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

Bullet Edition Number 15

FOMC Preview, November Labor and October Trade Details

December 8, 2019

There Is No Sustainable, Moderate U.S. Economic Growth in Play, Irrespective of Federal Reserve Pronouncements

FOMC Needs to Cut Rates to Boost the Economy and Help Consumers, But It Likely Will Not Do So at Its December 10th to 11th Meeting

The FOMC Likely Will Continue to Meet Any Unexpected Funding Needs of Its Parent Banking System, In Order to Maintain Systemic and Market Liquidity

Record Low Headline Unemployment Continued Amidst Levels of Labor-Market Stress Consistent With a Major Recession

Annual Payroll Growth Should Drop to Its Post-Great Recession Low, Along With the Benchmark Revisions Indicated for Headline January 2020 Payrolls

Improved October Trade Deficit Was an Artefact of the General Motors Strike, Which Otherwise Put a Dent in Recent GDP Activity

November 2019 Money Supply M3 Annual Growth Jumped to 8.5%, Highest Since February 2009

Updated ShadowStats Commentaries and Scheduling

(Effective Immediately - Published previously in ***Special Commentary No. 985***)

More-Frequent Publication and Making the Various ShadowStats Commentaries More Concise

Updated Timing, Re-Tasking and Scope of the Various ShadowStats Commentaries: Daily Updates, Bullet Editions, Flash Updates, Special Commentaries & Watches

- The ***Daily Update*** **(Unrevised)** posts daily, as needed, on the *ShadowStats* home page: ***www.ShadowStats.com***, right-hand column, providing initial coverage of all major U.S. economic reporting, within two-to-three hours of headline publication, as well as coverage of unusual financial-market or political developments.
- ***Bullet Edition*** **(Revised)** publishes each weekend, providing *ShadowStats* primary coverage of the past week's unfolding activity, reviewing economic releases, financial-market, systemic and political developments. [Next planned release: ***Bullet Edition No. 16*** (December 15th) covering November CPI, PPI and Retail Sales.]
- ***Flash Update*** **(Revised)** interspersed with ***Bullet Editions*** is limited in scope, highlighting near-term events or developments—usually same- or next-day—with the economy, financial markets, politics, the Federal Reserve or with other news of significance that should be reviewed in advance of the Weekend ***Bullet Edition*.** [Next release planned: ***Flash Update No. 16*** (December 11th, covering the December FOMC Meeting.]
- ***Special Commentaries*** **(Revised)** should publish every quarter or so, providing a more-comprehensive overview of general, broad economic and financial conditions and trends, such as seen in the just-published ***Special Commentary No. 985*****.**
- ***Hyperinflation*** and ***Consumer Liquidity Watches*** **(Revised)** will supplement irregularly the weekly ***Bullet Edition***, covering evolving market and consumer circumstances, otherwise with occasional specific data covered directly in the weekly ***Bullet Editions***.
- ***Economic Surveys of the General Public*** are conducted irregularly and are open to both subscribers and nonsubscribers.
- ***Telephone Consulting*** is included as part of our regular service. If you have a question or otherwise would like to talk, please call John Williams at (707) 763-5786.

All ***Current*** and ***Earlier ShadowStats Commentaries*** (back to 2004) are available in the ***Archives*** (click on *All Commentaries*, then *List Commentaries*) in the left-hand column of the **ShadowStats Home Page**.

Your comments and suggestions are invited. Always happy to discuss what is happening.

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

Contents – Bullet Edition No. 15

Overview

FOMC and the U.S. Economy

FOMC POLICY – Despite Unexpected, Continuing and Deepening Weakness in Key Economic Indicators, the FOMC Likely Will Keep Rates Unchanged at Its December Meeting. Business indicators ranging from Freight Activity (see ***Special Commentary No. 985***), to Consumer Liquidity conditions (see ***Consumer Needs and Finances*** page 19, ***Graphs 18*** *to* ***20***), show dire need for economic stimulus. Yet, contrary to the needs of the economy and the consumer, the FOMC likely will tout bloated headline reporting of November labor conditions as a rationale for not easing anew at its December 10th to 11th meeting.

The October FOMC cut targeted Federal Funds Rate by the expected quarter point, to a range of 1.50% to 1.75%, with Balance Sheet expansion continuing into Mid-2020. The economy was just perfect, then, per the Fed, with "sustained, moderate expansion," except for then crashing Industrial Production and collapsing Freight Activity, which only have deteriorated, along with the intensifying need for increased systemic liquidity.

Despite the Fed's October 30th Spiel of perfect economic balance, it really needs to ease anew at this December Meeting; it should not wait until January 28th to 29th 2020. The FOMC fantasy economy and stable liquidity remain anything but balanced and stable (see ***Flash Update Nos. 13, 14*** and ***15***, As discussed in ***Special Commentary No. 985***, it was FOMC actions and inactions and lack of appropriate Federal Reserve oversight, that led to the banking collapse of 2007/8 and the broad non-expansion of economic activity for nearly a decade, as well as triggering the currently unfolding recession, through its overly aggressive tightening since late 2017.

Nonetheless, as expectations continue to build for a Fourth-Quarter 2019 GDP contraction, easing pressures are not going to go away quickly. Pressures indeed should mount rapidly on the Fed for an early, continued and expanded accommodation (as at the January Meeting), unless common sense takes better hold of the December Meeting. Such remains contrary to the desires of some on the FOMC Board, who would prefer to push interest rates higher, once again, in aid to an increasingly troubled banking system. Even so, the FOMC appears to have set up something that may become akin to perpetual Quantitative Easing (QE).

Quantitative Easing in Continual Expansion. Along those lines, the December FOMC likely will continue to expand its "unofficial" renewed QE, which followed the October FOMC, in order to assure needed liquidity and stability in the overnight markets, for the benefit of liquidity in the banking system, which owns the Federal Reserve, and for stability of the financial-markets. See ***Graphs 22*** to ***23*** in the ***Federal Reserve Activity*** section on page 21 and, more broadly, the discussion on the Federal Reserve in ***Special Commentary No. 983-B***.

ShadowStats Broad General Outlook Has Not Changed. ShadowStats' Recession Forecast remains in place, with U.S. Economic activity in a deepening downturn, as detailed in the recently published ***Special Commentary No. 985***. Complicated and intensified by deteriorating domestic political circumstances; watch for a likely accelerating flight from the U.S. Dollar and Stocks into Gold.

With U.S. stocks indices at or near all-time highs, consider that gold has outperformed equities since the stock-market highs of a year ago (see ***Flash Update No. 14***). Beyond intensified near-term financial-market risks from negative economic, liquidity and political issues, the ShadowStats broad outlook in the weeks and months ahead remains for:

- A rapidly intensifying U.S. economic downturn, reflected in
- Mounting selling pressure on the U.S. dollar, against currencies such as the Swiss Franc,
- Continued flight to safety in precious metals, with upside pressures on gold and silver prices, and
- Increasingly high risk of extraordinarily heavy stock-market selling.

See details in ***Flash Update No. 14.***

[Economic Activity – Latest Numbers and General Outlook begins on the next page.]

Economic Activity – Latest Numbers and General Outlook

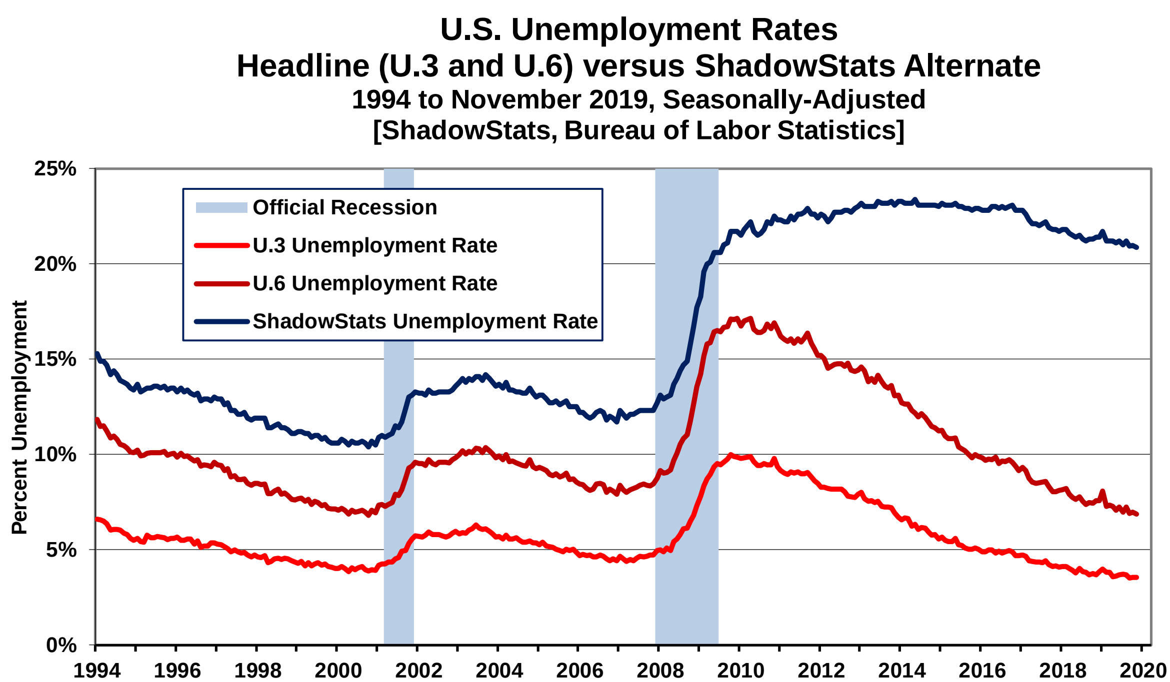
November Employment and Unemployment, Payrolls

Household Employment and Unemployment Survey

Current Labor-Market Stress: Common to Recession, Not to Record-Low Unemployment

Historic-Low Unemployment Remains at Odds With Labor-Market Stresses and Deteriorating, Underlying Economic Conditions. Historically low U.3 unemployment is consistent with an economic boom, yet high levels of employment stress and a headline ShadowStats Alternate Unemployment Measure of 20.9% signal an Economy that never fully recovered from the Great Recession.

Graph 1: Comparative Headline November 2019 Unemployment Rates: U.3, U.6 and ShadowStats Alternate



November 2019 U.3 Unemployment eased negligibly to 3.53%, from 3.56% in October (no Auto Strike distortions), against its historic low 3.52% in September. Rounded to the headline first decimal point, November U.3 eased to 3.5%, from 3.6% in October and against 3.5% in September. In contrast, extreme levels of labor–market stress continued [an unchanged Employment-Population Ratio of 61.0%, and a rounded decline of 0.1% (-0.1%) in the Participation Rate to 63.2%], both consistent with an ongoing recession. They also were more consistent with the ShadowStats 20.9% Alternate Unemployment Rate than the historically low headline U.3 headline 3.5% unemployment.

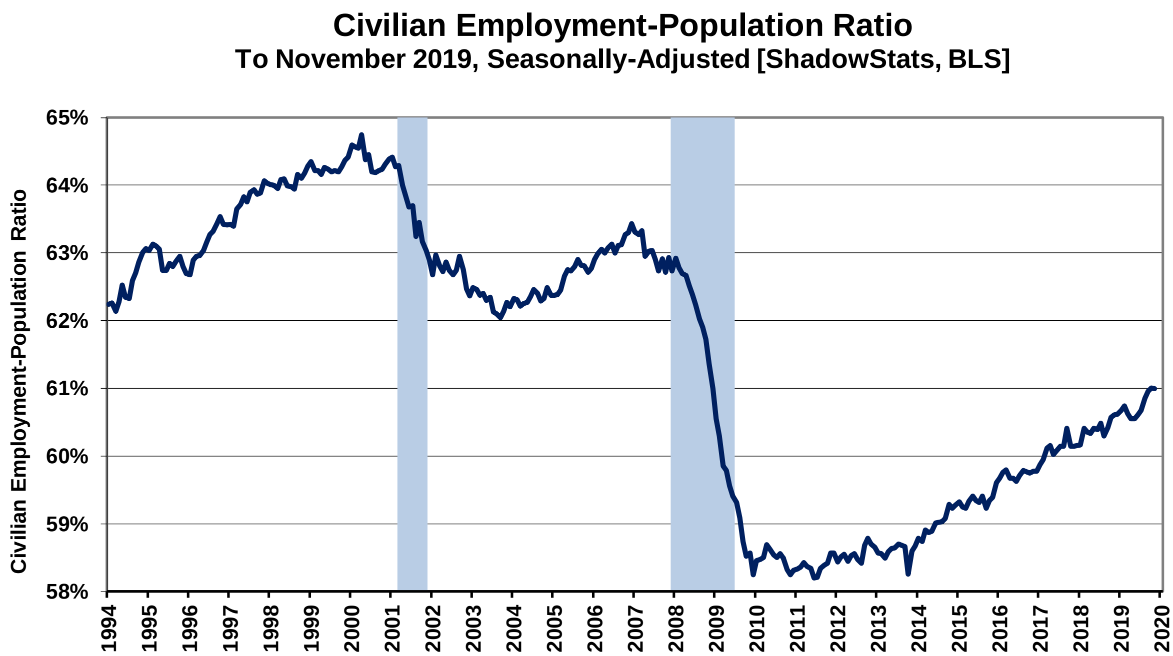
Reflecting a monthly decline for those working part-time for economic reasons and an increase in marginally attached workers (a decline in headline discouraged workers), broader November 2019 U.6 Unemployment declined to 6.87%, from 6.96% in October, versus 6.91% in September. Riding on top of U.6, the November ShadowStats Alternate Unemployment Estimate, including long-term displaced and discouraged workers, not counted by the Bureau of Labor Statistics (BLS), declined to 20.9%, from 21.0% in October, versus 20.9% in September. ***Graph 1*** plots those three series since the 1994-redefinition of the numbers .

The major issue with the current, historically low U.3 headline unemployment rate remains that it still runs counter to Labor-Market Stress measures, such as the Employment-Population Ratio (***Graph 2***) and Participation Rate (***Graph 5***), which continue to hold at levels consistent with a recession. Under normal economic circumstances, the high levels of employment stress seen at present, usually would be consistent with high levels of unemployment and recession, not at record low unemployment, as seen in the comparative inverted-scale ***Graph 5*** of the headline U.3 unemployment rate, versus ***Graph 3*** of the inverted-scale, high-level "recessionary" ShadowStats Alternate unemployment measure.

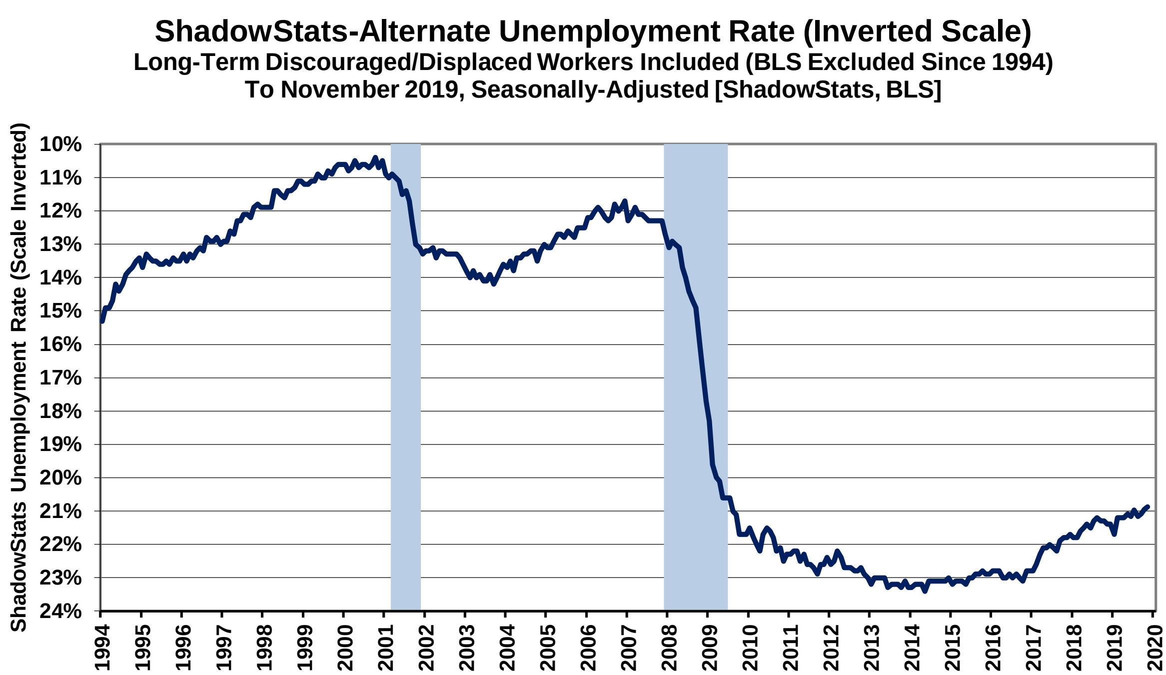
[Further detail and background on the circumstance is found on the Alternate Data Tab (Unemployment Link) of **www.ShadowStats.com**, with an up-to-date data table and link there to ShadowStats' ***Public Comment on Unemployment***.]

[Graphs to 2 to 5 begin on the next page.]

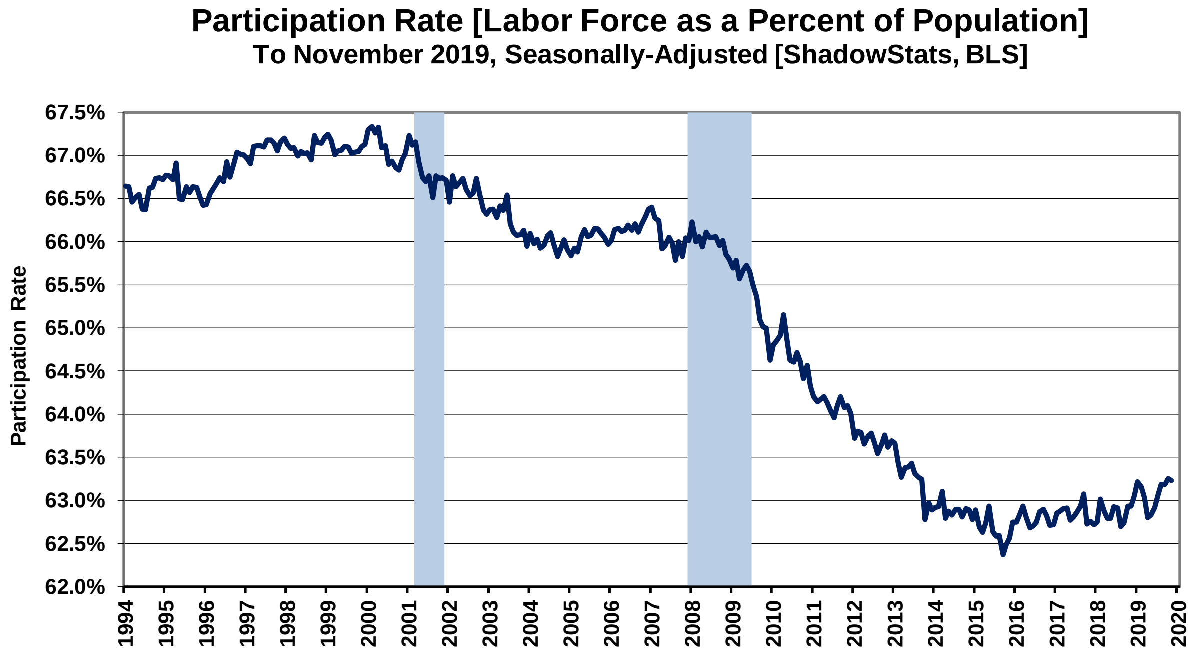
Graph 2: Civilian Employment-Population Ratio, January 1994 to November 2019



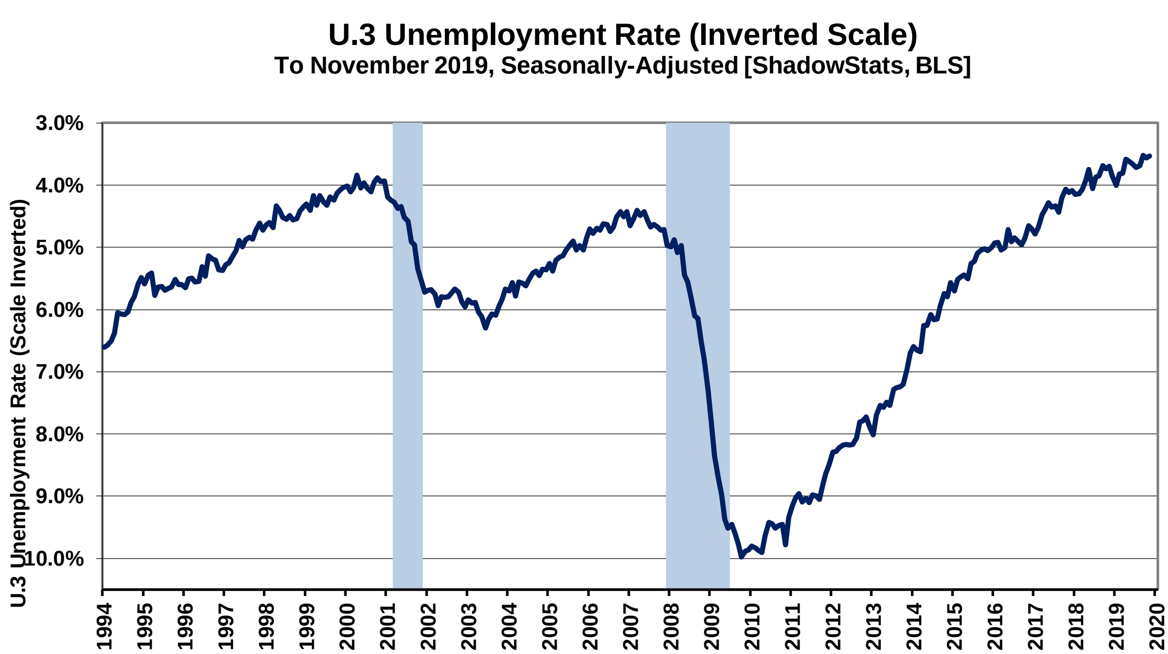
Graph 3: ShadowStats-Alternate Unemployment Rate, Inverted Scale, January 1994 to November 2019



Graph 4: Headline Participation Rate, January 1994 to November 2019



Graph 5: Headline U.3 Unemployment Rate, Inverted Scale, January 1994 to November 2019



Nonfarm Payroll Employment Buffeted by GM Strike

Major Pending Downside Benchmark Revisions to Payroll Reporting Will Not Hit the Headline Monthly Details Until the Formal January 2020 Revisions, Published on February 7, 2020. ***Flash Update No. 5*** of August 21st detailed the preliminary 2019 payroll downside benchmarking of 501,000 (-501,000) jobs, primarily in the Retail Sales and related Leisure and Hospitality sectors, which had the effect of eliminating 20% of the headline growth in payrolls of the prior year. None of these revisions has been incorporated into headline data, yet.

Separately, a closer-term headline disruption was seen with the headline monthly payroll employment growth in October and November 2019 tied to the effects of the automobile manufacturing strike at General Motors. The strike also affected the monthly headline trade deficit, as will be discussed shortly. The Bureau of Labor Statistics estimated the strike cost manufacturing 42,000 jobs in October, adding 41,000 in November. Headline detail, reflecting the strike's impact on employment levels and year-to-year change in payrolls is plotted as reported, in accompanying ***Graphs 6*** to ***9*** and ***Graphs 14*** and ***15***.

Annual Payroll Growth of 1.5% Seen in November 2019 Has Been Stagnant for Seven Months, Holding Well Off the Three-Year Peak Growth of 2.0% in January 2019. Adjusted for the GM strike, annual growth was at levels last seen coming out of the Great Recession. With major negative benchmark revisions pending, annual growth clearly should show the weakest annual growth levels of the post-Great Recession era, hardly sustainable moderate growth (as suggested and reflected in *Graph 9b*).

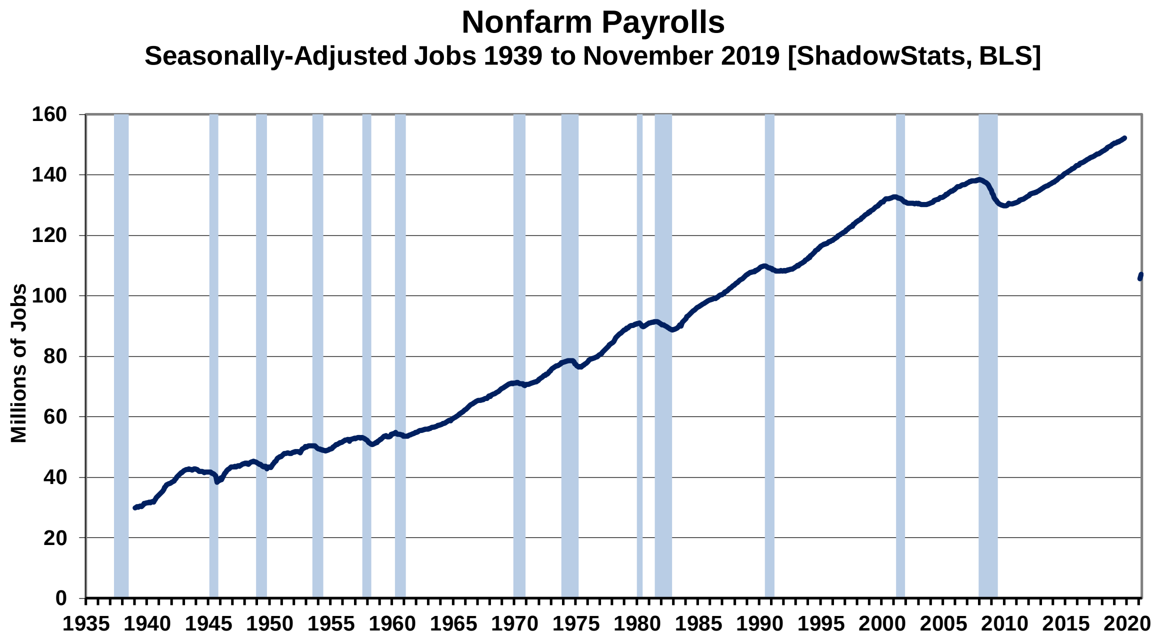
The heavily gimmicked current Payroll Employment reporting still does reflect the impact of a preliminary negative benchmarking of 501,000 (-501,000) jobs, which will be incorporated into the formal benchmark revisions published with the headline January detail in February 2019. The existing headline annual growth in Payrolls has been stagnant at 1.5% since May 2019, well off its recent three-year peak growth of 2.0% in January 2019.

Beyond the pending plunge in annual payroll growth, the tenth straight month of annual decline in Retail Trade employment (see ***Graphs 10*** and ***11***), down year-to-year by 0.2% (-0.2%) in November 2019, should be of some concern to the markets, for the first reading on the Holiday Shopping Season.

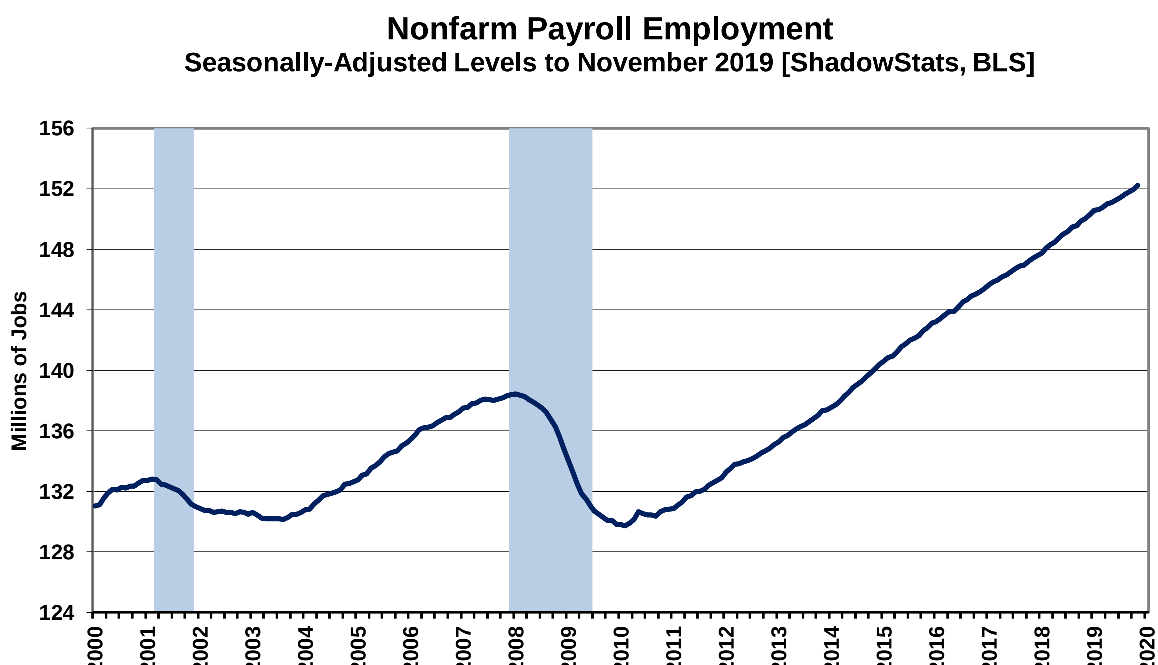
Separately, ***Graphs 12*** through ***15*** of Construction and Manufacturing should not have the hawks on the FOMC salivating.

[Graphs to 6 to 15 begin on the next page.]

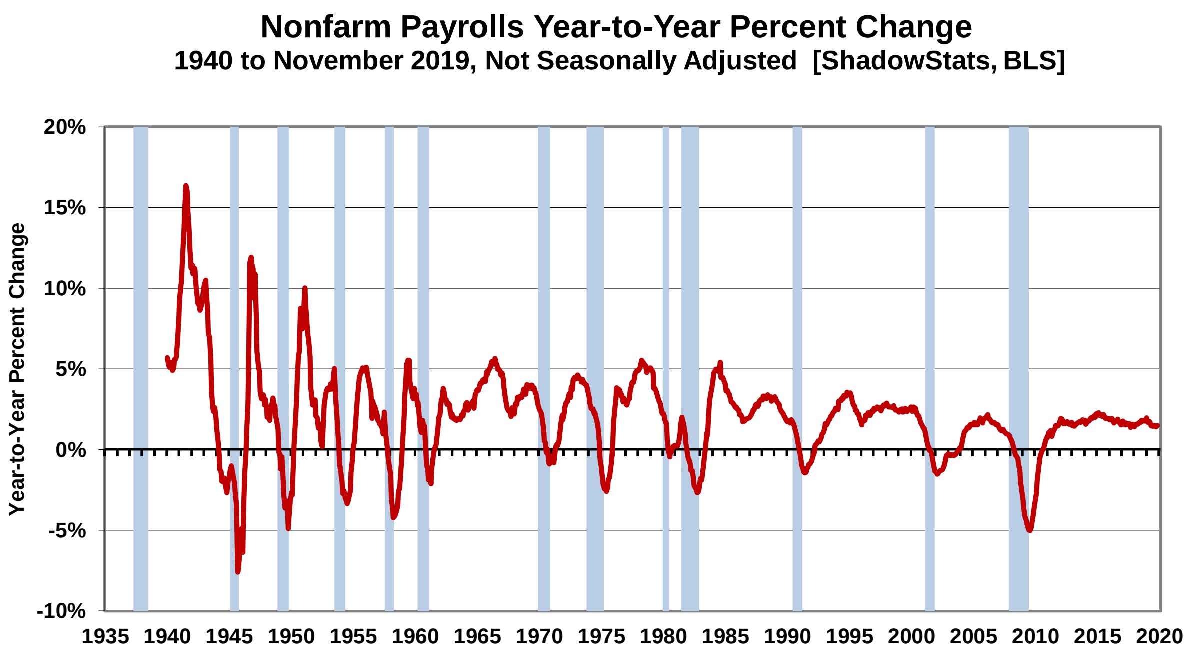
Graph 6: Nonfarm Payroll Employment, Monthly 1939 to Date



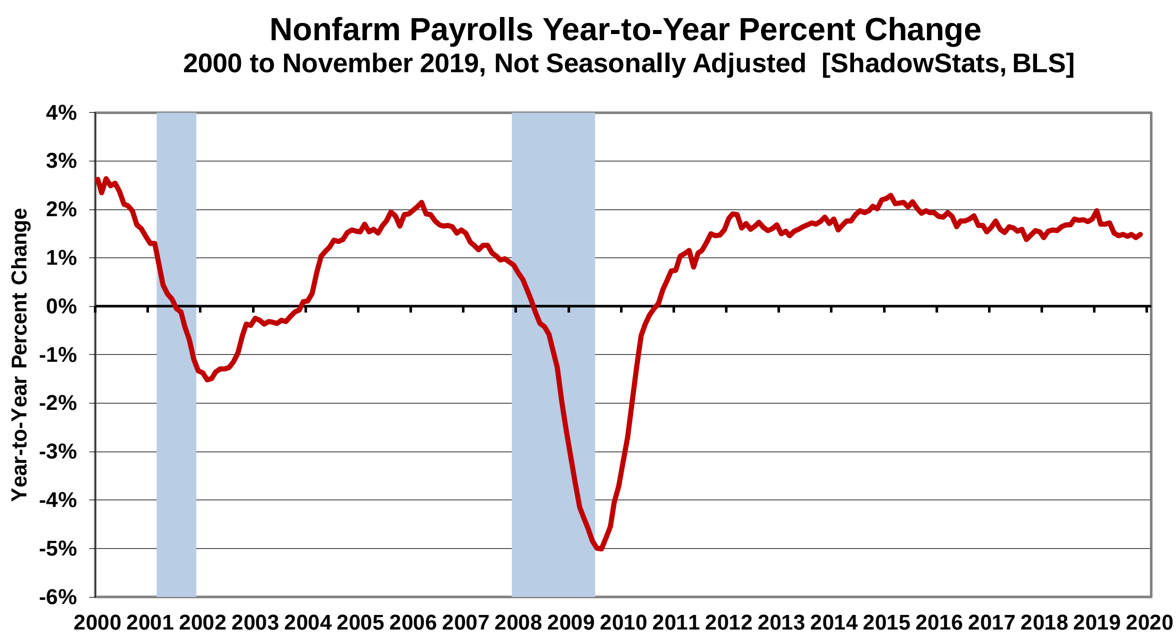
Graph 7: Nonfarm Payroll Employment, 2000 to Date



Graph 8: Year-to-Year Change, Payroll Employment, Monthly, 1940 to Date

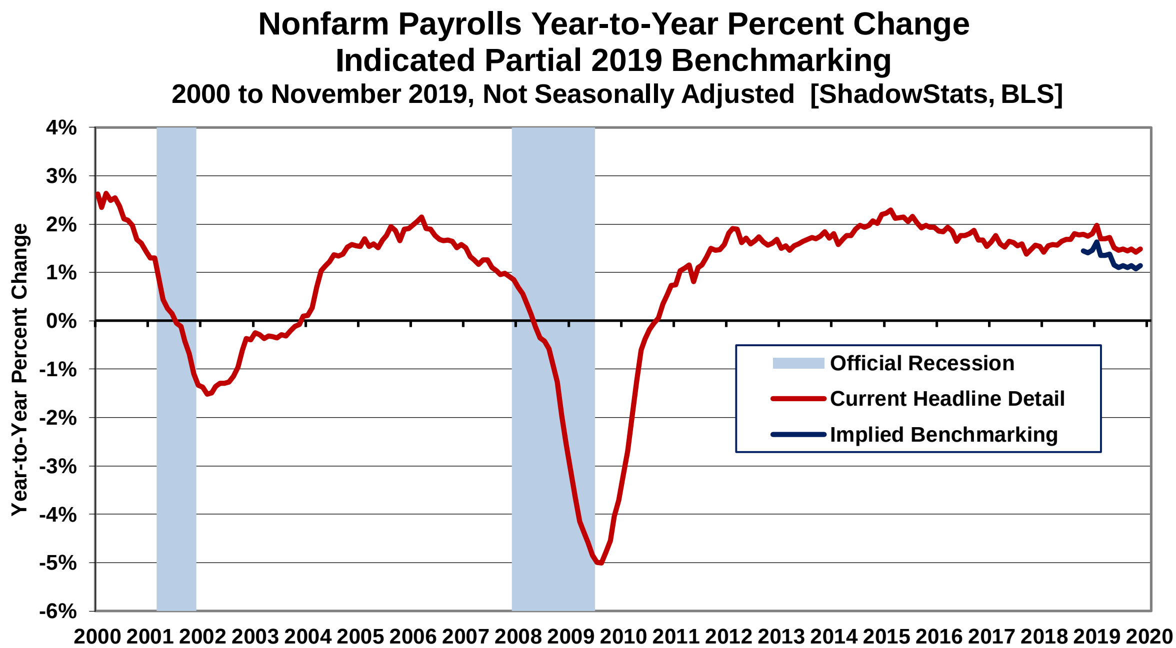


Graph 9a: Year-to-Year Change, 2000 to Date



Again, consider ***Graph 9b***, with an approximation as to what current headline year-to-year change in Nonfarm Payrolls should look like after the February 7, 2020 benchmarking. Retail Sales (and related Leisure and Hospitality) should be heavily impacted, major series that never were benchmarked adequately in the last year, as discussed in the recently published ***Special Commentary No. 985***.

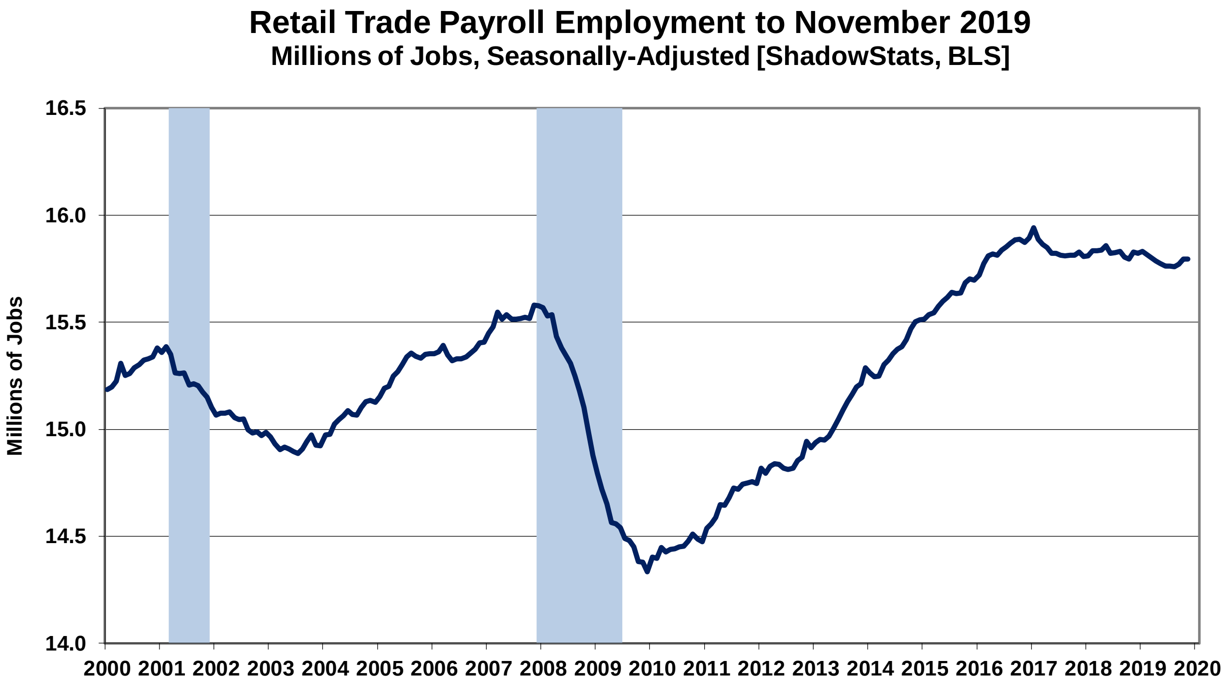
Graph 9b: Year-to-Year Change, 2000 to Date, Reflecting Implied Annual Benchmarking



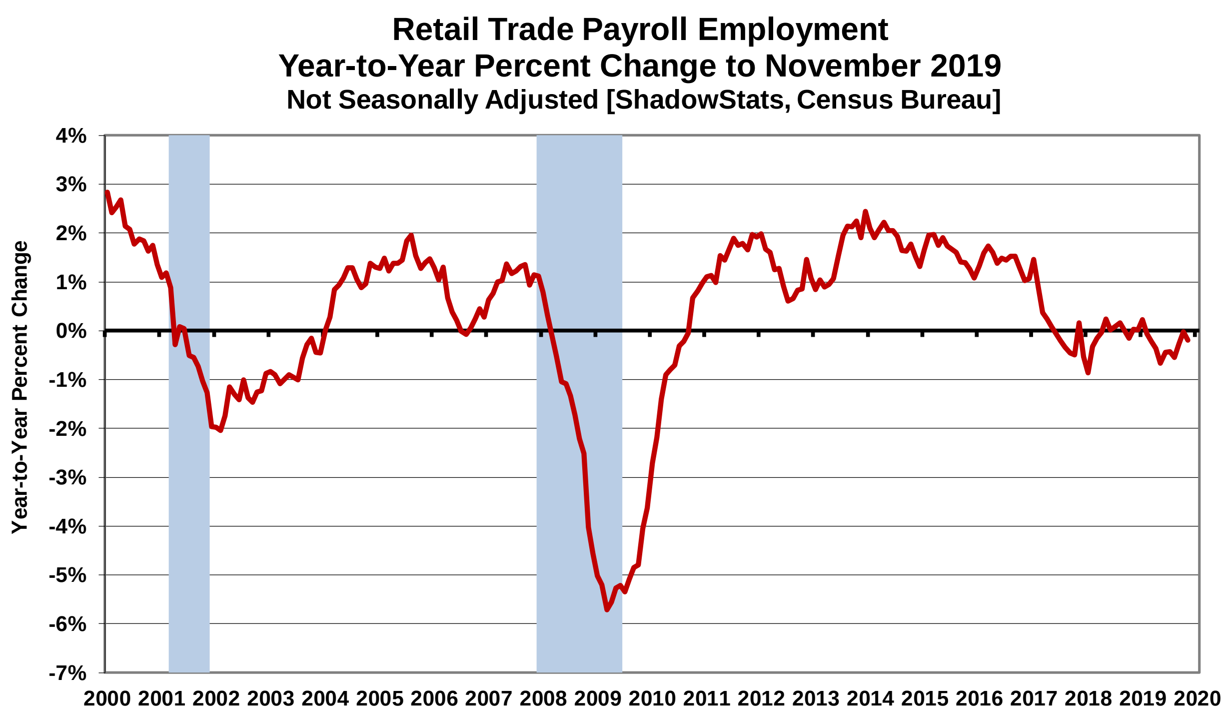
Look at these graphs of the latest headline levels of, and year-to-year growth in Payroll Employment in the major sectors of Retail Sales, Construction and Manufacturing (***Graphs 10* to *15***). Do these reflect "Sustainable Moderate Growth" as touted by the Federal Reserve?

[Graphs 10 to 15 begin on the next page.]

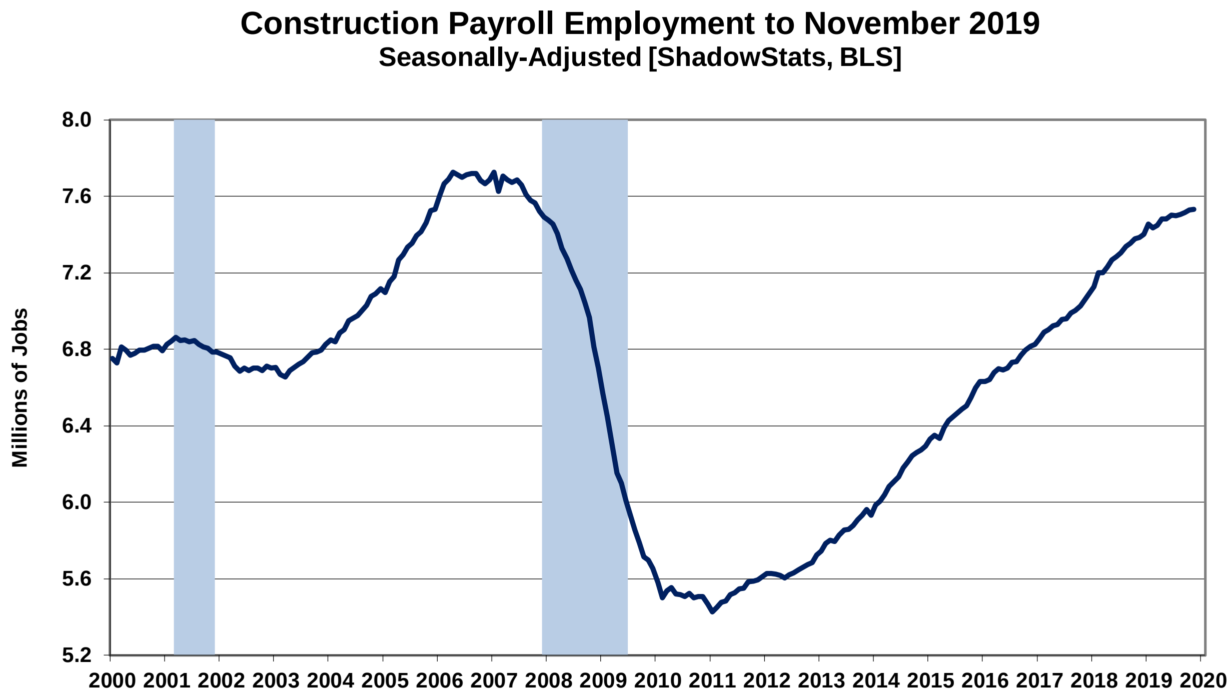
Graph 10: Retail Sales Payroll Employment, January 2000 to November 2019



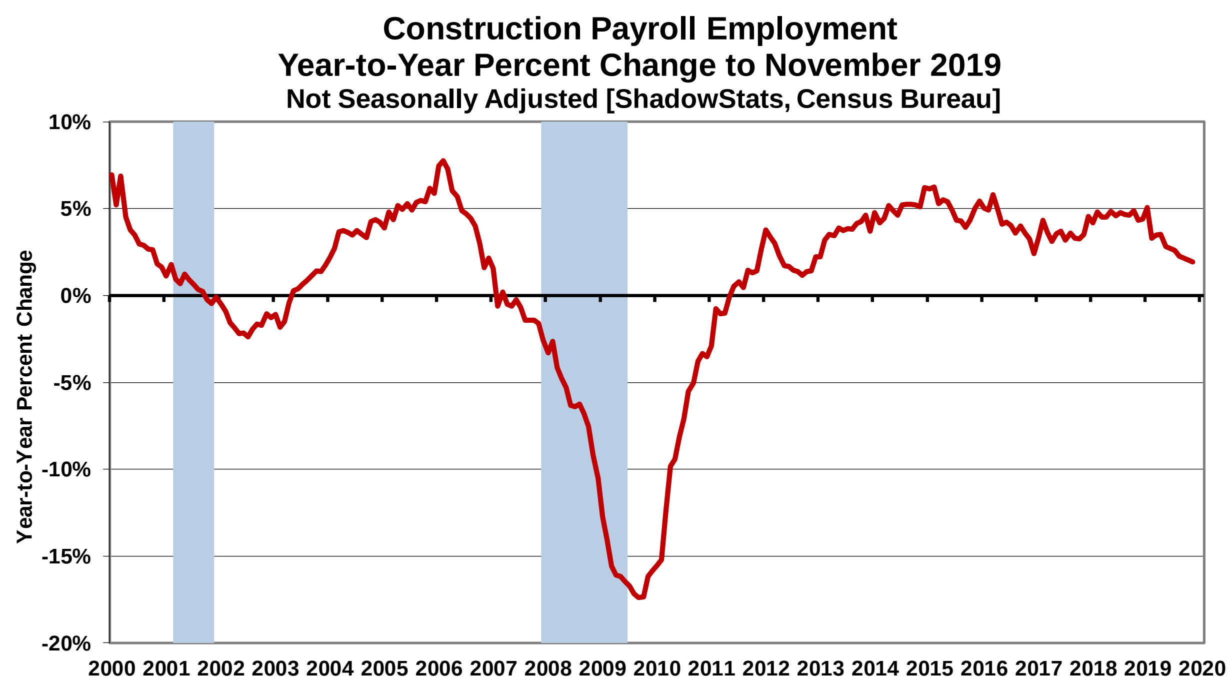
Graph 11: Retail Sales Payroll Employment Year-to-Year Change, January 2000 to November 2019



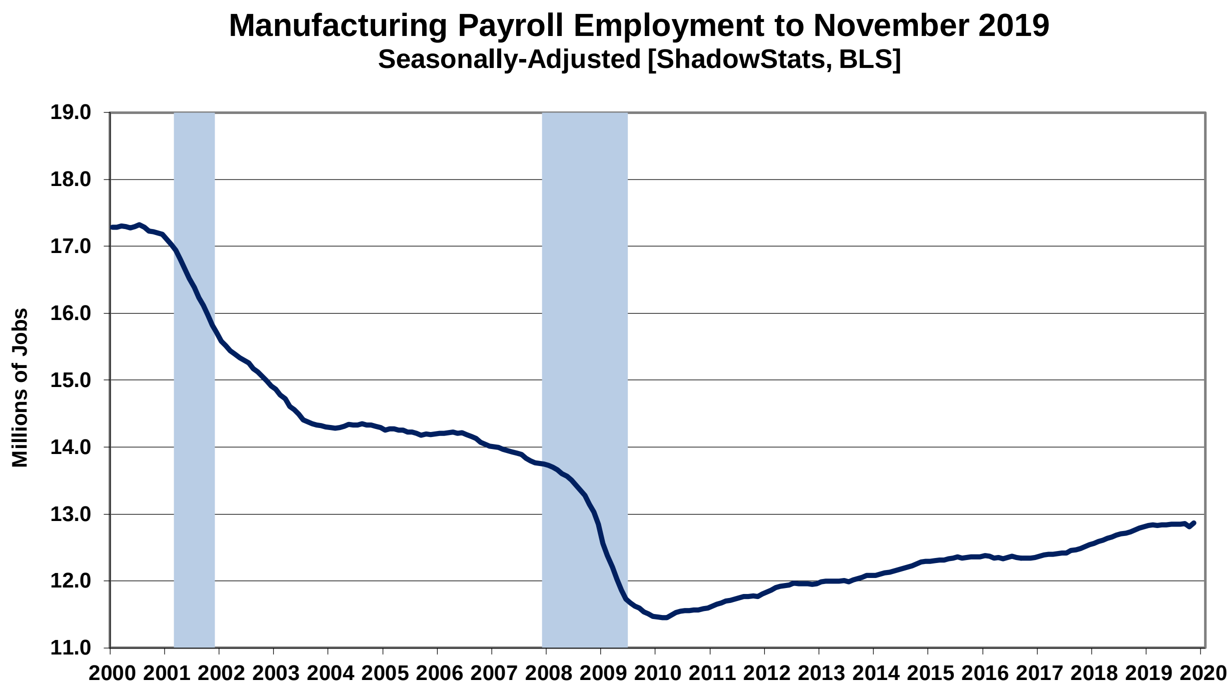
Graph 12: Construction Payroll Employment, January 2000 to November 2019



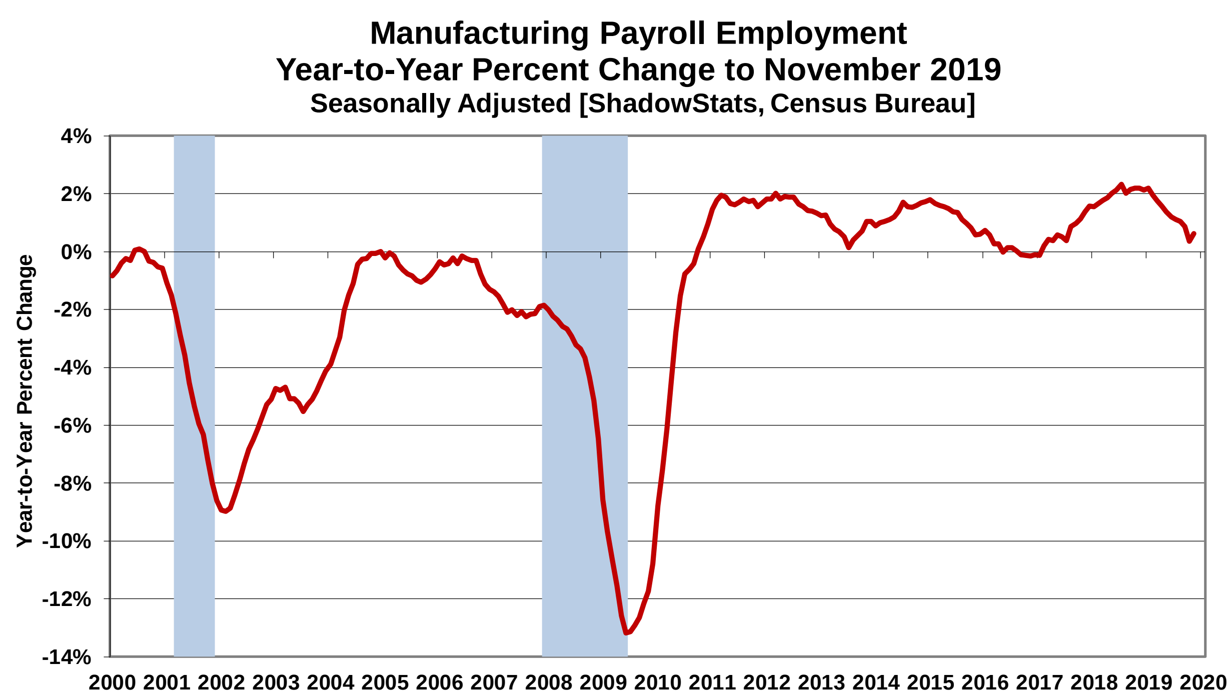
Graph 13: Construction Payroll Employment Year-to-Year Change, January 2000 to November 2019



Graph 14: Manufacturing Payroll Employment, January 2000 to November 2019



Graph 15: Manufacturing Payroll Employment Year-to-Year Change, January 2000 to November 2019



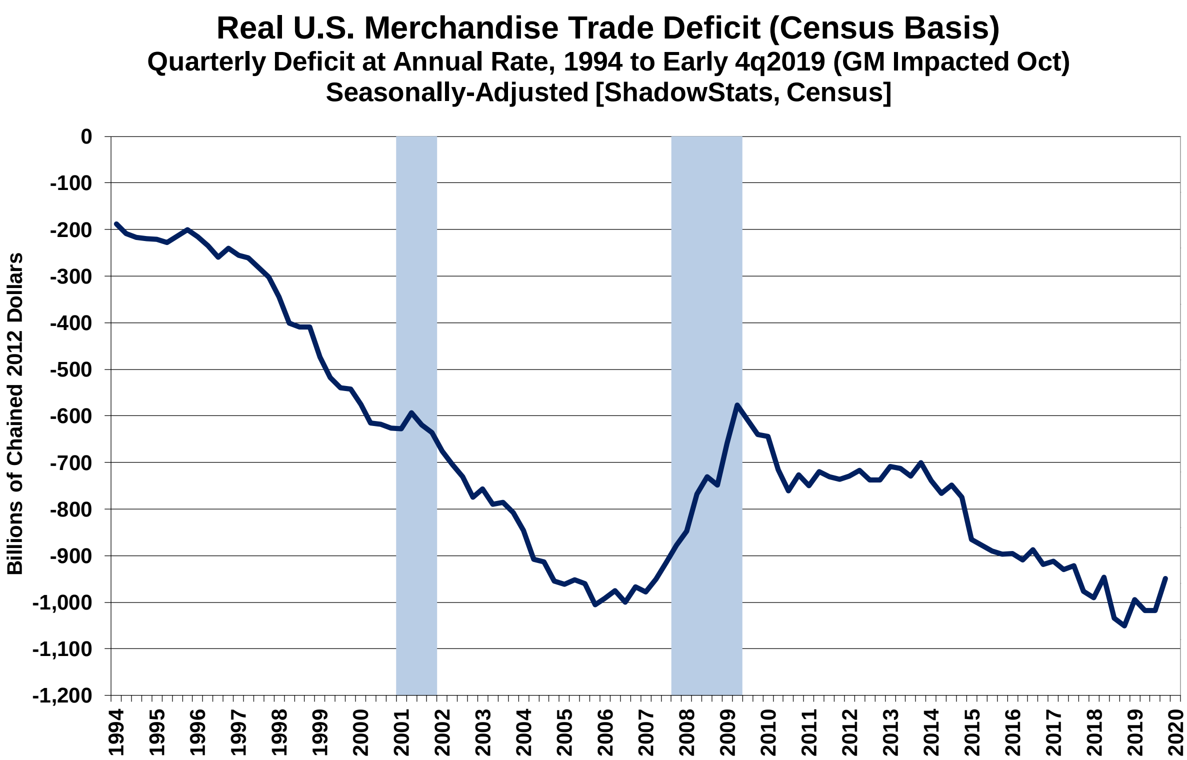
Skewed by GM Strike, 4q2019 Trade Deficit Likely Narrowed, 1q2019 Should Widen

October 2019 Trade Deficit Narrowed by $4.2 Billion, Encompassing Impact of the General Motors Strike. Reported by the Census Bureau and Bureau of Economic Analysis on December 5th, the sharp narrowing of the October Trade Deficit to $47.2 billion, from a revised $51.1 (previously $52.5) billion in September largely reflected reduced imports due to the GM strike, which also contributed to the $2.4 billion narrowing of September deficit. While a narrowed deficit boosts GDP, the full impact of the GM strike still will be a net negative for the GDP (see discussion of Industrial Production impact in ***Special Commentary No. 985***). Separately, where the monthly trade deficits narrowed in revision back to April, the relative Third-Quarter 2019 versus Second-Quarter 2019 deficit narrowed only minimally, with minimal positive-revision implications for the third-estimate of Third-Quarter 2019 quarterly GDP growth.

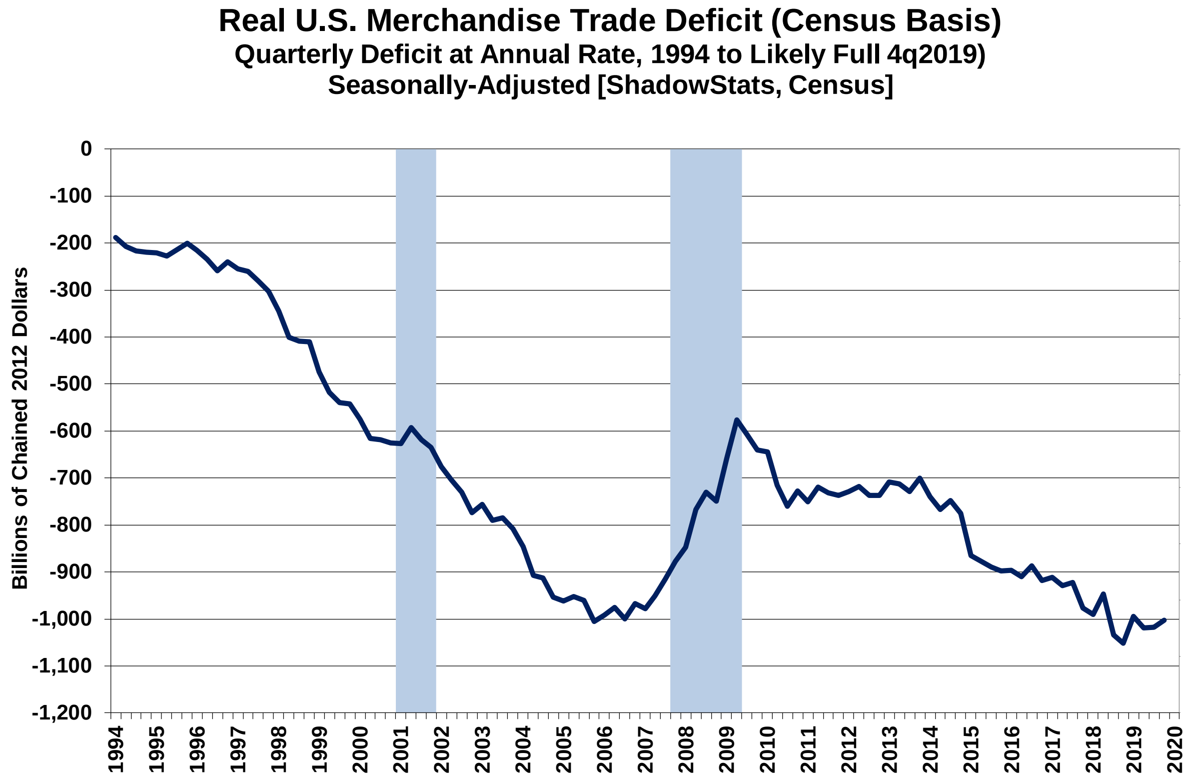
Where ShadowStats usually annualizes the first month of a new quarter's trade deficit for purposes of estimating impact on the quarterly trade deficit, major disruptions from the GM strike are taken into account here.

Graph 16a reflects the annualized estimate of the GM-disrupted narrowing of the October trade deficit, but offsetting changes can be projected for the full quarter, as reflected in ***Graph 16b***, which should align more accurately with the Fourth-Quarter 2019 GDP estimate of Net Exports.

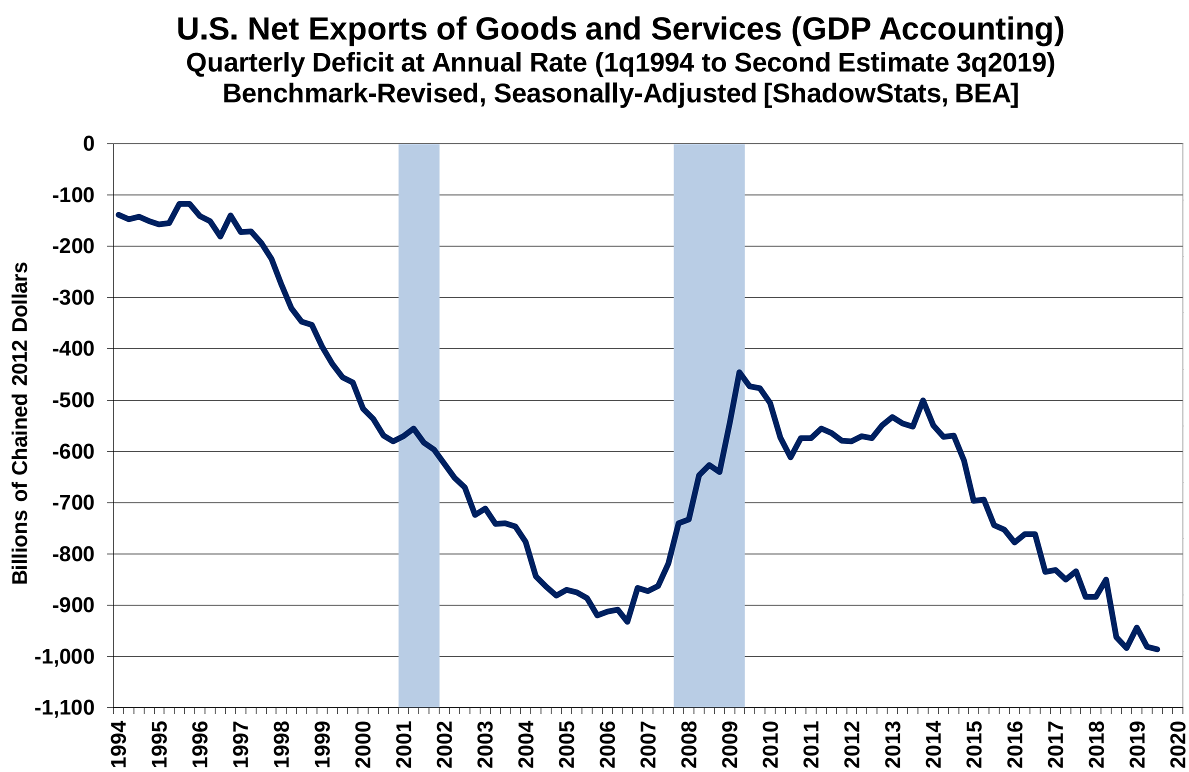
Graph 16a: Real Trade Deficit, 1q1994 to Early 4q2019 (Reflecting Only GM-Strike Disrupted October Level)



Graph 16b: Real Merchandise Trade Deficit, 1q1994 to Full 4q2019 (Estimated Impact from End of GM Strike)



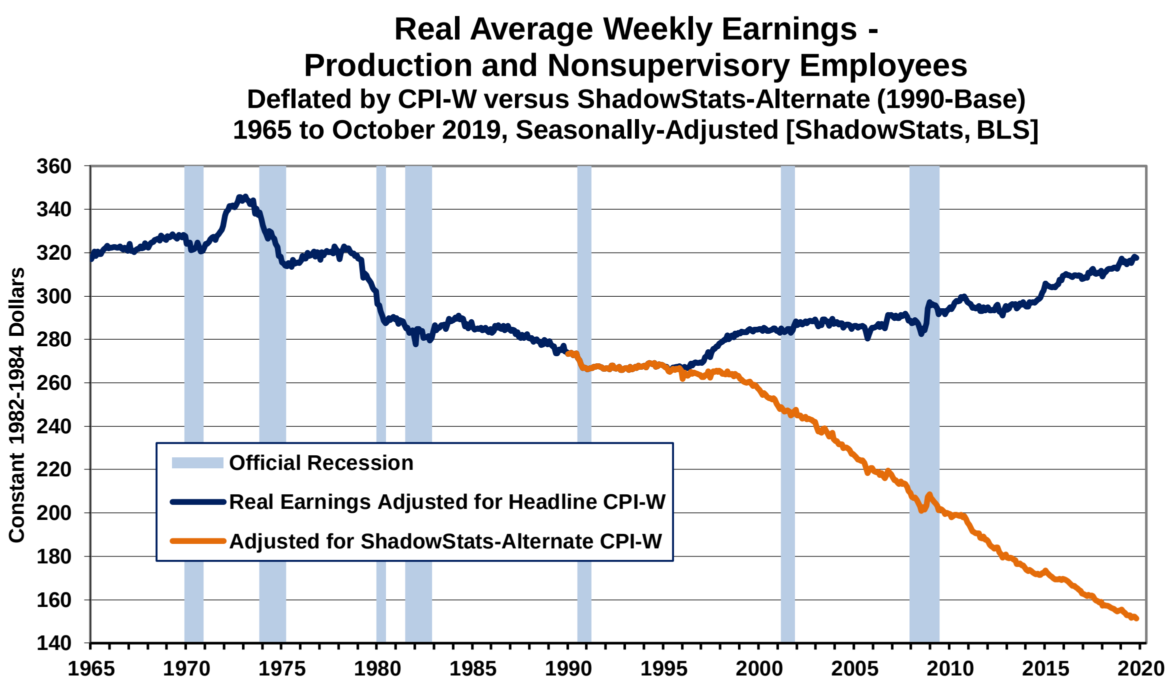
Graph 17: Net Exports of Goods and Services (GDP Accounting) 1q1994 to Third Quarter 3q2019



Consumer Needs and Finances

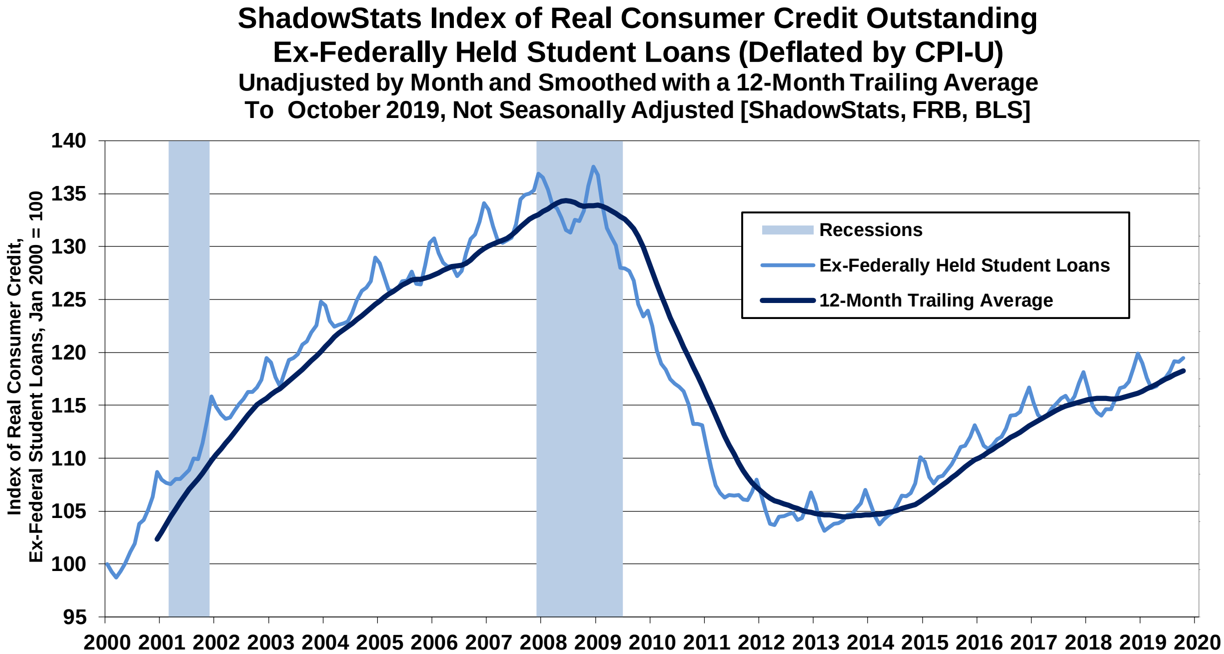
Consumers Drive the Economy, but They Need Income and Credit Growth to Expand Activity. ***Graph 18*** plots headline real average weekly earnings back to 1965, as published by the Bureau of Labor Statistics. While headline U.3 unemployment purportedly is at a headline 50-year low, headline real average weekly earnings remain below where they were in the late 1970s. You do not want to look at it, net of adjustments for inflation reporting gimmicks over the same period (ShadowStats-Alternate Inflation adjustment, orange line).

Graph 18: Real Average Weekly Earnings – Production and Nonsupervisory Employees



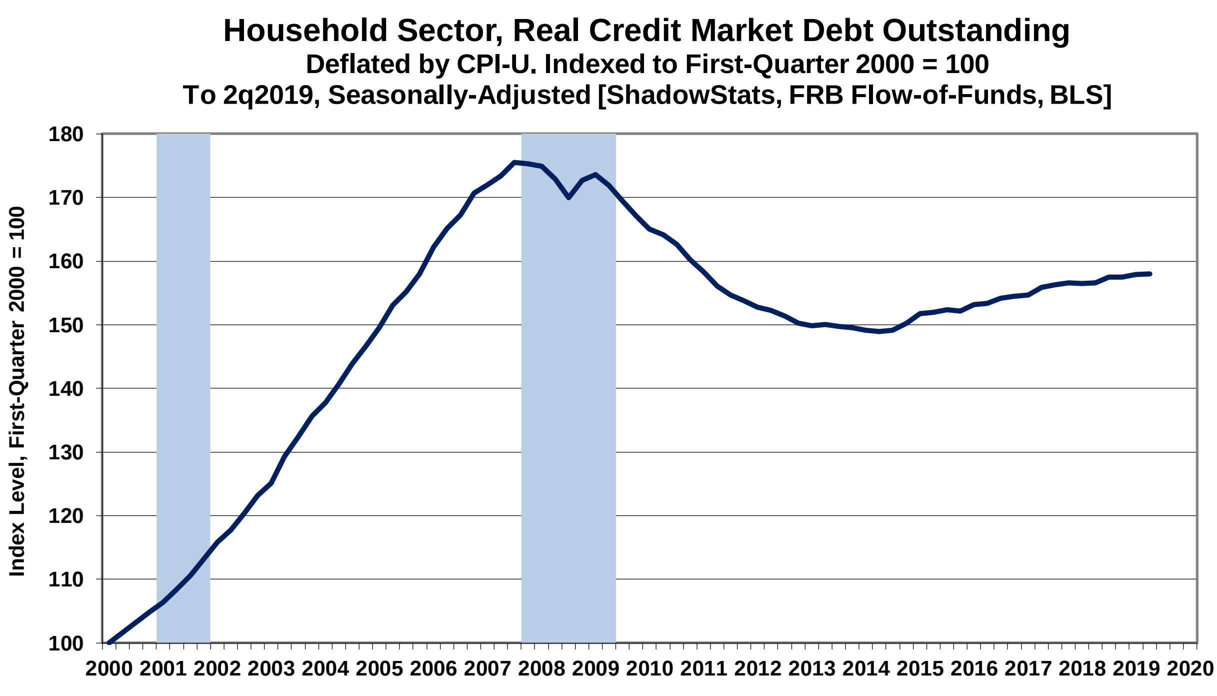
With any luck, headline inflation-adjusted consumer credit can make up any difference in real income shortfall. Yet, as broadly measured by the Federal Reserve, the inflation-adjusted level of Consumer Credit never has recovered its pre-Great Recession high, still shy minimally by 10% (-10%). Is there something here the FOMC could do to help the consumer? Nothing further is needed with "sustainable, moderate economic growth."

Graph 19: Real Consumer Credit Outstanding (Ex-Federally Held Student Loans)



Smoothed 12-month moving average to October 2019 remains shy by 12.0% (-12.0%) of regaining its June 2008 peak. The later peak here, versus Graph 20, is due to using a 12-month smoothed moving average.

Graph 20: Total Real Credit Market Debt Outstanding, Household Sector

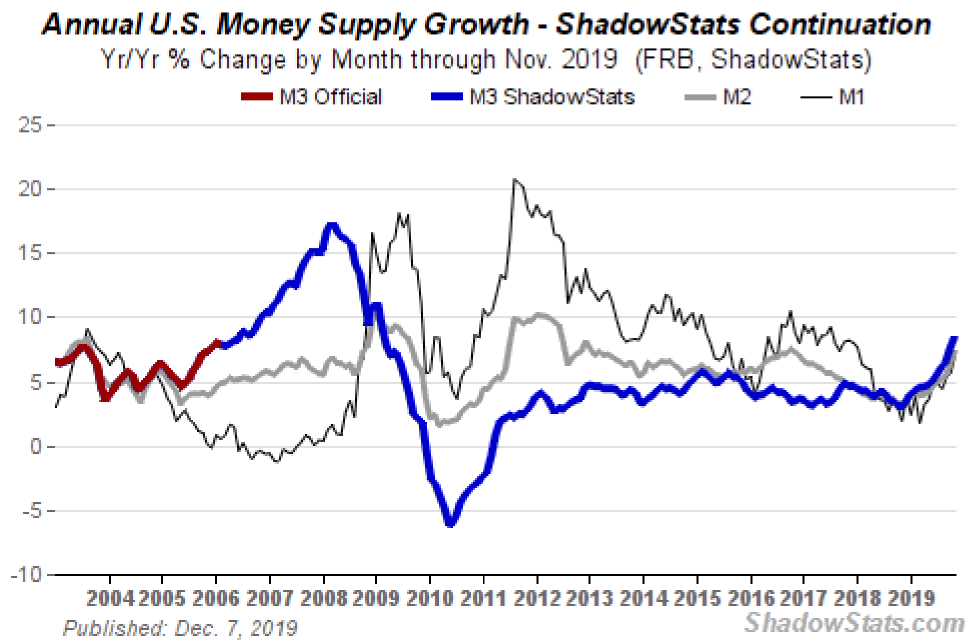


Second-Quarter 2019 remains shy by 10.0% (-10.0%) of regaining its Third-Quarter 2007 peak.

Federal Reserve Activity

The Fed Has Been Pumping Some Cash Into the System. On the plus-side of FOMC activity, November 2019 Money Supply M3 annual growth jumped to 8.5%, its highest level since February 2009, with the narrower M1 and M2 measures both topping seven percent.

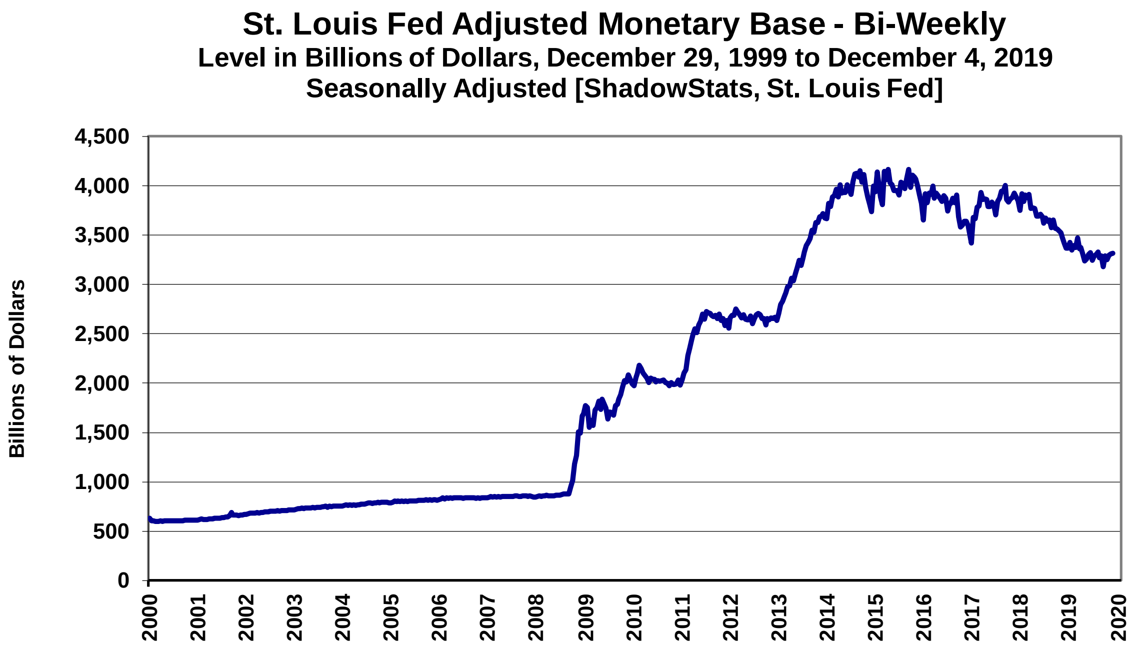
Graph 21: Nominal Annual Growth, Money Supply M1, M2, M3 – Official and ShadowStats Continuation



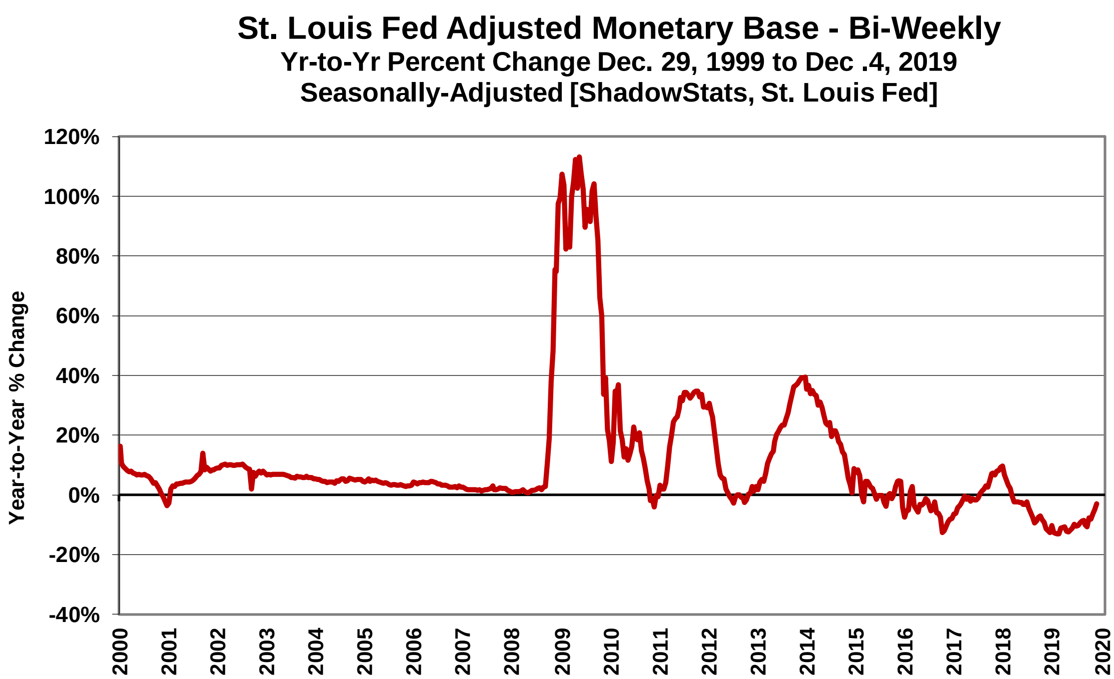
After dumping its systemic bailout assets in recent years, in the context of its new non-Quantitative Easing QE, the Fed has been buying assets, albeit minimally, as can be seen in accompanying ***Graphs 22*** and ***23***, of the level and annual change in the St. Louis Fed's measure of the Adjusted Monetary Base. Positive movement in both areas should have some positive economic impact in the year ahead.

[Graphs 22 and 24 follow on the next page.]

Graph 22: St. Louis Fed Adjusted Monetary Base – Bi-Weekly, Level, 2000 to Date



Graph 23: St. Louis Fed Adjusted Monetary Base – Bi-Weekly, Year-to-Year Change, 2000 to Date



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