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

SHADOWSTATS BULLET EDITION NUMBER THREE

March 16, 2019

Consumption/Manufacturing Downturn Driven by Consumer Liquidity Woes

Weakening Industrial Production, Manufacturing and Capacity Utilization Were Consistent With a Pending Downside Revision to Fourth-Quarter 2018 GDP and Signaled High Odds of a First-Quarter 2019 GDP Contraction

These Data Reinforced Similar Negative Revisions Seen With Earlier Indicators, Including: Retail Sales, Housing, Construction and Payrolls

February Housing Starts (March 26th), January Trade Deficit (March 27th) and An Eviscerated Annual Industrial Production Benchmarking (March 27th) Are the Last Major Reports, Prior to the March 28th Final GDP Estimate; There Is Limited Chance of a Reprieve

The Economy Is Weakening Sharply and Quickly, Due to the Overly Aggressive Federal Reserve Tightening and Rate Hikes

Where Current U.S. Economic Activity Has Signaled a New Recession, Major Business Sectors, Such as Manufacturing and Construction, Never Recovered Fully from the Last One

Accordingly, the March 20th FOMC Meeting Is Not Too Early to Address the Intensifying Business Collapse; Yet, the FOMC Is Expected to Sit on Its Hands

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ShadowStats Commentaries, Bullet Editions, Watches and Daily Updates:

- The ***Daily Update*** posts regularly on the *ShadowStats* home page (www.ShadowStats.com), covering major economic releases as published by the issuing authorities, usually within two-to-three hours of headline publication. Unusual market circumstances also are reviewed, as well as the pending *ShadowStats* publishing schedule.
- The ***Bullet Edition*** is published several times per month, as dictated by economic reporting, underlying economic developments and financial-market conditions. Simply put, the ***Bullet Edition*** conveys brief communications and analyses on limited topics of particular near-term significance. The current issue reviews the latest signals of slowing economic activity from February Industrial Production, with an increasingly likely, pending downside revision to fourth-quarter 2018 GDP and pending quarterly contractions for first- and second-quarter 2019 GDP, the likely onset of a new recession. The next ***Bullet Edition*** should follow in the week of March 25th or earlier, as needed (to be advised).
- The more-comprehensive ***Regular Commentary*** should publish about once per month, providing a regular and broader overview of unfolding conditions and likely developments.
- ***Hyperinflation*** and ***Consumer Liquidity Watches*** should update once per month, with alternating updates roughly every other week, resuming in April.

Special Commentary No. 983-B, The Annual Review will be published in the week ahead, a day or two subsequent to the March 20th FOMC meeting. Market expectations are for "no change" in the targeted federal funds rate, going into the meeting. There is some chance of a rate cut, however, given the rapid deterioration surfacing in headline U.S. economic reporting.

The *ShadowStats* 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. ***No. 983-B*** will incorporate fully all the latest and caught up, government-shutdown delayed data released in the last several weeks.

Your comments and suggestions always are invited.
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Fourth-Quarter Production Slowed in Revision, First Quarter on Track for Contraction

Broad Economic Indicators Continue in "Unexpected" Deterioration

March 28th Downside Revision Looms for "Final" Fourth-Quarter 2018 GDP

First- and Second-Quarter 2019 GDP Face Back-to-Back Contractions

Slowing Capacity Utilization Looks Like Onset of Recession

The FOMC Should Begin Renewed Easing Now, But June Is More Likely

Expectations for a Downside Revision to Headline Fourth-Quarter 2018 GDP Should Have Solidified, As Well As Expectations for An Outright First-Quarter 2019 GDP Contraction. Against consensus expectations for February 2019 Industrial Production and its dominant Manufacturing component both to gain a headline 0.4% plus-or-minus in the month, Production gained 0.1% (rounded from 0.15%), while Manufacturing declined by 0.4% (-0.4%). That monthly detail and related revisions are shown in *Table 1*.

As to likely impact on the headline GDP, not only is annualized real Fourth-Quarter 2018 GDP a good bet to revise lower on the March 28th, it also is a good bet to revise lower, once again, come the annual GDP benchmarking, coincident with the "advance" Second-Quarter 2019 GDP estimate on July 26th, discussed below.

Quarterly Growth Patterns Weakened in Latest Reporting. Where Industrial Production is the largest sector of the U.S. economy and actually was used as a de facto GDP measure early on, consider from the March 15th headline details:

For Industrial Production, third-quarter 2018 growth held at an unrevised annualized rate of 4.9%, that slowed to a revised 4.0% [previously 4.6%] in fourth-quarter 2018 and that dropped to an early trend (based on January and February 2019) for a 0.3% (-0.3%) annualized contraction in first-quarter 2019.

For the dominant Manufacturing Sector (75.5% of Industrial Production), third-quarter 2018 growth revised to an annualized 3.9% [previously 3.8%], that slowed to a revised 1.5% [previously 2.6%] in fourth-quarter 2018, and then dropped to an early trend (based on January and February) for an annualized quarter-to-quarter contraction of 0.9% (-0.9%) in first-quarter 2019.

Where headline Fourth-Quarter 2018 GDP slowed to an "Initial" (combined catch-up reporting of the government-shutdown-delayed first- and second-estimates of GDP) annualized headline real growth rate of 2.6%, from 3.4% in third-quarter 2018 GDP, the headline February 2019 Industrial Production detail and revisions promise some downside revision to the "final" Fourth-Quarter GDP estimate on March 28th, as well strong likelihood of an outright quarterly contraction in First-Quarter 2019 GDP.

Discussed previously in *Bullet Edition No. 1* and *Bullet Edition No. 2*, these circumstances have been unfolding for some time. Subsequent to the February 28th "Initial" (combined first and second) estimate of Fourth-Quarter 2018 GDP, releases of December Construction Spending and New-Home Sales, February Labor Conditions and January Housing Starts signaled downside revisions to the fourth-quarter GDP estimate and negative trends into first-quarter 2019. Beyond the CPI, PPI and Production numbers, the shutdown-delayed data normally would have been in place (and more negative) for the "Initial" fourth-quarter GDP estimate.

Whatever happens to Fourth-Quarter 2018 GDP on March 28th, it will go through a further benchmark revision on July 26th, coincident with the "advance" release on July 26th for Second-Quarter 2019, where headline 2018 activity should take a hit from late revisions to the Trade Deficit (see *Bullet Edition No. 1*) . It is *ShadowStats* forecast that the economy has entered a formal new recession, with First- and Second-Quarter 2019 GDP in back-to-back quarterly contractions, which should be well recognized by July 26th.

Indeed, as discussed in prior *Editions*, July 26th likely will be the day that a "new recession" gains unofficial recognition, with headline Second-Quarter 2019 a good bet to be reported as a second, consecutive, real quarterly contraction. Formal calling of a recession, however, comes from the National Bureau of Economic Research (NBER).

Much of the U.S. Economy Never Fully Recovered from the Great Recession. Discussed in the next section, and as will be reviewed in *Special Commentary No. 983-B*, much of the U.S. economy never has recovered from the severe economic collapse that followed the December 2007 economic peak. The proximal trigger for that downturn was the effective failure of the U.S. banking system, large institutions and corporations, which then were bailed out by the Federal Reserve and the U.S. Government. Nonetheless, collapses in the manufacturing sector and the already faltering real estate and construction sector still have not recovered pre-recession peak activity.

Perilous Systemic Conditions Going Into A New Recession Argue for FOMC Easing Now, Not Later. The experience of Main Street U.S.A. has tended to move along with that basic economic activity, not the financial industry spike fueled by the largesse of Federal Reserve and U.S. Government. Consider that the U.S. economy is on the brink of what likely will be recognized as a "new" formal recession, one triggered by Federal Reserve tightening, where the FOMC has been trying to reverse the distortions of its systemic bailout actions of 2008 and after. Attempting to minimize the damage done to the U.S. economy and Main Street U.S.A. from excessive tightening of the last year or so, would favor some easing action at the March 20th FOMC meeting, as opposed to the FOMC likely delaying such action until June 2019.

[Discussion of economic non-expansion and recession signals continues on the next page.]

Manufacturing Sector Showed a Record 134th Straight Month of Non-Expansion

Benchmark Revisions Show How Bad-Reporting Masked a 1994 Downturn

2019 Manufacturing Benchmark Has Been Eviscerated

Capacity Utilization Signals Recession

Manufacturing Sector of the U.S. Economy Never Has Recovered Fully from the Great Recession, Still Shy by 4.8% (-4.8%) of Regaining Its Fourth-Quarter 2007 Pre-Recession Peak. February 2019 U.S. Manufacturing declined for the second consecutive month, with sharply slowing annual growth, as reflected in *Graphs 8* to *11* and as detailed in *Table 1*. That left the Manufacturing Sector shy of recovering its pre-recession monthly peak of December 2007 by 4.8% (-4.8%). Such is in contrast with the "Initial" headline Fourth-Quarter 2018 GDP, which stands at a record 19.2% above its fourth-quarter 2007 pre-recession peak. No other economic or employment measure comes anywhere close to matching the purported headline economic recovery in the GDP.

By definition, economic recovery is the period of activity measured off an economic trough, until the series hits its pre-recession high. Economic expansion is measured as growth beyond the pre-recession peak activity.

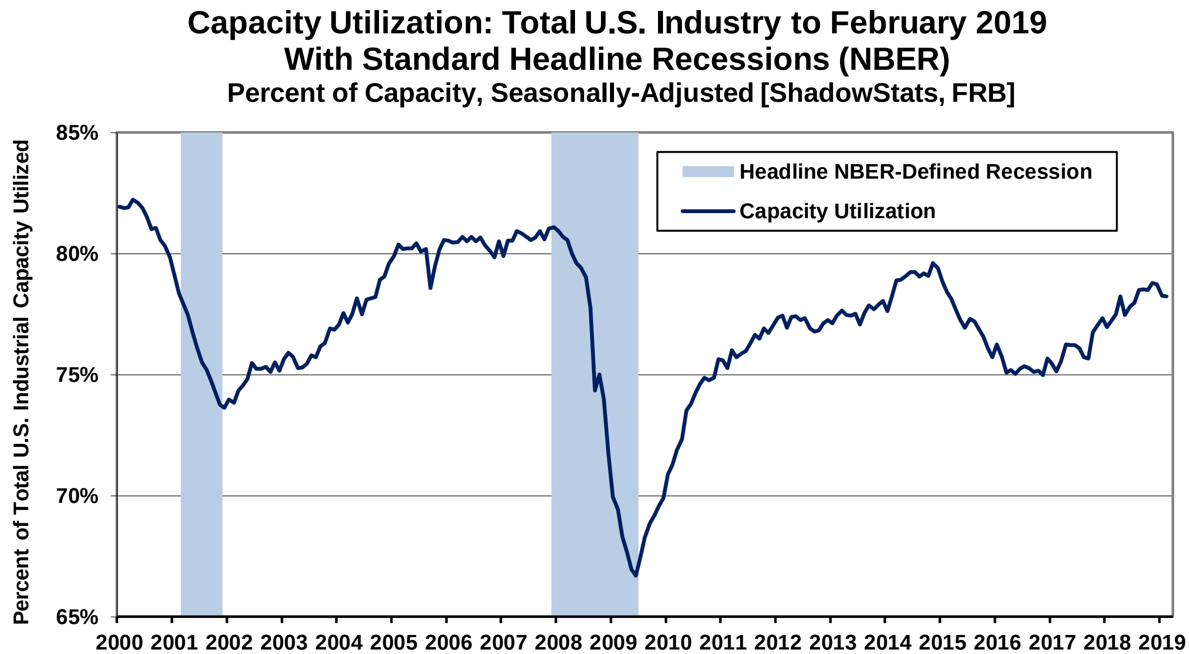
Accordingly, the dominant Manufacturing Sector of the Industrial Production series now has logged a record string of 134 straight months, 44-plus straight quarters, 11-plus straight years of economic non-expansion, a circumstance never before seen in the 100-year history of Industrial Production reporting, as reflected later in *Graph 10*, and as reflected through successive annual benchmark revisions in *Graph 3*.

Annual Bias Factors and Belated Benchmark Revisions Masked a 2014 Recession. If one looks at the current plot of Industrial Production (*Graph 6*), Manufacturing (*Graph 8*) or Capacity Utilization (*Graph 1*) versus the blue-shaded bands that mark periods of formal recession, there appears to be a missing recession band in the late-2014 to early-2016 period.

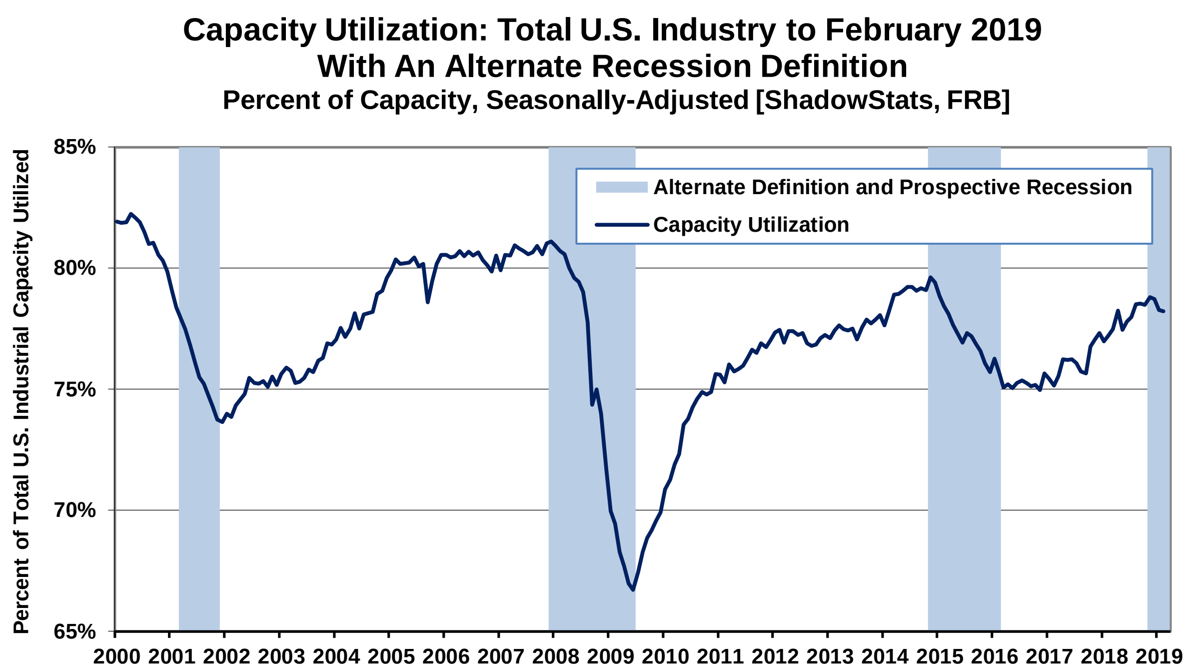
Although there were indications at the time of a new recession, including common experience, a recession never was indicated formally, at least in the initial key reporting of Industrial Production and Manufacturing. It only was in the annual production benchmark revisions of 2017 and 2018 that what otherwise likely would have been called a formal recession, surfaced in the headline detail, as reflected in *Graph 3*.

Graphs 1 and *2* plot the current headline detail of Capacity Utilization through February 2019, with *Graph 1* reflecting the shaded bars of headline formal recessions, as defined by the NBER. *Graph 2* 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.

Graph 1: Utilization of Total U.S. Industrial Production and Manufacturing Capacity (NBER Recessions)



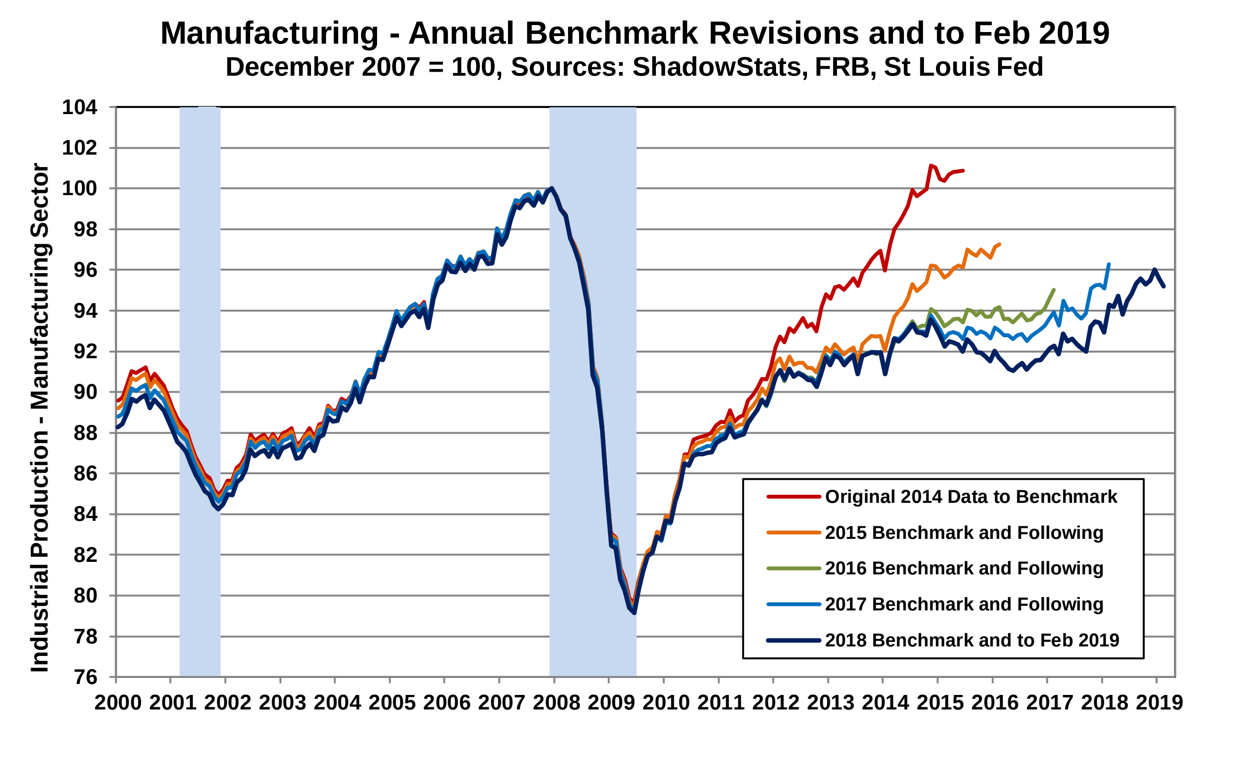
Graph 2: Utilization of Total U.S. Industrial Production and Manufacturing Capacity (Alternate Recessions)



Sharp Downturns in Capacity Utilization Usually Signal the Onset of a Recession. Where sharp downturns in 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. February 2019 Capacity Utilization declined to a seven-month low of 78.2%, down from a November 2018 peak, which likely will be designated as the pre-recession peak.

No Meaningful Benchmark Revision Is Being Allowed for Manufacturing in 2019. Seen in accompanying *Graph 3*, 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*).

Graph 3: Annual Benchmark Revisions to the Dominant Manufacturing Sector of Industrial Production



Per the Fed, "The Federal Reserve Board plans to issue its annual revision to the index of industrial production (IP) and the related measures of capacity utilization on March 27, 2019, at noon EDT. The [government mandated] Economic Census for 2017 will not be available from the U.S. Census Bureau by early 2019, so no new annual benchmark data will be included for manufacturing."

Industrial Production (February 2019)

Headline February Industrial Production and Related Graphs. As highlighted in the March 15th ***ShadowStats Daily Update***, February 2019 Industrial Production and its dominant Manufacturing Sector came in below expectations, on top of downside revisions. As reported by the Federal Reserve Board (March 15th) and consistent with ShadowStats expectations of a pending downside revision to Fourth-Quarter 2018 GDP quarterly growth on March 28th, and an outright quarterly contraction in headline First-Quarter 2019 GDP, both Industrial Production and Manufacturing (76% of production), showed weaker, revised fourth-quarter growth, and an early (two-month) trend for first-quarter contraction.

Table 1: Industrial Production and Its Major Sectors

Index of Industrial Production (IIP) and Major Sectors to February 2019 by Month, 2012 = 100.000 for All Indices								
Measure	**Weight**	**Feb '19**	**Jan**	**Dec '18**	**Nov**	**Oct**	**Sep**	**Aug**
IIP Index	**100.0%**	**109.668**	**109.506**	**109.945**	**109.836**	**109.219**	**109.060**	**108.823**
- Prior		--	109.445	110.083	109.984	109.329	109.020	108.823
Mo/Mo		**0.15%**	**-0.40%**	**0.10%**	**0.56%**	**0.15%**	**0.22%**	**0.86%**
- Prior		--	-0.58%	0.09%	0.60%	0.28%	0.18%	0.86%
Yr/Yr		**3.54%**	**3.86%**	**3.95%**	**4.31%**	**4.25%**	**5.70%**	**5.45%**
- Prior		--	3.80%	4.08%	4.45%	4.36%	5.66%	5.45%
Manufacturing	**75.5%**	**104.800**	**105.198**	**105.699**	**105.096**	**104.886**	**105.224**	**104.927**
- Prior		--	105.229	106.147	105.316	105.033	105.172	104.927
Mo/Mo		**-0.38%**	**-0.47%**	**0.57%**	**0.20%**	**-0.32%**	**0.28%**	**0.53%**
- Prior		--	-0.86%	0.79%	0.27%	-0.13%	0.23%	0.53%
Yr/Yr		**0.96%**	**2.83%**	**2.78%**	**2.15%**	**2.20%**	**3.90%**	**3.45%**
- Prior		--	2.86%	3.22%	2.36%	2.34%	3.84%	3.45%
Mining	**14.1%**	**131.777**	**131.393**	**131.050**	**129.221**	**127.911**	**127.622**	**126.529**
- Prior		--	131.316	131.211	129.260	127.936	127.625	126.529
Mo/Mo		**0.29%**	**0.26%**	**1.42%**	**1.02%**	**0.23%**	**0.86%**	**2.20%**
- Prior		--	0.08%	1.51%	1.04%	0.24%	0.87%	2.20%
Yr/Yr		**12.55%**	**15.38%**	**13.88%**	**13.49%**	**14.57%**	**15.94%**	**16.43%**
- Prior		--	15.31%	14.02%	13.52%	14.59%	15.95%	16.43%
Utilities	**10.4%**	**107.309**	**103.485**	**104.476**	**110.152**	**107.593**	**104.059**	**105.407**
- Prior		--	102.784	102.365	109.922	107.540	104.053	105.407
Mo/Mo		**3.70%**	**-0.95%**	**-5.15%**	**2.38%**	**3.40%**	**-1.28%**	**1.13%**
- Prior		--	0.41%	-6.88%	2.21%	3.35%	-1.28%	1.13%
Yr/Yr		**9.03%**	**-4.92%**	**-2.00%**	**6.62%**	**4.50%**	**4.30%**	**4.81%**
- Prior		--	-5.57%	-3.98%	6.40%	4.45%	4.29%	4.81%
Sources: Federal Reserve Board, ShadowStats								

The monthly February Production gain was 0.1%, following a revised decline of 0.4% (-0.4%) [previously 0.6% (-0.6%)] in January, while Manufacturing declined by 0.4% (-0.4%), versus a revised decline of 0.5% (-0.5%) [previously down by 0.9% (-0.9%) in January.

The good news in production remained with Oil and Gas production in the Mining Sector, which gained 0.3% in the month, versus a revised 0.3% [previously 0.1%] in January, with an uptrending first quarter. The Mining Sector (14% of production) fourth-quarter growth slowed minimally.

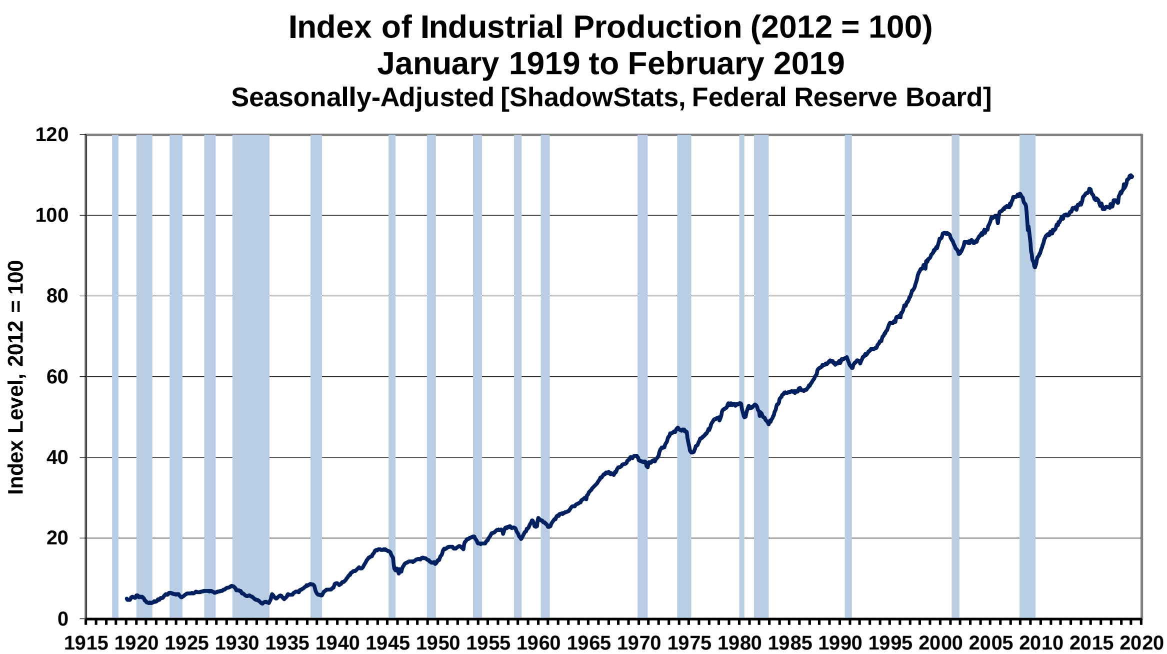
Utilities (10% of production) pushed aggregate Industrial Production to the plus side, rising by a random, weather-battered 3.7%, versus a downwardly revised 0.9% (-0.9%) contraction [previously a 0.41% gain] in January.

As listed and linked in the *Contents* section, beginning on page 3, following are the regular graphs related to Industrial Production and its major sub-sectors, fully updated for the headline February 2019 detail.

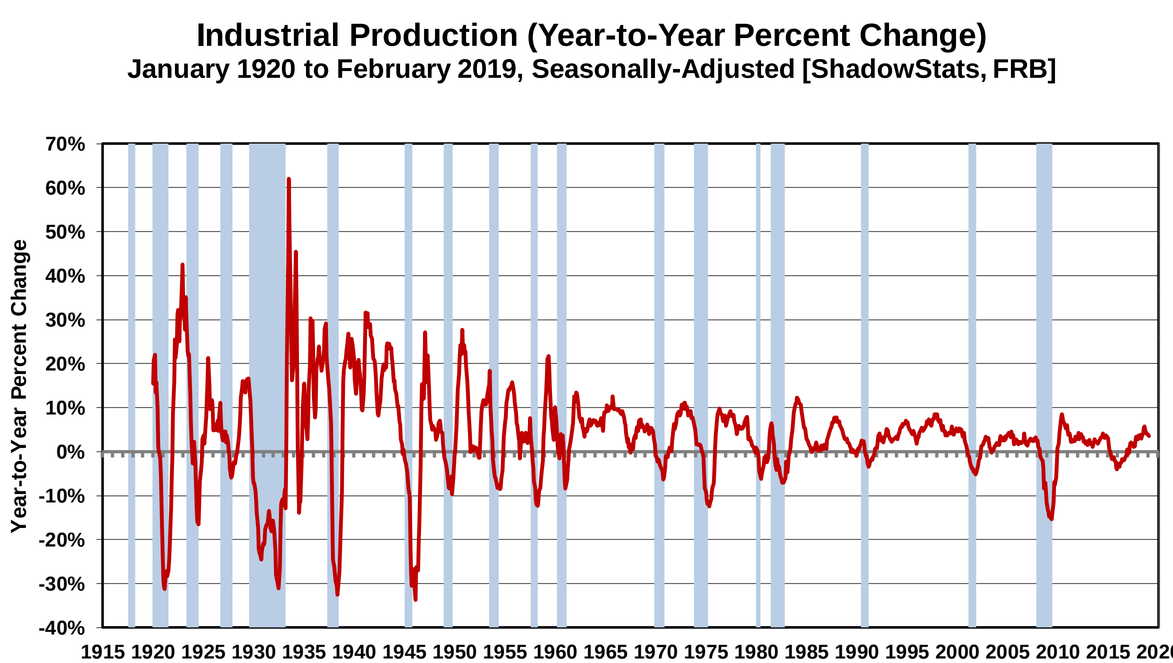
[Graphs 4 to 23 begin on the next page.]

FULL HISTORY OF INDUSTRIAL PRODUCTION 1919 TO 2019

Graph 4: Index of Industrial Production, Full Historical Series 1919 to Date

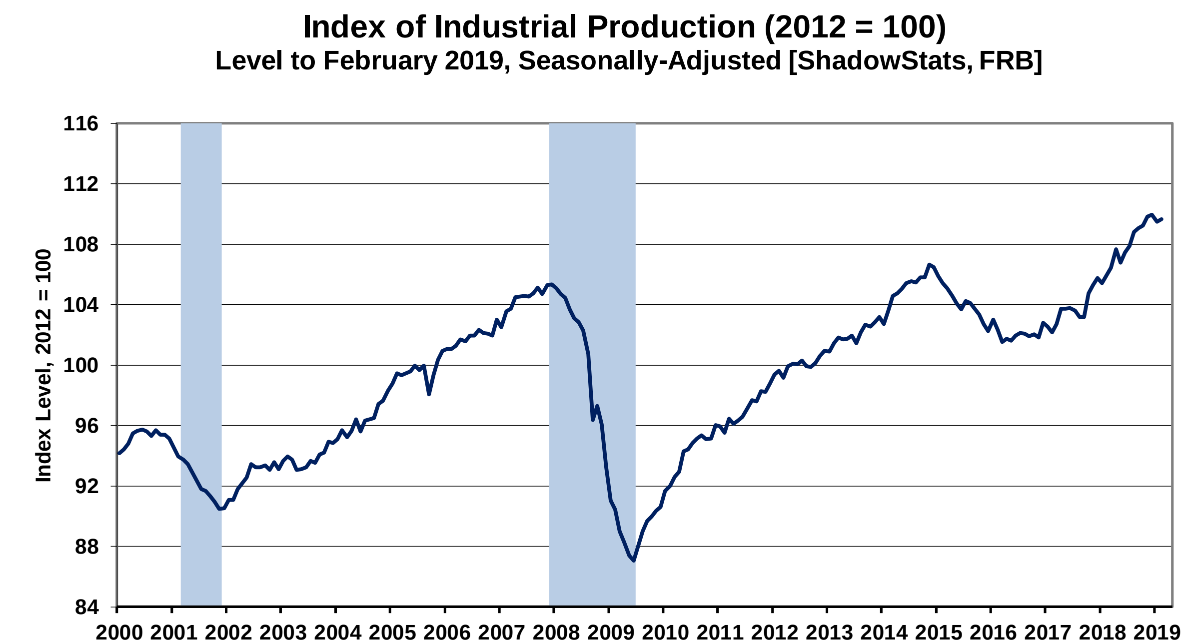


Graph 5: Industrial Production, Year-to-Year Percent Change, Full Historical Series Since 1920

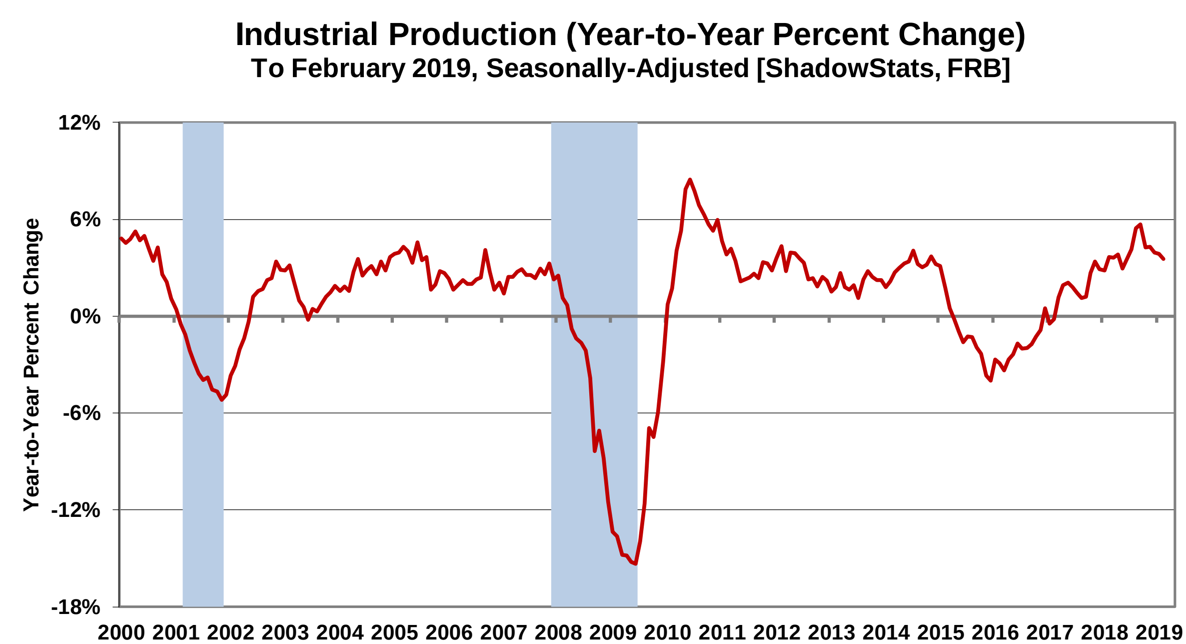


Drilling Down into the February 2019 U.S. Industrial Production Detail. *Graphs 6*, *8*, *15* and *17* show Industrial Production and its major Sectors: Manufacturing, Utilities and Mining, with comparable scales, January 2000 through February 2019,

Graph 6: Index of Aggregate Industrial Production, Since 2000

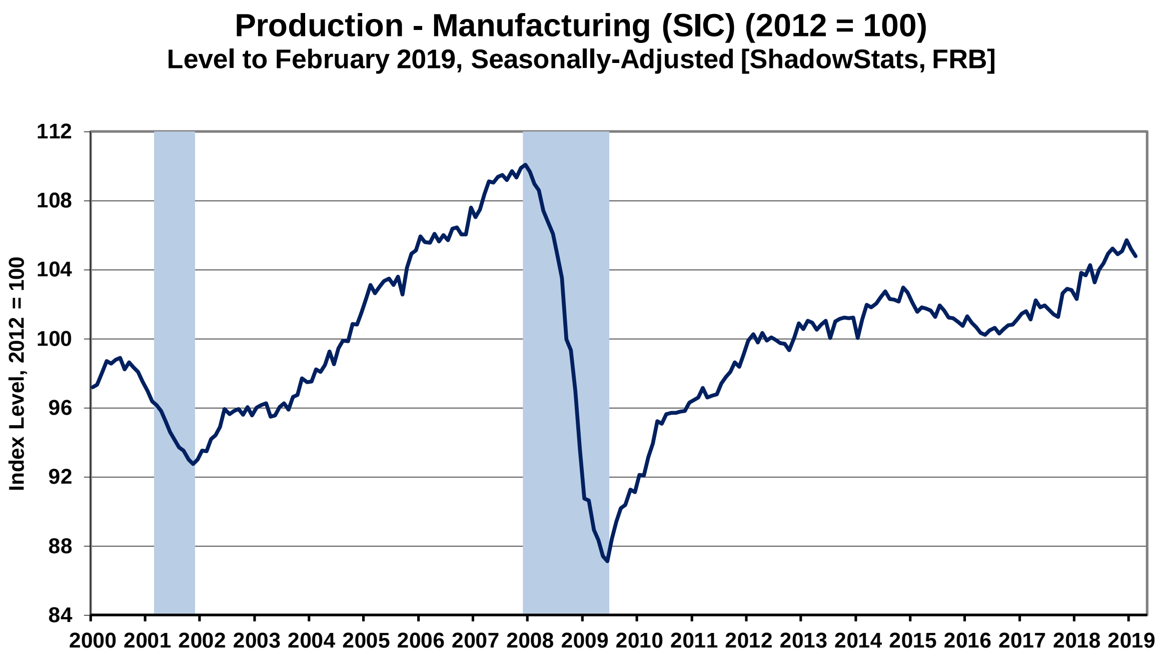


Graph 7: Aggregate Industrial Production, Year-to-Year Percent Change, Since 2000

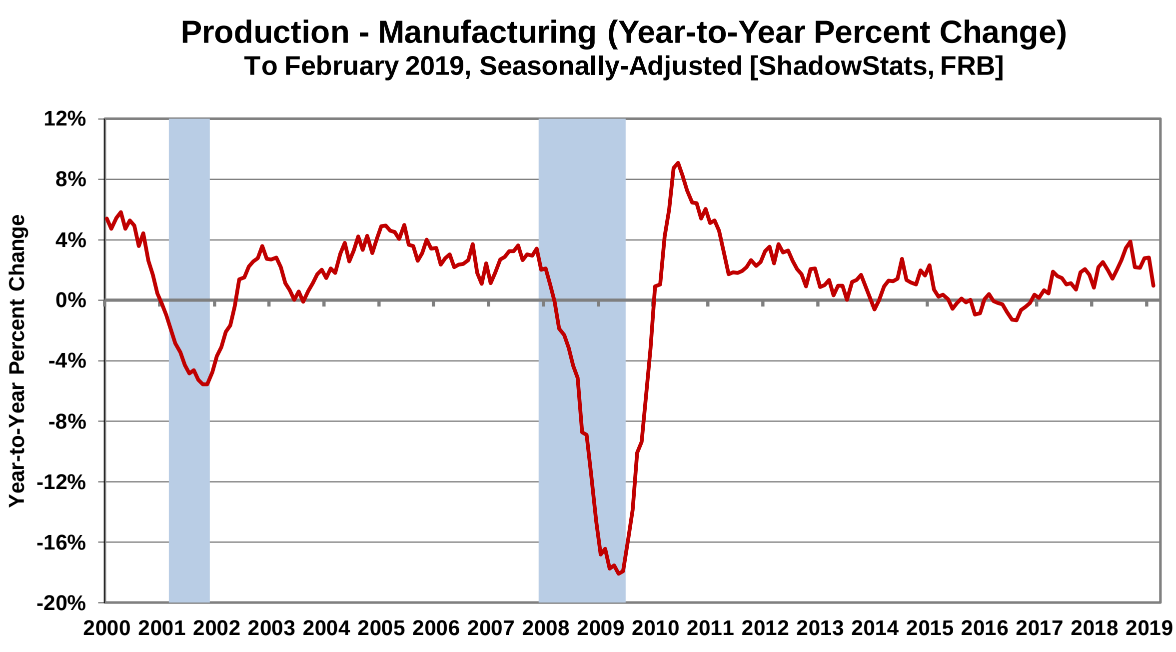


MANUFACTURING SECTOR

Graph 8: Industrial Production - Manufacturing (75.5% of the IIP in 2017), Since 2000

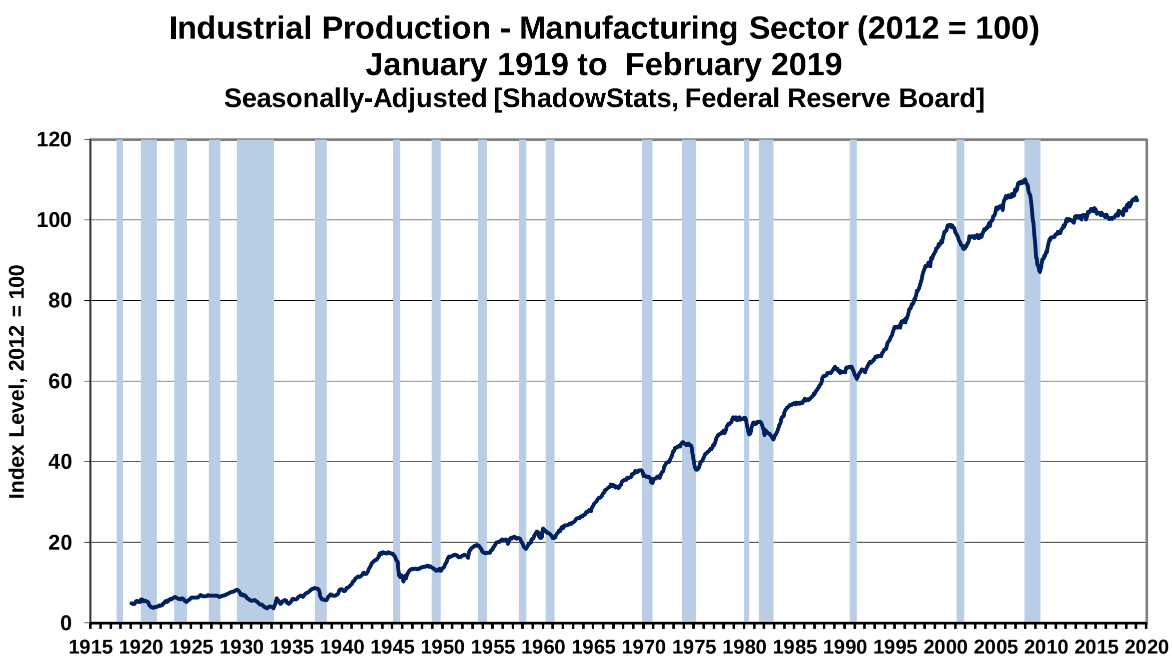


Graph 9: Industrial Production - Manufacturing, Year-to-Year Percent Change, Since 2000

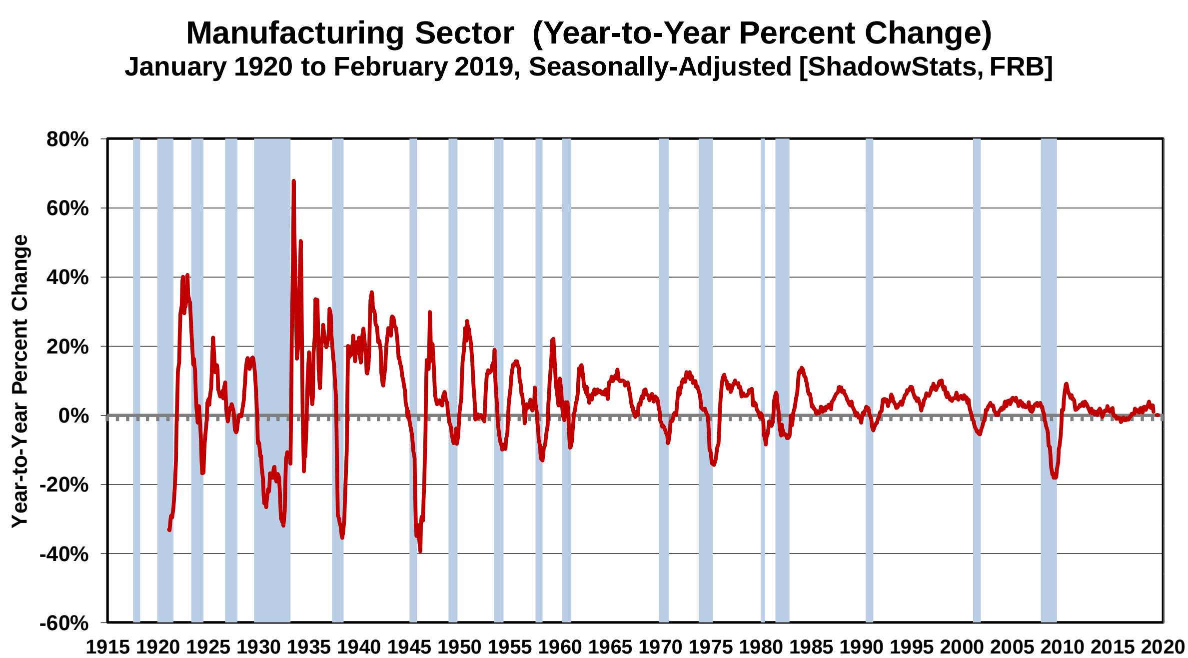


FULL HISTORY OF THE MANUFACTURING SECTOR 1919 TO 2019

Graph 10: Industrial Production, Manufacturing, Full Historical Series 1919 to Date

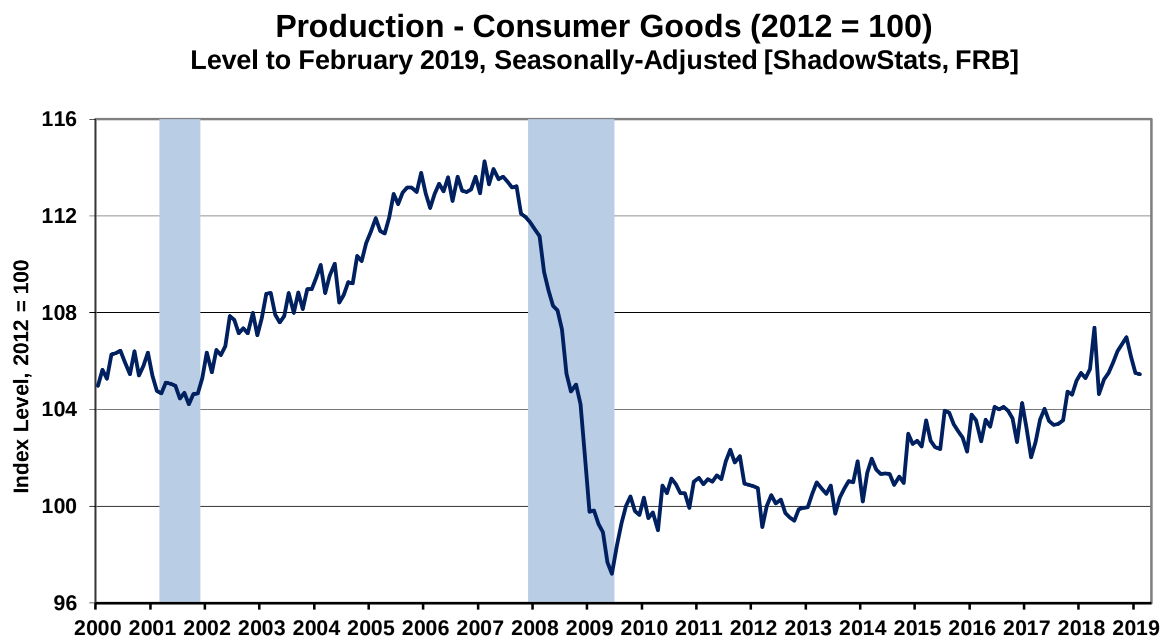


Graph 11: Manufacturing Year-to-Year Percent Change, Full Historical Series Since 1920

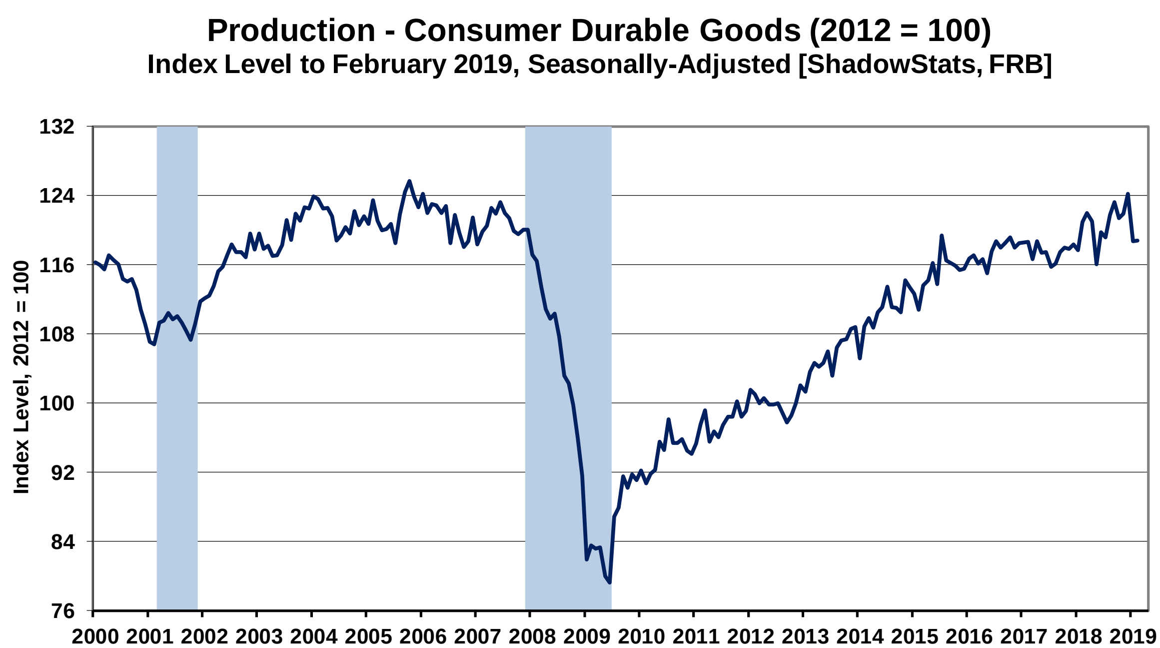


CONSUMER GOODS SUB-SECTOR - MANUFACTURING

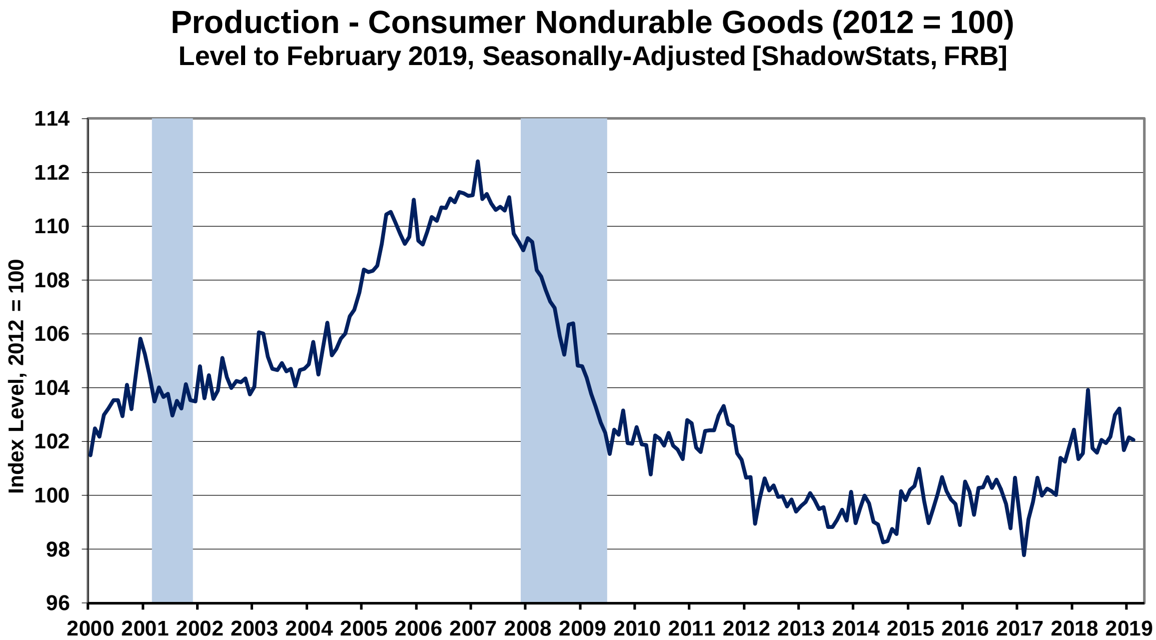
Graph 12: Consumer Goods (28.0% of the Aggregate in 2017), Since 2000



Graph 13: Durable Consumer Goods (6.3% of the Aggregate in 2017), Since 2000



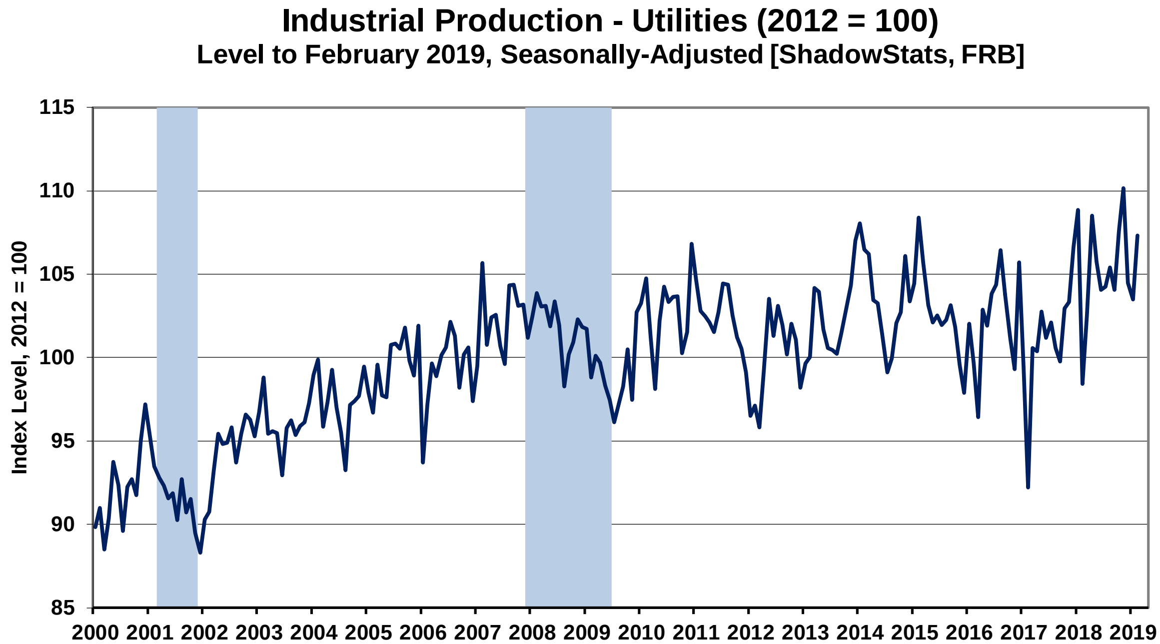
Graph 14: Nondurable Consumer Goods (21.7% of the Aggregate in 2017), Since 2000



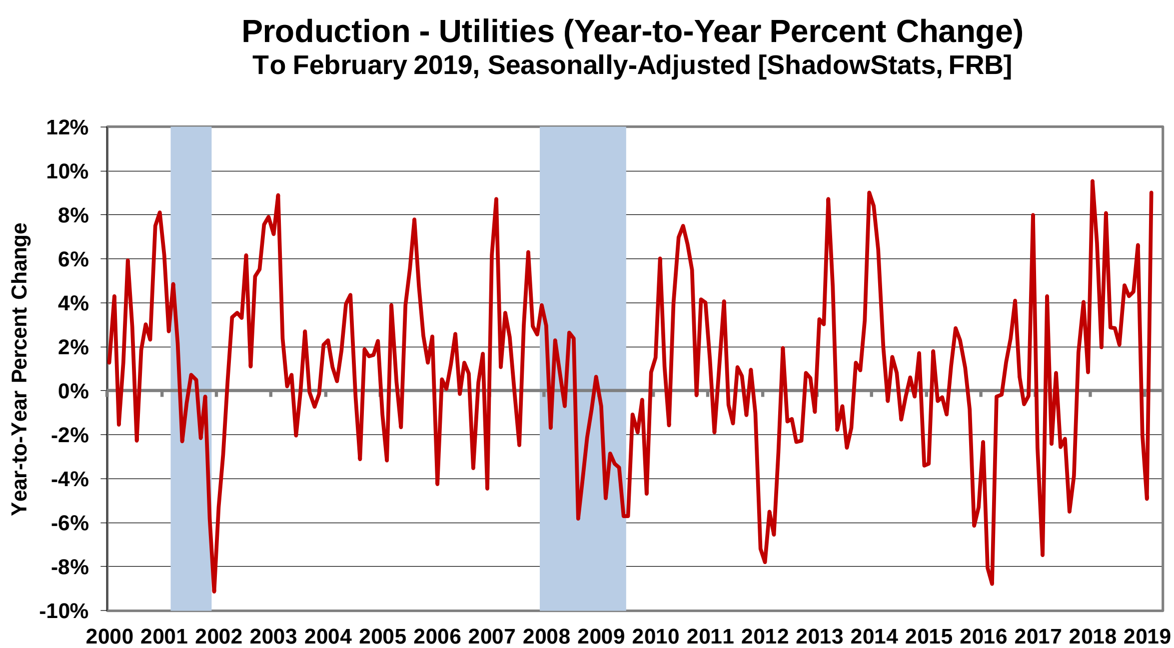
[Graphs 15 and 16 follow on the next page]

UTILITIES SECTOR

Graph 15: Industrial Production - Utilities (10.4% of the Aggregate in 2017), Since 2000

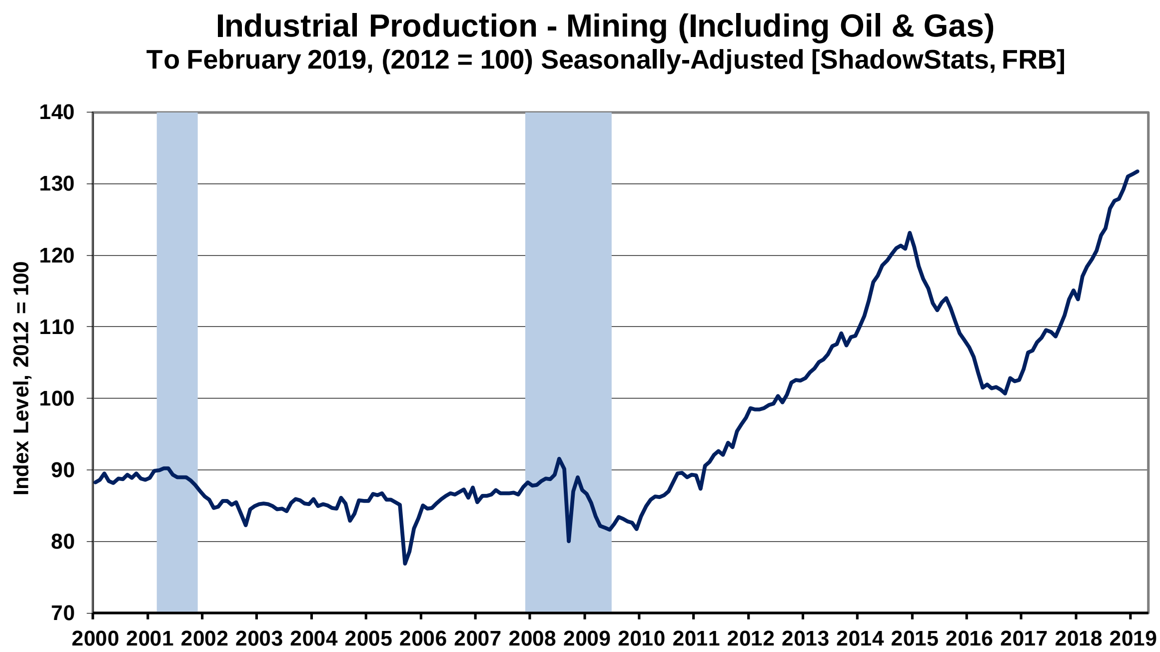


Graph 16: Industrial Production - Utilities, Year-to-Year Percent Change, Since 2000

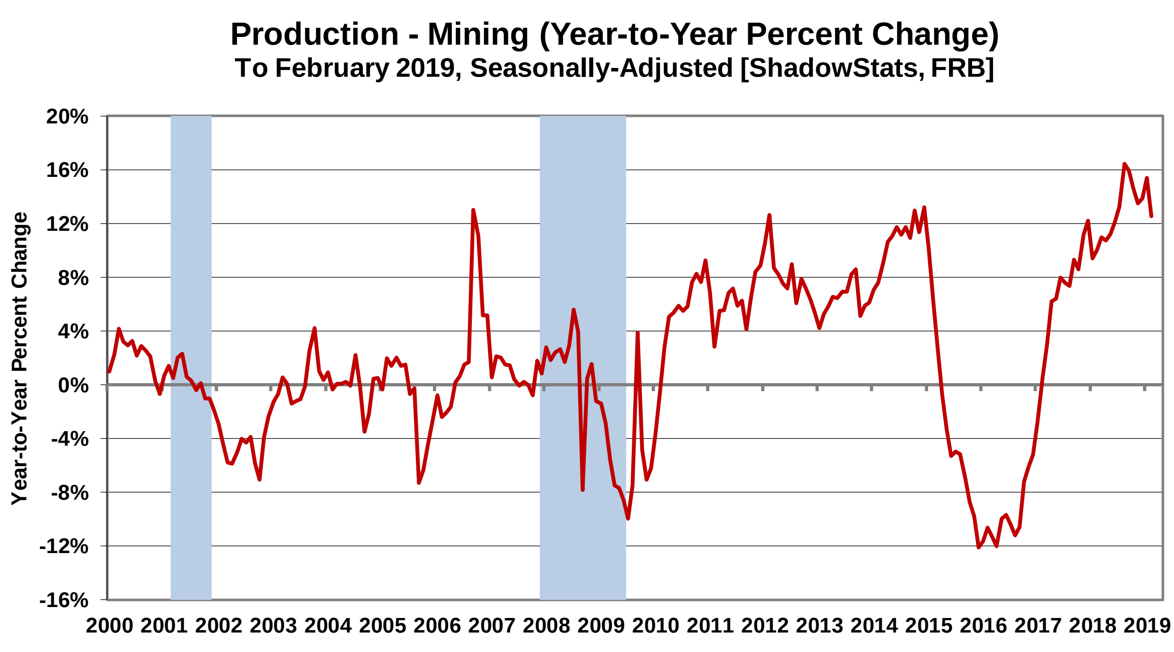


MINING SECTOR

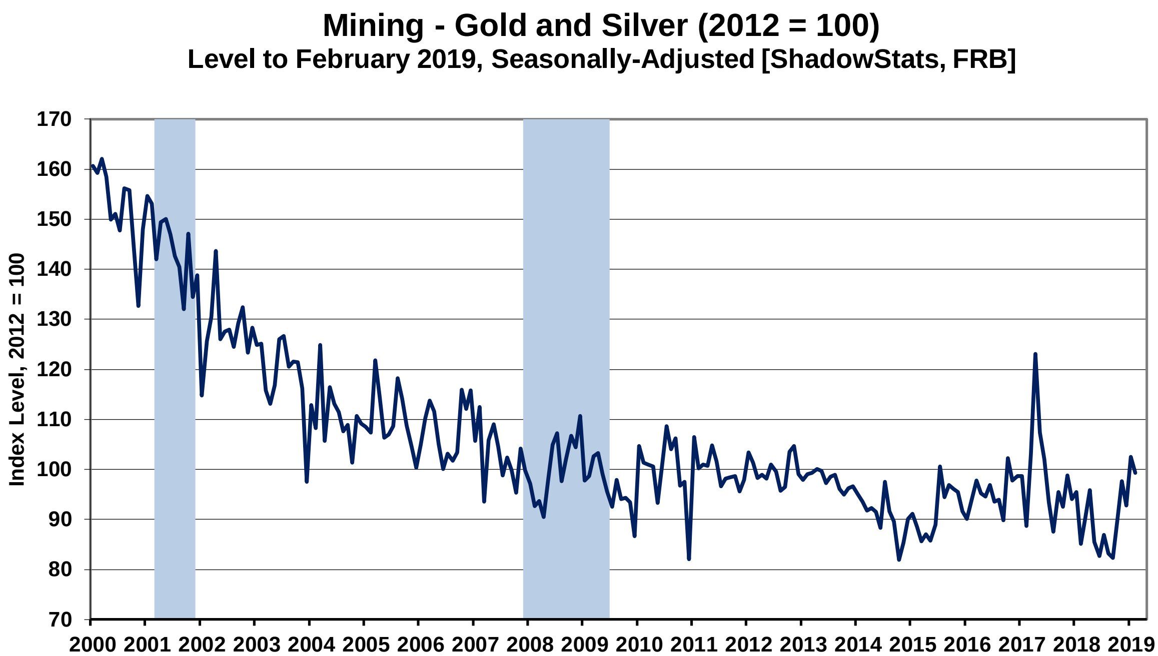
Graph 17: Industrial Production - Mining, Including Oil and Gas (14.1% of the Aggregate in 2017), Since 2000



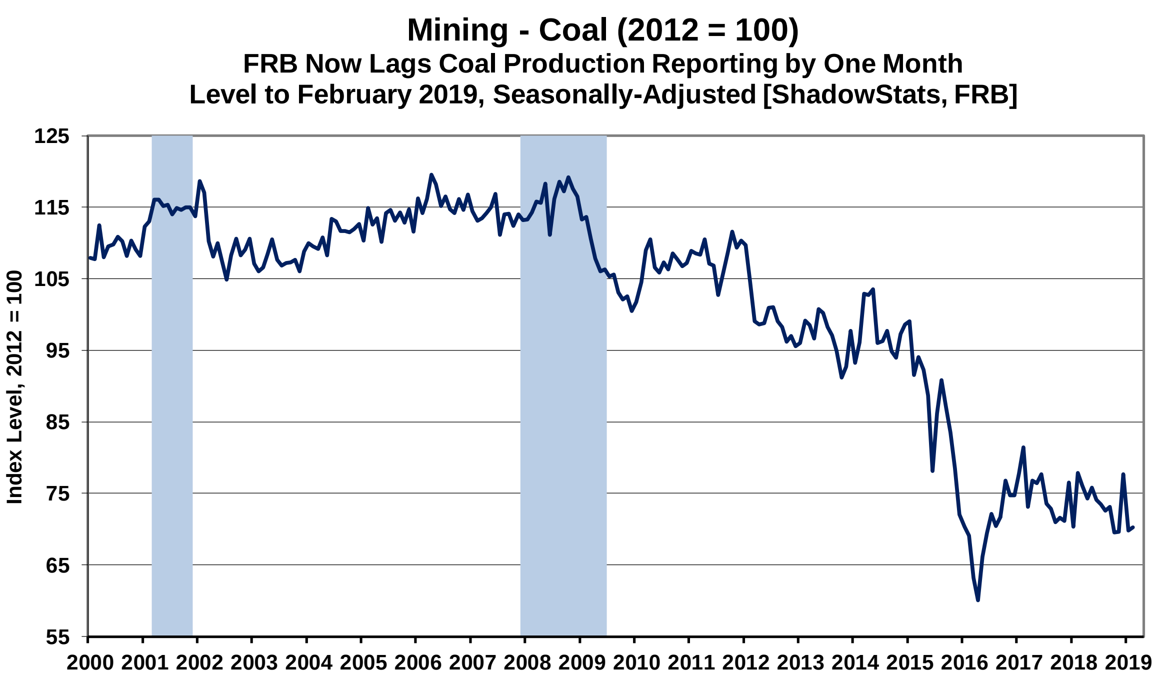
Graph 18: Industrial Production - Mining, Year-to-Year Percent Change, Since 2000



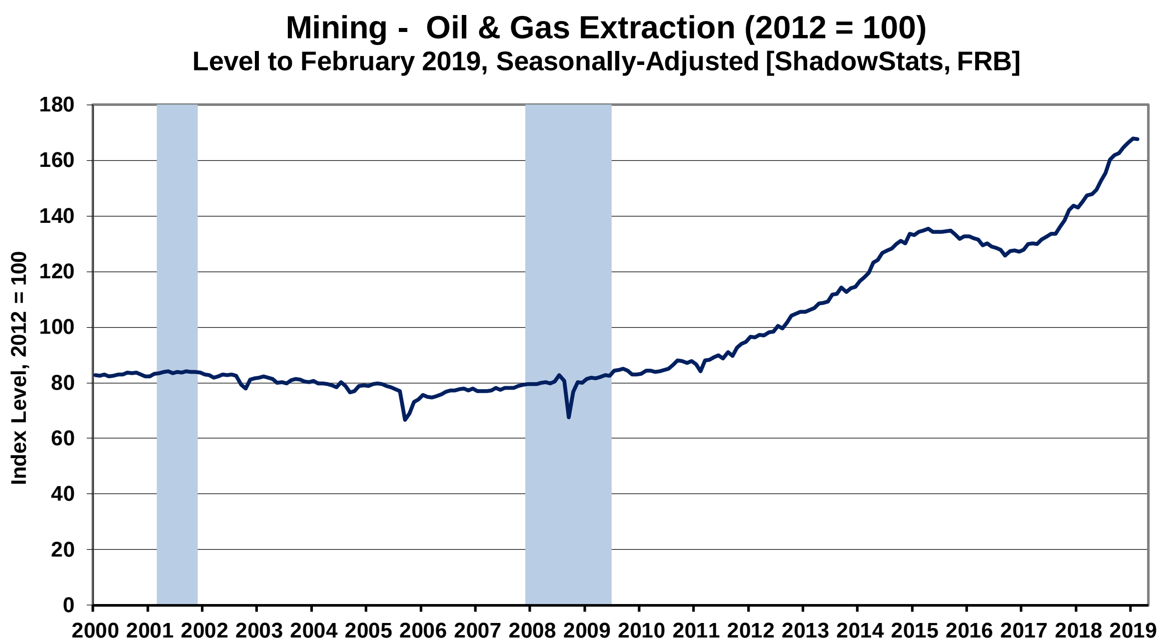
Graph 19: Mining – Gold and Silver Mining (0.2% of the Aggregate in 2017), Since 2000



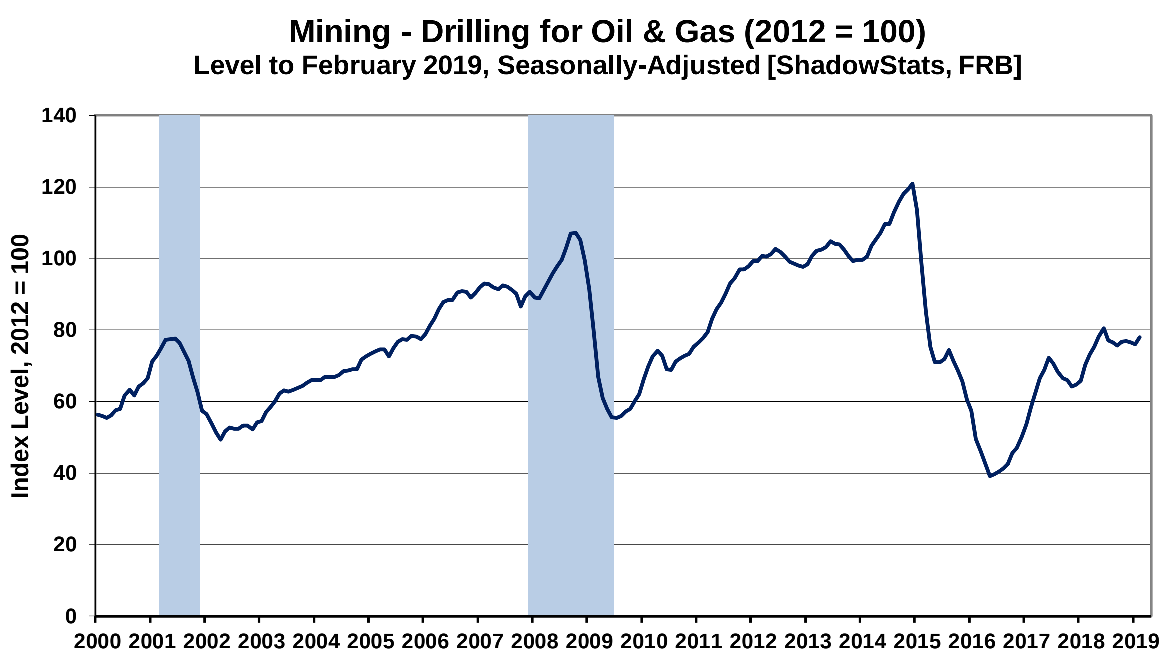
Graph 20: Mining - Coal Mining (0.8% of the Aggregate in 2017), Since 2000



Graph 21: Mining – U.S. Oil & Gas Extraction (10.3% of the Aggregate in 2017), Since 2000



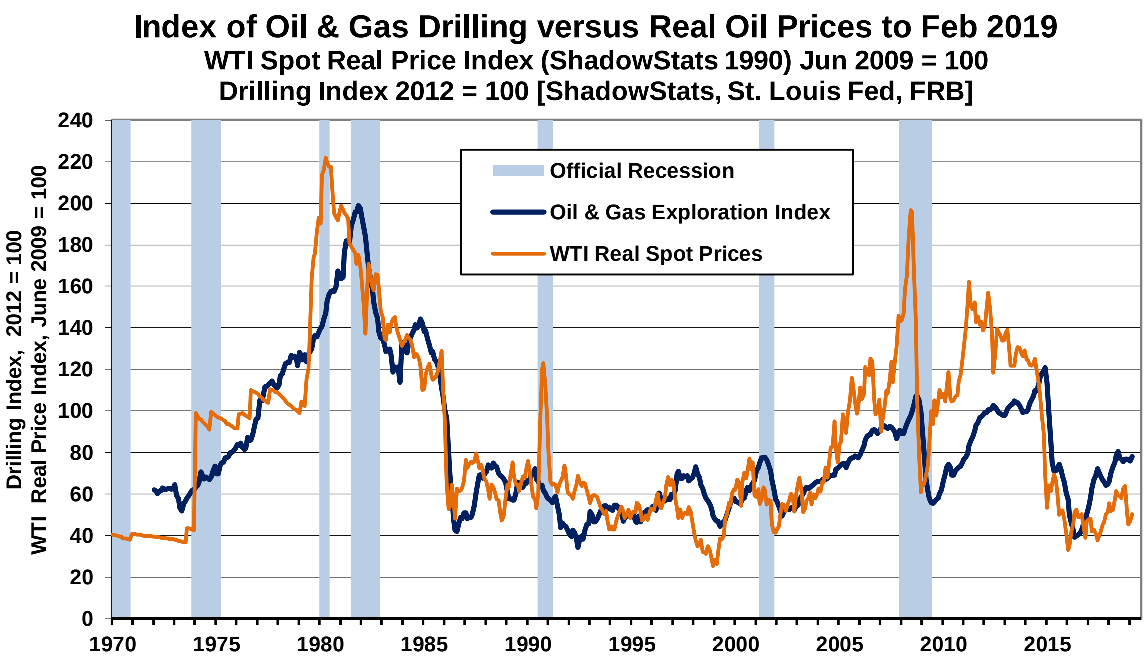
Graph 22: U.S. Drilling for Oil & Gas - Exploration (0.5% of the Aggregate in 2017), Since 2000



Often boosted by rising oil prices, currently in a shallow bounce off a near-term bottom, the dominant oil-and-gas mining sector was relatively flat month-to-month for extraction, and for drilling and exploration (see *Graphs 21* to *23*).

With some lag following sharp movements in oil prices (*Graph 23*), oil and gas exploration tends to move in tandem, and an upswing in exploration had been in place with what was at least a short-term bottoming in oil prices in early-2016. Prices rallied into mid-2016, but moved lower into 2017, with oil and gas exploration easing in July 2017 versus June 2017, the first month without a sharp month-to-month gain, since the boost from the 2016 upturn in oil prices. Yet, oil prices rose strongly in the hurricane disruptions of 2017. Still, the hurricanes and their after effects disrupted exploration in August through November 2017. That turned with an uptick in exploration in December 2017, with surging monthly growth into June 2018 and soaring prices, which have fallen in recent months, notching higher in February 2019. The oil price index used here is for the West Texas Intermediate (WTI) monthly average spot price, deflated using the ShadowStats Alternate CPI measure (1990 Base).

Graph 23: Mining – U.S. Drilling for Oil & Gas versus Real Oil Prices (WTI ShadowStats 1990 Base), Since 1970



Indeed, rising oil prices tend to lead to increased oil and gas exploration. When the dollar weakens, dollar-denominated oil prices also begin to strengthen, as had been seen recently, even in circumstances with excess supply conditions. With the U.S. dollar in a faltering upswing, but still off its recent bottom, oil prices had been firming recently, more heavily impacted by intensified global political tensions, particularly in the Middle East, although, again, those prices have pulled sharply lower in recent months. At such time as the U.S. dollar meaningfully resumes its decline—ShadowStats looks for a massive sell-off in the dollar in the year ahead—U.S. dollar-denominated oil prices should rally sharply in response (see the *Hyperinflation Watch No. 4*).

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