

**ShadowStats Flash Commentary, Issue No. 1443**

**Previewing No. 1444, Unfolding Economic Collapse and Mounting Risks of Hyperinflation**

**July 23, 2020**

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**Previewing Special Economic Commentary No. 1444**

**Soaring Gold and Silver Prices, and a Weakening U.S. Dollar  
Increasingly Foreshadow Potential Hyperinflation and Systemic Instabilities**

**Reporting of Deepest-Ever GDP Decline Looms on July 30th**

**Annualized 49.1% (-49.1%) Quarterly Plunge in Household Survey Employed  
Was Consistent With a Real Second-Quarter 2020 GDP Annualized  
Collapse of 50% (-50%) and Year-to-Year Drop of 16.1% (-16.1%)**

**Potential Third-Quarter 2020 GDP Annualized 20% Rebound  
Still Would Be Down 12.7% (-12.7%) Year-to-Year,  
Rivalling Great Depression Depths and Post-World War II Readjustment**

**Economic Recovery Will Be Protracted**

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## Contents – Flash Commentary (Issue No. 1443)

<b>Opening Note to Subscribers</b>	<b>3</b>
<b>Surging Gold and Silver Prices Signal Inflation Fears</b>	<b>4</b>
<b>Multi-Year High Gold and Silver Prices</b>	<b>4</b>
<b>Trade- and Financial-Weighted U.S. Dollars Turn Increasingly Negative, Year-to-Year</b>	<b>4</b>
<b>Pending Record GDP Plunge in Second-Quarter GDP</b>	<b>5</b>
<b>Economic Conditions Continue to Falter</b>	<b>5</b>
<b>Worst of the Economic Headlines Comes on July 30th</b>	<b>5</b>
<b>Some Rebound in Third-Quarter, With a Very Slow, Protracted Recovery Ahead</b>	<b>5</b>
<i>Tables I and II : Second-Quarter 2020 Annualized and Annual Counts of Employed and GDP Implications .....</i>	<i>5</i>
<i>Table III: ShadowStats GDP Forecasts.....</i>	<i>6</i>
<i>Graph 1: Full Historical Series, Annual Real GDP to Date and ShadowStats Forecast for Full-Year 2000.....</i>	<i>7</i>
<i>Graph 2: Full Historical Series, Annual Real GDP Growth to Date and ShadowStats Forecast for Full-Year 2000.....</i>	<i>7</i>
<i>Graph 3: Full Historical Series, Quarterly Real GDP to 1q2020 and ShadowStats Forecast to 4q2020.....</i>	<i>8</i>
<i>Graph 4: Annualized Quarterly Real GDP Growth to 1q2020 and ShadowStats Forecast to 4q2020 .....</i>	<i>8</i>
<i>Graph 5: Year-to-Year Quarterly Real GDP Growth to 1q2020 and ShadowStats Forecast to 4q2020 .....</i>	<i>9</i>
<i>Graph 6: Quarterly Real GDP, 2000 to 1q2020 and ShadowStats Forecast to 4q2020 .....</i>	<i>9</i>
<i>Graph 7: Annualized Quarterly Real GDP Growth, 2000 to 1q2020 and ShadowStats Forecast to 4q2020 .....</i>	<i>10</i>
<i>Graph 8: Year-to-Year Quarterly Real GDP Growth, 2000 to 1q2020 and ShadowStats Forecast to 4q2020 .....</i>	<i>10</i>
<b>Updated Financial Market Graphs to July 23, 2020</b>	<b>12</b>
<b>Physical Gold and Swiss Franc Increasingly Protect U.S. Dollar Purchasing Power</b>	<b>12</b>
<b>Inflation Risks Mount as Gold and Silver Prices Soar</b>	<b>12</b>
<i>Graph 9: Feb. 3 to Jul. 23, 2020 Financial Markets .....</i>	<i>12</i>
<i>Graph 10: Dow Jones Industrial Average versus Gold (Monthly Average).....</i>	<i>13</i>
<i>Graph 11: Total Return S&amp;P 500® versus Gold (Month End) .....</i>	<i>13</i>
<i>Graph 12: U.S. Financial- vs. Trade-Weighted U.S. Dollar .....</i>	<i>14</i>
<i>Graph 13: U.S. Financial- vs. Trade-Weighted U.S. Dollar, Year-to-Year Change .....</i>	<i>14</i>
<i>Graph 14: Gold versus Swiss Franc .....</i>	<i>15</i>
<i>Graph 15: Gold versus Silver .....</i>	<i>15</i>
<i>Graph 16: Gold versus Oil .....</i>	<i>16</i>

## Opening Note to Subscribers

**Today's *Flash Commentary No. 1443* Previews Elements of Pending *No. 1444*.** My plan was to publish last weekend, what now has been renumbered as *ShadowStats Special Economic Commentary No. 1444*, which will post over the coming July 25th weekend. I apologize for the delay in release of the full issue, but hope to get some key points out in advance of its release. Having evolved and expanded well beyond initial planning, *No. 1444* will provide not only a full preview of the pending, July 30th “advance” estimate of Second-Quarter 2020 Gross Domestic Product (GDP), but also underlying activity for same, and for the accompanying pending annual benchmark revisions for the period 2015 to date.

The U.S. economy was weaker than headlined, coming into Coronavirus-Pandemic Shutdown. Accordingly, watch for some downside revisions to earlier GDP from 2018 into First-Quarter 2020.

Also to be discussed in *No. 1444* are signals from the current, rapid upturn in dollar prices for physical gold and silver, which increasingly suggest serious, unfolding inflation problems—potentially pending hyperinflation issues. Such is in the context of developing anecdotal evidence of spiking prices in Pandemic-limited sectors (*i.e.* Restaurants) in the U.S. economy, and mounting inflationary signals in headline economic reporting (*i.e.* June 2020 CPI-U up by 0.6% in the month, strongest gain since August 2012, albeit with some relief from gasoline prices).

**Your questions and comments always are welcomed. Please call or e-mail me any time. Leave a message if your call goes to Voicemail. I shall be back to you.**

**John Williams (707) 763-5786, [johnwilliams@shadowstats.com](mailto:johnwilliams@shadowstats.com)**

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**For the Benefit of Subscribers: New Circumstances, Breaking News and Schedule Changes Are Highlighted in the [Daily Update](#).** Rapidly shifting headlines, reporting details, intervening events, unusual developments in the markets, with the FOMC or the economy, and ShadowStats scheduling—all are covered in the *Daily Update* section of the [ShadowStats Home Page](#). For example, an initial assessment of headline details and any unusual twists in regular economic reporting always is highlighted in the *Daily Update*, usually within a couple hours of the reporting authority posting its economic release.

For recent economic and the latest market and systemic assessments, see [Special Commentary, Issue No. 1429](#) (FOMC Panic), [Special Commentary, Issue No. 1430](#) (Systemic Solvency), [Flash Commentary, Issue No. 1433](#) (Retail Sales Benchmarking), [Flash Commentary No. 1434](#) (1q2000 GDP), [Special Economic Commentary, Issue No. 1437](#) (Economic Update), [Special Hyperinflation Commentary, Issue No. 1438](#) (Risks of a Hyperinflationary Economic Collapse), [Flash Commentary No. 1439](#) (Distorted May Labor Conditions, NBER Recession Call, FOMC Outlook), [Flash Commentary, Issue No. 1440](#) (FOMC and Inflation) and [Economic Commentary, Issue No. 1441](#) (Economic Update). [Flash Commentary, Issue No. 1442](#) (Gold, Money Supply GDP).

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## Surging Gold and Silver Prices Signal Inflation Fears

### Multi-Year High Gold and Silver Prices

#### Trade- and Financial-Weighted U.S. Dollars Turn Increasingly Negative, Year-to-Year

**Gold and Silver Prices Hit Multi-Year Highs as the U.S. Dollar Turned Increasingly Negative Year-to-Year—Mounting Inflation Fears Are a Driving Factor.** Discussed in [\*Special Hyperinflation Commentary, Issue No. 1438\*](#) (Risks of a Hyperinflationary Economic Collapse), a rising gold price tends to lead a pick-up in inflation. In the context of soaring gold and silver prices and a weakening U.S. dollar, those mounting inflation concerns have been generated by explosive, uncontrolled Money Supply creation by the Federal Reserve, and soaring, uncontrolled Deficit Spending by the Federal Government. Those official acts of U.S. dollar debasement were designed to prevent or to mitigate systemic, economic and financial-market collapse, in the wake of the Coronavirus-Pandemic shutdown of the economy and regular social functioning in the United States.

As of the July 23, 2020 London afternoon Gold fix of \$1,878.30 and Silver fix of \$22.86 per troy ounce, gold and silver prices had rallied respectively by 17.4% and 35.1% since March 1st (used here as a surrogate for pre-Pandemic-shutdown prices), hitting their respective highest market prices since 2011 and 2013, with Gold shy by just 0.8% (-0.8%) of setting an all-time high.

***Increasing Flight from the U.S. Dollar Exacerbates the Domestic Inflation Risks.*** The mounting flight from the U.S. dollar into precious metals also has been mirrored in intensified U.S. Dollar weakness in the foreign exchange markets, creating upside domestic inflation pressures from the rising cost of imported goods. The ShadowStats Financial-Weighted U.S. Dollar turned negative year-to-year in June 2020, with the Federal Reserve's (AFE) Trade-Weighted U.S. Dollar dropping to flat, year-to-year change in June, with both measures turning sharply negative year-to-year in July 2020 trading, to date, for the first time in two years. The variety of factors at play here range from impaired economic activity, media-hyped mounting political instabilities, as well as to the rapidly accelerating physical debasement of the U.S. currency from the Pandemic-induced monetary and fiscal policy excesses.

The general concept behind a financial- or trade-weighted currency index is to provide an overall measure of a nation's relative currency performance, based on component currencies weighted for respective financial-market or trade volume between the involved countries.

The Shadow Government Statistics' Financial-Weighted U.S. Dollar index (FWD) provides a dollar measure that is weighted for the volume of global currency trading patterns, in contrast to the Federal Reserve's AFE Trade-Weighted Dollar (TWD) index with its components weighted for trading volume in goods and services. While the financial-weighted and trade-weighted indices have similar components, but different weightings, they still are highly correlated, as would be expected. Nonetheless, the differences between the series have implications for financial market activity, with the current currency-volume weighting (incorporates financial flows), suggesting somewhat weaker annual change in the weighted U.S. Dollar, than the trade-volume weighting (see ***Graphs 12*** and ***13*** on page 14).

Also, see extended prior discussions in [\*Special Hyperinflation Commentary, Issue No. 1438\*](#), [\*Flash Commentary, Issue No. 1440\*](#) and [\*Flash Commentary No. 1442\*](#).

## Pending Record GDP Plunge in Second-Quarter GDP

### Economic Conditions Continue to Falter

### Worst of the Economic Headlines Comes on July 30th

### Some Rebound in Third-Quarter, With a Very Slow, Protracted Recovery Ahead

**Headline Second-Quarter 2020 GDP Will See Collapsing Quarterly and Annual Real Gross Domestic Activity, Followed by Some Third-Quarter Rebound in a Relatively Flat Recovery.** The best coincident indicator I have found for the quarterly Gross Domestic Product (GDP), the theoretical broadest measure of U.S. Economic Activity, is the Bureau of Labor Statistics' (BLS) Household Survey of "employed" individuals. *Tables I* and *II* show the "employed" activity versus headline GDP activity into First-Quarter 2020. The GDP numbers are as headlined, the employed are corrected/adjusted for the formal BLS undercounts of "Unemployed" in 2020 surveying, on top of annual adjustments to the BLS population estimates at the end of each calendar year.

***Tables I and II: Second-Quarter 2020 Annualized and Annual Counts of Employed and GDP Implications***

Table I: Annualized Quarter-to-Quarter Percent Change in Headline Employed Count versus Real GDP			Table II: Year-to-Year Percent Change in Headline Employed Count versus Real GDP		
Quarter	Household Survey Count of Employed <sup>1</sup>	Headline Real GDP	Quarter	Household Survey Count of Employed <sup>1</sup>	Headline Real GDP
3q2019	2.4%	2.1%	3q2019	1.4%	2.0%
4q2019	2.0%	2.1%	4q2019	1.6%	2.3%
1q2020	-4.7%	-5.0%	1q2020	0.0%	0.3%
2q2020	-49.1%	-50.0% <sup>2</sup>	2q2020	-15.6%	-16.1% <sup>2</sup>
<sup>1</sup> Prepared using consistent monthly and quarterly reporting. <sup>2</sup> ShadowStats Estimate based on Household Survey employed count. Sources: ShadowStats, BLS, BEA			<sup>1</sup> Prepared using consistent monthly and quarterly reporting. <sup>2</sup> ShadowStats Estimate based on Household Survey employed count. Sources: ShadowStats, BLS, BEA		

Based on the “employed” indicator, headline Second-Quarter 2020 GDP should show an annualized real quarterly contraction of about 50% (-50%), down year-to-year by about 16% (-16%), which effectively would wipe out all the headline GDP growth since the Great Recession economic recovery (see **Table III**). Keep in mind that the collapse here was forced by a Pandemic shutdown, not otherwise by collapsing economic activity, which earlier had been driven by FOMC tightening.

**ShadowStats** estimates in that circumstance that Third- and Fourth-Quarter activity, respectively, could rebound by annualized quarterly GDP growth of 20% and 5% (see **Table III**), where the greatest-ever 20% gain would be released in late-October, just six days before the November 3rd Presidential Election. Annual growth rates would hold in annual decline respectively of about 12.0% (-12.0%) and 12.7% (-12.7%), a flat, not V-shaped recovery.

Consensus forecasts are suggesting a Second-Quarter 2020 annualized decline in the range of 30% (-30%) to 35% (-35%), where a Third-Quarter 2020 bounce-back would tend to be weaker, in aggregate than the ShadowStats estimate, with real annual declines around 10% (-10%).

All that said, the BEA has the flexibility with its surveying and underlying assumptions, in current circumstances to bring in the GDP reporting much stronger than consensus estimates, if it so chooses.

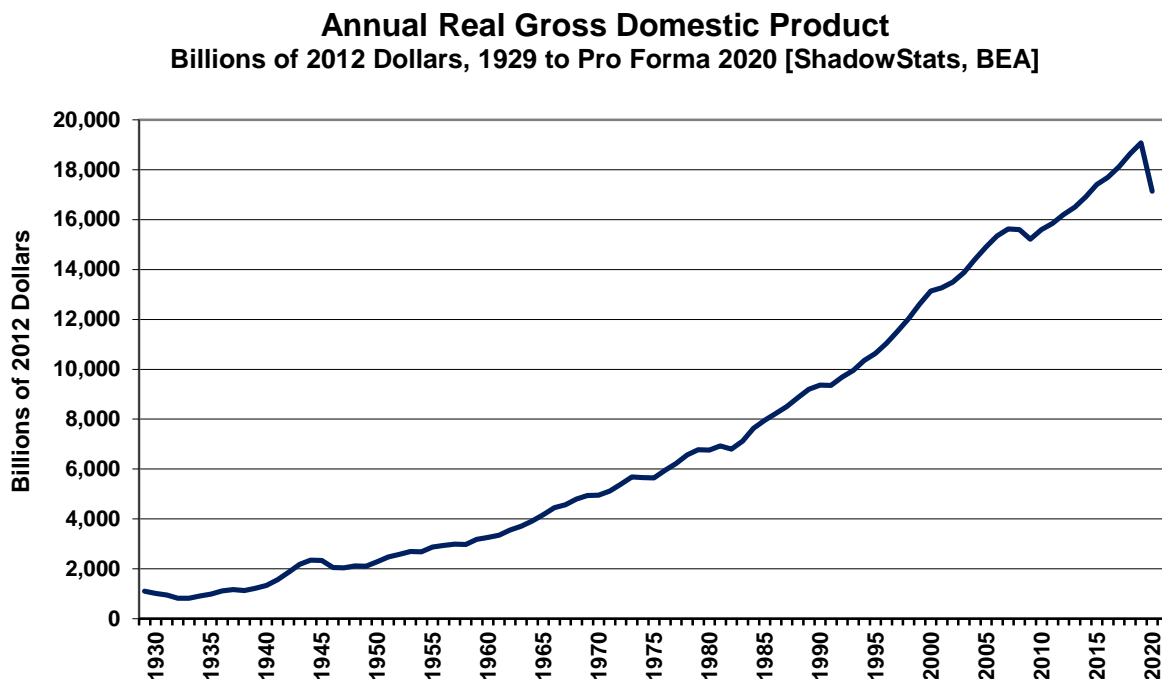
**Table III: ShadowStats GDP Forecasts**

Table III: Real U.S. Gross Domestic Product Annualized and Year-to-Year Quarterly Growth, Seasonally Adjusted		
Quarter	Q/Q	Y/Y
1q2019	3.1%	2.7%
2q2019	2.0%	2.3%
3q2019	2.1%	2.1%
4q2019	2.1%	2.3%
1q2020	-5.0%	0.3%
2q2020 f	-50.0%	-16.1%
3q2020 f	20.0%	-12.7%
4q2020 f	5.0%	-12.0%
f - ShadowStats forecast Sources: ShadowStats, BEA		

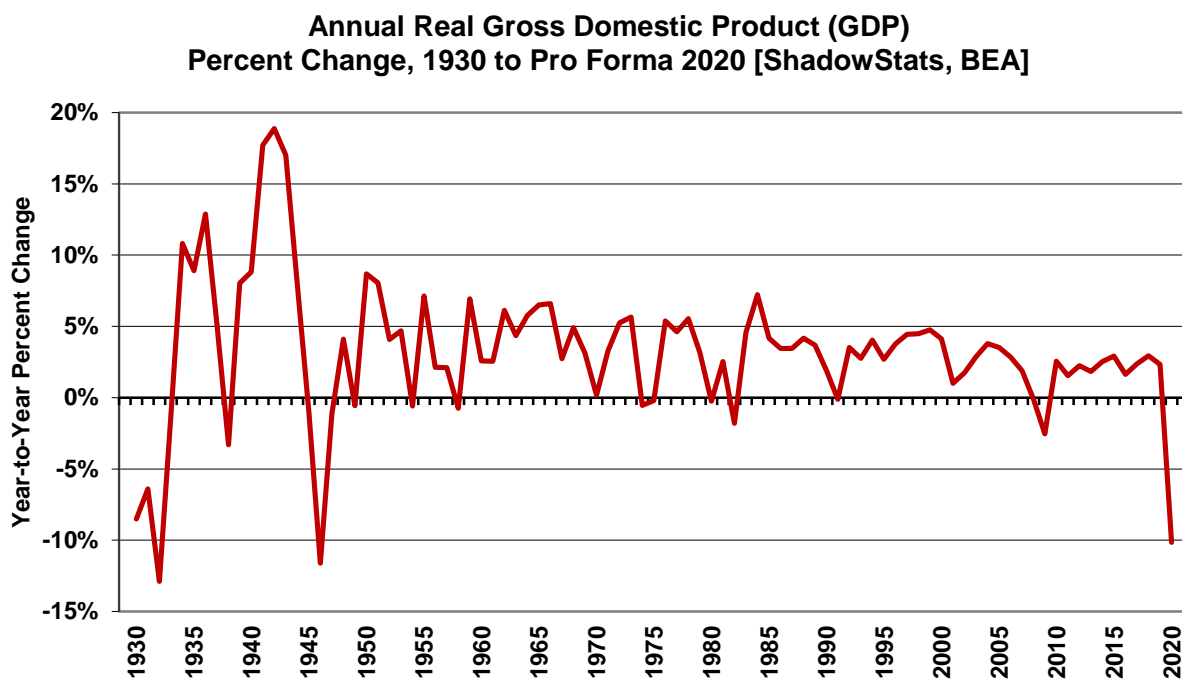
Please Note: **Graphs 1** to **8** plot the ShadowStats GDP forecasts. The plots reflect headline GDP quarterly and annual data through First-Quarter 2020; Annual 2020 and Second- to Fourth-Quarter 2020 numbers are ShadowStats forecasts (see **Table III**), as discussed in this section.

Expanded detail follows in pending **ShadowStats Special Economic Commentary, Issue No. 1444**. Please call with any questions. – John Williams (707) 763-5786, [johnwilliams@shadowstats.com](mailto:johnwilliams@shadowstats.com).

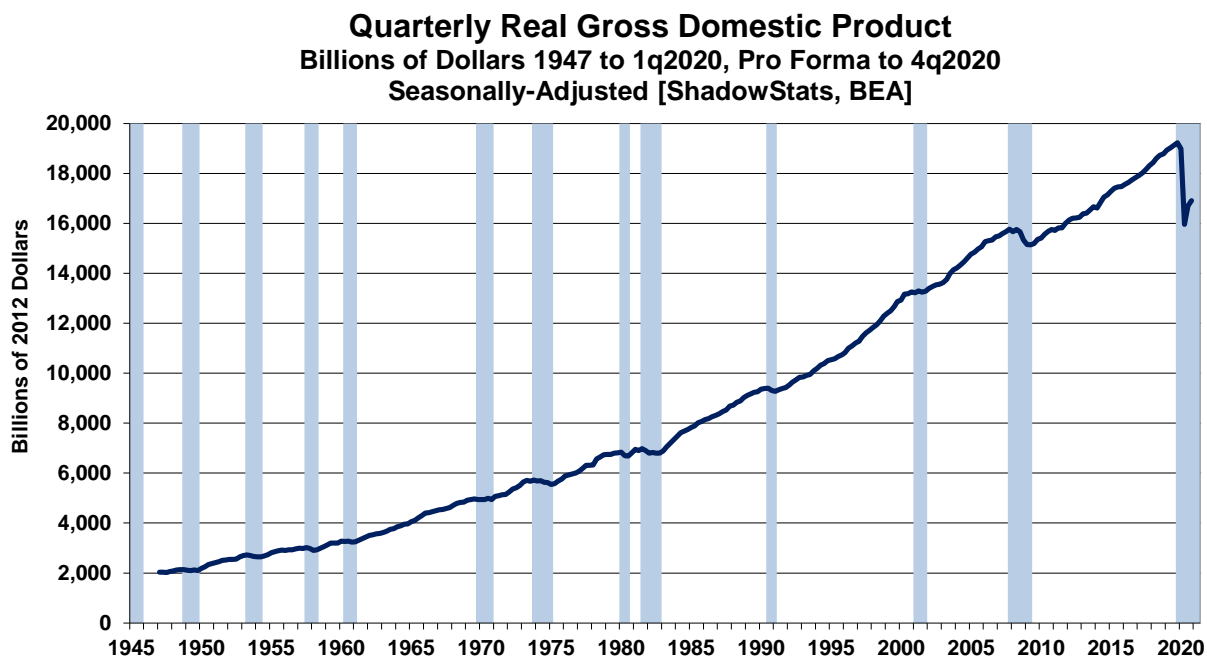
**Graph 1: Full Historical Series, Annual Real GDP to Date and ShadowStats Forecast for Full-Year 2000**



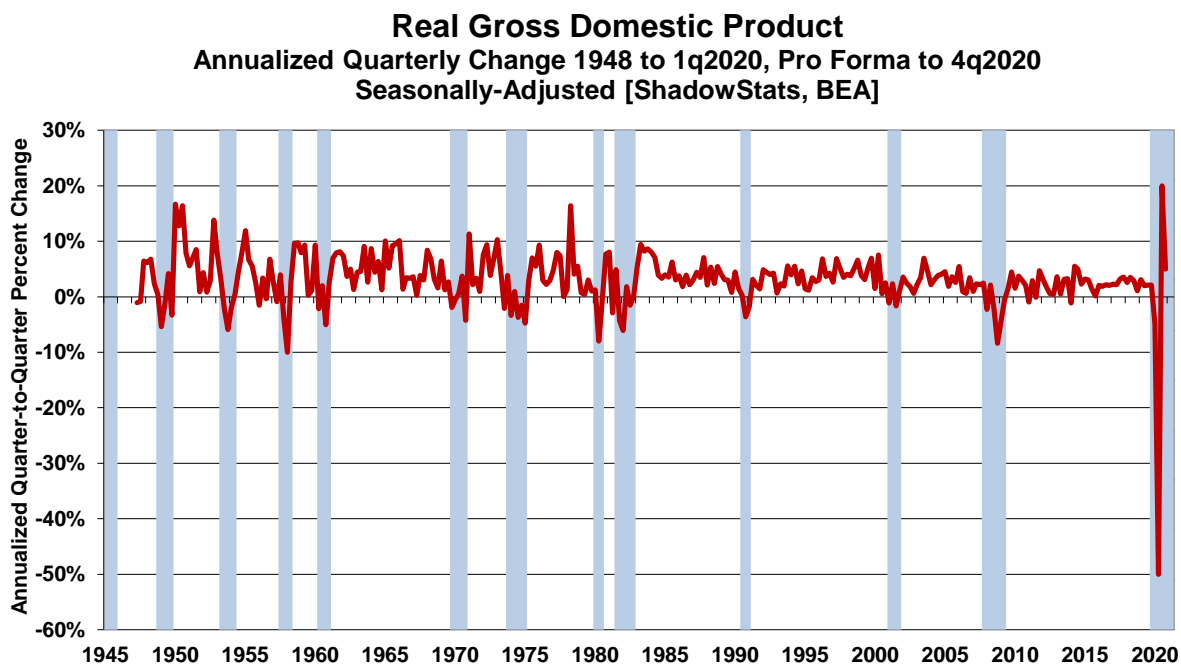
**Graph 2: Full Historical Series, Annual Real GDP Growth to Date and ShadowStats Forecast for Full-Year 2000**



**Graph 3: Full Historical Series, Quarterly Real GDP to 1q2020 and ShadowStats Forecast to 4q2020**

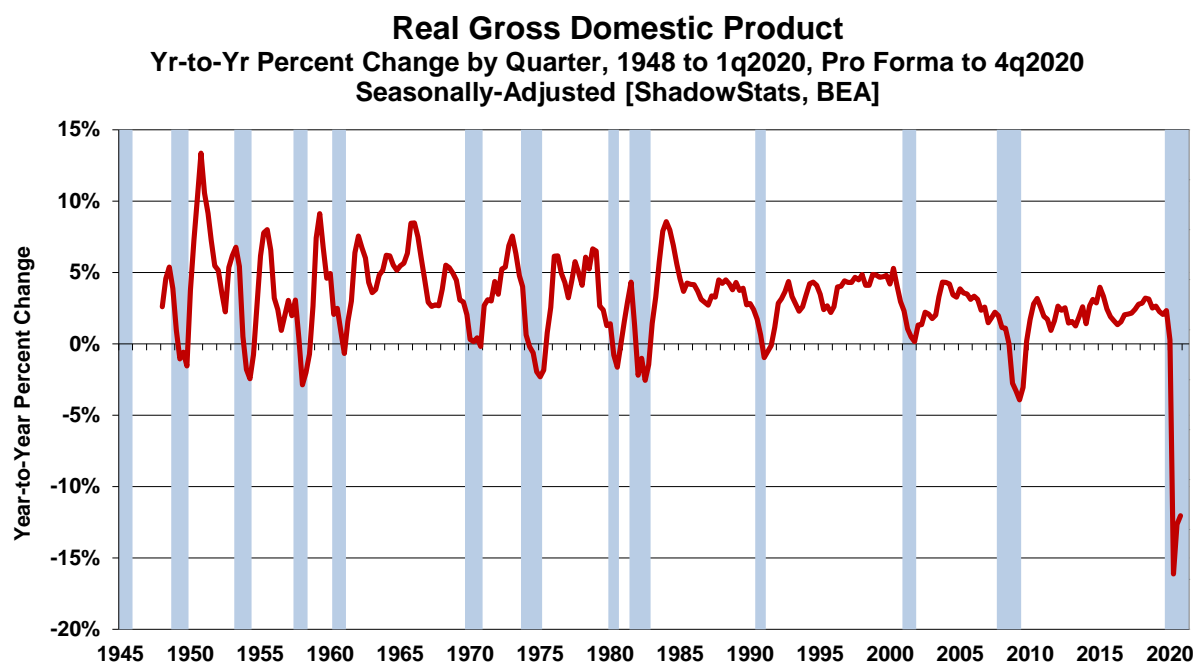


**Graph 4: Annualized Quarterly Real GDP Growth to 1q2020 and ShadowStats Forecast to 4q2020**

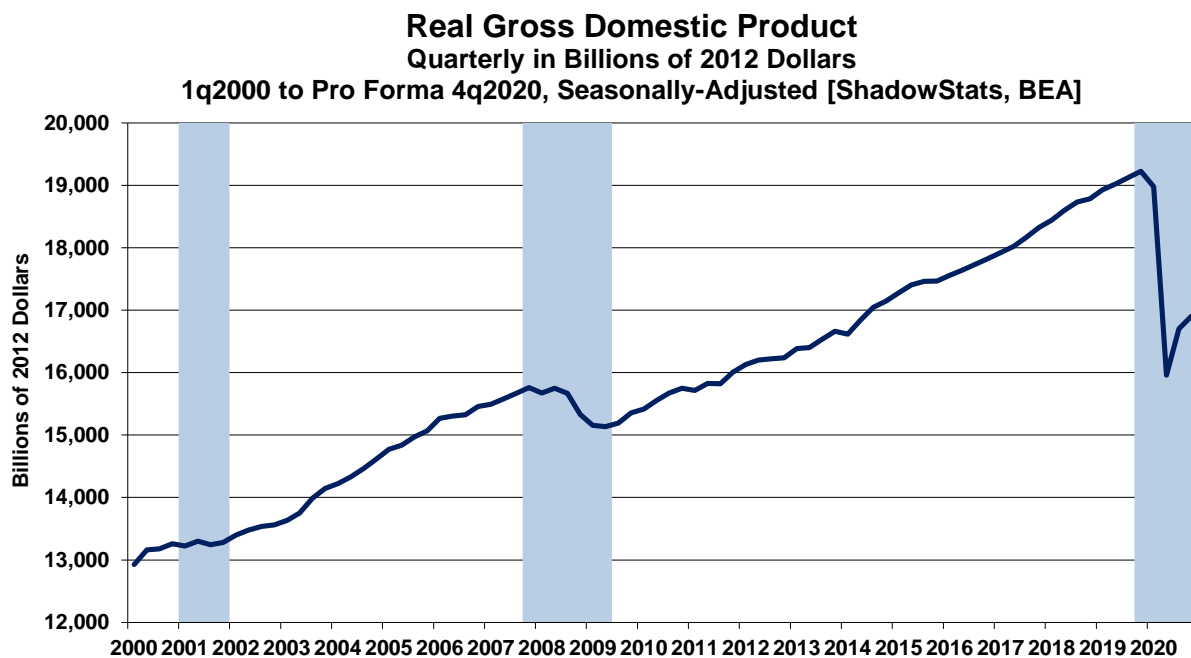




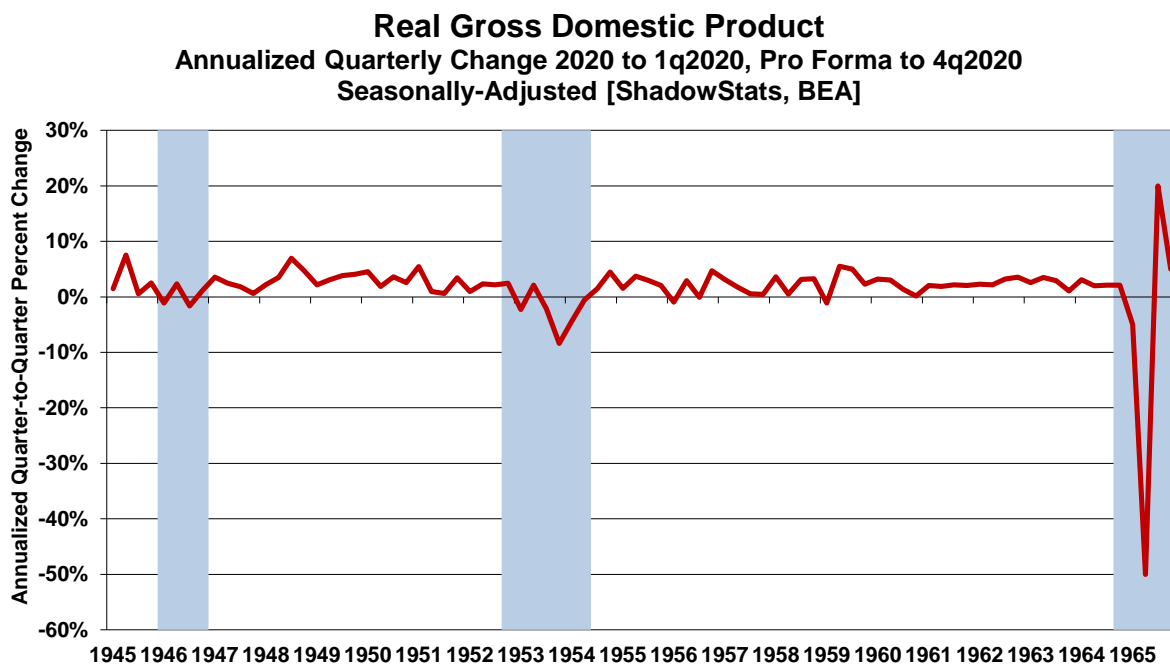
**Graph 5: Year-to-Year Quarterly Real GDP Growth to 1q2020 and ShadowStats Forecast to 4q2020**



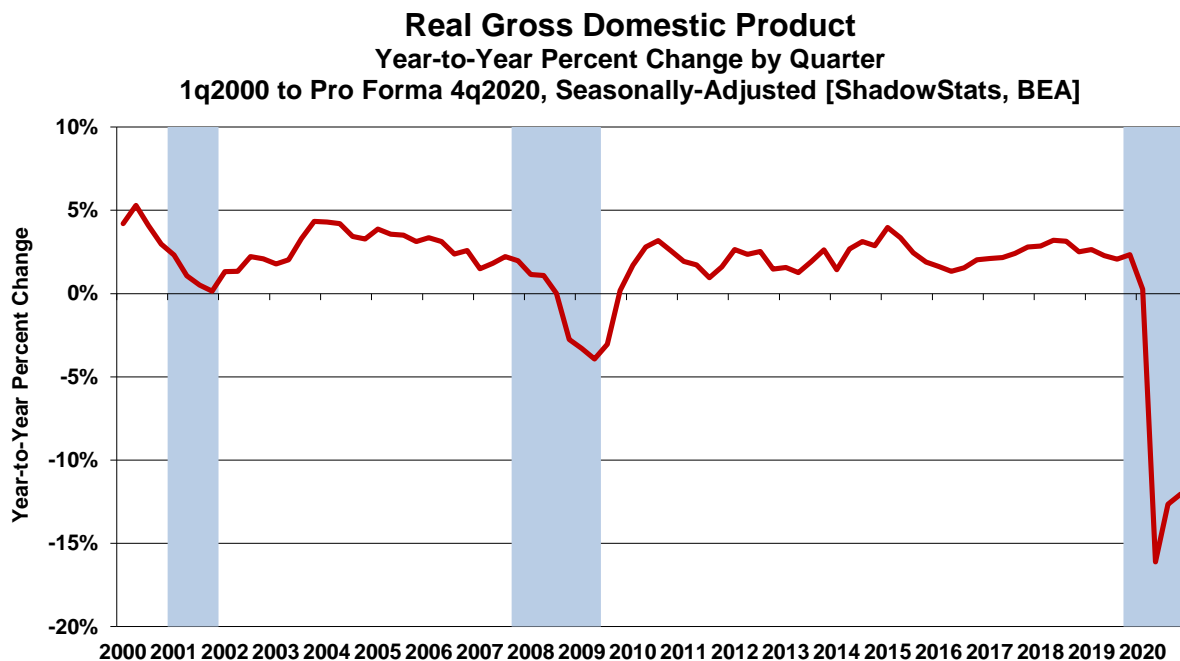
**Graph 6: Quarterly Real GDP, 2000 to 1q2020 and ShadowStats Forecast to 4q2020**



**Graph 7: Annualized Quarterly Real GDP Growth, 2000 to 1q2020 and ShadowStats Forecast to 4q2020**



**Graph 8: Year-to-Year Quarterly Real GDP Growth, 2000 to 1q2020 and ShadowStats Forecast to 4q2020**



**Irrespective of Any Short-Lived Central Bank Interventions to Suppress the Gold Price, Gold Will Protect the Long-Term Purchasing Power of Invested U.S. Dollars.** As the upside movement in Gold and Silver prices has accelerated, as markets have seen increasingly unrestrained money creation and mounting inflation risks, the Federal Reserve's post-Pandemic monetary policies have driven continual, record monthly surges in annual growth for the Money Supply M1, M2 and the Ongoing ShadowStats M3 money stock measures through June. In the context of Gold prices recently topping \$1,800 per troy ounce, some scales in the *Updated Financial Market Graphs* (beginning on page 12) have been recalibrated, with the upper bounds of the Gold-based graphs shifting up to \$2,000 per ounce.

Central Banks and Treasury Departments—particularly the dollar-based U.S. Federal Reserve and the U.S. Treasury—abhor surging gold prices. Financial-market flight-to-safety in the precious metals is a circumstance that signals serious Fed and/or U.S. Treasury malpractice and mismanagement of monetary and/or fiscal policy. At present, both the Fed and the Treasury are running panicked, with their respective policies out of control (see [\*Special Hyperinflation Commentary, Issue No. 1438\*](#)). That said, such also is an environment where those institutions may intervene, temporarily, to suppress or to attempt to slow, the warning siren of rising gold prices. Yet, where neither institution at present has politically practical, alternative approaches to current monetary and fiscal policies, any market interventions seen should be fleeting and remain of temporary, short-lived impact.

With some evolution, the ShadowStats broad outlook in the weeks and months ahead remains for:

- A continuing and potentially hyperinflationary U.S. economic collapse, with significant bottom bouncing and an unfolding, troubled and protracted recovery, reflected in
- Continued flight to safety in precious metals, with accelerating upside pressures on gold and silver prices,
- Mounting selling pressure on the U.S. dollar, against the Swiss Franc, and
- Despite recent extreme Stock Market volatility, continuing high risk of major instabilities and massive liquidation of U.S. equities,
- Complicated by ongoing direct, supportive market interventions arranged by the U.S. Treasury Secretary, as head of the President's Working Group on Financial Markets (a.k.a. the “Plunge Protection Team”), or as otherwise gamed by the FOMC.

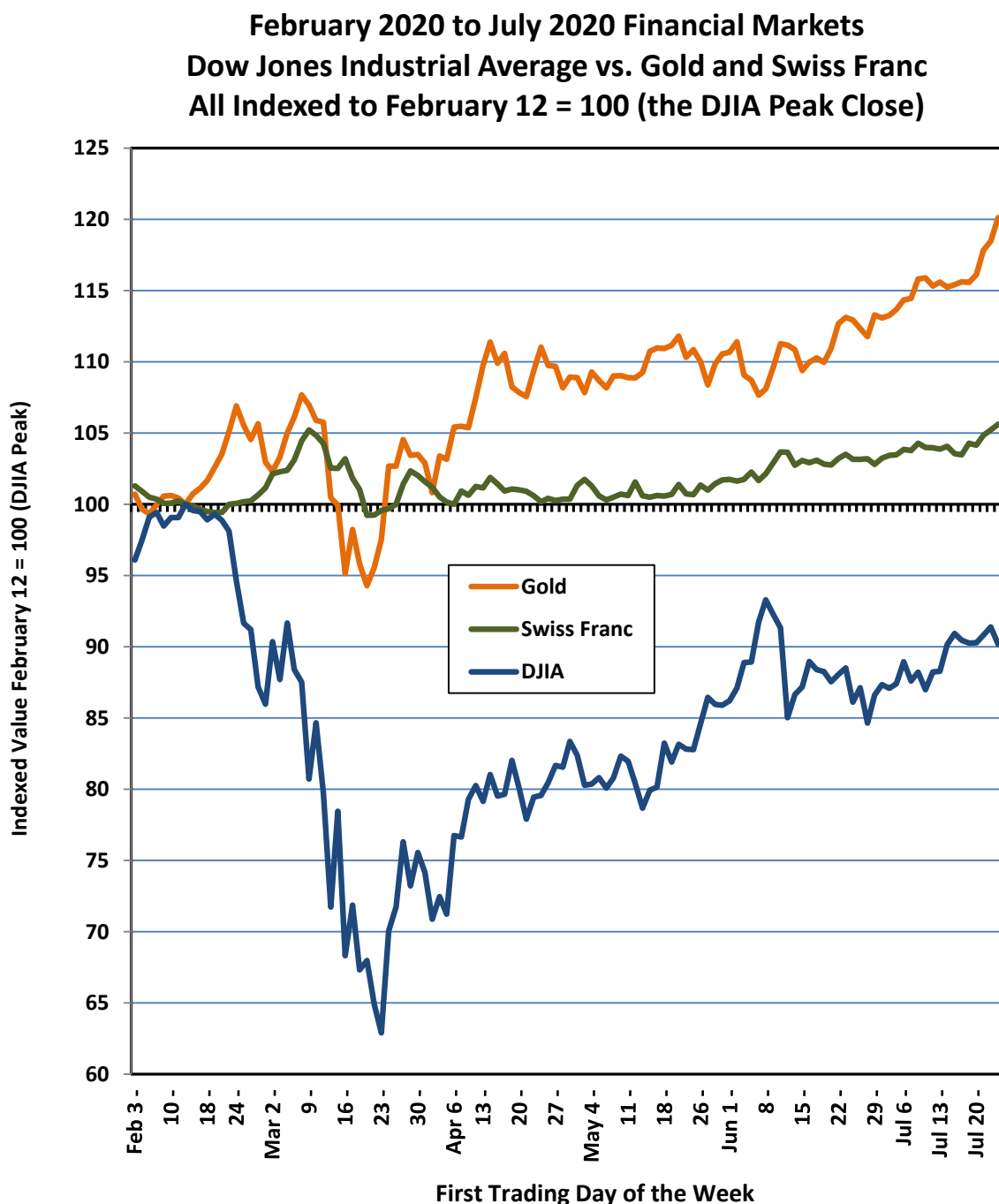
**[Updated Financial Market Graphs begin on the next page.]**

## Updated Financial Market Graphs to July 23, 2020

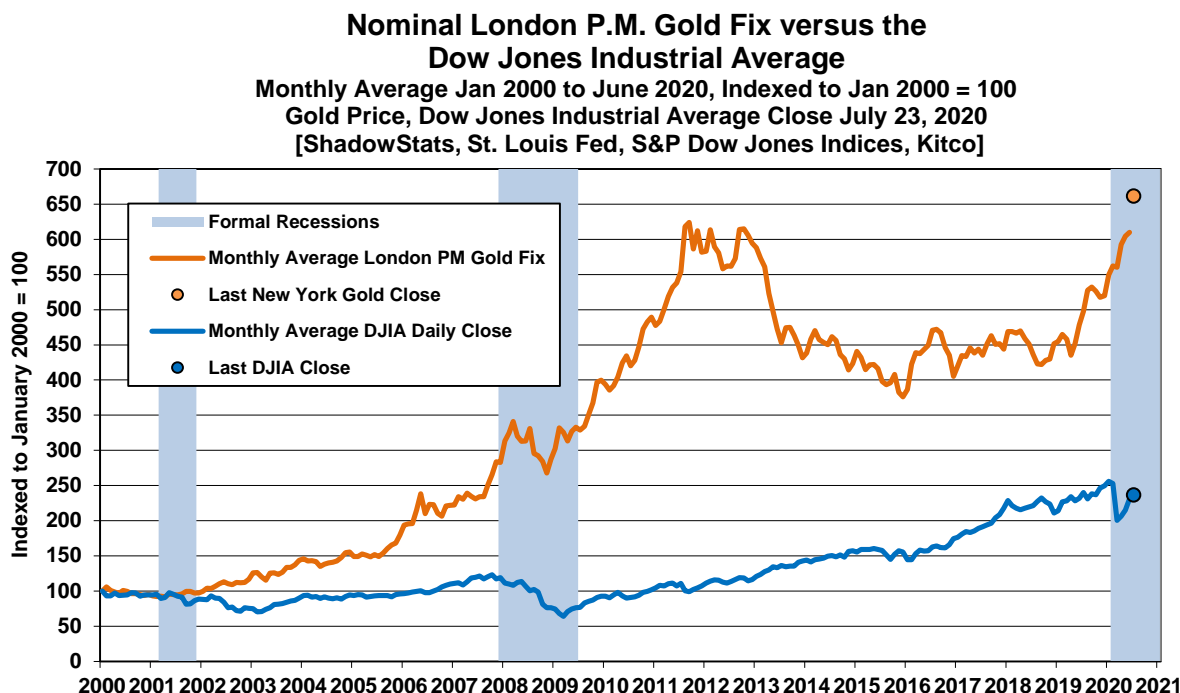
### Physical Gold and Swiss Franc Increasingly Protect U.S. Dollar Purchasing Power

#### Inflation Risks Mount as Gold and Silver Prices Jump

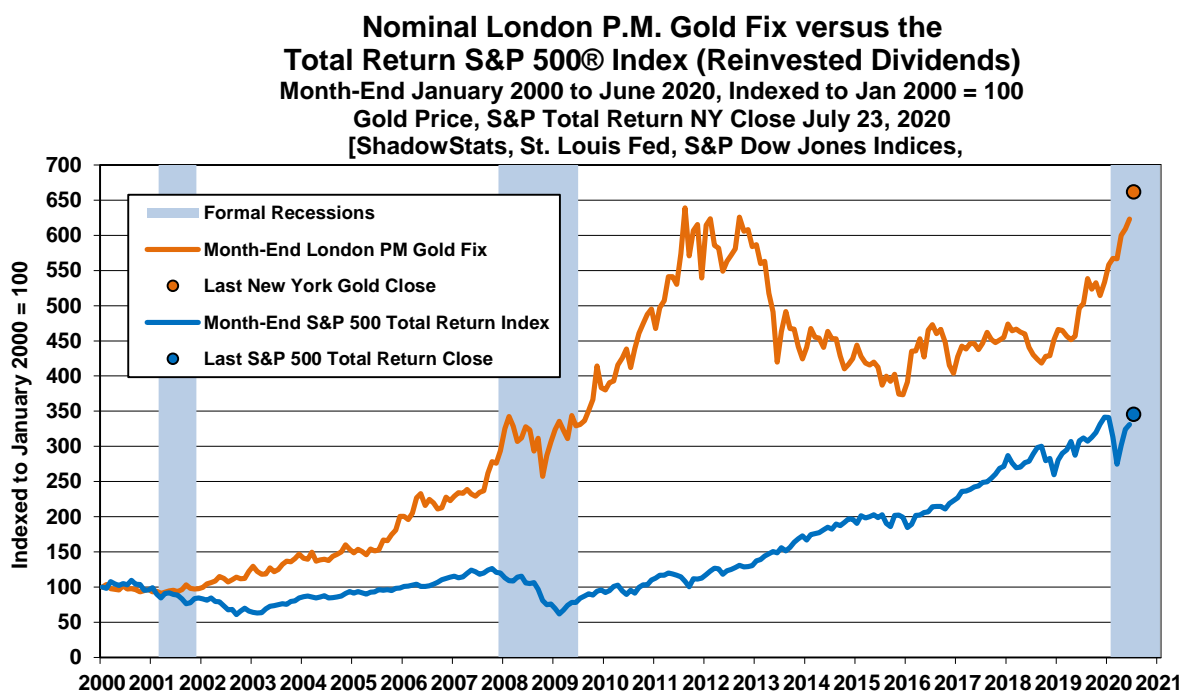
*Graph 9: Feb. 3 to Jul. 23, 2020 Financial Markets — Scale: Feb. 12 = 100, Day of DJIA All-Time High Close*



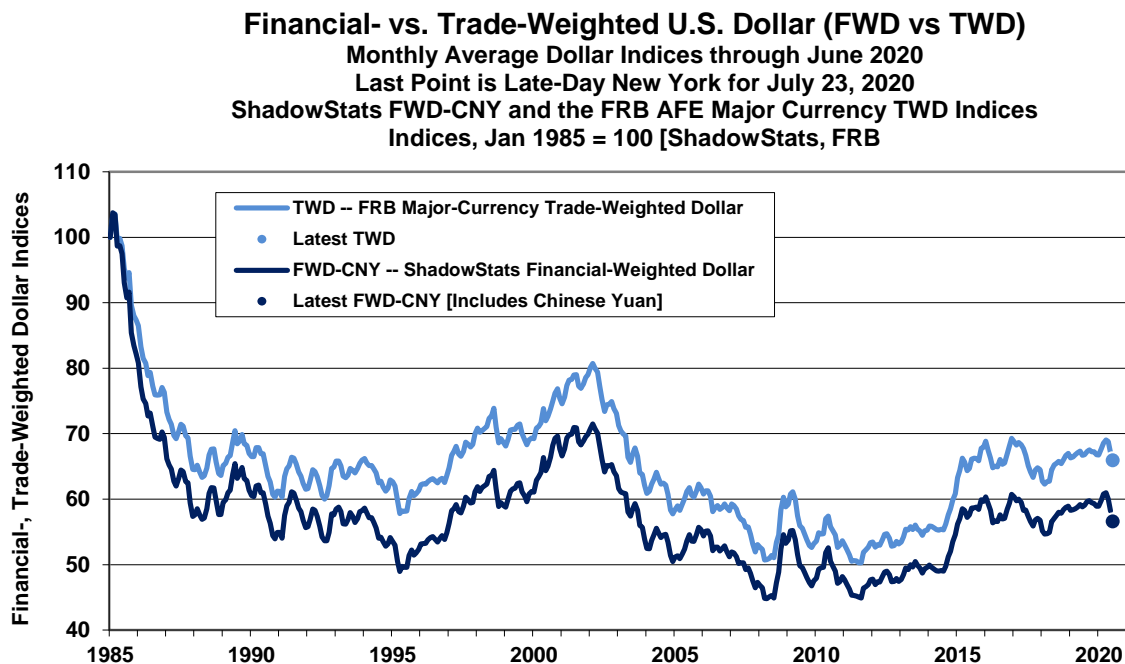
**Graph 10: Dow Jones Industrial Average versus Gold (Monthly Average)**



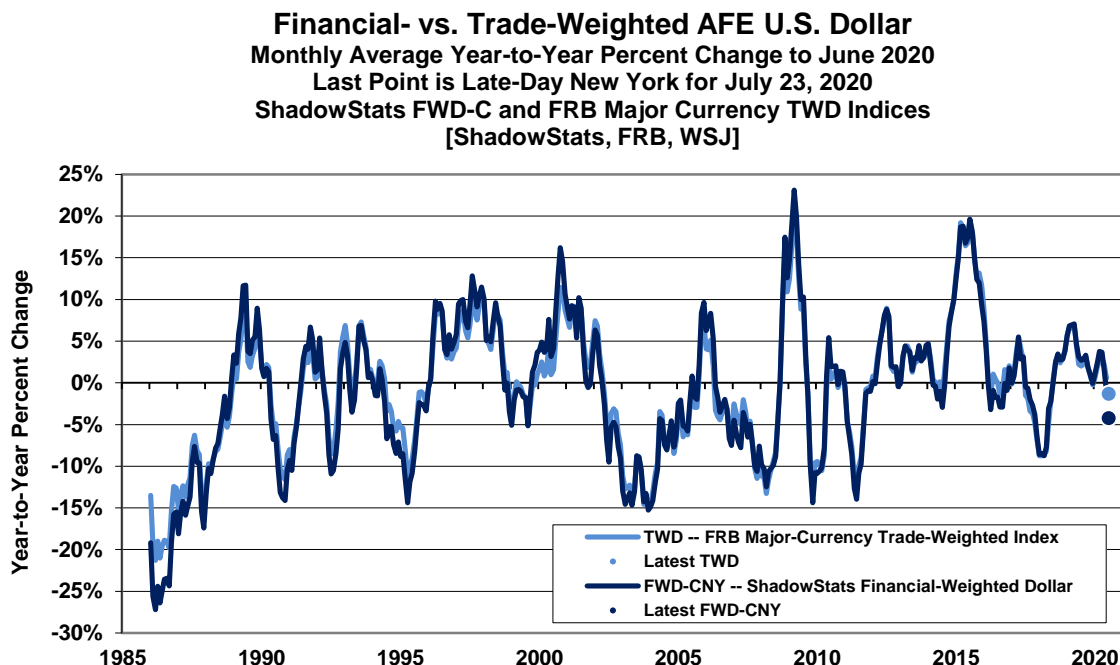
**Graph 11: Total Return S&P 500® versus Gold (Month End)**



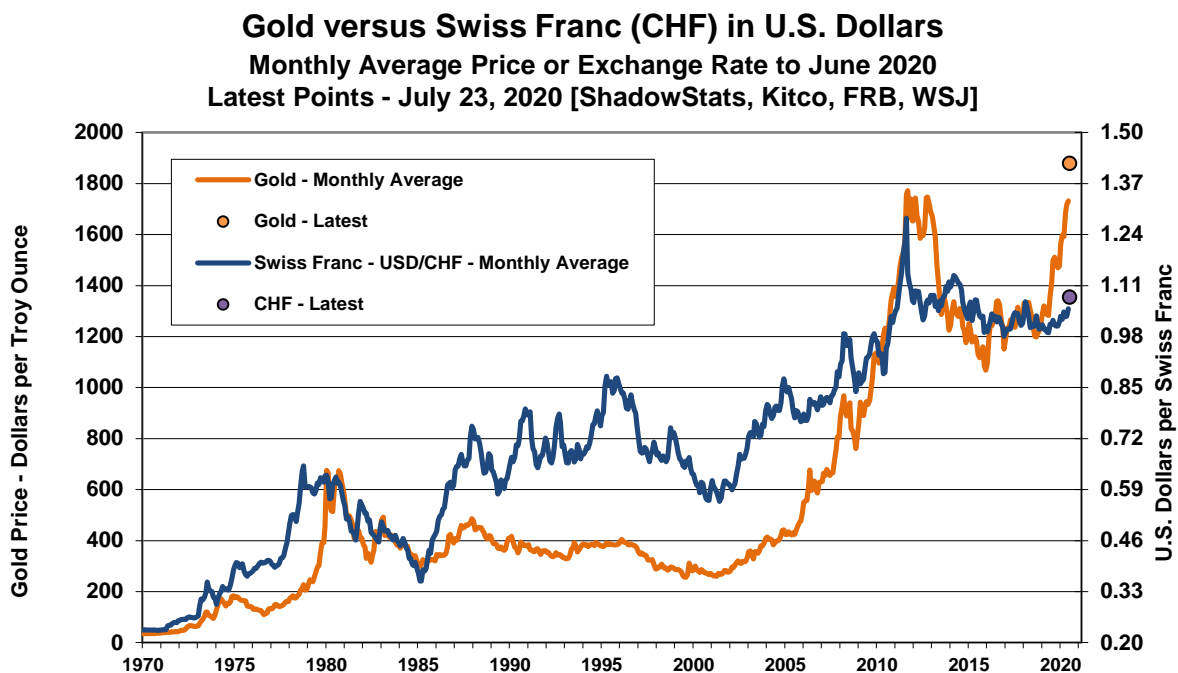
**Graph 12: U.S. Financial- vs. Trade-Weighted U.S. Dollar**



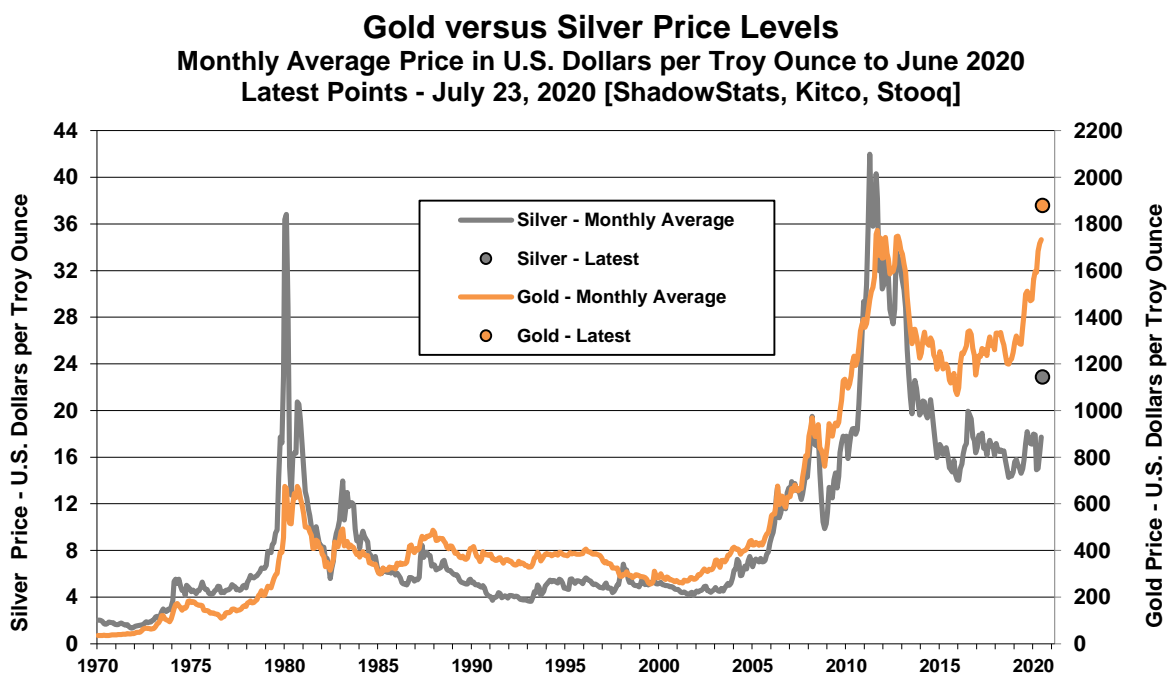
**Graph 13: U.S. Financial- vs. Trade-Weighted U.S. Dollar, Year-to-Year Change**



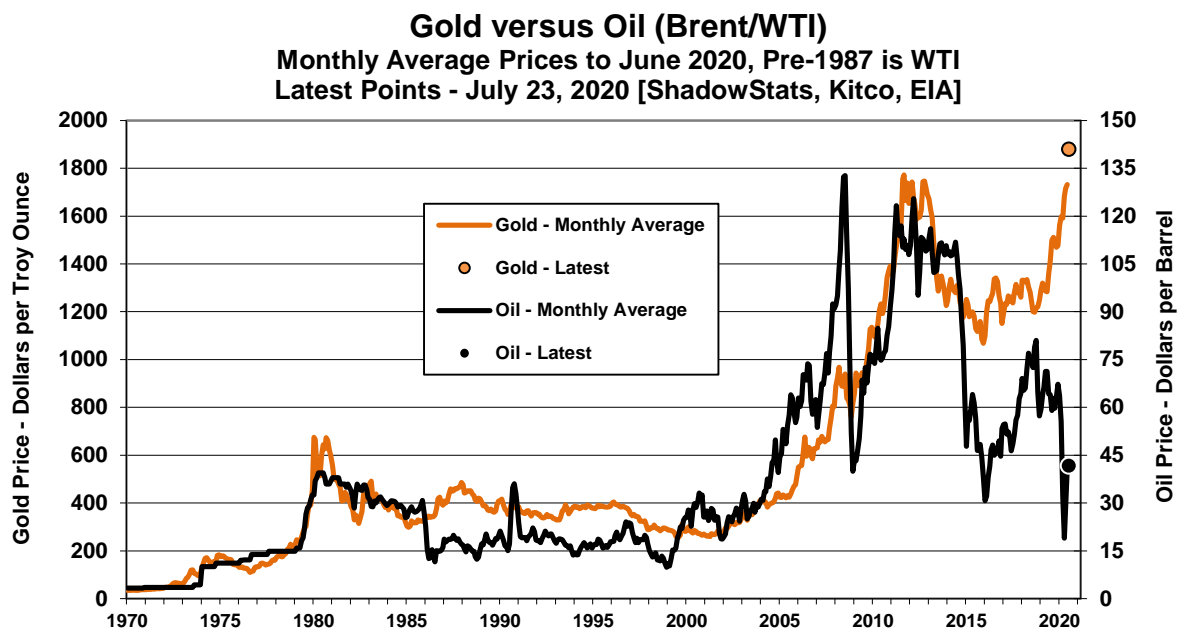
**Graph 14: Gold versus Swiss Franc**



**Graph 15: Gold versus Silver**



**Graph 16: Gold versus Oil**



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