John Williams'

# Shadow Government Statistics

*Analysis Behind and Beyond Government Economic Reporting*

**COMMENTARY NUMBER 919-A**

**Latest Employment, Trade, Construction Spending, Freight Index and M3**

**November 3, 2017**

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**Nonsense Employment and Unemployment Numbers from Unwinding Hurricane Impact:**
**Payroll Employment Jumped 261,000, Household Survey Employment Dropped 484,000 (-484,000);**
**Headline Unemployment Rate Fell to 4.1%, Because Labor Force Shrank by 765,000 (-765,000)**

**Meaningless Declines in October 2017 Unemployment Rates:**
**U.3 Fell to 4.07% versus 4.22%, U.6 Fell to 7.91% versus 8.29%, and the**
**ShadowStats-Alternate Fell to 21.6% versus 21.9%**

**Plunging Participation Rate and Employment-Population Ratio**

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

**September Freight Index Showed Ongoing Economic Downturn and Non-Recovery**

**Trailing Four Quarters of Real Trade Deficit through Third-Quarter 2017, Worst in a Decade**

**Annual and Quarterly Declines in September 2017 Real Construction Spending**
**Continued in a Manner Last Seen During the 2006 Housing Collapse**

**New Fed Chairman Will Face the Same Banking-System and**
**Economic Challenges that Befuddled the Yellen/Bernanke Chairmanships**

**Annual Growth in October Money Supply M3 Jumped to 4.8% from 4.3% in September**

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*PLEASE NOTE: The next Regular Commentary, Monday, November 5th, will provide full analysis of the October labor details, which are summarized and highlighted here in No. 919-A. Details on the October ShadowStats Alternate Unemployment are found on the Alternate Data tab at www.ShadowStats.com.*

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

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**Today's (November 3rd)** ***Opening Comments and Executive Summary*****.** The ***Opening Comments*** update the Conference Board's Help Wanted OnLine Advertising for October 2017 and the Cass Freight Index for September. The ***Executive Summary*** (page 9) highlights summary details of October employment and unemployment, which will be covered fully in the November 6th *Commentary No. 919-B*. The *Summary* also highlights the September trade deficit and September construction spending.

The ***Reporting Detail*** (page 17) reviews more completely the trade deficit the construction spending details.

The ***Hyperinflation Watch*** (page 28) updates monetary conditions, with the initial estimate of annual growth in the ShadowStats Ongoing M3 estimate for October 2017 and the latest readings on the Saint Louis Fed monetary base, all in the context of the nomination of a new Fed Chairman.

The ***Consumer Liquidity Watch*** (page 31) has been updated.

The ***Week, Month and Year Ahead*** (page 41) provides background on recent *Commentaries* (there are no major economic releases in the week ahead).

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## OPENING COMMENTS AND EXECUTIVE SUMMARY

**Broad, U.S. Economic Prospects Continued to Falter.** The initial impact of, and now the unwinding of the impact of Hurricanes Harvey and Irma on September and October 2017 employment and unemployment data was highly unstable, leaving the headline labor details heavily distorted in both months. Where the September details are highlighted and summarized here, a careful analysis over the weekend should provide a more-detailed indication of what lies ahead in November and December reporting; it is not shaping up as a positive outlook. Where, pre-hurricanes, the payroll labor data were signaling renewed economic downturn, that has held in place. Now the household survey data are sending off unusually negative signals. These factors all will be reviewed in supplementary *Commentary No. 919-B*, currently planned for Monday, November 6th.

Covered otherwise in today's (November 3rd) *Commentary*, the real third-quarter 2017 merchandise trade deficit continued at negative levels not seen 2007. September 2017 construction spending showed intensifying negative annual and quarterly contractions last seen during the housing collapse of 2006, leading into the headline 2007 recession.

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Combine that happy news with the latest, non-recovering private surveys of employment demand and freight activity, and the broad outlook remains one of general economic conditions continuing in non-recovery from the collapse into 2009, with increasing signals of renewed downturn.

**Continued Signals of Still-Deepening/Renewed Recession from October Help-Wanted Advertising.** Although up for the month, The Conference Board Help-Wanted Online Advertising® (HWOL) for October 2017 continued showing significant annual, year-to-year deterioration in labor-market demand, a meaningfully-negative leading indicator to broad economic activity.

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 recent production, employment 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 or unwinding of same.

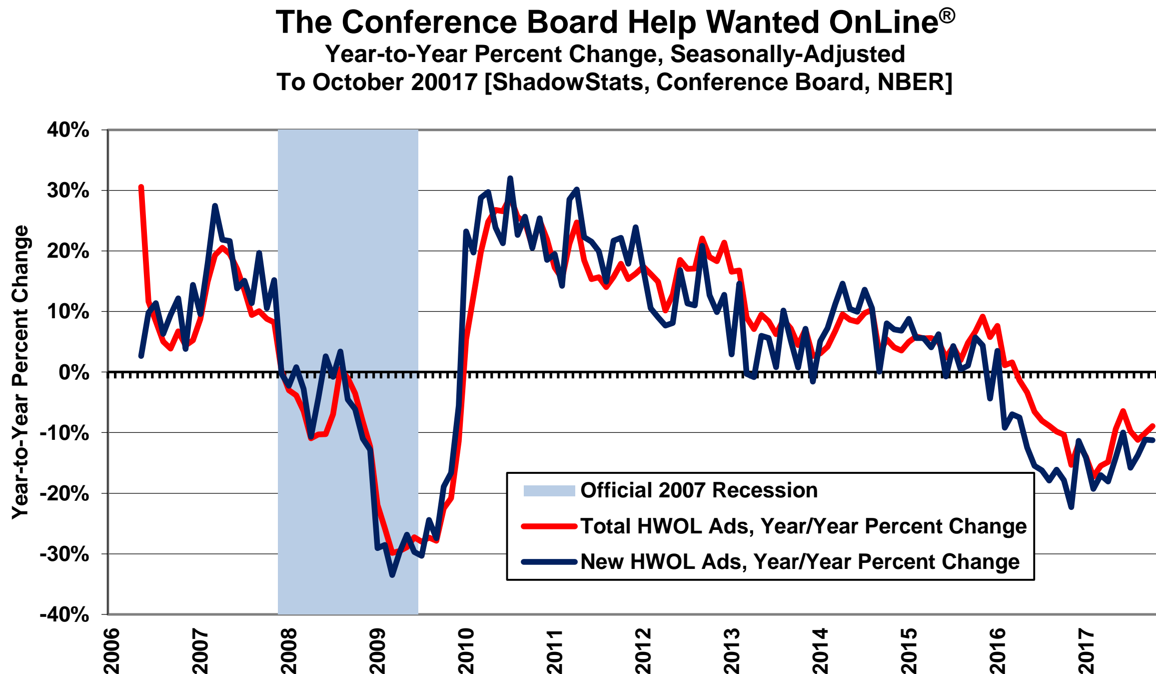
***The Conference Board Help Wanted OnLine® Advertising, October 2017.*** With the counts of October 2017 "Total Ads" and "New Ads" down year-to-year respectively by 8.9% (-8.9%) and 11.2% (-11.2%), the annual contractions broadly are holding at depths last seen going into the trough of the business collapse into 2009/2010. Month-to-month changes, although to the upside for both measures in September and October, had been down in each of the last three months before. The monthly patterns have been irregular, down in fourteen of the last twenty-three months for the "Total," and down in twelve out of the last twenty-three months for the "New" Ads.

The tracked, seasonally-adjusted monthly measures, however, have declined year-to-year in each of the last nineteen months for the total ads, and in each of the last twenty-one months (twenty-two of the last twenty-three months) for the new ads, including October 2017. The annual decline has narrowed recently, but the annual downturn generally has continued hold around or deeper than 10% (-10%) for both series, as reflected in *Opening Comments Graph OC-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 *Commentary No. 914*, *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 OC-1: The Conference Board Help Wanted OnLine® to October 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 October 2017 (released November 1st). 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®, 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 2017 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. 915*.

***September 2017 Freight Index Year-to-Year Change Notched Lower, with Annual Activity Still Off Its Pre-Recession High by 13.9% (-13.9%).*** The Cass Freight Index™ is an independent, reliable private indicator of real-world economic activity and shifting business patterns. Continued low-level stagnation and non-recovery in the broad economy and general business activity were reflected, once again, in the headline detail of the September 2017 Cass Freight Index™, albeit amidst some faltering bounce back in annual growth, as released November 1st).

Based on the twelve-month trailing average of the freight index, which is used to eliminate seasonality in the unadjusted series (see the *General Background to the Freight Index*), activity remained in low-level, albeit minimally-uptrending stagnation, down by 11.1% (-11.1%) from recovering its formal pre-recession high, down by 13.9% (-13.9%) from its precursor peak (see *Graph OC-2*).

For the tenth consecutive month, the eleventh month in the last twelve, year-over-year monthly change in the index was positive, but with a notch lower in annual September 2017 growth (see *Graph OC-4*). Annual growth hit a near-term peak of 7.06% in May 2017, falling back to 4.77% in June 2017, slowing to 1.35% in July 2017, just rebounding to 3.86% in August 2017 and falling back anew to 3.24% in September 2017. A consecutive string of nineteen months of annual contraction in the Freight Index began in March 2015 and was consistent with the "new" recession signal following the Industrial Production peak in November 2014. Headline industrial production showed a string of twenty-one consecutive months of year-to-year contraction beginning April 2015, a pattern never seen outside of formal economic recession in the 99-year history of the Industrial Production series. Comparative growth patterns of freight versus manufacturing are reflected here (see *Graphs OC-3* and *OC-5*), with general broad correlations with new orders for durable goods and retail sales (see *Commentary No. 917* and *Commentary No. 916*).

The recent, repeating pattern of year-to-year monthly gains in the Cass Index had excited trucking industry speculation that the recession in freight activity had hit bottom. Nonetheless, the current pattern of year-to-year gains has yet to break out of the non-recovery pattern of the last six years and, again, as shown in *Graph OC-4* annual growth is stagnating.

Discussed in *Commentary No. 875* and expanded upon in *Commentary No. 876* on the nature of the business cycle, when economic activity recovers, such happy growth is not clocked formally as new economic expansion, until the series breaks above its pre-recession high.

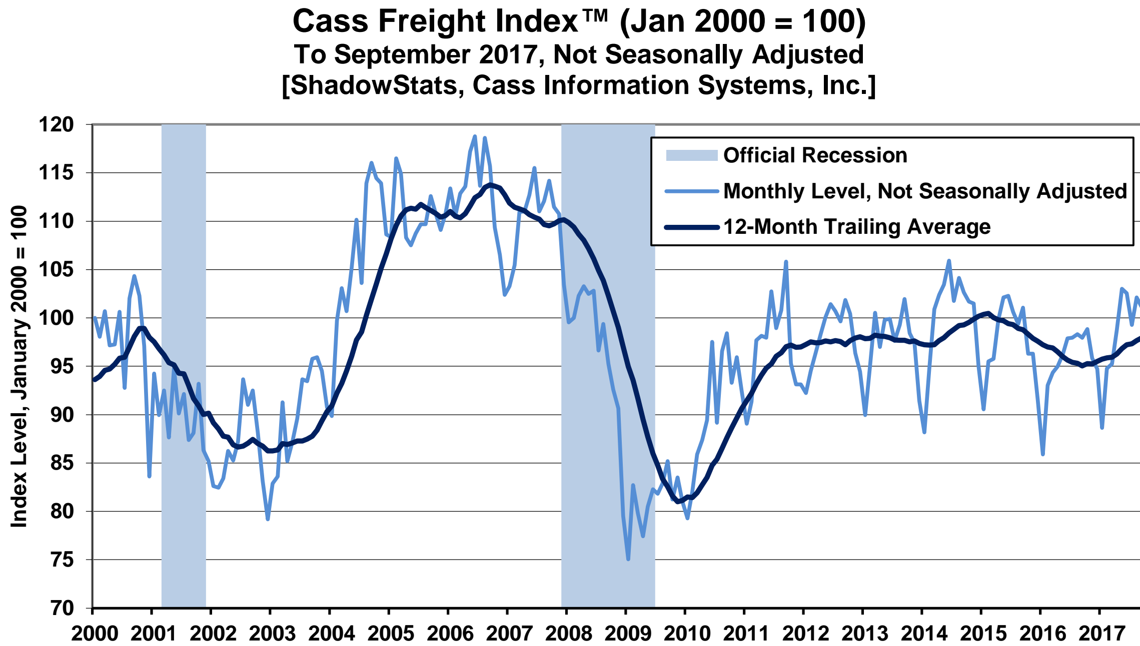
Specifically, the ShadowStats smoothed headline reading on the Cass Freight Index, through September 2017 (see *Graph OC-2*), remained down by 13.9% (-13.9%) from recovering its preliminary pre-recession peak of September 2006, down by 11.1% (-11.1%) from recovering its formal pre-recession peak of December 2007. While the "Recovery" receives the benefit of growth off low levels of activity, the deficit in activity versus the prior peak has to be overcome before formal, economic "Expansion" begins.

Economic downturns eventually hit bottom, and the current circumstance likely will not be an exception. The economic collapse that formally has been recognized from peak activity in December 2007 to a trough in June 2009 appears to be accurate in terms of timing the trough.

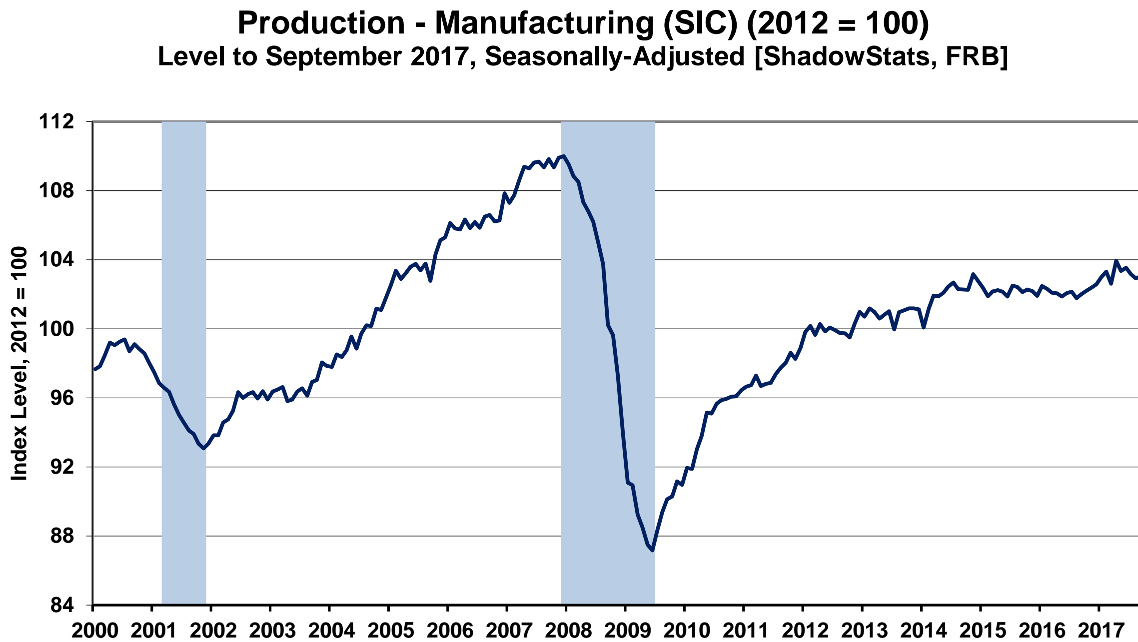
The official contention remains, though, that the headline economy (the real Gross Domestic Product) fully recovered thereafter, entering a period of new and ever-expanding economic growth in second- or third-quarter 2011. ShadowStats contends that the economy never recovered fully, moving instead into a period of protracted, low-level stagnation, which began to turn down anew in December 2014, as reflected in the recent reporting and benchmark revisions to production (*Commentary No. 877*) and durable goods (*Special Commentary No. 888*). This also is seen in *Graph OC-2* in comparison with *Graph OC-4* of Manufacturing Activity through September 2017.

General Background to the Freight Index. *[This section largely is repeated from its prior version.]* Beginning with *Commentary No. 782* (further information is available there), ShadowStats published the detail on the Cass Index, a measure of North American freight volume as calculated by, and used with the permission of Cass Information Systems, Inc. Freight activity is a basic, underlying indicator of commercial activity and broad GDP. Of the combined U.S. and Canadian (North American) GDP in 2014, roughly 91% was attributable to the United States. *[Text continues on page 9.]*

***Graph OC-2: CASS Freight Index™ Moving-Average Level (2000 to September 2017)***




***Graph OC-3: Industrial Production - Manufacturing (2000 to September 2017)***
**(Same as Graph 26, page 27 of Commentary No. 917)**

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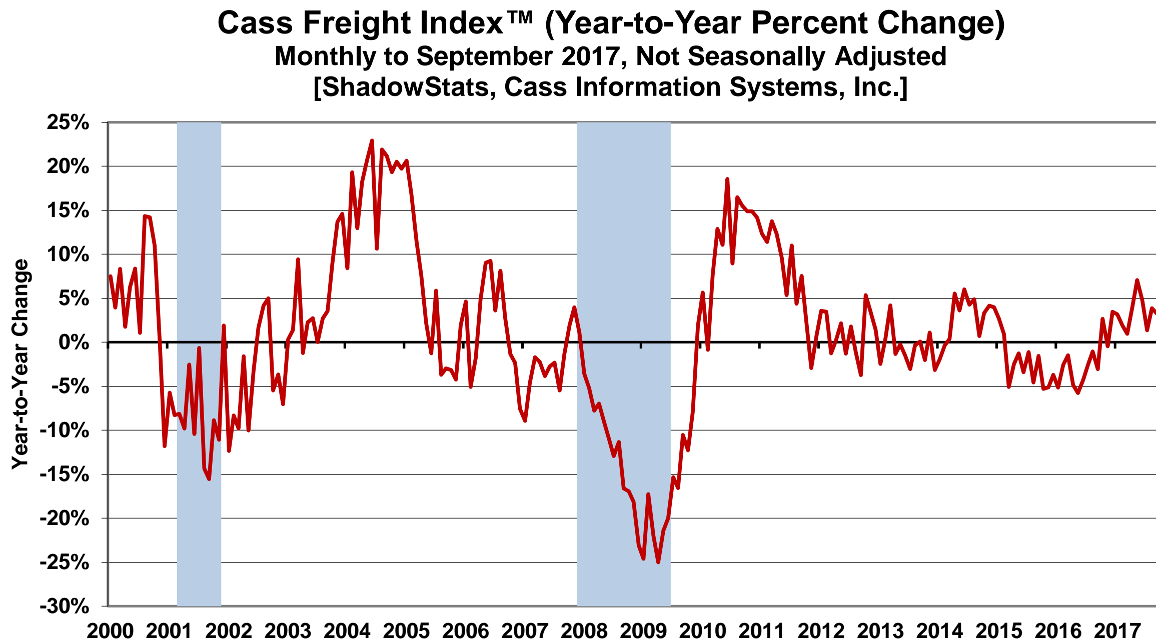
***Graph OC-4: CASS Freight Index, Monthly Year-to-Year Percent Change (2000 to September 2017)***




***Graph OC-5: Industrial Production - Manufacturing, Year-to-Year Percent Change (2000 to August 2017)***

**(Same as Graph 26, page 28 of Commentary No. 917)**

*Graph OC-2* reflects the monthly freight numbers updated through September 2017. While adjusted for factors such as days in a month, the headline monthly detail is not adjusted for broad seasonality patterns, such as retailers stocking for the holiday shopping season. Accordingly, ShadowStats plots the series using a trailing twelve-month average, which tends to neutralize regular seasonal patterns over the period of a year, along with the unadjusted monthly detail in the background. ShadowStats also re-indexed the series to January 2000 = 100, consistent with other graphs used here. The headline Cass index is based on January 1990 = 100. The plot of the trailing twelve-month average of the freight index shows that it hit a near-term peak in February 2015, consistent with the onset of a "new recession" in December 2014, and had been slowing since, through September 2016, then flattening out and turning minimally to the upside (*Graph OC-2*).

Another approach to assessing not-seasonally-adjusted monthly detail is to look at year-to-year change by individual month, as plotted in *Graph OC-4*. The unadjusted monthly detail had been in continual year-to-year decline since March of 2015, down at an intensified annual rate of 3.05% (-3.05%) in September 2016. It rallied to an annual gain of 2.66% in October 2016, but fell back into year-to-year contraction of 0.05% (-0.05%) in November 2016, coming back to the plus-side by 3.46% in December 2016, but easing anew to 3.18% in January 2017, to 1.89% in February 2017 to 0.93% in March 2017, and then turned higher to 3.99% in April 2017 and 7.06% in May 2017, falling back to 4.77% in June 2017, slowing to 1.35% in July 2017, rebounding to 3.86% in August 2017 and falling back to 3.24% in September 2017.

Consider for comparison purposes *Graph OC-5* of the year-to-year change in the dominant Manufacturing sector of Industrial Production. Comparative detail, discussed in *Commentary No. 906*), where New Orders for Durable Goods tends to lead Manufacturing Sector production activity, which is closely tied to and correlated with freight volume. Once again, with the headline, smoothed freight numbers through September 2017 down by 11.1% (-11.1%) versus its December 2007 pre-recession high, that is the growth deficit that has to be overcome before formal economic "Expansion" begins.

In combination, *Graphs OC-2* and *OC-4* remain consistent with a pattern of collapsing economic and business activity into 2009, low-level stagnation thereafter and a renewed downturn effectively coincident with a "new" recession, which, again, likely will be timed from December 2014, whether or not it has bottomed.

**EXECUTIVE SUMMARY: Employment and Unemployment—October 2017—Conflicting Nonsense Headlines Amidst Signals of Looming "New" Recession.** Given the highly unstable October 2017 employment and unemployment detail published this morning (November 3rd) by the Bureau of Labor Statistics (BLS), what follows are summary details and highlights, in advance of a comprehensive review of the data, to be published Monday, November 6th, in *Commentary No. 919-B*, supplemental to this missive. The more-popular graphs usually published with the labor detail also follow but, again, full coverage and repeated graphics will follow in *No. 919-B*. These issues all are on top of the regular distortions to the employment and unemployment series as discussed in (*Special Commentary No. 885*).

On top of the hurricane distortions that heavily warped the headline September 2017 labor detail (see *Commentary No. 915*), the October 2017 headline detail was massively skewed in the unwinding of the prior month's distortions. The unusual, corrective movements in the labor detail likely have at least another month of reverberations. The ultimate, unfolding trend here will not be the happy, booming

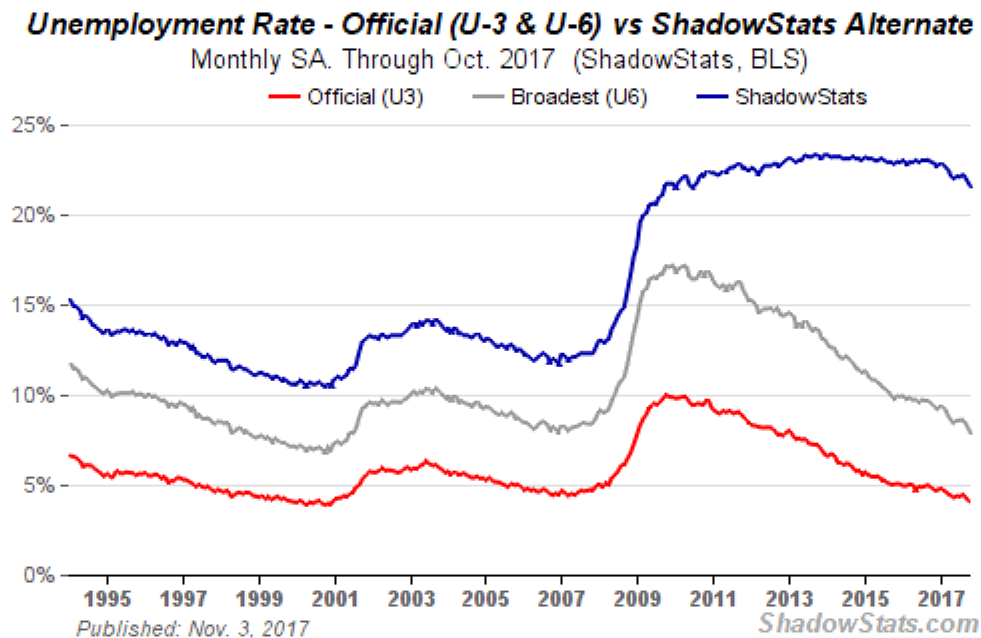
economy, which appears to be expected by the markets and reflected in recent Consumer Confidence and Consumer Sentiment surveying, discussed in the *Consumer Liquidity Watch*.

***Unemployment Rate Plunge Reflected Collapsing Labor Force.*** *Graphs 1* to *4* reflect various aspects of the Household Survey detail, which generates the unemployment rate. What happened in October 2017, was that the labor force, the total of number of people employed and unemployed, which had soared by a hurricane disrupted false gain of 575,000 in September, crashed by 765,000 (-765,000) in October. October employed crashed by 484,000 (-484,000), where the separate payroll-employment survey gain was 261,000 jobs, with the count of unemployed crashing by 281,000 (-281,000).

Along with these numbers, the headline unemployment rate U.3 fell to its lowest level since July 2000, to 4.07% in October 2017, versus 4.22% in September 2017. Accordingly, the broader U.6 fell to 7.91%, versus 8.29%, and the ShadowStats-Alternate measure, built upon U-6, fell to 21.6%, versus 21.9%. Those rates are nonsense, but nonetheless are plotted in *Graph 1*.

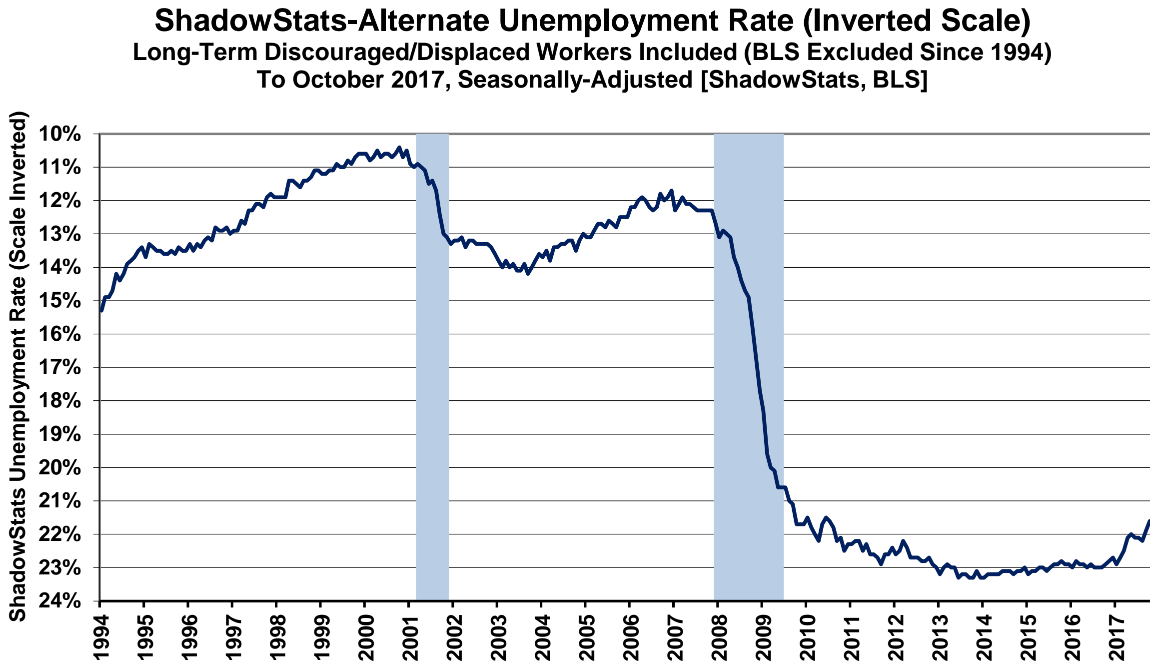
The inverted-scale plot of the ShadowStats Alternate Unemployment Rate measure is shown in *Graph 2*, as usual, for comparison with the plots in *Graphs 3* and *4* of the Civilian Employment-to-Population Ratio and the Labor-Force Participation rate, where both those measures took large hits. The higher those ratios, the healthier are the employment conditions in the economy. Nonetheless, both measures dropped sharply in October, in the context of what should have been very positive news with the headline unemployment rate at a 17-year low. Again, these are nonsense numbers.

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



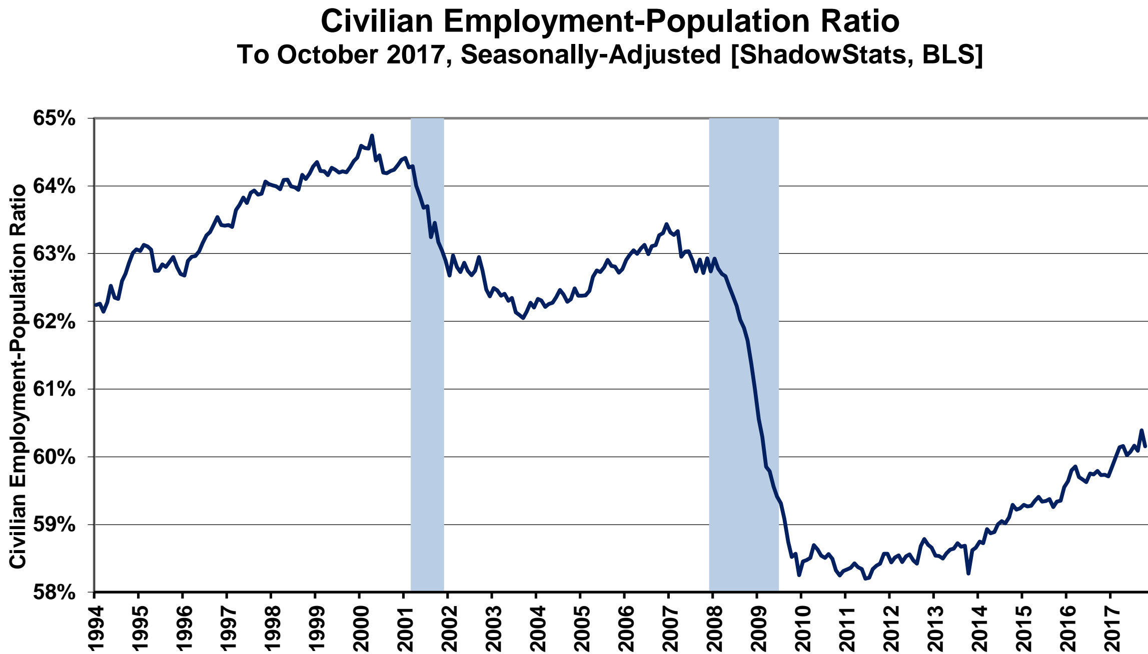

Reflected in *Graph 1*, the headline unemployment rate U.3 fell to 4.07% in October 2017, versus 4.22% in September. U.6 (U.3 plus those employed part-time for economic reasons, and those marginally attached to the labor force, including discouraged workers) fell to 7.91% versus 8.29%, and the ShadowStats-Alternate measure (U.6 plus all estimated long-term discouraged and displaced workers), fell to 21.6% versus 21.9%.

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



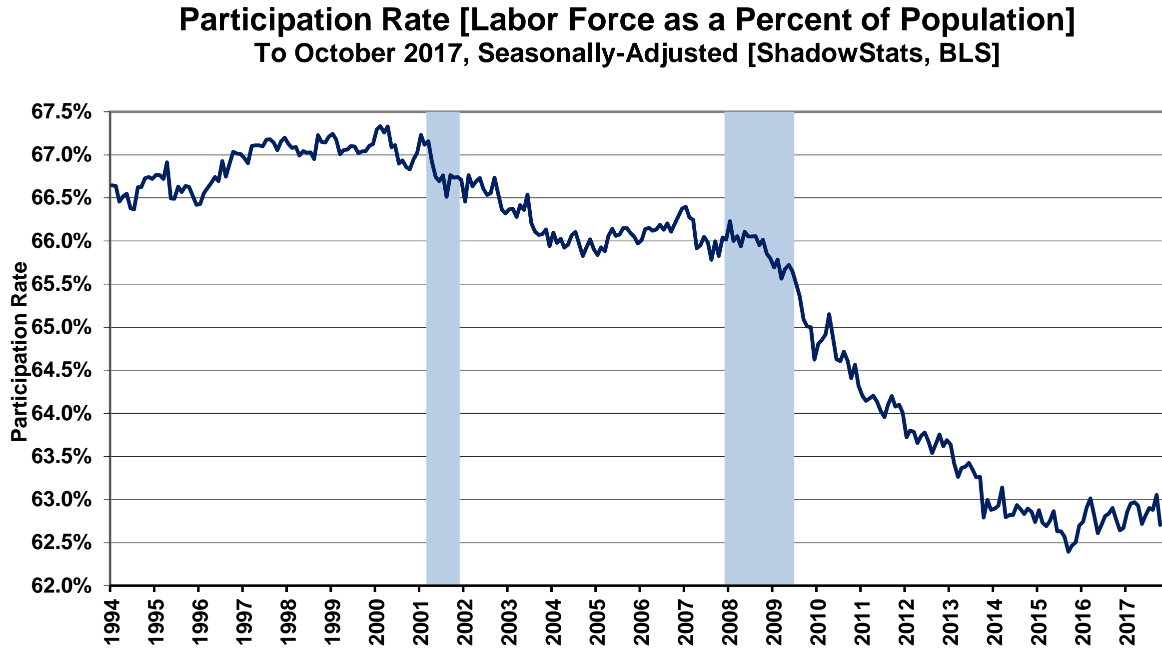

Shown in *Graph 3,* the October 2017 employment-to-population ratio weakened to 60.2% in October 2017, from 60.4% in September.

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

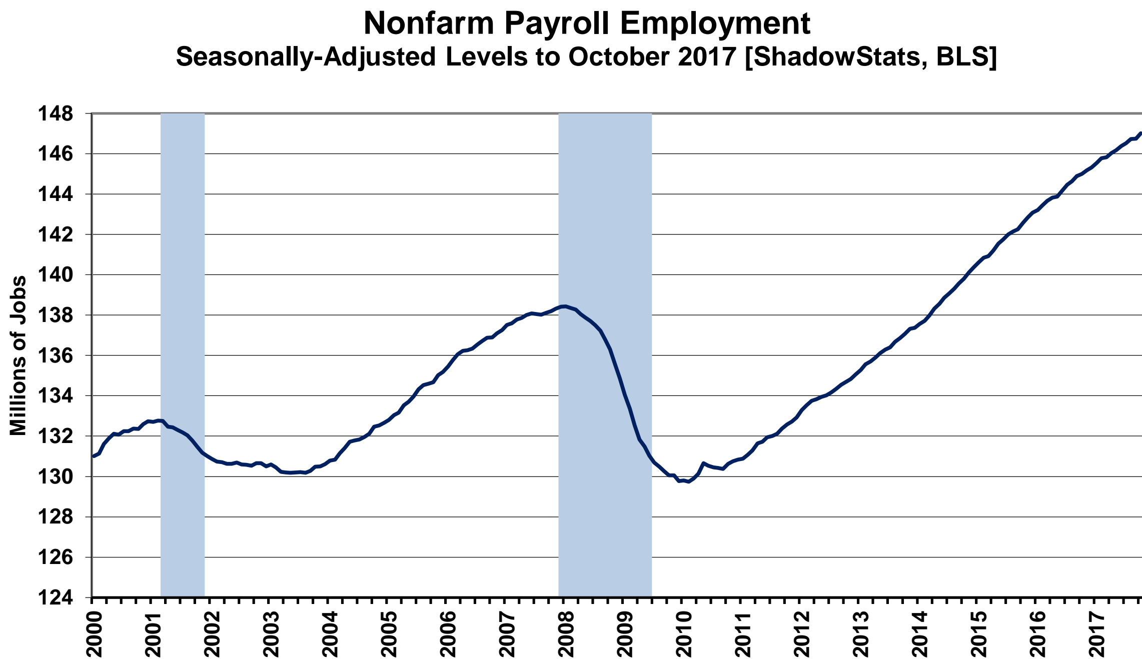


Shown in *Graph 4,* the October 2017 participation rate (the ratio of the headline labor force to the population) declined to 62.7% from 63.1% in September.

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




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

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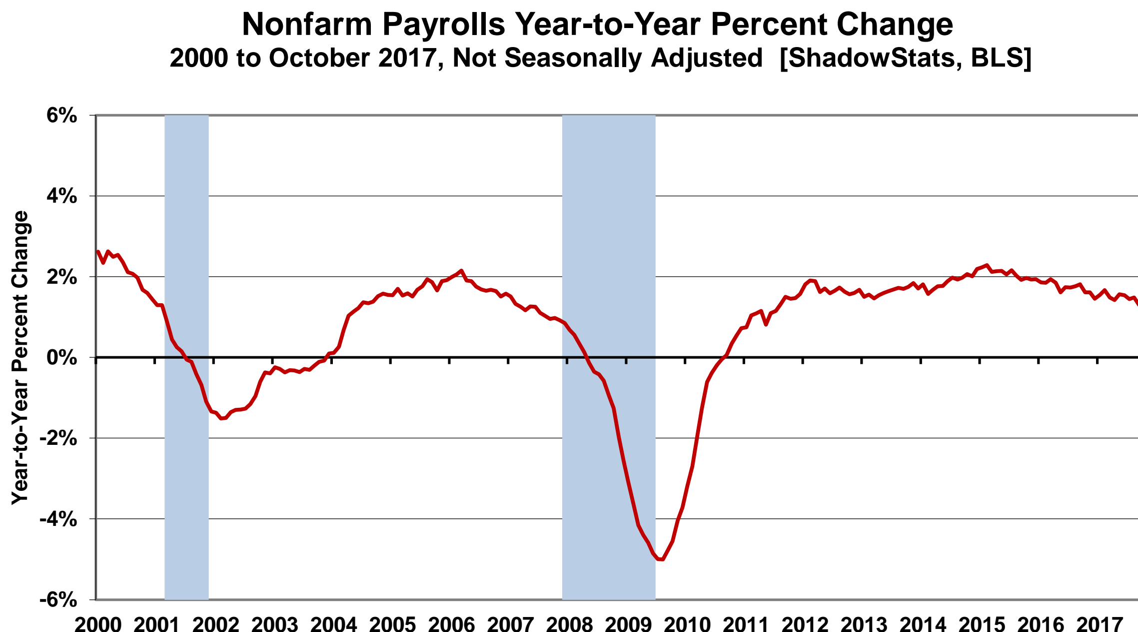
***Payroll Survey Gain Reflected Some Catch-Up, but Annual Growth Slowed Deep into Recession-Signal Territory.*** Reflected in *Graphs 5* and *6*, the payroll employment gain in October 2017 was 261,000 (up by 351,000, net of prior-period revisions), a count the reflects the total number of jobs (including multiple part-time jobs, not the number of people). Yet, as noted earlier the number of people employed per the October household survey, which reflects the number of people who are employed, not the number of jobs, crashed by 484,000 (-484,000).

As reported, headline year-to-year change (*Graph 6*) in the not-seasonally-adjusted October 2017 payrolls was 1.40%, versus a revised 1.30% [previously 1.24%] in September 2017, a revised 1.49%, [previously 1.45%] in August 2017 and an unrevised 1.45% in July 2017. As will be discussed in *No. 919-B*, these are levels of slowing growth commonly seen only at the onset of new recessions.

***Graph 6: Payroll Employment, Year-to-Year Percent Change, 2000 to Date***




**Trade Deficit—September 2017—Trailing Four Quarters of Real Trade Shortfall into Third-Quarter 2017 Was Worst Since 2007.** As shown in *Graph 7*, adjusted for inflation, and as detailed in the *Real September 2017 Merchandise Trade Deficit* section in the *Reporting Detail*, the fourth-quarter 2016 real merchandise trade deficit was the worst showing in ten years, with the subsequent first-, second- and third-quarter 2017 shortfalls only minimally narrowed. As a result, the four-quarter moving average of the annual real merchandise trade deficit, through third-quarter 2017, remained the worst trade shortfall since 2007, still a broadly-negative contributor to headline real GDP growth.

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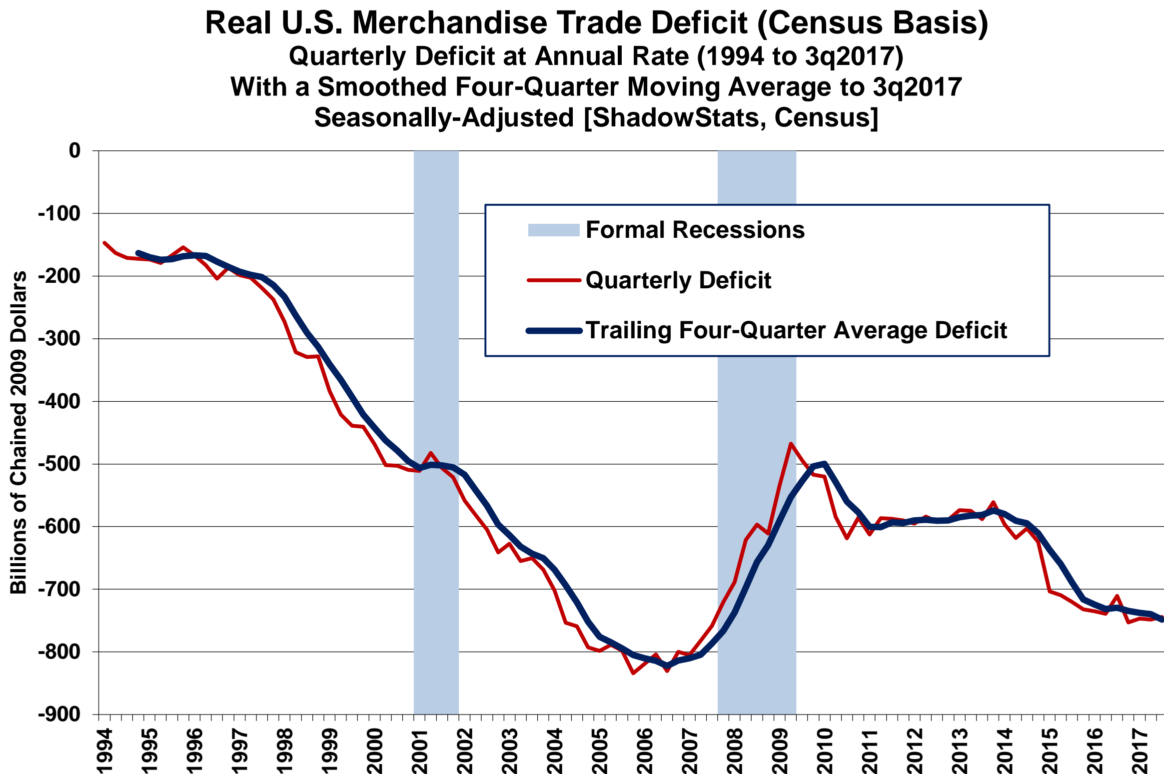
***Graph 7: Real Quarterly Merchandise Trade Deficit (1994-2017)***




***Nominal September 2017 Trade Deficit.*** The nominal (not adjusted for inflation), seasonally-adjusted monthly trade deficit in goods and services for September 2017 widened on a balance-of-payments basis by $0.730 billion to $43.495 billion, versus a revised deficit of $42.765 billion in August. The widening in the monthly deficit reflected an increase of $2.071 billion in monthly exports, more than offset by an increase of $2.802 billion in imports. The headline September 2017 deficit widened by $5.029 billion, versus the year-ago $38.466 billion trade shortfall for September 2016. Extended coverage follows in the *Reporting Detail.*

**Construction Spending—September 2017—Intensifying Annual and Quarterly Downturns Continue Patterns of Decline Last Seen in the Housing Collapse of 2006/2007.** In the context of September 2017 real Construction Spending still holding shy of recovering its pre-recession peak by 23.2% (-23.2%), annual growth remained in a pattern of deepening year-to-year contraction, last seen during the housing collapse of 2006, leading into the formal 2007 economic recession, as reflected in *Graph 8*.

In terms of the aggregate real series, annualized quarterly change slowed into first-quarter 2017, turned negative in second-quarter 2017, with intensifying quarterly and annual contractions in third-quarter 2017, again this all is in a manner consistent with the onset of a new recession.

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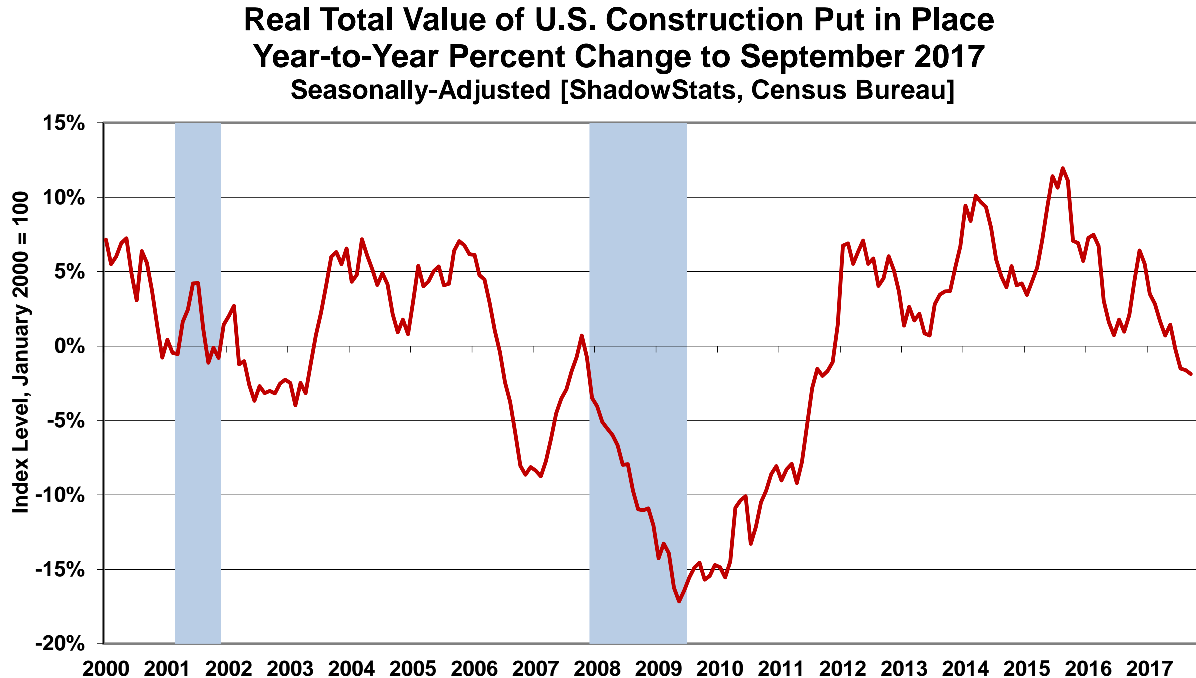
***Graph 8: Total Real Construction Spending, Year-to-Year Percent Change***
**(Same as Graph 13 in the Reporting Detail section)**



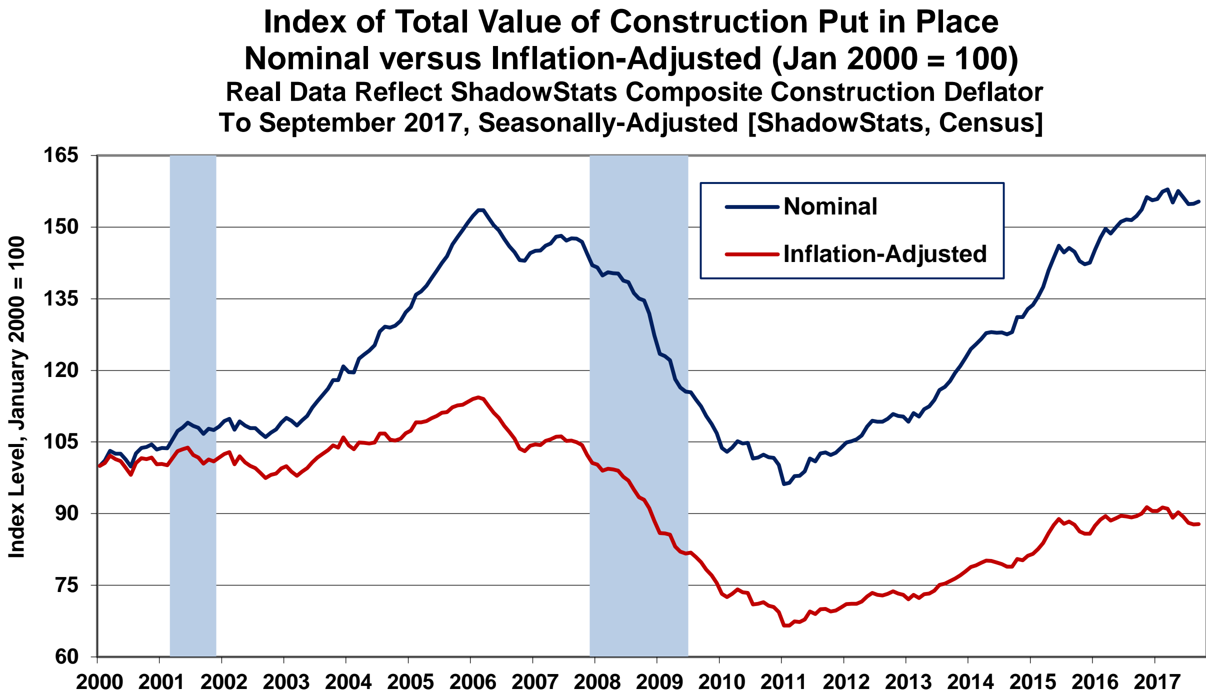

***Despite a Minimal September Nominal Monthly Gain and Mixed August and July Revisions, Real Construction Spending and Components Continued in a Non-Recovering, Non-Expanding Renewed Downturn.*** Where impact on aggregate U.S. Construction Spending from hurricane activity likely continued to be negligible in September, that could change somewhat in the months ahead, as discussed in the *Reporting Detail*, where new construction to replace destroyed infrastructure and facilities should provide at least a minimal boost to construction spending.

Nonetheless, as reflected in accompanying *Graphs 9* to *12*, neither the aggregate inflation-adjusted real series (the red line in each graph), nor any of its major-subsidiary 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-intensifying downturn. This pattern is an element common to nearly all home-sales and housing-construction series (see [Commentary No. 917](#)).

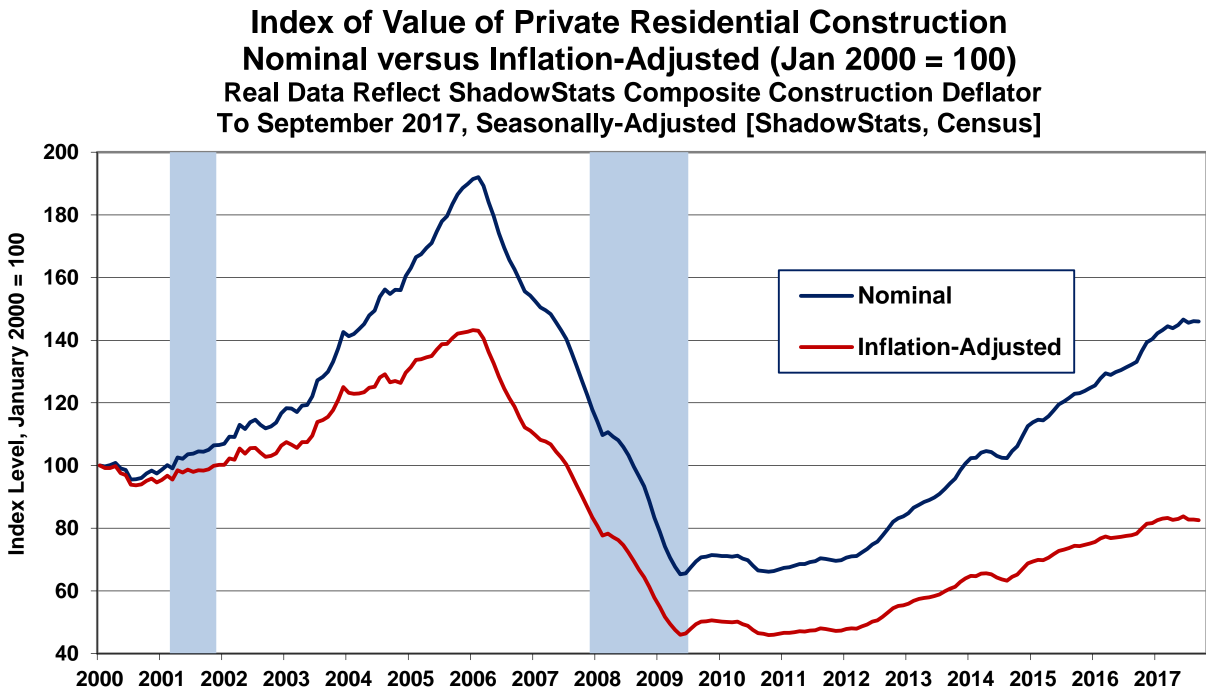
Extended coverage on Construction Spending follows in the *Reporting Detail.*

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

***Graph 9: Index, Nominal versus Real Value of Total Construction***




***Graph 10: Index, Nominal versus Real Value of Private Residential Construction***

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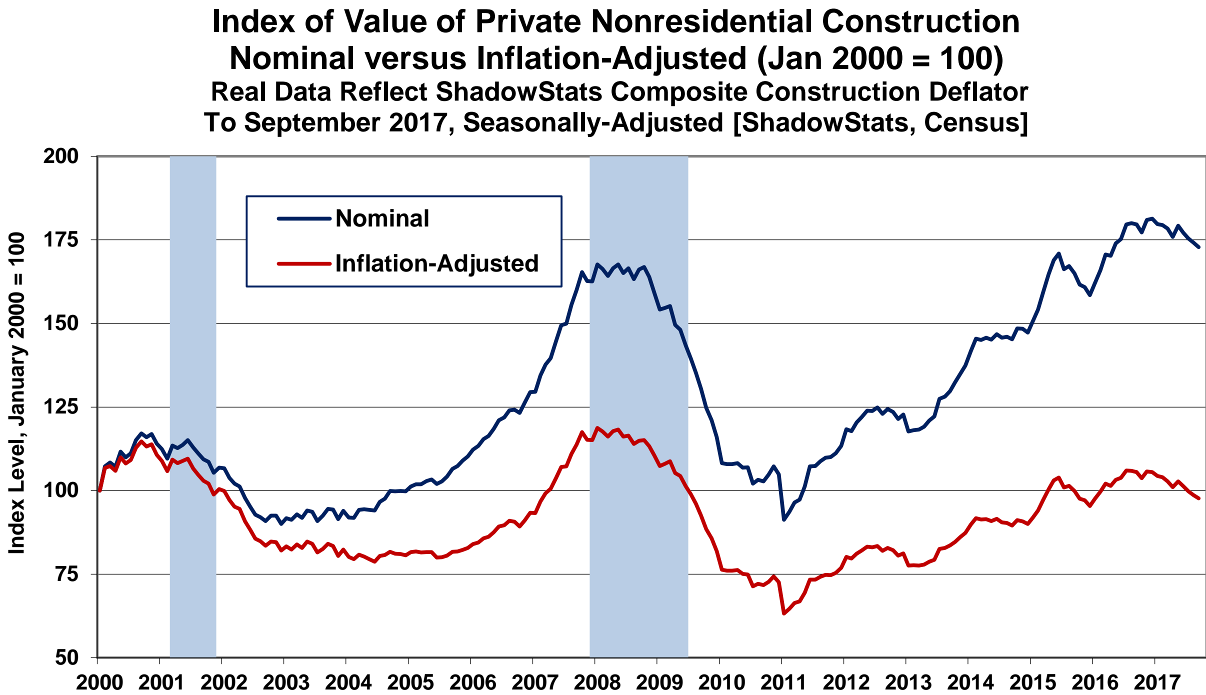
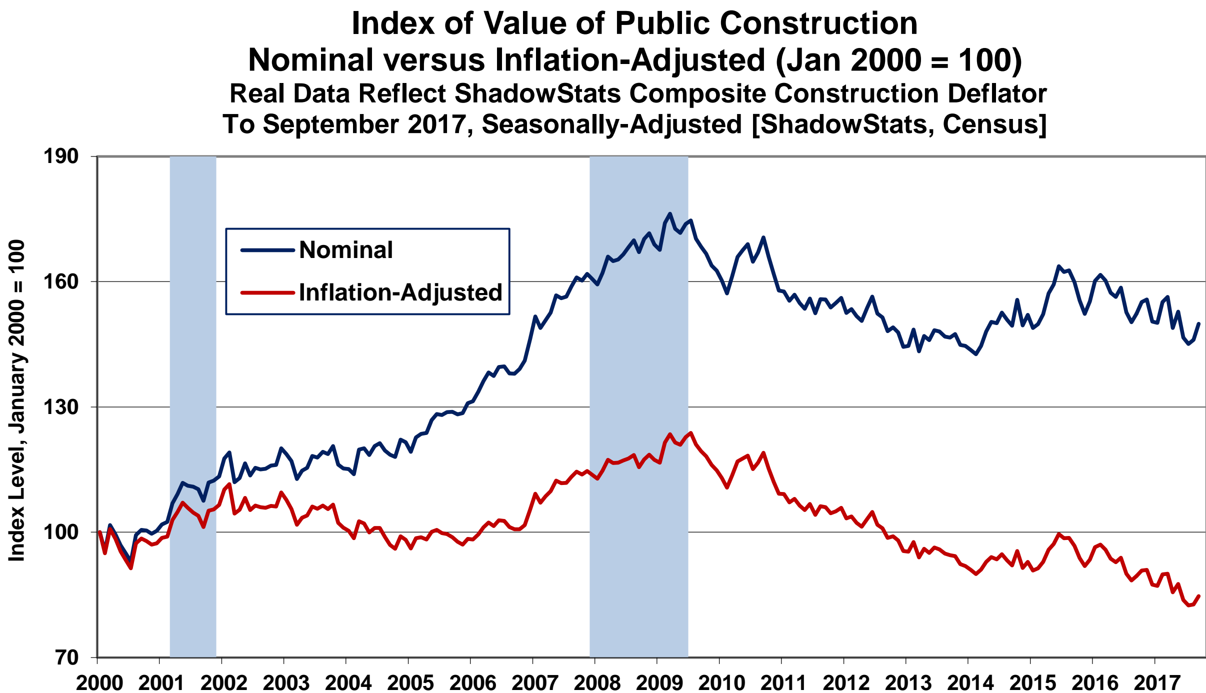
***Graph 11: Index, Nominal versus Real Value of Private Nonresidential Construction***




***Graph 12: Index, Nominal versus Real Value of Public Construction***




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

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## REPORTING DETAIL

### TRADE DEFICIT (September 2017)

**Latest Trailing Four Quarters of Real Deficit Deepened in Third-Quarter 2017—Remained Worst Since 2007.** Despite a small narrowing of both the nominal and the inflation-adjusted or real third-quarter balance of payments or merchandise trade balances, versus second-quarter 2017, the trailing four quarters of the annual, real merchandise trade deficit remained the worst reading seen in a decade, since the onset of the 2007 recession.

Adjusted for inflation, as shown in *Graph 7* in the *Executive Summary*, and as detailed in the *Real September 2017 Merchandise Trade Deficit* section, the fourth-quarter 2016 real merchandise trade deficit was the worst showing in ten years, with the subsequent first-, second- and third-quarter 2017 shortfalls only minimally narrowed. Also seen in *Graph 7*, again, the four-quarter moving average of the annual real merchandise trade deficit, through third-quarter 2017, remained the worst trade shortfall since 2007, still a broadly-negative contributor to headline real GDP growth.

***Nominal September 2017 Trade Deficit.*** The Bureau of Economic Analysis (BEA) and the Census Bureau reported this morning, November 3rd, that the nominal (not adjusted for inflation), seasonally-adjusted monthly trade deficit in goods and services for September 2017 widened on a balance-of-payments basis by $0.730 billion to $43.495 billion, versus a revised deficit of $42.765 [previously $42.395] billion in August. The widening in the monthly deficit reflected an increase of $2.071 billion in monthly exports, more than offset by an increase of $2.802 billion in imports. The headline September 2017 deficit widened by $5.029 billion, versus the year-ago $38.466 billion trade shortfall for September 2016.

Factors affecting the changes to the September balance were widespread, encompassing a variety of fields of export and import. Oil exports rose, which might have reflected some hurricane-delayed shipments from August that were pushed into September. Otherwise, changes in energy-sector activity were negligible.

***Energy-Related Petroleum Products.*** September 2017 imported oil prices rose by 2.4% to $45.16 per barrel, versus $44.11 in August 2017, and rose by 15.8% versus $39.01 per barrel in September 2016. Separately, not-seasonally-adjusted physical oil-import volume in September 2017 averaged 7.017 million barrels per day, down from 8.118 million in August 2017, and down from 7.950 million in September 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 in much that would affect the aggregate trade balance, and little in the way of obvious impact was seen in the September detail, either. 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 September 2017 Merchandise Trade Deficit.*** Discussed here and reflected in *Graph 7* 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 September 2017 merchandise trade deficit (no services) widened to $62.205 billion, versus a revised August deficit of $62.166 [previously $61.761] billion and a revised deficit of $61.753 [previously $61.804, initially $61.600] billion in July. Minor revisions to the months in second-quarter 2017 narrowed the quarterly deficit minimally. The September 2017 real shortfall of $62.205 billion widened versus the deficit of $57.334 billion in September 2016.

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 now to a revised $748.3 [previously $749.2] billion, while the initial headline detail for the third-quarter 2017 deficit was $744.5 billion.

Where the fourth-quarter 2016 deficit remained the worst quarterly showing since 2007, as indicated in *Graph 7*, the four-quarter moving annual average deficit through third-quarter 2017 was 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 (September 2017)

**Amidst Respective Downside and Upside Revisions to Private and Public Spending, Aggregate Real Construction Activity Turned Increasingly Negative Year-to-Year and Quarter-to-Quarter.** With negligible impact apparent from the hurricanes, so far, inflation-adjusted U.S. construction spending turned increasingly negative in September, with deepening annual and quarterly contractions. That pattern was seen last during the housing collapse of 2006, leading into the formal 2007 recession. The signals here are for an intensifying downturn.

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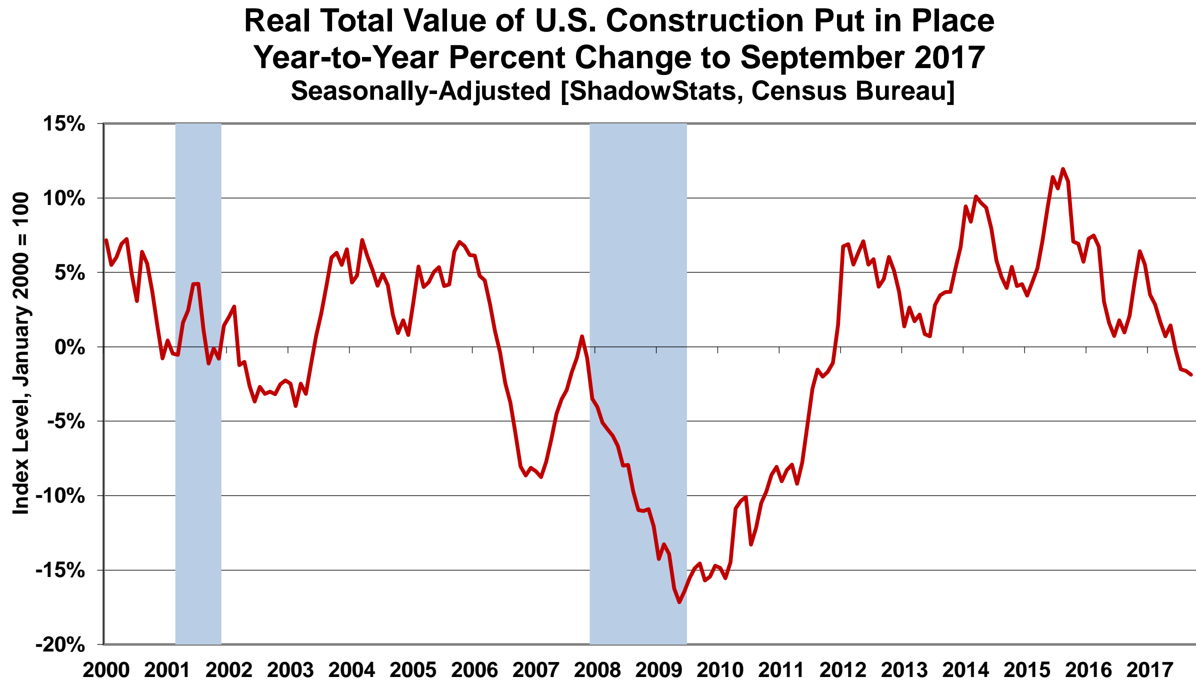
That said, as discussed in *Commentary No. 912*, construction spending should see boosts to activity in the next several months from rebuilding and reconstruction engendered by the massive destruction wrought by both Hurricanes Harvey and Irma. The Census Bureau previously had offered some background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

***Graph 13: Total Real Construction Spending, Year-to-Year Percent Change***
**(Same as Graph 8 in the Executive Summary)**




In normal times, the Construction Spending series remains highly volatile, subject to unstable and extraordinarily-large monthly revisions. While aggregate revisions were unusually tame with the headline September 2017 detail, activity revised variously in the major subcategories. Previously-estimated August 2017 and July 2017 reporting for private construction spending revised lower, primarily in residential construction. At the same time, previously-estimated August and July private construction spending revised higher.

Again, the intensifying 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 13*, and *Graph 8* in the *Executive Summary*). Both real second-quarter and third-quarter 2017 activity showed steepening annualized contractions respectively of 5.8% (-5.8%) and 7.4% (-7.4%), while the headline real September 2017 monthly reading stood at 23.2% (-23.2%) 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*.

***September 2017 Construction Spending.*** In the context of September's monthly gain in nominal aggregate construction spending, on top of a downwardly revised August reading, which effectively was flat against a small upside revision to July, and with each of the June to September nominal readings holding at levels below the unrevised May 2017 activity, the underlying revisions reversed pattern from

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recent months. Again, private construction spending revised lower, against upside revisions to public construction spending.

With total nominal annual growth in construction slowing to 2.0%, down by 1.9% (-1.9%) in real terms, net of construction inflation in September 2017, the current pattern of deepening downturn in real annual growth, again last was seen going into the housing collapse in 2006 and the 2007 recession.

The headline, seasonally-adjusted nominal September 2017 Value of Construction Put in Place in the United States rose to $1,219.5 billion, from a downwardly-revised $1,216.0 [previously $1,218.3] billion in August 2017, an upwardly revised $1,215.4 [previously $1,212.3, initially $1,211.5] billion in July 2017 and against an unrevised $1,226.4 billion in June 2017.

In the context of the upside revision to July and downside revision to August activity, nominal construction spending rose month-to-month in September 2017 by a statistically insignificant 0.3% +/- 1.8% (all confidence intervals are at the 95% level), versus a revised gain of 0.1% in [previously a gain of 0.5%] in August, down by 0.9% (-0.9%) [previously down by 1.2% (-1.2%), initially 0.6% (-0.6%)] in July, and an revised decline of 0.8% (-0.8%) in June. Net of the Composite Construction Deflator inflation (see the next section), those were real changes of a 0.1% gain in September, versus declines of 0.4% (-0.4%) in August 2017, 1.4% (-1.4%) in July and 1.1% (-1.1%) in June.

Headline annual nominal growth rose by a statistically-insignificant 2.0% +/- 2.1% in September 2017, versus revised annual gains of 2.3% [previously 2.5%] in August 2017, 2.1% [previously 1.9%, initially 1.8%] for July 2017 and an unrevised 3.4% for June 2017. Net of inflation, September 2017 was down year-to-year by 1.9% (-1.9%), with August 2017 down by 1.6% (-1.6%), July 2017 down 1.5% (-1.5%) and June 2017 down 0.2% (-0.2%). The preceding headline details are reflected in *Graphs 14* to *17* and in *Graph 9* in the *Executive Summary.*

The statistically-insignificant, nominal monthly gain of 0.3% in aggregate September 2017 spending, versus the revised monthly gain of 0.1% in aggregate August 2017 spending, included a headline monthly gain of 2.6% in September 2017 public spending, which followed a monthly gain of 0.7% in August 2017. Private construction spending declined by 0.4% (-0.4%) in September 2017, having declined in August 2017 by 0.1% (-0.1%). Within total private construction spending, the residential-construction sector activity was unchanged at 0.0% in September 2017, having gained by 0.3% in August 2017, while the nonresidential sector declined by 0.8% (-0.8%) in September 2017, having declined by 0.7% (-0.7%) in August 2017.

The preceding headline details are reflected in *Graphs 16* and *17* and in *Graphs 9* to *12* in the *Executive Summary*, including 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 3.94% for September 2017, 3.93% for August 2017, versus 3.72% for July 2017. Month-to-month inflation was 0.20% for September 2017, 0.45% for August 2017 and 0.49%

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for July. The near-term inflation numbers revised somewhat higher, reflecting higher inflation estimations in the construction deflators used in the recent GDP reporting.

***Second-Quarter and Third-Quarter 2017 Real U.S. Construction Spending Contracted Sharply Quarter-to-Quarter.*** In the context of mixed July and August 2017 revisions and the initial September 2017 reporting, net of inflation, second-quarter 2017 growth contracted at an annualized revised real pace of 5.8% (-5.8%) [previously 5.6% (-5.6%)], versus first-quarter 2017, where growth had slowed to 1.4%, and against a 5.4% gain in fourth-quarter 2016.

Based on initial full reporting for the quarter, third-quarter 2017 real growth contracted at an annualized quarterly pace of 7.4% (-7.4%). Previously, based solely on headline July and August 2017 detail, third-quarter 2017 had been 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 0.6% in second-quarter 2017 and turned negative, down year-to-year by 1.7% (-1.7%), in third-quarter 2017.

[Graphs 14 to 17 begin on the next page.]

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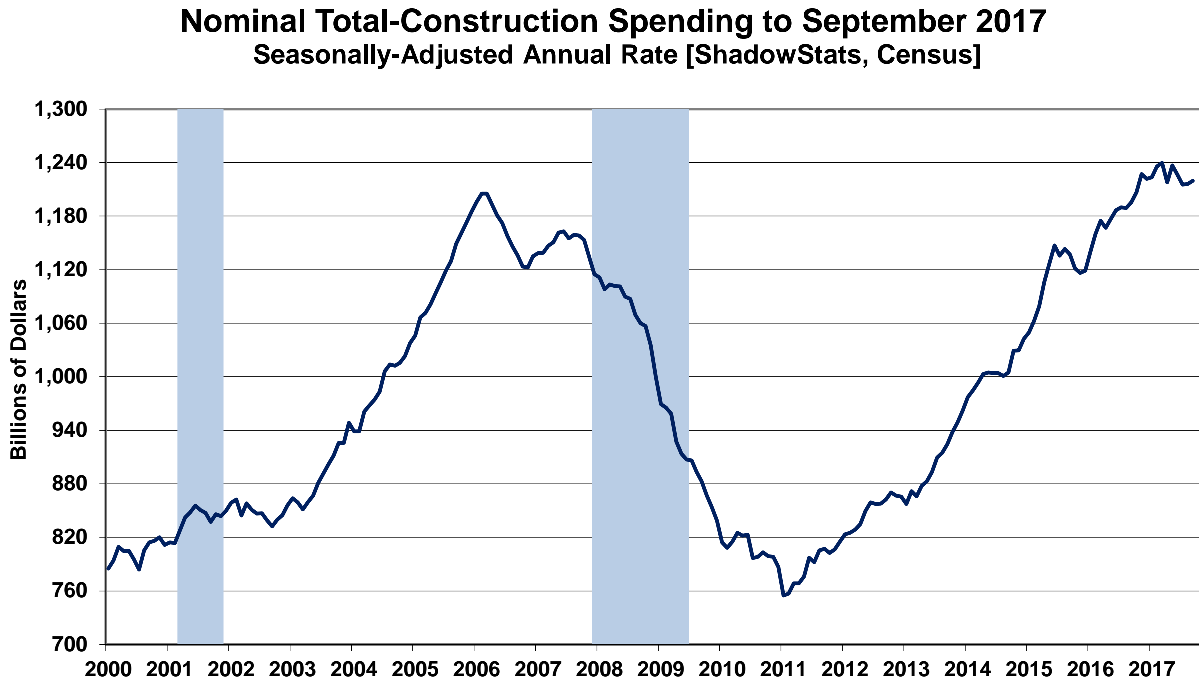
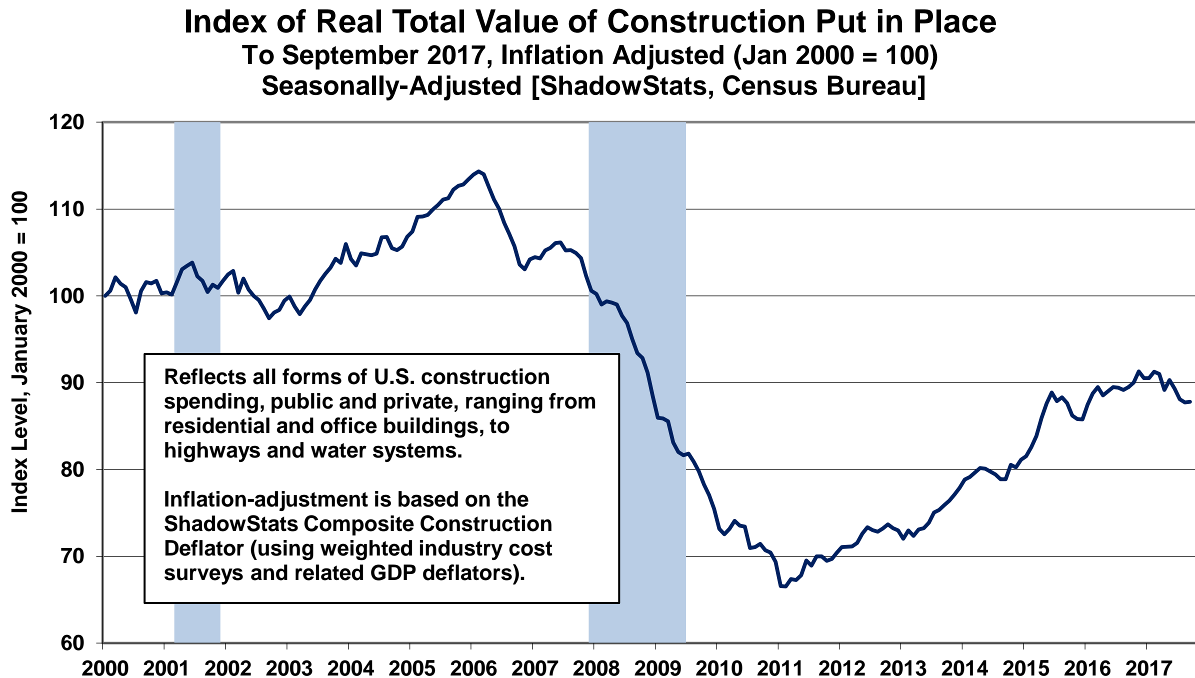
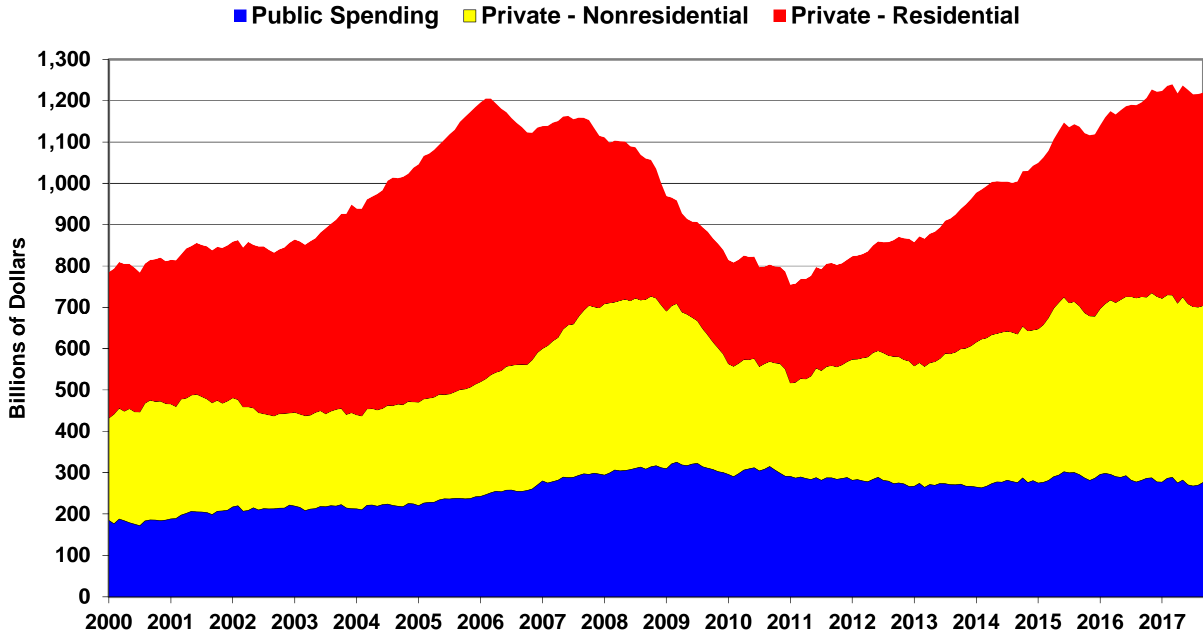
***Graph 14: Total Nominal Construction Spending***



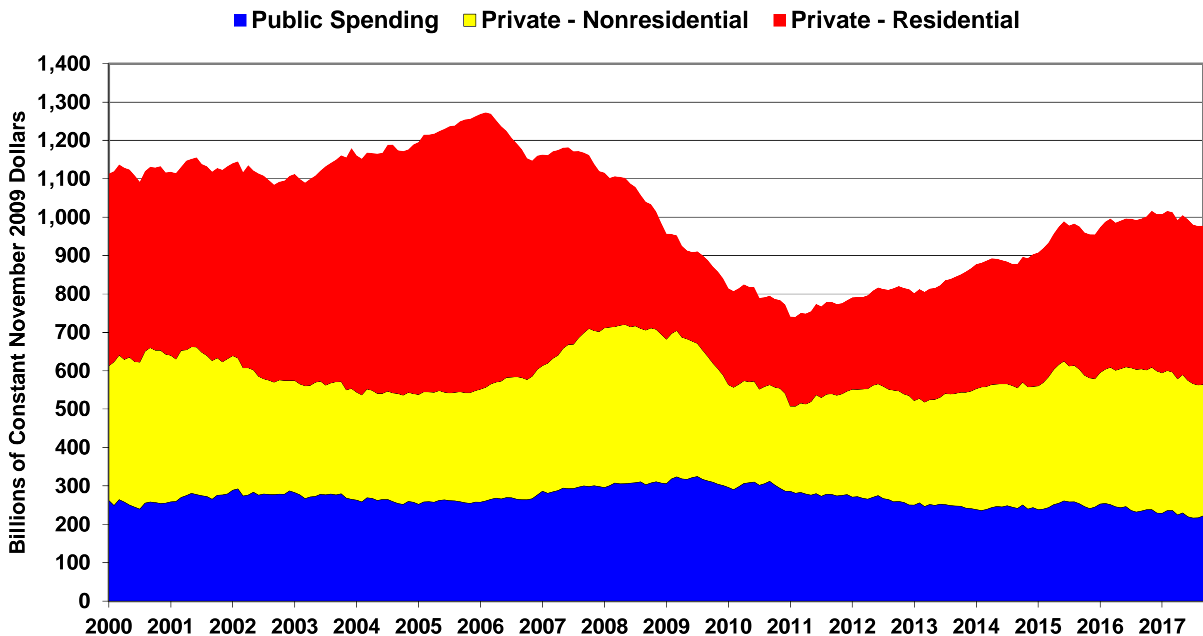

***Graph 15: Index of Total Real Construction Spending***



***Graph 16: Aggregate Nominal Construction Spending by Major Category to Date***




***Graph 17: Aggregate Real Construction Spending by Major Category (Billions of November 2009 Dollars)***

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***Construction Payrolls Rose Monthly by 0.16% in Both September and October 2017, Still Down 9.1% (-9.1%) from Pre-Recession Peak. [Details Follow in November 6th* Commentary No. 919-B.*]***

***Construction Spending and Related Graphs.*** *Graphs 9* to *12* 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 14* of this *Reporting Detail*, with the real, inflation-adjusted activity plotted in *Graph 15*, while *Graphs 16* and *17* show the relative patterns of nominal and real activity aggregated by sector.

***Construction and Related Graphs.*** Again, *Graphs 14* and *15*, and *Graphs 16* and *17* reflect total construction spending through September 2017, both in the headline nominal dollar terms, and in real terms, after inflation adjustment. *Graph 15* is on an index basis, with January 2000 = 100.0, where *Graph 13* 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 13*. 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 *Special Commentary No. 918-B*).

***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 18* and *19.*

*Graphs 18* and *19* cover private residential construction spending, along with housing starts (combined single- and multiple-unit starts) for September 2017 (see *Commentary No. 917*). 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 10* in the *Executive Summary* section and *Graph 15* here.

The final two graphs (*Graphs 20* and *21*) 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

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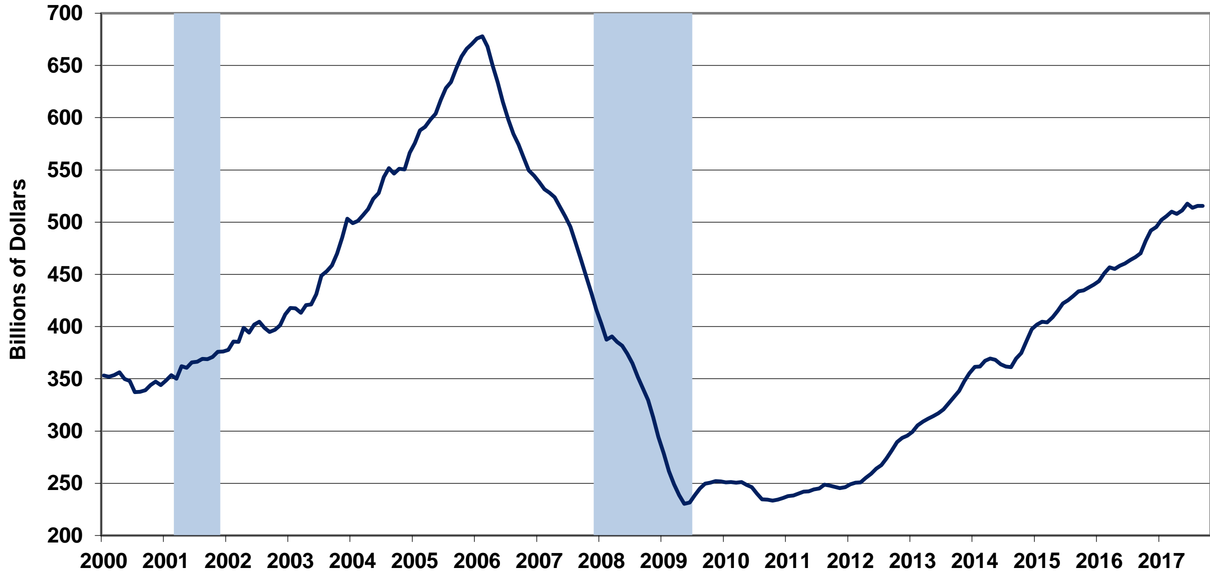
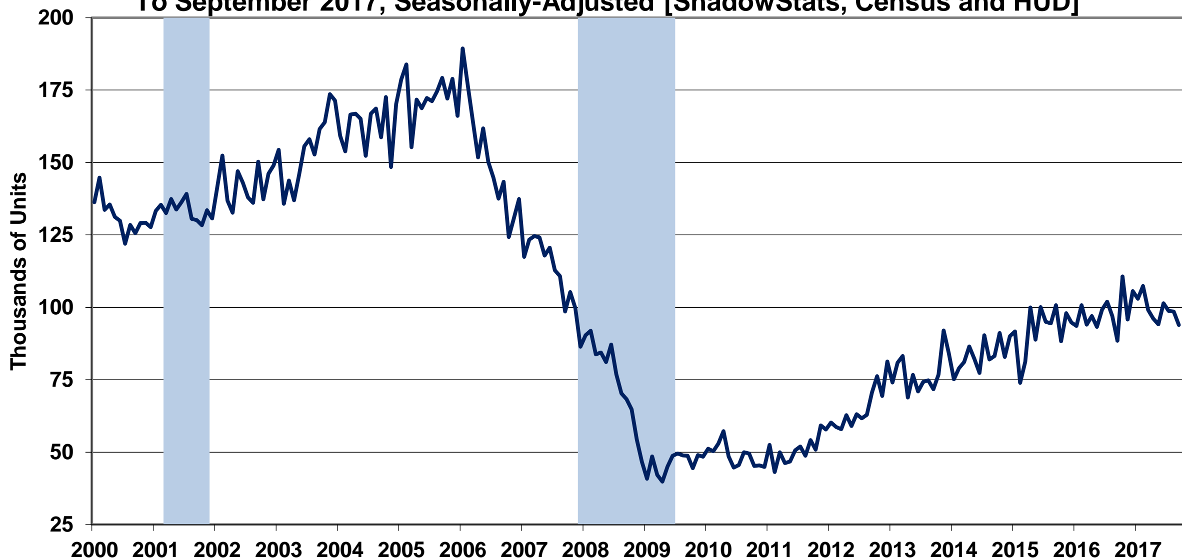
fluttered into and out of a low-level top, now generally moving lower, increasingly shy of its pre-recession peak. Viewed net of inflation, in *Graphs 11* and *12* in the *Executive Summary* and in accompanying *Graph 16,* both series still appear stalled shy of their pre-recession peaks.

***Graph 18: Nominal Private Residential Construction Spending to Date***




***Graph 19: Combined Single- and Multiple-Unit Housing Starts to Date***

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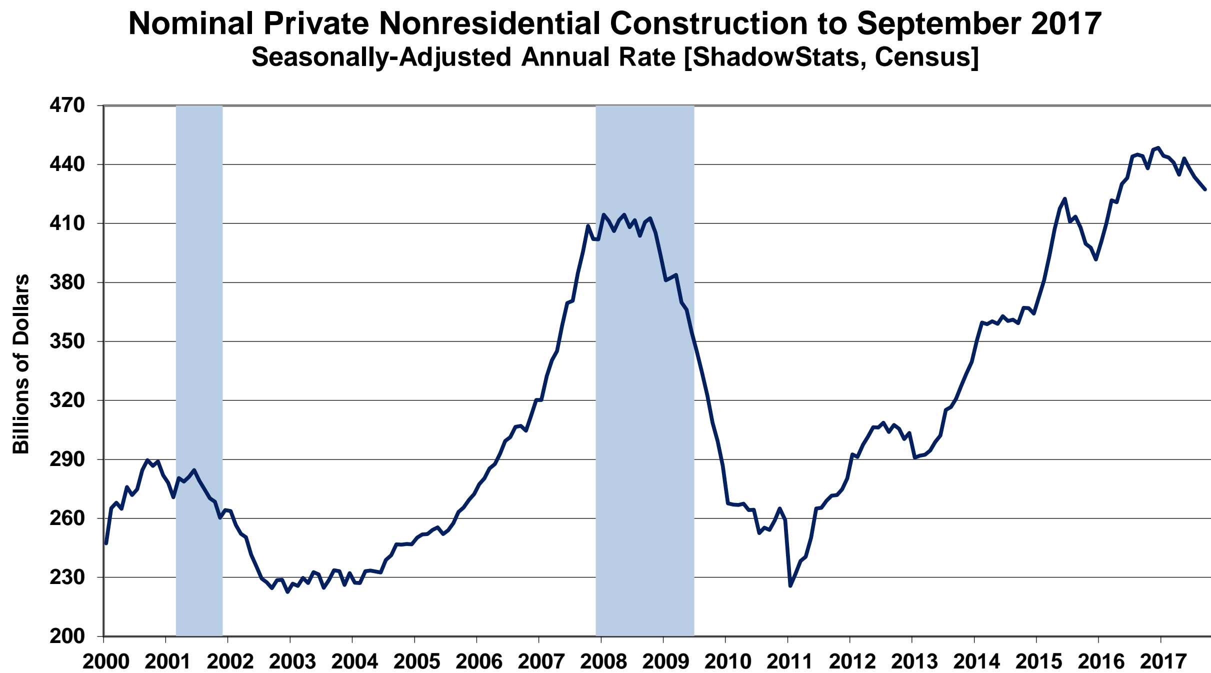
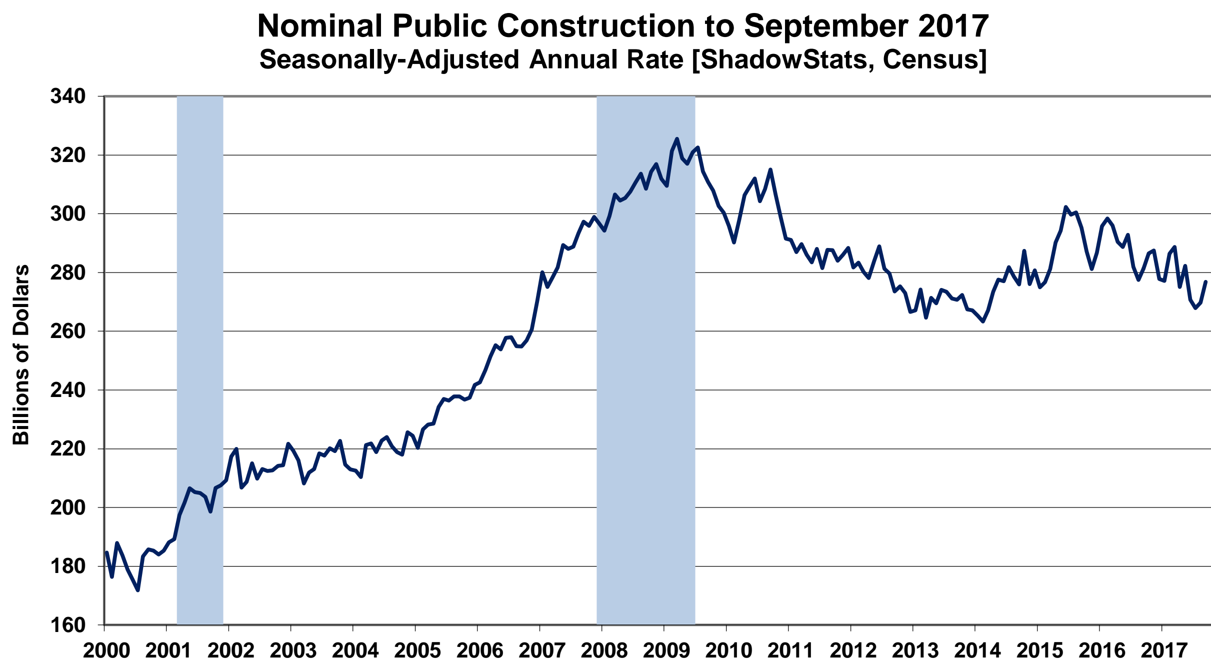
***Graph 20: Nominal Private Nonresidential Construction Spending to Date***




***Graph 21: Nominal Public Construction Spending to Date***




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

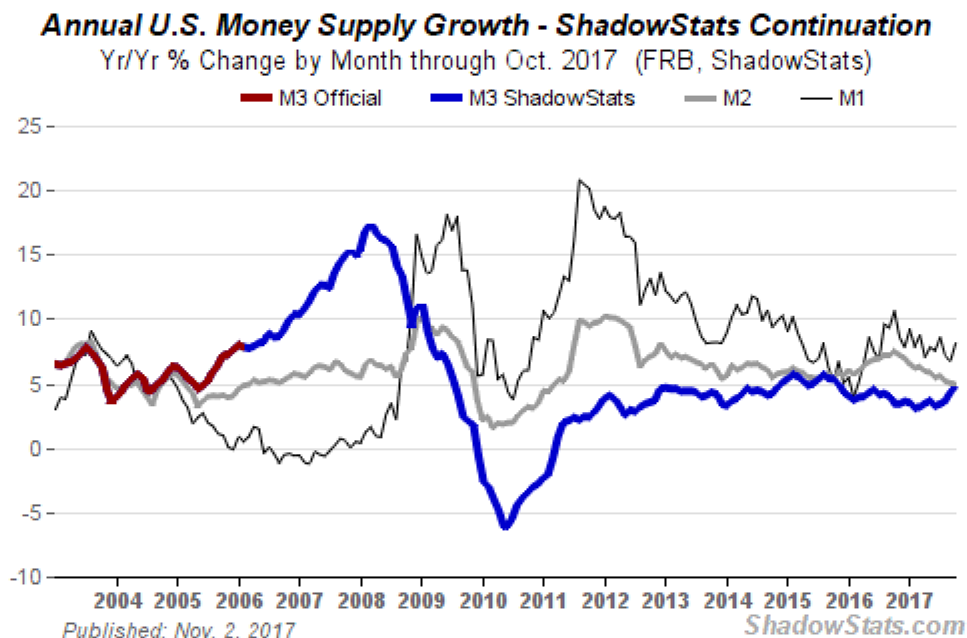
## HYPERINFLATION WATCH

### MONETARY CONDITIONS

**Change in Federal Reserve Chairmanship Does Not Appear Likely to Alter Near-Term Federal Reserve Policy.** Yesterday, November 2nd, President Trump nominated Jerome Powell to become Federal Reserve Chairman upon the expiration of the current term of Fed Chair Janet Yellen on February 3, 2018. Mr. Powell has served on the Board of Governors of the Federal Reserve System under both former Fed Chairman Ben Bernanke and Ms. Yellen. As the circumstance commonly is being touted, no major near-term shifts in Fed policy are expected. Although such expectations can change rapidly, the ShadowStats outlook on financial-market conditions and likely Federal Open Market Committee (FOMC) response to renewed and intensified, broad economic weakness, has not been altered (see the *Hyperinflation Watch* of *Special Commentary No. 918-B*). We wish Mr. Powell success in his new position.

With the primary concern for U.S. central bank of maintaining solvency and liquidity in a still-troubled banking system, intensifying economic difficulties remain likely to cause the FOMC to back off its formal, current tightening position and to revert back towards expanded quantitative easing, as openly allowed for in current policy. Circumstances here will be watched closely.

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

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**Annual Growth in October Money Supply M3 and Jumped to 4.8% from 4.3% in September, the Monetary Base Continued to Soar in Tandem.** Based on three-plus weeks of reporting, and in the context of continued softening growth in the narrower M2 measure, the estimate of nominal annual growth for the ShadowStats Ongoing M3 Money Supply in October 2017 rose to 4.8%, the highest level of year-to-year monthly growth seen since November 2015. That was against annual gains of 4.3% in September 2017, 3.6% in August 2017 and continual further notching of annual growth lower back in time, until 3.1% in February 2017, which then had been the weakest year-to-year change since July 2012.

Separately, nominal year-to-year growth for M2 eased to 5.0% in October 2017, from 5.1% in September 2017, 5.3% in August 2017, 5.6% in July 2017, 5.6% in June 2017 and 5.9% in May 2017, with annual nominal growth in October 2017 M1 jumping to 8.2%, having eased to 6.8% in September 2017, versus 7.2% in August 2017, 8.7% in July 2017, 7.6% in June 2017 and 7.9% in May 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 recently, 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. The relative gains in October 2017 M3 growth has reflected a returning flow of cash from M1 and M2 back into M3 accounts, again, such as large-time deposits and institutional money funds, still, most of the October 2017 M3 came from an increase in M2.

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.

Separately, an aside, third-quarter 2017 velocity of money, nominal GDP versus M1, M2 and M3, was published in prior *Special Commentary No. 918-B*.

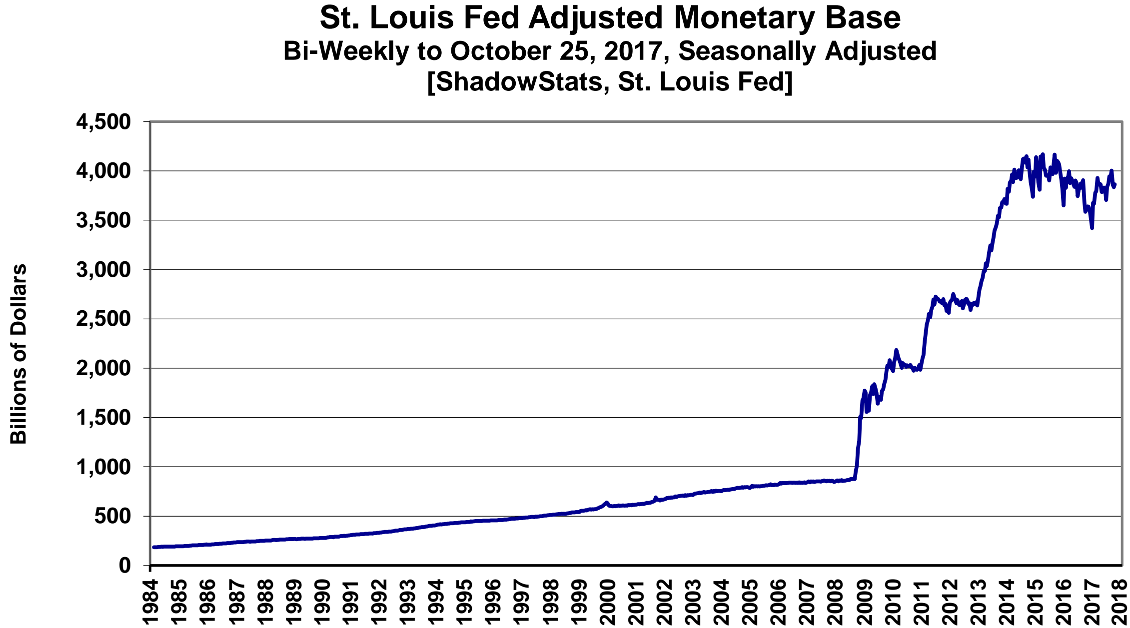
***As M3 Jumped, So Too Has the Monetary Base.*** In the wake of near-term volatility surrounding recent rate hikes by the FOMC, and the related market efforts by New York Fed to establish or maintain stable trading-range activity for the targeted federal funds rate, the level of the monetary base had been reasonably stable, with annual percentage change fluctuating around zero. Yet, recently the pace of annual growth has turned higher, rapidly moving higher to consecutive, multi-year highs. 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, annual growth in the Monetary Base stood at its highest level since January 2015, for the two weeks ended October 25, 2017, with annual change up by 7.4%, although the Monetary Base itself had backed off its near-term high level of September 13th. Accompanying *Graphs HW-2* and *HW-3*, reflect that detail.

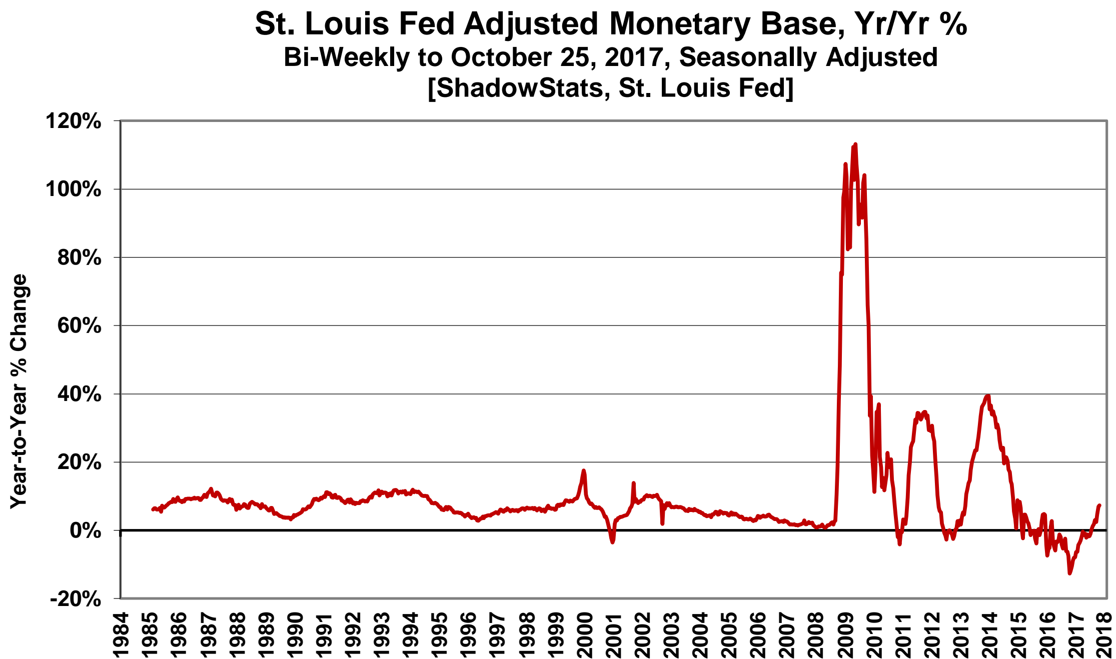
The level of the Monetary Base remains well within the bounds of activity seen in the last several years. That said, prior to the Quantitative Easing, changing the level of the Monetary Base had been the primary

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) may surface.

***Graph HW-2: Saint Louis Fed Monetary Base, Billions of Dollars (1984-October 25, 2017)***




***Graph HW-2: Year-to-Year Percent Change, Saint Louis Fed Monetary Base (1985-October 25, 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.

*[October Consumer Confidence has been updated.]*

**Liquidity Stresses Continue to Mount, Amidst Rising Optimism, Aggravated Temporarily by Natural Disasters.** The U.S. consumer faces continuing financial stress, increasingly reflected in renewed softening of fundamental headline economic activity, including Payroll-Employment, Real Retail Sales of recent months (the headline September sales gains were spiked heavily by hurricane damages), home sales and related construction indicators, and ultimately as reflected in broader-based economic series such as Industrial Production. Where all of those measures face near-term, disaster-triggered reporting disruptions, liquidity stresses nonetheless have been intensified, at least temporarily, in hurricane-hit regions of the United States, where, for example, related September 2017 employment/ unemployment details were heavily disrupted/distorted (see *Commentary No. 915*) of October 6th.

***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: October Consumer Confidence and Sentiment Boom.*** This detail reflects the October 2017 readings of The Conference Board's Consumer-Confidence Index® (Confidence) of October 31st and the University of Michigan's Consumer Sentiment Index (Sentiment) of October 27th. Reflected in *Graphs CLW-1* and *CLW-2*, both Confidence and Sentiment jumped sharply to multi-year highs in October. A year ago in September 2016 jumped and then plunged in October 2016, 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 turned lower in September 2017, but with the October 2017 Sentiment measure showing an large jump, purportedly because consumers were willing to accept diminished prospects for their living standards (see *Commentary No. 916*). The Conference Board blamed hurricane impact in Texas and Florida for the downturn in September 2017 Confidence, but those numbers also exploded in October 2017.

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 had begun to falter in September, the unusual October 2017 surges.

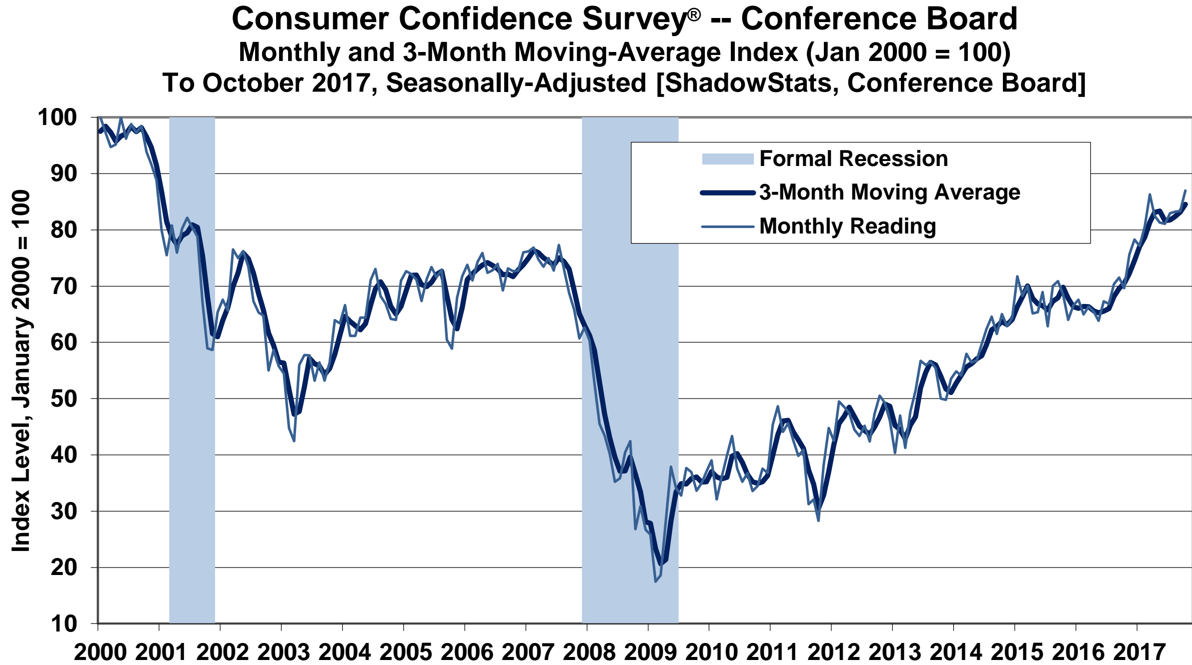
Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs CLW-1* to *CLW-3* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index® is set with 1985 = 100, 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, despite the headline-spiked October 2017, which likely were built upon some temporary, hurricane-boosted employment gains from the household survey.

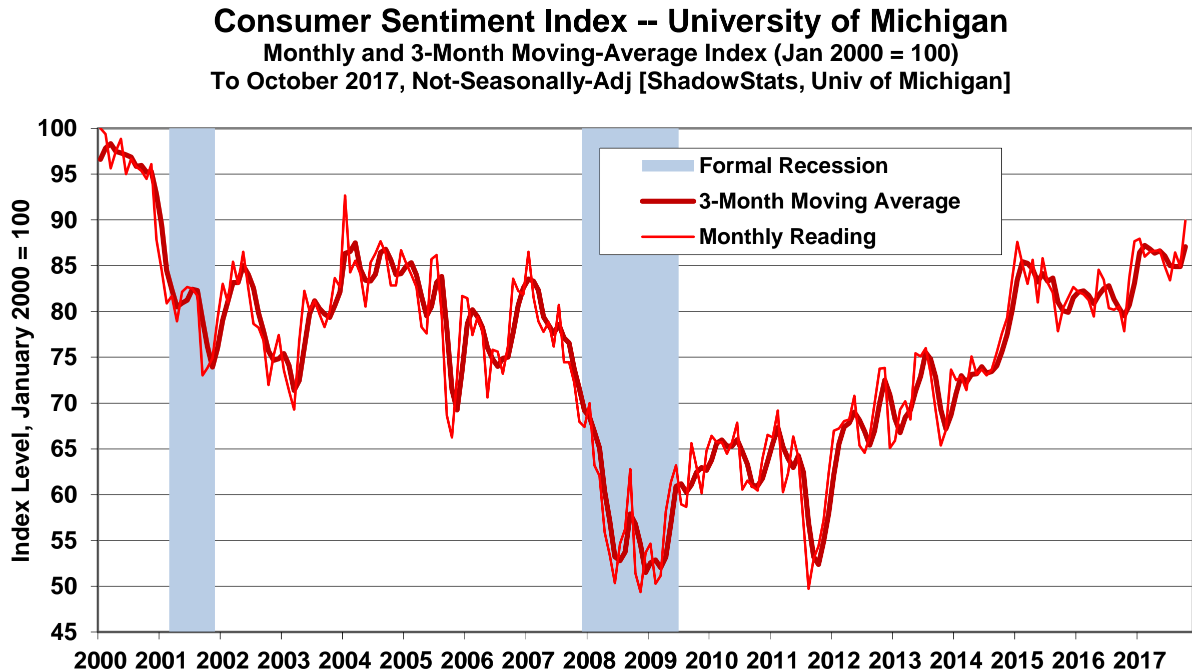
Broadly, though, the harder, financial consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth as suggested by headline GDP growth in 2014, for second-and third-quarter 2015 and for third-quarter 2016 and into third-quarter 2017. Beyond having

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)***



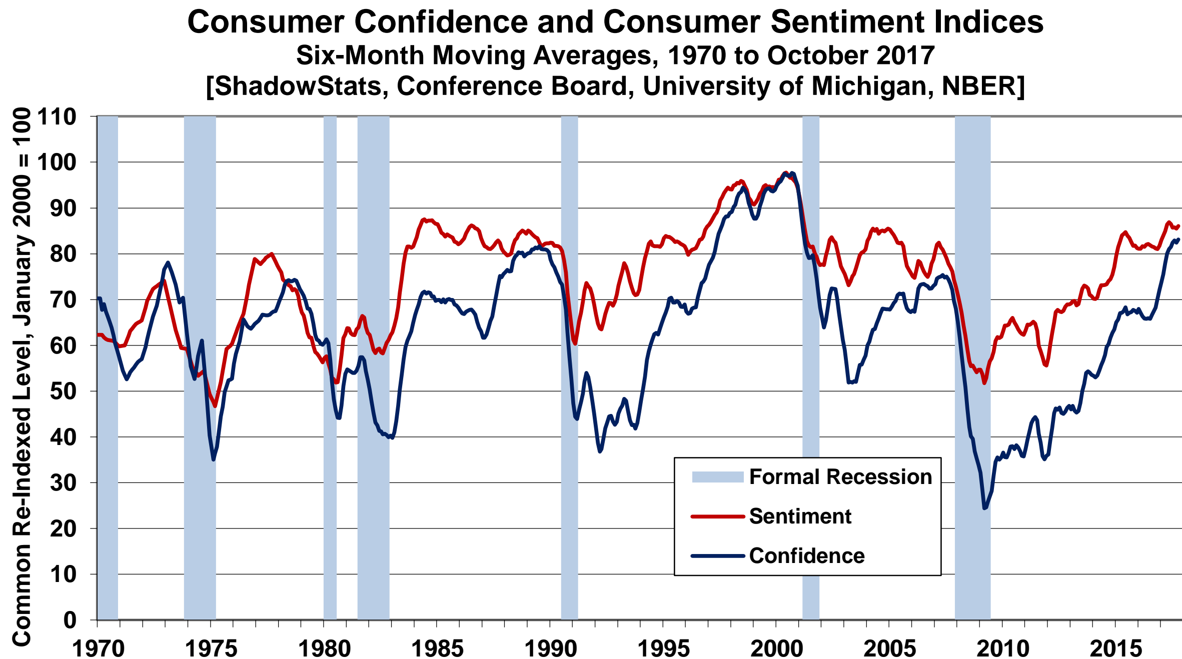

***Graph CLW-2: Consumer Sentiment (2000 to 2017)***




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.

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

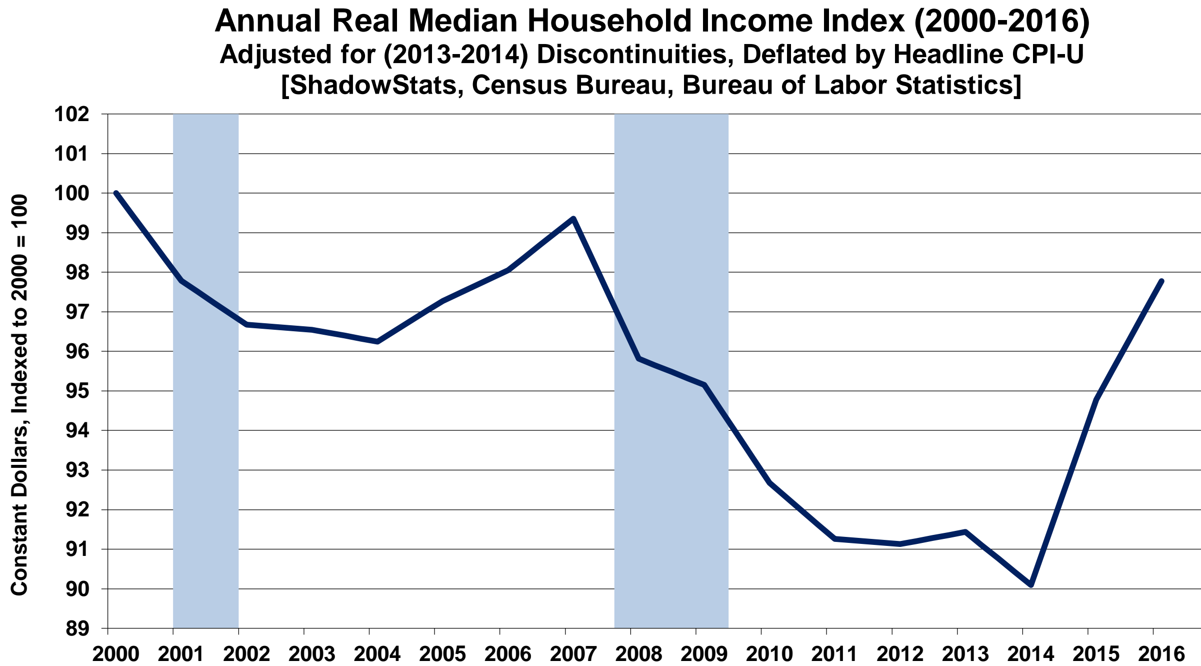



***2016 Annual Real Median Household Income Still Was Below Its 2007 Pre-Recession High, Below Activity in the Late-1990s, About Even with the Mid-1970s.*** The measure of real monthly median household income, which has been provided by www.SentierResearch.com, generally can be considered as a monthly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

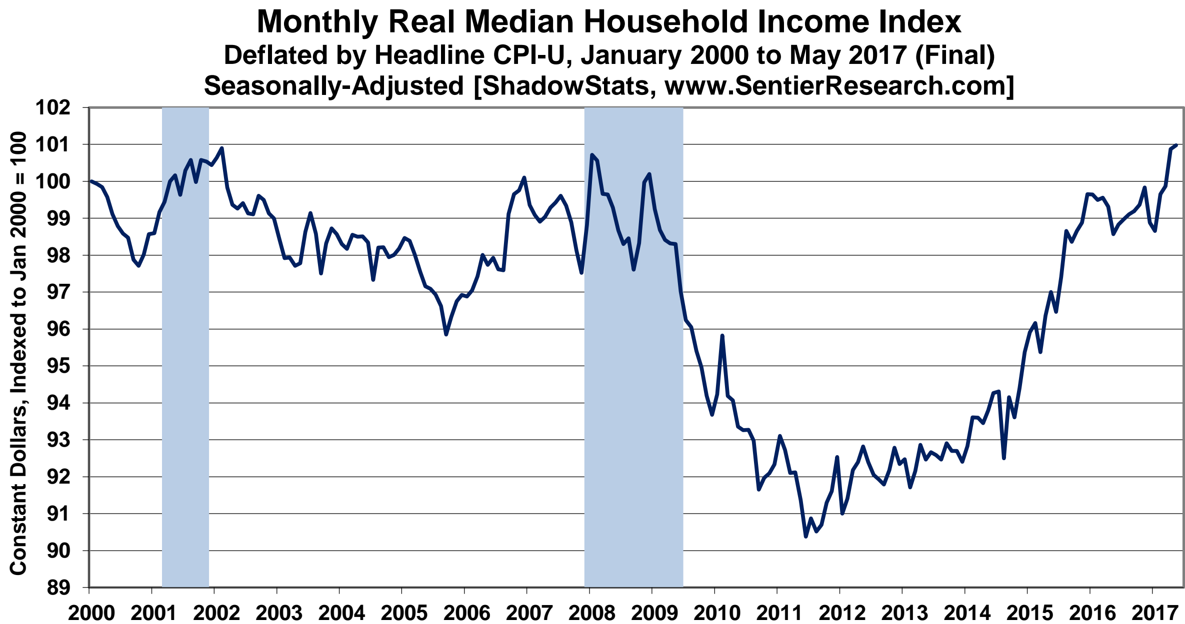
***Last Monthly Estimate Showed Stagnating Monthly Real Growth.*** As last reported by Sentier Research, May 2017 Real Median Household Income was statistically unchanged, despite a boost from falling gasoline prices. Discussed in *General Commentary No. 894*, and in the contexts of then-faltering gains 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***

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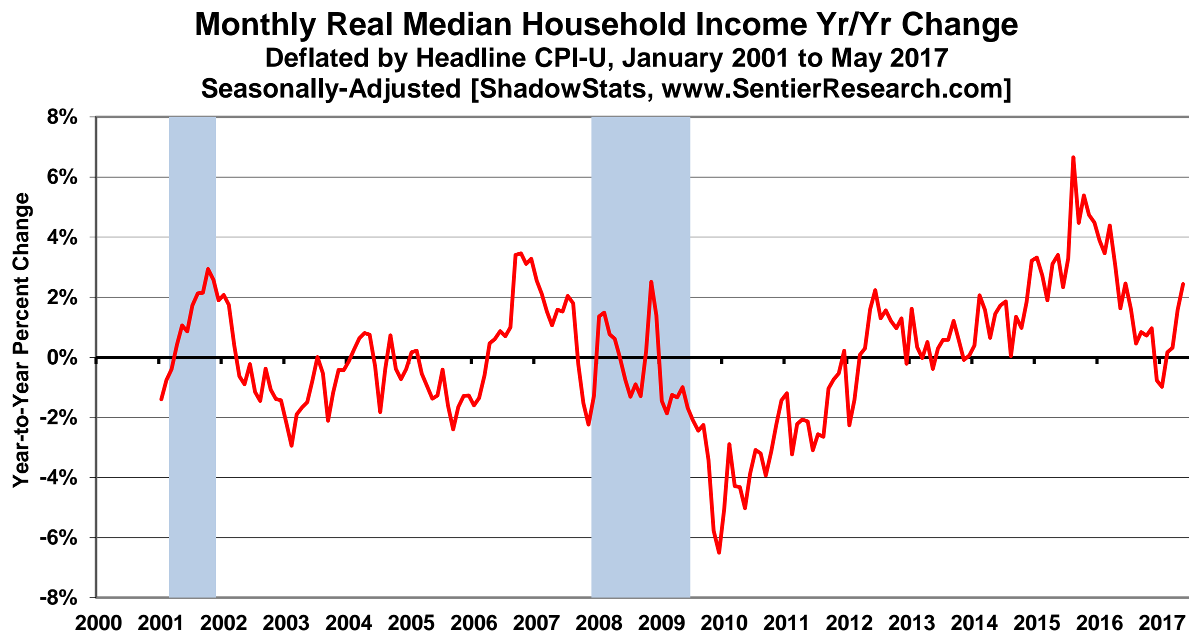
Where real monthly median income plunged into the headline trough of the economic collapse in 2009, it did not then rebound in tandem with the headline GDP activity. When the GDP purportedly started its solid economic recovery in mid-2009, the monthly household income numbers nonetheless plunged to new 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.

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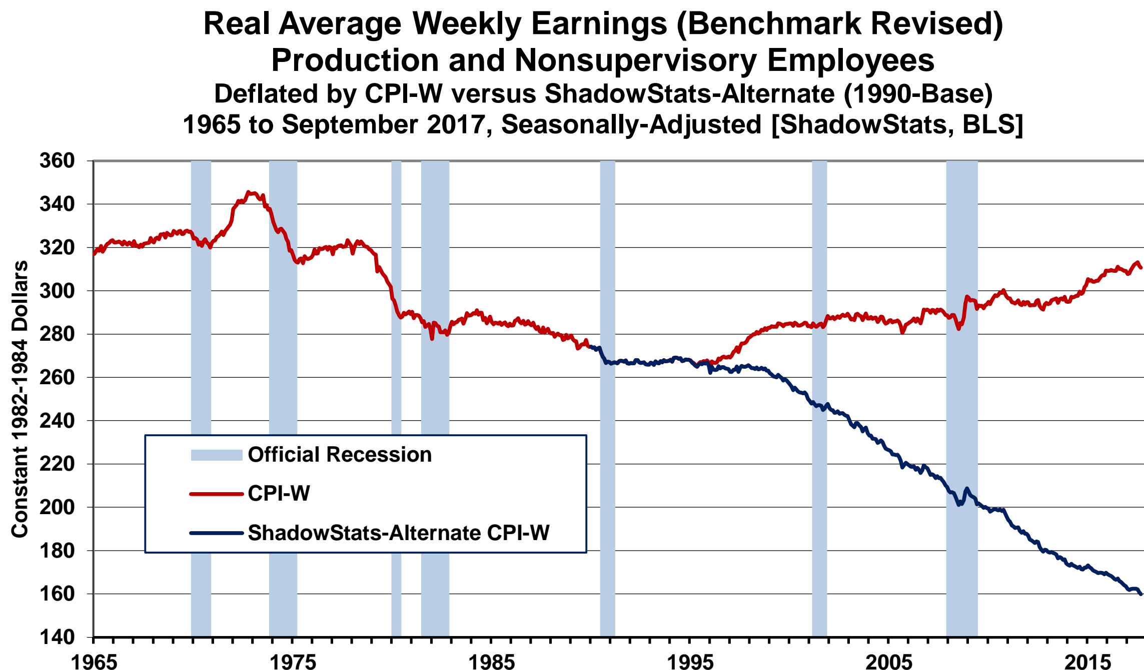
Where Sentier used monthly questions surveying current annual household income, the headline annual Census Bureau detail is generated by a once-per-year question in the March CPS survey, as to the prior year's annual household income. The Median Household Income surveying results are broadly consistent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

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



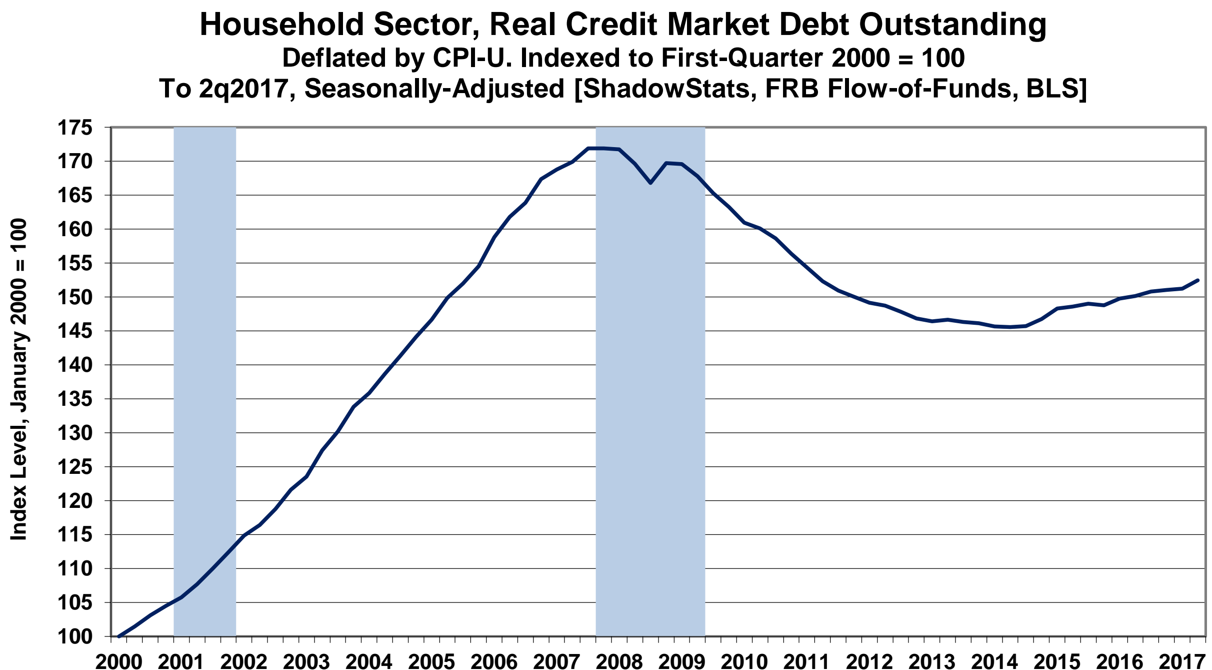

***Real Average Weekly Earnings—September 2007—Month-to-Month Real Earnings Declined Again with Third-Quarter Showing Flat/Minimal Contraction* .** For the production and nonsupervisory employees category—the only series for which there is a meaningful history (see the full discussion on

page 23 in *Commentary No. 916*), the regularly-volatile real average weekly earnings fell month-to-month in September with a small quarterly contraction in third-quarter 2017 activity.

*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%), recently revised to 11.3% (-11.3%). The visual uptick in the latest point in *Graph CLW-8* resulted from a lowered

estimate of first-quarter activity (consumer credit revised lower by more than the upside revision mortgages), with the headline 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 August 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*).

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 has continued to slow sharply, suggesting some tightening of credit conditions. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in August 2017 was down from its December 2007 pre-recession peak by 15.1% (-15.1%) [that previously had been down by 12.3% (-12.3%) in June 2017, before a recent downside revision 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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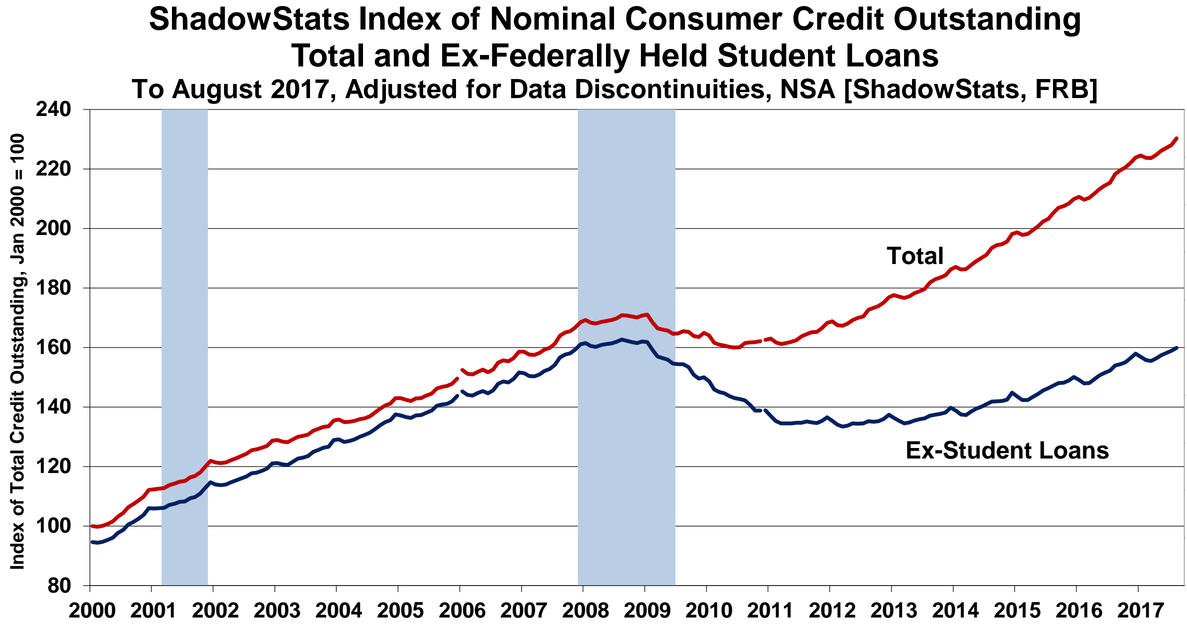
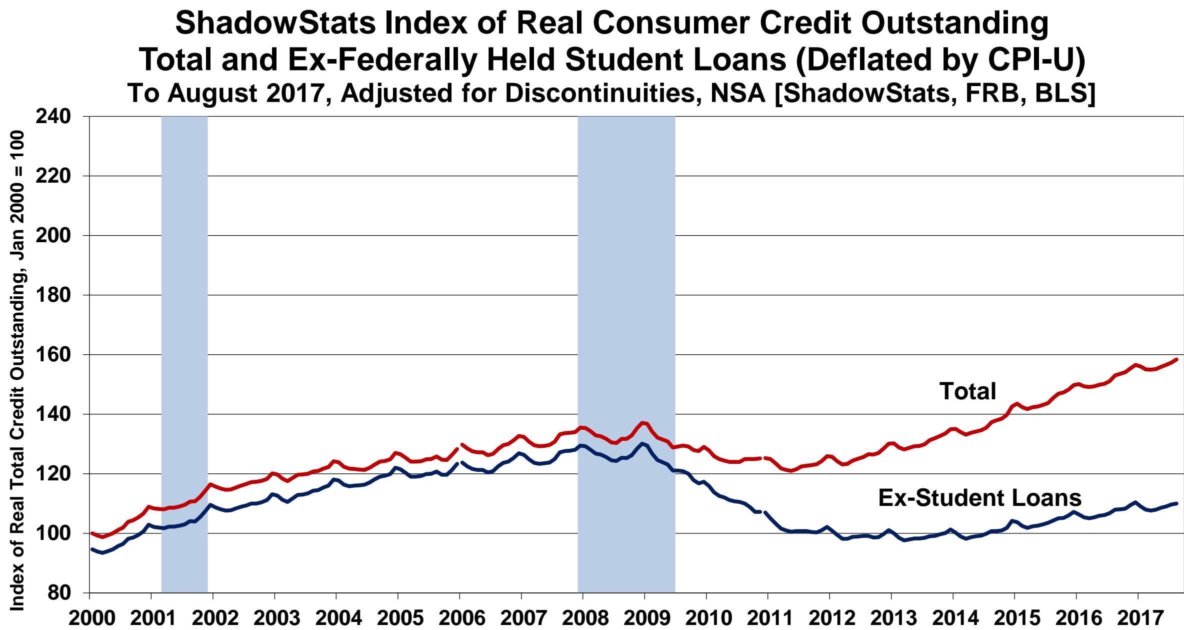
***Graph CLW-9: Nominal Consumer Credit Outstanding (2000 to 2017)***




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

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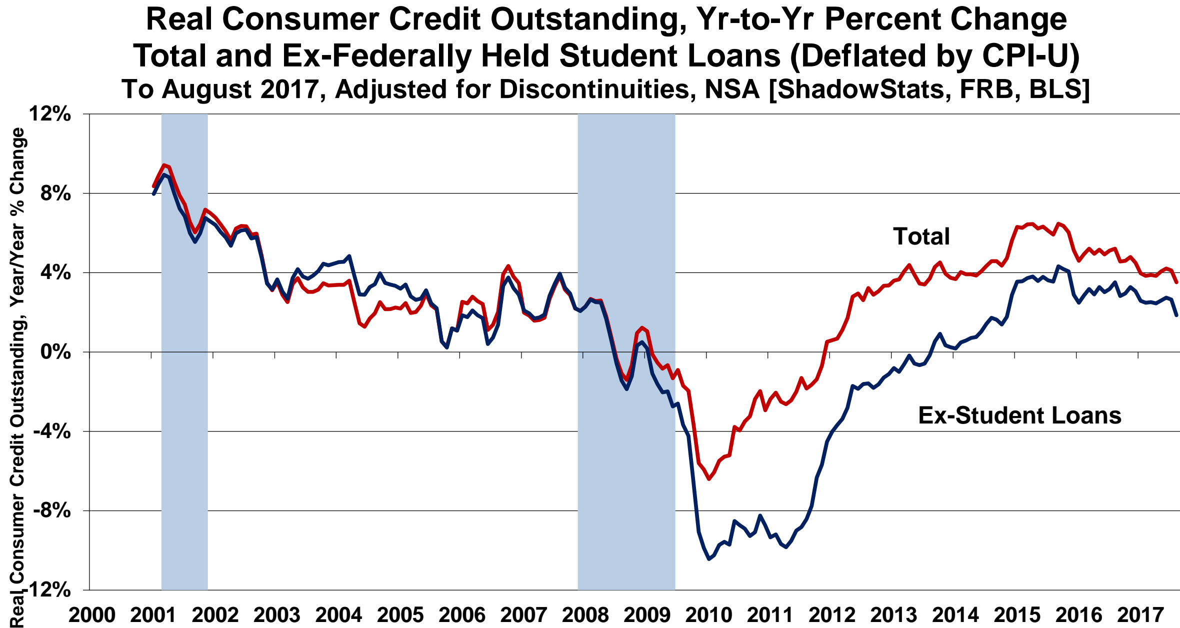
***Graph CLW-11: Year-to-Year Percent Change, Real Consumer Credit Outstanding (2000 to 2017)***

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## WEEK, MONTH AND YEAR AHEAD

**Deteriorating Domestic and Global Political Circumstances Continue: Other than for Any Brief Respites from Short-Lived Hurricane Boosts, Economic Reporting Should Continue in Downtrend.** 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, broadly, 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.

*Hyperinflation Watch* in *Special Commentary No. 918-B* of October 30th speaks for itself, with a major review looming in the context of the nomination for the new Fed Chairman now being in place, touched upon in today's (November 3rd) *Hyperinflation Watch*. Other than for the lack of *Pending Releases* paragraphs (none are scheduled in the week ahead), language changes from the earlier version in *No. 918-B* are nil. Please call (707) 763-5786, if you would like to discuss current circumstances, or otherwise. *Best wishes – John Williams*

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The *Hyperinflation Watch* of *Commentary No. 909* also speaks for itself. Given the continuing and broadening weakness in the U.S. economy and shifting political instabilities/circumstances in Washington, mixed pronouncements of sharp, near-term rate hikes and aggressive balance-sheet liquidation remain unlikely to solidify as promised. Accordingly, selling pressure against the U.S. dollar still should re-intensify, shortly, 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

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

*Special Commentary No. 918-B* (October 30th) provided a more comprehensive review of the initial third-quarter 2017 GDP detail, along with update versions of the *Hyperinflation Watch* and *Consumer Liquidity Watch.*

*Advance Commentary No. 918-A* (October 27th) provided a brief summary of the headline detail of the first or "advance" estimate of third-quarter 2017 GDP.

*Commentary No. 917* (October 26th/27th) reviewed September Industrial Production, New Orders for Durable Goods, New Residential Construction (Housing Starts and Building Permits) and New- and Existing-Home Sales.

*Commentary No. 916* (October 20th) reviewed the September 2017 Retail Sales details along with the headline Consumer and Producer Price Indices for September.

*Commentary No. 915* (October 6th) reviewed the September 2017 Employment and Unemployment details, along with September 2017 monetary conditions.

*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).

*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.

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*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: None Scheduled in the Week Ahead.**

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