John Williams'

Shadow Government Statistics

Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 927

November Housing Starts, Freight Index, Outlook for the Markets, Dollar and Gold

December 19, 2017

Stocks Continue to Boom, with Extreme Downside Vulnerability to Near-Term Negative Economic Surprises and Otherwise

Pending Run on the U.S. Dollar Should Mirror a Flight into Gold and Silver

Economic Reporting Does Not Reflect Costs of Destruction from Natural Disasters, but It Does Reflect Gains from Temporary Relief and Recovery Activity

Freight Index Continued in Non-Recovered, Low-Level Stagnation

Nonsense Volatility and Revisions Hit November 2017 Housing Starts, Amidst a Continued Likely Boost from Disaster Recovery

Headline Gain of 3.3% Was 0.5% Net of Revisions

Activity Remained in Low-Level, Non-Recovered Stagnation, with Housing Starts Still Shy of Their Pre-Recession High by 42.9% (-42.9%) and Single-Unit Starts Shy of Recovery by 51.6% (-51.6%)

Multiple-Unit Starts Recovered in 2015, but Have Fallen Back Since by 18.4% (-18.4%) from Their Pre-Recession Peak

Building Permits Remained Shy of Recovery by 42.6% (-42.6%)

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PLEASE NOTE: The next Regular Commentary on *Friday, December 22nd, will cover November New Orders for Durable Goods, New- and Existing-Home Sales and the third estimate of Third-Quarter 2017 GDP. With no major economic releases scheduled the following week, a General Commentary is planned for Thursday, December 28th.*

Merry Christmas! Happy Hanukkah! Best Wishes to All for a Most Joyous Holiday Season!
— John Williams

Today's (December 19th) ***Opening Comments and Executive Summary.*** The *Opening Comments* discusses the broad economy and financial conditions in the context of the latest headline economic activity and pending federal legislative action. Implications for the financial markets are expanded upon in the *Hyperinflation Watch*. The *Executive Summary* (page 9) reviews highlights of the November 2017 New Residential Construction release.

The ***Reporting Detail*** (page 15) expands the discussion and graphics for the November New Residential Construction (Housing Starts and Building Permits).

The ***Hyperinflation Watch*** (page 22) picks up where the *Opening Comments* and *Hyperinflation Watch* of *Commentary No. 925* left off, addressing the latest U.S. dollar circumstances and general financial-market outlook, including gold and silver, and the U.S. stock market.

The ***Consumer Liquidity Watch*** (page 29) has been revised.

The ***Week, Month and Year Ahead*** (page 41) provides background on recent *Commentaries* and updates the previews to the releases later this week of November Existing- and New-Home Sales, New Orders for Durable Goods and the third-estimate of Third-Quarter 2017 GDP.

OPENING COMMENTS

Unusual, Uncertain and Perilous Times in the Financial Markets. Going to press on the afternoon of December 19th, the House of Representatives and the Senate are both expected vote on (a second vote for the House) and pass the Tax Bill, perhaps later today, and President Trump is expected to sign it into law, recasting the U.S. tax code. Reduced tax rates broadly are an economic stimulus, yet this package has a number of complexities. Formal Congressional projections suggest some resulting economic gain, as well as some deficit increase in the next decade. Increased tax flows from stronger economic growth can offset some deficit impact, but the tax discussion, at the moment, is outside the context of what looms in the next several days, as Congress also moves to address government-spending in the current fiscal year, or otherwise faces a federal government shutdown.

Unpredictable Consequences. Although likely to provide some stimulus, the effect of the new tax bill most likely also will include unexpected consequences. Where significant changes have been made to personal tax deductions (purportedly balanced by sharply increased standard deductions), new limitations

on the deductibility of state and local income and real estate taxes will alter circumstances for residents in states with high local taxes, such as California. Such states often are technically insolvent, as is the United States government, when viewed in terms of unfunded liabilities such as state pension funds, or Social Security and Medicare at the federal level.

How the affected taxpayers and their respective states will respond to the changes remains to be seen, but such could have meaningful impact both on local economies and aggregate economic and business trends well beyond the scope of the forecasting abilities of the federal government's and Congressional prognosticators.

Purportedly "Booming" Economy Is a Short-Lived, Post-Disaster Effect. Although reflective of disruptions to the normal flow of business activity, headline economic reporting does not reflect the costs of physical damage from natural disasters. Economic reporting, though, does reflect costs of recovery and rebuilding tied to same, with positive impact on near-term business activity and economic growth, albeit short-lived, with much of the recovery-related expenditures early in the post-disaster period.

That circumstance has inflated or heavily distorted recent headline economic activity, ranging from retail sales, industrial production and residential construction to certain employment and unemployment data. Fourth-quarter GDP likely will be inflated by that circumstance, but first-quarter activity should fall back sharply. Most headline reporting should be back to more-normal levels by headline February detail, or in annual benchmarking details as will be seen as soon as early January, with the employment and unemployment data.

Despite current economic hype that embraces distorted recent or expected positive numbers as fundamental, they are not. Broad, underlying economic activity continues in non-recovering, low-level stagnation, turning down anew, net of disaster distortions. That is what lies ahead in the next several months of reporting, and therein lies a shock to "consensus expectations" likely to roil financial markets.

Long-Term U.S. Economic and Fiscal Strength and Health Need a Coordinated Plan of Action. The final disposition of the current tax overhaul and government's funding situation will be addressed in next week's *General Commentary* of December 28th. Neither of those circumstances appears to be within the context of re-establishing long-term U.S. economic health and prosperity, in conjunction with long-range fiscal stability and solvency for the government. Those factors appeared to be significant concerns among those who voted to change the system in the last election. A comprehensive and coordinated plan to stabilize fiscal and economic conditions still is needed, as discussed in *No. 859 Special Commentary*. That is not going to happen with the existing Congress. Such may await the 2018 Congressional election, or major changes possibly could be triggered by a major crisis in the financial markets. The latter circumstance is addressed in the today's *Hyperinflation Watch* on page 22.

U.S. Total U.S. Industrial Capacity Utilization Confirms Non-Recovering Broad Economy.
Following up on the coverage of November Industrial Production in prior *Commentary No. 926*, a subscriber suggested that I should add coverage of the Federal Reserve's estimates of Capacity Utilization, which is the Fed's estimate of total industrial production versus its estimate of the total Productive Capacity of the United States. Despite reservations about the Fed's ability to measure productive capacity adequately, the series, in terms of Capacity Utilization is worth taking a look at, as plotted in following *Graph OC-1*.

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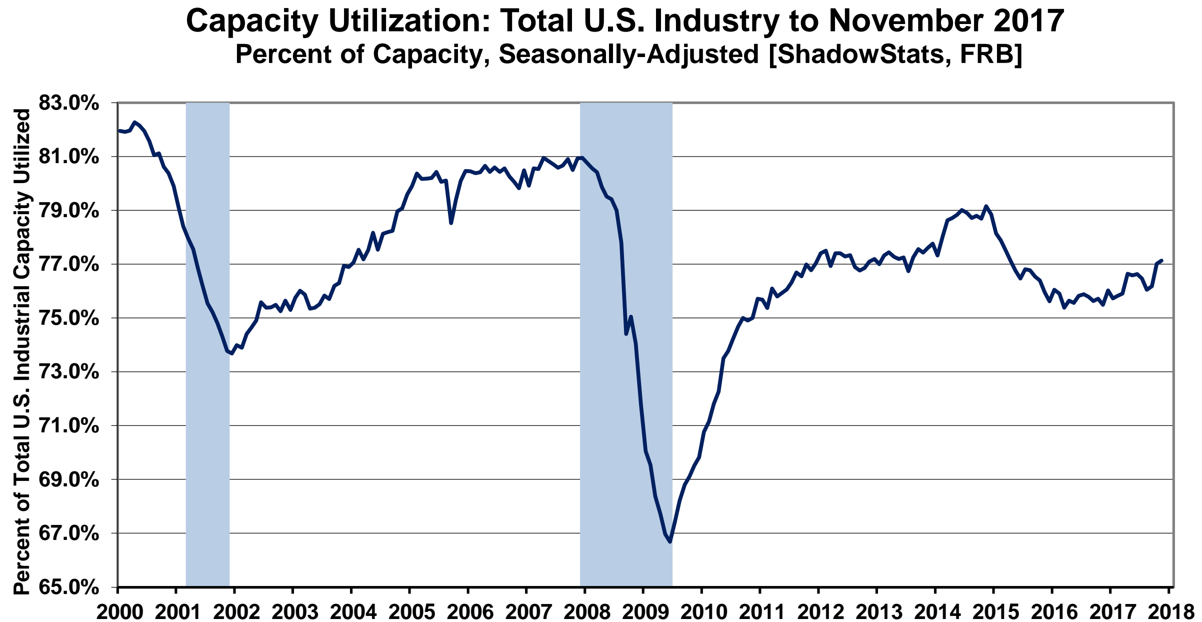
Graph OC-1: Utilization of Total U.S. Industrial Production Capacity (2000 to November 2017)



Sharp downturns in Capacity Utilization usually signal the onset of a recession, which would suggest a renewed economic downturn began at the end of 2014, which is the ShadowStats estimate of the timing of new or deepening downturn, in economic crisis that formally began at the end of December 2007. Contrary to the consensus hype, however, as seen with the manufacturing sector, the U.S. economy never has recovered fully from that downturn. As noted by the Fed in Industrial Production press release of December 15th, "Capacity utilization for the industrial sector was 77.1 percent in November, a rate that is 2.8 percentage points below its long-run (1972–2016) average." Against its December 2007 precession peak, the November 2017 reading—still spiked in level by hurricane disruptions—was shy of recovering that peak by 5.5% (-5.5%).

November 2017 Freight Index Year-to-Year Change Rose; Series Held in Non-Recovering, Low-Level Stagnation with Annual Activity Still Off Its Pre-Recession High by 13.3% (-13.3%). The Cass Freight Index™ is an independent, reliable private indicator of real-world economic activity and shifting business patterns. November 2017 Index detail was posted this morning, December 19th.

Continued low-level stagnation and non-recovery in the broad economy and general business activity were reflected, once again, in the new headline numbers, although annual growth turned higher, reversing a recent pattern of slowing year-to-year gain.

Based on the twelve-month trailing average of the freight index, which is used to eliminate seasonality in the unadjusted series (see the *General Background to the Freight Index*), activity remained in low-level, albeit minimally-uptrending stagnation, down by 10.4% (-10.4%) from recovering its formal pre-recession high, down by 13.3% (-13.3%) from its precursor peak (see *Graph OC-2*).

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For the twelfth consecutive month, the thirteenth month in the last fourteen, year-over-year change in monthly index was positive, turning higher in November 2017, after several months of slowing growth (see *Graph OC-4*). Annual growth hit a near-term peak of 7.06% in May 2017, falling back to 4.77% in June 2017, slowing to 1.35% in July 2017, rebounding to 3.86% in August 2017 and falling back anew to 3.24% in September 2017 and to 2.85% in October 2017, rebounding to 6.26% in November 2017.

A consecutive string of nineteen months of annual contraction in the Freight Index began in March 2015 and was consistent with the "new" recession signal following the Industrial Production peak in November 2014. Headline industrial production showed a string of twenty-one consecutive months of year-to-year contraction beginning April 2015, a pattern never seen outside of formal economic recession in the 100-year history of the Industrial Production series. Comparative growth patterns of the Freight Index versus the dominant Manufacturing Sector of Industrial Production are reflected in *Graphs OC-2* and *OC-3* and in *Graphs OC-4* and *OC-5*, with general broad correlations also seen with related plots of New Orders for Durable Goods and Retail Sales (see *Commentary No. 922* and *Commentary No. 926*), as well as with the plot of Capacity Utilization in *Graph OC-1* of these *Opening Comments* and *Graph OC-2* of the 12-month trailing average of the Cass Freight Index.

The recent, repeating pattern of year-to-year monthly gains in the Cass Index had excited trucking industry speculation that the recession in freight activity had hit bottom, and perhaps it has. Even with the increased annual gain in November 2017 activity, though, the current patterns of smoothed levels of activity and year-to-year gains have yet to break out of the non-recovery pattern of the last six years and to enter a period of new expansion, once breaking above its pre-recession peak activity. Again, as shown in *Graphs OC-2* and *OC-4* growth is stagnating.

Discussed in *Commentary No. 875* and expanded upon in *Commentary No. 876* on the nature of the business cycle, when economic activity recovers, such happy growth is not clocked formally as new economic expansion, until the level of the series breaks above its pre-recession high.

Noted earlier, the ShadowStats smoothed headline reading on the Cass Freight Index, through November 2017 (*Graph OC-2*) remained down by 13.3% (-13.3%) from recovering its preliminary pre-recession peak of September 2006, down by 10.4% (-10.4%) from recovering its formal pre-recession peak of December 2007. While the "Recovery" receives the benefit of growth off low levels of activity, the deficit in activity versus the prior peak has to be overcome before formal, economic "Expansion" begins.

Economic downturns eventually hit bottom, and the current circumstance likely will not be an exception. The economic collapse that formally has been recognized from peak activity in December 2007 to a trough in June 2009 appears to be accurate in terms of timing the trough.

The official contention remains, though, that the headline economy (the real Gross Domestic Product or GDP) fully recovered thereafter, entering a period of new and ever-expanding economic growth in second- or third-quarter 2011. ShadowStats contends that the economy never recovered fully, moving instead into a period of protracted, low-level stagnation, which began to turn down anew in December 2014, as reflected in the recent reporting and benchmark revisions to production (*Commentary No. 877*) and durable goods (*Special Commentary No. 888*). This also is seen in *Graph OC-2* in comparison with *Graph OC-3* of the dominant Manufacturing sector Industrial Production through November 2017.

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General Background to the Freight Index. *[This section largely is repeated from its prior version in* Prior CASS: *Commentary No. 923.]* Beginning with *Commentary No. 782* (further information is available there), ShadowStats published the detail on the Cass Index, a measure of North American freight volume as calculated by, and used with the permission of Cass Information Systems, Inc. Freight activity is a basic, underlying indicator of commercial activity and broad GDP. Of the combined U.S. and Canadian (North American) GDP in 2014, roughly 91% was attributable to the United States.

Graph OC-2 reflects the monthly freight numbers updated through November 2017. While adjusted for factors such as days in a month, the headline monthly detail is not adjusted for broad seasonality patterns, such as retailers stocking for the holiday shopping season. Accordingly, ShadowStats plots the series using a trailing twelve-month average, which tends to neutralize regular seasonal patterns over the period of a year, along with the unadjusted monthly detail in the background. ShadowStats also re-indexed the series to January 2000 = 100, consistent with other graphs used here. The headline Cass index is based on January 1990 = 100. The plot of the trailing twelve-month average of the freight index shows that it hit a near-term peak in February 2015, consistent with the onset of a "new recession" in December 2014, and had been slowing since, through September 2016, then flattening out and turning minimally to the upside since (again, see *Graph OC-2*).

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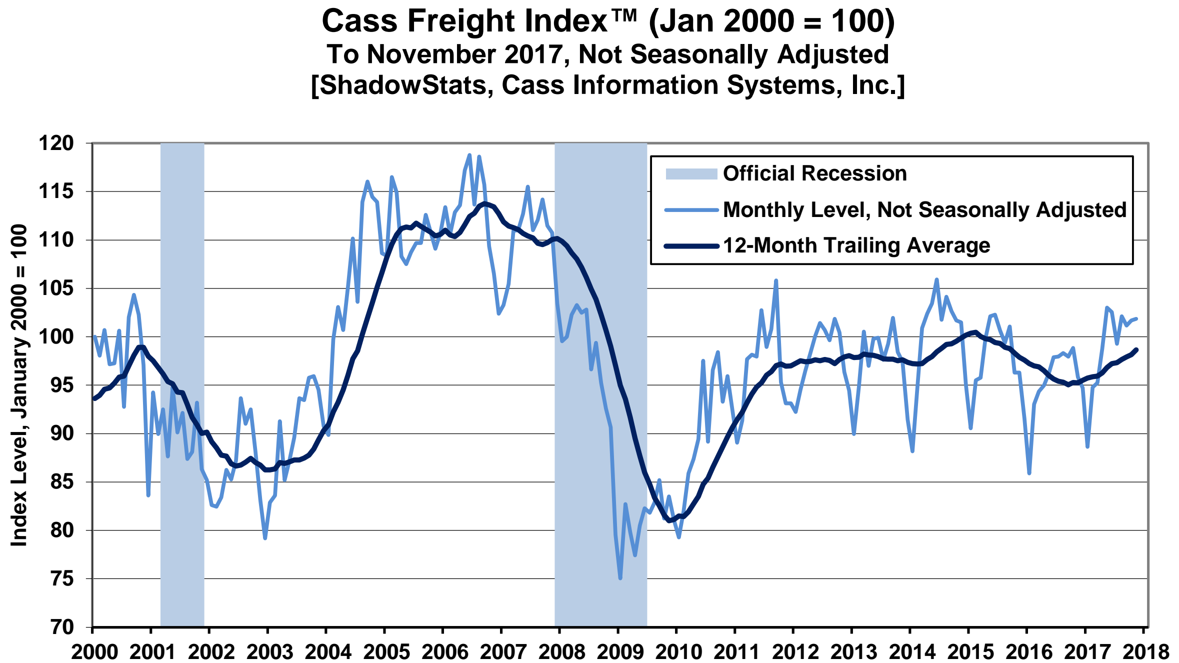
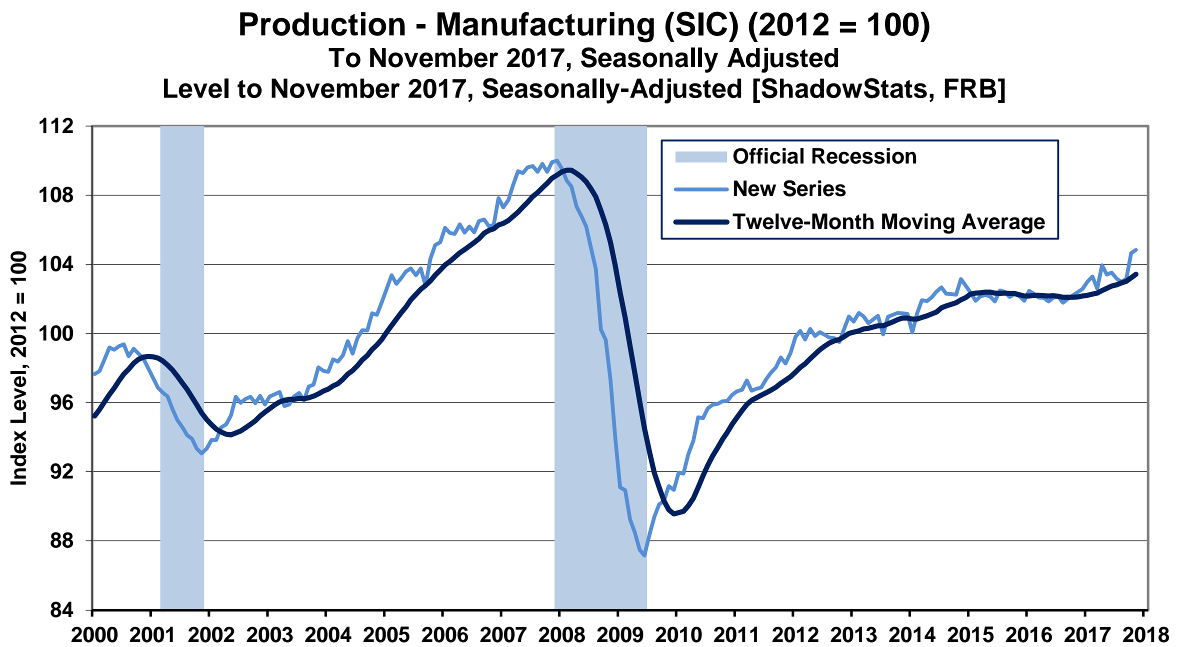
Another approach to assessing not-seasonally-adjusted monthly detail is to look at year-to-year change by individual month, as plotted in *Graph OC-4*. The unadjusted monthly detail had been in continual year-to-year decline since March of 2015, down at an intensified annual rate of 3.05% (-3.05%) in September 2016. It rallied to an annual gain of 2.66% in October 2016, but fell back into year-to-year contraction of 0.05% (-0.05%) in November 2016, coming back to the plus-side by 3.46% in December 2016, but easing anew to 3.18% in January 2017, to 1.89% in February 2017 to 0.93% in March 2017, and then turned higher to 3.99% in April 2017 and 7.06% in May 2017, falling back to 4.77% in June 2017, slowing to 1.35% in July 2017, rebounding to 3.86% in August 2017 and, again, falling back to 3.24% in September 2017 and 2.85% in October 2017, again, with a rebound to 6.26% in November.

[Graphs OC-2 to OC-5 follow; text continues on page 8.]

Graph OC-2: CASS Freight Index™ Moving-Average Level (2000 to November 2017)



Graph OC-3: Production - Manufacturing, Moving- Average Level (2000 to November 2017)



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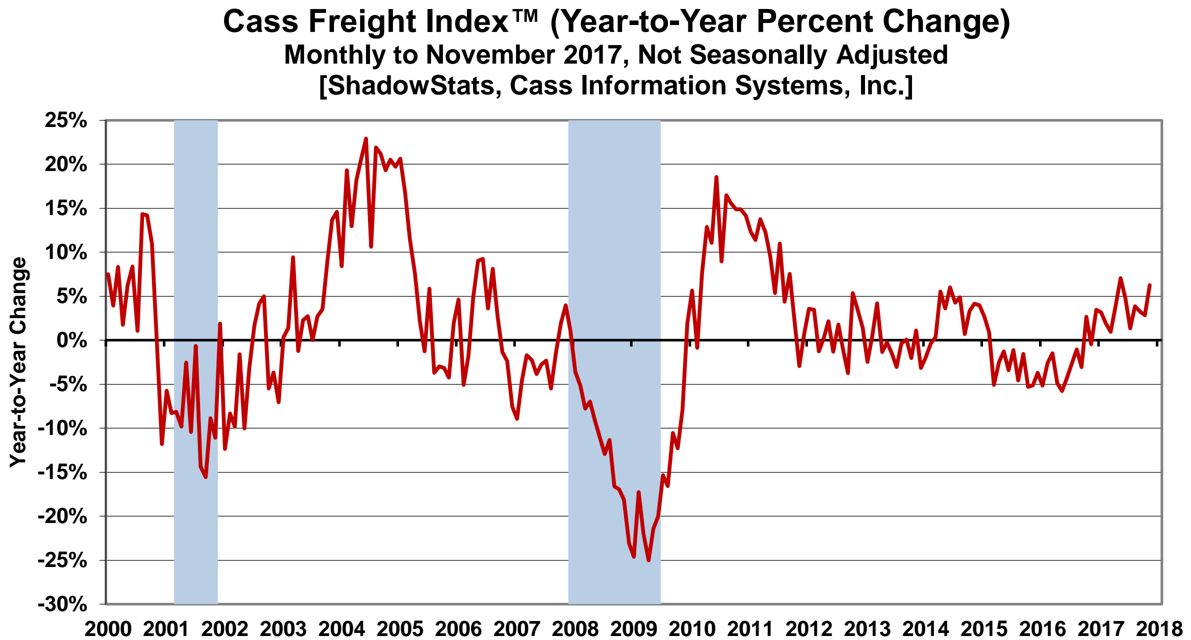
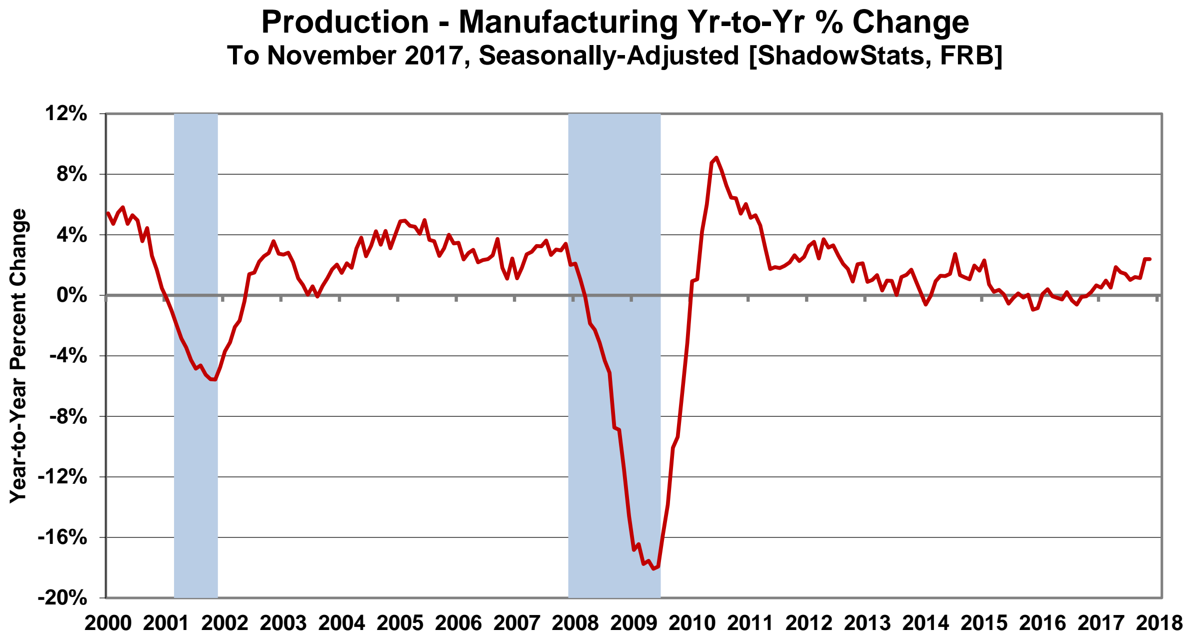
Graph OC-4: CASS Freight Index, Monthly Year-to-Year Percent Change (2000 to November 2017)



Graph OC-5: Production - Manufacturing, Year-to-Year Percent Change
(Same as Graph 13 in Commentary No. 926)



Again, consider for comparison purposes *Graph OC-3* of the smoothed twelve-month moving average and *Graph OC-5* of the year-to-year change in Manufacturing, discussed in *Commentary No. 926*, versus the parallel Freight Index *Graphs OC-2* and *OC-4*. Once again, with the headline, smoothed freight

numbers through November 2017 down by 10.9% (-10.9%) versus its December 2007 pre-recession high, that is the growth deficit that has to be overcome before formal economic "Expansion" begins. In terms of the seasonally-adjusted twelve-month trailing smoothed November 2017 detail, manufacturing activity was down by 5.5% (-5.5%).

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In combination, *Graphs OC-2* and *OC-4* remain consistent with a pattern of collapsing economic and business activity into 2009, low-level, non-recovering stagnation thereafter and a renewed downturn effectively coincident with a "new" recession, which, again, likely will be timed from December 2014, whether or not it has bottomed.

EXECUTIVE SUMMARY: New Residential Construction (Housing Starts and Building Permits)—November 2017—Meaningless Volatility in the Context of Continuing Hurricane Recovery. In this highly unstable and heavily revised series, Housing Starts in the South continued to rise in October, with expansion in November 2017, suggestive of continued recovery from the hurricane-driven, disaster hits taken in August and September. Any recovery-induced growth in this series likely largely will have run its course by February 2018 reporting.

Showing a continuing pattern of extreme volatility and major monthly revisions, including activity in the South, headline November housing starts increased by 3.3% nationally, which was a gain of 0.5% net of downside, prior-period revisions. As usual, neither of the headline aggregate monthly or annual growth rates was significant at the 95% level. The headline gain of 3.3% was composed of a statistically-insignificant increase of 5.3% in one-unit structures and a statistically-significant decline of 1.6% (-1.6%) in the multiple-unit structures categories (two-units-or-more, including the five-units-or-more category). As discussed in the *Reporting Detail*, however, ex-two-units-or-more, the headline five-units-or-more multiple-unit category gained by 0.8%. Again, these are reflected in accompanying *Graphs 1* to *8*.

Where the six-month smoothed moving averages of these series have notched a bit higher, the trends in those key series remained broadly stagnant, as reflected in *Graphs 2*, *4, 6* and *8*. Separately, headline November 2017 activity in each of those series continued to hold well below pre-recession peaks.

The broad pattern of collapsing residential construction activity from its 2006 pre-recession peak, to a trough in 2009, was followed by a protracted period of up-trending but non-recovering, low-level activity, now low-level stagnation. Reflected in the various graphs here and in the *Reporting Detail*, monthly activity for the various measures remained shy of regaining 2005 pre-recession peaks, by 42.6% (-42.6%) for Building Permits, 42.9% (-42.9%) for Housing Starts, and 51.6% (-51.6%) for Single-Unit Starts. At present, Multi-Unit Starts has fallen back, now down by 18.4% (-18.4%), having recovered its 2005 pre-recession peak temporarily in early-2015.

A Note on the Housing Starts Graphs. Headline reporting of Housing Starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,297,000 in November 2017, versus a revised 1,256,000 [previously 1,290,000] in October 2017. The scaling used in the aggregate housing starts and building permits *Graphs 9* to *14* in the *Reporting Detail* reflects those annualized numbers in millions.

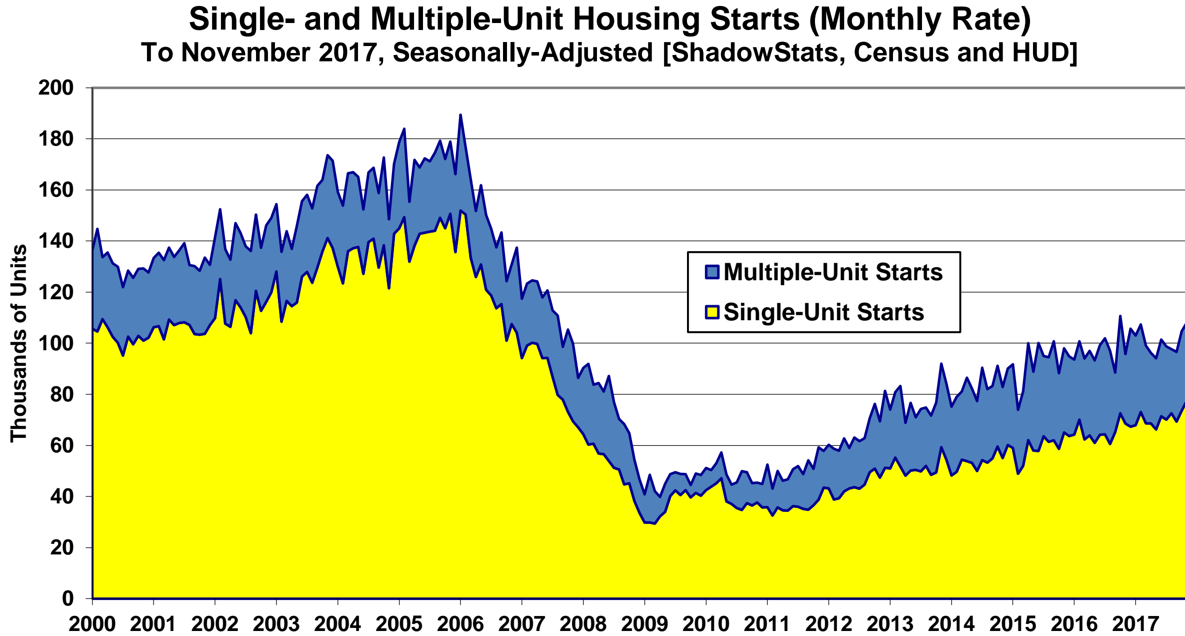
Nonetheless, given the often nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series, the magnitude of monthly activity and the changes in same, more realistically are reflected at the non-annualized monthly rate. Consider that the headline, month-to-month gain at an annualized rate of 266,000 in October 2016 was larger than any actual level of (not change in) monthly starts, ever (in units per month, not annualized), for a single month. That is since related starts detail first was published after World War II.

Accordingly, the monthly rate of 108,083 units in November 2017, instead of the annualized headline level of 1,297,000 units, is used in the scaling (monthly units in thousands) of accompanying *Graphs 1* to *8*. With the use of either scale of units, though, appearances of the graphs and the relative monthly, quarterly and annual percentage changes are otherwise identical, as seen in a comparison of *Graph 3* versus *Graph 10* in the *Reporting Detail*.

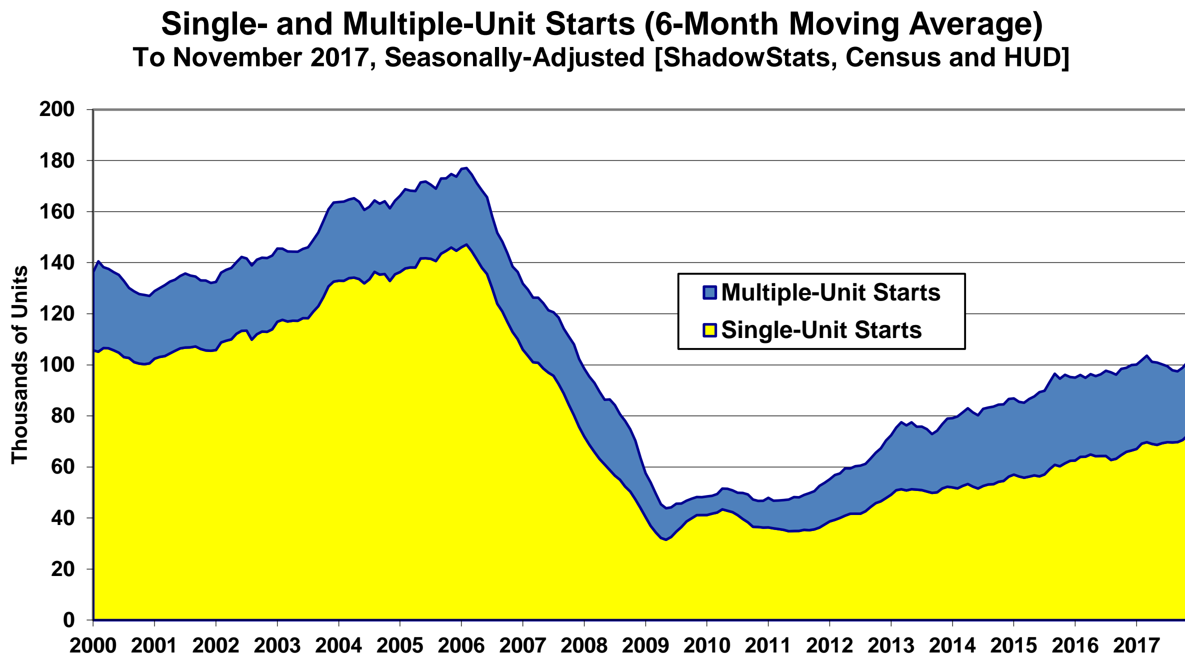
The record monthly low level of activity seen for the present aggregate series was in April 2009, where the annualized monthly pace of housing starts then was down by 79% (-79%) from the January 2006 pre-recession peak for the series. Against that downside-spiked low in April 2009, the November 2017 headline monthly number was up by 171%, but it still was down by 43% (-43%) from the January 2006 pre-recession high. Shown in the historical perspective of the post-World War II era, current aggregate-starts activity is in relative stagnation, still at low levels that otherwise have been seen at or near the historical troughs of other recession activity of the last 70 years, as reflected in *Graphs 13* and *14* at the

end of the *Reporting Detail*. In fact, as can be seen there in *Graph 14*, current housing starts activity not only has failed to recover the current pre-recession (pre-collapse into 2009) peak, but also has yet to recover to the level of any pre-recession peak activity seen in the entire post-World War II era.

Graph 1: Single- and Multiple-Unit Housing Starts (Monthly Rate of Activity)



Graph 2: Single- and Multiple-Unit Starts (Six-Month Moving Average, Monthly Rate of Activity)



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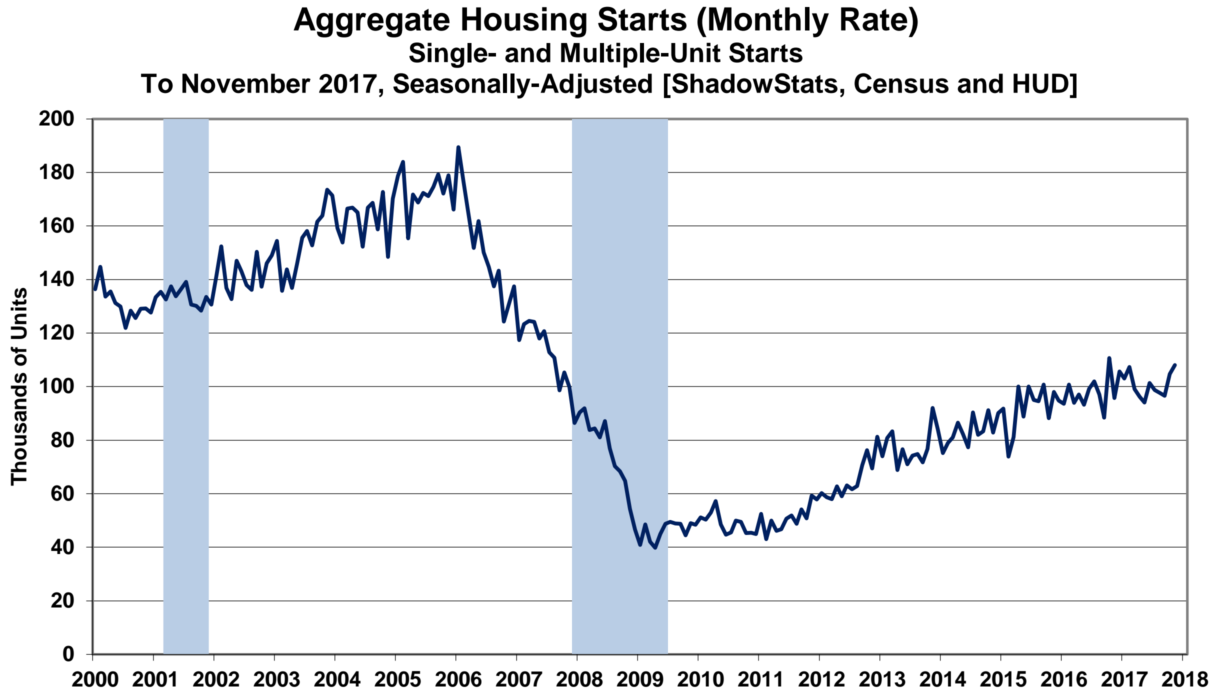
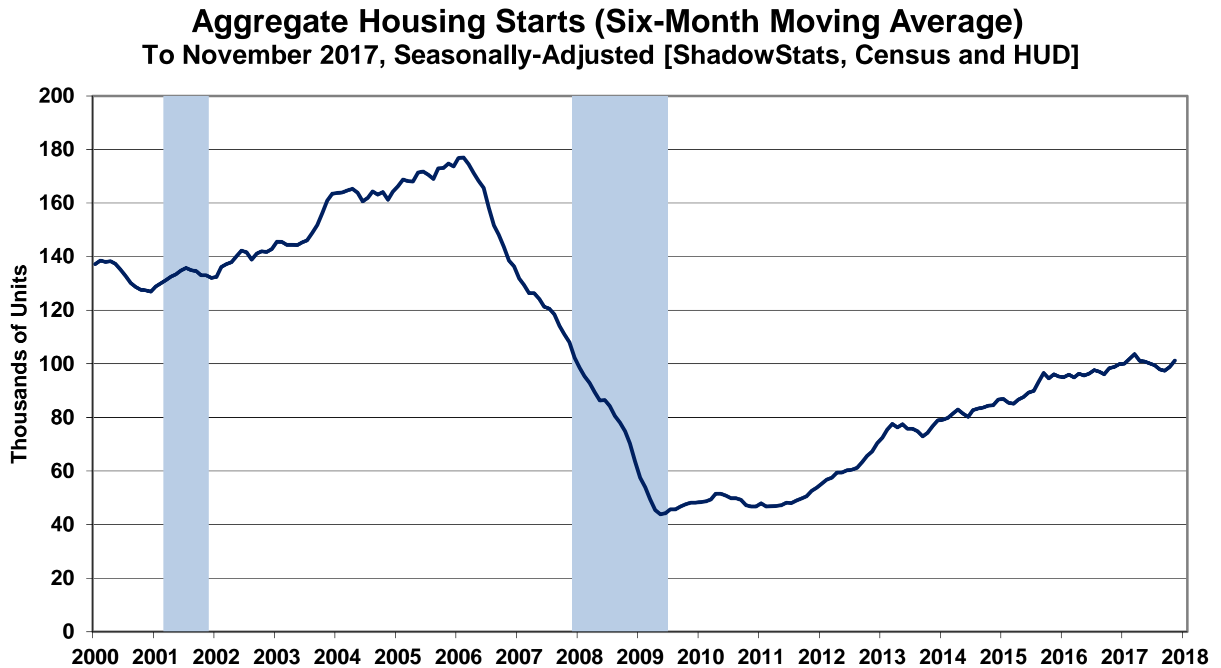
Graph 3: Aggregate Housing Starts (Monthly Rate of Activity)



Graph 4: Aggregate Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



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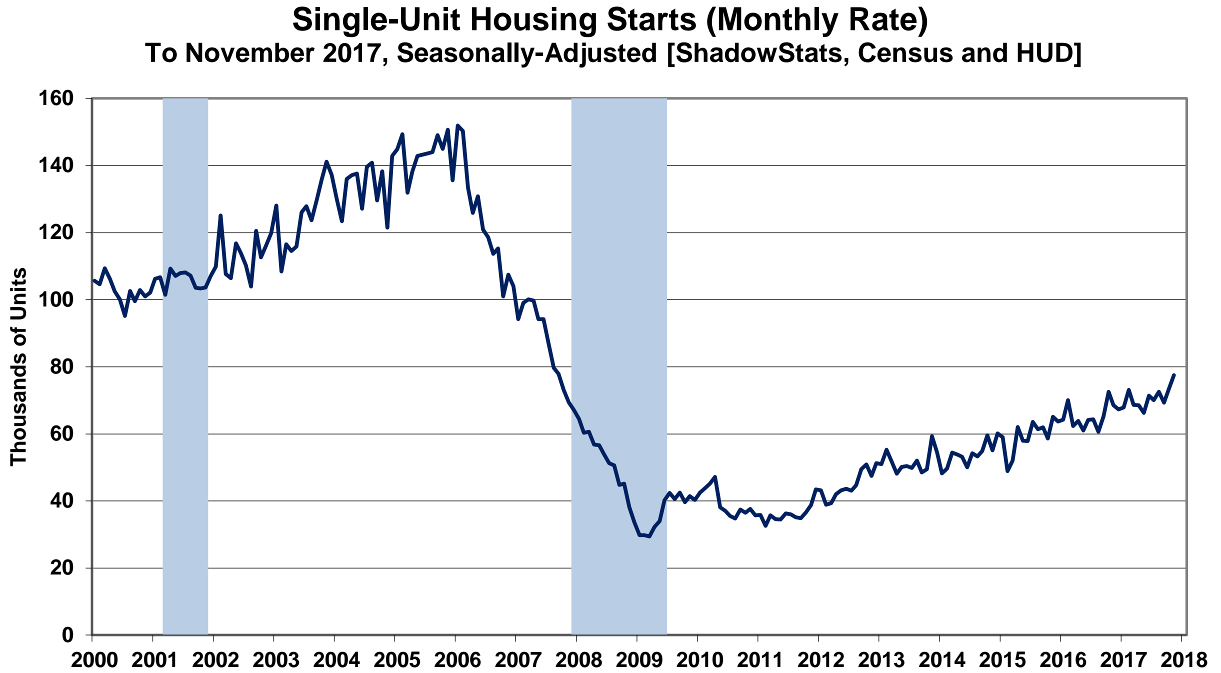
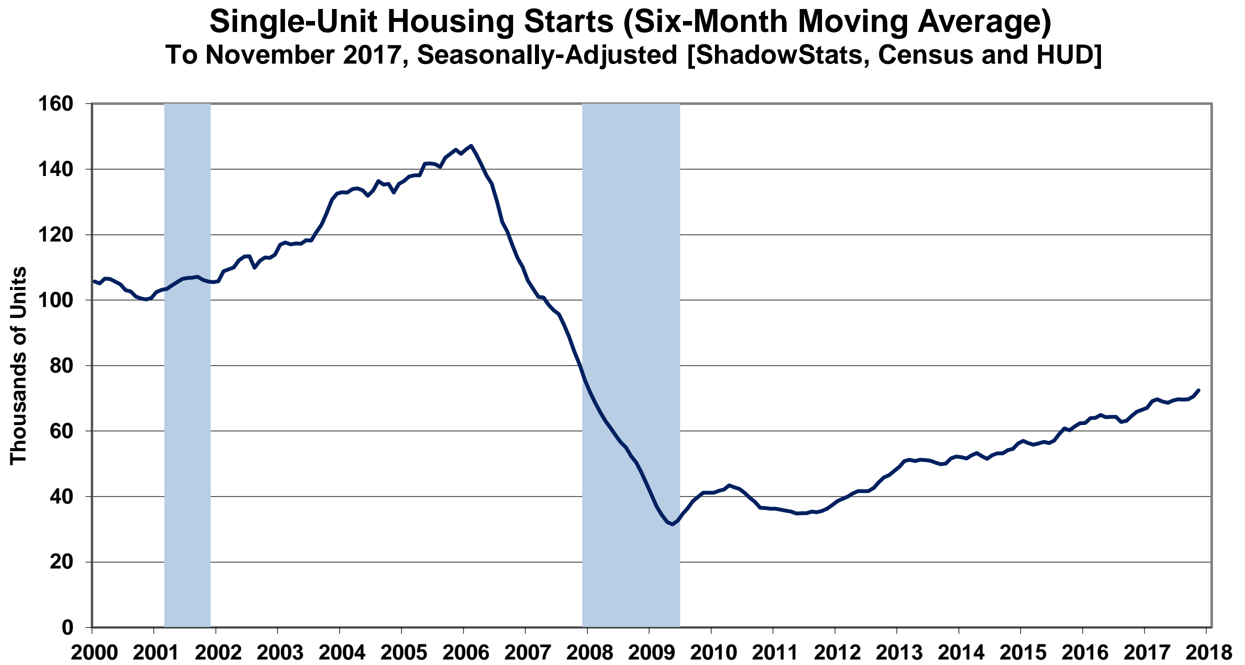
Graph 5: Single-Unit Housing Starts (Monthly Rate of Activity)



Graph 6: Single-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



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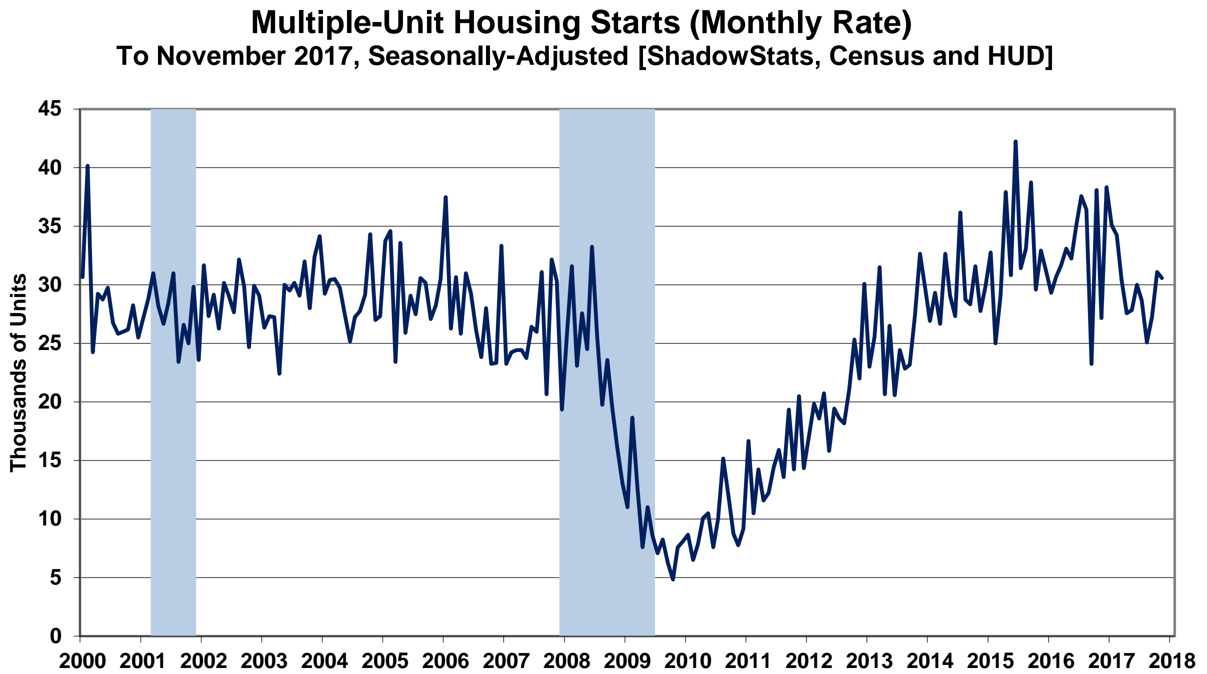
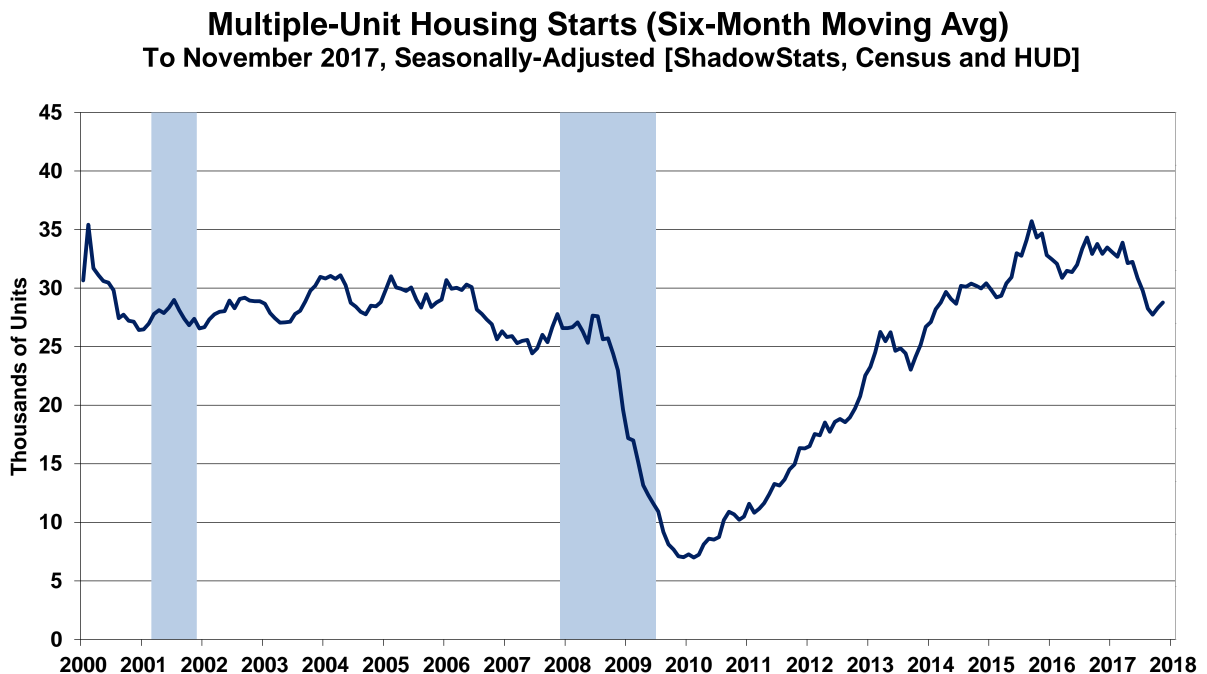
Graph 7: Multiple-Unit Housing Starts (Monthly Rate of Activity)



Graph 8: Multiple-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



[Extended analysis and graphics follow in the **Reporting Detail.***]*

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REPORTING DETAIL

NEW RESIDENTIAL CONSTRUCTION (November 2017)

Nonsense Volatility Amidst Likely Continued Hurricane Recovery. In the context of the usual highly-volatile and heavily-revised reporting of monthly housing starts, activity for the South still is reported in downturn for the months of August and September, with recovery in October and expansion in November. That is suggestive of both the October and November data reflecting some upturn from storm-recovery activity.

Such should be close to running its course, with impact from storm-generated new housing starts likely to be out of the system by the headline January or February 2018 detail. That circumstance, however, will do nothing in terms of improving the reporting quality of this series and its continued lack of monthly statistical significance.

Today's headline 3.3% monthly gain in November 2017 was a gain of 0.5% net of downside, prior-period revisions (downside to multiple-unit starts, upside to single-unit starts). Neither the headline, aggregate monthly or annual growth rate was significant at the 95% level. Among the major sub-categories, only single-unit starts showed a statistically-significant gain, and that was just in terms of the year-to-year change category. Lack of statistical significance usually is a common denominator to all the headline month-to-month changes, as well as to most of year-to-year changes.

Nonetheless, while the recent, highly-volatile monthly gains should prove fleeting in the months ahead, the six-month smoothed, moving averages of those series, as seen in *Graphs 2*, *4, 6* and *8* in the *Executive Summary*, have notched a bit higher. Irrespective of near-term reporting instabilities, the six-month trends in those key series remained broadly stagnant, along with the headline level of November 2017 activity still holding well below pre-recession peaks for each series.

Indeed, the broad pattern of collapsing residential construction activity from its 2006 pre-recession peak, to a trough in 2009 was followed by a protracted period of up-trending but non-recovering, low-level activity. That flattened out in the last year or two in ongoing, low-level stagnation and had turned lower still in recent detail, coming into the October and November gains (see accompanying *Graphs 9* to *14* of the Building Permits and Housing Starts series). Again, also see *Graphs 1* to *8* in the *Executive Summary*, covering all of the major Housing Starts series.

A pattern of non-recovery also broadly has been seen in Building Permits activity. The headline, statistically-significant monthly decline of 1.4% (-1.4%) +/- 2.0% in November 2017 was somewhat deceptive, where the monthly change, net of prior revisions was a gain of 0.1%. In combination, those numbers left the fluttering the six-month moving average of that series minimally higher (see *Graph 11*).

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Plotted with just the seasonally-adjusted monthly data, the pattern of low-level, broadly downtrending stagnation, albeit temporarily fluttering, showed headline November 2017 building permits activity down by 42.6% (-42.6%) from recovering its pre-recession peak activity, with housing starts activity down similarly by 42.9% (-42.9%).

The six-month smoothed trends remained relatively flat, across-the-board for the housing starts and building permits. Monthly activity for the various measures remained shy of regaining 2005 pre-recession peaks, again, by 42.6% (-42.6%) for Building Permits and 42.9% (-42.9%) for Housing Starts, and down by 51.6% (-51.6%) for Single-Unit Starts. At present, Multi-Unit Starts has fallen back, now down by 18.4% (-18.4%), having recovered its 2005 pre-recession peak temporarily in early-2015.

Third-Quarter 2017 Housing Starts Revised to the Plus-Side with a Revised Shift of October Starts Back into September; Booming Early Fourth-Quarter Trend Softened Minimally as Result. In this highly volatile and unstable series of recent years, the total housing-starts count fell at an annualized quarter-to-quarter pace of 23.7% (-23.7%) in first-quarter 2015, rose at an annualized 87.7% pace in second-quarter 2015, rose by 1.9% in third-quarter 2015 and then contracted at an annualized pace of 12.0% (-12.0%) in fourth-quarter 2015.

First-quarter 2016 activity showed an annualized quarterly gain of 10.7%, while second-quarter 2016 rose by 1.5%. Third-quarter 2016 activity contracted on both an annual and quarterly basis, down year-to-year by 1.0% (-1.0%), the first annual decline since first-quarter 2014, and down at an annualized quarterly pace of 2.7% (-2.7%). Fourth-quarter 2016 housing starts showed annualized quarterly growth of 39.0%, up by 11.0% year-to-year.

First-quarter 2017 annualized quarterly change was a contraction of 3.4% (-3.4%), with year-to-year change slowing to 7.3%. Second-quarter 2017 showed an annualized quarter-to-quarter contraction of 21.0% (-21.0%), with year-to-year change slowing to 0.8%. The third full reporting for third-quarter 2017 Housing Starts activity revised to an annualized gain of 1.8%, from a previous contraction of 0.9% (-0.9%), up by 1.9% [previously 1.2%] year-to-year. That reflected a sharp downside revision to October 2017 and a sharp upside revision to September 2017 activity.

The early-trend for fourth-quarter activity was for an annualized gain of 40.7%, with annual growth up by just 1.9%, based solely on October and November reporting. Based just on initial October reporting, the early trend was for an annualized gain of 50.9%, with annual growth up just 3.3%. That annual growth rate, in this circumstance just highlights how the weak the activity in this series has been in the last year.

In comparison/contrast, Building Permits, the theoretically-leading series to Housing Starts, showed an annualized quarterly contraction of 2.8% (-2.8%) in first-quarter 2017, with year-to-year change of 7.9%. Second-quarter 2017 showed an annualized contraction of 11.0% (-11.0%), with year-to-year growth slowing to 3.9%. Third-quarter 2017 showed an unrevised annualized gain of 6.2%, with a year-to-year gain of 2.2%. The early-trend for fourth-quarter 2017 (based only on October and November reporting) was for annualized growth of 22.5%, with an annual gain of 3.0%. Based just on the initial October reporting, the early trend was for annualized growth of 18.8%, with an annual gain of 2.2%.

Consumer Liquidity Problems Continue to Impair Residential Construction Activity. The extreme liquidity bind besetting consumers continues to constrain residential real estate activity, as discussed regularly in the *Consumer Liquidity Watch*. Without sustainable growth in real income, and without the

ability and/or willingness to take on meaningful new debt in order to make up for an income shortfall, the U.S. consumer remains unable to sustain positive growth in domestic personal consumption, including aggregate real estate activity. That circumstance—in the last ten-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity, 73% of which is dependent on real personal spending, including residential construction.

November 2017 Housing Starts, Headline Detail. The always-unstable and highly-volatile aggregate Housing Starts series, exacerbated in the recent reporting by hurricane effects, rose month-to-month in November 2017, on top of an large downside revision to October, which was deeper than the upside revision to September. The Census Bureau and Department of Housing and Urban Development (HUD) reported this morning, December 19th, a statistically-insignificant, seasonally-adjusted, headline monthly gain in November 2017 housing starts of 3.3% +/- 10.6% (all confidence intervals are expressed at the 95% level). That followed a revised gain of 8.4% [previously 13.7%] in October, a revised decline of 1.1% (-1.1%) [previously down by 3.2% (-3.2%), initially down by 4.7% (-4.7%)] in September and an unrevised decline of 11.0% (-11.0%) in August. Net of the prior-period revisions, headline November Housing Starts gained by 0.5%, instead of the headline 3.3%. Level-of-activity aggregate detail is plotted in *Graphs 1* to *4* of the *Executive Summary*, and in *Graphs 10*, *12*, *13* and *14* at the end of this section.

Year-to-year change in the seasonally-adjusted, November 2017 aggregate housing-starts measure was a statistically-insignificant gain of 12.9% +/- 13.7%, versus a revised decline of 5.4% (-5.4%) [previously 2.9% (-2.9%)] in October 2017, a revised gain of 9.1% [previously 6.9%, initially 6.1%] in September 2017 and an unrevised gain of 0.7% in August 2017.

The November 2017 headline gain of 3.3% in total Housing Starts encompassed monthly gains of 5.3% in Single-Unit starts and 0.8% in the Multiple-Unit "Five Units or More" category. There is a missing balance in the "Two to Four Units" category, which declined month-to-month by 52.9% (-52.9%) in November. Where that category is considered too small to be meaningful, it did affect the aggregates to the extent that multiple units actually declined month-to-month, instead of the headline gain see just the larger, sub-unit category. That is discussed later in the broadest, aggregate "multiple unit" category. As most commonly is the circumstance, not one of the month-to-month headline changes was statistically significant.

Housing Starts By-Unit Category. *[See* Graphs *1 to 8 in the* Executive Summary.*]* Where the irregular housing starts series can show varying patterns, that partially is due to a reporting mix of residential construction products, with the largest physical-count category of one-unit structure housing starts—generally for individual consumption, resulting in new home sales—versus multiple-unit structure starts that generally reflect the building of condominiums, rental and apartment units.

Housing starts for single-unit structures in November 2017 gained month-to-month by a statistically-insignificant 5.3% +/- 11.4%, following a revised gain of 6.1% [previously 5.3%] in October, a revised decline of 4.5% (-4.5%) [previously 4.4% (-4.4%), initially 4.6% (-4.6%)] in September and an unrevised gain of 3.6% in August. November 2017 single-unit starts showed a statistically-significant annual gain of 13.0% +/- 10.6%, versus revised gains of 1.4% [previously 0.7%] in October 2017, 6.3% [previously 6.4%, initially 5.9%] in September 2017 and an unrevised 19.8% gain in August 2017 (see *Graphs 1, 2, 5 and 6* in the *Executive Summary*).

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Housing starts for apartment buildings, condominiums, etc. (generally 5-units-or-more) in November 2017 gained month-to-month by a statistically-insignificant 0.8% +/- 25.1%, versus a revised gain of 14.8% [previously 37.4%] in October, a revised gain of 6.2% [previously declines of 2.1% (-2.1%) and 6.2% (-6.2%)] in September and an unrevised decline of 12.3% (-12.3%) in August. A statistically-insignificant year-to-year gain of 11.1% +/- 38.4% in November 2017, followed a revised annual decline of 20.4% (-20.4%) [previously down by 12.1% (-12.1%)] in October 2017, a revised annual gain of 17.0% [previously and initially 7.9%] in September 2017 and an unrevised annual decline in August 2017 of 30.5% (-30.5%).

Expanding the multiple-unit housing starts category to include 2-to-4-units plus 5-units-or-more usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the 2-to-4-units category, due to statistical significance problems (a general issue for the aggregate series). Nonetheless, the total multi-unit category can be estimated by subtracting the single-unit category from the total category (see *Graphs 1*, *2*, *7* and *8* in the *Executive Summary*).

Accordingly, the statistically-significant November 2017 monthly gain of 3.3% in aggregate starts was composed of a statistically-insignificant gain of 5.3% in one-unit structures and a statistically-significant decline of 1.6% (-1.6%) in the multiple-unit structures category (two-units-or-more, including the five-units-or-more category). In contrast, again, ex-two-units-or-more, the multiple-unit category gained by 0.8%. Again, these series are graphed in the *Executive Summary*.

[Graphs 9 to 14 begin on the next page.
Please see the *Note on the Housing Starts Graphs* on page 10.]

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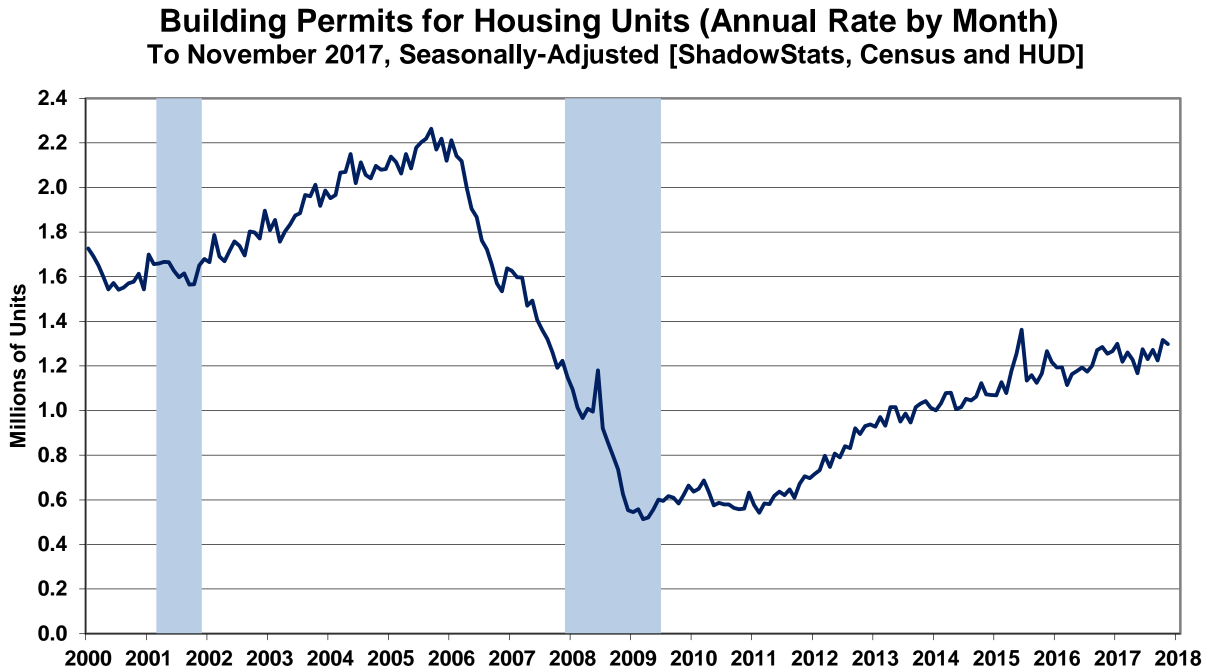
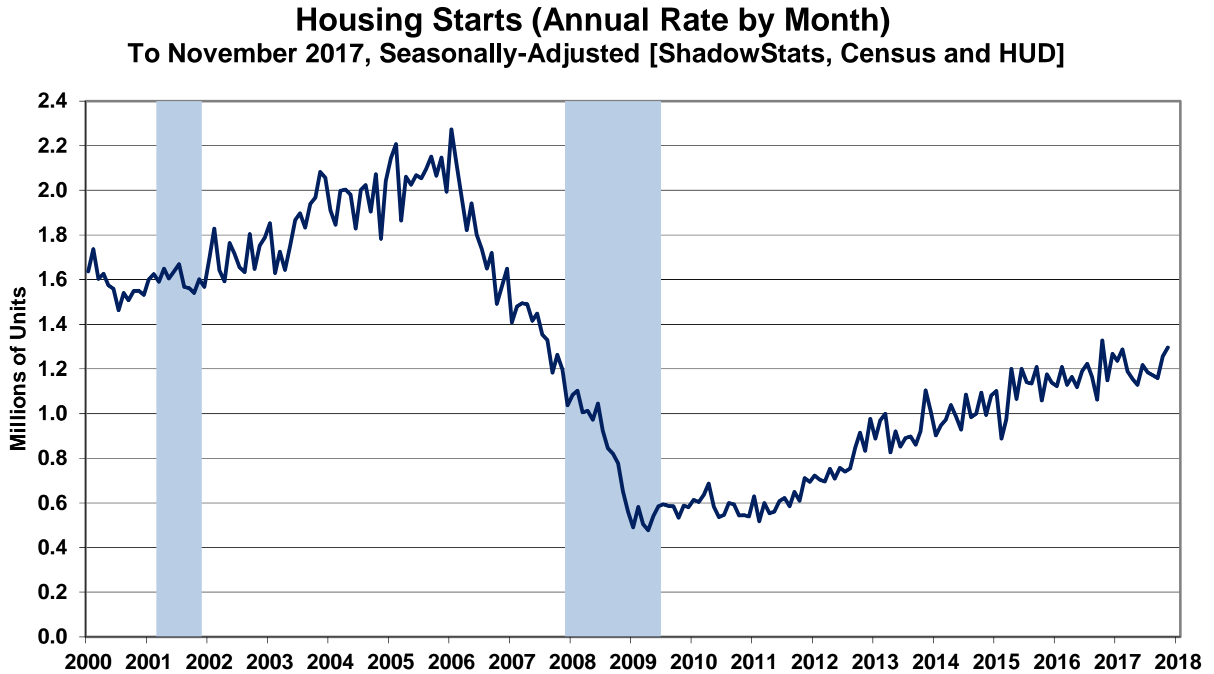
Graph 9: Building Permits (Annualized Monthly Rate of Activity), 2000 to Date



Graph 10: Housing Starts (Annualized Monthly Rate of Activity), 2000 to Date



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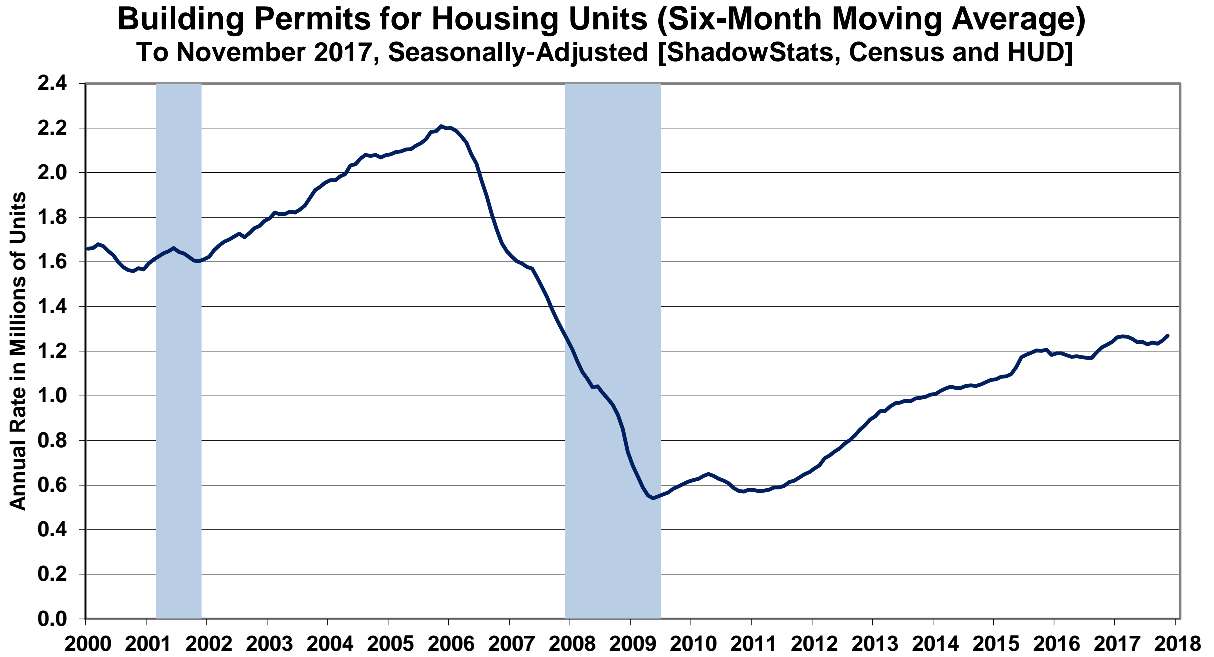
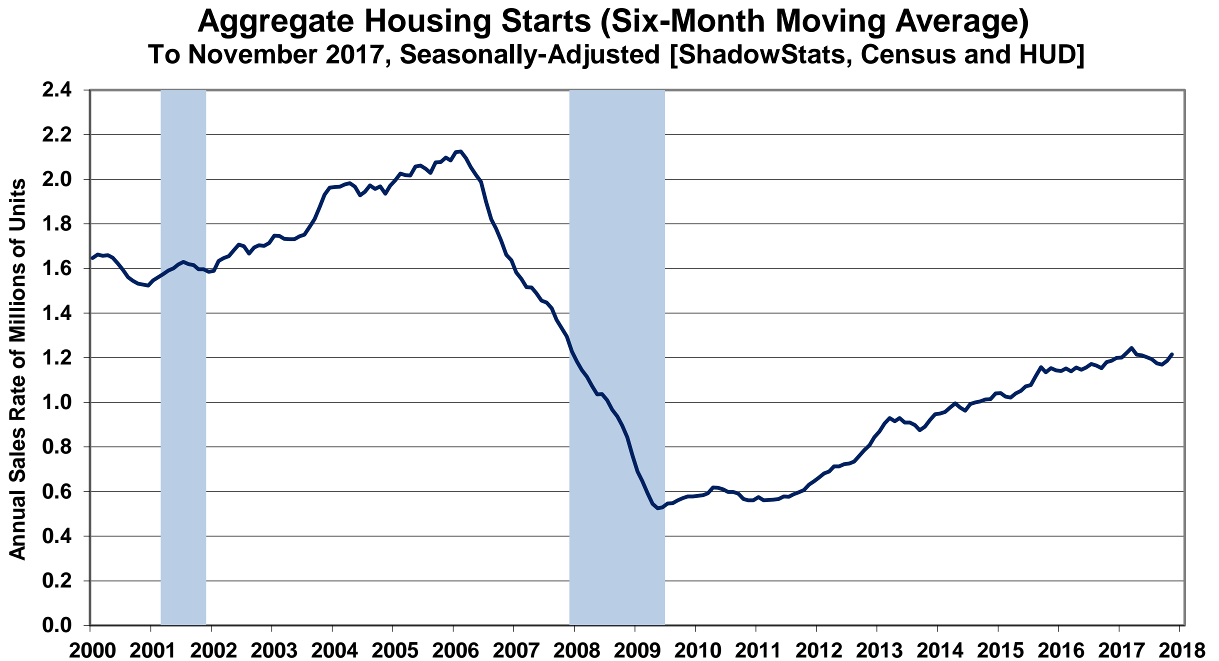
Graph 11: Building Permits (Six-Month Moving Average), 2000 to Date



Graph 12: Housing Starts (Six-Month Moving Average), 2000 to Date



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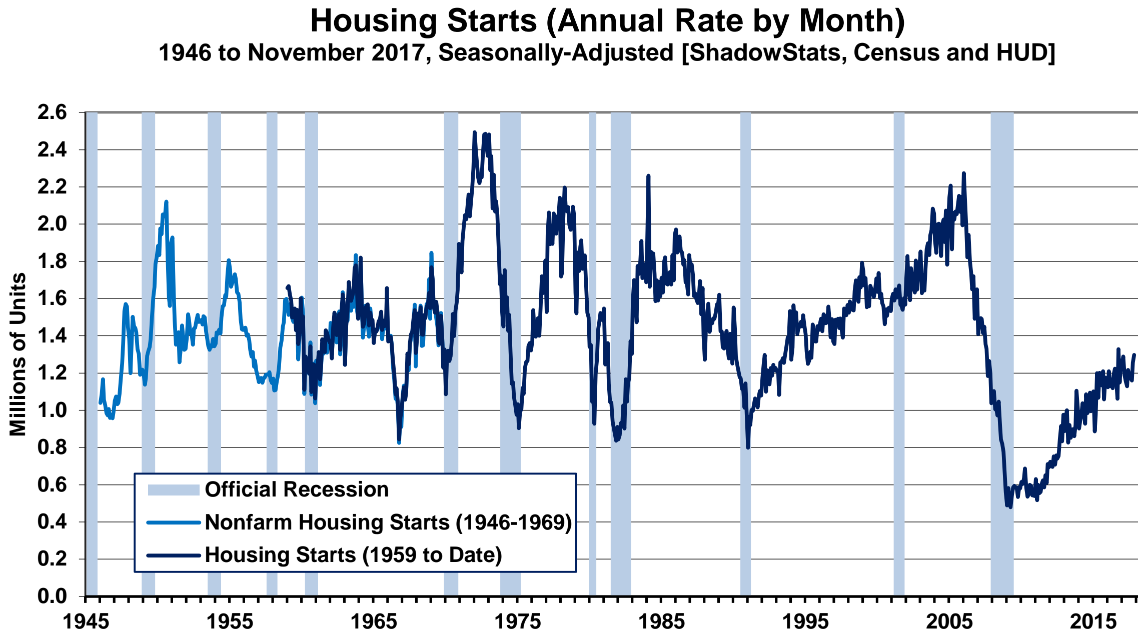
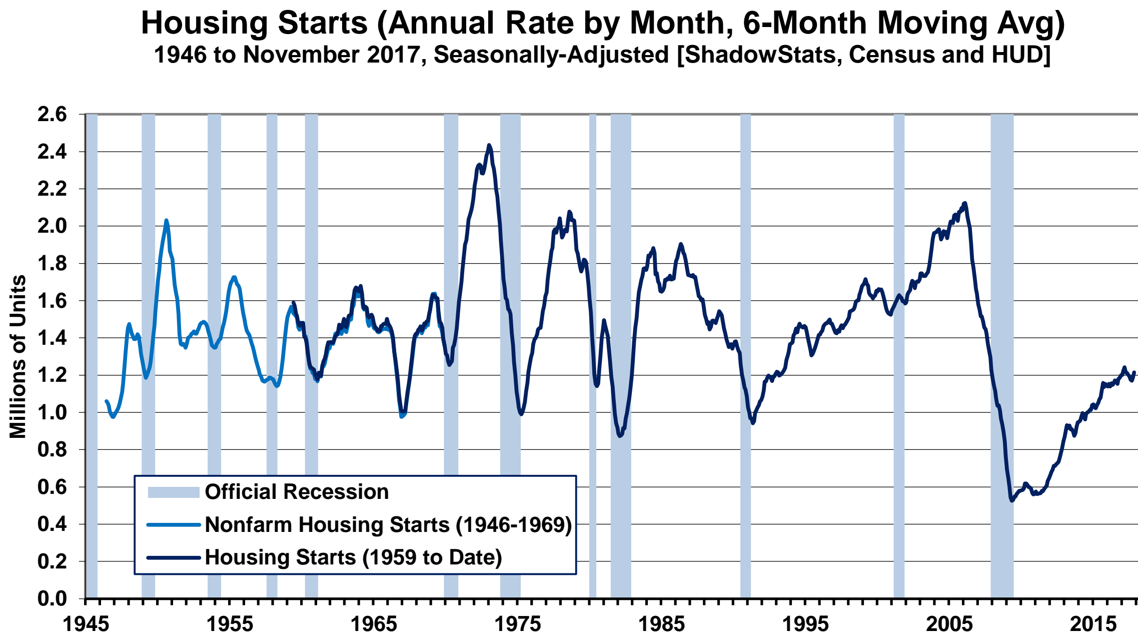
Graph 13: Housing Starts (Annualized Monthly Rate of Activity), 1946 to Date



Graph 14: Housing Starts (Annualized Monthly Rate of Activity, 6-Month Moving Avg), 1946 to Date



[The **Hyperinflation Watch** *begins on the next page.]*

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HYPERINFLATION WATCH

FOMC AND THE U.S. DOLLAR

Federal Reserve Still is Unable to Extricate Itself from the Panic of 2008. Today's *Opening Comments* largely provide the background economic context for this *Hyperinflation Watch*. Recent rate hikes, tightening moves and promises for more of the same by the Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System have reflected pronouncements of the U.S. economy returning to stable and positive economic conditions, despite Federal Reserve Chair Janet Yellen describing the economic outlook as "highly uncertain."

Discussed in prior *Commentary No. 926*, there increasingly is a fundamental disconnection between the happy hype in the media, financial-markets and FOMC pronouncements as to a rapidly expanding U.S. economy, and the underlying reality of broad U.S. economic activity never having recovered its pre-recession 2007 peak. A low-level economic stagnation earlier in 2017 had begun turning down anew, only to be disrupted by Hurricanes Harvey, Irma and Nate. Economic boosts from recovery circumstance have biased near-term economic data to the upside. In the next month or so, headline economic detail increasingly should confirm such, as the post-disaster (hurricane destruction) recovery and rebuilding meld into the more-stable economic trends. As hurricane-distorted boosts to recent economic activity work their way out of the system, underlying economic reality threatens continued stock-market euphoria, as the manic U.S. stock market has continued to soar along with the tax reform and the faux boom in the disaster-recovery economy.

Continuing the same basic thread discussed here for some time, oncoming headline economic detail increasingly will confirm a renewed economic contraction (see *No. 859 Special Commentary*, planned for a late-January 2018 update). In response, the Federal Reserve likely will be forced to abandon its current path of near-term rate hikes and policy tightening, for a renewed and expanded quantitative-easing program and at helping the still liquidity-challenged domestic banking system. Market response to this, or to increasing anticipation of a shift in policy, should pummel the value of the U.S. dollar in the global markets, spiking gold, silver and oil prices. In turn, domestic equity and credit-market prices should fall sharply, as significant capital flees the weakening U.S. dollar and the domestic markets.

Holding physical gold and silver remain the ultimate hedges—stores of wealth—for preserving the purchasing power of one's U.S. dollar assets, in the context of liquidity and portability during the difficult times ahead.

U.S. Dollar. *Graphs HW-1* to *HW-6* reflect various plots of the Federal Reserve Board's (FRB) Major-Market Trade-Weighted Dollar (TWD), which reflects the U.S. dollar exchange rate weighted versus the Euro, Yen, Pound Sterling, Australian Dollar, Swiss Franc and the Canadian Dollar; and the ShadowStats Financial-Weighted Dollar (FWD), which reflects the U.S. dollar exchange rate weighted versus same currencies based of respective currency trading volume in the markets, instead of merchandise trade.

ShadowStats modified the FWD to add the Chinese Yuan, at such time as it was recognized as a global reserve currency by the Bank for International Settlements. Visible in *Graphs HW-5* and *HW-6*, given the reasonably low weighting of the CNY at present and the tendency of CNY to be targeted versus the U.S. dollar, the plotted differentials between the FWD (without the CNY) and the FWD-CNY are negligible. The plots of the FWD versus the TWD both show recent weakness in the U.S. dollar, with declining year-to-year change intensifying.

Gold and Silver, and Gold versus Stocks. *HW-7* and *HW-8* show plots of the price level of the S&P 500 Total Return Index (all dividends reinvested) versus the price of physical gold, with both series indexed to January 2000 =100, with the first plot showing both series in nominal terms and the second plot in real, inflation-adjusted terms, deflated by the CPI-U. While Gold has outperformed the S&P 500 since the beginning of millennium, it is interesting to note that the S&P 500, net of inflation, did not break above parity until 2013.

Graphs HW-9 to *HW-11* are the traditional ShadowStats gold graphs, respectively versus the Swiss Franc, versus Silver and versus Oil (Brent).

The final price point in the graphs reflects the closing or late-day December 19, 2017 New York price.

[Graphs HW-1 to HW-11 begin on the next page.]

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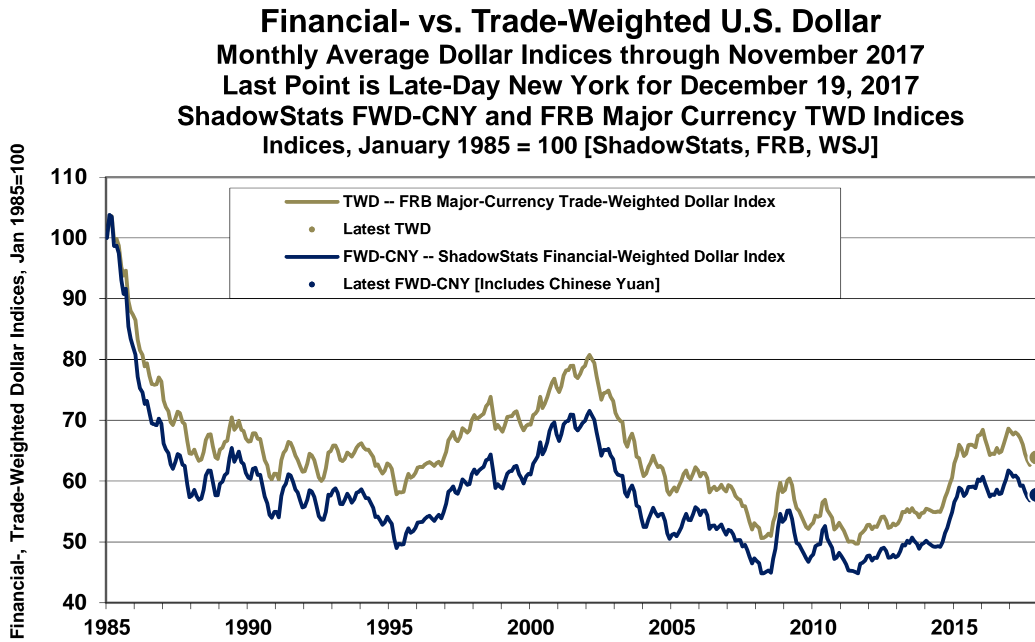
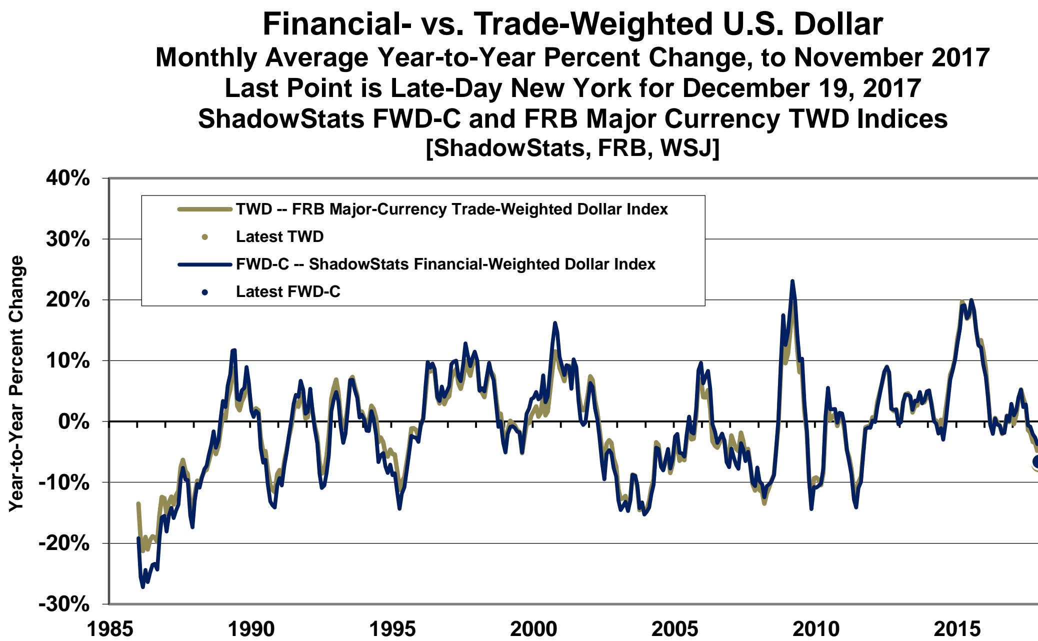
Graph HW-1: Financial- versus Trade-Weighted U.S. Dollar



Graph HW-2: Year-to-Year Change, Financial- versus Trade-Weighted U.S. Dollar



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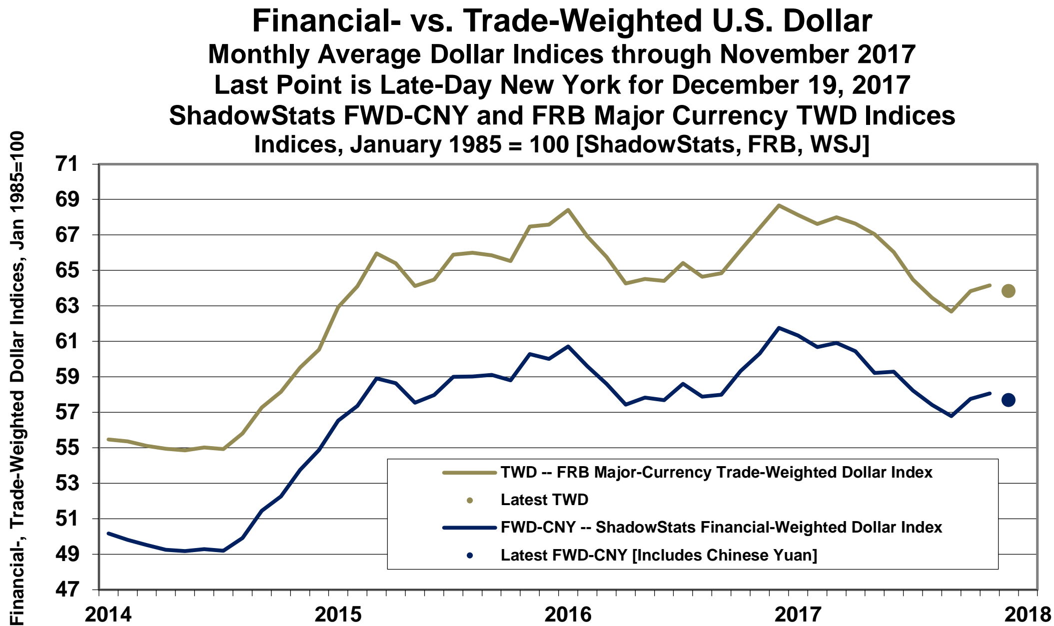
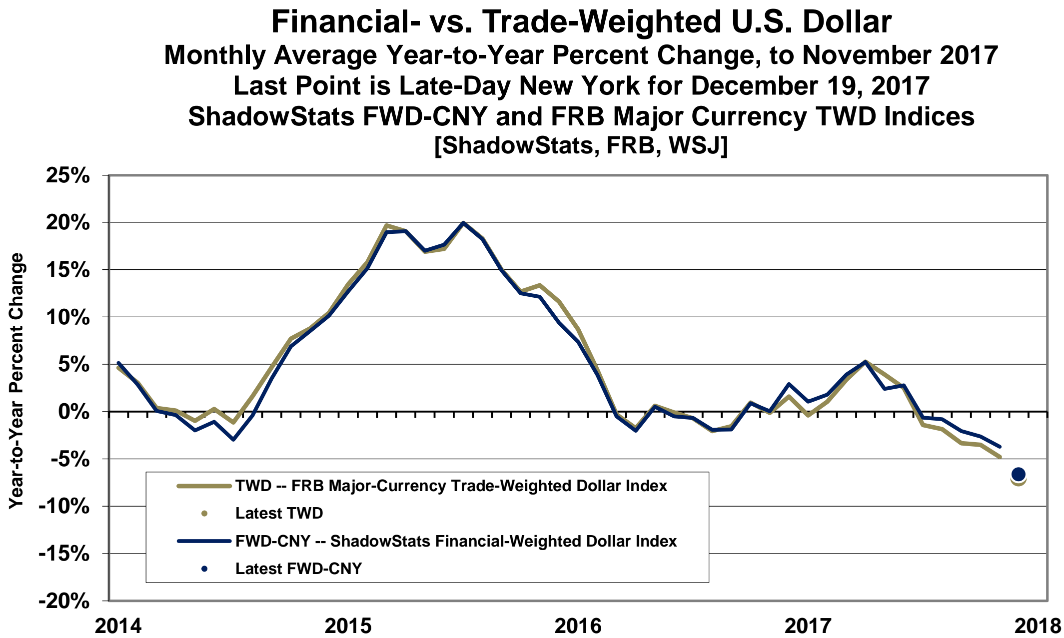
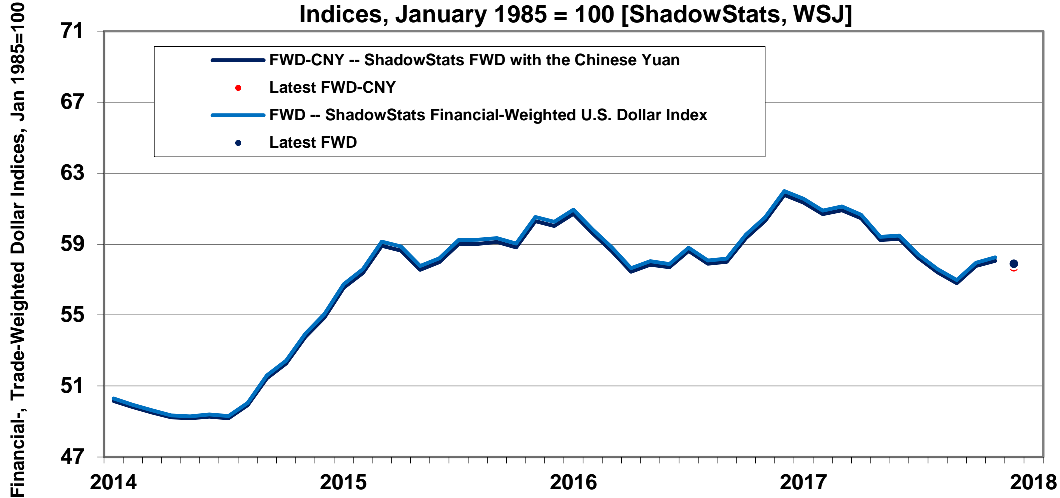
Graph HW-3: Financial- versus Trade-Weighted U.S. Dollar (2014 to Date)



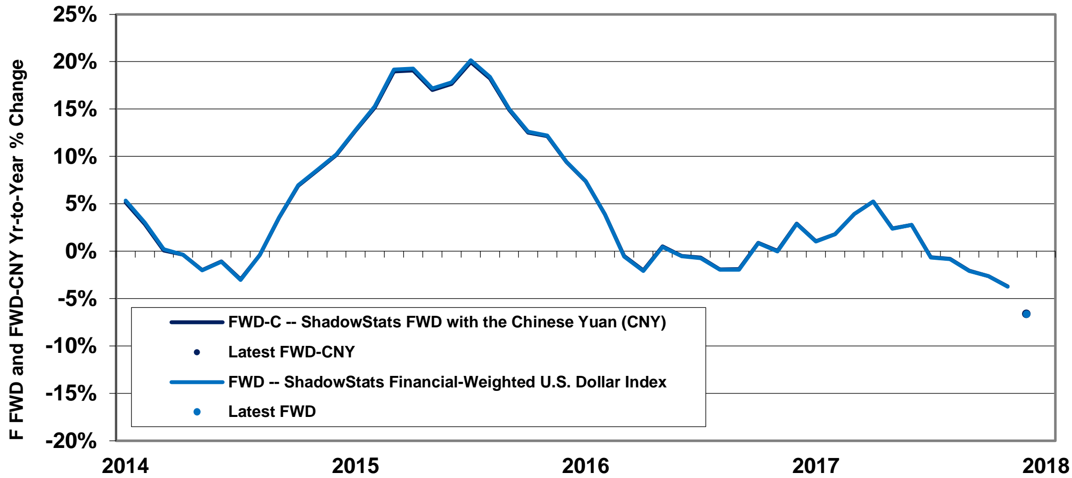
Graph HW-4: Yr-to-Yr Financial- versus Trade-Weighted U.S. Dollar (2014 to Date)



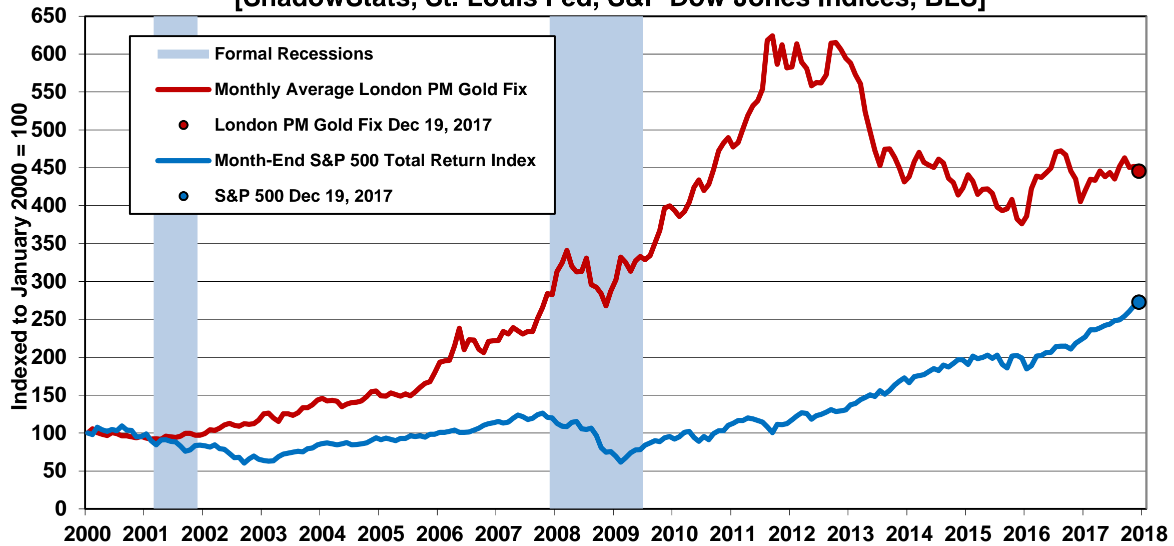
Graph HW-5: Financial- versus Trade-Weighted U.S. Dollar, With and Without CNY (2014 to Date)



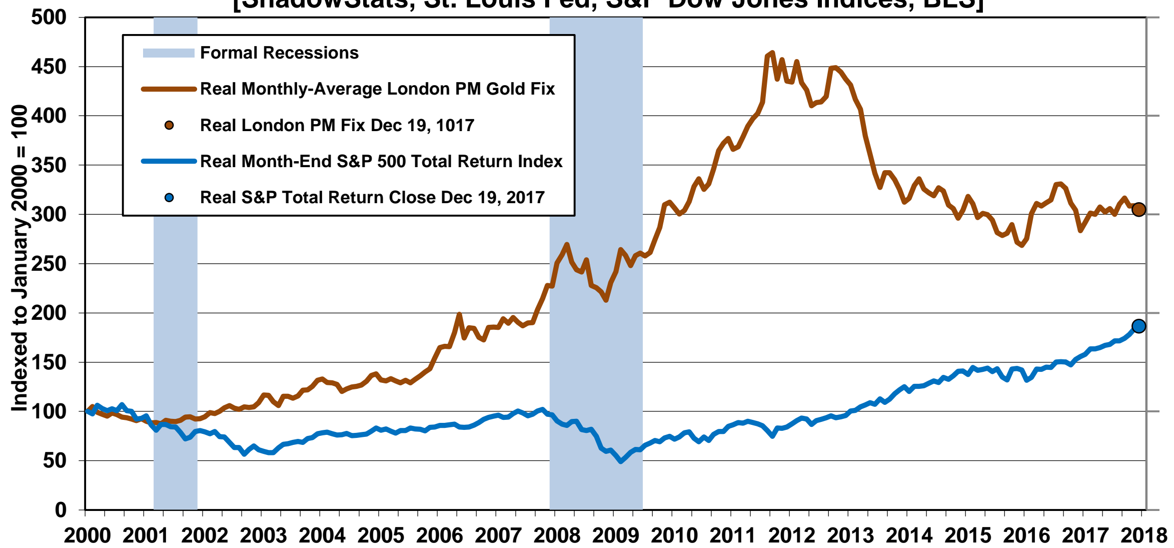
Graph HW-6: Yr-to-Year Financial- versus Trade-Weighted U.S. Dollar, With and Without CNY (2014 to Date)



Graph HW-7: Nominal Gold versus the Total Return S&P 500



Graph HW-8: Real Gold versus the Total Return S&P 500



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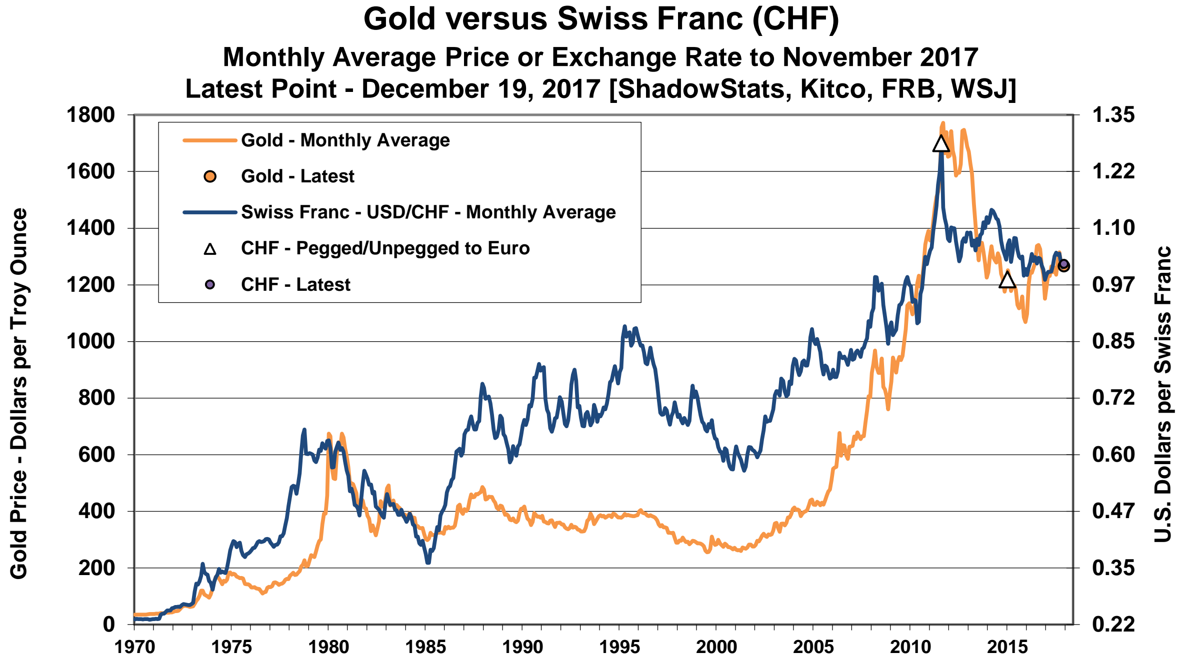
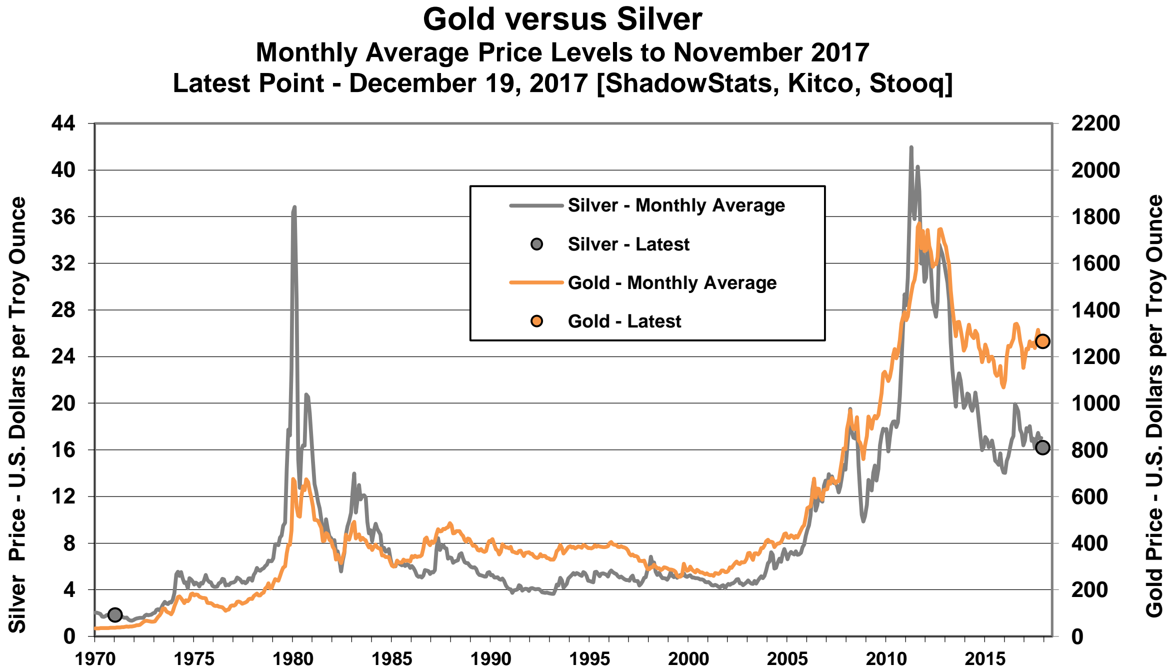
Graph HW-9: Gold versus the Swiss Franc



Graph HW-10: Gold versus Silver



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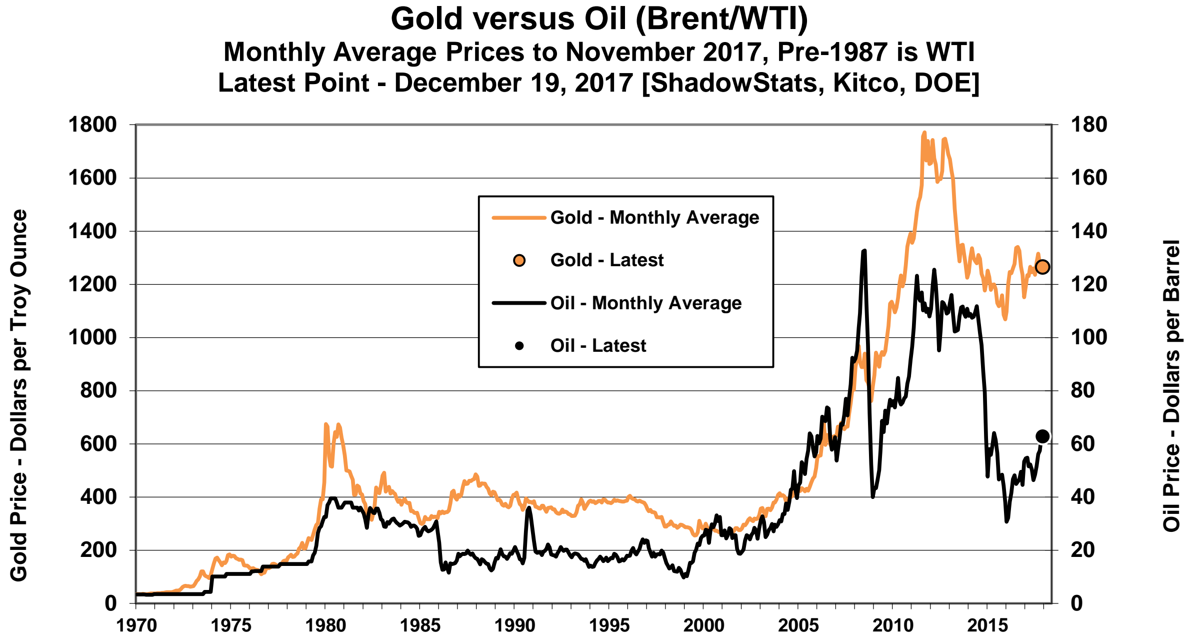
Graph HW-11: Gold versus Oil



[The **Consumer Liquidity Watch** *begins on the next page.]*

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CONSUMER LIQUIDITY WATCH

CONSUMER LIQUIDITY CONDITIONS: INCOME, CREDIT AND RELATIVE OPTIMISM.

[The text has been updated to reflect the discussion of business and consumer "uncertainty" discussed in the Opening Comments *of* Commentary No. 926.*]*

Consumer Liquidity Stresses Continue to Constrain Broad Economic Activity. The U.S. consumer faces continuing financial stress, increasingly reflected in renewed softening of fundamental headline economic activity, including Payroll-Employment, Real Retail Sales, Housing and the impacted Manufacturing/Production sector, net of what have been mixed, but significant, near-term hurricane distortions. Those distortions broadly should have passed from headline economic reporting by January 2018 headline detail. Those effects have been and will continue to be discussed in separate analyses of the relevant series.

Where those series have faced near-term, disaster-triggered reporting disruptions, liquidity stresses nonetheless intensified, at least temporarily, in hurricane-hit regions of the United States, where, for example, related September and October 2017 employment/ unemployment details were heavily disrupted/distorted (see *Commentary No. 919-B*).

Liquidity Issues Limit Economic Activity. Severe and persistent constraints on consumer liquidity of the last decade or so drove economic activity into collapse through 2009, and those conditions have prevented meaningful or sustainable economic rebound, recovery or ongoing growth since. The limited level of, and growth in, sustainable real income, and the inability and/or unwillingness of the consumer to take on new debt have remained at the root of the liquidity crisis and ongoing economic woes.

These same pocket-book issues contributed to the anti-incumbent electoral pressures in the 2016 presidential race. The post-election environment showed a near-term surge in both the consumer confidence and sentiment measures to levels generally not seen since before the formal onset of the recession in 2002, let alone 2007. Yet, underlying liquidity conditions, economic reality and lack of positive actions out of the government to turn the economy meaningfully, all have continued to remain shy of consumer hopes. Mirroring the economic hype in the popular press, consumer optimism had rallied strongly in recent months, although monthly changes have begun to falter anew. The "strong" reading in November 2017 Consumer Confidence was the highest level seen since December 2000, when the confidence number was collapsing into the onset of the 2001 recession, still the early-December 2017 reading of Consumer Sentiment has continued to back off its recent multi-year peak.

Including the various consumer income stresses discussed in *Special Commentary No. 888*, broad, underlying consumer-liquidity fundamentals simply have not supported, and still do not support a turnaround in general economic activity—a post "Great Recession" expansion—and broadly are consistent with a "renewed" downturn in that non-recovered economic activity. Indeed, never truly recovering post-Panic of 2008, limited growth in household income and credit have eviscerated and continue to impair broad, domestic U.S. business activity, which is driven by the relative financial health

and liquidity of consumers. These underlying liquidity conditions and reality—particularly income and credit—remain well shy of consumer hopes and needs.

The combined issues here have driven the housing-market collapse and ongoing, long-term stagnation in consumer-related real estate sales and construction activity, and have constrained both nominal and real retail sales. Related, personal-consumption-expenditure and residential-construction categories accounted for 73% of the headline real, third-quarter 2017 U.S. GDP.

With the better-quality economic indicators and underlying economic reality never having recovered fully from the collapse into 2009, consumers increasingly should pull back on consumption in the months ahead. Underlying reality is evident in more-meaningful economic indicators—not the GDP—irrespective of the transient, gimmicked boosts to, and current headline slowing in, that most worthless of economic series, discussed most in the *Executive Summary* of *Commentary No. 923*.

Anecdotal Evidence of Business and Consumer Uncertainty Continue to Indicate a Seriously-Troubled Economy and Very Dangerous Financial Markets. Against what appears to be a headline economic consensus that all is right again with the U.S. economy and financial markets, underlying real-word common experience suggests a much different outlook. Regularly discussed here, ongoing non-recovery, low-level stagnation and signs of renewed downturn remain patterns common to key elements of headline U.S. economic activity. Consider factors ranging from housing sales and broad construction activity, to headline reporting of domestic manufacturing, as well as those series that are heavily gimmicked, such as the Gross Domestic Product (GDP), also regularly discussed and dissected here.

Similar signals of such economic stress are seen in patterns of activity that move along with the real-world broad economy. They range from indicators such freight volume and domestic consumption of petroleum to factors such as levels of real consumer debt outstanding, real average weekly earnings and measures of employment stress in the broad economy. Those stresses are reflected in historically-low levels of the employment-population ratio and the labor-force participation rate. With the liquidity-starved U.S. consumer driving three-quarters of the GDP, there is no way for the broad economy to boom—happy Retail Sales headlines aside—without some meaningful shift in underlying consumer circumstances. Links to background discussions in these various areas are found in the *Recent Commentaries* of the *Week, Month and Year Ahead Section*, along with links to background discussions on the quality of the more-politicized GDP and employment/unemployment details.

Beyond assessing headline economic numbers, ShadowStats also looks at anecdotal evidence, including comments by subscribers and clients, who live in the real world. Two broad observations have come from a number of recent conversations. First, real estate activity appears to be slowing in recently strong areas. Second, a number of major companies are "sitting on their hands," holding back on issuing new contracts to third-party vendors in areas such as upgrading computer systems and other consulting. The companies cite the slowdown in contracts as "due to uncertainty," an issue, as well with the U.S. consumer, where that uncertainty encompasses:

- Unfolding circumstances in the Washington, D.C. political arena.
- Where the manic financial markets are headed.
- Ultimately what is, or will be, happening to near-term business activity?

Economic reporting, and business and financial-market stories sometimes receive happy year-end spikes in the press. That circumstance has been supplemented in late 2017 by near-term hurricane boosts to, and distortions of, some current economic activity, such as the recent November Retail Sales reporting. The latter circumstance should prove fleeting. The underlying, broadly-faltering U.S. economy should be dominating headline economic reporting, once again, and all too soon, most likely early in 2018. That said, reflecting the headline hype in the popular press, headline consumer optimism remains strong.

Consumer Optimism: November Consumer Confidence and Early-December Sentiment Continue Mixed in Direction; Confidence Is at Highest Level Since It Collapsed into the 2001 Recession but Sentiment Is Pulling Back. This detail reflects the November 2017 readings of The Conference Board's Consumer-Confidence Index® (Confidence) as of November 28th and the early-December reading of the University of Michigan's Consumer Sentiment Index (Sentiment) as of December 8th. Reflected in *Graphs CLW-1* and *CLW-2*, both Confidence and Sentiment jumped sharply to multi-year highs in October, but the November Sentiment reading pulled back sharply and continued to do so in early-December, retrenching from its October jump. November Confidence jumped to a new 17-year high, the strongest reading since December 2000 when that series was plummeting into the 2001 recession. That December 2000 reading still was down by 10.5% (-10.5%) from the series high in May of 2000.

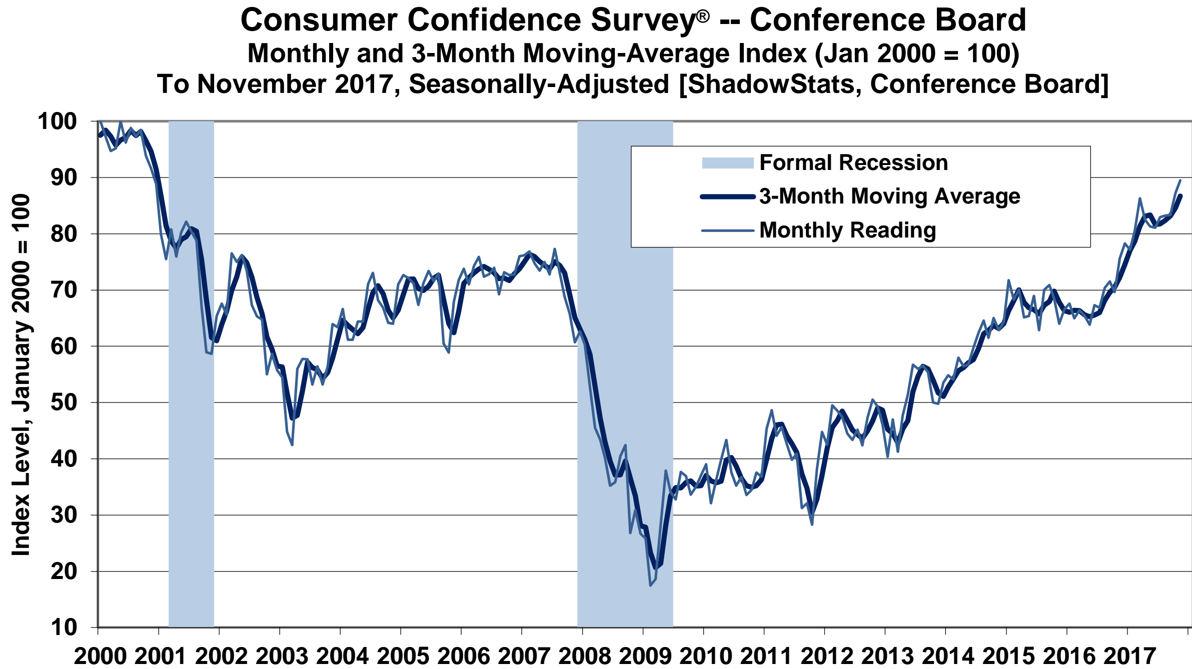
A year or so ago September 2016 Confidence and Sentiment jumped and then plunged in October 2016, likely reflecting concerns as to the direction of the presidential race. Post-election, both measures rallied sharply, reflecting surges in consumer optimism into early-2017. Both series then topped and pulled back, with mixed numbers into August and September 2017, but with the October 2017 Sentiment measure showing an large jump, purportedly because consumers were willing to accept diminished prospects for their living standards (see *Commentary No. 916*)? Nonetheless, the Sentiment measure retrenched in November and early-December. The Conference Board blamed hurricane impact in Texas and Florida for its downturn in September 2017 Confidence, but those numbers exploded into October and November 2017.

For both the Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index® (*Graph CLW-1*), and the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph CLW-2*), the three-month moving averages also are above pre-2007 recession highs, with Confidence hitting levels last seen falling into the 2001 recession, yet the still-high moving averages also had begun to falter in September 2017, before the unusual October and November surges.

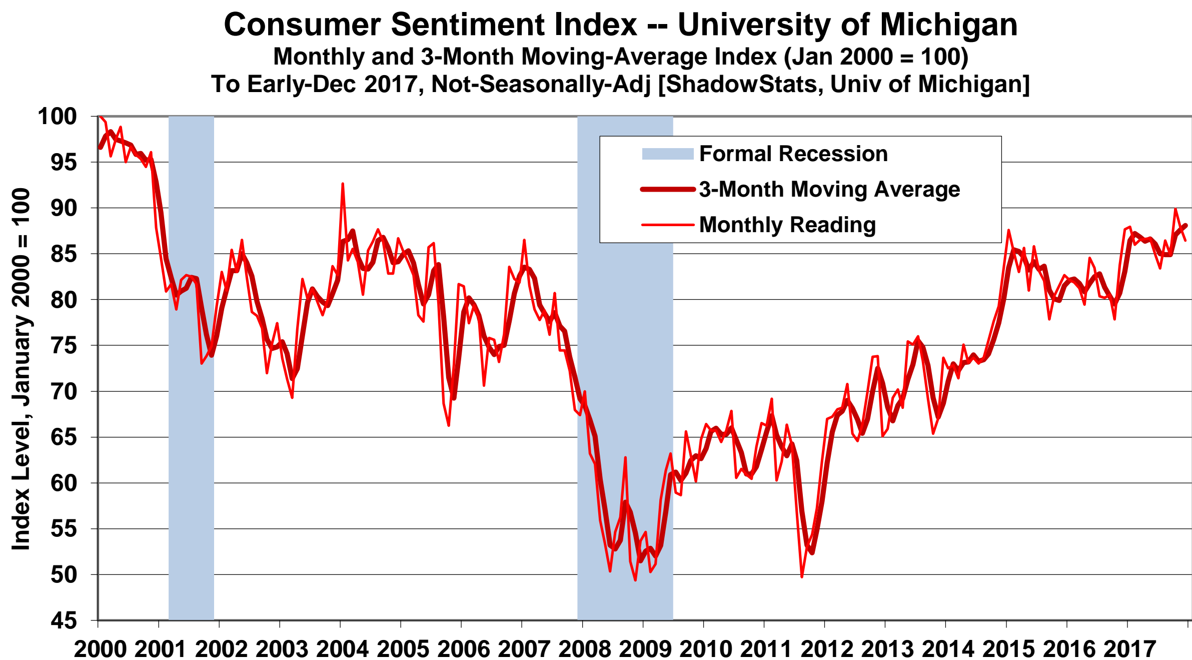
Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs CLW-1* to *CLW-3* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index® is set with 1985 = 100, while the University of Michigan's Consumer Sentiment Index is set with January 1966 = 100.

The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in *Commentary No. 764*), and often are highly volatile month-to-month, as a result. Recent headlines have been highly positive on the economy, reflecting short-lived hurricane distortions particularly on unemployment (not payroll employment), retail sales and industrial production. Headline financial and economic reporting in the next month or two should turn increasingly-negative and unstable.

Graph CLW-1: Consumer Confidence (2000 to 2017)



Graph CLW-2: Consumer Sentiment (2000 to 2017)



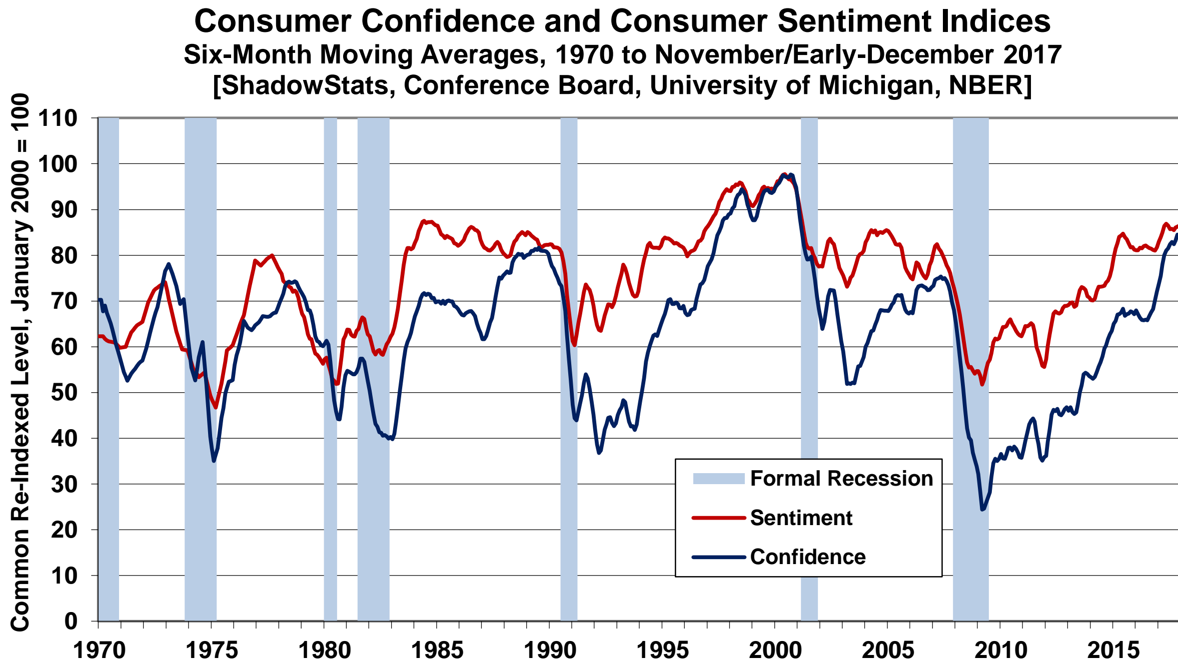
With near-term headline financial and economic reporting increasingly suggestive of a renewed and intensifying downturn likely in the next couple of months, successive negative hits to both the confidence and sentiment readings are increasingly likely in the near future, again, despite the artificial, headline-spiked October and November 2017 readings. Again, they likely were built upon some temporary or

faux, hurricane-boosted data, which already have begun to unwind (see *Commentary No. 922* and *Commentary No. 923*).

Broadly, though, the harder, financial consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth as suggested by headline GDP growth in 2014, for second-and third-quarter 2015 and for third-quarter 2016 and into third-quarter 2017. Beyond having happy feelings about the future, consumers still need actual income, cash-in-hand or credit in order to increase their spending.

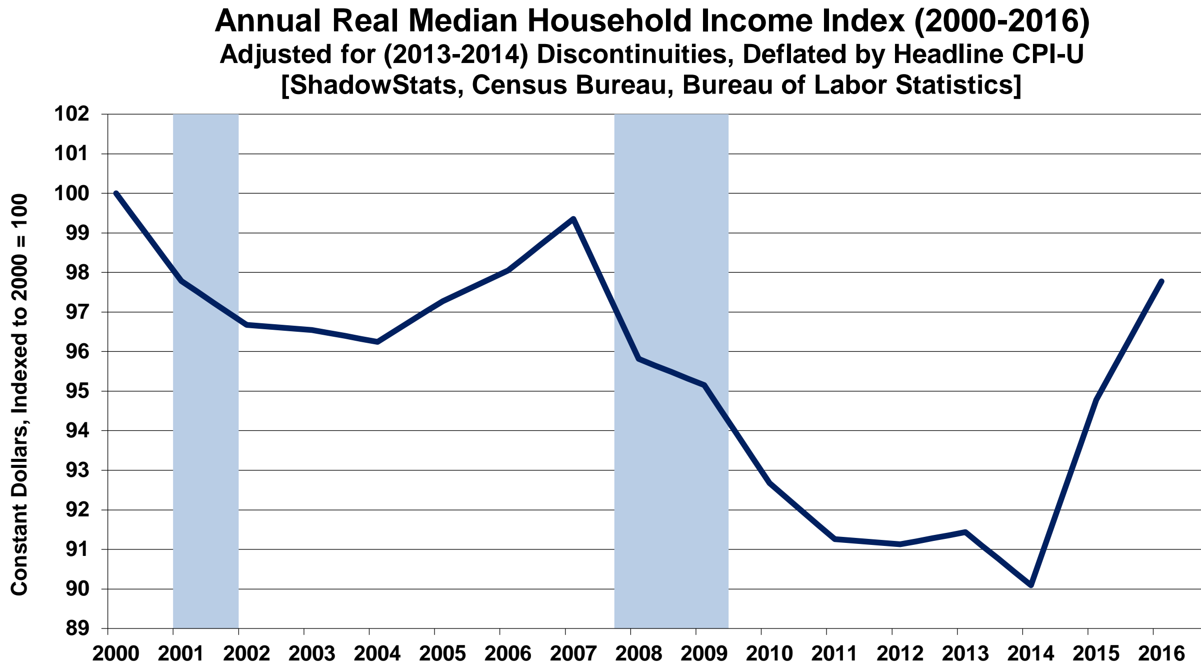
Smoothed for irregular, short-term volatility, the two series still generally had held at levels seen typically in recessions, until the post-2016 election circumstance. Suggested in *Graph CLW-3*—plotted for the last 47 years—the latest readings of Confidence and Sentiment recently have recovered levels seen in periods of normal, positive economic activity of the last four decades, with their six-month moving averages at levels last seen going into the 2001 recession, although they appear to be topping out.

Graph CLW-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2017)

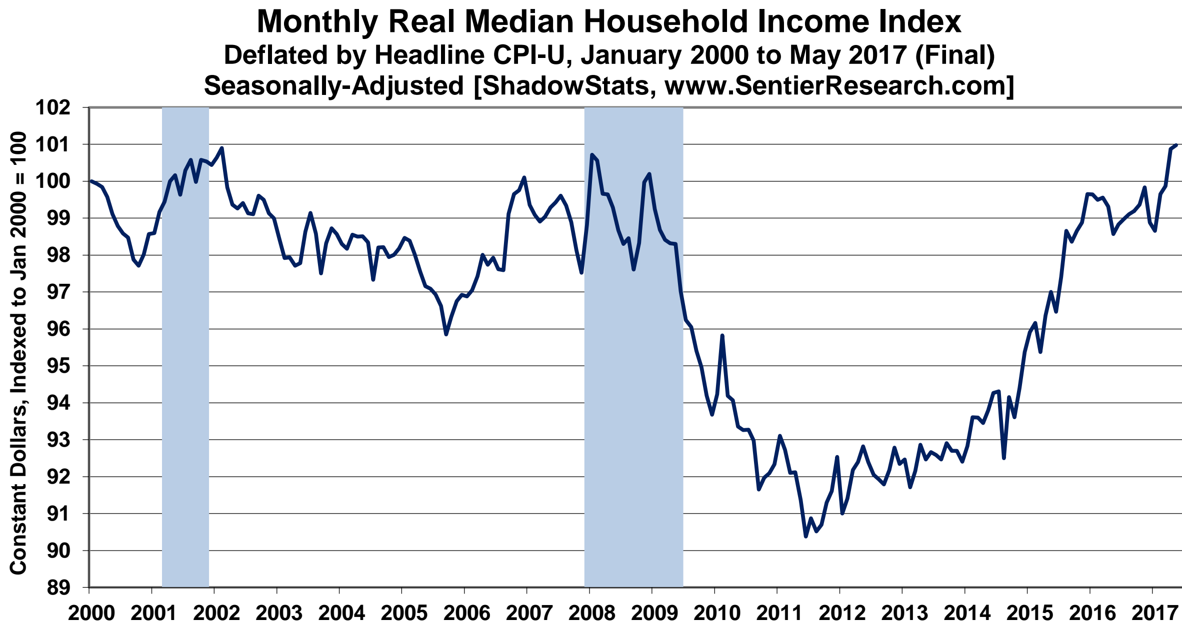


2016 Annual Real Median Household Income Still Was Below Its 2007 Pre-Recession High, Below Activity in the Late-1990s, About Even with the Mid-1970s. The measure of real monthly median household income, which has been provided by www.SentierResearch.com, generally can be considered as a monthly version of the annual detail shown in *Graph CLW-4*, based on the annual detail recently released by the Census Bureau and as discussed the *Opening Comments* of *Commentary No. 909*.

Graph CLW-4: Annual Real Median U.S. Household Income (1967 to 2016)



Graph CLW-5: Monthly Real Median Household Income (2000 to May 2017) Index, January 2000 = 100

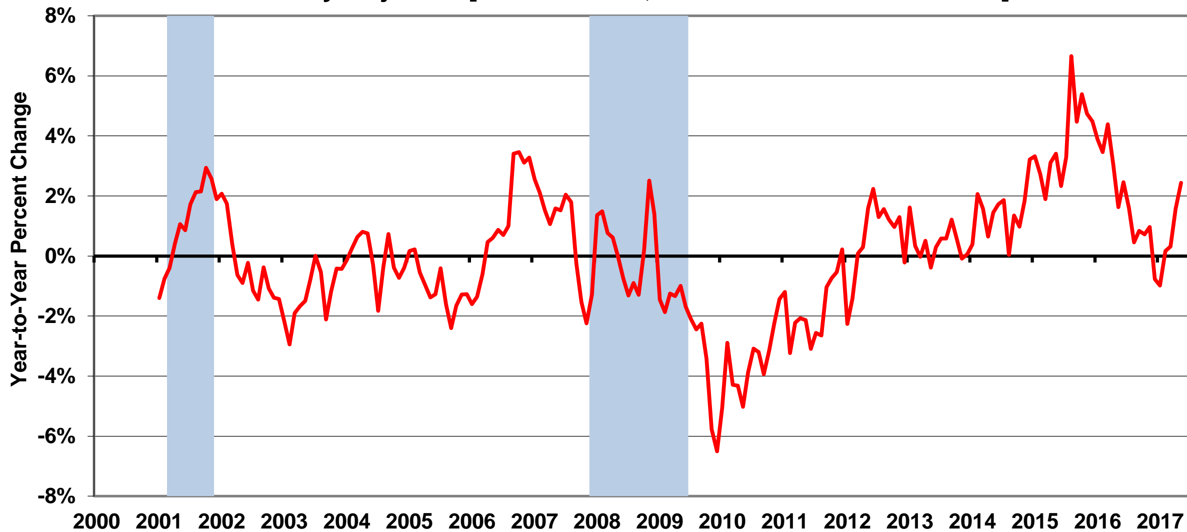


The 3.16% headline gain in 2016 real annual median household income for 2016 left the level of income not only below that seen at the purported pre-recession peak of 2007, but also below levels seen in the late-1990s, and minimally above activity see in the mid-1970s (see *Graph OC-1* in *No. 909*). The Sentier

details, as far as they go, from January 2000 to May 2017, suggested annual real median income was on track for further increase in 2017, having also indicated the 2015 and 2016 annual increases.

Last Monthly Estimate Showed Stagnating Monthly Real Growth. As last reported by Sentier Research, May 2017 Real Median Household Income was statistically unchanged, despite a boost from falling gasoline prices. Discussed in *General Commentary No. 894*, and in the contexts of then-faltering gains in post-election consumer optimism, and inflation-adjusted activity boosted by declining headline Consumer Price Index (CPI-U) inflation (weakened by seasonally-adjusted gasoline price declines), May 2017 Real Median Monthly Household Income was "statistically unchanged" (a statistically-insignificant monthly gain of 0.10%). That followed a statistically-significant monthly gain of 1.00% in April 2017. Shown in *Graph CLW-4*, such enabled May 2017 real monthly median household income to hold a level regained in April and otherwise last seen in February 2002. Year-to-year real median household income rose to 2.44% in May 2017, the highest level since June 2016, following an annual gain of 1.57% in April 2017 (see *Graph CLW-5*). The May detail, however, may have been the final reporting of the monthly series (see the *Special Note* that follows).

Graph CLW-6: Monthly Real Median Household Income (2000 to May 2017) Year-to-Year Change



Where real monthly median income plunged into the headline trough of the economic collapse in 2009, it did not then rebound in tandem with the headline GDP activity. When the GDP purportedly started its solid economic recovery in mid-2009, the monthly household income numbers nonetheless plunged to new lows, hitting bottom in 2011. The income series then held in low-level stagnation, until collapsing gasoline prices and the resulting negative CPI-U inflation drove a post-2014 uptrend in the inflation-adjusted monthly income index. The index approached pre-recession levels in the December 2015 reporting, but it remained minimally below the pre-recession highs for both the formal 2007 and 2001 recessions until recent months. Real median household income had the potential to resume turning down anew, as the headline pace of monthly consumer inflation picked up anew, with the August 2017 CPI.

Nonetheless, the most-recent recent "rebound" reported in the series still left consumers financially strapped. Where lower gasoline prices had provided some minimal liquidity relief to the consumer,

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indications are that any effective extra cash largely was used to help pay down unsustainable debt or other obligations, not to fuel new consumption. Except for mixed gyrations in first-half 2017, the effects of changing gasoline prices in the headline CPI-U generally had reversed, pushing headline consumer inflation higher and beginning to push real income lower.

Differences in the Monthly versus Annual Median Household Income. The general pattern of relative monthly historical weakness has been seen in the headline reporting of the annual Census Bureau numbers, again, shown in *Graph CLW-4*, with 2014 real annual median household income having hit a ten-year low, and, again, with the historically-consistent 2015 and 2016 annual number still holding below the 2007 pre-recession high. The Sentier numbers had suggested a small increase in 2014 versus 2013 levels, low-inflation induced real increases in 2015 and 2016. Allowing for the direction difference in 2014, and continual redefinitions and gimmicks in the annual series (again, see the *Opening Comments* of *Commentary No. 909*) the monthly and annual series had remained broadly consistent, although based on separate questions within the Consumer Population Series (CPS), as conducted by the Census Bureau.

Where Sentier used monthly questions surveying current annual household income, the headline annual Census Bureau detail is generated by a once-per-year question in the March CPS survey, as to the prior year's annual household income. The Median Household Income surveying results are broadly consistent with Real Average Weekly Earnings.

Special Note**:** Accompanying the release of the May 2017 data by Sentier Research was this Notice of Final Report:

> Dear Friends, This will be our final report in the monthly series of median household income. We can no longer afford to provide these estimates given our current level of resources. We believe, as we hope you do, that these estimates provided an important new dimension regarding the economic situation of American households as we slowly climbed out of the Great Recession. The story continues but we must move on. Our hope is that someone will be able to continue this work. Should you or someone you know be interested please contact us. Thanks to all of you for your kind support.. John and Gordon

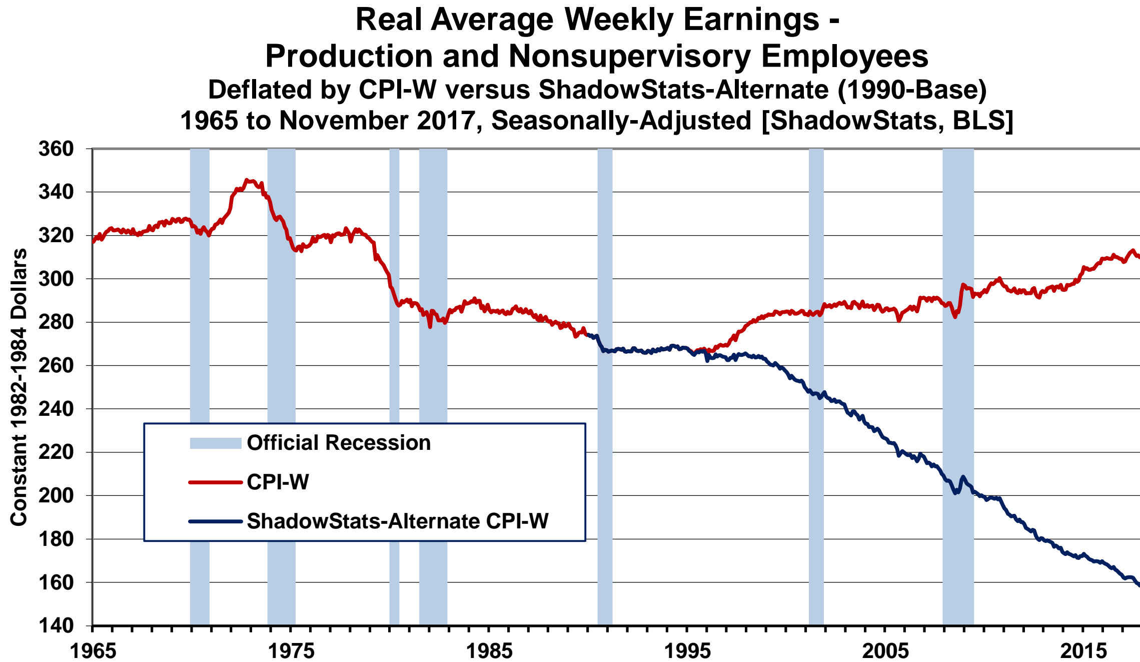
ShadowStats hopes a circumstance will unfold that enables continued reporting of this extraordinarily valuable and timely indicator of consumer liquidity. Gordon Green and John Coder, the authors of the monthly report, both are former senior officials at the U.S. Census Bureau and have a unique understanding of the underlying monthly data. The Census Bureau publishes a broadly-similar series on an annual basis, but with an extraordinary time lag. The 2016 Census annual detail is due for release and publication in September 2017. Again, see *Commentary No. 833* for the 2015 detail published in 2016.

Real Average Weekly Earnings—November 2007—Monthly Real Earnings Continued to Contract, Fourth-Quarter on Solid Track for Second Consecutive Quarterly Contraction. For the production and nonsupervisory employees category—the only series for which there is a meaningful history (see the full discussion on in today's *Reporting Detail*, the regularly-volatile, real average weekly earnings declined month-to-month in November 2017, the third month down in the last four. With a revised, deepened quarterly contraction for third-quarter 2017 activity, the quarterly contraction unfolding for fourth-quarter 2017 also deepened, with two out of three months in place.

Graph CLW-7 plots the seasonally-adjusted earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating Social Security cost-of-living adjustments) helped to prop up the reported real earnings. Official real

earnings today still have not recovered their inflation-adjusted levels of the early-1970s, and, at best, have been in a minimal uptrend for the last two decades (albeit spiked recently by negative headline inflation). Deflated by the ShadowStats (1990-Based) measure, real earnings have been in fairly-regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W. See the *Public Commentary on Inflation Measurement* for further detail.

Graph CLW-7: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date



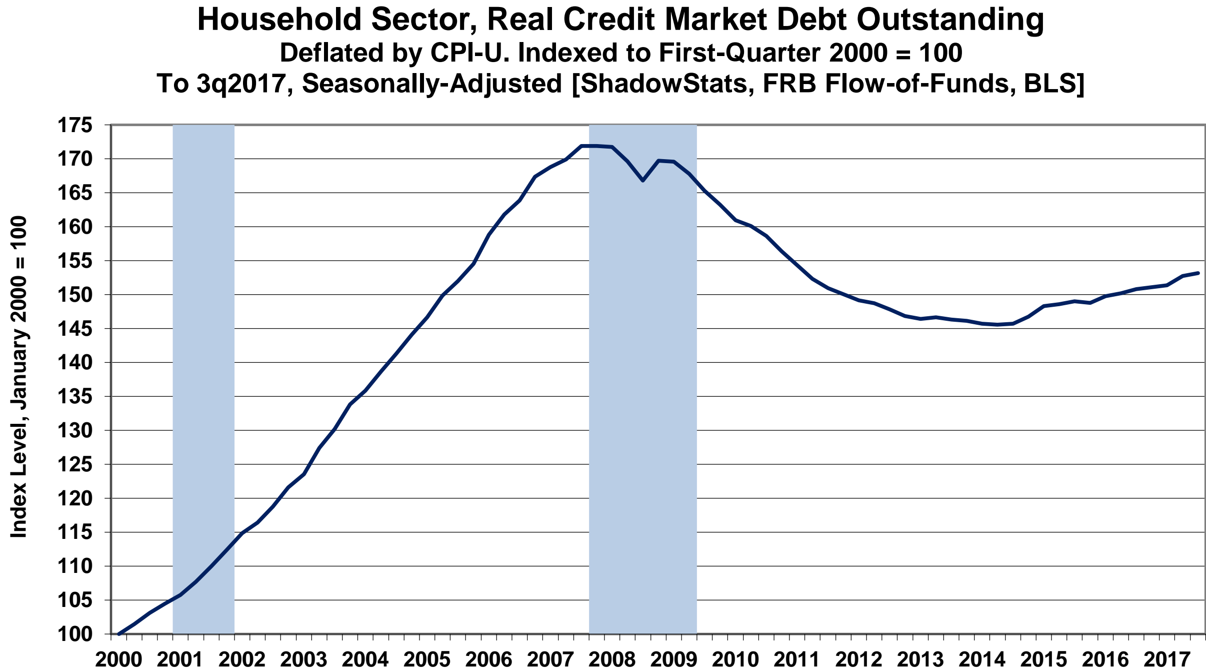
Consumer Credit: Lack of Meaningful Real Consumer Credit Growth Remains an Economic Constraint. The final four graphs on consumer conditions address consumer borrowing. Where debt expansion can help make up for a shortfall in income growth, adequate expansion of consumer debt, which would help fuel growth in personal consumption, has been lacking.

Quarterly Series. Consider *Graph CLW-8* of *Household Sector, Real Credit Market Debt Outstanding*. The level of real household debt declined in the period following the Panic of 2008, reflecting loan defaults and reduced banking lending, and it has not recovered fully, based on the Federal Reserve's flow-of-funds accounting through third-quarter 2017, released on December 7th. Household Sector, Real Credit Market Debt Outstanding in third-quarter 2017 still was down by 10.9% (-10.9%) from its pre-recession peak of third-quarter 2007. That was against a second-quarter 2017 decline of 11.2% (-11.2%). The flattened visual uptick at the latest point in *Graph CLW-8* reflected a slowing in real year-to-year change from 1.70% in second-quarter 2017, to 1.55% in third-quarter 2017.

The series includes mortgages, automobile and student loans, credit cards, secured and unsecured loans, etc., all deflated by the headline quarterly CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting, among other issues, lack of normal lending by the banking system into the regular flow of commerce. The slight upturn seen in the series through 2015 and into 2016 was

due primarily to gasoline-price-driven, negative CPI inflation, which continued to impact the system through second-quarter 2016 and intermittently into second-quarter 2017. Current activity also has reflected continuing relative strength from student loans, as shown in the *Graphs CLW-9* to *CLW-11*.

Graph CLW-8: Household Sector, Real Credit Market Debt Outstanding (2000 through Third-Quarter 2017)



Monthly Series. The ShadowStats analysis usually focuses on the particular current and continuing weakness in monthly levels of consumer credit, net of what has been rapidly expanding government-sponsored student loans. Where detail on that series is only available not-seasonally-adjusted, the following three graphs are so plotted.

Shown through the October 2017 reading (released December 7th), *Graph CLW-9* of monthly Consumer Credit Outstanding is a subcomponent of the preceding *Graph CLW-8* on real Household Sector debt. Where *Graph CLW-9* reflects the nominal reporting, real or inflation-adjusted activity for monthly Consumer Credit Outstanding is shown in terms of both level (Graph CLW-10) and year-to-year change (*Graph CLW-11*).

Post-2008 Panic, growth in outstanding consumer credit has continued to be dominated by growth in federally-held student loans, not in bank loans to consumers that otherwise would fuel broad consumption or housing growth. Although in slow uptrend, the nominal level of Consumer Credit Outstanding (ex-student loans) has not recovered since the onset of the recession. These disaggregated data are available and plotted only on a not-seasonally-adjusted basis, with the pattern of monthly levels during one year reflecting some regular, unadjusted seasonal dips or jumps.

Adjusted for inflation, the lack of recovery in the ex-student loan area is more obvious. Although the recent monthly upside move in the not-seasonally-adjusted consumer credit reflected a seasonal pattern, the pace of year-to-year growth has continued to slow sharply, suggesting some tightening of credit conditions. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in

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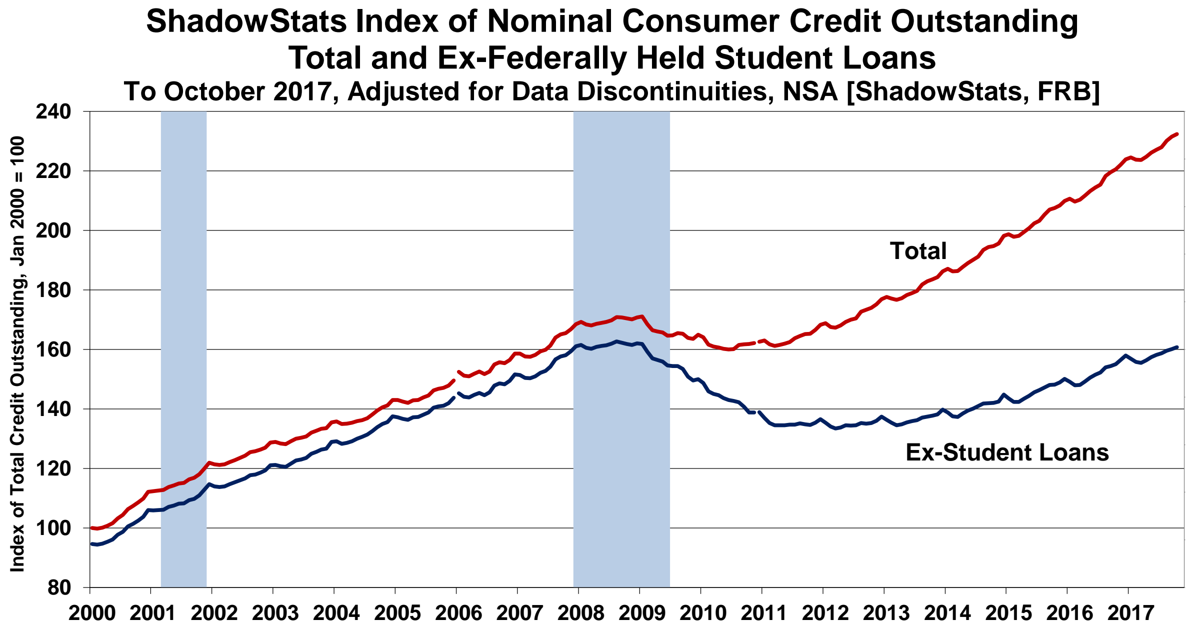
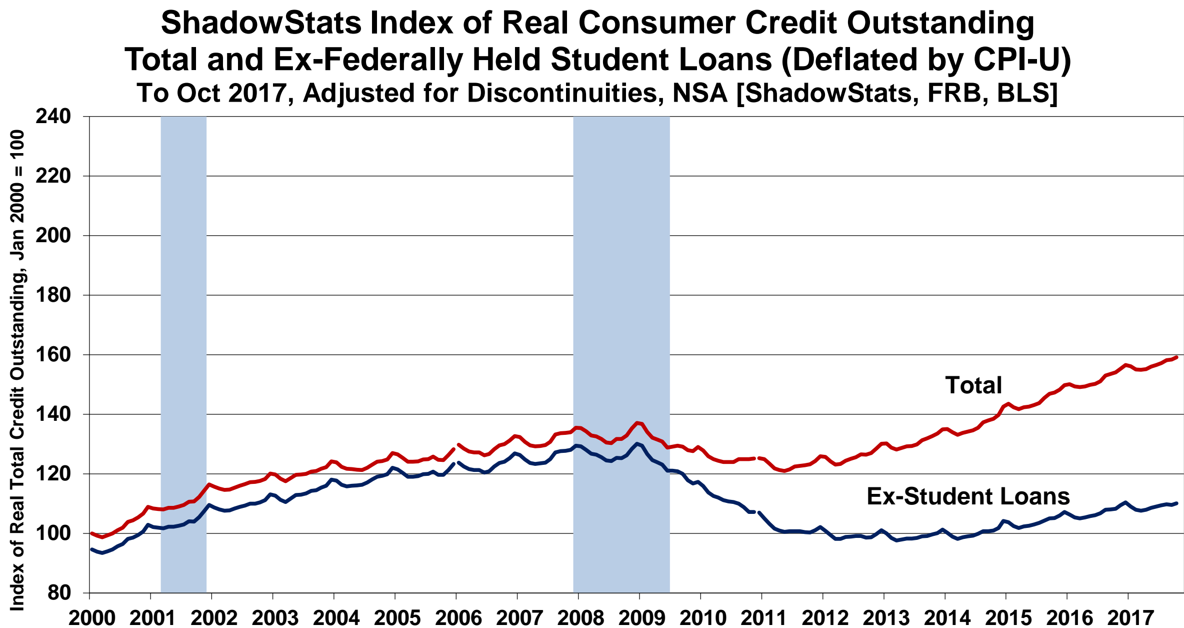
October 2017 was down from its December 2007 pre-recession peak by 15.0% (-15.0%) [that previously had been down by 12.3% (-12.3%) in June 2017, before a recent downside revision to the last five years of activity]. Year-to-year real growth shown in *Graph CLW-11* tends to resolve most of the monthly distortions in the not-seasonally-adjusted data.

Graph CLW-9: Nominal Consumer Credit Outstanding (2000 to 2017)



Graph CLW-10: Real Consumer Credit Outstanding (2000 to 2017)



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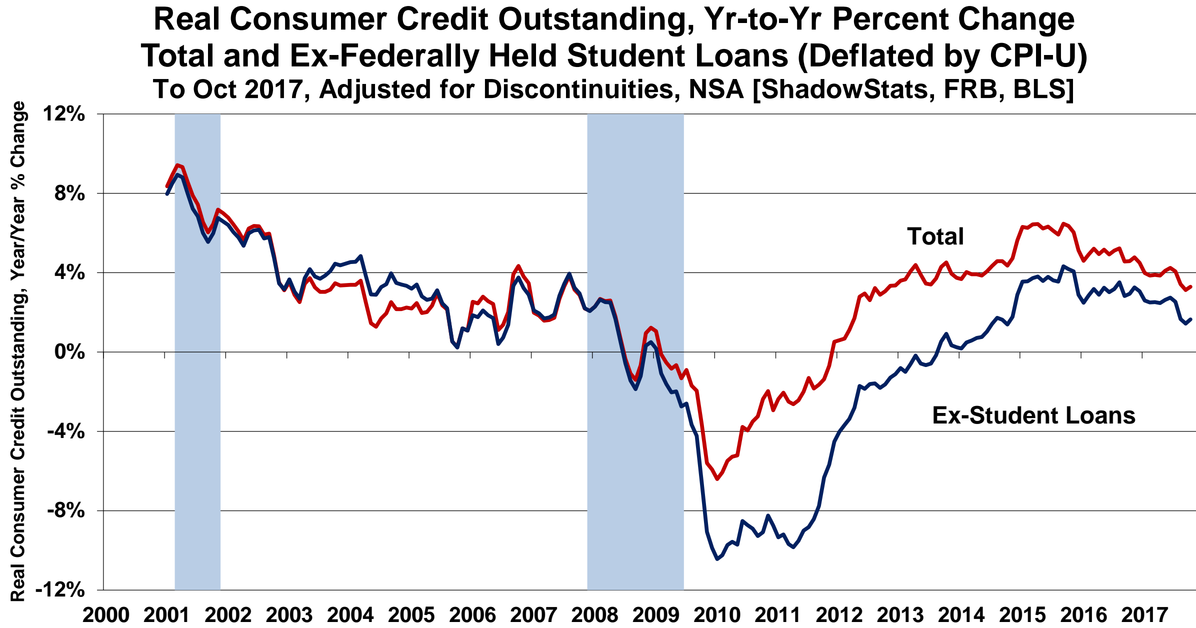
Graph CLW-11: Year-to-Year Percent Change, Real Consumer Credit Outstanding (2000 to 2017)



WEEK, MONTH AND YEAR AHEAD

U.S. Dollar and Financial-Market Instabilities and Turmoil Remain at High Risk, Along with Continued Deterioration of Domestic and Global Economic and Political Circumstances. Irrespective of heavy press hype to the contrary, and in the context recent FOMC tightening, despite Federal Reserve Chair Yellen's perception of a "highly uncertain" economic outlook, the economy indeed is not recovering or booming. Allowing for hurricane disruptions and recovery from same, most series should be back to normal, reflecting "unexpected" downtrending economic activity, by the time of headline reporting for most of January and February 2018 economic activity.

Negative economic "surprises" increasingly should shock the markets and the U.S. dollar on the downside. As the reported the economic downturn intensifies, the FOMC most likely will be forced into an "unexpected" policy retrenchment, moving back towards quantitative easing as outlined in Federal Reserve policy.

In such circumstances, the U.S. dollar and financial markets remain at extraordinarily-high risk of panicked declines, increasingly likely in the very near term. Today's (December 19th) *Opening Comments* and an expanded *Hyperinflation Watch* review some background to real-world economic

conditions, continuing from the *Opening Comments* and brief *Hyperinflation Watch* of *Commentary No. 925*. Those comments speak for themselves.

Holding physical gold and silver remain the ultimate hedges—stores of wealth—for preserving the purchasing power of one's U.S. dollar assets, in the context of liquidity and portability during times of high inflation and currency debasement, and/or political-system upheaval, discussed regularly here. See the comments linked to other recent *Hyperinflation Watches*, provided in the next section.

Following this note, other than for the *Pending Releases* paragraphs and updated links, language changes in this section from the prior *Commentary No. 926* are minimal. Please call (707) 763-5786, if you would like to discuss current circumstances, or otherwise. *Best wishes – John Williams*

***Recent* Hyperinflation Watch *and* Special Comments.** Previous background to the markets and potential near-term FOMC activity have been reviewed recently in the *Hyperinflation Watches* of *Commentary No. 920* and *Special Commentary No. 918-B* of October 30th, with the nomination for the new Fed Chairman, as touched upon in the *Hyperinflation Watch* *Commentary No. 919-A* of November 3rd, not likely to have immediate, near-term market impact.

Discussed in *Hyperinflation Watch* of *Commentary No. 909*, given the continuing and broadening weakness in the U.S. economy and shifting political instabilities/circumstances in Washington, mixed pronouncements of sharp, near-term rate hikes and aggressive balance-sheet liquidation remain unlikely to solidify as promised. Accordingly, selling pressure against the U.S. dollar still should re-intensify, shortly, pressuring inflation and the prices of precious metals on the upside. Increasingly, foreign capital should flee the U.S. equity and credit markets at an accelerating pace.

In the context of the *Opening Comments* and *Hyperinflation Watch* of the August 14th *Special Commentary No. 904* and the *Opening Comments* of *Commentary No. 905*, underlying reality remains a weakening and vulnerable, seriously-impaired U.S. economy, as seen, for example with the latest employment and construction detail, and in likely weak data in the week ahead, all amidst continuing domestic and global political instabilities and unfolding natural disasters.

Unfolding circumstances still threaten the promised shift in FOMC policy, combined with the mounting political discord discussed in *Special Commentary No. 904* (see also the *Opening Comments* of *Commentary No. 901* and *Special Commentary No. 888*), odds continue to mount for intensifying financial-market turmoil in the near future, particularly as would be triggered by a market-related, intensifying heavy sell-off in the U.S. Dollar.

Broad economic activity never recovered fully from its crash into 2009, and it has started to turn down anew. As explored previously in the *Hyperinflation Watches* of *Commentary No. 899* and *General Commentary No. 894*, and further to the *Opening Comments* and *Hyperinflation Watch* of *Commentary No. 892*, headline economic reporting during June, July and early August of 2017, had shown a marked downturn versus consensus forecasts. While these circumstances usually signal an unfolding, major downshift in underlying economic reality, at present, they also forewarn of a potential shift in FOMC activity. Where such an event remains well removed from consensus expectations, at this time, in terms of Fed policy, that would mean a cessation of incremental rate hikes and a shift back towards expanded quantitative easing.

Immediate effects of such a policy change likely would include a massive sell-off in the U.S. dollar, which otherwise has been propped by recent FOMC rate hikes and continual jawboning for same. In

parallel, heavy selling in the U.S. equity and credit markets would follow. As consensus economic forecasts have begun to soften, so too has the U.S. dollar exchange rate, while gold prices generally have firmed.

The circumstances here and the outlook still remain as broadly outlined in *No. 859 Special Commentary*; currently shifting headlines only reflect the continued movement and evolution forward in time of the Fed's difficulties discussed in that missive.

The problem for the Federal Reserve remains that faltering domestic economic activity stresses banking-system solvency. Aside from formal obligations of the Fed to maintain healthy domestic economic and inflation conditions, the central bank's primary function (in practice) always has been to keep the banking system afloat. The near-absolute failure of that function in 2008 remains the primary ongoing and unresolved problem for the Fed, and it continues as one of the ongoing primary issues preventing the return of U.S. economic activity to normal functioning. Contrary to the recent purported headline comments of "not in our lifetime" by Federal Reserve Chair Janet Yellen, the continued unfolding of "unexpected" economic deterioration suggests that the next major systemic financial crisis is likely to break in the next several months.

Generally, 2017 benchmark revisions to Construction Spending (see *Commentary No 897*), the Trade Deficit (*Commentary No. 890*), Industrial Production (*Commentary No. 877*), Manufacturers' Shipments (*Special Commentary No. 888*), Housing Starts (*Commentary No. 887*) and Retail Sales (*Commentary No. 882*), and reporting subsequent to the benchmarks, confirmed that historical activity in recent years has been overstated and/or that it was turning down anew, particularly in 2015, with the availability of better-quality historical detail. Again, that is despite some recent near-term improvement in details, such as the headline unemployment rate, which increasingly suffers from dysfunctional definitional and sampling issues, and the latest headline GDP detail.

The reporting patterns of the better-quality, less-gimmicked series likely will continue to weaken with increasing intensity in the weeks and months ahead. Adding a negative uncertainty to unfolding financial-market risks remains potential political surprise, discussed in *Special Commentary No. 888*. Otherwise, the broad outlook has not changed. Reflected in common experience, actual U.S. economic activity generally continues in stagnation or downturn, never having recovered its level of pre-economic-collapse (its pre-2007-recession peak), while the latest GDP reporting shows an otherwise unconfirmed economic expansion of 14.4%.

Discussed in *No. 859 Special Commentary*, the Trump Administration continues to face extraordinarily difficult times, but still has a chance to turn the tide on factors savaging the U.S. economy and on highly negative prospects for long-range U.S. Treasury solvency and stability. Any forthcoming economic stimulus faces a nine-month to one-year lead-time, once in play, before it meaningfully affects the broad economy. Increasing and continuing delays from political discord continue to push targeted programs back in time. Needed at the same time are a credible plan for bringing the U.S. long-term budget deficit (sovereign solvency issues) under control and action to bring the Federal Reserve under control and/or to reorganize the banking system. These actions broadly are necessary to restore domestic-economic and financial-system tranquility (see *No. 859*), but they cannot happen without the meaningful participation and cooperation of Congress. The financial crisis at hand likely will intensify well before the 2018 Congressional Election will have any chance to stabilize the political outlook for economic policy.

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No. 859 Special Commentary updated the post-election, near-term economic and inflation conditions, including general economic, inflation and systemic distortions, which had evolved out of the Panic of 2008, have continued in play and, again, need to be addressed by the Trump Administration and Congress (see also the *Hyperinflation Watch* of *Commentary No. 862* and *Commentary No. 869*).

Contrary to the official reporting of an economy that collapsed from 2007 into 2009 and then recovered strongly into ongoing expansion, underlying domestic reality remained and remains that the U.S. economy started to turn down somewhat before 2007, collapsed into 2009 but never recovered fully. While the economy bounced off its 2009 trough, it entered a period of low-level stagnation and then began to turn down anew in December 2014, a month that eventually should mark the beginning of a "new" formal recession (see *General Commentary No. 867*). Formal economic expansion does not begin until economic recovery breaks above its pre-recession high.

Coincident with and tied to the economic crash and the Panic of 2008, the U.S. banking system moved to the brink of collapse, a circumstance from which U.S. and global central-bank policies never have recovered. Unwilling to admit its loss of systemic control, the Federal Reserve has made loud noises in the last year or so of needing to raise interest rates, in order to contain an "overheating" economy, but that "overheating" activity—never recognized by Main Street, U.S.A.—has been fading quickly. As this ongoing crisis evolves towards its unhappy end, the U.S. dollar ultimately should face unprecedented debasement with a resulting runaway domestic inflation.

Broad economic and systemic conditions are reviewed regularly, with the following *Commentaries* of particular note: *Commentary No. 902-B*, *General Commentary No. 894*, *Special Commentary No. 885*, *Commentary No. 869*, *No. 859 Special Commentary*, *No. 777 Year-End Special Commentary* (December 2015), *No. 742 Special Commentary: A World Increasingly Out of Balance* (August 2015) and *No. 692 Special Commentary: 2015 - A World Out of Balance* (February 2015). Those publications updated hyperinflation and economic outlooks published in *2014 Hyperinflation Report—The End Game Begins – First Installment Revised* (April 2014) and *2014 Hyperinflation Report—Great Economic Tumble – Second Installment* (April 2014). The two *Hyperinflation* installments remain the primary background material for the hyperinflation circumstance. Other references on underlying economic reality are the *Public Commentary on Inflation Measurement* and the *Public Commentary on Unemployment Measurement*.

Recent Commentaries. *[Listed here are* Commentaries *of the last month or so, plus recent* Special Commentaries *and others covering a variety of non-monthly issues, including annual benchmark revisions, dating back through the beginning of 2017. Please Note: Complete ShadowStats archives back to 2004 are found at www.ShadowStats.com (left-hand column of home page).]*

Commentary No. 926 (December 15th) reviewed the headline November 2017 numbers for Retail Sales (both real and nominal), and Industrial Production, along a discussion on the dampening economic impact of business and consumer "uncertainty."

Commentary No. 925 (December 13th) reviewed November 2017 headline detail on the CPI and PPI, along with an update on the FOMC actions and the regular U.S. dollar, gold graphs.

Commentary No. 924 (December 8th) discussed the November 2017 Employment and Unemployment details and Conference Board Help Wanted OnLine® Advertising, the October Trade Deficit and Construction Spending and updated Monetary Conditions in November.

Commentary No. 923 (November 29th) covered the second estimate of Third-Quarter 2017 GDP, including initial estimates for Third-Quarter GNP, GDI and Per Capita Real Disposable Income, the October Trade Deficit, Cass Freight Index and New-Home Sales.

Commentary No. 922 (November 22nd) reviewed October 2017 New Orders for Durable Goods and Existing-Home Sales.

Commentary No. 921 (November 17th) reviewed October 2017 Industrial Production, Housing Starts and Building Permits.

Commentary No. 920 (November 15th) reviewed October 2017 Retail Sales along with the monthly Consumer and Producer Price Indices (CPI and PPI) and updated *Hyperinflation Watch*.

Commentary No. 919-B (November 6th) provided more in-depth detail on the October 2017 labor detail.

Commentary No. 919-A (November 3rd) provided initial detail and background on October labor data, and reviewed the October 2017 Conference Board Help Wanted OnLine® Advertising, the September Cass Freight Index™, Trade Deficit and Construction Spending, and updated Monetary Conditions.

Special Commentary No. 918-B (October 30th) provided a more comprehensive review of the initial third-quarter 2017 GDP detail, along with update versions of the *Hyperinflation Watch* and *Consumer Liquidity Watch*.

Advance Commentary No. 918-A (October 27th) provided a brief summary of the headline detail of the first or “advance” estimate of third-quarter 2017 GDP.

Commentary No. 917 (October 26th/27th) reviewed September Industrial Production, New Orders for Durable Goods, New Residential Construction (Housing Starts and Building Permits) and New- and Existing-Home Sales.

Commentary No. 916 (October 20th) reviewed the September 2017 Retail Sales details along with the headline Consumer and Producer Price Indices for September.

Commentary No. 915 (October 6th) reviewed the September 2017 Employment and Unemployment details, along with September 2017 monetary conditions.

Commentary No. 913 (September 28th) reviewed the third-estimate of second-quarter 2017 GDP, with a further consideration of some unusual economic reporting in the near future.

Commentary No. 910 (September 15th) reviewed the August 2017 releases of Industrial Production and nominal and real Retail Sales.

Commentary No. 909 (September 14th) assessed the annual release of 2016 Real Median Household Income, along with a review of August Consumer Price Index (CPI) and the Producer Price Index (PPI) and an updated *Alert* on the financial markets

Commentary No. 908-B (September 6th) provided extended detail of the August 2017 Labor and Monetary conditions and July 2017 Construction Spending, along with coverage of the July 2017 Trade Deficit and the initial estimate of the 2017 Payroll Employment benchmarking.

Special Commentary No. 904 (August 14th) issued an “Alert” on the financial markets (including U.S. equities, the U.S. dollar gold and silver, as well as FOMC policy), in the context of historical activity and

unfolding circumstances of deteriorating economic and political conditions. Separately, headline details were reviewed for the July Consumer Price Index (CPI) and the Producer Price Index (PPI).

Commentary No. 903 (August 7, 2017) discussed new signals of economic deterioration in terms of political and FOMC considerations, along with headline coverage of the July labor data, M3 and The Conference Board Help Wanted OnLine®, and June trade deficit and construction spending.

Commentary No. 902-B (July 31, 2017) reviewed the 2017 annual benchmark revisions of GDP and related series, along with the “advance” estimate of second-quarter 2017 GDP.

Commentary No. 900 (July 19, 2017) reviewed June 2017 New Residential Investment (Housing Starts and Building Permits), and previewed the upcoming annual GDP benchmark revisions and the coincident “advance” estimate of second-quarter 2017 GDP.

Commentary No. 897 (July 6, 2017) reviewed the headline May 2017 Construction Spending and the annual revisions to same, along the May Trade Deficit, and June The Conference Board Help Wanted OnLine® Advertising and the May Cass Freight Index™.

General Commentary No. 894 (June 23, 2017) reviewed unfolding economic, financial and political circumstances in the context of market expectations shifting towards an “unexpected” headline downturn in broad economic activity, along with headline details on May 2017 Real Median Household Income (Sentier Research) and New- and Existing-Home Sales.

Commentary No. 890 (June 5, 2017) covered the negative-downside annual benchmark revisions to the trade deficit, the May 2017 estimates of labor conditions, ShadowStats Ongoing Money Supply M3, The Conference Board Help Wanted OnLine® Advertising and April 2017 estimates of the Cass Freight Index™, and the monthly trade deficit and construction spending.

Special Commentary No. 888 (May 22, 2017) discussed evolving political circumstances that could impact the markets and the economy, reviewed the annual benchmark revisions to Manufacturers’ Shipments and New Orders for Durable Goods and updated Consumer Liquidity Conditions.

Commentary No. 887 (May 18, 2017) reported on the April 2017 detail for Industrial Production and Residential Construction (Housing Starts), with some particular attention to historic, protracted periods of economic non-expansion, of which the current non-recovery is the most severe.

Special Commentary No. 885, entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, (May 8, 2017) reviewed the unusual nature of the headline reporting of the April 2017 employment and unemployment details.

Commentary No. 882 (April 27, 2017) summarized the annual benchmark revisions to Retail Sales and reviewed the March 2017 releases of New Orders for Durable Goods and New- and Existing-Home Sales.

Commentary No. 877 (April 2, 2017) outlined the nature of the downside annual benchmark revisions to industrial production, along with implications for pending annual revisions to Retail Sales, Durable Goods Orders and the GDP.

Commentary No. 876 (March 30, 2017) current headline economic activity in the context of formal definitions of the business cycle (no other major series come close to the booming GDP, which is covered in its third revision to fourth-quarter activity. Also the February 2017 SentierResearch reading on real median household income was highlighted.

Commentary No. 875 (March 24, 2017) assessed and clarified formal definitions of the U.S. business cycle, which were expanded upon significantly, subsequently, in *No. 876*. It also provided the standard

review of the headline February 2017 New Orders for Durable Goods, New- and Existing-Home Sales and the Cass Freight Index™.

General Commentary No. 867 (February 24, 2017) assessed mixed signals for a second bottoming of the economic collapse into 2009, which otherwise never recovered its level of pre-recession activity. Such was in the context of contracting and faltering industrial production that now rivals the economic collapse in the Great Depression as to duration. Also covered were the prior January 2017 New- and Existing Home Sales.

Commentary No. 864 (February 8, 2017) analyzed January 2017 Employment and Unemployment detail, including benchmark and population revisions, and estimates of December Construction Spending, Household Income, along with the prior update to Consumer Liquidity.

Commentary No. 861 (January 13, 2017) covered the December 2016 nominal Retail Sales, the PPI, with a brief look at some summary GAAP reporting on the U.S. government's fiscal 2016 operations.

No. 859 Special Commentary (January 8, 2017) reviewed and previewed economic, financial and systemic developments of the year passed and the post-election year ahead.

Note on Reporting-Quality Issues and Systemic-Reporting Biases. In the context of historical background provided in *Special Commentary No. 885*: *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, significant reporting-quality problems remain with most major economic series. Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, which have tended both to understate inflation and to overstate economic activity meaningfully—as generally viewed in the common experience of Main Street, U.S.A.—ongoing, near-term headline reporting issues often reflect systemic distortions of monthly seasonal adjustments.

Data instabilities—induced partially by the still-evolving economic turmoil of the last eleven years—have been without precedent in the post-World War II era of modern-economic reporting. The severity and ongoing nature of the downturn provide particularly unstable headline economic results, with the use of concurrent seasonal adjustments (as seen with retail sales, durable goods orders, employment and unemployment data). While historical seasonal-factor adjustments are revised every month, based on the latest, headline monthly data, the consistent, revamped historical data are not released or reported at the same time. That issue is discussed and explored in the labor-numbers related *Supplemental Commentary No. 784-A* and *Commentary No. 695*.

Further, discussed in *Commentary No. 778*, a heretofore unheard of spate of "processing errors" surfaced in 2016 surveys of earnings (Bureau of Labor Statistics) and construction spending (Census Bureau). This is suggestive of deteriorating internal oversight and control of the U.S. government's headline economic reporting. That construction-spending issue now appears to have been structured as a gimmick to help boost the July 2016 GDP benchmark revisions, aimed at smoothing the headline reporting of the GDP business cycle, instead of detailing the business cycle and reflecting broad economic trends accurately, as discussed in *Commentary No. 823*.

Combined with ongoing allegations in the last several years of Census Bureau falsification of data in its monthly Current Population Survey (the source for the BLS Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular -economic series (see *Commentary No. 669*). Investigative-financial/business reporter John Crudele of the

New York Post has written extensively on such reporting irregularities: *Crudele Investigation*, *Crudele on Census Bureau Fraud* and *John Crudele on Retail Sales*.

PENDING ECONOMIC RELEASES: ***Updated*** **- Existing- and New-Home Sales (November 2017).** Reporting of November 2017 Existing-Home Sales is due for release on Wednesday, December 20th, from the National Association of Realtors (NAR), while November 2017 New-Home Sales from the Census Bureau is scheduled for Friday, December 22nd. Both series will be covered in *Commentary No. 928* of December 22nd.

The extreme liquidity bind besetting consumers continues to constrain residential real estate activity, as discussed the *Consumer Liquidity Watch* and as reviewed in the *Consumer Liquidity* section of *No. 859 Special Commentary*. Without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for income shortfall, the U.S. consumer remains unable to sustain positive growth in domestic personal consumption, including residential real estate activity and related demand for residential construction. That circumstance—in the last ten-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity.

Where the private housing sector never recovered from the business collapse of 2006 into 2009, there remains no chance of a near-term, sustainable turnaround in home-sales activity, without a fundamental upturn in consumer and banking-liquidity conditions. That does not appear to be in the offing. Smoothed for month-to-month variability, patterns of low-level downtrending stagnation should continue in play for the Existing-Home Sales series. Consensus expectations appear to be to the upside for existing-home sales, the more-stable series, and to the downside for new-home sales, following a regularly unstable and large headline sales surge in October. Risks remain to the downside of consensus for both series.

Updated **- Gross Domestic Product—GDP (Third-Estimate, Second-Revision of Third-Quarter 2017).** The Bureau of Economic Analysis (BEA) will release its third estimate of, second- revision to Third-Quarter 2017 GDP on Thursday, December 21st, along with the second estimates of, first revisions to Third-Quarter 2017 Gross Domestic Income (GDI) and Gross National Product (GNP), all to be covered in *Commentary No. 928* of December 22nd.

Given the BEA's rush to get the GDP revisions out a week early, ahead of the Christmas holiday, meaningful revisions to the previous headline estimate of annualized real third-quarter 2017 real growth of 3.30% are not likely, and that is consistent with consensus expectations.

Updated **- New Orders for Durable Goods (November 2017).** The Census Bureau will report November New Orders for Durable Goods on Friday, December 22nd, to be covered in *Commentary No. 928* of that date. Net of irregular activity in commercial aircraft orders, aggregate orders likely continued a pattern of downtrending real stagnation, albeit with some possible, residual positive impact on order activity from hurricane disruptions. To the extent that durable goods, ranging from automobiles and furniture to business equipment, were damaged or destroyed in Hurricanes Harvey and Irma, there still

could be some related boost to November orders activity, but November industrial production indicated a winding down in replacement automobiles.

Separately, where commercial aircraft orders are booked for the long-term—years in advance—they have only limited impact on near-term production. Further, by their nature, these types of orders do not lend themselves to seasonal adjustment. As a result, the durable goods measure that best serves as a leading indicator to broad production—a near-term leading indicator of broad economic activity and the GDP—is the activity in new orders, ex-commercial aircraft, adjusted for inflation. Expectations are to the plus-side for the aggregate detail, but the headline change in month-to-month activity is a fair bet to be in contraction, net of the regularly-unstable commercial aircraft orders and net of inflation.

In inflation-adjusted real terms, reflecting PPI-related inflation for "manufactured durable goods," relative month-to-month and year-to-year order activity will be dampened, where month-to-month inflation for November 2017 rose by 0.12%, having gained 0.41% in October and 0.06% in September. Year-to-year annual inflation rose to 1.92% in November 2017, versus 1.86% in October 2017 and 1.74% (see prior *Commentary No. 925*).

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