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

ShadowStats Special Commentary, Issue No. 1429

FOMC Lost Control of Its System When It Bailed Out the 2007/2008 Banking Collapse
Systemic Failure Is Mounting With the Pandemic, Evolving Panic and Oil Pricing War

March 15, 2020

FOMC Liquidity Panic: Federal Funds Rate Cut a Full Percentage Point on March 15th to a Range of 0.00% to 0.25%, Following a March 3rd 50 Basis-Point Cut to a Range of 1.00% to 1.25%

Federal Reserve Also Has Lined Up Dollar Liquidity Support With the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank and the Swiss National Bank

This Signals Extraordinarily Unstable Circumstances at Work in the Global Markets

Nonetheless, Physical Gold and the Swiss Franc Should Continue to Hold Their Own Against What Likely Will Remain a Faltering U.S. Dollar

Pandemic and Oil Price Disruptions Are Overwriting and Seriously Deepening What Already Was an Intensifying Economic Downturn

First- and Second-Quarter 2020 Quarterly GDP Contractions Should Rival or Exceed Great Recession Numbers

Economic Growth Could Stabilize at Lower Levels by Year-End, Depending on How the Systemic Shocks Play Out

Economic and Financial-Market Disruptions Have Just Begun, Despite the Extraordinary Systemic Manipulations and Interventions

Federal Reserve Viability and Loss of Systemic Control Have Been Brought to a Head, With the Coronavirus Whirlwind Ripping Away the Veneer of Post-2008 Financial- and Banking-System Recovery and Stability

Overview

New FOMC Rate Cuts Highlight Intensifying Systemic Instabilities

Expect Expanded Near-Term Financial-Market and Currency Manipulations

ShadowStats Recession Outlook Has Been Exacerbated Sharply by the Systemic Crises

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

Beware Continued Market Manipulations and Direct Interventions

Updating *Flash Update No. 25*, the Developing Pandemic, Intensified by Unstable Domestic Politics and FOMC Policies, Continues to Exacerbate Downside Economic and Financial-Market Turmoil. Reflected in updated ***Graph 1*** on page 3, since the all-time closing high of the Dow Jones Industrial Average (DJIA) on February 12th, the heavily hit and extremely volatile near-term readings on that index showed a March 13th close down by 21.54% (-21.54%) from February 12th, despite the massive boost to stock prices from direct intervention on March 13th, and before tonight's rate cuts.

At the same time, central-bank orchestrated heavy selling of Gold and the Swiss Franc left gold shy of its February 12th reading by just 0.06% (-0.06%), with the Swiss Franc having gained 2.88% in the same period. Despite FOMC/Treasury interventions, average investors generally would have been much happier with their assets outside the U.S. dollar (again see ***Graph 1***). As basically confirmed by tonight's panicked FOMC easing, what happened on March 13th was that the DJIA was rallied in late-day orchestrated trading by about 7%, going into the closing bell, along with parallel, coordinated selling of Gold and the Swiss Franc.

Central Banks such as the Fed view the competition of the Swiss Franc and Gold as anathema, an indicator of a Central Bank having lost control of its system, again, which likely had some direct impact on tonight's (March 15th) interest rate moves. Central Banks hate rallying gold prices, because it indicates the markets do not believe the Central Banks are doing their jobs.

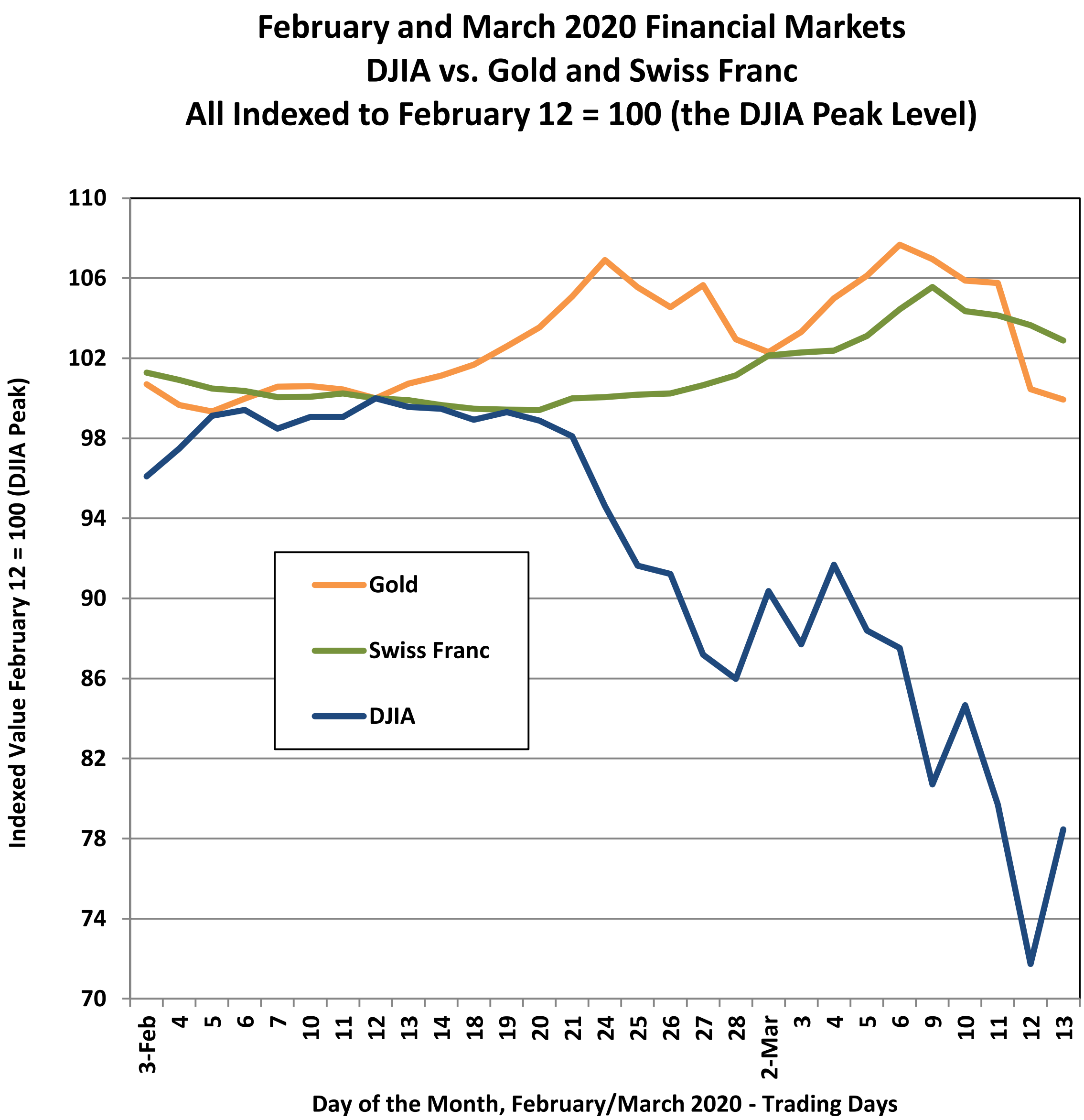
In the context of evolving crises, the ***ShadowStats ALERT*** in ***Flash Update No. 24*** of February 24th, remains little changed. Near-term financial-market risks from negative economic, liquidity and political issues continue and only have been exacerbated by the developing Coronavirus Pandemic. The ShadowStats broad outlook in the weeks and months ahead remains in place (the italicized words here are the only alterations) 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, *and interventions* in the stock markets, high risk of continuing, major instabilities in the markets, complicated by possible *continuing* direct market interventions and *intensifying Quantitative Easing* FOMC policy shifts.**

Physical Gold and the Swiss Franc Have Protected U.S. Dollar Purchasing Power

Graph 1: February/March 2020 Financial Markets



Underlying ShadowStats Outlook Has Not Changed Meaningfully, Other Than for the Ongoing Intensification of Market 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 U.S. 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 reviewed in the context of the evolving pandemic, economic data and any further U.S. Central Bank interventions or policy shifts (*i.e.* Quantitative Easing at the March 17th and 18th FOMC Meeting), in ***ShadowStats Flash Commentaries*** in the week ahead.

Special Note to Subscribers. For simplicity, the regular nomenclature on the ShadowStats Commentaries has been changed, using an "***Issue No.***" Today's ***ShadowStats Special Commentary*** is ***Issue No. 1429***, or the 1,429th ***ShadowStats Commentary***. The first ***ShadowStats Flash Update*** in the week ahead will be ***Issue No. 1430***, likely covering the economic releases of March 17th and 18th and the FOMC meeting at that time, although it could be broken into two ***Issues***. Please note that each ***ShadowStats Commentary*** going forward will be numbered by the sequential ***ShadowStats Issue No.***, irrespective of whether it is a "Flash," "Bullet" or "Special" Edition.

I had planned to publish here a different Commentary, simply looking at the unfolding recession in the year ahead for 2020, but developments at home and abroad have overtaken that circumstance, with rapidly expanding and evolving domestic economic and political crises that already have begun to reshape the U.S. domestic and global economies.

Please Give Me a Call Any Time With a Question or If You Would Just Like to Talk: If you have any questions or would like to discuss the evolving market, economic or systemic circumstances, please call me any time. Leave a message if your call goes to Voicemail or I do not answer otherwise. I shall be back to you.

Your questions and comments always are welcomed. Again, please contact:
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U.S. Dollar Gold Price Reflects Actual Underlying Inflation (Not Gimmicked CPI)

Unbridled Federal Government Spending, Systemic Bailouts and FOMC Money Creation Are Not Sustainable. Separately, as discussed in ***Special Commentary -Bullet Edition No. 19-A*** the Fed's continued "Non Quantitative Easing" Balance Sheet expansion is beginning to look a lot like a tacit acceptance of "Modern Monetary Theory" (MMT), just printing money as needed "without consequence." The theory is much enamored of the Socialist Democrats in the U.S. Congress, but it has been dismissed out of hand by Federal Reserve Chairman Jerome Powell. Yet, current FOMC actions and unbridled deficit spending by the Federal Government are hard to differentiate in practice from the MMT concept, and likely will come center stage as the FOMC looks to expand Quantitative Easing in the weeks and months ahead.

The Federal Reserve and the U.S. Federal Government rapidly are running out of viable options to prevent the financial-system and economic collapse that has been pushed to the fore by the unfolding systemic crises. MMT cannot and does not work without an eventual hyperinflation. There is and already has been consequence—an accelerating loss of actual U.S. dollar purchasing power and accelerated movement towards that domestic hyperinflation. As will be expanded upon in a later edition, consider accompanying ***Graph 2***. The open-market price of gold consistently tracks the underlying loss of actual U.S. dollar purchasing power, and its current rally is reflective of the ongoing dollar debasement by the Federal Government and Federal Reserve in the unfolding systemic crises.

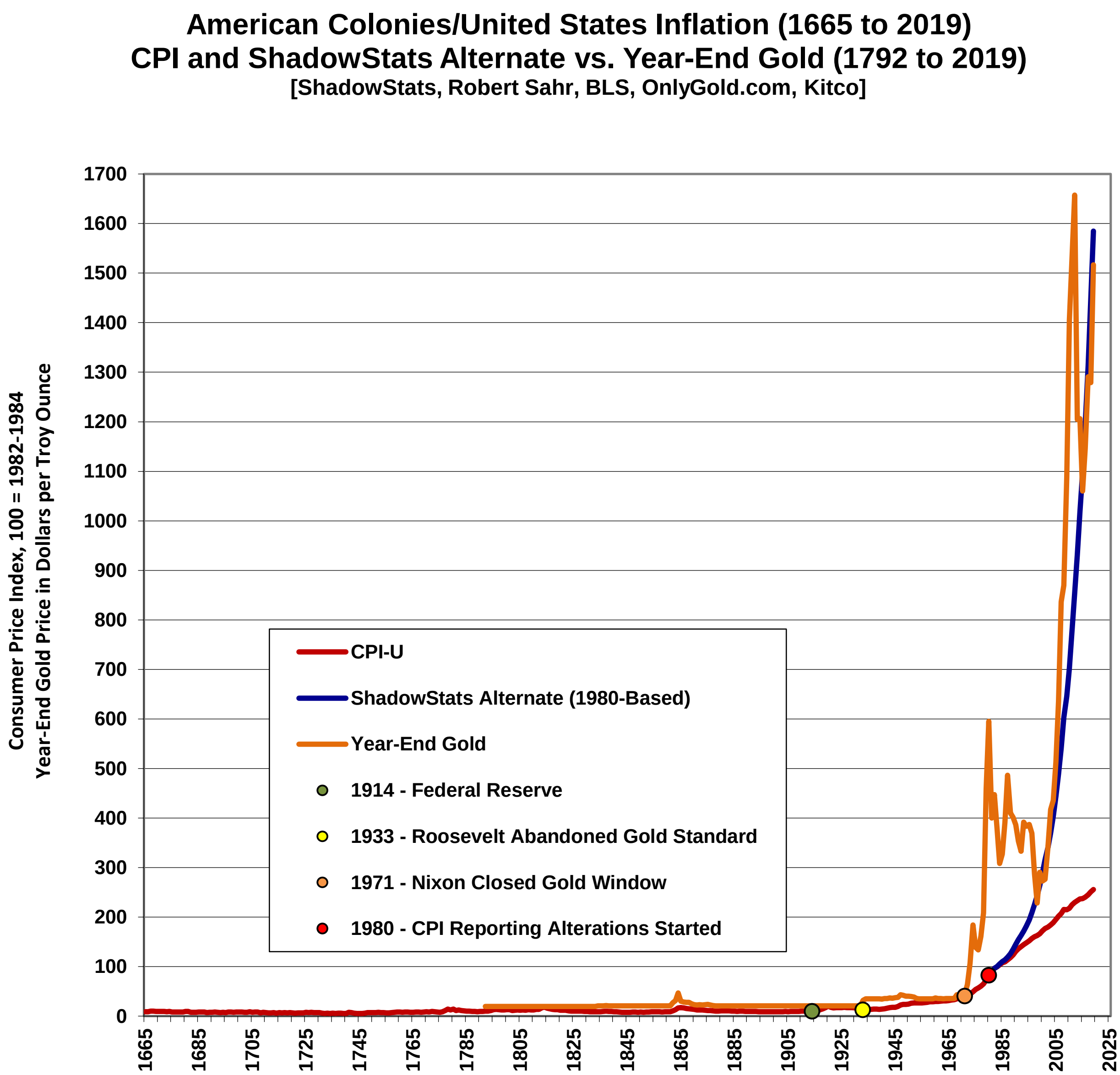
The U.S. government can and does mask its reporting of actual annual inflation, having done so specifically since the early 1980s, with a variety of reporting gimmicks. ShadowStats regularly has tracked and estimated what headline inflation would be today, net of those reporting gimmicks (see ***ShadowStats Alternate Inflation Charts*** and the ***ShadowStats Commentary on Inflation Measurement***). In particular, consider the ShadowStats alternate inflation, as plotted along with the headline CPI inflation and gold prices over time, again, as seen in ***Graph 2***.

Despite ups and downs around wars, the California Gold Rush, through World War I, the graph shows what appears to be a fairly stable level of prices up to the founding of the Federal Reserve in 1913 (began activity in 1914) and to Franklin Roosevelt's abandoning of the domestic gold standard in 1933. Following President Nixon's Closing of the Gold Window, inflation took off in a manner not seen in the prior 250 years, and at an exponential rate, when viewed using the ShadowStats-Alternate Measure of Consumer Prices in the last several decades.

The ShadowStats measure approximates headline Bureau of Labor Statistics' Consumer Price Index (CPI-U) inflation as it currently would be, net of changes made to reporting methodologies since 1980 and the post-Gold Window Closing inflation, when the federal government pushed inflation-reducing changes to reporting methodologies, so as to help cut federal spending in such areas as Social Security Cost Of Living Adjustments (COLA). The alternate inflation measure exploded in response to the banking system bailout of 2007/ 2008. Of significance, gold generally has continued to cover fully the "common experience" inflation, not just the artificially suppressed headline CPI-U, as seen in the graph.

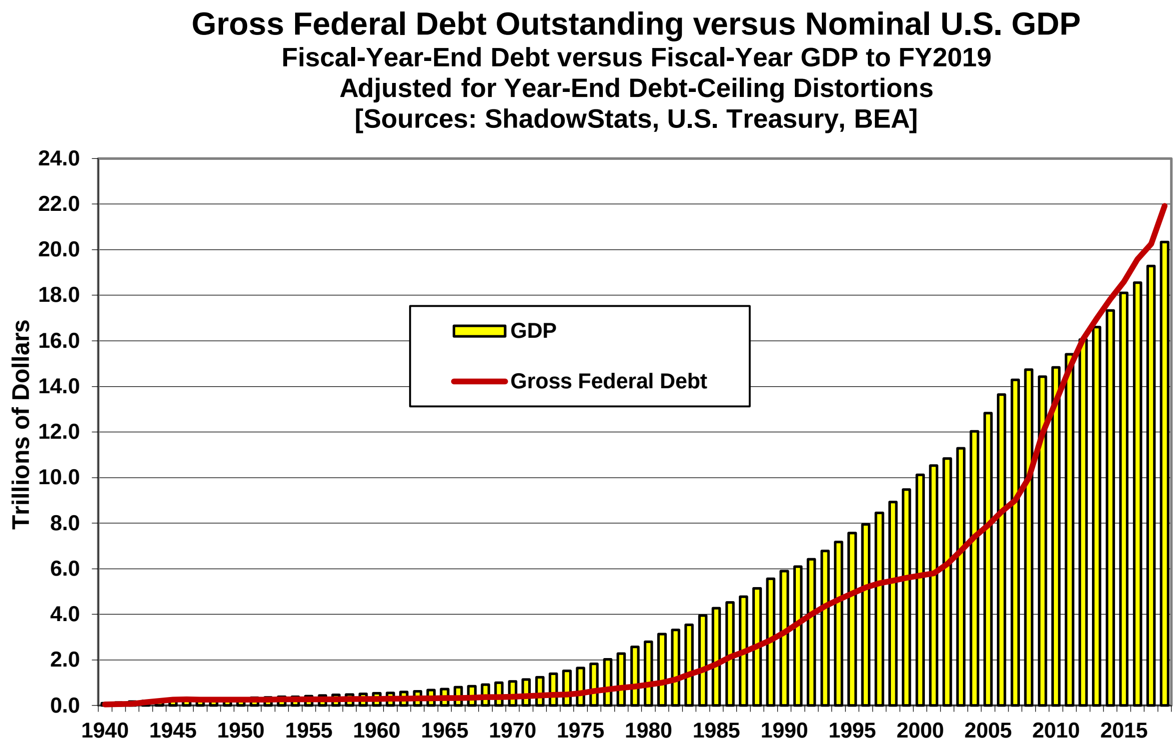
The Fed Has Lost Control. Complicating stabilization of Federal Reserve policy, U.S. Government fiscal solvency and sustainable U.S. economic growth and recovery, the harsh reality remains that the Federal Reserve stunted U.S. economic growth potential, with is handling of the 2007/2008 banking system collapse and related bailout (consider following ***Graphs 3*** to ***6***. Such has been exacerbated by troubled trade, economic and, again, particularly fiscal policies of the last five Administrations and related Congresses. Expanded detail and implications for the FOMC and exploding systemic crises, including Federal Government fiscal policies and related long-term systemic solvency issues and U.S. dollar stability, will follow in the next several ***ShadowStats Issues.***

Graph 2: Gold versus Actual Inflation

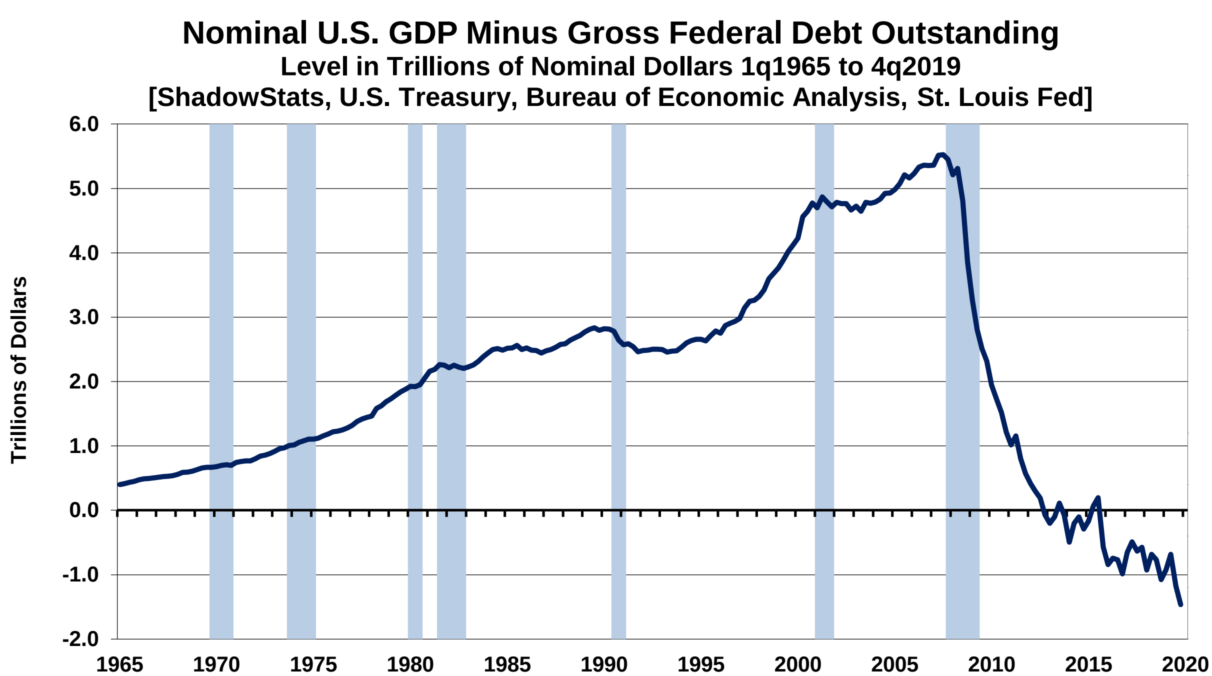


Federal Debt Should Continue Its Unsustainable Explosion Versus GDP

Graph 3: Gross Federal Debt versus Nominal GDP

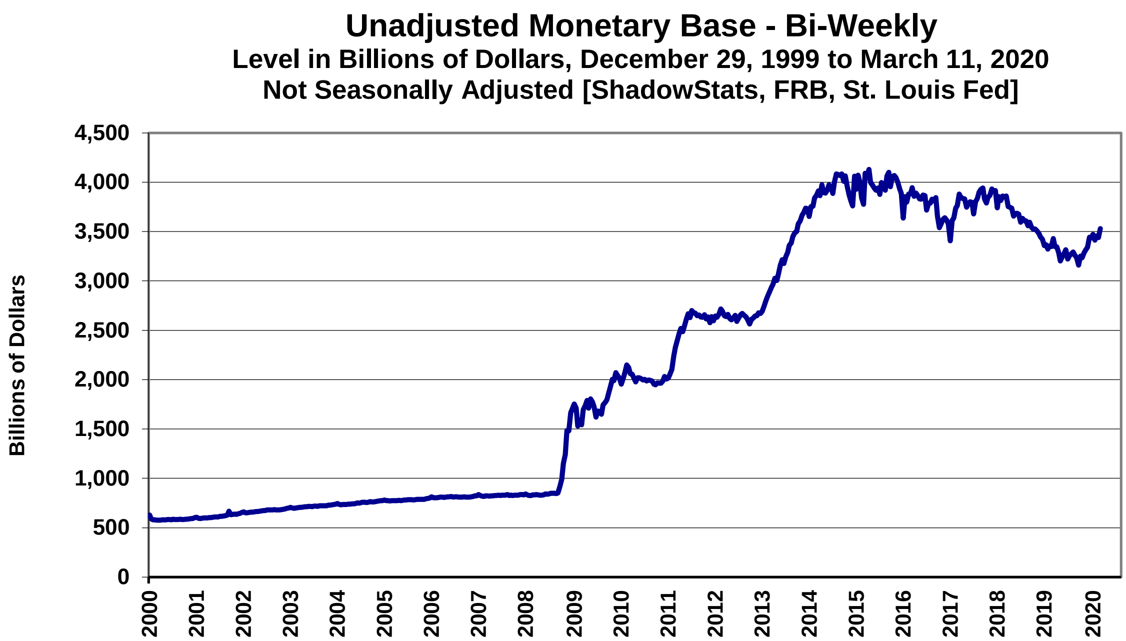


Graph 4: Nominal GDP Minus Gross Federal Debt

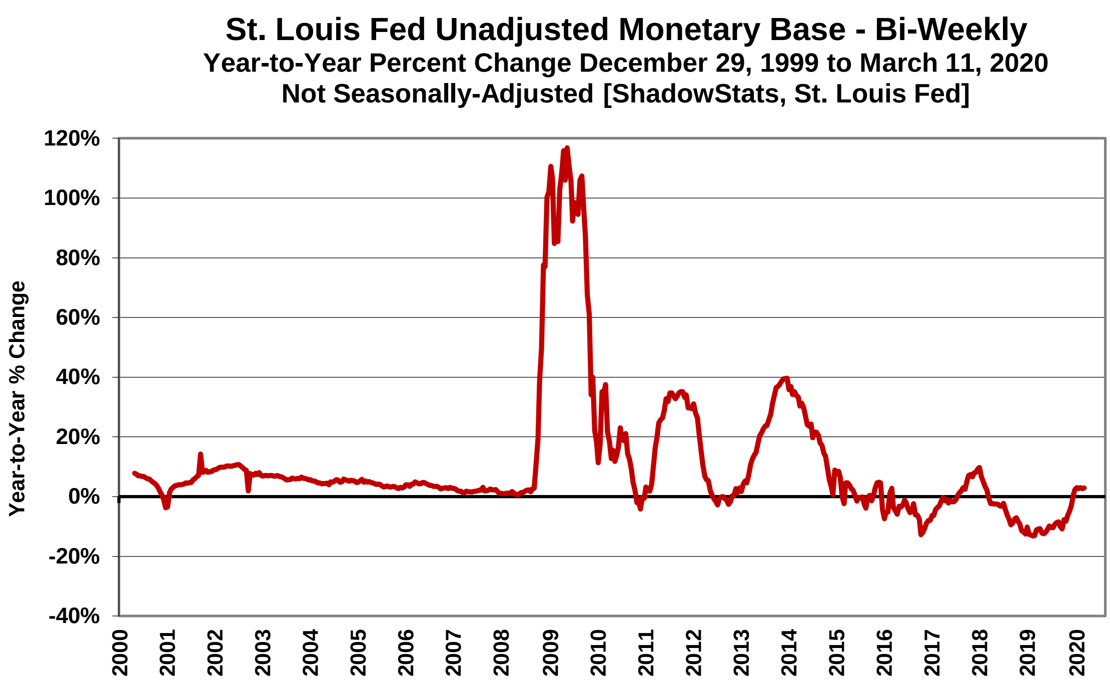


FOMC's Quantitative Easing Has Reverted Back to Banking-System Bailout Levels

Graph 5: Unadjusted Monetary Base

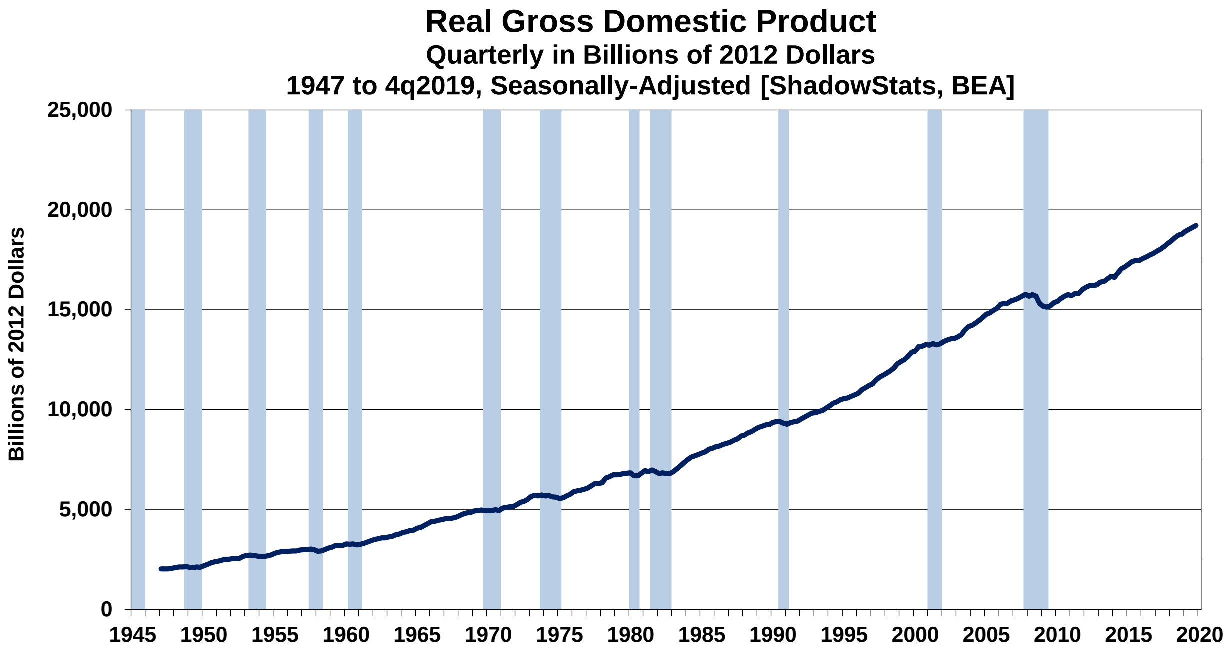


Graph 6: Unadjusted Monetary Base, Year-to-Year Change

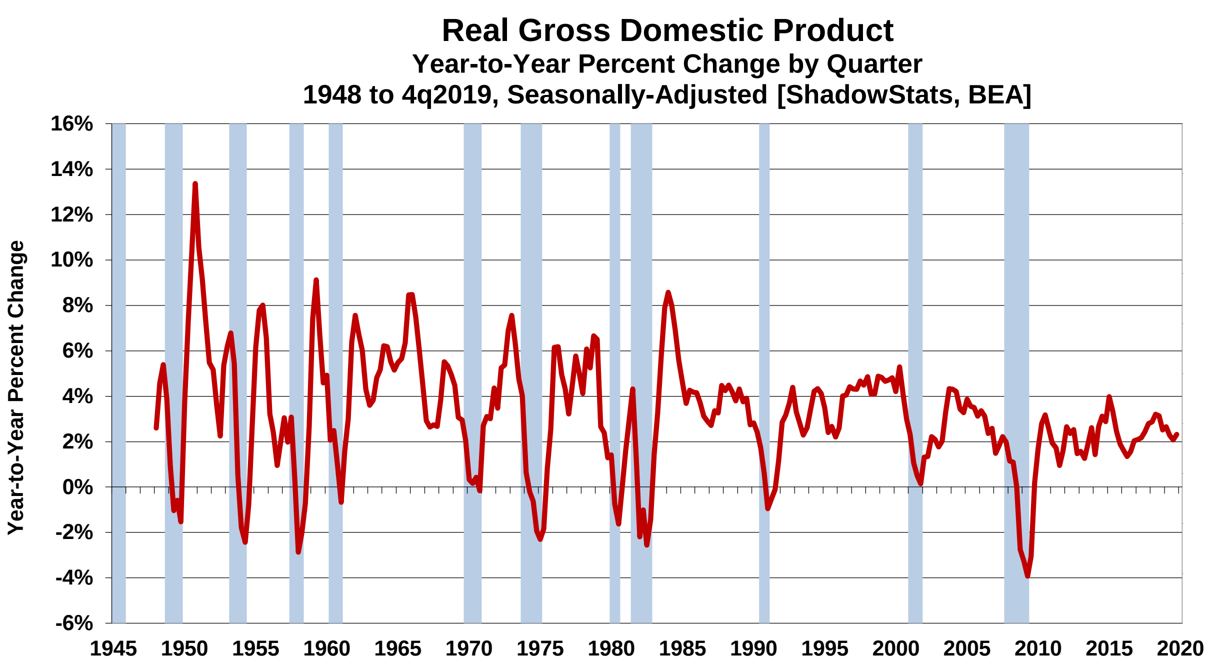


Oncoming Economic Downturn Could See "Great Recession" Magnitude Contractions

Graph 7: Real Gross Domestic Product, Full Historical Quarterly Series



Graph 8: Real Gross Domestic Product, Year-to-Year Change, Full Historical Quarterly Series



U.S. Economy Likely Faces at Least a Short-Recession That Will Rival the Depths of the Great Recession. As major parts of the economy shutdown or are disrupted by the Coronavirus Pandemic, or by domestic Oil Production slowing down due to collapsing oil prices, the aggregate economy will slow markedly beginning with February 2020 into at least Third-Quarter 2020.

Discussed frequently in prior ***Commentaries*** (see ***Flash Updates 20*** to ***25***, for example) a U.S. Economic Recession was in play, likely to show up in major pending economic benchmark revisions through the July 30, 2020 GDP benchmarking. While that still is the underlying circumstance, the economic crash tied to current systemic disruptions is overwriting or otherwise will dominate that circumstance.

I can estimate impact from a variety of national numbers, but anecdotal evidence usually is of extraordinary significance. For example, just with my local community here in northern California, a barber, dog kennel and an Irish Pub (celebrating Saint Patrick's Day) each estimated a 20% drop in business from expected activity, while a top quality bookstore indicated even-sales activity. Any anecdotal evidence from subscribers is welcomed. I hope to solidify my GDP projections in the next week or so. Reflected in prior ***Graphs 7*** and ***8***, the trough in year-to-year growth during the Great Recession was roughly minus four percent, a circumstance or worse that could be seen in the current quarter or next. Assuming the panic subsides in the next several months, the economy could off its trough by Fourth-Quarter 2020 ...

... to be continued in ***ShadowStats Flash Commentary, Issue No. 1430 ...***

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