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

COMMENTARY NUMBER 945

March Consumer and Producer Price Indices, Real Earnings

April 11, 2018

For All Employees, First-Quarter 2018 Real Average Weekly Earnings Contracted 0.4% (-0.4%), along with Slowing Real Growth in Consumer Credit

Quarterly Real Average Weekly Earnings Contracted 1.5% (-1.5%) for Production and Nonsupervisory Employees, the Third Consecutive Quarterly Decline, the Fifth in the Last Six Quarters

Unadjusted Annual CPI-U Inflation Rose to a 12-Month High 2.36% in March 2018, Up from 2.21% in February 2018, Still Holding Well Shy of Common Experience

Fed's Targeted "Core" Inflation Broke Above 2.0%, to 2.1% in March 2018, Highest Level in 13 Months

Annual PPI Inflation Rose to a 74-Month High of 3.03% in March 2018, Reflecting Jumps in Food Prices and Outpatient Costs

A Leading Indicator to Broad Economic Activity, March 2018 Real Annual Growth in Money Supply M3 Slowed to a Six-Month Low

Next Week's Headline Economic Reporting Could Lock in a First-Quarter 2018 Real GDP Contraction

Nonetheless, While Not Close to an Economic Expansion, Some Positive Anecdotal Evidence on the Economy Is Surfacing

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PLEASE NOTE: The next regular Commentary, planned for Wednesday, April 18th, will cover March 2018 Retail Sales, Industrial Production and New Residential Construction (Housing Starts and Building Permits).

Best wishes — John Williams (707) 763-5786

Today's (April 11th) *Opening Comments and Executive Summary.* The ***Opening Comments*** discusses current economic conditions and financial-market implications as reviewed in the *Hyperinflation Watch*. The ***Executive Summary*** (page 4) highlights reporting of March 2018 Consumer and Producer Price Indices (CPI and PPI) and Real Average Weekly Earnings.

The ***Reporting Detail*** reviews in greater depth the March CPI, PPI and real earnings details (page 8).

The ***Hyperinflation Watch*** reviews current financial-market and U.S. dollar circumstance, in conjunction with the *Opening Comments* (page 23).

The ***Consumer Liquidity Watch*** (page 29) reviews current liquidity conditions, updated for February Consumer Credit and March Real Average Weekly Earnings.

The ***Week, Month and Year Ahead*** (page 44) provides background on recent *Commentaries* and previews the reports of next week's March Retail Sales, Industrial Production and New Residential Construction (Housing Starts and Building Permits).

OPENING COMMENTS

Some Positive Signals on Business Activity. Anecdotal evidence has begun to turn mixed-to-positive on some aspects of domestic U.S. economic activity, in recent weeks. Beyond assessing the often-biased headline economic reporting out of the federal government, and considering the usual positive spin given to the numbers by Wall Street, related financial media and the government in power, ShadowStats regularly communicates with contacts around the country getting feedback from Main Street U.S.A. as to underlying economic reality. While the anecdotal evidence continued mixed, it has turned more positive in the last week or so, in areas ranging from the Pacific Northwest to the Mid-Atlantic region. The improving activity generally was tied to real estate and construction, irrespective of the highly volatile and negative real year-to-year activity reported in February Construction Spending and recent home sales and housing starts activity (see *Commentary No. 941*, *Commentary No. 942-B* and *Commentary No. 944*).

That said, a common concern centers on the continued number of shuttered storefronts in many areas of the country, with an increasing number of physical retail stores in trouble. In business activity such as the hiring of outside consultants to update and expand software systems—an indicator of expected corporate expansion—activity still appears moribund.

As discussed here, economic activity appears to be off bottom, but generally it has not recovered and most areas have not returned to normal economic expansion.

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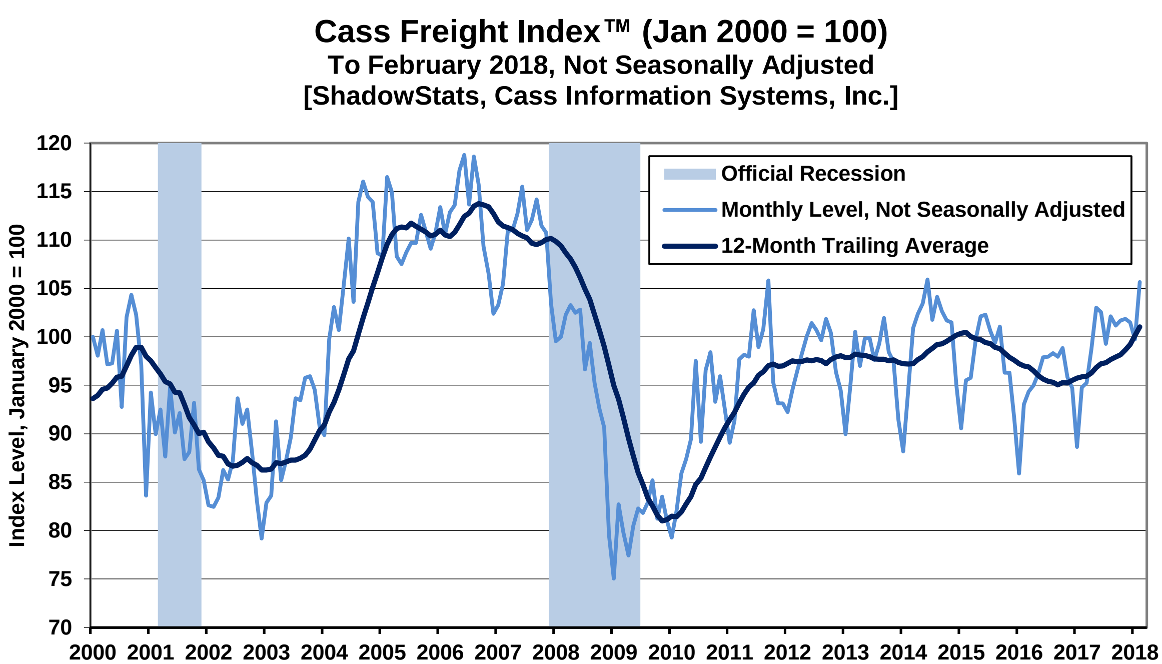
Economic Expansion Follows After the Pre-Recession Peak Is Recovered. There have been signs of some bottoming in activity as seen in broad independent indicators such as the Cass Freight Index™, regularly published here and shown later in *Graph OC-1*, yet, again, where activity appears to be off bottom, it still is far removed from recovering its pre-recession levels. In general economic terms, a recession is clocked from when real economic activity declines versus its peak level, the recession bottoms at its trough and then moves into recovery, but it does not recover until it reaches its pre-recession peak activity, once again. Economic expansion is measured in terms of renewed growth beyond the pre-recession peak activity.

Graph OC-1: CASS Freight Index™ Moving-Average Level (2000 to February 2018)
(Same as Graph 18 in the Reporting Detail of Commentary No. 942-B)



Discussed regularly here, major areas of the economy, ranging from construction and related real estate activity to the dominant manufacturing sector of U.S. industrial production have seen no economic expansion since the last economic activity peak of ten-plus years ago. In the case of domestic manufacturing, which has a reporting history going back 100 years, the February 2018 detail showed a record 122 months of non-expansion in the current business cycle (see *Commentary No. 942-B*, also *Commentary No. 875* and *Commentary No. 876*). A similar pattern, but without the long history, is seen the accompanying current plot of the independent Cass Freight Index™ in *Graph OC-1*, as discussed in the *Reporting Detail* of *Commentary No. 942-B*). Again, what these series generally show is that the economy has moved off bottom, no longer at its trough, yet they have not recovered there pre-recession levels of activity; they are not in formal economic expansion.

Discussed in the *Consumer Liquidity Watch* (page 29), recent reporting of consumer credit outstanding and real average weekly earnings shows an intensifying liquidity squeeze on the U.S. consumer, with likely impact to be seen not only in softening consumer consumption, but also in consumer optimism.

Also noted in today's CPI *Reporting Detail* (page 17), money supply remains a fundamental leading indicator to broad, domestic economic activity (GDP). March 2018 nominal annual growth in the Money Supply M3 (the ShadowStats Continuing Money Supply Series, see the *Hyperinflation Watch* of *Commentary No. 944*) slowed sharply, with real growth now having dropped to a six-month low.

Separately, the *Week, Month and Week, Month and Year Ahead* section (page 44), previews next week's releases of March 2018 Retail Sales, Industrial Production and New Residential Construction. Where those numbers likely will come in broadly below market expectations, that could push consensus expectations towards a quarterly contraction for First-Quarter 2018 GDP (due for release on April 27th).

Although such a contraction will have been exacerbated by relative disaster-recovery spikes to fourth-quarter 2017 activity, a headline quarter-to-quarter GDP contraction nonetheless would pressure the Federal Reserve Board's Federal Open Market Committee (FOMC) to ease up if not pull back from its current efforts to extricate itself from its quantitative easings. That pressure could be intensified by tightening consumer liquidity conditions. Implications for the domestic financial markets and the U.S. dollar are discussed in today's *Hyperinflation Watch* (page 23).

Again, a major downside shift in the near-term economic outlook could push the FOMC away from an aggressive-tightening, rate-hiking path. That circumstance will be reviewed anew in the post-headline reporting of next week's March data, in *Commentary No. 946* of April 18th.

EXECUTIVE SUMMARY: Consumer Price Index (CPI)—March 2018—Monthly CPI Declined by 0.1% (-0.1%); Unadjusted Annual CPI Rose to 2.4%; Fed's Targeted "Core" Inflation Hit 2.1%. Gasoline-price volatility remained the driving force behind monthly consumer inflation, amidst continued unstable, but related, seasonal adjustments. The problem remains that extreme, monthly gasoline price volatility of recent years increasingly has been moved by factors other than regular, seasonal supply and demand issues. Accordingly, the series cannot be seasonally adjusted, easily or meaningfully.

Unadjusted annual inflation rose to 2.36% in March 2018, versus 2.21% in February 2018, but still held well below its 60-month high of 2.74% seen in February 2017. Intervening extremes include a subsequent near-term trough of 1.63% in June 2017, and an interim near-term high of 2.38% a year ago in March 2017.

What had led to the inflation surge into the February 2017 CPI annual gain were rising gasoline prices, largely independent of near-term economic activity. The same has remained true ever since, including the current circumstance, heavily distorted by hurricane-disruptions and recovery from same, along with shifting political circumstances in the Middle East. Near-term inflation volatility usually reflects volatile gasoline prices, which can reflect the factors mentioned, as well as more-controllable areas, such as the U.S. dollar and Federal Reserve policies (see the *Hyperinflation Watch*).

Unstable seasonal adjustments and resulting gasoline-price volatility continued to move CPI-U monthly inflation, with sharply seasonally-adjusted gasoline prices weakening the headline March 2018 CPI data. Consider that consumers saw gasoline prices drop by 0.2% (-0.2%) at the pump, but after seasonal adjustments that was a drop of 4.9% (-4.9%) in gasoline prices, seen by no one other than statisticians at the Bureau of Labor Statistics (BLS).

As a result, the headline March 2018 CPI-U declined month-to-month by a slightly-weaker-than-consensus 0.1% (-0.1%) [0.06% (-0.06%)], versus an adjusted-gasoline-price depressed 0.0% (0.03%) in February 2018, 0.5% (0.54%) in January and 0.2% (0.20%) in December. On an unadjusted basis, monthly CPI-U rose by 0.23% in March 2018, 0.45% in February, 0.54% in January and fell in December by 0.06% (-0.06%).

As to the financial market's concentration on the FOMC's favored gimmick, the CPI-U component inflation measure hyped as the targeted "Core" rate (net of food and energy), finally jumped above its range-bound 1.8% of the prior year, hitting 2.12%, its highest level since January 2017.

Yet, with the unadjusted, aggregate annual March 2018 CPI-U inflation up by 2.4%, year-to-year inflation is not and has not been quite as low as indicated, when considered in the context of traditional CPI reporting and common experience. Moving on top of the unadjusted annual changes to the CPI-U, the ShadowStats-Alternate Inflation Measures showed year-to-year inflation in March 2018 at 5.9%, based on 1990 methodologies, and at 10.1%, based on 1980 methodologies (see the *Reporting Detail*).

CPI-U versus CPI-W. The Consumer Price Index for All Urban Consumers (CPI-U), the broadest headline consumer-inflation number, is used to adjust numerous economic measures, such as Retail Sales and All Employees real average weekly earnings, for inflation effects. The narrower Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) is used for deflating measures such as real average weekly earnings for Production and Nonsupervisory Employees on private nonfarm payrolls (see *Graph 1*). Somewhat more-heavily weighted for the "declining" adjusted gasoline prices, the March 2018 seasonally-adjusted CPI-W declined month-to-month by 0.16% (-0.16%), versus gains of 0.11% in February and 0.62% in January. Unadjusted, year-to-year change in the March 2018 CPI-W was 2.44%, versus 2.32% in February 2018 and 2.14% in January 2018.

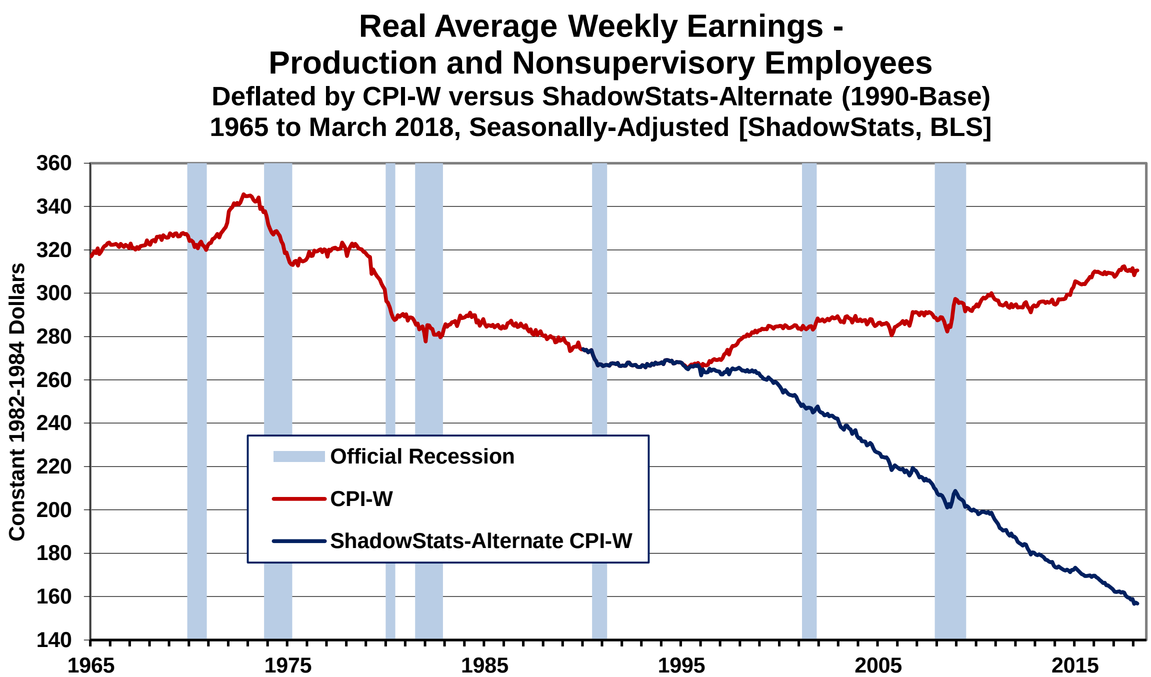
Real Average Weekly Earnings—March 2018—Quarterly Real Earnings Contracted for the Third Straight Quarter, the Fifth Quarterly Contraction in the Last Six Quarters. The headline estimate for March 2018 real average weekly earnings was published along with the release of the March CPI-W. Discussed in the *Reporting Detail*, for the "production and nonsupervisory employees category"—the only series for which there is a meaningful history (back to 1964), the regularly-volatile, real average weekly earnings were unchanged at 0.0% in March 2018, up by 0.7% in February, but down in January by 1.1% (-1.1%). That left first-quarter 2018 real average weekly earnings down at an annualized quarterly pace of 1.5% (-1.5%) versus fourth-quarter 2017, the third consecutive quarterly contraction, the fifth such decline in the last six quarters.

In the broader "all employees category" real average weekly earnings also contracted, but that was at an annualized quarterly pace of 0.3% (0.3%). Discussed in the *Consumer Liquidity Watch*, with real earnings falling in conjunction with slowing growth in real consumer credit outstanding, consumer liquidity has just taken a downside turn.

Graph 1 shows 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 headline 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 in 2015 by negative headline inflation), but most recently downtrending. Deflated by the ShadowStats (1990-Based) measure, real earnings have been in fairly-regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W. See the *Public Commentary on Inflation Measurement* for further detail.

Graph 1: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date

(Same as Graph CLW-7 in the Consumer Liquidity Watch)



Producer Price Index (PPI)—March 2018—Final Demand Annual PPI Inflation Hit a 74-Month High of 3.03%, with Soaring Food and Outpatient Costs Boosting the Monthly PPI by 0.26%. Despite falling energy prices that were exacerbated by negative seasonal adjustments, soaring food prices helped to push headline goods inflation higher by 0.26% month-to-month, while rising hospital outpatient costs helped to push the services sector higher, also by 0.26%, with a monthly gain of 0.26% [0.52% unadjusted] resulting for the aggregate Final Demand Producer Price Index (FD-PPI). Unadjusted and year-to-year FD-PPI March 2018 annual inflation jumped to 3.03%, its highest level since January 2012.

As expanded upon in the *Reporting Detail*, that March 2018 unadjusted annual gain of 3.03% [2.77% in February 2018] for the aggregate PPI encompassed rising annual inflation across all three major pricing sectors, with March 2018 annual growth in the dominant Services sector at 2.93% [2.76% in February 2018], annual inflation of 3.17% [3.00% in February 2018] in the Goods sector, with Energy still up by

8.54% [9.12% in February 2018], and with March 2018 annual inflation growth of 3.57% [3.48% in February 2018] in the Construction sector. The headline, seasonally-adjusted 0.26% monthly gain in the aggregate FD-PPI series again encompassed month gains of 0.26% in both Services and Goods, with headline monthly Construction inflation of 0.17%.

[Extended analysis of the March PPI and analysis and graphs of the CPI follows in the* Reporting Detail.*]

REPORTING DETAIL

CONSUMER PRICE INDEX—CPI (March 2018)

Headline CPI-U Inflation Declined by 0.1% (-0.1%) Month-to-Month; Unadjusted Annual Inflation Increased to 2.4%; Fed's Targeted 2.0% "Core" Broke Higher to 2.1%. Gasoline price volatility remained the driving force behind monthly consumer inflation, amidst continued unstable, related seasonal adjustments. The problem remains that extreme, monthly gasoline price volatility of recent years increasingly has been moved by factors other than regular, seasonal supply and demand issues.

Unadjusted annual CPI-U rose to 2.36% in March 2018, versus 2.21% in February 2018, but still well shy of its 60-month high of 2.74% seen in February 2017. Intervening extremes included a subsequent near-term trough of 1.63% in June 2017, and an interim near-term high of 2.38% a year ago in March 2017.

What led to the inflation surge into the February 2017 CPI annual gain were rising gasoline prices, largely independent of near-term economic activity. The same has remained true in the current circumstance, ever since, heavily distorted by hurricane-disruptions, recovery from same, shifting political circumstances in the Middle East. Near-term inflation volatility usually reflects volatile gasoline prices, which can reflect the factors mentioned, as well as more-controllable factors, such as the U.S. dollar and Federal Reserve policies (see the *Hyperinflation Watch*).

Related inflation surges, past and present, rarely have been driven by an overheating economy, as claimed by some on the Fed's Federal Open Market Committee (FOMC). Indeed, the FOMC's favored charade, the targeted CPI-U inflation measure, the "Core" rate, net of food and energy, final broke above the 2.0% "target" rate, to an unadjusted 2.11% in March 2018, versus 1.85% in February 2018, where it had held for the prior eleven months at 1.8% +/- 0.1%, otherwise tied as the lowest annual core inflation rate since 1.6% in December 2015. The headline annual gain did not drop to or below 2.0% in the current cycle until just a year ago, when it dropped to 2.00%. Such is a contrived number, from which "Inflation Scare" headlines rarely are made. The term charade is used here, since Alan Greenspan was instrumental in redefining the CPI-U series so that it would not show meaningful inflation (see the ***Public Commentary on Inflation Measurement*** for further detail).

Separately, with unadjusted annual March 2018 CPI-U inflation up by 2.4%, year-to-year inflation is not and has not been quite as low as indicated, when considered in the context of traditional CPI reporting and common experience. Moving on top of the unadjusted annual changes to the CPI-U, the ShadowStats-Alternate Inflation Measures showed year-to-year inflation in March 2018 at 5.9%, based on pre-Greenspan-gimmicked 1990 methodologies, and at 10.1%, based on 1980 methodologies. Detailed in

Public Commentary on Inflation Measurement, inflation based on common experience is much worse than the headlines, both as experienced by individual consumers, as well the business community.

Longer-Range Inflation Outlook. Despite U.S. dollar strength of recent years, what had been accelerating, then faltering dollar strength, subsequent to the post-2016 election euphoria, the dollar recently has seen fairly regular and intensifying selling pressure (see the *Hyperinflation Watch*). A tremendous threat to the dollar and systemic U.S. liquidity and market stability continues, tied to the U.S. Federal Reserve's fundamental inability to resolve the 2008 financial collapse, other than having bought limited time with emergency, stopgap measures. Also nearing extreme crisis are burgeoning, long-term U.S. sovereign-solvency issues.

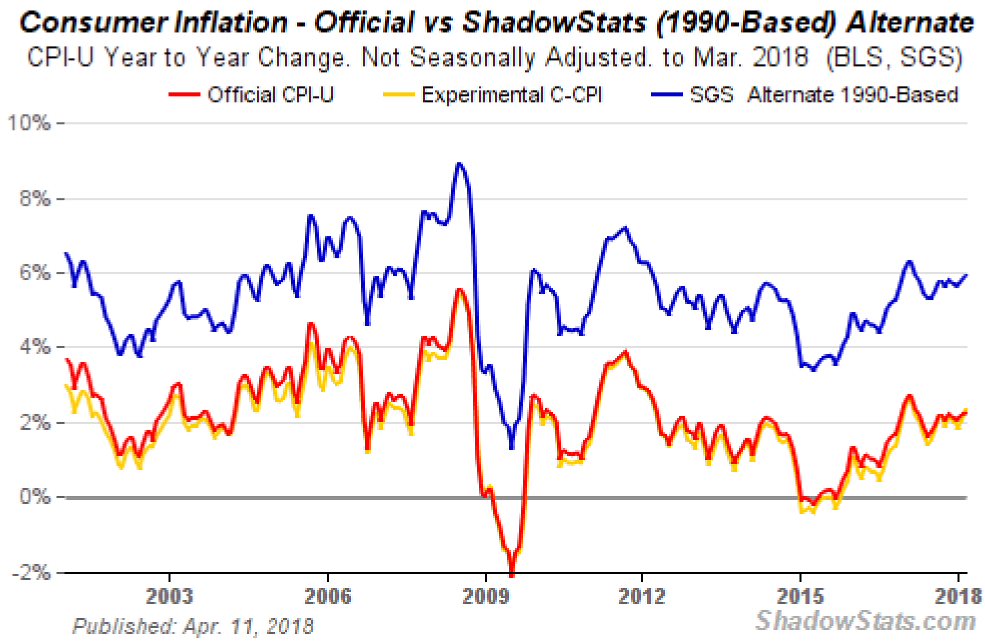
Recent FOMC tightenings have been despite continued, publicly-intensifying "adverse" economic circumstances feared by former Fed Chair Janet Yellen. Weaker economic circumstances were masked, temporarily, by near-term disaster-recovery boosts to economic activity. That now is a rapidly-crumbling façade, coming in first-quarter 2018 (see the discussion in the *Opening Comments*). Those same "adverse circumstances" have acted as a drain on insurance-industry reserves and personal saving used to pay for disaster damages. With first-quarter 2018 GDP in an increasingly likely quarterly contraction (albeit not yet recognized), the financial markets, particularly the global currency markets versus the U.S. dollar should begin to pick up on U.S. Treasury solvency concerns. Fed Chairman Powell's initial response to that unfolding circumstance should be necessary within the next 60 days.

The U.S. central bank has been forced to, and continues to prop banking-system liquidity against an ongoing gale of renewed, economically-driven, banking-system solvency and liquidity issues, with those pressures, masked and then intensified by recent natural disasters, increasing political discord in Washington and mounting global political instabilities. Again, despite strong speculation and protestations to the contrary, the FOMC likely will end up renewing/expanding quantitative easing within the 2018 calendar year.

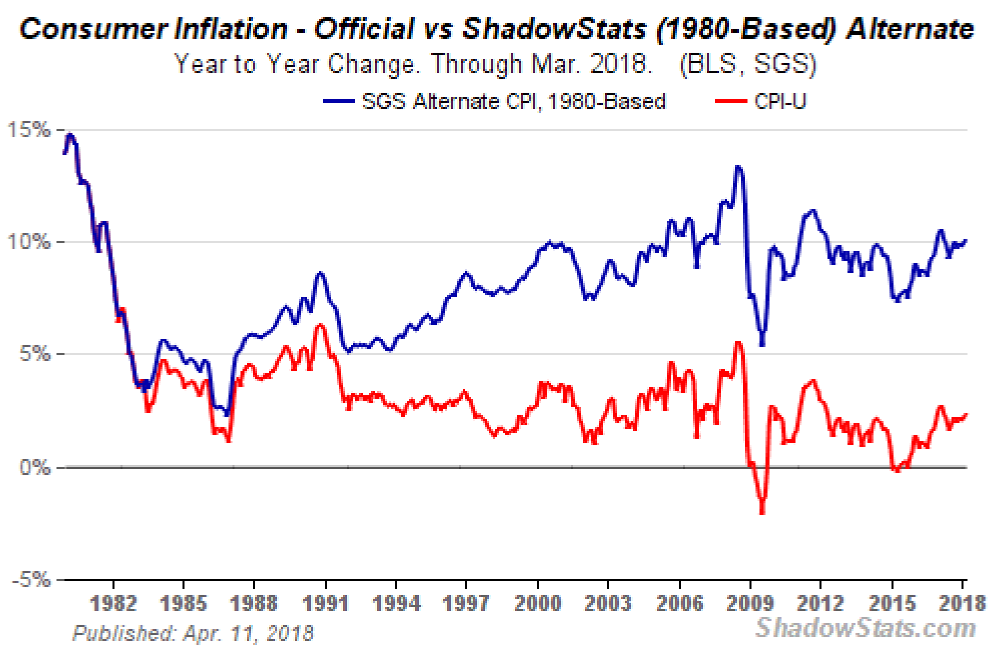
Compounding the high-risk of an increasing near-term run on the U.S. dollar remains mounting recognition in global markets of the Fed's conundrum, particular amidst mounting concerns as to U.S. fiscal stability. The Federal Reserve and other central banks still have no effective idea as to how to boost current economic activity, how to stabilize global banking-system solvency, or otherwise how to slog their way out of a self-generated quagmire. That circumstance only can be exacerbated by intensifying economic and political uncertainties (see the today's *Hyperinflation Watch*, *Special Commentary No. 888* and *Special Commentary No. 935*).

[Graphs 2, 3 and "Notes on Different Measures of the Consumer Price Index" follow.]

Graph 2: Comparative Headline Year-to-Year Change, CPI-U vs. ShadowStats 1990-Based Alternate



Graph 3: Comparative Headline Year-to-Year Change, CPI-U vs. ShadowStats 1980-Based Alternate



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Notes on Different Measures of the Consumer Price Index

The Consumer Price Index (CPI) is the broadest inflation measure published by the U.S. Government, through the Bureau of Labor Statistics (BLS), Department of Labor:

*The **CPI-U (Consumer Price Index for All Urban Consumers)** is the monthly headline inflation number (seasonally adjusted) and is the broadest in its coverage, representing the buying patterns of all urban consumers. Its standard measure is not seasonally-adjusted, and it never is revised on that basis except for outright errors.*

*The **CPI-W (CPI for Urban Wage Earners and Clerical Workers**) covers the more-narrow universe of urban wage earners and clerical workers and is used in determining cost of living adjustments in government programs such as Social Security. Otherwise, its background is the same as the CPI-U.*

*The **C-CPI-U (Chain-Weighted CPI-U)** was an experimental measure—now set to go active, formally, with pending 2017 Tax Reform (see the Opening Comments)—where the weighting of components is fully substitution based. It generally shows lower annual inflation rate than the CPI-U and CPI-W. The latter two measures once had fixed weightings—so as to measure the cost of living of maintaining a constant standard of living—but now are quasi-substitution-based. Since it is fully substitution based, the series tends to reflect lower inflation than the other CPI measures. Accordingly, the C-CPI-U is the "new inflation" measure being proffered by Congress and the White House as a tool for reducing Social Security cost-of-living adjustments by stealth. Moving to accommodate the Congress, the BLS introduced changes to the C-CPI-U estimation process with the February 26, 2015 reporting of January 2015 inflation, aimed at finalizing the C-CPI-U estimates on a more-timely basis, and enhancing its ability to produce lower headline inflation than the traditional CPI-U.*

*The **ShadowStats Alternative CPI-U Measures** are attempts at adjusting reported CPI-U inflation for the impact of methodological change of recent decades designed to move the concept of the CPI away from being a measure of the cost of living needed to maintain a constant standard of living. There are two measures, where the first is based on reporting methodologies in place as of 1980, and the second is based on reporting methodologies in place as of 1990.*

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CPI-U. The Bureau of Labor Statistics (BLS) reported April 11th that the headline, seasonally-adjusted March 2018 CPI-U inflation declined month-to-month by 0.1% (-0.1%) [down 0.06% (-0.06%) at the second decimal point] having gained 0.2% [0.15%] in February, 0.5% [0.54%] in January, 0.2% [0.20%] in December 2017, 0.3% [0.34%] in November, 0.1% [0.08%] in October, 0.5% [0.46%] in September, 0.4% [0.40%] in August and 0.1% [0.11%] in July, "unchanged" at 0.0% [a gain of 0.05%] in June, a monthly decline of 0.1% (-0.1%) [0.07% (-0.07%)] in May, an increase in April of 0.2% [0.15%], a March drop of 0.2% [-0.16%], an "unchanged" 0.0% [0.03%] in February and 0.5% [0.51%] gain in January 2017.

Unadjusted monthly March 2018 CPI-U rose 0.23%, having gained 0.45% in February, 0.54% in January, having declined 0.06% (-0.06%) in December 2017, having been unchanged at 0.00% in November, having declined in October by 0.06% (-0.06%), having gained by 0.53% in September and 0.30% in August, having declined in July by 0.07% (-0.07%), and having gained by 0.09% in June, 0.09% in May, 0.30% in April, 0.08% in March, 0.31% in February and 0.58% in January 2017.

Major CPI-U Groups. On a monthly basis, in the context of continuing, irregular gasoline price swings and related seasonal adjustment aberrations, reflecting gasoline-price seasonal adjustments turning negative in February, the seasonally-adjusted decline of 0.06% (-0.06%) in the March 2018 CPI-U monthly inflation was dominated by heavily exaggerated, negative Energy costs, versus positive impact from "Core" inflation (everything but food and energy) and a gain in Food prices. On an unadjusted basis, the March CPI-U showed a 0.23% monthly gain, dominated by Core and Food inflation, with a much reduced offset from negative Energy inflation.

Encompassed by the March 2018 CPI-U seasonally-adjusted monthly inflation decline of 0.06% (-0.06%) [up by 0.23% on an unadjusted basis], the "Core" (ex-food and energy) inflation rate rose by 0.18% [up by 0.32% unadjusted], Food inflation was up by 0.13% [up by an unadjusted 0.04%], while Energy inflation fell by an adjusted 2.75% (-2.75%) in the month [down by 0.45% (-0.45%) unadjusted].

Finally moving in line with FOMC hopes and expectations, March 2018 "Core" CPI-U inflation broke to 2.1%, above its 2.0% target for the first time since February 2017. As of as of February 2018, the "Core" rate had held range-bound for the 11th straight month (since April 2017) at 1.8% +/- 0.1%. It showed an unadjusted year-to-year inflation rate of 2.12% in March 2018, versus 1.85% in February 2018, 1.82% in January 2018, 1.78% in December 2017, 1.71% in November 2017, 1.77% in October 2017, 1.69% in September 2017, 1.68% in August 2017, 1.69% in July 2017, 1.70% in June 2017, 1.73% in May 2017, 1.88% in April 2017, 2.00% in March 2017, 2.22% in February 2017 and versus 2.27% in January 2017.

March 2018 seasonal adjustments for monthly gasoline inflation—usually reflective of the dominant pressure in energy prices—were heavily negative. Such took a March 2018 CPI-U unadjusted monthly decline of 0.24% (-0.24%) in gasoline prices to an adjusted month-to-month drop of 4.89% (-4.89%). The Department of Energy (DOE) had estimated an unadjusted monthly gain for March 2018 of 0.15%.

With early-April 2018 retail gasoline prices (DOE) running higher month-to-month versus March 2018, by an order of magnitude of 3.9%, and given continued negative seasonal adjustments to April 2018 gasoline prices, there still likely will be a net-positive monthly impact of gasoline prices on the headline April 2018 CPI, shy of a sharp decline in headline prices for the balance of April.

Year-to-Year CPI-U. Not seasonally adjusted, March 2018, year-to-year inflation for the CPI-U increased by 2.4% [2.36% at the second decimal point], versus gains of 2.2% [2.21%] in February 2018, of 2.1% [2.07%] in January 2018, 2.1% [2.11%] in December 2017, 2.2% [2.20%] in November 2017, 2.0% [2.04%] in October 2017, 2.2% [2.23%] in September 2017, 1.9% [1.94%] in August 2017, 1.7% [1.73%] in July 2017, 1.6% [1.63%] in June 2017, 1.9% [1.87%] in May 2017, 2.2% [2.20%] in April 2016, 2.4% [2.38%] in March 2017, a 60-month high of 2.7% [2.74%] in February 2017 and 2.5% [2.50%] in January 2017.

Year-to-year, CPI-U inflation would increase or decrease in next month's April 2018 reporting, dependent on the seasonally-adjusted month-to-month change, versus the adjusted, headline gain of 0.15% in the April 2017 CPI-U. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for April 2018, the difference in April's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the unadjusted March 2018 annual inflation rate of 2.36%. Given an early guess of a seasonally-adjusted monthly gain of about 0.3% in the April 2018 CPI-U, that would leave the annual CPI-U inflation rate for April 2018 at about 2.5%, plus-or-minus.

Quarterly CPI-U. On a seasonally-adjusted annualized quarter-to-quarter basis, CPI-U rose by 3.51% in first-quarter 2018, having gained 3.31% in fourth-quarter 2017, 2.13% in third-quarter 2017, 0.10% in second-quarter 2017 and 2.96% in first-quarter 2017.

On an unadjusted, year-to-year basis, headline annual inflation by quarter was up by 2.21% in first-quarter 2018, versus 2.12% in fourth-quarter 2017, 1.97% in third-quarter 2017, 1.90% in second-quarter 2017 and 2.54% in first-quarter 2017.

Annual Average CPI-U. The unadjusted annual average CPI-U inflation rate was 2.13% in 2017, versus 1.26% in 2016 and 0.12% in 2015.

CPI-W. The March 2018 seasonally-adjusted, headline CPI-W, which is a narrower series and traditionally has had greater weighting for gasoline than does the CPI-U, declined month-to-month by 0.16% (-0.16%), following month gains of 0.11% in February, 0.62% in January, 0.19% in December 2017, 0.43% in November, 0.05% in October, 0.55% in September, 0.49% in August, 0.06% in July, 0.04% in June and a decline in May of 0.10% (-0.10%) in May, a monthly gain of 0.15% in April, declines in March of 0.22% (-0.22%) and 0.05% (-0.05%) in February and a gain of 0.59% in January 2017.

On an unadjusted basis, year-to-year CPI-W gained by 2.44% in March 2018, versus 2.32% in February 2018, 2.14% in January 2018, 2.18% in December 2017, 2.32% in November 2017, 2.05% in October 2017, 2.31% in September 2017, 1.93% in August 2017, 1.64% in July 2017, 1.50% in June 2017, 1.78% in May 2017, 2.14% in April 2017, 2.35% in March 2017, 2.82% in February 2017 and 2.51% in January 2017.

Quarterly CPI-W. On an annualized quarter-to-quarter basis, seasonally-adjusted CPI-W rose by 3.70% in first-quarter 2018, having gained 3.75% in fourth-quarter 2017, 2.26% in third-quarter 2017, having declined by 0.26% (-0.26%) in second-quarter 2017 and having gained by 3.04% in first-quarter 2017.

On an unadjusted year-to-year basis, annual inflation by quarter rose by 2.30% in first-quarter 2018, versus 2.18% in fourth-quarter 2017, 1.96% in third-quarter 2017, 1.80% in second-quarter 2017 and 2.56% in first-quarter 2017.

Annual CPI-W. The unadjusted annual average CPI-W inflation rate was 2.13% in 2017, versus an average gain of 0.98% in 2016 and an average contraction of 0.41% (-0.41%) in 2015.

Chained-CPI-U. The headline C-CPI-U is not seasonally adjusted, but it is revised quarterly for the prior year, as was seen last with the January 2018 reporting, in which year-to-year inflation rates revised lower by 0.09% (-0.09%) for each month back through March 2017. The next series of revisions should be published with next month's headline April 2018 data.

The headline annual inflation rate for the C-CPI-U in March 2018 was 2.23%, versus 2.04% in February 2018, versus 1.86% in January 2018, 1.93% in December 2017, 2.02% in November 2017, 1.80% in October 2017, 2.08% in September 2017, 1.68% in August 2017, 1.37% in July 2017, 1.26% in June 2017, 1.53% in May 2017, 1.89% in April 2017, 2.07% in March 2017, 2.56% in February 2017, and 2.27% in January 2017.

Quarterly C-CPI-U, Year-to-Year. On an unadjusted, year-to-year basis, annual inflation by quarter was up by 2.04% in first-quarter 2018, versus 1.92% in fourth-quarter 2017, 1.71% in third-quarter 2017, versus 1.56% in second-quarter 2017, 2.30% in first-quarter 2017.

Annual Average C-CPI-U. The annual average C-CPI-U inflation rate was 1.87% in 2017, versus an annual gain of 0.93% in 2016 and an annual contraction of 0.12% (-0.12%) in 2015.

See the *Opening Comments* of *Commentary No. 920* as to the impact of the adoption of this measure and its costs to the tax-paying public in the recent overhaul of federal income taxes, also see discussions in the earlier *Commentary No. 721* and in the opening notes in the *CPI Section* of *Commentary No. 699* as to the most-recent changes in the series. More-frequent revisions and earlier finalization of monthly detail broadly have been designed to groom the C-CPI-U series as the new Cost of Living Adjustment (COLA) index of choice for the increasingly budget-deficit-strapped federal government, as discussed in the *Public Commentary on Inflation Measurement*.

Caution: Artificially-low inflation numbers estimated by the U.S. Government and used in fields ranging from Social Security COLAs (see the 2017 CPI-W estimate discussion in *Commentary No. 841*) to determining income-tax brackets, have been redesigned in recent decades specifically to help reduce the federal deficit. They are harmfully misleading to anyone using a government CPI estimate as a meaningful cost-of-living measure for guidance on income or investment purposes.

Alternate Consumer Inflation Measures. The ShadowStats-Alternate Consumer Inflation Measures are constructed on top of the unadjusted CPI-U series. Adjusted to 1990 methodologies—the ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—year-to-year annual inflation was roughly 5.9% in March 2018, versus 5.8% in February 2018, 5.6% in January 2018, 5.7% in December 2017, 5.8% in November 2017, 5.6% in October 2017, 5.8% in September 2017, 5.5% in August 2017, 5.3% in July 2017, 5.2% in June 2017, 5.5% in May 2017, 5.8% in April 2017, 6.0% in March 2017, 6.3% in February 2017 and 6.1% in January 2017.

The March 2018 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 10.1% (10.12% at the second decimal point) in March 2018, versus 10.0% (9.96%) in February 2018, 9.8% (9.81%) in January 2018, 9.8% (9.85%) in December 2017, 9.9% (9.95%) in November 2017, 9.8% (9.78%) in October 2017, 10.0% (9.98%) in September 2017, 9.7% (9.67%) in August 2017, 9.4% (9.44%) in July 2017, 9.3% (9.34%) in June 2017, 9.6% (9.60%) in May 2017, 10.0% (9.95%) in April 2017, 10.1% (10.14%) in March 2017, 10.5% (10.53%) in February 2017 and 10.3% (10.27%) in January 2017. Historic monthly detail, along with an inflation calculator will be found in the CPI section of the Alternate Data tab of the ShadowStats home page: www.ShadowStats.com.

Note: The ShadowStats-Alternate Consumer Inflation Measures largely have been reverse-engineered from BLS estimates of the anticipated impact on annual CPI inflation from various changes made to CPI reporting methodology since the early 1980s, as also incorporated in the CPI-U-RS series. That series provides an official estimate of historical inflation, assuming that all current methodologies were in place going back in time. The changes reflected there are parallel with and of the same magnitude of change as estimated by the BLS, when a given methodology was changed.

The ShadowStats estimates are adjusted on an additive basis for the cumulative impact on the annual inflation rate from the various BLS changes in methodology (reversing the net aggregate inflation reductions by the BLS). The series are adjusted by ShadowStats for those aggregate changes, but the series otherwise are not recalculated.

Over the decades, the BLS has altered the meaning of the CPI from being a measure of the cost of living needed to maintain a constant standard of living, to something that neither reflects the constant-standard-of-living concept nor measures adequately what most consumers view as out-of-pocket expenditures. Roughly five percentage points of the additive ShadowStats adjustment since 1980 reflect the BLS's formal estimate of the annual impact of methodological changes; roughly, two percentage points reflect changes by the BLS, where ShadowStats has estimated the impact not otherwise published by the BLS. For example, the BLS does not consider more-frequent weightings of the CPI series or shifting the nature of retail outlets to be changes in methodology. Yet those changes have had the effect of reducing headline inflation from what it would have been otherwise (see Public Commentary on Inflation Measurement *for further details).*

Gold and Silver Historic High Prices Adjusted for March 2018 CPI-U/ShadowStats Inflation

CPI-U: GOLD at $2,726 per Troy Ounce, SILVER at $159 per Troy Ounce
ShadowStats: GOLD at $15,487 per Troy Ounce, SILVER at $901 per Troy Ounce

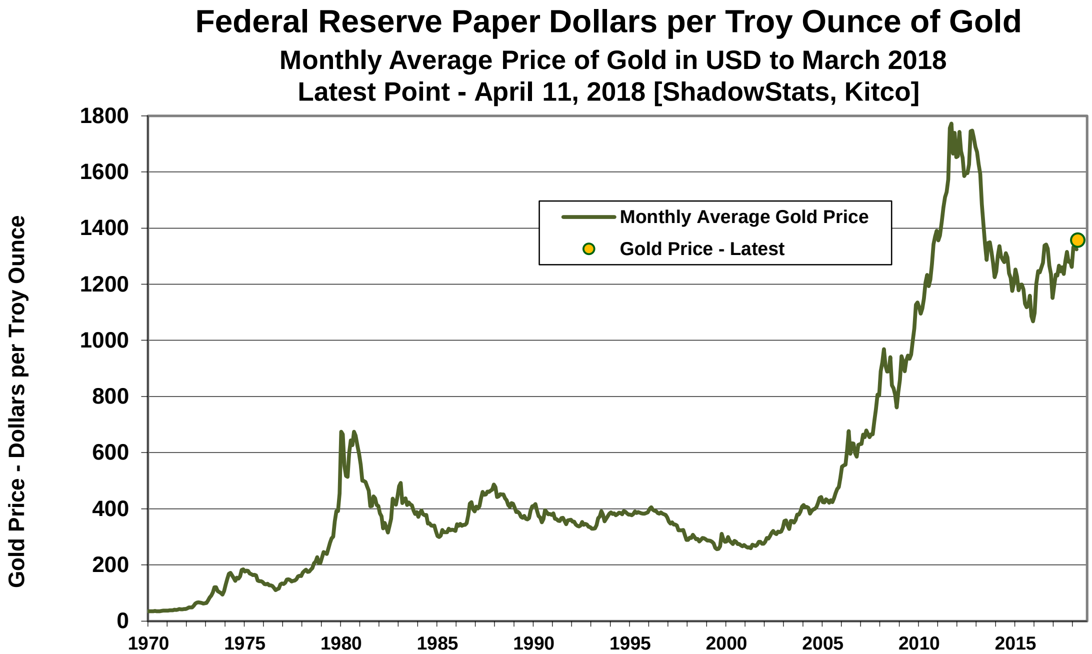
Despite the September 5, 2011 historic-high gold price of $1,895.00 per troy ounce (London afternoon fix), and despite the multi-decade-high silver price of $48.70 per troy ounce (London fix of April 28, 2011), gold and silver prices have yet to re-hit their 1980 historic levels, adjusted for inflation. The earlier all-time high of $850.00 (London afternoon fix, per Kitco.com) for gold on January 21, 1980 would be $2,726 per troy ounce, based on March 2018 CPI-U-adjusted dollars, and $15,487 per troy ounce, based on March 2018 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (all series here are not seasonally adjusted).

In like manner, the all-time high nominal price for silver in January 1980 of $49.45 per troy ounce (London afternoon fix, per silverinstitute.org)—although approached in 2011—still has not been hit since 1980, including in terms of inflation-adjusted dollars. Based on March 2018 CPI-U inflation, the 1980 silver-price peak would be $159 per troy ounce and would be $901 per troy ounce in terms of the March 2018 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (again, all series not seasonally adjusted).

Accompanying *Graph 4* shows the regular gold plot published with monthly CPI detail, with further detail and graphs found in the *Hyperinflation Watch*. As economic expectations take a likely hit in the week ahead, the dollar should continue to lose ground against both gold and the stronger currencies such as the Swiss France (CHF). Implications remain highly inflationary for those living in a U.S. dollar-denominated world.

Shown in *Table 1* on page 47 of *No. 859 Special Commentary*, and in *Table INFLATION-1* on page 46 of *Special Commentary No. 935*, over the decades, the increases in gold and silver prices have compensated for more than the loss of the purchasing power of the U.S. dollar as reflected by CPI inflation. The precious metals also (particularly gold in the last year) effectively have come close to fully compensating for the loss of purchasing power of the dollar based on the ShadowStats-Alternate Consumer Price Measure (1980-Methodologies Base).

Graph 4: Monthly Average Gold Price in Dollars (Federal Reserve Notes)



Real Average Weekly Earnings—March 2018—First-Quarter 2018 Real Average Weekly Earnings Contracted for All Employees, as Well as for the Production and Nonsupervisory Employees. *[Note: Details are plotted in the* Executive Summary, Graph 1 *on page 6, and in the* Consumer Liquidity Watch, Graph CLW-7.*]* For the production and nonsupervisory employees category (deflated by the CPI-W)—the only series for which there is a meaningful history, back to 1964, the regularly-volatile, real average weekly earnings gained month-to-month in March 2018 by 0.5%, having gained a downwardly revised 0.7% in February and having declined month-to-month by an unrevised 1.1% (-1.1%) in January. In the context of unrevised December 2017 activity, that pushed first-quarter 2018 activity into a third-consecutive annualized quarterly contraction in real average weekly earnings, the fifth such quarterly decline in the last six quarters.

Production and Nonsupervisory Employees Details. The headline estimate for March 2018 real average weekly earnings was published along with the release of the headline March 2018 CPI-W on April 11th. In the production and nonsupervisory employees category, again, the only series for which there is a meaningful history, the regularly-volatile real average weekly earnings rose month-to-month by 0.45% in March 2018, versus a revised 0.67% [previously 0.76%] in February 2018, having drooped by an unrevised 1.08% (-1.08%) in January 2018, all against an unrevised monthly gain of gain 0.46% in December 2017, all against an unrevised decline of 0.20% (-0.20%) in November, an unrevised gain of 0.16% in October, and monthly declines of 0.14% (-0.14%) in September, 0.55% (-0.55%) in August and a gain of 0.12% in July.

Year-to-year, the adjusted March 2018 real change softened to gain of 0.27%, versus a revised annual gain of 0.64% [previously 0.78%] in February 2018, following an unrevised annual gains of 0.20% in

January 2018, 0.84% in December 2017, 0.33% in November 2017, 0.46% in October 2017, 0.27% in September 2017, 0.65% in August 2017 and 0.86% in July 2017.

With first-quarter 2018 earnings showing an annualized contraction of 1.51% (-1.51%), such followed an annualized fourth-quarter 2017 contraction of 0.39% (-0.39%) versus a minimal, unrevised annualized decline of 0.03% (-0.03%) in third-quarter 2017, an annualized gain of 3.48% in second-quarter 2017, and annualized contractions of 0.84% (-0.84%) in first-quarter 2017 and 0.18% (-0.18%) in fourth-quarter 2016.

All Employees Detail. In the broader All Employees detail (deflated by the CPI-U), real average weekly earnings contracted at an annualized pace of 0.35% (-0.35%), versus a minimal, annualized decline of 0.03% (-0.03%) in fourth-quarter 2017 and an annualized gain of 3.48% in third-quarter 2017.

Intensifying Consumer Liquidity Stress. Discussed in the *Consumer Liquidity Watch*, in conjunction with slowing growth in real Consumer Credit Outstanding, the government's headline real earnings data indicate continuing and mounting income and liquidity issues for the consumer.

Again, *Graph 1* in the *Executive Summary* and *Graph CLW-7* in the *Consumer Liquidity Watch*, plot the Production and Nonsupervisory Employee series, showing 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 headline 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.

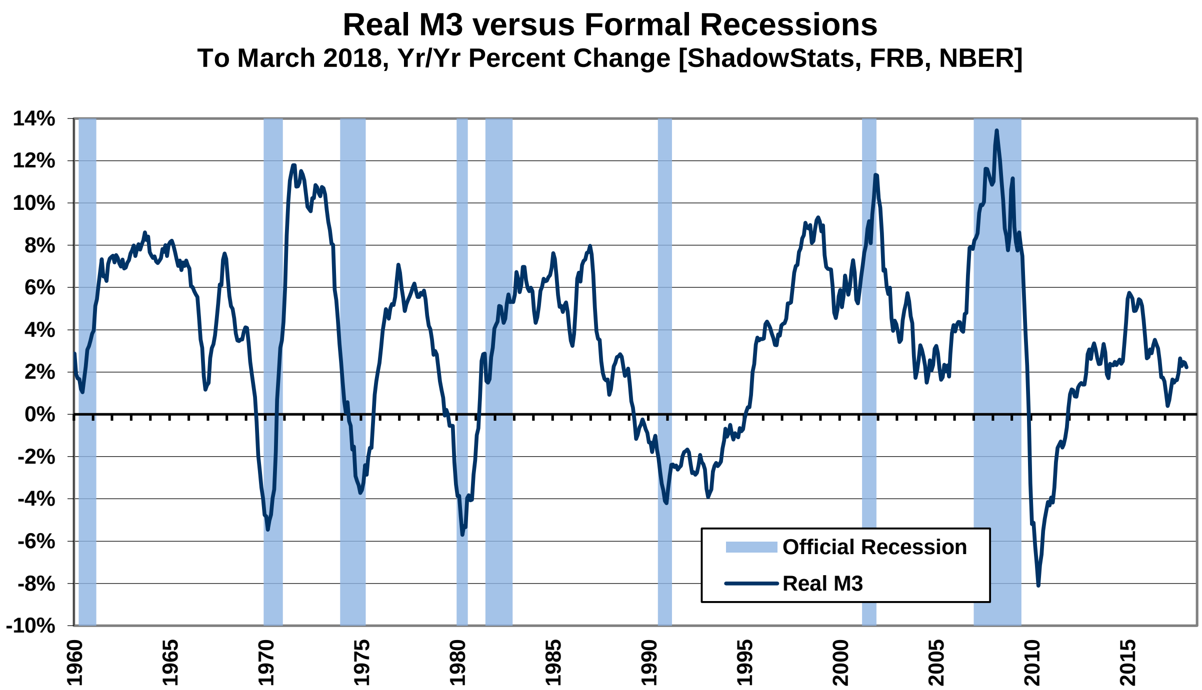
A Leading Indicator to Broad Economic Activity, Real (Inflation-Adjusted) Money Supply M3—March 2018—Annual Change Turned Down Anew to a Six-Month Low. The signal for a double-dip, multiple-dip or simply protracted, ongoing recession, based on annual contraction in the real (inflation-adjusted) broad money supply (M3), had been re-triggered/intensified one year ago, in February 2017, but that signal then softened or flattened out with contrary bounce since May 2017. The previous signal had been, and remained in place, despite real annual M3 growth having rallied into positive territory post-2010.

In the context of downwardly revised annual growth in M3, and some pick-up in annual CPI inflation, a renewed recession signal may be unfolding. Shown in *Graph 5*—based on the March 2018 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate (see the discussion on slowing annual money supply growth in the *Hyperinflation Watch* of *Commentary No. 944*)—annual inflation-adjusted growth in March 2018 M3 dropped to a six-month low of 2.05% versus a revised 2.22% [previously 2.21%] in February 2018, and a revised 2.43% [previously 2.48%] in January 2018. Those patterns reflected continuing downside benchmark revisions to the Federal Reserve's money measures and upside movement in annual CPI-U inflation. Those levels of activity were against near-term peak growth of 2.65% in October 2017, and against the recent February 2015 cycle-high peak growth of 5.75%.

The recent stagnation in annual growth still likely reflected a temporary reversal in the pattern of plunging annual growth, which has held at levels last seen in plunging growth into the 2009 economic collapse, a level always seen going into, or already in a recession.

The signal for a downturn or an intensified downturn is generated when annual growth in real M3 first slows sharply, approaches zero and turns negative in a given cycle; the signal is not dependent on the depth of the downturn or its duration. Breaking into positive territory does not generate a meaningful signal one way or the other for the broad economy. The previous "new" downturn signal was generated in December 2009, even though there had been no upturn since the economy purportedly hit bottom in mid-2009. The ongoing issue here confounding the regular signal is that the U.S. economy never has recovered fully from its collapse into 2009 (see *Commentary No. 877* and *Commentary No. 902-B*). The initial economic downturn never evolved into a meaningful or sustainable recovery. The current level and pattern of real annual M3 growth generally has been followed by annual contraction and recession signal.

Graph 5: Real M3 Annual Growth versus Formal Recessions



Again, when real M3 growth breaks above zero, there is no signal; the signal is generated only when annual growth moves to zero and into negative territory, from which it has backed off at present. The broad economy tends to follow in downturn or renewed deterioration roughly six-to-nine months after the signal. Weaknesses in a number of economic series have continued to the present, with significant new softness in recent reporting, separate from short-lived activity generated by the destruction and resulting recovery from particularly-severe hurricane and California wildfire seasons. Actual post-2009 economic activity has remained at relatively low levels—in protracted stagnation—with no actual recovery (see the *ECONOMY* section of *Special Commentary No. 935* and *Commentary No. 943*).

Despite the purported, ongoing recovery shown in headline GDP activity, a renewed downturn in official data is underway that likely still will gain official recognition as a "new" recession, in the months ahead. Underlying reality remains that the collapse into 2009 was followed by a plateau of low-level economic activity—no meaningful upturn, no full recovery from or end to the official 2007 recession, no new economic expansion—where the unfolding "new" downturn remains nothing more than a continuation and re-intensification of a downturn that began unofficially in 2006.

PRODUCER PRICE INDEX—PPI (March 2018)

March 2018 Final Demand Annual PPI Inflation Rose to a 74-Month High of 3.03%, with an Increased Monthly Gain of 0.26%, Amidst Soaring Food and Hospital Outpatient Costs. Despite falling energy prices, exacerbated by negative seasonal adjustments, soaring food prices helped to push headline goods inflation higher by 0.26% month-to-month, while rising hospital outpatient costs helped to push the services sector higher, also by 0.26%, with a monthly gain of 0.26% [0.52% unadjusted] resulting for the aggregate Final Demand Producer Price Index (FD-PPI). Unadjusted and year-to-year FD-PPI March 2018 annual inflation jumped to 3.03%, its highest level since January 2012.

That March 2018 unadjusted annual gain of 3.03% [2.77% in February 2018] for the aggregate PPI encompassed rising annual inflation across all three major sectors, with March 2018 annual growth in the dominant Services sector at 2.93% [2.76% in February 2018], 3.17% [3.00% in February 2018] in the Goods sector [Energy still up by 8.54%, versus 9.12% in February 2018], and 3.57% [3.48% in February 2018] in the Construction sector. The headline, seasonally-adjusted 0.26% monthly gain in the aggregate FD-PPI series again encompassed 0.26% in both Services and Goods, with headline monthly Construction inflation of 0.17%.

Irrespective of inflation reporting out of the Bureau of Labor Statistics (BLS), which runs well shy of common experience for consumers, as well as businesses (see the CPI comments), the Federal Reserve tends to ignore energy and food inflation in determining its headline policies, concentrating instead on "Core" inflation, net of those "problem" energy and food areas. Annual "Core" inflation on the PPI-FD Goods side was at 2.22% in March 2018, versus 2.13% in February 2018.

Goods Detail. Separate from service-sector definitional issues, the old-fashioned, headline seasonally-adjusted monthly PPI-FD Goods inflation in March 2018 increased by 0.26% [by 0.44% unadjusted]. The March composite reflected an adjusted monthly gain of 2.24% [2.25% unadjusted] in foods, an adjusted 2.11% (-2.11%) monthly drop [an unadjusted monthly drop of 0.94% (-0.94%)] in energy and an adjusted (also unadjusted) monthly gain of 0.35% in "Core" goods. Again, the PPI-FD Goods sector showed unadjusted annual inflation of 3.17% in March 2018, up from 3.00% in February 2018.

Construction Detail. Generally not headlined, the Construction sector reflects elements of both cost and margins. The headline seasonally-adjusted (and unadjusted) monthly PPI-FD Construction inflation in March 2018 rose by 0.17%, having gained 0.08% in February and 0.76% in January, with the January jump largely due to new quarterly margins estimates. For the PPI-FD Construction sector, unadjusted annual inflation of 3.57% in March 2018 continued to pick up from 3.48% in February 2018 and 3.39% in January 2018.

Services-Side Detail. The headline monthly PPI Final-Demand aggregate inflation generally reflects neither real-world activity, nor common experience, except by possible coincidence. As structured, the aggregate, wholesale inflation rate remains dominated by the services sector, which is of negligible common-experience or theoretical value, as discussed in the following *Bulk of Headline PPI Reporting Is of Little Practical Use* section.

That said, headline, seasonally-adjusted monthly PPI-FD Services inflation in March 2018 rose by an adjusted 0.26% [an unadjusted 0.52%]. The March 2018 composite included an adjusted gain of 0.35% [0.44% unadjusted] in the dominant "Other" or "Less Trade, Transportation and Warehousing" category. That sub-sector accounted for 70% of the aggregate PPI gain, boosted heavily by the costs of hospital outpatient care. There also was an adjusted gain of 0.59% [1.34% unadjusted] in "Transportation and Warehousing" category and an adjusted gain of 0.17% [0.43% unadjusted] in the "Trade" sector. For the PPI-FD Services sector, unadjusted annual inflation rose to 2.93% in March 2018 from 2.76% in February 2018.

Bulk of Headline PPI Reporting Is of Little Practical Use. *[The background text here and in the next subsection is as published previously.]* Beyond the broad issues with general inflation measurement (see *Public Commentary on Inflation Measurement*), indeed the bulk of the PPI is covered by the "services" sector, where inflation is determined largely by shifting profit margins. Discussed in the next subsection, profit-margin inflation estimates generally are handled in a manner counter-intuitive to the more-traditional measurement of inflation in goods and services, otherwise calculated as a measurement of change in prices. Accordingly, the headline detail here increasingly has a limited relationship to real-world activity.

The conceptual differences between goods inflation and services profit margins do not blend well and are not merged easily or meaningfully in the current version of the PPI. While the dual measures are more meaningfully viewed independently, rather than as the hybrid measure of the headline Producer Price Index Final Demand, the aggregate headline series here (ShadowStats separates the analyses of those sectors by sub-category) also is reviewed and covered within the headline reporting conventions of the Bureau of Labor Statistics (BLS).

Inflation That Is More Theoretical than Real World. Effective with January 2014 reporting, a new Producer Price Index (PPI) replaced what had been the traditional headline monthly measure of wholesale inflation in Finished Goods (see *Commentary No. 591*). In the new headline measure of wholesale Final Demand, Final Demand Goods basically is the old Finished Goods series, albeit expanded.

The new, otherwise dominant Final Demand Services sector largely reflects problematic and questionable surveying of intermediate or quasi-wholesale profit margins in the services area. When profit margins shrink in the services sector, one could argue that the resulting lowered estimation of inflation actually is a precursor to higher inflation, as firms subsequently would move to raise prices, in an effort to regain more-normal margins. In like manner, in the circumstance of "increased" margins—due to the lower cost of petroleum-related products not being passed along immediately to customers—competitive pressures to lower margins tend to be reflected eventually in reduced retail prices (CPI). The oil-price versus margin gimmick works both way. In times of rapidly rising oil prices, it mutes the increase in Final Demand inflation, in times of rapidly declining oil prices; it tends to mute the decline in Final Demand inflation.

The current PPI series remains an interesting concept, but it appears limited as to its aggregate predictive ability versus general consumer inflation. Further, there is not enough history available on the new series (just eight years of post-2008-panic data) to establish any meaningful relationship to general inflation or other economic or financial series.

March 2018 Headline PPI Detail. The Bureau of Labor Statistics (BLS) reported April 10th, that the seasonally-adjusted, month-to-month, headline Producer Price Index Final-Demand (PPI-FD) inflation for March 2018 rose by 0.26%, having gained 0.17% in February 2018 and 0.44% in January.

On a not-seasonally-adjusted basis—all annual growth rates are expressed unadjusted—year-to-year PPI-FD inflation in March 2018 was 3.03%, a 74-month high, up from 2.77% in February 2018 and 2.69% in January 2018. The unadjusted March 2018 annual inflation rate was the highest since January 2012. November 2017 PPI had been higher at 3.07%, in its initial reporting, but that jut revised lower to 2.98% along with the higher headline March 2018 reporting detail.

For the three major subcategories of the March 2018 PPI-FD, which, again, showed a monthly gain of 0.26% and 3.03% annual inflation, headline monthly Goods inflation gained an adjusted 0.26% month-to-month, up by an unadjusted 3.17% year-to-year, Services "inflation" (profit margins) rose month-to-month by 0.26%, up by 2.93% year-to-year, and Construction inflation rose in the month by 0.17%, up by 3.57% year-to-year.

Final Demand Goods (weighted at 33.01% of the Aggregate Index). Running somewhat in parallel with the old Finished Goods PPI series, headline month-to-month Final Demand Goods inflation in March 2018 rose by 0.26%, having declined by 0.09% (-0.09%) in February and having gained 0.71% in January. There was negative impact on the aggregate goods headline reading from underlying seasonal-factor adjustments. Not-seasonally-adjusted, March inflation was up by 0.44%. Unadjusted, year-to-year goods inflation in March 2018 showed an annual gain of 3.17%, following gains 3.00% in February 2018 and 3.28% in January 2018.

Seasonally-adjusted monthly changes by major components of March 2018 Final Demand Goods:

- "Foods" inflation (weighted at 5.72% of the total index) soared month-to-month by 2.24% in March 2018, having dropped 0.43% (-0.43%) in February and 0.17% (-0.17%) in January. Seasonal adjustments were minimally negative for the March headline change, which was an unadjusted monthly gain of 2.25%. Unadjusted and year-to-year, annual March 2018 foods inflation rose by 1.99%, having gained by 0.61% in February 2018 and by 1.84% in January 2018.
- "Energy" inflation (weighted at 5.58% of the total index) declined month-to-month in March 2018 by 2.11% (-2.11%), having dropped by 0.46% (-0.46%) in February and having gained 3.40% in January. Seasonal adjustments were strongly negative in March, with unadjusted energy showing a monthly decline of 0.94% (-0.94%). Unadjusted and year-to-year, March 2018 energy prices gained 8.54%, versus 9.12% in February 2018 and 9.19% in January 2018.
- "Less foods and energy" ("Core" goods) monthly inflation (weighted at 21.71% of the total index) gained month-to-month by 0.35% in March 2018, having gained by 0.17% in both February and January. Seasonal adjustments were neutral for monthly "Core" inflation, with the unadjusted monthly March inflation also up by 0.35%. Unadjusted and year-to-year, March 2018 "core" inflation rose to 2.22%, versus 2.13% in February 2018 and 2.14% in January 2018.

Final Demand Services (weighted at 65.35% of the Aggregate Index). Headline Final Demand Services inflation rose by 0.26% in March 2018, having also gain 0.26% in February and 0.35% in January. The overall seasonal-adjustment impact on headline services inflation was negative, with an unadjusted monthly gain of 0.52%. Year-to-year, unadjusted March 2018 services inflation rose to 2.93%, versus 2.76% in February 2018 and 2.32% in January 2018.

The headline monthly changes by major component for March 2018 Final Demand Services inflation:

- "Services less trade, transportation and warehousing" inflation, or the "Other" category (weighted at 40.53% of the total index) rose month-to-month by 0.35% in March 2018, also by 0.35% in February having gained 0.44% in January. Seasonal-adjustment impact on the March detail was negative, where the unadjusted monthly reading was a gain of 0.44%. Unadjusted and year-to-year, March 2018 "other" services inflation was up by 3.13%, against annual gains of 2.77% in February 2018 and 2.51% in January 2018.
- "Transportation and warehousing" inflation (weighted at 4.47% of the total index) rose month-to-month by 0.59% in March 2018, having gained 0.93% in February and 0.43% in January. Seasonal adjustments were negative for the headline March reading, versus an unadjusted monthly gain of 1.34%. Unadjusted and year-to-year, March 2018 transportation inflation rose by 5.05%, versus 3.21% in February 2018 and 2.52% in January 2018.
- "Trade" inflation (weighted at 20.35% of the total index) gained month-to-month by 0.17% in March 2018, having declined by 0.17% (-0.17%) in February and having gained 0.35% in January. Seasonal adjustments had a negative impact, where the unadjusted monthly change was up by 0.43%. Unadjusted and year-to-year, March 2018 trade inflation eased to 2.02%, from 2.57% in February 2018 and against 1.67% in January 2018.

Final Demand Construction (weighted at 1.64% of the Aggregate Index). Although a fully self-contained subsection of the Final Demand PPI, Final Demand Construction inflation receives no formal headline coverage. Month-to-month construction inflation increased by 0.17% in March 2018, versus 0.08% in February and having gained 0.76% in January. The impact of seasonal factors on the March reading was neutral, as usual, where the unadjusted monthly gain also was 0.17%. The issues here are a combination of monthly headline cost changes along with a quarterly estimate of contractor profit-margin changes that have little connection to real-world activity, as addressed in *Commentary No. 829*.

On an unadjusted basis, year-to-year construction inflation rose to 3.57% in March 2018, versus 3.48% in February 2018 and 3.39% in January 2018. The PPI annual change here recently has moved closer to the estimates of private surveying and other government estimates (GDP deflators), which usually show much higher construction-related inflation than the PPI. Annual inflation in those measures generally appears to be on the rise. Discussed in *Commentary No. 829*, ShadowStats constructed a Composite Construction Deflator (CCD) now used by ShadowStats in deflating the Census Bureau's monthly estimates of Construction Spending Put in Place in the United States (see *Commentary No. 944*).

PPI-Inflation Impact on Pending Reporting of March 2018 New Orders for Durable Goods. As to the upcoming reporting of March 2018 New Orders for Durable Goods, monthly inflation (reported only on a not-seasonally-adjusted basis) for new orders for manufactured durable goods in March 2018 increased by 0.41%, having gained 0.23% in February and 0.41% in January. Year-to-year annual inflation was 1.96% in March 2018, 1.72% in February 2018 and versus 1.79% in January 2018. March 2018 durable goods orders (both nominal and real) will be reported and calculable on April 26th, with coverage in the *Commentary 947* of April 27th.

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

HYPERINFLATION WATCH

THE U.S. DOLLAR AND THE FINANCIAL MARKETS

Day of Reckoning for the U.S. Dollar and Financial Markets Could Be Close. Discussed in today's *Opening Comments*, *Consumer Liquidity Watch* and the *Week, Month and Year Ahead* section, a confluence of some unhappy factors should hit the U.S. financial system over the next several weeks, likely to impact Federal Reserve Policy, the U.S. dollar and the U.S. equity and credit markets. Discussed earlier, or otherwise added here as potential issues include:

- Today's discussions that noted marked deterioration in current consumer liquidity conditions (faltering real earnings and real consumer credit outstanding).
- Headline economic reporting next week (March Retail Sales, Industrial Production and Housing Starts) that has the potential to weaken the broad consensus outlook on U.S. economic conditions.
- Those factors combined could be enough to start moving financial-market expectations towards a possible easing shift in Federal Reserve monetary policy.
- Rapidly mounting, global currency and credit market concerns as to U.S. government finances (budget deficit and funding needs) and related long-term sovereign-solvency issues.
- Potential for trade deficit/tariff disputes to intensify.
- Mounting turmoil tied to efforts (likely unsuccessful) by political adversaries to remove President Trump from office (see *Special Commentary No. 888*), where elements of the dispute may be coming to a head very shortly.

The circumstances here are the tinder for igniting a financial-market firestorm, which likely would engulf the U.S. dollar in conjunction with intensifying flight of foreign capital from liquid U.S. financial assets, particularly stocks and Treasury bonds. The text that follows largely is as written previously.

Watch Out for the U.S. Dollar! Increasingly obvious in recent headline data, the real-world U.S. 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 current and 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 parlayed a temporary, nonrecurring economic boosts from natural disasters into a year-end 2017 economic boom. Looming 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.

Intensified Selling of the U.S. Dollar and Negative Stock-Market Turmoil Are Likely, Soon. The headline economic boom that helped to drive the major U.S. stock indices to recent all-time highs has begun to fall apart. Again, 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 headline February Retail Sales and the Industrial Production benchmarking. With headline numbers faltering anew, selling of the U.S. dollar should intensify, with both factors likely to begin turning stock prices lower. With a full-fledged dollar selling panic a fair bet, stock prices likely would tank in tandem, as foreign as well as domestic investors increasingly sought safer havens in other currencies.

Federal Reserve Still is Unable to Extricate Itself from the Panic of 2008. Today's *Opening Comments* provided some background economic context for this *Hyperinflation Watch*. Despite consensus expectations of fully recovered economy booming, underlying economic activity never has fully recovered. While natural-disaster-recovery activity boosted late-2017 economic numbers, the system has begun to re-stabilize in its prior, non-recovery, intensifying downturn mode.

The increasing, fundamental disconnection between the happy hype in the media, the financial markets and the 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 increasingly should confirm a renewed economic contraction (see *Special Commentary No. 935*).

In response to likely renewed liquidity stresses on the banking system from an "unexpected" economic downturn, the FOMC remains likely to abandon its current path of policy tightening, for a renewed and expanded quantitative-easing program to bolster the still liquidity-challenged domestic banking system. The market response to, or anticipation of a shift in policy, 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.

The usual graphs in this section reflect New York late-afternoon or closing prices of April 11th.

U.S. Dollar. *Graphs HW-1* and *HW-2* reflect plots of the Federal Reserve Board's (FRB) Major-Market Trade-Weighted Dollar (TWD), which reflects the U.S. dollar exchange rate weighted versus the Euro, Yen, Pound Sterling, Australian Dollar, Swiss Franc and the Canadian Dollar; and the ShadowStats Financial-Weighted Dollar (FWD), which reflects the U.S. dollar exchange rate weighted versus the same currencies, based on respective currency trading volume in the markets, instead of merchandise trade.

ShadowStats modified the FWD to add the Chinese Yuan, at such time as it was recognized as a global reserve currency by the Bank for International Settlements in 2015, but there was no resulting visual difference in the ShadowStats plot, until recently, given the relatively low weighting of the CNY at present, and the closely tied movement of the CNY to USD over time. The plots of the FWD versus the TWD both show recent weakness in the U.S. dollar, with the declining year-to-year change intensifying.

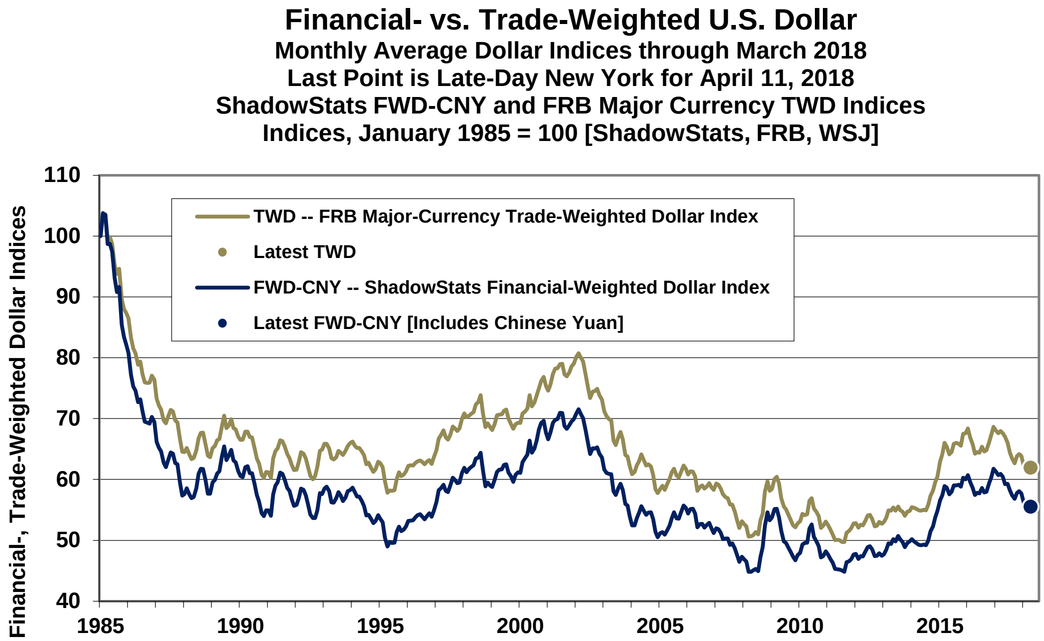
Gold and Silver, and Gold versus Stocks. *Graphs HW-3* and *HW-4* show plots of the price level of the S&P 500 Total Return Index (all dividends reinvested) versus the price of physical gold, with both series indexed to January 2000 =100, with the first plot showing both series in nominal terms and the second plot in real, inflation-adjusted terms, deflated by the CPI-U. While Gold has outperformed the S&P 500 since the beginning of millennium, it is interesting to note that the S&P 500, net of inflation, did not break above parity until 2013.

Graphs HW-5 to *HW-7* are the traditional ShadowStats gold graphs, respectively versus the Swiss Franc, versus Silver and versus Oil (Brent).

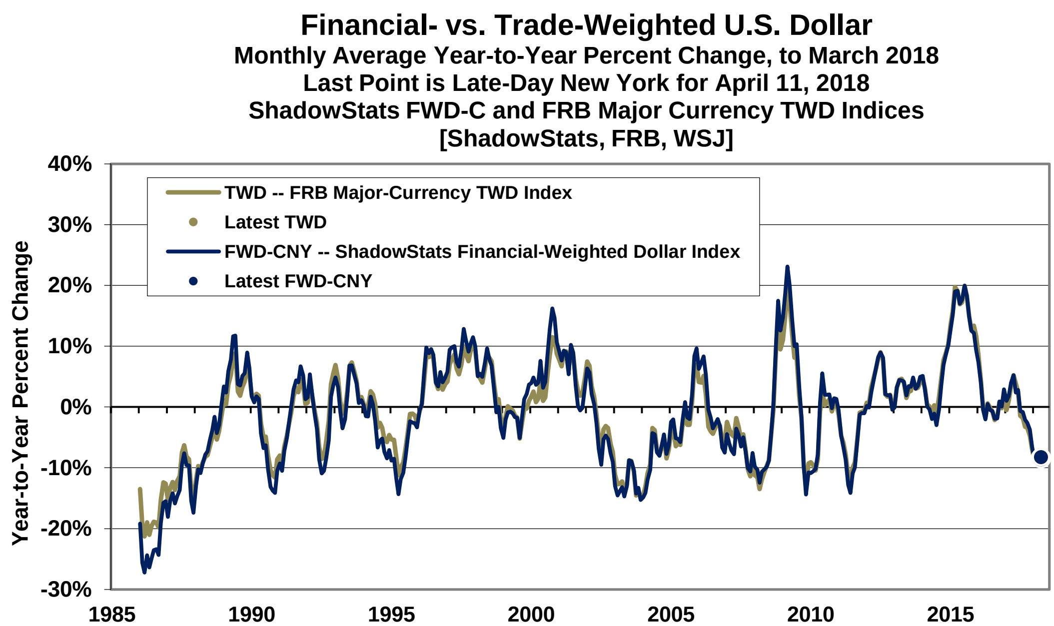
Again, the final price points in the various graphs reflect the closing or late-day April 11, 2018 New York prices.

[Graphs HW-1 to HW-7 begin on the next page.]

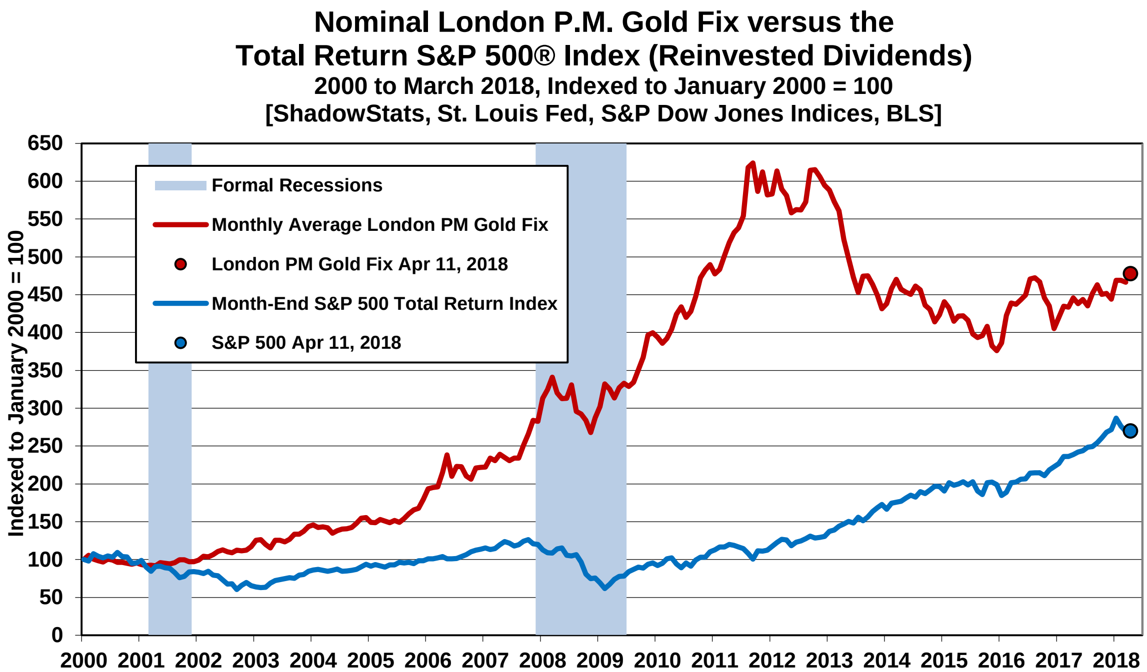
Graph HW-1: Financial- versus Trade-Weighted U.S. Dollar



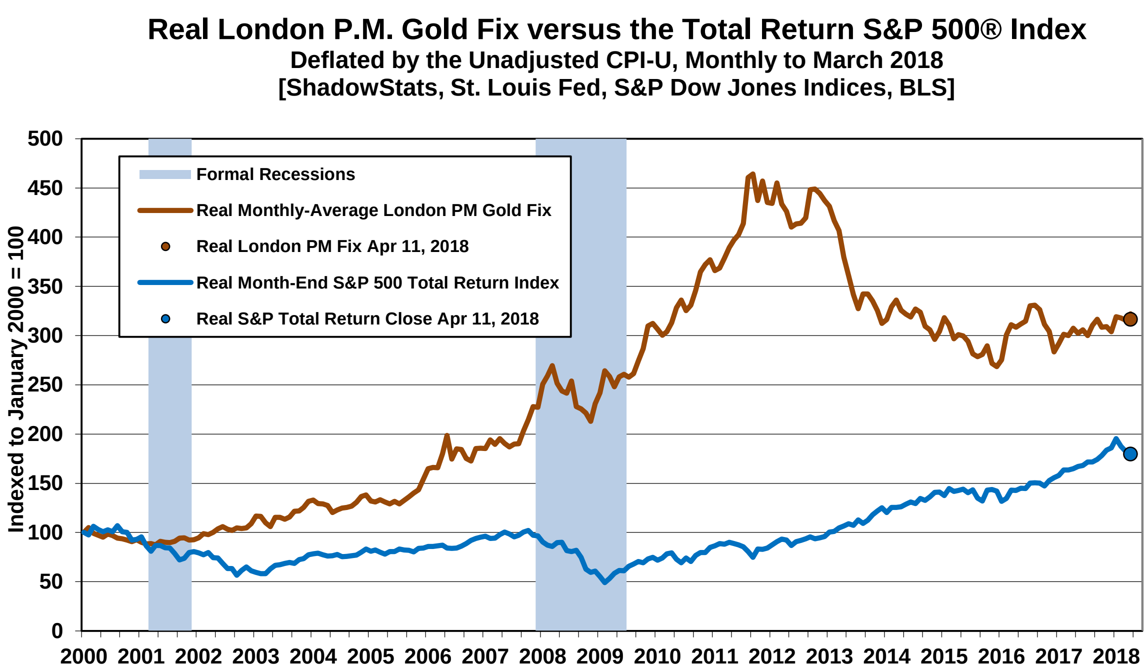
Graph HW-2: Year-to-Year Change, Financial- versus Trade-Weighted U.S. Dollar



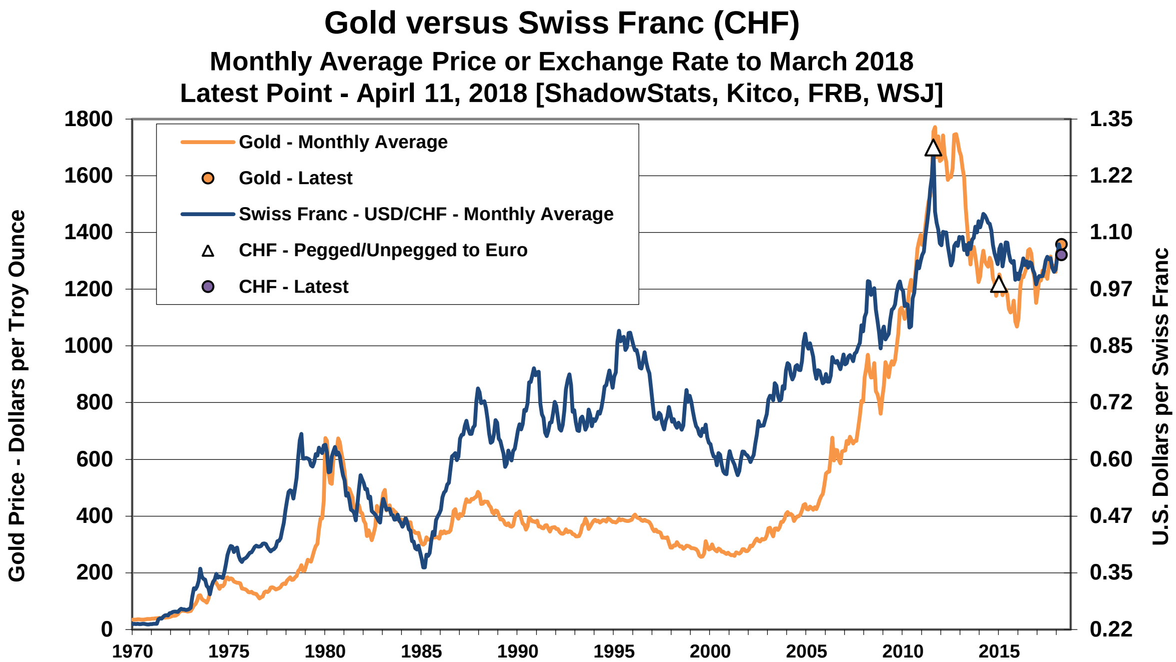
Graph HW-3: Nominal Gold versus the Nominal Total Return S&P 500



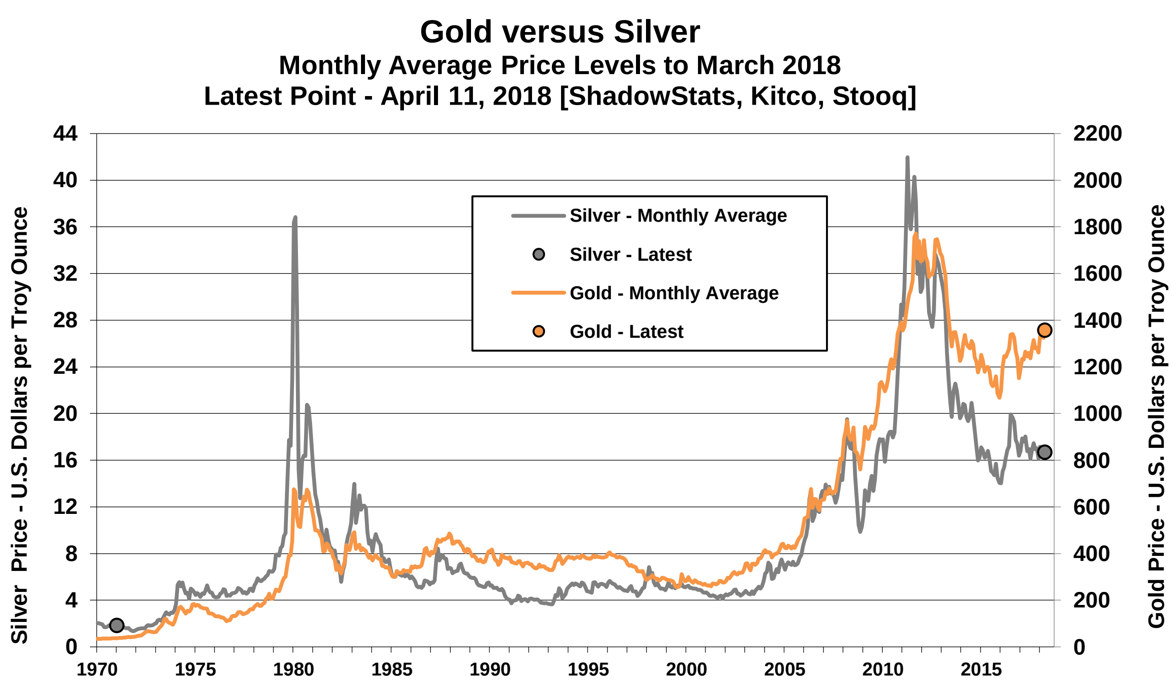
Graph HW-4: Real Gold versus the Real Total Return S&P 500



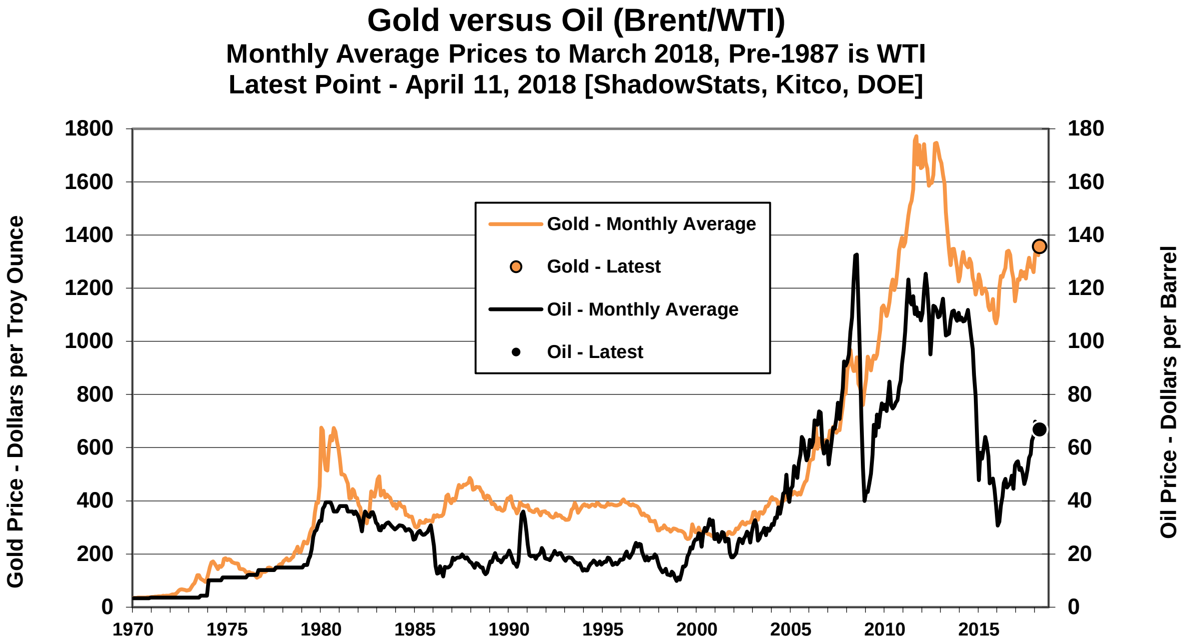
Graph HW-5: Gold versus the Swiss Franc



Graph HW-6: Gold versus Silver



Graph HW-7: Gold versus Oil



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

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CONSUMER LIQUIDITY WATCH

CONSUMER LIQUIDITY, INCOME, CREDIT AND RELATIVE OPTIMISM. *[Updated February Consumer Credit, March Real Average Weekly Earnings and opening paragraphs.]*

Consumer Liquidity Stresses Mount as Real Earnings Contract and Credit Growth Slows. The U.S. consumer faces increasing financial stress, with headline Real Average Weekly Earnings contracting quarter-to-quarter in first-quarter 2018 and with annual growth in real Consumer Credit continuing to slow in the latest headline monthly detail. Such likely will be reflected in softening personal consumption expenditures and broad economic activity, as well in taking a toll on consumer optimism in the months ahead.

Weakening consumer liquidity conditions had been mirrored in weakening, 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 2018 economic activity continues to turn down (see *Commentary No. 940*). Such effects are discussed in the separate analyses of relevant series in covered in the regular *ShadowStats Commentaries*. Where there are current signals of faltering consumer liquidity (see Consumer Credit Outstanding and Real Earnings), headline consumer optimism has begun to move off recent highs, along with softening underlying economic reality. The initial release of the Conference Board's March 2018 Consumer-Confidence Index®, took a hit the context of a downside revision to February's prior reading, and the full-March Sentiment, 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 Household Survey Employment and Unemployment. Retail Sales and Industrial Production appear to have stabilized, and broadly have begun to soften anew, but they still need to subside to levels stable with normal consumption activity and inventories. Despite the minimally slower 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 to strengthen and will be fully reviewed in next week's *Commentary No. 946* (see today's *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 Have Backed Off Recent Peak. 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.

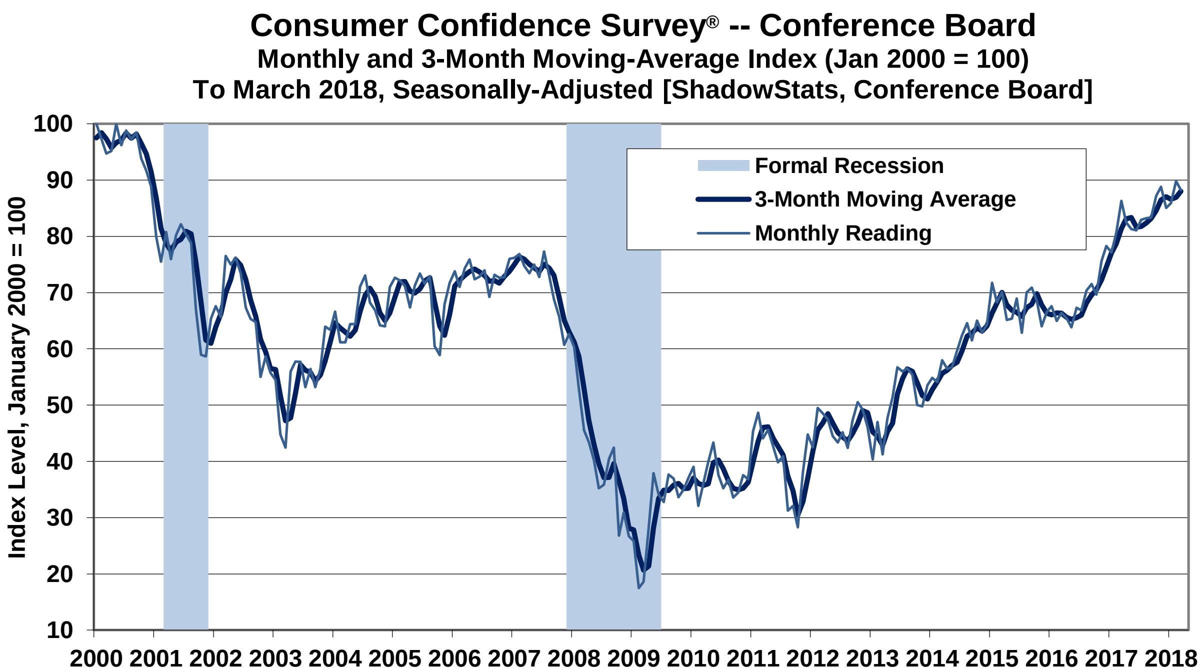
Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs CLW-1* to *CLW-3* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index® is set with 1985 = 100, 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.

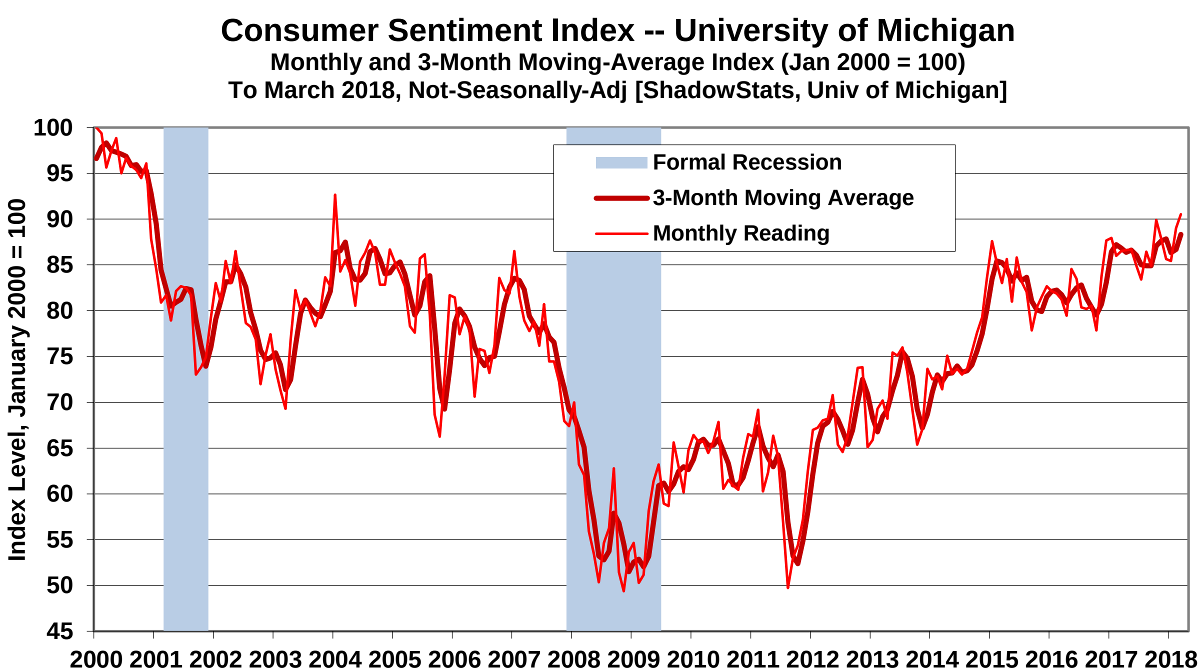
Broadly, though, the harder, financial consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth as suggested by headline GDP growth in 2014, for second-and third-quarter 2015 and for third-quarter 2016 and into third-quarter 2017. In current environment 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.

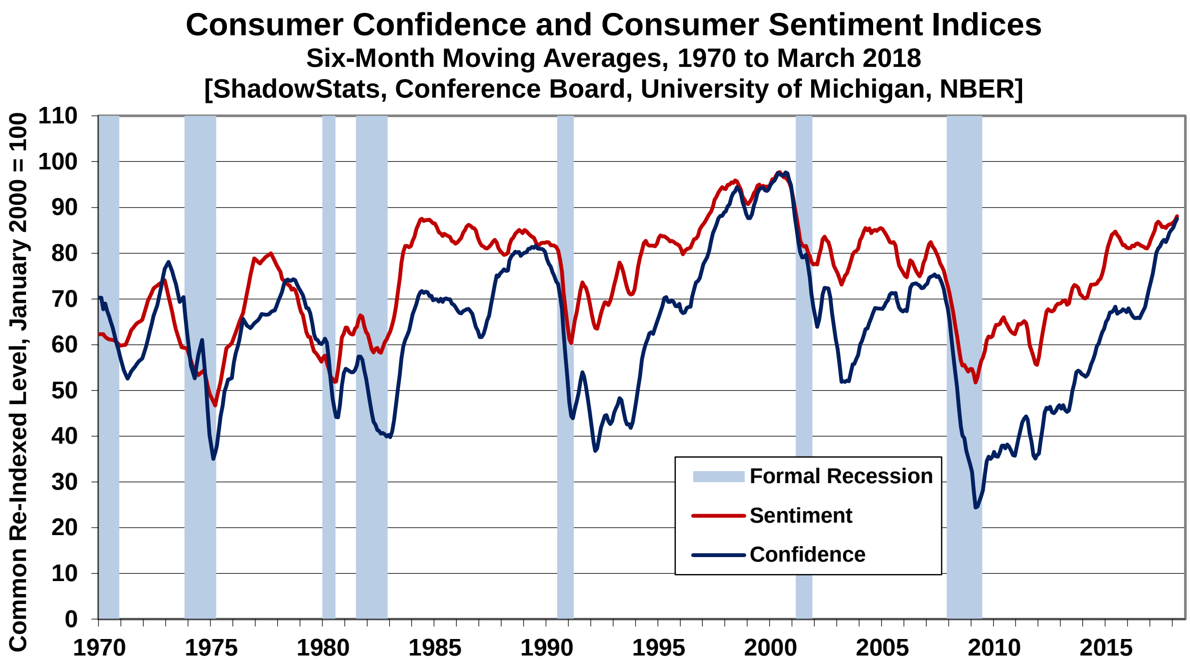
Graph CLW-1: Consumer Confidence (2000 to 2018)



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

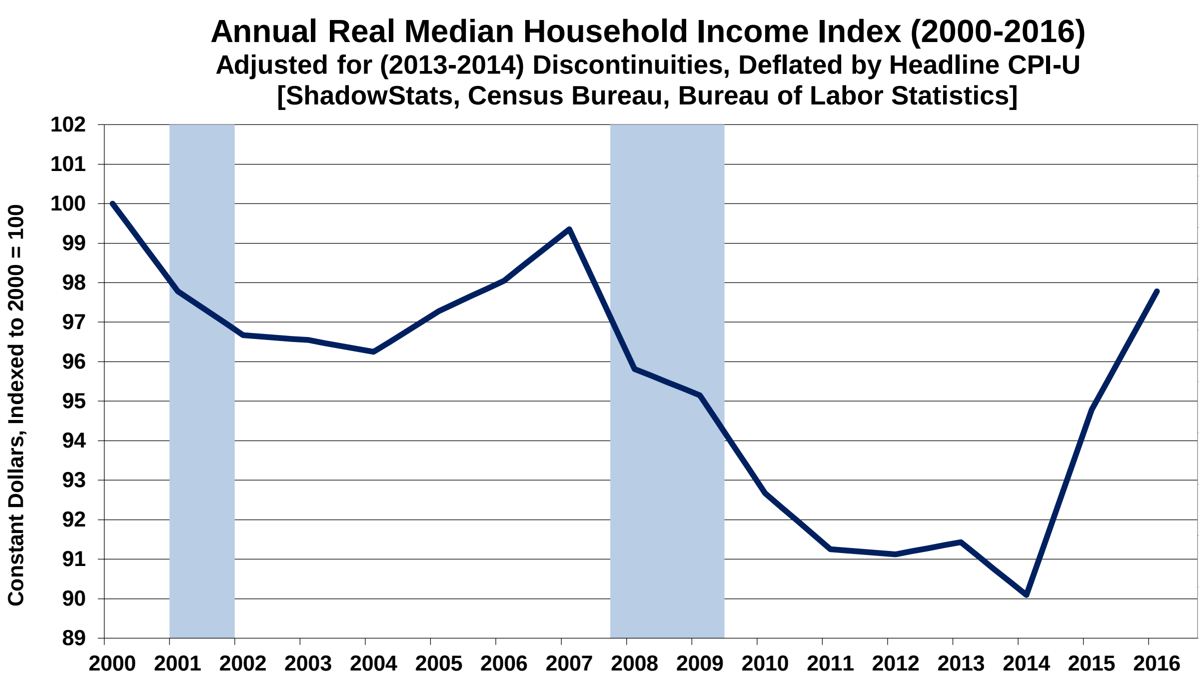


Graph CLW-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2018)



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

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



Last Monthly Estimate Showed Stagnating Monthly Real Growth. Last reported by Sentier Research, in what appears to have been the final estimate for the series, May 2017 Real Median Household Income was statistically unchanged, despite a boost from falling gasoline prices. Discussed in *General Commentary No. 894*, and in the contexts of then-faltering gains in post-election consumer optimism, and inflation-adjusted activity boosted by declining headline Consumer Price Index (CPI-U) inflation (weakened by seasonally-adjusted gasoline price declines), May 2017 Real Median Monthly Household Income was "statistically unchanged" (a statistically-insignificant monthly gain of 0.10%). That followed a statistically-significant monthly gain of 1.00% in April 2017. Shown in *Graph CLW-4,* such enabled May 2017 real monthly median household income to hold a level regained in April and otherwise last seen in February 2002. Year-to-year real median household income rose to 2.44% in May 2017, the highest level since June 2016, following an annual gain of 1.57% in April 2017 (see *Graph CLW-5*).

Where real monthly median income plunged into the headline trough of the economic collapse in 2009, it did not then rebound in tandem with the headline GDP activity. When the GDP purportedly started its solid economic recovery in mid-2009, the monthly household income numbers nonetheless plunged to new lows, hitting bottom in 2011. The income series then held in low-level stagnation, until collapsing gasoline prices and the resulting negative CPI-U inflation drove a post-2014 uptrend in the inflation-adjusted monthly income index. The index approached pre-recession levels in the December 2015 reporting, but it remained minimally below the pre-recession highs for both the formal 2007 and 2001 recessions until recent months. Real median household income had the potential to resume turning down anew, as the headline pace of monthly consumer inflation picked up anew, with the August 2017 CPI.

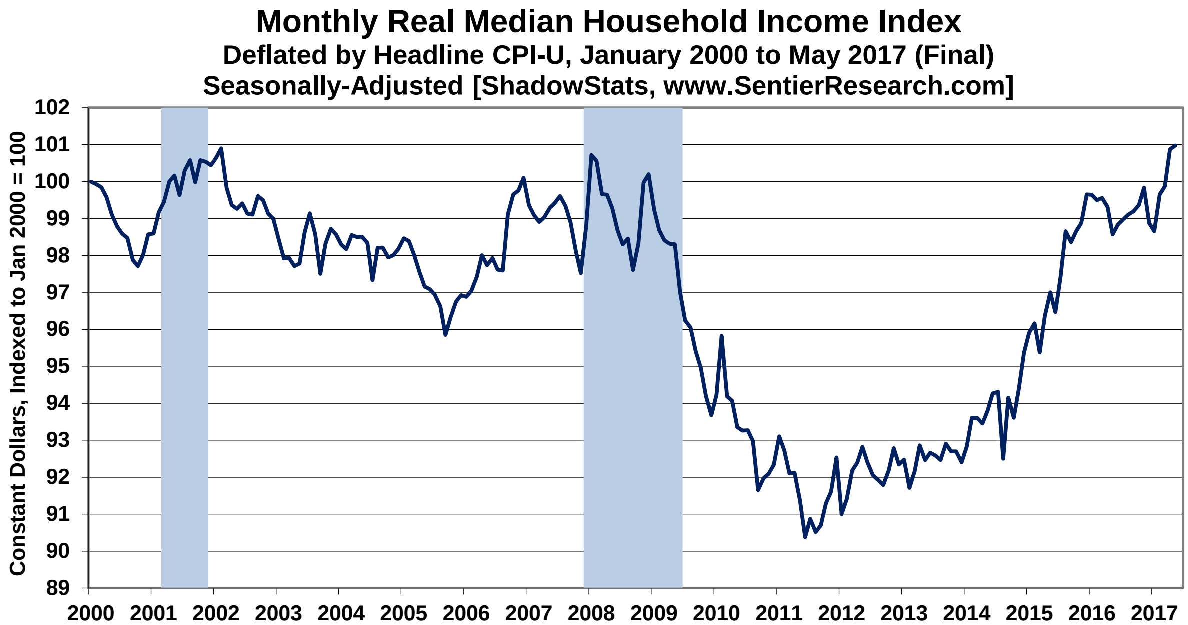
Nonetheless, the most-recent recent "rebound" reported in the series still left consumers financially strapped. Where lower gasoline prices had provided some minimal liquidity relief to the consumer, indications are that any effective extra cash largely was used to help pay down unsustainable debt or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

Differences in the Monthly versus Annual Median Household Income. The general pattern of relative monthly historical weakness has been seen in the headline reporting of the annual Census Bureau numbers, again, shown in *Graph CLW-4,* with 2014 real annual median household income having hit a ten-year low, and, again, with the historically-consistent 2015 and 2016 annual number still holding below the 2007 pre-recession high.

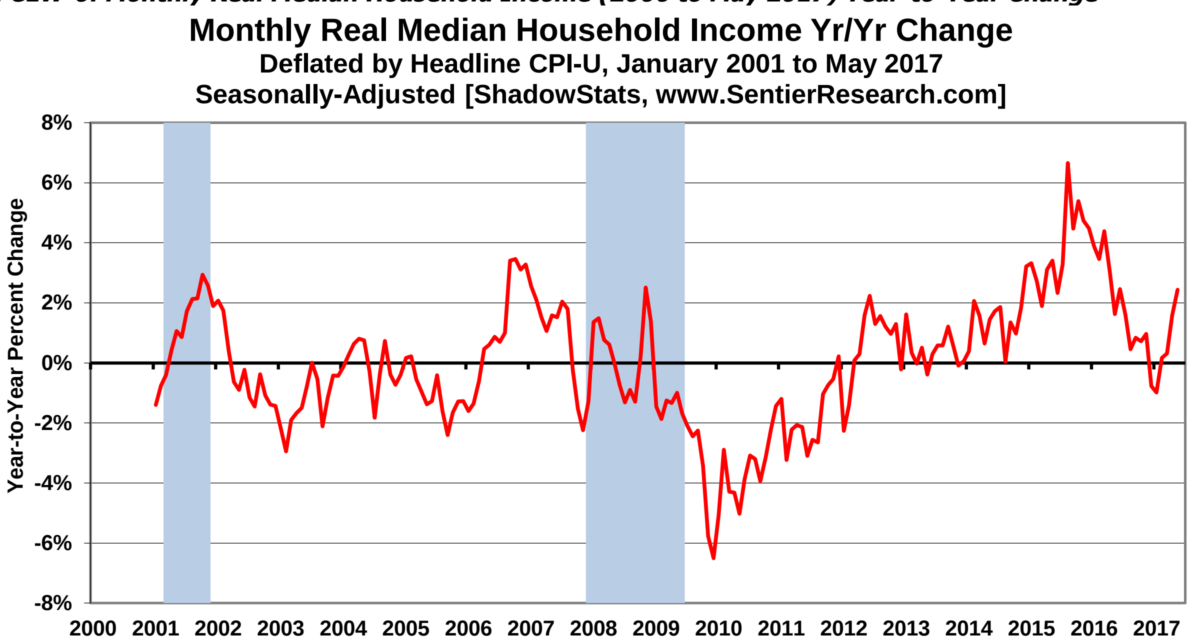
The Sentier numbers had suggested a small increase in 2014 versus 2013 levels, low-inflation induced real increases in 2015 and 2016. Allowing for the direction difference in 2014, and continual redefinitions and gimmicks in the annual series (again, see the *Opening Comments* of Commentary No. 909) the monthly and annual series had remained broadly consistent, although based on separate questions within the Consumer Population Series (CPS), as conducted by the Census Bureau.

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

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

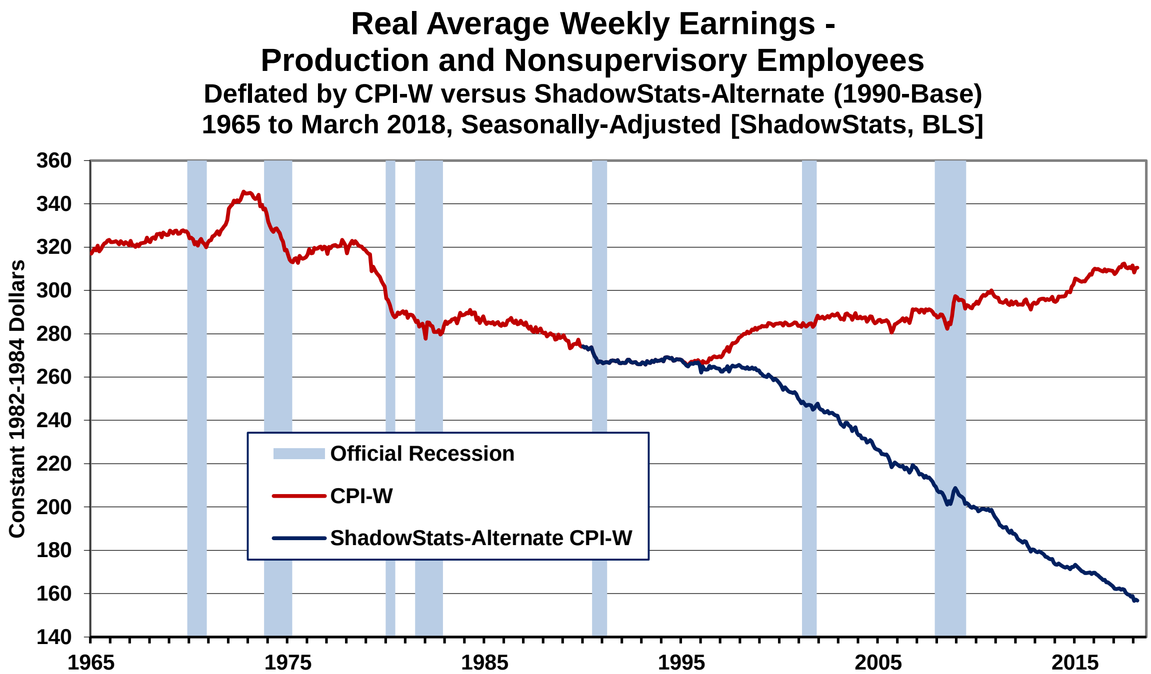


Graph CLW-6: Monthly Real Median Household Income (2000 to May 2017) Year-to-Year Change



Real Average Weekly Earnings—March 2018—Third-Consecutive Quarterly Contraction. For the production and nonsupervisory employees category—the only series for which there is a meaningful history (discussed in today's *Reporting Detail* and plotted here and in *Graph 1* in the *Executive Summary*), real average weekly earnings were unchanged month-to-month at 0.0% in March 2018 having gained 0.7% in February and declined by 1.1% (-1.1%) in January. As result, real earnings contracted quarter-to-quarter in first-quarter 2018 at an annualized pace of 1.5% (-1.5%). Such was the third-consecutive quarterly decline in real earnings for the production and nonsupervisory employees category, the fifth real quarterly contraction of the last six quarters. Separately, real quarterly earnings for all employees also contracted, down at an annualized of pace of 0.3% (-0.3%) in first-quarter 2018, for the second consecutive quarterly contraction. See the *Reporting Detail* for further information.

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

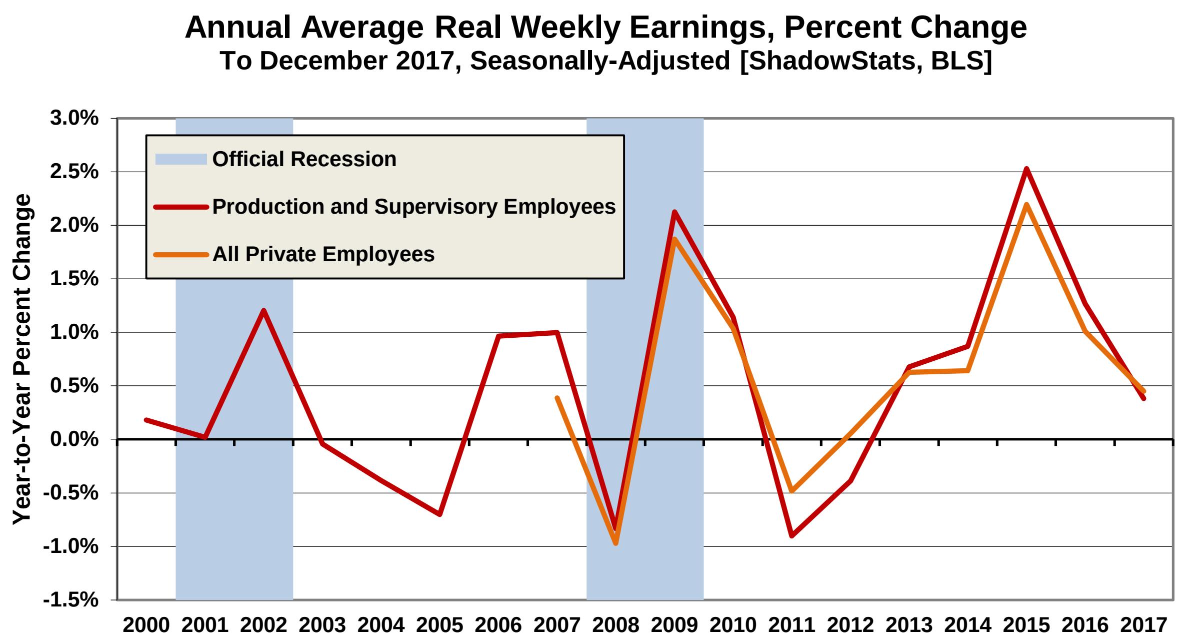


Graph CLW-7 plots the seasonally-adjusted earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating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



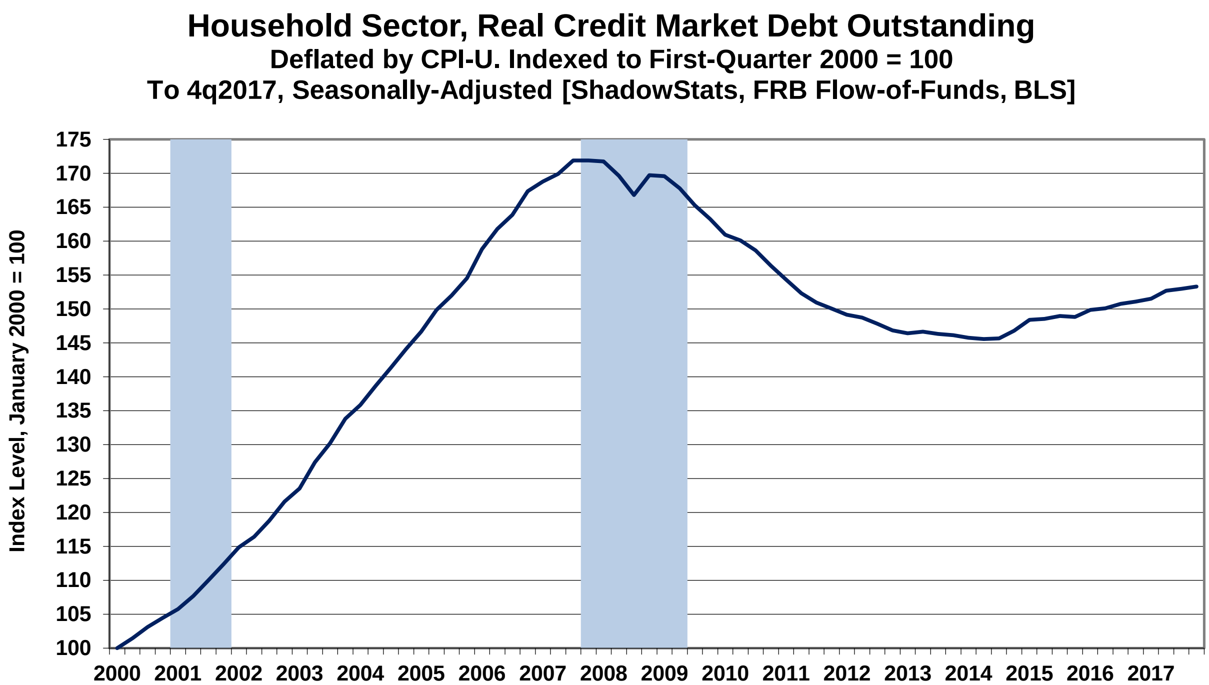
When income growth is inadequate to support consumption growth, consumers often make up the difference in debt expansion. Yet, real Consumer Credit Outstanding has shown a patterns of declining annual real growth for the last several quarters, irrespective of the specific series, as reflected in the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

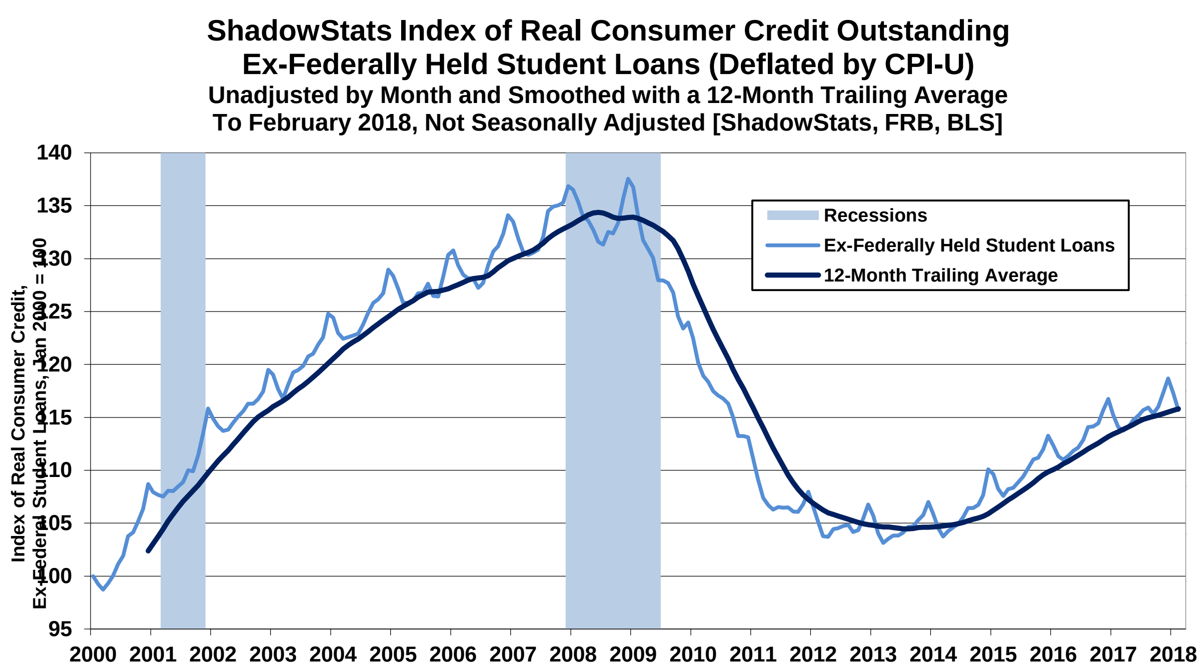
Quarterly Series. Consider *Graph CLW-9* of *Household Sector, Real Credit Market Debt Outstanding*. The level of real household debt declined in the period following the Panic of 2008, reflecting loan defaults and reduced banking lending, and it has not recovered fully, based on the Federal Reserve's 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)



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 122 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 CLW-10* is indexed to Consumer Credit Outstanding Ex-Federal Student Loans equal to 100 in January 2000. In *Graphs CLW-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.

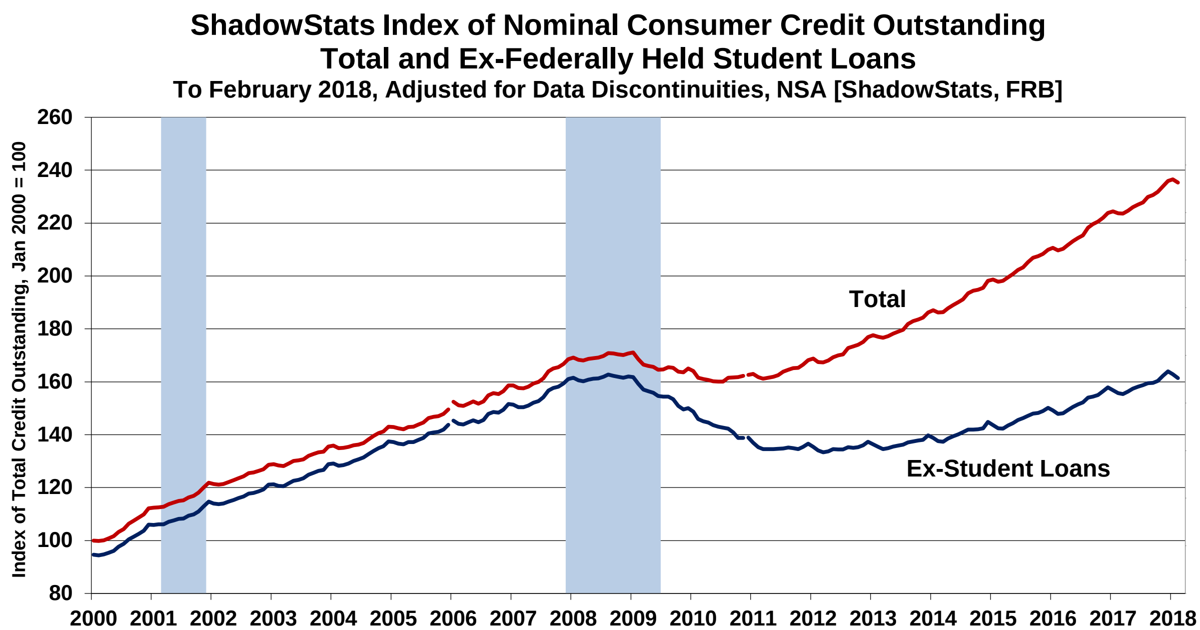
Shown through the February 2018 reading (released April 6th), the headline nominal monthly Consumer Credit Outstanding (*CLW-11*) is a subcomponent of the nominal Household Sector debt. Where *Graph CLW-12* reflects the real or inflation-adjusted activity for monthly Consumer Credit Outstanding terms 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.

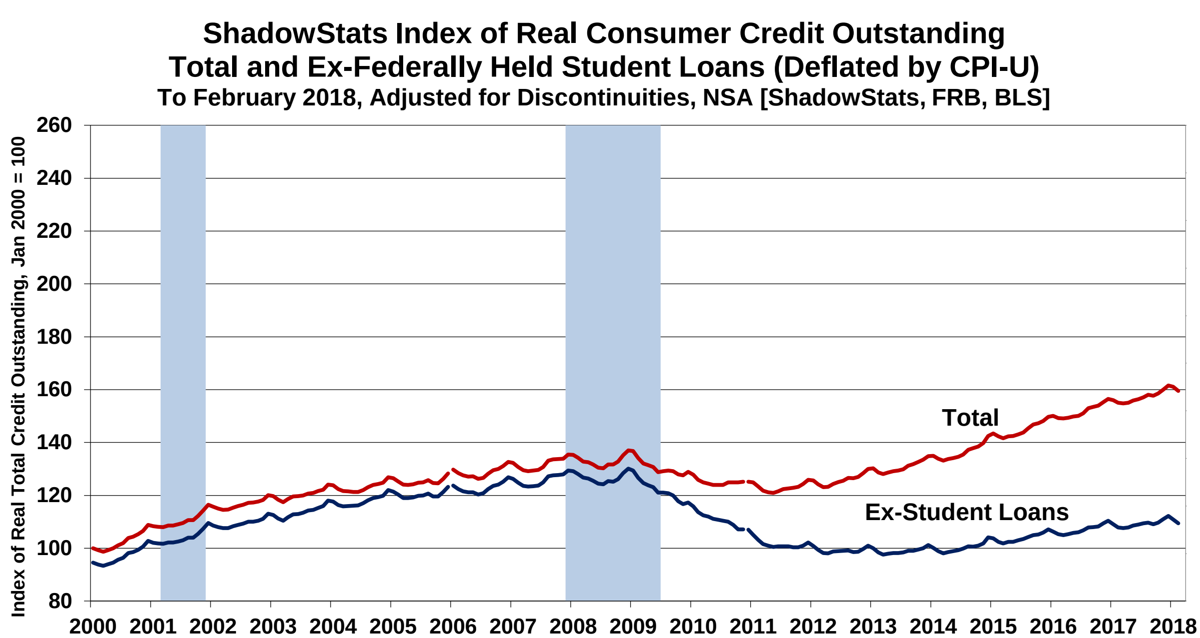
Adjusted for inflation, the lack of recovery in the ex-student loan area is more obvious. Where the recent monthly downside move in the not-seasonally-adjusted real consumer credit reflected something of a seasonal pattern, the pattern of year-to-year growth has been in downtrend, suggesting some tightening of credit conditions. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in February 2018 was down from recovering its December 2007 pre-recession peak by 15,5% (-15.5%). That is 122 months or ten-plus years of non-expansion of credit. Year-to-year real growth shown in *Graph CLW-13* tends to resolve most monthly seasonal distortions in the not-seasonally-adjusted data.

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

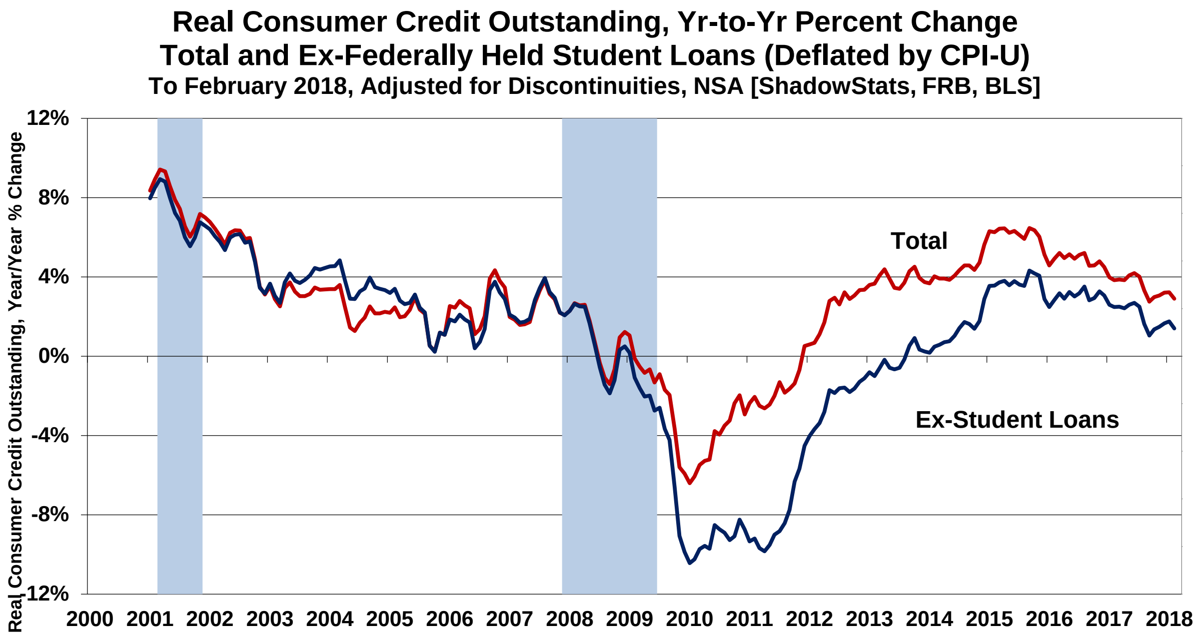
Graph CLW-11: Nominal Consumer Credit Outstanding (2000 to 2018)



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



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

U.S. Dollar and Financial-Market Turmoil Remain at High Risk, Amidst Mounting Fiscal Concerns, Consumer Liquidity Issues and Non-Expanding, Real-World Economic Activity. Despite some early, positive-to-mixed anecdotal evidence cited in today's *Opening Comments*, underlying deterioration in basic consumer-liquidity conditions, also discussed in today's *Consumer Liquidity Watch*, appear to signal more-difficult economic times in the near term. Given the potential for downside surprises to next week's headline economic data, as discussed here in the *Pending Economic Releases*, those data could set the tone for a consensus shift towards a first-quarter 2018 contraction in the GDP.

Broad 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 there 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*. The circumstances broadly have not changed, with related financial market vulnerabilities discussed in today's *Opening Comments* and *Hyperinflation Watch* of *Commentary No. 945*, updating similar coverage in *Commentary No. 940*.

The U.S. dollar and financial markets remain at extraordinarily-high risk of intensified, panicked declines, likely in the very near term (again, see today's *Opening Comments* and *Hyperinflation Watch*). 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: Retail Sales—Nominal and Real (March 2018). The Census Bureau will release its "advance" estimate of March 2018 nominal (not-adjusted-for-inflation) Retail Sales on Monday, April 16th. Given this morning's release of the March CPI-U, both nominal and real (adjusted for inflation) Retail Sales will be reviewed in *Commentary No. 946* of Wednesday, April 18th.

With the headline March CPI-U showing a seasonally-adjusted monthly contraction of 0.06% (-0.06%), and a seasonally adjusted year-to-year increase of 2.36%, those will be the inflation numbers to be subtracted from the headline, seasonally-adjusted nominal monthly [a net addition of 0.06%] and annual [a net subtraction of 2.36% (-2.36%)] changes for March sales in order to generate the headline real Retail Sales changes.

In the context of much weaker-than expected (contracting) January 2018 Retail Sales and downside revisions to activity in November and December 2017, the unwinding of the natural-disaster-recovery boosts should begin to taper off. Nonetheless, weakened sales activity should be exacerbated by consumers pulling back on consumption, in response to tightening liquidity conditions.

While consensus expectations likely will favor a small monthly sales gain, expectations likely will not be met, in the context of aggregate activity, net of revisions. Even net of the negative monthly inflation, there is a fair shot that March real retail sales will have contracted for the fourth straight month, and as well as for first-quarter 2018 activity.

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

Industrial Production (March 2018). The Federal Reserve Board will publish its estimate of March 2018 Industrial Production on Tuesday, April 17th, with coverage in *Commentary No. 946* of April 18th. The March 2018 detail is in the context of the generally-downside annual benchmark revisions to the series on March 23rd, as detailed in *Commentary No. 942-B*. Where oil production still may push the aggregate series higher in March, manufacturing likely will soften from its prior monthly jump, resuming its drag on the broad index. Consensus expectations likely will be for a fair monthly increase, but they also should be disappointed.

New Residential Construction—Building Permits and Housing Starts (March 2018). The Census Bureau and the Department of Housing and Urban Development will release their March 2018 estimate of New Residential Construction, including Housing Starts and Building Permits, on Tuesday, April 17th, with detail covered in *Commentary No. 946* of April 18th. While this series remains wildly unstable and statistically-insignificant in its monthly reporting, given the extreme monthly swings and revisions in recent reporting, consensus expectations likely will be for headline gain in March.

Nonetheless, in line with the common-reporting experience of extreme volatility and unstable revisions, March's monthly results are a good bet to be unstable, heavily revised and not statistically meaningful, holding in a general pattern of stagnation. That said, given those frequent extreme monthly gyrations, almost anything is possible in this unstable series.

Irrespective of the usual lack of headline-reporting significance, the broad pattern of Housing Starts should remain consistent with the low-level, stagnant-to-downtrending activity seen in the last year. Both Housing Starts and Building Permits showed patterns of continuing non-recovery in the context of respective February 2018 activity being down by 45.6% (-45.6%) and by 42.6% (-42.6%) from recovering pre-recession highs (see *Commentary No. 941*). Such low-level stagnation is evident particularly with headline detail viewed in the context of a six-month moving average. Again, these series remain subject to regular and extremely large, prior-period revisions.

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

Note on Reporting-Quality Issues and Systemic-Reporting Biases. In the context of historical background provided in *Special Commentary No. 885*: *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, significant reporting-quality problems remain with most major economic series. Beyond pre-announced gimmicked changes to reporting methodologies of the last several decades, which have tended both to understate inflation and to overstate economic activity meaningfully—as generally viewed in the common experience of Main Street, U.S.A.—ongoing, near-term headline reporting issues often reflect systemic distortions of monthly seasonal adjustments.

Data instabilities—induced partially by the still-evolving economic turmoil of the last eleven years—have been without precedent in the post-World War II era of modern-economic reporting. The severity and ongoing nature of the downturn have provided particularly unstable headline economic results, with the use of concurrent seasonal adjustments (as seen with retail sales, durable goods orders, employment and unemployment data). While historical seasonal-factor adjustments are revised every month, based on the latest, headline monthly data, the consistent, revamped historical data are not released or reported at the same time. That issue is discussed and explored in the labor-numbers related *Supplemental Commentary No. 784-A* and *Commentary No. 695*.

Further, discussed in *Commentary No. 778*, a heretofore unheard of spate of "processing errors" surfaced in 2016 surveys of earnings (Bureau of Labor Statistics) and construction spending (Census Bureau). This is suggestive of deteriorating internal oversight and control of the U.S. government's headline economic reporting. That construction-spending issue now appears to have been structured as a gimmick to help boost the July 2016 GDP benchmark revisions, aimed at smoothing the headline reporting of the GDP business cycle, instead of detailing the business cycle and reflecting broad economic trends accurately, as discussed in *Commentary No. 823*.

Combined with ongoing allegations in the last several years of Census Bureau falsification of data in its monthly Current Population Survey (the source for the BLS Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular - economic series (see *Commentary No. 669*). Investigative-financial/business reporter John Crudele of the *New York Post* has written extensively on such reporting irregularities: *Crudele Investigation*, *Crudele on Census Bureau Fraud* and *John Crudele on Retail Sales*.

LINKS TO PRIOR COMMENTARIES AND SPECIAL REPORTS

Prior Writings Underlying the Current *Special Commentaries* and a Sampling of Recent *Regular Commentaries*. Underlying the recent *Special Commentary No. 935* *(Part One)* and the pending *Special*

Commentaries (Part Two) on Inflation, and *(Part III)* on the Federal Reserve and U.S. banking system, are *Commentary No. 899* and *General Commentary No. 894*, along with general background from regular *Commentaries* throughout 2017.

These missive also are built upon writings of prior years, including *No. 777 Year-End Special Commentary* (December 2015), *No. 742 Special Commentary: A World Increasingly Out of Balance* (August 2015) and *No. 692 Special Commentary: 2015 - A World Out of Balance* (February 2015). In turn, they updated the long-standing hyperinflation and economic outlooks published in *2014 Hyperinflation Report—The End Game Begins – First Installment Revised* (April 2014) and *2014 Hyperinflation Report—Great Economic Tumble – Second Installment* (April 2014).

The two *Hyperinflation* installments remain the primary background material for the hyperinflation circumstance. Other references on underlying economic reality are the *Public Commentary on Inflation Measurement* and the *Public Commentary on Unemployment Measurement*.

Recent Commentaries. *[Listed here are* Commentaries *of the last 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 *Commentaries* usually are published at least weekly and update the general economic and financial o-market outlook, as circumstances develop.

Commentary No. 944 (April 8th) covered March 2018 Employment and Unemployment, the March Conference Board Help Wanted OnLine® Advertising, March Monetary Conditions and the full February Trade Deficit and Construction Spending.

Commentary No. 943 (March 29th) covered the third-estimate of, second-revision to Fourth-Quarter 2017 GDP and the only estimates to be made in current reporting of the GDI and GDP, as well as the "advance" estimate of the February merchandise trade deficit.

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 very 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.

Commentary No. 913 (September 28, 2017) reviewed the third-estimate of second-quarter 2017 GDP, with a further consideration of some unusual economic reporting in the near future.

Commentary No. 910 (September 15, 2017) reviewed the August 2017 releases of Industrial Production and nominal and real Retail Sales.

Commentary No. 909 (September 14, 2017) assessed the annual release of 2016 Real Median Household Income, along with a review of August Consumer Price Index (CPI) and the Producer Price Index (PPI) and an updated *Alert* on the financial markets

Commentary No. 908-B (September 6, 2017) provided extended detail of the August 2017 Labor and Monetary conditions and July 2017 Construction Spending, along with coverage of the July 2017 Trade Deficit and the initial estimate of the 2017 Payroll Employment benchmarking.

Special Commentary No. 904 (August 14, 2017) issued an "Alert" on the financial markets (including U.S. equities, the U.S. dollar gold and silver, as well as FOMC policy), in the context of historical activity and unfolding circumstances of deteriorating economic and political conditions. Separately, headline details were reviewed for the July Consumer Price Index (CPI) and the Producer Price Index (PPI).

Commentary No. 903 (August 7, 2017) discussed new signals of economic deterioration in terms of political and FOMC considerations, along with headline coverage of the July labor data, M3 and The Conference Board Help Wanted OnLine®, and June trade deficit and construction spending.

Commentary No. 902-B (July 31, 2017) reviewed the 2017 annual benchmark revisions of GDP and related series, along with the "advance" estimate of second-quarter 2017 GDP.

Commentary No. 900 (July 19, 2017) reviewed June 2017 New Residential Investment (Housing Starts and Building Permits), and previewed the upcoming annual GDP benchmark revisions and the coincident "advance" estimate of second-quarter 2017 GDP.

Commentary No. 897 (July 6, 2017) reviewed the headline May 2017 Construction Spending and the annual revisions to same, along the May Trade Deficit, and June The Conference Board Help Wanted OnLine® Advertising and the May Cass Freight Index™.

General Commentary No. 894 (June 23, 2017) reviewed unfolding economic, financial and political circumstances in the context of market expectations shifting towards an "unexpected" headline downturn in broad economic activity, along with headline details on May 2017 Real Median Household Income (Sentier Research) and New- and Existing-Home Sales.

Commentary No. 890 (June 5, 2017) covered the negative-downside annual benchmark revisions to the trade deficit, the May 2017 estimates of labor conditions, ShadowStats Ongoing Money Supply M3, The Conference Board Help Wanted OnLine® Advertising and April 2017 estimates of the Cass Freight Index™, and the monthly trade deficit and construction spending.

Special Commentary No. 888 (May 22, 2017) discussed evolving political circumstances that could impact the markets and the economy, reviewed the annual benchmark revisions to Manufacturers' Shipments and New Orders for Durable Goods and updated Consumer Liquidity Conditions.

Commentary No. 887 (May 18, 2017) reported on the April 2017 detail for Industrial Production and Residential Construction (Housing Starts), with some particular attention to historic, protracted periods of economic non-expansion, of which the current non-recovery is the most severe.

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

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

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

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

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

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

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

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

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

