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

COMMENTARY NUMBER 979

November Labor Numbers, Consumer and Producer Price Indices, October Trade Deficit, FOMC

December 19, 2018

FOMC Fumbled, Boosting Rates and Promising Further Rate Hikes,
While Liquidity-Starved Consumer Activity Already Suggests a New Recession

Pace of November 2018 Payroll Jobs Growth Slowed to 155,000 (143,000 net of revisions),
Against a downwardly revised monthly gain of 237,000 (previously 250,000) in October

November U.3 Unemployment Dropped to a Record Low 3.67%, from 3.74% in October,
While Broader U.6 Unemployment Rose to 7.57% from 7.43% and
ShadowStats-Alternate Unemployment Notched Higher to 21.3% from 21.2%

Intense Labor-Market Stress Remained Consistent with
Headline Unemployment Near a Record High, Not a Record Low

November Real Average Weekly Earnings Dropped With a Declining Work Week

October 2018 U.S. Real Merchandise Trade Deficit Widened, and the
Third-Quarter 2018 Worst-Ever Trade Deficit Deepened in Revision, with
Negative Implications for the U.S. Dollar and for Fourth-Quarter GDP

Strength in Recent Economic Headline Activity Commonly Was Boosted by
Downside Revisions to Prior Reporting

Collapsing Oil and Gasoline Prices Slowed November Headline CPI Inflation,
Yet They Had the Net Effect of Boosting the Nonsensically Defined PPI Inflation

Non-Seasonal, Extreme Monthly Swings in Gasoline Prices
Have Disrupted any Consistent Trend in Monthly Year-to-Year CPI Inflation

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PLEASE NOTE: Subject to schedule revisions, regular *Commentary No. 980* is planned for late-Friday, December 21st, covering the November 2018 Retail Sales, Industrial Production, New Residential Construction and Existing-Home Sales, followed by *Commentary No. 981* on Sunday, December 23rd, covering the third estimate of Third-Quarter GDP and November New Orders for Durable Goods.

Hyperinflation and Consumer Liquidity Watches. Fully updated *Special Editions* have been posted for both *Watches*: *Hyperinflation Watch No. 4* of December 11th and *Consumer Liquidity Watch No. 5* of November 21st.

Daily Update Coverage. Summary *ShadowStats* insights and highlights of just-released economic data are posted in real time in the ***Daily Update*** section of the *www.ShadowStats.com* home page, usually within two hours of the issuing agency's data release.

The ShadowStats tentative Publication Schedule, Schedule Revisions and Notes to Subscribers also are posted regularly in the ***Daily Update*** column.

Your comments and suggestions always are invited.

Best Wishes for a Most Joyous Christmas and a Happy Holiday Season!

— John Williams (707) 763-5786, johnwilliams@shadowstats.com

Today's (December 19th) ***Opening Comments*** provides some thoughts on the FOMC meeting, along with a review of the "experimental" overhaul and revamping of the Conference Board's Online Help-Wanted Advertising.

The ***Reporting Detail*** reviews November 2018 Employment, Unemployment and contradictory Indicators of Labor-Market Health, along with an updated Supplemental Labor-Detail Background. Also reviewed are the October 2018 and revised Third-Quarter Real Merchandise Trade Deficit, and the November 2018 reporting of the Consumer and the Producer Price Indices (CPI and PPI).

Please Note: ShadowStats now publishes its *Monthly Money Supply and Monetary Conditions* review in the *Hyperinflation Watch*, which will be updated accordingly early each month (see *Hyperinflation Watch No. 4*). Previously, this material had been published in the regular *Commentary* covering monthly employment data.

The ***Week, Month and Year Ahead*** provides background on recent *Commentaries* and discusses/ previews pending economic releases and *ShadowStats* coverage.

Commentary No. 979 contents and features are indexed and linked on following page.

Contents – Commentary No. 979 Major Sections and Graphs

OPENING COMMENTS

FOMC Raised Rates Again, Signaling Minimal Economic Concerns

Tightening Consumer Liquidity Already Has Triggered a New Recession

Fed Hikes Rates, Moving Further to Impair Consumer Liquidity and Domestic Economic Activity. The Federal Reserve Board's Federal Open Market Committee (FOMC) raised its targeted federal funds rate again by 0.25% at its December 19th meeting. Despite earlier hints of concern as to slowing activity, the FOMC indicated it still would plan to raise rates at least twice more in the year ahead. The Federal Reserve's policies are aimed primarily at protecting and propping the banking system. Consumer liquidity and related domestic economic health are just secondary considerations.

This circumstance only will intensify consumer liquidity problems (see *Consumer Liquidity Watch No. 5* – Special Edition) and increasingly will pummel domestic economic activity, meaningfully to the downside. The weakening economy ultimately should force the Fed into reversing its tightening policies, but likely only when banking-system liquidity is threatened anew. That eventual circumstance should hit the U.S. and related financial markets hard.

Against what had been some expectations of a more-dovish FOMC meeting, the price of gold had been moving higher and value of the dollar moving lower, coming into the meeting. Post-FOMC, those patterns reversed a bit. *Graph 23* in the *Consumer Price Index* section reflects today's close and some recent net-price gain that had mirrored expectations shifting towards a more-accommodative FOMC.

The ShadowStats ALERT, updated and reviewed in *Hyperinflation Watch No. 4* – Special Edition, remains in play, without any fundamental revisions pending as a result of today's FOMC actions. Updates will follow as needed.

Private Labor Surveying Revamped in Effort to Mimic Gimmicked BLS Data

Experimental New Help-Wanted Online Measure Has the "Desired" Higher Correlation with the Gimmicked BLS Data, but It Does Not Appear to Have Kept the Leading-Economic Indicator Nature of, or Relationship to, the Old Newspaper Series. Noted in the *Pending Economic Releases* of *Commentary No. 978 – Part II*, page 123, "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 [Bureau of Labor Statistics], 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."

Where the headline November 2018 U.3 unemployment rate was unrevised at the first decimal point, down at the second, monthly Household Employment increased by 233,000 in November, following a decline of 400,000 (-400,000) in October 2018, while November 2018 Payroll Employment rose at a slower 155,000 (143,000 net of revisions) jobs in November, versus a downwardly revised monthly gain of 237,000 [previously 250,000] in October. None of those BLS headline details was meaningful, and all of them are heavily gimmicked, with positive biases as discussed in today's *Reporting Detail* (see the Supplemental Labor-Detail Background).

So Far, Estimates of the Experimental New Series Have Been Published only from January 2012 On, All Data Are in an Economic Upswing, No Turning Points. The Conference Board Announcement noted that it had "... first published the *Help Wanted OnLine® (HWOL) Data Series* in July 2005, providing users with a data series of total and new online job ads. The program revised the HWOL Data Series and launched the *Experimental Help Wanted OnLine® (HWOL) Index* in December 2018."

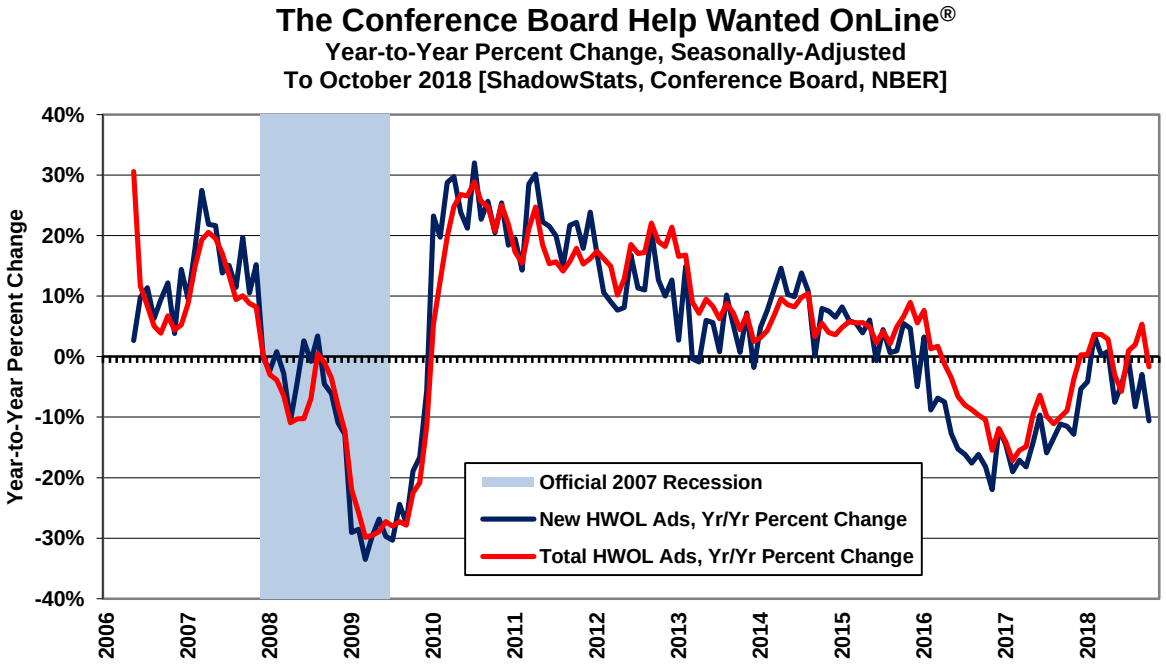
The original HWOL series overlapped the Newspaper Online Help-Wanted Advertising, with a strong correlation and predictive ability versus actual economic activity. Discussed in the regular ShadowStats *Commentaries* (see *Commentary No. 977*, *Opening Comments*):

> As a leading economic indicator, help-wanted advertising had its roots as far back in time as the initial reporting of Industrial Production, post-World War I. The Conference Board has adapted the concept to reflect the fundamental shift of help-wanted advertising from printed newspapers to online advertising. The prior newspaper-based series simply was the best leading indicator of its day.
>
> Back in the days when help-wanted advertising was the primary source of classified-advertising revenue for the physically-printed, folding newspapers, the Conference Board's Help-Wanted Advertising Index (newspapers) simply was the most reliable leading indicator available of broad economic activity. It was a component of the Commerce Department's Index of Leading Economic Indicators. It led activity in employment as well as the Gross National Product (GNP) and the now-headline Gross Domestic Product (GDP), which is a subcomponent of the GNP (ex-trade flows in factor income such as interest and dividend payments).

Estimates of the experimental New Series have been published only from January 2012 on, largely with smoothed straight-line employment gains and unemployment-rate declines. There are no major turning points in the new data, although the old series (see *Graph OC-1*) happened to catch the downturn or "double dip" of Industrial Production and Manufacturing in 2015 (see *Commentary No. 942-B* and *Commentary No. 978 - Part I*), which did not survive in the new estimations, let alone the what was shaping up as a signal for a new downturn (again, see *Graph OC-1*), or the onset of the 2007 recession and subsequent economic trough, all of which preceded the new data series. Accordingly, for the period of new reporting, the new HWOL has a coincident correlation of 98.3% with the level of payroll activity, with a correlation ranging up to 20%, depending on the leading relationship for the old series.

Despite tremendous amount of work put into reworking and estimating the new series, it still would be helpful for economic prognosticators if the new series could be estimated retrospectively for the same period of time as seen for the old HWOL, back to July 2005, although such may no longer be practical. Developments with the new series will be followed by ShadowStats and updated as appropriate.

Graph OC-1: Original Conference Board Help Wanted OnLine®, Year-to-Year Change to October 2018



Many thanks to The Conference Board for their previous permission to publish this graph of year-to-year change in the prior *Help Wanted OnLine*® "old series." The annual percentage change was plotted for two series: Total Ads (red line) and New Ads (blue line) [the experimental series has only an aggregate measure]. "Total ads are all unduplicated [online] ads appearing during the reference period. This figure includes ads from the previous months that have been reposted as well as new ads." "New ads are all unduplicated ads which did not appear during the previous reference period. An online help wanted ad is counted as 'New' only in the month it first appears." The "experimental series" has just an aggregate measure at present. A comparative plot of the new series versus headline Bureau of Labor Statistics employment and unemployment, 2012 to date, is found in the Announcement.

REPORTING DETAIL

November 2018 Unemployment and Employment

Record-Low U.3 Unemployment Amidst Continuing Severe Employment Stress

Broader Unemployment Rates Increased

Annual Payroll Growth Slowed on Top of Downside Revisions

November 2018 Employment, Broad Unemployment and Payrolls Were Weaker than Expected. Although November U.3 Unemployment held as expected at a 49-year low of 3.7% (notched lower to a record low 3.67% at the second decimal point, versus 3.74% in October), an increase in marginally attached (including discouraged) workers and those working part-time because they could not find full-time employment, pushed the broader U.6 unemployment rate up to 7.6% (7.57%) in November versus 7.4% (7.43%) in October. The ShadowStats Alternate Unemployment rate, which counts the long-term displaced and discouraged workers not accounted for by the government (discouraged workers disappear from the rolls after one year), rose to 21.3% in November from 21.2% in October).

At the same time, Employment Stress measures, such the Employment-Population Ratio and the Labor Force Participation Rate, were little changed, holding at levels seen most commonly with the narrow U.3 unemployment rate at a record high, not at a record low.

November Payroll Employment growth was weaker than expected, up month-to-month by 155,000 (up by 143,000 net of revisions), against expectations of 190,000 plus-or-minus, and down from a downwardly revised monthly October gain of 237,000 (previously 250,000). Not seasonally adjusted year-to-year payroll growth in November 2018 slowed to 1.65%, versus 1.72% in October 2018.

Underlying Reality. Given standard reporting accuracy, underlying reality would suggest that a headline seasonally-adjusted 155,000 monthly payroll jobs gain in November likely was down to "unchanged" plus-or-minus, given upside biases added into the series (see *Supplemental Labor Detail-Section II*,

covering Birth-Death Modeling, beginning on page 28). In the context of the *ShadowStats-Alternate Unemployment Rate Measure* discussion (also in the *Supplemental Labor Detail-Section III*, page 23), headline November 2018 unemployment holding at 3.7% for the U.3 rate, likely was much closer to 21.3%, accounting for all discouraged and displaced workers as defined prior to the 1994 overhaul to the series. Such would be as viewed from the perspective of common experience. Extended assessment of labor-reporting distortions, again, is found separately in *No. 885* and in the *Supplemental Labor Detail-Section III*, accounting for displaced workers, which begins on page 29.

Household Survey: Counting All Discouraged and Displaced Workers on Top of U.3 Holding at 3.7%, and U.6 Jumping to 7.6%, ShadowStats November 2018 Unemployment Increased to 21.3%. The month-to-month changes in the various seasonally-adjusted November 2018 unemployment rates changed or did not change at the first decimal point due the random nature of rounding at the second decimal point. For example, the headline U.3 unemployment rate held unchanged at 3.7% in November 2018, where it had revised lower from 3.74% in October to a record low 3.67% in November, a decline of 0.07% (-0.07%), which rounds to a drop of 0.1% (-0.1%), but the headline number was unchanged.

The broader November 2018 U.6 unemployment rate at 7.6%, increased from 7.4% in October, a gain of 0.2%. At the second decimal point, that was an increase from 7.43% to 7.57%, an increase of 0.14%, which rounds to an increase of 0.1%.

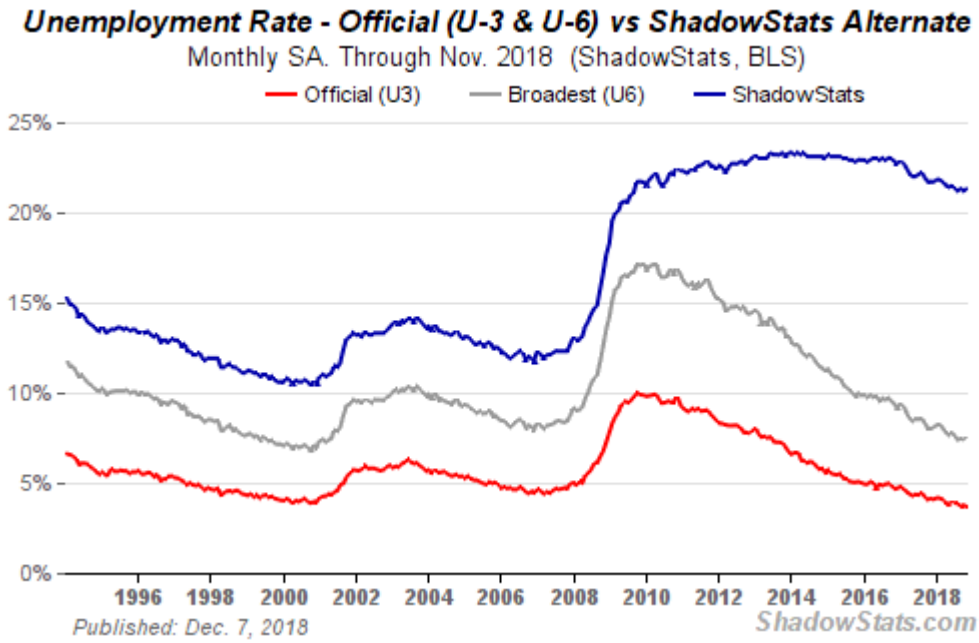
In like manner, the ShadowStats Alternate unemployment rate notched higher from 21.2% to 21.3%, actually reflecting an increase of 0.10%, but it was within 0.01% of rounding up to 21.4%. ShadowStats only publishes that estimated number at the first decimal point.

The "Low" U.3 Unemployment Reflected Shifts of "Unemployed" to the Broader U.6 and ShadowStats Measures. The various adjusted unemployment rates did shift in November, but with increasing marginally attached workers, and those working part-time for economic reasons relieving U.3 of a statistical burden. The drop in the headline U.3 at the second decimal point, reflected deteriorating labor conditions, with the broader unemployment conditions in U.6 relieving the U.3 number of some negative pressures.

That said, only one of the unemployment rates plotted in *Graph 1* comes close to explaining the current employment circumstance versus continuing high levels of stress in the labor market, and that remains the ShadowStats-Alternate Unemployment measure, which goes beyond U.3 to pick up the previously defined (pre-1994 series) long-term discouraged and displaced workers, who otherwise drop off the current unemployment rolls after completing one full year of being "discouraged."

[Graphs 1 follows on the next page.]

Graph 1: Comparative Unemployment Rates U.3, U.6 and ShadowStats



At the same time that headline November 2018 U.3 notched lower at the second decimal point to a new historic low for the 1994 series of 3.67%, versus 3.74% in October, and the prior low of 3.68% in September, again, underlying reality continued to be not so rosy. Otherwise, the headline U.3 was the lowest unemployment rate since 1969.

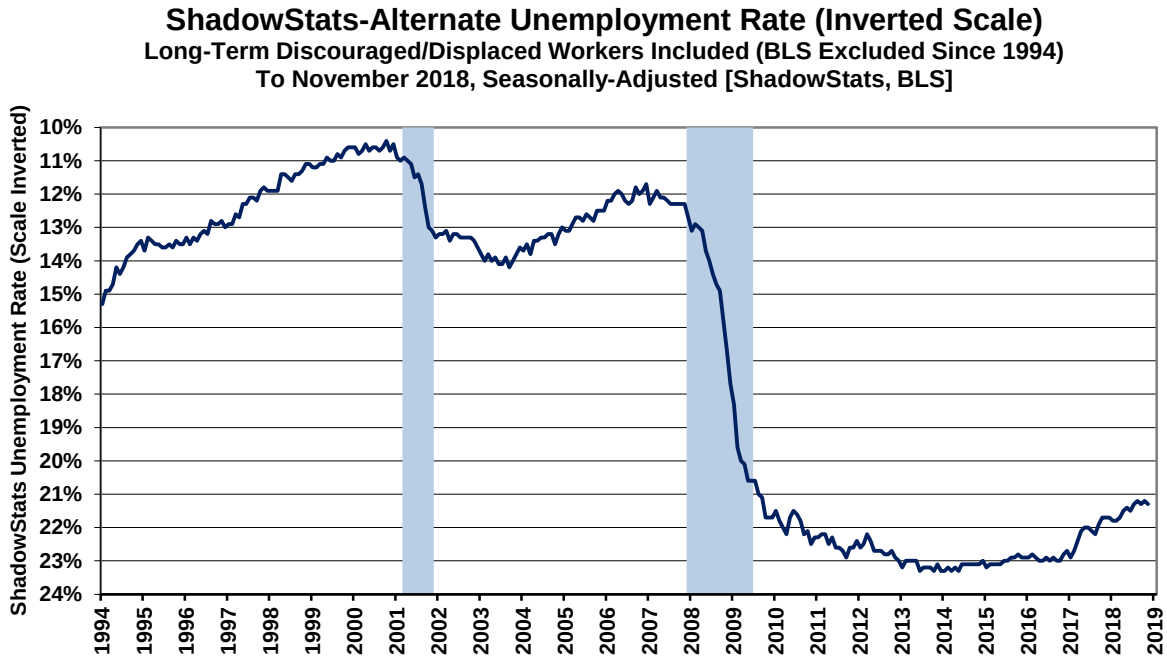
Reconciling low unemployment with coincident high levels of labor-market stress is reviewed in *Supplemental Labor Detail-Section IV*, beginning on page 31. Meaningful discrepancies between the record-low unemployment rate and extremes of near-record-high readings of labor-market stress broadly are tied to population distortions in the headline detail, which were removed from consideration in the 1994 overhaul of Household Survey series and redefinitions of headline unemployment reporting.

Those stress measures reflect the impact of long-term discouraged and displaced workers, no longer counted in the headline government numbers, but they still are included in the ShadowStats unemployment estimate. While the current headline U.3 unemployment generally would qualify as "full employment," such remains unconfirmed by historically-low Employment-to-Population and Labor-Force-to-Employment (Participation) Ratios, although both moved a little higher in October (likely due to hurricane distortions), they both were unchanged in November, but still at levels more consistent with a headline unemployment rate of about 10.3% instead of 3.7%.

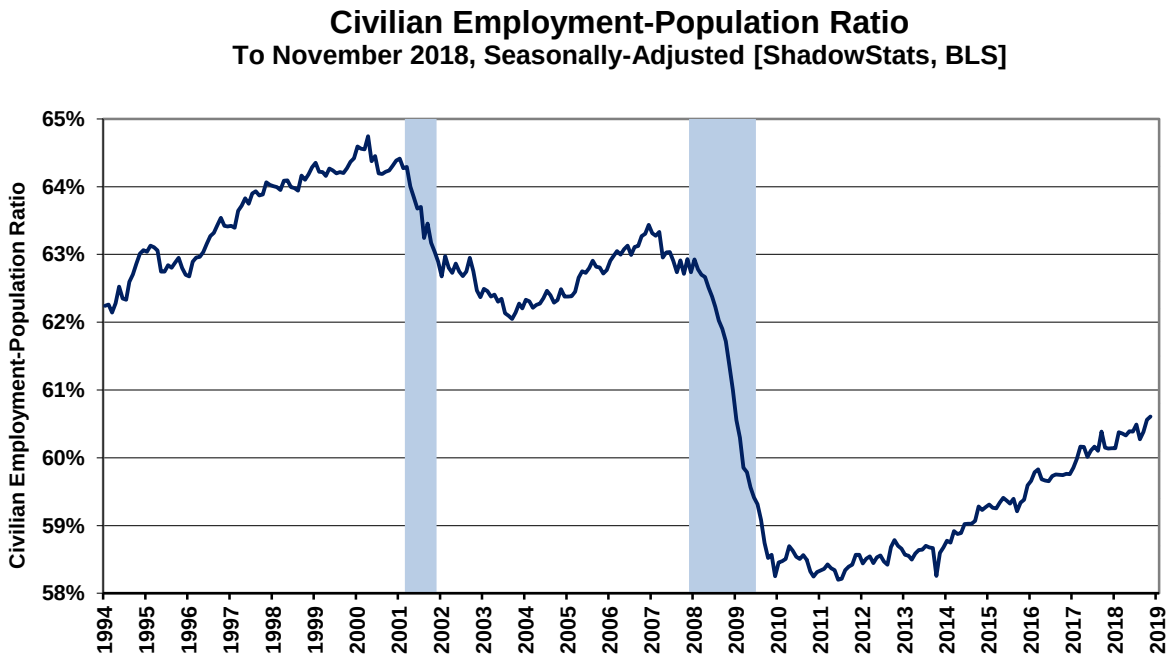
The difference is the unusually large number of discouraged and displaced workers in this business/employment cycle, not counted in the headline U.3, as well as a goodly number not included in U.6 (see definitions and detail in *Supplemental Labor Detail-Section IV* page 31, and *Commentary No. 953-B*).

[Graphs 2 and 3 follow on the next page.]

Graph 2: Inverted-Scale — ShadowStats Alternate Unemployment Measure
(Same as Graph SLD-6 in the Supplemental Labor Detail)



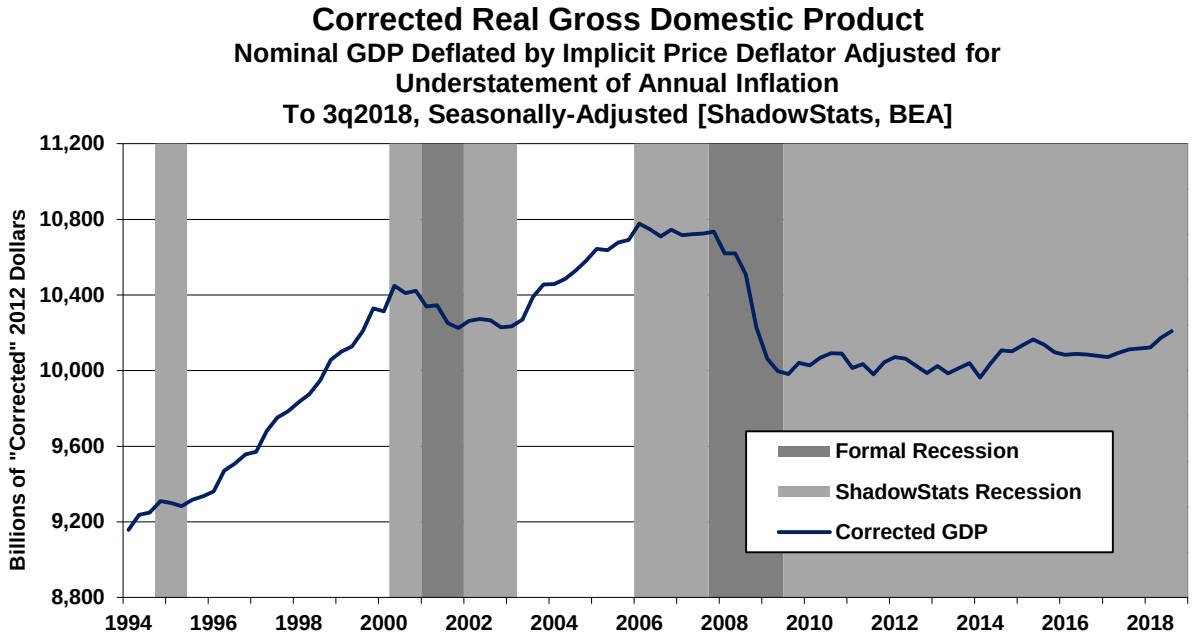
Graph 3: Civilian Employment-to-Population Ratio
(Same as Graph SLD-3 in the Supplemental Labor Detail)



The inverted scale of the ShadowStats Alternate Unemployment Rate (*Graph 2*) is a surrogate for the magnitude of discouraged and displaced workers, who also are reflected in the *Graphs 3* and *SLD-3* of the

Civilian Employment-to-Population Ratio and *Graph SLD-4* of the *Labor-Force Participation Rate*, all in the *Supplemental Labor Detail*.

Graph 4: ShadowStats-Corrected Real GDP through 3q2018, Second Estimate



Other Major Indicators Do Not Show an Expanding—Let Alone Recovered—Economy. Regularly plotted here are various graphs that mirror the patterns of *Graphs 2* and *3*, and *Graph SLD-4*, 1994-to-date where available. These graphs do not confirm the purported headline recoveries in either the headline GDP or headline employment and unemployment. That detail was examined in *Section II* of *Special Commentary No. 968-Extended*, with plots of related economic series also updated in the *Opening Comments* of *Commentary No. 976*, reviewing underlying economic reality. Those plots, however, covered 2000 to date, while the graphs here cover 1994-to-date, paralleling the history of the current Household Survey detail.

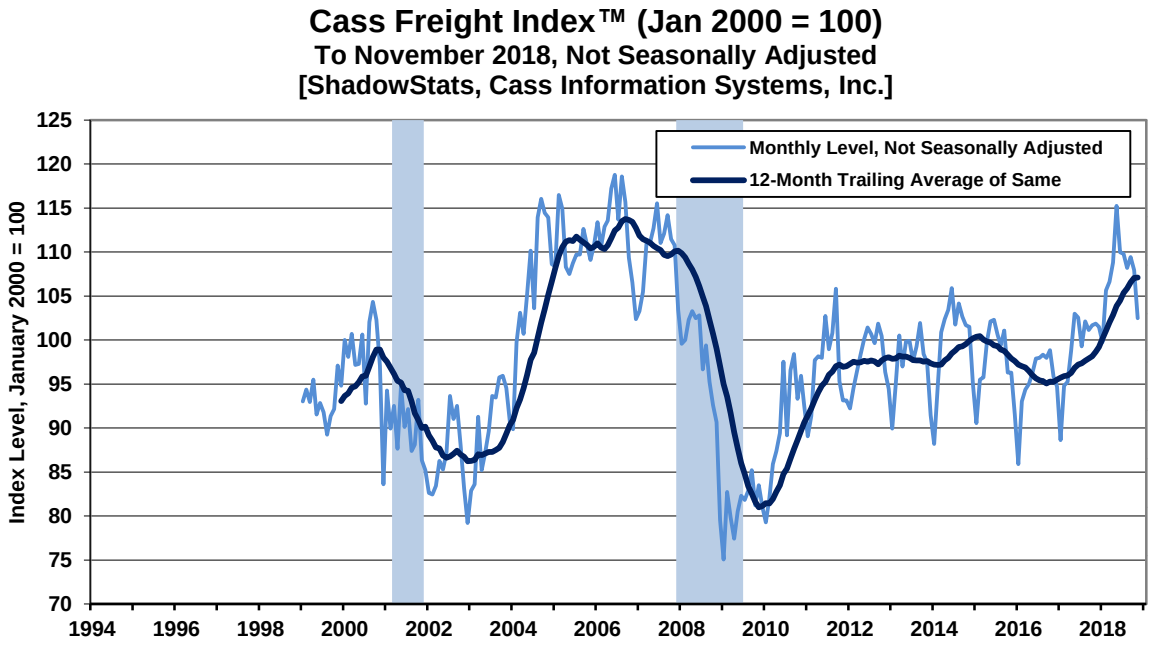
Consider *Graph 4*, which shows the ShadowStats version of that GDP, also plotted from 1994, but now through the November 28th second-estimate of third-quarter 2018 GDP, where the plot has been corrected for the understatement of inflation used in deflating the headline GDP (estimated at about two-percentage points per year).

Other graphs range from the November 2018 Cass Freight Index (*Graph 5*) to September 2018 U.S. Petroleum Consumption (*Graph 6*), the November 2018 Consumer Goods Sector of U.S. Industrial Production (*Graph 7*), along with October Real Construction Spending (*Graph 8*) and October Housing Starts October (*Graph 9)*. Where these series generally had been uptrending, they all show patterns of non-expansion. Economic "expansion" traditionally is defined as growth beyond the prior (pre-recession) peak in activity, with the latest details broadly turning lower. *Graphs 5* and *7* are updated from prior reporting, to be discussed in *Commentary No. 980*, with *Graph 9* pending updated in *No. 980*.

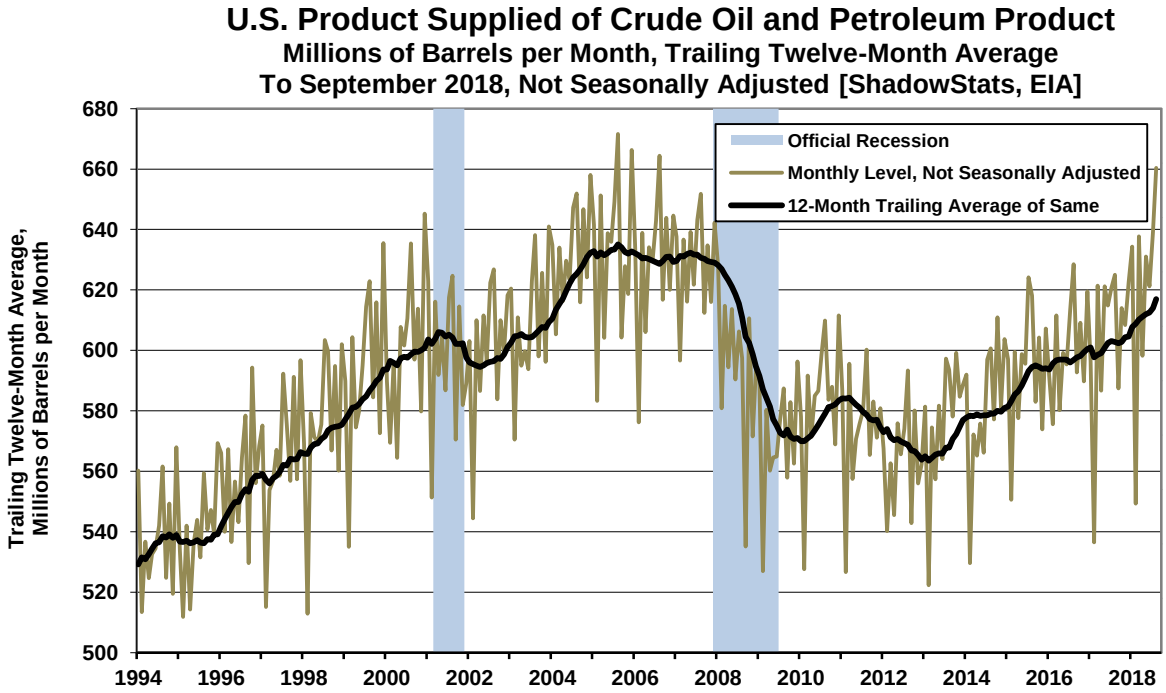
These economic plots, as well as plots of the labor-market stress measures of the Employment-Population Ratio and Participation-Rate (see *Graphs SLD-3* and *SLD-4*) tend to support the pattern of unemployment change seen in the ShadowStats Alternate Unemployment Measure, as discussed in the *Supplemental*

Labor Detail (Section IV) beginning on page 31. They also tend to support the ShadowStats Alternate GDP estimate, discussed in the *Opening Comments* and *Section II* of *Special Commentary No. 968-Extended* .

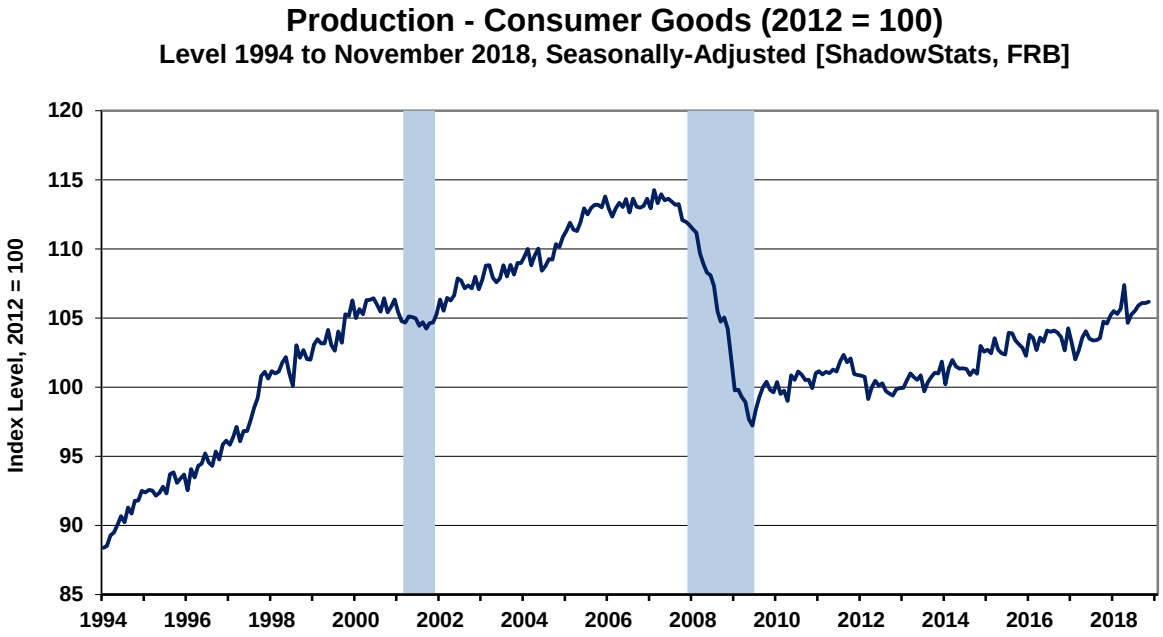
Graph 5: Cass Freight Index for North America (1994 to November 2018), Indexed to January 2000 = 100
(Full discussion follows in Commentary No. 980)



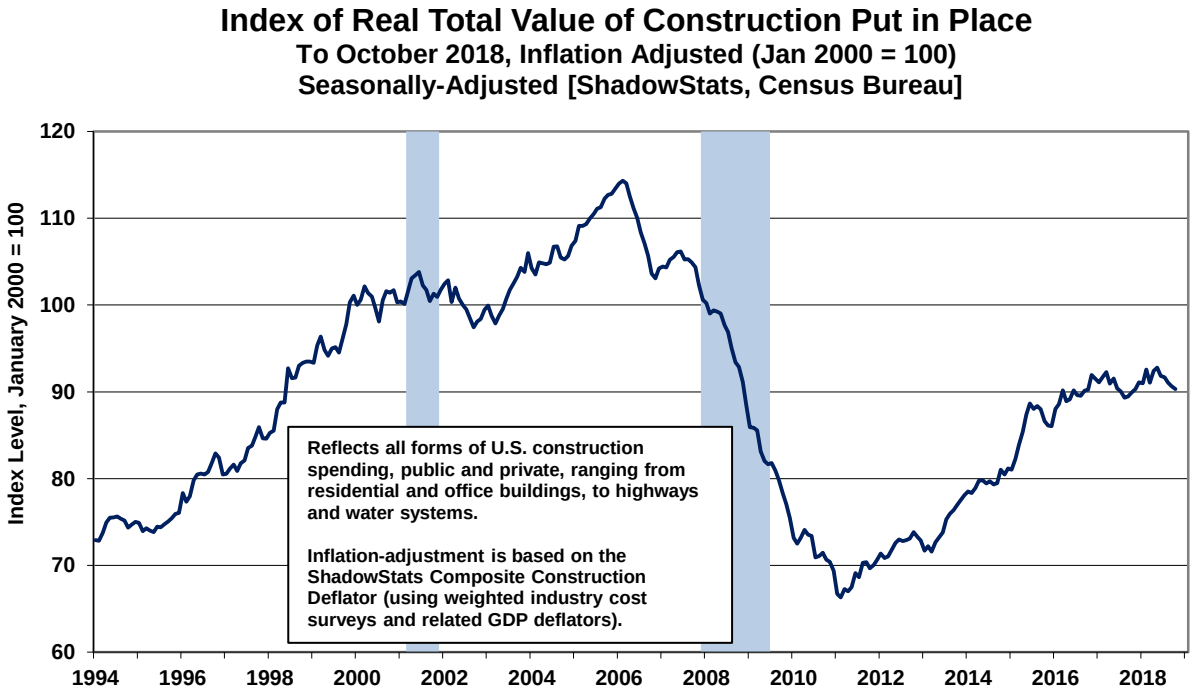
Graph 6: U.S. Petroleum Consumption (1994 to September 2018)



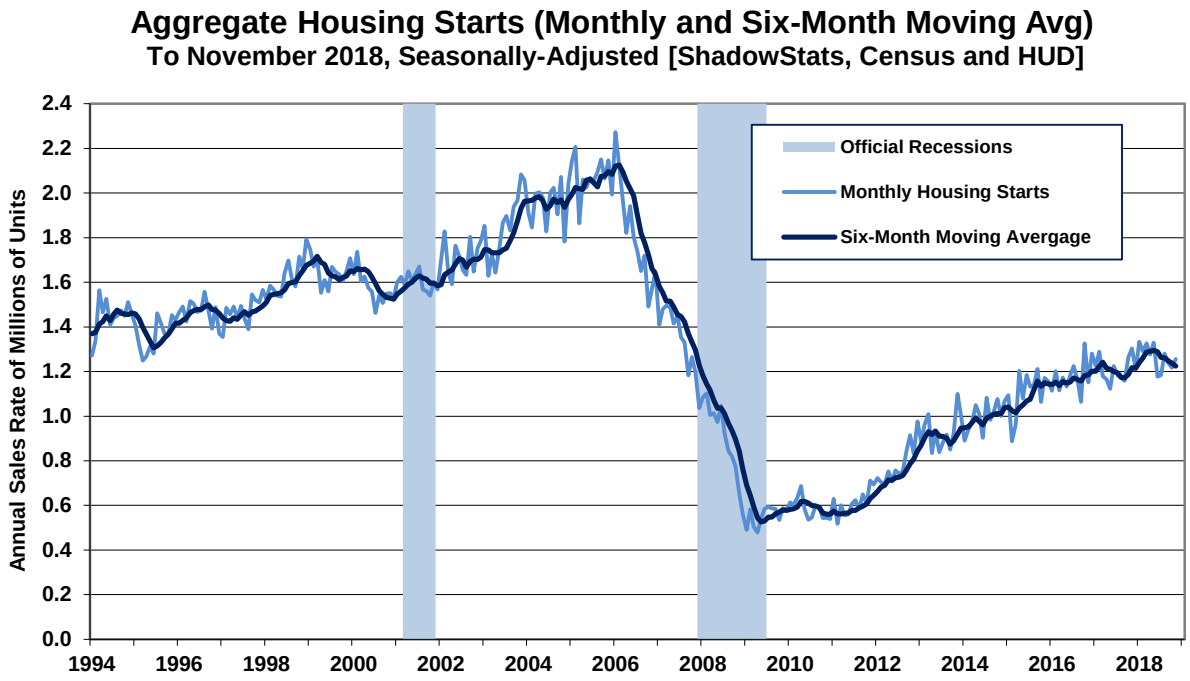
Graph 7: Consumer Goods in Industrial Production (1994 to November 2018)
(Full discussion follows in Commentary No. 980)



Graph 8: Real Construction Spending (1994 to October 2018)



Graph 9: Housing Starts, Annual Rate by Month (1994 to October 2018)



Headline Unemployment Rates. The headline November 2018 U.3 unemployment rate of 3.7% [3.67% at the second decimal point] set a new record low for the current series, at the second decimal point, the third historic low set in 2018, in this series that was defined in 1994. November's U.3 eased from October's 3.7% [3.74%], versus the prior low of September's 3.7% [3.68%], and against 3.9% [3.85%] in August, 3.9% [3.87%] in July, 4.0% [4.05%] in June, which was up from 3.8% [3.75%] in May. That May 2018 U.3 unemployment rate of 3.75%, at the second decimal point, was then the lowest level in the history of the U.3 modern series, as defined in 1994. That was against 3.9% [3.93%] in April, 4.1% [4.07%] in March, 4.1% [4.14%] in February, and 4.1% [4.15%] January.

The month-to-month decline of 0.07% (-0.07%) in the headline U.3 unemployment rate was not statistically-significant (+/- 0.23% at the 95% confidence interval). Other than for the once-per-year December benchmarking (next month), such consideration broadly is nonsense, given that the comparison of monthly numbers otherwise is on an inconsistent basis, a circumstance that resumes for the next eleven months beginning every January, as was seen with the January 2018 headline detail (see the *Supplemental Labor-Detail Background – Section I,* beginning on page 23).

On an unadjusted basis, unemployment rates are not revised and, in theory, are consistent in post-1994 methodology. The unadjusted unemployment rate U.3 declined to 3.47% in November 2018, versus 3.55% in October, 3.56% in September, 3.93% in August, 4.11% in July, 4.17% in June, 3.56% in May, 3.68% in April, 4.13% in March, 4.39% in February and 4.49% in January.

November's 3.67% Was the Lowest Headline Unemployment Since Richard Nixon Was President. Discussed in *Commentary No. 953-A* and *Commentary No. 953-B*, which reviewed the May 2018 then-historic-low U.3 rate, the 3.75% (rounded to 3.8%) unemployment rate, and ignoring the headline

beginning date in 1994 for the current unemployment series, such otherwise was the lowest headline unemployment rate of 3.5% in December 1969. That explains the "49-Year Low Unemployment" headline touted in the popular press, which remains in play for any headline unemployment rate at the first decimal point of 3.7%, as seen in September, October and November 2018 detail. Presumably, then, we are back to the halcyon days of the Nixon Administration.

Broader Unemployment Measures Spiked. Unemployment rate U.6 is the broadest unemployment rate currently published by the BLS, it was introduced along with the 1994 series redefinitions, in which "discouraged workers" disappeared from the unemployment rolls after one year, irrespective of whether or not they still were "discouraged." U.6 includes accounting for those marginally attached to the labor force (including short-term discouraged workers) and those who are employed part-time for economic reasons (*i.e.*, they cannot find a full-time job).

On top of the decline in the seasonally-adjusted November 2018 U.3 unemployment rate, increases in the unadjusted monthly total count of marginally-attached workers (despite a monthly pullback in in the count of discouraged workers, which had jumped in October), and an a jump in the adjusted number of people working part-time for economic reasons, the adjusted November 2018 U.6 unemployment rose to 7.57% from 7.43% in October. That was against 7.45% in September, 7.39% in August, 7.54% in July, 7.79% in June, 7.65% (rounds to 7.6%) in May. May 2018 was down from 7.79% in April, 8.00% in March, 8.24% in February and 8.19% in January.

The unadjusted U.6 unemployment rate was 7.23% in November 2018, versus 7.01% in October 2018, 7.12% in September, 7.43% in August, 7.43% in July, 8.07% in June, 7.31% in May, 7.40% in April, 8.10% in March, 8.60% in February and 8.85% in January.

Monthly counts in November 2018 showed an increased level of 1.678 million marginally attached workers (never seasonally adjusted), which included 453,000 discouraged workers. In turn, October counts had shown a reduced level of 1.491 million marginally attached workers, which included an unusually sharp monthly jump of 32.1% in the count of discouraged workers to 506,000. That was against a September level of 1.577 million marginally attached workers, of which 383,000 were discouraged workers.

That latest, official "discouraged" number, again, reflected the flow of the headline unemployed—giving up looking for work—leaving the headline U.3 unemployment category and being rolled into the U.6 measure as short-term "marginally-attached discouraged workers," net of the further increase in the number of those moving from short-term discouraged-worker status into the netherworld of long-term discouraged-worker status. Those numbers are net of those who re-enter the labor force.

It is the displaced worker—the long-term discouraged-worker category—that defines the ShadowStats-Alternate Unemployment Measure. There is a continuing rollover from the short-term to the long-term category, with the ShadowStats measure encompassing U.6 and the short-term discouraged workers, plus the long-term discouraged workers. In 1994, "discouraged workers"—those who had given up looking for a job because there were no jobs to be had—were redefined so as to be counted only if they had been "discouraged" for less than a year. This time-qualification defined away a large number of long-term discouraged and displaced workers who otherwise would be building up as a meaningful portion of the U.S. labor population, in the event of a particularly severe or structural economic downturn, as was seen

later in the post-2007 economic collapse. The remaining redefined short-term discouraged and redefined marginally-attached workers were included in U.6.

ShadowStats Alternate Unemployment Estimate. Adding back into the total unemployed and labor force the ShadowStats estimate of effectively displaced long-term discouraged workers—a broad measure of unemployment more in line with common experience—the ShadowStats-Alternate Unemployment Estimate for November 2018 rose to 21.3%, continuing to flutter, with minimal rounding shifts between 21.2% and 21.3%. November at 21.3%, followed 21.2% in October, versus 21.3% in September, 21.2% in August, 21.3% in July, 21.5% in June, 21.4% in May, 21.5% in April, 21.7% in March and 21.8% in February and January. The ShadowStats estimate generally shows the toll of long-term unemployed leaving the headline labor force—effectively becoming long-term discouraged/displaced workers—discussed in the *Supplemental Labor-Detail Background – Sections III and IV* beginning on page 29.

Headline November Payroll Jobs Gain of 155,000 was 143,000 Net of Revisions; Annual Growth Slipped for a Third Month, Now at 1.65%. Consistently reported, and allowing for some likely hurricane distortions in August and September, with some catch up distortion in October, payroll activity has slowed year-to-year and has been revising lower in terms of general activity, as seen for example in the Construction Employment detail in *Graph 16* and with the accompanying discussion.

Keep in mind that where the Household Survey counts an employed person only once, irrespective of how many jobs or part-time jobs he or she may hold, the Payroll Survey counts only the number of jobs, irrespective of the number of people holding those jobs. In that circumstance, a person holding two or more part-time jobs is counted as employed with each job. The November 2018 indication of multiple jobholders in the Household Survey decline by 142,000 (-142,000) against 155,000 Payroll Jobs gain.

While there are a number of other differences between the Payroll and Household Surveys, such as the Payroll count excluding, and the Household count including Agriculture, the headline, seasonally-adjusted Payroll gain of 155,000 in November 2018 was against a seasonally-adjusted Household Survey gain of 233,000 employed and a decline of 100,000 unemployed. That said, the Household Series can be wildly unstable month-to-month, where the seasonally-adjusted monthly numbers simply are not reported month-to-month on a comparable basis.

Non-Comparable and Inconsistent Seasonally-Adjusted Monthly Changes. The adjusted November 2018 Payroll Employment jobs detail standardly would have been stated on a consistent basis only with the October 2018 and September 2018 headline details, but not with prior periods, from which recent headline growth has been shifted, borrowed or subtracted (see the *Supplemental Labor-Detail Background -Section I*, beginning page 23, for discussion on the various reporting distortions and gimmicks). Discussed separately, the quality of month-to-month changes in the Household Survey is even worse, where the published, headline seasonally-adjusted November 2018 numbers were not comparable with any other month, including the prior month of October 2018.

Headline Payroll Detail. The headline November 2018 payroll gain of 155,000 formally was statistically-significant as to being greater than zero +/- 135,000 (although that 95% confidence interval more appropriately should be closer to the range +/- 300,000, where all confidence intervals used here are at the 95% level). That followed revised monthly gains of 237,000 [previously 250,000] in October and 119,000, [previously 118,000, initially 134,000] in September (see *Graphs 10* and *11*).

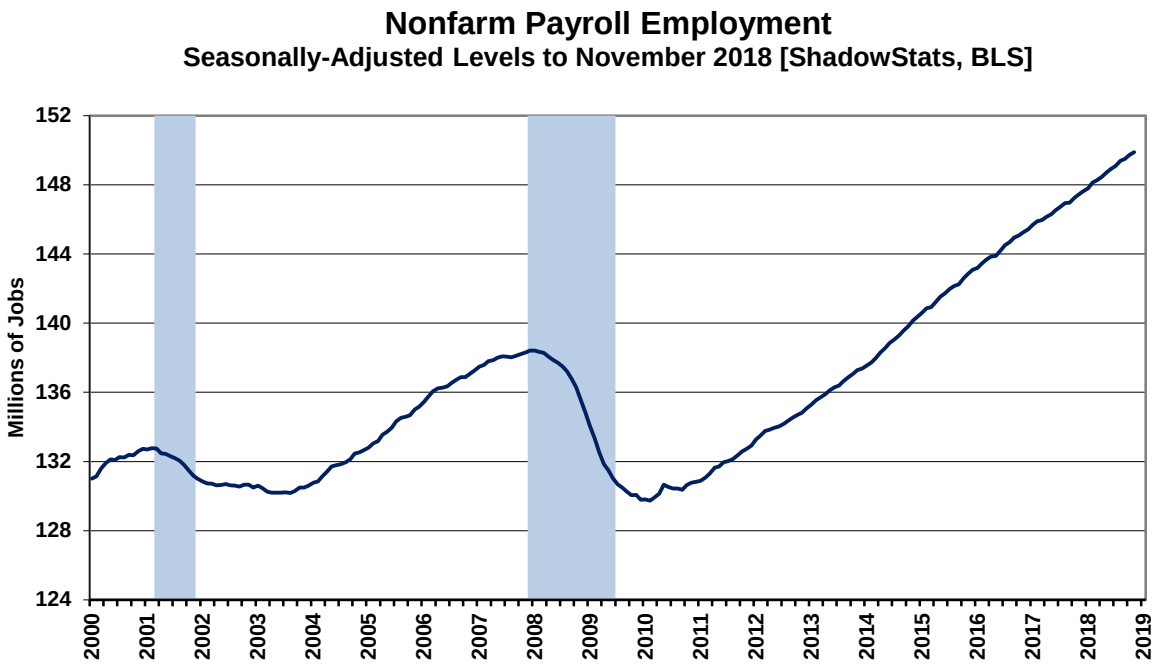
In the context of waning hurricane disruptions in both 2017 and 2018, the annual percentage change in payroll employment slowed for a fourth month. Such remained in, or close to, recession-signal territory with a 1.65% year-to-year increase in November 2018, versus an unrevised 1.72% in October 2018, an unrevised 1.74% increase in September 2018 and an unrevised 1.77% August 2018. Those were against annual gains of 1.65% in July 2018, 1.67% in June 2018, 1.64% in May 2018, 1.55% in April 2018, 1.59% in March 2018, 1.56% in February 2018 and 1.42% in unadjusted January 2018 payrolls. The January 2018 annual gain was the weakest standard level of annual growth since coming out of the headline 2007 recession in August 2011, other than for a benchmark-revised, hurricane-induced trough of 1.38% in September 2017 (see *Graphs 12* and *13*).

Contrary to claims by economists at the San Francisco Fed, such low-level annual growth rates are far from being healthy or normal. They are seen either coming out of recession, or going into recession, but rarely seen consistently in the regular variability of ongoing, sustainable, normal economic activity, as discussed in *Commentary No. 843*. Current levels of annual growth in unadjusted payrolls likely remain near the downside threshold of heading into recession.

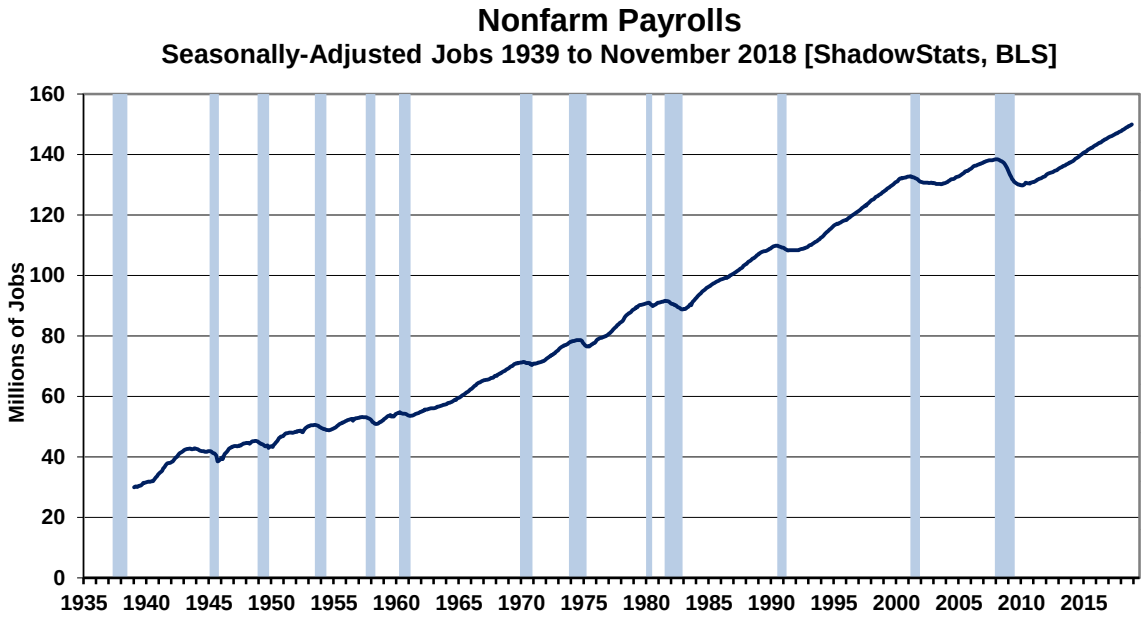
Graphs 10 to *13* show the headline payroll series, level and annual change, both on a shorter-term basis, since 2000, and on a longer-term historical basis, from the onset of the series in 1939. In perspective, the longer-term graph of the headline payroll-employment levels shows the extreme duration of what had been the official non-recovery in payrolls, the worst such circumstance of the post-Great Depression era.

[Graphs 10 to 15 begin on the next page.]

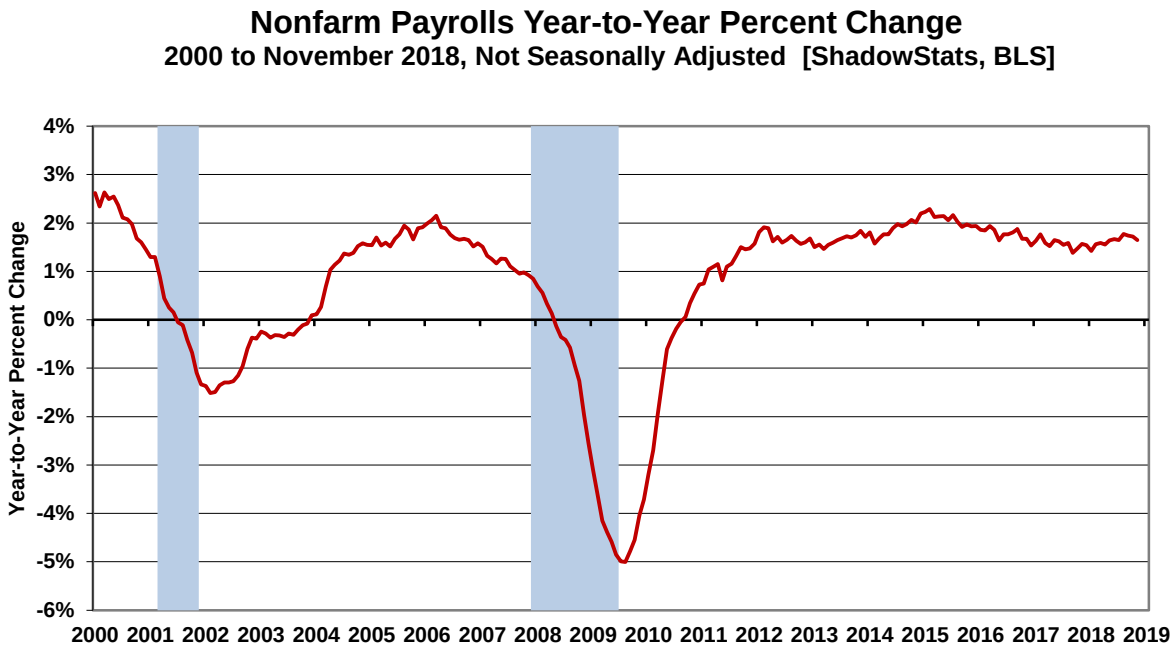
Graph 10: Nonfarm Payroll Employment, 2000 to Date (Scale Proportionate to Graph 14)



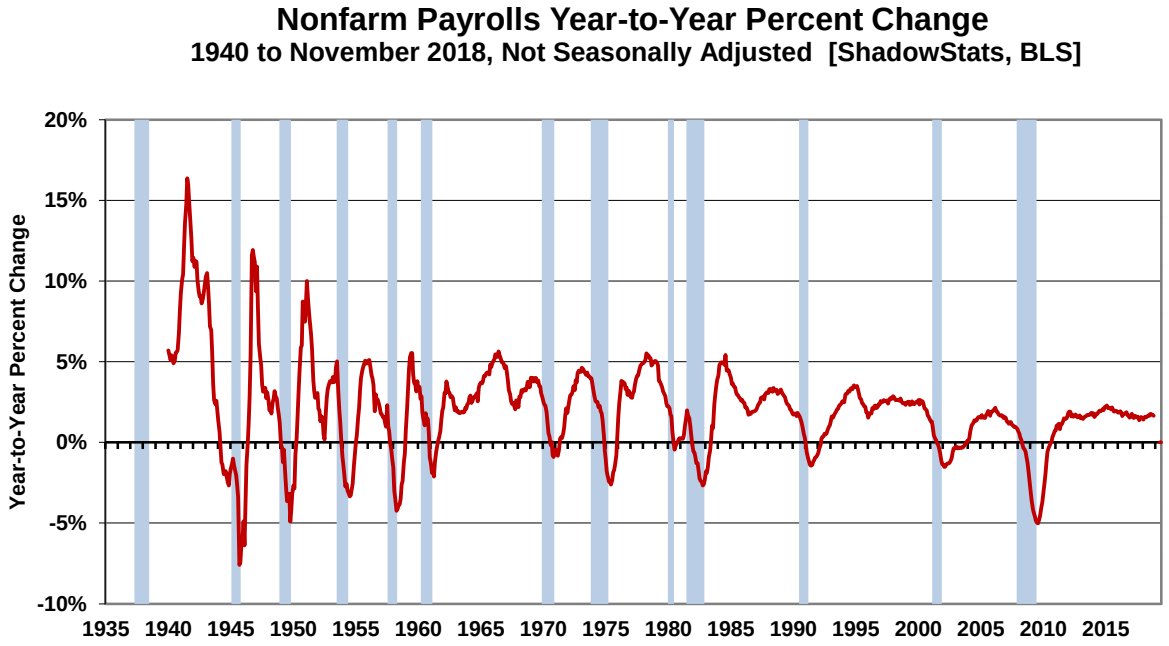
Graph 11: Nonfarm Payroll Employment, 1939 to Date



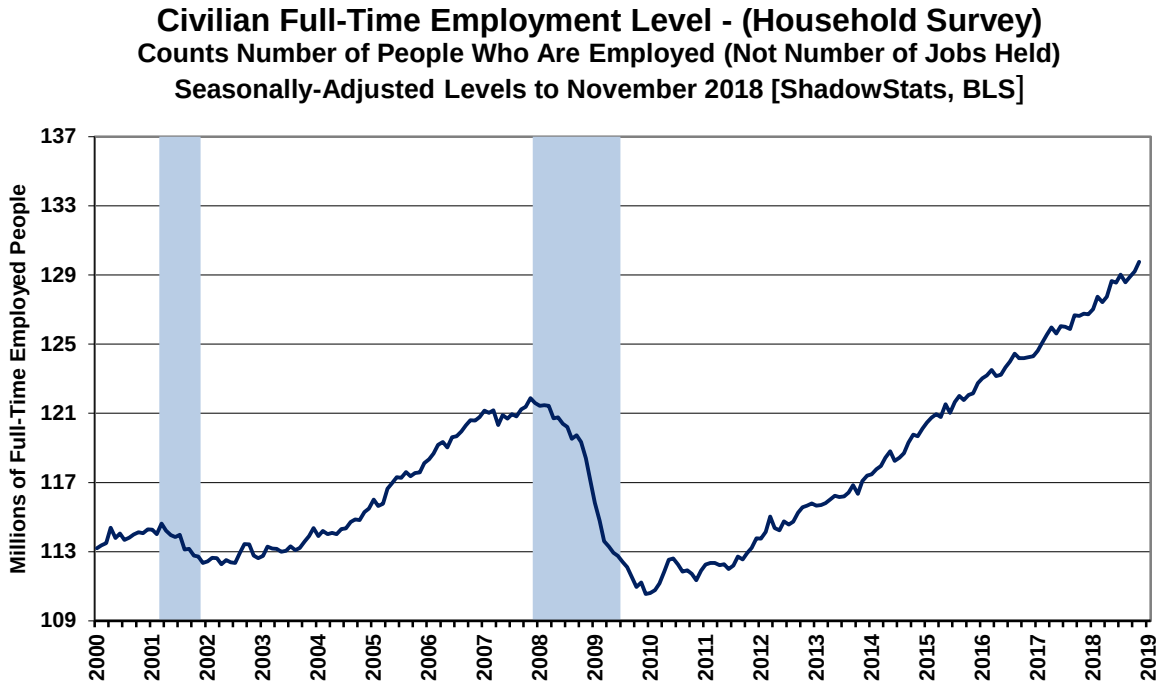
Graph 12: Payroll Employment, Year-to-Year Percent Change, 2000 to Date



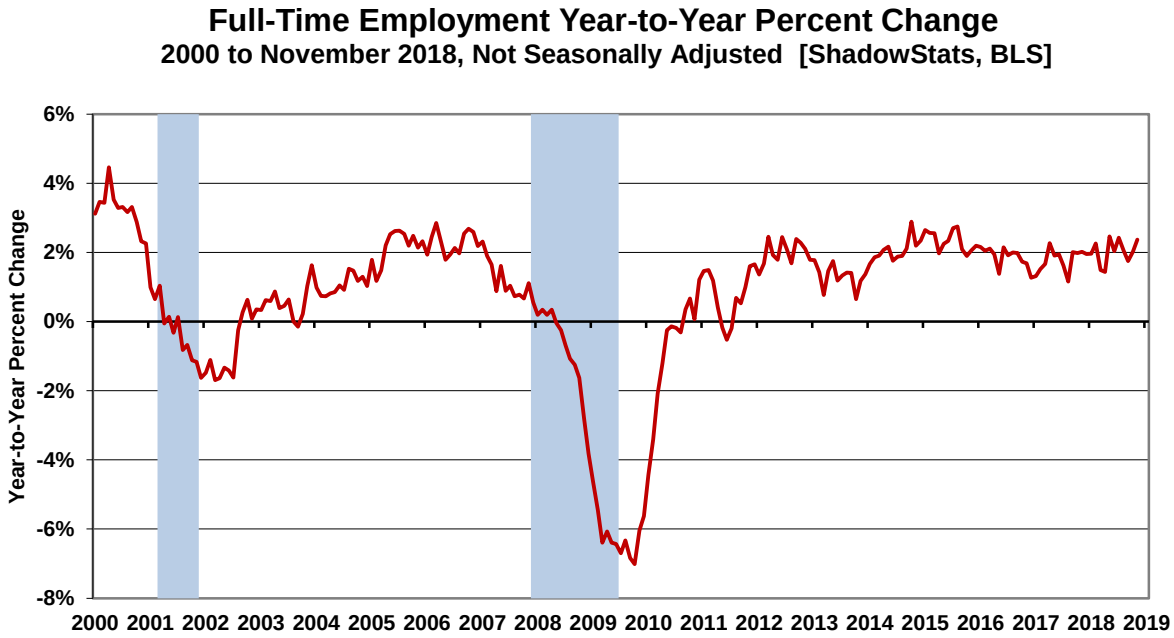
Graph 13: Payroll Employment, Year-to-Year Percent Change, 1940 to Date



Graph 14: Full-Time Employment (Household Survey), 2000 to Date (Scale Proportionate to Graph 10)



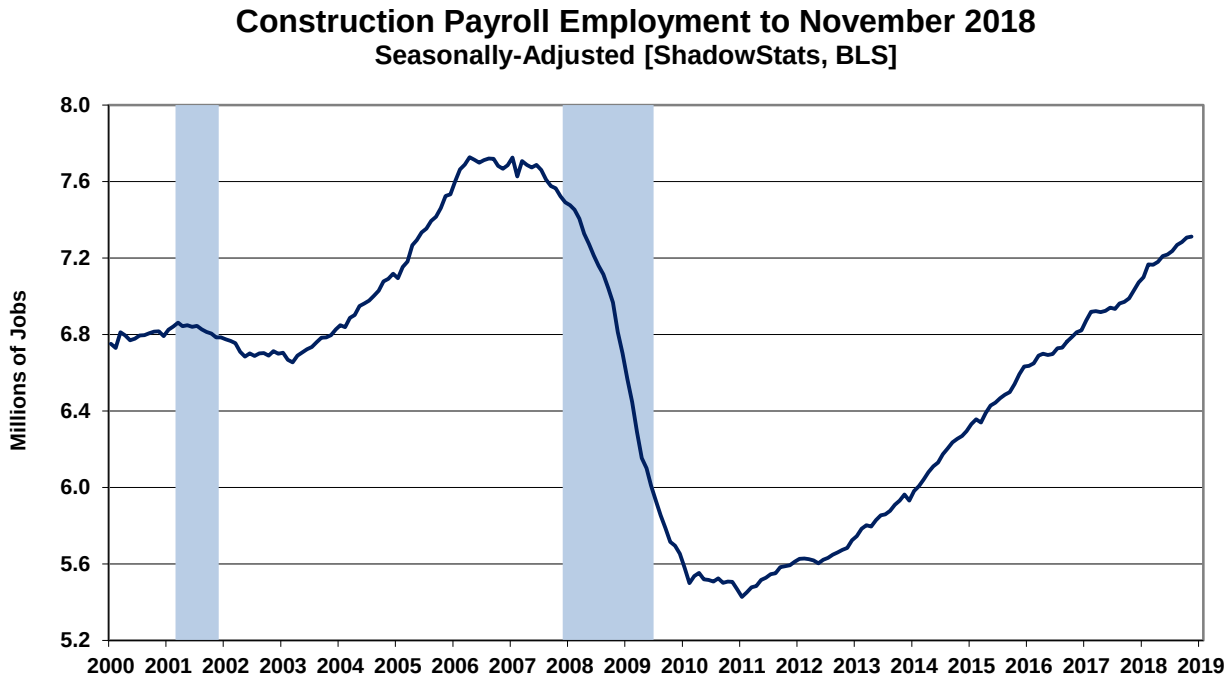
Graph 15: Full-Time Employment (Household Survey), Year-to-Year Percent Change, 2000 to Date



Construction Employment Revised Lower, Shy by 5.4% (-5.4%) of Its Pre-Recession Peak. The latest Construction Industry jobs survey was released along with the headline November 2018 payroll employment reporting. Construction payrolls rose by a headline 0.07% in the month to 7,312,000, but that was a decline of 0.08% (-0.08%) net of a downside revision to October activity, which was on top of a downside revision to September payrolls. Such has become a repetitive pattern with recent construction employment reporting.

Headline November construction jobs rose by 5,000, following downwardly revised gains of 24,000 [previously 30,000] in October, and 15,000 [previously 20,000, initially 23,000] in August. Headline, unadjusted annual growth slowed to 3.89% (its weakest showing since January 2018), versus an unrevised 4.43% in October 2018 and a revised 4.17% [previously 4.14%, initially 4.18%] in September 2018. Construction Jobs in November 2018 still were shy by 408,000 (-408,000), or by 5.42% (-5.42%) of full recovery to pre-recession levels.

Graph 16: Construction Payroll Employment (2000 to Date)



[The Supplemental Labor-Detail Background begins on the next page.]

Supplemental Labor-Detail Background

Reasons Why Headline Employment and Unemployment Numbers Usually Fail to Match Common Experience. The accompanying material provides background detail on reporting biases, reporting gimmicks, Pollyannaish redefinitions of methodology ("Pollyanna Creep" in the ShadowStats lexicon, as discussed recently in the *Opening Comments* of *Special Commentary No. 968-Extended*), surveying and reporting inconsistencies and other issues with the monthly headline labor data from the Bureau of Labor Statistics (BLS) surveys: the Establishment Survey (nonfarm payrolls) and the Household Survey (unemployment and employment detail). The text here usually is not revised much each month from its prior version, other than for the updated headline numbers of November 2018.

Those current numbers also are referenced and discussed separately in the standard employment and unemployment text of the *Reporting Detail*. Note: Accompanying Household (December 2017) and Payroll-Survey (January 2018) comments reflect the indicated, most-recent annual benchmarkings. Those comments will be updated for those same series in the respective, pending December 2018 and January 2019 benchmarkings.

SECTIONS

(I.) Headline Distortions from Shifting Concurrent Seasonal-Adjustment Factors
(II.) Payroll-Employment Monthly Bias Factors (Birth-Death Modeling)
(III.) ShadowStats Alternate-Unemployment Rate (Accounting for Displaced Workers)
(IV.) Reconciling Record "Low" Unemployment with Record-High Labor-Market Stress

(I.) Headline Distortions from Shifting Concurrent Seasonal-Adjustment Factors

There remain serious and deliberate flaws with the government's seasonally-adjusted, monthly reporting of both employment and unemployment (there are parallel issues with the Retail Sales, New Orders for Durable Goods and Trade Deficit series). Each month, the BLS uses what is known as a "concurrent-seasonal-adjustment process" to adjust both the payroll and unemployment data for the latest seasonal patterns. The new headline numbers are used each month as the new base month for monthly seasonally-adjustments going back in time. A new seasonally-adjusted history is recalculated for every month, going back five years, so as to be consistent with the new seasonal patterns generated for the current headline number. While the procedure is unnecessarily complex, there is no problem with the basic concept. The problem is that historically-comparable revised data are not published along with the new headline detail by the Bureau of Labor Statistics (BLS), Department of Commerce (Commerce) or the Bureau of Economic Analysis (BEA).

For example, detailed in the regular monthly BLS press release covering employment/unemployment BLS (second page of the *Technical Note*, subheading *Seasonal Adjustment*):

> For both the household [unemployment] and establishment [payroll] surveys, a concurrent seasonal adjustment methodology is used in which new seasonal factors are calculated each month using all relevant data, up to and including the data for the current month. In the household survey, new seasonal factors are used to adjust only the current month's data. In the establishment [payroll] survey, however, new seasonal factors are used each month to adjust the three most recent monthly estimates. The prior 2 months are routinely revised to incorporate additional sample reports and recalculated seasonal adjustment factors. In both surveys, 5-year revisions to historical data are made once a year.

Discussed in the following paragraphs, the historical data never are published on a month-to-month consistent basis for the Payroll Survey, even with accompanying headline benchmark revisions. The Household Survey is published only once per year on a consistent basis, in December (see the opening note above), but the numbers become inconsistent, once again, with the ensuing January reporting. Headline month-to-month inconsistencies in the seasonally-adjusted Household Survey are highly variable every month, but that detail never is published and is not knowable by the public.

Effective Reporting Fraud. The problem remains that the BLS does not publish the monthly historical revisions along with the new headline data. As a result, current headline reporting is neither consistent nor comparable with published historical data, including the most-recent months, and the unreported actual monthly variations versus headline detail can be meaningful. The deliberately-misleading reporting effectively is a fraud. The problem is not with the BLS using concurrent-seasonal-adjustment factors; it is with the BLS not publishing the consistent data, where those data are calculated each month and are available internally to the Bureau. The BLS expressed reasons for not publishing the revised monthly numbers on a consistent basis: "Numerous revisions during the year, however, should be avoided, because they tend to confuse data users and to increase publication costs substantially."

If that indeed were the reason for not publishing consistent monthly data, then the BLS would do itself and the public a favor by using its prior annual or semi-annual revisions to the seasonal factors, where the data at least were published in a manner where monthly changes were consistent on a month-to-month basis.

Household Survey. In the case of the published Household Survey (unemployment rate and related data), the seasonally-adjusted headline numbers usually are not comparable with the prior monthly data or any month before. Accordingly, the published headline detail as to whether the unemployment rate was up, down or unchanged in a given month is not meaningful in terms of statistical significance, and what actually happened is not knowable by the public. Month-to-month comparisons of these popular numbers are of no substance, other than for market hyping or political propaganda. In theory, the headline month-to-month reporting in the Household Survey is made consistent only in the once-per-year reporting of December data, with annual revisions back for five years. Again, though, all historical comparability disappears, with the ensuing headline January reporting, and with each monthly estimate thereafter, until the next December's benchmarking.

Consider *Graphs SLD-1* and *SLD-2*, where data are available from the BLS to calculate the month-to-month seasonal-adjustment variability in the Payroll Survey. Similar detail is not available for the Household Survey, yet the monthly instability likely is of similar magnitude. Shown here as an example with the Payroll Survey, the headline January 2017 payroll level was prepared on a consistent basis with the levels of December 2016 and November 2016, but not with October 2016, with the result the headline monthly gains were consistent only for January and December. With the Household Survey, except for December, seasonally-adjusted monthly detail is not comparable with any other month, so seasonally-

adjusted, month-to-month Household Survey comparisons have no meaning, even for the headline month, except temporarily for the one month of December.

Payroll or Establishment Survey. In the case of the published Payroll Survey data (payroll-employment change and related detail), again, the current monthly changes in the seasonally-adjusted headline data are comparable only with the prior month's month-to-month reporting, not before. Due to the BLS modeling process, the historical data never are published on a consistent basis, even with publication of the annual benchmark revisions (see the comments with *Graphs SLD-1* and *SLD-2*).

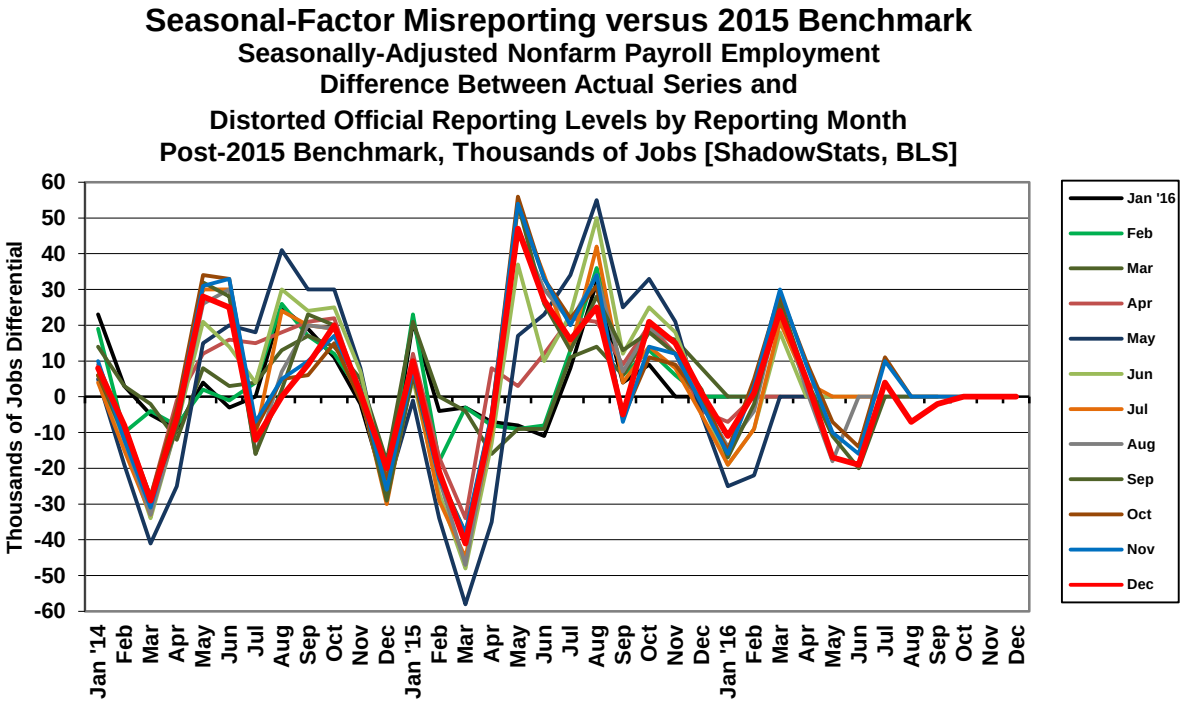
Where the BLS does provide modeling detail for the Payroll Survey, allowing for third-party calculations, no such accommodation has been made for the Household Survey. ShadowStats affiliate ExpliStats has done such third-party calculations for the payroll series, and the resulting detail of the differences between the current headline reporting and the constantly-shifting, consistent and comparable history are reflected here in *Graph SLD-1*, showing the full monthly variability in the 2016 historical seasonal adjustments in the period since the 2015 payroll benchmark revision. As seen here, consistent data never are published. The benchmark-revised system is run in the background for three months before the headline January (benchmarking) publication, which allows the initial headline publishing to stray from the actual initial benchmarking. *Graph SLD-1* shows how far the system strayed from the initial 2016 benchmarking, in its formal benchmark reporting of January 2017.

Where the red line reflected seasonal-factor straying through December 2016 from the 2015 benchmarking, the blue line indicates the straying in January 2017 versus the initial 2016 benchmarking. The January 2017 detail suggested a reversal of seasonal factors, consistent with the benchmarking detail and the new "selective" seasonal adjustment processes. Such variability in seasonal factors, though, rarely is seen in a stable economic series. These data again suggest heavily-gamed headline reporting.

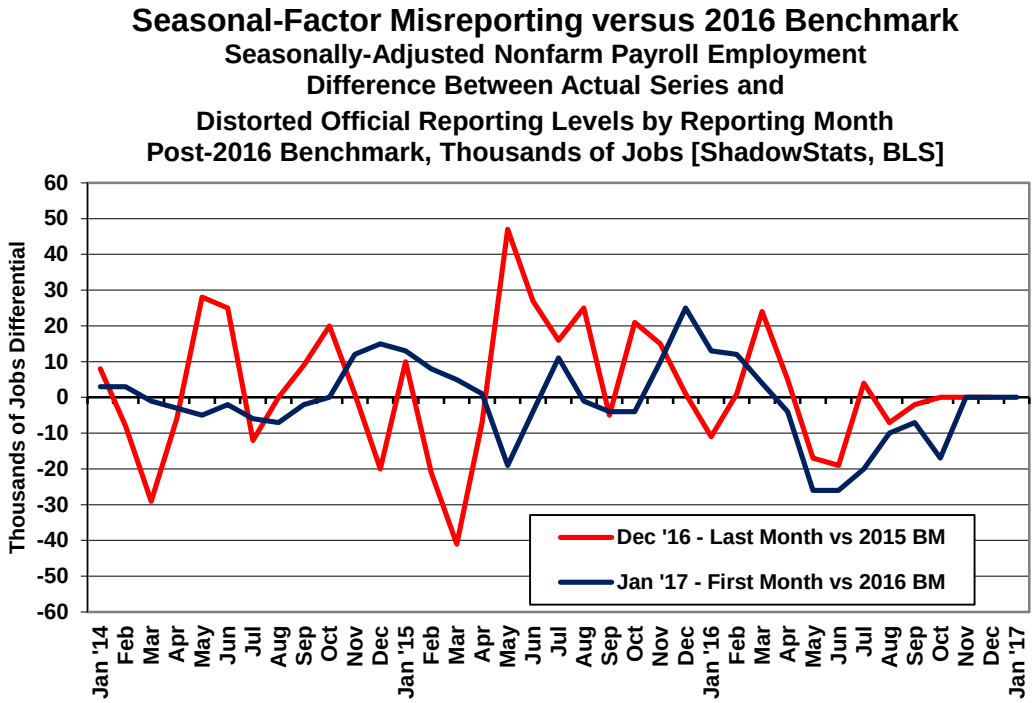
Seen in the detail, the differences go both ways and often are much larger. Such was the case for example in November 2014, coming out of the 2014 benchmark revision, as detailed and discussed in the *Opening Comments* of *Commentary No. 784*. Subscribers interested in the modeling of specific industry payroll components on a consistent month-to-month basis—not otherwise available— should contact johnwilliams@shadowstats.com or at (707) 763-5786.

[Graphs SLD-1 and SLD-2 follow on the next page.]

Graph SLD-1: Concurrent-Seasonal-Factor Irregularities – December 2016 Detail versus 2015 Benchmarking



Graph SLD-2: Concurrent-Seasonal-Factor Irregularities – January '17 Detail versus 2016 Benchmarking



(II.) Payroll-Employment Monthly Bias Factors (Birth-Death Modeling: BDM)

In the ongoing, general overstatement of monthly payroll employment (see *Special Commentary No. 885*, entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*), the BLS adds in upside monthly biases to the payroll employment numbers. The continual overstatement is evidenced usually by regular and massive, annual downward benchmark revisions (2011, 2012, 2017 and preliminary 2018 excepted). The preliminary estimate of 2018 payroll benchmark revision was minimal, a positive 43,000 payroll jobs (see *Commentary No. 967*), with the 2017 benchmark revision of February 2, 2018 on the upside by 138,000 (initially by 95,000).

Noted in *No. 885*, "During the Reagan Administration, the Bureau of Labor Statistics (BLS) underestimated employment growth, coming out of the 1983 recession. [As expressed by a spokesperson for the BLS] That "political embarrassment" for the BLS resulted in the introduction of monthly, upside-bias factors to payroll-employment reporting. Those biases evolved into the current Birth-Death modeling for the payroll series."

Recent History. As a separate matter, though, formalized, corrective downside revisions to prior history increasingly have been more than offset by upside revisions to the monthly bias factors, going forward, as was the case in 2016 (see *Commentary No. 864*). The initial estimate (summary number) for the 2016 benchmarking was for a downside revision in total payrolls for March of 2016 by 150,000 (-150,000), down for March 2016 by 224,000 (-224,000) in just private-sector employment (see *Commentary No. 830*). Those changes, however, were massaged and recast to an aggregate downside revision of 81,000 (-81,000) jobs. That change then was used to impute adjustments back to April 2015, and it should have been carried forward to December 2016, but that did not happen, see *Opening Comments* of *No. 864*.

Despite the published downside revision of 206,000 (-206,000) to March 2015 payrolls in the 2015 benchmarking (see *Commentary No. 784* and *Commentary No. 784-A*), the BLS upped its annual upside-bias factors since then by 65,000. Such discrepancies, however, are not unusual for the BLS.

Considering related actions of recent years, discussed in the benchmark detail of *Commentary No. 598*, the benchmark revision to March 2013 payroll employment was to the downside by 119,000 (-119,000), where the BLS had overestimated standard payroll employment growth.

With the March 2013 revision, though, the BLS separately redefined the Payroll Survey so as to include 466,000 workers who had been in a category not previously counted in payroll employment. The latter event was little more than a gimmicked, upside fudge-factor, used to mask the effects of the regular downside revisions to employment surveying, and likely was the excuse behind an increase then in the annual bias factor, where the new category could not be surveyed easily or regularly by the BLS. Elements here likely had impact on the unusual issues with the 2014 benchmark revision.

Abuses from the 2014 benchmarking were detailed in *Commentary No. 694* and *Commentary No. 695*. With the headline benchmark revision for March 2014 showing understated payrolls of 67,000 (-67,000), the BLS upped its annual add-factor bias by 161,000 for the year ahead.

Historically, the upside-bias process was created simply by adding in a monthly "bias factor," so as to prevent the otherwise potential political embarrassment to the BLS of understating monthly jobs growth. The creation of "bias factor" process resulted from such an actual embarrassment, with the underestimation of jobs growth coming out of the 1983 recession. That process eventually was recast as

the now infamous Birth-Death Model (BDM), which purportedly models the relative effects on payroll employment of jobs creation due to new businesses starting up, versus jobs lost due to bankruptcies or closings of existing businesses.

November 2018 Add-Factor Bias. In context of the 2017 benchmarking (see the *Opening Comments* of *Commentary No. 934-B*) and the initial estimate for the 2018 benchmarking (see *Commentary No. 967*), the not-seasonally-adjusted monthly add-factor bias in November 2018 was downwardly revised monthly negative bias of 9,000 (-9,000), previously an addition of 8,000. The revamped, aggregate upside annual bias for the trailing twelve months through November 2018 is estimated from the current headline bias reporting at 968,000, up by 76,000 or 8.5% from the last prior count of 892,000 in December 2017. That is a monthly average now of 80,667, versus 74,333 in December 2017, jobs created out of thin air, on top of some indeterminable amount of other jobs that are lost in the economy from business closings. Those losses simply are assumed away by the BLS in the BDM, as discussed below. Put another way, that upside bias of 968,000 in unadjusted payrolls in the twelve months through November 2018 accounted for 39.5% of the headline unadjusted 2,449,000 payroll jobs gain the same period On a seasonally adjusted basis, that twelve-month payroll gain was 2,443,000.

Problems with the Model. The aggregated upside annual reporting bias in the BDM reflects an ongoing assumption of a net-positive jobs creation by new companies versus those going out of business. Such becomes a self-fulfilling system, as the upside biases boost reporting for financial-market and political needs, with relatively good headline data, while often also setting up downside benchmark revisions for the next year, which traditionally are ignored by the media and the politicians. The BLS cannot measure meaningfully the impact of jobs loss and jobs creation from employers starting up or going out of business, on a timely basis (within at least five years, if ever), or by changes in household employment that were incorporated into the 2017 redefined payroll series. Such information simply is guesstimated by the BLS, along with the addition of a bias-factor generated by the BDM. Private surveying runs counter to the BLS contentions.

Positive assumptions—commonly built into government statistical reporting and modeling—tend to overstate official estimates of general economic growth. Along with happy guesstimates, there usually are underlying assumptions of perpetual economic growth in most models. Accordingly, the functioning and relevance of those models become impaired during periods of economic downturn, and the current, ongoing downturn has been the most severe—in depth as well as duration—since the Great Depression.

Indeed, historically, the BDM biases have tended to overstate payroll employment levels—to understate employment declines—during recessions. There is a faulty underlying premise here that jobs created by start-up companies in this downturn have more than offset jobs lost by companies going out of business. Recent studies continue to suggest that there has been a net jobs loss, not gain, in this circumstance. Nonetheless, if a company fails to report its payrolls because it has gone out of business (or has been devastated by a hurricane), the BLS assumes the firm still has its previously-reported employees and adjusts those numbers for the trend in the company's industry.

The presumed net additional "surplus" jobs created by start-up firms are added on to the payroll estimates each month as a special add-factor. On top of that, the monthly BDM add-factors have been increased now to an average of 80,667 jobs per month for the current year. As a result, in current reporting, the aggregate average overstatement of employment change easily exceeds 200,000 jobs per month (the underlying positive base-assumption upside bias, plus the monthly Birth-Death Model add-factor).

(III.) ShadowStats Alternate-Unemployment Rate – Accounting for Displaced Workers

At the same time, as reviewed in *Section IV: Reconciling Record "Low" Unemployment with Record-High Labor-Market Stress***,** the recent historic low in headline unemployment (and current near-record low) was despite continued signals of extreme stress in labor-market conditions. The dominant issue with that dichotomy remains that the headline unemployment numbers out of the BLS have not counted the aggregation of long-term discouraged or displaced workers, since the 1994 redefinitions of the unemployment reporting. Those issues have become a factor here in the context of the severity of the economic collapse from 2007 into 2009.

In 1994, the Bureau of Labor Statistics (BLS) overhauled its system for estimating unemployment, including changing survey questions and unemployment definitions. In the new system, measurement of the previously-defined discouraged or displaced workers disappeared. These were individuals who had given up looking for work, because there was no work to be had. These people, who considered themselves unemployed, had been counted in the old survey, irrespective of how long they had not been looking actively for work. These were individuals who were and would be considered displaced workers, due to circumstances of severely-negative economic conditions or other factors such as changing industrial activity resulting from shifting global trade patterns.

The new survey questions and definitions had the effect of minimizing the impact on unemployment reporting for those workers about to be displaced by the then just-implemented North American Free Trade Agreement (NAFTA). At the time, I (John Williams) had close ties with an old-line consumer pollster and his polling company, whose substantial economic monthly surveys were compared closely with census-survey details. The new surveying changed the numbers, and what had been the discouraged-worker category soon became undercounted or effectively eliminated. Change or reword a survey question, and change definitions, you can affect the survey results meaningfully.

The post-1994 survey techniques also fell far shy of adequately measuring the long-term displacement of workers tied to the economic collapse into 2008 and 2009, and from the lack of subsequent economic recovery. In current headline reporting, the BLS has a category for those not in the labor force who currently want a job. Including the currently-defined level of "marginally attached workers," which incorporates the currently-defined and undercounted "discouraged workers" category used in the U.6 calculation, those not in the labor force currently wanting a job was a seasonally-adjusted 5.309 million in October 2018 (5.048 million not seasonally adjusted). While some contend that that number includes all those otherwise-uncounted discouraged workers, such is extremely shy of underlying reality due to changes in survey methodology since 1994.

The ShadowStats Alternate Unemployment number—a broad unemployment measure more in line with common experience—is my estimate. The approximation of the ShadowStats "long-term discouraged worker" category—those otherwise largely defined out of statistical existence in 1994—reflects proprietary modeling based on a variety of private and public surveying over the last two-plus decades. Other than using the BLS's U.6 estimate as an underlying monthly base with my modeled adjustments, I have not found a way of accounting adequately for the current unemployment circumstance and common experience using just the monthly headline data published by the BLS.

Some broad systemic labor measures from the BLS, though, are consistent in pattern with the ShadowStats measure, even allowing for the shifts tied to an aging population with retiring "baby boomers." Again, discussed the following *Section IV: Reconciling Record "Low" Unemployment with*

Record-High Labor-Market Stress, and shown in the *Reporting Detail*, the graph of the inverted ShadowStats unemployment measure has a strong correlation with the employment-to-population ratio, in conjunction with the labor-force participation rate (see *Graphs 2* and *3* there and *Graph SLD-4* in the next section). Other measures, such as the ShadowStats-Alternate GDP Estimate, the Cass Freight Index, U.S. Petroleum Consumption, Production of Consumer Goods, Construction Spending and Housing Starts are highlighted in subsequent *Graphs 4* to *9* in today's *Reporting Detail* and in *Commentary No. 976*, updating the *Opening Comments* and *Section II* of *Special Commentary No. 968-Extended*.

Headline November 2018 Detail. Adding back into the total unemployed and labor force the ShadowStats estimate of effectively displaced workers, of long-term discouraged workers—a broad unemployment measure more in line with common experience—the ShadowStats-Alternate Unemployment Estimate for November 2018 was 21.3%, versus 21.2% in October 2018, 21.3% in September, 21.2% in August, 21.3% in July, 21.5% in June, 21.4% in May, 21.5% in April, 21.7% in March, 21.8% in February, 21.8% in January. That was against 21.7% in December 2017, 21.7% in November, 21.7% in October, 21.9% in September, 22.2% in August, 22.1% in July, 22.0% in June, 22.0% in May, 22.1% in April, 22.4% in March, 22.7% in February, and 22.9% in January 2017. Built upon the headline U.3 and U.6 estimates, the November 2018 ShadowStats reading was down by 200 (-200) basis points or 2.0% (-2.0%) from the 23.3% series high seen in May 2014.

In contrast, the November 2018 headline U.3 unemployment rate of 3.7% was down by 630 (-630) basis points or by 6.3% (-6.3%) from its peak of 10.0% in October 2009. The broader U.6 unemployment measure of 7.6% in November 2018, was down by 960 (-960) basis points or 9.6% (-9.6%) from its peak of 17.2% April 2010.

A subscriber raised the question once as to why the ShadowStats Alternate Unemployment Estimate had been holding around 23%, at the time. Recalculated each and every month, the ShadowStats estimate generally picks up the net flows of headline "discouraged" workers, who have been redefined out of existence after having been inventoried in the BLS accounting of the U.6 rate for about eleven months (where individuals have not looked actively for a job in one year). In turn, U.6 picks up as "discouraged workers" those in U.3 who have not actively looked for work in the last four weeks. It is the resulting reduction in the U.3 and U.6 "unemployed" and the related labor forces used in calculating those respective headline unemployment rates that has accounted for the bulk of the reduction in those headline rates, with much of the difference flowing into and holding reasonably steady in the ShadowStats alternate measure.

Seen in the usual graph of the various unemployment measures (*Graph 1* in the *Reporting Detail*), there indeed is a noticeable divergence in the ShadowStats series versus U.6 and U.3, with the BLS headline U.3 unemployment measure broadly flat-to-minus at low levels recently, against higher level, albeit often softening U.6 and a still-higher level, more slowly softening ShadowStats number.

The reason for the longer-term divergence versus the ShadowStats measure, again, is that U.6 only includes discouraged and marginally-attached workers who have been "discouraged" for less than a year. As the discouraged-worker status ages, those that go beyond one year fall off the government counting, even as new workers enter "discouraged" status. A similar pattern of U.3 unemployed becoming "discouraged" or otherwise marginally attached, and moving into the U.6 category also accounted for the early divergence between the U.6 and U.3 categories.

With the continual rollover, the flow of headline workers continues into the short-term discouraged workers category (U.6), and from U.6 into long-term discouraged worker or displaced-worker status (the ShadowStats measure). There was a lag in this happening as those having difficulty during the early months of the economic collapse, first moved into short-term discouraged status, and then, a year later they began moving increasingly into longer-term discouraged or displaced status, hence the lack of earlier divergence between the series. The movement of the discouraged unemployed out of the headline labor force had been accelerating. While there is attrition in long-term discouraged numbers, there is no set cut off where the long-term discouraged workers cease to exist. See the *Alternate Data* tab at www.ShadowStats.com for historical detail.

Generally, where the U.6 largely encompasses U.3, the ShadowStats measure encompasses U.6. To the extent that a decline in U.3 reflects unemployed moving into U.6, or a decline in U.6 reflects short-term discouraged workers moving into the ShadowStats number, the ShadowStats number continues to encompass all the unemployed, irrespective of the series from which they may have been ejected and correspondingly has been reasonably stable over a longer timeframe.

Great Depression Comparisons. Discussed in these regular *Commentaries* covering the monthly unemployment circumstance, an unemployment rate in the 21% to 23% range might raise questions in terms of a comparison with the purported peak unemployment in the Great Depression (1933) of 25%. Hard estimates of the ShadowStats series are difficult to generate on a regular monthly basis before 1994, given meaningful reporting inconsistencies created by the BLS when it revamped unemployment reporting at that time. Nonetheless, as best estimated, the current ShadowStats level likely is about as bad as the peak actual unemployment seen in the 1973-to-1975 recession and the double-dip recession of the early-1980s.

The Great Depression peak unemployment rate of 25% in 1933 was estimated well after the fact, with 27% of those employed then working on farms. Today, less than 2% of the employed work on farms. Accordingly, a better measure for comparison with the ShadowStats number might be the Great Depression peak in the nonfarm unemployment rate in 1933 of roughly 34% to 35%.

(IV.) Reconciling Record "Low" Unemployment with Record-High Levels of Labor-Market Stress

It All Is in the Gimmicked Unemployment Definitions. *Graphs SLD-3* (same as *Graph 3* in the *Reporting Detail*) and *SLD-4*, updated through November 2018, plot measures of broad labor-market health. *Graph SLD-3* shows the ratio of headline employment to the working age population, the *Employment-Population Ratio*. *Graph SLD-4* shows labor-force participation (the total of the headline employed plus headline unemployed) as a percent of the working age population, the *Participation Rate*. The higher those ratios, the healthier is the economy. Correspondingly, the weaker those ratios the more intense is the labor-market stress. Also consider *Graph SLD-5*, which plots the updated headline U.3 Unemployment Rate, but with an inverted scale, since the 1994 onset of the current unemployment series.

November 2018 U.3 unemployment at the first decimal point held at the record-low 3.7%, at a post-1994 series record second-decimal point record-low of 3.67%, down from 3.74% (rounds to 3.7%) in October, having hit a near-term peak in June 2018 of 4.05% (rounds to 4.0%), versus 3.75% (3.8%) in May 2018.

At the second decimal point, that May 2018 unemployment rate had set a then historic low for the current series, which was defined in 1994. At the first decimal point, May 2018 unemployment tied the then record low of 3.8% of April 2000. Where the low April unemployment was then the early high point with

the inverted scale of *Graph SLD-5*), April 2000 also was the happy high point for the *Employment-Population Ratio* and the *Participation Rate*. That is as it should be. The problem comes with the November, October and September 2018 "low" unemployment rates (the latest high points in *SLD-5*) going against relatively low points (severe levels of labor-market stress) in *Graphs SLD-3* and *SLD-4*, which had deteriorated further in recent reporting, only to jump minimally in October 2018 (likely from hurricane-boosted Household Survey employment) from where they were at the prior "low" unemployment rate in May 2018. The November 2018 ratios effectively held unchanged.

Those three graphs move pretty much in unison (particularly *SLD-3* and *SLD-5*) until they pass the second blue recession bar, when the unemployment rate turns lower (rises in with the inverted-scale in *SLD-5*), while the measures of labor-market stress begin to bottom-bounce. Now consider *Graph SLD-6* of the inverted-scale ShadowStats Alternate Unemployment rate (same as *Graph 2* in the *Reporting Detail*, which includes long-term discouraged or displaced workers).

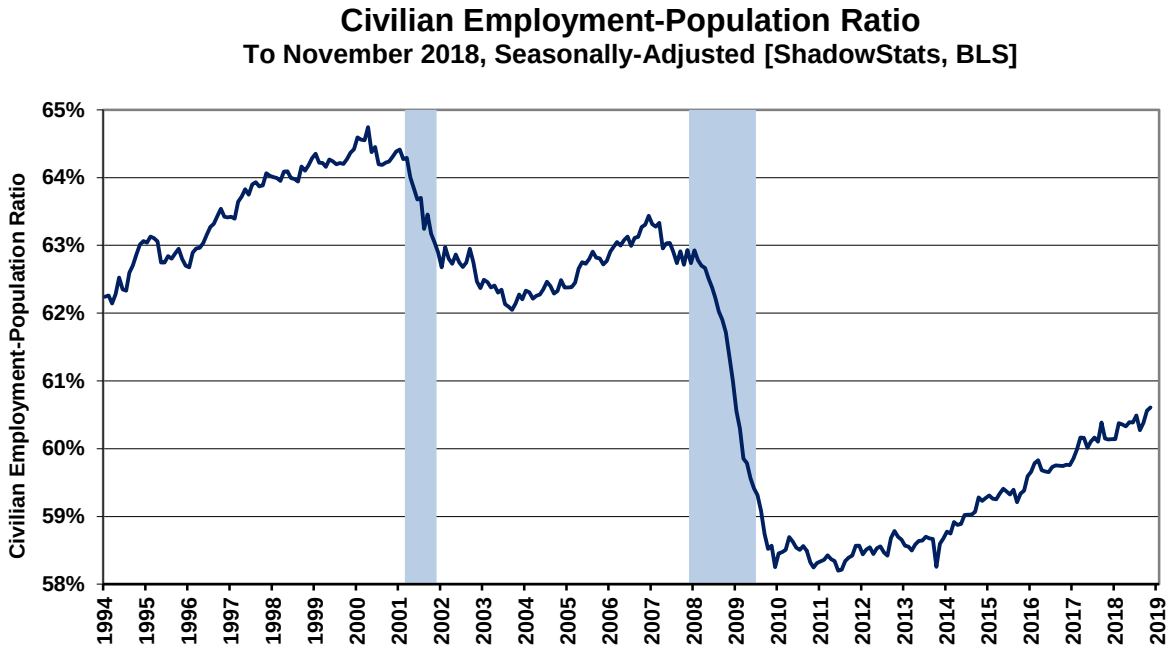
The problem and the conflict with the headline numbers out of the Bureau of Labor Statistics is that the current unemployment series was redefined in 1994 (at the onset of NAFTA) so as not to count "discouraged workers" for more than one year. Otherwise, that population (and share of the total population) would aggregate, rather than be retired after twelve months [see prior *Section III: ShadowStats Alternate-Unemployment Rate (Accounting for Displaced Workers*)].

Subsequent to the redefined series, the U.S. economy collapsed into its most severe downturn since the Great Depression, and as the headline unemployment rate dropped (rose on the inverted scale) the ShadowStats measure (also on an inverted scale) continued to track the accumulating discouraged workers. The ratio differences here reflect issues with population. Some argue the difference here is due to an increased portion of the population entering retirement. While that is a partial factor, many who retired or who had planned to retire have found that they cannot afford to do so, at present, as had been planned originally.

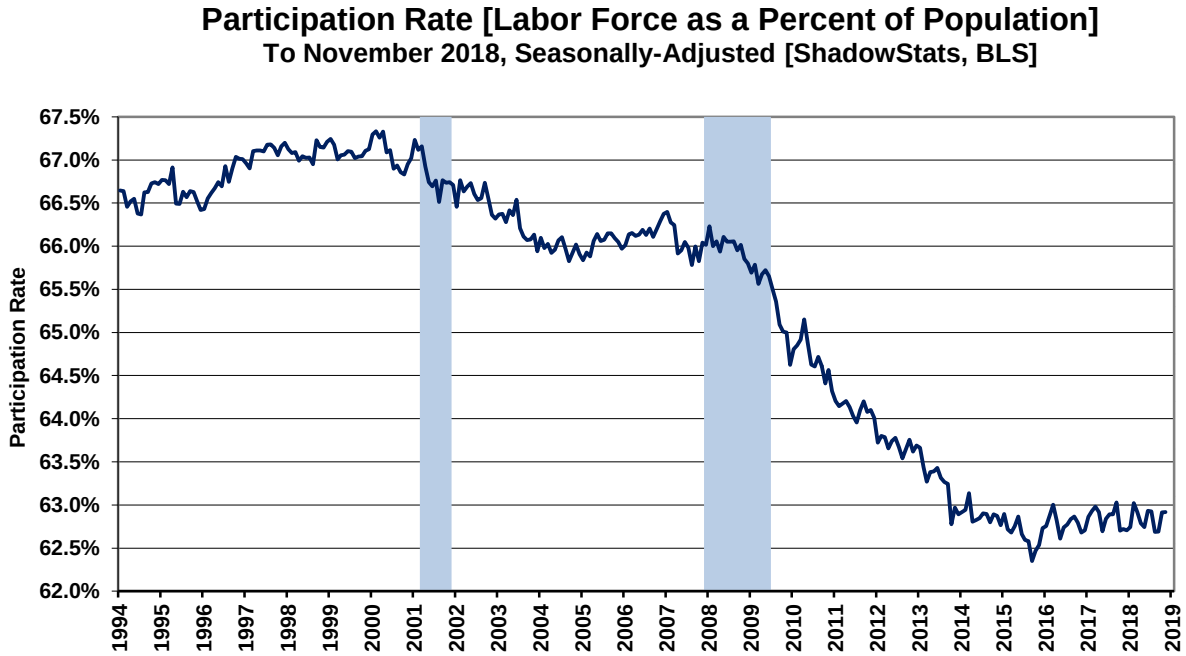
Allowing for the build-up of the discouraged/displaced worker population allows for some non-conventional employment/unemployment estimates. With calculations shown in the footnotes, the current *Employment-Population Ratio* and *Participation-Rate* suggest that a realistic unemployment rate, as the public might sense it, would be closer to 10% in instead of 3.8% (currently 3.7%) [the calculations here are based on the recent May 2018 historic low in U.3]. With the *Participation-Rate* suggesting room for another 11.1 million employed. Separately, despite the record-low U.3 in November 2018, the headline count of those not in the headline labor force "wanting a job" was rose to 5.397 million in November 2018, from 5.309 million in October 2018 and 5.237 million in September 2018.

[Graphs SLD-3 to SLD-6 begin on the next page.]

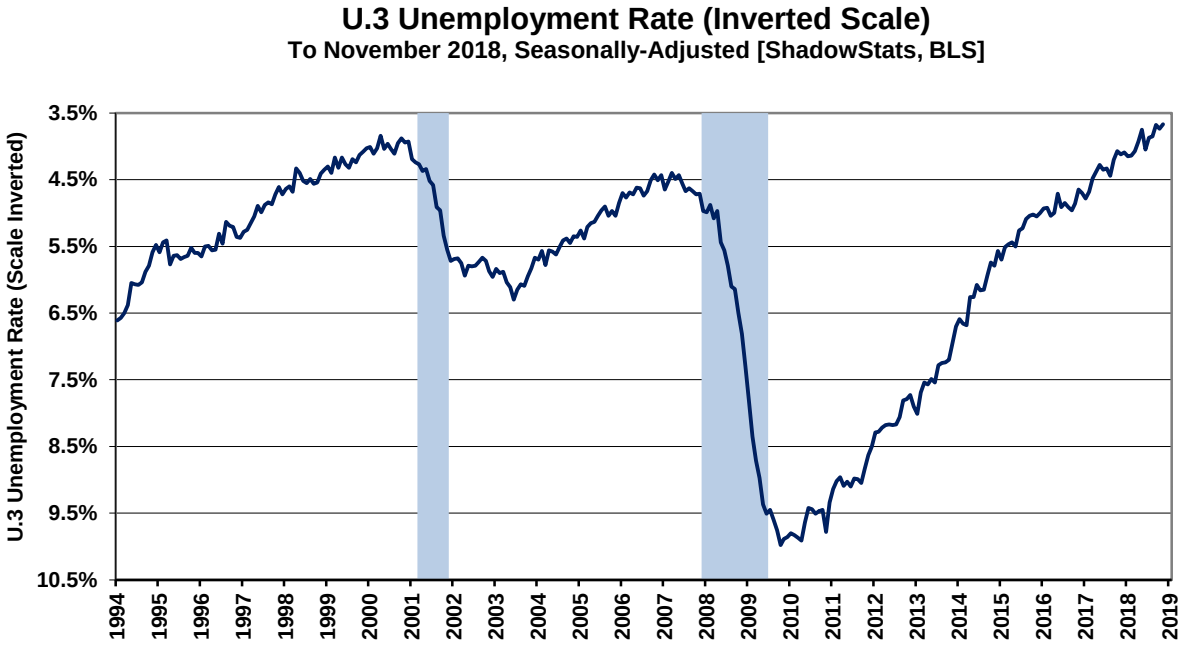
Graph SLD-3: Civilian Employment to Population Ratio
(Same as Graph 3 in the Reporting Detail)



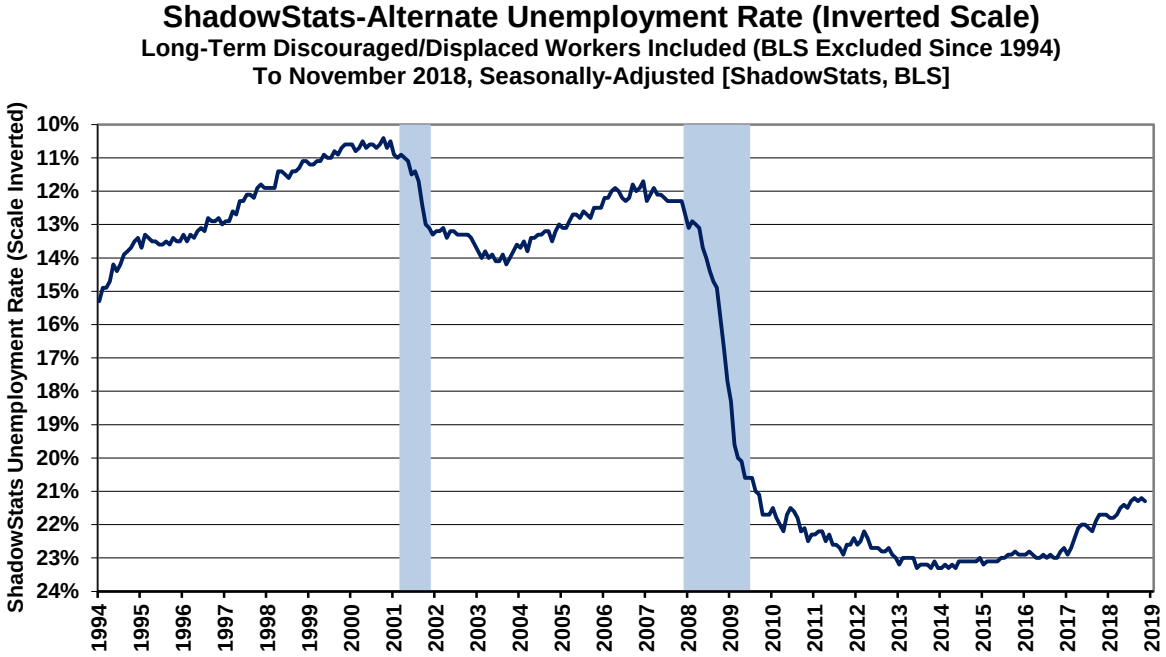
Graph SLD-4: Labor-Force Participation Rate



Graph SLD-5: Inverted-Scale of the Headline U.3 Unemployment Measure



Graph SLD-6: Inverted-Scale of ShadowStats Alternate Unemployment Measure
(Same as Graph 2 in the Reporting Detail)



Economy Remains Far From Full-Employment (Part 1); 3.8%/ 3.7% U.3 Unemployment Historically Is Consistent with 67.3% Participation, Not the Current 62.9%, Which is Consistent with 10.3% U.3. [The following calculations were based on the historic-low 3.75% of May 2018 and related stress numbers of that time. While headline U.3 broke that historic low in September 2018 at 3.68%, and stayed below it at 3.74% in October 2018, it dropped anew to 3.67% in November 2018 (all subject to annual benchmark revisions in December 2018). The stress numbers are little changed, and the recalculated numbers are not meaningfully different. The accompanying graphs have been updated, though, through the headline October 2018 detail.]

Argued here for many months, the U.S. economy is not at, or close to, full employment. As with much-earlier comments from former Fed Chair Janet Yellen, Treasury Secretary Steven Mnuchin (*Treasury Secretary Mnuchin: Economy is not really at full employment yet*) recently noted, "My comment is we're not really at full employment because of the participation rate." The near-historically-low level of the headline participation rate (labor force/working-age population) is despite the series-low 3.7% headline U.3 unemployment rate. The headline participation rate should be at an all-time high. In like manner, the employment-to-population ratio, also near its historic low, also should be at an historic high. Something very much is amiss in the government's headline Household Survey detail.

Discussed in the *Fedspeak* portion of the *Fed* section of *No. 859 Special Commentary* and the *Opening Comments* of *Commentary No. 870*, certain members of the Federal Reserve Board (*Commentary No. 827*) had suggested that an unemployment rate near 5.0% (U.3 now is at 3.7%) reflected full-employment conditions in the United States. Noted in *Commentary No. 845*, one would expect that "full employment" not only would be consistent with a certain headline unemployment rate, traditionally about 5.0%, but also with a coincident labor-force participation rate, traditionally of about 66%.

For example, at the formal onset of the recession in December 2007, the headline unemployment rate was 5.0%, with the participation rate at a 66.0% near-term peak (higher peaks in participation, in the early 2000's, were coincident with U.3 unemployment of about 4.0%). The last time the U.3 rate was close to 3.7%, at 3.8% [3.84%] was in April 2000, versus the May 2018 reading of 3.8% [3.75%]—certainly a more-realistic full-employment rate—the participation rate then was the series-high of 67.33%.

Full employment with unemployment at 5.0% or at the then record-low 3.8% in May 2018, also minimally should be reflected at a relative near-term peak in the participation rate, not close to its historic trough. The May 2018 headline unemployment rate of 3.8%, for example was in the context of a 62.7% participation rate. Yet, that historically-consistent participation rate, in the current circumstance (where the count of Household Survey employed generally is not gimmicked), would generate a consistent, current headline unemployment rate (U.3) of 10.3%, instead of the headline 3.8%.[1]

The calculations used here are for May 2018, as the series-low U.3 unemployment rate. New calculations will be provided, if the 3.8% (3.75%) is breached meaningfully on the downside. I am not publishing

[1] Consider with the May 2018 working-age population of 257.454 million, the implied labor force at a full-employment participation rate of 67.3% (last seen when headline unemployment was 3.8% in April 2000) would show 0.673 x 257.454 = 173.267. That labor force less current headline employed, 173.267 – 155.474 = 17.793 million implied unemployed, which divided by the labor force of 173.267 = 10.3% unemployment. The problem with the assumptions underlying these numbers and concept, again, remains that the economy is not at full employment, as would be suggested normally by a headline 3.8% U.3; there are serious flaws in the surveying and/or definitional concept of U.3.

recalculated estimates today of the consistent unemployment rate or, room in labor force, based on the November 2018 headline record-low 3.67% U.3 details, since the results effectively are the same, subject to annual revisions next month. These details will be recast in the context of the December 2018 benchmarking.

Far From Full-Employment (Part 2): Historic Low 3.8% May 2018 Unemployment Was Consistent a Record-High 64.7% Employment to-Population Ratio, Not the Current Near-Historic Low. The then historic-low 3.8% U.3 unemployment of May 2018 U.3 (now, 3.7% in September/October/November 2018) also should have reflected an historic high Employment-to-Population Ratio, not the near-record low indicated for both May and September/October/November 2018. In turn, the May headline 60.4% (60.4%/60.6%/60.6%) in the September/October/November Employment-to-Population Ratios was suggestive of a 9.9% U.3 unemployment rate and a missing 11.1 million employed.

The last time[2] U.3 unemployment rate dropped to 3.8% was in April 2000, with the Employment-to-Population Ratio also hitting an historic high of 64.7%. Detailed in the accompanying footnote, historical consistency would suggest a parallel headline unemployment rate for May 2018 at 9.9%, instead of the headline 3.8%, otherwise with a missing 11.1 million "employed" individuals.

The reason for the heavily-distorted current headline unemployment details, largely is definitional, reflecting the unusual nature of the post-recession drop in headline unemployment. The declining unemployment rate heavily has reflected discouraged and displaced, unemployed persons being defined out of the labor force, instead of the more-traditional and positive circumstance of the unemployed being reemployed.

[Coverage of the Trade Deficit begins on the next page.]

[2] Consider with the May 2018 working-age population of 257.454 million, the implied level of employment, given an historically consistent employment-to-population ratio of 64.7% (last seen when headline unemployment was 3.8% in April 2000) would show 0.647 x 257.454 = 166.573 million employed. Yet, the current headline employed count of 155.474 – 166.573 implied employed = a current shortfall of 11.099 million employed, based on historical norms with a headline unemployment rate U.3 of 3.8%.

To the extent one could count those implied missing employed as unemployed, such would suggest a consistent headline U.3 unemployment rate in May 2018 of 9.9% (Unemployed of 17.164 million = headline 6.065 unemployed + the missing 11.099 employed) / (Labor Force of 172.638 = 155.474 headline employed + the headline unemployed of 6.065 + the missing 11.099 employed). The problem with the assumptions underlying these numbers and concept, again, remains that the economy is not at full employment, as would be suggested normally by a headline 3.8% U.3; there are serious flaws in the surveying and/or definitional concept of U.3.

October 2018 U.S. Trade Deficit

October Deficit Deepened, Third-Quarter Trade Deficit Widened In Revision

Negative Implications for the U.S. Dollar and for Fourth-Quarter GDP Growth

October 2018 Trade Deficit Deteriorated on Top of a Revised, Deeper Third-Quarter 2018 Deficit, With Negative Implications for Third and Fourth-Quarter GDP and the U.S. Dollar. The headline balance of payments October 2018 Trade Deficit deteriorated much as expected, on top of revised, deeper goods and services trade deficits in both third-quarter and second-quarter 2018. Where the initial third-quarter Real Merchandise Trade Deficit had set a record shortfall (see *Commentary No. 976*), it was even worse with the revisions accompanying the October 2018 deficit headlines. Included there were negative implications for the second revision to third-quarter GDP and early negative implications for fourth-quarter GDP (see *Commentary No. 978 – Part II*).

Third-Quarter 2018 Real Merchandise Trade Shortfall Remained the Biggest Deficit in Recorded, Modern U.S. History. The October 2018 balance of payments Trade Deficit (Goods and Services) widened for the month, along with the Real Trade Deficit in Goods. The effect was that the third-quarter 2018 Real Merchandise Trade Deficit—already the worst ever seen in U.S. history—revised into an even slightly deeper shortfall, annualizing out to a revised inflation-adjusted, record quarterly trade shortfall of $1,024.3 billion [previously $1,023.5 billion], up from $929.1 billion in the second-quarter 2018. Separately, the fourth-quarter 2018 Real Merchandise Trade Deficit was on track to hit a new record shortfall of $1,054.6 billion (see *Graphs 17* and *19*). All that was against the prior record Real Merchandise Trade Deficit of $1,005.2 billion of fourth-quarter 2005 (see *Graph 17*).

ShadowStats has been looking at that unfolding circumstance for some time. With no likely major reversal to basic trade flows in the near future, continued trade deterioration has significantly negative implications for both headline GDP growth, and for the exchange-rate value of the U.S. dollar.

The record third-quarter 2018 trade shortfall was confirmed in the second estimate of Third Quarter 2018 GDP, reflected in *Graphs 18* and *20* (see *Commentary No. 978 – Part II*). Discussed also in *Commentary No. 976*, both the aggregate Real Net Exports Deficit (Goods and Services), and the Real Net Exports Deficit (Goods), were at historical levels of shortfall. The plot of the real GDP's Net Exports (Goods) is repeated here as *Graph 18,* complementing *Graph 17* of the Real Merchandise Trade Deficit.

The services area in the GDP always is in surplus, and heavily gimmicked by both creative definitions and inflation measures. Nonetheless, the aggregate real third-quarter 2018 GDP deficit in Net Exports, including both Goods and Services, also hit a record shortfall, as shown in the *Graph 20*, complementing

Graph 19 of the Real Merchandise Trade Deficit, since 1994. Please note that the GDP breakout between goods and services in its Net Exports account is not available from the Bureau of Economic Analysis (BEA) going back before 2002.

October 2018 Nominal Balance of Payments and Real Merchandise Trade Deficits Widened, Third-Quarter Conditions Deteriorated in Revision. The Census Bureau (Census) and the Bureau of Economic Analysis (BEA) reported December 6th that the monthly U.S. Balance of Payments trade deficit widened to $55.488 billion in October 2018, from a revised $54.555 billion [previously $54.019] billion September 2018. That was against a revised $53.685 [previously $53.309, initially $53.237] billion in August 2018 and a revised $50.416 billion [previously $50.037] billion in July 2018. The revisions went back to April 2018, generally reflecting downside revisions to both export and import activity, with downside export revisions outweighing the downside import revisions.

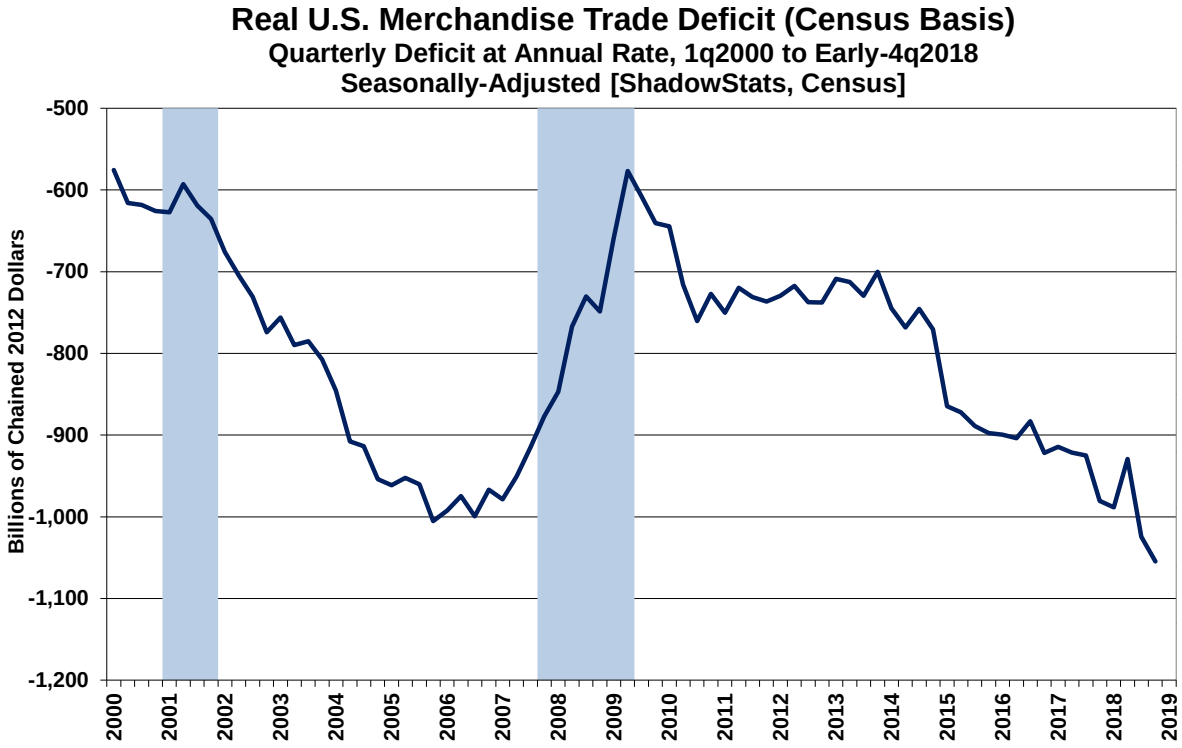
Real Merchandise Trade Deficit – October 2018. Reporting detail for the Real Merchandise Trade Deficit, again, is plotted in *Graph 17* and *19* on a quarterly basis through the record third-quarter 2018 deficit, and the early indications of an even greater trade shortfall in fourth-quarter 2018. The initial estimate of the October 2018 Real Merchandise Trade Deficit (Chained 2012 Dollars) widened to $87.880 billion, from a revised $87.244 [previously $87.042] billion in September, versus an unrevised $86.277 in August, $82.546 in July, $79.219 billion in June, $75.453 billion in May and $77.610 billion in April. The headline real deficit of $87.880 billion in October 2018, widened from $79.660 billion in October 2017.

Noted earlier, the revised third-quarter annualized real merchandise trade deficit of $1,024.3 [previously $1,023.5] billion was the worst in U.S. history, beating the prior record shortfall of $1,005.2 billion of fourth-quarter 2005, and the fourth-quarter 2018 annualized merchandise trade deficit is on early track for a new record of $1,054.6 billion.

Watch Out for the U.S. Dollar! Updated in *Hyperinflation Watch No. 4* – Special Edition, as the deterioration in the real U.S. deficit continues to intensify, fundamental, renewed selling pressure against the U.S. dollar likely will intensify as well. That financial-market circumstance could evolve and deteriorate sharply, as key headline U.S. economic data continue to soften, unexpectedly, and as consensus expectations increasingly begin to turn anew towards the potential for renewed Quantitative Easing out of Fed's Federal Open Market Committee (FOMC), discussed in today's *Opening Comments*.

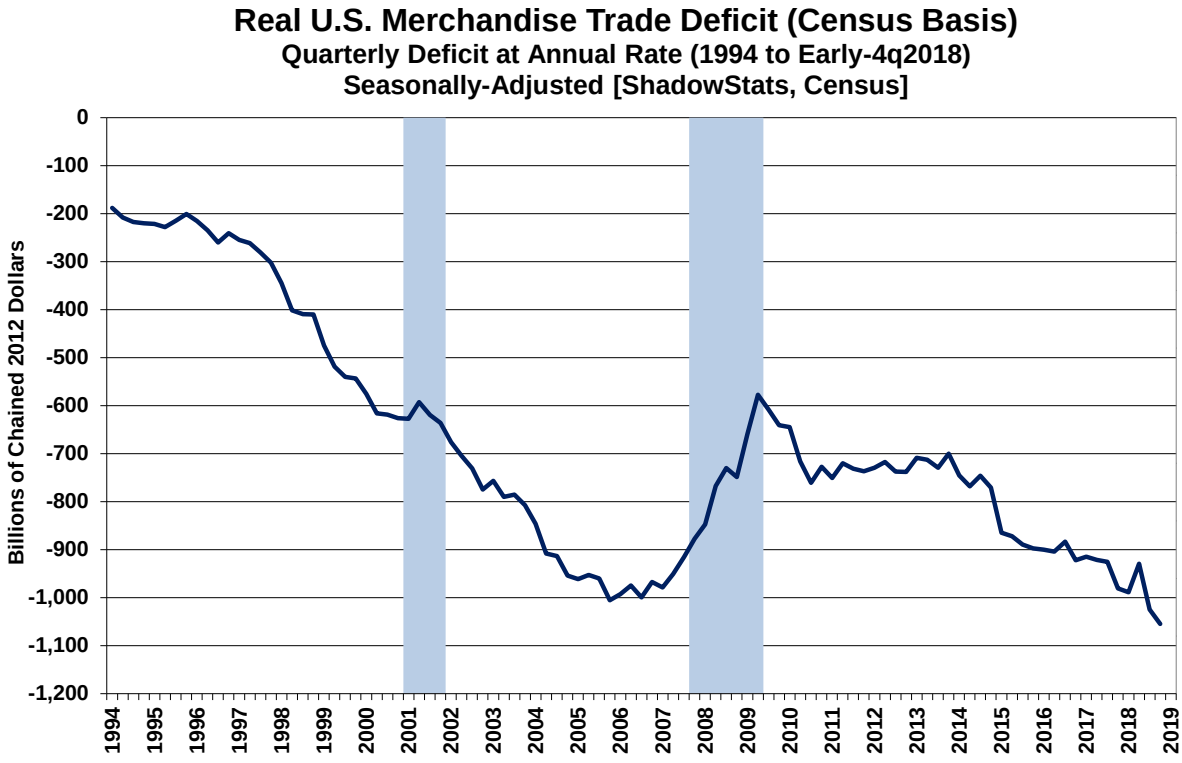
[Graphs 17 to 20 begin on the next page.]

Graph 17: Quarterly Real Merchandise Trade Deficit (First-Quarter 2000 to Early Fourth-Quarter 2018)



Graph 18: Real U.S. Net Exports of Goods (Second Estimate, Third-Quarter 2018 GDP)
(Same as Graph 75 in Commentary No. 978 – Part II)

Graph 19: Quarterly Real Merchandise Trade Deficit (First-Quarter 1994 to Early Third-Quarter 2018



Graph 20: U.S. Net Exports of Goods and Services (1994 to Second-Estimate Third-Quarter 2018 GDP)

Consumer Price Index (November 2018)

Wild, Non-Seasonal Gyrations in Gasoline Prices Have Disrupted Annual Inflation Patterns

Real Earnings Hit by a Reduced Work Week, Despite Boost from Reduced Inflation

Headline Monthly Annual CPI Inflation Is Fluctuating Wildly, as Irregular, Wild Gyrations in Gasoline Prices Both This Year and Last Have Scuttled Near-Term Annual Inflation Stability. November 2018 Consumer Price Index (CPI-U) showed a seasonally adjusted monthly gain of 0.02%, versus 0.33% in October, where a seasonally adjusted monthly drop of 4.20% (-4.20%) in gasoline prices depressed the headline CPI. Irregular and non-seasonal monthly swings in gasoline prices this year and last, from hurricane disruptions to domestic oil production to global political games being played with oil prices, have destabilized patterns of unadjusted year-to-year consumer inflation.

August 2018 to November 2018 unadjusted CPI-U annual inflation rates respectively were 2.70%, 2.28%, 2.52% and the latest 2.18%. That pattern was driven by respective annual gasoline price inflation of 20.27%, 9.10%, 16.10% and the current 4.97%. The November 2018 ShadowStats Alternate CPI (1980 Base) also slowed year-to-year to 9.9%, from 10.3% in October 2018 as a result.

By major CPI-U sector, monthly Food inflation rose to 0.22% in November 2018, having declined by 0.08% (-0.08%) in October. Energy inflation declined by 2.18% (-2.18%) in the month, versus an increase of 2.40% in October, with "Core" inflation (net of food and energy) up by 0.21% in November versus 0.19% in October.

Consumer liquidity stress mounted as Real Average Weekly Earnings for All Employees declined month-to-month by an adjusted 0.09% (-0.09%), versus a revised 0.11% (previously 0.15%) gain in October, reflecting a declining work week in November's softening economy, as opposed to being hit by surging monthly inflation.

Plunging Gasoline Prices Also Should Contain Annual and Monthly Inflation in December 2018, Aiding Consumer Liquidity a Bit. As of the December 17th week, gasoline prices for December 2018 were on track to average out with an unadjusted monthly decline of 9.1% (-9.1%) versus November 2018, per the Department of Energy. Gasoline-price gyrations in the last month have continued meaningfully on the downside. They are likely to reduce annual headline CPI-U inflation further in December 2018 versus November 2018, as discussed later. The weaker the rate of inflation used in

deflating nominal economic activity or income, the stronger will be the inflation-adjusted activity. Declining gasoline prices, as long as they last, will provide some relative liquidity boost/relief to the otherwise liquidity-growth starved U.S. consumer.

As has been the circumstance for oil and gasoline price movements in recent years, where some price movement (decline at present) reflects underlying fundamentals (heavy inventories), the bulk of major price movements usually is driven by external political circumstances, not by domestic economic conditions.

Underlying Common Experience Continues to Confirm Formal Understatement of Headline Inflation, Where Redefined and Understated Inflation Artificially Spikes Inflation-Adjusted Real Growth. Anecdotally, informal surveying by ShadowStats of consumer views, as to the credibility of headline inflation continues to suggest that most individuals believe headline consumer inflation consistently understates their real-world inflation experience. The informal consensus is in the range of a 3% to 4% understatement of headline annual inflation against common experience. That is consistent with the ShadowStats Alternate CPI (versus 1990-based methodologies), and less severe than the 6% to 8% range suggested by the ShadowStats Alternate CPI (1980-based methodologies).

That latter measure, though, is more accurate in terms of the meaningful methodological changes made to CPI reporting, beginning about 1980, which then began to exclude from housing inflation a component measure of the "cost of buying a house." The revamped series shifted over to assessing housing costs as "homeowners equivalent rent." Those all were "guesstimations" by the BLS as to what homeowners would charge themselves to rent their own properties to themselves. The monthly inflation rate then was determined to be the amount of increase in monthly rent that homeowners would charge themselves.

Where this was and is a completely rigged number, the BLS estimated the change in methodology would have the net effect of reducing the headline annual CPI-U inflation rate by 1.4% (-1.4%) per year from what would have been reported otherwise. Where that annual inflation-rate saving was cumulative, that one change knocked about 13.2% off the cumulative level of the headline CPI-U in the first decade. These issues are discussed in the *Alternate Consumer Inflation Measures* section.

Specifically, with the headline unadjusted annual November 2018 CPI-U inflation up by 2.2%, year-to-year inflation is not and has not been quite as low as indicated, when considered in the context of traditional CPI reporting and common experience. Moving on top of the unadjusted annual changes to the CPI-U, the ShadowStats-Alternate Inflation Measures showed year-to-year inflation in November 2018 at 5.8%, based on pre-Clinton-gimmicked 1990 methodologies, and at 9.9%, based on 1980 methodologies. Detailed in *Public Commentary on Inflation Measurement*, inflation based on common experience is much worse than the headlines, both as experienced by individual consumers, as well as by the business community (also see the discussion on Real Average Weekly Earnings and related *Graph 24*).

Longer-Range Inflation Outlook. Despite U.S. dollar strength of recent years, and what had been accelerating, then faltering dollar strength, subsequent to the post-2016 election euphoria, the dollar recently had seen fairly regular and intensifying selling pressure, then a reversal to the upside, and ongoing mixed pressures, amidst the equity markets and mounting expectations of political-system instabilities. Much of what happens here had reflected market expectations of continuing FOMC rate hikes in the United States, and recent indications by the European Central Bank (ECB) that it might hold off another year or so to raise rates (see *Hyperinflation Watch No. 4* – Special Edition). In the context

of early indications in recent days of the FOMC shifting to more "dovish" monetary policies (see today's *Opening Comments*), downside risks for the dollar and broad financial-market instabilities are mounting rapidly.

In the context of today's *Opening Comments*, and as regularly discussed here, as reflected, again, in *Hyperinflation Watch No. 4*, a tremendous threat to the dollar, systemic U.S. liquidity and financial-market stability remains tied to the U.S. Federal Reserve's fundamental inability to resolve the 2008 financial collapse, other than having bought finite time with emergency, stopgap measures and extraordinary jawboning and financial-market interventions. The proximal trigger here for potential shifts in FOMC policies remains tied to the now-unfolding "unexpected" economic weakness. In a related matter, also with potential for triggering crisis-level disruptions in the global currency and financial markets, are rapidly deteriorating, long-term U.S. sovereign-solvency issues and deteriorating political conditions in Washington, D.C..

Recent FOMC tightenings have been despite continued, lack of full-economic recovery from the 2008 collapse. That is in terms of the banking system, where real consumer credit outstanding still has not expanded beyond pre-recession levels, as also confirmed by in the recently-published, second- and third-quarter analyses out of the Federal Reserve and New York Fed (see *Graphs 15* to *16* in *Consumer Liquidity Watch No. 5*). These issues also are evident in terms economic activity, with industries such as Manufacturing and Construction, which have yet to expand beyond pre-2007 recession levels.

How could the FOMC boast an expanding economy, when Main Street U.S.A. broadly still was not seeing it, and where Income Variance, as recently published by the Commerce Department (see *Commentary No. 969-Extended*) is at extremes rarely seen, except before the greatest financial market calamities?

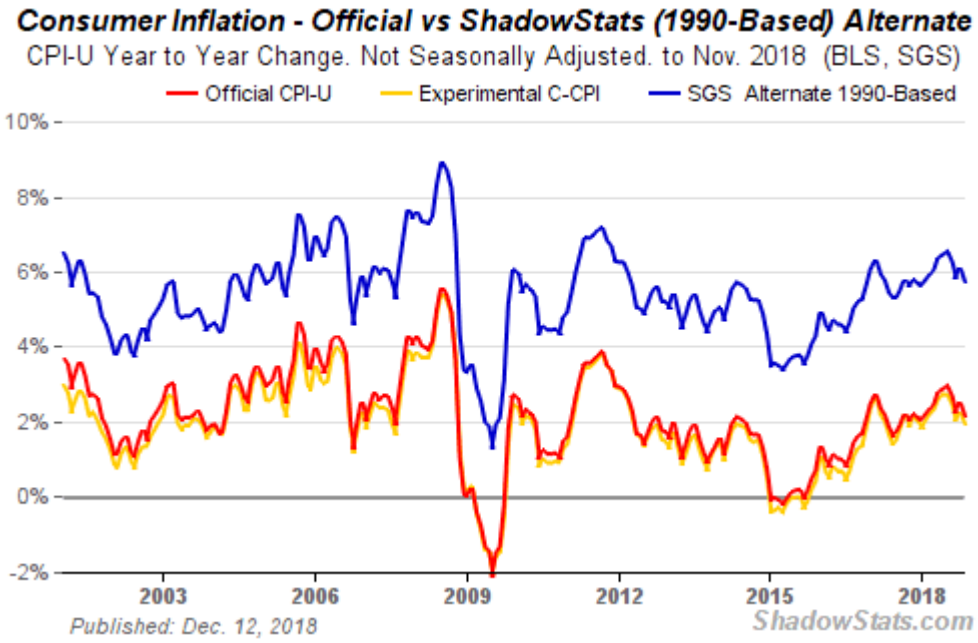
Headline series such as Retail Sales and Industrial Production have not booming month-to-month (see *Commentary No. 978 - Part I* and *Commentary No. 978 – Part II* and pending *Commentary No. 980)*. These indicators remain in the realm of "adverse" economic circumstances once feared by former Fed Chair Janet Yellen, which now have begun to unfold for a number of series and appear likely to have triggered some of the early, cautious talk of pullback by the FOMC in reversing its Quantitative Easing programs.

Despite the headline booming third-quarter 2018 GDP, the financial markets, particularly the global currency markets versus the U.S. dollar, increasingly should pick up on renewed faltering of U.S. basic and broad economic activity and on intensifying long-range U.S. Treasury solvency concerns. Where *Commentary No. 974* speculated, "Fed Chairman Powell's response to these unfolding adverse circumstances should be forced within the near future," that day of reckoning was pushed back a bit at today's FOMC Meeting, as discussed in today's *Opening Comments*.

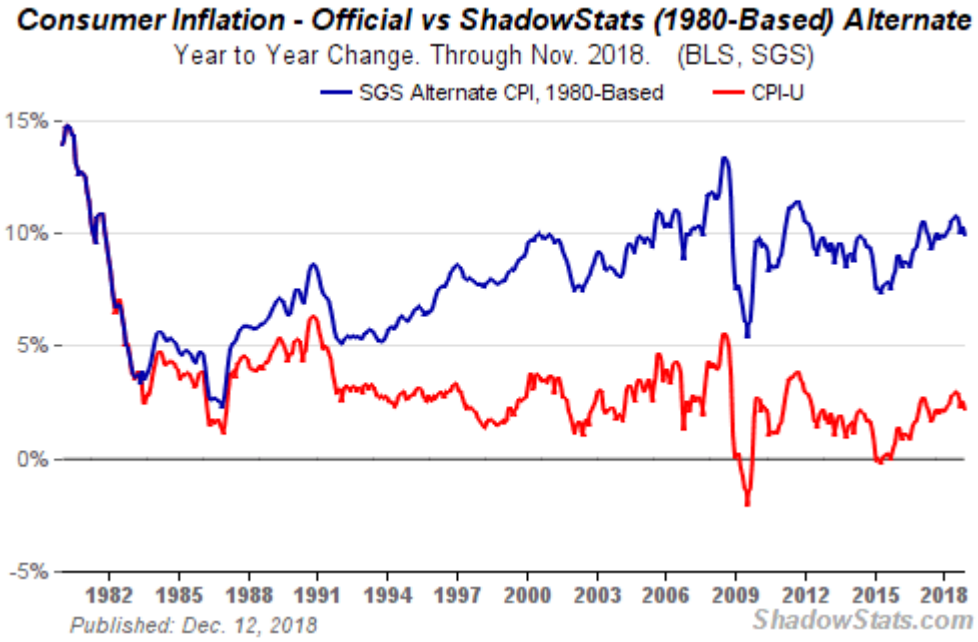
Out of necessity, the U.S. central bank has been forced to and continues to prop domestic banking-system liquidity against an ongoing gale of renewed, economically driven, banking-system solvency and liquidity issues. Those pressures were masked, and then intensified, by natural disasters of the last year or so, rapidly intensifying political discord in Washington and mounting global political instabilities. Despite strong speculation and protestations to the contrary, and promised tightening into December 2018, and now into 2019, the FOMC likely will have to renew/expand Quantitative Easing, early in 2019, as the unfolding "new" recession begins to gain broad recognition.

Compounding the high-risk of an increasing near-term run on the U.S. dollar remains an intensifying shift in the global markets towards recognition of the Fed's conundrum, again, particularly amidst mounting concerns as to U.S. fiscal and political stability. The Federal Reserve and other central banks still have no effective idea as to how to boost current economic activity, how to stabilize global banking-system solvency, or otherwise how to slog their way out of a self-generated quagmire. That circumstance only can be exacerbated by intensifying economic and political uncertainties (see *Hyperinflation Watch No. 4*).

Graph 21: Comparative Headline Year-to-Year Change, CPI-U vs. ShadowStats 1990-Based Alternate



Graph 22: Comparative Headline Year-to-Year Change, CPI-U vs. ShadowStats 1980-Based Alternate



Notes on Different Measures of the Consumer Price Index

The Consumer Price Index (CPI) is the broadest inflation measure published by the U.S. Government, through the Bureau of Labor Statistics (BLS), Department of Labor:

*The **CPI-U (Consumer Price Index for All Urban Consumers)** is the monthly headline inflation number (seasonally adjusted) and is the broadest in its coverage, representing the buying patterns of all urban consumers. Its standard measure is not seasonally-adjusted, and it never is revised on that basis except for outright errors.*

*The **CPI-W (CPI for Urban Wage Earners and Clerical Workers**) covers the more-narrow universe of urban wage earners and clerical workers and is used in determining cost of living adjustments in government programs such as Social Security. Otherwise, its background is the same as the CPI-U.*

*The **C-CPI-U (Chain-Weighted CPI-U)** was an experimental measure—now set to go active, formally, with pending 2017 Tax Reform (see the Opening Comments)—where the weighting of components is fully substitution based. It generally shows lower annual inflation rate than the CPI-U and CPI-W. The latter two measures once had fixed weightings—so as to measure the cost of living of maintaining a constant standard of living—but now are quasi-substitution-based. Since it is fully substitution based, the series tends to reflect lower inflation than the other CPI measures. Accordingly, the C-CPI-U is the "new inflation" measure being proffered by Congress and the White House as a tool for reducing Social Security cost-of-living adjustments by stealth. Moving to accommodate the Congress, the BLS introduced changes to the C-CPI-U estimation process with the February 26, 2015 reporting of January 2015 inflation, aimed at finalizing the C-CPI-U estimates on a more-timely basis, and enhancing its ability to produce lower headline inflation than the traditional CPI-U.*

*The **ShadowStats Alternative CPI-U Measures** are attempts at adjusting reported CPI-U inflation for the impact of methodological change of recent decades designed to move the concept of the CPI away from being a measure of the cost of living needed to maintain a constant standard of living. There are two measures, where the first is based on reporting methodologies in place as of 1980, and the second is based on reporting methodologies in place as of 1990.*

CPI-U. The Bureau of Labor Statistics (BLS) reported December 12th that the headline, seasonally-adjusted November 2018 CPI-U inflation was "unchanged" at 0.0% [up by 0.02% at the second decimal point], having increased month-to-month by 0.3% [0.33%] in October, 0.1% [0.06%] in September, 0.2% [0.22%] in August, 0.2% [0.17%] in July, 0.1% [0.13%] in June, 0.2% [0.21%] in May, 0.2% [0.22%] in April, declined by 0.1% (-0.1%) [0.06% (-0.06%)] in March, having gained 0.2% [0.15%] in February, 0.5% [0.54%] in January, 0.2% [0.20%] in December 2017, 0.3% [0.34%] in November, and 0.1% [0.08%] in October.

Unadjusted, monthly November 2018 CPI-U declined by 0.33% (-0.33%), having gained 0.18% in October, 0.12% in September, 0.06% in August, 0.01% in July, 0.16% in June, 0.42% in May, 0.40% in April, 0.23% in March, 0.45% in February, 0.54% in January, having declined 0.06% (-0.06%) in December 2017, unchanged at 0.00% in November and having declined in October by 0.06% (-0.06%).

Major CPI-U Groups. The lower November 2018 CPI-U month-to-month inflation reflected a monthly decline in Energy costs versus gains in Food prices and "Core" inflation. By the numbers, the November 2018 CPI-U seasonally-adjusted monthly inflation of 0.02% [down by 0.33% (-0.33%) unadjusted] was against an adjusted 0.33% [unadjusted 0.18%] October monthly gain.

That encompassed a "Core" (ex-food and energy) November 2018 monthly inflation rate of 0.21% [up by 0.02% unadjusted], previously a monthly October inflation rate of 0.19% [up by 0.25% unadjusted].

Monthly Food prices gained by a seasonally adjusted 0.22% [0.01% unadjusted] in November 2018, versus an adjusted decline of 0.08% (-0.08%) [down 0.01% (-0.01%) unadjusted] in October.

Despite distortions in annual comparisons, Energy sector inflation dropped in the month of November 2018 by 2.18% (-2.18%) [down by 4.36% (-4.36%) unadjusted], having jumped in the month of October by an adjusted 2.40% [down by 0.18% (-0.18%) unadjusted].

Related gasoline costs fell by an adjusted 4.20% (-4.29%) [7.25% (-7.25%) unadjusted] month-to-month in November 2018, having gained an adjusted 3.00% month-to-month [0.63% unadjusted] in October.

Holding within FOMC expectations, unadjusted annual November 2018 "Core" CPI-U topped the targeted 2.0% annual inflation rate for the ninth consecutive month, rising to 2.21% in November 2018, versus 2.14% in October 2018, 2.17% in September 2018 and 2.20% in August 2018, where August had eased back from 2.35% in July 2018. Such was against annual inflation of 2.26% in June 2018, 2.24% in May 2018, 2.14% in April and 2.12% in March, where the March 2018 annual core inflation had broken above the Fed's announced 2.0% target for the first time since February 2017. As of February 2018, the "Core" rate had held range-bound for eleven straight months (since April 2017) at 1.8% +/- 0.1%.

Year-to-Year CPI-U. Not seasonally adjusted, year-to-year inflation for the November 2018 CPI-U eased to 2.2% [2.18% at the second decimal point (see the opening discussion in this CPI section on year-to-year inflation instabilities tied to irregular gasoline price volatility)], from 2.5% [2.52%] in October 2018. That followed gains of 2.3% [2.28%] in September 2018, 2.7% [2.70%] in August 2018, 2.9% [2.95%] in July 2018, 2.9% [2.87%] in June 2018, 2.8% [2.80%] in May 2018, 2.5% [2.46%] in April 2018, 2.4% [2.36%] in March 2018, 2.2% [2.21%] in February 2018, 2.1% and [2.07%] in January 2018. Annual inflation of 2.1% [2.11%] in December 2017 followed 2.2% [2.20%] in November 2017.

Year-to-year, CPI-U inflation would increase or decrease in next month's December 2018 reporting, dependent on the seasonally-adjusted, month-to-month change, versus the adjusted, headline monthly gain of 0.30% in the December 2017 CPI-U. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for December 2018, the difference in December's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the unadjusted November 2018 annual inflation rate of 2.18%. Given an early guess of a seasonally-adjusted monthly decline of 0.1% (-0.1%) in the December 2018 CPI-U, that would leave the annual CPI-U inflation rate for December 2018 around 2.1% plus-or-minus (reflecting declining gasoline prices in the last month).

Quarterly CPI-U. On a seasonally-adjusted annualized quarter-to-quarter basis, CPI-U rose by 2.00% in third-quarter 2018, having gained 1.66% in second-quarter 2018, 3.51% in first-quarter 2018, 3.31% in fourth-quarter 2017, 2.13% in third-quarter 2017, 0.10% in second-quarter 2017 and 2.96% in first-quarter 2017.

On an unadjusted, year-to-year basis, headline annual inflation by quarter was up by 2.64% in third-quarter 2018, versus 2.71% in second quarter 2018, 2.21% in first-quarter 2018, 2.12% in fourth-quarter 2017, 1.97% in third-quarter 2017, 1.90% in second-quarter 2017 and 2.54% in first-quarter 2017.

Annual Average CPI-U. The unadjusted annual average CPI-U inflation rate was 2.13% in 2017, versus 1.26% in 2016 and 0.12% in 2015.

CPI-W. The November 2018 seasonally-adjusted, headline CPI-W, which is a narrower series than the CPI-U and traditionally has greater weighting for gasoline than the CPI-U, declined month-to-month by 0.04% (-0.04%), following monthly gains of 0.40% in October, 0.03% in September, 0.27% in August, 0.15% in July, 0.14% in June, 0.23% in May and 0.26% in April, a decline of 0.16% (-0.16%) in March, gains of 0.11% in February, 0.62% in January, 0.19% in December 2017 and 0.43% in November.

On an unadjusted basis, year-to-year CPI-W gained by 2.19% in November 2018 2.69% [again see the earlier discussion in this CPI section on unstable and irregular gasoline prices] having gained 2.69% in October 2018, 2.88% in August 2018, 3.16% in July 2018, 3.09% in June 2018, 3.00% in May 2018, 2.59% in April 2018, 2.44% in March 2018, 2.32% in February 2018, 2.14% in January 2018, 2.18% in December 2017 and 2.32% in November 2017.

Quarterly CPI-W. On an annualized quarter-to-quarter basis, seasonally-adjusted CPI-W rose by 2.04% in third-quarter 2018, versus 1.57% in second-quarter 2018, 3.70% in first-quarter 2018, 3.75% in fourth-quarter 2017, 2.26% in third-quarter 2017, having declined by 0.26% (-0.26%) in second-quarter 2017 and having gained by 3.04% in first-quarter 2017.

On an unadjusted year-to-year basis, annual inflation by quarter rose by 2.79% in third-quarter 2018, versus 2.89% in second-quarter 2018, 2.30% in first-quarter 2018, 2.18% in fourth-quarter 2017, 1.96% in third-quarter 2017, 1.80% in second-quarter 2017 and 2.56% in first-quarter 2017.

Annual CPI-W. The unadjusted annual average CPI-W inflation rate was 2.13% in 2017, versus an average gain of 0.98% in 2016 and an average contraction of 0.41% (-0.41%) in 2015.

Chained-CPI-U. The headline C-CPI-U is not seasonally adjusted, and standardly is revised quarterly for the prior year. In the July 2018 reporting, year-to-year inflation rates revised lower by 0.175% (-0.175%) for each month back through September 2017. October 2018 headline details also underwent quarterly revisions, but they were unusually minimal, with upside revisions of 0.052% in annual inflation for October 2017 and 0.004% for November 2017, followed by subsequent downside annual revisions of 0.014% (-0.014%) to 0.015% (-0.015%) in each month from December 2017 through September 2018.

The unadjusted annual inflation rate for the C-CPI-U in November was 1.97% , versus 2.26% in October 2018, 2.03% in September 2018, 2.46% in August 2018, 2.70% in July 2018, 2.53% in June 2018, 2.43% in May 2018, 2.12% in April 2018, 1.99% in March 2018, 1.80% in February 2018, 1.63% in January 2018, 1.69% in December 2017 and 1.80% in November 2017. This ongoing accounting fraud was set up during the Clinton Administration and the Congress of the time, along with the support of the Greenspan Federal Reserve. The openly stated intent of introducing the C-CPI-U was to reduce (artificially reduce, deliberately understate) the annual Cost of Living Adjustments (COLA) for Social Security recipients, as it had been defined and intended originally, as well as to boost taxpayers artificially into higher tax brackets.

Through multiple downside quarterly revisions, the level of the headline C-CPI-U Index has been reduced by 0.35% from its original headline reporting level, beyond the initially understated headline reporting. These quarterly "revisions" clearly are plug numbers, not actual revisions to underlying calculations with better numbers. While these bogus numbers indeed now are boosting taxpayers artificially into higher tax brackets, the Congressional miscreants have not had the courage, yet, to debase further the COLA for Social Security, although the C-CPI-U initially was designed specifically for that purpose. Give them time. Other gimmicks, however, have been used in the interim.

Discussed last two months back, based on the currently-defined CPI-W (otherwise artificially understated in recent decades) Social Security COLA adjustment will is 2.8% for 2019. It would have been 2.4% if the intended C-CPI-U, based on September 2018 reporting, were fulfilling its intended role.

Given last month's revisions, that still would be 2.4% (2.39% versus 2.41% if the detail were calculated to the second decimal point).

Quarterly C-CPI-U, Year-to-Year. On an unadjusted, year-to-year basis, annual inflation by quarter was up by 2.39% in third-quarter 2018 (planned future COLA calculation basis), 2.36% in second-quarter 2018, 1.81% in first-quarter 2018, 1.71% in fourth-quarter 2017, 1.56% in third-quarter 2017, 1.50% in second-quarter 2017 and 2.30% in first-quarter 2017.

Annual Average C-CPI-U. The annual average C-CPI-U inflation rate was 1.76% in 2017, versus 0.93% in 2016 and contraction of 0.12% (-0.12%) in 2015. Again, for contrast, the heavily gimmicked and understated CPI-U showed unadjusted annual average CPI-U inflation rate at 2.13% in 2017, versus 1.26% in 2016 and 0.12% in 2015.

See the *Opening Comments* of *Commentary No. 945* and *Commentary No. 920* as to the impact of the adoption of this measure and its costs to the tax-paying public in the recent overhaul of federal income taxes. Also, see discussions in the earlier *Commentary No. 721* and in the opening notes in the *CPI Section* of *Commentary No. 699* as to the most-recent changes in the series. More-frequent revisions and earlier finalization of monthly detail broadly have been designed to groom the C-CPI-U series as the new Cost of Living Adjustment (COLA) index of choice for the increasingly budget-deficit-strapped federal government, as discussed in the *Public Commentary on Inflation Measurement*.

Caution: Artificially-low inflation numbers estimated by the U.S. Government and used in fields ranging from Social Security COLAs (see the 2017 CPI-W estimate discussion in *Commentary No. 841*) to determining income-tax brackets, have been redesigned in recent decades specifically to help reduce the federal deficit. They are harmfully misleading to anyone using a government CPI estimate as a meaningful cost-of-living measure for guidance on income or investment purposes.

Alternate Consumer Inflation Measures. The ShadowStats-Alternate Consumer Inflation Measures are constructed on top of the unadjusted CPI-U series. Adjusted to 1990 methodologies—the ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—year-to-year annual inflation was roughly 5.8% in November 2018, versus 6.1% in October 2018, 5.9% in September 2018, 6.3% in August 2018, 6.5% in July 2018, 6.4% in June 2018, 6.4% in May 2018, 6.0% in April 2018, 5.9% in March 2018, 5.8% in February 2018, 5.6% in January 2018, 5.7% in December 2017 and 5.8% in November 2017. Those data are reflected in *Graph 1*.

The November 2018 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 9.9% (9.92% at the second decimal point), versus 10.3% (10.29%), versus 10.0% (10.03%) in September 2018, 10.5% (10.48%) in August 2018, 10.8% (10.75%) in July 2018, 10.7% (10.67%) in June 2018, 10.6% (10.59%) in May 2018, 10.2% (10.23%) in April 2018, 10.1% (10.12%) in March 2018, 10.0% (9.96%) in February 2018, 9.8% (9.81%) in January 2018, 9.8% (9.85%) in December 2017 and 9.9% (9.95%) in November 2017. Those data are reflected in *Graph 2*. Historical monthly detail and a related inflation calculator are found in the CPI section of the Alternate Data tab of the ShadowStats home page: www.ShadowStats.com.

Note: The ShadowStats-Alternate Consumer Inflation Measures largely have been reverse-engineered from BLS estimates of the anticipated impact on annual CPI inflation from various changes made to CPI reporting methodology since the early 1980s, as also incorporated in the CPI-U-RS series. That series provides an official estimate of historical inflation, assuming that all current methodologies were in place going back in time. The changes reflected there are parallel with and of the same magnitude of change as estimated by the BLS, when a given methodology was changed.

The ShadowStats estimates are adjusted on an additive basis for the cumulative impact on the annual inflation rate from the various BLS changes in methodology (reversing the net aggregate inflation reductions by the BLS). The series are adjusted by ShadowStats for those aggregate changes, but the series otherwise are not recalculated.

Over decades, the BLS has altered the meaning of the CPI from being a measure of the cost of living needed to maintain a constant standard of living, to something that neither reflects the constant-standard-of-living concept nor measures adequately what most consumers view as out-of-pocket expenditures. Roughly five percentage points of the additive ShadowStats adjustment since 1980 reflect the BLS's formal estimate of the annual impact of methodological changes; roughly, two percentage points reflect changes by the BLS, where ShadowStats has estimated the impact not otherwise published by the BLS. For example, the BLS does not consider more-frequent weightings of the CPI series or shifting the nature of retail outlets to be changes in methodology. Yet those changes have had the effect of reducing headline inflation from what it would have been otherwise (see the Public Commentary on Inflation Measurement and the discussion prior Commentary No. 969-Extended for further details).

[Details on Gold and Silver Prices versus Inflation Measures follow on the next page.]

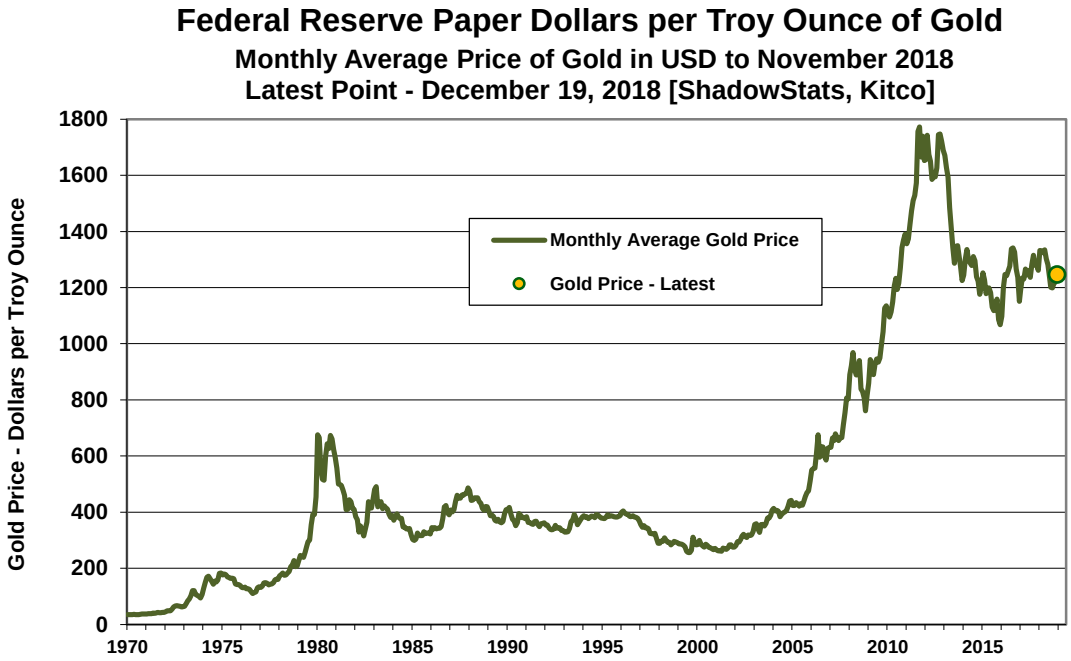
Gold and Silver Historic High Prices Adjusted for November 2018 CPI-U/ShadowStats Inflation

CPI-U: GOLD at $2,754 per Troy Ounce, SILVER at $160 per Troy Ounce
ShadowStats: GOLD at $16,145 per Troy Ounce, SILVER at $939 per Troy Ounce

Despite the September 5, 2011 historic-high gold price of $1,895.00 per troy ounce (London afternoon fix), and despite the multi-decade-high silver price of $48.70 per troy ounce (London fix of April 28, 2011), gold and silver prices have yet to re-hit their 1980 historic levels, adjusted for inflation. The earlier all-time high of $850.00 (London afternoon fix, per Kitco.com) for gold on January 21, 1980 would be $2,754 per troy ounce, based on November 2018 CPI-U-adjusted dollars, and $16,145 per troy ounce, based on November 2018 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (all series here are not seasonally adjusted).

In like manner, the all-time high nominal price for silver in January 1980 of $49.45 per troy ounce (London afternoon fix, per silverinstitute.org)—although approached in 2011—still has not been hit since 1980, including in terms of inflation-adjusted dollars. Based on November 2018 CPI-U inflation, the 1980 silver-price peak would be $160 per troy ounce, $939 per troy ounce in terms of the November 2018 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (again, all series not seasonally adjusted).

Graph 23: Monthly Average Gold Price in Dollars (Federal Reserve Notes)

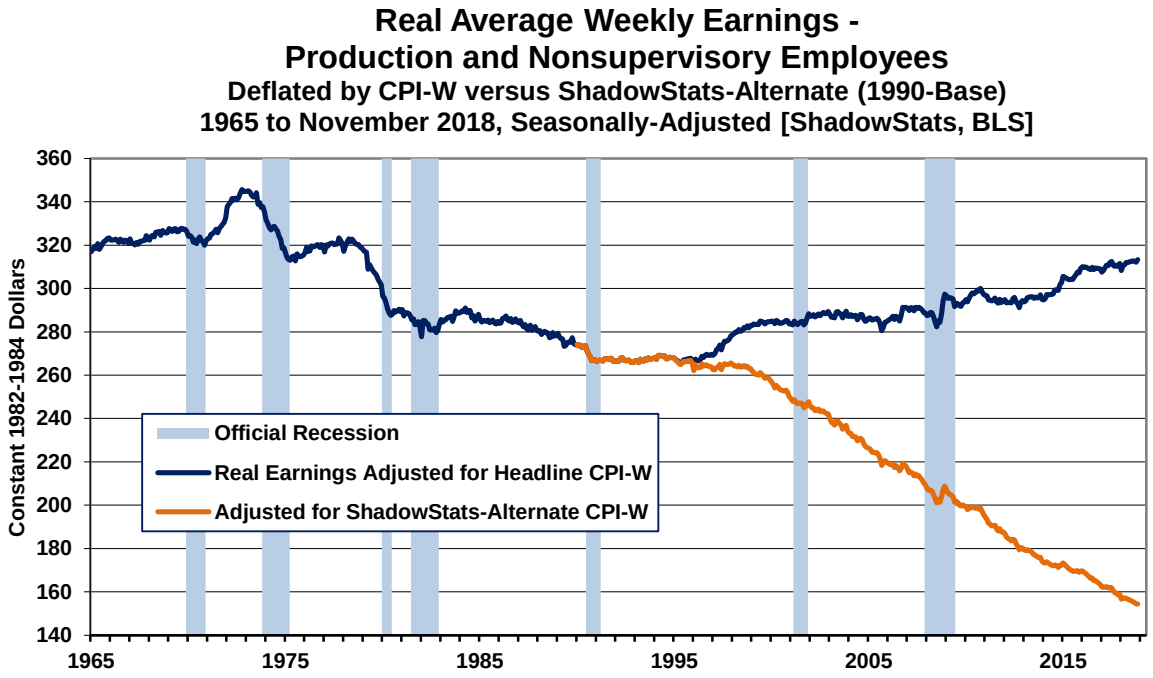


Graph 23 shows the regular historical plot of nominal gold prices, usually published along with monthly CPI *Commentary*, with extended graphs in *Hyperinflation Watch No. 4*. As economic expectations increasingly take hits in the weeks and months ahead, the dollar should continue to back off its recent strength, losing ground against both gold and the stronger currencies such as the Swiss France (CHF). Recent, relative short-term U.S. dollar strength has proved somewhat fleeting (again, as expanded upon in the *Hyperinflation Watch*), in what quickly could become a highly inflationary circumstance for those living in a U.S. dollar-denominated world.

Shown in *Table 1* on page 47 of *No. 859 Special Commentary*, and in *Table INFLATION-1* on page 46 of *Special Commentary No. 935*, over the decades, the increases in gold and silver prices have compensated for more than the loss of the purchasing power of the U.S. dollar as reflected by CPI inflation. The precious metals also (particularly gold in the last year) effectively have come close to fully compensating for the loss of purchasing power of the dollar based on the ShadowStats-Alternate Consumer Price Measure (1980-Methodologies Base).

Real Average Weekly Earnings—November 2018—Continued to Falter for Both the "Production and Nonsupervisory Employees" and "All Employees" Categories. Consumer liquidity stresses continued in November 2018, with continued faltering of Real Average Weekly Earnings, as reported December 12th by the Bureau of Labor Statistics (BLS) along with the headline CPI-W and CPI-U. These series also were reviewed in *Consumer Liquidity Watch No. 5* of November 21st (updated here). Where sharply declining gasoline prices actually helped real consumer earnings in November, a softening economy and a declining average work week actually turned real average weekly earnings (all employees) negative for the month.

Graph 24: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date
(Updates Graph 5 in Consumer Liquidity Watch No. 5)



Deflated by CPI-W inflation, real average weekly earnings for the "Production and Nonsupervisory Employees" category gained 0.34% month-to-month in November 2918, having declined in October by a revised 0.14% (-0.14%) [previously down by 0.09% (-0.09%) in October 2018, having declined by 0.06% (-0.06%) in September, with unadjusted annual real earnings gaining year-to-year by 0.78% in November 2018, having declined year-to-year by a revised 0.98% (-0.98%) [1.08% (-1.08%)] in October 2018 and having gained a revised 2.18%, previously 2.22% in September 2018.

Beyond the unstable surveying and revisions tied to related monthly revisions to the labor surveying, the irregularly depressed annual inflation rates used for September and November and the effect of spiking the annual real change.

Against a first-quarter 2018 annualized quarterly contraction of 1.22% (-1.22%) in real earnings and unadjusted 0.06% year-to-year growth then, second-quarter 2018 showed an annualized quarterly gain of 2.87%, up by an annual 0.45%, with third-quarter 2018 annualized growth dropping to a revised 0.64% [previously 0.63%], up by a revised 0.80% [previously 0.82%] year-to-year. The early trend for fourth-quarter 2018 real earnings (two months through November) was for an annualized quarterly gain of 0.15% , with a year-to-year gain of 0.15%.

That first-quarter 2018 quarterly contraction was the third-consecutive annualized contraction in real average weekly earnings, the fifth quarterly decline in the prior six quarters. Fourth-quarter 2017 earnings showed an annualized drop of 0.39% (-0.39%), versus a minimal decline of 0.03% (-0.03%) in third-quarter 2017, a gain of 3.48% in second-quarter 2017, and contractions of 0.84% (-0.84%) in first-quarter 2017 and 0.18% (-0.18%) in fourth-quarter 2016.

The production and nonsupervisory category is the only series for which there is a meaningful history, and *Graph 24* plots those seasonally-adjusted earnings as officially deflated by the BLS (blue line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (orange line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating Social Security cost-of-living adjustments) helped to prop up the reported real earnings. Mathematically, when understated inflation is used to deflate income or economic growth, it ends up overstating the inflation-adjusted growth rate.

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

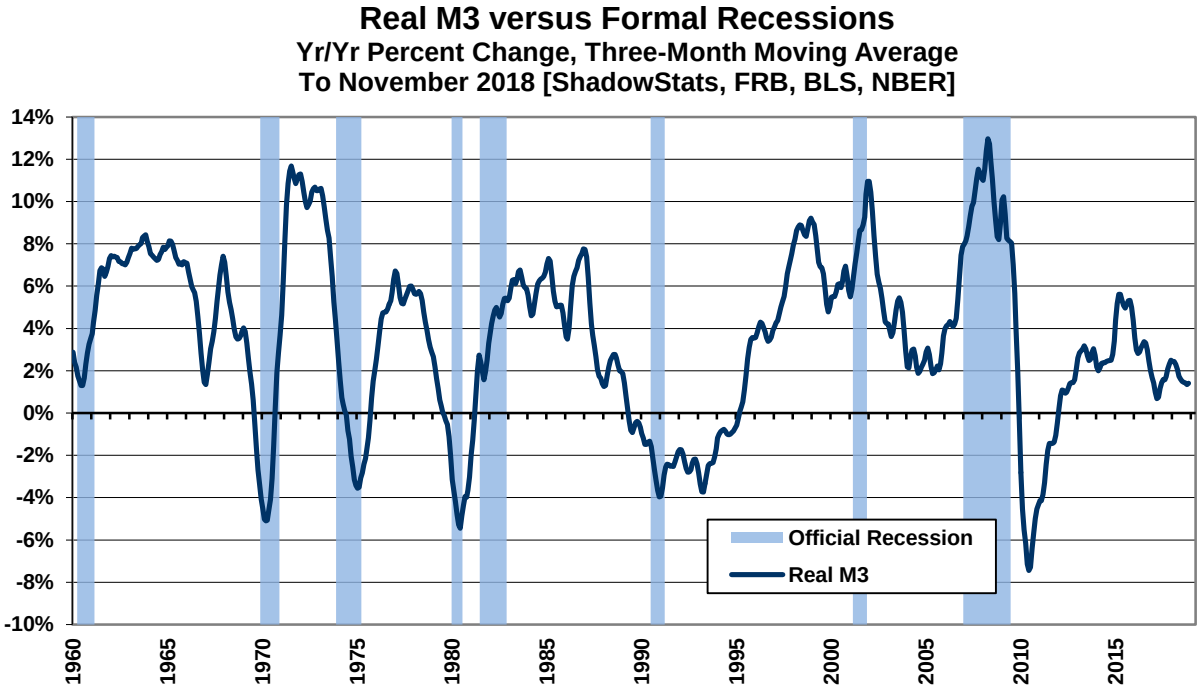
All Employees Detail, Average Real Weekly Earnings Drooped in November, Due to a Declining Work Week. In the broader "All Employees" category (deflated by the CPI-U), which has a more-limited history than the "Production and Non-Supervisory Employees" category, real weekly earnings declined month-to-month by and adjusted 0.09% (-0.09%), having gained a downwardly revised 0.11% [previously 0.15%] in October 2018, having declined by 0.06% (-0.06%) in September. Those same real earnings gained year-to-year for all employees in November 2018 by 0.91% (again spiked by the artificially low headline inflation), versus an unrevised annual decline of 1.26% (-1.26%) in October 2018, after gaining an unrevised 2.72% in September 2018.

Having followed a broadly similar pattern in 2018 to the reporting of the "Production and Nonsupervisory Employees" in the first three quarters of 2018, the "All Employees" varied in its early trend for fourth-quarter 2018 real earnings, increasing at an annualized quarterly pace of 0.30%. The early trend in year-to-year growth, however was for a year-to-year decline of 0.15% (-0.15%).

A Leading Indicator to Broad Economic Activity, Real Money Supply M3—November 2018—Annual Change Bounced to 1.52%, from 1.26% (October) 1.57% (September) 2018, reflecting Unstable Annual CPI-U Inflation. Annual growth in nominal October 2018 M3, notched lower, but annual CPI-U inflation notched even lower, heavily distorted by a crosscurrent of unstable gasoline prices in both 2017 and 2018. Accordingly annual real growth in Money Supply M3 declined to rose to 1.52% in November 2018, versus 1.25% in October 2018, 1.57% in September 2018, versus a sixteen-month low 1.21% August 2018. August 2018 M3 annual growth had declined at a faster pace than annual CPI-U inflation, which also was depressed artificially on the downside (meaning that comparable headline annual inflation would have been higher/real M3 annual growth lower) by year-ago gasoline-price distortions.

Nominal annual growth in November 2018 M3 eased to 3.70%, from 3.77 in October 2018, from a 3.85% in September 2018 and 3.91% in August 2018. At the same time, year-to-year change in the November 2018 CPI-U dropped to 2.18%, versus 2.52% in October 2018, 2.28% in September 2018 and versus 2.70% in August 2018. That combination, again, took the level of real or inflation-adjusted annual M3 growth to 1.52% in November 2018, versus 1.25% in October 2018, 1.57% in September 2018 and 1.21% August 2018. Net of the year-to-year gasoline-price distortions that suppressed current headline annual inflation, the series is close to generating a "hard" signal for recession.

Graph 25: Real Annual M3 Growth versus Formal Recessions (1960 to November 2018)



On a quarterly basis, third-quarter 2018 annual real growth in Money Supply M3 stood at 1.42%, down from 1.60% in second-quarter 2018, the weakest since 0.68% in first-quarter 2017, which was the weakest seen since a long series of outright monthly year-to-year contractions throughout 2010 and 2011. Net of year-ago hurricane disruptions to current annual CPI inflation, third-quarter 2018 annual real growth in

Money Supply M3 would have been 1.22% (instead of 1.47%). Again, the system is close to generating a formal recession signal.

The signal for a double-dip, multiple-dip or simply protracted, ongoing recession, based on annual contraction in the real broad money supply (M3), had been re-triggered/intensified over a year ago, in February 2017. Yet, that signal then softened or flattened out with a contrary bounce from May 2017 into December 2017, turning down anew after the Federal Reserve's Federal Open Market Committee (FOMC) began more-aggressive tightening in December 2017. The previous recession signal of December 2009 had remained in place, despite real annual M3 growth having rallied into positive territory post-2011.

[Note: If realistic, not headline, inflation numbers were used here, there would be no question of an ongoing negative real annual growth in M3, or a renewed deepening of the economic collapse into 2009, as discussed in *Commentary No. 957* and *Public Commentary on Inflation Measurement*.]

FOMC Policy Is Setting Up a Formal, "New" Economic Downturn. A formal recession signal from low-level or negative annual real money supply growth has become increasingly likely in the near term. That reflects a continued, general weakening trend in nominal annual M3 growth, driven by FOMC policy, in combination with a continued (renewed) albeit currently fluctuating pick-up in annual CPI inflation. Headline inflation generally had surged recently, driven by unstable political/supply conditions in the oil markets, not by an overheating U.S. economy that the FOMC has tended to tout this year as the reason for its continued spiking of interest rates (see the discussion in *Hyperinflation Watch No. 4* – Special Edition).

Reflected in *Graph 25*, and noted in prior section, third-quarter 2018 annual real growth in Money Supply M3 stood at 1.47%, its weakest showing in more than year, closing rapidly on signaling a downturn, when annual inflation reporting returns to normal.

What recently had been higher, albeit tepid, real annual growth likely was a temporary reversal in the pattern of plunging annual growth, which had held at levels last seen in plunging growth into the 2009 economic collapse, a level never seen outside an economy falling into, or already in a recession (see *Hyperinflation Watch No. 4* – Special Edition, for further discussion.)

[Coverage of the Producer Price Index (PPI) begins on the next page.]

Producer Price Index (November 2018)

Offsetting Definitional Pressures from Collapsing Gasoline "Prices," Boosted Headline Monthly PPI Inflation into a Nonsensical and Meaningless Monthly Gain. Discussed initially in the December 10th *Daily Update* on the home page of www.ShadowStats.com, sharply declining energy prices both hit and spiked the November 2018 Producer Price Index (PPI-Final Demand) monthly inflation at the same time, with a resulting net seasonally-adjusted monthly inflation of 0.09%, versus 0.77% in October. Unadjusted PPI-FD annual inflation gained by 2.54% in November 2018, versus 2.89% in October 2018.

Consider that the November **Goods Sector** inflation declined by an adjusted 0.43% (-0.43%) in the month, hit by a plunge of 4.98% (-4.98%) in Energy prices. Yet, the more-than-offsetting dominant **Services Sector** inflation (reflecting profit margins, not prices) gained 0.26% in the month, driven by a 0.25% gain in Trade Sector inflation, which was driven by surging gas station profit margins from the same falling gasoline prices that spiked the Goods Sector inflation. The conundrum in this reporting is highlighted here regularly in the later *Bulk of Headline PPI Reporting Is of Little Practical Use* section.

Unadjusted **PPI-Final Demand** annual inflation of 2.54% in November 2018, versus 2.89% in October 2018, broke out by subsector: **Goods** at 2.22% versus 3.57% in October 2018, **Services** at 2.62%, versus 2.44% in October 2018 and **Construction** at 5.09%, versus a consistent 4.75% in October 2018.

Seasonally adjusted November 2018 **PPI-Final Demand** monthly inflation of 0.09% in November, versus 0.60% in October broke out by subsector: **Goods** declined by 0.43% (-0.43%), versus a gain of 0.61% in October; **Services** inflation increased by 0.26%, versus 0.69% in October 2018, with **Construction** at 0.24%, versus an inconsistent 1.90% in October (see extended detail).

Bulk of Headline PPI Reporting Is of Little Practical Use. *[The background text here and in the next subsection is as published previously.]* Beyond the broad issues with general inflation measurement (see *Public Commentary on Inflation Measurement*), indeed the bulk of the PPI is covered by the Services Sector, where inflation is determined largely by shifting profit margins. Discussed in the next subsection, profit-margin inflation estimates generally are handled in a manner counter-intuitive to the more-traditional measurement of inflation in goods and services, otherwise calculated as a measurement of change in prices. Accordingly, the headline detail here increasingly has a limited relationship to real-world activity.

The conceptual differences between goods inflation and services profit margins do not blend well and are not merged easily or meaningfully in the current version of the PPI. While the dual measures are more meaningfully viewed independently, rather than as the hybrid measure of the headline Producer Price Index Final Demand, the aggregate headline series here (ShadowStats separates the analyses of those sectors by sub-category) also is reviewed and covered within the headline reporting conventions of the Bureau of Labor Statistics (BLS).

Inflation That Is More Theoretical than Real World. Effective with January 2014 reporting, a new Producer Price Index (PPI) replaced what had been the traditional headline monthly measure of wholesale inflation in Finished Goods (see *Commentary No. 591*). In the new headline measure of wholesale Final Demand, Final Demand Goods basically is the old Finished Goods series, albeit expanded.

The new, otherwise dominant Final Demand Services Sector largely reflects problematic and questionable surveying of intermediate or quasi-wholesale profit margins in the services area. When profit margins shrink in the Services Sector, one could argue that the resulting lowered estimation of inflation actually is a precursor to higher inflation, as firms subsequently would move to raise prices, in an effort to regain more-normal margins. In like manner, in the circumstance of "increased" margins—due to the lower cost of petroleum-related products not being passed along immediately to customers—competitive pressures to lower margins tend to be reflected eventually in reduced retail prices (CPI). The oil-price versus margin gimmick works both way. In times of rapidly rising oil prices, it mutes the increase in Final Demand inflation, in times of rapidly declining oil prices; it tends to mute the decline in Final Demand inflation.

The current PPI series remains an interesting concept, but it appears limited as to its aggregate predictive ability versus general consumer inflation. Further, there is not enough history available on the new series (just ten years of post-2008-panic data) to establish any meaningful relationship to general inflation or other economic or financial series.

Headline Details of the November 2018 Final-Demand Producer Price Index and Its Major Sub-Sectors. The Bureau of Labor Statistics (BLS) reported Tuesday, December 11th, that the seasonally-adjusted, month-to-month, headline Producer Price Index Final-Demand (FD-PPI or PPI-FD) inflation for November 2018 was a gain of 0.09%, following monthly gains of 0.60% in October and 0.17% in September, having declined by a revised 0.17% (-0.17%) [previously 0.09% (-0.09%)] in August, having gained 0.09% [previously unchanged at 0.00%] in July and having increased by an unrevised 0.26% in June.

On a not-seasonally-adjusted basis—all annual growth rates are expressed unadjusted—year-to-year PPI-FD inflation in November 2018 softened to 2.54%, from 2.89% in October 2018, against 2.64% in September 2018, 2.83% in August 2018, a revised 83-month high of 3.36% [previously 3.27%] in July 2018 and an unrevised 3.28% in June 2018. As with the CPI, recent annual inflation numbers here have been unusually volatile, given extreme and irregular annual gasoline-price swings in recent months, against irregular price movements in the same months in 2017.

In summary, for the three major subcategories of the November 2018 PPI-FD, which showed an aggregate adjusted monthly gain of 0.09%, and an aggregate unadjusted annual inflation of 2.54%; headline monthly Goods inflation was an adjusted decline of 0.43% (-0.43%), up by an unadjusted 2.22% year-to-year; Services "inflation" (profit margins) gained month-to-month by 0.26%, up by 2.62% year-

to-year; and Construction "inflation" was up, again, by an inconsistent 0.24% in the month, up by a consistent 5.09% year-to-year.

Final Demand Goods (weighted at 33.02% of the Aggregate Index). Running somewhat in parallel with the old Finished Goods PPI series, headline month-to-month Final Demand Goods inflation in November 2018 declined by 0.43% (-0.43%), having gained 0.61% in October and having declined in September by 0.09% (-0.09%). There was positive impact on the aggregate goods monthly reading from underlying seasonal-factor adjustments (tied largely to energy, once again). Not-seasonally-adjusted, November inflation was down by 0.86% (-0.86%) for the month. Unadjusted, year-to-year goods inflation in November 2018 showed an annual gain of 2.22%, versus 3.57% in October 2018 and 3.21% in September 2018.

Seasonally-adjusted monthly changes by major components of November 2018 Final Demand Goods:

- "Foods" inflation (weighted at 5.72% of the total index) in November 2018 gained month-to-month by 1.30%, having gained 1.05% in October and having declined by 0.61% (-0.61%) in September. Seasonal adjustments were positive for the November change, which was an unadjusted monthly gain of 1.21%. Unadjusted and year-to-year, annual November 2018 foods inflation was positive for the first time in six months, up by 0.43%, having declined by in October 2018 by 0.69% (-0.69%) and by 1.37% (-1.37%) in September 2018.
- "Energy" inflation (weighted at 5.58% of the total index) plunged month-to-month in November 2018 by 4.98% (-4.98%), reflecting collapsing gasoline prices, having gained 2.69% in October and having declined by 0.80% (-0.80%) in September. Seasonal adjustments were positive in November, with unadjusted energy showing a monthly decline of 6.97% (-6.97%). Unadjusted and year-to-year, November 2018 energy prices gained 2.89%, versus 12.45% in October 2018 and 9.68% in September 2018.
- "Less foods and energy" ("Core" goods) monthly inflation (weighted at 21.72% of the total index) gained month-to-month in November 2018 by 0.34%, having been "unchanged" at 0.00% in October and having gained 0.17% in September. Seasonal adjustments were positive for monthly "Core" inflation, with the unadjusted monthly November inflation up by 0.26%. Unadjusted and year-to-year, November 2018 "Core" PPI inflation rose to 2.54%, versus 2.46% in October 2018 and against 2.74% in September 2018.

Final Demand Services (weighted at 65.33% of the Aggregate Index). Headline Final Demand Services inflation rose month-to-month by 0.26% in November 2018, versus 0.69% in October and 0.26% in September. The overall seasonal-adjustment impact on headline services inflation was positive, with an unadjusted monthly "unchanged" in November at 0.00%. Year-to-year, unadjusted November 2018 services inflation was 2.62%, versus 2.44% in October 2018 and 2.37% in September 2018.

The headline monthly changes by major component for November 2018 Final Demand Services inflation:

- "Services less trade, transportation and warehousing" inflation or the "Other" category (weighted at 40.56% of the total index) rose by 0.09% in November 2018, versus 0.17% in October and 0.26% in September. Seasonal-adjustment impact on the November detail was positive, where the unadjusted monthly change was a decline of 0.09% (-0.09%). Unadjusted and year-to-year, November 2018 "other" services inflation was up by 2.55%, versus 2.64% in October 2018 and 2.74% in September 2018.

- "Transportation and warehousing" inflation (weighted at 4.48% of the total index) rose month-to-month by 1.20% in November 2018, versus 0.57% in October and 1.81% in September. Seasonal adjustments were minimally for November, against an unadjusted monthly gain of 1.21%. Unadjusted and year-to-year, November 2018 transportation inflation rose by 6.19%, versus 5.82% in October 2018 and 5.88% in September 2018.
- "Trade" inflation (weighted at 20.29% of the total index) rose month-to-month in November 2018 by 0.25%, having gained by 1.64% in October and by 0.09% in September. Seasonal adjustments had a positive impact, where the unadjusted monthly change was a decline of 0.08% (-0.08%). Unadjusted and year-to-year, November 2018 trade inflation increased by 2.24%, versus 1.54% in October 2018 and 0.87% in September 2018.

Final Demand Construction (weighted 1.64% of the Aggregate Index). Although a fully self-contained subsection of the Final Demand PPI, Final Demand Construction inflation receives no formal headline coverage. Month-to-month construction inflation increased by 0.24% in November 2018, versus 1.90% in October 2018. October 2018 monthly detail had been bloated as usual for the new quarterly estimate of profit margins, a change posted only in the first month of a quarter. That followed a monthly gains of 0.08% in September and a revised "unchanged" at 0.0% [previously a gain of 0.8%] in August, versus a revised 0.41% [previously 0.33%, initially 0.41%] in July, an unrevised 0.17% in June, 0.08% in May, having jumped by 1.09% in April, by 0.08% in March, 0.08% in February and 0.76% in January. Again, these monthly changes reflect regular, nonsense monthly distortions in the first month of each quarter, when the BLS introduces new quarterly profit-margin estimates for the sector.

The impact of seasonal factors on the November 2018 Construction reading was neutral, as usual, where the unadjusted monthly change also was a gain of 0.24%. The issues here are a combination of monthly headline cost changes along with a quarterly estimate of contractor profit-margin changes that have little connection to real-world activity.

On an unadjusted, year-to-year basis, where the monthly annual inflation changes basically are comparable, construction inflation rose year-to-year in November 2018 to 5.09%, versus 4.75% in October 2018, 3.41% in September 2018, 3.24% in August 2018, a revised 3.32% [previously 3.24%] in July 2018, versus 4.23% in June 2018, 4.15% in May 2018, 4.24% in April 2018 and 3.57% in March, February and January 2018.

Again, unlike the month-to-month data, the annual changes are reasonably comparable. Annual change here recently has moved closer to the estimates of private surveying and other government estimates (GDP deflators), which usually have shown higher construction-related inflation than does the PPI. Discussed in *Commentary No. 829*, the Construction Sector PPI has little relationship to real world activity. ShadowStats constructed a Composite Construction Deflator (CCD) used in deflating the Census Bureau's monthly estimates of Construction Spending Put in Place in the United States (see *Commentary No. 978 – Part II*).

PPI-Inflation Impact on Pending Reporting of November 2018 New Orders for Durable Goods. As to the relative reductions in inflation-adjusted real growth, versus the nominal reporting of November 2018 New Orders for Durable Goods, PPI inflation for manufactured durable goods (reported only on a not-seasonally-adjusted basis) increased month-to-month by 0.11% in November 2018, versus 0.29% in October, 0.17% in September, 0.11% in August, 0.23% in July, 0.29% in June, 0.46% in May, 0.35% in April, 0.41% in March, 0.35% in February and 0.41% in January.

Year-to-year annual inflation notched higher to 3.30% in November 2018, versus 3.24% in October 2018, 3.31% in September 2018 (the highest level since 3.29% in August 2011), 3.25% in August 2018, 3.20% in July 2018, 2.90% in June 2018, 2.66% in May 2018, 2.19% in April 2018, 2.08% in March 2018, 1.84% in February 2018 and 1.79% in January 2018. Nominal New Orders for Durable Goods for November 2018 will be published on December 21st.

[Week, Month and Year Ahead Section begins on the next page.]

WEEK, MONTH AND YEAR AHEAD

Watch for Heavy Selling of the U.S. Dollar and Spiking Gold and Silver Prices

Note: *Hyperinflation Watch No. 4* – *Special Edition* of December 11th incorporated and has expanded upon *Special Commentary No. 973 – ALERT* of October 14, 2018, and minor interim updates. In advance of *Hyperinflation No. 5*, related new material will be advised in the *Daily Update* of *www.ShadowStats.com*, posted in the *Opening Comments* of the next *Regular Commentary* and highlighted here. The same holds for updates to *Consumer Liquidity Watch No. 5* – *Special Edition* of November 21st.

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

Discussed in *Hyperinflation Watch No. 4* and the *Daily Update*, extraordinary financial-market and Systemic Risks are in play, with a great deal more involved in recent stock-market selling than overvalued equities. At hand are circumstances that could trigger one of the worst financial panics/systemic disruptions of the last century. Consider still-unresolved systemic instabilities from the 2008 bailout of the global banking system; heavily inflated equity prices; current Fed tightening and a related, unfolding U.S. recession; rapidly deteriorating, uncontained and unsustainable U.S. fiscal deficits; and exploding risks of political instability in the United States and among major U.S. trading partners and allies.

In particular, watch out for weakness and instability in the U.S. Dollar, and for spiking gold prices. The dollar and precious metals serve as the Canary in the Coal Mine for the domestic stock and bond markets. 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.

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 they could break at any time.

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

Best wishes – John Williams

Pending Economic Releases and Coverage

Note: Summary observations of major economic releases are posted in real time, 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* homepage.

PENDING FULL COVERAGE. November 2018 Retail Sales, Industrial Production and Residential Construction (Housing Starts and Building Permits) will be covered fully (including graphics) in pending *Commentary No. 980* in the next couple days. That will expand upon the comments in the ShadowStats *Daily Update* section of the Home Page (www.ShadowStats.com), as posted there within two hours of each of those headline economic releases. Following are those posted comments, with minor language editing for the style used consistently in the regular *ShadowStats Commentaries:*

Retail Sales (November 2018). Released Friday December 14th by the Census Bureau, the November Retail Sales nominal monthly gain of 0.20% was slightly stronger than consensus expectations, yet it was 0.38% net of an upside revision to still-weak activity in October, while September sales revised lower. Net of negligible (gasoline-price softened) monthly CPI inflation, as calculated by the Saint Louis Fed, headline November real retail sales gained 0.18%, 0.38% net of revisions. Those numbers were in the context of a sharp slowing in November freight activity, suggestive of a less-than-robust start to the dominant Holiday Shopping Season.

Net of the soft CPI, the annualized third-quarter gain in Real Retail Sales revised lower to 2.27%, previously 2.50%, initially 3.05%, indicating a downside revision to the final estimate of third-quarter 2018 GDP [see *Pending Releases*]. Real annual growth was 1.96% in November 2018, versus 2.24% (previously 1.98%) in October 2018, and 1.72% (previously 1.89%, initially 2.39%) in September 2018, a pattern of slowing growth most commonly seen at the onset of recessions.

Industrial Production (November 2018). Released December 14th by the Federal Reserve Board, November Industrial Production rose by 0.61% in the month, but just 0.30% net of a downside revision to October activity. September also revised lower with the effect of slowing third-quarter growth. November 2018 annual growth was 3.89%, versus a downwardly revised 3.79% (previously 4.11%) in October 2018 and 5.55% (previously 5.60%) in September 2018. The dominant Manufacturing Sector was down in November by 0.01% (-0.01%), down by 0.45% (-0.45%) net of revisions, with an annual change of 1.96% in November 2018, down from 2.33% [previously 2.68%] in October 2018. Manufacturing continued its 100-year record run of non-expansion, 131 straight months of never recovering its 2007 pre-recession peak.

The Mining Sector gained 1.69% in the month (up by 2.07% net of revisions), and the Utilities Sector gained 3.27% (up by 2.89% net of revisions).

New Residential Construction (November 2018). Despite month-to-month gains in these highly unstable and volatile series, Housing Starts and Building Permits showed deepening seven-month downtrends, with third-quarter 2018 contractions holding in place, on top of second-quarter contractions, across-the -board. Such continued to reflect intensifying consumer liquidity stresses (Home Sales have remained in deepening downtrend and quarterly contractions).

As usual, the monthly Housing Starts were highly unstable, with no statistically meaningful changes, either month-to-month (positive total and multiple-unit, negative single-unit) or year-to-year (negative total and single-unit, positive multiple-unit), with negative revisions to October activity, again, across-the-board. The aggregate series rose month-to-month by 3.2% in November, versus a revised decline of 1.6% (-1.6%) [previously a gain of 1.5%] in October, which was down by a revised 3.4% (-3.4%) [previously down by 5.5% (-5.5%)] from September. Annual change was down by 3.8% (-3.8%) in November versus 2018, versus 3.7% (-3.7%) in October. Again, none of those changes was statistically meaningful. The Housing Starts series still is shy of ever recovering is pre-recession peak, by 44.7% (-44.7%).

Against a small upside revision to October activity, November 2018 Building Permits showed a statistically meaningful monthly gain of 5.0%, versus a revised monthly contraction of 0.4% (-0.4%) [previously down by 0.6% (-0.6%)] in October. The November year-to-year gain of 0.4%, however, was not statistically meaningful, versus a revised annual October contraction of 5.8% (-5.8%) [previously – down by 6.0% (-6.0%)]. The Building Permits series still is shy of recovering its pre-recession peak, by 41.3% (-41.3%).

Existing-Home Sales (November 2018). In a positive turn, November saw a second consecutive month-to-month gain for the first time since March 2018, up by 1.9% November, versus 1.4% in October. That said, the series continued in a deepening six-month smoothed trend. November 2018 year-to-year sales declined by 7.0% (-7.0%), the steepest annual drop since 2011, versus year-to-year declines of 5.1% (-5.1%) in October 2018 and 4.1% (-4.1%) in September 2018. Aggregate sales for the trailing twelve months through November 2018 were down year-to-year by 2.6% (-2.6%), versus a 1.8% (-1.8%) annual decline for the trailing twelve months of sales through October 2018.

PENDING ECONOMIC RELEASES. Initial coverage of the pending economic releases will be posted in real time in the ShadowStats ***Daily Update*** section on the www.ShadowStats.com home page, usually within two hours of the indicated headline economic release date and time. Full coverage and graphs will follow in *Commentary No. 981* planned tentatively for December 23rd for November 2018 New Orders for Durable Goods and the third estimate, second revision to third-quarter 2018 GDP.

New Orders for Durable Goods (November 2018). The Census Bureau will report November 2018 New Orders for Durable Goods on Friday. December 21st, to be covered initially in *Commentary No. 980* planned tentatively for December 23rd. Headline details will be posted shortly after the press release, in the ***Daily Update*** section in top-right section of the www.ShadowStats.com homepage. Expectations are for a small gain. With recent extreme monthly volatility in defense orders likely out of the way, net of the

regularly volatile commercial aircraft orders, chances for a downside "surprise" remain strong, reflective of continued tightening in consumer liquidity.

Net of the irregular activity in commercial aircraft orders, aggregate orders likely continued in a pattern of downtrending real stagnation, weaker than expected.

Where commercial aircraft orders are booked for the long-term—years in advance—they have only limited impact on near-term production volatility. Further, by their nature, these types of orders do not lend themselves to seasonal adjustment. As a result, the durable goods measure that best usually serves as a leading indicator to broad production—a near-term leading indicator of broad economic activity and the GDP—is the activity in new orders, ex-commercial aircraft, adjusted for inflation. With expectations on the downside-side for new orders, ex-aircraft, the headline change in month-to-month activity remains a fair bet to be in contraction, particularly in real terms, net of wholesales durable goods inflation.

In inflation-adjusted or real terms, reflecting PPI-related inflation for "manufactured durable goods," relative month-to-month and year-to-year New Orders activity will be dampened on both a monthly and annual basis. Month-to-month related inflation for November 2018 was 0.11%, versus 0.29% in October and 0.17% in September. Year-to-year, annual inflation rose to 3.30% in November 2018, 3.24% in October 2018 and 3.31% in September 2018 (see the *Producer Price Index* section in today's *Opening Comments*).

Gross Domestic Product (Third-Quarter 2018, Third Estimate, Second Revision). The Bureau of Economic Analysis (BEA) will release its second revision, third estimate of estimate Third-Quarter 2018 Gross Domestic Product (GDP), and its second estimates, first revisions to Gross Domestic Income (GDI) and Gross National Product (GNP) on Friday, December 21st, to be covered fully in *Commentary No. 975* of that date. Headline details will be covered shortly after the data are released in the ***Daily Update*** section in the top, right-hand section of the www.ShadowStats.com home page.

Consensus forecasts for second revision to Third-Quarter 2018 GDP are centered on "no change," with annualized quarter real growth hold at 3.5%, the same as in its initial and second estimates. Noted earlier in the *Pending Full Coverage* section, both Real Retail Sales and Industrial Production annualized third-quarter 2018 growth rates revised lower in the latest monthly detail, suggestive of some pending downside revision to third-quarter GDP activity.

Odds favor a small downside revision to the third estimate of annualized real quarterly growth in Third-Quarter 2018 GDP.

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

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

The ***Hyperinflation Watch*** of December 11th: *Hyperinflation Watch No. 4* – Special Edition.

The ***Consumer Liquidity Watch*** of November 21st: *Consumer Liquidity Watch No. 5* – Special Edition.

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 (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 II (December 5th) completed *Part I*, reviewing the October 2018 New Residential Construction, New-and Existing-Home Sales and Construction Spending, the second estimate of Third-Quarter GDP and the initial estimates of Third-Quarter GDI and GNP. It also updated the *No. 973 ALERT*.

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™.

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™, 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® 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™.

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) discuused 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™.

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® 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 the September 6th *Special Commentary No. 968-Extended.*

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™, 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® 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™ 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™.

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® 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™ 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® 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™ 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® 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™.

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® 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™.

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® 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™ 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® 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® 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.

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