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

SHADOWSTATS BULLET EDITION NUMBER FOUR

March 21, 2019

March 20th Federal Open Market Committee Held Interest Rates in Check, Indicating No Rate Hikes in 2019, in Line with Market Expectations

The Fed Slowed its Pace of Projected Balance Sheet Liquidation

The FOMC Lowered Its U.S. Economic Projections for 2019 and 2020, Albeit Still With Purportedly Healthy Growth

The Fed Likely Has an Internal Recession Forecast, But Not One to Be Published, Other Than for an Obvious Coincident or Lagging Circumstance

Nonetheless the U.S. Economy Is Weakening More Sharply and Quickly Than Acknowledged, Signaling a Formal Recession That was Triggered Directly by Overly Aggressive FOMC Tightening and Rate Hikes of the Last Year or Two

Latest Indication of an Accelerating Downturn Was In Freight Activity

Where FOMC Meeting Results Broadly Matched Expectations, Stocks Rallied, Initially, Selling Off by the End of the Day; Gold and Silver Prices Spiked Amidst Heavy U.S. Dollar Selling, Which Also Boosted Oil Prices

Those Late-Day Market Movements Likely Will Become the Trending Norm, As Evidence of the Deepening, Severe Economic Downturn Mounts Rapidly

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ShadowStats Commentaries, Bullet Editions, Watches and Daily Updates:

- The ***Daily Update*** posts regularly on the *ShadowStats* home page (www.ShadowStats.com), covering major economic releases as published by the issuing authorities, usually within two-to-three hours of headline publication. Unusual market circumstances, as well as the pending *ShadowStats* publishing schedule are reviewed.
- The ***Bullet Edition*** is published several times per month, as dictated by economic reporting, underlying and or unusual economic and financial-market developments. Simply put, the ***Bullet Edition*** conveys brief communications and analyses on limited topics of particular near-term significance.
    - Today's abbreviated ***Bullet Edition*** discusses the March 20th FOMC meeting announcements, press conference and market reactions. Areas discussed here will be more fully reviewed and expanded upon in pending ***Special Commentary No. 983-B***.
    - The next ***Bullet Edition*** should follow on March 31st, reviewing results of the numerous economic releases March 26th to 29th.
- The more-comprehensive ***Regular Commentary*** should publish about once per month, providing a regular and broader overview of unfolding conditions and likely developments, occasionally in the context of a *Special Commentary*.
    - Pending ***Special Commentary No. 983-B, The Annual Review*** should be published over the coming weekend (likely March 24th).
- ***Hyperinflation*** and ***Consumer Liquidity Watches*** should update once per month, with alternating updates roughly every other week, resuming in April.

The *ShadowStats* general outlook has not changed, specifically including a deepening U.S. economic downturn, mounting downside pressures on the U.S. dollar and stock market, and upside pressures on gold and silver prices in the weeks and months ahead.

Your comments and suggestions always are invited.
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Contents – Bullet Edition No. 4

Federal Reserve Proclaims All Is Well

Rate Hikes Are on Hold With A Slightly Softer, But Still-Healthy Economy

Yet Financial-Market Reactions Suggested That All Is Not Well

Markets Rallied Then Faltered on the FOMC Story. The Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System announced at yesterday's March 20th close of its regular two-day monthly policy meeting, that it had held the targeted Federal Funds Rate in the 2.25% to 2.50% range, and that no rate hikes were expected for the balance of 2019.

The Fed also minimally downgraded its near-term economic forecasts and slowed its planned pace of balance sheet liquidation, generally as had been expected by the financial markets.

The initial stock-market reaction was a rally on the expected "good" news of no more rate hikes, but the U.S. dollar soon turned lower, spiking oil prices (and inflation prospects), along with spikes in gold and silver prices. Despite some reversal in those areas today, the initial market reactions properly were reading that the economy likely was a great deal worse than suggested by the Fed, as has been seen in recent signals of a general intensification of the economic downturn, not an abatement as the Fed would like to hope. Consider, for example, the most-recent downturn in freight activity, discussed here shortly.

The late-day March 20th market trends likely will solidify here in the next month or so. Driving the U.S. dollar lower and prices of precious metals higher, should be mounting market expectations that the current economic situation is going to get bad enough, fast enough, to push the FOMC into some form of renewed easing or quantitative easing, with reduced relative U.S. interest rates.

That would tend to cause domestic and foreign capital to flee the dollar and dollar-denominated assets, such as stocks, with flight to other currencies and hard assets such as gold and silver. As the dollar weakens, which the FOMC is causing, global oil prices (denominated in dollars) will tend to rise.

All these issues will be updated and expanded upon in *Special Commentary No. 983-B.* The point here is to watch for developing trends of a weakening dollar and strengthening precious metals prices, with the tanking dollar spiking inflation fears. The economy is weakening quickly, and the Fed has to be aware of that, having triggered the downturn through excessive tightening policies and rate hikes of the last year or so. The FOMC had wanted to move the system back to higher interest rates, but that move is not working out quite as planned.

Again, the ShadowStats general outlook has not changed: deepening economic downturn, intensifying easing pressure on the Fed, mounting downside pressures on the U.S. stock market and dollar, and upside pressures on oil, and on gold and silver prices. Again, full coverage of the involved issues follows in the pending *Review, Special Commentary No. 983-B.*

Downturn in Broad Commercial Activity Has Yet to Enter Formal FOMC Projections

February 2019 CASS Freight Index™ Signaled Deepening Recession

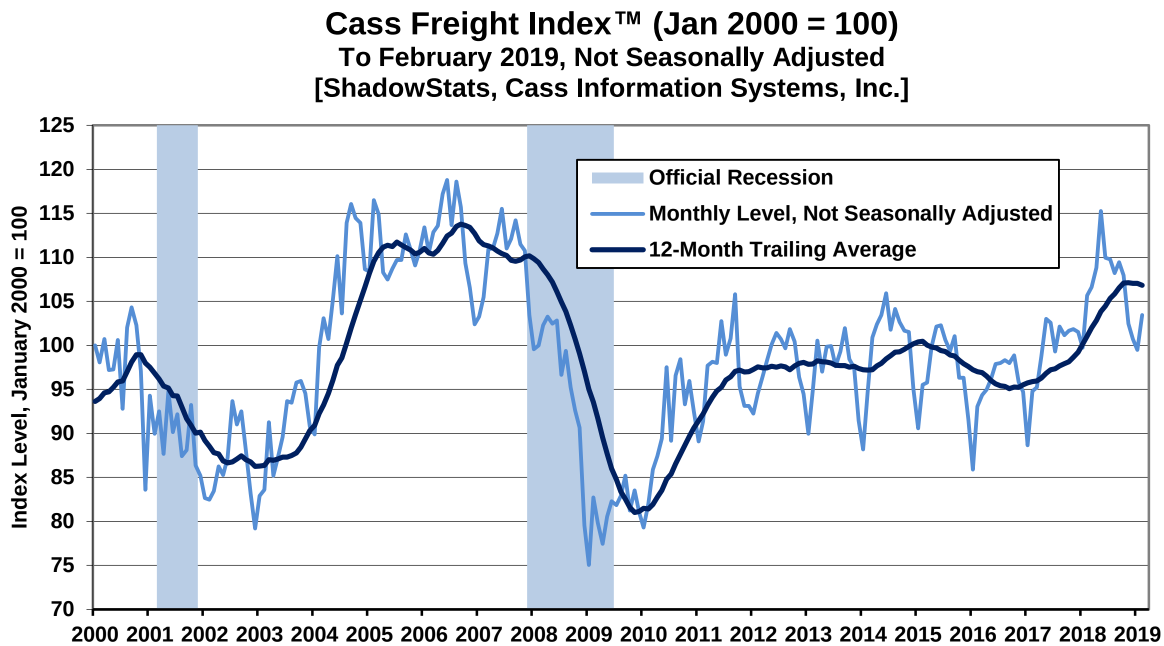
February 2019 Freight Index Annual Change Plunged by 2.09% (-2.09%), Deepest Contraction Since Onset of the "Unofficial" Production Recession of Early 2015. An independent, reliable private indicator of real-world economic activity and shifting business patterns, unadjusted annual growth in the February 2019 Cass Freight Index™ declined year-to-year for the third straight month down at a deepening annual pace of 2.09% (-2.09%). The smoothed 12-month-moving average for the Index, used to neutralize seasonality in this unadjusted series, also declined for the third month, turning sharply lower in February. Declining/slowing freight activity has not been seen like this since first-quarter 2015, the onset of an unofficial recession for broad economic series such as Industrial Production, Manufacturing and New Orders for Durable Goods (see *Bullet Edition No. 3* of March 15th and the extended discussion in the opening section there). In tandem with those production-related series, and a large number of other indicators, which will be reviewed in *Special Commentary No, 983-B*, the Freight Index did signal slowing fourth-quarter 2018 economic activity and is signaling a downturn in first-quarter 2019 activity, as will be discussed here shortly as to the Production Series.

Graphs 1 and *2* are the standard graphs of the level of monthly activity and year-to-year change published by *ShadowStats*. Where the monthly data are not seasonally adjusted, *Graph 1* of the unadjusted monthly activity and a 12-month trailing average of same are plotted together, the raw data along with the 12-month moving average. That latter graph should eliminate any seasonality patterns. In like manner, *Graph 2* plots year-to-year change in the unadjusted series, which also eliminates seasonality issues.

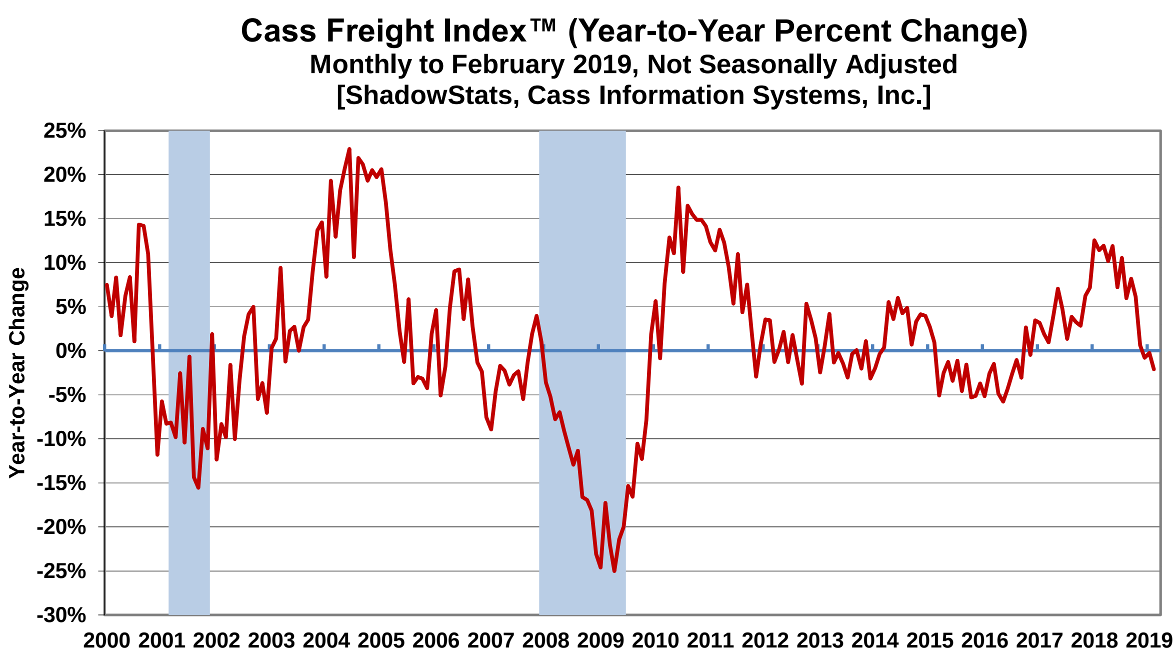
With the data updated March 18th by Cass Information Systems, we thank Cass for their permission to plot and use the Cass Freight Index™ data.

February 2019 Freight Activity Is Signaling a New Recession Along with Series Such as Production, Manufacturing and Capacity Utilization. Discussed in *Bullet Edition No. 3* of March 15th, in the opening section entitled *Manufacturing Sector of the U.S. Economy Never Has Recovered Fully from the Great Recession ...*, beginning there on page 6, and encompassing *Graphs 1* and *2* in that report, there appears to be a missing recession the historical record. The missing formal recession began in first-quarter 2015, tied to the dominant Industrial Production and Manufacturing sectors of the economy. It remains *ShadowStats* contention, that the missing recession was not recognized, due largely to the late reporting of same only in the 2017, and particularly the 2018 benchmark revisions to those series, as shown explicitly in the graphs there of Capacity Utilization and Manufacturing Benchmarking (again *Graphs 1* to *3* in *Bullet Edition No. 3*). *[Text continues on page 8...]*

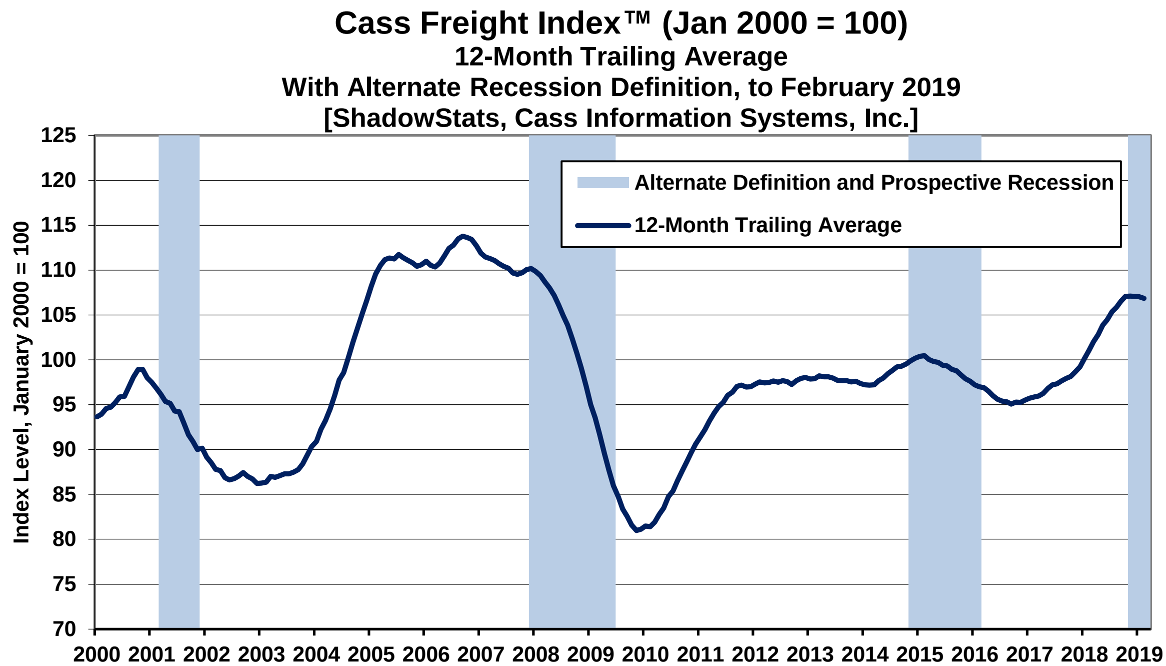
Graph 1: CASS Freight Index™ Moving-Average Level, 2000 to Feb 2019 (Official NBER Recessions)



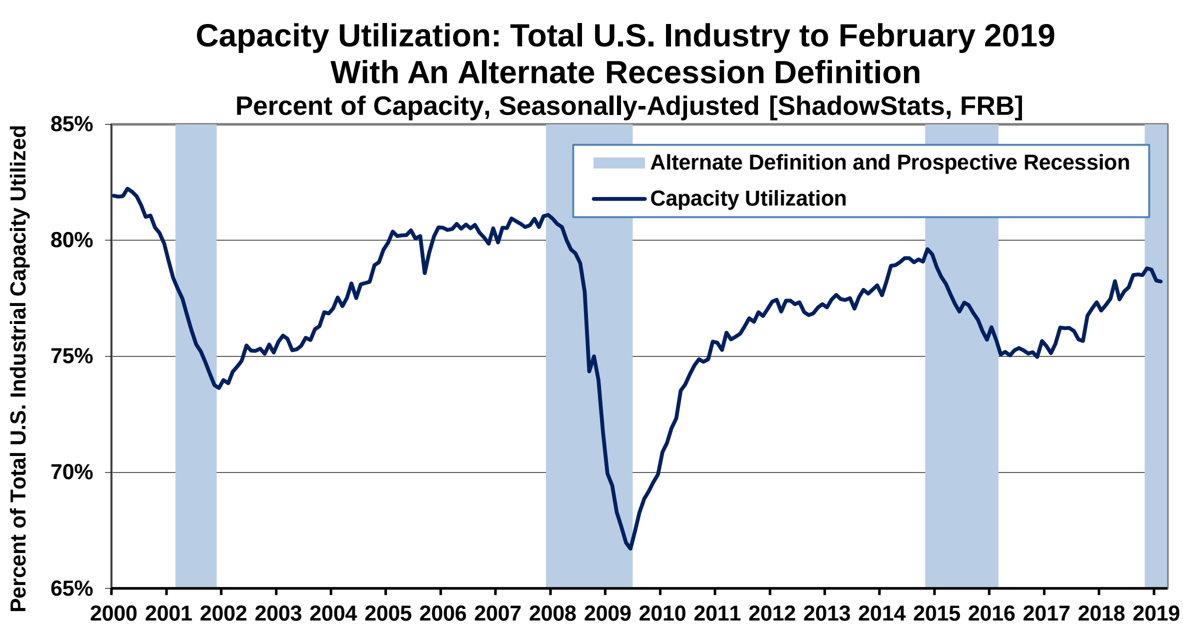
Graph 2: CASS Freight Index, Monthly Year-to-Year Percent Change (2000 to February 2019)



Graph 3: CASS Freight Index™ 12-Mo Moving-Average Level, Jan 2000 to Feb 2019 (Alternate Recessions)



Graph 4: Utilization of Total U.S. Industrial Production and Manufacturing Capacity (Alternate Recessions)
(Same as Graph 2 in Bullet Edition No. 3)



[... continued from page 5.] This circumstance will be expanded upon along with other series in pending *Special Commentary No. 983-B.* Consider that preceding *Graph 3* here has been smoothed with a 12-month moving average to neutralize the seasonality of the not-seasonally-adjusted Freight Series, while the Utilization /Production Series (preceding *Graph 4*) is seasonally adjusted on a monthly basis. Accordingly, the smoothed Freight Series would be expected to lag the path of the Production/Capacity Series a bit, and it does.

Of interest, here, is that the pattern of Freight activity largely matches that of the Production-related Capacity Series, although Freight and Production were separately surveyed, by separate entities, and the Freight Series did not go through the recent corrective benchmark revisions that were applied to the Production Series.

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