 2017**

**Annual Decline in August 2017 Real Construction Spending Continued in a Manner Last Seen During the 2006 Housing Collapse**

**Shy of Recovering Its Pre-Recession Peak by 23.0% (-23.0%), Real Construction Spending Continued in Intensifying Downtrend**

**Storm-Related Impact on Economic Data Will Break in the Week Ahead**

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*PLEASE NOTE: The next regular Commentary, tomorrow, Friday, October 6th, will cover the September 2017 Employment and Unemployment detail.*

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

**Today's (October 5th) *Opening Comments and Executive Summary*.** The *Opening Comments and Executive Summary* review the latest economic trends in the headline August 2017 trade deficit and construction spending detail, along with the just-released September 2017 estimate of The Conference Board's Help Wanted OnLine<sup>®</sup>, all in the context of unfolding, temporary positive and negative economic disruptions from recent hurricanes.

The *Reporting Detail* (page 10) provides a more-detailed analysis of the headline August trade-deficit and construction-spending details.

The *Consumer Liquidity Watch* (page 21) is updated for just the University of Michigan's estimate of September 2017 Consumer Sentiment. The *CLW* otherwise has not been revised from its prior version, providing general background on consumer-liquidity circumstances.

The *Week, Month and Year Ahead* (page 31) provides links to recent *Commentaries* and updates the preview to tomorrow's September employment and unemployment report.

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## OPENING COMMENTS AND EXECUTIVE SUMMARY

**No Relief from a Deepening, Underlying Economic Downturn, Despite Looming Headline Gyration in Activity from Hurricane Effects.** While neither the August 2017 trade deficit, nor August construction spending showed meaningful net impact from Hurricane Harvey, both continued to show headline activity in the context of a non-recovering and non-expanding broad economy. In the case of real construction spending, there is renewed economic downturn. Also reviewed in today's *Commentary*, The Conference Board Help-Wanted Online Advertising<sup>®</sup> for September 2017 showed continuing, significant annual, year-to-year deterioration in labor-market demand, a meaningfully-negative leading indicator to broad economic activity, despite headline flat-to-positive, month-to-month activity.

Despite the happy hype out Washington and Wall Street, underlying consumer circumstances here have deteriorated, not improved, since the electorate expressed its dissatisfaction in 2016 with how economic circumstances had developed, and were continuing to unfold. That situation now does not appear likely to change much, other than for intensified deterioration, prior to the 2018 mid-term elections.

Beginning with tomorrow's headline reporting of September 2017 labor detail, significant month-to-month hurricane-related impact should be seen, both negative and positive, with residual impacts carrying through for another month or two (see the *Opening Comments* of both [Commentary No. 913](#) and [Commentary No. 912](#)). Noted in *No. 913*, for example, in context of the August 14th "Alert," ([Special Commentary No. 904](#)): "pre-hurricane headline economic details broadly have continued to show downturns and downside revisions, in series such as payroll employment, retail sales and statistics related to the housing market. Other series such as manufacturing and durable goods orders have remained stagnant, never having recovered pre-recession highs from before the economic collapse into 2009.

“Deteriorating, underlying economic fundamentals have not changed, but a short-lived wildcard has been added to the headline circumstance, from looming hurricane impact on near-term monthly economic data.” For example, looking into next week, September 2017 automobile sales appear set to spike Friday’s September retail sales report, where large numbers of vehicles destroyed in recent hurricane flooding already have been replaced. As headline economic details gyrate around short-lived hurricane effects, underlying consumer liquidity circumstances remain bleak, constrained (see the *Consumer Liquidity Watch*). Accordingly, there is no new fundamental shift in economic activity underway.

**Continued Signal of Deepening/Renewed Recession from September Help-Wanted Advertising.**

Although up for the month, The Conference Board Help-Wanted Online Advertising® (HWOL) for September 2017 continued showing significant annual, year-to-year deterioration in labor-market demand, a meaningfully-negative leading indicator to broad economic activity. On a regional basis, in terms of total ads, Texas was flat for the month, while Florida saw a decline, but the Conference Board did not offer an opinion as to the impact of any hurricane disruptions.

ShadowStats follows a number of business indicators—both conventional and not—looking for reliable reporting of real-world economic activity and for indications of shifting patterns in same. The HWOL is one of the best, private leading-indicator measures. Increasingly, a number of major government economic indicators, including August payrolls and housing and construction measures, have been showing “unexpected” weakness, or continued non-recovery and renewed downturn in the post-2007 economic collapse period. Those trends should continue net of any short-lived, weather-related reporting disruptions.

***The Conference Board Help Wanted OnLine® Advertising, September 2017.*** With the counts of September 2017 “Total Ads” and “New Ads” down year-to-year respectively by 10.1% (-10.1%) and 11.1% (-11.1%), the annual contractions broadly are holding at depths last seen going into the trough of the business collapse into 2009/2010. Month-to-month changes, although to the upside for both measures in September, had been down in each of the last three month. The monthly patterns have been irregular, down in fourteen of the last twenty-two months for the “Total,” and down in twelve out of the last twenty-two months for the “New” Ads.

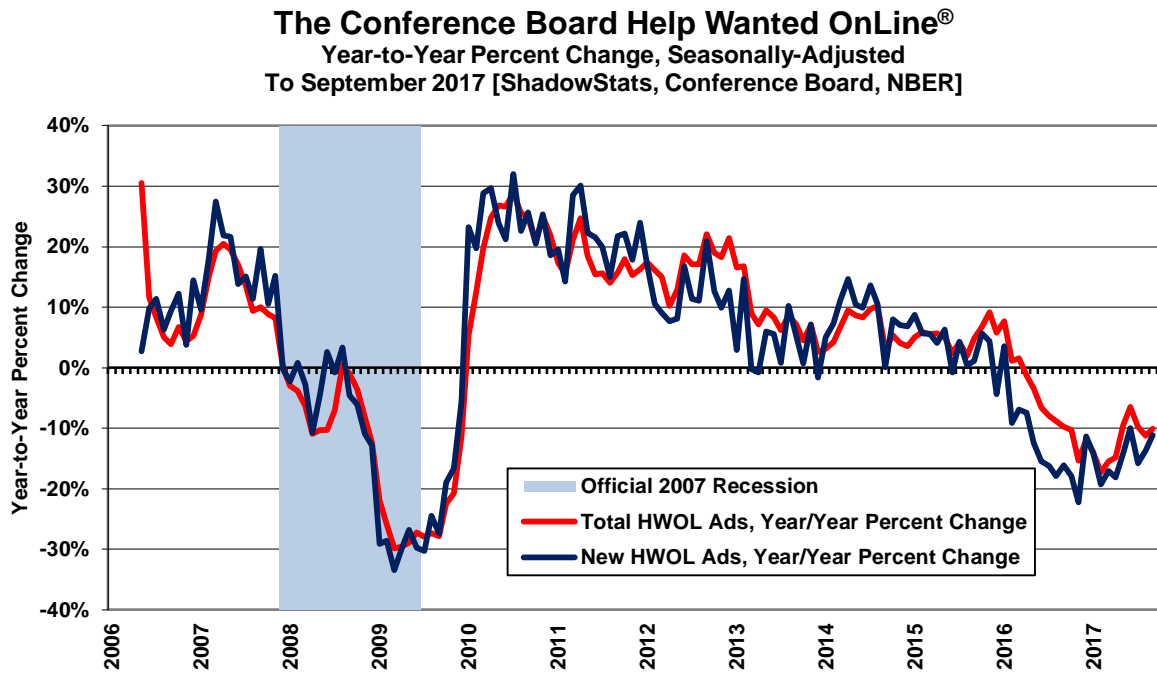
The tracked, seasonally-adjusted monthly measures, however, have declined year-to-year in each of the last eighteen months for the total ads, and in each of the last twenty months (twenty-one of the last twenty-two months) for the new ads, including September 2017. The annual decline has narrowed recently, but the annual downturn generally has continued hold at or deeper than 10% (-10%) for both series, as reflected in *Graph 1*. Annual growth began to slow in 2010 and turned negative year-to-year in late-2015 and early-2016. The shaded area in the graph reflects the formal bounds of the 2007 to 2009 recession. While the HWOL held in negative annual growth territory into early-2010, beyond the formal economic trough in June 2009, keep in mind that payroll employment—traditionally a coincident economic indicator to the general economy—did not hit its cycle trough until February 2010.

Many thanks to The Conference Board for permission to publish the accompanying graph of year-to-year change in its *Help Wanted OnLine®* data. The annual percentage change is plotted for two series: Total Ads (red line) and New Ads (blue line). Where, “Total ads are all unduplicated [online] ads appearing during the reference period. This figure includes ads from the previous months that have been reposted as well as new ads.” While, “New ads are all unduplicated ads which did not appear during the previous

reference period. An online help wanted ad is counted as ‘New’ only in the month it first appears.” Related background details and reporting are found here: [The Conference Board Help Wanted OnLine®](#).

While much of this text is repetitive of prior discussions in [Advance Commentary No. 908-A](#), [No. 852](#) and [No. 820](#), the detail here has been updated for the latest information. These comments and analysis remain those of ShadowStats alone, not those of The Conference Board.

**Graph 1: The Conference Board Help Wanted OnLine® to September 2017**



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

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

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

First fully covered by ShadowStats in [Commentary No. 820](#) of July 16, 2016, the HWOL is updated here through September 2017 (released October 4th). As a leading economic indicator, help-wanted advertising had its roots as far back in time as the initial reporting of industrial production, post-World War I. The Conference Board has adapted the concept to reflect the fundamental shift of help-wanted advertising from printed newspapers to online advertising. The prior newspaper-based series simply was the best leading indicator of its day.

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

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

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

Time will establish new annual growth parameters that would signal a formal recession. My betting remains that they will look much like the earlier series, and much like the pattern seen in the present series in terms of year-to-year contraction. Those looking for independent confirmation of underlying economic conditions should find this series to be highly valuable. As for the BLS employment and unemployment series, they should begin to catch up with the Conference Board's high-quality, independent leading indicator, despite the heavy upside reporting biases deliberately structured into the BLS series and expanded anew into the 2016 payroll-survey benchmarking. See the discussions in [Special Commentary No. 885](#), [Commentary No. 864](#) and in *Birth-Death/Bias-Factor Adjustment (BDM)* section in [Commentary No. 908-B](#).

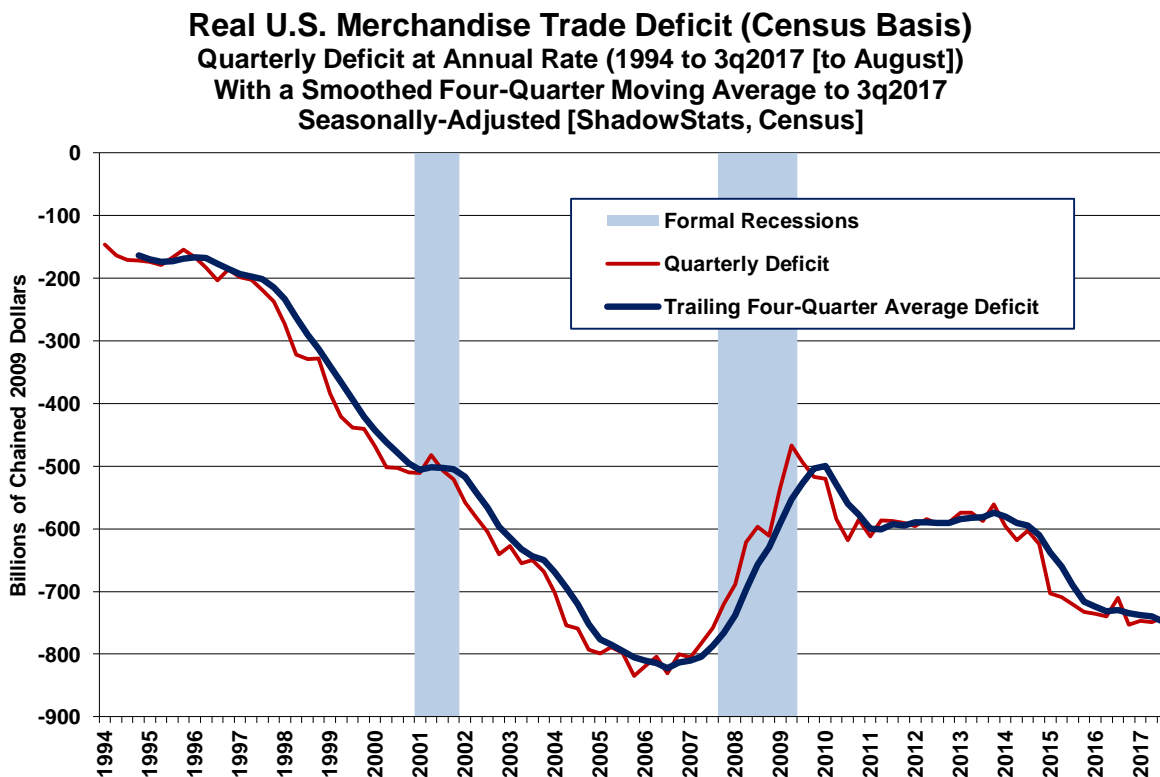
**EXECUTIVE SUMMARY: Trade Deficit—August 2017—Revised Monthly Deficits Deteriorated Versus the “Advance” Guess; Latest Four Quarters of Real Trade Shortfall—Deepening into Third-Quarter 2017—Remained Worst Since 2007.** Net of today's headline revision for a deeper July real deficit (the way the GDP is measured), the real merchandise shortfall in August 2017 trade activity widened, instead of the “advance” estimate of a headline narrowing, a net deterioration in trending third-

quarter real activity. Nonetheless, the nominal headline August monthly trade deficit in goods and services still narrowed minimally versus the July detail, both before and after revisions.

The changes were enough to knock forecasts of third-quarter GDP growth a little lower, but that quarterly estimate will get buffeted around much more sharply by pending, irregular boosts and hits from hurricane effects. Nonetheless, despite the late-August landfall of Hurricane Harvey near Port Houston, that storm likely had negligible impact on the net trade deficit in August, as discussed in the *Reporting Detail*.

Adjusted for inflation, as shown in *Graph 2*, the fourth-quarter 2016 real merchandise trade deficit was the worst showing in ten years, with the subsequent first- and second-quarter 2017 shortfalls only minimally narrowed, and with a similar trend in the early third-quarter (to August 2017) estimate. Also plotted in *Graph 2*, the four-quarter moving average of the annual real merchandise trade deficit, through the third-quarter 2017 early trend, intensified as the worst trade shortfall since 2007, still a broadly-negative contributor to headline real GDP growth. The inflation-adjusted merchandise trade deficit here been holding at a ten-year trough, which remains consistent with broad economic non-recovery and non-expansion.

**Graph 2: Real Quarterly Merchandise Trade Deficit (1994-2017)**



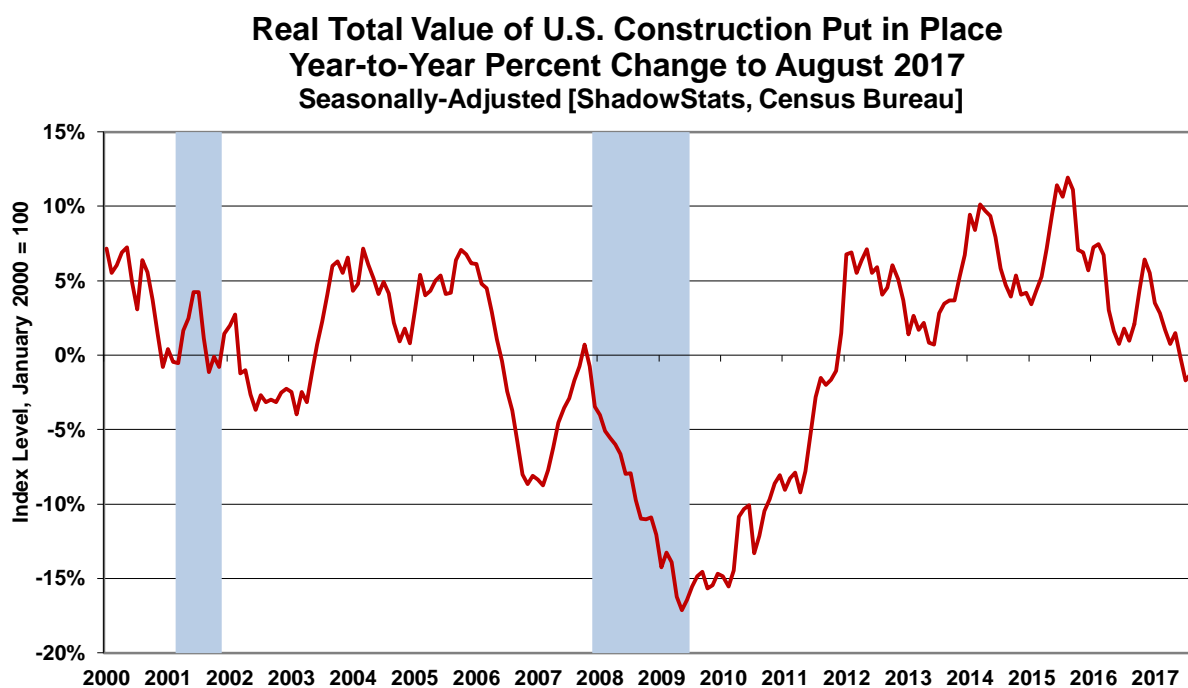
**Nominal August 2017 Trade Deficit.** Despite the inflation-adjusted deterioration in the goods sector, the seasonally-adjusted, nominal monthly trade deficit in goods and services for August 2017 narrowed on a balance-of-payments basis by \$1.163 billion to \$42.395 billion, versus a revised deficit of \$43.558 billion July, reflecting an increase of \$0.808 billion in monthly exports and a complimentary decline in imports

of \$0.354 (-\$0.354) billion. The headline August 2017 deficit, however, deteriorated by \$1.265 billion, versus the year-ago \$41.130 billion trade shortfall for August 2016.

Extended coverage follows in the *Reporting Detail*.

**Construction Spending—August 2017—Annual Real Growth Continued a Pattern of Decline Last Seen in the Housing Collapse of 2006/2007.** In the context of August 2017 real Construction Spending holding shy of its recovering its pre-recession peak by 23.0% (-23.0%), annual growth remained in a pattern of year-to-year contraction last seen during the housing collapse of 2006, leading into the formal 2007 economic recession, as reflected in *Graph 3*. In terms of the aggregate real series, annualized quarterly change slowed into first-quarter 2017, turned negative in second-quarter 2017 and has intensified on the downside, so far, in third-quarter 2017 activity, again all in a manner consistent with a recession.

**Graph 3: Total Real Construction Spending, Year-to-Year Percent Change**  
(Same as Graph 8 in the Reporting Detail section)

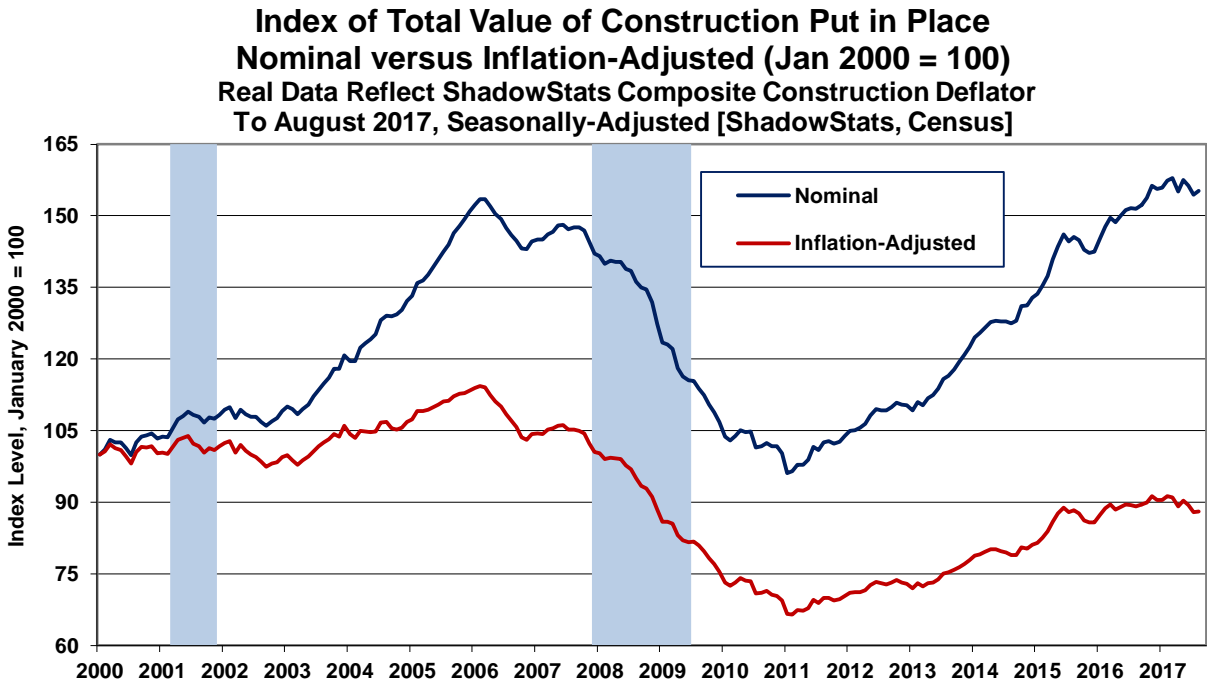


**Despite an August Nominal Monthly Gain and Upside July and June Revisions, Real Construction Spending and Components Continued in a Non-Recovering, Non-Expanding Renewed Downturn.** Impact on aggregate U.S. Construction Spending from hurricane activity likely was negligible in August, although that should change in September, as discussed in the *Reporting Detail*.

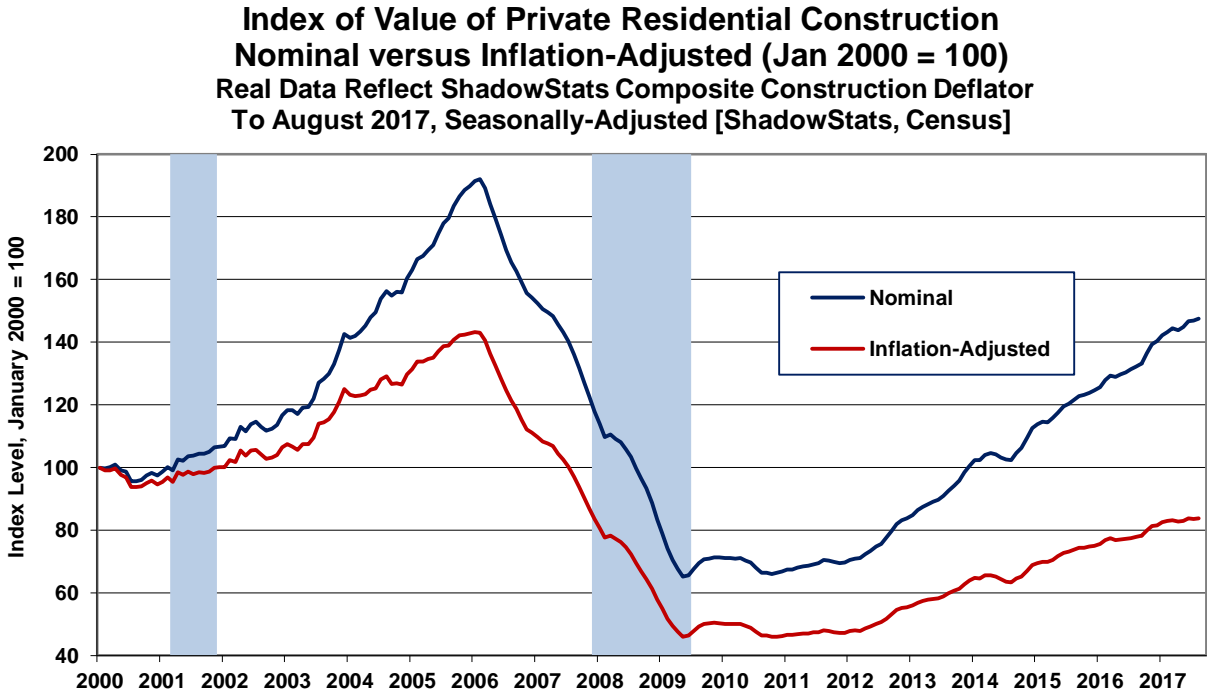
Nonetheless, as reflected in accompanying *Graphs 4 to 7*, neither the aggregate inflation-adjusted real series (the red line in each graph), nor any of its major-subsidary components, has recovered levels of pre-recession peak activity, and each element currently is turning down anew, consistent with an unfolding new recession or re-intensified downturn. This pattern is an element common to nearly all home-sales and housing-construction series (see [Commentary No. 911](#) and [Commentary No. 912](#)).

Extended coverage on Construction Spending follows in the *Reporting Detail*.

**Graph 4: Index, Nominal versus Real Value of Total Construction**



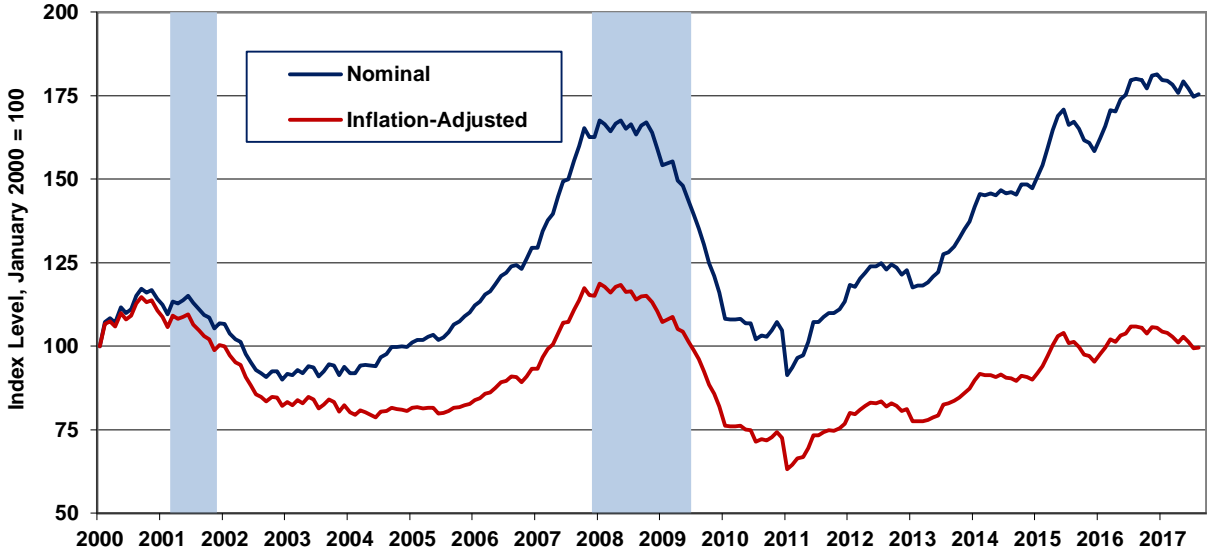
**Graph 5: Index, Nominal versus Real Value of Private Residential Construction**





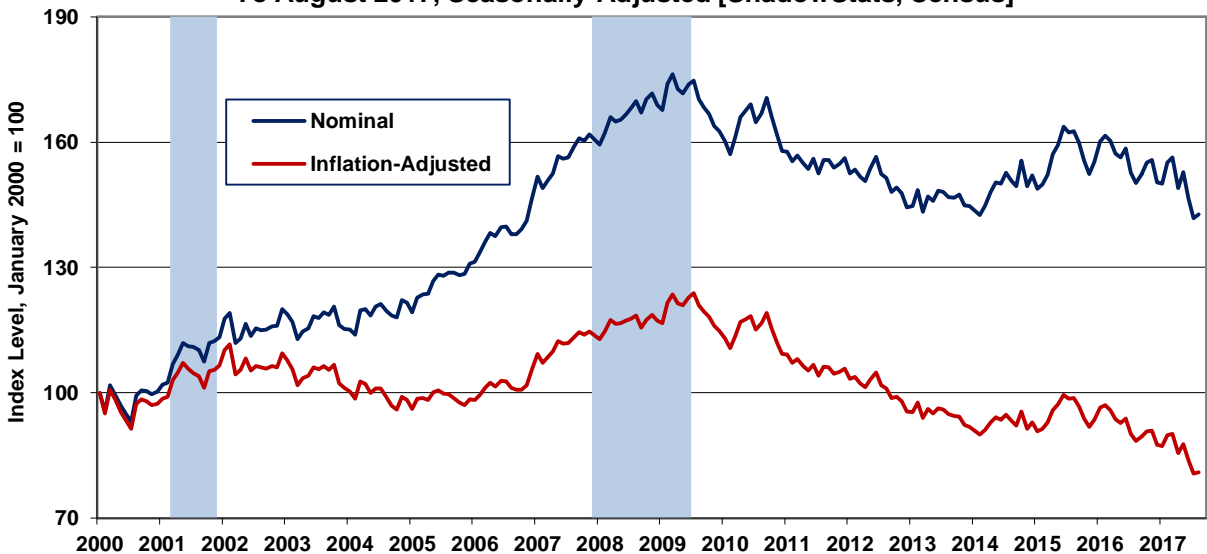
**Graph 6: Index, Nominal versus Real Value of Private Nonresidential Construction**

**Index of Value of Private Nonresidential Construction  
Nominal versus Inflation-Adjusted (Jan 2000 = 100)  
Real Data Reflect ShadowStats Composite Construction Deflator  
To August 2017, Seasonally-Adjusted [ShadowStats, Census]**



**Graph 7: Index, Nominal versus Real Value of Public Construction**

**Index of Value of Public Construction  
Nominal versus Inflation-Adjusted (Jan 2000 = 100)  
Real Data Reflect ShadowStats Composite Construction Deflator  
To August 2017, Seasonally-Adjusted [ShadowStats, Census]**



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

## REPORTING DETAIL

### U.S. TRADE DEFICIT (August 2017)

#### **Revised Monthly Deficits Deteriorated Against Last Week’s “Advance” Reporting; Latest Four Quarters of Real Deficit—Deepening into Third-Quarter 2017—Remained Worst Since 2007.**

Against erratically-unstable reporting of the “advance” monthly trade deficit in goods, as released September 28th, both the July and August 2017 trade deficit detail widened against the early guesstimates, particularly in constant dollar terms. Net of today’s headline revision for a deeper July 2017 real deficit (the way the GDP is measured), the real merchandise shortfall in August trade activity widened, instead of the “advance” headline narrowing, a net deterioration in trending third-quarter real activity. Nonetheless, the nominal headline August 2017 monthly trade deficit in goods and services still narrowed minimally versus the July detail, both before and after revisions.

The changes were enough to knock forecasts of third-quarter GDP growth a little lower, but that quarterly estimate will get buffeted around much more sharply by pending, irregular boosts and hits from hurricane effects, as discussed in the *Opening Comments*.

The Commerce Department was not able to quantify the impact of the late-August Hurricane Harvey on the August trade detail, as noted on page 3 of today’s [Press Release](#). Where the Port Houston clearly suffered near-term disruptions, although back in business the first week of September, the flow of trade goes both ways. Given the relatively brief period involved, the regional impact and the two-sided effects as discussed in *Ongoing Cautions and Alerts on Data Quality*, the impact of Hurricane Harvey on the headline “net” August trade deficit like was minimal. Where the U.S. trade balance broadly is negative, reduced activity generally would reduce the deficit, which in principal is an economic positive.

Adjusted for inflation, as shown in *Graph 2* in the *Executive Summary*, and as detailed in the *Real August 2017 Merchandise Trade Deficit* section, the fourth-quarter 2016 real merchandise trade deficit was the worst showing in ten years, with the subsequent first- and second-quarter 2017 shortfalls only minimally narrowed, and with a similar trend in the early third-quarter (to August 2017) estimate. Also seen in *Graph 2*, the four-quarter moving average of the annual real merchandise trade deficit, through the third-quarter 2017 early trend, remained the worst trade shortfall since 2007, still a broadly-negative contributor to headline real GDP growth.

**Nominal August 2017 Trade Deficit.** The Bureau of Economic Analysis (BEA) and the Census Bureau reported this morning, October 5th, that the nominal (not adjusted for inflation), seasonally-adjusted monthly trade deficit in goods and services for August 2017 narrowed on a balance-of-payments basis by \$1.163 billion to \$42.395, versus a revised deficit of \$43.558 [previously \$43.689] billion in July. The narrowing in the monthly deficit reflected an increase of \$0.808 billion in monthly exports, supplemented by a decline of \$0.354 (-\$0.354) billion in imports. The headline August 2017 deficit deteriorated by \$1.265 billion, versus the year-ago \$41.130 billion trade shortfall for August 2016.

Factors affecting the changes to the August trade balance were relatively minor with increasing exports of pharmaceuticals and telephone equipment, and some decline in fuel oil, versus declining imports of supplies, materials, computers and aircraft, offset by increased auto imports. Changes in energy-sector activity were negligible.

***Energy-Related Petroleum Products.*** August 2017 imported oil prices increased by 2.1% to \$44.11 per barrel, versus \$43.20 in July 2017, and rose by 12.0% versus \$39.38 per barrel in August 2016. Separately, not-seasonally-adjusted physical oil-import volume in August 2017 averaged 8.118 million barrels per day, up from 7.585 million in July 2017, but down from 8.279 million in August 2016.

***Ongoing Cautions and Alerts on Data Quality.*** Monthly trade data can be influenced by irregular shipping patterns, affected by factors ranging from labor disruptions to unusual weather conditions. Damages from Hurricane Harvey likely had some negative near-term impact on aggregate trade-flow activity in August, although not much that would affect the aggregate trade balance, yet. Such could shift some with next month's September detail. In general, where the aggregate dollar value of the net U.S. trade flow is negative, trade-flow disruption tends to understate the trade deficit, a circumstance that tends to be a positive contributor to headline GDP activity.

Separately, potentially heavy distortions in headline data continue from distorted and unstable seasonal adjustments. Similar issues affect other economic releases, such as labor conditions and retail sales, where the headline number reflects seasonally-adjusted month-to-month change. Discussed frequently (see [2014 Hyperinflation Report—Great Economic Tumble](#) for example), the extraordinary length and depth of the current business downturn and related, ongoing disruptions have distorted regular patterns of seasonality.

***Real August 2017 Merchandise Trade Deficit.*** Discussed here and reflected in *Graph 2* in the *Executive Summary*, seasonally-adjusted and in real terms, net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), that August 2017 merchandise trade deficit (no services) narrowed to \$61.761, versus a revised \$61.804 [previously \$61.600] billion in July, and, and it widened versus a deficit of \$58.923 billion in August 2016.

Net of prior period revisions, however, the real merchandise deficit in August 2017 widened versus July 2017.

Last year, the annualized deficit was \$735.3 billion for first-quarter 2016, \$739.4 billion for second-quarter 2016, \$710.4 billion for third-quarter 2016 and \$753.1 billion for fourth-quarter 2016. The fourth-quarter 2016 deficit was the worst quarterly showing since third-quarter 2007. The annual real merchandise trade deficit widened for the year of 2016 to \$747.2 billion, versus \$716.4 billion in 2015. The 2016 annual trade shortfall was the worst since 2008.

The first-quarter 2017 deficit narrowed minimally to \$747.1 billion, with the second-quarter 2017 deficit widening minimally to \$749.2 billion. Where the fourth-quarter 2016 deficit remained the worst showing since 2007, as shown in *Graph 2*, the four-quarter moving annual average deficit through second-quarter 2017 was the deepest shortfall seen since 2007.

Based solely on the initial headline detail for July and August 2017, the early trend for the third-quarter 2017 deficit was \$741.4 billion [previously \$739.2 billion based just on the initial July detail]. At that

level, the four-quarter trailing annual average deficit through third-quarter 2017 would be the deepest shortfall seen since 2007.

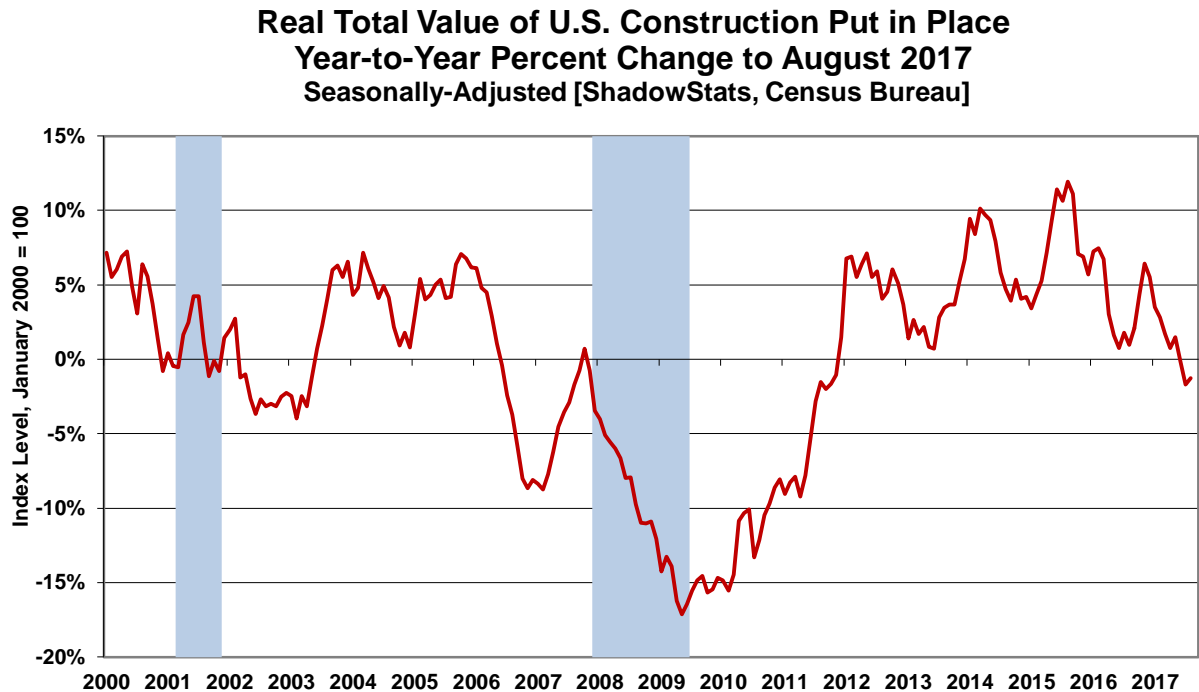
Irrespective of occasional, quarterly aberrations and increasingly irregular, headline month-to-month activity, headline deficits broadly should continue to deteriorate sharply in the months and quarters ahead, revising and intensifying the ongoing and commonly-negative impact on headline GDP.

**CONSTRUCTION SPENDING IN THE UNITED STATES (August 2017)**

**Despite an August Gain and Upside July and June Revisions, Real Construction Spending Held Shy of Its Pre-Recession Peak by 23.0% (-23.0%), Still Signaling Renewed Downturn/Recession.** With Hurricane Harvey hitting Texas late in August, impact on aggregate U.S. Construction Spending likely was negligible for the month, and the headline August detail tended to confirm that. Hurricane Irma did not hit Florida until September.

Nonetheless, as discussed in [Commentary No. 912](#), construction spending should see boosts to activity in the next several months from rebuilding and reconstruction engendered by the massive destruction wrought by both Hurricanes Harvey and Irma. The Census Bureau has offered some background as to what its reporting will and will not cover: [Construction Spending - Hurricane Impact](#).

**Graph 8: Total Real Construction Spending, Year-to-Year Percent Change**  
(Same as Graph 3 in the Executive Summary)



In normal times, the Construction Spending series remains highly volatile, subject to unstable and extraordinarily-large monthly revisions. Where headline July 2017 data reflected large, prior months’ upside revisions, that pattern repeated with the headline August 2017 detail, although the prior months’

upside revisions were smaller. That said, the unfolding downside shift in trend in the inflation-adjusted real series continued, with year-to-year change still showing an annual contraction of a scope last seen during the housing collapse of 2006 (see *Graph 8*, and *Graph 3* in the *Executive Summary*). Separately, both the real second-quarter and early-trend, real third-quarter 2017 activity showed steepening annualized contractions respectively of 5.6% (-5.6%) and 7.1% (-7.1%), while the headline real August 2017 monthly reading stood at 23.0% (-23.0%) below its pre-recession peak. The broad housing and related construction sector remain severely constrained by ongoing consumer liquidity issues, discussed in the *Consumer Liquidity Watch*.

**August 2017 Construction Spending.** In the context of August's monthly gain in nominal aggregate construction spending, on top of an upwardly revised July reading, which still was down from an upwardly revised June reading, and with all three months at levels below unrevised May 2017 activity, the recent underlying revisions generally were to the upside for private construction and to the downside for public construction. With total nominal annual growth in construction spending up by 2.5%, but down by 1.3% (-1.3%) in real terms, net of construction inflation in August 2017, the current pattern of downturn in real annual growth was last seen going into the housing collapse in 2006 and the 2007 recession.

The headline, seasonally-adjusted nominal August 2017 Value of Construction Put in Place in the United States rose to \$1,218.3 billion, from an upwardly revised \$1,212.3 [previously \$1,211.5] billion in July 2017, which was down from an upwardly-revised \$1,226.4 [previously \$1,219.2, initially \$1,205.8] billion in June 2017, which was down from a unrevised \$1,236.7 billion in May 2017.

In the context of the upside revisions to June and July activity, nominal construction spending gained month-to-month in August 2017 by a statistically insignificant 0.5% +/- 1.8% (all confidence intervals are at the 95% level), versus a revised decline of 1.2% (-1.2%) [previously 0.6% (-0.6%)] in July, a revised decline of 0.8% (-0.8%) [previously a decline of 1.4% (-1.4%)] in June and a gain of 1.6% in May. Net of the Composite Construction Deflator inflation (see the next section), those were real changes of a 0.1% gain in August 2017, versus declines of 1.2% (-1.2%) in July, 0.8% (-0.8%) in June and a gain of 1.3% in May.

Headline annual nominal growth rose by a statistically-significant 2.5% +/- 2.1% in August 2017, versus revised annual gains of 1.9% [previously 1.8%] for July 2017, 3.4% [previously 2.8%] for June 2017 and an unrevised 5.1% for May 2017. Net of inflation, August 2017 was down year-to-year by 1.3% (-1.3%), with July 2017 down by 1.7% (-1.7%), June 2017 down by 0.7% (-0.7%) and with May 2017 up by 1.5%.

The preceding headline details are reflected in *Graphs 8 to 12* and in *Graphs 3 and 4* in the *Executive Summary*.

The statistically-insignificant, nominal monthly gain of 0.5% in aggregate August 2017 spending, versus the revised monthly decline of 1.2% (-1.2%) in aggregate July 2017 spending, included a headline monthly gain of 0.7% in August 2017 public spending, which followed a monthly drop of 3.3% (-3.3%) in July 2017. Private construction spending gained 0.4% in August 2017, having declined by 0.5% (-0.5%) in July 2017. Within total private construction spending, the residential-construction sector activity also gained by 0.4% in August 2017, having gained 0.2% in July 2017, while the nonresidential sector gained 0.5% in August 2017, having dropped by 1.4% (-1.4%) in July 2017.

The preceding headline details are reflected in *Graphs 11 to 12* and in *Graphs 4 to 7* in the *Executive Summary*, net of inflation.

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

CCD year-to-year inflation was 3.77% for August 2017, versus 3.63% for July 2017, and 3.53% for June 2017. Month-to-month inflation was 0.37% for August 2017, 0.46% for July and 0.24% for June.

**Second-Quarter and Early Third-Quarter 2017 Real U.S. Construction Spending Contracted Sharply Quarter-to-Quarter.** In the context of upside revisions in June and July 2017 activity, and net of inflation, second-quarter 2017 growth contracted at an annualized pace of 5.6% (-5.6%) [previously by 6.4% (-6.4%), initially down by 9.2% (-9.2%)], versus first-quarter 2017, where growth had slowed to 1.4%, against a 5.4% gain in fourth-quarter 2016.

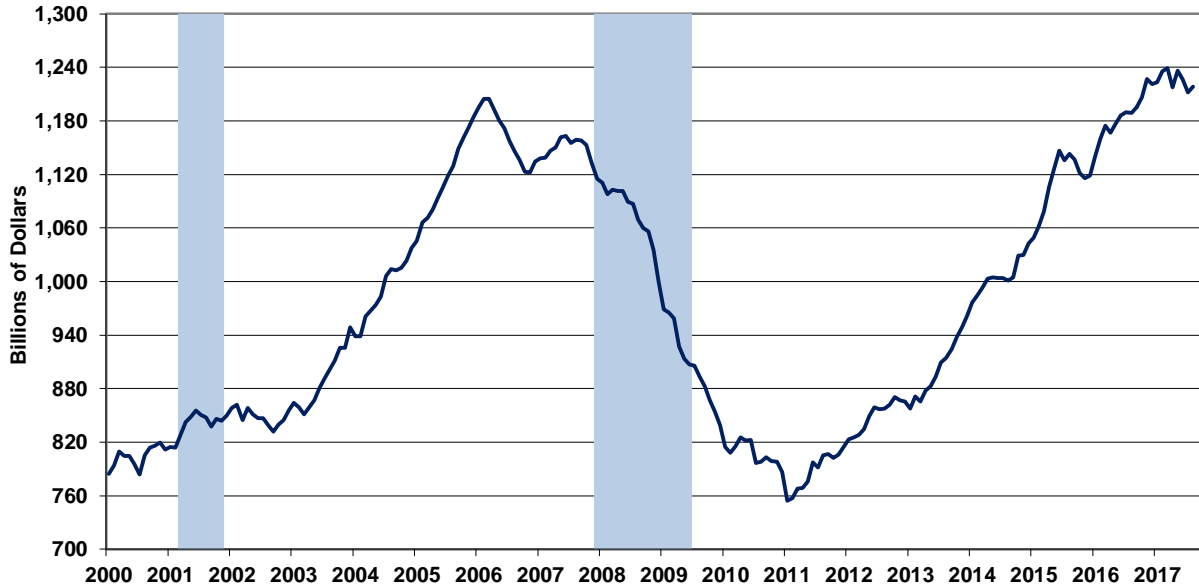
Based solely on headline July and August 2017 detail, third-quarter 2017 was on early track for an annualized quarterly contraction of 7.1% (-7.1%) [previously 6.9% (-6.9%) based just on the initial July detail].

In terms of real year-to-year change, first-quarter 2017 growth of 2.7%, slowed to 0.7% in second-quarter 2017, which was on track to slow further to an annual contraction of 1.5% (-1.5%) in third-quarter 2017 (based just on July and August reporting).

[Graphs 9 to 12 begin on the next page.]

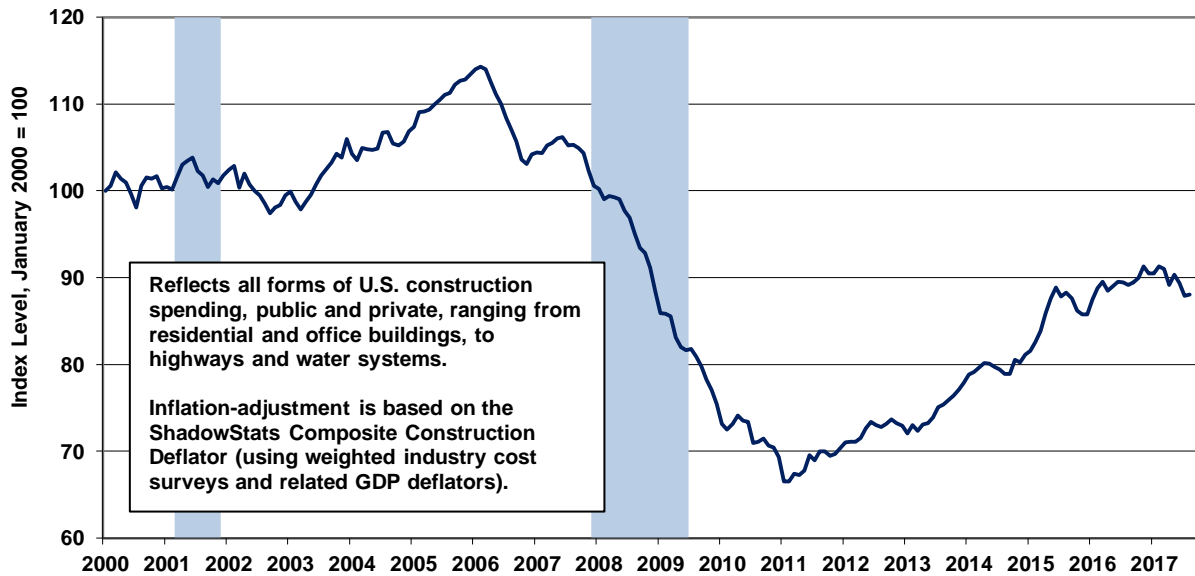
**Graph 9: Total Nominal Construction Spending**

**Nominal Total-Construction Spending to August 2017**  
 Seasonally-Adjusted Annual Rate [ShadowStats, Census]

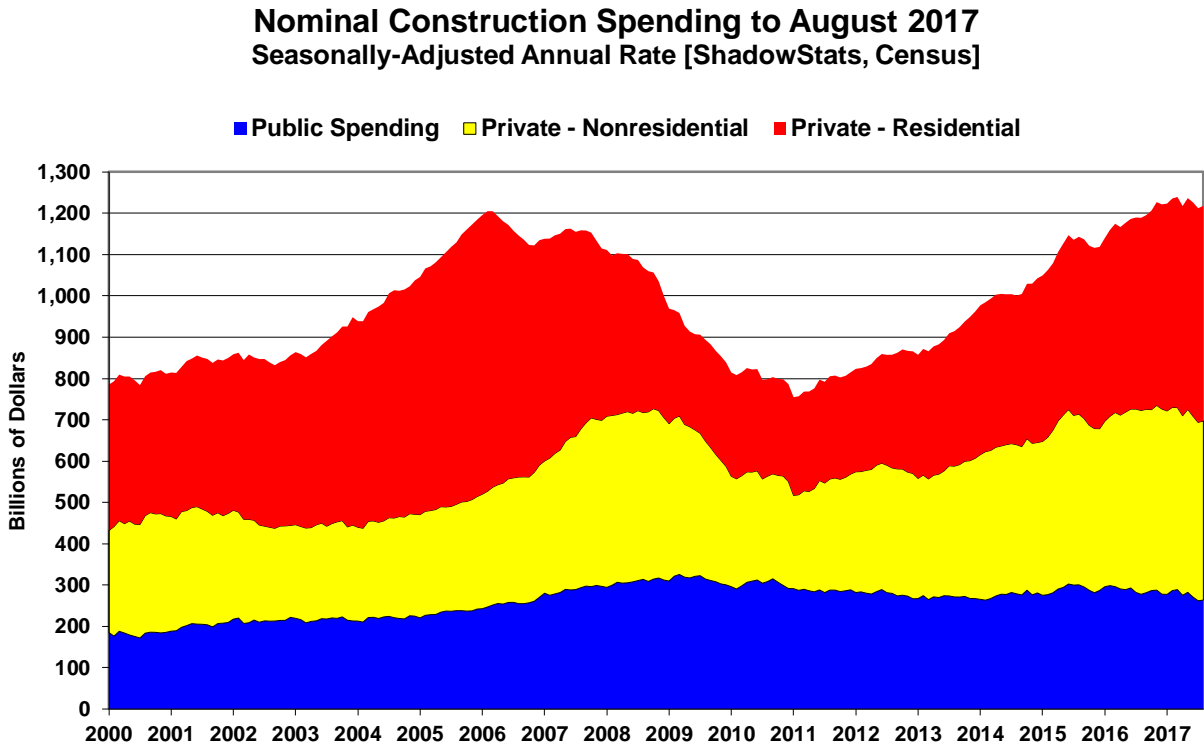


**Graph 10: Index of Total Real Construction Spending**

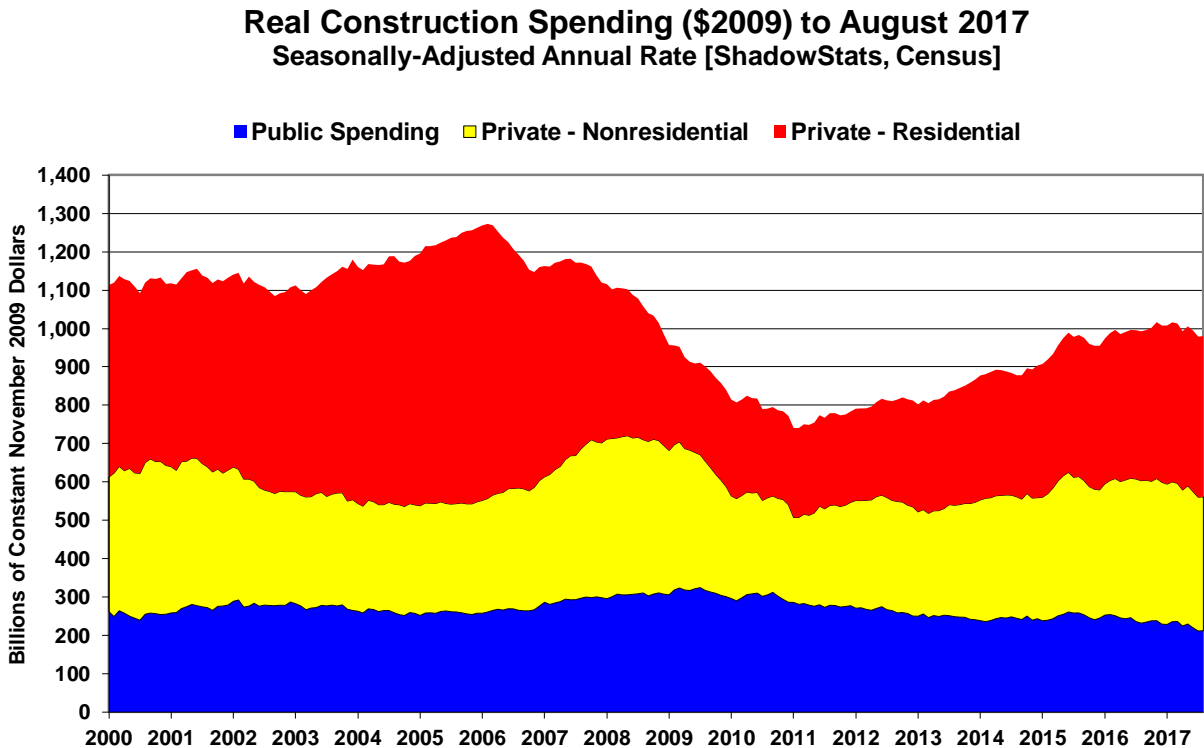
**Index of Real Total Value of Construction Put in Place**  
 To August 2017, Inflation Adjusted (Jan 2000 = 100)  
 Seasonally-Adjusted [ShadowStats, Census Bureau]



**Graph 11: Aggregate Nominal Construction Spending by Major Category to Date**



**Graph 12: Aggregate Real Construction Spending by Major Category (Billions of November 2009 Dollars)**



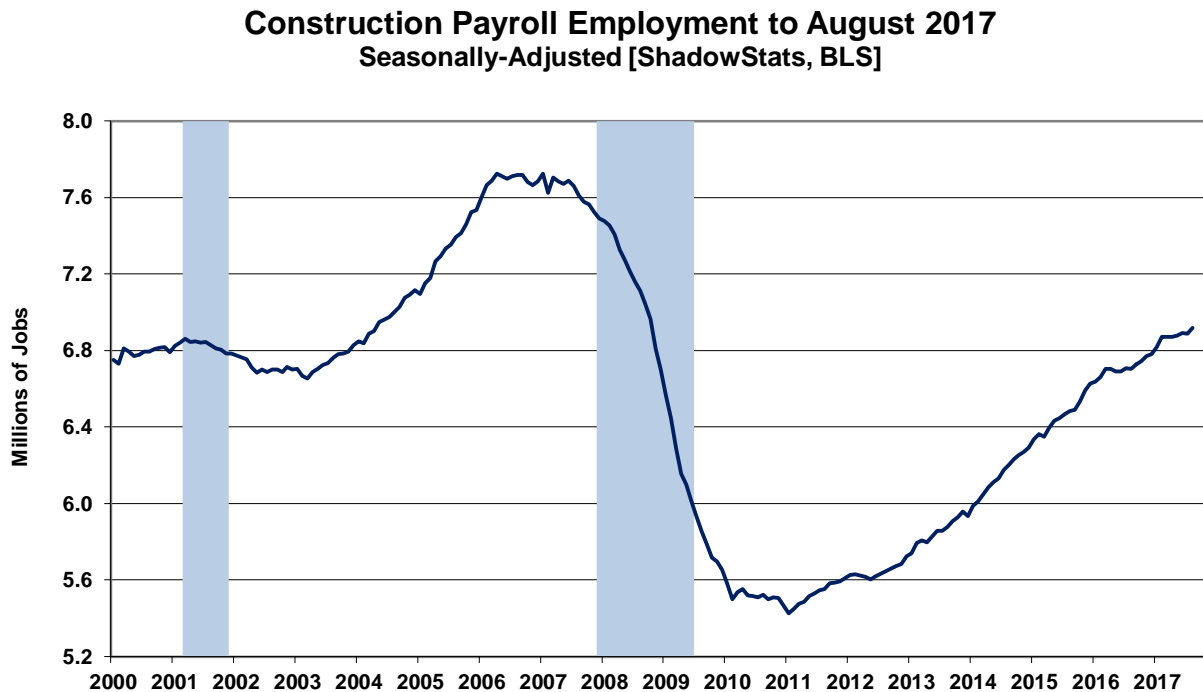


**Construction Payroll Gains in August 2017 Were Boosted by Downside Revisions to July, Still Down 10.4% (-10.4%) from Pre-Recession Peak.** As noted last month (see [Commentary No. 908-B](#)), construction employment in August 2017 rose by 28,000 jobs to 6.918 million, following a revised monthly decline of 3,000 (-3,000) [previously a gain of 6,000] in July and an unrevised monthly gain of 15,000 in June. Net of prior-period revisions, the headline August gain would have been 19,000 instead of the headline 28,000. This detail will be updated for September 2017 in tomorrow’s (October 6th) employment release, to be detailed in *Commentary No. 914* of that date.

In theory, construction payroll levels should move closely with the inflation-adjusted aggregate construction spending series (see *Graphs 10* and *12*) and the Housing Starts series (see *Graph 15*), where starts are measured in units rather than dollars. August employment details are plotted in *Graph 13*. The recent general pattern of activity has softened and flattened out, albeit with a revision-enhanced monthly uptick in August, yet it remains shy of recovering its pre-recession high by 10.45% (-10.45%). That broadly is consistent with continuing weakness seen in real construction spending and other construction measures.

Headline month-to-month construction employment rose by 0.41% in August 2017, having declined in July by 0.04% (-0.04%), and having gained by 0.22% in June. Unadjusted year-to-year growth was 2.95% in August 2017, versus 2.59% in July 2017 and versus 2.95% in June 2017. Despite downside revisions to recent activity, the headline August 2017 level of construction jobs was the highest seen since October 2008, but, again, down from the April 2006 pre-recession series peak by 10.45% (-10.45%).

**Graph 13: Construction Payroll Employment to Date**



**Construction Spending and Related Graphs.** *Graphs 4* to *7* in the *Executive Summary* show comparative nominal and real construction activity for the aggregate series as well as for private residential- and

nonresidential-construction and public-construction. Seen after adjustment for inflation, the real aggregate series generally have remained in low-level stagnation, now effectively flat to turning down, from mid-2015 into third-quarter 2017. Areas of recent relative strength in the major subcomponents generally have flattened out and have begun to turn down anew, after inflation adjustment.

The general pattern of real activity had been one of low-level, up-trending stagnation but, again, now has turned generally flat-to-minus. The aggregate nominal detail, before inflation adjustment, is shown in *Graph 9* of this *Reporting Detail*, with the real, inflation-adjusted activity plotted in *Graph 10*, while *Graphs 11* and *12* show the relative patterns of nominal and real activity aggregated by sector.

***Construction and Related Graphs.*** Again, *Graphs 9* and *10*, and *Graphs 11* and *12* reflect total construction spending through August 2017, both in the headline nominal dollar terms, and in real terms, after inflation adjustment. *Graph 10* is on an index basis, with January 2000 = 100.0, where *Graph 8* reflects the same detail in terms of annual change. Adjusted for the CCD, real aggregate construction spending showed the economy slowing in 2006, plunging into 2011, then turning minimally higher in an environment of low-level stagnation, trending lower from late-2013 into mid-2014, then with some boost into early-2015. Activity declined in fourth-quarter 2015, with a rebound in 2016, sinking anew into 2017, with annual growth having turned negative, again as indicated in *Graph 8*. The pattern of non-recovered, inflation-adjusted construction spending turning down anew has continued to move contrary to the purported economic recovery and expansion indicated by headline GDP reporting (see prior [Commentary No. 913](#)).

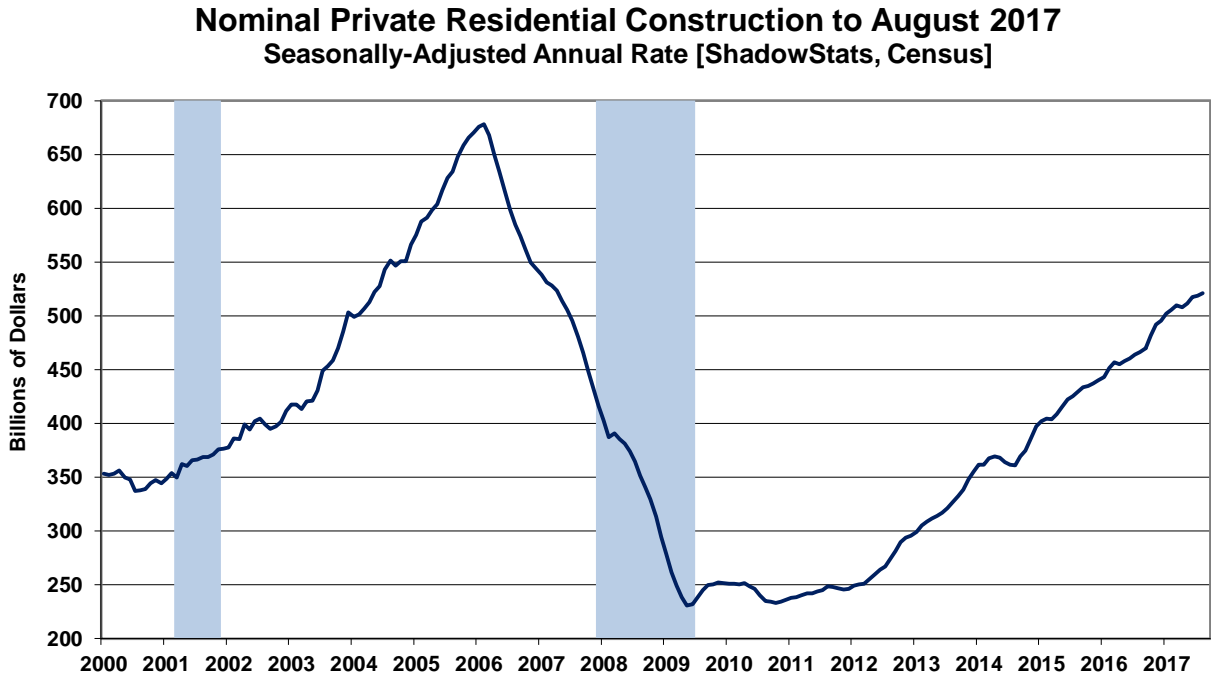
***The Data and Graphs Here Reflect Monthly Levels, Not Smoothed, Moving Averages.*** Unlike the housing-starts and home-sales series—where ShadowStats smooths the irregular and continually-revised monthly data with accompanying plots of smoothed, six-month moving averages—the construction spending series is shown here only on a monthly basis, as published. While the spending series is extremely volatile in its monthly revisions, it tends to remain reasonably smooth in the residual month-to-month change. Note the comparative monthly volatilities in the non-smoothed *Graphs 14* and *15*.

*Graphs 14* and *15* cover private residential construction spending, along with housing starts (combined single- and multiple-unit starts) for August 2017 (see [Commentary No. 911](#)). Keep in mind that the construction spending series is in nominal terms, while housing starts reflect unit volume, which should be parallel with the inflation-adjusted series shown in *Graph 5* in the *Executive Summary* section, *Graph 10* here, and presumably with the headline construction-payroll data in *Graph 13*.

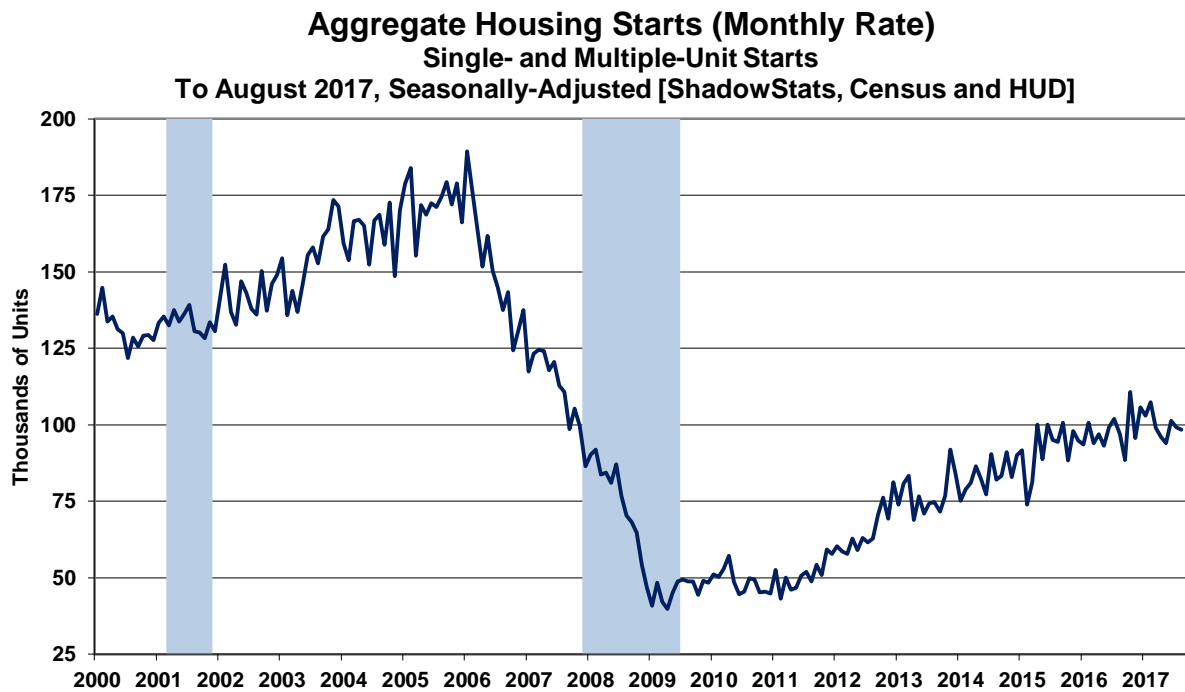
The final two graphs (*Graphs 16* and *17*) show the patterns of the monthly level of activity in nominal private nonresidential-construction spending and in public-construction spending. Private Non-Residential Construction spending surged beyond its pre-recession nominal peak in 2016, hitting a new high in December 2016 and broadly backing off same since.

Public Construction spending, which is 98% nonresidential, had continued in a broad downtrend into 2014, with intermittent bouts of fluttering stagnation and then some upturn in 2015. In 2016 and into 2017, the nominal series still appeared to have fluttered into and out of a low-level top, now generally moving lower, increasingly shy of its pre-recession peak. Viewed net of inflation, in *Graphs 6* and *7* in the *Executive Summary* and in accompanying *Graph 12*, both series still appear stalled shy of their pre-recession peaks.

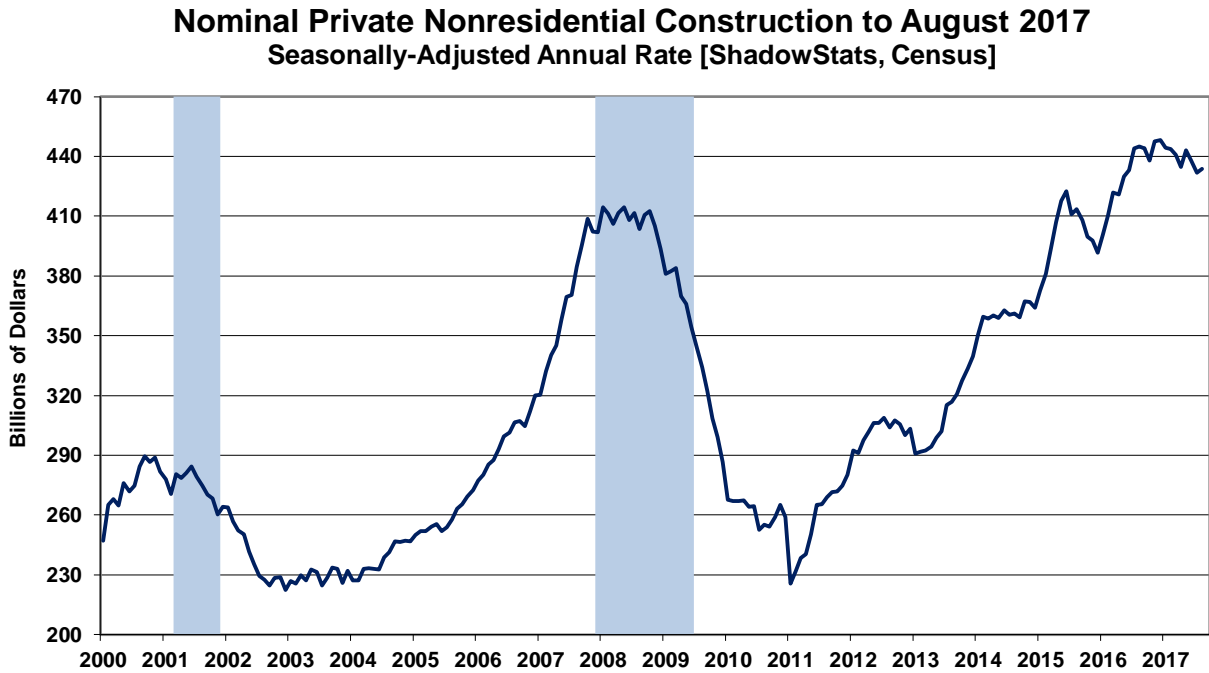
**Graph 14: Nominal Private Residential Construction Spending to Date**



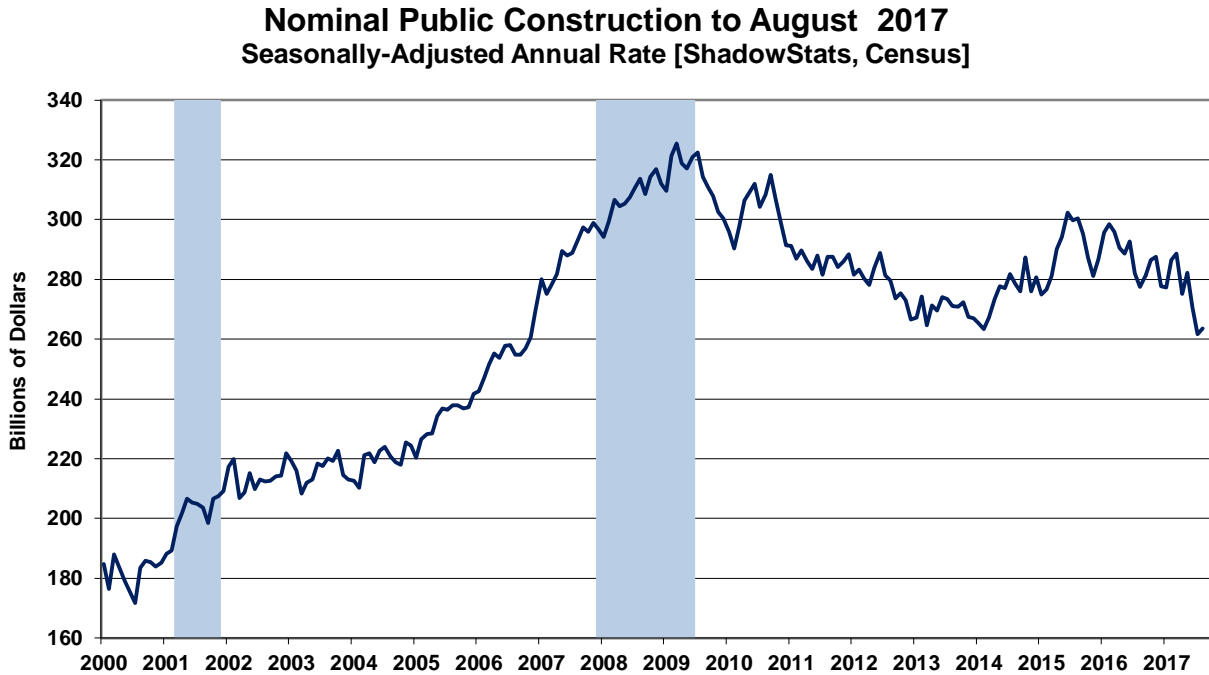
**Graph 15: Combined Single- and Multiple-Unit Housing Starts to Date**



**Graph 15: Nominal Private Nonresidential Construction Spending to Date**



**Graph 16: Nominal Public Construction Spending to Date**



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

## CONSUMER LIQUIDITY WATCH

### **CONSUMER LIQUIDITY CONDITIONS: INCOME, CREDIT AND RELATIVE OPTIMISM.**

*[Other than for full-September University of Michigan Consumer Sentiment (see next page), this CLW has not been revised. It provides general background on consumer liquidity conditions.]*

**Liquidity Stresses Continue to Mount, Amidst Faltering Optimism, Aggravated Temporarily by Natural Disasters.** The U.S. consumer faces continuing financial stress, increasingly reflected in renewed softening of headline economic activity, including Employment conditions, Real Retail Sales, Home Sales and related construction indicators, and ultimately as reflected in broader-based economic series such as Industrial Production. Liquidity stresses have intensified, at least temporarily, in hurricane-hit regions of the United States.

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

These same pocket-book issues contributed to the anti-incumbent electoral pressures in the 2016 presidential race. The post-election environment showed a near-term surge in both the consumer confidence and sentiment measures to levels generally not seen since before the formal onset of the recession in 2002, let alone 2007. Yet, underlying liquidity conditions, economic reality and lack of positive actions out of the government to turn the economy meaningfully, all have continued to remain shy of consumer hopes. Not surprisingly, consumer optimism has begun to falter anew.

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

The combined issues here have driven the housing-market collapse and ongoing, long-term stagnation in consumer-related real estate sales and construction activity, and have constrained both nominal and real retail sales. Related, personal-consumption-expenditure and residential-construction categories accounted for 73.1% of the headline real (73.0% of nominal), second-quarter 2017 U.S. GDP.

With the better-quality economic indicators and underlying economic reality never having recovered fully from the collapse into 2009, consumers increasingly should pull back on consumption in the months ahead. Underlying reality is evident in more-meaningful economic indicators—not the GDP—irrespective of the transient, gimmicked boosts to, and current headline slowing in, that most worthless of economic series, discussed most recently in [Commentary No. 907](#).

***Consumer Optimism: September Consumer Confidence and Sentiment Measures Have Weakened.***

This detail reflects the full-September 2017 readings of The Conference Board's Consumer-Confidence Index® (Confidence) of September 26th and the University of Michigan's Consumer Sentiment Index (Sentiment) of September 29th. Reflected in *Graphs CLW-1* and *CLW-2*, both Confidence and Sentiment rose a year ago in September 2016 and plunged in October, likely reflecting concerns as to the direction of the presidential race. Post-election, both measures rallied sharply, reflecting a surge in consumer optimism into early-2017. Both series then topped and pulled, with some mixed rebound into August, with the numbers having now turned lower in September 2017. The Conference Board blamed the impact of hurricanes in Texas and Florida for the downturn in September 2017 Confidence, in the context of a sharp downside revision to the previously strong gain estimated with the headline August reading. Nonetheless, both the latest Confidence and Sentiment levels remained off their respective post-election, euphoric peaks of March 2017 (Confidence) and January 2017 (Sentiment). Although annual growth is its weakest since the onset of the Post-Election euphoria, and levels of confidence/sentiment remain above their pre-recession peaks.

The Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index® (*Graph CLW-1*), and the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph CLW-2*), again, both soared post-election, into early-2017, with Confidence booming into and topping in March and with sentiment booming into and topping in January 2017. The three-month moving averages in both series also had broken to pre-recession highs, with the Confidence hitting levels not seen since before the 2001 recession, yet the still-high moving averages also have begun to falter.

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

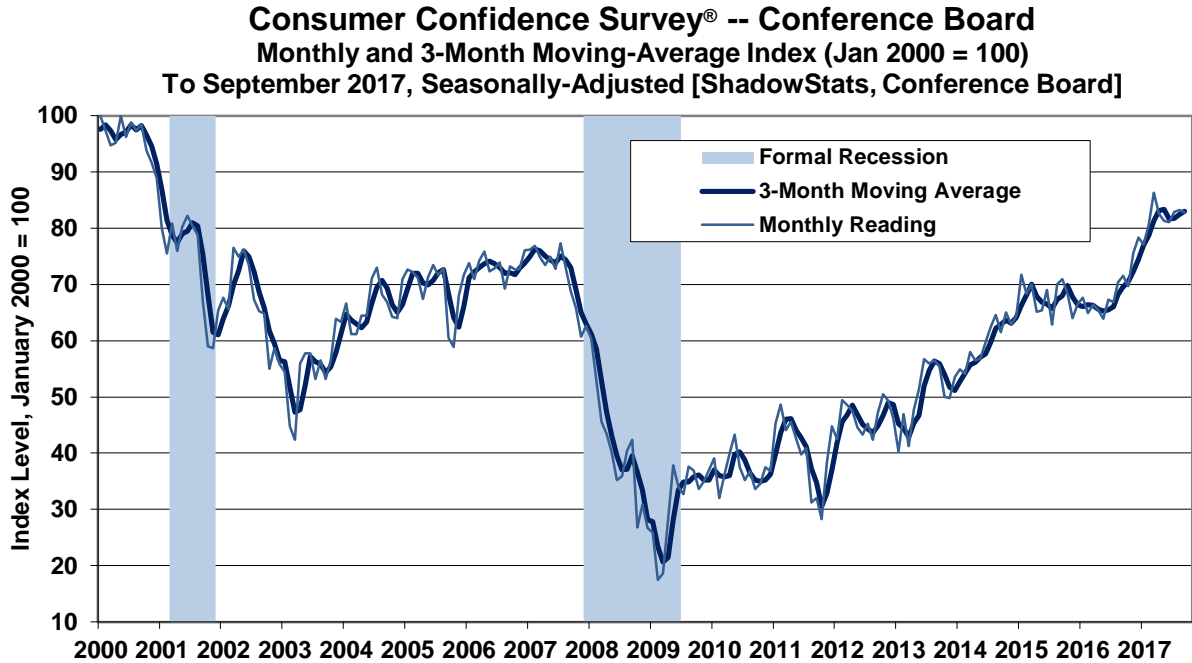
The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in [Commentary No. 764](#)), and often are highly volatile month-to-month, as a result. With what should continue as increasingly-negative, unstable and uncertain headline financial and economic reporting in the months ahead—beyond the early change-in-government euphoria—continued, successive negative hits to both the confidence and sentiment readings remain increasingly likely in the near future.

Smoothed for irregular, short-term volatility, the two series still generally had held at levels seen typically in recessions, until the post-2016 election circumstance. Suggested in *Graph CLW-3*—plotted for the last 47 years—the latest readings of Confidence and Sentiment recently have recovered levels seen in periods of normal, positive economic activity of the last four decades, with their six-month moving averages at levels last seen going into the 2001 recession, although they appear to be topping out.

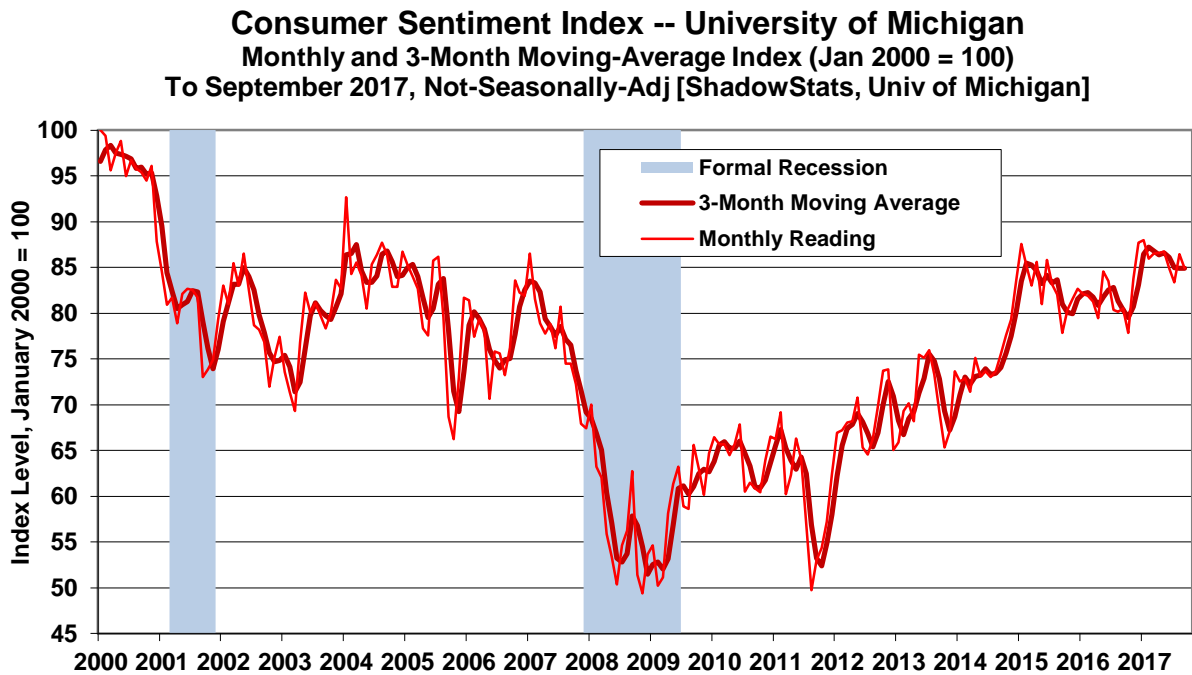
Broadly, though, the harder, financial consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth as suggested by headline GDP growth in 2014, for

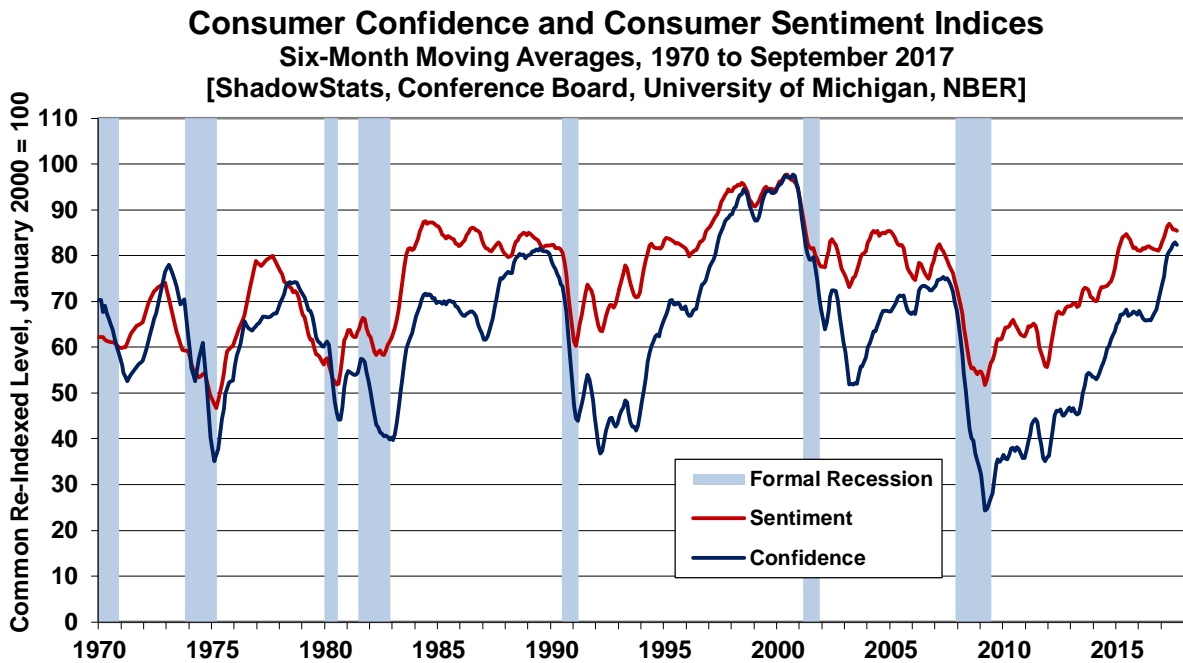
second-and third-quarter 2015 and for third-quarter 2016 and unfolding for second-quarter 2017. Beyond having happy feelings about the future, consumers still need actual income, cash-in-hand or credit in order to increase their spending.

**Graph CLW-1: Consumer Confidence (2000 to 2017)**



**Graph CLW-2: Consumer Sentiment (2000 to 2017)**



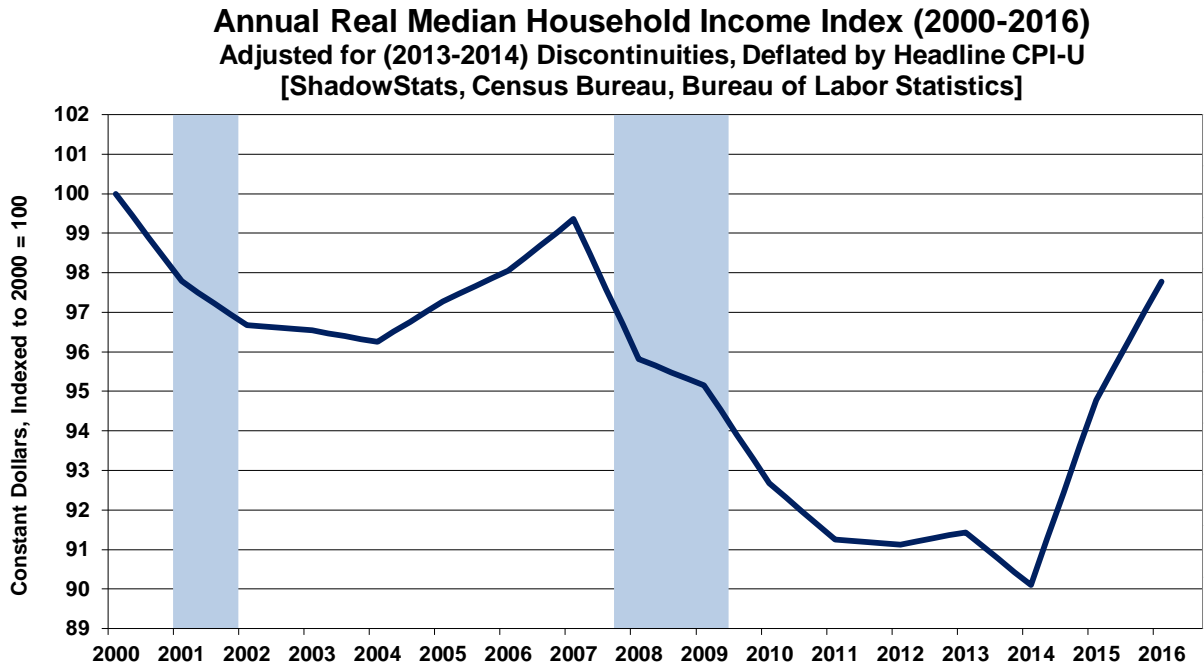
**Graph CLW-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2017)**

**2016 Annual Real Median Household Income Still Was Below Its 2007 Pre-Recession High, Below Activity in the Late-1990s, About Even with the Mid-1970s.** The measure of real monthly median household income, which has been provided by [www.SentierResearch.com](http://www.SentierResearch.com), generally can be considered as a monthly version of the annual detail shown in *Graph CLW-4*, based on the annual detail recently released by the Census Bureau and as discussed the *Opening Comments* of [Commentary No. 909](#). The 3.16% headline gain in 2016 real annual median household income for 2016 left the level of income not only below that seen at the purported pre-recession peak of 2007, but also below levels seen in the late-1990s, and minimally above activity seen in the mid-1970s (see *Graph OC-1* in *No. 909*). The Sentier details, as far as they go, from January 2000 to May 2017, suggested annual real median income was on track for further increase in 2017, having also indicated the 2015 and 2016 annual increases.

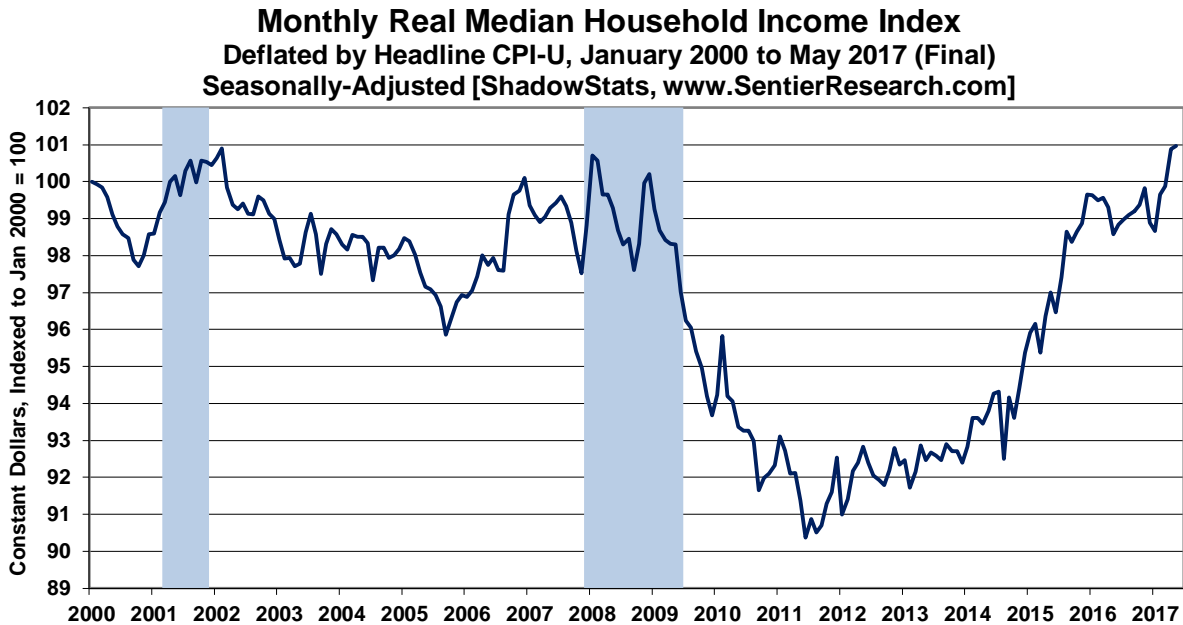
**Last Monthly Estimate Showed Stagnating Monthly Real Growth.** As last reported by Sentier Research, May 2017 Real Median Household Income was statistically unchanged, despite a boost from falling gasoline prices. Discussed in [General Commentary No. 894](#), and in the contexts of then-faltering gains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



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



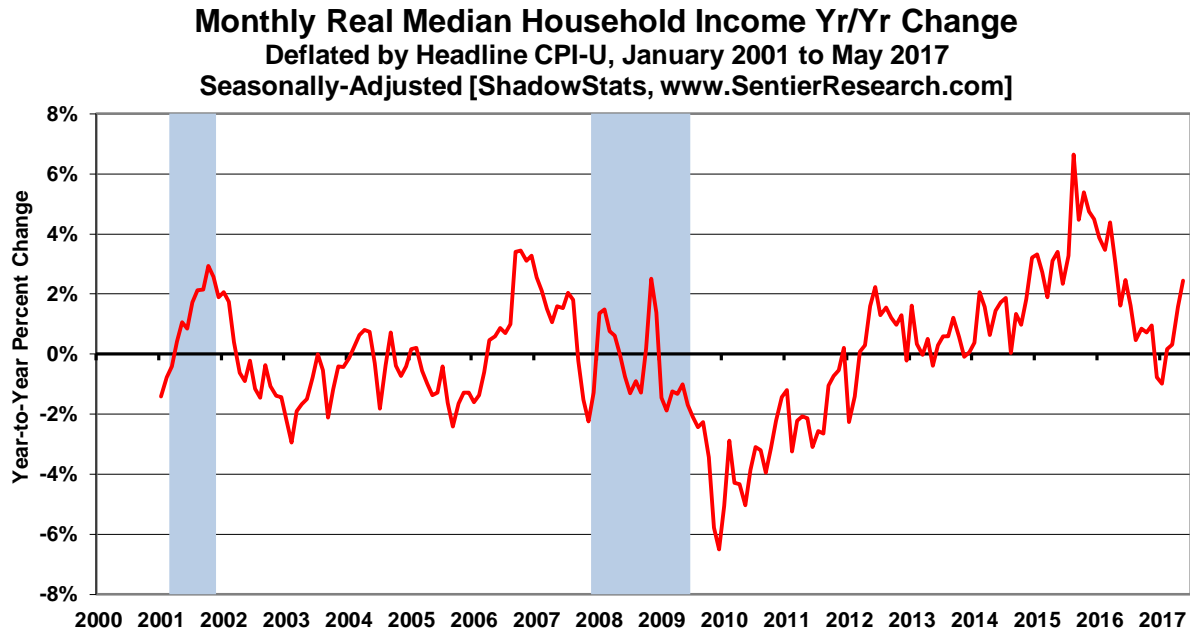
**Graph CLW-5: Monthly Real Median Household Income (2000 to 2017) Index, January 2000 = 100**



Where real monthly median income plunged into the headline trough of the economic collapse in 2009, it did not then rebound in tandem with the headline GDP activity. When the GDP purportedly started its solid economic recovery in mid-2009, the monthly household income numbers nonetheless plunged to new lows, hitting bottom in 2011. The income series then held in low-level stagnation, until collapsing

gasoline prices and the resulting negative CPI-U inflation drove a post-2014 uptrend in the inflation-adjusted monthly income index. The index approached pre-recession levels in the December 2015 reporting, but it remained minimally below the pre-recession highs for both the formal 2007 and 2001 recessions until recent months. Real median household income had the potential to resume turning down anew, as the headline pace of monthly consumer inflation picked up anew, with the August 2017 CPI.

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



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

**Differences in the Monthly versus Annual Median Household Income.** The general pattern of relative monthly historical weakness has been seen in the headline reporting of the annual Census Bureau numbers, again, shown in *Graph CLW-4*, with 2014 real annual median household income having hit a ten-year low, and, again, with the historically-consistent 2015 and 2016 annual number still holding below the 2007 pre-recession high. The Sentier numbers had suggested a small increase in 2014 versus 2013 levels, low-inflation induced real increases in 2015 and 2016. Allowing for the direction difference in 2014, and continual redefinitions and gimmicks in the annual series (again, see the *Opening Comments* of [Commentary No. 909](#)) the monthly and annual series had remained broadly consistent, although based on separate questions within the Consumer Population Series (CPS), as conducted by the Census Bureau.

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

**Special Note:** Accompanying the release of the May 2017 data by Sentier Research was this [Notice of Final Report](#):

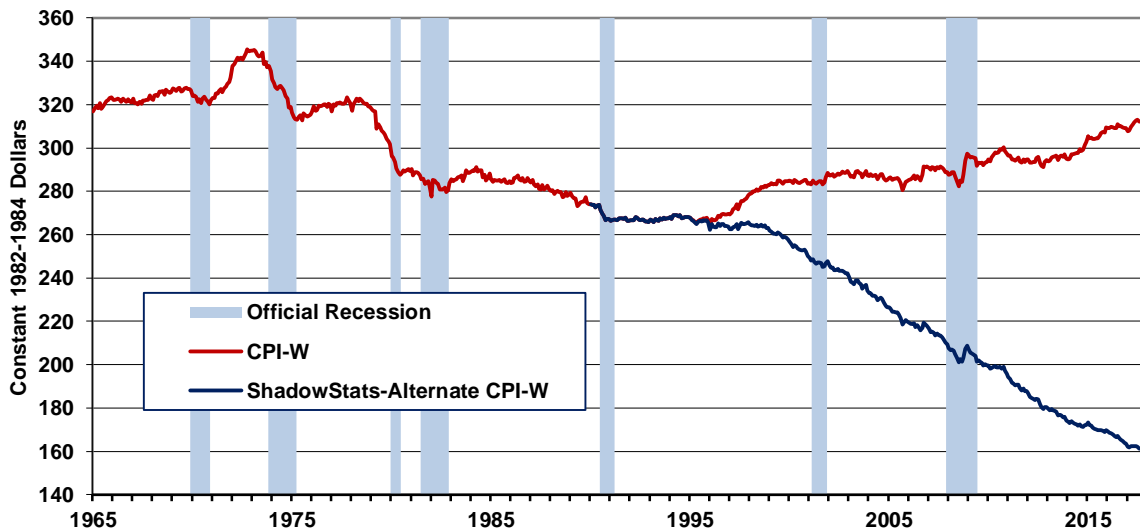
Dear Friends, This will be our final report in the monthly series of median household income. We can no longer afford to provide these estimates given our current level of resources. We believe, as we hope you do, that these estimates provided an important new dimension regarding the economic situation of American households as we slowly climbed out of the Great Recession. The story continues but we must move on. Our hope is that someone will be able to continue this work. Should you or someone you know be interested please contact us. Thanks to all of you for your kind support.. John and Gordon

ShadowStats hopes a circumstance will unfold that enables continued reporting of this extraordinarily valuable and timely indicator of consumer liquidity. Gordon Green and John Coder, the authors of the monthly report, both are former senior officials at the U.S. Census Bureau and have a unique understanding of the underlying monthly data. The Census Bureau publishes a broadly-similar series on an annual basis, but with an extraordinary time lag. The 2016 Census annual detail is due for release and publication in September 2017. Again, see [Commentary No. 833](#) for the 2015 detail published in 2016.

**Real Average Weekly Earnings—August 2017—Month-to-Month Real Earnings Declined.** For the production and nonsupervisory employees category—the only series for which there is a meaningful history (see the full discussion on page 16 of [Commentary No. 909](#)), the regularly-volatile real average weekly earnings fell month-to-month by 0.28% (-0.28%) in August 2017, versus downwardly-revised gains of 0.13% in July and 0.23% in June. Year-to-year, the adjusted August 2017 real change rose to 0.68%, versus a downwardly revised gains of 0.62% in July 2017 and 1.10% in June 2017.

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

**Real Average Weekly Earnings (Benchmark Revised)  
Production and Nonsupervisory Employees  
Deflated by CPI-W versus ShadowStats-Alternate (1990-Base)  
1965 to August 2017, Seasonally-Adjusted [ShadowStats, BLS]**



Based solely on volatile initial reporting for July and August 2017, the early-trend for real third-quarter 2017 activity is for an annualized quarterly gain of 1.01%. Second-quarter 2017 activity reflected a revised, annualized real quarter-to-quarter gain of 4.43%, following contractions in first-quarter 2017 of

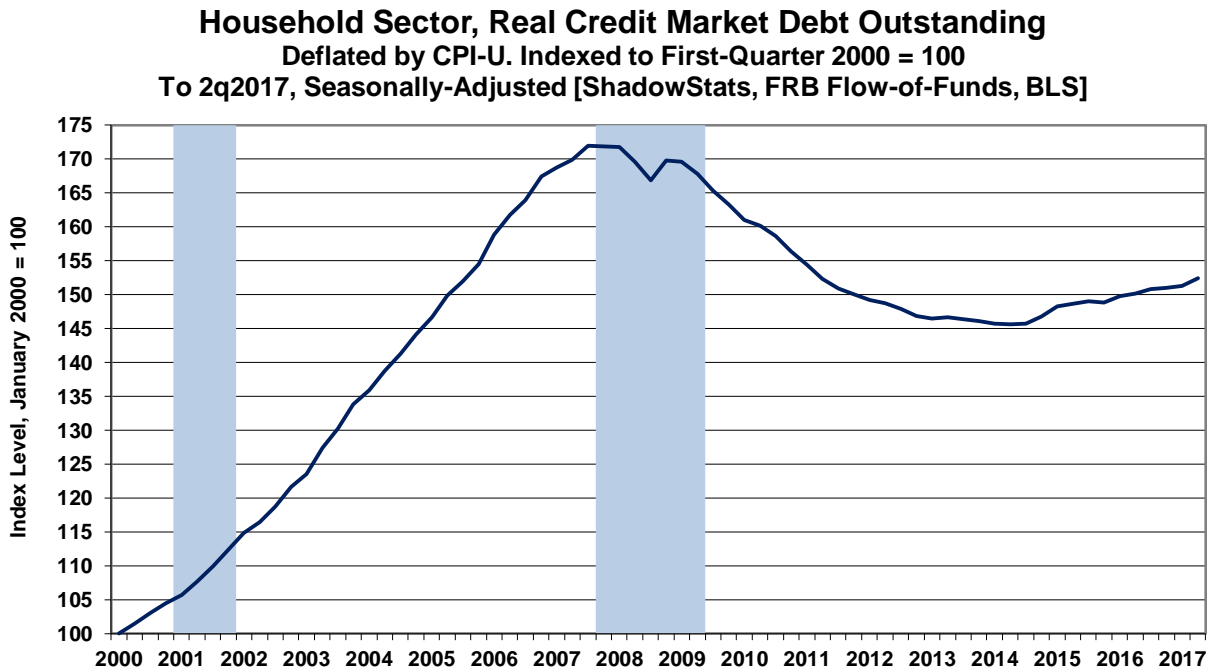
1.13% (-1.13%), in fourth-quarter 2016 of 1.36% (-1.36%), and third-quarter 2016 growth of 1.48%, a second-quarter 2016 contraction of 0.11% (-0.11%) and first-quarter 2016 annualized growth of 1.81%.

Year-to-year change in third-quarter 2017 was on early track for 0.71%, where second-quarter 2017 real earnings rose by a revised 0.83%, following an annual contraction of 0.29% (-0.29%) in first-quarter 2017, the first annual or year-to-year quarterly contraction since fourth-quarter 2012. The 2015 rally in real annual income and the subsequent slowdown in latter 2016 and pickup in 2017 pickup all were tied and continue to be tied directly to the impact of irregularly-collapsing/rising gasoline prices, with subsequent rebound/decline in inflation-adjusted income.

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

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

**Graph CLW-8: Household Sector, Real Credit Market Debt Outstanding (2000 through Second-Quarter 2017)**



Consider *Graph CLW-8 of Household Sector, Real Credit Market Debt Outstanding*. The level of real household debt declined in the period following the Panic of 2008, reflecting loan defaults and reduced banking lending, and it has not recovered fully, based on the Federal Reserve's flow-of-funds accounting through second-quarter 2017, released on September 21st. Household Sector, Real Credit Market Debt Outstanding in second-quarter 2017 still was down by 11.3% (-11.3%) from its pre-recession peak of third-quarter 2007. That was against an initial first-quarter 2017 decline of 11.5% (-11.5%), just revised to 11.3% (-11.3%). The visual uptick in the latest point in *Graph CLW-8* a lowered estimate of first-quarter activity (consumer credit revised lower by more than the upside revision mortgages), with second-quarter inflation-adjusted level of activity boosted by a relatively-rare, annualized quarterly contraction in the seasonally-adjusted second-quarter CPI-U.

The series includes mortgages, automobile and student loans, credit cards, secured and unsecured loans, etc., all deflated by the headline quarterly CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting, among other issues, lack of normal lending by the banking system into the regular flow of commerce. The slight upturn seen in the series through 2015 and into 2016 was due primarily to gasoline-price-driven, negative CPI inflation, which continued to impact the system through second-quarter 2016. Current activity also has reflected continued relative strength from student loans, as shown in the *Graphs CLW-9 to CLW-11*.

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

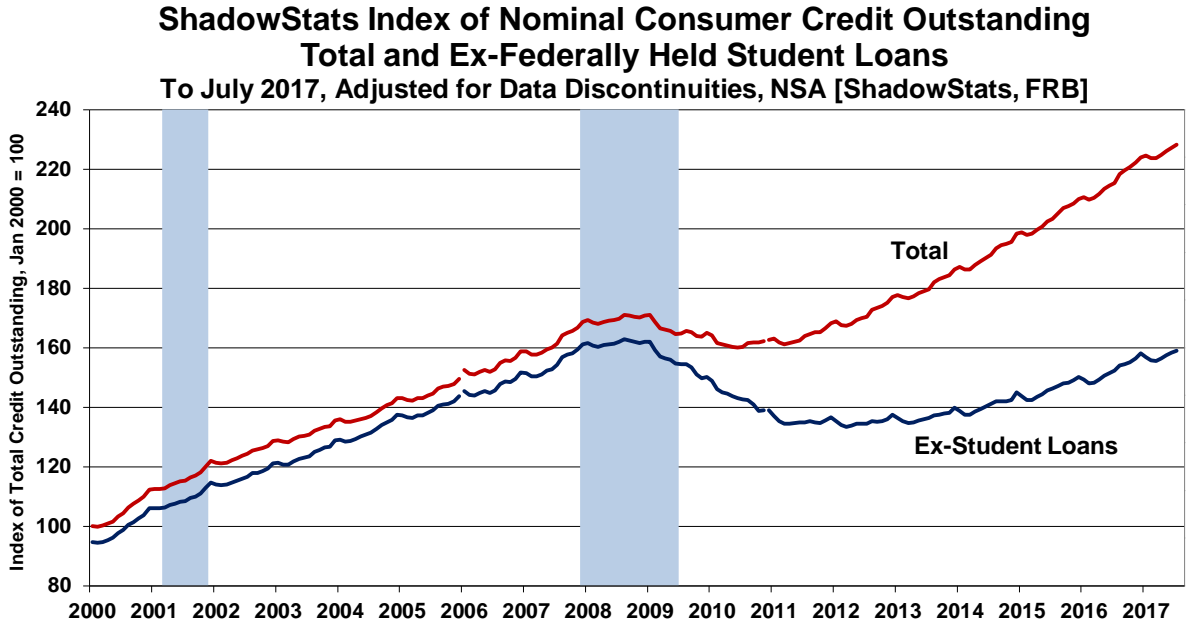
Shown through the July 2017 reporting, *Graph CLW-9* of monthly Consumer Credit Outstanding is a subcomponent of *Graph CLW-8* on real Household Sector debt. Where *Graph CLW-9* reflects the nominal reporting, not adjusted for inflation, inflation-adjusted real activity for monthly Consumer Credit Outstanding is shown in terms of both level (*Graph CLW-10*) and year-to-year change (*Graph CLW-11*). The August detail includes a downside revision to the last five years of total credit outstanding.

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

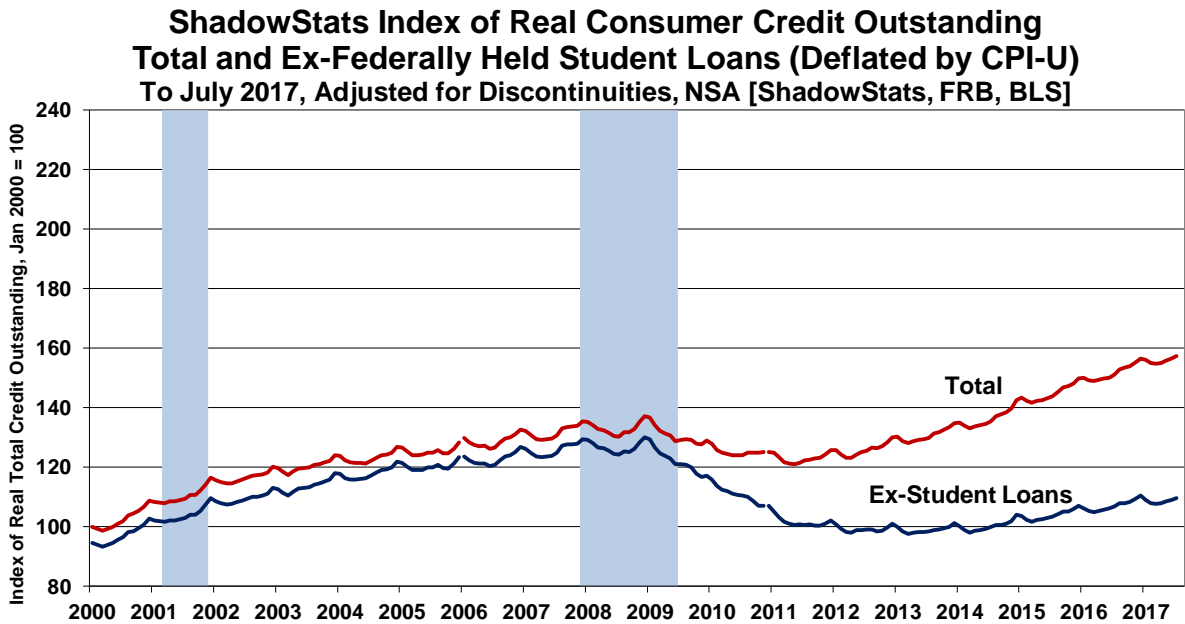
Adjusted for inflation, the lack of recovery in the ex-student loan area is more obvious. Although the recent monthly upside move in the not-seasonally-adjusted consumer credit reflected a seasonal pattern, the pace of year-to-year growth continued to slow, suggesting some tightening of credit conditions. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in July 2017 (released September 8th) was down from its December 2007 pre-recession peak by 15.3% (-15.3%) [that previously had been down by 12.3% (-12.3%) in June 2017, before the recent downside revisions to the last five years of activity]. Year-to-year real growth shown in *Graph CLW-11* tends to resolve most of the monthly distortions in the not-seasonally-adjusted data.

[Graphs CLW-9 to CLW-11 begin on the next page.]

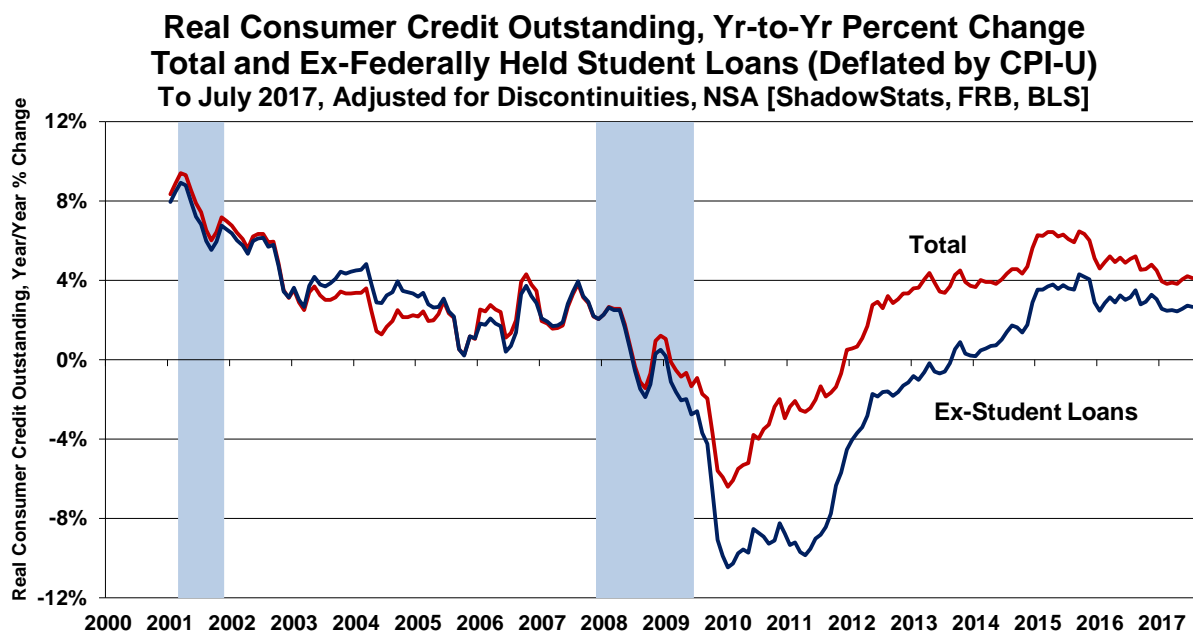
**Graph CLW-9: Nominal Consumer Credit Outstanding (2000 to 2017)**



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



**Graph CLW-11: Year-to-Year Percent Change, Real Consumer Credit Outstanding (2000 to 2017)**



### WEEK, MONTH AND YEAR AHEAD

**Deteriorating Domestic and Global Political Circumstances and Continued Softening of the Economy Increasingly Should Pummel the Dollar, Boost the Price of Gold and Foster Financial-Market Turmoil.** In brief, irrespective of continued nonsense reporting of the GDP, and net of near-term hurricane disruptions to headline activity, both positive and negative, the economy is deteriorating anew, rapidly. The financial markets remain at extraordinarily-high risk of panicked declines. Holding physical gold and silver remain the ultimate hedges—stores of wealth—for preserving purchasing power of one’s assets, in the context of liquidity and portability. Other than for the *Pending Release* paragraph, language changes to this section from its prior version in *No. 913* have been minor. Please call (707) 763-5786, if you would like to discuss current circumstances, or otherwise. *Best wishes – John Williams*

The *Hyperinflation Watch* of [Commentary No. 909](#) speaks for itself. Given the continuing and broadening weakness in the U.S. economy, despite varied impact in the next several months, from a disastrous hurricane season (see *Opening Comments*), given shifting political instabilities/circumstances

in Washington and recent, unusual comments from Federal Reserve Chair Janet Yellen, sharp, near-term rate hikes and aggressive balance-sheet liquidation remain unlikely, in the near-term, despite mixed pronouncements to the contrary. Accordingly, selling pressure against the U.S. dollar still should intensify, pressuring inflation and the prices of precious metals on the upside. Increasingly, foreign capital should flee the U.S. equity and credit markets at an accelerating pace.

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

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

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

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

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

The problem for the Federal Reserve remains that faltering domestic economic activity stresses banking-system solvency. Aside from formal obligations of the Fed to maintain healthy domestic economic and inflation conditions, the central bank's primary function (in practice) always has been to keep the banking system afloat. The near-absolute failure of that function in 2008 remains the primary ongoing and unresolved problem for the Fed, and it continues as one of the ongoing primary issues preventing the return of U.S. economic activity to normal functioning. Contrary to the recent purported headline comments of "not in our lifetime" by Federal Reserve Chair Janet Yellen, the continued unfolding of "unexpected" economic deterioration suggests that the next major systemic financial crisis is likely to break in the next several months.



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

The reporting patterns of the better-quality, less-gimmicked series likely will continue to weaken with increasing intensity in the weeks and months ahead. Adding a negative uncertainty to unfolding financial-market risks remains potential political surprise, discussed in [Special Commentary No. 888](#). Otherwise, the broad outlook has not changed. Reflected in common experience, actual U.S. economic activity generally continues in stagnation or downturn, never having recovered its level of pre-economic-collapse (its pre-2007-recession peak), while the latest GDP reporting shows an otherwise unconfirmed economic expansion of 13.6%.

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

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

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

Coincident with and tied to the economic crash and the Panic of 2008, the U.S. banking system moved to the brink of collapse, a circumstance from which U.S. and global central-bank policies never have recovered. Unwilling to admit its loss of systemic control, the Federal Reserve has made loud noises in the last year or so of needing to raise interest rates, in order to contain an “overheating” economy, but that “overheating” activity—never recognized by Main Street, U.S.A.—has been fading quickly. As this

ongoing crisis evolves towards its unhappy end, the U.S. dollar ultimately should face unprecedented debasement with a resulting runaway domestic inflation.

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

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

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

[Commentary No. 912](#) (September 27th) reviewed likely impact on economic reporting from the so-far, highly destructive hurricane season. Headline details of August New- and Existing-Home Sales and New Orders for Durable Goods were covered.

[Commentary No. 911](#) (September 19th) covered detail on August New Residential Construction, including monthly Building Permits and Housing starts, and the August Cass Freight Index™.

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

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

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

[Advance Commentary No. 908-A](#) (September 1st) provided summary coverage of the headline reporting on August 2017 Labor and Monetary conditions and July 2017 Construction Spending.

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

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

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

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

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

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

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

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

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

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

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

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

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

[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<sup>™</sup>.

[General Commentary No. 867](#) (February 24, 2017) assessed mixed signals for a second bottoming of the economic collapse into 2009, which otherwise never recovered its level of pre-recession activity. Such was in the context of contracting and faltering industrial production that now rivals the economic collapse

in the Great Depression as to duration. Also covered were the prior January 2017 New- and Existing Home Sales.

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

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

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

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

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

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

Combined with ongoing allegations in the last several years of Census Bureau falsification of data in its monthly Current Population Survey (the source for the BLS Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular - economic series (see [Commentary No. 669](#)). Investigative-financial/business reporter John Crudele of the *New York Post* has written extensively on such reporting irregularities: [Crudele Investigation](#), [Crudele on Census Bureau Fraud](#) and [John Crudele on Retail Sales](#).

**PENDING ECONOMIC RELEASE: *Updated - Employment and Unemployment (September 2017).***

In the context of the impact from two major hurricanes, and otherwise distorted by reporting issues discussed in [Special Commentary No. 885: Numbers Games that Statistical Bureaus, Central Banks and Politicians Play](#), the Bureau of Labor Statistics (BLS) will publish the headline September 2017 labor tomorrow, Friday, October 6th, covered in *Commentary No. 915* of that date. Irrespective of some negative/mixed storm impact, background reporting issues persist and will continue to overstate employment and to understate unemployment.

Reflecting hurricane disruptions, consensus expectations are for an extremely weak jobs showing in the range of a 70,000-to-80,000 gain in payrolls, down from an unusually weak 156,000 gain in August, with the headline U.3 unemployment rate holding at 4.4%. Given the accompanying, early hurricane-impact text from the BLS, surveying techniques would tend to keep storm-disrupted employment levels reasonably stable, at least in the initial reporting.

Where BLS September labor surveying indeed will be distorted by both Hurricane Harvey and Hurricane Irma, the issues may be more reporting-related than people actually being counted as out of work, although reported wages could be depressed. The August Payroll and Household Surveys were completed before Hurricane Harvey hit Texas. Both storms, however, had hit either before or coincident with the September employment and unemployment surveying. As described by the BLS in its [Press Release](#) of last month:

In the establishment survey, the reference period is the pay period that includes the 12th of the month. Unusually severe weather is more likely to have an impact on average weekly hours than on employment. Average weekly hours are estimated for paid time during the pay period, including pay for holidays, sick leave, or other time off. The impact of severe weather on hours estimates typically, but not always, results in a reduction in average weekly hours. For example, some employees may be off work for part of the pay period and not receive pay for the time missed, while some workers, such as those dealing with cleanup or repair, may work extra hours. Typically, it is not possible to precisely quantify the effect of extreme weather on payroll employment estimates. In order for severe weather conditions to reduce employment estimates, employees have to be off work without pay for the entire pay period. Employees who receive pay for any part of the pay period, even 1 hour, are counted in the payroll employment figures.

In the household survey, the reference period is generally the calendar week that includes the 12th of the month. Persons who miss the entire week's work for weather-related events are counted as employed whether or not they are paid for the time off. The household survey collects data on the number of persons who had a job but were not at work due to bad weather. It also provides a measure of the number of persons who usually work full time but had reduced hours due to bad weather.

In the normal course of reporting, both the more-inclusive unemployment-rate numbers, as well as the headline payroll-employment details, would remain open for negative headline surprises in September, given what otherwise has been an increasingly stagnant-to-weakening tone in a number of the better business indicators (see the *Opening Comments* of prior [Commentary No. 913](#)). The complicating effects of the hurricanes, however, likely will dominate and confuse consensus speculations, and certainly will provide excuses for any negative shocks seen in the headline details.