

## **ShadowStats Flash Update No. 13**

### **Headline U.S. Economy and a Flummoxed FOMC**

November 3, 2019

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**Explosive Growth in Federal Debt, Against Headline GDP, Is Out of Control,  
Threatening Domestic Financial Stability and the Survival of the Republic**

**Having Triggered the Still-Deepening U.S. Recession, the FOMC Declared  
That Sustainable, Moderate U.S. Economic Growth Is in Place,  
Hinting That No Further Easing Was Needed -- Nonsense!**

**There Is No Sustainable Moderate Expansion in Place;  
Aggressive Federal Reserve Easing Still Was and Still Is Needed**

**Major Downside Revisions to Economic Growth Loom, Including to the GDP**

**The Fed Chair Touted the Third-Quarter GDP as Evidence of Stability,  
Yet, Just Two Days Later, Construction Spending Suggested the Headline  
Third-Quarter GDP Growth of 1.9% Should Have Been 1.7%, Possibly 1.4%**

**Stronger-than-Expected Third-Quarter Payroll Growth Was Bloated by  
Inconsistent Seasonal Adjustment Revisions and Was Weak Year-to-Year,  
While Headline Unemployment Notched Higher Across-the-Board**

**Flummoxed FOMC Has Resumed Its Balance Sheet Expansion  
In an Effort to Stabilize Systemic Liquidity**

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**The ShadowStats Broad Outlook Remains Little Changed.** Other than as seen with the some back-peddling on Federal Reserve policy (no further easing hinted) at the October 30th FOMC, as discussed in today's **Overview**, and with ongoing global and political instabilities and systemic stresses highlighted in [Flash Update No. 9](#), [Flash Update No. 10](#), [Flash Update No. 11](#) and [Flash Update No. 12](#), reviewed regularly in the **Daily Update** section of the [ShadowStats](#) home page, the ShadowStats broad outlook in the weeks and months ahead remains for:

- A rapidly intensifying U.S. economic downturn and growing recognition of same.
- Mounting selling pressure on the U.S. dollar (particularly against the stronger, more stable currencies such as the Swiss Franc).
- Mounting flight to safety in precious metals, with upside pressures on gold and silver prices.
- Increasingly high risk of extraordinarily heavy U.S. stock-market selling.

Long-pending **Commentary No. 985** was on track to have gone to press by October 28th, but that did not happen, given disruptions from Northern California wildfires and related power and Internet issues. As a result, the October 30th initial estimate of Third-Quarter 2019 GDP, the FOMC Meeting of the same date, and the November 1st releases of October Labor Data and September Construction Spending overran that Commentary. The general outlook and fundamental story being told in **No. 985** has not changed, other than the details will be updated fully for the latest numbers, covered in today's November 3rd missive. **No. 985 will go to press in the week ahead.**

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

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## Overview

**Despite Happy Headlines, U.S. Economic Conditions Continue in a Deepening Downturn, Amidst Mounting Financial-Market Stress and Imbalances.** It remains ShadowStats' contention that broad U.S. economic activity peaked in Fourth-Quarter 2018 and largely has been in a deepening economic recession ever since. The December 2018/January 2019 partial shutdown of the U.S. government, including key areas of the Commerce Department's surveying and gathering of U.S. economic data (such as Retail Sales), resulted in bloated guesstimations of key numbers, which did not get corrected before they were memorialized in the July 26th benchmarking of the GDP through Second-Quarter 2019. Consider the sharply negative Construction Spending benchmarking and recent initial annual Payroll Revisions (both discussed [Flash Update No. 7](#)) that followed the GDP benchmarking. Reporting distortions are increasingly evident.

Meaningful overstatement of headline GDP numbers did not surface in the July 26, 2019 benchmark reporting of real Gross Domestic Product (GDP), see *Table I*. Details increasingly should be forthcoming of negative revisions to underlying series in the months and year ahead, well into 2020, with the July 30, 2020 GDP benchmarking the key catch up series. Those details are explored and reviewed in pending *Commentary No. 985*, due for publication in the week ahead.

Broad financial-market recognition of the unfolding recession, however, already has started to surface, and likely will gain sharply in the months ahead. Given the lagged nature of the reporting and revisions still to come, however, formal recognition of the 2018/2019 Recession likely will not follow until after the 2020 election.

**FOMC Appears to Prefer Higher Interest Rates, Irrespective of Economic Damage.** On October 30th, The Federal Reserve's Federal Open Market Committee (FOMC) cut rates by the expected 0.25% (-0.25%) and indicated that its Balance-Sheet Expansion (a.k.a. Quantitative Easing) would continue into mid-2020. Taken as a signal that there were no new rate cuts to come in the immediate future, the FOMC also proclaimed that "Sustained Moderate Economic Growth" had been accomplished.

That happy news, purportedly resulting from the FOMC's minimal easings since mid-year, was nonsense (again, full coverage follows in *No. 985*). First, the economy does not turn that quickly; the Fed has a great deal further to go to stimulate economic activity. Second, as discussed in the *Overview* section of [Commentary No. 983-B](#), the primary concern for the Fed—its driving motivation for policy change—remains the health of the Banking System, which also happens to own the Federal Reserve. Rapidly mounting liquidity stresses in the banking system, once again, have raised FOMC concerns.

Supporting broad domestic economic activity, the wellbeing of the average U.S. consumer and the financial health of Main Street U.S.A. are only secondary or tertiary concerns for the Fed.

The headline FOMC fantasy economy and stable liquidity are anything but happy and stable. With headline Third-Quarter 2019 GDP in hand, third-quarter Velocity of Money indeed crashed at a pace not seen since the Great Recession, as predicted in [\*Flash Update No. 12\*](#).

Nonetheless, the still rapidly weakening economy will not go away, and it should trigger mounting political and financial-market pressures to force further expansion of Federal Reserve accommodation, likely by the December 11th FOMC Meeting. Extended FOMC detail follows in *Commentary No. 985*.

Today's *Flash Updated No. 13* primarily covers relatively brief, recent headline economic reporting of Third-Quarter 2019 GDP, October 2019 Payrolls and Employment/Unemployment and September Construction Spending, along with the October 30th FOMC (in this *Overview*). That same detail is being incorporated into the broader, more-comprehensive economic outlook updated in *No. 985*.

**[Coverage of Third-Quarter 2019 GDP begins on the next page.]**

### Third-Quarter 2019 Gross Domestic Product

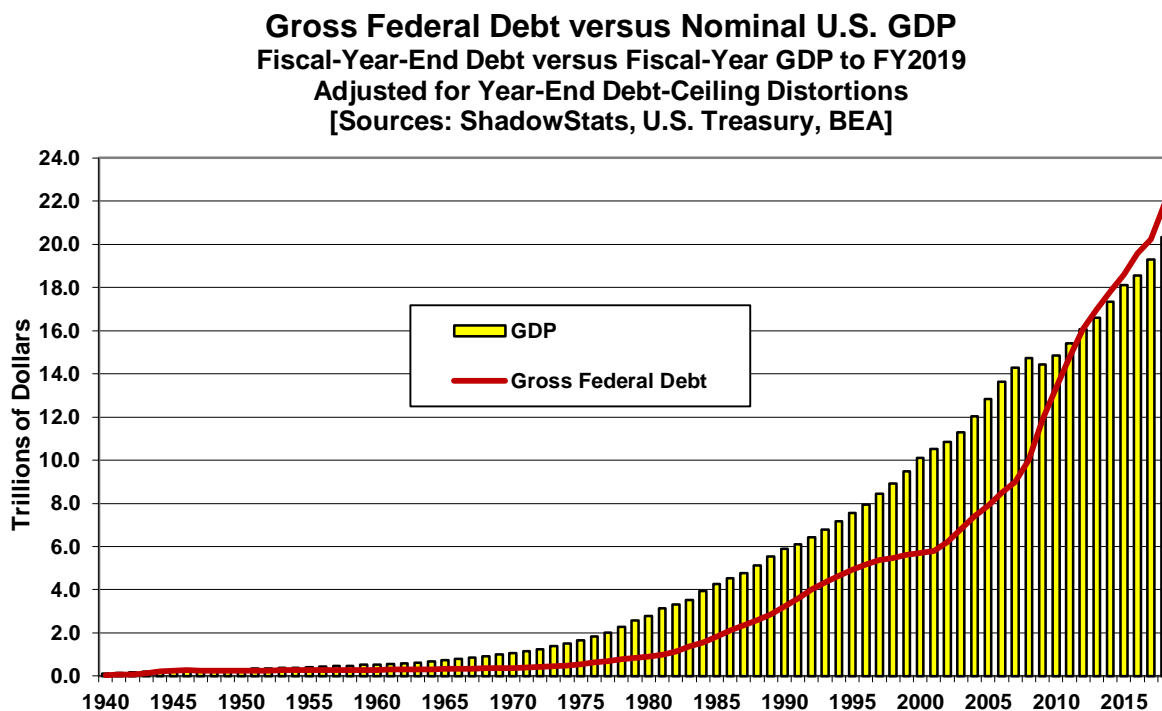
**U.S. Federal Debt Continues to Explode Beyond the Support of Domestic Economic Activity.** Initial headline Third-Quarter 2019 and Fiscal-Year 2019 GDP reporting enable updates to regular ShadowStats' benchmark comparisons of GDP with increasingly unsupportable federal debt levels. Excerpted from *Section 6* (page 57) of [Commentary No. 983-B](#) (April 22, 2019):

**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.

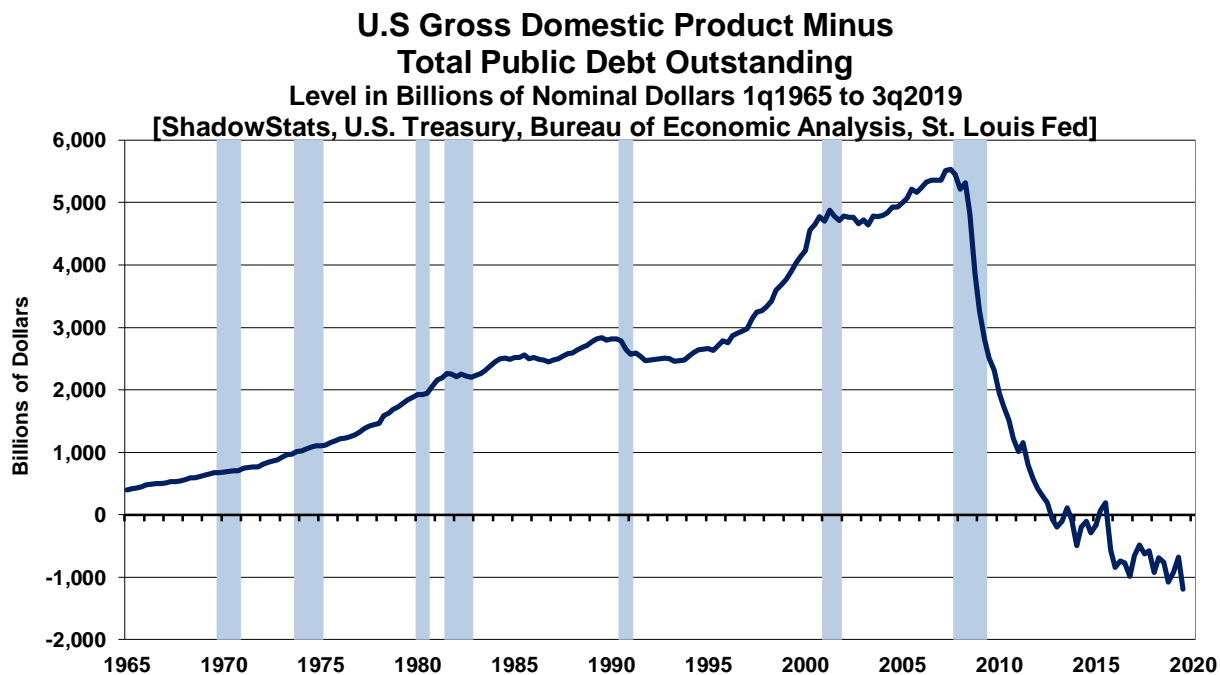
Both the Congress and the White House keep expanding federal spending and the federal debt at unsustainable levels. Consider the latest versions of *ShadowStats*' regular graphs of Federal Debt versus GDP. With the headline Third-Quarter 2019 and Fiscal-Year 2019 GDP details in hand, the ratio of and excess level of nominal U.S. federal debt to nominal U.S. GDP are at new extremes in the current environment, reflected in **Graphs 1** and **2**. Again, see the referenced section of **No. 983-B**, where domestic fiscal policy is categorized as “Unsustainable” by both the Federal Reserve Chairman and the U.S. Treasury Secretary. Risks are elevated of a run on the U.S. dollar, which rapidly could evolve into U.S. debt crisis and a potential, certainly an ultimate hyperinflation, unless U.S. fiscal circumstances are brought into fundamental balance.

**[Graphs 1 to 2 begin on the next page.]**

**Graph 1: Gross Federal Debt vs. Nominal GDP to Fiscal-Year 2019**



**Graph 2: Nominal U.S. GDP Minus Total Public Debt Outstanding to Third-Quarter 2019**



**“Advance” Third-Quarter Real 2019 Gross Domestic Product Annualized Growth of 1.92% Slowed Minimally from 2.01% in Second-Quarter 2019, With Annual Real Growth Dropping from 2.28% to a Three-Year Low of 2.03% (2015 Mini-Recession Levels).** Reported October 30th by Bureau of Economic Analysis (BEA), Third-Quarter 2019 annualized real GDP slowed to a stronger-than-expected 1.92%, receiving a relative boost from a large drop in the oil-price driven Implicit Price Deflator (IPD - GDP inflation) from 2.59% to 1.57%. “Final Sales” (GDP growth net of inventory change) collapsed from 2.92% to 1.97%, possibly related to the GM Strike. As frequently is the circumstance, in the context of often-volatile annual benchmark revisions to the GDP series, the non-annualized quarterly real growth of 0.48% in Third-Quarter 2019 was not meaningfully different from zero.

The breakout of headline growth detail by major category is shown in *Table I*. Where Federal Reserve Chairman Jerome Powell touted the first quarterly upturn in some time for Residential Investment, at his October 30th FOMC Press Conference, that largely disappeared in the September 2019 reporting of Construction Spending two days later, on November 1st, with an estimated downside revision to the aggregate Third-Quarter 2019 real GDP growth estimate from 1.9% to 1.7%, or to 1.4% depending on the deflator used (see *Graphs 20 to 22*).

*Table I* breaks out the headline GDP growth contribution by quarter and by sector, with the pre-Second-Quarter 2019 data showing growth rates both before and after the July 26th benchmark revisions.

*Graphs 3* and *4* show the respective levels of real GDP activity and year-to-year change. *Graphs 5* and *6* show the respective levels of ShadowStats Corrected-Inflation GDP and year-to-year change. The ShadowStats detail adjusts for the deliberate understatement by the BEA of headline GDP inflation (Implicit Price Deflator). Deflating by understated inflation has the effect of boosting inflation-adjusted growth artificially (see *Table I* for the numbers and [Commentary No. 983-B](#) for the background).

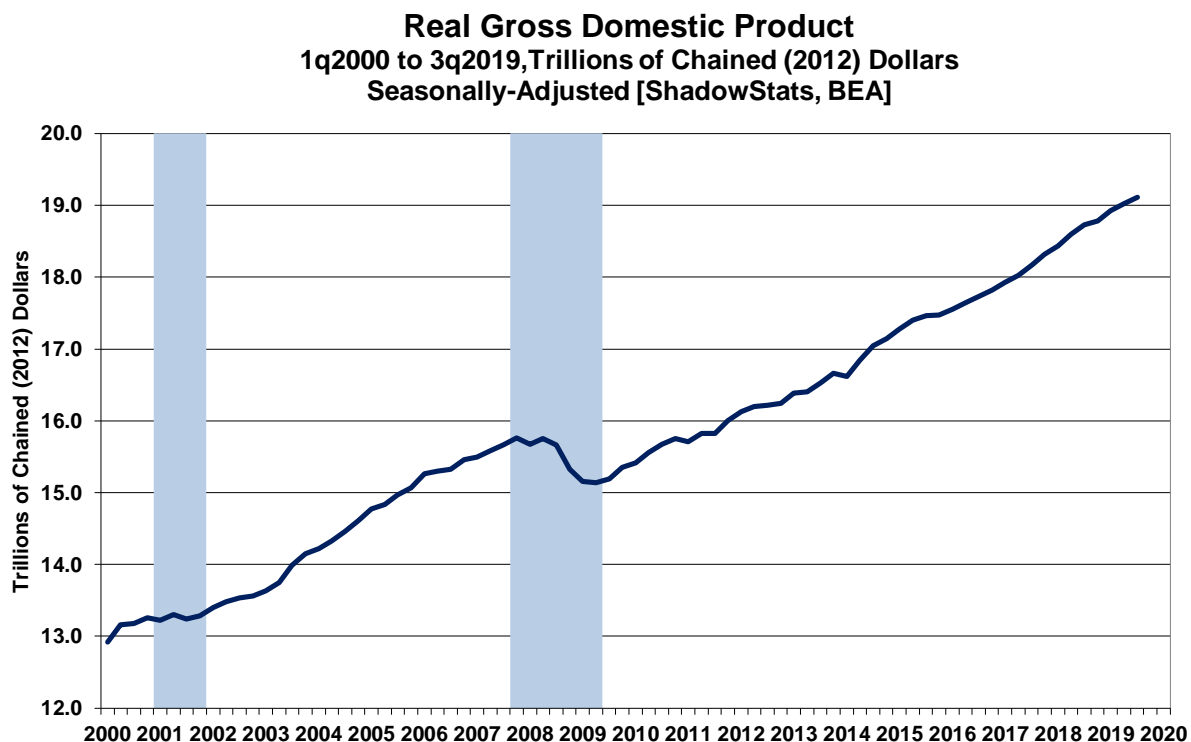
**[Table I and Graphs 3 to 6 begin on the next page.]**



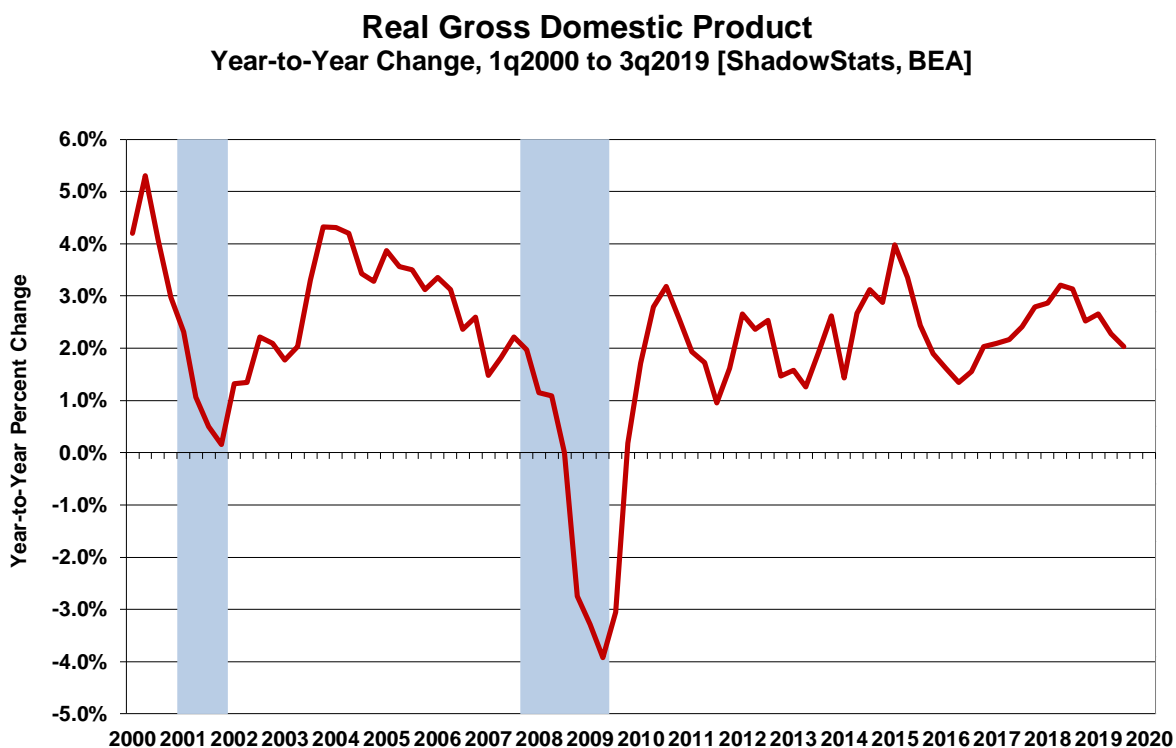
**Table I: Real GDP and Breakout of Related Detail, Third-Quarter 2018 to Third-Quarter 2019**

<b>Annualized Quarterly Real Growth in Headline Gross Domestic Product  Benchmark Revised Third-Quarter 2018 to First-Quarter 2019 and  Latest Versions of Second-Quarter 2019 and Third-Quarter 2019  Growth Contribution by Consumption and Product Sector</b>								
<b>GDP COMPONENT GROWTH CONTRIBUTION BY SECTOR</b>	<b>Third-Quarter 2018</b>		<b>Fourth-Quarter 2018</b>		<b>First-Quarter 2019</b>		<b>Second- Quarter 2019</b>	<b>Third- Quarter 2019</b>
	<b>Old "Final"</b>	<b>Revised "Final"</b>	<b>Old "Final"</b>	<b>Revised "Final"</b>	<b>Old "Final"</b>	<b>Revised "Final"</b>	<b>"Final"</b>	<b>"Initial"</b>
<b>ECONOMIC SECTOR</b>								
Personal Consumption								
- Goods	0.90%	0.75%	0.54%	0.33%	0.15%	0.32%	1.74%	1.14%
-- Motor Vehicles	-0.05%	0.01%	0.20%	0.07%	-0.46%	-0.27%	0.37%	0.02%
- Services	1.47%	1.59%	1.12%	0.65%	0.48%	0.46%	1.29%	0.79%
Gross Private Domestic Investment								
- Fixed Investment	0.21%	0.13%	0.54%	0.46%	0.53%	0.56%	-0.25%	-0.22%
-- Residential	-0.14%	-0.16%	-0.18%	-0.18%	-0.08%	-0.04%	-0.11%	0.18%
- Change in Private Inventories	2.33%	2.14%	0.11%	0.07%	0.55%	0.53%	-0.91%	-0.05%
Net Exports of Goods and Services	-1.99%	-2.05%	-0.08%	-0.35%	0.94%	0.73%	-0.68%	-0.08%
Government Consumption	0.44%	0.36%	-0.07%	-0.07%	0.48%	0.50%	0.82%	0.35%
<b>GDP ANNUALIZED REAL GROWTH</b>	<b>3.36%</b>	<b>2.93%</b>	<b>2.17%</b>	<b>1.09%</b>	<b>3.13%</b>	<b>3.10%</b>	<b>2.01%</b>	<b>1.92%</b>
Final Sales, GDP Less Inventories	1.03%	0.79%	2.06%	1.02%	2.58%	2.57%	2.92%	1.97%
<b>PRODUCT SECTOR</b>								
Goods	1.76%	1.41%	1.66%	1.39%	2.11%	2.12%	0.62%	1.35%
Services	1.77%	1.73%	0.99%	0.37%	0.56%	0.66%	1.66%	0.91%
Structures	-0.17%	-0.21%	-0.48%	-0.67%	0.46%	0.32%	-0.26%	-0.33%
<b>GDP ANNUALIZED REAL GROWTH</b>	<b>3.36%</b>	<b>2.93%</b>	<b>2.17%</b>	<b>1.09%</b>	<b>3.13%</b>	<b>3.10%</b>	<b>2.01%</b>	<b>1.92%</b>
<b>SUPPLEMENTAL</b>								
<b>Annualized Quarter-to-Quarter Real GDP Change and Headline Implicit Price Deflator Inflation</b>								
Gross Domestic Product (GDP)	3.36%	2.93%	2.17%	1.09%	3.13%	3.10%	2.01%	1.92%
Gross Domestic Income (GDI)	4.56%	3.28%	0.52%	0.78%	1.00%	3.24%	1.82%	--
Gross National Product (GNP)	3.05%	3.00%	2.12%	0.68%	3.16%	3.09%	2.78%	--
ShadowStats Corrected GDP*	1.27%	0.84%	0.10%	-0.96%	1.04%	1.01%	-0.05%	-0.14%
Implicit Price Deflator (IPD) Inflation	1.51%	1.78%	1.86%	1.78%	0.64%	0.78%	2.59%	1.57%
<b>Year-to-Year Real GDP Change and Headline Implicit Price Deflator Inflation</b>								
Gross Domestic Product (GDP)	3.00%	3.13%	2.97%	2.52%	3.20%	2.65%	2.28%	2.03%
Gross Domestic Income (GDI)	2.69%	2.83%	2.45%	2.34%	1.73%	2.00%	2.28%	--
Gross National Product (GNP)	2.96%	3.17%	2.85%	2.41%	3.09%	2.47%	2.38%	--
ShadowStats Corrected GDP*	0.92%	1.05%	0.89%	0.44%	1.11%	0.58%	0.21%	-0.04%
Implicit Price Deflator (IPD) Inflation	2.39%	2.59%	2.17%	2.34%	1.83%	1.94%	1.73%	1.68%
Sources: Bureau of Economic Analysis, www.ShadowStats.com (ShadowStats)..								
*Real GDP corrected for understated headline inflation, see Special Commentaries No. 968 and 983-B for background.								

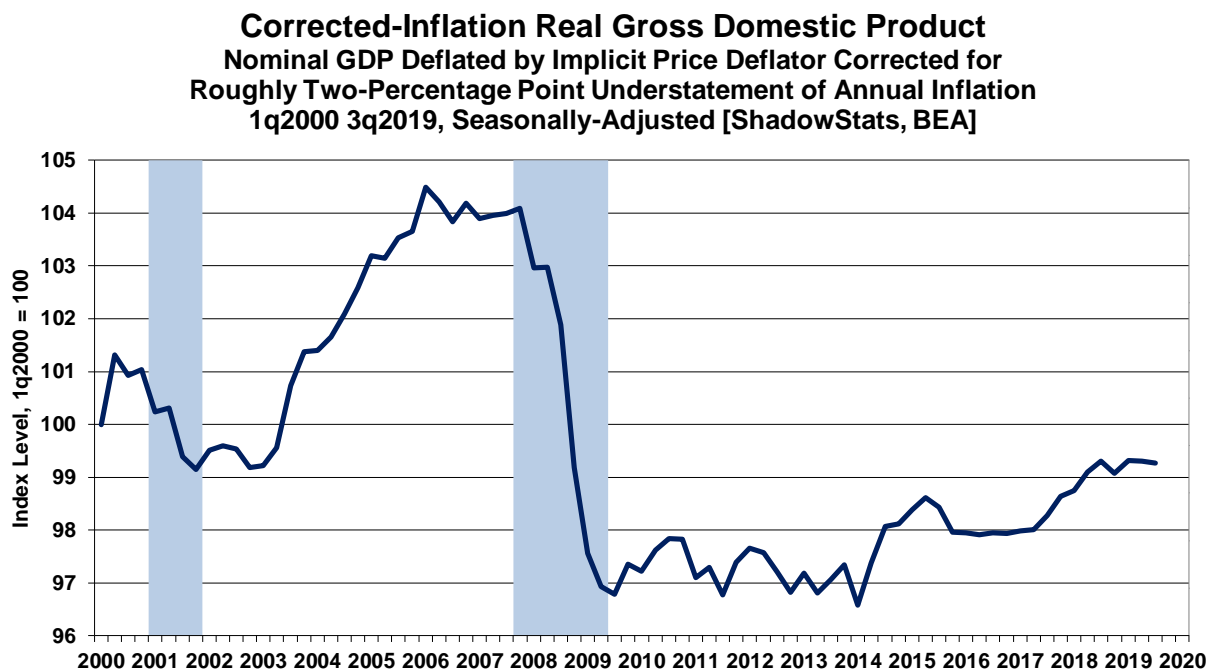
**Graph 3: Real GDP, 1q2000 to 3q2019**



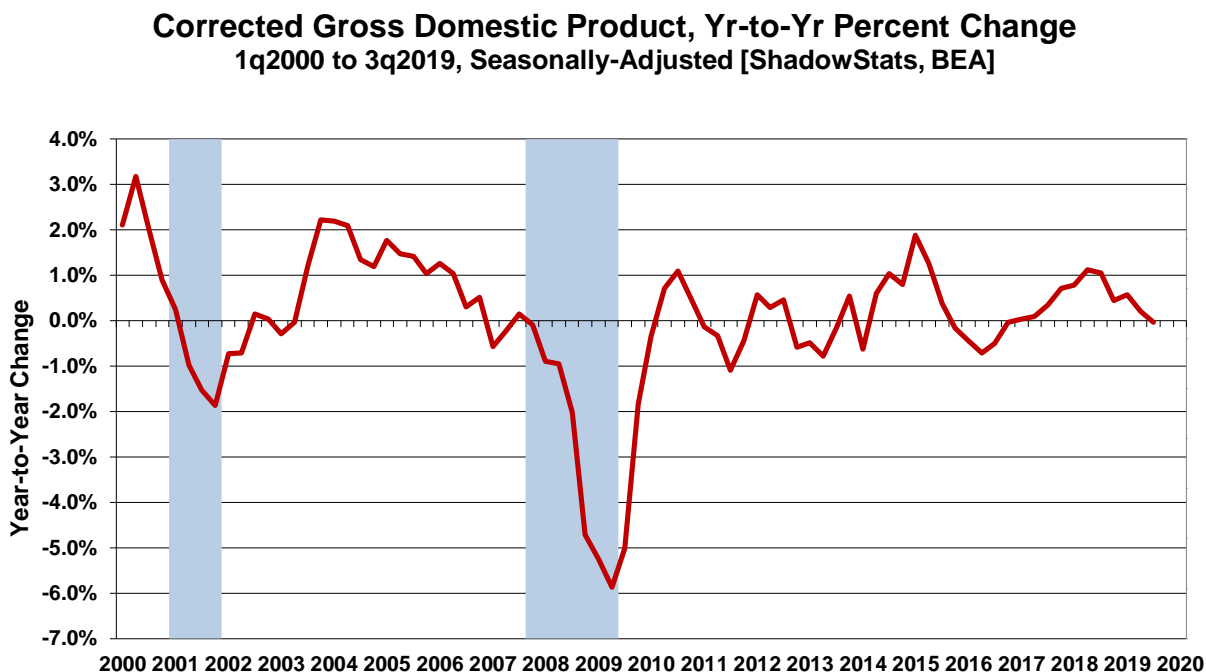
**Graph 4: Real GDP, 1q2000 to 3q2019, Year-to-Year Percent Change**



**Graph 5: ShadowStats Corrected-Inflation Real GDP, 1q2000 to 3q2019**



**Graph 6: ShadowStats Corrected-Inflation Real GDP, 1q2000 to 3q2019, Year-to-Year Percent Change**



## **October 2019 Employment and Unemployment**

### **Inconsistent Seasonal Adjusts Boosted Payrolls Unemployment-Rate Notched Higher Across the Board**

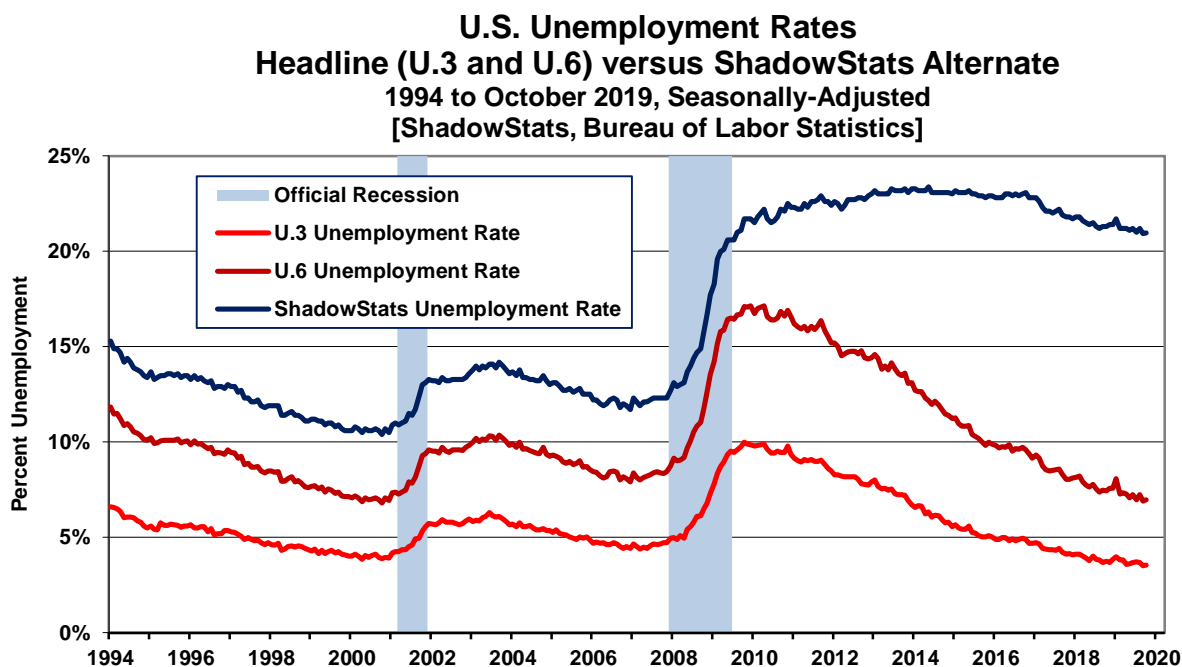
**Relatively Independent of the Auto Strike, the Various Unemployment Measures Notched Higher Across the Board.** As reported November 1st by the Bureau of Labor Statistics (BLS), unemployment moved minimally higher across the major unemployment measures. While workers on strike against General Motors usually would not be counted as unemployed, related layoffs forced upon suppliers would be. The headline U.3, U.6 and ShadowStats Alternate unemployment measures are plotted in **Graph 7**.

Headline October 2019 U.3 Unemployment rose to 3.56%, from 3.52% in September and against 3.69% in August. Separately, levels of labor–market stress (an unchanged Employment-Population Ratio and another gain of 0.1% in the Participation Rate) remained consistent with an ongoing recession and inconsistent with historically low headline U.3 unemployment (see **Graphs 8 to 11**). Commonly discussed, here, **Graphs 10** and **11** of high employment stress broadly are both more consistent with **Graph 9** (inverted scale) of the headline ShadowStats unemployment rate in a continuing recession, as opposed to **Graph 8** (inverted scale) of the near-historic low level of headline U.3 unemployment.

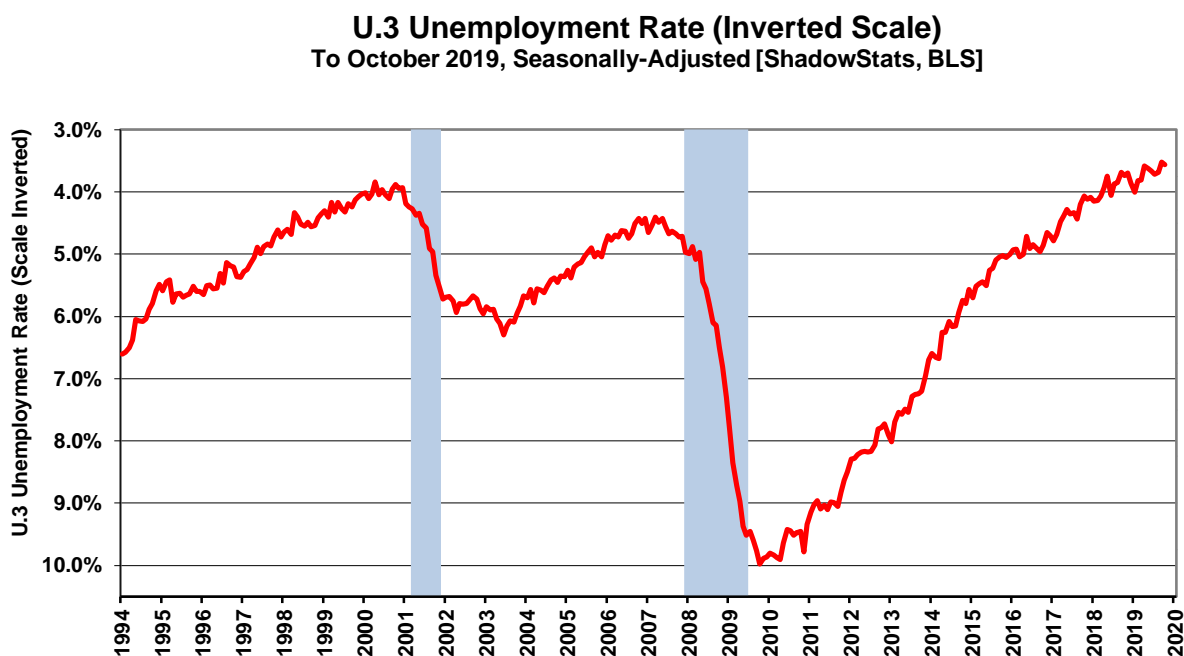
Separately, on top of the headline U.3, reflecting a monthly gain for those working part-time for economic reasons and a decline in marginally attached workers (an increase in headline discouraged workers), broader October 2019 U.6 Unemployment increased to 6.96%, from 6.91% in September, versus 7.24% in August. Riding on top of U.6, the October ShadowStats Alternate Unemployment Estimate, including long-term displaced discouraged workers not counted by the BLS, increased to 21.0%, from 20.9% in September, versus 21.2% in August.

**[Graphs 7 to 11 begin on the next page.]**

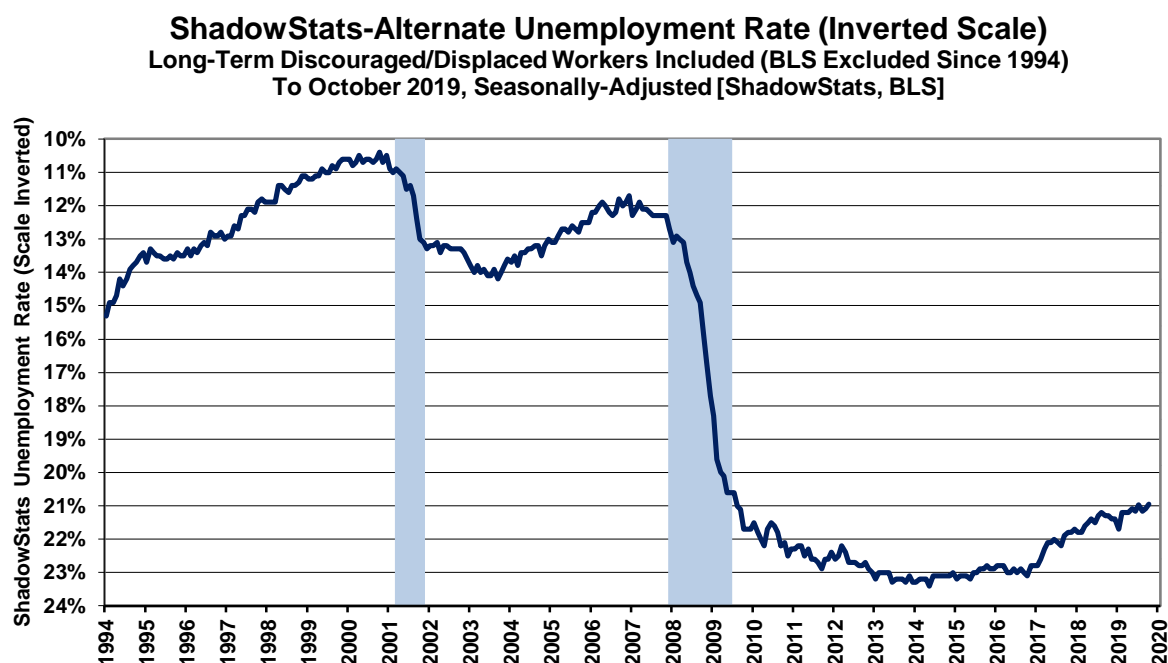
**Graph 7: Unemployment Rates 1994 to Date**



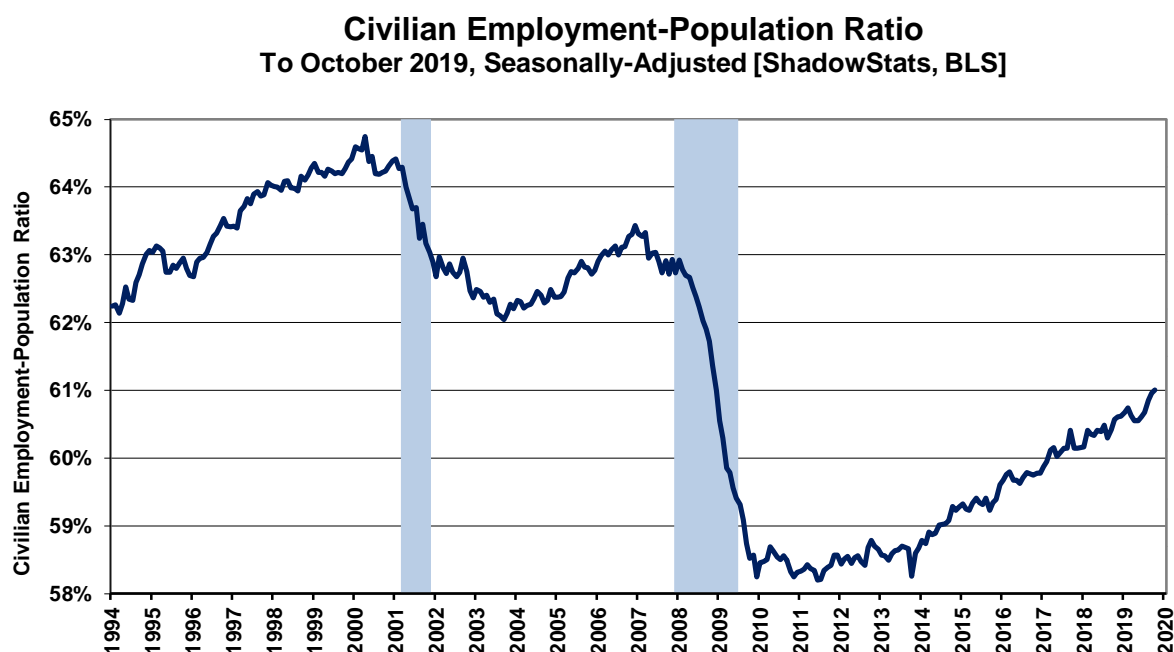
**Graph 8: U.3 Unemployment – Inverted Scale, 1994 to Date**

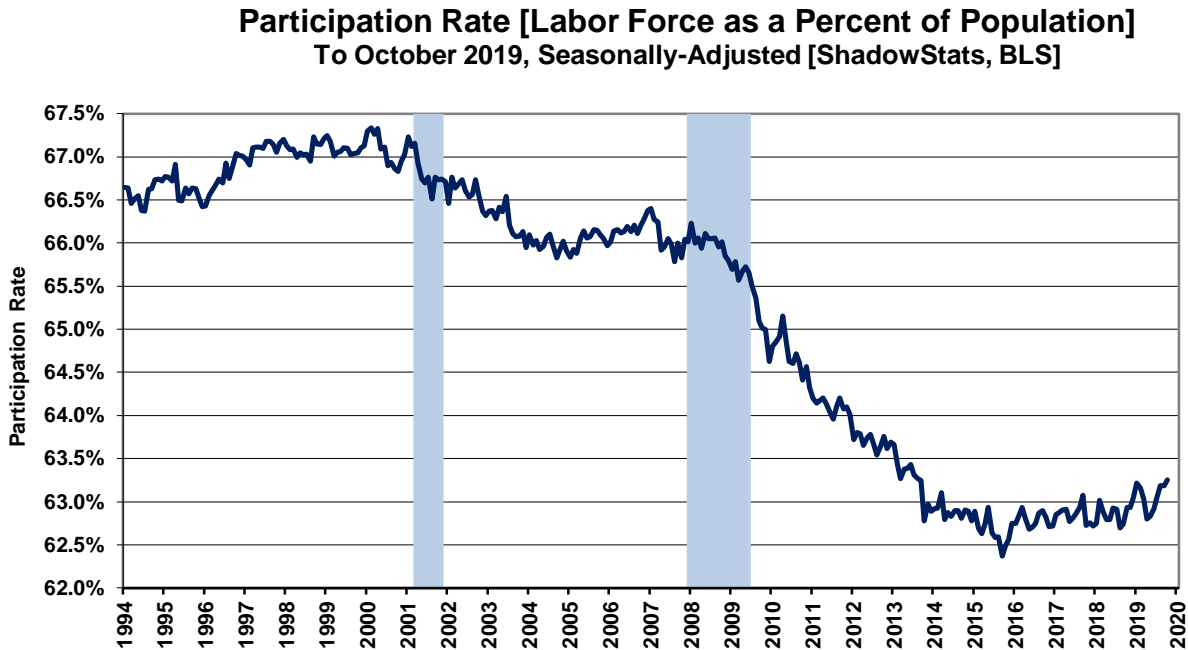


**Graph 9: ShadowStats-Alternate Unemployment – Inverted Scale, 1994 to Date**



**Graph 10: Civilian Employment-Population Ratio, 1994 to Date**



**Graph 11: Participation Rate, 1994 to Date**

### Nonfarm Payroll Employment

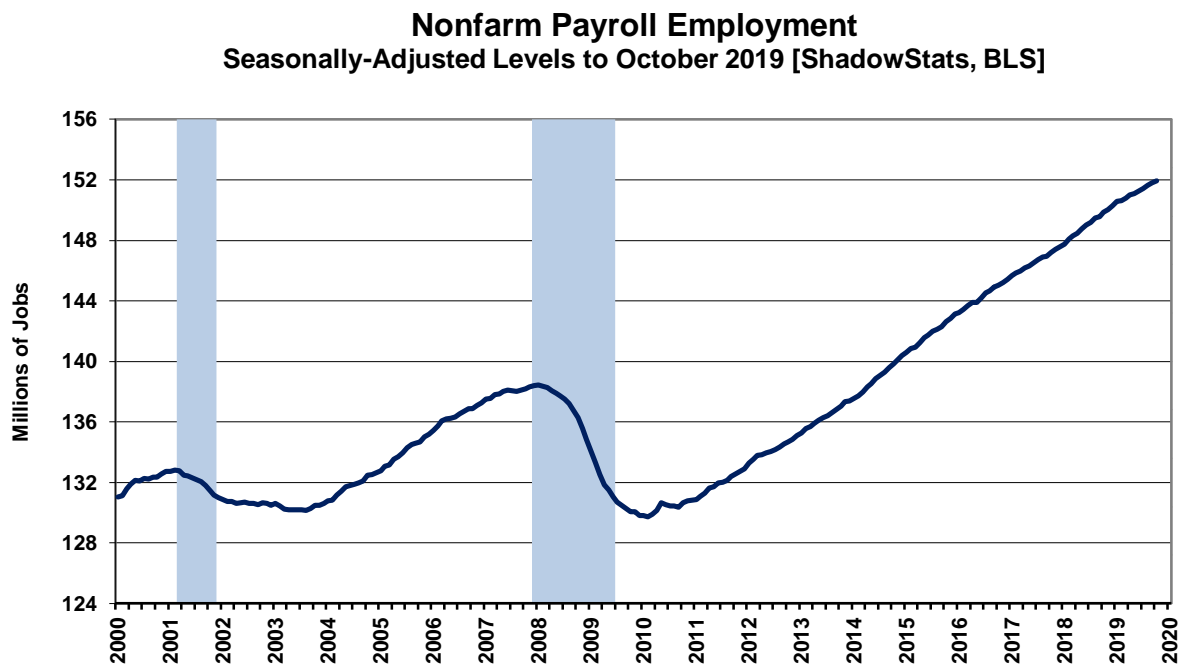
#### October 2019 Payrolls Were Bloated by Inconsistent Seasonal-Adjustment Revisions

**Irrespective of Auto Strike Impact, Annual Payroll Growth of 1.4% Was Tied at a Two-Year Low, Otherwise Weakest Since Coming Out of the Great Recession.** Despite October 2019 Payroll distortions from inconsistent seasonal adjustments and the Auto Strike, annual payroll growth slowed to a 22-month low. September's stronger-than-expected monthly payroll growth of 128,000 would have been 170,000, net of the Auto Strike impact.

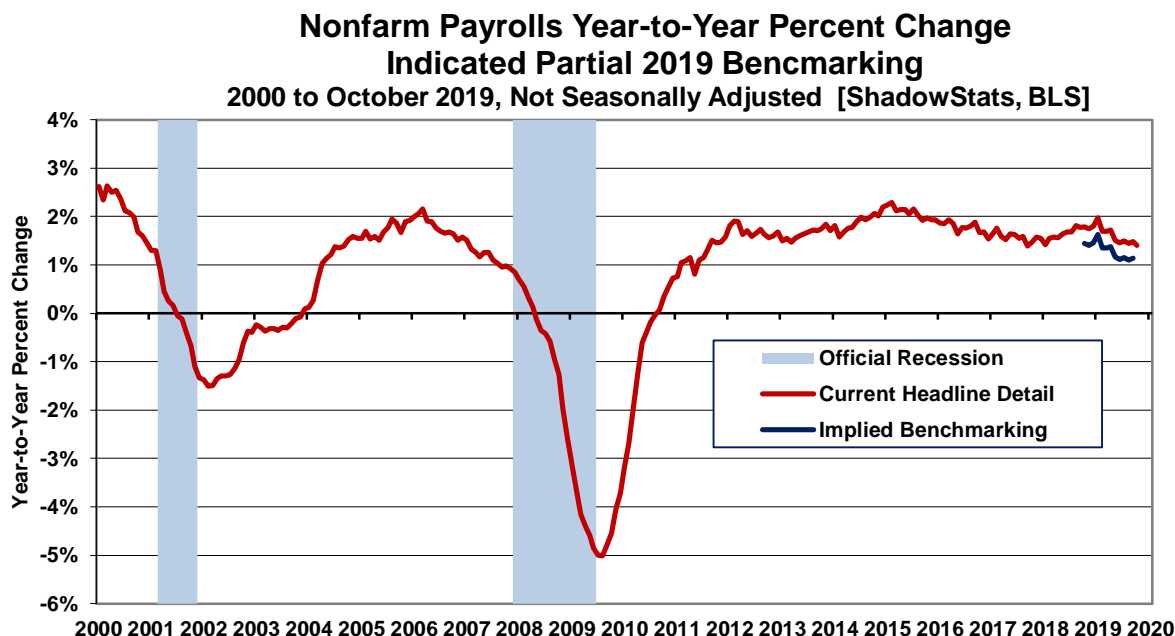
Significantly, it separately, it was bloated heavily by revised seasonal adjustments that added roughly 44,000 jobs to August, September and October 2019 payroll growth—stealing that growth from earlier periods—but with the earlier quarters not being restated or having the borrowed headline payrolls removed from them. Such is a traditional reporting gimmick of the Bureau of Labor Statistics (BLS). The monthly change also was independent of the recent initial, downside annual payroll benchmark revision estimate for 2019 of 501,000 (-501,000) jobs. All payroll restatements come with the January 2020 annual benchmark revision. Despite current distortions, annual payroll growth held at 1.4%, tied with the weakest growth since coming out of the Great Recession.

Following **Graphs 12 to 19** plot the headline levels of Payroll Employment and annual change in same for the aggregate series, Retail Trade, Manufacturing and Construction. All are showing trouble annual growth, particularly net of what will be downside benchmark revisions (see **Graph 13**).

**Graph 12: Nonfarm Payroll Employment, 2000 to Date**

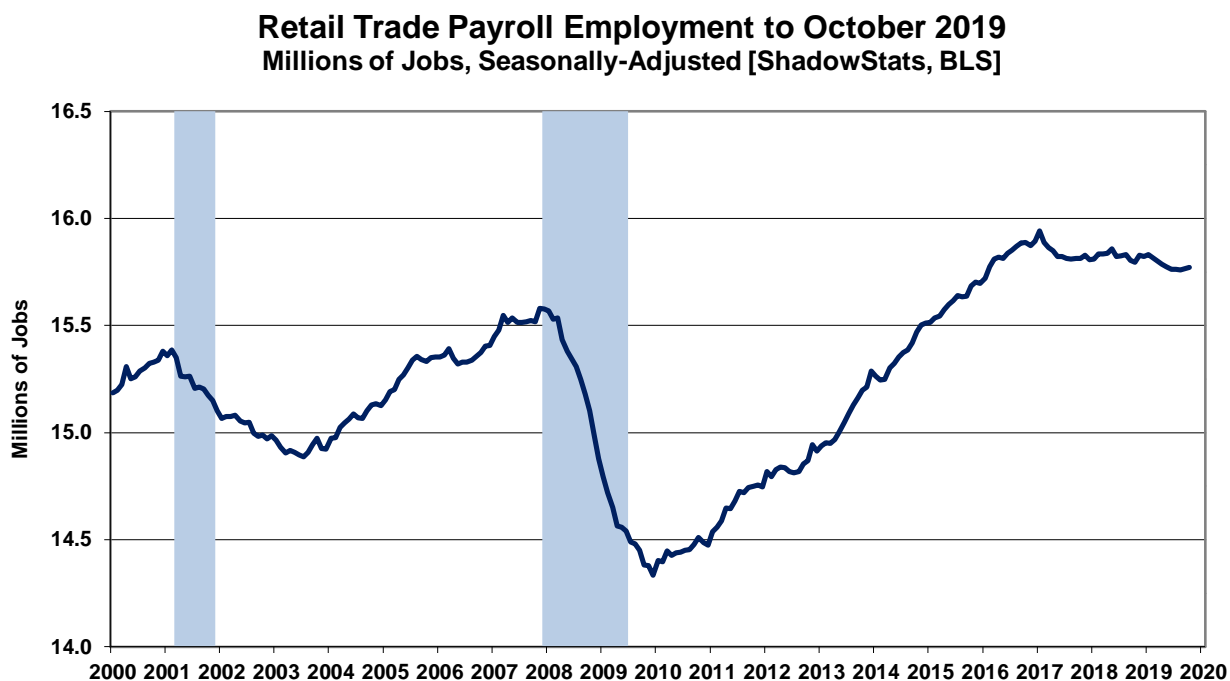


**Graph 13: Nonfarm Payroll Employment and Early Benchmark Indication, 2000 to Date, Yr-to-Yr % Change**

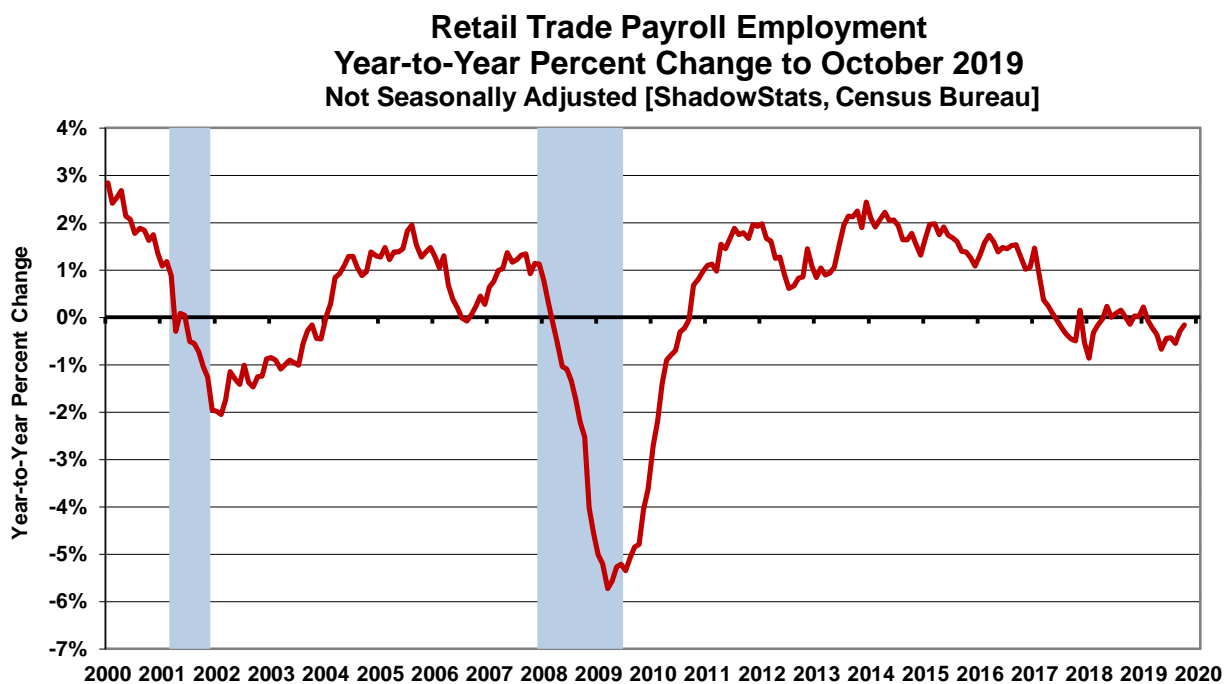




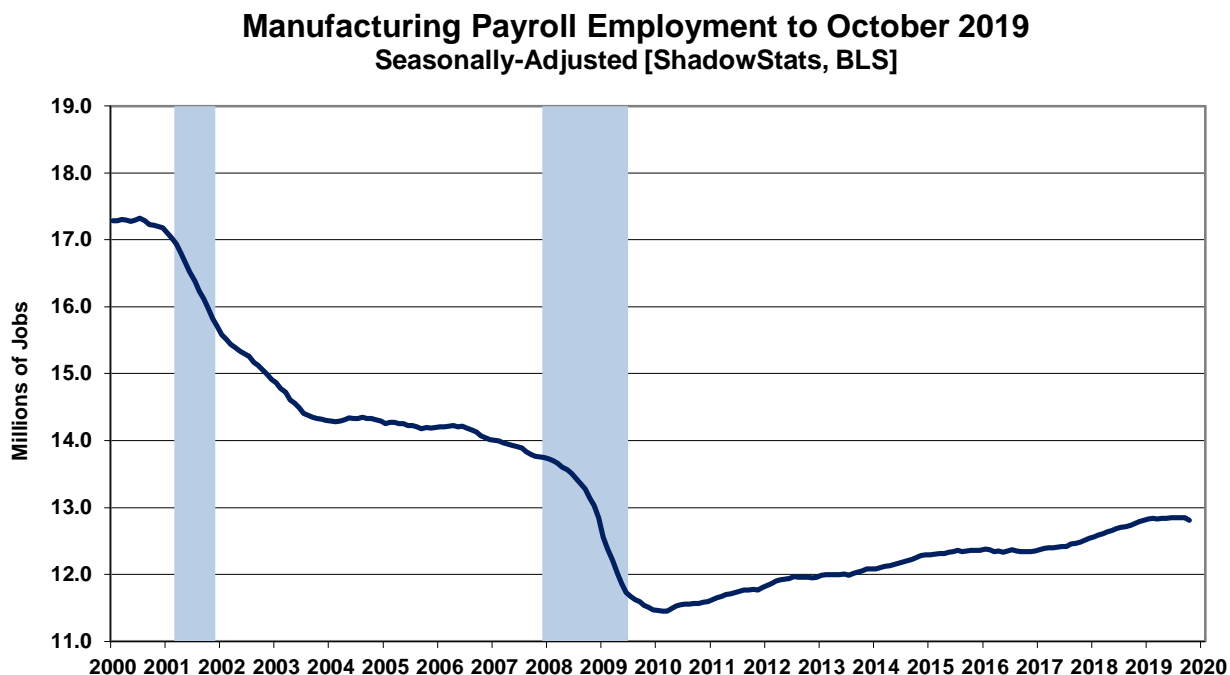
**Graph 14: Retail Trade Payroll Employment, 2000 to Date**



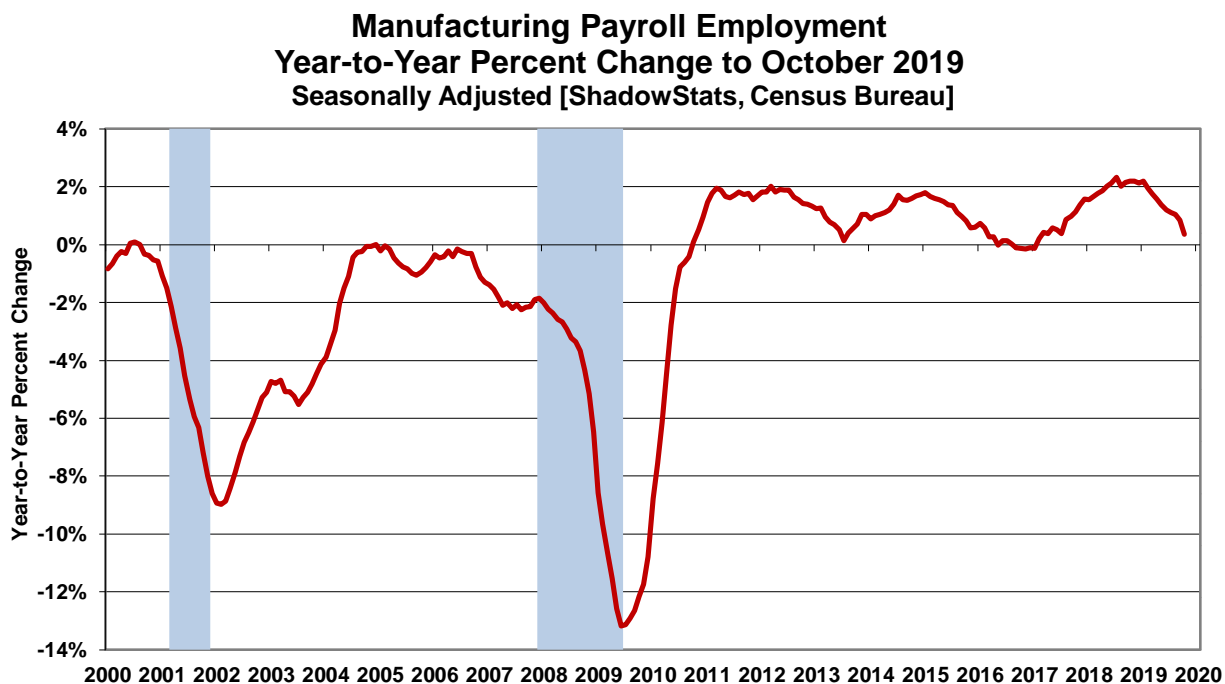
**Graph 15: Retail Trade Payroll Employment, Year-to-Year Percent Change**



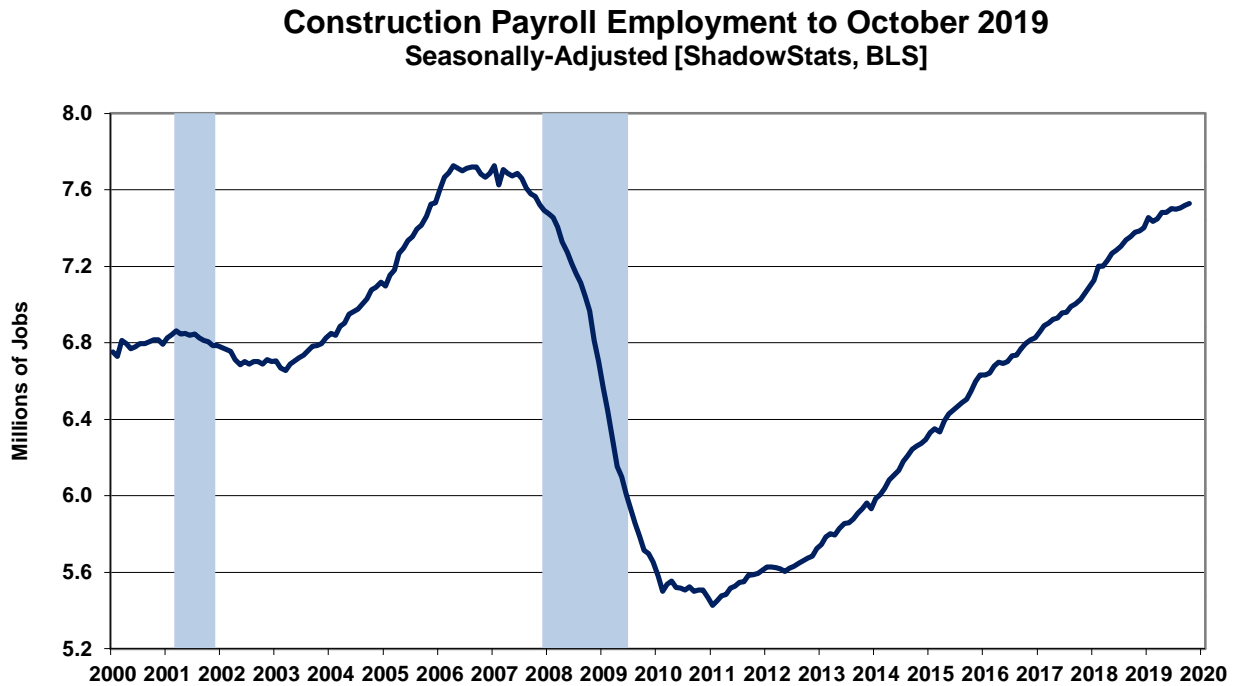
**Graph 16: Manufacturing Payroll Employment, 2000 to Date**



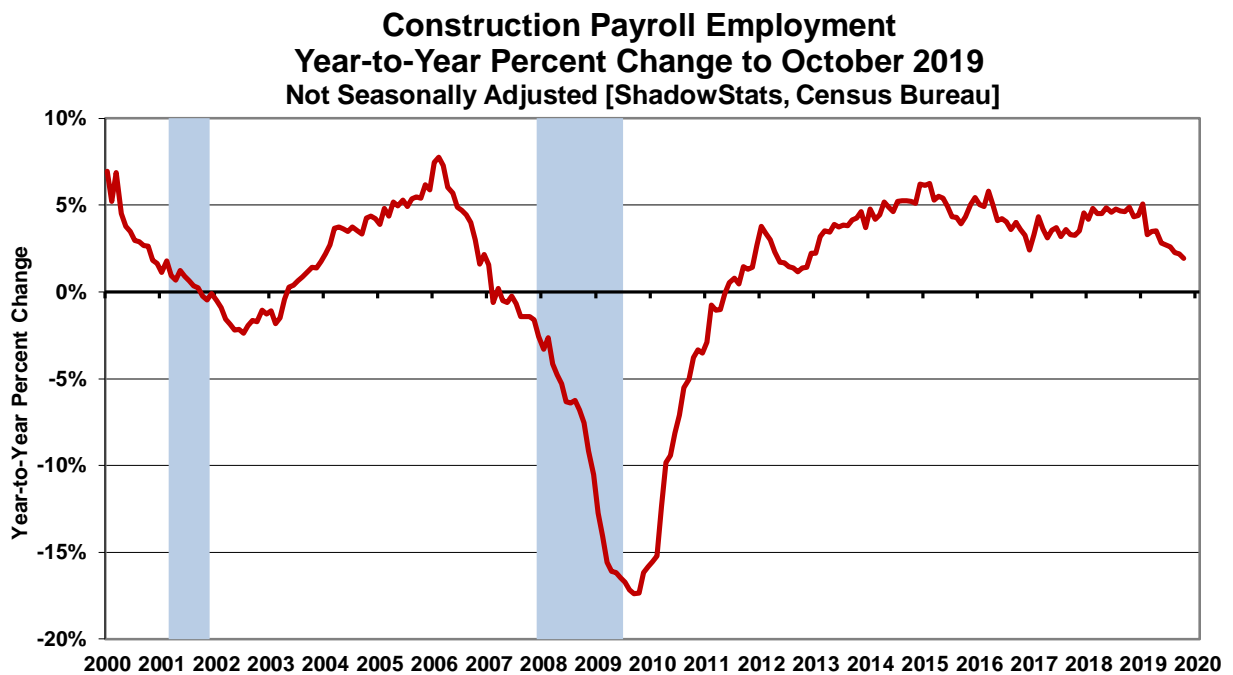
**Graph 17: Manufacturing Payroll Employment, Year-to-Year Percent Change, 2000 to Date**



**Graph 18: Construction Payroll Employment, 2000 to Date, 2000 to Date**



**Graph 19: Construction Payroll Employment, Year-to-Year Percent Change, 2000 to Date**

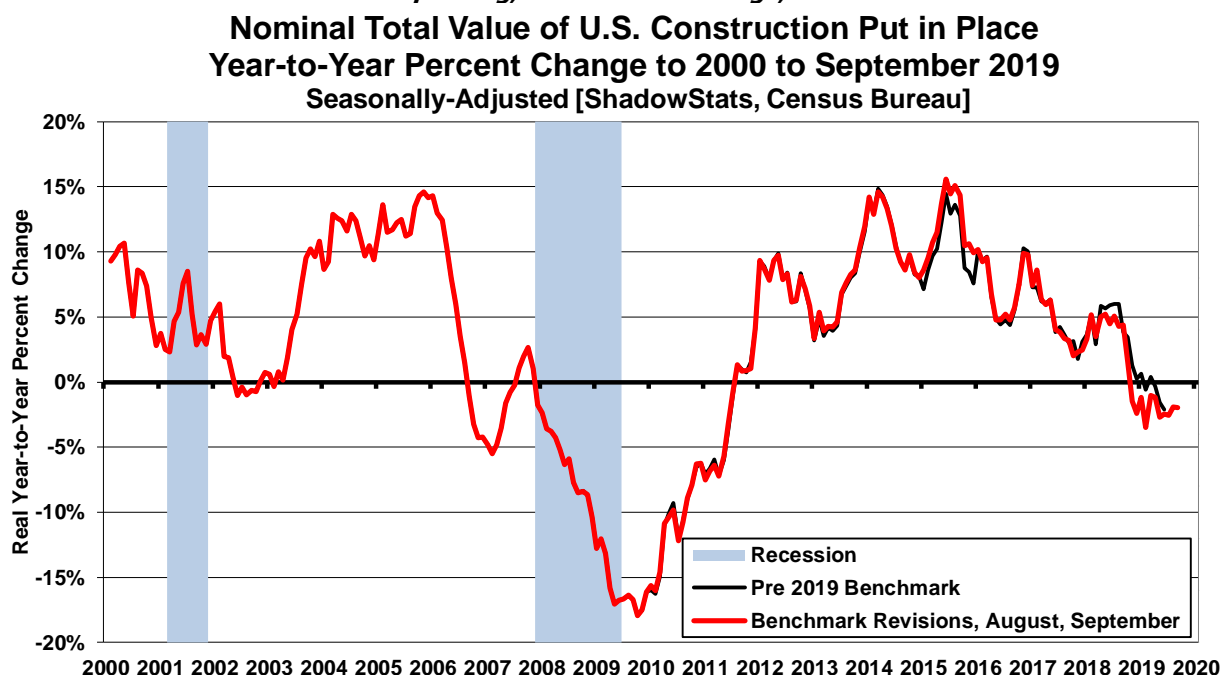


## Total Value of U.S. Construction Spending Put in Place

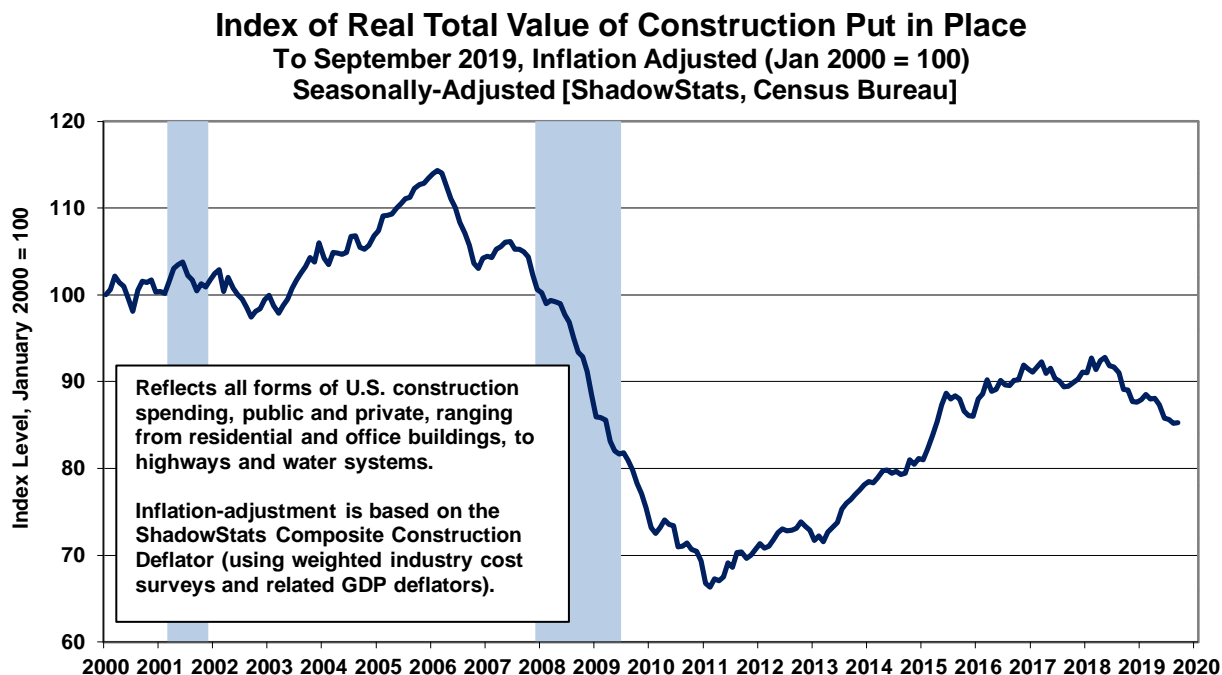
**September/Third-Quarter 2019 Construction Spending Put the Lie to Third-Quarter GDP.** Touted by Federal Reserve Chairman Jerome Powell at Wednesday's FOMC Press Conference, one bit of good news for the economy was that Residential Investment had turned positive in the October 30th Third-Quarter 2019 GDP. Reported by the Census Bureau on November 1st, where nominal annual growth (BEA) in GDP Residential Investment gained 1.5% year-to-year in Third-Quarter 2019 GDP, nominal Residential Construction declined year-to-year by 5.1% (-5.1%) in Third-Quarter 2019 Construction Spending. Net of inflation, it contracted year-to-year, but did notch higher minimally higher quarterly with the GDP's Implicit Price Deflator. As headlined in the GDP, it accounted for 0.2% of the headline 1.9% real GDP growth, with headline GDP revising lower to 1.7% or to 1.4%, depending on the deflator.

Headline nominal September 2019 Total U.S. Construction Spending Put in Place declined year-to-year by 1.97%, with Third-Quarter aggregate activity down by 2.14%, following annual declines of 2.11% (-2.11%) in Second-Quarter 2019, 1.91% (-1.91%) in First-Quarter 2019, and by 0.80% (-0.80%) in Fourth-Quarter 2018. That pattern of deepening nominal quarterly year-to-year contraction last was seen beginning in First-Quarter 2008, at the onset of the Great Recession. Current headline real activity remains shy by 25.4% (-25.4%) of ever having recovered its pre-recession peak activity. **Graph 20** shows the nominal annual growth patterns, where **Graphs 21** and **22** plot real Construction Spending and annual growth. Again, declining into negative year-to-year nominal annual growth last was seen at the onset of the Great Recession.

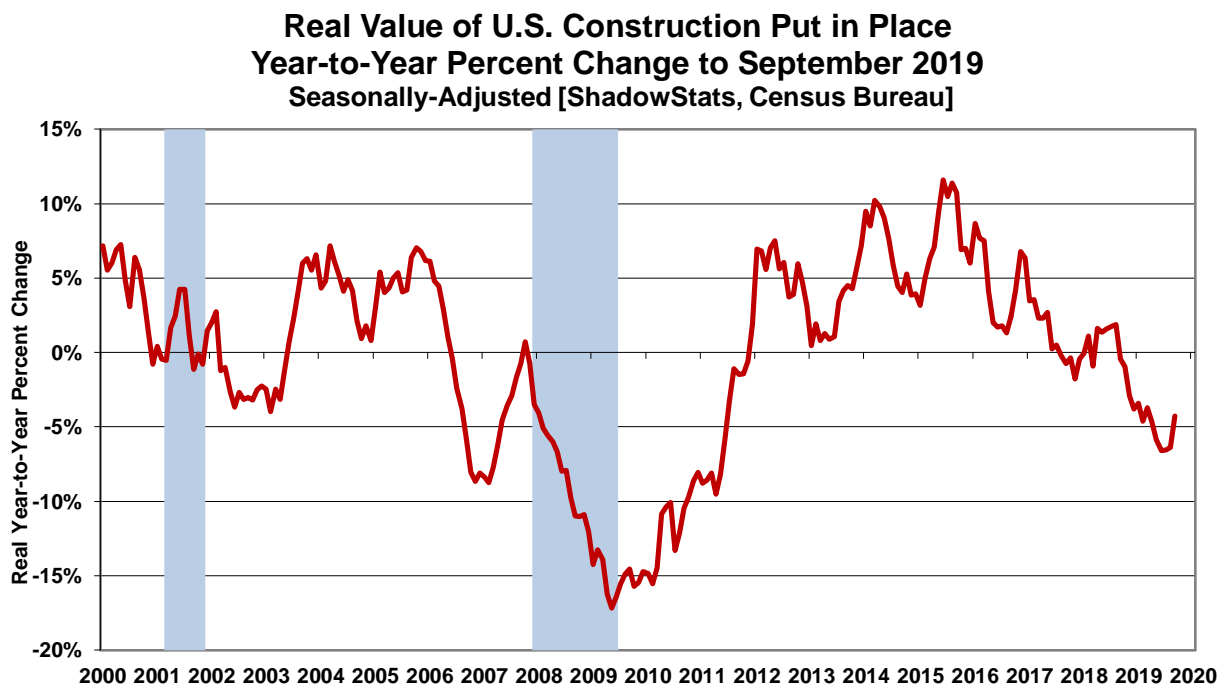
**Graph 20: Total Nominal Construction Spending, Year-to-Year Change, 2000 to Date**



**Graph 21: Total Real Construction Spending, 2000 to Date**



**Graph 22: Total Real Construction Spending, Year-to-Year Change, 2000 to Date**



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