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

ShadowStats Special Commentary, Issue No. 1430

Systemic Failure Is Mounting, Hyperinflationary Collapse on the Horizon

March 23, 2020

Financial-System Insolvency Laid Bare by the Pandemic, as Circumstances Accelerate Towards a Hyperinflationary Great Depression

Federal Reserve Moves Towards Unlimited Currency Creation, While the Federal Government Promises Unfettered Deficit Spending, All Looking to Bailout Wall Street and the Banks, and to Provide Some Consumer Liquidity Relief

Extraordinarily Unstable Circumstances Continue in the Global Markets; Economic, Financial-Market and Political Turmoil Likely Have Just Begun, Despite Ongoing, Massive Systemic Manipulations and Interventions

Holding Physical Gold Remains the Primary, Fundamental Hedge Here; Gold and the Swiss Franc Should Continue to Hold Their Own Against What Increasingly Should Be a Faltering U.S. Dollar

Recession/Depression, Triggered by Pandemic-Exacerbated Systemic Instabilities, Should Begin to Surface With the March Labor Data Release on April 3rd

From Pre-Pandemic Headline U.3 Unemployment Low of 3.5% in February 2020, U.3 Could Hit 5% in March and 25% in April (with April ShadowStats-Alternate at 43%)

Quarterly Contractions/Collapses Loom for First- and Second-Quarter 2020 GDP, Respectively, of About 8% (-8%) and Nearly 40% (-40%), Assuming Current Pandemic Constraints Remain in Place, Accompanied by Major Government Stimulus through June

Although Being Overwritten by the Crises-Driven Economic Contraction, the Still Deepening Pre-Crises Downturn Seen in February 2020 Freight Activity, Retail Sales and Production Provides a Soft Underbelly for the New Recession

Reliability Issues Loom With Pandemic-Disrupted Economic Surveying and Numbers

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[Continued, expanded and updated from *Special Commentary, Issue No. 1429*.]

[NOTE - Economic Data: Updating GDP forecasts from *No. 1429* of "U.S. Economy Likely Faces at Least a Short-Recession That Will Rival the Depths of the Great Recession." Formal forecasts follow on page 10, showing First-Quarter 2020 GDP rivaling the worst Great Recession contractions, with Second-Quarter 2020 at a pace worse than anything seen in the Great Depression. Coverage of the final reporting of pre-Pandemic monthly economic data begins on page 13.**]**

Crisis Overview – Hyperinflation Risk

Beware Continued Market Manipulations and Direct Interventions

Effective Government and Federal Reserve Insolvencies Laid Bare by the Pandemic

U.S. Faces Potential, Hyperinflationary Systemic Collapse

Perpetual Fed Money Creation and Federal Government Spending Promise Hyperinflation U.S. Dollar Gold Price Reflects Actual Underlying Inflation (Not Gimmicked CPI)

Federal Government Fiscal-Malfeasance, FOMC Monetary-Malfeasance and Loss of Systemic Control Created a Crisis Awaiting a Trigger

Having Taken the Fed Funds Rate to 0.00%, the FOMC Has Opted Now for Unlimited Quantitative Easing, in a Desperate Effort to Prevent Financial System and Economic Collapse

The U.S. Government Looks to Open Unfettered Stimulus Spending

That Said, Both the Government and Fed Have Locked on a Course for a Ultimate U.S. Government Insolvency and U.S. Dollar Collapse

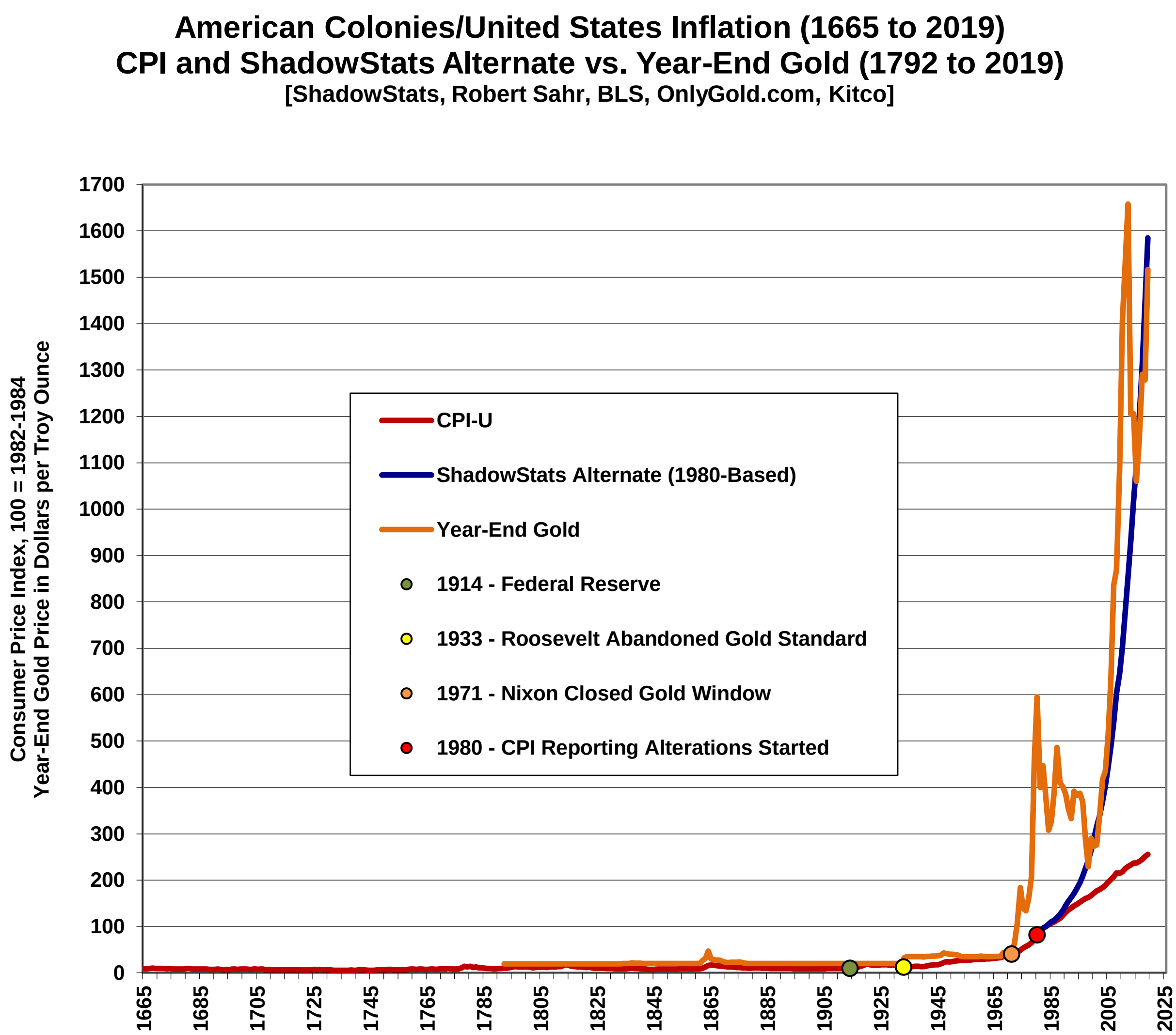
Short-Term, Meaningful Financial Stimulus May Help Keep the System Afloat, But Economic Recovery Will Begin Only With Removal of the Pandemic Systemic Restraints

Post-Crisis, the U.S. Government Has to Address Its Fiscal Operations to Resolve Its Long-Range Solvency Issues

A Full Overhaul of the U.S. Central Bank (Fed) Needs to Be Part of That Resolution

Pending Hyperinflation and the Perpetual U.S. Dollar Debasement Are Foci of Next Weekend's Special Commentary. In the context of this morning's (March 23rd) panicked monetary expansion by the FOMC, and by the still-pending, but purportedly imminent panicked Federal Government spending package, risks of a Hyperinflationary Great Depression have come to the fore. The circumstances are touched upon here, but will be updated fully, in a ***Special Hyperinflation 2020 Commentary*** next weekend, following the March 27th release of the latest Monetary Base data, and with what presumably will be the U.S. Government's multi-trillion dollar "economic stimulus" package in hand. ShadowStats will update and review the rapidly intensifying risk of U.S. Dollar Hyperinflation, in the context of fully revamped ***ShadowStats 2016 Hyperinflation Report*** of December 30, 2015. Separately, as reminder of underlying reality, again consider following ***Graph 1*** of the ***Gold Price Versus Actual Inflation,*** repeated here from the prior discussion in ***Special Commentary, Issue No. 1429***.

Graph 1: Gold versus Actual Inflation



[... continues in *ShadowStats Special Commentary Hyperinflation 2020, Issue No. 1431.*]

Again, Updating *Special Commentary, Issue No. 1429*, Systemic Disruptions From the Pandemic, Intensified by Increasingly Unstable Domestic Politics and Panicked FOMC Policies, Continue to Exacerbate Downside Economic and Financial-Market Turmoil. Reflected in updated ***Graph 2*** on page 5, 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 of that index showed today's (March 23rd) close down by 37.1% (-37.1%), despite the continuing, massive attempts by the Federal Reserve and Wall Street to boost stock prices, including direct interventions, massive funding and cutting interest rates to zero.

The unfolding crisis has its roots in recent decades, now laid open by the Pandemic Crisis, which has stripped away the veneer from an the effectively bankrupt U.S. Government and Federal Reserve, with the U.S. dollar no longer backed by Gold, but rather by Global Confidence in U.S. Economy (now in a tumble), U.S. Fiscal Stability (at extreme levels of unstable deterioration), and by the soundness of the U.S. banking-system owned U.S. Central Bank (Federal Reserve), which just has opted to provide effectively unlimited cash/liquidity to the system.

Central-bank orchestrated heavy selling of Gold and the Swiss Franc, and other temporary market-place disruptions and distortions, have left gold (London P.M.) shy of its February 12th reading by 2.4% (-2.4%), although that narrowed to zero in later New York trading, and with the Swiss Franc shy by 0.6% (-0.6%) in the same period. Anecdotally, a funny thing about the gold price is that those trying to buy physical gold, seem to have trouble finding it available, and usually at an extraordinary premium over the headline market price, if they do. Despite the FOMC and Treasury interventions, average investors generally still would have been much happier with their assets outside the U.S. dollar (again see ***Graph 2***) than with the stock market.

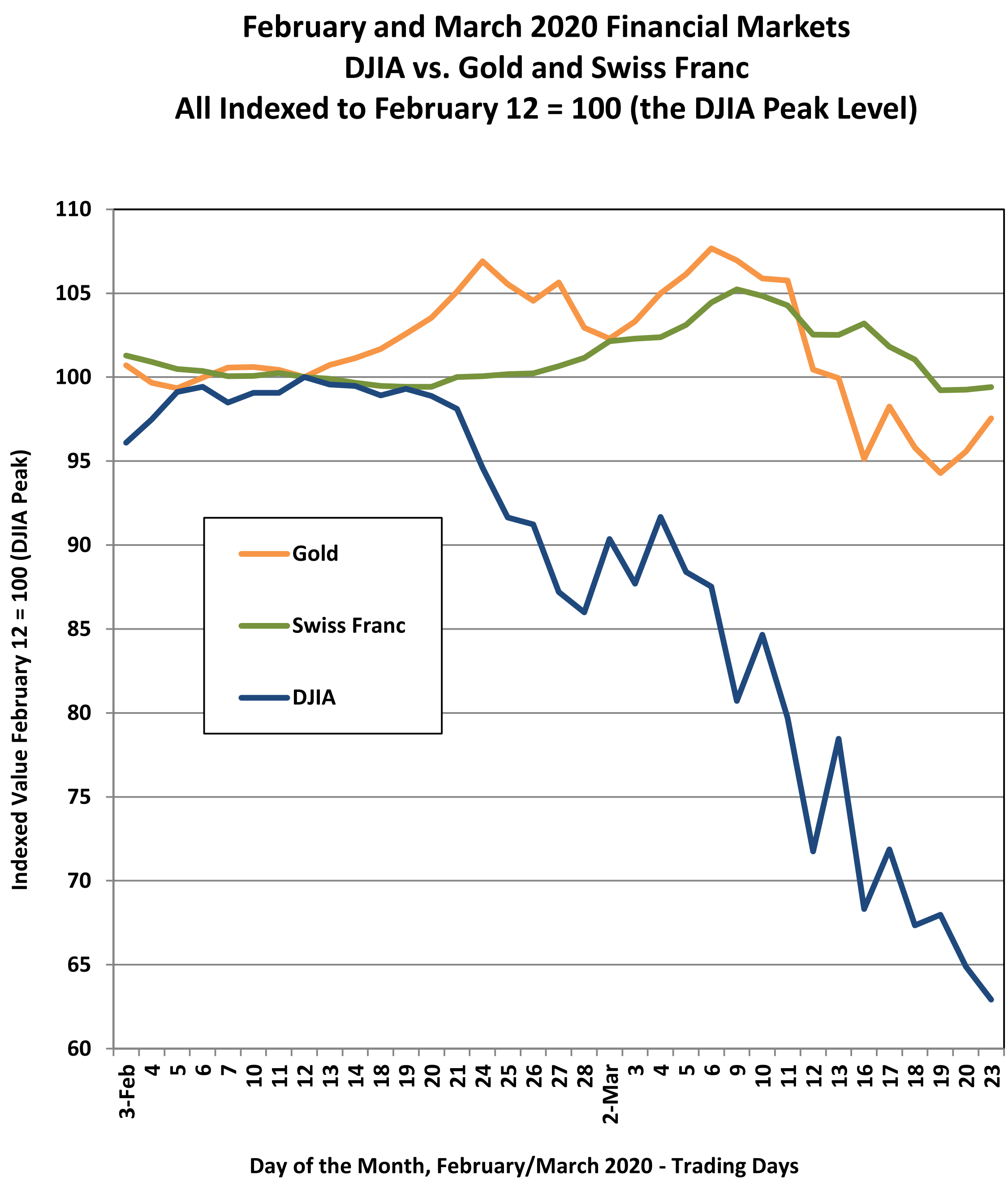
Central Banks, such as the Federal Reserve, view the competition of the Swiss Franc and Gold as anathema, where flight to those assets is an indication of a Central Bank having lost control of its system. Central Banks hate rallying gold prices, because it indicates the markets do not believe the Central Banks are doing their jobs.

In the context of evolving crises, the ***ShadowStats ALERT*:** Near-term financial-market risks from negative economic, liquidity and political issues continue and only have been exacerbated by the developing Coronavirus Pandemic and surrounding circumstance. The ShadowStats broad outlook in the weeks and months ahead remains:

- **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 by the FOMC.**

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

Graph 2: February/March 2020 Financial Markets-to-Date



Underlying ShadowStats Outlook Has Not Changed Meaningfully Over Time, 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 continue to be reviewed in the context of the evolving Pandemic, economic data and any further U.S. Central Bank or Federal Government interventions or policy shifts.

Federal Government stimulus should help short-term systemic liquidity conditions, but it will not help to boost economic activity. The economic collapse largely is due to the artificial constrictions imposed on economic activity by the government's response to the Pandemic. The system cannot recover/restore normal human and business transactions. If current Pandemic constraint circumstances continue through June, a drop of about 37% (-37%) in annualized real Second-Quarter 2020 GDP growth is set in the system, on top of a likely, pending real First-Quarter 2010 GDP contraction of about 8% (-8%).

[... continues and will be updated in *ShadowStats Special Commentary Hyperinflation 2020, Issue No. 1431*.]

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. I shall be back to you.

Your questions and comments always are welcomed. Again, please contact:
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[Table of Contents follows on the next page.]

Contents – Special Commentary (Issue No. 1430)

ShadowStats Forecasts of Looming GDP and Unemployment

First-Quarter GDP Downturn Should See "Great Recession" Magnitude Contraction, "Great Depression" Magnitude Disruptions or Worse, Likely for Second-Quarter

Headline Unemployment Likely to Hit 25% in April 2020 (ShadowStats Alternate at 43%)

Discussed previously in *Special Commentary, Issue No. 1429* (March 15th), page 11:

> **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. ... 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 ...

ShadowStats* Forecasts of Pandemic-Impacted Unemployment and GDP in the Months and Quarters Ahead.** Where meaningful economic impact of Coronavirus Pandemic-related government restrictions on individual and business activities began to unfold in February, the impact on headline economic reporting was seen initially, largely in March 2020, the third month of First-Quarter 2020. Accordingly, related First-Quarter 2020 GDP impact would be dampened by the relatively shorter period of exposure. In contrast, pending Second-Quarter GDP should see full impact of the Pandemic dampening effect. Allowing for such timing, for Oil Price War negative impact on domestic oil production, and for a purportedly pending, multi-trillion dollar stimulus out of the Federal Government, ShadowStats offers in ***Table 1, GDP and Unemployment projections, which are guesstimated based on an analysis of traditional economic activity, reporting relationships and likely Pandemic impact on same.

With March 2020 economic activity likely pulling real First-Quarter 2020 GDP activity into its first headline quarter-to-quarter contraction since 1.1% (-1.1%) in First-Quarter 2014 (the 2014 to 2016 Mini-Recession. A projected annualized First-Quarter 2020 contraction of 8.2% (-8.2%) rivals the worst of Great recession of 8.4% (-8.4%) in Fourth-Quarter 2008. An annualized real Second-Quarter 2020 decline of 37.2% (-37.2%) would be unparalleled in modern economic reporting (quarterly numbers are published only post-World War II. The implied year-to-year decline of 11.9% (-11.9%) in Second-

Quarter Activity, would have some parallel in annual declines in 1930 to 1932, and in the 1946 Post-World War II production shutdown.

Table 1- ShadowStats Projection of Pandemic Economic Impact

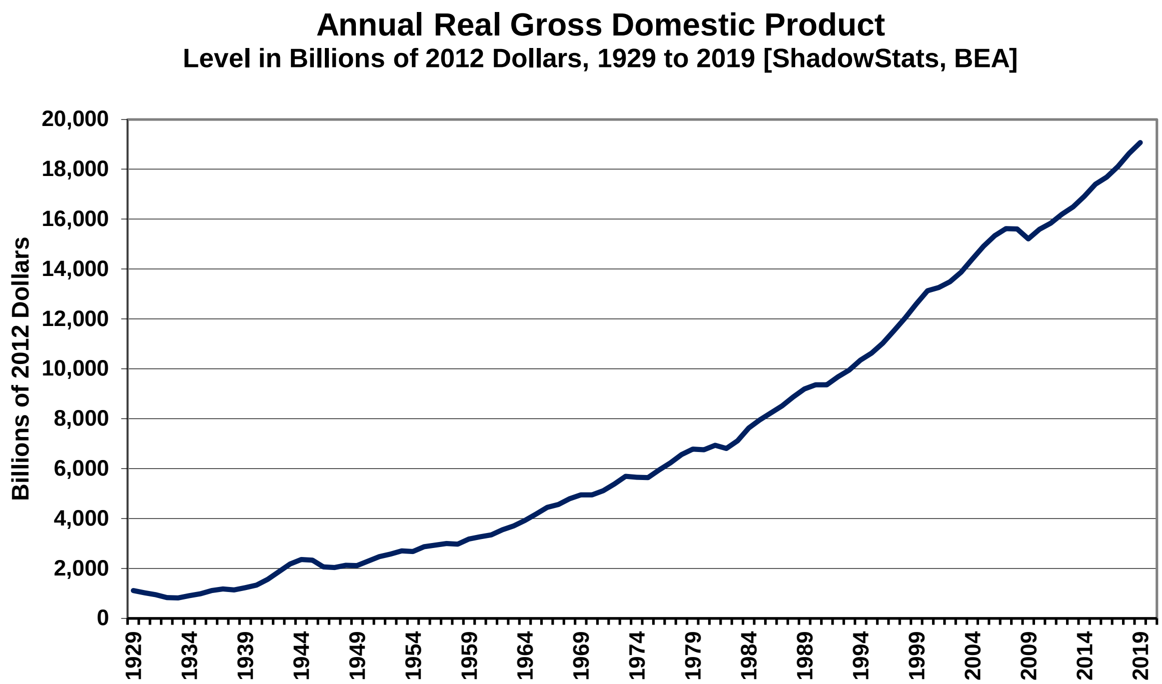
Measure	Actual 4q2019	Forecast 1q2020	Forecast 2q2020
GDP Q/Q	2.1%	-8.2%	-37.2%
GDP Y/Y	2.3%	-0.6%	-11.9%
	Feb 2020	March 2020	April 2020
U.3 Unemployment	3.5%	5%	25%
ShadowStats Alternate	21.10%	23%	43%

Immune to Stimulus, Economic Recovery Requires an End to Pandemic Restrictions

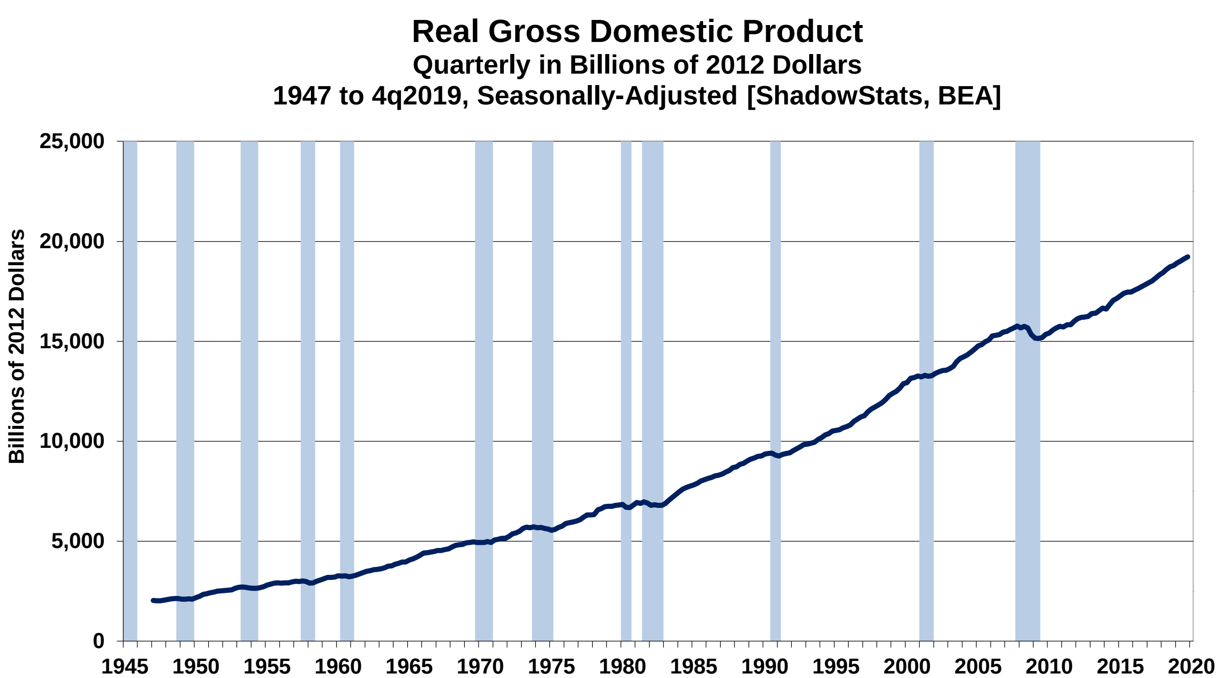
A Big-Money Stimulus Package Might Help Systemic Liquidity, But It Will Not Kick-Start an Economy Shutdown by Government Constraints. The economic downturn had some underlying consumer weakness in it before it was slammed by the Pandemic. Accordingly, the collapse indicated here is due to the various business shutdowns and isolationist constraints imposed on the economy and society. Those constraints have to be resolved, but they are not resolved by throwing money at them. Accordingly, if the Pandemic restraints remain place until 2021, so too will the depression, although it could flatten out, with a minimal, much reduced, impaired level of activity. There can be no real recovery until people can resume their regular life styles.

[Graphs 3 to 7 of Comparative, Full Historical GDP Growth and Activity Level and Quarterly and Year-to-Year Annual Growth begin on the next page.]

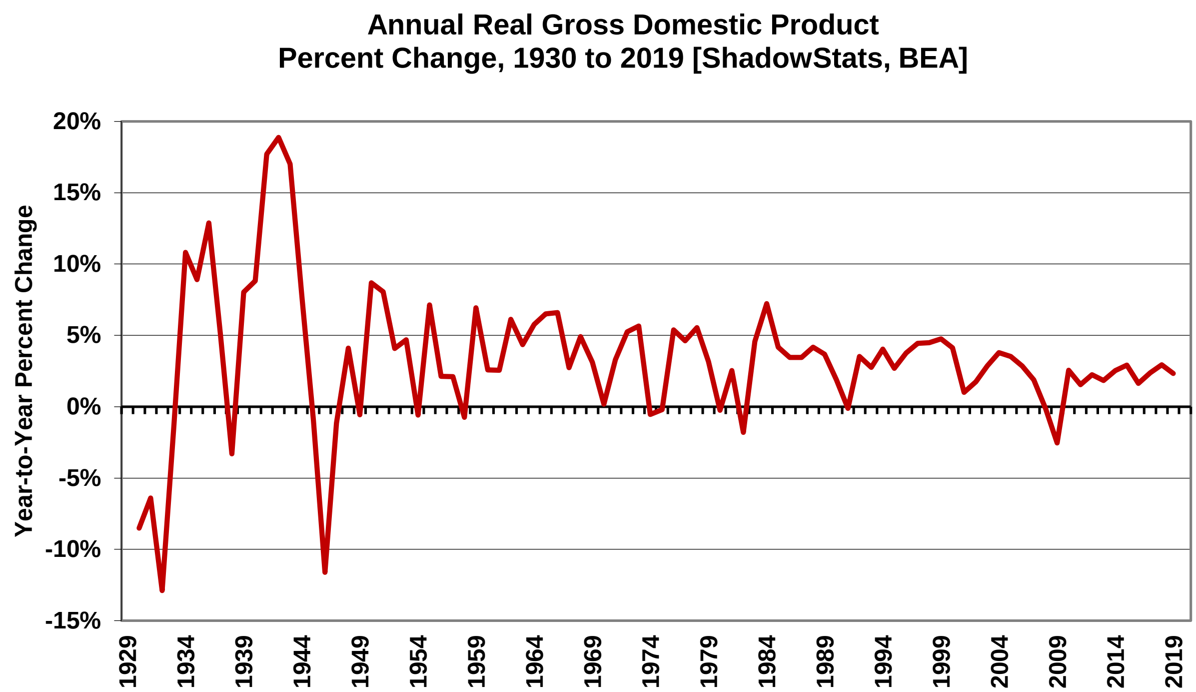
Graph 3: Real Gross Domestic Product, Full Historical Annual Series (1929 to 2019)



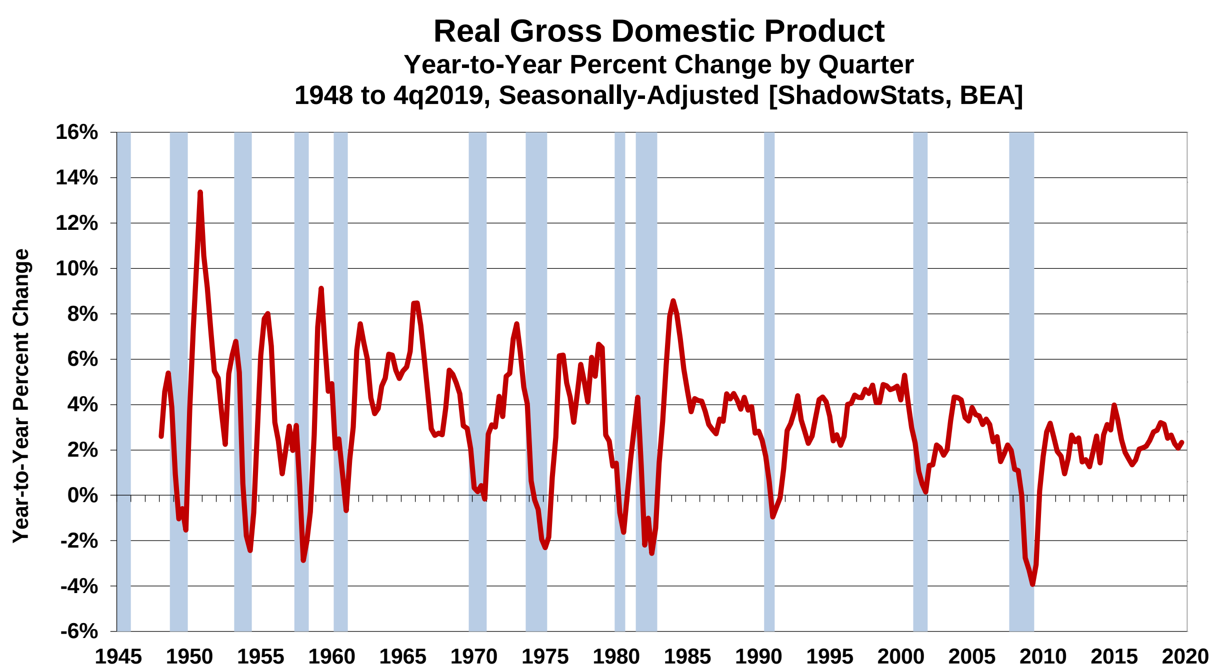
Graph 4: Real Gross Domestic Product, Full Historical Quarterly Series (1947 to 2019)



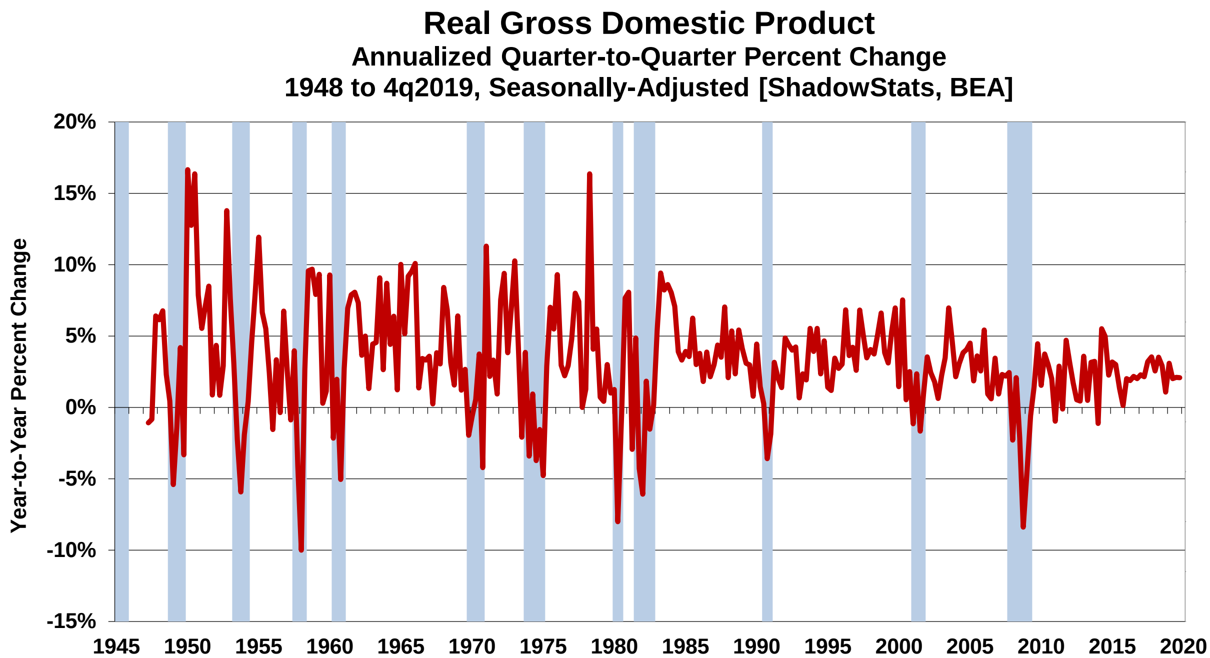
Graph 5: Real Gross Domestic Product, Year-to-Year Change, Full Historical Annual Series



Graph 6: Real Gross Domestic Product, Year-to-Year Change, Full Historical Quarterly Series



Graph 7: Real Gross Domestic Product, Annualized Quarter-to-Quarter Change, Full Historical Quarterly Series



Final Reporting of Major Pre-Crisis Monthly Data Still Showed an Unfolding Recession

February 2020 Cass Freight Index® Signaled Deepening, Pre-Pandemic Recession

Freight and Production Continued to Move Together

Freight Activity, Production and Retail Sales Were in Contraction Before the Coronavirus

Possible Reporting Disruptions and Distortions in Months Ahead

A Shift in Key Economic Reporting Details and Underlying Surveying. The last of the pre-Pandemic numbers, covered here, up through February 2020, had been signaling, and continue to signal, a deepening recession, for the past year or so, since well before the Coronavirus. With the shift over to post-Pandemic numbers in March 2020 reporting, related activity should continue in a deepening trend.

Of some concern as to consistent quality of government reporting, going forward, regular post-Pandemic government surveying will be altered, for example, as to phone versus in-person interviews. Regular monthly economic surveying will be disrupted to unknown effect, which we shall assess as new data are published.

February 2020 Cass Freight Index® Plunged Year-to-Year by 7.5% (-7.5%), Following a January Drop of 9.4% (-9.4%), Continuing the Steepest Downturn Pattern Since the Great Recession Onset. Reported March 16th, by cassinfo.com, the ***February 2020 Cass Freight Index®*** showed continuing deepening annual plunges, the steepest since the early months of the Great Recession. The collapse in activity here remains consistent with an unfolding "Recession," not with what had been the FOMC's pre-pandemic proclaimed "Sustainable Moderate Economic Growth." The activity here, also has been consistent with the quarterly declines in Fourth-Quarter 2019 Real Retail Sales and Industrial Production. The Index's consecutive monthly year-to-year declines and monthly declines in the 12-month trailing average held in place for the fifteenth straight month. Those year-to-year and 12-month-moving-average metrics neutralize seasonality in this unadjusted series. ShadowStats regularly follows and analyzes the Cass Index as a highest-quality coincident, leading indicator of underlying economic reality.

Relevant to ShadowStats comments following on Retail Sales and Industrial Production, and not otherwise reflected in Cass's February reporting, Cass noted that the Port of Los Angeles had just reported February 2020 imports down by 23% (-23%) year-to-year. We thank Cass for their permission to graph and to use their numbers in our Commentaries.

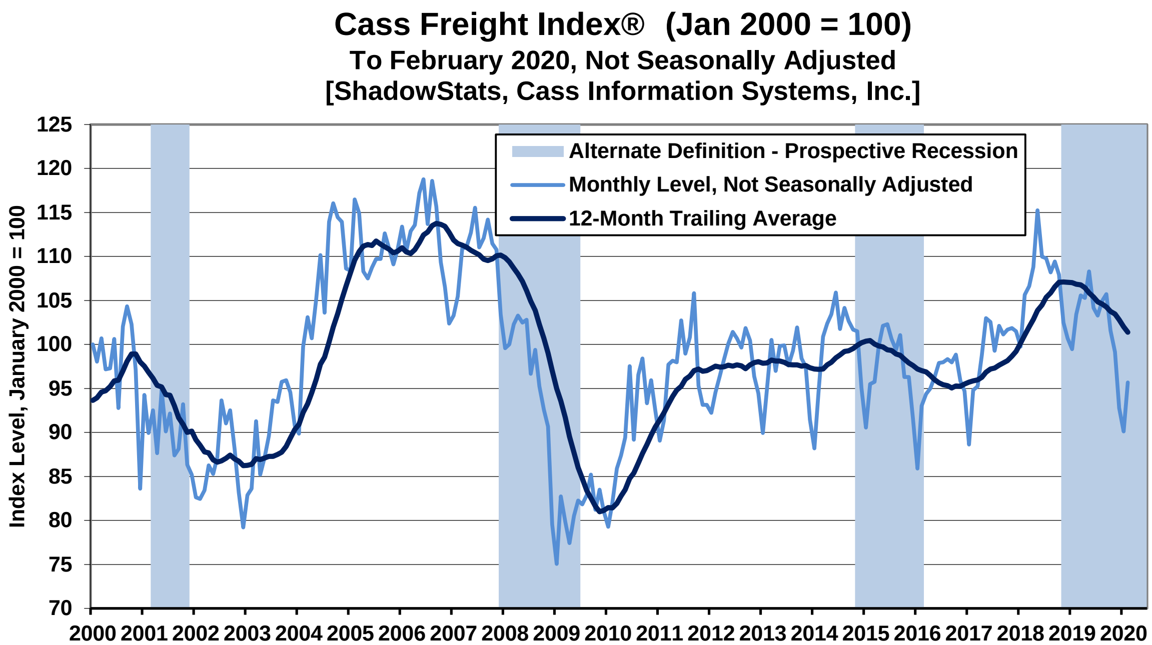
As viewed by *ShadowStats*, the deteriorating annual collapse in activity here has remained much more consistent with "Recession," than with Wall Street's pre-Pandemic "Booming Economy" and/or the Fed's Federal Open Market Committee (FOMC) pre-Pandemic proclamation of having attained "Sustainable Moderate Economic Growth," which was being used to alibi no more rate cuts, again, pre-Pandemic.

Reflected in ***Graphs 8*** and ***9*** on the next page, and on the pages following, recent freight activity, indeed has been consistent with a less-than-robust economy, as reflected in Industrial Production Capacity Utilization (***Graph 9***), traditionally used as a timing signal for recessions, and seen later with recently reported quarterly declines in Fourth-Quarter 2019 Industrial Production and Manufacturing, Real Retail Sales and in the continued weakness in January and February reporting of those series.

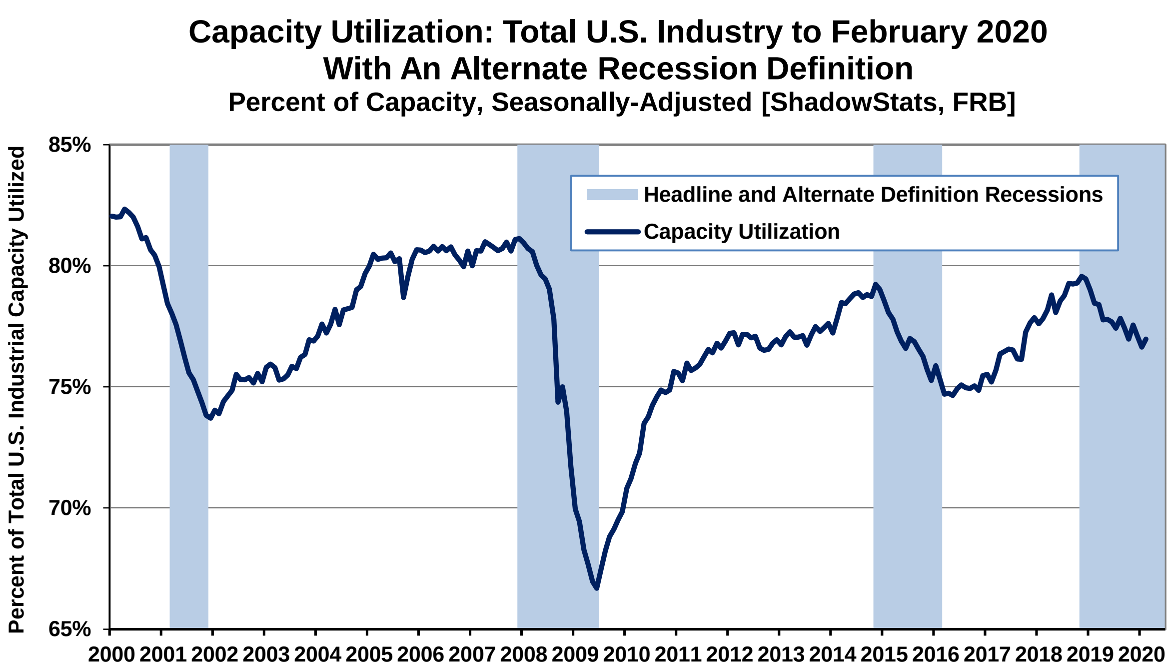
Graph 8 plots the level of the Cass® Index, along with its 12-month trailing or moving average, against formal recessions since 2000. Again, ***Graph 9*** plots Industrial Production Capacity Utilization, for comparison. Both plots reflect missed or prospective formal recessions in 2014-2016 and beginning in Fourth-Quarter 2018 as discussed in ***Flash Update No. 22***.

[Graphs 8 to 9 of the Comparative Cass Freight Index versus Capacity Utilization follow on the next page.]

Graph 8: February 2020 Cass Freight Index®



Graph 9: February 2020 Capacity Utilization, Industrial Production



February 2020 Industrial Production Monthly Gain of 0.55% Was a Monthly Decline of 0.15% (-0.15%), Net of Continuing Extreme and Randomly Volatile, Weather-Driven Utility Usage. As reported March 17th by the Federal Reserve Board, where recent headline Industrial Production has been seesawed by extraordinary and unseasonable weather extremes impacting utilities, the headline monthly gain of 0.55% in February 2020 Industrial Production, actually was a decline of 0.15% (-0.15%), net of the impact of a 7.12% rebound in weather-driven Utility usage, versus a monthly gain of 0.10% in the dominant Manufacturing sector and a 1.51% (-1.51%) drop in Mining (dominated by price-sensitive Oil and Gas Production and Drilling/Exploration). Those factors, combined with weakness in the Consumer Sector do not bode well for domestic production. On the other hand, Pandemic-related loss of key, offshore supplies, ultimately could induce some needed return of manufacturing activity to the United States. Industrial Production continued its unprecedented twelve-plus years of economic non-expansion, never recovering its pre-Great Recession peak (December 2007). See ***Graphs 10*** to ***17.***

Real February 2020 Retail Sales Dropped 0.6% (-0.6%) Month-to-Month, With Annual Growth Slowing to 2.0%, Against Upwardly Revised January Activity and Downwardly Revised December and 4q2019 Activity. Reported March 17th, by the Census Bureau, Fourth-Quarter 2019 "Holiday Shopping Season" Real Retail Sales revised to a deeper 0.8% (-0.8%) quarterly contraction, with First-Quarter 2020 on very-early track for a pre-pandemic 0.1% gain. This series should face extreme volatility in the next couple of months, reflecting pandemic-frightened consumers hoarding of "necessary" and "survival" products, while postponing purchases of a less-urgent nature. The balance in activity of aggregate personal consumption over the next several months and quarters likely will be strongly negative (see the earlier GDP projections). See ***Graphs 18*** to ***19***.

Amidst Consistently Nonsensical Monthly Volatility and Extreme Revisions, February 2020 New Residential Construction Nonetheless Continued in a Six-Month Smoothed Broad Upswing. As reported March 18th by the Census Bureau and the Department of Housing and Urban Development, despite the usual, extreme and meaningless month-to-month volatility and revisions in the series published here, February 2020 Housing Starts and Building Permits both continued in noticeable, smoothed uptrends, with their six-month moving averages hitting new post-recession highs. That said, Housing Starts and Building Permits respectively held shy of recovering their pre-recession peaks by 28.6% (-28.6%) and by 31.5% (-31.5%). See ***Graphs 20*** to ***23***

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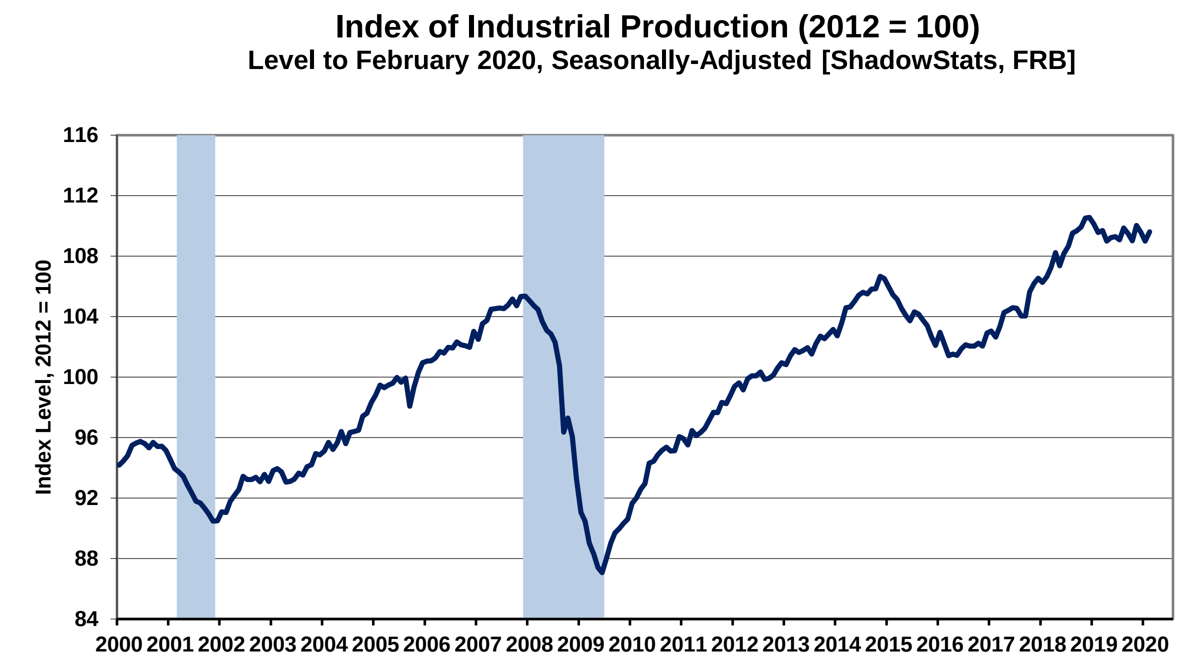
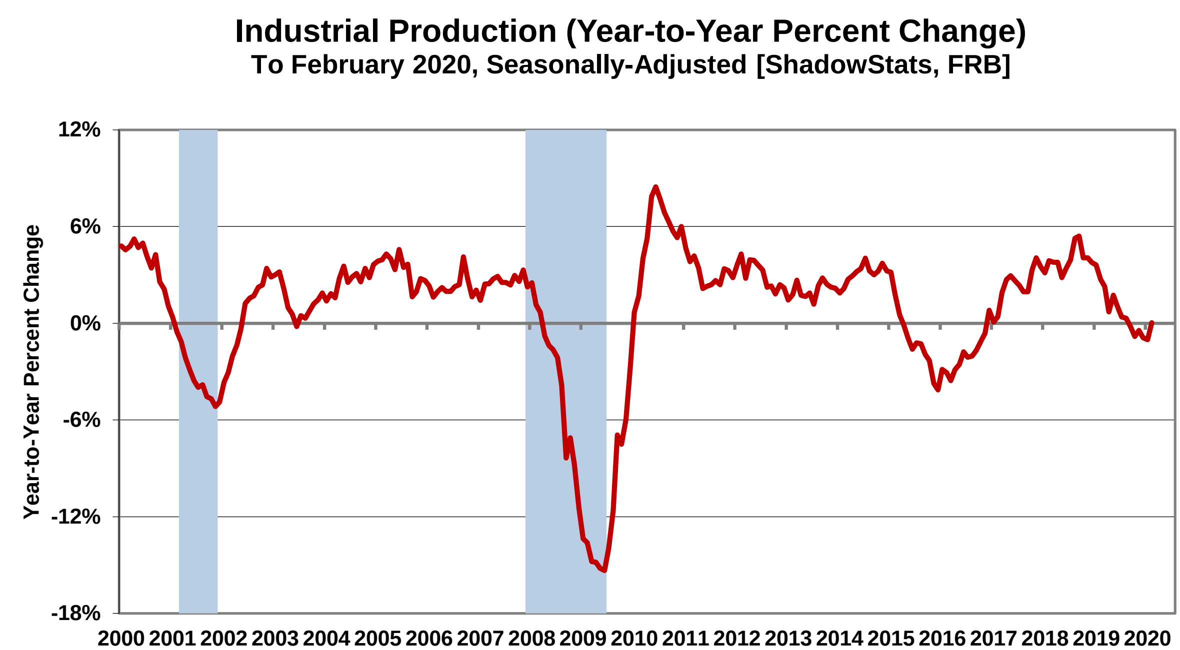
[Graphs 10 to 23 begin on the next page.]

February Industrial Production

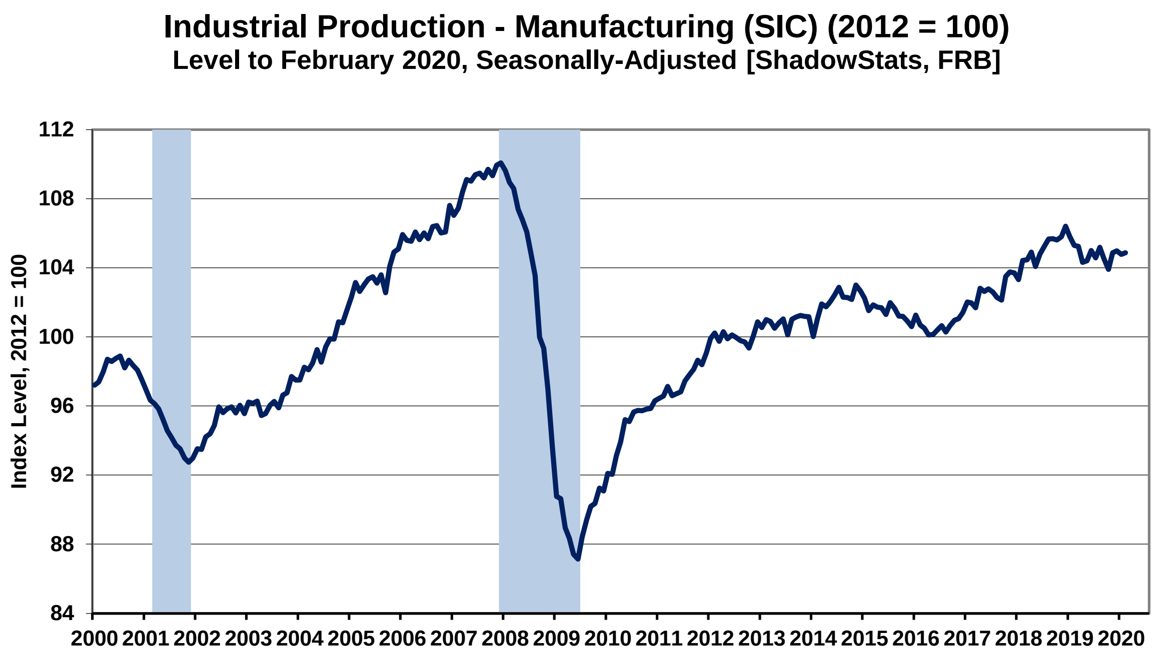
Graph 10: February 2020 Industrial Production (2000 to Date)



Graph 11: February 2020 Industrial Production, Year-to-Year Change



Graph 12: February 2020 Manufacturing (2000 to Date)



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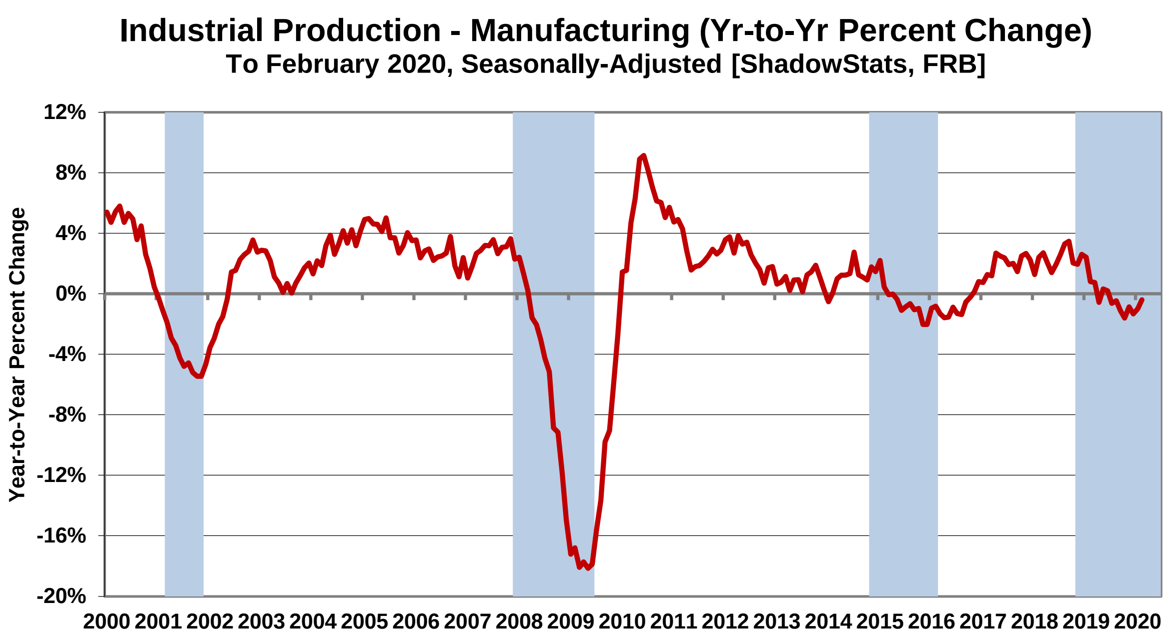
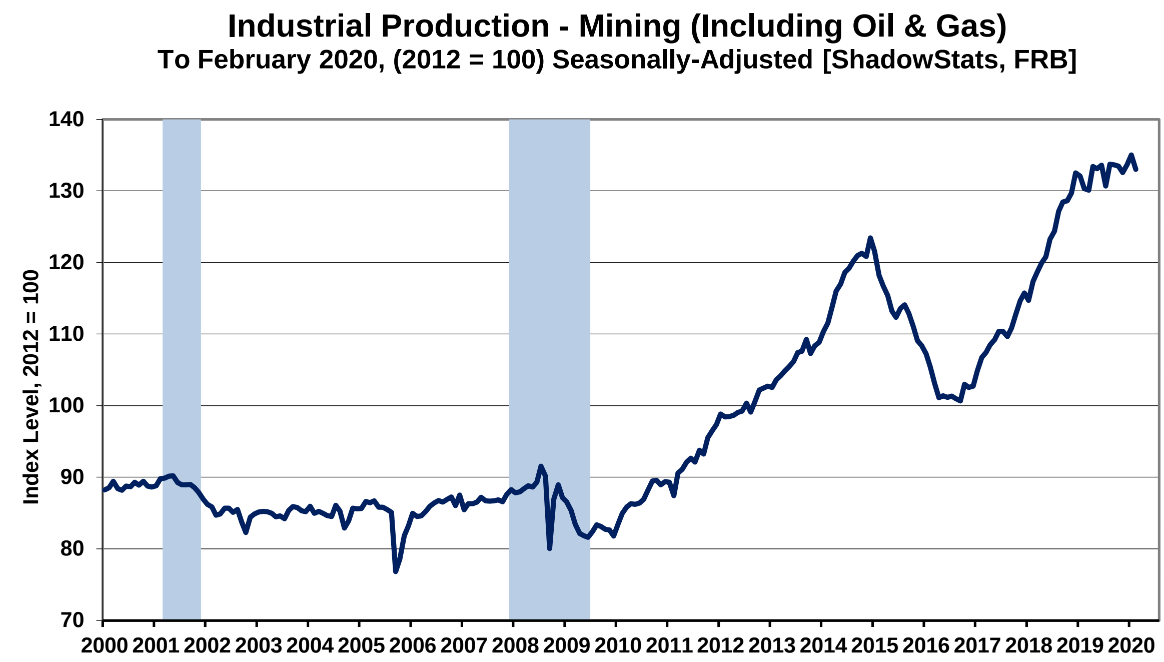
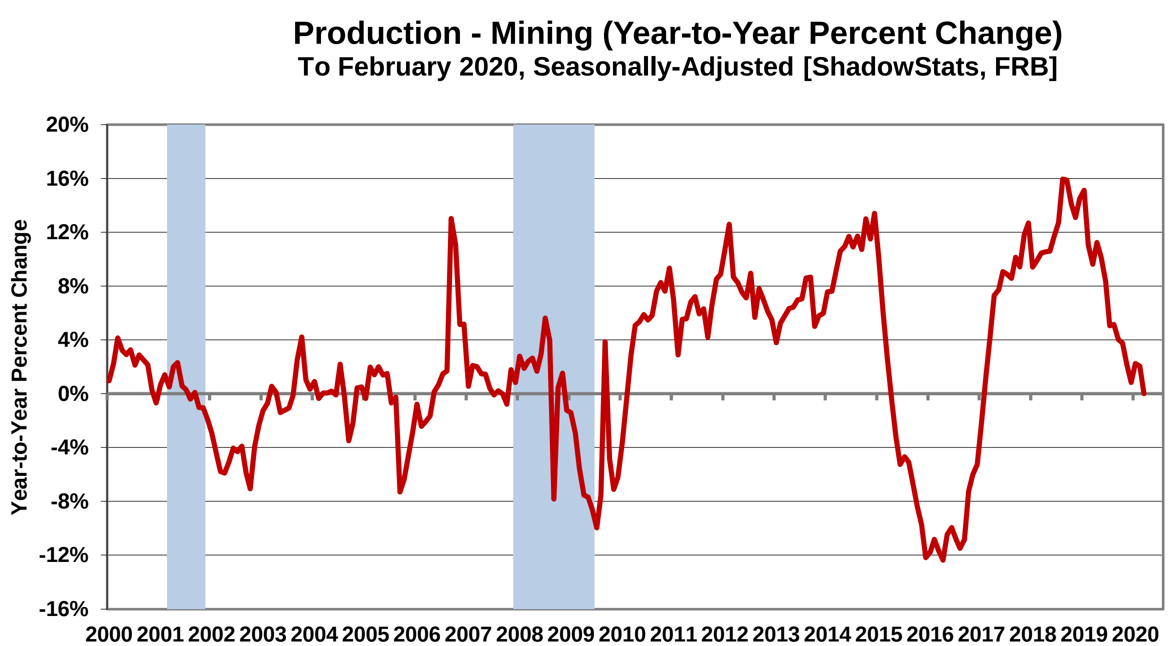
Graph 13: February 2020 Manufacturing, Year-to-Year Change



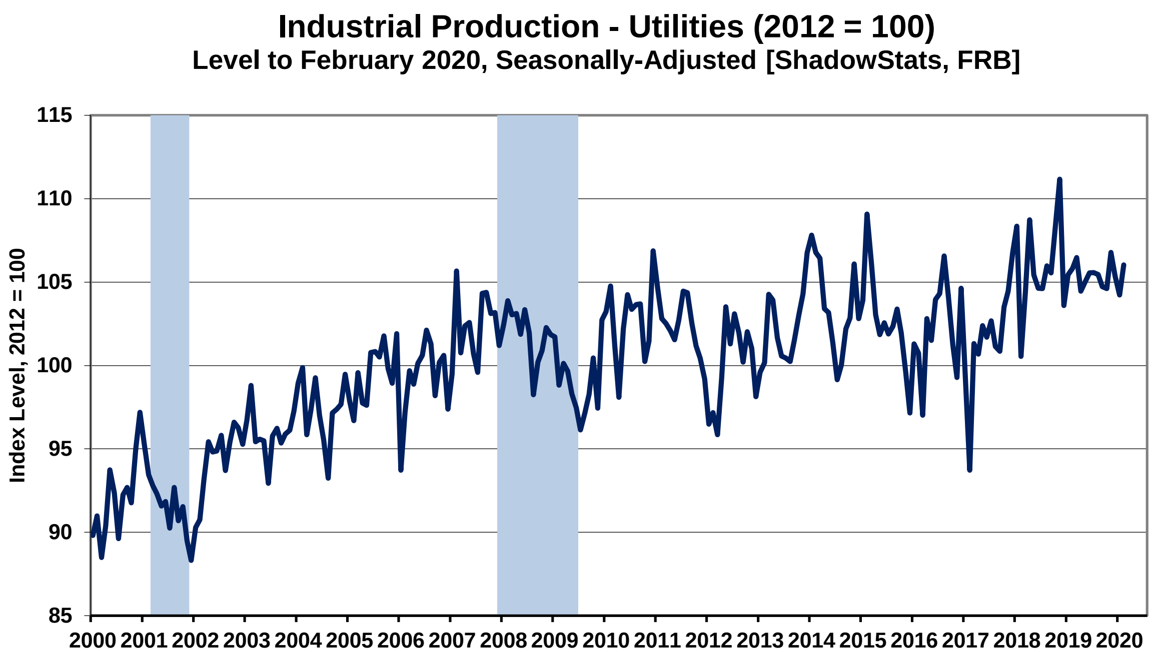
Graph 14: February 2020 Mining (2000 to Date)



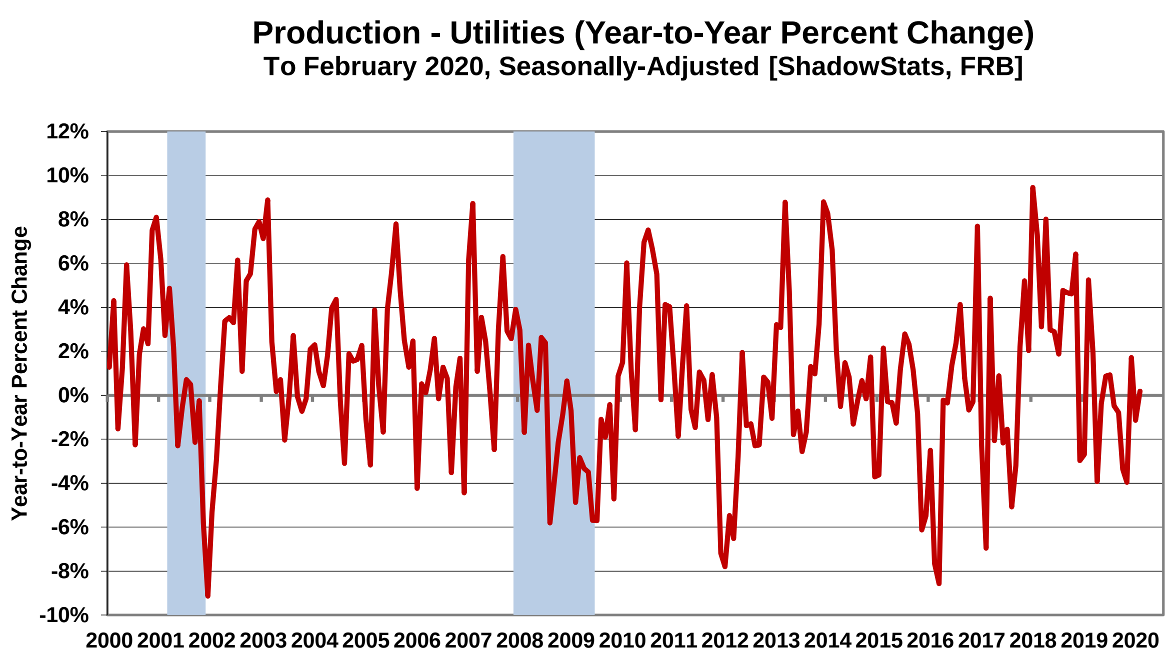
Graph 15: February 2020 Mining, Year-to-Year Change



Graph 16: February 2020 Utilities (2000 to Date)

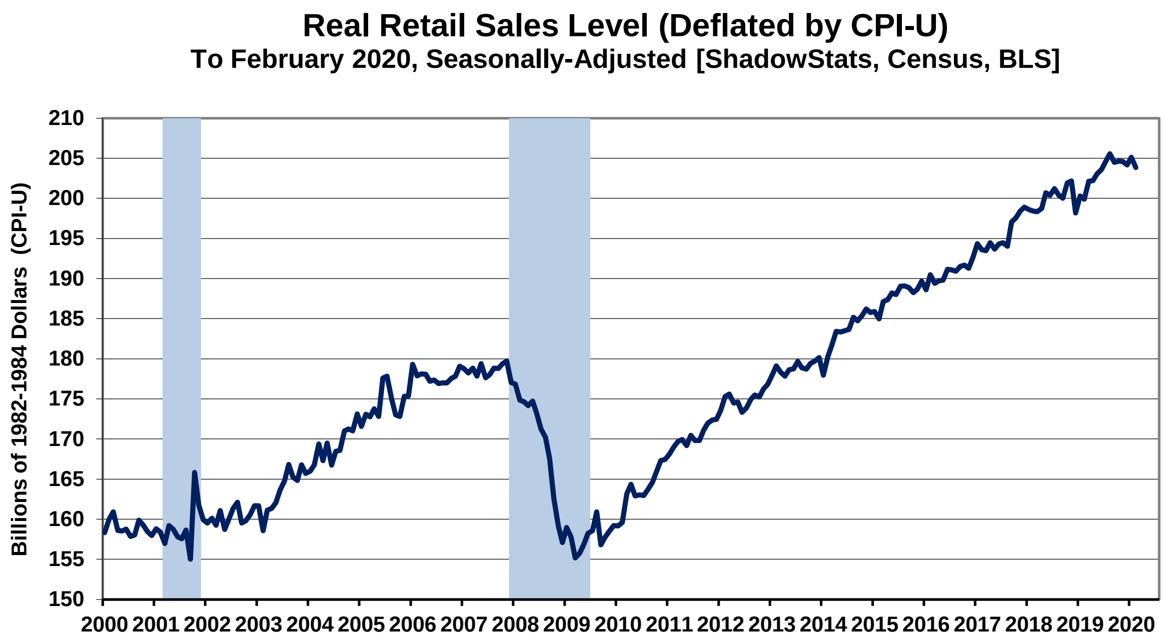


Graph 17: February 2020 Utilities, Year-to-Year Change

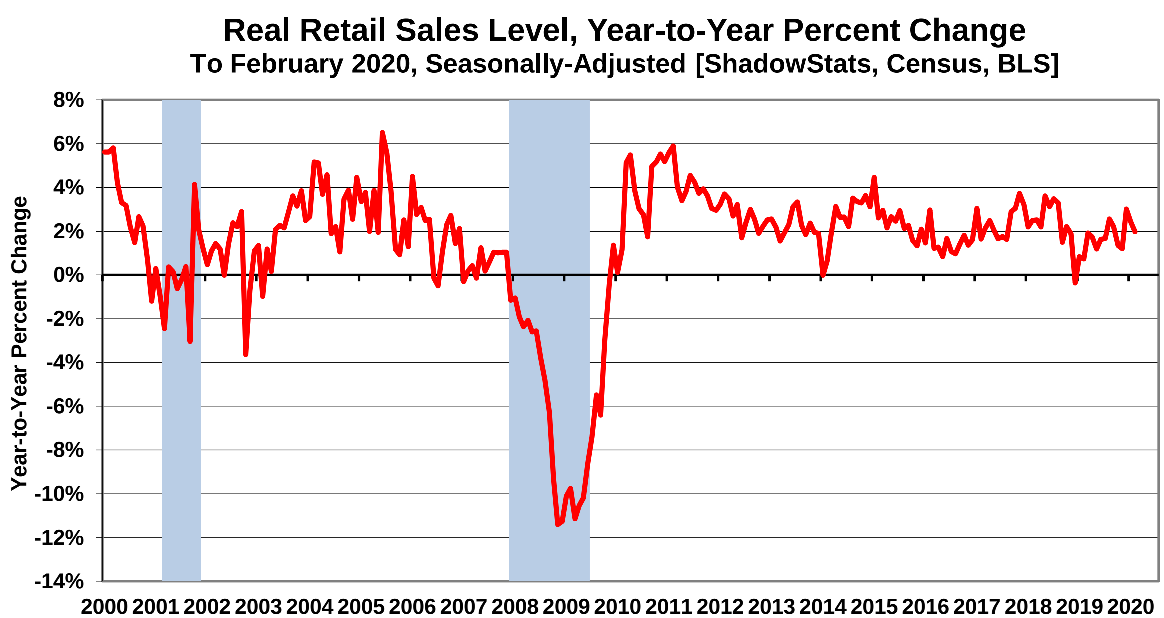


February Retail Sales

Graph 18: February 2020 Real Retail Sales (2000 to Date)

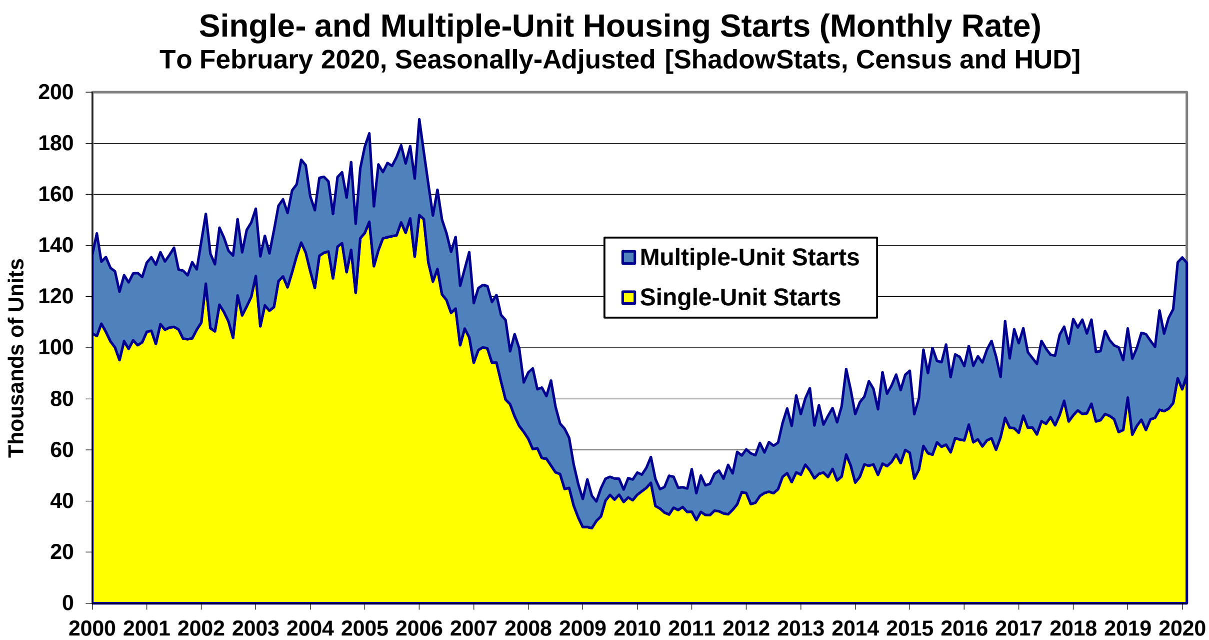


Graph 19: February 2020 Real Retail Sales, Year-to-Year Change

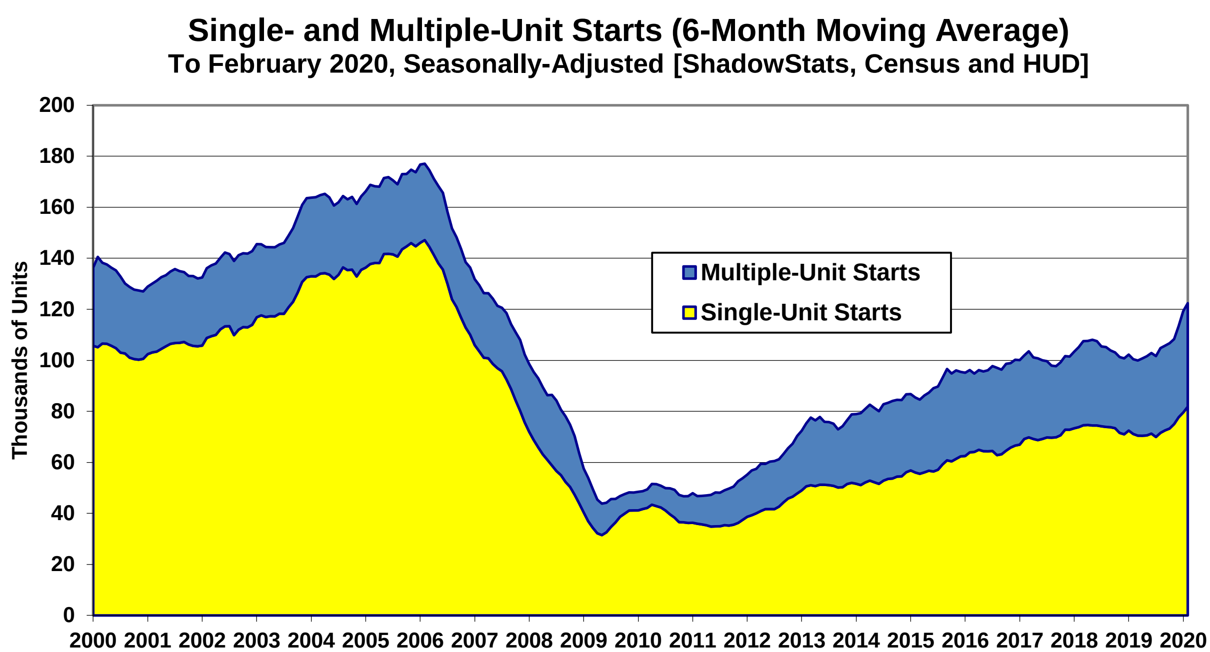


February Housing Starts and Building Permits

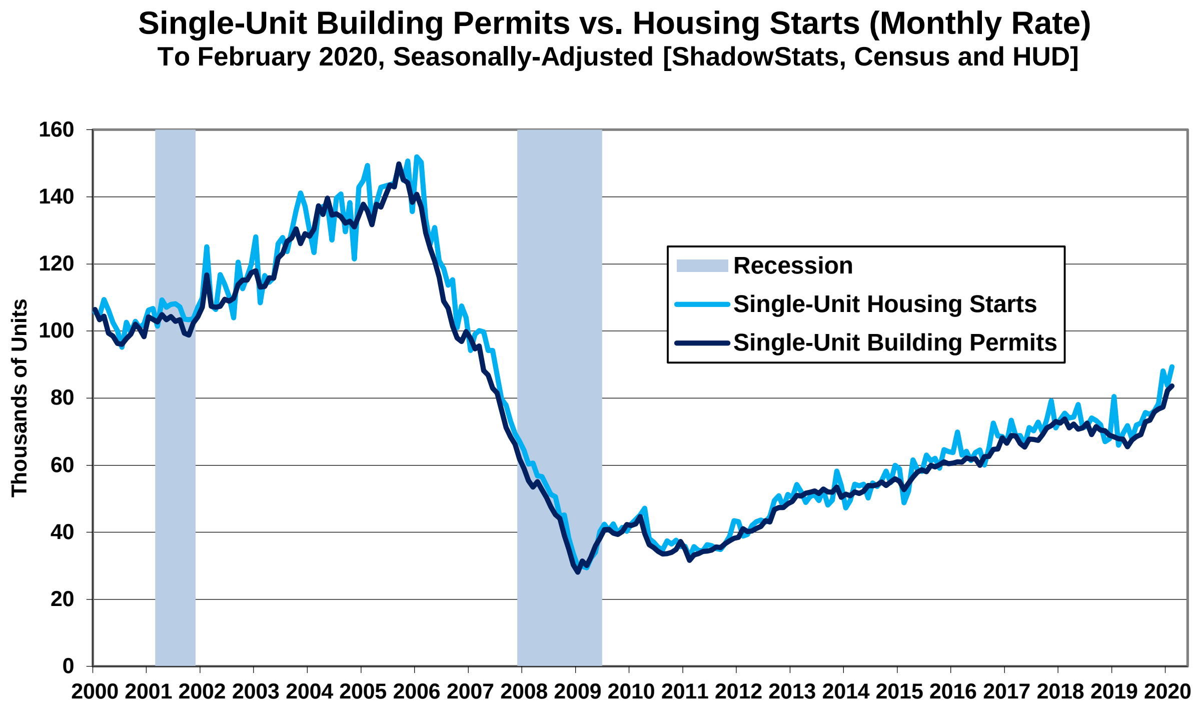
Graph 20: February 2020 Housing Starts (2000 to Date)



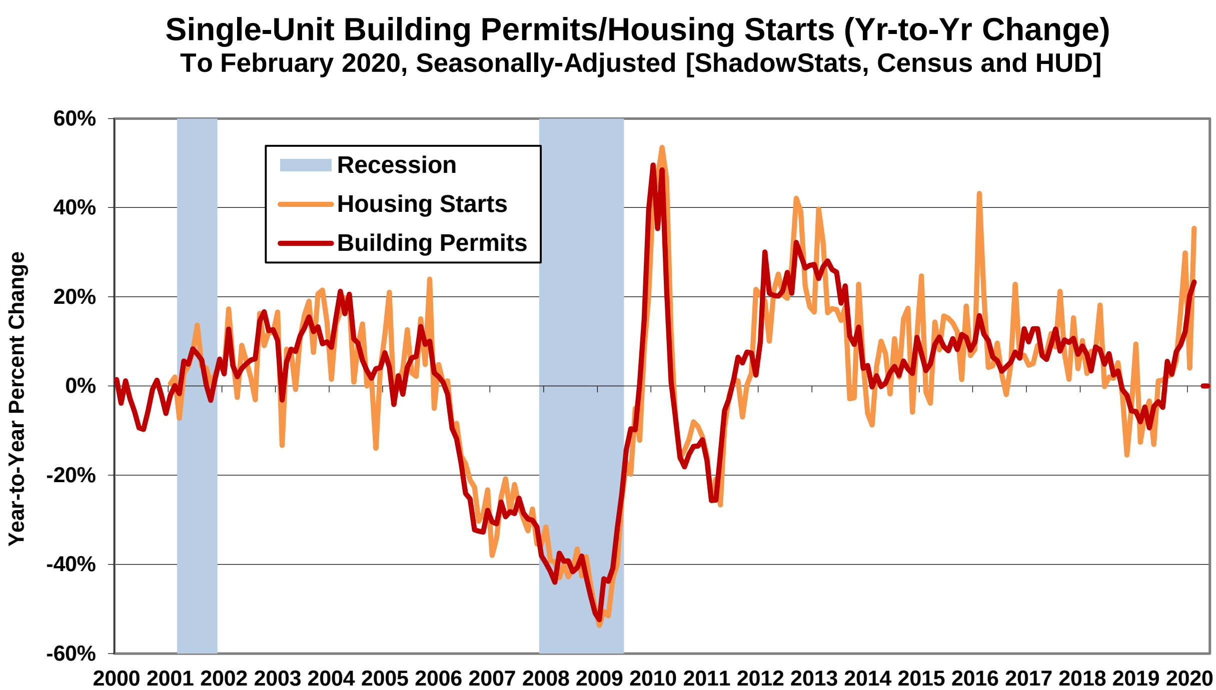
Graph 21: February 2020 Housing Starts, Year-to-Year Change



Graph 22: February 2020 Single-Unit Housing Starts vs. Building Permits (2000 to Date)



Graph 23: February 2020 Single-Unit Housing Starts vs. Building Permits (2000 to Date), Year-to-Year



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