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

COMMENTARY NUMBER 955

May 2018 Consumer and Producer Price Indices, Retail Sales, Production, Freight, FOMC

June 18, 2018

Shifting Interest-Rate Perceptions Boosted the Dollar, Intensifying Risks of the Day of Reckoning for the U.S. Currency and Financial Markets

May 2018 CPI-U and PPI Annual Inflation Rates Jumped to Respective 74- and 76-Month Highs of 2.80% and 3.11%

Rising Inflation Reflected Surging Gasoline Prices from Global-Political and Oil Supply Disruptions, Not from Booming U.S. Economic Activity; Nonetheless, the FOMC Boosted Interest Rates, Again

Surging, Non-Demand-Driven Inflation, Combined with Fed Tightenings, Already Are Impairing Real Growth in Consumer and Systemic Liquidity

Inflation-Adjusted Real Average Weekly Earnings Remained Stalled in May, With Monthly Gains Shy of 0.1%; Quarterly Contractions Held in Place

On the Plus-Side, Higher Oil Prices Boosted Oil-and-Gas Extraction and Exploration, in the Mining-Sector of U.S. Industrial Production, Although Total Production Declined in May

Manufacturing Took a Heavy Hit, Even Allowing for a Major Supply Disruption, Still Shy by 6.0% (-6.0%) of Recovering Its Pre-Recession High, Faltering in a Record 125 Months of Economic Non-Expansion

Real Retail Sales Were Strong in May, Thanks Largely to a Major Distortion in Inflation-Adjustment Consistency

Consumer Goods Production Fell Sharply, Contravening "Booming" Retail Sales

---

PLEASE NOTE: The next regular *Commentary*, planned for Thursday, June 21st, will provide extended coverage of May 2018 Retail Sales, Industrial Production and Freight Activity (highlighted in today's *Commentary No. 955*), along with regular coverage of New Residential Construction (Housing Starts and Building Permits).

SPECIAL NOTE TO SUBSCRIBERS: ShadowStats will transition in the next several weeks to publishing shorter, more-frequent and more-timely *Commentaries*. All material, analysis and commentary standardly covered and reviewed will continue. The changes here broadly are in response to requests from, and the suggestions of subscribers.

The regular *Consumer Liquidity Watch* and *Hyperinflation Watch* sections will be updated and posted as separate entities, as new data become available or circumstances change. The latest *Watches* always will be available on the ShadowStats web site and available by link from current *Commentaries*.

Your comments and suggestions always are invited. Best wishes, John Williams (707) 763-5786

Today's (June 18th) *Opening Comments and Executive Summary.* The ***Opening Comments*** (page 3) discuss unfolding inflation and economic trends; including headline details on May Retail Sales, Industrial Production and the CASS Freight Index™ (full coverage of those series follows in *Commentary No. 956*); along with broad implications for FOMC policy and the financial-market implications, leading to today's *Hyperinflation Watch* discussion. The ***Executive Summary*** (page 10) highlights reporting of the May 2018 Consumer Price Index, Producer Price Index and Real Average Weekly Earnings.

The ***Reporting Detail*** (beginning on page 14) reviews the May CPI, PPI and Real Earnings in greater detail.

The ***Hyperinflation Watch*** (page 32) updates current conditions and outlook in the financial markets as tied particularly to the U.S. dollar, gold, silver and oil, in the context of unfolding economic and inflation conditions, and evolving Federal Reserve FOMC policy, including the June 13th quarter-point interest rate hike.

The ***Consumer Liquidity Watch*** (page 39) has been updated for the May 2018 Real Average Weekly Earnings, and early-June Consumer Sentiment out of the University of Michigan.

The ***Week, Month and Year Ahead*** (page 53) provides background on recent *Commentaries* and previews tomorrow's (June 19th) release of May 2018 New Residential Construction (Housing Starts and Building Permits).

OPENING COMMENTS AND EXECUTIVE SUMMARY

"Never Seen Such a Large Gap Between Reporting and Reality." Much of the headline economic detail for May 2018 now is in hand. Other than for some unusual inflation-adjustment issues tied to Real Retail Sales (discussed here and in the CPI coverage in the *Reporting Detail*), and the headline, low-Unemployment Rates structured so as not to reflect long-term discouraged or displaced workers (see the *Opening Comments* of *Commentary No. 953-B*), the unfolding picture remains one of an economy in serious trouble, despite the headline hype of an unfolding "economic boom."

Indeed, back in the real world, a long-time ShadowStats subscriber recently wrote, "The economic reporting is currently even more ecstatic and 'happy face' than usual. And, at least in my universe, business is more in the doldrums than ever. I have never seen such a large gap between reporting and reality."

"Happy Face" Numbers. My friend's experience and assessment are not unique, where I have found that more people than not seem to recognize that point, when such issues are raised in serious conversation as to real-world economic activity and personal experience. While economic conditions vary by region around the country, and by industry, consider that neither the Manufacturing Sector nor broadly-based freight activity (also heavily tied to Real Retail Sales, in theory), as reflected in the Cass Freight Index™ has recovered its pre-recession high. The same holds true for the housing and construction industries. "Recovery" traditionally is defined as recovering the pre-recession peak level of activity, while "Expansion" is defined in terms of growth beyond that pre-recession peak.

The two major "happy face" numbers at present, again, are unemployment, discussed in *No. 953-B*, and real retail sales, discussed shortly here (despite entering expansion phases, neither series has come close expanding by the magnitude of the heavily gimmicked, headline GDP series, discussed in *Commentary No. 952*). These *Opening Comments* provide some summary headlines and graphs of May 2018 Real Retail Sales, Industrial Production and the Cass Freight Index™, all of which will be covered fully in *Commentary No. 956*, planned for Thursday (June 21st).

GDP Numbers. Not considered in the financial markets, at present, is the likelihood of a pending downside, comprehensive benchmark revision to the Gross Domestic Product (GDP) series, along with downgraded growth thereafter. This is the broadest and most-heavily gimmicked measure of all U.S. economic series. Unfolding patterns in recent benchmarkings of related-series were discussed in *Commentary No. 954*.

Inflation. On the inflation front, both the May 2018 Consumer Price Index (CPI) and Producer Price Index (PPI) showed sharp increases in annual inflation, due largely to sharp spikes in gasoline prices and unstable seasonal adjustments to same. Discussed previously, and highlighted in today's *Hyperinflation Watch* (page 32), when inflation is driven by commodity price distortions, not by economic expansion, such debilitates real consumer earnings, real liquidity and real economic expansion. If the FOMC raises interest rates in such an environment, as it just did, that helps to trigger or to exacerbate major economic downturns.

The inflation series are the focus of the *Executive Summary* and *Reporting Detail* sections.

FOMC. Flush with "strong" headline economic numbers and rising inflation, the Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System raised its targeted federal funds rate by the expected 0.25% on June 13th, hinting at more aggressive rate increases ahead. On June 14th, the European Central Bank (ECB)—apparently not seeing similar economic perfection in its domain—indicated it could be a year or so before it began to raise rates.

A perceived strong U.S. economy, with domestic interest rates rising relative those of major trading partners, is a strong, fundamentally positive circumstance for the U.S. dollar, and the dollar has rallied accordingly in recent days.

As just discussed in the prior subsection on inflation, with the Fed raising rates based on oil prices spiked by non-economic activity, such tightens up real liquidity and usually triggers or exacerbates a recession. See *Graph 5* and related comments in the *Reporting Detail*, page 25, and general comments in the *Consumer Liquidity Watch*. Where the better-quality economic indicators are slowing, and real consumer liquidity is tightening, the "booming" headline economy should slow sharply, soon, triggering a reversal in FOMC policy, as should be needed once again to enhance banking-system solvency.

When that comes into play (and some unexpectedly weak numbers could trigger market expectations of same), dollar selling should intensify and trigger massive stock-market selling, as discussed in the *Hyperinflation Watch* (page 32), which continues from this section.

Some Headlines and Graphs for May 2018 Real Retail Sales, Industrial Production and the Cass Freight Index™. Provided here are some summary headline details of recent economic releases, which will be updated fully and discussed in *Commentary No. 956* of Thursday, June 21st, along with headline detail on May 2018 New Residential Construction (Housing Starts and Building Permits).

All the major series show the economy to be off its 2009 trough, and generally in a smoothed uptrend, but where the Real Retail Sales series (*Graphs OC-1 and OC-2*) has shown a full recovery, for some time, despite inflation-related issues, Industrial Production (*Graph OC-3*) has just recently "recovered," minimally, thanks to an expanding Mining Sector, driven by recovering oil and gas exploration and extraction, which have benefitted from higher oil prices.

Within Industrial Production, however, Production of Consumer Goods (*Graph OC-4*), both durable and nondurable goods, has not come close to recovering, while the dominant Manufacturing Sector (*Graphs OC-5* to *OC-6*) has continued through a record 125 months of economic non-expansion, shy of recovering its pre-recession peak by 6.0% (-6.0%). The Manufacturing plots are shown on a basis that is comparable with *Graphs OC-7* to *OC-8* of the Cass Freight Index™, with the detail there courtesy of Cass Information Systems, Inc., whom we thank for permission to use their information. On a 12-month moving average basis, used to get around the lack of seasonal adjustment in the freight series (the manufacturing plots are seasonally adjusted) the Cass Index is shy by recovering its pre-recession high by 5.7% (-5.7%). Again, full detail follows in *Commentary No. 956*. Extended background material on these series otherwise can be found in the earlier *Commentary No. 950*.

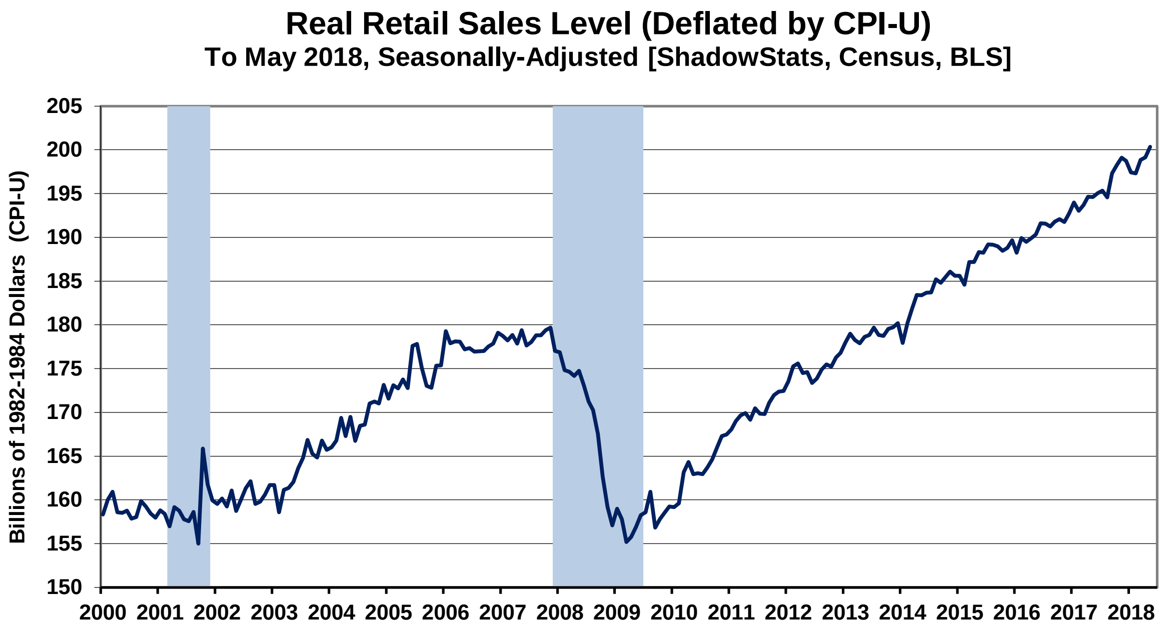
***Monthly Numbers*.** May Real Retail Sales (deflated by the CPI-U), showed monthly sales up by 0.63% in May versus 0.14% in April, with real annual growth up by 3.07% in May 2018, versus 2.16% in April 2018. There may be a consistency problem with using the headline CPI for deflation here, where the unusual gasoline price adjustments do not appear to be followed in the headline seasonal adjustment of gasoline sales in the Retail Sales series. The difference would reduce headline Real Retail Sales meaningfully in the current circumstance. More will follow on this in *No. 956.* The strong headline Real Retail Sales were not reflected in either the Cass Freight Index™ or in the production of Consumer Goods, which contracted in May 2018, and certainly has not recovered in tandem with underlying purported activity in Real Retail Sales.

Total production declined in the month May by 0.1% (-0.1%), where total manufacturing dropped by 0.7% (-0.7%). Manufacturing, however, was hit by a one-time disruption of parts supply for truck manufacturing, net of which, manufacturing still contracted.

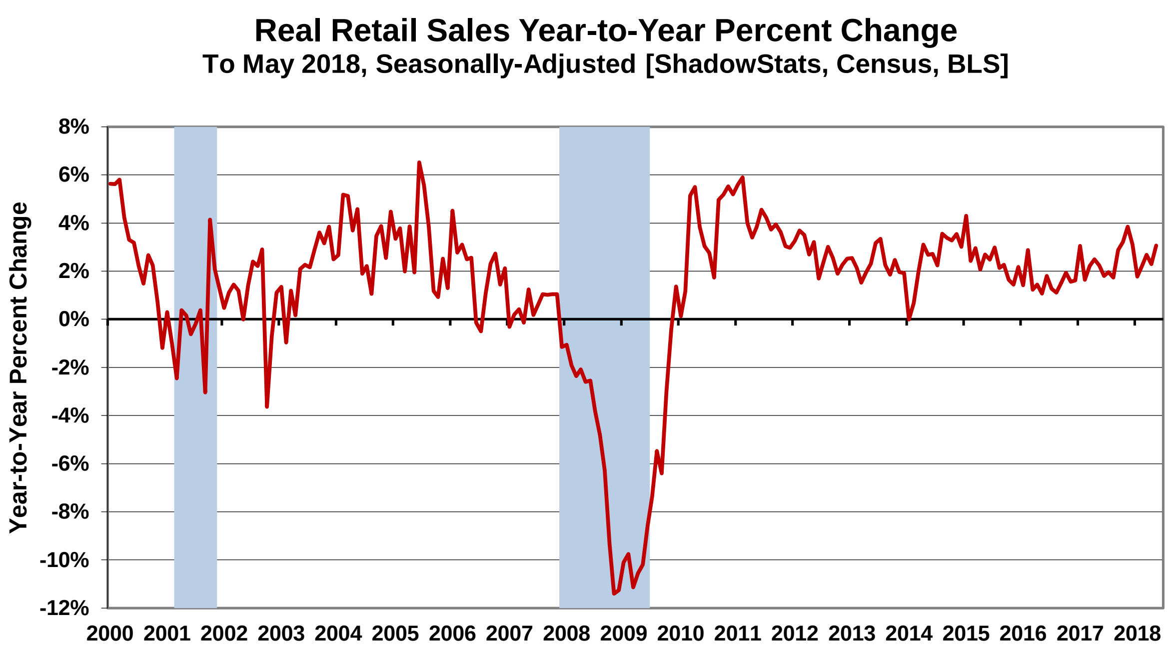
[Graphs OC-1 to OC-8 begin on the next page.]

Graphs of May 2018 Retail Sales, Industrial Production and the Cass Freight Index™

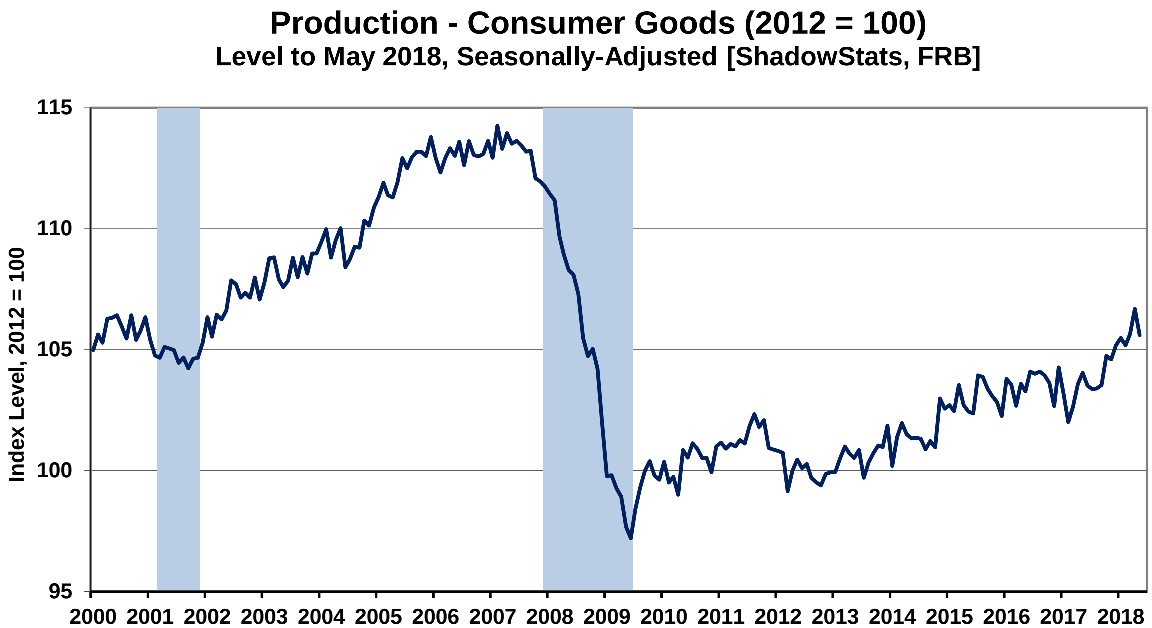
Graph OC-1: Real Retails Sales, 2000 to Date



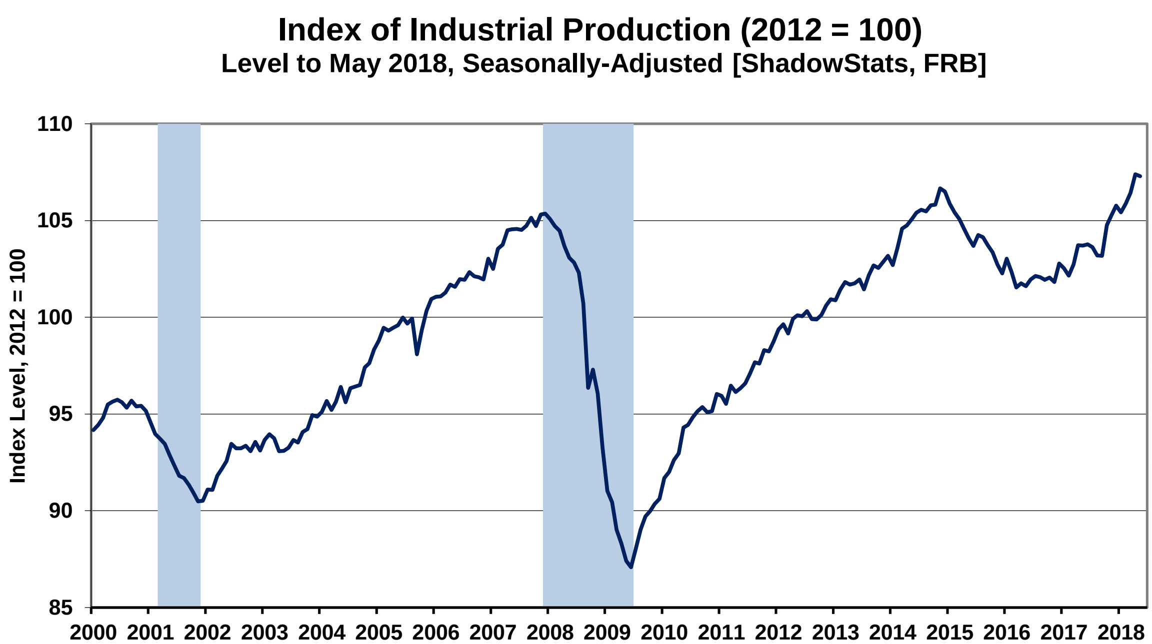
Graph OC-2: Real Retails Sales, Year-to-Year Change



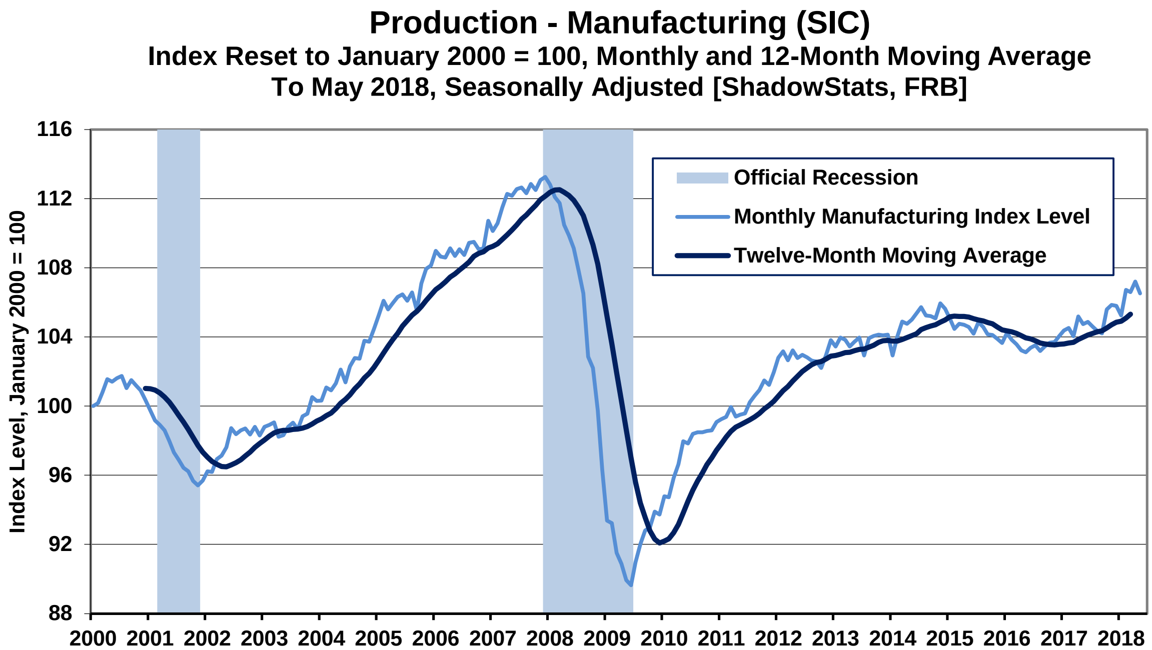
Graph OC-3: Industrial Production – Consumer Goods (Durable and Non-Durable)



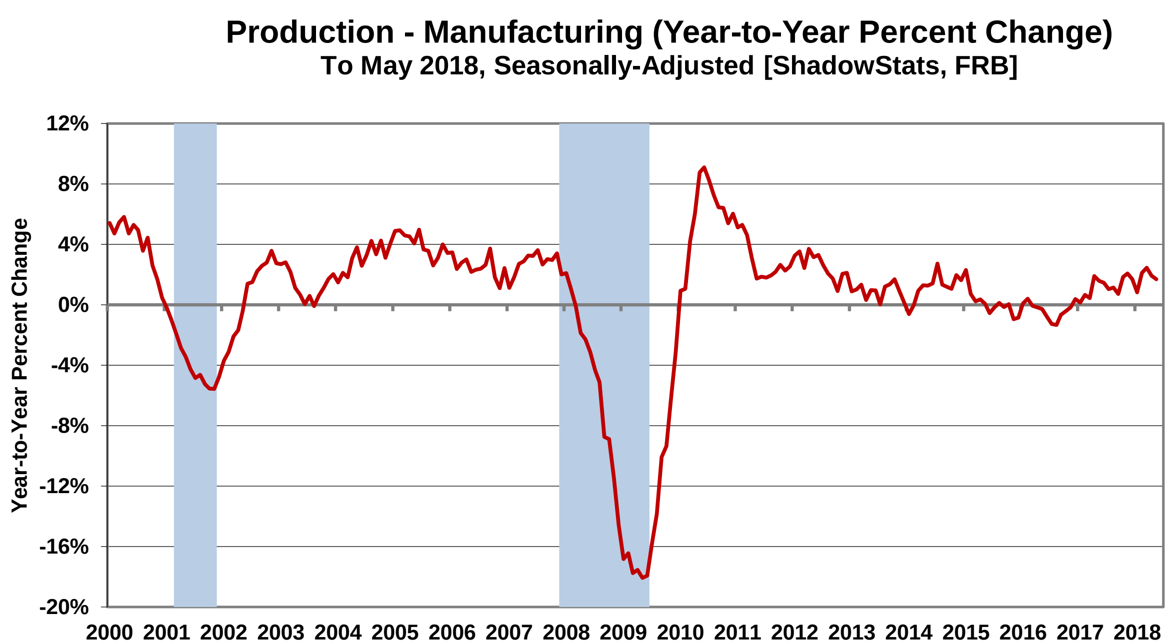
Graph OC-4: Industrial Production , 2000 to Date



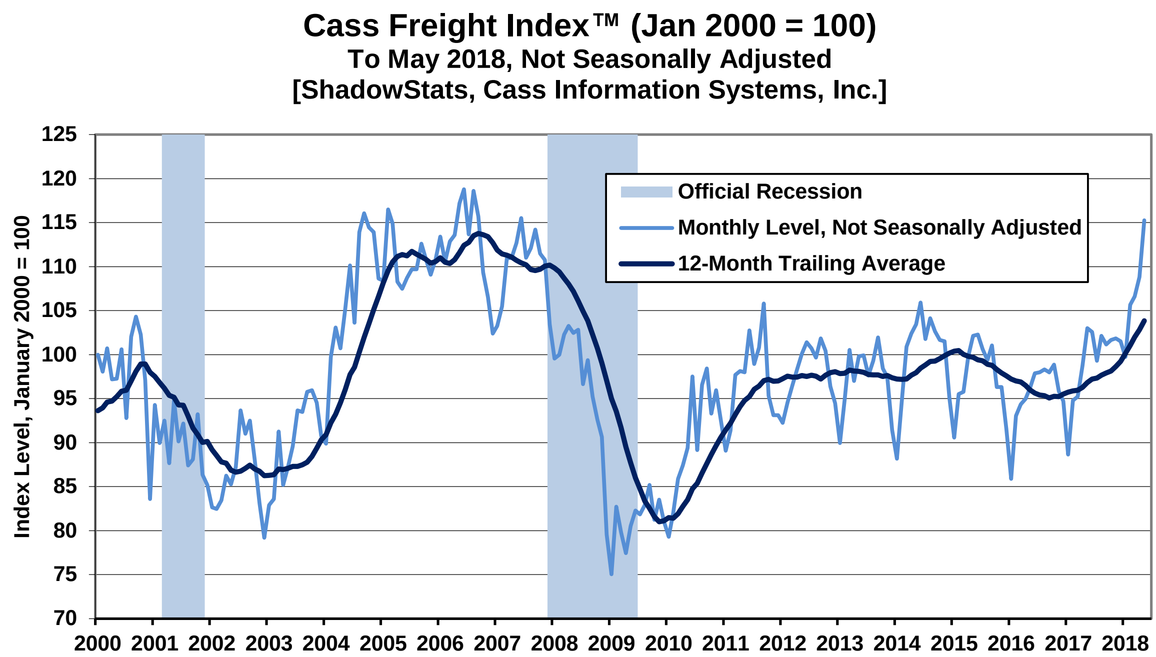
Graph OC-5: Manufacturing, 2000 to Date, With Twelve-Month Moving Average



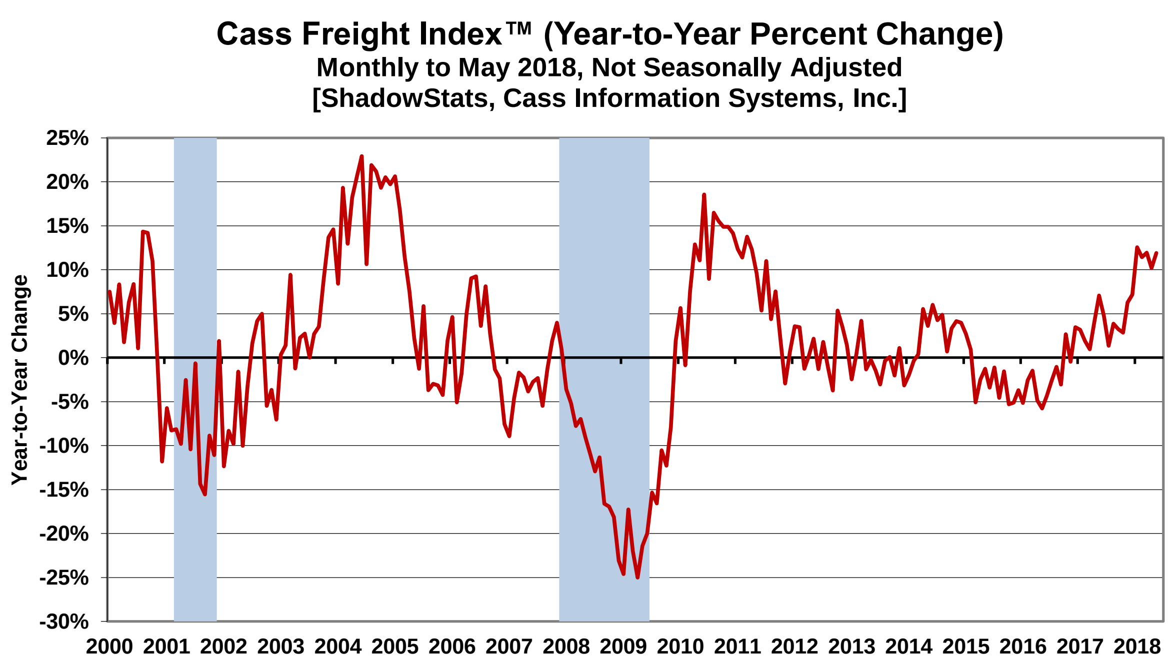
Graph OC-6: Manufacturing, Year-to-Year Percent Change



Graph OC-7: Cass Freight Index™, 2000 to Date, With Twelve-Month Moving Average



Graph OC-8: Cass Freight Index™, Year-to-Year Percent Change



EXECUTIVE SUMMARY: Consumer Price Index—May 2018—Monthly CPI-U Rose by an Adjusted 0.2%; Unadjusted Annual CPI Rose to 74-Month High of 2.8%. Gasoline price volatility remained the primary driving force behind much of the variability in headline, monthly consumer inflation, amidst continued highly unstable and irregular seasonal adjustments to gasoline prices. The headline reporting issue remains that extreme, monthly gasoline price volatility of recent years increasingly has been moved by factors other than regular, seasonal supply and demand issues. As a result, headline gasoline inflation has appeared weaker than common experience for most people (see *Credibility of Headline CPI-U Inflation Against Consumer Experience Continued to Deteriorate* in the *Reporting Detail*).

This is inflation is triggered more by shifting global political circumstances and supply disruptions (including the irregular timing of natural disasters in second-half 2017), than it is by underlying economic activity. Discussed in the *Hyperinflation Watch*, such circumstances tend to weaken consumer liquidity conditions. Exacerbated by the FOMC raising rates at the same time, mounting economic depressants already have started to impair liquidity-driven, underlying economic fundamentals.

Adjusted monthly CPI-U rose by 0.21% in May 2018, versus a gain of 0.22% in April and decline of 0.06% (-0.06%) in March. The way most people look at gasoline prices is what they pay at the pump. In May 2018, gasoline prices were up month-to-month by 5.87% at the pump, but by just 1.72% in the seasonally-adjusted CPI-U (again see the *Credibility ...* section in the *Reporting Detail*). Net of the gasoline adjustments, headline May 2018 CPI-U would have gained 0.42% in the month.

Unadjusted annual CPI-U rose to 2.80% in May 2018, its highest reading since 2.87% in February 2012. That was against 2.46% in April 2018 and 2.36% in March 2018.

With the headline unadjusted annual May 2018 CPI-U inflation up by 2.8%, 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 May 2018 at 6.4%, based on pre-Greenspan-gimmicked 1990 methodologies, and at 10.6%, 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.

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 increase in adjusted gasoline prices, the May 2018 seasonally-adjusted CPI-W gained month-to-month by 0.23%, versus 0.26% in April and a decline of 0.16% (-0.16%) in March. Unadjusted, year-to-year change in the May 2018 CPI-W was 3.00%, versus 2.59% in April 2018 and 2.44% in March 2018.

Real Average Weekly Earnings—May 2018—Up Minimally in the Month for All Employees (and for Production and Supervisory Employees), First-Quarter 2018 Contractions Remain in Place. Estimates of May 2018 real average weekly earnings were published along with the headline CPI-W and CPI-U on June 12th.

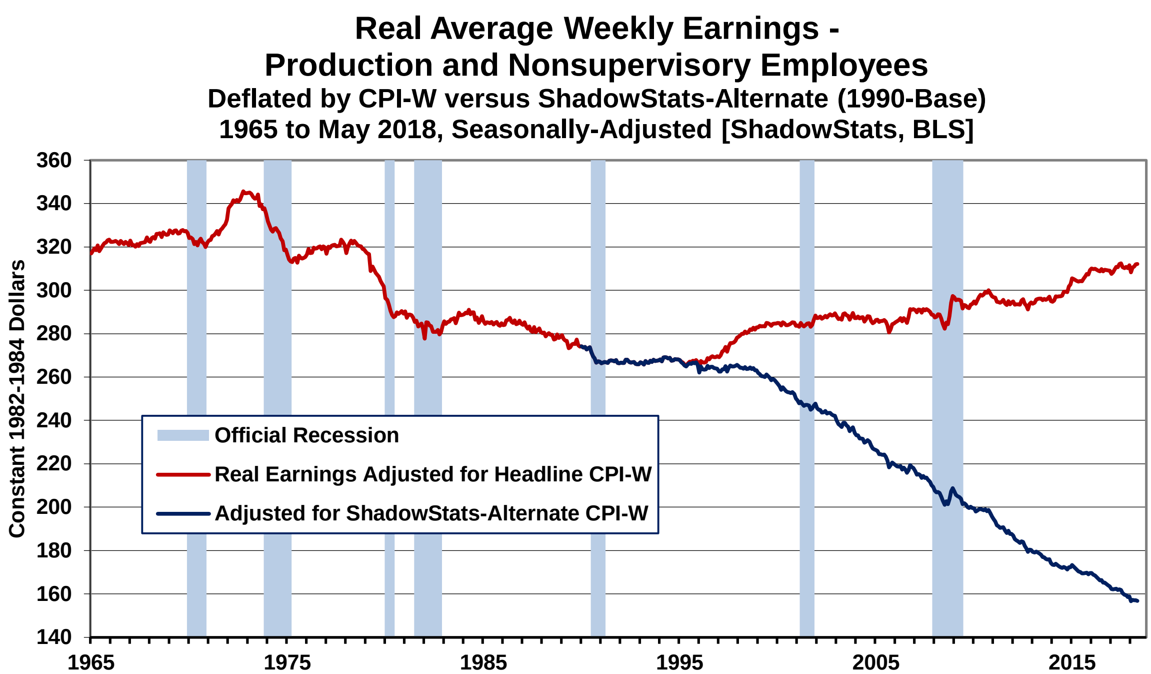
Production and Nonsupervisory Employees Detail. *[Note: Details are plotted here in* Graph 1 *and in* Graph CLW-7 *on page 47]* For the production and nonsupervisory employees category (deflated by the CPI-W)—the only series for which there is a meaningful history, back to 1964, the regularly-volatile, real average May 2018 weekly earnings gained month-to-month by 0.08%, having gained an upwardly-revised 0.31% in April and an unrevised 0.18% in March, 0.71% in February and declined month-to-month by 1.08% (-1.08%) in January.

Year-to-year growth in May 2018 was 0.48%, versus a revised 0.39% in April 2018 and an unrevised 0.46% in March 2018, 0.68% in February 2018% and 0.20% in January 2018.

First-quarter 2018 activity contracted at an unrevised annualized pace of 1.22% (-1.22%), which remained the third-consecutive annualized quarterly contraction in real average weekly earnings, the fifth such quarterly decline in the last six quarters.

Fourth-quarter 2017 earnings showed an annualized contraction of 0.39% (-0.39%), versus a minimal decline of 0.03% (-0.03%) in third-quarter 2017, a gain of 3.48% in second-quarter 2017, and contractions of 0.84% (-0.84%) in first-quarter 2017 and 0.18% (-0.18%) in fourth-quarter 2016.

Graph 1: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date
(Same as Graph CLW-7 in the Consumer Liquidity Watch)



All Employees Detail. In the broader All Employees category (deflated by the CPI-U), real average weekly earnings increased month-to-month by 0.09% in May 2018, having contracted by an unrevised 0.07% (-0.07%) in April and having gained 0.29% in March. Annual growth slowed to 0.28% in May 2018, versus 0.42% in April 2018 and 0.89% in March 2018.

First-quarter 2018 real earnings contracted at an unrevised annualized pace of 0.44% (-0.44%), versus an annualized decline of 0.03% (-0.03%) in fourth-quarter 2017 and an annualized gain of 3.48% in third-quarter 2017.

Graph 1 shows the seasonally-adjusted Production and Nonsupervisory Employees earnings as officially deflated by the Bureau of Labor Statistics (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), yet, most recently downtrending-to-flat. 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.

Producer Price Index (PPI)—May 2018—Final Demand Annual PPI Inflation Jumped to a 76-Month High of 3.11%, from 2.57%, a 0.52% Monthly Gain Spiked by Soaring Oil Prices. Heavily boosted by volatile, but generally rising energy costs and exacerbated by unstable seasonal adjustments, monthly Final Demand Producer Price Index (FD-PPI) inflation rose to 0.52% in May 2018, versus 0.09% in April and 0.26% in March. Not seasonally adjusted, annual inflation rose to 3.11% in May 2018, a six-plus year high, the highest level since 3.21% in December 2011. That followed unadjusted annual gains of 2.57% in April 2018 and 3.03% in March 2018.

Aggregate PPI and by Sector. Annual May 2018 unadjusted inflation of 3.11% in the FD-PPI, was up from 2.57% in April 2018, was dominated by Goods inflation (up across the board, in turn, dominated by Energy, as usual). While annual inflation remained strong in the other sectors, particularly in Construction, annual inflation increases in both the May 2018 Construction and Services sectors slowed minimally versus April 2018.

In the dominant Services Sector, unadjusted annual inflation growth of 2.38% in May 2018, eased slightly from 2.39% in April 2018.

In the Goods Sector, unadjusted May 2018 annual inflation of 4.43% was the highest seen since 4.62% in December 2011. That was against 2.88% in April 2018. While that pattern of rising annual inflation for the month was seen across all major sectors, the dominant factor remained the Energy Sector, not only for Goods inflation, but also for the headline aggregate FD-PPI.

Consider that unadjusted annual inflation in the energy sector rose by 16.55% in May 2018, versus 9.02% in April 2018. On an unadjusted basis, monthly energy inflation rose by 5.39% in May, versus 1.99% in April. Seasonally adjusted, those changes were depressed to monthly gains of 4.59% in May, versus 0.09% in April.

In the Construction Sector, May 2018 annual inflation eased to 4.06%, from 4.24% in April 2018, which was the highest annual inflation rate seen since the introduction of that series in 2009/2010. Month-to-month inflation of "unchanged" in May, versus 1.09% in April, largely was an artefact of the quarterly update to estimated industry margins, published in the first month of each calendar quarter. As discussed later, the month-to-month numbers are not comparable, but the year-to-year numbers are.

[Extended analysis of the PPI and analysis and graphs of the CPI follows in the **Reporting Detail*****, beginning on the next page.]***

REPORTING DETAIL

CONSUMER PRICE INDEX—CPI (May 2018)

Headline CPI-U Inflation Gained 0.2% Month-to-Month; Unadjusted Annual Inflation Increased to 2.8%; Fed's Targeted 2.0% "Core" Notched Higher to 2.2%. Gasoline price volatility continued as the primary driving force behind much of the variability in headline, monthly consumer inflation, amidst continued highly unstable and irregular seasonal adjustments to gasoline prices. The headline reporting issue remains that extreme, monthly gasoline price volatility of recent years increasingly has been moved by factors other than regular, seasonal supply and demand issues. As a result, headline gasoline inflation has appeared weaker than common experience for most people (see the following section on *Credibility of Headline CPI-U Inflation Against Consumer Experience Continued to Deteriorate*).

Discussed in the *Opening Comments*, this is inflation triggered more by shifting political circumstances and supply disruptions (including the irregular timing of natural disasters in second-half 2017), than it is by underlying economic activity. Monthly average gasoline prices have been heavily distorted by hurricane-disruptions, recovery from same and by shifting circumstances in the Middle East. Near-term inflation volatility generally has reflected volatile gasoline prices, which can reflect the factors mentioned, as well as more-controllable issues, such as U.S. dollar valuation and Federal Reserve policies (see the *Hyperinflation Watch*).

Unadjusted annual CPI-U rose to 2.80% in May 2018, its highest reading since 2.87% in February 2012. That was against 2.46% in April 2018, versus 2.36% in March 2018, and 2.74% in February 2018. That February reading had matched 2.74% seen in February 2017, with an intervening near-term trough of 1.63% in June 2017. Those February readings also had been the highest levels since February 2012.

Given current June gasoline prices holding about even with May, there is good chance for the June 2018 unadjusted annual CPI-U inflation to hit 3.0%, moving the "highest since" comparison to 3.39% in November 2011.

Parallel unadjusted annual pricing of gasoline rose by 21.80% in May 2018, versus 13.43% in April 2018, and 11.09% in March 2018, with an intervening near-term annual contraction trough of 0.43% (-0.43%) in June 2017. The May 2018 gasoline peak was the highest since 30.66% in February 2017.

<u>Seasonal-Adjustment Distortions to Gasoline Prices Currently Understate Headline Inflation, With the Effect of Overstating Inflation-Adjusted Real Growth in Series Such a Real Retail Sales and Earnings.</u> The way most people look at gasoline prices is what they pay at the pump. In May 2018, gasoline prices were up month-to-month by 5.87% at the pump, but by just 1.72% in the seasonally-adjusted CPI-U

(again see the following *Credibility* ... section. In April, pump prices rose by 6.21%, with headline adjusted costs up by 3.04%, while March pump prices declined by 0.24% (-0.24%), with the headline, adjusted CPI-U costs down by 4.89% (-4.89%). The distortions that flow through to the headline seasonally-adjusted CPI-U instabilities have the effect on inflation-adjusted real growth estimates of overstating growth (when inflation is too low) or understating growth (when inflation is too high). As a result, real retail sales growth in May 2018, as well as real change in monthly real median household income in May 2018, would appear to have received artificial boosts from too-low headline inflation overstating real growth. These patterns do shift over the year, with inflation understatement in the first-half of the year, beginning in February.

Related inflation surges in recent decades, 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, finally broke above the 2.0% "target" rate, to an unadjusted 2.11% in March 2018, held at 2.14% in April 2018 and notched higher to 2.24% in May 2018. Such was against 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).

Credibility of Headline CPI-U Inflation Against Consumer Experience Continued to Deteriorate. The current approach by the BLS of incorporating the irregular, wild swings of gasoline prices into the headline CPI-U, as if those wild swings could be seasonally-adjusted meaningfully, remains nonsense. Consider, again, that May 2018 gasoline prices rose month-to-month by 5.9% at the pump (common experience, unadjusted CPI), yet headline gasoline prices rose by just 1.7% (adjusted CPI), well shy of common experience.

Until gasoline prices return to some semblance of stability in seasonal variation, the BLS might do well to report the "adjusted" headline CPI using unadjusted month-to-month swings, as they currently use unadjusted annual swings. Such would approach common experience more-closely, improving somewhat the credibility of the headline data among the public.

Otherwise, in more-general terms, the considerable informal surveying by ShadowStats of consumer views, as to the credibility of headline inflation continues to suggest that most individuals believe headline consumer inflation consistently understates reality. The informal consensus is in the range of a 3% to 4% understatement of headline inflation, against common experience. That is consistent with the ShadowStats Alternate CPI (versus 1990-based methodologies), less severe than the 6% to 8% range suggested by the ShadowStats Alternate CPI (1980-based methodologies).

That latter measure is more accurate in terms of the meaningful methodological changes made to CPI reporting, beginning about 1980, which then began to exclude a component measure of the cost of buying a house. The revamped series shifted over to assessing housing costs as "homeowners equivalent rent" and the raising of that rent. Those all were "guesstimations" by the BLS as to what homeowners would charge themselves to rent their owned properties. The inflation rate then was determined to be the amount of increase in the monthly rent that homeowners would charge themselves.

Where this was a completely rigged number, the BLS estimated it would have the net effect of reducing the annual CPI-U inflation rate by 1.4% (-1.4%) from what would have been reported otherwise. These issues are discussed in the *Alternate Consumer Inflation Measures* section.

Specifically, with the headline unadjusted annual May 2018 CPI-U inflation up by 2.8%, 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 May 2018 at 6.4%, based on pre-Greenspan-gimmicked 1990 methodologies, and at 10.6%, 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, and what had been accelerating, then faltering dollar strength, subsequent to the post-2016 election euphoria, the dollar recently had seen fairly regular and intensifying selling pressure, although that has reversed in recent months and in the last week, reflecting market expectations of continued FOMC rate hikes in the United States, and recent indications by the European Central Bank (ECB) that it may hold off another year to raise rates (see the *Hyperinflation Watch*). Separately there had been some near-term dollar strength, given shifting global political tensions.

Nonetheless, 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. The proximal trigger here for shifting FOMC policies remains likely tied to "unexpected" economic weakness. In a related matter, also nearing extreme crisis are burgeoning, long-term U.S. sovereign-solvency issues.

Recent FOMC tightenings have been despite continued, lack of full economic recovery from the 2008 collapse, both in terms of the banking system, where real consumer credit outstanding has not expanded beyond pre-recession levels, and in terms of industries such as manufacturing and construction, which also have not expanded beyond pre-recession levels. These areas remain the realm of "adverse" economic circumstances once 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 has started to unwind, (see the discussions in *Commentary No. 952* and *Commentary No. 954*, and *Commentary No. 948* and *Commentary No. 947*).

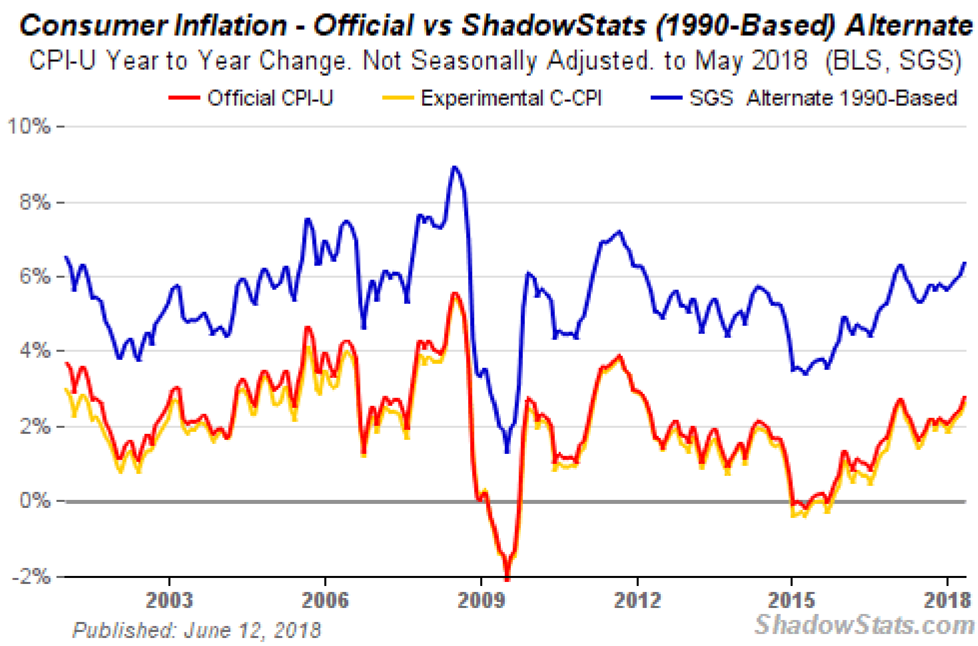
Those same "adverse circumstances" have acted as a drain on insurance-industry reserves and personal saving used to pay for disaster damages. With first-quarter 2018 GDP showing weakened consumer components, the quarterly GDP remains open to significant slowing or contraction in its pending June 28th revision, or in post-benchmarking revisions in second-quarter 2018. The financial markets, particularly the global currency markets versus the U.S. dollar should begin to pick up on renewed faltering of U.S. economic activity and on intensifying long-range U.S. Treasury solvency concerns. Fed Chairman Powell's initial response to those unfolding circumstances should be forthcoming in the next couple of months.

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. Those pressures were 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.

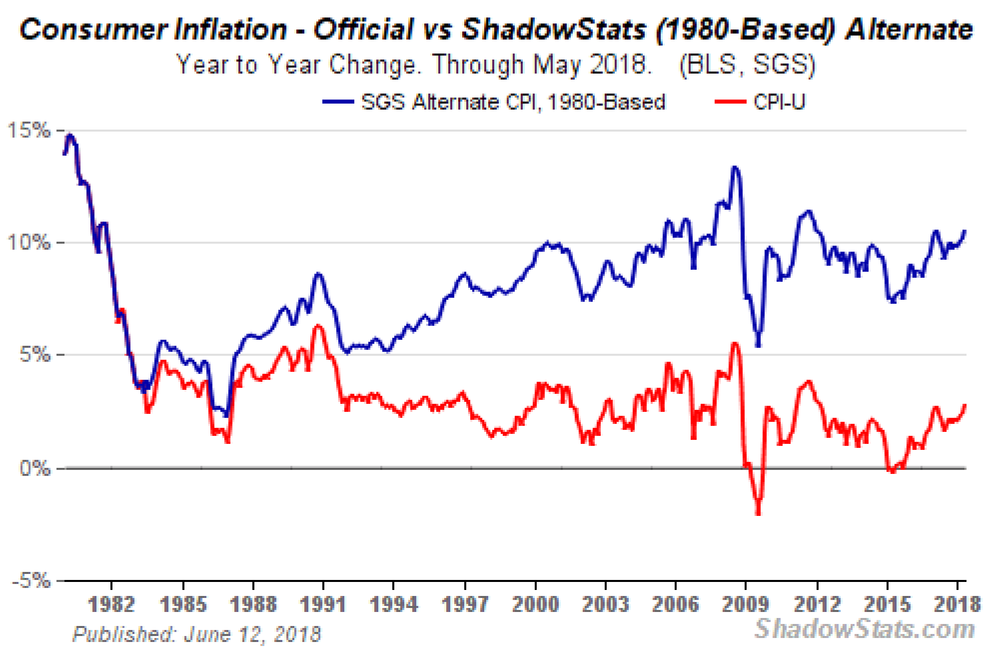
Compounding the high-risk of an increasing near-term run on the U.S. dollar remains mounting recognition in global markets of the Fed's conundrum, particularly amidst mounting concerns as to U.S. fiscal stability. The Federal Reserve and other central banks still have no effective idea as to how to boost 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 and 3 follow on the next page.]

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



____

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.*

____

CPI-U. The Bureau of Labor Statistics (BLS) reported June 12th that the headline, seasonally-adjusted May 2018 CPI-U inflation increased month-to-month by 0.2% [up 0.21% at the second decimal point, having gained by 0.2% [up 0.22%] in April, declined by 0.1% (-0.1%) [0.06% (-0.06%)] in March, 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, and a monthly decline of 0.1% (-0.1%) [0.07% (-0.07%)] in May.

Unadjusted monthly May 2018 CPI-U rose by 0.42%, having gained 0.40%, 0.23% in March, 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%), 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.

Major CPI-U Groups. On a monthly basis, and in the context of continuing, irregular, large gasoline-price swings and related seasonal-adjustment aberrations, reflective of seasonally-adjustments for gasoline prices having turned negative in February, and having held negative since, the seasonally-adjusted gain of 0.21% in the May 2018 CPI-U monthly inflation again was dominated by soaring energy costs. Again, that was despite the heavy, downside seasonal adjustments on gasoline. Without the seasonal-depressant on gasoline adjustments, the CPI-U would have gained 0.4%, instead of 0.2%. Otherwise against the adjusted energy prices, the monthly gain of 0.2% in adjusted CPI-U included small, positive impact from "Core" inflation (everything but food and energy) and negligible monthly change flat (adjusted and unadjusted) Food prices.

By the numbers, the May 2018 CPI-U seasonally-adjusted monthly inflation gain of 0.21% [up by 0.42% on an unadjusted basis] encompassed a "Core" (ex-food and energy) inflation rate of 0.17% [up by 0.17% unadjusted]. Month-to-month May Food inflation effectively was flat, up by an adjusted 0.03% [contracted by an unadjusted 0.04% (-0.04%)]. The still-dominant Energy related sector rose by 0.90% [up by 3.35% unadjusted]. Again, all the headline inflation was focused in the Energy (gasoline) sector.

Holding in line with minimal FOMC hopes and expectations for a third month, unadjusted annual May 2018 "Core" CPI-U notched higher to 2.2%, from 2.1% in April and March, where the March 2018 annual core inflation had broken 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 eleven straight months (since April 2017) at 1.8% +/- 0.1%. It showed an unadjusted year-to-year inflation rate of 2.14% in April 2018 and 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.

May 2018 seasonal adjustments for monthly gasoline inflation—usually reflective of the dominant pressure in energy prices—remained heavily negative, as is traditional at this time of year, although not particularly realistic as discussed in the *Credibility of Headline CPI-U Inflation Against Consumer Experience Continued to Deteriorate* in the opening portions of this *Reporting Detail* section. As discussed there, such took a May 2018 CPI-U unadjusted monthly gain of 5.87% in gasoline prices to an adjusted month-to-month gain of 1.72%. The Department of Energy (DOE) had estimated an unadjusted monthly gain for May 2018 of 3.97%.

With early-June 2018 retail gasoline prices (DOE) running slightly higher month-to-month versus May 2018, by an order of magnitude of 0.6%, and given minimally-positive seasonal adjustments to June 2018 gasoline prices, there likely will be a minimally net-positive monthly impact of gasoline prices on the headline June 2018 CPI, shy of a continued sharp movement in headline gas prices for the balance of June.

Year-to-Year CPI-U. Not seasonally adjusted, May 2018, year-to-year inflation for the CPI-U increased to 2.8% [2.805] versus gains of 2.5% [2.46% at the second decimal point] in April 2018, versus 2.4% [2.36%] in March 2018, 2.2% [2.21%] in February 2018, 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, and 1.9% [1.87%] in May 2017.

Year-to-year, CPI-U inflation would increase or decrease in next month's June 2018 reporting, dependent on the seasonally-adjusted, month-to-month change, versus the adjusted, headline monthly gain of 0.05% in the June 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 June 2018, the difference in June's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the unadjusted May 2018 annual inflation rate of 2.80%. Given an early guess of a seasonally-adjusted monthly change of 0.2% in the June 2018 CPI-U, that would leave the annual CPI-U inflation rate for June 2018 still at about 3.0% 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 May 2018 seasonally-adjusted, headline CPI-W, which is a narrower series than the CPI-U and traditionally has had greater weighting for gasoline than the CPI-U, rose month-to-month by 0.23%, following a monthly gain of 0.26% in April, a decline of 0.16% (-0.16%) in March, 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%).

On an unadjusted basis, year-to-year CPI-W gained by 3.00% in May 2018, versus 2.59% in April 2018, 2.44% in March 2018, 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 and 1.78% in May 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 seen in last month's April 2018 reporting, in which year-to-year inflation rates revised lower by 0.05% (-0.05%) for each month back through May 2017, reflected here in the prior data from last month.

The latest headline annual inflation rate for the C-CPI-U in May 2018 was 2.62%, versus 2.31% in April 2018, 2.18% in March 2018 1.99% in February 2018, 1.82% in January 2018, 1.88% in December 2017, 1.97% in November 2017, 1.75% in October 2017, 2.03% in September 2017, 1.64% in August 2017, 1.33% in July 2017, 1.21% in June 2017 and 1.48% in May 2017.

Quarterly C-CPI-U, Year-to-Year. On an unadjusted, year-to-year basis, annual inflation by quarter was up by 2.00% in first-quarter 2018, versus 1.87% in fourth-quarter 2017, 1.66% in third-quarter 2017, versus 1.50% in second-quarter 2017 and an unrevised 2.30% in first-quarter 2017.

Annual Average C-CPI-U. The annual average C-CPI-U inflation rate was 1.83% in 2017, versus an annual gain of 0.93% in 2016 and contraction of 0.12% (-0.12%) in 2015.

See the *Opening Comments* of *Commentary No. 945* and *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 6.4% in May 2018, versus 6.0% in April 2018, 5.9% in March 2018, 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 May 2018 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 10.6% (10.59% at the second decimal point), versus 10.2% (10.23%) in April 2018, 10.1% (10.12%) in March 2018, 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. Historical monthly detail, and 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 May 2018 CPI-U/ShadowStats Inflation

CPI-U: GOLD at $2,749 per Troy Ounce, SILVER at $160 per Troy Ounce
ShadowStats: GOLD at $15,651 per Troy Ounce, SILVER at $911 per Troy Ounce

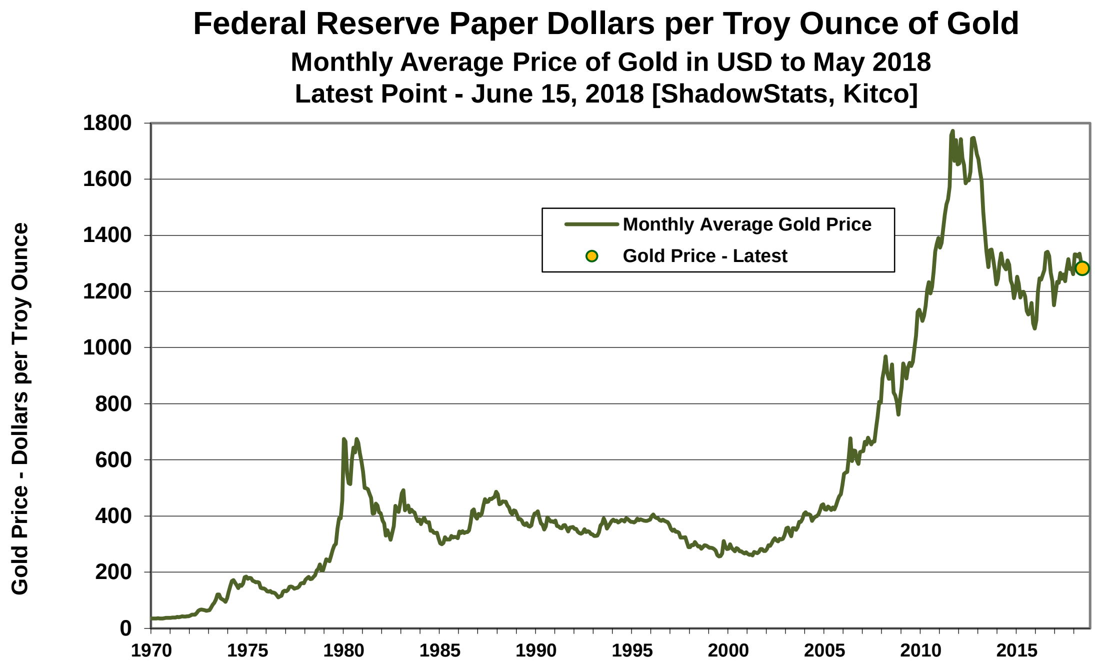
Despite the September 5, 2011 historic-high gold price of $1,895.00 per troy ounce (London afternoon fix), and despite the multi-decade-high silver price of $48.70 per troy ounce (London fix of April 28, 2011), gold and silver prices have yet to re-hit their 1980 historic levels, adjusted for inflation. The earlier all-time high of $850.00 (London afternoon fix, per Kitco.com) for gold on January 21, 1980 would be $2,749 per troy ounce, based on May 2018 CPI-U-adjusted dollars, and $15,651 per troy ounce, based on May 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 May 2018 CPI-U inflation, the 1980 silver-price peak would be $160 per troy ounce and would be $911 per troy ounce in terms of the May 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 lose some ground against both gold and the stronger currencies such as the Swiss France (CHF). Recent, relative short-term U.S. dollar strength should prove fleeting (see today's *Hyperinflation Watch*), in what should become a highly inflationary circumstance 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—May 2018—Up Minimally in the Month for All Employees (and for Production and Supervisory Employees), First-Quarter 2018 Contractions Remain in Place. Estimates of May 2018 real average weekly earnings were published along with the headline CPI-W and CPI-U on June 12th.

Production and Nonsupervisory Employees Detail. *[Note: Details are plotted in the* Executive Summary, Graph 1 *on page 11, and* Graph CLW-7 *on page 47]* 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 May 2018 weekly earnings gained month-to-month by 0.08%, having gained an upwardly-revised 0.31% [previously 0.26%] in April, and having gained an unrevised 0.18% in March, 0.71% in February. Earnings declined month-to-month by 1.08% (-1.08%) in January.

Year-to-year growth in May 2018 was 0.48%, versus a revised 0.39% [previously 0.34%] in April 2018 and an unrevised 0.46% in March 2018, 0.68% in February 2018% and 0.20% in January 2018.

In the context of no revisions, first-quarter 2018 activity contracted at an unrevised annualized pace of 1.22% (-1.22%), which remained the third-consecutive annualized quarterly contraction in real average weekly earnings, the fifth such quarterly decline in the last six quarters.

Fourth-quarter 2017 earnings showed an annualized contraction of 0.39% (-0.39%), versus a minimal decline of 0.03% (-0.03%) in third-quarter 2017, a gain of 3.48% in second-quarter 2017, and 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 category (deflated by the CPI-U), real average weekly earnings increased month-to-month by 0.09% in May 2018, having contracted by an unrevised 0.07% (-0.07%) in April and having gained 0.29% in March. Annual growth slowed to 0.28% in May 2018, versus 0.42% in April 2018 and 0.89% in March 2018.

First-quarter 2018 real earnings contracted at an unrevised annualized pace of 0.44% (-0.44%), versus an 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 today's *Consumer Liquidity Watch*, in conjunction with flat Real Median Household Income, continued slowing/declining growth in real Consumer Credit Outstanding and faltering Consumer Optimism, the government's headline real earnings data indicated continuing income and liquidity issues for the consumer.

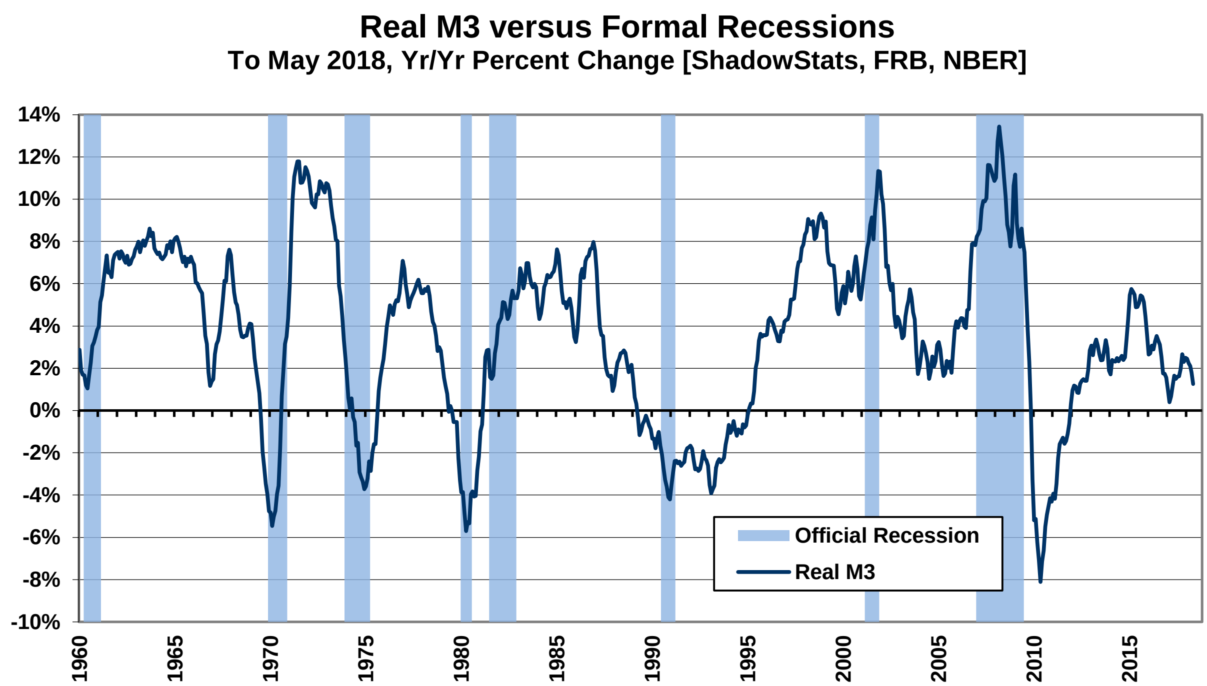
Graphs 1 in the *Executive Summary* and *CLW-7* in the *Consumer Liquidity Watch* of the Production and Nonsupervisory Employee series shows the seasonally-adjusted earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). 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 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, Inflation-Adjusted Money Supply M3—May 2018—Annual Change Continued Sinking, Now at a Thirteen -Month Low. The signal for a double-dip, multiple-dip or simply protracted, ongoing recession, based on annual contraction in the real broad money supply (M3), had been re-triggered/intensified one year ago, in February 2017. Yet, that signal then softened or flattened out with a contrary bounce from May 2017 into December 2017, turning down anew after the Federal Reserve's Federal Open Market Committee's (FOMC) began more-aggressive tightening in December. Discussed in today's *Hyperinflation Watch* of prior, the previous recession signal of December 2009 had remained in place, despite real annual M3 growth having rallied into positive territory post-2010.

In the context of continued weakening annual growth in M3 (policy action of the Federal Reserve Board's Federal Open Market Committee (FOMC), and continued pick-up in annual CPI inflation, driven by unstable, surging political conditions in the oil markets (not a direct function of a "strong" U.S. economy), a formal recession signal from low-level or negative annual real growth has become increasingly likely in the near term. Shown in *Graph 5*—based on May 2018 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate (see the discussion on slowing annual money supply growth in the *Opening Comments* and *Hyperinflation Watch* of *Commentary No. 953-A*)—annual inflation-adjusted growth in May 2018 M3 dropped to a thirteen month low of 1.26%, down from a revised 1.81%

[previously 1.83%] in April 2018. That was against a minimally-revised growth rates of 2.01% in March 2018, and unrevised real annual growth rates of 2.24% in February 2018, 2.45% in January 2018, 2.49% in December 2017 and 2.30% in November 2017. Those patterns reflected successive, downside benchmark revisions to the Federal Reserve's money measures and, again, upside movement in annual CPI-U inflation. Those levels of activity were against a near-term peak growth of 2.64% [previously 2.65%] in October 2017, and against the February 2015 cycle-high peak growth of 5.75%.

Graph 5: Real M3 Annual Growth versus Formal Recessions



The current low level of real annual M3 growth reflected a 10-month low in annual nominal M3 growth (before inflation adjustment) and net of a 74-month high in annual growth in the CPI-U.

What recently had been higher, albeit tepid, real annual growth likely was a temporary reversal in the pattern of plunging annual growth, which had held at levels last seen in plunging growth into the 2009 economic collapse, a level never seen outside an economy falling 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*, *Commentary No. 902-B* and *Commentary No. 952*). 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.

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, again, *Commentary No. 952*).

Despite the purported, ongoing growth seen in headline GDP activity, a renewed downturn in official data appears to be underway, particularly with consumer related series such as retail sales (see today's *Opening Comments*) and housing. What continues to unfold here likely will gain official recognition as a "new" recession, in the within the year 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 (May 2018)

May 2018 Final Demand Annual PPI Inflation Jumped to a 76-Month High of 3.11%, with Monthly Inflation Increasing to 0.52%. Heavily spiked by volatile, but generally rising energy costs and exacerbated by unstable seasonal adjustments, monthly Final Demand Producer Price Index (FD-PPI) inflation rose to 0.52% in May 2018, versus 0.09% in April and 0.26% in March. Not seasonally adjusted, annual inflation spiked to 3.11% in May 2018, a six-plus year high, the highest level since 3.21% in December 2011. Such followed unadjusted annual gains of 2.57% in April 2018 and 3.03% in March 2018. That annual inflation of 3.03% in March had been the highest headline level seen since January 2012.

Aggregate PPI and by Sector. The increased annual gain in May 2018 in unadjusted annual inflation to 3.11% in the FD-PPI, from 2.57% in April 2018, was dominated by Goods inflation (up across the board, in turn, dominated by Energy, as usual). While annual inflation remained strong in the other sectors, particularly in Construction, annual inflation increases in both the May 2018 Construction and Services sectors slowed minimally versus April 2018.

Services Sector. In the dominant (most heavily weighted) Services Sector, unadjusted annual inflation growth of 2.38% in May 2018, eased slightly from 2.39% in April 2018, its second consecutive slowing, down from its recent near-term peak of 2.93% in March 2018.

Goods Sector. In the Goods Sector, unadjusted May 2018 annual inflation growth of 4.43% was the highest seen since 4.62% in December 2011. That was against 2.88% in April 2018, and 3.17% in March 2018. While that pattern of rising annual inflation for the month was seen across all major sectors, the dominant factor remained the Energy Sector, not only for Goods inflation, but also for the headline aggregate FD-PPI.

Consider that unadjusted annual inflation in the energy sector rose by 16.55% in May 2018, versus 9.02% in April 2018. On an unadjusted basis, monthly energy inflation rose by 5.39% in May, versus 1.99% in April. Seasonally adjusted, those changes were depressed to monthly gains of 4.59% in May, versus 0.09% in April, more realistic than headline in the CPI-U (discussed in the *Consumer Price Index* section, the BLS does not have the ability to seasonally adjust these irregularly-volatile numbers adequately), but still enough to depress the unadjusted monthly inflation in the Goods Sector.

Construction Sector. In the Construction Sector, May 2018 annual inflation eased to 4.06%, from 4.24% in April 2018, which was the highest annual inflation rate seen since the introduction of that series in 2009/2010. Month-to-month inflation of "unchanged" in May, versus 1.09% in April, largely was an artefact of the quarterly update to estimated industry margins, published in the first month of each calendar quarter. As discussed later, the month-to-month numbers are not comparable, but the year-to-year numbers are.

Core Goods. 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 *Consumer Price Index* section), the Federal Reserve purports to ignore energy and food inflation in determining its headline policies, concentrating instead on "Core" inflation, net of those "problem" energy and food areas. That might make some sense if the public did not view food and energy the broad, general category of the necessities of life.

Annual "Core" inflation on the PPI-FD Goods side was at an unadjusted 2.48% in May 2018, versus 2.12% in April 2018, with monthly gains of an adjusted 0.26% in both May and April.

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.

May 2018 Headline PPI Detail. The Bureau of Labor Statistics (BLS) reported June 13th, that the seasonally-adjusted, month-to-month, headline Producer Price Index Final-Demand (PPI-FD) inflation for May 2018 rose by 0.52%, having gained 0.09% in April, and 0.26% in May.

On a not-seasonally-adjusted basis—all annual growth rates are expressed unadjusted—year-to-year PPI-FD inflation in May 2018 jumped to 76–month high of 3.11% (highest since 3.21% in December 2011), versus 2.57% in April 2018 and 3.03% in March 2018, 2.77% in February 2018. The unadjusted April annual inflation was the weakest since September 2017.

Again, in summary, for the three major subcategories of the May 2018 PPI-FD, which showed an adjusted monthly gain of 0.52% and unadjusted 3.11% annual inflation, headline monthly Goods inflation was an adjusted gain of 0.96% month-to-month, up by an unadjusted 4.43% year-to-year, Services "inflation" (profit margins) rose month-to-month by 0.26%, up by 2.38% year-to-year, and Construction inflation was an inconsistent "unchanged" (0.00%) in the month, up by 4.06% 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 May 2018 rose by 0.96%, having been "unchanged" in April at 0.00% and having gained 0.26% in March. There was negative impact on the aggregate goods headline reading from underlying seasonal-factor adjustments (tied largely to energy). Not-seasonally-adjusted, May inflation was up by 1.14%. Unadjusted, year-to-year goods inflation in May 2018 showed an annual gain of 4.43%, following gains of 2.88% in April 2018 and 3.17% in March 2018.

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

- "Foods" inflation (weighted at 5.72% of the total index) in May 2018 increased month-to-month by 0.09%, having declined by 1.10% (-1.10%) in April, and having jumped by 2.24% in March. Seasonal adjustments were negative for the May headline change, which was an unadjusted monthly gain of 0.51%. Unadjusted and year-to-year, annual May 2018 foods inflation rose by 0.51%, having declined by 0.34% (-0.34%) in April 2018 and having gained by 1.99% in March 2018.
- "Energy" inflation (weighted at 5.58% of the total index) rose month-to-month soared by 4.59% in May 2018, having gained 0.09% in April and having dropped by 2.11% (-2.11%) in March. Seasonal adjustments were negative, once more, in May, with unadjusted energy showing a

monthly gain of 5.39%. Unadjusted and year-to-year, May 2018 energy prices gained 16.55%, versus 9.02% in April 2018 and 8.54% in March 2018.

- "Less foods and energy" ("Core" goods) monthly inflation (weighted at 21.71% of the total index) gained month-to-month by 0.26% in May 2018, having also gained 0.26% in April and 0.35% in March. Seasonal adjustments were neutral for monthly "Core" inflation, with the unadjusted monthly May inflation also up by 0.26%. Unadjusted and year-to-year, May 2018 "Core" inflation rose by 2.48%, versus 2.12% in April 2018 and 2.22% in March 2018.

Final Demand Services (weighted at 65.35% of the Aggregate Index). Headline Final Demand Services inflation rose by 0.26% in May 2018, having gained 0.09% in April and 0.26% in March. The overall seasonal-adjustment impact on headline services inflation was positive, with an unadjusted monthly gain of 0.17%. Year-to-year, unadjusted May 2018 services inflation was 2.38%, versus 2.39% in April 2018 and 2.93% in March 2018.

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

- "Services less trade, transportation and warehousing" inflation, or the "Other" category (weighted at 40.53% of the total index) was "unchanged" month-to-month at 0.00% in May 2018, having declined by 0.09% (-0.09%) in April and having gained by 0.35% in March. Seasonal-adjustment impact on the May detail was neutral, where the unadjusted monthly reading also was "unchanged." Unadjusted and year-to-year, May 2018 "other" services inflation was up by 2.31%, versus 2.40% in April 2018 and 3.13% in March 2018.
- "Transportation and warehousing" inflation (weighted at 4.47% of the total index) rose month-to-month by 0.75% in May 2018, versus 0.58% in April and 0.59% in March. Seasonal adjustments were positive for the May reading, versus an unadjusted monthly decline of 0.17% (-0.17%). Unadjusted and year-to-year, May 2018 transportation inflation rose by 5.04%, versus 4.67% in April 2018 and 5.05% in March 2018.
- "Trade" inflation (weighted at 20.35% of the total index) gained month-to-month by 0.86% in May 2018, versus 0.17% in both April and March. Seasonal adjustments had a positive impact, where the unadjusted monthly change was up by 0.51%. Unadjusted and year-to-year, May 2018 trade inflation eased to 1.91%, from 1.92% in April 2018 and 2.02% in March 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 was "unchanged" at 0.00%, having jumped by 1.09% in April, versus a gain 0.17% in March. These monthly changes reflect a regular, nonsense monthly distortion at the beginning of each quarter, where the BLS introduces new profit-margin estimates.

The impact of seasonal factors on the May 2018 reading was neutral, as usual, where the unadjusted monthly change also was "unchanged." 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 eased to 4.06% in May 2018, from 4.24% in April 2018, versus 3.57% in March 2018. Unlike the month-to-month data, the annual changes are reasonably comparable. 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. 953-B*).

PPI-Inflation Impact on Pending Reporting of May 2018 New Orders for Durable Goods. As to the pending relative reduction in inflation-adjusted real growth, versus the nominal reporting of May 2018 New Orders for Durable Goods, inflation for manufactured durable goods (reported only on a not-seasonally-adjusted basis) increased month-to-month by 0.52%, versus 0.41% in both April and March, having gained 0.23% in February and 0.41% in January.

Year-to-year annual inflation jumped to 2.66% in May 2018, its highest reading since 2.83% in November 2011. That was against 2.12% in April 2018, 1.96% in March 2018, 1.72% in February 2018 and 1.79% in January 2018. May 2018 New Orders for Durable Goods (both nominal and real), will be reported and calculable on June 27th, with coverage in *Commentary No. 957*, likely on June 28th.

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

HYPERINFLATION WATCH

THE U.S. DOLLAR AND THE FINANCIAL MARKETS

Shifting Global Interest-Rate Perceptions Have Boosted the U.S. Dollar, Intensifying Risks of Day of Reckoning for the U.S. Currency and Financial Markets. Building upon today's *Opening Comments* (page 3) a confluence of some unhappy factors have continued to evolve, where they increasingly could hit the U.S. financial system very hard, soon, in the next several months. Claiming a booming economy and recovered inflation, the FOMC boosted its targeted federal funds rate by 0.25% on June 13th. Yet the headline inflation used to justify the rate hike was driven by commodity price distortions, not by strong, underlying economic activity.

In that circumstance, where the rising inflation is not offset by consumer liquidity gains, such as rising income, inflation of the current form is debilitating to consumer liquidity conditions and to broad economic activity. Raising interest rates in that circumstance only exacerbates the negative pressures on the U.S. economy.

Nonetheless, with U.S. interest rates rising and European rates likely flat for a while, and with the headline U.S. economic perceptions just booming along, the U.S. dollar soared late last week.

What lies ahead is not a stable circumstance. The U.S. economy, which never recovered fully from its crash into 2009, has now been pushed to the headline stalling-point by underlying inflation issues combined with unfortunate FOMC policy. As the economy turns down anew, the banking system should come under renewed liquidity/solvency stresses. In turn, that should bring the Fed around to reversing policy once again, re-embracing quantitative easing. That would crash the U.S. dollar, along with an intensified flight of foreign capital from the United States, likely also crashing the U.S. stock and equity markets.

The issues here may have been slower to break than expected by ShadowStats, but they remain in play. Potential issues include:

- A marked and intensifying deterioration in current consumer liquidity conditions is underway (faltering real earnings and real consumer credit outstanding), see the Consumer Liquidity Watch.
- Headline economic reporting next week increasingly should weaken the broad consensus outlook on U.S. economic conditions, exacerbated by likely negative downside revisions to series such as in the Gross Domestic Product (GDP) benchmarking (July 27th).
- 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.
- Potential for new conflict in the Middle East (oil supply disruption).
- 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 remain 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.

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 of continued FOMC tightening actions.

Discussed in the *Opening Comments*, current tightening actions by the FOMC will be instrumental in accelerating a new downturn in a U.S. economy that has yet to recover fully from its collapse into 2009.

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. Increasingly negative economic "surprises" 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, reversing recent moves and moving back towards quantitative easing.

Federal Reserve Still is Unable to Extricate Itself from the Panic of 2008. 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*).

Again, 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 graphs in this section reflect New York late-afternoon or closing prices of June 15th.

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 had shown recent weakness in the U.S. dollar, with the declining year-to-year change. There has been a short-term relative dollar rally, largely reflective of current global political instabilities. In times of global political stress, the dollar often has been viewed as a safe-haven, as have gold and silver.

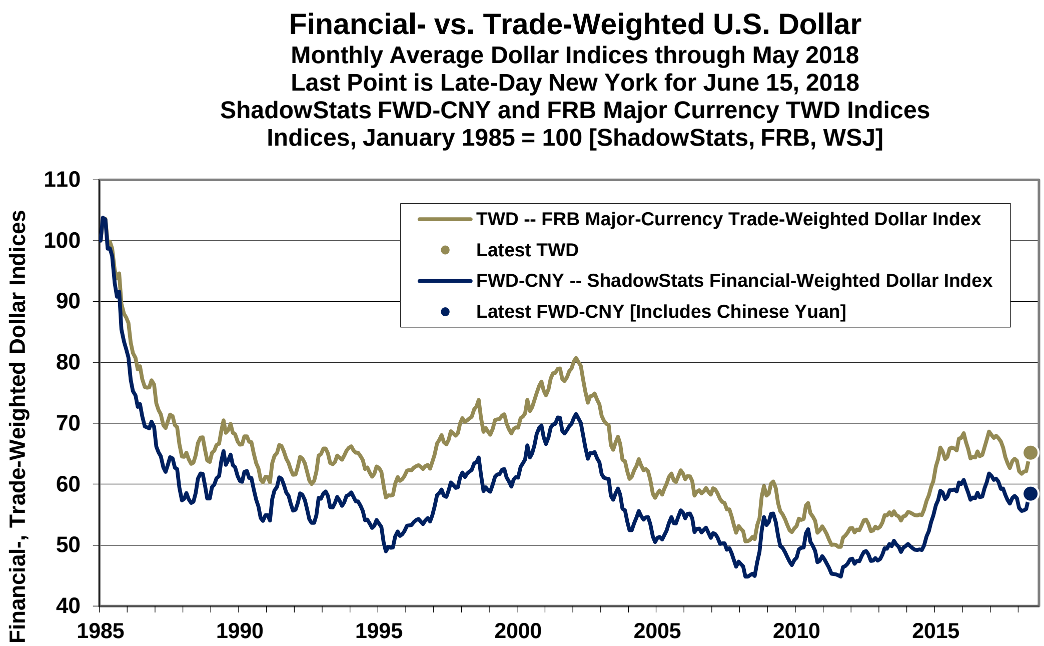
Gold and Silver, and Gold versus Stocks. *Graphs HW-3* and *HW-4* show plots of the price level of the S&P 500 Total Return Index (all dividends reinvested) versus the price of physical gold, with both series indexed to January 2000 =100, with the first plot showing both series in nominal terms and the 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).

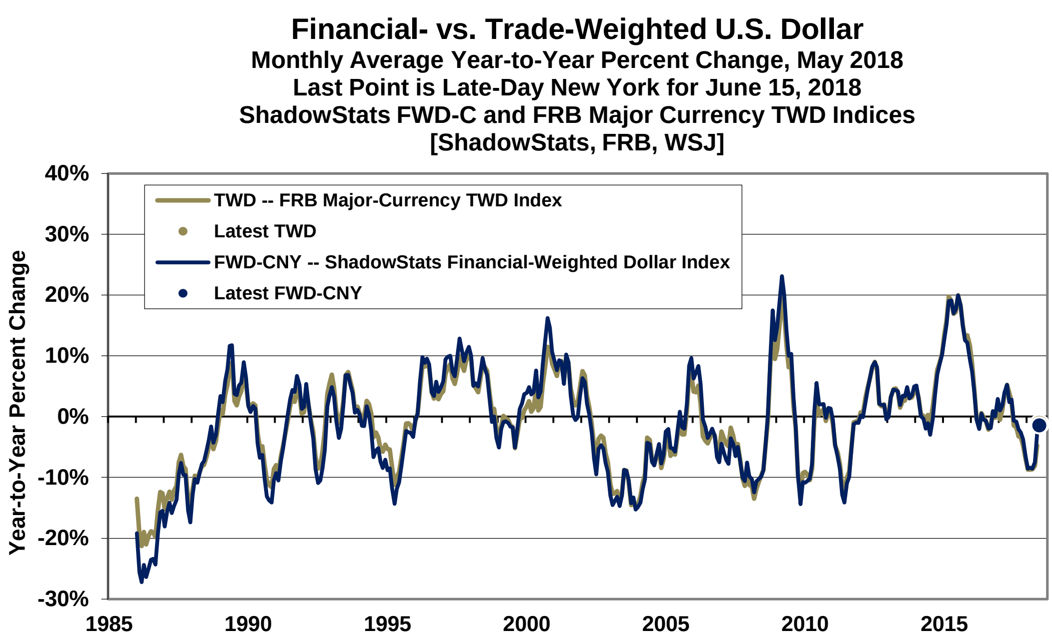
Again, the final price points in the various graphs reflect the closing or late-day New York quotes of Friday, June 15, 2018, unless indicated otherwise.

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

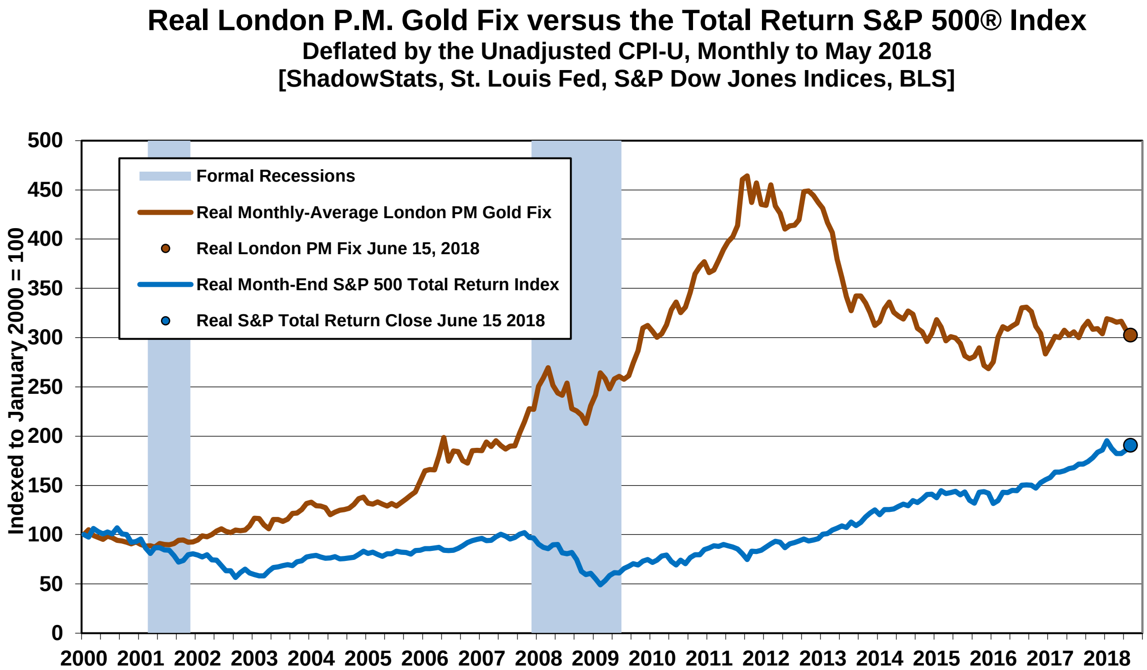
Graph HW-1: Financial- versus Trade-Weighted U.S. Dollar



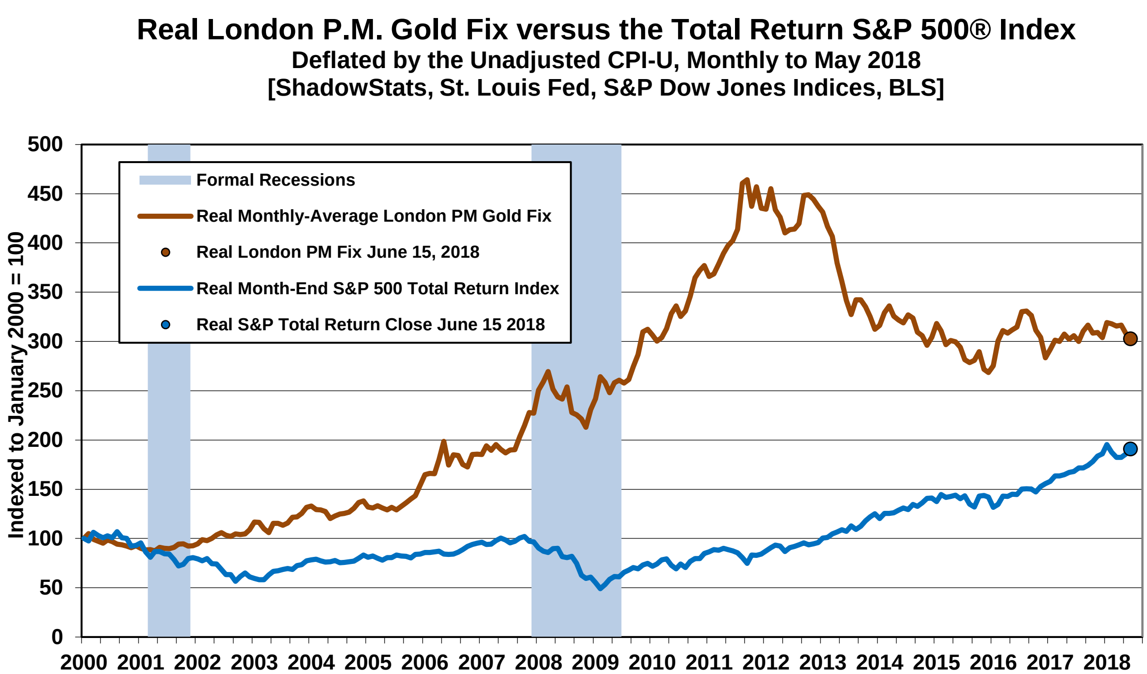
Graph HW-2: Year-to-Year Change, Financial- versus Trade-Weighted U.S. Dollar



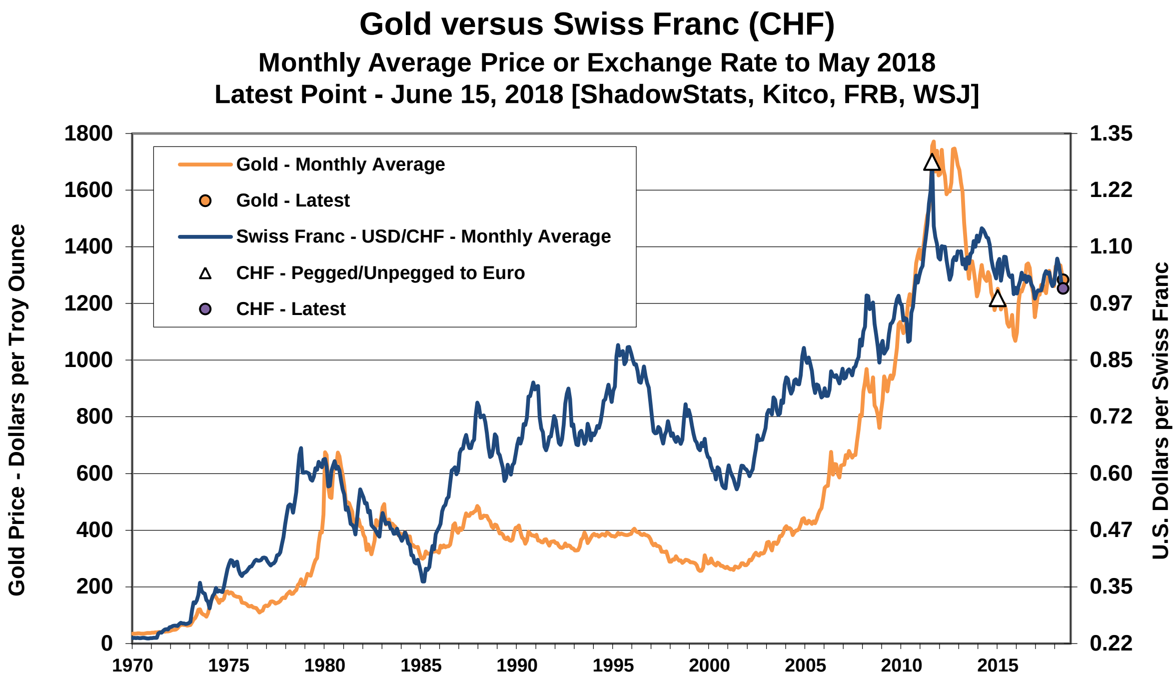
Graph HW-3: Nominal Gold versus the Nominal Total Return S&P 500



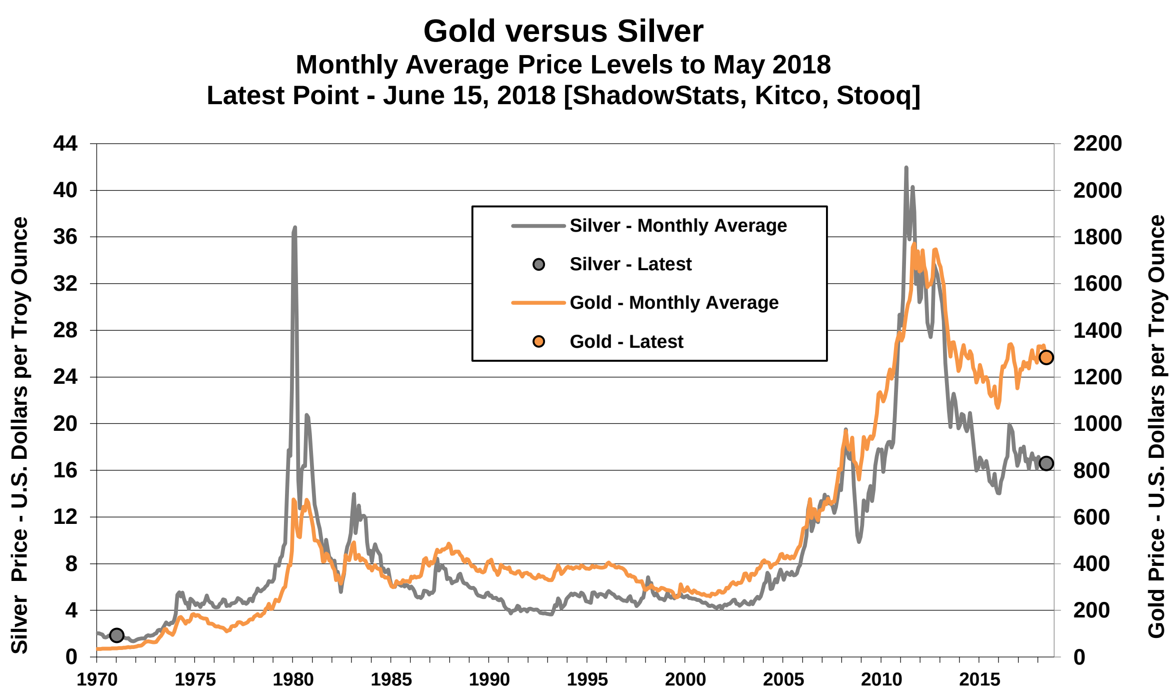
Graph HW-4: Real Gold versus the Real Total Return S&P 500



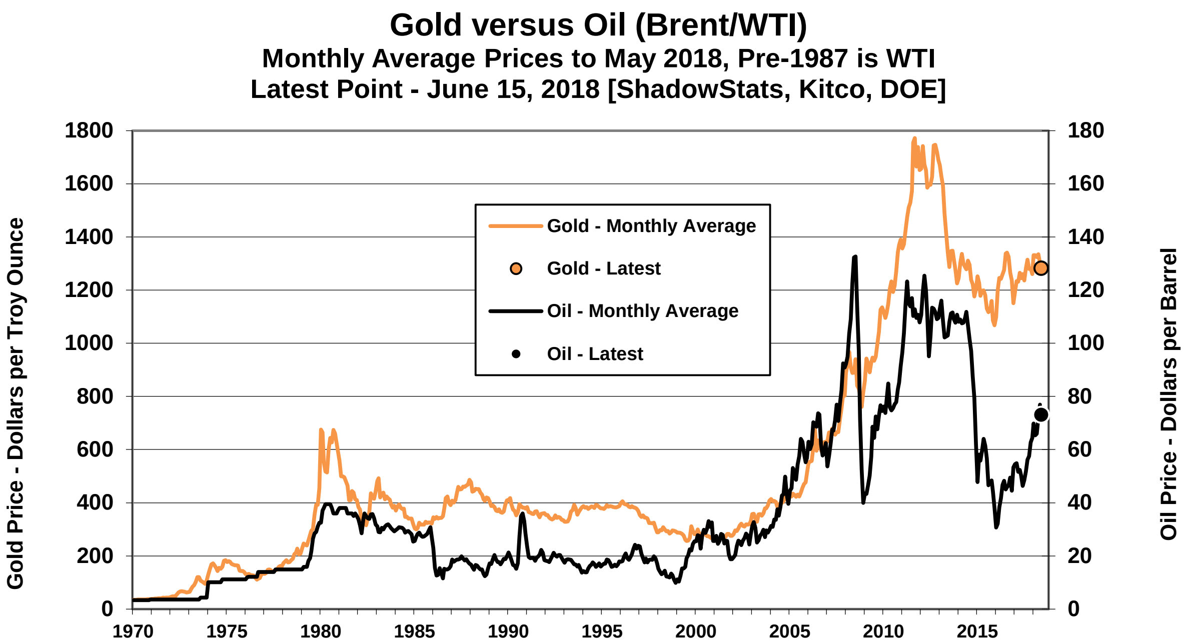
Graph HW-5: Gold versus the Swiss Franc



Graph HW-6: Gold versus Silver



Graph HW-7: Gold versus Oil



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

CONSUMER LIQUIDITY WATCH

CONSUMER LIQUIDITY, INCOME, CREDIT AND RELATIVE OPTIMISM. *[Updated for May 2018 Real Average Weekly Earnings and advance-June Consumer Sentiment (University of Michigan).]*

Updated Consumer Earnings and Optimism Continuing Reflect an Ongoing Consumer Liquidity Squeeze. Today's *Consumer Liquidity Watch* incorporates by reference the *Opening Comments* of the May 9th *Commentary No. 948*, which reviewed various economic signals ranging from tightening systemic liquidity tied to sinking, inflation-adjusted real annual growth in M3 money supply, to Sentier Research's reintroduction of monthly Real Median Household Income, highlighted later in this text. Updated today are faltering measures of quarterly and monthly real household debt and consumer credit outstanding, discussed in the *Household Debt and Consumer Credit Outstanding* section.

Also, May 2018 details for the Conference Board's Consumer Confidence Index (May 29th) and the University of Michigan's final estimate for May Consumer Sentiment (May 25th) showed a faltering outlook. While headline Consumer Confidence took a hefty jump in May, that was in the context of a downside revision of 2.4% (-2.4%) to the previously-estimated level of April Confidence, which the new initial May estimate did not top. The final May Sentiment number revised lower by 0.8% (-0.8%) from its initial estimate. The initial estimate of June Sentiment notched higher versus an upwardly-revised May, but those readings as well confidence, remained shy of levels seen in November 2017.

Mounting financial stress on the U.S. consumer bodes poorly for pending domestic economic growth. Noted in today's *Opening Comments* and the *Opening Comments* of *Commentary No. 952*, mounting liquidity issues likely already have taken some hit on headline real first-quarter 2018 GDP activity, where consumer real consumption of goods actually and real investment growth in residential real estate actually declined in the quarter. See also *Commentary No. 948* and *Commentary No. 949*.

Liquidity conditions have been tightening for consumers, with Real Consumer Credit Outstanding having continued to falter in March 2018, with headline Real Average Weekly Earnings contracting quarter-to-quarter in first-quarter 2018, with continued faltering in April, and with monthly Real Median Household Income in April 2018 slowing anew in terms of annual growth. These factors are among the likely elements driving the early signs of a downturn in consumer optimism and consumer consumption and residential investment (a shrinking 72.9% of First-Quarter 2018 GDP). In combination, these various factors should exacerbate financial-market, policy-maker and FOMC concerns as to any ongoing, positive direction in broad U.S. economic activity (see the *Hyperinflation Watch* of *Commentary No. 953-A*).

Weakening consumer liquidity conditions previously 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 had passed into the recent headline economic data and now begun to recede. Against artificially bloated third- and fourth-quarter 2017 activity of 3.2% and 2.9%, first-quarter 2018 economic activity slowed to a revised 2.2% and likely will revise still lower as better-quality numbers become available. 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 (again see Consumer Credit Outstanding and Real Earnings), headline consumer optimism has begun to falter, as discussed earlier. Net of a sharp downside revision to April, the May 2018 releases of the Conference Board's Consumer-Confidence Index® and the advance-estimate of the University of Michigan Consumer Sentiment for May 2018, again, both were off recent peak activity.

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.

The temporary liquidity boost fueled by recent disaster effects, such as insurance payments or savings drawdowns to fund replacement of storm-damaged assets, was 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, now down to 72.9% in First-Quarter 2018.

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 Remain Off Recent Peaks. Reflected in *Graphs CLW-1* and *CLW-2*, May 2018 details for the Conference Board's Consumer-Confidence Index® (May 29th) and the advance-June 2018 estimate of University of Michigan's Consumer Sentiment (June 15th) reflected faltering consumer optimism. While headline Consumer Confidence took a hefty jump in May, such was in the context of a downside revision of 2.4% (-2.4%) to the previously-estimated level of April Confidence, which the new initial May estimate did not top. The advance-June Sentiment (June 15th) number notched higher versus May, still shy of recent highs. The three-month moving average continued to turn down, while the six-month moving still was rising, as reflected in the accompanying *Graphs CLW-1* to *CLW-3*. While both measures remain at high levels, both remain shy of levels seen in November 2017.

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 monthly and three-month moving averages remain above pre-2007 recession highs, yet the still-high moving averages have slowed in their gains, having begun to falter along with the softening detail and related headline consumer activity on a monthly basis.

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.

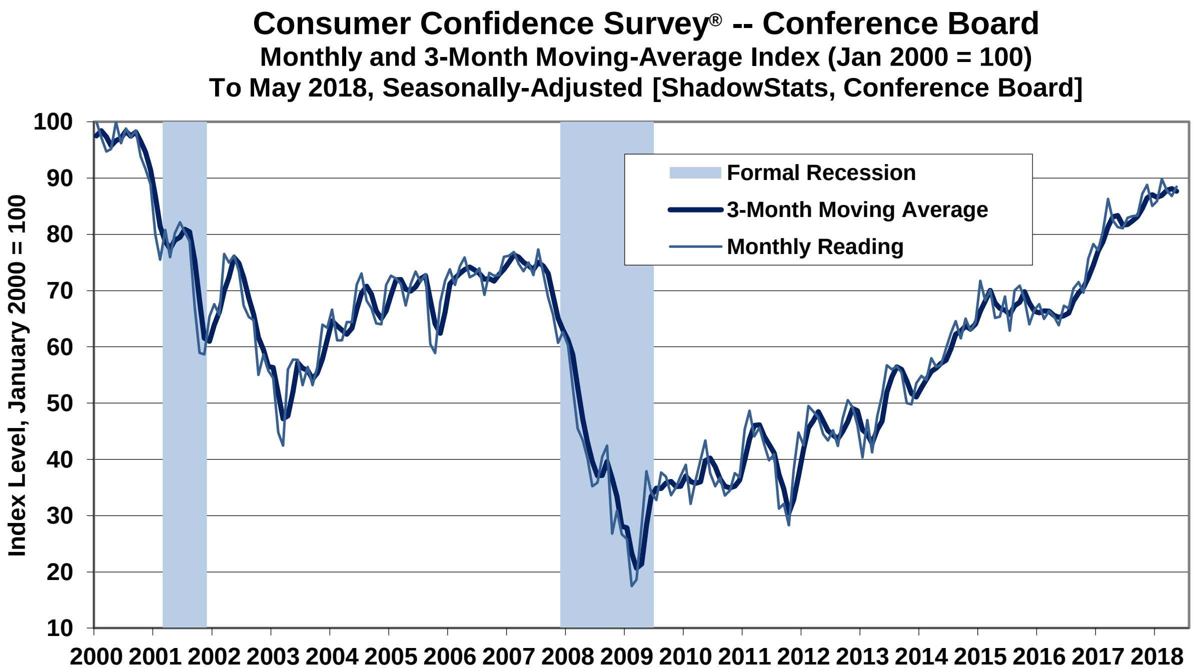
Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs CLW-1* to *CLW-3* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index® is set with 1985 = 100,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

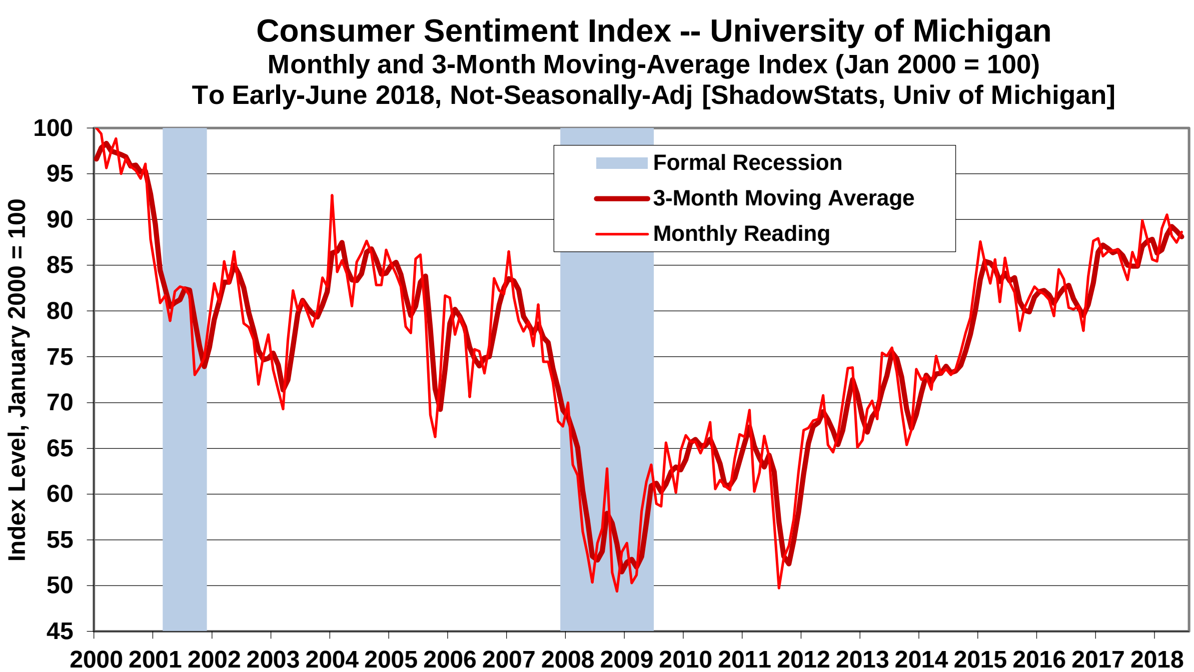
Broadly, though, the harder, financial consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth as suggested by headline GDP growth into fourth-quarter

2017, although various consumer measures to hits in the initial first-quarter 2018 GDP. In the current environment of what had been 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.

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



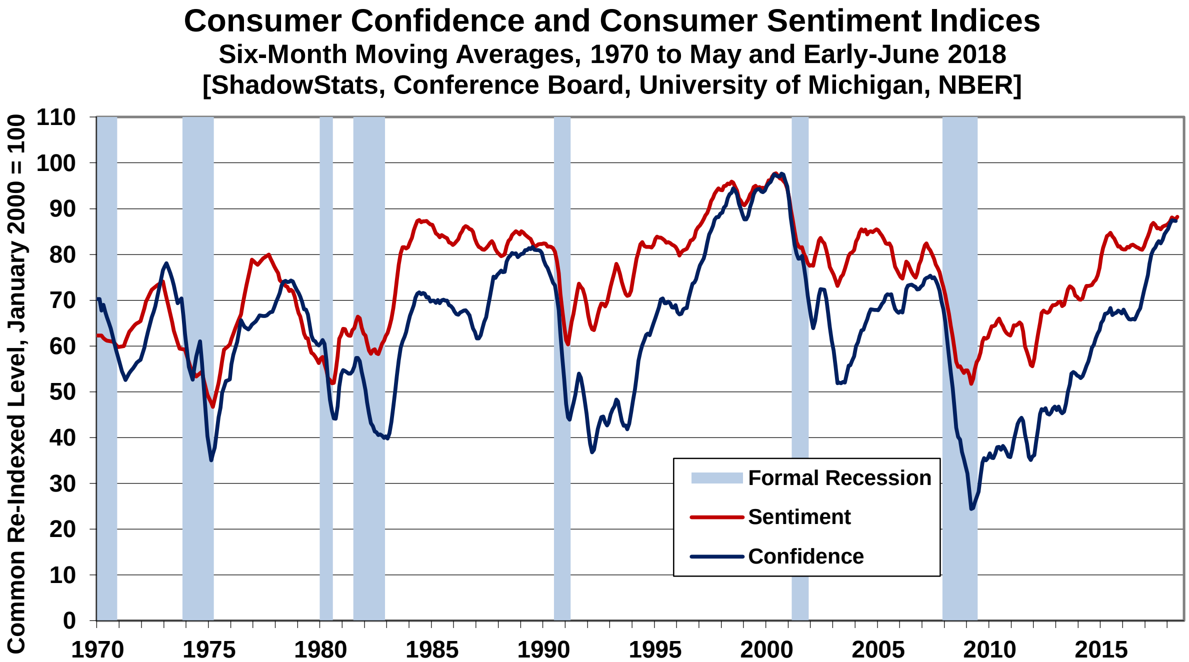
Graph CLW-2: Consumer Sentiment (2000 to 2018)



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

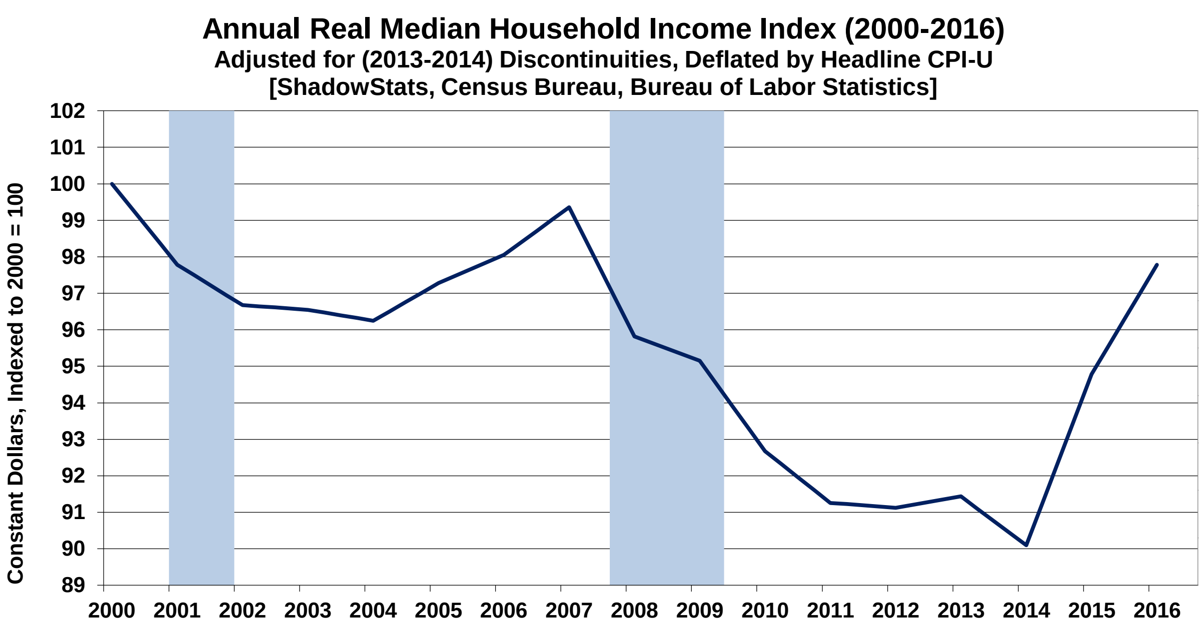
48 years—the latest readings of Confidence and Sentiment recently have recovered levels seen in periods of normal, positive economic activity of the last four decades, with their six-month moving averages at levels last seen going into the 2001 recession, although increasingly, they appear to be topping out.

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



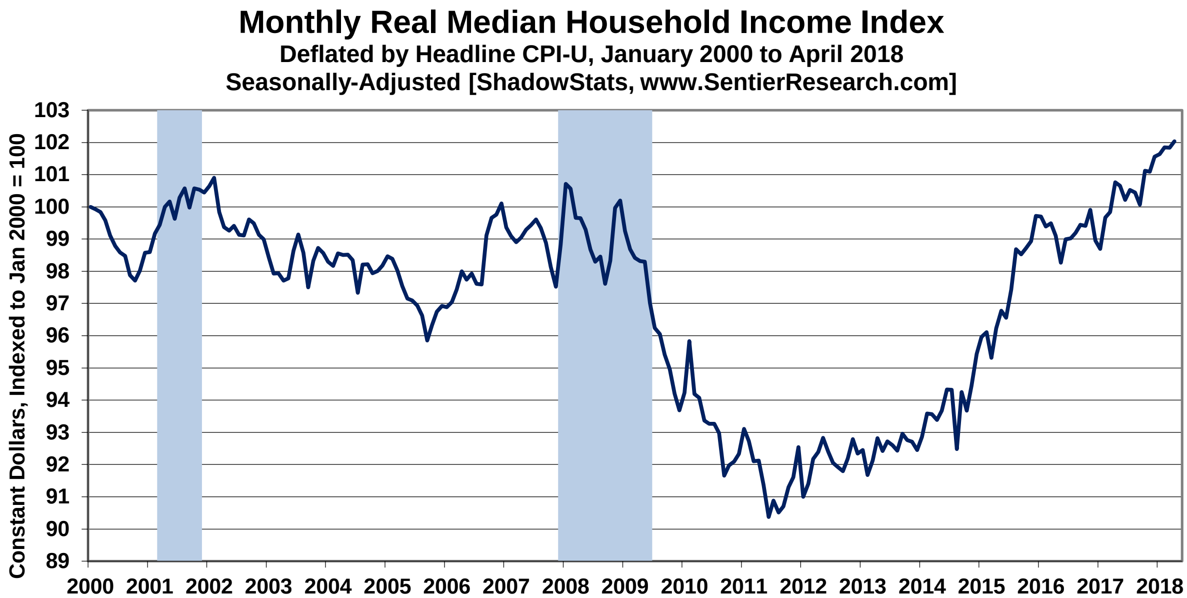
Annual Real Median Household Income in 2016 Held Below Its 2007 Pre-Recession Peak, Below Late-1990s Activity and About Even with the Mid-1970s, Monthly Activity Has Been Broadly Stagnant. *Graphs CLW-4* and *CLW-5* show the latest plots of annual and monthly Real Median Household Income.

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



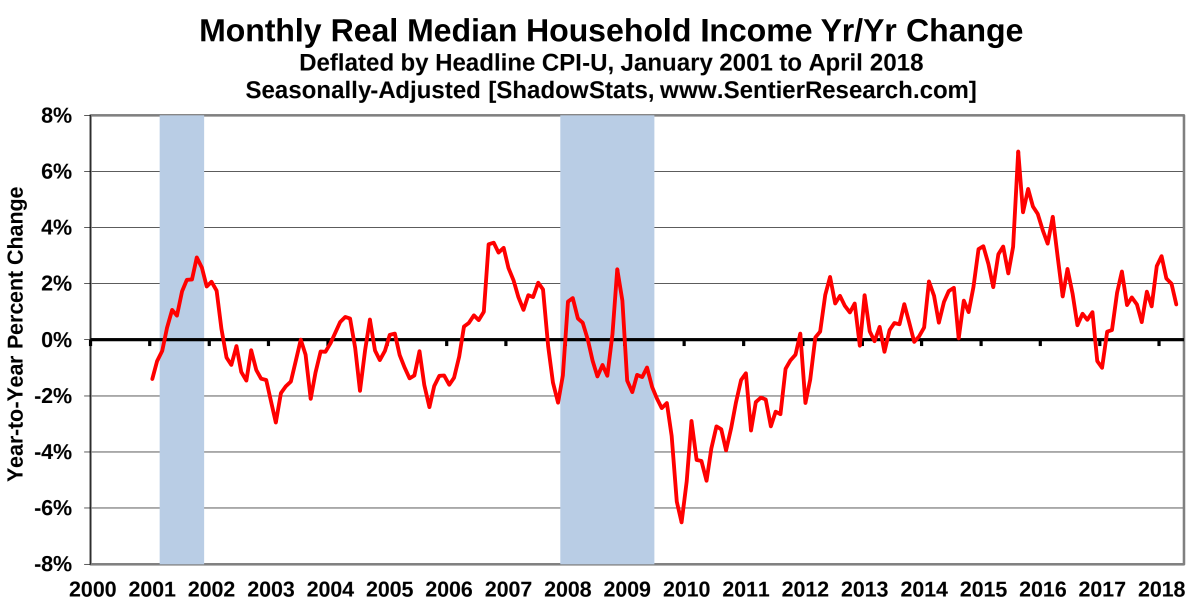
The Sentier Research Series of Monthly Real Median Household Income, Notched Higher in April, With Slowing Annual Growth, Broadly Showing Stagnant Activity. Discussed in the Opening Comments of *Commentary No. 948*, Sentier Research (www.SentierResearch.com) reinstituted its monthly reporting of Real Median Household Income (the Household Income Index or HII), where publication had been suspended, temporarily, following the release of May 2017 detail.

Graph CLW-5: Monthly Real Median Household Income (2000 to April 2018) Index, January 2000 = 100



The series was updated for the April 2018 detail on May 21st, showing a small monthly gain, along with sharply-slowing annual growth, and a continuing long-range pattern of stagnation in median household income, adjusted for CPI-U inflation. The current monthly series is plotted here, both as to level (*Graph CLW-5*) and as to year-to-year change (*Graph CLW-6*).

Graph CLW-6: Monthly Real Median Household Income (2000 to April 2018) Year-to-Year Change



Monthly Real Median Household Income, provided by Sentier Research generally can be considered a monthly version of the annual detail shown in preceding *Graph CLW-4*, based on the most-recent (2016) release by the Census Bureau in September 2017, and, again as discussed in the *Opening Comments* of *Commentary No. 948* (see also *Commentary No. 909*).

Methodological understatement of the CPI-U by the Bureau of Labor Statistics broadly has had the effect of overstating the growth in headline real or inflation-adjusted income series (see the *Public Commentary on Inflation Measurement*). In a related area, recent extreme volatility in monthly gasoline prices has had varying impact on the headline data. Details were reviewed the *Opening Comments* of *Commentary No. 948*, where annual average growth in the series since its January 2000 onset has been roughly 0.1% per year. Given the independence and quality of the Sentier research, and the known definitional biases and gimmicks used by Bureau of Economic Analysis (BEA) in its income and economic measures, the Sentier numbers suggest that actual domestic economic activity is not and has not been as robust as suggested by the BEA's headline reporting of Gross Domestic Product (GDP), for example.

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 have 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.

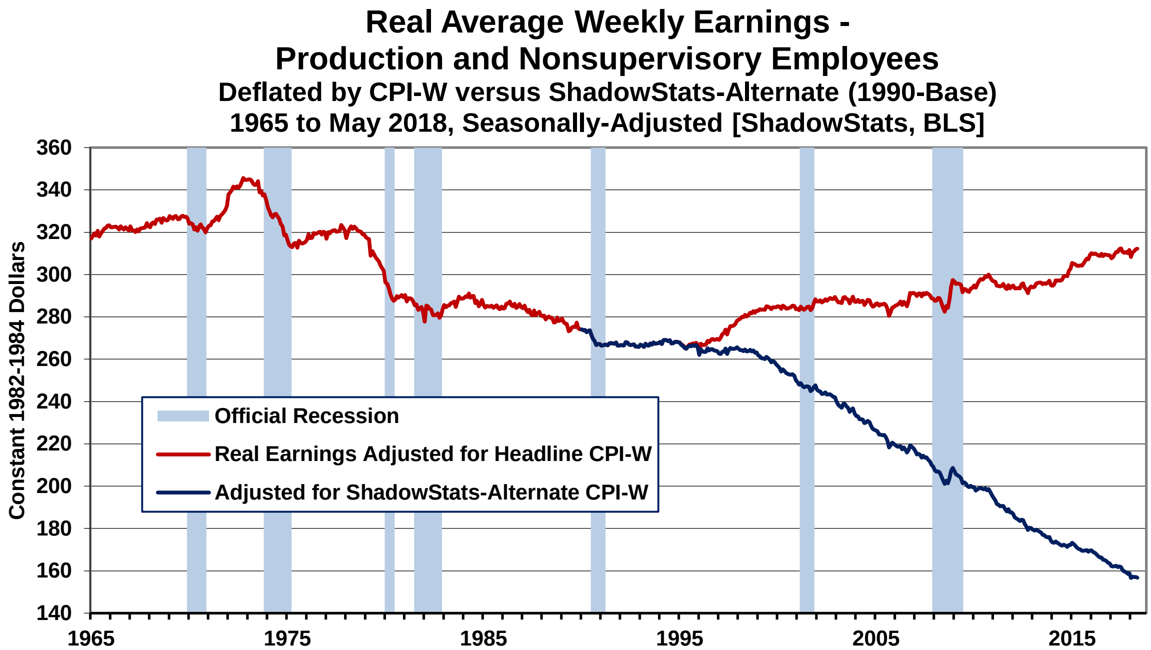
Where Sentier uses monthly questions surveying current annual household income, the headline annual Census Bureau detail is generated by a once-per-year question in the March CPS survey, as to the prior year's annual household income. The Median Household Income surveying results are broadly consistent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

Real Average Weekly Earnings—May 2018—May Earnings Increased Minimally, with Third-Consecutive Quarterly Contraction Holding in Place. For the production and nonsupervisory employees category—the only series for which there is a meaningful history (discussed in the *Reporting Detail* and plotted here in *Graph CLW-7,* also *Graph 1* in the *Executive Summary*), real average weekly earnings rose minimally in May by 0.08%. Despite recent, near-term monthly volatility, often triggered by unstable monthly inflation numbers, first-quarter 2018 real earnings remained a quarterly contraction for 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 the broader all-employees category had contracted in first-quarter 2018, for the second consecutive quarterly contraction, but it also was minimally higher (up by 0.09%) in May 2018.

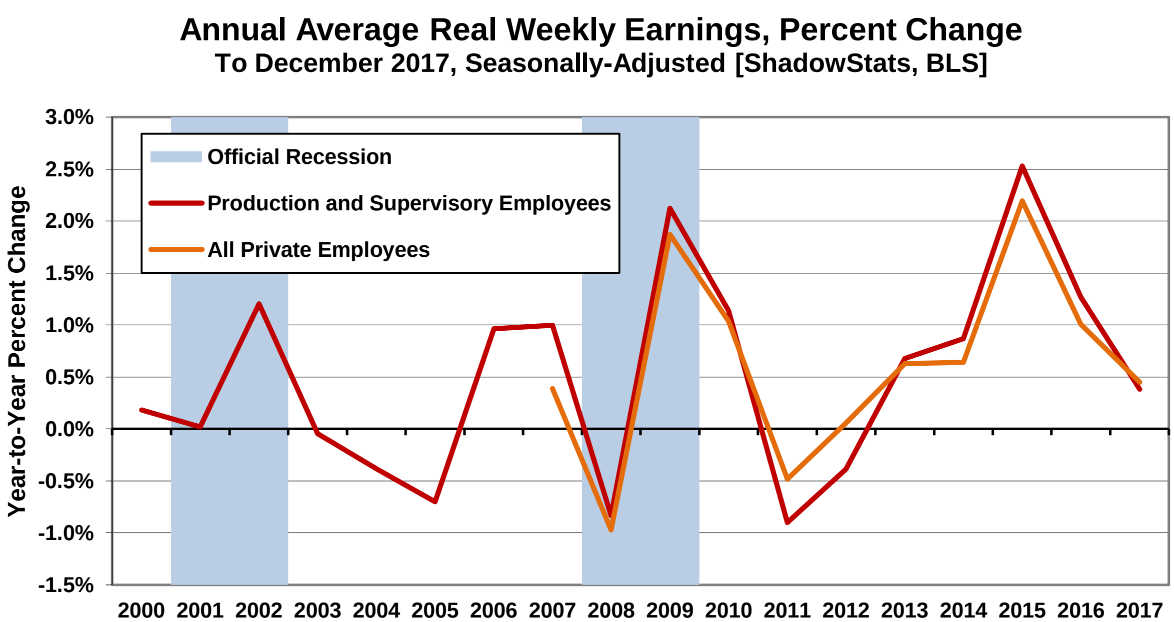
Graph CLW-7 plots the seasonally-adjusted earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating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

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

(Same as Graph 1 in the Opening Comments)



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*.

***Household Debt and Consumer Credit Outstanding: Contraction/Lack of Expansion in Real Consumer Credit Constrains Economic Growth*.** The final five graphs on consumer conditions address consumer borrowing. In the absence of real income growth, debt expansion can help to fuel growth in personal consumption, but debt expansion has been nonexistent. On top of downside revisions to the last several years of quarterly activity, seasonally-adjusted, first-quarter 2018 real household credit-market debt outstanding just contracted for the first time since 2015. In terms of unadjusted monthly data through April 2018, there were minimal downside revisions to prior months, with decelerating real annual growth.

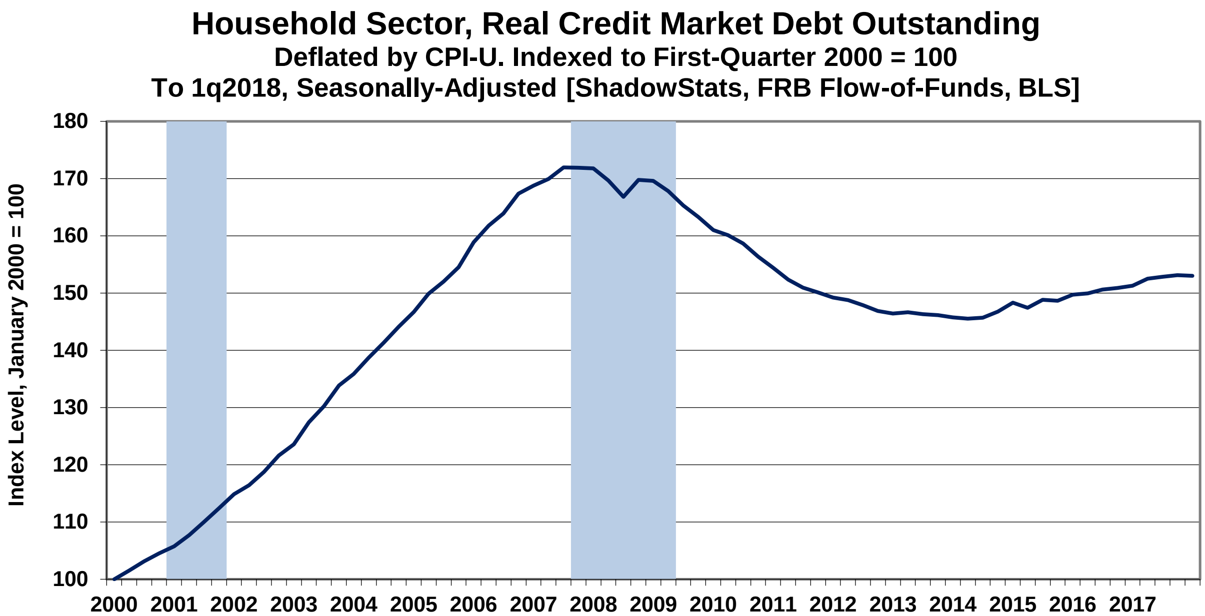
***Quarterly Series*.** Consider *Graph CLW-9* of *Household Sector, Real Credit Market Debt Outstanding*. The level of real household debt declined in the period following the Panic of 2008, reflecting loan defaults and reduced bank lending, and it has not coming close to recovering fully, based on the Federal Reserve's flow-of-funds accounting through first-quarter 2018 (released June 7th). Household Sector, Real Credit Market Debt Outstanding in first-quarter 2018 still was down by 11.0% (-11.0%) from its pre-recession peak of third-quarter 2007. That was against a fourth-quarter 2017 decline of 10.9% (-10.9%). The visually flattened-to-down latest point in *Graph CLW-9* reflected a slowing in real year-to-year change to 1.1% in first-quarter 2018, versus 1.5% in fourth quarter 2017, along with the first seasonally-adjusted quarterly contraction in real consumer debt since fourth-quarter 2015, down at an annualized 0.3% (-0.3%) in first-quarter 2018, versus a real gain of 0.9% in fourth-quarter 2017. Such completes 42 straight quarters—a full decade-plus—of credit non-expansion, versus its pre-recession peak.

This 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 (FOMC Quantitative-Easing Policy). 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 first-quarter 2018. Activity also reflects relative strength from student loans, as shown in the *Graphs CLW-10* to *13*.

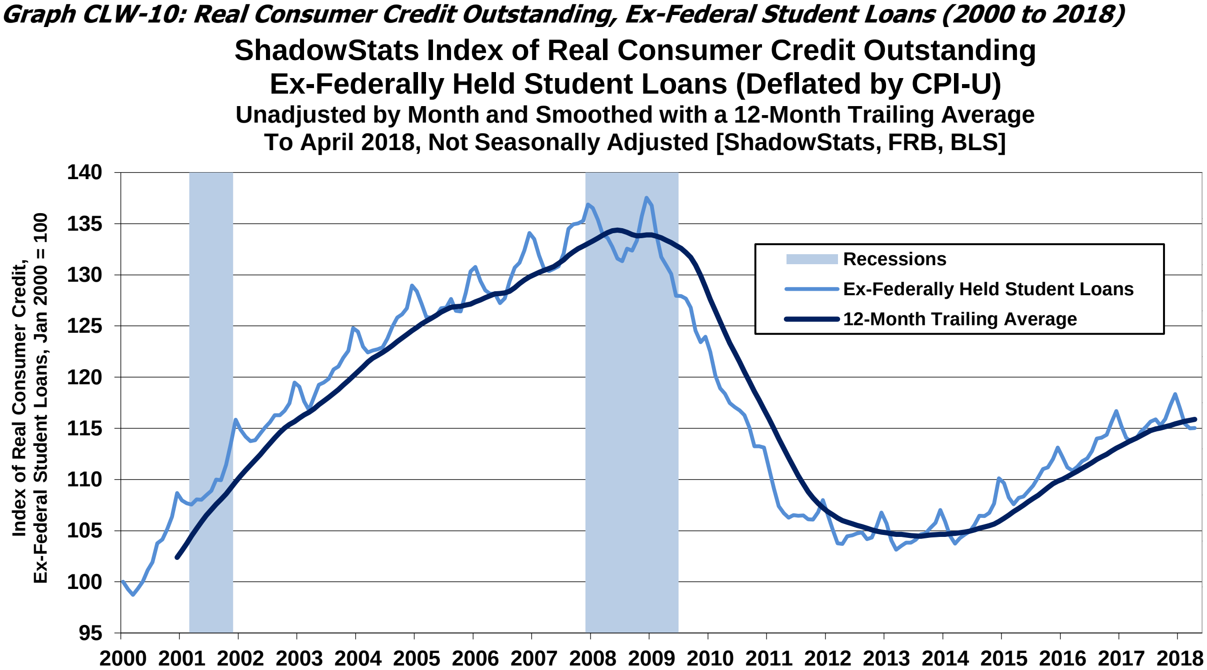
Shown for comparative purposes is *Graph CLW-10*, real, not-seasonally-adjusted Consumer Credit Outstanding, Ex-Federally-Held Student Loans, has not recovered on a monthly, let alone the 12-month trailing-average basis used as a surrogate here or seasonal adjustment. Discussed in the next section, this measure of consumer credit now has been through 124 months 41-plus quarters of non-expansion. That is reflected on a parallel basis through first-quarter 2018 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 than the dominant Ex-Federal Student Loans subcomponent.

[Graphs CLW-9 and CLW-10 follow on the next page.]

Graph CLW-9: Household Sector, Real Credit Market Debt Outstanding (2000 through First-Quarter 2018)



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



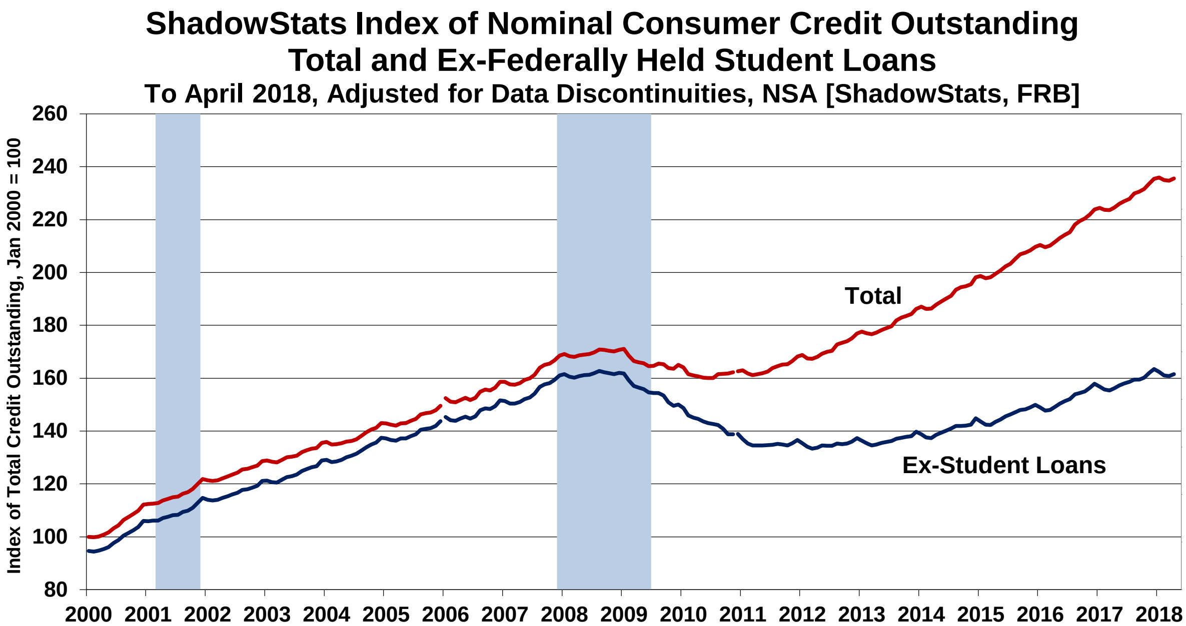
Monthly Series. Indeed, the ShadowStats analysis usually focuses on the particular current and continuing weakness in monthly levels of consumer credit, net of what has been rapidly expanding government-sponsored student loans. Where detail on that series only is available not-seasonally-adjusted, the following three related graphs and the preceding *Graph CLW-10* are so plotted. Shown through the April 2018 reading (released June 7th), the headline nominal monthly Consumer Credit Outstanding (*CLW-11*) is a subcomponent of the nominal Household Sector debt. Where *Graph CLW-12* reflects the real or inflation-adjusted activity for monthly Consumer Credit Outstanding terms of both level (*Graph CLW-12*) and year-to-year change (*Graph CLW-13*). *Graphs CLW-12* and *CLW-10* are comparable to the inflation-adjusted Household Sector plot in *Graph CLW-9*.

Post-2008 Panic, growth in outstanding consumer credit has continued to be dominated by growth in federally-held student loans, not in bank loans to consumers that otherwise would have fueled broad consumption or housing growth. Although in slow uptrend, the nominal level of Consumer Credit Outstanding (ex-student loans) has not recovered since the onset of the recession. These disaggregated data are available and plotted only on a not-seasonally-adjusted basis, with the pattern of monthly levels during one year reflecting some regular, unadjusted seasonal dips or jumps.

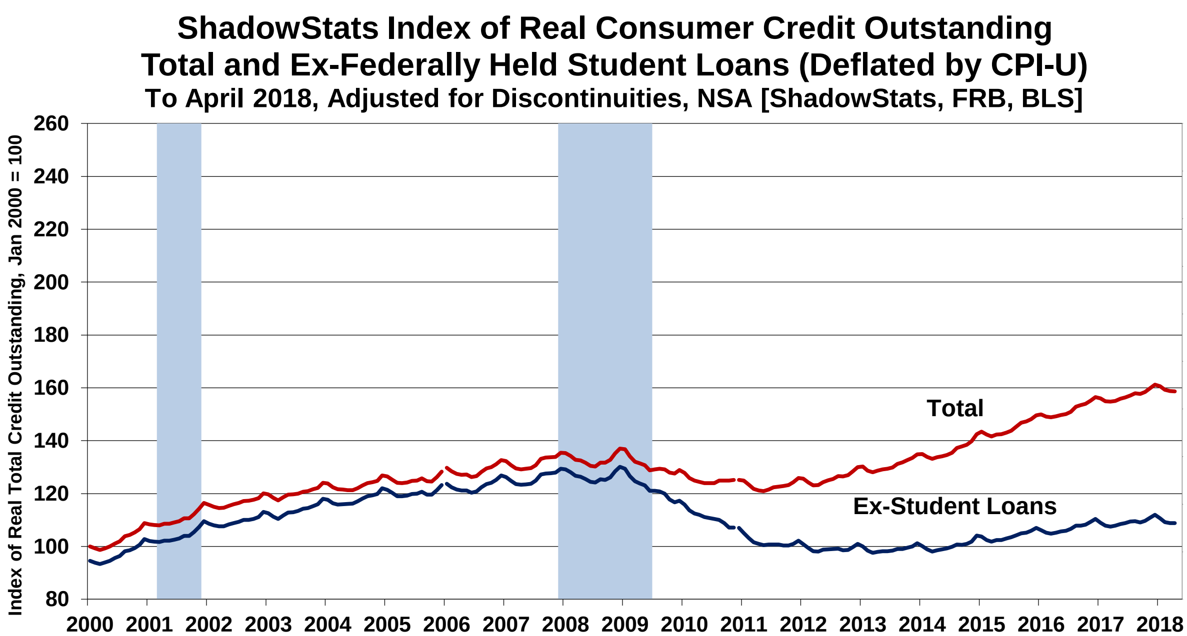
Adjusted for inflation, the lack of recovery in the ex-student loan area is more obvious. Where the recent monthly downside move in the not-seasonally-adjusted real consumer credit reflected something of a seasonal pattern, the pattern of year-to-year growth has been in an intensifying downtrend, suggesting tightening of credit conditions. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in April 2018 was down from recovering its pre-recession peak of December 2007 by 15.9% (-15.9%). That is 124 months, 41-plus quarters 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.]

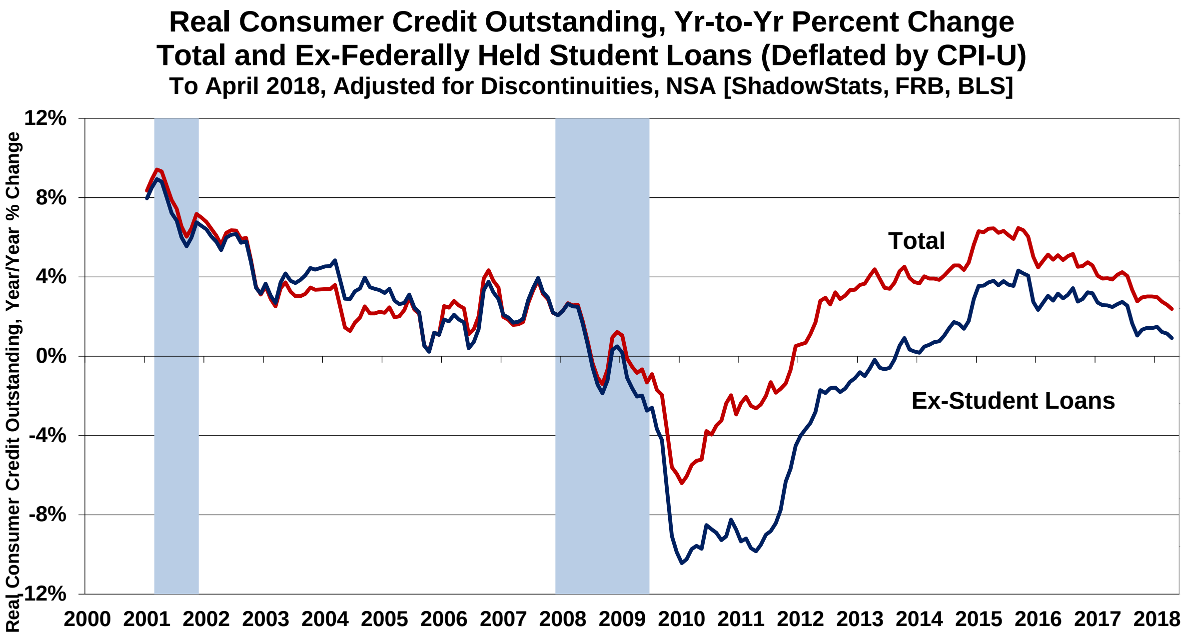
Graph CLW-11: Nominal Consumer Credit Outstanding (2000 to 2018)



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 Continue at High Risk, Amidst Mounting Fiscal Concerns, Consumer Liquidity Issues and Non-Expanding, Real-World Economic Activity. *[Other than for links or references, the text in these opening paragraphs is little changed from Commentary No. 953-B.]* In the context of intensified weakening of underlying fundamental drivers of broad economic activity and negative stresses on basic consumer-liquidity conditions, discussed respectively in the *Opening Comments* and *Consumer Liquidity Watch* of *No. 950* and *No. 952* (and particularly today's section on consumer credit), the revised first-quarter GDP reflected difficult economic times beginning to hit U.S. consumer activity. The U.S. consumer remains the fundamental driving force behind domestic business conditions. Continuing negative surprises likely will follow in the regular economic reporting and remaining annual benchmark revisions of key economic series in the next couple of weeks and month. The broad outlook has not changed. Weaker economic growth and renewed, faltering economic headlines should follow, as discussed in today's *Opening Comments*.

Broad outlooks for the U.S. economy, the U.S. dollar, gold, silver and the financial markets are reviewed are covered in today's *Opening Comments* (page 3) and *Hyperinflation Watch* (page 32), and were covered in *Special Commentary No. 935*, in the *Executive Summary* beginning there 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 from the related financial market vulnerabilities discussed previously in the *Hyperinflation Watch* of *Commentary No. 945*, incorporated here by reference. U.S. dollar and related market conditions.

In the context of last week's strong U.S. dollar rally, the dollar and financial markets remain at extraordinarily-high risk of intense, panicked declines, still likely in the very near term. Holding physical gold and silver remain the ultimate hedges—stores of wealth—for preserving the purchasing power of one's U.S. dollar assets, during times of high inflation and currency debasement, and/or political- and financial-system upheaval, Please call (707) 763-5786, if you would like to discuss current circumstances, or otherwise.

Best wishes – John Williams

PENDING ECONOMIC RELEASE: New Residential Construction—Building Permits and Housing Starts (May 2018). The Census Bureau and the Department of Housing and Urban Development will release their May 2018 estimate of New Residential Construction, including Housing

Starts and Building Permits, tomorrow, Tuesday, June 19th, to be covered by ShadowStats in *Commentary No. 956* on Thursday, June 21st, in conjunction with a full general review of current economic activity.

The benchmark revisions in the Housing Starts series overhaul of May 16th, were negligible and showed little improvement in terms of the initial reporting significance (see *Commentary No. 950*). As usual, the reporting here is unstable and irregularly volatile. Results could come in anywhere, irrespective of positive consensus expectations. Smoothed over six months, the series should continue to be flat, in relatively low-level, non-recovering stagnation.

The liquidity bind besetting consumers continues to constrain residential real estate activity, as reviewed in the *Consumer Liquidity Watch*. Without sustainable growth in real income, and without the ability or willingness to take on meaningful new debt in order to make up for an 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 twelve-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity.

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 missives 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-market outlook, as circumstances develop.

Commentary No. 954 (June 8th) reviewed the comprehensive annual benchmark revisions to the Trade Deficit, in the context of recent benchmark revisions to other major economic series and implications for the pending GDP benchmark revisions. Such also covered the headline reporting of the April 2018 headline Trade Deficit detail and an updated Consumer Liquidity Watch.

Commentary No. 953-B (June 5th) analyzed the discrepancies between the record-low headline unemployment rate and near-record-high readings of labor-market stress, in the context of extended coverage the May 2018 Employment and Unemployment and April 2018 Construction Spending, previously headlined in *No. 953-A*.

Commentary No. 953-A (June 1st) provided flash headlines and summary details of the May 2018 Employment and Unemployment and April 2018 Construction Spending, expanded upon in the supplemental coverage of *Commentary No. 953-B.* Current monetary conditions were reviewed, along with the initial estimate of annual growth in the May 2018 ShadowStats Ongoing Estimate of Money Supply M3.

Commentary No. 952 (May 30th) reviewed the second estimate of First-Quarter 2018 GDP, initial estimates of first-quarter GNP and GDI, extended detail on the annual benchmarking of the Retail Sales series, and headline coverage of the May 2018 Conference Board Help Wanted OnLine® Advertising.

Commentary No. 951 (May 25th) reviewed April 2018 New Orders of Durable Durables, in the context of the annual revisions (see prior *No, 950*), New- and Existing-Home Sales and brief coverage of the annual benchmarking of the Retail Sales series.

Commentary No. 950 (May 20th) reviewed April Retail Sales, Industrial Production, New Residential Construction (Housing Starts, Building Permits and annual revisions), the Cass Freight Index™ and annual benchmark revisions to Manufacturers' Shipments, including New Orders for Durable Goods.

Commentary No. 949 (May 11th) reviewed inflation as reported with the April 2018 Consumer and Producer Price Indices (CPI and PPI), Real Average Weekly Earnings, along with the latest *Hyperinflation Watch* on the U.S. dollar and financial markets.

Commentary No. 948 (May 9th) explored unusual circumstances with April 2018 Employment and Unemployment numbers, along with the April Conference Board Help Wanted OnLine® Advertising, April Monetary Conditions, the March Trade Deficit and Construction Spending, along with the reintroduction of Sentier Research's monthly Real Median Household Income to March 2018.

Commentary No. 947 (April 27th) detailed the first estimate of Frist-Quarter 2018 GDP and the related Velocity of Money, March New Orders for Durable Goods, New- and Existing-Home Sales and the "advance" estimate of the March 2018 merchandise goods deficit.

Commentary No. 946 (April 22nd) covered March 2018 Retail Sales, Industrial Production, New Residential Construction (Housing Starts and Building Permits), the Cass Freight Index™ and a review of the current state of the GDP reporting and an outlook for first-quarter 2018 activity.

Commentary No. 945 (April 11th) reviewed the March 2018 Consumer and Producer Prices Indices (CPI and PPI), Real Average Weekly Earnings, along with the latest *Hyperinflation Watch* on the U.S. dollar and financial markets.

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. 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. 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.

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. 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.