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

No. 935 - SPECIAL COMMENTARY, ANNUAL REVIEW - PART ONE
Economic and Financial Review and Preview

February 12, 2018

Did the Fed Trigger the Stock Sell-Off?

How Can the Economy Be Booming,
Given Ten Years of Ongoing Non-Expansion in Manufacturing,
Real Construction Spending, Housing Starts and Home Sales,
Domestic Freight Activity, Domestic Petroleum Consumption,
Real Consumer Credit (Ex-Federal Student Loans) and Given a
Decade of Stressed-Employment Conditions?

As Natural-Disaster Spending Boosts Wane, Stagnant
Economic Conditions Face a Renewed Tumble in Months Ahead

Renewed Downturn Could Trigger Resurgent Fed Pressures for
Expanded Quantitative Easing and Intensified Dollar Debasement

Budget-Deficit Issues Should Become Focus of the Currency Markets

Long-Range U.S. Economic and Financial-Market Health Depend on
Resolving Both Misdirected Policies of the Federal Reserve and
Intensifying U.S. Sovereign-Solvency Concerns of the Global Markets

Massive U.S. Dollar Selling, Debasement and Eventual Hyperinflation
Continue as the Primary Risks to Domestic Economic and Political Stability;
Precious Metals Remain the Proven and Established Primary Hedge to Same

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PLEASE NOTE: The next Regular Commentary on Friday, February 16th, will cover the January 2018 Consumer Price Index (CPI), Producer Price Index (PPI), Retail Sales, Industrial Production and New Residential Construction (Housing Starts and Building Permits). The unusually-heavy concentration in the timing of these major releases on February 14, 15 and 16 puts practical coverage of the large amount of new and varied detail into one missive. Such also provides an opportunity for a coordinated assessment of what should be shifting economic circumstances.

Best wishes — John Williams (707) 763-5786

Contents of today's (February 12th) *Special Commentary* and Graphs are indexed and linked on page 6.

Three-Part Special Commentary: Today's missive is *Part-One* of three. It provides a general overview of the U.S. economy and financial markets. *Part-Two* will detail the financial condition of the U.S. Government, reviewing fiscal circumstances, long-term sovereign-solvency issues and related inflation and financial-market concerns. That analysis is planned in the week or two following release of the U.S. Government's GAAP-based accounting for 2017, currently scheduled for February 15th. Planned for early-March, *Part-Three* will review the stability and nature of the domestic and global banking systems.

EXECUTIVE SUMMARY – ECONOMIC, FINANCIAL AND SYSTEMIC DISTRESS

Financial Markets Face Continued Turmoil, the Economy Faces Renewed Downturn

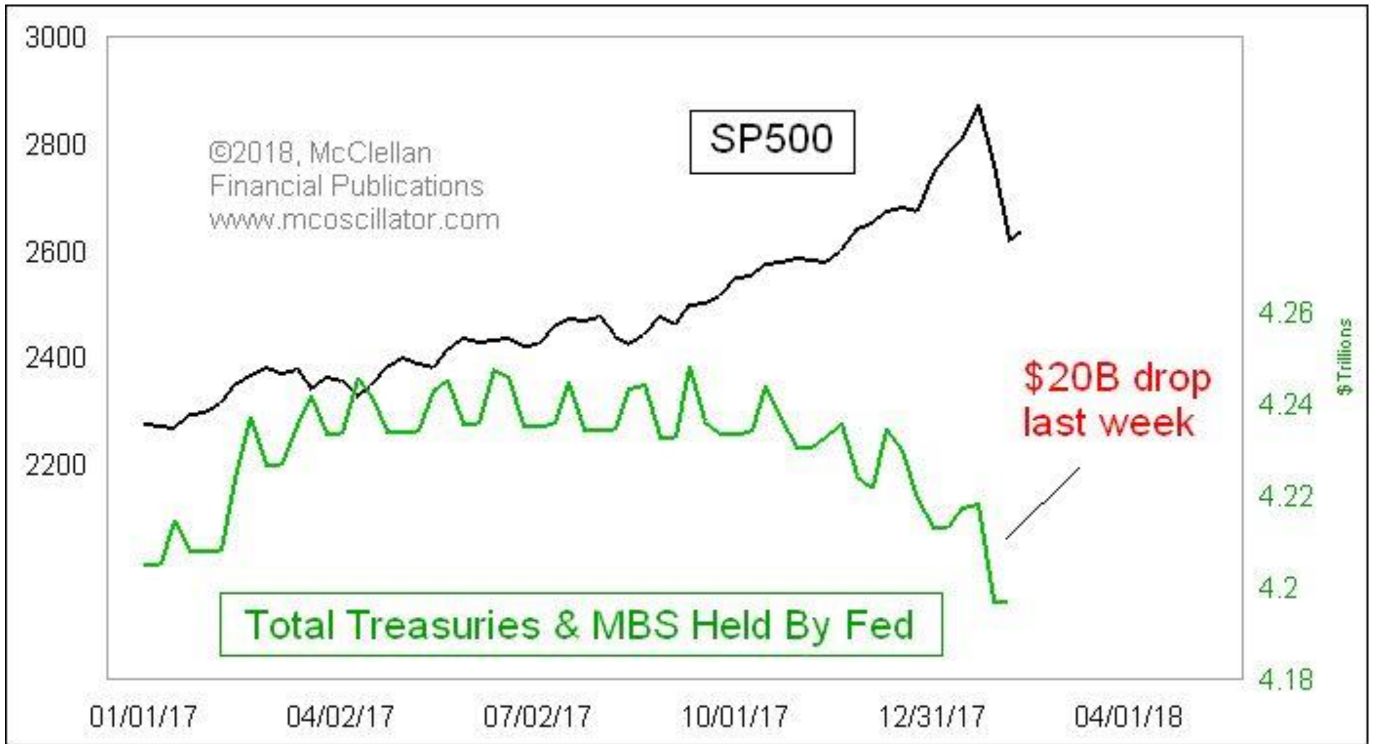
Stock Prices Plunged in Response to Rising Interest Rates and Treasury Yields (Bond Selling), but Guess Who Was Liquidating Treasuries? Going to press on February 12th, the U.S. stock market has rallied sharply today, following a difficult first full week of February. The Dow Jones Industrial Average had closed down by more than 1,000 points on Monday, February 5th, the same day Jerome Hayden Powell was sworn in as Chairman of the Board of Governors of the Federal Reserve System (FRB).

Such was ironic, where the stock-market drop was blamed widely on rising bond yields, which likely reflected FRB actions. With little parallel movement in the U.S. dollar or gold, the activity likely was U.S. based, with the Federal Reserve not rolling over some of its balance-sheet assets as indicated in the minutes of the December 2017 meeting of the FRB's Federal Open Market Committee (FOMC).

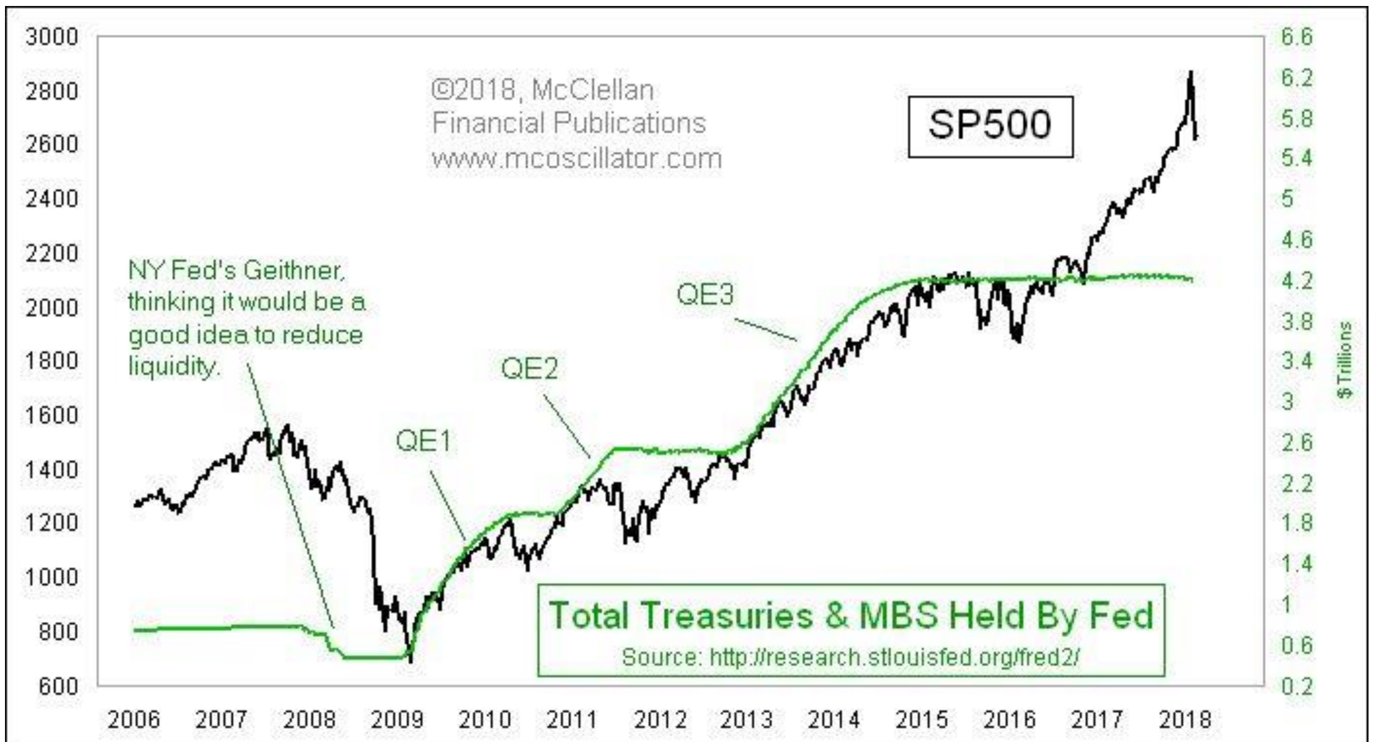
Grant Noble (gnoble@sbcglobal.net) mentioned in his writing of February 9th that Tom McClellan had noted "The $10 billion per month in reduction of Federal Reserve holdings of T-Bonds and mortgage backed securities (MBS) which was in effect in Q4 of 2017 has now accelerated to a target of $20 billion a month for Q1 of 2018. But they did the month's allotted drop all in one week at the end of January, setting up the illiquidity situation that the stock market is going through now." Per Mr. Noble, "If the Fed does this again, the end of February/early March could be bad like the end of January/early February."

Tom McClellan (www.mcoscillator.com) was kind enough to provide us with the following graphs:

Graph EXEC-1: Fed Held Treasuries, MBS vs. S&P 500 (Since Jan 2017) - McClellan Financial Publications



Graph EXEC-2: Fed Held Treasuries , MBS vs. S&P 500 (Since 2000), Courtesy McClellan Financial Publications



Reflecting the Fed's holdings of both U.S. Treasuries and Mortgage Backed Securities (MBS) purchased by the Fed from banks as part of the Quantitative Easing program, Tom's graphs speak for themselves. ShadowStats looked at the same numbers from the standpoint of just the Fed's holdings of U.S. Treasury Notes and Bonds, which should have the greatest direct impact on Treasury yields.

From the *Minutes of the Federal Open Market Committee, December 12-13, 2017*, attended by then Federal Reserve Chair Janet Yellen and by Board member and then pending Fed Chairman Jerome Powell:

> "The Committee directs the Desk [Federal Reserve Bank of New York Trading Desk] to continue rolling over at auction the amount of principal payments from the Federal Reserve's holdings of Treasury securities maturing during December [2017] that exceeds $6 billion, and to continue reinvesting in agency mortgage-backed securities the amount of principal payments from the Federal Reserve's holdings of agency debt and agency mortgage-backed securities received during December that exceeds $4 billion. Effective in January [2017], the Committee directs the Desk to roll over at auction the amount of principal payments from the Federal Reserve's holdings of Treasury securities maturing during each calendar month that exceeds $12 billion, and to reinvest in agency mortgage-backed securities the amount of principal payments from the Federal Reserve's holdings of agency debt and agency mortgage-backed securities received during each calendar month that exceeds $8 billion. Small deviations from these amounts for operational reasons are acceptable."

As reported by the FRB in its *Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks* dated February 8, 2018, under the *Reserve Bank Credit / Securities Held Outright / U.S. Treasury Securities/ Notes and bonds, nominal*, holdings dropped by $10.984 (-$10.984) billion in the daily-average holdings of week-ended February 7, 2018, versus the prior week-ended January 31, 2018. That decline was of a magnitude that likely boosted market yields. It was the largest one week decline in Fed holdings since a drop of $12.163 (-$12.163) billion in the week-ended August 22, 2012. That 2012 action was just two weeks before the Federal Reserve announced its third round of Quantitative Easing (QE3) in September 2012. The flow of maturities appears to have affected the timing of the actual non-rolling over of maturing securities in the current circumstance.

Discussed in Section IV on the Federal Debt and Deficits and Section V on Inflation (to be detailed in the *SPECIAL COMMENTARY, ANNUAL REVIEW - PART TWO*), ongoing Fed problems with the banking system and intensifying fiscal crises and long-term sovereign solvency concerns for the U.S. Treasury should hit the U.S. financial markets hard, discussed in Section VI on the Markets.

With U.S. Economic Activity Never Recovering from the Recession, an Intensifying, Renewed Downturn Will Hit the Financial Markets, FOMC Policy and U.S. Fiscal Conditions Hard. Discussed in Section I on the Economy, the better-quality economic numbers show the broad economy never recovered from the 2007 Recession, with key elements, ranging from manufacturing, construction and housing to consumer credit, amongst others, having seen no new expansion for at least the last ten years. Driving that circumstance are continued issues with Consumer Liquidity, discussed in Section II, and restrictive Federal Reserve policies aimed at keeping the banking system solvent, frequently at the expense otherwise of supporting domestic economic activity (Section III).

FOMC Current Tightening Actions Increasingly Should Come Under Pressure from the Faltering Economy and Continued Stock-Market Selling. Discussed briefly in Section III on the FED, and as will be detailed in the *SPECIAL COMMENTARY, ANNUAL REVIEW - PART THREE*, a renewed downturn in domestic economic activity would intensify liquidity and solvency stresses on the banking

system, placing renewed pressure on the FRB to revert to an expanded Quantitative Easing program. Such would intensify selling pressure against the U.S. dollar, intensify selling pressure on the U.S. stock market from increasing flight of foreign investment from the dollar, and intensifying U.S. inflationary pressures by spiking global oil prices.

Looming Crises May Trigger Needed U.S. Government Actions That Currently Are Stuck in Political Gridlock. Circumstances have evolved minimally for the better, in the year since the predecessor *No. 859 Special Commentary*, but the longer-range outlook and issues have changed little. Much of what follows here is repeated from the missive, albeit with updated circumstances.

In his first State of the Union Address (January 30th), President Donald Trump took credit for a record-high stock market, a massive tax overhaul, significant regulatory reform and the lowest unemployment in 17 years. The stock-market rally was real, but possibly fleeting. Regulatory reform by Executive Order and the tax overhaul were real, despite the wonderful headline numbers on unemployment, which are not as advertised. Events of the first year all were in the context of political adversity in a hostile Congress, both on the other side of the aisle and from elements within his own party who never signed on to his nomination, and in the context of a broadly hostile press, which also never signed on to his nomination.

As discussed in *No. 859*, Mr. Trump was elected by a disgruntled electorate. Had he had a strongly supportive Congress elected with him, some of the broader issues needing corrective action, such as the budget deficit and needed economic stimulus (partially detailed in terms of an infrastructure program, as we go to press) might have been addressed. The needed shift in Congress to give the President the power to really over haul the system and drain that former malarial swamp on the Potomac, awaits the outcome the November 6th Congressional Election.

Three-Pronged Approach Still Needed, Now Awaits Crisis Motivation. In *No. 859*, ShadowStats proposed a three-pronged approach to revitalizing the U.S. economy, in the context of (1) developing a credible plan for long-range fiscal stability, sovereign solvency for the U.S. Government. Such would have created, underlying fundamental near- and long-term strength in and support for the U.S. dollar within the global financial markets. That would have allowed for (2) a short-term increase in the deficit to help fund such areas as infrastructure investment.

Separately, (3) the U.S. banking system needs to be overhauled, in the context of the Federal Reserve System and the still-troubled banking system, some ten years after the Panic of 2008, an effective crash of the banking system of that time. President Trump has gained control of the Fed, now, with his own nominees.

Nonetheless, a serious solvency crisis, severe financial crises and renewed banking-system problems remain in play with a still meaningfully-impaired economy and finally-strapped electorate.

Given the recent budget package and tax reform, nothing seems likely to move the system towards stability at present, shy of reaction to a major financial-system disruptions and/or financial-market upheaval. Unless the nation’s long-term solvency issues are addressed soon, such crises are unavoidable and loom in the not-so-distant future (to be detailed in *SPECIAL COMMENTARY, ANNUAL REVIEW - PART TWO*, in particular is the risk is massive debasement of the U.S. dollar.

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Physical Gold Remains the Primary Hedge Against Inflation. U.S. dollar debasement most frequently is reflected in inflation, for those living in a dollar denominated world. Discussed in Section 5 on INFLATION (see *Table INFLATION-1*) and Section 6 on MARKETS, despite the extraordinary price volatility seen for gold in recent years, that precious metal has retained its hedge against inflation, irrespective of inflation measurement.

In the event of a still-likely, eventual massive debasement of the U.S. dollar—a hyperinflation—physical holdings of the precious metals gold and silver remain the primary hedges, stores of wealth that can maintain the purchasing power of the one's wealth and assets in a form that is both liquid and portable. For further approaches to handling these unusual circumstances ahead, see *2014 Hyperinflation Report—Great Economic Tumble*, beginning there on page 94.

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I. Economy: Real-World Activity Never Recovered, Still Faltering Ex-Disaster Boosts

Net of Temporary Boosts from Natural-Disaster Recovery, Underlying Real-World Activity Continues in Faltering, Non-Recovered Economic Growth. The U.S. economy remains seriously impaired, despite reporting from the Bureau of Economic Analysis (BEA), Bureau of Labor Statistics (BLS) and Census Bureau (Census) that some major headline elements of the economy (excluding headline manufacturing, housing and construction and measures of employment stress) just have been booming along since mid-2009. Sycophantic support for that position has followed from many on Wall Street, from media heavily dependent on related Wall Street advertising revenues and from incumbent politicians.

The booming-economy story was enhanced in late-2017 from the aftershocks of major natural disasters, specifically hurricanes and wildfires. Headline economic impact ranged from boosted consumption of automobiles, replacing those destroyed in hurricanes and fires, to the rebuilding of structures and infrastructure destroyed in those same tempests and conflagrations. Separately, there were disruptions to and recovery of Gulf Coast oil and gas production, and there were disruptions in the federal government's economic reporting, particularly to the Household Survey, which produces the unemployment series.

All those factors, however, are or were temporary. To the extent that economic consumption and investment were boosted in the aftermath of the destruction, such was funded either by insurance payments or by savings liquidation, generally not by growth in income. As to the impacted economic series, industrial production and the housing/construction data have begun to see an unwinding of the disaster impact. That still looms for retail sales and GDP. The unemployment data were skewed heavily by bad definitions, but even there, the headline unwinding should be seen in the next couple of months. ShadowStats estimates that economic reporting should be near normal, once headline January and February 2018 data are in place.

As Reported Activity Returns to Pre-Disaster Levels, Economic Expectations Should Take a Heavy Hit in the Next Several Months. As the disaster distortions work out of the headline detail, economic growth should take an "unexpected" hit, where the media and markets have embraced and hyped the strength of the recent, temporarily-bloated growth. Accordingly, first-quarter 2018 GDP growth is at high risk of a relative quarterly contraction, despite the headline slowing growth in real fourth-quarter versus third-quarter 2017 GDP.

Real GDP "Recovery" Now 15.2% Above Its Pre-Recession High, While the Never-Recovered U.S. Manufacturing Still Is 4.5% (-4.5%) Shy of Recovery, after 10-Full Years of Non-Expansion. Headline real (inflation-adjusted), fourth-quarter 2017 U.S. Gross Domestic Product (GDP), the purported broadest measure of domestic activity—that flagship of domestic economic statistics—stood 15.2% above its pre-2007-recession peak (see *Graphs ECON-1* and *3*). No other standard measure of economic activity comes close to supporting that. As frequently discussed in the GDP *Commentaries* (see *Commentary No. 933*).

***Underlying Real-World Economic Activity Never Recovered from the Great Recession*.** Underlying reality remains that the economy crashed into 2009 and never has recovered fully. Not only that, but broad activity began to turn down anew, with an unrecognized "new" recession likely to be timed from

December 2014, as indicated by downturn in the Industrial Production and the Manufacturing series (see *Graph ECON-16* out of the Federal Reserve).

As with most series that have shown some recovery, such as the Industrial Production, which just notched into "recovery," boosted by strong oil production or Real Retail sales, which has been in formal recovery for some time (both well shy of the headline GDP recovery), they all reflect deflation by too low an inflation rate (see Section V on Inflation). The inflation-corrected graphs, however, show no recovery, even including the GDP. Consider *Graphs ECON-2* versus *ECON-1* (GDP long-term), *ECON-4* versus *ECON-3* (GDP short-term), *ECON-14* versus *ECON-13* (Durable Goods Orders), *ECON-16* versus *ECON-15* (Production) and *ECON-20* versus *ECON-19* (Retail Sales). Nearly all the other graphs show non-recovery, non-expansion.

ShadowStats contends that the non-recovery, stagnation or new downturn seen in various series are nothing more than a continuing down-leg of the economic collapse that began somewhat before 2007, bottomed out in mid-2009, never recovering its pre-recession high, holding in purgatory of variably stagnant and now down-trending activity. Again, where total industrial activity has been boosted minimally above recovery level by oil and gas production, new orders for durable goods and manufacturing have remained well shy of recovering their pre-recession highs, completing a record 120 straight months of non-expansion.

That non-recovery has been seen as well all with all the Housing and Construction measures *ECON-21 to 24*, the Real Merchandise Trade Deficit *ECON-12*, and supporting industries such Freight in *Graph ECON-5*, Petroleum Consumption in *ECON-6*, and with measures of labor/employment stress in *Graphs ECON-7 to 11, with ECON-8* including a comparative ShadowStats Alternate Unemployment Measure.

[*Graphs ECON-1* to *24* begin on the next page]

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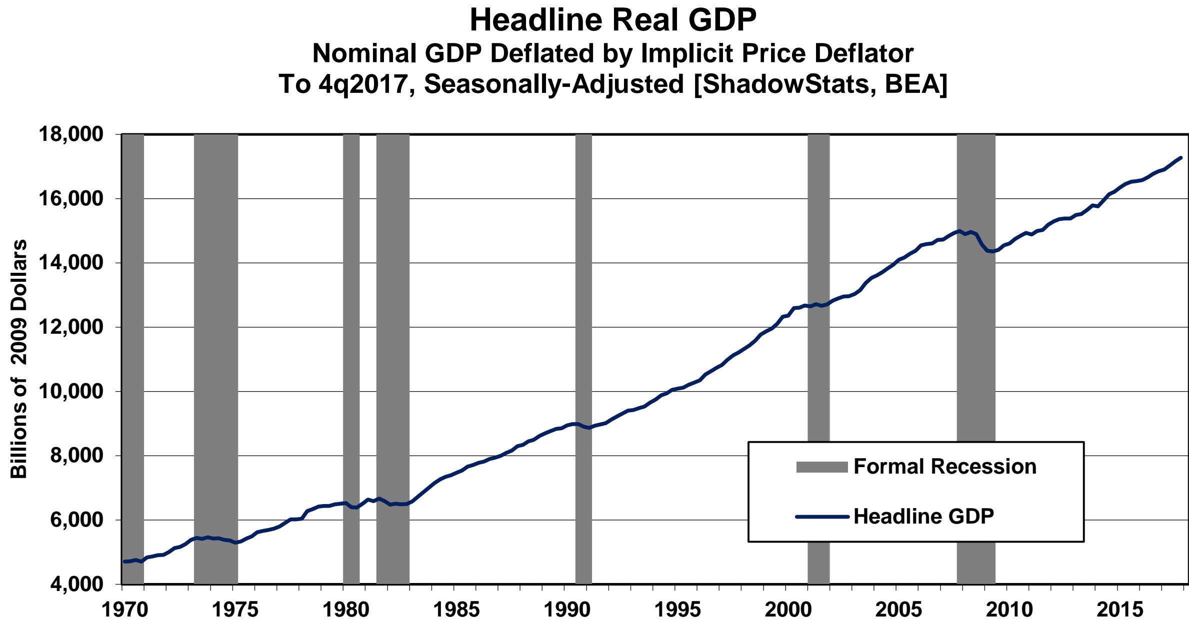
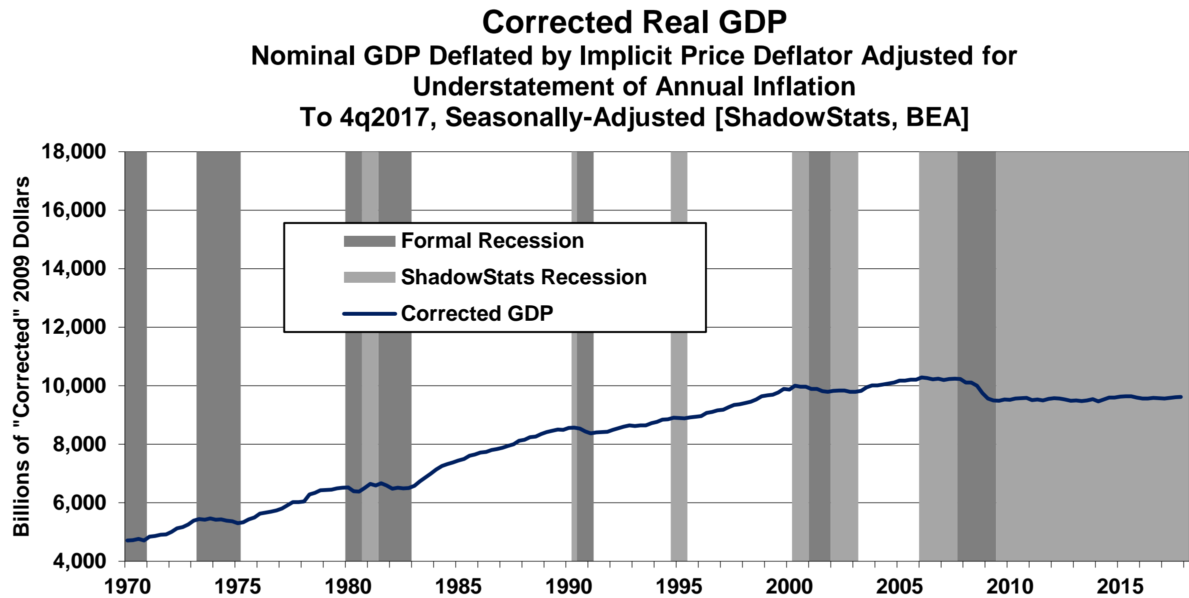
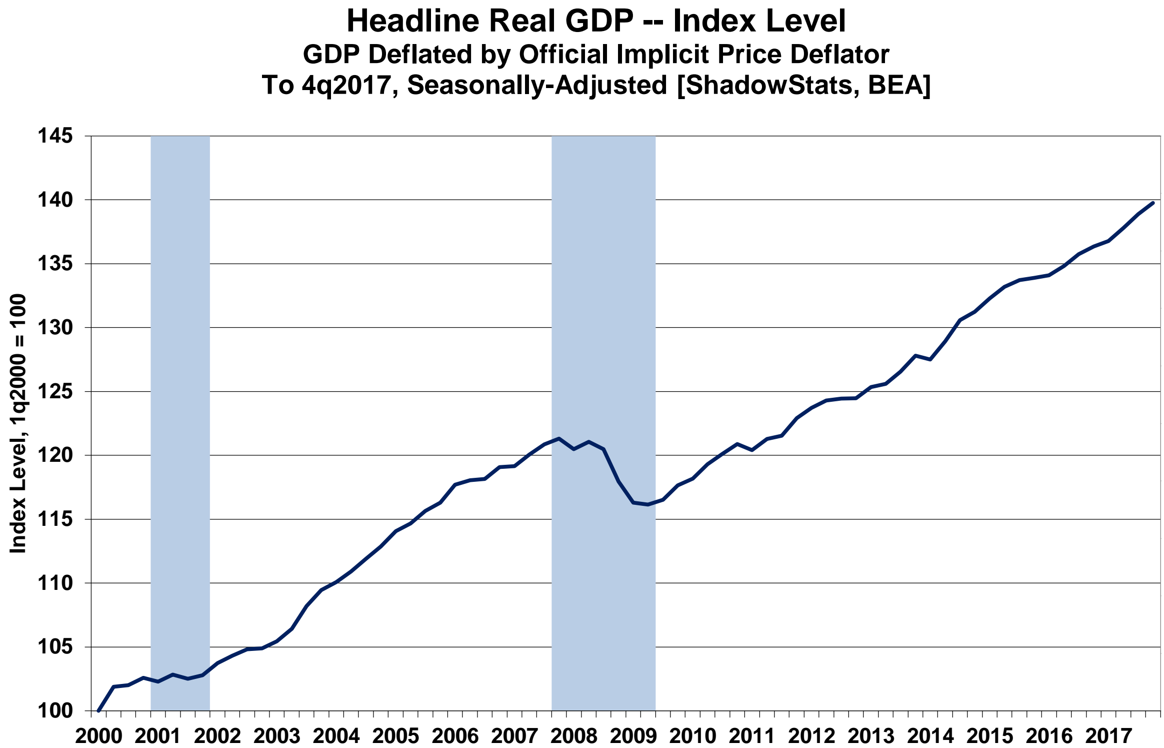
Graph ECON-1: "The Headline Illusion" Real GDP (1970 to 2017), First Estimate of Fourth-Quarter 2017



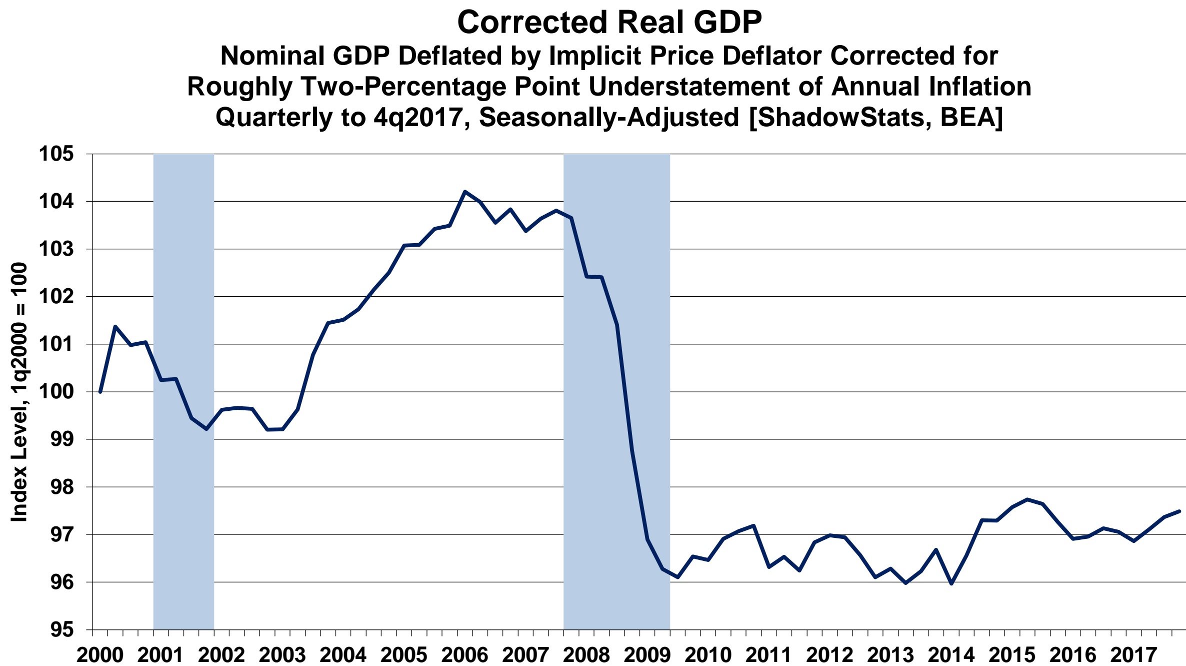
Graph ECON-2: "Corrected" Real GDP (1970 to 2017), First Estimate of Fourth-Quarter 2017



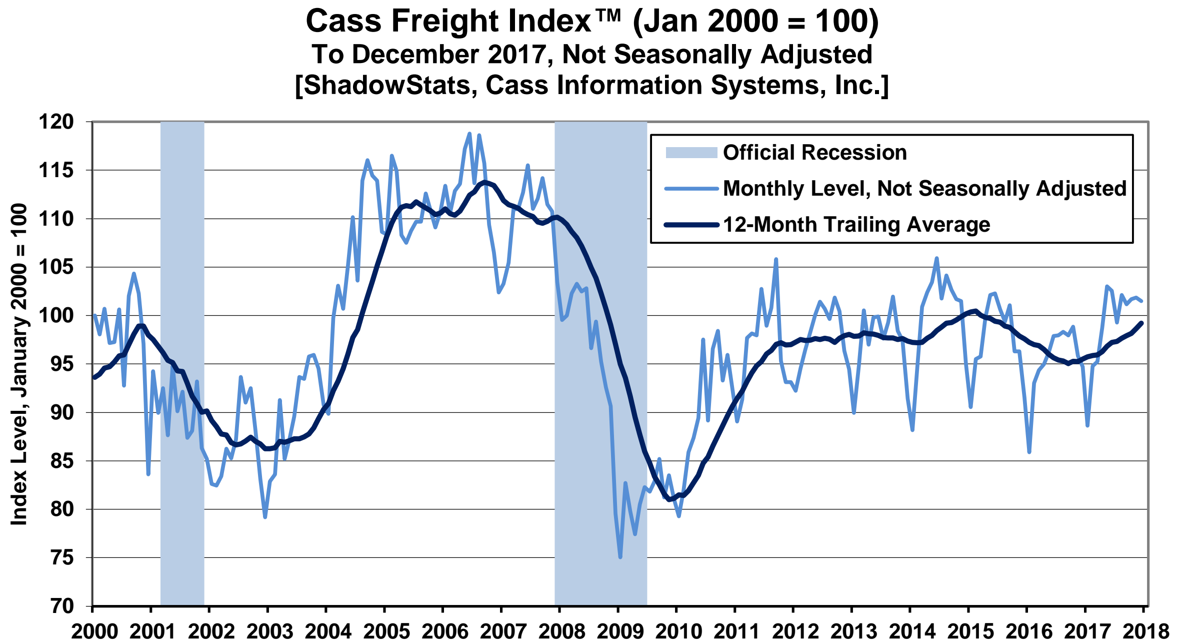
Graph ECON-3: "The Headline Illusion" Real GDP Index (2000 to 2017) First Estimate of Fourth-Quarter 2017



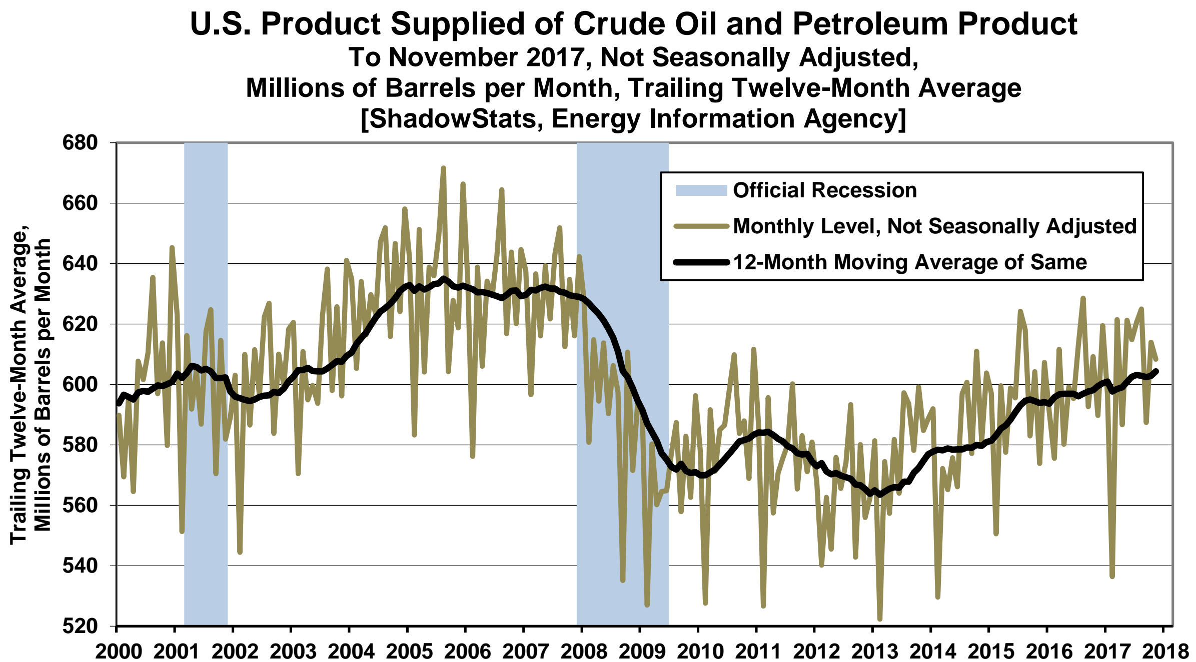
Graph ECON-4: "Corrected" Real GDP Index (2000-to-2017), First Estimate of Fourth-Quarter 2017



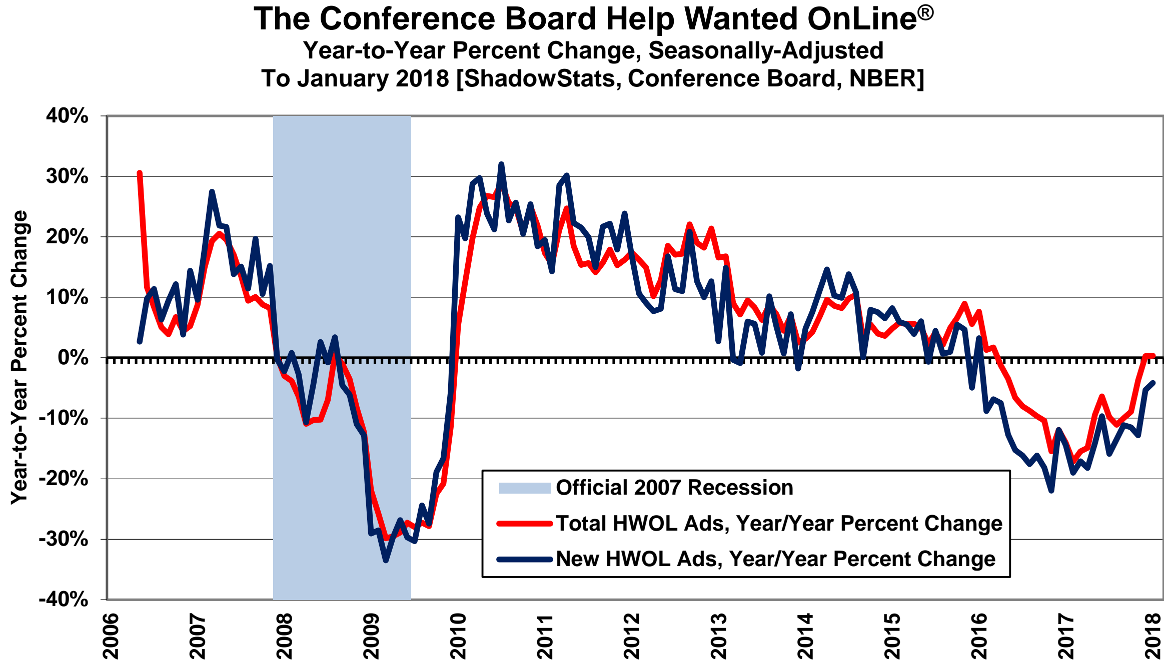
Graph ECON-5: Cass Freight Index™ (January 2000 to December 2017)



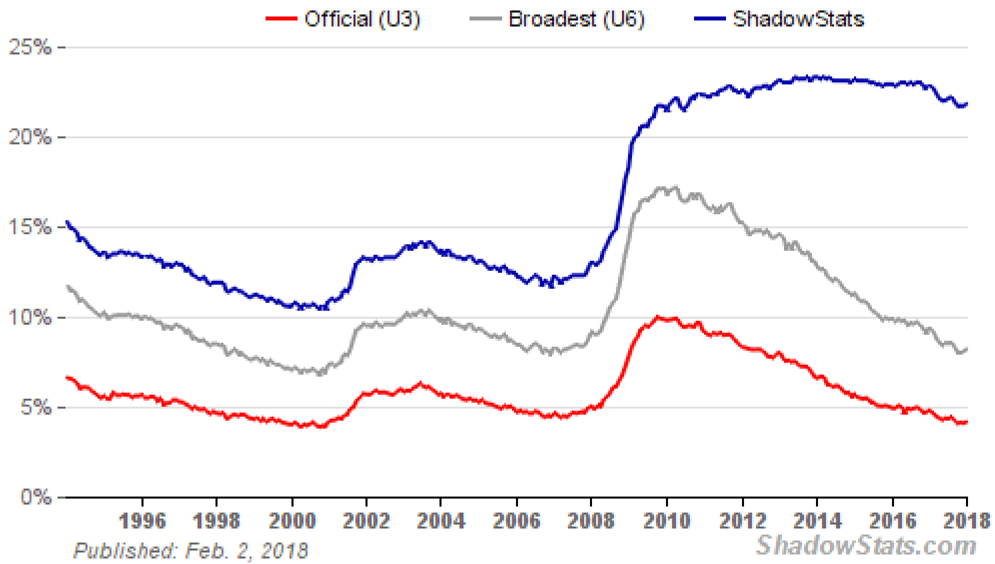
Graph ECON-6: U.S. Petroleum Consumption (January 2000 to November 2017)



Graph ECON-7: The Conference Board Help Wanted OnLine® to January 2018



Graph ECON-8: Comparative Unemployment Rates U.3, U.6 and ShadowStats



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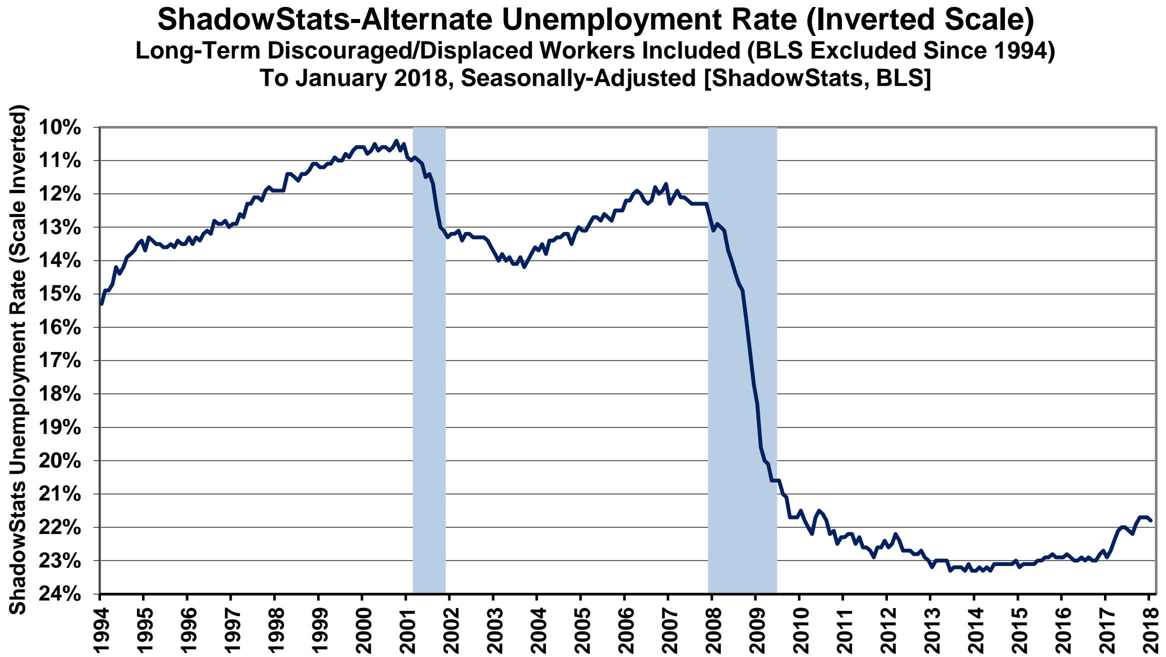
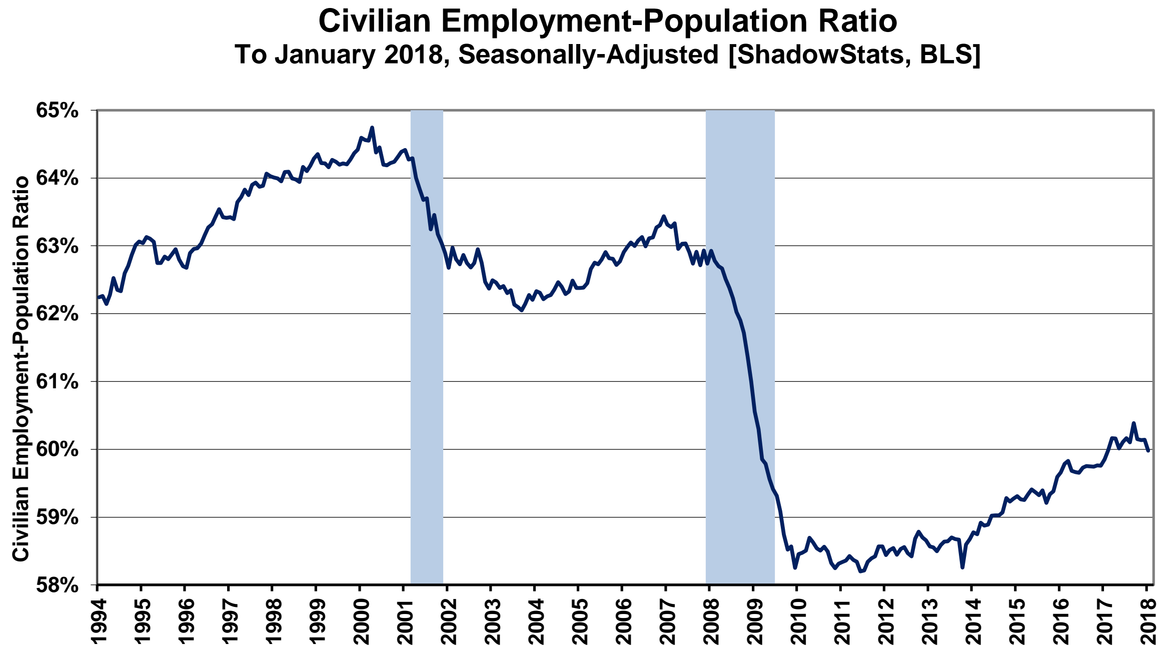
Graph ECON-9: ShadowStats-Alternate Unemployment Measure—Inverted Scale (2000 to 2018)



Graph ECON-10: Civilian Employment-Population Ratio (2000 to 2018)



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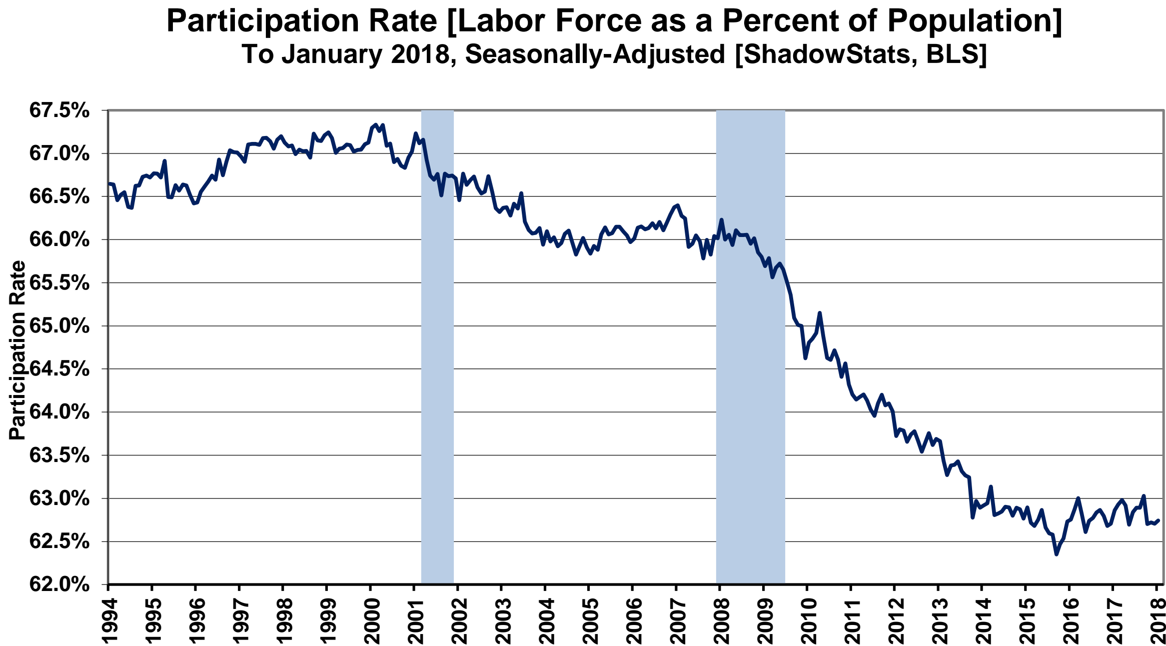
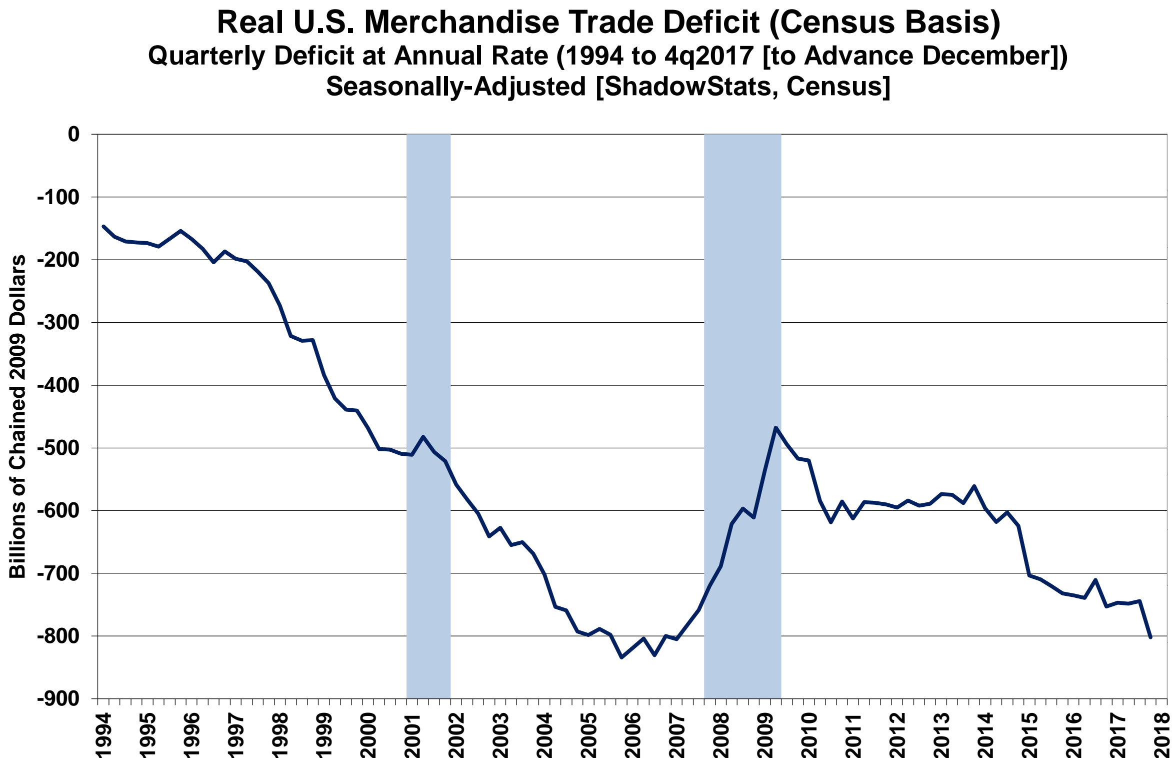
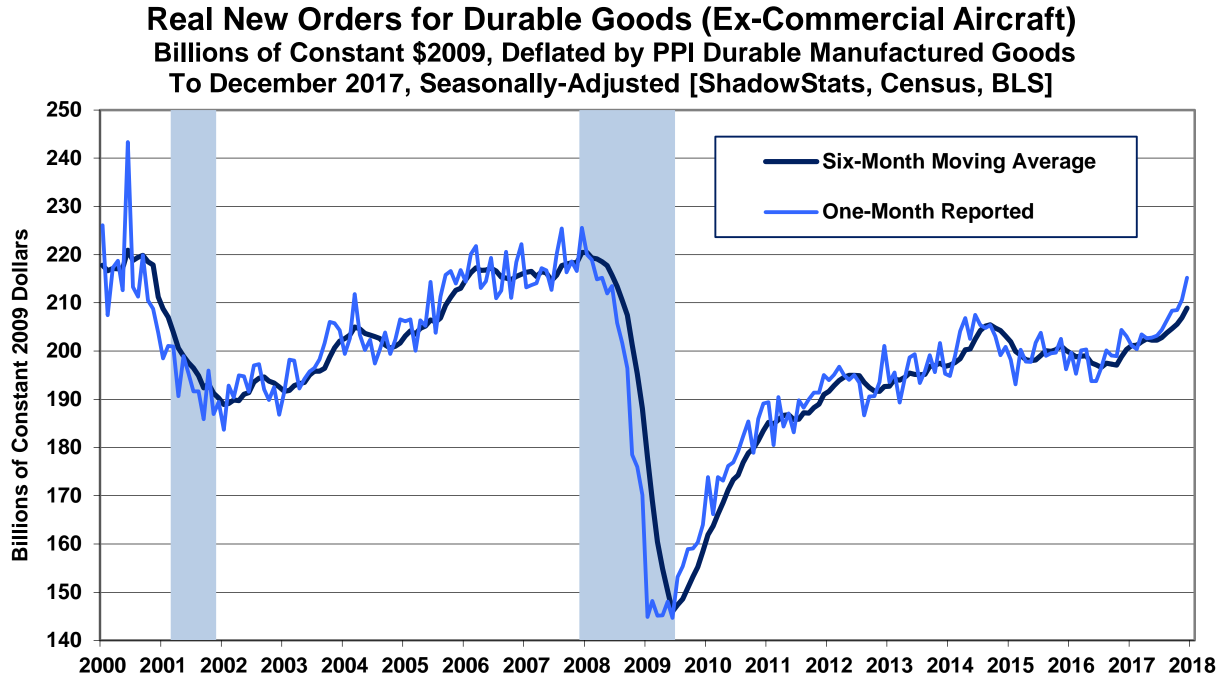
Graph ECON-11: Labor Force Participation Rate (2000 to 2018)



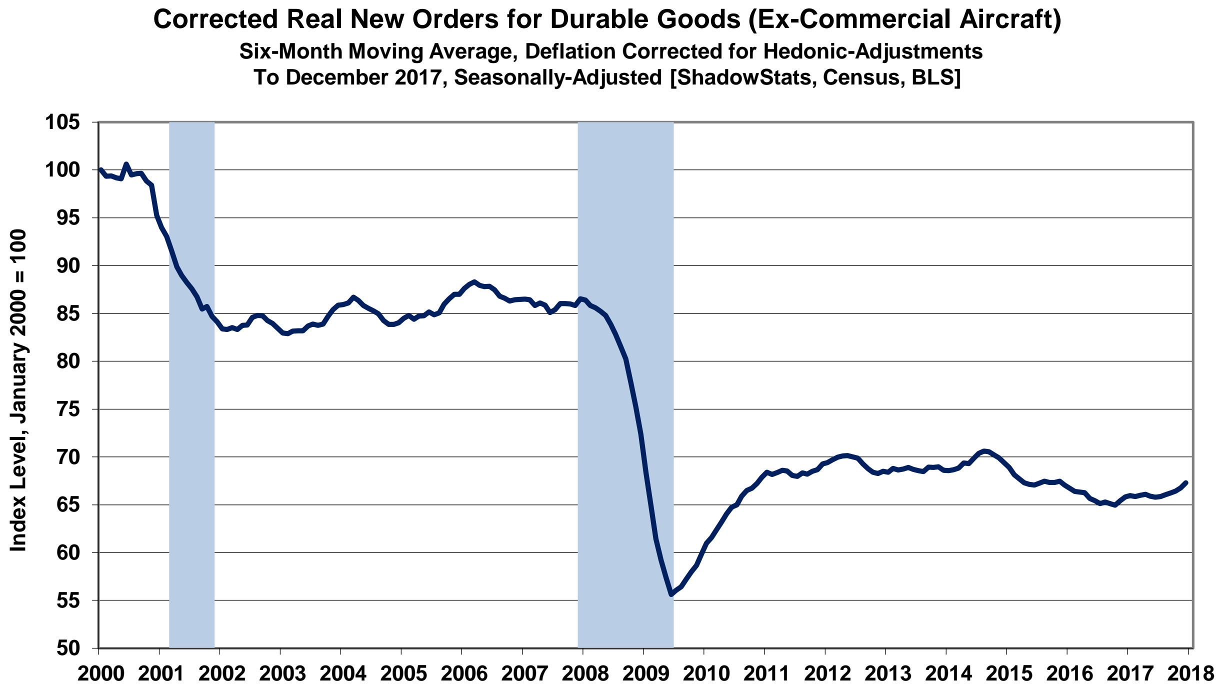
Graph ECON-12: Inflation-Adjusted, Quarterly U.S. Merchandise Trade Deficit through 4q2017



Graph ECON-13: Real New Order for Durable Goods Orders – Ex-Commercial Aircraft



Graph ECON-14: Headline ShadowStats-Corrected Level of Real NODG Ex-Commercial Aircraft (Jan 2000 = 100)



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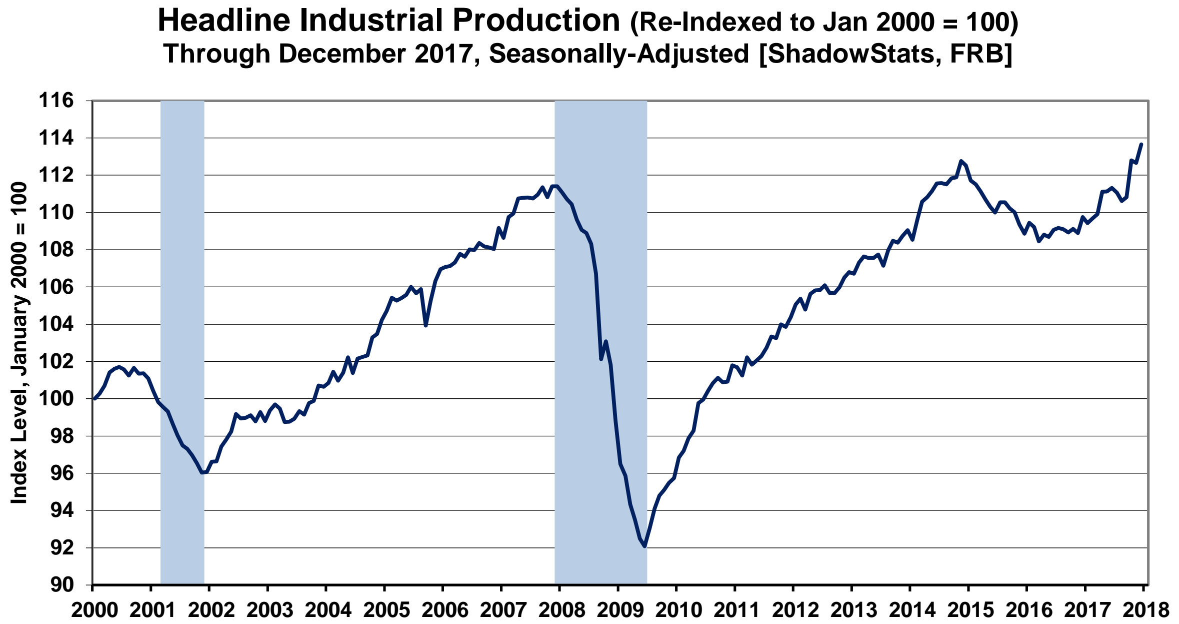
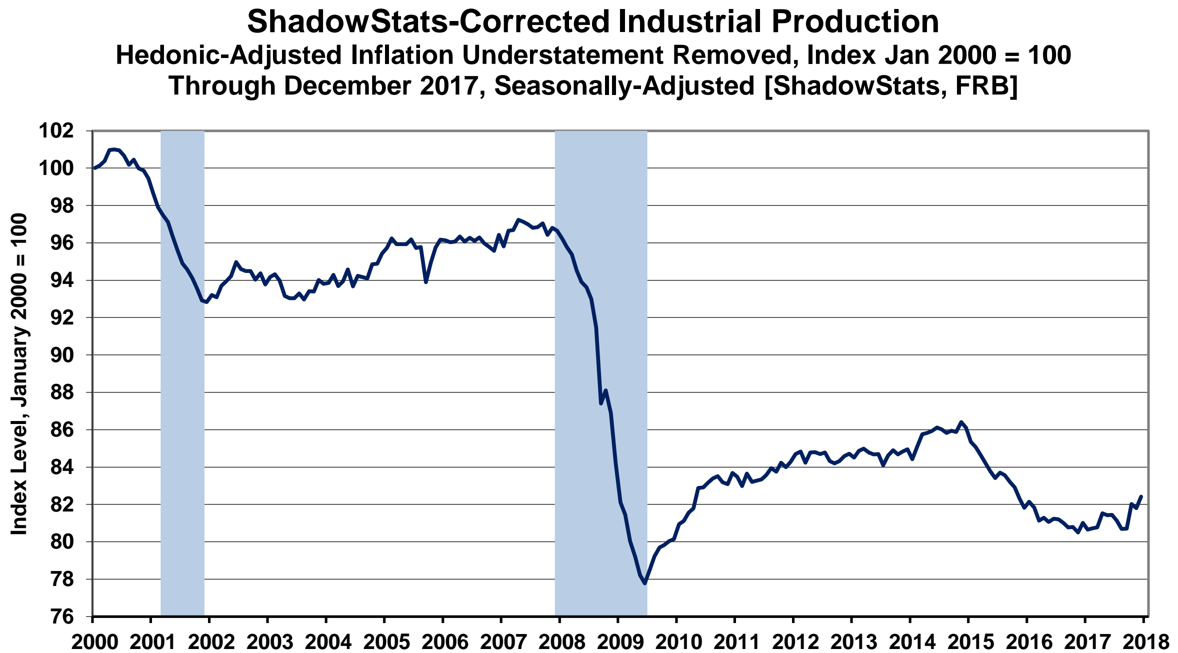
Graph ECON-15: Indexed Headline Level of Industrial Production



Graph ECON-16: Headline ShadowStats-Corrected Level of Industrial Production (Jan 2000 = 100)



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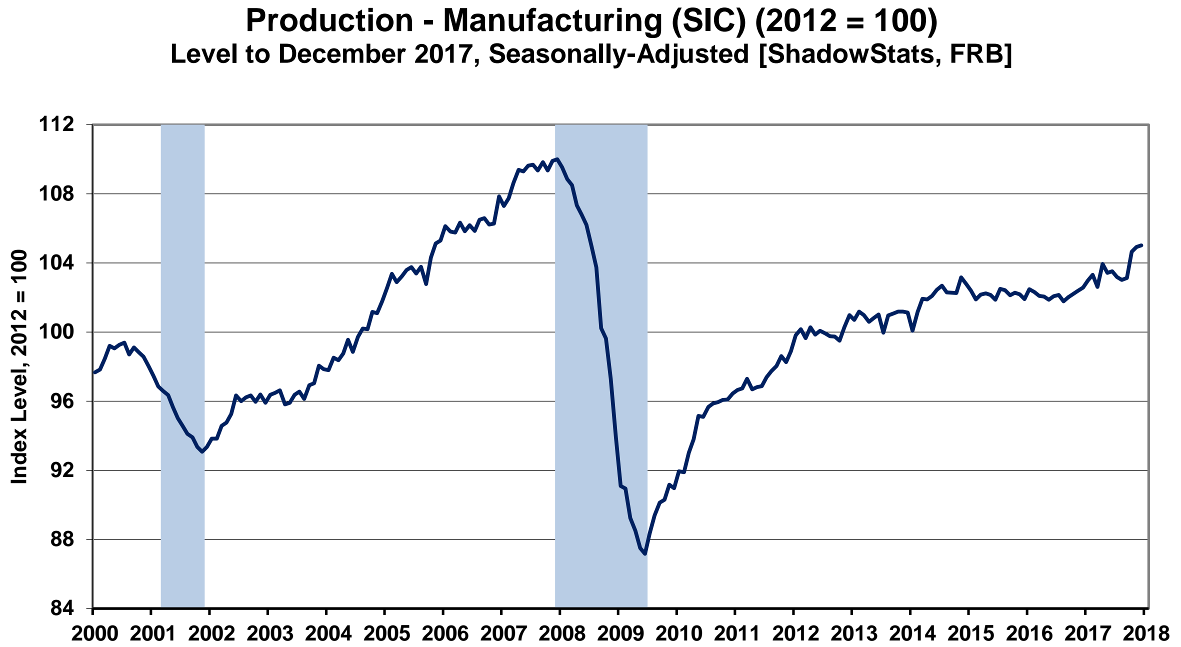
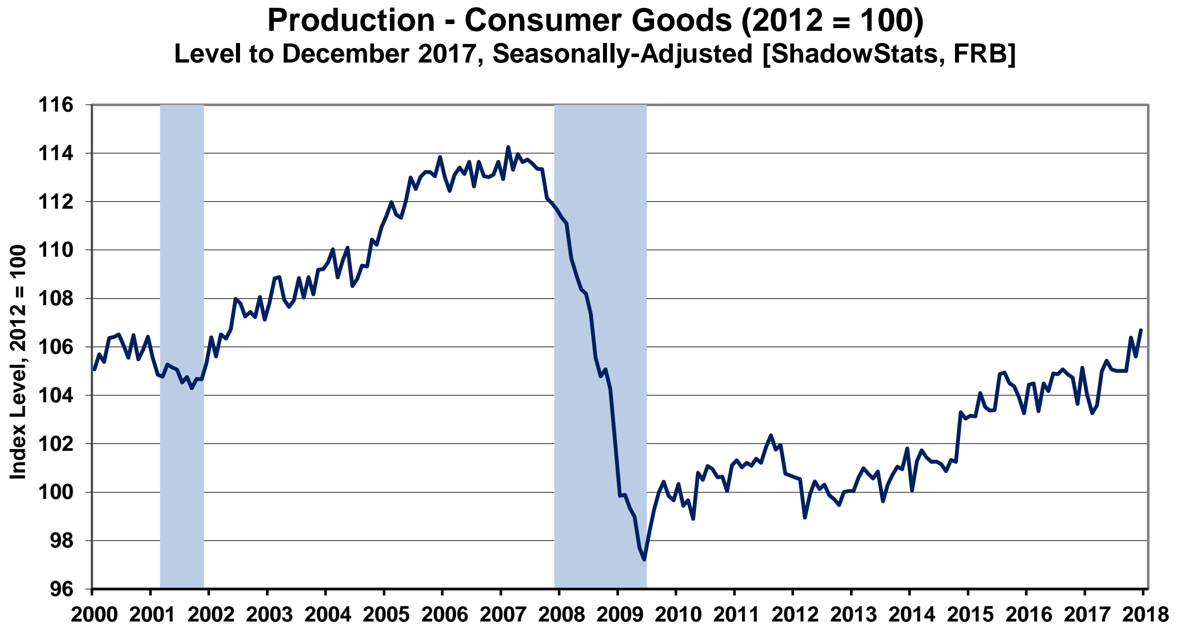
Graph ECON-17: Industrial Production - Manufacturing (76.4% of Aggregate Production in 2016)



Graph ECON-18: U.S. Industrial Production – Manufacturing, Consumer Goods (2000 to 2017)



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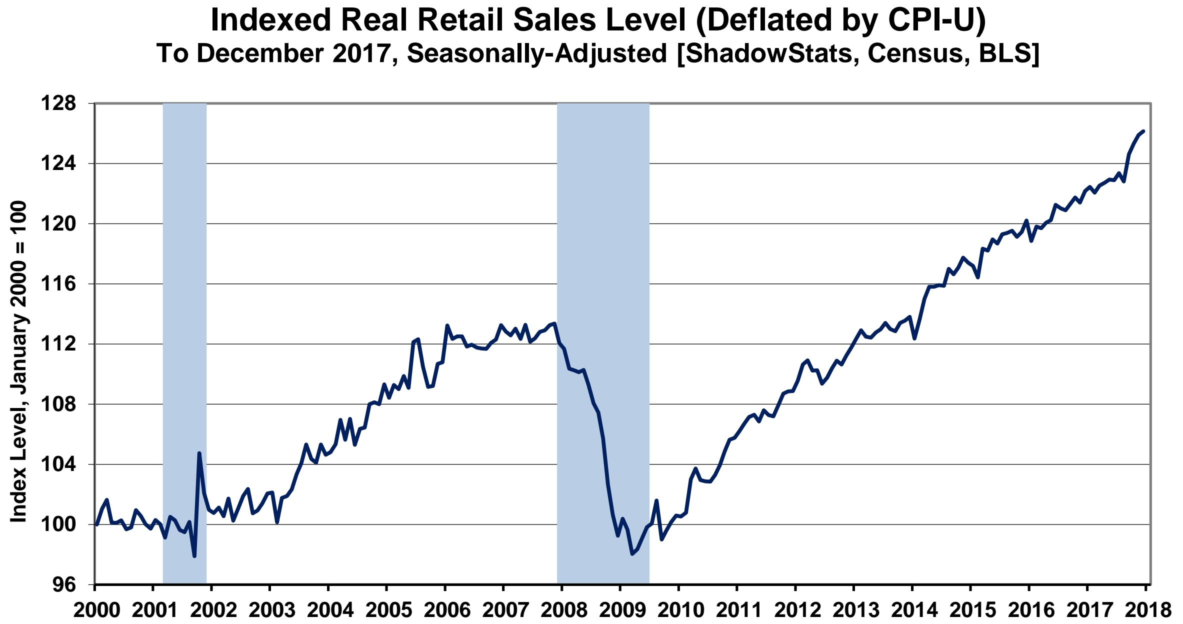
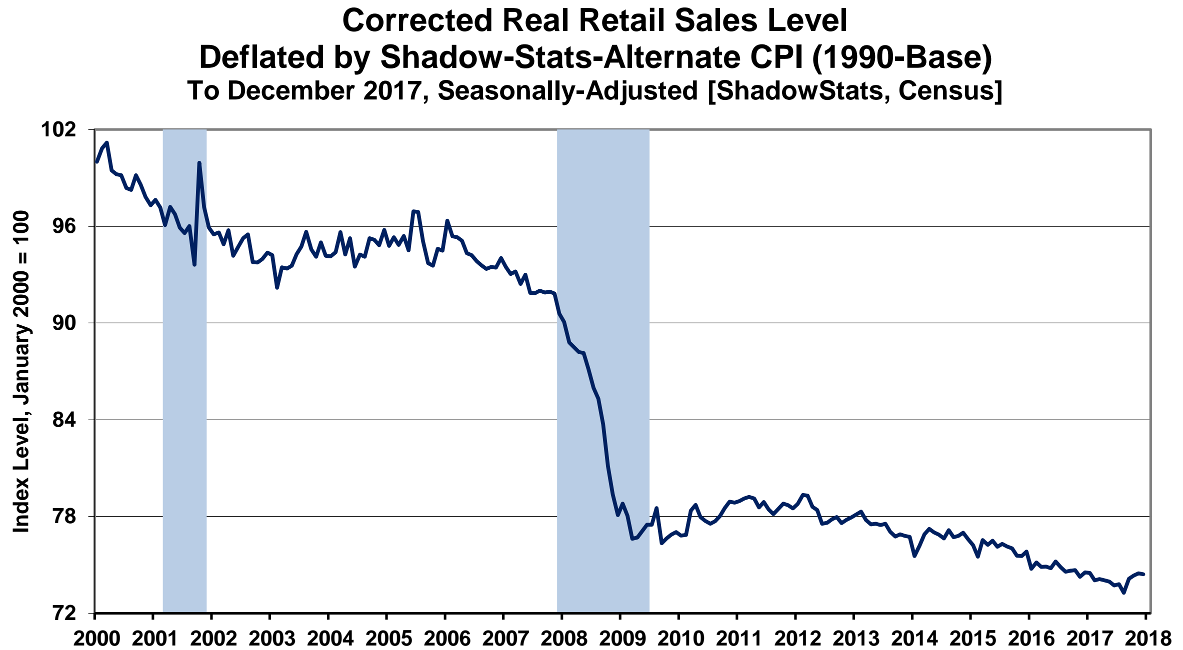
Graph ECON-19: Headline Real Retail Sales Level, Indexed to January 2000 = 100



Graph ECON-20: "Corrected" Real Retail Sales Level, Indexed to January 2000 = 100



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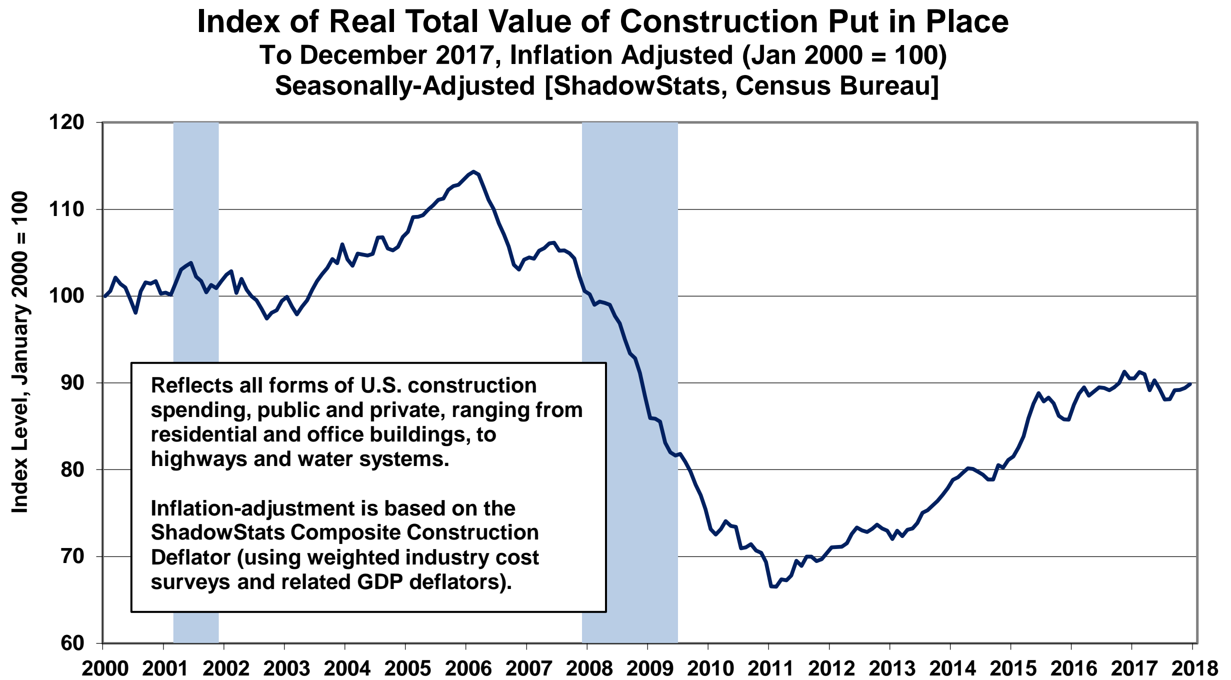
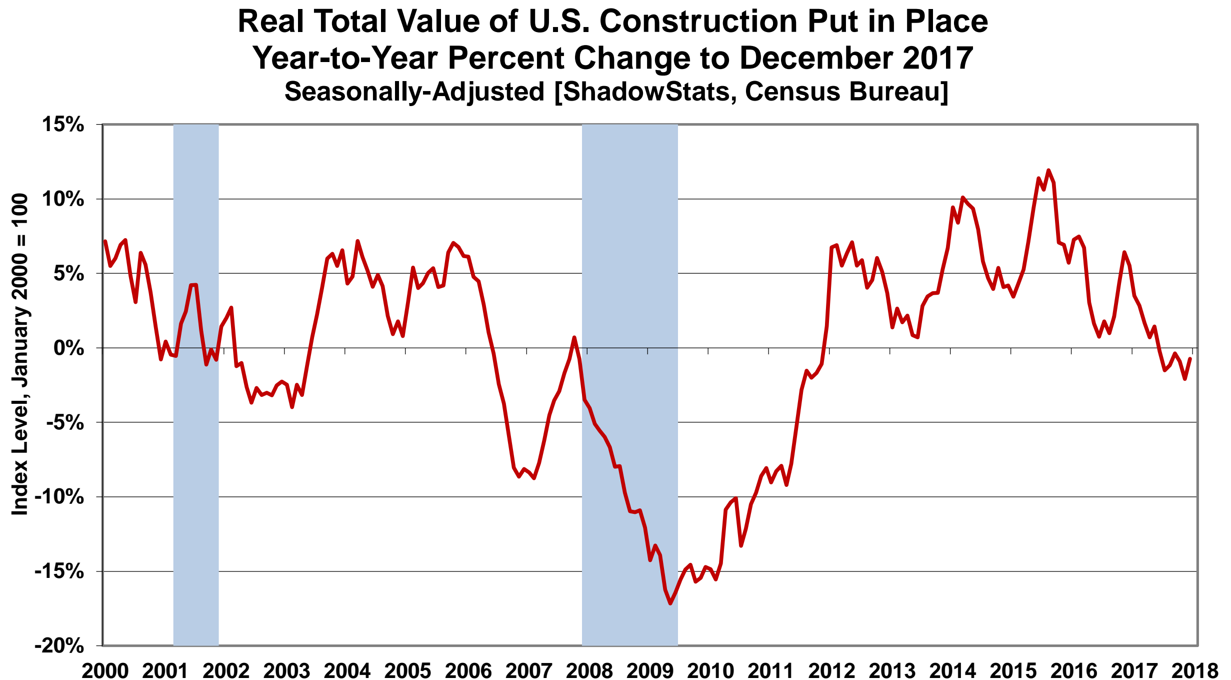
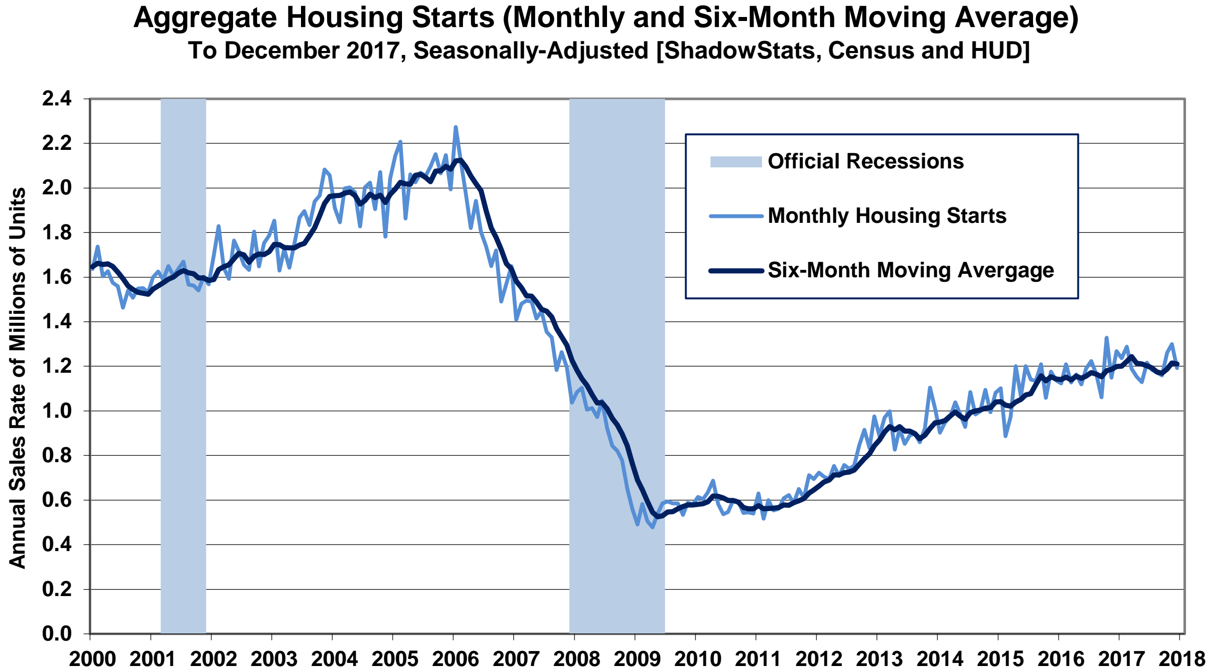
Graph ECON-21: Index of Total Real Construction Spending (2000 to 2017)



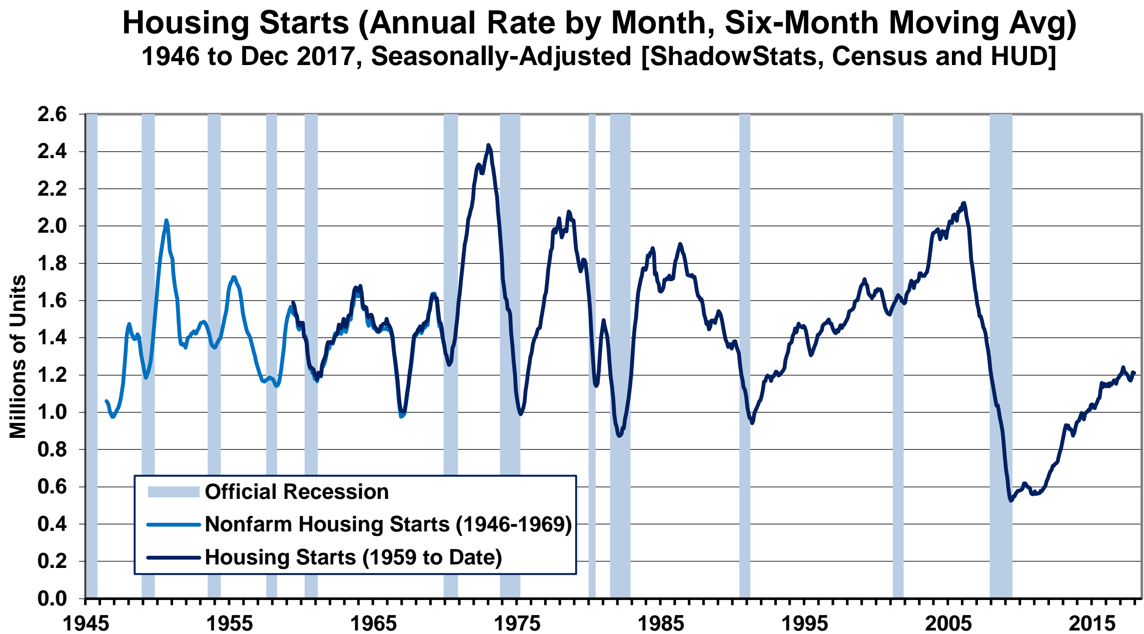
Graph ECON-22: Year-to-Year Percent Change in Real Construction Spending (2000 to 2017)



Graph ECON-23: Aggregate Housing Starts (Annualized Monthly Rates of Activity, 2000 to 2017)



Graph ECON-24: Housing Starts (Annualized Monthly Rate of Activity, 6-Month Moving Avg), 1946 to Date



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II. Consumer Liquidity Watch: Consumers Unable to Drive Sustainable Real Growth

Continuing Consumer Liquidity Stresses Constrain Broad Economic Activity. *[Published in the regular ShadowStats Commentaries, this Consumer Liquidity Watch is updated for December 2017 Consumer Credit Outstanding and a related new Graph CLW-10.]* 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 covered in the regular *ShadowStats Commentaries*. Separately, as discussed ahead, there have been recent signals of faltering consumer liquidity as well as optimism, despite recent, albeit heavily distorted, positive economic reporting.

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 *Commentary No. 932*). Despite the initial slowing in headline Fourth-Quarter 2017 GDP growth, the series remains heavily bloated from the disaster-distortions (see *Commentary No. 933*).

***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, and those numbers have begun to stumble in recent detail.

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, albeit, again, now faltering, 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 73.1% of the headline real, fourth-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 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 faltering most recently.

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), and the University of Michigan's Consumer Sentiment Index (Sentiment), full-January 2018 Confidence and Sentiment (February 2nd) readings were minimally-positive and down. While January Confidence (January 30th) rose slightly, it did little to offset the December decline and was in the context of indications of mounting foreclosure activity in the homeowner real estate market (see *Existing Home Sales* in the *Reporting Detail* of *Commentary No. 933*).

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 January also pulled back sharply or only minimally recovered, 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—either flattened out or notched lower in January—having begun to falter in September 2017, before the storm-distorted, unusual headline surges in October and November activity.

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 January 2017 readings for both the Confidence and Sentiment measures were down respectively from their pre-2001 recession peaks of May and January 2000, by 15.7% (-15.7%) and 14.6% (-14.6%).

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.

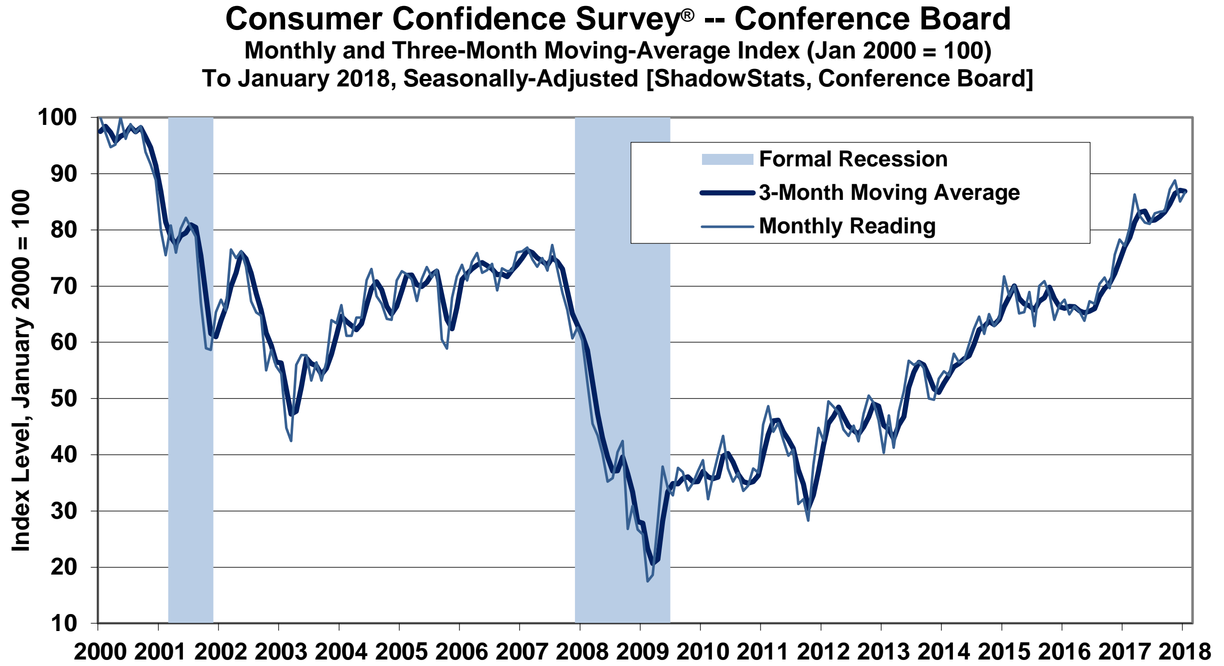
With near-term headline financial and economic reporting likely to turn increasingly negative in the next couple of months, successive negative hits to both the confidence and sentiment readings are likely to continue in the near future.

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.

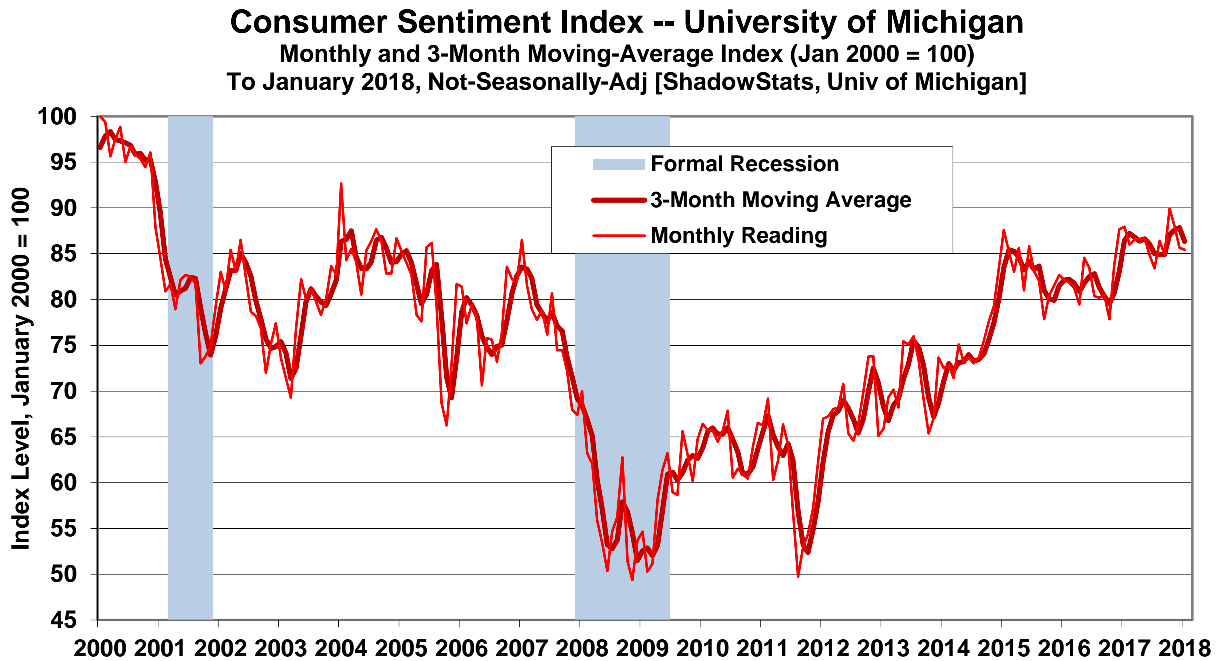
Smoothed for irregular, short-term volatility, the two series still generally had held at levels seen typically in recessions, until the post-2016 election circumstance. Suggested in *Graph CLW-3*—plotted for the last 48 years—the latest readings of Confidence and Sentiment recently have recovered levels 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 2018)



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



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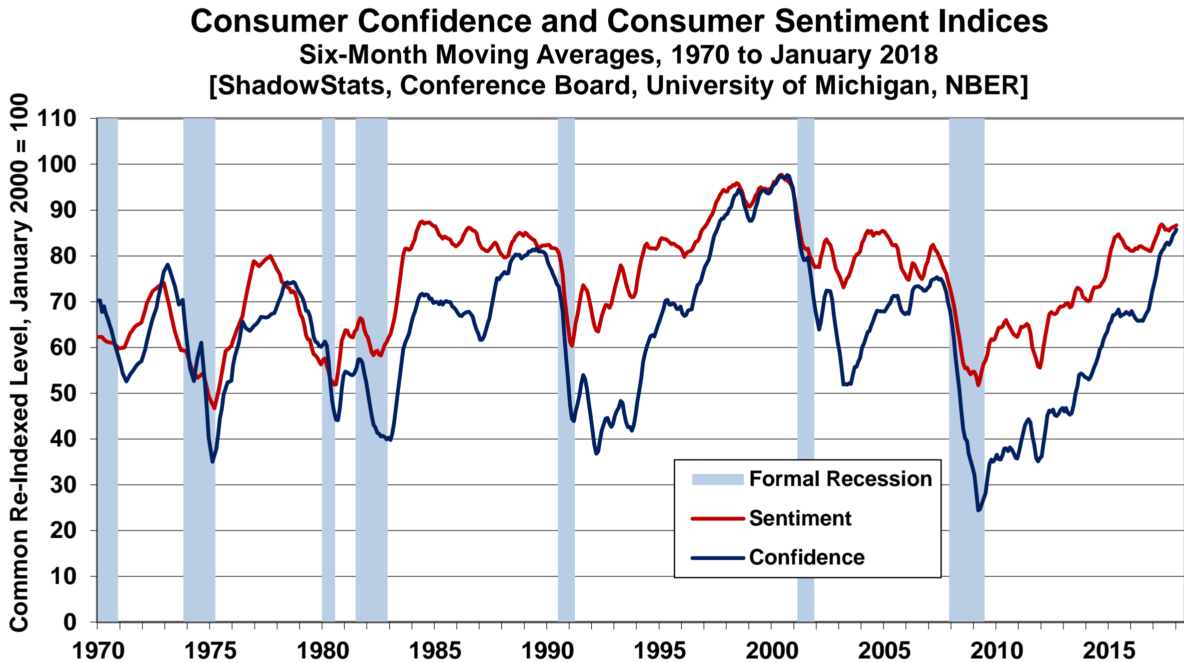
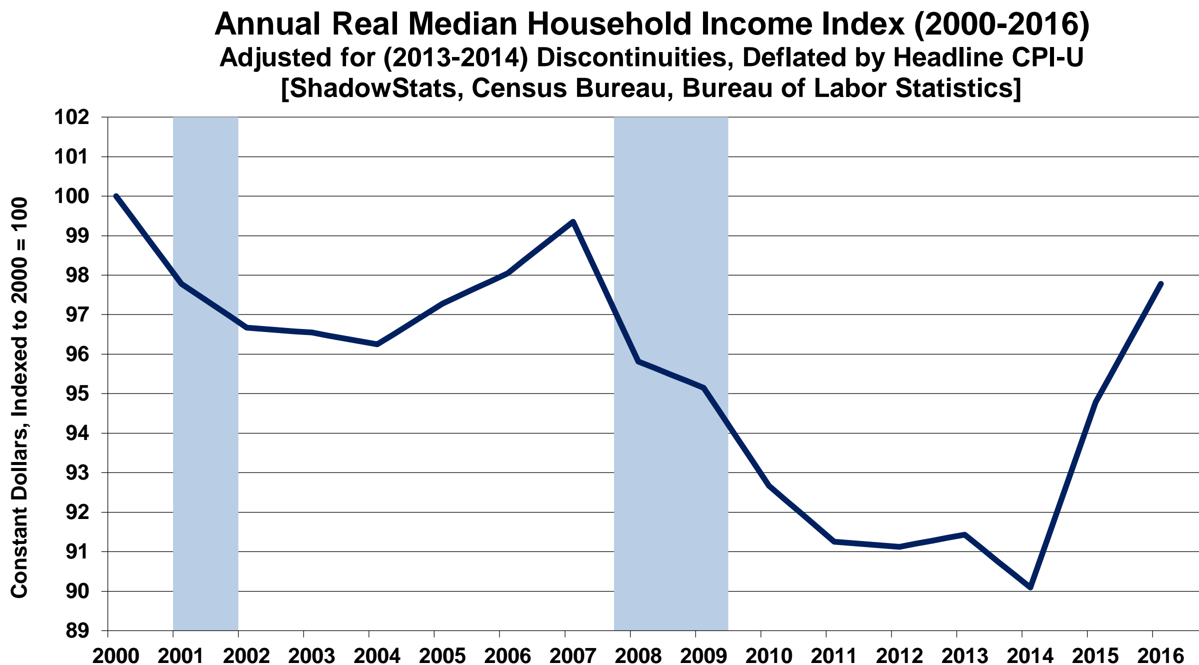
Graph CLW-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2018)



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)



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Last Monthly Estimate Showed Stagnating Monthly Real Growth. Last reported by Sentier Research, in what appears to have been the 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*).

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.

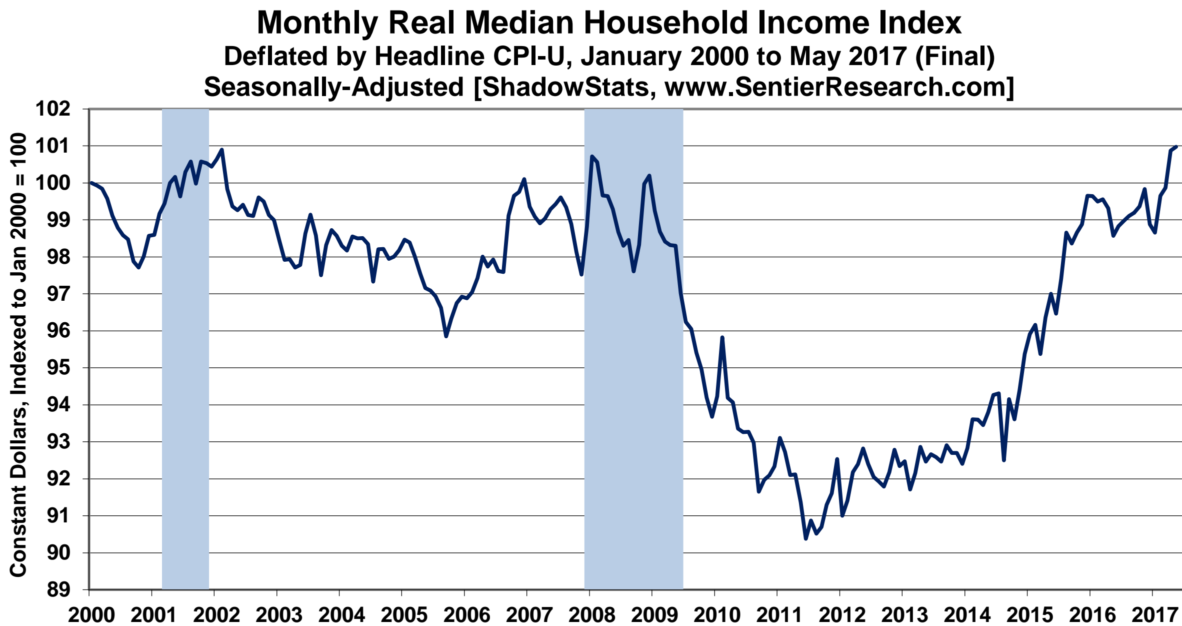
Nonetheless, the most-recent recent "rebound" reported in the series still left consumers financially strapped. Where lower gasoline prices had provided some minimal liquidity relief to the consumer, indications are that any effective extra cash largely was used to help pay down unsustainable debt or 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.

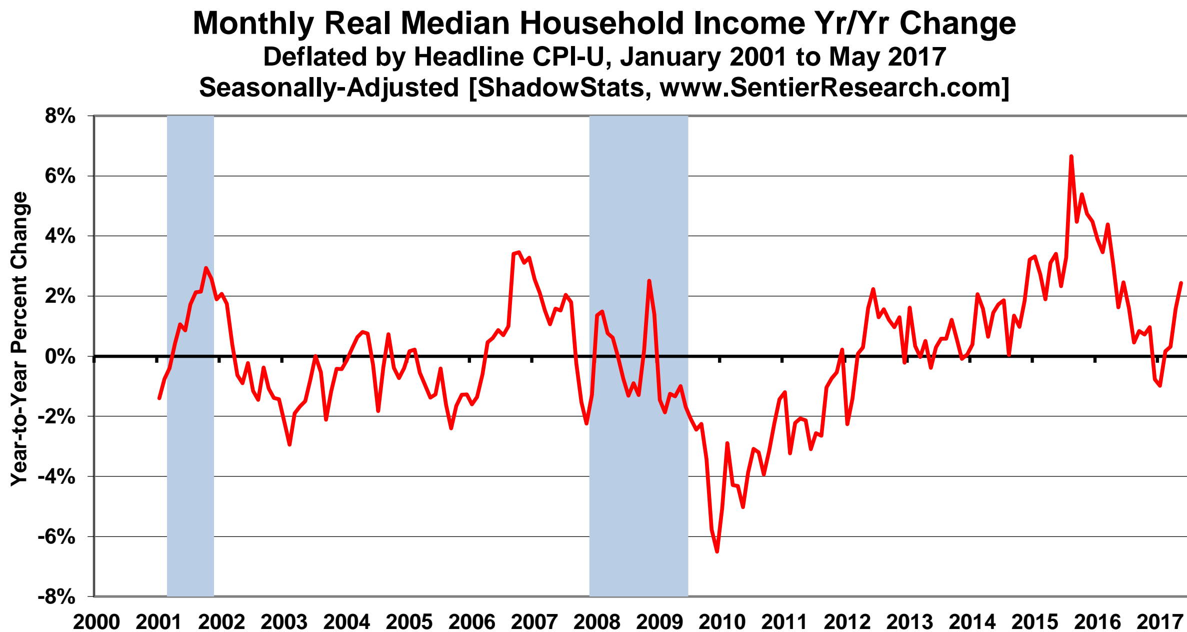
The Sentier numbers had suggested a small increase in 2014 versus 2013 levels, low-inflation induced real increases in 2015 and 2016. Allowing for the direction difference in 2014, and continual redefinitions and gimmicks in the annual series (again, see the *Opening Comments* of *Commentary No. 909*) 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



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 *Reporting Detail* and *Opening Comments* of *Commentary No. 931*), 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

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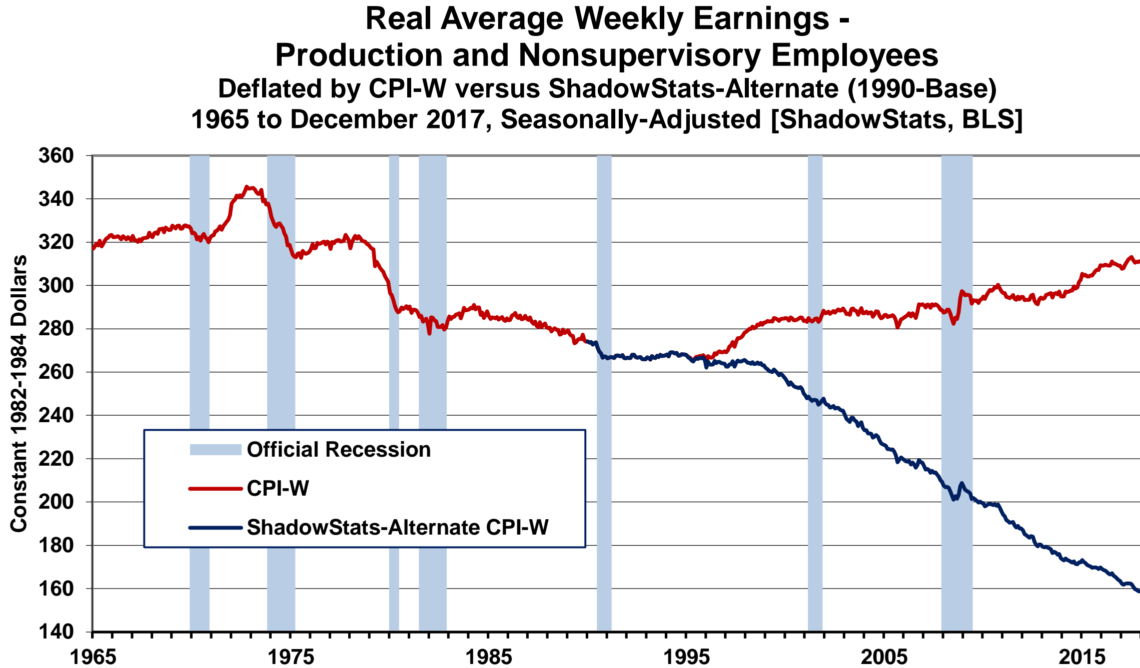
broader all-employees category, fourth-quarter real average weekly earnings also contracted, down at an annualized pace of 1.16% (-1.16%), having gained 0.63% in third-quarter 2017 activity.

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

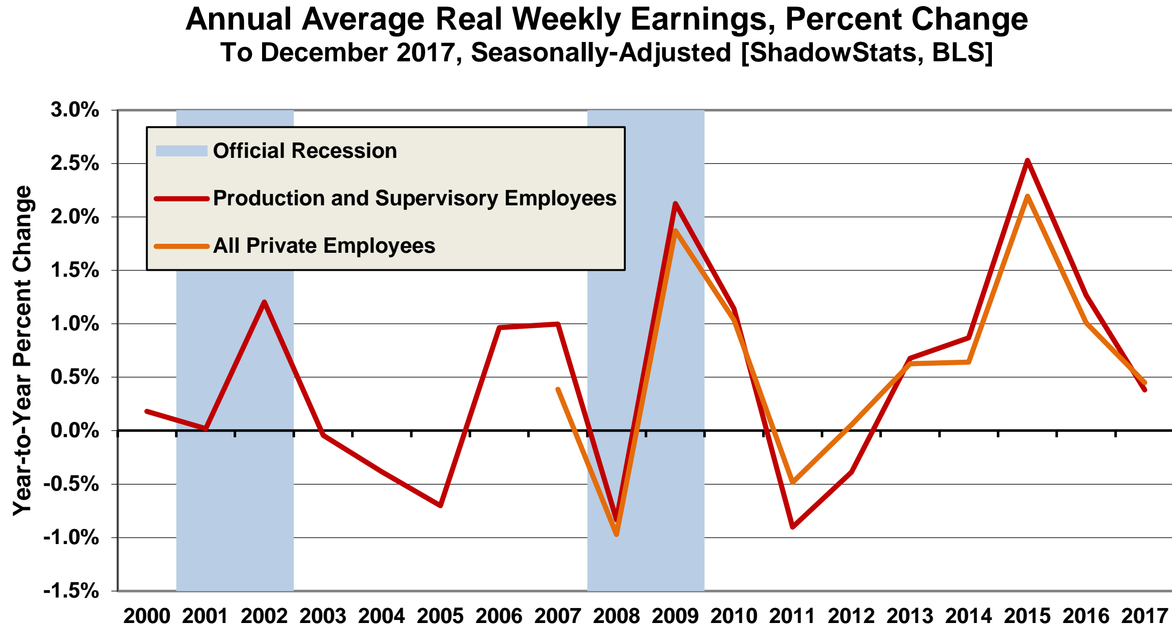


Graph CLW-7 plots the seasonally-adjusted earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating 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 Expansion in Real Consumer Credit Constrains Economic Growth. The final five graphs on consumer conditions address consumer borrowing. Where debt expansion can help make up for a shortfall in income growth, expansion of consumer debt, which would help fuel expansion in personal consumption, has been nonexistent.

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. Such reflects 40 straight quarters—a full decade—of credit non-expansion, versus its pre-recession peak.

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

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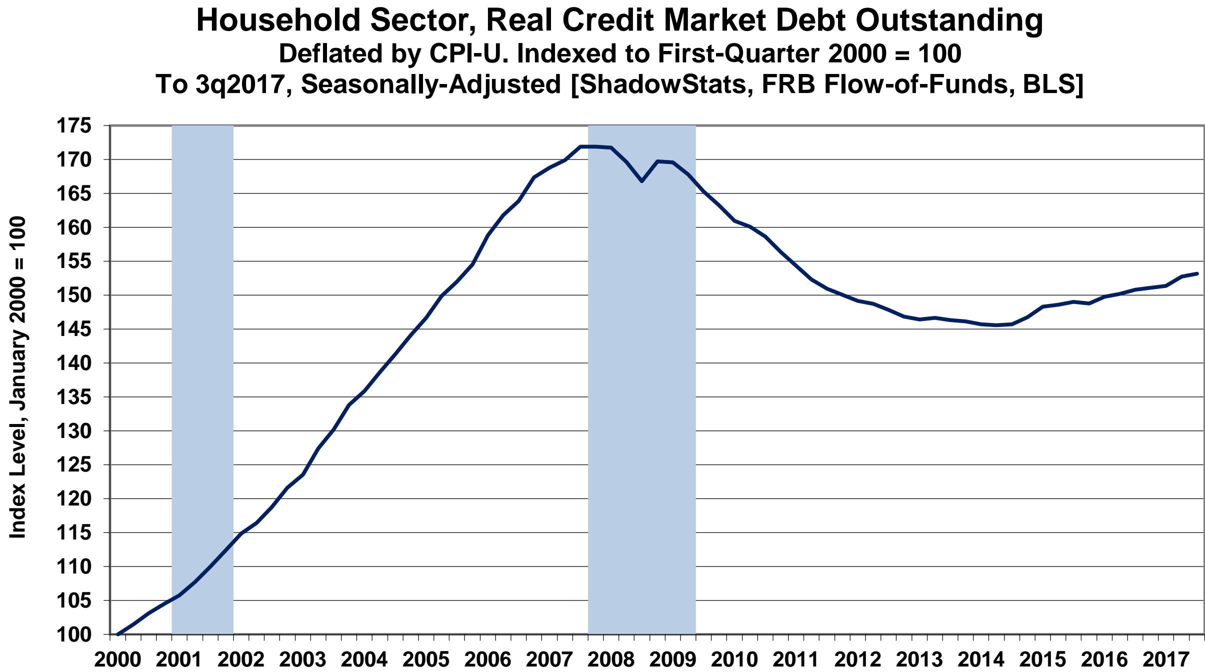
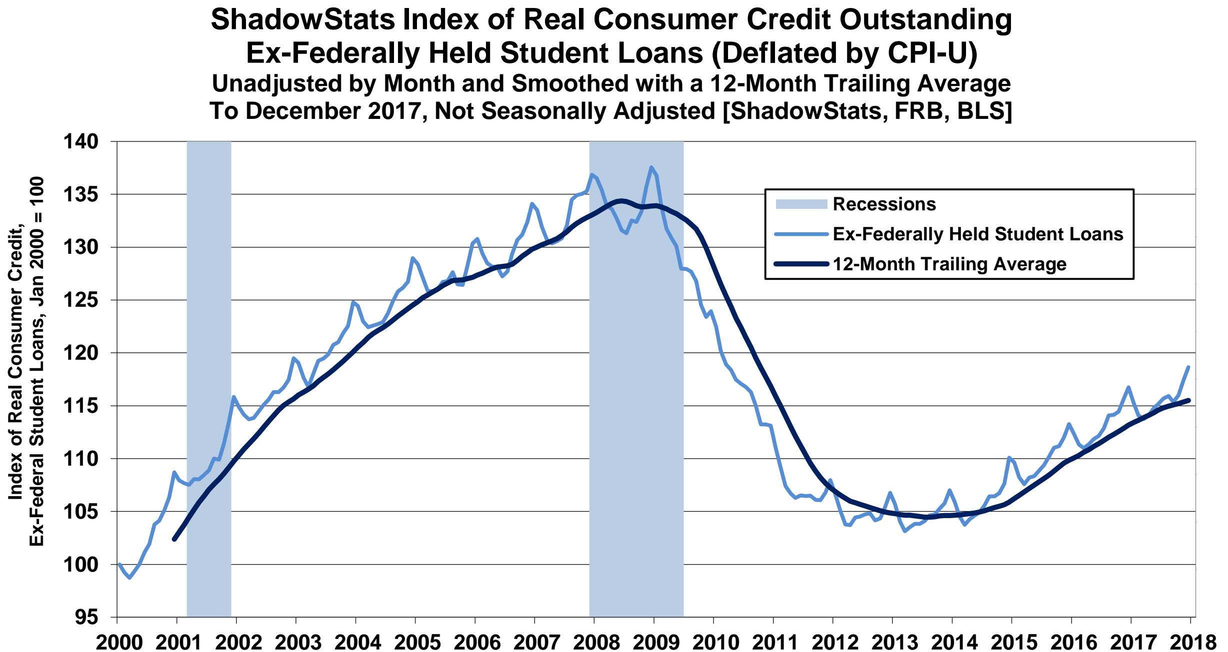
due primarily to gasoline-price-driven, negative CPI inflation, which continued to impact the system through second-quarter 2016 and intermittently into third-quarter 2017. Current activity also has reflected continuing relative strength from student loans, as shown in the *Graphs CLW-10* to *CLW-13*.

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



Graph CLW-10: Real Consumer Credit Outstanding, Ex-Federal Student Loans (2000 to 2017)



Shown for comparative purposes in *Graph CLW-10*, real, not-seasonally-adjusted Consumer Credit Outstanding, Ex-Federally Held Student Loans, has not recovered on a monthly, let alone the 12-month trailing-average basis used as a surrogate for seasonal adjustment. Discussed in the next section, this measure of consumer credit now has been through 120 months of non-expansion. That is reflected on a parallel basis through the latest third-quarter reporting shown in *CLW-9*. Please note that the scale in *Graph 10* is indexed to Consumer Credit Outstanding Ex-Federal Student Loans equal to 100 in January 2000. In *Graphs 11* to *13*, that indexing is applied to the total Consumer Credit Outstanding number, which is greater in amount than its dominant Ex-Federal Student Loans subcomponent.

Monthly Series. Indeed, 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 only is available not-seasonally-adjusted, the following three related graphs and the preceding *Graph CLW-10* are so plotted.

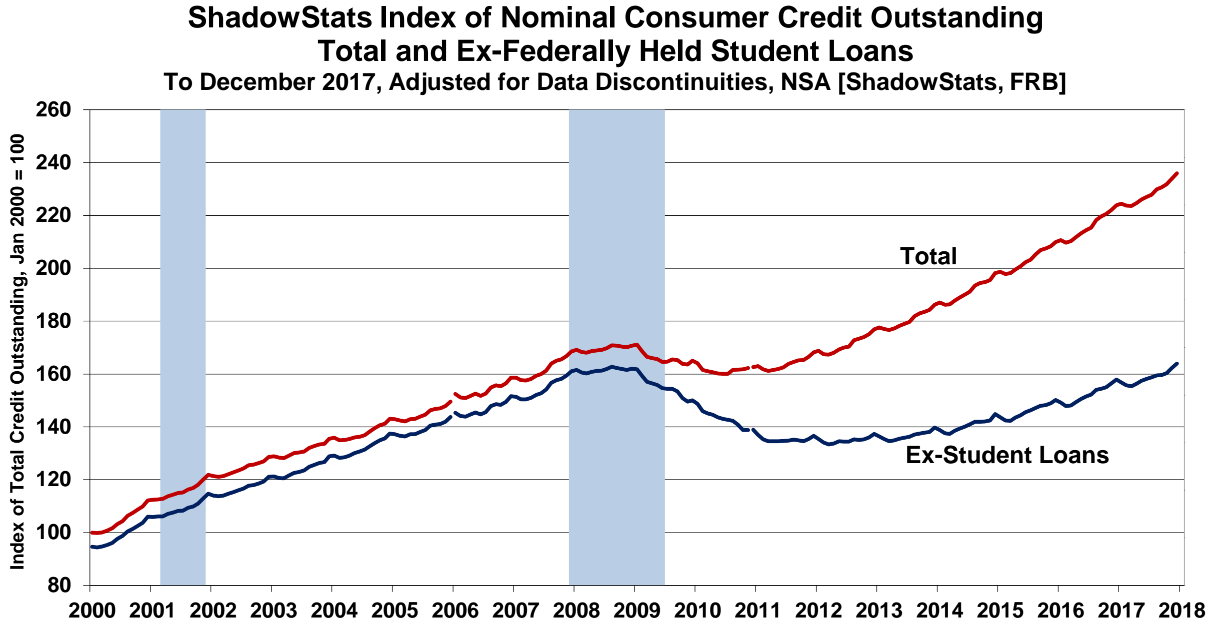
Shown through the December 2017 reading (released February 7th), the headline nominal monthly Consumer Credit Outstanding (*CLW-11*) is a subcomponent of the nominal Household Sector debt. Where *Graph CLW-12* reflects the real or inflation-adjusted activity for monthly Consumer Credit Outstanding terms of both level (*Graph CLW-12*) and year-to-year change (*Graph CLW-13*). *Graphs CLW-12* and *CLW-10* are comparable to the inflation-adjusted Household Sector plot in *Graph CLW-9*.

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.

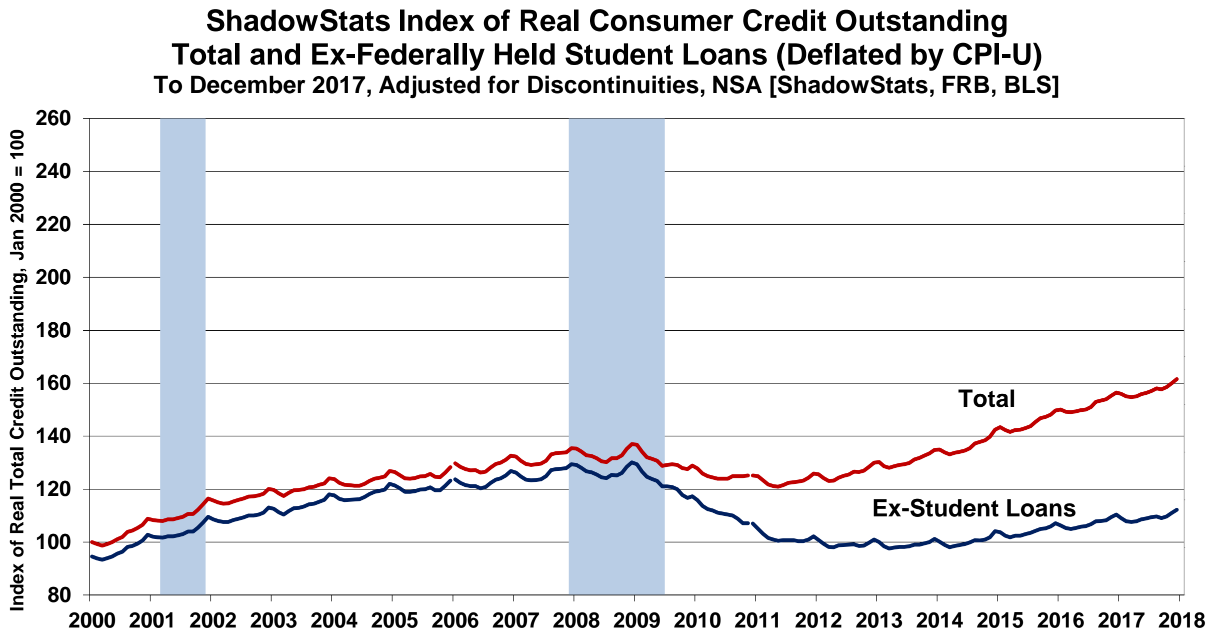
Adjusted for inflation, the lack of recovery in the ex-student loan area is more obvious. Although the recent monthly upside move in the not-seasonally-adjusted consumer credit reflected a seasonal pattern, the pace of year-to-year growth has continued to slow sharply, suggesting some tightening of credit conditions. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in December 2017 was down from recovering its December 2007 pre-recession peak by 13.3% (-13.3%). That is 120 months or a full ten years of non-expansion of credit. Year-to-year real growth shown in *Graph CLW-13* tends to resolve most of the monthly distortions in the not-seasonally-adjusted data.

[Graphs CLW-11 to CLW-13 begin on the next page.]

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



Graph CLW-12: Real Consumer Credit Outstanding (2000 to 2017)



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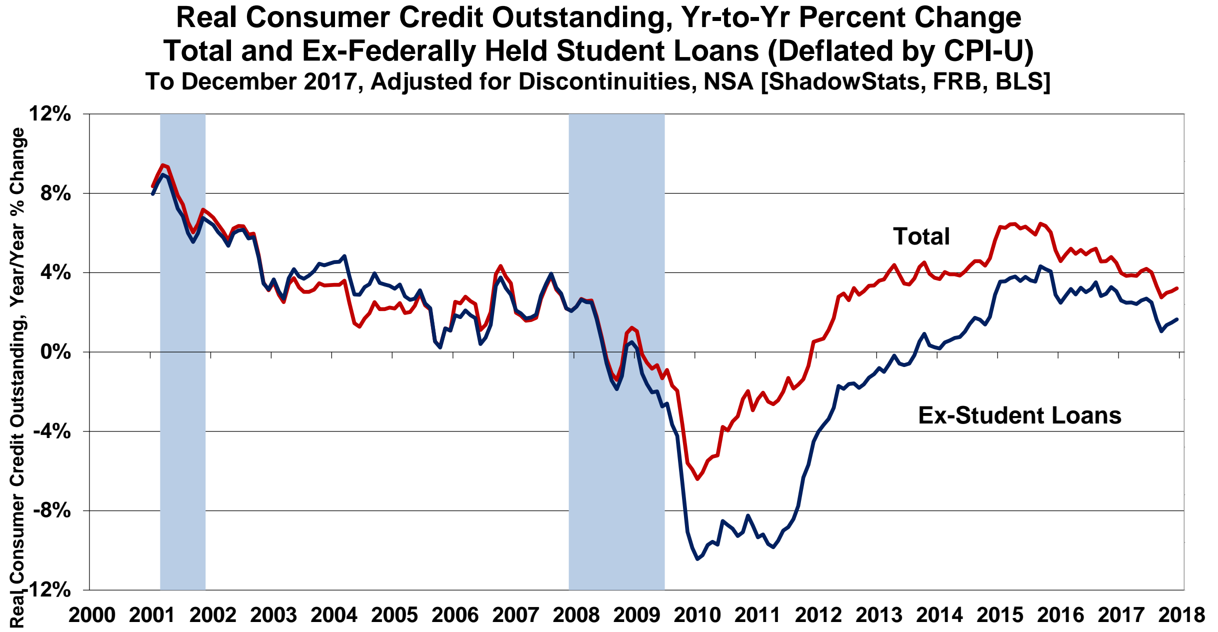
Graph CLW-13: Year-to-Year Percent Change, Real Consumer Credit Outstanding (2000 to 2017)



III. Fed: New Chairman Faces Continued Conflicting Banking-System and Economic Woes

As the Fed Moves to Tighten, the Economy Softens from Its Natural Disaster Boosts; Renewed Downturn Threatens Banking System Liquidity. This Section III on the Federal Reserve will be the concentration of *SPECIAL COMMENTARY, ANNUAL REVIEW - PART THREE.* Even with the new Federal Reserve Chairman, the Panic of 2008 likely still dominates U.S. central-bank concerns. With the U.S. banking-system then on the brink of collapse, the Federal Reserve and the U.S. Treasury did everything in their power to prevent a collapse, irrespective of short- or long-term costs (including inflation). Systemic collapse simply was not an option.

Whatever money had to be created, spent or loaned, whatever liabilities had to be guaranteed, whatever bad assets had to be absorbed, whatever entities (inefficient, crooked or otherwise) had to be bailed out, whatever markets had to be manipulated, whatever had to be done as a stop-gap measure was done. What was not done was to address any of the underlying fundamental issues that led to the crisis, including the long-term sovereign-solvency issues of the United States (see the Section IV on *Federal Debt and Deficit*), or needed meaningful economic stimulus, such as addressing faltering consumer income and finances (see the Section III on the *Economy*). Discussed in the *executive Summary*, those issues still need to be addressed, along with a long-overdue overhaul of the Federal Reserve System.

Subsequent to quelling the Panic of 2008, the Fed concentrated its efforts on propping the domestic and global banking systems—if the global banking system failed, such also would encompass the U.S. system—yet, nearly a decade after the onset of the crisis, the Fed still has not succeeded in fully reestablishing banking-system health and normal, commercial functionality. The Fed certainly did little to stimulate domestic commerce—such as fueling lending activity—other than to prevent a banking-system collapse. Nonetheless, the banking industry remains at risk of further, intensified solvency or liquidity issues from an intensifying, renewed domestic economic downturn, one that continues in a system that never really recovered from its collapse into 2009.

Having taken little but stop-gap measures in 2008, which pushed much of the banking-solvency crisis into the future, the Federal Reserve (and the U.S. Treasury) face continuing systemic insolvency or instability issues as that future closes in. Therein lies the Federal Reserve's internal terror, although its raising rates and tightening, it cannot find a way out of its ongoing crisis, with similar issues affecting other central banks. Again, a solution may lie with the Congress and the Administration looking to overhaul the Fed and the domestic banking system.

Inflation Instead of Deflation. Some analysts still look for the current global situation to evolve into a deflationary collapse of debt. While meaningful insolvencies in the global financial system likely still loom, the process becomes hyper-deflationary only in the circumstance where the banking system collapses and money supply disappears, as happened in the United States in the 1930s.

With the precedent of the Panic of 2008 in hand, much more likely are continuing bailouts, wherever needed, very possibly in the extreme, ultimately with hyperinflationary consequences. When those controlling the system made the decision to prevent systemic collapse at any and all costs, in 2008, they

made clear their desire in answering the question raised by Robert Frost in his poem *Fire and Ice*; their choice appears solidly to be for the world to end in the fire of inflation (*2014 Hyperinflation Report—The End Game Begins* page 26, see also the *INFLATION* section).

Fed Speak Downgrades Definitions of "Healthy" Labor Conditions and Misdirects the Public as to Central-Bank Motivations. Listening regularly to pronouncements out of the Federal Reserve's Open Market Committee (FOMC), or from various members of the Federal Reserve's Board in recent years, one easily might conclude that current Fed policy primarily and simply was to maintain the economy and inflation at "healthy" levels. That is nonsense. While there is little doubt the Fed would like to see those circumstances, there has been little the U.S. central bank could do to stimulate the economy. At least that was the frequent protestation from former Fed Chairman Ben Bernanke, although a little increased lending to the public lending might have been encouraged. As to inflation, the Fed can increase inflation easily, any time it wishes, as Mr. Bernanke and Ms. Yellen knew all too well, as most assuredly does Fed Chairman Powell.

The Mission Is to Maintain Banking-System Stability. Simply put, the Federal Reserve's actions of the last decade have centered on propping the banking system, not the economy. As public sentiment shifted against bailing out large banks, the Fed used the weak and non-recovered economy as political cover for the introduction and later expansion of its Quantitative Easing (QE) programs.

With the underlying, non-recovered U.S. economy faltering anew, the Fed started has to raise rates not for the purported "overheating economy" concerns, but likely in an effort to boost rates to more economically viable levels, to resolve questions raised as to "Fed credibility."

Ignoring the Public's Economic Distress in Stagnant, Non-Recovering Economic Activity, the Fed Moved Recently to Redefine Much-Weaker Levels of "Normal" Employment Activity. The Federal Reserve Board's Federal Open Market Committee (FOMC) has helped to justify its rate hikes, by claiming that the current headline 4.1% unemployment rate represents a full-employment economy, and that 150,000 monthly payroll employment growth is healthy. As expanded upon in the regular employment unemployment missives (see *Commentary No. 934-B*), 4.1% is not full employment with the participation rate and employment-to-population ratios near record lows, while the current annual growth in payrolls is common to entering a new recession (see *Graphs FED-1* and *FED-2*).

The other *Graphs FED-3 to FED-8* reflect current Monetary Policy and U.S. Dollar conditions.

[*Graphs FED-1* to *FED-8* begin on the next page.]

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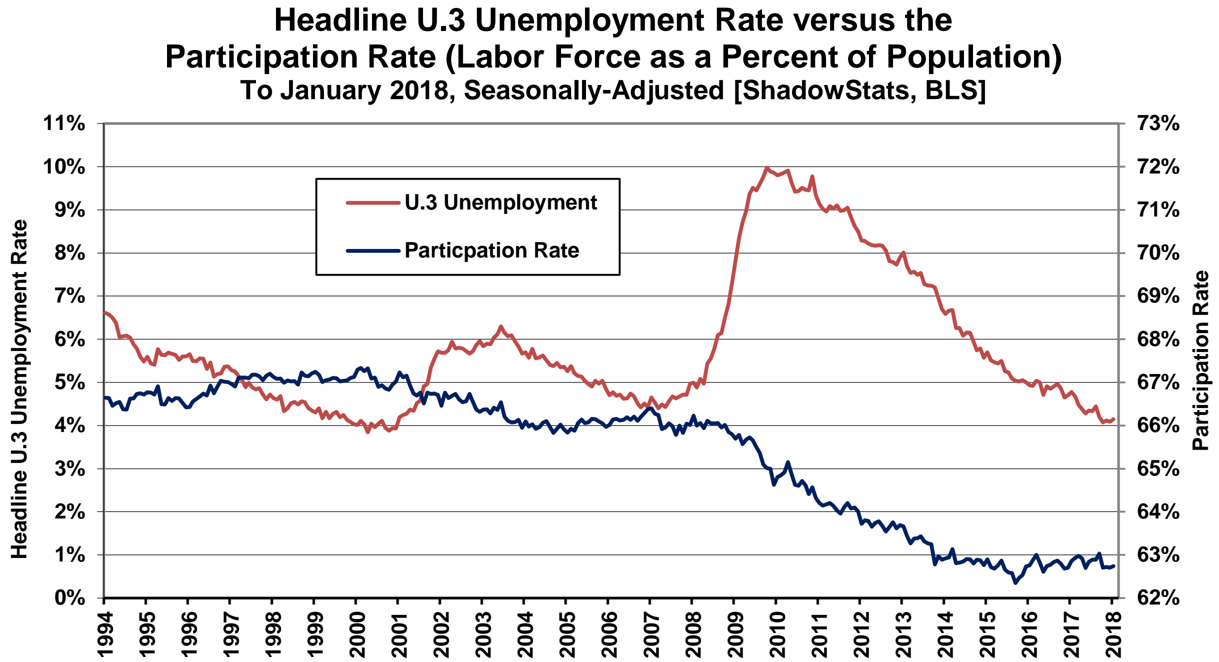
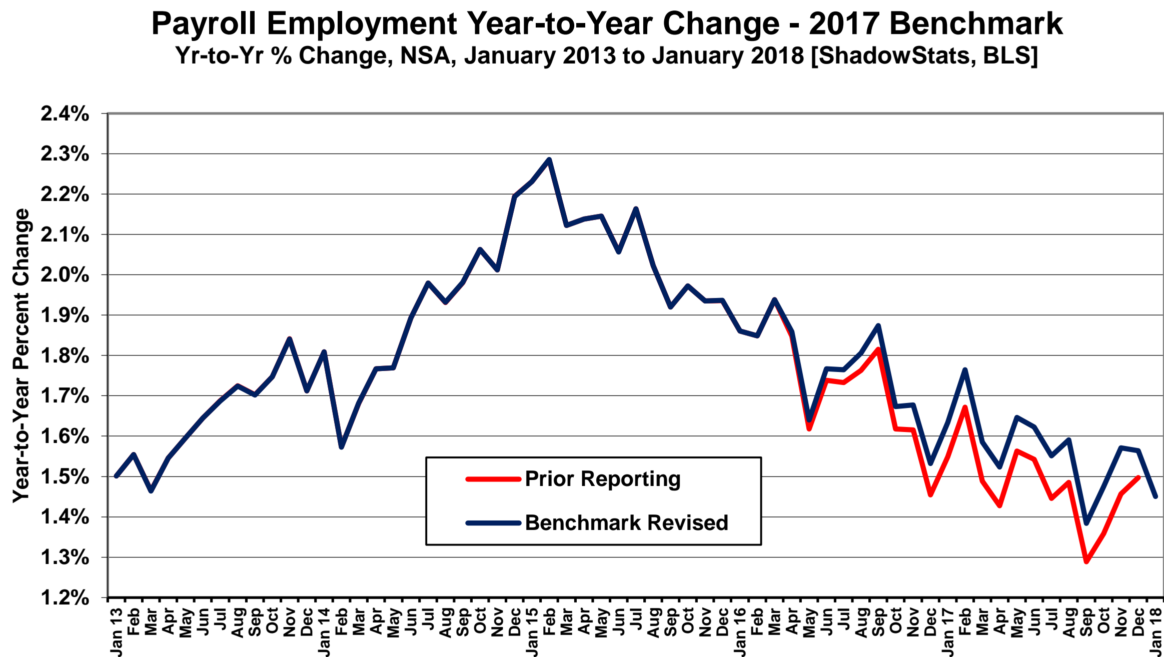
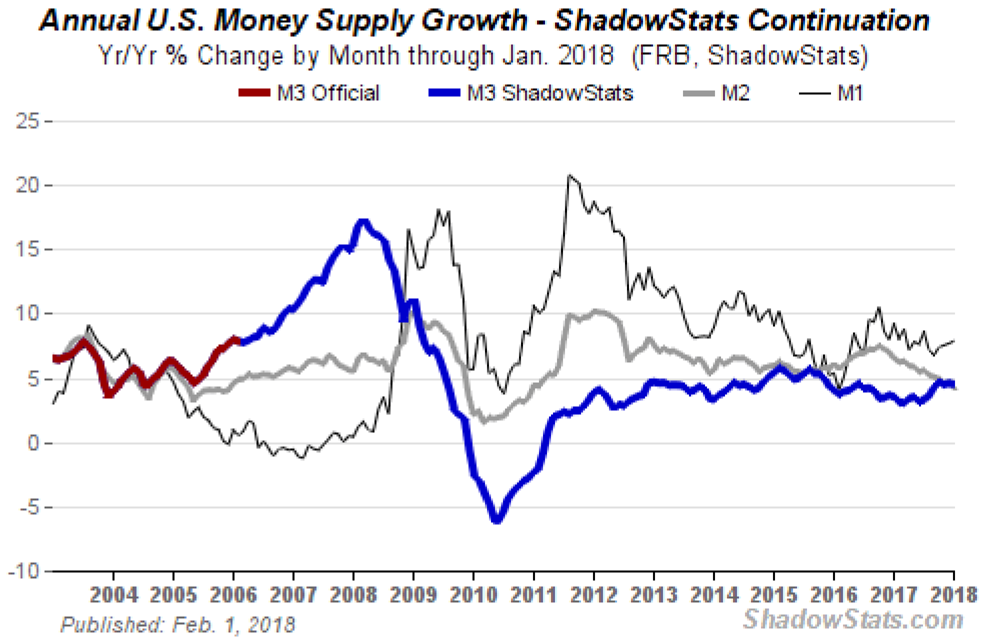
Graph FED-1: Headline U.3 Unemployment versus the Labor Force Participation Rate (1994 to 2018)



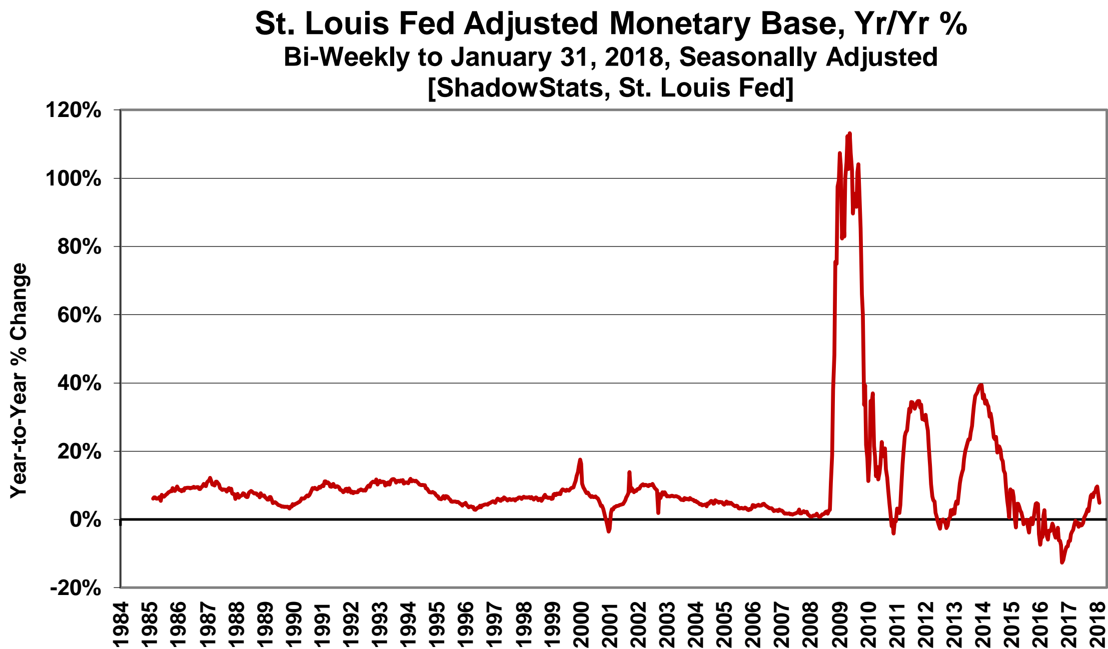
Graph FED-2: Payroll Employment, Not-Seasonally-Adjusted, Annual Percent Change — 2017 Benchmarking



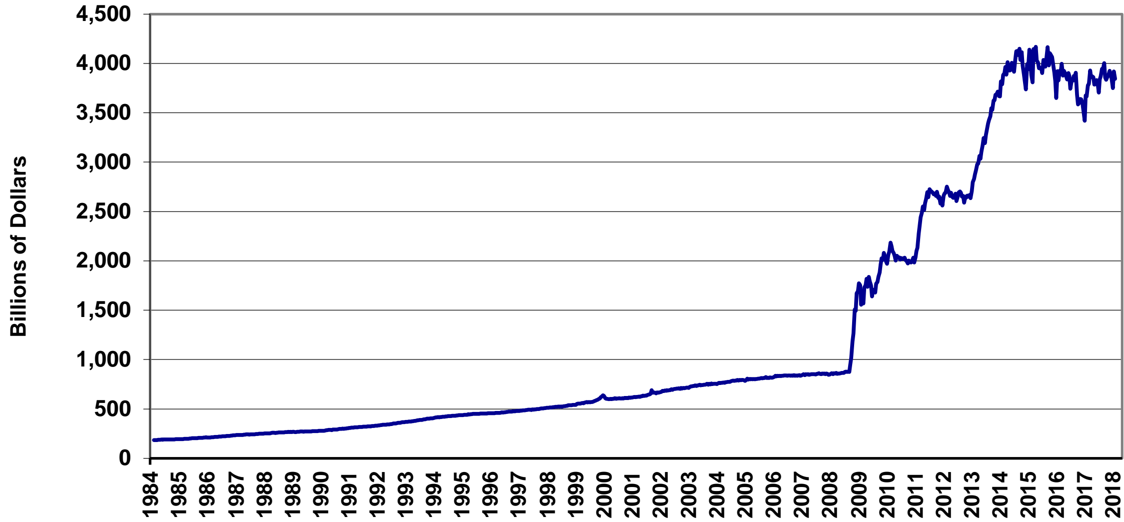
Graph FED-3: M3 Money Supply - Year-to-Year Change (2004 to 2018)



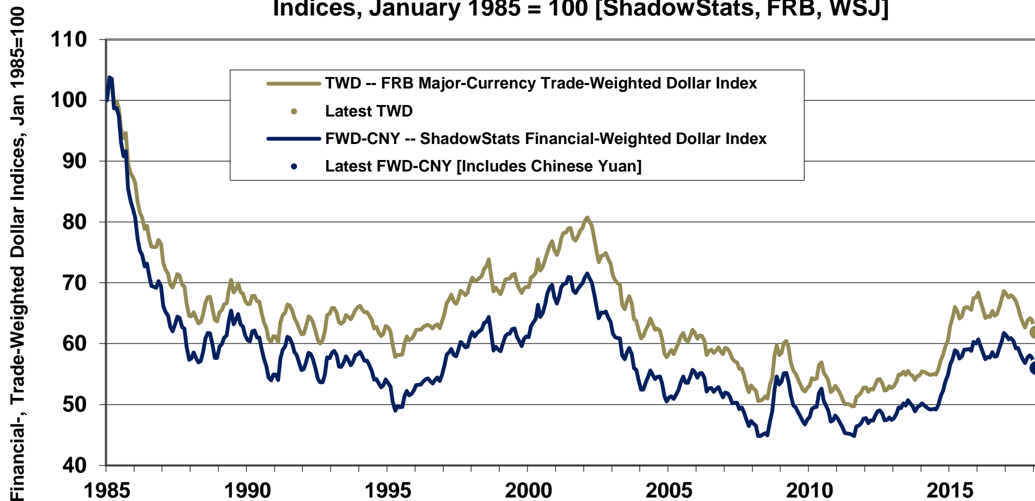
Graph FED-4: Monetary Base – Year-to-Year Change (1984 to 2018)



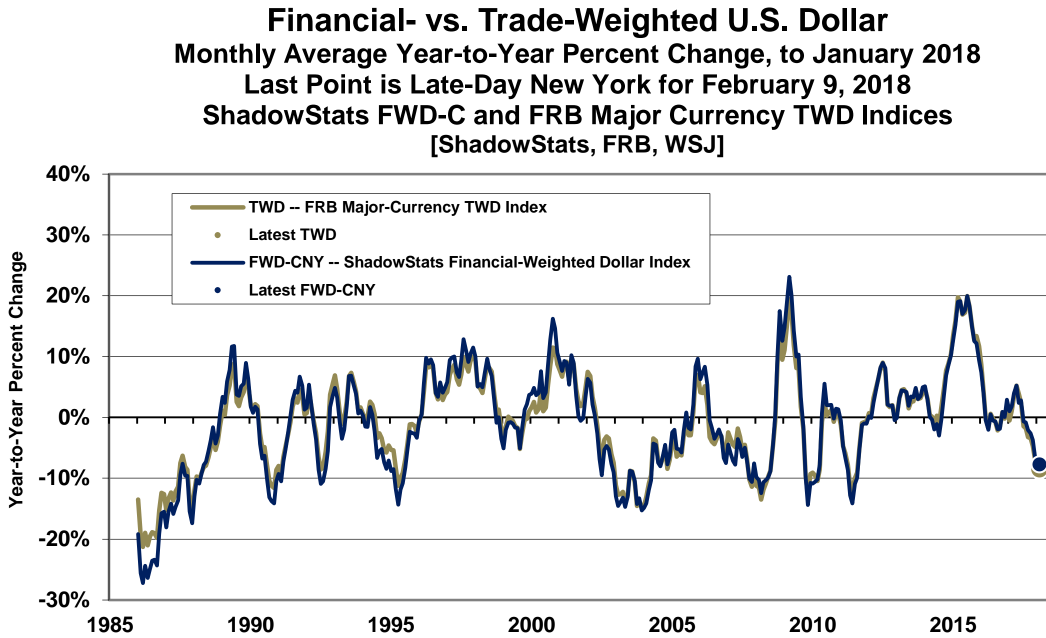
Graph FED-5: Monetary Base – Level (1984-2018)



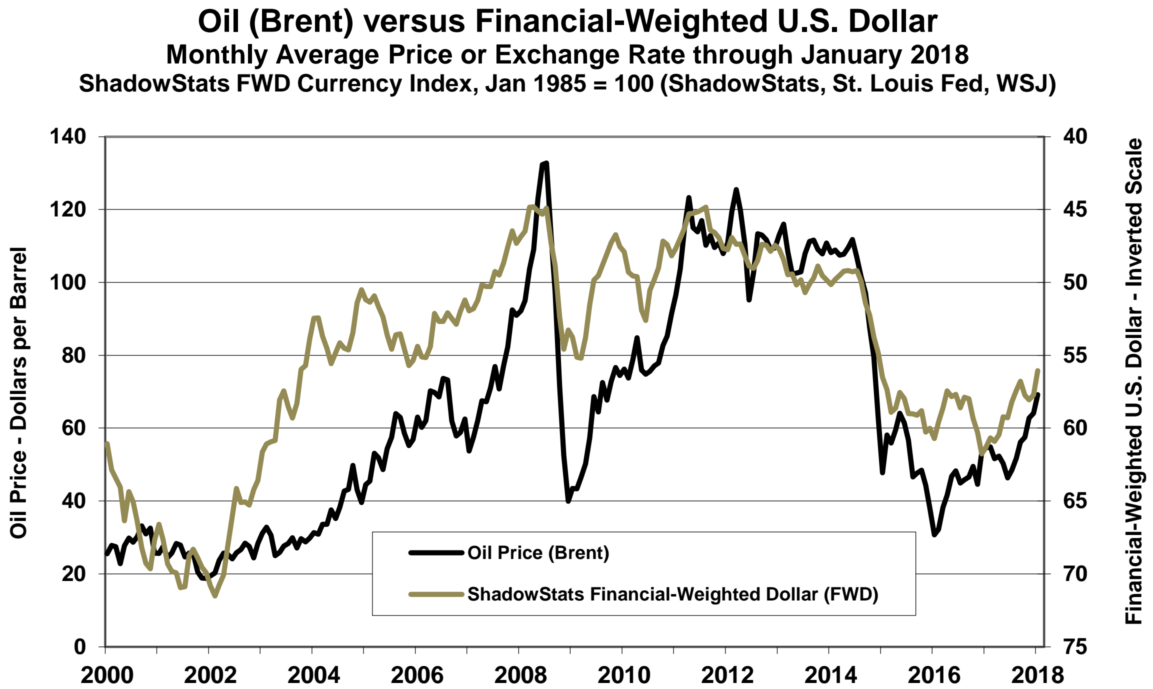
Graph FED-6: Financial- versus Trade-Weighted U.S. Dollar (1985 to 2018)



Graph FED-7: Year-to-Year Change, Financial- versus Trade-Weighted U.S. Dollar (1986 to 2018)



Graph FED-8: Oil Prices versus the ShadowStats Financial-Weighted U.S. Dollar (2000 - 2018)



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IV. Federal Debt and Deficit: Continuing Out of Control

"We Can Always Print Money." At the time of Standard & Poor's ratings downgrade of U.S. Treasury debt instruments in August 2011, former Federal Reserve Chairman Alan Greenspan noted to NBC's *Meet the Press:*

> "The United States can pay any debt it has because we can always print money to do that. So there is zero probability of [U.S. Treasury] default."

With the net-present value of total U.S. government obligations, including unfunded liabilities, well in excess of $100 trillion, such a circumstance guarantees hyperinflation. The outlook there will depend largely on whether or not the new Administration will take action to bring the long-term sovereign-solvency issues of the United States under control. That will not be accomplished easily, as discussed in the *Executive Summary*. Those issues will be pursued as well in a related, forthcoming *SPECIAL COMMENTARY, ANNUAL REVIEW - PART TWO*, subsequent to the scheduled February 15th release of the fiscal-year 2017 GAAP (Generally Accepted Accounting Principles)-based reporting of the government's financial statements.

Various Reporting and Fiscal Shenanigans Continue to Obscure Some Growth in the Headline Federal Debt and Deficit. There was a time, before the Panic of 2008, when the headline federal deficit really was cash-based, cash-in less cash-out, although it still had its own reporting gimmicks. In the wake of the Panic of 2008, however, the government opted to "capitalize" some of its bailout money, instead of reflecting it as cash-out. Not being consolidated in the federal government's financial statements, for example, Fannie Mae and Freddie Mac ended up paying "dividends" to the investing U.S. Treasury, based on accounting gimmicks that would have no place otherwise in an entity owned by the Federal Government.

A separate complication was the effective monetization of roughly 78% of the U.S. Treasury's net-public-debt issuance in 2014 in the Federal Reserve's quantitative easing programs. Independent of the Federal Government, the Fed continues to hold outright some $2.4 trillion of Treasury debt, refunding the interest it receives on that debt to the Treasury. The Fed also effectively has been helping to prop Fannie Mae and Freddie Mac with its holdings of agency and mortgage-backed securities.

Again, the General Accountability Office (GAO)—where at one time the "A" stood for "Accounting"—has raised issues, in its financial statements of the federal government, as to the appropriateness of underlying assumptions made by the Obama Administration as to the Affordable Care Act (ACA) in annual reporting. Generally, ShadowStats has used the GAO's alternative assumptions in assessing the annual financial results for the U.S. Government. Even so, those assumptions have been shifting. Update 2017 detail will follow in the next several weeks. Accompanying *Graph FISCAL-1* reflects headline data through fiscal year ended September 30, 2017. Accompanying *Graph FISCAL-2* reflects the ShadowStats Estimate of the GAAP-based Total Federal Government Obligations for fiscal 2017, which obviously is subject revision with publication of the official numbers.

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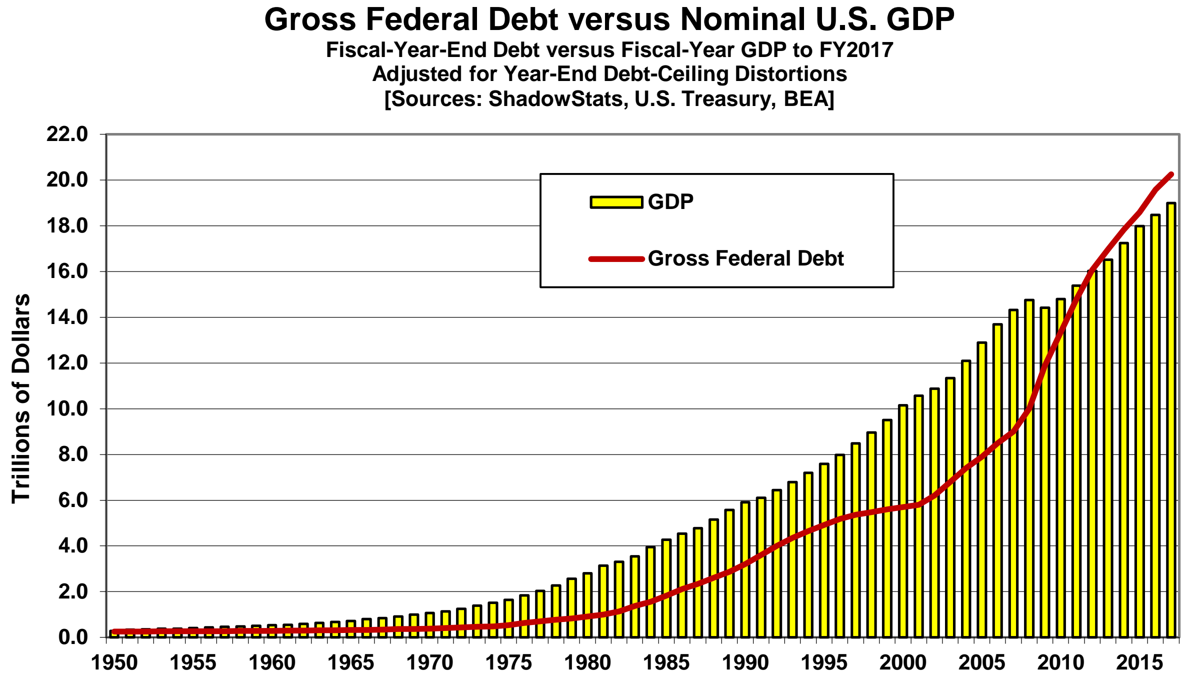
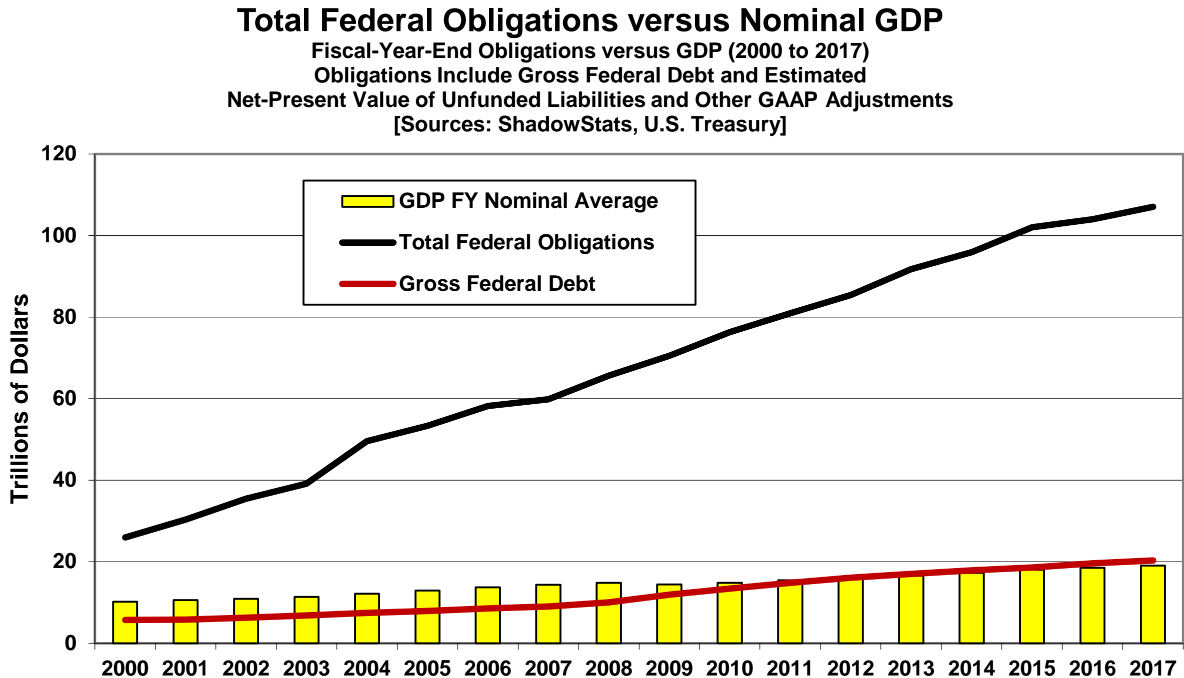
Graph FISCAL-1: Fiscal-Year-End Gross Federal Debt versus Nominal GDP (1950 to 2017)



Graph FISCAL-2: Fiscal-Year-End Total Federal Obligations versus Nominal GDP (2000 to 2017)



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V. Inflation: Destroyer of Real Wealth and Purchasing Power

Gold Still Hedges Inflation Risks. In a world where "The United States can pay any debt it has because we can always print money to do that," per Alan Greenspan (see Section IV), and where "Indeed, under a fiat (that is, paper) money system, a government (in practice, the central bank in cooperation with other agencies) should always be able to generate increased nominal spending and inflation, even when the short-term nominal interest rate is at zero," per Ben Bernanke, real world inflation is not about to disappear. These comments also will be updated and expanded upon in *SPECIAL COMMENTARY, ANNUAL REVIEW - PART TWO*.

The Federal Reserve has created a great deal of inflation in the past century, as noted in *Table INFLATION-1* and in considering the location of the blue points in *Graphs INFLATION-2 to 5*. Shown in *Table INFLATION-1*, the U.S. dollar has lost 96.0% of its purchasing power since the Federal Reserve opened its doors in 1914, based on today's headline CPI-U. Based on the ShadowStats Alternate CPI Estimate (1980-Based), as described in the *Public Commentary on Inflation Measurement*, the U.S. dollar's purchasing power as declined by 99.3%, more in line with a 98.4% decline in the purchasing power of the dollar as measured by the price of gold, in the period after the dollar's gold backing had been removed fully, post 1970. In terms of potential assets for hedging against inflation, despite recent efforts by central banks to depress prices of precious metals, holding physical gold still has more than covered headline CPI-U inflation (as has silver) and gold largely has offset the loss of U.S. dollar purchasing power reflected by broadest ShadowStats inflation estimate.

Consider as well accompanying *Graphs INFLATION-1* to *4.* There are two sets of plots. Each set is shown with inflation plotted first using an arithmetic scale and then a logarithmic scale. The second set includes a plot of year-end gold prices, not specifically fit to the inflation plots. Looking at the log scales, inflation tended to rise during various periods of war, then fall back, until the founding of the Fed in 1914. Headline CPI inflation began to accelerate and never looked back after Roosevelt abandoned the domestic gold standard, and further after Nixon abandoned international convertibility of the dollar for gold. The plot of the price of gold coincides with the ShadowStats Alternate Inflation Measure (1980 base) as of December 2017.

[*Table INFLATION-1* follows on the next page]

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Table INFLATION-1: Historical Comparisons of Inflation Measures and Inflation Hedges (1914 to 2017)

Change in Purchasing Power of the U.S. Dollar (USD) Through December 2017

Versus 1914 (Year the Federal Reserve-FRB Became Active),
1933 (Year that Roosevelt Abandoned Domestic Gold Standard),
1970 (Year Leading into Nixon's Closing the Gold Window), and
2005 (Year Leading into the Debt/Banking Crisis)

USD versus	Since January of			
	1914 FRB	1933 FDR	1970 Nixon	2005 Pre-Crisis
Change in Purchasing Power				
CPI-U	-96.0%	-94.8%	-88.6%	-22.6%
ShadowStats CPI (1)	-99.3%	-99.0%	-97.0%	-70.0%
CPI-U Inflation-Adjusted USD: Today's Purchasing Power, Value of $100 Invested in Base Period:	1914	1933	1970	2005
U.S. Dollars - Held in Cash	$ 4.00	$ 5.20	$ 11.40	$ 77.36
Swiss Francs - Held in Cash	$ 21.74	$ 28.26	$ 50.89	$ 94.97
Silver Bullion (2)	$ 137.93	$ 185.71	$ 106.54	$ 200.94
Gold Bullion	$ 250.00	$ 325.00	$ 345.45	$ 242.95
ShadowStats Inflation-Adjusted USD Today's Purchasing Power, Value of $100 Invested in Base Period:	1914	1933	1970	2005
U.S. Dollars - Held in Cash	$ 0.70	$ 1.00	$ 3.00	$ 30.04
Swiss Francs - Held in Cash	$ 3.80	$ 5.43	$ 13.39	$ 36.88
Silver Bullion (2)	$ 24.14	$ 35.71	$ 28.04	$ 78.04
Gold Bullion	$ 43.75	$ 62.50	$ 90.91	$ 94.36

Data points reflect monthly averages.
(1) ShadowStats-Alternate CPI measure based on 1980 methodologies.
(2) Annual averages used for silver prices in 1914, 1933 and 1970.
Sources: ShadowStats, FRB, Kitco, St. Louis Fed.

[*Graphs INFLATION-1* to *4* begin on the next page]

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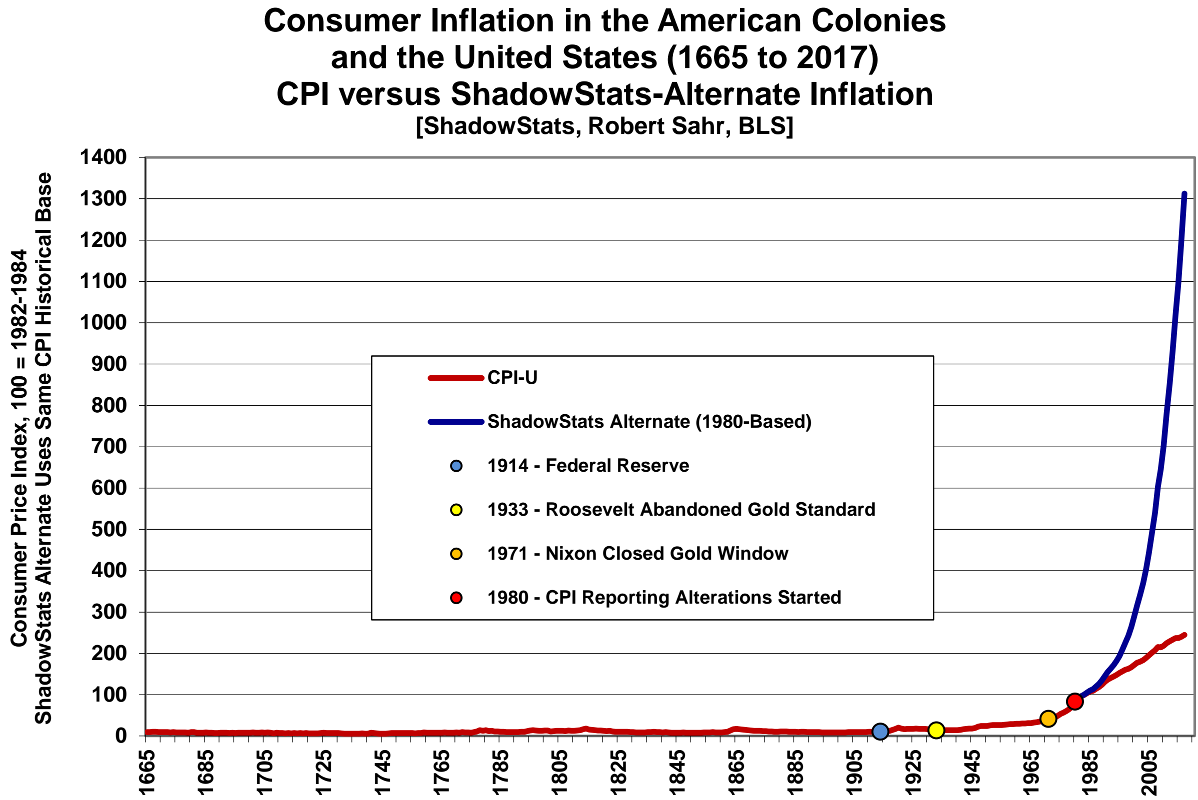
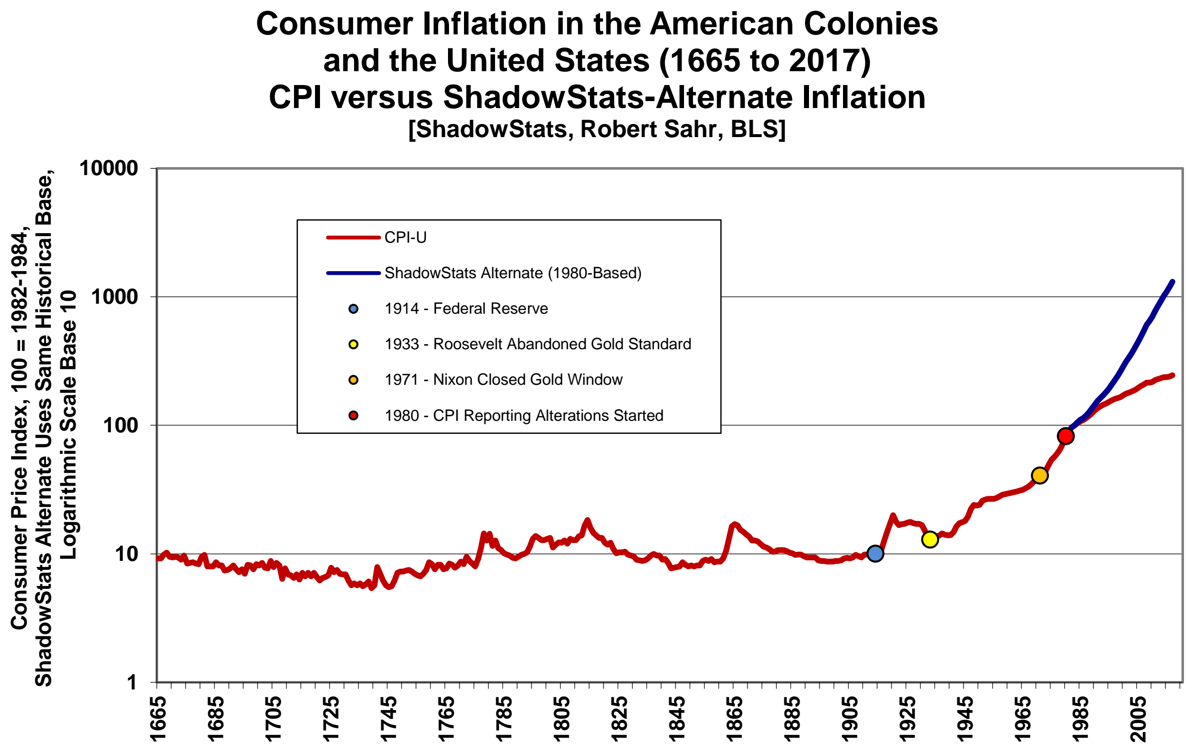
Graph INFLATION-1: Consumer Inflation (1665 to 2017)



Graph INFLATION-2: Consumer Inflation (1665 to 2016) – Logarithmic Plot



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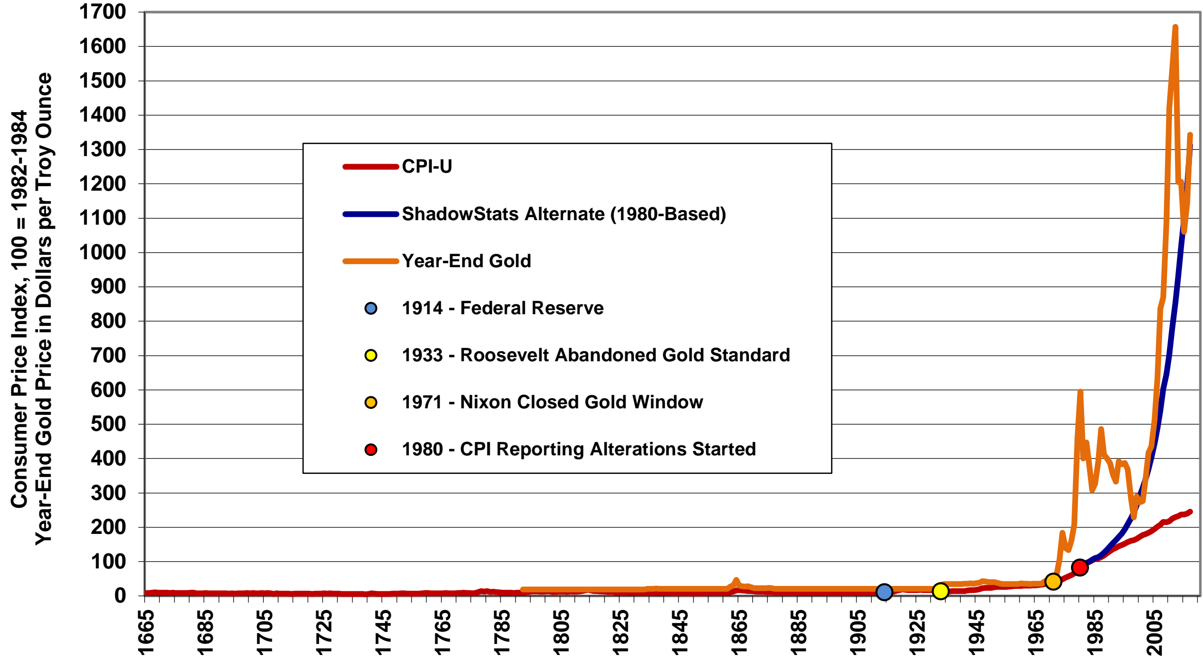
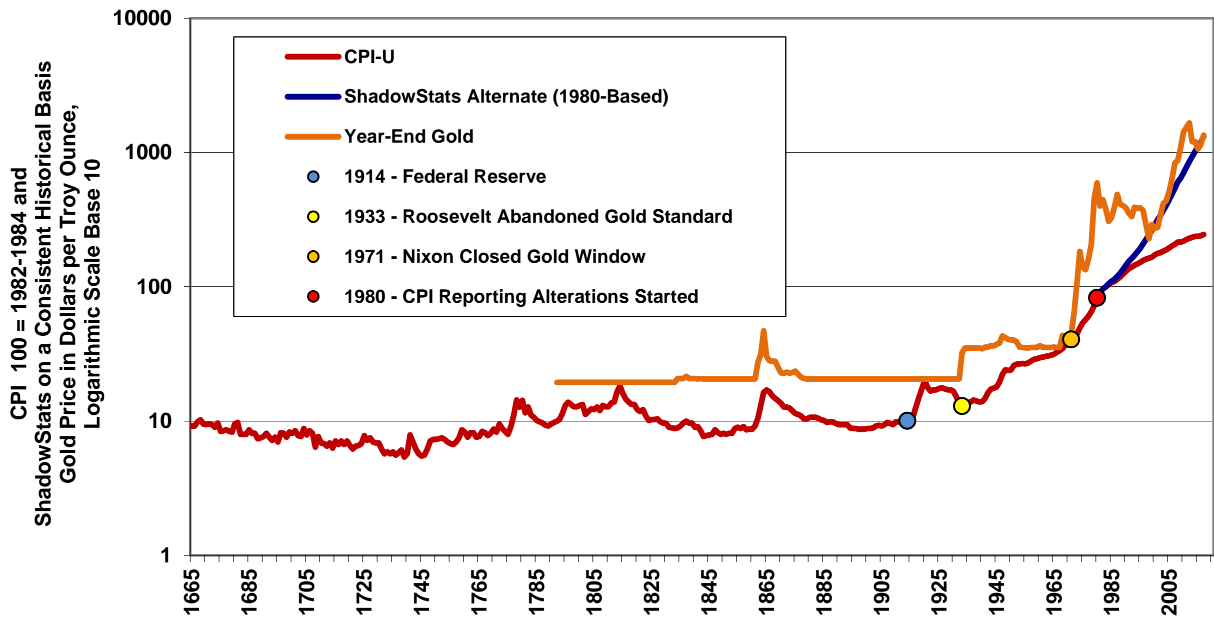
Graph INFLATION-3: Consumer Inflation (1665 to 2017) versus Gold



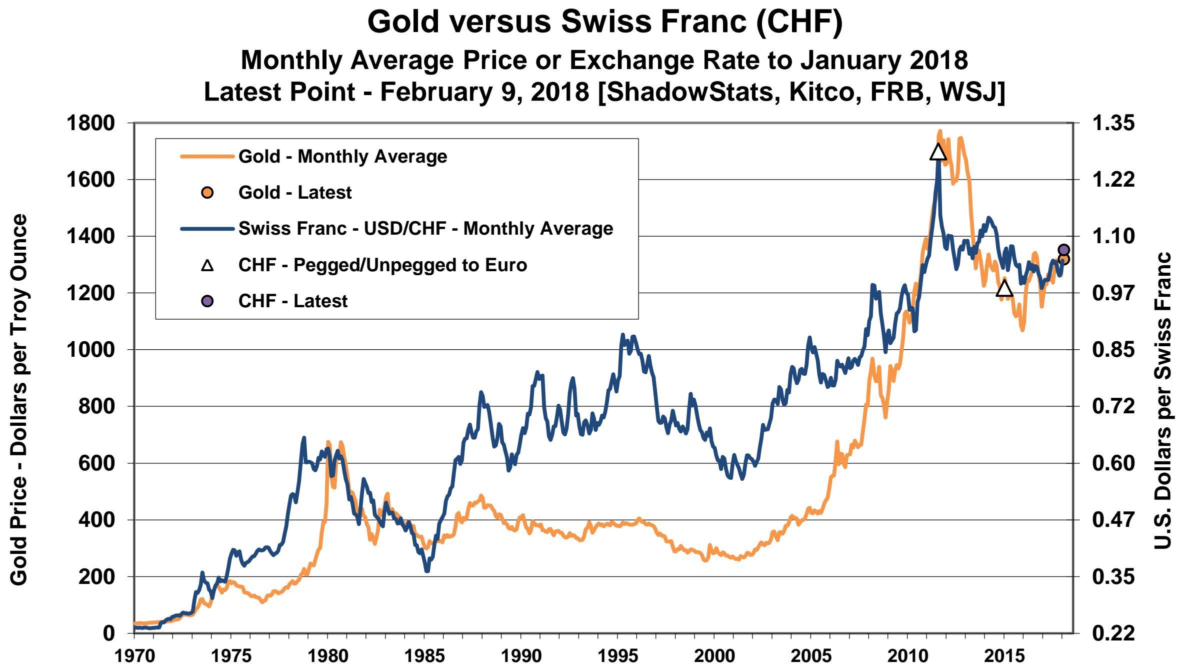
Graph INFLATION-4: Consumer Inflation (1665 to 2017) versus Gold – Logarithmic Plot



VI. Markets: Pending Dollar and Stock Market Crises, Preserving Wealth

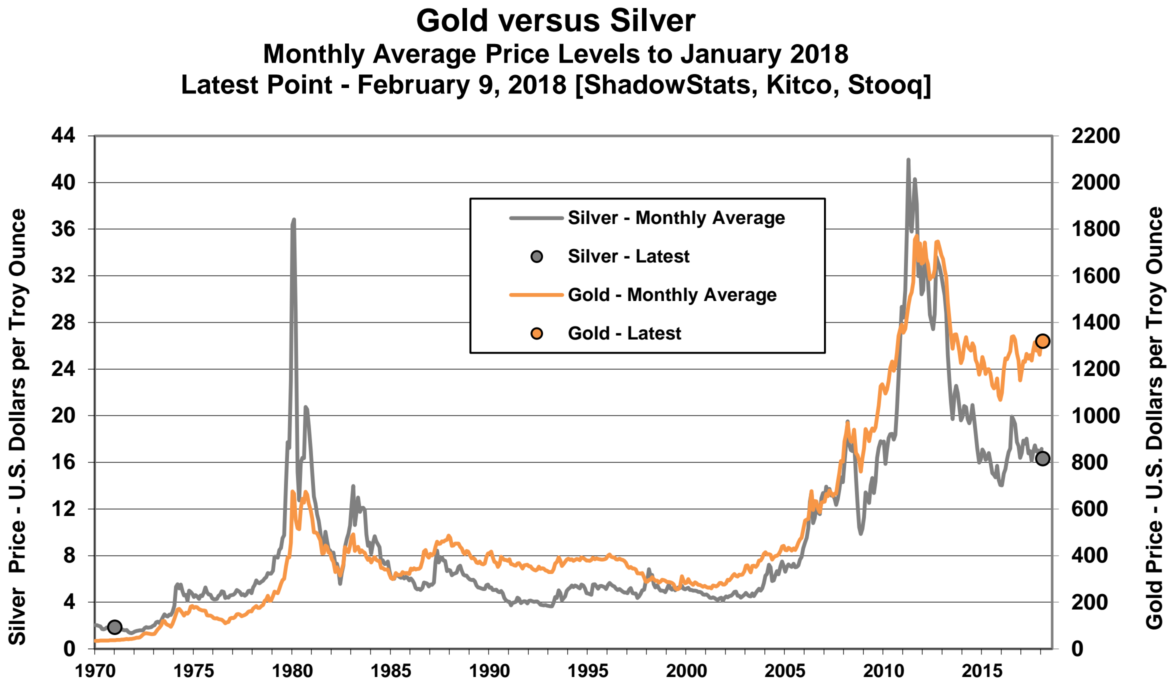
Despite Sharp Market Volatilities, the Precious Metals Still Have Prevailed over Time. *Graphs MARKETS-1* to *9* in this section show the regular year-end plots of relative performance of various asset classes, ranging from precious metals and oil to equities, Treasury yields and home prices. The first three graphs involving gold, silver, oil and the Swiss franc are in nominal terms (as were *Graphs FED-5* to *7* covering the dollar indices and oil).

Graph MARKETS-1: Nominal Gold Price versus the Swiss Franc (1970 to 2018)

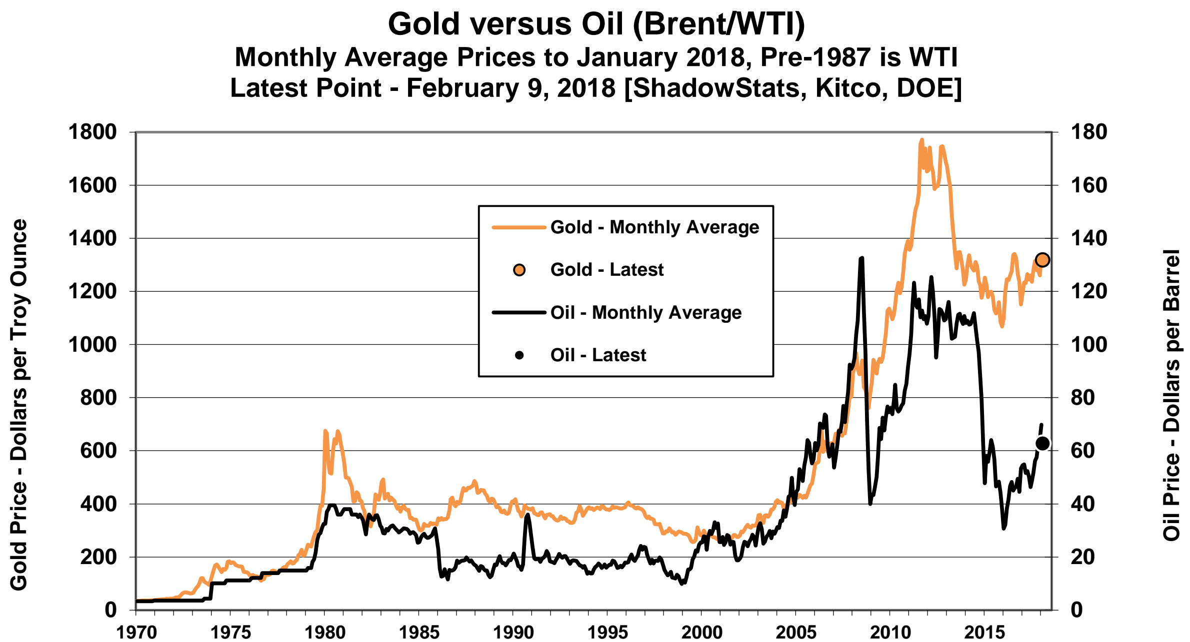


[*Graphs MARKETS-2* to *3* are found on the next page]

Graph MARKETS-2: Nominal Gold Price versus Silver Price (1970 to 2018)



Graph MARKETS-3: Nominal Gold Price versus Oil Price (1970 to 2018)



Graphs MARKETS-4 is in nominal terms, *MARKETS-5* to *9* are in real terms, deflated by the headline CPI-U. In an ongoing period of unusual developments, including rallying stocks with a recent sell-off,

and a broadly weakening dollar and strengthen gold prices, consider *Graph MARKETS-5*, which suggests that physical holdings of precious metals provide a meaningful store-of-wealth function against inflation.

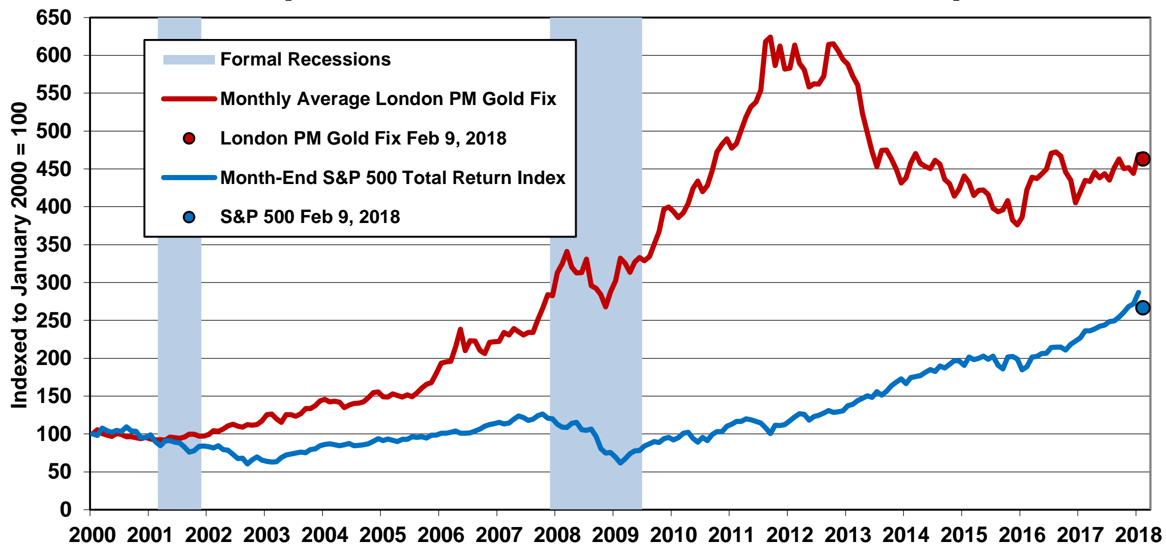
Physical Holdings of Gold and Silver Provide a Practical Inflation Hedge and Store-of-Wealth. Although there is a chance for a reprieve from the pending, massive debasement of the U.S. dollar, ingrained institutional pressures favor not addressing the long-term U.S. fiscal imbalances or fundamental issues within the domestic banking system. Those pressures are not likely to be overcome until well after the 2018 Congressional election, barring in intervening financial crisis. That means the ShadowStats fundamental analysis of a potential hyperinflation crisis in the United States remains in play, and should be viewed in the context of continuing high risk.

Please review *Chapter 10*, *2014 Hyperinflation Report—Great Economic Tumble* for detailed discussion on approaches to handling a hyperinflation crisis and the effects on various asset groups including equities and TIPS (neither asset class would do well in the difficult times ahead). The best hedges here remain holding physical gold and silver, as well as holding some assets outside of the U.S. dollar.

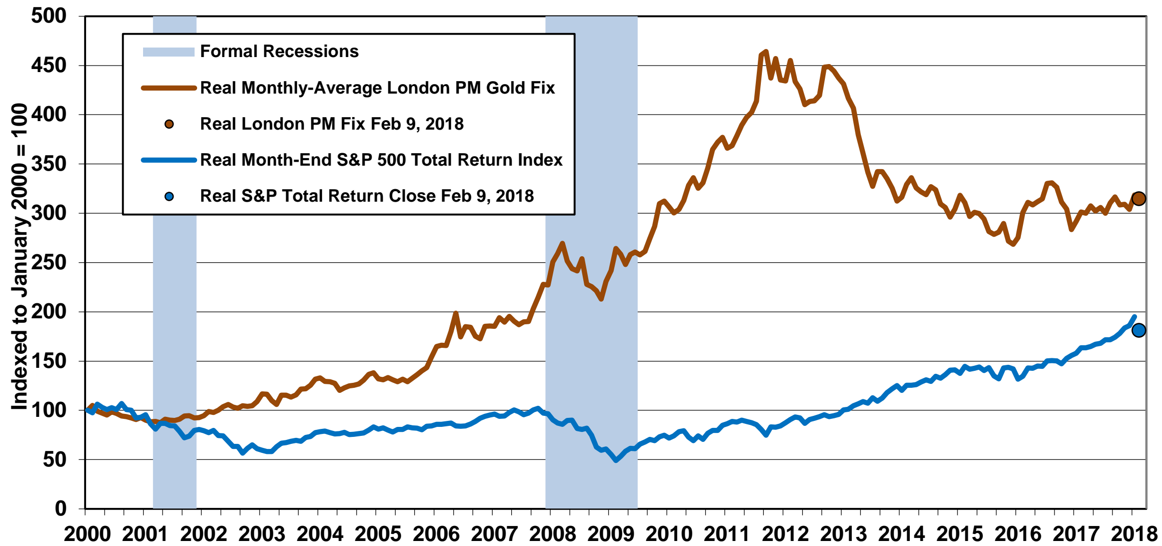
The protective hedges work, however, only if they are held through the financial crisis. As seen in trading of recent years, gold and silver prices can be pummeled in the open markets, often by apparent central bank interventions. Once serious dollar debasement or inflation kicks in, however, gold's store-of-wealth effect should become the dominant factor driving the gold price, as also would be the case for silver.

Graph MARKETS-4 plots the nominal value of physical gold versus the Total Return S&P 500, with both series indexed to January 2000 = 100. *Graph MARKETS-5* plots the inflation-adjusted value of physical gold versus the Total Return S&P 500, with the same indexing.

Graph MARKETS-4: Nominal Gold Price versus Nominal S&P 500 Total Return Index (2000 to 2018)



Graph MARKETS-5: Real Gold Price versus Real S&P 500 Total Return Index (2000 to 2018)



Given likely heavy U.S. dollar selling or debasement, inflationary pressures should mount rapidly, with the inflation surge beginning with upside spikes to oil and gasoline prices, which, in turn, would tend to fuel a self–feeding cycle. In what would evolve rapidly into a major inflation problem—the early stages of hyperinflation—physical gold (primary) and silver remain the best hedges, stores of wealth that preserve the purchasing power of the invested assets, as well as being highly liquid and portable. They work as solid hedges, only if held through the currency/inflation crisis.

Shown in the *Graph MARKETS-7* despite the most-popular U.S. stock indices having rallied sharply until recently, still trading off all-time highs, gold still has outperformed both the S&P 500 (graphed) and the Dow Jones Industrial Average, since the beginning of the new millennium. The plotted points reflect year-end closing prices, with the indexed prices adjusted for CPI-U inflation, and with the stock-index values adjusted to reflect the reinvestment of dividends.

Of some interest, with January 2000 as a base, real gold broke above CPI-U in 2002, while the S&P 500 measure did not do so decisively until 2013.

Real or Inflation-Adjusted Markets. In an environment with the Federal Reserve supporting the banking system and the stock market, domestic investors have found their investment options severely limited in recent years, in terms of finding safe and livable returns. The accompanying graphs show the monthly average levels of equity market values (S&P 500 and the Dow Jones Industrial Average), short-term Treasury yields, home values and gold and silver prices, all adjusted for headline CPI-U inflation.

Not too surprisingly, despite the sharp declines in gold and silver prices of the last several years, the precious metals—traditional inflation hedges—stilled showed the strongest real returns since 2000, up well in excess of 100%.

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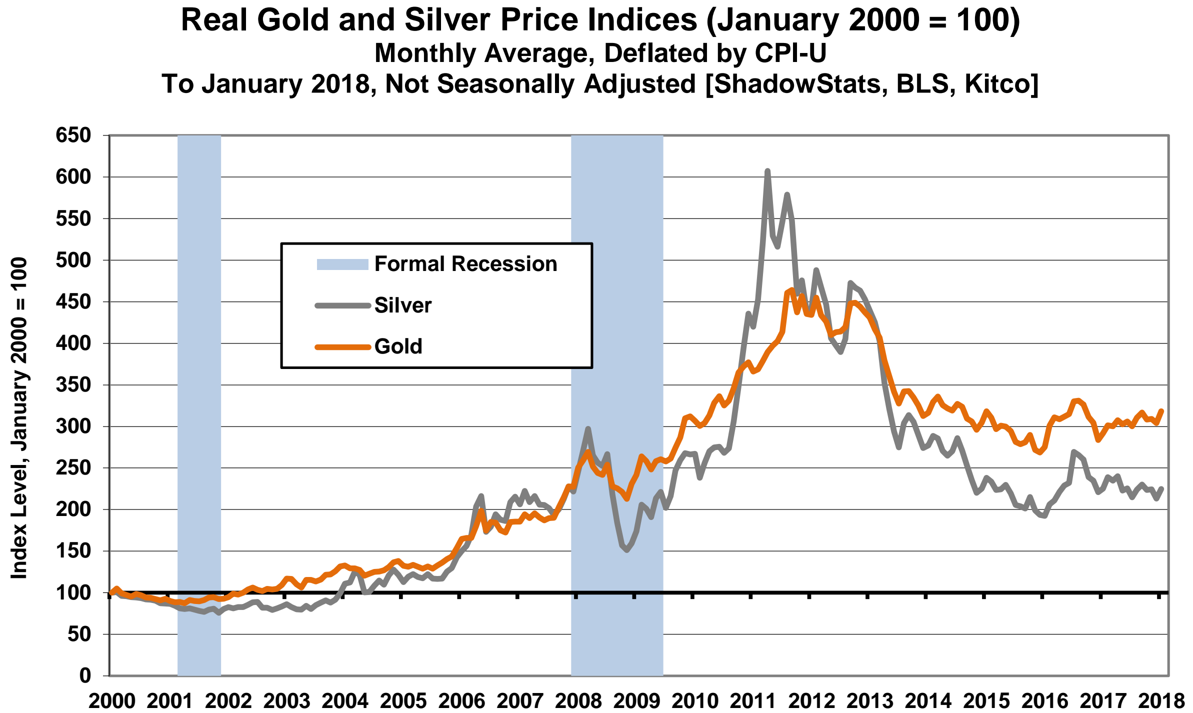
Graph MARKETS-6: Real Gold and Silver Price Indices (2000 to 2018)



The stock indices (*Graph MARKETS-7*), adjusted for the CPI-U just broke solidly above par in the last couple of years. Such excludes consideration of dividends. An average reinvested, dividend yield of two-percent would add about 37% to aggregate real return, still shy of the precious metals, again as shown in *Graph MARKETS-5* of inflation-adjust gold versus the Total Return S&P Index, with reinvested dividends.

Net of annual CPI-U inflation, real yields on the "risk-free" three-month Treasury bill and the five-year and ten 10-year Treasury notes have been negative for the better part of the post-2010, with 10-year just holding in positive real yield territory (see *Graph MARKETS-8*), pushed lower by rising inflation. With Treasury yields forced to artificially-low levels by the Fed's quantitative easing programs, longer-term maturities will crash in price, as yields increasingly move higher, in response to inflation and or to shifting Federal Reserve policies. Despite the recent hike in the federal funds rate and with rising inflation, both the three-month and five-year Treasuries closed out 2017 in minimally positive to negative real yields, with some recent pick-up in the last couple of weeks, not reflected in these graphs

Real home values (S&P Case-Shiller) had gained more than 70% by 2006 (*Graph MARKETS-9*), from 2000, but then crashed back to, but not below, 2000 levels in 2012, and now are up by something about 40% (again, these numbers are net of CPI-U inflation). Real estate is a hard asset and does tend to hold its value against inflation, as a long-term store of wealth. Against the precious metals, however, it generally is not quite as liquid, and certainly is not portable.

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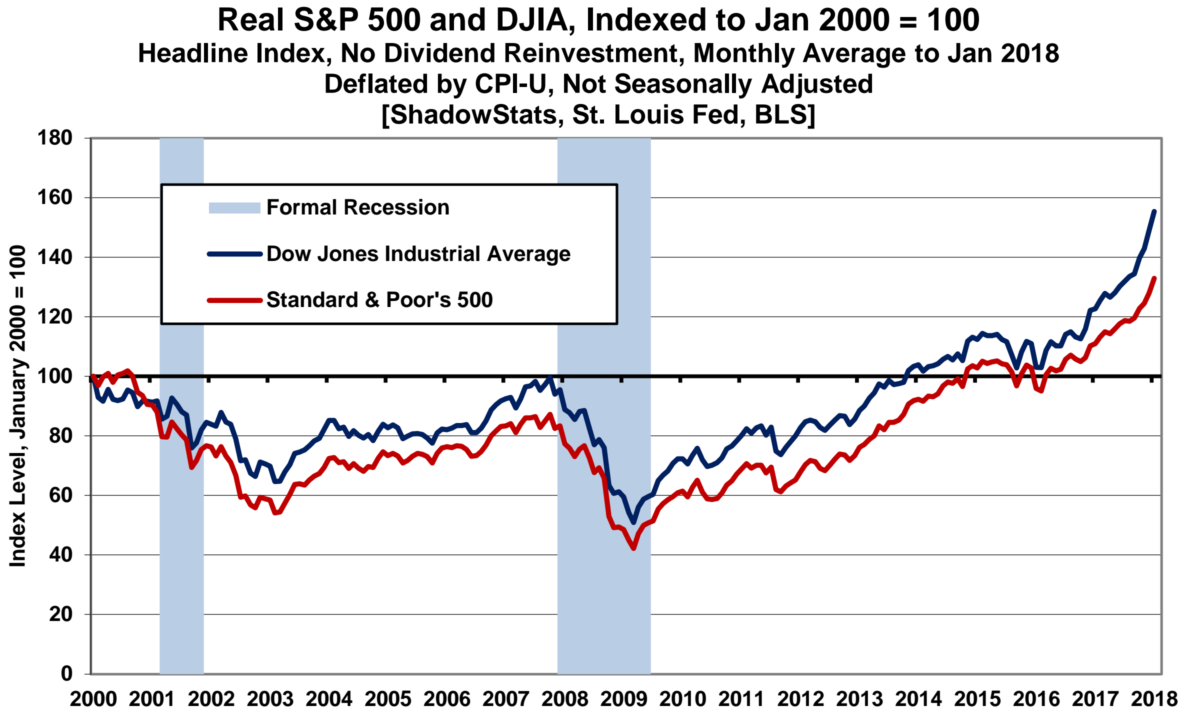
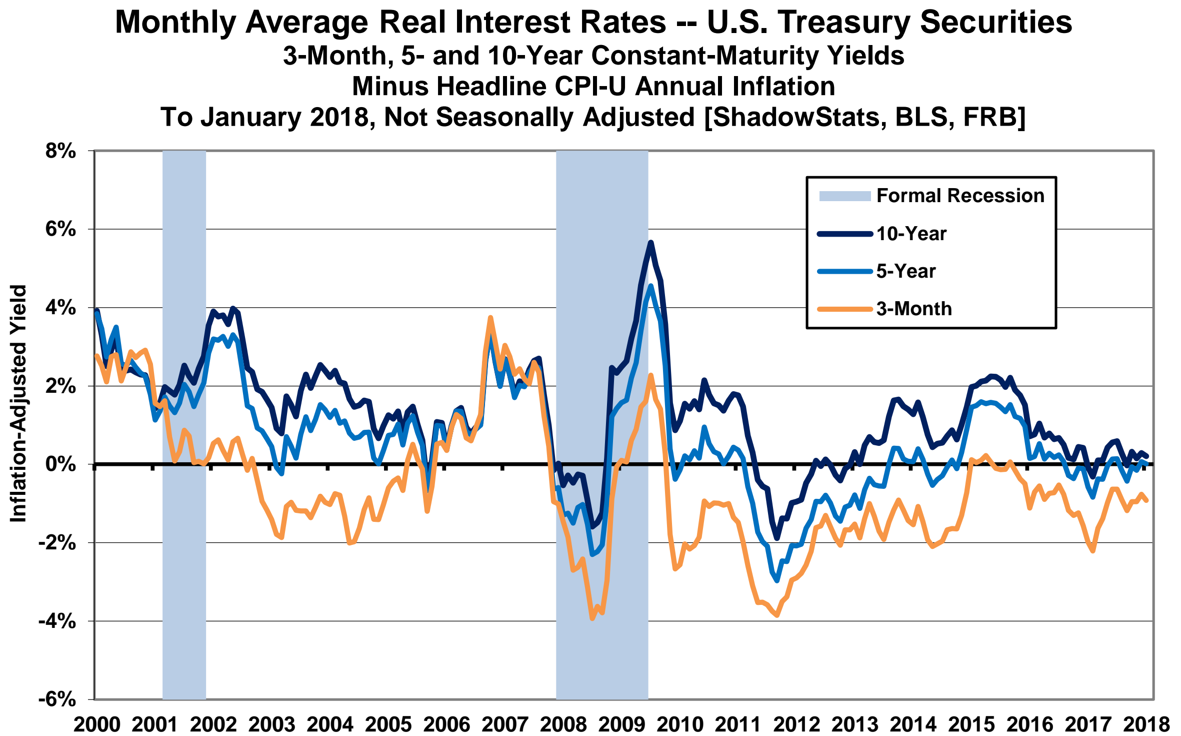
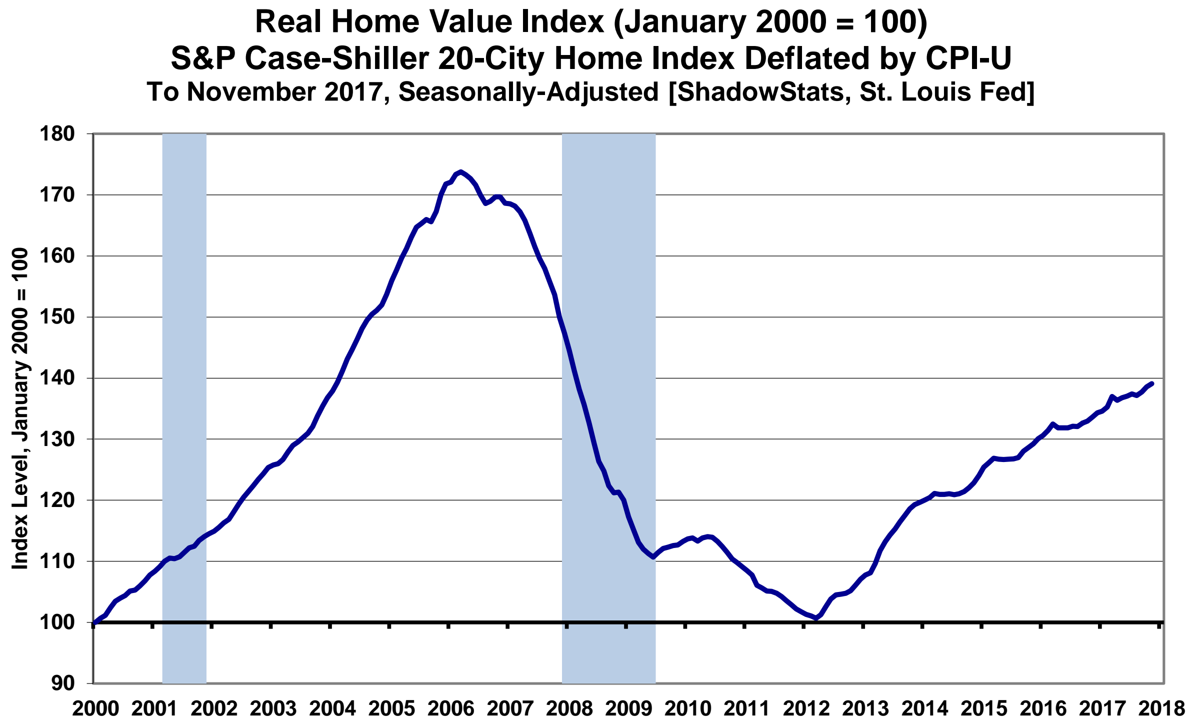
Graph MARKETS-7: Real S&P 500 and Dow Jones Industrial Average Indices (2000 to 2018)



Graph MARKETS-8: Real U.S. Treasury Yields—3-Month, 5- and 10-Year (2000 to 2018)



Graph MARKETS-9: Real Home Value Index (2000 to 2018)



VII. Week, Month and Year Ahead

Instabilities and Turmoil in the U.S. Dollar and Financial-Markets Continue at High Risk, in the Context of a Faltering and Non-Expanding Real-World Broad Economy. Updated outlooks for the U.S. economy, the U.S. dollar, gold, silver and the financial markets are reviewed in today's *Special Commentary* (see the opening *Executive Summary* beginning on page 2, with the *Contents* and links to *Major Sections* and *Graphs* beginning on page 6).

Natural-disaster-impact from late 2017 should continue to unwind in this week's releases of the January 2018 Consumer Price Index (CPI), Producer Price Index (PPI), Retail Sales, Industrial Production and New Residential Construction (Housing Starts). Accordingly, headline economic details are likely to disappoint consensus expectations.

The real-world economy is not recovering or booming as advertised, despite some distortedly-strong, recent economic 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 former Federal Reserve Chair Yellen's recent perceptions of a "highly uncertain" economic outlook.

Reporting in most series should be back to normal (allowing for hurricane disruptions and recovery), 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, recent headline details have contributed to a manic stock market, which looks like it could be starting to unwind.

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 Jerome H. Powell—eventually should face an "unexpected" policy retrenchment, moving back towards quantitative easing.

In these circumstances, the U.S. dollar and financial markets remain at extraordinarily-high risk of intensified panicked declines, likely in the very near term. Holding physical gold and silver remain the ultimate hedges—stores of wealth—for preserving the purchasing power of one's U.S. dollar assets, during times of high inflation and currency debasement, and/or political- and financial-system upheaval, as discussed in the opening *Executive Summary*. Please call (707) 763-5786, if you would like to discuss current circumstances, or otherwise. *Best wishes – John Williams*

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 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 have provided 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: Retail Sales—Nominal and Real (January 2018). The Census Bureau will release its "advance" estimate of January 2018 nominal (not-adjusted-for-inflation) Retail Sales on Wednesday, February 14th. Given the coincident release of the January CPI-U, both nominal and real (adjusted-inflation) Retail Sales will be discussed in *Commentary No. 936* of February 16th. Consensus expectations are for a nominal monthly gain of 0.2% to 0.3%. That is at or below expected CPI-U inflation and implies an expected flat-to-negative real headline monthly change in January sales. Given some continuing pullback from natural-disaster boosts, headline nominal January activity has a good chance of contracting month-to-month, even before inflation consideration.

Beyond lingering distortions from insurance payments and savings liquidation covering hurricane losses, consumer "liquidity" remains impaired. Per the *Consumer Liquidity Watch* section, without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt to make up for an income shortfall, the liquidity-strapped U.S. consumer remains unable to sustain regular, broad growth in economic activity, including retail sales, real or otherwise.

Consumer Price Index—CPI (January 2018). The Bureau of Labor Statistics (BLS) will release its January 2018 CPI on Wednesday, February 14th, which will be covered in *Commentary No. 936* of February 16th. The headline January CPI-U likely will be on the plus side, perhaps up by 0.4% in the

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month, plus-or-minus, in the context of a monthly gain in unadjusted gasoline prices, boosted by positive seasonal adjustments. Unadjusted year-to-year annual inflation for January 2018 should soften to about 2.0%, from the 2.1% level seen in December 2017. Consensus expectations appear to be for a monthly gain of 0.3% to 0.4%.

Positive Monthly Inflation Impact from Rising Gasoline Prices and Positive Seasonal Adjustments. After jumping by a hurricane-induced, unadjusted 10.7% in September 2017, retreating by 5.1% (-5.1%) in October, rebounding by 2.2% in November, dropping by 3.1% (-3.1%) in December 2017 and now rising by 3.0% in January 2018, gasoline prices, boosted by positive seasonal adjustments, should provide a positive contribution to adjusted monthly CPI-U inflation of about 0.19%. Likely boosted further by higher food and "core" (net of food and energy) inflation, the headline monthly CPI-U reading could come in around 0.4% for January 2018.

January is the last of the string months (July to January) with positive seasonal adjustments to monthly gasoline prices, which turn negative for February through June. Given recent, unstable monthly swings in unadjusted gasoline prices, headline seasonally-adjusted monthly CPI changes also have been unstable.

Annual Inflation Rate. Noted in *Commentary No. 931*, year-to-year CPI-U inflation can be estimated for January 2018 reporting, dependent on the seasonally-adjusted month-to-month change, versus the adjusted, headline gain of 0.55% in the January 2017 CPI-U. The adjusted change is used here, since consensus expectations are so expressed. To approximate the annual unadjusted inflation rate for January 2018, the difference in January's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the unadjusted December 2017 annual inflation rate of 2.11%. Given an early guess of a 0.4% seasonally-adjusted monthly gain in January 2018 CPI-U, that would leave the annual CPI-U inflation rate for January 2018 at about 2.0%, plus-or-minus.

Producer Price Index—PPI (January 2018) The Bureau of Labor Statistics (BLS) will release the January 2018 PPI on Thursday, February 15th, with detail covered in *Commentary No. 936* of Friday, February 16th. Odds favor positive wholesale inflation on the goods side of the reporting, reflecting a combination of rising wholesale gasoline and crude oil prices in January, in the context of positive seasonal adjustments in the energy sector.

The dominant services-sector "inflation," however, often provides some counter-move to the hard-inflation estimate on the goods side, where services likely would be a negative contributor in the current circumstance. Such comes particularly from counterintuitive "deflation" or "inflation," reflecting falling or rising "margins," in turn reflecting rising or falling costs. Guesstimation in that services sector remains highly problematic, as discussed in *Inflation that Is More Theoretical than Real World?* in *Commentary No. 931*, where, again, the services component could offset some of the positive pressures in the headline goods inflation. Consensus expectations appear to be for a 0.4% month-to-month gain in the aggregate number, which would be reasonable, without the gimmicked services sector.

Per the Department of Energy (DOE), unadjusted crude oil prices and wholesale gasoline prices rose sharply in January 2018. Based on the two most-widely-followed oil contracts, monthly-average oil prices jumped by 8.4% (Brent) and 10.1% (WTI). That was accompanied by increases in unadjusted, monthly-average wholesale gasoline prices of 8.3% (NY Harbor) and by 9.3% (Gulf Coast). Where PPI seasonal adjustments for energy costs are relatively positive in January, petroleum-related unadjusted

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monthly price changes should have strongly positive impact on the month-to-month adjusted Final Demand Goods component of the PPI.

Industrial Production (January 2018). The Federal Reserve Board will publish its estimate of January 2018 Industrial Production on Thursday, February 15th, with coverage in *Commentary No. 936* of February 16th. Where recent monthly activity was distorted heavily by recovery from hurricane disruptions to petroleum production and by factors such as production of replacement automobiles for storm-destroyed vehicles, those distortions have begun to unwind, in the context of recent, unstable monthly revisions (see *Commentary No. 932*). That process likely accelerated in January 2018.

Despite relatively modest consensus expectations for a monthly gain of 0.2% or 0.3%, production has a good shot of a pullback in January 2018, net of revisions, despite recent oil-production-boosted mining strength, along with continuing non-recovery and non-expansion in the dominant manufacturing sector and continued irregular volatility in winter-related utility consumption.

New Residential Construction—Building Permits and Housing Starts (January 2018). The Census Bureau and the Department of Housing and Urban Development release the January 2018 estimate of New Residential Construction, including Housing Starts and Building Permits on Friday, February 16th, with detail covered in *Commentary No. 936* of that date.

The extreme liquidity bind besetting consumers continues to constrain residential real estate activity, as updated in today's *Consumer Liquidity Watch* section. 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 residential real estate activity and related demand for residential construction. That circumstance—in the last eleven-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity.

In line with common-reporting experience of recent months and years of extreme volatility, including unstable revisions, January's monthly results are likely to be unstable, heavily revised and not statistically meaningful, holding in a general pattern of stagnation. That said, with those frequent extreme monthly gyrations, almost anything is possible in this unstable series in a given month, despite positive consensus expectations for the headline January monthly reporting detail.

Irrespective of the usual lack of significance in the headline detail, the broad pattern of Housing Starts should remain consistent with the low-level, stagnant-to-downtrending activity seen in the last year. Both Housing Starts and Building Permits showed patterns of continuing non-recovery in the context of respective December 2017 activity down by 47.6% (-47.6%) and by 42.5% (-42.5%) from recovering pre-recession highs (see *Commentary No. 932*). Such low-level stagnation is evident particularly with headline detail viewed in the context of a six-month moving average. Again, these series remains subject to regular and extremely large, prior-period revisions.

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VIII. Links to Prior Commentaries and Special Reports

Prior Writings Underlying this *Special Commentary*, and Recent *Commentaries*. Underlying this *Special Commentary No. 935* are *Commentary No. 899* and *General Commentary No. 894*, along with general background from regular *Commentaries* throughout 2017, as detailed in the next section.

This missive also is built upon writings of prior years, including *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). In turn, they updated the long-standing 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).]* These regular weekly *Commentaries* are published at least weekly and update the general outlook, as circumstances develop.

Commentary No. 934-B (February 6, 2018) provided extended coverage on the January 2018 Employment and Unemployment details, the 2017 benchmark revisions to Payroll Employment and the January annual recasting of population, along with coverage of the December 2017 Trade Deficit.

Commentary No. 934-A (February 2, 2018) provided initial detail on the January 2018 Employment and Unemployment details and the 2017 benchmark revisions to Payroll Employment, along with coverage of January Conference Board Help Wanted OnLine® Advertising, January Monetary Conditions and December 2017 Construction Spending.

Commentary No. 933 (January 26, 2018) covered December New Orders for Durable Goods, the Cass Freight Index™ and the first estimate of Fourth-Quarter 2017 GDP.

Commentary No. 932 (January 18, 2018) covered December Industrial Production and New Residential Construction (Housing Starts and Building Permits).

Commentary No. 931 (January 15, 2018) 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 5, 2018) 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 28, 2017) reviewed current economic and market conditions at year-end 2017.

Commentary No. 928 (December 22, 2017) 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 19, 2017) 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 15, 2017) 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 8, 2017) 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 29, 2017) 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 6, 2017) provided more in-depth detail on the October 2017 labor detail.

Commentary No. 919-A (November 3, 2017) 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 30, 2017) 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 26/27, 2017) 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 6, 3017) reviewed the September 2017 Employment and Unemployment details, along with September 2017 monetary conditions.

Commentary No. 913 (September 28, 2017) 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 15, 2017) reviewed the August 2017 releases of Industrial Production and nominal and real Retail Sales.

Commentary No. 909 (September 14, 2017) 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 6, 2017) 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 14, 2017) 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 (see the prior section).

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