

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

ShadowStats Flash Update No. 25

Potential FOMC Policy Shift; Market Turmoil; Latest Economic Headlines

March 1, 2020

**A Rough Couple of Weeks for Stocks, While
Physical Gold and the Swiss Franc Held Their Own**

**Third-Quarter 2019 Gross Domestic Income Growth (Theoretical GDP Equivalent)
Just Revised Lower to 1.2% from 2.1%, Due to Employment/Payroll Revisions;
Negative GDP Revisions Keep Lining Up for the July 30th Benchmarking**

**Fourth-Quarter 2019 Quarterly Declines in Real Retail Sales and Manufacturing, and
Deepening Annual Collapse in Freight Activity, All Preceded the Coronavirus Crisis**

**FOMC NEEDS TO CUT INTEREST RATES NOW:
Underlying Consumer Fundamentals and Activity Continue to Suffer,
Separate from Any Pandemic Considerations**

**Pre-Pandemic Consumer Financial Woes Reflect Excessive 2017-2018 Rate Hikes,
Complicated by Insufficient, Subsequent FOMC Rate-Relief Easing**

**Yet, Wall Street and the Fed Chairman Have Claimed the Consumer Economy
Continues to Boom, that the Consumer is Financially Healthy and Happy**

**Unfolding Pandemic Now Gives the Fed a Headline Excuse for Easing,
Without Having to Admit to its Own Economic/Monetary-Policy Malfeasance**

Overview

ShadowStats Recession Forecast of a Deepening Downturn Remains in Place

Watch for Continuing Flight from the U.S. Dollar and Stocks into Gold

Watch Out For Market Manipulations and Direct Interventions

The Developing Pandemic, Intensified by Unstable Domestic Politics and FOMC Policies, Continues to Exacerbate Downside Economic and Financial-Market Turmoil. In the context of the *Updated ShadowStats ALERT* in [Flash Update No. 24](#), near-term financial-market risks from negative economic, liquidity and political issues continue and have been exacerbated by the developing Coronavirus pandemic. The ShadowStats broad outlook in the weeks and months ahead remains in place for:

- **A rapidly intensifying U.S. economic downturn/recession, reflected in**
- **Mounting selling pressure on the U.S. dollar, against currencies such as the Swiss Franc,**
- **Continued flight to safety in precious metals, upside pressures on gold and silver prices, and**
- **Despite recent heavy selling in the stock markets, high risk of continuing, major instabilities in the markets, complicated by possible direct market interventions and FOMC policy shifts.**

The Underlying ShadowStats Outlook Has Not Changed, Other Than for Intensified Volatility and Uncertainties Related to the Evolving Coronavirus Pandemic. As the deepening, fundamental U.S. economic contraction accelerates, the more negative will become the pressure on the U.S. Dollar against traditionally stronger currencies such as the Swiss Franc, the stronger will become the flight-to-safety in precious metals, and the more dangerous will become the situation for domestic equity prices and stock-market stability. A rapidly weakening U.S. Dollar and rallying Gold prices are solid signs of impaired systemic and market conditions that quickly can mutate investor concerns into actions in other markets. The circumstance here will be updated in the context of the evolving pandemic and any U.S. Central Bank interventions or policy shifts. Updates and expanded coverage also will follow very shortly in *Special Bullet Edition No. 19-B*, or otherwise as circumstances dictate.

**Your questions and comments always are welcomed. Please contact:
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Contents – Flash Update No. 25

Overview	2
ShadowStats Recession Forecast of a Deepening Downturn Remains in Place	2
Watch Out For Market Manipulations and Direct Interventions	2
Physical Gold and the Swiss Franc Offered Some Shelter from U.S. Equities Rout	4
Financial-Market Upheaval Likely Has Not Run Its Course	4
<i>Graph 1: February 2020 Financial Markets</i>	<i>4</i>
GDP Revisions, Pending and In Hand, Show Deepening Economic Woes	5
FOMC Needs to Cut Interest Rates	5
The FOMC Should Cut Rates at Its March 18th Meeting	6
January 2020 New Orders for Durable Goods Continued in Downturn	7
Held Negative Despite Continued Gyration in Commercial Aircraft Orders	7
<i>Table I: New Orders for Durable Goods</i>	<i>7</i>
<i>Graph 1: Real New Orders for Durable Goods</i>	<i>8</i>
<i>Graph 2: Real New Orders for Durable Goods, Year-to-Year Percent Change</i>	<i>8</i>
<i>Graph 3: Real New Orders for Durable Goods (Ex-Commercial Aircraft)</i>	<i>9</i>
<i>Graph 4: Real New Orders for Durable Goods (Ex-Commercial Aircraft), Year-to-Year Percent Change</i>	<i>9</i>

Physical Gold and the Swiss Franc Offered Some Shelter from U.S. Equities Rout

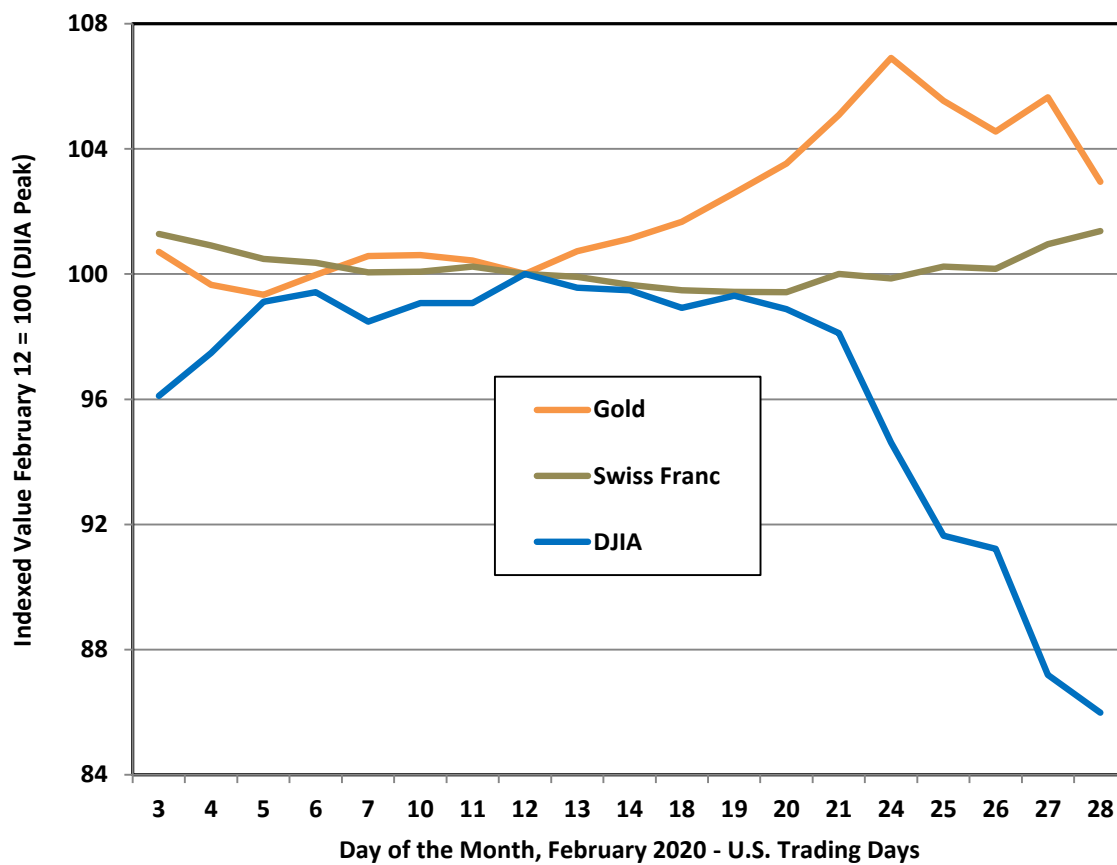
Financial-Market Upheaval Likely Has Not Run Its Course

Dow Jones Industrial Average Closed Down by 14.0% (-14.0%) on Friday, February 28th from its February 12th Peak, While Gold and the Swiss Franc Gained 3.0% and 1.4% in the Same Period.

Accompanying *Graph 1* plots the closing prices on the Dow Jones Industrial Average, the London afternoon gold fix, and closing value of the Swiss Franc in U.S. Dollars, all indexed to February 12th = 100 for each of the U.S. trading days in February 2020. Against the Dow Jones peak closing price on February 12th, the DJIA dropped 11.0% (-11.0%) through the Friday, February 28th close. Over the same period, gold gained 3.0%, while the Swiss Franc gained 1.4%. The more unstable the equity markets become on the downside, the more likely the relative safe-haven assets of Gold and Swiss Francs are to offer a positive alternative, in terms of short-term volatility, as well as for longer-term stability.

Graph 1: February 2020 Financial Markets

**February 2020 Financial-Market Indicators
Dow Jones Industrial Average versus
Physical Gold and the Swiss Franc
All Indexed to February 12 = 100 (DJIA Peak Level)**



GDP Revisions, Pending and In Hand, Show Deepening Economic Woes

FOMC Needs to Cut Interest Rates

Gross Domestic Income (GDI) Signaled Pending Negative GDP Benchmarking. With the major exception of a Third-Quarter 2019 GDI revision, the Second Estimate of aggregate Fourth-Quarter 2019 Gross Domestic Product (GDP) and related detail was virtually unchanged from its initial reporting, as detailed in [Flash Update No. 20](#) and as revised February 27th by the Bureau of Economic Analysis (BEA). Readers are directed to that earlier missive for current the GDP graphs, and description, which did not change visibly or meaningfully from that earlier reporting.

Negligible Fourth-Quarter GDP Revisions. Where the second estimate of quarterly GDP usually includes the initial estimates of quarterly Gross National Product (GNP), which is the GDP net of the Trade Balance in Factor Income (Interest and Dividend Payments), and of Gross Domestic Income (GDI), which is the theoretical income-side equivalent to the GDP's consumption side, neither series was published with the GDP second estimate.

Separately, none of the related series were open to revision, except for Fourth-Quarter 2019 GDP, where the aggregate second-estimate revisions were nil, and for Third-Quarter 2019 GDI, which were of substance, foreshadowing negative GDP benchmark revisions to come on July 30, 2020, as discussed here shortly.

For the headline real Fourth-Quarter 2019 GDP, the second estimate of annualized real quarterly growth was unrevised at the first-decimal point, at 2.1%, (2.10% versus an initial 2.08%), versus an unrevised 2.1% (2.10%) in Third-Quarter 2019. On a year-to-year basis, the second estimate of annual real quarterly growth was unrevised at the first decimal point of 2.3% (2.33% versus an initial 2.32%), versus an unrevised 2.1% (2.07%) in Third-Quarter 2019.

Third-Quarter Gross Domestic Income Revised Sharply Lower. The *Press Release* accompanying the release of the largely unrevised Fourth-Quarter 2019 GDP, noted that “For the third quarter of 2019, the percent change in real GDI was revised from 2.1 percent to 1.2 percent based on the new third-quarter data from the BLS Quarterly Census of Employment and wages. Yet, those revisions impacted earlier quarters as well, which will be caught up in the July 2020 GDP benchmarking.

[Flash Update No. 21](#) covered related annual payroll benchmark revisions, with major negative impact into third- or fourth-quarter 2019. Yet, the revised Gross Domestic Income (GDI), again also will have been revised sharply lower back into 2018, and into earlier GDP quarters, which will not undergo their annual benchmark revision until the July 30, 2020 GDP overhaul, which will reflect all the earlier changes.

[*Flash Update No. 22*](#) and [*Flash Update No. 23*](#) highlight other series suggestive of negative contributions to the pending GDP benchmarking, along with background detail in [*Special Commentary No. 983-B*](#) and [*Special Commentary No. 985*](#).

New Orders for Durable Goods annual benchmark revision just announced for May 15th, also should be to the downside, leading negative benchmark revisions “over the summer” for Manufacturing, as part of Industrial Production, as well as GDP.

The FOMC Should Cut Rates at Its March 17th/18th Meeting

Speculation Has Mounted for a Coronavirus-Induced Easing at the March 18th FOMC, Yet the Fed Needed to Ease Rates Well Before Such Concerns Arose and Should Do It Now. The U.S. Federal Reserve does not want to lower interest rates, and it likely will move to dodge such, if at all possible. Nonetheless, it is easier for the FOMC to move rates lower, now, blaming the unfolding Recession on the external Coronavirus Crisis, instead of blaming it on its own bungled policies and missteps that never accomplished the promised “sustainable moderate economic growth.”

Collapsing Domestic Freight Activity, Quarterly Contractions in Real Fourth-Quarter Retail Sales and in the Manufacturing Sector all Took Place Before Coronavirus Impact. Discussed in the previous “GDP Revisions” and as will be discussed more broadly in pending ***Special Commentary Bullet Edition No. 19-B***, the economy is turning down anew. The still unfolding, consumer-driven economic weakness triggered by too rapid FOMC tightening and interest rate hikes in 2017 and 2018, which never were followed by an adequate pullback in those rate hikes. With financial disruptions, turmoil and economic uncertainties currently in play from the Coronavirus, the U.S. Central Bank now has the flexibility to right some of its earlier missteps, to lower rates with whatever Coronavirus rationale it cares to use.

[Coverage of New Orders for Durable Goods begins on the next page.]

January 2020 New Orders for Durable Goods Continued in Downturn Held Negative Despite Continued Gyration in Commercial Aircraft Orders

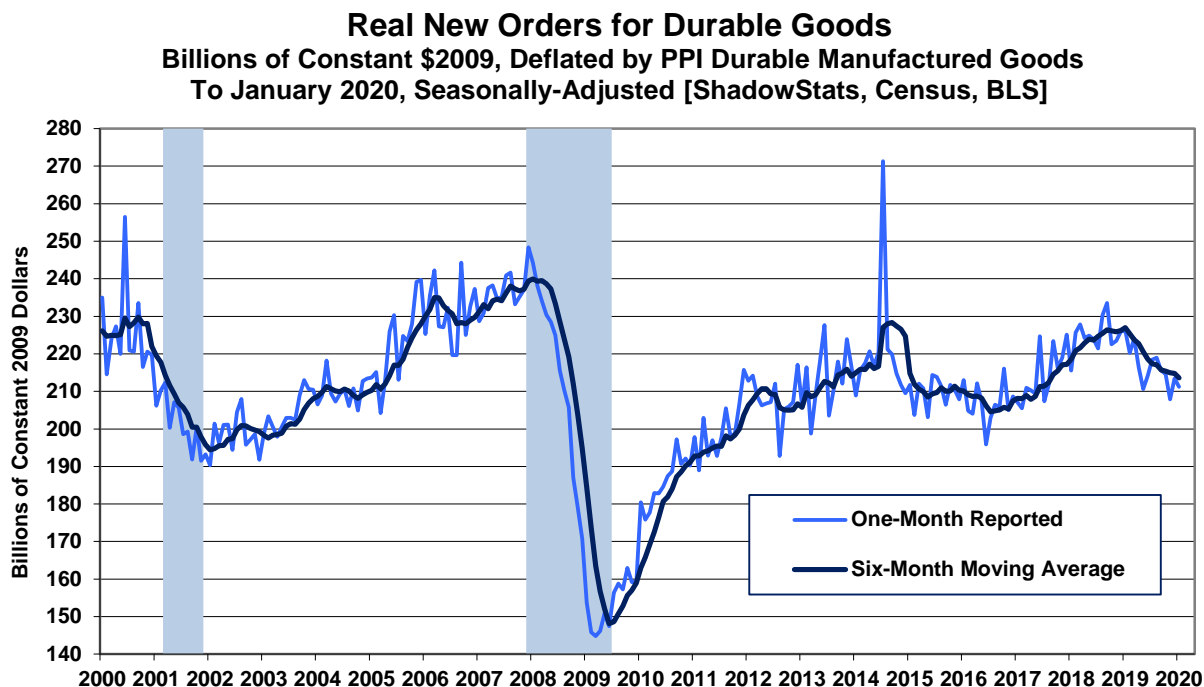
January 2020 New Orders for Durable Goods Declined Month-to-Month and Year-to-Year, Both Before and After Consideration for Inflation and Volatility in Commercial Aircraft Orders.

Reported February 27th by the Census Bureau, despite continuing wild gyrations in monthly Commercial Aircraft Orders, annual real year-to-year contractions continued in New Orders for Durable Goods (as seen in *Table I*, as well as in *Graphs 1* to *4*. With total real orders still down year-to-year, on a rolling twelve-month average basis, that circumstance continues to be more consistent with collapsing domestic freight, manufacturing and economic activity, than with the FOMC's purported "sustainable moderate economic growth." See the discussion on pending benchmark revisions in the prior GDP section.

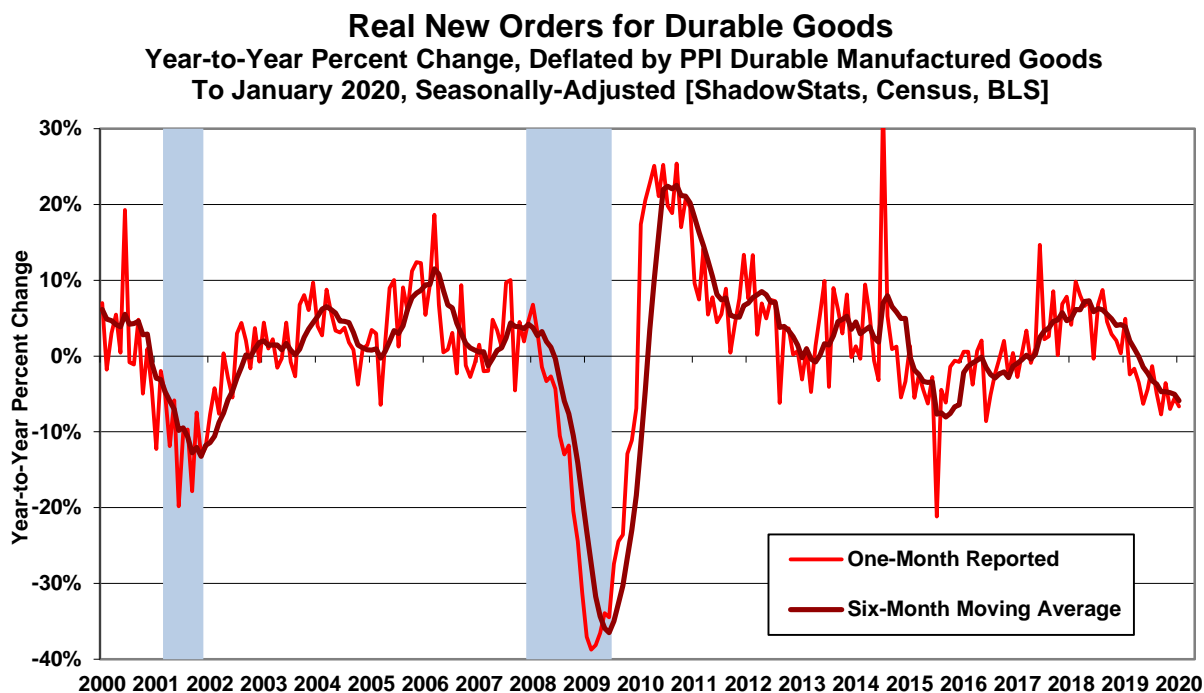
Table I: New Orders for Durable Goods

New Orders for Durable Goods (January 2020 Reporting)					
Month	Nominal Millions of Current Dollars			Real Millions of Constant 2009 Dollars	
	Total New Orders	Commercial Aircraft	Ex- Commercial Aircraft	Total New Orders	Ex- Commercial Aircraft
Nov 19	239.718	5.736	233.982	207.899	202.924
Dec 19	246.634	1.909	244.725	213.390	211.738
Jan 20	245.199	8.518	236.681	211.215	203.877
	Percent Change			Percent Change	
	Mo/Mo	Mo/Mo	Mo/Mo	Mo/Mo	Mo/Mo
Nov 19	-3.12%	-28.44%	-2.27%	-3.14%	-2.30%
Dec 19	2.89%	-66.719%	4.591%	2.64%	4.34%
Jan 20	-0.58%	346.202%	-3.287%	-1.02%	-3.71%
Prior M/M					
Nov 19	-3.09%	-28.44%	-2.24%	-3.11%	-2.26%
Dec 19	2.37%	-74.65%	4.25%	2.12%	4.01%
	Yr/Yr		Yr/Yr	Yr/Yr	Yr/Yr
Nov 19	-4.848%		-3.04%	-6.98%	-5.22%
Dec 19	-3.205%		1.21%	-5.55%	-1.24%
Jan 20	-4.269%		-1.42%	-6.63%	-3.84%
Prior Y/Y					
Nov 19	-4.812%		-3.01%	-6.95%	-5.18%
Dec 19	-3.657%		0.92%	-5.99%	-1.52%
Sources: Commerce Department, Bureau of Labor Statistics, ShadowStats.com					

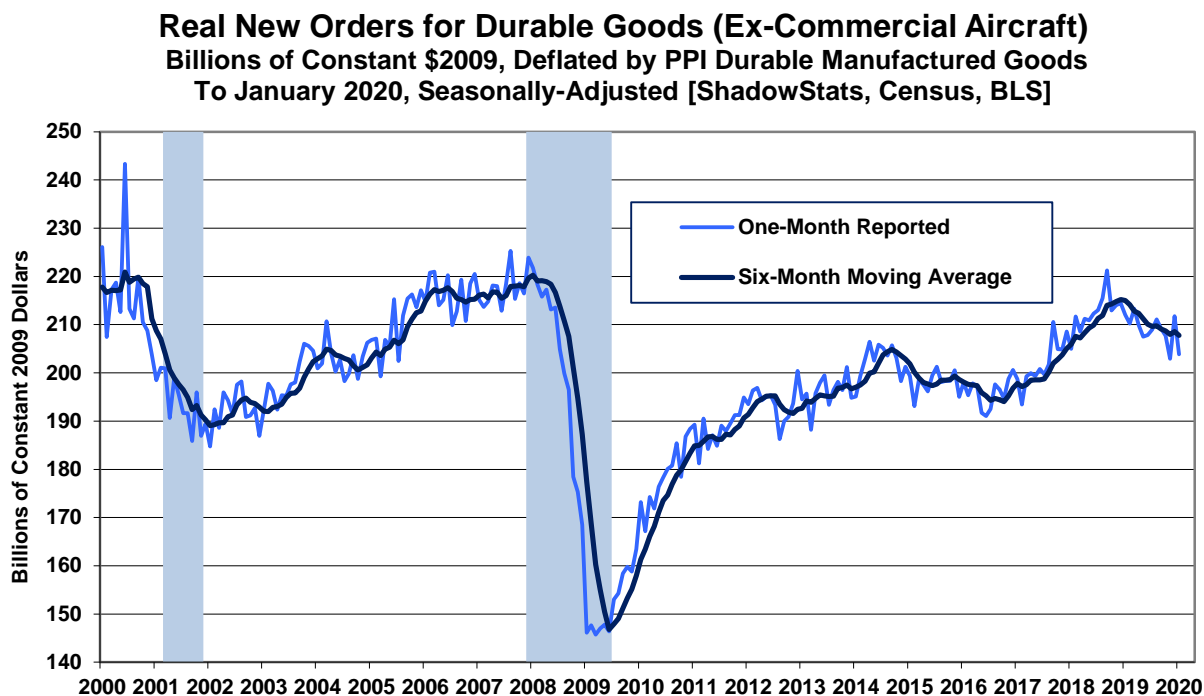
Graph 1: Real New Orders for Durable Goods



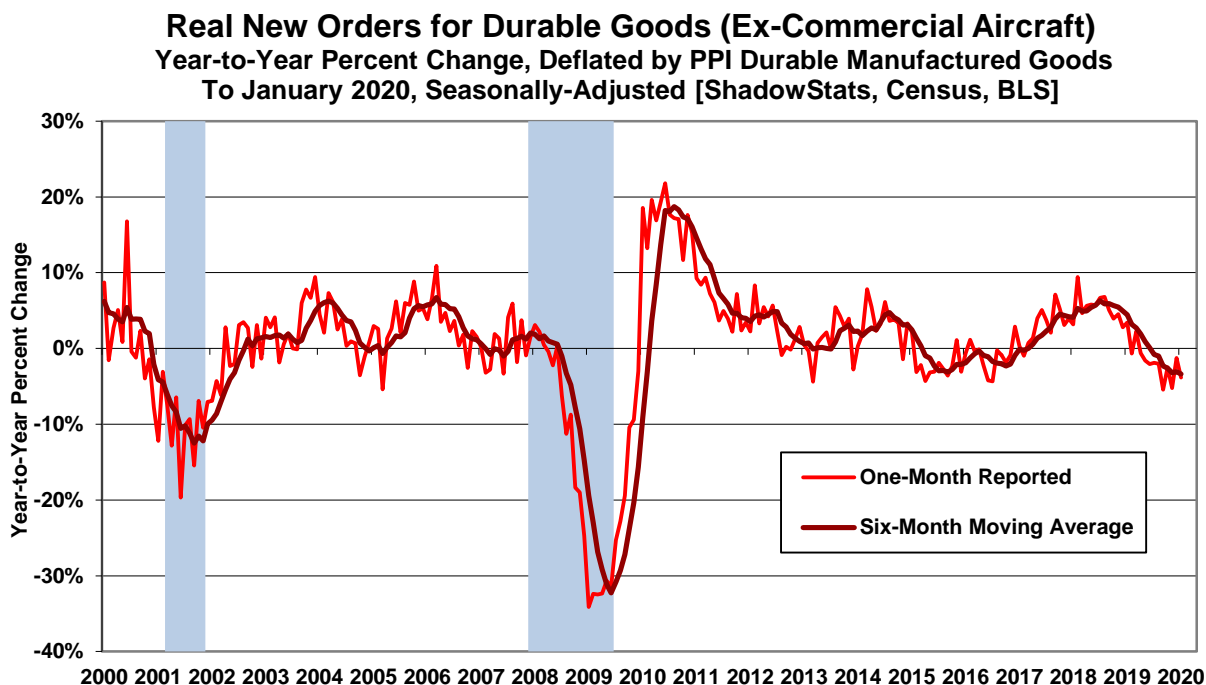
Graph 2: Real New Orders for Durable Goods, Year-to-Year Percent Change



Graph 3: Real New Orders for Durable Goods (Ex-Commercial Aircraft)



Graph 4: Real New Orders for Durable Goods (Ex-Commercial Aircraft), Year-to-Year Percent Change



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