John Williams'

# Shadow Government Statistics

*Analysis Behind and Beyond Government Economic Reporting*

**COMMENTARY NUMBER 915**

**September 2017 Employment and Unemployment, Money Supply M3**

**October 6, 2017**

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**Headline Labor Detail Showed Major Disruptions from Hurricanes Harvey and Irma, With Mixed-Surveying Definitions Exaggerating or Masking Impact**

**Nonsense Data: If One Seasonally Adjusts Scrambled Numbers, the Adjusted Numbers Still Are Scrambled**

**Hurricane-Impacted September 2017 Unemployment Rates Declined: U.3 Fell to 4.22% versus 4.44%, U.6 Fell to 8.29% versus 8.59%, and the ShadowStats-Alternate Fell to 21.9% versus 22.2%**

**September Household Survey Employment Jumped by 906,000, Including 1,500,000 Counted as Employed, Otherwise Unemployed by the Weather**

**September Payroll Survey Employment Declined by 33,000 (-33,000), Down by 71,000 (-71,000) Net of Pre-Hurricane Downside Revisions**

**Annual Growth in September Money Supply M3 and the Monetary Base Jumped Sharply**

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*PLEASE NOTE: The next regular* Commentary, *Friday, October 13th, will cover September 2017 Retail Sales and the Consumer and Producer Price Indices.*

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

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**Today's (October 6th)** ***Special Employment/Unemployment Comments*** review the heavily-distorted headline employment and unemployment detail for September 2017. Regular formatting was suspended for this *Commentary*, given the unusual nature of the hurricane-disrupted data and reporting.

The ***Hyperinflation Watch*** (page 12) reviews current monetary conditions including the initial estimate of annual growth in the ShadowStats Ongoing Money Supply M3 estimate for September 2017.

The ***Consumer Liquidity Watch*** (page 15) provides general background on the consumer's liquidity circumstance. It has not been revised since its prior publication in yesterday's *Commentary No. 914*.

The ***Week, Month and Year Ahead*** (page 25) provides links to recent *Commentaries* and previews of next week's reporting of September Retail Sales, Consumer Price Index (CPI) and Producer Price Index (PPI).

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## SPECIAL EMPLOYMENT/UNEMPLOYMENT COMMENTS

**Hurricane Disruptions to Labor Data Exacerbated by Survey Definitions.** Hurricanes Harvey and Irma heavily disrupted the headline employment and unemployment reporting for September 2017, as reported today (October 6th) by the Bureau of Labor Statistics (BLS). The survey-period week of September 12th, for both the Household Survey (unemployment rate) and Payroll Survey (payroll employment) reflected impact of the damage and ongoing clean-up/restoration efforts from Hurricane Harvey's late-August devastation in the Texas Gulf Coast/Houston region, and the initial impact of Hurricane Irma, which hit Florida during the survey-period week. Inconsistent survey definitions helped to obfuscate the significance of the survey results.

***Payroll Survey Employment Declined by 33,000 (-33,000) in September 2017.*** The headline decline of 33,000 (-33,000) payroll jobs was on top of a downside revision of 31,000 (-31,000) to the pre-hurricane estimate of the August 2017 payroll level. The payroll level for July 2017 also was revised lower, by 51,000 (-51,000). Anyone on a payroll, who was not paid in the reference survey week, due to the hurricanes, even though employed, was not counted as employed. The BLS has just published an assessment of *Payroll Employment Impact from Hurricanes Harvey and Irma*. Aside from the standard, built-in upside biases to the monthly payroll surveying, the payroll data are more credible here than the household survey numbers.

***The Household Survey Showed Employment Increasing in September 2017 by 906,000.*** The last time Household Survey employment increased in one month by a magnitude of 900,000 was in November 2013, when the Federal Government was coming out of a partial shutdown, which had reduced employment by more than 800,000 the month before. Prior to that, such a gain of that size was seen last, back in the era coming out of the 2001 recession. That happy headline employment gain in September also had the effect of reducing the September 2017 U.3 unemployment rate to 4.22%, the lowest level since January 2001. The September rate was down from 4.44% in August 2017.

The September numbers simply were not credible and likely will see some corrective swings in headline reporting of the month or two ahead.

The Household Survey counts as employed, anyone who has been employed, but who does not work or get paid in the survey week, due to bad weather. Per the BLS, 1,500,000 people counted as employed in the September 2017 Household Survey, were out of work and did not get paid, due to bad weather in the survey week. Net of those weather-unemployed 1,500,000 people, otherwise counted as employed, Household Survey employment would have declined in the month by about 600,000 (-600,000).

***Seasonally-Adjusted Nonsense Numbers Await Reporting and Clarification in the Month(s) Ahead.*** Noted in today's BLS *Commissioner's Statement*:

> Data collection rates in both the establishment and household surveys generally were within normal ranges in September, both nationally and in the hurricane-affected states. Also, no changes were made to either the establishment or household survey estimation procedures for the September figures. (The national estimates do not include Puerto Rico or the U.S. Virgin Islands.)

While data collection rates may have been "within normal ranges ... in the hurricane-affected ***states***," such is not credible for the heavily hurricane-damaged areas, particularly in the context of Census Bureau surveying difficulties of recent years (see *Crudele on Census Bureau Fraud*, with related links in the *Reporting Quality Issues* in *Week, Month and Year Ahead* section).

The headline monthly gain of 906,000 in Household Survey detail (and the resulting decline in headline U.3 unemployment to 4.22%), is well beyond the bounds of credibility, and likely will resolve itself in catch-up reporting of the next month or two. There most likely has been a surge in at least part-time employment tied to clean-up and reconstruction efforts in the hurricane-damaged areas, but such has yet to surface with any clarity in the BLS data. Such temporary, positive activity is to be expected, but it would not reflect an underlying, fundamental new upturn in domestic economic activity.

Given the unstable reporting and inconsistent reporting in headline September employment and unemployment details, the following text updates the headline numbers and graphs, but more-complete underlying analysis of the new numbers is reserved for more-reliable reporting in the next month or so. Such information will be covered as it becomes available. The previous, regular analysis of the monthly employment and unemployment details and trends for the August 2017 reporting remain in place for the broad economic circumstance and are found in *Commentary No. 908-B*.

**Payrolls Took a Heavy Hit as Household Survey Employment Soared.** Given not-credible headline detail in the headline September labor reporting, particularly with the September Household Survey, following are the headline September 2017 unemployment and employment data, along with the usual graphs of same, starting with the Household Survey details.

Separate from the just-discussed headline September distortions, and details in *Commentary No. 908-B*, these numbers are the context of continued, heavily biased reporting out of the BLS, discussed in *Special Commentary No. 885*, entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play* (incorporated here by reference). Underlying reality in labor conditions generally is much weaker than popularly touted.

The usual major distortions continued in the measurement, definition and reporting of the headline unemployment rate, with the effect that the related numbers remained well removed from underlying reality. Specifically, the headline 4.2% September 2017 unemployment rate (down from 4.4% in August) remained far short of reflecting common experience. In contrast, the September 2017 ShadowStats-Alternate Unemployment Rate was estimated to have eased to 21.9% from 22.2% in parallel, on top of the gimmicked declines in the headline U.3 and U.6 unemployment rates.

At the same time, the headline monthly payroll jobs decline of 33,000 (-33,000) in September 2017, which was down by 71,000 (-71,000) net of revisions, likely was in a deep monthly contraction, in reality, thanks to the regular, excessive upside monthly add-factors discussed in the *Supplemental Labor-Detail Background* of Commentary No. 908-B (page 21 there). Separately, annual year-to-year growth rates in the September payroll employment detail slowed to levels seen only at the onset of a recession.

**Household Survey:** ***Counting All Discouraged Workers, September 2017 Unemployment Eased to 21.9%.*** The headline detail on the employment/unemployment news was nonsensically positive, with the seasonally-adjusted, U.3 unemployment rate dropping to 4.22% in September 2017, from 4.44% in August. The number of unemployed declined by 368,000 (-368,000) in September, in the context of the number of employed soaring by 906,000 for the month.

Consider, however, that the total employment gain reflected a purported surge in September of 935,000 full-time employed, plus a gain of 81,000 part-time employed persons (not the number of jobs held as reported in the payroll survey), which together totaled an employment gain of 1,016,000. That exceeds the headline gain in employment of 906,000 by 110,000. These numbers never add up and remain suggestive of some of the underlying inconsistencies in the Household Survey data.

Considering a 133,000 decline in persons working part-time for economic reasons, and a 21,000 gain in those marginally attached to the labor force, on top of the headline U.3 unemployment rate, the broader U.6 rate declined to 8.29% in September 2017 from 8.59% in August.

Adding back into the total unemployed and labor force the ShadowStats estimate of effectively displaced long-term discouraged workers—a broad measure of unemployment more in line with common experience—the ShadowStats-Alternate Unemployment Estimate for September 2017 was 21.9%, versus 22.2% in August. The ShadowStats estimate generally shows the toll of long-term unemployed leaving the headline labor force, effectively becoming long-term discouraged or displaced workers (see full description of the series in the *Supplemental Labor-Detail Background* of Commentary No. 908-B).

Separately, the BLS simply refuses to publish consistent monthly details. The seasonally-adjusted, month-to-month numbers reported with the Household Survey were neither directly comparable nor meaningful, specifically including comparisons of seasonally-adjusted month-to-month levels of the unemployment rate and the counts of employed and unemployed. The problem remains that while the headline monthly data for September 2017 were calculated using new seasonal-adjustment patterns unique to September 2017, consistent data were not published historically. Standardly, the month-to-month comparisons of the seasonally-adjusted, headline Household Survey data simply are not comparable (again, see the *Supplemental Labor-Detail Background* of Commentary No. 908-B).

*Graph 1* reflects headline September 2017 U.3 unemployment at 4.22%, U.6 unemployment at 8.29% and the ShadowStats unemployment estimate at 21.9%.

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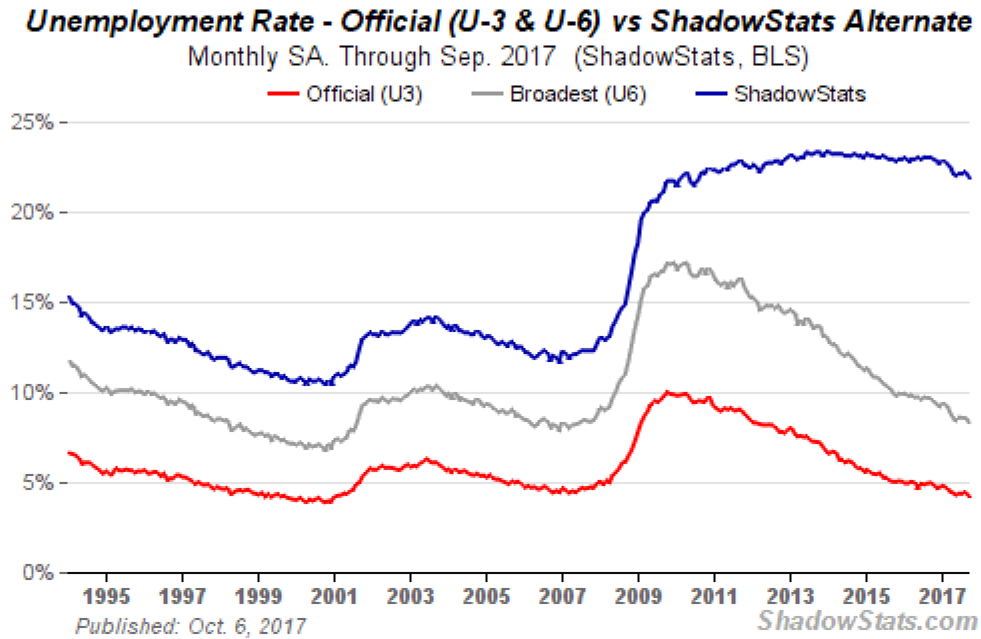
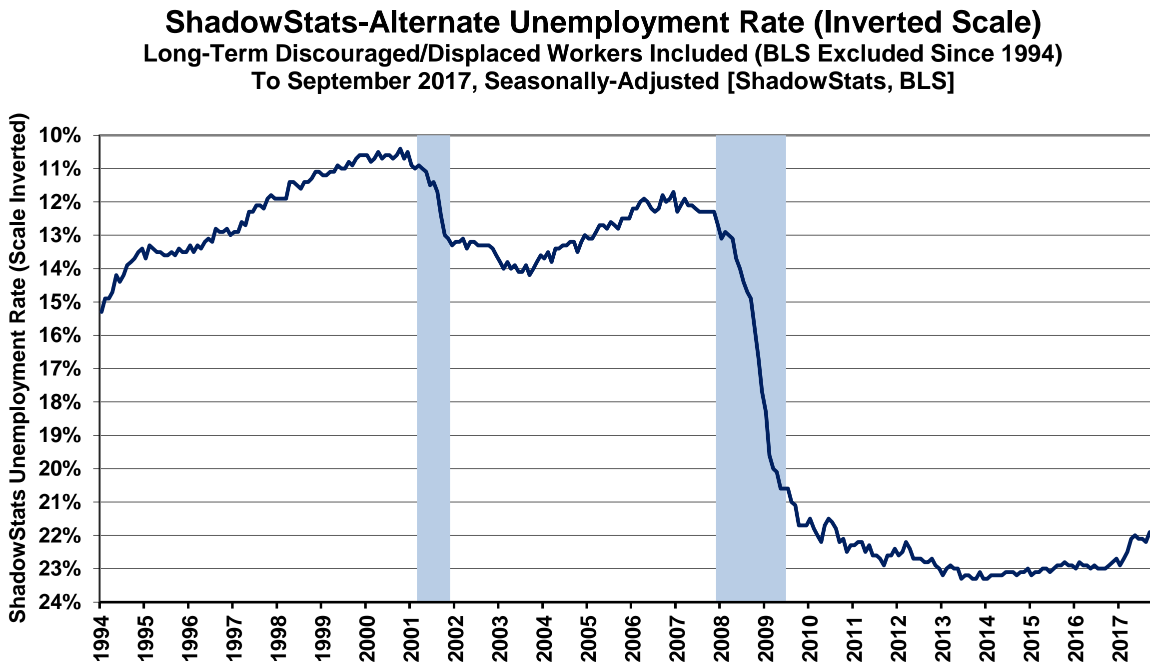
***Graph 1: Comparative Unemployment Rates U.3, U.6 and ShadowStats***




***Graph 2: Inverted-Scale ShadowStats Alternate Unemployment Measure***



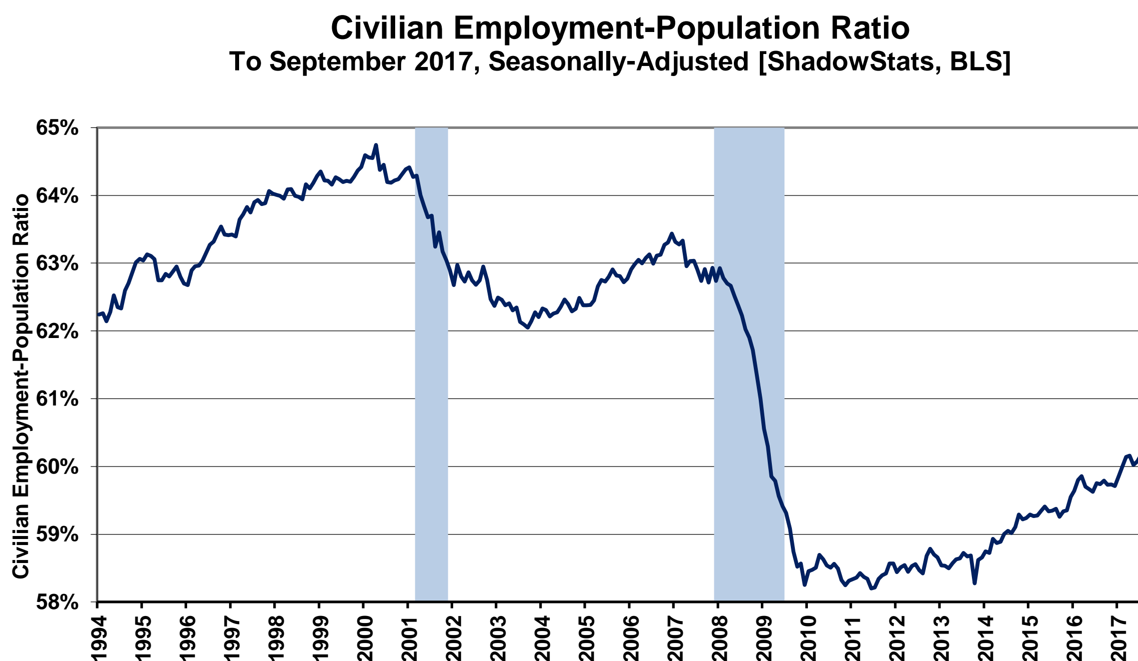

***Dysfunctional, Seasonally-Adjusted Headline Detail from the Household Survey.*** With the headline U.3 unemployment at its lowest level since January 2001, systemic imbalances and instabilities still are reflected in the labor-force participation rate (labor force/population) and the employment-to-population ratio (headline employment/population), which also are still just off historical lows, despite monthly

spikes in the September ratio fueled by the spike in employment. Still, with the headline unemployment rate so low, those ratios should be approaching historic highs, not holding near historic lows, as seen in *Graphs 3* and *4*.

*Graphs 2* to *4* reflect longer-term unemployment and discouraged-worker conditions. *Graph 2* is of the ShadowStats unemployment measure, with an inverted scale. The higher the unemployment rate, the weaker will be the economy, so the inverted plot tends to move visually in tandem with plots of most economic statistics, where a lower number means a weaker economy. The inverted-scale of the ShadowStats unemployment measure also tends to move with the employment-to-population ratio, which had turned slightly weaker in second-half 2016, but recently had been in an uptrend in 2017, along with monthly jumps and month-to-month inconsistencies in headline employment and the recently rejiggered population numbers (see *Commentary No. 864*). With booming September employment, that ratio notched higher to 60.4% in September 2017, versus 60.1% in August 2017. Nonetheless, that ratio remains somewhat off its post-1994 record low, the historic low and bottom subsequent to the 2007 economic collapse (only the period following the series redefinition in 1994 reflects consistent reporting), as shown in *Graph 3*.

The labor force containing all unemployed (including total discouraged workers) plus the employed, however, tends to be correlated with the population, so the employment-to-population ratio remains something of a surrogate indicator of broad unemployment, and it has a strong correlation with the ShadowStats unemployment measure.

***Graph 3: Civilian Employment-to-Population Ratio***




Shown in *Graph 4,* the September 2017 participation rate (the ratio of the headline labor force to the population) rose to 63.1% from 62.9% in August.

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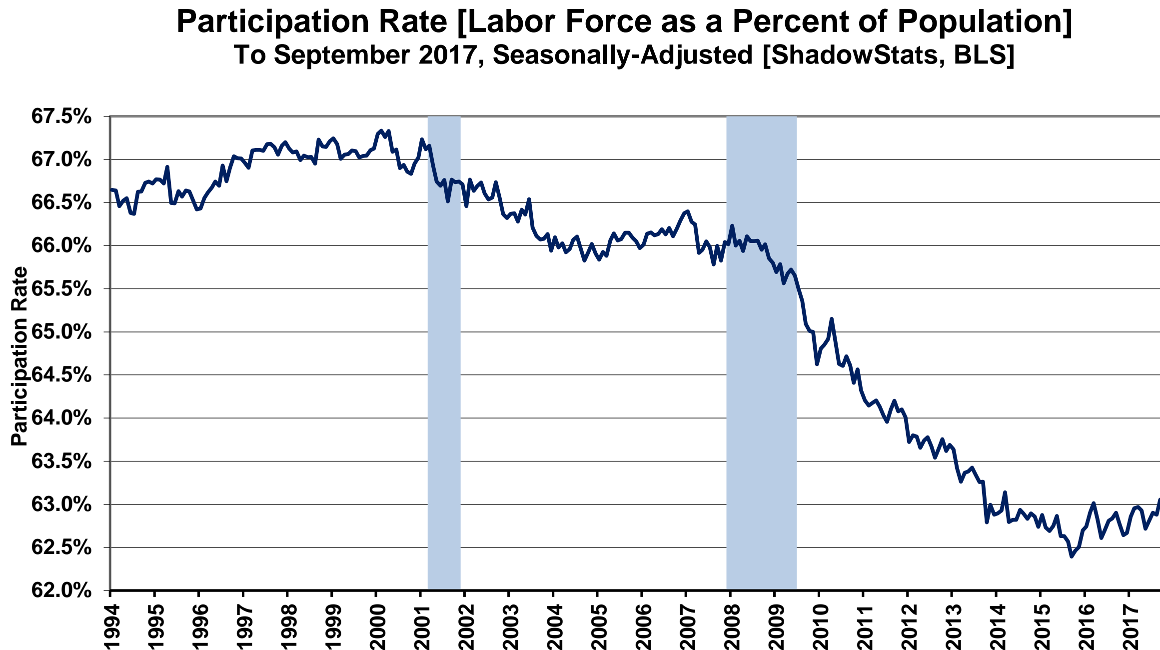
***Graph 4: Labor-Force Participation Rate***




On an unadjusted basis, unemployment rates are not revised and, in theory, are consistent in post-1994 methodology. The unadjusted unemployment rate U.3 declined to 4.07% in September 2017, from 4.53% in August 2017, while the broader, unadjusted unemployment rate U.6 was 7.96% in September 2017, versus 8.64% in August.

**Payroll Survey:** ***Growth Weakened Again, in Context of Downside Revisions.*** Headline payroll growth declined by 33,000 (-33,000) in September 2017, versus a revised 169,000 [previously 156,000] gain in August 2017 and a revised 138,000 [previously 189,000] gain in July. The 51,000 (-51,000) downside revision to the level of July activity also lowered the level of August activity, although the month-to-month increase in August revised somewhat higher. The headline September decline of 33,000 (-33,000) formally was statistically-insignificant +/- 135,000 (at the 95% confidence level).

As reported, headline year-to-year change in the not-seasonally adjusted September 2017 payrolls dropped to 1.24%, versus an unrevised 1.45% in August 2017 and a revised 1.45% [previously 1.48%, initially 1.50%] in July 2017, a level consistent with the onset of a new recession.

The September annual growth of 1.24% hit a 74-month low, the weakest growth since June 2011, and at that time, the highest growth seen coming out of the economic collapse into 2009. As of September 2017, that same growth rate was last hit in downturn as annual growth slowed going into the 2007 recession.

Accordingly, contrary to claims by economists at the San Francisco Fed, far from being healthy or normal, such low-level annual growth rates are seen either coming out of recession, or going into recession, but never seen consistently in the regular variability of ongoing, normal economic activity, as discussed in *Commentary No. 843*. The September 2017 annual growth has hit that threshold on the downside, headed into recession.

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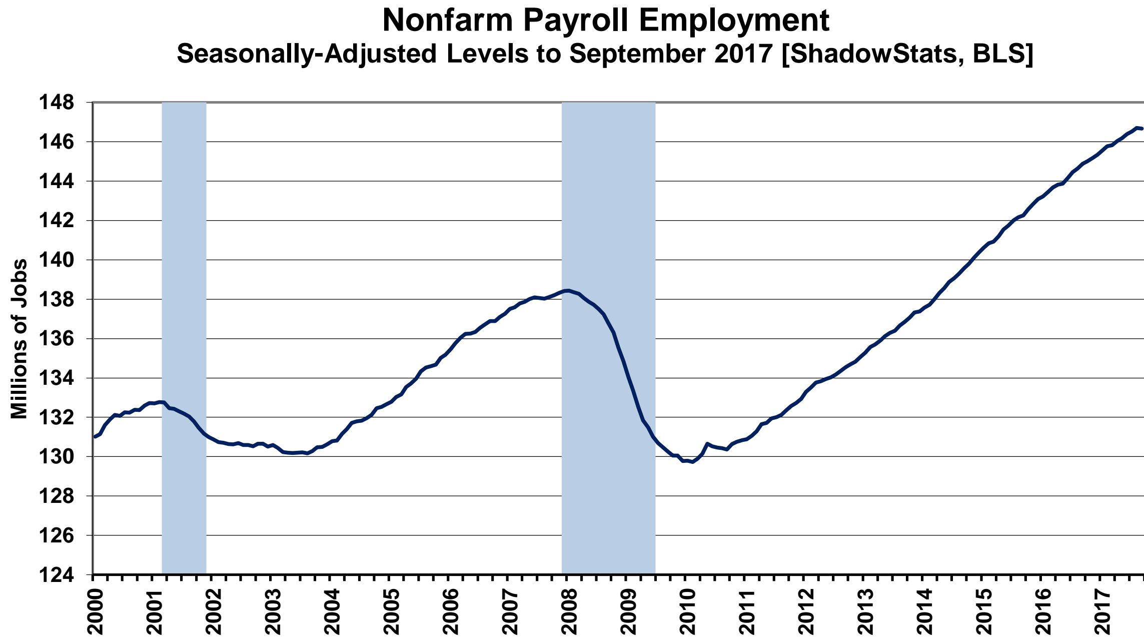
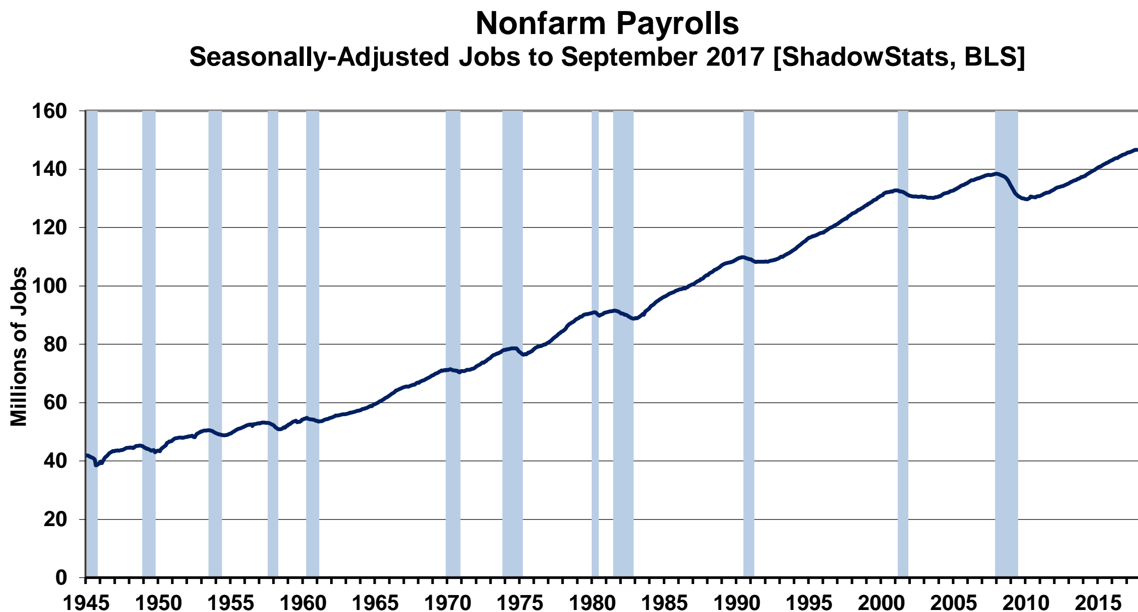
*Graphs 5* to *8* show the headline payroll series, level and annual change, both on a shorter-term basis, since 2000, and on a longer-term historical basis, from 1945. In perspective, the longer-term graph of the headline payroll-employment levels shows the extreme duration of what had been the official non-recovery in payrolls, the worst such circumstance of the post-Great Depression era.

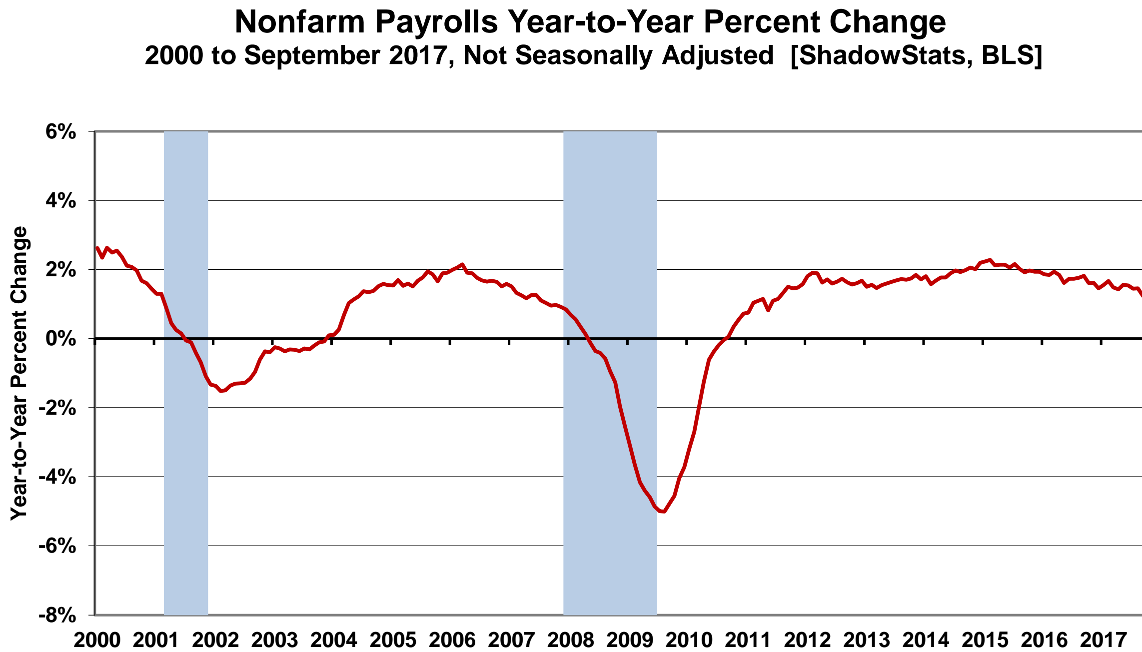
***Graph 5: Nonfarm Payroll Employment 2000 to Date***



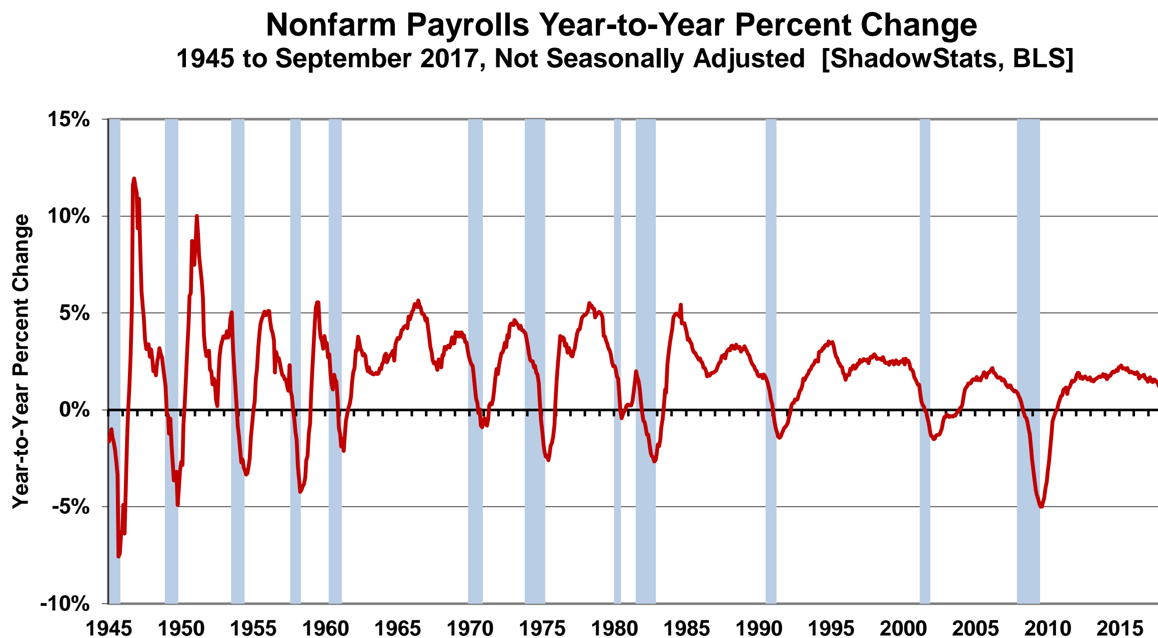

***Graph 6: Nonfarm Payroll Employment 1945 to Date***



***Graph 7: Payroll Employment, Year-to-Year Percent Change, 2000 to Date***




***Graph 8: Payroll Employment, Year-to-Year Percent Change, 1945 to Date***

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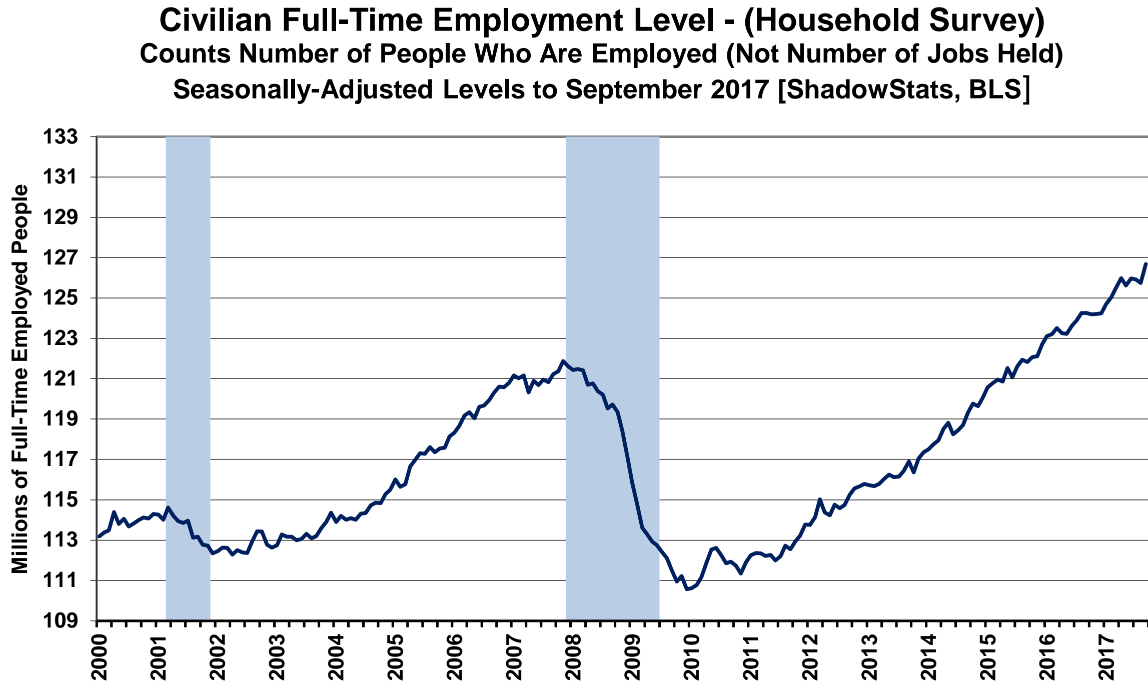
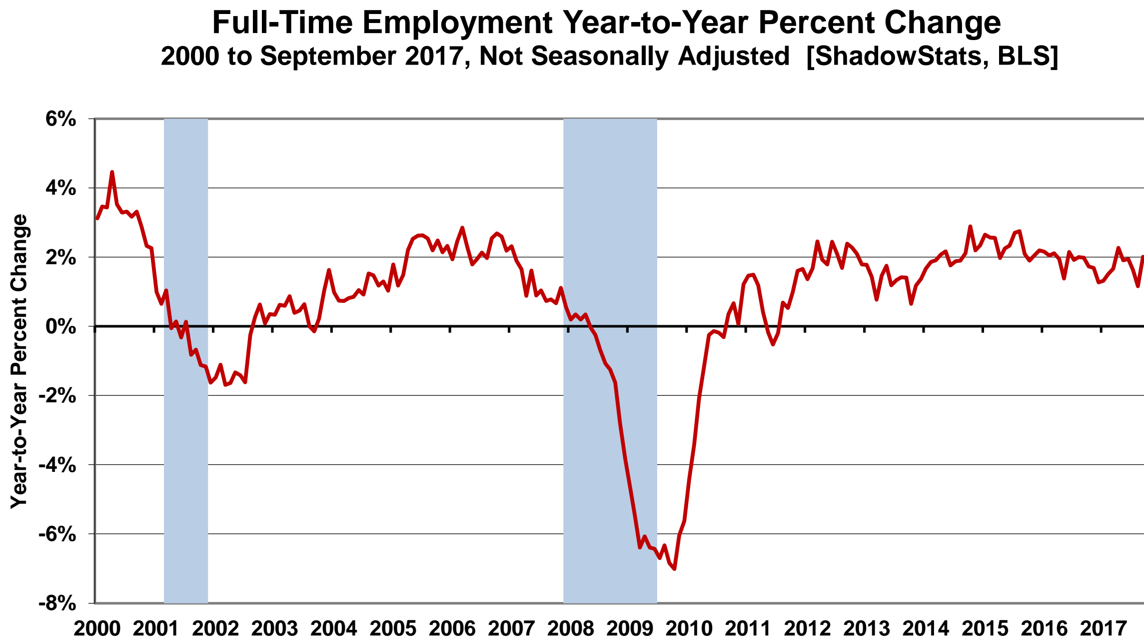
***Graph 9: Full-Time Employment (Household Survey) to Date (2000 to Date)***




***Graph 10: Full-Time Employment (Household), Year-to-Year Percent Change, 2000 to Date***

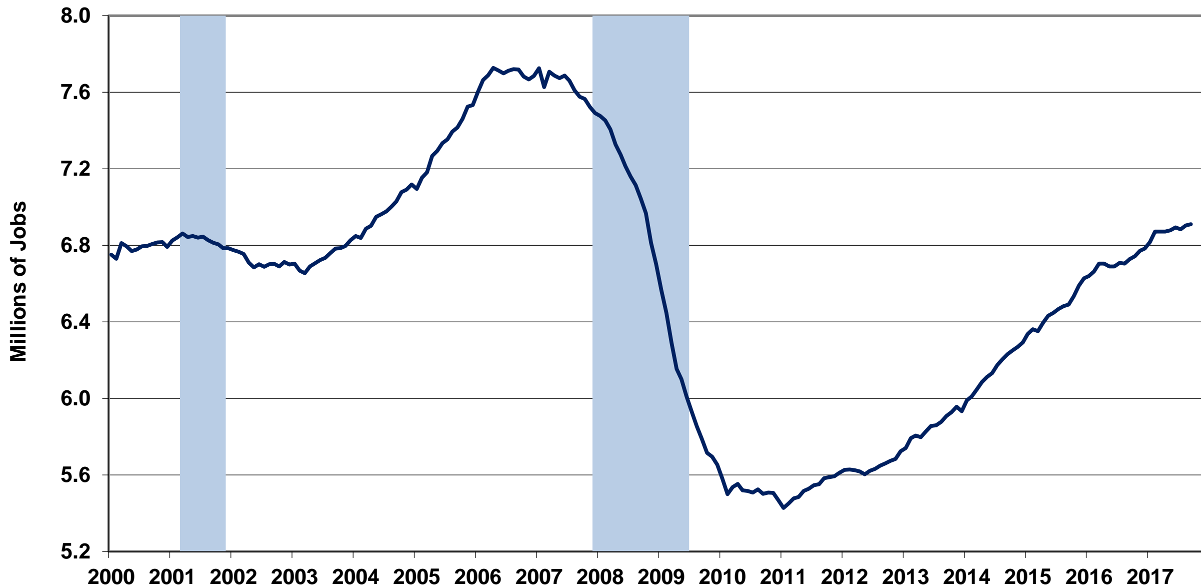



Unlike the Payroll Survey, which counts "employed" people with more than one job (such as part-time jobs) for each job counted, the Household Survey counts employed individuals only once, irrespective of the number of jobs held. Heavily distorted in the headline September 2017 Household Survey reporting, full-time employment gained a remarkable 935,000 jobs, having lost 166,000 (-166,000) in August.

Year-to-year change jumped to 2.11% in September 2017, from 1.16% in August 2017. Those details are plotted in *Graphs 9* and *10*, with scales consistent with *Graphs 5* and *7* of nonfarm payrolls.

The final plot here updates *Construction Payroll Graph 13* in prior *Commentary No. 914*. Where construction payrolls revised slightly lower, to 6.911 million in September 2017, versus 6.903 [previously 6.918] million in August and 6.884 [previously 6.890] million in July.

***Graph 11: Construction Employment (Payroll Survey), Year-to-Year Percent Change, 2000 to Date***




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

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## HYPERINFLATION WATCH

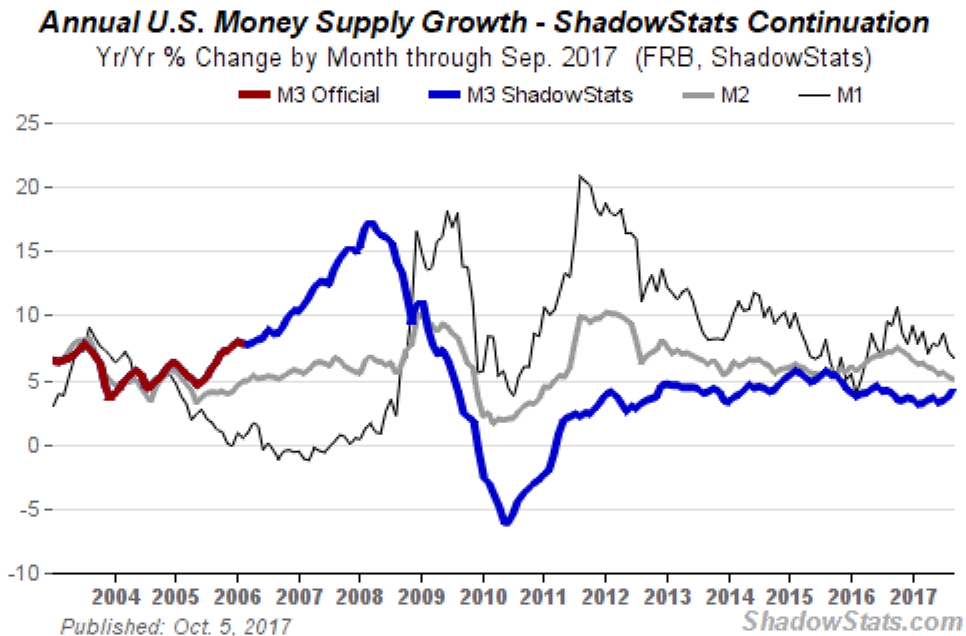
### Monetary Conditions

### M3 and the Monetary Base Annual Growth Rates Above 4% for the First Time in 2017

**September 2017 Annual Growth Rate in M3 Rose to 4.3% from 3.6% in August, Strongest Annual Gain Since June 2015.** Based on three-plus weeks of reporting, and in the context of continued softening growth in both the narrower M2 and M1 measures, the estimate of nominal annual growth for the ShadowStats Ongoing M3 Money Supply in September 2017 rose to 4.3%, from an unrevised 3.6% in August 2017. That was against annual gains of 3.4% in July 2017, 3.2% in June 2017, 3.6% in May 2017, 3.4% in April 2017, 3.2% in March 2017 and 3.1% in February 2017. The February 2017 showing was the weakest year-to-year change since July 2012.

Separately, nominal year-to-year growth for M2 eased to 5.1% in September, versus 5.3% in August 2017, 5.6% in July 2017, 5.5% in June 2017 and 5.9% in May 2017, with annual nominal growth in September 2017 M1 easing to 6.8%, versus 7.3% in August 2017, 8.7% in July 2017, 7.7% in June 2017 and 7.9% in May 2017.

***Graph HW-1: Comparative Money Supply M1, M2 and M3 Yr-to-Yr Changes through September 2017***



For those living in the headline money-supply world comprised of just the Fed's M1 and M2, money growth still has been relatively stronger for both M1 and M2, than for M3, although that difference has continued to narrow, with M3 growth picking up versus slowing annual M1 and M2 growth. The relative weakness in annual M3 growth, versus M2 and M1 (M2 includes M1; M3 includes M2) still has reflected a shift over time in funds from accounts included just in M3, such as large time deposits and institutional money funds, into accounts in M2 and M1. September 2017 M3 growth and the August and July upside revisions, however, reflected a returning flow of cash from M1 and M2 back into M3 accounts, again, such as large-time deposits and institutional money funds.

The latest estimates of level and annual changes for September 2017 M3, M2 and M1, and for earlier periods, are detailed in the Alternate Data tab of www.ShadowStats.com. See the *Money Supply Special Report* for full definitions of those measures.

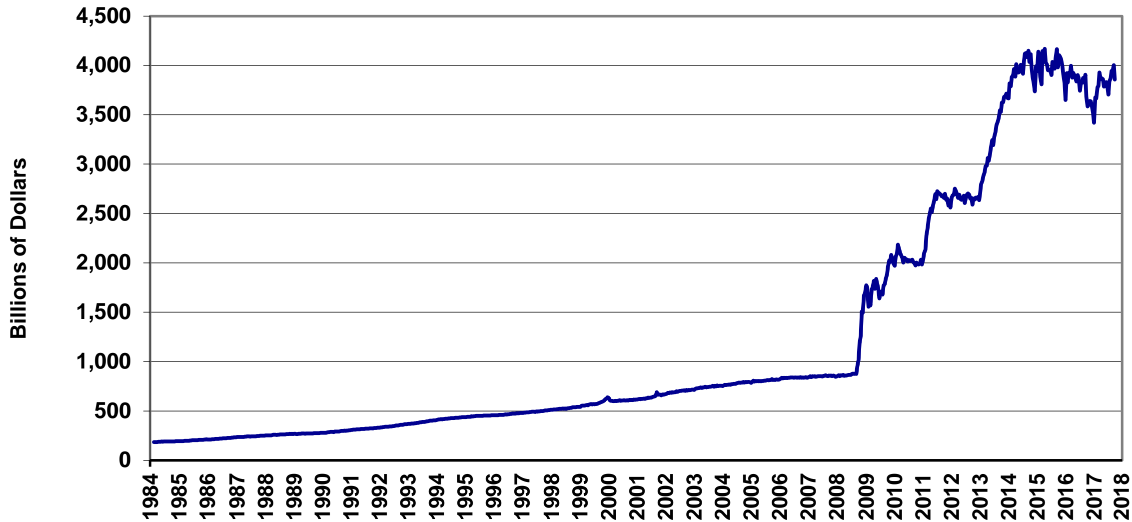
**As M3 Jumped, So Too Has the Monetary Base.** In the wake of near-term volatility surrounding recent rate hikes by the FOMC, and the related market efforts by New York Fed to establish or maintain stable trading-range activity for the targeted federal funds rate, the level of the monetary base had been reasonably stable, with annual percentage change fluctuating around zero. Yet, recently it has moved higher to a multi-year high. Aside from short-term gyrations around a change in the targeted federal funds rate, circumstances generally should remain relatively stable, until the Fed actually begins to sell its excess Treasuries and Mortgage-Backed Securities, as part of its planned "balance sheet normalization," or otherwise to embark upon expanded quantitative easing, amidst increasing liquidity stresses in the banking system from deteriorating economic conditions.

Based on the latest Saint Louis Fed estimate, the Monetary Base stood at its highest level in more than two years for the two weeks ended September 13, 2017, with annual change up by 2.7%. In the two weeks ended September 27th, although the Monetary Base backed off its near-term high level, annual growth jumped to 4.7%, the highest level since November 2015. Accompanying *Graphs HW-2* and *HW-3*, reflect that detail.

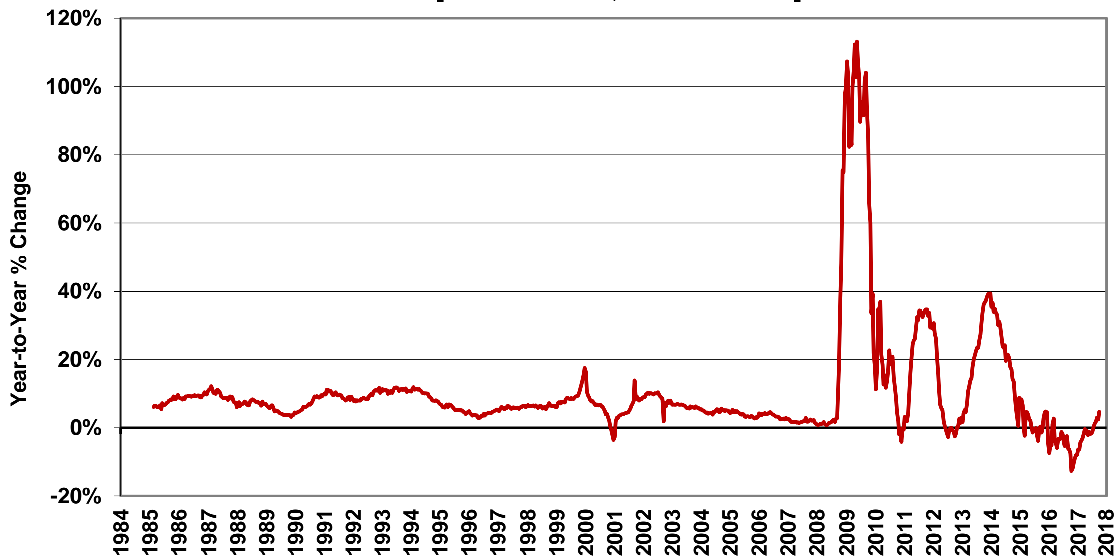
The level of the Monetary Base remains well within the bounds of activity seen in the last several years. That said, prior to the Quantitative Easing, changing the level of the Monetary Base had been the primary tool of the Federal Reserve Board's Federal Open Market Committee (FOMC) for targeting growth in the money supply. If the current upside movement in both M3 and the Monetary growth continues, on a regular basis, questions as to a potential covert shift in FOMC policy (towards easing) might arise.

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

***Graph HW-2: Saint Louis Fed Monetary Base, Billions of Dollars (1984-September 27, 2017)***




***Graph HW-2: Year-to-Year Percent Change, Saint Louis Fed Monetary Base (1985-September 27, 2017)***




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

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## CONSUMER LIQUIDITY WATCH

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

*[Providing general background on the consumer's liquidity circumstance, this* CLW *has not been revised since its prior publication in yesterday's* Commentary No. 914,*]*

**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.

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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.

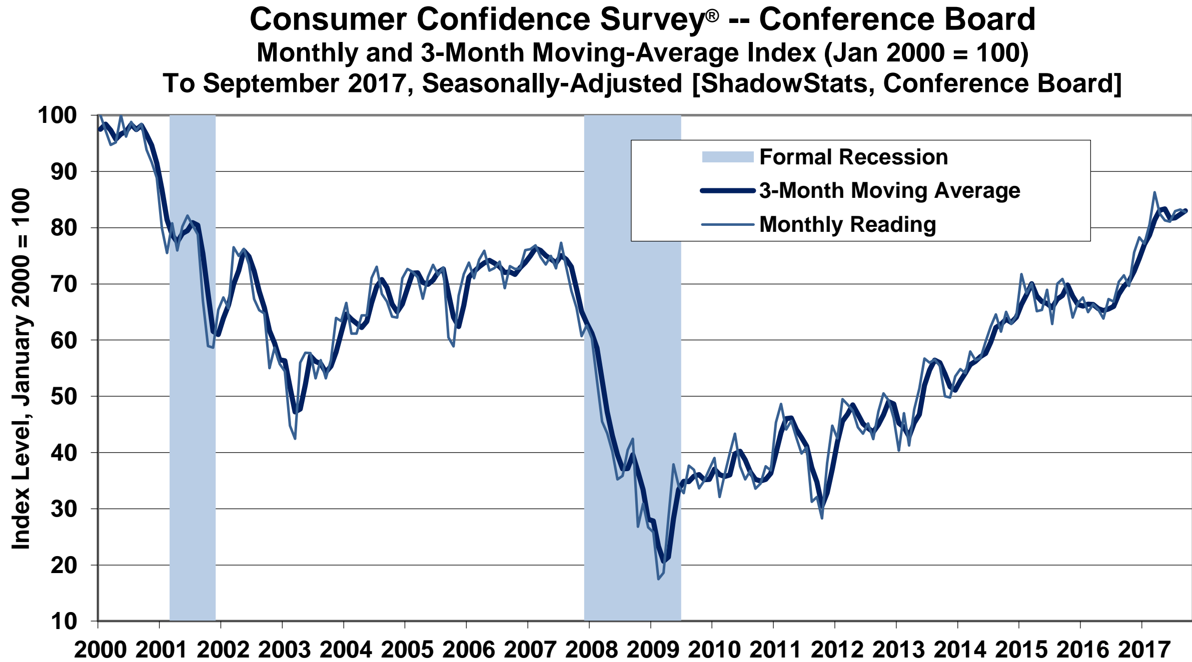
The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in *Commentary No. 764*), and often are highly volatile month-to-month, as a result. With what should continue as increasingly-negative, unstable and uncertain headline financial and 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.

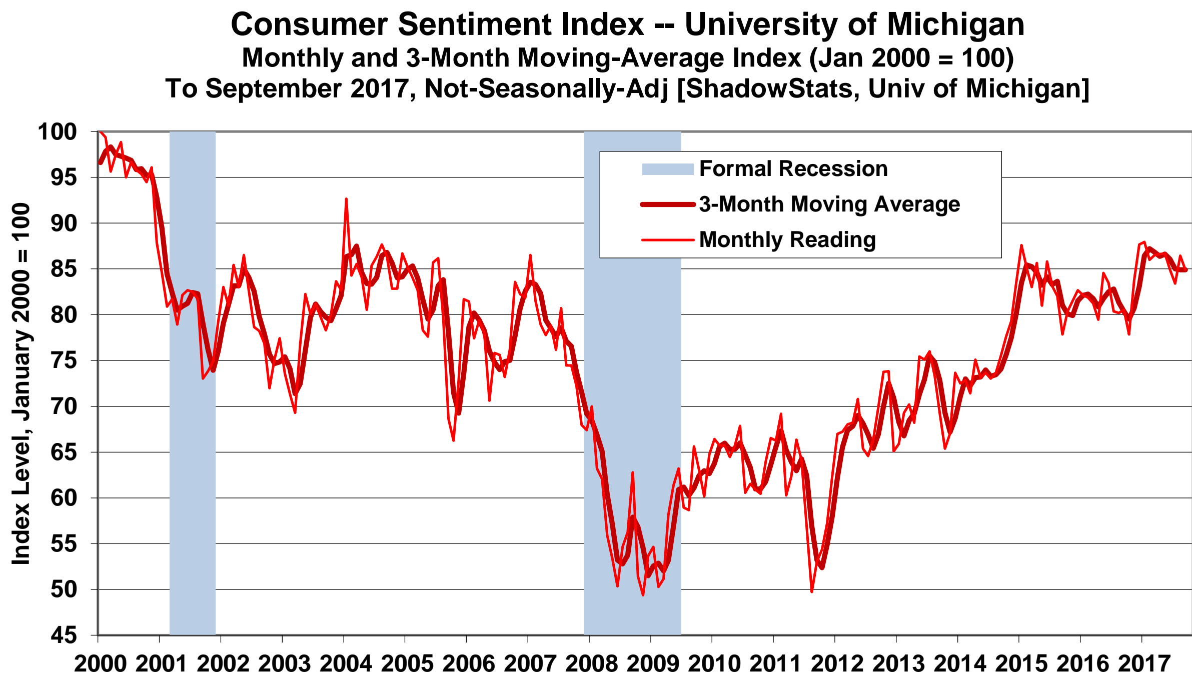
Broadly, though, the harder, financial consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth as suggested by headline GDP growth in 2014, for

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)***

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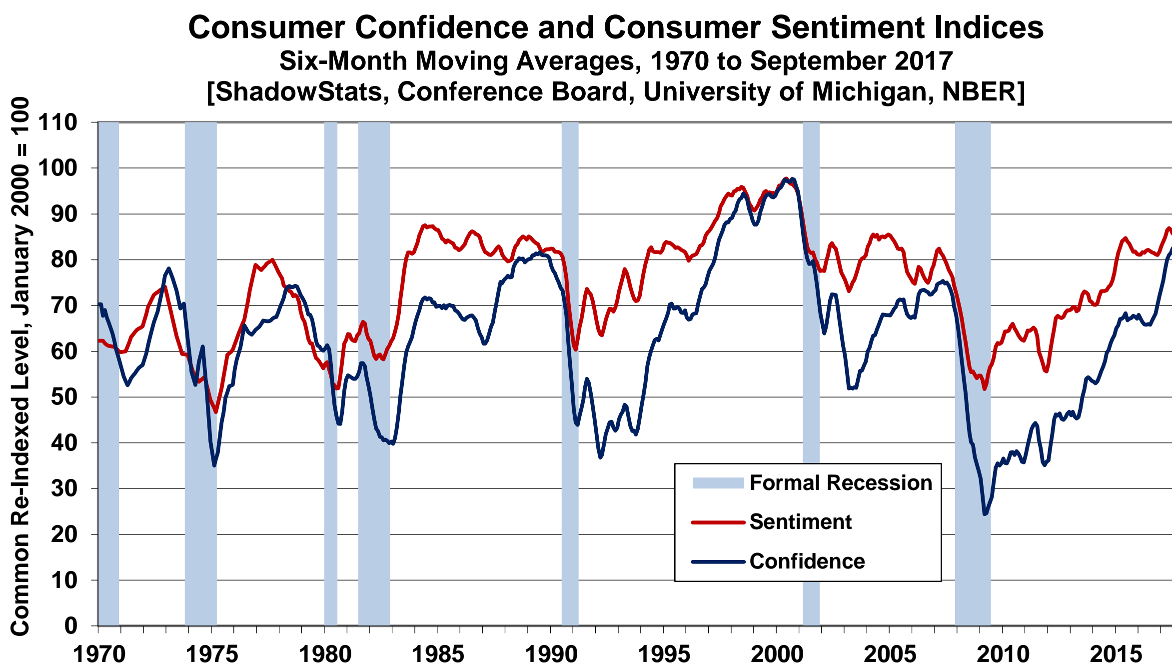
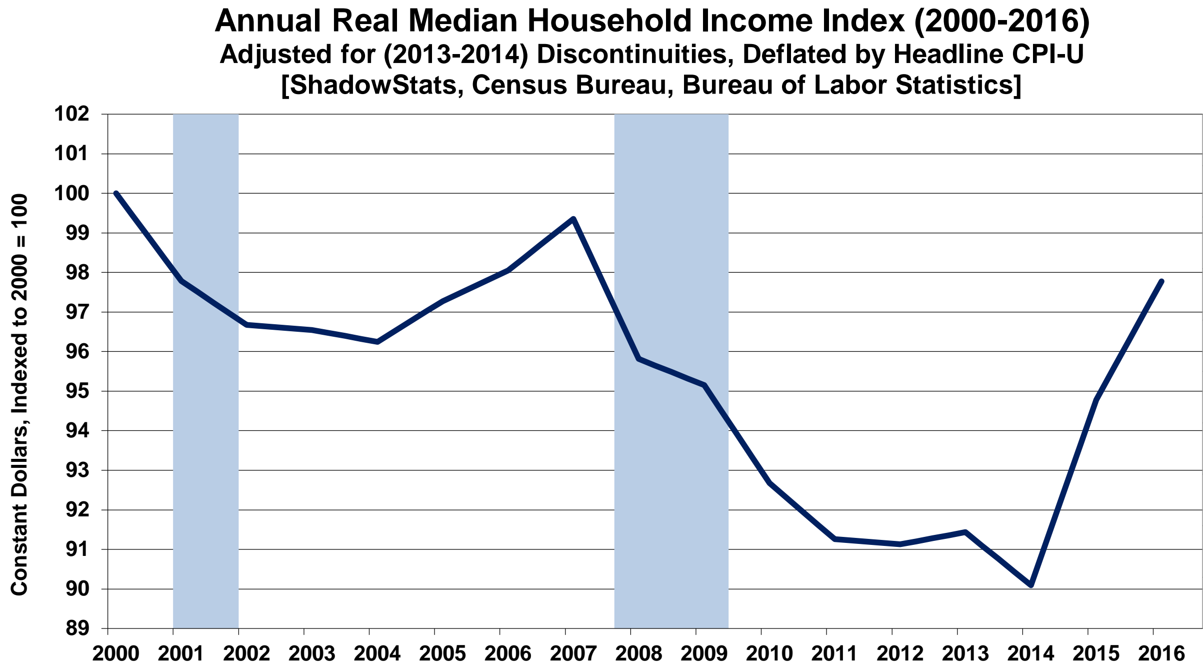
***Graph CLW-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2017)***



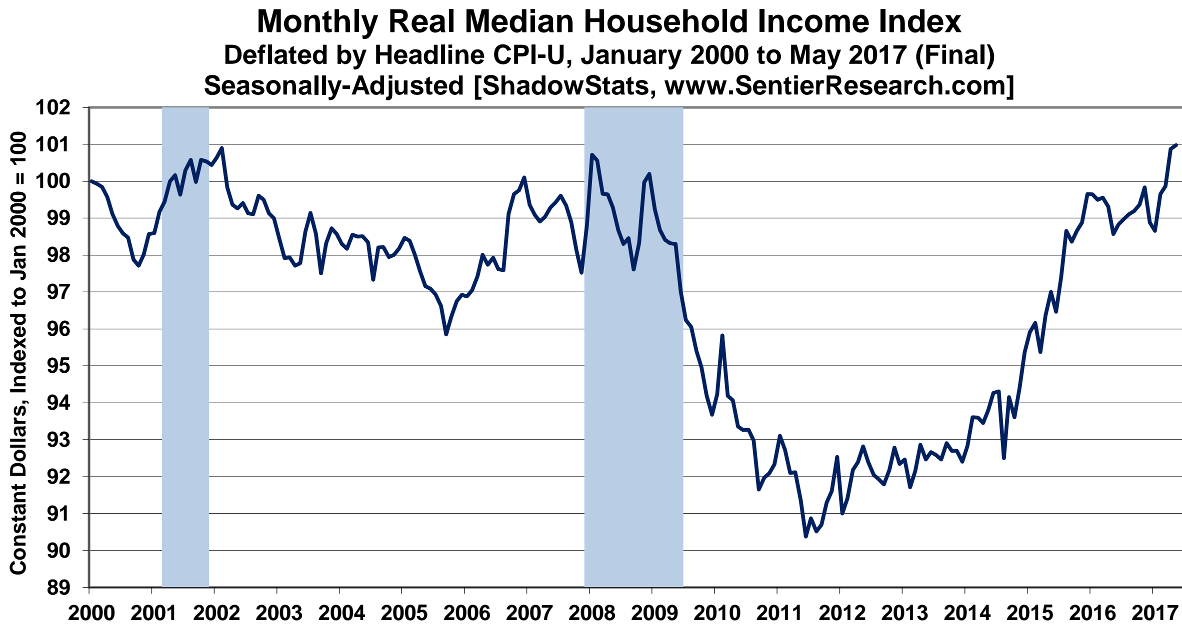

***2016 Annual Real Median Household Income Still Was Below Its 2007 Pre-Recession High, Below Activity in the Late-1990s, About Even with the Mid-1970s.*** The measure of real monthly median household income, which has been provided by www.SentierResearch.com, generally can be considered as a monthly 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 see 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)***



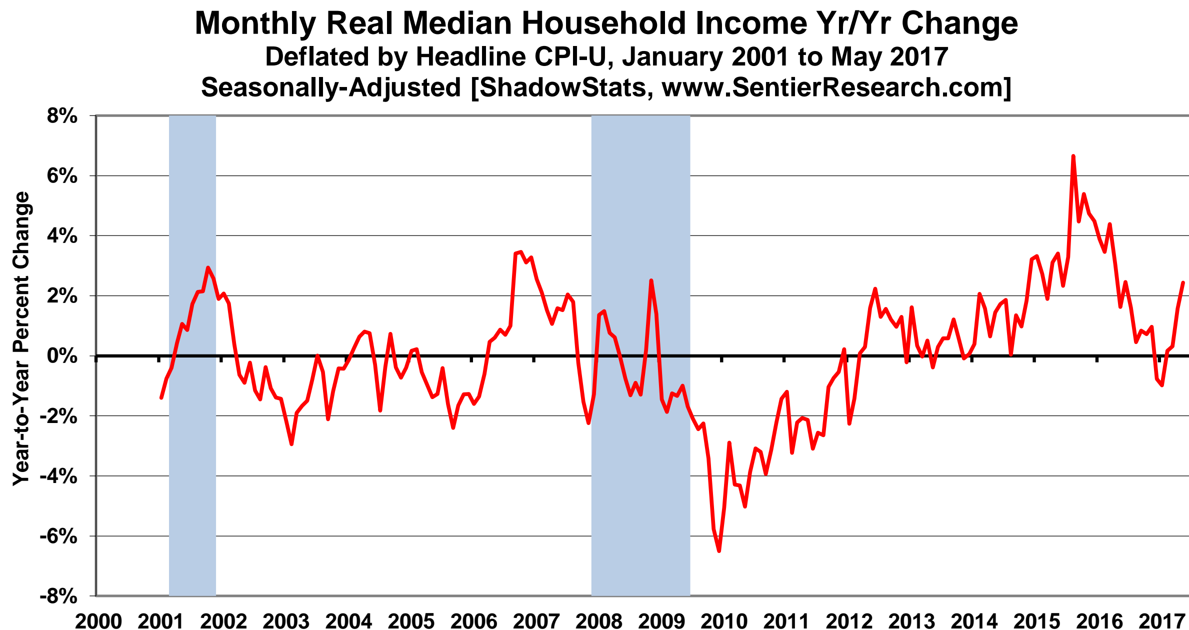

***Graph CLW-5: Monthly Real Median Household Income (2000 to 2017) Index, January 2000 = 100***




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.

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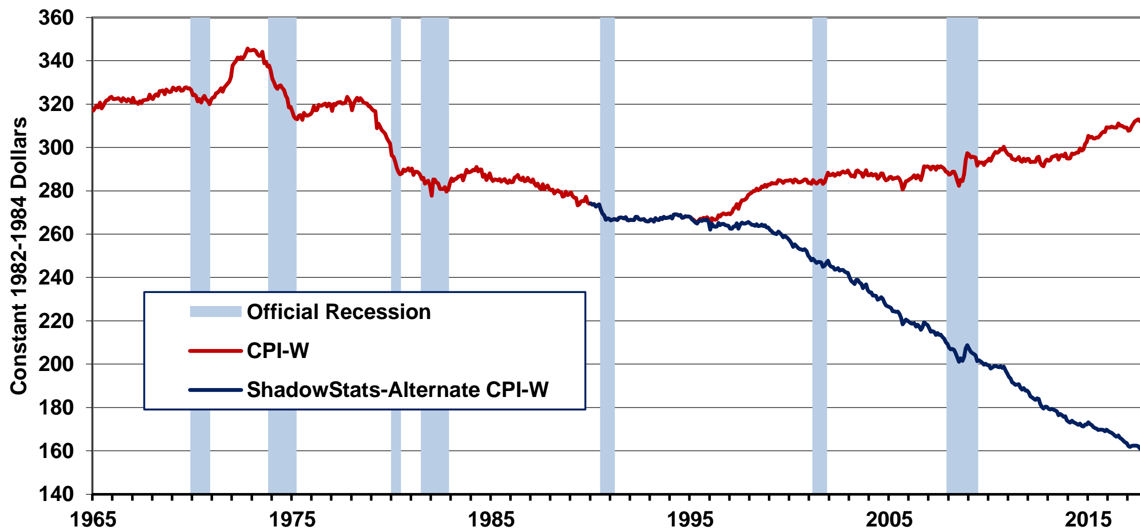
***Special Note*:** Accompanying the release of the May 2017 data by Sentier Research was this Notice of Final Report:

> 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***




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

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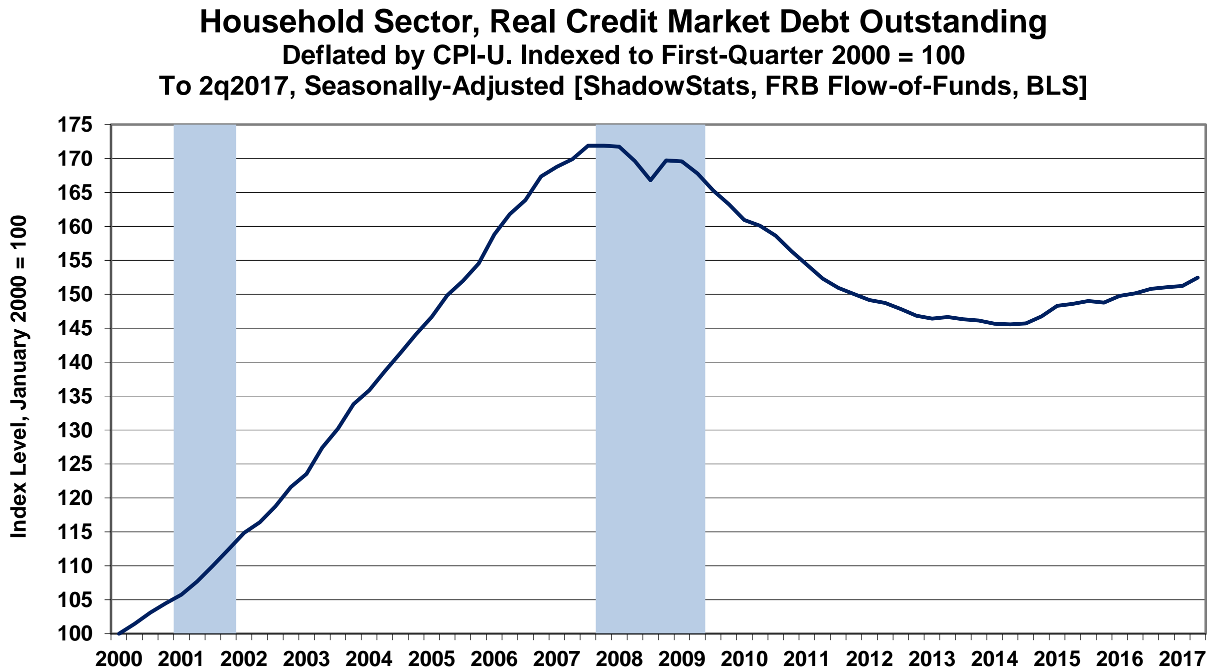
1.13% (-1.13%), in fourth-quarter 2016 of 1.36% (-1.36%), and third-quarter 2016 growth of 1.48%, a second-quarter 2016 contraction of 0.11% (-0.11%) and first-quarter 2016 annualized growth of 1.81%.

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.]

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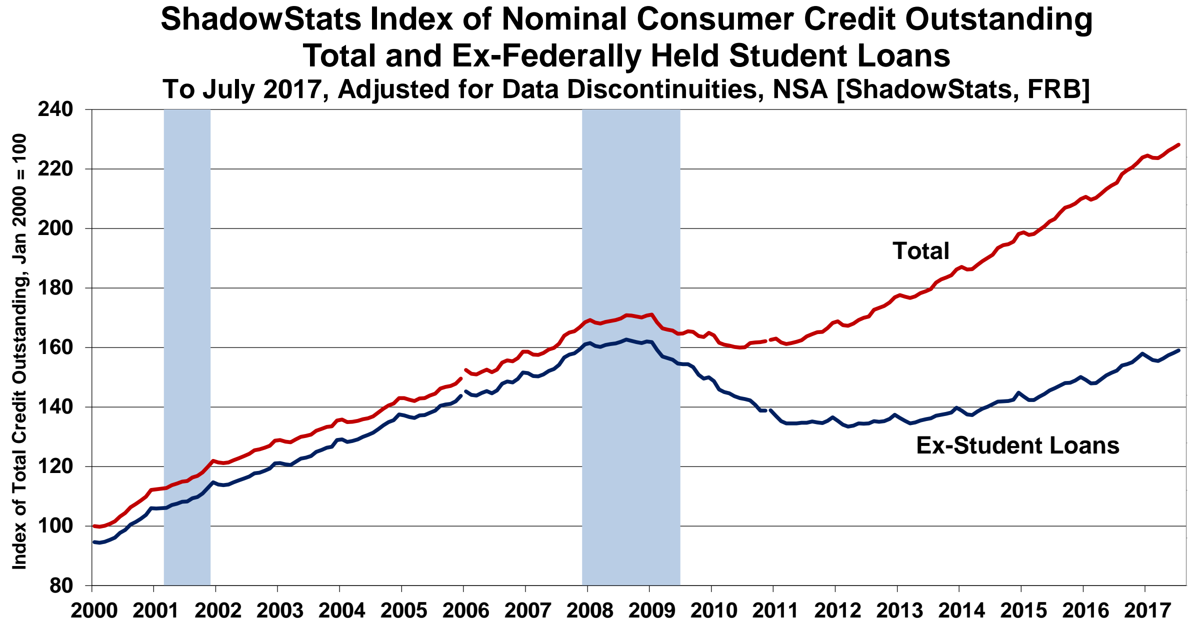
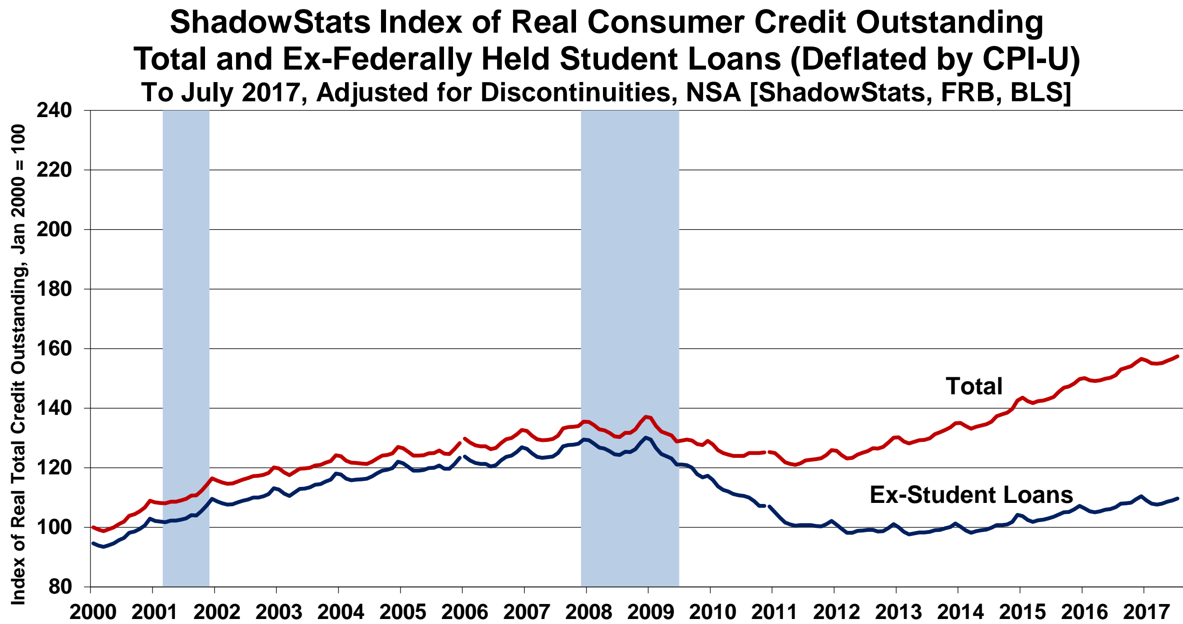
***Graph CLW-9: Nominal Consumer Credit Outstanding (2000 to 2017)***




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

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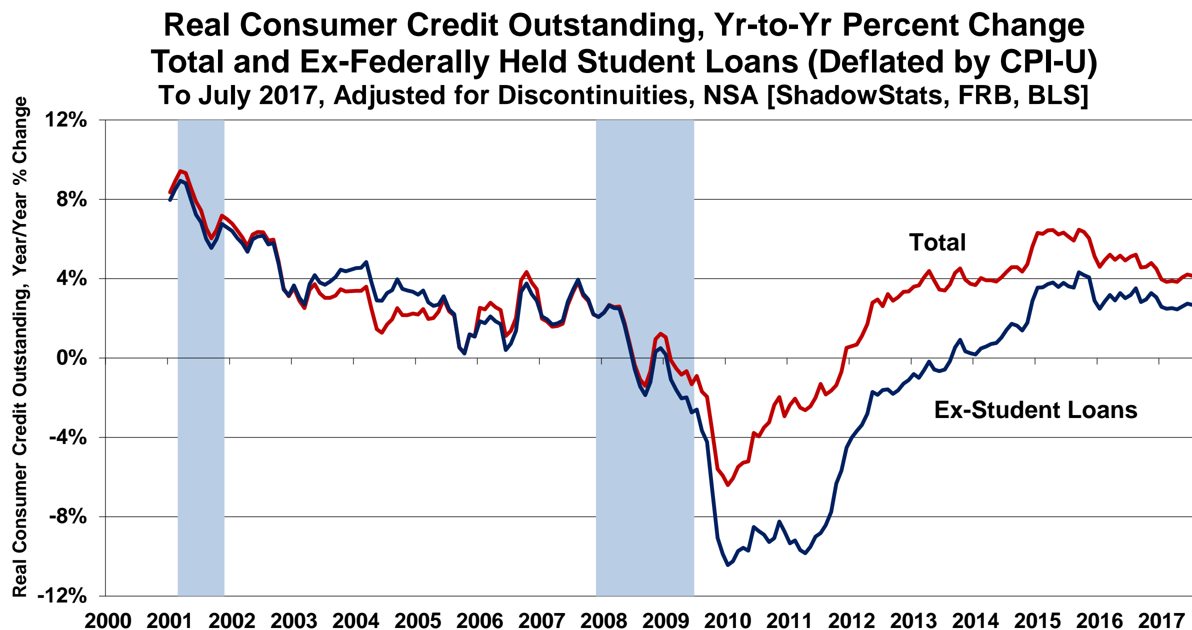
***Graph CLW-11: Year-to-Year Percent Change, Real Consumer Credit Outstanding (2000 to 2017)***

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## 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 Releases* paragraph, language changes from the prior version in *No. 914* 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

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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.

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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

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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 (left-hand column of home page).]*

*Commentary No. 914* (October 5th) reviewed the August 2017 Trade Deficit and Construction Spending, along with September 2017 detail on the The Conference Board Help Wanted OnLine® Advertising for August 2017, in the context of disruptions from hurricanes.

*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).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**PENDING ECONOMIC RELEASES: Producer Price Index—PPI (September 2017)** The Bureau of Labor Statistics (BLS) will release the September 2017 PPI on Thursday, October 12th, with detail covered in *Commentary No. 916* of Friday, October 13th. Odds favor positive wholesale inflation on the goods side of the reporting, perhaps up by 0.3%, plus-or-minus, due to positive seasonal-factor adjustments boosting the unadjusted monthly-price increases of petroleum-related products, which partially reflected Hurricane Harvey's impact on the oil and gas industry around Houston, Texas.

The dominant services sector, however, often provides some counter-move to the hard-inflation estimate on the goods side. Such comes particularly from counterintuitive "deflation" or "inflation," reflecting falling or rising "margins," in turn reflecting rising or falling costs. Guesstimation in that services sector remains highly problematic, as discussed in *Inflation that Is More Theoretical than Real World?* in *Commentary No. 909*, where, again, the services component could offset some of the weakness in the headline goods inflation.

Per the Department of Energy, unadjusted crude oil prices increased in September 2017, as did wholesale gasoline prices. Based on the two most-widely-followed oil contracts, monthly-average oil prices rose by 8.9% (Brent) and 3.8% (WTI). That was accompanied by increases in unadjusted, monthly-average wholesale gasoline prices 11.6% (NY Harbor) and 6.8% (Gulf Coast). Where PPI seasonal adjustments for energy costs in September are positive, a petroleum-related monthly gain, again should lead a month-to-month rise in the adjusted Final Demand Goods component of the PPI.

**Consumer Price Index—CPI (September 2017).** The Bureau of Labor Statistics (BLS) will release the September 2017 CPI on Friday, October 13th, which will be covered in *Commentary No. 916* of that date. The headline September CPI-U likely will be strongly positive, around 0.6% or more, in the context of a month-to-month, hurricane-induced 10.7% surge in unadjusted gasoline prices boosted by positive seasonal adjustments. Headline, unadjusted year-to-year annual inflation for September 2017 should firm to about 2.3%, versus the 1.9% in prior August 2017 reporting.

***Upside Monthly Inflation Impact from Rising Gasoline Prices Exaggerated by Positive Seasonal Adjustments.*** On top of average unadjusted gasoline prices jumping month-to-month by 3.31% in August, as hurricane Harvey took aim at the oil and gas drilling, production and refining industries in the Houston, Texas area, prices jumped by a further 10.71% in September 2017 in the wake of the storm, per the Department of Energy. Where BLS seasonal adjustments to gasoline prices in September also are to the upside, that should lead to seasonally-adjusted numbers offering a net-positive contribution of roughly plus 0.4% to the headline monthly change in the CPI-U. Likely boosted also by higher food and "core" (net of food and energy) inflation, the headline CPI-U reading could come in at 0.6% in September 2017.

***Annual Inflation Rate.*** Noted *Commentary No. 909*, year-to-year CPI-U inflation would increase or decrease in September 2017 reporting, dependent on the seasonally-adjusted month-to-month change, versus the adjusted, headline gain of 0.26% in September 2016 CPI-U. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for September 2017, the difference in September's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the August 2017 annual inflation rate of 1.94%. Given a guess of a seasonally-adjusted 0.6% gain in the monthly September 2017 CPI-U, that would leave the annual CPI-U inflation rate for September increasing to about 2.3%, plus-or-minus, depending on rounding.

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Based on early-October 2017, unadjusted gasoline prices being down versus the September 2017 average, and given still strongly-positive monthly seasonal adjustments in that month, gasoline is on track to contribute roughly 0.2% to the headline, seasonally-adjusted monthly CPI-U gain in October 2017, which could translate into a headline 0.4% monthly CPI-U gain at that time, which would push the unadjusted annual rate up to about 2.6%, still shy of the multi-year higher annual rate of 2.74% in February 2017.

*CAUTION:* Irrespective of the indications outlined here, the BLS has the ability to use "intervention analysis" in unusual circumstances to mitigate the end numbers to a desired headline inflation level for the September CPI-U.

**Retail Sales—Nominal and Real (August 2017).** The Census Bureau will release its "advance" estimate of September 2017 nominal (not-adjusted-for-inflation) Retail Sales on Friday, October 13th, coincident with the BLS's release of the September CPI. Accordingly, the detail on both the nominal and real (adjusted-for-inflation) Retail Sales will be discussed in *Commentary No. 916* of that date. Whatever is reported in terms of nominal growth should take a good hit from spiked CPI inflation (see preceding CPI discussion), when those sales are expressed in real or inflation-adjusted terms.

Headline volatility will reflect impact from Hurricanes Harvey and Irma. Early estimates are for a sharp monthly increase in September automobile sales replacing autos destroyed in storm flooding. Other, mixed impacts will be seen ranging from disruptions to normal retail commerce, to increased purchases of storm/emergency supplies and building materials, both preventative and repair, as well from individuals seeking shelter away from the danger.

Beyond hurricane disruptions, per the *Consumer Liquidity Watch*, 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 personal-consumption expenditures and retail sales, real or otherwise. Those liquidity circumstances are exacerbated by the hurricane disruptions.

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