

**ShadowStats Special Economic Commentary, Issue No. 1437**

**Near-Term Collapse in Headline Economic Activity**

**May 17, 2020**

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**Worst U.S. Economic Activity Ever Reported**

**April Retail Sales Fell the Most in Its 73-Year Reporting History**

**Production and Manufacturing Tumbled the Most in Their 101-Year History**

**Increasing New Claims for Unemployment Insurance and Insured Unemployed  
Confirm the Economy Fell Further in May, Albeit Likely at a Moderating Pace**

**Second-Quarter 2020 Real Annualized GDP Contraction of  
About 50% (-50%) Will Surpass Anything Ever Seen**

**If There Are Meaningful Efforts to Reopen the Economy,  
Third Quarter Activity Could Move Off Bottom in a  
Nascent L- or Shallow U-Shaped Recovery**

**Benchmark Revisions to New Orders for Durable Goods Confirmed  
Major Downside Revisions Loom for Pre-Pandemic GDP Reporting**

**U.S. Economy Already Was in Trouble Before the Pandemic,  
Because of Intensifying Federal Reserve Policy Malfeasance and  
Federal Government Fiscal Malpractice**

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## **Overview – April/May 2020 Difficult Times At Hand**

### **Worst U.S. Economic Activity Ever Reported**

#### **Near-Term Economic Collapse Has Not Hit Bottom, Yet**

**April's Worst-Ever Economic Reporting Is on Top of Pending Downside Benchmark Revisions to Pre-Pandemic GDP.** Headline April 2020 economic reporting of the last several days, and the April employment and unemployment detail of a week ago, have shown the sharpest-ever hits to the domestic economy. Friday (May 15) saw the steepest monthly declines in the 101-year reporting history of Industrial Production and the 73-year reporting history of Retail Sales. In the context of other developments, such is suggestive of an annualized real quarterly collapse of about 50% (-50%), the latest ShadowStats estimate for the July 30th initial reporting of Second-Quarter 2020 Gross Domestic Product (GDP). The Consensus Outlook appears be running around minus 30% (-30%), while the respective New York and Atlanta Fed models show deepening annualized drops of 31.1% (-31.1%) and 42.8% (-42.8%), based solely on the headline economic reporting through May 15th (wait until they process the residential construction and sales in the week ahead).

Such follows a First-Quarter 2020 Real GDP annualized contraction, currently of 4.78% (-4.78%), and a Fourth-Quarter 2019 annualized gain of 2.13%, with both 1q2020 and 4q2019 subject to likely downside revisions in the July 30th GDP benchmarking, if not before, with the second estimate of First-Quarter 2020 GDP on May 28th.

***Historic Hit to Second-Quarter 2020 Real GDP Could Be Followed by Some Low-Level Bottom Bouncing, or Moving Off Bottom in Third- and Fourth-Quarter Activity.*** Assuming some meaningful shift towards reopening the economy in the next several months, economic “recovery” likely will not be as rapid as some would hope, due to the extraordinary damage already done by, and the disruptions from, the massive, panicked shutdown. Initially, renewed “growth” might look like bottom bouncing, in a protracted L-shaped or flattened U-shaped recovery, off a potential Second-Quarter 2020 trough.

**Consumer Outlook Continues to Evolve, Likely Having Taken a Fundamental, Longer Term Reassessment and Hit.** Both the Consumer Confidence Survey<sup>®</sup> (The Conference Board) and the Consumer Sentiment Index (University of Michigan) have surveyed Consumer attitudes for decades, Confidence since 1953, Sentiment since 1970. Both series hit their historic highs in 2000, but then they were pummeled by the 9-11 Terrorist attacks in 2001. Neither series recovered those 2000 peaks. Yet, both series were on good upswings into February 2020. In the wake of the Coronavirus Pandemic, however, April 2020 numbers collapsed back to 2014 levels (the 2014 Mini-Recession), taking a steeper plunge than followed 9-11. The early Sentiment estimate for May 2020 indicated some bottom-bouncing.

There appears to have been a fundamental shift in Consumer attitudes and outlook, post 9-11, with 2000-peak historical reporting never having recovered. In like manner, the current Coronavirus Pandemic well

may set an upside limit to Consumer optimism, attitudes and behavior for some time to come, as people and businesses struggle to return to “normal” functioning. With fundamental shifts likely having taken place in personal attitudes and business assessments/outlooks, a new “normal” likely will evolve as well, at both a lower level of the Consumer outlook and Consumer economic activity.

**Noted Previously, the Economy Was Weakening into the Pandemic, but the Pandemic Constraints Now Have Been Driving the Economic Collapse; Those Constraints Still Need to Be Removed Before “Recovery” Can Begin.** No amount of Government Spending or Federal Reserve Accommodation and Money Creation will turn this economic collapse around, although the authorities well could trigger some form of Hyperinflationary Great Depression in the process, to be explored in pending *ShadowStats Special Commentary, Issue No. 1438 - Risk of Hyperinflationary Collapse*, planned for the week ahead, likely May 20th. Nonetheless, restoration of stable social, economic and employment circumstances depends on the control and containment of the massive issues arising from the handling of the Coronavirus Pandemic shutdown of society and the economy, particularly disruptions to and destruction of small businesses that drive and enable so many key elements of society.

Allowing for early initiatives to re-open the economy, irrespective of evolving Pandemic conditions, my assessment of realistic chances for the economy to begin turning around, to move meaningfully off bottom, remain limited before early 2021. Such assumes, again that the economic plunge in current Second-Quarter 2020 activity will lead the economy into some type of bottoming during Third- and Fourth-Quarter 2020. I continue to invite and will publish comments from readers who are willing to share their insights as to how the system is progressing towards bottoming or recovering, or are willing to offer constructive suggestions to addressing the current systemic issues.

**For the Benefit of Subscribers, Updated Circumstances Are Highlighted in the Daily Update.** With rapidly shifting headlines, reporting details, intervening events, unusual developments and schedule changes—all are covered regularly in the *Daily Update* section on the [ShadowStats Home Page](#).

For recent economic and the latest (updated) 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), [Flash Commentary No. 1435](#) (April Unemployment), [Flash Commentary No. 1436](#) (Cass Freight Index<sup>®</sup>).

Today’s *Economic Commentary, Issue No. 1437* updates and previews key areas going into the *Hyperinflation Issue*, including the an initial cut in likely Second-Quarter 2020 Gross Domestic Product, unfolding Unemployment circumstances and an updated plot of key financial measures.

**Please call me any time, with questions on current circumstances, or if you just would like to talk, at (707) 763-5786. Leave a message if your call goes to Voicemail. I shall be back to you.**

**Your questions and comments always are welcomed. Again, please contact:**

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

## New Claims for Unemployment Insurance – Watch for a Signal

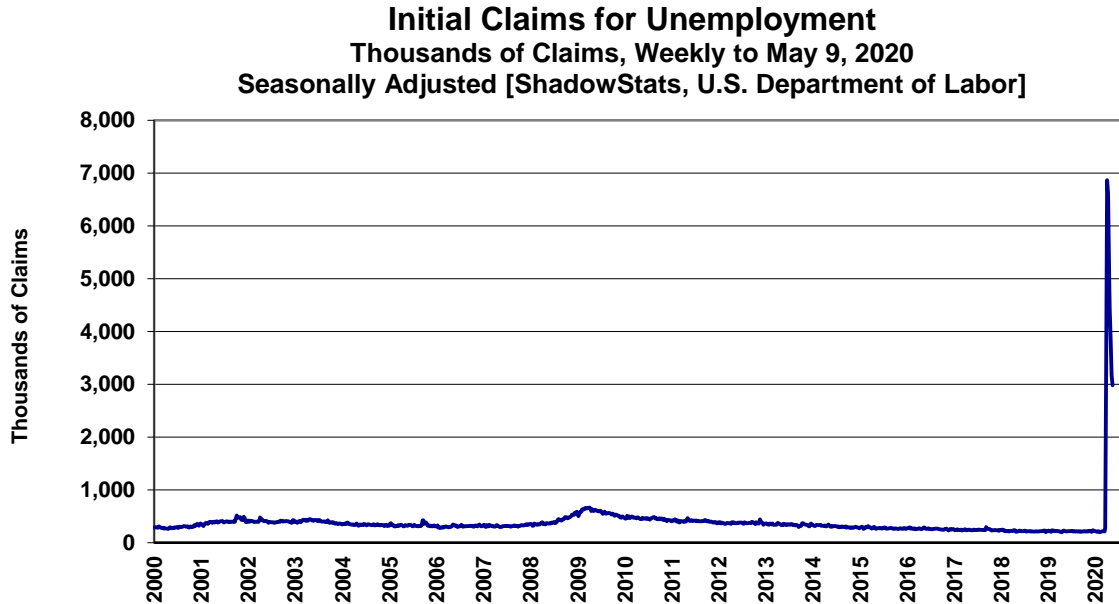
Week-Ended May 9th Pace of Employment Deterioration Has Begun to Taper Off

**Corrected Headline April 2020 U.3 Unemployment Was 19.5%;  
Consistent May 2020 Unemployment Should Be About 27.8%**

**Latest New Claims for Unemployment Insurance Were Consistent with May 2020 U.3 Unemployment of About 28%, Which Would Be the Highest Level in Modern History.** The latest weekly reporting (week-ended May 9th) of New Claims for Unemployment Insurance slowed to a 3.0 million jump, with an aggregate surge of 36.5 million new claims since the mid-March 2020 Pandemic-driven reporting explosion. The latest weekly detail suggested a headline May 2020 U.3 unemployment rate of 27.8% (see *Table I*).

*New Claims and Unemployment—Watch for a Signal.* So long as the weekly count of Initial Claims for Unemployment Insurance stays above 500,000, and the seasonally adjusted Insured Unemployment continues to gain, seasonally adjusted economic activity should have continued contracting in the week.

**Graph 1: Initial Claims for Unemployment Insurance Through Week-Ended May 9, 2020**



Reflected in *Table I*, the latest detail remained consistent with a May U.3 of about 27.8%, versus the BLS-corrected April U.3 of 19.5% (headline 14.7%). What will be reported depends on whether the BLS really wants to publish the higher, “corrected” number where all the unemployed are counted as “unemployed” as opposed to “employed” (see [Flash Commentary No. 1435](#)).

The Department of Labor reported May 14th, that the week-ended May 9th New Claims for Unemployment Insurance surge continued at a slowing pace, up by 2.981 million in the week, versus an upwardly revised gain of 3.176 [previously 3.169] million the week before, up by 1274% against 217,000 in the year-ago week. Allowing an early glimpse of the May 2020 unemployment detail, headline detail would suggest a headline U.3 rate of 27.8% in May 2020.

Although the pace of surge in New Claims is slowing, a new round of secondary furloughs appears to be on the rise. Insured Unemployment continues to increase weekly, with the May 9th week count the “highest in history,” topping the Great Recession Peak. So long as both the “New Claims” and “Insured Unemployed” are increasing week-to-week, the headline economy is contracting, in theory, and vice versa.

**Table I: Headline, BLS-Corrected and ShadowStats Unemployment Estimates to May 2020**

Headline Unemployment Rate vs. BLS "Corrected" or Based on BLS - "Corrected Estimate" to April 2020				
ShadowStats Estimates of May 2020 Unemployment are Based on New Claims for Unemployment Insurance				
Measure	Month			
	Feb '20	Mar '20	Apr '20	May '20 Estimate
Headline U.3	3.5%	4.4%	14.7%	--
Corrected/Estimate	3.5%	5.3%	19.5%	27.8%
Headline U.6	7.0%	8.7%	22.8%	--
Corrected/Estimate	7.0%	9.6%	27.7%	37.9%
Headline ShadowStats	21.1%	22.9%	35.4%	--
Corrected/Estimate	21.1%	23.7%	39.6%	48.0%

Sources: Bureau of Labor Statistics, Department of Labor, ShadowStats.com

**Headline May 2020 U.3 Unemployment (Corrected for Any Ongoing Bureau of Labor Statistics Surveying/Misclassification Errors) Should Top Anything Seen in Modern History.** Due for release on Friday, June 5th, May U.3 of 27.8% (see *Table I*) would set a new post-World War II record. The previous post-War high was 10.8% during the 1981. The peak annual Great Depression unemployment rate is estimated at 25% in 1933.

**[April 2020 Retail Sales coverage begins on the next page.]**

## April 2020 Retail Sales

### Retail Sales Plunge Worst in History of Current and Prior Series

**Unprecedented in 73-Years of Reporting, April 2020 Real Retail Sales Plunged 15.78% (-15.78%) in the Month, by 21.90% (-21.90%) Year-to-Year, Following Minimally Revised Monthly and Annual Declines in March Activity of 7.92% (-7.92%) and 7.09% (-7.09%).** As reported May 15th by the Census Bureau, and as adjusted by the CPI-U (Saint Louis Fed), inflation-adjusted Real Retail Sales activity was boosted minimally in April and March by monthly declines in the headline CPI-U, while the real annual declines were somewhat worse net of minimally positive annual CPI. Before inflation adjustment, in nominal terms Retail Sales plunged by 16.45% (-16.45%) in the month, by 21.61% (-21.61%) year-to-year, following monthly and annual declines in March activity of 8.31% (-8.31%) and 5.68% (-5.68%).

The real series headlined and plotted here is the nominal Retail Series surveyed by the Census Bureau and deflated by the CPI-U, as published by Saint Louis Federal Reserve. Seen in *Graphs 2* and *3*, neither of the two historical Retail Sales series, dating back to 1947, has seen either monthly or year-to-year contractions close to the magnitude of the headline April 2020 declines.

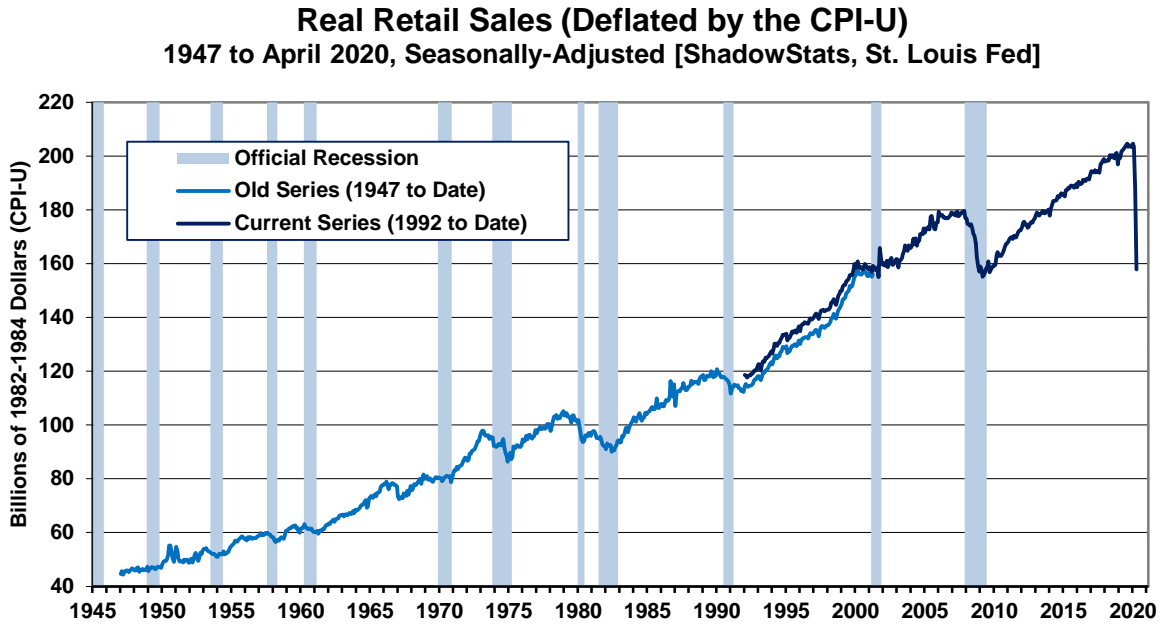
Details of the 2020 negative annual benchmark revisions to the Retail Sales series were published in [Flash Commentary, Issue No. 1433](#). In tandem with the later detailing here of the just-published benchmarking of New Orders for Durable Goods (see *Page 18*), evidence continues to mount of pending downside revisions to the GDP in its July 30th annual benchmarking.

***Deepening Recession and Depression.*** With an early one-month trend (April), Second-Quarter 2020 Real Retail Sales is on track for its third consecutive quarterly decline, consistent with the evolving Coronavirus Pandemic Depression overwriting what already had been an unfolding recession. Annualized Fourth-Quarter 2019 (Holiday Shopping Season) real growth contracted at an annualized quarterly pace of 0.73% (-0.73%), followed by a revised annualized contraction of 9.71% (-9.71%) in First-Quarter 2020, with Second-Quarter 2020 on early track for an annualized real quarterly contraction of 60.04% (-60.04%).

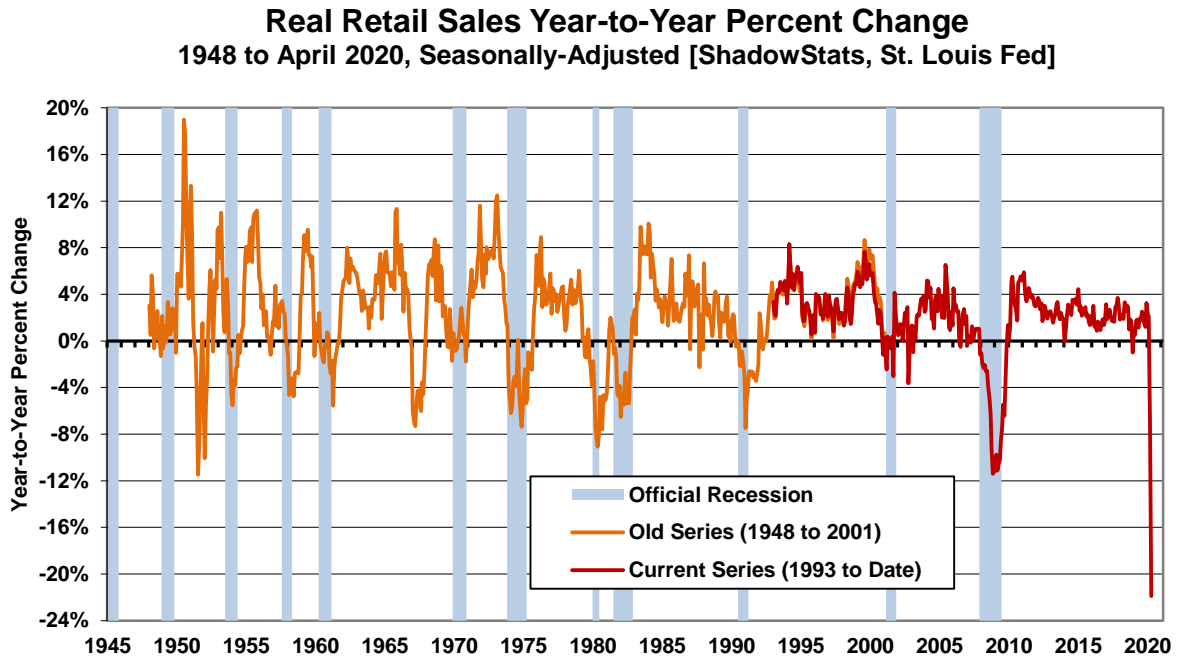
**[Graphs 2 to 5 begin on the next page]**



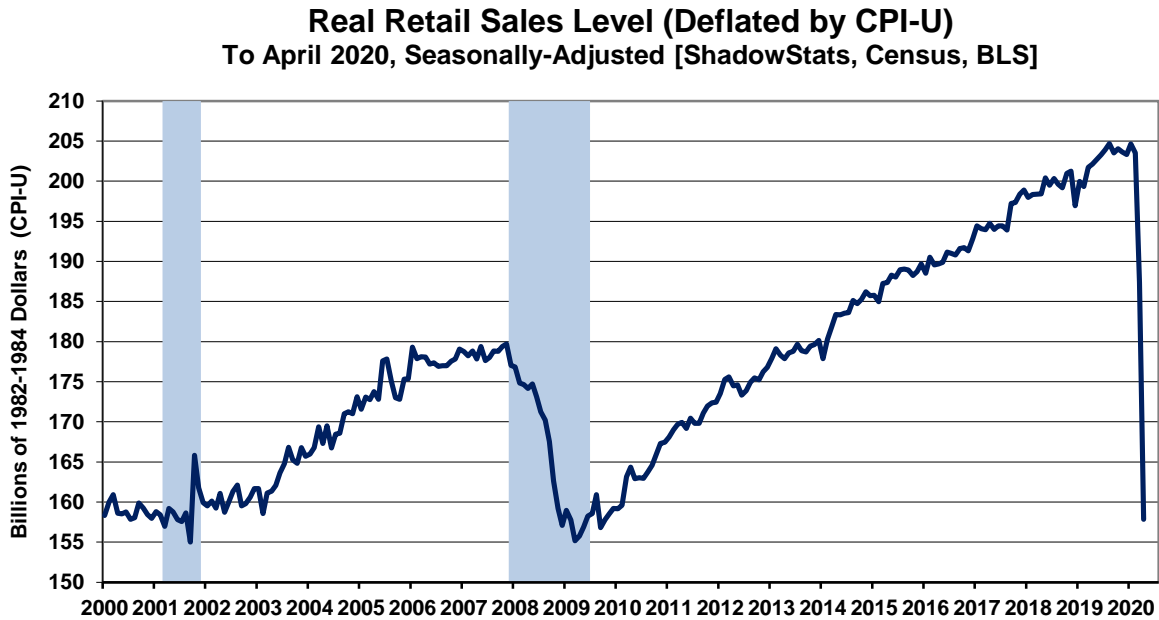
**Graph 2: Combined Full History - Real Retail Sales (1947 to April 2020)**



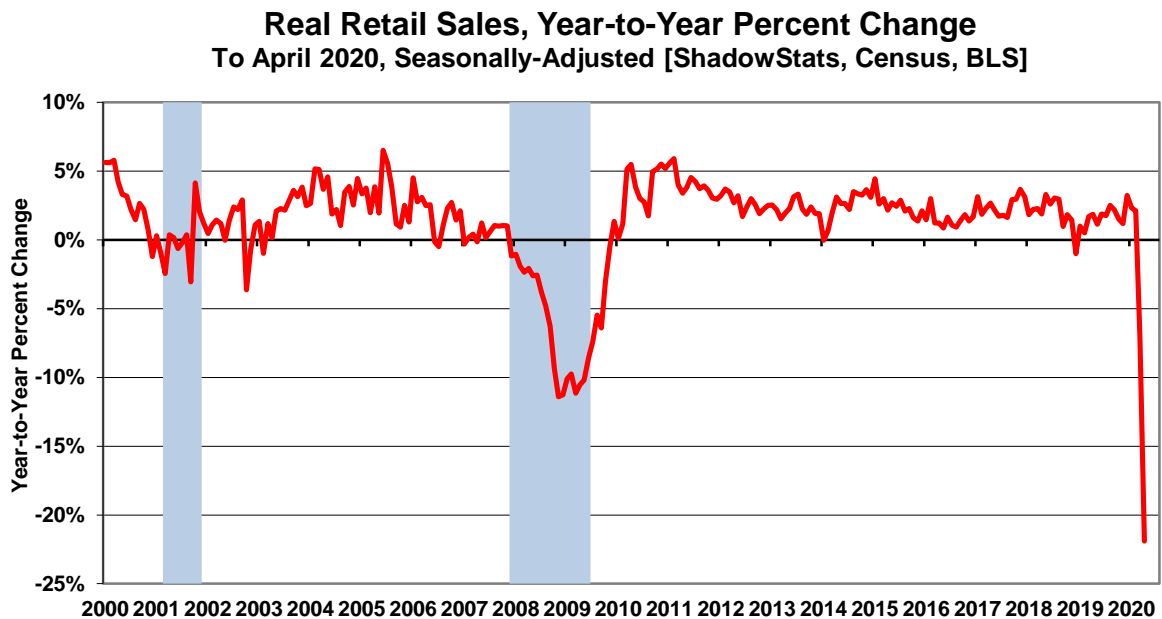
**Graph 3: Combined Full History - Real Retail Sales, Year-to-Year Percent Change (1948 to April 2020)**



**Graph 4: Real Retail Sales (2000 to April 2020)**



**Graph 5: Real Retail Sales, Year-to-Year Percent Change (2000 to April 2020)**



**[Coverage of Industrial Production begins on the next page]**

## **April 2020 Industrial Production and Its Major Components**

### **Production and Manufacturing Monthly Declines Were Deepest in the 101-Year History of Both Series**

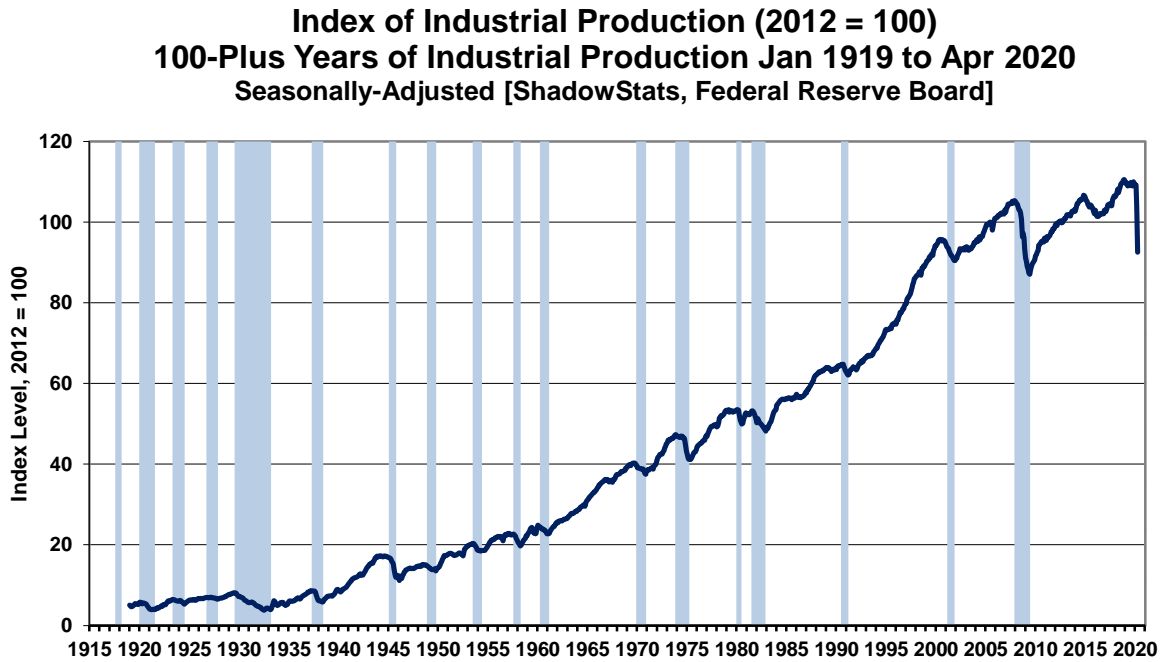
**April 2020 Industrial Production and Manufacturing Saw Record Monthly Plunges, With Capacity Utilization Setting a New Historic Low.** Showing heavy impact from the Coronavirus-Pandemic Shutdown, April Industrial Production and Manufacturing both took their biggest one-month hits in the 101-year history of the series, while Capacity Utilization plunged to a new historic (67-Year) low. Reported May 15th, by Federal Reserve Board, April Industrial Production declined by 11.25% (-11.25%) in the month, by 15.04% (-15.04%) year-to-year, following respective monthly and annual declines of 4.51% (-4.51%) and 4.88% (-4.88%) in March. Manufacturing declined by 13.70% (-13.70%) in the month, by 18.01% (-18.01%) year-to-year, following declines of 5.50% (-5.50%) and 5.82% (-5.82%) in March. Mining declined by 6.15% (-6.15%) in the month, by 7.50% (-7.50%) year-to-year, following a March monthly decline of 1.11% (-1.11%) and annual gain of 1.09%. Utilities sank both monthly and annually, respectively by 0.92% (-0.92) and 3.82% (-3.82%) in April and by 1.89% (-1.89%) and 6.17% (-6.17%) in March. Previously, the headline March declines had been the deepest since the Post World War II production shutdown.

***Deepening Recession and Depression.*** With an early one-month trend (April), Second-Quarter 2020 Industrial Production is on track for its third consecutive quarterly decline, consistent with the evolving Coronavirus Pandemic Depression overwriting what already had been an unfolding recession. Annualized Fourth-Quarter 2019 real growth contracted at an annualized quarterly pace of 0.69% (-0.69%), followed by a revised annualized contraction of 2.02% (-2.02%) in First-Quarter 2020, with Second-Quarter 2020 on early track for an annualized real quarterly contraction of 45.11% (-45.11%).

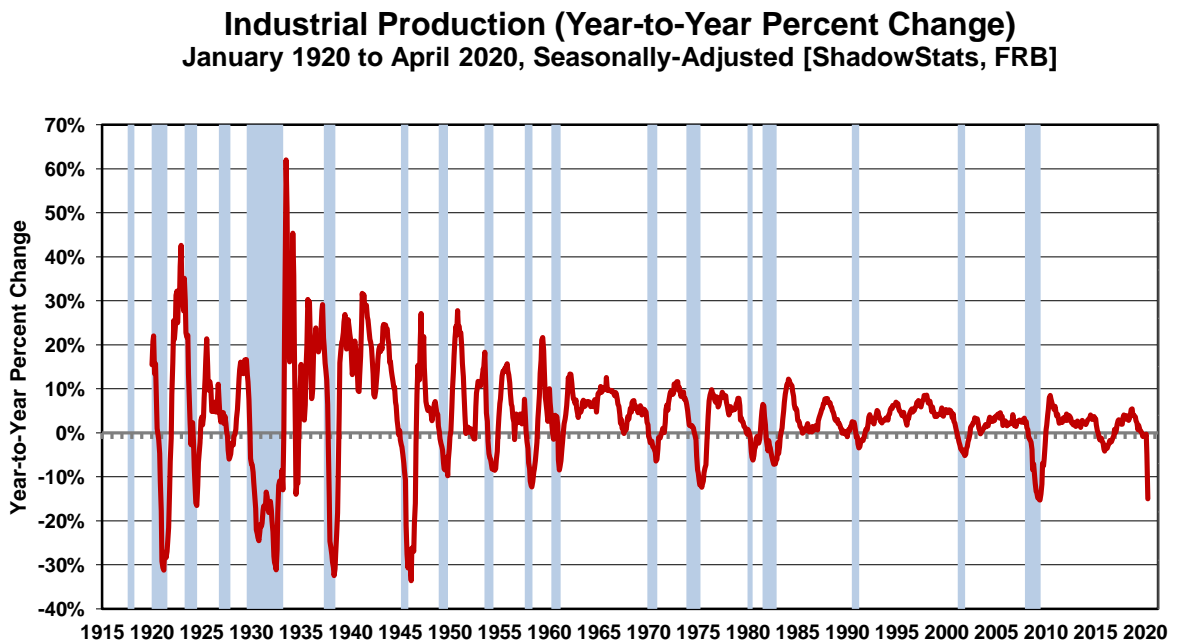
This should become increasingly obvious following the pending annual benchmark revisions to the aggregate Industrial Production and Manufacturing series, now planned for “the second half of 2020.” One could hope that the Production benchmarking indeed will precede (be incorporated into) the July 30th benchmarking of the Gross Domestic Product series.

**[Graphs 6 to 17 begin on the next page]**

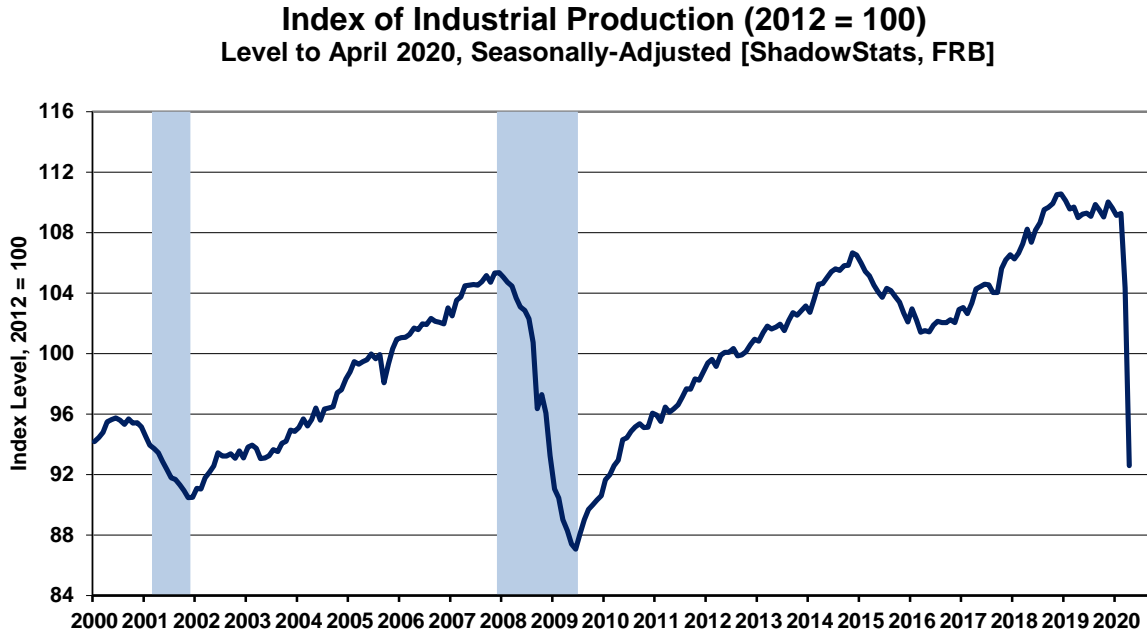
**Graph 6: Index of Industrial Production, Complete History**



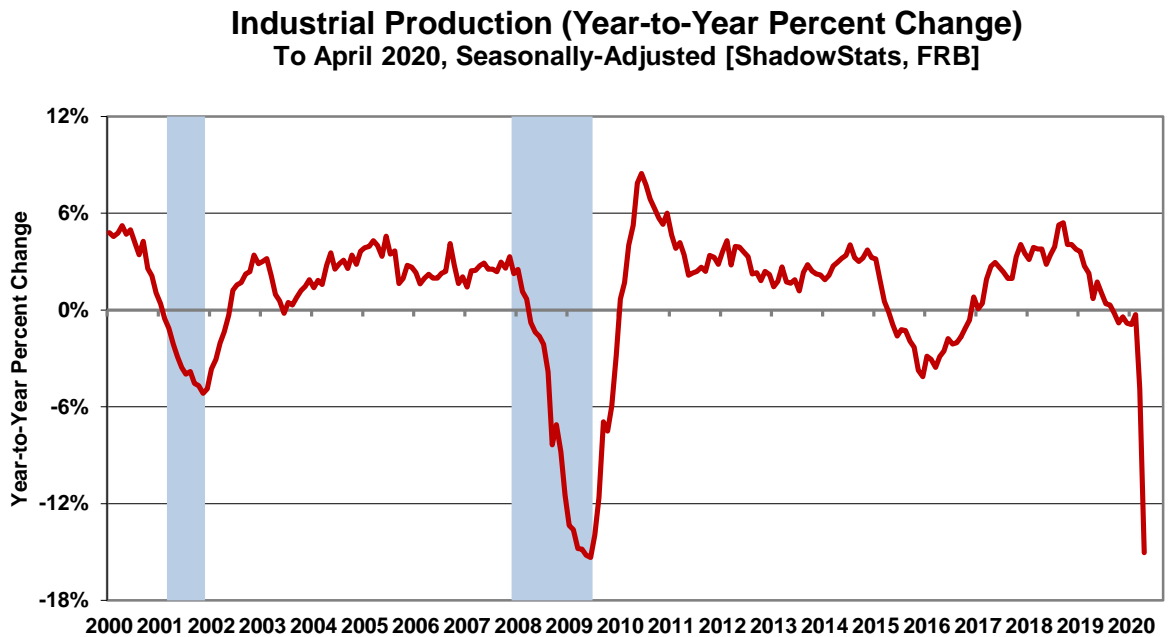
**Graph 7: Index of Industrial Production, Year-to-Year Change, Complete History**



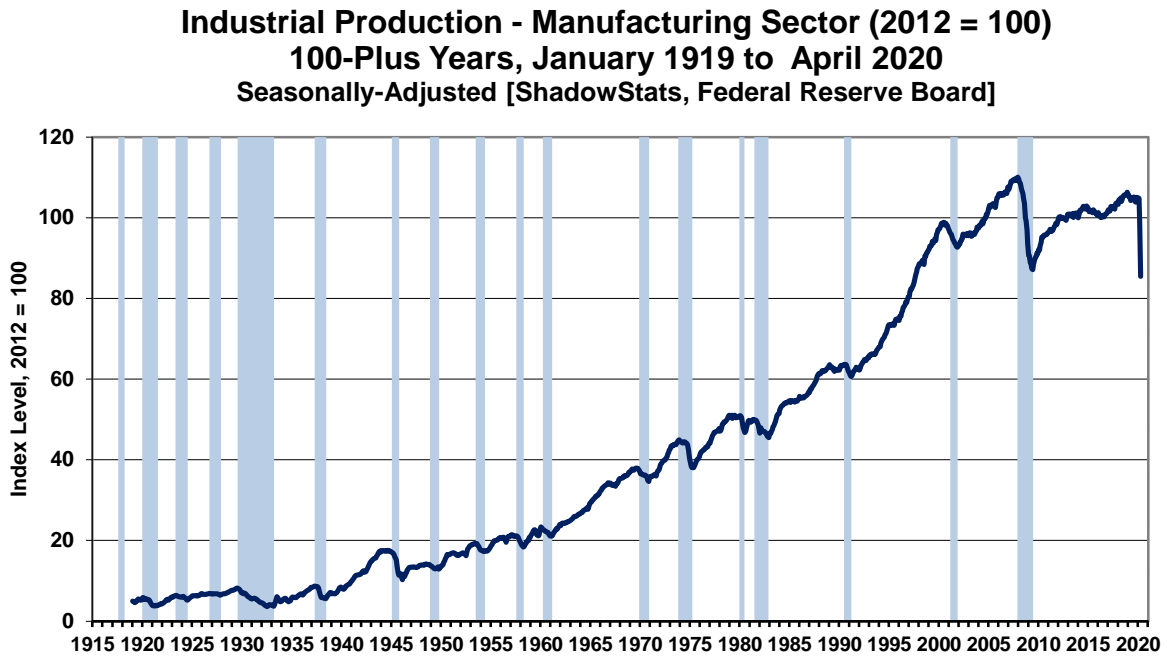
**Graph 8: Industrial Production, 2000 to April 2020**



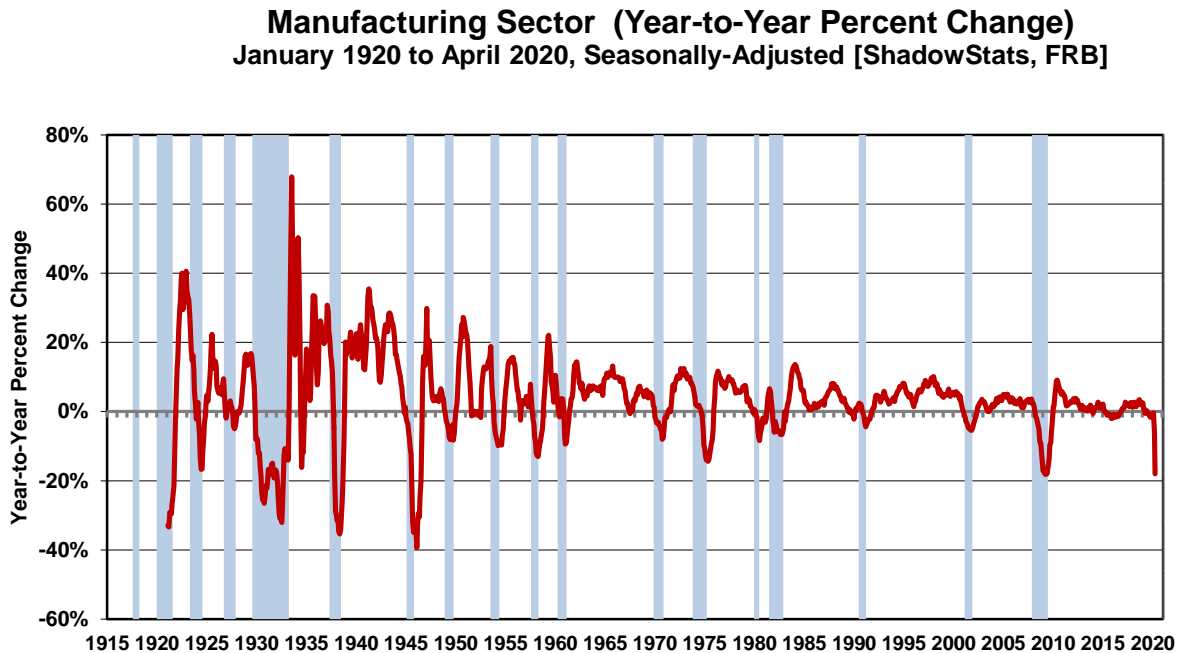
**Graph 9: Industrial Production, Year-to-Year Percent Change, 2000 to April 2020**



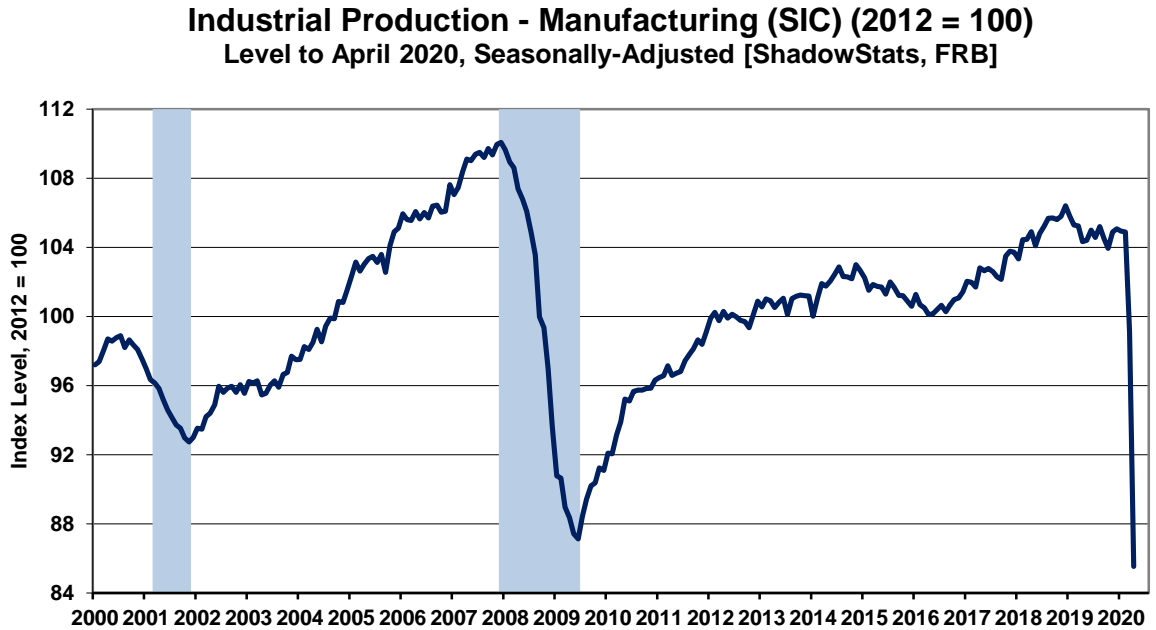
**Graph 10: Manufacturing, Complete History**



**Graph 11: Manufacturing, Year-to-Year Change, Complete History**



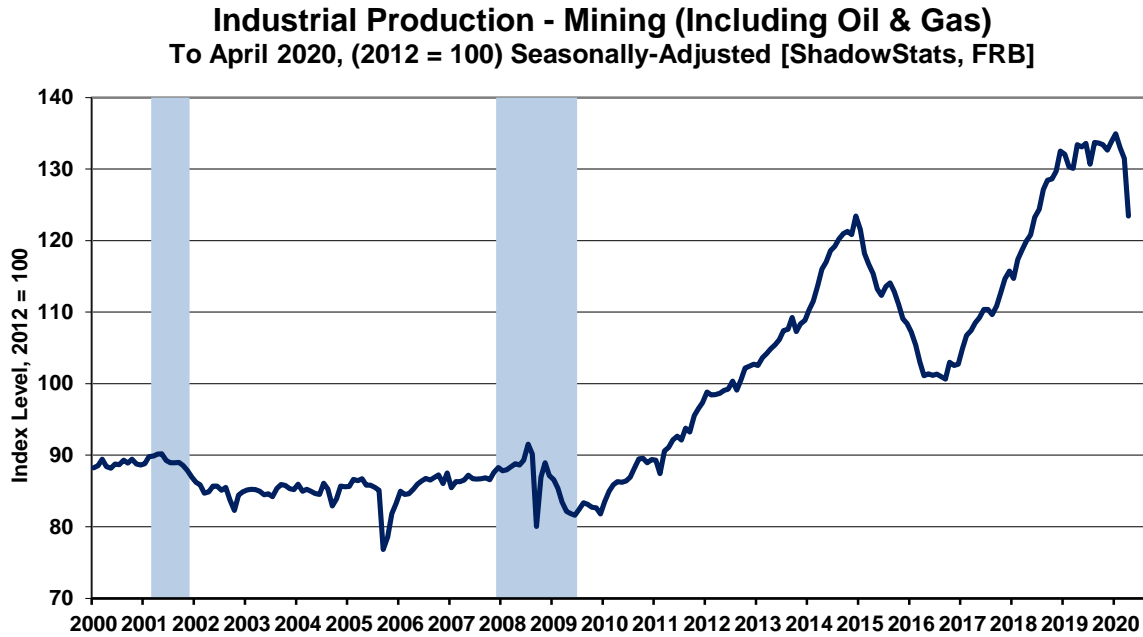
**Graph 12: Manufacturing, 2000 to April 2020**



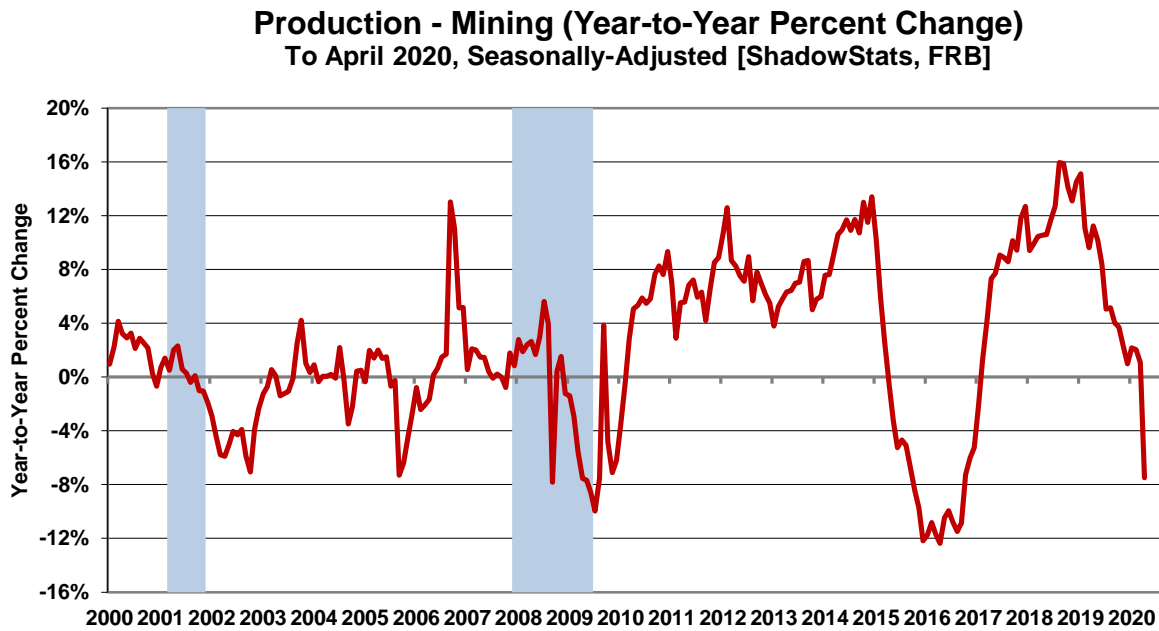
**Graph 13: Manufacturing, Year-to-Year Change, 2000 to April 2020**



**Graph 14: Mining, 2000 to April 2020**

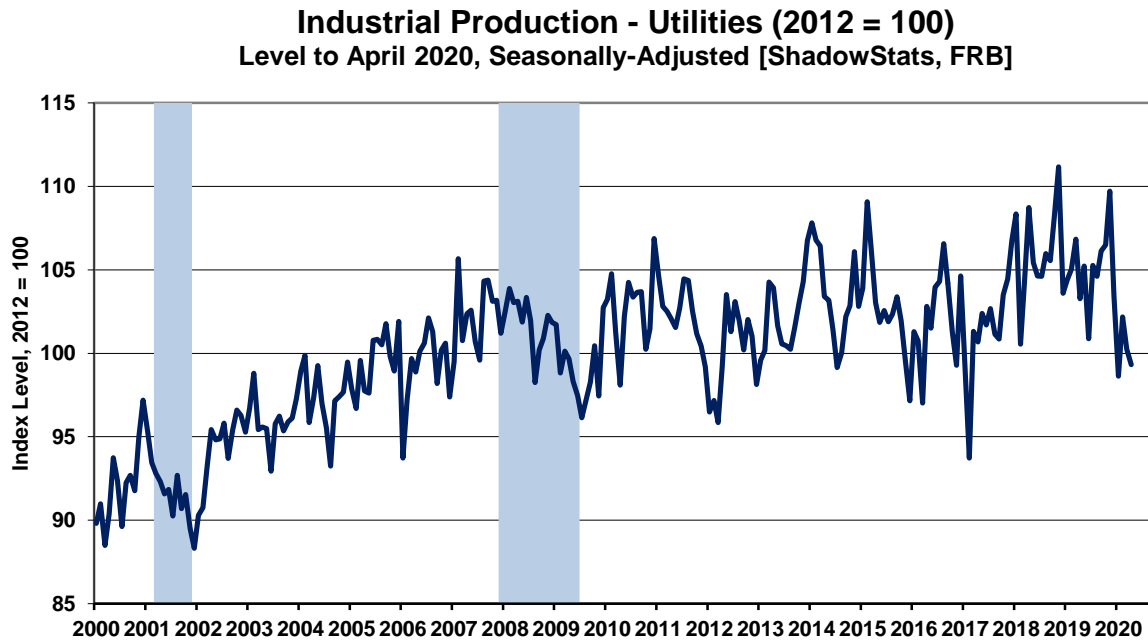


**Graph 15: Mining, Year-to-Year Change, 2000 to April 2020**

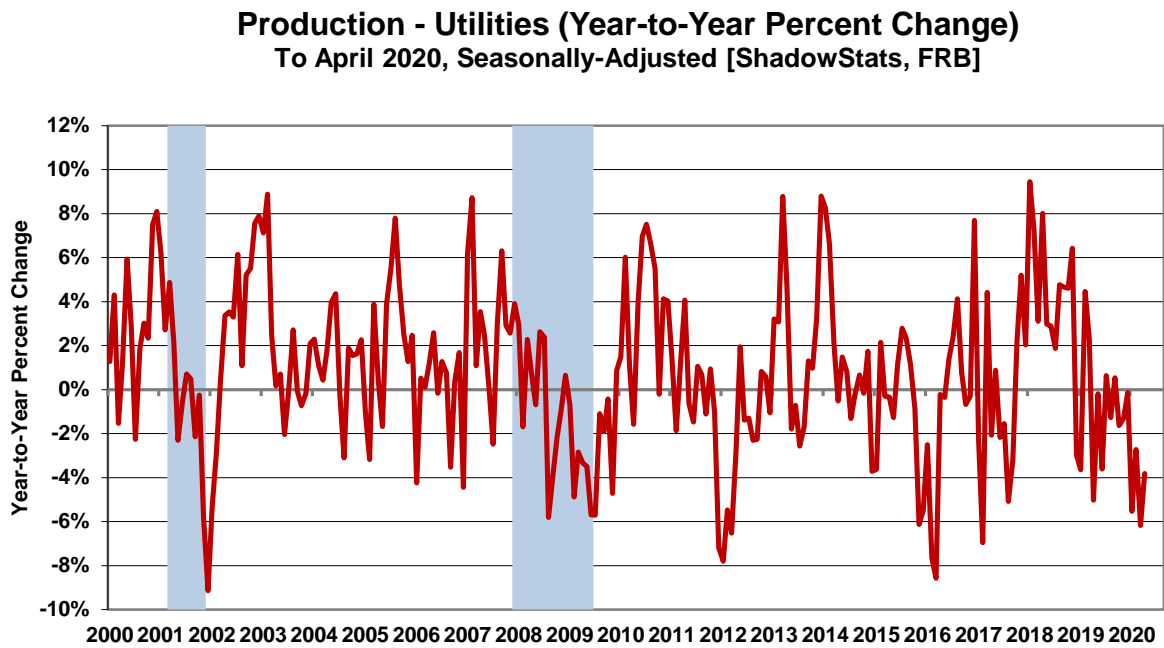




**Graph 16: Utilities, 2000 to April 2020**



**Graph 17: Utilities, Year-to-Year Change, 2000 to April 2020**



**[Durable Goods Benchmarking begins on the next page]**

## **Benchmarking of New Orders for Durable Goods**

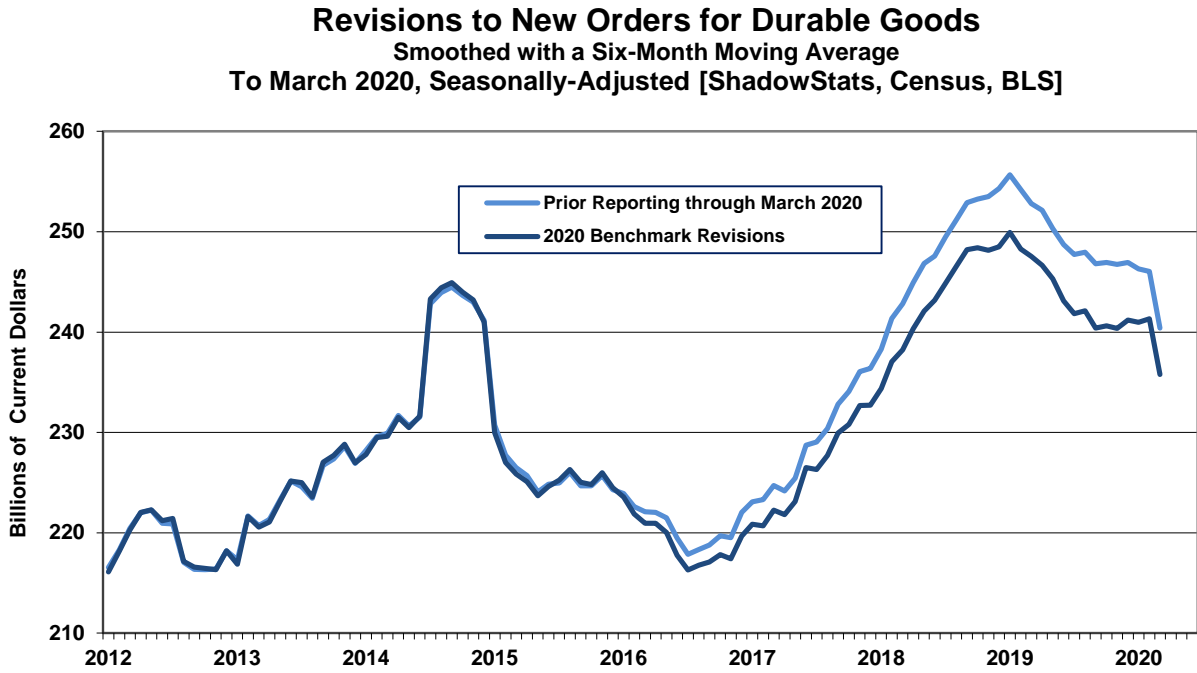
### **Downside Benchmark Revisions to Retail and Sales and New Orders for Durable Goods Suggest July 30th Downside Benchmark Revisions to Pre-Pandemic GDP**

**Benchmarked Durable Goods Showed Real New Orders Since 2017 to Have Been Lower by Roughly 2% to 3% Than Previously Reported.** In combination with recent annual downside revisions to Retail Sales (see [Flash Commentary, Issue No. 1433](#)), and what now most certainly will be downside annual revisions to Industrial Production, headline GDP coming into the Pandemic shutdown was not in sustainable-moderate or booming economic growth as advertised variously by the Federal Reserve and Wall Street. Accordingly, pre-Pandemic GDP should face downside revisions of the last year or two, come its July 30th benchmarking.

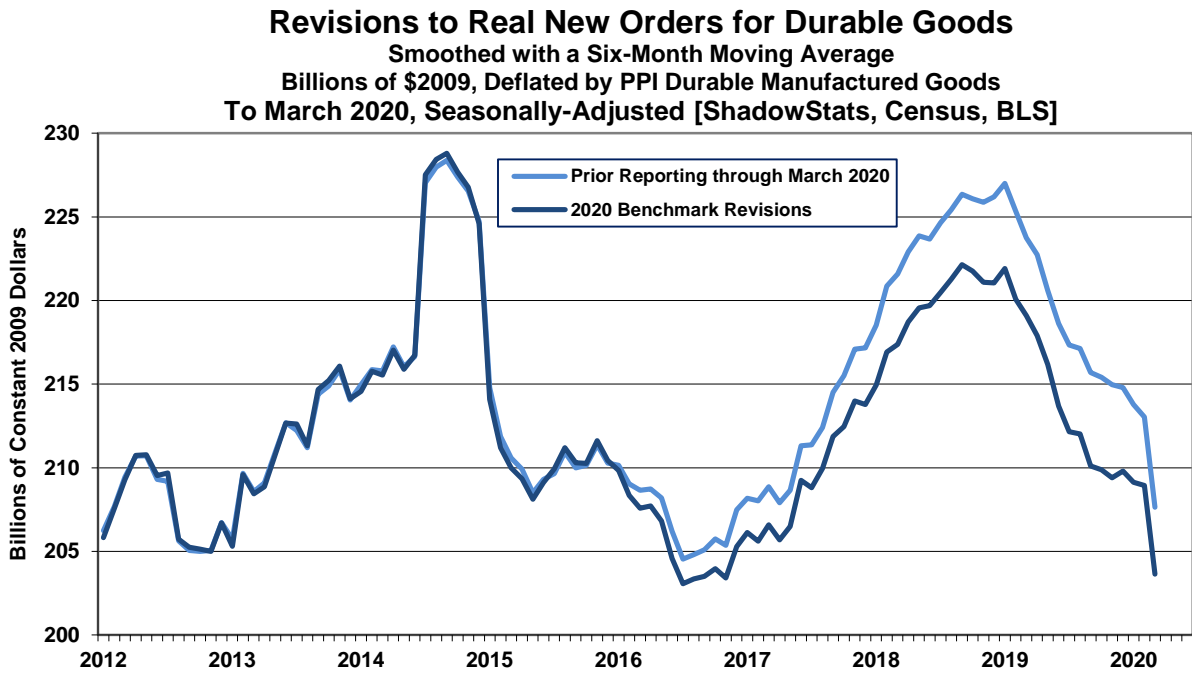
Reflected in *Graphs 18* and *19*, annual growth revised lower by 0.9% (-0.9%) in 2016, by 1.3% (-1.3%) in 2017, by 2.0% (-2.0%) in 2018, by 2.3% (-2.3%) in 2019 and by 1.8% (-1.8%) in the first three months of 2020. Traditionally, the pending Industrial Production benchmarking (sometime after June, presumably before the July 30th GDP benchmarking) tends to parallel the Durable Goods revisions. *Graphs 20* to *23* show the regular monthly graphs of activity, albeit at the benchmarked levels.

**[Graphs 18 to 23 begin on the next page]**

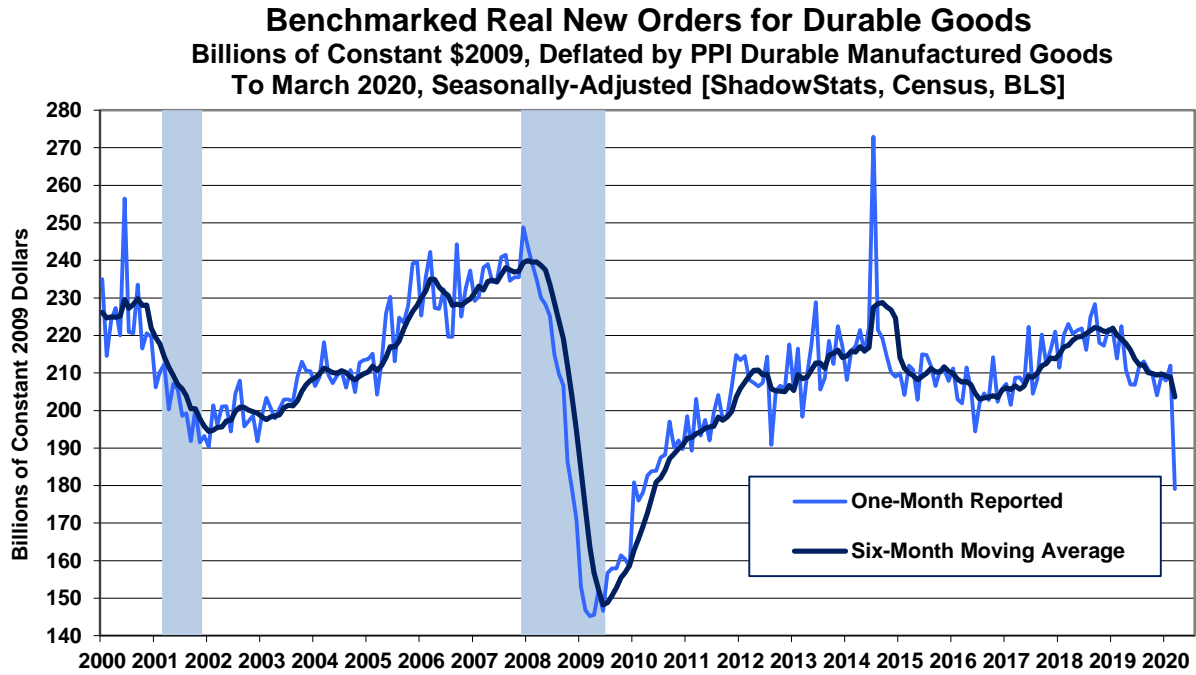
**Graph 18: 2020 Benchmark Revisions to Nominal New Orders for Durable Goods**



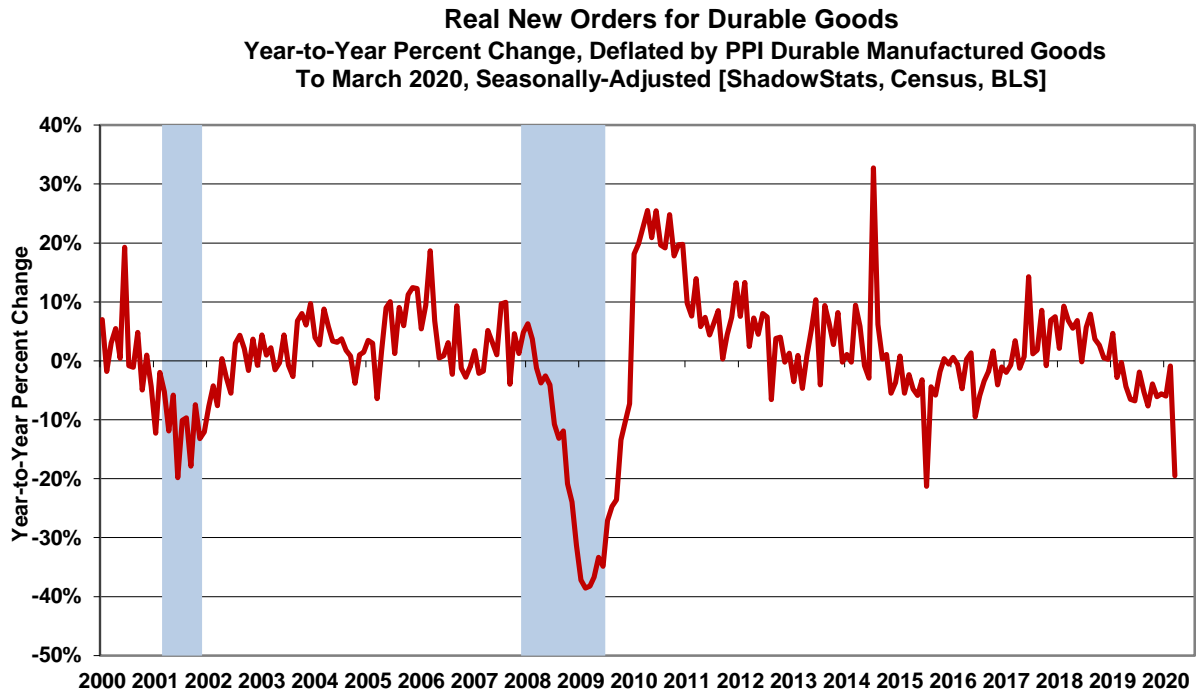
**Graph 19: 2020 Benchmark Revisions to Real New Orders for Durable Goods**



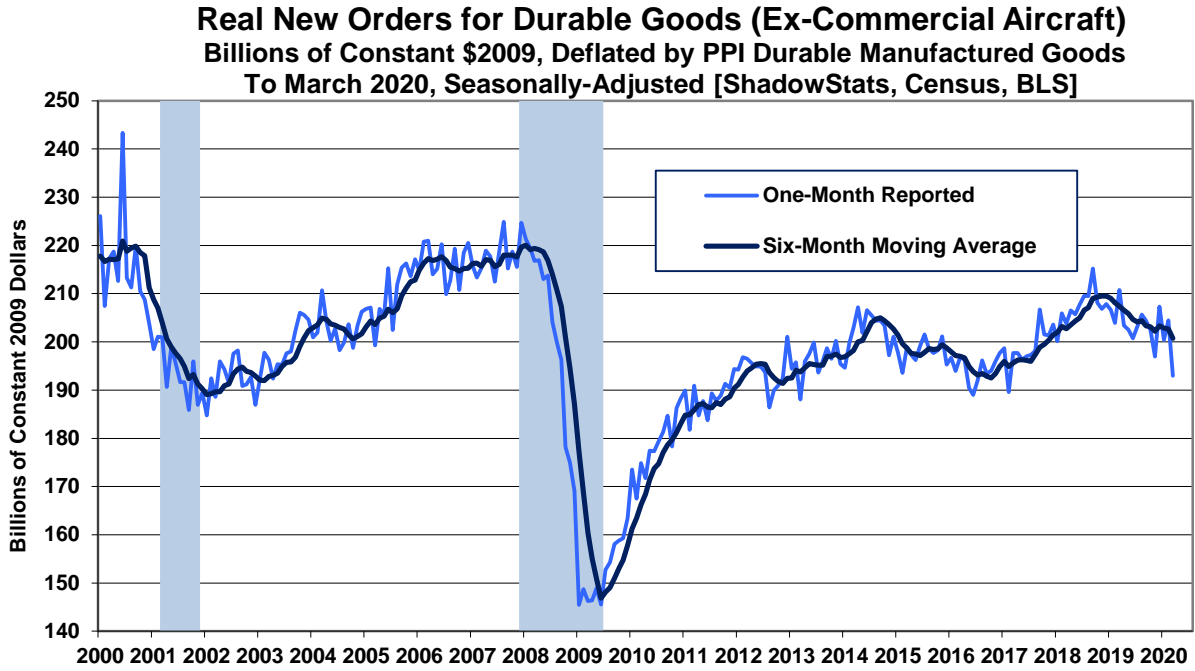
**Graph 20: Benchmarked Real New Orders for Durable Goods**



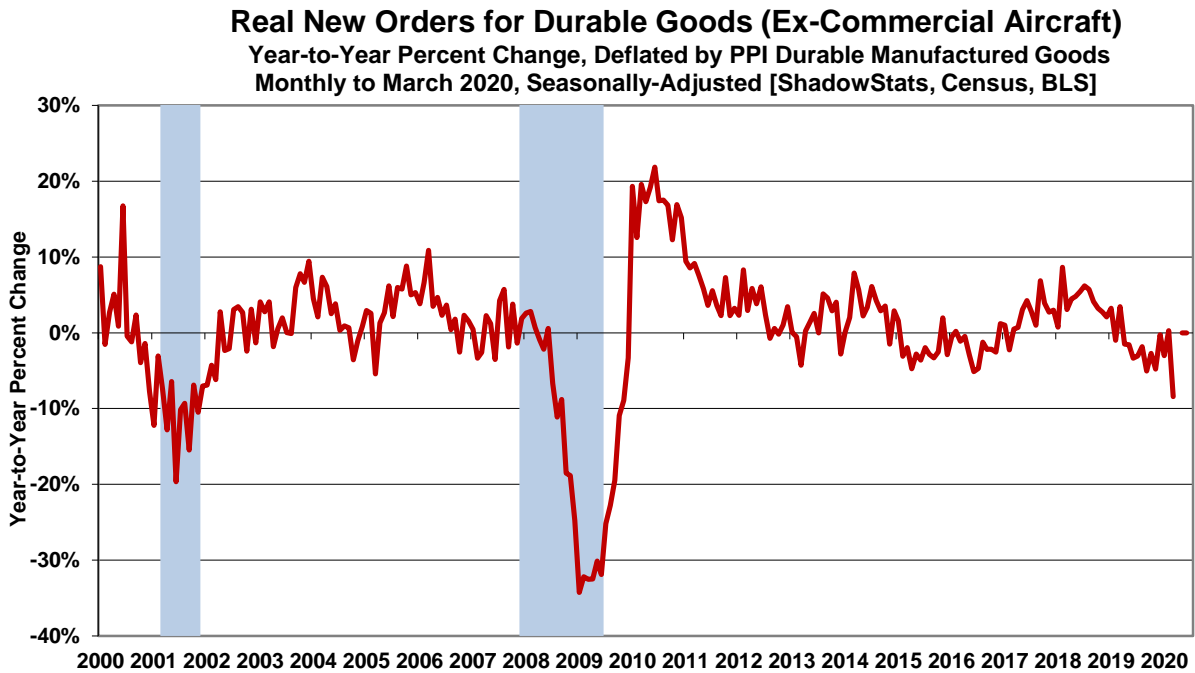
**Graph 21: Benchmarked Real New Orders for Durable Goods, Year-to-Year Percent Change**



**Graph 22: Benchmarked Real New Orders (Ex-Commercial Aircraft)**



**Graph 23: Benchmarked Real New Orders (Ex-Commercial Aircraft), Year-to-Year Percent Change**



[Alternate Recession Measures begin on the next page]

## Alternate Recession Measurement Manufacturing, Orders and Freight Activity

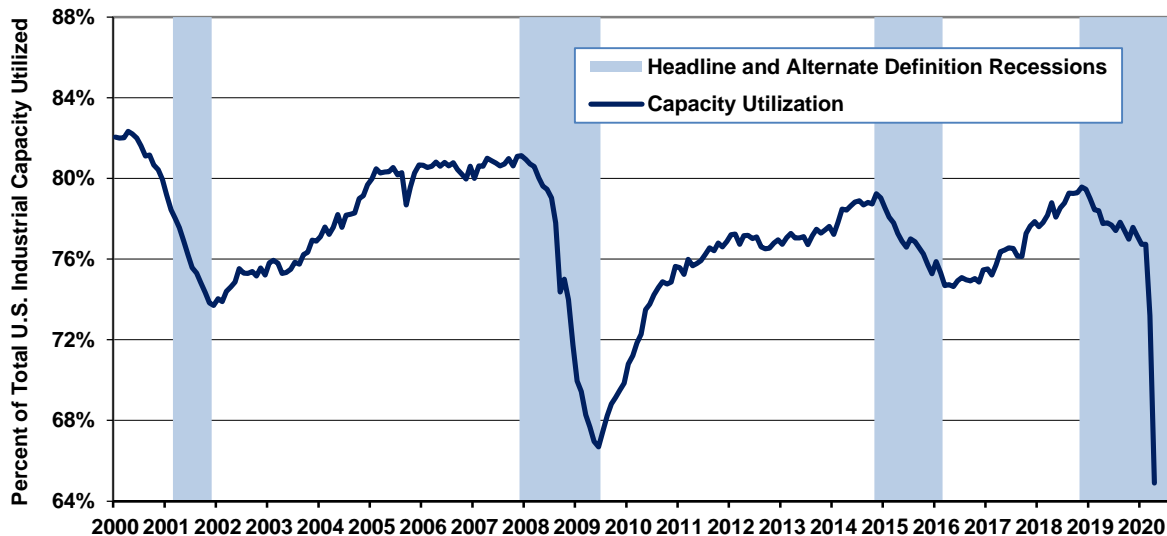
### AGAINST ALTERNATE RECESSION MEASURES (Updated from [Flash Commentary No. 1436](#))

Discussed and plotted in [Flash Commentary No. 1436](#), but renumbered here *Graphs 25* and *26* plot the level of the Cass Freight Index®, along with its 12-month trailing or moving average, against formal recessions since 2000, as well as against prospective or “missed” recessions as discussed in [Flash Update No. 22](#), and as seen against updated *Graph 24* of April 2020 Industrial Production Capacity Utilization, traditionally used to time formal recessions.

Consider as well the parallels seen between *Graph 25* plotting the level of the Cass Freight Index®, along with its 12-month trailing or moving average, against formal recessions, as well as against prospective or “missed” recessions as discussed, with *Graph 26* of April Manufacturing and *Graph 29* of Real Durable Goods Orders. Similar parallels can be seen *Graph 27*, *Graph 28* and *Graph 30*, reflecting annual growth rates. The Durable Goods are missing April data, which should match the other series, when released and as will be otherwise updated when published.

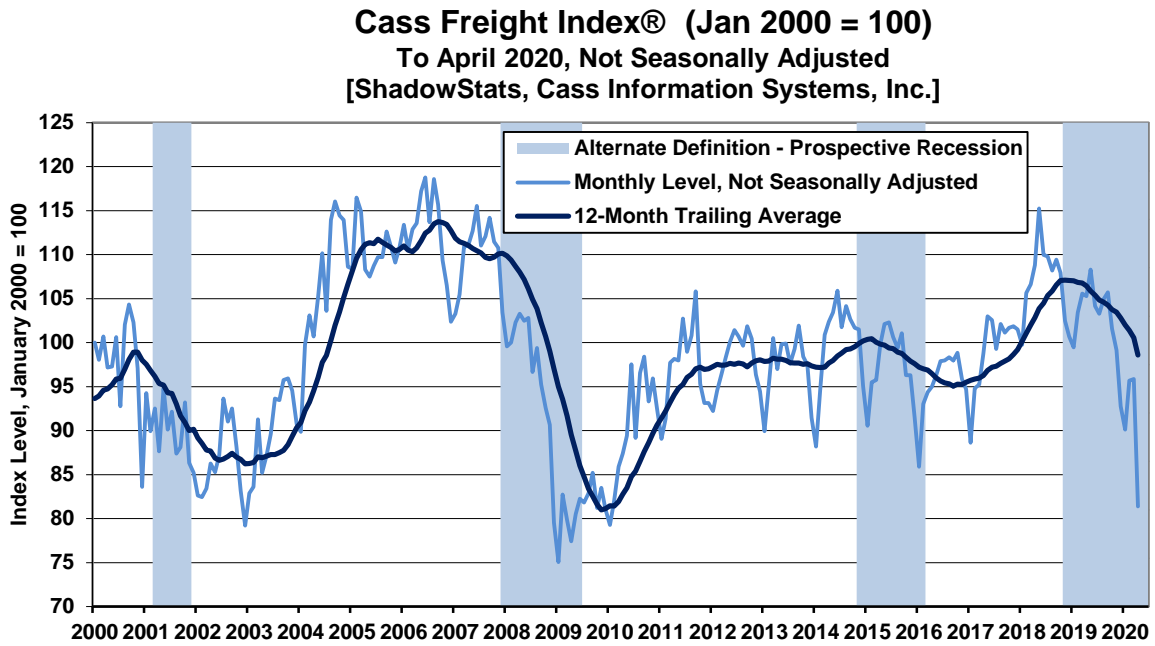
**Graph 24: Capacity Utilization versus Recessions and Alternate Recession Measures (2000 to April 2020)**

**Capacity Utilization: Total U.S. Industry to April 2020  
With An Alternate Recession Definition  
Percent of Capacity, Seasonally-Adjusted [ShadowStats, FRB]**

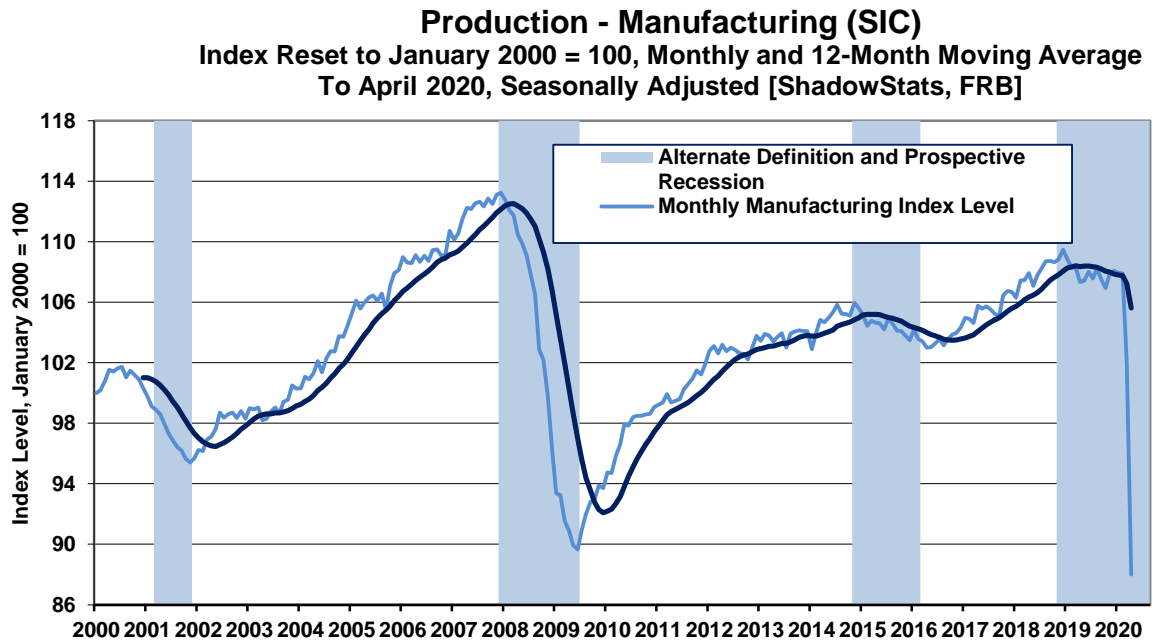


[Graphs 25 to 30 begin on the next page]

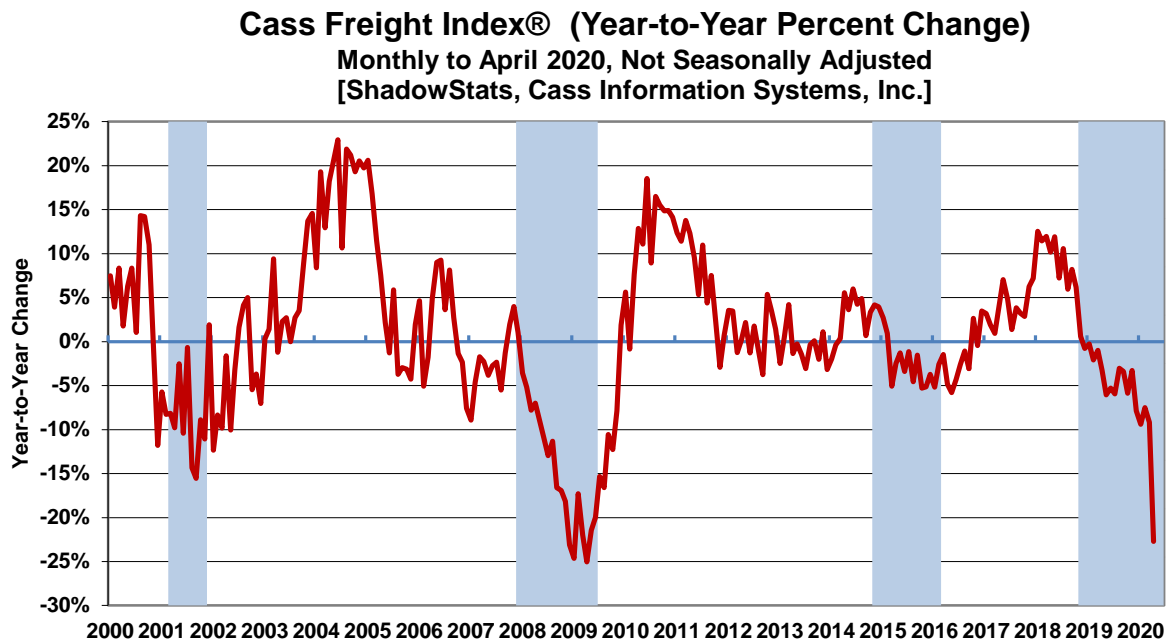
**Graph 25: Cass Freight Index®, Monthly Level of Unadjusted Activity vs. 12-Month Trailing Average**



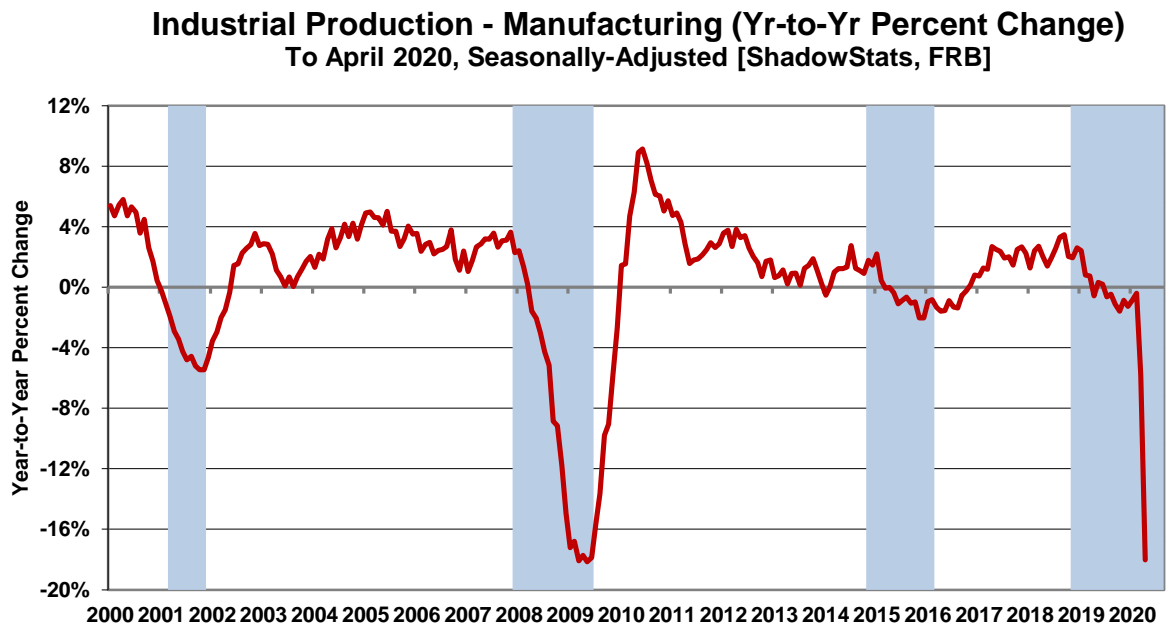
**Graph 26: Manufacturing, Monthly Level of Adjusted Activity vs. 12-Month Trailing Average**



**Graph 27: Cass Freight Index®, Year-to-Year Percent Change and Alternate Recession Measures**



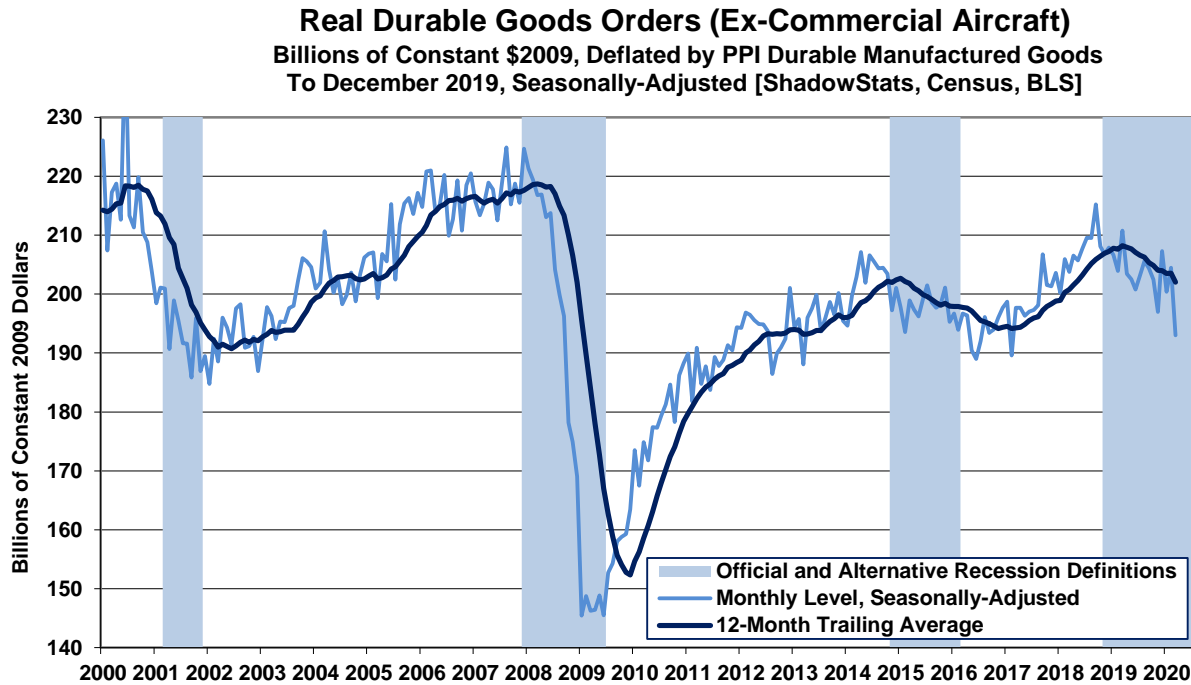
**Graph 28: Manufacturing, Year-to-Year Percent Change and Alternate Recession Measures**



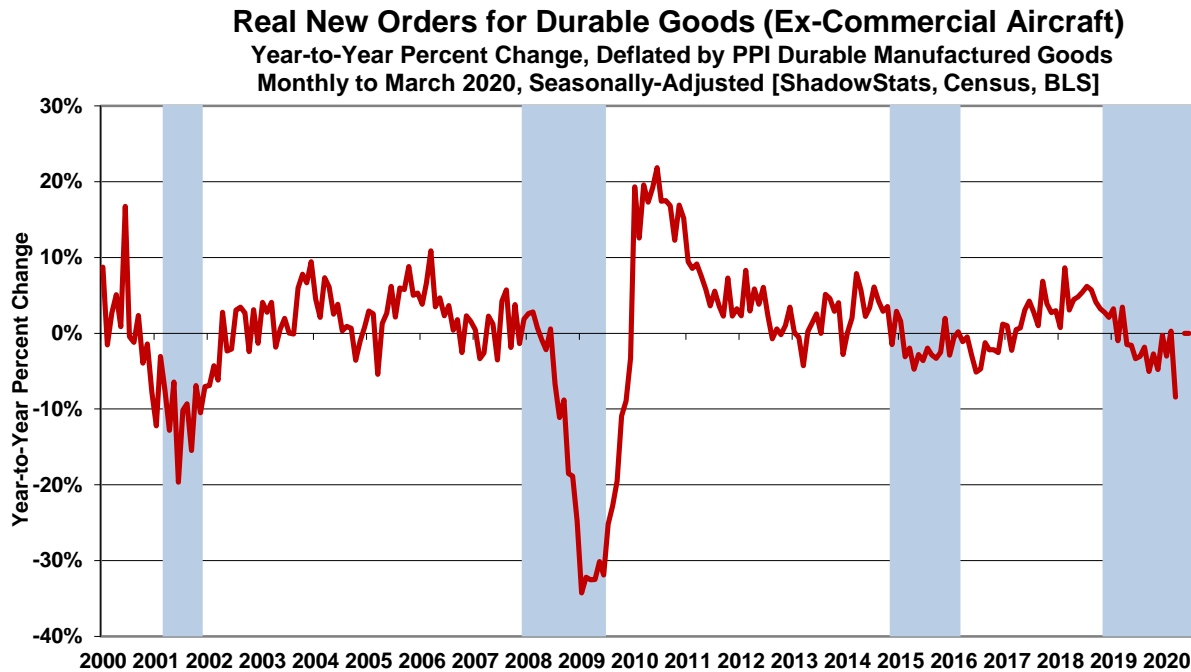


Real New Orders for Durable Goods here have been published only through March 2020. The April 2020 year-to-year change likely will be sharply negative, as seen with the previous indicators

**Graph 29: Real New Orders for Durable Goods, Monthly Level of Adjusted Activity vs. 12-Month Trailing Average**



**Graph 30: Real Durable Goods Orders, Year-to-Year Percent Change and Alternate Recession Measures**



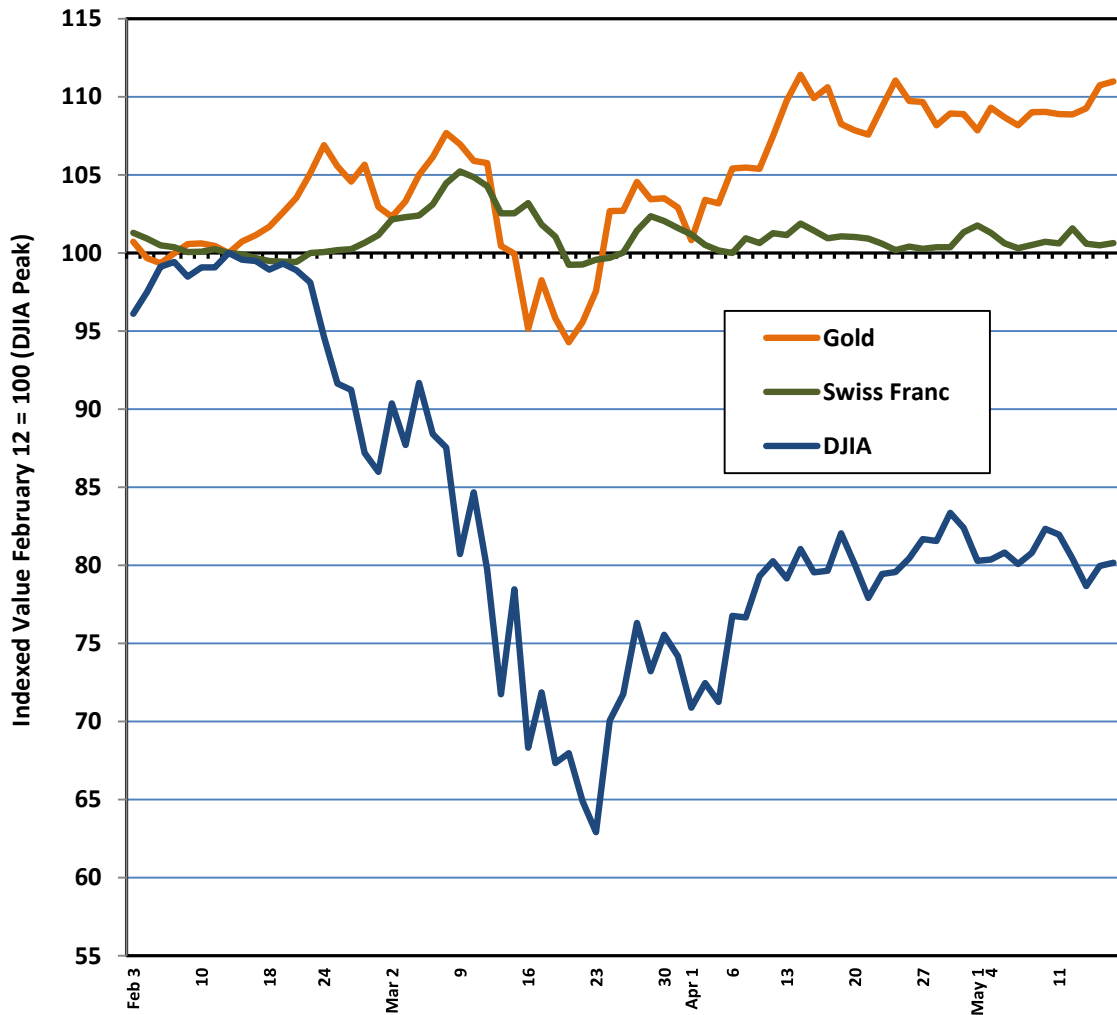
[Updated Financial Market Graphs 31 to 35 begin on the next page]

## Updated Financial Market Graphs to May 15, 2020

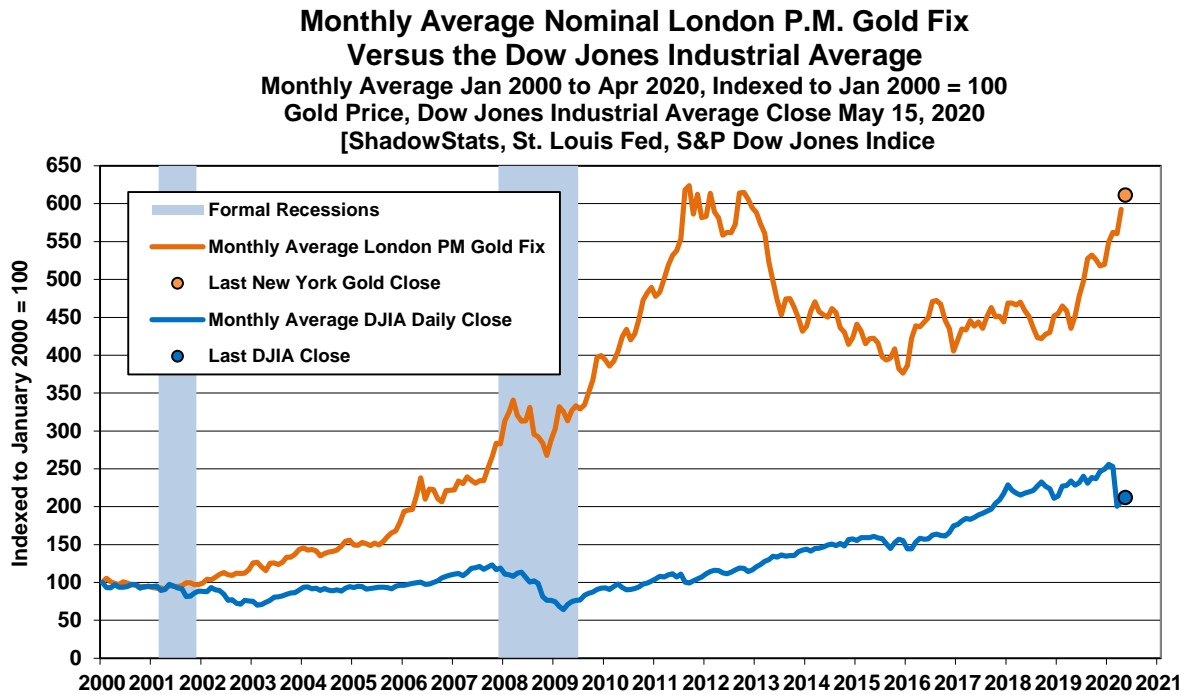
### Physical Gold and Swiss Franc Continue to Protect U.S. Dollar Purchasing Power

Graph 31: February to May 2020 Financial Markets -- Scale: Feb. 12 = 100, Day of DJIA All-Time High Close

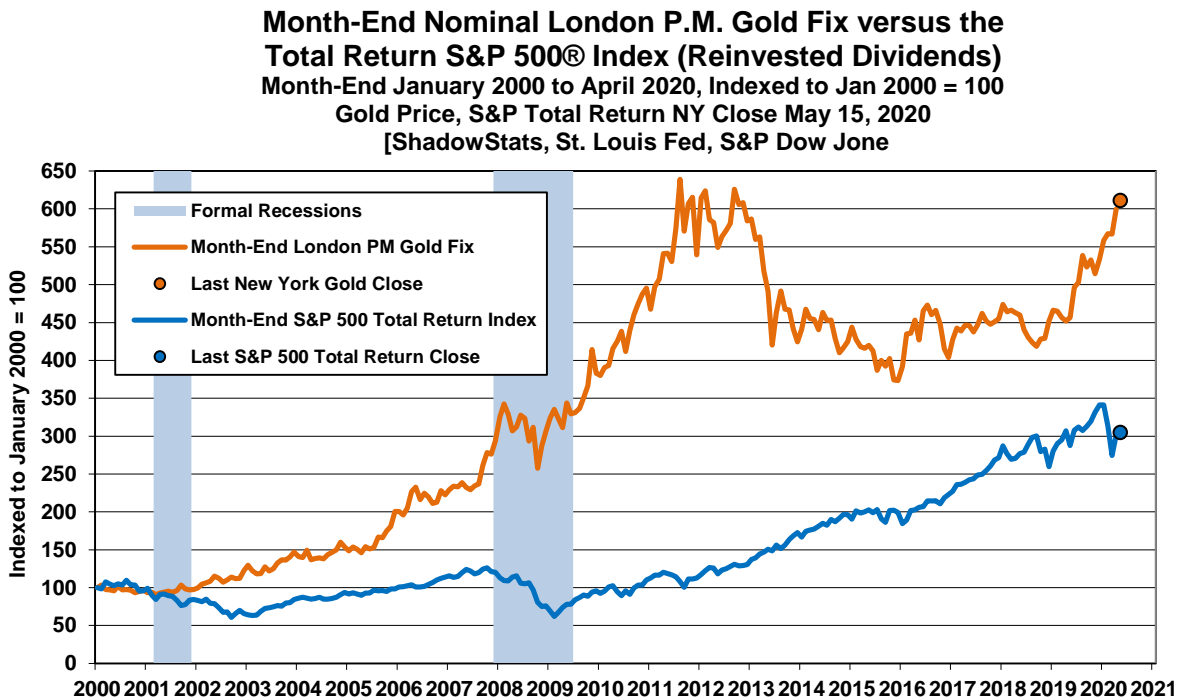
#### February 2020 to May 2020 Financial Markets Dow Jones Industrial Average vs. Gold and Swiss Franc All Indexed to February 12 = 100 (the DJIA Peak Level)



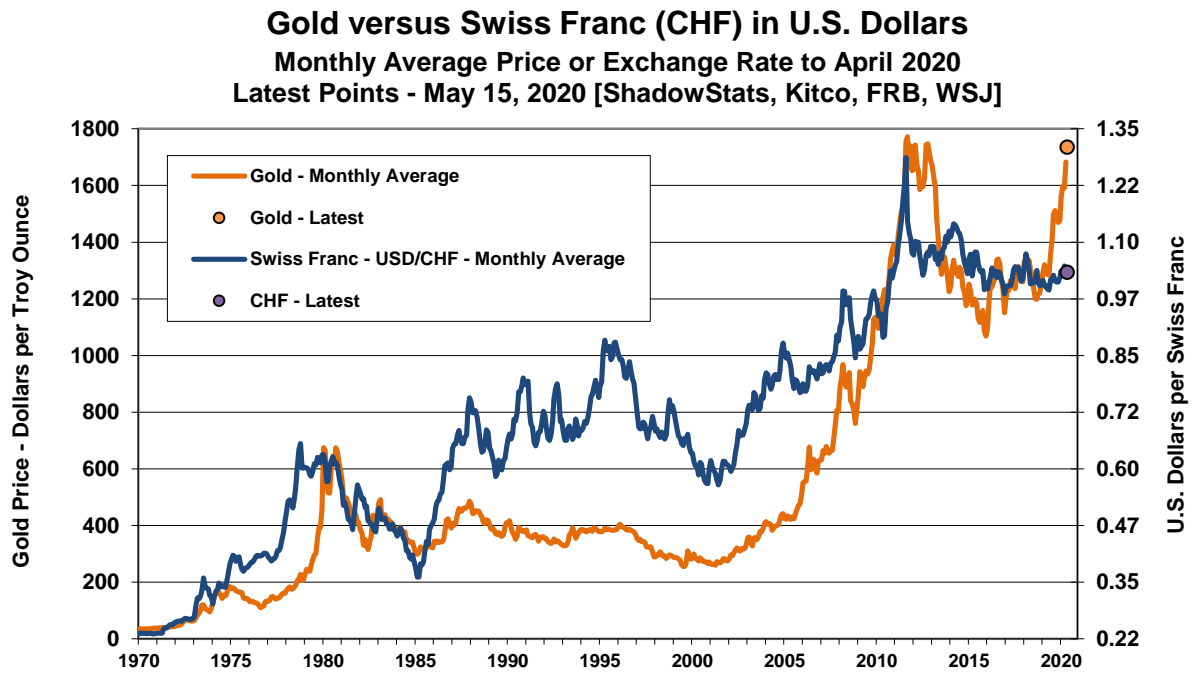
**Graph 32: Dow Jones Industrial Average versus Gold (Monthly Average)**



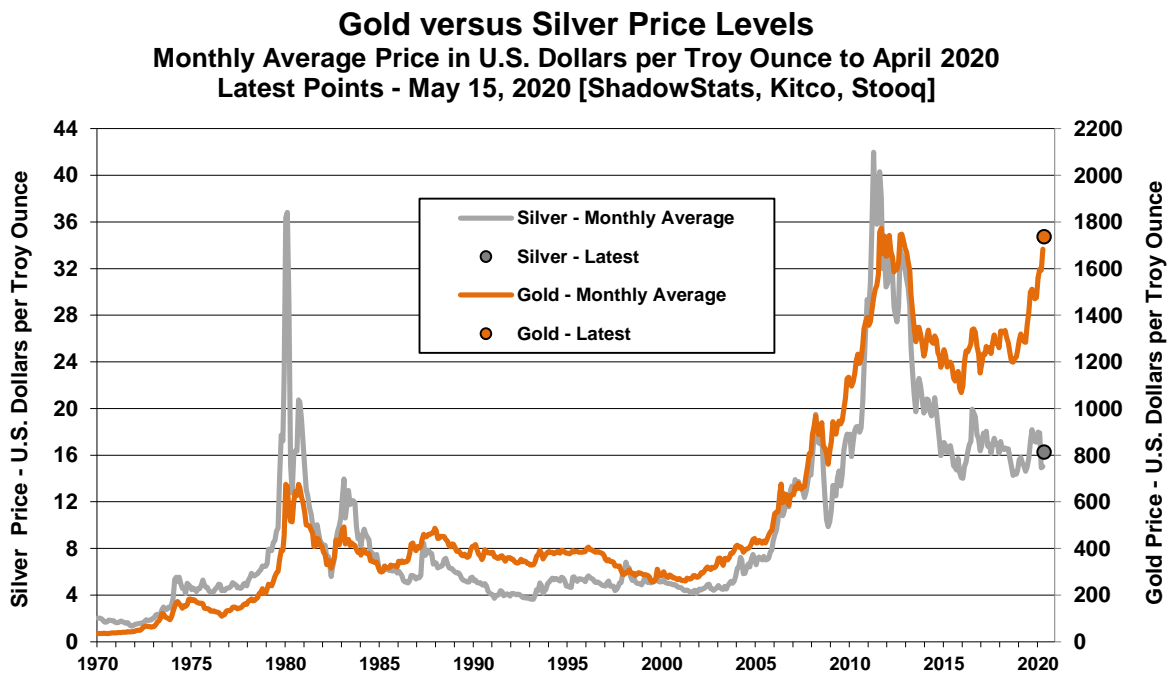
**Graph 33: Total Return S&P 500® versus Gold (Month End)**



**Graph 34: Gold versus Swiss Franc**



**Graph 35: Gold versus Silver**



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