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

SPECIAL COMMENTARY NUMBER 983-B
Economic and Financial-Market Review—April 22, 2019

UPDATED ALERT: As U.S. Economic Activity Turns Increasingly Negative, So Too Will the Stock Market and the U.S. Dollar

February Real Median Household Income and March Real Hourly Earnings Declined; Excessive FOMC Rate Hikes and Tightening Have Pummeled Consumer Liquidity

Sharply Deteriorating Retail Sales, Housing Starts, Manufacturing and Freight Activity, and a Trade Deficit Narrowed by Collapsing Imports and Consumption, All Signal Pending Contraction in Real Gross Domestic Product

New Recession Should Be Timed from November/Fourth-Quarter 2018 Peak; Fourth-Quarter 2018 GDP Growth Faces Further Downside Revision; First- and Second-Quarter 2019 Real GDP Quarterly Contractions Loom

Unusually Wide Range of Forecasts for Initial First-Quarter 2019 GDP, from 1.4% (N.Y. Fed) to 2.8% (Atlanta Fed), Reflect Turmoil in Shutdown Disrupted Data; Headline Estimate Should Come In Below or at the Low-End of Expectations, Ultimately Revising to Outright Contraction by July

Holding Rates Steady at Present, FOMC Should Be Easing by September

Income Dispersion Is Worst Since Before the 1929 Stock Crash and Great Depression

Annual Drop in First-Quarter 2019 Monetary Base Was Greater Than the Inadvertent Plunge That Triggered the 1937 Second Down-Leg of the Great Depression

Spiking Gasoline and Oil Prices Are Reviving Headline CPI/PPI Inflation, Not the FOMC Canard of an Ever-Strengthening or Overheating Economy

Time for Congress to Overhaul the Federal Reserve?

U.S. Treasury Fiscal Operations Are Not Sustainable, Threatening U.S. Financial-Market and Dollar Turmoil, and Ultimately Hyperinflation

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  - Pending ***Bullet Edition No. 7*** will discuss the latest economic releases.
- The more-comprehensive ***Regular Commentary*** (next edition likely in mid-May) should publish about once per month, providing a regular and broader overview of unfolding economic and market conditions and likely developments, occasionally in the context of a *Special Commentary*.
- ***Hyperinflation*** and ***Consumer Liquidity Watches*** update once per month, with alternating updates roughly every other week, resuming in the month ahead.
- ***Telephone Consulting*** is part of the regular service for subscribers, whenever you have a question on the *ShadowStats* outlook or otherwise would like to talk, at (707) 763-5786.

The ***ShadowStats ALERT***, last published in the *Commentary No. 983-A* of February 20th, is updated here in *Section 9a*, on page 81, along with details of the *Latest and Pending Economic Reporting*, *Section 9b* on pages 89 to 97. Links to the major sections, graphs and tables follow on the *Contents* pages. Some headlines of today's *No. 983-B* are similar to or identical with those of *No. 983-A*, which provided an advance idea of issues discussed in today's narrative. Subsequent missives, beginning with *Commentary No. 984*, will resume more-regular publication, with evolving, more-concise writing and formatting than previously published. This, again, all is in the context of the concurrent analyses of the headline reporting posted in the ShadowStats home page's ***Daily Update***, as new data are released, complemented by extended early detail in the regular ***Bullet Editions***.

This ***Special Commentary*** reviews economic conditions and sovereign solvency issues that ultimately affect the political and financial stability of the United States. Each area has major crises looming or at hand. Willing politicians in Washington, in conjunction with an informed and understanding public, could address any issue here. Yet, the nature of such crises is that many facing re-election often embrace political expediency, the needs of the moment, particularly for crises that are viewed as not imminent, looming only in the distant future. As a result, systemic imbalances usually are ignored or just given lip service by the political establishment, until an out-of-control crisis necessitates/forces extreme corrective actions. That said, the U.S. Solvency and related Hyperinflation crises likely are much closer than commonly perceived. Beyond systemic turmoil and disruptions, Individual investors usually have options for mitigating personal risks and/or potential financial loss during difficult times.

The ShadowStat*s* general outlook has not changed, specifically including a deepening U.S. economic downturn, mounting downside pressures on the U.S. dollar and stock market, and upside pressures on gold and silver prices in the weeks and months ahead. Over the long term, holding physical gold and silver should preserve the purchasing power of one's wealth and assets so invested.

Your comments and suggestions always are invited.

Best Wishes — John Williams (707) 763-5786, johnwilliams@shadowstats.com

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OVERVIEW

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Time for Congress to Overhaul the Federal Reserve?

Near-Term and Catch-Up Economic Reporting Continue to Signal an Economic Contraction. The domestic and global markets and economies face particularly difficult circumstances in the year ahead. As we go to press, first-quarter 2019 Housing Starts weakened sharply, with Real Retail Sales, the day before, having been reported in a second, consecutive annualized quarterly contraction, for the first time since the depths of the Great Recession. Separately, first-quarter 2019 contractions also have been seen with Industrial Production and Freight Activity. Confirming rapidly deteriorating and weakening Retail Sales, the first two months of the first-quarter 2019 Real Merchandise Trade Deficit also narrowed sharply in a pattern consistent with plunging domestic consumption, as seen last in the Great Recession economic collapse into 2008/2009, as opposed to a healthy, strengthening trade position (see *Section 1: Recent Economic Indicators* and *Section 3: Headline Fourth-Quarter 2018 GDP and into Mid-2019*). At the same time, surging oil prices again are spiking headline consumer inflation. The issues unfolding here largely are a direct result of the conflicted policies of the U.S. Central Bank, the Federal Reserve.

In addition, as we go to press, the full Mueller Report (with redactions) has been released, symptomatic of what have become mounting and unnecessarily disruptive political instabilities in the United States (see *Special Commentary No. 888*). If the House of Representatives should pursue any actions to impeach the President, as some have suggested, that likely would become a sharply negative development for the U.S. dollar and the domestic financial markets. Political stability issues also are present within major U.S. trading partners and allies (consider Brexit-related disruptions and the Yellow Vests of France). Where a combination of long-festering structural issues tied to U.S. fiscal, monetary and economic conditions, and rapidly deteriorating domestic and global political circumstances pose meaningful risks to financial-market stabilities, this narrative concentrates on U.S. economic, fiscal and monetary conditions.

The Federal Reserve Is Not Doing So Well with Its "Dual Mandate," Despite Happy, Formal Proclamations to the Contrary. The Federal Reserve Act of 1913 established the Federal Reserve as a privately owned, independent Central Bank for the United States of America, issuing and controlling the currency in circulation and determining domestic monetary policy. The Federal Reserve System operates through twelve regional Federal Reserve banks. Although the System is under Congressional Oversight, it is owned by its member commercial banks.

Appointed by the U.S. President and confirmed by Congress, the Chairman of the Federal Reserve's Board of Governors, currently Jerome Hayden Powell, otherwise is independent and not subject to serving at the President's pleasure.

Policy is set by the Board of Governors of the Federal Reserve System's Federal Open Market Committee (FOMC), which has been operating under a "Statutory Mandate" since the 1970s. Described in the FOMC's minutes of its March 2019 meeting: "Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability."

Per the Richmond Fed: "Since 1977, the Federal Reserve has operated under a mandate from Congress to 'promote effectively the goals of maximum employment, stable prices, and moderate long term interest rates [a concept no longer cited]'—what is now commonly referred to as the Fed's 'dual mandate,' The idea that the Fed should pursue multiple goals can be traced back to at least the 1940s, however, with shifting emphasis on which objective should be paramount. That such a mandate may, at times, create tensions for monetary policy has long been recognized as well."

A great deal has been written about the century-plus history of the Fed. See in particular the *Creature of Jekyll Island* by G. Edward Griffin. My purpose in today's *Commentary* simply is to review current economic circumstances in the context of ongoing FOMC policy, and in the context of the related systemic bailout of an otherwise collapsing banking system in 2008. FOMC policies of that time set the stage for the current, unfolding economic downturn. The FOMC policies of 2008 and 2018/2019, and the years intervening, have centered on the needs and health of the banking system, very much at the cost of domestic business activity and the economic health and prosperity of Main Street, U.S.A. From a practical standpoint, the "dual mandate" has not been met within the intent of the U.S. Congress, and that should be reviewed in the Congressional Oversight of the Federal Reserve System.

Maximum Employment and Price Stability? As a quick aside, it is worth noting that Fed's current statutory mandate of attaining "maximum employment and price stability," has been made a great deal easier to attain in recent decades, from a headline standpoint, thanks to the federal government redefining how it measures headline inflation and unemployment (always with Fed input and encouragement). Discussed in *Public Commentary on Inflation Measurement* and *Public Commentary on Unemployment Measurement*, the redefined series have had the policy and politically friendly effects of reducing both headline inflation and headline broad unemployment.

"New" Recession Triggered by Federal Reserve Efforts to Reverse Still-Extant Systemic Distortions from the Great Bailout of 2008. [*Some of the following material was previewed in* Bullet Edition No. 6, *although fully updated here*. *As a* Review*, this narrative encompasses some earlier ShadowStats writings.*] What likely will be recognized as a new, formal recession continues to unfold, triggered by excessive interest rate hikes and liquidity tightening in the last year or so by the Federal Reserve's Federal Open Market Committee. As the FOMC moved recently to constrain consumer liquidity, weakening the 74% of the U.S. Gross Domestic Product (GDP) directly driven by the consumer. Ripple effects from that already have or will hit the remaining 26% of the economy.

FOMC Tightening Triggered the Current Downturn. That Tightening Was an Attempt by the Fed to Reverse FOMC Bailout Actions Taken to Prop the Collapsing Banking System. The Fed Had Triggered That Earlier Circumstance Thanks to Inadequate Banking-System Oversight. The Federal Reserve can take credit for triggering the 2019 recession, as well. Hiking interest rates sharply is a well-established method for slowing or killing economic growth. The Fed began hiking their targeted federal funds rate by 0.25% regularly, every quarter, beginning in fourth-quarter 2017, up until and including December 2018, when the domestic stock market began to tumble in response. It usually takes about nine months to turn the economy, and that was roughly the time it took for the current economic warning signs to surface meaningfully. Subsequent to December 2018 rate hike and the accompanying financial-market turmoil, the FOMC eliminated planned rates hikes for 2019, at least temporarily.

Where the Fed had argued that just 0.25% per calendar quarter was a minimal and gradual interest rate increase, that has to be considered in the context of how the markets and the economy had acclimated to low rates. Where earlier rate hikes starting in 2015 had taken the Fed Funds rate from its bottom target range of 0% to 0.25%—in place since the 2008 effective banking-system failure—to 1.00% to 1.25% in mid-2017, there was no rate hike in third-quarter 2017. Against that base, the subsequent five quarterly rate hikes in December 2017 to December 2018 doubled the level of the high end of the targeted fed funds range from 1.25%, to which the markets had become accustomed, to the current 2.50%, a process that took a heavy toll on consumer liquidity.

Defending the rate hikes, the Fed argued that the broad economy was booming, overheating in fact, which raised the risk of rising inflation; that was nonsense. Two decades before, the Fed was complicit in pushing new inflation-reporting methodologies, which lowered headline inflation, with the effect of overstating headline, inflation-adjusted economic growth, including the GDP (again, see *Public Commentary on Inflation Measurement*). Even so, despite a booming headline GDP, major sectors of the U.S. economy never expanded post-Banking Crisis, never saw a full business recovery from the 2007 recession and economic collapse into 2009. Economic "expansion" generally is recognized and measured from when depressed levels of business activity recover to, and then expand beyond, the pre-recession peak in activity.

Business sectors that still have not recovered their pre-recession highs include domestic manufacturing, construction and much of the activity on Main Street, U.S.A. A record ten-plus years of economic non-expansion have been the penalty for major sectors of the private economy, from the failed Federal Reserve oversight of its banking system coming into 2008. Now the Fed is triggering a renewed and intensified economic downturn, as it tries to extricate itself from its policies of ten years ago (see the discussion in *Section 4: Underlying Reality*).

Fed's Failure to Resolve the 2008 Crisis Fully Is Fueling the 2019 Crisis. As the headline U.S. economy boomed into second- and third-quarter 2018, as measured by the government's Gross Domestic Product measure, headline activity underlying the GDP numbers began to slow sharply. From a peak of annualized inflation-adjusted real quarterly growth of 4.16% in second-quarter 2018, activity slowed to 3.36% in third-quarter activity, then to 2.17% in the "final" fourth-quarter reading. Both first- and second-quarter 2019 GDP likely will show outright quarterly contractions in real, inflation-adjusted activity, reflecting the onset of what should become a formal, new recession.

What happened to the economic boom? The issues lie in a number of circumstances out of balance in the U.S. economy and financial system, but the proximal trigger to the current disruption was the FOMC rapidly tightening systemic liquidity and raising interest rates. Those FOMC actions reflected continuing efforts to resolve issues that resulted from the Fed's propping up the 2008 collapsing banking system at any cost, irrespective of any costs to the broad economy and the American consumer in 2008, or of the costs to the broad economy and the American consumer in 2018/2019.

Specifically, the Fed's recent "tightening" efforts, raising the targeted federal funds rate by 0.25% in each of the last five quarters, since late-2017, and tightening liquidity conditions have damaged consumer liquidity conditions (see the soon to be updated *Consumer Liquidity Watch No. 5* – Special Edition). The broad trend in national economic activity usually reflects the impact of economic stimuli or depressants roughly nine-to-twelve months after the fact, not turning on the proverbial "dime."

Accordingly, the effects of FOMC's tightening of the last year or so are depressing current and future business activity as would be expected with the traditional lead time. As a result, Fed actions to raise interest rates to what historically and normally would be higher levels, backfired, as the foreseeable, current negative economic impact now has forced the FOMC into a neutral tightening stance. FOMC activity likely will shift to easing, again, probably in third-quarter 2019, as the downturn in economic activity, and the FOMC-driving concerns of banking-system solvency continue to intensify.

In like manner, any economic stimulus now, such as renewed FOMC easing (not just halting rate hikes and slowing balance sheet liquidation), likely would not have noticeable impact on broad economic activity until early-to-mid-2020. An easing in September/October easily could push related economic benefits until after the 2020 election.

The recent FOMC tightening has been raising interest rates and liquidating excessive assets that were purchased by the Fed a decade or so ago, to keep otherwise insolvent U.S. financial institutions afloat. The current effort had been to reverse the extreme financial-system distortions created at the time, used to forestall a feared complete systemic collapse. Those extreme actions included everything that could be done to guarantee, prop-up, bail-out and/or fund a bankrupt banking system and related major financial firms, institutions and organizations, public and private, including major corporations ranging from General Motors and A.I.G. to Fannie Mae and Freddie Mac.

Unfolding Business-Cycle Timing. ShadowStats contends that headline reporting of inflation-adjusted, real quarterly GDP growth likely peaked in second-quarter 2018 and slowed into third- and fourth-quarter 2018, with the level of activity falling into outright quarter-to-quarter contraction in first-quarter 2019, with second-quarter 2019 likely continuing in decline. Eventually, the present circumstance should be recognized, measured and timed as a "new" recession, off an economic peak level of activity in Fourth-Quarter 2018 (likely timed to November 2018).

In broad perspective, the current economic disruption effectively is the long-range, second down-leg of still-unresolved and unfolding circumstances of the 2007/2008 financial collapse. Indeed, the roots of this current "new" recession are found directly in that effective systemic failure or collapse of 2007/2008, and the ensuing, extraordinary Federal Reserve and the U.S. Federal Government systemic bailout. Recent FOMC rate hikes of the last year or two, aimed at constraining the consumer and at depressing the economy were part of the Fed's efforts to reverse the Quantitative Easing (QE) used earlier in the crisis to bailout and to salvage the failing banking system.

As of its March 2019 meeting, the Federal Reserve's Federal Open Market Committee indicated it had put planned interest-rate hikes for 2019 on hold, along with reducing/ceasing its balance sheet liquidations that were being used to unwind the QE programs. Despite recent, renewed hawkish comments by some policymakers, ShadowStats' betting is that the continuing, rapidly weakening, headline economic activity will trigger renewed FOMC easing by September 2019, possibly renewed, expanded QE. Quantitative Easing in the 2008 crisis enabled the Federal Reserve to liquefy and salvage the banking system, purchasing bank-held U.S. Treasury Securities as well as largely worthless Mortgage Backed Securities.

Despite Sharply Negative Catch-Up Headline Economic Reporting, Consensus Expectations Are Running on the Plus Side for First-Quarter 2019 GDP; Underlying Reality Remains a Contraction. As of April 19th modeling , the Atlanta Fed's *GDP Now* Model of likely annualized First-Quarter 2019 Real GDP growth stood at 2.8%, up from the headline "final" estimate of 2.2% real growth in Fourth-Quarter 2018 GDP. The Atlanta Fed modeled growth rate currently is stronger than consensus expectations of about 2.0%, plus or minus 0.7%. At the same time, the New York Fed's *GDP Nowcast Model* currently is estimating growth at 1.4%. ShadowStats looks for an eventual outright quarter-to-quarter contraction of 1.5% (-1.5%), plus-or-minus, for first-quarter 2019, following subsequent downside revisions, with an initial April 26th reporting of around 1.0%.

The BEA can bring in the GDP growth anywhere that it desires. Often, it will target the consensus outlook, let's say 2.0%, and it will report above or below that to signal the markets and consensus forecasters as to which way revisions are likely to go, if they are meaningful. The BEA views the economic consensus as a valuable economic indicator at the time of the initial GDP estimate. That is why I would for the headline reporting to come somewhat below 1.4%, then turning negative within subsequent three revisions through July 26th, at which point an effective headline recession should be in place. (See *Section 3: Headline Fourth-Quarter 2018 Growth and Into Mid-2019* and *Section 9b: Latest and Pending Economic Releases* and the *Beware July 26th* serction following here.)

Coming into the April 26th "advance" estimate of First-Quarter 2019 Gross Domestic Product (GDP), indeed there is an unusually wide range of forecasts and consensus expectations. Much of that is due to the turmoil in and disruption to the reporting of economic data that were neither surveyed nor prepared on a regular basis, during the late-December to late-January government shutdown (Shutdown). Affected data largely are from the Commerce Department's Census Bureau (Census) and Bureau of Economic

Analysis (BEA), including the GDP, the trade deficit, retail sales and most housing and construction numbers. Consider that the pending GDP report will include only two months of trade deficit data, where normally it would be based on an "advance" estimate of three months. Inflation and labor data from the Bureau of Labor Statistics (BLS) of the Labor Department largely were unaffected, although the BLS had problems measuring the impact of the Shutdown on its monthly labor data.

Reporting Issues for the Bureau of Economic Analysis. The BEA can bring in the headline GDP at any level it desires, and often targets the consensus outlook. Usually the Atlanta Fed's estimate comes closer to the headline reporting than the New York Fed's, but where the *ShadowStats* estimate, again, shows an outright first-quarter contraction, well below consensus, including the New York Fed's outlook. Nonetheless, a quarterly contraction should be reported within the three monthly revisions, subsequent to the headline April 26th detail, if the "advance" report does not show a contraction.

The Fed models are built upon various assessments of headline reporting of underlying economic series, such as Retail Sales. In an unusual twist, the current underlying reporting history includes government-shutdown delayed and distorted numbers that have seen artificially volatile numbers in catch-up reporting. Consider that most of the key series mentioned here, have turned sharply negative in their most-recent monthly reporting and revisions, both in catch-up, and consistent with strongly negative related details in the March 2019 payroll employment survey (such as in manufacturing, which indeed contracted in the recently reported first-quarter 2019 activity). Recent reporting, leading into the April 26th "advance" GDP estimate have covered the February Trade Deficit, and the March CASS Freight Index™, Industrial Production and Retail Sales and Housing Starts. Existing-Home Sales (April 22nd), New-Home Sales (April 23rd) and New Orders for Durable Goods (April 25th) still are pending before the GDP release. ShadowStats will assess each series in the ***Daily Update*** section of the ShadowStats home page within two-to-three hours of headline release. The others are covered in *Section 9b*. The remaining pre-GDP release numbers have good chances coming in below expectations.

The "advance" first-quarter GDP will be subject to two regular monthly revisions, with the second estimate on May 30th and the "final" third estimate on June 27th, both likely to the downside, but then comes the annual benchmarking on July 26th.

Beware July 26th, When a Formal Recession Likely Will Have Gained Popular Recognition! The annual benchmarking on July 26th, will revise recent GDP history, including Fourth-Quarter 2018, and First-Quarter 2019, both likely to the downside, with a headline first-quarter contraction in hand by then. Coincident with the benchmarking will be the "advance" estimate of Second-Quarter 2019 GDP. With second-quarter GDP likely to show a second, consecutive real quarterly decline, that should set the stage for an eventual, formal "Recession" declaration. Nonetheless, FOMC and financial-market recognition of that circumstance should run well ahead of any formal declaration by the National Bureau of Economic Research (NBER), which is the defining authority.

Saving the Banking System at All Costs. Discussed frequently in *ShadowStats* missives (see *No. 859 Special Commentary*, for example), consider that the effects and distortions of the Panic of 2008 still dominate U.S. central-bank concerns. With the U.S. banking-system then on the brink of/in a state of collapse, the Federal Reserve and the U.S. Treasury did everything in their power to prevent systemic failure, irrespective of any costs, short- or long-term, or any disruptions, economic, inflation or otherwise. Systemic collapse or reorganization simply was not considered a realistic option.

Yet, a Banking Holiday, with FOMC guarantees on all deposits (actually put in place with the 2008 crisis), and with a reorganization of the Banking System and Federal Reserve (or restructured U.S. Treasury) systemic oversight, might have left the U.S. economy in a better long-term circumstance than it is today. Keep in mind that coming into 2007 and 2008, the Federal Reserve had done much to encourage the development of the derivative instruments and investment policies that helped to fuel the systemic collapse.

Again, though, with systemic failure not viewed as an option, whatever money had to be created, spent or loaned, whatever liabilities had to be guaranteed, whatever bad assets had to be absorbed, whatever entities (inefficient, crooked or otherwise) had to be bailed out, whatever markets had to be manipulated, whatever had to be done as a stop-gap measure was done to preserve the system. What was not done was to address most of the underlying fundamental issues that led to the crisis, including the long-term sovereign-solvency issues of the United States government (see *Section 6: U.S. Treasury and Fiscal Policy*), or needed meaningful economic stimulus, such as addressing faltering consumer income and finances (see the *Section 5: Consumer Conditions*). Discussed in *Section 4: Underlying Reality* and *Section 7: Federal Reserve and Monetary Policy*, those issues still need to be addressed, along with a long-overdue Congressional overhaul of the politically independent U.S. Central Bank and its Federal Reserve System, which otherwise is owned by the banks that it also regulates.

The Central Bank's Primary Concern Remains the Banking System, Not the Economy and Not Main Street U.S.A. Keep in mind that the 2008 banking-system insolvency arose under the watchful eye of the Federal Reserve System, which is owned by the banks. Subsequent to the effective systemic collapse, the FOMC's actions centered on salvaging and propping a broken banking system, at the deliberate cost of not restoring a healthy economy. Circumstances at the time had the open and aggressive support of Congress, which bailed out other elements of the financial system, and business community, including some major corporations. The issue with the banking system, however, remains the dominant factor still pitting the FOMC against Main Street U.S.A.

Main Street rebelled at the circumstance with the election of President Trump in 2016. The unresolved systemic, economic and political issues still are being felt and played out, and increasingly are reflected in the stock market. The President's recent criticism of the Federal Reserve Chairman and FOMC policies highlights the still-unresolved systemic conflicts of 2008. Despite a recent recovery in equity prices from year-end 2018 stock-market volatility (see *Section 8: U.S. Financial Markets*), 2019 likely will not be a happy one, from a headline standpoint for equities; it most likely will offer some significant financial-market and economic turmoil and surprises, but perhaps along with some resetting of healthier economic and systemic-liquidity conditions going forward.

Subsequent to quelling the Panic of 2008, the Fed concentrated its efforts on propping the domestic and global banking systems—if the global banking system failed, such also would encompass the U.S. system—yet, more than a decade after the onset of the crisis, the Fed still has not succeeded in fully reestablishing banking-system health and normal, commercial functionality. The Fed certainly did little to stimulate domestic commerce in the crisis (and continuing)—such as fueling lending activity—other than to prevent a banking-system collapse. Nonetheless, the banking industry remains at risk of further, intensified solvency or liquidity issues from a headline renewed and intensifying, domestic economic downturn, one triggered by the Federal Reserve's own Panic of 2008 exit policies, which have been applied, again, to a system that never really recovered from its collapse into 2009.

Having taken little but stopgap measures in 2008, which pushed much of the banking-solvency crisis into the future, the Federal Reserve (and the U.S. Treasury), again, face continuing systemic insolvency or instability issues as that future closes in. Therein lies the Federal Reserve's internal terror. It cannot find a way out of its ongoing crisis, with similar issues affecting other central banks. Other than for the FOMC offering what likely would be systemic-debilitating Perpetual Quantitative Easing, any forthcoming solution, again, may lie with the Congress and the Administration overhauling the Fed and regaining control of the domestic banking system. Given the political and economic power inherent in the banking system, however, such is not likely until a new severe financial/economic panic/crisis forces the politicians in Washington into action.

Federal Reserve Versus the U.S. Treasury on the U.S. Dollar and Long-Range Sovereign Solvency. Recent comments by Federal Reserve Chairman Jerome Powell have highlighted how distorted or how far removed Fed policy is from the broad, long-range financial interests and economic stability of the United States. For example, discussed in *Section 6*, Federal Reserve Chairman Jerome Powell recently described U.S. Government fiscal policies as "unsustainable" but distanced the Fed from related policy concerns, at present, where the Fed concentrated only on the near-term business cycle in considering its policies.

Yet, the near-term business cycle has strong impact on near- and long-term U.S. Treasury fiscal operations, where economic weakness (most recently pursued by the Fed in order to temper indications of an "overheating" economy) reduces tax receipts, ballooning the deficit.

Separately, at his post-March 2018 FOMC meeting press conference, Mr. Powell pushed aside a question on the U.S. dollar, as being in the realm of concerns and policy of the U.S. Treasury. While the Treasury can request currency-market interventions that the Fed would carry out, FOMC relative interest rate levels and any relative fiscal stimulus or depressant have major impact on the relative strength or weakness of the U.S. dollar in the global markets. Where higher rates, or jawboning of same, had been used by the Fed at one point to prop the dollar and U.S. stock prices, newly triggered economic weakness has placed downside pressure on the dollar, spiking oil prices, increasing domestic inflationary pressures.

Improved Congressional oversight might find some net systemic benefit to the domestic economy and financial-market stability from coherent and consistently motivated and monetary and fiscal policies out of a central bank centered on domestic economic stability, as opposed to a central bank looking to prop a financially challenged banking system at the cost of economic growth on Main Street, U.S.A.

Where Fed Chairman Powell has indicated that "deficit" spending and the relative strength of the U.S. dollar were the purview of the Treasury, not the Fed, maybe it is time for the Congress to realign control of the U.S. currency, monetary policy and "targeting" economic activity back to the elected officials who control the U.S. Treasury, with oversight in Congress, as opposed to the Federal Reserve, which is owned by the banks it oversees.

Great Bailout Accompanied the Great Recession. While the Great Bailout kept the financial system and related large institutions afloat, it also was accompanied by an effective economic collapse popularly called the "Great Recession," from which major sectors of the U.S. economy, including much of Main Street U.S.A. have yet to recover fully.

The first five *Sections* here discuss headline economic and inflation indicators, and some varied ways of looking at them in the context of broad U.S. economic activity and underlying economic reality. The last four *Sections* review issues with U.S. fiscal policy, Federal Reserve policies, conditions in various financial markets, an updated *ShadowStats* ALERT and details on recent and pending economic reporting.

[*Section 1: Recent Economic Indicators* follows]

Section 1: Recent Economic Indicators

Please Note: Details and graphs here reflect the latest information reporting up to through the April 19th release of March 2019 Housing Starts. General background detail on major releases of the last month are found in *Section 9b: Latest and Pending Economic Reporting* (page 89). Extended coverage and graphs are listed in the *Contents* (beginning on page 3).

Key Indicators Signaling a Recession. Economic series signaling a likely headline decline in inflation-adjusted or "real" First-Quarter 2019 Gross Domestic Product (GDP) include real Retail Sales, Industrial Production and Housing Starts, reflected in *Graphs 1 to 9*, the Real Merchandise Trade Deficit (see *Graph 22*, discussed in *Section 3*, page 34) and the CASS Freight Index™ (*Graphs 34* to *36* in *Section 4*, page 43). Recent reporting of each series is reviewed in *Section 9b* (beginning page 89).

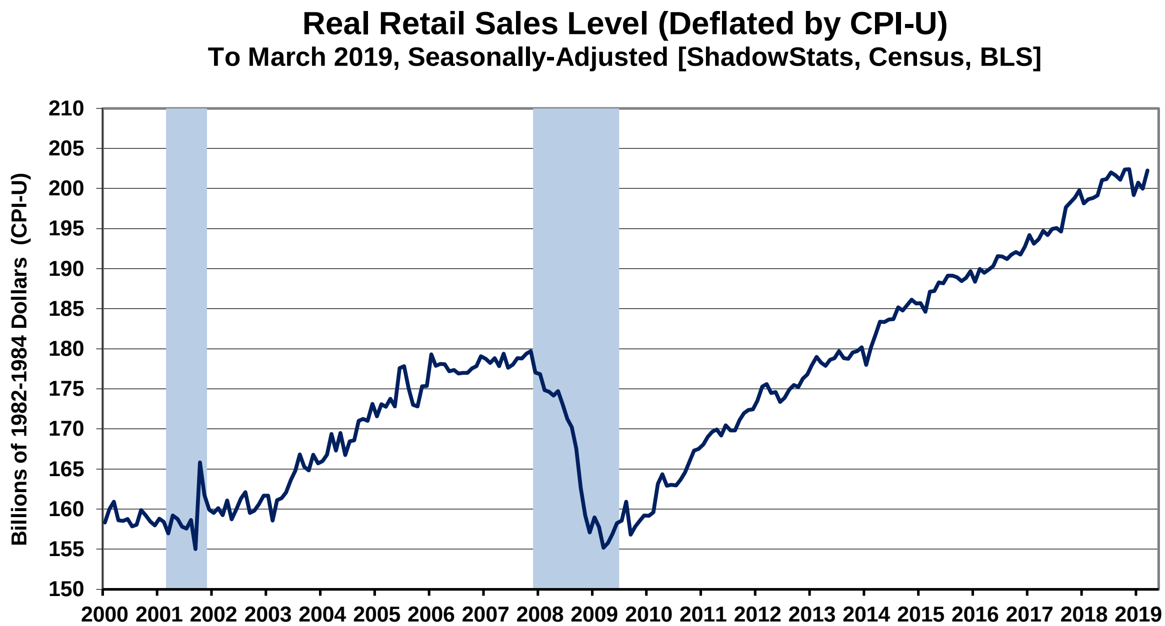
First-Quarter 2018 Real Retail Sales Contracted for a Second Consecutive Quarter. *Graphs 1* to *3* of monthly activity reflect today's April 18th headline March 2019 detail, with quarterly Real Retail Sales contracting for second consecutive quarter, down at an annualized real quarterly pace of 0.65% (-0.65%) in first-quarter 2019, following a drop of 0.51% (-0.51%) in fourth-quarter 2018 and an annualized gain of 2.25% in third-quarter 2018. The Retail Sales series was heavily disrupted by the effects of the government shutdown, and it likely will revise lower, particularly in first-quarter activity. Discussed in *Section 4*, the "unexpected" narrowing in the February 2019 Real Merchandise Trade Deficit reflected collapsing U.S. goods imports (not oil), which indicated sharply declining domestic consumption, and the headline retail sales likely will more than catch up with that in revision. The same pattern was seen when the U.S. economy entered the Great Recession in 2008. Separately, real annual growth in Retail Sales below 2.0%, as seen at present, most commonly is seen during periods of headline recession.

First-Quarter Industrial Production and Manufacturing Both Contracted Quarter-to-Quarter. *Graphs 4* to *6* reflected "unexpected" declines in first-quarter 2019 Industrial Production and Manufacturing, which, in turn, signaled a down quarter for the largest single segment of U.S. economic activity.

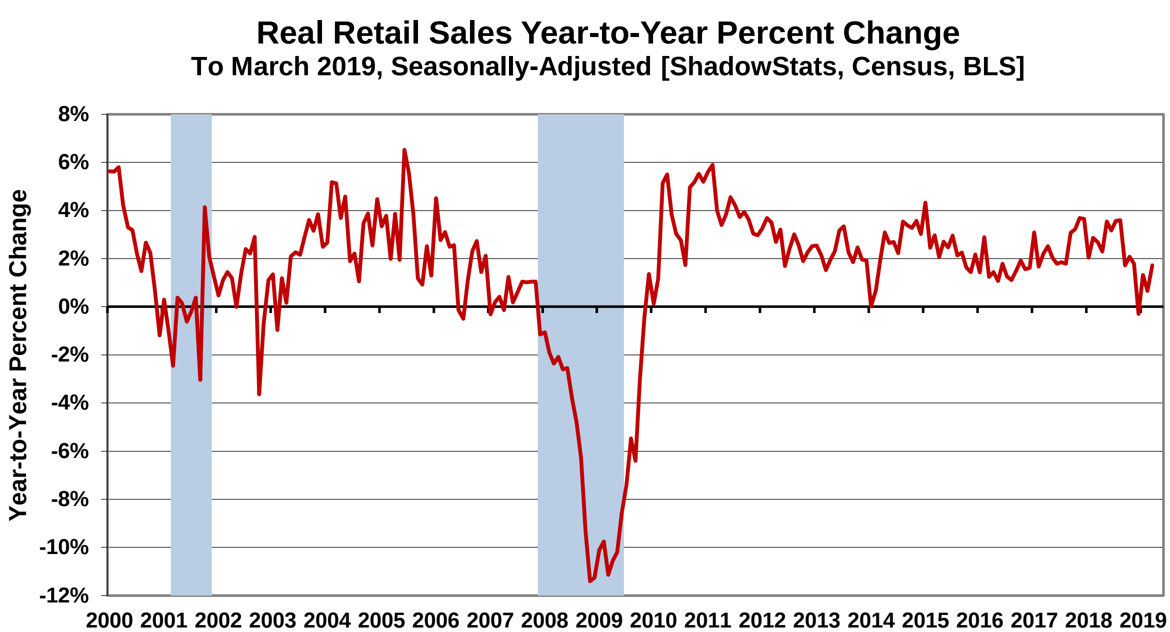
First-Quarter Housing Starts Likely Will See Its Fourth Consecutive Quarter-to-Quarter Contraction, Second Consecutive Quarterly Annual Contraction. Heavily disrupted and distorted reporting of the Housing Starts series likely will reflect a fourth-consecutive quarter-to-quarter contraction in its initial first-quarter 2019 full reporting on August 19th. Such also would be the second consecutive quarter of year-to-year contraction (see *Graphs 7* to *9*, current through headline February detail).

March 2019 Annual CASS Freight Index™ Activity Declined for a Fourth Straight Month, a Pattern Not Seen Since the 2015 Recession in Industrial Production. Discussed in *Section 4* (beginning page 39), the calling of a formal recession in 2014/2015 likely was missed due to delayed benchmark revisions that eventually showed it to be in place (also see the discussion in [Bullet Edition No. 4](#)). One series that reflected that downturn in current time was the CASS Freight Index™, which is generating its first recession signal since then.

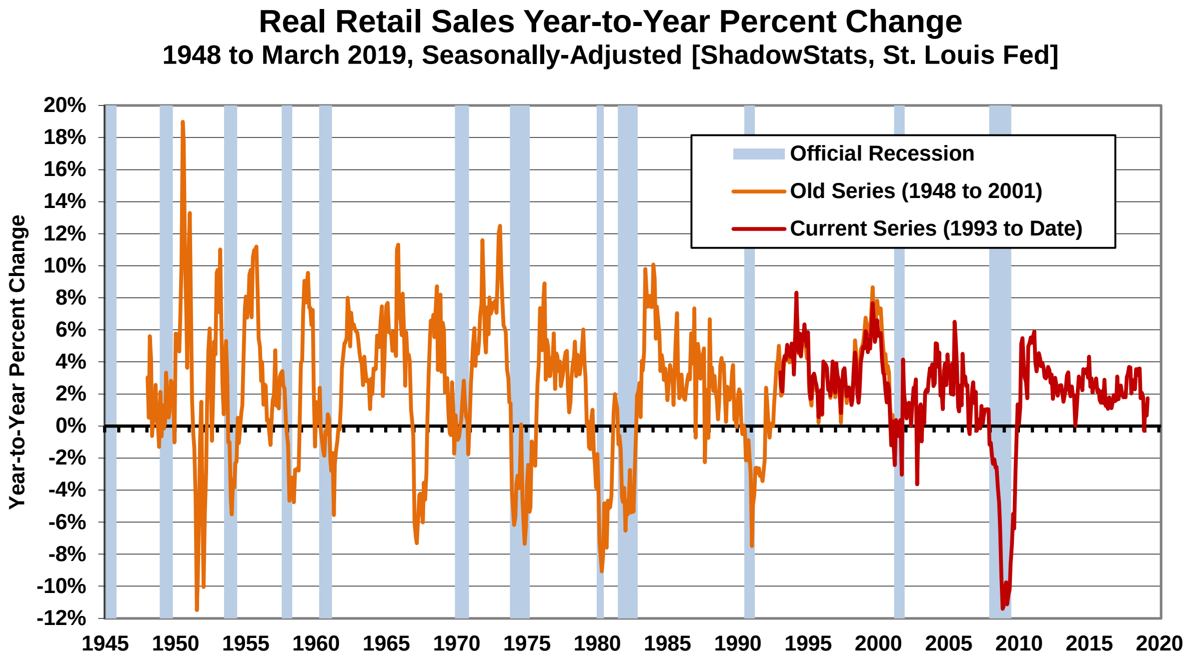
Graph 1: Real Retail Sales Level, Deflated by Headline CPI-U (2000 to March 2019)



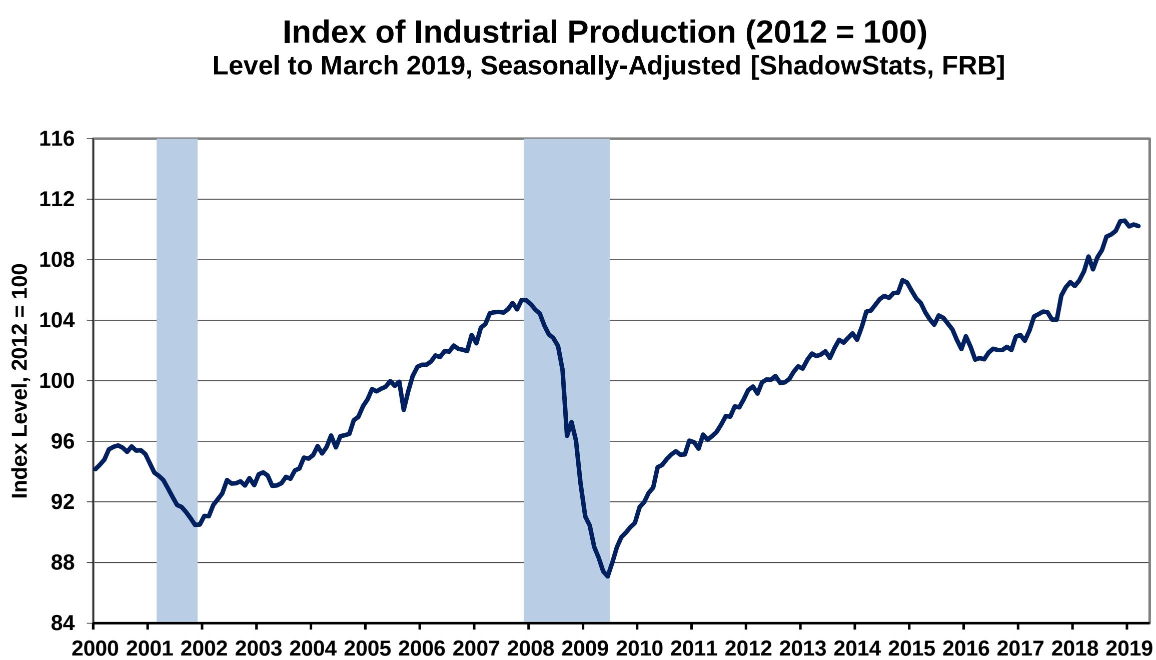
Graph 2: Real Retail Sales, Year-to-Year Change (2000 to March 2019)



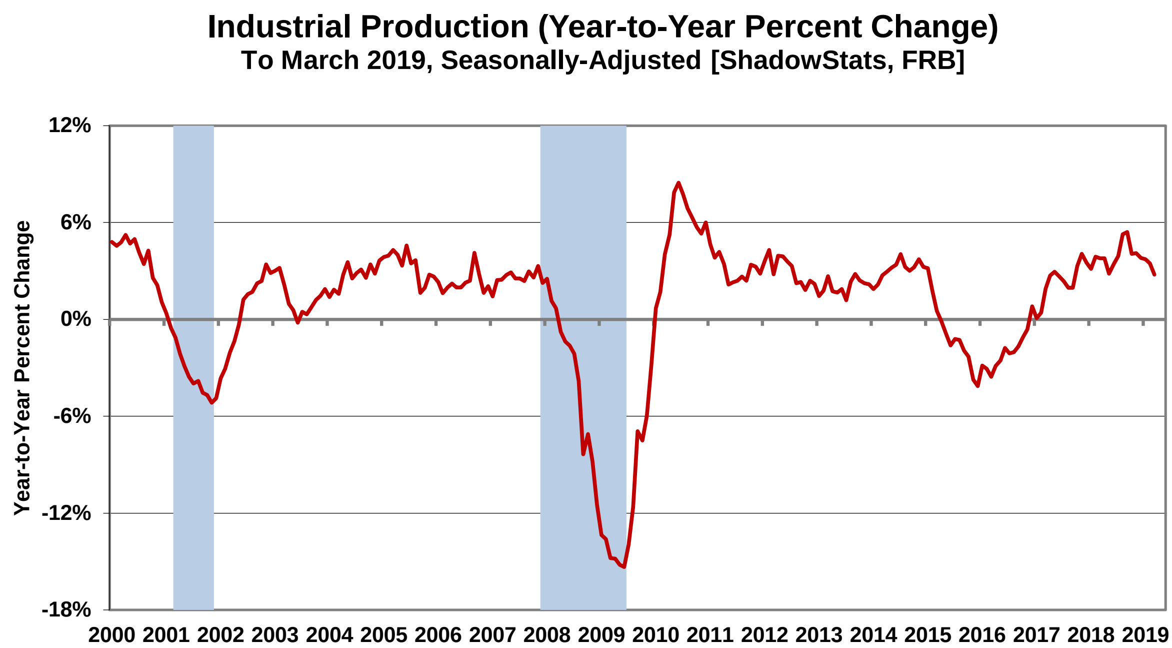
Graph 3: Real Retail Sales , Year-to-Year Change (1948 to March 2019)



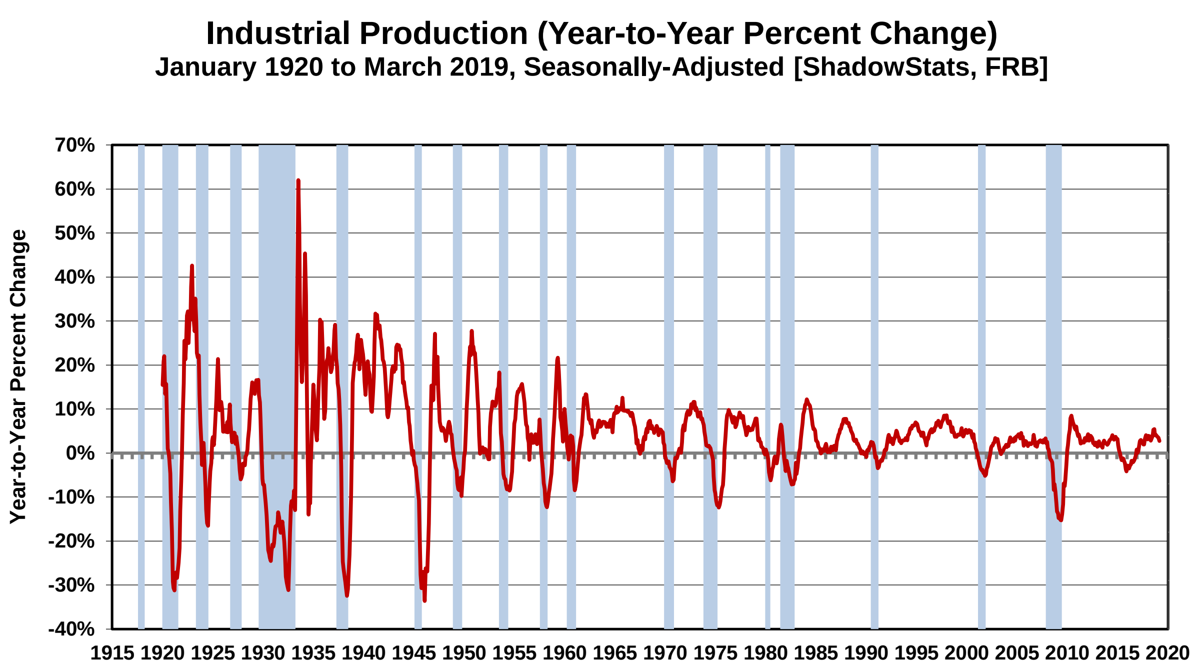
Graph 4: Index of Industrial Production (2000 to March 2019)



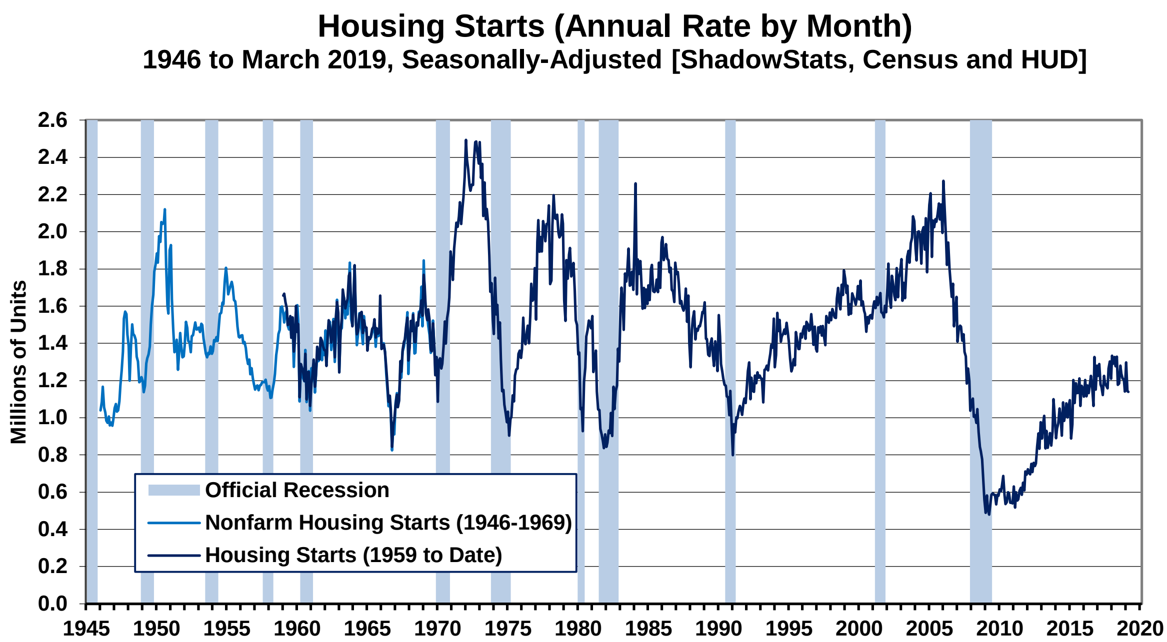
Graph 5: Index of Industrial Production, Year-to-Year Change (2000 to March 2019)



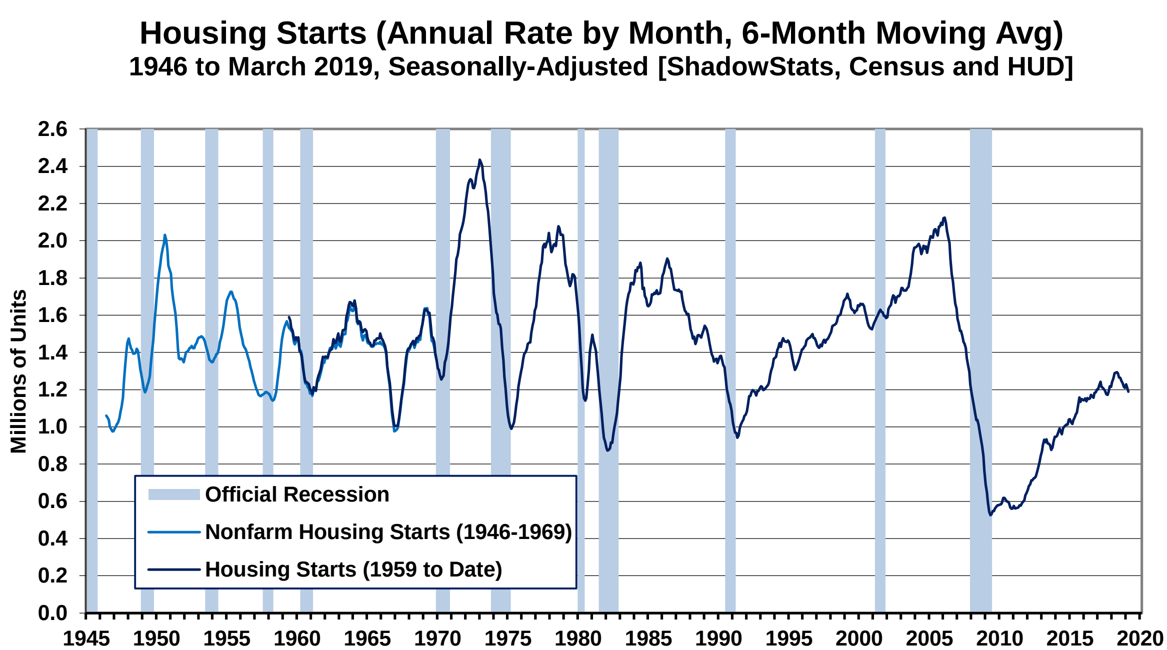
Graph 6: Index of Industrial Production, Year-to-Year Change (January 1920 to March 2019)



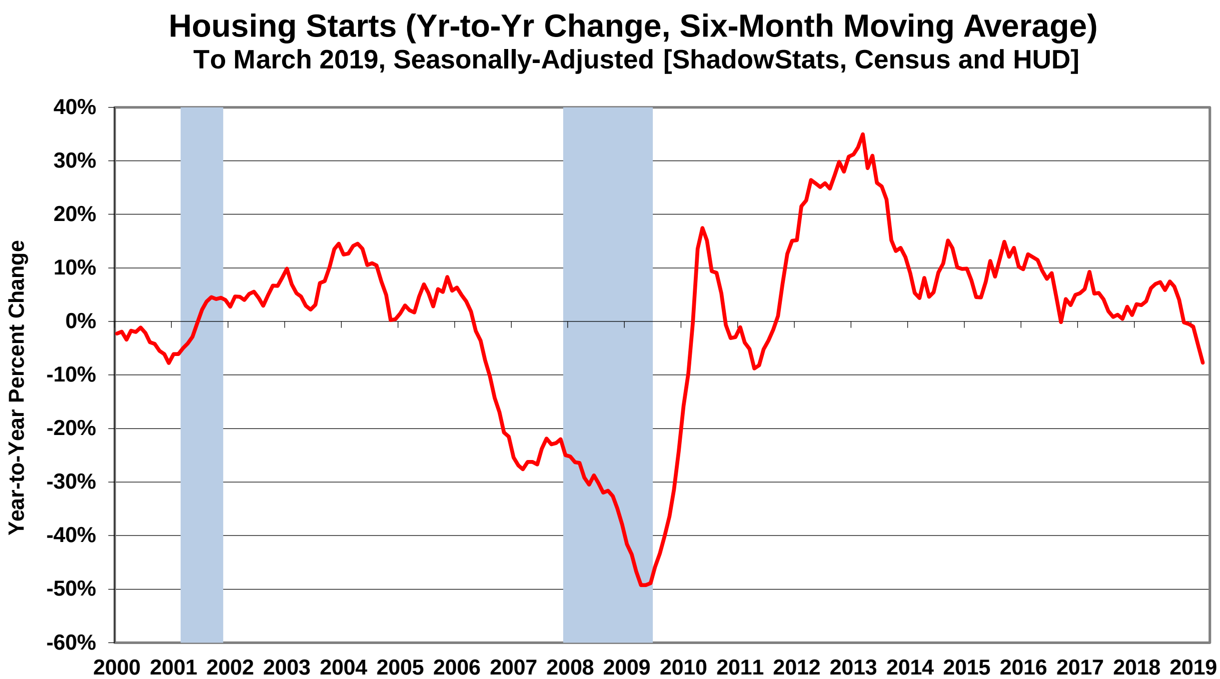
Graph 7: Housing Starts, Annual Unit Rate by Month, 1946 to March 2019



Graph 8: Housing Starts, Annual Unit Rate by Month, Smoothed 6-Month Moving Average, 1946 to Mar 2019



Graph 9: Housing Starts, Yr-to-Yr Percent Change, 6-Month Moving Average, 1946 to March 2019



Supplemental to *Graphs 7* to *9* on Housing Starts, consider *Graph 20* on GDP Residential Investment in *Section 3* (page 33), and *Graphs 43* to *48* in *Section 4* on Construction Activity and Home Sales (beginning page 48).

[*Section 2: Inflation* follows]

Section 2: Inflation

Oil Price, Not Economic Activity, Has Been the Primary Driver of Headline U.S. Inflation in Recent Years. Over time, rising or falling inflation reflected in *Table 1* largely was due to extreme variability in oil prices, usually driven by factors other than economic activity. The recent FOMC canard of soaring inflation being due to an "overheating" economy simply was used as an excuse for hiking interest rates. Still, full-year 2018 annual CPI-U inflation at 2.44% was the highest since 2011, up from 2.13% in 2017. While year-to-year CPI-U dropped to 1.64% in First-Quarter 2019, reflecting a continuing recent decline in gasoline prices, that hit a monthly trough of 1.52% in February 2019, jumping to 1.86% in March 2019 with soaring gasoline prices, which have continued to rise sharply into April 2019.

A Table for Comparing Annual Inflation Rates. *Table 1* details headline year-to-year inflation on both a quarterly and annual basis for the various Consumer Price Indices, allowing direct comparison of same for the past five years. Included are the headline CPI-U and its Food, Energy and Core (ex-Food and Energy) components, the narrower CPI-W and the fully-substitution based C-CPI-U.

Also included is the ShadowStats Alternate Inflation Measure (1980-Based) which restates the CPI-U for methodological reporting changes since 1980 that otherwise have been used to reduce headline consumer inflation reporting since the early-1980s (see *Public Commentary on Inflation Measurement*). Definitions of these various consumer-inflation series and further details are found on page 24. *Graphs 10* and *11* plot both the 1980-base and 1990-base ShadowStats-Alternate CPI Series against the headline CPI-U.

Table 1 also shows the Final Demand Producer Price Index (FD-PPI) measure of wholesale inflation and a breakout of its only meaningful subsector, Goods. Like the CPI-U series, FD-PPI aggregate headline inflation is understated by the use of fully substitution-based estimates. It also suffers from definitional issues with the Services Sector detail, estimated from profit margins instead of costs (rising gasoline prices usually are reflected in rising goods inflation, offset by falling services, profit-margin inflation), all as discussed in *Section 9b* (page 89).

Moving beyond just consumer and producer inflation, the table also shows the headline Implicit Price Deflator used in reporting real Gross Domestic Product, discussed later in the context of *Graphs 13* and *14* (*Section 3*, page 27) but plotted here as *Graph 12* versus the headline CPI-U. Separately, where oil-price volatility has been the primary driving force behind headline variability in consumer inflation, year-to-year percent price changes in crude oil (Brent) are reflected in the last column.

Table 1: Comparative Measures of Quarterly Year-to-Year and Full Year Inflation

Year-to-Year Inflation for Headline Quarterly and Annual Averages of Various Measures of Consumer, Producer and ShadowStats Price Indices, GDP Implicit Price Deflator and Oil Prices, 2014 to 1q2019, Not Seasonally Adjusted

Quarter	CPI-U	Food	Energy	Core (1)	CPI-W	Chained CPI-U*	Shadow-Stats (2)	FD-PPI	PPI Goods	GDP IPD (3)	Oil Brent (4)
2014											
1st-Q	1.41%	1.40%	-0.03%	1.62%	1.31%	1.26%	9.06%	1.35%	0.98%	1.74%	-3.83%
2nd-Q	2.05%	2.23%	3.23%	1.91%	2.04%	1.86%	9.79%	1.93%	2.22%	2.08%	6.95%
3rd-Q	1.78%	2.75%	0.81%	1.77%	1.70%	1.61%	9.51%	1.80%	1.74%	2.07%	-7.56%
4th-Q	1.25%	3.22%	-5.64%	1.71%	0.97%	1.05%	8.93%	1.25%	0.09%	1.67%	-30.03%
2015											
1st-Q	-0.06%	2.84%	-18.87%	1.70%	-0.68%	-0.35%	7.52%	-0.48%	-4.05%	1.22%	-50.09%
2nd-Q	-0.04%	1.79%	-16.87%	1.76%	-0.59%	-0.20%	7.55%	-0.81%	-4.40%	1.16%	-43.80%
3rd-Q	0.11%	1.62%	-16.03%	1.84%	-0.41%	-0.10%	7.71%	-0.93%	-4.41%	1.05%	-50.50%
4th-Q	0.47%	1.21%	-14.89%	2.01%	0.03%	0.18%	8.09%	-1.26%	-4.36%	0.87%	-43.01%
2016											
1st-Q	1.08%	0.83%	-10.56%	2.24%	0.79%	0.76%	8.73%	0.00%	-2.66%	0.87%	-37.30%
2nd-Q	1.05%	0.65%	-9.48%	2.21%	0.71%	0.73%	8.71%	0.12%	-2.24%	0.99%	-26.09%
3rd-Q	1.12%	-0.02%	-7.79%	2.24%	0.76%	0.74%	8.78%	0.21%	-1.49%	1.00%	-9.21%
4th-Q	1.80%	-0.33%	2.18%	2.15%	1.65%	1.50%	9.52%	1.37%	0.90%	1.50%	12.62%
2017											
1st Q	2.54%	0.11%	12.26%	2.17%	2.56%	2.30%	10.31%	1.98%	3.71%	2.11%	58.36%
2nd Q	1.90%	0.76%	5.58%	1.77%	1.80%	1.50%	9.62%	2.21%	3.07%	1.70%	8.75%
3rd Q	1.97%	1.15%	6.64%	1.69%	1.96%	1.56%	9.70%	2.35%	2.96%	1.81%	13.75%
4th Q	2.12%	1.43%	7.55%	1.75%	2.18%	1.71%	9.86%	2.76%	3.63%	1.97%	25.17%
2018											
1st Q	2.21%	1.45%	6.76%	1.93%	2.30%	1.76%	9.96%	2.77%	3.18%	1.95%	24.76%
2nd Q	2.71%	1.35%	10.50%	2.21%	2.89%	2.30%	10.50%	3.02%	3.91%	2.50%	50.41%
3rd Q	2.64%	1.40%	8.98%	2.24%	2.79%	2.34%	10.42%	3.03%	3.92%	2.39%	44.09%
4th Q	2.20%	1.39%	3.90%	2.18%	2.22%	1.94%	9.95%	2.75%	2.70%	2.17%	12.00%
2019											
1st Q	1.64%	1.90%	-3.41%	2.09%	1.48%	1.52%	9.35%	2.03%	0.82%	n.a.	-5.63%
Year											
2014	1.62%	2.40%	-0.34%	1.75%	1.50%	1.45%	9.32%	1.58%	1.26%	1.89%	-8.83%
2015	0.12%	1.86%	-16.70%	1.83%	-0.41%	-0.12%	7.72%	-0.87%	-4.30%	1.07%	-47.14%
2016	1.26%	0.28%	-6.58%	2.21%	0.98%	0.93%	8.94%	0.42%	-1.38%	1.09%	-16.59%
2017	2.13%	0.86%	7.92%	1.84%	2.13%	1.76%	9.87%	2.33%	3.34%	1.90%	24.03%
2018	2.44%	1.40%	7.53%	2.14%	2.55%	2.14%	10.21%	2.89%	3.42%	2.25%	31.80%

*** Regularly revised lower from re-weightings, usually with a one-year lag. (1) Ex-Food and Energy. (2) ShadowStats Alternate CPI, 1980 Base.**
(3) Seasonally Adjusted, Headline IPD; ShadowStats IPD About 2% More. (4) Averages of daily Brent price FOB.
Sources: ShadowStats, Bureau of Labor Statistics, Bureau of Economic Analysis, Department of Energy

Getting back to the headline consumer inflation measures, the C-CPI-U now is used in determining tax brackets for individuals, and likely also will be used in the not-so-distant future for determining Cost of Living Adjustments (COLA) for Social Security and related programs, currently set by the CPI-W.

The concept and intent of the C-CPI-U was to reduce the headline reporting of consumer inflation even further, with the effect of reducing the federal budget deficit, without anyone in Congress having to make politically-impossible votes, such as to cut Social Security COLA adjustments. Discussed in the *Public Commentary on Inflation Measurement*, deflation by too-low an inflation number including any of the headline CPI series (particularly the C-CPI-U) results in overstated tax brackets and understated COLA adjustments, which respectively boost Federal Revenues and cut Federal Spending. Using understated inflation in deflating headline nominal activity, in economic series such as Real Average Weekly Earnings, results in overstated inflation-adjusted economic growth as shown in later *Graph 50*, *Section 5* (page 52). The understated Implicit Price Deflator (IPD) for the GDP, meaningfully overstates headline GDP real growth, discussed in *Section 4* (page 36).

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:

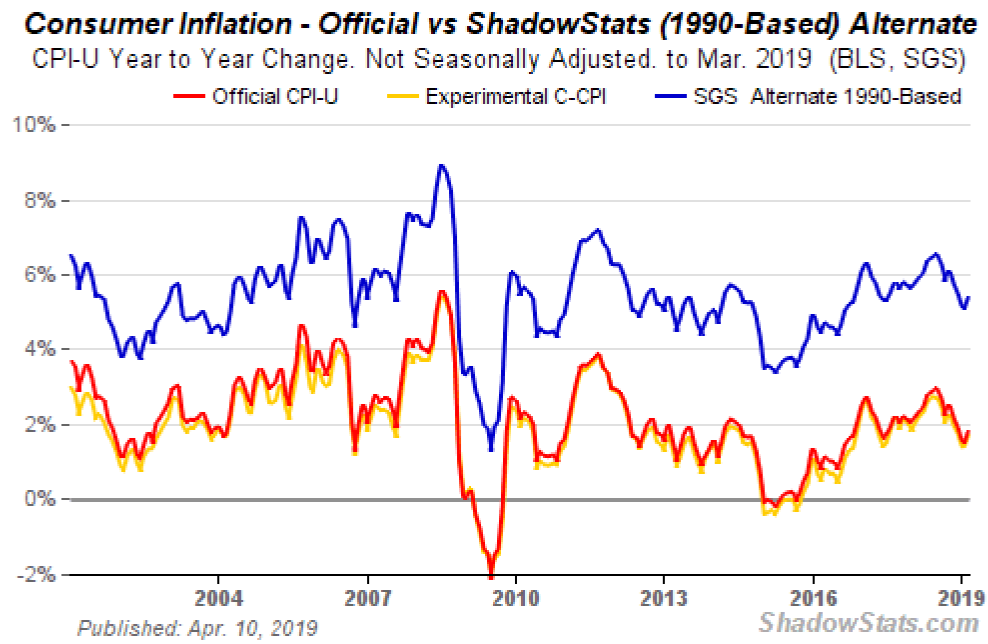
*The **CPI-U (Consumer Price Index for All Urban Consumers)** is the monthly headline inflation number (seasonally adjusted) and is the broadest in its coverage, representing the buying patterns of all urban consumers. Its standard measure is not seasonally-adjusted, and it never is revised on that basis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

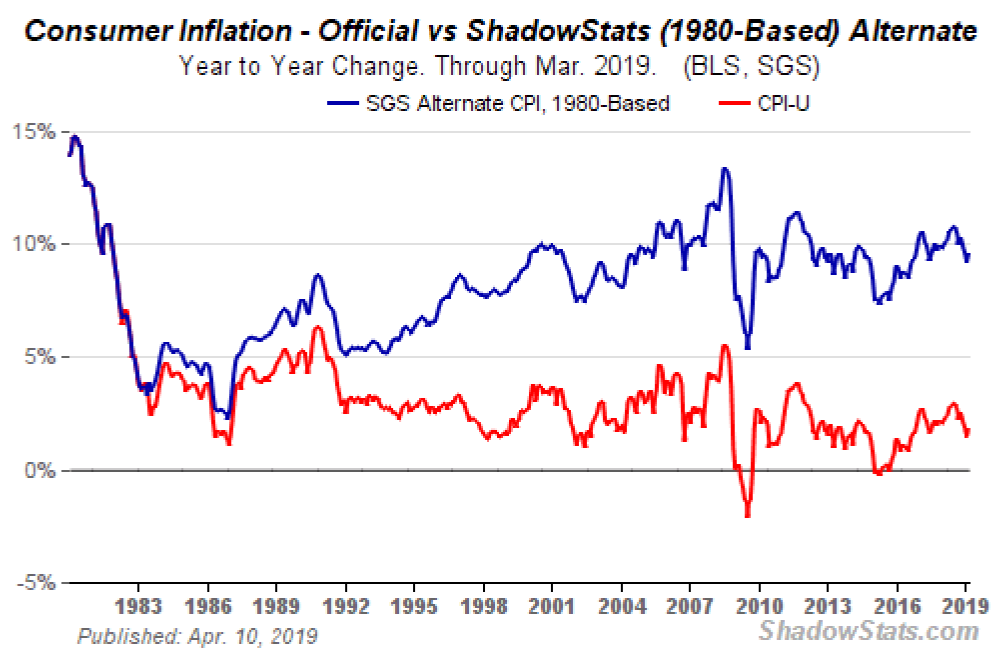
*The **C-CPI-U (Chain-Weighted CPI-U)** was an experimental measure—now active, formally, with the 2017 Tax Reform—where the weighting of components is fully substitution based. It generally shows lower annual inflation rate than the CPI-U and CPI-W. The latter two measures once had fixed weightings—so 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.*

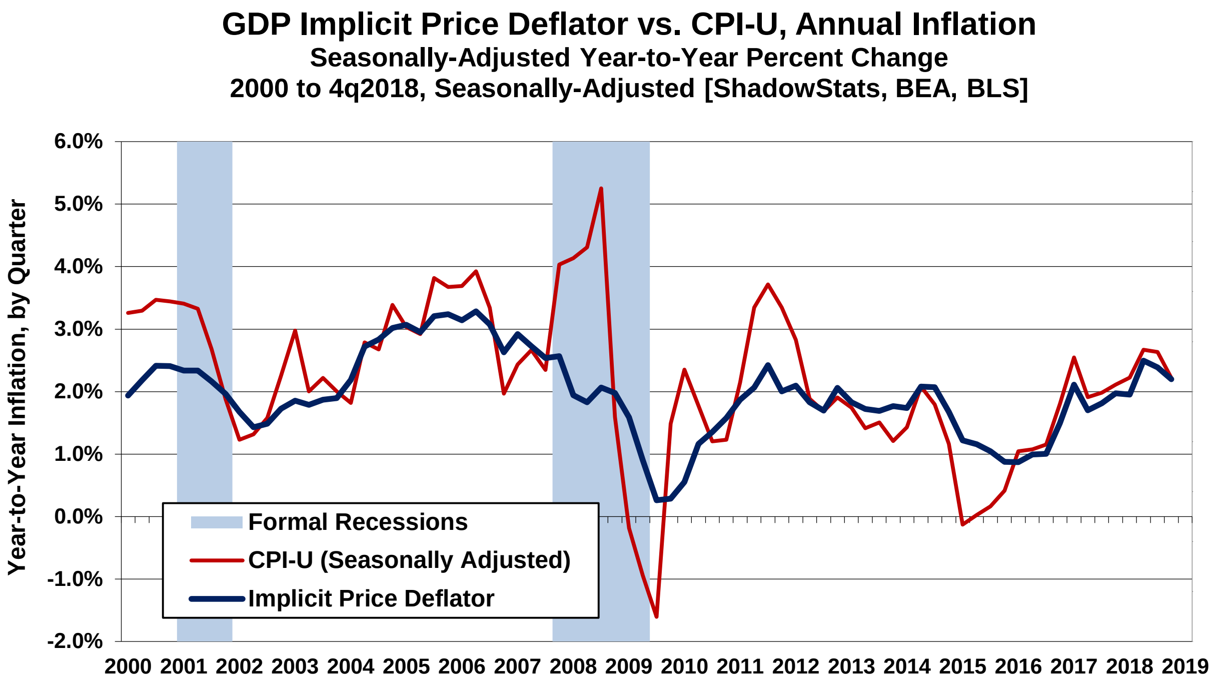
Graph 10: Comparative Headline Year-to-Year Change, CPI-U vs. ShadowStats 1990-Based Alternate



Graph 11: Comparative Headline Year-to-Year Change, CPI-U vs. ShadowStats 1980-Based Alternate



Graph 12: GDP Implicit Price Deflator vs. CPI-U, Yr-to-Yr Inflation (2000 to "Final" 4q2018 GDP)



[*Section 3: Headline Fourth-Quarter 2018 GDP and Into Mid-2019* follows]

Section 3: Headline Fourth-Quarter 2018 GDP and Into Mid-2019

Headline Real Fourth-Quarter 2018 Gross Domestic Product Annualized Quarterly Growth Slowed to 2.17% from 3.36% in Third-Quarter 2018. Plotted in *Section 3* is the headline GDP as published by the Bureau of Economic Analysis (BEA). The headline fourth-quarter 2018 reporting was disrupted and heavily distorted by the government shutdown. The headline two estimates (instead of the regular three) appear to have been targeted by the BEA at then-existing headline consensus estimates. First-quarter 2019 GDP also will be lacking full data, specifically a full accounting on the Trade Deficit or the Net Exports account.

Discussed in the *Overview* (page 11), ShadowStats expects that headline reporting of inflation-adjusted, real quarterly GDP growth likely peaked in second-quarter 2018 and slowed into third- and fourth-quarter 2018, with the level of activity falling into outright quarterly contraction in both first- and second-quarter 2019. Eventually, the present circumstance should be recognized, measured and timed as a "new" recession, off an economic peak level of activity in November 2018.

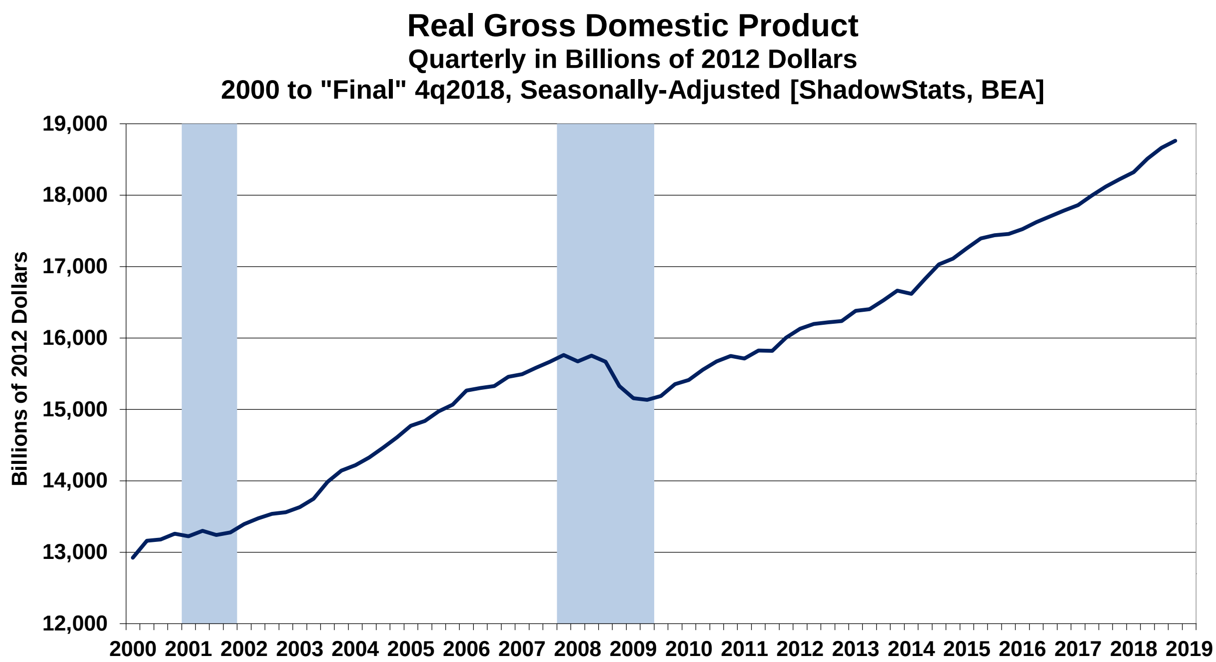
The annual GDP benchmarking on July 26th, will revise recent GDP history, including fourth-quarter 2018, and first-quarter 2019, both likely to the downside, with a headline first-quarter contraction in hand by then. Coincident with the benchmarking will be the "advance" estimate of Second-Quarter 2019 GDP. With second-quarter GDP likely to show a second, consecutive real quarterly decline and eventual recognition of a formal recession.

Graphs 13 to *18* and *Tables 2* and *3*, plot the headline GDP detail through the "final" fourth-quarter estimate and tabulate key quarterly and annual measures.

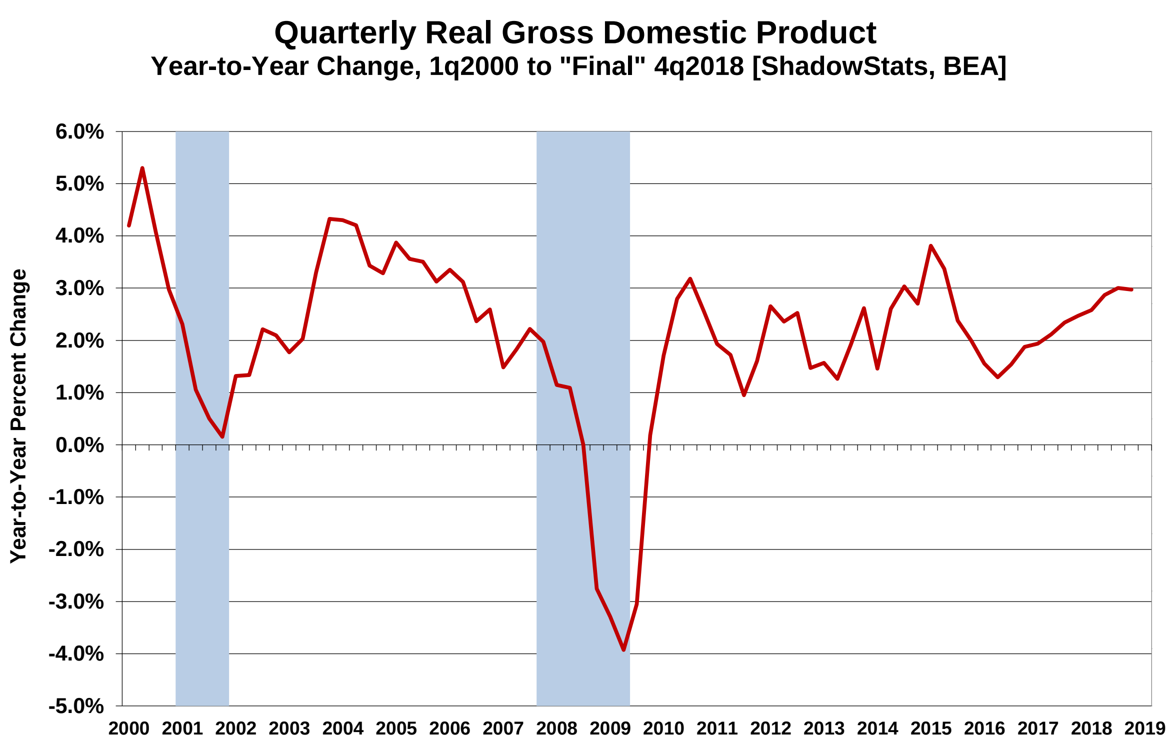
Graphs 19 and *20* plot the constant-dollar level in the Residential Investment component of the GDP, through fourth-quarter GDP, and year-to-year change in same. Those graphs largely are parallel to the construction and housing *Graphs 43* to *48* in *Section 4* (see page 48), showing no full economic recovery and no expansion since the Great Recession, with year-to-year growth in deepening decline.

Graphs 21 and *22* respectively show the Net Export in Goods (dominant element) and Services account through fourth-quarter 2018 GDP, and the highly correlated Real Merchandise Trade Deficit through first quarter 2019. Discussed in *Section 1* on page 16, the narrowing of the real deficit in first-quarter 2019 reflected a decline in imports, but no pick up in exports, suggesting collapsing domestic consumption, as seen during the Great Recession and as plotted around the 2008 timeframe. The implication here is that we will be seeing some downside revisions to recent reporting of real retail sales.

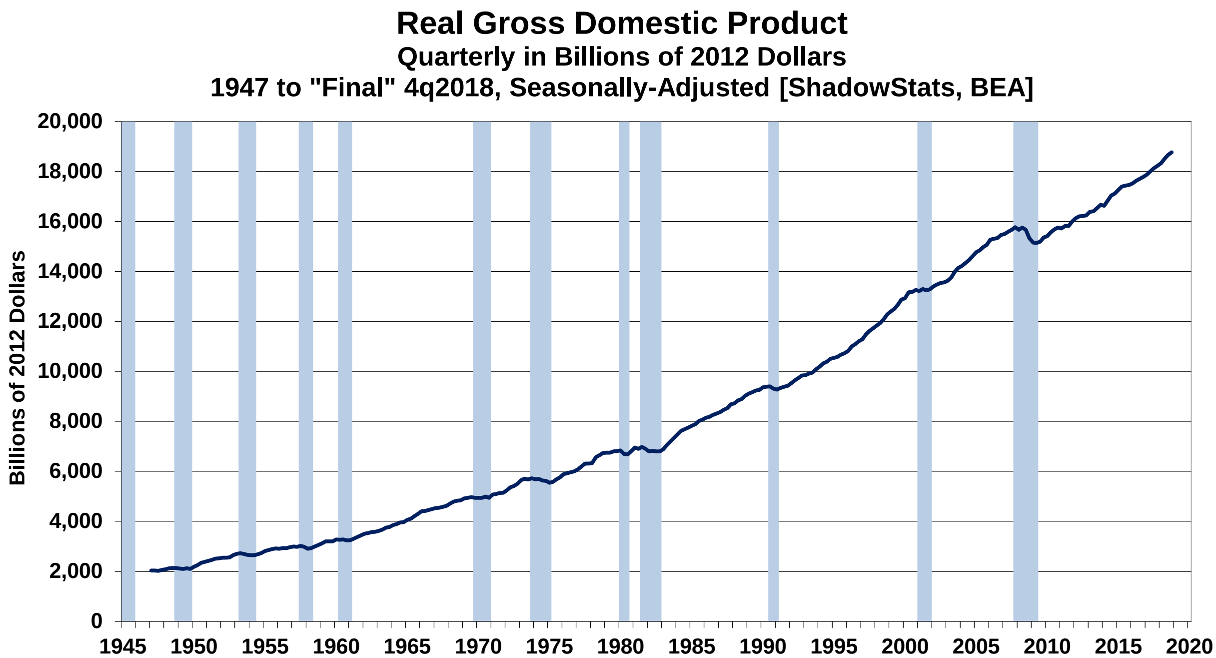
Graph 13: Real GDP (2000 to "Final" Fourth-Quarter 2018)



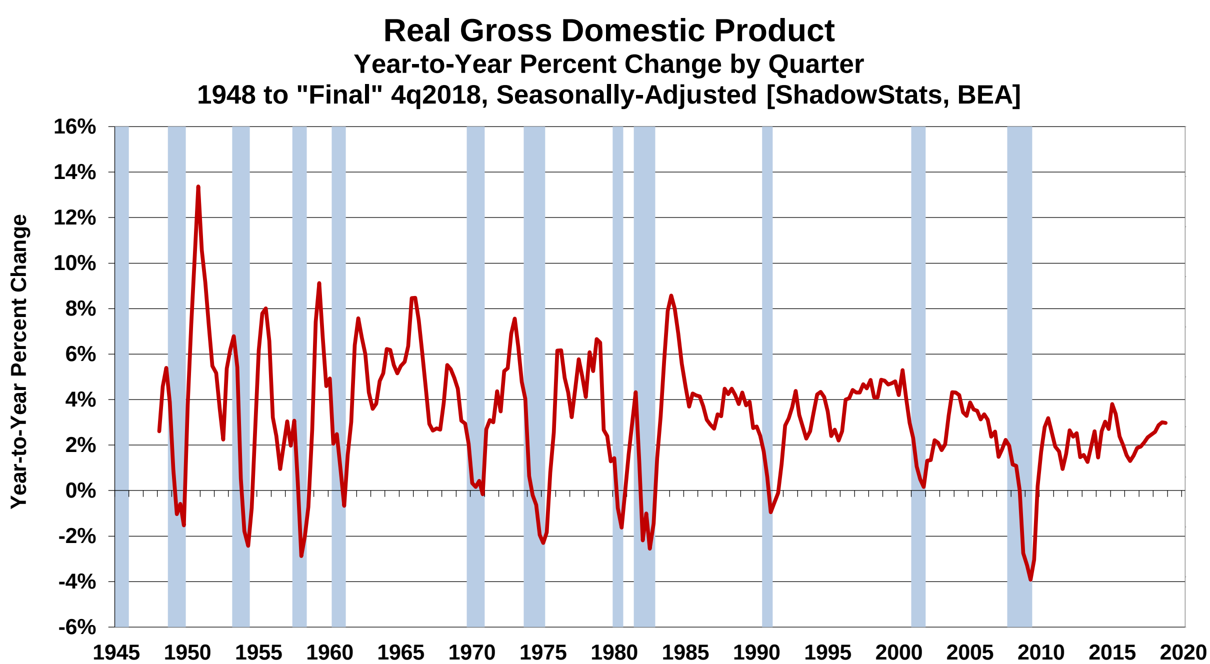
Graph 14: Real GDP, Year-to-Year % Change (2000 to "Final" Fourth-Quarter 2018)



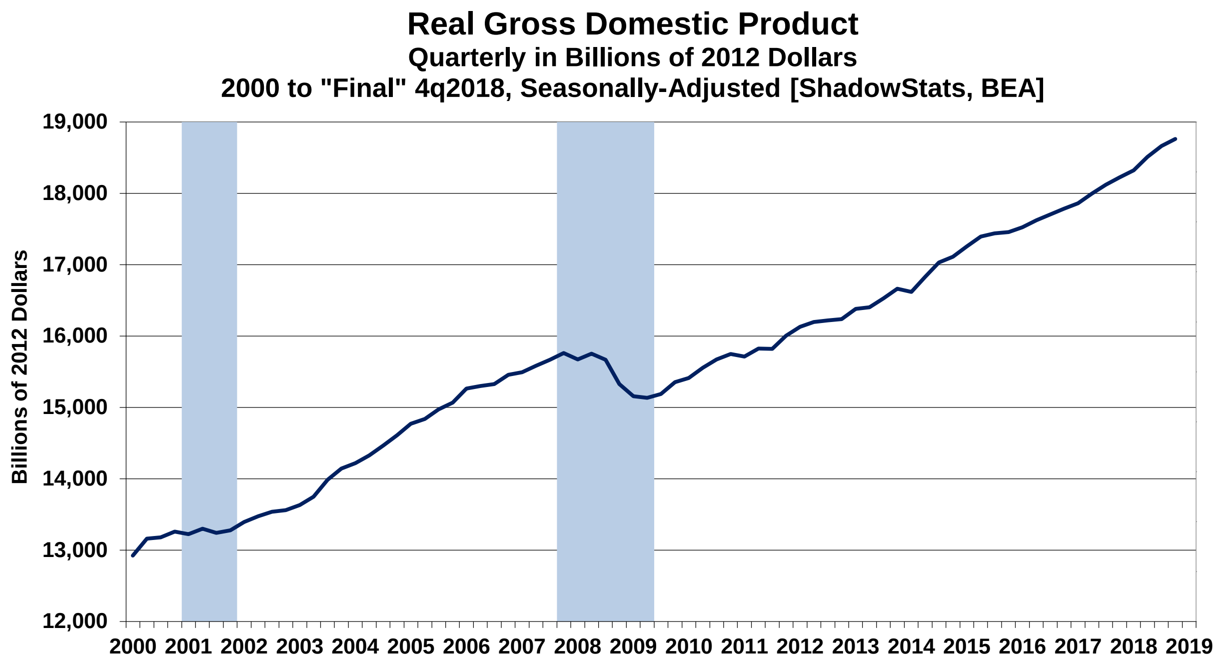
Graph 15: Real GDP (1947 to "Final" Fourth-Quarter 2018)



Graph 16: Real GDP, Year-to-Year % Change (1948 to "Final" Fourth-Quarter 2018)



Graph 17: Real GDP (1929 to "Final" 2018)



Graph 18: Real GDP, Year-to-Year % Change (2000 to "Final" Fourth-Quarter 2018)

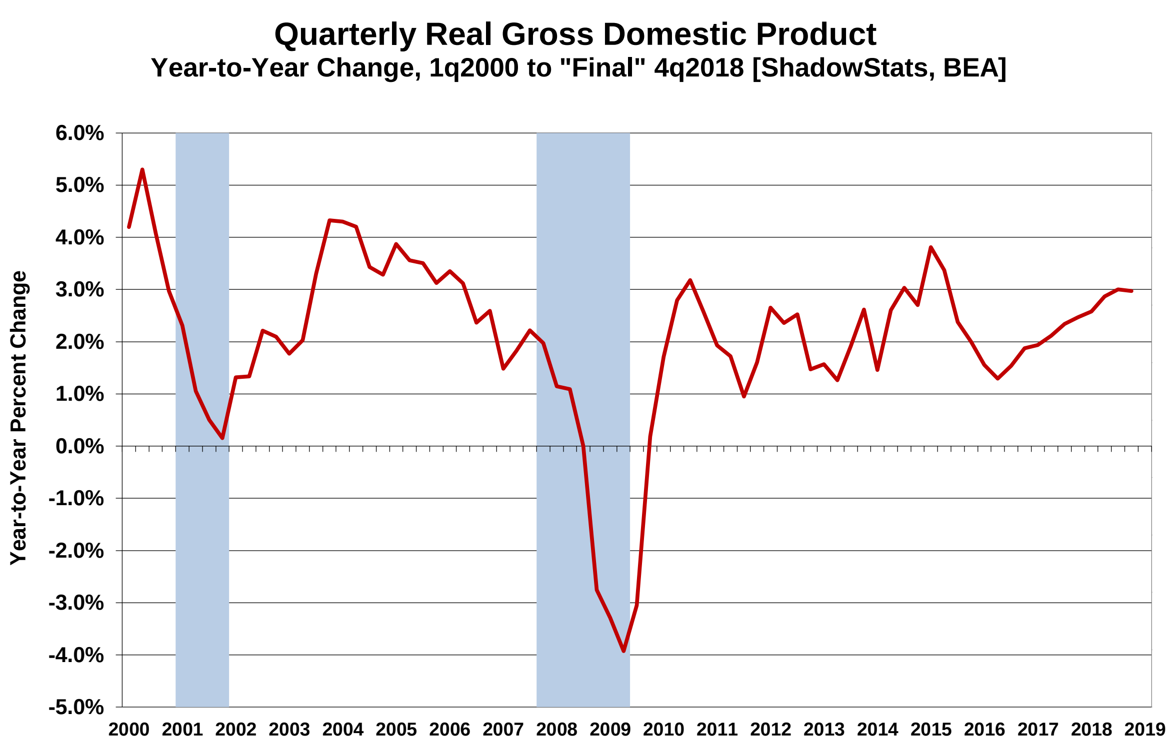


Table 2: Gross Domestic Product (GDP), Quarterly Detail by Major Sector to "Final" Fourth-Quarter 2018

Annualized Quarterly Real Growth in Headline Gross Domestic Product
Final Estimate of Fourth-Quarter 2018 GDP and Earlier Headline Data
Growth Contribution by Consumption and Product Sector

GDP COMPONENTS	4th-Q 2017 Final	1st-Q 2018 Final	2nd-Q 2018 Final	3rd-Q 2018 Final	4th-Q 2018 "Initial" Estimate	4th-Q 2018 "Final" Estimate
CONTRIBUTING ECONOMIC SECTOR						
Personal Consumption Expenditures						
- Goods	1.42%	-0.13%	1.16%	0.90%	0.80%	0.54%
-- *Motor Vehicles*	*0.40%*	*-0.35%*	*0.16%*	*-0.05%*	*0.22%*	*0.20%*
- Services	1.22%	0.49%	1.42%	1.47%	1.11%	1.12%
Gross Private Domestic Investment						
- Fixed Investment	1.04%	1.34%	1.10%	0.21%	0.69%	0.54%
-- *Residential*	*0.41%*	*-0.14%*	*-0.05%*	*-0.14%*	*-0.14%*	*-0.18%*
- Change in Private Inventories	-0.91%	0.27%	-1.17%	2.33%	0.13%	0.11%
Net Exports of Goods and Services	-0.89%	-0.02%	1.22%	-1.99%	-0.22%	-0.08%
Government Consumption/Investment	0.41%	0.27%	0.43%	0.44%	0.07%	-0.07%
GDP ANNUALIZED REAL GROWTH	2.29%	2.22%	4.16%	3.36%	2.59%	2.17%
Final Sales, GDP Less Inventories	3.20%	1.95%	5.33%	1.03%	2.46%	2.06%
CONTRIBUTING PRODUCT SECTOR						
Goods	0.34%	1.20%	1.91%	1.76%	1.93%	1.66%
Services	1.32%	0.73%	1.78%	1.77%	1.01%	0.99%
Structures	0.64%	0.28%	0.47%	-0.17%	-0.35%	-0.48%
GDP Annualized Real Growth	2.29%	2.22%	4.16%	3.36%	2.59%	2.17%
SUPPLEMENTAL						
Annualized Quarter-to-Quarter Real GDP Change and Headline Implicit Price Deflator Inflation						
Gross Domestic Product (GDP)	2.29%	2.22%	4.16%	3.36%	2.59%	2.17%
Gross Domestic Income (GDI)	1.49%	3.90%	0.87%	4.56%	--	1.66%
Gross National Product (GNP)	2.57%	2.20%	4.04%	3.05%	--	2.12%
ShadowStats Corrected-Inflation GDP*	0.22%	0.15%	2.05%	1.27%	0.51%	0.10%
Implicit Price Deflator (IPD) Inflation	2.72%	2.02%	3.31%	1.51%	1.95%	1.86%
Year-to-Year Real GDP Change and Headline Implicit Price Deflator Inflation						
Gross Domestic Product (GDP)	2.47%	2.58%	2.87%	3.00%	3.08%	2.97%
Gross Domestic Income (GDI)	2.25%	2.36%	1.88%	2.69%	--	2.74%
Gross National Product (GNP)	2.56%	2.73%	3.09%	2.96%	--	2.85%
ShadowStats Corrected-Inflation GDP*	0.40%	0.51%	0.79%	0.92%	0.99%	0.89%
Implicit Price Deflator (IPD) Inflation	1.97%	1.95%	2.50%	2.39%	2.20%	2.17%

Sources: Bureau of Economic Analysis (BEA), www.ShadowStats.com (ShadowStats).
*Real GDP corrected for understated headline inflation (see *Special Commentary No. 968-Extended*, and *Graphs 25* to 28 here*)*. Standard headline GDP is reflected in *Graphs 13 to 22.*

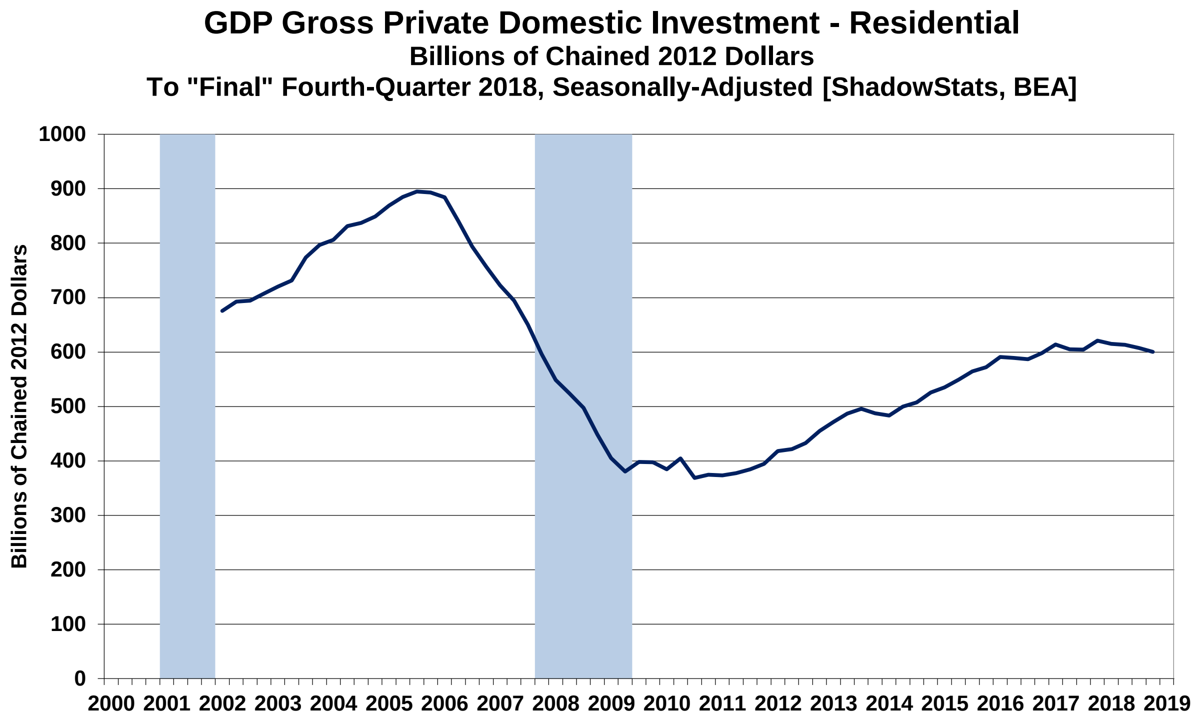
Table 3: Gross Domestic Product (GDP), Annual Detail by Sector (2015 to 2018)

Full Year Annual Real GDP Growth (2015 to 2018)
Final Estimate of Full-Year 2018 GDP and Earlier Headline Data
Annual Growth Contribution by Consumption and Product Sector

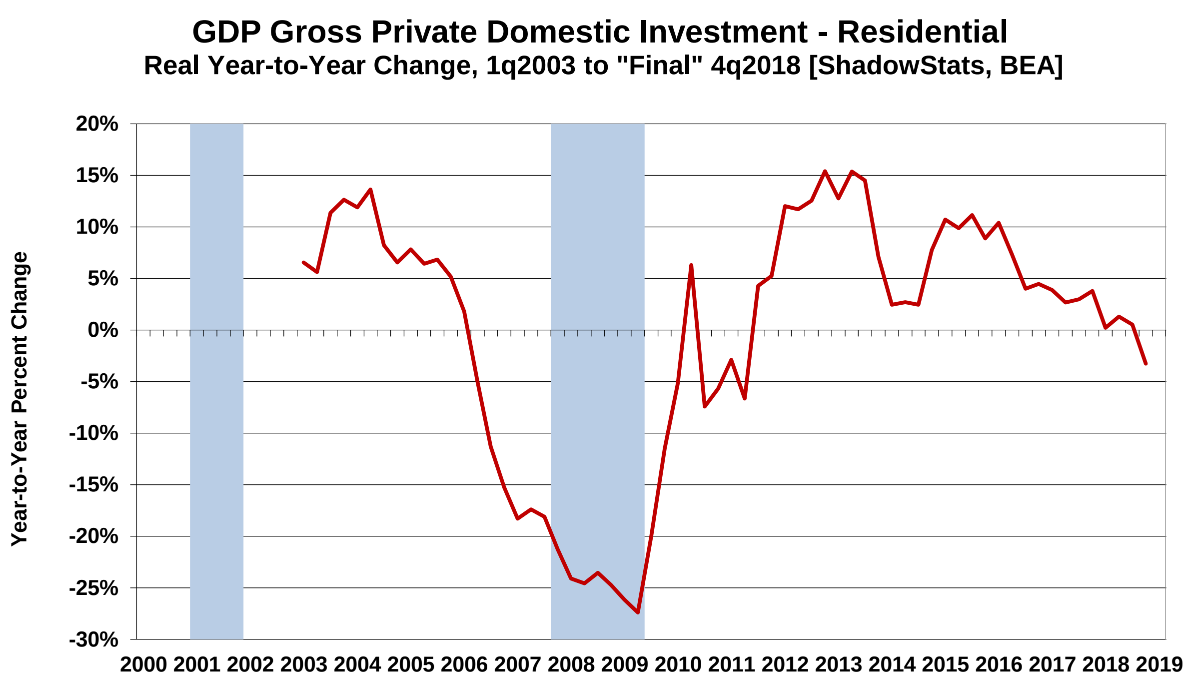
GDP COMPONENTS	2015	2016	2017	2018
CONTRIBUTING ECONOMIC SECTOR				
Personal Consumption Expenditures				
- Goods	1.02%	0.77%	0.78%	0.78%
-- Motor Vehicles	*0.18%*	*0.08%*	*0.11%*	*0.06%*
- Services	1.48%	1.09%	0.95%	1.01%
Gross Private Domestic Investment				
- Fixed Investment	0.57%	0.29%	0.81%	0.90%
-- Residential	*0.33%*	*0.23%*	*0.13%*	*-0.01%*
- Change in Private Inventories	0.25%	-0.53%	0.00%	0.12%
Net Exports of Goods and Services	-0.78%	-0.30%	-0.31%	-0.21%
Government Consumption/Investment	0.33%	0.25%	-0.01%	0.26%
GDP ANNUAL REAL GROWTH	2.88%	1.57%	2.22%	2.86%
Final Sales, GDP Less Inventories	2.63%	2.10%	2.22%	2.74%
CONTRIBUTING PRODUCT SECTOR				
Goods	0.88%	0.35%	1.11%	1.49%
Services	1.71%	1.13%	0.92%	1.20%
Structures	0.29%	0.08%	0.19%	0.17%
GDP Annual Real Growth	2.88%	1.57%	2.22%	2.86%
SUPPLEMENTAL Annual Real GDP Change and Headline Implicit Price Deflator Inflation				
Gross Domestic Product (GDP)	2.88%	1.57%	2.22%	2.86%
Gross Domestic Income (GDI)	2.57%	0.85%	2.27%	2.64%
Gross National Product (GNP)	2.76%	1.47%	2.33%	2.91%
ShadowStats Corrected-Inflation GDP*	0.80%	-0.49%	0.15%	0.78%
Implicit Price Deflator (IPD) Inflation	1.07%	1.09%	1.90%	2.25%

Sources: Bureau of Economic Analysis (BEA), www.ShadowStats.com (ShadowStats).
*Real GDP corrected for understated inflation (see *Special Commentary No. 968-Extended)*
See *Graphs 25* to *28* with standard headline GDP reflected in *Graphs 13* to 22.

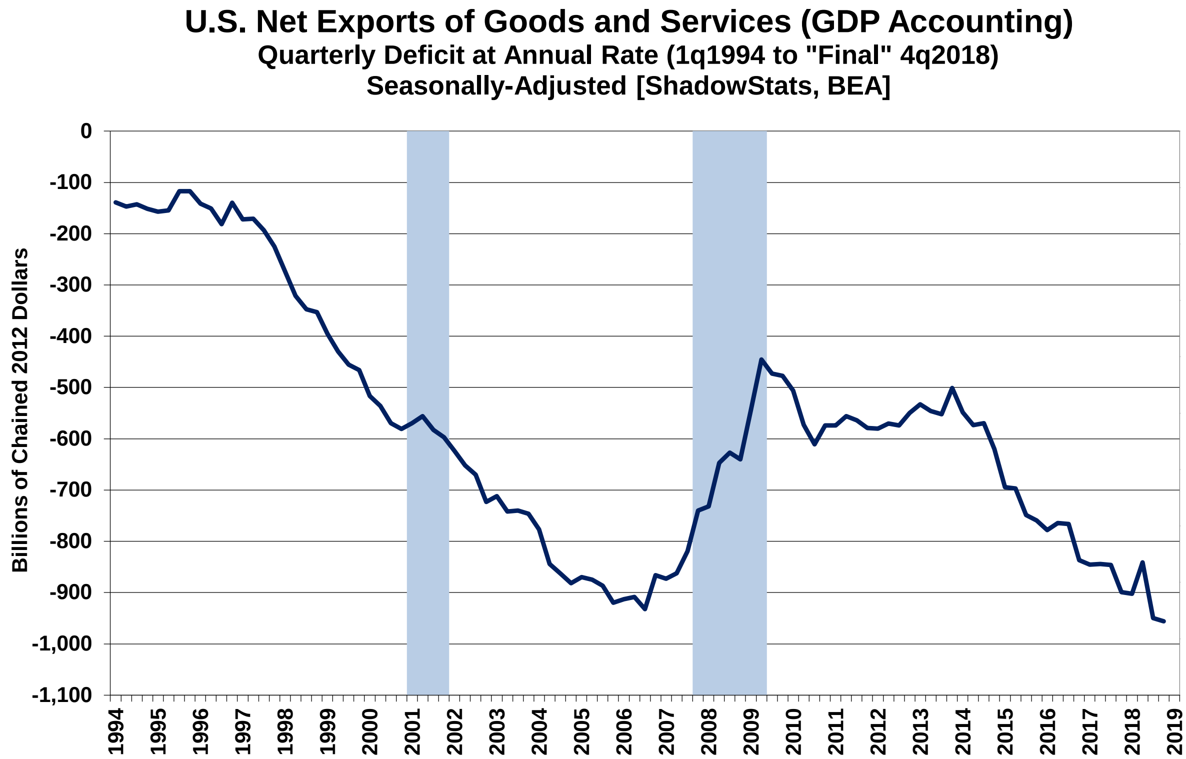
Graph 19: Real Gross Domestic Private Residential Investment to "Final" Fourth-Quarter 2018 GDP



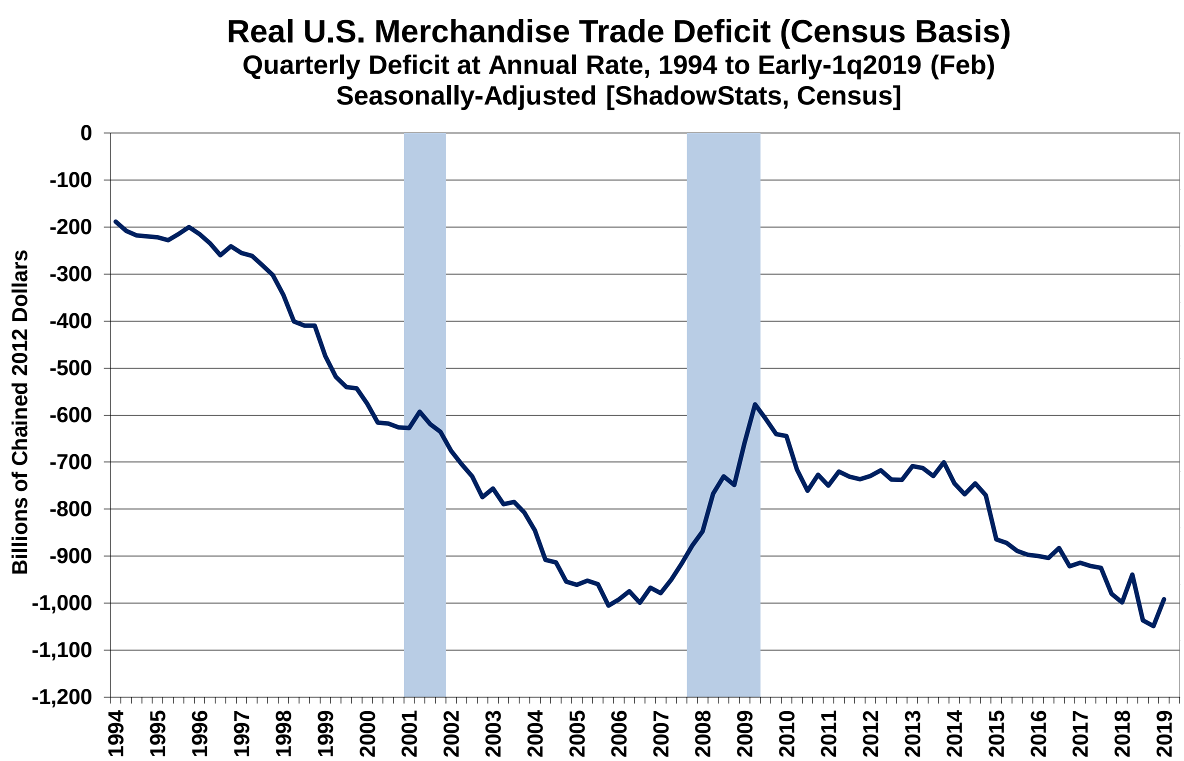
Graph 20: Real Gross Domestic Residential Investment (Year-to-Year)



Graph 21: Real Net Exports of Goods and Services in GDP (1q1994 to "Final" Fourth-Quarter 2018)



Graph 22: Real U.S. Merchandise Trade Deficit (First-Quarter 1994 to Early First-Quarter 2019)



[*Section 4: Underlying Reality—No Economic Expansion in Key Sectors* follows.]

Section 4: Underlying Reality — No Economic Expansion in Key Sectors

Real GDP Shows No Economic Expansion, When Corrected for Understated Inflation

Manufacturing Sector Showed a Record 135th Straight Month of Non-Expansion

Benchmark Revisions Show How Bad-Reporting Masked a 2014/2015 Recession

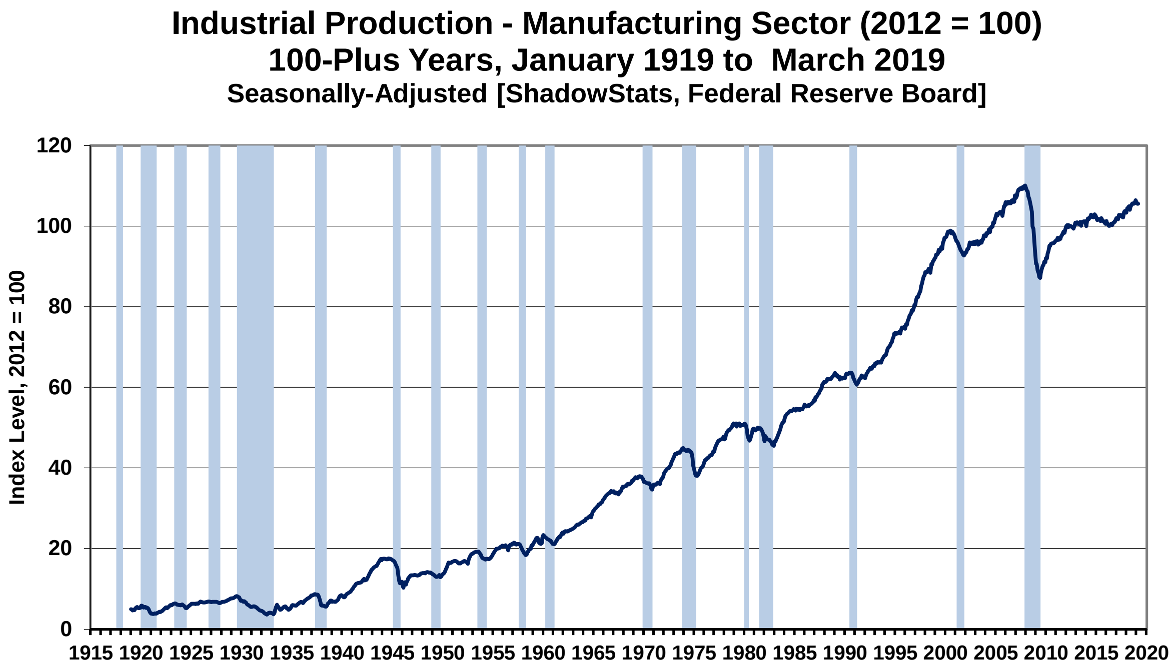
March 2019 Capacity Utilization and CASS Freight Index™ Signaled Unfolding Recession

Downturn in Broad Commercial Activity Has Yet to Enter Formal FOMC Projections

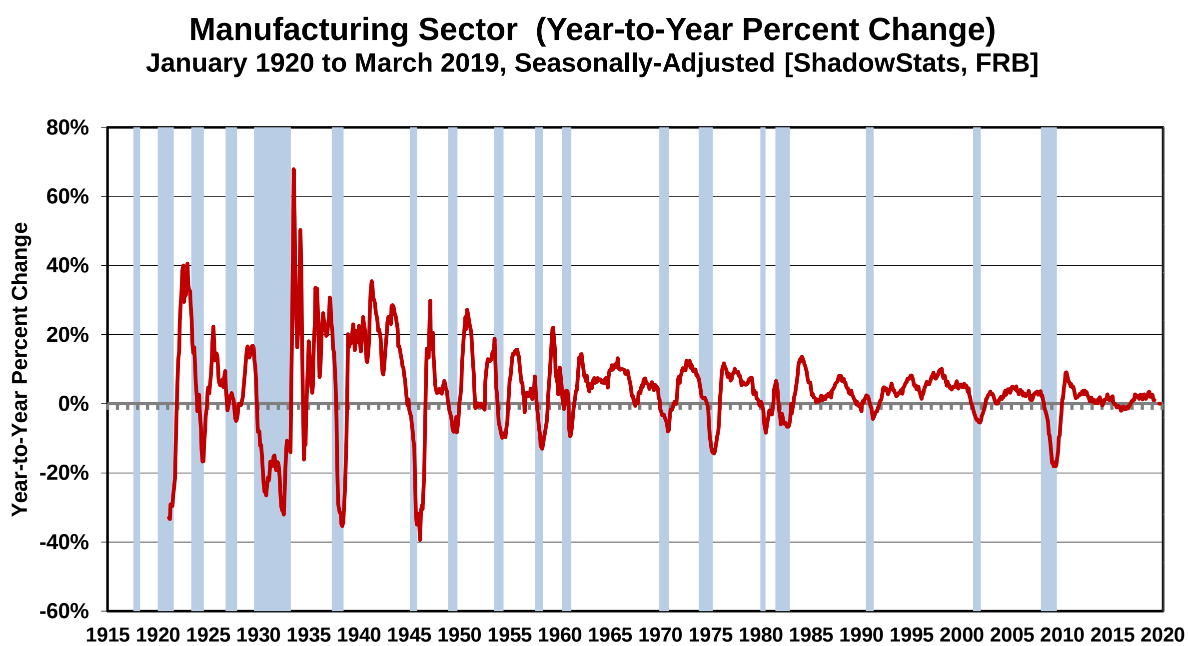
While Headline Real GDP Has Rallied by 19.1% Off Its Fourth-Quarter 2007 Pre-Recession Peak, No Other Series Has. *Graphs 13* to *22* in prior *Section 3* plot the headline GDP as published by the Bureau of Economic Analysis (BEA), yet something appears to be amiss. Industrial Production accounts for a major share of domestic economic activity, and 75.0% of that is in the Manufacturing Sector. Yet, if one looks at the Great Recession in terms of Gross Domestic Product (GDP) from peak activity of fourth-quarter 2007 to a trough in second-quarter 2009, there is headline decline in real activity of 4.0% (-4.0%). Since then GDP has fully recovered its pre-recession peak and expanded (growth beyond the prior peak) by 19.1%. In contrast the U.S. Manufacturing Sector plunged 20.7% (-20.7%) peak-to-trough in the same period, and remains 4.9% (-4.9%) shy of ever recovering its pre-recession high, Where economic expansion is measured from the time that prior peak activity is recovered, manufacturing never has recovered, having just completed a record 135 months of economic expansion. That record is the context of a 100-year-plus series history as plotted in *Graphs 23* and *24*.

In fact, no other major economic indicator or employment measure has shown anything close to the purported headline real GDP "Expansion" of 19.1%. The business cycle traditionally gets measured from peak to trough and up to the next peak, etc. As economic activity moves off the "Peak," that generally is termed a "Recession," until that activity hits a "Trough." Then, activity moves higher in "Recovery," until it "Recovers" its "Pre-Recession Peak." Growth beyond "Recovery" is "Expansion," until a new "Peak" is made and the cycle repeats. That said, ShadowStats contends that a fourth-quarter 2018 new "Peak" already is in place.

Graph 23: Manufacturing, Full Historical Series 1919 to Date

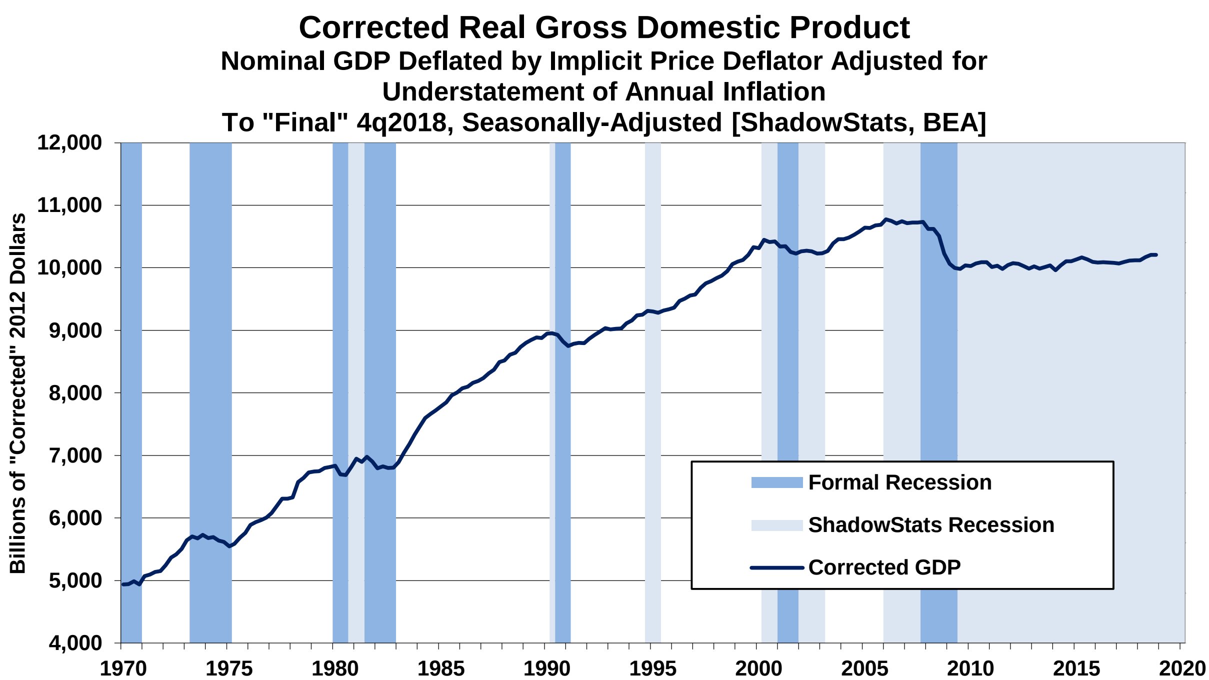


Graph 24: Manufacturing, Full Historical Series, Year-to-Year Percent Change 1920 to Date

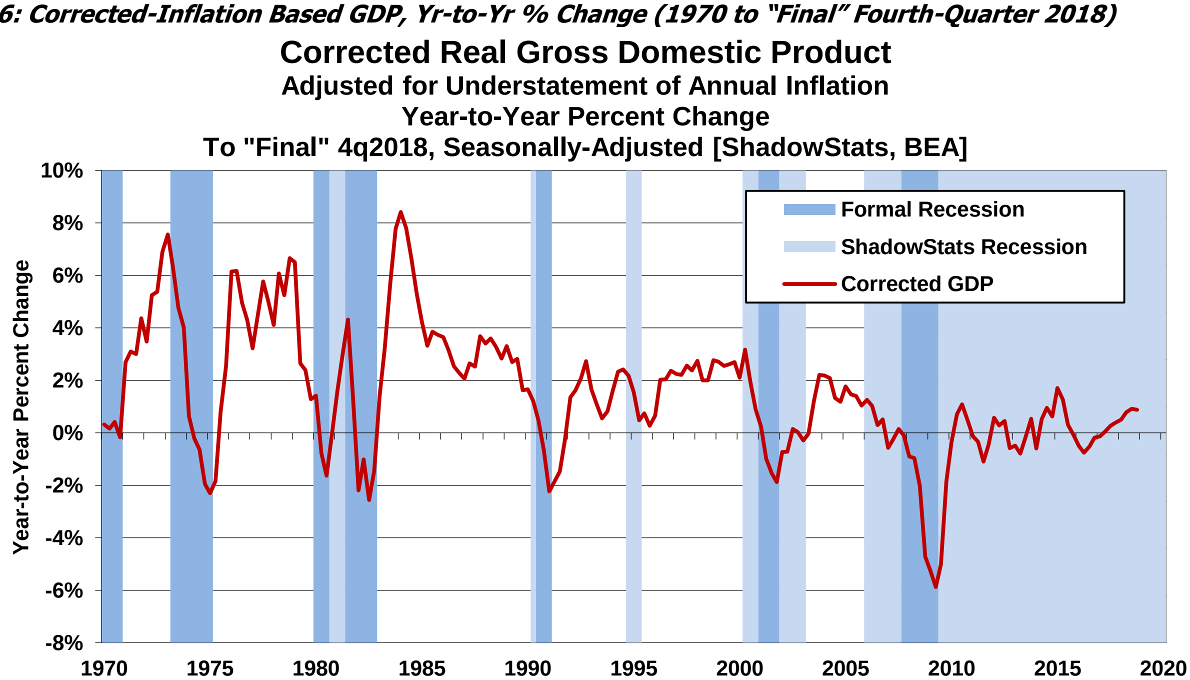


Alternate GDP Measurement and Annual Benchmarking Corrections. Discussed in *Section 2: Inflation* and in *Special Commentary No. 968-Extended* the federal government's headline understatement of GDP inflation (the Implicit Price Deflator) by an order of magnitude of two-percent has the effect of overstating headline real GDP growth by a similar amount (again, see [*Public Commentary on Inflation Measurement*]). *Graphs 25* to *28* reflect the *ShadowStats* Alternate GDP estimate based on correcting the understatement of the headline GDP inflation. *Graphs 27* and *28* are used here for comparison with number of indicators, later, but only those graphs have been restated for the understated inflation. ShadowStats corrected-inflation calculation reflects the "final" headline fourth-quarter 2018 GDP.

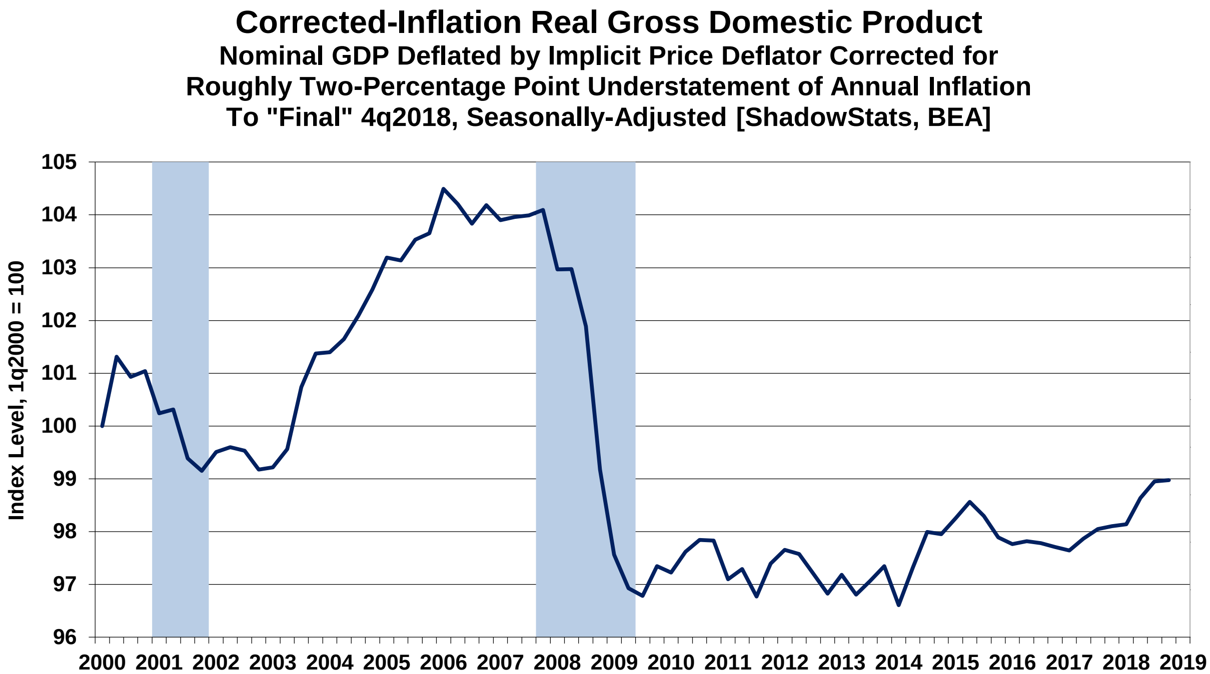
Graph 25: Corrected-Inflation Based GDP (1970 to "Final" Fourth-Quarter 2018)



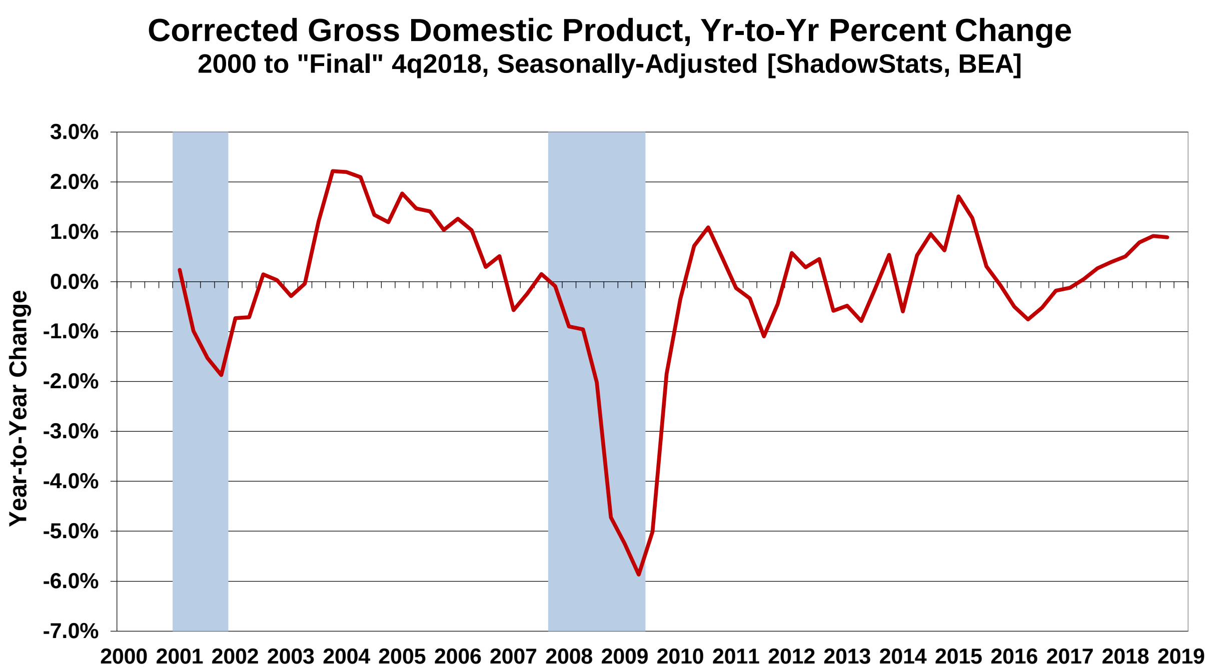
Graph 26: Corrected-Inflation Based GDP, Yr-to-Yr % Change (1970 to "Final" Fourth-Quarter 2018)



Graph 27: Corrected-Inflation Based GDP (2000 to "Final" Fourth-Quarter 2018)

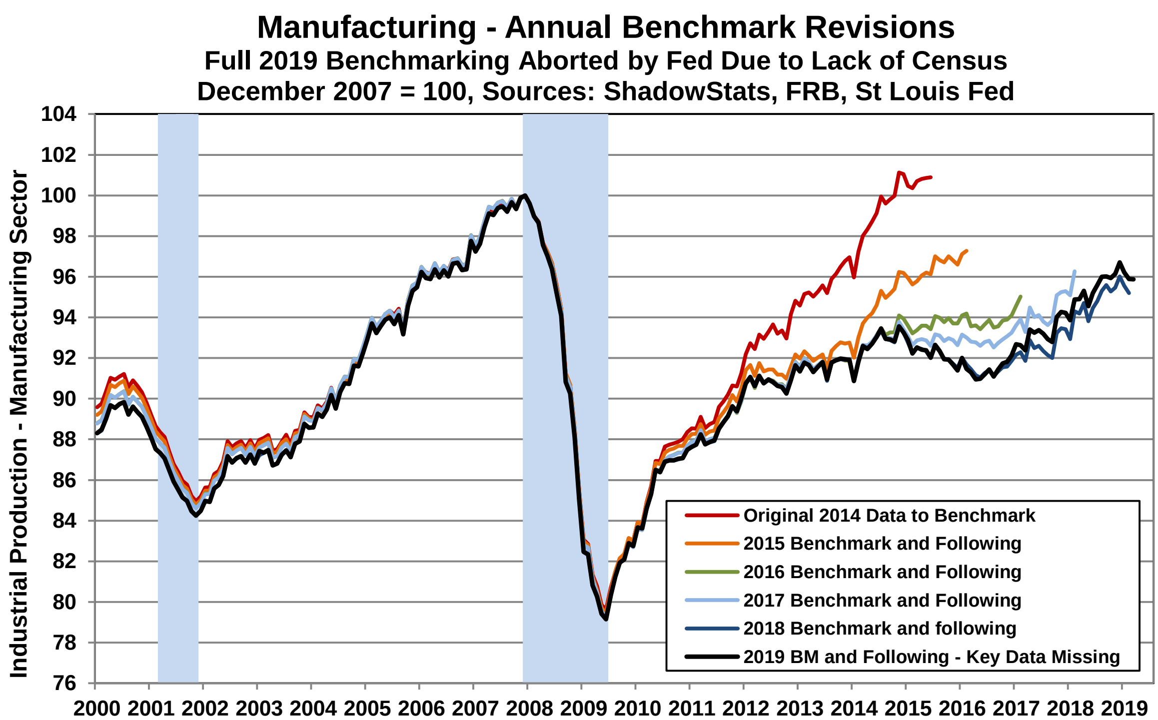


Graph 28: Corrected-Inflation Based GDP, Yr-to-Yr % Change (2000 to "Final" Fourth-Quarter 2018)



No Meaningful Benchmark Revision Was Allowed for Manufacturing in 2019. Separately, seen in accompanying *Graph 29*, annual benchmark revisions to the Manufacturing Sector invariably have been to the downside for recent prior history. The reason for this is that almost all government reporting has to incorporate underlying assumptions, and the tendency usually is to make overly positive assumptions, allowing for later downside corrections in the benchmarking. As explained to me by someone involved in such government economic surveying, understating economic activity is a "political embarrassment," while overstating activity has no such political stigma attached to it (see *Special Commentary No. 885*, entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*). Per the Fed, the government-mandated Economic Census for 2017 was not available from the U.S. Census Bureau by early 2019, so no new annual benchmark data was included for manufacturing. Nonetheless, there other minimal revisions, updated in *Graph 29*, but, again, without the regular annual downside included.

Graph 29: Annual Benchmark Revisions to the Dominant Manufacturing Sector of Industrial Production



March 2019 Annual CASS Freight Index™ Activity Declined for a Fourth Straight Month, a Pattern Not Seen Since the 2015 Recession in Industrial Production. *Bullet Edition No. 3* and *No. 4*, noted that the calling of a formal recession in 2014/2015 likely was missed due to delayed benchmark revisions that eventually showed it to be in place. One series that reflected that downturn in current time was the CASS Freight Index™, which is generating its first recession signal since then. The March Index declined year-to-year, and its twelve-month moving average fell month-to-month— both for the fourth consecutive month—signaling a first-quarter economic decline. Those two metrics neutralize seasonality in this unadjusted series. The current declining growth patterns last were seen in early 2015, at the onset of meaningful downturns in series such as Industrial Production. ShadowStats regularly follows and analyzes the CASS Index as a highest-quality coincident/leading indicator of underlying economic reality. We thank CASS for their permission to graph and to use their numbers in our *Commentaries*.

Graphs 34 and *36* are the standard graphs of the level of monthly freight activity and year-to-year change published by *ShadowStats*. Where the monthly data are not seasonally adjusted, *Graph 34* of the unadjusted monthly activity and a 12-month trailing average of same are plotted together, the raw data along with the 12-month moving average. That latter plot should eliminate any seasonality patterns. In like manner, *Graph 36* plots year-to-year change in the unadjusted series, which also eliminates seasonality issues.

Discussed in *Bullet Edition No. 3* of March 15th, in the opening section entitled *Manufacturing Sector of the U.S. Economy Never Has Recovered Fully from the Great Recession ...*, beginning there on page 6, and encompassing *Graphs 23 to 24, and 29* to *36* here, there appears to be a missing recession in the historical record. The missing formal recession began in first-quarter 2015, tied to the dominant Industrial Production and Manufacturing sectors of the economy. It remains *ShadowStats* contention, that the missing recession was not recognized, due largely to the late reporting of same only in the 2017, and particularly the 2018 benchmark revisions to those series (see *Graph 29* of the Manufacturing Sector), as reflected here in the graphs related of Capacity Utilization, Manufacturing and Freight Activity (*Graphs 30* to *36*). Consider that preceding *Graph 35* here has been smoothed with a 12-month moving average to neutralize the seasonality of the not-seasonally-adjusted Freight Series, while the Utilization /Production Series (*Graph 33*) is seasonally adjusted on a monthly basis. Accordingly, the smoothed Freight Series would be expected to lag the path of the Production/Capacity Series a bit, and it does.

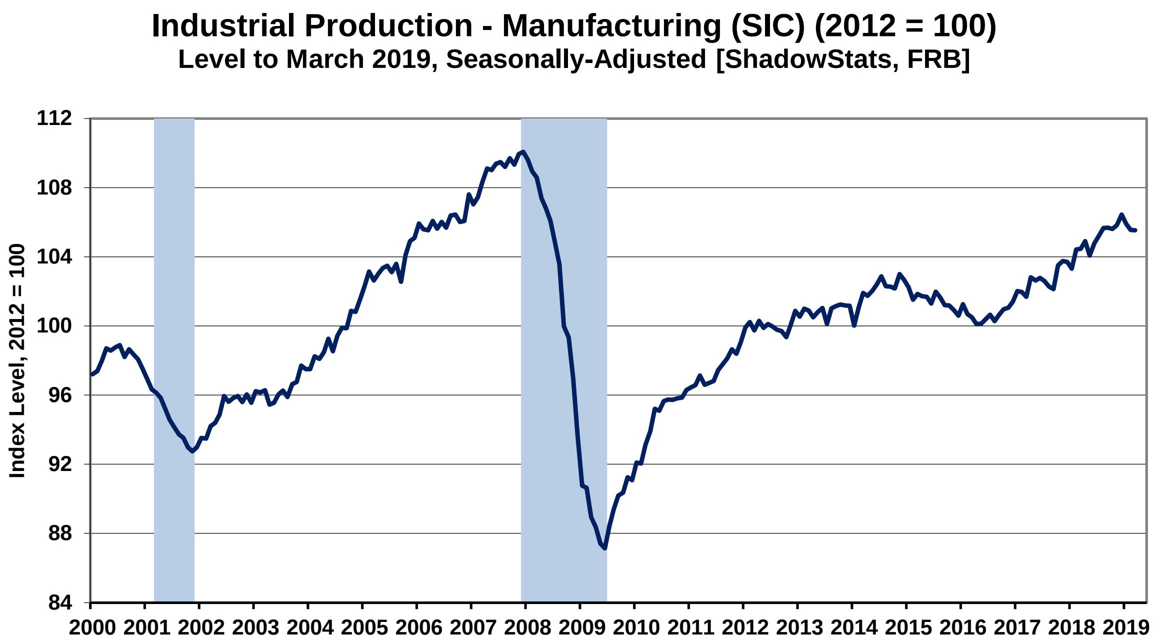
Of interest, here, is that the pattern of Freight activity largely matches that of the Production-related Capacity Series, although Freight and Production were separately surveyed, by separate entities, and the Freight Series did not go through the recent corrective benchmark revisions that were applied to the Production Series.

Graphs 32 and *33* plot the current headline detail of Capacity Utilization through March 2019, with *Graph 32* reflecting the shaded bars of headline formal recessions, as defined by the NBER. *Graph 33* reflects those headline recessions, along with what *ShadowStats* suggests is a more accurate rendition of the 2014 to 2016 period, plus what appears to be unfolding in the current circumstance, as discussed in *Bullet Edition No. 4*. *Graphs 34* and *35* of the CASS Freight Index™ show the same patterns.

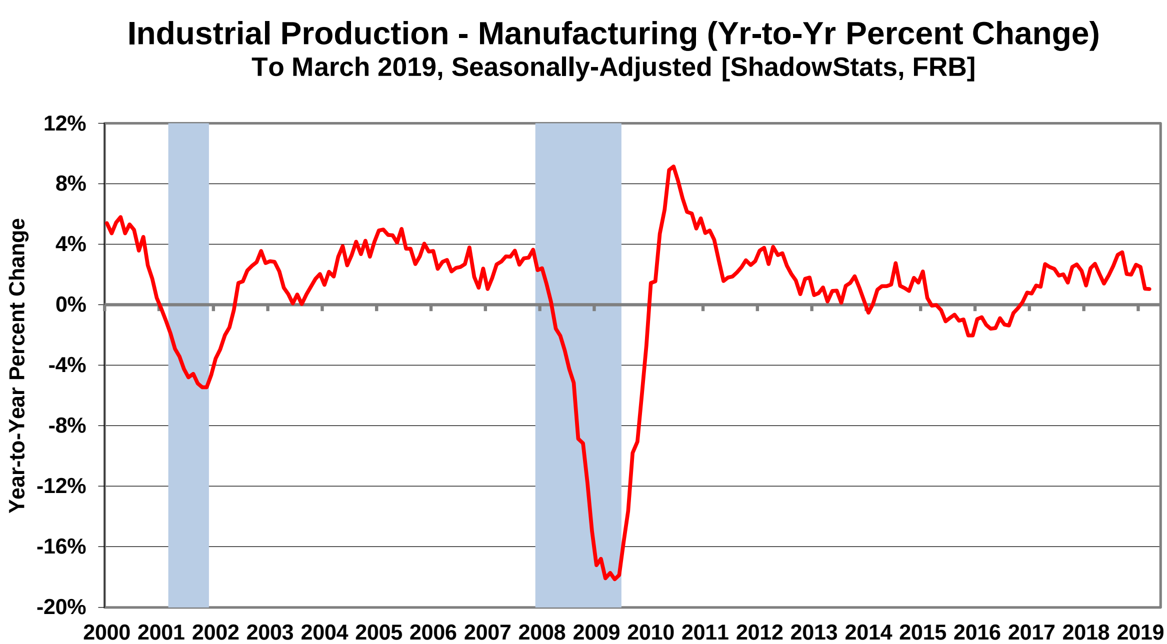
Sharp Downturns in Capacity Utilization Usually Signal the Onset of a Recession. Where sharp downturns in Manufacturing Utilization historically usually mark onsets of formal recessions, such would support the concept of a renewed “headline” recession, a double-dip downturn that began at the end of 2014, as indicated by the Industrial Production series. That remains ShadowStats’ estimate of the timing of a likely “headline” double-dip recession, which formally began at the end of 2007, bottomed in 2009, peaked in late in 2014 and then bottomed anew in 2016, although—again— nothing confirming that showed up in the 2018 comprehensive GDP benchmarking. Contrary to consensus hype of fully recovered and expanding U.S. economic activity, again, as seen in the Manufacturing Sector, much of the headline U.S. economy never has recovered fully from the 2007 downturn. Separately, current headline detail is showing what likely is unfolding as a new downturn in economic activity. March 2019 Capacity Utilization declined to an eight-month low of 78.8%, down from a November 2018 peak 79.6, which likely will be designated as the pre-recession peak.

[Graphs 30 to 36 follow, text resumes on page 44.]

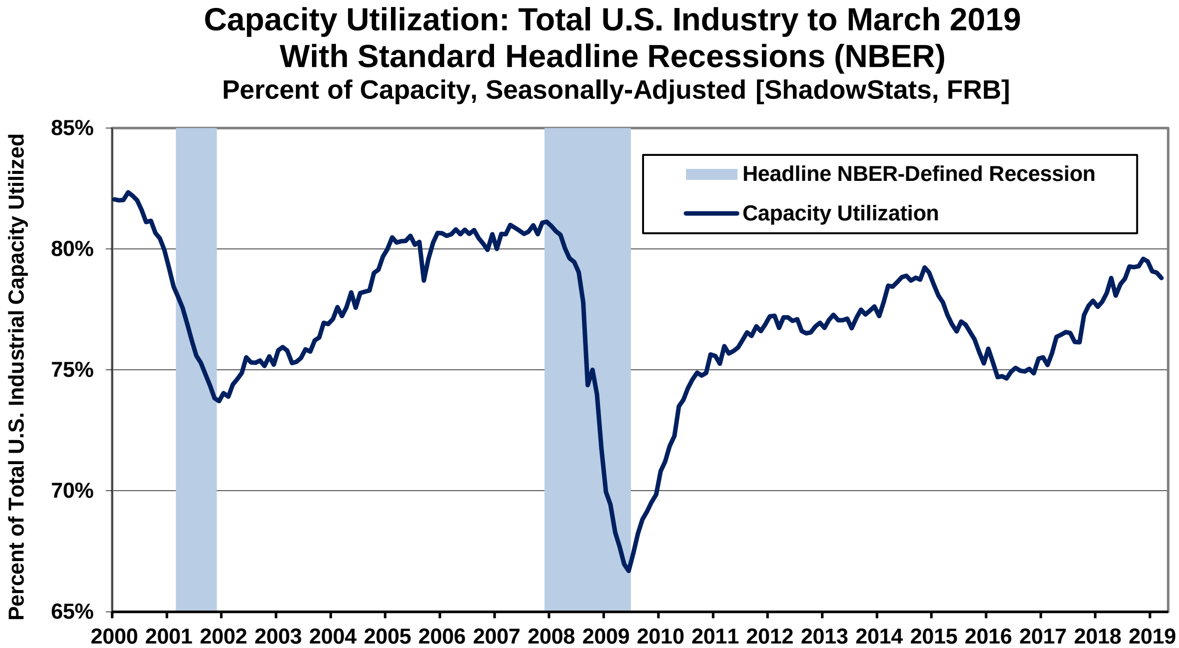
Graph 30: Industrial Production - Manufacturing (75.0% of the IIP in 2018), Since 2000



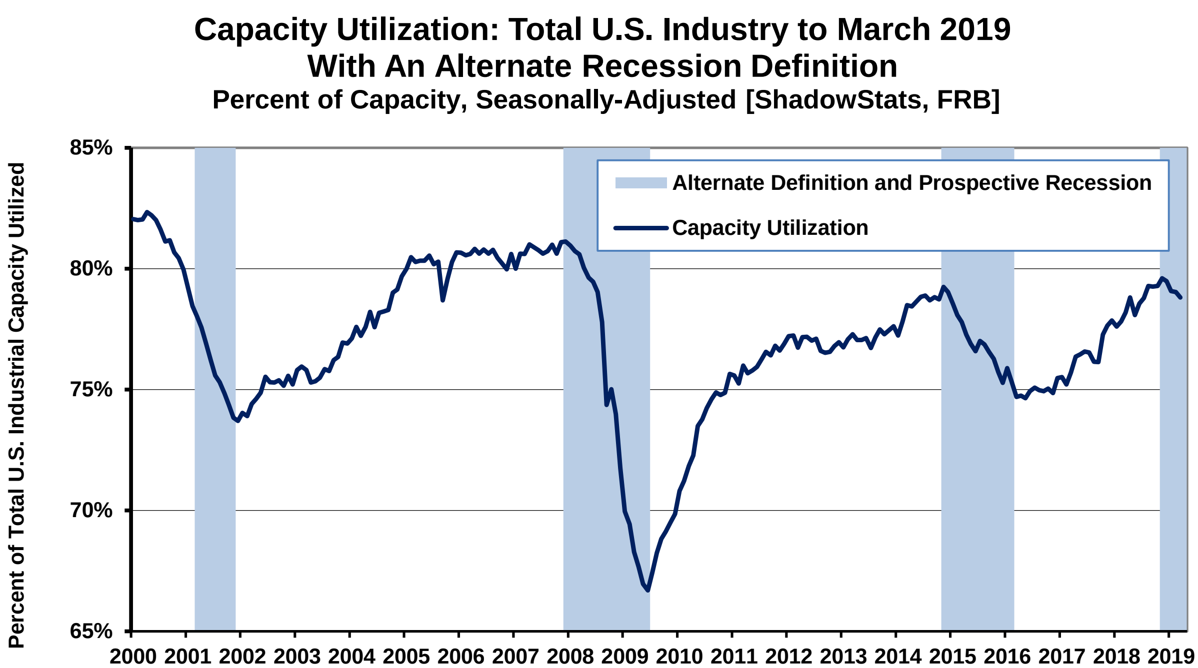
Graph 31: Manufacturing, Year-to-Year Percent Change Since 2000



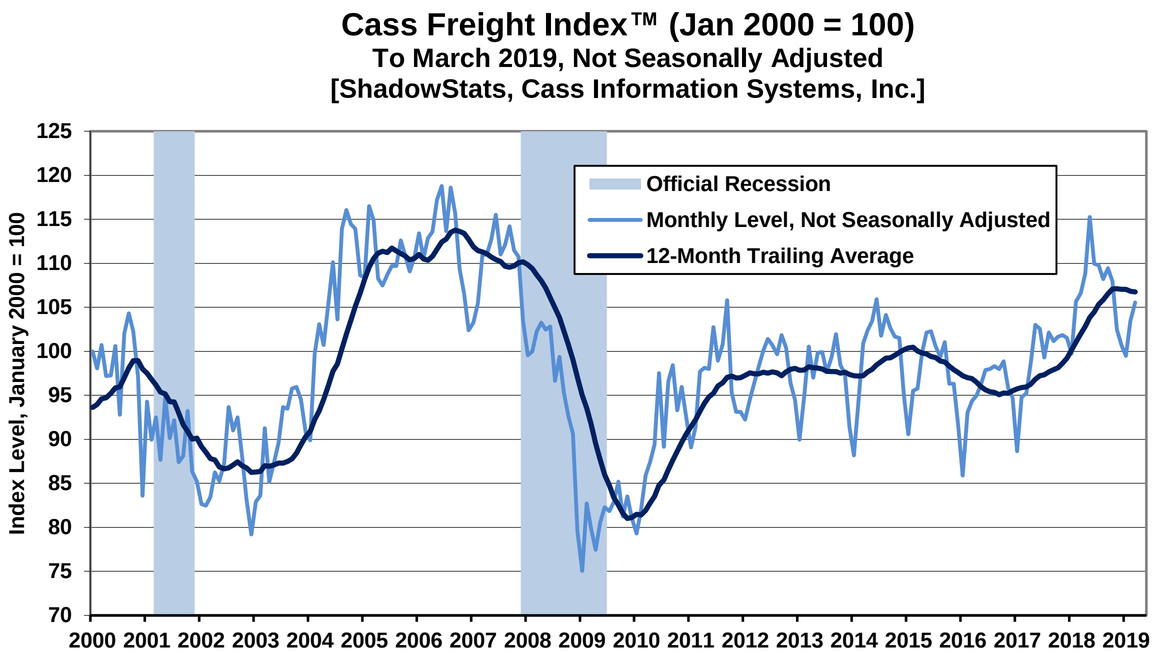
Graph 32: Utilization of Total U.S. Industrial Production and Manufacturing Capacity (NBER Recessions)



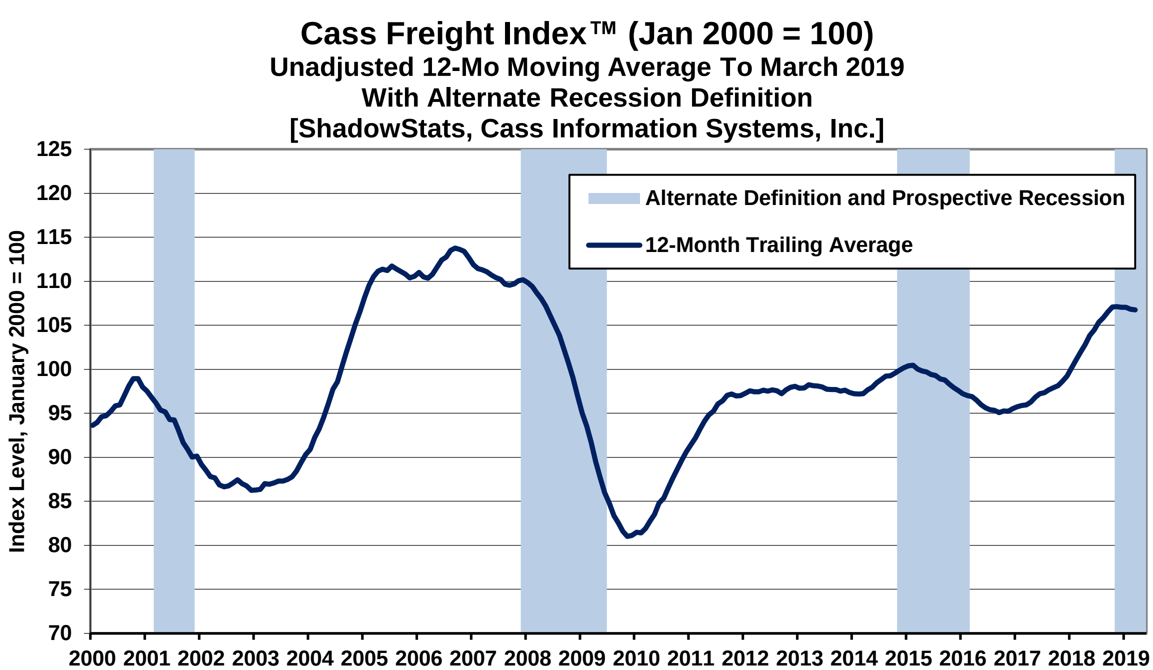
Graph 33: Utilization of Total U.S. Industrial Production and Manufacturing Capacity (Alternate Recessions)



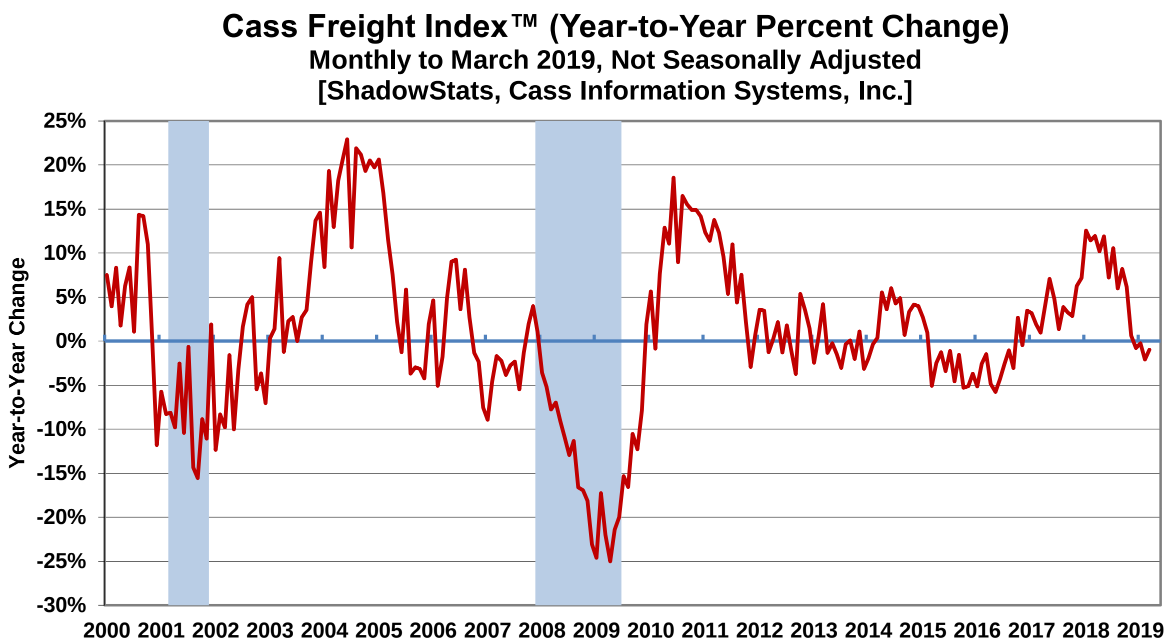
Graph 34: CASS Freight Index, Monthly, January 2000 to March 2019 (Official NBER Recessions)
(Same as *Graph 79*)



Graph 35: CASS Freight Index™ 12-Mo Moving-Average Level, Jan 2000 to Mar 2019 (Alternate Recessions)
(Same as *Graph 80*)



Graph 36: CASS Freight Index, Monthly Year-to-Year Percent Change (2000 to February 2019)
(Same as *Graph 81*)



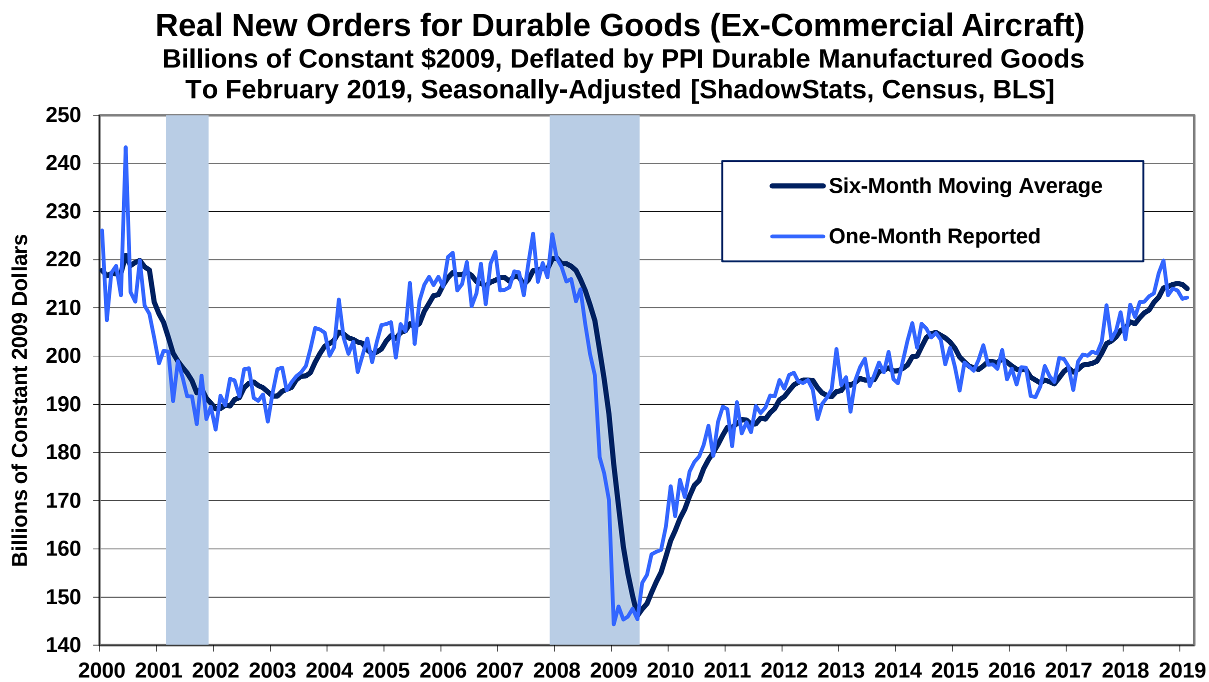
A Number of Broad-Based Economic Measures and Major Industries Never "Recovered" from the Great Recession and Have Yet to Enter a Period of Economic Expansion. Consider the pattern of the Corrected-Inflation plot of Real GDP in *Graph 27* and the twelve-month trailing average of the CASS Freight Index™ in *Graph 34*. Where both series fell into recession parallel with the headline GDP (*Graph 13* in *Section 3*, page 28), neither series has regained its pre-recession peak, neither fully recovering, nor entering a period of new economic expansion. *Graphs 37* to *48* reflect a variety of economic measures, all of which are consistent in pattern or tell a related story. Other than for the ShadowStats Alternate GDP plot, and the later ShadowStats Alternate Unemployment *Graph 41*, all the other plots reflect broad economic data as published by the appropriate government statistical bureau or agencies.

Comparative *Graphs 37* to *48* cover New Orders for Durable Goods, U.S. Crude Oil and Petroleum Supplied, Housing Starts, Construction Spending and Home Sales. Also see *Graphs 19* and *20* in *Section 3: Headline Fourth-Quarter GDP and Into Mid-2018*, and *Special Commentary No. 968-Extended*.

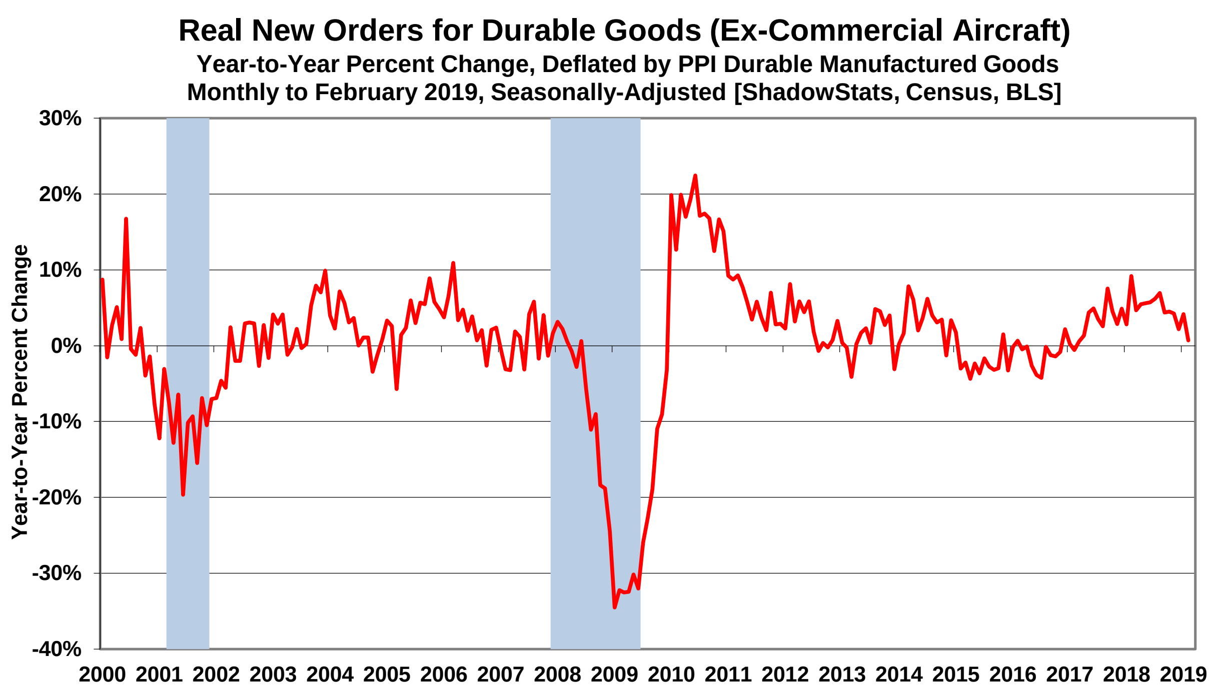
Graphs 40 to *42* are tied to labor-market stress. *Graph 40* of the Civilian Employment to Population Ratio never has recovered its healthy pre-recession high. Comparing the patterns of change in *Graph 40* to *Graph 41* of ShadowStats-Alternate Unemployment Rate and to *Graph 42* of the Headline U.3 Unemployment Rate (both unemployment measures with inverted scales), suggests that effective unemployment—suggested by labor market stress—is closer to the ShadowStats 21.8% than the headline BLS U.3 rate of 3.8% (see *Public Commentary on Unemployment Measurement*).

[Graphs 37 to 48 begin on the following page.]

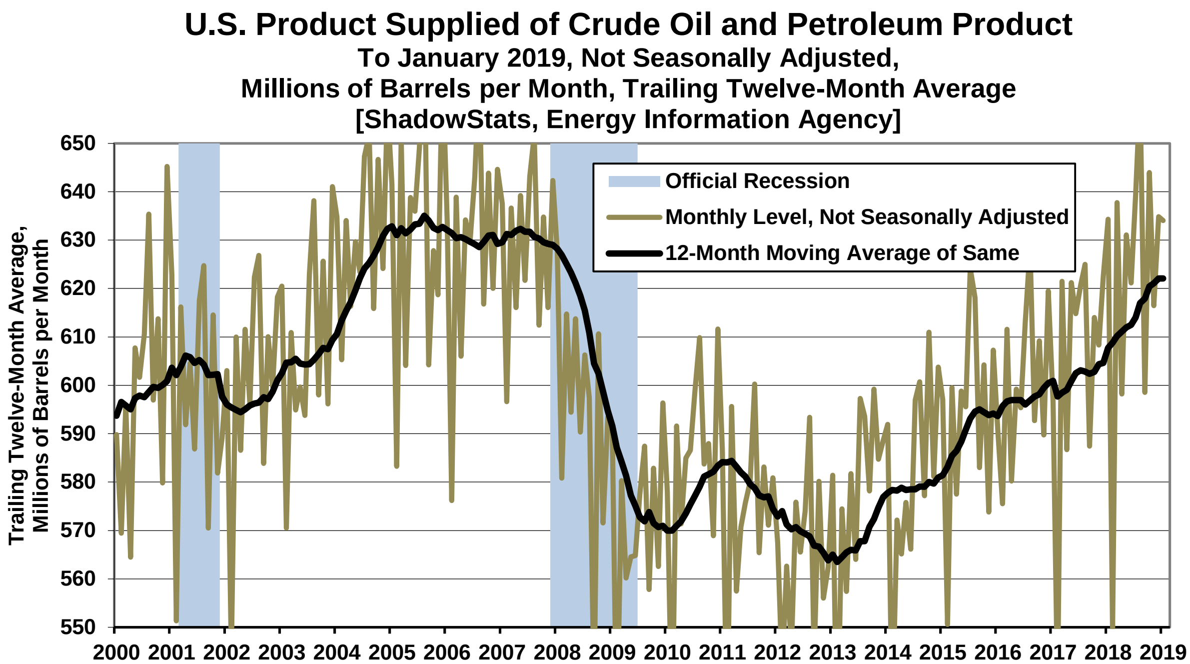
Graph 37: Real New Orders for Durable Goods, Ex-Commercial Aircraft (2000 to February 2019)



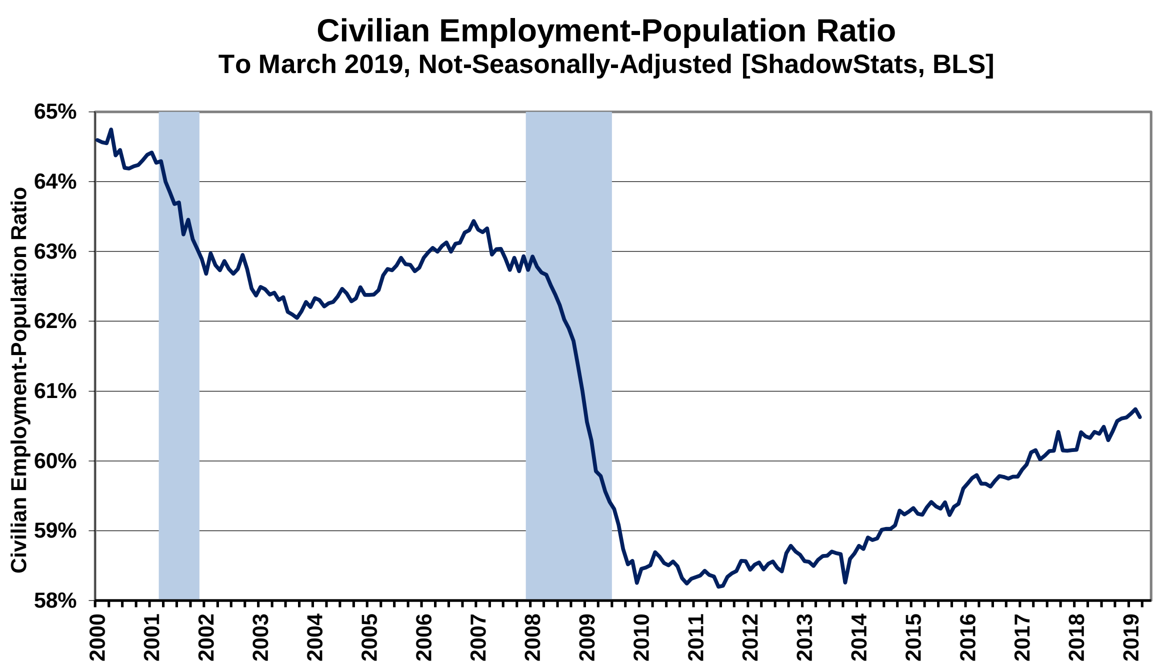
Graph 38: Real New Orders for Durable Goods, Year-to-Year Change (2000 to February 2019)



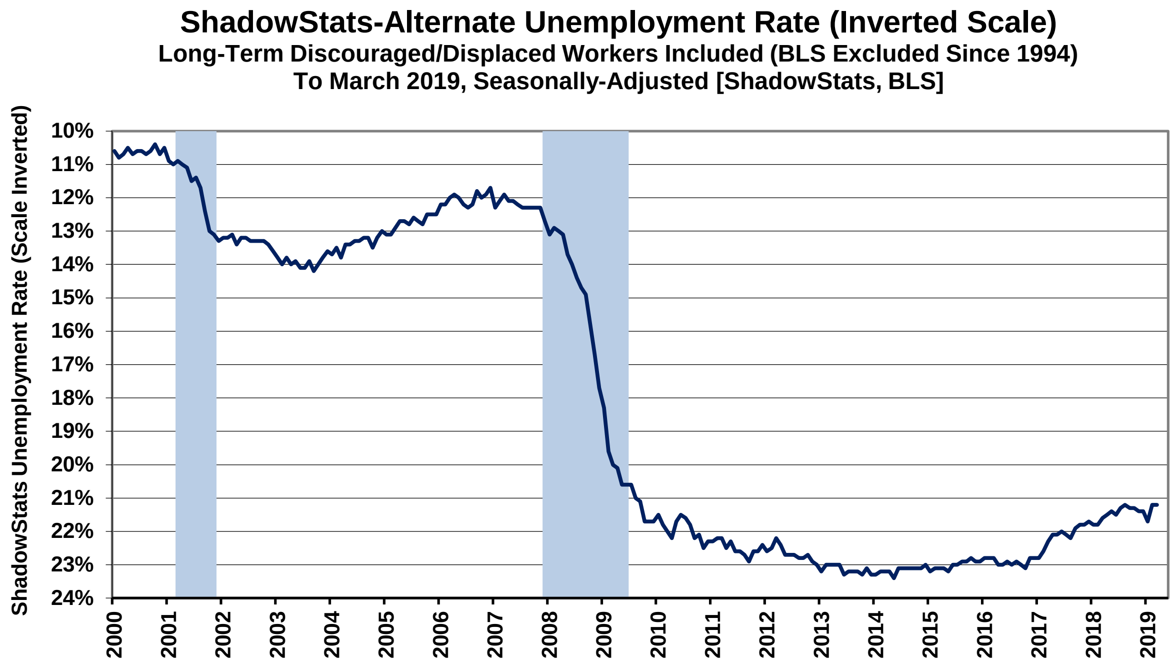
Graph 39: U.S. Crude Oil and Petroleum Product Supplied



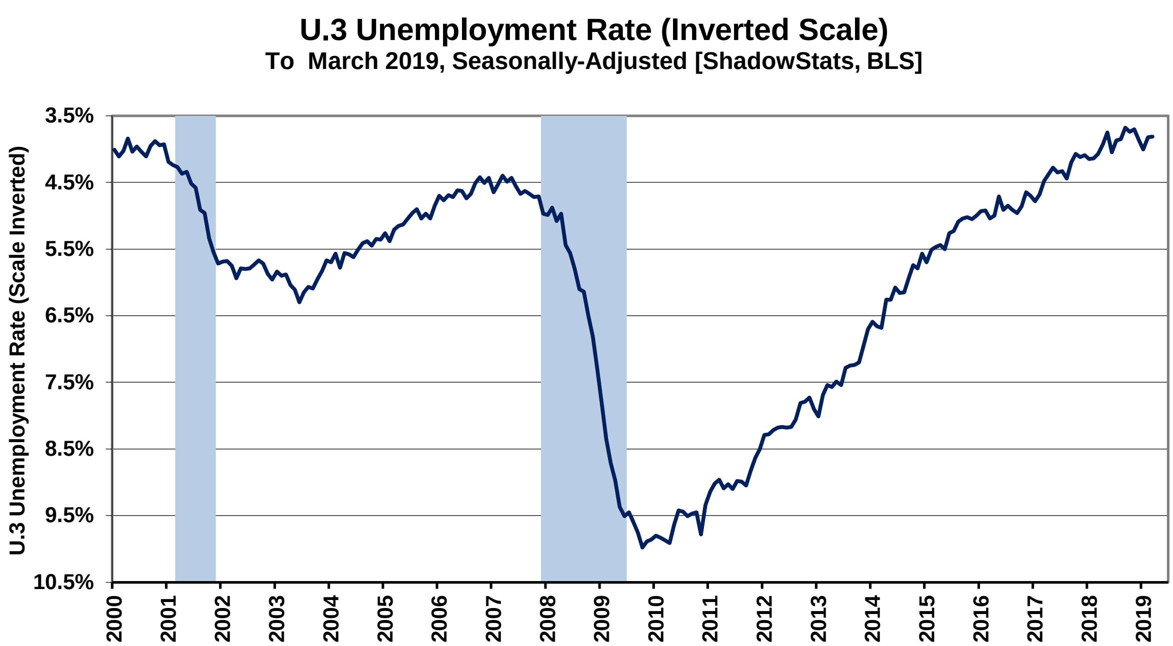
Graph 40: Civilian Employment-to-Population Ratio



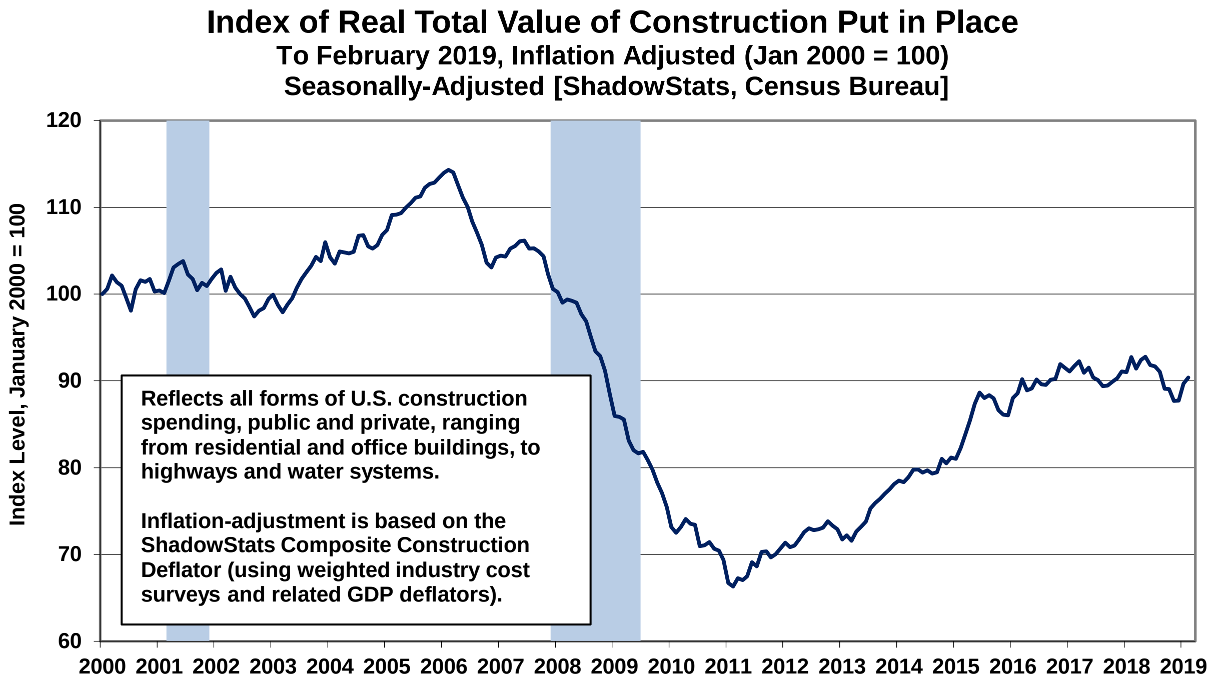
Graph 41: INVERTED SCALE, ShadowStats-Alternate Unemployment Rate



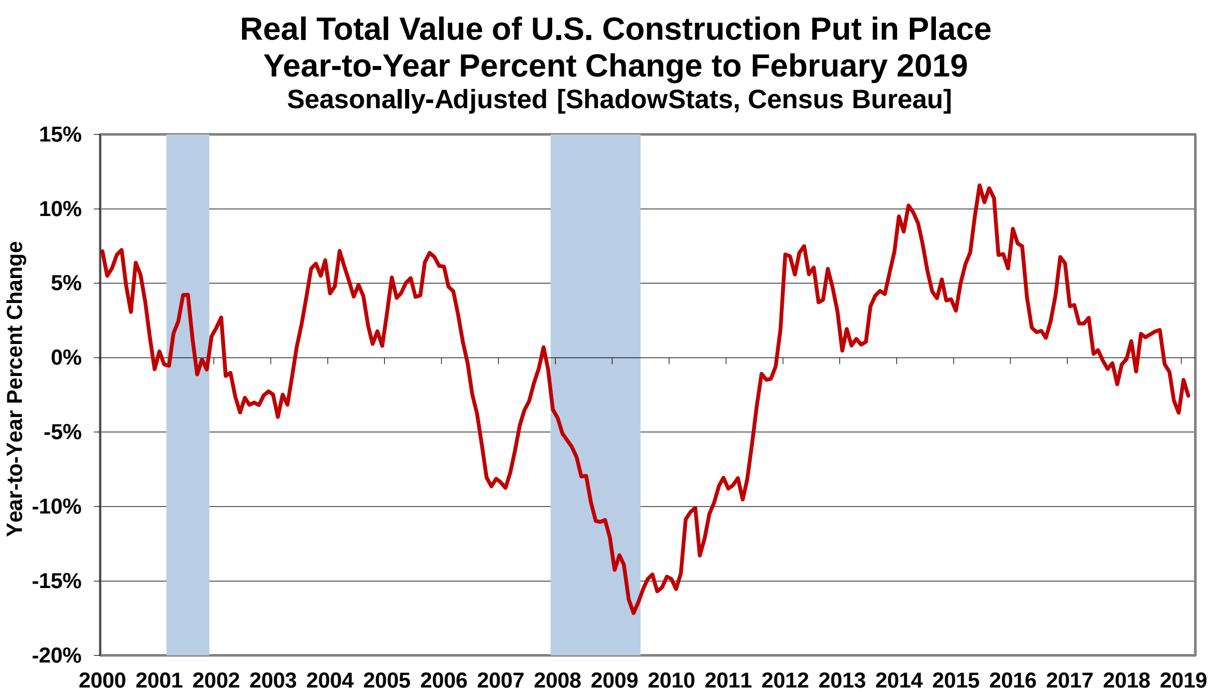
Graph 42: INVERTED SCALE, Headline U.3 Unemployment Rate



Graph 43: Real Total Value of Construction Put in Place (2000 to February 2019)

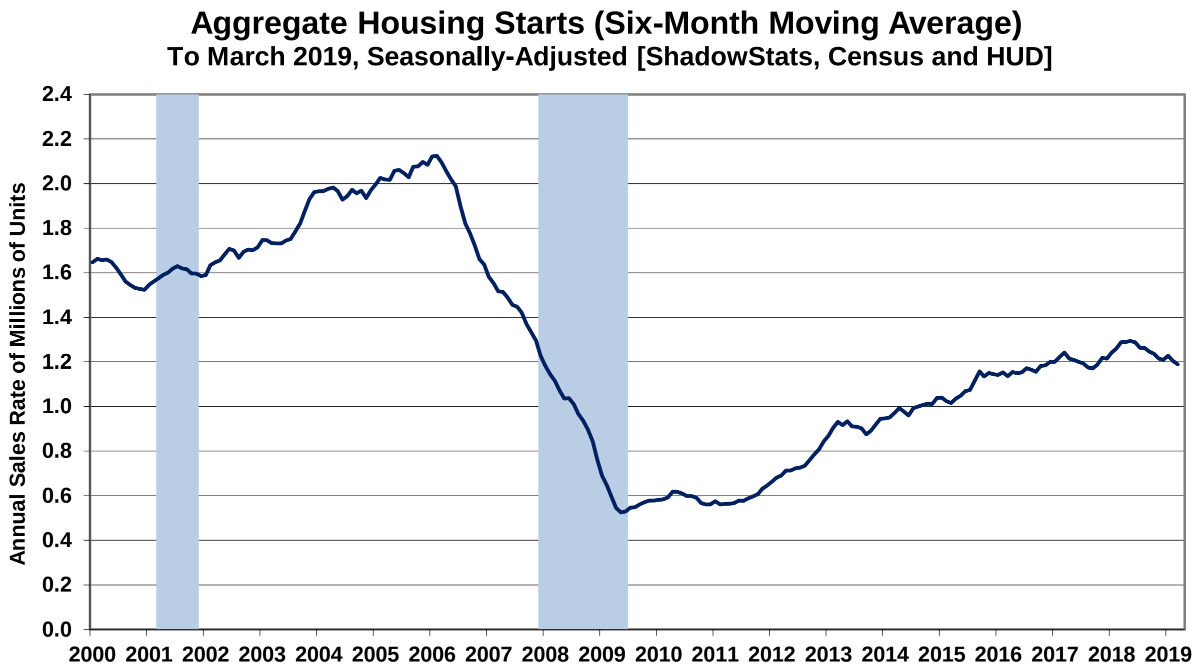


Graph 44: Year-to-Year Change in Real Construction Spending (2000 to February 2019)



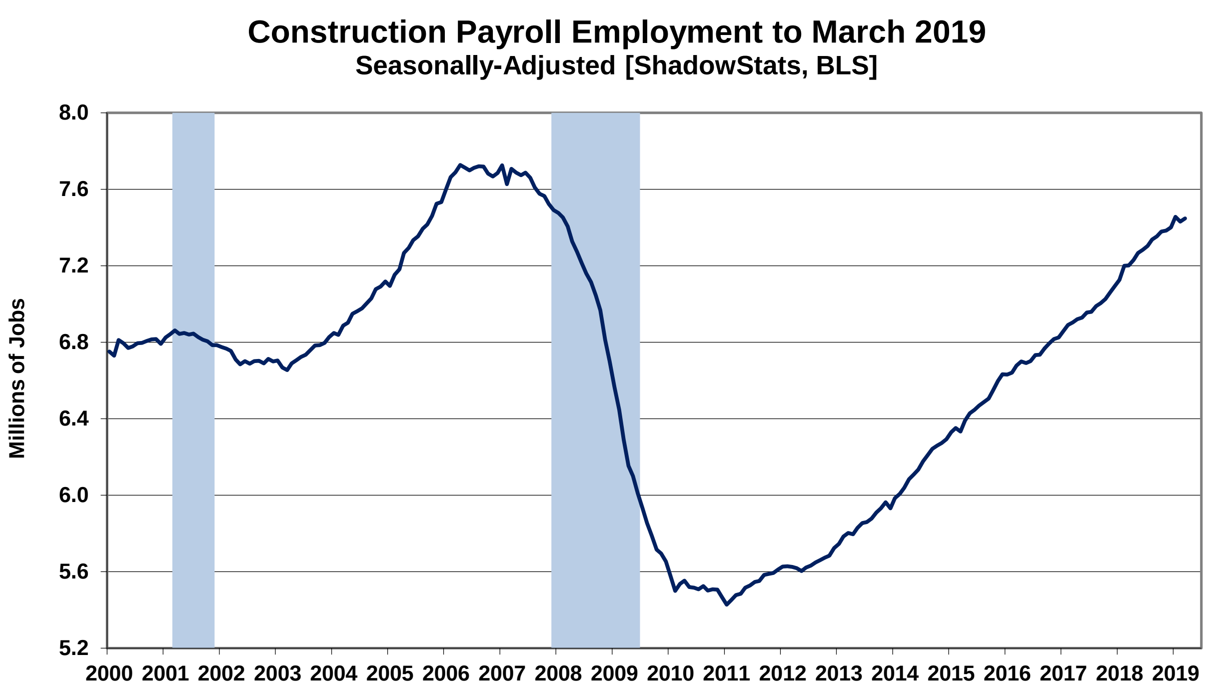
Graph 45: Housing Starts, Six-Month Smoothed Average

(See Related Year-to-Year Plot in *Graph 9*)

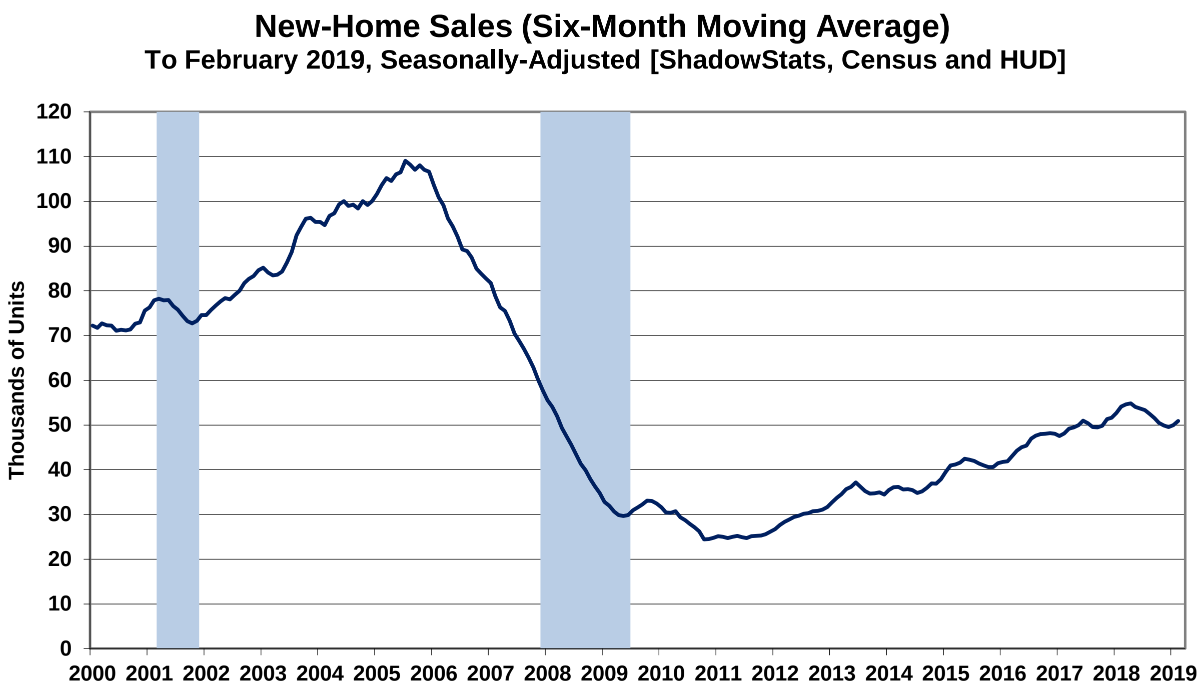


Graph 46: Construction Payroll Employment (2000-to-Date)

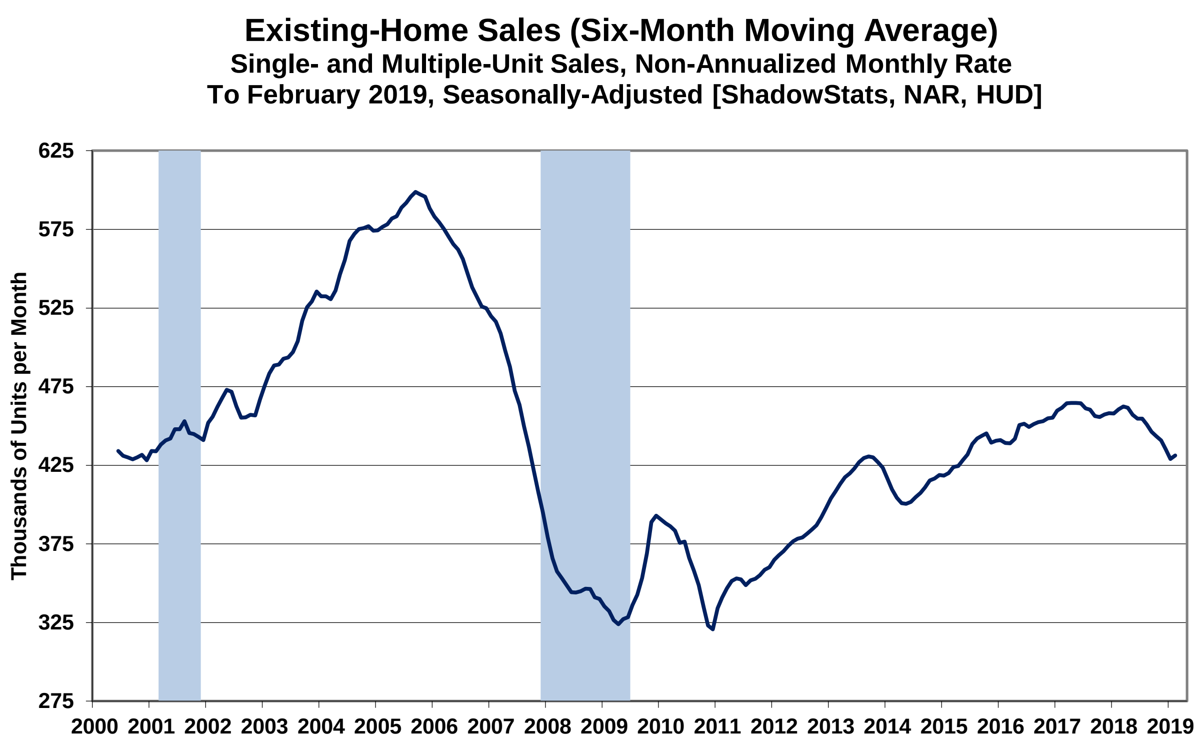
[March 2019 Payrolls Remains Remained Shy by 3.6% of Ever Recovering Their Pre-Recession High]



Graph 47: New-Home Sales, Six-Month Smoothed Average



Graph 48: Existing-Home Sales, Six-Month Smoothed Average



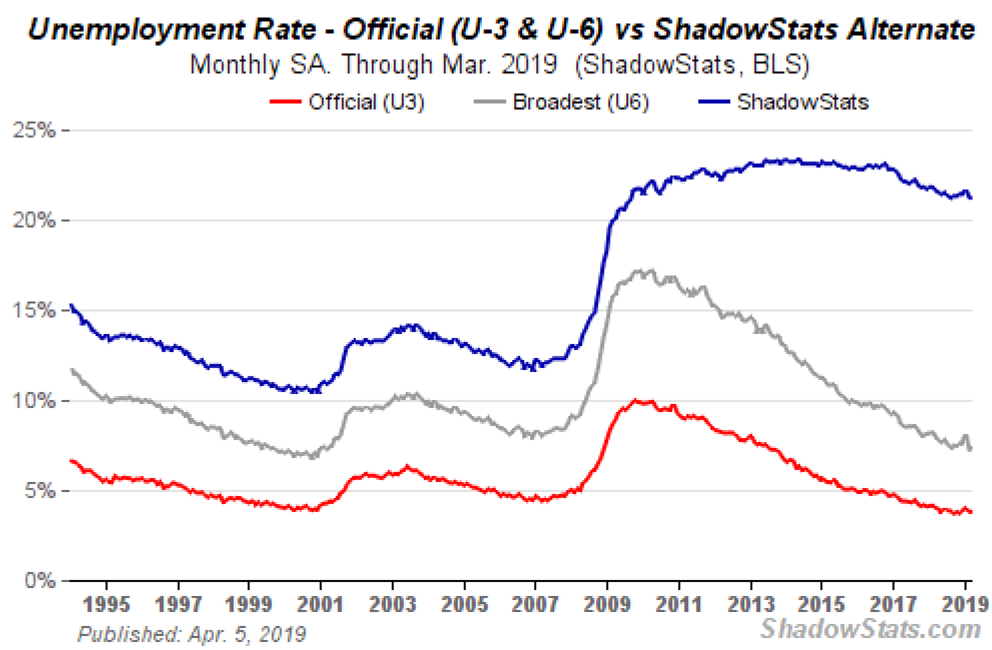
[*Section 5: Consumer Conditions* follows.]

Section 5: Consumer Conditions

Employment and Unemployment Uncertainties, Consumer Liquidity Has Been Squeezed, Constrained Income, Limited Credit Availability and Mixed Consumer Outlook. The consumer has seen tightening liquidity in recent quarters, with generally weakening income and credit, softening labor conditions and fluctuating but off peal confidence, reflected in weaker consumer spending.

On the unemployment and payroll fronts, surveying difficulties in measuring the impact of the government shutdown on the labor data, were mixed, temporarily spiking then easing the various unemployment rates (*Graph 49*), while employment stresses backed up in March, as reflected in *Graph 40* in prior *Section 6*. Of some concern were sharp flat or negative growth in certain payroll area, such as in manufacturing and construction, with overall annual growth in payrolls the weakest since mid-2018 (see comments in *Section 9b*: *Latest Economic Releases*).

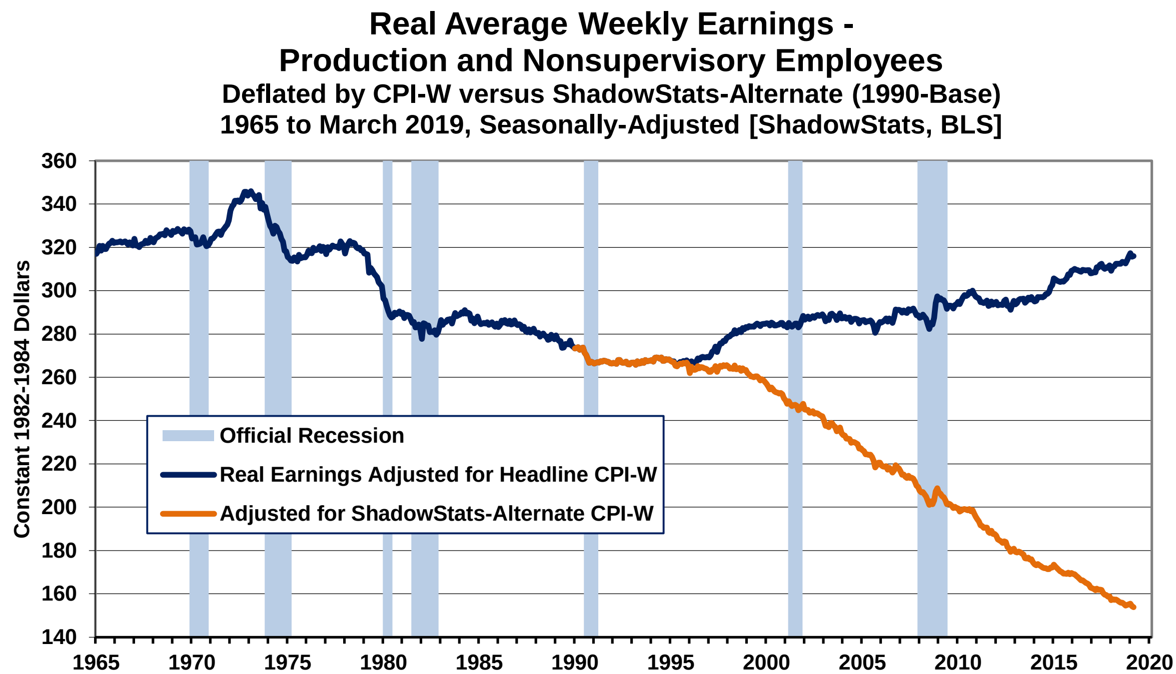
Graph 49: Headline U.S. Unemployment Rates



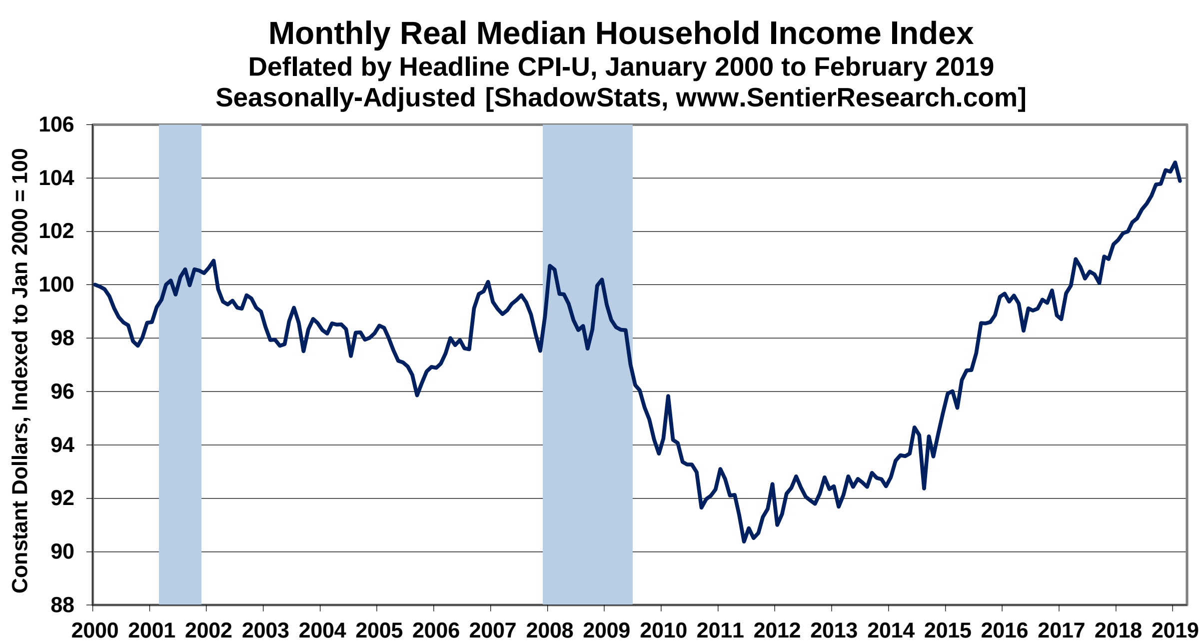
Tight and tightening liquidity has been seen increasingly in Real Average Weekly Earnings and Real Monthly Median Household Income, which was down in the most recent month with annual growth turning lower. Those were on top of annual numbers that showed real Annual Median Household Income of its historic high, and Household Income Dispersion/Inequality at record or near-record high (*Graph*

54), which is estimated to have been greater than levels going into the Stock Market Crash of 1929 and the and Great Depression. In theory, extreme levels of dispersion can trigger economic readjustments that then tend to mitigate the extremes in income dispersion.

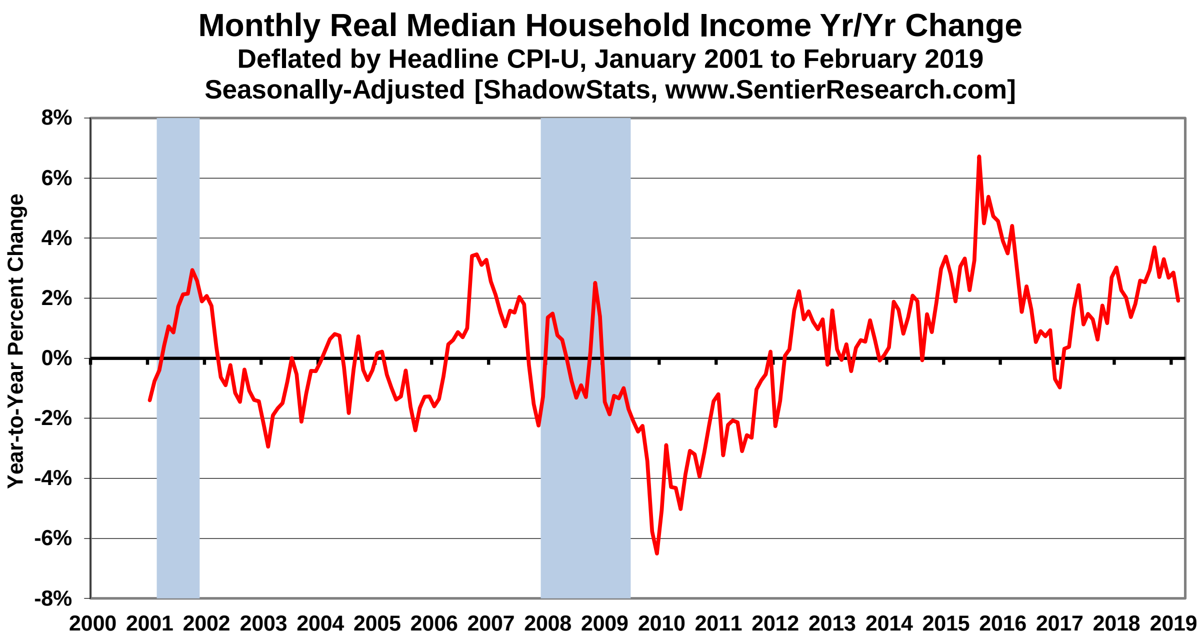
Graph 50: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date
(Updates *Graph 5* in Consumer Liquidity Watch No. 5)



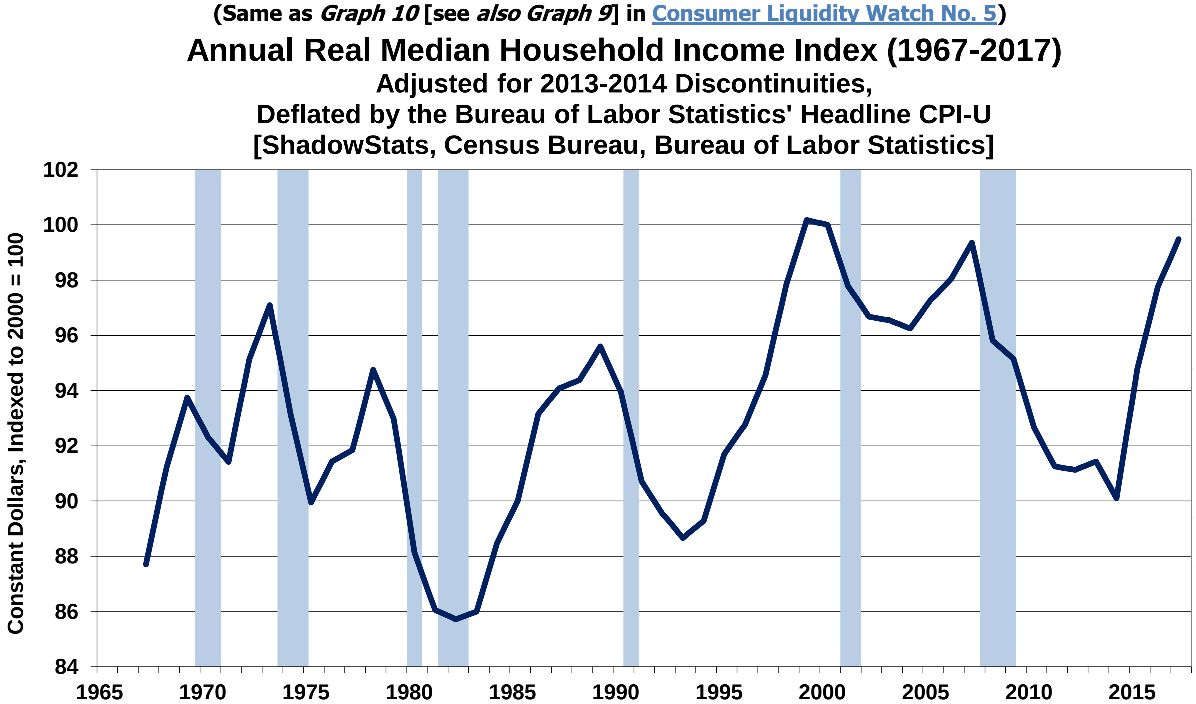
Graph 51: Real Monthly Median Household Income – Sentier Research (2000 to February 2019)
(Same as *Graph 10* [see *also Graph 9*] in Consumer Liquidity Watch No. 5)



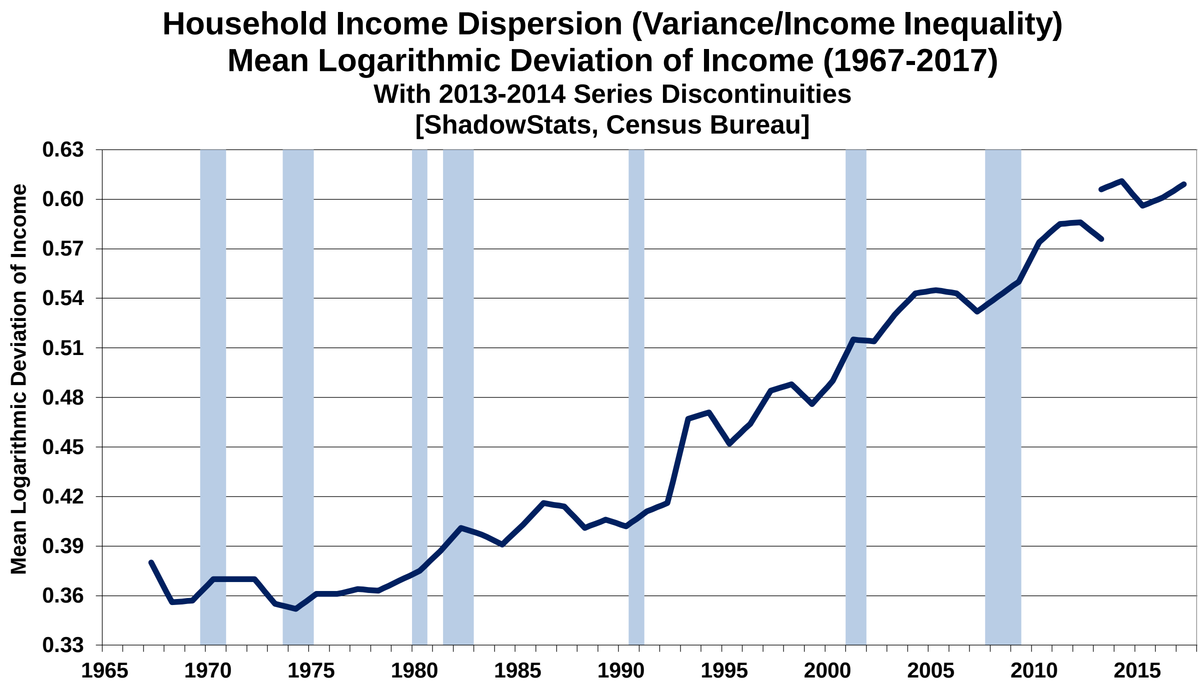
Graph 52: Yr-to-Yr % Change, Real Monthly Median Household Income – Sentier Research (2000 to Date)
(Same as *Graph 10* [see *also Graph 9*] in [Consumer Liquidity Watch No. 5](#))



Graph 53: Annual Real Median Household Income (1967-2017)
(Same as *Graph 10* [see *also Graph 9*] in [Consumer Liquidity Watch No. 5](#))

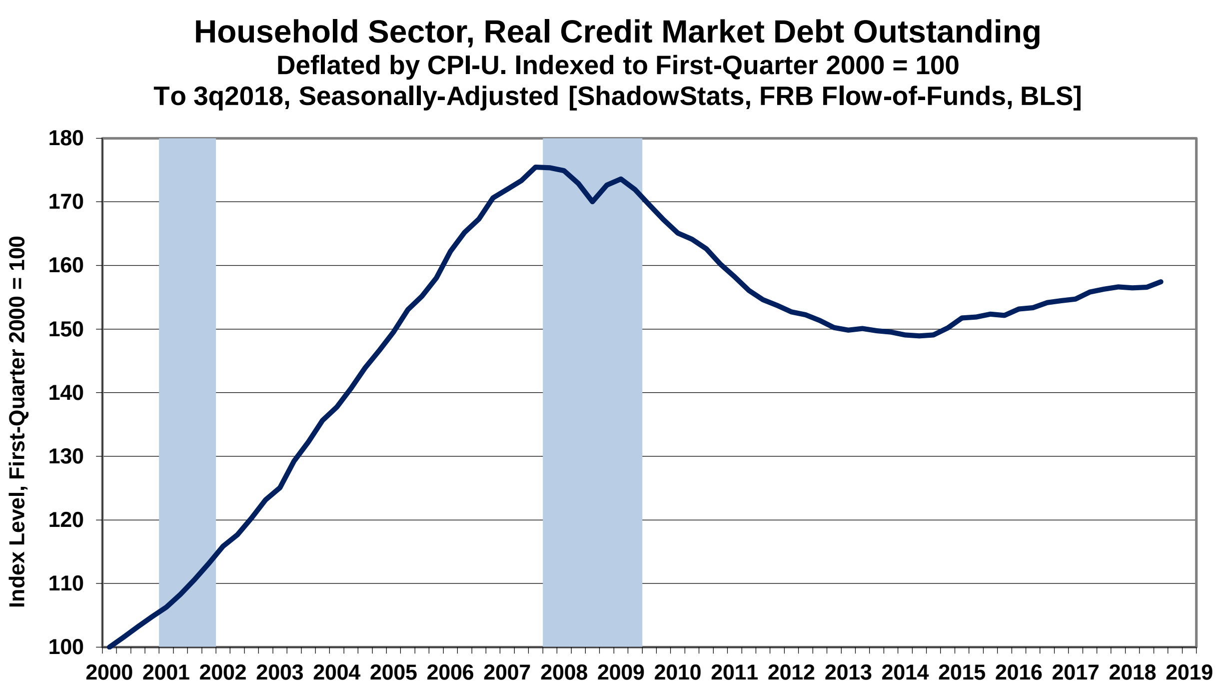


Graph 54: Household Income Dispersion (Variance/Inequality), 1967-2017
(Same as *Graph 14* in Consumer Liquidity Watch No. 5)

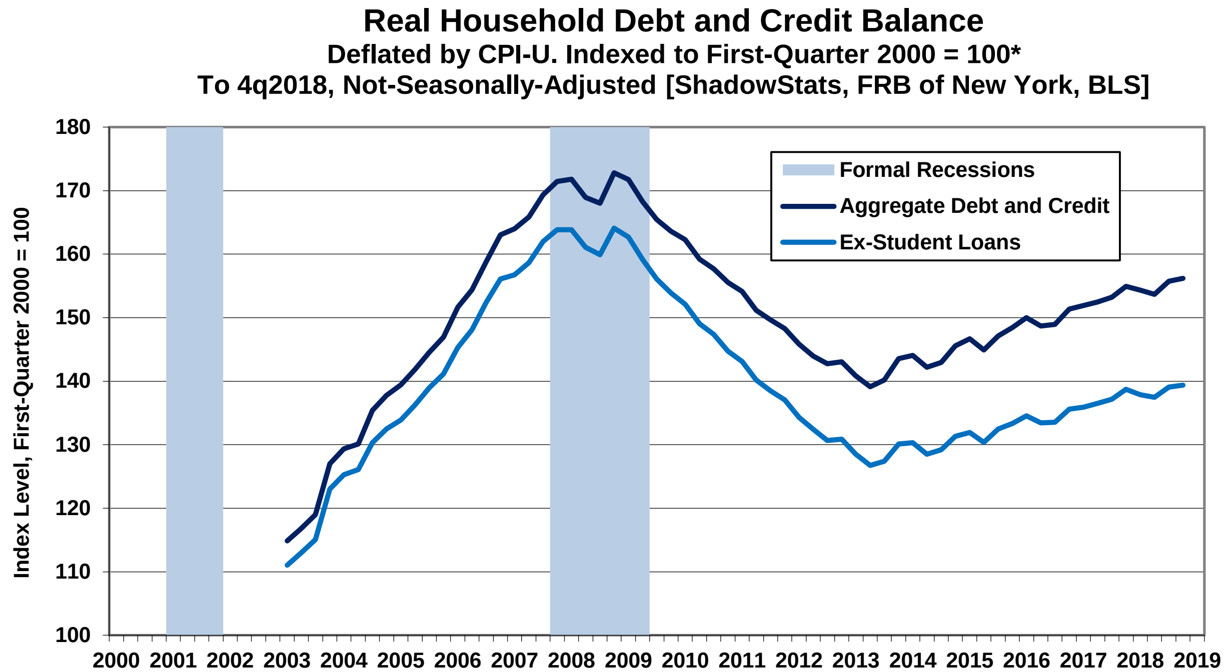


With weak real income growth, consumer liquidity has been curtailed further by lack of recovered or expanding growth in various measures of real consumer credit outstanding (see *Graphs 55* to *57*).

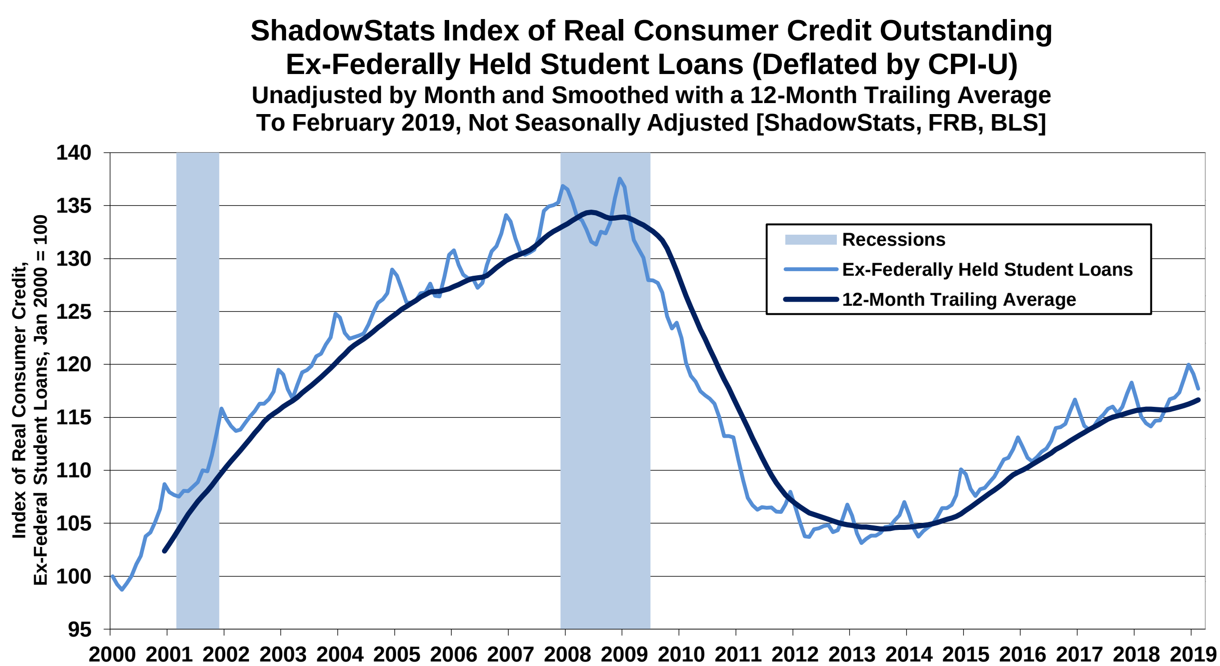
Graph 55: Real Credit Market Debt Outstanding (Federal Reserve Board Flow-of-Funds)
(Updated *Graph 15* in Consumer Liquidity Watch No. 5)



Graph 56: Real Credit Market Debt Outstanding (New York Federal Reserve)
(Updated *Graph 16* in Consumer Liquidity Watch No. 5)



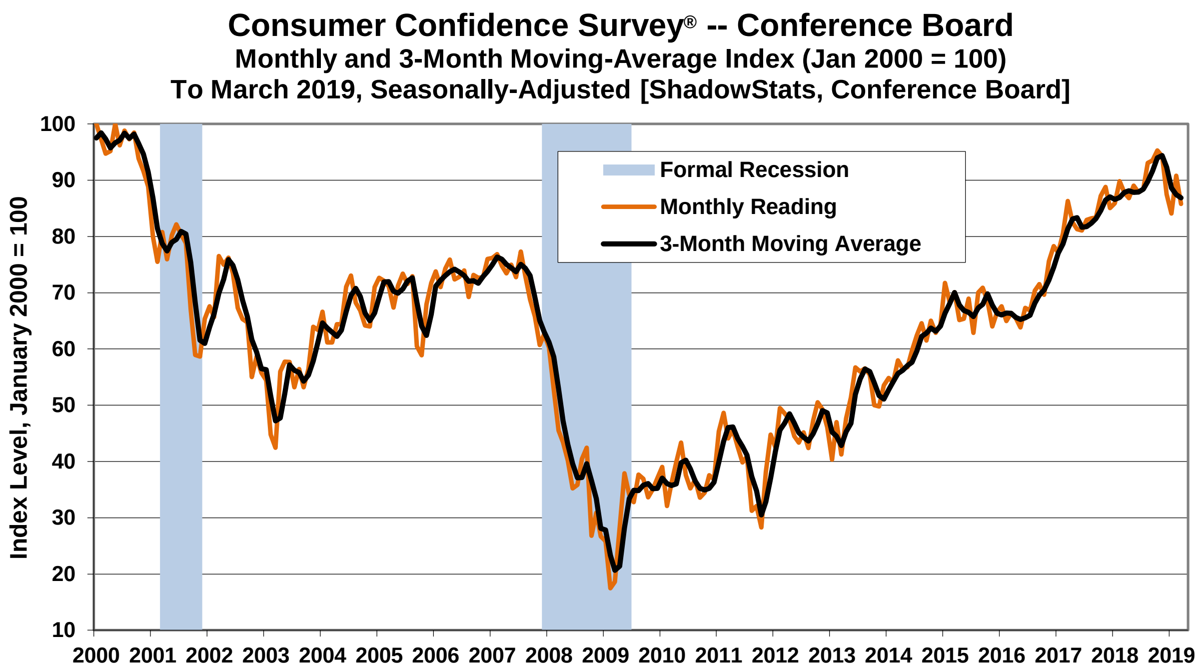
Graph 57: ShadowStats Index of Real Consumer Credit Outstanding
(Updated *Graph 17* in Consumer Liquidity Watch No. 5)



Consumer Confidence and Sentiment have been volatile, but generally down trending, off recent peak levels (*Graphs 58* to *59*).

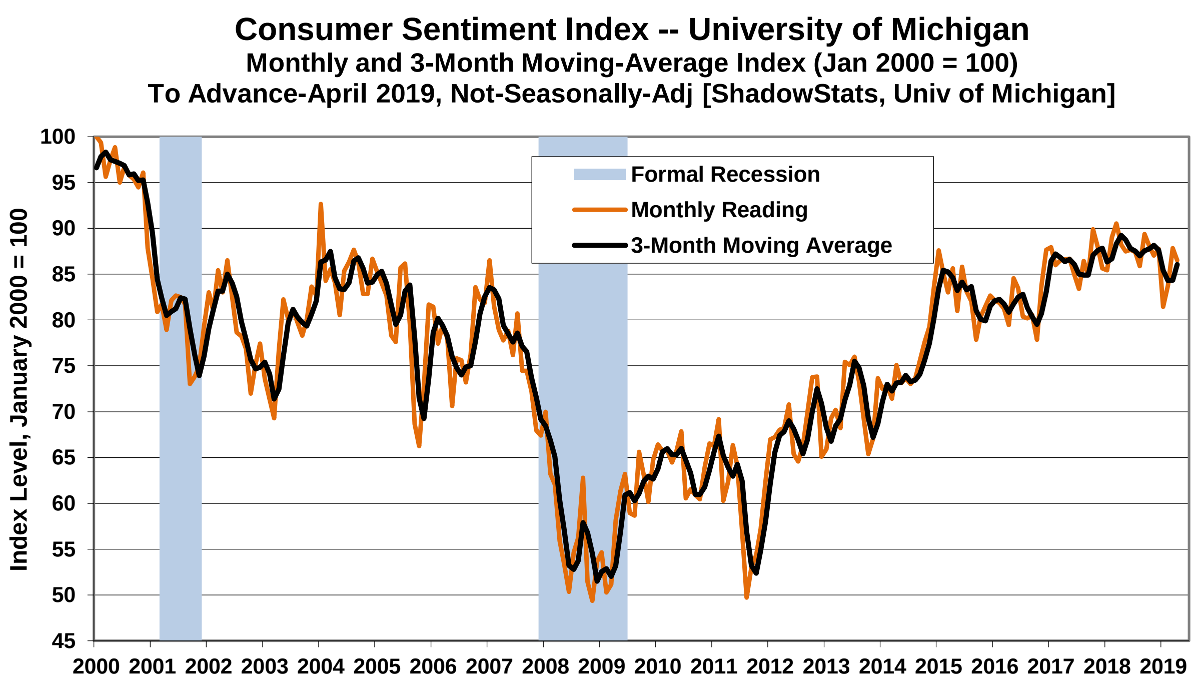
Graph 58: Consumer Confidence Survey (Conference Board)

(Update of *Graph 2* in Consumer Liquidity Watch No. 5)



Graph 59: Consumer Sentiment Index (University of Michigan)

(Update of *Graph 3* in Consumer Liquidity Watch No. 5)



[*Section 6: U.S. Treasury and Fiscal Policy* follows.]

Section 6: U.S. Treasury and Fiscal Policy

With "Unsustainable" Fiscal Policies, the United States Government Faces Long-Range Insolvency or Hyperinflation. The U.S. Government must move now to bring its fiscal operations into balance, to restore long-term stability and solvency to the system. Otherwise, current conditions easily could evolve into a hyperinflationary great depression, much sooner than commonly expected, forcing significant overhauls to the domestic and global economic and financial-market systems. These crises no longer are "too far into the future to worry about," as some in the U.S. government and Fed have argued in recent decades, and the Fed is complicit in this circumstance along with the Congress and President.

Also reviewed in the *ALERT* (*Section 9a* page 58), consider *Graph 60* (*Graph 82* in *Section 9a*), which plots fiscal-year end (September 30th) total nominal U.S. Government Debt versus fiscal-year nominal GDP. Not only has level of total U.S. Treasury debt surpassed GDP, but it also is growing at an accelerating, greater pace than the GDP. At the same time as growth in federal debt is accelerating, GDP growth appears to be decelerating, on the brink of slowing sharply, or falling into outright contraction in a new recession.

The long-range solvency issues of the United States Government are reviewed regularly in the *Hyperinflation Watches* and sporadic annual updates (see *Hyperinflation Watch No. 4 – Special Edition* with accompanying links there, also links are found in *Section 9c*, under *Special Pieces Underlying the Current Outlook*). ShadowStats will fully update its *Hyperinflation Report* in the next month or two, reflecting the recently published *2018 Financial Statement of the U.S. Government*. What follows here looks at some of the new numbers, as well as being partially excerpted from, and updated and expanded from earlier writings. Where the discussion here is tied to the U.S. Treasury, it also is tied directly to Federal Reserve policies and likely actions, Federal Reserve Chairman Powell's protestations to the contrary, notwithstanding.

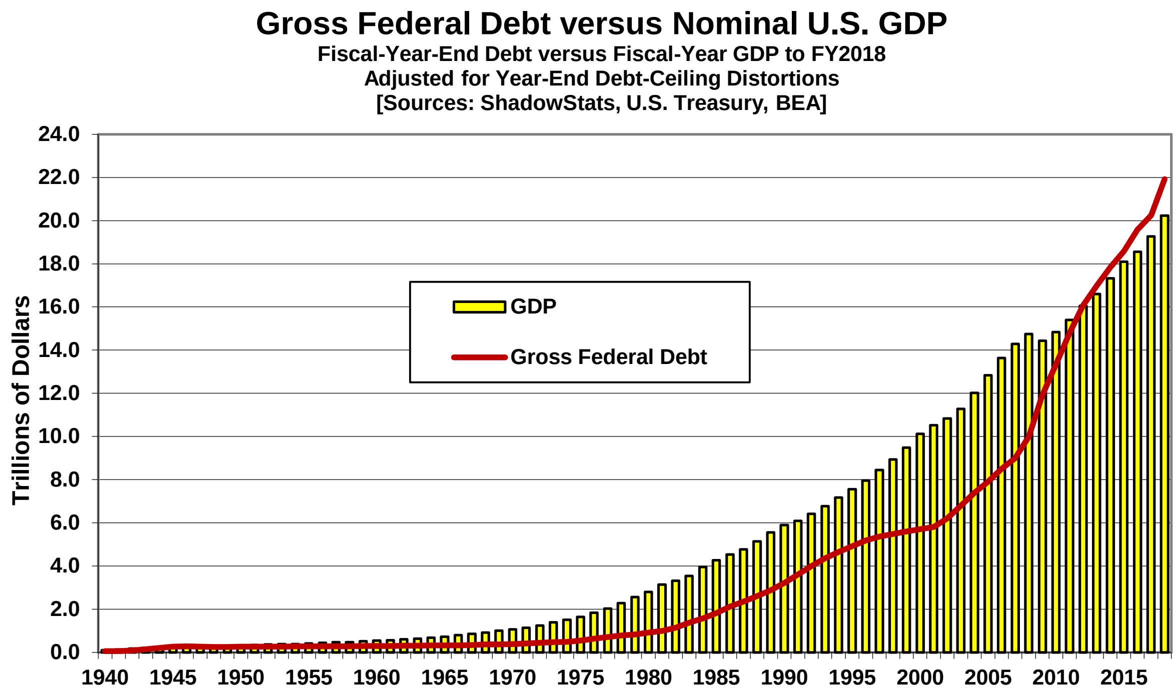
Fed Chairman Notes the Long Run Fiscal "Nonsustainability" of the U.S. Government. *CNBC reported January 10th on Fed Chairman Powell's concerns on U.S. Treasury Debt:*

> Federal Reserve Chairman Jerome Powell is concerned about the ballooning amount of United States debt. "I'm very worried about it," Powell said at The Economic Club of Washington, D.C. "From the Fed's standpoint, we're really looking at a business cycle length: that's our frame of reference. **The long-run fiscal, nonsustainability of the U.S. federal government isn't really something that plays into the medium term that is relevant for our policy decisions.**"
>
> However, "it's a long-run issue that we definitely need to face, and ultimately, will have no choice but to face," he added.

> The Fed chief's comments came as the annual U.S. deficit reaches new sustained highs above $1 trillion, a fact many economists worry could spell trouble for future generations. Annual deficits have topped $1 trillion before, but never during a time of sustained economic growth like now, raising concern about what would happen if a recession hits.

Discussed in the *Overview* a "new" recession already has begun to unfold.

Graph 60: Nominal Gross Federal Debt versus Nominal Fiscal-Year Gross Domestic Product
(Same as *Graph 82*)



Federal Deficit Is Out of Control and "Not Sustainable." In the just-reported *2018 Financial Statement of the U.S. Government*, Treasury Mnuchin summarized: "The projections in this *Financial Report* show that current policy is not sustainable."

Based on generally accepted accounting principles (GAAP), the headline net obligations of the Federal Government, including the unfunded liabilities valued in today's dollars, have reached an order of magnitude of well over $100 trillion, including $22.0 trillion in existing U.S. Treasury debt (the largest amount of sovereign debt in the world. That $100-plus trillion needed in hand to cover existing U.S. obligations not only is five-times greater than the headline nominal U.S. GDP, but also tops current estimates of the aggregate global GDP of about $85 trillion. Indeed that circumstance is unsustainable and uncontainable, yet those controlling the U.S. government consistently refuse to address the nation's long-term solvency issues, although they talk about it.

Fourteen years ago, the regular annual reporting of government financial conditions in the *Financial Report of the United States Government*, showed that U.S. Government fiscal conditions and long-term financial operations had deteriorated to the point of unsustainability by the end of the government's fiscal year 2004. Conditions have continued to deteriorate markedly ever since. The government's financial statements reflect GAAP-based (generally accepted accounting principles) accrual accounting, as used in accounting for most businesses, going well beyond the regular cash-in versus cash-out accounting of the headline monthly and annual federal budget numbers.

The GAAP statements include not only concepts such as Accounts Receivable and Payable, Assets and Depreciation, but also projections of the net present value (NPV) of unfunded liabilities tied to programs such as Social Security and Medicare. The NPV discounts the future value of obligations net of related income, so as to reflect the amount of money effectively needed in hand today to cover those future obligations, allowing for interest rates, etc.

Based on what was then a particularly large $11 trillion surge in 2004 unfunded liabilities, tied to Medicare expansion in 2006, I raised the issue then of an inevitable U.S. hyperinflation, with a key advisor to both the Bush Administration and then Federal Reserve Chairman Alan Greenspan. I was told simply that the problem was too far into the future to worry about. Indeed, continuing to push the big problems further into the future still appears to be the only working strategy for the Congress, the Fed and recent and current Administrations.

The financial conditions of the United States Government have continued to deteriorate each year by an amount that is beyond the political willingness and ability of the federal government to address. Purportedly, it was Arthur Burns, Federal Reserve Chairman under Richard Nixon, who first offered the advice that helped guide a number of Administrations. The gist of the imparted wisdom was that if the Fed or federal government ran into economic or financial-system difficulties, the federal budget deficit and the U.S. dollar simply could be ignored—or sacrificed. Ignoring them would not matter, it was argued, because doing so would not cost the incumbent powers any votes. Yet, the U.S. dollar and the budget deficit do matter.

Complicating the current circumstance, the Fed still is trying to unwind its banking-system rescue package from the 2008 panic, but it has not been able to stabilize fully either the banking system or the economy. As an inevitable, renewed downturn in the economy continues to unfold, and as foreign investors increasingly back away from holding U.S. dollars and Treasury securities, the U.S. central bank will have little choice but to flood the system anew with liquidity and to monetize significant new amounts of Treasury debt.

As global markets look to escape their looming losses in U.S. dollar holdings, that day of ultimate reckoning for the U.S. currency likely remains near. A flight from the dollar and hyperinflation fears could break over a very short period, as quickly as the banking panic of 2008, for example, or it could evolve over longer periods and intermittent crises.

ShadowStats Hyperinflation Forecasts. I have published the *Shadow Government Statistics* newsletter since 2004. Early on, I began discussing the long-term insolvency of the United States Government leading to a domestic hyperinflation likely around 2018 or 2019. The ShadowStats' *Hyperinflation Watch* coverage has evolved over the years, in the context of what I view as inevitable hyperinflation. In the wake of the financial crisis of 2008, the timing of the hyperinflation forecast was advanced to 2014, which obviously did not happen. Yet, underlying fundamentals only have deteriorated since. Again, unless the United States addresses the long-range solvency issues currently in play for the U.S. Treasury, a hyperinflation will hit the United States, and it likely will be set off much earlier than most anticipate, by any number of factors that could trigger a panicked sell-off in the U.S. dollar.

Incorporated here by reference, I wrote in *Hyperinflation 2014—The End Game Begins (Revised), No. 614*, of April 2, 2014: "The [ShadowStats] forecast of a U.S. hyperinflation has been in place since at least 2006. Those who have read the various ShadowStats reports on hyperinflation—as opposed to just catching occasional sensationalized headlines in the press—usually recognize that the forecast has been of a future circumstance, in what used to be the distant future. In the early writings, the outside time limit for the crisis was 2018 or 2019, the end of the current decade. That outside timing was moved in closer in time, to 2014, following the near-collapse of the financial system in 2008. [For those interested, the full series of hyperinflation reports to the point in time is described and linked at the end of the *Definitions and Background* section in *No. 614*]."

Given a GAAP-based shortfall in current total U.S. government operations and obligations at an order of magnitude minimally of $100 trillion (including the NPV of unfunded liabilities), that is the amount of cash needed in hand today, in today's dollars, to cover U.S. net obligations going forward. Reflected in *Graph 60*, in nominal terms—today's dollars—the total value of economic activity in the United States, as measured by the GDP for the fiscal year-ended September 30, 2018 stood at $20.3 trillion. That was against total public debt of the U.S. Treasury at that time of $21.5 trillion, with the excess of debt level over GDP expanding rapidly. **There is no chance of the U.S. government covering its total net-present-value obligations in excess of $100 trillion, under stable monetary conditions.**

In the current circumstance, unless the U.S. government meaningfully overhauls its planned expenses (a significant reduction in spending) and/or increases its revenues (a significant increase in tax revenues) going into the future, including overhauling Social Security, Medicare and Medicaid, it has no chance of covering its net obligations going forward, other than by just printing the dollars needed, generating dollar-debasement and eventual hyperinflation. The potential hyperinflation here is every bit the same as seen in the German Weimar Republic post-World War I, Zimbabwe in the 1990s and 2000s and Venezuela, with inflation hitting 80,000% in 2018.

When a Currency Is Debased, Precious Metals Function as Stores of Wealth. Since establishing the Federal Reserve System 1913 ago, and since abandoning the gold standard for the U.S. dollar in two steps, in 1933 and 1971, the United States has experienced a subsequent, cumulative, significant domestic price inflation not seen before in its history.

Reflecting the function of gold and silver as stores of wealth, their U.S.-dollar-based prices tend to rally in a manner commensurate with the ongoing debasement of the U.S. currency. Such was seen particularly in the period following the final, formal break between the dollar and gold in 1971. The average price of gold was $41 per troy ounce in 1971 and $1,269 in 2018, forty-six years later.

Traditionally—literally over millennia—gold has been the dominant precious metal as a store-of-wealth, with silver a close second. Although silver prices increasingly have reflected an element of industrial demand in the last century, the gold-silver price relationship in the open markets, post-1974 (when private U.S. gold ownership was re-allowed) has been highly correlated, at 91% in terms of movement in monthly-average prices, and 92% in terms of movement in the annual-average prices. The store-of-wealth function has remained the primary driving factor behind the price movements in both these precious metals over time.

Some Historical Perspective on Gold, Silver and the Preservation of Wealth. Over the millennia, gold and silver have served investors—those holding the physical precious metals—with a stable, liquid and portable store of wealth against inflation or monetary turmoil, as well as often providing a vehicle for financial and personal survival in times of political and social upheaval.

In countries where currency was denominated in gold and/or silver, the hard currency was its own store of wealth. Most commonly, however, political states have ended up debasing their currencies or moving to a fiat currency backed by no hard assets, as seen with the present-day U.S. Dollar.

Roughly the same amount of silver that would buy a loaf of bread in ancient Rome, would buy a loaf of bread today in New York City.

A Broadway enthusiast who could get a third-row center seat for a prime New York City play in 1925 for the cost of a five-dollar gold piece, could get that same seat in 2017 for the value of the gold content of that same five-dollar coin.

While both metals have seen increased industrial usage in the last century, particularly for silver (exclusive of jewelry and related products), the store-of-wealth aspects of gold and silver, again, have been the primary and dominant drivers of price movements of both precious metals throughout history, and particularly in the nearly half century since President Richard Nixon closed the Gold Window.

Abandoning Gold. The gold standard was a system that automatically imposed and maintained monetary discipline. Excesses in one period would be followed by a flight of gold from the system and a resulting contraction in the money supply, economic activity and prices.

Faced with the Great Depression, and unable to stimulate the economy due partially to that discipline, President Franklin Roosevelt used the depression as an excuse to abandon the domestic gold standard. He adopted close to a fully-fiat currency (not backed by hard assets), under the auspices of what could be called the "debt standard," where the government effectively could print and spend whatever money it wanted to create.

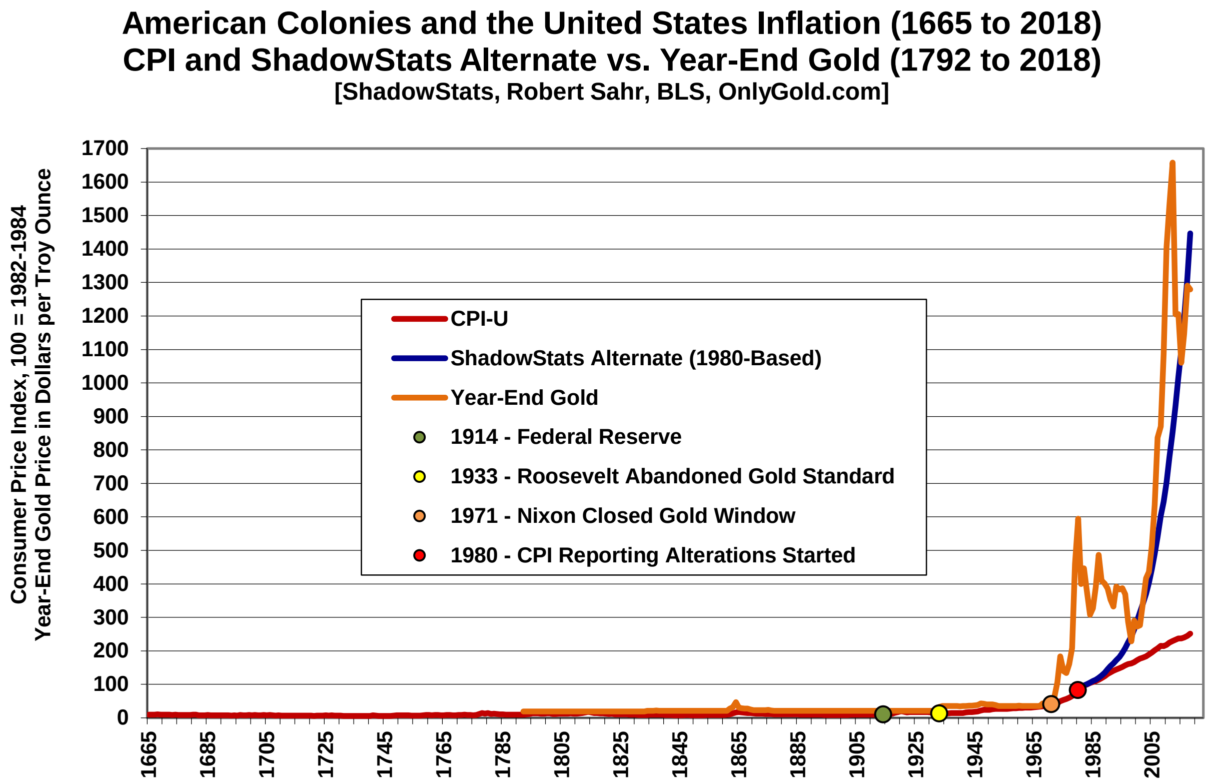
Roosevelt's actions were against the backdrop of the banking system being in a state of collapse. There was no deposit insurance at the time, and available Federal Reserve policies were ineffective, as banks failed and the money supply imploded. A depression collapsed into the Great Depression, with intensified consumer price deflation. Importantly, a sharp decline in broad money supply was and is a prerequisite to significant goods-and-services price deflation.

Where Roosevelt abandoned the domestic gold standard on April 5, 1933, eliminating domestic convertibility of U.S. dollars for gold and making illegal the domestic private ownership of monetary gold, Nixon eliminated the international convertibility of U.S. dollars for gold on August 15, 1971.

When chances of reopening the Gold Window were viewed as nil, Congress and President Ford enacted legislation allowing U.S. citizens to own physical gold, once again, as of December 31, 1974.

Graph 61 presents some historical perspective on year-end gold price versus inflation from the 17th century-to-date, as experienced in the American Colonies and later the United States. Gold prices have not been fitted mathematically to the inflation curve, but do tend to show a leading relationship to it.

Graph 61: Consumer Inflation 1665 to 2018 versus Gold
(Same as *Graph 83*)



Despite ups and downs around wars, the California Gold Rush, through World War I, the graph shows what appears to be a fairly stable level of prices up to the founding of the Federal Reserve in 1913 (began activity in 1914) and to Roosevelt's abandoning of the domestic gold standard in 1933. Then, inflation takes off in a manner not seen in the prior 250 years, and at an exponential rate when viewed using the ShadowStats-Alternate Measure of Consumer Prices in the last several decades.

The ShadowStats measure approximates headline Bureau of Labor Statistics' Consumer Price Index (CPI-U) inflation as it currently would be, net of changes made to reporting methodologies since 1980, when the federal government pushed inflation-reducing changes to reporting methodologies, so as to help cut federal spending in such areas as Social Security cost of living adjustments (see *Public Comment on Inflation*). Of significance, gold generally has continued to cover fully the "common experience" inflation, not just the artificially suppressed headline CPI-U, as seen in the graph.

Robert Sahr of Oregon State University constructed the price levels shown prior to 1913. Price levels since 1913 either are the CPI-U or ShadowStats-based, as indicated. All references to inflation, unless otherwise stated, reflect the headline CPI-U. The ShadowStats-Alternate Measure is shown for background informational purposes.

Persistent year-to-year inflation (and the related compounding effect) did not take hold until post-Franklin Roosevelt. Additionally, the CPI level reflects purchasing power lost over time for those holding dollars, which is cumulative, and which has reached extremes due to the later-era compounding effect. Consider that consumer prices at the time of the founding of the Federal Reserve in 1913 were about the same as they had been in New Amsterdam (today's New York City) in 1665.

Against prices in 1913, based on the current, understated headline CPI-U inflation, prices in 2017 were 25.5 times what they were in 1913, or in reverse, $1.00 in 1913 was worth about $0.04 in 2018. The annual average price of gold rose from $20.67 per troy ounce in 1913, to $1,269 in 2018, significantly more than protecting against the headline inflation gain over the same time span.

Allowing for minor, average-annual price-level declines in 1949, 1955 and 2009, the United States has not seen a major deflationary period in consumer prices since before World War II. The reason for this is the abandonment of the gold standard and recognition by the Federal Reserve of the impact of monetary policy—free of gold-standard system restraints—on the economy and inflation.

Federal Reserve Chairmen Alan Greenspan and Ben Bernanke both were students of the Great Depression period. As did Mr. Greenspan before him, Mr. Bernanke vowed not to allow a repeat of the 1930s money-supply collapse and a resulting severe deflation. Fed Chair Janet Yellen confirmed she was in Mr. Bernanke's camp. To my knowledge, current Fed Chairman Jerome Powell yet to weigh in on the matter.

Where Roosevelt abandoned the gold standard and its financial discipline for the debt standard, thirteen successive administrations have pushed the debt standard to the limits of its viability. Such has been seen now in recent economic and systemic turmoil, and in the ongoing threat of systemic upheaval, with the U.S. government facing the risk of a default created by potential conflicts between Congress and the White House, along with long-range sovereign-solvency issues tied to roughly $100 trillion-plus net present value of long-term federal obligations.

Otherwise faced with intractable financial-system instabilities, the Federal Reserve of today is looking for higher inflation to help support higher interest rate to help pull the banking system away from collapse. Any inflation created here would feed directly into spiking the near-term prices of precious metals.

Recent Crises. In 2002—six years before the financial panic in 2008, then Fed Governor Ben Bernanke attempted to counter concerns of another Great Depression-style deflation, outlining a version of what he would introduce as Fed policy six years later as "quantitative easing." The future Fed Chairman explained in his remarks (his parentheses): "I am confident that the Fed would take whatever means necessary to prevent significant deflation in the United States."

"Indeed, under a fiat (that is, paper) money system, a government (in practice, the central bank in cooperation with other agencies) should always be able to generate increased nominal spending and inflation, even when the short-term nominal interest rate is at zero."

"Like gold, U.S. dollars have value only to the extent that they are strictly limited in supply. But the U.S. government has a technology, called a printing press (or, today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes at essentially no cost. By increasing the number of U.S. dollars in circulation, or even by credibly threatening to do so, the U.S. government can also reduce the value of a dollar in terms of goods and services, which is equivalent to raising the prices in dollars of those goods and services. We conclude that, under a paper-money system, a determined government can always generate higher spending and hence positive inflation (Bernanke 2002 Deflation Speech). "

Yet, the quantitative easing created by the Fed, in response to the 2008 financial panic, was designed primarily as a covert bailout for the still-shaky banking system. The Fed pumped trillions of dollars of new liquidity into the banking system, but not into the money supply. Had banks increased lending into the regular flow of commerce with the new liquidity, money supply would have soared, and the economy and inflation would have picked up. Instead, the banking system was directed to place the funds back with the Fed as excess reserves, earning interest on the cash. The banking system remains unstable, still not lending normally into the regular flow of commerce. Consider that consumer credit outstanding, net of inflation, has yet to recover its pre-2007 recession high.

Major areas of the economy ranging from the Manufacturing Sector to Construction also still have not recovered their pre-recession peaks, yet the Fed tightened anew through December 2018, when the stock market tumbled (see the *Overview*). With the U.S. economy beginning to falter anew, thanks to the U.S. central bank's tightening, the Fed likely will have to revert to expanded quantitative easing, as a liquidity prop for the banking system. Such a policy should trigger heavy selling of the U.S. dollar and heavy buying of both gold and silver.

Holding physical gold tends to preserve the purchasing power of one's wealth and assets, during times and through periods when governments undertake policies debasing their currencies, a.k.a. creating inflation. Such times can be protracted, and preservation-of-wealth investment often means holding the protective assets for extended periods, instead of day-to-day trading. As seen in *Graph 61*, again, gold has acted as a consistently good hedge against actual inflation over at least the last three centuries.

Recognizing that soaring gold prices often reflect a vote of "no confidence" from the investing public, central banks have intervened in the markets in recent years to knock down both gold and silver prices, to discourage public flight to the safe-haven status of those hard assets [GATA – Gold Anti-Trust Action Committee www.gata.org]. Intervention largely appears to have been in the electronic trading markets and indeed can have meaningful, short-term psychological impact. That impact rarely is long lasting, though, in the face of ongoing U.S. dollar debasement. Despite the psychological gimmicks, central banks generally have been major net buyers of physical gold in recent years.

The bottom line with the Fed remains that despite the ongoing systemic instabilities, the Federal Reserve still will not tolerate any risk of systemic failure, irrespective of cost. It will create inflation as needed, and it can and will do so at any time, likely in the year or two ahead. Such is bullish for gold, irrespective of near-term price movements.

We Always Can Print Money. One further note in this general area. In 2011, the Standard and Poor's Rating Agency downgraded its rating of U.S. Treasury debt, previously the global benchmark for investment safety. In response, former Federal Reserve Chairman Alan Greenspan noted on *Meet the Press* that: “The United States can pay any debt it has because we can always print money to do that. So there is zero probability of default...” His point was that U.S. debt is denominated in dollars, and the U.S. can print as many dollars as it needs to meet its obligations. Of course, that is without any consideration of the impact of boosting dollar-based inflation or of devaluing the U.S. dollar in terms of other currencies and gold.

Dr. Greenspan was correct. Fortuitously for those running long-term federal deficit spending out of control, currency debasement and/or inflation and hyperinflation technically are not considered events of default for Treasury securities. Investors have no recourse other than common sense, such as investing in assets such as gold and silver, which will preserve the purchasing power of their assets against currency debasement. The end game here, if it is not a happy one, will currency debasement/hyperinflation, not sovereign insolvency.

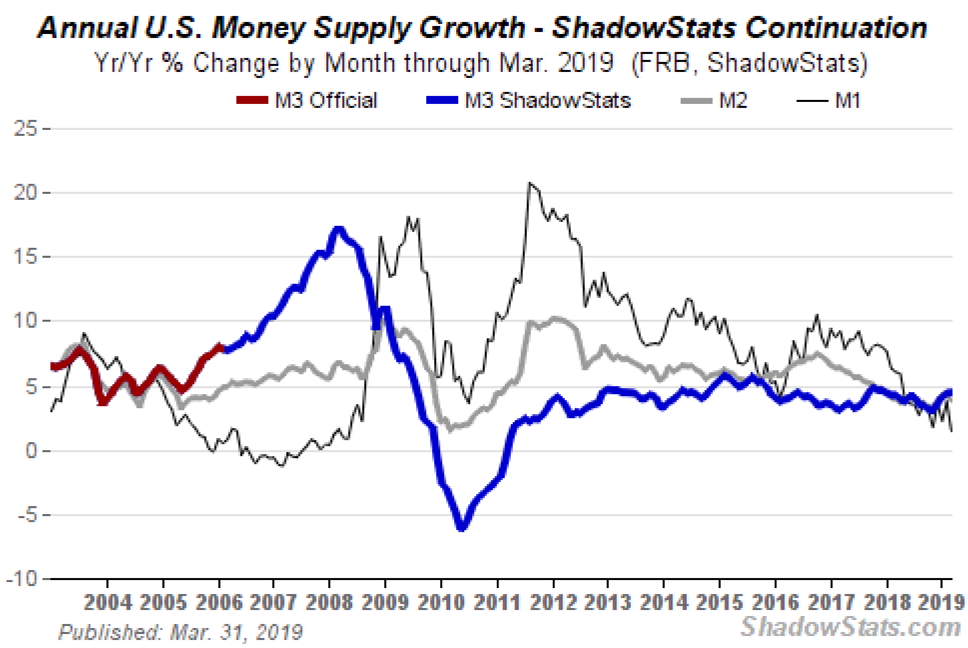
Indeed, printing money appears to remain the solution of choice for funding the federal government, which basically means intensifying dollar debasement, rising inflation and ultimately hyperinflation, with a broadly parallel movement in higher gold prices.

[*Section 7: Federal Reserve and Monetary Policy* follows.]

Section 7: Federal Reserve and Monetary Policy

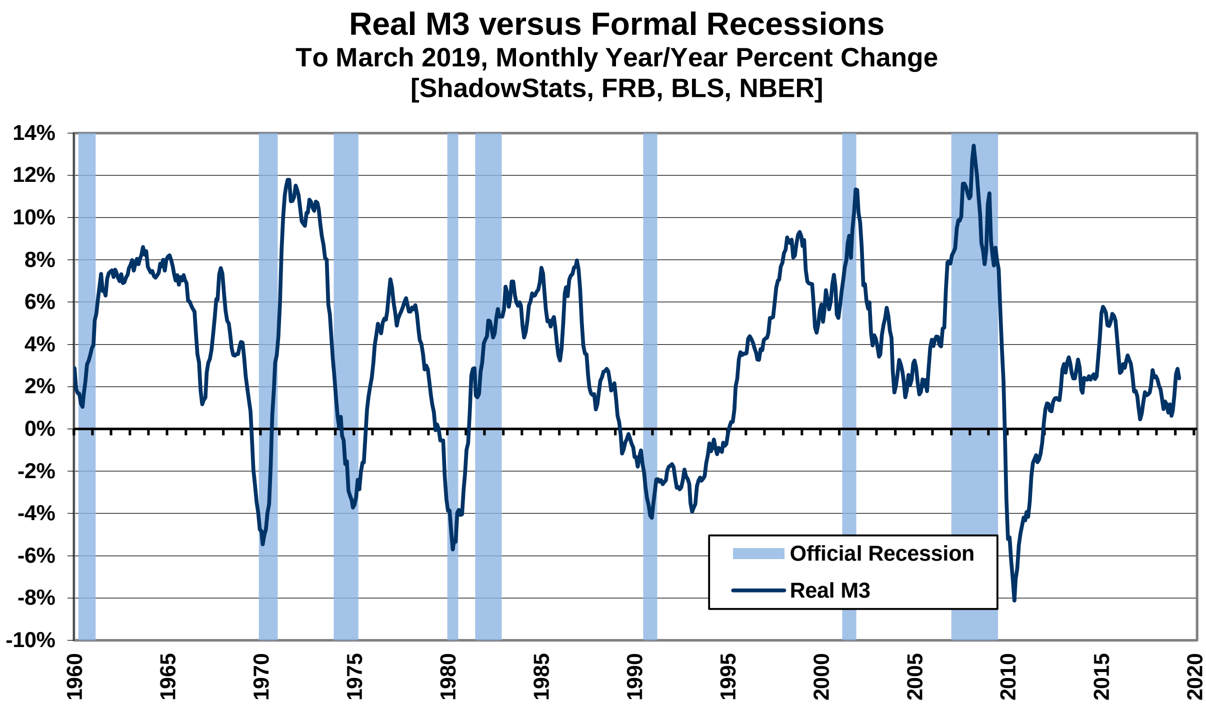
Annual Growth in the Quarterly Monetary-Base Plunged Year-to-Year as Though It Were 1921, With Bi-Weekly and Monthly Data Less Negative. Mirroring a combination of what have been Fed tightening policies, a collapsing Monetary Base and an annual benchmarking, annual growth in Money Supply M1 slowed to 1.8% in March 2019, versus 3.8% in February. Money Supply M2 in March 2019 slowed to 4.1% from 4.2% in February, Money Supply M3 in March 2019 rose to 4.6%, from 4.4%, broadly reflected in *Graph 62*, reflecting perhaps shifting expectations that it might be good time to lock-in higher interest rates. These data are revised minimally higher from the headline Alternate Data tab of www.ShadowStats.com and the accompanying plot there (not visually different).

Graph 62: Comparative Money Supply M1, M2 and M3 Yr-to-Yr Changes through March 2019



A Leading Indicator to Broad Economic Activity, Real Money Supply M3—March 2019—Annual Change Eased to 2.39% from 2.85% in February 2019. Reflected in accompanying *Graph 63*, slowing real annual growth in M3 historically has been a reliable leading indicator of the direction of annual real GDP growth. If we were working from close-to-reality inflation numbers, annual real M3 growth would be negative, generating a hard recession signal. The latest monetary circumstances will be updated fully in pending *Hyperinflation Watch No. 5*.

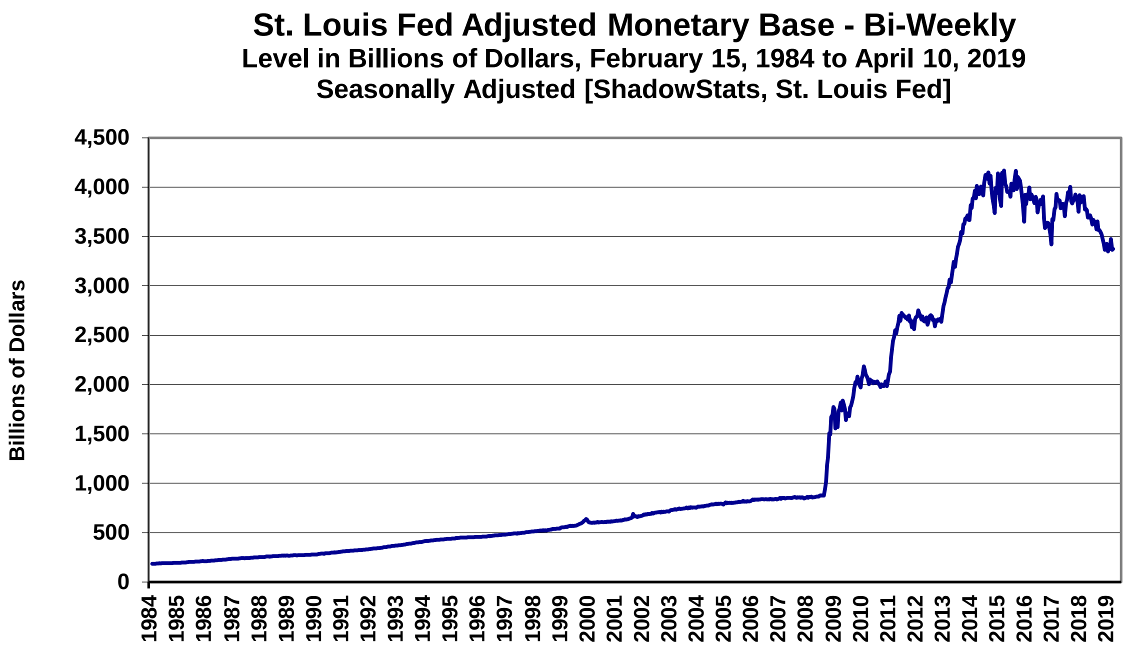
Graph 63: Real Annual M3 Growth versus Formal Recessions (1960 to March 2019)



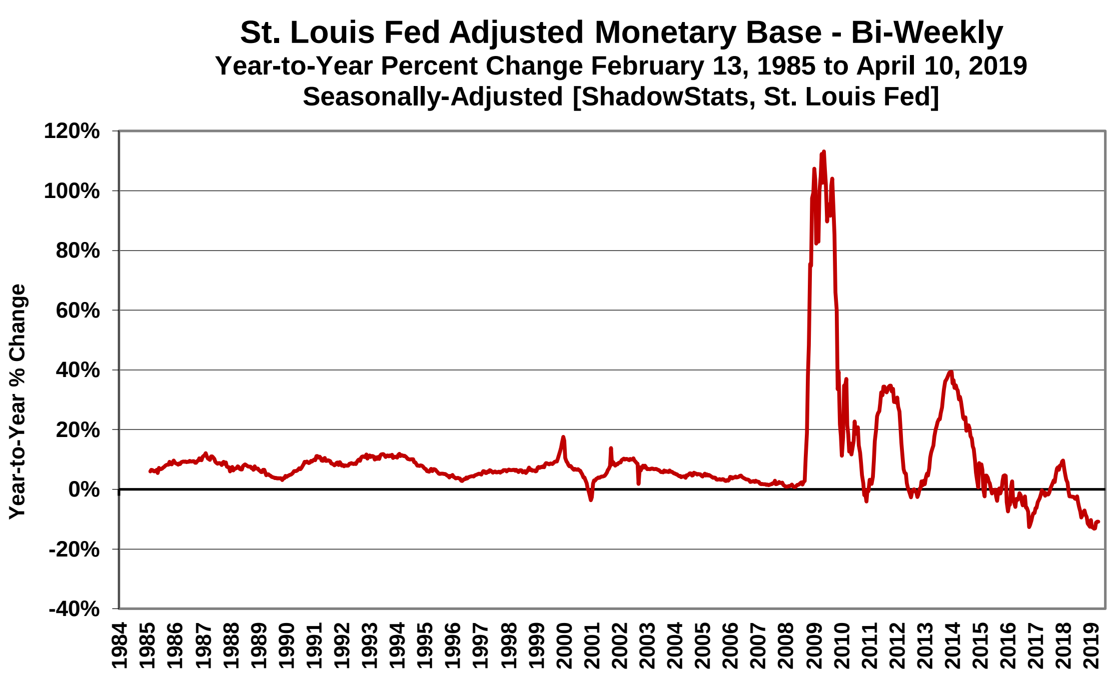
[Graphs 64 and 65 follow on the next page]

Latest Two-Week Reporting (Apr 11) the Saint Louis Fed's Adjusted Monetary Base Declined Year-to-Year by 10.8% (-10.8%), Off Its Near-Term Term Trough (Feb 27) of 13.1% (-13.1%). Those results are plotted in following *Graphs 64* and *65.*

Graph 64: Saint Louis Fed Bi-Weekly Monetary Base, Billions of Dollars (1984 to Date)

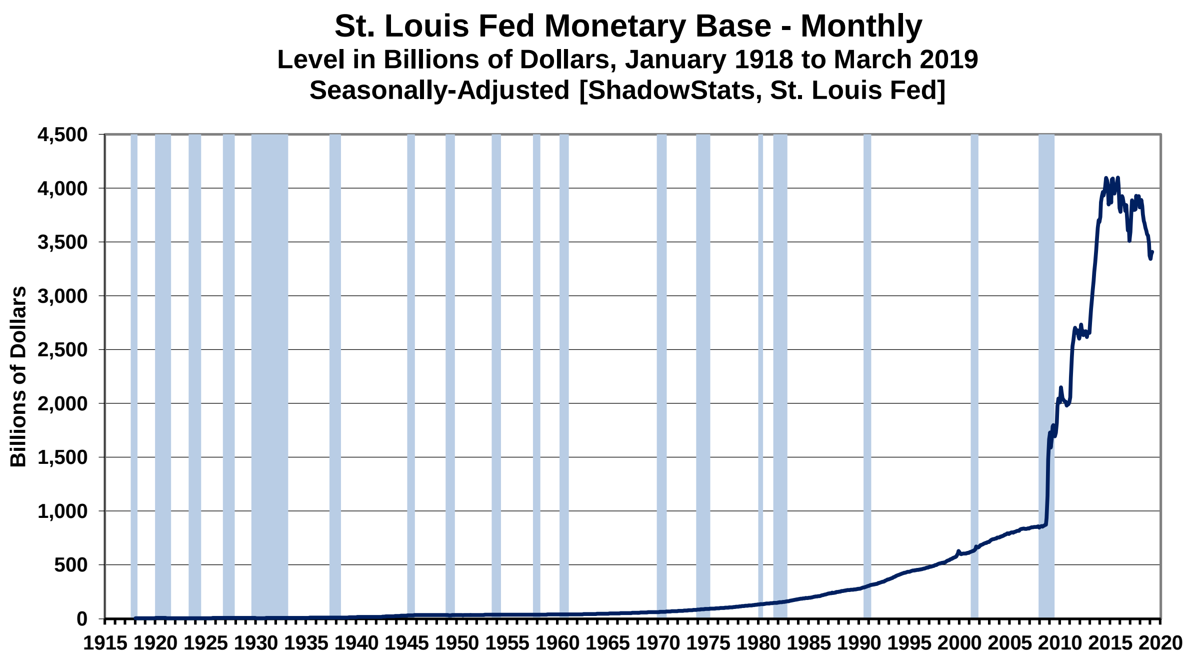


Graph 65: Year-to-Year Percent Change, Saint Louis Fed Bi-Weekly Monetary Base (1985 to Date)

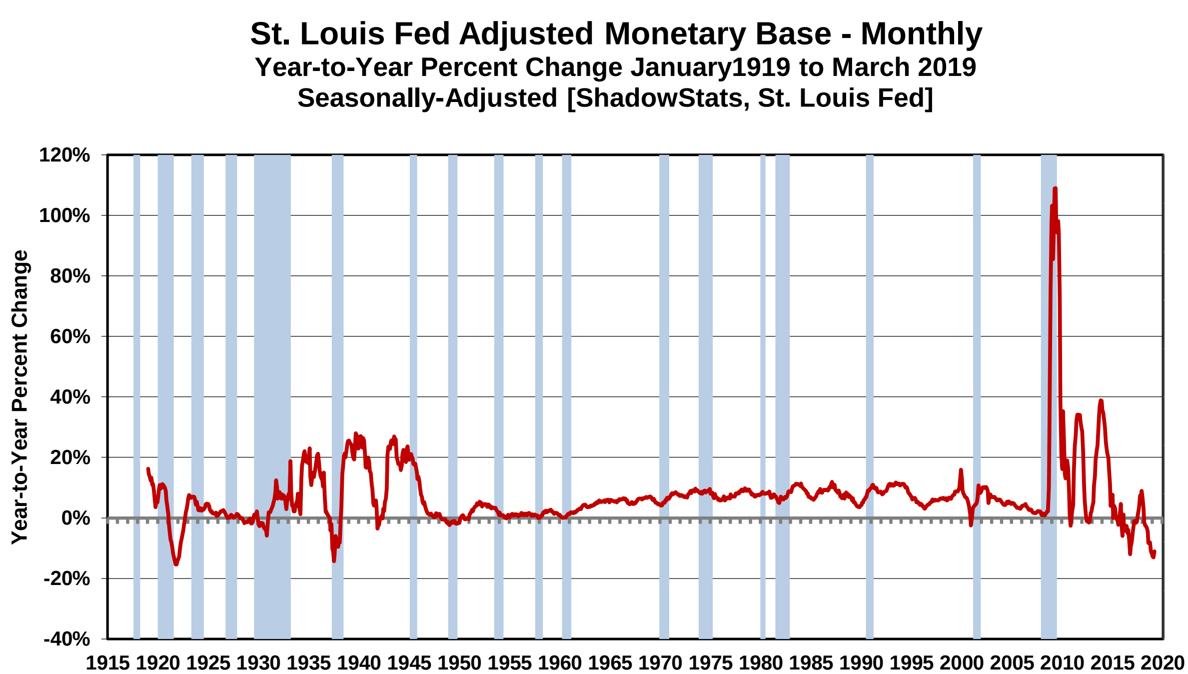


Latest One-Month Reporting (March 2019) the Saint Louis Fed's Adjusted Monetary Base Declined Year-to-Year by 11.0% (-11.0%), Off Its Near-Term Term Trough (Feb 2019) of 13.0% (-13.0%). Those results are plotted in following *Graphs 66 and 67.*

Graph 66: Saint Louis Fed Monthly Monetary Base, Billions of Dollars (Jan 1918 to Mar 2019)

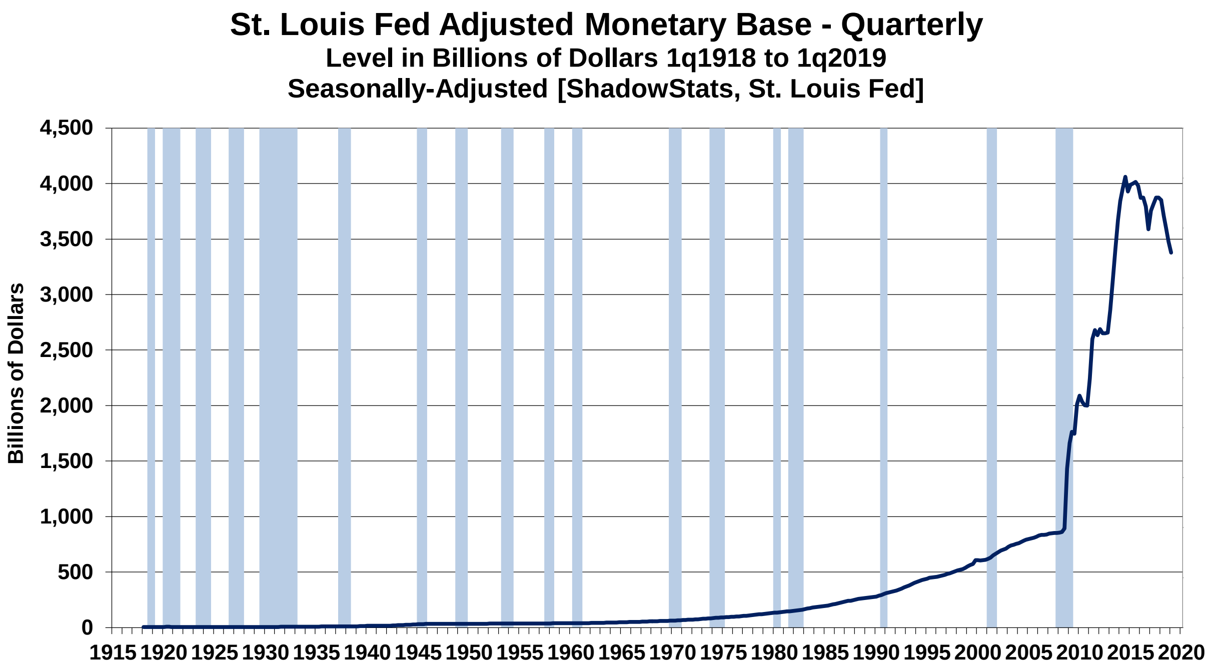


Graph 67: Yr-to-Yr Percent Change, Monthly Saint Louis Fed Monetary Base (Jan 1919 to Mar 2019)

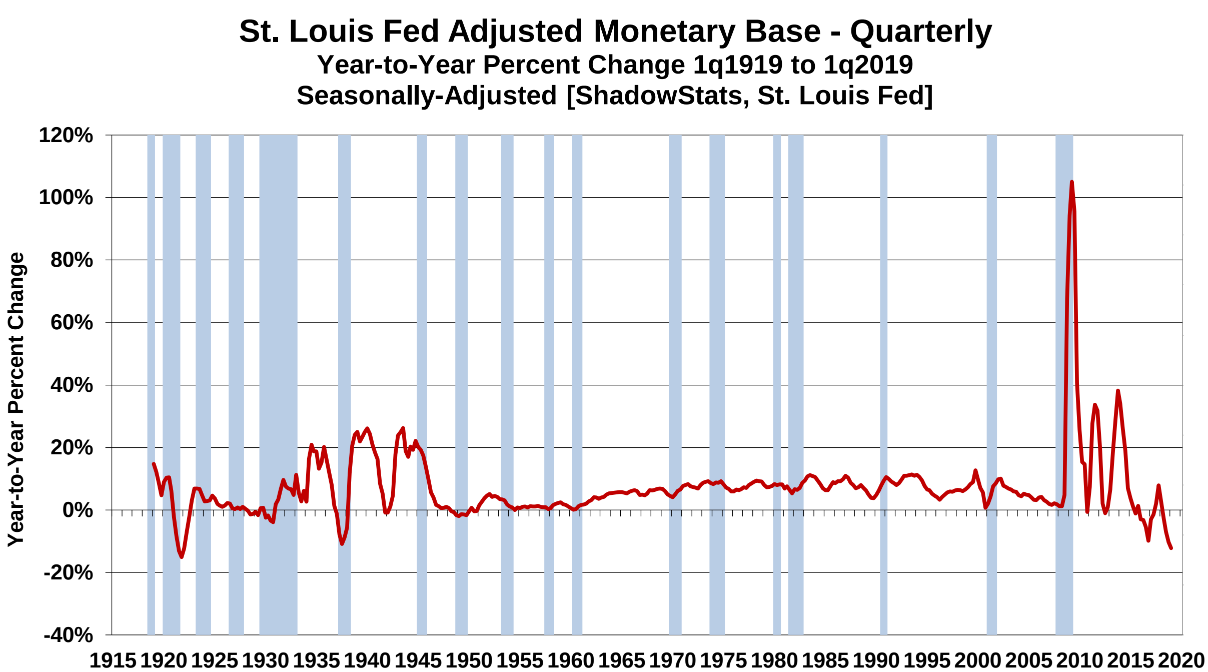


First-Quarter 2019 of the St. Louis Fed's Adjusted Monetary Base Dropped Year-to-Year by 12.0% (-12.0%), Deepest Annual Plunge Since 1921. Results are plotted in *Graphs 68 and 69.*

Graph 68: Saint Louis Fed Quarterly Monetary Base, Billions of Dollars (1q1918 to 1q2019)
(Same as *Graph 77*)



Graph 69: Yr-to-Yr Percent Change, Quarterly, Saint Louis Fed Monetary Base (1q1919 to 1q2019)
(Same as *Graph 78*)



The annual decline in this series was the deepest since the post-World War I depression, leading into the roaring ‘20s, the 1929 Stock Crash and the Great Depression. It was a deeper year-to-year quarterly than the 10.9% (-10.9%) in third-quarter 1937, credited with triggering the second down-leg of the Great Depression. The Federal Reserve attempts to minimize the effects of annual growth in the Monetary Base on the annual growth of the Money Supply.

[*Section 8: U.S. Financial Markets* follows.]

Section 8: U.S. Financial Markets

U.S. Stock Prices Largely Have Recovered 2018 Highs

When News Is Bad for the Stock Market, Wall Street's Spin-Meisters Play Their Games

... Often Coordinated With the Main Stream Popular Press

... And Sometimes the Markets Are Manipulated Directly

Nonetheless, Main Street, U.S.A. Usually Recognizes Underlying Economic Reality

... And Invests and Votes Its Pocketbook Accordingly

[Repeated from Commentary No. 982 of January 10, 2019, With a Post Script.] **"Top Trump official calls bankers, will convene 'Plunge Protection Team,'"** ran the Reuters headline on December 23rd [2018]. As had been announced late-day December 21st, the Friday before Christmas, U.S. Treasury Steven Mnuchin called the "Plunge Protection Team" (PPT) banks on Sunday, December 23rd. The Treasury Secretary received criticism on December 24th, as the stock market plummeted, with the Dow Jones Industrial Average closing down by 653 points. The unanswered question in the popularly followed headlines had been why was the Treasury Secretary checking on the liquidity of the major banks? Was there a problem in the banking system?

The Treasury Secretary's actions were part of the process of calling a meeting of the PPT (formally known as the President's Working Group on the Financial Markets), and the results of that meeting most assuredly were the proximal trigger of the 1,084-point rally in the Dow Jones Industrial Average on December 26th, and likely much of subsequent stabilizing stock-market rallies, to date. The banks that Secretary Mnuchin called were among those who would intervene in the stock market in order to prop or to rally stock prices on behalf of the PPT.

Following the 1987 Stock Market Crash, the PPT was created in order to stabilize disorderly financial markets. Chaired by the Treasury Secretary, the "Working Group" also includes the Chairman of the Board of Governors of the Federal Reserve System and his counterparts on the Securities and Exchange and the Commodity Futures Trading Commissions.

Coordinated Fed Comments and Rigged Happy Headlines. Working-Group member Fed Chairman Jerome Powell's carefully prepared and orchestrated comments of Friday, January 4th, were combined and coordinated with heavily rigged, "positive" payroll employment numbers and related heavily orchestrated Wall Street and national press hype, plus the support of the PPT banks, as needed, in an effort to shift public sentiment to the upside. The result was a 745-point boost in the DJIA, for the day. This was despite Chairman Powell's comments having added nothing new, of substance, to his prior statements. This also was despite the more-stable headline December Labor Details turning sharply negative. The chances of those headline "happy" factors coming together randomly, rather than by design, were nil.

Orchestrated support in the popular press followed. Such traditionally positive reaction has been supported over time by heavy advertising dollars spent by Wall Street, and by the positive spin provided by Wall Street press agents and economists, who tend to have a market-friendly bias. Consider these Saturday, January 5th comments from the *New York Times* front-page coverage of the December labor details in *Fed's Approach And Jobs Data Excite Wall St* (by Natalie Kitroff):

> "It's an unequivocally phenomenal report all the way around," said Ellen Zentner, chief United States economist at Morgan Stanley. "Anyone that finds something negative in this report is simply cherry picking."
>
> Economists offered raves that could appear on a movie poster or a book jacket – "Extraordinary!" "Blowout," "Wow!" The figures, they said, offer a resounding response to the question of whether a recession is imminent: "Never mind!" said David Berson, chief economist at Nationwide. "The fears of the economy tipping into a recession now have clearly been overstated."

My assessment of the December 2018 jobs report varies from what appears to be a happy, positive consensus among a number of prominent economists. It is reviewed in the later discussion in the *Reporting Detail* and *Supplemental Labor-Detail*, as well as in the context of comments published here before, for example, from *Commentary No. 308* of July 9, 2010:

> ***Wall Street Shills.*** Further complicating the outlook is a more traditional issue: pronouncements by some economists on Wall Street and financial reporters in the popular media, who act as shills for the needs of Wall Street and political Washington. While there are a number of fine and honest economists and financial reporters in their respective fields, there also are those—often very heavily publicized—who spew Pollyannaish nonsense aimed at affecting public sentiment and/or the financial markets during troubled economic times.
>
> Let me recount two personal experiences. Back in late-1989, I contended that the U.S. economy was in or headed into a deep recession.[*] CNBC had me in to discuss my views along with a senior economist for a large New York bank [providing a counterpoint], who was looking for continued economic growth. Before the show, the bank economist and I shared our views in the Green Room. I outlined my case for a major recession, and, to my shock, his response was, "I think that pretty much is the consensus."
>
> We got on the air, I gave my recession pitch, and he proclaimed a booming economy for the year ahead. He was a good economist and knew what was happening, but he had to put out the story mandated by his employer, or he would not have had a job.
>
> More recently, following an interview on a major cable news network (not CNBC), I was advised off-air by the producer that they were operating under a corporate mandate to give the economic news a positive spin, irrespective of how bad it was.
>
> [*The 1990 recession formally was timed from July 1990. My forecast was based particularly on negative real year-to-year change in Money Supply M3, a factor reflected in the current circumstance, as discussed in *Hyperinflation Watch No. 4* and the related *Graph HW-6* there.]

Unusual, Unstable and Volatile Times. Having hit all-time highs in or around September 2018, the equity markets declined sharply into year-end 2018, tanking in mid-December, collapsing into December 24th, following a December 19th rate hike by the FOMC, along with indications of further rate hikes into 2019. Treasury Secretary Mnuchin called in the Plunge Protection Team, discussed/repeated above. The FOMC subsequently put its planned quarterly interest rate hikes on hold, at least temporarily, and stock prices largely have recovered their 2018 peaks, since, albeit still a bit shy. At the same time, shown in *Table 4*, the dollar and precious metals are minimally above their levels coinciding with the peak stock indices.

Table 4: Various Financial Indicators vs. Late-August, September and Early-October 2018 Stock-Market Highs

Various Financial Indictors at April 18/19 2019 Versus U.S. Stock-Market Highs and Lows

Stock Market Index	Stock Index All-Time High Close*	Dec 24 2018 Close**	Apr 18 2019 Close	Dec 24 2018 Change vs. All-Time High	Apr 18 2019 Change vs. Dec 24 2018	Apr 18 2019 Change vs. All-Time High
Dow Jones Industrial Average	26828.39	21792.20	26559.54	-18.77%	21.88%	-1.00%
S&P 500	2930.75	2351.10	2905.03	-19.78%	23.56%	-0.88%
NASDAQ Composite	8109.69	6192.92	7998.06	-23.64%	29.15%	-1.38%
Financial Indicator	**Sep 2018 Average**	**Dec 24 2018 Close****	**Apr 18 2019 Close*****	**Dec 24 2018 Change vs. Sep 2018**	**Apr 18 2019 Change vs. Dec 24 2018**	**Apr 18 2019 Change vs. Sep 2018**
Trade-Weighted Dollar (1)	90.00	92.12	92.38	2.35%	0.28%	2.64%
Financial-Weighted Dollar (2)	57.86	58.90	58.78	1.79%	-0.20%	1.59%
Gold London PM Fix $/Oz	1198.47	1275.85	1275.70	6.46%	-0.01%	6.44%
Silver London PM Fix $/Oz	14.26	15.00	14.96	5.17%	-0.30%	4.85%
Brent Crude Oil $/Bbl	78.89	51.93	71.36	-34.17%	37.42%	-9.54%
Effective Fed Funds Rate (3)	1.95%	2.41%	2.43%	0.46%	0.02%	0.48%
Three-Month T-Bill Rate (3,4)	2.17%	2.43%	2.42%	0.26%	-0.01%	0.25%
10-Year Bond Yield (3,4)	3.15%	2.51%	2.57%	-0.64%	0.06%	-0.58%

* All-time high closes: DJIA - Oct 3 2018, S&P 500 - Sep 20 2018, NASDAQ - Aug 29, 2018.

** Or last close prior to Dec 24 2018.

*** Last available close or late New York price: Most markets were closed on Good Friday; currency markets were open.

(1) The TWD (Federal Reserve) weights the U.S. Dollar against major currencies based on trade volume in goods.

(2) FWD (ShadowStats) weights USD against currency trading volume (includes Chinese Yuan, excluded in TWD).

(3) Change is indicated as the percentage point difference in yield.

(4) Constant maturity yield.

Sources: St. Louis Fed, Wall Street Journal, Dow Jones Indexes, Finance.Yahoo.com/lookup, ShadowStats.com.

Watch Out for Weakening, Headline Economic Activity! Discussed in the *Overview* and throughout this *Special Commentary*, ShadowStats is looking for a major economic downturn, a new formal recession. A mounting consensus fear of imminent downturn helped to trigger the stock-market plunge into Christmas, and related flight from the U.S. dollar into gold. The PPT and those who could counter the markets or the negative perceptions in the media did so. The one thing neither the FOMC nor the Wall Street/Popular Media Spinmeisters could do was to turn actual economic activity to the upside, immediately. The damage has been done; it takes nine months to a year to turn the economy, as the FOMC just has done willfully and so successfully to the downside.

With a recession in play, if the FOMC eased sharply now (it should be easing by September, possibly even resuming Quantitative Easing, as planned for by ex-Fed Chair Janet Yellen), economic activity could be turning higher in early 2020. In the interim, as current business conditions evolve into recession, and the FOMC moves toward easing, U.S. stocks should take a hit, the U.S. dollar should decline in response to the weakening economy and FOMC easing, and gold should be rallying as flight capital from the dollar seeks safety, and stability in the purchasing power of investors' assets.

Weakening Economy Should Hit Stocks and the Dollar, Boost Gold

Watch for Heavy Selling of the U.S. Dollar and a Sharp Rally in Gold Prices

The Dollar and Gold Serve as the Canary in the Coal Mine for Stocks and Bonds

With Looming Turmoil, Physical Gold and Silver Provide a Hedge, Protecting the Purchasing Power of One's Wealth and Assets. What had been a fundamental disconnection between happy hype in the media and from the FOMC versus the financial markets 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, likely will erupt anew. Severe enough market disruptions and mounting U.S. dollar concerns actually could begin to accelerate the markets focusing on long-term U.S. sovereign solvency issues.

Holdings of 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.

U.S. Dollar - Intensifying Weakness Should Lie Ahead. *Graphs 70* and *71* plot the Federal Reserve Board's (FRB) Major-Market (Goods Only) 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 plus the Chinese Yuan, based on respective currency trading volume in the markets, instead of merchandise trade. Current relative strength in the U.S. dollar broadly has reflected a great deal of hype about relative U.S. economic strength and prospects for the FOMC not easing, at the moment. Both elements should be reversing, soon.

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 strength in the U.S. dollar, with the rising year-to-year change. .

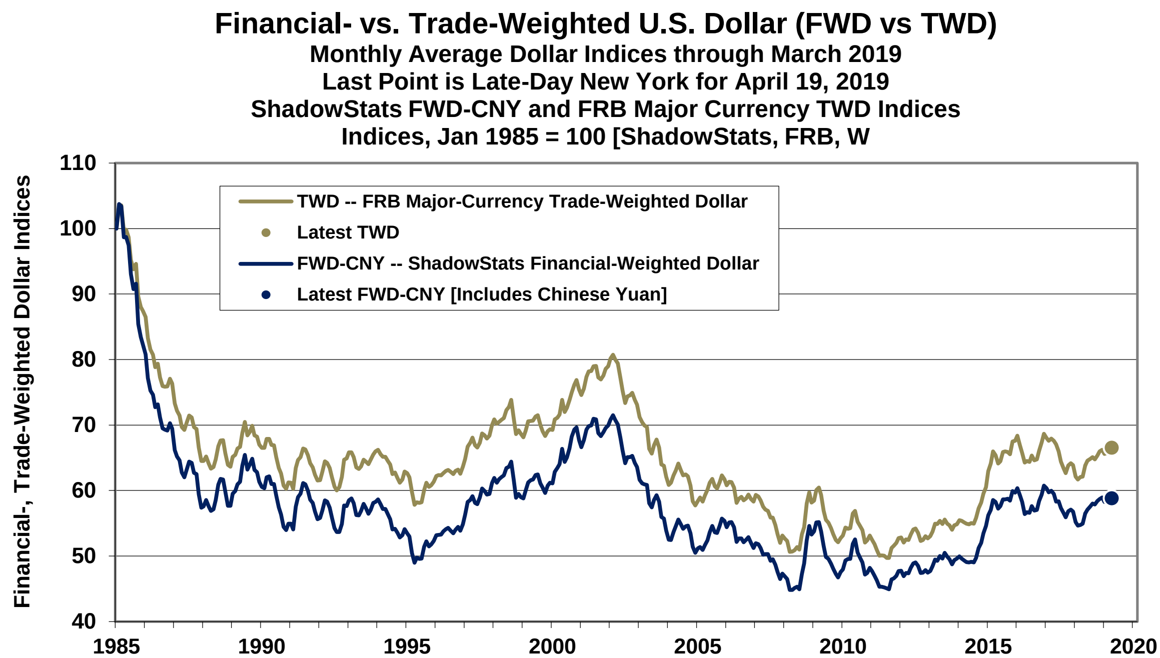
Gold and Silver, and Gold versus Stocks. *Graphs 72* and *73* show plots of the price level of the S&P 500 Total Return Index (all dividends reinvested) versus the price of physical gold, with both series indexed to January 2000 =100, with the first plot showing both series in nominal terms and the second 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 74 to *76* are the traditional ShadowStats gold graphs, respectively versus the Swiss Franc, versus Silver and versus Oil (Brent).

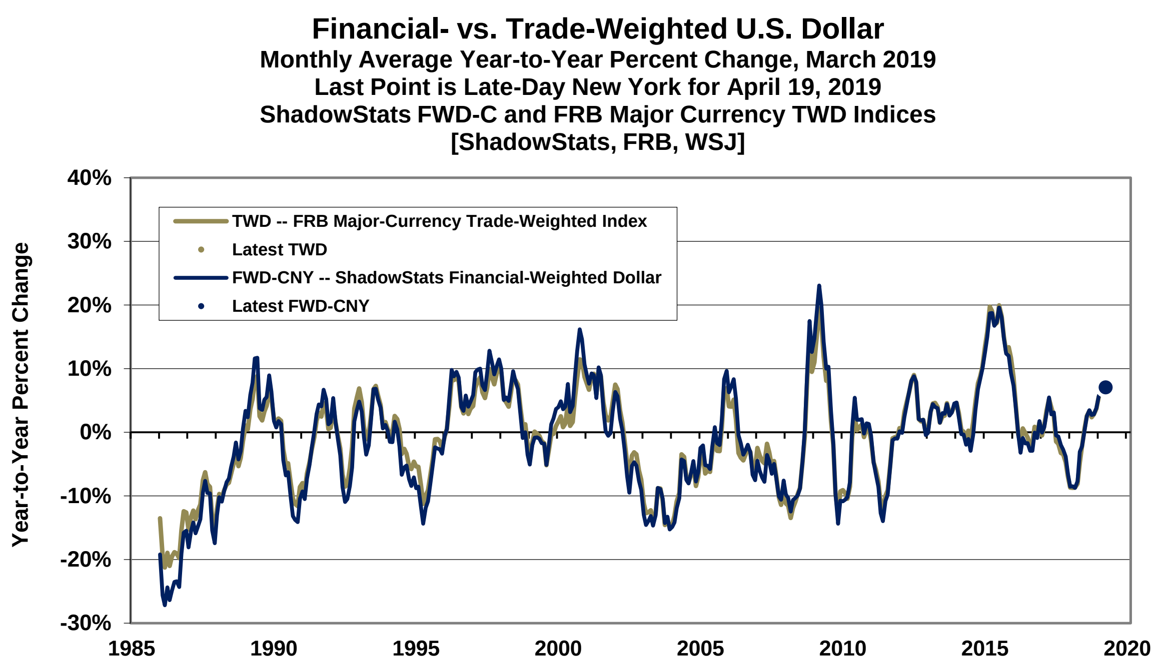
Again, the final price points in the various graphs reflect the closing or late-day New York quotes of Friday April 19, 2019 for the currencies, and Thursday April 18, 2019, due to the Good Friday holiday.

Graphs in the following section reflect New York late-afternoon or closing prices of April 18th (April 19th for Currencies) and update Graphs HW-9 to HW-15 in *Hyperinflation Watch No. 4*

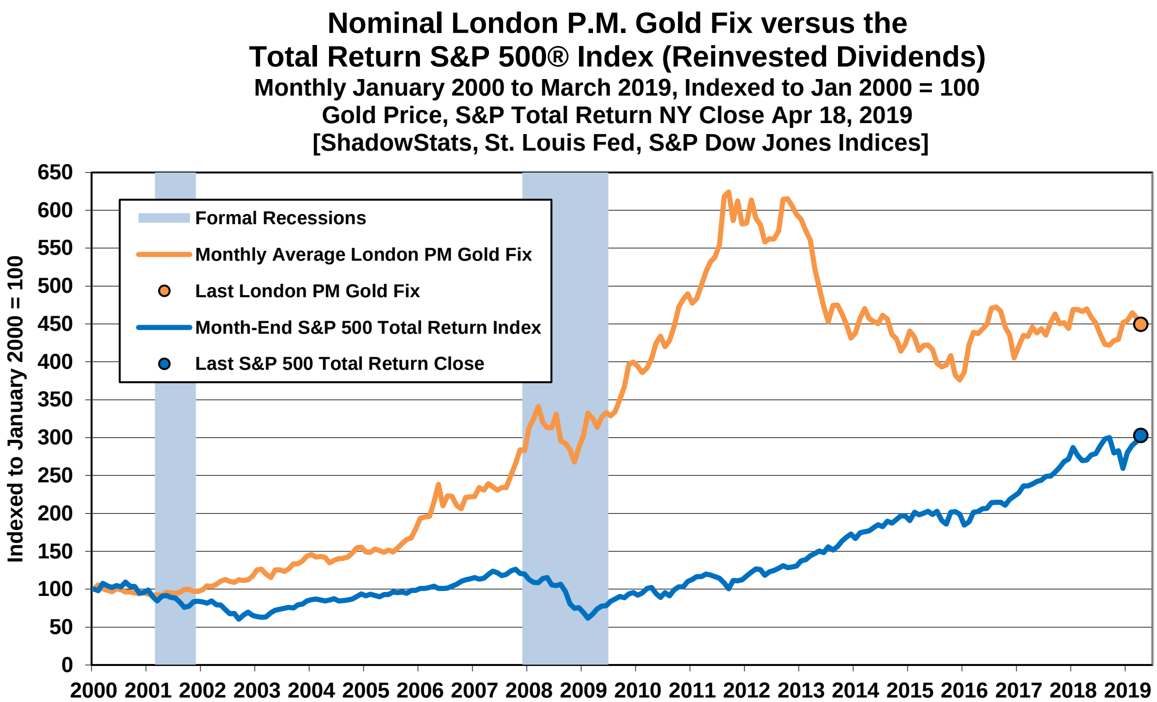
Graph 70: Financial- versus Trade-Weighted U.S. Dollar Indices



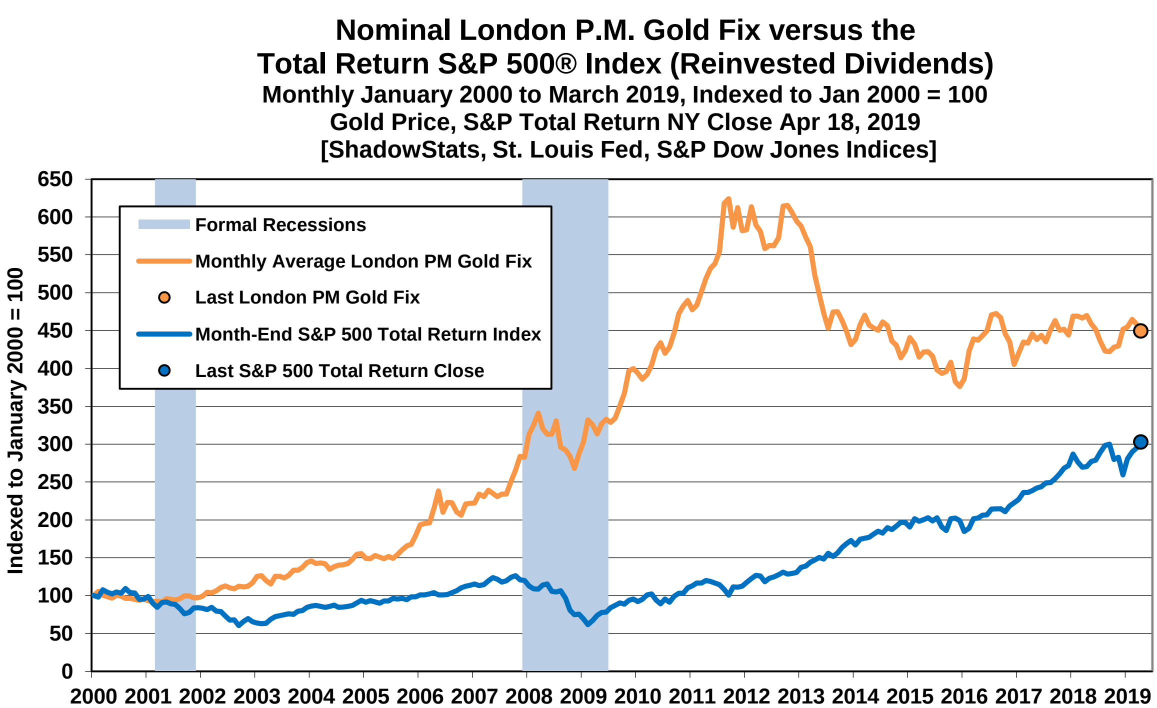
Graph 71: Year-to-Year Change, Financial- versus Trade-Weighted U.S. Dollar Indices



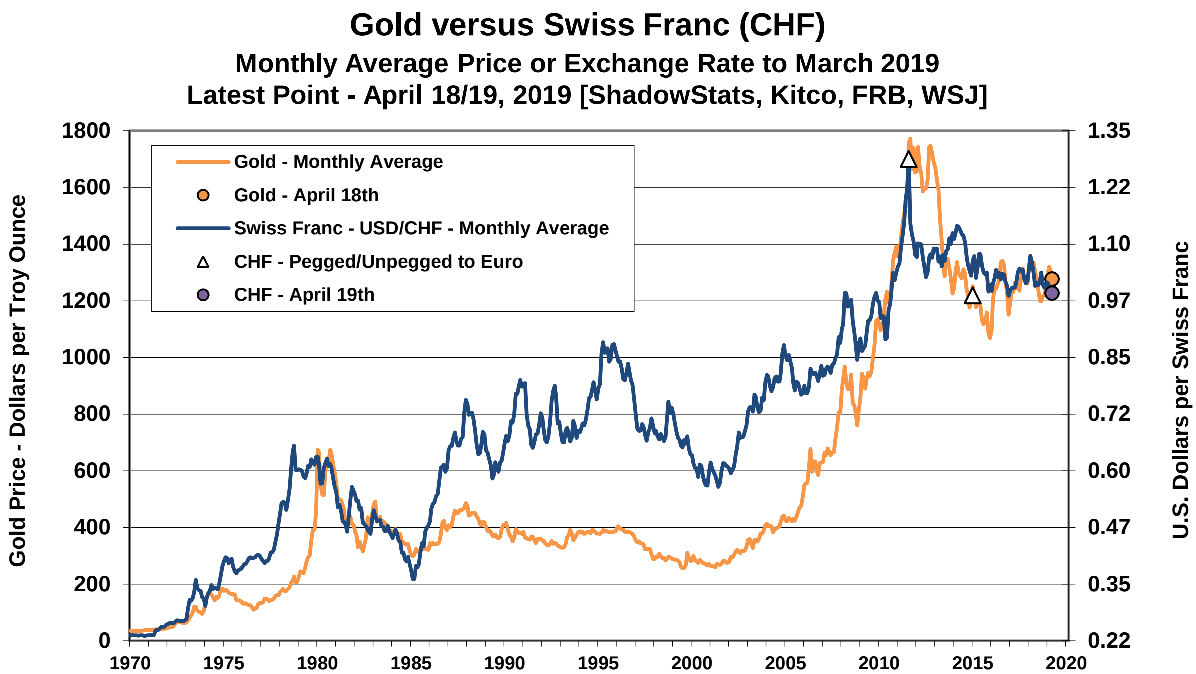
Graph 72: Nominal Gold versus the Nominal Total Return S&P 500



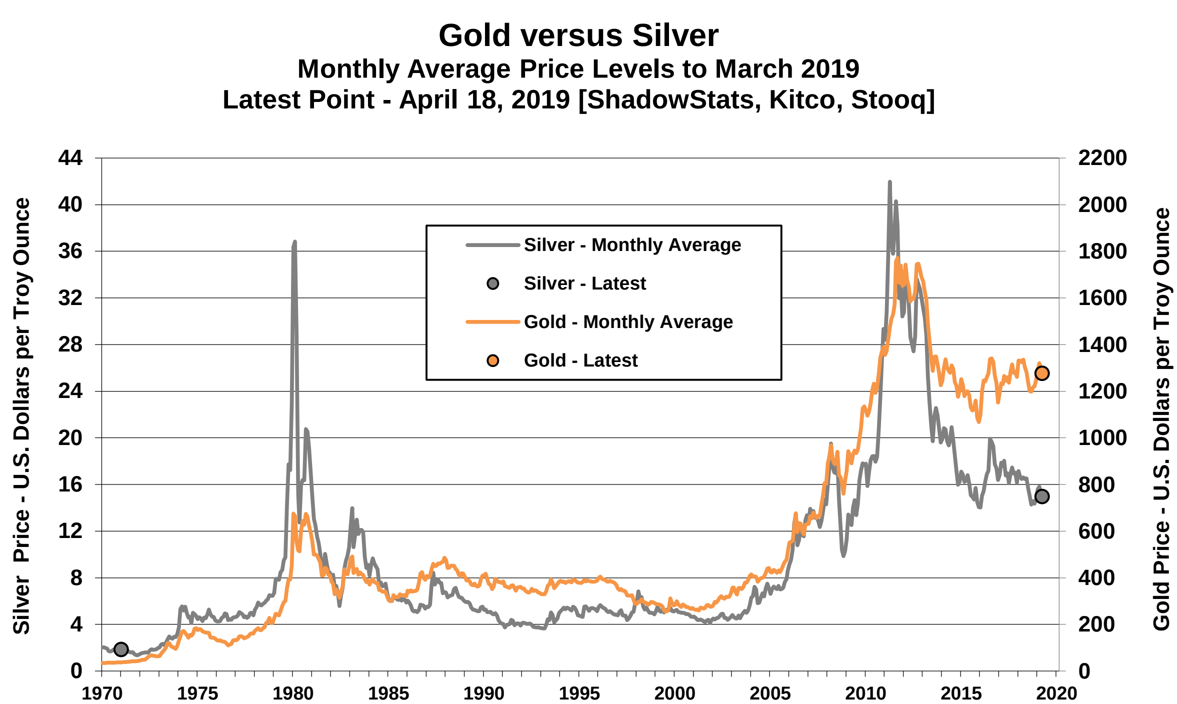
Graph 73: Real Gold versus the Real Total Return S&P 500



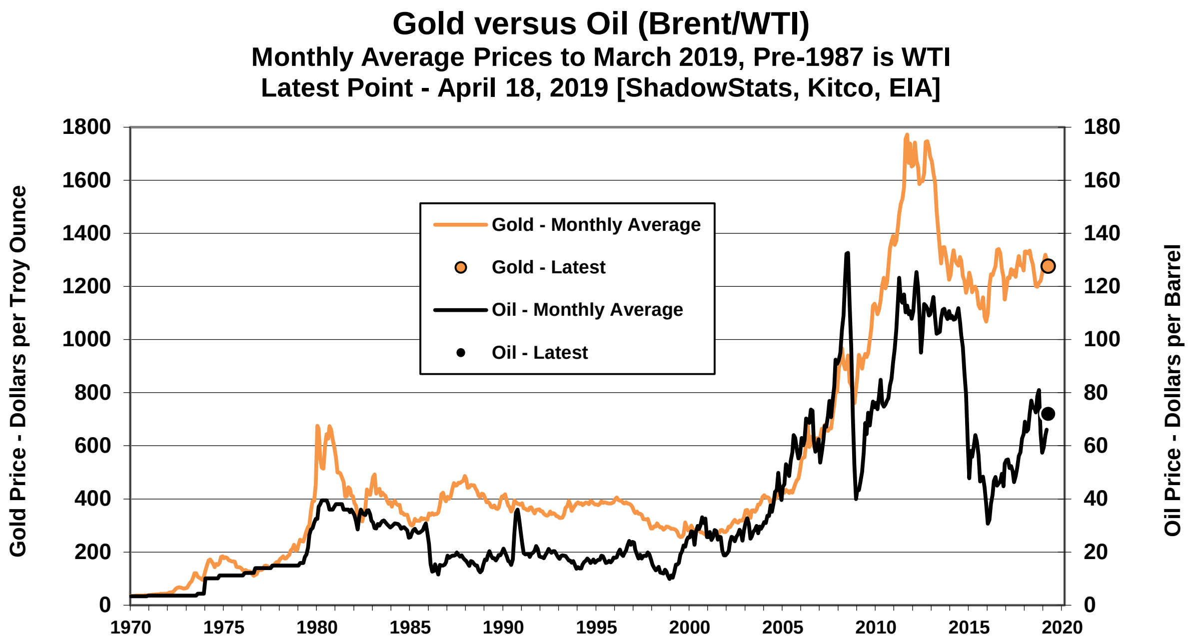
Graph 74: Gold versus the Swiss Franc



Graph 75: Gold versus Silver



Graph 76: Gold versus Oil



[*Section 9: Month Back, Week, Month and Year Ahead – ALERTS* follows.]

Section 9: Month Back, Week, Month and Year Ahead — Alerts

Section 9a: Updated *ALERT*

A L E R T

FOMC Has Not Yet Settled in With the Concept of Easing – Just No New Rate Hikes

Fed Policy Shift to Easing Likely by September 2019

Economic Outlook Should Weaken Markedly in the Next Couple Weeks

Intensifying Economic Downturn Could Trigger Renewed Quantitative Easing

Watch for Heavy Stock Selling, Flight from the Dollar and Intensified Flight to Gold!

U.S. Government Needs to Address Its Long-Range Sovereign Solvency Issues

[This *ALERT* has been updated from *Commentary No. 983-A* of February 20, 2019.]

March FOMC Lowered Its Economic Forecasts, Confirmed A Shift to No New Rate Hikes for the Balance of 2019 and a Pull Back in Its Balance Sheet Liquidation. Discussed in *Bullet Edition No. 4*, the Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System announced at close of its regular two-day monthly policy meeting on March 20th, that it had held the targeted Federal Funds Rate in the 2.25% to 2.50% range, and that no rate hikes were expected for the balance of 2019. That was confirmed later in the minutes of that.

The Fed also minimally downgraded its near-term economic forecasts and slowed its planned pace of balance sheet liquidation, generally as had been expected by the financial markets, yet it declared that domestic economic conditions remained healthy. The later claim is nonsense. Discussed in today's *Special Commentary*, U.S. economic growth is slowing sharply, likely falling into a headline recession of two back-to-back contractions in real quarterly GDP growth, with potential formal recognition, or at least open discussion of same, by July 26th, coincident with the initial headline reporting of a likely second-quarter 2019 GDP contraction, on top of annual benchmark revisions that should show currently weaker than reported 2.2% annualized GDP real growth rate in fourth-quarter 2018 GDP, followed by what then already should have been reported as a first-quarter 2019 GDP contraction.

With such viewpoint gaining background recognition, the initial stock-market reaction to the March 20th announcement was a stock-market rally on the expected "good" news of no more rate hikes, but the U.S. dollar soon turned lower, spiking oil prices (and inflation prospects), along with spikes in gold and silver prices. Despite some reversal in those markets in the day following, and since, the initial market reactions properly were reading that the economy likely was a great deal worse than suggested by the Fed, as has been seen in recent signals of a general intensification of the economic downturn, not an abatement as the Fed would like to hope.

Consider, for example, the continuing downturn in freight activity, discussed in *Section 4: Underlying Reality*. The late-day March 20th market trends likely will resurface and solidify in the next month or so, driving the U.S. dollar lower and prices of precious metals higher, amidst what should be mounting market expectations that the current economic situation is turning bad enough, fast enough, to push the FOMC into some form of renewed easing or quantitative easing, with reduced relative U.S. interest rates.

That would tend to cause domestic and foreign capital to flee the dollar and dollar-denominated assets, such as stocks, with flight to other currencies and hard assets such as gold and silver. As the dollar weakens, which the FOMC is causing, global oil prices (denominated in dollars) will continue to rise, spiking headline inflation and further tightening consumer and systemic liquidity, in terms of inflation-adjusted real purchasing power. Nominal income rarely rises as quickly as spiking inflation.

The point here is to watch for developing trends of a weakening dollar and strengthening precious metals prices, with the tanking dollar spiking inflation fears. The economy is weakening quickly, and the Fed has to be aware of that, having triggered the downturn through excessive tightening policies and rate hikes of the last year or so. The FOMC had wanted to move the system back to higher interest rates, but that move is not working out quite as planned, as discussed earlier.

Again, the ShadowStats general outlook has not changed: deepening economic downturn, intensifying easing pressure on the Fed, mounting downside pressures on the U.S. stock market and dollar, and upside pressures on oil, and on gold and silver prices.

Gold and Silver Price—Remain the Canary in the Coal Mine for the Financial Markets. Any panicked market conditions raise the risk of triggering actions and turmoil and in other areas, including risks of a major run against, the U.S. dollar and triggering of a hyperinflation concerns in the United States. This April 18, 2019 *ALERT* updates the prior versions published in *Commentary No, 983-A* of February 20th and *Hyperinflation Watch No. 4* – Special Edition of December 11, 2018, which updated and supplemented the original *Special Commentary No. 973 – ALERT* of October 14th. A still-waffling Federal Reserve (now with everything on hold, neither tightening nor easing) faces a self-created market conundrum. Domestic and global financial, economic and political risks continue to evolve, still deteriorating rapidly in aggregate. The FOMC's self-conflicting position had developed to the point that ongoing intensified tightening heavily threatened headline economic activity, the U.S. dollar and domestic equity markets. While the tightening has been put on hold, meaningful damage to the economy already has been done. Those damages will continue to play out into 2020, with a deepening downturn. At the same time, a move towards renewed easing (lowering interest rates) or quantitative easing to help the economy would pummel the U.S. dollar in the global markets, reflecting foreign and domestic flight capital out of the U.S. markets.

Incorporated here by reference is *Commentary No. 970* of September 26th, on a potential, pending Tipping Point in the U.S. financial markets and *Consumer Liquidity Watch No. 5* of November 21st as to underlying consumer-liquidity issues. Long-range prospects for economic-turmoil and eventual U.S. hyperinflation continued to close in rapidly, along with a flight to safety out of a weakening U.S. dollar, and flight to safety into precious metals, seen with rising gold prices, all have fueled some volatile stock market activity since late-December 2018. The more negative the pressure on the U.S. dollar, and the stronger the flight to safety and gold, the more dangerous the situation is for domestic equity prices. A rapidly weakening U.S. Dollar and rallying gold and silver prices are solid signs of impaired equity market conditions that easily can mutate into other market distortions and investor fears.

Following *Graphs 77* to *83* are repeated in highlight from earlier sections. The issues involved with each should have those involved the markets considering the nature of the broad and uncertain scope of the financial risks that lie ahead.

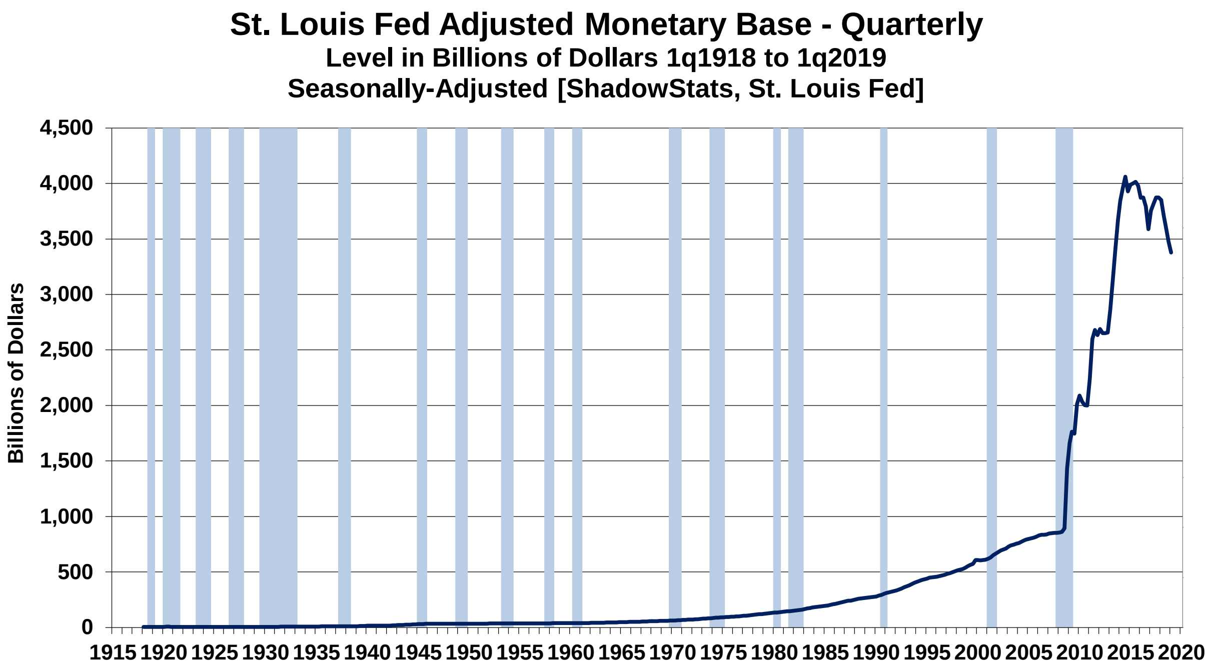
Federal Reserve Tightening. Rate hikes since late-December 2017 have strangled consumer liquidity, pushing the U.S. economy into a new downtrend (see *Graphs 77* and *78*, same as *Graphs 68* and *69* as discussed in *Section 7: Federal Reserve and Monetary Policy*). *Graph 78* shows the year-to-year decline of 12.2% (-12.2%) in the first-quarter 2019 St. Louis Fed Adjusted Monetary Base, following a fourth-quarter 2018 annual decline of 10.3% (-10.3%) was the sharpest decline since the Depression of 1920-1921 [an annual decline of 15.1% (-15.1%) in fourth-quarter 1921], following World War I. First-quarter 2019 showed a deeper annual drop than the third-quarter 1937 annual decline of 10.9% (-10.9%), credited with helping to trigger the second down-leg of the Great Depression.

Broad Indicators of Economic Activity Showing a Clear Slowing and Downturn in the Economy. Despite the FOMC's contention of healthy and normal economic growth in U.S. economic activity, consider the recent trends in the CASS Freight Index™, good quality, reliable indicator of broad U.S. activity (see *Graphs 79* to *81*, same as *Graphs 34* to *36* as discussed in *Section 4: Underlying Reality*).

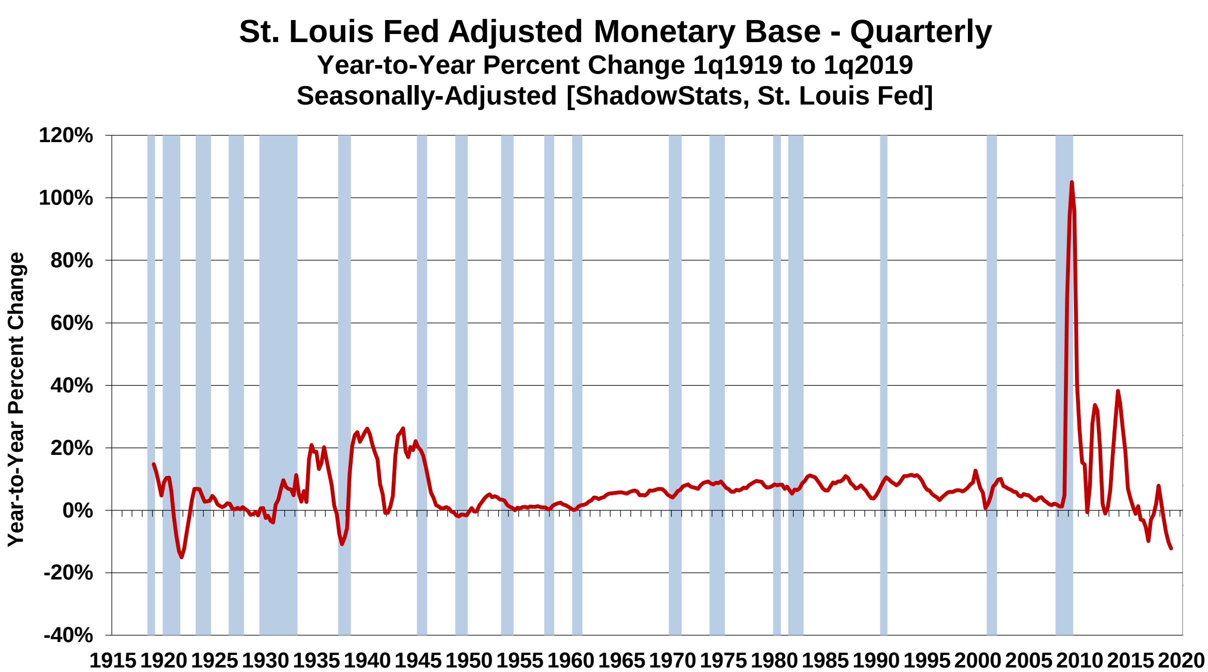
Long-Range U.S. Treasury Solvency and U.S. Dollar Hyperinflation Issues. The most dangerous and intractable circumstances facing the U.S. Government, the U.S. Dollar and long-range U.S. political stability are those tied to the ultimate solvency of the system. The U.S. Government must move now to bring its fiscal operations into balance, to restore long-term stability and solvency to the system. Otherwise, current conditions easily could evolve into a hyperinflationary great depression, much sooner than commonly expected, forcing significant overhauls to the domestic and global economic and financial-market systems. These crises no longer are "too far into the future to worry about," as some in the U.S. government and Fed have argued in recent decades. Federal Reserve Chairman Powell recently mentioned the "unsustainability" of U.S. Government fiscal policies (see *Section 6: U.S. Treasury and Fiscal Policy*).

Consider *Graph 82* (also *Graph 60* and the discussion in *Section 6*), which plots fiscal-year end total nominal U.S. Government Debt versus fiscal-year nominal GDP. Not only has level of debt surpassed GDP, it also is growing at an accelerating, greater pace against the GDP, while the GDP appears on the brink of slowing sharply, or falling in outright contraction. As reflected in *Graph 83* (also *Graph 61*) and discussed in the same section, holdings of physical gold offer the individual an option of preserving the purchasing power of their wealth and assets.

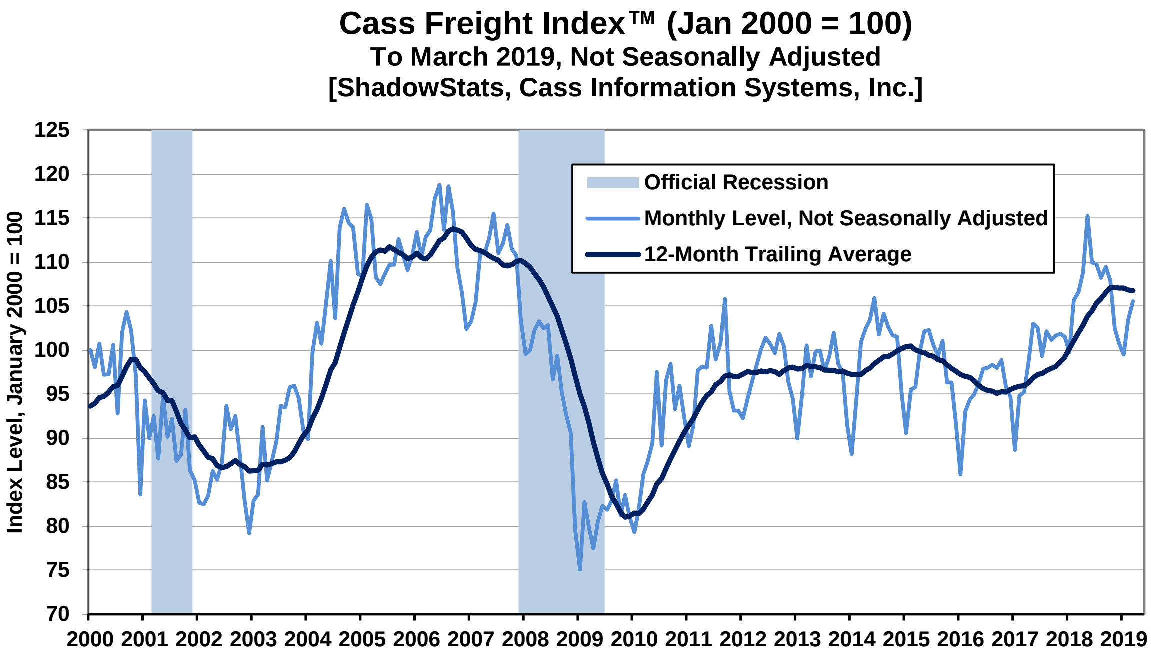
Graph 77: Saint Louis Fed Quarterly Monetary Base, Billions of Dollars (1q1918 to 1q2019)
(Same as *Graph 68*)



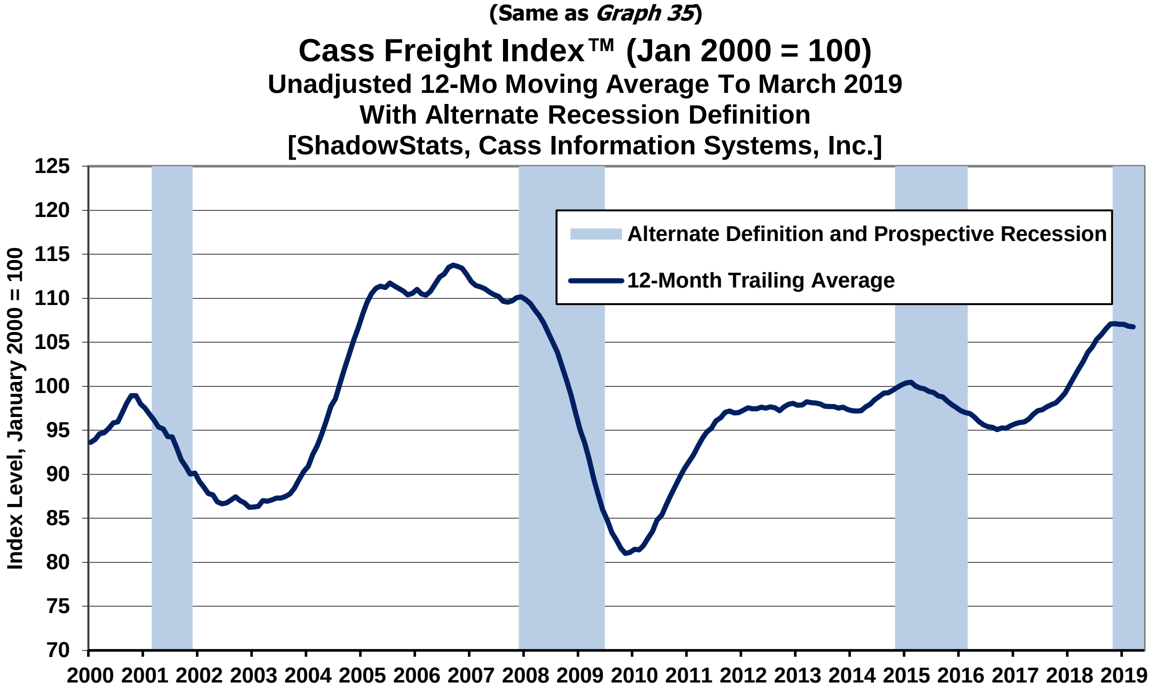
Graph 78: Yr-to-Yr Percent Change, Quarterly, Saint Louis Fed Monetary Base (1q1919 to 1q2019)
(Same as *Graph 69*)



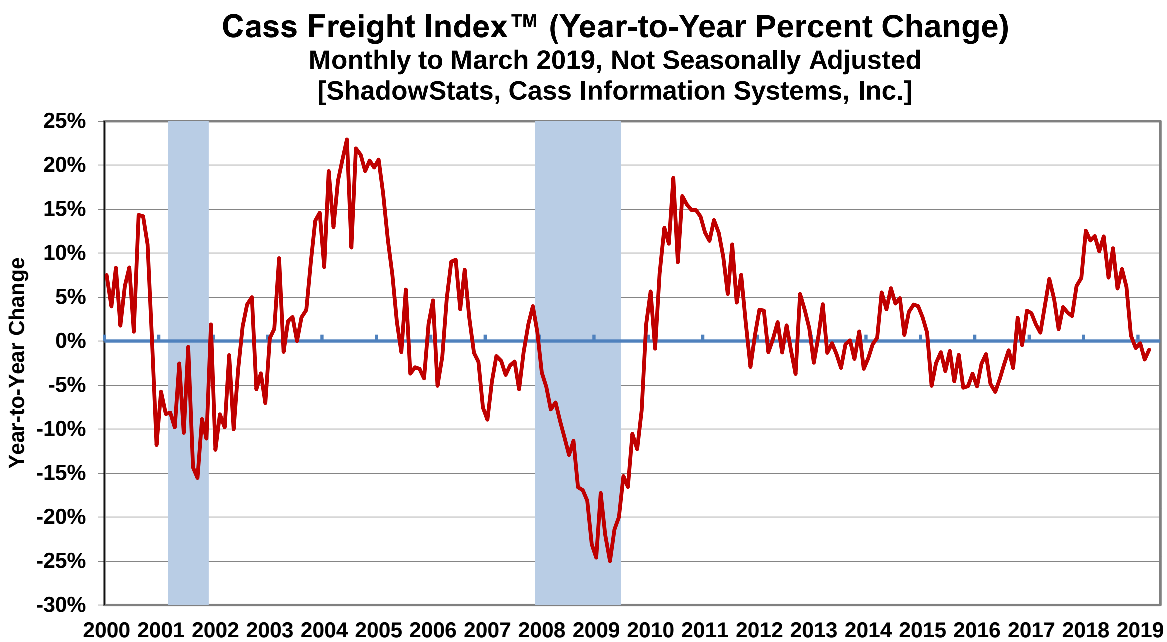
Graph 79: CASS Freight Index, Monthly, January 2000 to March 2019 (Official NBER Recessions)
(Same as *Graph 34*)



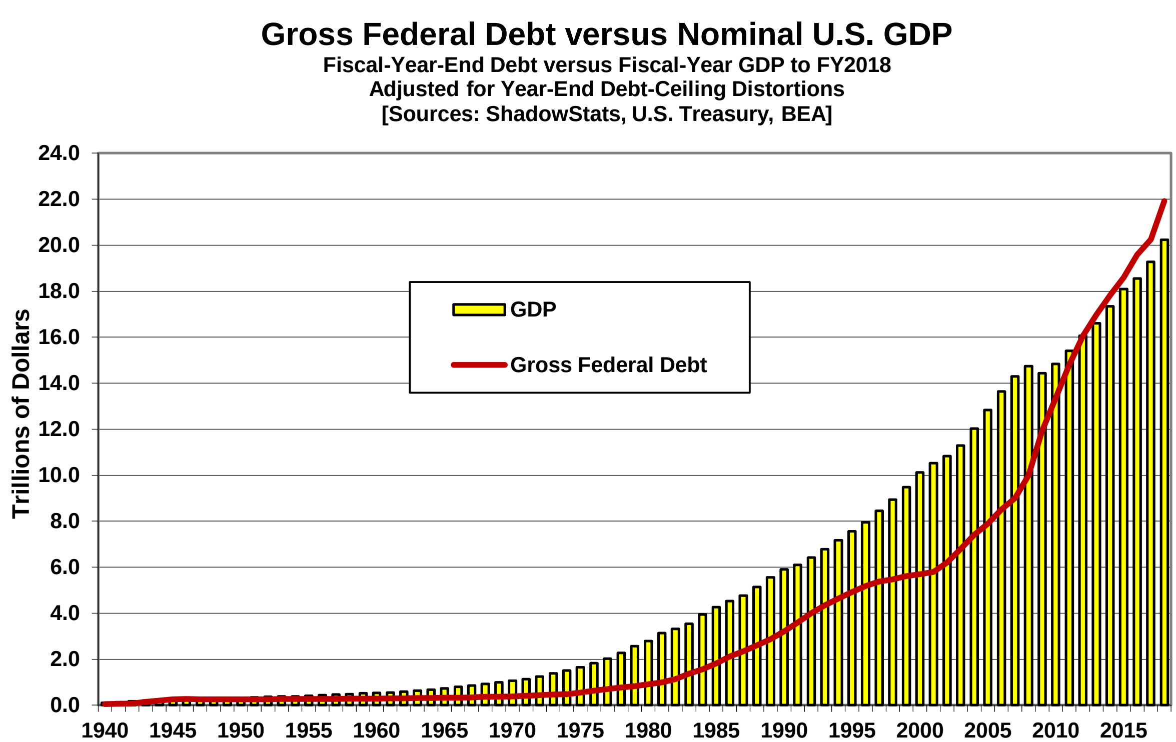
Graph 80: CASS Freight Index™ 12-Mo Moving-Average Level, Jan 2000 to Mar 2019 (Alternate Recessions)
(Same as *Graph 35*)



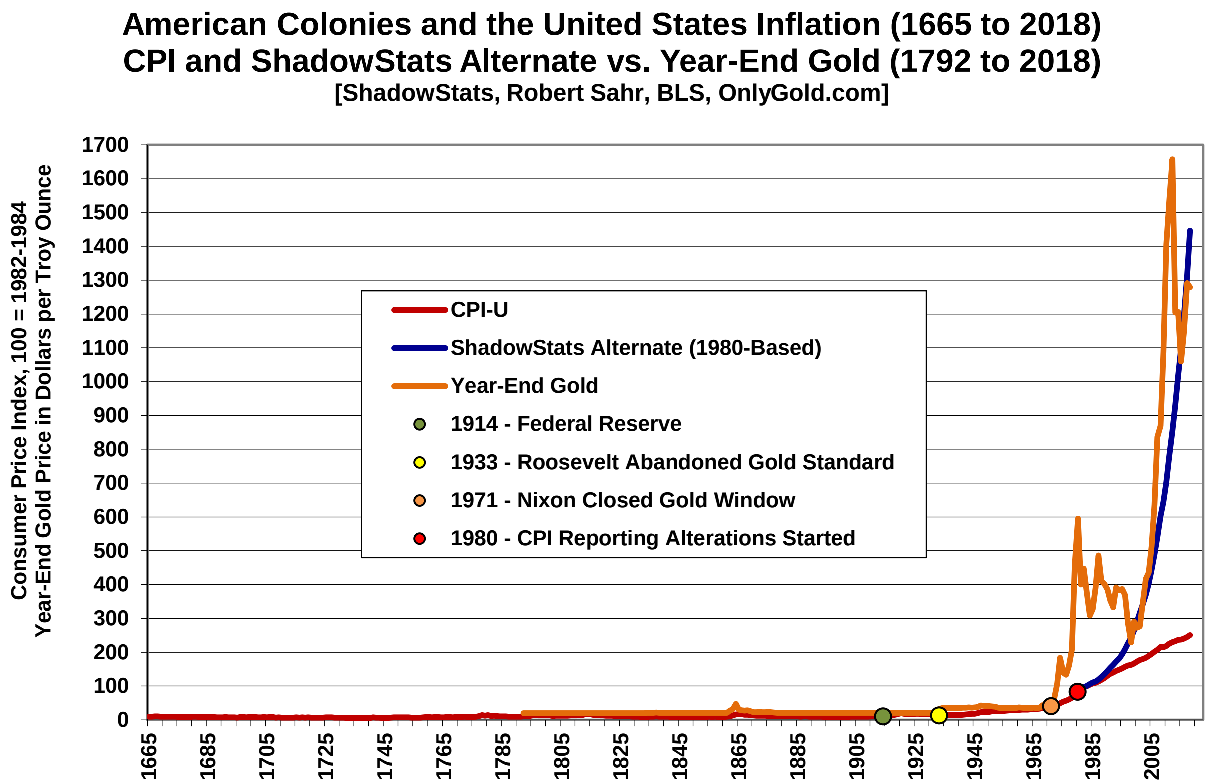
Graph 81: CASS Freight Index, Monthly Year-to-Year Percent Change (2000 to February 2019)
(Same as *Graph 36*)



Graph 82: Nominal Gross Federal Debt versus Gross Domestic Product
(Same as *Graph 60*)



Graph 83: Consumer Inflation 1665 to 2018 versus Gold
(Same as *Graph 61*)



Stock-Market Woes Reflect a Confluence of Extraordinary Financial-Market and Systemic Issues. In summary, a great deal more has been involved in recent stock-market selling than a simple correction to overvalued equities. At hand are circumstances that could trigger one of the worst U.S. financial panics/systemic disruptions of the last century. Some of the involved issues have been festering for decades; others have surfaced only recently and include:

- Rapidly deteriorating, uncontained and unsustainable U.S. deficit spending and burgeoning debt levels, leading to ultimate long-range solvency issues for the U.S. Treasury and full debasement of the U.S. dollar (hyperinflation).
- Unresolved instabilities from actions taken by Federal Reserve and other central banks to save the U.S. and global banking system in 2008 (expanded upon in the ***Overview*** section).
- Recent Federal Reserve tightening and now not tightening (not easing either).
- An unfolding, formal new U.S. recession (triggered by the FOMC's tightening, but not recognized openly by the Fed or widely accepted, yet, in the markets).
- Exploding risks of political instabilities in the United States and with its major U.S. trading partners and allies (discussed in the ***Overview*** section).

- Still heavily inflated equity prices, an overvalued U.S. Dollar and undervalued precious metals.

These rapidly evolving elements have fallen into place, raising risks of extraordinary financial-market and systemic disruptions.

Financial market circumstances here are reviewed from the standpoint of the U.S. Dollar and the precious metals Gold and Silver. Again, those areas act something like the proverbial Canary in a Coal Mine, as an early warning of serious trouble in the U.S. financial-system and/or in inflationary developments. They also remain the ultimate stores of wealth for preserving the purchasing power of one's wealth and assets.

[Latest and Pending Headline Economic Reporting Detail Begin on the Next Page.]

Section 9b: Latest and Pending Economic Reporting

Analyses of the Latest Economic Releases

LATEST REPORTING: Expanded upon here, are summary reporting details of the last month or two for key economic measures covered initially in real time, in the ***Daily Update*** section of the www.ShadowStats.com home page. Analyses usually are posted there within two to three hours of the headline release. Noted in the following text and expanded related details, referenced graphs and details may be covered in the main body of today's *No. 983-B* as well as in recent *Bullet Editions*,

The reporting details are grouped and sequenced by economic category:

Labor Conditions
- **i Employment and Unemployment**

Inflation
- **ii Consumer Price Index (CPI)**
- **iii Producer Price Index (PPI)**

Economic Activity
- **iv Gross Domestic Product (GDP)**
- **v Trade Balance**
- **vi Retail Sales**
- **vii Industrial Production**
- **viii New Orders for Durable Goods**
- **ix Cass Freight Index ™**

Housing and Construction
- **x Construction Spending**
- **xi New Residential Construction**
- **xii New-Home Sales**
- **xiii Existing-Home Sales**

Labor Conditions

i. Employment and Unemployment – (Apr 5) **March 2019 Labor Numbers: Unemployment Held at 3.8%, Amidst Mounting Labor-Market Stress; Payrolls Rose by 196,000 With Continued Low Annual Growth Amidst Minimal Revisions** (Bureau of Labor Statistics). March 2019 headline U.3 Unemployment held at 3.81%, effectively unchanged from the 3.82% in February, but that was in the context of a shrinking labor force, discussed shortly. Broader U.6 Unemployment widened to 7.34% in March from 7.27% in February (it includes those marginally attached to the labor force and those working part-time for economic reasons). On top of U.6, the ShadowStats Alternate Unemployment Estimate, including long-term displaced/discouraged workers not counted by the BLS, held at 21.2% in March, versus 21.2% (revised from 21.1%) in February. An updated graph of the unemployment measures (see *Graph 49* in *Section 5: Consumer Conditions*) also is posted on the Alternate Data Tab on www.ShadowStats.com, along with hard data, also see the *Public Commentary on Unemployment Measurement*.

Labor-Market Stress Increased. Although the headline U.3 rate held at the consensus 3.8%, the labor force declined by 224,000 (-224,000), with proportionate declines in both the employed and unemployed. As a result, the Participation Rate dropped to 63.0%, from 63.2%, and the Employment-Population Ratio eased to 60.6% from 60.7%. The count of full-time employed fell by 190,000 (-190,000), with part-time employed gaining 60,000, and with multiple-job holders increasing by 212,000 (see *Graphs 40* to *42* and the related discussion *Section 4: Underlying Reality*.

Monthly Payroll Jobs Count Jumped, While Annual Growth in Payroll Jobs Held at a Nine-Month Low. Monthly payroll jobs growth rebounded to 196,000 in March 2019, following a revised 33,000 increase [previously 20,000] in February 2019. Nonetheless, year-to-year jobs growth held at 1.7% for the second month, otherwise the slowest pace of growth since July 2018.

Inflation

ii. Consumer Price Index (CPI) – (Apr 10) **March 2019 Consumer Price Index** (Bureau of Labor Statistics). **Headline Inflation Rebounded, Driven by an Upswing in Gasoline Prices, Not by a Growing Economy** (Bureau of Labor Statistics). Moving in tandem with violent swings in dominant gasoline prices, March 2019 unadjusted annual CPI-U inflation rose to 1.86%, off a 28-month low of 1.52% in February 2019, and versus 1.55% in January 2019. [Year-to-year change in gasoline prices narrowed in March 2019 to an annual decline of 0.70% (-0.70%), from drops of 9.09% (-9.09%) in February 2019 and 10.10% (-10.10%) in January 2019.] The seasonally adjusted March 2019 CPI rose 0.41% in the month, versus a gain of 0.17% in February, the first two monthly gains since October 2018. Previously, the monthly CPI-U had held "unchanged" at 0.0% November 2018 through January 2019, respectively down by 0.01% (-0.01%) in November and December 2018 and by 0.02% (-0.02%) in January 2019.

By major CPI-U Sector, monthly **Food** inflation was 0.28% in March, versus 0.41% in February and 0.22% in January; **Energy** jumped by 3.47% in the month, versus 0.44% in February, following a decline of 3.15% (-3.15%) in January; **Core** inflation (net of food and energy) gained 0.15% in March, versus 0.11% in February and 0.24% in January.

March 2019 ShadowStats Alternate CPI (1980 Base) Rose to 9.6% Year-to-Year. The ShadowStats Alternate CPI (1980 Base) rose to 9.58% in March 2019 , versus 9.22% in February 2019 and 9.25% in January 2019. The ShadowStats Alternate CPI (1990 Base) rose to 5.4% in March 2019 , versus 5.1% in February and January 2019 (see *Table 1* and *Graphs 10* and *11* in *Section 2: Inflation*, as well as the background discussion in *Public Commentary on Inflation Measurement*), with further detail available on the *Alternate Data* tab of the www.ShadowStats.com home page, including an inflation calculator.

Based on March 2019 inflation and payroll reporting, **Real Average Hourly Earnings** for all employees on private nonfarm payrolls declined by 0.3% (-0.3%), having gained 0.2% in February. **Real Average Weekly Earnings** (reflecting hourly earnings and hours worked) were unchanged at 0.0%, in March, having declined by 0.1% (-0.1%) in February.

Graph 50 in *Section 5: Consumer Conditions* plots Real Average Weekly Earnings for Production and Nonsupervisory Employees, for which there is an historical series going back to 1965. March 2019 real average earnings there gained 0.1% in the, following a monthly decline of 0.5% (-0.5%) in February. These numbers broadly remained suggestive of weakening economic activity.

BEWARE: Headline Inflation Once Again Is on the Upswing, Driven by Gasoline Prices, Not by an Overheating Economy as Too-Often Cited by the FOMC. The recent brief relief from surging, headline CPI inflation, thanks to declining gasoline/oil prices has begun to reverse sharply, as was obvious in the March 2019 the headline CPI and PPI reporting. As noted previously with the December 2018 detail, ***Full-Year 2018 Annual CPI-U inflation*** at 2.44% was the highest since 2011, up from 2.13% in 2017. Rising inflation here was due to extreme variability in oil prices, driven largely by factors other than economic activity. The FOMC canard of soaring inflation being due to an "overheating" economy simply was used as an excuse for the recent hiking of interest rates.

Full-Year 2018 Annual ShadowStats Alternate CPI inflation rose to 10.2% [10.21%] in 2018 from 9.9% [9.87%] in 2017 (1980-Base), and rose to 6.0% in 2018 versus 5.7% in 2017 (1990-Base). Comparative annual inflation rates are detailed in *Table 1* and *Graphs 10* and *11* of *Section 2: Inflation*.

iii. Producer Price Index (PPI) – (Apr 11) **March 2019 PPI Inflation Rebounded to 0.60% in the Month, to 2.17% Year-to=Year, Given Surging Gasoline Prices** (Bureau of Labor Statistics). Aggregate Final Demand PPI (FD-PPI) rose by 0.60% in March, versus 0.09% in February, with annual inflation jumping to a four-month high of 2.17%, from 1.91%. The FD-PPI is dominated by "Services," which guestimates profit margins, not prices. Accordingly, rising energy inflation (gasoline prices) tended to drive up "Goods" inflation but muted "Services" inflation.

By Major Category: **PPI-Goods** inflation rose by 1.05% in March, versus 0.35% in February, with annual Goods inflation at 1.32%, versus 0.62% in February, driven by energy prices, not by surging economic activity. **PPI-Services** inflation rose in the month by 0.34%, up from "unchanged" at 0.00% in February, with annual March 2019 inflation at 2.50%, versus 2.52% in February, muted by surging gasoline prices, which depressed the measure "margins." **PPI-Construction** March 2019 year-to-year inflation rose to 4.87% from 4.79% in February. The month-to-month Construction numbers here never are comparable.

Economic Activity

iv. Gross Domestic Product (GDP) – (Mar 28, Shutdown Delayed and Distorted) **"Final" Estimate of Fourth-Quarter 2018 GDP Narrowed to 2.17% (previously 2.59%), versus 3.36% in the Third Quarter** (Bureau of Economic Analysis). Due to shutdown data disruptions, the "final" estimate of fourth-quarter GDP was anything but final. Yet, it now will not be subject to further revision until the July 26th annual benchmarking. At that time, not only will 4q2018 GDP likely weaken further in later revision, but also first- and second-quarter 2019 GDP estimates should have shown annualized real quarterly contractions. Discussed in the *Overview* and reviewed and graphed in *Section 3: Headline Fourth-Quarter 2018 GDP* and *Section 4: Underlying Reality* and related graphs in both sections, as well as initially coverage in *Bullet Edition No. 5*. Breakouts of related details by category and recent quarters and years are found in *Tables 2* and *3* (Section 4).

The downside "final" revision of real 4q2018 GDP to 2.17%, from an "initial" estimate of 2.59% (a roughly combined first and second estimate), was in line with market expectations, slowing from 3.36% in 3q2018. 4q2018 annual growth revised to 2.97% (previously 3.08%) versus 3.00% in 3q2018.

At the same time, the coincident "Initial and Final" estimates of fourth-quarter 2018 Gross Domestic Income (GDI) and Gross National Product (GNP) also slowed sharply versus third-quarter activity. Where GDI theoretically is the income-side driven equivalent of the consumption-side driven GDP, 4q2018 annualized GDI growth slowed to 1.66% versus 4.46% in 3q2018, with annual growth at 2.74% versus 2.69%. The broader 4q2018 GNP measure (GDP plus trade flows in "factor income" dividend and interest payments) slowed to 2.12% from 3.05% in 3q2018, with annual growth slowing to 2.85% versus 2.96%.

v. Trade Balance – (Apr 17, Shutdown Delayed) **February 2019 Trade Deficit Continued to Shrink, Reflecting a Recessionary Pattern in Imports, as Seen in the 2008 Recession** (Census Bureau/BEA). The nominal February 2019 Trade Deficit in goods and services narrowed to an eight month low of $44.4 billion, from $51.1 billion in January, with a parallel monthly in the real February U.S. Merchandise Trade Deficit, which ties directly to Real GDP estimates. While a narrowing the trade deficit usually is viewed as good news and is a positive contributor to the GDP estimation, it also can reflect deteriorating domestic economic conditions, as is the case here. The latest inflation-adjusted trade activity has taken on a pattern common to U.S. recessions, where declining domestic consumer demand is reflected in declining Real Imports and a narrowing deficit, as seen in the 2008/2009 recession (see *Graphs 21* and *22* and the discussion in *Section 3: Headline Fourth-Quarter GDP and Into Mid-2019.*

Using a smoothed, three-month moving average, activity in Real Exports peaked in June 2018, eased into September and has been flat since. Activity in Real Imports, which generated the narrowed Deficit, peaked in September 2018 and has declined since. While the narrowed first-quarter deficit will be a positive contributor to First-Quarter 2019 GDP, the circumstance is one that suggests even greater negative offsets lie in weakening domestic consumption and production, which should surface elsewhere in the pending GDP calculations.

vi. Retail Sales – (Apr 18, Shutdown Distorted/Caught Up) **March 2019 Real Retail Sales Showed a Second Consecutive Quarterly Contraction, Dropping by an Annualized 0.7% (-0.7%) in 1q2019, Following a 0.5% (-0.5%) Decline in 4q2018** (Census Bureau). An unexpectedly strong bounce in March 2019 retail sales was in the context of the first back-to-back real quarterly contractions since the 2009 depths of the Great Recession. Before inflation adjustment, nominal retail sales rose by 1.57% month-to-month in March, versus a decline of 0.21% (-0.21%) [previously 0.20% (-0.20%)] in February and a gain of 0.77% [previously 0.73%] in January.

Net of CPI-U inflation, as tallied regularly by the St. Louis Fed, real monthly sales rose by 1.15% in March, having declined by 0.39% (-0.39%) [previously 0.37% (-0.37%)] in February and having gained 0.79% [previously 0.75%] in January. Real sales rose year-to-year by 1.73% in March 2019, versus 0.65% in February and 1.32% in January. Real annual growth below 2.0% rarely is seen outside of recessions.

For the first time since the 2009 depths of the Great Recession, quarterly Real Retail Sales contracted for a second consecutive quarter, dropping at an annualized first-quarter 2019 pace of 0.65% (-0.65%), following a fourth-quarter 2018 decline of 0.51% (-0.51%). Discussed here regularly, excessive tightening and rate hikes by the Federal Reserve since late 2017 have impaired consumer liquidity, which drives three-fourths of the GDP (see *Section 1: Recent Economic Indicators*, *Graphs 1* to *3*).

vii. Industrial Production – (Apr 16) **March 2019 Industrial Production Showed Unexpected Declines in the Month and for First-Quarter 2019** (Federal Reserve Board – FRB). Consistent with the ShadowStats outlook for an unfolding new recession, beginning with a quarterly contraction in first-quarter 2019 GDP, first-quarter Industrial Production declined at an annualized pace of 0.33% (-0.33%); an annualized gain of 1.0% had been expected. Such was against a revised annualized gain of 3.95% [previously 3.74%] in fourth-quarter 2018, with year-to-year growth slowing from 3.98% to 3.31%.

The unfolding 2019 recession was triggered by excessive Federal Reserve tightening, which constrained consumer liquidity and consumption. Weakness in the dominant personal consumption sector of the economy usually spreads quickly throughout the system. Consider that the first-quarter Manufacturing Sector contracted at an annualized pace of 1.11% (-1.11%), versus a fourth-quarter gain of 1.66%, Consumer Goods contracted at an annualized 3.83% (-3.83%), versus a fourth-quarter gain of 2.28%. Consumer Durable Goods (such as automobiles) contracted at an annualized 8.36% (-8.36%), versus a fourth-quarter gain of 3.64%. On the plus side, the Mining Sector gained at an annualized pace of 4.38%, slowing from 11.81% in the fourth quarter. Again, however, the aggregate Production series showed an unexpected quarterly decline.

Unprecedented in the 100-Plus Year History of the Series, U.S. Manufacturing Has Seen 135-Straight Months (11-Plus Years) of Economic Non-Expansion. The dominant Manufacturing Sector remained shy by 4.12% (-4.12%) in March 2019 of ever having recovered its December 2007 pre-recession peak. That should be of particular concern to policy makers and the FOMC, with the broad economy currently turning down, on the brink of a "new" recession. See *Graphs 4* to *6* in *Section 1: Recent Economic Indicators*, and *Graphs 23* to *33* in *Section 4: Underlying Reality*.

Table 5: Monthly Industrial Production Broken Out by Major Sector to March 2019

Index of Industrial Production (IIP) and Major Sectors to March 2019 by Month, 2012 = 100.000 for All Indices								
Measure	**Weight**	**Mar '19**	**Feb**	**Jan**	**Dec '18**	**Nov**	**Oct**	**Sep**
IIP Index	**100.0%**	**110.221**	**110.337**	**110.211**	**110.588**	**110.540**	**109.917**	**109.675**
- Prior		--	110.475	110.431	110.495	110.578	109.800	109.675
Mo/Mo		**-0.10%**	**0.11%**	**-0.34%**	**0.04%**	**0.57%**	**0.22%**	**0.14%**
- Prior		--	0.04%	-0.06%	-0.08%	0.71%	0.11%	0.14%
Yr/Yr		**2.77%**	**3.47%**	**3.71%**	**3.80%**	**4.09%**	**4.06%**	**5.41%**
- Prior		--	3.59%	3.92%	3.72%	4.13%	3.95%	5.41%
Manufacturing	**75.0%**	**105.543**	**105.557**	**105.916**	**106.457**	**105.833**	**105.610**	**105.695**
- Prior		--	105.692	106.101	106.464	105.865	105.447	105.695
Mo/Mo		**-0.01%**	**-0.34%**	**-0.51%**	**0.59%**	**0.21%**	**-0.08%**	**0.02%**
- Prior		--	-0.39%	-0.34%	0.57%	0.40%	-0.23%	0.02%
Yr/Yr		**1.04%**	**1.07%**	**2.51%**	**2.65%**	**1.99%**	**2.04%**	**3.48%**
- Prior		--	1.20%	2.69%	2.65%	2.02%	1.88%	3.48%
Mining	**14.6%**	**131.156**	**132.181**	**132.205**	**132.416**	**129.714**	**128.630**	**128.463**
- Prior		--	132.509	132.822	131.683	129.811	128.668	128.463
Mo/Mo		**-0.78%**	**-0.02%**	**-0.16%**	**2.08%**	**0.84%**	**0.13%**	**1.03%**
- Prior		--	-0.24%	0.86%	1.44%	0.89%	0.16%	1.03%
Yr/Yr		**10.54%**	**12.65%**	**15.24%**	**14.40%**	**13.11%**	**14.09%**	**15.88%**
- Prior		--	12.93%	15.78%	13.77%	13.19%	14.13%	15.88%
Utilities	**10.4%**	**108.423**	**108.218**	**104.376**	**103.709**	**111.175**	**108.264**	**105.553**
- Prior		--	108.173	104.390	103.718	111.210	108.309	105.553
Mo/Mo		**0.19%**	**3.68%**	**0.64%**	**-6.72%**	**2.69%**	**2.57%**	**-0.39%**
- Prior		--	3.62%	0.65%	-6.74%	2.68%	2.61%	-0.39%
Yr/Yr		**3.79%**	**7.62%**	**-3.67%**	**-2.86%**	**6.43%**	**4.61%**	**4.66%**
- Prior		--	7.58%	-3.65%	-2.85%	6.46%	4.65%	4.66%
Sources: Federal Reserve Board, ShadowStats								

viii. New Orders for Durable Goods – (Apr 2, Shutdown Delayed) **Nominal February 2019 New Orders for Durable Goods Dropped 1.6% (-1.6%) in the Month, Due to a 31.0% (-31.0%) Plunge in Regularly Volatile Commercial Aircraft Orders** (Census Bureau). Ex-commercial aircraft, nominal orders gained 0.2% in the month, having declined respectively by 0.4% (-0.4%) and 0.1% (-0.1%) in January and December. Net of related inflation, that series signaled a continued weakening in broad economic activity: a possible unfolding recession.

Net of inflation and commercial aircraft, real New Orders for Durable Goods contracted at an annualized quarterly pace of 5.9% (-5.9%) in fourth-quarter 2018, with first-quarter 2019 activity on track for a quarterly drop of 2.4% (-2.4%) based on January and February reporting. Annual real growth in that series slowed to 0.7% in February 2019 from 4.1% in January. Looking separately at coincident nominal reporting of new orders for the less-volatile consumer goods sector, such as motor vehicles and computers and related products, new orders contracted for at least the second consecutive month.

Table 6: Breakout of February 2019 New Orders for Durable Goods, Total versus Ex- Commercial Aircraft

New Orders for Durable Goods (February 2019 Reporting)					
Month	Nominal Millions of Current Dollars			Real Millions of Constant 2009 Dollars	
	Total New Orders	Commercial Aircraft	Ex-Commercial Aircraft	Total New Orders	Ex-Commercial Aircraft
Dec 18	254.449	13.535	240.914	225.613	213.612
Jan 19	254.741	14.780	239.961	224.975	211.922
Feb 19	250.577	10.185	240.392	221.173	212.183
	Percent Change			Percent Change	
	Mo/Mo	Mo/Mo	Mo/Mo	Mo/Mo	Mo/Mo
Dec 18	1.29%	35.72%	-0.13%	1.24%	-0.19%
Jan 19	0.11%	9.20%	-0.40%	-0.28%	-0.79%
Feb 19	-1.63%	-31.09%	0.18%	-1.69%	0.12%
Prior M/M					
Dec 18	1.27%	35.71%	-0.16%	1.21%	-0.21%
Jan 19	0.35%	15.93%	-0.52%	-0.05%	-0.92%
	Yr/Yr		Yr/Yr	Yr/Yr	Yr/Yr
Dec 18	3.49%		5.53%	0.19%	2.17%
Jan 19	8.17%		7.56%	4.73%	4.14%
Feb 19	1.84%		3.69%	-1.10%	0.70%
Prior Y/Y					
Dec 18	3.46%		5.50%	0.16%	2.14%
Jan 19	8.39%		7.39%	4.95%	3.98%
Sources: Commerce Department, BLS, ShadowStats.com					

ix. March 2019 Cass Freight Index™ – (Apr 10) **Declined Year-to-Year, and Its 12-Month Moving Average Fell Month-to-Month—Both for the Fourth Consecutive Month—Signaling a First-Quarter Economic Decline** (www.CassInfo.com). Those two metrics neutralize seasonality in this unadjusted series. The current declining growth patterns last were seen in early 2015, at the onset of meaningful downturns in series such as Industrial Production (see Bullet Editions No. 3 to No. 6). ShadowStats regularly follows and analyzes the CASS Index as a highest-quality coincident/ leading indicator of underlying economic reality. We thank CASS for their permission to graph and to use their numbers in our Commentaries. See *Graphs 34* to *36* in *Section 4: Underlying Reality.*

Housing and Construction

x. Construction Spending – (Apr 1, Shutdown Delayed) **Nominal February 2019 Construction Spending Gained in the Month, on Top of Unstable, Upside Prior-Period Revisions, Yet Negative Real Annual Growth Continued Signaling Recession** (Census Bureau). The headline month-to-month changes simply are not too meaningful in this series, until some point after an annual benchmark revision.

Consider that this series was downtrending last month, based on the current three months of reporting, and this series now is uptrending in the February reporting (effectively near-term flat net of inflation). Large upside revisions were made to Private Residential Construction, with small upside revisions to the Private Nonresidential Sector, and mixed, minimal revisions to Public Construction. In aggregate, nominal February 2019 monthly growth slowed to 1.0%, from 2.5% [previously a monthly decline of 0.8% (-0.8%)] in January, and a gain of 0.2% [previously a decline of 0.9% (-0.9%)] in December. February Construction gained a nominal 1.1% year-to-year, versus a revised gain of 2.4% [previously 0.3%] in January and a revised gain of 0.3% [previously a decline of 0.07% (-0.07%)] in December.

That said, despite the positive nominal revisions, inflation-adjusted Real Construction Spending held in year-to-year decline for the sixth straight month, down by 2.6% (-2.6%) in February 2019, a pattern rarely seen outside of formal recessions. February 2019 Real Construction Spending also remained shy by 20.9% (-20.9%) of ever recovering its precession peak activity. See *Graphs 43* and *44*, *Section 4: Underlying Reality*.

xi. New-Residential Construction – (Apr 19, Shutdown Catch-Up) **March 2019 Housing Starts Declined on Top of Downside Revisions, Consistent With a Deepening Downturn; Amidst Intensifying Year-to-Year Declines, Building Permits Contracted Quarter-to-Quarter in first-quarter 2019, While Housing Starts Growth Slowed Sharply** (Census Bureau). March 2019 Housing Starts and Building Permits continued in rapidly deepening annual contraction. The broad picture for Nonresidential Construction turned increasingly negative, where both Starts and Permits saw monthly and annual declines, in deepening long-term downtrends, with downside revisions to earlier data.

Headline year-to-year Housing Starts declined by 2.7% (-2.7%) in January 2019, by 11.5% (-11.5%) in February 2019 and by 14.2% (-14.2%) in March 2019, with a fourth-quarter 2018 annual decline of 5.9% (-5.9%), followed by 9.4% (-9.4%) in first-quarter 2019. Quarter-to-quarter change was an annualized drop of 14.9% (-14.9%) in fourth-quarter 2018, with a 2.7% gain in first-quarter 2019. Before the new downside revisions, first-quarter 2019 had been on track for an annualized quarterly gain of 11.4%. As usual, none of the current month-to-month or monthly year-to-year changes was significant at the 95% confidence level. The more-stable March 2019 Building Permits series showed statistically significant, respective monthly and annual declines of 1.7% (-1.7%) and 7.8% (-7.8%). Permits also showed deepening annual contractions, but with a quarter-to-quarter gain of 9.9% in fourth-quarter 2018 and an annualized decline of 3.6% (-3.6%) in first-quarter 2019.

xii. New-Home Sales – (Mar 29, Shutdown Delayed) **February 2019 New-Home Sales Surged Amidst Usual, Nonsensical Revisions** (Census Bureau). New-Home Sales showed statistically insignificant monthly and annual gains of 4.9% and 0.6% in February, on top of sharp upside revisions to January activity. Yet, those numbers followed extraordinarily sharp downside revisions to 4q2018. What been a 4q2018 gain of 3.6% now is a contraction of 13.4% (-13.4%). What had been an early negative trend for 1q2019 Home Sales now is positive. Consistent with other housing and construction series, New-Home Sales remains in an ongoing housing recession, holding shy by 52% (-52%) of ever recovering its pre-recession peak (see *Graph 47* in *Section 4: Underling Reality).*

xiii. Existing-Home Sales – (Mar 22) **February January 2019 Existing-Home Sales Jumped 11.8% in the Month, Declined 1.8% (-1.8%) Year-to-Year** (National Association of Realtors [NAR]). Following a string of sharp declines, and on top of a small downside revision to January activity, February New-Home Sales rebounded by 11.8%, the strongest monthly gain in more than three years. That said, sales were down year-to-year by 1.8% (-1.8%), continuing in a deepening 12-month annual downtrend. This remains the highest-quality indicator available of Home Sales activity (see details and press release at www.nar.realtor under research/housing statistics, also see *Graph 48* in *Section 4: Underling Reality*).

[Discussion of Pending Economic Releases Begins on the Following Page.]

Analyses of Pending Economic Releases

PENDING ECONOMIC RELEASES FOR THE WEEK AHEAD. Note: Headline results and summary *ShadowStats* analysis for most major economic series are posted in real time (usually within two-to-three hours of the headline release), in the *Daily Update* section at the top right-hand portion of the the *www.ShadowStats.com* homepage. Specific timing of that ShadowsStats coverage will be advised in the *Daily Update* section preceding the headline release.

Discussed in *Bullet Edition No. 6* and in today's *Overview*, following is background on the balance of major economic releases, all of which should show increasingly negative first-quarter economic trends either in catch-up reporting from the government shutdown, downside revisions to recent reporting and/or in current initial reporting, leading into the "Advance" Estimate of First-Quarter 2018 GDP on April 26th.

● **(22 April, 10 a.m. ET) Existing Home Sales (March 2019)**. This release from The National Association of Realtors (NAR) showed an unusually strong jump in February after a period of sharp contractions. With no relief on consumer liquidity stresses, this consumer-driven series likely continued in a downtrend, with some easing from the February monthly surge a fair bet. See the *Housing and Construction Sector* in the prior *Analyses of the Latest Economic Releases,*

● **(23 April, 10 a.m. ET, Shutdown Distorted/Catch Up) New-Home Sales (March 2019)**. This Census Bureau series suffers nonsensical volatility and highly unstable revisions. Irrespective of the extreme nonsense monthly swings, the historical series usually ends up looking weaker than it did before. With no relief on consumer liquidity stresses, this consumer-driven series likely continued in a long-term downtrend.

● **(25 April, 8:30 a.m. ET, Shutdown Distorted/Catch Up) New Orders for Durable Goods (March 2019).** This Census Bureau series suffers extreme volatility from large, irregular swings in monthly Commercial Aircraft Orders. Net of Commercial Aircraft and inflation, the series likely showed a continued contraction in monthly activity, a leading indicator to the still- weakening Manufacturing component of Industrial Production.

● **(26 April, 8:30 a.m. ET, Shutdown Distorted) "Advance" Estimate of First-Quarter 2019 Gross Domestic Product (GDP).** This Bureau of Economic Analysis (BEA) series will go through its initial reporting with less than complete data, particularly lacking a month of detail from the key and regularly volatile Next Exports (Trade Deficit) series, on top of heavily distorted and disrupted data that resulted from the government shutdown. Discussed in the *Overview*, consensus expectations appear to range between the extremes of the GDP modeling of Atlanta Fed, currently at 2.8%, and the New York Fed at 1.4%. ShadowStats sees clear evidence of a headline quarterly contraction in hand, but no one wants to talk about the recession that already is underway.

Traditionally, the BEA will target the consensus outlook, let's say 2.0%, and will it report above or below that to signal the markets and consensus forecasters as to which way the revisions are likely to go, if they are meaningful. Accordingly, I would look for the headline reporting to come somewhat below 1.4%, then turning negative within the subsequent three monthly revisions through July 26th, at which point an effective headline recession should be in place.

Discussed in the *Overview Section*, ShadowStats looks for an eventual, outright quarter-to-quarter contraction of 1.5% (-1.5%), plus-or-minus, for first-quarter 2019, with initial April 26th reporting of around 1.0% or less.

[Prior Commentaries, Bullet Editions and Watches Begin on the Following Page.]

Section 9c: Prior Commentaries, Hyperinflation and Consumer-Liquidity Watches

Most Recent *Hyperinflation* and *Consumer-Liquidity Watches*: The latest Watches always are available on www.ShadowStats.com and by link from the current *Commentary*. Updates are advised by e-mail when they are posted. Many components of these ***Watches*** were updated *Special Commentary No. 982-A* and today's *983-B*. Fully updated *Watches* will follow in March.

The ***Hyperinflation Watch*** of December 11, 2018: *Hyperinflation Watch No. 4* – Special Edition (with the standing *Alert* updated earlier in today's *Section 9a: ALERT*.

The ***Consumer Liquidity Watch*** of November 21, 2018: *Consumer Liquidity Watch No. 5* – Special Edition.

Special Pieces Underlying the Current Outlook: *Commentaries* of 2018 and 2017 laid the groundwork for the *Special Commentary No. 983-A* and *Special Commentary No. 983-B*, including in particular *Special Commentary No. 885*, entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, *Special Commentary No. 888*, discussing political risks, *Commentary No. 967*, *Special Commentary No. 968-Extended*, *Commentary No. 969-Extended*, *Commentary No. 970*, *Commentary No. 974*, *Commentary No. 978 - Part I*, *Commentary No. 978 – Part II*, *Commentary No. 981* and *Commentary No. 982*, as well as the earlier *Special Commentary No. 935*, are *Commentary No. 899* and *General Commentary No. 894*.

The general outlook also incorporates 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*.

Regular, Bullet and Special Commentaries: *[Listed here are* Commentaries *of the last year or so, including* Special Commentaries *and a sampling of others covering a variety of non-monthly issues, including annual benchmark revisions. Please Note: Complete ShadowStats archives back to 2004 are available at www.ShadowStats.com (left-hand column of home page).]*

These regular *Commentaries* should be published about weekly, current circumstance excluded, with *Consumer Liquidity* and *Hyperinflation Watches* updated every month or so, updating general economic, consumer-liquidity and financial-market circumstances as they develop.

Bullet Edition No. 6 (April 9th) reviewed the unfolding business cycle and a likely, pending negative trend in headline economic updates and related, developing "consensus" economic expectations.

Bullet Edition No. 5 (March 30th) reviewed the annual Industrial Production benchmark revisions , the "final" estimate of Fourth-Quarter 2018 GDP, disrupted housing numbers and discussed current headline reporting quality issues and factors suggesting that the economy was evolving in a more-negative direction than indicated by happy headline reporting.

Bullet Edition No. 4 (March 21st) discussed the March 20th FOMC Meeting Announcement and the implications of a rapidly deteriorating signal on freight activity.

Bullet Edition No. 3 (March 16th) reviewed February 2019 Industrial Production and unfolding signals for near-term broad economic reporting signals of a shifting business cycle

Bullet Edition No. 2 (March 11th) reviewed the February 2019 labor data, delayed Retail Sales, Monetary conditions and implications for pending broad economic reporting.

Bullet Edition No. 1 (March 7th) covered the December 2018 and annual trade data, revisions and implications for downside GDP revisions and a slowing economy.

Commentary No, 983-A (February 20th) provided advance coverage of today's full-coverage *Commentary No. 983-B*. Again, *No. 983-B* has been written as a standalone piece.

Commentary No. 982 (January 10th) reviewed extraordinary stock-market circumstances and the December 2018 Employment/Unemployment reporting and the related Benchmark Revisions to that series, December Payroll Employment and December Monetary Conditions.

Commentary No. 981 (January 3rd) reviewed the November 2018 Retail Sales, Industrial Production, New Residential Construction, Home Sales, New Orders for Durable Goods, the Cass Freight Index™ and the third "final" estimate of Third-Quarter 2018 Gross Domestic Product (GDP).

Some Thoughts on the Stock Market (No. 980) (December 26th), offered brief comments on unfolding, extreme stock-market volatility.

Commentary No. 979 (December 19th) disccused the FOMC meeting of December 19th and reviewed the November 2018 employment and unemployment reporting, the October Trade Deficit and the November 2018 Consumer and Producer Prices Indices and related consumer-liquidity indicators.

Commentary No. 978 – Part II (December 5th) completed *Part I*, reviewing the October 2018 New Residential Construction, New-and Existing-Home Sales and Construction Spending, the second estimate of Third-Quarter GDP and the initial estimates of Third-Quarter GDI and GNP. It also updated the *No. 973 ALERT*.

Commentary No. 978 - Part I (December 1st) covered deteriorating economic and consumer-liquidity conditions and evolving FOMC policy, the October 2018 Consumer and Producer Prices Indices, Retail Sales, Industrial Production, New Orders for Durable Goods and the CASS Freight Index™.

Commentary No. 977 (November 6th) detailed the October 2018 employment and unemployment reporting, the September Trade Deficit and Construction Spending and October monetary conditions.

Commentary No. 976 (October 30th) reviewed the first or "advance" estimate of Third-Quarter 2018 GDP, September 2018 New Orders for Durable Goods, September New-Home Sales, the "advance" September and third-quarter 2018 Trade Deficit and an updated review of underlying economic reality.

Commentary No. 975 (October 22nd) covered FOMC policy and deteriorating consumer- and systemic-liquidity conditions along with headline September 2018 Retail Sales, Industrial Production, New Residential Construction (Building Permits, Housing Starts), Existing-Home Sales, the Cass Freight Index™, Hurricane Impact and pending Elections.

Commentary No. 974 (October 15th) expanded upon elements of the *No. 973 ALERT*, previewed elements of updated consumer and systemic liquidity measures and covered the September 2018 Consumer and Producer Price Indices.

Special Commentary No. 973 – ALERT (October 14th) was a single-page discussion and warning of rapidly mounting risks of instabilities in the domestic financial markets in six months ahead. See the latest *Hyperinflation* and *Consumer-Liquidity Watches* and *Commentary No. 970.*

Commentary No. 972 (October 7th) covered September 2018 Employment and Unemployment, Conference Board Help Wanted OnLine® Advertising, Monetary Conditions and the August Trade Deficit and Construction Spending.

Commentary No. 971 (October 3rd) reviewed August 2018 New Residential Construction, Existing- and New-Home Sales, New Orders for Durable Goods and the third estimate of Second-Quarter 2018 GDP, along with an updated review of underlying economic reality.

Commentary No. 970 (September 26th) discussed a potential, pending Tipping Point in the U.S. financial markets along with a review of August 2018 CPI, PPI, Retail Sales, Industrial Production and the CASS Freight Index™.

Commentary No. 969-Extended (September 16th) Reviewed the reporting of 2017 Real Median Annual Household Income and related measures of Income Dispersion, along with extended coverage of the August 2010 Employment and Unemployment numbers, including an updated Supplemental Labor-Detail Background Supplement.

Flash Commentary No. 969-Advance (September 7th) covered initial headline employment and unemployment detail for August 2018 (expanded upon in *No 969-B*), July Construction Spending, the July Trade Deficit and a review of August Monetary Conditions.

Special Commentary No. 968-Extended (September 6th) reviewed underlying economic reality, in the context of statistical deception used in boosting headline GDP activity, and against the background of extended analysis of the 2010 Comprehensive GDP Benchmarking. Separately covered was extended coverage of the second estimate of second-quarter 2018 (see *Flash Commentary No. 968-Advance*).

Flash Commentary No. 968-Advance (August 29th) provided a summary review of the headline first revision, second estimate of Second-Quarter 2018 GDP and initial estimates of GDI and GNP. Also updated were early indications from the latest Consumer Liquidity measures.

Commentary No. 967 (August 24th) discuused the annual squirrely season and reviewed July 2018 New Orders for Durable Goods and New- and Existing-Home Sales and the preliminary benchmark revision to 2018 payroll employment.

Commentary No. 966 (August 17th) reviewed July 2018 Retail Sales, Industrial Production, New Residential Construction and the CASS Freight Index™.

Commentary No. 965 (August 12th) covered the July 2018 Consumer and Producer Price Indices (CPI and PPI), and Real Average Weekly Earnings and deteriorating consumer liquidity conditions.

Commentary No. 964-A (August 3rd) preliminary coverage of July 2018 Employment/Unemployment, Conference Board Help Wanted OnLine® Advertising, M3 and the June Trade Deficit and Construction Spending.

Commentary No. 963 (July 31st) reviewed June Retail Sales, Industrial Production, New Orders for Durable Goods and the Cass Freight Index, all in the context of the GDP revisions and unfolding, underlying economic reality.

Commentary No. 962 (July 27th) provided initial coverage of the first or "advance" estimate of Second-Quarter 2018 Gross Domestic Product (GDP) and the Comprehensive Benchmark Revisions to the series back to 1929. A full update and extended coverage are the September 6th *Special Commentary No. 968-Extended.*

Commentary No. 961 (July 26th) provided full coverage on New Residential Investment (Housing Starts, Building Permits and New- and Existing-Home Sales. Preliminary coverage was provided on June Retail Sales, Industrial Production, New Orders for Durable Goods and the Cass Freight Index™, all of which were expanded upon in *Commentary No. 963.*

Commentary No. 960 (July 15th) reviewed the June Consumer and Producer Price Indices (CPI and PPI), Real Earnings and related implications for consumer and systemic liquidity

Commentary No. 959-B (July 11th) provided extended detail on June 2018 Employment and Unemployment, the May 2018 Trade Deficit and updated economic outlook, along with expanded discussion on issues affecting the credibility of the headline employment and unemployment data.

Commentary No. 959-A (July 6th) provided flash headlines and summary details of the June 2018 Employment and Unemployment and the May 2018 Trade Deficit, expanded upon in *Commentary No. 959-B* and headline coverage of June 2018 Conference Board Help Wanted OnLine® Advertising.

Commentary No. 958 (July 3rd) covered May 2018 Construction Spending and the accompanying annual benchmarking to that series.

Commentary No. 957 (July 1st) covered May 2018 New Orders for Durable Goods and the third estimate of First-Quarter 2018 Gross Domestic Product (GDP) and the coincident second estimates of Gross National Product (GNP) and Gross Domestic Income (GDI).

Commentary No. 956 (June 27th) reviewed May 2018 Retail Sales, Industrial Production, New Residential Construction (Housing Starts and Building Permits), New- and Existing-Home Sales, along with detail on the May 2018 Cass Freight Index™ and some potential twists to the pending July 27th Comprehensive Benchmark Revision to the GDP.

Commentary No. 955 (June 18th) analyzed May 2018 inflation as reported with the May 2018 Consumer and Producer Price Indices (CPI and PPI), Real Average Weekly Earnings, along with the latest *Hyperinflation Watch* covering FOMC policy, the U.S. dollar and financial markets. Summary headline details also were provided for May Retail Sales, Industrial Production and the Cass Freight Index™.

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 Goods, 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 First-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 Industrial Production benchmarking 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).

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. 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 pre-recession level of activity. Such was in the context of contracting and faltering industrial production rivaling the economic collapse in the Great Depression as to duration. Also covered were prior January 2017 New- and Existing Home Sales.

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

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