John Williams'

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Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 943

Gross Domestic Product, Gross National Product, Gross Domestic Income, Trade

March 29, 2018

Fourth-Quarter 2017 Gross Domestic Product GDP Annualized Real Growth Revised to 2.89% (Previously 2.54%), Down from 3.16% in Third-Quarter 2017

Fourth-Quarter Gross Domestic Income (GDI), Theoretical GDP Equivalent, Slowed to 0.87% from 2.44% in Third-Quarter

Fourth-Quarter Gross National Product (GNP), Broadest Measure of the Economy, Slowed to 2.71% from 3.65% in Third-Quarter

First-Quarter 2018 Real Merchandise Trade Continued on Track for Worst Shortfall in Modern Reporting

March Economic Numbers Should Disappoint Expectations

First-Quarter GDP Increasingly Looks Like a Contraction

Better-Quality Economic Measures Still Show No Economic Expansion

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PLEASE NOTE: The next Commentary, planned for Friday, April 6th, will review March Employment and Unemployment, the February Trade Deficit and Construction Spending.

Best wishes — John Williams (707) 763-5786

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Today's (March 29th) *Opening Comments and Executive Summary.* The ***Opening Comments*** reviews some market vulnerabilities in the context of a broadly, overly-optimistic economic consensus. Mounting indications of the unfolding downturn in first-quarter 2018 economic activity include continued trade-deficit deterioration. The trade shortfall is a factor largely separate from the natural-disaster effects that had boosted relative third- and fourth-quarter 2017 activity. The ***Executive Summary*** (page 4) highlights details of the third-estimate of Fourth-Quarter 2017 Gross Domestic Product and initial estimates of Gross Domestic Income and Gross National Product.

The ***Reporting Detail*** (page 14) reviews in greater depth the third estimate of Fourth-Quarter 2017 GDP and the initial and only regular estimates of the related GDI and GDP series.

The ***Consumer Liquidity Watch*** (page 24) has been updated to reflect today's release of the full-month estimate of March 2018 Consumer Sentiment from the University of Michigan.

The ***Week, Month and Year Ahead*** (page 38) provides background on recent *Commentaries* and previews the reports of next week's February Construction Spending, Trade Deficit and March Employment and Unemployment.

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OPENING COMMENTS

First-Quarter Economic Outlook Should Continue to Dim with the Headline March Numbers. ShadowStats forecasts a sharp slowdown in real (inflation-adjusted) first-quarter 2018 GDP, most likely an outright quarterly contraction, versus the headline fourth-quarter 2017 GDP reviewed in today's *Commentary*. ShadowStats expects oncoming March economic data—particularly the March employment and unemployment numbers of April 6th (see the *Pending Releases* in the *Week, Month and Year Ahead* section)—to weaken enough to begin shifting market sentiment to the downside. This is the context of a current market consensus for ongoing economic boom, and despite today's upside jump in the [Atlanta Fed's] "nowcast" for the first-quarter GDP outlook.

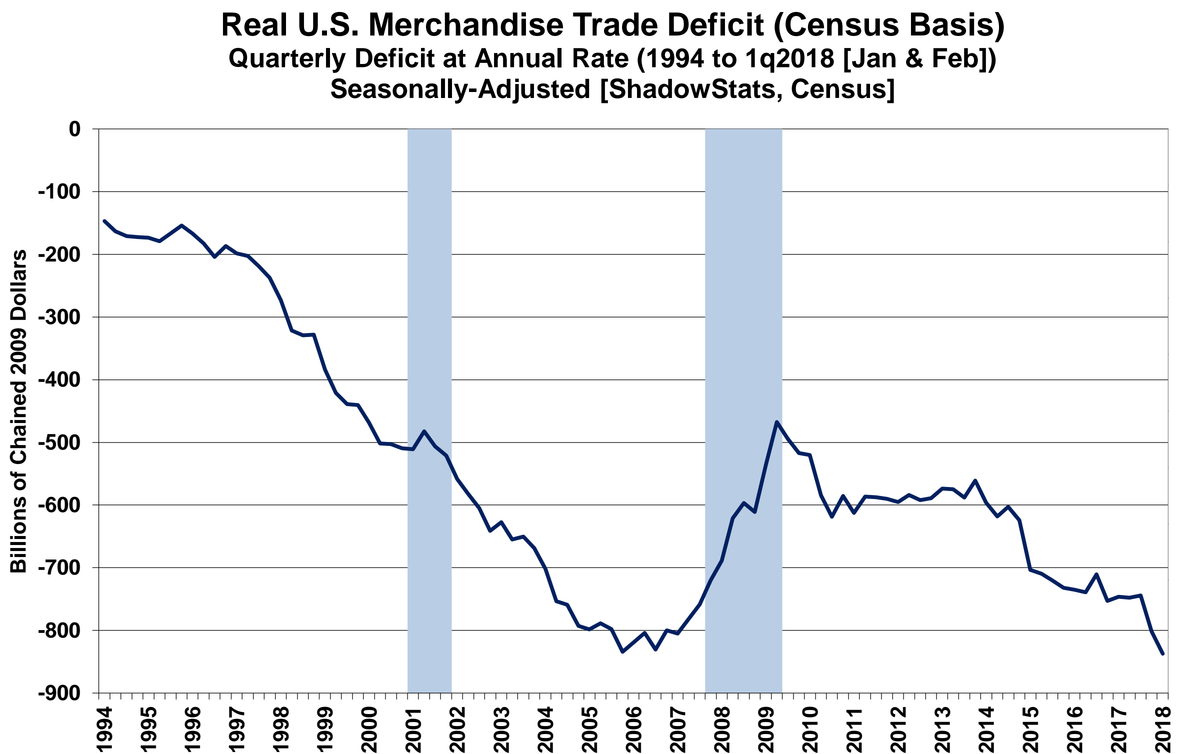
The Atlanta Fed's "nowcast" reflects the only latest headline data details published, not what is likely to be published in upcoming series. Accordingly, the "nowcast" tends to jump around from economic release to economic release. Today's jump to 2.4% from the prior 1.8% of March 23rd, reflected upside revisions to income estimates released today, and yesterday's revised inventory estimates in the GDP, both heavily gimmicked by the Bureau of Economic Analysis. That "nowcast" number will continue to gyrate, but generally, it should move lower with most of the more-realistic, better-quality headline economic reporting of the next month. Consider the trade deficit.

February 2018 "Advance" Goods Trade Deficit Confirmed First-Quarter 2018 on Track for Worst Real Merchandise Trade Deficit Ever Reported. Based on a worse-than-consensus "advance" estimate of the February 2018 Trade Balance (Deficit) in Goods, combined with full reporting already in place for January 2018, ShadowStats estimates that the real Merchandise-Trade Deficit continued on track to widen

sharply for first-quarter 2018. Where the fourth-quarter 2017 deficit was the worst such showing since first-quarter 2007, as reflected in *Graph OC-1* (see also *Commentary No. 933*), the two-month reporting trend has the first-quarter 2018 real-Merchandise-Trade Deficit on track for its worst showing in the history of the series.

The "advance" February trade deficit in goods was released March 28th by the Census Bureau and the Bureau of Economic Analysis. It came in at a nominal monthly deficit of $75.353 billion, versus the full headline reporting of $75.264 billion [revised from the "advance" January deficit of $74.395 billion], as covered in *Commentary No. 937* and *Commentary No. 939*. Initial full detail on the February deficit will be published April 5th and covered in *Commentary No. 944* on April 6th. The early reporting here also continued as a strongly-negative indication for headline first-quarter 2018 GDP activity.

Graph OC-1: Real U.S. Merchandise Trade Deficit (1994 to 1q2018, Jan and "Advance" Feb 2018)



Intensified Selling of the U.S. Dollar and Negative Stock-Market Turmoil Remain Likely, Soon. In the context of deteriorating fiscal circumstances in Washington, D.C., given the latest budget package, the U.S. dollar is particularly vulnerable to heavy selling, especially in the context of a deteriorating economic outlook. Discussed in the *Opening Comments* and *Hyperinflation Watch* of *Commentary No. 940* and *Commentary No. 942-B*, the headline economic boom that helped to drive the major U.S. stock indices to recent all-time highs, has begun to fall apart. That process should accelerate in the next several weeks, as underlying economic detail increasingly re-stabilizes at lower levels of downtrending activity, as seen with the February Retail Sales reporting, and as indicated in unfolding, first-quarter quarterly contractions in New Orders for Durable Goods and in New- and Existing-Home Sales.

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With headline numbers faltering anew, selling of the U.S. dollar should intensify, with both factors likely to begin turning stock prices lower. Given a full-fledged dollar selling panic as a fair bet, stock prices likely would tank in tandem, as foreign as well as domestic investors increasingly would seek safer havens in other currencies.

Despite consensus expectations of a fully-recovered, booming economy, the underlying economic activity never has fully recovered (see the *Executive Summary* and, again, *No. 942-B*). While natural-disaster-recovery activity boosted the late-2017 economic numbers, the system has begun to re-stabilize in its prior, non-recovery and intensifying downturn mode.

The increasing, fundamental disconnection between the happy hype in the media, the financial markets and the Fed's FOMC pronouncements as to a rapidly expanding U.S. economy, and the underlying reality of broad U.S. economic activity never having recovered its pre-recession 2007 peak, promises to disrupt FOMC policy and financial-market tranquility in the months ahead. Oncoming headline economic detail offers meaningfully-high risk in the weeks and months ahead.

In response to likely renewed liquidity stresses on the banking system from an "unexpected" economic downturn, the FOMC still remains likely to abandon its current path of policy tightening, for a renewed and expanded quantitative-easing program to bolster an increasingly liquidity-challenged domestic banking system. The market response to, or anticipation of a shift in policy, also should pummel the value of the U.S. dollar in the global markets, spiking gold, silver and oil prices. Again, in turn, domestic equity and credit-market prices should fall sharply, as significant capital flees the weakening U.S. dollar and the domestic markets.

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

EXECUTIVE SUMMARY: Gross Domestic Product (GDP)—Fourth-Quarter Growth Revised Higher to 2.9%, Still Down from the Third-Quarter, yet Initial Growth for the GDP-Equivalent GDI Sank to 0.9%. Headline, broad U.S. economic growth, as measured by the GDP, slowed in fourth-quarter 2017, and activity likely will slow sharply further (into an outright quarterly contraction) in first-quarter 2018, as discussed in the *Opening Comments*.

The third estimate of Fourth-Quarter 2017 GDP revised the real (inflation-adjusted) annualized quarterly economic growth rate to 2.89% [previously 2.54%, initially 2.55%], against an unrevised 3.16% in third-quarter 2017. That said, the third estimate of fourth-quarter GDP, was accompanied by the first and only estimates of fourth-quarter Gross Domestic Income (GDI) and Gross National Product (GNP). The GDI is the theoretical equivalent of the income-side version of the GDP's consumption-side estimate of the economy. The GNP is the broadest estimate of the national economy, the GDP net of the international flows of factor income (interest and dividend payments).

Rarely equivalent, and heavily indicative of the negligible reporting quality and lack of real-world significance of these series, fourth-quarter GDP growth slowed to 2.89% from 3.16% in the third-quarter, while fourth-quarter GDI growth collapsed to 0.87% from 2.44%. GNP growth also slowed sharply, to 2.71% in the fourth-quarter from 3.65% in the third-quarter. See the discussion the *Reporting Detail*.

These were the last estimates of fourth-quarter GDP, GDI and GNP before the July 27th comprenhensive, annual GDP benchmarking [erroneously indicated as June 28th in the prior *Commentary No. 942-B*].

Table 1: Headline Third 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 Third Estimate	4th-Q 2017 Second Estimate	4th-Q 2017 First Estimate	3rd-Q 2017	2nd-Q 2017	1st-Q 2017	4th-Q 2016
CONTRIBUTING ECONOMIC SECTOR							
Personal Consumption Expenditures							
- Goods	1.67%	1.61%	1.76%	0.97%	1.16%	0.15%	1.03%
- Services	1.08%	0.97%	0.82%	0.52%	1.08%	1.17%	0.97%
Gross Private Domestic Investment							
- Fixed Investment	1.31%	1.29%	1.27%	0.40%	0.53%	1.27%	0.28%
- Change in Private Inventories	-0.53%	-0.70%	-0.67%	0.79%	0.12%	-1.46%	1.06%
Net Exports of Goods and Services	-1.16%	-1.13%	-1.13%	0.36%	0.21%	0.22%	-1.61%
Government Consumption/Investment	0.51%	0.49%	0.50%	0.12%	-0.03%	-0.11%	0.03%
GDP Annualized Real Growth	2.89%	2.54%	2.55%	3.16%	3.06%	1.24%	1.76%
Final Sales, GDP Less Inventories	3.42%	3.24%	3.22%	2.37%	2.94%	2.70%	0.70%
CONTRIBUTING PRODUCT SECTOR							
Goods	0.78%	0.71%	1.00%	2.74%	2.10%	-0.47%	0.88%
Services	1.18%	1.02%	0.86%	0.93%	1.32%	0.91%	0.61%
Structures	0.93%	0.81%	0.69%	-0.51%	-0.36%	0.80%	0.27%
GDP Annualized Real Growth	2.89%	2.54%	2.55%	3.16%	3.06%	1.24%	1.76%
Sources: Bureau of Economic Analysis (BEA), ShadowStats.							

Headline Third Estimate, Second Revision of Fourth-Quarter 2017 GDP. Shown in *Table 1*, the aggregate upside revision to the third estimate of fourth-quarter GDP real growth was unusually large for so late in the reporting cycle, and of particular questionability given the extremely limited quality of the general reporting. Inventories dropped, but there were limited offsetting gains in consumption of product, just a small relative gain (a negative contribution moving to flat) with gasoline, and a small increase in the nebulous "other goods" category. The bulk of the revised gain, instead, effectively was in services consumption, consumption of transportation services and the nebulous "other services." By product sector, the upside changes again were in services, but also in structures, where the latter category likely reflected some disaster-recovery effects.

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Again, the third estimate of fourth-quarter 2017 annualized real GDP growth came in at 2.89% [previously 2.54%, initially 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 2.75% + 0.78% -1.16% + 0.51% = 2.89% (a rounding differential). Further breakout and monthly shifts in revisions are shown in *Table 1*. 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 revisions) were a deepened trade-balance (net exports), along with a sharp decline in inventories.

Regrouped by the general nature of product-sector activity, the headline fourth-quarter 2017 GDP gain of 2.89% [previously 2.54%, initially 2.55%] encompassed positive growth-rate contributions of 1.18% [previously 1.02%, initially 0.86%] from the services sector, 0.78% [previously 0.71%, initially 1.00%] from the goods sector and 0.93% [previously 0.81%, initially 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 Revised Negligibly Higher. Discussed in the *Reporting Detail*, the Implicit Price Deflator (IPD)—the GDP inflation measure—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 headline CPI-U. The minimally-revised IPD showed fourth-quarter 2017 annualized inflation of 2.35%, versus 3.31% for the CPI-U, with year-to-year IPD inflation of 1.86%, versus 2.13% in the CPI-U. As noted in the *Public Commentary on Inflation Measurement*, the lower the inflation rate used in deflating an economic series, the stronger will be the resulting, inflation-adjusted "real" growth.

Underlying Economic Reality. *[Note: With natural-disaster-related disruptions playing out and continuing to wind down, and with third-estimate of fourth-quarter GDP growth revising somewhat higher, this text largely has been repeated from* Commentary No. 938*, which covered the prior, second estimate of fourth-quarter 2017. All details and graphs have been updated to reflect the latest developments and numbers (also, for background, see prior* Commentary No. 942-B*, 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 24.

With upside second-revision to fourth-quarter real annualized growth came in somewhat above (previously below) the 40-year series average for both the annualized and annual growth rates of 2.7%, reflecting 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 and California Wildfire seasons. That said, while headline growth GDP was positive, underlying real-world U.S. economic activity continued in a deepening-to-flattening and as-yet-unrecognized "new" recession.

Distortions, aside, headline monthly reporting activity in better-quality subsidiary economic series continued to confirm a still unfolding, renewed contraction (the ShadowStats contention remains that the "new" downturn is in reality just a continuation of the economic crash into 2009, from which the aggregate real-world economy never fully recovered, again, see prior *Commentary No. 942-B*). 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, tax reform and developing movement on the trade front. Nonetheless, continuing efforts by the Trump Administration to enact new policies aimed at generating economic stimulus programs, such as investment in infrastructure, largely have been frustrated by an uncooperative Congress. That said, tax reforms indeed 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 could 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 pending, comprehensive 2018-benchmarking overhaul on. *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.

With the "comprehensive" GDP benchmark revision pending on July 27, 2018 (a restatement of activity back to 1929), potentially more-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 (as suggested *Commentary No. 942-B*).

That circumstance also should encompass the evolving, current 2018 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 of consumer goods (*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.

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 15.3% 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*, *Commentary No. 926* and *Commentary No. 942-B*, 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 March 28th, that the second revision to or third estimate of fourth-quarter 2017 GDP showed a revised, annualized quarterly gain of 2.89%, 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 2.58% 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 10* to *15* in the *Reporting Detail.* With the revised new detail fourth-quarter 2017 GDP standing at 15.3% 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

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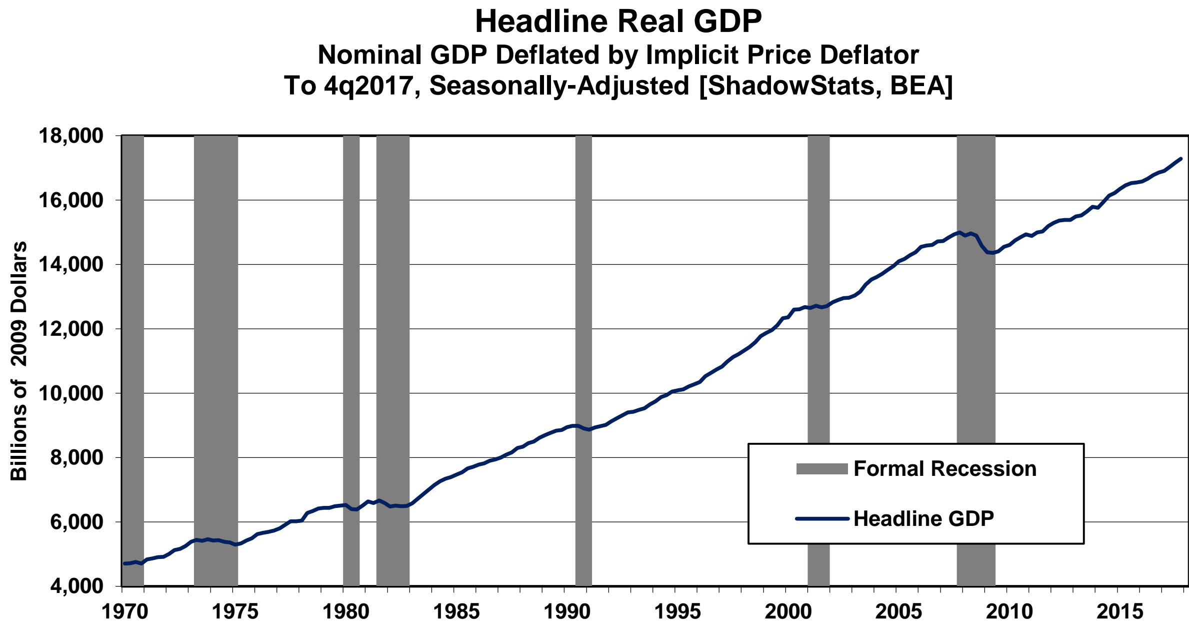
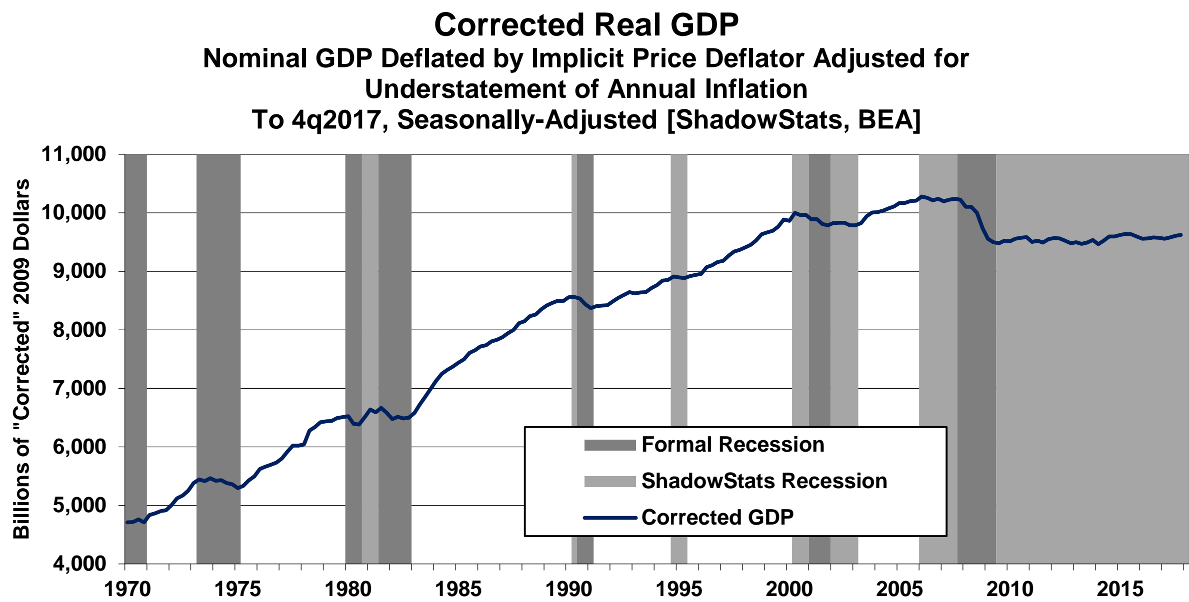
major economic reporting, as regularly discussed here. Again, *Graphs 2* and *4*, reflect the ShadowStats alternative estimates of GDP growth, corrected for the understatement of annual inflation used in deflating real GDP growth.

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



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



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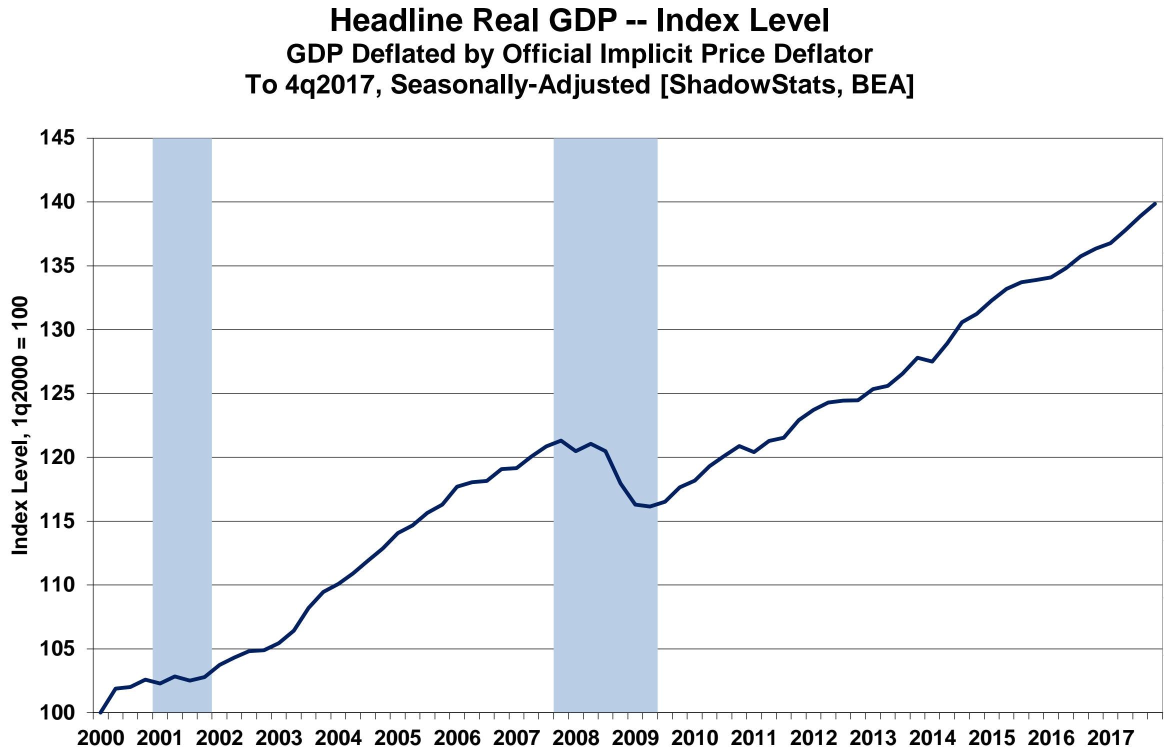
Graph 3: Real GDP Index – Headline Real GDP through Third-Estimate of Fourth-Quarter 2017



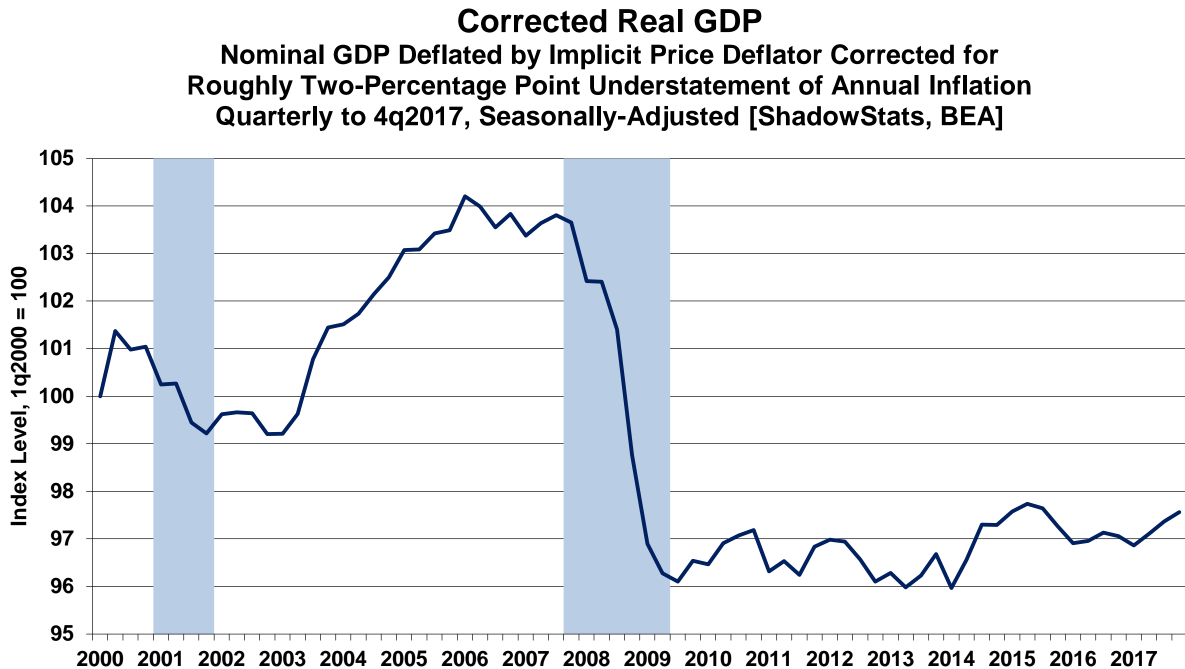
Comparative Indicators. The following *Graph 4* of the "corrected" GDP series is shown along with an example of the regular, comparative economic indicators (see the expanded coverage in *Special Commentary No. 935*), which generally confirm the broad story from the "corrected" GDP graph that the economy 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 5* shows the Cass Freight Index™ measure of North American freight volume through February 2018, used with the permission of Cass Information Systems, Inc. Few measures better reflect the actual flow of goods in commerce than freight activity (see the *Reporting Detail* of *Commentary No. 942-B*). 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 February 2018 Manufacturing of Consumer Goods, also from *Commentary No. 942-B*, in the context of the downside, annual benchmark revisions just published for Industrial Production. Those revisions likely foreshadow looming downside benchmark revisions to headline GDP on July 27th. *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.

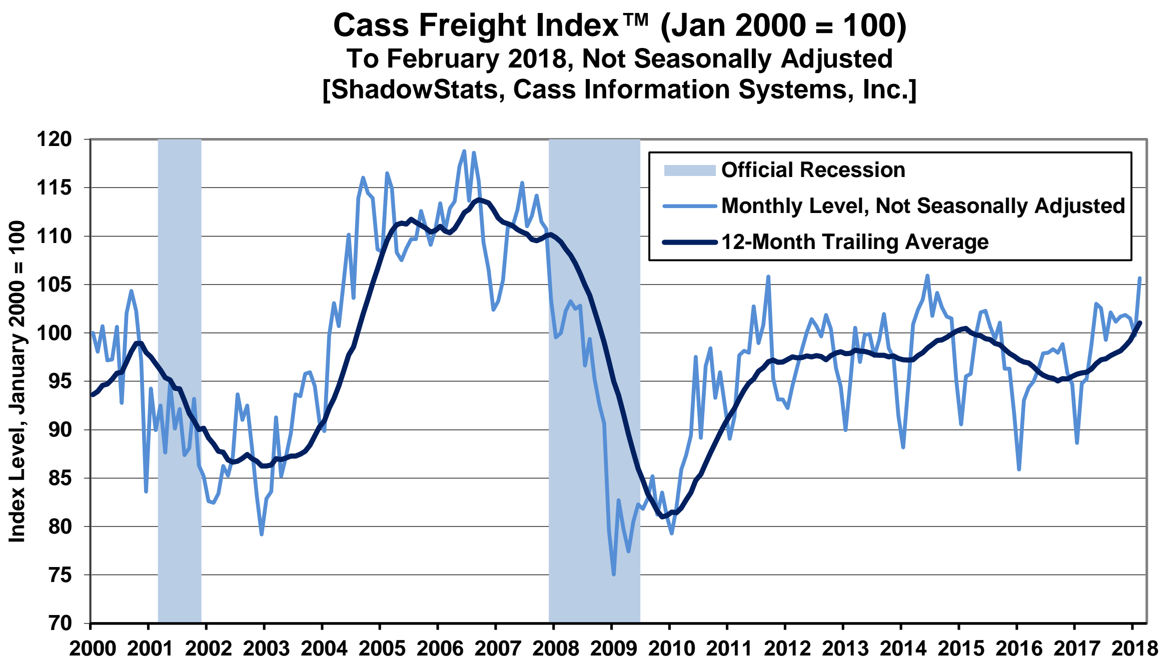
Graph 9 of the employment-to-population ratio also remains a solid indicator of underlying labor conditions in the context of the broad population and long-term discouraged and displaced workers, reflected there through February 2018.

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



Graph 5: CASS Freight Index™ Moving-Average Level (2000 to February 2018)

(Same as Graph 8 in Commentary No. 942-B)



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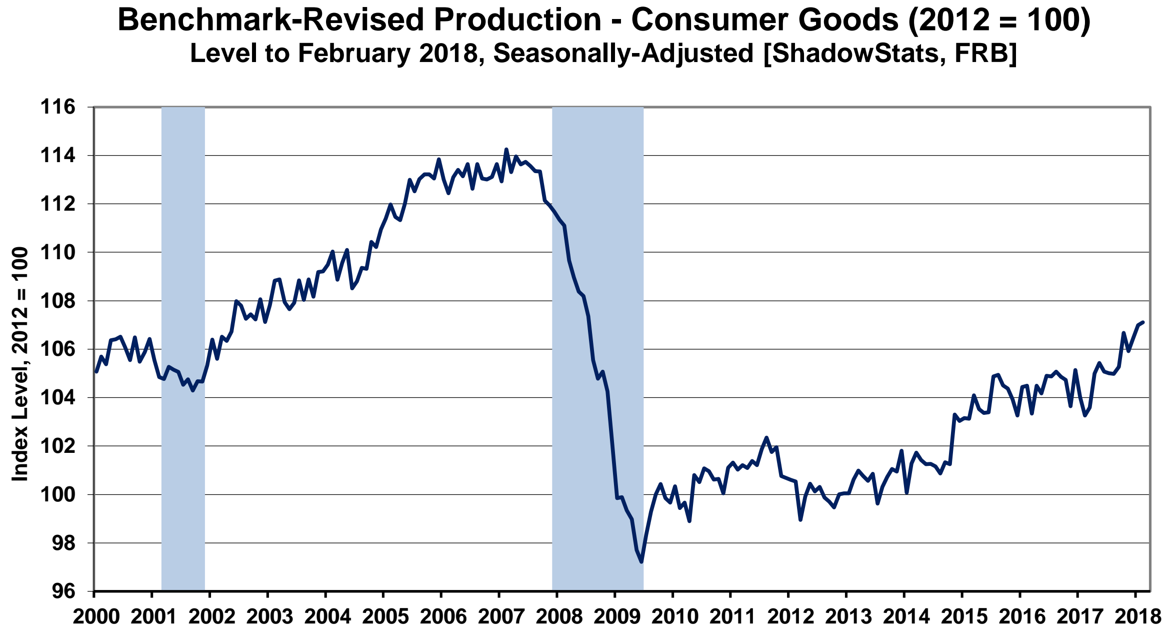
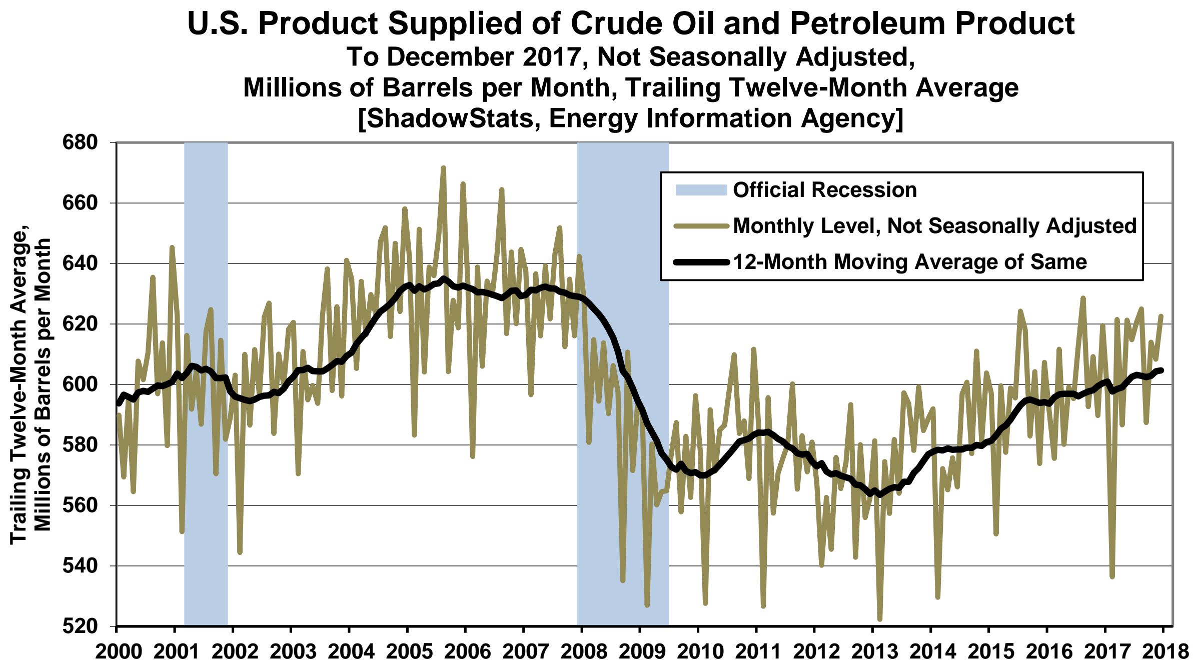
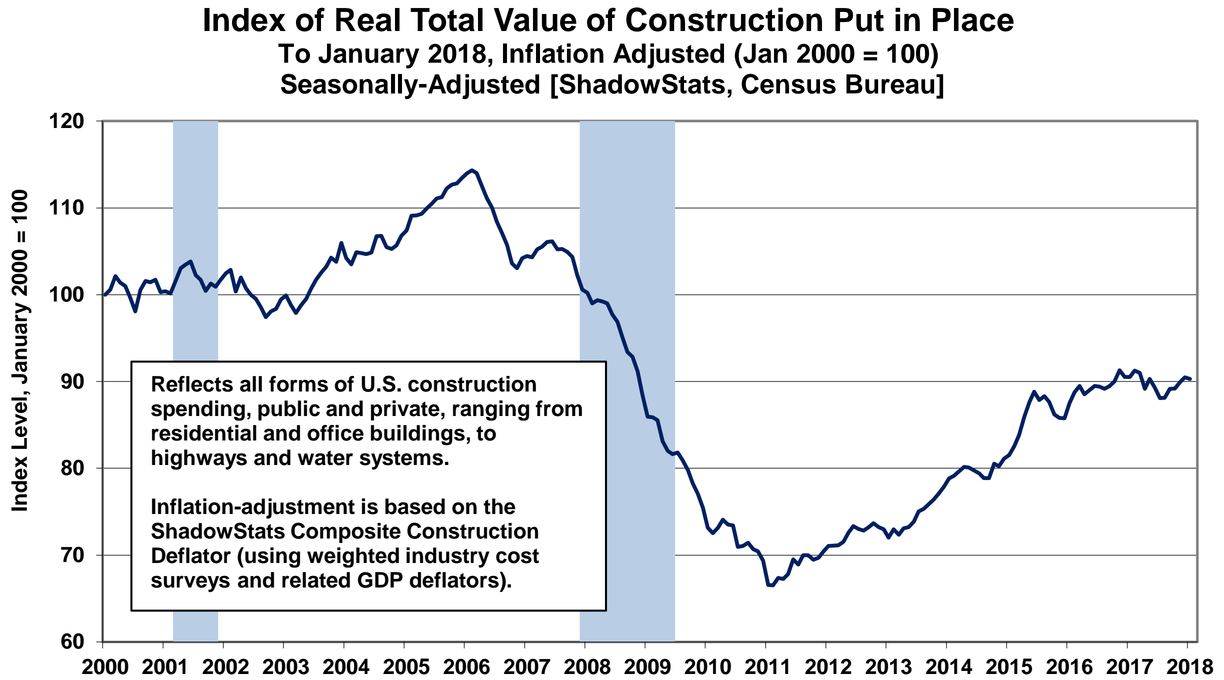
Graph 6: Benchmarked U.S. Industrial Production, Manufacturing - Consumer Goods (2000 to February 2018)
(See Graph Benchmark 10 in Commentary No. 942-B)



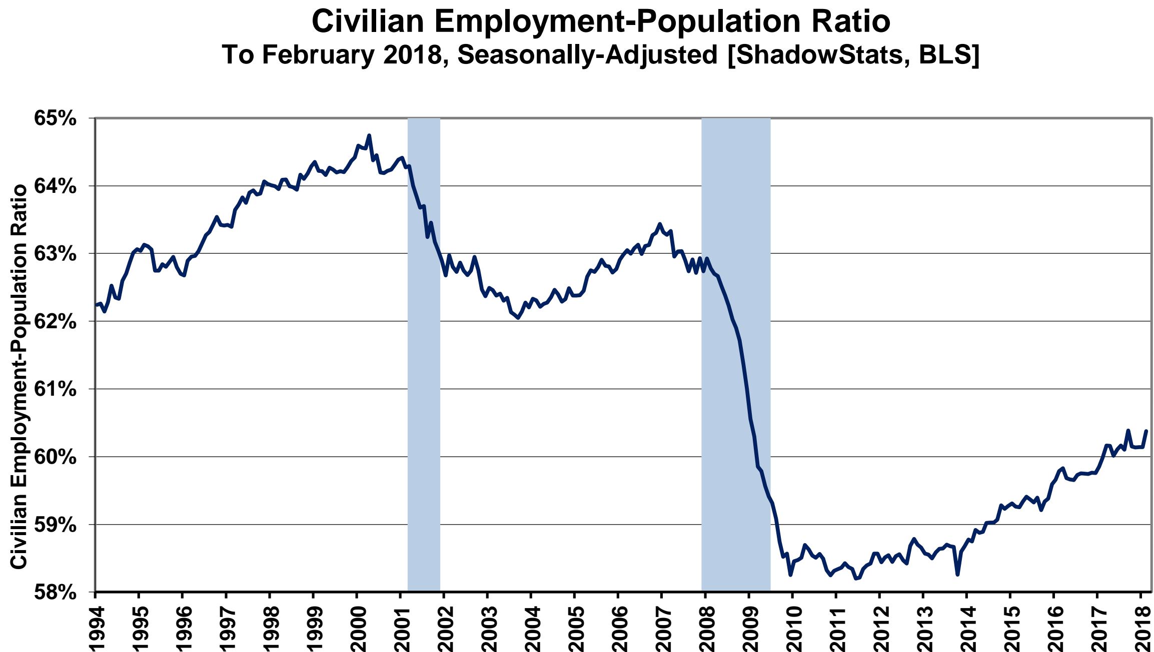
Graph 7: U.S. Petroleum Consumption (2000 – December 2017)



Graph 8: Real Total U.S. Construction Spending (2000 – January 2018)
(See Graph 24 in Commentary No. 938)



Graph 9: Civilian Employment-Population Ratio (2000-February 2018)
(Graph 7 in Commentary No. 939)



[Extended analysis of the National Income Accounts follows in the **Reporting Detail.***]*

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REPORTING DETAIL

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

Third Estimate of Fourth-Quarter GDP Revised Higher to 2.89%, Down from 3.16% in the Third-Quarter. Fourth-Quarter 2017 GDP activity slowed to an upwardly- revised 2.89% [previously 2.54%, initially 2.55%] from 3.16% in third-quarter 2017, generally on the upper end of consensus expectations, which were for an upside revision into a range of 2.7% to 2.8%. As usual, these numbers were without much statistical significance or real-word meaning.

Although growth slowed from third-quarter activity, fourth-quarter GDP remained bloated from disaster recovery, and the First-Quarter 2018 GDP (advance estimate on April 27th) remained a prime candidate for an inflation-adjusted, real quarter-to-quarter contraction, updated in the *Opening Comments.* Indications of that looming quarterly slowdown/downturn already have started to surface in January and February 2018 headline data (see *Commentary No. 936*, *Commentary No. 937*, *Commentary No. 940* and *Commentary No. 942-B*, for example), and those indications should intensify sharply in the underlying monthly series still to come in February and in 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 in the latter-third of 2017. 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.* The pending "comprehensive" benchmarking the series, back to 1929, to be published

on July 27th, however, may begin to catch up with some missed downside corrections to the series, particularly in 2011, as discussed briefly in prior *Commentary No. 942-B*.

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.*

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Gross Domestic Product (GDP). Published Wednesday, March 28th, by the Bureau of Economic Analysis (BEA), the second revision to, third estimate of fourth-quarter 2017 GDP revised with somewhat nondescript upside revisions to services as discussed with and detailed in *Table 1* in the *Executive Summary*. The revised, statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 2.89% [previously 2.54%, initially 2.55%] +/- 3.5% (95% confidence interval), largely matched or slightly exceeded market expectations of headline growth rising from to 2.5%, to 2.7% or 2.8%. Yet, where the initial growth estimate simply had rounded up to 2.6% from 2.55% at the second decimal point, the net-downside first revision to the annualized growth rate of 0.01% (-0.01%) was enough to generate the rounded 0.1% (-0.1%) drop to 2.5% in the headline second-estimate growth.

The new 2.89% 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, the BEA finally released its initial and only estimates of fourth-quarter 2017 Gross Domestic Income (GDI) and Gross National Product (GNP), before the July 27th benchmarkings. The year-end delayed data release was due to lack of data significance (a continuing problem for much of the National Income Accounts). Annualized quarterly growth in the GDI, which is the income-side's theoretical equivalent to the GDP's consumption side, dropped to 0.87% in fourth-quarter 2017, versus 2.44% in third-quarter 2017. The broader GNP measure slowed to 2.71% in fourth-quarter 2017, from 3.65% in third-quarter 2017.

Graphs 10 and *12* 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 11* and *13*, headline year-to-year real GDP growth in the third estimate of fourth-quarter GDP, again was 2.58% 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 14 and *15* respectively show the levels of annual real GDP activity, as well as annual percent change, as estimated beginning in 1929.

Reflected in *Graph 15*, the upwardly-revised third estimate of annual-average real GDP growth in 2017 rebounded some to 2.27%, 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." As in the later GDI and GNP comparisons that also pattern also was true for the GDI and GNP.

The current-cycle trough in quarterly annual change was in second-quarter 2009 (see *Graphs 11* and *13*), 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 11* shows the revised current year-to-year quarterly detail, from 2000-to-date, where *Graph 12* shows the same series in terms of its full quarterly, year-to-year history back to 1948. Shown in *Graph 15*, 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%).

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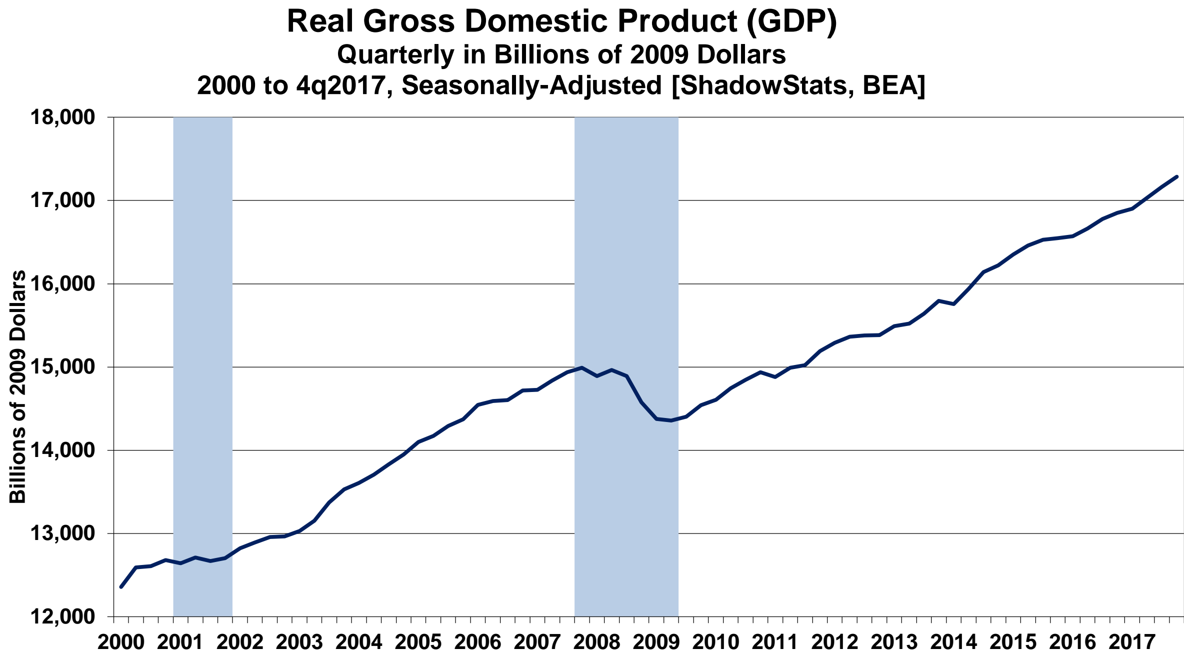
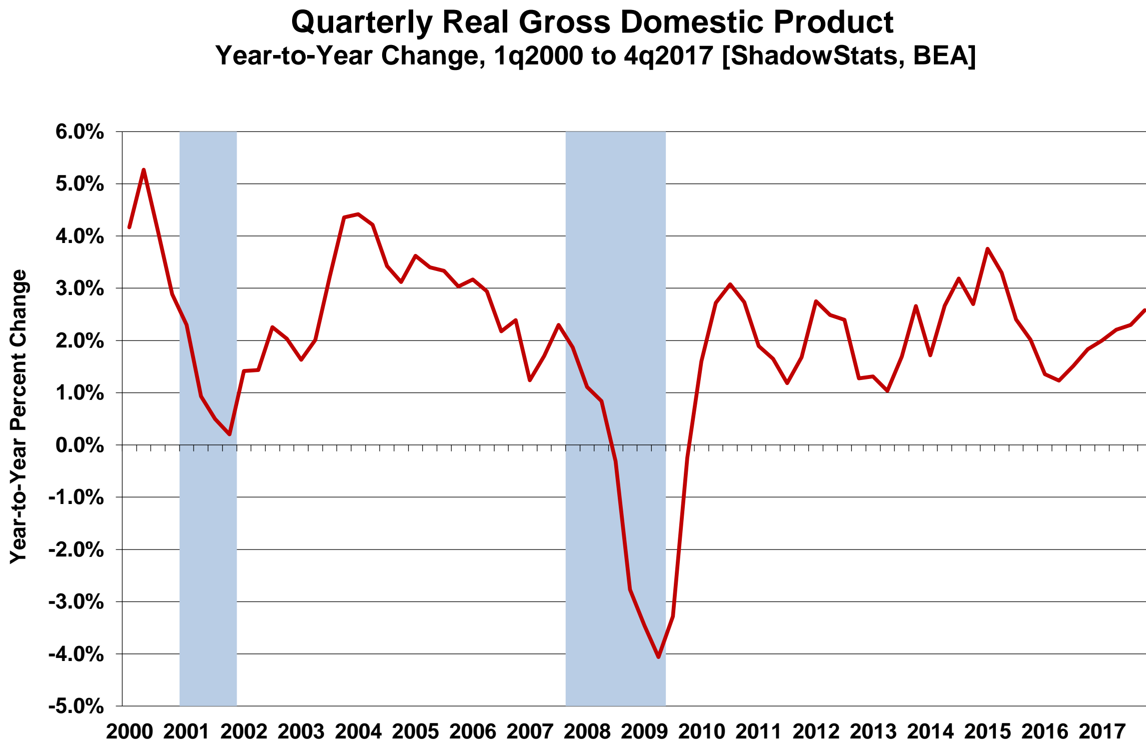
Graph 10: Quarterly GDP in Billions of 2009 Dollars (2000 to 2017), Third-Estimate of Fourth-Quarter 2017



Graph 11: Quarterly GDP Real Year-to-Year Change (2000 to 2017), Second-Estimate of Fourth-Quarter 2017



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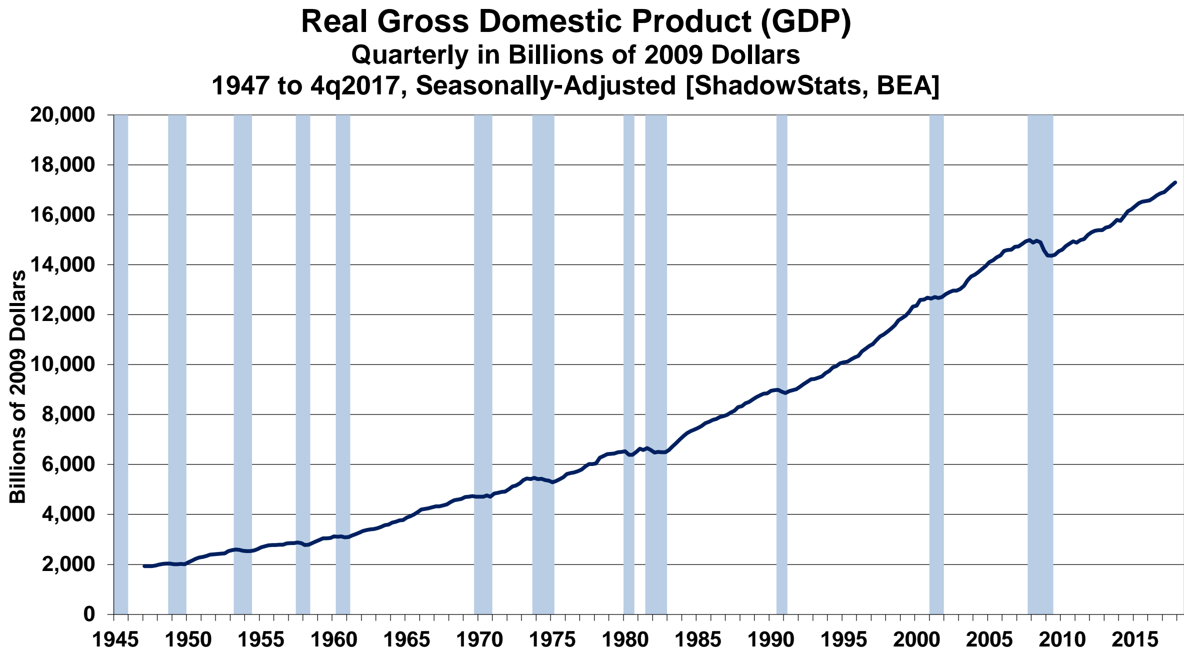
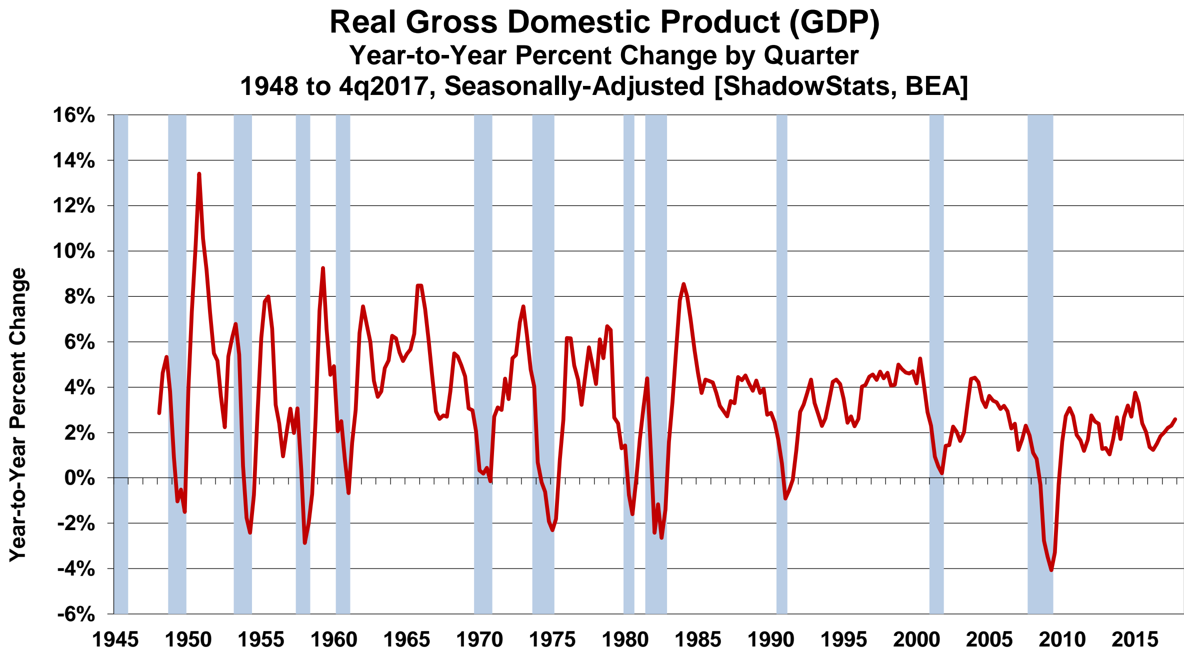
Graph 12: Quarterly GDP in Billions of 2009 Dollars (1947-2017), Third-Estimate of Fourth-Quarter 2017



Graph 13: Year-to-Year GDP Real Change (1948-2017), Third-Estimate of Fourth-Quarter 2017



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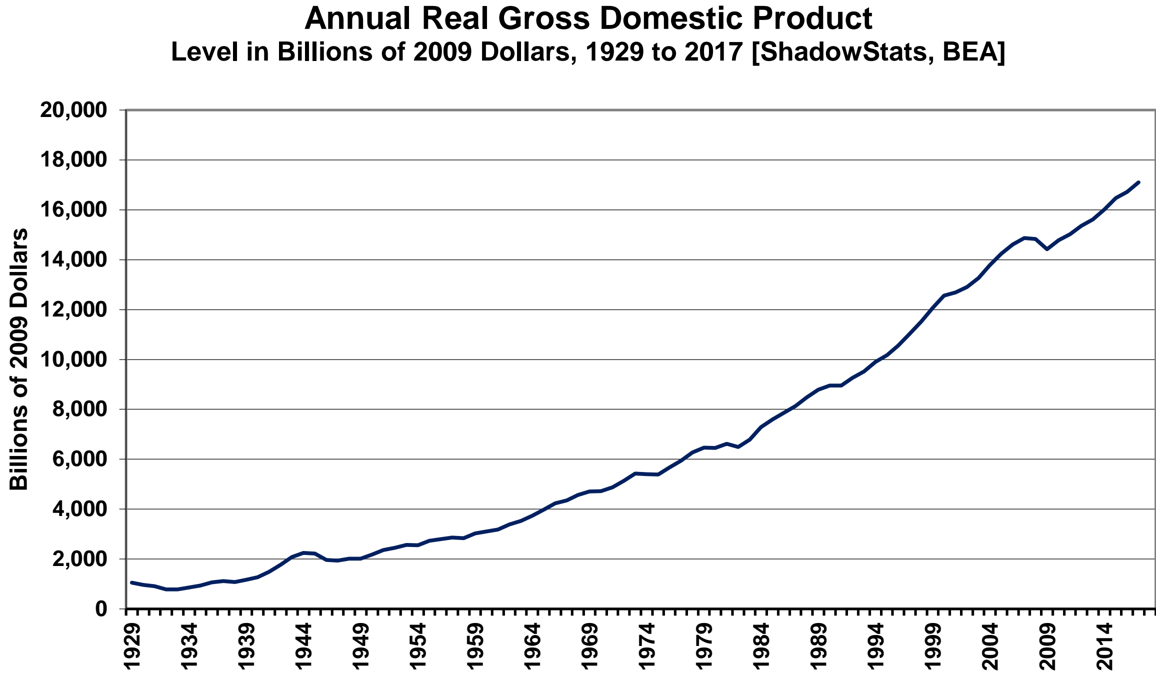
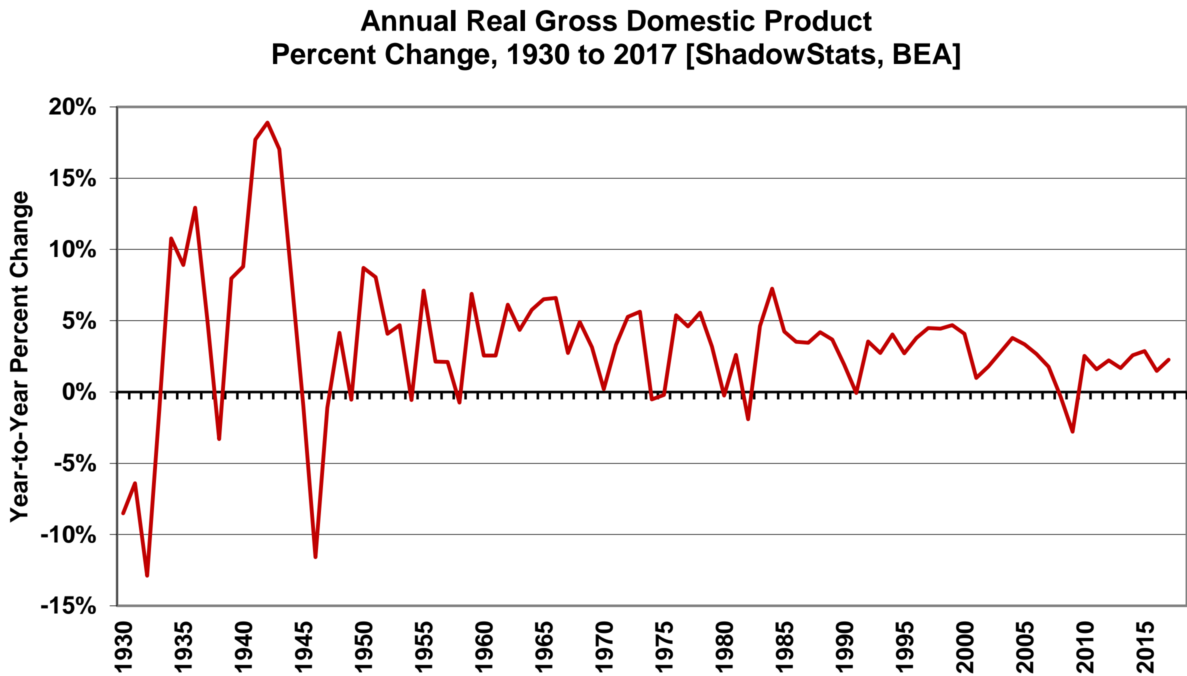
Graph 14: Annual GDP in Billions of 2009 Dollars (1929-2017)



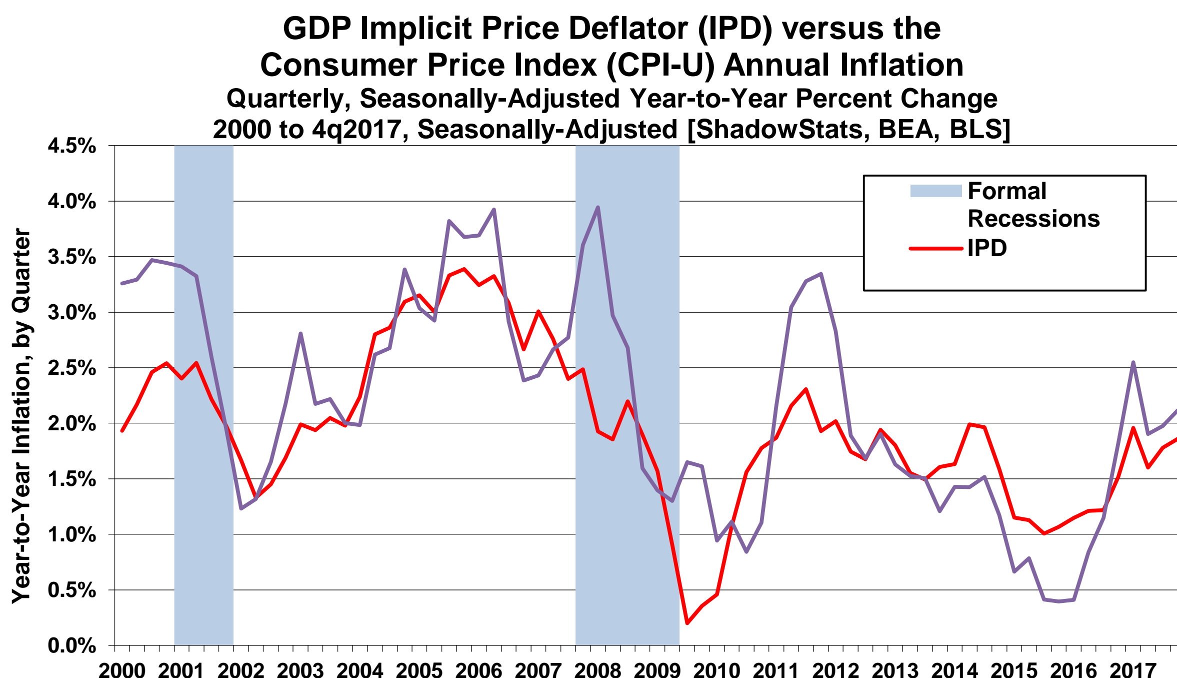
Graph 15: GDP Real Annual Percent Change (1930-2017)



Implicit Price Deflator (IPD). The third estimate of quarter-to-quarter, fourth-quarter 2017 GDP inflation, or the implicit price deflator (IPD) was an annualized 2.35% [previously 2.33%, initially 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 third estimate of fourth-quarter 2017 IPD inflation was a revised 1.86% [previously 1.85% , initially 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 16: Yr-to-Yr Inflation, Third-Estimate, Fourth-Quarter 2017 IPD versus CPI-U (2000-2017)



For purposes of comparison, the seasonally-adjusted Consumer Price Index CPI-U showed an annualized pace of inflation in fourth-quarter 2017 of 3.31%, 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 2017 estimates of GNP and GDI were released with the third estimate of fourth-quarter 2017 GDP on March 28th. These usual delays were due to a lack of available, significant underlying detail, a problem common to the headline GDP detail, as well, which was released, as usual in its prior first two estimates, despite its broadly meaningless reporting. Nonetheless, the estimate of third-quarter 2017 real growth in the GDI was revised higher along with the second estimate of the GDP.

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 fourth-quarter 2017 GNP was 2.71%, versus 3.65% in third-quarter, 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 2.51% in fourth-quarter 2017, versus 2.48% in third-quarter 2017, 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 fourth-quarter 2017 real GDI growth plunged to 0.87%, from 2.44% in third-quarter 2017, 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 in fourth-quarter 2017 was 2.07%, versus 1.42% in third-quarter 2017, 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.

In terms of comparable real annual growth:

```
GDP  2017 = 2.27%, 2016 = 1.49%, 2015 = 2.86%
GDI  2017 = 1.66%, 2016 = 0.86%, 2015 = 2.96%
GNP  2017 = 2.35%, 2016 = 1.42%, 2015 = 2.66%
```

ShadowStats Alternate GDP. The ShadowStats-Alternate GDP fourth-quarter 2017 GDP, third estimate, remained a year-to-year decline of 1.6% (-1.6%), versus a revised annual GDP headline gain of 2.6% at the first-decimal point [2.8%, previously 2.49%, initially 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, third-estimate of annualized, headline quarter-to-quarter gain of 2.9% 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 the *Opening Comments*).

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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.

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

CONSUMER LIQUIDITY WATCH

CONSUMER LIQUIDITY, INCOME, CREDIT AND RELATIVE OPTIMISM. *[Updated for the full-month estimate of March 2018 Consumer Sentiment from the University of Michigan.]*

Mounting Consumer Liquidity Stresses Constrain Broad Economic Activity. The U.S. consumer faces increasing financial stress, which had been mirrored in softening fundamental headline economic activity coming into the series of major natural disasters that disrupted the economy, beginning in August 2017. Intensifying weakness had included Payroll-Employment, Real Retail Sales, Housing and Construction, and the Manufacturing/Production sector, generally pre-natural disaster activity.

Net of what have been mixed, but significant, hurricane and later-wildfire distortions, initial hits to activity were followed by related and transient economic boosts from recovery, replacement and restoration activity, particular in fourth-quarter 2017. Funded by insurance payments and savings liquidation, those distortions increasingly have passed in the latest headline economic data. Indeed, as early first-quarter economic activity continues to turn down (see the *Opening Comments* and *Commentary No. 940*). Such effects are discussed in the separate analyses of relevant series in covered in the regular *ShadowStats Commentaries*. Where there have been recent signals of faltering consumer liquidity (see Consumer Credit Outstanding and Real Earnings), headline consumer optimism had remained at record highs, despite softening underlying economic reality, until the initial release of the Conference Board's March 2018 Consumer-Confidence Index®, which took a hit the context of a downside revision to February's prior reading, and this morning's March 29th release for full-March Sentiment, which revised lower from its "advance" estimate.

Monthly series that have faced the most severe, disaster-triggered reporting disruptions, where headline details have yet to stabilize or correct, still include in Household Survey Employment and Unemployment (see *Commentary No. 939*). Retail Sales and Industrial Production (see the *Benchmark Revisions* section) 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 slowing in Fourth-Quarter 2017 GDP growth, the series remains heavily bloated from the disaster-distortions. Odds for an outright quarterly contraction in real First-Quarter 2018 GDP continue strengthen (see the *Opening Comments*).

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 (and revisions), 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. 938*) and employment/unemployment details discussed in the *Supplemental Labor-Detail Background* of *Commentary No. 939*.

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 in the next couple of months. That said, albeit reflecting some of the headline economic hype in the popular press, headline consumer optimism remains strong.

Consumer Optimism: Consumer Sentiment and Confidence Continue turn Mixed. 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 readings were minimally-positive and down, with the February numbers rising anew. A renewed surge in the "advance" March 2018 Sentiment, though went counter to the full-month release of the March 2018 Confidence number on March 27th. That March Sentiment reading, however revised lower in its "final" reading of March 29th.

Reflected in *Graphs CLW-1* and *CLW-2*, Confidence and Sentiment monthly readings had jumped sharply to multi-year highs in February 2018, despite mounting financial-market and economic uncertainties, with early-March Sentiment jumping anew. Following a downside revision to the February 2018 reading, which still remained at its strongest reading since 2000, the March 2018 reading fell back below its level of November 2017. The still-strong numbers here for both Confidence and Sentiment remain above their, pre-2007 recession peaks. Other than for the recent months of stronger Confidence readings, Confidence is at its highest level since May 2000, but remain down from that May 2000 peaks by 11.8% (-11.8%).

On a monthly basis the full-March 2018 Sentiment measure still is at its highest level since January 2004, currently down by 2.3% (-2.3%) from that interim January 2004 peak.

Again, 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 remain above pre-2007 recession highs, yet the still-high moving averages have slowed in their gains, having begun to falter in September 2017, before the storm-distorted, unusual headline surges in October and November activity and related headline economic activity.

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.

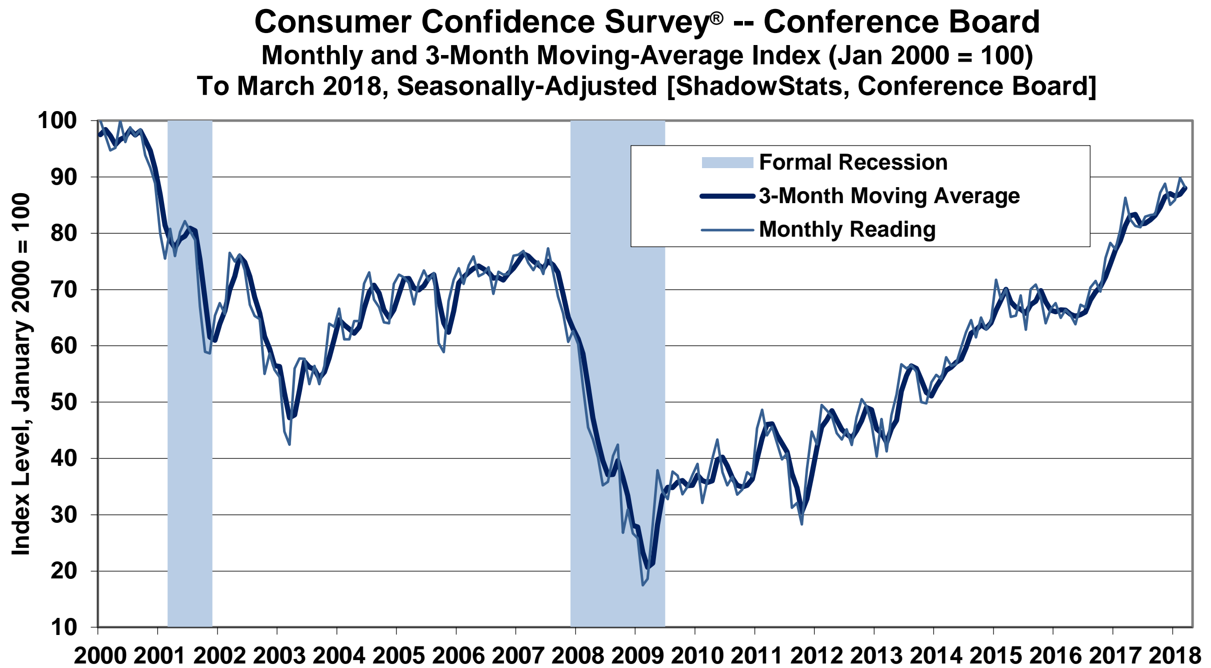
The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in *Commentary No. 764*), and often are highly volatile month-to-month, as a result. Recent press has been highly positive on the headline economic and employment news, reflecting short-lived 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.

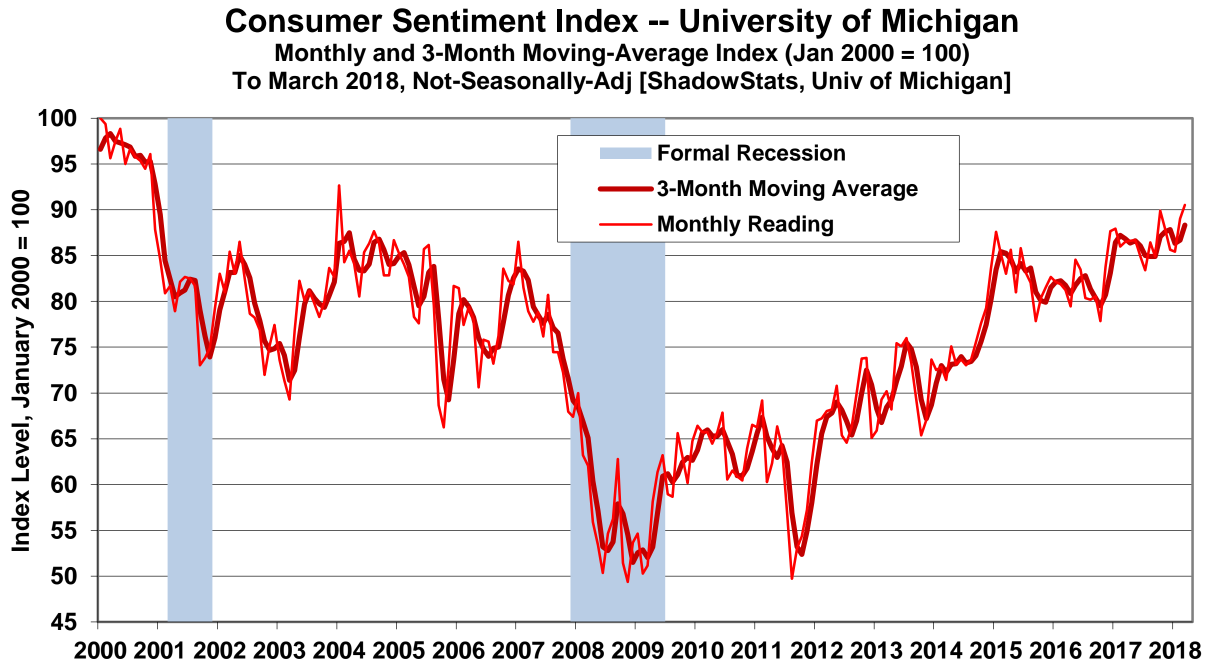
Smoothed for irregular, short-term volatility, the two series still generally had held at levels seen typically in recessions, until the post-2016 election circumstance. Suggested in *Graph CLW-3*—plotted for the last 48 years—the latest readings of Confidence and Sentiment recently have recovered levels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

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

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



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



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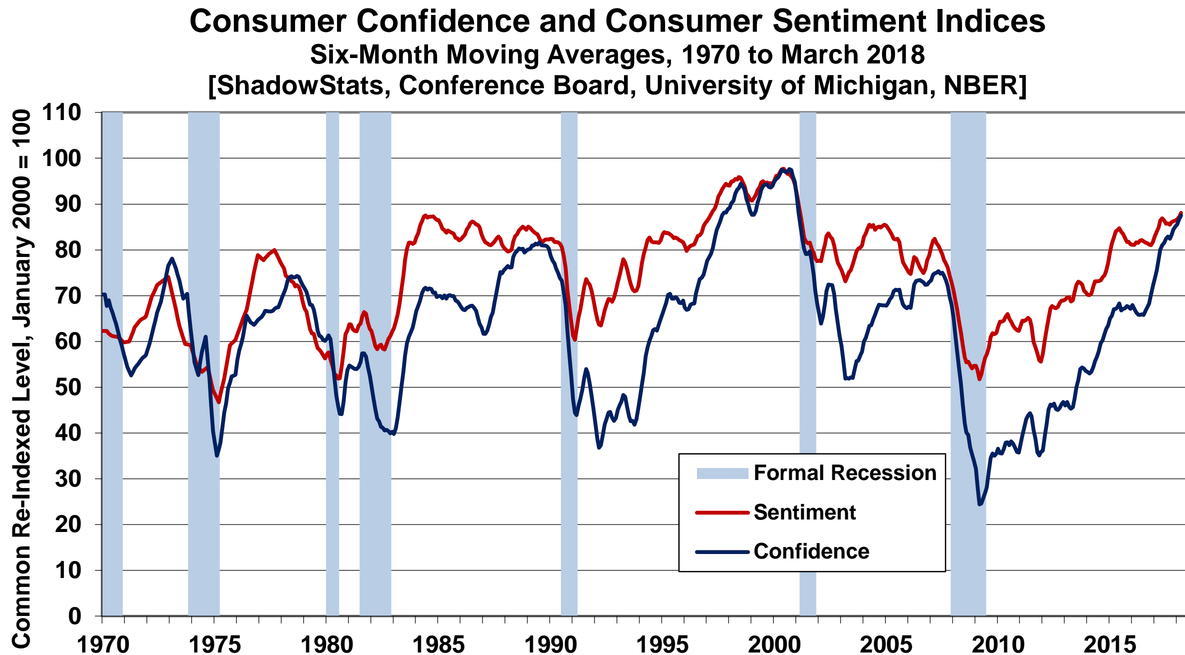
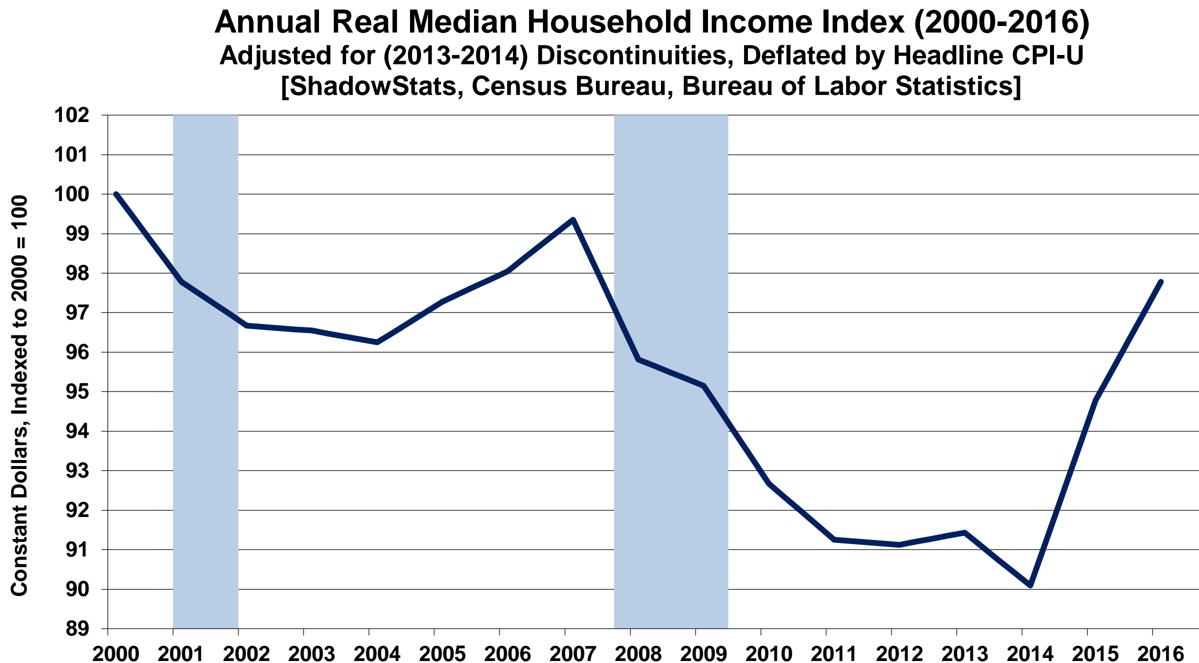
Graph CLW-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2018)



2016 Annual Real Median Household Income Still Was Below Its 2007 Pre-Recession High, Below Activity in the Late-1990s, About Even with the Mid-1970s. The measure of real monthly median household income, which was provided by www.SentierResearch.com, generally can be considered as a monthly version of the annual detail shown in *Graph CLW-4*, based on the most-recent annual detail released by the Census Bureau and as discussed the *Opening Comments* of *Commentary No. 909*.

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



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.

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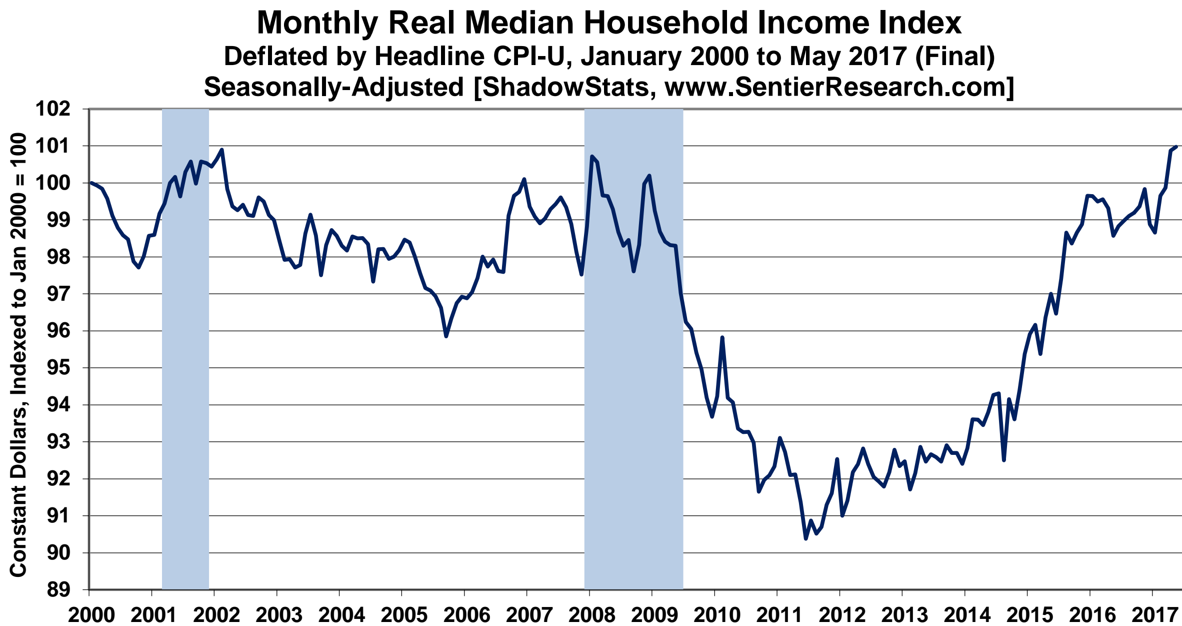
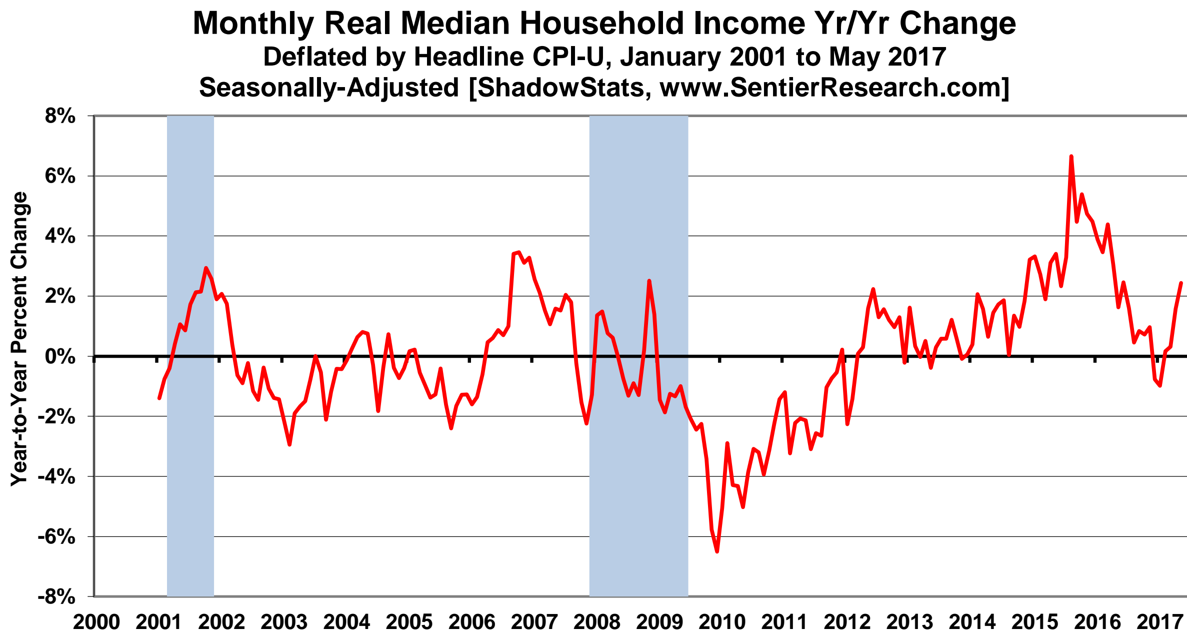
Graph CLW-5: Monthly Real Median Household Income (2000 to May 2017) Index, January 2000 = 100



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



Real Average Weekly Earnings—February 2018—Headed for 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 Summary* of *Commentary No. 940*), real average weekly earnings gained 0.8% in February 2018, but declined in January 2018 by a deeper 1.1% (-1.1%), setting up first-quarter 2018 as a likely, third-consecutive quarter of contraction in real earnings. Based on the latest detail, the early trend for first-quarter 2018 is for an annualized contraction pace of 1.8% (-1.8%).

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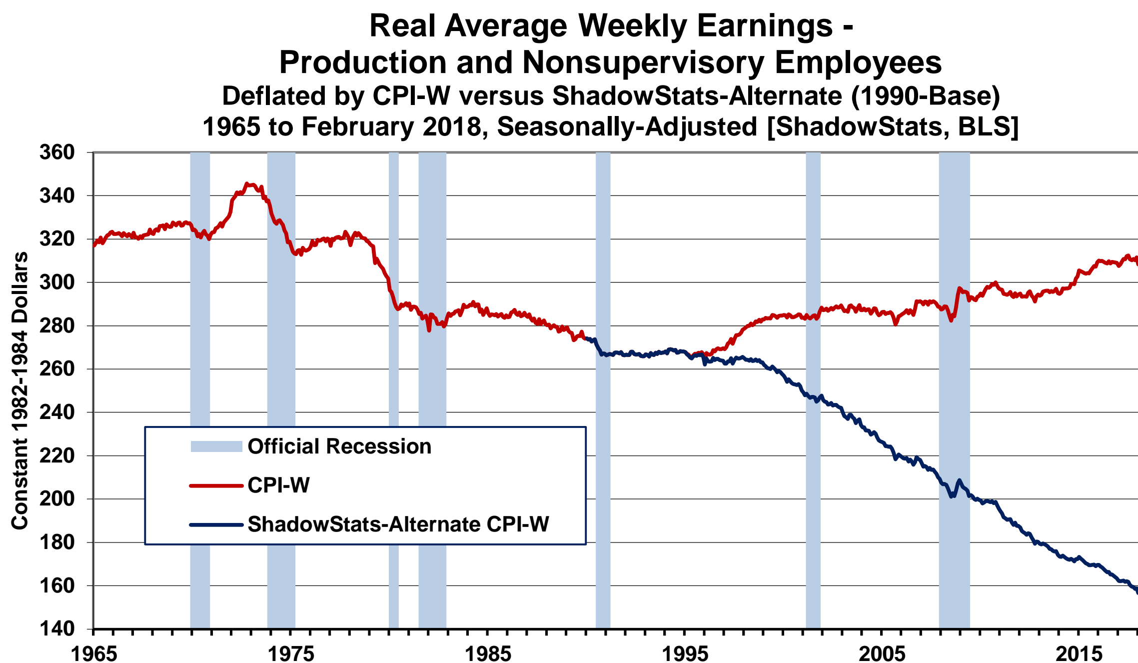
That also would be the fifth real quarterly contraction of the last six quarters. See the *Reporting Detail* for further information.

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

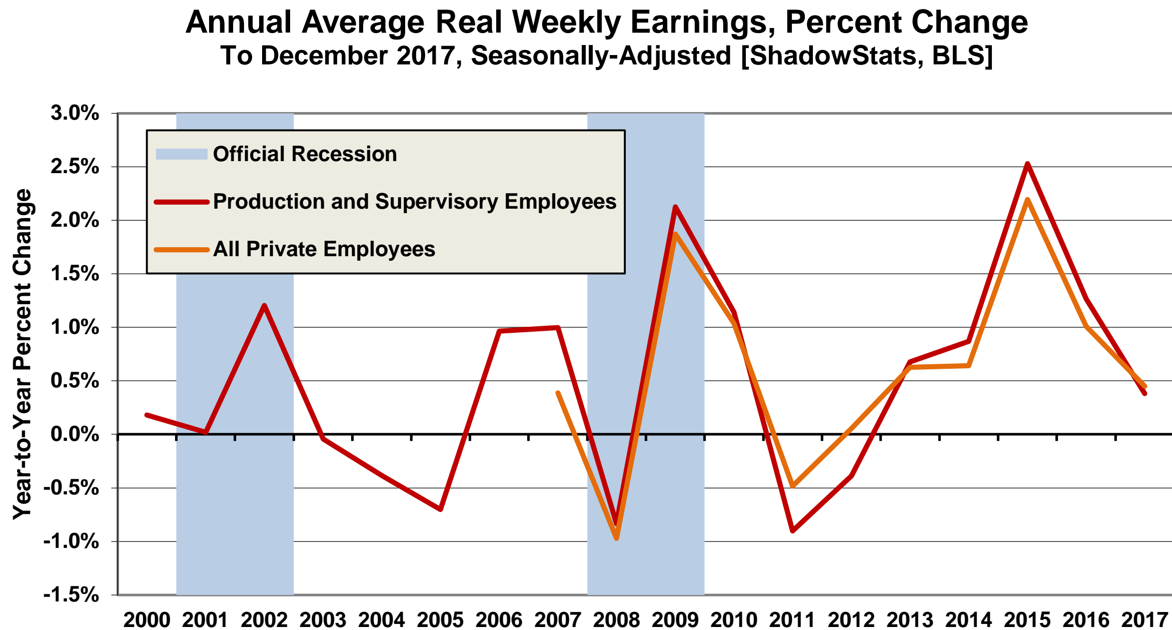


Graph CLW-7 plots the seasonally-adjusted earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating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

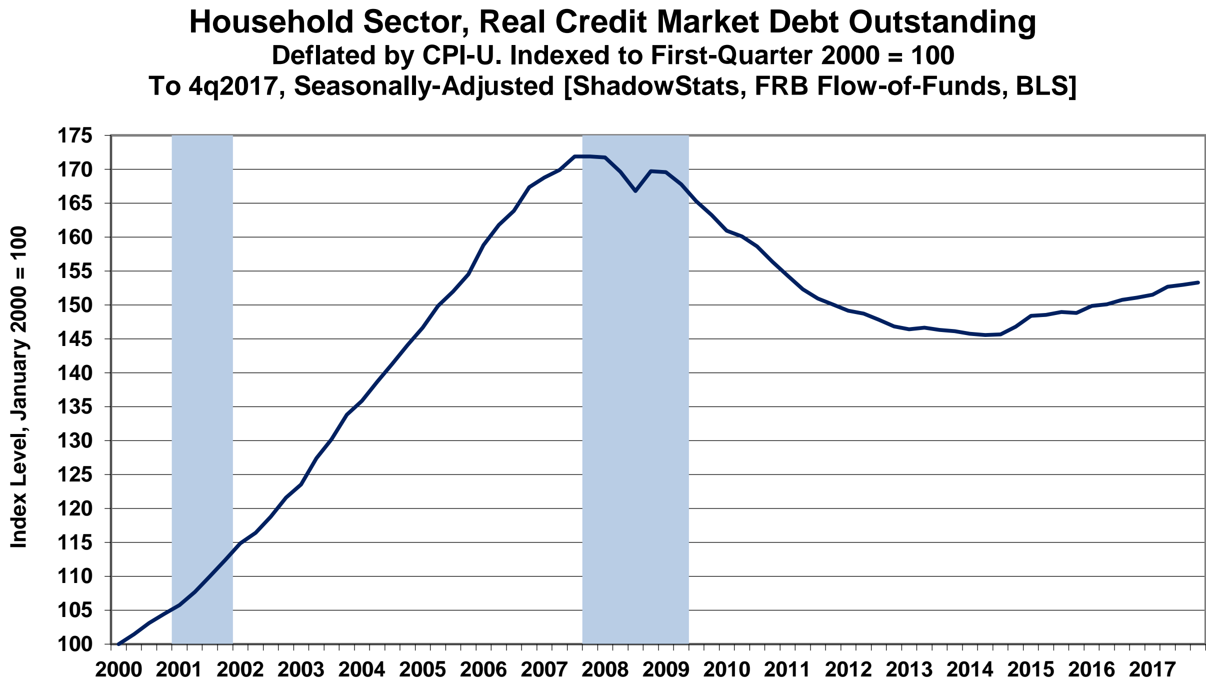
Consumer Credit: Lack of Expansion in Real Consumer Credit Constrains Economic Growth. The final five graphs on consumer conditions address consumer borrowing. Where debt expansion can help make up for a shortfall in income growth, expansion of consumer debt, which would help fuel expansion in personal 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 fourth-quarter 2017, released on March 8th. Household Sector, Real Credit Market Debt Outstanding in fourth-quarter 2017 still was down by 10.8% (-10.8%) from its pre-recession peak of third-quarter 2007. That was against a revised third-quarter 2017 decline of 11.0% (-11.0%) [previously 10.9% (-10.9%)]. The flattened visual uptick at the latest point in *Graph CLW-9* reflected a slowing in real year-to-year change from 1.72% [previously 1.70%] in second-quarter 2017, to 1.48% [previously 1.55%] in third-quarter 2017 and to 1.47% in fourth-quarter 2017. Such completes 41 straight quarters—a full decade-plus—of credit non-expansion, versus its pre-recession peak.

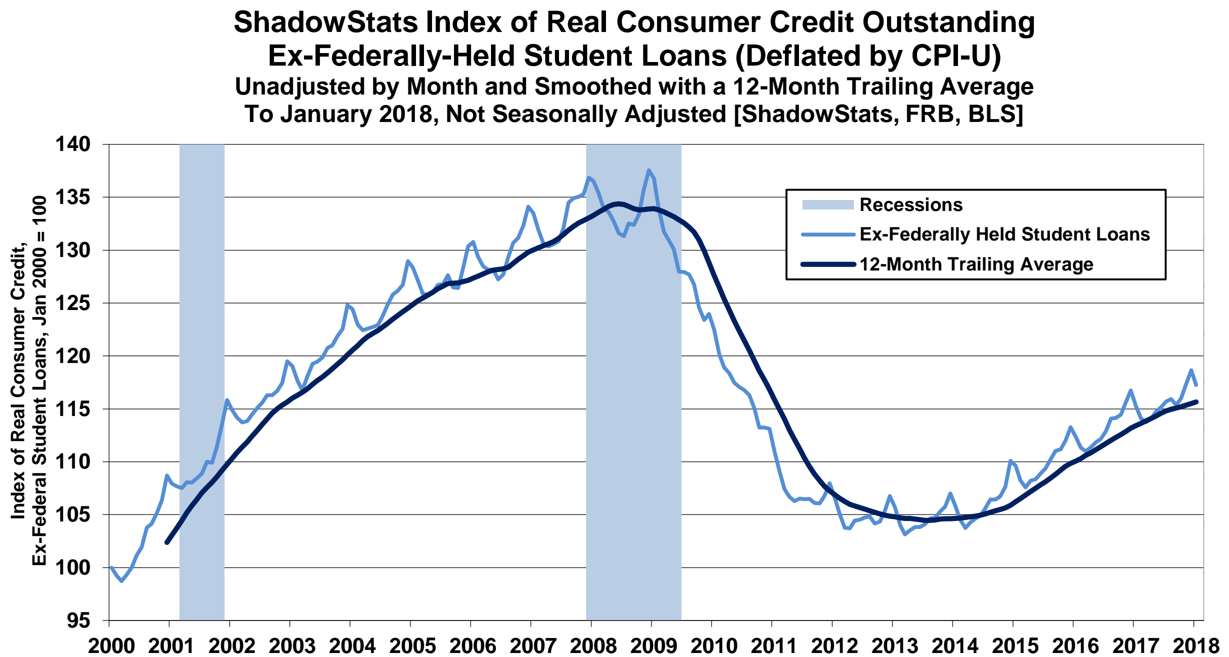
The series includes mortgages, automobile and student loans, credit cards, secured and unsecured loans, etc., all deflated by the headline quarterly CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting, among other issues, lack of normal lending by the banking system

into the regular flow of commerce. The slight upturn seen in the series through 2015 and into 2016 was due primarily to gasoline-price-driven, negative CPI inflation, which continued to impact the system through second-quarter 2016 and intermittently into fourth-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 Fourth-Quarter 2017)



Graph CLW-10: Real Consumer Credit Outstanding, Ex-Federal Student Loans (2000 to 2018)



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Shown for comparative purposes is *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 121 months 40-plus quarters of non-expansion. That is reflected on a parallel basis through fourth-quarter 2017 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.

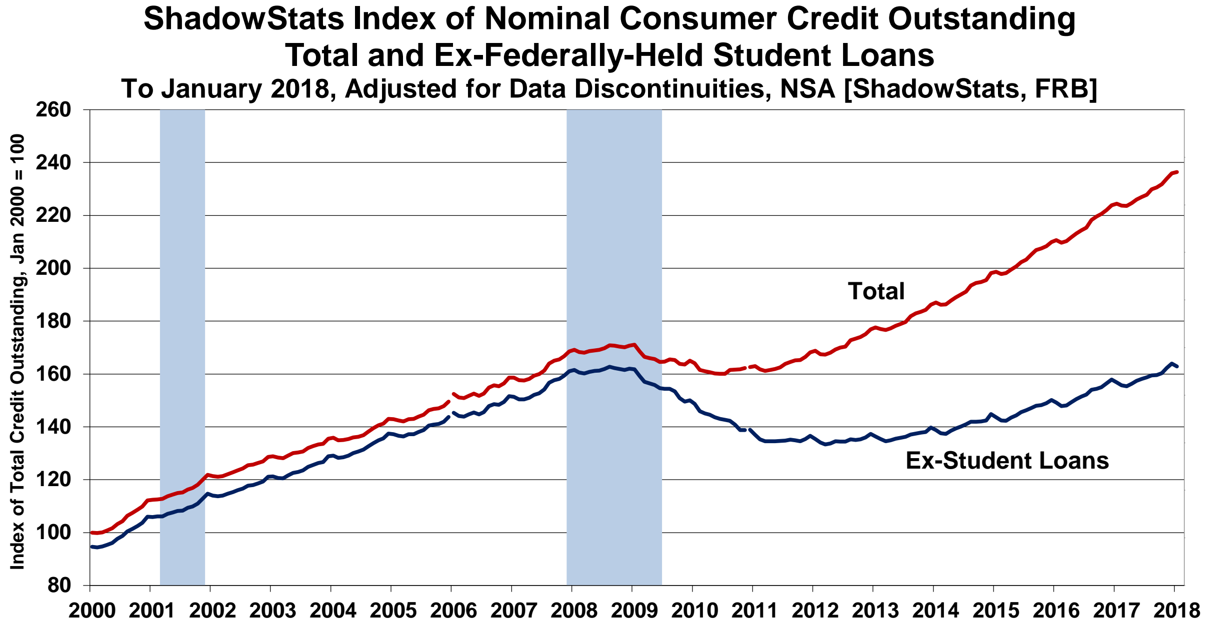
Shown through the January 2018 reading (released March 7th), the headline nominal monthly Consumer Credit Outstanding (*CLW-11*) is a subcomponent of the nominal Household Sector debt. Where *Graph CLW-12* reflects the real or inflation-adjusted activity for monthly Consumer Credit Outstanding terms 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 have fueled 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.

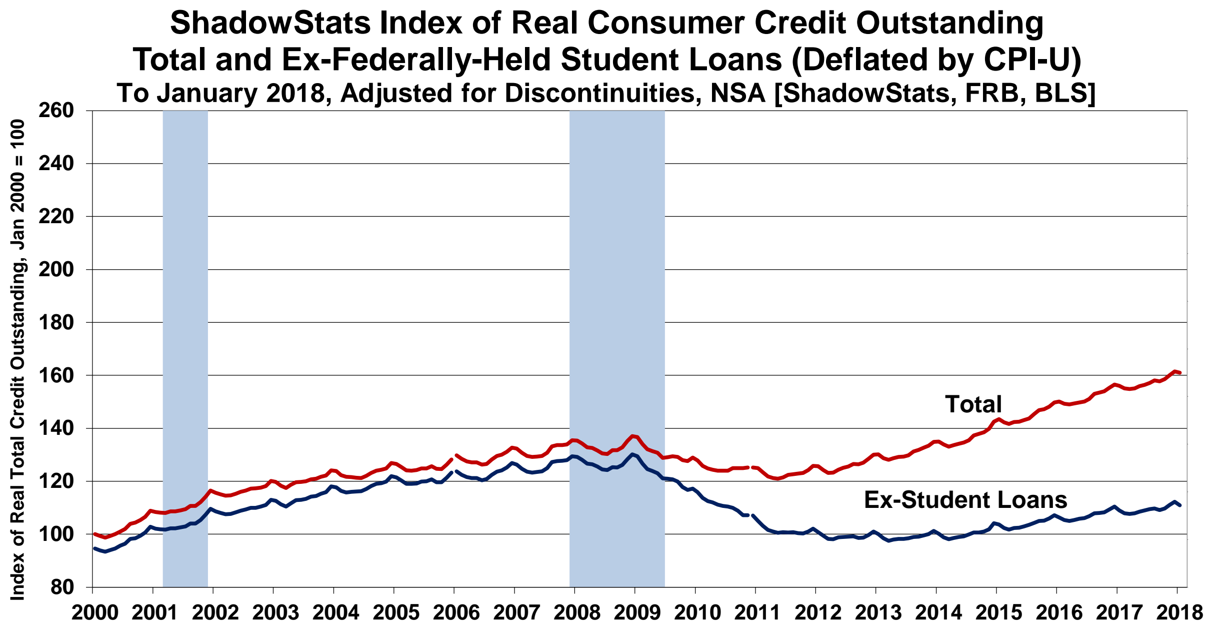
Adjusted for inflation, the lack of recovery in the ex-student loan area is more obvious. Where the recent monthly downside move in the not-seasonally-adjusted real consumer credit reflected a seasonal pattern, the pattern of year-to-year growth has been in downtrend, suggesting some tightening of credit conditions. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in January 2018 was down from recovering its December 2007 pre-recession peak by 14.3% (-14.3%). That is 121 months or a full, ten-plus years of non-expansion of credit. Year-to-year real growth shown in *Graph CLW-13* tends to resolve most of the monthly distortions in the not-seasonally-adjusted data.

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

Graph CLW-11: Nominal Consumer Credit Outstanding (2000 to 2018)



Graph CLW-12: Real Consumer Credit Outstanding (2000 to 2018)



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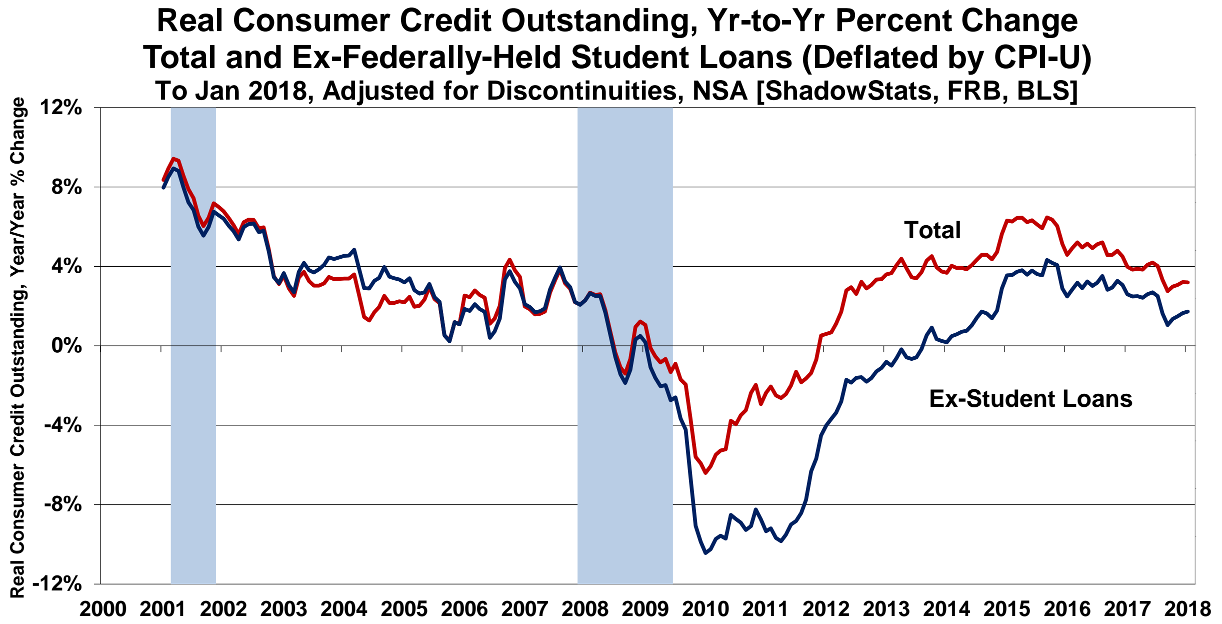
Graph CLW-13: Year-to-Year Percent Change, Real Consumer Credit Outstanding (2000 to 2018)



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

WEEK, MONTH AND YEAR AHEAD

Instabilities and Turmoil in the U.S. Dollar and the Financial-Markets Remain at High Risk, in the Context of an Increasingly-Faltering, Non-Expanding Real-World Broad Economic Activity. 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 *Executive Summary* beginning on page 2, with *Contents* and links to *Major Sections* and *Graphs* beginning on page 6. The faltering economic outlook also was reviewed in the *Opening Comments* and *Industrial Production Benchmark Revisions* sections of *Commentary No. 942-B*. Related financial market vulnerabilities are discussed in today's *Opening Comments*. These matters also were reviewed in the *Opening Comments*, *Reporting Detail* and *Hyperinflation Watch* of *Commentary No. 940*.

Conditions Continue to Darken. Natural-disaster-impact from late-2017 continued to unwind in most headline monthly economic reporting of January and February. These elements have suggested an intensifying 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 the *Opening Comments* and *Commentary No. 937*. Increasingly, headline economic details and pending benchmark revisions are likely to disappoint market expectations.

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) with the pending headline reporting of March 2018 economic activity, as discussed in *General Commentary No. 929*. Most series increasingly should reflect "unexpected" downtrending economic activity. Where misleading, recent headline details had contributed to a manic stock market, that mania is vulnerable to rapid unwinding, a process should accelerate as market perceptions increasingly 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 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 (see the *Opening Comments* and *Hyperinflation Watch* of *Commentary No. 940*). 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: Construction Spending (February 2018). The Commerce Department will release its estimate of February 2018 Construction Spending on Monday, April 2nd. Detail will be covered in *Commentary No. 944* of April 6th. The January release continued to show year-to-year contractions in inflation-adjusted real activity. The onset of such an annual downturn in real activity last was seen in the housing collapse of 2006 and is indicative of the onset of a new recession. Where that should remain the ongoing trend, recovery and rebuilding efforts from hurricane damages still could offer limited, near-term moderation to the increasingly-negative outlook.

U.S. Trade Deficit (February 2018). The Commerce Department and Bureau of Economic Analysis (BEA) will release their full version of the monthly U.S. trade balance for February 2018 on Thursday, April 5th, to be covered in ShadowStats *Commentary No. 944* of April 6th. Based on the advance estimate of the February goods deficit on March 28th (see the *Opening Comments*), the February deficit continued on track to match or to exceed the January monthly deficit, which was the worst showing since 2008, potentially foreshadowing the steepest real quarterly merchandise trade deficit in reported history.

Employment and Unemployment (March 2018). The Bureau of Labor Statistics (BLS) will publish the headline March labor data on Friday, April 6th, to be covered in *Commentary No. 944* of that date. What should continue to be happy consensus expectations are due to face some negative shocks. Discussed in *Commentary No. 939*, the unusually-strong February payroll employment report was due to heavily-skewed and inconsistently-applied seasonal adjustments. Annual growth in the February payrolls, however, remained at recession levels, as did the levels of employment-market stress reflected in the household survey numbers.

Headline details are open to some negative catch-up with both payroll growth and unemployment, and March is a fair bet for seeing some negative surprises against likely, positive consensus expectations.

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*, and as reviewed in today's *Opening Comments*, 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 several months 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. 942-B (March 27th) reviewed the Industrial Production annual benchmark revisions, general reporting-quality issues, February 2018 New Orders for Durable Good, New- and Existing-Home Sales and the Cass Freight Index™.

Commentary No. 942-A (March 23rd) provided a brief summary of the much more extensive details covered in *Commentary 942-B*.

Commentary No. 941 (March 19th) covered February Industrial Production and New Construction Spending (Housing Starts and Building Permits), along with a general discussion in the *Opening Comments* on economic conditions and a preview of the Industrial Production benchmark revisions.

Commentary No. 940 (March 15th) covered February 2018 Retail Sales, CPI, PPI and related Real Average Weekly Earnings, real Annual Growth in M3 and updated financial market prospects.

Commentary No. 939 (March 9th) covered the February 2018 Employment and Unemployment details, the full-reporting of the January 2018 Trade Deficit, February Conference Board Help Wanted OnLine® Advertising and February Monetary Conditions.

Commentary No. 938 (March 1st) reviewed January 2018 Construction Spending and the second estimate of Fourth-Quarter 2017 GDP.

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).

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.

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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.

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Special Commentary No. 885, entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, (May 8, 2017) reviewed the unusual nature of the headline reporting of the April 2017 employment and unemployment details.

Commentary No. 882 (April 27, 2017) summarized the annual benchmark revisions to Retail Sales and reviewed the March 2017 releases of New Orders for Durable Goods and New- and Existing-Home Sales.

Commentary No. 877 (April 2, 2017) outlined the nature of the downside annual benchmark revisions to industrial production, along with implications for pending annual revisions to Retail Sales, Durable Goods Orders and the GDP.

Commentary No. 876 (March 30, 2017) current headline economic activity in the context of formal definitions of the business cycle (no other major series come close to the booming GDP, which is covered in its third revision to fourth-quarter activity). Also the February 2017 SentierResearch reading on real median household income was highlighted.

Commentary No. 875 (March 24, 2017) assessed and clarified formal definitions of the U.S. business cycle, which were expanded upon significantly, subsequently, in *No. 876*. It also provided the standard review of the headline February 2017 New Orders for Durable Goods, New- and Existing-Home Sales and the Cass Freight Index™.

General Commentary No. 867 (February 24, 2017) assessed mixed signals for a second bottoming of the economic collapse into 2009, which otherwise never recovered its level of pre-recession activity. Such was in the context of contracting and faltering industrial production that now rivals the economic collapse in the Great Depression as to duration. Also covered were the prior January 2017 New- and Existing Home Sales.

Commentary No. 864 (February 8, 2017) analyzed January 2017 Employment and Unemployment detail, including benchmark and population revisions, and estimates of December Construction Spending, Household Income, along with the prior update to Consumer Liquidity.

Commentary No. 861 (January 13, 2017) covered the December 2016 nominal Retail Sales, the PPI, with a brief look at some summary GAAP reporting on the U.S. government's fiscal 2016 operations.

No. 859 Special Commentary (January 8, 2017) reviewed and previewed economic, financial and systemic developments of the year passed and the post-election year ahead.

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