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

FLASH COMMENTARY NUMBER 969-A

August Labor Numbers and Money Supply M3, July Trade Deficit and Construction Spending

September 7, 2018

Federal Reserve Liquidity Squeeze Has Intensified Sharply, Threatening to Smother Any Nascent Economic Recovery

Annual Real Money Supply Growth Has Slowed Anew, Annual Nominal Monetary Growth Base Is Plummeting

August 2018 Private Labor-Market Surveying Showed Weakening Activity

August Household-Survey Employed Dropped by 423,000 (-423,000), with Full-Time Employed Down by 444,000 (-440,000)

Headline August Payroll Gain of 201,000 Was 151,000, Net of Revisions

August U.3 Unemployment Edged Lower to 3.85%, from 3.87% in July; Broader U.6 Unemployment Fell to 7.39% from 7.54%. On Top of U.6, ShadowStats-Alternate Unemployment Declined to 21.2% from 21.3%

Labor-Market Stresses Increased Sharply, Consistent with Headline Unemployment Closer to a Record High than Just Off a Record Low

July Nominal Balance-of-Payments and Real-Merchandise Trade Deficits Deteriorated Sharply, Likely to Reverse Trade Boosts to Second-Quarter GDP

July Real Construction Spending Continued Dropping Month-to-Month, Slowing Year-to-Year, Holding Shy of Its Pre-Recession Peak by 20.5% (-20.5%)

PLEASE NOTE: Today's "Flash Coverage" of headline August 2018 Employment and Unemployment and the July Trade Deficit and Construction Spending will be expanded in Commentary No. 964-B within the next several days. In like manner, today's abbreviated coverage of August 2018 Monetary conditions will be expanded in pending *Hyperinflation Watch – No. 4*, while *Consumer Liquidity Watch – No. 5* also will be published in the week ahead.

Links to the most-recent *Watches: Hyperinflation Watch – No. 3* (August 12th), *Consumer Liquidity Watch – No. 4* (August 10th).

The next regular *Commentary No. 970*, covering the August 2018 Consumer and Producer Price Indices is planned for September 13th, followed by a *Flash Commentary No. 971-A* on September 14th, with initial coverage of August 2018 Retail Sales and Industrial Production.

Headline Updates: ShadowStats now publishes a brief Daily Update of new headline economic data, covered on the www.ShadowStats.com home page, top left-hand column, under the "Latest Commentaries" heading. When major releases are published, brief, summary headline details generally will follow there, usually within an hour of the release. Planned ShadowStats publication schedules, revisions to same and notes to subscribers also are posted regularly in that column.

Your comments and suggestions always are invited.

Best wishes to all, John Williams (707) 763-5786

Today's (September 7th) ***Opening Comments*** discusses the August labor numbers in the context of the August 2018 Conference Board Help-Wanted Online Advertising®.

The ***Flash Reporting Detail*** reviews the headline numbers for August 2018 employment and unemployment, the July 2018 Trade Deficit and July Construction Spending, as well as for the August Money Supply and Monetary Base. Again, extended coverage follows in *Commentary No. 969-B* and *Hyperinflation Watch – No. 4*.

The ***Week, Month and Year Ahead*** section will return with full *Commentary No. 969-B.*

Commentary No. 969-A contents, including graphs and tables, are indexed and linked on following page.

Contents – Commentary No. 969-A Major Sections and Graphs

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OPENING COMMENTS

Private Surveying of Labor Demand Showed an Aggregate Monthly Decline in August

August 2018 Help-Wanted Advertising Dropped 1.0% (-1.0%) for the Month, Dominated by Declining New Ads, Holding Deep in Non-Expansion Territory. The Conference Board Help-Wanted Online Advertising® (HWOL) for August 2018 declined month-to-month by 1.0%, after a monthly gain of 3.8% in July and declines of 3.7% (-3.7%) in June, 2.1% (-2.1%) in May and 1.4% (-1.4%) in April. The dominating, all-important New Ads component in August continued in sharp month-to-month and year-to-year contractions.

Relative activity in the HWOL series remains suggestive of U.S. labor market conditions not being quite as robust as commonly hyped in Wall Street's (and related media) selective analysis of headline data out of the Bureau of Labor Statistics (BLS). Consider, for example, that today's (September 7th) well-received, slightly above-consensus headline August Payroll Survey "Jobs Gain" of 201,000, was but 151,000, net of downside revisions to June and July activity, while at the same time, the headline count of "Employed," in the August Household Survey, dropped month-to-month by 423,000 (-423,000) .

The HWOL "New Ads" component dropped monthly by 8.2% (-8.2%) in August 2018, following a decline of 0.5% (-0.5%) in July and a gain of 2.7% in June, having plunged month-to-month in May by 7.6% (-7.6%), following a decline of 1.0% (-1.0%) in April. The monthly patterns have continued to be irregular, with monthly gains and losses almost evenly split for both series in the last twelve months. The regular plot of these series is shown in *Graph OC-1*; a subsequent, experimental/alternative historical *Graph OC*-2 is shown shortly thereafter.

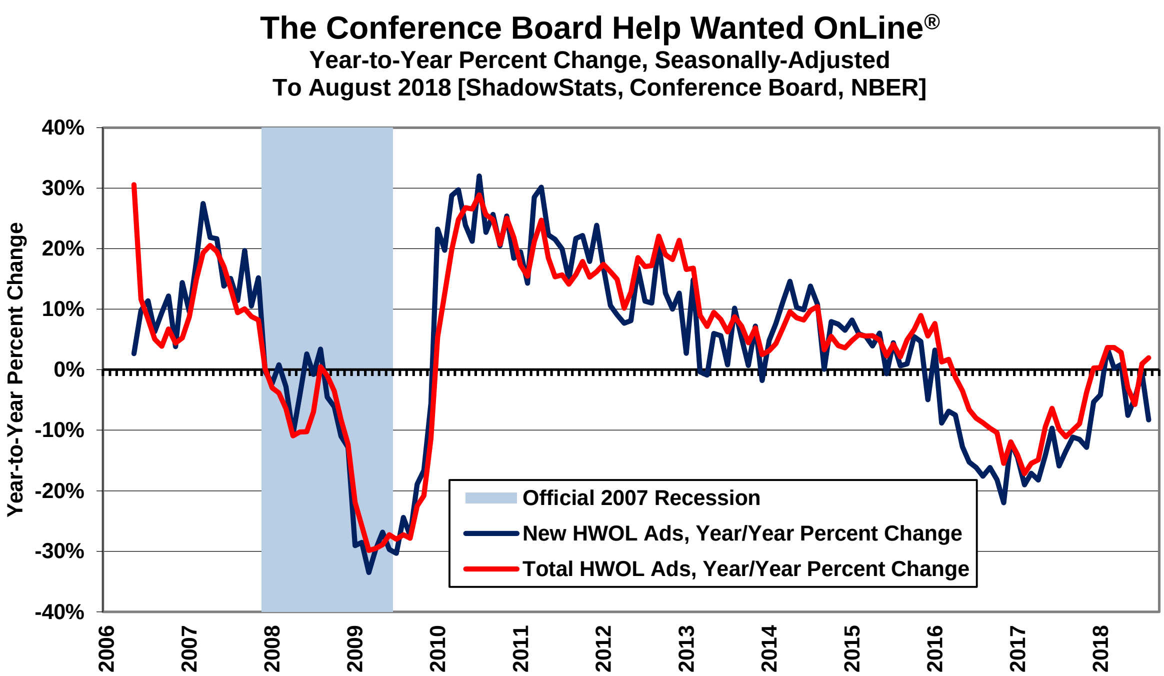
"Total Ads" showed a second month of year-to-year gain, up by 2.0% in August 2018 and 1.0% in July 2018, following declines of 5.7% (-5.7%) in June 2018 and 3.0% (-3.0%) in May 2018, where that May hit was the first such annual drop since November 2017. Such followed annual gains of 2.9% in April 2018, 3.7% in March and February 2018, 0.4% in January 2018 and 0.3% in December 2017. The November 2017 decline of 3.7% (-3.7%) had been the 20th consecutive month of year-to-year decline for the aggregate series.

"New Ads" annual growth plunged year-to-year by 8.3% (-8.3%) in August 2018, having dropped by 0.5% (-0.5%) in July 2018, by 4.6% (-4.6%) in June 2018 and by 7.5% (-7.5%) in May 2018. It had increased by 0.9% in April 2018, by 0.2% in March 2018 and by 3.6% year-to-year in February 2018, after having declined by 4.1% (-4.1%) year-to-year in January 2018. That had been its 24th consecutive month of annual decline.

Having turned down for the year in May, June, July and August 2018, the protracted year-to-year deterioration in labor-market demand reflected in "New Ads" remains a meaningfully negative, leading indicator to broad economic activity. Against the November 2015 series peaks, August 2018 "Total Ads" was down by 19.6% (-19.6%), with "New Ads" down 36.2% (-36.2%), deep in non-expansion territory.

Annual growth began to slow in 2010 and turned negative year-to-year in late-2015 and early-2016. The shaded area in *Graph OC-1* reflects the formal bounds of the 2007 to 2009 recession. While the HWOL held in negative annual growth territory into early-2010, beyond the formal economic trough in June 2009, keep in mind that payroll employment—traditionally a coincident economic indicator to the general economy—did not hit its cycle trough until February 2010.

Graph OC-1: The Conference Board Help Wanted OnLine® to August 2018



Many thanks to The Conference Board for permission to publish the preceding graph of year-to-year change in its *Help Wanted OnLine®* data. The annual percentage change is plotted for two series: Total Ads (red line) and New Ads (blue line). "Total ads are all unduplicated [online] ads appearing during the reference period. This figure includes ads from the previous months that have been reposted as well as new ads." "New ads are all unduplicated ads which did not appear during the previous reference period. An online help wanted ad is counted as 'New' only in the month it first appears." Related background details and reporting are found here: The Conference Board Help Wanted OnLine®.

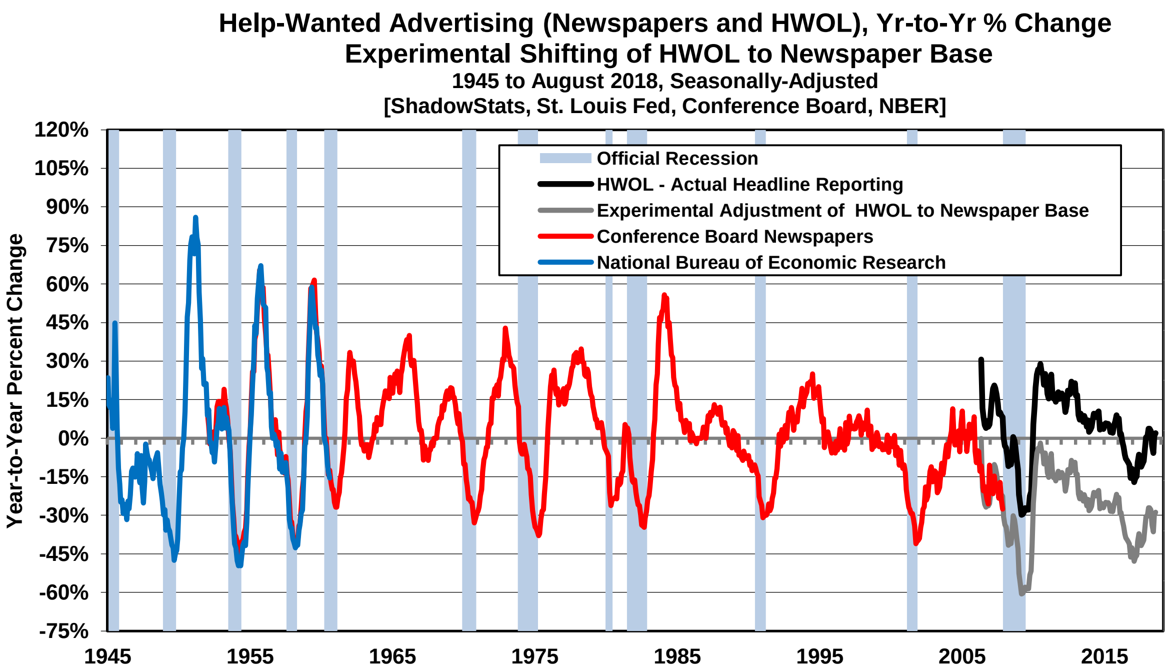
The detail of prior discussions in *Commentary No. 959-A*, *No. 852* and *No. 820*, has been updated for the August 2018 information. These comments and analysis remain those of ShadowStats alone, not those of The Conference Board, including the experimental *Graph OC-2*.

ShadowStats follows a number of business indicators—both conventional and not—looking for reliable reporting of real-world economic activity and for suggestions of shifting patterns in same. The HWOL is one of the best, private leading-indicator measures.

The Conference Board Help Wanted OnLine® Advertising, Historical Background. *[Please note: this section has not been revised from prior reporting, except for the monthly update to the experimental, comparative* Graph OC-2 *and for reference to the current month's reporting.]* The HWOL basic concept has proven itself over the last century, in the context of the closely-paralleled tallying of help-wanted advertising in newspapers. As had been noted previously, annual growth in the current on-line series tracked the economic collapse into 2009, parallel with the last of the series based on newspaper help-wanted advertising (see *Graph OC-2*).

Although the new series tracked the newspapers with parallel shifts in annual growth, the new series relative changes were at more-positive year-to-year change levels, presumably related to the change in the nature (perhaps cost or ease) of the new advertising technology (online versus printed newspaper). As to what the new series would look like, if shifted visually to match the highly correlated, prior and coincident newspaper series, consider experimental *Graph OC-2*. The current plot would be underwater, where the black line reflects the headline HWOL series and related annual growth rates for the actual series, the gray line shows that series fit to overlay the annual growth in the newspaper series. Again, this plot is an experiment of ShadowStats, not the Conference Board.

Graph OC-2: Historical Comparisons of Help-Wanted Advertising versus Economic Activity, Post World War II



The beauty and benefit of a good leading indicator is that it provides a meaningful "advance" signal of a shift in economic activity, before that shift may become obvious in other series. Such is a particularly valuable commodity, when headline data out of the federal government increasingly are politicized and unreliable (see *Special Commentary No. 885*, *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*).

With the preceding ShadowStats comments in mind, the following caution, posted on the Conference Board's web site, speaks for itself:

> **NOTE: Recently, the HWOL Data Series has experienced a declining trend in the number of online job ads that may not reflect broader trends in the U.S. labor market. Based on changes in how job postings appear online, The Conference Board is reviewing its HWOL methodology to ensure accuracy and alignment with market trends.**

First fully covered by ShadowStats in *Commentary No. 820* of July 16, 2016, the HWOL is updated here through August 2018 (released September 5th). As a leading economic indicator, help-wanted advertising had its roots as far back in time as the initial reporting of Industrial Production, post-World War I. The Conference Board has adapted the concept to reflect the fundamental shift of help-wanted advertising from printed newspapers to online advertising. The prior newspaper-based series simply was the best leading indicator of its day.

Back in the days when help-wanted advertising was the primary source of classified-advertising revenue for the physically-printed, folding newspapers, the Conference Board's Help-Wanted Advertising Index (newspapers) simply was the most reliable leading indicator available of broad economic activity. It was a component of the Commerce Department's Index of Leading Economic Indicators. It led activity in employment as well as the Gross National Product (GNP) and the now-headline Gross Domestic Product (GDP), which is a subcomponent of the GNP (ex-trade flows in factor income such as interest and dividend payments).

The National Bureau of Economic Research (NBER) has published detail with the St. Louis Federal Reserve on help-wanted advertising indices back to 1919. From the post-World War I era into the 2000s, year-to-year change in the various historical help-wanted series always signaled what would become recognized eventually as a formal recession, when the annual change in the index was a contraction by 15% (-15%) or more, which has happened here. Again, see *Graph OC-2* for the post-World War II era.

Since formal tracking switched to help-wanted advertising on the Internet (HWOL®), around 2005, seen with The Conference Board Help Wanted OnLine®, that series has been through only one, formally-confirmed down-cycle in the economy. The year-to-year growth plots in the accompanying graph begin with the first annual-growth rate availability in May 2006. Again, even with a limited initial history, the new series tracked that headline downturn into 2009, directly in tandem with the final several years of surveys of newspaper help-wanted online advertising (again see *Graph OC-2*), and the HWOL® has broadly tracked to the downside in an environment of what appears to be a "new," still-unfolding recession (see *Special Commentary No. 935*).

Considering the apparent recession signal generated by the HWOL®, there appears to be a formal recession missing from the headline accounting by the NBER (formal arbiter of recessions), starting at the end of 2014, as indicated also by the better-quality government or Federal Reserve economic series, specifically Industrial Production (see *Commentary No. 942-B*), although nothing related to this showed up the recent comprehensive GDP benchmark revisions back to 1929. Again, comparing the HWOL versus the prior newspaper series suggests a downside shift in the HWOL annual-change plot to put it on a consistent basis with the prior newspaper advertising growth rates, which, again, has been published on an experimental basis in *Graph OC-2*.

Time will establish new annual growth parameters that would signal a formal recession. My betting remains that they will look much like the earlier series, and much like the pattern seen in the present series in terms of year-to-year contraction. Those looking for independent confirmation of underlying economic conditions should find this series to be highly valuable. As for the BLS employment and unemployment series, they still need to catch up with the Conference Board's higher-quality, independent leading indicator, despite the ongoing, heavy upside reporting biases deliberately structured into the BLS series and expanded anew into the January 2018 payroll-survey benchmarking. See the discussions in *Special Commentary No. 885*, *Commentary No. 864* and in *Commentary No. 959-B*'s *Birth-Death/Bias-Factor Adjustment (BDM)* section of the *Supplemental Labor-Detail Background*.

FLASH REPORTING DETAIL

August 2018 Unemployment and Employment

Abundant Inconsistencies and Contradictions, Plunging Employed vs. Overstated Payrolls

Contrary to Intensifying, Highly Negative Stress Levels in the U.S. Labor Market, August U.3 Unemployment of 3.85% Was Just Off Its Historic-Low Reading. Reported this morning (September 7th) by the Bureau of Labor Statistics (BLS), the headline August 2018 U.3 unemployment rate held effectively "unchanged" at 3.9%, against consensus expectations of it dropping a notch to 3.8%.

At the second decimal point, the headline August unemployment rate of 3.85% was the third lowest in the history of the current unemployment series, which dates back to the series redefinition of 1994. That was when long-term "discouraged workers" were eliminated from all tracking or calculations in any unemployment measure, headline or otherwise. Second lowest was 3.84% in April of 2000, while the absolute lowest was 3.75% in May 2018.

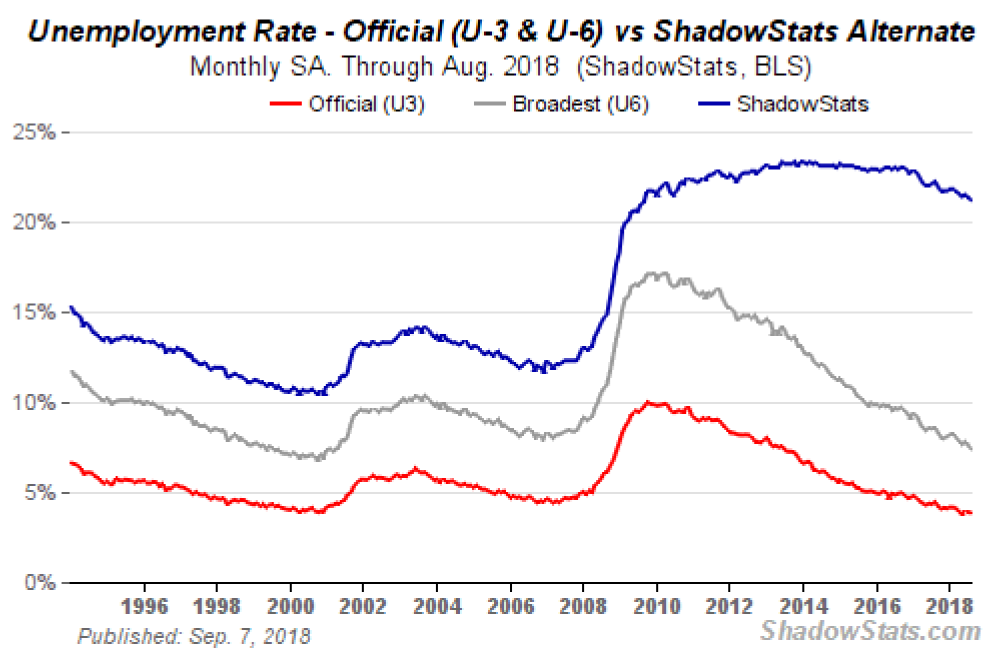
Discussed and analyzed in *Commentary No. 953-B* of the time, the historic-low U.3 unemployment rate was in the context of contradictory near-record levels of stress in employment conditions. Both the Employment-to-Population Ratio and the Labor-Force Participation Rate (Employment plus Unemployment as a Percent of Working Age Population) were near or just off historic low levels usually seen at the depths of a recession, not at a peak of economic expansion.

Where the headline unemployment rate in May 2018 was at a low 3.8%, the labor market stresses of the same time were more consistent with a headline unemployment rate of over 10.0%. Now, in August 2018, with unemployment at 3.9%, employment-stress levels are even more intense than they were in May (see *Graphs 1* to *4*). As explained in *Section IV* of *Supplemental Labor-Detail Background* in *Commentary No. 959-B*, the apparent statistical distortion or inconsistencies in these headline numbers is tied directly to the lack of government accounting for long-term discouraged workers. That *Section* will be updated fully for the current circumstance in the forthcoming, extended-coverage *Commentary No. 969-B*. These issues are discussed in more detail with related, later graphs, specifically, the inverted-scale *Graph 2* for the ShadowStats Alternate Unemployment number.

Unemployment. Where the headline U.3 unemployment rate had dropped to an 18-year (or a 49-year) low in May 2018, depending on the historical base used for comparison (*Commentary No. 953-A*), the headline unemployment rate jumped by 0.30% at the second decimal point, with 3.75% unemployment in May 2018 rising to 4.05% in June 2018. U.3 fell back again, to 3.87% in July 2018 and notched back further to 3.85% in August 2018.

On top of the calculation of the headline U.3 unemployment rate, there were declines in the counts of those working part-time for economic reasons and of "discouraged workers." The effect was that where the broadest headline BLS unemployment rate of U.6 had risen from 7.65% in May to 7.79% in June and fell back to 7.54% in July, it declined further to 7.39% in August 2018, the same level last seen in April 2001. Moving on top of U.6, the ShadowStats alternate unemployment rate had increased from 21.4% in May, to 21.5% in June, falling back to 21.3% in July and notching lower again to 21.2%, its lowest level since September 2009 (see *Commentary No. 959-B* for the latest *Supplemental Labor-Detail* ...).

Graph 1: Comparative Unemployment Rates U.3, U.6 and ShadowStats

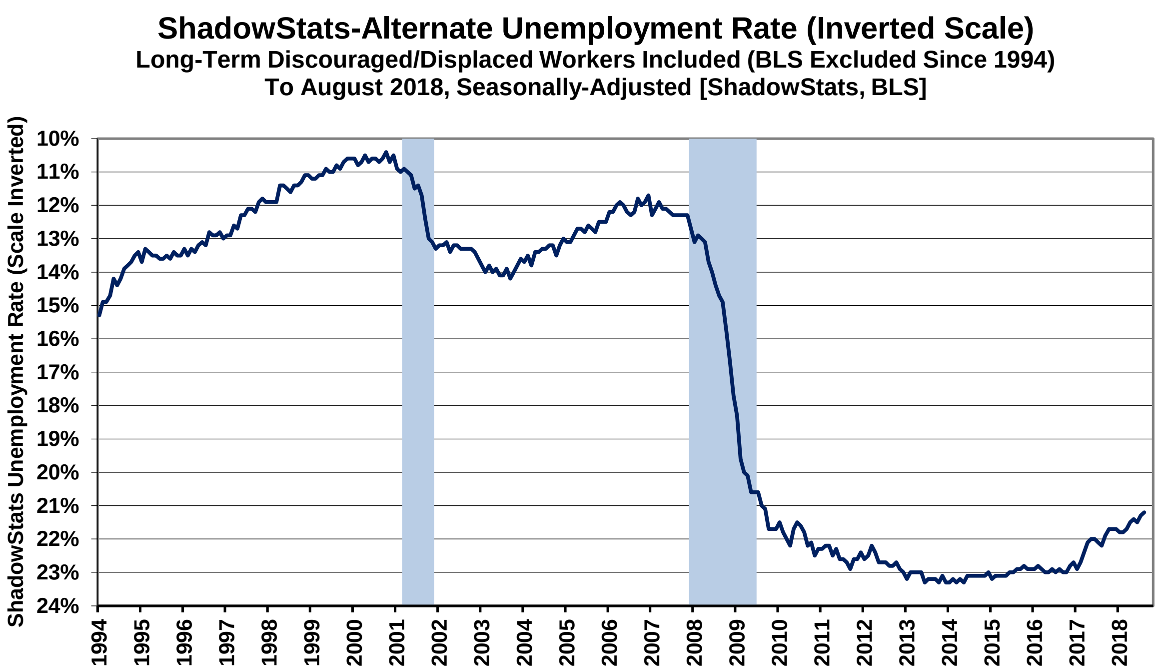


Again, where headline August U.3 employment came in at 3.85%—historically still a very low unemployment rate—underlying reality was not so rosy. Meaningful discrepancies between the near-record-low unemployment rate and extremes of near-record-high levels of labor-market stress reflect impact of long-term discouraged and displaced workers, who no longer are counted in the headline government numbers, but still are included in the ShadowStats unemployment estimate. While the current headline unemployment likely qualifies as "full employment," such remains unconfirmed by historically-low Employment-to-Population and Labor Force-to-Population (Participation) Ratios, which dropped sharply, by roughly 0.2% (-0.2%) each, due to declining levels of employment and the labor force (employment plus unemployment). Increasingly near historically low levels, these readings indicate high labor-market stress, more consistent with a headline unemployment rate of about 10% instead of one below 4%.

The difference is the unusually large number of discouraged and displaced workers in this cycle, not counted in the headline U.3, as well as a goodly number not included in U.6 (again, see definitions and detail in *Commentary No. 959-B*, the *Supplemental Labor-Detail Background*).

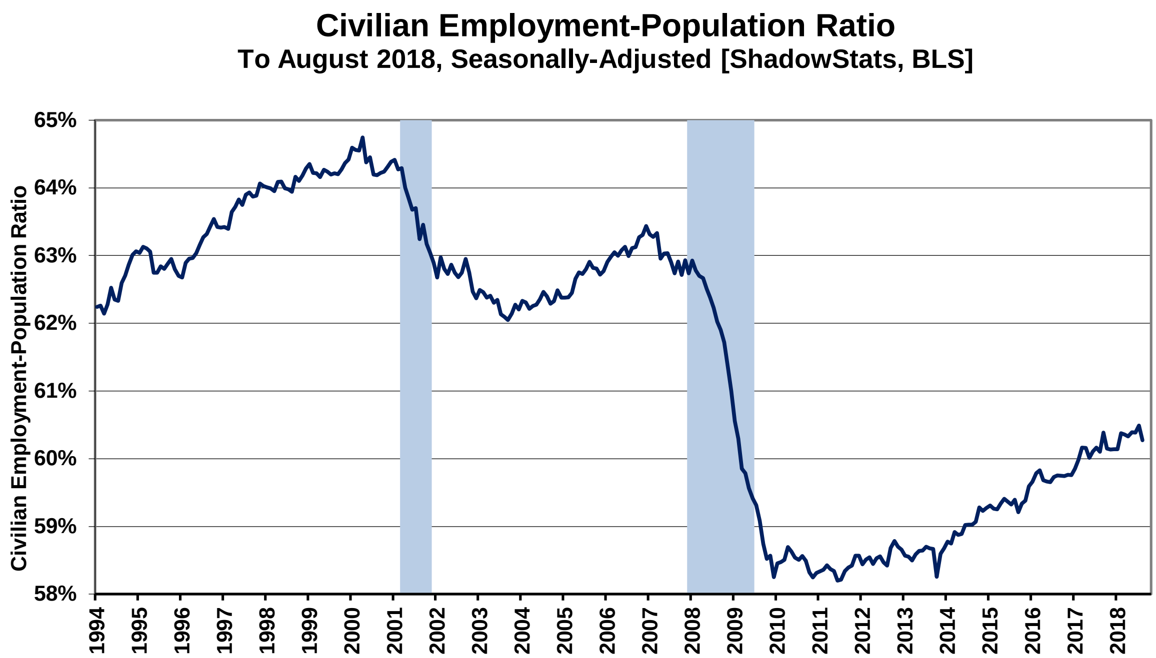
The inverted scale of the ShadowStats Alternate Unemployment Rate (*Graph 2*) is a surrogate for the magnitude of discouraged and displaced workers, who also are reflected in the accompanying *Graphs 3* and *4* of the *Civilian Employment-to-Population Ratio* and the *Labor-Force Participation Rate*.

Graph 2: Inverted-Scale — ShadowStats Alternate Unemployment Measure

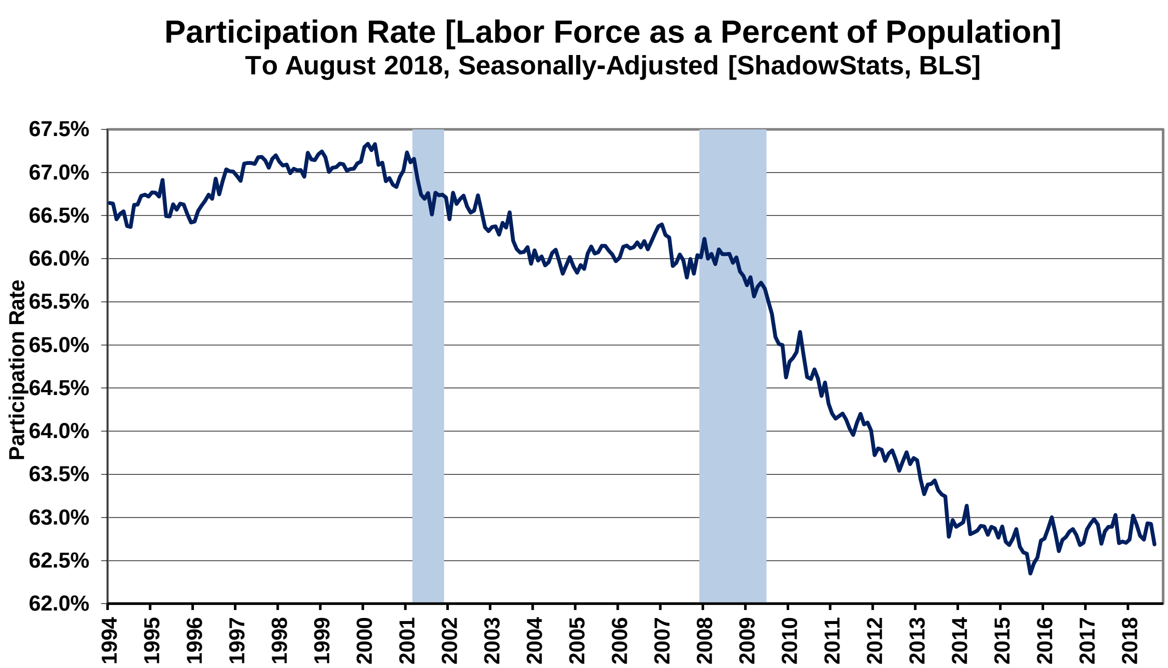


[Graphs 3 and 4 follow on the next page.]

Graph 3: Civilian Employment-to-Population Ratio



Graph 4: Labor-Force Participation Rate



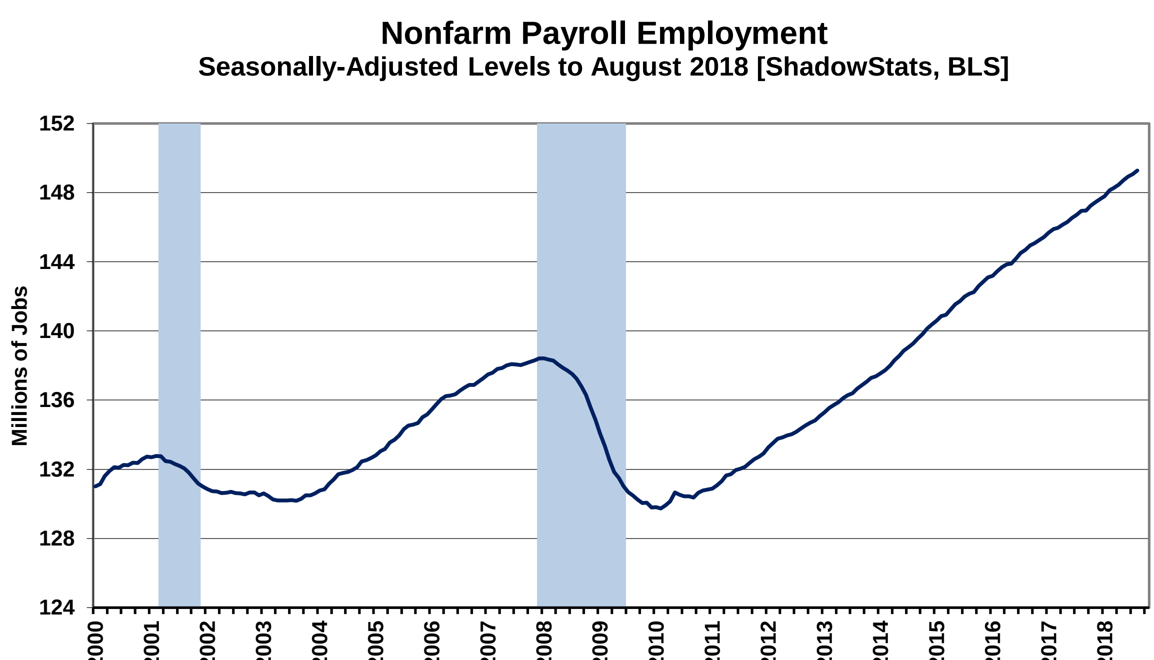
Payroll Employment. The heavily upside-biased, Payroll Employment series jumped by 201,000 in August 2018, effectively meeting consensus expectations. The problem is that those expectations were met only because the level of July payrolls was revised lower, on top of a downside revision to June levels. Net of revisions, August 2018 payrolls were only 151,000 above what had been the initial reporting of July 2018 activity. The headline gain was only marginally significant, given the headline volatility in the series. That said, annual growth in payrolls held at 1.65% in August 2018, versus a revised 1.64% [previously 1.65%] in July 2018 and a revised 1.67% [previously 1.68%] in June 2018, still within the low-range of annual growth that often leads into recession.

Keep in mind that where the Household Survey counts an employed person only once, irrespective of how many jobs or part-time jobs he or she may hold, the Payroll Survey counts only the number of jobs, irrespective of the number of people holding those jobs. In that circumstance, a person holding two or more part-time jobs is counted as employed with each job. Where multiple jobholders jumped by 453,000 indicated in the July Household Survey, they declined by 128,000 (-128,000) in August.

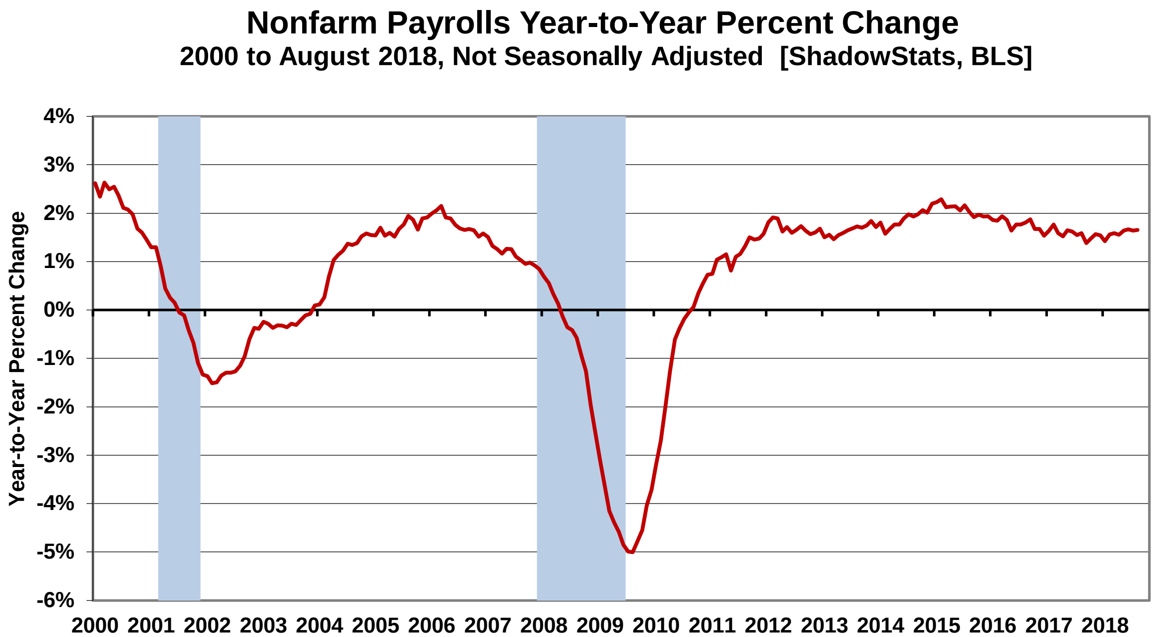
While there are a number of other differences between the Payroll and Household Surveys, such as the Payroll count excluding, and the Household count including Agriculture, the headline Payroll gain of 157,000 in July was against a Household Survey gain of 453,000 in full-time employed, yet the 201,000 gain in August Payrolls went against a headline monthly decline of 440,000 (-440,000) full-time employed plus a further decline of 79,000 (-79,000) with part-time employment.

Unfortunately, the seasonally-adjusted, headline month-to-month changes here usually are not reported on a consistent basis, where inconsistent monthly seasonal adjustments are used in eleven out of twelve months (again, see details in *Commentary No. 959-B*, the *Supplemental Labor-Detail Background*, also to be updated in *No. 969-B.*)

Graph 5: Nonfarm Payroll Employment 2000 to Date



Graph 6: Payroll Employment, Year-to-Year Percent Change, 2000 to Date



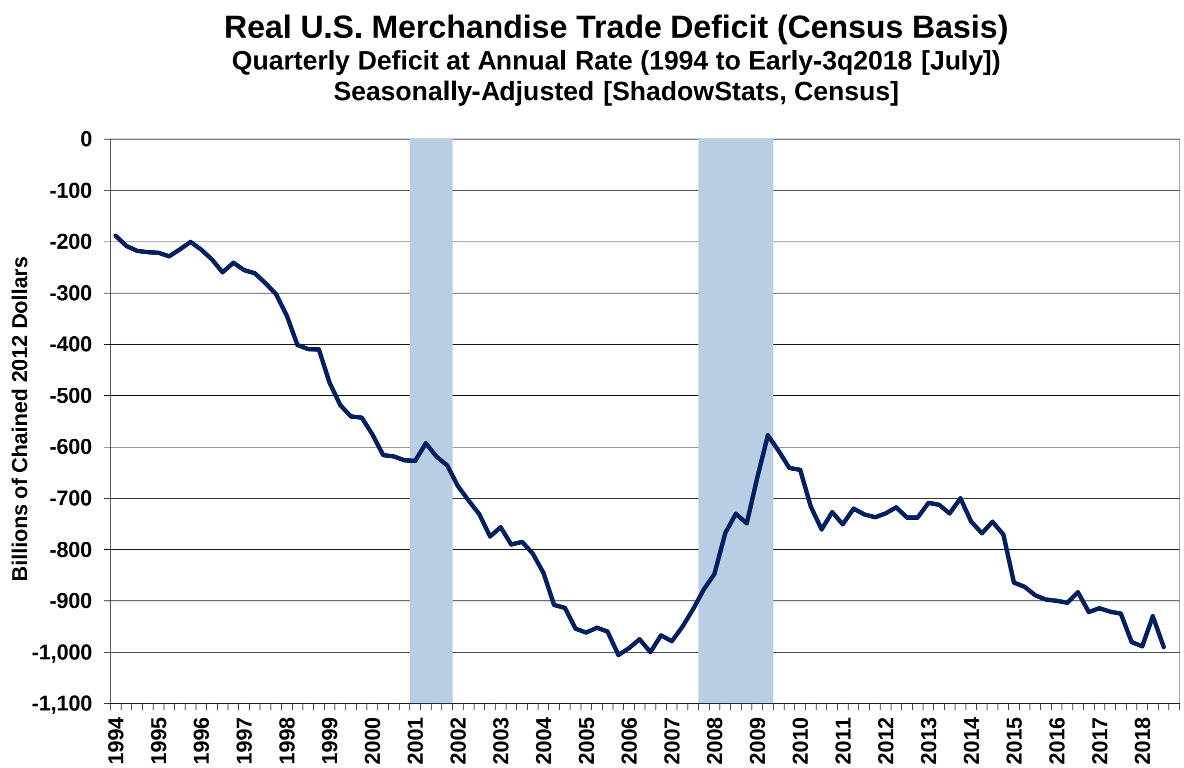
July 2018 U.S. Trade Deficit

Exploding Real Deficit Should Hit Both the U.S. Dollar and Third-Quarter GDP Growth

July 2018 Nominal Balance of Payments and Real Merchandise Trade Deficits Widened Sharply, With the Real Merchandise Trade Deficit Now on Track to Reverse Second-Quarter GDP Boost. The Census Bureau and the Bureau of Economic Analysis reported September 5th, that the monthly U.S. Balance of Payments trade deficit widened to $51.0 billion in July 2018 versus a revised $45.7 [previously $46.4 billion] in June 2018. That deterioration reflected a combination of declining exports and increasing imports. That pattern of revised narrowing of the prior-period nominal deficit, however, was repeated with monthly deficits back through January 2018. In aggregate, the nominal deficit revisions reduced the first-half 2018 nominal deficit by 1.2% (-1.2%) from its prior reading. That said, the headline July 2018 nominal deficit of $50.1 billion widened from an unrevised deficit of $44.2 billion in July 2017.

Real Merchandise Trade Deficit - July 2018. Reporting detail for the Real Merchandise Trade Deficit is plotted in *Graph 7* on a quarterly basis, including the initial trend for third-quarter 2018. The initial monthly reporting of the July 2018 Real Merchandise Trade Deficit widened to $83.5 billion, from artificially-constrained (separate, one-shot irregular exports) monthly levels of $79.3 billion in June, $75.5 billion in May and $77.6 billion in April. Where the second-estimate of the second-quarter 2018 real merchandise trade deficit, widened minimally to $929.8 billion from $929.6 billion (2012 dollars), versus $988.5 billion in first-quarter 2018, that still was the smallest deficit since third-quarter 2017. With the July 2018 deficit returning to a normal level of activity, at an annualized rate of $989.5 billion, such not only should reverse the unusual positive spike given to second-quarter 2018 GDP activity, but also it should begin to place increased selling pressure on the U.S. dollar. Full and extended detail on the July 2018 trade-deficit reporting will follow in pending *Commentary No. 969-B.*

Graph 7: Quarterly Real Merchandise Trade Deficit (1994-2018)



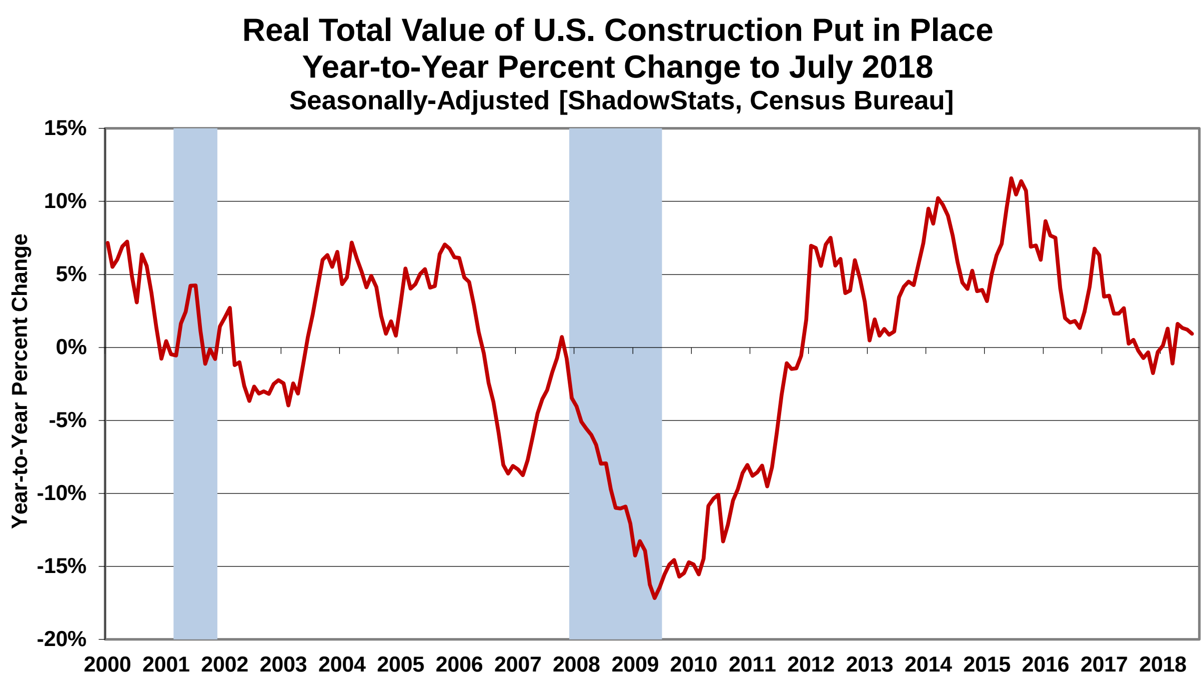
July 2018 Construction Spending

Real Activity Tumbled on Top of Downside Revisions

Downside Revisions Tended to Confirm New Slowdown in Residential Construction. The headline reporting of July 2018 Construction Spending was in the context of downside revisions to June and May activity, where May had incorporated annual benchmark revisions (see *Commentary No. 958*). Particularly hard hit in the latest downside revisions was the Residential Construction sector, which would tend to confirm a renewed downturn in the residential market as has been seen with both Housing Starts and Home Sales (see *Commentary No. 966* and *Commentary No. 967* for background).

Reported by the Commerce Department on September 4th, in nominal terms, before inflation adjustment, nominal July 2018 Construction Spending rose month-to-month by 0.1%, versus a revised decline of 0.8% (-0.8%) [previously 1.1% (-1.1%)] in June, a revised gain of 0.7% [previously 1.3%, initially 0.4%] in May and an unrevised 1.7% in April. Year-to-year, the nominal gains were 5.8% in July 2018, versus a revised 5.9% [previously 6.1%] in June 2018, a revised 5.6% [previously 6.3%, initially 4.5%] in May 2018 and an unrevised 5.8% in April 2018.

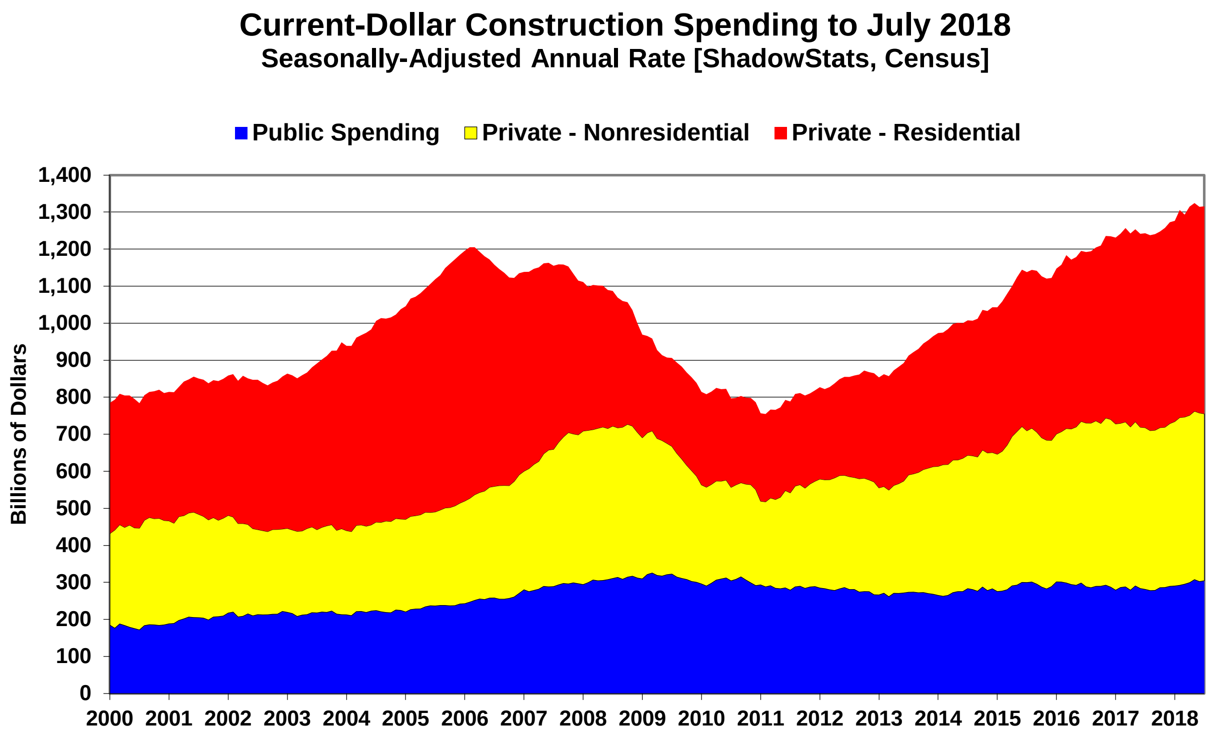
Graph 8: Year-to-Year Change in Total Real Construction Spending



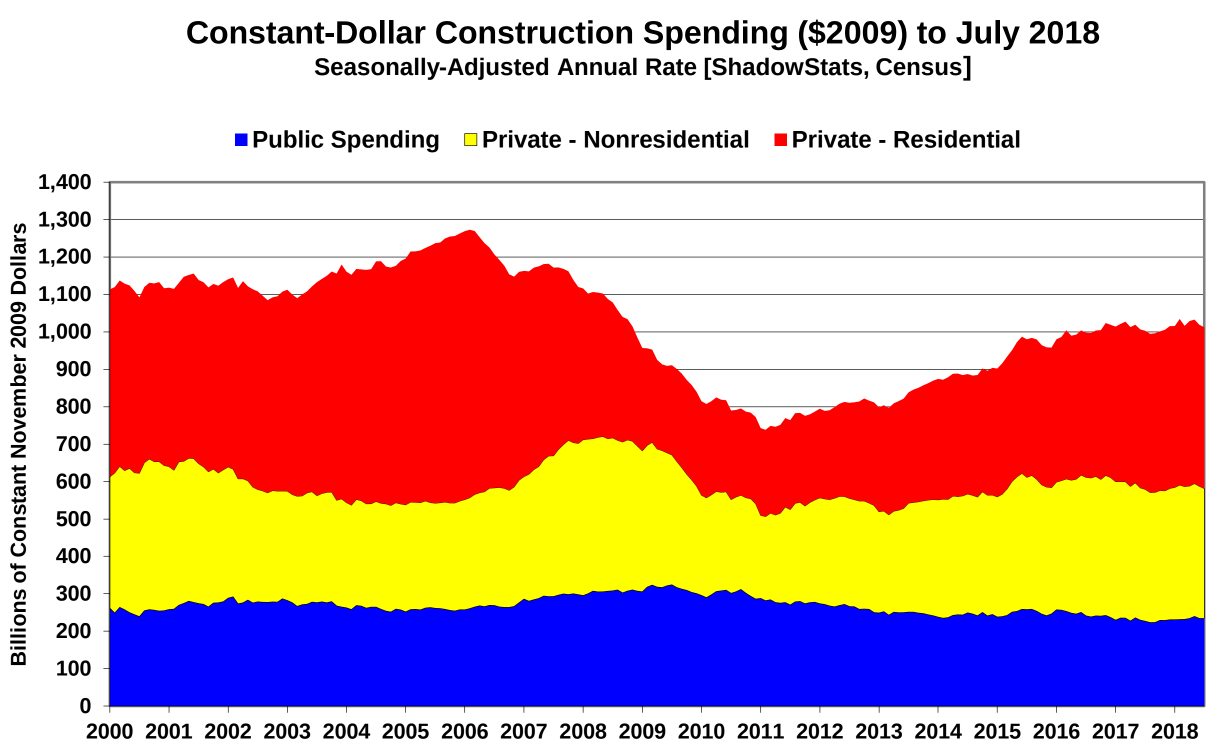
Net of the ShadowStats Composite Construction Deflator, real July 2018 Construction Spending declined monthly by 0.6% (-0.6%) and by 1.4% (-1.4%) in June, versus gains of 0.4% in May and 1.3% in April. Shown in *Graph 8*, year-to-year real gains were 0.9% in July 2018, 1.2% in June 2018, 1.3% in May 2018 and 1.6% in April 2018. Those patterns of slowing annual real growth remain broadly consistent with those seen leading into the 2006 housing collapse.

Construction Spending - Aggregate Headline Detail

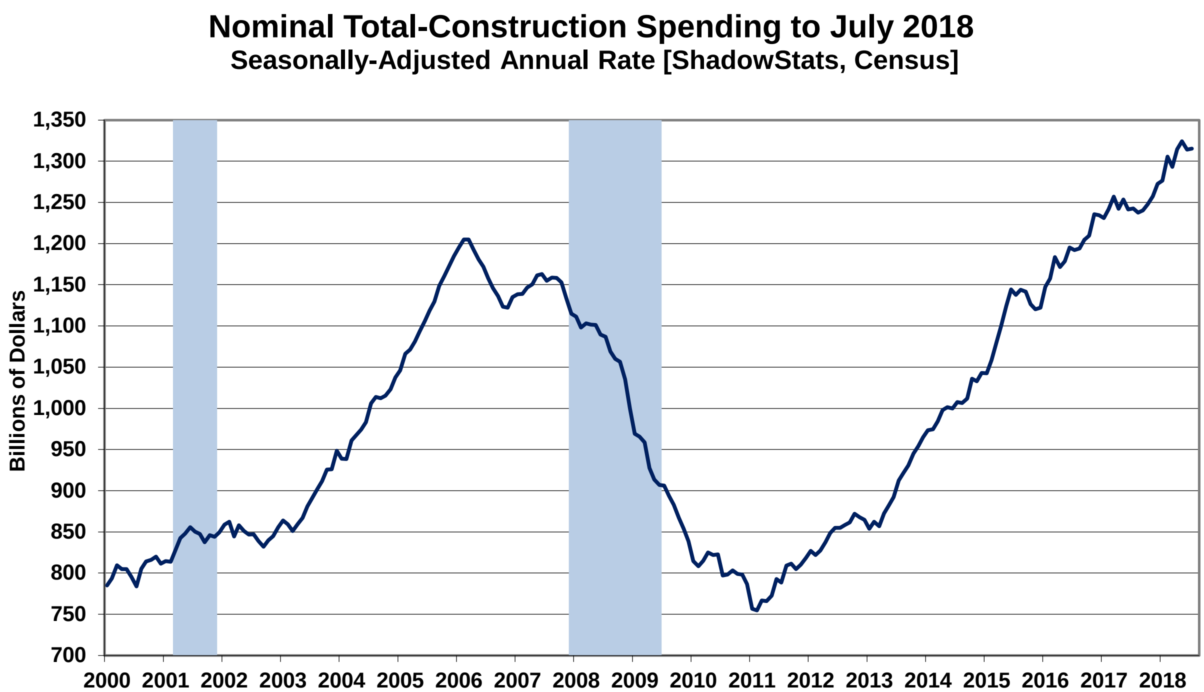
Graph 9: Aggregate Nominal Construction Spending by Major Sector to Date



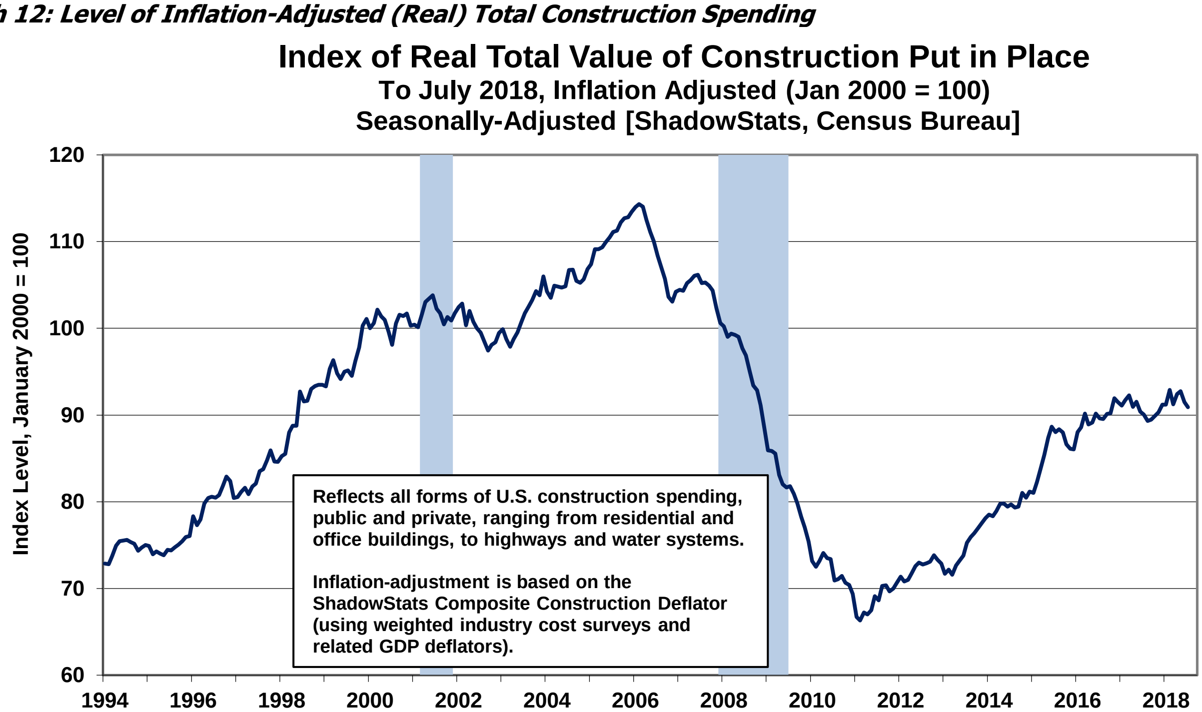
Graph 10: Aggregate Real Construction Spending by Major Sector



Graph 11: Nominal Private Residential Construction Spending

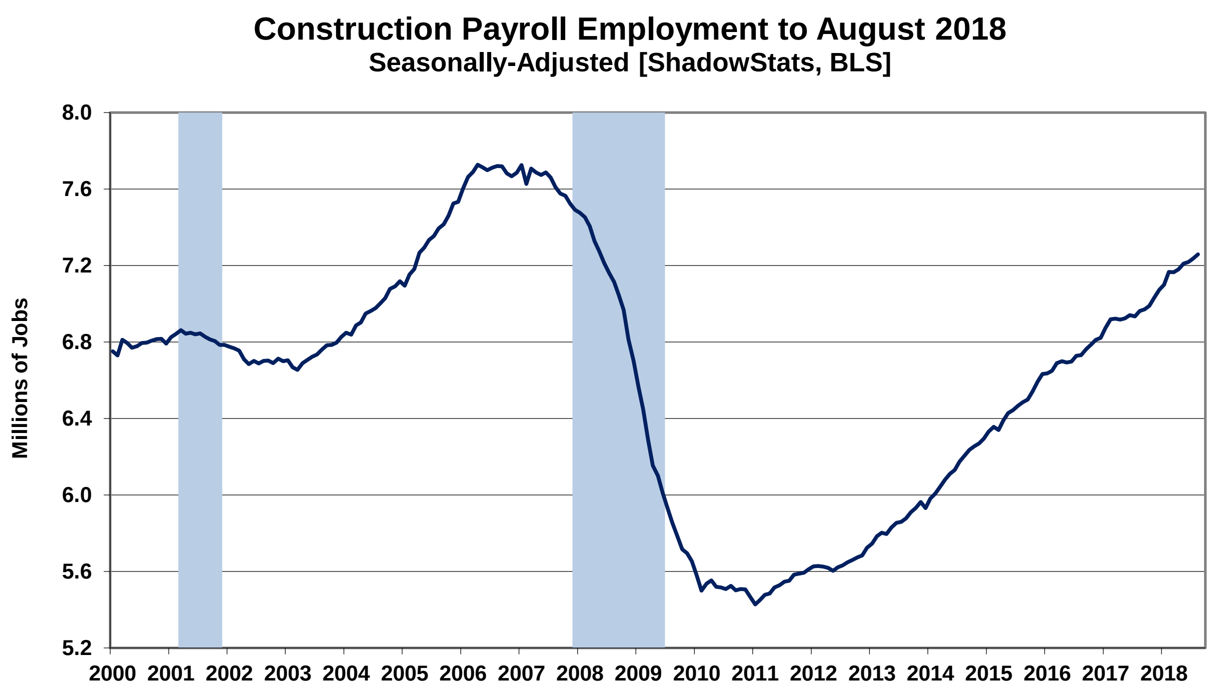


Graph 12: Level of Inflation-Adjusted (Real) Total Construction Spending



Construction Employment on the Rise, Yet Still Shy by 6.0% (-6.0%) of Its Pre-Recession Peak. Released with the headline payrolls this morning (September 7th) was the latest surveying on jobs in the Construction Industry, where jobs rose to 7,259,000, up by 23,000 in the August, versus an 18,000 gain in July. That would have been an August monthly gain of 17,000, if July had not been revised lower. Headline detail is for annual gain of 3.97% in August 2018, versus 4.14% in July 2018. Against its pre-recession peak, Constructions Jobs in August 2018 still were shy by 467,000, or 6.04% (-6.04%) of full recovery to pre-recession levels.

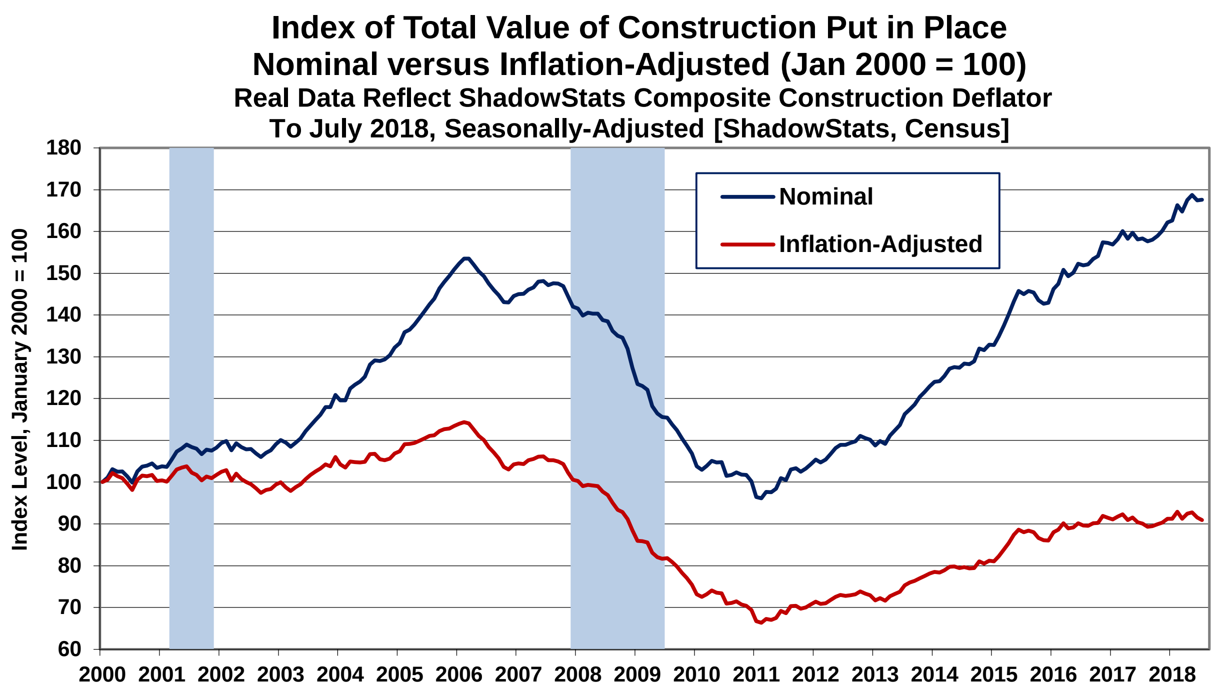
Graph 13: Construction Payroll Employment (2000 to Date)



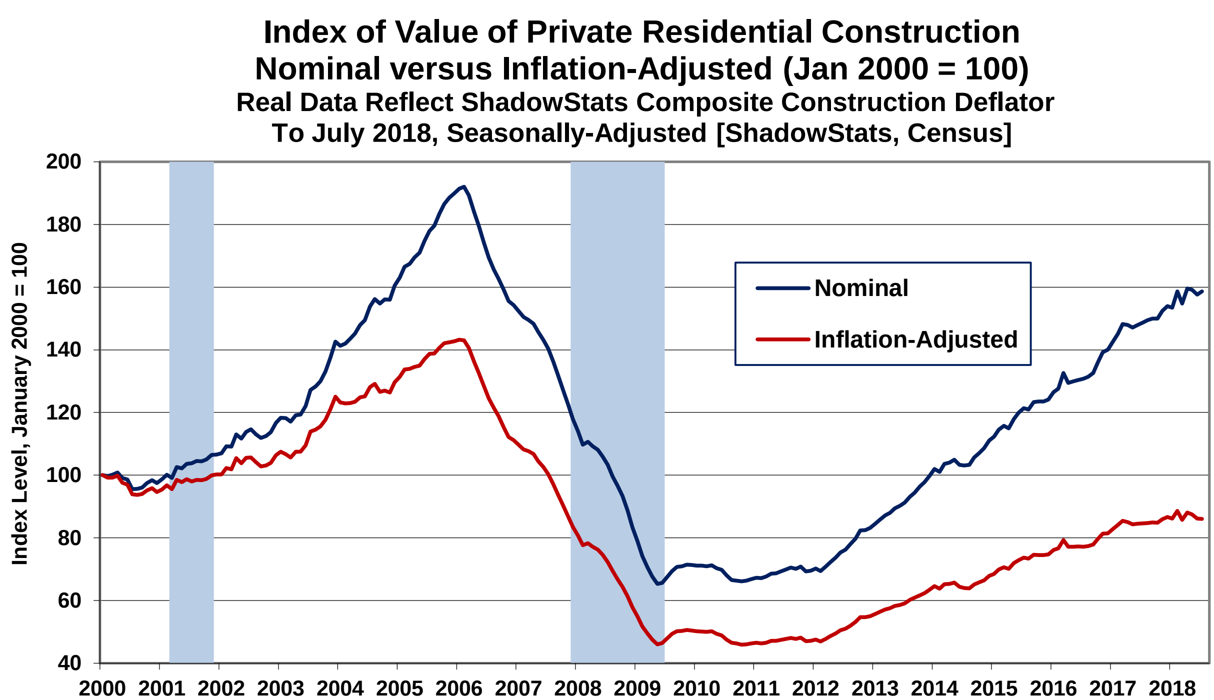
Construction Spending—July 2018—Headline Activity by Sector. Consider that the nominal monthly gain of 0.1% in aggregate July 2018 Construction Spending, versus the June monthly contraction of 0.8% (-0.8%), included a gain of 0.7% in July Public Construction, versus a decline of 1.7% (-1.7%) in June. Private Construction Spending declined by 0.1% (-0.1%) in July and by 0.5% (-0.5%) in June. Within total Private Construction Spending, Residential Construction gained by 0.6% in July, having declined by 0.9% (-0.9%) in June, while Nonresidential Construction declined by 1.0% (-1.0%) in July, having gained 0.1% in June. This detail is reflected in *Graphs 9* and *10*, and *14* to *17*.

Patterns of Nominal and Real Construction Activity Compared Across Sectors

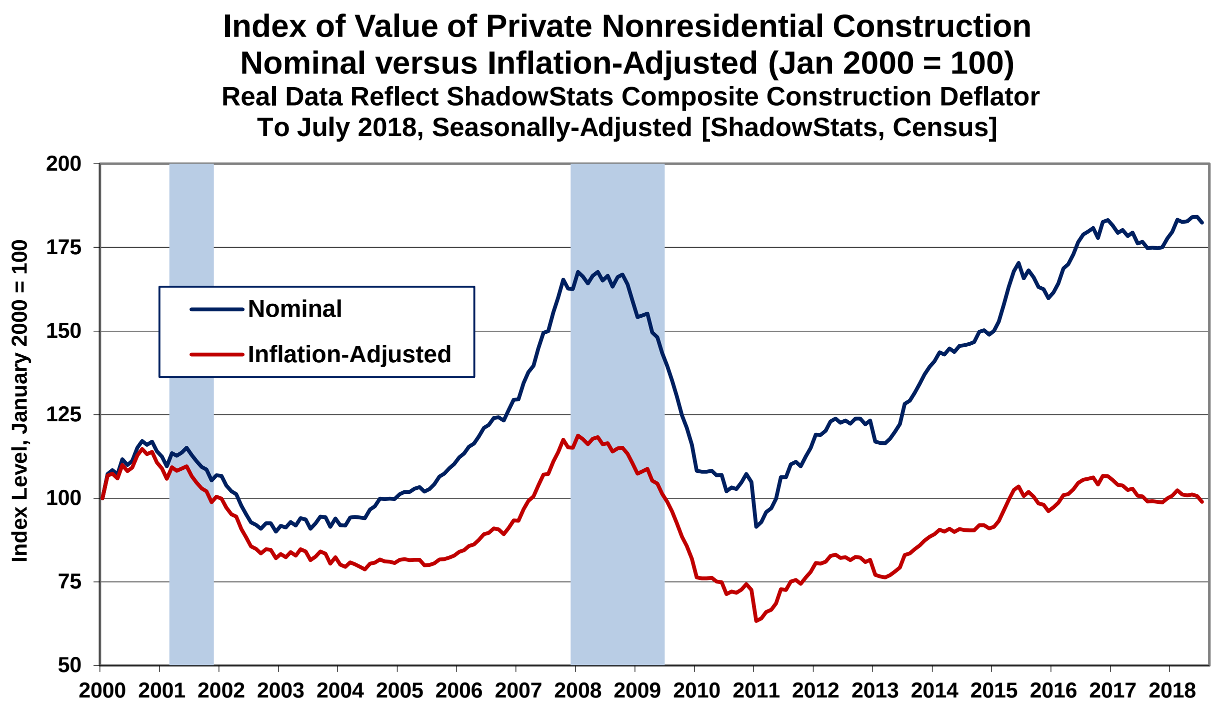
Graph 14: Indexed Nominal versus Real Value of Total Construction



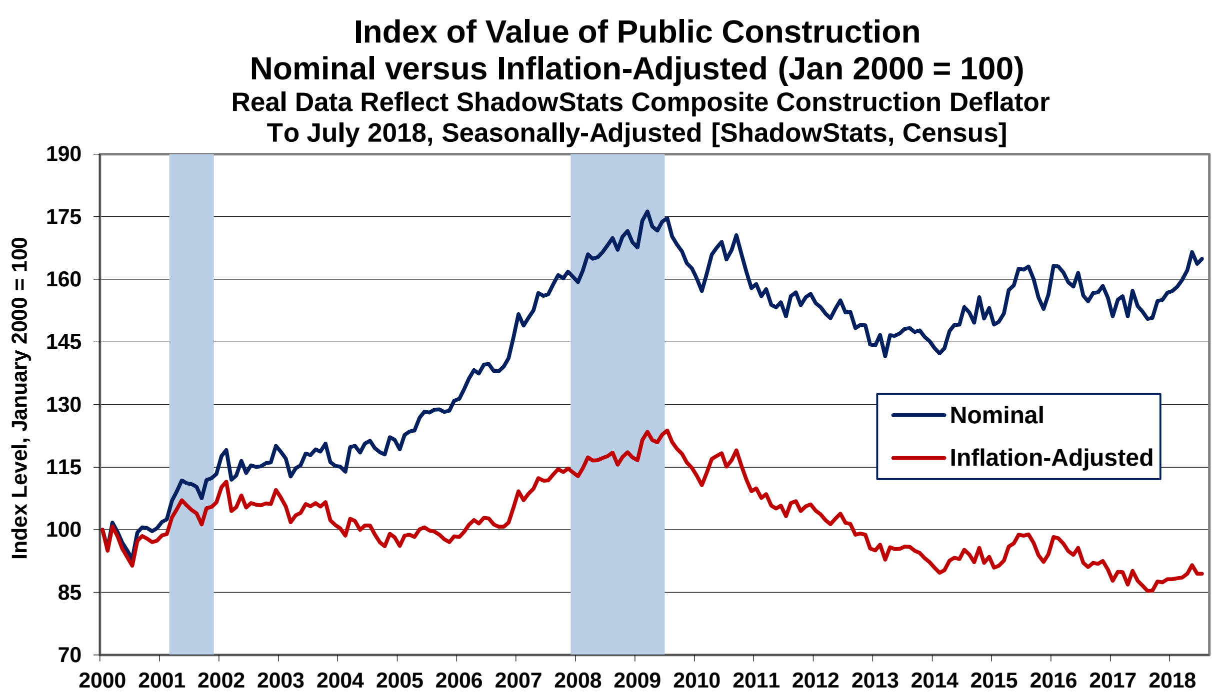
Graph 15: Indexed Nominal versus Real Value of Private Residential Construction



Graph 16: Indexed Nominal versus Real Value of Private Nonresidential Construction



Graph 17: Indexed Nominal versus Real Value of Public Construction

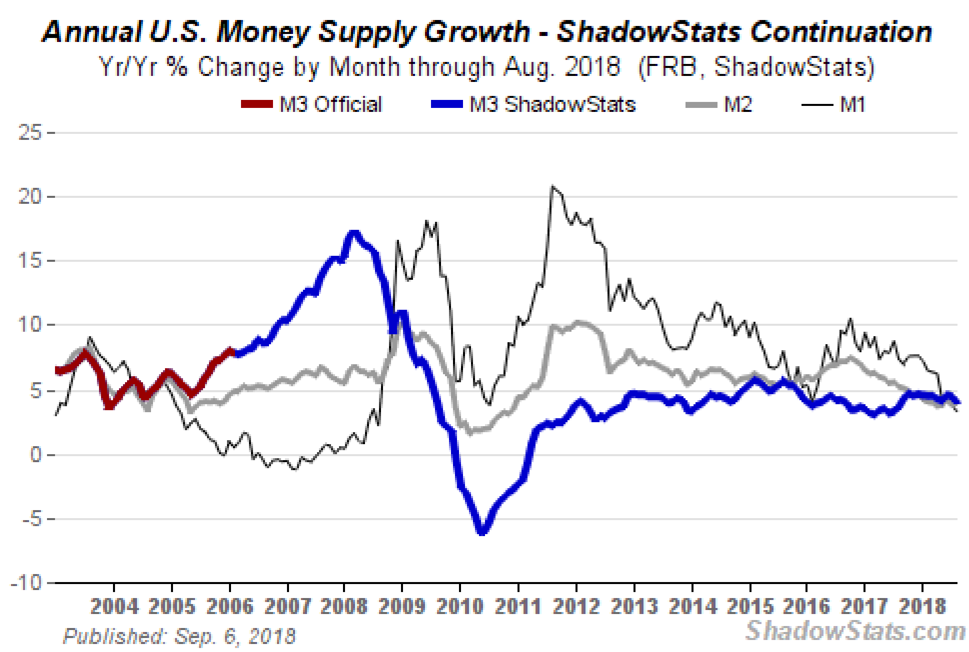


August 2018 Money Supply and the Monetary Base

Rapidly Tightening Systemic Liquidity

Annual Growth in the Money Supply and Monetary Base Is Slowing or Deepening in Downturn. This is a quick update, with summary numbers and graphs, and with full detail following next week in pending *Hyperinflation Watch – No. 4*. Annual growth rates in Money Supply M1, M2 and the ShadowStats Ongoing Estimate of M3 are slowing anew, based on detail reported late on September 6th by the Federal Reserve Board. The Saint Louis Fed's Adjusted Monetary Base estimate, where the Monetary Base traditionally has been the FOMC's tool for targeting growth in the Money Supply (and inflation and economic activity) was released a week ago for the two-week period ended August 29th. It showed a sharply deepening annual contraction. At the current pace of accelerating downturn, we could be seeing the fastest annual contraction of the Monetary Base in its history, within a month or so.

Graph 18: Comparative Money Supply M1, M2 and M3 Yr-to-Yr Changes through August 2018

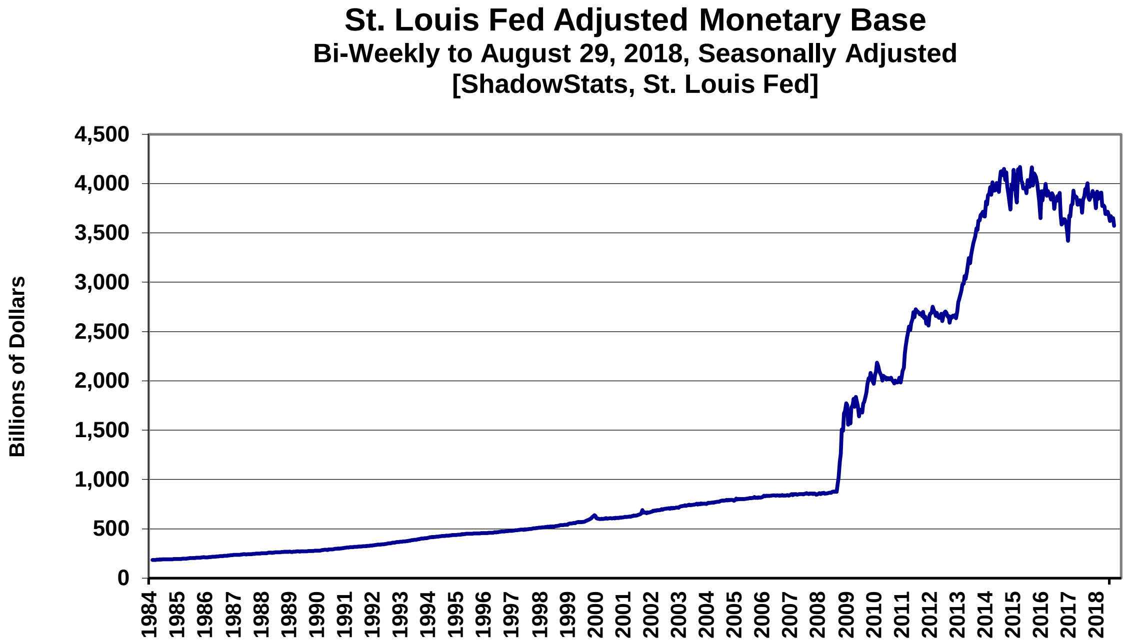


Money Supply M1, M2 and M3 in August 2018. Reflected in *Graph 18*, and detailed on the Alternate Data tab of www.ShadowStats.com. In terms of monthly average annual growth in August 2018, M3 growth declined to 3.97% versus 4.47% in July 2018, while M2 August 2018 annual growth just stabilized at 3.99% versus 3.90% in July 2018. M1 August 2018 annual growth just dropped to 3.39%, from 3.88% in July 2018, hitting a ten-year low (M2 includes M1; M3 includes M2, see the *Money Supply Special Report* for full definitions of those measures).

Saint Louis Fed's Adjusted Monetary Based Just Plunged Year-to-Year by 9.4% (-9.4%). The Federal Reserve Board's Federal Open Market Committee has continued to tighten domestic liquidity at an accelerating pace. For the two weeks ended August 29th, the Saint Louis Fed's Monetary Base was down year-to-year by 9.38% (-9.38%), following annual drops of 7.48% (-7.48%) in the two weeks ended August 15th, 5.92% (-5.92%) August 1st and 5.41% (-5.41%) July 18th, in a continuous stream of deepening annual decline since the May 14th, and continual slowing annual growth from a peak of 9.67% in the two-week period ended January 3, 2018, as reflected in *Graph 19*. Again, more detail will follow shortly in the pending *Hyperinflation Watch – No. 4*.

[Graphs 19 and 20 follow on the next page.]

Graph 19: Saint Louis Fed Monetary Base, Billions of Dollars (1984 to August 29, 2018)



Graph 20: Year-to-Year Percent Change, Saint Louis Fed Monetary Base (1985 to August 29, 2018)