

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

Bullet Edition Number 13

**Labor Numbers, Construction Spending, Trade Deficit, Deteriorating Consumer Conditions,
FOMC, Fiscal Instabilities and the Markets**

July 15, 2019

**Booming Stocks Versus Booming Gold?
Unfolding Conditions Strongly Favor Precious Metals, Not Equities**

**Consumer Liquidity Stresses Intensify;
Economic Outlook Continues to Deteriorate Markedly**

**Sharp Jumps in Annual July Money Supply Growth Suggest Possible Easing,
Yet the Monetary Base Remains in Historically Deep Annual Contraction**

**Whether or Not Hints of a July 31st FOMC Rate Cut Formally Pan Out,
Major Easing (Possibly Renewed Quantitative Easing) Is Likely by September**

**Playing Games With the Federal Debt Ceiling
Risks a Ratings Downgrade, Intensifying Flight from the Dollar**

**Needed Fiscal Stimulus for the Economy Will Be Difficult,
With an Already Exploding Budget Deficit**

**Weakening Annual June Payroll Growth in Aggregate and in Key Series
Was Accompanied by Upside Ticks in the Various Unemployment Measures**

**July 26th GDP Benchmarking and Initial Second-Quarter GDP
Should Offer Downside Headline Surprises**

Note to Subscribers: [*Special Commentary No. 983-B*](#) provided extended coverage of the ShadowStats' broad outlook for the U.S. economy and financial markets, updated in [*Commentary No. 984*](#) and *ALERT* of June 24th, along with subsequent *Bullet Editions* through today's missive. The forecast of a formal new recession remains intact, as headline economic reporting broadly continues to deteriorate, including the June labor numbers, despite some headlines to the contrary, as discussed in today's missive. Headline first-quarter GDP growth remains meaningfully overstated against underlying economic reality, still reflecting government-shutdown distortions and disruptions to underlying headline data. Discussed in the *Overview of No. 984*, unusually large and sharp downside revisions to first-quarter GDP remain a fair bet, given the patterns of reporting in, and major revisions to those underlying series, as should be seen in the GDP's July 26th benchmarking. Whether or not the GDP annual overhaul turns the headline series negative for first-quarter 2019, intensifying quarterly contractions still should follow in both second- and third-quarter 2019.

As the economic contraction accelerates, the more negative will become the pressure on the U.S. Dollar, the stronger the flight-to-safety in precious metals and the more dangerous the situation for domestic equity prices. A rapidly weakening U.S. Dollar and rallying gold and silver prices are solid signs of impaired systemic and market conditions that easily can mutate investor fears into concerns and actions in other markets.

The *ShadowStats* outlook has not changed, specifically including a rapidly deepening U.S. economic downturn, reflected in mounting downside pressures on the U.S. dollar, flight-to-safety and upside pressures on gold and silver prices, and increasingly high risk of heavy stock-market selling in the weeks ahead. Your comments and suggestions are invited. Always happy to discuss what is happening.

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

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, usually within two-to-three hours of headline publication. Unusual market circumstances and pending *ShadowStats* publications also are covered.
- The *Bullet Edition* publishes multiple times per month, as dictated by economic and financial-market developments. Simply put, the *Bullet Edition* conveys brief communications and analyses on topics of particular near-term significance.
 - *Bullet Edition No. 14* (planned for July 20) will review June Inflation, Retail Sales, Industrial Production and Housing Starts, and preview Second-Quarter GDP and the GDP benchmarking.
- *Regular Commentaries* should publish every six weeks, or so, providing a more comprehensive overview of general conditions, occasionally as a *Special Commentary*.
 - [*Commentary No. 984*](#) posted June 24th.
 - *Commentary No. 985* is planned for late July, covering the July 26th GDP benchmarking.
- *Hyperinflation* and *Consumer Liquidity Watches* will update regularly, beginning next week.
- *Telephone Consulting* is part of the regular service for subscribers. If have a question on the *ShadowStats* outlook, 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 here: [Archives](#), otherwise located in the left-hand column of the [ShadowStats Home Page](#) (www.ShadowStats.com).

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Overview

Stock Indices Hit New Highs, but Consider What Is Happening to Gold

Unfolding Economic, Fiscal and Political Issues Strongly Favor the Precious Metals

As Recession Deepens, Headline GDP Should Begin to Catch Up July 26th

With the Economy “Not Recovering” Fed Chairman Powell Hinted at a July Easing

Easing Appears to Loom and Quantitative Easing Could Be in Place by September

Budget Deficit and Federal Debt Ceiling Crises Threaten Needed Fiscal Stimulus

Weakening Annual Growth Intensified in Key Payroll Employment Numbers

Nominal Annual Construction Spending Last Dropped Like This at Great Recession Onset

Second-Quarter Real Earnings and May Median Household Income Declined

Economy Cannot Resume Stable, Positive Growth Without an Active, Healthy Consumer

June Money Supply Annual Growth in Upswing

Second-Quarter Monetary Base Held in Extreme Annual Contraction

Stock Prices and the Price of Gold Rally, as the U.S. Economic Outlook Falters, the Fed Hints at an Easing, Fiscal Conditions Deteriorate Markedly and Monetary Measures Offer Mixed Signals. The U.S. financial press heralded Friday’s stock market closings, with the most widely followed Dow Jones Industrial Average (DJIA) and the S&P 500 stock indices both setting record highs, a process that was topped minimally today (July 15th). Discussed and graphed in the *Financial Markets* section (beginning on page 7), while this “bullish” stock-market circumstance appears to be hyped around indications of an “expected” pending Federal Reserve rate cut, that same circumstance also has been pushing the price of gold even higher, on a relative basis versus equities. The stock market usually does not do well in a recession, with falling corporate earnings, under conditions of intensifying U.S. government fiscal crisis, or against heavy U.S. dollar selling, all factors that are in play in the near term. Ultimately, these conditions tend to trigger investor flight to safety in gold. Accordingly, going forward in the weeks ahead, this unfolding background likely will favor the market for precious metals, denominated in U.S. dollars, versus U.S. equities.

The U.S. Economic Outlook Has Continued to Deteriorate, in a Deepening Recession, With Oncoming Headline Business Conditions and Indicators Signaling a Contracting Economy.

Discussed and graphed in the *Latest Economic Indicators* section (beginning on page 16), June 2019 payrolls, and headline employment and unemployment conditions all continued to soften more than expected, contrary to some early financial-press headlines. Payroll gains were on top of some downside revisions, with year-to-year growth rates falling to near-term low levels, while all the unemployment rates notched higher. Readers may find the new *Graphs 16 to 19* of Retail Sales and Industrial Production payrolls of interest, in the context of what are expected to be, and likely will be weak headline activity for both June Retail Sales and Industrial Production, due for publication tomorrow, July 16th. Headline May 2019 Construction Spending and Trade data also signaled an intensifying economic downturn.

Key indicators of Consumer Liquidity, the ultimate driving force behind the health of the U.S. economy, also faltered, with Second-Quarter 2019 Real Earnings contracting in the quarter and with May 2019 Real Median Household Income continuing in monthly downturn.

Market Expectations Should Weaken in the Next Week, With Headline GDP Beginning to Catch Up With Underlying Reality on July 26th. While current market expectations for Second-Quarter 2019 GDP annualized real growth appear to be around 1.5%, plus-or-minus, versus the current headline 3.1% in First-Quarter 2019 GDP, expectations should soften in the week ahead, with deteriorating headline numbers likely for tomorrow's releases of June 2019 Real Retail Sales and Industrial Production. Pending ***Bullet Edition No. 14***, over this next weekend, will preview the July 26th initial reporting of second-quarter GDP, as well as the accompanying GDP benchmark revisions back to 2014.

Despite the Second-Quarter Monetary Base Showing Continued Historically Disastrous Annual Contractions, Annual Growth Turned Higher for the Headline June 2019 Money Supply. Discussed and graphed in the *Monetary Conditions* section (beginning page 30), the Federal Reserve has done its best in the past decade to insulate the headline Money Supply growth from the banking-bailout induced explosive growth in the Monetary Base, and presumably now from the collapsing growth of that same Monetary Base, as the Fed tries to unwind its quantitative easing. In response, headline Money Supply showed some increased annual growth in June, which could be suggestive of some easing.

[The "Financial Markets Section" begins on the next page.]

Financial Markets

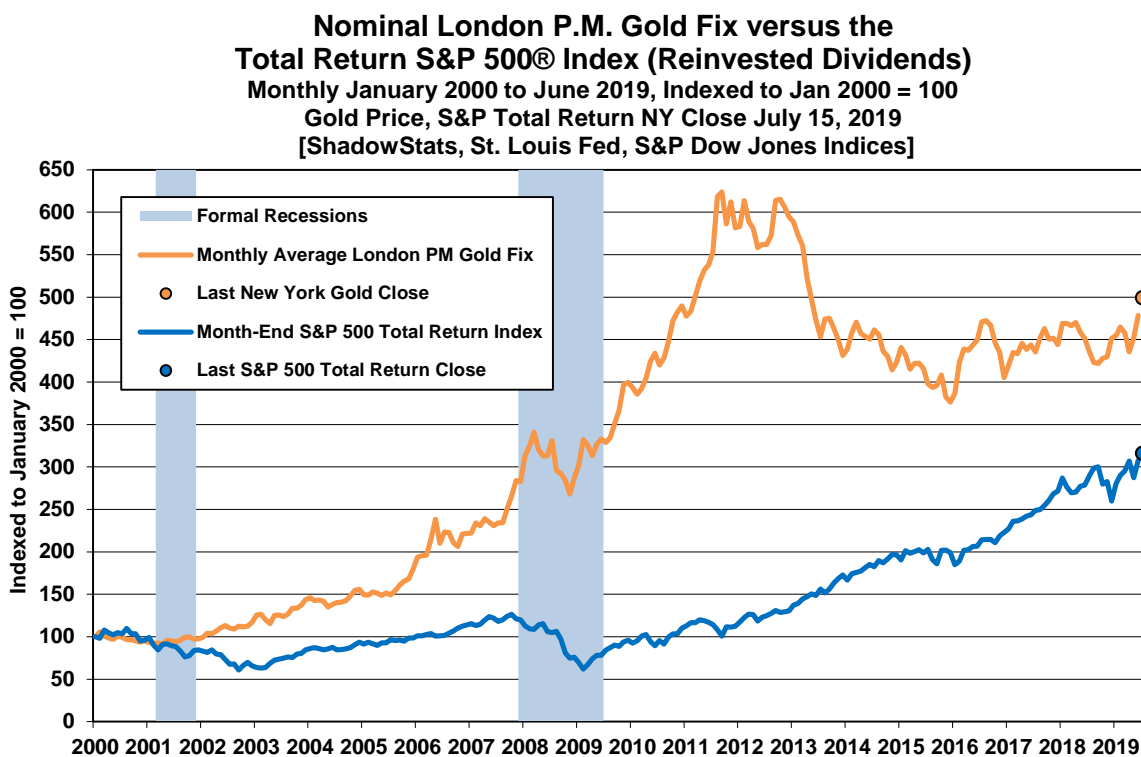
Gold versus the S&P 500 and the Dow Jones Industrial Average

Both Stocks and Gold Have Been on the Rise, But Unfolding and Developing Underlying Fundamentals Appear to Favor the Outlook for Gold in the Months Ahead. Discussed in today's *Overview*, the mainstream financial press, which has a natural bias in favor of Wall Street's popularly followed stock market activity, has properly headlined that the major U.S. stock indices are at all-time highs, including new record levels today. Yet, at the same time, with less publicity, the price of gold has been gaining at an even greater near-term pace than equities. Where rallying stocks have reflected some anticipation of a pending Federal Reserve rate cut, which indeed is likely, that same factor also has been boosting the safe-haven, wealth preservation values of holding physical gold, in an environment where:

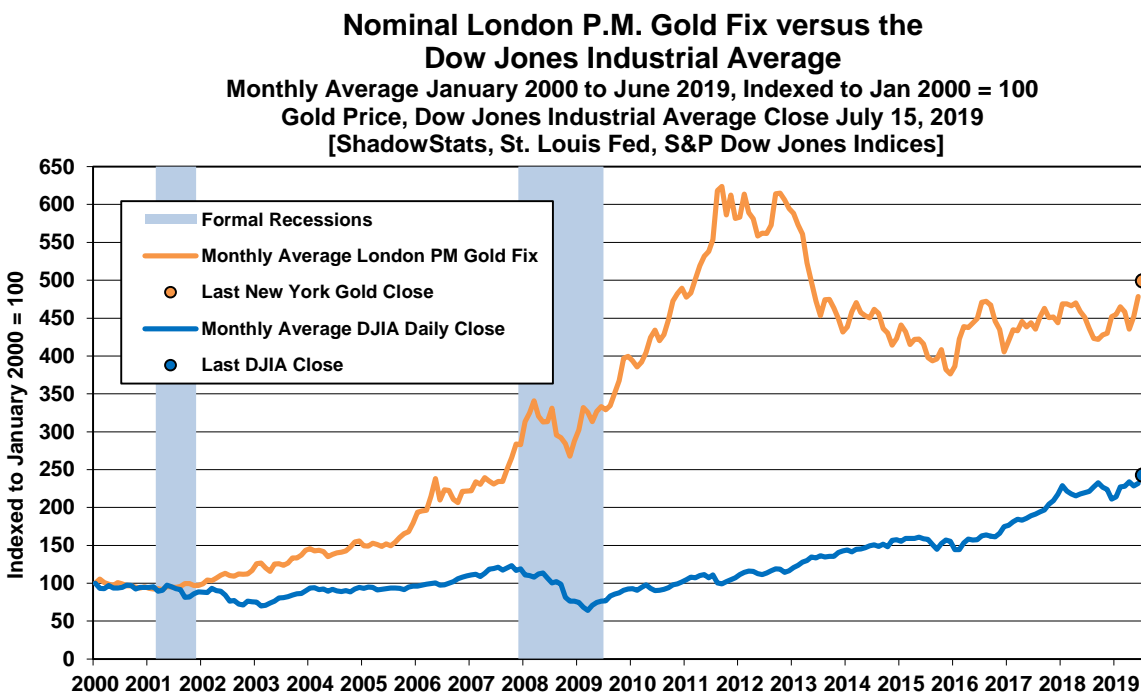
- The plus for stocks is that the FOMC—fearing a recession—likely will announce an interest rate cut on July 31st, as recently hinted by Fed Chairman Powell.
- While lower rates generally are good for stocks, recessions are not (see *Graphs 1 to 4* during the blue-shaded, formal recessionary periods), where corporate profits usually decline, hitting prices.
- At the same time, the Federal Budget Deficit is widening rapidly, effectively out of control.
- Congress has yet to set a new Federal Debt Ceiling, but it has to, soon, in order to keep funding government operations and to avoid what would be a financially devastating formal default.
- The timing and certainty of such is wide open, indeed with some suggestions of a possible U.S. default, despite the heaviest of official protestations to the contrary.
- Uncertainty here opens the U.S. Government Debt to some form of Credit Rating comment or downgrade by a major credit rating organization, such as happened in 2009.
- Extraordinary political turmoil and animosity in Washington leave no outcome certain.
- The financial-market arbiters here are the U.S. dollar and the price of Gold, with a sharp sell-off in the dollar and a rally in the price gold signaling major trouble for stock prices.

Graphs 1 and *2* respectively plot the price of physical gold first versus the S&P 500 Total Return Index, where dividends are treated as reinvested in the S&P 500, and second versus the headline closing price of the Dow Jones Industrial Average. For comparison purposes, all the Price/Index measures have been indexed to January 2000 = 100. *Graphs 3* and *4* plot the same stock-market series adjusted for CPI-U inflation. The shaded blue areas represent the formal timing of the 2001 Recession and the Great Recession of 2007 to 2009. ShadowStats contends that U.S. economy already has entered a new recession, likely in November 2018 (see the discussion in [Commentary No. 984](#) and as will be reviewed in *Bullet Edition No. 14* and *Commentary No. 985*, planned over the next two weekends. Again, in this circumstance, strongly rallying Gold Prices and/or heavy selling of the U.S. Dollar remain the Canary in the Coal Mine for trouble in the U.S. stock market.

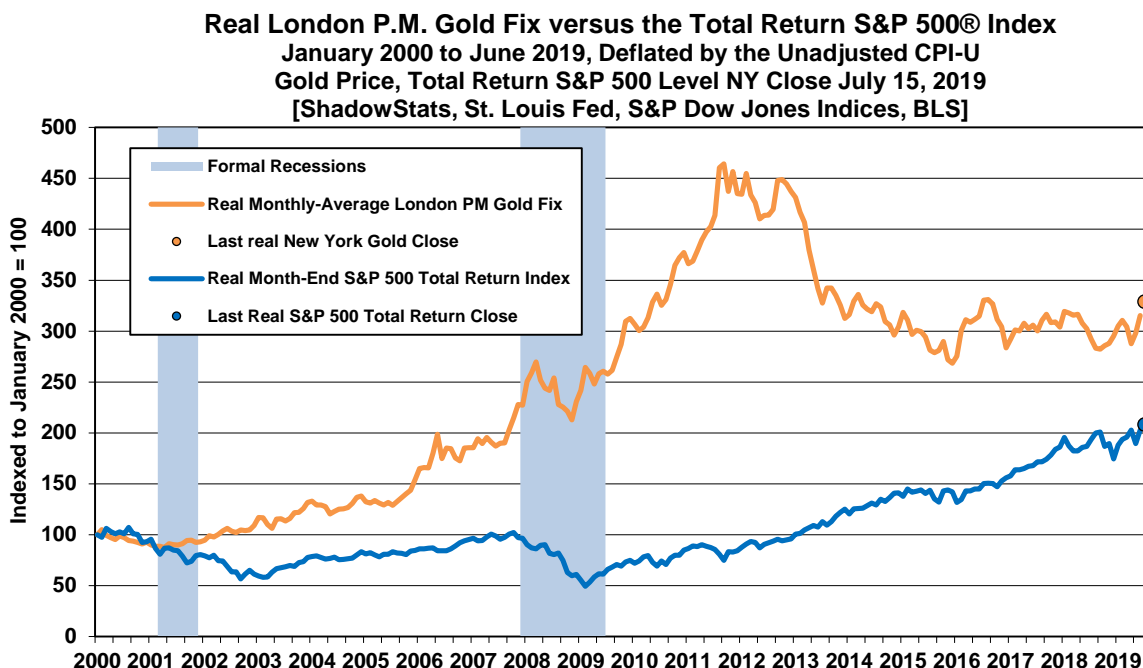
Graph 1: Nominal Gold versus Nominal Total Return S&P 500



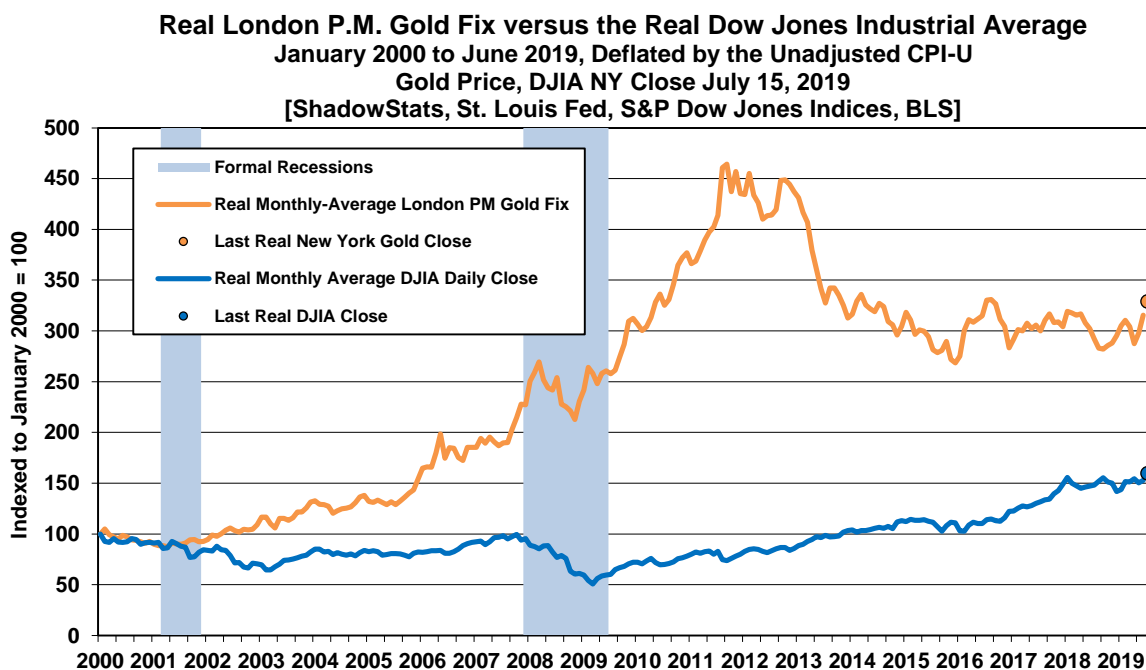
Graph 2: Nominal Gold versus Nominal Total DJIA



Graph 3: Real Gold versus Real Total Return S&P 500



Graph 4: Real Gold versus Nominal Real DJIA



[The "Economic Conditions and Indicators" begins on the next page.]

Economic Conditions and Indicators

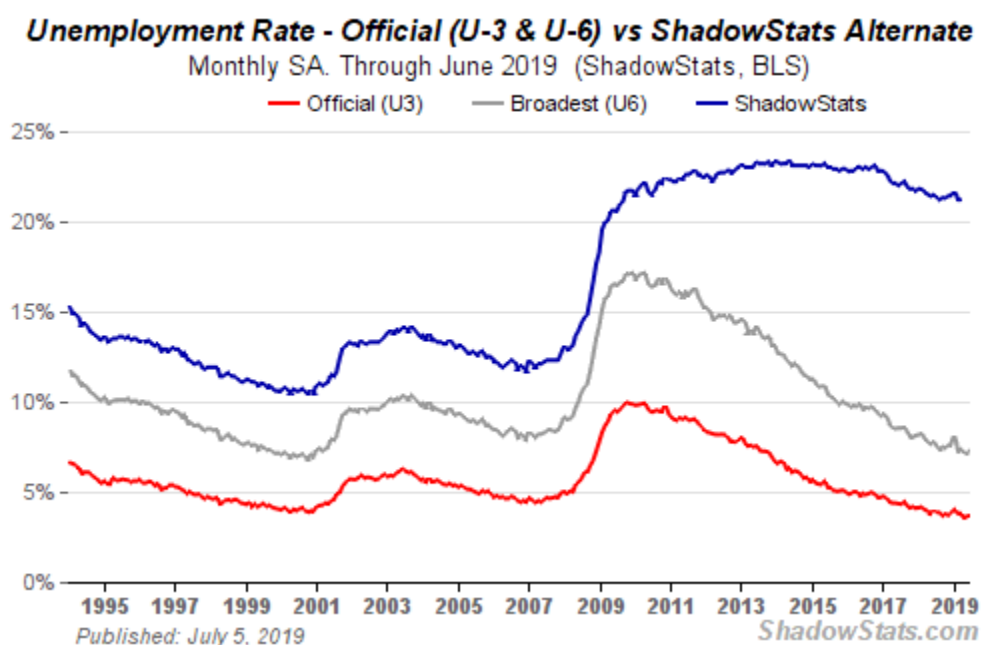
Annual Growth in June 2019 Payrolls and Key Series Weakened Markedly

Second-Quarter Real Earnings Took a Meaningful Hit

Economy Continued to Weaken. June Unemployment Notched Higher, as Annual Payroll Growth Sank to a 17-Month Low, Despite a Payroll “Gain” Boosted by Downside Revisions. Reported by the Bureau of Labor Statistics on July 5th, June 2019 U.3 Unemployment notched higher at the first decimal point to 3.7%, from 3.6% in May. At the second decimal point, June U.3 was 3.67%, up versus 3.62% in May and its 49-year low of 3.58% in April.

Reflecting a surge in marginally attached workers (including headline discouraged workers), however, broader June 2019 U.6 Unemployment jumped to 7.23%, from 7.09% in May and against 7.26% in April. On top of U.6, the ShadowStats Alternate Unemployment Estimate, including long-term displaced/discouraged workers not counted by the BLS, notched higher to 21.2%, versus 21.1% in May, having held previously at 21.2% for three months into April, and again, as reflected in *Graph 5*, and plotted on the Alternate Data Tab of the ShadowStats homepage: www.ShadowStats.com, along with historical data.

Graph 5: Unemployment Rates U.3 and U.6 vs. ShadowStats Alternate Unemployment, Jan 1994 to Jun 2019



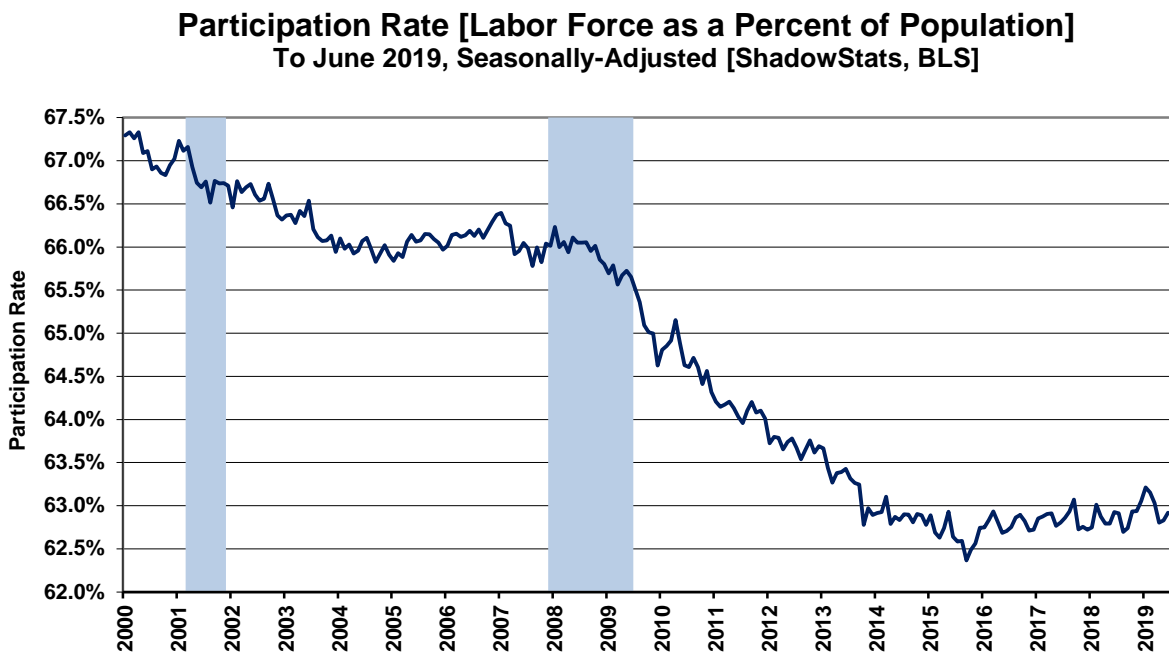
Current Labor-Market Stress Is Common to the Depths of a Recession, Not to Record-Low Unemployment

The major issue with the historically low U.3 headline unemployment rate, however, remains that it still runs counter to Labor-Market Stress (Employment-Population Ratio and the Participation Rate), which continued to hold at levels consistent with a recession, reflected in *Graphs 6 to 7*. Under normal economic circumstances, the high levels of employment stress seen at present, usually are consistent with high levels of unemployment and recession, not near-record low unemployment, as seen in the comparative inverted-scale *Graphs 8 and 9* of the current, low-level headline U.3 unemployment rate and the high-level “recessionary” ShadowStats Alternate measure.

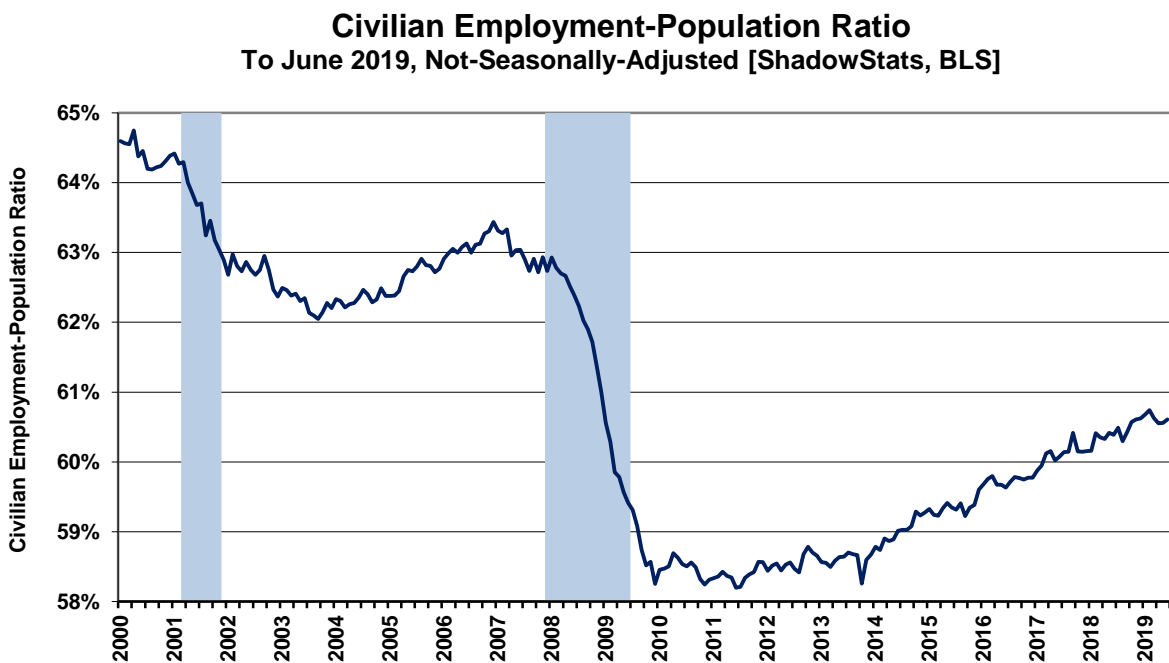
Reflected in later *Graphs 10 and 11*, June full-time employment rose for the first time four months, yet annual growth still held minimally off bottom.

[Graphs 6 to 11 begin on the next page.]

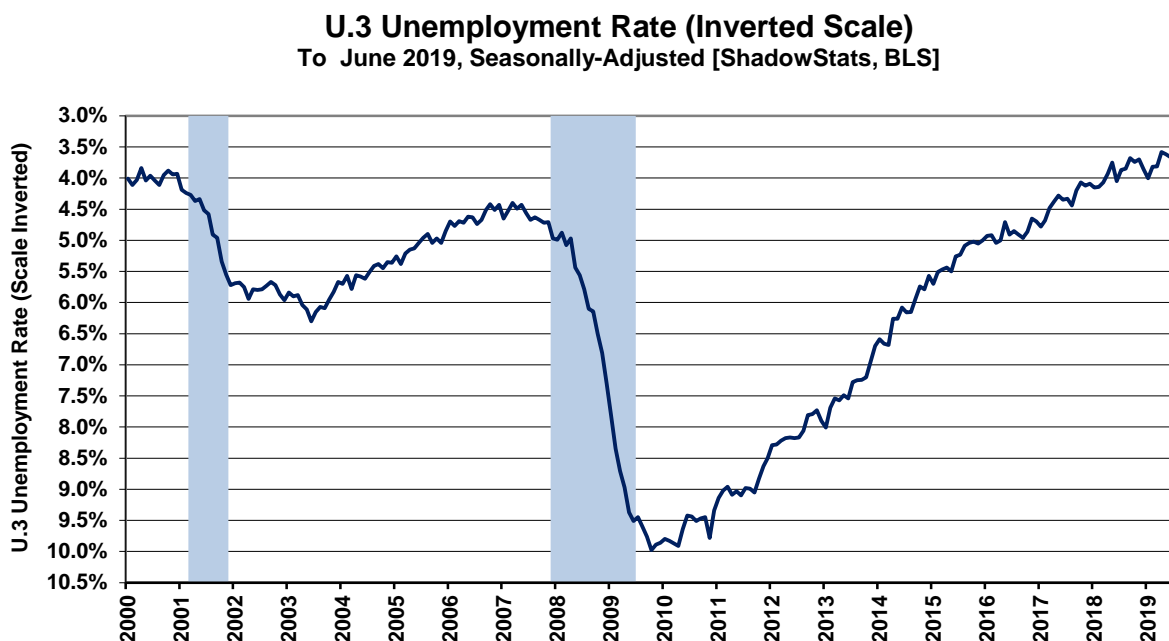
Graph 6: Participation Rate - Labor Force as a Percent of Population, January 1994 to June 2019



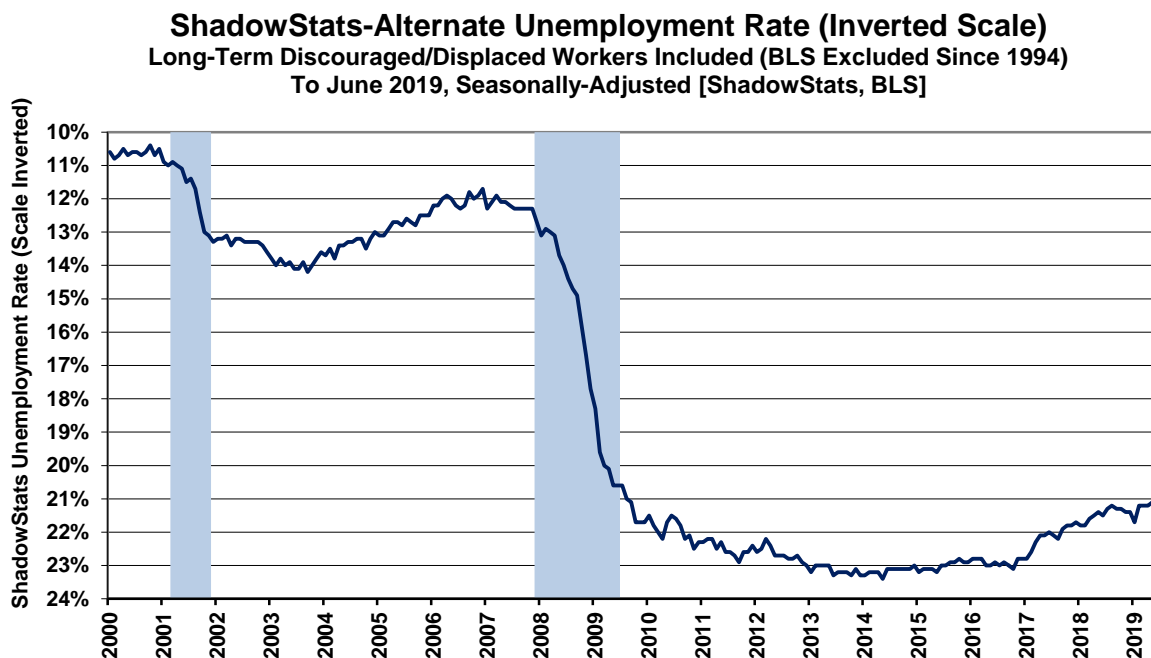
Graph 7: Civilian Employment-Population Ratio, January 1994 to June 2019



Graph 8: Headline U.3 Unemployment Rate, Inverted Scale, January 1994 to June 2019

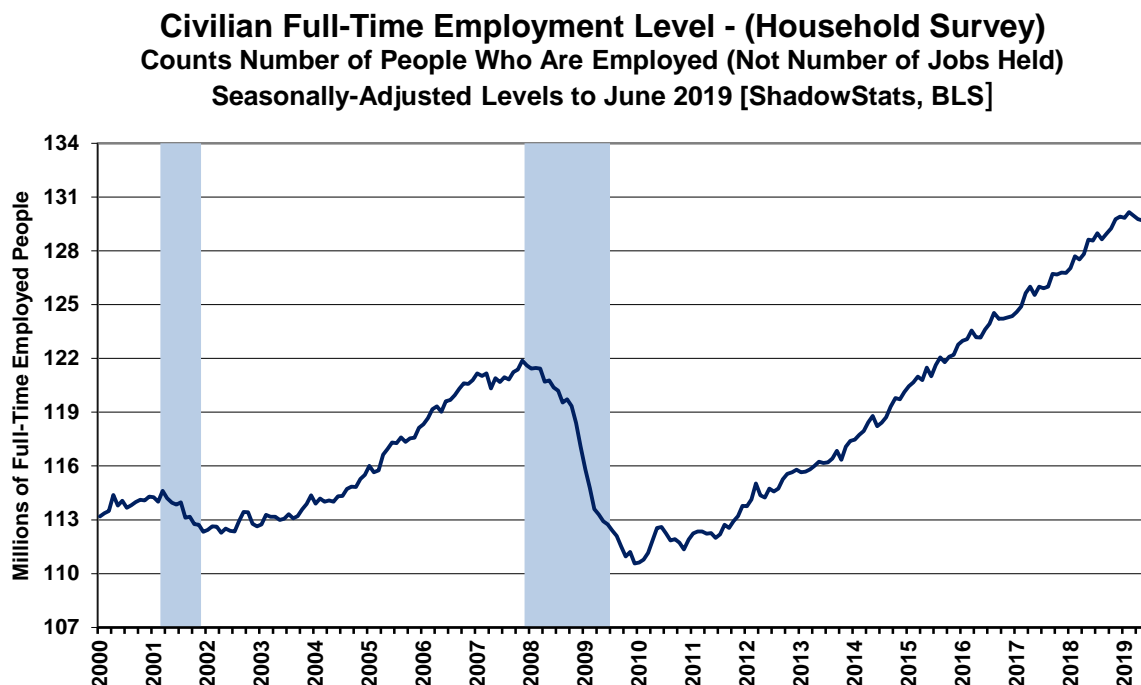


Graph 9: ShadowStats-Alternate Unemployment Rate, Inverted Scale, January 1994 to June 2019

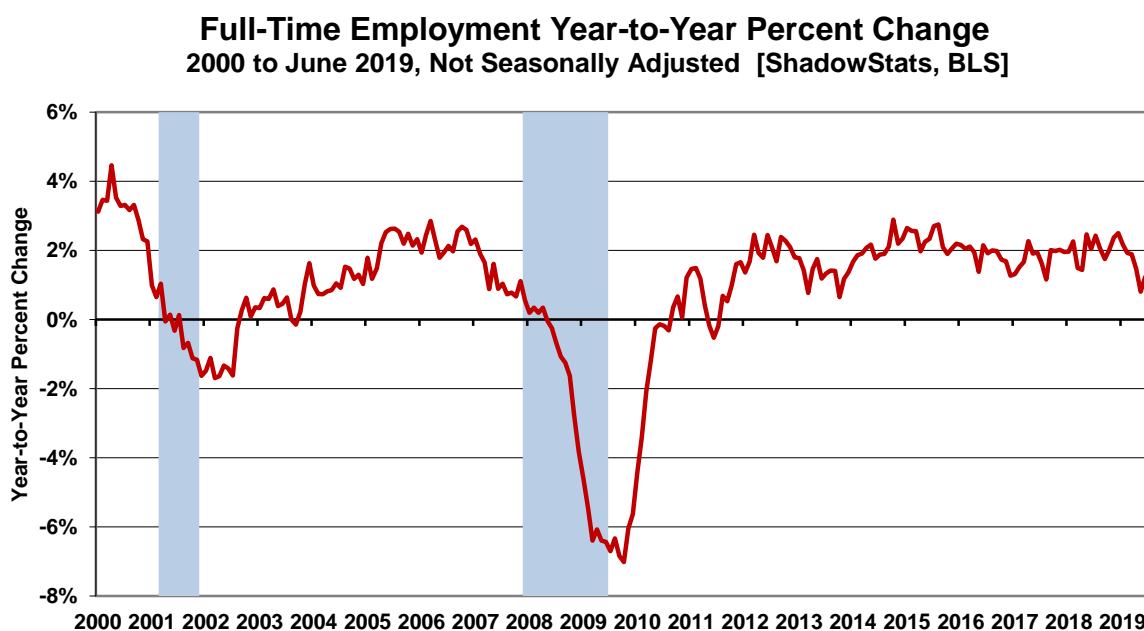


Full-Time Unemployment Gained for the First Time in Four Months

Graph 10: Full-Time Employment, January 2000 to June 2019



Graph 11: Full-Time Employment, Year-to-Year Percent Change, January 2000 to June 2019



Payroll Growth Faltered in Key Industries

June 2019 Annual Payroll Growth Dropped to a 17-Month Low of 1.50%, With an Monthly Gain of 224,000 on Top of Small Downside Revisions to the May and April Activity. The monthly gain of 224,000 payroll jobs was on top of a downside revisions of 3,000 (-3,000) jobs to May activity and 8,000 (-8,000) jobs to April activity. Last month, the May payroll gain of 75,000 (now 72,000) was generated fully by a downside revision of 75,000 (-75,000) to the previously estimated April gain. Not only is this series unstable in its monthly reporting, unlike the Household Survey of employment and unemployment, which counts an individual as “employed” only once, irrespective of how many jobs or part-time jobs held, the Payroll Survey counts only the number of jobs (part-time and full-time), irrespective of how many individuals actually are employed.

The continued weakening in annual payroll growth to 1.50% in June 2019, versus a downwardly revised 1.50% (previously 1.52%) in May, was the weakest growth since January 2018 (see *Graphs 12* and *13*). This month ShadowStats adds two new plots of monthly payroll level and annual growth by industry.

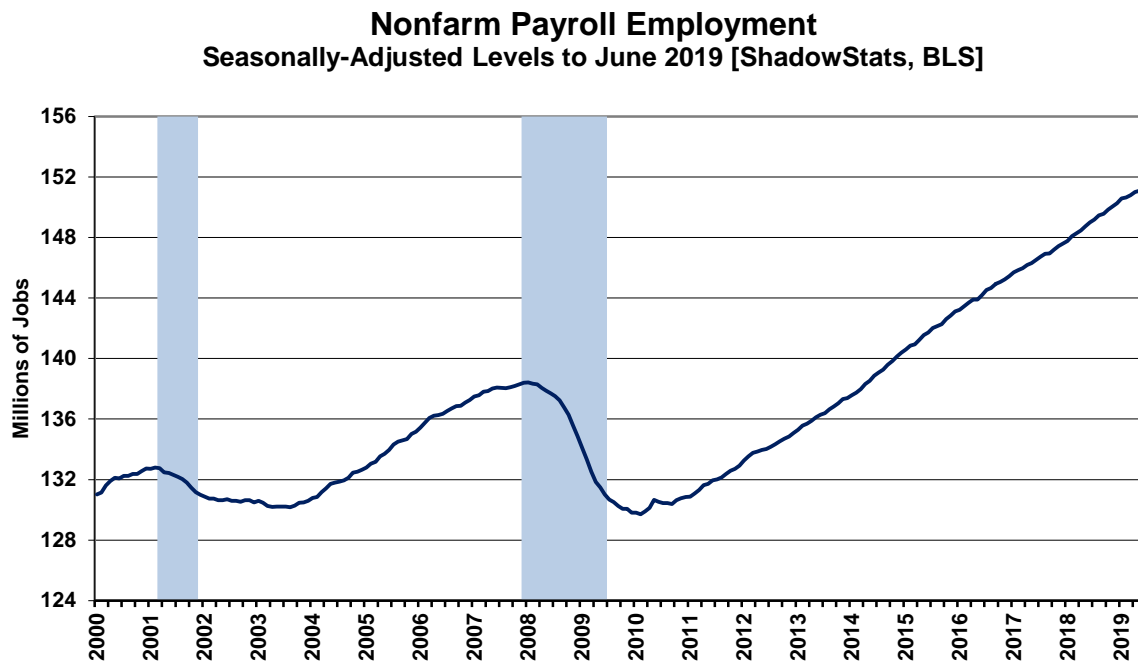
In particular, consider the new plots of Retail Sales payrolls, which declined in June both month-to-month and year-to-year for the fifth straight month (see *Graphs 14* and *15*) and Industrial Production (*Graphs 16* to *17*), which has yet to recover from the Great Recession. Retail Trade payroll employment, excludes the restaurants and eating establishments included in the Census Bureau’s monthly estimate of Retail Sales activity, which is not otherwise easily separable in the BLS’s establishment detail. ShadowStats is working to provide consistent series.

In like manner, where the Manufacturing Sector of Industrial Production is separate from Mining, the BLS includes Oil Production, but not other Mining in its Manufacturing number. So, total Industrial Production payrolls have been aggregated and are plotted here in *Graphs 16* and *17*, using headline payrolls from the BLS’s Manufacturing, Mining and Utilities sector, which in theory cover the full field of Industrial Production. Unlike the Federal Reserve’s headline Industrial Production series, which minimally has recovered its pre-Great Recession peak activity (the dominant Manufacturing never has), the Industrial Production Payroll series never has recovered its pre-recession peak. That phenomenon will be explored and explained in pending ***Bullet Commentary No. 14***, covering tomorrow’s June 2019 Retail Sales and Industrial Production.

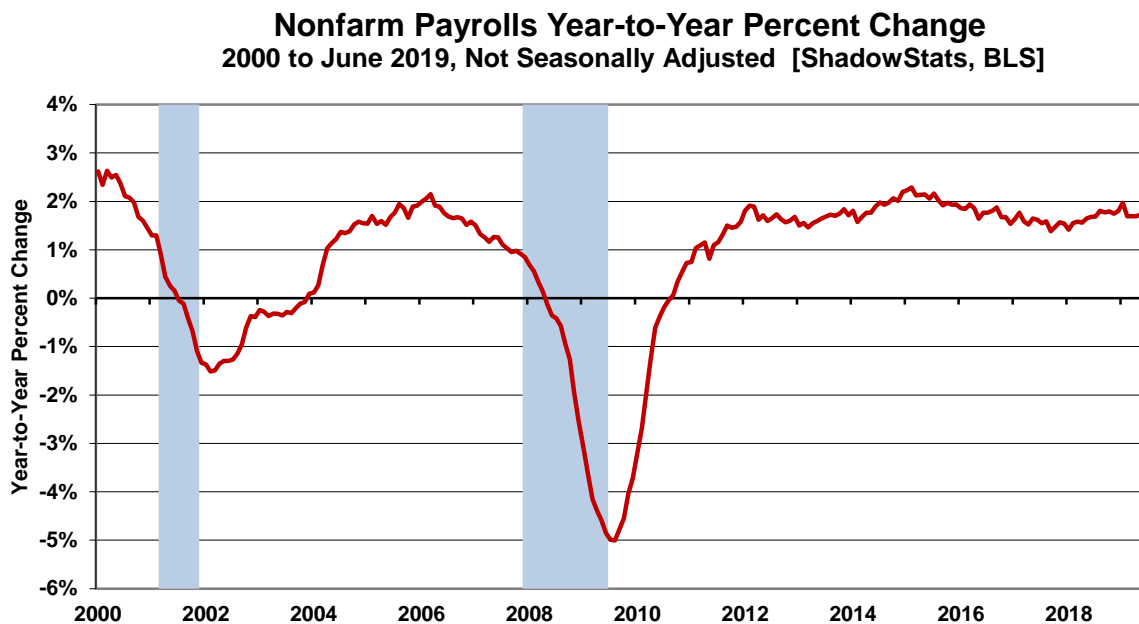
Graphs 18 and *19* provide the regular plots of the June Construction Payrolls, which gained 17,000 (up by 26,000 net of revisions), with annual growth falling to 2.67%, from a revised 2.82% [previously 2.77%], its weakest showing since 2012 (see *Graph 19*). The Construction Employment level in June 2019 remained shy by 2.8% (-2.8%) of ever recovering its pre-recession peak activity.

[Graphs 12 to 19 begin on the next page.]

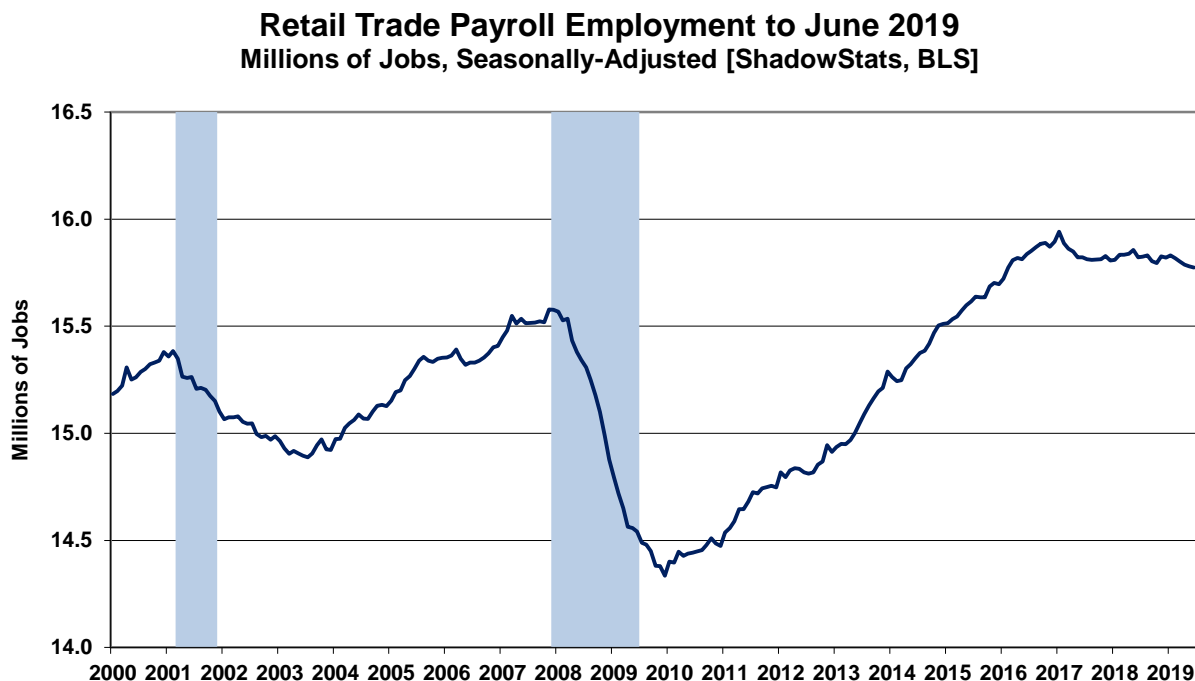
Graph 12: Nonfarm Payroll Employment, January 2000 to June 2019



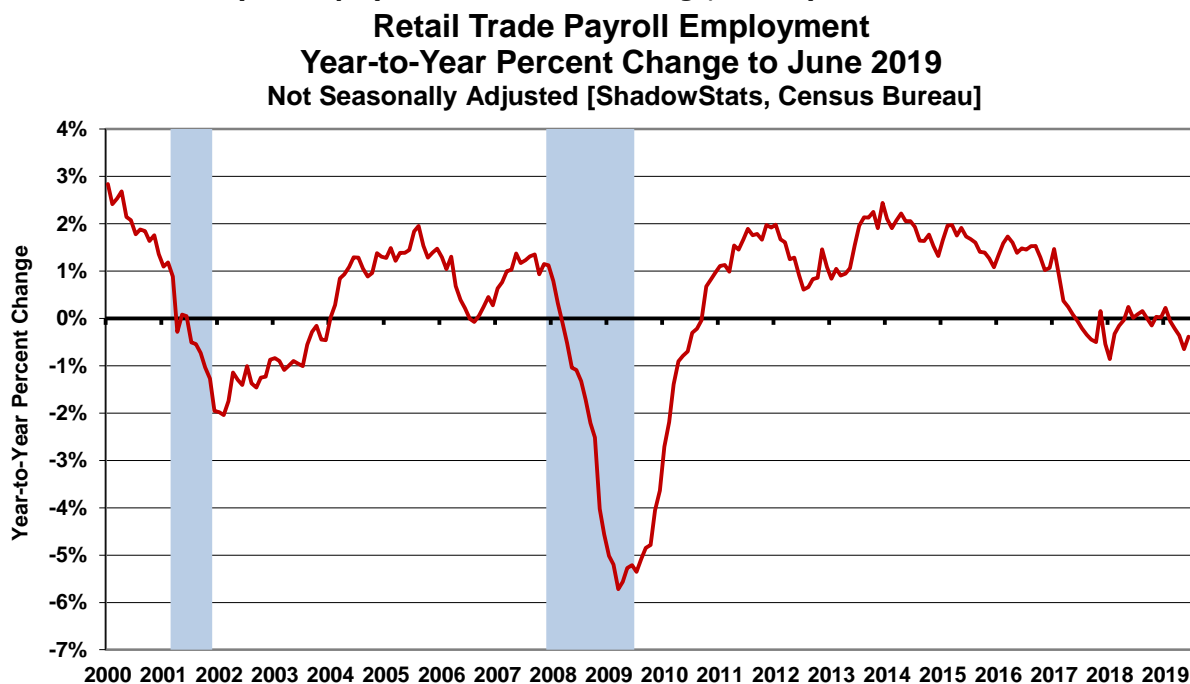
Graph 13: Nonfarm Payroll Employment, Year-to-Year Percent Change, January 2000 to June 2019



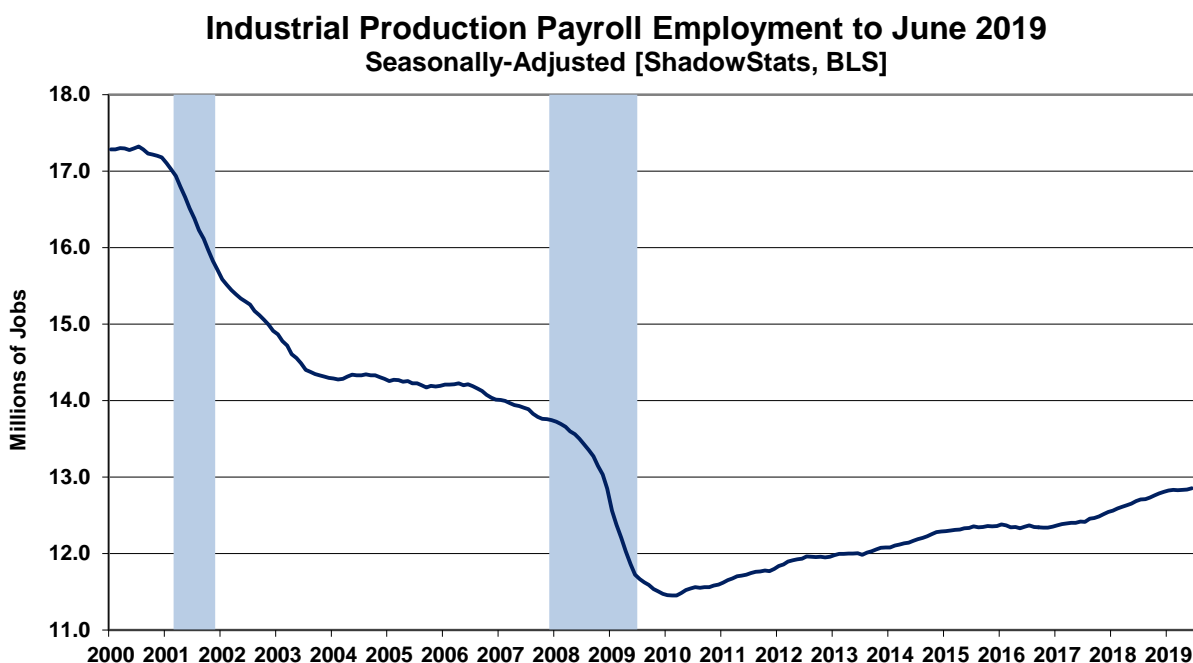
Graph 14: Retail Sales Payroll Employment, January 2000 to June 2019



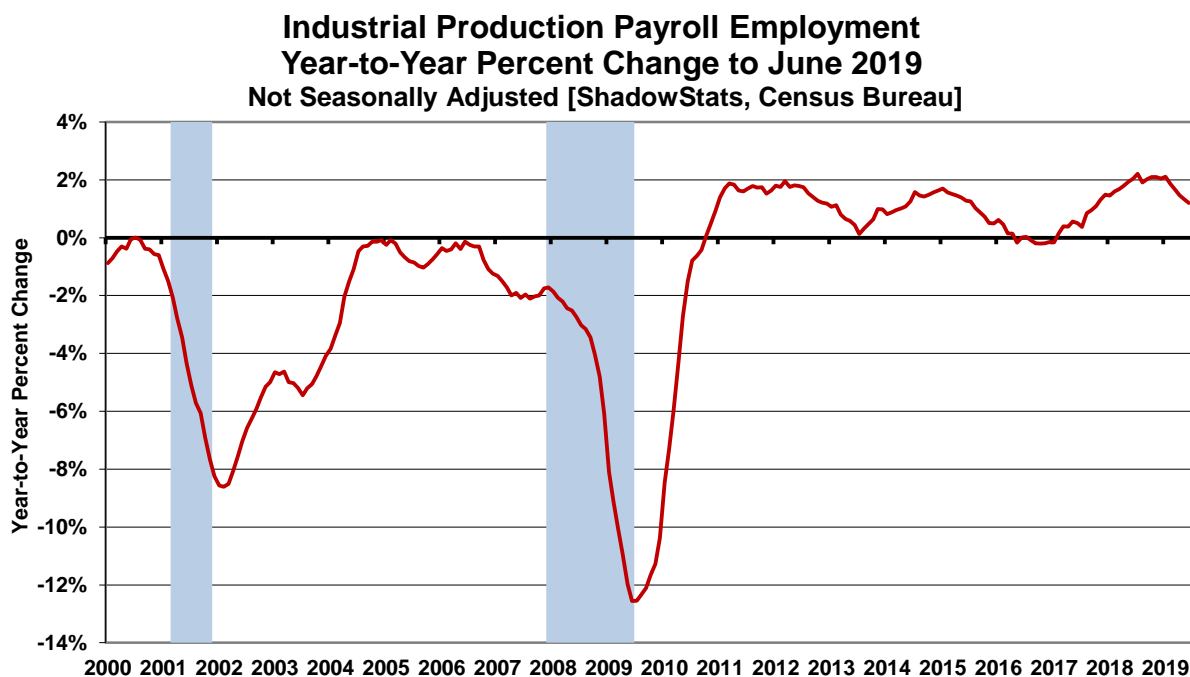
Graph 15: Retail Sales Payroll Employment Year-to-Year Change, January 2000 to June 2019



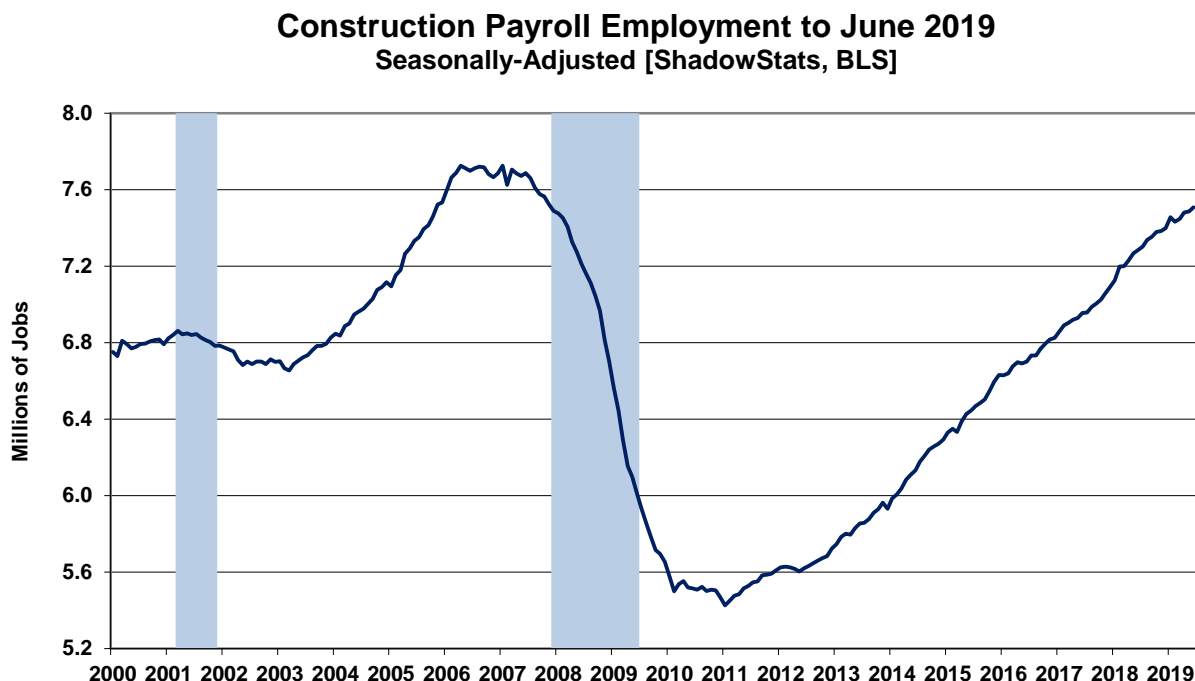
Graph 16: Industrial Production Payroll Employment, January 2000 to June 2019



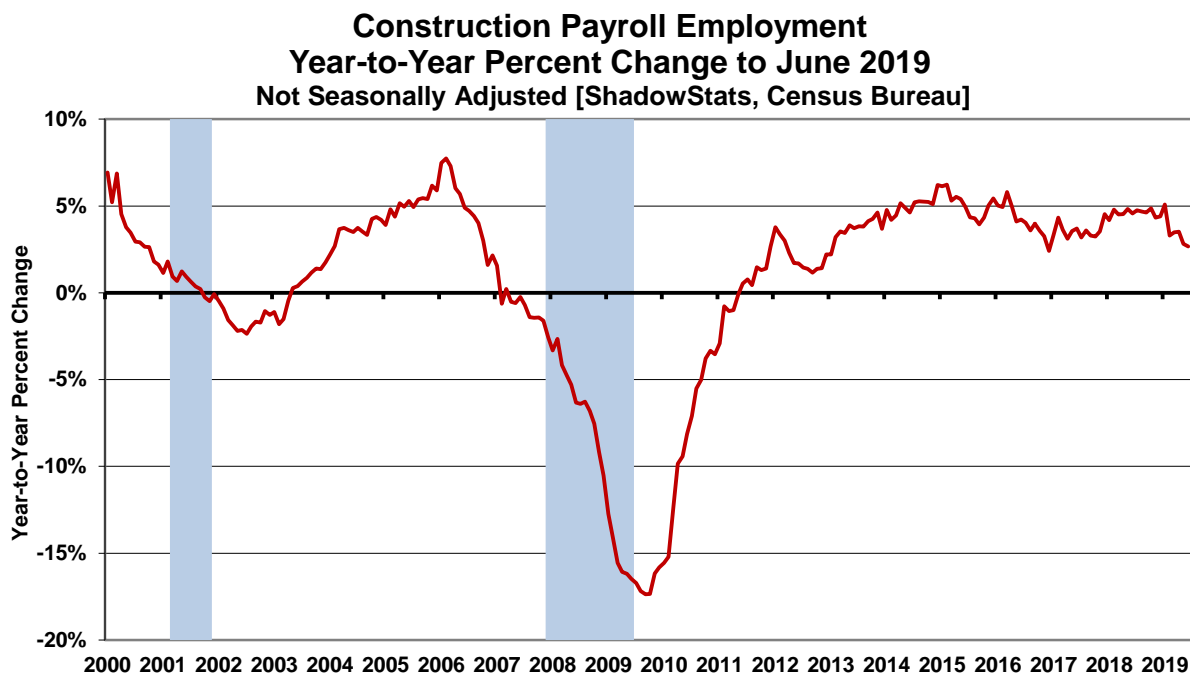
Graph 17: Industrial Production Payroll Employment Year-to-Year Change, January 2000 to June 2019



Graph 18: Construction Payroll Employment, January 2000 to June 2019



Graph 19: Construction Payroll Employment Year-to-Year Change, January 2000 to June 2019

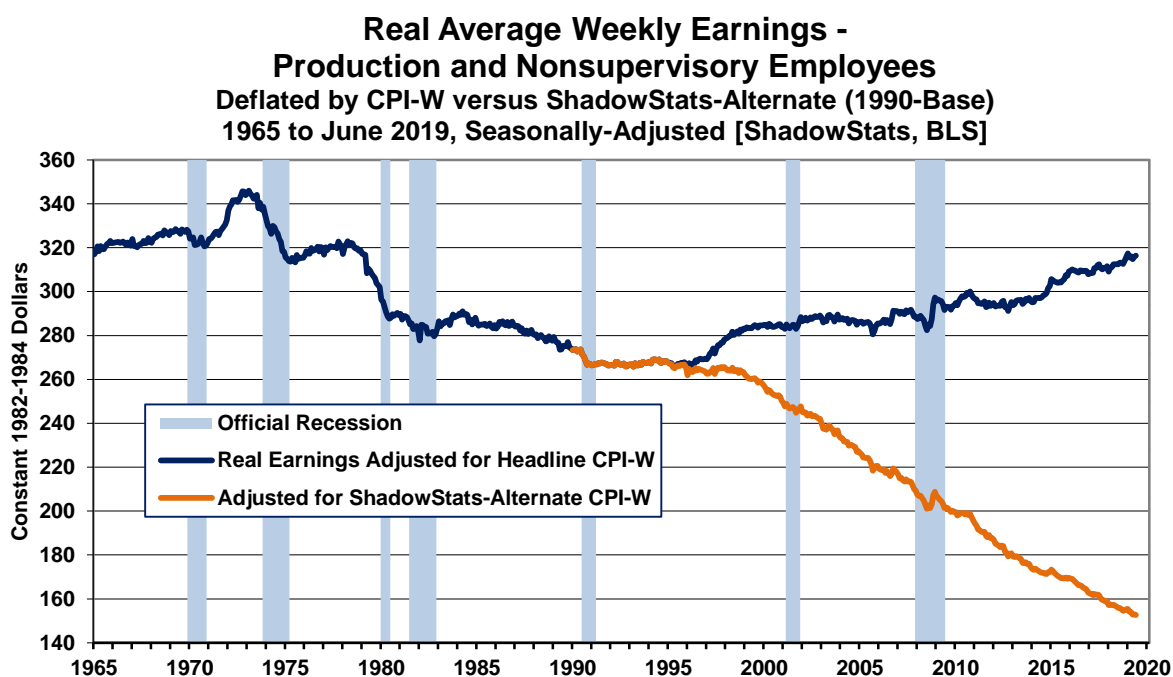


2q2019 Real Earnings for All Employees Dropped by an Annualized 1.0% (-1.0%)

May 2019 Real Median Household Income Declined for the Third Month in the Last Four

Real Average Weekly Earnings Showed Annualized Quarterly Declines of 0.95% (-0.95%) for All Employees, and 0.84% (-0.84%) for Production and Nonsupervisory Employees. Those quarterly declines had been unfolding, as noted last month, despite the irregular monthly volatility of underlying series, and a gain in the June numbers. Based on the June CPI-U/CPI-W and Payroll Employment reporting, Real Average Weekly Earnings for all employees on private nonfarm payrolls rose by 0.16% month-to-month in June, having gained 0.25% (previously 0.14%) in May and having declined by 0.47% (-0.47%) [previously 0.39% (-0.39%)] in April. Weekly earnings for production and nonsupervisory employees gained 0.16% in June, 0.35% [previously a decline of 0.03% (-0.03%)] in May and declined by 0.43% (-0.43%) [previously 0.09% (-0.09%)] in April, all as reported July 11th by the Bureau of Labor Statistics. The real annualized contractions were despite gasoline-depressed headline CPI inflation, which had the effect of spiking inflation-adjusted growth. In conjunction with monthly declines in Real Median Household Income, this circumstance is suggestive of continued deterioration in consumer liquidity and related economic activity.

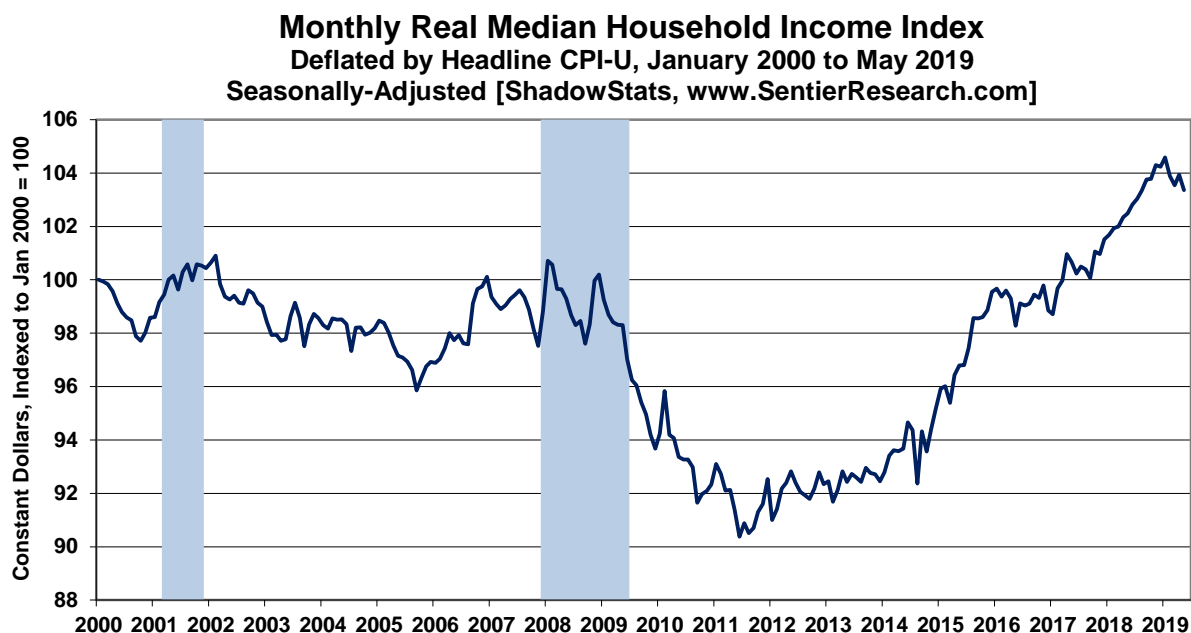
Graph 20: Real Average Weekly Earning



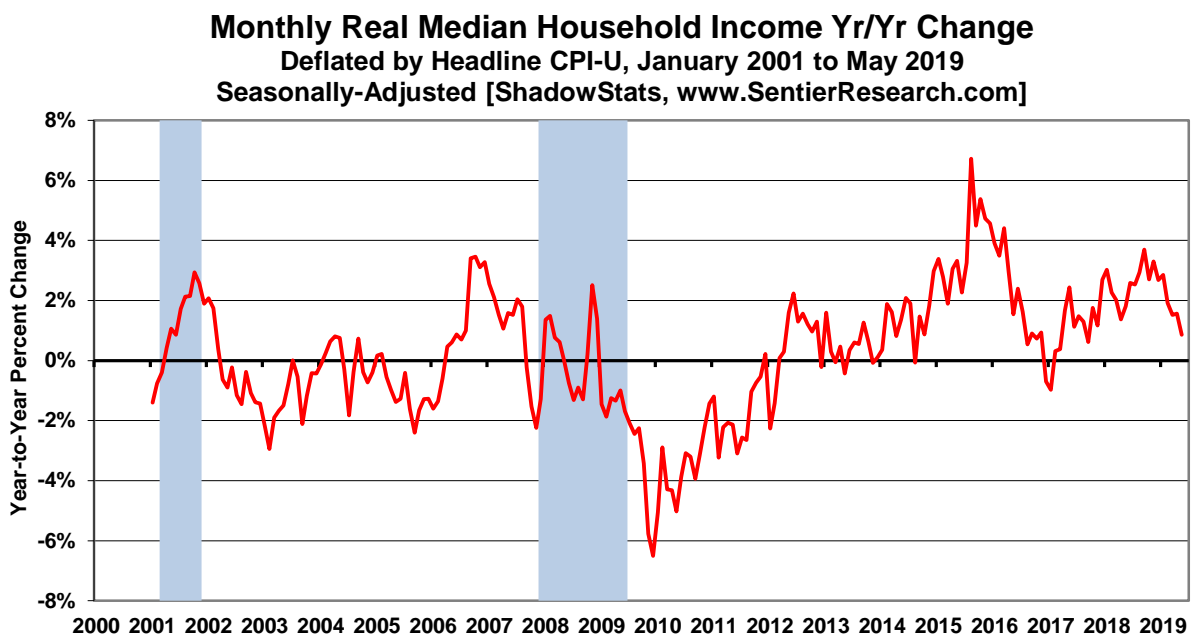
May 2019 Real Median Household Income Dropped for the Third Month in the Last Four, Reflecting Tightening Consumer Liquidity (Sentier Research, July 2nd, www.SentierResearch.com). Consumer Liquidity continued to tighten, as Real Median Household Income declined by 0.6% (-0.6%) in

May, down by 1.1% (-1.1%) from its January 2019 all-time high. Annual growth broadly has been in decline since November 2018, with the May 2019 year-to-year change at its lowest level since late 2017 (see *Graphs 21* and *22*).

Graph 21: Real Median Household Income (Sentier Research)



Graph 22: Real Median Household Income, Year-to-Year Change (Sentier Research)

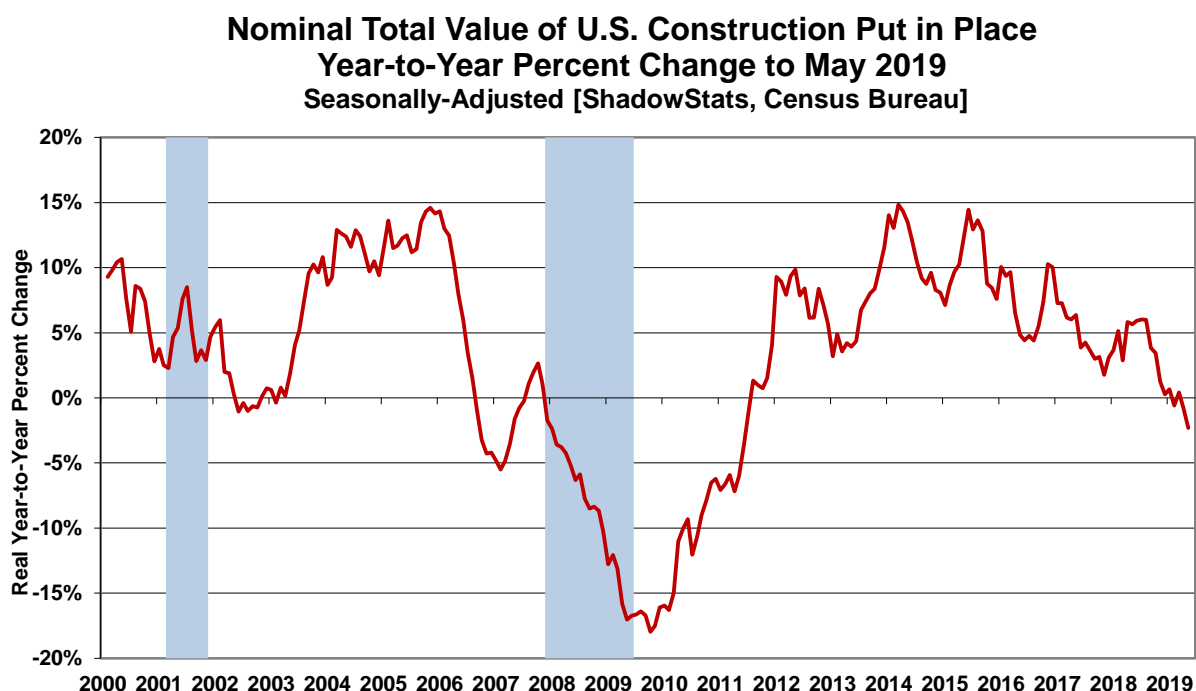


Annual Declines in Nominal Construction Spending Not Seen Since Onset of the Great Recession

Real Construction Spending on Track for Fourth Consecutive Quarterly Contraction

Nominal May 2019 Construction Spending Declined Month-to-Month and Year-to-Year in a Manner Last Seen When the Economy Collapsed into the Great Recession. Driven by the continuing weakness in Residential Construction, Nominal aggregate May Construction Spending declined month-to-month by 0.78% (-0.78%), following a revised gain of 0.42% [previously a decline of 0.05% (-0.05%)] in April, and a revised gain of 0.06% [previously 0.10%] in March, as reported by the Census Bureau on July 1st. The nominal annual decline in May 2019 spending was 2.30% (-2.30%), following a revised drop of 0.81% (-0.81%) [previously 1.23% (-1.23%)] in April and a revised gain of 0.42% [previously 0.47%] in May. With the exception of an unrevised 0.59% (-0.59%) annual decline in February 2019, the nominal series last fell into annual contraction in December 2007, the formal onset of the Great Recession, as seen in *Graph 23*. With two of three months reported, net of inflation, real Second-Quarter 2019 Construction Spending held on track for a fourth consecutive quarter of annual decline, a circumstance also not seen since going into the Great Recession.

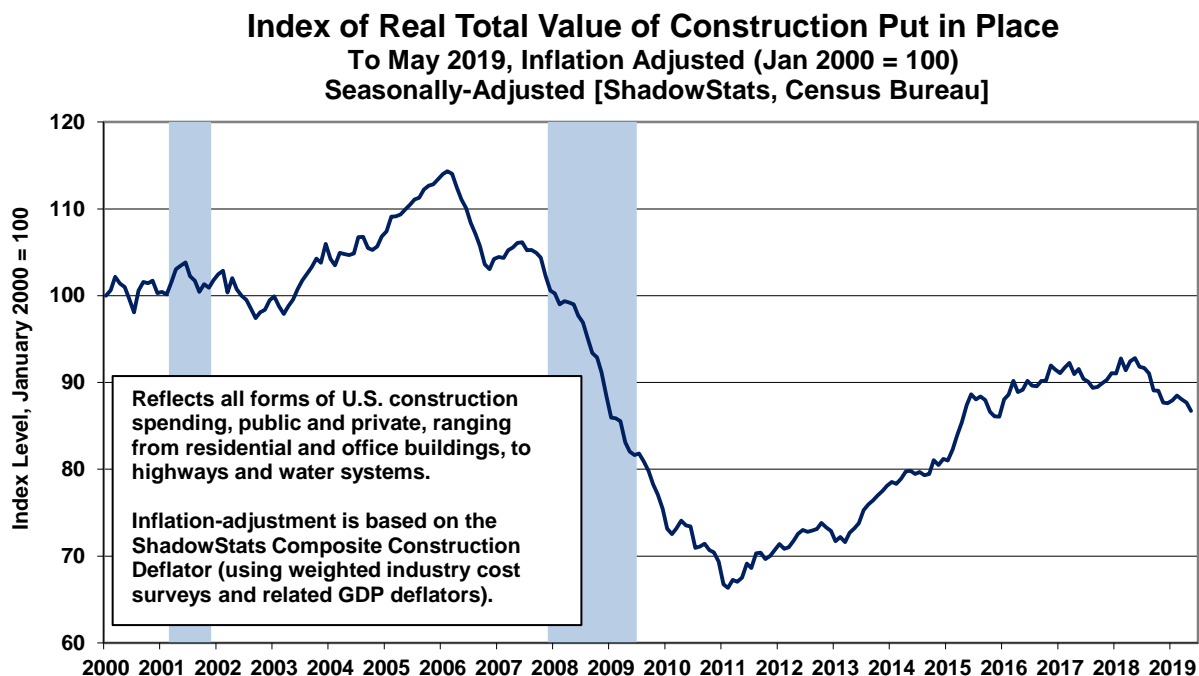
Graph 23: Year-to-Year Change in Nominal Total Construction Spending, January 2000 to May 2019



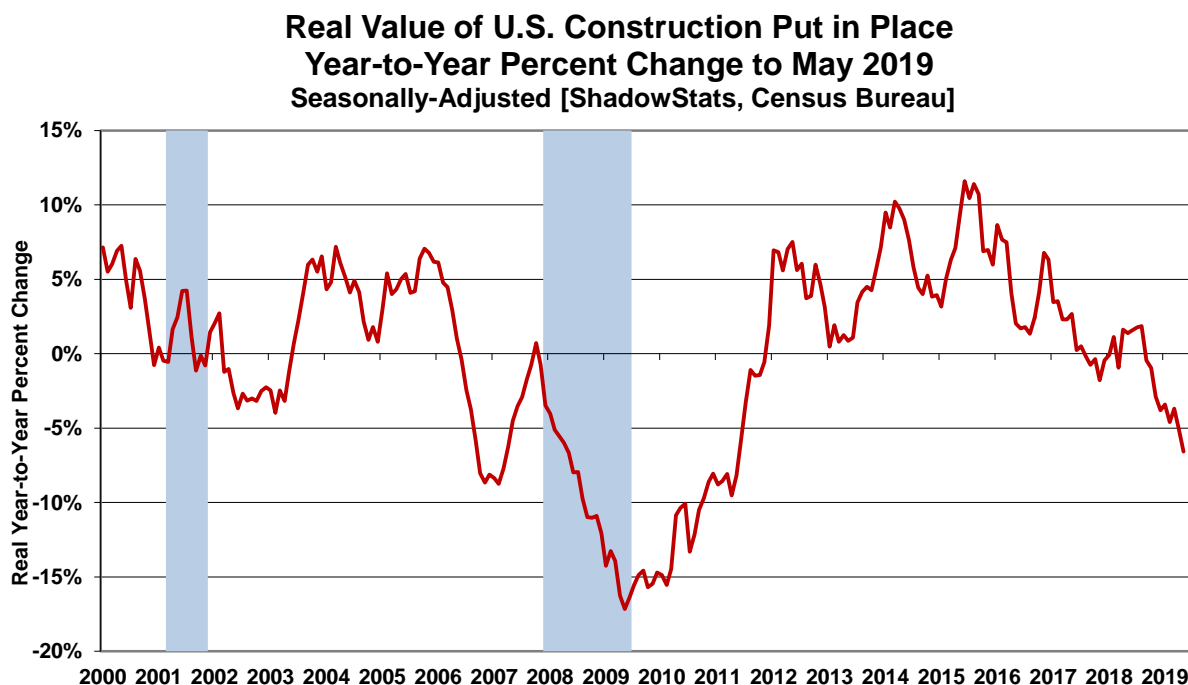
By major category, monthly nominal Private Construction and Public Construction Spending (Residential and Nonresidential) declined across the board. Year-to-year activity fell by 6.3% (-6.3%) for Private Construction [Residential down by 11.2% (-11.2%), Nonresidential down by 0.1% (-0.1%)], but gained

by 10.8% for Public Construction [Residential down by 6.7% (-6.7%), Nonresidential up by 11.2%]. The regular monthly plots, by aggregate and subsidiary series, nominal and real follow in *Graph 24* to 33.

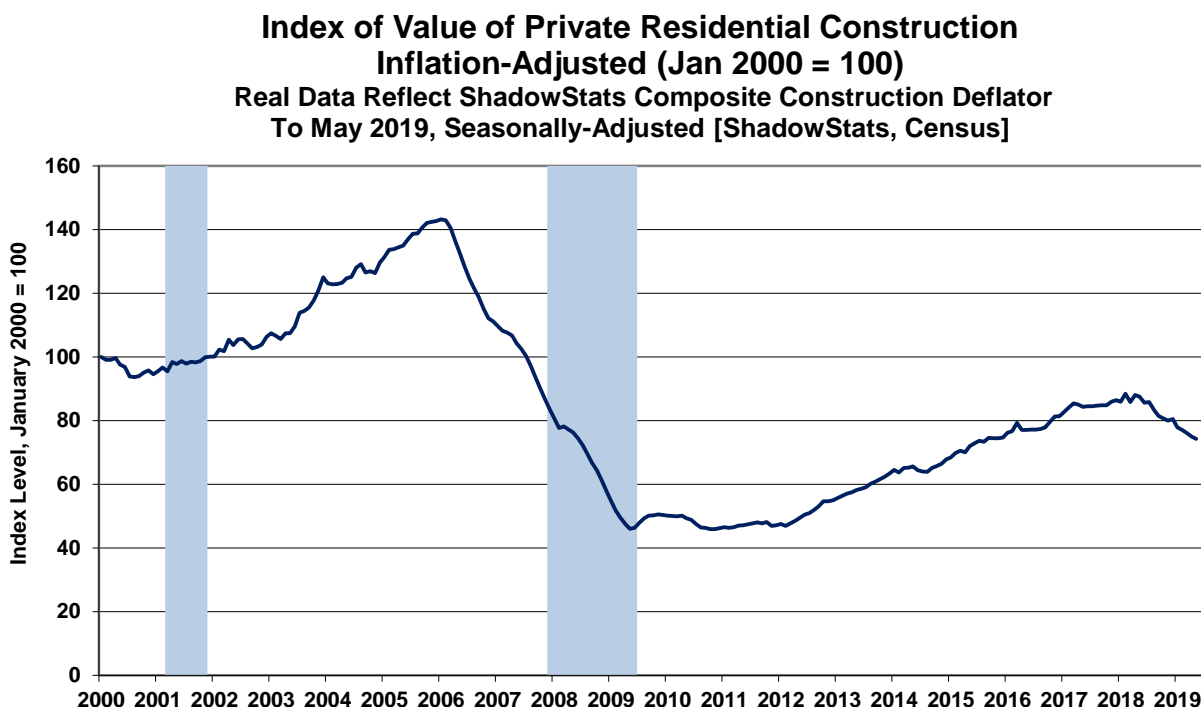
Graph 24: Index of Real Total Value of Construction Put in Place, January 2000 to May 2019



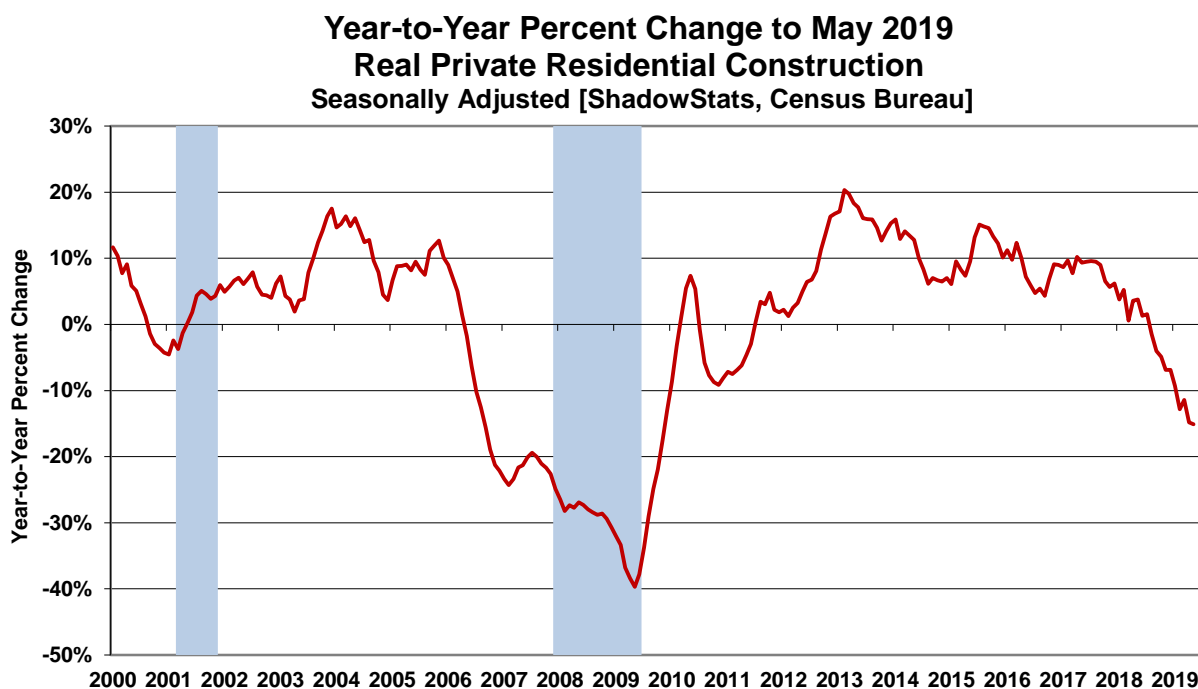
Graph 25: Year-to-Year Change in Real Construction Spending, January 2000 to May 2019



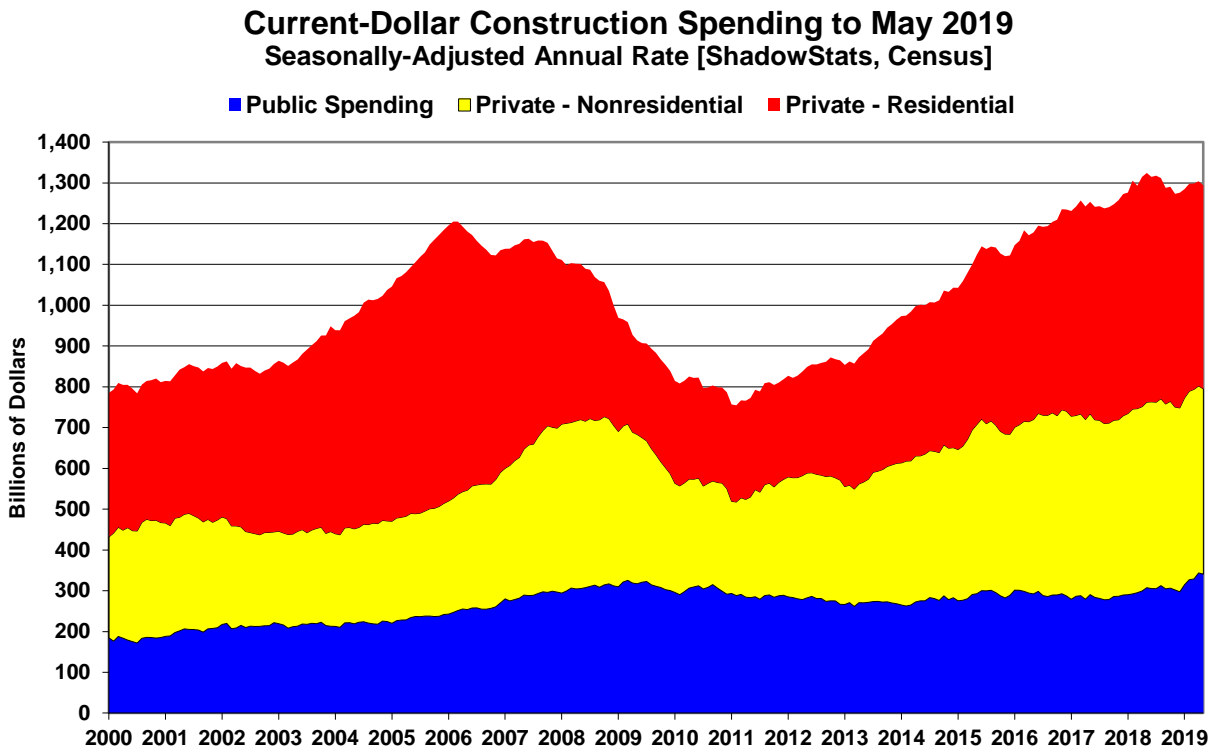
Graph 26: Index of Real Total Value of Private Residential Construction Put in Place, January 2000 to May 2019



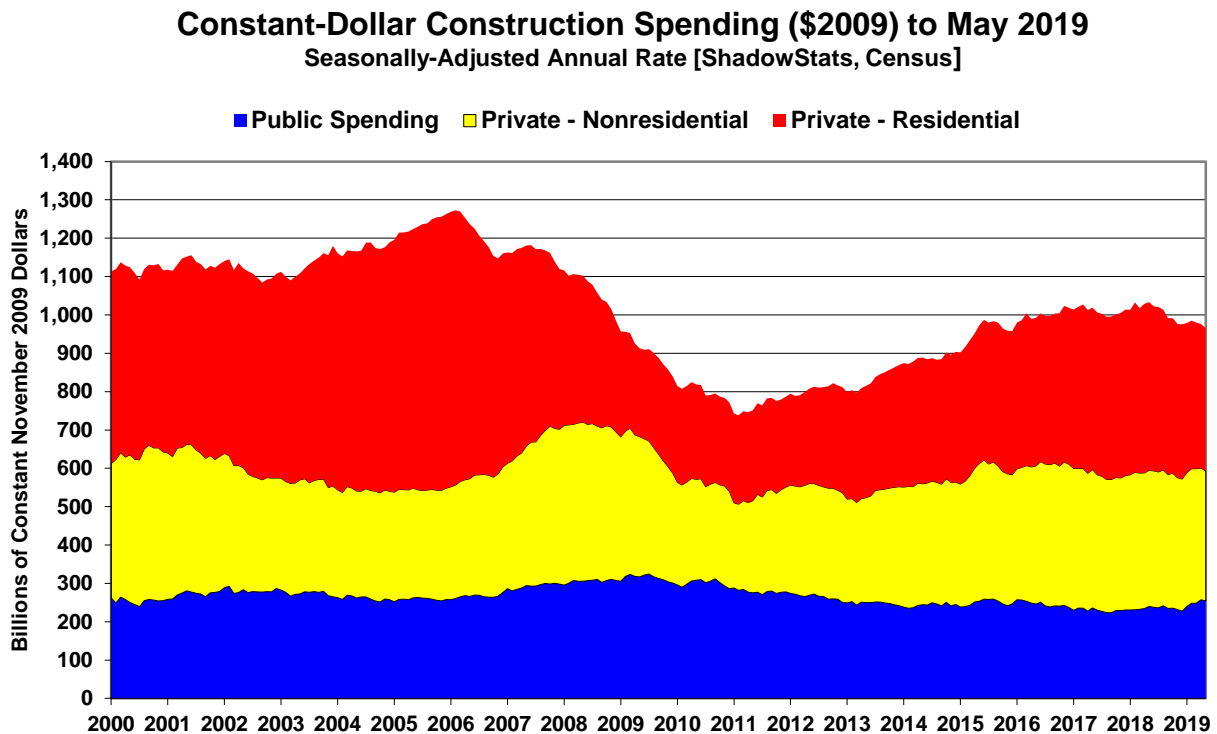
Graph 27: Year-to-Year Change in Real Private Residential Construction Spending, January 2000 to May 2019



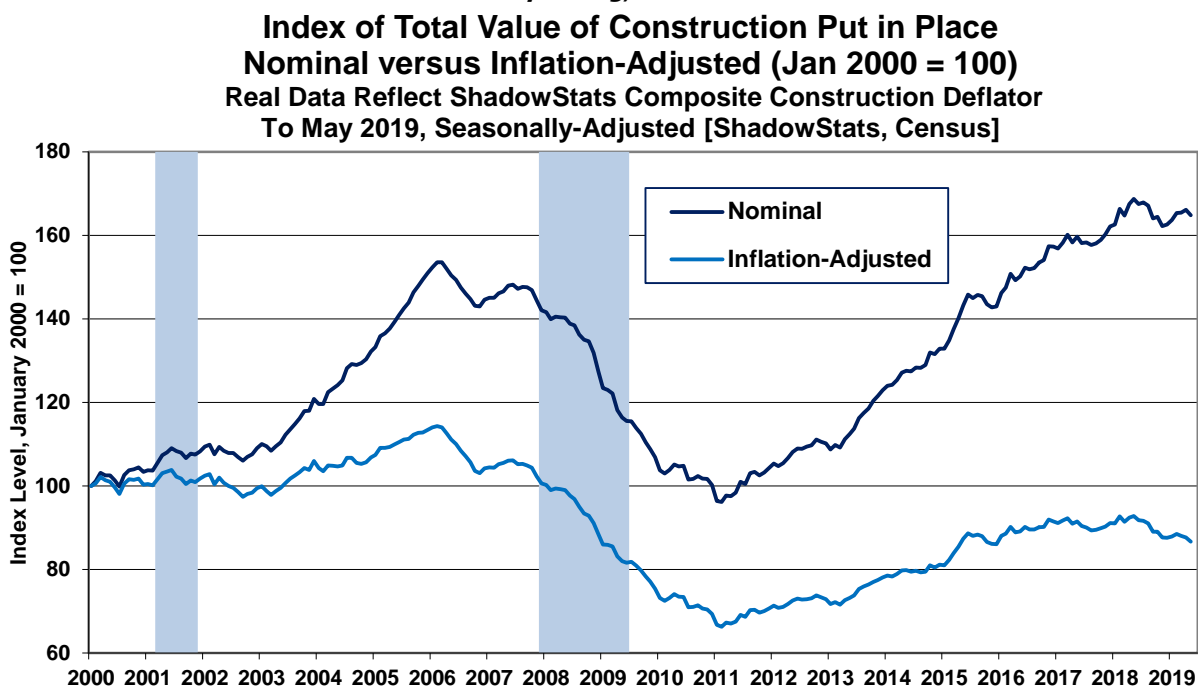
Graph 28: Relative Current-Dollar Construction Spending by Sector



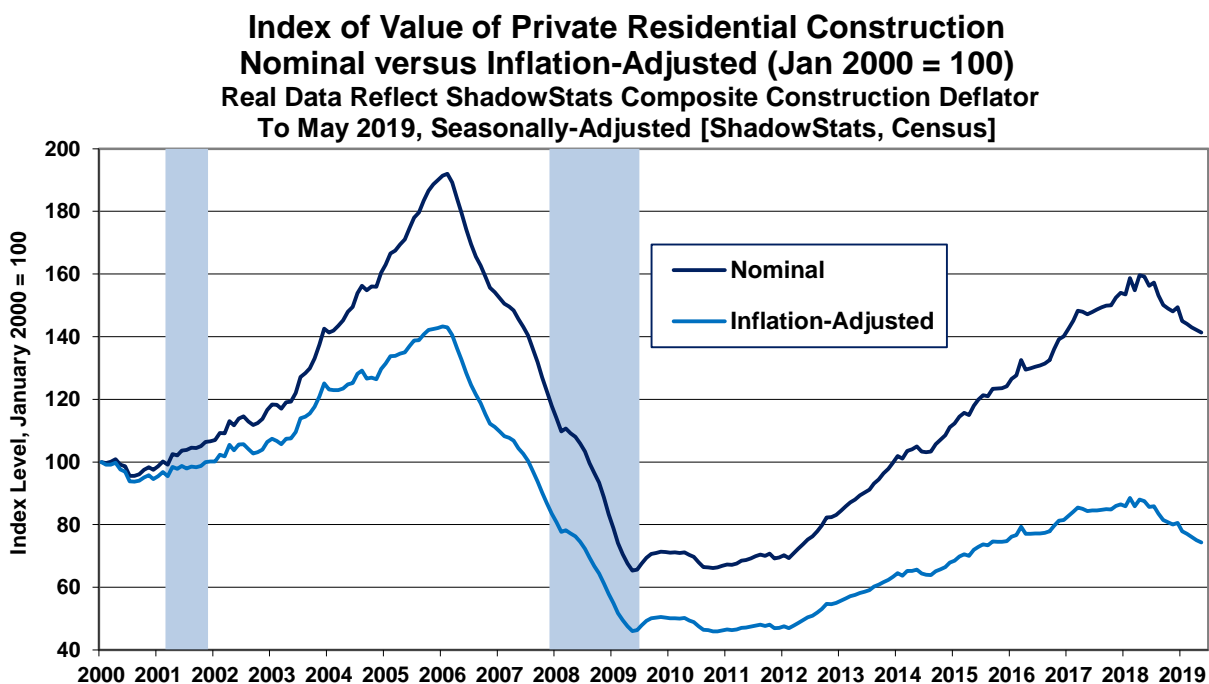
Graph 29: Relative Constant-Dollar Construction Spending by Sector



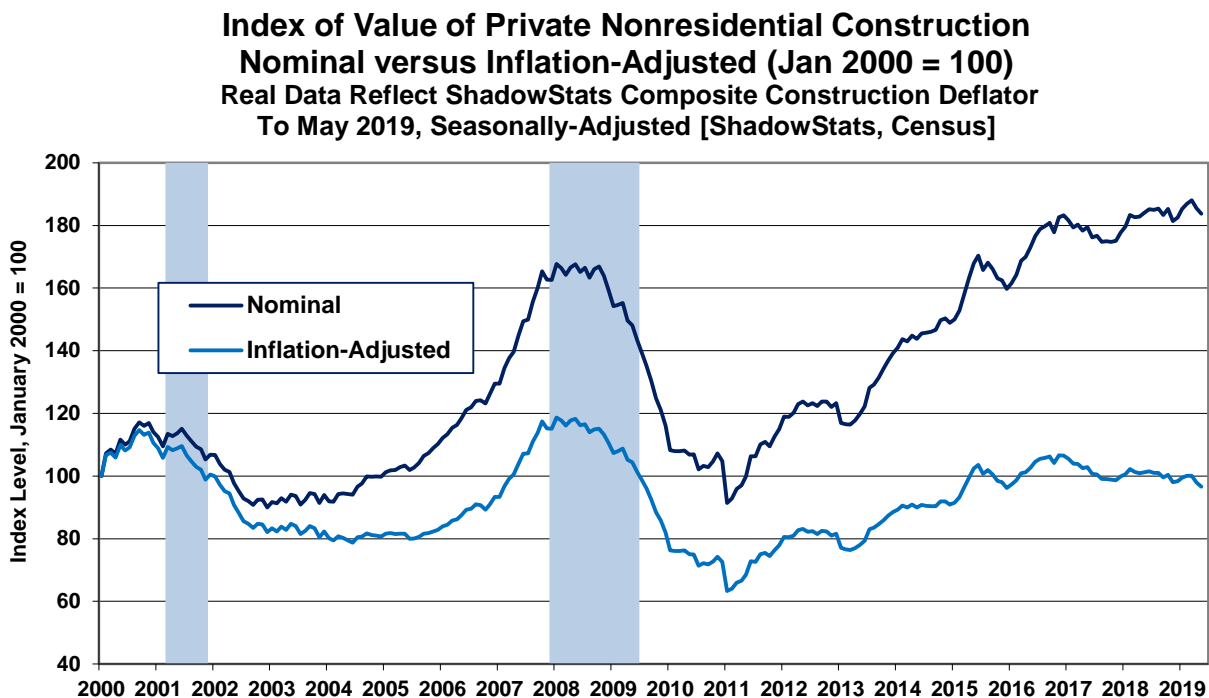
Graph 30: Index of Total Value of Construction Spending, Nominal versus Real



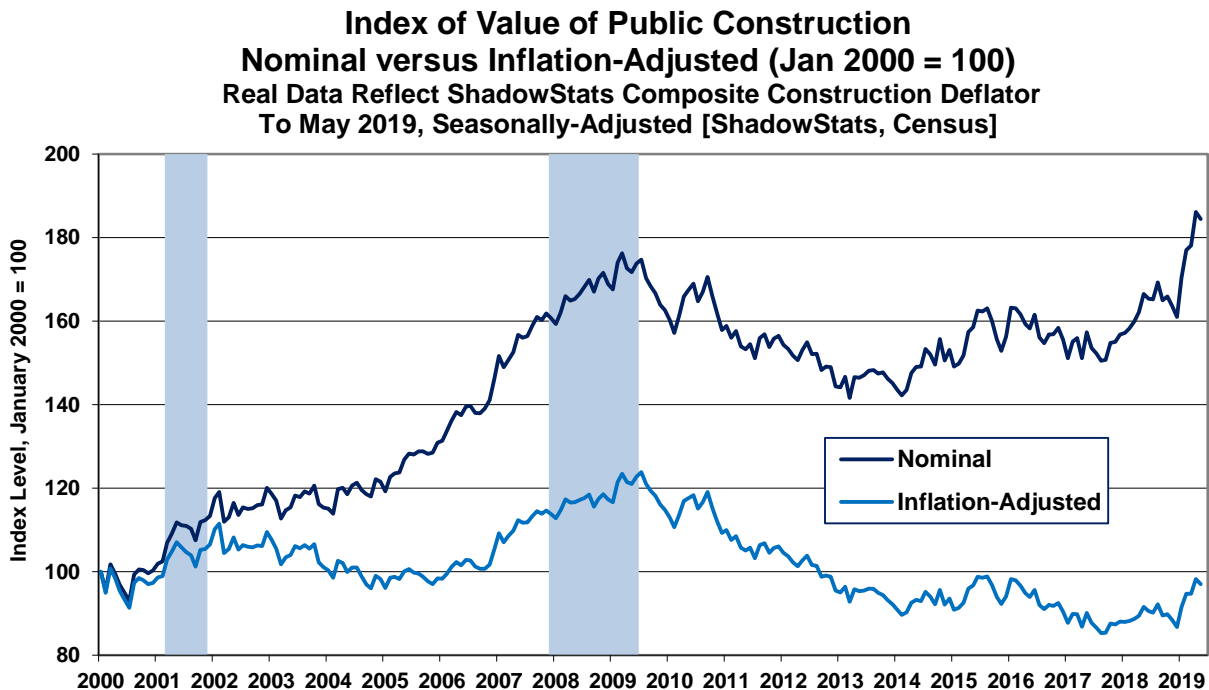
Graph 31: Index of Value of Private Residential Construction Spending, Nominal versus Real



Graph 32: Index of Value of Private Nonresidential Construction Spending, Nominal versus Real



Graph 33: Index of Total Public Construction Spending, Nominal versus Real



Deteriorating Second-Quarter Trade Deficit Has Negative GDP Implications

May 2019 Trade Deficit Deteriorated More Than Expected Against an April Trade Shortfall That Deepened in Revision. The deficit in the May Trade Balance in Goods and Services widened to a nominal \$55.5 billion, from a revised \$51.2 (previously \$50.8) billion, reflecting a greater increase in imports than exports, as reported by the Census Bureau and Bureau of Economic Analysis on July 3rd. With a similar pattern of reporting in the inflation-adjusted Real Merchandise Trade Deficit, the series remained on track for a second-quarter widening, with negative implications for second-quarter GDP, due for release on July 26th.

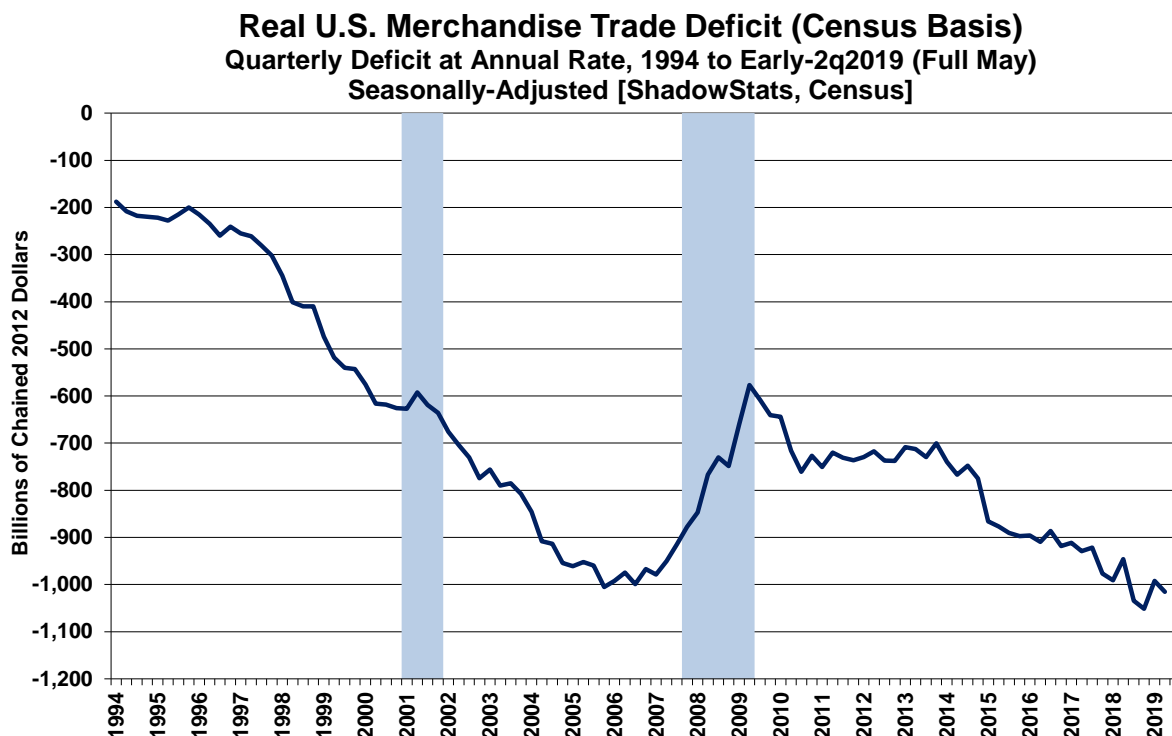
Following *Graphs 34* and *35* respectively plot, the “final” headline reporting of the Real Net Exports Account of First-Quarter 2019 GDP (subject to revision on July 26th), and the headline Real Merchandise Trade Deficit, with the added plot of Second-Quarter 2019 activity imputed from the headline May 2019 Trade Deficit reporting.

[Graphs 34 and 35 are shown on the following page.]

Graph 34: Real Net Exports of Goods and Services in GDP (1q1994 to Third-Estimate 1q2019)



Graph 35: Real U.S. Merchandise Trade Deficit through Full May 2019 (1st-Qtr 1994 to Early 2nd-Qtr 2019)



[The "Monetary Conditions Section" begins on the next page.]

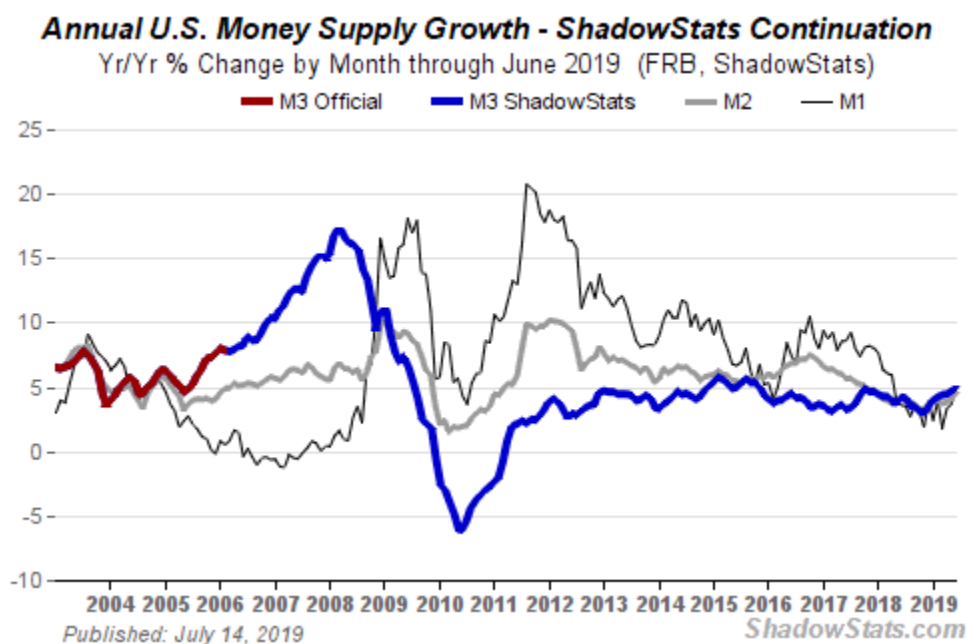
Monetary Conditions

June 2019 Annual Money Supply Growth Jumped Sharply for M1, M2 and M3

Plunge in 2nd-Quarter Monetary Base Exceeded the Great Depression Second Down-Leg Trigger

Annual Growth Rates Jumped Sharply in June 2019 Money Supply M1, M2 and M3 (ShadowStats Continuation). With full reporting in from the Federal Reserve Board on its June 2018 monthly measures of Money Supply M1 and M2, and the ShadowStats estimate of the June M3 Continuation based on related data, nominal annual growth in the various measures rose sharply, suggestive of the Federal Reserve beginning to ease up on liquidity conditions. This has happened at the same time that deep annual contractions in Monetary Base have continued. Noted in the *Overview* and in previous *Commentaries*, the FOMC does its best to insulate the money supply growth from the drastic shifts in the Monetary Base levels, which otherwise have reflected a sharp tightening in the current circumstance.

Graph 36: Monthly Money Supply M1, M2 and M3, Year-to-Year Change to June 2019



That said, Money Supply details are plotted here in *Graph 36*, along with a number of graph variations and hard numbers that can be viewed by clicking on the Alternate Data Tab/Money Supply on the www.ShadowStats.com home page. Annual change in the Federal Reserve's narrowest Money Supply measure M1 rose to 4.8% in June 2019, from 3.7% in May 2019, with June the highest growth rate since April 2018.

Annual change in the Federal Reserve's now-broadest Money Supply M2, rose to 4.6% in June 2019, from 4.1% in May 2019, with June 2019 the highest growth rate since December 2017.

Annual change in what used to be the Federal Reserve's broadest Money Supply M3, now estimated by ShadowStats in Continuation of the old series (including items such as Institutional Money Funds and Large Time Deposits), rose to 5.0% in June 2019, from 4.6% in May 2019, with June the highest growth rate since October 2015.

Annual Contraction in Second-Quarter 2019 Monetary Base Narrowed Minimally from the First Quarter, Still Worse than the Third-Quarter 1937 Plunge Credited With Triggering the Second Down-Leg of the Great Depression. Updated here, the June and Second-Quarter 2019 annual contractions in the Saint Louis Fed's Monetary Base, minimally narrowed from prior periods,

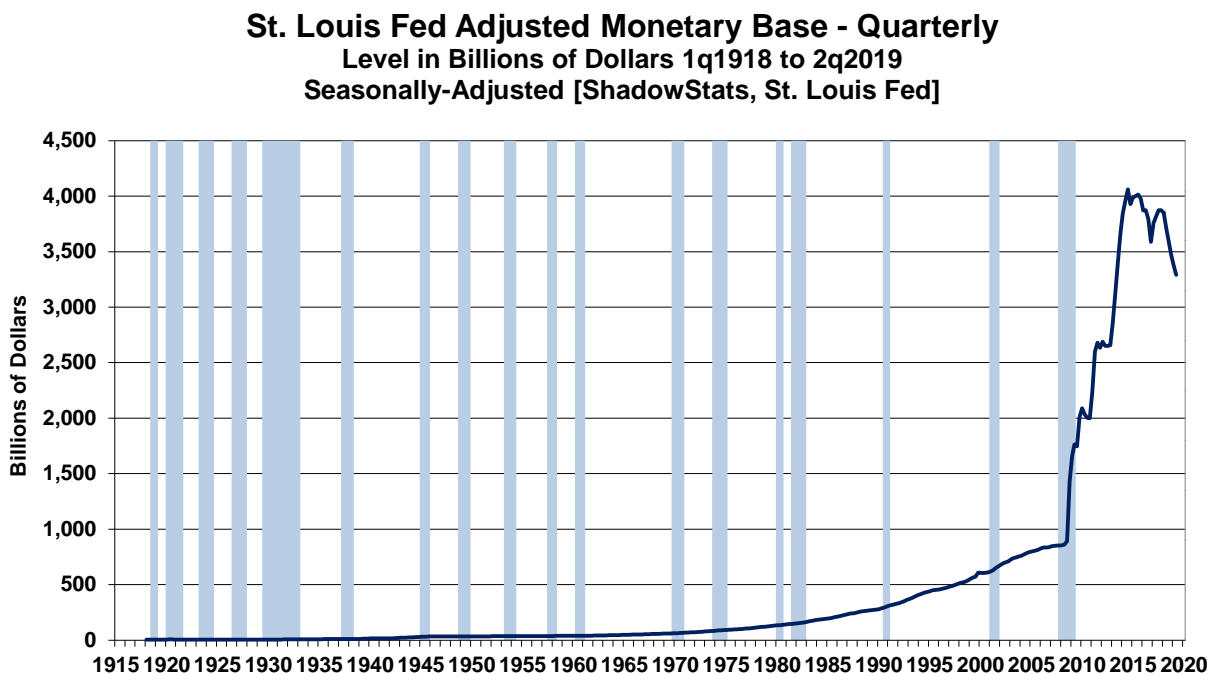
The annual year-to-year decline in the Second-Quarter 2019 Saint Louis Federal Reserve Adjusted Monetary Base was 11.3% (-11.3%), versus 12.2% (-12.2%) in First-Quarter 2019. That first-quarter plunge was the deepest since a 10.9% (-10.9%) annual drop in Third-Quarter 1937, credited with triggering the second down leg of the Great Depression (see *Graphs 37* and *38*).

On a monthly year-to-year basis, June 2019 St. Louis Fed Adjusted Monetary Base declined year-to-year by 10.4% (-10.4%), versus 11.6% (-11.6%) in May 2019 (see *Graphs 39* and *40*).

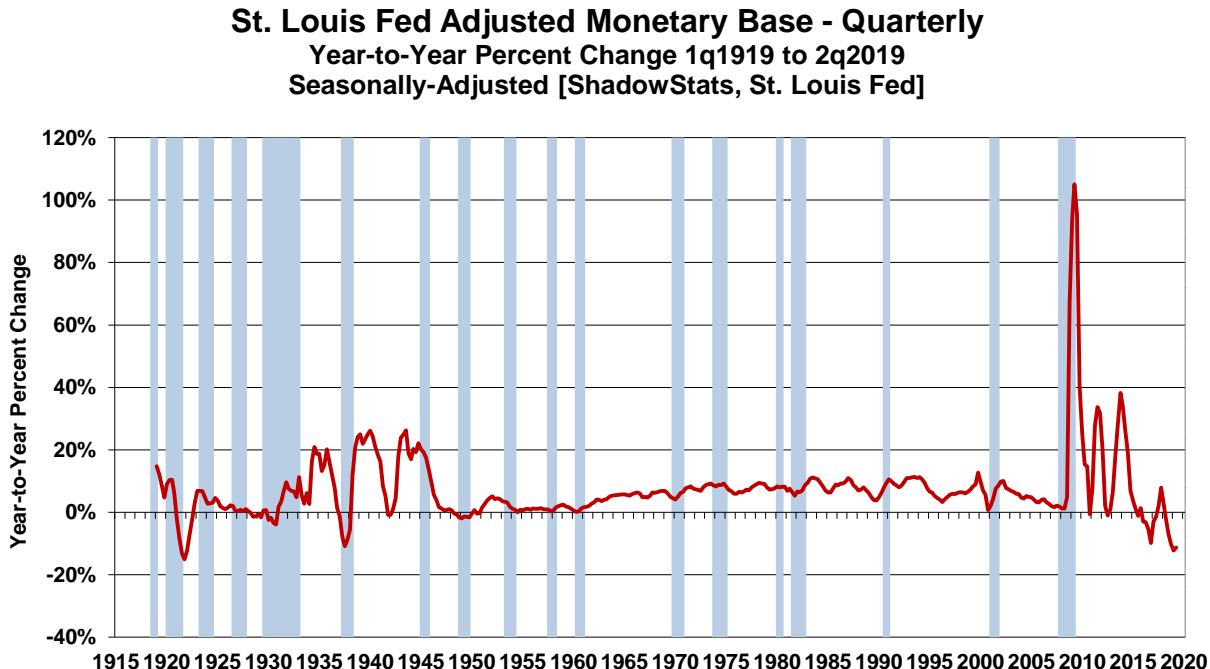
On a bi-weekly basis, the July 3, 2019 St. Louis Fed Adjusted Monetary Base declined year-to-year by a deepening 10.4% (-10.4%), versus a 9.8% (-9.8%) annual decline in the June 19th week (see *Graphs 41* and *42*).

[Graphs 37 to 42 begin on the next page.]

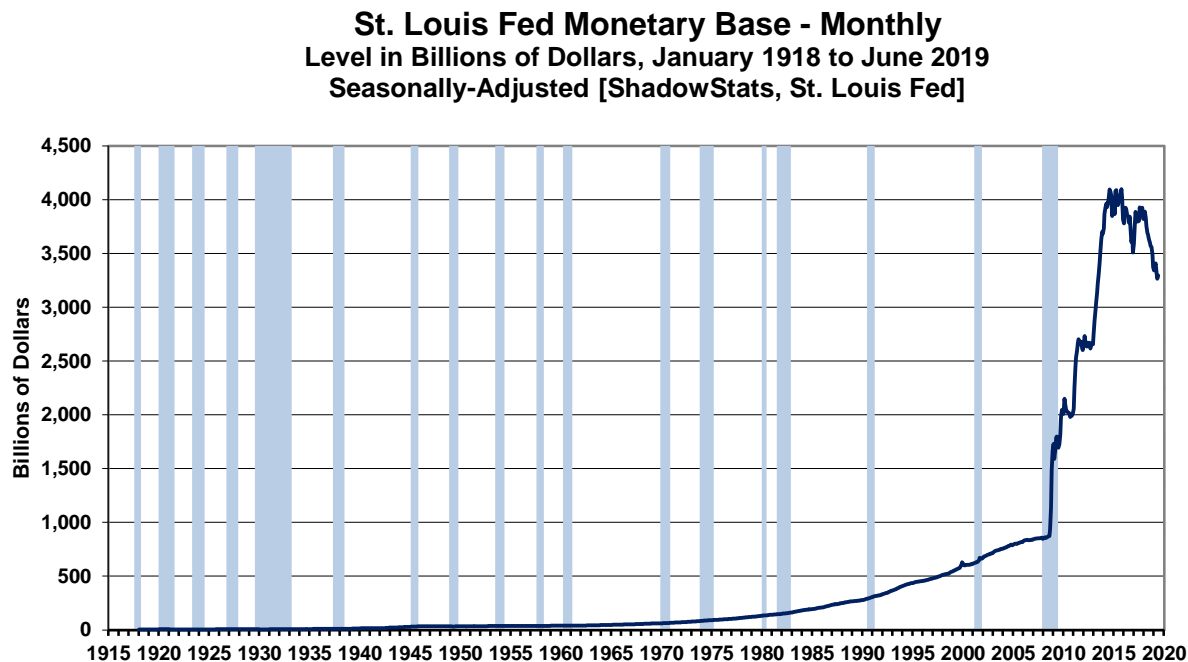
Graph 37: St. Louis Fed Adjusted Quarterly Monetary Base, 1918 to Date



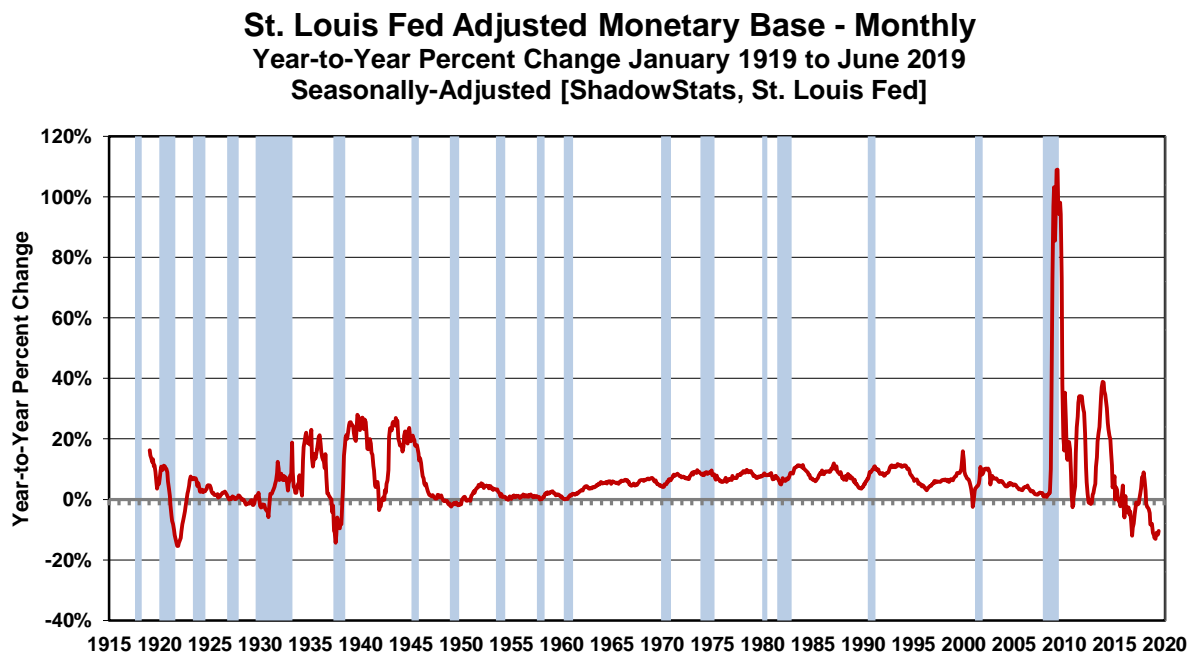
Graph 38: St. Louis Fed Adjusted Quarterly Monetary Base, Year-to-Year Change 1918 to Date



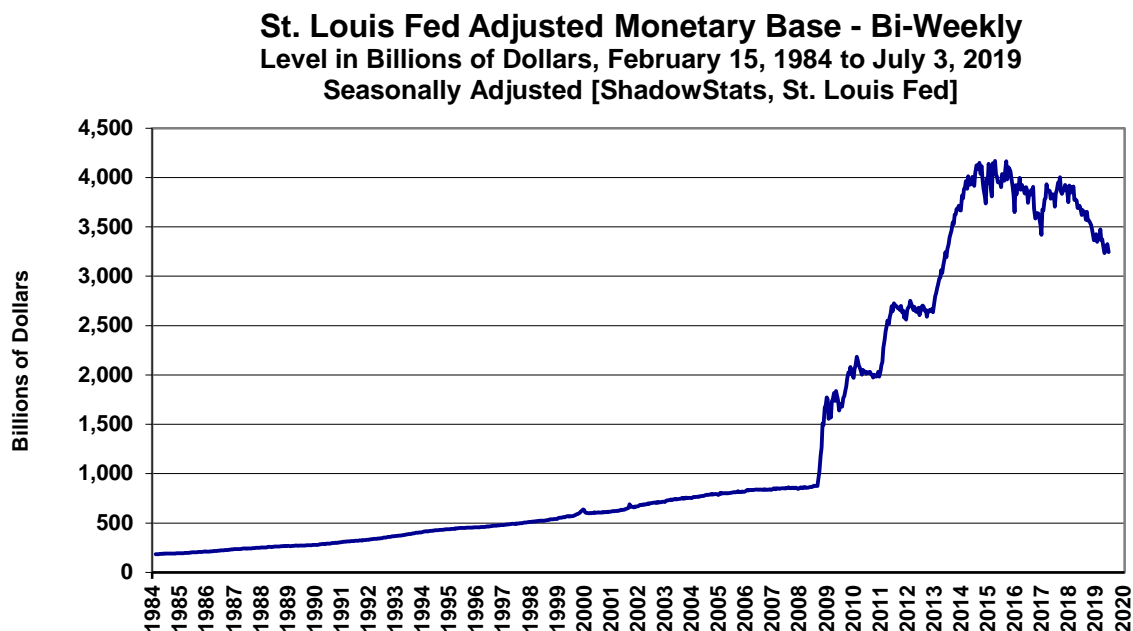
Graph 39: St. Louis Fed Adjusted Monthly Monetary Base, 1918 to Date



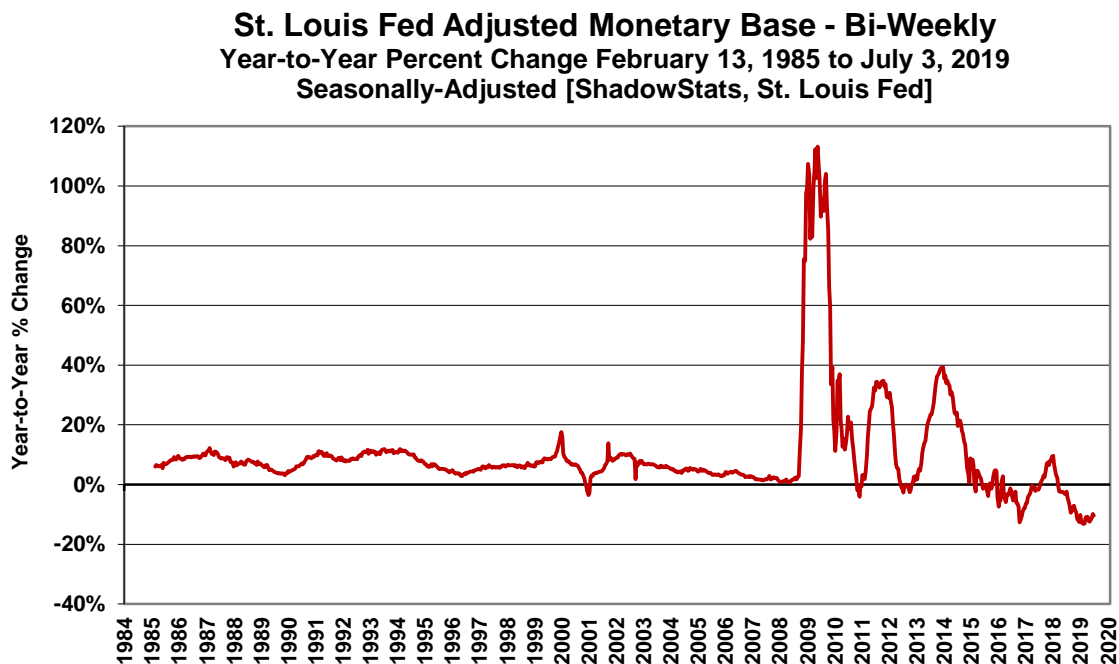
Graph 40: St. Louis Fed Adjusted Monthly Monetary Base, Year-to-Year Change 1918 to Date



Graph 41: St. Louis Fed Adjusted Bi-Weekly Monetary Base, 1984 to Date



Graph 42: St. Louis Fed Adjusted Bi-Weekly Monetary Base, Year-to-Year Change 1985 to Date



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