John Williams'

Shadow Government Statistics

Analysis Behind and Beyond Government Economic Reporting

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INFLATION, PENDING ECONOMIC HEADLINES, MARKET TURMOIL

Inflation Increase Reflected Gasoline Prices, Not a Booming Economy

Real Average Hourly Earnings Declined for the Second Straight Month

Weaker Than Expected Economic Reporting Looms

Downside Revisions to First-Quarter GDP Should Follow

Market Sentiment Should Begin Shifting Back Towards a Fed Easing

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Note to Subscribers: ***Special Commentary No. 983-B*** of April 22nd provided extended coverage of the ShadowStats' broad outlook for the U.S. economy and financial markets, with the current economic circumstance updated in ***Bullet Edition No. 7***, ***Bullet Edition No. 8*** and today's missive. The forecast of a formal new recession has not changed materially, and the major points in *No. 983-B* remain intact. Initial first-quarter GDP was meaningfully shy of its final reporting quality, due to data distortions and disruptions resulting from the government shutdown. Unusually large (likely downside) revisions to headline growth remain a fair bet going forward, as should be seen in this week's pending reports of April 2019 Retail Sales and Industrial Production. Prospects for a revised, outright quarterly contraction in first-quarter GDP, versus just a sharp slowing from the headline "advance" growth levels, will be assessed in the context of pending revisions and hard reporting of the headline data in the weeks ahead.

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 are invited; always happy to discuss what is happening.

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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 the headline publication. Unusual market circumstances, as well as the pending *ShadowStats* publishing schedule also are covered.
- The ***Bullet Edition*** publishes multiple times per month, as dictated by economic reporting, and underlying 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 relatively brief ***Bullet Edition*** reviews last week's inflation-related reporting and previews some possible economic reporting surprises in week ahead.
- ***Regular Commentaries*** should publish about once per month, providing a broader, more comprehensive overview of unfolding conditions and likely developments, occasionally in the context of a *Special Commentary*.
    - ***Special Commentary No. 983-B*** posted April 22nd.
    - ***Commentary No. 984*** is planned for May 25th.
- ***Hyperinflation*** and ***Consumer Liquidity Watches*** will update once per month, with alternating updates roughly every other week, with the new update cycle beginning shortly.
- All ***Current*** and ***Earlier Commentaries*** and other writings (back to 2004) are available in the *Archives Section,* left-hand column of the **ShadowStats Home Page** (www.ShadowStats.com).

Contents – Bullet Edition No. 9

Financial Market Instabilities

Global Political Issues Disrupted the Markets. Financial-market circumstances have been unstable, roiled by mounting global political turmoil, as we go to press. The intensifying threat of military conflict in the Middle East triggered extreme oil-price swings, while the deteriorating trade conflict between the United States and China tumbled the Dow Jones Industrial Average by 2.4% (-2.4%), with the U.S. Dollar dropping 0.5% (-0.5%) against the Swiss Franc, and Gold gaining by 1.0%. ShadowStats will update its outlook as needed.

***A Pending Negative Shift in Financial-Market Economic Expectations*.** The movements in today's various markets generally were in the same directions that ShadowStats expects to see, at such time as the still slowing U.S. economy begins to show an intensifying headline downturn, and the related financial-market sentiment shifts sharply towards a likely FOMC easing. Discussed in today's section on how *Retail Sales and Production Could Disappoint Expectations* (page 20), the pending May 15th releases of April 2019 Retail Sales and Industrial Production have the potential to provide such headline downturn detail. Where Housing Starts could do the same on the 16th, that series usually is nonsensically volatile in its reporting, although often negative in its revisions.

[Coverage on the CPI begins on the next page.]

April 2019 Consumer Price Indices

Inflation Increase Reflected Gasoline Prices, Not a Strong Economy

Real Average Hourly Earnings Continued in Decline

CPI-U Hit Five-Month High Annual Inflation of 2.0%

Government-Gimmicked Chained-CPI-U (C-CPI-U) at 1.8%

ShadowStats Alternate Inflation (1980-Based) at 9.7%

The Upturn in Headline April Inflation Reflected Rising Gasoline Prices, Not an Economic Boom; Tariffs Will Add to the Upside Pricing Pressures. After being pulled down by collapsing gasoline prices in November 2018 to January 2019, headline annual CPI inflation has begun to rise anew, along with rising, dominant gasoline prices into April. Unadjusted year-to-year CPI-U increased to 2.00% in April 2019 off 1.86% in March and a 28-month low of 1.52% in February, as reported by the Bureau of Labor Statistics (BLS) on May 10th.

Again, driving the annual movement of the aggregate series, year-to-year change in gasoline prices swung to the upside in April, with an annual gain of 3.13%, versus annual declines of 0.70% (-0.70%) in March 2019, 9.09% (-9.09%) in February 2019 and a 10.10% (-10.10%) annual-decline trough in January 2019. Given a continuing rise in energy prices, the headline annual CPI inflation easily could be pushing 3.0% in the next couple of months.

Tariffs Will Push Annual CPI Inflation Higher. Separately, in the context of the current volatile trade negotiations between the United States and China, if the just-imposed U.S. tariffs remain in place, that would put some upside pressure on U.S. inflation. As measured by year-to-year change in the U.S. CPI-U, such could fall somewhere between 0.2% and 0.5% added to the annual inflation rate. That is a very rough estimate.

Headline Monthly Inflation. The seasonally adjusted April 2019 CPI rose by 0.32% in the month, versus gains of in 0.41% March and 0.17% in February, the first three monthly gains since October 2018. The monthly CPI-U had held "unchanged" at a headline 0.0% November 2018 through January 2019, down by 0.01% (-0.01%) in November and December 2018 and by 0.02% (-0.02%) in January 2019, at the second decimal point.

By major CPI-U Sector, monthly Food inflation declined by 0.10% (-0.10%) in April, versus gains of 0.28% in March and 0.41% in February; Energy inflation rose by 2.94% in the month, versus 3.47% in March and 0.44% in February; Core inflation, net of food and energy, rose by 0.14% in April, versus 0.15% in March and 0.11% in February.

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.

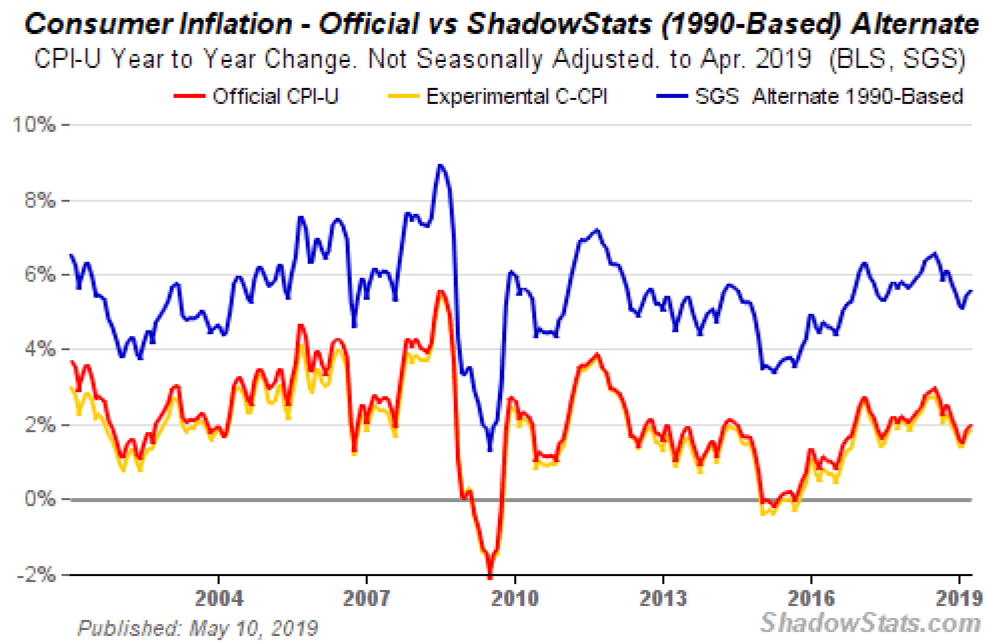
Where this was and is a completely rigged number, the BLS estimated the change in methodology would have the net effect of reducing the headline annual CPI-U inflation rate by 1.4% (-1.4%) per year from what would have been reported otherwise. Where that annual inflation-rate saving was cumulative, that 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 April 2019 CPI-U inflation up by 2.0%, 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 April 2019 at 5.6%, up from 5.4% in March and 5.1% in February (see *Graph 1*) based on pre-Clinton-gimmicked 1990 methodologies.

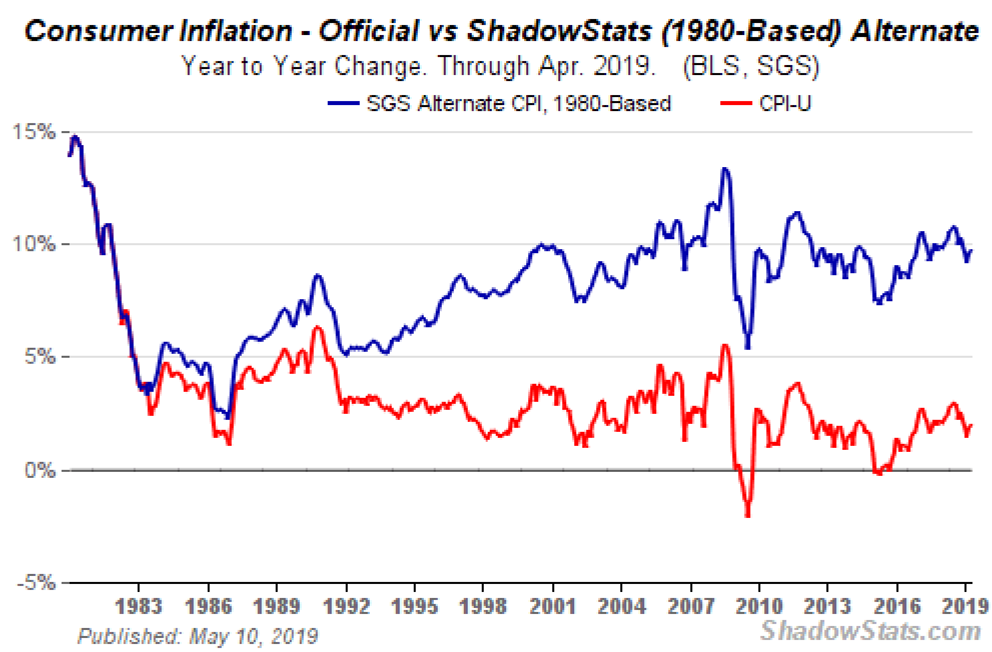
Based on 1980 methodologies, April 2019 inflation was up by 9.7% year-to-year, versus 9.6% in March 2019 and 9.2% in February 2019, as plotted in *Graph 2*. That graph and underlying detail also are available on the Alternate Data tab of the ShadowStats home page (www.shadowstats.com), along with the latest numbers and a comparative inflation calculator.

Detailed in the *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 3*).

Graph 1: Comparative Headline Year-to-Year Change, CPI-U vs. ShadowStats 1990-Based Alternate



Graph 2: Comparative Headline Year-to-Year Change, CPI-U vs. ShadowStats 1980-Based Alternate



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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 active, formally, with the 2017 Tax Reform—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.*

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CPI-U. The Bureau of Labor Statistics (BLS) reported May 10th that the headline, seasonally-adjusted April 2019 CPI-U inflation was up by 0.3% [up by 0.32% at the second decimal point], having increased month-to-month by 0.4% [0.41%] in March, 0.2% [0.17%] in February, 0.0% [down 0.02% (-0.02%)] in January, 0.0% [down 0.01% (-0.01%)] in December 2018, 0.0% [down 0.01% (-0.01%)] in November, 0.3% [0.31%] in October, 0.1% [0.05%] in September, 0.1% [0.11%] in August, 0.2% [0.18%] in July, 0.2% [0.19%] in June and 0.3% [0.28%] in May.

Unadjusted, monthly April 2019 CPI-U gained 0.53%, having gained 0.56% in March, 0.42% in February, 0.19% in January, having declined by 0.32% (-0.32%) in December 2018, by 0.33% (-0.33%) in November, having gained 0.18% in October, 0.12% in September, 0.06% in August, 0.01% in July, 0.16% in June and 0.42% in May.

Year-to-Year CPI-U. Not seasonally adjusted, year-to-year inflation for the April 2019 CPI-U rose to 2.0% [2.00% at the second decimal point], versus 1.9% [1.86%] in March 2019, 1.5% [1.52%] in February 2019, 1.6% [1.55%] in January 2019, 1.9% [1.91%] in December 2018, 2.2% [2.18%] in November 2018, 2.5% [2.52%] in October 2018, 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 and 2.8% [2.80%] in May 2018.

Quarterly CPI-U. On a seasonally-adjusted annualized quarter-to-quarter basis, CPI-U rose by 0.88% in first-quarter 2019, by 1.49% in fourth-quarter 2018, 2.01% in third-quarter 2018, 2.15% in second quarter 2018 and 3.24% in first-quarter 2018.

On an unadjusted, year-to-year basis, headline annual inflation by quarter was up by 1.64% in first-quarter 2019, 2.20% in fourth-quarter 2018, 2.64% in third-quarter 2018, versus 2.71% in second quarter 2018 and 2.21% in first-quarter 2018.

Annual Average CPI-U. The unadjusted annual average CPI-U inflation rate was 2.44% in 2018, versus 2.13% in 2017, 1.26% in 2016 and 0.12% in 2015.

CPI-W. The April 2019 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, gained 0.35% month-to-month, following gains of 0.47% in March, 0.22% in February, and declines of 0.08% (-0.08%) in January, 0.13% (-0.13%) in December 2018, 0.09% (-0.09%) in November, and monthly changes of 0.36% in October, 0.00% in September, 0.14% in August, 0.17% in July, 0.22% in June and 0.29% in May.

On an unadjusted basis, year-to-year CPI-W gained by 1.93% in April 2019, 1.77% in March 2019, 1.33% in February, 1.33% in January 2019, 1.77% in December 2018, 2.19% in November 2018, 2.69% in October 2018, 2.88% in August 2018, 3.16% in July 2018, 3.09% in June 2018 and 3.00% in May 2018.

Quarterly CPI-W. On an annualized quarter-to-quarter basis, seasonally-adjusted CPI-W rose by 0.42% in first-quarter 2019, versus 1.21% in fourth-quarter 2018, 2.07% in third-quarter 2018, versus 2.12% in second-quarter 2018 and 3.49% in first-quarter 2018.

On an unadjusted year-to-year basis, annual inflation by quarter rose by 1.48% in first-quarter 2019, versus 2.22% in fourth-quarter 2018, 2.79% in third-quarter 2018, versus 2.89% in second-quarter 2018 and 2.30% in first-quarter 2018.

Annual CPI-W. The unadjusted annual average CPI-W inflation rate was 2.55% in 2018, 2.13% in 2017, 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 April 2019 revision reduced annual inflation rates by 0.05% (-0.05%) back to May 2018.

The unadjusted annual inflation rate for the C-CPI-U in April 2019 now is 1.82%, versus 1.69% in March 2019, 1.37% in February 2019, 1.34% in January 2019, 1.64% in December 2018, 1.86% in November 2018, 2.15% in October 2018, 1.91% in September 2018, 2.35% in August 2018, 2.59% in July 2018, 2.42% in June 2018 and 2.32% in May 2018. 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 0.40% 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.

Consider that the currently-defined CPI-W-based (otherwise artificially understated in recent decades) Social Security COLA adjustment was 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 the latest revisions, that now would have been 2.3%

Quarterly C-CPI-U, Year-to-Year. On an unadjusted, year-to-year basis, annual inflation by quarter was up by 1.47% in first-quarter 2019, 1.88% in fourth-quarter 2018, 2.28% [previously 2.39%] in third-quarter 2018 (planned future COLA calculation basis), 2.26% [previously 2.36%] in second-quarter 2018, and 1.76% [previously 1.81%] in first-quarter 2018.

Annual Average C-CPI-U. The annual average C-CPI-U inflation rate was 2.05% in 2018, versus 1.76% in 2017, 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 2.44% in 2018, versus 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 5.6% in April 2019, versus 5.4% in March 2019, 5.1% in February 2019, 5.1% in January 2019, 5.5% in December 2018, 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 and 6.0% in April 2018. Those data are reflected in *Graph 1*.

The April 2019 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 9.7% (9.73% at the second decimal point) , versus 9.6% (9.58%) in March 2019, 9.2% (9.22%) in February 2019, 9.2% (9.25%) in January 2019, 9.6% (9.63%) in December 2018, 9.9% (9.92%) in November 2018, 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 *for further details).*

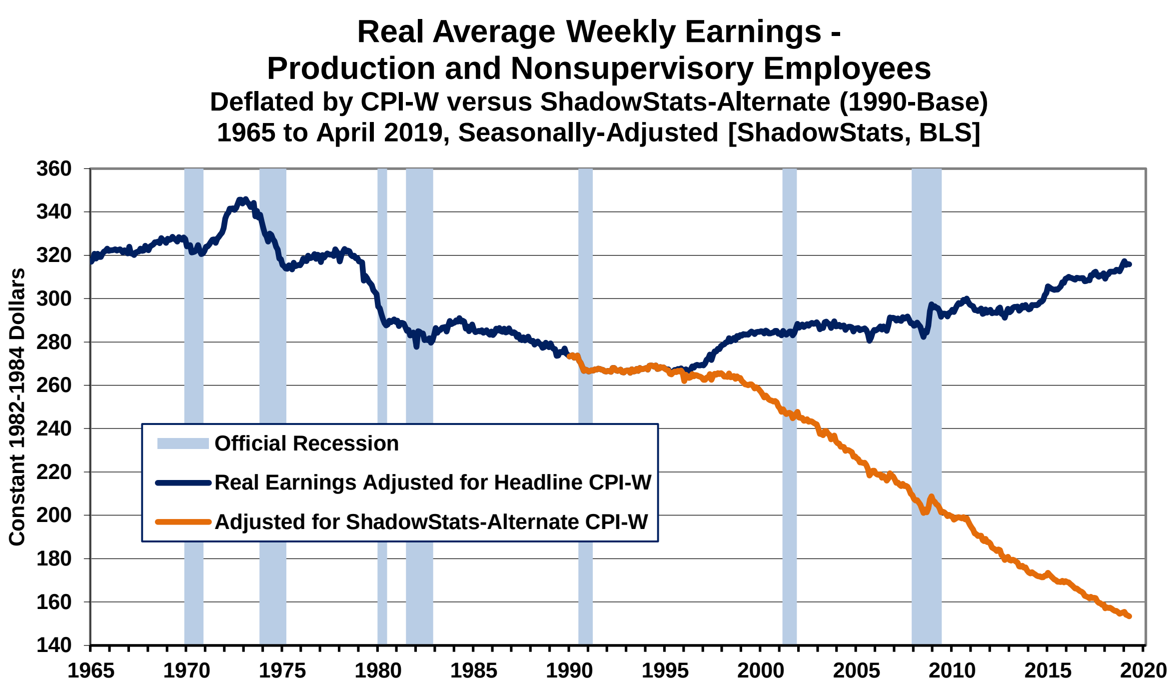
Real Average Hourly Earnings for All Employees Fell for the Second Straight Month

Based on the April 2019 CPI-U and Payroll Employment reporting, "Real Average Hourly Earnings for All Employees on Private Nonfarm Payrolls" Declined for the Second Straight Month, Down by 0.1% (-0.1%) in April, Having Dropped by 0.3% (-0.3%) in March. Reflecting both hourly earnings and hours worked, Real Average Weekly Earnings declined by 0.4% (-0.4%) in April, having been unchanged at 0.0% in March.

Real Average Hourly Earnings also declined by 0.1% (-0.1%) in both March and April 2019 for the "Production and Nonsupervisory Employees," as standardly deflated by the CPI-W. These circumstances broadly continued to signal weakening economic activity and mounting consumer liquidity stress.

April 2019 Real Average Weekly Earnings Were Down in the Month by 0.05% (-0.05%), Showing Continued Liquidity Stress for Both the "Production and Nonsupervisory Employees" and "All Employees" Categories. Consumer liquidity stresses continued in April 2019, faltering of Real Average Weekly and Hourly Earnings, as reported May 10th by the Bureau of Labor Statistics (BLS) along with the headline CPI-W and CPI-U. Where sharply declining gasoline prices actually helped real consumer earnings in November and December, gasoline price again are on the rise, squeezing real income (see also *Graph 25* of *Real Monthly Median Income* and the related discussion in *Bullet Edition No. 8*).

Graph 3: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date



Deflated by CPI-W inflation, real average weekly earnings for the "Production and Nonsupervisory Employees" declined by 0.05% (-0.05%) month-to-month in April, having gained 0.06% month-to-month in February 2019.

The production and nonsupervisory category is the only series for which there is a meaningful history, and *Graph 3* 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.

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

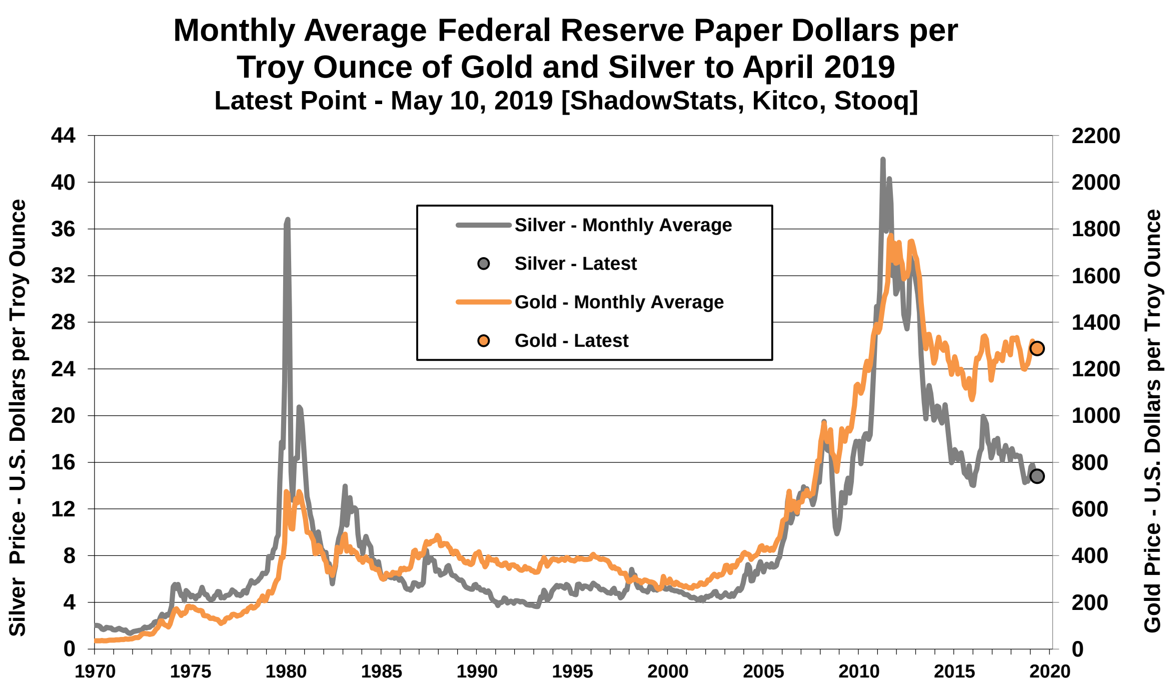
Gold and Silver Historic High Prices - Adjusted for April 2019 CPI-U and ShadowStats Inflation

CPI-U: GOLD at $2,792 per Troy Ounce, SILVER at $162 per Troy Ounce
ShadowStats: GOLD at $17,077 per Troy Ounce, SILVER at $993 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 $2,792 per troy ounce, based on April 2019 CPI-U-adjusted dollars, and $17,077 per troy ounce, based on April 2019 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 April 2019 CPI-U inflation, the 1980 silver-price peak would be $162 per troy ounce, $993 per troy ounce in terms of the April 2019 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (again, all series not seasonally adjusted).

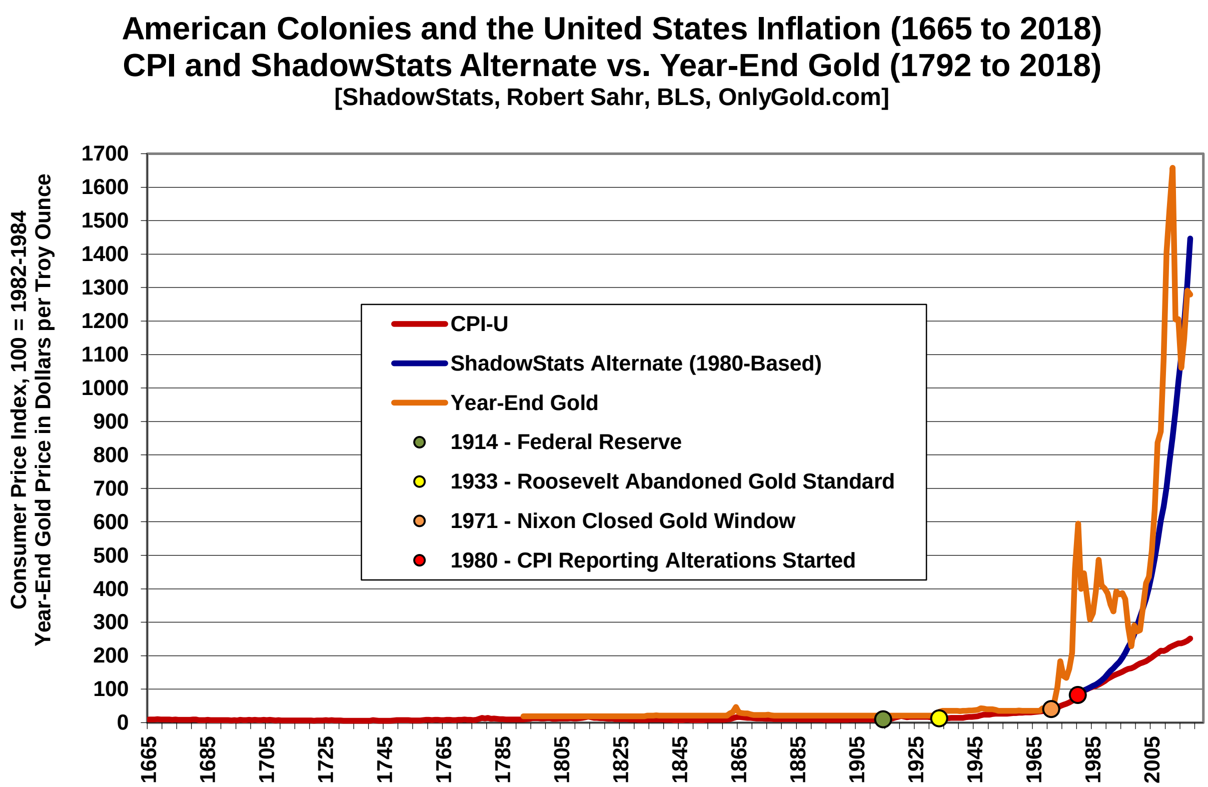
Graph 4: Monthly Average Gold and Silver Prices in Dollars (Federal Reserve Notes)



Graph 4 shows the historical plot of nominal gold prices (see also *Section 8* of *Special Commentary No. 983-B*. As economic expectations increasingly take hits in the weeks and months ahead, and the FOMC moves towards renewed easing, dollar selling should intensify, losing ground against both gold and silver, as well as stronger currencies such as the Swiss France (CHF). Recent, relative short-term U.S. dollar strength should prove fleeting, in what quickly could become a highly inflationary circumstance for those living in a U.S. dollar-denominated world.

Shown 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 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), as reflected here in *Graph 5* and discussed in *Section 6* of *Special Commentary No. 983-B*.

Graph 5: Consumer Inflation 1665 to 2018 versus Gold



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

April 2019 Producer Price Index

Annual PPI Construction Inflation Hit a 10-Year (Series) High of 5.4%

April 2019 Producer Price Index Gained 0.2% in the Month, 2.2% For the Year, Still Driven by Gasoline Prices. Aggregate **Final Demand PPI (FD-PPI)** rose by 0.17% in April, versus 0.60% in March, with unadjusted annual inflation effectively holding at a four-month high of 2.16%, versus 2.17% in March, as reported by the Bureau of Labor Statistics on May 9th. The FD-PPI is dominated by a mal-defined "Services" sector, which guestimates profit margins, not prices, discussed in the next section: *Bulk of Headline PPI Reporting Is of Little Practical Use.* Accordingly, once again, rising energy inflation (gasoline prices) tended to prop "Goods" inflation but muted "Services" inflation.

By Major Category: **PPI-Goods** inflation rose by 0.26% in April, versus 1.05% in March, with annual Goods inflation at 1.49% versus 1.32% in March. The month-to-month gain was dominated by a 1.77% increase in energy prices, not by surging economic activity. **PPI-Services** inflation rose in the month by 0.08%, muted by surging gasoline prices, down from 0.34% in March, with annual April inflation at 2.41%, versus 2.50% in March. **PPI-Construction** April year-to-year inflation rose to a record high (for this series as started in November 2009) of 5.40%, from 4.87% in March. The month-to-month Construction numbers never are comparable.

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 April 2019 Final-Demand Producer Price Index and Its Major Sub-Sectors. Seasonally-adjusted, month-to-month, headline Producer Price Index Final-Demand (FD-PPI or PPI-FD) inflation for April 2019 was a gain of 0.17%, following monthly gains of 0.60% in March, 0.09% in February, a monthly decline of 0.17% (-0.17%) in January, unchanged at 0.00% in December 2018, 0.35% in November and 0.44% in October.

On a not-seasonally-adjusted basis—all annual growth rates are expressed unadjusted—year-to-year PPI-FD inflation in April 2019 held at 2.16%, versus 2.17% in March 2019, 1.91% in February 2019, 2.01% in January 2019, 2.64% in December 2018, 2.63% in November 2018 and 3.07% in October 2018. As with the CPI, these annual inflation numbers have been unusually volatile in the last seven months, given extreme and irregular annual gasoline-price swings, against irregular price movements in the same months in 2018 and 2017. In the headline FD-PPI, though, gasoline price swings often offset each other in the mal-defined profit-margin-based Services sector versus the cost-based Goods sectors (see the earlier *Bulk of Headline PPI Reporting Is of Little Practical Use* section).

In summary, for the three major subcategories of the April 2019 PPI-FD, which showed an aggregate adjusted monthly gain of 0.17%, and an aggregate unadjusted annual inflation of 2.16%; headline monthly Goods inflation was an adjusted gain of 0.26%, up by an unadjusted 1.49% year-to-year; Services "inflation" (profit margins) gained month-to-month by 0.08%, up by 2.41% year-to-year; and Construction "inflation" was up by a never-consistent monthly 1.60%, up by a consistent and a series (since 2009 creation) record-high year-to-year 5.40%.

Final Demand Goods (weighted at 32.84% of the Aggregate Index). Running somewhat in parallel with the old Finished Goods PPI series, headline month-to-month Final Demand Goods inflation in April 2019 gained by 0.26%, having gained 1.05% in March, and 0.35% in February. There was negative impact on the aggregate goods monthly reading from underlying seasonal-factor adjustments. Not-seasonally-adjusted, April inflation was 0.52% for the month. Unadjusted, year-to-year goods inflation in April 2019 showed an annual gain of 1.49%, versus 1.32% in March 2019 and 0.62% in February 2019.

Seasonally-adjusted monthly changes by major components of April 2019 Final Demand Goods:

- "Foods" inflation (weighted at 5.78% of the total index) in April 2019 declined month-to-month by 0.17% (-0.17%), having gained 0.34% in March and having declined by 0.25% (-0.25%) in February. Seasonal adjustments were negative for the April change, which was an unadjusted monthly decline of 0.08% (-0.08%). Unadjusted and year-to-year, annual April 2019 foods inflation was 1.03%, versus an annual gain of 0.08% in March 2019 and 1.65% in February 2019.
- "Energy" inflation (weighted at 5.29% of the total index) gained month-to-month in April 2019 by 1.77%, with a continued rally in gasoline prices, having gained 5.61% in March and 1.80% in February. Seasonal adjustments were sharply negative in April, with unadjusted energy showing a monthly gain of 3.71%. Unadjusted and year-to-year, April 2019 energy prices gained 1.02%, moving off annual declines of 0.38% (-0.38%) in March 2019 and 6.39% (-6.39%) in February 2019.
- "Less foods and energy" ("Core" goods) monthly inflation (weighted at 21.77% of the total index) was "unchanged" at 0.00% month-to-month in April 2019, having gained 0.17% in March and 0.09% in February. Seasonal adjustments were neutral for monthly "Core" inflation, with the unadjusted monthly April at 0.00%. Unadjusted and year-to-year April 2019 "Core" PPI inflation was 1.82%, versus 1.99% in March 2019 and 2.26% in February 2019.

<u>Final Demand Services (weighted at 65.47% of the Aggregate Index).</u> Headline Final Demand Services inflation notched higher month-to-month by 0.08% in April 2019, versus 0.34% in March and "unchanged" at 0.00% in February. The overall seasonal-adjustment impact on headline services inflation was neutral, with an unadjusted monthly gain of 0.08% in April. Year-to-year, unadjusted April 2019 services inflation was 2.41%, versus 2.50% in March 2019 and 2.52% in February 2019.

The headline monthly changes by major component for April 2019 Final Demand Services inflation:

- "Services less trade, transportation and warehousing" inflation or the "Other" category (weighted at 40.49% of the total index) rose by 0.34% in April 2019, versus unchanged at 0.00% in March and 0.34% in February. Seasonal-adjustment impact on the April detail was positive, where the unadjusted monthly change was a gain of 0.17%. Unadjusted and year-to-year, April 2019 "other" services inflation was up by 2.08%, versus 1.82% in March 2019 and 2.18% in February 2019.
- "Transportation and warehousing" inflation (weighted at 4.66% of the total index) rose month-to-month by 0.97% in April 2019, versus a declines of 0.80% (-0.80%) in March and 1.27% (-1.27%) in February. Seasonal adjustments were positive for April, against an unadjusted monthly gain of 0.72%. Unadjusted and year-to-year, April 2019 transportation inflation rose by 3.73%, versus 3.24% in March 2019 and 4.54% in February 2019.
- "Trade" inflation (weighted at 20.32% of the total index) declined month-to-month in April 2019 by 0.50% (-0.50%), because gasoline prices rose—nonsense definitions and reporting as discussed earlier—having gained 1.09% in March and having dropped 0.42% (-0.42%) in February. Seasonal adjustments had a negative impact, where the unadjusted monthly change was a decline of 0.33% (-0.33%). Unadjusted and year-to-year, April 2019 trade inflation eased to 3.09% in April 2019, from 3.88% in March 2019 and versus 2.59% in February 2019.

Final Demand Construction (weighted 1.69% 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 1.60% in April 2019, bloated as usual against 0.16% in March and a decline of 0.08% (-0.08%) in February, by the new quarterly estimate of profit margins, a change posted only in the first month of a quarter.

The impact of seasonal factors on the April 2019 Construction reading was neutral and meaningless, as usual, where the monthly change effectively never is seasonally adjusted, also showing a gain of 1.60%. The issues here are a combination of monthly headline cost changes along with a nonsensical quarterly estimate of contractor profit-margin changes that have little connection to real-world price inflation.

On an unadjusted, year-to-year basis, where the monthly annual inflation changes basically are comparable, construction inflation rose year-to-year to a record-high 5.40% in April 2019. That is in the context of this series being created in November 2009 = 100. Such is against 4.87% in March 2019, and 4.79% in February 2019.

Again, unlike the month-to-month data, the annual changes are reasonably comparable. Annual change here recently has moved above the estimates of private surveying and other government estimates (GDP deflators), which otherwise generally have shown higher construction-related inflation than the PPI. Discussed in *Commentary No. 829*, the Construction Sector PPI had 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*).

[Discussion of potential downside surprises in pending economic releases begins on the next page.]

Retail Sales and Industrial Production Could Disappoint Expectations

Full Estimate of First-Quarter Trade Deficit Was in Line with Initial Estimates

1q2019 GDP Remains Shy of Fully Reporting the Decline in Consumer Activity

March 2019 Trade Deficit Widened Minimally. The Census Bureau and Bureau of Economic Analysis reported May 9th, that the full first-quarter 2019 trade balance was in line with that of the initial first-quarter 2019 GDP estimate, with March 2019 activity in line with its "advance" estimate of the May goods trade deficit (see *Bullet Edition No. 8*).

Reflecting minimal revisions, the March Goods and Services Trade Deficit widened to $50.0 billion from $49.3 billion in February and against $51.1 billion in January. A pattern of similar, minimal revisions in the Real Merchandise Trade Deficit left intact the recessionary pattern in Imports, as seen previously in 2008, during the Great Recession, where declining domestic consumer demand was reflected in declining real U.S. imports of goods.

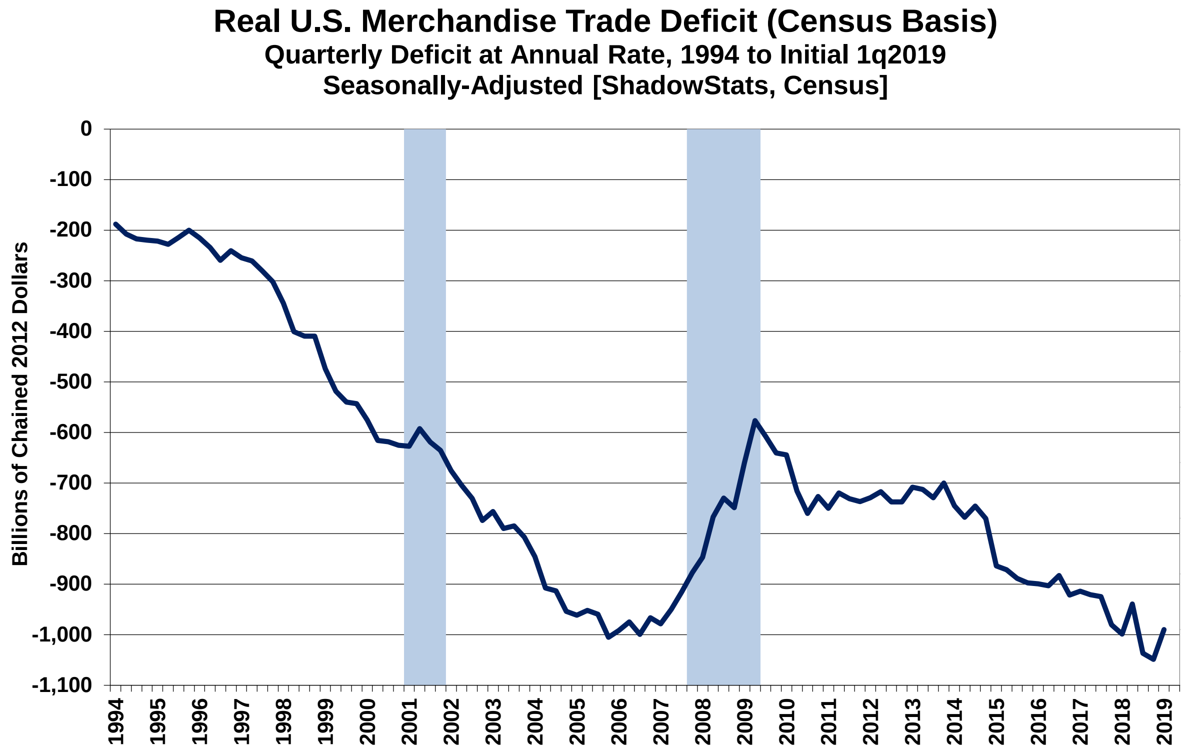
Following *Graphs 6* and *7* are the same as *Graphs 23* and *24* in *Bullet Edition No. 8*, with only *Graph 6* updated here for the new reporting of the full quarterly merchandise trade data. *Graph 7* is identical to the prior *Graph 24*, still reflecting the "advance" estimate of the real deficit in first-quarter Net Exports, which will be revised on May 30th. The reporting issue here is that the current headline level of U.S. consumer pull back in the GDP is not as great as it should be, given the level of declining imports, even though the headline GDP does show declining consumer goods consumption and an inventory buildup.

Where first-quarter 2019 Net Exports should see only a minimal first revision (May 30th), better accounting for the implied collapse in U.S. consumer goods consumption easily could show up with negative revisions in other series, such as Retail Sales and Industrial Production.

Watch for Unexpected Pull Backs and/or Downside Revisions to Retail Sales and Production. April 2019 Retail Sales and Industrial Production will be released on Wednesday, May 15th. Both series should come in weaker than expected, on top of downside revisions to earlier months. Current expectations appear to be for a monthly gain in Retail Sales of 0.2% to 0.3%, plus-or-minus, which is not much of a real increase with April CPI-U inflation at 0.3%, with Industrial Production expectations effectively "unchanged," plus-or-minus. Negative reporting/revisions would suggest downside revisions to first-quarter GDP, and a weaker outlook for second-quarter GDP. Market sentiment likely would shift some, back towards an FOMC easing, with flight out of the U.S. dollar and into the relative safety of gold an likely, early possible knee jerk reaction.

The ShadowStats home page (www.shadowstats.com) will post summary details, analysis and insights of those releases in the "**LATEST ECONOMIC RELEASES"** paragraphs of the ***Daily Update*** section by 12:30 pm ET on the 15th.

Graph 6: Real U.S. Merchandise Trade Deficit (First-Quarter 1994 to Initial First-Quarter 2019)



Graph 7: Real Net Exports of Goods and Services in GDP (First-Quarter 1994 to "Advance" First-Quarter 2019)

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