John Williams'

Shadow Government Statistics

Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 933

Dollar Turmoil, Fourth-Quarter GDP, New Orders, Freight Index, Home Sales

January 26, 2018

As the U.S. Dollar Weakens, and Gold and Oil Prices Jump, Watch Out for the Stock Market!

The Worst Trade Deficit Since 2007 Clobbered Fourth-Quarter GDP; Deteriorating Net Exports Knocked 1.13% (-1.13%) Off Quarterly Growth

Fourth- Versus Third-Quarter Real GDP Growth Slowed to 2.55% from 3.16%, with Inventory Liquidation and a Soaring Trade Deficit Offsetting Some of the Gains from Surging Defense Spending and Disaster-Boosted Demand for Goods and Structures

Net of Trade and Inventories, Fourth- Versus Third-Quarter Real GDP Growth Jumped to 4.35% from 2.01%

Better-Quality Economic Measures Still Show No Full Recovery from the Recession: U.S. Durable Goods Orders, Freight Activity and Manufacturing All Have Completed a Full Decade of No Economic Expansion

Defense Spending Boosted December Durable Goods Orders Sharply

Faltering Consumer Outlook

Foreclosures Appear to Be on the Rise, as Existing-Home Sales Sink Anew

On Top of Sharp Downside Revisions to November Home Sales, December Activity Plunged Monthly by 9.3% (-9.3%) and by 3.6% (-3.6%) for New and Existing Homes, Shy of Respective Pre-Recession Peaks by 55.0% (-55.0%) and 23.4% (-23.4%)

PLEASE NOTE: A Special Commentary on Tuesday, January 30, 2018, will provide a review of 2017 and a preview of 2018, followed by a Regular Commentary on Friday, February 2nd, covering January Employment and Unemployment, Annual Payroll Benchmarking, and December Construction Spending. The full payroll-benchmarking analysis likely will go over the weekend.

Best wishes — John Williams (707) 763-5786

Today's (January 26th) *Opening Comments and Executive Summary.* The ***Opening Comments*** discusses unfolding circumstances for the U.S. dollar, the "advance" estimate for the December 2017 merchandise Trade, along with the detail of the December Cass Freight Index™. Such is in the context of continued unwinding of hurricane distortions on in headline economic data. The ***Executive Summary*** (page 10) provides highlights of the "advance" estimate of Fourth-Quarter 2017 GDP, December New Orders for Durable Goods and New- and Existing Home Sales.

The ***Reporting Detail*** (page 31) reviews in greater depth the details of new GDP, Orders and Home Sales data.

The ***Hyperinflation Watch*** reports on Fourth-Quarter 2017 Velocity of Money [GDP/Money Supply] (page 46).

The ***Consumer Liquidity Watch*** (page 49) has been updated for the University of Michigan's early-estimate of January 2018 Consumer Sentiment.

The ***Week, Month and Year Ahead*** (page 63) provides background on recent *Commentaries*, and previews releases of January Employment and Unemployment data, including the annual Payroll Employment benchmarking, and December Construction Spending.

OPENING COMMENTS

Talking Down the U.S. Dollar Intensifies Downside Risks to the U.S. Equity and Credit Markets. At the Davos World Economic Forum, on Wednesday, January 24th, U.S. Treasury Secretary Steven T. Mnuchin signaled that the Trump Administration would like to see a weaker dollar in order to help boost the U.S. trade balance. That triggered some intensified dollar selling, which continued into Thursday, despite subsequent hemming and hawing by the Treasury Secretary and others in the Administration, until President Trump said that he had been misunderstood and really wanted a strong dollar.

The dollar rallied on the President's comments, but it has continued its decline on Friday as we go to press; a pattern of selling that fundamentally had been in place before Davos.

In response to the intensified selling of the dollar, gold and oil prices had jumped. Treasury Bond yields also rose in response, but the U.S. stock market continued its blind rally into what most assuredly will not be a happy near-term result. Jawboning can move the dollar briefly, but when the underlying fundamentals increasingly are negative, as at present, dollar selling should prevail over the longer haul.

In the current environment of uncontained federal spending and an underlying reality of a broad, stagnant real-world economy likely to show a deepening, headline downturn in the next several months, and widening U.S. trade deficit (see the next section), U.S. dollar selling should intensify in the months ahead. In parallel, there should be a resulting, fundamentally-driven hit to both the domestic equity and credit markets, as frequently discussed here (see, for example, the *Opening Comments* and *Hyperinflation Watch* in *Commentary No. 931*).

Mr. Mnuchin should have known better. The Treasury Secretary's comments on the dollar might have added policy significance, however, in the context of the U.S. Senate confirming Jerome Powell as the new Federal Reserve Chairman, on January 23rd. The Federal Reserve had been the driving force behind strengthening the dollar in recent years. Mr. Powell takes the helm of the Board of Governors of the Federal Reserve System on February 3rd.

Underlying relative economic conditions (including the trade balance and inflation), interest rates and political stability are primary fundamentals that drive the trend in the U.S. dollar's exchange rate. That trend can be exacerbated by, or otherwise offset only temporarily by official comments.

This Circumstance Should Prove Highly Negative for U.S. Equities. Rallying stocks and bonds, and a strong dollar attract foreign investors into the U.S. stock and credit markets. That usually reverses when the value of the U.S. dollar begins to fall more quickly than market values are rallying. The effect is that investors living in a non-dollar-denominated world lose wealth. The same is true for those living in a U.S. dollar-denominated world, who lose real purchasing power of their wealth and assets. Those losses can be hedged against with physical holdings of gold and silver.

Slightly over thirty years ago, on Saturday, October 17, 1987, then-U.S. Treasury Secretary James A. Baker made some comments as to the U.S. no longer supporting the U.S. dollar against what was then the Deutschemark. That was fundamental bad news for an already, fundamentally-weak dollar. The great Stock Market Crash of 1987 followed, when the markets opened on Monday, October 19th, with the Dow Jones Industrial Average closing down that day by 22.6% (-22.6%).

The current circumstances will be reviewed in the *No. 934 Special Commentary* planned for Tuesday, January 30, 2018, updating *No. 859 Special Commentary* of January 8, 2017.

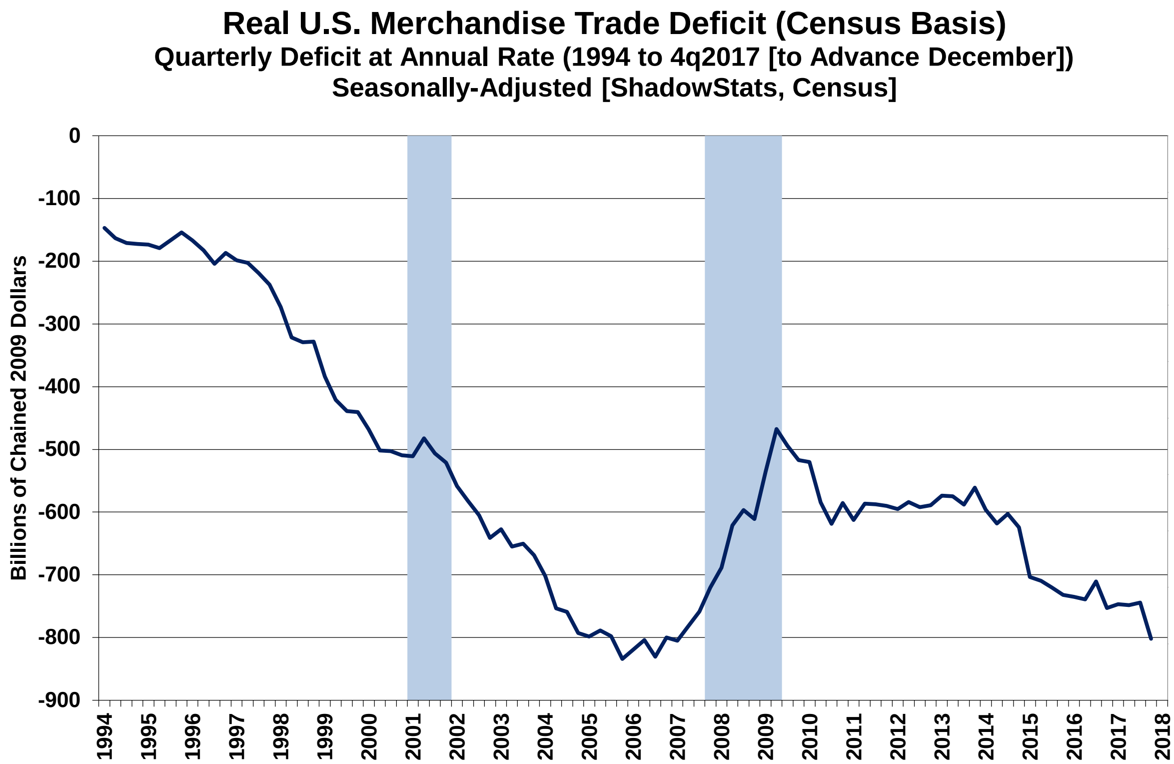
Advance Estimate of December and Fourth-Quarter 2017 Real Merchandise-Trade Deficit Was Worst Since First-Quarter 2007. Based on a worse than-than-consensus "advance" estimate of the December 2017 Trade Balance (Deficit) in Goods, ShadowStats estimates that the real Merchandise-Trade Deficit widened sharply for fourth-quarter 2017, the worst such showing since first-quarter 2007, as reflected in *Graph OC-1*. One further quarter of similar quarter-to-quarter deterioration would push the quarterly, real-Merchandise-Trade Deficit to its worst level in the history of the series.

Delayed by the shutdown in the Federal Government, the "advance" December number—used in the estimating the "advance" fourth-quarter 2017 GDP—was released this morning, January 26th, coincident with the GDP estimate. Initial full detail on the December deficit is scheduled to be published on February 6th and will be covered in *Commentary No. 936* of the date.

The headline "advance" December goods deficit detail resulted in a sharp deterioration in the real Net Exports account of the GDP, which reduced the headline, real fourth-quarter 2017 annualized GDP growth rate by 1.13% (-1.13%), reflected in *Table 1* of the *Executive Summary*. As estimated this morning by the Bureau of Economic Analysis (BEA), the fourth-quarter 2017 deficit in the Net Exports of

Goods and Services was the worst showing since third-quarter 2007, while the deficit in the Net Exports of Goods was the worst showing since second-quarter 2007. The Services sector estimate here is of limited real-world significance.

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



December 2017 Freight Index Year-to-Year Change Rose Again; Series Still in Non-Expanding, Low-Level Stagnation with Annual Activity Still Off Its Pre-Recession High by 12.8% (-12.8%). The Cass Freight Index™ is an independent, reliable private indicator of real-world economic activity and shifting business patterns. December 2017 Index detail was posted January 19th.

Continued low-level stagnation and non-recovery in the broad economy and general business activity were reflected, once again, in the new headline numbers, although annual growth continued to rise, reversing a recent pattern of slowing year-to-year gain.

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 9.93% (-9.93%) from recovering its formal pre-recession high, down by 12.78% (-12.78%) from its precursor peak (see *Graph OC-2*).

For the thirteenth consecutive month, the fourteenth month in the last fifteen, year-over-year change in monthly index was positive, turning higher, once again in December 2017, after several months of slowing growth (see *Graph OC-5*). 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, rebounding to 3.86% in August 2017, falling back anew to 3.24% in September 2017 and to 2.85% in October 2017, rebounding to 6.26% in November 2017 and to a new, near-term high of 7.17% in December 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 100-year history of the Industrial Production series. Comparative growth patterns of the Freight Index versus New Orders for Durable Goods, and the related dominant Manufacturing Sector of Industrial Production are reflected in *Graphs OC-2* to *OC-4* as to level and in *Graphs OC-5* to *OC-7* as to year-to-year change.

The recent, repeating pattern of year-to-year monthly gains in the Cass Index has excited trucking industry speculation that the recession in freight activity had hit bottom, and perhaps it has. Even with the increased annual gain in December 2017 activity, though, the current patterns of smoothed levels of activity and year-to-year gains have yet to break out of the non-recovery pattern of the last seven years and to enter a period of new expansion, once breaking above its pre-recession peak activity. Again, as shown in *Graphs OC-2* to *OC-4* monthly growth is stagnant, albeit somewhat uptrending.

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 level of the series breaks above its pre-recession high.

Noted earlier, the ShadowStats smoothed headline reading on the Cass Freight Index, through December 2017 (*Graph OC-2*) remained down by 12.78% (-12.78%) from recovering its preliminary pre-recession peak of September 2006, down by 9.93% (-9.93%) 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 or GDP) 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 reporting of recent years and the last 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 *Graphs OC-3 and OC-4* of Real Durable Goods Orders (ex-Commercial Aircraft) and the dominant Manufacturing sector Industrial Production through December 2017.

General Background to the Freight Index. *[This section largely is repeated from its prior version in Commentary No. 927.]* 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.

Graph OC-2 reflects the monthly freight numbers updated through December 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 plot 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 through December 2017 (again, see *Graph OC-2*).

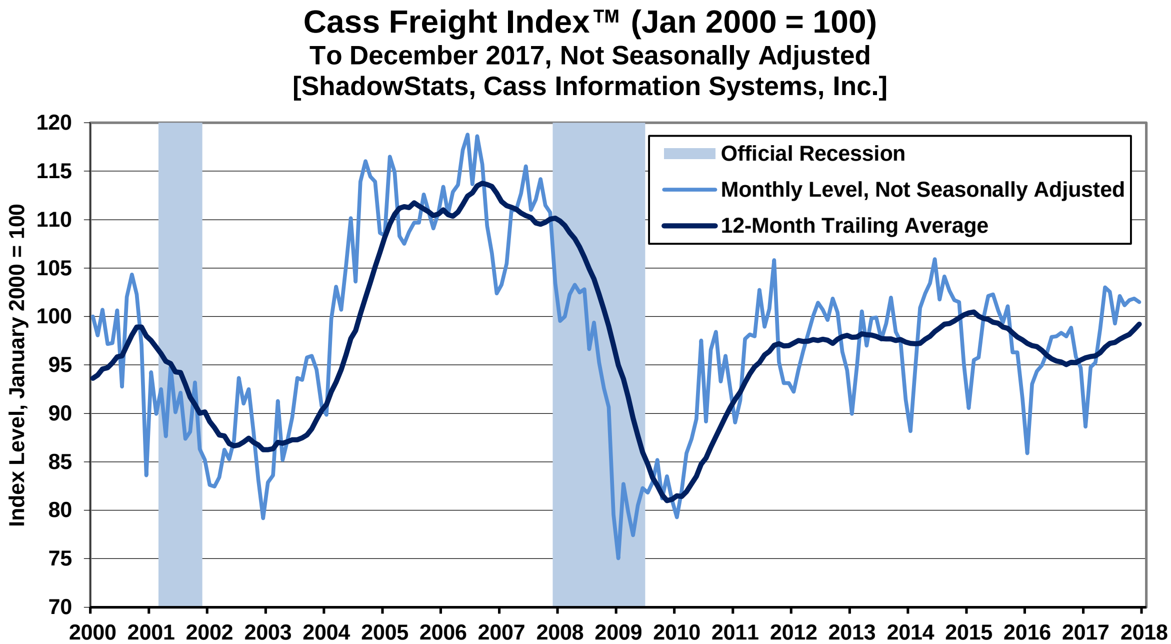
Another approach to assessing not-seasonally-adjusted monthly detail is to look at year-to-year change by individual month, as plotted in *Graph OC-5*. The unadjusted monthly detail had been in continual year-to-year decline since March of 2015, down at an intensified annual rate of 3.05% (-3.05%) in 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, again, falling back to 3.24% in September 2017 and 2.85% in October 2017, with rebounds to 6.26% in November 2017 and 7.17% in December 2017.

Again, consider for comparison purposes *Graphs OC-2* to *OC-4* of the various smoothed twelve-month moving averages and *Graphs OC-5* to *OC-7* of the various year-to-year changes in freight activity, new orders and manufacturing. Once again, with the headline, smoothed freight numbers through December 2017 down by 9.9% (-9.9%) versus its December 2007 pre-recession high, that is the growth deficit that has to be overcome before formal economic "Expansion" begins. In terms of the seasonally-adjusted twelve-month trailing smoothed December 2017 detail, real new orders (ex-commercial aircraft) was down by 5.7% (-5.7 %), with manufacturing activity was down by 4.5% (-4.5%). In happy, incredulous conflict, the headline fourth-quarter 2017 real GDP detail was up by 15.2%, over the same period, against its fourth-quarter 2007 pre-recession peak.

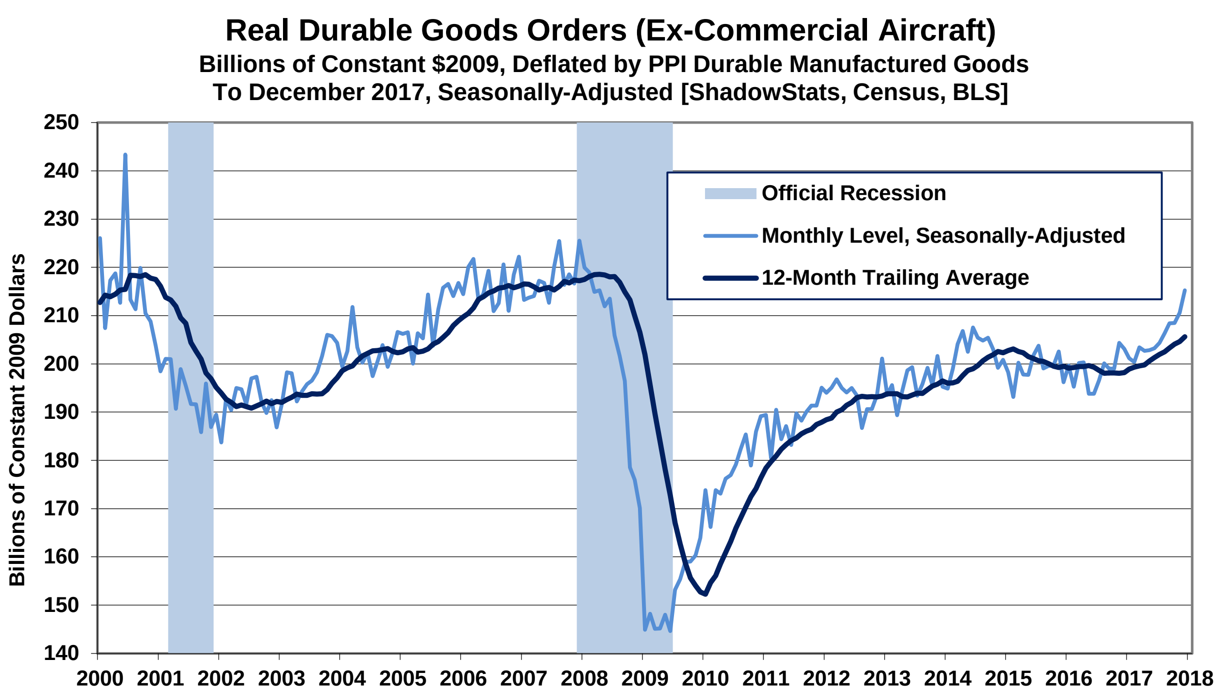
In combination, *Graphs OC-2* to *OC-4* remain consistent with a pattern of collapsing economic and business activity into 2009, low-level, non-recovering stagnation thereafter and a renewed downturn effectively coincident with a "new" recession, which, again, likely will be timed from December 2014,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

[Graphs OC-2 to OC-7 begin on the next page]

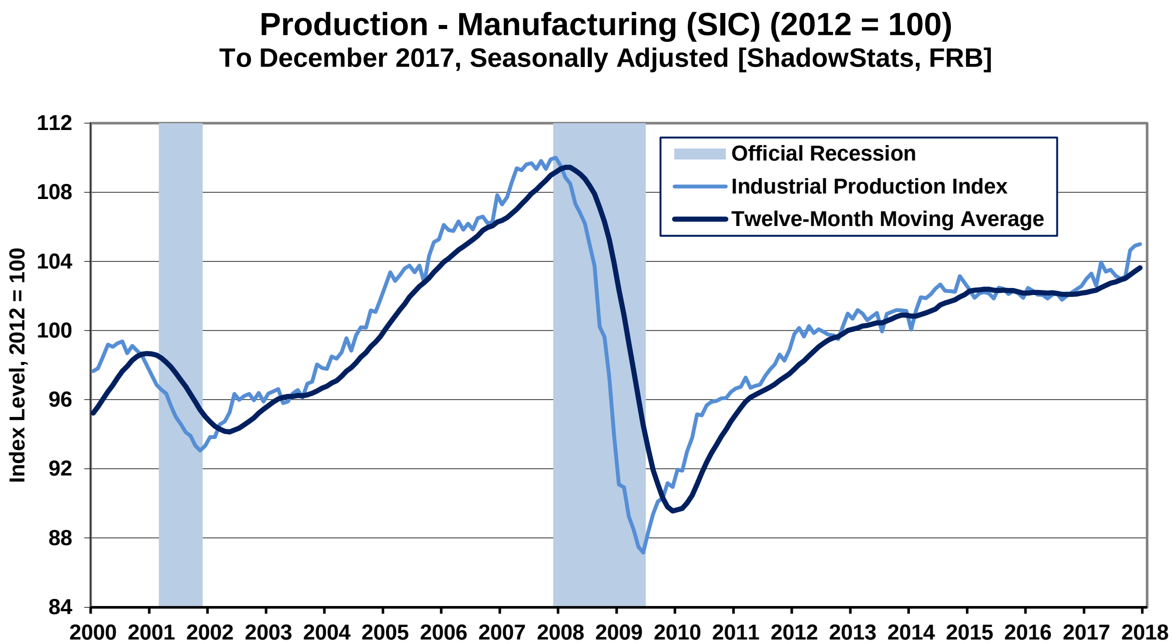
Graph OC-2: CASS Freight Index™ Moving-Average Level (2000 to December 2017)
(Same as Graph 5 in the Executive Summary)



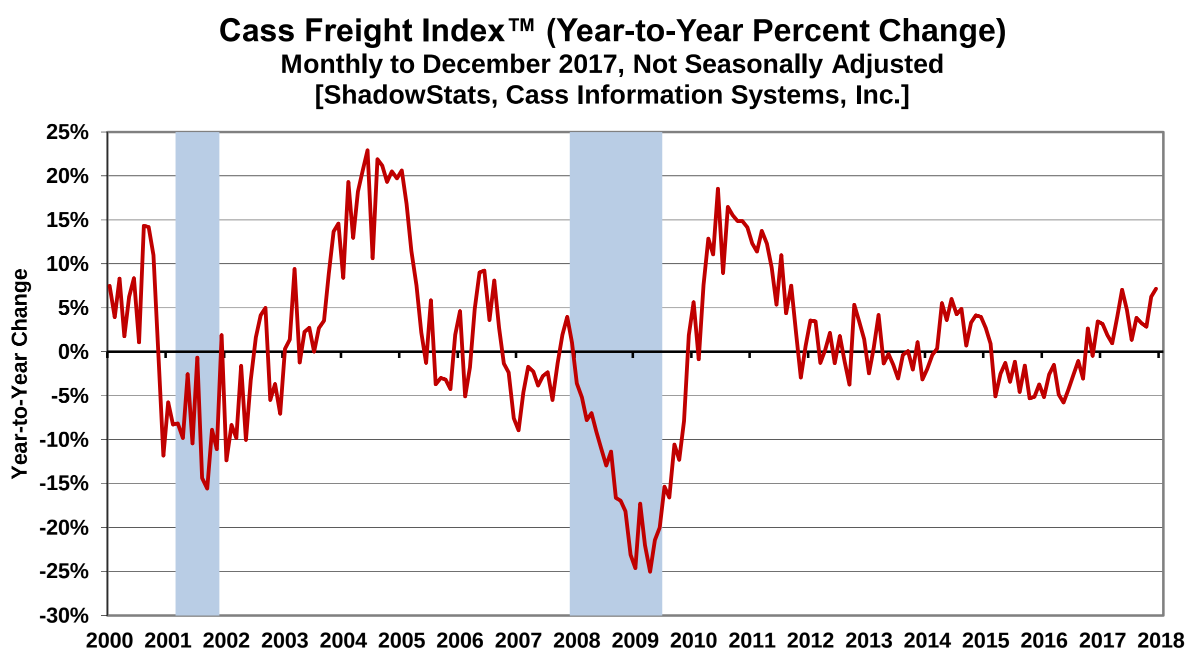
Graph OC-3: Real Durable Goods Orders, 12-Month Moving-Average Level (2000 to December 2017)



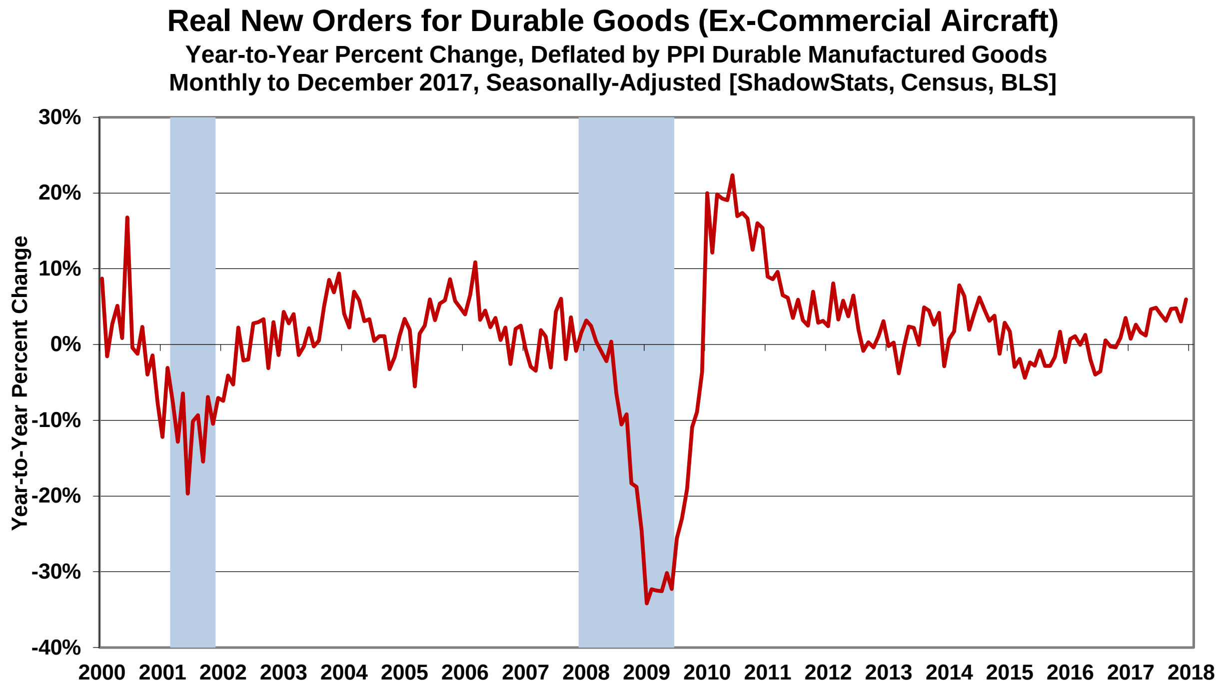
Graph OC-4: Production - Manufacturing, Moving- Average Level (2000 to December 2017)



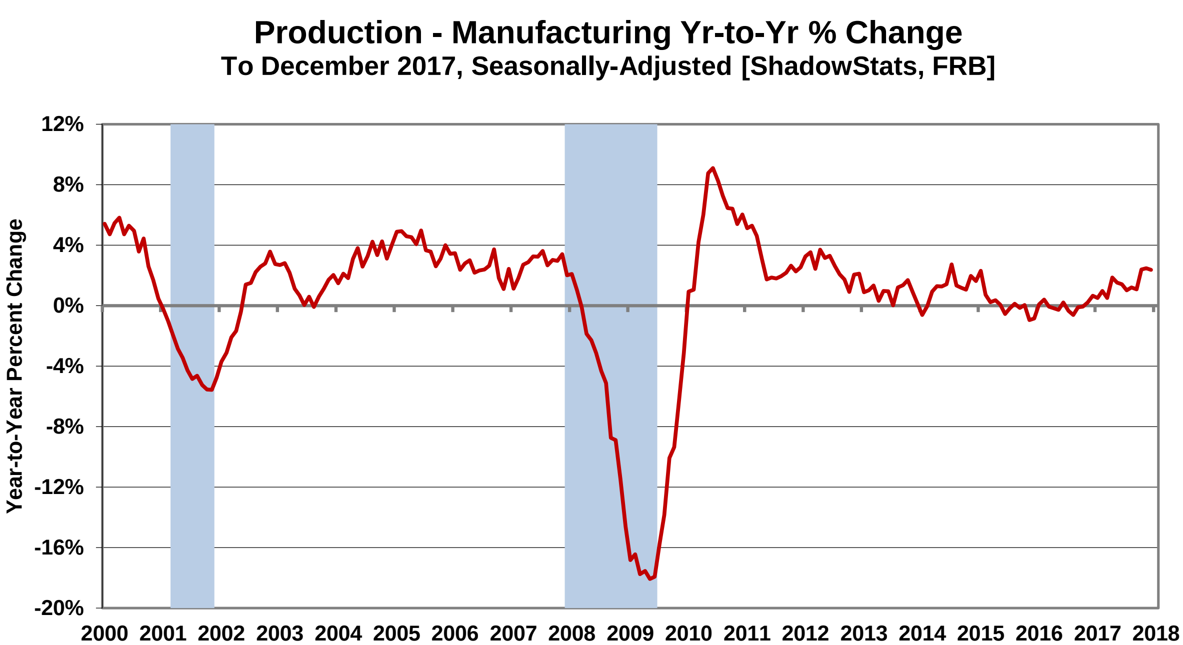
OC-5: CASS Freight Index, Monthly Year-to-Year Percent Change (2000 to December 2017)



Graph OC-6: Real Durable Goods Orders, Year-to-Year Percent Change (2000 to December 2017)
(Same as Graph 12 in the Executive Summary)



Graph OC-7: Production - Manufacturing, Year-to-Year Percent Change (2000 to December 2017)
(Same as Graph 17 in [Commentary No. 932](#))



EXECUTIVE SUMMARY: Gross Domestic Product (GDP)—Fourth-Quarter 2017, First or "Advance" Estimate—Annualized Growth Slowed to 2.55% from 3.16% in Third-Quarter. The real or inflation-adjusted first or "advance" estimate of annualized fourth-quarter 2017 GDP growth slowed to 2.55% from 3.16% in third-quarter 2017. That slower growth was weaker than consensus estimates of around 2.9%, and was dominated by a widening trade deficit and an inventory liquidation, against surging goods consumption, real estate investment and government defense spending (see the defense aircraft orders mention in the *Reporting Detail* coverage of new orders for durable goods).

Table 1: Headline First Estimate of Fourth-Quarter 2017 GDP Growth Distribution versus Recent Quarters

Annualized Quarterly Real Growth in Headline Gross Domestic Product Growth Contribution by Consumption and Product Sector						
	4th-Q 2017 First Estimate	3rd-Q 2017	2nd-Q 2017	1st-Q 2017	4th-Q 2016	3rd-Q 2016
CONTRIBUTING ECONOMIC SECTOR						
Personal Consumption Expenditures						
- Goods	1.76%	0.97%	1.16%	0.15%	1.03%	0.69%
- Services	0.82%	0.52%	1.08%	1.17%	0.97%	1.23%
Gross Private Domestic Investment						
- Fixed Investment	1.27%	0.40%	0.53%	1.27%	0.28%	0.23%
- Change in Private Inventories	-0.67%	0.79%	0.12%	-1.46%	1.06%	0.16%
Net Exports of Goods and Services	-1.13%	0.36%	0.21%	0.22%	-1.61%	0.36%
Government Consumption/Investment	0.50%	0.12%	-0.03%	-0.11%	0.03%	0.09%
GDP Annualized Real Growth	2.55%	3.16%	3.06%	1.24%	1.76%	2.78%
Final Sales, GDP Less Inventories	3.22%	2.37%	2.94%	2.70%	0.70%	2.62%
CONTRIBUTING PRODUCT SECTOR						
Goods	1.00%	2.74%	2.10%	-0.47%	0.88%	1.39%
Services	0.86%	0.93%	1.32%	0.91%	0.61%	1.39%
Structures	0.69%	-0.51%	-0.36%	0.80%	0.27%	0.01%
GDP Annualized Real Growth	2.55%	3.16%	3.06%	1.24%	1.76%	2.78%
Sources: Bureau of Economic Analysis (BEA), ShadowStats.						

The surging goods and real estate heavily largely reflected replacement activity from hurricane and wildfire destruction in third- and fourth-quarter 2017. Net of the inventory drawdown and trade deterioration, real quarterly growth would have surged by 4.35%. Year-to-year, fourth-quarter 2017 annual real growth rose to 2.50%, from 2.30% in third-quarter 2017.

All these numbers likely saw hurricane-related disruptions. As the distortions pass through the system, indications of underlying, weaker growth should become increasingly obvious. The return to more-normal activity in first-quarter 2018 GDP still runs high risk of an outright quarterly contraction.

Fourth-Quarter 2017 GDP, "Advance" or First Estimate – Growth Distribution. The initial estimate of fourth-quarter 2017 annualized real GDP growth came in at 2.55%, versus an unrevised 3.16% in third-quarter 2017. The annualized growth contribution from each sub-category of consumer spending, business/ residential investment, trade deficit (net exports) and government spending is additive, summing in combination to the total headline change in GDP, where 2.58% + 0.60% -1.13% + 0.50% = 2.55% (see *Table 1* for more-complete breakout). On the plus-side were consumption of goods, real-estate investment and government spending. On the downside, the trade-balance (net exports) deficit deepened, along with a sharp decline in inventories.

Regrouped by the general nature of product-sector activity, the headline fourth-quarter 2017 GDP gain of 2.55% encompassed positive growth-rate contributions of 0.86% from the services sector, 1.00% from the goods sector and 0.69% from the structures sector (again, see *Table 1* for recent historical comparisons). The gains in goods and structures were boosted heavily by hurricane destruction.

Implicit Price Deflator, Gross National Product and Gross Domestic Income. Discussed in the *Reporting Detail*, the GDP inflation measure, the Implicit Price Deflator (IPD) increased in fourth-quarter 2017 versus third-quarter 2017 on both a year-to-year and quarter-to-quarter basis, in tandem with, but not at as great a pace as the CPI-U. Also discussed in the *Reporting Detail*, the first estimates of the GDP-related fourth-quarter 2017 Gross National Product (GNP) and Gross Domestic Income (GDI) series are not due for release until the second-estimate of the fourth-quarter GDP on February 28th, given the usual, horrendous quality issues with these series.

Underlying Economic Reality. *[Note: With natural-disaster-related disruptions playing out and beginning to wind down, and with headline GDP growth still positive, but shy of three percent, much of this text is repeated from Commentary No. 928, which covered the details of the third estimate of third-quarter 2017. All details and graphs have been updated to reflect the latest developments and numbers (also, for background, see the* Economy *section of* No. 859 Special Commentary, *and related headline issues raised in* Special Commentary No. 888, Commentary No. 887, Special Commentary No. 885, Commentary No. 877, Commentary No. 876 *and* Commentary No. 900, *all incorporated here by reference).*

The consumer-base of the U.S. economy remains troubled, with faltering confidence and mounting liquidity issues as discussed in the *Consumer Liquidity Watch* on page 49, and reflected in faltering home sales, as discussed in the *Existing-Home Sales* section of the *Reporting Detail* on page 46.

Headline fourth-quarter 2017 real annualized growth came in below the 40-year series average for both the annualized and annual growth rates of 2.7%, for the first time since 1.24% in first-quarter 2017, despite the temporary, one-time boosts to fourth-quarter activity from the systemic disruptions and distortions tied to a particularly violent and destructive 2017 Atlantic Hurricane Season. That said, headline growth GDP still was positive, yet underlying U.S. economic activity continued in a deepening-to-flattening and as-yet-unrecognized "new" recession.

Distortions, aside, headline monthly reporting activity in better-quality subsidiary economic series continued to confirm a still unfolding, renewed contraction (the ShadowStats contention remains that the "new" downturn is in reality just a continuation of the economic crash into 2009, from which the aggregate real-world economy never fully recovered). While the July 2017 GDP benchmarking did show some slowing in previously-reported 2016 and 2017 growth, activity in 2014 and 2015—otherwise heavily revised to downside in series-specific benchmarkings (again, see *Commentary No. 900*)—revised higher with that GDP benchmarking.

This ongoing, low-level, non-recovering stagnation/new downturn in the real-world economy remains in place despite some corrective regulatory actions. Continuing efforts by the Trump Administration to enact new policies aimed at generating economic stimulus largely have been frustrated by an uncooperative Congress. That said, the recently-enacted tax reforms should generate some stimulus for business activity. Assuming eventual, coordinated and meaningful legislative movement in the Congress—despite continuing, significant political discord—and given basic economic lead times, the first major, positive impact on the economy, from any actions now, would be well after the 2018 Congressional election, in early-2019.

The continuing, nonsensical, headline economic boom stories in the popular press largely have been generated as a result of hurricane distortions boosting recovery-related consumption and production, seen in the headline fourth-quarter GDP. Beyond the one-shot, current hurricane-related boosts straddling third- and fourth-quarter 2017 GDP, underlying headline economic reporting and even headline GDP growth should turn lower/negative in the next several quarters, beginning with first-quarter 2018. Such had been signaled by a number of pre-hurricane indicators (see *Commentary No. 903*).

Benchmark Revisions and Perpetual GDP Overstatement. Formal recognition of a "new" recession likely will follow in 2018, even though its onset quarterly contraction—first-quarter 2018—likely will have been exacerbated by hurricane-distorted relative boosts to activity in the current fourth-quarter 2017.

Headline GDP overstatement has been a common issue in recent years. Discussed back in *Commentary No. 823*, the 2016 GDP benchmark revisions effectively were neutral in aggregate, with the business-cycle reporting "smoothed" by the BEA. The revisions were not of a nature to trigger formal immediate recognition of a "new" or double-dip recession, which likely still will be recognized as having begun around December 2014, perhaps with the comprehensive 2018-benchmarking overhaul. *Commentary No. 902-B* offered similar comments on the 2017 benchmarking.

Beyond the smoothing gimmicks of the 2016 benchmarking, the prior year's 2015 GDP annual benchmark revisions coverage—in *Commentary No. 739*—noted that annual benchmarkings increasingly were reshaping the GDP-reporting history into a post-2007 collapse pattern of successive multiple dips.

By the "comprehensive" GDP benchmark revision pending on July 27, 2018 (a restatement of activity back to 1929), potentially honest, post-2007 historical GDP reporting could be confirming a non-recovering, multiple-dip economic collapse including a "new" or ongoing downturn post-fourth-quarter 2014.

That circumstance should encompass the evolving, current downturn in broad, domestic economic activity, discussed in *No. 859 Special Commentary*. Again, the present, unofficial "new" recession or multiple-dip downturn remains likely to be timed from December 2014, even without headline back-to-back contractions of quarterly GDP currently in place. Formal recognition of same remains pending, albeit not imminent, where consecutive quarterly GDP contractions no longer are necessary for formal recession recognition (see the opening paragraphs of *Commentary No. 823*).

Headline Aggregate GDP Remains Heavily Overstated versus Underlying Reality. Formal headline GDP activity continues to run well above economic reality as signaled by a number of better-quality business indicators, as reviewed here and in *No. 859 Special Commentary*. A sampling of those indicators—plotted in this section—includes such varied series as domestic freight activity (*Graph 5*), industrial production capacity utilization (*Graph 6*), U.S. petroleum consumption (*Graph 7*), total real U.S. construction spending (*Graph 8*) and the employment-population ratio (*Graph 9*). Either the GDP reporting is wrong, or most other major economic series are wrong (see *Commentary No. 876* and *Commentary No. 877*).

While the GDP is heavily modeled, imputed, theorized and gimmicked, it also encompasses reporting from those various major economic series and private surveys, which still attempt to measure real-world activity. Flaws in the GDP inflation methodologies and simplifying reporting assumptions have created the headline post-2009 faux ongoing economic recovery and expansion.

Accordingly, the broad ShadowStats economic outlook has not changed a bit, fundamentally, and, again, the gist of most of following text remains along the lines as expounded upon in *No. 859* (an update is pending in *No. 934*, see *Pending Releases* in the *Week, Month and Week, Month and Year Ahead* section). The details and numbers here, again, are updated for the latest headline information. In combination, these various collapsing, non-recovering and non-expanding economic indicators eventually should engender a formal recession call, irrespective of the timing of actual, if any, headline quarterly contractions in real GDP, or what may be political/financial-market gaming of the GDP data and other headline numbers, such as the unemployment rate.

Fundamental, real-world economic activity shows that the broad economy began to turn down in 2006 and 2007, plunged into 2009, entered a protracted period of stagnation thereafter—never recovering—and then began to turn down anew in late-2014, early-2015. Irrespective of the reporting gimmicks introduced in the July 2013, July 2014 and July 2016 GDP benchmark revisions—including a recent pattern of inclusion and estimation of the still highly-questionable data on the Affordable Care Act (ACA) and related healthcare spending—a consistent, fundamental pattern of faltering historical activity, again, is shown in the accompanying "corrected" GDP graphs (see *Graphs 2* and *4*).

Discussed in today's *Consumer Liquidity Watch*, with liquidity-strapped consumers unable to fuel sustainable growth in consumption, a full business recovery could not have taken place since 2009. A "Recovery" and renewed economic "Expansion" (see *Commentary No. 875* for definitions) will not be forthcoming until consumer structural income and liquidity problems are resolved, including more-normal credit functioning of the domestic banking system.

Official and Corrected GDP. Reviewed and graphed in the *Opening Comments* of *Commentary No. 876*, the full economic "Recovery" and post-third-quarter 2011 "Expansion" indicated by headline real GDP numbers, remains an illusion. In scope, it is not supported by other major economic series. It is a statistical mirage created at least partially by using a too-low rate of inflation in deflating (removing certain inflation effects) from the GDP series. Today's accompanying graphs tell that story, updated for the first estimate of fourth-quarter 2017 GDP, as well as a sampling of other elements of economic reality.

The first set of graphs (*Graphs 1* and *2*) updates the detail 1970-to-date, expressed in billions of 2009 dollars used with the headline GDP, for the new headline detail available for fourth-quarter 2017. Updated for the new numbers, the graphs show official periods of recession as shaded areas, with ShadowStats-defined recessions indicated by the lighter shading in *Graph 2*, the second graph of the first set, as published initially in *2014 Hyperinflation Report—Great Economic Tumble*.

The second set of graphs (2000-to-date) is the one traditionally incorporated in the GDP *Commentaries*. *Graphs 3* and *4* show short-term detail, expressed on an index base where first-quarter 2000 = 100.0.

Shown in the first graph of each set (*Graphs 1* and *3*) of official *Headline Real GDP*, GDP activity has been reported above pre-2007 recession levels—fully recovered and in economic expansion—since third-quarter 2011, and headline GDP has shown sustained growth since (growth pauses or interruptions for second-half 2012 and first-quarter 2014 excepted). Adjusted for GDP inflation (the implicit price deflator or IPD), the first estimate of fourth-quarter 2017 GDP currently stands 15.2% above its pre-recession peak estimate of fourth-quarter 2007. Again, no other major economic indicators show recovery or expansion close to the GDP's. None of the series covered in this section or in *No. 859* has shown a significant recovery to pre-recession highs, let alone formal economic expansion.

In contrast, the "corrected" GDP version, in the second graph of each set (*Graphs 3* and *4*), shows the first-estimate of fourth-quarter 2017 GDP activity still to be down by 6.4% (-6.4%) from its pre-recession peak of first-quarter 2006. Noted in *General Commentary No. 867*, *Commentary No. 869* and *Commentary No. 926*, headline Industrial Production and the related Manufacturing series have rivaled, and in the case of Manufacturing, have exceeded the Great Depression in terms of the number of quarters or months of non-Expansion.

Again, the second graph in each series (*Graphs 2* and *4*) plots the *Corrected Real GDP*, adjusted for the understatement inherent in official inflation estimates (see *Public Commentary on Inflation Measurement*), with the deflation by the implicit price deflator (IPD), adjusted for understatement of roughly two-percentage points of annual inflation in recent years. The inflation understatement has resulted from hedonic-quality adjustments, also as discussed in the *Hyperinflation Reports*.

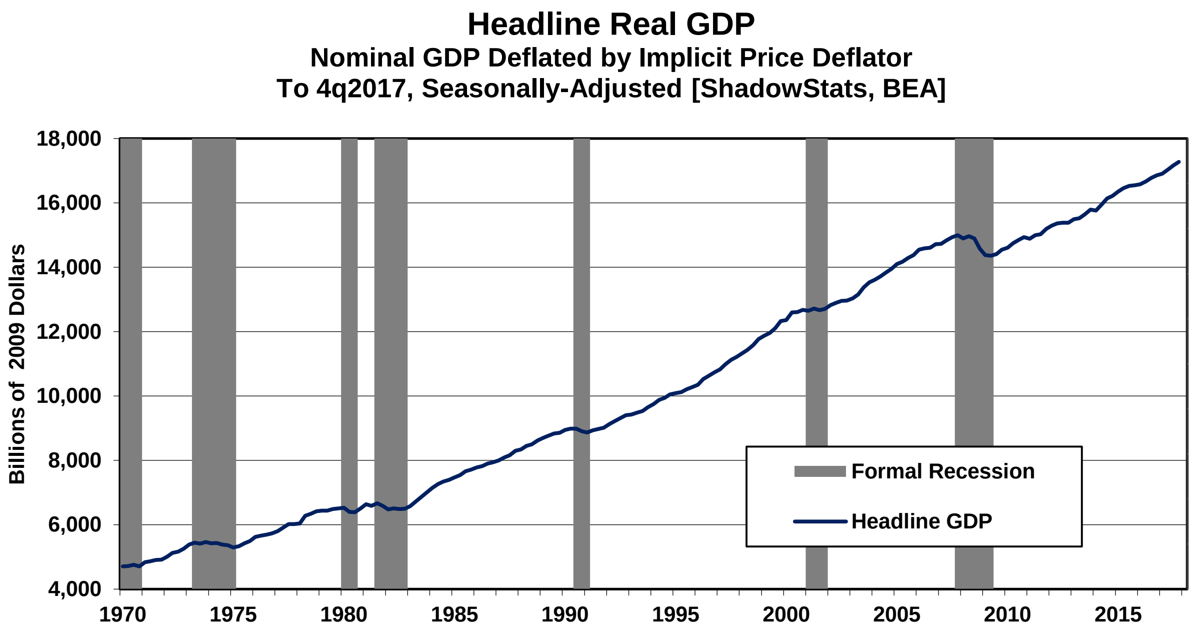
The pattern of economic collapse into 2009, followed by some minimal recovery, low-level stagnation and renewed contraction is seen with many series. As shown in *Graphs 5* to *9* (again also see more-extensive background in *No. 859*), better-quality independent numbers—including some U.S. government—put the lie to the gimmicked headline reporting that has been massaged for decades by government agencies and consulting academics.

Headline GDP Reporting. The Bureau of Economic Analysis (BEA) reported this morning, January 26th, that the "advance" or first estimate of fourth-quarter 2017 GDP showed an annualized quarterly gain of 2.55%, versus 3.16% in third-quarter 2017, 3.06% in second-quarter 2017 and 1.24% in first-quarter 2017. Year-to-year growth was 2.50% in fourth-quarter 2017, versus 2.30% in third-quarter 2017, versus 2.21% in second-quarter 2017 and 2.00% in first-quarter 2017. For the full-year, annual GDP growth was 2.25%, versus 1.49% in 2015 and 2.86% in 2015.

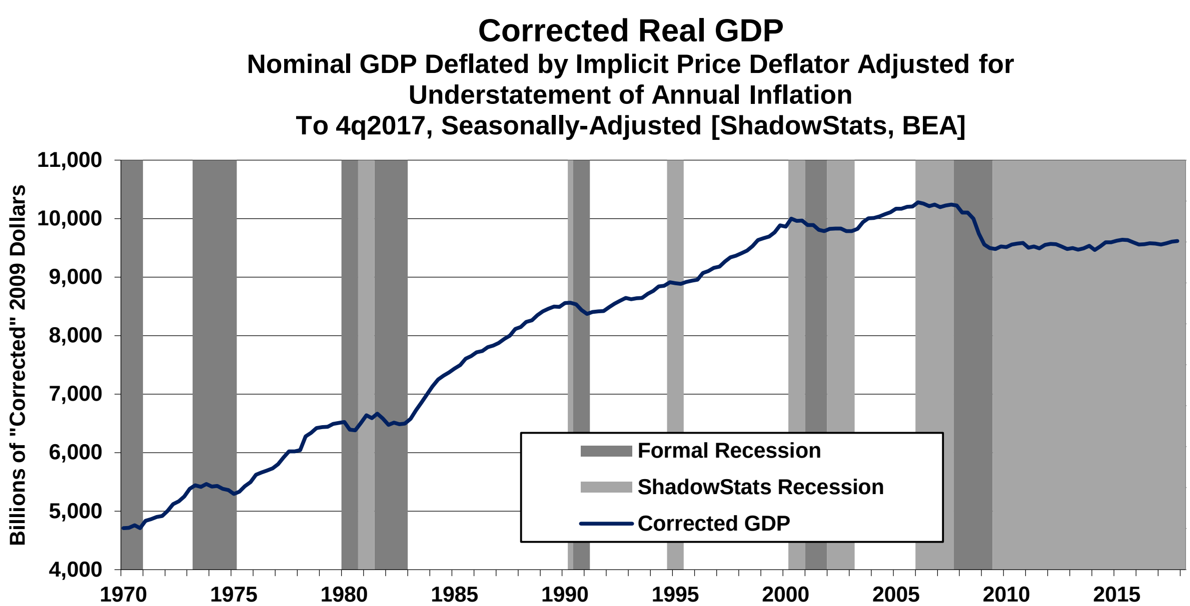
Those details are reflected in *Graphs 1* and *3*, and in *Graphs 25* to *30* in the *Reporting Detail*. With the new detail fourth-quarter 2017 GDP stood at 15.2% above the pre-2007-recession peak of the series, an incredible (as in not believable) pace of economic expansion, again, not seen otherwise in other major economic reporting, as regularly discussed here.

Again, *Graphs 2* and *4*, reflect the ShadowStats alternative estimates of GDP growth, corrected for the understatement of annual inflation used in deflating real GDP growth.

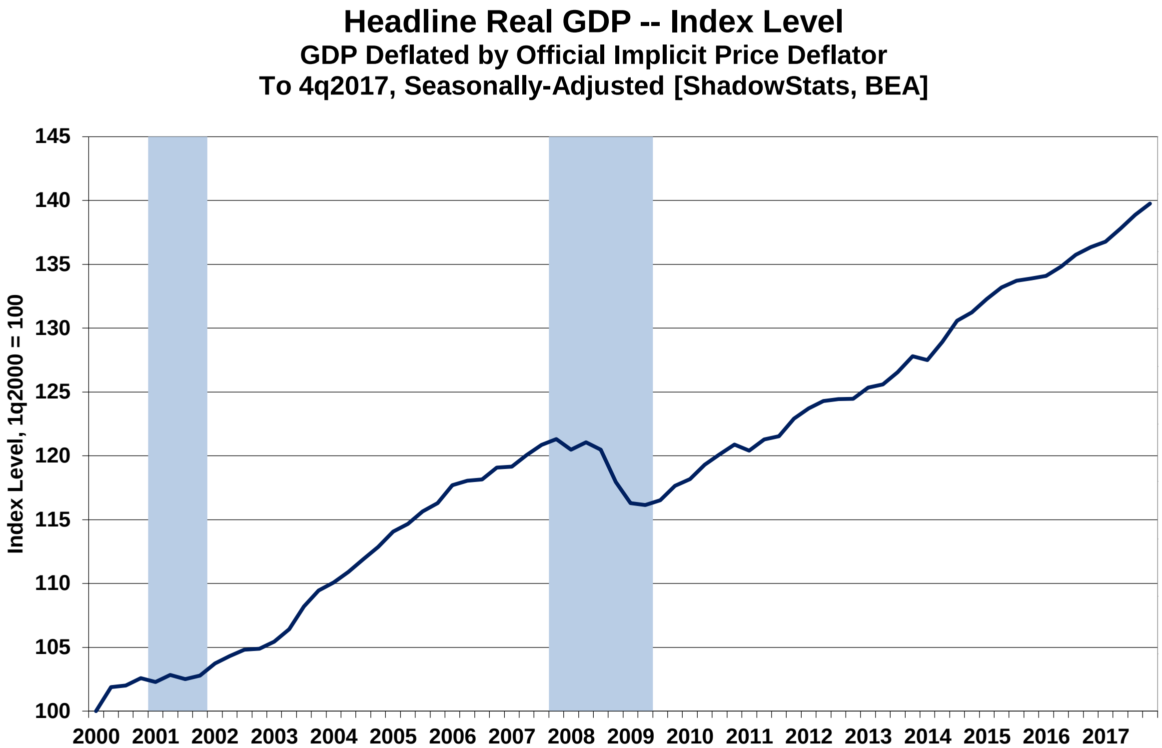
Graph 1: Real GDP (1970 -2017), First-Estimate of Fourth-Quarter 2017



Graph 2: "Corrected" Real GDP (1970 -2017), First-Estimate of Fourth-Quarter 2017



Graph 3: Real GDP Index – Headline Real GDP through First-Estimate of Fourth-Quarter 2017



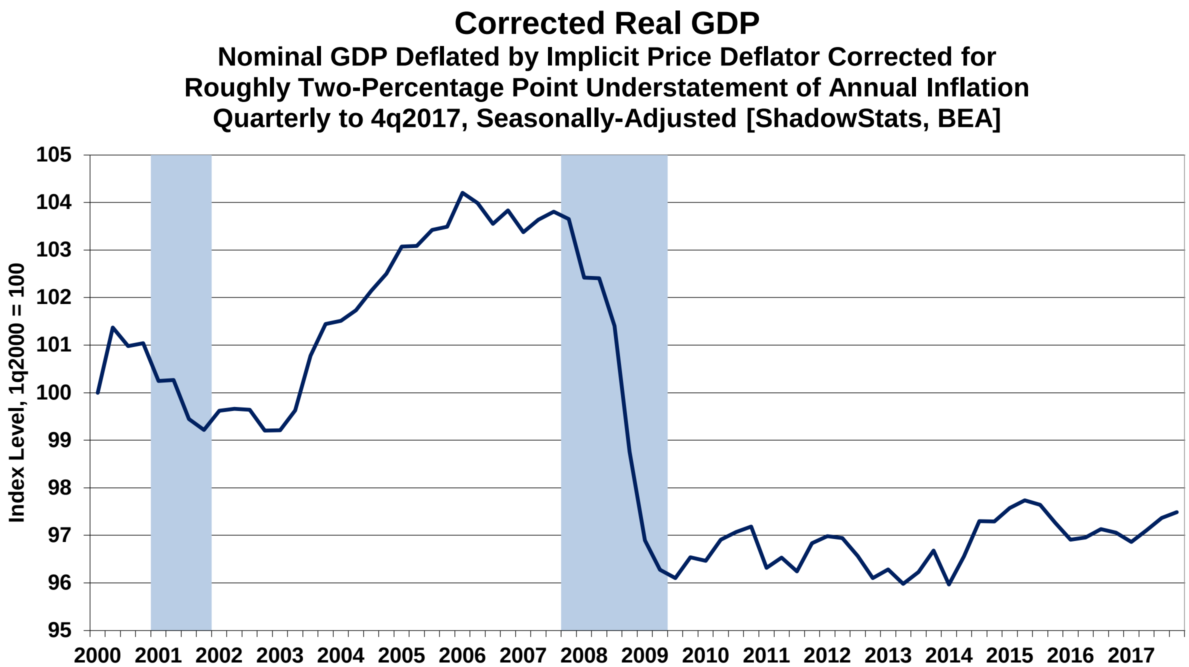
Comparative Indicators. The following *Graph 3* of the "corrected" GDP series is shown along with an example of the regular, comparative economic indicators (see the expanded coverage in *No. 859*), which generally confirm the broad story from the "corrected" GDP graph that the economy never recovered from its collapse into 2009 and is either in renewed downturn or in continuing low-level stagnation, albeit some of the latter may be slightly up-trending.

The comparative *Graph 4* shows the Cass Freight Index™ measure of North American freight volume through December 2017, used with the permission of Cass Information Systems, Inc. Few measures better reflect the actual flow of goods in commerce than freight activity (see today's *Opening Comments*). As a broad measure of basic domestic economic activity, the index has much more in common with the "corrected" GDP in *Graph 4*, than with the headline GDP of *Graph 3*.

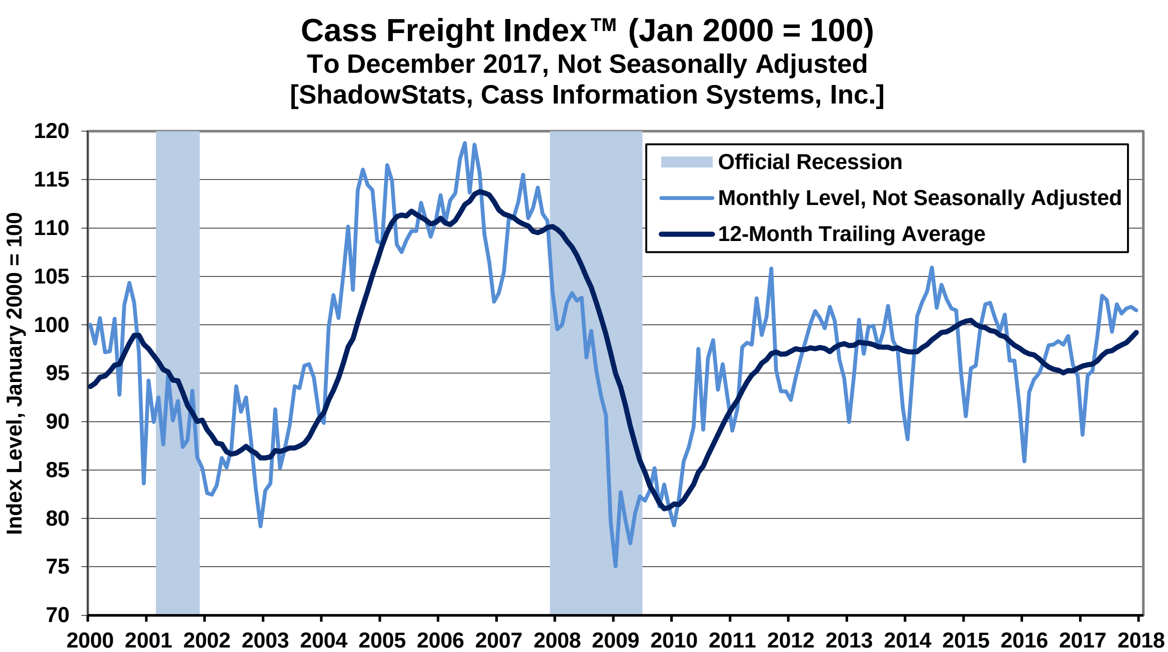
Graph 6 plots December 2017 Industrial Capacity Utilization, from prior *Commentary No. 932*. The latest headline level of activity for industrial production of Consumer Goods, which often holds this graph's position is found in *Commentary No. 932*, *Graph 18*, page 21. *Graph 7* of U.S. Petroleum Consumption, and *Graph 8* of inflation-adjusted total U.S. Construction Spending, which includes everything from roads and office buildings to residential construction, are among the variety of indicators that show patterns of economic collapse into 2009/2011, followed by some minimal (not full) recovery and ongoing stagnation/downturn.

Graph 19 of the employment-to-population ratio also remains a solid indicator of underlying labor conditions in the context of the broad population and long-term discouraged and displaced workers, reflected there through December 2017.

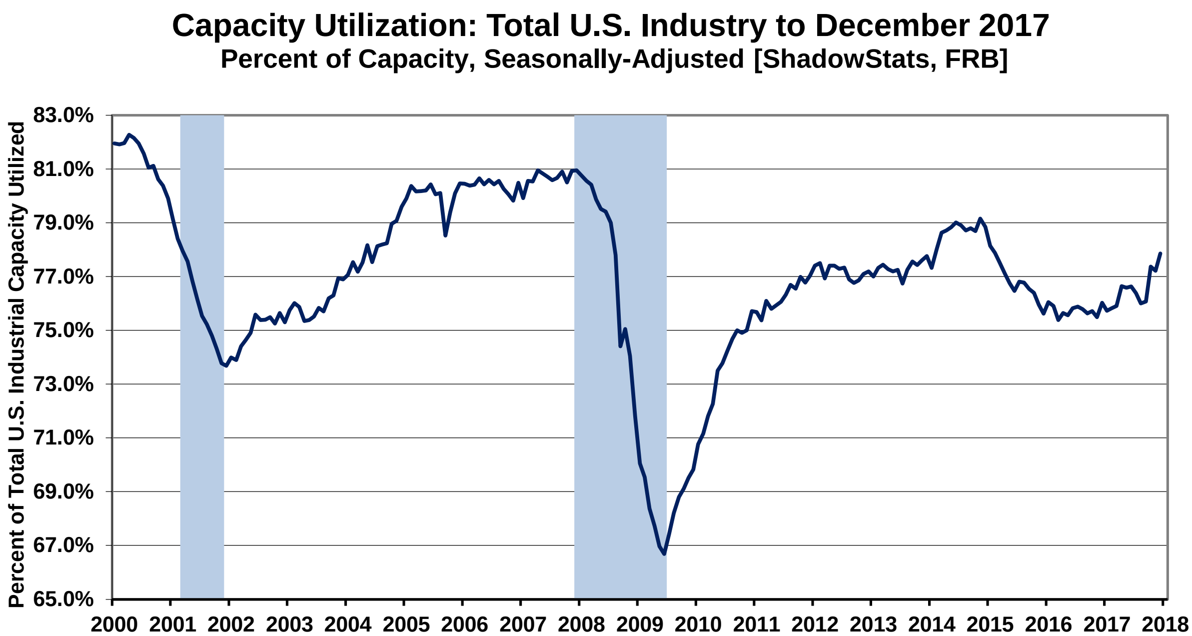
Graph 4: "Corrected" Real GDP Index (2000 - 2017), First-Estimate of Fourth-Quarter 2017



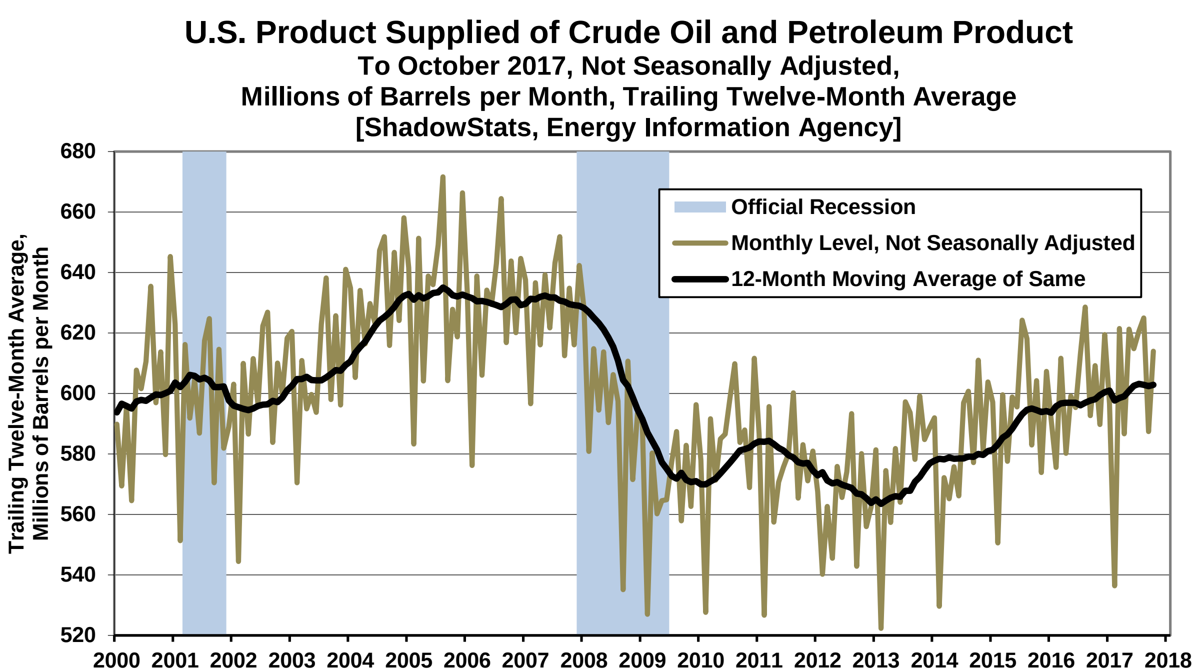
Graph 5: Cass Freight Index ™ (2000 - December 2017)
(Same as Graph OC-2 in the Opening Comments)



Graph 6: Utilization of Total U.S. Industrial Production Capacity (2000 to December 2017)
(Graph 11, as discussed in Commentary No. 932)

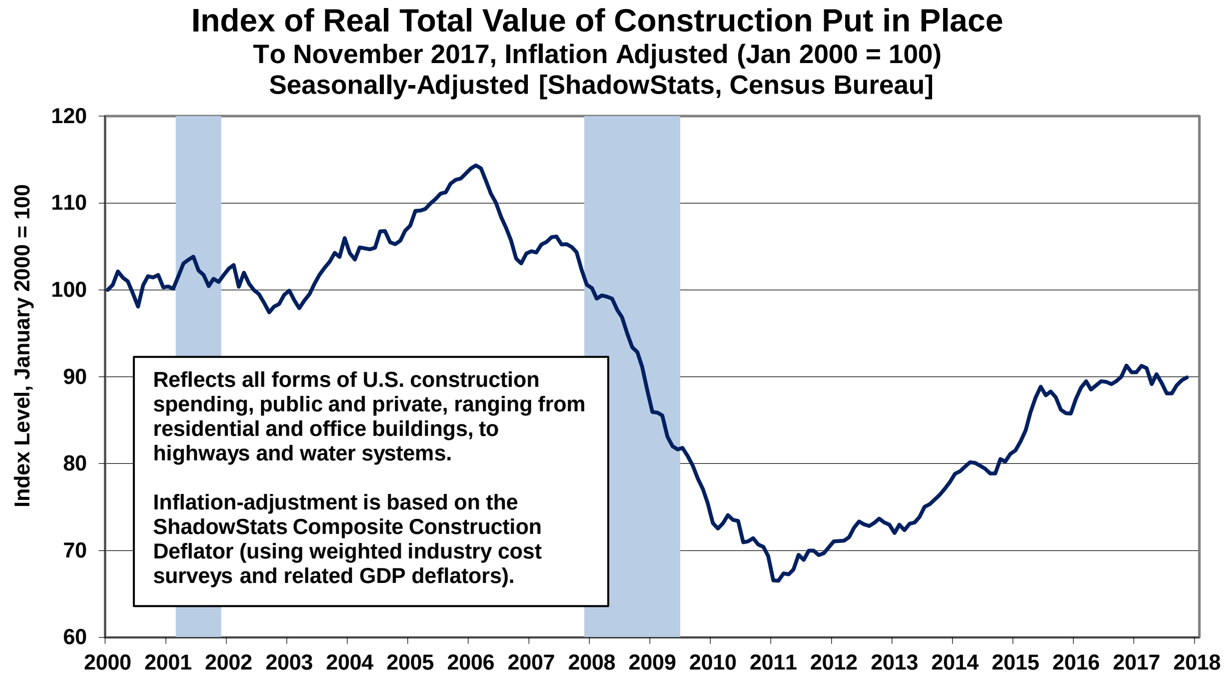


Graph 7: U.S. Petroleum Consumption (2000 – October 2017)

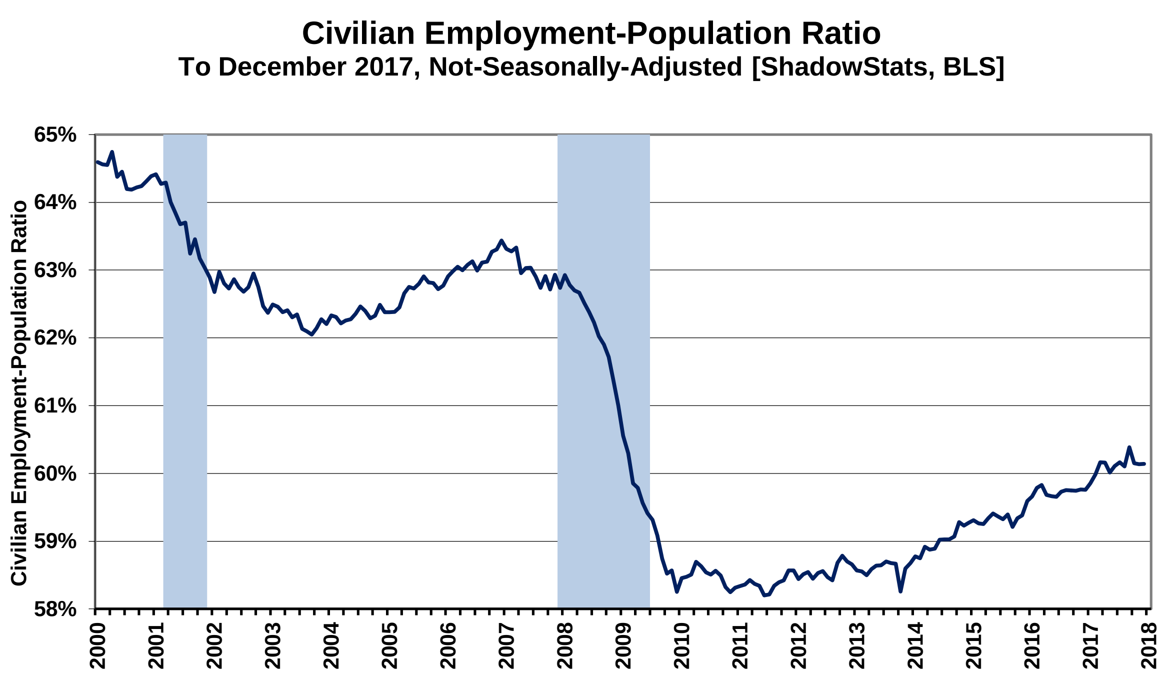


Graph 8: Real Total U.S. Construction Spending (2000 – November 2017)

(Graph 29, page 45 of Commentary No. 930-B)



Graph 9: Civilian Employment-Population Ratio (2000-December 2017)



New Orders for Durable Goods—December 2017—Ex-Commercial Aircraft, Real Annual Growth Rose in December, Due Partially to Defense Aircraft Orders. Net of zero PPI-related inflation, and a monthly jump in the highly-irregular commercial aircraft orders (but still counting usually minimal and irregular defense aircraft orders of unusual substance, which ShadowStats does not net out), real new orders for durable goods rose month-to-month, showing some uptrending, non-recovering, low-level stagnation (see *Graph 11*). Where, real annual growth had begun to slow anew in recent months, the defense-aircraft order surge pushed annual growth higher in December 2017, as seen in *Graph 12*. The headline December 2017 details all are in the context of upside revisions to aggregate new orders activity in October (minimal) and November (major).

Hurricane-related boosts to durable goods orders surfaced in the September 2017 headline reporting detail, including related upside revisions to August new orders for motor vehicles (likely replacement vehicles for Houston-area flood losses) and a continued high level of same in September. October 2017 motor vehicle orders continued to rise, with minimal prior-period revisions, but the November 2017 detail showed slower, related monthly growth, as did December 2017.

Nominal New Orders for Durable Goods rose month-to-month by 2.9% in December 2017, having gained a revised 1.7% in November 2017 and having declined by 0.4% (-0.4%) in October. Beyond near-term hurricane-related disruptions to the monthly data, the monthly changes have been dominated by large swings in the irregularly-volatile, commercial-aircraft orders, with a gain of 15.9% in December 2017, versus a revised gain of 14.1% in November and revised decline of 15.8% (-15.8%) in October 2017. Ex-commercial aircraft, new orders rose by 2.2% in December 2017, having gained 1.1% in November and 0.5% in October. Inflation-adjusted real monthly changes, ex-commercial aircraft, reflected a gain of 2.2% in December 2017, a gain of 1.1% in November and 0.1% in October.

More-extensive coverage of these monthly numbers and related revisions follow in the *Reporting Detail*, while the related graphs follow here.

Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders. Updated for the headline December 2017 numbers, *Graphs 10* and *11* show the monthly detail, as well as the six-month moving-average activity for both the aggregate new orders series and the same series net of the irregularly-volatile commercial-aircraft orders. The broad pattern of smoothed, real activity generally a low-level of non-recovering stagnation, albeit somewhat uptrending, temporarily, with recent natural-disaster distortions.

The moving-average levels in *Graphs 10* and *11* turned lower into year-end 2014, and after an uptick in mid-2015—some smoothed bounce-back—the trend turned down anew into late fourth-quarter 2015, with continued minor fluttering into third-quarter 2016, and initially a small uptick in fourth-quarter 2016 activity continuing on the upside into early-2017. That all was much reduced by the annual benchmarking of May 18, 2017. With subsequent softening headline monthly detail into May 2017 new orders, orders then were boosted by irregularly-surging commercial aircraft orders in June 2017, with reverse impact from a sharp decline in similar orders in July and a renewed surge in aircraft orders in August and a continued gain in September. The small pullback in October 2017 aircraft orders was offset by subsequent rebounds in November and December.

Graph 12 (also *Graph OC-6* in the *Opening Comments*) shows the annual year-to-year percent change in the real new orders series, net of commercial aircraft orders (comparative plots of parallel year-to-year headline changes in the Cass Freight Index™ and the Manufacturing Sector of Industrial Production are shown in *Graphs OC-5* and *OC-7* in the *Opening Comments*).

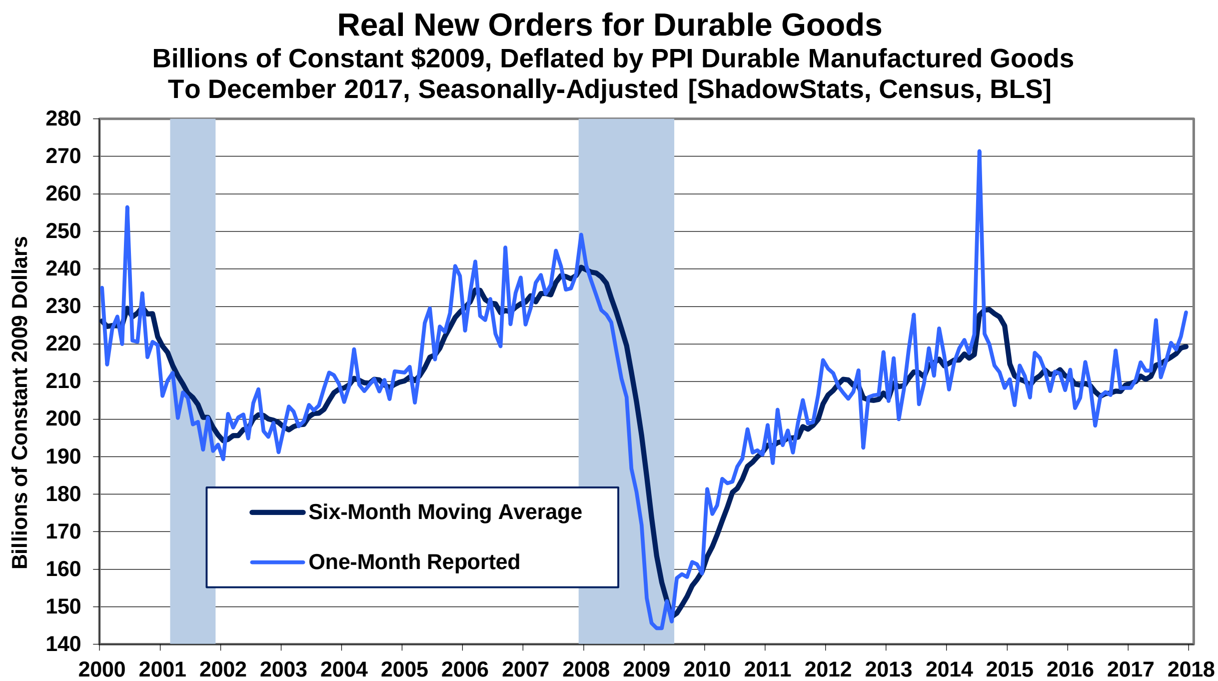
Annual growth slowed for the inflation-adjusted October 2017 new orders for durable goods, ex-commercial aircraft and softened even further in November 2017, with a government-spending boost for irregular defense-aircraft orders helping to boost December 2017 monthly and annual growth.

Where the low-level of positive annual growth might suggest a near-term bottoming in orders (discussed in *General Commentary No. 867*), such partially is an artefact of roughly two-percentage-points understatement of the inflation used in deflating the headline durable goods series, an issue addressed later with *Graphs 13* to *16*. Again, shown in *Graph 3* (*OC-6*) and comparative *Graphs OC-5* and *OC-7* in the *Opening Comments*, the year-to-year change in the ex-commercial aircraft durable goods orders series generally has led the broad pattern of annual growth reflected in the headline level of annual change in the manufacturing sector of industrial production, a series that also suffers inflation-reporting distortions.

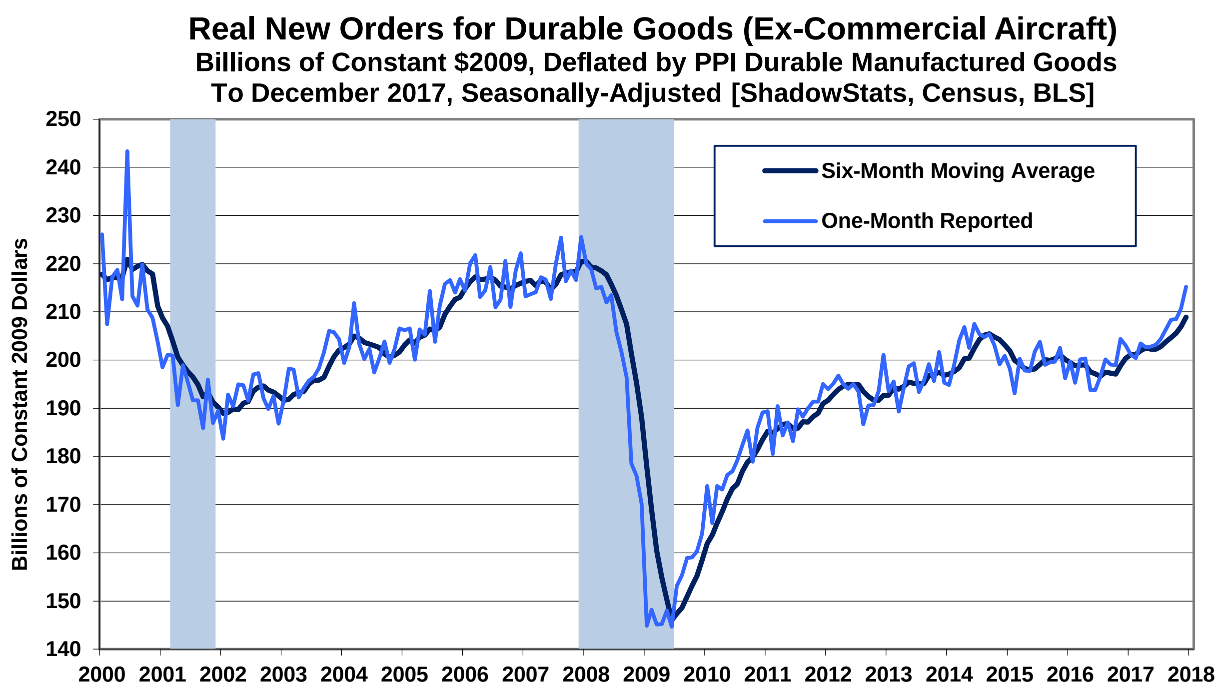
Broadly, there has been a general pattern of stagnation or bottom-bouncing evident in the orders of recent years —clearly not the booming recovery seen in official GDP reporting. The real monthly and six-month moving-average levels of new orders in December 2017 remained below both the pre-2007 recession high, as well as the pre-2000 recession high for the series. The pattern of low-level stagnation and fluctuating trend in the annual inflation-adjusted series since mid-2014—net of the irregular aircraft-order effects—again is one that most commonly precedes and/or coincides with a recession, as is the current circumstance. Again, the series remains in non-recovered, non-expanding, low-level stagnation.

[Graphs 10 to 12 begin on the next page.]

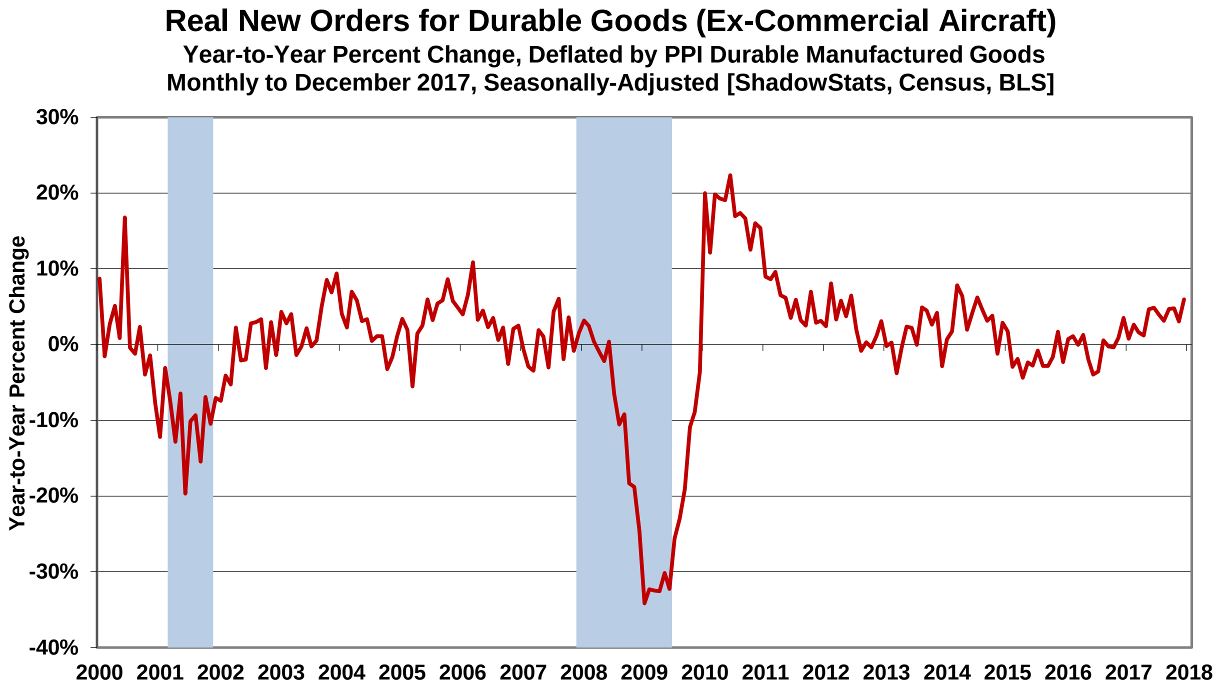
Graph 10: Real Total New Orders for Durable Goods to Date



Graph 11: Real New Orders for Durable Goods – Ex-Commercial-Aircraft Orders to Date



Graph 12: Year-to-Year Percent Change, Real New Orders for Durable Goods – Ex-Commercial Aircraft to Date
(Same as Graph OC-6 in the Executive Summary)



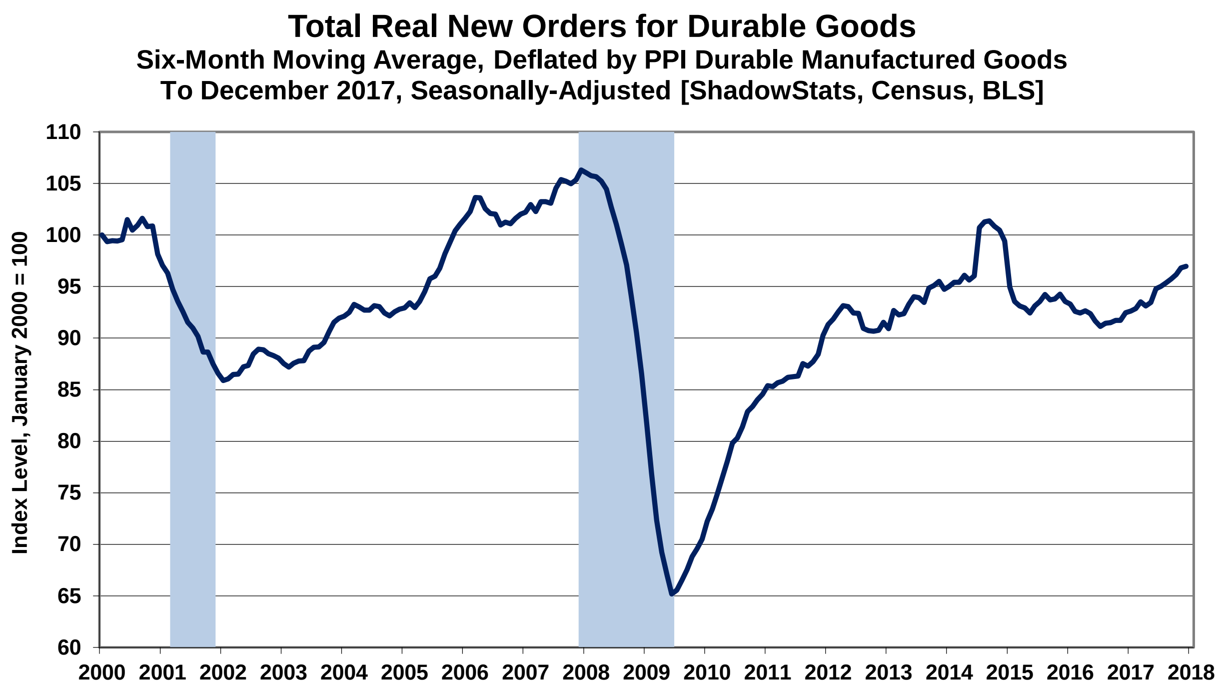
The Real New Orders Series "Corrected" for Inflation Understatement. As with other economic series deflated by official government inflation measures, headline estimates of inflation-adjusted growth in new orders for durable goods generally are overstated, due to the understatement of official inflation. That understatement comes from the government's use of hedonic-quality adjustments—quality issues usually not perceived by the users or consumers of the involved products—in justifying a reduced pace of headline inflation used in deflating some series (see *Public Commentary on Inflation Measurement*).

As done for other series such as Industrial Production and Real Retail Sales (see *Commentary No. 932*), and the GDP (see *Graphs 2* and *4* in the prior section), ShadowStats publishes an experimental, corrected-inflation version of the graph of real New Orders for Durable Goods. Real activity, in this case, is corrected for the understatement of the inflation used in deflating the new orders series with the headline PPI inflation for manufactured durable goods (see the *Reporting Detail*).

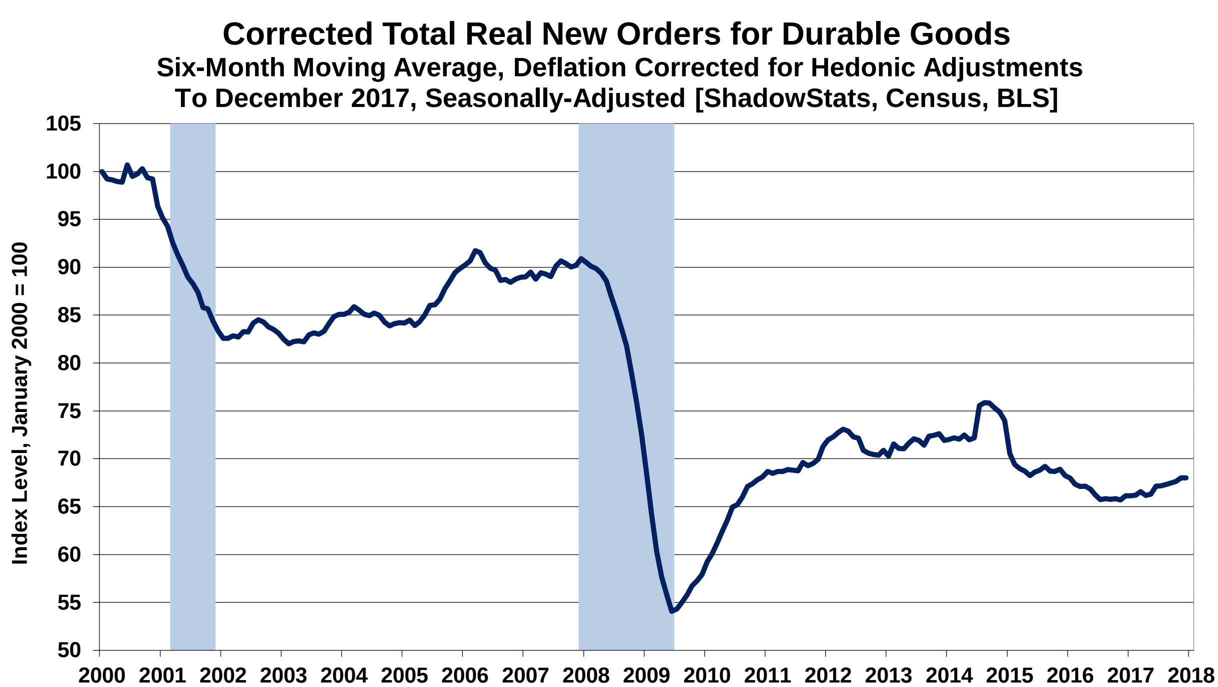
Two sets of graphs follow. The first set (*Graph 13* and *Graph 14*) shows the aggregate series or total durable goods orders; the second set (*Graph 15* and *Graph 16*) shows the ex-commercial aircraft series. The aggregate orders series in *Graphs 13* and *14* includes the monthly commercial aircraft orders. Placed years in advance, aircraft orders are a better indicator of long-range production activity, than they are as a near-term leading indicator of production activity. Again, *Graphs 15* and *16* are shown net of those volatile commercial aircraft orders.

The first graph in each of the two sets shows the official six-month moving average, the same heavy dark-blue line shown in *Graph 10* and *Graph 11*, along with the light-blue thin line of monthly detail. The second graph in each set is the same six-month, moving-average series shown in the first graph, but it has been re-deflated to correct for the ShadowStats estimate of the understatement of the PPI manufactured durable goods inflation measure used in the headline-deflation process. The "corrected" graphs all are indexed to January 2000 = 100.

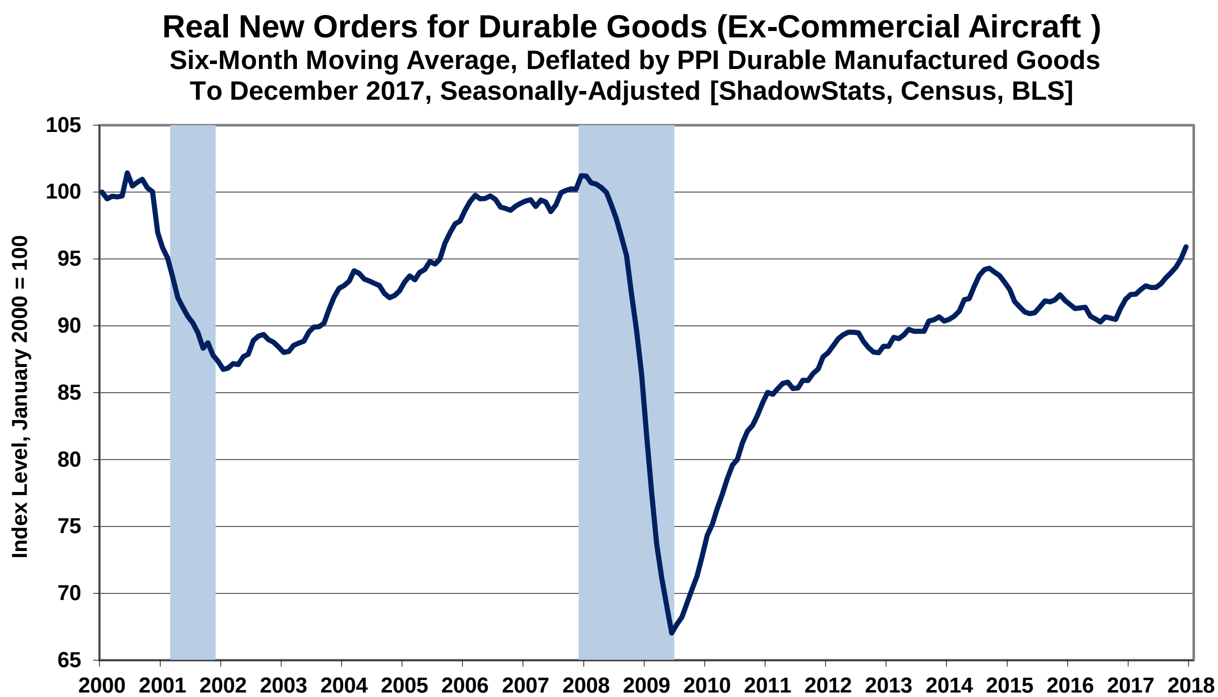
Graph 13: Index of Real Total New Orders for Durable Goods, 6-Month Moving Average



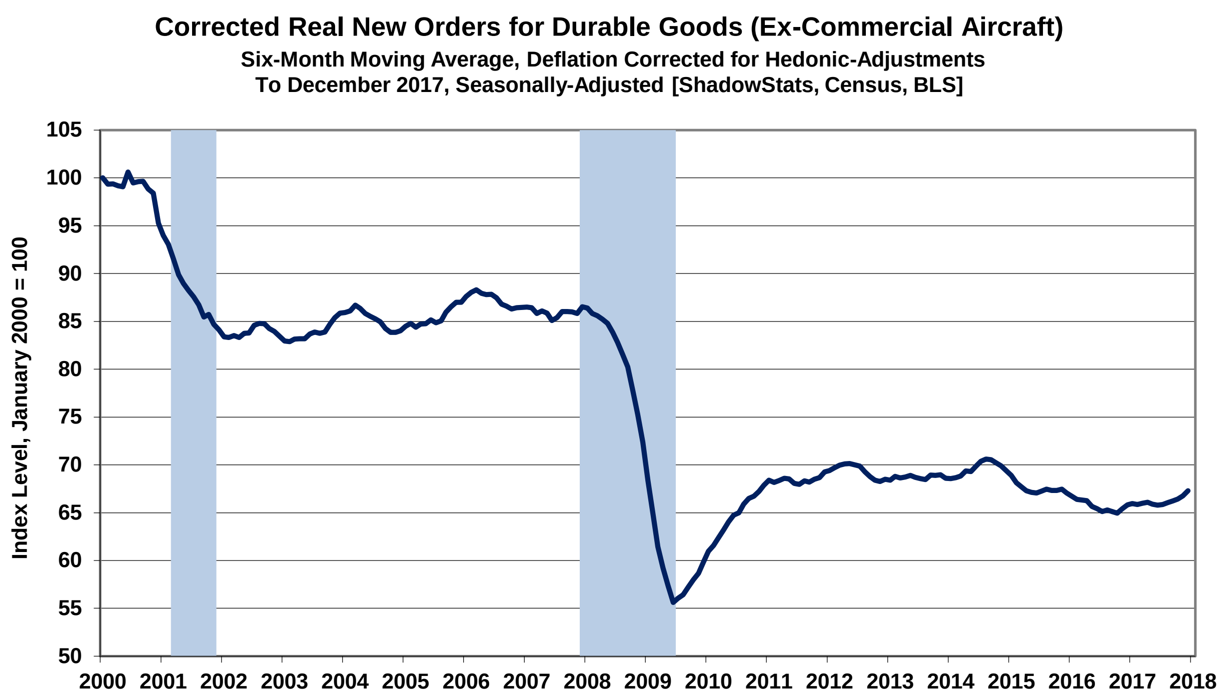
Graph 14: Corrected Index of Real Total New Orders for Durable Goods, 6-Month Moving Average



Graph 15: Index of Durable Goods Orders – Ex-Commercial Aircraft, 6-Month Moving Average



Graph 16: Corrected Index of Durable Goods Orders – Ex-Commercial Aircraft, 6-Month Moving Average



New- and Existing-Home Sales—December 2017—On Top of Heavy Downside November Revisions, December New Sales Plunged 9.3% (-9.3%) and Existing Sales Dropped 3.6% (-3.6%). Moving in tandem with the Housing Starts series (see *Commentary No. 932*), both home-sales series declined sharply in December, on top of downside revisions to previously-bloated November activity. Headline November 2017 New- and Existing-Home Sales both had shown extraordinarily-large, heavily distorted upside monthly gains, discussed in *Commentary No. 928*. The Existing-Home Sales issues were tied to heavily-warped and unstable seasonal factors, while the New-Home Sales issues were created by massive downside revisions to reporting of prior months. Both home-sales series saw some corrective reporting with the headline December detail reporting, with downside revisions to prior reporting as well as with large monthly contractions in December.

Amidst the Latest Revisions and Reporting Volatility, New- and Existing-Home Sales Are Shy of Respective Pre-Recession Peaks by 55.0% (-55.0%) and 23.4% (-23.4%). Despite extreme volatility and unstable revisions, neither of the homes-sales series is close to recovering its pre-recession high. Headline December New-Home Sales activity remained shy of recovering its pre-recession high by 55.0% (-55.0%), with December Existing-Home Sales still shy by 23.4% (-23.4%) of recovering its pre-recession peak activity. Smoothed over six months, both series remained in low-level, non-recovered stagnation, as seen in the accompanying graphs.

New-Home Sales Headline December Decline Was On Top of a Downside Revision to November. Published by the Census Bureau and the Department of Housing and Urban Development, the New-Home Sales series, which counts new-home sales contracts signed, fell sharply, month-to-month in December 2017, by a statistically-insignificant 9.3% (-9.3%), following a downwardly revised gain of 15.0% in November and a deeper, revised monthly contraction of 6.3% (-6.3%) in October. Year-to-year change in December 2017 sales was a statistically-insignificant 14.1%, with downwardly-revised annual gains of 19.0% in November 2017 and 3.8% in October 2017, among others as reviewed in the *Reporting Detail.*

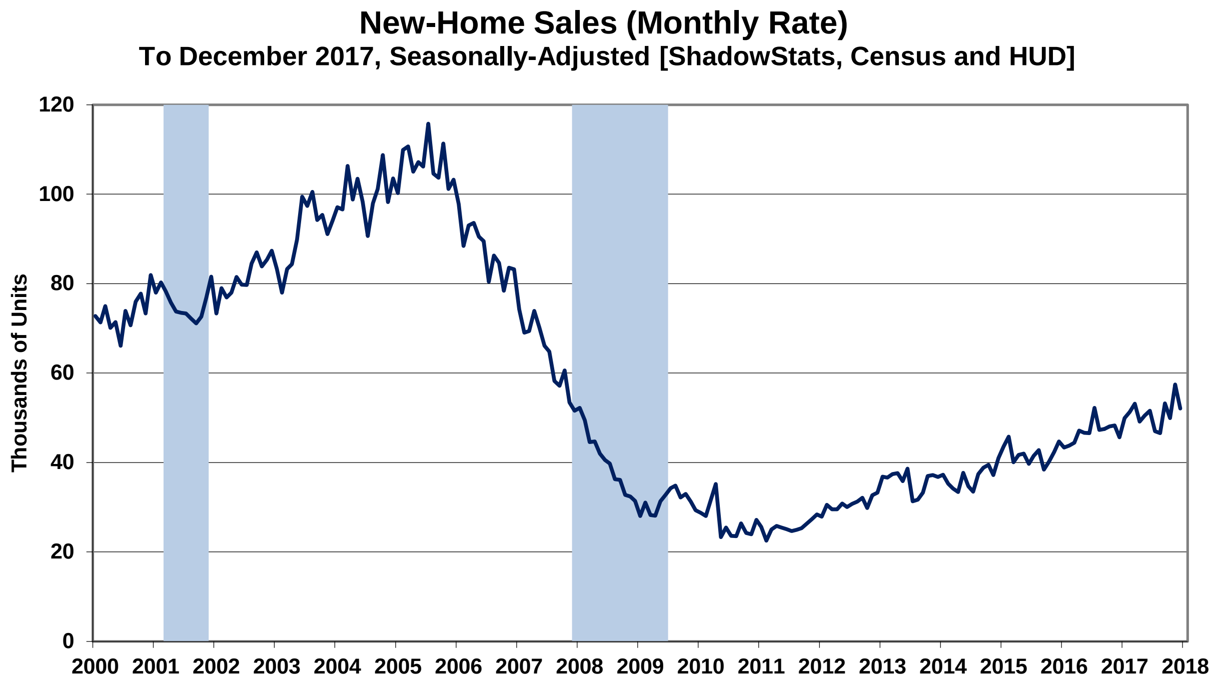
Existing-Home Sales, Monthly and Annual Headline Changes. Published by the National Association of Realtors (NAR), Existing-Home Sales (closings of home sales) declined monthly by 3.63% (-3.63%), having gained a downwardly-revised 5.09% in November, following an unrevised monthly gain of 2.42% in October. December 2017 year-to-year growth slowed to 1.09%, versus a downwardly-revised 3.21% in November 2017 and an unrevised annual decline of 0.54% (-0.54%) in October 2017.

Graphs 17 to *24*, reflect the latest plots of New-Homes Sales and the related Single Unit Housing Starts series, as well as the latest plots of Existing-Home Sales and the related aggregate Housing Starts Series (both series include multiple-unit structures). See *Commentary No. 932* for the detail on the Housing Starts numbers and graphs.

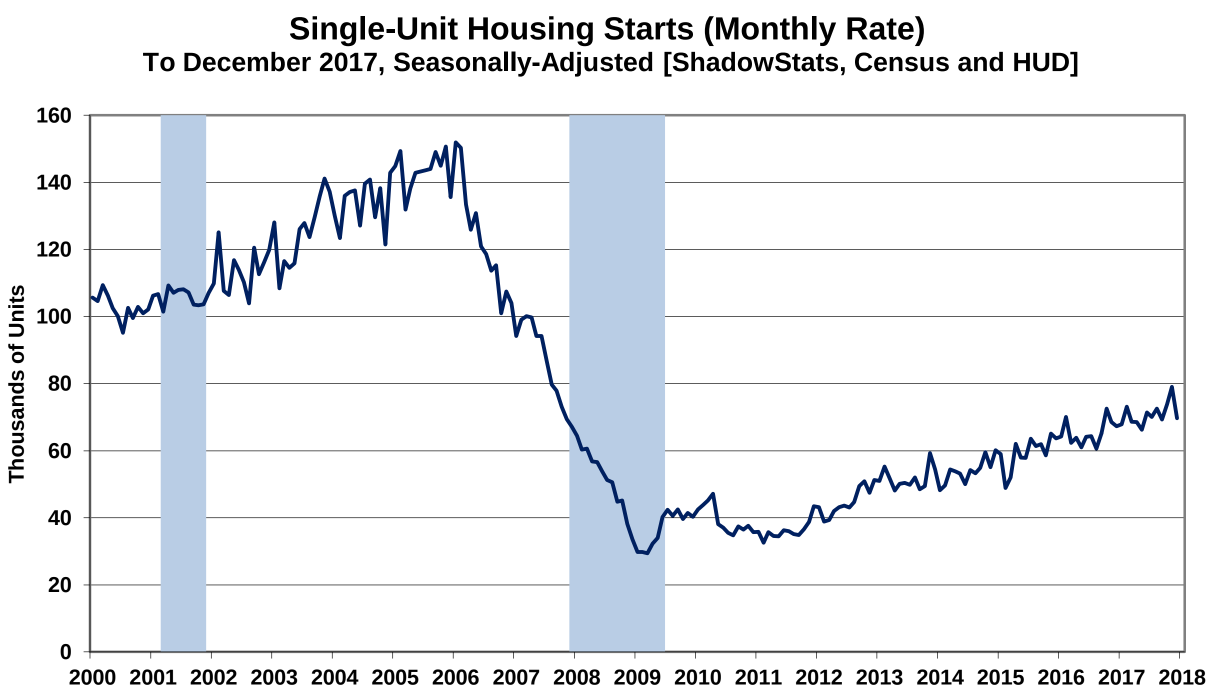
Again, see the *Reporting Detail* for expanded coverage.

[Graphs 17 to 24 begin on the next page.]

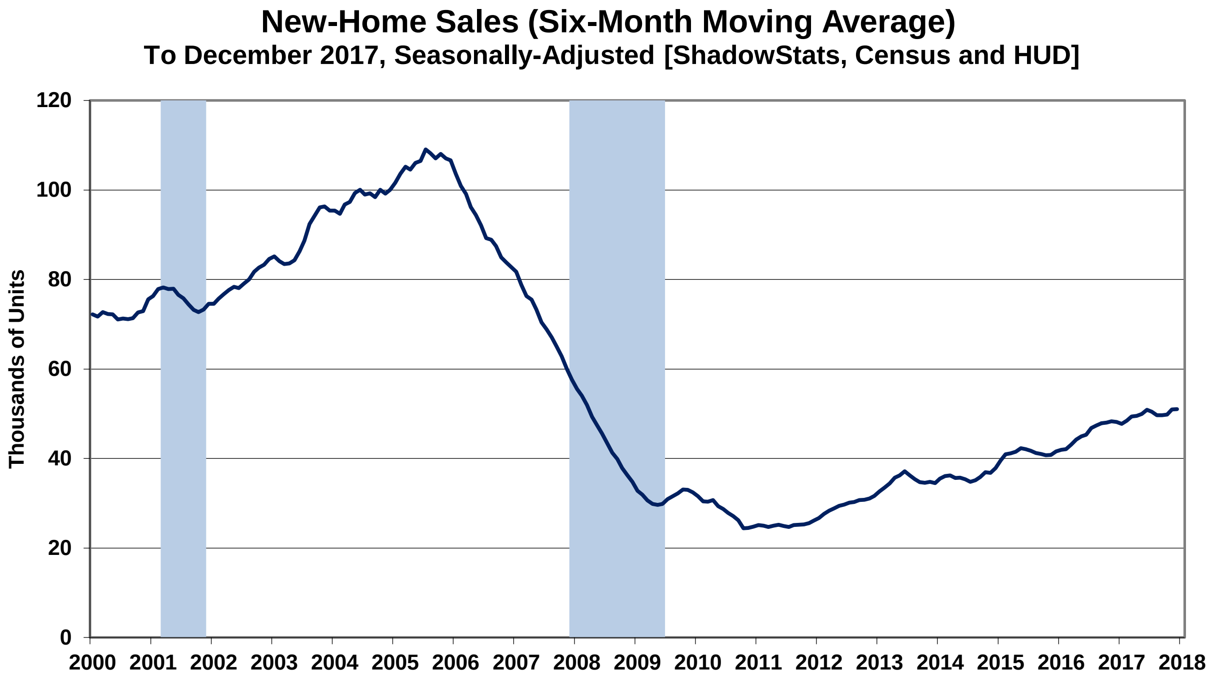
Graph 17: New-Home Sales – Monthly Level



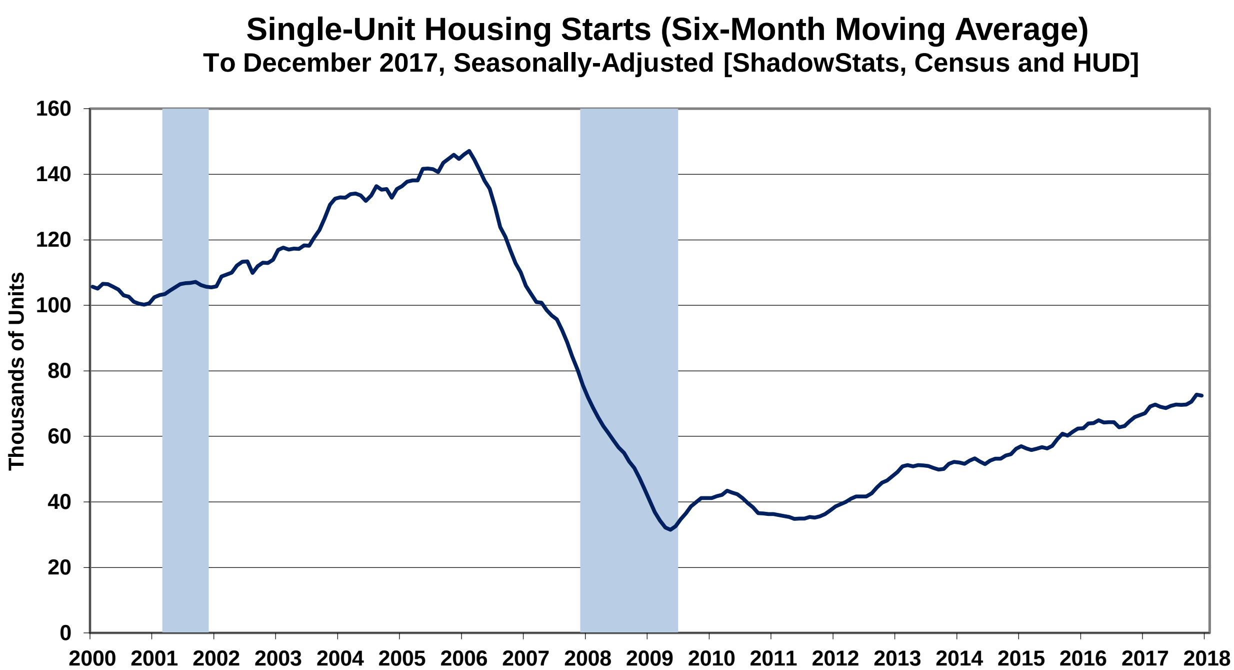
Graph 18: Single-Unit Housing Starts (Monthly Rate of Activity)



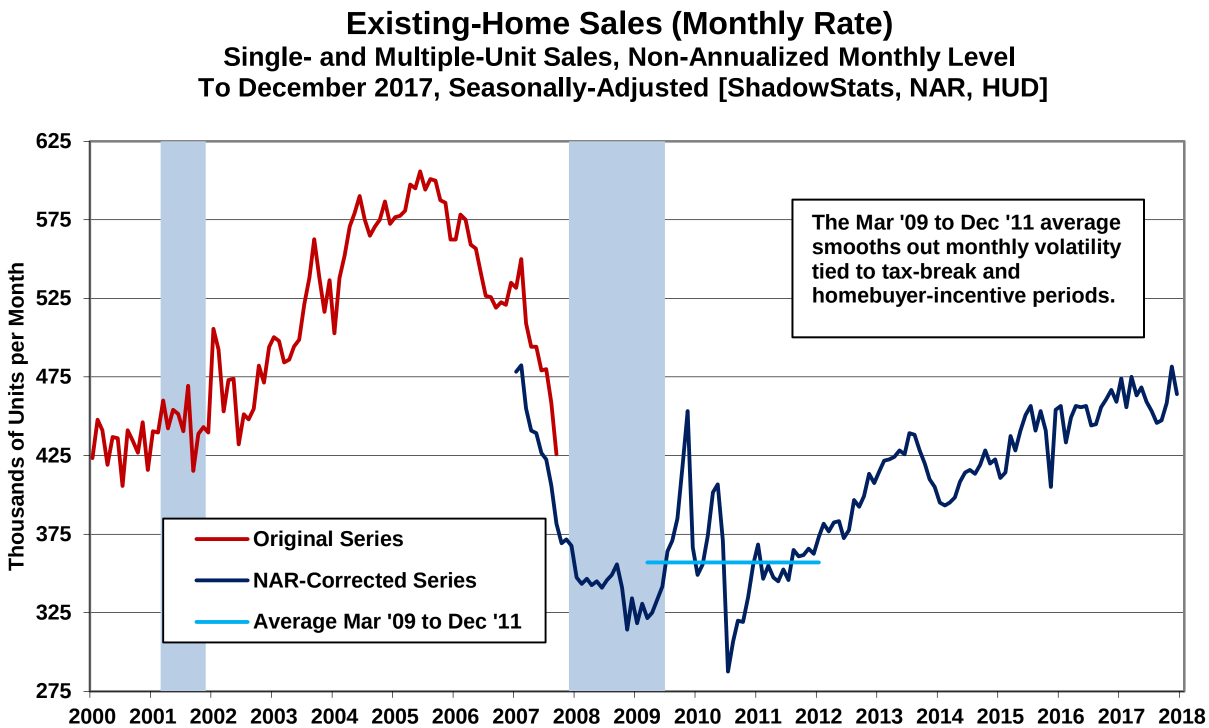
Graph 19: New-Home Sales (Six-Month Moving Average)



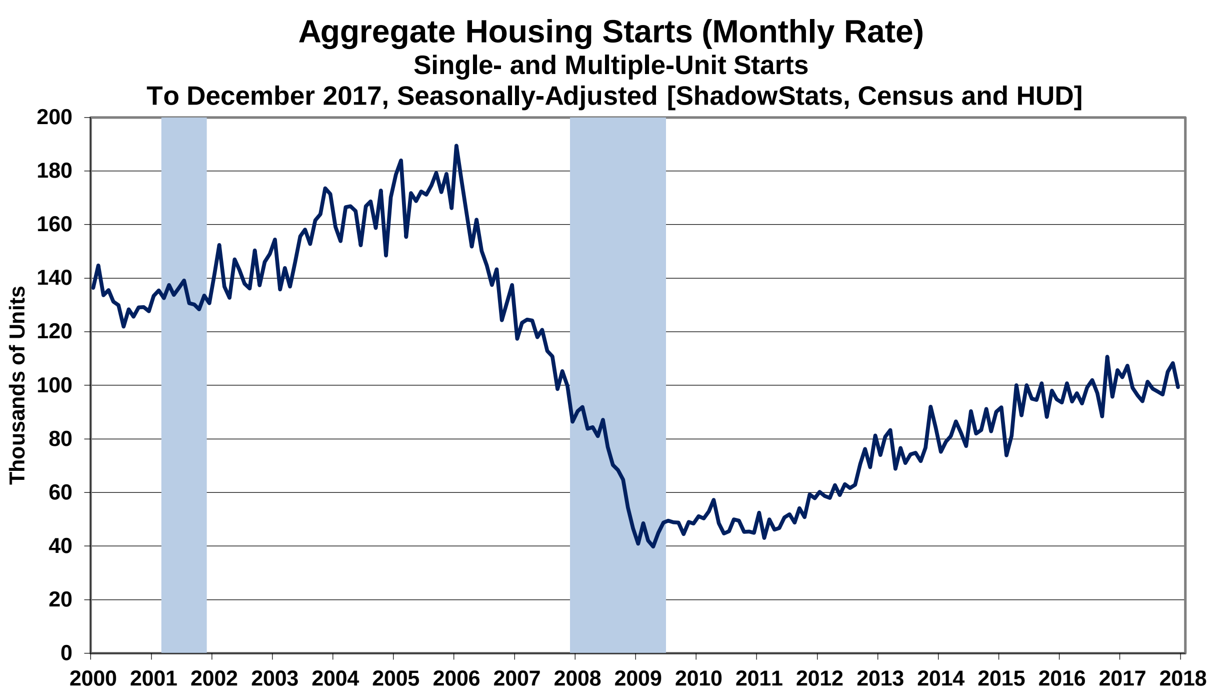
Graph 20: Single-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



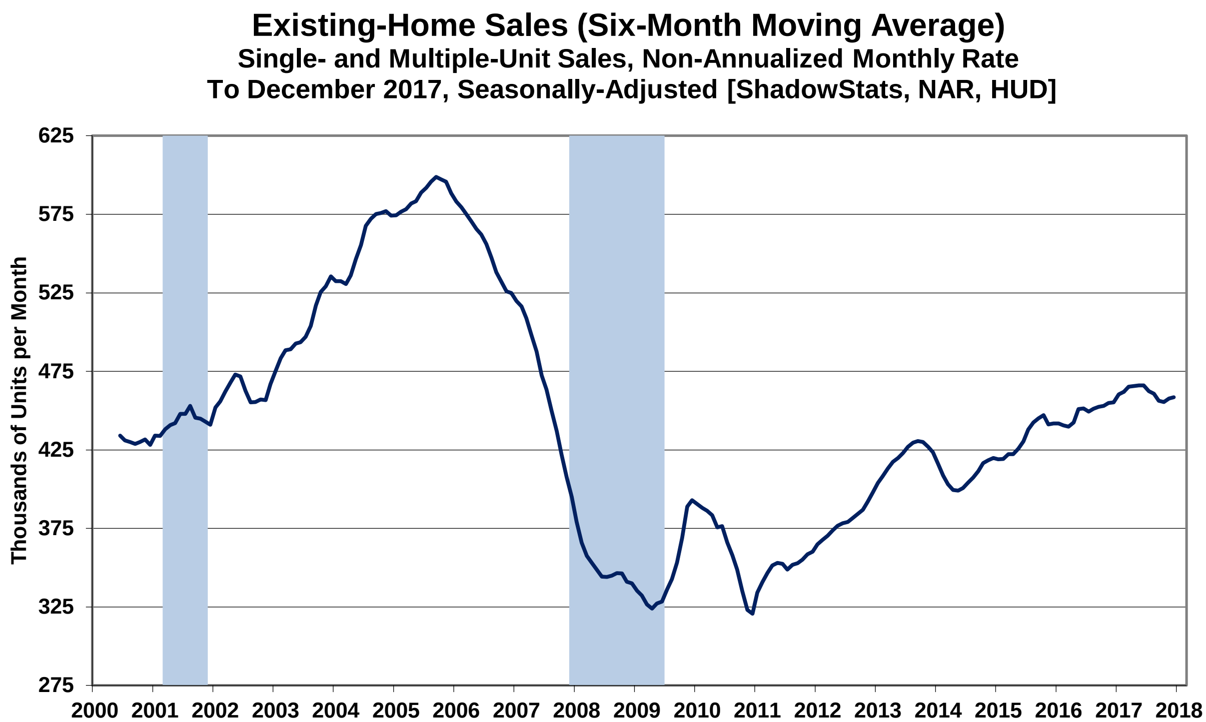
Graph 21: Existing-Home Sales – Monthly Level



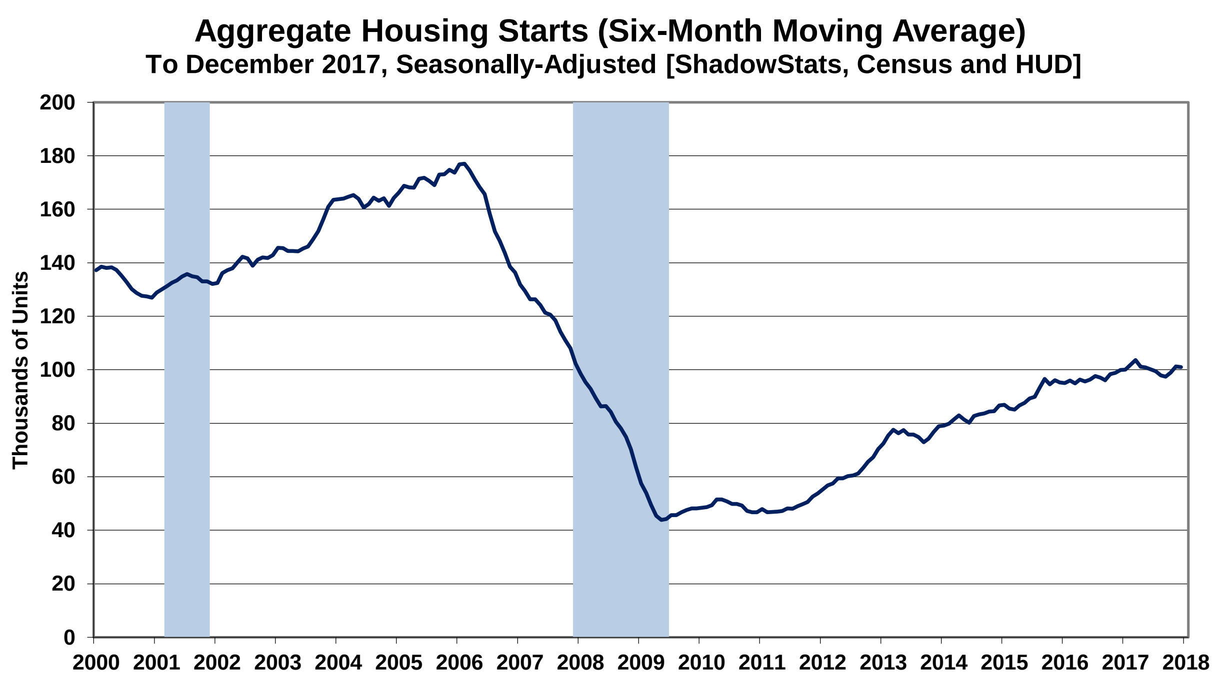
Graph 22: Aggregate Housing Starts (Monthly Rate of Activity)



Graph 23: Existing-Home Sales (Six-Month Moving Average)



Graph 24: Aggregate Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



[Extended analysis/graphs of the GDP, New Orders and Home Sales follow in the **Reporting Detail.***]*

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REPORTING DETAIL

GROSS DOMESTIC PRODUCT—GDP (Fourth-Quarter 2017, "Advance" or First Estimate)

"Advance" Estimate of Fourth-Quarter GDP Came in at 2.55%, Down from 3.16% in the Third-Quarter, Weaker-than-Expected but Still Heavily Bloated. Fourth-Quarter 2017 GDP activity slowed to 2.55% from 3.16% in the prior quarter, coming in below consensus expectations of about 2.9%. Still, its consumption and real-estate investment numbers were exaggerated on the upside by hurricane distortions, despite large hits from a soaring trade deficit and inventory liquidation, and a boost from a large jump in government spending (see *Table 1* in the *Executive Summary*). Other than for the trade-deficit hit, most growth factors likely reflected some hurricane impact, with an intensified pullback from same—a likely, outright quarterly contraction—looming for reporting in first-quarter 2018. Indications of that quarterly slowdown should surface increasingly in the underlying monthly series details of January and February 2018 reporting.

Heavily Followed but of Extremely Poor Quality. In this most-politically-sensitive of popularly-followed economic series, the GDP usually does not reflect properly or accurately the changes to the underlying economic fundamentals and the measures that drive the broad economy. Again, as discussed and reflected in the graphs of the *Executive Summary*, various separately-reported measures of real-world economic activity show that the general economy began to turn down in 2006 and 2007, plunged into 2009. That plunging economy entered a protracted period of stagnation thereafter—never recovering fully, never entering a phase of formal economic "Expansion"—and then began to turn down anew in late-2014, still in ongoing stagnation/downturn irrespective of any near-term hurricane distortions (see *Commentary No. 902-B* and *Commentary No. 900*).

On occasion, special factors such as natural disasters will distort the regular patterns of quarterly economic activity, as is the current circumstance, tied to Hurricanes Harvey, Irene and Nate. Those circumstances aside, the GDP (or the broader GNP detail headlined in earlier decades) simply remains the most worthless of the popular government economic series, in terms of determining what really is happening to U.S. business activity. The series is the most-heavily-modeled, politically-massaged and gimmicked government indicator of the economy. It has been so since at least the 1960s, and that reporting quality deteriorated anew, sharply in both the 2016 and 2017 benchmarkings (see the *Opening Comments* of *Commentary No. 902-B*, those of *Commentary No. 823*, and *Special Commentary No. 885*, entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play.*

Notes on GDP-Related Nomenclature and Definitions

For purposes of clarity and the use of simplified language in the text of the GDP analysis, here are definitions of several key terms used related to GDP reporting:

Gross Domestic Product (GDP) *is the headline number and the most widely followed broad measure of U.S. economic activity. It is published quarterly by the Bureau of Economic Analysis (BEA), with two successive monthly revisions, and with an annual revision in the following July.*

Gross Domestic Income (GDI) *is the theoretical equivalent to the GDP, but the popular press generally does not follow it. Where GDP reflects the consumption side of the economy and GDI reflects the offsetting income side. When the series estimates do not equal each other, which almost always is the case, since the series are surveyed separately, the difference is added to or subtracted from the GDI as a "statistical discrepancy." Although the BEA touts the GDP as the more accurate measure, the GDI is relatively free of the monthly political targeting the GDP goes through.*

Gross National Product (GNP) *is the broadest measure of the U.S. economy published by the BEA. Once the headline number, now it rarely is followed by the popular media. GDP is the GNP net of trade in factor income (interest and dividend payments). GNP growth usually is weaker than GDP growth for net-debtor nations. Games played with money flows between the United States and the rest of the world tend to mute that impact on the reporting of U.S. GDP growth.*

Real *(or* ***Constant Dollars****) means the data have been adjusted, or deflated, to reflect the effects of inflation.*

Nominal *(or* ***Current Dollars****) means growth or level has not been adjusted for inflation. This is the way a business normally records revenues or an individual views day-to-day income and expenses.*

GDP Implicit Price Deflator (IPD) *is the inflation measure used to convert GDP data from nominal to real. The adjusted numbers are based on "Chained 2009 Dollars," as introduced with the 2013 comprehensive revisions, where 2009 is the base year for inflation. "Chained" refers to the substitution methodology, which gimmicks the reported numbers so much that the aggregate of the deflated GDP sub-series missed adding to the theoretically-equivalent deflated total GDP series by $105.5 billion in "residual," as of the second estimate of second-quarter 2016.*

Quarterly *growth, unless otherwise stated, is in terms of seasonally-adjusted, annualized quarter-to-quarter growth, i.e., the growth rate of one quarter over the prior quarter, raised to the fourth power, a compounded annual rate of growth. While some might annualize a quarterly growth rate by multiplying it by four, the BEA uses the compounding method, raising the quarterly growth rate to the fourth power. So a one percent quarterly growth rate annualizes to 1.01 x 1.01 x 1.01 x 1.01 = 1.0406 or 4.1%, instead of 4 x 1% = 4%.*

Annual *growth refers to the year-to-year change of the referenced period versus the same period the year before.*

Gross Domestic Product (GDP). Published this morning, Friday, January 26th by the Bureau of Economic Analysis (BEA), the first or "advance" estimate of fourth-quarter 2017 showed statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 2.55% +/- 3.5% (95% confidence interval), weaker than market expectations for a 2.9% reading. That was against 3.16% in third-quarter 2017, 3.06% in second-quarter 2017 and 1.24% in first-quarter 2017.

Year-to-year growth rose by 2.50% in fourth-quarter 2017, versus 2.30% in third-quarter 2017, 2.21% in second-quarter 2017 and 2.00% in first-quarter 2017.

Distribution of the initial estimate of fourth-quarter 2017 GDP growth, by major category, is detailed in the *Executive Summary* (see *Table 1*, page 10).

Graphs 25 and *27* plot headline levels of real quarterly GDP activity, respectively showing short-term (since 2000) and long-term (since the historical onset of the quarterly GDP series in 1947) perspectives. Shown in *Graphs 26* and *28*, headline year-to-year real GDP growth in the initial estimate of fourth-quarter GDP, again was 2.50% versus 2.30% in third-quarter 2017, 2.21% in second-quarter 2017, 2.00% in first-quarter-2017, 1.84% in fourth-quarter 2016, 1.52% in third-quarter 2016, 1.23% in second-quarter 2016, 1.36% in first-quarter 2016, 2.02% in fourth-quarter 2015 and 2.40% in third-quarter 2015.

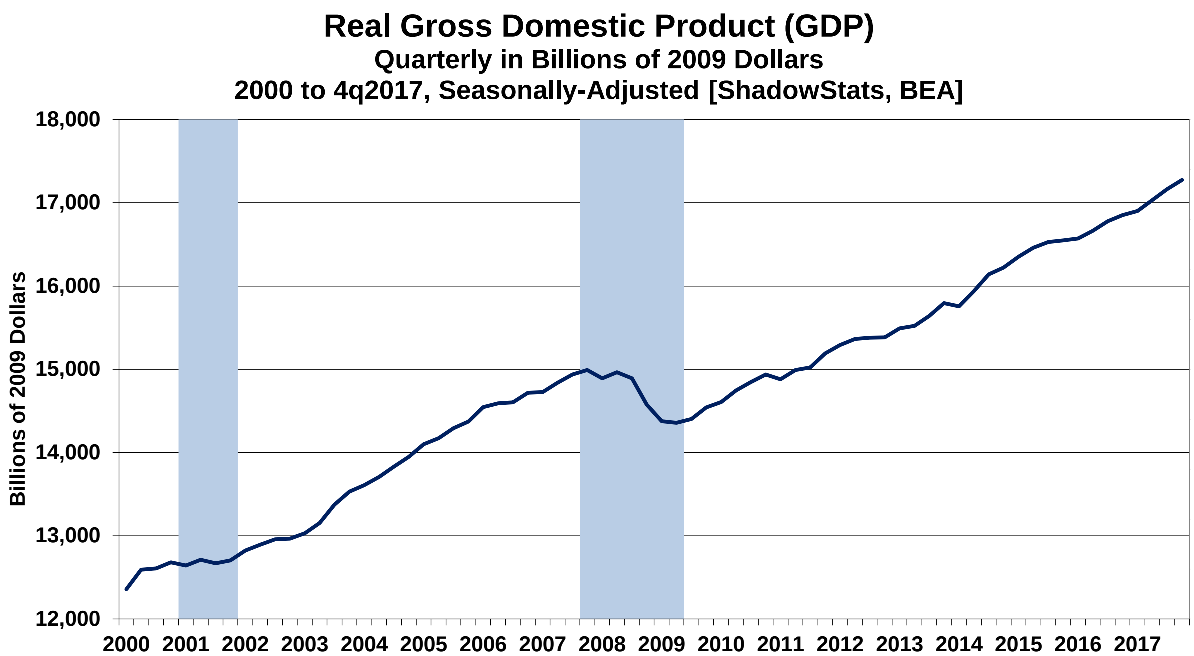
Graphs 29 and *30* respectively show the levels of annual real GDP activity, as well as annual percent change, as estimated beginning in 1929.

Reflected in *Graph 30*, the first estimate of annual-average real GDP growth in 2017 rebounded some to 2.25%, versus 1.49% in 2016, 2.86% in 2015 and 2.57% in 2014. The annual growth rate of 1.49% in 2016 was the slowest pace of annual growth in the post-2009 “recovery.”

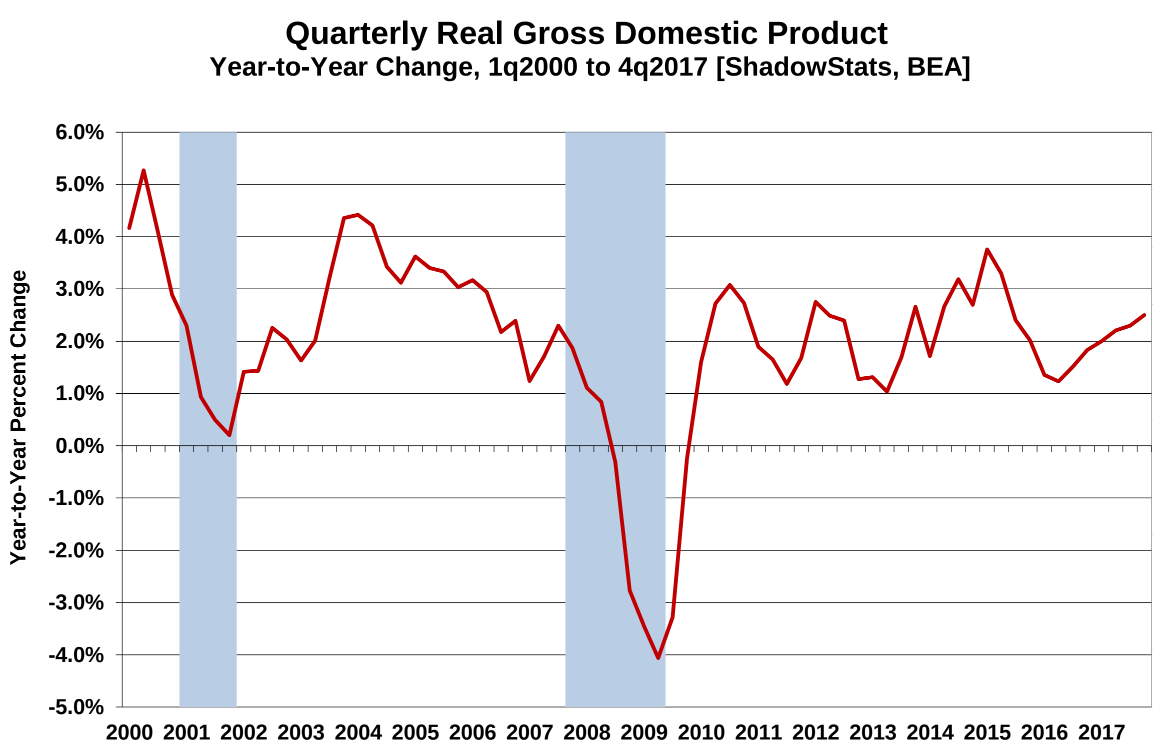
The current-cycle trough in quarterly annual change was in second-quarter 2009 (see *Graphs 26* and *28*), reflecting a year-to-year decline of 4.09% (-4.09%). That was the deepest year-to-year contraction for any quarterly GDP in the history of the series, which began with first-quarter 1947 (1948 in terms of available year-to-year detail). *Graph 26* shows the revised current year-to-year quarterly detail, from 2000-to-date, where *Graph 28* shows the same series in terms of its full quarterly, year-to-year history back to 1948. Shown in *Graph 30*, the annual decline of 2.78% (-2.78%) in 2009 was the steepest regular annual drop in economic activity since the Great Depression. The 1946 production shutdown and economic reorganization following World War II, however, resulted in an annual GDP decline of 11.58% (-11.58%), minimally narrower than the 1932 annual economic crash of 12.89% (-12.89%).

[Graphs 25 to 31 begin on the following page.]

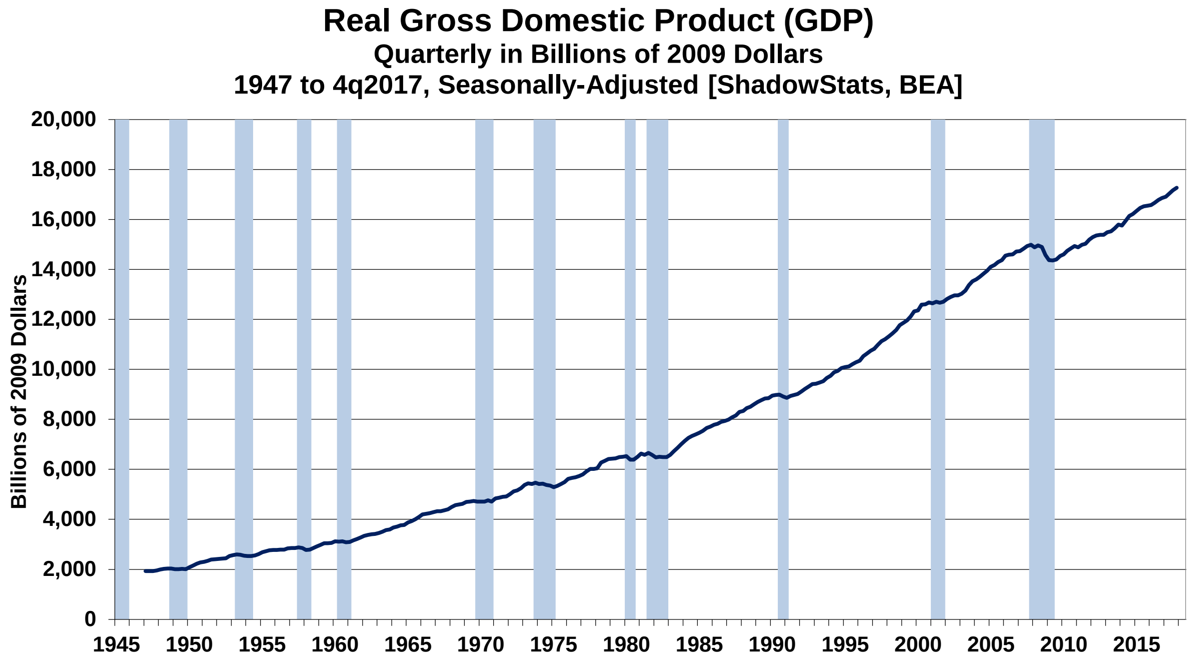
Graph 25: Quarterly GDP in Billions of 2009 Dollars (2000 to 2017), First-Estimate of Fourth-Quarter 2017



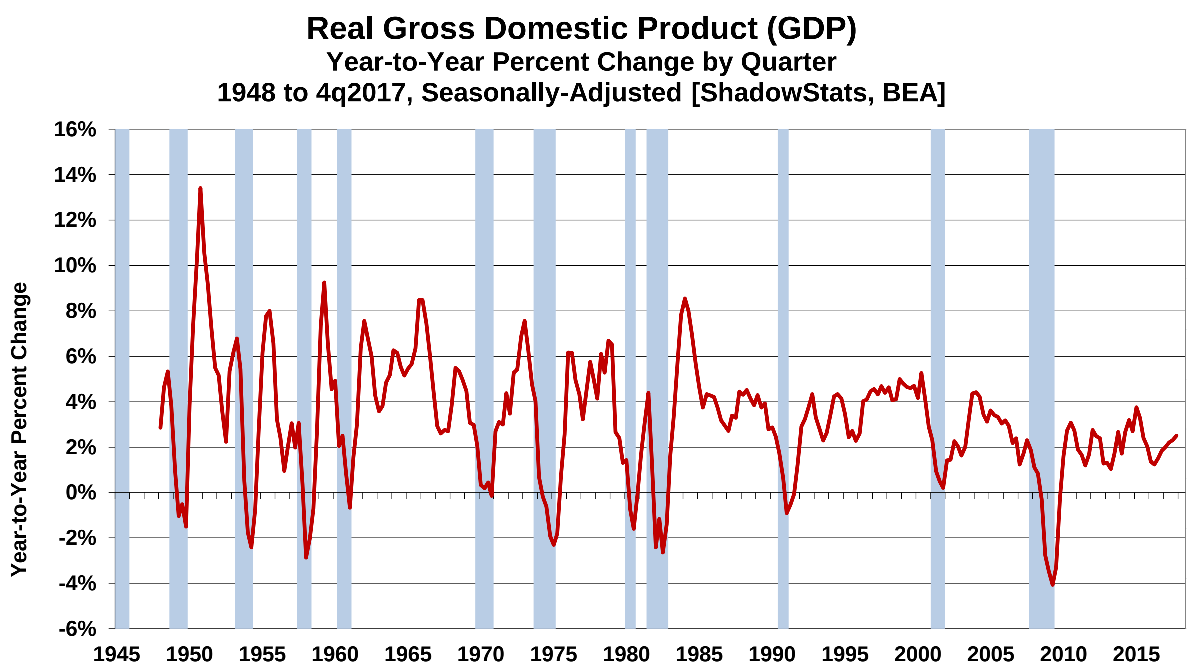
Graph 26: Quarterly GDP Real Year-to-Year Change (2000 to 2017), First-Estimate of Fourth-Quarter 2017



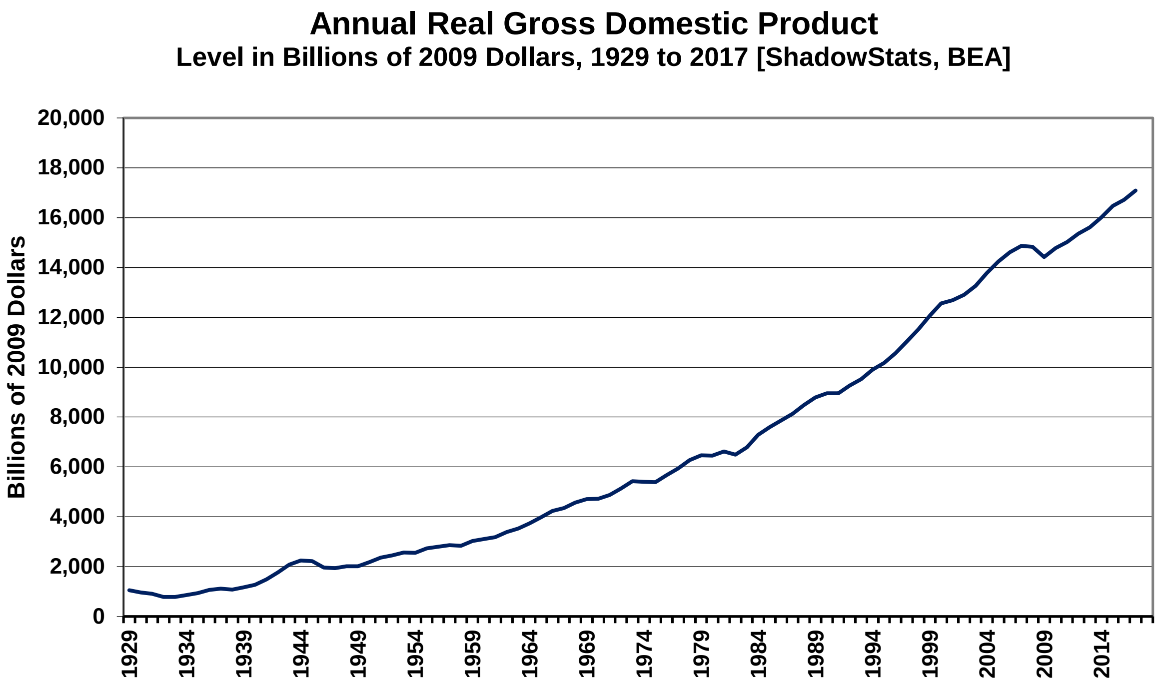
Graph 27: Quarterly GDP in Billions of 2009 Dollars (1947-2017), First-Estimate of Fourth-Quarter 2017



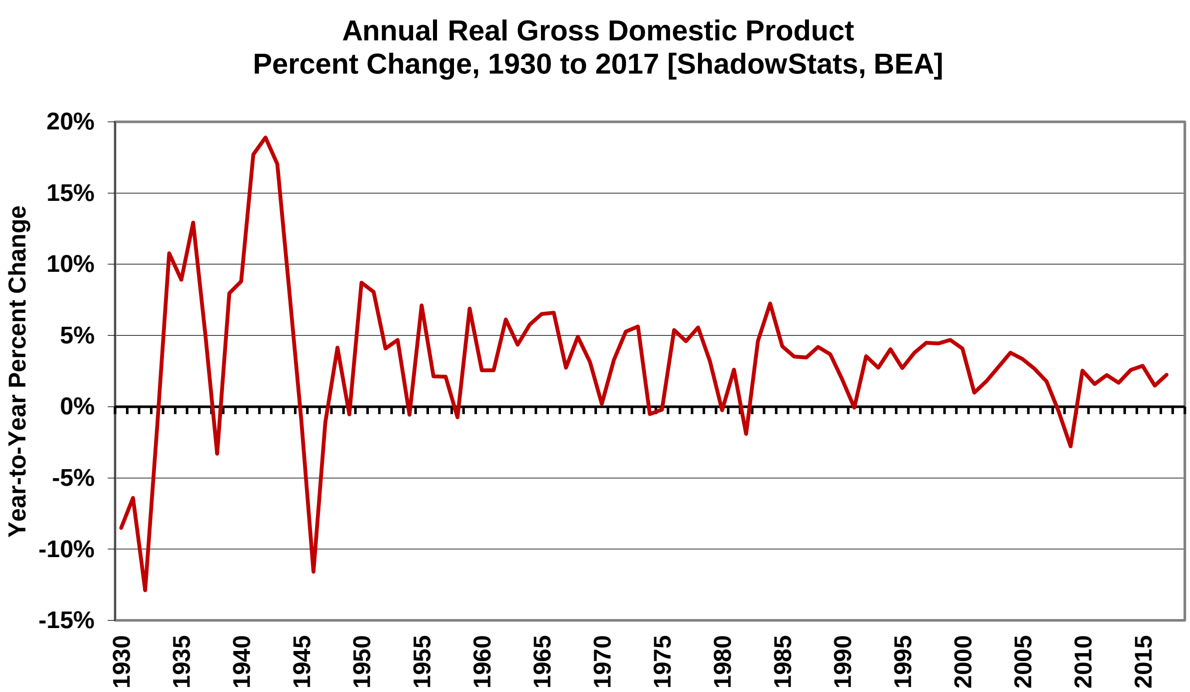
Graph 28: Year-to-Year GDP Real Change (1948-2017), First-Estimate of Fourth-Quarter 2017



Graph 29: Annual GDP in Billions of 2009 Dollars (1929-2017)



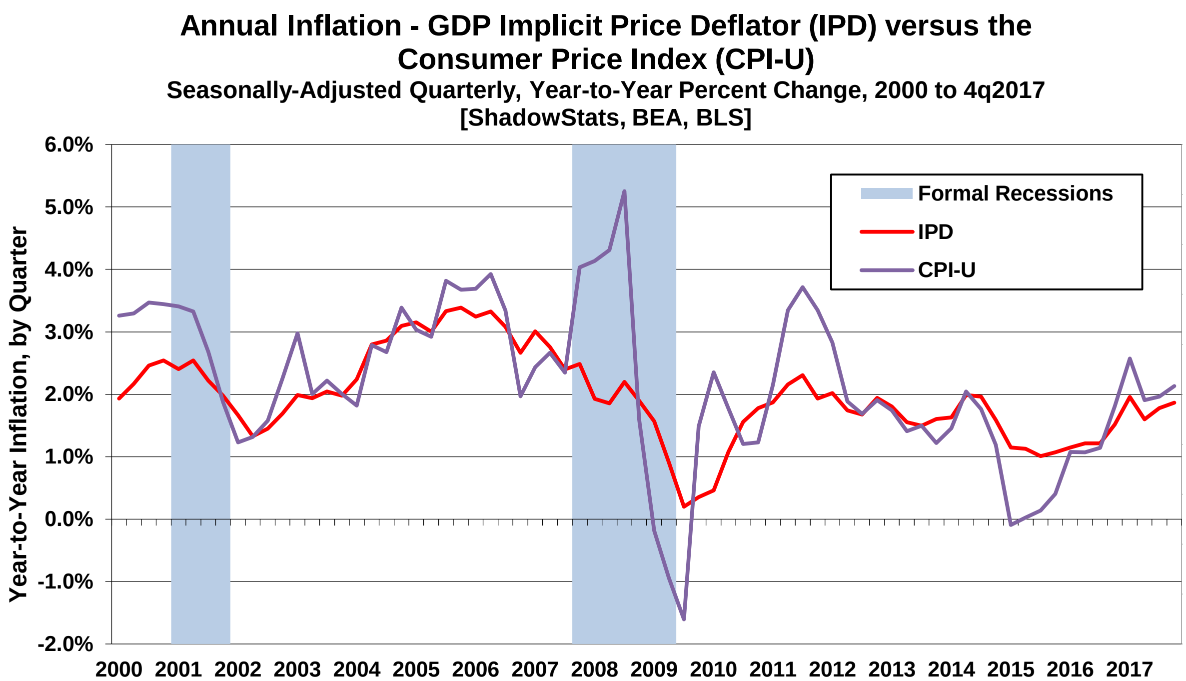
Graph 30: GDP Real Annual Percent Change (1930-2017)



Implicit Price Deflator (IPD). The first estimate of quarter-to-quarter, third-quarter 2017 GDP inflation, or the implicit price deflator (IPD) was an annualized 2.36%, versus 2.09% in third-quarter 2017 1.01% in second-quarter 2017, 2.00% in first-quarter 2017, 2.03% in fourth-quarter 2016, 1.37% in third-quarter 2016, 2.43% in second-quarter 2016, 0.25% in first-quarter 2016, 0.82% in fourth-quarter 2015, 1.35% in third-quarter 2015, 2.18% in second-quarter 2015 and down by 0.06% (-0.06%) in first-quarter 2015. As general guidance, the weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth, and vice versa.

Year-to-year, the first estimate of fourth-quarter 2017 IPD inflation was 1.86%, versus annual gains of 1.78% in third-quarter 2017, 1.60% in second-quarter 2017, 1.96% in first-quarter 2017, 1.52% in fourth-quarter 2016, 1.22% in third-quarter 2016, 1.21% in second-quarter 2016, 1.15% in first-quarter 2016, 1.07% in fourth-quarter 2015, 1.01% in third-quarter 2015, 1.13% in second-quarter 2015 and 1.05% in first-quarter 2015. In terms of full-year, average annual inflation, the 2017 IPD inflation was 1.13%, versus 1.11% in 2016, 1.10% in 2015 and 1.09% in 2014.

Graph 31: Yr-to-Yr Inflation, First-Estimate, Fourth-Quarter 2017 IPD versus CPI-U (2000-2017)



For purposes of comparison, the seasonally-adjusted Consumer Price Index CPI-U showed an annualized pace of inflation in fourth-quarter 2017 of 3.72%, having gained 2.01% in third-quarter 2017, versus a contraction 0.31% (-0.31%) in second-quarter 2017 and gains of 3.15% in first-quarter 2017, 3.04% in fourth-quarter 2016, 1.78% in third-quarter 2016, 2.33% in second-quarter 2016, 0.11% in first-quarter 2016, 0.35% in fourth-quarter 2015, 1.50% in the third-quarter 2015, 2.35% in second-quarter 2015 and a quarterly contraction of 2.52% (-2.52%) in first quarter of 2015.

Unadjusted, year-to-year quarterly CPI-U inflation showed annual gains of 2.12% in fourth-quarter 2017, versus 1.96% in third-quarter 2017, 1.91% in second-quarter 2017, 2.54% in first-quarter 2017, 1.80% in fourth-quarter 2016, 1.12% in third-quarter 2016, 1.05% in second-quarter 2016, 1.08% in first-quarter 2016, 0.47% in fourth-quarter 2015, 0.11% in third-quarter 2015, and quarterly year-to-year contractions of 0.04% (-0.04%) in second-quarter 2015 and 0.06% (-0.06%) in first-quarter 2015 (see *Graph 31*). In terms of full-year, average annual inflation, the 2017 CPI-U inflation was 2.13% versus 1.26% in 2016, 0.12% in 2015 and 1.62% in 2014.

Gross National Product (GNP) and Gross Domestic Income (GDI). Initial fourth-quarter estimates of GNP and GDI will not be released until next month (February 28th), due to a lack of available, significant underlying detail, a problem common to the headline GDP detail, as well, which was released, as usual, despite its broadly meaningless reporting.

GNP remains the broadest measure of U.S. economic activity, where GDP is GNP net of trade flows in factor income (interest and dividend payments). As a reporting gimmick aimed at boosting the headline reporting of economic growth for net-debtor nations such as the United States, international reporting standards were shifted some decades back to reporting headline GDP instead of what had become a relatively weaker GNP.

GDI is the theoretical income-side equivalent to the consumption-side GDP estimate. The GDP and GDI are made to equal each other, every quarter, with the addition of a "statistical discrepancy" to the GDI-side of the equation.

That said, at last reporting, annualized real third-quarter 2017 GNP was 3.65%, versus 2.77% in second-quarter 2017, 0.94% in first-quarter 2017, 2.58% in fourth-quarter 2016 and 2.59% in third-quarter 2016. Real year-to-year growth was 2.48% in third-quarter 2017, versus 2.22% in second-quarter 2017, 2.18% in first-quarter 2017, 1.86% in fourth-quarter 2016 and 1.47% in third-quarter 2016.

Annualized real third-quarter GDI growth was 2.03%, versus 2.28% in second-quarter 2017, 2.68% in first-quarter 2017, a contraction of 1.66% (-1.66%) in fourth-quarter 2016 and 4.12% growth in third-quarter 2016. Real year-to-year growth was 1.32% in third-quarter 2017, versus 1.83% in second-quarter 2017, 1.30% in first-quarter 2017, 0.55% in fourth-quarter 2016 and 1.35% in third-quarter 2016.

ShadowStats Alternate GDP. The ShadowStats-Alternate GDP fourth-quarter 2017 GDP, first estimate, was a year-to-year decline of 1.6% (-1.6%), versus an annual GDP headline gain of 2.5% at the first-decimal point, that was against a ShadowStats annual decline of 1.8% (-1.8%) in third-quarter 2017 and an annual real headline GDP gain then of 2.3%.

While the annualized, real quarterly growth rate is not estimated formally on an alternate basis, the statistically-insignificant, first-estimate of annualized, headline quarter-to-quarter gain of 2.6% in fourth-quarter 2017 likely was much weaker in reality, net of all the happy assumptions, regular reporting gimmicks and largely "unrecognized" data distortions from recent hurricane activity. Specifically, as the hurricane disruptions to the data increasingly resolve themselves, first-quarter 2018 headline GDP reporting is at high risk of an outright quarterly contraction.

Real-world quarterly contractions appear to have been a realistic possibility for bloated, headline inflation-adjusted GDP in most quarters since the official, second-quarter 2009 end to the 2007 recession.

Adjusted for understated inflation and other methodological changes—such as the inclusion of intellectual property, software and recent accounting for the largely not-measurable and still-questionable impact of the Affordable Care Act (ACA)—the business collapse that began in 2006/2007 is ongoing; there has been no meaningful economic rebound, as discussed in today's *Opening Comments and Executive Summary*. The "corrected" real GDP *Graphs 2* and *4* in the *Executive Summary* (see also the *Economy* section in *No. 859 Special Commentary* and *2014 Hyperinflation Report—Great Economic Tumble*), are based on the removal of the impact of hedonic quality adjustments that have reduced the reporting of official annual GDP inflation by roughly two-percentage points. It is not the same measure as the ShadowStats-Alternate GDP, here, which reflects reversing additional methodological distortions ("Pollyanna Creep") of recent decades, highlighted in the Alternate Data tab on the GDP on the www.ShadowStats.com home page.

NEW ORDERS FOR DURABLE GOODS (December 2017)

New Orders Jumped with Surging Aircraft (Defense and Nondefense), as Hurricane Distortions Continued to Work Out of the System. Net of zero month-to-month inflation and a monthly gain in the highly-irregular commercial aircraft orders (ShadowStats does separate of defense aircraft orders, which were are factors in the headline December gains), real new orders for durable goods rose month-to-month, continuing to hold in fluctuating, non-recovering, low-level stagnation in fourth-quarter 2017, albeit with a smoothed upside bias. Where, real annual growth had begun to slow markedly, dropping from 4.8% in October 2017 to 3.1% in November 2017, it rebounded to 6.0% in December 2017 (see *Graphs 11* and *12* in the *Executive Summary*). Such was in the context of an upside revision to aggregate new orders activity in November, and minimally so in October.

In the initial reporting of August 2017 new orders for durable goods, meaningful impact from late-August Hurricane Harvey was not obvious, but that changed with the headline September 2017 detail. September new orders included not only impact from mid-September's Hurricane Irene, but also late changes to August detail, which included upside revisions to new orders for motor vehicles (likely Houston-area flood losses), with those orders holding at a continued high level in September. October 2017 motor vehicle orders continued to rise, and the November 2017 detail showed a further uptick with some slowing of related monthly growth. Growth continued to slow in related December 2017 orders.

That said, total nominal New Orders for Durable Goods rose month-to-month by 2.9% in December 2017, having gained an upwardly-revised 1.7% in November, having declined by an unrevised 0.4% (-0.4%) in October. Other than for hurricane-related disruptions to the monthly data, the month-to-month changes have been dominated by large swings in the irregularly-volatile, commercial-aircraft orders, with a gain of 15.9% in December 2017, a revised 14.1% in November 2017, and a revised decline of 15.8% (-15.9%) in October. Ex-commercial aircraft, new orders rose by 2.2% in December 2017, versus upwardly revised gains of 1.1% gain in November and 0.5% in October. With highly-suspect, related negligible month-to-month inflation, a component of the Producer Price Index (PPI), the inflation-adjusted real monthly changes, ex-commercial aircraft, reflected gains of 2.2% in December 2017, 1.0% in November, versus a 0.1% gain in October.

Discussed later, the extremely volatile, commercial aircraft orders are booked years into the future and are indicative more of longer-term, rather than shorter-term prospects for manufacturing activity. Accordingly, ShadowStats concentrates on the inflation-adjusted real New Orders for Durable Goods series, ex-commercial aircraft (see *Graph 11* in the *Executive Summary*), as a leading indicator to broad economic activity reflected in the dominant Manufacturing sector of Industrial Production, and in the context of activity reflected in the Cass Freight Index™, plotted and discussed in the *Opening Comments*. None of those series has recovered its pre-recession high of 2007; all continue in non-recovered, non-expanding, low-level stagnation. Again, see the comparative annual growth patterns in *Graphs OC-5* to *OC-7* in the *Opening Comments.*

There is no economic expansion underway, as heavily touted to the contrary in the popular media. Expansion reflects growth beyond the pre-recession peak of an economic series. The happy hype in the media primarily reflects a purported expansion in headline Gross Domestic Product (GDP) currently (fourth-quarter 2017) at 15.2% above its precession high (see the *GDP* coverage in the *Executive Summary*). That said, underlying fundamental economic activity, such as seen in December 2017 real new orders for durable goods series, was down by 6.7% (-6.7%) from recovering its pre-recession high, while real new orders for durable goods, ex-commercial aircraft, was down by 4.6% (-4.6%) from recovering its pre-recession peak.

In the context of the May 18, 2017 annual benchmark revisions to the new orders series, which lowered the general level of headline activity in recent years (see *Special Commentary No. 888* and the accompanying *Graph 20* there), December 2017 headline detail, again, showed the broad economy in ongoing non-expansion. That also as has been the case for the manufacturing sector in industrial production (see *Commentary No. 932*). Real new orders, ex-commercial aircraft, again, remains the best coincident/leading indicator to industrial production (*i.e.,* manufacturing) and to the general economy.

Smoothed with six-month moving averages, and adjusted for inflation, both of the highly volatile new orders series (total and ex-commercial aircraft) generally have remained in long-term, non-recovering, low-level, downtrending stagnation, which recently had started to show some minimal uptrend, then downtrend—some fluttering—flattening-out, particularly when viewed with the alternate-inflation detail. Those patterns have remained consistent in signaling an ongoing or non-recovering recession (see *Graphs 13* to *16* in the *Executive Summary*).

Headline Nominal Detail—December 2017. The Census Bureau reported this morning, January 26th, that the regularly-volatile, seasonally-adjusted, nominal level of aggregate new orders for durable goods increased by 2.89% in December 2017, by a revised 1.73% [previously 1.30%] in November, having declined by a revised 0.41% (-0.41%) [previously 0.44% (-0.44%), initially 1.18% (-1.18%)] in October. Orders gained by an unrevised 2.40% in September, 2.06% in August, having declined by an unrevised 6.81% (-6.81%) in July and having gained 6.38% in June, versus an "unchanged" 0.00% in May.

Year-to-year, December 2017 nominal durable goods rose by 11.52%, following revised annual gains of 8.68% [previously 8.19%] in November, 1.96% [previously 1.93%, initially 0.97%] in October 2017 and unrevised gains of 8.61% in September 2017, 5.55% in August 2017, 4.06% in July 2017, 16.20% in June 2017 and 3.97% in May 2017. That headline detail, though, was before consideration of the irregular volatility in commercial-aircraft orders, let alone inflation.

Before and after consideration of irregular and unstable month-to-month commercial-aircraft orders in the headline reporting of real new orders, the smoothed trends of broad activity generally continued to be flat, consistent with a downturn that had been holding in a continuing pattern of broad stagnation, albeit with a somewhat fluttering uptrend. The inflation-adjusted real series, and that same series corrected for the understatement of official inflation, again, are discussed and graphed in the *Executive Summary*.

The corrected-inflation-adjusted series—net of commercial aircraft orders—has remained relatively flat, in a pattern of low-level stagnation, albeit somewhat uptrending. In parallel with the other plotted series, the corrected series still shows an unfolding economic contraction of a nature that usually precedes or coincides with a recession or deepening business downturn.

Detail Net of Volatility in Commercial-Aircraft Orders. The reporting of extreme contractions and surges in commercial-aircraft orders is seen in an irregularly-repeating process throughout the year, and that often dominates changes in headline monthly durable goods orders. These extremely volatile aircraft orders are booked years into the future and are indicative more of longer-term, rather than shorter-term prospects for manufacturing activity.

In December 2017, a monthly gain of 15.88% in aircraft orders contributed to pushing headline aggregate orders to a gain of 2.89%, from what otherwise would have been a monthly gain of 2.19%. That followed a revised monthly gain of 14.1% [previously 14.5%] in November aircraft orders, following a revised contraction of 15.79% [previously 15.85% (-15.85%), initially 18.58% (-18.58%)] in October, versus unrevised monthly gains of 33.90% in September, 33.47% in August, a July month-to-month decline of 71.07% (-71.07%), a monthly aircraft-order surge of 129.20% in June and a monthly decline in May of 1.37% (-1.37%).

Net of commercial-aircraft orders, month-to-month and seasonally-adjusted, December 2017 new orders gained 2.19% , versus gains if 1.13% in November, 0.47% in October 2017, 1.03% in September, 1.04% in August, 0.51% in July, 0.26% in June and 0.65% in May. Year-to-year and seasonally-adjusted, December 2017 new orders ex-aircraft rose by 7.75%, having gained a revised 5.03% in November, a revised 6.74% in October 2017, and with unrevised gains of 6.51% in September 2017, 4.74% in August 2017, 5.59% in July 2017, 6.70% in June 2017 and 6.55% in May 2017.

Real Durable Goods Orders—December 2017. ShadowStats uses the PPI component inflation measure "Durable Manufactured Goods" for deflating the new orders for durable goods series. Published only on a not-seasonally-adjusted basis, the related December 2017 PPI series showed "unchanged" headline month-to-month inflation of 0.00%, versus 0.12% in November and 0.41% in October. Related year-to-year annual inflation was 1.67% in December 2017, versus 1.92% in November 2017 and 1.86% in October 2017 (see *Commentary No. 931*).

Adjusted for that 0.00% month-to-month inflation reading in December 2017 and respective inflation rates in earlier months, and as reflected in the graphs in the *Executive Summary* section, real aggregate orders in December 2017 rose by 2.89%, having gained 1.61% in November, having declined by 0.82% (-0.82%) in October, having gained by 2.34% in September, by 2.00% in August and having declined by 6.75% (-6.75%) in July. Ex-commercial aircraft, real month-to-month orders rose by rose by 2.19% in December 2017, by 1.01% in November, 0.05% in October, 0.97% in September, 0.98% in August and 0.57% in July.

Real total new orders gained 9.68% in year-to-year in December 2017, versus 6.63% in November 2017 and annual gains of 0.10% in October 2017, 6.53% in September 2017, 3.92% in August 2017 and 2.46% in July 2017. Ex-commercial aircraft, December 2017 real orders rose year-to-year by 5.97%, versus 3.06% in November 2017, 4.79% in October 2017, 4.68% in September 2017, 3.12% in August 2017 and 3.97% in July 2017.

Real Quarterly Change, Ex-Commercial Aircraft. Where the inflation-adjusted series (ex-commercial aircraft) is the best leading economic indicator out of these data, following are the annualized real quarterly changes in that series. Beginning at the onset of eventually what still should become recognized as a formal recession or renewed downturn, the real ex-commercial aircraft orders series showed annualized quarterly declines of 7.92% (-7.92%) in fourth-quarter 2014 and 7.36% (-7.36%) in first-quarter 2015. Annualized real change was a gain of 3.87% for second-quarter 2015, a gain of 3.46% in third-quarter 2015 and an annualized contraction of 2.59% (-2.59%) in fourth-quarter 2015 activity.

First-quarter 2016 orders showed an annualized real contraction of 2.22% (-2.22%), with the series declining at an annualized real pace of 4.74% (-4.74%) in second-quarter 2016. For third-quarter 2016, the annualized real series (ex-commercial aircraft) showed an annualized quarterly gain of 5.46%, fourth-quarter 2016 activity showed an annualized quarterly gain of 7.35%.

First-quarter 2017 showed an annualized contraction of 0.94% (-0.94%). Year-to-year, first-quarter 2017 orders rose by 1.67%. Second-quarter 2017 activity rose at a revised annualized quarterly pace of 2.49%, up by 3.54% year-to-year. Third-quarter 2017 annualized quarterly growth was 7.03%, with year-to-year growth at revised 3.92%.

Based on initial, full fourth-quarter 2017 reporting, the fourth-quarter 2017 annualized real quarterly growth was 10.18%, with year-to-year growth easing to 4.60%. Activity was distorted by the hurricanes for both third- and fourth-quarter 2017.

Graphs of Inflation-Adjusted and "Corrected" Smoothed Durable Goods Orders. Three sets of inflation-adjusted graphs (*Graphs 10* to *16*) are displayed in the *Executive Summary*. The first set (*Graphs 10* to *12*) shows the headline monthly detail, as well as the six-month moving-average activity for both the aggregate new orders series and the series net of the irregular commercial-aircraft orders. They also show annual growth for the real series (net of commercial aircraft). The moving-average levels in both the durable goods series (*Graphs 10* and *11*) had turned lower into year-end 2014 and the first two quarters of 2015, with some smoothed bounce-back into third-quarter 2015, followed by renewed downturn into 2016 with a late-year uptick continuing into March 2017, which largely was revised away with the May benchmarking and now shows an uptrending level of stagnation.

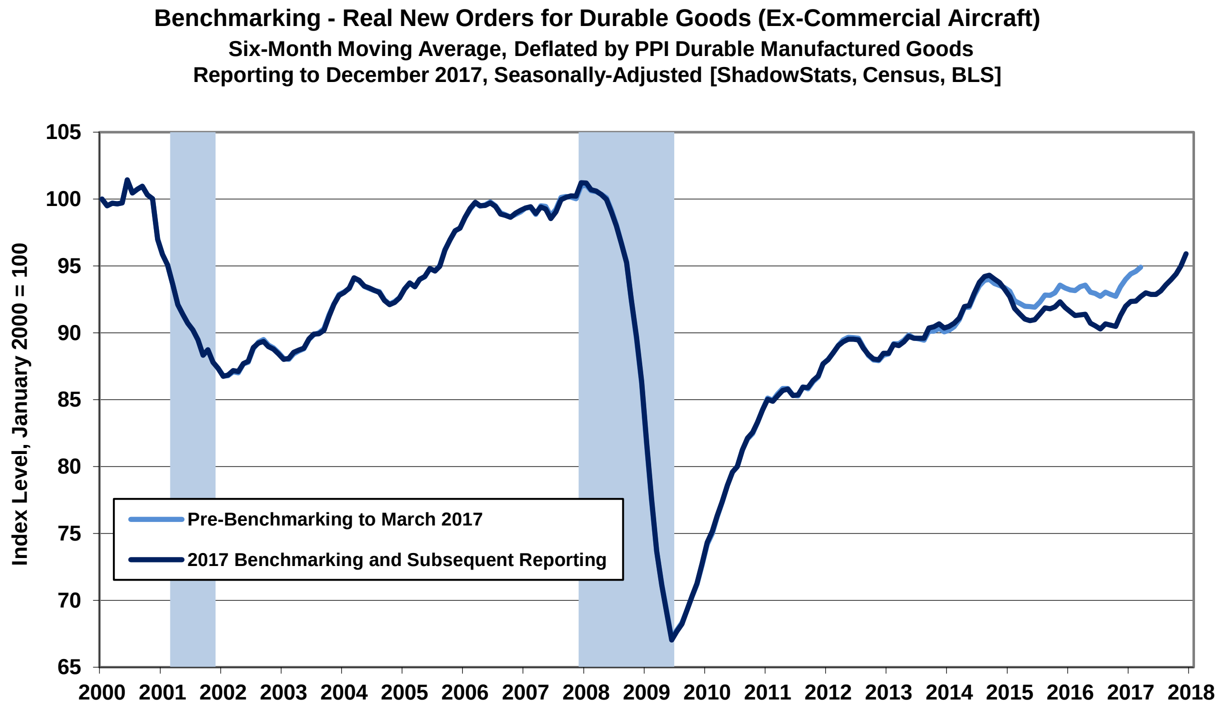
The second set of graphs (*Graphs 13* and *14*) shows the patterns of six-month moving averages of historical, headline real new orders for durable goods (net of official inflation), as well as that pattern "corrected" for understatement of that inflation (and for the corresponding overstatement of official, inflation-adjusted growth). The third set of graphs (*Graphs 15* and *16*) shows the same patterns, but for the aggregate durable goods orders series, net of commercial aircraft orders.

Caution: Non-Comparability of the Regular Headline Month-to-Month Data. As an example of the regular, annual downside restatement of recent activity, consider accompanying *Graph 32*. It shows the net revisions to the six-month moving average of real New Orders for Durable Goods (ex-commercial aircraft) from the May 18, 2017 benchmark revisions and subsequent reporting through the November 2017 headline detail, versus the pre-benchmarking detail. For a more-substantive review of the last two years of benchmark revisions to New Orders for Durable Goods, and the parent Manufacturers' Shipments series, see *Special Commentary No. 888*.

Current durable goods reporting remains subject to many of the same upwardly-biased sampling assumptions and concurrent-seasonal-adjustment problems commonly seen in the pre-revision reporting as well as with retail sales, and payroll and unemployment reporting. Unusual seasonal-factor volatility raises issues as to the significance of reported seasonally-adjusted monthly and annual changes. While those issues were brought into balance, for a period of eight days, with the annual benchmark revision to durable goods orders through March 2017 on May 18, 2017 (again see *No. 888*), that consistency ceased with the May 26th release of headline April 2017 detail.

For all monthly reporting from the April 2017 detail until the next benchmarking in May 2018, unpublished historical revisions calculated along with current headline month's seasonal adjustments, and with each month to follow, make all historical reporting prior to the current headline month (December 2017) inconsistent with the currently published headline historical numbers.

Graph 32: Benchmark Revisions to Real Total New Orders for Durable Goods, Ex-Commercial Aircraft.



NEW HOME SALES (December 2017)

New-Home Sales Plunged 9.3% (-9.3%) Month-to-Month, on Top of a Sharp Downside Revision to November's Nonsense Reporting. Moving in tandem with the Housing Starts series, both home sales series declined sharply in December, on top downside revisions to previously-bloated November activity. Headline November 2017 New- and Existing-Home Sales both showed extraordinarily-large, heavily distorted upside monthly gains, as discussed in *Commentary No. 928*. The Existing-Home Sales issues were tied to heavily-warped and unstable seasonal factors (see the next section), while the New-Home Sales issues were created by massive downside revisions to reporting of prior months. Both home-sales series saw some corrective reporting with the headline December detail reporting, both with downside revisions to prior reporting and large monthly contractions in December.

December 2017 New-Home Sales Activity Was 55.0% (-55.0%) Shy of Recovering Its Pre-Recession Peak. In the context of the regularly extreme, unstable and month-to-month volatility, which almost never is statistically significant at the 95% level (although it purportedly was with the extreme November 2017 reporting), and which regularly sees massive prior-period revisions, the headline December 2017 New-Home Sales series remained shy of recovering its pre-recession high by 55.0% (-55.0%). That shortfall had been 47.2% (-47.2%) in the November reporting. Smoothed over six months, the series remains in low-level, non-recovered stagnation.

New-Home Sales Headline Decline in December Was Muted by A Downside Revision to November. Released January 25th by the Census Bureau and the Department of Housing and Urban Development, the highly volatile and unstable New-Home Sales series, which counts new-home sales contracts signed, fell sharply, month-to-month in December 2017, by a statistically-insignificant 9.3% (-9.3%) +/- 12.9% at the 95% confidence interval [all confidence intervals used here are at the 95% confidence interval], down by 14.7% (-14.7%) net of prior-period revisions, which would have been statistically significant.

That followed a revised monthly gain of 15.0% [previously 17.5%], in November, which was boosted by a downside revision to October. Net of that revision, the November monthly gain was 10.4%.

That followed a revised monthly contraction of 6.3% (-6.3%) [previously 1.7% (-1.7%), initially a surge of 6.2%] in October, a revised surge of 14.3% [previously 13.6%, 14.2% and initially up by 18.9%] in September 2017 and an unrevised decline of 0.9% (-0.9%) in August.

Year-to-year change in December 2017 sales was a statistically-insignificant 14.1% +/- 15.2%, with the annual gain in November 2017 sales revising down to 19.0% [previously 26.5%], versus a revised 3.8% [previously 8.1%, initially 18.7%] in October 2017, with September 2017 revising to 12.1% [previously 11.4%, 13.2% and initially up by 17.0%] versus an unrevised annual contraction of 1.4% (-1.4%) in August 2017.

Fourth-Quarter 2017 Growth Was Much Slower than Last Month's Trend. Reflecting unstable and broadly meaningless monthly swings, Third-Quarter 2017 annualized quarterly change declined by a revised 11.2% (-11.2%) [previously 12.0% (-12.0%), 8.7% (-8.7%) and initially 1.1% (-1.1%)] . Initial Fourth-Quarter 2017 activity surged at an annualized pace of 38.9%, but that was down from 79.7% in the quarterly trend based on the initial October and November details.

Smoothed with a six-month moving average, this series, again, remained in low-level, non-recovering stagnation, which recently had turned to a downtrend but have flattened out with the latest data machinations (see *Graph 19* in the *Executive Summary*).

Consumer Liquidity Constraints. The extreme liquidity bind besetting consumers continues to constrain residential real estate activity (see the *Consumer Liquidity Watch*). Without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for income shortfall, the U.S. consumer remains unable to sustain positive growth in domestic personal consumption, including real-estate activity. That circumstance—in the last ten-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity.

Where the private housing sector never recovered from the business collapse of 2005 into 2009, there remains no chance of a near-term, sustainable turnaround in home-sales activity, without a fundamental upturn in consumer- and banking-liquidity conditions. That does not appear to be in the offing, despite any short-lived, near-term boosts to activity from disaster recovery.

Graphs 17 to *20* in the *Executive Summary* plot the New-Home Sales series along with comparative graphs of the related Single-Unit Housing Starts series (see *Commentary No. 932*). *Graphs 21* to *24* there plot the Existing-Home Sales series, along with comparative graphs of the related Housing Starts series.

EXISTING HOME SALES (December 2017)

Existing Sales Plunged by 3.6% (-3.6%) Month-to-Month on Top of a Sharp Downside Revision to November's Nonsense Reporting. Headline November 2017 Existing- and New-Home Sales both showed extraordinarily-large, heavily distorted upside monthly gains, as discussed in *Commentary No. 928*. The New-Home Sales issues were created by massive downside revisions to reporting of prior months (see the prior section), while the Existing-Home Sales issues were tied to heavily-warped and unstable seasonal factors. Both home-sales series saw some corrective reporting with the headline December reporting detail, both with downside revisions to prior reporting and large monthly contractions in December. The monthly swings and revisions to the Existing-Home Sales series traditionally are less volatile than the swings in the New-Home Sales series, but the downturn and downside revisions both were unusually large for the Existing-Home Sales series.

December 2017 Existing-Home Sales Activity Was 23.4% (-23.4%) Shy of Recovering Its Pre-Recession Peak. Reported by the National Association of Realtors (NAR), reflecting the count of Existing-Home Sales closings (as opposed to the count of contract signings for New-Home Sales, reported by the Census Bureau) the previous sharp monthly gain in November 2017 existing sales was on top of a small upside revision to October 2017. The headline December 2017 decline was on top of a downside revision to November 2017 activity, and remained shy of recovering its June 2005 pre-recession peak by 23.4% (23.4%) [that reading had been 20.1% (-20.1%) with the initial November reading].

Shown in *Graph 21* in the *Executive Summary,* the revised November 2017 Existing Home Sales still were at the highest level of the post-2006 revamped series (blue line), but still well below the pre-recession peak in seen in the original series (red line). That said, smoothed for six-month moving averages, the existing-sales series had been in uptrending stagnation into 2017, which recently shifted to downtrending-to-flat stagnation, as reflected in *Graph 23* (see also *Graphs 22* and *24* of the Housing Starts, where both series reflect activity in terms of single- and multiple-housing units).

Existing-Home Sales Continued in Smoothed, Downtrending-to-Flat Stagnation. Released by the National Association of Realtors (NAR) on January 24th, Existing-Home Sales (closings of home sales) declined month-to-month by 3.63% (-3.63%), having gained by a downwardly-revised 5.09% [previously 5.64%] in November, following a unrevised monthly gains of 2.42% in October, 0.37% in September, and unrevised monthly declines of 1.65% (-1.65%) in August and 1.27% (-1.27%) in July.

December 2017 year-to-year growth slowed to 1.09%, versus a downwardly-revised 3.21% [previously 3.75%], versus unrevised annual declines of 0.54% (-0.54%) in October 2017, 1.83% (-1.83%) in September 2017 and unrevised annual gains of 0.19% in August 2017 and 2.06% in July 2017.

Third-quarter 2017 activity contracted for the second straight quarter, at a deepening annualized pace, down by 12.11% (-12.11%), following an annualized decline of 3.97% (-3.97%) in second-quarter 2017.

The initial reporting of fourth-quarter 2017 detail showed an annualized quarterly gain of 18.20%. Based solely on headline October and November 2017 detail, the early trend in fourth-quarter 2017 activity had been for annualized growth of 21.46%.

Mounting Forecloses, as the Proportion of Distressed Sales Rose to 5% in December, and All-Cash Sales Declined to 20%. In the context of consumer liquidity constraints discussed in the prior *New-Home Sales* section the NAR estimated the portion of December 2017 sales in “distress” at 5% (4% in foreclosure, 1% short sales), versus 4% (3% in foreclosure, 1% short sales) in November 2017, but down from 7% (5% in foreclosure, 2% short sales) in December 2016. The NAR began surveying such detail in October 2008. Consider, though, that October 2008 already was more than three years into the housing-market collapse.

Consistent with mounting consumer liquidity constraints and faltering optimism discussed in today’s *Consumer Liquidity Watch*, sales in foreclosure at 4% is double the pace of the recent survey low of 2%. Industry numbers show foreclosure prospects still to be a meaningful problem, and ShadowStats looks to publish new material in that area, along with the next round of housing statistics.

Reflecting ongoing lending problems and continuing stresses within the financial system, including related banking-industry and consumer-solvency issues, as well as the ongoing influx of speculative investment money into the existing-housing market, the NAR estimated all-cash sales declined to 20% in December 2017, versus 22% in November 2017 and 21% in December 2016.

Graphs 21 to *24* in the *Executive Summary* plot the Existing-Home Sales series, along with comparative graphs of the related Housing Starts series. *Graphs 17* to *20* plot the New-Home Sales series along with comparative graphs of the related Single-Unit Housing Starts series.

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

HYPERINFLATION WATCH

VELOCITY OF MONEY

Fourth-Quarter 2017 Velocity of Money Rose Minimally for M1, Virtually Unchanged to M2 and M3. In the context of the initial, somewhat stronger nominal, annual growth in Fourth-Quarter 2017 GDP and somewhat stronger nominal growth as well in Fourth-Quarter 2017 Money Supply measures, the velocity of money in the fourth-quarter largely was virtually unchanged for the broader moneys measures M2 and M3, versus Third-Quarter 2017. The pace of money supply velocity for fourth-quarter M1, however, slowed by a minimal amount, having been down or flat for the last nine quarters, suggestive of somewhat greater physical cash relative to the GDP in the system, although that could be offshore. Velocity is a measure of how many times the money supply turns over in a year, versus the broad economy (GDP).

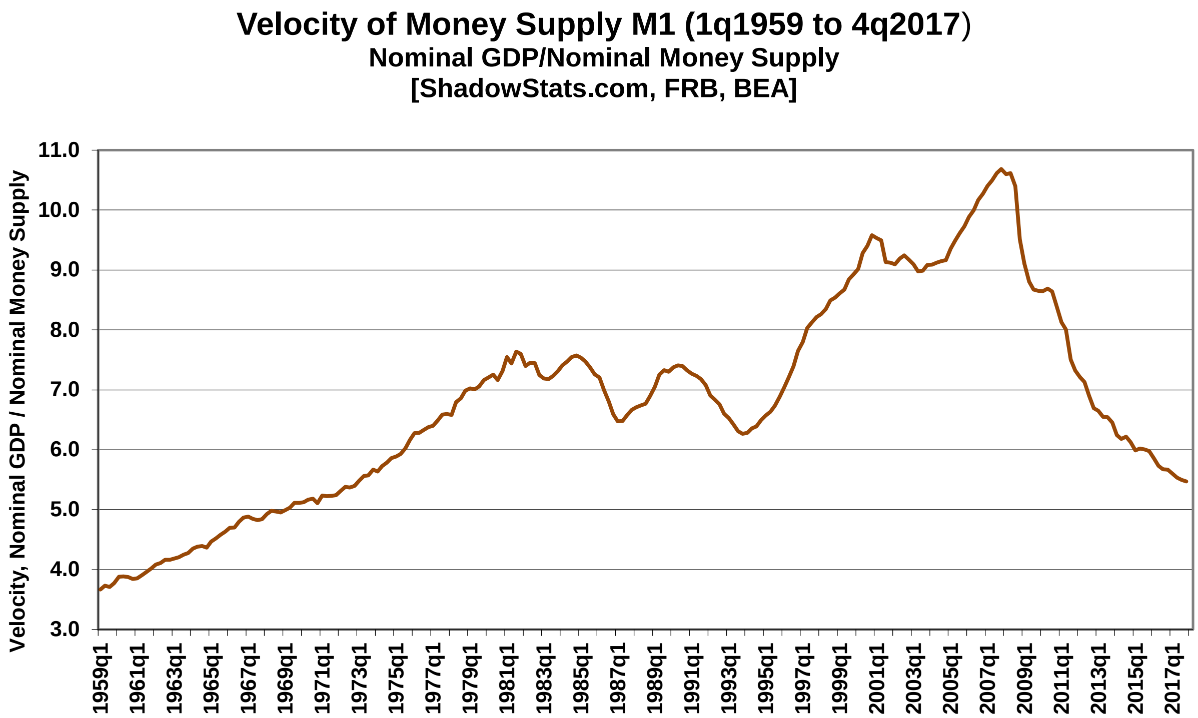
Velocity is calculated simply as the ratio of the nominal GDP to the nominal money supply measure. Nominal GDP is in the numerator and the nominal money measure is in the denominator of the velocity ratio. Slowing velocity indicates a relatively slower pace of nominal economic growth versus the money supply growth, and vice versa.

Velocity had plunged into first-quarter 2015 for M1 and M2. Since the end of 2010, however, the broader measure of M3 velocity had been steady through third-quarter 2014, when it also turned lower. With the exception of an uptick in second-quarter 2015, all velocity measures had been declining since late-2014, except for the flattening seen in the broader measures today.

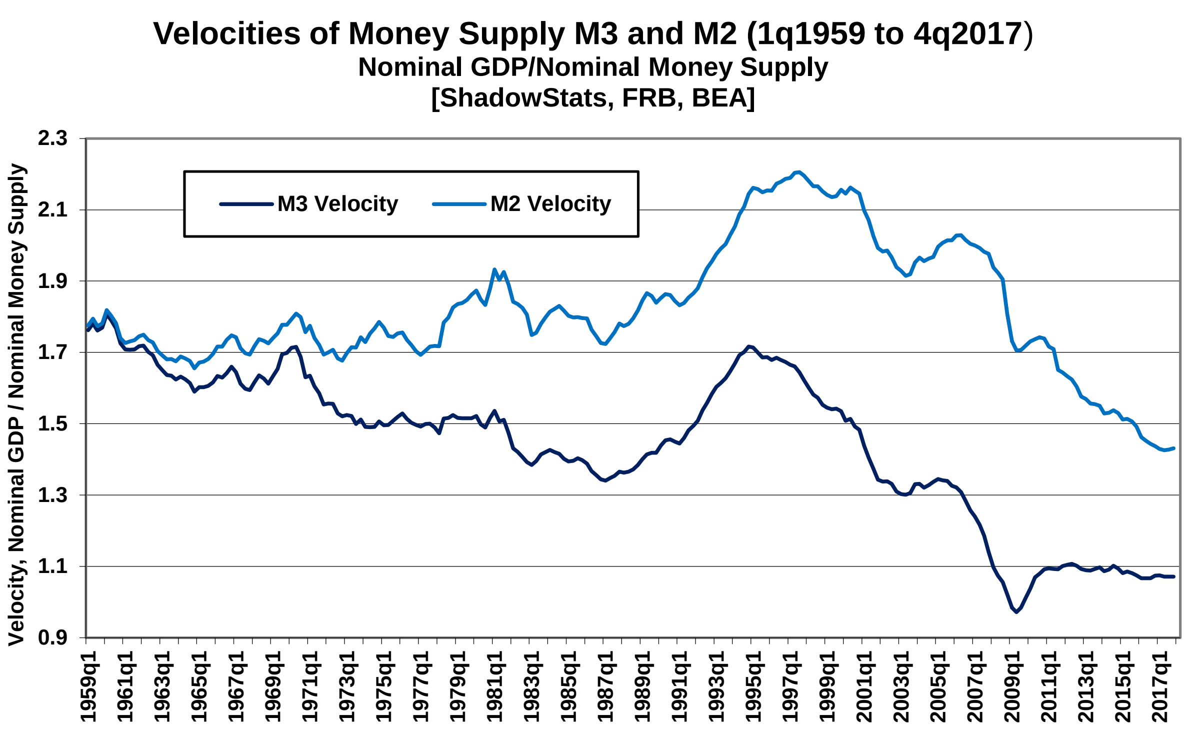
Consider that perhaps 70% or more of the cash-in-circulation component of that M1 (with cash accounting for about 42% of M1) could be physically outside the United States, per the Federal Reserve. Where that has been an increasing trend, a true measure of domestic M1 velocity well could be showing a significant uptrend. In like manner, where M1 includes cash, M2 includes M1, and M3 includes M2, M2 and M3 velocities also would be higher (headline cash accounts for roughly 11% of M2 and 8% of M3).

M3, versus M1 and M2, had been showing opposite patterns since 2011, because growth in M3 had been weaker than growth in M1 and M2, a pattern that had intensified. The reason behind that difference was that much of the relatively stronger M1 and M2 growth reflected, cash moving out of M3 categories—such as large time deposits and institutional money funds—into M2 or M1 accounts. The clarity of what happened there is why ShadowStats still tracks what had been the broadest money measure (M3) available. Now, M3 has started to rise anew, with M1 and M2 annual growth rates starting to reverse.

Graph HW-1: Velocity of Money Supply M1 through 4q2017



Graph HW-2: Velocities of Money Supply M2 and M3 through 4q2017



Subscribers often ask for specifics on the velocity of the money supply, with the result that this section has become a standard feature for *Commentaries* covering the "advance" GDP reporting of a given quarter. The nature of velocity is discussed in further detail in the 2008 *Money Supply Special Report*. Again, velocity simply is the number of times the money supply turns over in the economy in a given year, or the ratio in nominal terms (not adjusted for inflation) of GDP to the money supply. It is a residual number, not otherwise open to calculation or independent surveying.

Velocity has theoretical significance. In combination with money-supply growth, it should be a driving force behind inflation. Yet, since velocity is a ratio of two not-particularly-well or realistically-measured numbers, its actual estimate is of limited value. As an inflation predictor, it has to be viewed in the context of accompanying money-supply growth, and vice versa, generally as a coincident indicator. Again, full definitions can be found in the *Money Supply Special Report*.

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

CONSUMER LIQUIDITY WATCH

CONSUMER LIQUIDITY CONDITIONS: INCOME, CREDIT AND RELATIVE OPTIMISM.
[The CLW *has been updated for the University of Michigan's early-January 2018 Consumer Sentiment, along with updated references and links.]*

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 data by the February/March reporting of January/February 2018-headline detail. Such effects have been, and will continue to be, discussed in the separate analyses of relevant series in 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 Household Survey Employment and Unemployment (see the *Opening Comments* of *Commentary No. 930-B*) and Retail Sales (*Commentary No. 931*). December Industrial Production appeared to have stabilized in terms of surging activity, but it still needs to subside to levels stable with normal consumption activity and inventories (see today's *Reporting Detail*).

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 pocketbook 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 average consumer hopes and needs, irrespective of the new tax laws.

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 (insurance payments, savings liquidations), 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 *General Commentary No. 929* 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 (*Commentary No. 928*) and employment/unemployment details discussed in the *Supplemental Labor-Detail Background* of *Commentary No. 930-B*.

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 was supplemented in late-2017 by near-term hurricane boosts to, and distortions of, some current economic activity, such as the 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: Consumer Sentiment and Confidence Continue to Falter. On top of the full-month December 2017 readings pulling 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, the early-January 2018 Sentiment reading of January 19th continued to tumble. Such was in the context of indications of mounting foreclosure activity in the homeowner real estate market (see today's *Existing Home Sales* in the *Reporting Detail*).

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, and now early-January also pulled back sharply, largely offsetting the October surge there. Nonetheless, the latest headline readings remained above their pre-2007 recession peaks.

The deepening 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, just-passed strong 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 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.

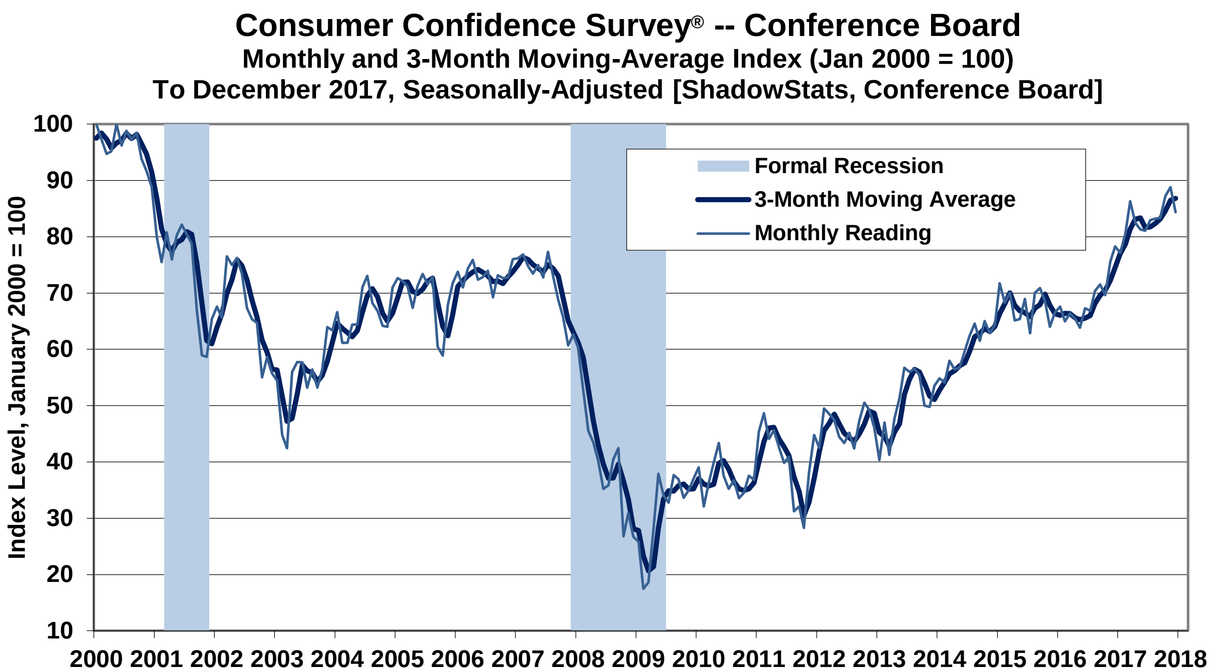
With near-term headline financial and economic reporting likely to turn increasingly negative in the next couple of months, successive negative hits to both the confidence and sentiment readings are likely to continue in the near future.

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.

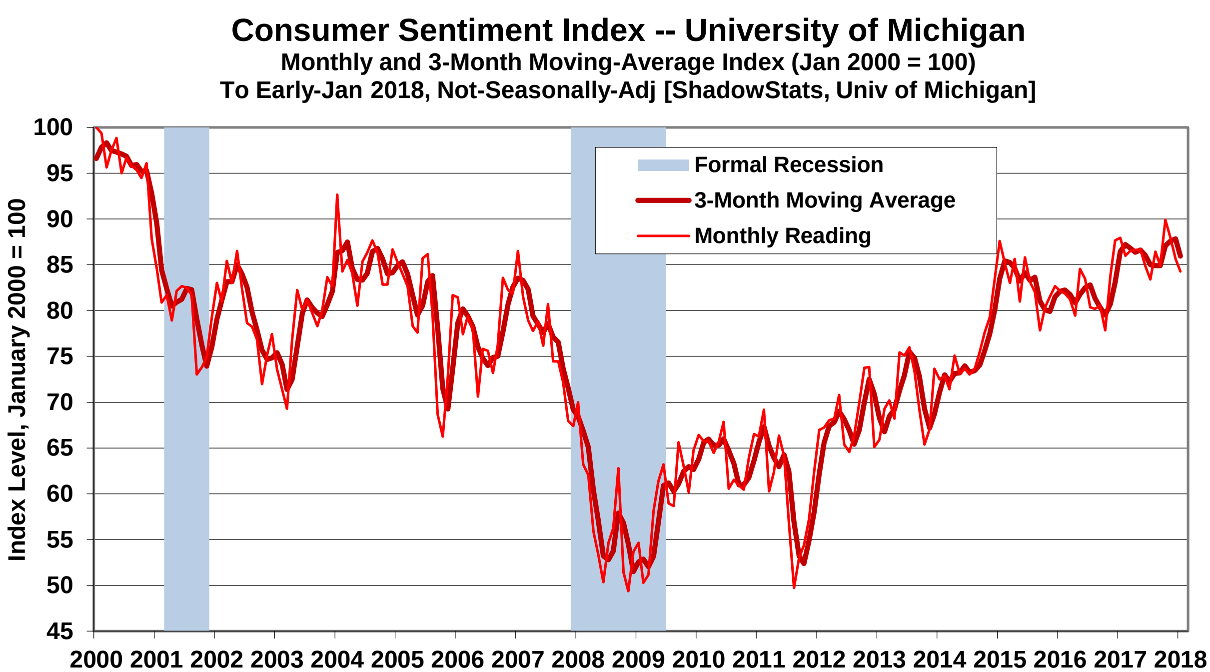
Smoothed for irregular, short-term volatility, the two series still generally had held at levels seen typically in recessions, until the post-2016 election circumstance. Suggested in *Graph CLW-3*—plotted for the last 48 years—the latest readings of Confidence and Sentiment recently have recovered levels 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.]

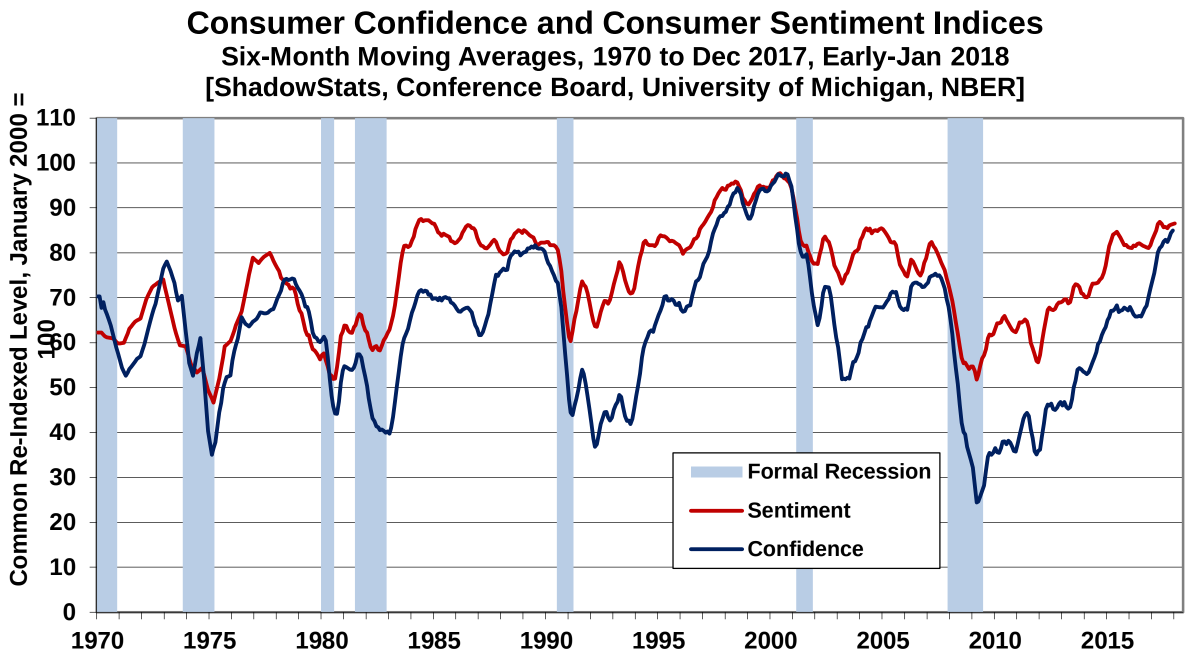
Graph CLW-1: Consumer Confidence (2000 to 2017)



Graph CLW-2: Consumer Sentiment (2000 to 2018)

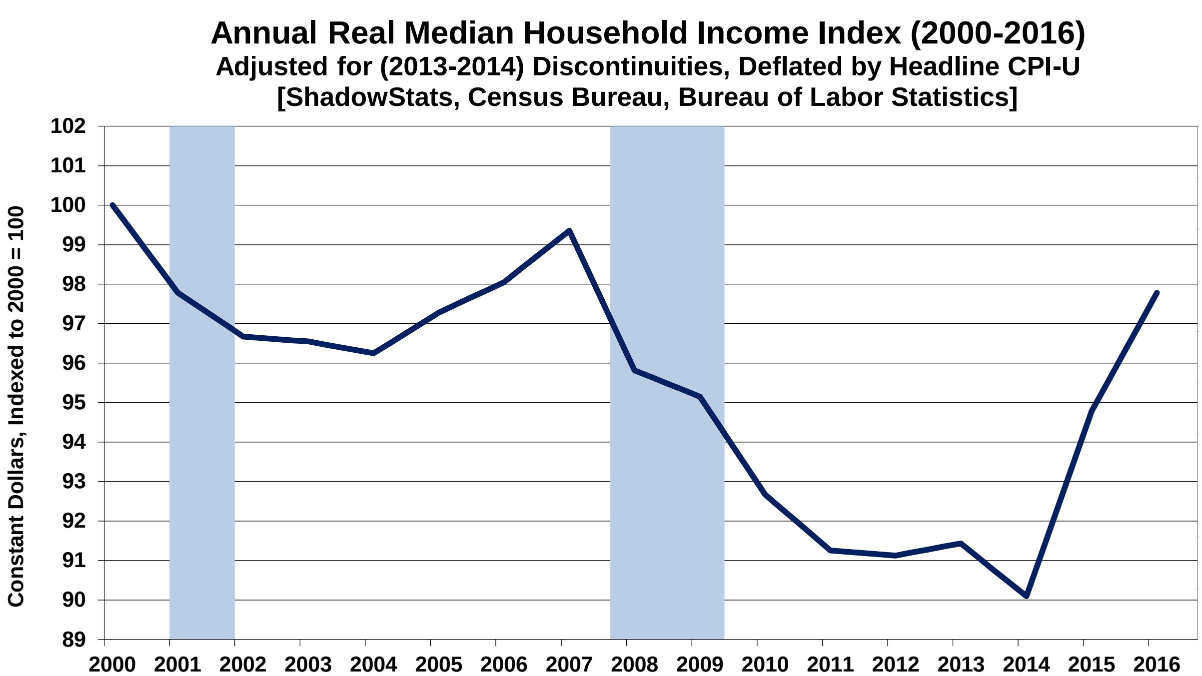


Graph CLW-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2018)



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 most-recent annual detail 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).

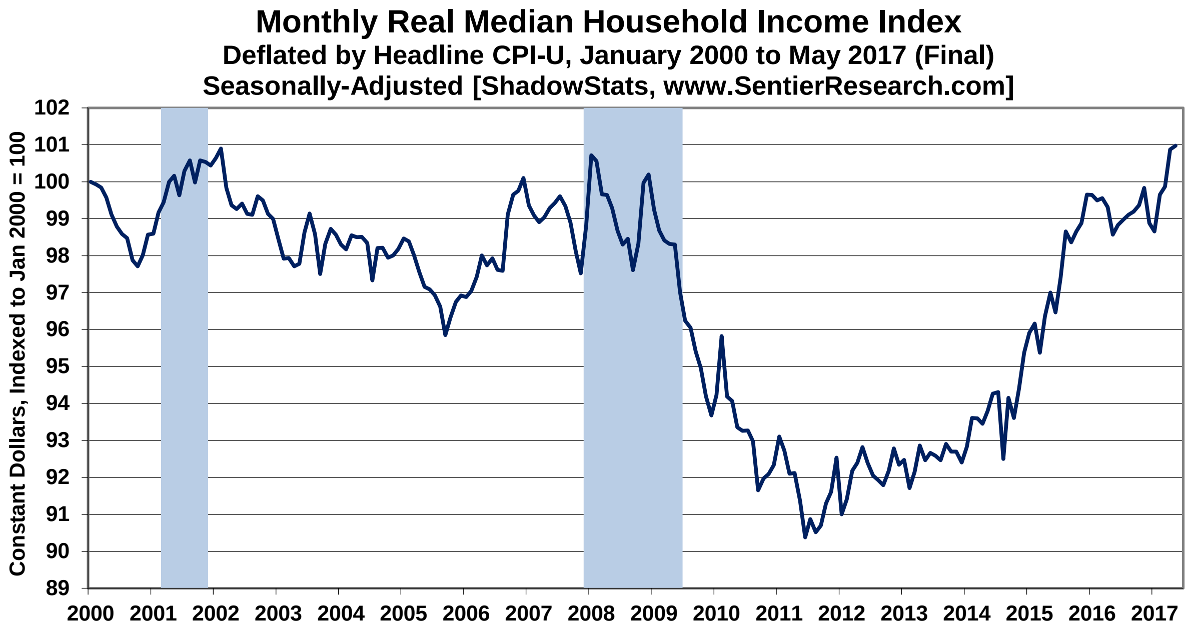
Where real monthly median income plunged into the headline trough of the economic collapse in 2009, it did not then rebound in tandem with the headline GDP activity. When the GDP purportedly started its solid economic recovery in mid-2009, the monthly household income numbers nonetheless plunged to new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

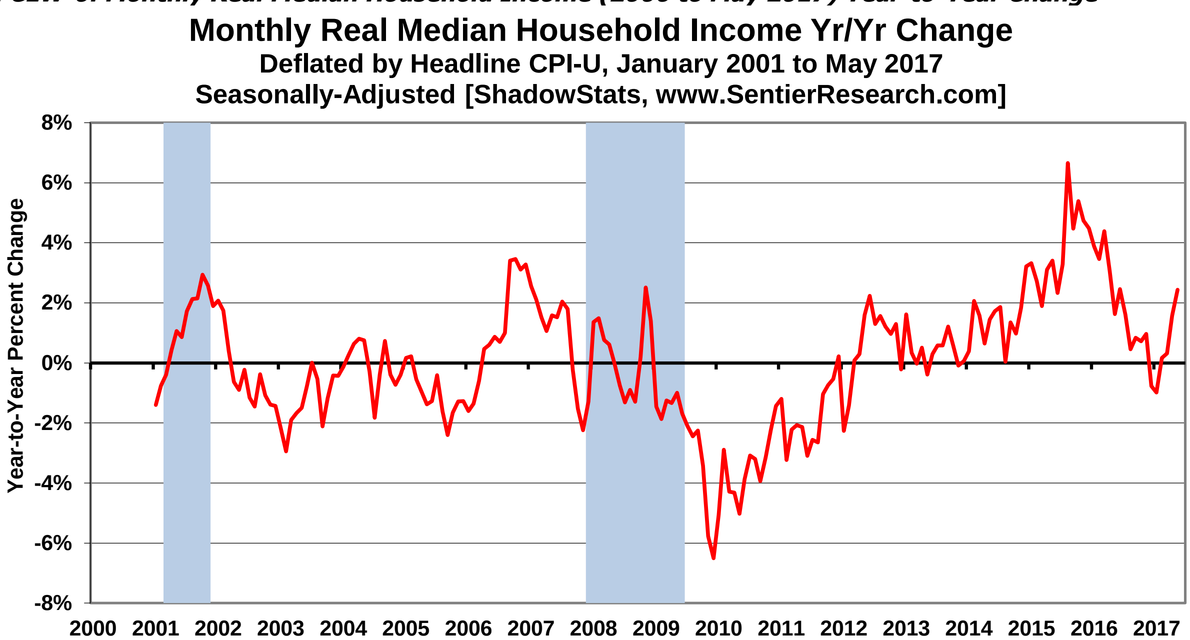
Differences in the Monthly versus Annual Median Household Income. The general pattern of relative monthly historical weakness has been seen in the headline reporting of the annual Census Bureau numbers, again, shown in *Graph CLW-4*, with 2014 real annual median household income having hit a ten-year 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



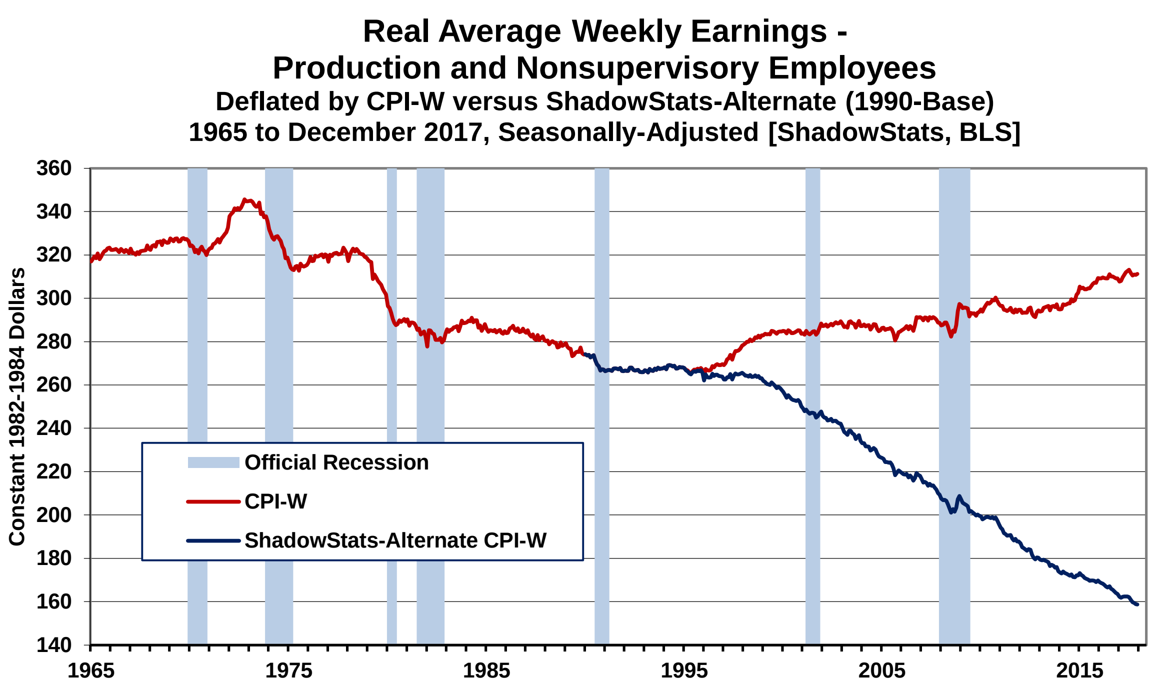
***Special Note*:** Accompanying the release of the May 2017 data by Sentier Research was this Notice of Final Report:

> 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 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—December 2017—Contracted for the Second Consecutive Quarter. For the production and nonsupervisory employees category—the only series for which there is a meaningful history (see the discussion in today's, January 15th, *Reporting Detail* and *Opening Comments*), the regularly-volatile, real average weekly earnings gained month-to-month in December 2017, but fourth-quarter 2017 earnings contracted quarter-to-quarter, for the second consecutive quarter, down at an annualized pace of 0.94% (-0.94%), having declined by 0.07% (-0.07%) in third-quarter 2017. In the broader all-employees category, fourth-quarter real average weekly earnings also contracted, down at an annualized pace of 1.16% (-1.16%), having gained 0.63% in third-quarter 2017 activity.

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

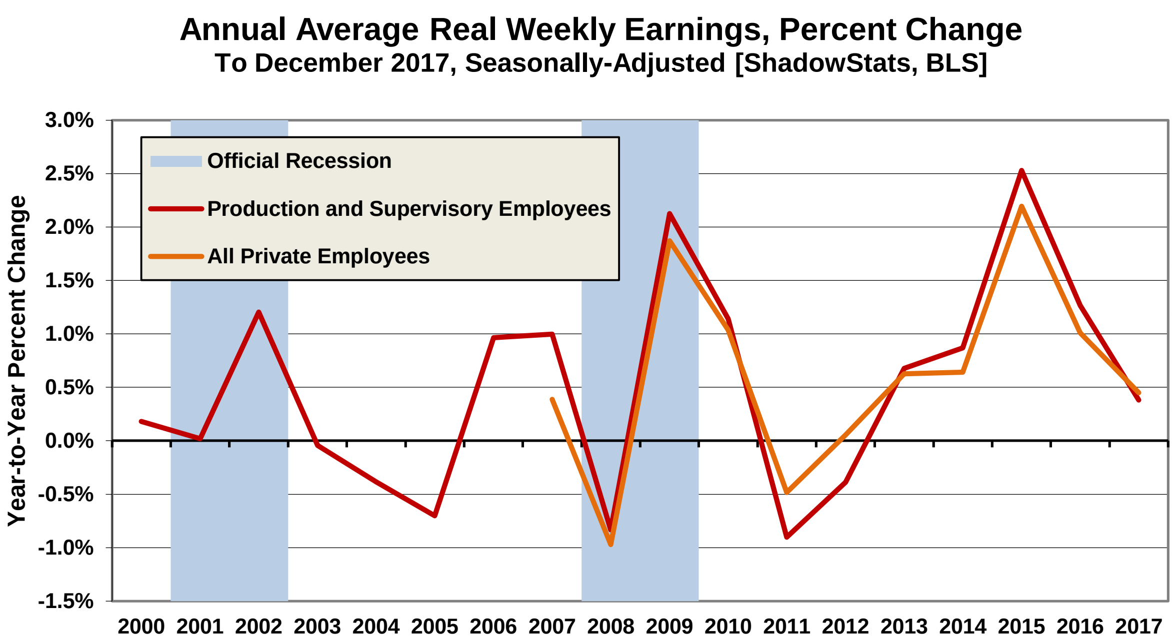


Graph CLW-7 plots the seasonally-adjusted earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating 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.

Shown in *Graph CLW-8*, and as discussed in *Commentary No. 931*, both the "all-employees" and "production and nonsupervisory employees" categories showed a sharply slowing pace in annual growth in 2017. Presumably coming off more-positive economic circumstances, the patterns there are consistent with a renewed economic downturn, not with a new economic boom, and the current pace of decline is greater than the average tax reduction to be seen by consumers in the year ahead.

Not all economic downturns are reflected in the headline economic data. For example, industrial production indicated the U.S. economic downturn intensified in fourth-quarter 2014, enough to qualify as a new recession, which is consistent with the plot in *Graph CLW-8*. See the related discussions in the latest GDP missive *Commentary No. 928* and Industrial Production in today's *Reporting Detail*.

Graph CLW-8: Annual Average of Weekly Earnings, Annual Percent Change (2000 to 2017)



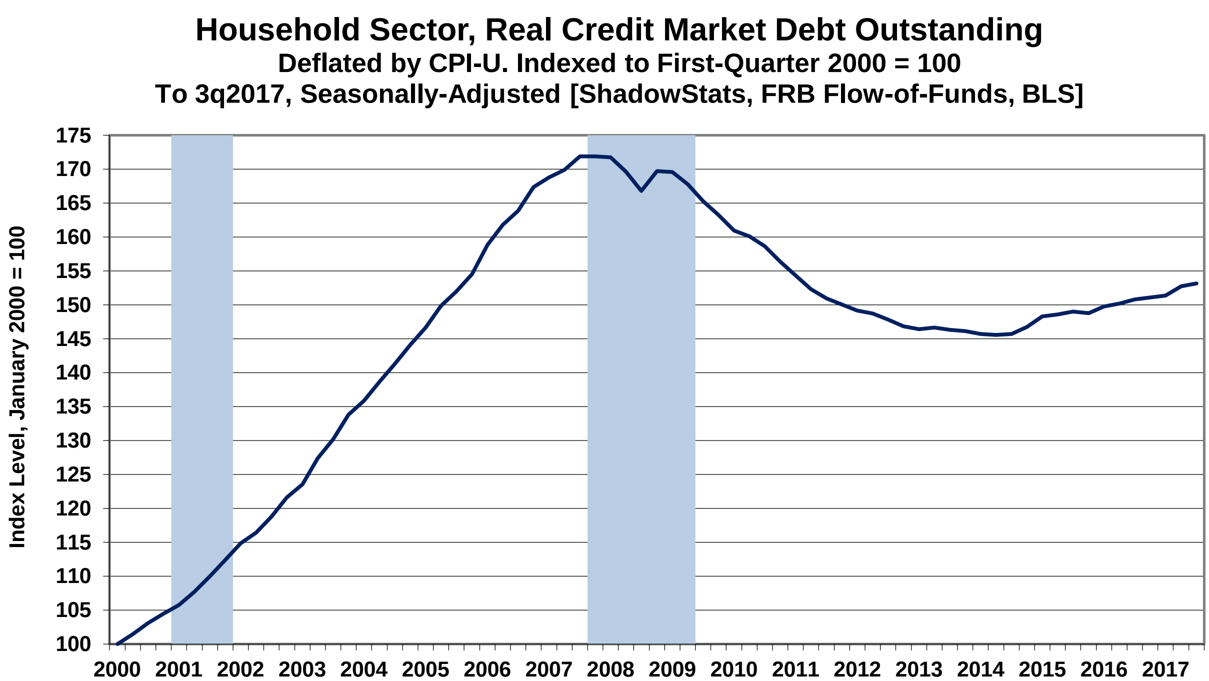
When income growth is inadequate to support consumption growth, consumers often make up the difference in debt expansion. Yet, real Consumer Credit Outstanding has shown a patterns of declining annual real growth for the last several quarters, irrespective of the specific series, as reflected in the plots of real monthly year-to-year change in *Graph CLW-12*.

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-9* 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-9* 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-10* to *CLW-12*.

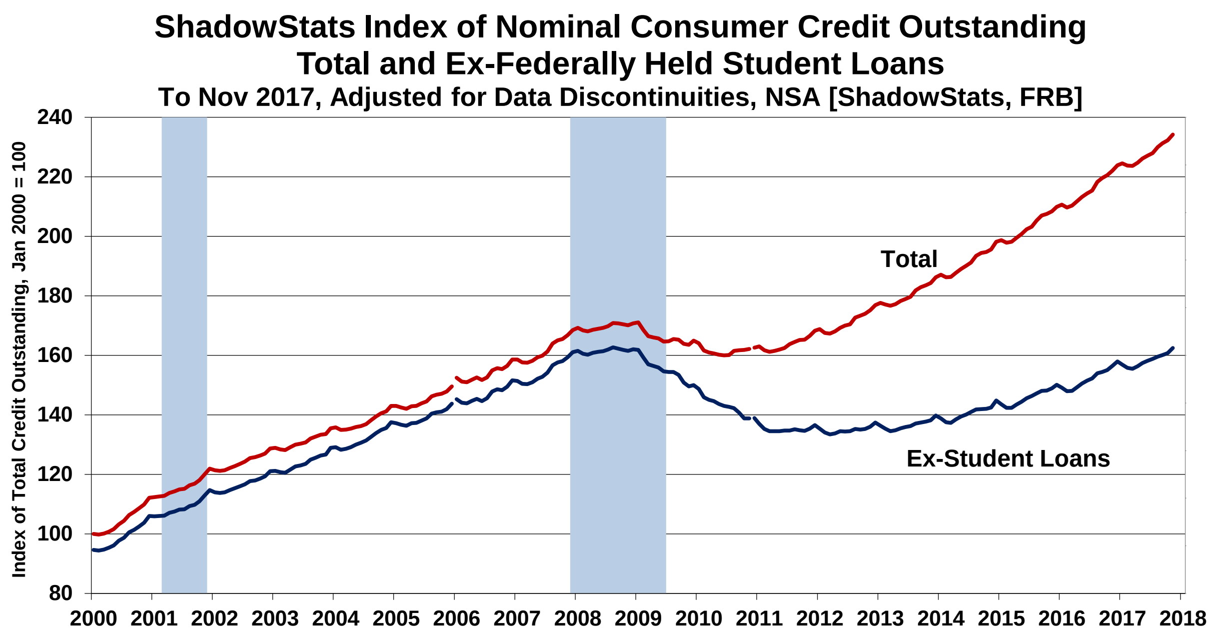
Graph CLW-9: Household Sector, Real Credit Market Debt Outstanding (2000 through Third-Quarter 2017)



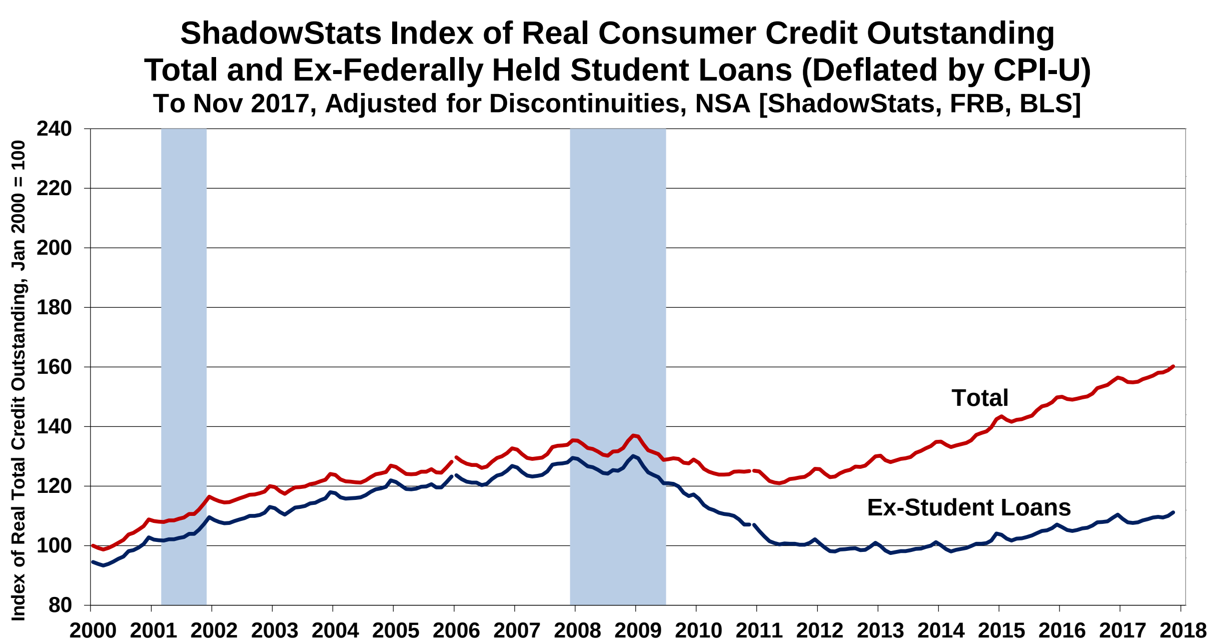
Monthly Series. The ShadowStats analysis usually focuses on the particular current and continuing weakness in monthly levels of consumer credit, net of what has been rapidly expanding government-sponsored student loans. Where detail on that series is only available not-seasonally-adjusted, the following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

Shown through the November 2017 reading (released January 8th), *Graph CLW-10* of monthly Consumer Credit Outstanding is a subcomponent of the preceding *Graph CLW-8* on real Household Sector debt. Where *Graph CLW-11* reflects the nominal reporting, real or inflation-adjusted activity for monthly Consumer Credit Outstanding is shown in terms of both level (*Graph CLW-11*) and year-to-year change (*Graph CLW-12*).

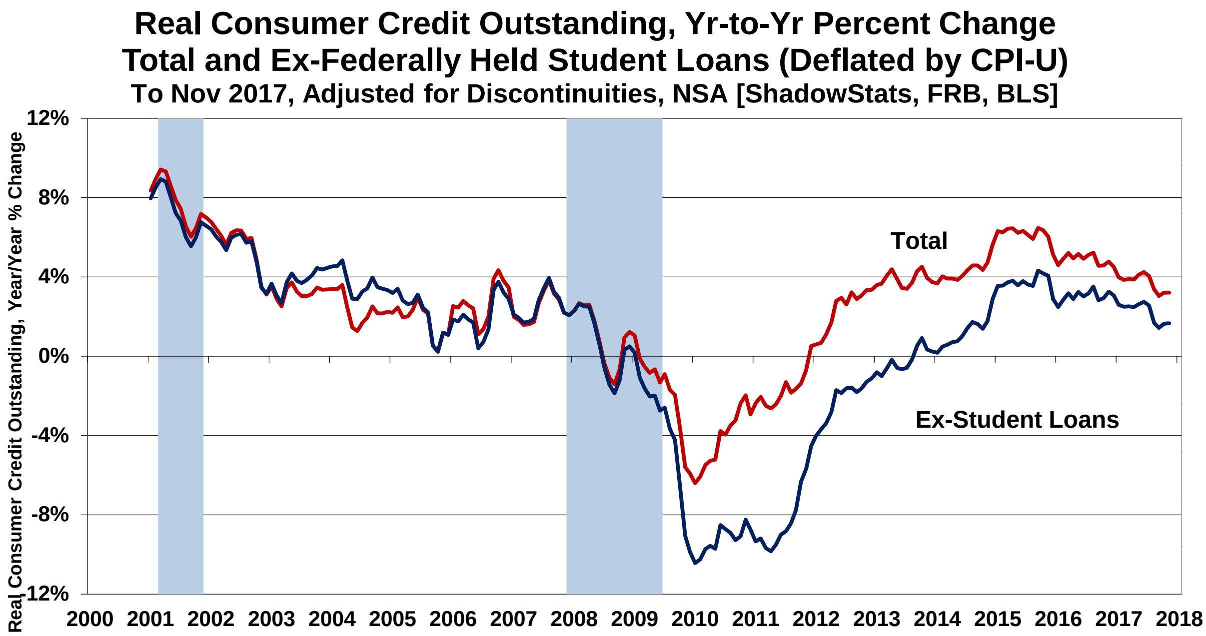
Graph CLW-10: Nominal Consumer Credit Outstanding (2000 to 2017)



Graph CLW-11: Real Consumer Credit Outstanding (2000 to 2017)



Graph CLW-12: 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 November 2017 was down from its December 2007 pre-recession peak by 14.1% (-14.1%). Year-to-year real growth shown in *Graph CLW-12* 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.]

WEEK, MONTH AND YEAR AHEAD

U.S. Dollar and Financial-Market Instabilities, and Turmoil Continue at High Risk, Along with Deterioration of Domestic and Global Economic and Political Circumstances. The real-world economy is not recovering or booming as advertised, irrespective of some distortedly strong, recent economic numbers statistics, which have begun to reverse, despite heavy hype in the press of a booming, full-employment economy, and in the context recent FOMC tightening actions and the lame-duck Federal Reserve Chair Yellen's perception of a "highly uncertain" economic outlook.

Allowing for hurricane disruptions and recovery from same, most series should be back to normal, reflecting "unexpected" downtrending economic activity, by the headline reporting of January and February 2018 economic activity, as discussed in *General Commentary No. 929*. Nonetheless, misleading, current headline details have been contributing factors to the manic stock market, discussed in the *Opening Comments* and *Hyperinflation Watch* (pages 2 and 33) in *Commentary No. 931*.

An unhappy period of market readjustment to underlying real-world circumstances looms, where Wall Street's proponents of a never-ending stock-market rally have parlayed temporary, nonrecurring economic boosts from natural disasters into a year-end 2017 economic boom. Negative economic "surprises" increasingly should shock the markets and the U.S. dollar on the downside. As the reported economic downturn intensifies in the months ahead, the FOMC—under its new Chairman—should be forced into an "unexpected" policy retrenchment, moving back towards quantitative easing as discussed in the *Commentary No. 931 Hyperinflation Watch.*

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 (see today's *Opening Comments*). The *Opening Comments* of *Commentary No. 930-B*, *General Commentary No. 929* and the *Opening Comments* and expanded *Hyperinflation Watch* of *Commentary No. 927* all reviewed 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, as likely lie ahead and as discussed here regularly. 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 posting in *Commentary No. 931* 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.

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 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. 932 (January 18th) covered December Industrial Production and New Residential Construction (Housing Starts and Building Permits).

Commentary No. 931 (January 15th) reviewed December 2017 Retail Sales and the CPI and PPI, along with an update on the U.S. dollar, the financial markets and gold graphs.

Commentary No. 930-B (January 8th) expanded upon the December 2017 Employment and Unemployment numbers and Household Survey benchmarking, Conference Board Help Wanted OnLine® Advertising, December Monetary Conditions and the November 2017 Trade Deficit and Construction Spending, otherwise headlined in *No. 930-A*.

Advance Commentary No. 930-A (January 5th) provided a brief summary and/or comments (all expanded in *Commentary No. 930-B*) on December 2017 Employment and Unemployment numbers, Household Survey benchmarking, Conference Board Help Wanted OnLine® Advertising, December Monetary Conditions and the November 2017 Trade Deficit and Construction Spending.

General Commentary No. 929 (December 28th) reviewed current economic and market conditions at year-end 2017.

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) and Cass Freight Index™, 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 (December 2017). The Commerce Department will release its estimate of December 2017 Construction Spending on Thursday, February 1st. Detail will be covered in *Commentary No. 935-A* of February 2nd. The November release showed a continuing year-to-year contraction in inflation-adjusted real activity, despite upside revisions to recent months. The onset of an annual downturn in inflation-adjusted activity last was seen 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.

Employment and Unemployment (January 2018). The Bureau of Labor Statistics (BLS) will publish the headline January 2018 labor data, along with the annual benchmark revisions to the Payroll Employment series, on Friday, February 2nd. The circumstances will be covered in an *"Advance" Commentary No. 935-A* of that date, with full analysis of the revisions likely to follow in *No. 935-B* of February 5th.

In the context of the upside benchmark revision previously indicated for the payroll-employment series, centered around March 2017 (see *Commentary No. 908-B* of September 6, 2017), recent headline reporting will have been considered in the context of same, along with subsequent indications of weak annual growth. Accordingly, look for the payroll series to disappoint headline expectations in terms of monthly change and year-to-year growth. Expectations on the headline unemployment rate also likely will be at risk of disappointment, given a broad, consensus misreading of underlying economic strength.

Significant, negative catch-up still looms for the Household Survey (unemployment rate), versus hurricane-related distortions in fourth-quarter 2017, irrespective of the minimal seasonal-adjustment, annual benchmarking revisions of last month (see *Commentary No. 930-B*). The headline January reporting will provide an annual break in the data for new population estimates, a wildcard for the numbers, as provided with January reporting each year.

While rates and ratios will not be affected, month-to-month changes in Household Survey employment and unemployment counts can gyrate wildly. The BLS's footnotes in its *Press Release*, however, will provide temporary, comparable numbers.

Pending Formal Review of 2017 and Preview of 2018. 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* on Tuesday, January 30, 2018.

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