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Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 938

Revised Fourth-Quarter 2017 GDP, January 2018 Construction Spending

March 1, 2018

**Headline Fourth-Quarter GDP Revision from 2.6% to 2.5%
Was Just a 0.01% Rounding Difference, from 2.55% to 2.54%**

**Fortuitously, a Sharp Downside Revision to the Goods Sector Was
Just Offset by Revised Gains in the Structures and Nebulous Services Sectors**

First-Quarter 2018 GDP Increasingly Looks Like a Contraction

Better-Quality Economic Measures Still Show No Economic Expansion

**Boosted by Public Spending, January Real Construction Spending Still
Dropped 0.2% (-0.2%) Month-to-Month, 0.2% (-0.2%) Year-to-Year,
Holding Shy of Recovering Its Pre-Recession Peak by 21.0% (-21.0%)**

**Faltering Annual Real Growth in Construction Spending
Continued in a Pattern Last Seen Leading into the 2007 Recession**

PLEASE NOTE: The next regular Commentary on Friday, March 9th, will cover February Employment and Unemployment, the January Trade Deficit and February M3 and related monetary conditions.

Best wishes — John Williams (707) 763-5786

Today's (March 1st) ***Opening Comments and Executive Summary*** continues a review of rapidly weakening, broad economic activity, with the ***Executive Summary*** providing an overview of the second-estimate of Fourth-Quarter 2017 GDP and January 2018 Construction Spending.

The ***Reporting Detail*** (page 17) reviews in greater depth the latest GDP and Construction Spending details.

The ***Consumer Liquidity Watch*** (page 35) has not been updated from its prior version.

The ***Week, Month and Year Ahead*** (page 49) provides background on recent *Commentaries* and prospects for next week's February Employment and Unemployment detail, and full reporting of the January 2018 Trade Deficit.

OPENING COMMENTS AND EXECUTIVE SUMMARY

First-Quarter 2018 Gross Domestic Product Increasingly Looks Like a Contraction. Internal shifts in underlying detail reflected some downside revisions to fourth-quarter activity suggested by recent reporting of retail sales and industrial production, despite the negligible headline revision to real fourth-quarter GDP. Happily, for those pronouncing an ongoing economic boom, the sharp downside revision in terms of fourth-quarter GDP goods consumption effectively was offset perfectly (hmmm) by upside revisions to the services sector (stockbrokers and hospitals, etc.) and to the structures sector? So, the markets did not have to deal with a weaker-than-expected GDP, yet. Nonetheless, quarterly consumption and construction activity details remained exaggerated on the upside by disaster-recovery activity, despite the largely unrevised big hits to the GDP from a soaring trade deficit and inventory liquidation, and a large boost from a jump in government spending (see *Table 1* in the *Executive Summary*).

An intensifying pullback from the disaster distortions in fourth-quarter 2017, combined with a trade deficit indicated to be deteriorating sharply in first-quarter 2018, suggests an increasingly likely quarterly contraction for the First-Quarter 2018 GDP. Indications of that quarterly slowdown/downturn already have surfaced in January 2018 data (see *Commentary No. 936* and *Commentary No. 937*). Those numbers also suggested that the disaster-recovery economic boosts likely peaked in November 2017. Before disruptions from the hurricanes and wildfires, the general economy appeared to be stagnating or turning down anew. That pattern now should resume.

Indications for an unfolding first-quarter downturn should intensify sharply in the weeks ahead, as new headline reporting begins to flow for the underlying monthly economic series of February and March 2018. By late-February or early-March, consensus expectations should have moved sharply towards a first-quarter GDP decline. Weakening headline data not only should rattle economic assumptions, but also conventional wisdom as to the Fed's Federal Open Market Committee (FOMC) policies. Where expectations should dampen for a rate hike on March 21st, watch for mounting selling pressure against the U.S. dollar.

EXECUTIVE SUMMARY: Gross Domestic Product (GDP)—Fourth-Quarter 2017 GDP Revision from 2.6% to 2.5% Was Just a 0.01% Rounding Difference, from 2.55% to 2.54%. The second estimate of Fourth-Quarter 2017 GDP revised the real (inflation-adjusted) annualized quarterly growth rate to 2.54% from 2.55%, against an unrevised 3.16% in third-quarter 2017. A simple bit of rounding tied to the net-growth downside revision of 0.01% (-0.01%) gave the markets their consensus, headline revision from 2.6% to 2.5%, at the first decimal point. Real annual growth slowed to 2.49% in revision from an initial 2.50% estimate (unchanged at 2.5%), versus 2.30% in third-quarter 2017.

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

Annualized Quarterly Real Growth in Headline Gross Domestic Product Growth Contribution by Consumption and Product Sector							
	4th-Q 2017 Second Estimate	4th-Q 2017 First Estimate	3rd-Q 2017	2nd-Q 2017	1st-Q 2017	4th-Q 2016	3rd-Q 2016
CONTRIBUTING ECONOMIC SECTOR							
Personal Consumption Expenditures							
- Goods	1.61%	1.76%	0.97%	1.16%	0.15%	1.03%	0.69%
- Services	0.97%	0.82%	0.52%	1.08%	1.17%	0.97%	1.23%
Gross Private Domestic Investment							
- Fixed Investment	1.29%	1.27%	0.40%	0.53%	1.27%	0.28%	0.23%
- Change in Private Inventories	-0.70%	-0.67%	0.79%	0.12%	-1.46%	1.06%	0.16%
Net Exports of Goods and Services	-1.13%	-1.13%	0.36%	0.21%	0.22%	-1.61%	0.36%
Government Consumption/Investment	0.49%	0.50%	0.12%	-0.03%	-0.11%	0.03%	0.09%
GDP Annualized Real Growth	2.54%	2.55%	3.16%	3.06%	1.24%	1.76%	2.78%
Final Sales, GDP Less Inventories	3.24%	3.22%	2.37%	2.94%	2.70%	0.70%	2.62%
CONTRIBUTING PRODUCT SECTOR							
Goods	0.71%	1.00%	2.74%	2.10%	-0.47%	0.88%	1.39%
Services	1.02%	0.86%	0.93%	1.32%	0.91%	0.61%	1.39%
Structures	0.81%	0.69%	-0.51%	-0.36%	0.80%	0.27%	0.01%
GDP Annualized Real Growth	2.54%	2.55%	3.16%	3.06%	1.24%	1.76%	2.78%
Sources: Bureau of Economic Analysis (BEA), ShadowStats.							

While the aggregate headline revision effectively was nil, shifting growth distribution between major GDP categories was of some substance, as shown in *Table 1*. Despite the internal revisions by category, surging growth tied to goods consumption and real estate still was boosted heavily by replacement, restoration and recovery activities from the hurricane and wildfire destruction in third- and fourth-quarter

2017. Net of the inventory drawdown and trade deterioration, real quarterly growth still would have surged by 4.37%.

Fourth-Quarter 2017 GDP, Second Estimate – Growth Distribution. The second estimate of fourth-quarter 2017 annualized real GDP growth came in at 2.54% [previously 2.55%], versus 3.16% in third-quarter 2017. The annualized growth contribution from each sub-category of consumer spending, business/residential investment, trade deficit (net exports) and government spending is additive, summing in combination to the total headline change in GDP, where 2.58% + 0.59% -1.13% + 0.49% = 2.55% (a rounding differential). While the 2.58% growth contribution from consumer spending was unrevised, note in *Table 1* the relative shift from goods to services in that broad category. In general, still on the plus-side for the quarter were consumption of goods, real-estate investment and government spending. On the downside for the quarter (not the revision) the trade-balance (net exports) deficit deepened, along with a sharp decline in inventories.

Regrouped by the general nature of product-sector activity, the headline fourth-quarter 2017 GDP gain of 2.54% [previously 2.55%] encompassed positive growth-rate contributions of 1.02% [previously 0.86%] from the services sector, a diminished 0.71% [previously 1.00%] from the goods sector and 0.81% [previously 0.69%] from the structures sector (again, see *Table 1* for recent historical comparisons). The gains in goods and structures still were boosted heavily by hurricane destruction, disruption and recovery.

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

Underlying Economic Reality. *[Note: With natural-disaster-related disruptions playing out and beginning to wind down, and with revised headline GDP growth different by only 0.01% from its prior reporting, this text is repeated from Commentary No. 933, which covered the "advance" estimate of fourth-quarter 2017. All details and graphs have been updated to reflect the latest developments and numbers (also, for background, see the* Economy *section of* Special Commentary No. 935, No. 859 Special Commentary*, and related headline issues raised in* Special Commentary No. 888, Commentary No. 887*,* Special Commentary No. 885*,* Commentary No. 877, Commentary No. 876 *and* Commentary No. 900*, all incorporated here by reference).*

The consumer-base of the U.S. economy remains troubled, with faltering confidence and mounting liquidity issues as discussed in the *Consumer Liquidity Watch* on page 35.

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

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

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

The continuing, nonsensical, headline economic boom stories in the popular press largely have been generated as a result of hurricane distortions boosting recovery-related consumption and production, seen in the headline fourth-quarter GDP. Beyond the one-shot, current hurricane-related boosts straddling third- and fourth-quarter 2017 GDP, underlying headline economic reporting and even headline GDP growth should turn lower/negative in the next several quarters, beginning with first-quarter 2018. Such had been signaled by a number of pre-hurricane indicators (see *Commentary No. 903*, *Commentary No. 936* and *Commentary No. 937*, and as discussed in today's *Opening Comments*).

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

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

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

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

That circumstance should encompass the evolving, current downturn in broad, domestic economic activity, discussed in *Special Commentary No. 935*. Again, the present, unofficial "new" recession or

multiple-dip downturn remains likely to be timed from December 2014, even without headline back-to-back contractions of quarterly GDP currently in place. Formal recognition of same remains pending, albeit not imminent, where consecutive quarterly GDP contractions no longer are necessary for formal recession recognition (see the opening paragraphs of *Commentary No. 823*).

Headline Aggregate GDP Remains Heavily Overstated versus Underlying Reality. Formal headline GDP activity continues to run well above economic reality as signaled by a number of better-quality business indicators, as reviewed here and in *Special Commentary No. 935*. A sampling of those indicators—plotted in this section—includes such varied series as domestic freight activity (*Graph 5*), industrial production capacity utilization (*Graph 6*), U.S. petroleum consumption (*Graph 7*), total real U.S. construction spending (*Graph 8*) and the employment-population ratio (*Graph 9*). Either the GDP reporting is wrong, or most other major economic series are wrong (see *Commentary No. 876* and *Commentary No. 877*).

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

Accordingly, the broad ShadowStats economic outlook has not changed a bit, fundamentally, and, again, the gist of most of following text remains along the lines as expounded upon in *Special Commentary No. 935*. The details and numbers here, again, are updated for the latest headline information. In combination, these various collapsing, non-recovering and non-expanding economic indicators eventually should engender a formal recession call, irrespective of the timing of actual, if any, headline quarterly contractions in real GDP, or what may be political/financial-market gaming of the GDP data and other headline numbers, such as the unemployment rate.

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

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

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

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

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

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

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

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

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

Headline GDP Reporting. The Bureau of Economic Analysis (BEA) reported February 28th 26th, that the first revision to or second estimate of fourth-quarter 2017 GDP showed an annualized quarterly gain of 2.54% [previously 2.55%], versus 3.16% in third-quarter 2017, 3.06% in second-quarter 2017 and 1.24% in first-quarter 2017. Year-to-year growth was 2.49% [previously 2.50%] in fourth-quarter 2017, versus 2.30% in third-quarter 2017, versus 2.21% in second-quarter 2017 and 2.00% in first-quarter 2017. For the full-year, annual GDP growth was 2.25%, versus 1.49% in 2015 and 2.86% in 2015.

Those details are reflected in *Graphs 1* and *3*, and in *Graphs 15* to *20* in the *Reporting Detail.* With the minimally-revised new detail fourth-quarter 2017 GDP still stood at 15.2% above the pre-2007-recession

peak of the series, an incredible (as in not believable) pace of economic expansion, again, not seen otherwise in other major economic reporting, as regularly discussed here.

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

[Graphs 1 to 9 begin on the next page.]

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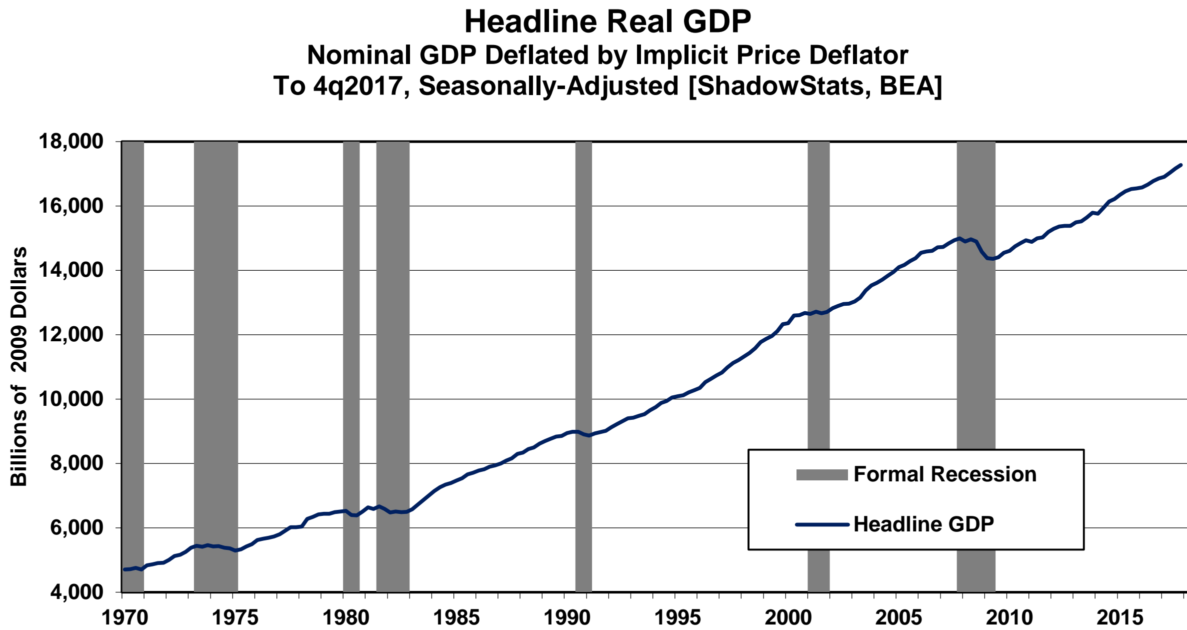
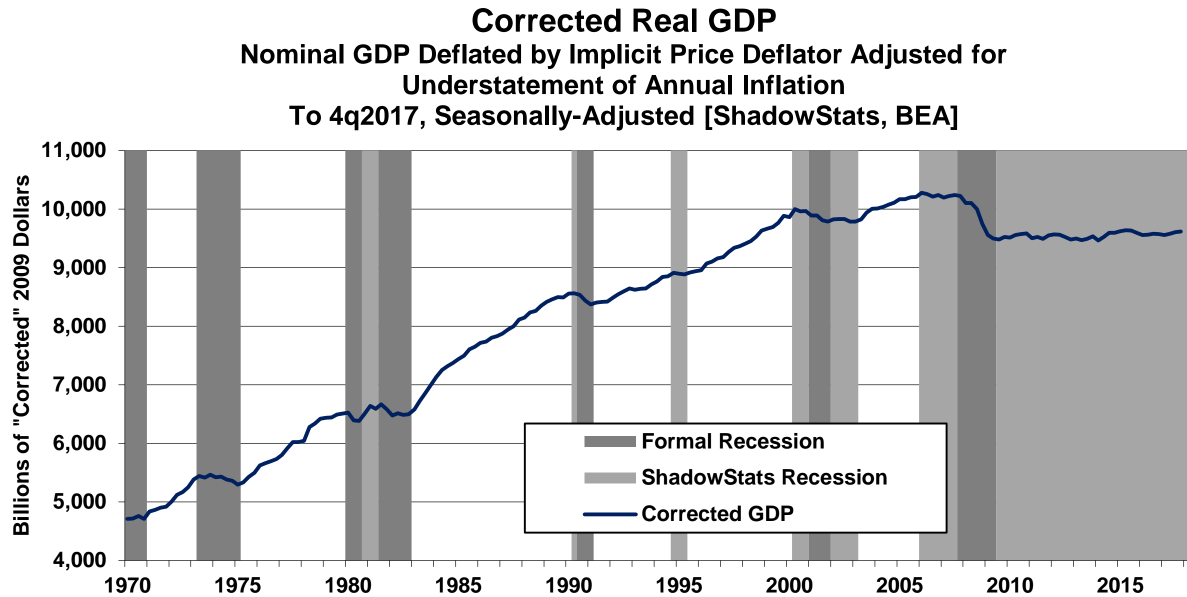
Graph 1: Real GDP (1970 -2017), Second-Estimate of Fourth-Quarter 2017



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



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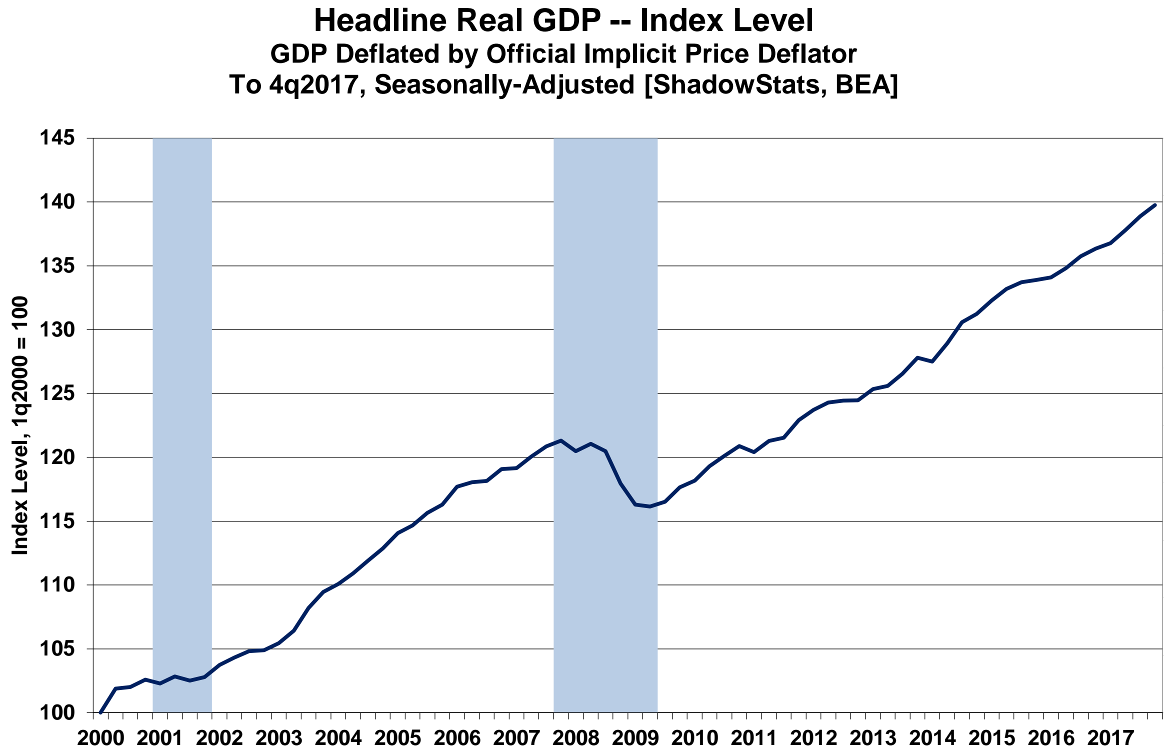
Graph 3: Real GDP Index – Headline Real GDP through Second-Estimate of Fourth-Quarter 2017



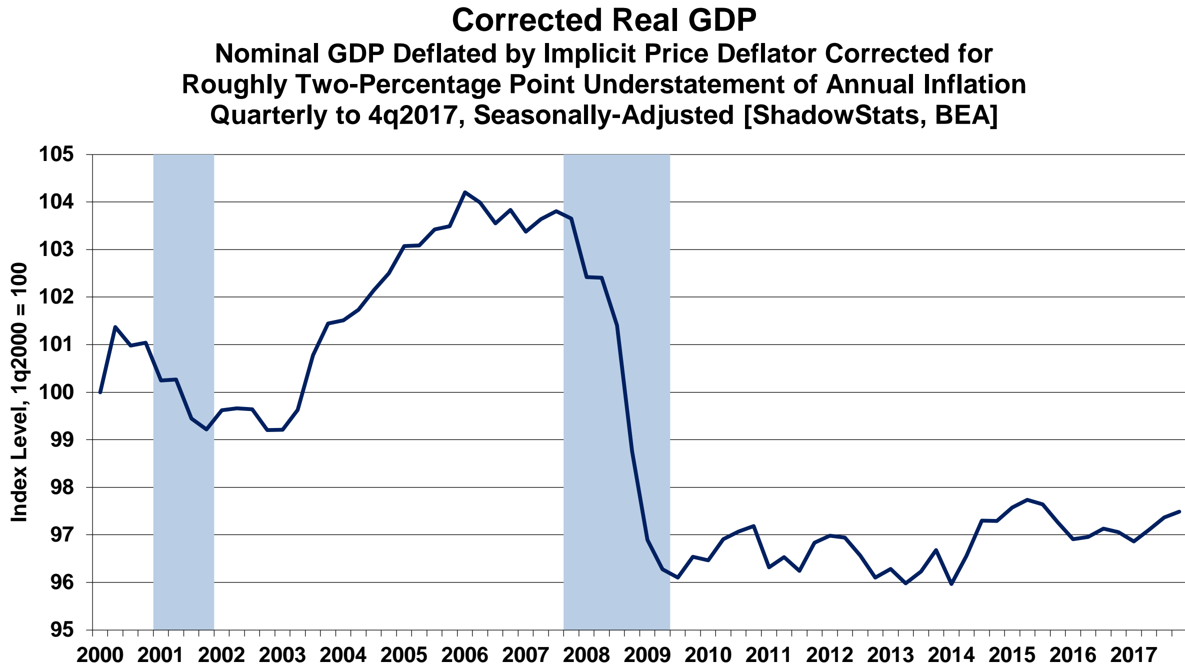
Comparative Indicators. The following *Graph 4* of the "corrected" GDP series is shown along with an example of the regular, comparative economic indicators (see the expanded coverage in *Special Commentary No. 935*), which generally confirm the broad story from the "corrected" GDP graph that the economy never recovered from its collapse into 2009 and is either in renewed downturn or in continuing low-level stagnation, albeit some of the latter may be slightly up-trending.

The comparative *Graph 4* shows the Cass Freight Index™ measure of North American freight volume through January 2016, used with the permission of Cass Information Systems, Inc. Few measures better reflect the actual flow of goods in commerce than freight activity (see *Commentary No. 937 Opening Comments*). As a broad measure of basic domestic economic activity, the index has much more in common with the "corrected" GDP in *Graph 4*, than with the headline GDP of *Graph 3*.

Graph 6 plots January 2018 Industrial Capacity Utilization, from *Commentary No. 936*. The latest headline level of activity for industrial production of Consumer Goods, which sometime holds this graph's position is found in 936, *Graph 18*, page 21. *Graph 7* of U.S. Petroleum Consumption, and *Graph 8* of inflation-adjusted total U.S. Construction Spending, which includes everything from roads and office buildings to residential construction, are among the variety of indicators that show patterns of economic collapse into 2009/2011, followed by some minimal (not full) recovery and ongoing stagnation/downturn.

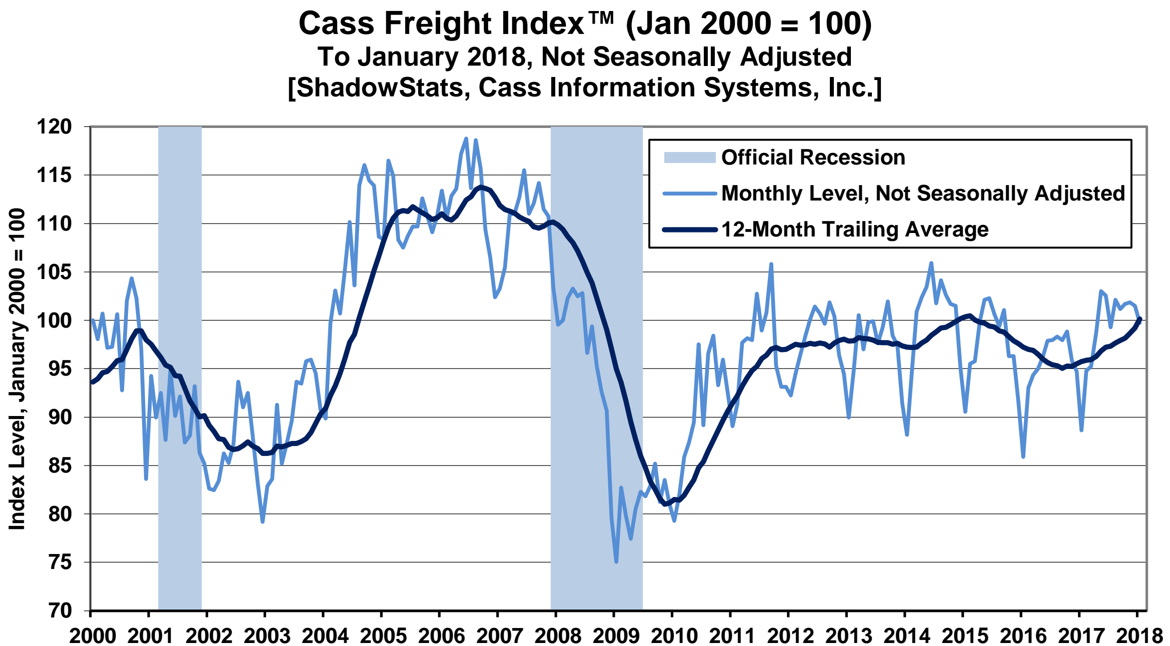
Graph 9 of the employment-to-population ratio also remains a solid indicator of underlying labor conditions in the context of the broad population and long-term discouraged and displaced workers, reflected there through January 2018.

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

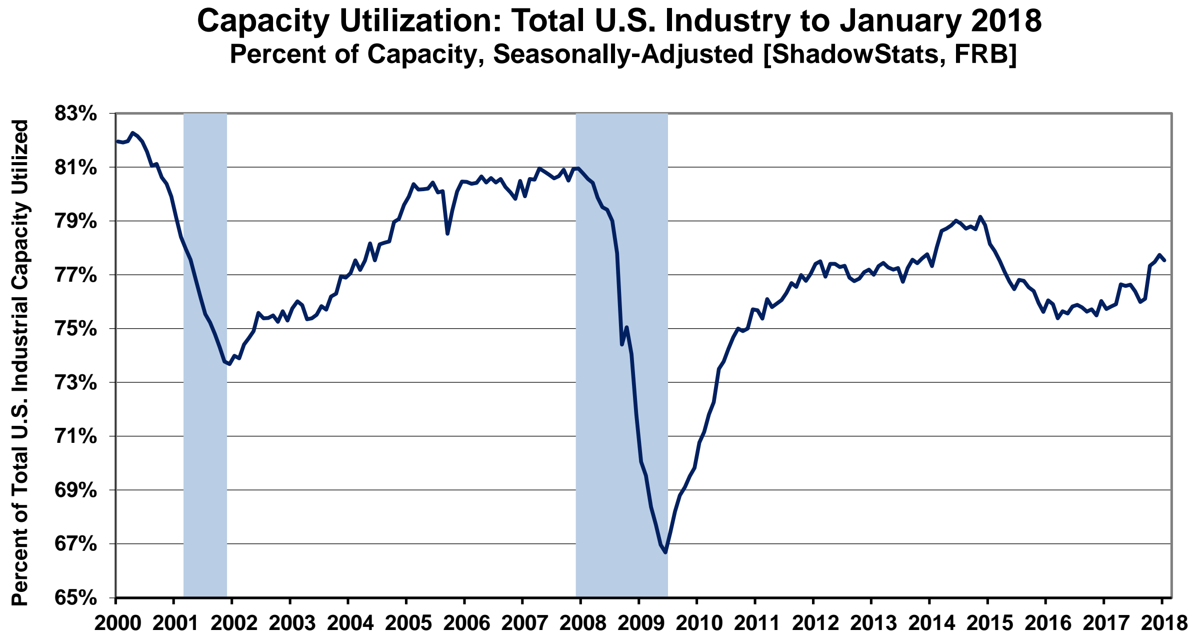


Graph 5: Cass Freight Index ™ (2000 - January 2018)

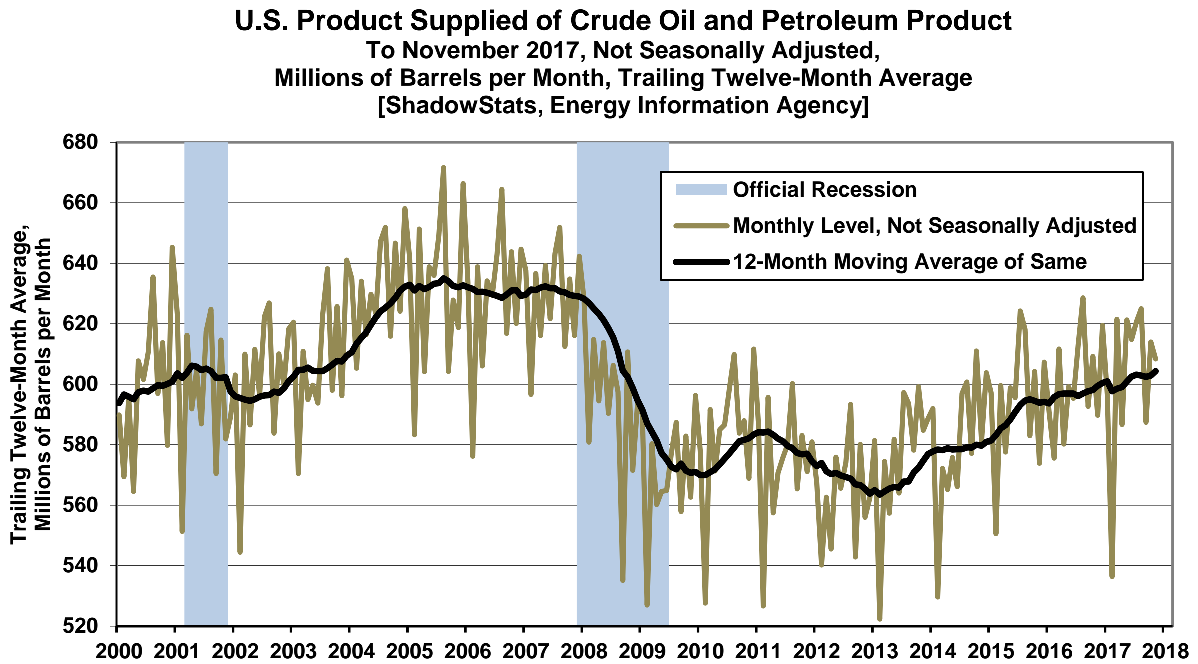
(Same as Graph OC-2 in Commentary No. 937)



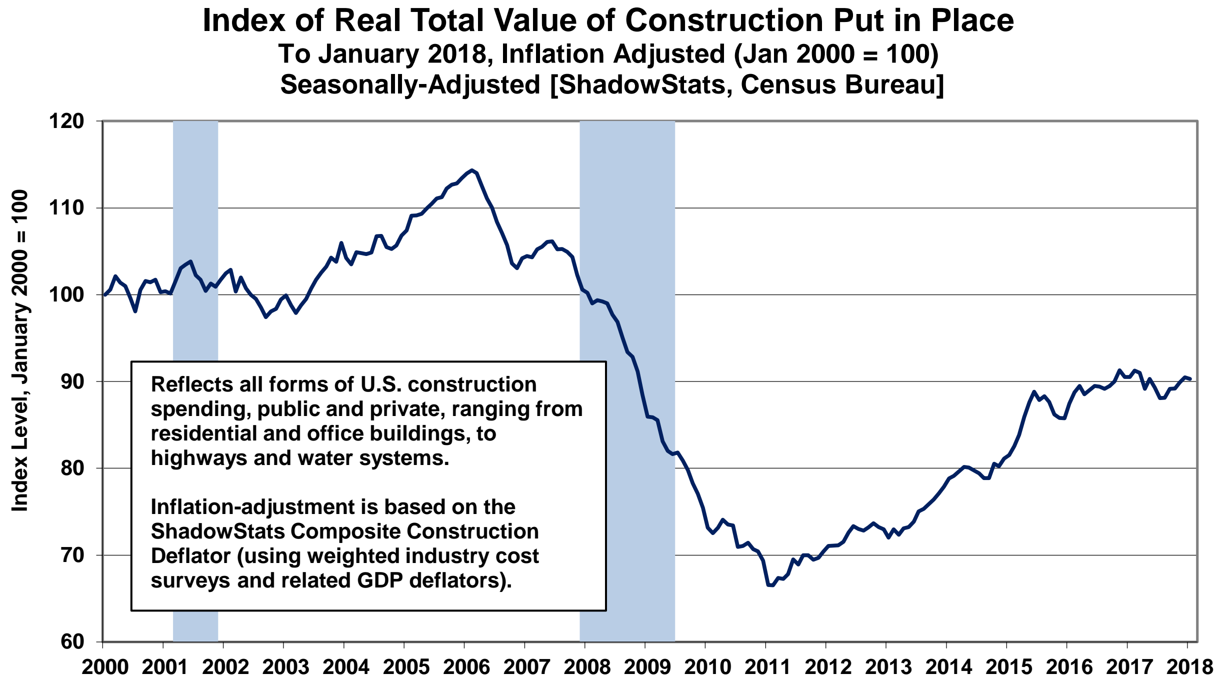
Graph 6: Utilization of Total U.S. Industrial Production Capacity (2000 to January 2018)
(Graph 18, as discussed in Commentary No. 936)



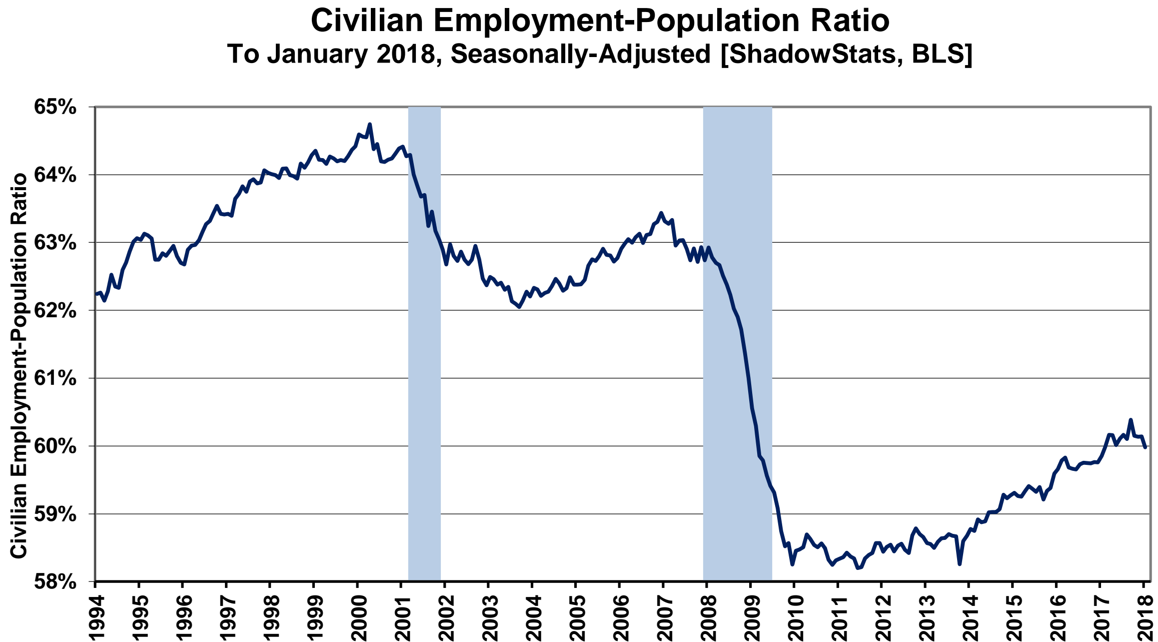
Graph 7: U.S. Petroleum Consumption (2000 – November 2017)



Graph 8: Real Total U.S. Construction Spending (2000 – January 2018)
(See Graph 24 in the Reporting Detail)



Graph 9: Civilian Employment-Population Ratio (2000-January 2018)
(Graph 7, [Commentary No. 934-B](#))



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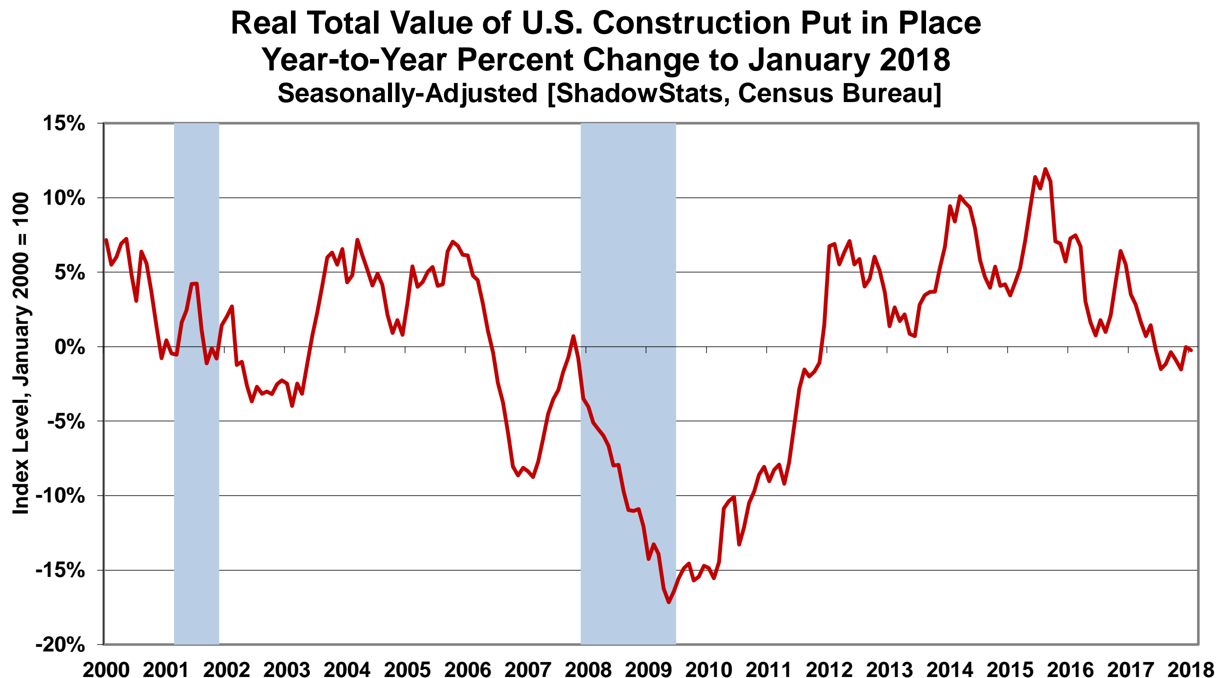
Construction Spending—January 2018—On Top of Upside Revisions, Nominal January Spending Was Flat, Real Spending Declined by 0.2% (-0.2%) Both Month-to-Month and Year-to-Year. In the context of regular, unstable month-to-month reporting and upside revisions to November and December 2017, the January 2018 construction spending series likely saw some mixed, but continued unwinding of recent natural-disaster bloating, with downside revisions to recent residential activity, but with upside revisions to nonresidential and public sector activity.

In the context of aggregate upside revisions to activity in December 2017, real year-to-year change revised close to zero, still down 0.03% (-0.03%) net of inflation. With real annual growth down by 0.24% (-0.24%) in January 2018, such was the eighth straight month of year-to-year contractions, with annual contractions in real construction spending in place for third- and fourth-quarter 2017 and now also on early track for first-quarter 2018. The signals here remain for an intensifying downturn, as last seen in the housing collapse leading into the formal 2007 recession (see *Graph 10*).

The headline real January 2018 monthly reading stood at 21.0% (-21.0%) shy of recovering its pre-recession peak, in contrast to January 2018 Construction Employment, which was down by 8.1% (-8.1%) from recovering its pre-recession high.

January 2018 Construction Spending. In the context of the upside revisions to November and December activity, nominal construction spending in January 2018 was “unchanged” at a statistically-insignificant 0.0%, versus upwardly-revised gains of 0.8% in December and 1.2% in November. Those were an inflation-adjusted 0.2% (-0.2%) decline in January 2018, a 0.7% gain in December 2017, a 0.8% gain in November 2017.

Graph 10: Total Real Construction Spending, Year-to-Year Percent Change
(Same as Graph 22 in the Reporting Detail section)



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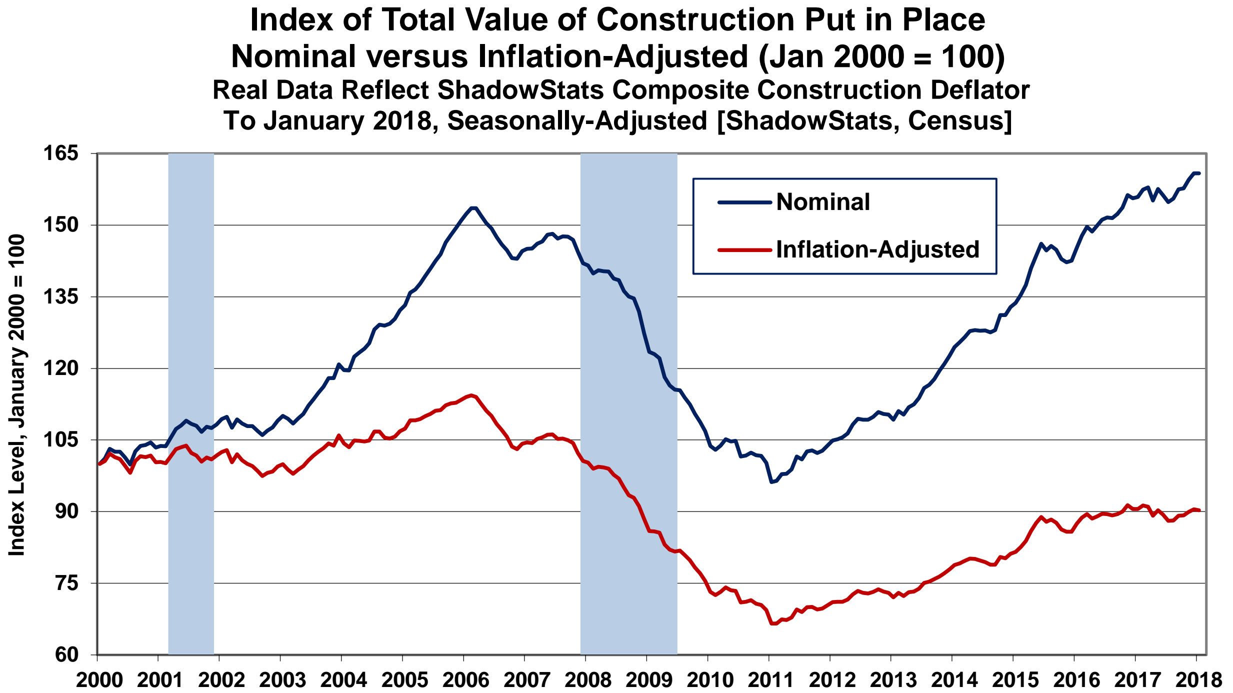
Headline annual nominal growth rose by a statistically-significant 3.2% in January 2018, versus revised annual gains of 3.4% in December 2017 and 2.0% in November 2017. Net of inflation, January 2018 was down year-to-year by 0.2% (-0.2%). An upside monthly revision took December 2017 to "unchanged" at 0.0% year-to-year [down 0.03% (-0.03%) at the second decimal point, previously down by 0.7% (-0.7%)], versus a revised annual contraction of 1.5% (-1.5%) in November 2017 (see *Graph 10*).

The statistically-insignificant, nominal 0.0% "unchanged" aggregate monthly January 2018 spending, versus the revised 0.08% gain in aggregate December 2017 spending, included a headline monthly gain of 1.8% in January Public Construction Spending, which followed an upwardly-revised monthly gain of 1.8% in December. Private Construction Spending fell by 0.5% (-0.5%) in January, having gained a downwardly-revised 0.6% in December. Within total Private Construction Spending, Residential Construction activity rose by 0.3% in January having declined by 0.5% (-0.5%) [previously a gain of 0.5%] in December, while the Nonresidential Construction sector fell by 1.5% (-1.5%) in January, having gained an upwardly-revised 1.8% in December.

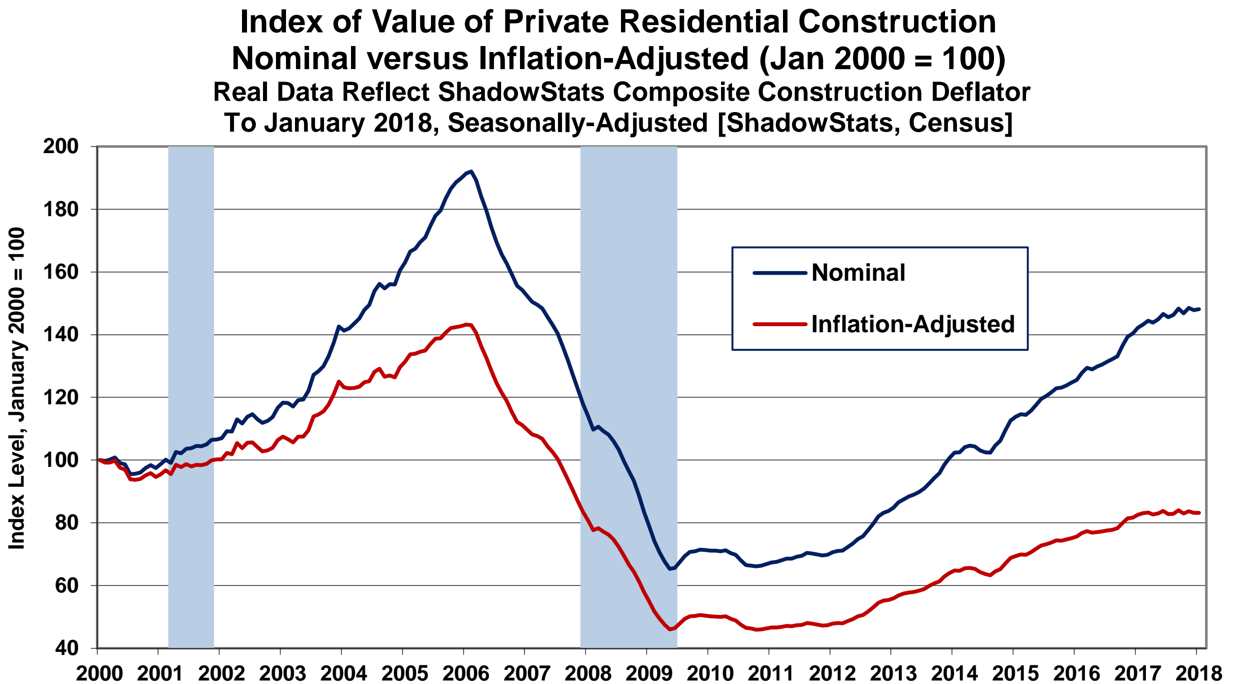
Reflected in accompanying *Graphs 11* to *14*, neither the aggregate inflation-adjusted real series (the red line in each graph), nor any of its major-subsidiary components, has recovered levels of pre-recession peak activity, with each element currently trending flat-to-lower, consistent with an unfolding new recession or re-intensifying downturn. This pattern is an element common to nearly all home-sales and housing-construction series (see *Commentary No. 936* and *Commentary No. 937*).

[Graphs 11 to 14 begin on the next page.]

Graph 11: Index, Nominal versus Real Value of Total Construction



Graph 12: Index, Nominal versus Real Value of Private Residential Construction



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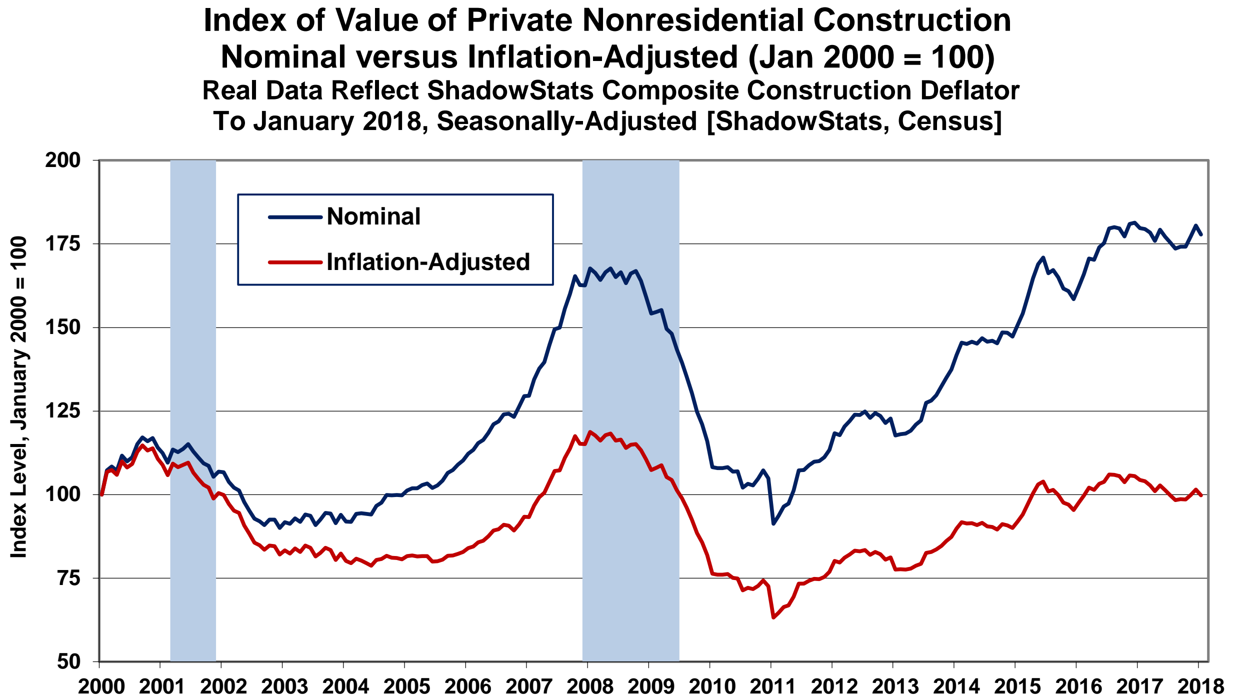
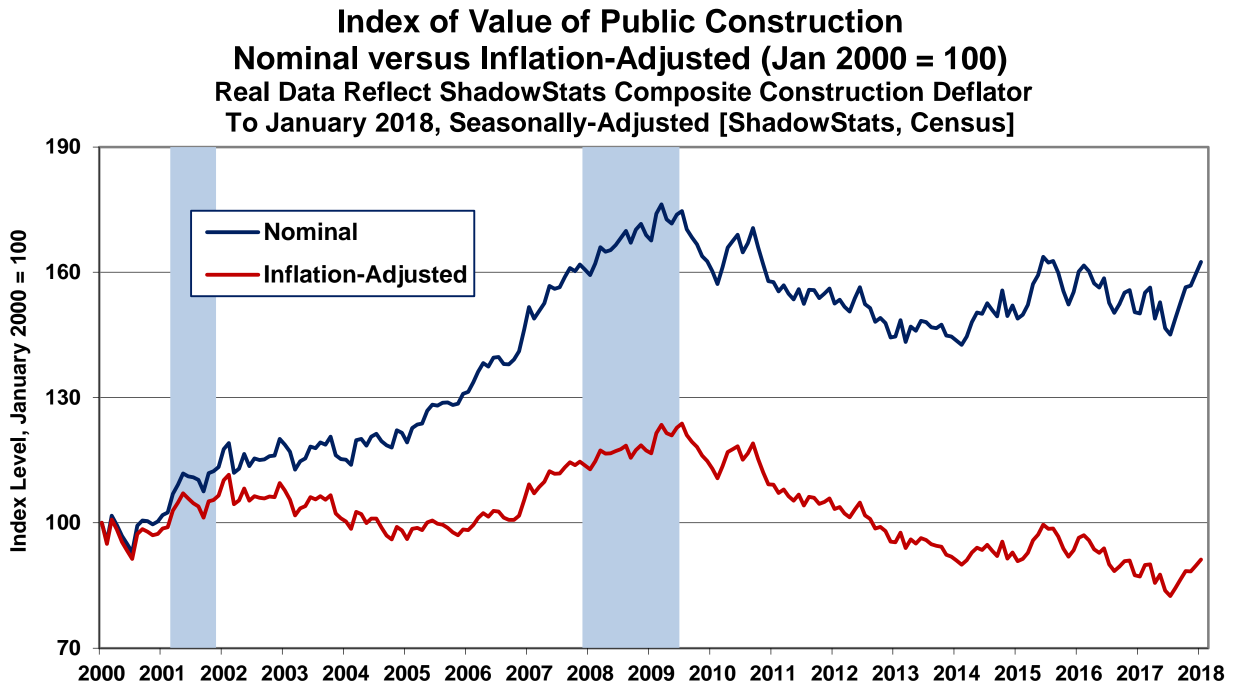
Graph 13: Index, Nominal versus Real Value of Private Nonresidential Construction



Graph 14: Index, Nominal versus Real Value of Public Construction



[Extended graphs and analysis of the GDP and Construction Spending follow in the **Reporting Detail.***]*

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REPORTING DETAIL

GROSS DOMESTIC PRODUCT—GDP (Fourth-Quarter 2017, First Revision, Second Estimate)

Second Estimate of Fourth-Quarter GDP Revised Negligibly to 2.54%, Down from 3.16% in the Third-Quarter. Fourth-Quarter 2017 GDP activity slowed to a revised 2.54% [previously 2.55%] from 3.16% in third-quarter 2017, in line with consensus expectations for 2.5% growth. As usual, these numbers were without much significance or real-word meaning. Headline details in fourth-quarter GDP remained bloated from disaster recovery, and the First-Quarter 2018 GDP (advance estimate on April 27th) remains a prime candidate for an inflation-adjusted, real quarter-to-quarter contraction, as discussed in the *Opening Comments.* Indications of that looming quarterly slowdown/downturn already have started to surface in January 2018 headline data (see *Commentary No. 936* and *Commentary No. 937*), and those indications should intensify sharply in the underlying monthly series details still to come in February and March 2018 reporting.

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

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

Notes on GDP-Related Nomenclature and Definitions

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

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

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

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

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

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

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

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

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

Gross Domestic Product (GDP). Published Wednesday, February 28th, by the Bureau of Economic Analysis (BEA), the first revision to, second estimate of fourth-quarter 2017 GDP was minimal in the aggregate revision, although the distribution of growth shifted heavily from goods to services, as detailed in *Table 1* in the *Executive Summary*. The revised, statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 2.54% [previously 2.55%] +/- 3.5% (95% confidence interval), matched market expectations of headline growth dropping from 2.6% to 2.5%. Yet, where the initial growth estimate simply had rounded up to 2.6% from 2.55% at the second decimal point, the net

downside revision to the annualized growth rate of 0.01% (-0.01%) was enough to generate the rounded 0.1% (-0.1%) drop in headline growth.

The new 2.54% annualized real fourth-quarter growth rate was against an unrevised 3.16% in third-quarter 2017, 3.06% in second-quarter 2017 and 1.24% in first-quarter 2017.

Discussed later, although the BEA will not release its initial and only estimates of fourth-quarter 2017 Gross Domestic Income (GDI) and Gross National Product (GNP), due to lack of data significance (a continuing problem for much of the National Income Accounts), it did revise annualized real third-quarter GDI growth higher by 0.4% to 2.4%, from 2.0%.

The second estimate of fourth-quarter 2017 year-to-year real growth revised to 2.49% [previously 2.50%], versus 2.30% in third-quarter 2017, 2.21% in second-quarter 2017 and 2.00% in first-quarter 2017.

Graphs 15 and *17* plot headline levels of real quarterly GDP activity, respectively showing short-term (since 2000) and long-term (since the historical onset of the quarterly GDP series in 1947) perspectives. Shown in *Graphs 16* and *18*, headline year-to-year real GDP growth in the second estimate of fourth-quarter GDP, again was 2.49% versus 2.30% in third-quarter 2017, 2.21% in second-quarter 2017, 2.00% in first-quarter-2017, 1.84% in fourth-quarter 2016, 1.52% in third-quarter 2016, 1.23% in second-quarter 2016, 1.36% in first-quarter 2016, 2.02% in fourth-quarter 2015 and 2.40% in third-quarter 2015.

Graphs 19 and *20* respectively show the levels of annual real GDP activity, as well as annual percent change, as estimated beginning in 1929.

Reflected in *Graph 20*, the unrevised second estimate of annual-average real GDP growth in 2017 rebounded some to 2.25%, versus 1.49% in 2016, 2.86% in 2015 and 2.57% in 2014. The annual growth rate of 1.49% in 2016 was the slowest pace of annual growth in the post-2009 "recovery."

The current-cycle trough in quarterly annual change was in second-quarter 2009 (see *Graphs 16* and *18*), reflecting a year-to-year decline of 4.09% (-4.09%). That was the deepest year-to-year contraction for any quarterly GDP in the history of the series, which began with first-quarter 1947 (1948 in terms of available year-to-year detail). *Graph 16* shows the revised current year-to-year quarterly detail, from 2000-to-date, where *Graph 18* shows the same series in terms of its full quarterly, year-to-year history back to 1948. Shown in *Graph 20*, the annual decline of 2.78% (-2.78%) in 2009 was the steepest regular annual drop in economic activity since the Great Depression. The 1946 production shutdown and economic reorganization following World War II, however, resulted in an annual GDP decline of 11.58% (-11.58%), minimally narrower than the 1932 annual economic crash of 12.89% (-12.89%).

[Graphs 15 to 21 begin on the following page.]

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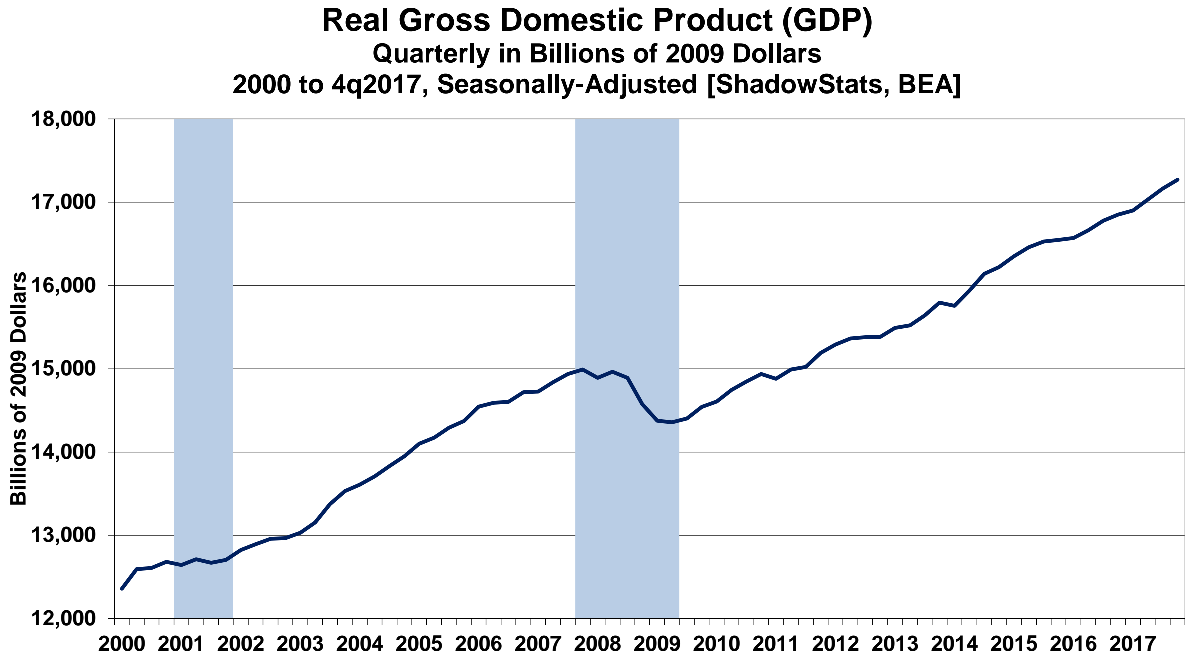
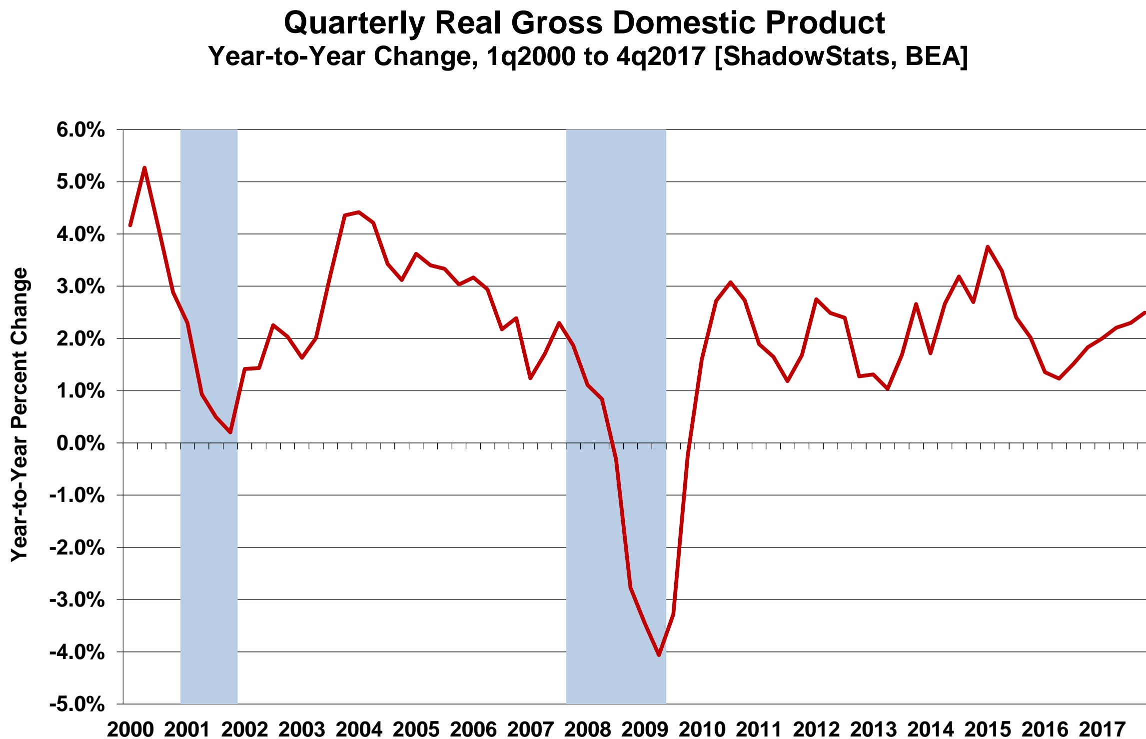
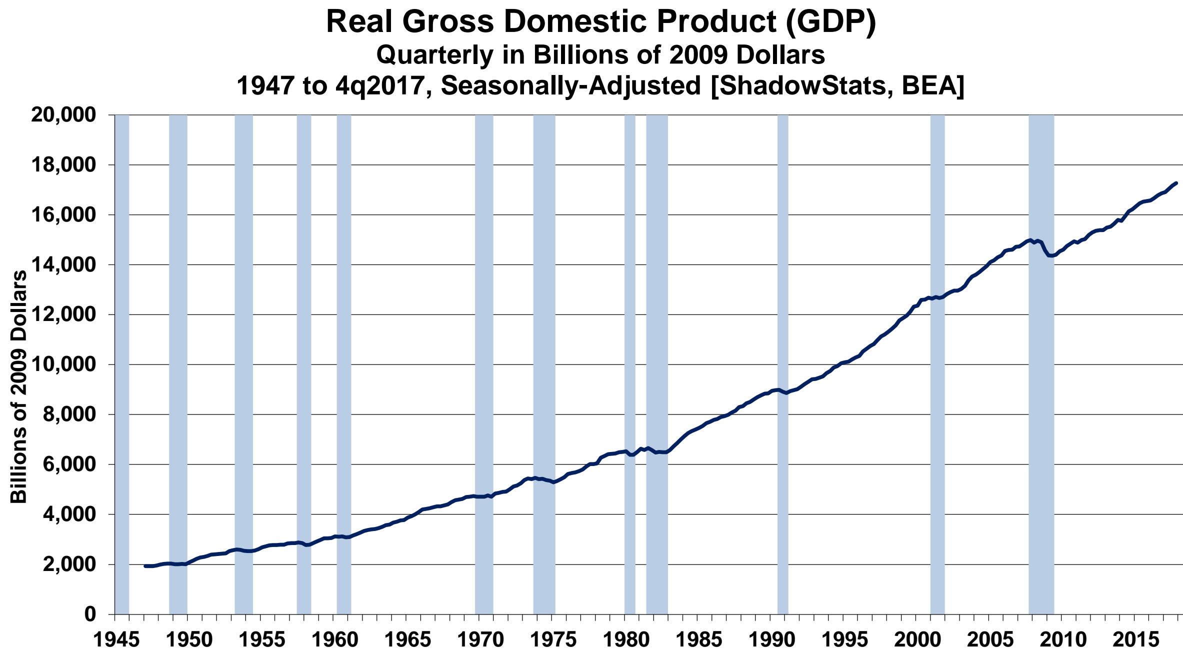
Graph 15: Quarterly GDP in Billions of 2009 Dollars (2000 to 2017), Second-Estimate of Fourth-Quarter 2017



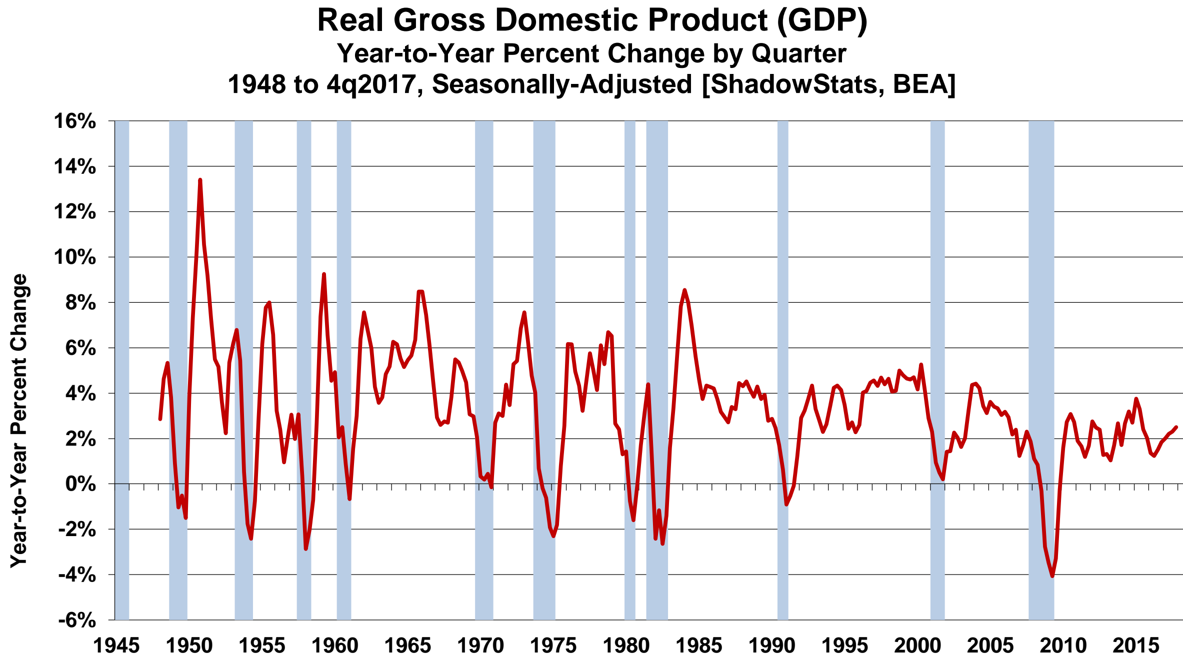
Graph 16: Quarterly GDP Real Year-to-Year Change (2000 to 2017), Second-Estimate of Fourth-Quarter 2017



Graph 17: Quarterly GDP in Billions of 2009 Dollars (1947-2017), Second-Estimate of Fourth-Quarter 2017



Graph 18: Year-to-Year GDP Real Change (1948-2017), Second-Estimate of Fourth-Quarter 2017



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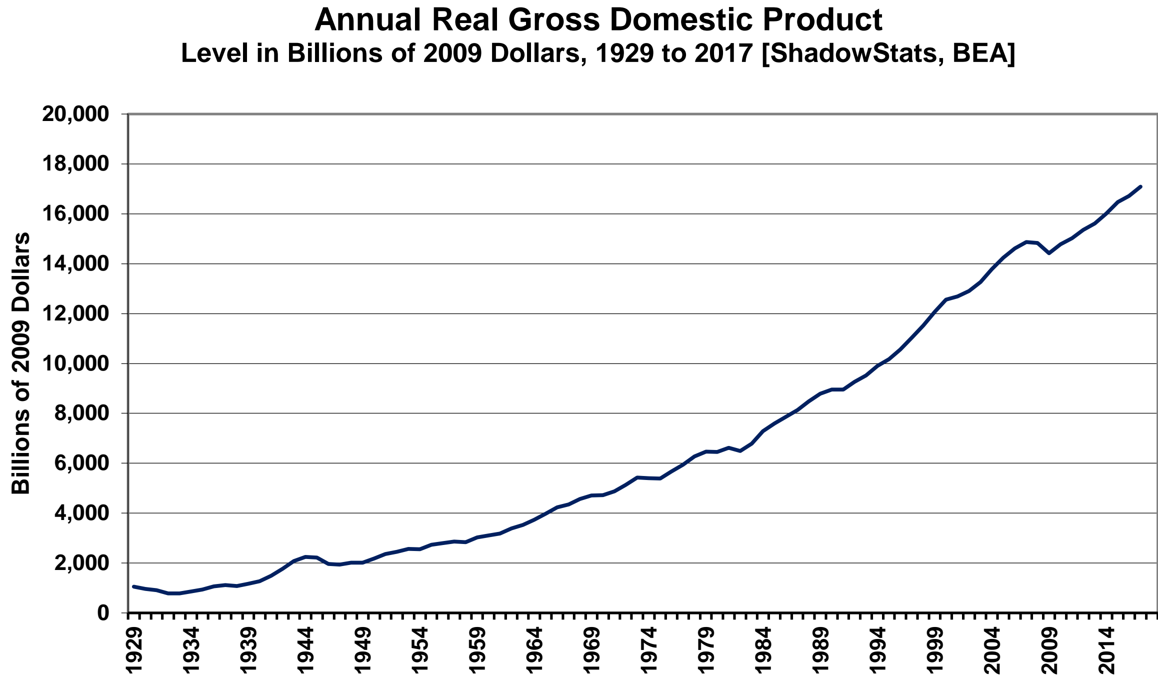
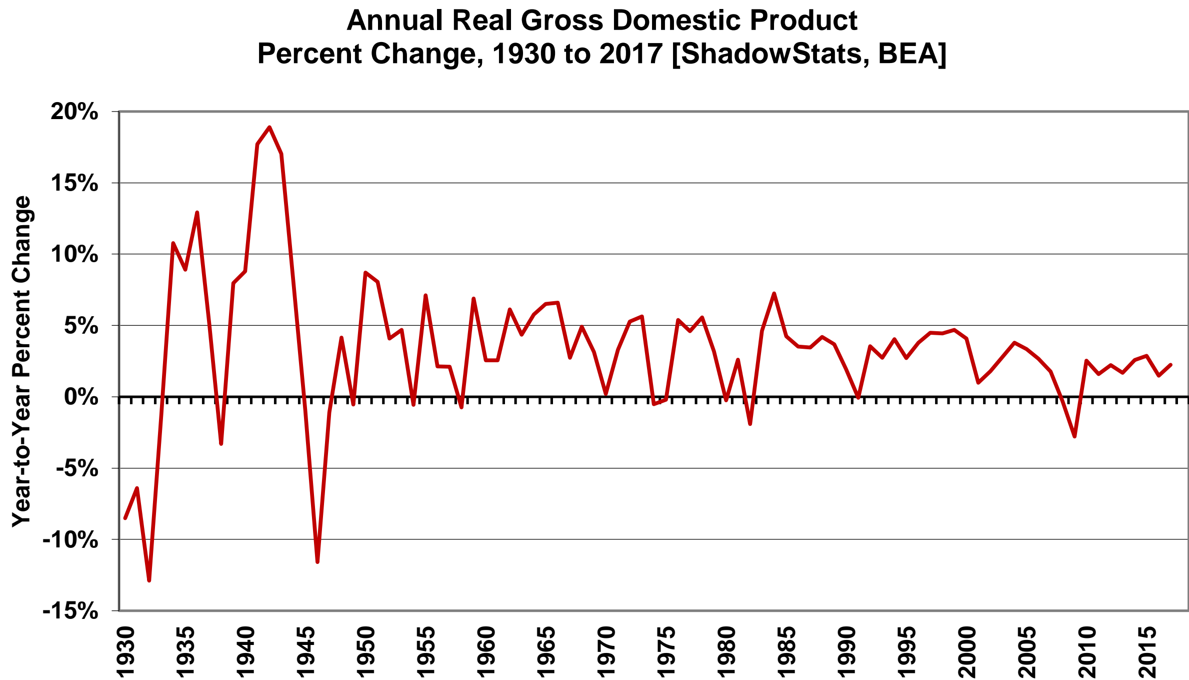
Graph 19: Annual GDP in Billions of 2009 Dollars (1929-2017)



Graph 20: GDP Real Annual Percent Change (1930-2017)



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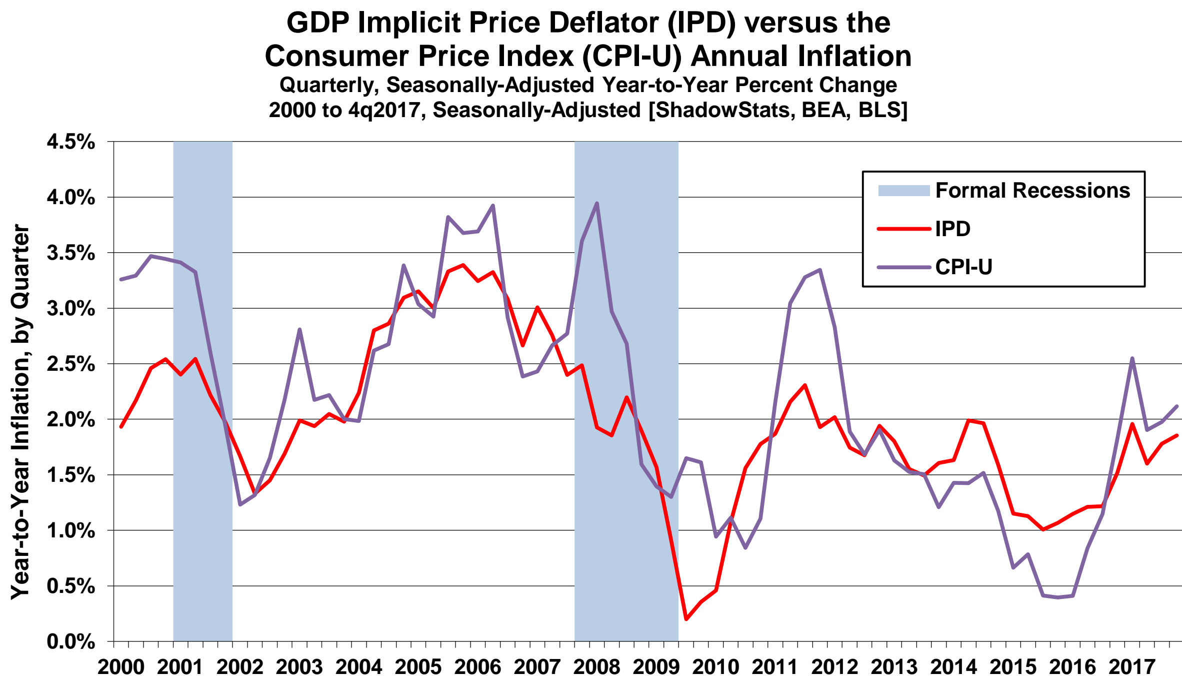
Implicit Price Deflator (IPD). The second estimate of quarter-to-quarter, third-quarter 2017 GDP inflation, or the implicit price deflator (IPD) was an annualized 2.33% [previously 2.36%], versus 2.09% in third-quarter 2017, 1.01% in second-quarter 2017, 2.00% in first-quarter 2017, 2.03% in fourth-quarter 2016, 1.37% in third-quarter 2016, 2.43% in second-quarter 2016, and 0.25% in first-quarter 2016. As general guidance, the weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth, and vice versa.

Year-to-year, the second estimate of fourth-quarter 2017 IPD inflation was a revised 1.85% [previously 1.86%], versus annual gains of 1.78% in third-quarter 2017, 1.60% in second-quarter 2017, 1.96% in first-quarter 2017, 1.52% in fourth-quarter 2016, 1.22% in third-quarter 2016, 1.21% in second-quarter 2016, 1.15% in first-quarter 2016. In terms of full-year, average annual inflation, the 2017 IPD inflation was an unrevised 1.80%, versus 1.28% in 2016.

Graph 21: Yr-to-Yr Inflation, Second-Estimate, Fourth-Quarter 2017 IPD versus CPI-U (2000-2017)



In the context of recent seasonal adjustment revisions, for purposes of comparison, the seasonally-adjusted Consumer Price Index CPI-U showed an annualized pace of inflation in fourth-quarter 2017 of 3.31%, having gained 2.13% in third-quarter 2017, 0.10% in second-quarter 2017, 2.96% in first-quarter 2017, 2.74% in fourth-quarter 2016, 1.84% in third-quarter 2016, 2.66% in second-quarter 2016 and 0.07% in first-quarter 2016 .

Unadjusted, year-to-year quarterly CPI-U inflation showed annual gains of 2.12% in fourth-quarter 2017, versus 1.96% in third-quarter 2017, 1.91% in second-quarter 2017, 2.54% in first-quarter 2017, 1.80% in fourth-quarter 2016, 1.12% in third-quarter 2016, 1.05% in second-quarter 2016 and 1.08% in first-quarter 2016 (see *Graph 21*). In terms of full-year, average annual inflation, the 2017 CPI-U inflation was 2.13% versus 1.26% in 2016.

Gross National Product (GNP) and Gross Domestic Income (GDI). Initial fourth-quarter estimates of GNP and GDI will not be released until next month (March 28th), due to a lack of available, significant underlying detail, a problem common to the headline GDP detail, as well, which was released, as usual, despite its broadly meaningless reporting. There is an extra month's delay in publication for the GNP and GDI detail at the end of the calendar year. Nonetheless, the estimate of third-quarter 2017 real growth in the GDI was revised higher.

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

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

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

Annualized real third-quarter GDI growth was just revised to 2.44% [previously 2.03%], versus 2.28% in second-quarter 2017, 2.68% in first-quarter 2017, a contraction of 1.66% (-1.66%) in fourth-quarter 2016 and 4.12% growth in third-quarter 2016. Real year-to-year growth correspondingly revised to 1.42% [previously 1.32%] in third-quarter 2017, versus 1.83% in second-quarter 2017, 1.30% in first-quarter 2017, 0.55% in fourth-quarter 2016 and 1.35% in third-quarter 2016.

ShadowStats Alternate GDP. The ShadowStats-Alternate GDP fourth-quarter 2017 GDP, second estimate, remained a year-to-year decline of 1.6% (-1.6%), versus an unrevised annual GDP headline gain of 2.5% at the first-decimal point (2.49% versus 2.50%), that was against a ShadowStats annual decline of 1.8% (-1.8%) in third-quarter 2017 and an annual real headline GDP gain then of 2.3%.

While the annualized, real quarterly growth rate is not estimated formally on an alternate basis, the statistically-insignificant, second-estimate of annualized, headline quarter-to-quarter gain of 2.5% in fourth-quarter 2017 likely was much weaker in reality, net of all the happy assumptions, regular reporting gimmicks and largely "unrecognized" data distortions from recent hurricane activity. Specifically, as the hurricane disruptions to the data increasingly resolve themselves, first-quarter 2018 headline GDP reporting is at high risk of an outright quarterly contraction (see *Commentary No. 937*).

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

Adjusted for understated inflation and other methodological changes—such as the inclusion of intellectual property, software and recent accounting for the largely not-measurable and still-questionable impact of the Affordable Care Act (ACA)—the business collapse that began in 2006/2007 is ongoing; there has been no meaningful economic rebound, as discussed in today's *Opening Comments and Executive*

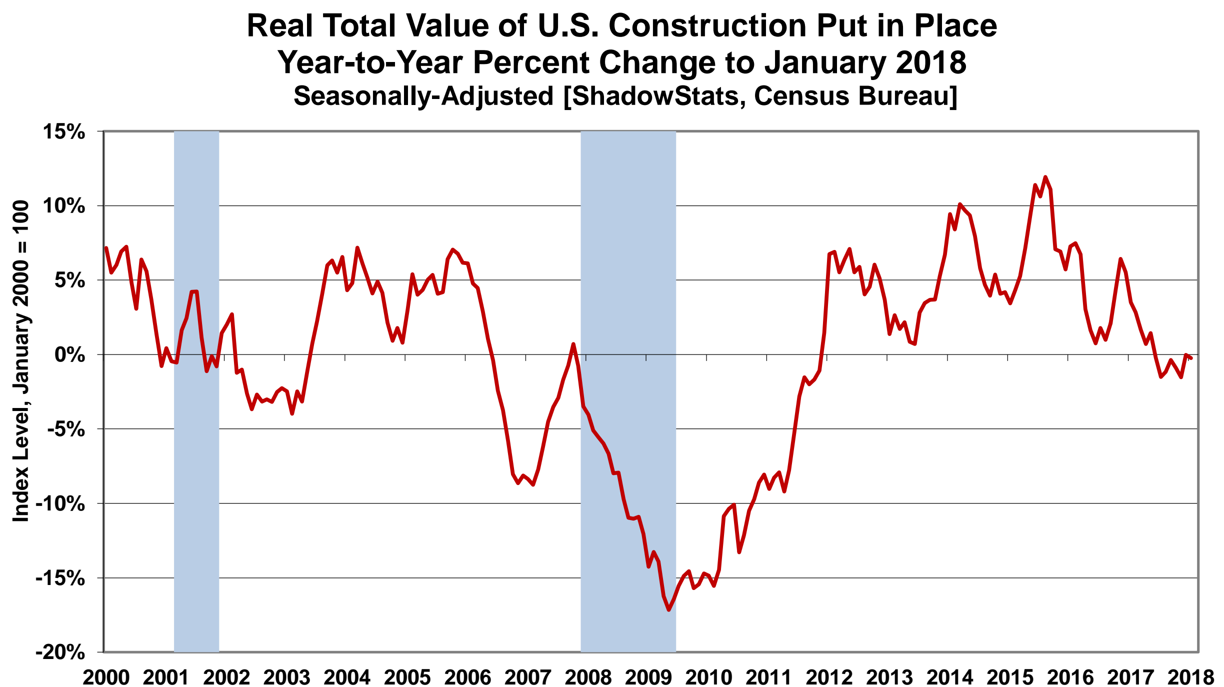
Summary. The "corrected" real GDP *Graphs 2* and *4* in the *Executive Summary* (see also the *Economy* section in *Special Commentary No. 935* and *2014 Hyperinflation Report—Great Economic Tumble*), are based on the removal of the impact of hedonic quality adjustments that have reduced the reporting of official annual GDP inflation by roughly two-percentage points. It is not the same measure as the ShadowStats-Alternate GDP, here, which reflects reversing additional methodological distortions ("Pollyanna Creep") of recent decades, highlighted in the Alternate Data tab on the GDP on the www.ShadowStats.com home page.

CONSTRUCTION SPENDING IN THE UNITED STATES (January 2018)

Construction Spending—January 2018—On Top of Upside Revisions, Nominal January Spending Was Flat, Real Spending Declined by 0.2% (-0.2%) Both Month-to-Month and Year-to-Year. In the context of regular, unstable month-to-month reporting and downside upside revisions to November and December 2017, the January 2018 construction spending series likely saw some mixed, but continued unwinding of recent natural-disaster bloating, with downside revisions to recent residential activity, but with upside revisions to nonresidential and public sector activity. Despite upside revisions to November and December aggregate activity, and a flat January, the headline real January 2018 monthly reading remained shy by 21.0% (-21.0%) of recovering its pre-recession peak, in contrast to January 2018 Construction Employment down by 8.1% (-8.1%) from recovering its pre-recession high.

Graph 22: Total Real Construction Spending, Year-to-Year Percent Change

(Same as Graph 10 in the Executive Summary)



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Contracting Annual Growth. In the context of aggregate upside revisions to activity in December 2017, real year-to-year contraction there narrowed, revising close to zero, still was down 0.03% (-0.03%) net of inflation. With real annual growth down by 0.24% (-0.24%) in January 2018, such was the eighth straight month of year-to-year contractions. That is along with annual contractions in real construction spending in place for third- and fourth-quarter 2017, as well as on early track for first-quarter 2018. The signals here remain for an intensifying downturn, as last seen in the housing collapse leading into the formal 2007 recession (see *Graph 22*). Real year-to-year change continued in its annual contraction, in onset and scope, in a manner last seen during the housing collapse of 2006, leading into the 2007 recession (see *Graph 22*). The broad housing and related construction sectors remain severely constrained by consumer liquidity issues, discussed in the *Consumer Liquidity Watch*.

January 2018 Construction Spending. The seasonally-adjusted nominal January 2018 Value of Construction Put in Place in the United States was $1,262.8 billion versus an upwardly-revised $1,262.7 [previously $1,253.3] billion in December 2017, an upwardly revised $1,252.1 [previously $1,245.1, initially $1,257.0] billion in November 2017 and an unrevised $1,237.6 billion in October 2017.

In the context of the upside revisions to November and December activity, nominal construction spending in January 2018 was "unchanged" at a statistically-insignificant 0.0% +/- 1.8% (all confidence intervals are at the 95% level), versus upwardly-revised gains of 0.8% [previously 0.7%] in December, 1.2% [previously 0.6%, initially 0.8%] in November and an unrevised 0.1% in October. Net of the Composite Construction Deflator inflation (see the next section), those were real monthly changes of a 0.2% (-0.2%) decline in January 2018, a 0.7% gain in December 2017, a 0.8% gain in November 2017 and an "unchanged" 0.0% in October.

Headline annual nominal growth rose by a statistically-significant 3.2% +/- 2.1% in January 2018, versus revised annual gains of 3.4% [previously 2.6%] in December 2017, 2.0% [previously 1.5%, initially 2.4%] in November 2017 and an unrevised 2.6% in October 2017. Net of inflation, January 2018 was down year-to-year by 0.2% (-0.2%). The upside revision took December 2017 to "unchanged" at 0.0% year-to-year [down 0.03% (-0.03%) at the second decimal point, previously down by 0.7% (-0.7%)], versus a revised annual contraction of 1.5% (-1.5%) in November 2017 and an unrevised annual contraction of 0.9% (-0.9%) in October 2017. Again, the preceding headline details are reflected in accompanying *Graphs 22* to *26* and in *Graph 11* in the *Executive Summary.*

The statistically-insignificant, nominal 0.0% "unchanged" aggregate monthly January 2018 spending, versus the revised 0.08% gain in aggregate December 2017 spending, included a headline monthly gain of 1.8% in January Public Construction Spending, which followed an upwardly-revised monthly gain of 1.8% in December. Private Construction Spending fell by 0.5% (-0.5%) in January, having gained a downwardly-revised 0.6% in December. Within total Private Construction Spending, Residential Construction activity rose by 0.3% in January having declined by 0.5% (-0.5%) [previously a gain of 0.5%] in December, while the Nonresidential Construction sector fell by 1.5% (-1.5%) in January, having gained an upwardly-revised 1.8% in December.

The preceding headline details are reflected in accompanying *Graphs 25* and *26* and in *Graphs 11* to *14* in the *Executive Summary*, which show headline detail both before and after adjustment for inflation.

Construction Inflation—ShadowStats Composite Construction Deflator (CCD). ShadowStats produces a Composite Construction Deflator (CCD) for use in converting current-dollar or nominal (not-adjusted-

for-inflation) headline construction spending into inflation-adjusted, real or constant-dollar terms. Detailed in *Commentary No. 829*, previously used measures from the Producer Price Index (PPI) lacked historical consistency and did not measure inflation appropriately for the construction-spending series.

Updated for the latest related price indices in the national-income reporting, and private surveying, CCD year-to-year inflation was 3.64% for January 2018, 3.39% [previously 3.35%] for December 2017 and an unrevised 3.64% for November 2017. Month-to-month inflation was 0.23% for January 2018, 0.19% [previously 0.15%] for December 2017 and an unrevised 0.35% for November 2017.

Continuing Quarterly Year-to-Year Real Contractions. In the context of the initial January 2018 reporting in this regularly, heavily-revised and volatile detail, first-quarter 2018 was on early track for real year-to-year decline of 0.7% (-0.7%), with annualized real quarterly growth of 1.9%. If the annual contraction holds, such would be the third consecutive quarter underwater.

In the context of upside revisions to December and November activity, net of inflation, fourth-quarter 2017 activity grew at an annualized pace of 5.5% [previously 3.7%], having contracted year-to-year by 0.8% (-0.8%) [previously 1.2% (-1.2%)].

Third-quarter 2017, real growth contracted at an annualized quarterly pace of 4.0% (-4.0%) and contracted year-to-year by 0.8% (-0.8%).

Second-quarter 2017 growth contracted at an annualized real pace of 5.8% (-5.8%), versus first-quarter 2017, with year-to-year real growth was 0.6%.

The pattern here, again, has been one of consistent annual slowdown, of form not seen since the housing crash before the headline 2007 recession.

[Graphs 23 to 26 begin on the next page.]

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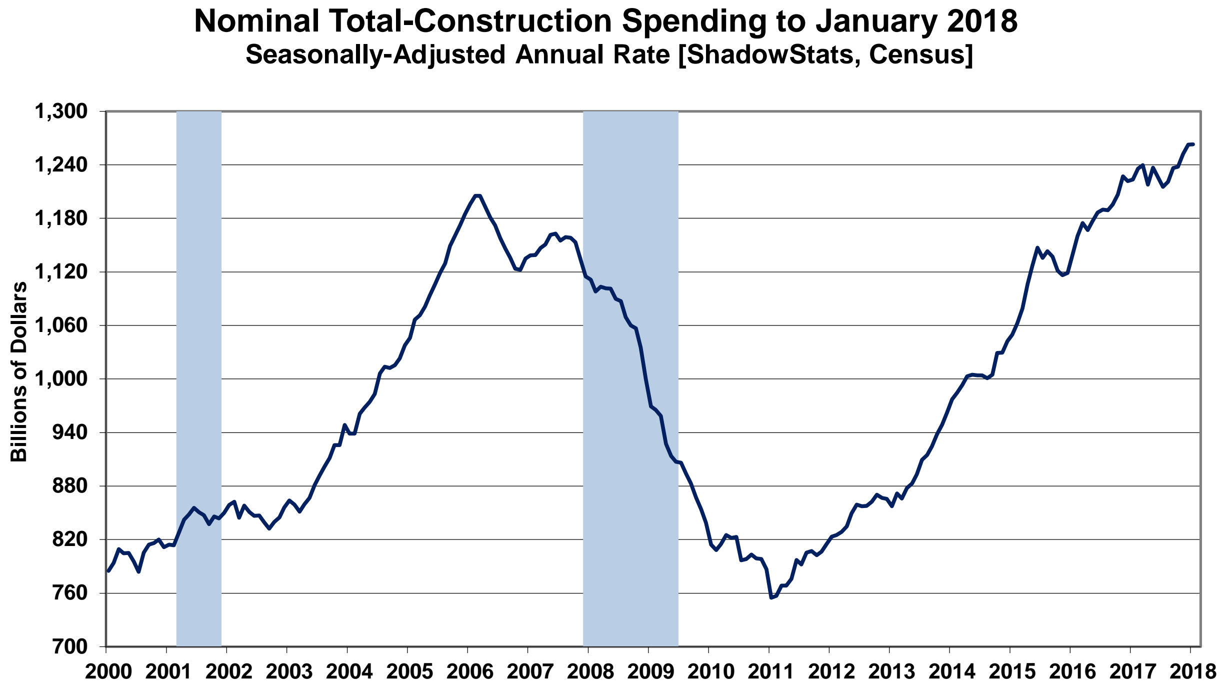
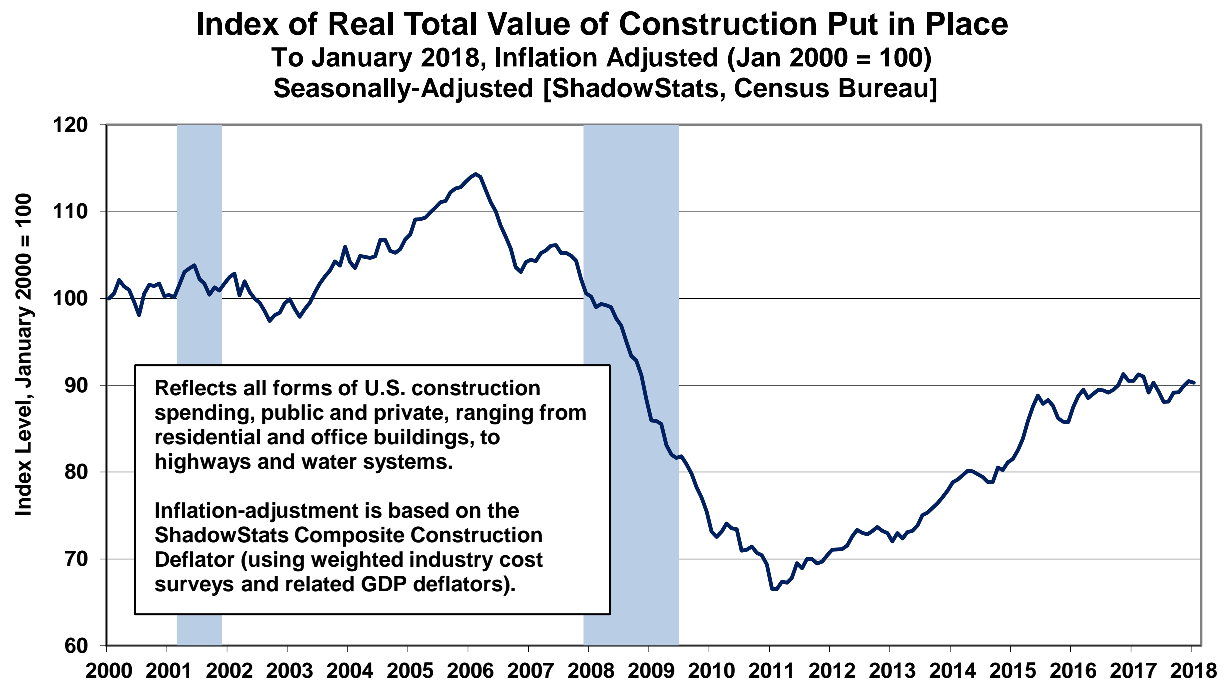
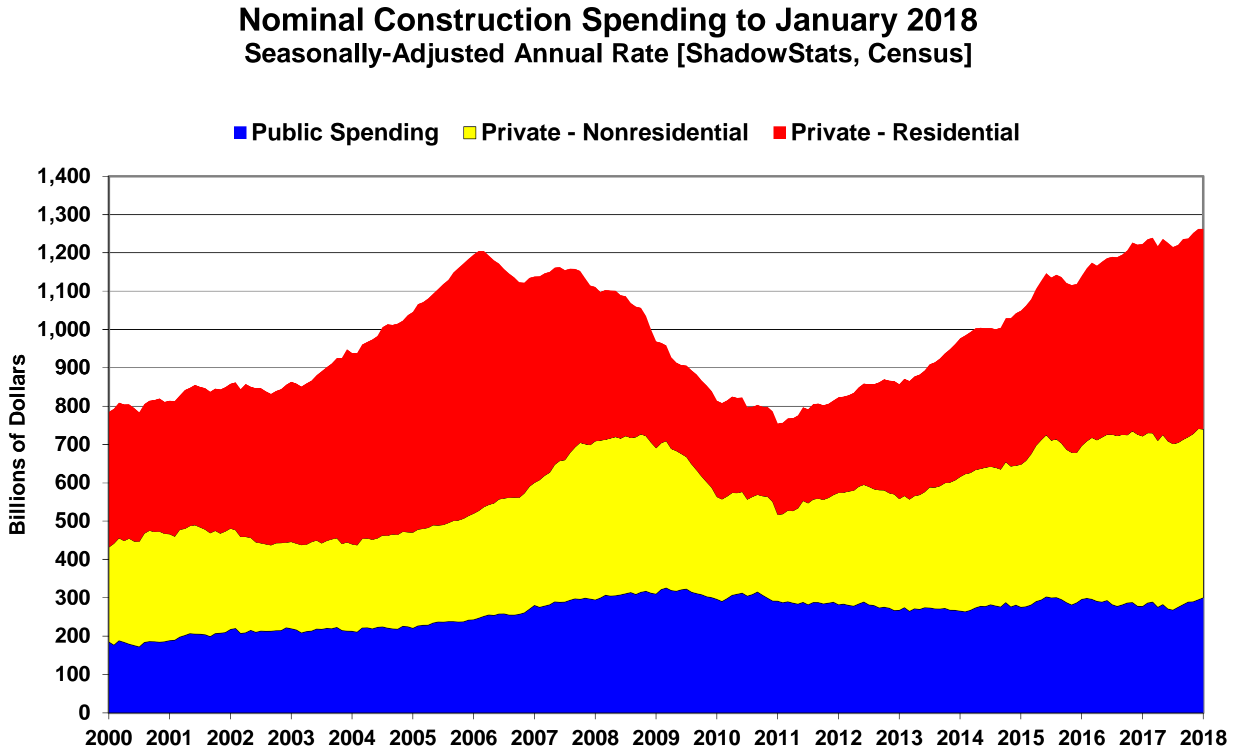
Graph 23: Total Nominal Construction Spending



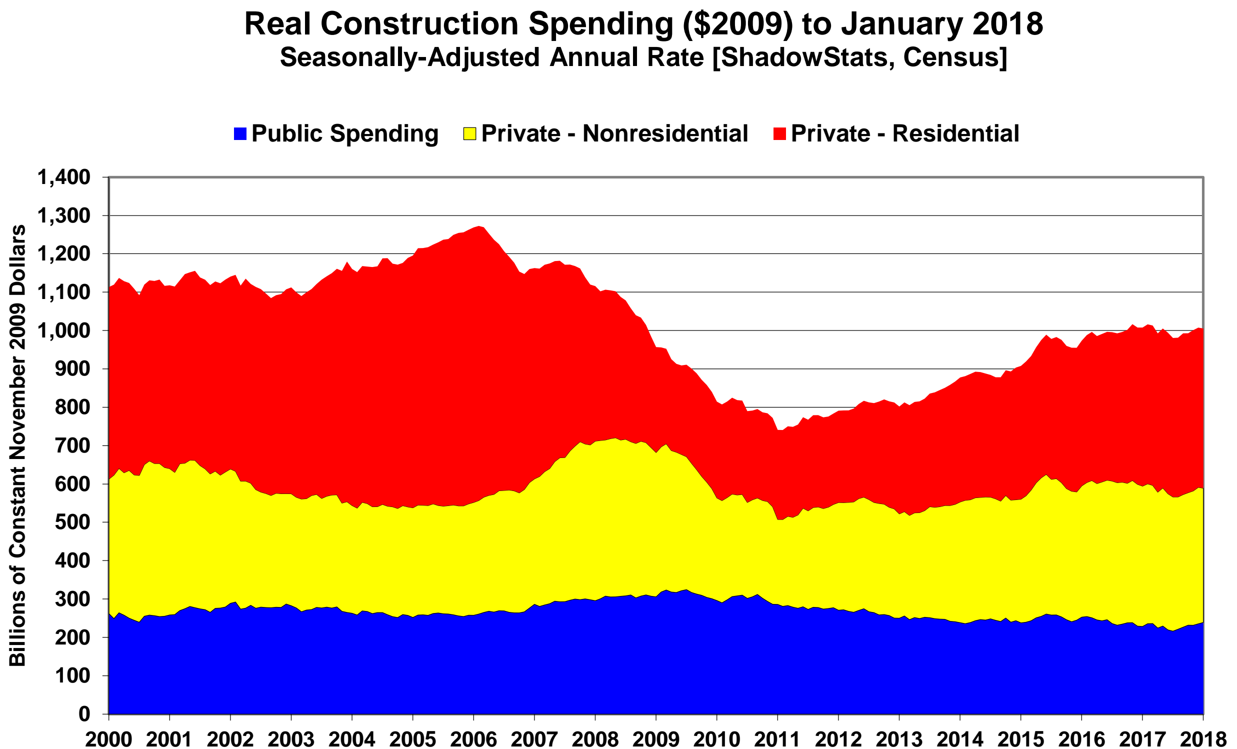
Graph 24: Index of Total Real Construction Spending
(Same as Graph 7 in the Opening Comments)



Graph 25: Aggregate Nominal Construction Spending by Major Category to Date



Graph 26: Aggregate Real Construction Spending by Major Category (Billions of November 2009 Dollars)



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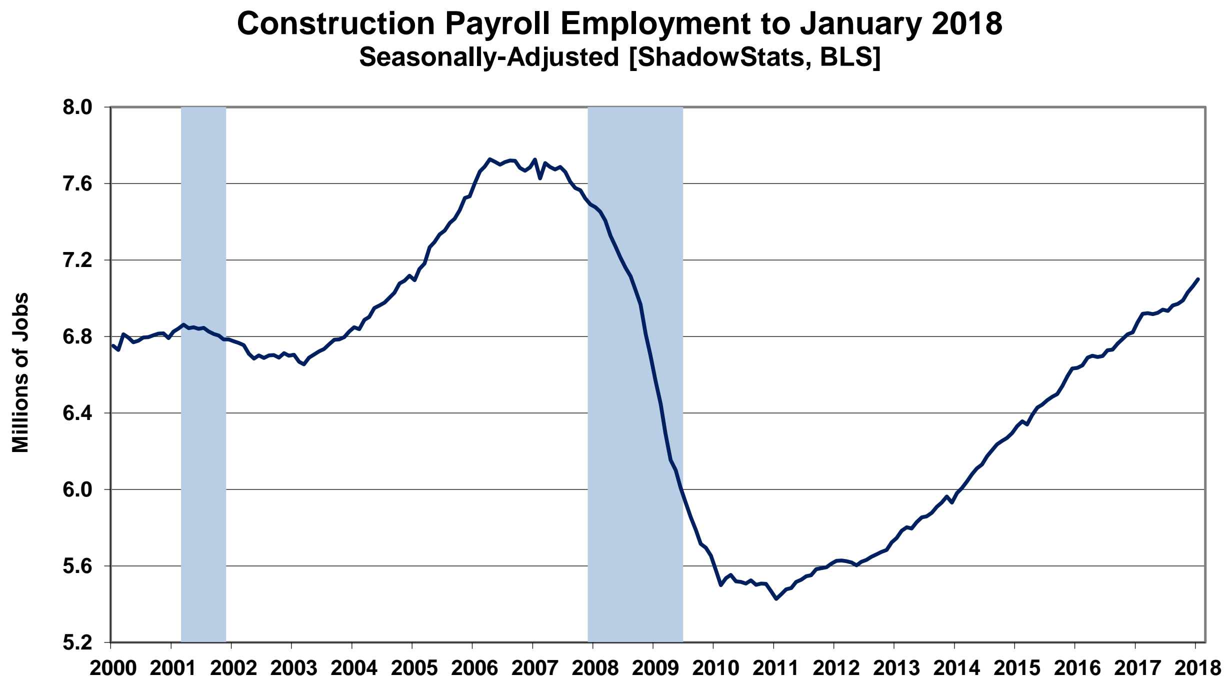
January 2018 Construction Payrolls Rose by 0.5% Month-to-Month and by 2.6% Year-to-Year, but Remained Down by 8.1% (-8.1%) from the Pre-Recession Peak. **As** discussed last month, in the context of upside annual benchmark revisions to payroll employment (see the *Commentary No. 934-B*), construction payrolls rose by 0.5% month-to-month and by 3.6% year-to-year, as plotted in accompanying *Graph 27*. The seasonally-adjusted January 2018 construction-payroll-employment level was shy of recovering the pre-recession high for the series by 8.1% (-8.1%). Again, real Construction Spending remains shy of recovering its pre-recession high by 21.0% (-21.0%). This graph will be updated along with February 2018 payroll-employment reporting in *Commentary No. 939* of March 9th.

Graph 27: Construction Employment (Payroll Survey) - 2000 to Date



Construction Spending and Related Graphs. *Graphs 11* to *14* in the *Executive Summary* show comparative nominal and real construction activity for the aggregate series as well as for private residential- and nonresidential-construction and public-construction. Seen after adjustment for inflation, the real aggregate series generally have remained in low-level stagnation, now effectively flat to turning down, from mid-2015 into fourth-quarter 2017. Areas of recent relative strength in the major subcomponents generally have flattened out and have begun to turn down anew, after inflation adjustment, except for public construction. Although still broadly flat, public construction turned somewhat higher in January, on top of an upside revision to December activity (see *Graphs 14* and *31*).

Nonetheless, the general pattern of real activity had been one of low-level, up-trending stagnation but, again, now has turned generally flat-to-minus. The aggregate nominal detail, before inflation adjustment, is shown in *Graph 23* of this *Reporting Detail*, with the real, inflation-adjusted activity plotted in *Graph 24*, while *Graphs 25* and *26* show the relative patterns of nominal and real activity aggregated by sector.

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Construction and Related Graphs of Physical Activity. Again, *Graphs 23* and *24*, and *Graphs 25* and *26* reflect total construction spending through January 2018, both in the headline nominal dollar terms, and in real terms, after inflation adjustment. *Graph 24* is on an index basis, with January 2000 = 100.0, where *Graph 22* reflects the same detail in terms of annual change. Adjusted for the CCD, real aggregate construction spending showed the economy slowing in 2006, plunging into 2011, then turning minimally higher in an environment of low-level stagnation, trending lower from late-2013 into mid-2014, then with some boost into early-2015. Activity declined in fourth-quarter 2015, with a rebound in 2016, sinking anew into 2017, with annual growth having turned negative, again as indicated in *Graph 22*. The pattern of non-recovered, inflation-adjusted construction spending turning down anew has continued to move contrary to the purported economic recovery and expansion indicated by headline GDP reporting (see today's *Executive Summary*).

The Data and Graphs Here Reflect Monthly Levels, Not Smoothed, Moving Averages. Unlike the housing-starts and home-sales series (see *Commentary No. 937*)—where ShadowStats smooths the irregular and continually-revised monthly data with accompanying plots of smoothed, six-month moving averages—the construction spending series is shown here only on a monthly basis, as published. While the spending series is extremely volatile in its monthly revisions, it tends to remain reasonably smooth in the residual month-to-month change.

Note the comparative monthly volatilities in the non-smoothed *Graphs 28* and *29*, which cover private residential construction spending, along with housing starts (combined single- and multiple-unit starts) for January 2018 (see *Commentary No. 936*). Keep in mind that the construction spending series is in nominal terms, while housing starts reflect unit volume, which should be parallel with the inflation-adjusted series shown in *Graph 12* in the *Executive Summary* section and *Graph 24* here.

The final two graphs (*Graphs 30* and *31*) show the patterns of the monthly level of activity in nominal private nonresidential-construction spending and in public-construction spending. Private Non-Residential Construction spending surged beyond its pre-recession nominal peak in 2016, hitting a new high in December 2016 and broadly backing off same since. Public Construction spending, which is 98% nonresidential, had continued in a broad downtrend into 2014, with intermittent bouts of fluttering stagnation and then some upturn in 2015. In 2016 and into 2017, the nominal series still appeared to have fluttered into and out of a low-level top, now having move higher in recent months, at the upper end of recent fluttering, still shy of its pre-recession peak. Viewed net of inflation, in *Graphs 13* and *14* in the *Executive Summary* and in accompanying *Graph 25,* both series still appear stalled shy of their pre-recession peaks.

[Graphs 28 to 31 begin on the next page.]

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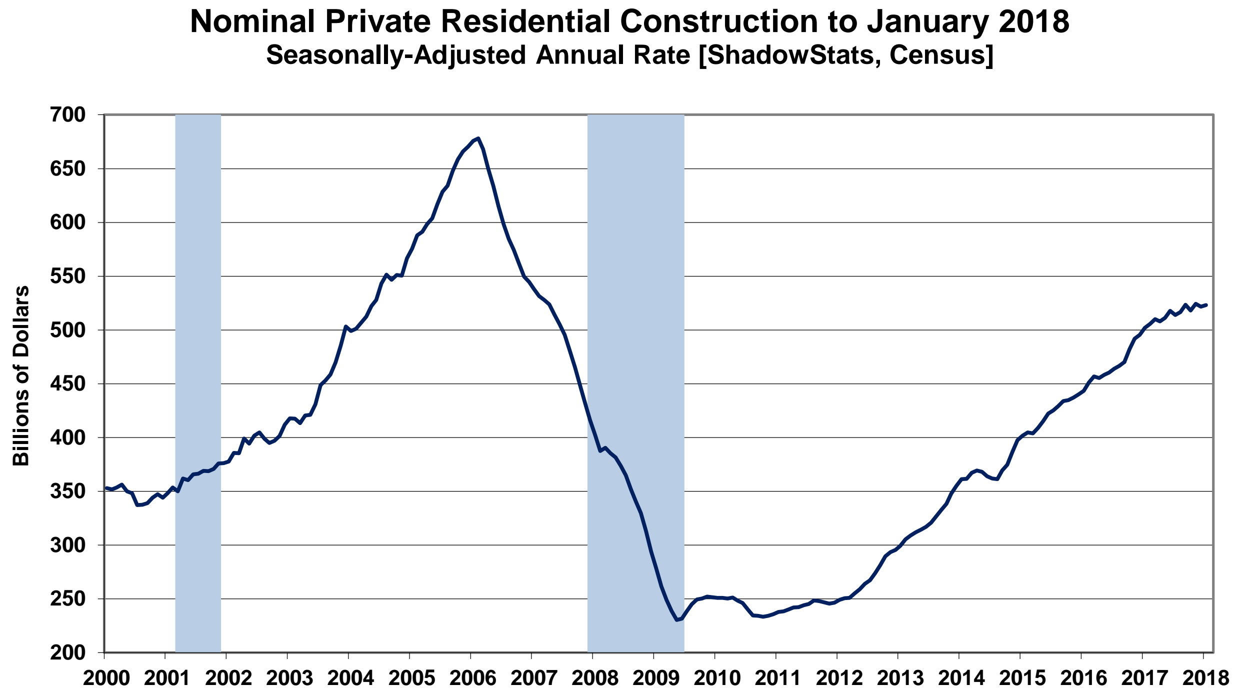
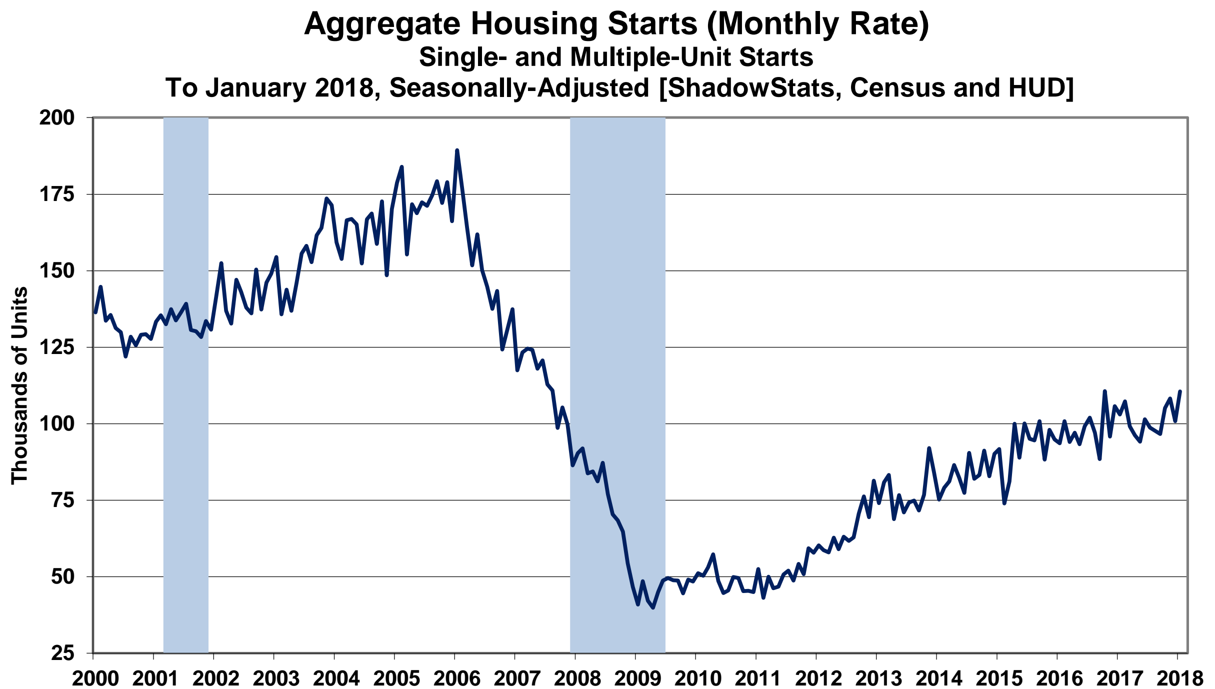
Graph 28: Nominal Private Residential Construction Spending to Date



Graph 29: Combined Single- and Multiple-Unit Housing Starts to Date



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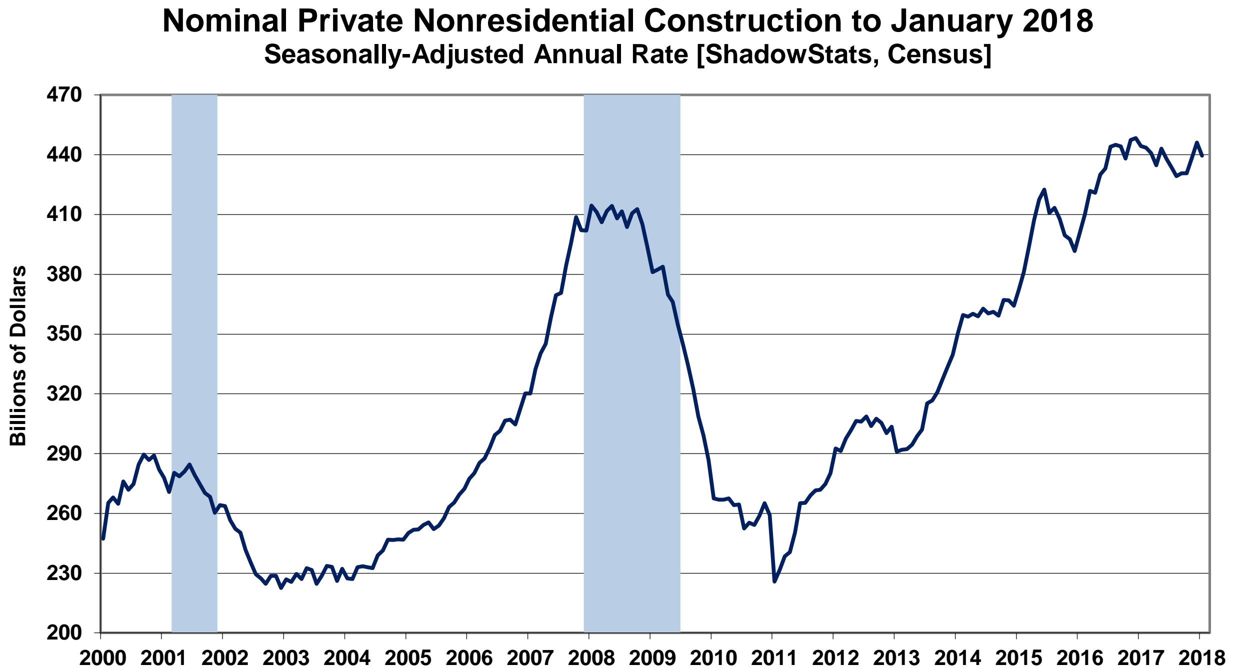
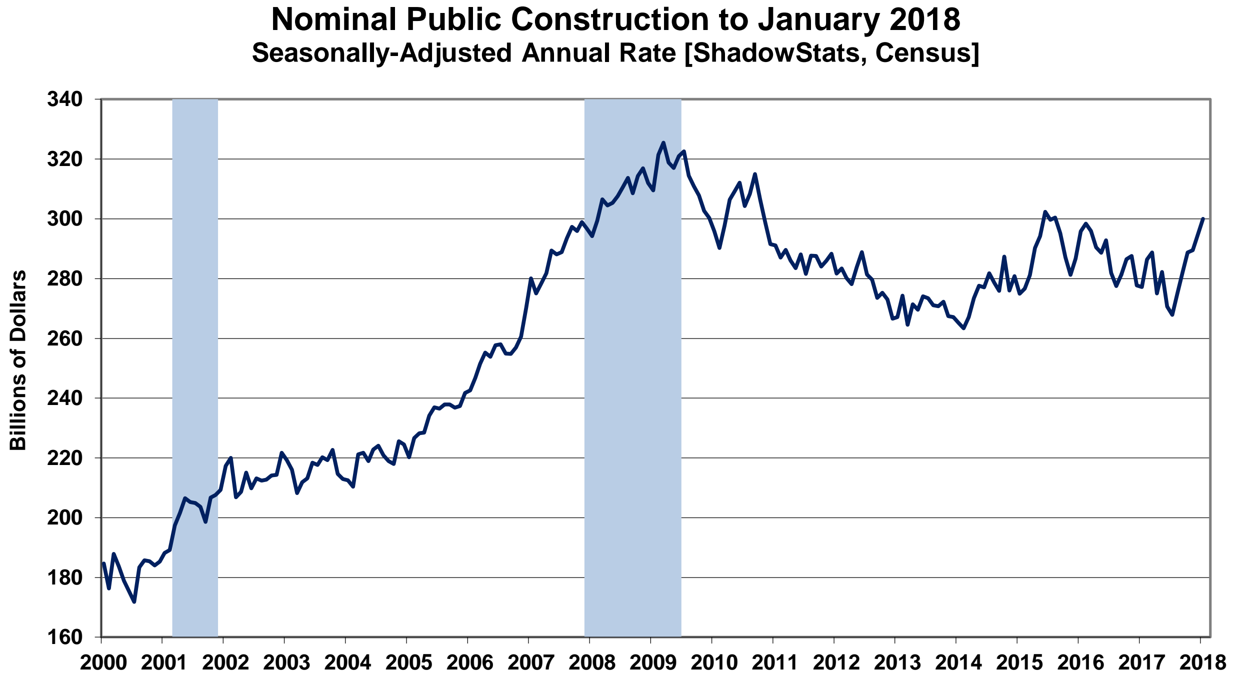
Graph 30: Nominal Private Nonresidential Construction Spending to Date



Graph 31: Nominal Public Construction Spending to Date



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

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CONSUMER LIQUIDITY WATCH

CONSUMER LIQUIDITY, INCOME, CREDIT AND RELATIVE OPTIMISM. *[Not updated since its last publication other than for links.]*

Continuing Consumer Liquidity Stresses Constrain Broad Economic Activity. The U.S. consumer faces ongoing financial stress, which recently had been mirrored in renewed softening of fundamental headline economic activity, including Payroll-Employment, Real Retail Sales, Housing and Construction, and the Manufacturing/Production sector, all pre-hurricane activity. Net of what have been mixed, but significant, near-term hurricane distortions, initial hits to activity were followed by related and transient economic boosts from recovery, replacement and restoration activity. Funded by insurance payments and savings liquidation, those distortions broadly should pass from headline data by the February March reporting of January/February 2018-headline detail. Discussed recently (see *Commentary No. 936* and *Commentary No. 937*) hurricane-boosted activity appears to be passing as early first-quarter economic activity continues to turn down. Such effects have been, and will continue to be, discussed in the separate analyses of relevant series in covered in the regular *ShadowStats Commentaries*. While there have been recent signals of faltering consumer liquidity, with headline consumer optimism is strong, despite rapidly softening activity.

Monthly series that have faced the most severe, disaster-triggered reporting disruptions, where headline details have yet to stabilize or correct, still include in particular Household Survey Employment and Unemployment (see the *Opening Comments* of *Commentary No. 930-B*). Retail Sales and Industrial Production appear to have stabilized, and are beginning to turn down anew, but they still need to subside to levels stable with normal consumption activity and inventories. Despite the initial slowing in Fourth-Quarter 2017 GDP growth, the series remains heavily bloated from the disaster-distortions (see *Commentary No. 933*), downside revisions loom for the fourth-quarter detail, along with increasing odds for an outright quarterly contraction in real First-Quarter 2018 GDP (see *Commentary No. 937*).

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 or mixed, 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 Boom. On top of the 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), January 2018 Confidence and Sentiment (February 2nd) readings were minimally-positive and down, with the February numbers rising anew. Such is despite faltering home sales in January (see *Commentary No. 937 Reporting Detail*). The consumer numbers were just updated for Confidence (February 27th) and recently updated for the early estimate of February 2018 Sentiment (February 16th).

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, both measures turned higher in February 2018, despite mounting economic and financial-market uncertainties. Following a downside revision to the January 2018 reading, Confidence jumped to its highest level since November 2000, when both series were then falling into the 2001 recession. The rising numbers here for both Confidence and Sentiment are at their highest levels since 2000, above their pre-2007 recession peaks. They remain down from their early-2000 peaks, however, by 9.6% (-9.6%) for Confidence and by 10.8% (-10.8%) for Sentiment.

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 have flattened out, 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 2018 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 10.8% (-10.8%).

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. As headline financial and economic reporting in the next month or two turn increasingly-negative and unstable, so too should the surging "optimism." Increasingly, a downturn in consumer outlook should take hold, despite any euphoric headlines, reflecting some deep-seated consumer liquidity issues.

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. In current environment of surging optimism, 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.

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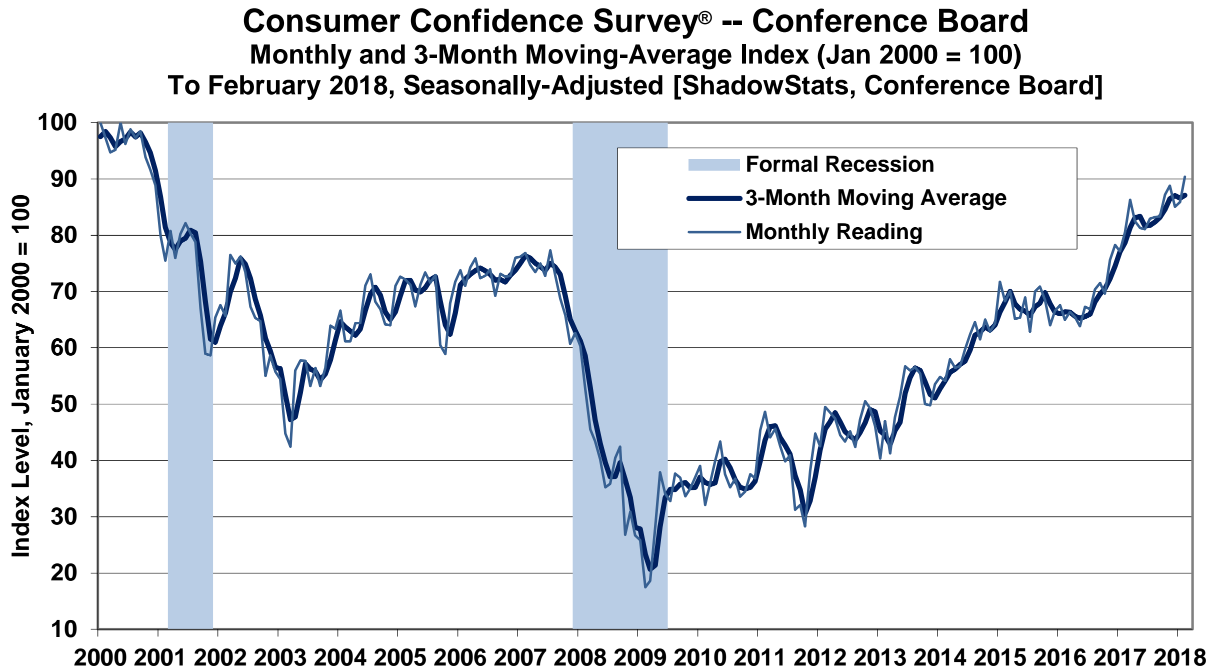
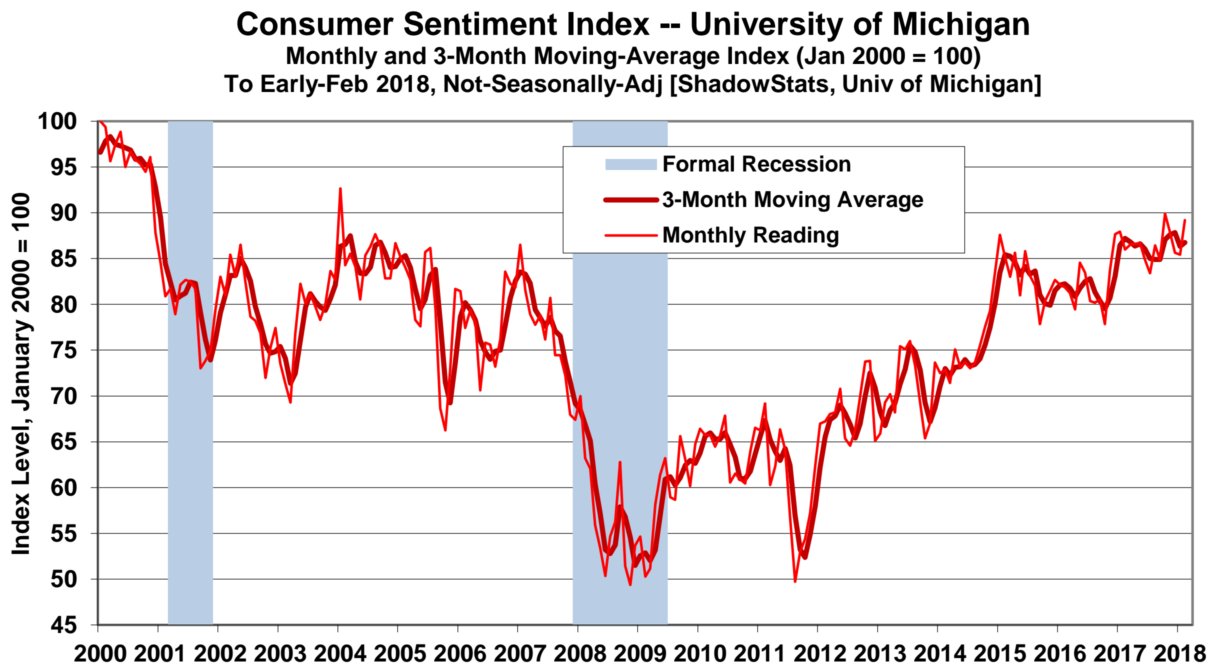
Graph CLW-1: Consumer Confidence (2000 to 2018)



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



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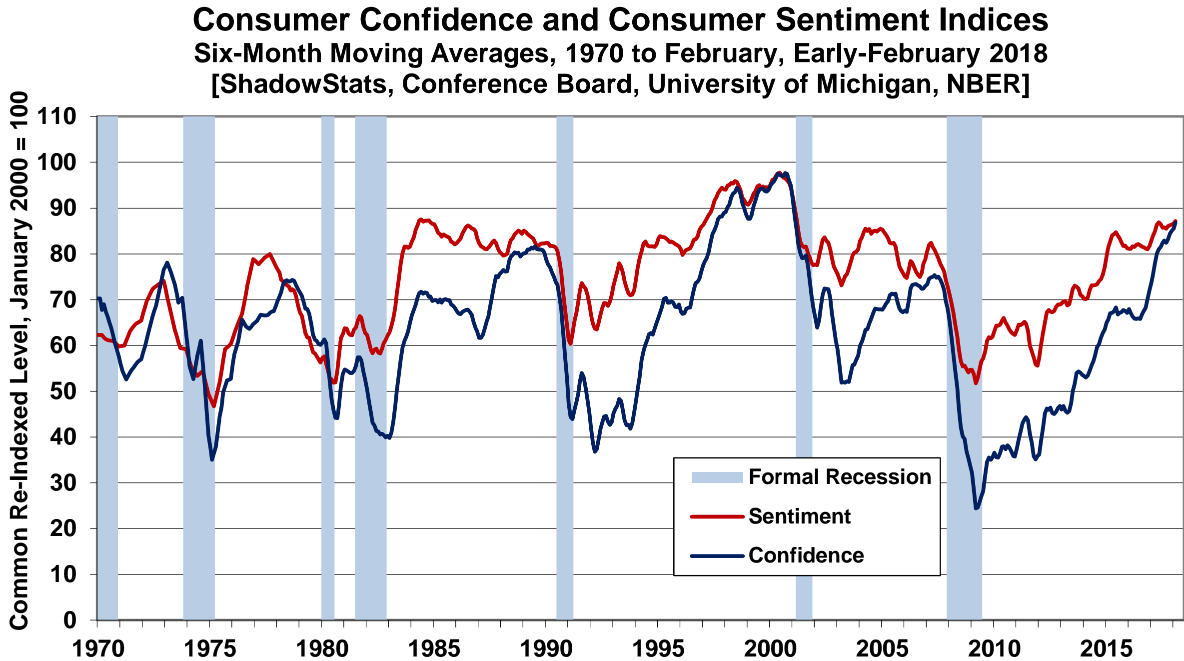
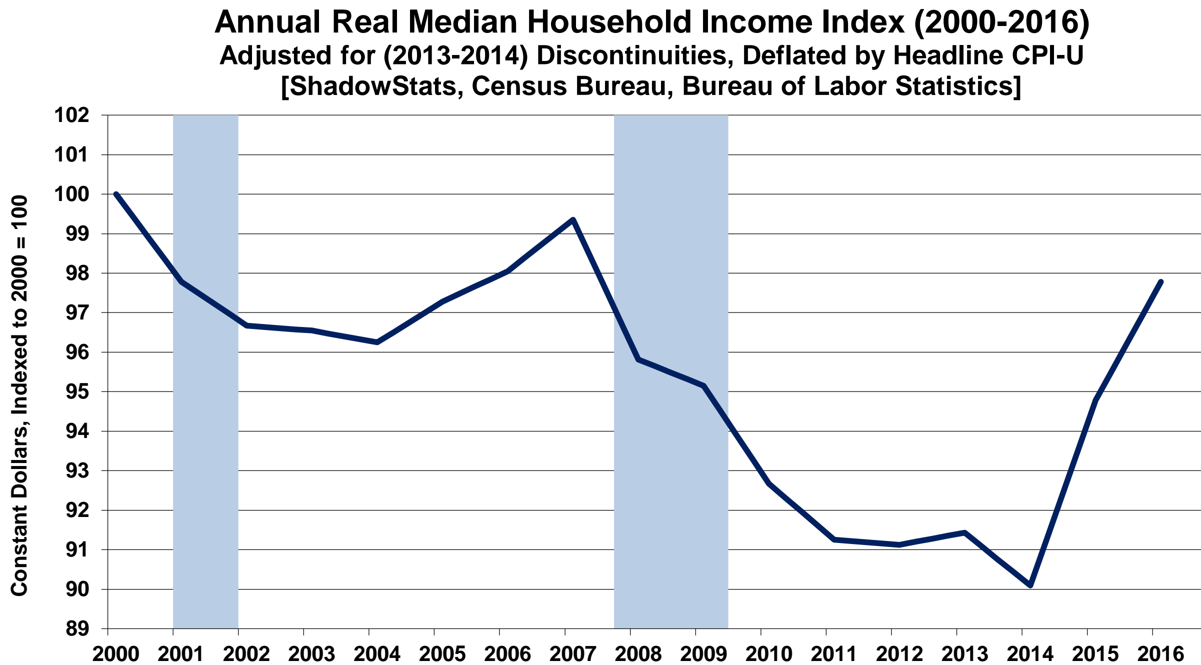
Graph CLW-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2018)



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)



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.

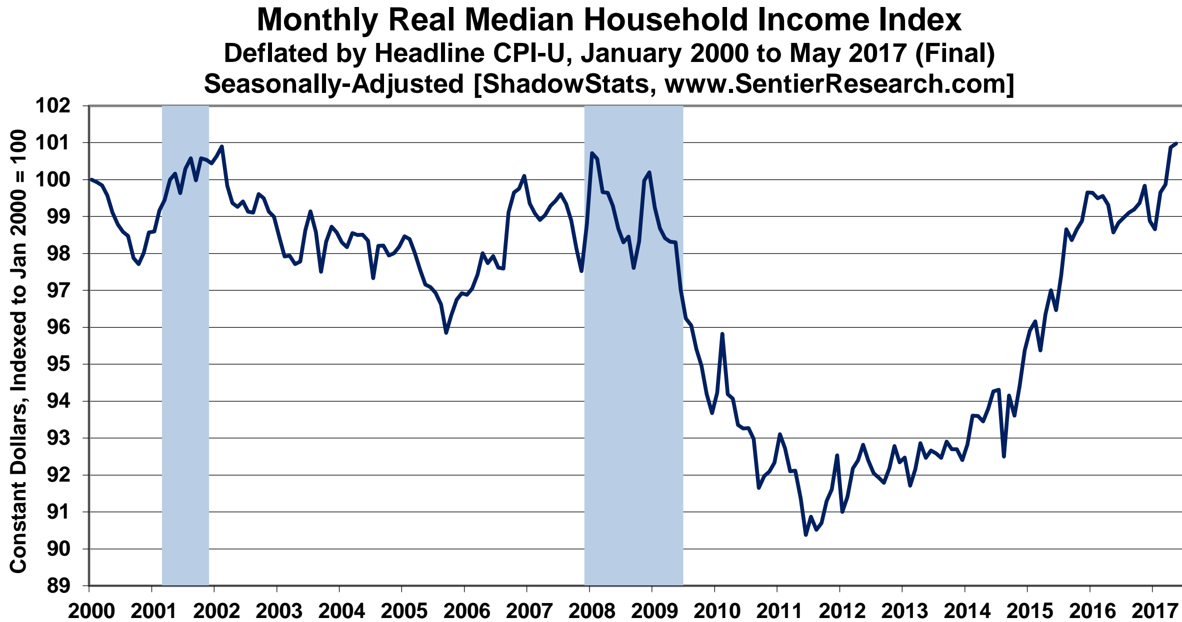
Nonetheless, the most-recent recent "rebound" reported in the series still left consumers financially strapped. Where lower gasoline prices had provided some minimal liquidity relief to the consumer, indications are that any effective extra cash largely was used to help pay down unsustainable debt or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

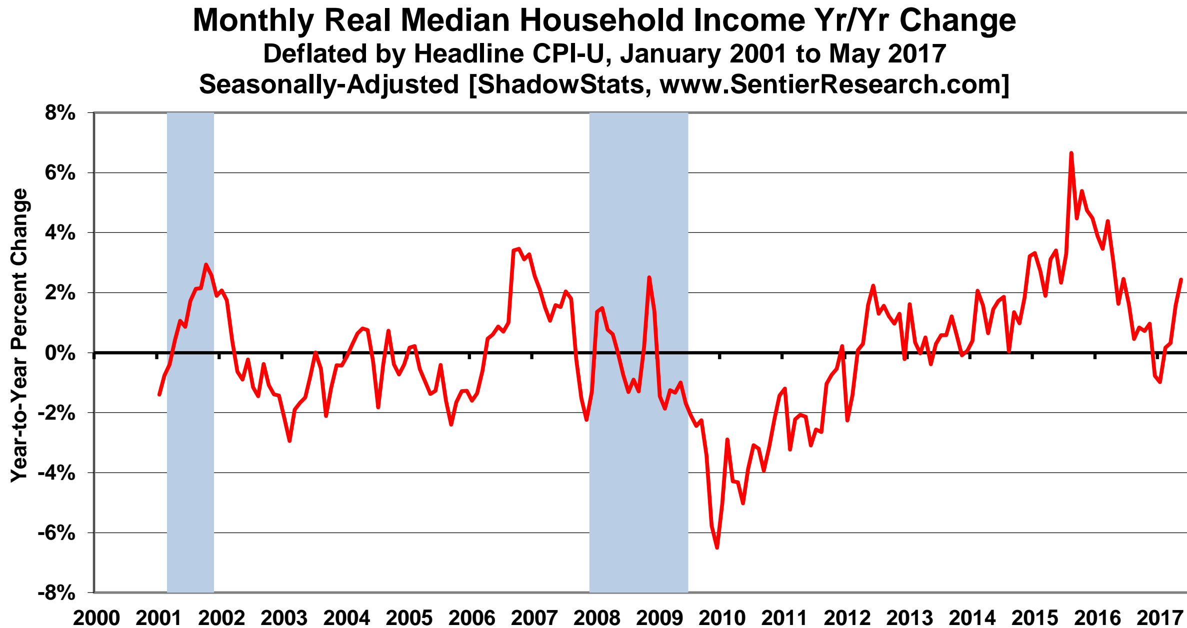
The Sentier numbers had suggested a small increase in 2014 versus 2013 levels, low-inflation induced real increases in 2015 and 2016. Allowing for the direction difference in 2014, and continual redefinitions and gimmicks in the annual series (again, see the *Opening Comments* of *Commentary No. 909*) 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—January 2018—Heading into a Third-Consecutive, Quarterly Contraction. For the production and nonsupervisory employees category—the only series for which there is a meaningful history (see the *Executive Comments* and *Graph 13* *Commentary No. 934-B*), real average weekly earnings contracted monthly by 0.78% (-0.78%) in January 2018, setting up first-quarter 2018 as a likely, third-consecutive quarter of contraction in real earnings. Based on the January detail, the early trend for first-quarter 2018 is for an annualized contraction pace of 2.92% (-2.92%). That also

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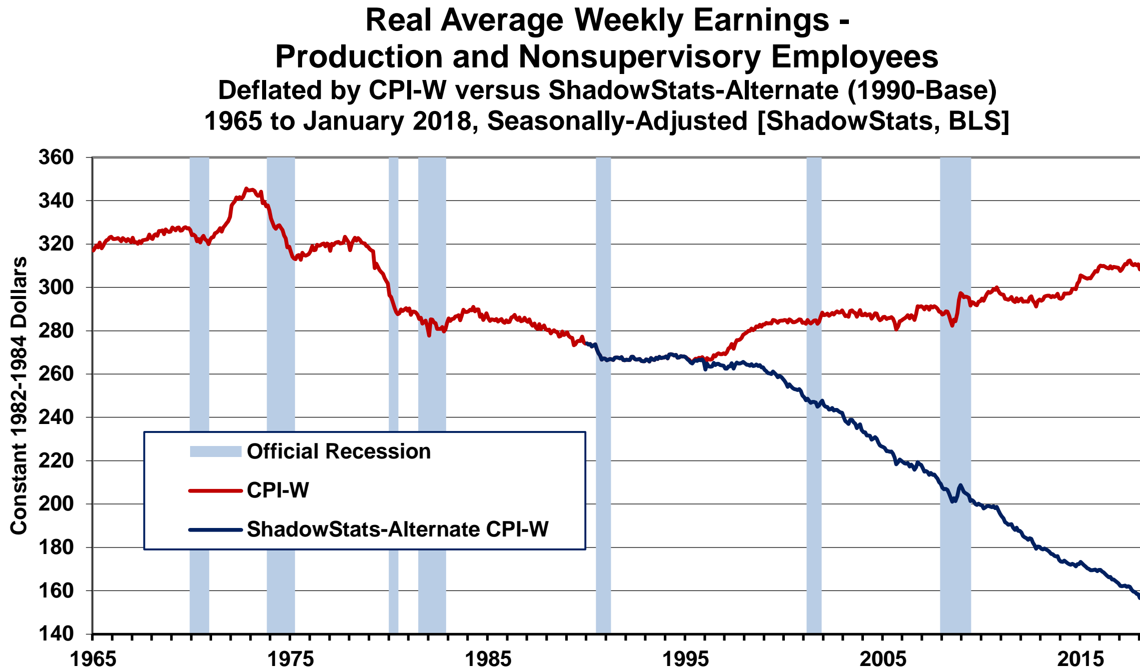
would be the fifth real quarterly contraction of the last six quarters. See the *Reporting Detail* for further information.

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

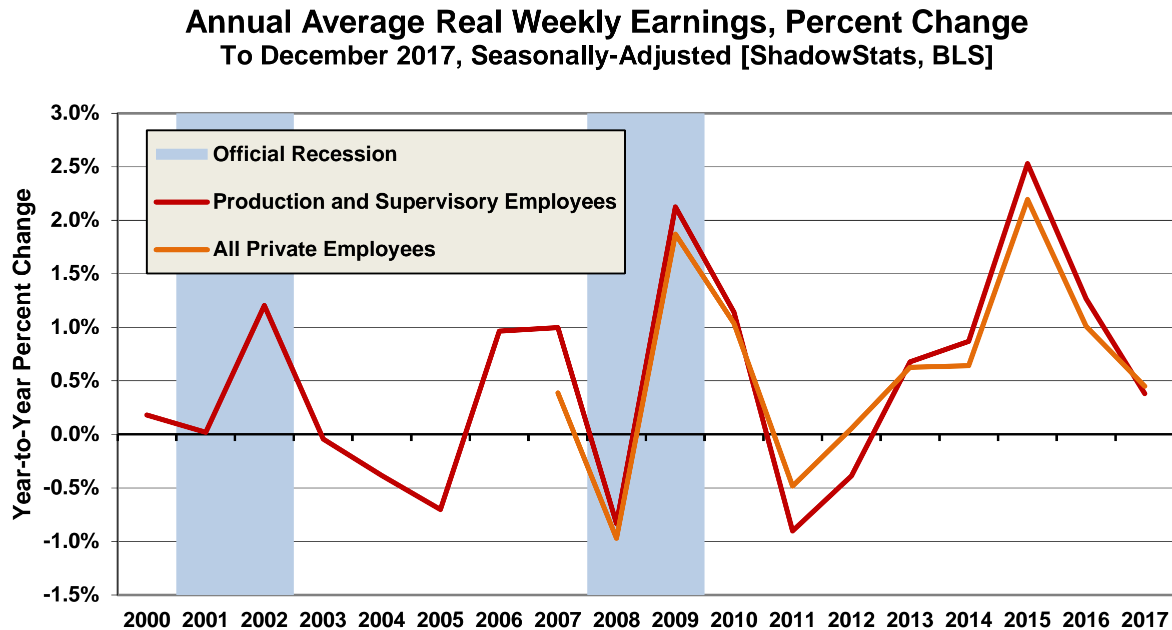


Graph CLW-7 plots the seasonally-adjusted earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating 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 *Commentary No. 928* and *Commentary No. 936*.

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-13*.

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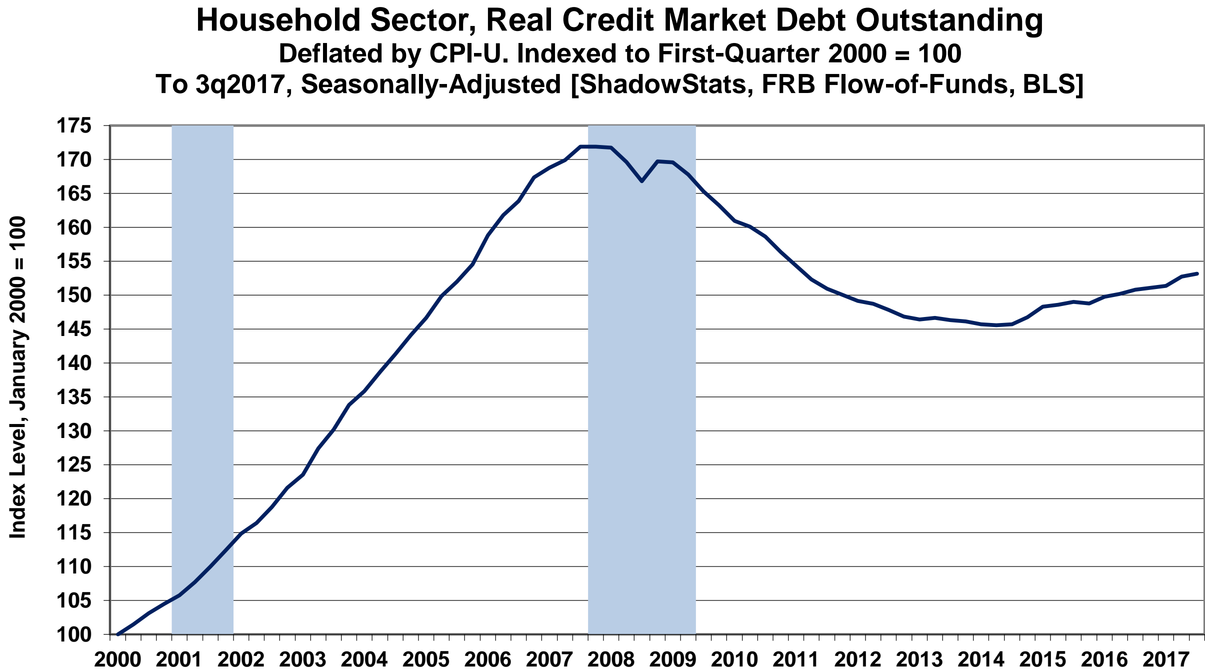
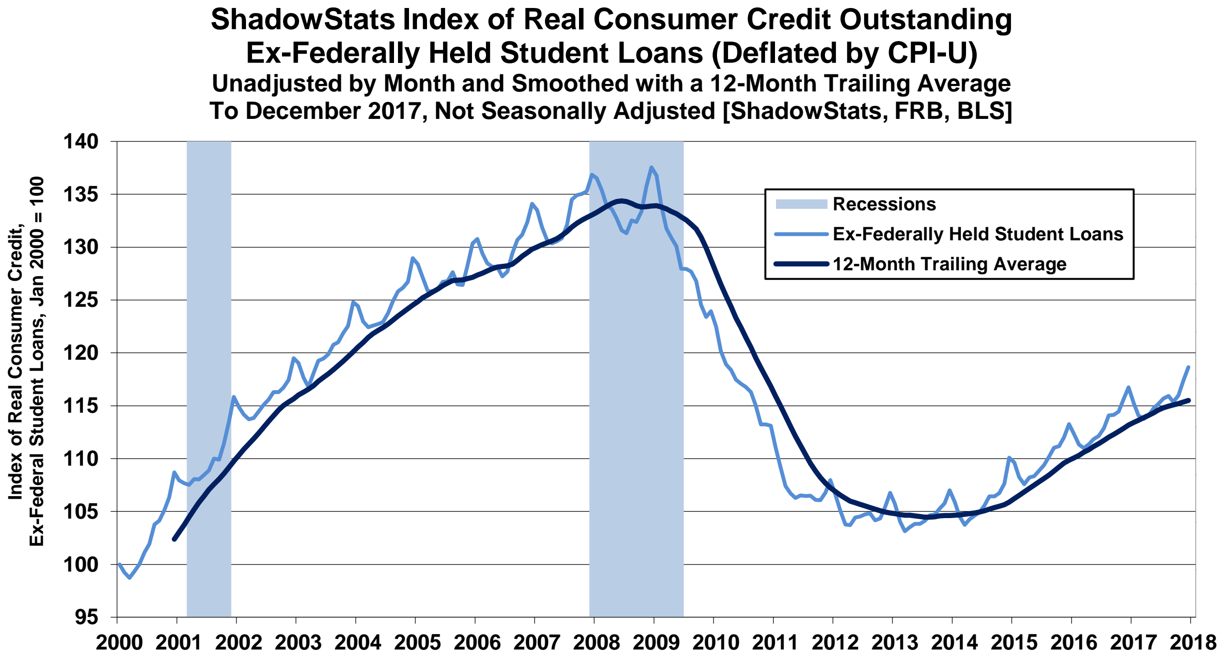
due primarily to gasoline-price-driven, negative CPI inflation, which continued to impact the system through second-quarter 2016 and intermittently into third-quarter 2017. Current activity also has reflected continuing relative strength from student loans, as shown in the *Graphs CLW-10* to *CLW-13*.

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.]

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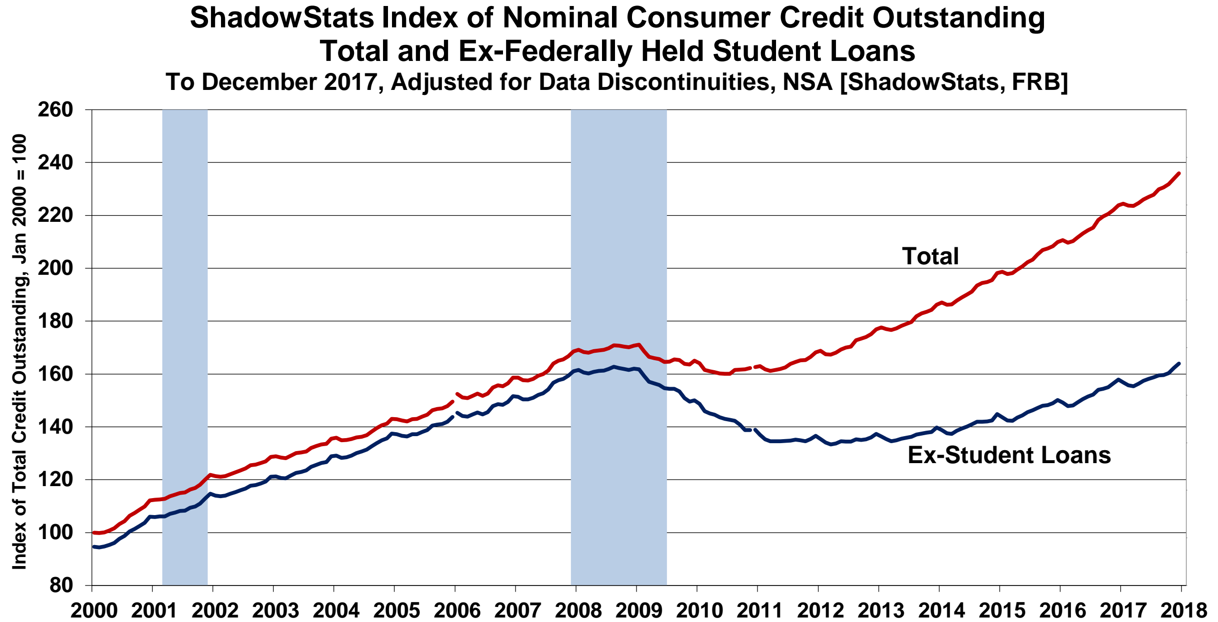
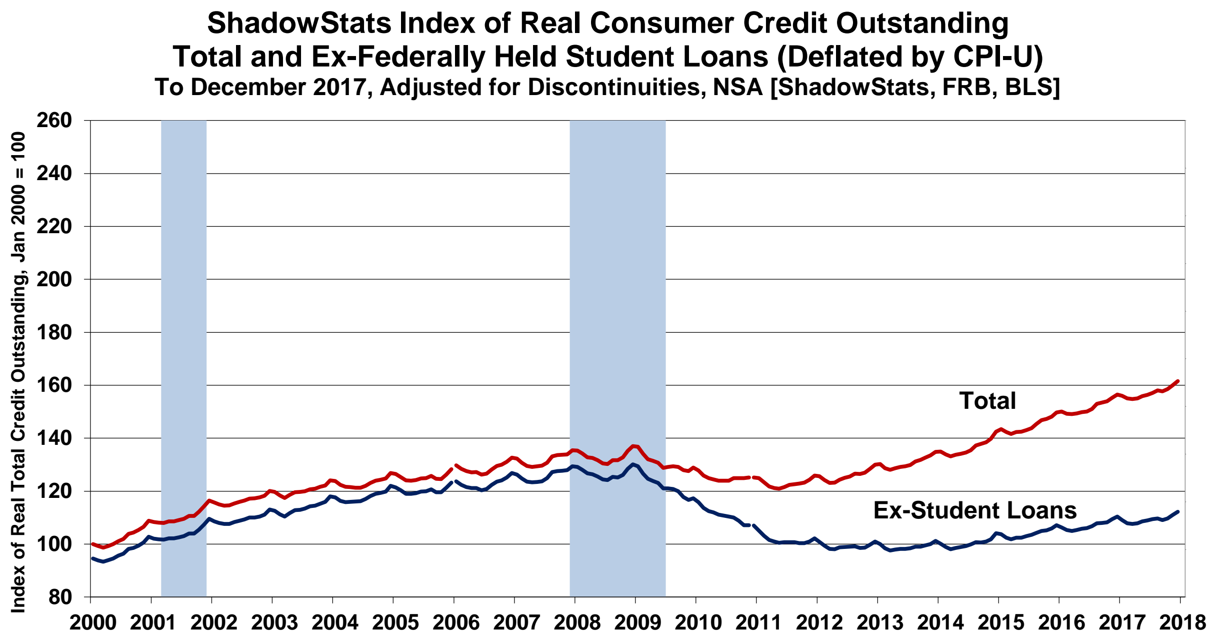
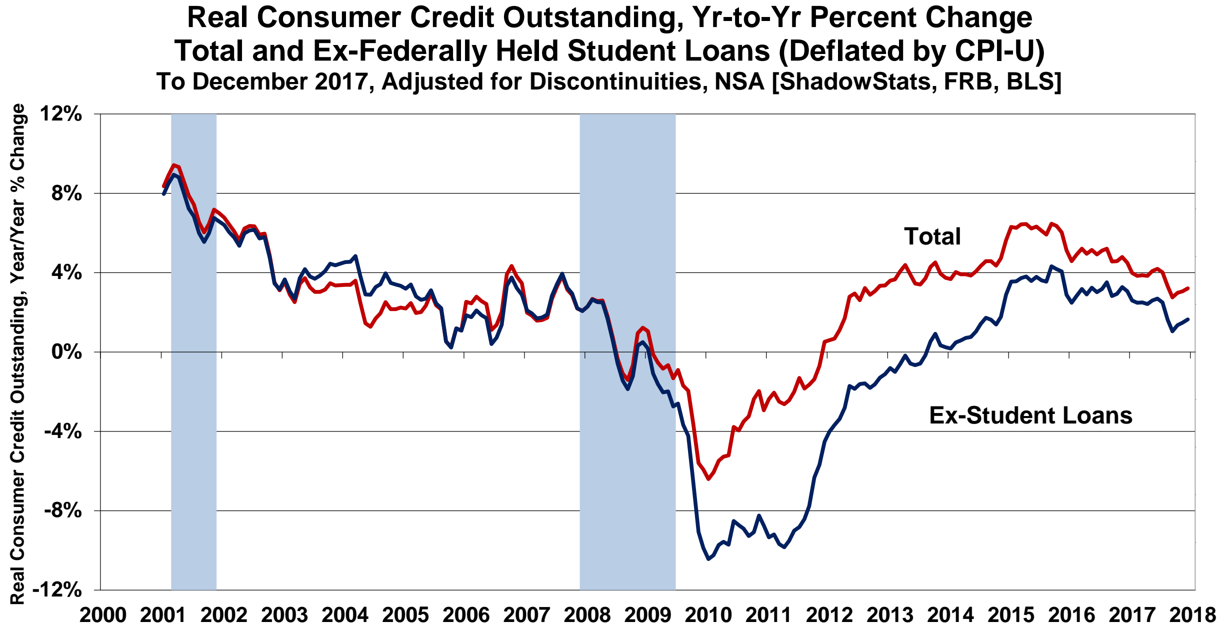
Graph CLW-11: Nominal Consumer Credit Outstanding (2000 to 2017)



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



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



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

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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 were reviewed in *Special Commentary No. 935*, covered there in the opening *Executive Summary* beginning on page 2 of that report, with *Contents* and links to *Major Sections* and *Graphs* beginning on page 6. Renewed economic faltering was discussed in *Commentary No. 936*, *Commentary No. 937* and in today's *Opening Comments*.

Conditions Take a Turn for the Worse. Natural-disaster-impact from late 2017 continued to unwind in most headline monthly economic reporting in January, a pattern that should intensify in the next couple of months. These elements suggested not only some downside revision for the second estimate of Fourth-Quarter 2017 GDP (seen some components), but also meaningful risk for an outright quarterly contraction in the initial estimate of First-Quarter 2018 GDP on April 27th, particularly with the deteriorating trade deficit discussed in *Commentary No. 937*. Increasingly, headline economic details are likely to disappoint consensus expectations (again, see today's *Opening Comments*).

The real-world economy is not recovering or booming as advertised, despite heavy hype in the press of a booming, full-employment economy, and in the context recent FOMC tightening actions.

If not already there, reporting in most series should be back to normal (allowing for hurricane disruptions and recovery) by the headline reporting of February 2018 economic activity, as discussed in *General Commentary No. 929*. That reporting starts next week. Most series increasingly should reflect "unexpected" downtrending economic activity. Where misleading, recent headline details have contributed to a manic stock market, the mania like it could be starting to unwind. The process should accelerate as market perceptions increasing shift towards renewed economic downturn.

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 was seen in last week's activity. 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, as will be discussed in next week's *Hyperinflation Watch* , in *Commentary No. 939* of March 9th. 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, Please call (707) 763-5786, if you would like to discuss current circumstances, or otherwise.

Best wishes – John Williams

PENDING ECONOMIC RELEASES: Trade Deficit (January 2018). U.S. Trade Deficit (January 2018). The Commerce Department and Bureau of Economic Analysis (BEA) will release their full version of the monthly U.S. trade balance for January 2019 on Wednesday, March 7th, to be covered in a ShadowStats *Commentary No. 939* of March 9th. Based on the advance estimate of the January goods deficit on February 27th (see *Commentary No. 937*), the January monthly deficit is on track to widen sharply and could foreshadow the worst real quarterly merchandise trade deficit in history.

Employment and Unemployment (February 2018). The Bureau of Labor Statistics (BLS) will publish the headline February labor data on Friday March 9th, to be covered in *Commentary No. 939* of that date. Consensus expectations likely will face some negative shocks.

Where annual growth in payrolls has slowed to recession-signal levels (see *Commentary No. 934-B*), such likely will deteriorate further with the headline February 2018 detail.

Significant, negative catch-up still looms for the Household Survey (unemployment rate), versus hurricane-related distortions in fourth-quarter 2017 (see *Commentary No. 934-B*), and the headline February detail, post-benchmark revisions and population resets is a good bet for seeing some negative surprises in the headline detail.

Given a fair shot of negative shocks for both the payroll and household surveys, realization of same would do much to move consensus economic views towards an unfolding downturn.

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*.

LINKS TO PRIOR COMMENTARIES AND SPECIAL REPORTS

Prior Writings Underlying the Current *Special Commentaries* and a Sampling of Recent *Regular Commentaries*. Underlying the recent *Special Commentary No. 935* *(Part One)* and the pending *Special Commentaries(Part Two)* on Inflation, and *(Part III)* on the Federal Reserve and U.S. banking system, are *Commentary No. 899* and *General Commentary No. 894*, along with general background from regular *Commentaries* throughout 2017.

These missive also are 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. 937 (February 27th) covered January 2018, New Orders for Durable, New- and Existing Home Sales, the "advance estimate of the January 2018 Merchandise Trade Deficit and the Cass Freight Index™.

Commentary No. 936 (February 19th) covered the January 2018 CPI and PPI, Retail Sales, Industrial Production and New Residential Construction (Housing Starts and Building Permits).

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Special Commentary No. 935 (February 12th) was the first part of a three part-series reviewing economic and financial conditions of 2017 and the year-ahead, inflation and the U.S. government's balance sheet and conditions in the U.S. banking system and Federal Reserve options.

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.

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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.

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