

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

**CONSUMER LIQUIDITY WATCH - NUMBER 3**

**July 18, 2018**

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**Consumer Activity Falters, Despite Some Contrary Headlines, as  
Intensified Constraint on Real Growth in Consumer Credit and Earnings, and  
Waning Consumer Optimism Take Their Toll**

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**PLEASE NOTE:** The *Consumer Liquidity Watch (CLW)* is updated and posted regularly a couple of times per month on [www.ShadowStats.com](http://www.ShadowStats.com), as advised by e-mail. Links are available otherwise directly on the ShadowStats homepage or in subsequent regular ShadowStats *Commentaries*.

Reflecting new detail or expanded coverage, updated sections are highlighted in the *Table of Contents* and in the regular text. Where consumer financial health and liquidity ultimately drive U.S. economic activity, major liquidity developments also are advised in the regular *Commentaries*.

The next *CLW* likely be in the July 30th week, covering Sentier Research's Real Median Household Income for June 2018, the Conference Board's initial estimate of July 2018 Consumer Confidence, and a review of consumer-liquidity implications from the July 27th comprehensive benchmark revisions (back to 1929) of the National Income Accounts (including the GDP).

Please contact me if you have any questions, suggestions or otherwise would like to talk, at (707) 763-5786 or by e-mail at [johnwilliams@shadowstats.com](mailto:johnwilliams@shadowstats.com).

— Best wishes, John Williams

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**Today's (July 18th) Consumer Liquidity Watch** is updated for the first estimate of July 2018 Consumer Sentiment from the University of Michigan, June 2018 Real Average Weekly Earnings and May 2018 Real Consumer Credit Outstanding, all in the context of tightening consumer liquidity and faltering consumption/investment.

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## CONSUMER LIQUIDITY, INCOME, CREDIT AND RELATIVE OPTIMISM

### *Updated:* OPENING COMMENTS

**Intensifying Consumer Liquidity Woes Have Had Increasingly Negative Impact on Economic Activity, Despite Some Unusual Headline Details to the Contrary.** Discussed in [Commentary No. 960](#) of July 15th, consumer liquidity conditions tied to real income and credit growth, as well as to relative consumer optimism, all turned increasingly negative in the last two weeks. To be detailed in *ShadowStats Commentary No. 961*, planned for July 20th, and touched upon here, this week's June 2018 Real Retail Sales, Industrial Production and New Residential Construction reporting all suggested some intensifying pullback in personal consumption and residential investment, despite some contrary headline details.

**Retail Sales.** Net of inflation, headline June 2018 Real Retail Sales gained 0.32% month-to-month, but all of that gain was generated by unusual shifts to seasonal-adjustment patterns used the year before. Using consistent seasonal adjustments, Real Retail Sales declined in the month.

**Industrial Production.** Headline June Industrial Production rose in the month, boosted by a continued rise in Oil Production and by the reversal in June of a major, one-time supply distortion that had depressed Manufacturing in May. The affected area was Consumer Durable Goods production, in the Manufacturing Sector.

With the supply disruption relieved, Consumer Durable Goods jumped by 3.82% in June, not quite offsetting the disrupted 4.34% (-4.34%) monthly plunge in May. In parallel, Manufacturing jumped by 0.80% in June, following a drop of 1.04% (-1.04%) in May, yet May and June activity levels for both months and for both series held below April's level of activity. Consumer Non-Durable Goods production just continued contracting month-to-month in June.

**New Residential Construction.** Headline June 2018 Housing Starts plunged 12.3% (-12.3%) month-to-month, on top of downside prior-period revisions. Allowing for the regular, extreme month-to-month volatility suffered by this series, consider that the new detail shifted the six-month moving averages of the major components, including aggregate Housing Starts, Single-Unit Housing Starts and Multiple-Unit Housing Starts, as well as for the related Building Permits series, from uptrending to downtrending.

**Extension of Similar Trends in the First-Quarter GDP.** These unfolding consumption/investment patterns continued a developing trend seen in first-quarter 2018 real Gross Domestic Product (GDP) reporting, which experienced quarter-to-quarter contractions in the personal consumption of goods, and new residential investment (see [Commentary No. 957](#)).

Quarterly contractions in real goods consumption and residential real estate rarely are seen outside of recessions or unfolding recessions. That said, although the third-estimate of first-quarter 2018 GDP growth slowed to 2.0% from its initial estimate of 2.3%, versus 2.9% in fourth-quarter 2017, it still showed the headline economy at 15.9% above its pre-recession high. Yet, no other major economic measure comes close to showing such an expansion, including Real Retail Sales. In contrast, major sectors of the economy, such as Manufacturing and Construction (see pending *Commentary No. 961*), and most consumer-liquidity measures, remain shy of recovering their pre-recession peak levels. The pending (July 27th) comprehensive GDP benchmark revisions and the initial estimate of second-quarter 2018 GDP should be interesting.

***Mounting Financial Stress for the U.S. Consumer Continues.*** In terms of relative consumer optimism, the pattern continued to weaken, with the University of Michigan's early-July estimate of Consumer Sentiment (July 13th) coming in below both expectations and its final-June estimate. Previously, both the initial-June 2018 estimate of the Conference Board's Consumer Confidence Index® (June 26th) and the University of Michigan's final estimate for June Consumer Sentiment (June 29th) also had come in well-below consensus expectations, either down sharply month-to-month, or revised sharply lower from an initial estimate. Both series in June weakened sharply relative to recent multi-year-high readings (updated in the *Consumer Optimism* section), again, with early-July Sentiment continuing the downside trend.

Liquidity conditions also have continued tightening for consumers, with Real Consumer Credit Outstanding having weakened anew in May 2018 and with June Real Average Weekly Earnings having stagnated at 0.0% (unchanged) both month-to-month and year-to-year. That said second-quarter 2018 real earnings growth was positive, having contracted quarter-to-quarter in first-quarter 2018 (again, see [Commentary No. 960](#)).

This *Consumer Liquidity Watch* incorporates by reference the *Opening Comments* of [Commentary No. 960](#), supplemental to [Commentary No. 948](#), which reviewed various economic signals ranging from tightening systemic liquidity tied to sinking, inflation-adjusted real annual growth in M3 money supply, to Sentier Research's reintroduction of monthly Real Median Household Income. The most-recently updated numbers show still-faltering measures of quarterly and monthly real earnings and real household debt and consumer credit outstanding.

Sentier Research's reading for Real Median Household Income in May 2018 showed a monthly gain and a small uptick in annual growth, although the broad pattern of activity remained inconsistent with the level of activity needed to fuel a booming, expanding economy as discussed in the *Real Median Household Income* section (*Not Updated*).

In combination, these factors are among the likely elements driving the early signs of a downturn in consumer optimism, and in consumer consumption and residential investment (with personal consumption and residential investment a shrinking 72.9% of First-Quarter 2018 GDP). In combination, these various factors should exacerbate financial-market, policy-maker and FOMC concerns as to any ongoing, positive direction in broad U.S. economic activity (see the [Hyperinflation Watch - No. 1](#), along with an update in pending *Hyperinflation Watch - No. 2*, and the *Opening Comments* and *Hyperinflation Watches* of [Commentary No. 955](#) and [Commentary No. 953-A](#)).

***Liquidity Issues Limit Economic Activity (Not Updated Other than for Minimal Language Correction).***

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

These underlying pocketbook issues contributed to the anti-incumbent electoral pressures in the 2016 presidential race. The post-election environment showed a near-term surge in both the consumer confidence and sentiment measures to levels generally not seen since before the formal onset of the recession in 2001, let alone 2007. Yet, underlying liquidity conditions, economic reality and limited positive actions out of the government to turn the economy meaningfully, so far, all have continued to remain shy of consumer hopes, despite some booming headline numbers (see [Commentary No. 955](#)), yet those numbers have begun to stumble anew in recent detail.

The temporary liquidity boost fueled by the second-half 2017 natural-disaster effects, such as insurance payments or savings drawdowns to fund replacement of storm-damaged assets, was of a one-time nature and reasonably short-lived in terms of ongoing economic impact. Underlying, fundamental longer-term liquidity issues remain in place. Nonetheless, mirroring the disaster-fueled economic hype in the popular press, consumer optimism had rallied strongly, albeit, again, now faltering or mixed, as discussed shortly.

Including the various consumer-income stresses discussed in [Special Commentary No. 888](#), broad, underlying consumer-liquidity fundamentals simply have not supported, and still do not support a broad turnaround in general economic activity—a post “Great Recession” expansion—and broadly are consistent with a “renewed” downturn in that non-recovered economic activity. Indeed, never truly recovering post-Panic of 2008, limited growth in household income and credit have eviscerated and continue to impair broad, domestic U.S. business activity, which is driven by the relative financial health and liquidity of consumers. These underlying liquidity conditions and reality—particularly income and credit—remain well shy of average consumer hopes and needs, irrespective of the new tax laws.

The combined issues here have driven the housing-market collapse and ongoing, long-term stagnation in consumer-related real estate sales and construction activity, and have constrained both nominal and real retail sales. Related, personal-consumption-expenditure and residential-construction categories accounted for 73.1% of the headline real, Fourth-Quarter 2017 U.S. GDP, now down to 72.9% in First-Quarter 2018.

Net of short-lived disaster distortions (insurance payments, savings liquidations), with the better-quality economic indicators and underlying economic reality never having recovered fully from the collapse into 2009, consumers increasingly should pull back on consumption in the months ahead. Underlying reality is evident in more-meaningful economic indicators—not the GDP—irrespective of the transient boosts from disasters or political gimmicks, discussed in [General Commentary No. 929](#) and the *Executive Summary* of [Commentary No. 928](#).

***Anecdotal Evidence of Business and Consumer Uncertainty Continues to Indicate a Seriously-Troubled Economy and Very Dangerous Financial Markets (Not Updated Other than for Minimal Language Correction or Links).*** Against what appears to be a headline economic consensus that all is right again, with the U.S. economy and financial markets, underlying real-world common experience suggests a much different outlook. Regularly discussed here, ongoing non-recovery, low-level stagnation

and signs of renewed downturn remain patterns common to key elements of headline U.S. economic activity. Consider factors ranging from housing sales and broad construction activity, to headline reporting of domestic manufacturing (and recent, sharply-negative benchmark revisions to related series), as well as those series that are heavily gimmicked, such as the Gross Domestic Product (GDP), also regularly discussed and dissected in the regular *Commentaries* (see [Commentary No. 957](#)).

Similar signals of such economic stress are seen in patterns of activity that move along with the real-world broad economy. They range from indicators such as freight volume and domestic consumption of petroleum to factors such as levels of real consumer debt outstanding, real average weekly earnings and measures of employment stress in the broad economy. Those stresses are reflected in historically-low levels of the employment-population ratio and the labor-force participation rate (see [Commentary No. 959-B](#)). With the liquidity-starved U.S. consumer driving three-quarters of the GDP, there is no way for the broad economy to boom—happy Retail Sales headlines aside—without some meaningful shift in underlying consumer circumstances. Links to background discussions in these various areas are found in the *Week, Month and Year Ahead* section of *Recent Commentaries*, along with links to background discussions on the more-politicized GDP (again in [Commentary No. 957](#)) and employment/unemployment details, again, as discussed in the *Supplemental Labor-Detail Background* of [Commentary No. 959-B](#).

Beyond assessing headline economic numbers, ShadowStats also looks at anecdotal evidence, including comments by subscribers and clients, who live in the real world (an update to the section and anecdotal surveying will follow in the next *CLW No. 4*). Two broad observations have come from a number of recent conversations. First, real estate activity appears to be slowing in recently strong areas. Second, a number of major companies are “sitting on their hands,” holding back on issuing new contracts to third-party vendors in areas such as upgrading computer systems and other consulting. The companies cite the slowdown in contracts as “due to uncertainty,” an issue, as well with the U.S. consumer, where that uncertainty encompasses:

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

Economic reporting, and business and financial-market stories sometimes receive happy year-end spikes in the press. That circumstance was supplemented in late-2017 by near-term hurricane boosts to, and distortions of, some current economic activity. The latter circumstance has tended to become increasingly fleeting, except for Retail Sales, which is suffering other distortions, to be discussed in pending *Commentary No. 961*. The underlying, broadly-faltering U.S. economy should be dominating headline economic reporting, once again, and all too soon, most likely in the next couple of months. That said, albeit reflecting some of the headline economic hype in the popular press, headline consumer optimism remains strong, albeit also faltering.



### ***Updated: CONSUMER OPTIMISM***

***Consumer Sentiment and Confidence Both Took Sharp Hits in June 2018, with Early-July Sentiment Down Further.*** Reflected in *Graphs CLW-1* and *CLW-2*, June 2018 details for the Conference Board's [Consumer-Confidence Index](#)<sup>®</sup> (June 26th) and the final-June and early-July 2018 estimates of University of Michigan's [Index of Consumer Sentiment](#) (July 13th) both reflected faltering consumer optimism. Both measures are down from recent multi-year highs, with smoothed monthly averages generally trending lower.

The initial-June 2018 headline level of the Consumer Confidence Index<sup>®</sup> (Confidence) dropped by 1.9% (-1.9%) from an upwardly-revised May 2018 level, and was down by 3.0% (-3.0%) from its February 2018 near-term high, which was the peak reading since 2000.

Initial-May 2018 Confidence had taken a hefty jump, in the context of a 2.4% (-2.4%) downside revision of the previously-estimated level of April Confidence, which the initial-May estimate did not top. With the initial-June estimate, however, May was revised higher by 0.6%, to the highest reading since February 2018. Against that May reading, weaker-than-consensus June Confidence declined by 1.9% (-1.9%).

The final-June 2018 Index of Consumer Sentiment (Sentiment) number revised lower by 1.1% (-1.1%) from its initial estimate, holding 0.2% above its final-May reading, but it was down by 3.2% (-3.2%) from its near-term peak reading of March 2018, which had been the highest reading since 2004. The early-July reading dropped another 1.1% (-1.1%), now down by 4.2% (-4.2%) from March 2018.

For the Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index<sup>®</sup> (*Graph CLW-1*), and the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph CLW-2*), the monthly and three-month moving averages remain above pre-2007 recession highs, yet the still-high moving averages have begun to falter, along with the softening monthly details.

Where the three-month moving averages generally are trending lower (below recent peaks), the six-month moving averages have begun to top out at high levels, as reflected in the accompanying *Graphs CLW-1* to *CLW-3*. Again, while monthly readings for both measures remain at high levels, again, both remain shy of recent near-term peaks.

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

Texas and Florida for its downturn in September 2017 Confidence, but those numbers exploded into October and November 2017, again reversing largely with December's headline downturn.

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

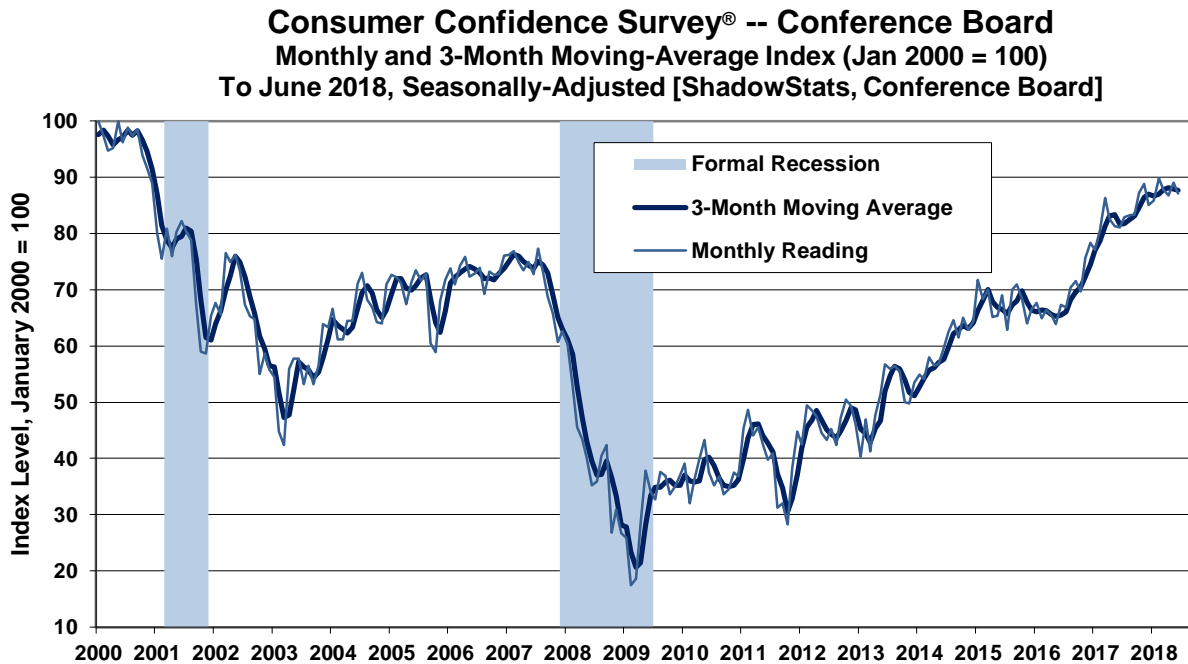
The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see the discussion in [Commentary No. 764](#)), and often are highly volatile month-to-month, as a result. Recent press has been highly positive on the headline economic and employment news, particularly with unemployment and retail sales. As headline financial and economic numbers turn increasingly-negative and unstable, so too should the recently-contained "optimism." The downturn in consumer outlook easily could accelerate, despite any euphoric headlines, reflecting deep-seated consumer liquidity issues.

Broadly, though, the harder, financial consumer measures remain well below, or are inconsistent with, periods of historically-strong consumer growth suggested by GDP growth into fourth-quarter 2017, consumer measures such as goods consumption a residential investment did take hits in first-quarter 2018 GDP. In an environment of what had been surging optimism, beyond having happy feelings about the future, consumers still need actual income, cash-in-hand or credit in order to increase their spending.

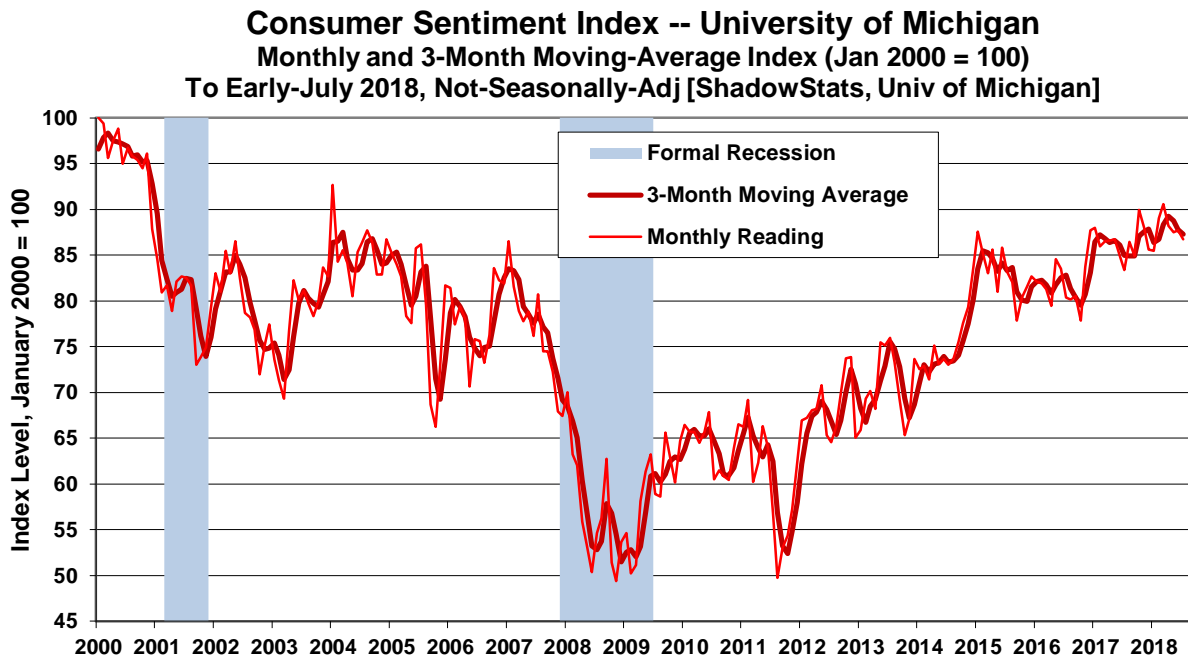
**[Graphs CLW-1 to CLW-3 begin on the next page.]**



**Graph CLW-1: Consumer Confidence (2000 to 2018)**

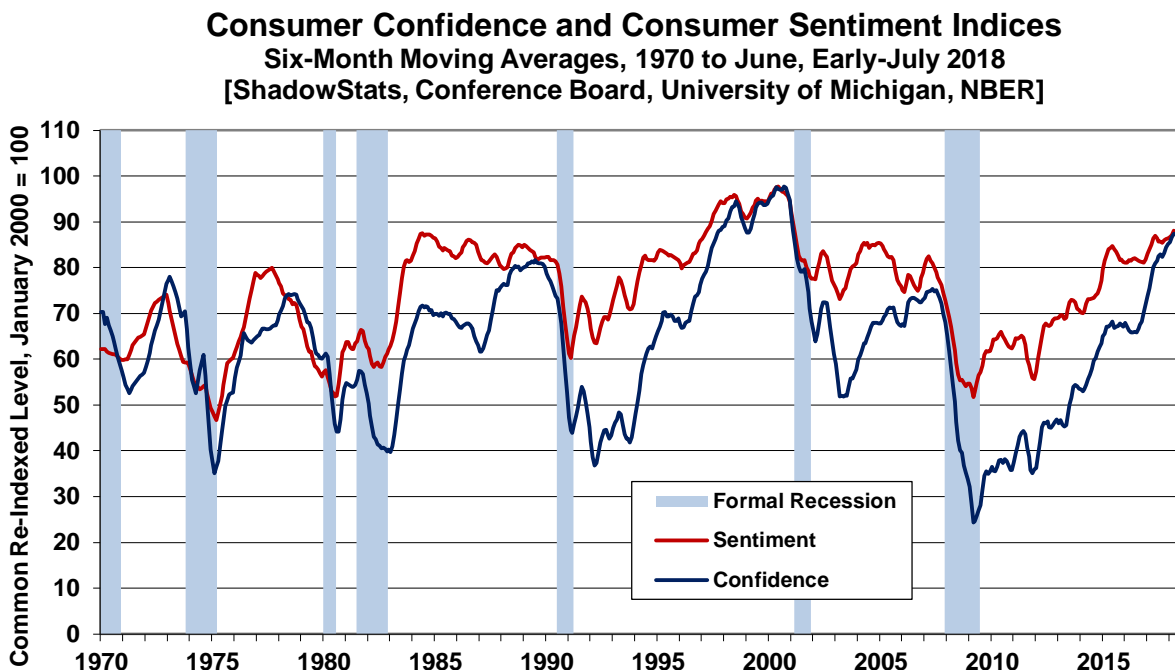


**Graph CLW-2: Consumer Sentiment (2000 to 2018)**



Smoothed for irregular, short-term volatility, the two series still generally had held at levels seen typically in recessions, until the post-2016 election circumstance. Suggested in *Graph CLW-3*—plotted for the last 48 years—the latest readings of Confidence and Sentiment recently have recovered levels seen in periods of normal, positive economic activity of the last four decades, with their six-month moving averages at levels last seen going into the 2001 recession, although increasingly, they appear to be topping out.

**Graph CLW-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2018)**



## REAL MEDIAN HOUSEHOLD INCOME

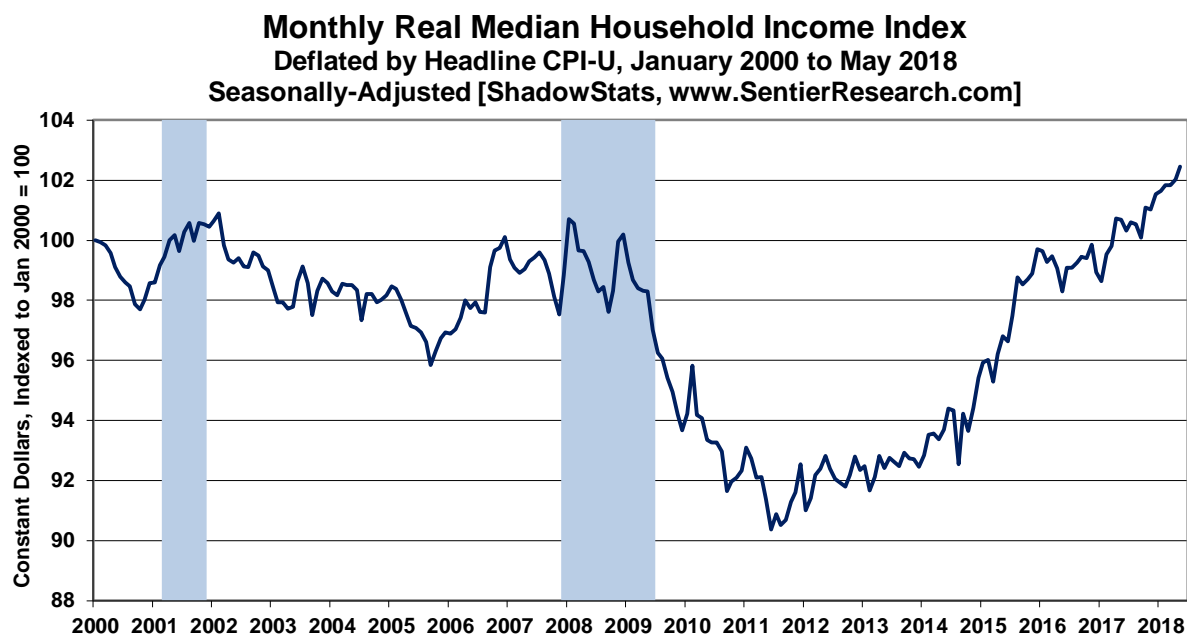
***Not Updated: Sentier Research Monthly Real Median Household Income***

**Monthly Real Median Household Income Rose in May 2018, Up for the Second Consecutive Month.** The May 2018 monthly Real Median Household Income rose for the second straight month, as reported by Sentier Research ([www.SentierResearch.com](http://www.SentierResearch.com)) on June 27th. Sharply slowing annual growth in the series flattened out in the month, with series showing a long-range pattern of month-to-month stagnation, adjusted for CPI-U inflation. The current monthly series is plotted here, both as to level (*Graph CLW-4*) and as to year-to-year change (*Graph CLW-5*).

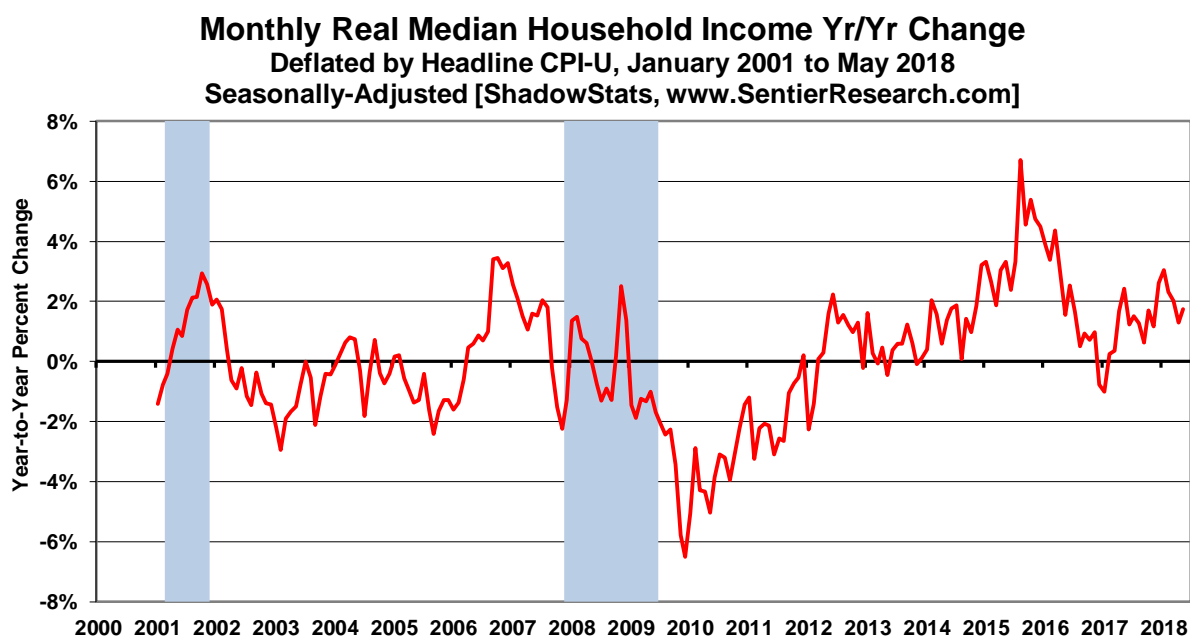
Discussed in the *Opening Comments* of [Commentary No. 948](#), Sentier Research ([www.SentierResearch.com](http://www.SentierResearch.com)) reinstituted its monthly reporting of Real Median Household Income (the Household Income Index or HII), where publication had been suspended, temporarily, following the release of the May 2017 detail.

The Sentier's series generally can be considered a monthly version of the annual detail shown in *Graphs CLW-6* and *CLW-7* in the next section, based on the most-recent (2016) release by the Census Bureau in September 2017, and, again as discussed in [Commentary No. 948](#) (see also [Commentary No. 909](#)).

**Graph CLW-4: Monthly Real Median Household Income (2000 to May 2018) Index, January 2000 = 100**



**Graph CLW-5: Monthly Real Median Household Income (2000 to May 2018) Year-to-Year Change**



Methodological understatement of the CPI-U by the Bureau of Labor Statistics broadly has had the effect of overstating the growth in headline real or inflation-adjusted income series (see the [Public Commentary on Inflation Measurement](#)). In a related area, recent extreme volatility in monthly gasoline prices has had varying impact on the headline data.

Details of the monthly series were reviewed the *Opening Comments* of [Commentary No. 948](#), where annual average growth in the series since its January 2000 onset has been roughly 0.1% per year. Given the independence and quality of the Sentier research, and the known definitional biases and gimmicks used by Bureau of Economic Analysis (BEA) in its income and economic measures, the Sentier numbers suggest that actual domestic economic activity is not and has not been as robust as suggested by the BEA's headline reporting of Gross Domestic Product (GDP), for example.

### ***Not Updated: U.S. Census Bureau Annual Real Median Household Income***

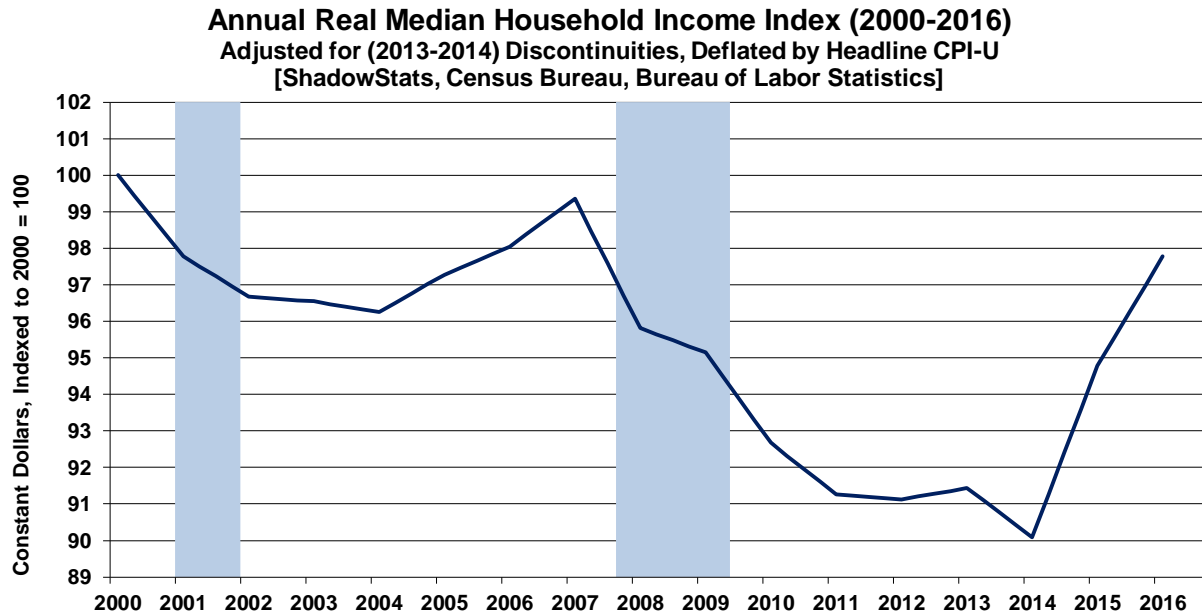
***2016 Annual Real Median Household Income in 2016 Held Below Its 2007 Pre-Recession Peak, Below Late-1990s Activity and About Even with the Mid-1970s, Monthly Activity Has Been Broadly Stagnant.*** Following *Graphs CLW-6* (time scale consistent with Sentier Research) and *CLW-7* plot headline annual real median income, as reviewed and discussed in *Opening Comments* of [Commentary No. 909](#). That *Commentary* also reviews various measures of Annual Household Income dispersion, variance and inequality, all general historically-negative extremes.

***Differences in the Monthly versus Annual Median Household Income.*** The general pattern of relative monthly historical weakness has been seen in the headline reporting of the annual Census Bureau numbers, again, shown in *Graphs CLW-6* and *CLW-7*, with 2014 real annual median household income having hit a ten-year low, and, again, with the historically-consistent 2015 and 2016 annual number still holding below the 2007 pre-recession high.

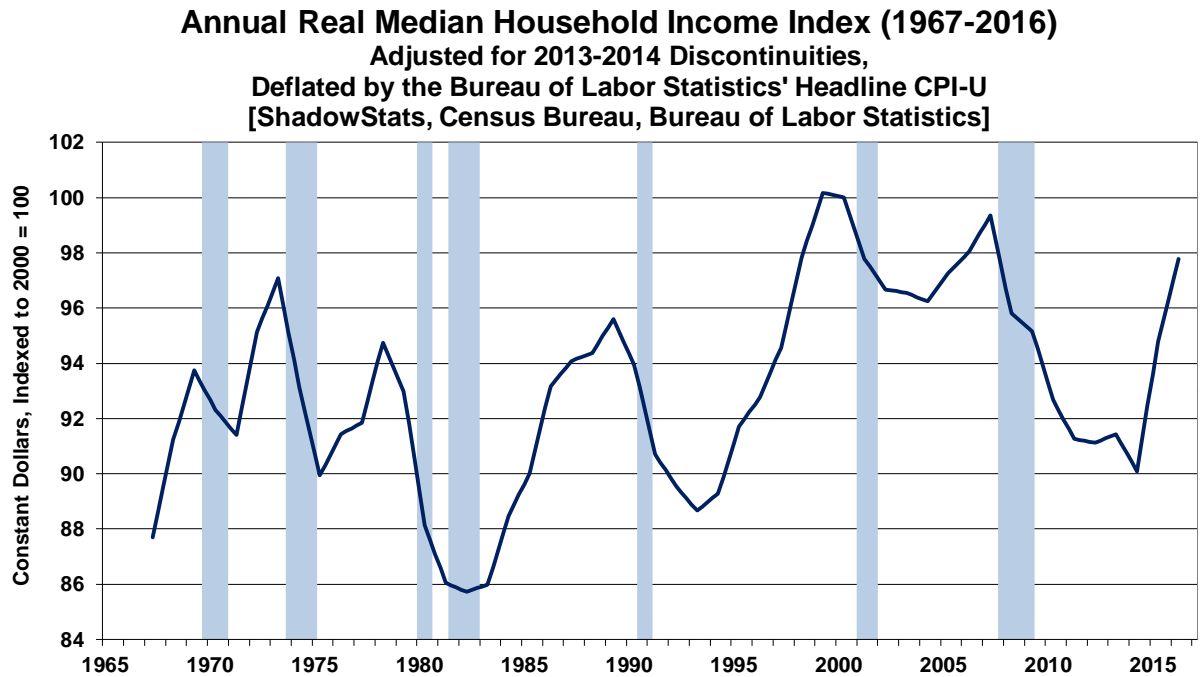
The Sentier numbers have suggested a small increase in 2014 versus 2013 levels, low-inflation induced real increases in 2015 and 2016. Allowing for the direction difference in 2014, and continual redefinitions and gimmicks in the annual series (again, see the *Opening Comments* of [Commentary No. 909](#)) the monthly and annual series had remained broadly consistent, although based on separate questions within the Consumer Population Series (CPS), as conducted by the Census Bureau.

Where Sentier uses monthly questions surveying current annual household income, the headline annual Census Bureau detail is generated by a once-per-year question in the March CPS survey, as to the prior year's annual household income. The Median Household Income surveying results are broadly consistent with Real Average Weekly Earnings. Separately, Sentier Research deflates its income measures using the headline CPI-U, standardly used by economists and the Saint Louis Fed, for example, for such measures. In contrast, the Census Bureau uses the CPI-U-RS, which heavily understates economic activity (overstating inflation-adjusted activity), as detailed and discussed specifically in the [Public Commentary on Inflation Measurement](#).

**Graph CLW-6: Annual Real Median U.S. Household Income (2000 to 2016)**



**Graph CLW-7: Annual Real Median U.S. Household Income through 2016, 2013-2014 Discontinuities Removed**



### ***Updated: REAL AVERAGE WEEKLY EARNINGS***

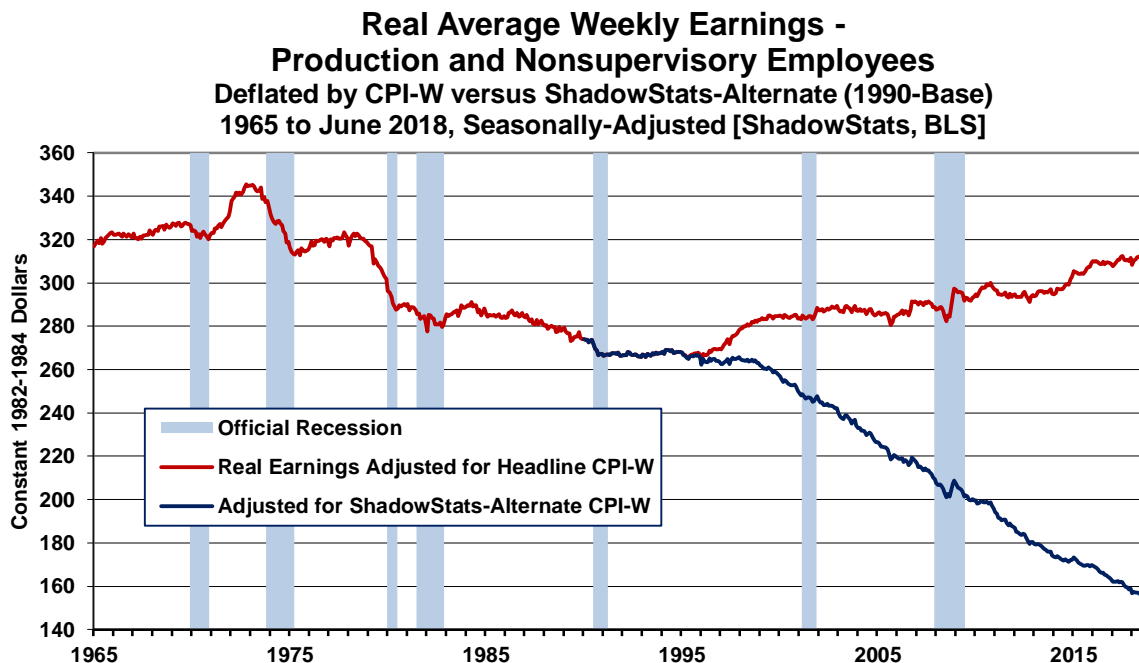
**Real Average Weekly Earnings—June 2018— Earnings Were Unchanged Month-to-Month and Year-to-Year, with Second-Quarter Growth Slowing Year-to-Year.** For the production and nonsupervisory employees category—the only series for which there is a meaningful history, updated and discussed in the *Opening Comments* and *Reporting Detail* of [Commentary No. 960](#) and plotted here in *Graph CLW-8*, June 2018 real average weekly earnings were unchanged at 0.0% both month-to-month and year-to-year (deflated by the CPI-W and as published by the Bureau of Labor Statistics on July 12th).

Year-to-year growth in June 2018 was 0.03%, versus a downwardly revised 0.43% in May 2018, and unrevised annual gains of 0.39% in April 2018, 0.46% in March 2018, 0.68% in February 2018 and 0.20% in January 2018.

Against an unrevised first-quarter 2018 annualized quarterly contraction of 1.22% (-1.22%) and 0.45% year-to-year growth, second-quarter 2018 showed an annualized quarterly gain of 2.81%, with annual growth slowing to 0.28%. That first-quarter 2018 contraction remained the third-consecutive annualized quarterly contraction in real average weekly earnings, the fifth quarterly decline in the last six quarters.

Fourth-quarter 2017 earnings showed an annualized contraction 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.

**Graph CLW-8: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date**  
(Same as Graphs OC-1 and 4 of [Commentary No. 960](#))



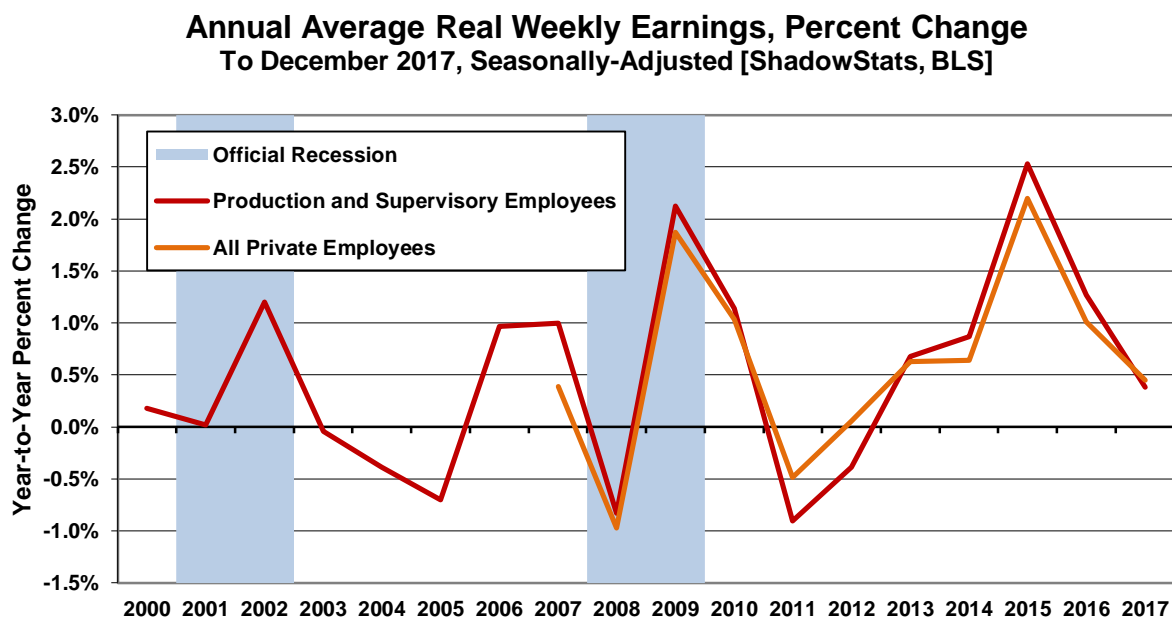


**All Employees Detail.** In the broader “All Employees” category (deflated by the CPI-U), which has a more-limited history than the production and non-supervisory category, June 2018 real average weekly earnings gained 0.06% in the month, having gained 0.05% in May 2018, having been flat at 0.00% in April and having gained 0.29% in March. Annual growth slowed to 0.24% in June 2018, versus 0.32% in May 2018, 0.50% in April 2018 and 0.87% in March 2018.

Second-quarter 2018 real earnings gained at an annualized pace of 1.44%, where first-quarter 2018 real earnings contracted at an annualized pace of 0.44% (-0.44%), at an annualized decline of 0.03% (-0.03%) in fourth-quarter 2017 and against an annualized gain of 3.48% in third-quarter 2017.

*Graph CLW-8* plots the seasonally-adjusted earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating Social Security cost-of-living adjustments) helped to prop up the reported real earnings. Official real earnings today still have not recovered their inflation-adjusted levels of the early-1970s, and, at best, have been in a minimal uptrend for the last two decades (albeit spiked recently by negative headline inflation). Deflated by the ShadowStats (1990-Based) measure, real earnings have been in fairly-regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W. See the [Public Commentary on Inflation Measurement](#) for further detail.

**Graph CLW-9: Annual Average of Weekly Earnings, Annual Percent Change (2000 to 2017)**



When income growth is inadequate to support consumption growth, consumers often make up the difference in debt expansion. Yet, real Consumer Credit Outstanding has shown a pattern of declining annual real growth for the last several quarters, irrespective of the specific series, as reflected in the plots of real monthly year-to-year change in *Graph CLW-14*.

### ***Updated:* HOUSEHOLD DEBT AND CONSUMER CREDIT OUTSTANDING**

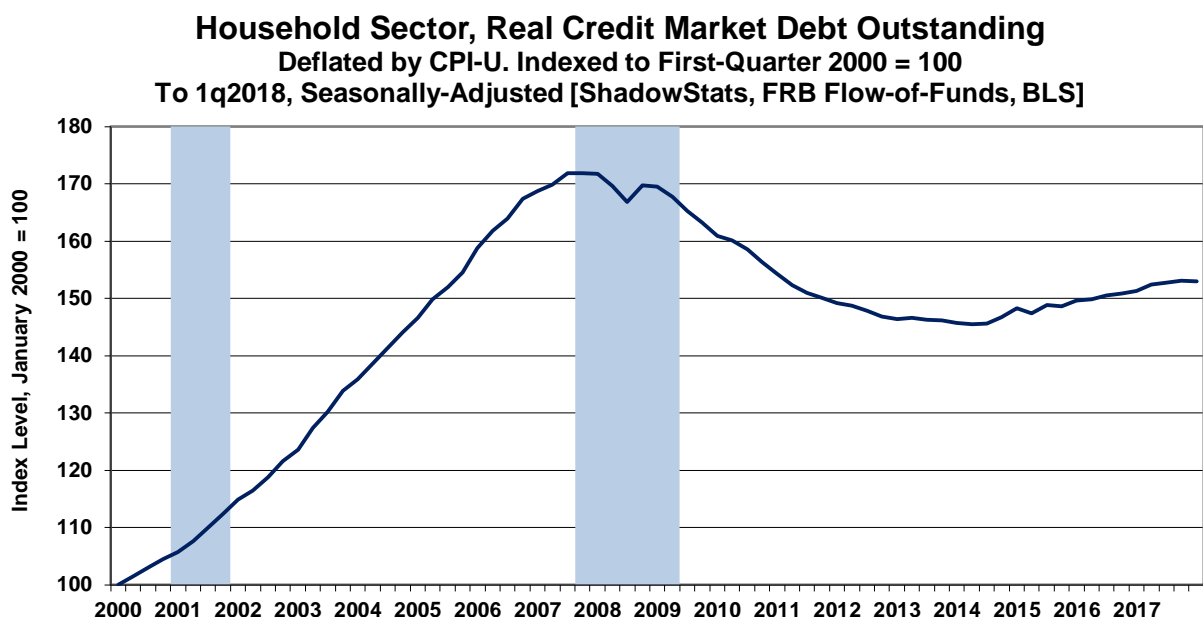
**Household Debt and Consumer Credit Outstanding: Stagnation/Lack of Expansion and Rapidly Slowing Annual Real Growth in Consumer Credit Constrains Economic Growth.** The final five graphs on consumer conditions address consumer borrowing. In the absence of real income growth, debt expansion can help to fuel growth in personal consumption, but personal debt expansion has been nonexistent, following the 2008 banking crisis. On top of downside revisions to the last several years of quarterly activity, seasonally-adjusted, first-quarter 2018 real household credit-market debt outstanding contracted for the first time since 2015. In terms of unadjusted monthly data through May 2018, there is a significant decelerating pace of real annual growth.

***Quarterly Series.*** Consider *Graph CLW-10* of *Household Sector, Real Credit Market Debt Outstanding*. The level of real household debt declined in the period following the Panic of 2008, reflecting loan defaults and reduced bank lending, and it has not coming close to recovering fully, based on the Federal Reserve's flow-of-funds accounting through first-quarter 2018 (released June 7th). Household Sector, Real Credit Market Debt Outstanding in first-quarter 2018 still was down by 11.0% (-11.0%) from its pre-recession peak of third-quarter 2007. That was against a fourth-quarter 2017 decline of 10.9% (-10.9%). The visually flattened-to-down latest point in *Graph CLW-10* reflected a slowing in real year-to-year change to 1.1% in first-quarter 2018, versus 1.5% in fourth quarter 2017, along with the first seasonally-adjusted quarterly contraction in real consumer debt since fourth-quarter 2015, down at an annualized 0.3% (-0.3%) in first-quarter 2018, versus a real gain of 0.9% in fourth-quarter 2017. Such completes 42 straight quarters—a full decade-plus—of credit non-expansion, versus its pre-recession peak.

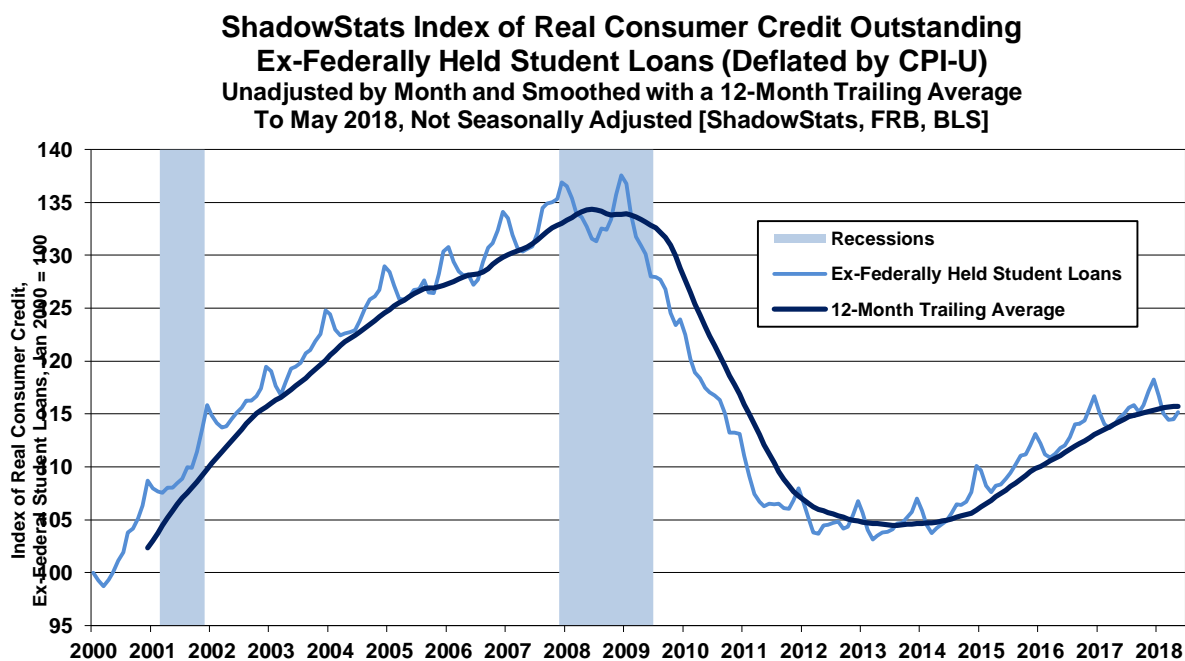
This series includes mortgages, automobile and student loans, credit cards, secured and unsecured loans, etc., all deflated by the headline quarterly CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting, among other issues, lack of normal lending by the banking system into the regular flow of commerce (FOMC Quantitative-Easing Policy). The slight upturn seen in the series through 2015 and into 2016 was due primarily to gasoline-price-driven, negative CPI inflation, which continued to impact the system through second-quarter 2016 and intermittently into first-quarter 2018. Activity also reflects relative strength from student loans, as shown in the *Graphs CLW-11* to *14*.

Shown for comparative purposes is *Graph CLW-11* of real not-seasonally-adjusted Consumer Credit Outstanding, Ex-Federally-Held Student Loans. That series has never recovered on a monthly, let alone the 12-month trailing-average basis used as a surrogate here or seasonal adjustment. Discussed in the next section, this measure of consumer credit now has been through 124 months 41-plus quarters of non-expansion. That is reflected on a parallel basis through first-quarter 2018 reporting shown in *CLW-10*. Please note that the scale in *Graph CLW-11* is indexed to Consumer Credit Outstanding Ex-Federal Student Loans equal to 100 in January 2000. In *Graphs CLW-12* to *14*, that indexing is applied to the total Consumer Credit Outstanding number, which is greater than the dominant Ex-Federal Student Loans subcomponent.

**Graph CLW-10: Household Sector, Real Credit Market Debt Outstanding (2000 through First-Quarter 2018)**



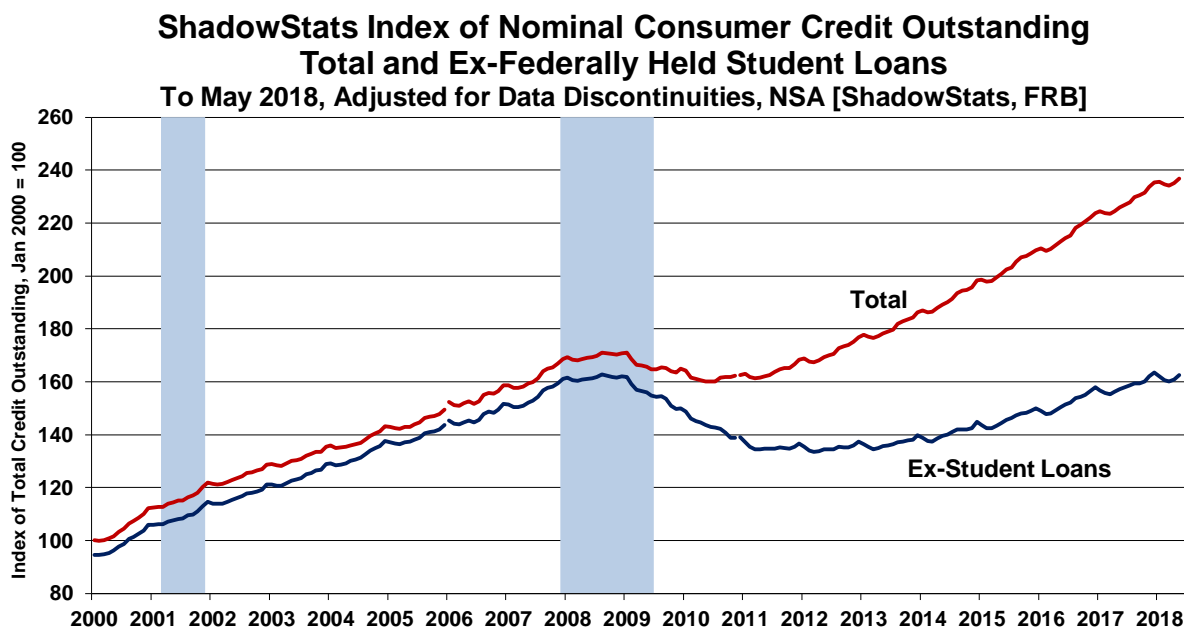
**Graph CLW-11: Real Consumer Credit Outstanding, Ex-Federal Student Loans (2000 to 2018)**



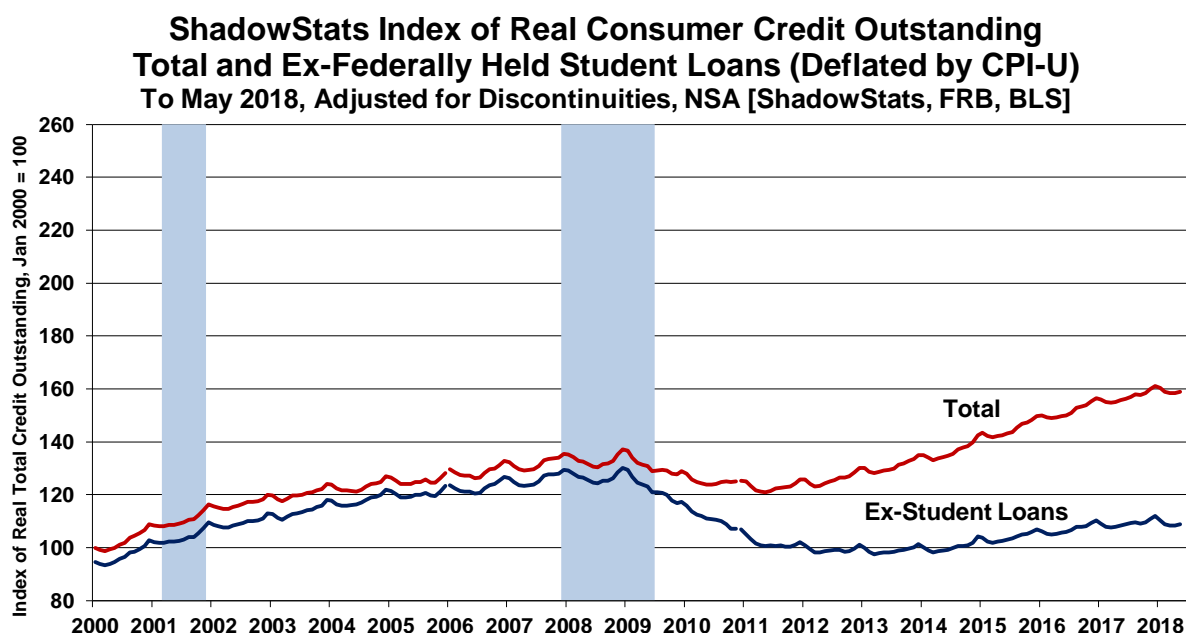
**Monthly Series.** Indeed, the ShadowStats analysis usually focuses on the particular current and continuing weakness in monthly levels of consumer credit, net of what has been rapidly expanding government-sponsored student loans. Where detail on that series only is available not-seasonally-adjusted, the following three related graphs and the preceding *Graph CLW-11* are so plotted.

Shown through the May 2018 reading (released July 9th), the headline nominal monthly Consumer Credit Outstanding (*CLW-12*) is a subcomponent of the nominal Household Sector debt. Where *Graph CLW-13* reflects the real or inflation-adjusted activity for monthly Consumer Credit Outstanding terms of both level (*Graph CLW-13*) and year-to-year change (*Graph CLW-14*). *Graphs CLW-13* and *CLW-11* are comparable to the inflation-adjusted Household Sector plot in *Graph CLW-10*.

**Graph CLW-12: Nominal Consumer Credit Outstanding (2000 to 2018)**



**Graph CLW-13: Real Consumer Credit Outstanding (2000 to 2018)**



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

Adjusted for unadjusted CPI-U inflation, the lack of recovery in the ex-student loan area is more obvious. Where the slight monthly firming in the level of not-seasonally-adjusted real consumer credit reflected a seasonal pattern, the pattern of both real and nominal year-to-year growth has been in an intensifying downtrend, suggesting tightening of credit conditions. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in May 2018 was down from recovering its pre-recession peak of December 2007 by 15.8% (-15.8%). That is 125 months, 41-plus quarters or ten-plus years of non-expansion of credit. Year-to-year real growth shown in *Graph CLW-14* tends to resolve most monthly seasonal distortions in the not-seasonally-adjusted data.

**Graph CLW-14: Year-to-Year Percent Change, Real Consumer Credit Outstanding (2000 to 2018)**

