

**COMMENTARY NUMBER 978 - PART II**

**October Residential Construction, Home Sales, Construction Spending and Revised GDP**

**December 5, 2018**

---

**FOMC Tightening Has Strangled Consumer Liquidity**

**October 2018 U.S. Construction Spending Revised and  
Turned Sharply Lower, Both Before and After Inflation Adjustment,  
Consistent With an Unfolding New Recession**

**Plunging October Residential Construction and Home Sales Numbers All  
Continued in Deepening Downtrends and Intensifying Quarterly Contractions**

**Second Estimate of Third-Quarter 2018 Gross Domestic Product (GDP)  
Annualized Real Growth Was Unrevised at 3.50%, Versus 4.16% in Second-Quarter**

**Yet, Downside Revisions to Motor Vehicle Consumption and Upside Inventory Revisions  
Pushed Third-Quarter Final Sales Down to a Revised 1.23% from 1.43%,  
Versus 5.33% in Second-Quarter 2018**

**Also Hitting GDP Growth, the Record Deficit in Third-Quarter Net Exports  
Expanded in Revision to a New Record Trade Shortfall**

**Negative Early Trend for the Fourth-Quarter Real Merchandise Trade Deficit  
Suggests an Even Greater Net-Exports Hit to Fourth-Quarter 2018 GDP**

**Hints of a Recession-Driven Shift in Federal Reserve Policy  
Intensify Risks of Major Financial-Market Upheaval**

**Watch for U.S. Dollar Weakness/Instability and Spiking Gold and  
Silver Prices; the Dollar and Precious Metals Serve as the  
Canary in the Coal Mine for the Domestic Stock and Bond Markets**

---

**PLEASE NOTE:** The next *Commentary No. 979*, planned for late-Monday, December 10th will provide a full review of the October 2018 Trade Deficit (December 6th release) and November 2018 Employment and Unemployment (December 7th release). Summary details will be posted in the morning ***Daily Update*** on the release dates.

***Hyperinflation and Consumer Liquidity Watches.*** Fully updated [Consumer Liquidity Watch No. 5](#) was posted on November 21st. [Hyperinflation Watch No. 3](#) will be updated in the week ahead as *Hyperinflation Watch No. 4* (targeted for late-Friday, December 7th).

***Daily Update.*** Concurrent summary detail and headlines of new economic releases are posted in the ***Daily Update***, top right hand section of the [www.ShadowStats.com](http://www.ShadowStats.com) home page, usually within two hours of the release. Those details remain posted until covered separately in a subsequent *Commentary*.

The planned ShadowStats Publication Schedule, Schedule Revisions and Notes to Subscribers also are provided regularly in that column.

Your comments and suggestions always are invited.

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

---

**Today's (December 5th) *Continuation of the Reporting Detail*** in the December 1st [Commentary No. 978 - Part I](#) reviews October 2018 Residential Construction, Home Sales and U.S. Construction Spending, along with the first revision to Third-Quarter 2018 Gross Domestic Product (GDP) and the related initial estimates of Third-Quarter 2018 Gross Domestic Income (GDI) and Gross National Product (GNP).

The ***Week, Month and Year Ahead*** section updates the text of *No. 973 ALERT*, previews pending economic releases and provides background on recent *Commentaries*.

---

*Commentary No. 978 – Part II* contents are indexed and linked on following page.

---

## **Prior [Commentary No. 978 - Part I](#) – Major Section Headings**

### **OPENING COMMENTS**

**Mounting Consumer Liquidity Woes Hit the Economy Hard**  
**In Response, Fed Appears to Waffle on Its Rate Hikes and Tightening**  
**Financial-Market Risk Intensifies**  
**Manufacturing, Orders and the Cass Freight Index™ (October 2018)**

### **REPORTING DETAIL**

**Consumer Price Index (October 2018)**  
**Producer Price Index (October 2018)**  
**Retail Sales (October 2018)**  
**Industrial Production (October 2018)**  
**New Orders for Durable Goods (October 2018)**

## **Contents – Commentary No. 978 - Part II, Major Sections and Graphs**

<b>REPORTING DETAIL – Continued from <i>Commentary No. 978 - Part I</i></b>	<b>80</b>
<b>Residential Construction, Investment and Home Sales, Real Construction Spending</b>	<b>80</b>
<b>New Residential Construction (October 2018)</b>	<b>81</b>
<i>Graph 45: Single- and Multiple-Unit Housing Starts (Monthly Rate of Activity, January 2000 to October 2018)</i> .....	84
<i>Graph 46: Single- and Multiple-Unit Starts (Six-Month Moving Average, Monthly Rate of Activity)</i> .....	84
<i>Graph 47: Aggregate Housing Starts (Monthly Rate of Activity, January 2000 to October 2018)</i> .....	85
<i>Graph 48: Aggregate Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)</i> .....	85
<i>Graph 49: Single-Unit Housing Starts (Monthly Rate of Activity, 2000 to October 2018)</i> .....	86
<i>Graph 50: Single-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)</i> .....	86
<i>Graph 51: Multiple-Unit Housing Starts, Two-or-More Units (Monthly Rate of Activity, 2000 to October 2018)</i> .....	87
<i>Graph 52: Multiple-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)</i> .....	87
<i>Graph 53: Building Permits (Annualized Monthly Rate of Activity), 2000 to Date</i> .....	91
<i>Graph 54: Housing Starts (Annualized Monthly Rate of Activity), 2000 to Date</i> .....	91
<i>Graph 55: Building Permits (Six-Month Moving Average), 2000 to Date</i> .....	92
<i>Graph 56: Housing Starts (Six-Month Moving Average), 2000 to Date</i> .....	92
<i>Graph 57: Housing Starts (Annualized Monthly Rate of Activity), 1946 to Date</i> .....	93
<i>Graph 58: Housing Starts (Annualized Monthly Rate of Activity, 6-Mo Moving Avg), 1946 to Date</i> .....	93
<b>New- and Existing-Home Sales (October 2018)</b>	<b>94</b>
<i>Graph 59: New-Home Sales (Monthly Rate of Activity)</i> .....	97
<i>Graph 60: Existing-Home Sales (Monthly Rate of Activity)</i> .....	97

<i>Graph 61: New-Home Sales (Six-Month Moving Average)</i> .....	98
<i>Graph 62: Existing-Home Sales (Six-Month Moving Average)</i> .....	98
<i>Graph 63: Gross Domestic Product – Real Residential Investment (1q2002 to 3q2018)</i> .....	99
<b>Construction Spending (October 2018)</b>	<b>99</b>
<b>Revised Third-Quarter Real Residential Construction Contracted by 12.5% (-12.5%)</b>	<b>99</b>
<i>Graph 64: Year-to-Year Change in Total Real Construction Spending</i> .....	100
Construction Spending - Aggregate Headline Detail .....	102
<i>Graph 65: Aggregate Nominal Construction Spending by Major Sector to Date</i> .....	102
<i>Graph 66: Aggregate Real Construction Spending by Major Sector</i> .....	102
<i>Graph 67: Nominal Private Residential Construction Spend</i> .....	103
<i>Graph 68: Level of Inflation-Adjusted (Real) Total Construction Spending</i> .....	103
<i>Graph 69: Construction Payroll Employment (2000 to Date)</i> .....	104
Patterns of Nominal and Real Construction Activity Compared Across Sectors .....	105
<i>Graph 70: Indexed Nominal versus Real Value of Total Construction</i> .....	105
<i>Graph 71: Indexed Nominal versus Real Value of Private Residential Construction</i> .....	105
<i>Graph 72: Indexed Nominal versus Real Value of Private Nonresidential Construction</i> .....	106
<i>Graph 73: Indexed Nominal versus Real Value of Public Construction</i> .....	106
<b>Gross Domestic Product (Third-Quarter 2018, First Revision)</b>	<b>107</b>
<i>Table III: Second Estimate of Third-Quarter 2018 GDP, Growth Distribution versus the Prior Four Quarters</i> .....	109
<i>Graph 74: Real Merchandise Trade Deficit (First-Quarter 1994 to Early-Fourth Quarter 2018)</i> .....	109
<i>Graph 75: U.S. Net Exports of Goods and Services (2002 to Third-Quarter 2018 GDP, Second Estimate)</i> .....	109
<i>Graph 76: Quarterly GDP in Billions of 2012 Dollars (2000 to 2018), Second-Estimate of Third-Quarter 2018</i> .....	113
<i>Graph 77: Quarterly GDP Real Year-to-Year Change (2000 to 2018), Second-Estimate of Third-Quarter 2018</i> .....	113
<i>Graph 78: Quarterly GDP in Billions of 2012 Dollars (1947-2018), Second-Estimate of Third-Quarter 2018</i> .....	114
<i>Graph 79: Year-to-Year GDP Real Change (1948-2018), Second-Estimate of Third-Quarter 2018</i> .....	114
<i>Graph 80 Annual GDP in Billions of 2012 Dollars (1929-2017)</i> .....	115
<i>Graph 81: Real Annual Percent Change (1930-2017)</i> .....	115
<i>Graph 82: Year-to-Year Inflation, Implicit Price Deflator vs. CPI-U, to Third-Quarter 2018, Second Estimate IPD</i> .....	116
<i>Graph 83: “Corrected” Real GDP Index (First-Quarter 2000 to Second-Estimate of Third-Quarter 2018)</i> .....	118
<i>Graph 84: “Corrected” Real GDP, Year-to-Year Percent Change (First-Quarter 2000 to Third-Quarter 2018)</i> .....	118
<b>WEEK, MONTH AND YEAR AHEAD</b>	<b>120</b>
<b>FOMC Policy Shift Could Trigger Intense Financial Market Turmoil</b>	<b>120</b>
<b>Pending Economic Releases</b>	<b>122</b>
<b>Links to Prior Commentaries and to Hyperinflation and Consumer-Liquidity Watches</b>	<b>123</b>

## REPORTING DETAIL – Continued from [\*Commentary No. 978 - Part I\*](#)

### **Residential Construction, Investment and Home Sales, Real Construction Spending**

#### **Common Threads: Pummeled by Non-Recovering/Deteriorating Consumer-Liquidity Conditions, All Series Here Are in Deepening Downtrend, Still Shy of Recovering Their Pre-Recession Peaks.**

Construction- and real-estate-related economic activity has entered a deepening recession, reflecting intensifying consumer liquidity problems, as discussed in [\*Consumer Liquidity Watch No. 5\*](#). Without sustainable growth in real income, and without the ability or willingness to take on meaningful new debt (including mortgages) in order to make up for an income shortfall, the U.S. consumer remains unable to sustain positive growth in domestic personal consumption, including residential real estate activity and the related pass-through to demand for residential construction, let alone retail sales. That circumstance—in the last twelve-plus years of economic collapse and stagnation—has prevented a normal recovery in broad U.S. economic activity, and is hobbled what had been a potential, minimal recovery into a renewed downturn. Where this circumstance continues as a deepening and fundamental issue for construction and residential real estate activity, the comments here are used as a general back-stop for the latest monthly or quarterly reporting for the New Residential Construction, New-Home Sales, Existing-Home Sales and the Construction Spending series covered in this section. The GDP-related Residential Investment sector is discussed in the later GDP section.

***Aggregate and Construction Spending, Residential Investment and Home Sales.*** Looking at the latest measures of dollar amounts of real Construction Spending and Residential Investment, as well as the unit counts of Housing Starts, Building Permits, New-Home Sales and Existing-Home Sales, all series have seen third-quarter 2018 quarter-to-quarter contractions, usually multiple back-to-back contractions, and now are trending down into fourth-quarter activity for the monthly series, all of which have initial estimates of October activity in hand. All the major series are in deepening six-month smoothed or quarter-to-quarter downtrends and have yet to recover their pre-recession peak activity.

Latest details generally have reflected deteriorating circumstances in the context of tightening consumer liquidity, again, as reviewed recently in [\*Consumer Liquidity Watch No. 5\*](#). In the unanimous not-

recovered category, as followed in the sections ahead, current activity remain shy of recovering its pre-recession peak, in real dollar or unit terms, on a monthly or quarterly basis:

- **Building Permits** (New Residential Construction, Census Bureau) was down by 44.2% (-44.2%).
- **Housing Starts** (New Residential Construction, Census Bureau) was down by 46.0% (-46.0%), with Singles Unit activity down by 52.6% (-52.6%), and with Multiple Unit Activity down by 19.3% (-19.3%) at present, having actually recovered its pre-recession peak at one point.
- **New-Home Sales** (Census Bureau, count of contracts signed) was down by 60.8% (-60.8%).
- **Existing-Home Sales** (National Association of Realtors, count of home sales closed) down by 28.2% (-28.2%).
- **GDP Fixed Residential Investment** (Bureau of Economic Analysis), Third-Quarter 2018 down by 32.3% (-32.3%)
- **Real Construction Spending** in the United States (Census Bureau), Third-Quarter 2018, down by 25.2% (-25.2%).

### New Residential Construction (October 2018)

**October 2018 Housing Starts and Building Permits Both Showed Deepening Six-month Downtrends.** With third-quarter 2018 annual contractions in place, Building Permits contracted in third-quarter 2018, for the third consecutive quarter, while House Starts took a shallow breather quarter-to-quarter in third-quarter activity, thanks to a downside revision in second-quarter activity.

As usual, the monthly Housing Starts were highly unstable, with no statistically meaningful changes, either monthly (positive total and multiple-unit, negative single-unit) or annual (all negative), with relatively small positive revisions. Building permits revised somewhat higher, with statistically meaningful monthly and annual contractions in October (first fourth-quarter reading). Both Building Permits (-44.2%) and Housing Starts (-46.0%) held well shy of recovering their pre-recession peaks.

**October 2018 Housing Starts, Headline Detail.** The Census Bureau and Department of Housing and Urban Development (HUD) reported November 20th, a statistically-insignificant, seasonally-adjusted, headline monthly gain in October 2018 Housing Starts of 1.5% +/-15.3% (all confidence intervals are expressed at the 95% level, unless otherwise indicated). That followed a revised monthly decline of 5.5% (-5.5%) [previously down 5.3% (-5.3%)] in September, a gain of 8.1% [previously 7.1%, initially 9.2%] in August, and an unrevised of 0.6% gain in July. Level-of-activity aggregate detail is plotted in *Graphs 45 to 48*, and in *Graphs 54, 56, 57 and 58*.



Year-to-year change in the seasonally-adjusted October 2018 aggregate Housing Starts measure was a statistically-insignificant decline of 2.9% (-2.9%) +/- 12.2%, versus a revised gain of 4.5% [previously 3.7%] in September 2018, a revised gain of 9.2% [previously 8.2%, initially 9.4%] in August 2018 and an unrevised decline of 0.1% (-0.1%) in July 2018.

***Sampling Statistics Showed No Monthly Changes in October 2018 Housing Starts That Were Significantly Different from Zero.*** As seen most commonly with this series, the headline monthly changes in October Housing Starts were not statistically-significant, as ShadowStats uses the term. When the 95% confidence interval around the headline change includes zero, the headline change is not statistically-significant at the 95% confidence level (or 90% use by the Census Bureau) in terms of being different from zero.

The indicated confidence intervals account only for sampling error. Again, as defined by the Census Bureau, “If a range does not contain zero, the change is statistically significant. If it does contain zero, the change is not statistically significant; that is, it is uncertain whether there was an increase or a decrease [within the probability estimate of the confidence interval].” The Census Bureau uses a 90% confidence interval by choice (outside the prescribed range on average 1-in-10 months), again, ShadowStats uses a 95% confidence interval by choice (outside the prescribed range on average 1-in-20 months).

With the indicated confidence interval (ShadowStats always uses a 95% confidence interval, for purposes of consistency, unless otherwise indicated), such allows for the potential of an actual gain or a loss, being weighted in favor of the indicated direction of change, when the confidence includes zero, as seen in the current circumstance for monthly and annual changes in Housing Starts.

That means, for example, where the headline monthly change for headline October 2018 Housing Starts was a gain of 1.5% +/-15.3%, the actual monthly change was within a range from a contraction of 13.8% (-13.8%) to a gain of 16.8%, with 95% confidence, with the headline gain of 1.5% the most likely change. The recently revised and benchmarked reporting system for the Housing Starts series still has not done much to narrow those confidence intervals,

***Housing Starts by Unit Category.*** The October 2018 headline monthly gain of 1.5% in total Housing Starts encompassed a monthly decline of 1.8% (-1.8%) in Single-Unit starts and a monthly gain of 6.2% in the Multiple-Unit “Five Units or More” starts category. There is a missing balance in the “Two to Four Units” category, which grew by 333.3% in October. Where that latter category is considered too small to be meaningful and is not reported directly, it did affect the aggregates to the extent that total multiple units actually gained by 10.3%, instead of the headline 6.2%, discussed later in the broadest, Aggregate Multiple Units category. None of the headline monthly or annual changes in the various Housing Starts series was statistically significant. These numbers all are reflected in *Graphs 45 to 52*.

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 Single-Unit Housing Starts—generally for individual consumption, resulting in New-Home Sales—versus Multiple-Units Housing Starts that generally reflect the building of condominiums, rental and apartment units.

Housing Starts for Single-Unit structures in October 2018 declined month-to-month by a statistically-insignificant 1.8% (-1.8%) +/- 12.6% , following a revised decline of 1.0% (-1.0%) [previously down by

0.9% (-0.9%)] in September, a revised gain of 3.4% [previously 2.1%, initially 1.9%] in August and a gain of 1.2% in July. October 2018 Single-Unit starts showed a statistically-insignificant annual decline of 2.6% (-2.6%) +/-13.7%, versus a revised gain of 6.0% [previously 4.8%] in September, a revised gain of 1.4% [previously “unchanged” at 0.0%, initially a 0.2% (-0.2%) decline] in August 2018 and an unrevised annual gain of 2.6% in July 2018 (see *Graphs 45, 46, 49 and 50*).

Housing Starts for Multiple-Units (5-units-or-more) such as apartment buildings, condominiums, etc. gained month-to-month in October 2018 by a statistically-insignificant 6.2% +/-22.1%, having declined by a revised 13.4% (-13.4%) [previously 12.9% (-12.9%)], versus a revised monthly gain of 17.6% [previously 17.7%, initially 27.3%] in August and an unrevised gain of 0.3% in July. A statistically-insignificant annual gain of decline of 4.5% (-4.5%) +/-32.3% in October 2018 followed a revised 4.2% [previously 4.5%] gain in September 2018, a revised annual gain of 30.4% [previously 30.1%] in August 2018 and an unrevised decline of 5.4% (-5.4%) in July 2018.

Expanding the Multiple-Units 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 monthly estimates of the 2-to-4-units category, due to statistical significance problems (a general issue for the aggregate series). Nonetheless, the total Multiple-Units category can be estimated by subtracting the single-unit category from the total category (see *Graphs 45, 46, 51 and 52*).

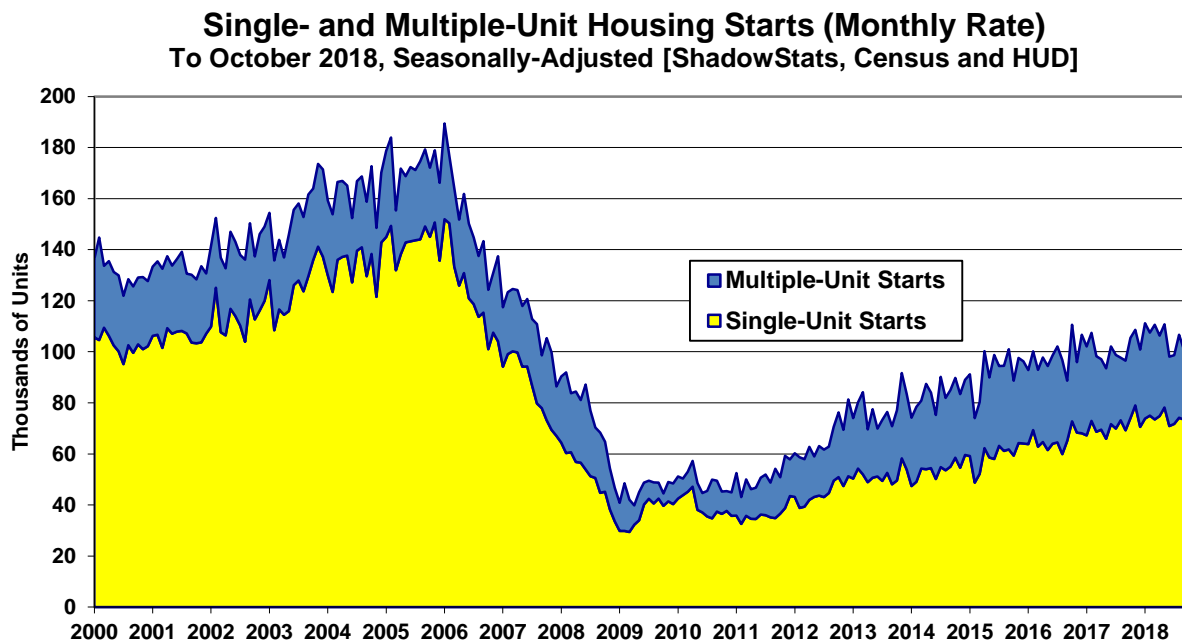
Accordingly, the statistically-insignificant October 2018 monthly gain of 1.5% in aggregate starts was composed of a statistically-insignificant decline of 1.8% (-1.8%) in one-unit structures and a statistically-insignificant gain of 10.3% in the multiple-unit structures category (two-units-or-more, including the five-units-or-more category).

**[Graphs 45 to 52 begin on the next page.]**

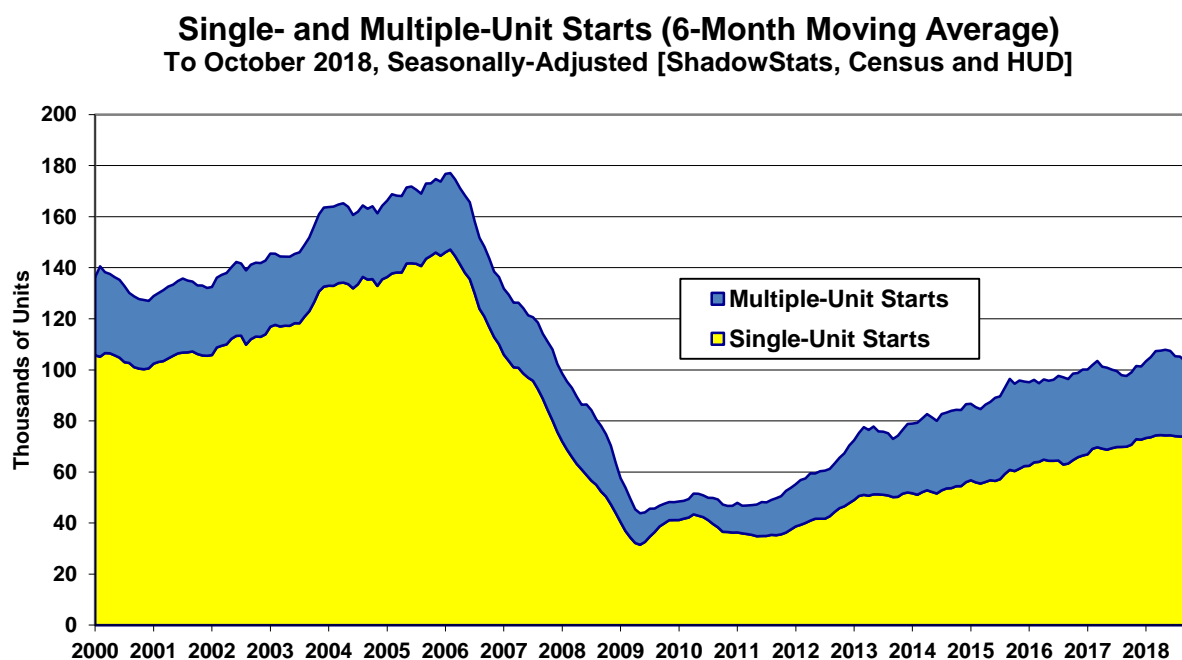


**Housing Starts Graphs by Sector, Scale in Thousands of Units per Month**  
(See Note Following on the Housing Starts Graphs)

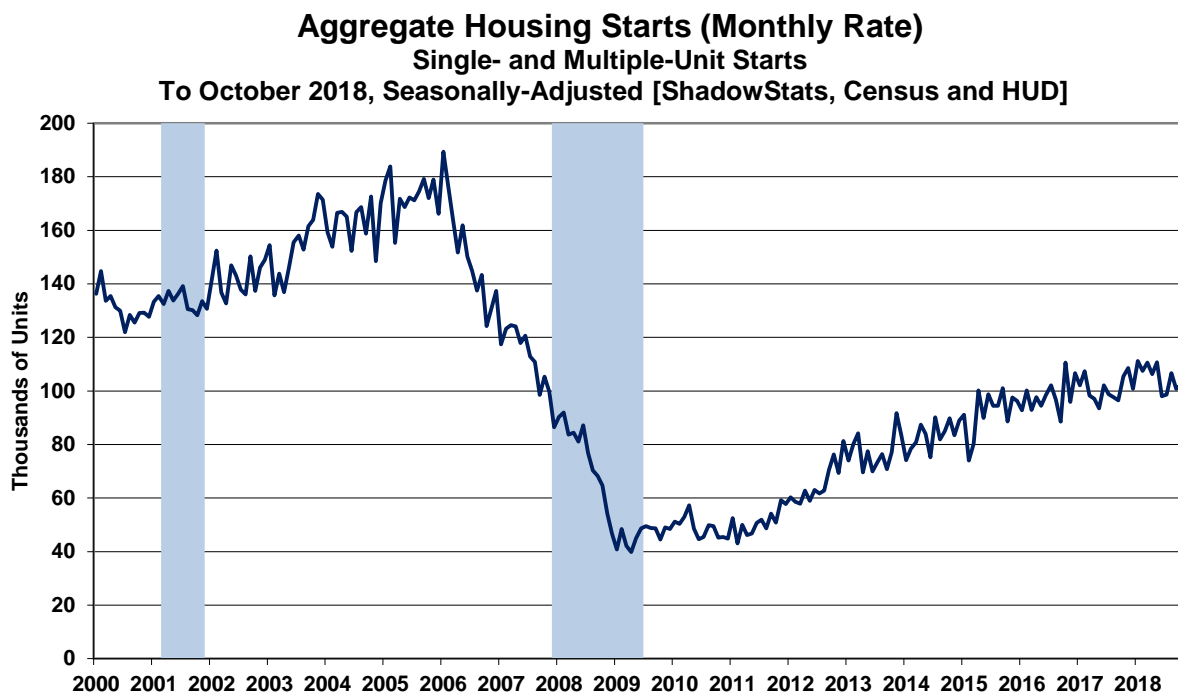
**Graph 45: Single- and Multiple-Unit Housing Starts (Monthly Rate of Activity, January 2000 to October 2018)**



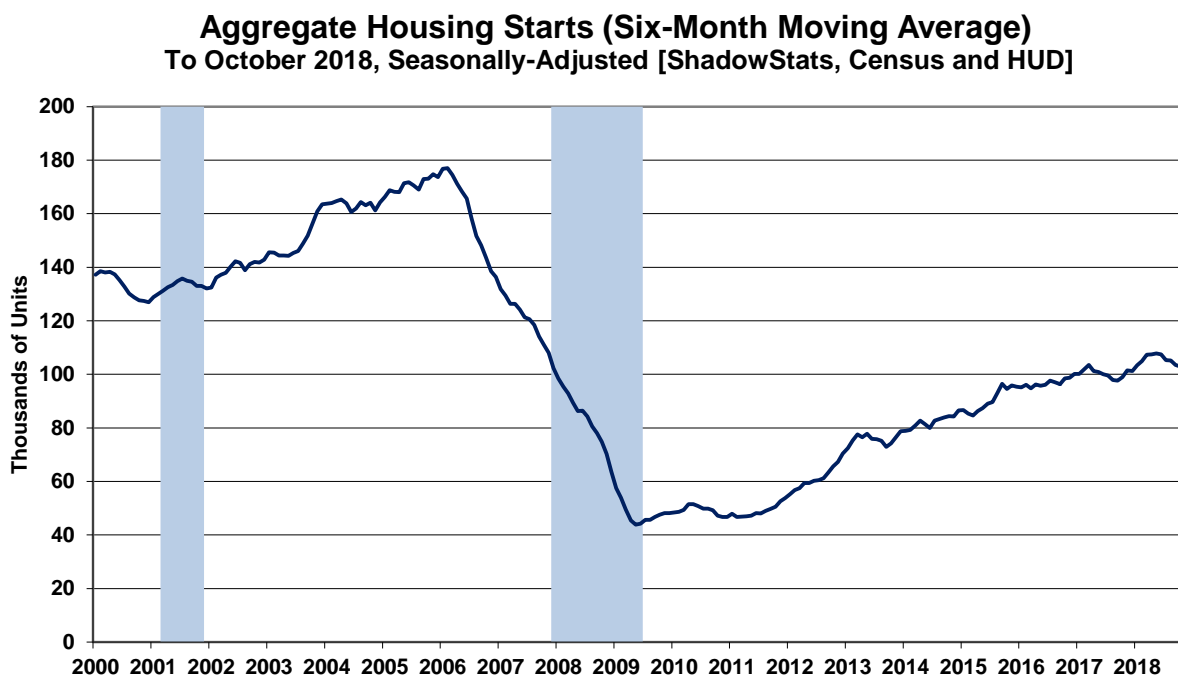
**Graph 46: Single- and Multiple-Unit Starts (Six-Month Moving Average, Monthly Rate of Activity)**



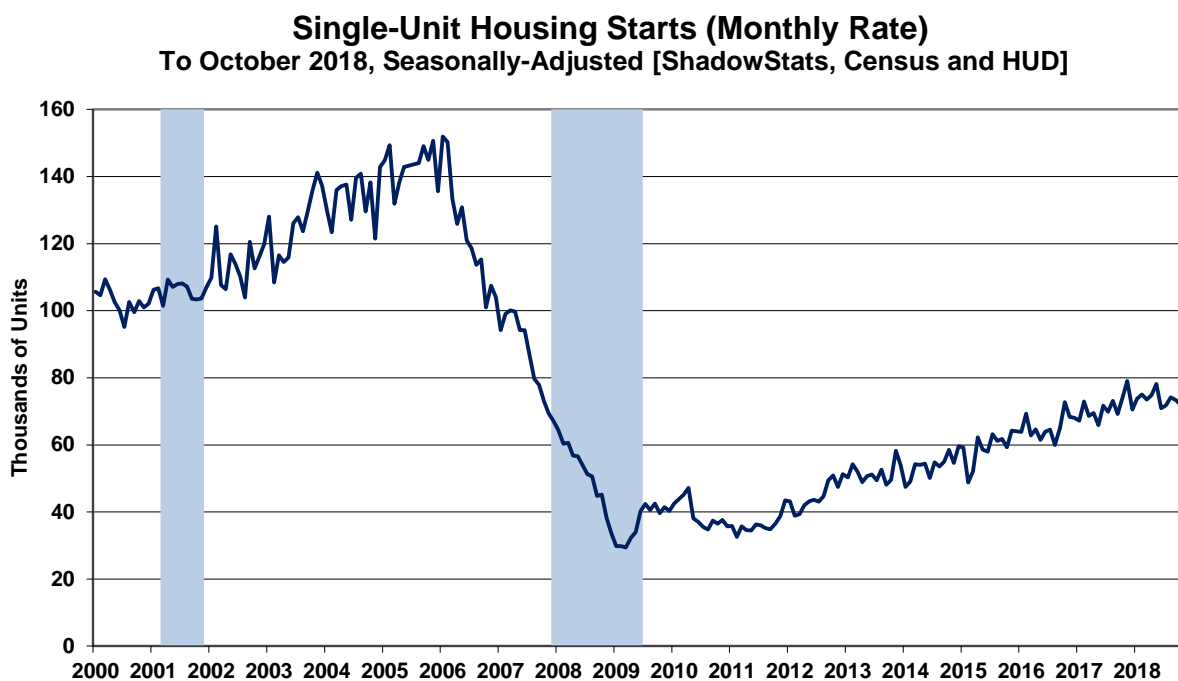
**Graph 47: Aggregate Housing Starts (Monthly Rate of Activity, January 2000 to October 2018)**



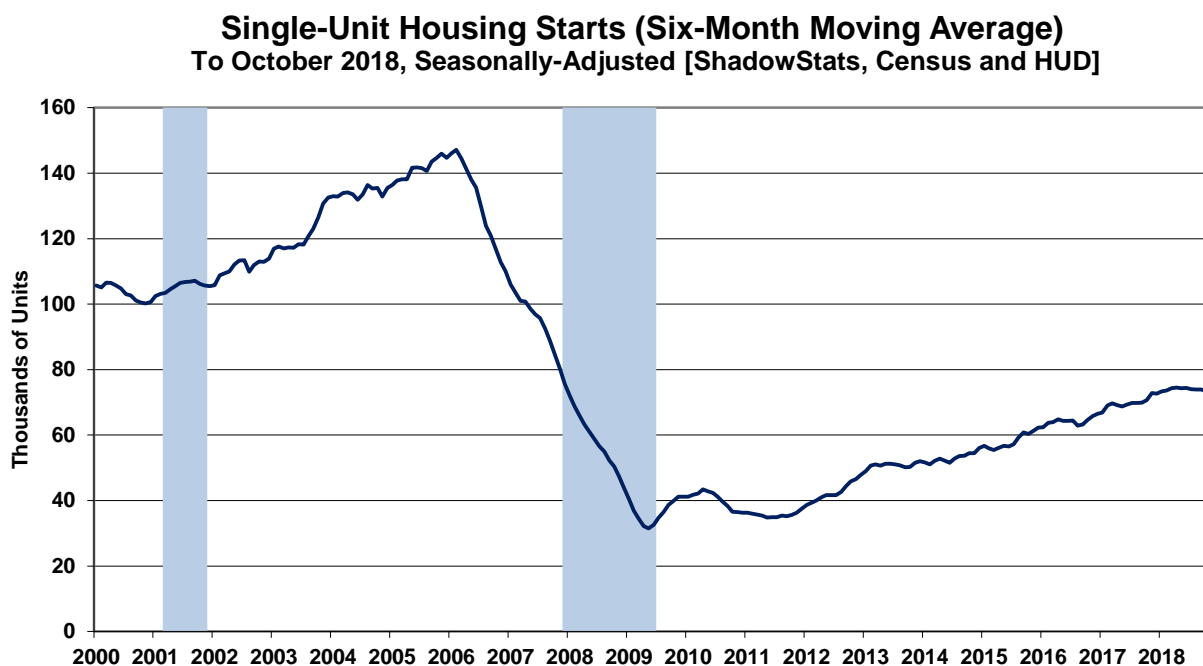
**Graph 48: Aggregate Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)**



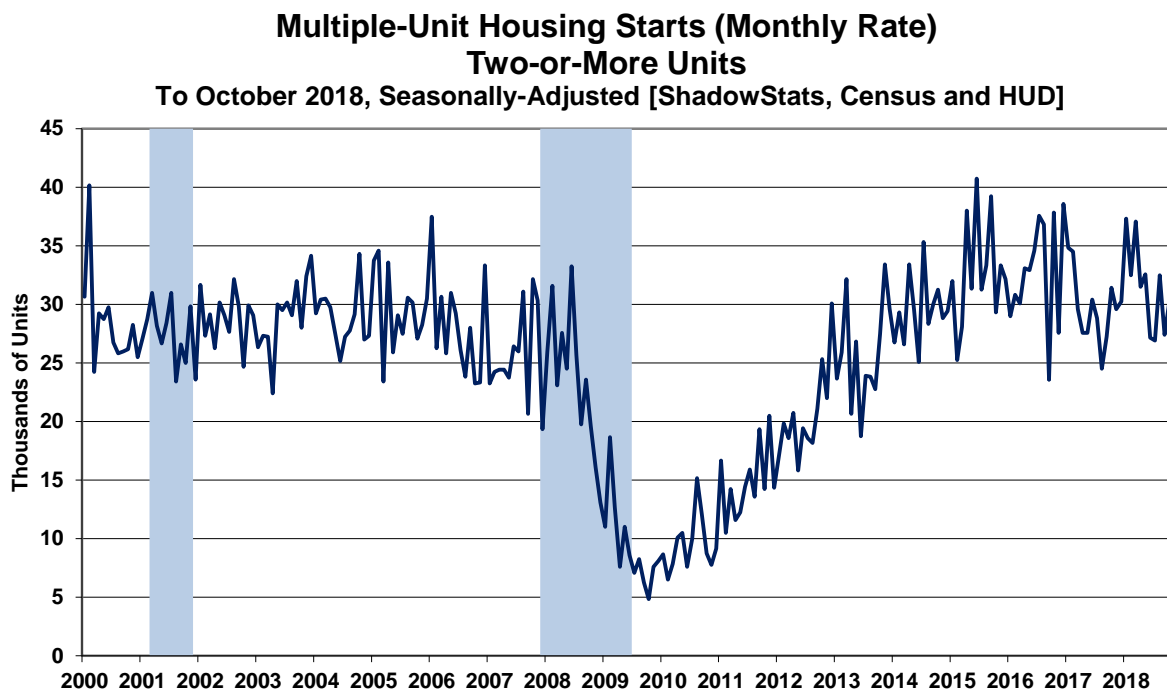
**Graph 49: Single-Unit Housing Starts (Monthly Rate of Activity, 2000 to October 2018)**



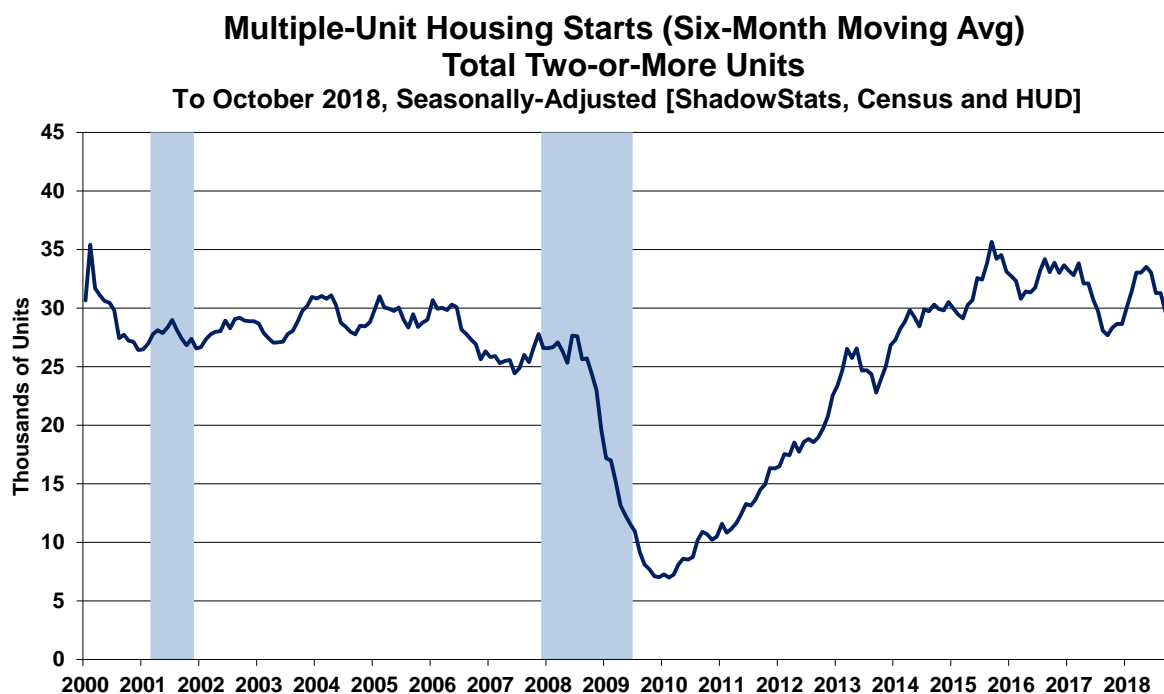
**Graph 50: Single-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)**



**Graph 51: Multiple-Unit Housing Starts, Two-or-More Units (Monthly Rate of Activity, 2000 to October 2018)**



**Graph 52: Multiple-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)**



***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 1,228,000 in October 2018, up from a revised 1,210,000 [previously 1,241,000] in September 2018. The scaling used in the aggregate historical Housing Starts and Building Permits *Graphs 43 to 58* (following) reflects those annualized numbers in millions.

Nonetheless, given the frequent 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 102,333 units in October 2018, instead of the annualized headline level of 1,228,000 units, is used in the scaling (monthly units in thousands) of the preceding *Graphs 45 to 52*, which plot the detail by the aggregate and major-sector series, on both a monthly and six-month smoothed basis. 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 47* and *Graph 54*.

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 October 2018 headline monthly number was up by 156%, but it still was down by 46% (-46%) from recovering the January 2006 pre-recession high.

Shown in the historical perspective of the post-World War II era, current aggregate-starts activity is in downtrending stagnation, still at low levels that otherwise have been seen at or near the historical troughs of other recession activity of the last 70-plus years, as reflected in *Graphs 57 and 58* at the end of this *New Residential Construction* section. In fact, as can be seen there in *Graph 58*, 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.

***Headline Activity Has Not Recovered, Starts and Permits Have Yet to Enter a Period of Economic Expansion.*** Broadly, the various series (including the often, statistically-significant Building Permits) remain in low-level, down-trending stagnation, non-recovery and non-expansion.

All the headline October 2018 six-month smoothed trends now are in continuing, deepening downtrends, across-the-board for Housing Starts (both Single- and Multiple-Unit Starts) and Building Permits. In like manner, each of those series contracted quarter-to-quarter for third-quarter 2018, with Building Permits activity down at an annualized pace of 13.0% (-13.0%), Aggregate Housing Starts down at an annualized 10.9% (-10.9%), Single-Unit Housing Starts down at an annualized 5.5% (-5.5%) and Multiple Unit Starts (2-or-More) down at an annualized 18.0% (-18.0%).

Separately, those downtrending and contracting New Construction series, showed October 2018 Building Permits activity down by 44.2% (-44.2%) from recovering its pre-recession peak (see *Graphs 53 and 55*).

Similarly, aggregate Housing Starts (see *Graphs 47 and 48*) was down by 46.0% (-46.0%), with Single-Unit Starts (*Graphs 49 and 50*) down by 52.6% (-52.6%).

Multiple-Unit Starts (*Graphs 51 and 52*) had fallen back sharply, after first having recovered its 2005 pre-recession peak in early-2015. A temporary jump in January 2018 monthly activity wiped out virtually all of the most-recent deficit, but activity has fallen off sharply, again, with October 2018 total Multiple-Unit Starts now down 19.3% (-19.3%) from its pre-recession peak on a monthly basis. Seen in *Graph 52*, however, on a smoothed six-month moving average basis, while Multiple-Unit Starts is holding at a level around its pre-recession peak, it also is downtrending.

In the context of continuing broad weakness in the aggregate October 2018 housing-starts detail (in both single-unit and multiple-unit starts), the six-month smoothed, moving averages of these series, as seen in *Graphs 46, 48, 50 and 52* now are in continually deepening downtrends. Again, current levels of headline monthly activity still hold well below pre-recession peaks for the various series, with the exception of the smoothed multiple-units category.

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 generally up-trending but non-recovering, low-level activity. Again, that largely had remained flat in the last several years, in ongoing, low-level stagnation; intensifying downtrends have unfolded (see accompanying *Graphs 53 to 58* of the Building Permits and Housing Starts series). Again, also see *Graphs 47 to 52*, covering the Housing Starts component series.

***Building Permits.*** Specifically, the generally more-stable but sometimes inconsistent Building Permits activity also has seen a broad pattern of non-recovery. The statistically insignificant headline, monthly decline of 0.6% (-0.6%) +/- 2.6%, and the statistically significant headline annual decline of 6.0% (-6.0%) +/- 1.9% in October 2018, both followed upside revisions to monthly and annual gains in September 2018. October 2018 activity was down by 8.3% (-8.3%) from the March 2018 recent post-recession peak, and again still was shy by 44.2% (-44.2%) of recovering its pre-recession high. All confidence intervals expressed here are at the 95% level, unless indicated otherwise. While the ***Building Permits series remains more stable in its reporting month-to-month than the Housing Starts series, the problem with Building Permits remains that the data are not reported on a consistent basis over time, usually with annual breaks around benchmarkings. That said, Permits do tend to lead the Starts, smoothed over time.***

The size and nature of the permits sampling base is revised frequently, without offsetting adjustments to the historical data, as discussed in [Commentary No. 950](#). That is why ShadowStats concentrates on the more-consistent Housing Starts series, despite its extreme month-to-month volatility and frequent, massive monthly revisions. The recent headline monthly declines in Permits has intensified the downtrend in the otherwise the broadly stagnant six-month moving average of that series (see *Graph 55*), with some parallel movement seen in *Graph 56* of the six-month smoothed Permits series.

***Annualized Third-Quarter 2018 Contraction in Housing Starts Eased to 10.9% (-10.9%), versus 16.0% (-16.0%) in Second-Quarter 2018.*** In this highly volatile and unstable series of recent years, the Housing-Starts count fell at an annualized quarterly pace of 23.2% (-23.2%) in first-quarter 2015, rose at a 92.1% pace in second-quarter 2015, by 1.4% in third-quarter 2015 and contracted at an annualized pace of 9.8% (-9.8%) in fourth-quarter 2015.



First-quarter 2016 activity showed an annualized quarterly gain of 4.9%, while second-quarter 2016 rose by 6.9%. Third-quarter 2016 activity contracted on both an annual and quarterly basis, down year-to-year by 0.8% (-0.8%), the first annual decline since first-quarter 2014, and down at an annualized quarterly pace of 4.4% (-4.4%). Fourth-quarter 2016 housing starts showed annualized quarterly growth of 40.8%, up by 10.9% year-to-year.

First-quarter 2017 annualized quarterly change was a contraction of 6.7% (-6.7%), with year-to-year change slowing to 7.6%. Second-quarter 2017 showed an annualized quarter-to-quarter contraction of 18.2% (-18.2%), with year-to-year change slowing further to 0.7%. Third-quarter 2017 Housing Starts activity reflected an annualized gain of 0.3%, with annual growth of 1.9%. Fourth-quarter 2017 activity surged with an annualized gain of 33.5%, but with a year-to-year gain of just 0.5%.

First quarter 2018, annualized quarterly growth slowed to 19.6%, with annual growth up to 7.2%. Second quarter activity showed an annualized quarterly contraction of 16.0% (-16.0%), with an annual gain of 7.7%, followed by an revised reporting of an annualized contraction of 10.9% (-10.9%) [previously 13.0% (-13.0%)] in third-quarter 2018, up year-to-year by 4.5% [previously 3.9%].

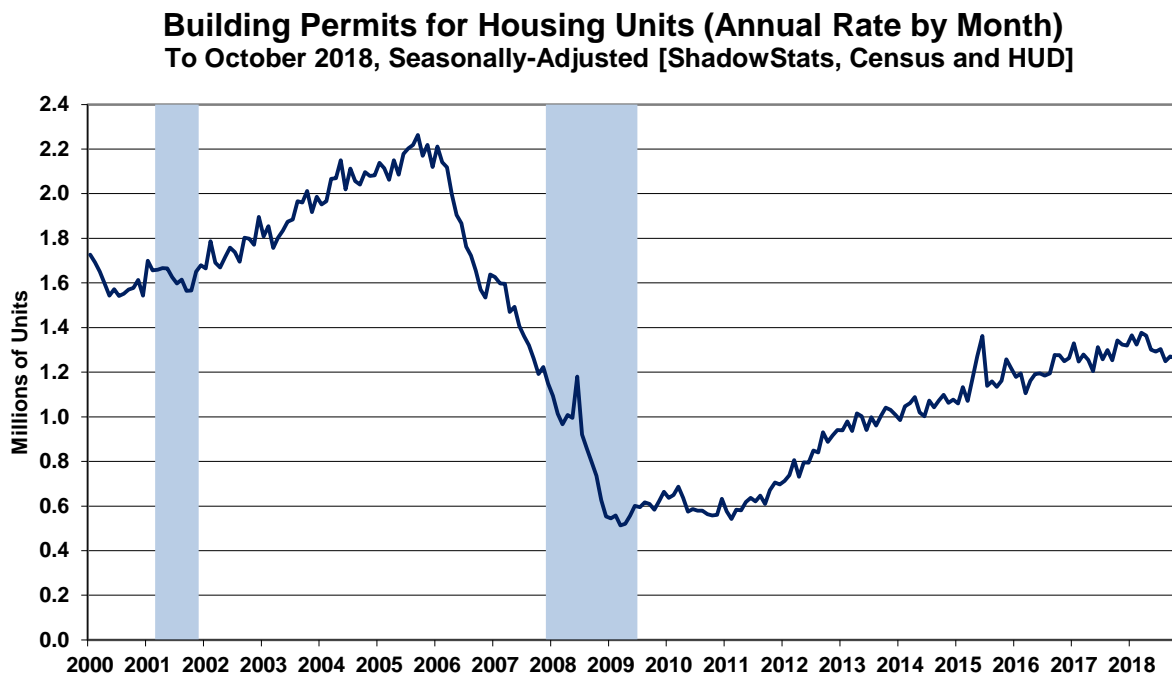
**Building Permits.** In comparison/contrast, Building Permits (the theoretically-leading series to Housing Starts) showed an annualized quarterly gain of 7.4% in first-quarter 2017 (earlier numbers are not consistent, as discussed in [Commentary No. 950](#)), with year-to-year change of 10.8%. Second-quarter 2017 showed an annualized contraction of 8.4% (-8.4%), with year-to-year growth of 6.3%. Third-quarter 2017 showed an annualized gain of 4.3%, with a year-to-year gain of 4.3%. Fourth-quarter 2017 showed an annualized gain of 19.5%, with an annual gain of 5.4%.

First-Quarter 2018, annualized quarterly growth was 8.3%, up by 5.4% year-to-year. Second-quarter 2018 showed an annualized quarterly contraction of 10.3% (-10.3%), up year-to-year by 4.9%. Third-quarter activity showed a revised estimate of an annualized contraction of 13.0% (-13.0%) [previously 15.6% (-15.6%)] with an annual gain of 0.3%.

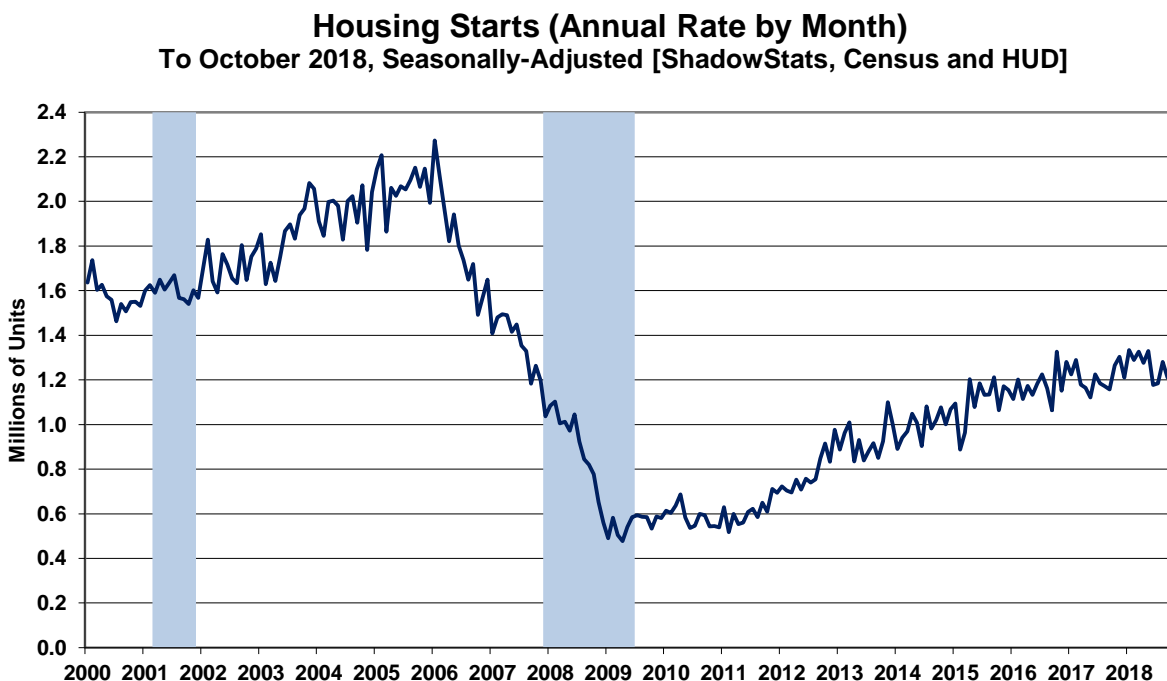
**[Graphs 53 to 58 begin on the next page.]**

**Housing Starts and Building Permits, Historical Plots,  
Scale Reflects Annualized Monthly Rate in Millions of Units**  
(See Preceding Notes on the Housing Starts Graphs)

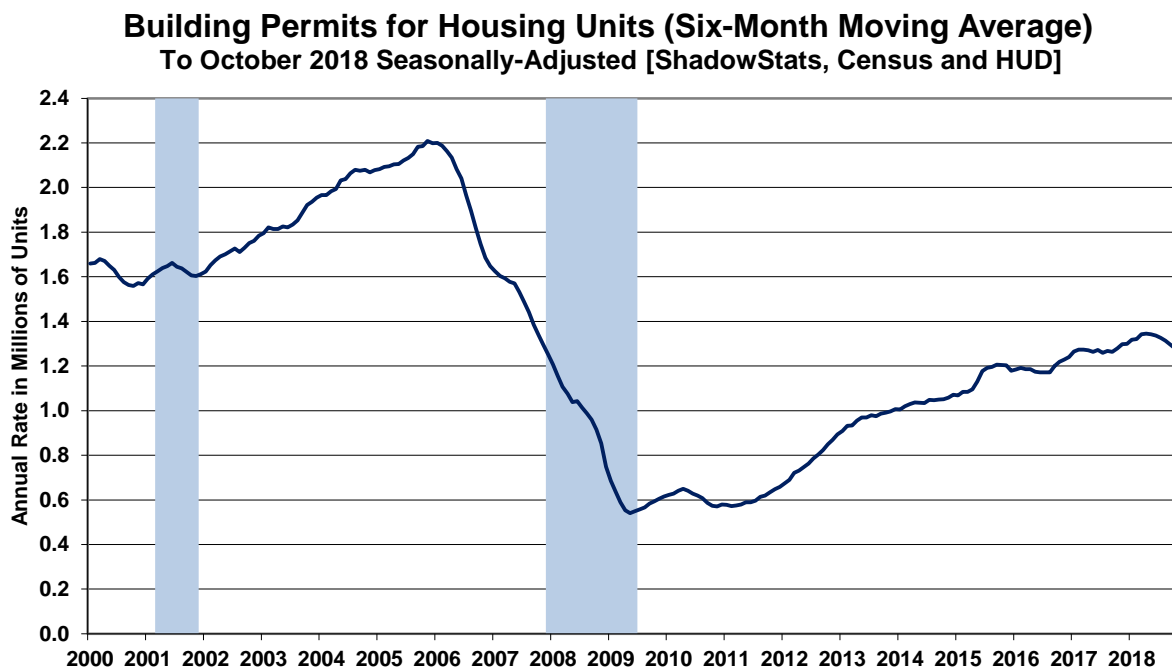
**Graph 53: Building Permits (Annualized Monthly Rate of Activity), 2000 to Date**



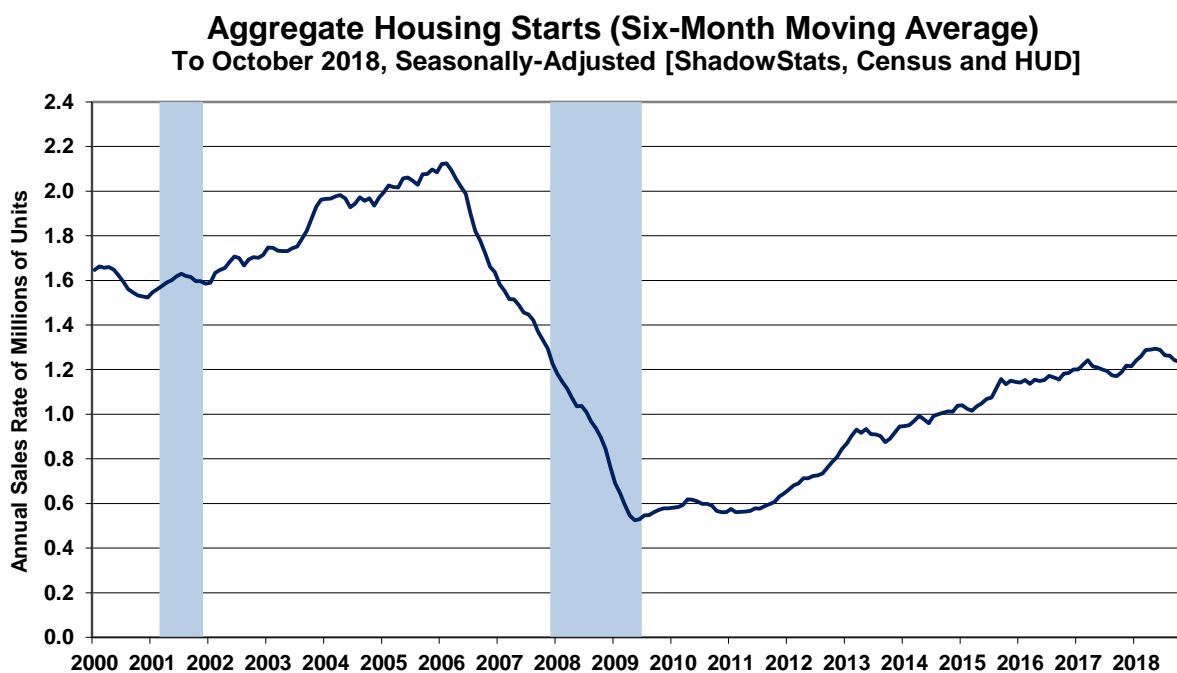
**Graph 54: Housing Starts (Annualized Monthly Rate of Activity), 2000 to Date**



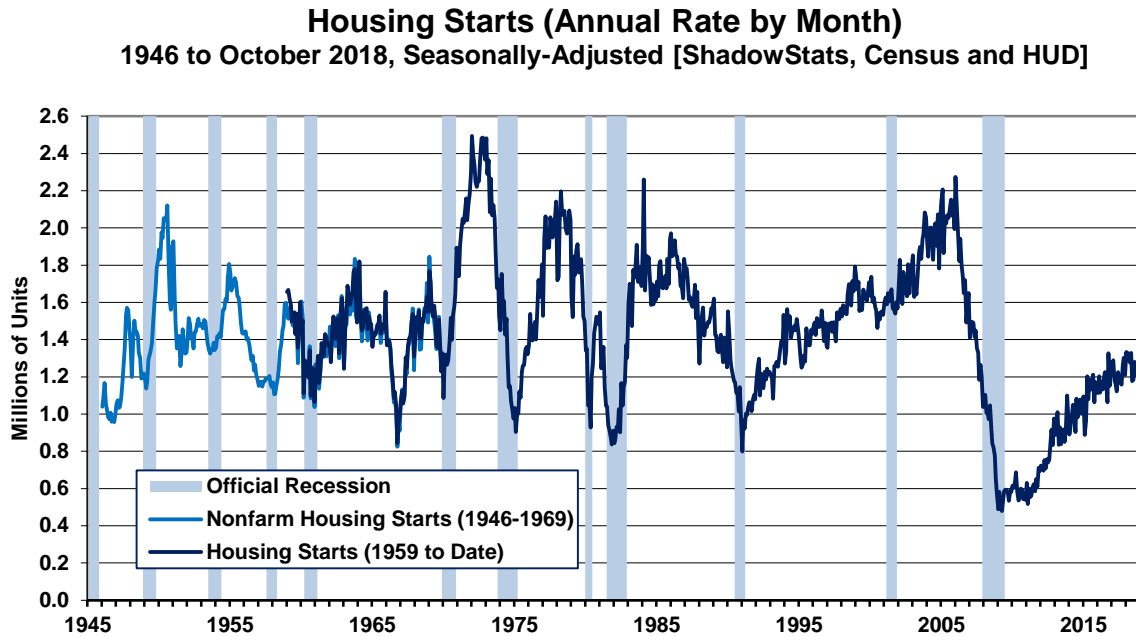
**Graph 55: Building Permits (Six-Month Moving Average), 2000 to Date**



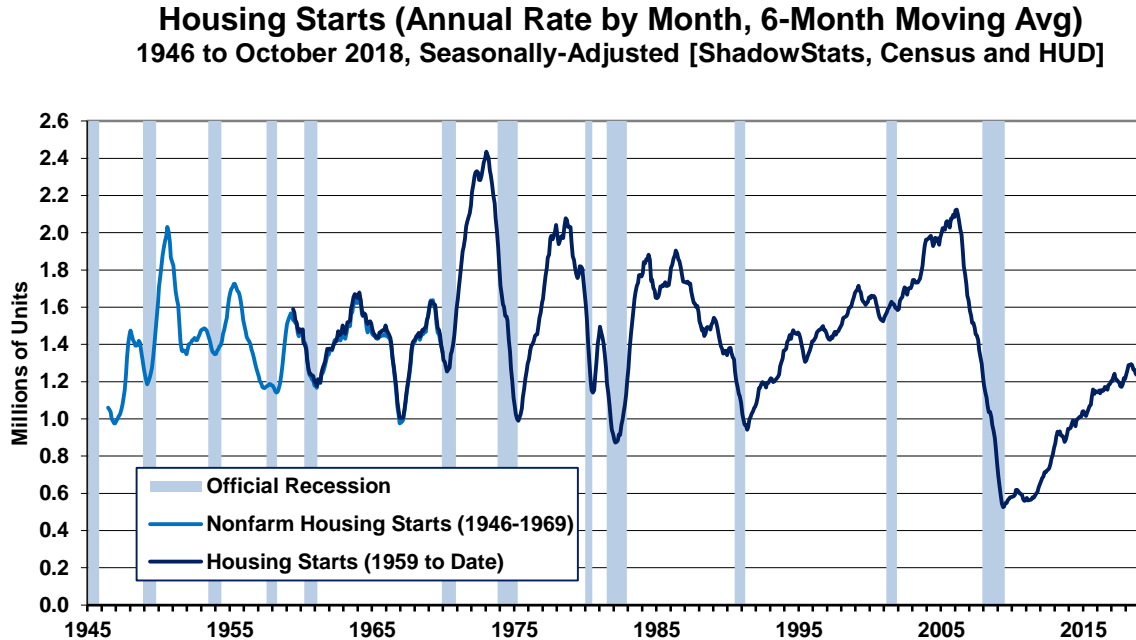
**Graph 56: Housing Starts (Six-Month Moving Average), 2000 to Date**



**Graph 57: Housing Starts (Annualized Monthly Rate of Activity), 1946 to Date**



**Graph 58: Housing Starts (Annualized Monthly Rate of Activity, 6-Mo Moving Avg), 1946 to Date**



## **New- and Existing-Home Sales (October 2018)**

### **New-Home Sales Plunged to a 31-Month Low, in a Deepening Smoothed Downtrend, Holding in Contraction for a Second Consecutive Quarter, on Track for a Third Consecutive Contraction.**

October 2018 New-Home Sales contracted sharply, as measured month-to-month and year-to-year, in a deepening six-month downtrend holding in a second consecutive quarter-to-quarter contraction, on early track for a third consecutive quarterly contraction . Such confirmed similar broad patterns of activity seen across-the-board for Existing-Home Sales and New Residential Construction—Building Permits and Housing Starts, and as confirmed as a third-consecutive quarterly contraction in the first revision to third-quarter 2018 Private Residential Investment component of third-quarter Gross Domestic Product (see the later GDP section in this *Reporting Detail*).

As usual, headline monthly numbers were highly volatile, with no statistically meaningful changes in aggregate monthly or annual data. Against consensus expectations for a month-to-month gain, and on top of upside revisions to prior reporting, the headline monthly decline of 8.9% (-8.9%) in October 2018 was a drop of 1.6% (-1.6%) net of revisions. Year-to-year sales fell by 12.0% (-12.0%), having declined year-to-year by a revised 6.8% (-6.8%) [previously 13.2% (-13.2%)] in September 2018.

Of substance, was the continued deepening six-month downtrend, and consecutive quarter-to-quarter contractions in sales activity, discussed shortly. The major unfolding issue remains constraint on demand, reflecting intensified consumer liquidity stresses. Liquidity issues have been exacerbated by the Federal Reserve continuing to raise interest rates in an economy that never fully recovered from the Great Recession. For example, consider that October 2018 New-Home Sales held shy of recovering its pre-recession peak by 60.8% (-60.8%) again see [Consumer Liquidity Watch No. 5](#) and the opening paragraphs of this broad residential sales and construction section.

### ***New-Home Sales Continued in an Increasingly Significant, Deepening Six-Month Downtrend.***

Released November 28th by the Census Bureau and the Department of Housing and Urban Development, the highly volatile and unstable New-Home Sales series, which counts new-home sales contracts signed (as opposed to the count of home sales closed in the Existing-Home Sales series) declined month-to-month in October 2018 by a statistically-insignificant 8.9% (-8.9%) +/- 16.0% (all confidence intervals are expressed at the 95% level, as detailed in the *New Residential Construction* section of [Commentary No. 975](#). That followed a revised monthly gain of 1.0% [previously a decline of 5.5% (-5.5%)] in September, a revised decline of 2.5% (-2.5%) [previously 3.0% (-3.0%), initially a gain of 3.5%] in August, and an unrevised revised decline of 1.0% (-1.0%) in July, as reflected in *Graph 59* and as contrasted with September Existing-Home Sales, plotted in *Graph 60*.

Where headline October 2018 activity for the New-Home Sales remained shy of its pre-recession peak by 60.8% (-60.8%), this series also has continued in a deepening downtrend, smoothed with a six-month moving average, as reflected in *Graph 61*, accompanied by *Graph 63* of the GDP's Real Residential Investment, plotted quarterly through third-quarter 2018

**Annual Change.** The year-to-year change in October 2018 New-Home sales was a statistically-insignificant decline of 12.0% (-12.0%) +/- 15.3%, versus a revised decline of 6.3% (-6.3%) [previously down by 13.2% (-13.2%)] in September 2018 and a revised annual gains of 5.9% [previously 4.5%, initially 12.7%] in August 2018, 9.0% [previously 8.5%, 9.4%, initially 12.8%] in July 2018 and an unrevised decline of 0.6% (-0.6%) in June 2018.

**Quarterly Change.** Reflecting increasingly negative and unstable monthly and quarterly swings, Fourth-Quarter 2017 activity surged at an unrevised annualized pace of 58.9%, with First-Quarter 2018 showing a gain of 0.4% and Second-Quarter 2018 showing an revised annualized contraction of 13.5% (-13.5%). Based just on still-unstable detail for July, August and September 2018, the second reporting of third-quarter 2018 was for an annualized quarterly contraction of 20.2% (-20.2%) [initially 29.2% (-29.2%)].

**October Existing-Home Sales Gained for the First Time in Seven Months, but Plunged for the Year, in a Deepening Downtrend, and on Early Track for a Fourth Consecutive Quarterly Contraction.**

Broadly in line with positive expectations, seasonally adjusted October 2018 [Existing-Home Sales](#) (National Association of Realtors) rose month-to-month by 1.4%, the first monthly gain since March. The October gain followed monthly declines of -3.4% (-3.4%) in September and 0.2% (-0.2%) in August. Year-to-year, sales dropped by 5.1% (-5.1%) in October 2018, following annual declines of 4.1% (-4.1%) in September 2018 and 1.7% (-1.7%) in August 2018. Existing-Home Sales reflected an unrevised, third, consecutive, quarter-to-quarter contraction, down at an annualized quarterly pace in third-quarter 2018 of 10.0% (-10.0%), versus 6.6% (-6.6%) in second-quarter 2018 and 6.1% (-6.1%) in first-quarter 2018, with respective quarterly year-to-year declines of 2.4% (-2.4%), 2.4% (-2.4%) and 1.7% (-1.7%). Based solely on the headline October 2018 detail the early fourth-quarter 2018 trend is for an initial 4.0% (-4.0%) annualized quarterly pace of decline.

The Existing-Homes Sales smoothed six-month moving downtrend continued to deepen (see *Graphs 61* and *62*), despite the uptick in October monthly activity, with the moving average at its lowest level since May 2016. With its monthly gain, however, October 2018 activity moved off its three-year trough. Nonetheless, year-to-year change was down by 5.1% (-5.1%) in October 2018, its worst reading since August 2014, and its eighth straight annual change underwater.

**Existing-Home Sales Continued in Smoothed, Downtrending Stagnation.** Released November 21st by the [National Association of Realtors](#) (NAR), October 2018 Existing-Home Sales (closings of home sales, as opposed to the count of contract signings for New-Home Sales, reported by the Census Bureau) rose month-to-month by 1.36%. That followed a sixth consecutive monthly decline of 3.38% (-3.38%) in September, down by 0.19% (-0.19%) in August, 0.74% (-0.74%) in July, 0.56% (-0.56%) in June, 0.73% (-0.73%) in May and 2.68% (-2.68%) in April, having gained 1.08% in March and 2.97% in February, having declined month-to-month by 3.24% (-3.24%) in January and 2.80% (-2.80%) in December 2017. Those followed monthly gains of 4.00% in November and 2.42% in October.

Shown in *Graph 60*, November 2017 Existing-Home Sales was close to the highest level of the post-2006 revamped series (blue line), but shy of its pre-recession peak in the original series (red line). In October 2018 reporting, the series held shy by 28.2% (-28.2%) of recovering its pre-recession high. That said, smoothed for six-month moving averages, the Existing-Home Sales series had been in uptrending stagnation into 2017. That shifted to a fluttering, relatively-flat trend that now clearly has been a non-recovering downtrend for the last seven months, since April 2018, as reflected in *Graph 62*.



Annual and Year-to-Year Changes. October 2018 year-to-year change was a contraction of 5.09% (-5.09%), following declines of 4.10% (-4.10%) in September 2018, 1.66 (-1.66%) in August 2018, 1.48% (-1.48%) in July 2018, 2.18% (-2.18%) in June 2018, 3.39% (-3.39%) in May 2018, 1.62% (-1.62%) in April 2018 and 1.23% (-1.23%) in March 2018. Those followed annual gains of 1.09% in February 2018, an annual plunge in January 2018 of 4.78% (-4.78%), which was the steepest annual decline since August 2014. Such followed annual gains of 0.91% in December 2017, 2.14% in November 2017 and an annual declines of 0.54% (-0.54%) in October 2017.

In terms of the trailing 12-months of sales, for the year-ended October 2018, Existing-Home Sales were down by a deepening 1.78% (-1.78%) from the year-ended October 2017. That was the seventh consecutive trailing 12-month period in deepening contraction, against its parallel year-ago pattern.

Quarterly Change. The second full estimate of third-quarter 2018, Existing-Homes Sales contracted at an unrevised annualized quarterly pace of 9.95% (-9.95%), versus contractions of 6.61% (-6.61%) in second-quarter 2018 and 6.06% (-6.06%) in first-quarter 2018. Those followed natural-disaster disrupted periods of an annualized quarterly gain of 14.82% in fourth-quarter 2017 and a quarterly contraction of 9.94% (-9.94%) in third-quarter 2017, with a pre-hurricanes drop of 3.97% (-3.97%) in second-quarter 2017.

***Distressed Sales Held at 3.0% of Total Sales, With September All-Cash Sales Rose to 23%.*** In the context of mounting consumer liquidity constraints, the NAR estimated the portion of October 2018 sales in “distress” held at 3% (2% in foreclosure, 1% short sales), the same as in September 2018 and down from 4% (3% in foreclosure, 1% short sales) in October 2017. While such continued the lowest level of distress reported since the NAR began surveying such detail in October 2008, consider that October 2008 conditions already were more than three years into the housing-market collapse.

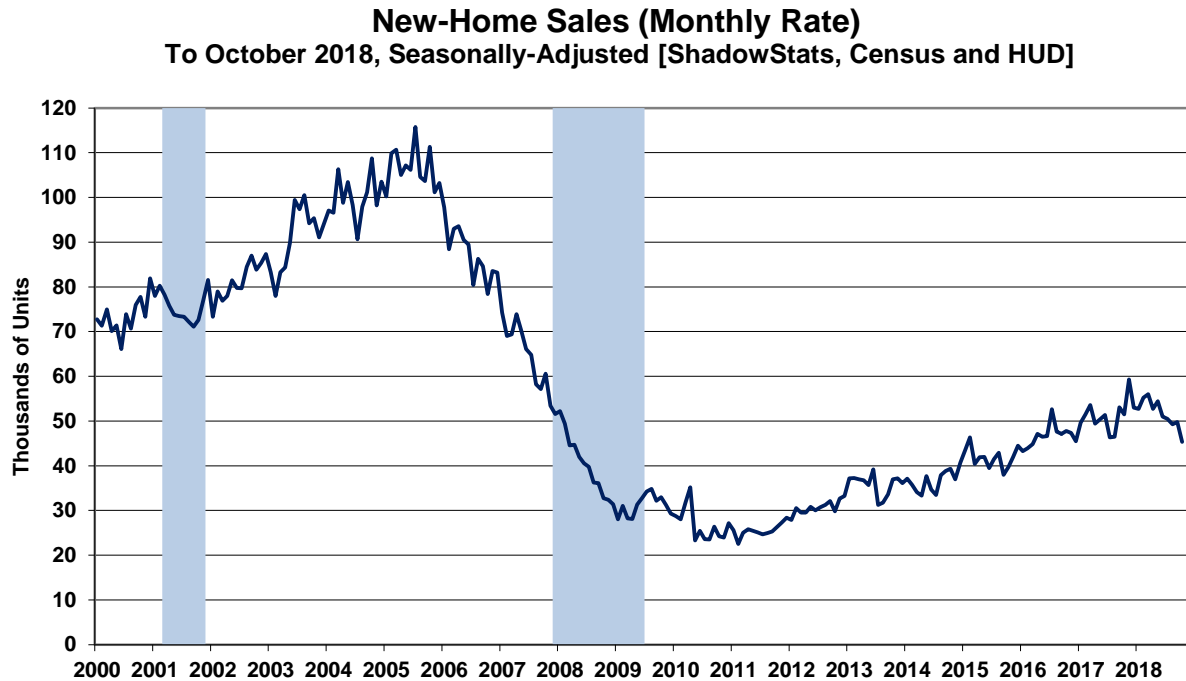
Reflecting ongoing lending problems and continuing stresses within the financial system, including related banking-industry and consumer-solvency issues (again, see the opening comments on consumer liquidity in this Residential Construction, Home Sales and Total Construction Spending Section, and [Consumer Liquidity Watch No. 5](#)), as well as possibly some ongoing influx of speculative investment money into the existing-housing market, the NAR estimated all-cash sales increased to 23% of transactions in October 2018, up from 21% in September 2018, versus 20% in October 2017.

***Graphs of New- and Existing Home Sales versus Real GDP Residential Investment.*** *Graphs 59 and 61* plot New-Home Sales, versus comparative *Graphs 49 and 50* of the Single Unit Housing Starts series in the *New Residential Construction* section. Both series cover single -unit activity, while *Graphs 60 and 62* plot Existing-Home Sales, versus comparative *Graphs 47 and 48* of the Housing Starts series in the *New Residential Construction* section. Both series cover single and multiple-unit activity.

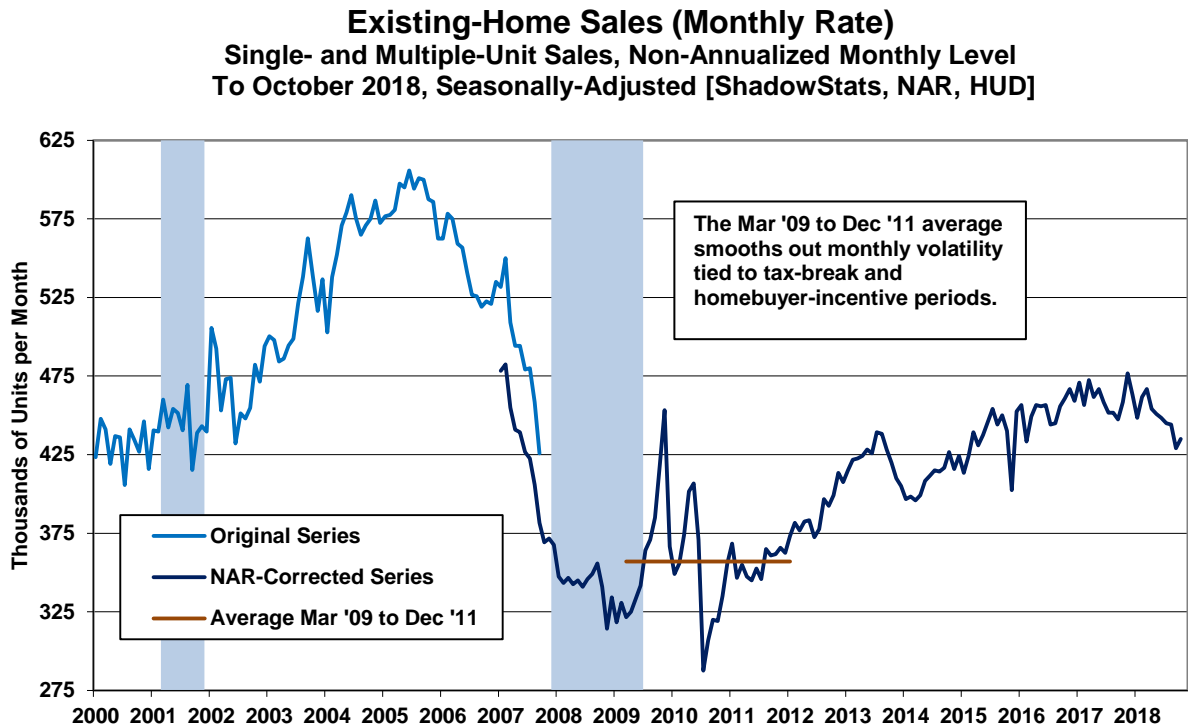
As introduced in [Commentary No. 976](#), *Graph 63* of GDP Residential Investment (through the second estimate of third-quarter 2018) is comparable with the regular plot of six-month smoothed moving averages of New- and Existing-Home Sales in *Graphs 61 and 62*.

**[Graphs 59 to 63 begin on the next page.]**

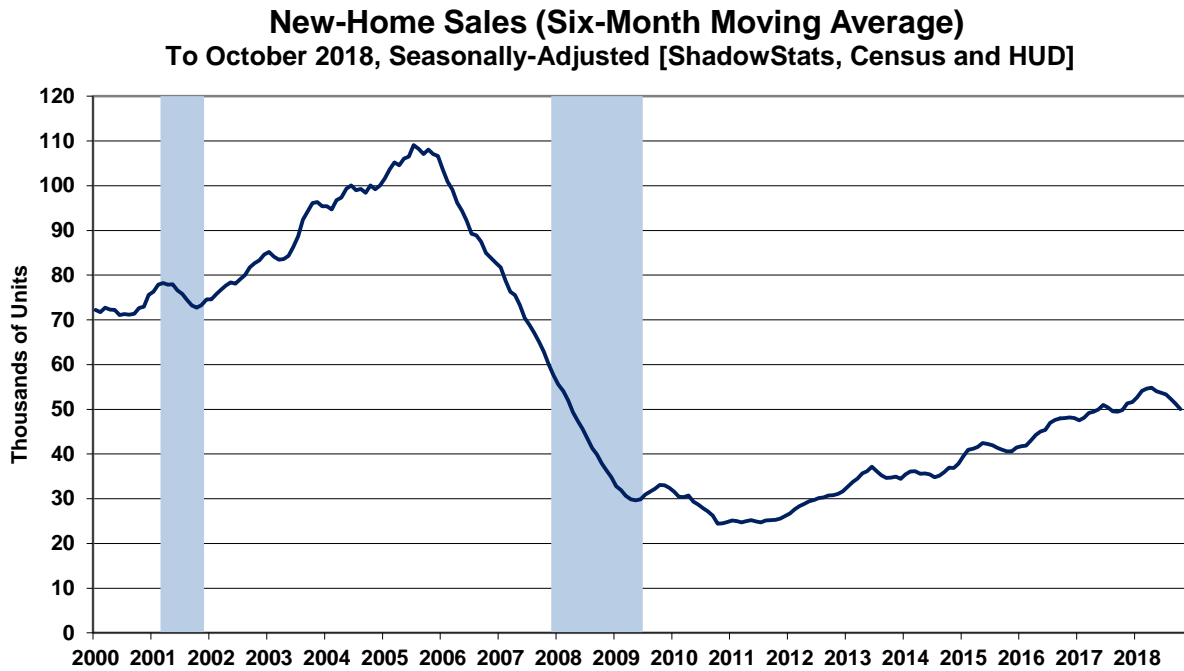
**Graph 59: New-Home Sales (Monthly Rate of Activity)**



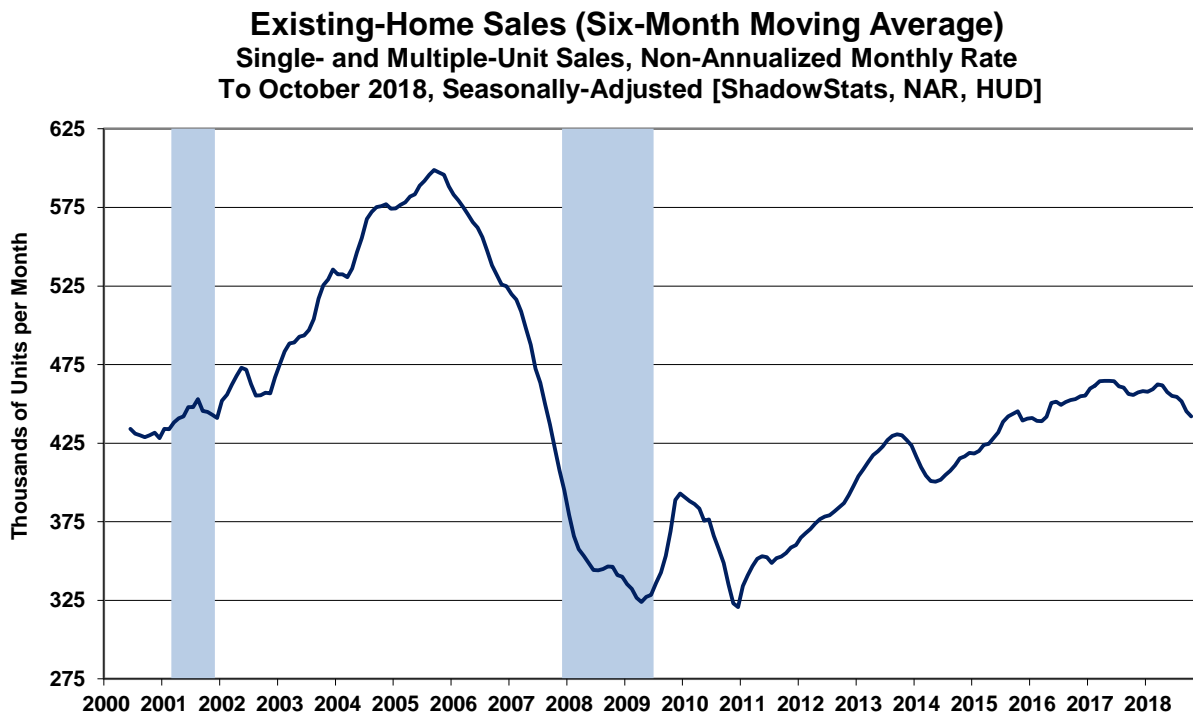
**Graph 60: Existing-Home Sales (Monthly Rate of Activity)**



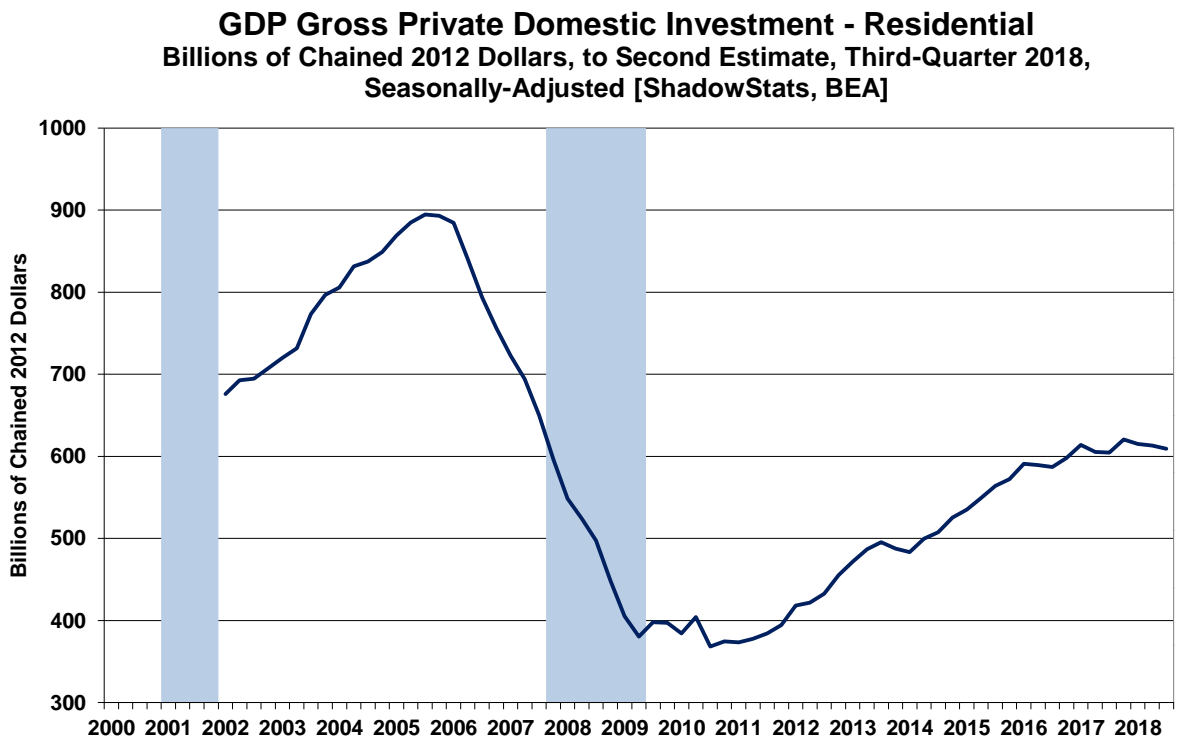
**Graph 61: New-Home Sales (Six-Month Moving Average)**



**Graph 62: Existing-Home Sales (Six-Month Moving Average)**



**Graph 63: Gross Domestic Product – Real Residential Investment (1q2002 to 3q2018)**  
[See Table III in the GDP Section]



### Construction Spending (October 2018)

**Revised Third-Quarter Real Residential Construction Contracted by 12.5% (-12.5%)**

**October Construction Spending Collapsed on Top of Downside Revisions to September and August.** Reported by the Commerce Department on December 3rd, in nominal terms, before inflation adjustment, headline October 2018 Construction Spending confirmed rapidly slowing U.S. economic activity, declining sharply on top of downside revisions to September and August activity. Total October Construction Spending declined month-to-month for the third straight month, down by 0.15% (-0.15%) in

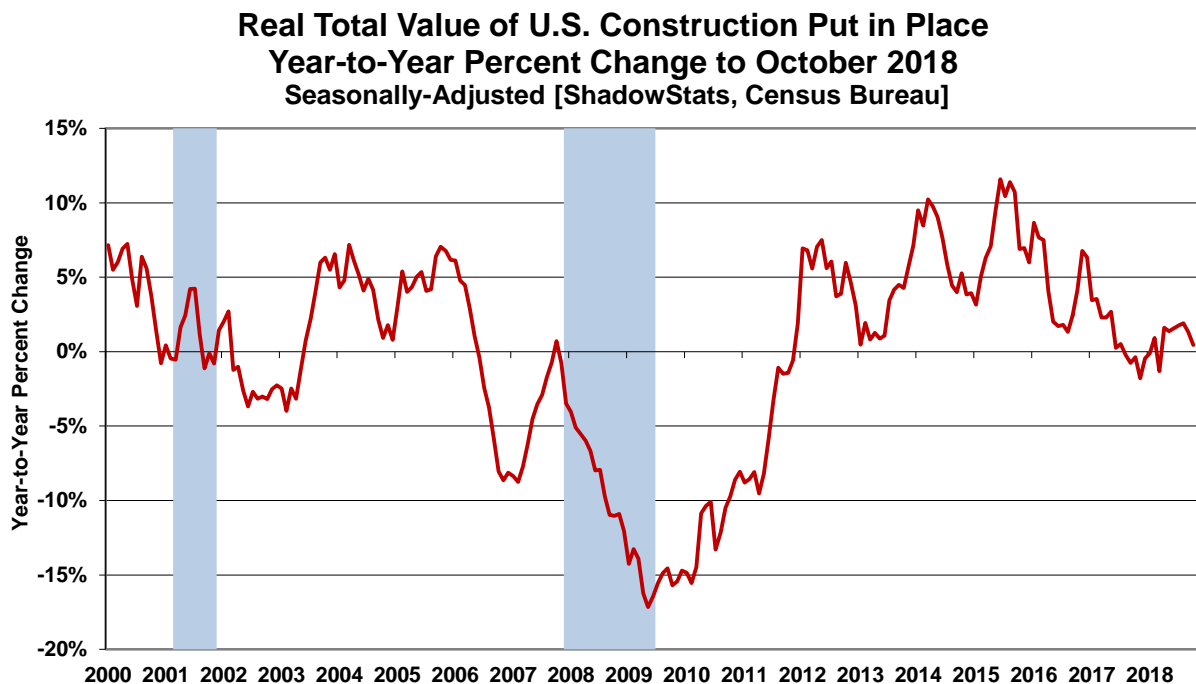
October, down by a revised 0.08% (-0.08%) [previously a gain of 0.05%] in September, down by 0.45% (-0.45%) [previously a gain of 0.85%] in August, against an unrevised 0.22% gain in July. In real terms, net of inflation adjustment, October 2018 spending fell for the fifth straight month, with annual growth slowing to 0.5%, from 1.3% (previously 2.8%) in September and to 1.9% (previously 3.2%) in August.

Also in real terms, third-quarter 2018 aggregate Construction Spending declined at a revised, deepening annualized quarterly pace of 5.2% (-5.2%) [previously down 1.7% (-1.7%)], with Private-Residential Construction Spending down by 12.5% (-12.5%) [previously down by 6.6% (-6.6%)], confirming the weakening (consumer-liquidity impaired) residential construction sector. Real Total Construction spending in October 2018 remained shy by 21.0% (-21.0%) of ever having recovered its pre-recession high.

The downside spending revisions primarily were in the dominant Private Construction Sector, both Residential and Non-Residential. The Public Sector also revised lower in August and September, but with October month-to-month nominal growth up by a headline 0.8%, which was just 0.3% net of revisions.

The continued weakening in residential construction was consistent with all major indicators of home sales and residential construction discussed in [Commentary No. 975](#) and [Commentary No. 976](#). The common problem for the industry remains impaired consumer liquidity, as discussed in the opening paragraphs of this broad construction sector and in [Consumer Liquidity Watch No. 5](#).

**Graph 64: Year-to-Year Change in Total Real Construction Spending**



**Construction Inflation—ShadowStats Composite Construction Deflator (CCD).** ShadowStats produces a Composite Construction Deflator (CCD) for use in converting current-dollar or nominal (not-adjusted-for-inflation) headline construction spending into inflation-adjusted, real or constant-dollar terms. Detailed in [Commentary No. 829](#), previously used measures from the Producer Price Index (PPI) lacked

historical consistency and did not measure inflation appropriately for the construction-spending series. Updated for the latest related price indices in the national-income reporting, and private surveying:

- CCD month-to-month inflation was 0.23% in October 2018, versus 0.34% in September and 0.24% in August.
- CCD year-to-year inflation was 4.44% in October 2018, 4.28% in September 2018 and 4.02% in August 2018.

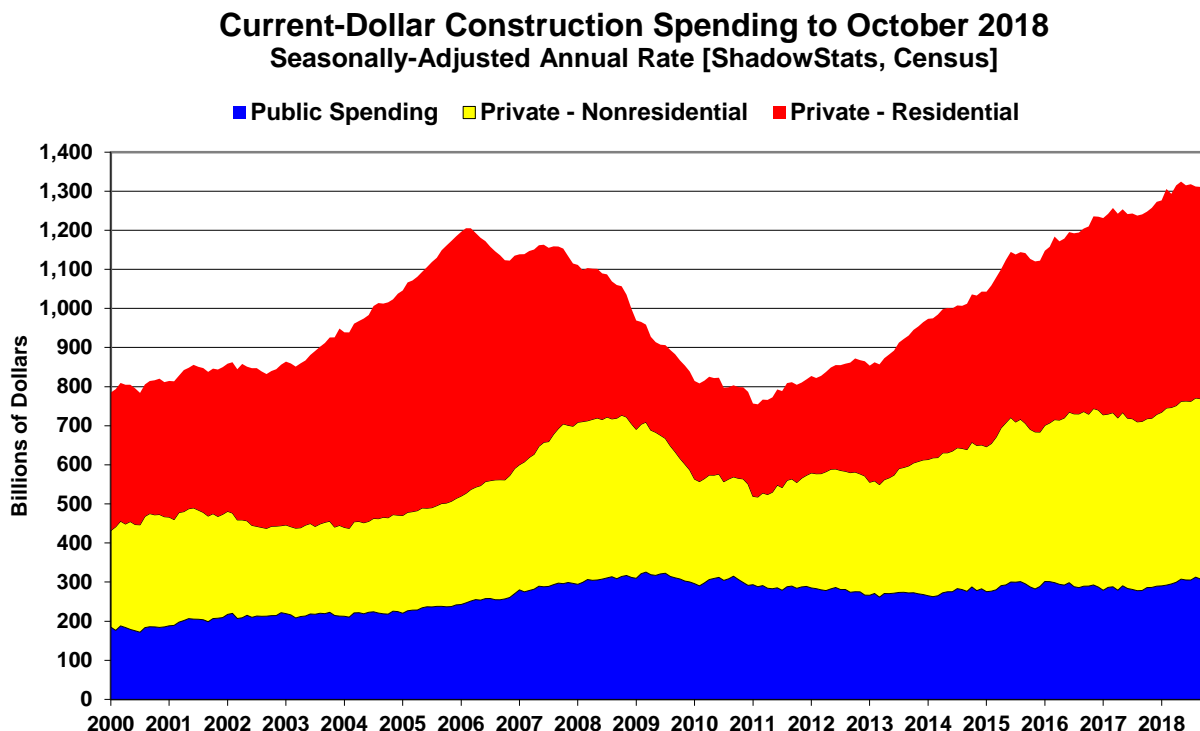
Net of the ShadowStats Composite Construction Deflator versus the headline nominal reporting and revisions, real monthly October 2018 Construction Spending declined by 0.4% (-0.4%), following a September by 0.4% (-0.4%), in August by 0.7% (-0.7%) and by 1.1% (-1.1%) in July. Reflected in *Graph 64*, year-to-year real gains were 0.5% in October 2018 versus 1.3% in September 2018, 1.9% in August 2018 and 1.6% in July 2018. Those patterns of slowing to flattening annual real growth remained broadly consistent with the real growth seen leading into the 2006 housing collapse.

**[Graphs 65 to 68 begin on the next page.]**

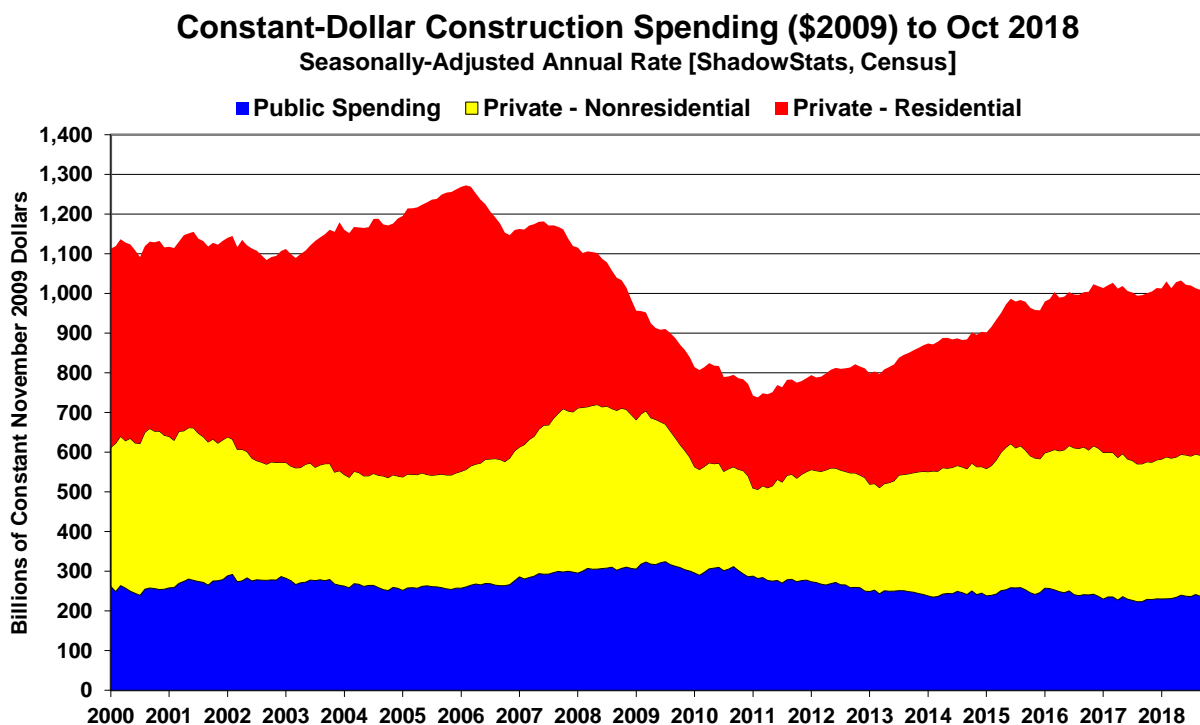


## Construction Spending - Aggregate Headline Detail

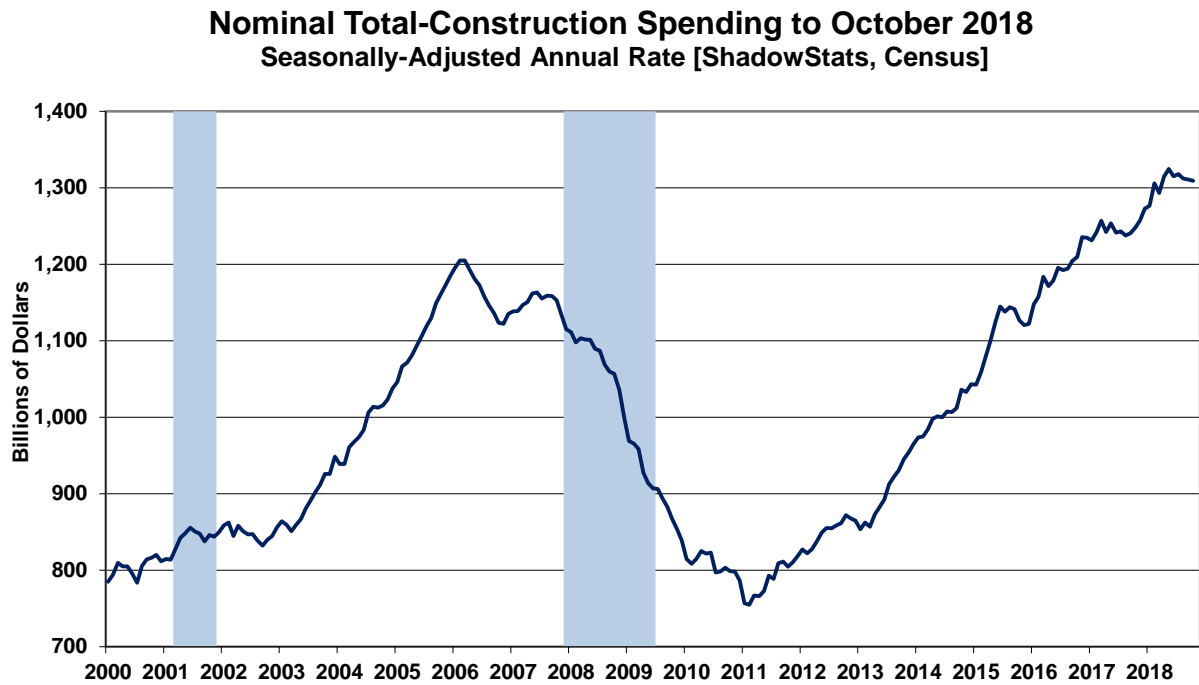
**Graph 65: Aggregate Nominal Construction Spending by Major Sector to Date**



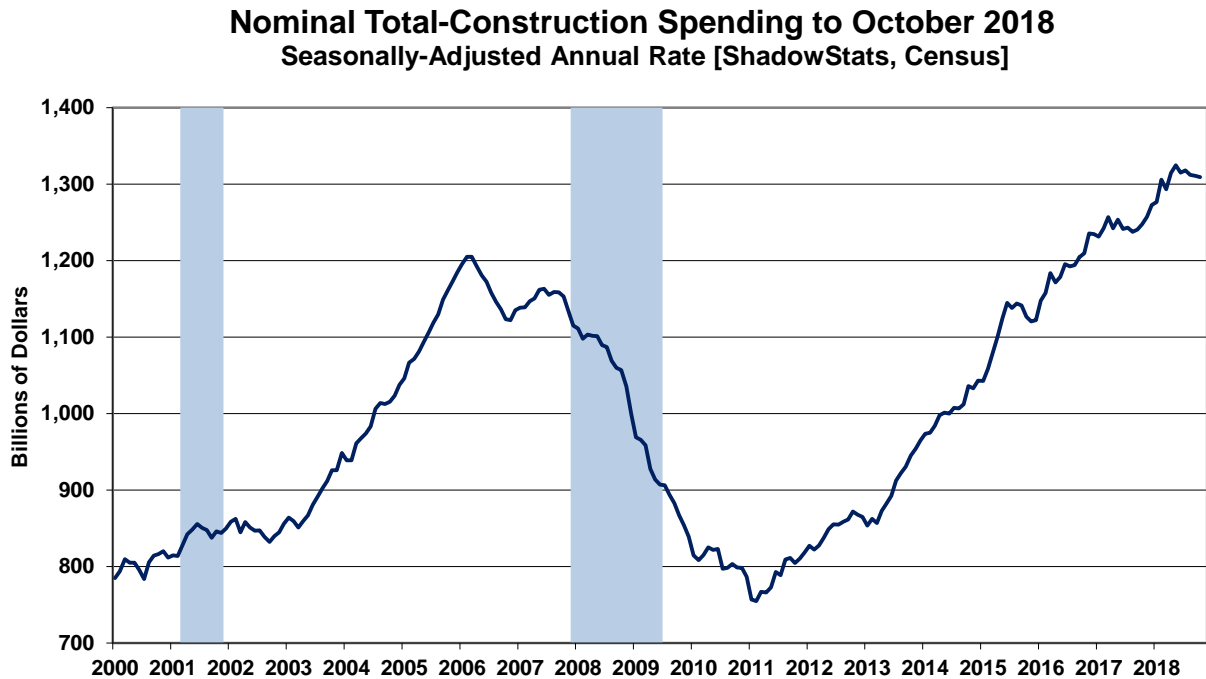
**Graph 66: Aggregate Real Construction Spending by Major Sector**



**Graph 67: Nominal Private Residential Construction Spend**

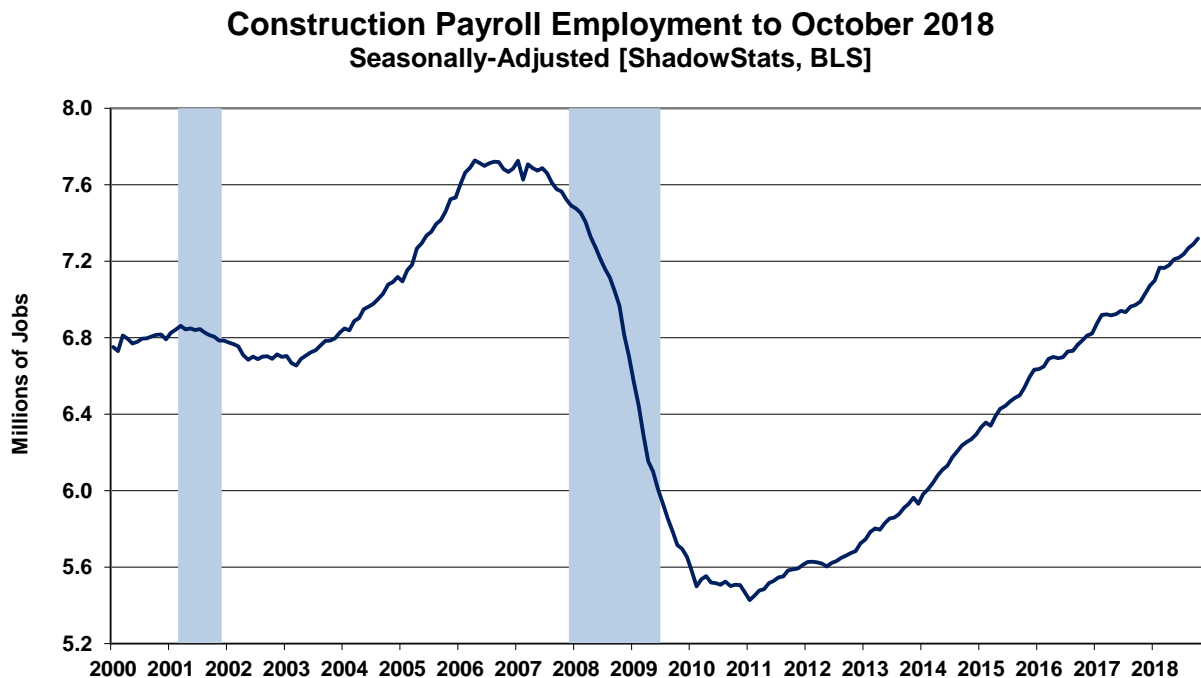


**Graph 68: Level of Inflation-Adjusted (Real) Total Construction Spending**



***Construction Employment on the Rise, Yet Still Shy by 5.3% (-5.3%) of Its Pre-Recession Peak.***

Released with the headline October 2018 payroll employment numbers on November 2nd was the latest surveying on jobs in the Construction Industry. November 2018 payroll details be published on Friday, December 7th. Construction payrolls rose to 7,318,000 in October 2018, up by 30,000 from September, which gained a revised 20,000 [previously 23,000] jobs from August, which gained a revised 43,000 [previously 26,000, initially 23,000] from July, which gained an unrevised 19,000 [previously 18,000] from June. Headline detail showed unadjusted annual gains of 4.43% in October 2018, versus a revised 4.14% [previously 4.18%] in September 2018, 4.16% [previously 4.11%] in August 2018 and an unrevised 4.15% in July 2018. Construction Jobs in October 2018 still were shy by 408,000 (-408,000), or 5.28% (-5.28%) of full recovery to pre-recession levels. November data will be published on December 7th.

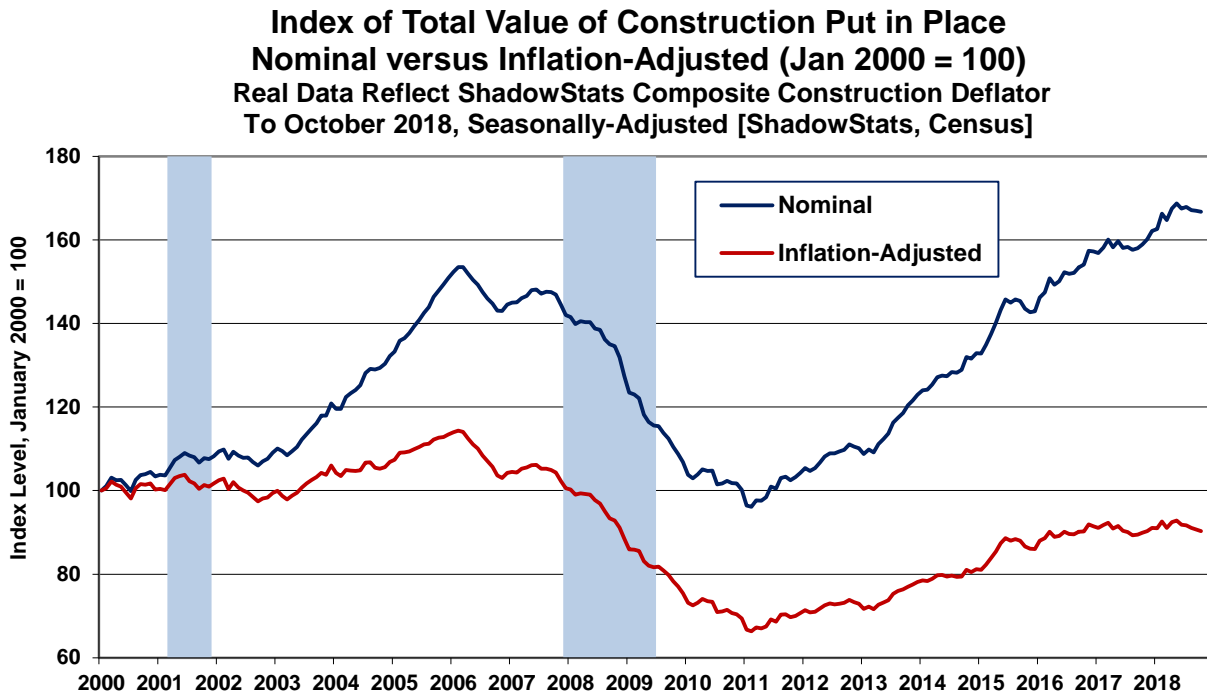
***Graph 69: Construction Payroll Employment (2000 to Date)***

***Construction Spending—October 2018—Headline Activity by Sector.*** Consider that the nominal monthly decline in aggregate October 2018 of 0.1% (-0.1%) Construction Spending, versus the September monthly decline of 0.1% (-0.1%), included a gain of 0.8% in October Public Construction, versus a decline of 1.5% (-1.5%) in September. Private Construction Spending declined by 0.4% (-0.4%) in October, having gained 0.4% in September. Within total Private Construction Spending, Residential Construction declined by 0.5% (-0.5%) in October, having gained by 0.1% in September, while Nonresidential Construction declined by 0.3% (-0.3%) in October, having gained 0.7% in September. This detail is reflected in *Graphs 65 and 66, and 70 to 73.*

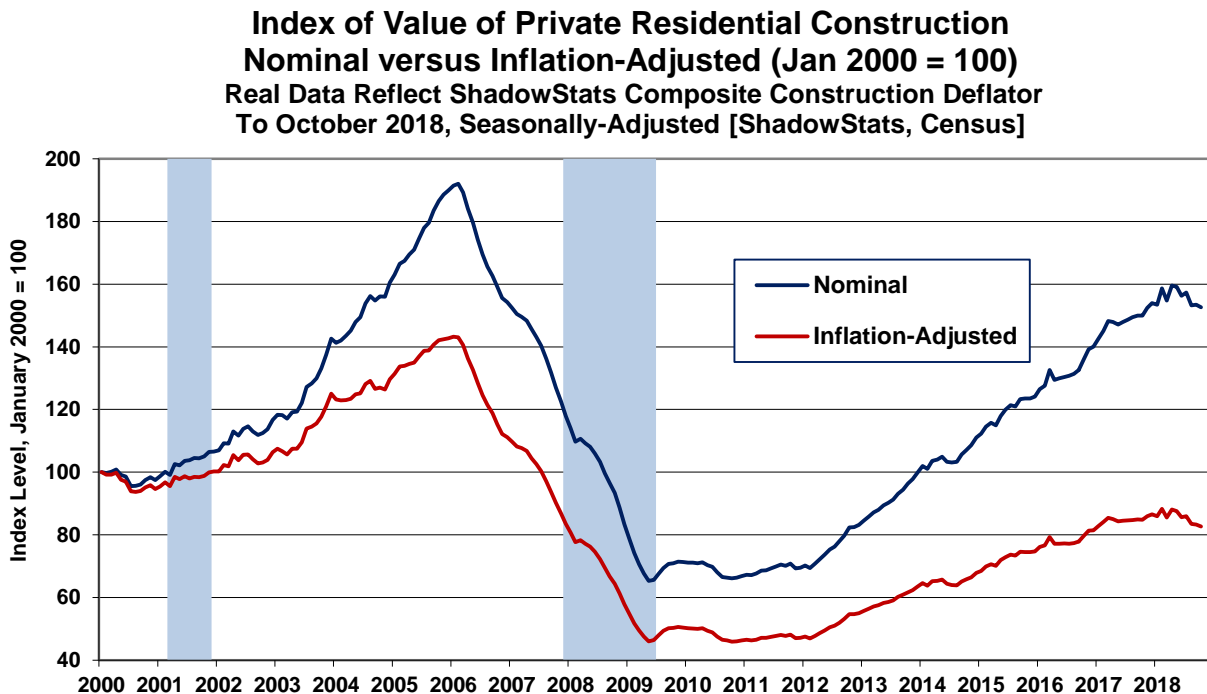
**[Graphs 70 to 73 begin on the next page.]**

### Patterns of Nominal and Real Construction Activity Compared Across Sectors

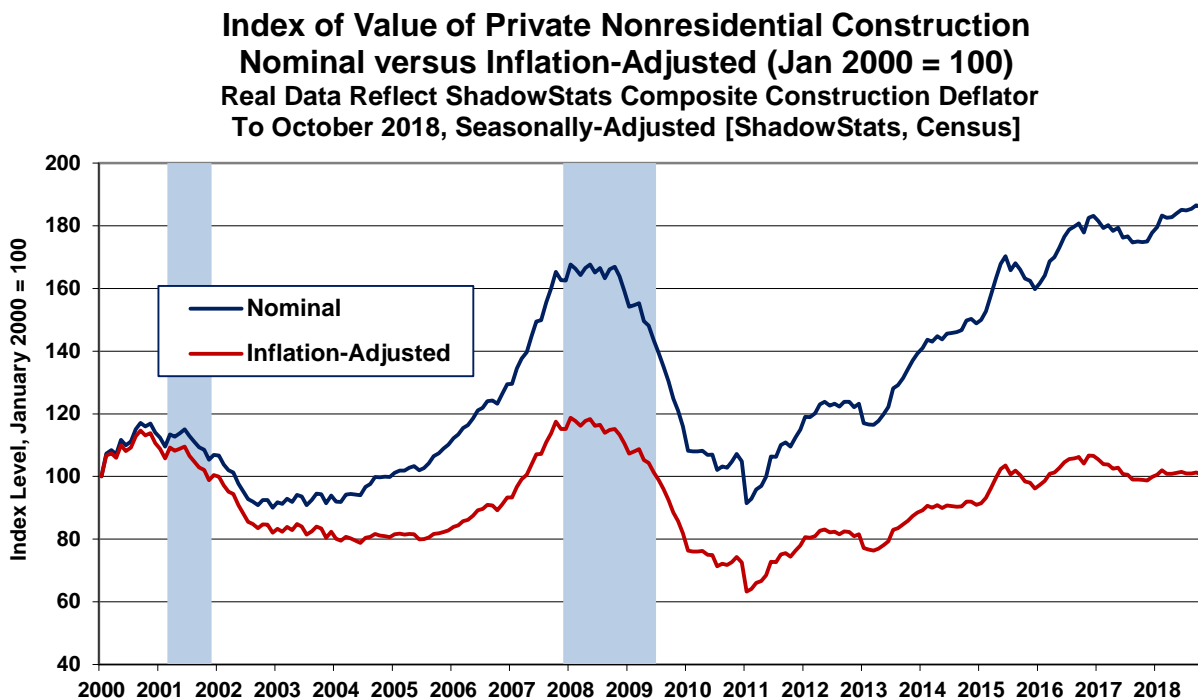
**Graph 70: Indexed Nominal versus Real Value of Total Construction**



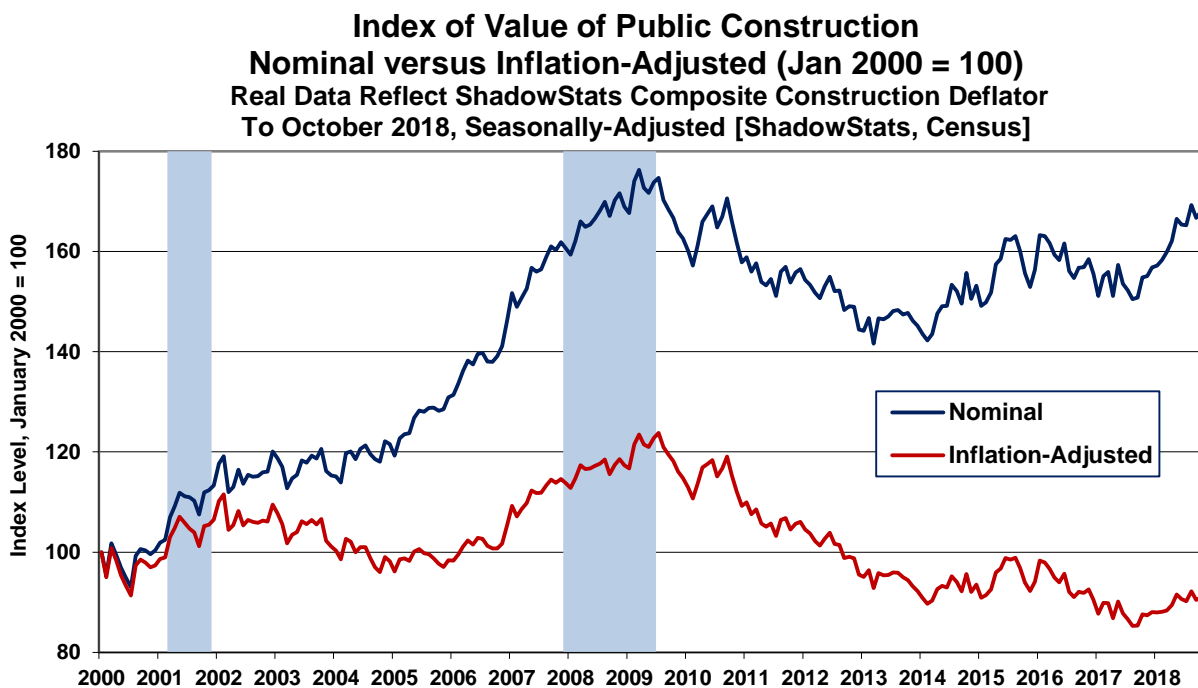
**Graph 71: Indexed Nominal versus Real Value of Private Residential Construction**



**Graph 72: Indexed Nominal versus Real Value of Private Nonresidential Construction**



**Graph 73: Indexed Nominal versus Real Value of Public Construction**



## Gross Domestic Product (Third-Quarter 2018, First Revision)

**Third-Quarter GDP Real Growth Was Unrevised at 3.50%, versus 4.16% in Second Quarter, Propped Heavily by Upwardly Revised Inventories; Hit by an Even Deeper Trade Deficit.** Reported by the Bureau of Economic Analysis (BEA) on November 28th, the second estimate of, first revision to real Third-Quarter 2018 Gross Domestic Product (GDP) came in at an unrevised annualized growth rate (at the second decimal point) of 3.50% +/- 2.5% (95% confidence interval). That broadly was in line with consensus expectations, and against respective unrevised second- and first-quarter 2018 growth rates of 4.16% and 2.22% (see *Table III, Graphs 76 and 78* ).

Year-to-year real growth in third-quarter 2018 GDP also was unrevised, holding at 3.04%, versus 2.87% in second-quarter 2018 and 2.58% in first-quarter 2018 (see *Graphs 77 and 79*). Both the headline annual and quarterly real growth rates for third-quarter 2018 GDP were above their respective 40-year averages of 2.69% and 2.67%.

A continuing issue for the headline GDP series is that the level of real third-quarter 2018 GDP activity held at an unrevised, aggregate 18.5% gain, or “expansion,” against its pre-recession high of fourth-quarter 2007. That magnitude of gain has not been confirmed by any other major economic series, including the various measures of employment activity.

Separately, major components of the broad economy, including the Manufacturing Sector (discussed in [Part I](#), page 46 and *Graph 22*) and the Construction Sector (discussed earlier here in *Part II*) never have recovered their pre-recession peak levels of economic activity. Consider, again, the Manufacturing Sector has seen 130 straight months of economic non-expansion, so far, the longest period of non-recovery in the 100-year history of the series. The circumstance also is considered along with *Graphs 83 and 84*.

The GDP (or the broader GNP detail headlined in earlier decades) remains the most worthless of the popular government economic series, in terms of determining what really is happening to U.S. business activity. The series is the most-heavily-modeled, politically-massaged and gimmicked government indicator of the economy. It has been so since at least the 1960s (see the discussion in [GDP Special No. 968](#) and [Special Commentary No. 885](#))

**GDP-Component Revisions Were Not so Stable.** Although the headline third-quarter GDP growth was unrevised, component activity shifted around, with an even greater build-up in inventories in the second estimate, for example, now accounting for 77.1% [previously 70.7%] of the quarterly increase in the GDP level. Specifically, third-quarter real growth in Final Sales (GDP net of inventory change) slowed to



1.23% from an initial pace of 1.43% (Personal Consumption of Motor Vehicles was revised lower), and from 5.33% in second-quarter Final Sales.

Increasingly negative revisions to and reporting of economic activity related to motor vehicles was discussed in [Part I](#), in the *Opening Comments* and in the *Reporting Detail* tied to Retail Sales, Industrial Production and New Orders for Durable Goods. GDP-related detail is shown here in *Table III*.

Also, increasingly negative revisions to and reporting of economic activity related to Residential Investment was discussed in the prior *Part II Reporting Detail* tied to New Residential Construction, New- and Existing-Home Sales and Construction Spending. Related detail also is shown in *Table III*.

Separately, the revised quarterly trade deficit deepened sharply, to a new record trade shortfall, while an early estimate of a widening deficit in October provided a negative signal for Fourth-Quarter 2018 GDP.

***Shortfalls in Real Net Exports and the Real Merchandise Trade Deficit Hit Record Levels.*** Reflected in *Graphs 74* and *75*) and in *Table III* following them, which details GDP-related quarterly growth contribution (Net Exports only), the real Merchandise Trade Deficit hit its historical nadir in third-quarter 2018, as did the real deficit in the GDP's Net Exports account, both in terms of total Net Exports of Goods and Services, and of total Net Exports of Goods. Services usually generates a small surplus.

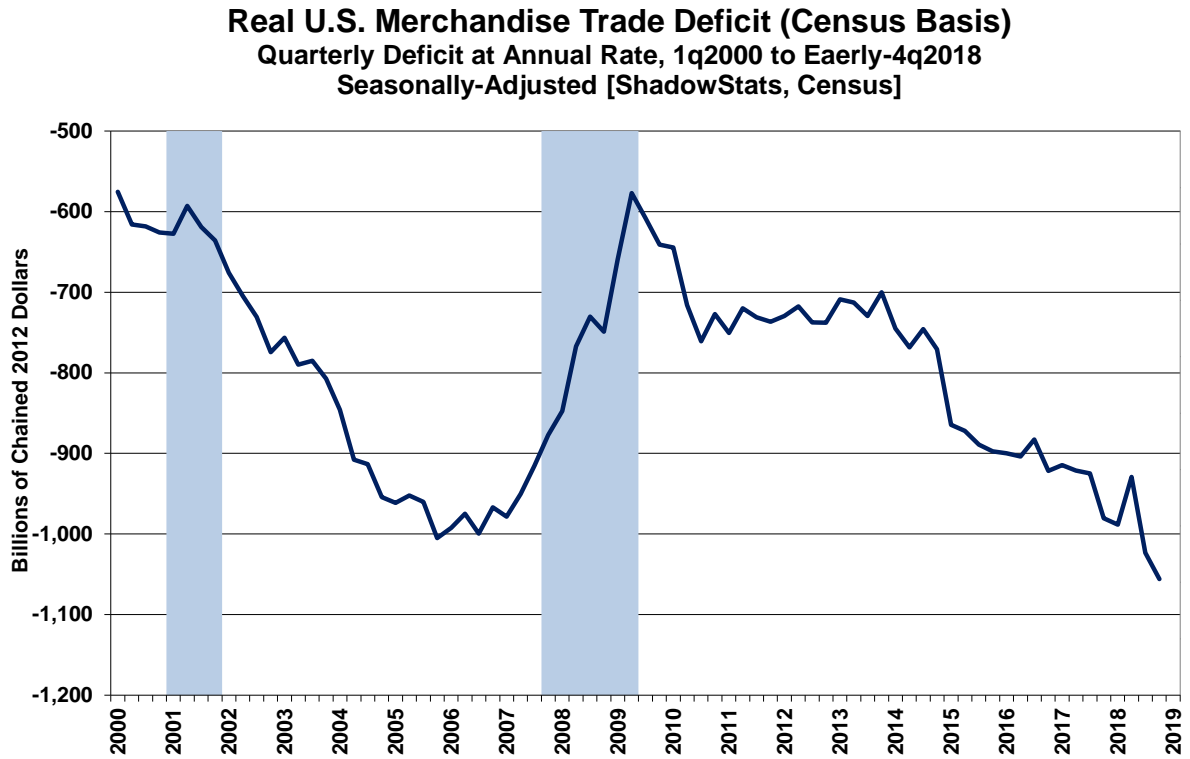
The third-quarter 2018 real shortfall in Net Exports widened from a record \$939.0 (-939.0) billion in constant 2012 dollars in its initial estimate, to a new record \$945.8 (-945.8) billion in its first revision. That was enough to alter its contribution to headline real third-quarter 2018 GDP growth from a negative 1.78% (-1.78%) to a negative 1.91% (-1.91%).

The “advance” estimate of the October 2018 merchandise trade deficit in goods (released coincident with the GDP on November 28th) widened versus an unrevised September 2018 reading. That puts the real fourth-quarter 2018 Net Exports account on track for continued widening and a negative contribution to fourth-quarter 2018 GDP growth. See the *Pending Releases* detail in the *Week, Month and Year Ahead* section tied to the pending full October deficit. On the next page, here, *Graph 74* plots the headline real merchandise trade deficit through third-quarter 2018, with the plotted fourth-quarter 2018 point based on the deteriorating trend indicated in the initial estimate for the October 2018 goods deficit. *Graph 75* plots the headline real Net Export deficit for Goods, through the first revision of third-quarter GDP.

***Second Estimate of Third-Quarter 2018 GDP by Sector.*** Following *Graphs 74* and *75*, *Table III* shows summary GDP and component details, which have been expanded to include key sub-categories of Personal Consumption of Motor Vehicles and Residential Investment. Along with annualized real growth rates of the Gross Domestic Income (GDI) and Gross National Product (GNP), the same summary statistics have been added for the Implicit Price Deflator (IPD or GDP inflation) and the ShadowStats Corrected-Inflation GDP estimates, along with tear-to-year rates of change for the aggregate measures.

The second estimate of, first revision to Third-Quarter 2018 GDP came in at an unrevised annualized real quarterly growth rate of 3.50%, versus 4.16% in second-quarter 2018, 2.22% in first-quarter 2018, 2.29% in fourth-quarter 2017 and 2.82% in third-quarter 2017. The table shows the breakout of GDP growth by quarter, by economic sector and by general product sector back to third-quarter 2017. Annual real GDP growth was 3.04% in third-quarter 2018, 2.87% in second-quarter 2018, 2.58% in first-quarter 2018, 2.47% in fourth-quarter 2017 and 2.34% in third-quarter 2017. *Notes on GDP-Related Nomenclature and Definitions* follow *Table III*, with regular GDP, GDI and GNP analysis continuing on page 112.

**Graph 74: Real Merchandise Trade Deficit (First-Quarter 1994 to Early-Fourth Quarter 2018)**



**Graph 75: U.S. Net Exports of Goods and Services (2002 to Third-Quarter 2018 GDP, Second Estimate)**



**Table III: Second Estimate of Third-Quarter 2018 GDP, Growth Distribution versus the Prior Four Quarters**

Annualized Quarterly Real Growth in Headline Gross Domestic Product Second Estimate of Third-Quarter 2018 GDP Growth Contribution by Consumption and Product Sector						
GDP COMPONENTS	3rd-Q 2018 Second Estimate	3rd-Q 2018 "Advance" Estimate	2nd-Q 2018 Final	1st-Q 2018 Final	4th-Q 2017 Final	3rd-Q 2017 Final
<b>CONTRIBUTING ECONOMIC SECTOR</b>						
Personal Consumption Expenditures						
- Goods	1.00%	1.20%	1.16%	-0.13%	1.42%	0.86%
-- <i>Motor Vehicles</i>	-0.04%	0.09%	0.16%	-0.35%	0.40%	0.21%
- Services	1.45%	1.49%	1.42%	0.49%	1.22%	0.65%
Gross Private Domestic Investment						
- Fixed Investment	0.25%	-0.04%	1.10%	1.34%	1.04%	0.44%
-- <i>Residential</i>	-0.10%	-0.16%	-0.05%	-0.14%	0.41%	-0.02%
- Change in Private Inventories	2.27%	2.07%	-1.17%	0.27%	-0.91%	1.04%
Net Exports of Goods and Services	-1.91%	-1.78%	1.22%	-0.02%	-0.89%	0.01%
Government Consumption/Investment	0.44%	0.56%	0.43%	0.27%	0.41%	-0.18%
<b>GDP ANNUALIZED REAL GROWTH</b>	3.50%	3.50%	4.16%	2.22%	2.29%	2.82%
Final Sales, GDP Less Inventories	1.23%	1.43%	5.33%	1.95%	3.20%	1.78%
<b>CONTRIBUTING PRODUCT SECTOR</b>						
Goods	1.81%	1.89%	1.91%	1.20%	0.34%	2.40%
Services	1.77%	1.82%	1.78%	0.73%	1.32%	0.74%
Structures	-0.07%	-0.21%	0.47%	0.28%	0.64%	-0.32%
<b>GDP Annualized Real Growth</b>	3.50%	3.50%	4.16%	2.22%	2.29%	2.82%
<b>SUPPLEMENTAL</b>						
Annualized Quarter to Quarter Real Change						
Gross Domestic Product (GDP)	3.50%	3.50%	4.16%	2.22%	2.29%	2.82%
Gross Domestic Income (GDI)	4.03%	--	r 0.87%	3.90%	1.49%	1.28%
Gross National Product (GNP)	3.49%	--	4.04%	2.20%	2.57%	3.57%
Implicit Price Deflator (IPD)	1.40%	1.38%	3.31%	2.02%	2.72%	1.94%
ShadowStats Corrected Inflation	1.41%	1.41%	2.05%	0.15%	0.22%	0.74%
Year-to-Year Real Change						
Gross Domestic Product (GDP)	3.04%	3.04%	2.87%	2.58%	2.47%	2.34%
Gross Domestic Income (GDI)	2.56%	--	r 1.88%	2.36%	2.25%	2.47%
Gross National Product (GNP)	3.07%	--	3.09%	2.73%	2.56%	2.60%
Implicit Price Deflator (IPD)	2.36%	2.36%	2.50%	1.95%	1.97%	1.81%
ShadowStats Corrected-Inflation GDP*	0.95%	0.95%	0.79%	0.51%	0.40%	0.27%
Sources: Bureau of Economic Analysis (BEA), <a href="http://www.ShadowStats.com">www.ShadowStats.com</a> (ShadowStats). *Real GDP corrected for understated headline inflation (see <i>Special Commentary No. 968-Extended</i> ). r Net of downside 2nd-Q GDI revision, Q/Q 3rd-Q was 3.26% vs 2nd-Q 1.81%; Y/Y 2nd-Q was 2.12%.						

### Notes on GDP-Related Nomenclature and Definitions

For purposes of clarity and the use of simplified language in the text of the GDP analysis, here are definitions of several key terms used related to GDP reporting (\* denotes an exclusive ShadowStats series):

**Gross Domestic Product (GDP)** is the headline number and the most widely followed broad measure of U.S. economic activity. It is published quarterly by the [Bureau of Economic Analysis](#) (BEA), with two successive monthly revisions, along with annual Benchmark Revisions usually in the following July, coincident with the “advance” GDP estimate for the second quarter of that year. Every five years or so, those annual revisions are “Comprehensive,” restating the series back to its earliest 1929 estimate. The GDP popularly is reported and followed in real terms, net of inflation, reflecting annualized quarter-to-quarter or year-to-year change.

**\*GDP Corrected for Headline Understatement of Inflation** is a ShadowStats version of real GDP that adjusts headline real GDP activity only for the understated inflation used in deflating the series. Where the inflation used to deflate the various GDP components series tends to be understated in aggregate by roughly two-percentage points per year, the resulting headline real GDP growth is overstated by roughly that amount (see the discussion in [Public Commentary on Inflation Measurement](#) and the Opening Comments of [GDP Special No. 968](#) Graphs OC-4 and OC-5).

**\*ShadowStats Alternate GDP Estimate** is a ShadowStats version of real GDP, which adjusts the headline real GDP activity for nominal biases built into the headline GDP reporting from methodological redefinitions that usually are introduced with annual benchmark revisions. Discussed in the Opening Comments, these biases almost always are positive—the ShadowStats “Pollyanna Creep”—and have added 18.1% to the headline level of nominal GDP since 1980 (see Table OC-1 of [GDP Special No. 968](#)). Since those numbers are nominal, before inflation-adjustment, the annual bias estimates are separate from the inflation-adjusted distortions of the previous “Corrected” series. Graph OC-7 in No. 968, however, is an inflation-adjusted, year-to-year version of this series, posted regularly on the Alternate Data Tab of [www.ShadowStats.com](http://www.ShadowStats.com). It will be fully updated and overhauled in the near future.

**Gross Domestic Income (GDI)** is the theoretical equivalent to the GDP, but the popular press generally does not follow it. Where GDP reflects the consumption side of the economy and GDI reflects the offsetting income side. When the series estimates do not equal each other—invariably the case—where the series are surveyed separately, the difference is added to or subtracted from the GDI as a “statistical discrepancy.” Although the BEA touts the GDP as the more accurate measure, the GDI is relatively free of the of the GDP’s monthly political targeting.

**Gross National Product (GNP)** is the broadest measure of the U.S. economy published by the BEA. Once the headline number, now it rarely is followed by the popular media. GDP is the GNP net of trade in factor income (interest and dividend payments). GNP growth usually is weaker than GDP growth for net-debtor nations. Games played with headline money flows between the United States and the rest of the world tend to mute that impact on the reporting of U.S. GDP growth.

**Real (or Constant Dollars)** means the data have been adjusted, or deflated, to reflect the effects of inflation.

**Nominal (or Current Dollars)** means the growth or level of activity has not been adjusted for inflation. This is the way a business normally records revenues or an individual views day-to-day income and expenses.

**GDP Implicit Price Deflator (IPD)** is the inflation measure used to convert GDP data from nominal to real. The adjusted numbers are based on “Chained 2012 Dollars,” a concept introduced with the 2013 and comprehensive revisions, when 2009 was used as the base year for inflation (updated to 2012 dollar in 2018). “Chained” refers to a substitution methodology, where the GDP components with the strongest nominal growth, automatically get a weaker, deflating inflation rate, which artificially boosts the headline real GDP growth.

**Quarterly** growth, unless otherwise stated, is in terms of seasonally-adjusted, annualized quarter-to-quarter growth, i.e., the growth rate of one quarter over the prior quarter, raised to the fourth power, a compounded annual rate of growth. While some might annualize a quarterly growth rate by multiplying it by four, the BEA uses the compounding method, raising the quarterly growth rate to the fourth power. So a one percent quarter-to-quarter growth rate annualizes to  $1.01 \times 1.01 \times 1.01 \times 1.01 = 1.0406$  or 4.1%, instead of  $4 \times 1.0\% = 4.0\%$ .

**Annual** growth is year-to-year change of the referenced period versus the same period the year before.

**Gross Domestic Income (GDI)** is the theoretical income-side equivalent to the consumption-side GDP estimate, yet the two measures rarely come close to showing similar quarterly growth patterns, with some relatively wild quarterly swings in the current numbers. Accordingly, on just a bookkeeping basis, the GDP and GDI are made to equal each other, every quarter, with the addition of an ever-fluctuating “statistical discrepancy” to the GDI-side of the equation. Yet, the headline GDI growth patterns reflect only the headline GDI estimate, not any “discrepancy” accounting.

The first estimate of real third-quarter 2018 GDI showed annualized real growth of 4.03%, versus a revised gain of 0.87% (previously 2.12%) in second-quarter 2018. Net of the prior-period revisions, third-quarter 2018 GDI would have reflected an annualized real gain of 3.26%, versus 1.62% in the second-quarter 2018. First-quarter 2018 grew at an annualized quarterly pace of 3.90%, versus 1.49% in fourth-quarter 2017 and 1.28% in third-quarter 2017.

Annual GDI growth rose by 2.56% in third-quarter 2018, versus a revised 1.88% [previously 2.07%] in second-quarter 2018, 2.36% in first-quarter 2018, 2.25% in fourth-quarter 2017 and 2.47% in third-quarter 2017 (see *Table III*).

**Gross National Product GNP** is the broadest National Income measure, reflecting GDP plus the net international trade-flows of factor income, specifically interest and dividend payments. As a reporting gimmick aimed at boosting the headline reporting of economic growth for net-debtor nations such as the United States, international reporting standards were shifted some decades ago to reporting headline GDP instead of what had become a relatively weaker GNP. With no unusually large swings in headline factor income in the last several quarters, however, third-quarter 2018 GNP reporting moved largely in tandem with the GDP.

Real annualized GNP growth rose by 3.49% in third-quarter 2018, versus 4.04% in second-quarter 2018, 2.20% in first-quarter 2018, 2.57% in fourth-quarter 2017 and 3.57% in third-quarter 2017.

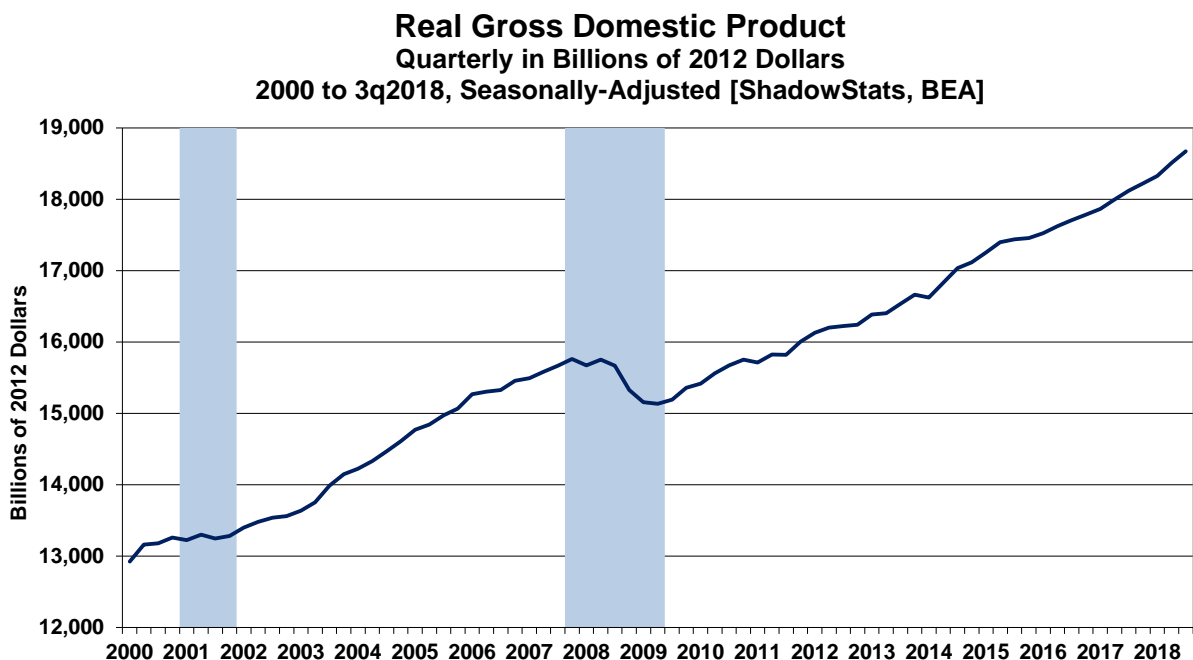
Real year-to-year GNP growth rose by 3.07% in third-quarter 2018, versus 3.09% in second-quarter 2018, 2.73% in first-quarter 2018, 2.56% in fourth-quarter 2017 and 2.60% in third-quarter 2017 (see *Table III*).

**Real GDP Graphs of Activity Levels and Annual Growth Rates.** *Graphs 76* and *78* plot headline levels of real quarterly GDP activity, respectively showing short-term (since 2000) and long-term (since the historical onset of the quarterly GDP series in 1947) perspectives. *Graphs 77* and *79* show the year-to-year quarterly detail for the same series. The current-cycle trough in quarterly annual change was second-quarter 2009, reflecting a year-to-year decline of 3.92% (-3.92%).

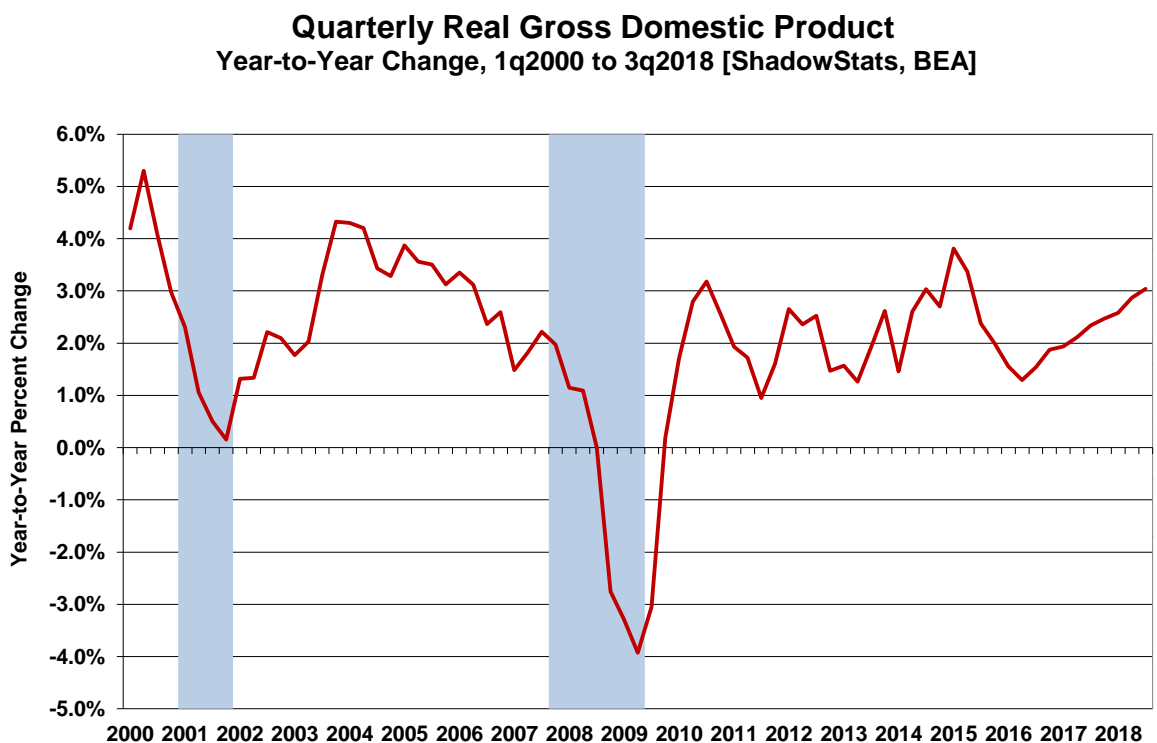
That was the deepest year-to-year contraction for any quarterly GDP in the history of the quarterly series, which began with first-quarter 1947 (1948 in terms of available year-to-year detail). Shown in *Graph 81*, the annual decline of 2.54% (-2.54%) in 2009 was the steepest regular annual drop in economic activity since the Great Depression. The 1946 production shutdown and economic reorganization following World War II, however, resulted in an annual GDP decline of 11.61% (-11.61%), minimally narrower than the 1932 annual economic crash of 12.88% (-12.88%).

**[Graphs 76 through 82 begin on the next page.]**

**Graph 76: Quarterly GDP in Billions of 2012 Dollars (2000 to 2018), Second-Estimate of Third-Quarter 2018**

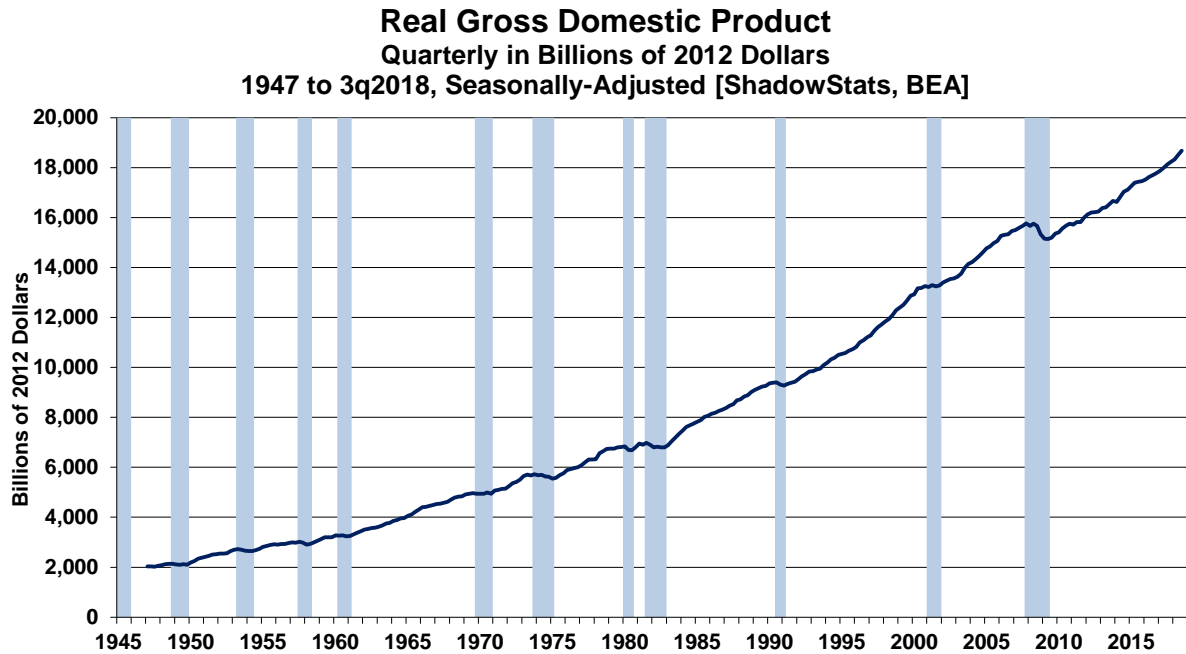


**Graph 77: Quarterly GDP Real Year-to-Year Change (2000 to 2018), Second-Estimate of Third-Quarter 2018**

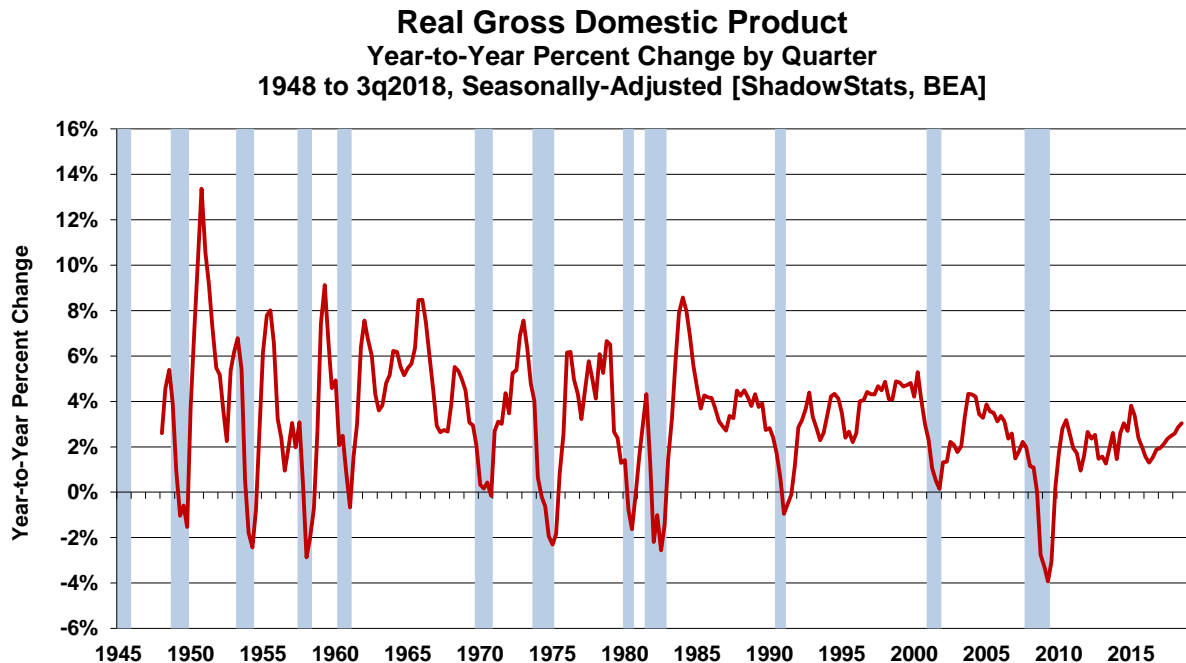




**Graph 78: Quarterly GDP in Billions of 2012 Dollars (1947-2018), Second-Estimate of Third-Quarter 2018**



**Graph 79: Year-to-Year GDP Real Change (1948-2018), Second-Estimate of Third-Quarter 2018**

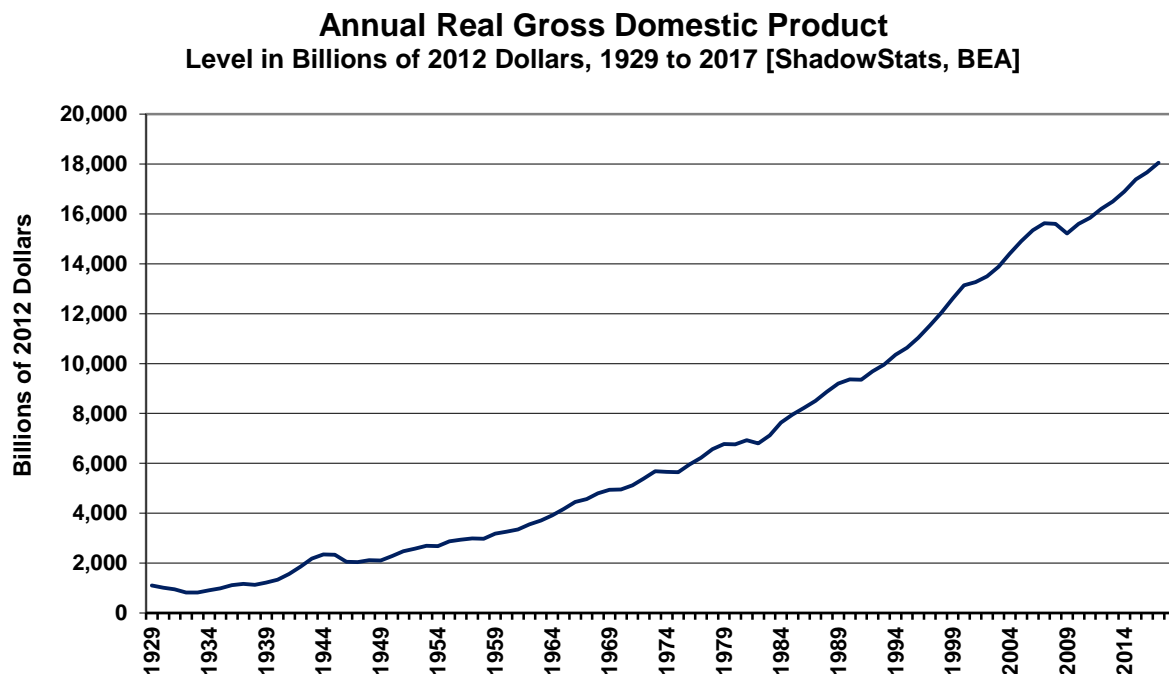


Graphs 80 and 81 show the levels of annual real GDP activity, as well as annual percent change, as estimated beginning in 1929. Reflected in *Graph 80*, the annual-average real GDP growth in 2017 was 2.22%, versus 1.57% in 2016, 2.88% in 2015 and 2.45% in 2014. The annual growth rate of 1.55% in

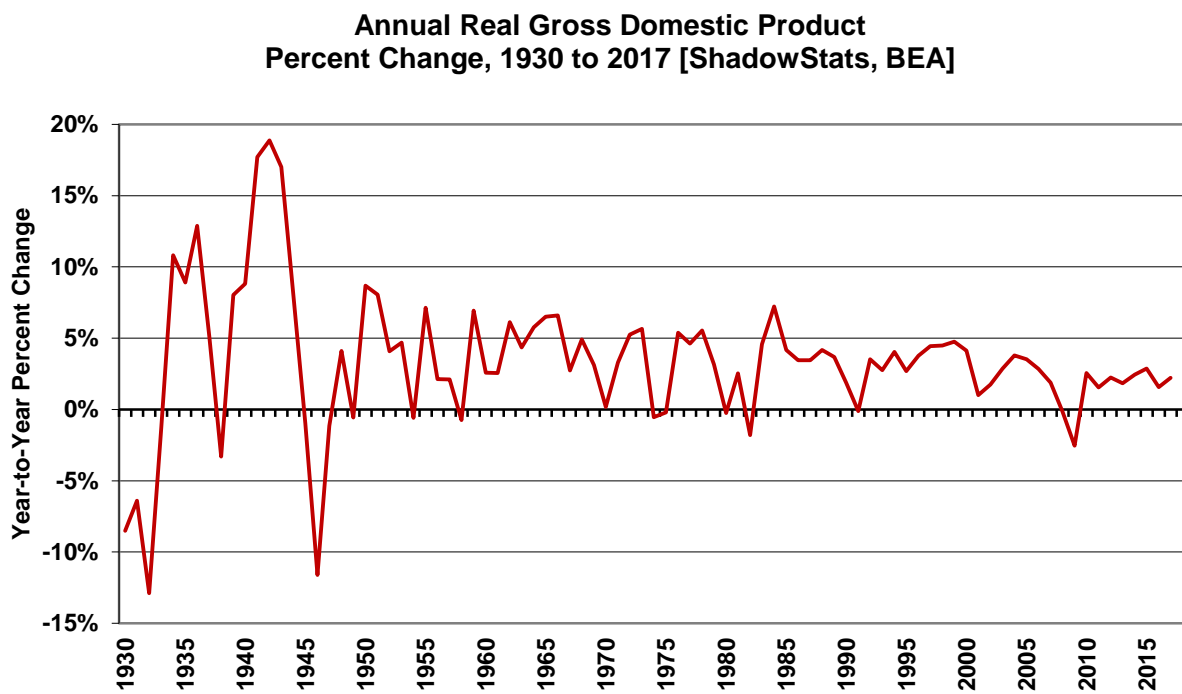


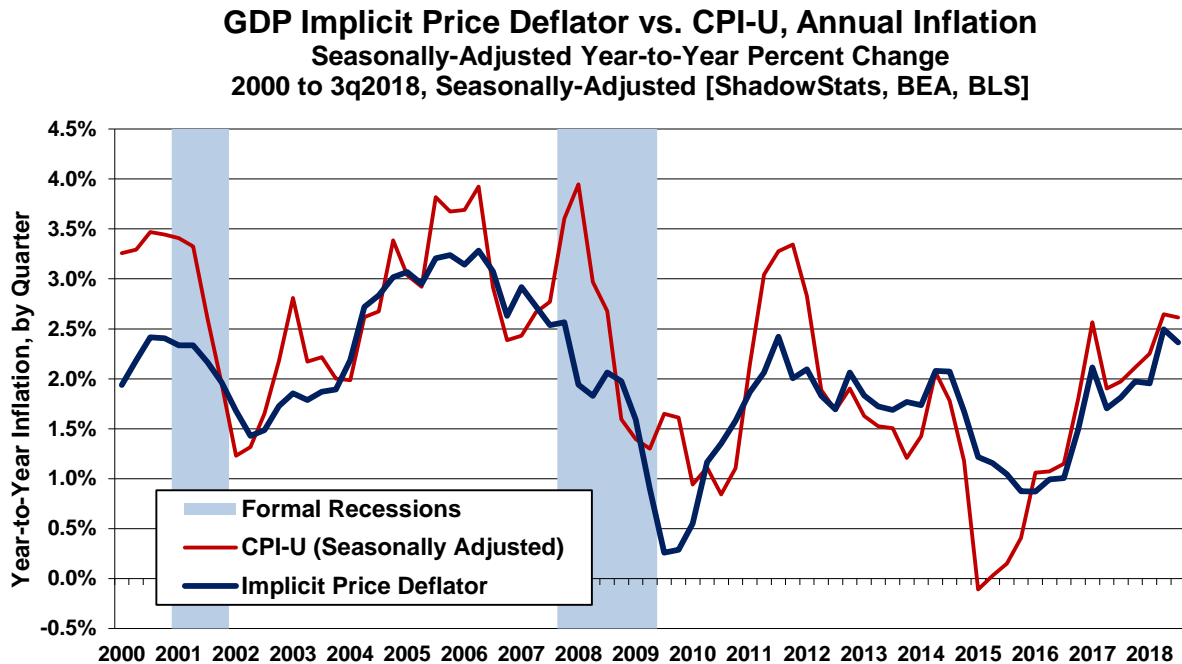
2011 was the slowest pace of annual growth in the post-2009 “recovery,” although effectively the same level of growth as seen in 2016.

**Graph 80 Annual GDP in Billions of 2012 Dollars (1929-2017)**



**Graph 81: Real Annual Percent Change (1930-2017)**



**Graph 82: Year-to-Year Inflation, Implicit Price Deflator vs. CPI-U, to Third-Quarter 2018, Second Estimate IPD**

**Implicit Price Deflator (IPD).** The IPD is the effective GDP inflation rate used in deflating the before-inflation-adjustment or nominal GDP, to an after-inflation-adjustment, or real GDP basis. Reflecting unusual patterns in third-quarter versus second-quarter GDP activity, annualized quarterly GDP inflation (the Implicit Price Deflator or IPD) for third-quarter 2018 revised to an annualized 1.40% [previously 1.38%] quarter-to-quarter, versus 3.31% in second-quarter 2018 and 2.02% in first-quarter 2018 (see *Graph 82*). Year-to-year inflation was an unrevised (at the second decimal point) 2.36% in third-quarter 2018, versus 2.50% in second-quarter 2018 and 1.95% in first-quarter 2018.

As general guidance, the weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth, and vice versa, particularly where the headline CPI-U moves in the direction opposite from the IPD, as the strengthening CPI-U did here, increasing to 2.00% in third-quarter 2018, from 1.66% in second-quarter 2018 (again see *Graph 82*). The decline in the IPD inflation to an annualized third-quarter 1.40%, versus an annualized second-quarter 3.31% added a relative, annualized quarterly boost to the real GDP growth of 1.91%.

Reflected in *Table III*, the seasonally-adjusted Implicit Price Deflator showed annualized quarterly inflation for the second estimate of third-quarter 2018 GDP at 1.40% [previously 1.38% in the “advance” estimate], versus 3.31% in second-quarter 2018, 2.02% in first-quarter 2018, having gained 2.72% in fourth-quarter 2017, 1.94% in third-quarter 2017, 1.14% in second-quarter 2017, and 2.10% in first-quarter 2017.

Year-to-year, the second estimate of third-quarter 2018 IPD was unrevised from the “advance” 2.36%, versus 2.50% in second-quarter 2018, 1.95% in first-quarter 2018, 1.97% in fourth-quarter 2017, 1.81% in third-quarter 2017, 1.70% in second-quarter 2017, 2.11% in first-quarter 2017 (see *Graph 82*).

For comparison, seasonally-adjusted, annualized quarterly CPI-U inflation, consistent with the way the seasonally-adjusted, headline real GDP is worked, showed annualized quarterly gains of 2.00% in third-quarter 2018, versus 1.66% in second-quarter 2018, 3.50% in first-quarter 2018, 3.31% in fourth-quarter 2017, 2.13% in third-quarter 2017, 0.10% in second-quarter 2017 and 2.95% in first-quarter 2017.

Seasonally-adjusted, year-to-year quarterly CPI-U inflation, consistent with the way the seasonally-adjusted, headline real GDP is worked, showed annual gains of 2.61% in third-quarter 2018, versus 2.65% in second-quarter 2018, 2.25% in first-quarter 2018, versus 2.12% in fourth-quarter 2017, 1.97% in third-quarter 2017, 1.90% in second-quarter 2017 and 2.57% in first-quarter 2017 (see *Graph 82*).

***ShadowStats Corrected-Inflation Real GDP—Updated Review of Underlying Economic Reality—Nascent Recovery Continues, But No Economic Expansion, Signs of a Liquidity-Driven Pullback.***

Looking to update [Commentary No. 976](#), *Graphs 83 and 84* here are indistinguishable from *Graphs OC-8 and OC-9*, where there was virtually no revision to the initial headline GDP growth to at least the second decimal point. Accordingly, the virtually unrevised analysis in the *Opening Comments* of [Commentary No. 976](#) are incorporated here by reference.

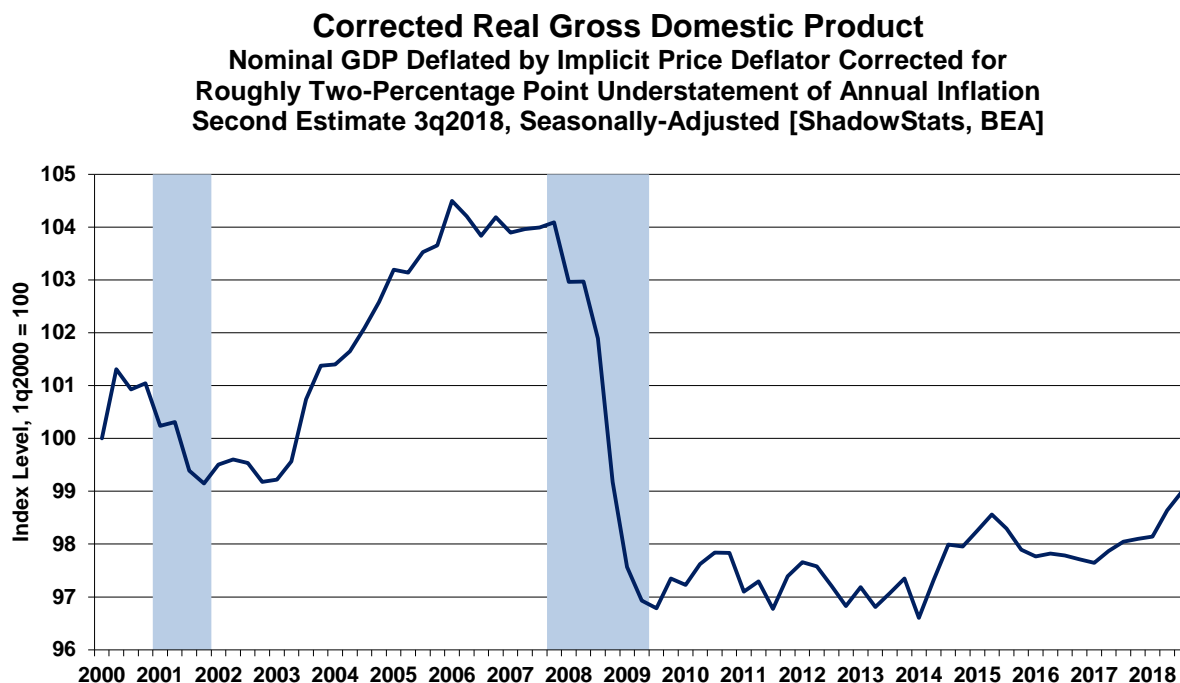
[Commentary No. 976](#) expanded upon the *Underlying Economic Reality* section of [Special Commentary No. 968-Extended](#), *Section II* and [Commentary No. 971](#), reflecting the latest data in comparative graphs.

Noted regularly in these *GDP Commentaries*, the headline Gross Domestic Product (GDP) detail, as published by the Bureau of Economic Analysis (BEA) simply remains the most worthless of the popular government economic series, in terms of indicating realistic U.S. business activity. “Headline Real GDP” is plotted in accompanying *Graphs 76 and 77*. That same series “Corrected” for roughly two-percentage points of understated inflation used in deflating the headline nominal GDP, is plotted in *Graphs 83 and 84*. That ShadowStats “Corrected” Real GDP in *Graph 83* was compared and contrasted with a number of better-quality, private- and public-economic measures of broad activity in the *Opening Comments* of [Commentary No. 976](#), again, incorporated here by reference.

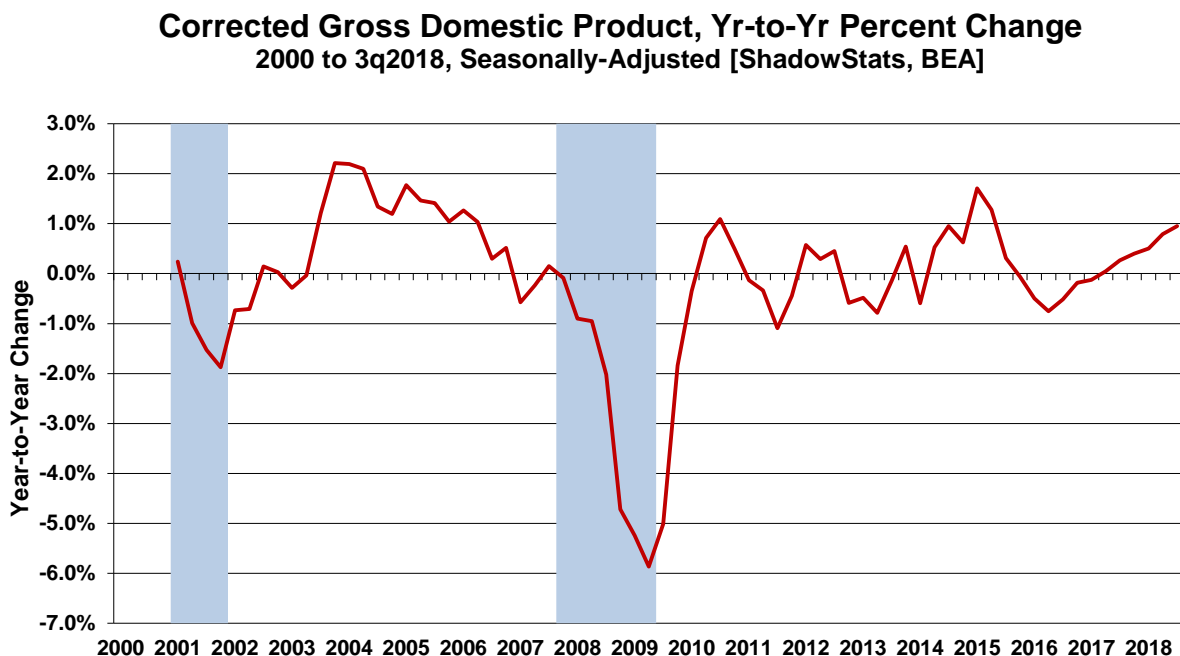
In sharp contrast to the headline GDP, which currently stands 18.5% above its pre-recession high of fourth-quarter 2007, and 23.4% above its recession trough, the ShadowStats Corrected-Inflation GDP has not recovered (as in matching or recovering its pre-recession peak, where movement above the prior peak is the measure of economic expansion), but it is 2.3% above its recession trough, as was indicated in [Commentary No. 976](#). Otherwise, it still is shy of recovering its pre-recession peak by 4.9% (-4.9%) of recovering that pre-recession high.

**[Graphs 83 and 84 follow on the next page.]**

**Graph 83: "Corrected" Real GDP Index (First-Quarter 2000 to Second-Estimate of Third-Quarter 2018)**



**Graph 84: "Corrected" Real GDP, Year-to-Year Percent Change (First-Quarter 2000 to Third-Quarter 2018)**



***ShadowStats Alternate GDP (Including Inflation Distortions and “Pollyanna Creep.”*** The ShadowStats-Alternate GDP, which incorporates not only the GDP “Corrected” for understatement of inflation, but also the “Pollyanna Creep” of recent decades (reviewed broadly in the *Opening Comments* of [GDP Special No. 968](#)), reflected an unrevised year-to-year decline of 1.2% (-1.2%) in third-quarter 2018, versus a headline annual GDP headline gain of 3.0%. That was against a ShadowStats annual decline of 1.3% (-1.3%) and a headline annual GDP gain of 2.9% in second-quarter 2018. Details are highlighted on the Alternate Data tab for the GDP on the [www.ShadowStats.com](http://www.ShadowStats.com) home page.

While the annualized, real quarterly growth rate is not estimated formally on an alternate basis, the heavily bloated, overstated, second-estimate of an annualized, headline quarter-to-quarter gain of 3.5% in third-quarter 2018 likely was much weaker in reality, net of all the happy assumptions and regular reporting gimmicks.

Irrespective of the 2018 headline benchmark revisions, real-world quarterly contractions still appear to have been a realistic possibility for bloated, headline inflation-adjusted GDP in a number of quarters since the official, second-quarter 2009 end to the 2007 recession (again, see the *Opening Comments* of [Commentary No. 976](#)).

The alternate GDP estimates are reviewed in the *Opening Comments* and *Section I* of [GDP Special No. 968](#). Discussed there is the “Corrected” GDP and the ShadowStats-Alternate GDP, which reflect reversing additional methodological distortions (again “Pollyanna Creep”) of recent decades, highlighted in the Alternate Data tab on the GDP on the [www.ShadowStats.com](http://www.ShadowStats.com) home page.

***Comprehensive GDP Benchmark Revisions of 2018 and Subsequent Updates.*** Current headline GDP reporting is in the context of the July 27, 2018 comprehensive benchmark revisions to the series back to 1929. Incorporated here by reference, [Special Commentary No. 968-Extended](#) (with a shortened link: [GDP Special No. 968](#)) of September 6th, was structured into four sections:

- The *Opening Comments* in [GDP Special No. 968](#) reviewed inflation-related and definitional distortions built into headline GDP reporting over the decades. Issues and details there supplement today’s *GDP-Related Nomenclature and Definitions* section, specifically tied to the *ShadowStats GDP Corrected for Headline Understatement of Inflation* and the *ShadowStats Alternate GDP Estimate*.
- Part I reviewed the first-revision to second-quarter 2018 GDP (first post-benchmarking revision), with the second revision covered in [Commentary No. 971](#).
- Part II discussed underlying U.S. economic reality, a section that was updated and expanded upon in [Commentary No. 976](#), previously as updated in [Commentary No. 971](#).
- Part III provided expanded coverage of the Comprehensive GDP Benchmark Revision back to 1929, which is available for review, again, at [GDP Special No. 968](#).

## WEEK, MONTH AND YEAR AHEAD

### FOMC Policy Shift Could Trigger Intense Financial Market Turmoil

[[Special Commentary No. 973 – ALERT](#) of October 14, 2018, and subsequent minimal updates in the regular *Week, Month and Year Ahead* sections of regular *Commentaries* since, remains in place. The *ALERT* is updated here to reflect evolving circumstances with the Board of Governors of the Federal Reserve System’s Federal Open Market Committee (FOMC), discussed in the *Opening Comments* of the *December 1st Part I* of today’s *Commentary No. 978 - Part II*, [linked here: Commentary No. 978 - Part I](#). Going forward, this section will be shifted to and included in the latest *Hyperinflation Watch*, to be extended, revised and updated regularly, including expanded discussion of developing instabilities and risks in and to the financial markets. That first update follows in *Hyperinflation Watch No. 4*, planned for late this week.]

#### **Deteriorating Economic, Fiscal and Political Conditions Raise Risks of Intense Dollar and Financial-Market Turmoil, Exacerbated by Mounting Systemic- and Consumer-Liquidity Stresses.**

In the context of intensifying, negative Stock Market volatility, and until recently the happy hype of ongoing stock-market and economic booms, the consensus outlook has begun to pull back a bit. Discussed here are risks of extraordinary financial-market disruptions and turmoil—selloffs—mounting rapidly in the near-term, increasingly the next six months, most likely the next month, or so. Further background and details were discussed in the *Opening Comments* on Consumer Liquidity and the *Week, Month and Year Ahead* section of [Commentary No. 974](#), the *Opening Comments* of [Commentary No. 975](#), with basic background expanded upon in the *Special Editions* of [Consumer Liquidity Watch No. 5](#) (updated November 21st) and the pending *Hyperinflation Watch No. 4*.

With the backdrop of the *Squirrelly Season* and likely tipping point for the markets reviewed in [Commentary No. 970](#), rapid deterioration in near-term headline economic activity and rapidly mounting risks of near-term political turmoil/instability and/or increasing perceptions of same have combined to widen the risk of massive selloffs in the U.S. dollar and U.S. equity markets, coming together at the same point in time.

A sudden sell-off in the U.S. dollar, likely would be coincident with, if not the proximal trigger for the intensifying flight from liquid dollar-denominated assets such as stocks and bonds.

What continues to unfold and befuddle the Federal Reserve is the still-unresolved 2007/2008 banking-system collapse, where the Fed had done its best to bailout, obfuscate, forestall or mask a systemic problem that had neither an easy nor a rapid solution. Despite trillions of dollars used to prop the banks in the last decade, neither the U.S. banking system nor the U.S. economy was able to return to anything close to normal, post-2007. As the FOMC moved to reverse its easing course by raising interest rates and tightening domestic liquidity, it also killed whatever nascent economic recovery was beginning to surface. The effects and political pressures from the unfolding economic weakness already have triggered some initial hemming and hawing by the Fed (again, see the *Opening Comments* of [No. 978 - Part I](#)).

Excerpted from [Hyperinflation Watch – No. 3](#), [with subsequent language updates] *ShadowStats* long has contended “Economic reporting in the week and weeks ahead likely will disappoint consensus



expectations. At the same time, consider seriously-conflicting policy issues for the Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System. While overseeing tightening systemic liquidity at a “moderate” pace, Federal Reserve Chairman Jerome Powell also has a primary responsibility to maintain banking-system solvency/liquidity.

Yet, the current tightening in monetary policy threatens to damage or exacerbate underlying weakness in major sectors of U.S. economy (see the earlier comments on real M3 growth and related *Graph HW-4* [in [Hyperinflation Watch – No. 3](#), also *Graph 5* in [Part I](#)]. In conflict, such an intensifying economic downturn would stress banking-system liquidity anew [severely].

The U.S. central bank’s primary concern remains the maintenance of solvency and liquidity in a still-troubled banking system. Intensifying economic and financial stresses on that system remain likely to cause the FOMC to back off its current pattern of promised rate hikes and balance-sheet liquidation within the year [although the planned December rate hike likely will go through, but watch out if it does not], to revert again towards expanded quantitative easing, as openly allowed for in FOMC policy.

As the mounting economic/systemic stresses continue to unfold, market pressures and expectations should shift sharply towards the FOMC pulling back from further tightening [again see the *Opening Comments* of [Part I](#)]. Accordingly, consensus expectations as to the timing and frequency of future rate hikes by the Fed increasingly should begin to waver [already has begun to falter seriously], with negative impact on the U.S. dollar and an upside push to a commodity-driven (oil) U.S. inflation, despite what is or will be recognized as a weakening economy. Banking-system liquidity and solvency remain the dominant policy consideration of the FOMC, not the headlined “maintaining relative strength of the economy.” That [underlying FOMC policy] has been demonstrated frequently from the 2008-banking crisis to date.

Regularly discussed here, unexpected, negative economic shocks lie ahead, not only in regular, near-term monthly reporting of popularly-followed series, but also as seen with recent annual benchmark revisions of economic series, excepting the recent GDP benchmarking (see [Commentary No. 954](#), for example).

As the economy turns down anew, the banking system should come under renewed liquidity/solvency stresses. In turn, that again should bring the Fed around to reversing policy, re-embracing quantitative easing. In turn, that should crash the U.S. dollar, along with an intensified flight of foreign capital from the United States, likely also crashing the U.S. stock and equity markets.”

Accordingly, the U.S. dollar and financial markets remain at extreme risk of intense, panicked declines that could happen at any time. The financial system and the markets eventually should become self-healing, but not without likely significant cost to or alteration of existing circumstances.

Holdings of physical gold and silver remain the ultimate hedges—stores of wealth—for preserving the purchasing power of one’s U.S. dollar assets, during times of high U.S. inflation and currency debasement and/or political- and financial-system upheaval. These crisis circumstances increasingly are likely in the next six months, but, again, could break at any time.

Please call (707) 763-5786, or contact me by e-mail at [johnwilliams@shadowstats.com](mailto:johnwilliams@shadowstats.com), if you would like to discuss current circumstances, or otherwise.

*Best wishes – John Williams*



## Pending Economic Releases

**Note: Summary observations of major economic releases are posted as soon as possible (usually within two hours of the headline release) to the *Daily Update* section at the top right-hand side of the [www.ShadowStats.com](http://www.ShadowStats.com) homepage.**

**Trade Deficit (October 2018).** Details for the headline October 2018 Trade Deficit will be released tomorrow, December 6th, at 8:30 a.m. Eastern Time by the Census Bureau (Census) and the Bureau of Economic Analysis (BEA), with ShadowStats coverage of headline detail in the *Daily Update* section of the [ShadowStats](http://www.ShadowStats.com) home page, within roughly two hours of the headline release. Full coverage follows in *Commentary No. 979* planned for Monday, December 10th (please check the *Daily Update* for revised scheduling).

Based on monthly deterioration in the November 28th “advance” estimate for the October trade deficit in goods, full reporting of the goods and services deficit likely widened in the month, with implications for further quarterly trade-deficit deterioration in fourth-quarter 2018, and a related hit to fourth-quarter GDP, as discussed on page 108, here, and as reflected in accompanying *Graphs 74* and *75* on page 109.

**Odds favor a widening in the October 2018 monthly balance-of-payments trade deficit, in line with consensus expectations for a net deterioration of about \$1 billion.**

**Employment and Unemployment (November 2018).** Details of the headline November U.3 Unemployment Rate and the monthly change in November Payroll Employment will be released on Friday, December 7th, by the Bureau of Labor Statistics (BLS) at 8:30 a.m. Eastern Time, with ShadowStats coverage of headline detail in the *Daily Update* section of the [ShadowStats](http://www.ShadowStats.com) home page, within roughly two hours of the headline release. Full coverage follows in *Commentary No. 979* planned for Monday, December 10th (please check the *Daily Update* for revised scheduling).

The consensus outlook purportedly is for the November 2018 Payroll gain to be about 190,000 versus October, which is about where it has averaged in the last three months. In the context of hurricane distortions of the prior period (see [Commentary No. 977](#)), the headline jobs gain in October had been boosted to 250,000 from September’s depressed monthly gain of 118,000. Expectations also are for the 49-year low unemployment rate to hold at 3.7% in November for the third straight month.

Odds now favor weaker than-expected-labor data, given weakening economic numbers seen and discussed in [Commentary No. 978 - Part I](#) and today’s continuing *Part II*. Consider that the headline 3.7% unemployment rates in September and October were 3.68% and 3.74% respectively at the second decimal point. It would not take anything other than minimally negative statistical noise to push that to 6.8% or even 6.9% at the first decimal point.

Further, heavily-stressed measures of labor market health in the Household Survey (Employment-Population Ratio and Participation Rate) and in the Payroll Survey (Annual Growth) likely will resume under negative pressure in November.

Separately, the Conference Board has reworked its Online Help-Wanted Advertising Index into an [Experimental Series](#) that more closely matches the happier headline unemployment and employment data out of the BLS, than did the Conference Board's long-standing prior series. Introduced today, December 5th, the new series will be assessed fully in pending *Commentary No. 979*. Nonetheless, headline details in the initial reporting of the series indicated some upturn in the November 2018 U.3 Unemployment Rate and a downturn in the Household Survey Employment count.

**Some negative reporting shocks are well overdue here, where a weaker-than-expected headline November Payroll Growth, say 150,000 jobs or weaker, and an unexpected back-up in the headline U.3 unemployment rate to 3.8% or 3.9% are reasonable bets.**

---

### Links to Prior Commentaries and to Hyperinflation and Consumer-Liquidity Watches

**Most Recent Hyperinflation and Consumer-Liquidity Watches:** The latest Watches always are available on [www.ShadowStats.com](http://www.ShadowStats.com) and by link from the current *Commentary*. Updates are advised by e-mail when they are posted.

The *Hyperinflation Watch* of August 12th: [Hyperinflation Watch – No. 3](#) (update pending).

The *Consumer Liquidity Watch* of November 21st: [Consumer Liquidity Watch No. 5](#).

**Special Pieces Underlying the Regular and Special Commentaries:** Underlying the [Special Commentary No. 935](#), are [Commentary No. 899](#) and [General Commentary No. 894](#), along with general background from regular *Commentaries* throughout 2017.

These missives also are built upon writings of prior years, including [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). In turn, they updated the long-standing 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](#).

**Regular Commentaries:** *[Listed here are Commentaries of the last year or so, including Special Commentaries and a sampling of others covering a variety of non-monthly issues, including annual benchmark revisions. Please Note: Complete ShadowStats archives back to 2004 are available at [www.ShadowStats.com](http://www.ShadowStats.com) (left-hand column of home page).]*

These regular *Commentaries* should be published about weekly, with *Consumer Liquidity* and *Hyperinflation Watches* updated every several weeks or so, updating general economic, consumer-liquidity and financial-market circumstances as they develop.

[Commentary No. 978 - Part I](#) (December 1st) covered deteriorating economic and consumer-liquidity conditions and evolving FOMC policy, the October 2018 Consumer and Producer Prices Indices, Retail Sales, Industrial Production, New Orders for Durable Goods and the CASS Freight Index<sup>TM</sup>. The concluding *Part II* is today's missive.

[Commentary No. 977](#) (November 6th) detailed the October 2018 employment and unemployment reporting, the September Trade Deficit and Construction Spending and October monetary conditions.

[Commentary No. 976](#) (October 30th) reviewed the first or "advance" estimate of Third-Quarter 2018 GDP, September 2018 New Orders for Durable Goods, September New-Home Sales, the "advance" September and third-quarter 2018 Trade Deficit and an updated review of underlying economic reality.

[Commentary No. 975](#) (October 22nd) covered FOMC policy and deteriorating consumer- and systemic-liquidity conditions along with headline September 2018 Retail Sales, Industrial Production, New Residential Construction (Building Permits, Housing Starts), Existing-Home Sales, the Cass Freight Index<sup>TM</sup>, Hurricane Impact and pending Elections.

[Commentary No. 974](#) (October 15th) expanded upon elements of the *No. 973 ALERT*, previewed elements of updated consumer and systemic liquidity measures and covered the September 2018 Consumer and Producer Price Indices.

[Special Commentary No. 973 – ALERT](#) (October 14th) was a single-page discussion and warning of rapidly mounting risks of instabilities in the domestic financial markets in six months ahead. See the latest *Hyperinflation* and *Consumer-Liquidity Watches* and *Commentary No. 970*.

[Commentary No. 972](#) (October 7th) covered September 2018 Employment and Unemployment, Conference Board Help Wanted OnLine<sup>®</sup> Advertising, Monetary Conditions and the August Trade Deficit and Construction Spending.

[Commentary No. 971](#) (October 3rd) reviewed August 2018 New Residential Construction, Existing- and New-Home Sales, New Orders for Durable Goods and the third estimate of Second-Quarter 2018 GDP, along with an updated review of underlying economic reality.

[Commentary No. 970](#) (September 26th) discussed a potential, pending Tipping Point in the U.S. financial markets along with a review of August 2018 CPI, PPI, Retail Sales, Industrial Production and the CASS Freight Index<sup>TM</sup>.

[Commentary No. 969-Extended](#) (September 16th) Reviewed the reporting of 2017 Real Median Annual Household Income and related measures of Income Dispersion, along with extended coverage of the August 2010 Employment and Unemployment numbers, including an updated Supplemental Labor-Detail Background Supplement.

[Flash Commentary No. 969-Advance](#) (September 7th) covered initial headline employment and unemployment detail for August 2018 (expanded upon in *No 969-B*), July Construction Spending, the July Trade Deficit and a review of August Monetary Conditions.

[Special Commentary No. 968-Extended](#) (September 6th) reviewed underlying economic reality, in the context of statistical deception used in boosting headline GDP activity, and against the background of extended analysis of the 2010 Comprehensive GDP Benchmarking. Separately covered was extended coverage of the second estimate of second-quarter 2018 (see [Flash Commentary No. 968-Advance](#)).

[Flash Commentary No. 968-Advance](#) (August 29th) provided a summary review of the headline first revision, second estimate of Second-Quarter 2018 GDP and initial estimates of GDI and GNP. Also updated were early indications from the latest Consumer Liquidity measures.

[Commentary No. 967](#) (August 24th) discussed the annual squirrely season and reviewed July 2018 New Orders for Durable Goods and New- and Existing-Home Sales and the preliminary benchmark revision to 2018 payroll employment.

[Commentary No. 966](#) (August 17th) reviewed July 2018 Retail Sales, Industrial Production, New Residential Construction and the CASS Freight Index<sup>TM</sup>.

[Commentary No. 965](#) (August 12th) covered the July 2018 Consumer and Producer Price Indices (CPI and PPI), and Real Average Weekly Earnings and deteriorating consumer liquidity conditions.

[Commentary No. 964-A](#) (August 3rd) preliminary coverage of July 2018 Employment/Unemployment, Conference Board Help Wanted OnLine<sup>®</sup> Advertising, M3 and the June Trade Deficit and Construction Spending.

[Commentary No. 963](#) (July 31st) reviewed June Retail Sales, Industrial Production, New Orders for Durable Goods and the Cass Freight Index, all in the context of the GDP revisions and unfolding, underlying economic reality.

[Commentary No. 962](#) (July 27th) provided initial coverage of the first or “advance” estimate of Second-Quarter 2018 Gross Domestic Product (GDP) and the Comprehensive Benchmark Revisions to the series back to 1929. A full update and extended coverage are in today’s (September 4th) *Special Commentary*.

[Commentary No. 961](#) (July 26th) provided full coverage on New Residential Investment (Housing Starts, Building Permits and New- and Existing-Home Sales. Preliminary coverage was provided on June Retail Sales, Industrial Production, New Orders for Durable Goods and the Cass Freight Index<sup>TM</sup>, all of which were expanded upon in *Commentary No. 963*.

[Commentary No. 960](#) (July 15th) reviewed the June Consumer and Producer Price Indices (CPI and PPI), Real Earnings and related implications for consumer and systemic liquidity

[Commentary No. 959-B](#) (July 11th) provided extended detail on June 2018 Employment and Unemployment, the May 2018 Trade Deficit and updated economic outlook, along with expanded discussion on issues affecting the credibility of the headline employment and unemployment data.

[Commentary No. 959-A](#) (July 6th) provided flash headlines and summary details of the June 2018 Employment and Unemployment and the May 2018 Trade Deficit, expanded upon in *Commentary No. 959-B* and headline coverage of June 2018 Conference Board Help Wanted OnLine<sup>®</sup> Advertising.

[Commentary No. 958](#) (July 3rd) covered May 2018 Construction Spending and the accompanying annual benchmarking to that series.

[Commentary No. 957](#) (July 1st) covered May 2018 New Orders for Durable Goods and the third estimate of First-Quarter 2018 Gross Domestic Product (GDP) and the coincident second estimates of Gross National Product (GNP) and Gross Domestic Income (GDI).

[Commentary No. 956](#) (June 27th) reviewed May 2018 Retail Sales, Industrial Production, New Residential Construction (Housing Starts and Building Permits), New- and Existing-Home Sales, along with detail on the May 2018 Cass Freight Index<sup>TM</sup> and some potential twists to the pending July 27th Comprehensive Benchmark Revision to the GDP.

[Commentary No. 955](#) (June 18th) analyzed May 2018 inflation as reported with the May 2018 Consumer and Producer Price Indices (CPI and PPI), Real Average Weekly Earnings, along with the latest *Hyperinflation Watch* covering FOMC policy, the U.S. dollar and financial markets. Summary headline details also were provided for May Retail Sales, Industrial Production and the Cass Freight Index<sup>TM</sup>.

[Commentary No. 954](#) (June 8th) reviewed the comprehensive annual benchmark revisions to the Trade Deficit, in the context of recent benchmark revisions to other major economic series and implications for the pending GDP benchmark revisions. Such also covered the headline reporting of the April 2018 headline Trade Deficit detail and an updated Consumer Liquidity Watch.

[Commentary No. 953-B](#) (June 5th) analyzed the discrepancies between the record-low headline unemployment rate and near-record-high readings of labor-market stress, in the context of extended coverage the May 2018 Employment and Unemployment and April 2018 Construction Spending, previously headlined in *No. 953-A*.

[Commentary No. 953-A](#) (June 1st) provided flash headlines and summary details of the May 2018 Employment and Unemployment and April 2018 Construction Spending, expanded upon in the supplemental coverage of *Commentary No. 953-B*. Current monetary conditions were reviewed, along with the initial estimate of annual growth in the May 2018 ShadowStats Ongoing Estimate of Money Supply M3.

[Commentary No. 952](#) (May 30th) reviewed the second estimate of First-Quarter 2018 GDP, initial estimates of first-quarter GNP and GDI, extended detail on the annual benchmarking of the Retail Sales series, and headline coverage of the May 2018 Conference Board Help Wanted OnLine<sup>®</sup> Advertising.

[Commentary No. 951](#) (May 25th) reviewed April 2018 New Orders of Durable Goods, in the context of the annual revisions (see prior *No. 950*), New- and Existing-Home Sales and brief coverage of the annual benchmarking of the Retail Sales series.

[Commentary No. 950](#) (May 20th) reviewed April Retail Sales, Industrial Production, New Residential Construction (Housing Starts, Building Permits and annual revisions), the Cass Freight Index<sup>TM</sup> and annual benchmark revisions to Manufacturers' Shipments, including New Orders for Durable Goods.

[Commentary No. 949](#) (May 11th) reviewed inflation as reported with the April 2018 Consumer and Producer Price Indices (CPI and PPI), Real Average Weekly Earnings, along with the latest *Hyperinflation Watch* on the U.S. dollar and financial markets.

[Commentary No. 948](#) (May 9th) explored unusual circumstances with April 2018 Employment and Unemployment numbers, along with the April Conference Board Help Wanted OnLine<sup>®</sup> Advertising, April Monetary Conditions, the March Trade Deficit and Construction Spending, along with the reintroduction of Sentier Research's monthly Real Median Household Income to March 2018.



[Commentary No. 947](#) (April 27th) detailed the first estimate of First-Quarter 2018 GDP and the related Velocity of Money, March New Orders for Durable Goods, New- and Existing-Home Sales and the “advance” estimate of the March 2018 merchandise goods deficit.

[Commentary No. 946](#) (April 22nd) covered March 2018 Retail Sales, Industrial Production, New Residential Construction (Housing Starts and Building Permits), the Cass Freight Index<sup>TM</sup> and a review of the current state of the GDP reporting and an outlook for first-quarter 2018 activity.

[Commentary No. 945](#) (April 11th) reviewed the March 2018 Consumer and Producer Prices Indices (CPI and PPI), Real Average Weekly Earnings, along with the latest *Hyperinflation Watch* on the U.S. dollar and financial markets.

[Commentary No. 944](#) (April 8th) covered March 2018 Employment and Unemployment, the March Conference Board Help Wanted OnLine<sup>®</sup> Advertising, March Monetary Conditions and the full February Trade Deficit and Construction Spending.

[Commentary No. 943](#) (March 29th) covered the third-estimate of, second-revision to Fourth-Quarter 2017 GDP and the only estimates to be made in current reporting of the GDI and GDP, as well as the “advance” estimate of the February merchandise trade deficit.

[Commentary No. 942-B](#) (March 27th) reviewed the Industrial Production annual benchmark revisions, general reporting-quality issues, February 2018 New Orders for Durable Good, New- and Existing-Home Sales and the Cass Freight Index<sup>TM</sup>.

[Commentary No. 942-A](#) (March 23rd) provided a very brief summary of the much more extensive Industrial Production benchmarking details covered in *Commentary 942-B*.

[Commentary No. 941](#) (March 19th) covered February Industrial Production and New Construction Spending (Housing Starts and Building Permits), along with a general discussion in the *Opening Comments* on economic conditions and a preview of the Industrial Production benchmark revisions.

[Commentary No. 940](#) (March 15th) covered February 2018 Retail Sales, CPI, PPI and related Real Average Weekly Earnings, real Annual Growth in M3 and updated financial market prospects.

[Commentary No. 939](#) (March 9th) covered the February 2018 Employment and Unemployment details, the full reporting of the January 2018 Trade Deficit, February Conference Board Help Wanted OnLine<sup>®</sup> Advertising and February Monetary Conditions.

[Commentary No. 938](#) (March 1st) reviewed January 2018 Construction Spending and the second estimate of Fourth-Quarter 2017 GDP.

[Commentary No. 937](#) (February 27th) covered January 2018, New Orders for Durable, New- and Existing-Home Sales, the “advance” estimate of the January 2018 Merchandise Trade Deficit and the Cass Freight Index<sup>TM</sup>.

[Commentary No. 936](#) (February 19th) covered the January 2018 CPI and PPI, Retail Sales, Industrial Production and New Residential Construction (Housing Starts and Building Permits).

[Special Commentary No. 935](#) (February 12th) was the first part of a three part-series reviewing economic and financial conditions of 2017 and the year-ahead, inflation and the U.S. government’s balance sheet and conditions in the U.S. banking system and Federal Reserve options.

[Commentary No. 934-B](#) (February 6, 2018) provided extended coverage on the January 2018 Employment and Unemployment details, the 2017 benchmark revisions to Payroll Employment and the January annual recasting of population, along with coverage of the December 2017 Trade Deficit.

[Commentary No. 934-A](#) (February 2, 2018) provided initial detail on the January 2018 Employment and Unemployment details and the 2017 benchmark revisions to Payroll Employment, along with coverage of January Conference Board Help Wanted OnLine<sup>®</sup> Advertising, January Monetary Conditions and December 2017 Construction Spending.

[Commentary No. 933](#) (January 26, 2018) covered December New Orders for Durable Goods, the Cass Freight Index<sup>™</sup> and the first estimate of Fourth-Quarter 2017 GDP.

[Commentary No. 932](#) (January 18, 2018) covered December Industrial Production and New Residential Construction (Housing Starts and Building Permits).

[Commentary No. 931](#) (January 15, 2018) reviewed December 2017 Retail Sales and the CPI and PPI, along with an update on the U.S. dollar, the financial markets and gold graphs.

[Commentary No. 930-B](#) (January 8th) expanded upon the December 2017 Employment and Unemployment numbers and Household Survey benchmarking, Conference Board Help Wanted OnLine<sup>®</sup> Advertising, December Monetary Conditions and the November 2017 Trade Deficit and Construction Spending, otherwise headlined in *No. 930-A*.

[Advance Commentary No. 930-A](#) (January 5, 2018) provided a brief summary and/or comments (all expanded in *Commentary No. 930-B*) on December 2017 Employment and Unemployment numbers, Household Survey benchmarking, Conference Board Help Wanted OnLine<sup>®</sup> Advertising, December Monetary Conditions and the November 2017 Trade Deficit and Construction Spending.

[General Commentary No. 929](#) (December 28, 2017) reviewed current economic and market conditions at year-end 2017.

[Commentary No. 926](#) (December 15, 2017) 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. 909](#) (September 14, 2017) 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.

[Special Commentary No. 904](#) (August 14, 2017) 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).

[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. 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 pre-recession level of activity. Such was in the context of contracting and faltering industrial production rivaling the economic collapse in the Great Depression as to duration. Also covered were prior January 2017 New- and Existing Home Sales.

[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.

# # #