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

GENERAL COMMENTARY NUMBER 929

A Challenging and Potentially Dangerous Year Ahead

December 28, 2017

2018: An Unusually Challenging and Unsettled Time, with Likely Tumultuous Markets, a Non-Recovering Economy, Political Turmoil and Election Surprises

Faltering Consumer Outlook and Tightening Liquidity Conditions Are Inconsistent with Shrinking Unemployment and Surging Holiday-Season Sales

Beyond Data Disruptions, Booming Headline Economic Activity Has Been Fueled by One-Time Insurance Payments and Liquidation of Savings, Not by Regular or Sustainable Income Growth

December 2017 Marks the Tenth Anniversary of the Formal Onset of the 2007 Recession

Economic Expansion Is Defined as Growth Beyond the Prior Business-Cycle Peak

Key Headline Measures of Consumer and Industrial Activity Still Remain Shy of Recovering Pre-2007 Recession Peaks

Trade Deficit Has Turned Increasingly Negative for Fourth-Quarter GDP

PLEASE NOTE: The next Regular Commentary on January 5, 2018, will cover December 2017 employment and unemployment (including the annual unemployment benchmarking) and the November Trade Deficit and Construction Spending. Given potential complexities of the benchmarking, the full labor analysis likely will go over the weekend, with a summary "advance" commentary on the Labor conditions published on the 5th, along with full coverage of the Trade and Construction details.

Best Wishes to All for a Very Happy, Healthy and Prosperous New Year! — John Williams

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Today's (December 28th) ***General Commentary*** reviews current economic, financial-market and political circumstances, along with a preview of some likely and potential developments in 2018.

The ***Consumer Liquidity Watch*** (page 7) text has been updated in its opening remarks and for the year-end, December 2017 readings on Consumer Sentiment and Confidence.

The ***Week, Month and Year Ahead*** (page 19) provides background on recent *Commentaries*, and previews next week's releases of the December 2017 employment and unemployment numbers and the November trade-deficit and construction-spending details.

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[Pending Formal Review of 2017 and Preview of 2018. In a week of negligible economic reporting, today's *General Commentary* reviews current circumstances in the context of recent disaster-distortions to economic reporting and related impact on financial-market and political expectations, along with some implications for developments in the New Year. The ShadowStats formal annual review of 2017 and preview of 2018, updating *No. 859 Special Commentary* of January 8, 2017, is planned for *No. 934 Special Commentary* of January 30, 2018.]

GENERAL COMMENTS

2018: An Unusually Challenging and Dangerous Year Ahead, with Likely Tumultuous Markets, a Non-Recovering Economy, Political Turmoil and Election Surprises

Underlying Reality versus the Hype. Headline reporting suggests that the economy not only has recovered from the "Great Recession," but also has entered a new period of rapid economic expansion, with unemployment dropping to a low level not seen since 2000. The Federal Reserve finally has regained control of its policies, post-Panic of 2008. The stock market is booming as a result. The headlines just do not get much better than this.

Beyond the carefully-orchestrated headlines, though, underlying broad economic activity has continued in low-level stagnation, never recovering its pre-2007 recession peak. It was turning down anew, recently, until disrupted—hit and then spiked—by the now-fleeting distortions from the hurricanes and recovery from same. Considering long-term discouraged and displaced workers would indicate a common-experience based, more-broadly-measured unemployment rate of about 22%. The Fed still has not stabilized either the domestic or the global banking systems, and the currently-manic stock market likely is on the brink of a massive sell-off.

What likely will be the big disrupter to the headlines of the first paragraph is underlying economic reality. In the next couple months, the heavily touted "economic boom" being used to prop factors ranging from year-end stock prices, to the myth of "successful" Fed policies, should evaporate. Discussed here, the economic "boom" largely reflects unusual disaster effects, such as insurance payments, not a sudden surge in ongoing, regular consumer liquidity conditions.

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The year ahead will encompass mid-term Congressional elections, which could prove fundamental in establishing a solid policy base for stabilizing domestic fiscal policies and long-range economic conditions. Where President Trump's upset election victory in 2016 largely reflected a vote by a disgruntled electorate, as discussed in *No. 859 Special Commentary* of January 8, 2017, the annual economic review planned for *No. 934 Special Commentary*, on January 30, 2018, will explore how the political situation may unfold and how it might be addressed.

President Trump and the Republican Congress just enacted a major overhaul to the federal tax code. The changes should provide some economic stimulus, but they also widen the federal deficit some, as discussed in *Commentary No. 927*. Yet, discussed in *No. 859 Special Commentary* and not done here, such changes could be coordinated in terms of establishing a credible plan for long-range fiscal solvency for the U.S. Treasury, and long-term stability and credibility for the U.S. dollar. Such a circumstance could allow for economic stimulus from short-lived increases in deficit spending, stimulus badly needed by the broad, underlying U.S. economy.

Economic and financial stresses pushed the electorate to change the Executive Branch in 2016, which has had major impact on federal government operations of the last year. A broadly hostile an often un-cooperative Congress held back major changes or forced unseemly compromises with the President. The mid-term election could have major impact on the direction of the economy. Likewise, pressures from a faltering economy and/or financial market turmoil could have major impact on that election. Separately, discussed in *Special Commentary No. 888*, extreme political actions by opposing factions easily could devastate the financial markets. These areas will be explored in pending *No. 934 Special Commentary*.

Late-2017 "Economic Boom" Fueled by One-Shot Insurance Payments and Savings Liquidation, Not by Regular Income Growth. Natural disasters in second-half 2017 disrupted normal patterns of economic activity and reporting of same for the mainland United States. Specifically, Hurricanes Harvey, Irma and Nate, ranging from late-August into October along the Gulf Coast, Florida and inland, along with massive wildfires in Northern California, and still ongoing fires in Southern California, have had and will have some ongoing and lingering impact on domestic economic activity.

The economy took a brief, early hit to oil and gas exploration and production, reflected in August 2017 Industrial Production, but recovery, reconstruction and replacement costs (such as replacing storm-destroyed motor vehicles) soon boosted retail sales and production numbers in September, October and November, boosted third-quarter Gross Domestic Product (GDP) reporting and disrupted headline, seasonally-adjusted unemployment reporting from September into November. The new economic "boom" was not fueled by healthy growth in consumer income and liquidity, but rather by insurance payments or savings liquidations to cover property damages from the natural disasters.

Headline domestic economic activity formally is measured in terms of the fifty states, excluding Puerto Rico and the U.S. Virgin Islands, which also were hit by extraordinarily disastrous and devastating hurricanes. Despite no direct, headline economic impact reflected in U.S. economic data, nonetheless, U.S. relief efforts and secondary trade-deficit effect through Mexico will have had some impact.

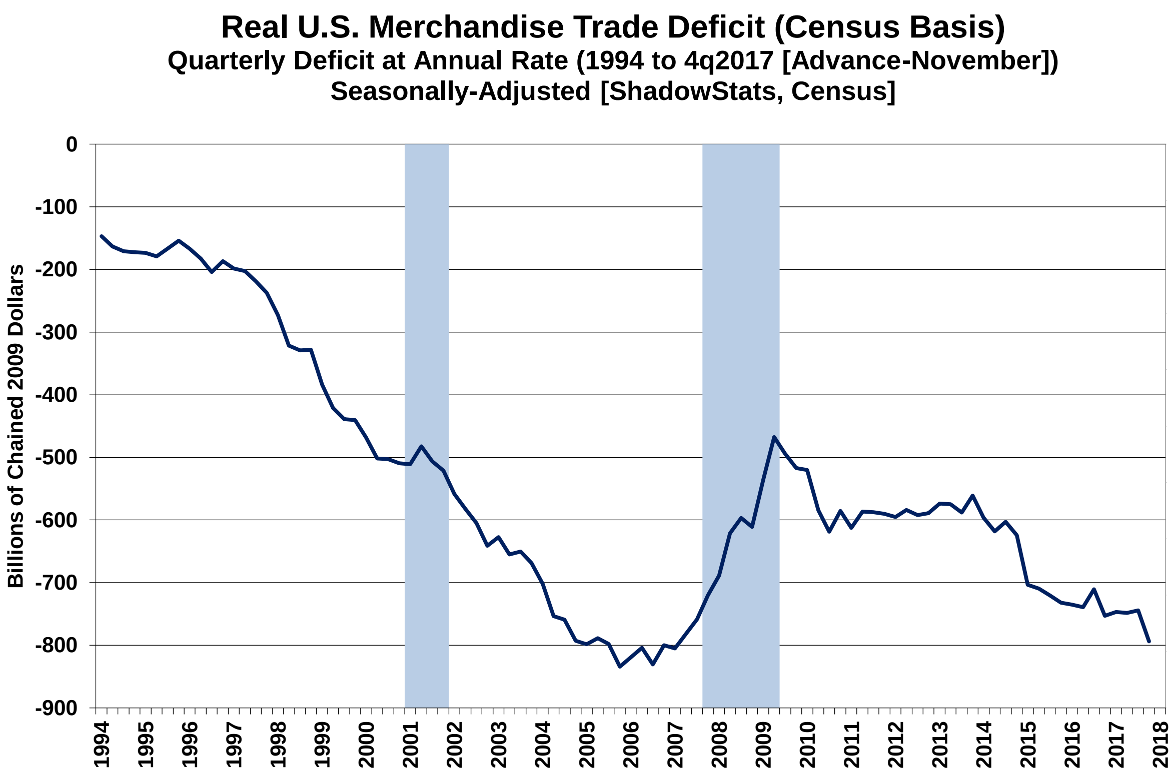
Near-Term Economic Activity Already Has Begun to Dim, Sharply. Although economic boosts from the hurricanes continued into October and November, adding relative strength to headline fourth-quarter

GDP activity, early indications of sharply slowing activity should surface in headline December 2017 reporting, with reporting of outright monthly contractions likely in January and February 2018, along with a strong chance of an outright quarterly contraction in first-quarter 2018 GDP activity.

Consider the Consumer Sentiment and Confidence readings for December 2017. Discussed and plotted in the *Consumer Liquidity Watch*, both measures turned sharply lower in December, having hit multi-year year, pre-recession highs in the month or two before. Such is not consistent with purportedly booming Holiday-Season sales.

Released this morning, December 28th, the "Advance" November Trade Deficit showed an "unexpected" continued, monthly deterioration. Such was suggestive of deepening deterioration in the unfolding fourth-quarter 2017 real merchandise trade deficit (see the *Pending Releases* in the *Week, Month and Year Ahead* section), as plotted in the accompanying *Graph 1*.

Graph 1: Real U.S. Merchandise Trade Deficit (1994 to "Advance" Fourth-Quarter 2017)



The suggested fourth-quarter 2017 real merchandise trade deficit would be the deepest trade shortfall since first-quarter 2007, closing in rapidly on its historically-worst reading in 2005. Based on the current numbers, the deteriorating trade deficit should provide a meaningful hit against the otherwise, hurricane-boosted fourth-quarter 2017 GDP activity.

Underlying Real-World Economic Activity Never Has Recovered Fully from the Crash into 2009. There remains a fundamental disconnection between the happy hype in the media, financial-markets and FOMC pronouncements as to a rapidly expanding U.S. economy, and the underlying reality of broad U.S. economic activity never having recovered its pre-recession 2007 peak. Low-level, non-recovered

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economic stagnation earlier in 2017 had begun turning down anew, only to be disrupted by the various natural disasters. Economic boosts from disaster-recovery circumstances have biased near-term economic data to the upside. Headline economic reporting has begun to confirm that. Post-disaster recovery and rebuilding have begun to meld into more-stable economic trends, such as seen recently with November Industrial Production (see *Commentary No. 926*). As hurricane-distorted boosts to recent economic activity work their way out of the system, underlying economic reality threatens continued stock-market euphoria, as the manic U.S. stock market has soared along with tax reform and the faux boom from disaster-recovery in the economy.

December 2017 Marks an Uncomfortable Economic Anniversary. One decade ago, December 2007 marked the formal peak of economic activity, before the onset of what would gain the relatively euphemistic term of the "Great Recession" as opposed to the more-negative image of the "Great Depression" of the 1930s.

Noted in *Commentary No. 926*, November 2017 activity in U.S. Manufacturing, the dominant sector of U.S. Industrial Production "remained 4.70% (-4.70%) shy of recovering its pre-recession peak of December 2007. The Manufacturing sector is showing its longest stretch of economic non-expansion in the 100-year history of Industrial Production, now at 119-months and counting. In contrast, it took the post-war U.S. economy 96-months to retool and rebuild domestic manufacturing to its World War II peak. In the first down-leg of the Great Depression, it took 88-months to recover the pre-collapse high."

Manufacturing is not the only area without formal economic recovery in the current downturn, the same can be said for the construction and real-estate sector, including construction spending and all major indicators of residential sales and construction (*Commentary No. 924*, *Commentary No. 927* and *Commentary No. 928*). Again, headline economic "expansion" is measured against the peak of activity before a recession. Activity off the recession trough, but below the prior peak is in "recovery," but not fully recovered until hits that pre-recession peak (see *Commentary No. 875* and *Commentary No. 876*).

Other areas, including retail sales and the GDP have been heavily boosted by the use of understated headline inflation used in the deflation process. Use of too-low a deflation rate artificially boosts the real or inflation-adjusted rate of growth (see *Commentary No. 926* and *Commentary No. 928*). See *Commentary No. 924* for background details on methodologies used in "improving" headline employment and unemployment results.

Heavily Distorted Data, and Unrealistic Market Hype and Expectations, Promise Pending, Downside Adjustments for Domestic Equity- and Credit-Market Prices. Wall Street's proponents of a never-ending stock-market rally, and their related media, have hyped temporary, nonrecurring natural-disaster boosts into a new economic "boom." That promises an unhappy day-of-reckoning for the U.S. financial markets and the U.S. dollar, early in the new year.

In particular, the Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System, which should know better, would face a public reassessment of its policies, as negative economic "surprises" increasingly shocked the U.S. dollar on the downside, along with market expectations shifting towards a renewed FOMC easing. Discussed frequently here in various *Hyperinflation Watch* sections (see *Commentary No. 927*, for example), with an intensifying "new"

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economic downturn and related, deteriorating liquidity and solvency implications for the banking system, the FOMC likely would be forced into an "unexpected" policy retrenchment, with a renewed and expanded quantitative-easing program, as allowed for in formal FOMC policy guidelines.

Market response to this, or to increasing anticipation of such a shift in policy, should pummel the value of the U.S. dollar in the global markets, spiking gold, silver and oil prices. In turn, domestic equity and credit-market prices should fall sharply, as significant capital flees the weakening U.S. dollar and the domestic stocks and bonds.

Holdings of physical gold and silver remain the ultimate hedges—stores of wealth—for preserving the purchasing power of one's U.S. dollar assets, in the context of liquidity and portability during difficult times, such as likely lie ahead.

As we go to press on December 28th, headline U.S. stock indices have continued to rally, although somewhat shy of recent record highs, yet the U.S. dollar broadly has remained under selling pressure, with gold, silver and oil prices rallying.

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

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CONSUMER LIQUIDITY WATCH

CONSUMER LIQUIDITY CONDITIONS: INCOME, CREDIT AND RELATIVE OPTIMISM. *[The opening text here has been updated, along with details of the full-month December 2017 reporting of the Consumer Sentiment and Confidence measures.]*

Continuing Consumer Liquidity Stresses Constrain Broad Economic Activity. The U.S. consumer faces ongoing financial stress, which recently had been mirrored in renewed softening of fundamental headline economic activity, including Payroll-Employment, Real Retail Sales, Housing and Construction, and the Manufacturing/Production sector, all pre-hurricane activity. Net of what have been mixed, but significant, near-term hurricane distortions, initial hits to activity were followed by related and transient economic boosts from recovery, replacement and restoration activity. Funded by insurance payments and savings liquidation, those distortions broadly should have passed from headline economic releases by the February/March reporting of January 2018-headline detail. Such effects have been, and will continue to be, discussed in the separate analyses of relevant series in the covering *ShadowStats Commentaries*.

Monthly series that have faced the most severe, disaster-triggered reporting disruptions, where headline details have yet to stabilize or correct, include in particular the Household Survey of Employment and Unemployment (see the pending-benchmark revision discussion in the *Week, Month and Year Ahead* section) and Retail Sales. November Industrial Production appeared to have stabilized in terms of surging activity, but production still needs to subside to levels stable with normal consumption activity and inventories (see retail sales and production coverage in *Commentary No. 926*).

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 underlying 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 2001, let alone 2007. Yet, underlying liquidity conditions, economic reality and lack of positive actions out of the government to turn the economy meaningfully, so far, all have continued to remain shy of consumer hopes.

A temporary liquidity boost fueled by recent disaster effects, such as insurance payments or savings drawdowns to fund replacement of storm-damaged assets, are of a one-time nature and short-lived in terms of ongoing economic impact. The underlying, fundamental longer-term liquidity issues remain in place. Nonetheless, mirroring the disaster-fueled economic hype in the popular press, consumer optimism had rallied strongly in recent months, although it has begun to falter anew, as discussed shortly.

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 fundamental 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% of the headline real, third-quarter 2017 U.S. GDP.

Net of short-lived disaster distortions, 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 boosts from disasters or political gimmicks, discussed most recently in today's *General Commentary* and the *Executive Summary* of *Commentary No. 928*.

Anecdotal Evidence of Business and Consumer Uncertainty Continue to Indicate a Seriously-Troubled Economy and Very Dangerous Financial Markets. Against what appears to be a headline economic consensus that all is right again with the U.S. economy and financial markets, underlying real-world common experience suggests a much different outlook. Regularly discussed here, ongoing non-recovery, low-level stagnation and signs of renewed downturn remain patterns common to key elements of headline U.S. economic activity. Consider factors ranging from housing sales and broad construction activity, to headline reporting of domestic manufacturing, as well as those series that are heavily gimmicked, such as the Gross Domestic Product (GDP), also regularly discussed and dissected here.

Similar signals of such economic stress are seen in patterns of activity that move along with the real-world broad economy. They range from indicators such as freight volume and domestic consumption of petroleum to factors such as levels of real consumer debt outstanding, real average weekly earnings and measures of employment stress in the broad economy. Those stresses are reflected in historically-low levels of the employment-population ratio and the labor-force participation rate. With the liquidity-starved U.S. consumer driving three-quarters of the GDP, there is no way for the broad economy to boom—happy Retail Sales headlines aside—without some meaningful shift in underlying consumer circumstances. Links to background discussions in these various areas are found in the *Recent Commentaries* section of the *Week, Month and Year Ahead*, along with links to background discussions on the quality of the more-politicized GDP and employment/unemployment details.

Beyond assessing headline economic numbers, ShadowStats also looks at anecdotal evidence, including comments by subscribers and clients, who live in the real world. Two broad observations have come from a number of recent conversations. First, real estate activity appears to be slowing in recently strong areas. Second, a number of major companies are "sitting on their hands," holding back on issuing new contracts to third-party vendors in areas such as upgrading computer systems and other consulting. The companies cite the slowdown in contracts as "due to uncertainty," an issue, as well with the U.S. consumer, where that uncertainty encompasses:

- Unfolding circumstances in the Washington, D.C. political arena.
- Where the manic financial markets are headed.
- Ultimately what is, or will be, happening to near-term business activity?

Economic reporting, and business and financial-market stories sometimes receive happy year-end spikes in the press. That circumstance has been supplemented in late-2017 by near-term hurricane boosts to, and distortions of, some current economic activity, such as the recent November Retail Sales reporting. The latter circumstance should prove fleeting. The underlying, broadly-faltering U.S. economy should be dominating headline economic reporting, once again, and all too soon, most likely early in 2018. That said, albeit reflecting some of the headline economic hype in the popular press, headline consumer optimism remains strong, albeit newly faltering.

Consumer Optimism: December 2017 Consumer Sentiment and Confidence Faltered. Full-month December 2017 readings pulled back sharply for both The Conference Board's Consumer-Confidence Index® (Confidence) as of December 27th, and the University of Michigan's Consumer Sentiment Index (Sentiment) as of December 22nd. Reflected in *Graphs CLW-1* and *CLW-2*, Confidence and Sentiment monthly readings had jumped sharply, respectively to multi-year highs in November and October. Yet, the December Confidence reading plunged, more than offsetting the November gain and most of the October gain, in context of a downside revision to the November reading. Similarly, November and December Sentiment readings also pulled back sharply, largely offsetting the October surge there. Nonetheless, the latest headline readings remained above their pre-2007 recession peaks.

The sharp monthly downturns in both the headline Sentiment and Confidence numbers are not consistent with headline, resurgent economic/employment activity, or with the popular media's heavily-touted, booming Holiday-Shopping Season.

For both 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*), the three-month moving averages also were above pre-2007 recession highs, yet the still-high moving averages—both notched higher despite December's downside activity—also had begun to falter in September 2017, before the unusual October and November surges.

Smoothed for six-month moving averages (see *Graph CLW-3*), both series continued above their pre-2007 recession peaks, with the Confidence measure at its highest level since March 2001, as it had been plummeting into the onset 2001 recession. That said, on a monthly basis, the current December 2017 readings for both the Confidence and Sentiment measures were down respectively from their pre-2001 recession peaks of May and January 2000, by 15.6% (-15.6%) and 14.4% (-14.5%).

Pre-election, September 2016 Confidence and Sentiment 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 surges in consumer optimism into early-2017. Both series then topped and pulled

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back, with mixed numbers into August and September 2017, but with the October 2017 Sentiment measure showing a large jump, purportedly because consumers were willing to accept diminished prospects for their living standards (see *Commentary No. 916*)? Nonetheless, the Sentiment measure retrenched in November and December. The Conference Board blamed hurricane impact in Texas and Florida for its downturn in September 2017 Confidence, but those numbers exploded into October and November 2017, again reversing largely with December's headline downturn.

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. Recent press has been highly positive on the headline economic and employment news, reflecting short-lived hurricane boosts to activity particularly on unemployment (not payroll employment), retail sales and industrial production. Headline financial and economic reporting in the next month or two should turn increasingly-negative and unstable. The current downturn in consumer outlook, despite euphoric headlines is unusual and likely reflects some deep-seated consumer liquidity concerns.

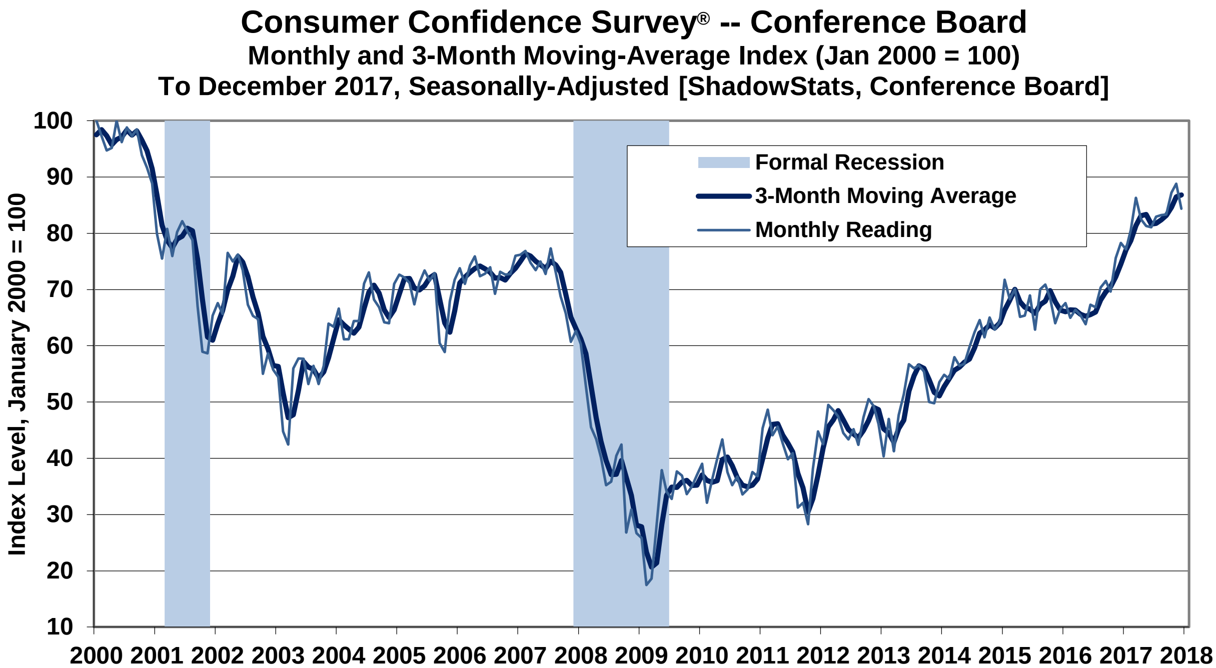
With near-term headline financial and economic reporting likely to turn increasingly negative in the next couple of months, successive negative hits to both the confidence and sentiment readings are likely to continue in the near future.

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.

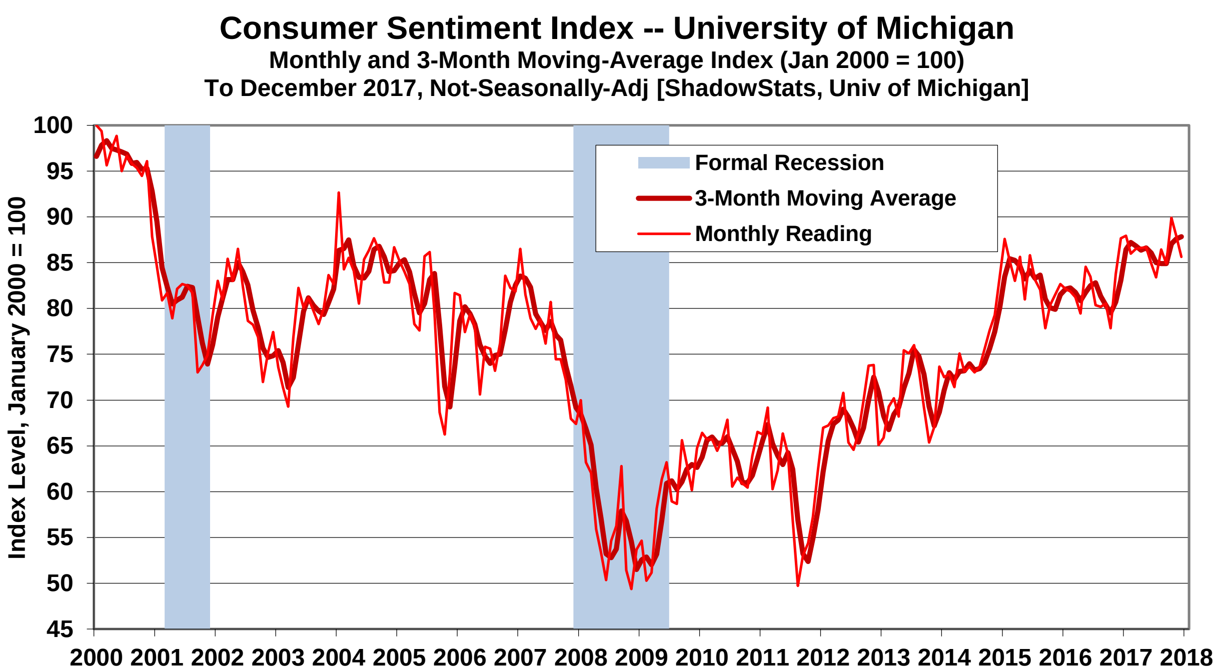
Smoothed for irregular, short-term volatility, the two series still generally had held at levels seen typically in recessions, until the post-2016 election circumstance. Suggested in *Graph CLW-3*—plotted for the last 47 years—the latest readings of Confidence and Sentiment recently have recovered levels 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 increasingly, they appear to be topping out.

[Graphs CLW-1 to CLW-3 begin on the next page.]

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



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



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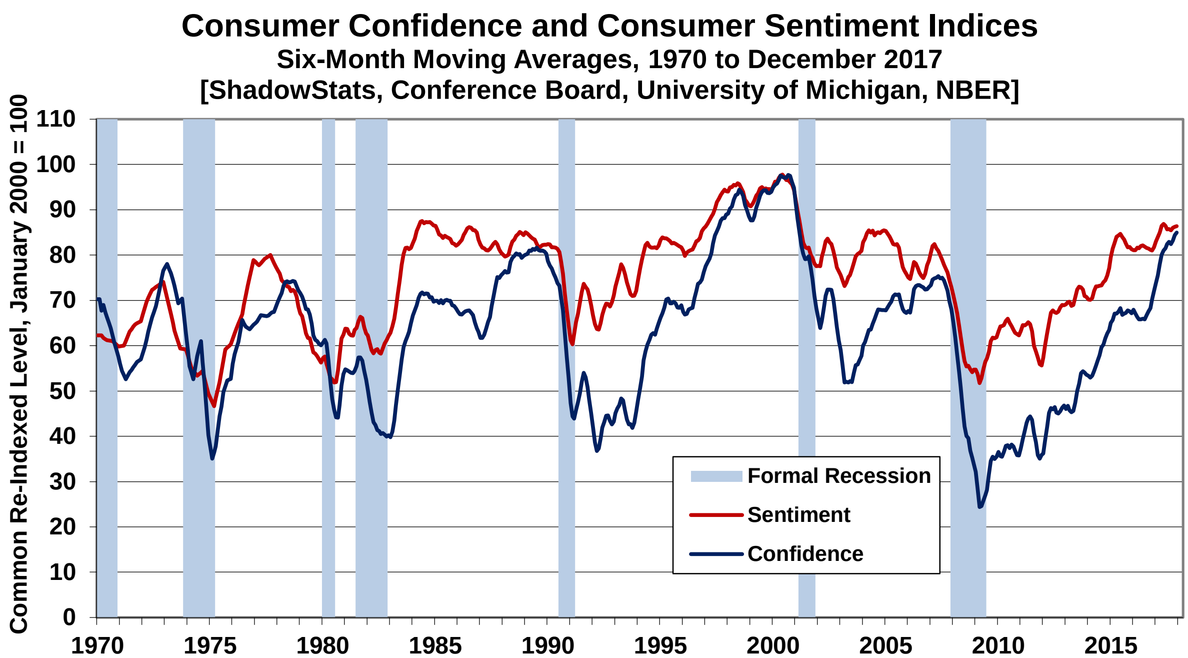
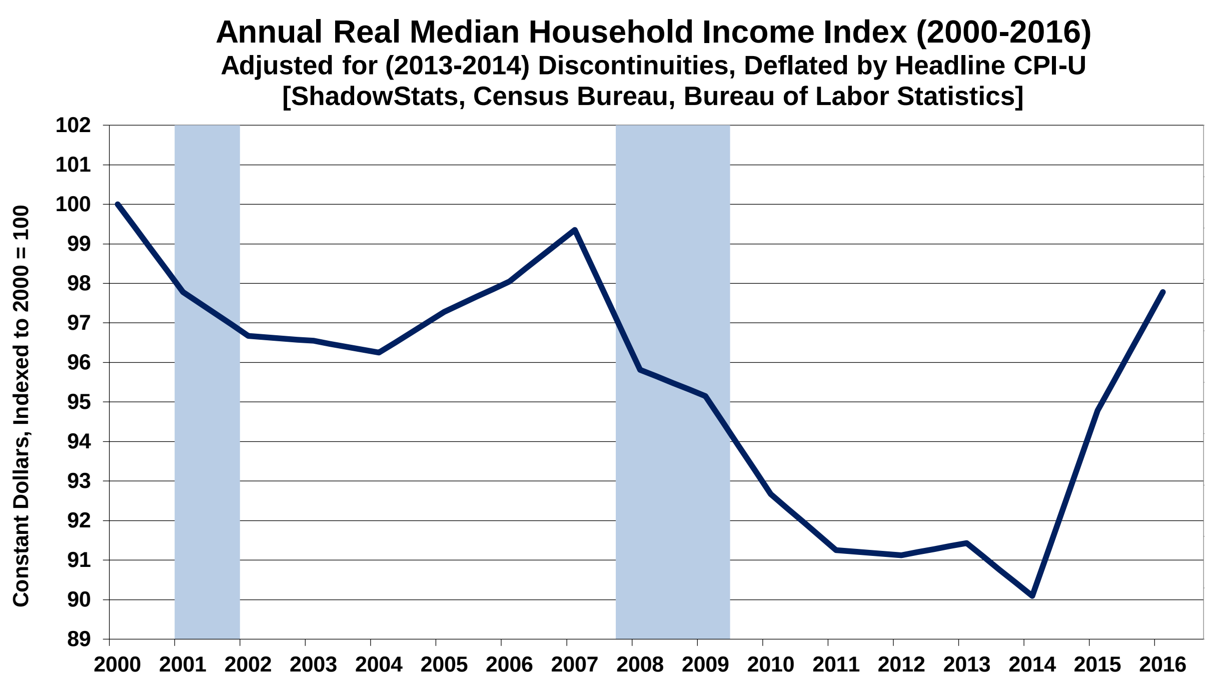
Graph CLW-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2017)



2016 Annual Real Median Household Income Still Was Below Its 2007 Pre-Recession High, Below Activity in the Late-1990s, About Even with the Mid-1970s. The measure of real monthly median household income, which was 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*.

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



Last Monthly Estimate Showed Stagnating Monthly Real Growth. As last reported by Sentier Research in its likely final estimate for the series, 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*). Again, the May detail, appears to have been the final reporting of the monthly series (see the *Special Note* that follows).

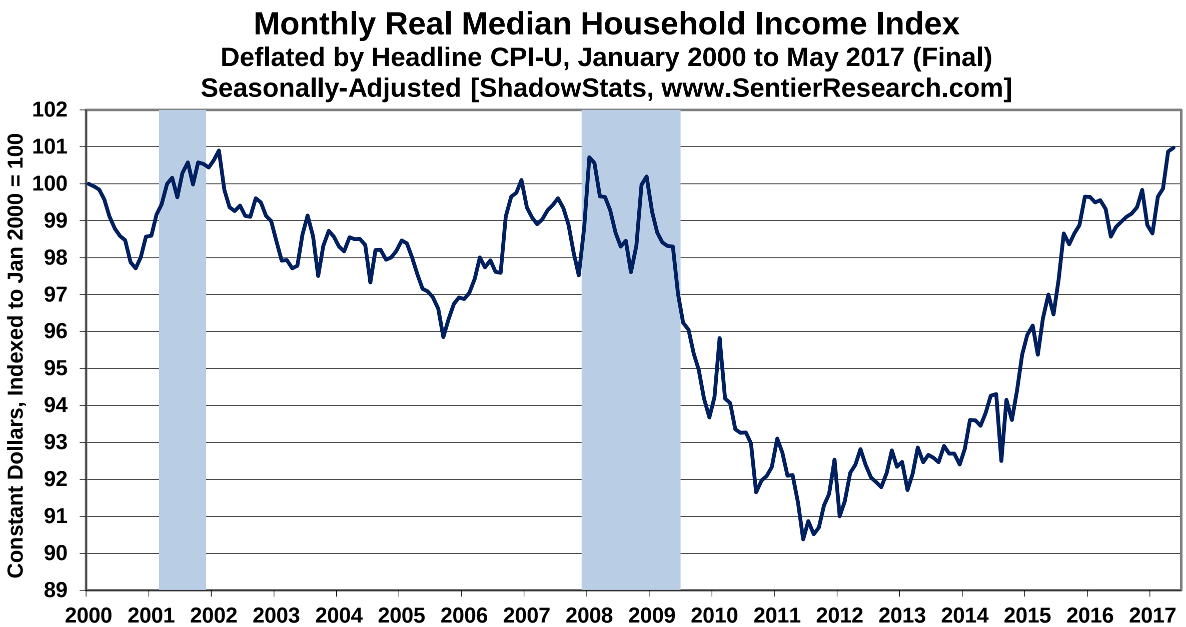
Where real monthly median income plunged into the headline trough of the economic collapse in 2009, it did not then rebound in tandem with the headline GDP activity. When the GDP purportedly started its solid economic recovery in mid-2009, the monthly household income numbers nonetheless plunged to new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

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

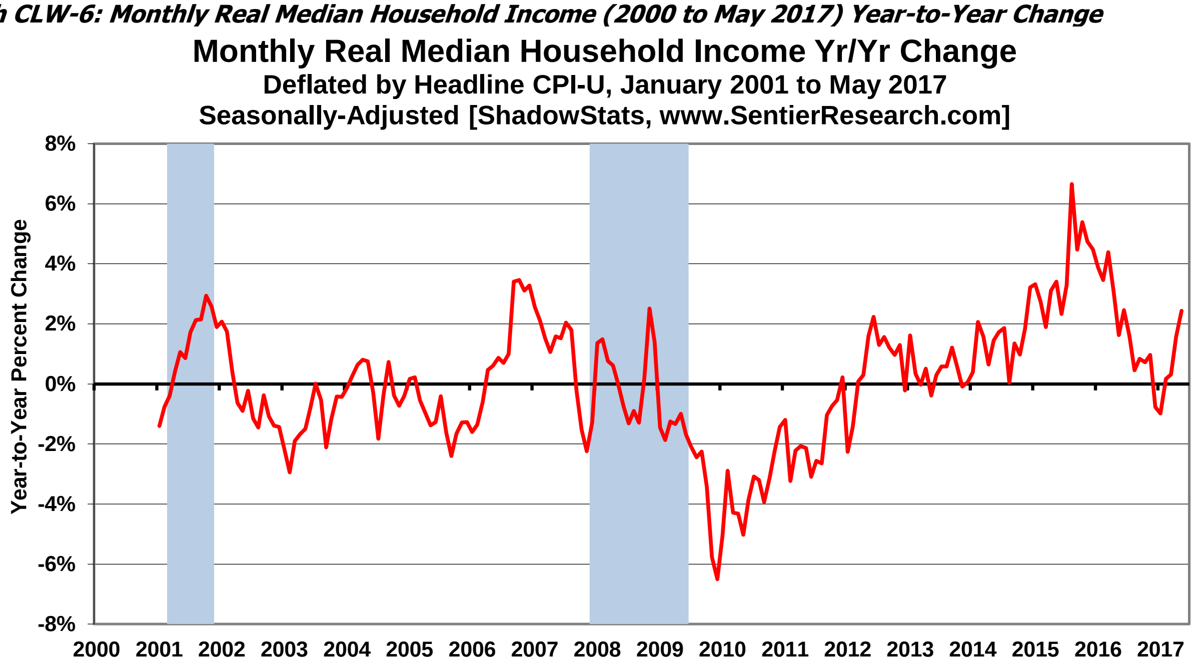
Differences in the Monthly versus Annual Median Household Income**.** The general pattern of relative monthly historical weakness has been seen in the headline reporting of the annual Census Bureau numbers, again, shown in *Graph CLW-4*, with 2014 real annual median household income having hit a ten-year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

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

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



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



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

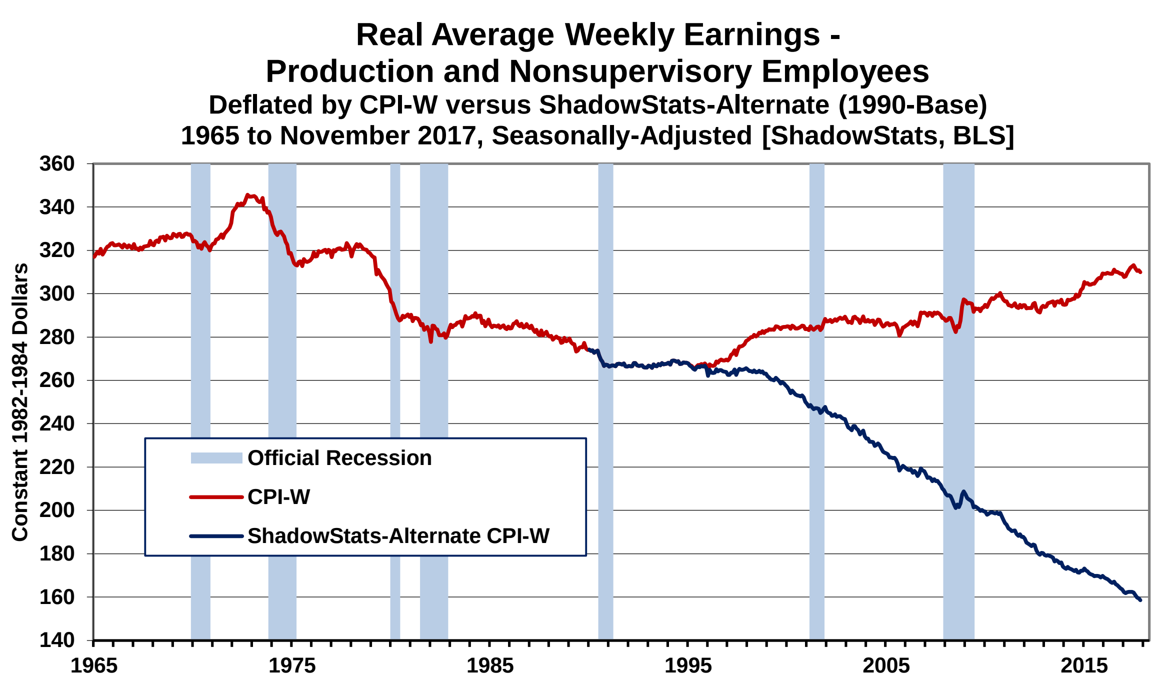
> Dear Friends, This will be our final report in the monthly series of median household income. We can no longer afford to provide these estimates given our current level of resources. We believe, as we hope you do, that these estimates provided an important new dimension regarding the economic situation 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 still hopes a circumstance might unfold that would enable continued/renewed 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, with unique understandings of the underlying monthly data. The Census Bureau publishes a broadly-similar series on an annual basis, but with an extraordinary time lag. The 2017 Census annual detail will not be released until September 2018. Again, the 2016 Census annual detail was covered in *Commentary No. 909*.

Real Average Weekly Earnings—November 2007—Monthly Real Earnings Continued to Contract, Fourth-Quarter on Solid Track for Second Consecutive Quarterly Contraction. For the production and nonsupervisory employees category—the only series for which there is a meaningful history (see the full discussion on in today's *Reporting Detail*, the regularly-volatile, real average weekly earnings declined month-to-month in November 2017, the third month down in the last four. With a revised, deepened quarterly contraction for third-quarter 2017 activity, the quarterly contraction unfolding for fourth-quarter 2017 also deepened, with two out of three months in place.

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, 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.

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

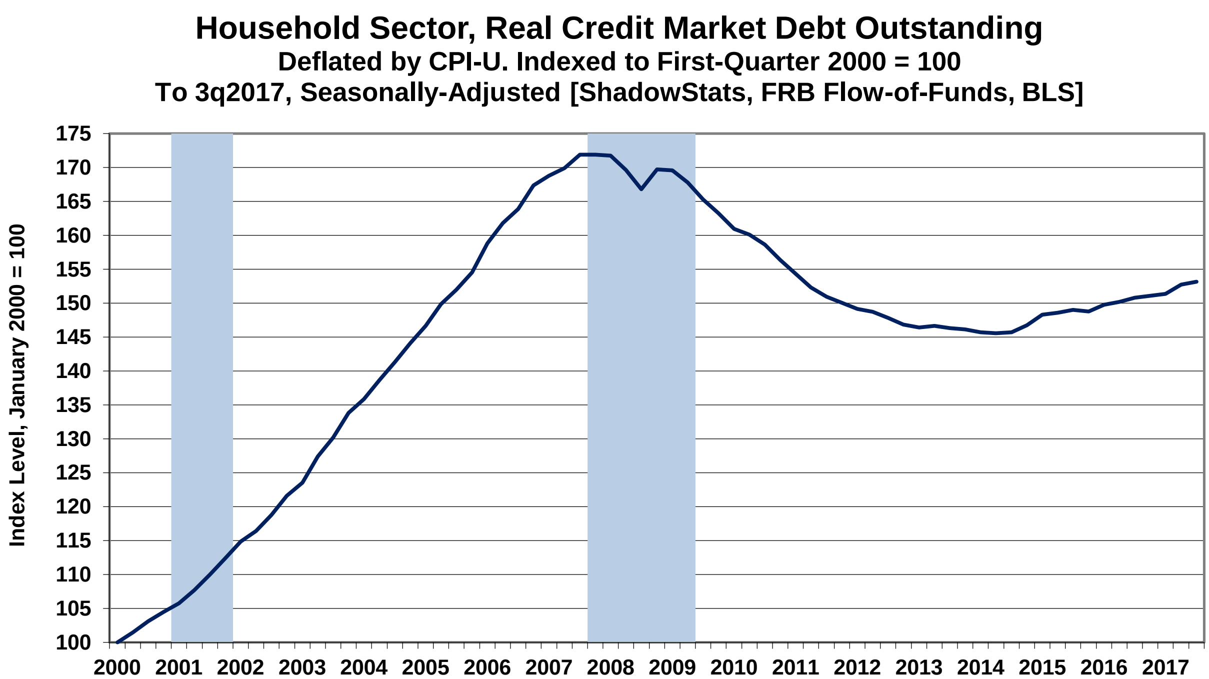


Consumer Credit: Lack of Meaningful Real Consumer Credit Growth Remains an Economic Constraint. The final four graphs on consumer conditions address consumer borrowing. Where debt expansion can help make up for a shortfall in income growth, adequate expansion of consumer debt, which would help fuel growth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

Quarterly Series. 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 third-quarter 2017, released on December 7th. Household Sector, Real Credit Market Debt Outstanding in third-quarter 2017 still was down by 10.9% (-10.9%) from its pre-recession peak of third-quarter 2007. That was against a second-quarter 2017 decline of 11.2% (-11.2%). The flattened visual uptick at the latest point in *Graph CLW-8* reflected a slowing in real year-to-year change from 1.70% in second-quarter 2017, to 1.55% in third-quarter 2017.

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 and intermittently into second-quarter 2017. Current activity also has reflected continuing relative strength from student loans, as shown in the *Graphs CLW-9* to *CLW-11*.

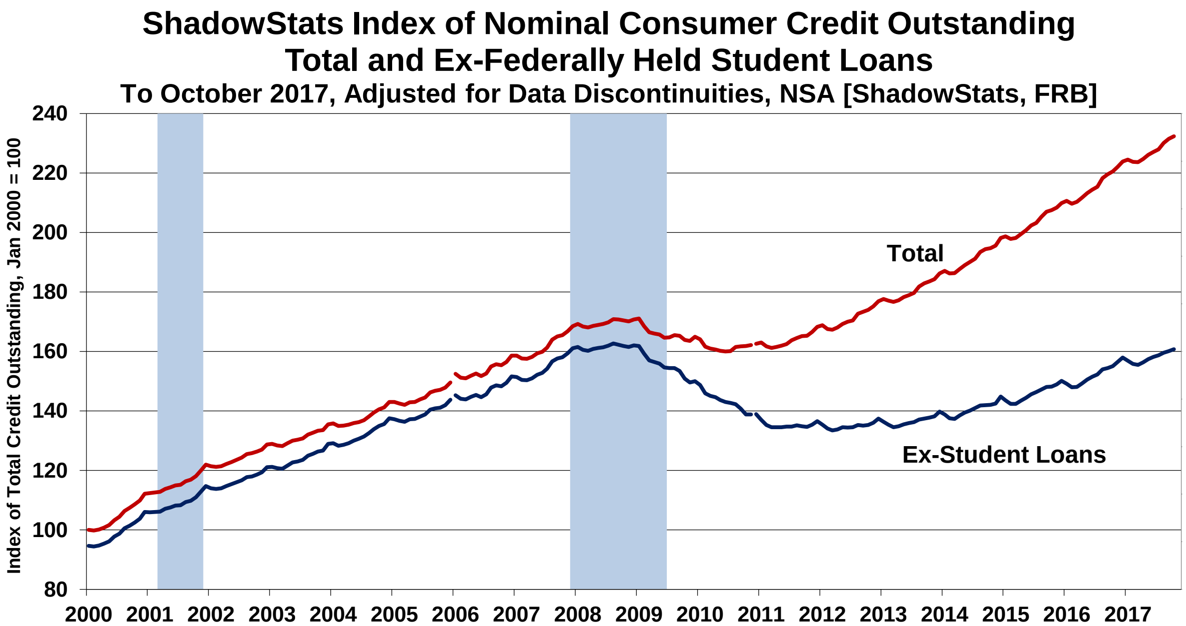
Graph CLW-8: Household Sector, Real Credit Market Debt Outstanding (2000 through Third-Quarter 2017)



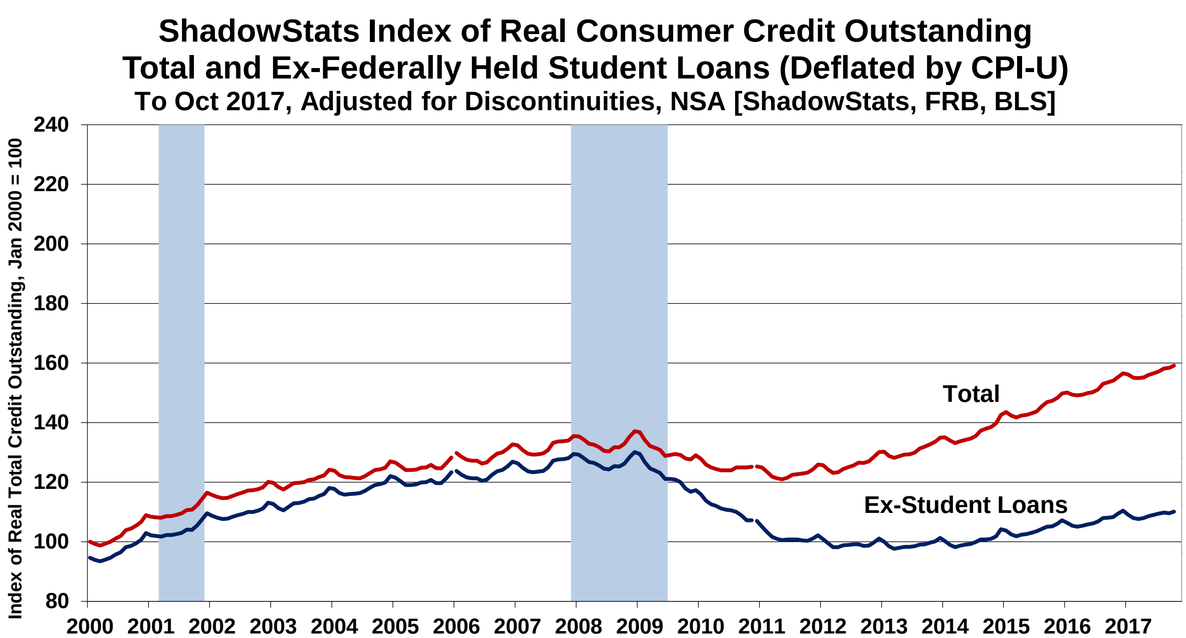
Monthly Series. The ShadowStats analysis usually focuses on the particular current and continuing weakness in monthly levels of consumer credit, net of what has been rapidly expanding government-sponsored student loans. Where detail on that series is only available not-seasonally-adjusted, the following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

Shown through the October 2017 reading (released December 7th), *Graph CLW-9* of monthly Consumer Credit Outstanding is a subcomponent of the preceding *Graph CLW-8* on real Household Sector debt. Where *Graph CLW-9* reflects the nominal reporting, real or inflation-adjusted activity for monthly Consumer Credit Outstanding is shown in terms of both level (Graph CLW-10) and year-to-year change (*Graph CLW-11*).

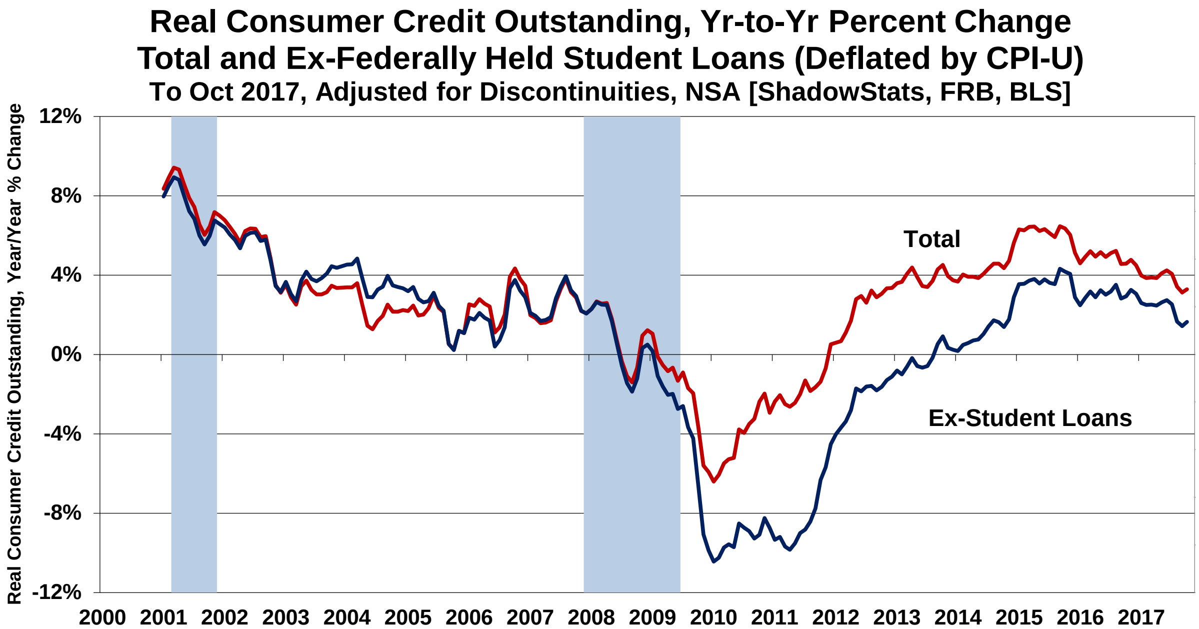
Graph CLW-9: Nominal Consumer Credit Outstanding (2000 to 2017)



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



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



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 October 2017 was down from its December 2007 pre-recession peak by 15.0% (-15.0%) [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.

[The* Week, Month and Year Ahead *begins on the next page.]

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WEEK, MONTH AND YEAR AHEAD

U.S. Dollar and Financial-Market Instabilities and Turmoil Remain at High Risk, Along with Continued Deterioration of Domestic and Global Economic and Political Circumstances. Irrespective of heavy press hype to the contrary, and in the context recent FOMC tightening, despite Federal Reserve Chair Yellen's perception of a "highly uncertain" economic outlook, the economy indeed is not recovering or booming. Allowing for hurricane disruptions and recovery from same, most series should be back to normal, reflecting "unexpected" downtrending economic activity, by the time of headline reporting for headline January and February 2018 economic activity, as discussed in today's (December 28th) *General Commentary*.

Where the Wall Street proponents of a never-ending stock-market rally have hyped temporary, nonrecurring economic boosts from natural disasters into a year-end 2017 economic boom, an unhappy period of the markets adjusting to underlying real-world circumstances looms likely in the next month or two, early in 2018. Negative economic "surprises" increasingly should shock the markets and the U.S. dollar on the downside. As the reported the economic downturn intensifies, the FOMC should be forced into an "unexpected" policy retrenchment, moving back towards quantitative easing as outlined in Federal Reserve policy.

In such circumstances, the U.S. dollar and financial markets remain at extraordinarily-high risk of panicked declines, again, increasingly likely in the very near term. Today's *General Commentary*, and the *Opening Comments* and an expanded *Hyperinflation Watch* of *Commentary No. 927* reviewed some background to real-world economic conditions, continuing from the *Opening Comments* and brief *Hyperinflation Watch* of *Commentary No. 925*. Those comments speak for themselves.

Holding physical gold and silver remain the ultimate hedges—stores of wealth—for preserving the purchasing power of one's U.S. dollar assets, in the context of liquidity and portability during times of high inflation and currency debasement, and/or political-system upheaval, discussed regularly here. See the comments linked to other recent *Hyperinflation Watches*, provided in the next section.

Following this note, other than for the *Pending Releases* and updated links, language changes in this section from the prior *Commentary No. 928* are minimal. Please call (707) 763-5786, if you would like to discuss current circumstances, or otherwise. *Best wishes – John Williams*

***Recent* Hyperinflation Watch *and* Special Comments.** Previous background to the markets and potential near-term FOMC activity have been reviewed recently in the *Hyperinflation Watches* of *Commentary No. 920* and *Special Commentary No. 918-B* of October 30th, with the nomination for the new Fed Chairman, as touched upon in the *Hyperinflation Watch* *Commentary No. 919-A* of November 3rd, not likely to have immediate, near-term market impact.

Discussed in *Hyperinflation Watch* of *Commentary No. 909*, 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.

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

The reporting patterns of the better-quality, less-gimmicked series likely will continue to weaken with increasing intensity in the weeks and months ahead. Adding a negative uncertainty to unfolding financial-market risks remains potential political surprise, discussed in *Special Commentary No. 888*. Otherwise, the broad outlook has not changed. Reflected in common experience, actual U.S. economic activity generally continues in stagnation or downturn, never having recovered its level of pre-economic-collapse (its pre-2007-recession peak), while the latest GDP reporting shows an otherwise unconfirmed economic expansion of 14.4%.

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

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

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

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

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

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

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

Commentary No. 928 (December 22nd) covered November 2017 New Orders for Durable Goods, New- and Existing-Home Sales and the third estimate of Third-Quarter 2017 GDP.

Commentary No. 927 (December 19th) reviewed November 2017 New Residential Construction (Housing Starts and Building Permits), along with an expanded discussion on underlying economic reality and the financial markets.

Commentary No. 926 (December 15th) reviewed the headline November 2017 numbers for Retail Sales (both real and nominal), and Industrial Production, along a discussion on the dampening economic impact of business and consumer "uncertainty."

Commentary No. 925 (December 13th) reviewed November 2017 headline detail on the CPI and PPI, along with an update on the FOMC actions and the regular U.S. dollar, gold graphs.

Commentary No. 924 (December 8th) discussed the November 2017 Employment and Unemployment details and Conference Board Help Wanted OnLine® Advertising, the October Trade Deficit and Construction Spending and updated Monetary Conditions in November.

Commentary No. 923 (November 29th) covered the second estimate of Third-Quarter 2017 GDP, including initial estimates for Third-Quarter GNP, GDI and Per Capita Real Disposable Income, the October Trade Deficit, Cass Freight Index and New-Home Sales.

Commentary No. 919-B (November 6th) provided more in-depth detail on the October 2017 labor detail.

Commentary No. 919-A (November 3rd) provided initial detail and background on October labor data, and reviewed the October 2017 Conference Board Help Wanted OnLine® Advertising, the September Cass Freight Index™, Trade Deficit and Construction Spending, and updated Monetary Conditions.

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*.

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. 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. 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 updated *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.

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.

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: Construction Spending (November 2017). The Commerce Department will release its estimate of November 2017 construction spending on Tuesday, January 2nd. Detail will be covered in *Commentary No. 930* of January 5th. The October release showed an intensifying downturn in the construction industry, with a continuing year-to-year contraction in inflation-adjusted real activity. The onset of an annual downturn in inflation-adjusted activity was seen last in the housing collapse of 2006 and is indicative of the onset of a new recession. While such should remain the ongoing trend, recovery and rebuilding efforts from hurricane damages still may offer some short-lived, near-term moderation to the increasingly negative activity.

U.S. Trade Deficit (November 2017). The Commerce Department and Bureau of Economic Analysis (BEA) will release their full version of the monthly U.S. trade balance for November 2017, on Friday, January 5th, to be covered in ShadowStats *Commentary No. 930* of that date. Today's December 28th release of the often-worthless "advance" estimate, showed a continuing deterioration in the monthly goods-based trade deficit, worse than expected, with implications for an sharp widening of the fourth-quarter real trade deficit and a parallel hit to fourth-quarter 2017 GDP, discussed in the opening

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comments on the economic outlook. Consensus expectations for the full report should run in tandem with the “advance” estimate. Reporting risks here, however, continually run to the negative side of expectations.

Employment and Unemployment (November 2017). The Bureau of Labor Statistics (BLS) will publish the headline December 2017 labor data on Friday, January 5th. Circumstances will be covered in *Commentary No. 930* of that date.

In the context of annual benchmark revisions to the Unemployment and related Household Survey reporting, there should be continued unwinding of the extremely disruptive reporting impact of recent major hurricanes on the last several months of seasonally-adjusted headline household-survey data (see *Commentary No. 915*, *Commentary No. 919-B* and *Commentary No. 924*). These data otherwise are distorted regularly by reporting issues discussed in *Special Commentary No. 885*: *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*.

The payroll survey data appear to have absorbed their impact of the hurricane disruptions, still showing low annual growth on the brink of recession. The annual benchmarking for the payroll numbers looms for the January 2018 detail to be released on February 2nd. Consensus expectations for the headline December payroll change likely will be around the prior November reporting of a 228,000 gain. In the current environment of slowing, fundamental activity, net of waning natural-disaster impact, headline surprises should tend to be to the downside of expectations.

The household survey (including employment and unemployment), however, remains a temporary wildcard. Extreme volatility has been seen with the independently calculated and seasonally-adjusted monthly numbers being compared month-to-month, where those numbers simply are not comparable. Noted in *Commentary No. 924*), “Most likely, the household survey detail will not stabilize until the benchmark revisions published with the December 2017 monthly detail. The end results here should be a negative shock to the markets.” That is the January 5th circumstance.

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