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

ShadowStats Flash Update No. 4

Unusually Volatile and Dangerous Financial Markets Remain in Play

August 19, 2019

Yes, Chairman Powell, There Really Is a Recession, and It Is Getting Worse

It Is Felt and Seen Increasingly on Main Street U.S.A., Which Never Recovered Fully from the 2008 Banking Collapse and Great Recession

Real Average Weekly Earnings for all Employees Are on Track for a Second Consecutive Quarterly Decline in Third-Quarter 2019

July Freight Index Generated a Formal Economic-Contraction Signal

Third-Quarter 2019 Industrial Production Is On Track for Its Third Consecutive Quarterly Decline, On Top of Downside Revisions to First- and Second-Quarter 2019 Contractions

July Real Retail Sales Gained 0.4% in the Month, 1.6% Year-to-Year, Yet, Real Annual Growth Below 2.0% Rarely Is Seen Outside of Recessions

At the Same Time, Retail Sales of Automobiles Turned Down Anew, On Top of Downside Revisions

In Second-Quarter 2019, Nominal Construction Spending Fell Into Annual Decline for the First Time Since the Onset of the Great Recession

Implications Are for a Downside Revision to Second-Quarter GDP

Expanded FOMC Accommodation, Likely Will Include Renewed Quantitative Easing

Unusually Volatile and Dangerous Financial Markets Remain in Play

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Note to Subscribers: *Still under the weather, I look to publish* **Commentary No. 985** *later this week. Nonetheless, with major, formal "no-recession" assurances beginning to hit the markets, today's* **Flash Update No. 4** *addresses some of the near-term economic details suggesting the U.S. economy remains in deepening trouble, with full detail pending in* **No. 985**. **Flash Update No. 3** *and* **Commentary No. 984** *are incorporated here by reference.*

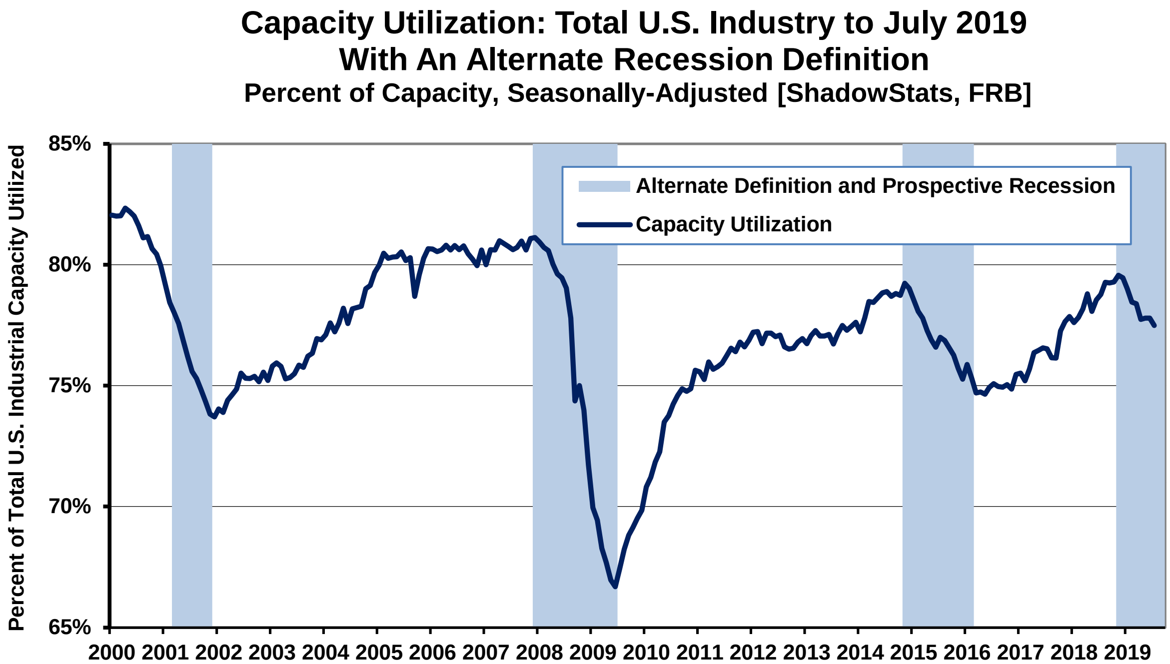
Formal Recession "Call" Is Not Likely Until Around the 2020 Election. ***Commentary No. 985*** will address fully the recent GDP benchmark revisions and likely timing of the new recession. As will be noted in terms of the peculiarities of some prior formal recession timings, despite First-Quarter 2019 GDP holding at 3.1% in the GDP benchmarking, the recession likely will be timed from a peak in Fourth-Quarter (November) 2018 activity. The first-quarterly contraction likely will be in a downwardly revised Second-Quarter 2019 reading, followed by quarterly contractions in Third-Quarter 2019 and likely Fourth-Quarter 2019, with a formal recession call and timing set by the defining National Bureau of Economic Research (NBER) likely not much before late-2020, just in time for the election. See the NBER's earlier recession timing discussion: https://www.nber.org/cycles/jan08bcdc_memo.pdf.

Voters Tend to Vote Their Pocketbooks, Not Gimmicked Headline Numbers. As seen with the November 2016 Presidential race, Donald Trump beat the incumbent-party candidate, despite the headline release on October 28th of Third-Quarter 2016 GDP "advance" annualized real growth of a respectable 2.9%, up from 1.4% in Second-Quarter 2016. Subsequently that 2.9% revised to 2.2%. See the discussion on the economy/disposable income versus elections in ***Commentary No. 846***. How the voters will affix blame for a substandard, non-recovering economy in 2020, remains to be seen, where the incumbent circumstance has been adversely affected by a Federal Reserve primarily continuing to look after the needs of post-collapse banking system, and unusually severe political opposition in Congress, among other areas, to thwart efforts to at addressing ongoing economic debilitation from trade-deficit problems.

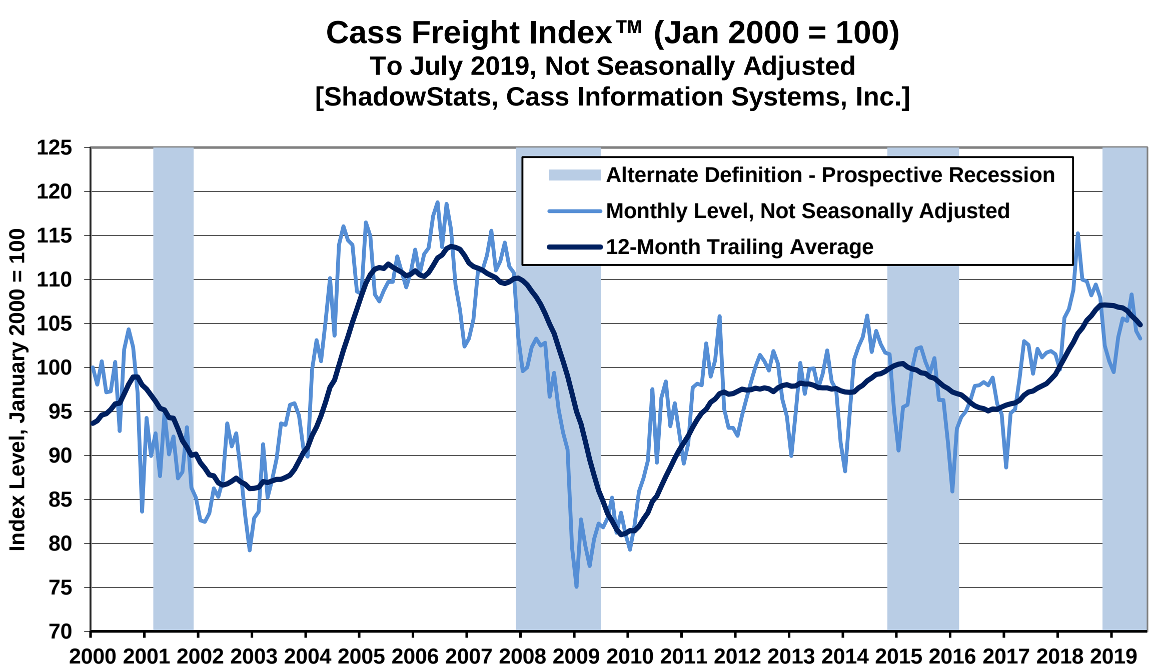
Unfolding Recession Already Is Underway. The following graphs reflect the latest headline details, again, with full coverage pending in ***Commentary No. 985***. Consider basic measures of economic activity, such as Capacity Utilization from the Industrial Production series, and the CASS Freight Index™, both plotted here in *Graphs 1* to *3*. Where the shaded bars represent recessions, the last two bars only in these graphs are provided by ShadowStats, representing what was (1) a likely mini-recession in 2015, which was masked early on by poor-quality benchmark revisions, and (2) the likely onset of the current recession. Other, earlier shaded bars reflect recessions as formally recognized by the NBER. See the extended discussion in ***Commentary 983-B***, *Section 4*: *Underlying Reality — No Economic Expansion in Key Sectors*.

Also reviewed here are the Real Average Weekly Earnings, Real Retail Sales and Construction Spending, all factors that feed directly into the real-world economic experience of Main Street U.S.A.

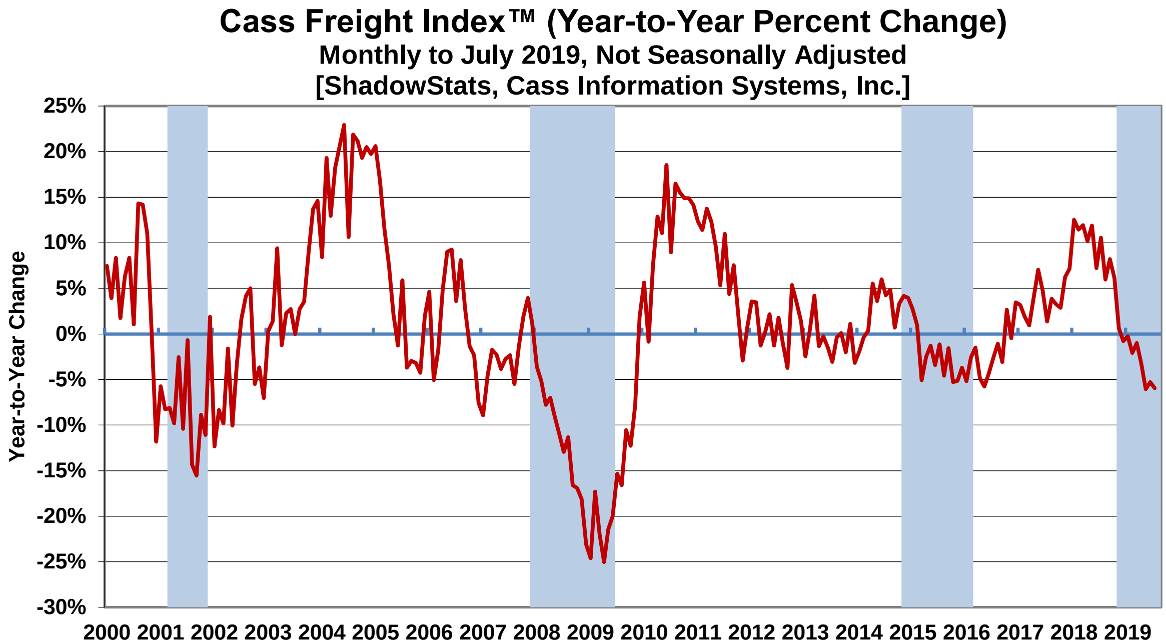
Graph 1: Capacity Utilization – Industrial Production (2000 to Date)



Graph 2: CASS Freight Index™ (2000 to Date)



Graph 3: CASS Freight Index™ Year-to-Year Change (2000 to Date)



July 2019 Industrial Production Declined on Top of Sharp Downside Revisions, with Implications for Downside Revision to Second-Quarter 2019 GDP. On top of meaningful downside revisions to prior activity, July 2019 Industrial Production showed an unexpected decline of 0.22% (-0.22%) in the month, encompassing drops of 0.37% (-0.37%) in Manufacturing and 1.80% (-1.80%) in Mining. The unusual decline in Mining was dominated by declines in oil and gas production and exploration.

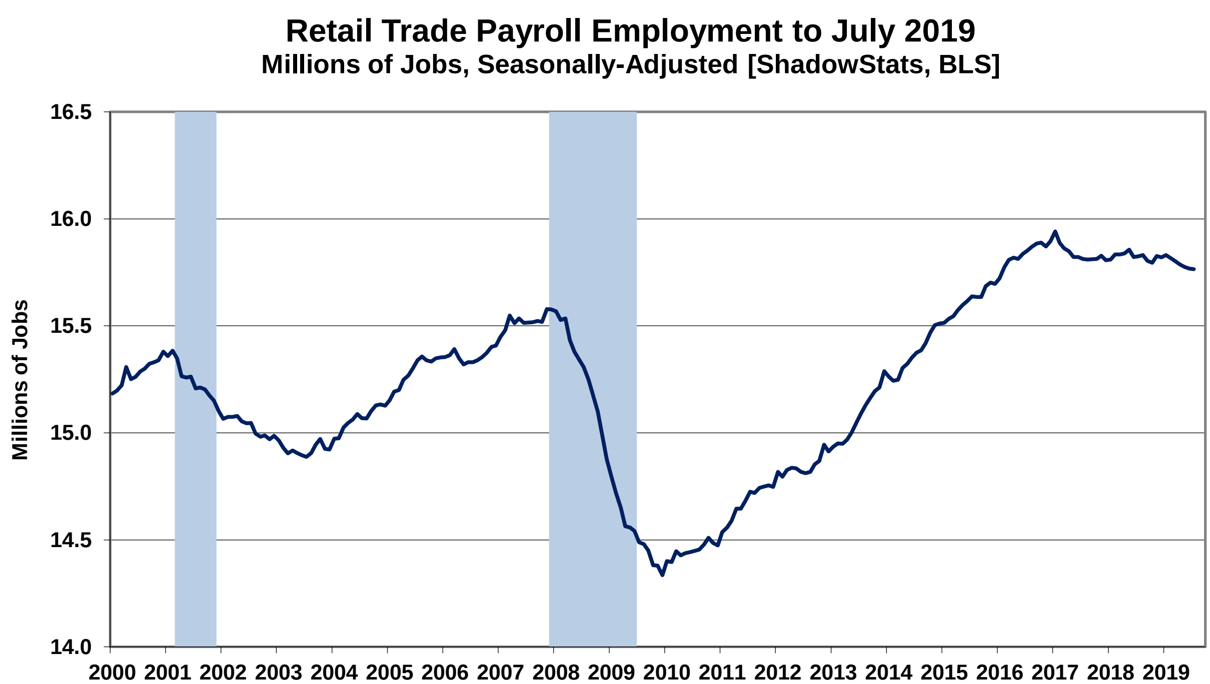
On the manufacturing front, Capacity Utilization continued its decline, dropping to a 21-month low of 77.49% (see *Graph 1*), as reported by the Federal Reserve Board (FRB) on August 15th. Quarterly revisions showed a revised annualized Second-Quarter 2019 contraction of 3.09% (-3.09%) [previously 2.25% (-2.25%)] in the dominant Manufacturing sector, and a downwardly revised quarterly gain of 7.39% [previously 8.88%] in the Mining sector. The second-quarter decline in aggregate Industrial Production revised to 2.10% (-2.10%) [previously down by 1.18% (-1.18%)]. While First-Quarter 2019 revisions also showed deeper Production and Manufacturing contractions and reduced Mining growth, only the second-quarter GDP is subject to near-term revision in the next month, likely to the downside.

July 2019 CASS Freight Index™ Fell Year-to-Year by 5.9% (-5.9%), Following Annual Declines of 5.3% (-5.3%) in June and 6.0% (-6.0%) in May, Parallel to the Deepening Annual Declines at the Great Recession Onset. As summarized and reported by CASS (www.CassInfo.com) in its July report, their Index now formally is "signaling an economic contraction." Beyond the worst downtrending annual growth since January 2008 onset of the Great Recession, the Index's 12-month moving average declined month-to-month for the eighth straight month. Those year-to-year and 12-month-moving-average metrics neutralize seasonality in this unadjusted series. ShadowStats regularly follows and analyzes the CASS Index as a highest-quality coincident/leading indicator of underlying economic reality. We thank CASS for their permission to graph and to use their numbers in our Commentaries. Freight activity tends to reflect activity in both the retail sales trade and industrial production.

A 0.70% Jump in July 2019 Retail Sales Was 0.37% Net of CPI Inflation, With Real Annual Retail Sales Growth Holding at 1.6%; Growth Below 2.0% Rarely Is Seen Outside of Formal Recessions. Reported by the Commerce Department on August 15th, Automobile Sales resumed their nominal downturn, despite July monthly Retail Sales gaining a stronger than expected nominal 0.70% (real 0.37% net of inflation). Annual aggregate real growth held at 1.6%, where growth below 2.0% rarely is seen outside of recessions. As regularly calculated by the Saint Louis Fed, net of headline CPI-U inflation, July 2019 Real Retail Sales Gained 0.37% in the month, versus a revised 0.27% [previously 0.37%] in June and 0.43% [previously 0.34%] in May. In aggregate, the latest Retail reporting and revisions suggested a negligible upside revision to Second-Quarter 2019 GDP.

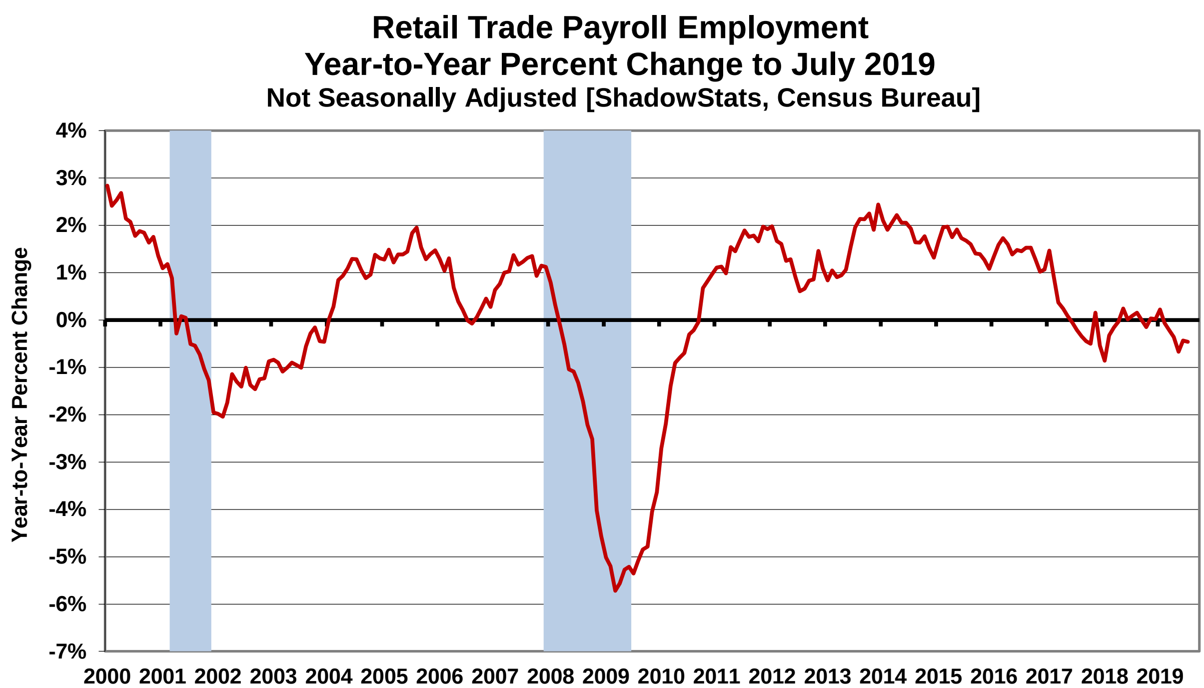
What appeared to be a major shift in the headline reporting, however, was with Automobile Sales resuming their downturn, on top of downside revisions to recent activity. Such should be reflected in pending New Orders for Durable Goods and in future automobile production.

Graph 4: Retail Trade, Payroll Employment (2000 to Date)

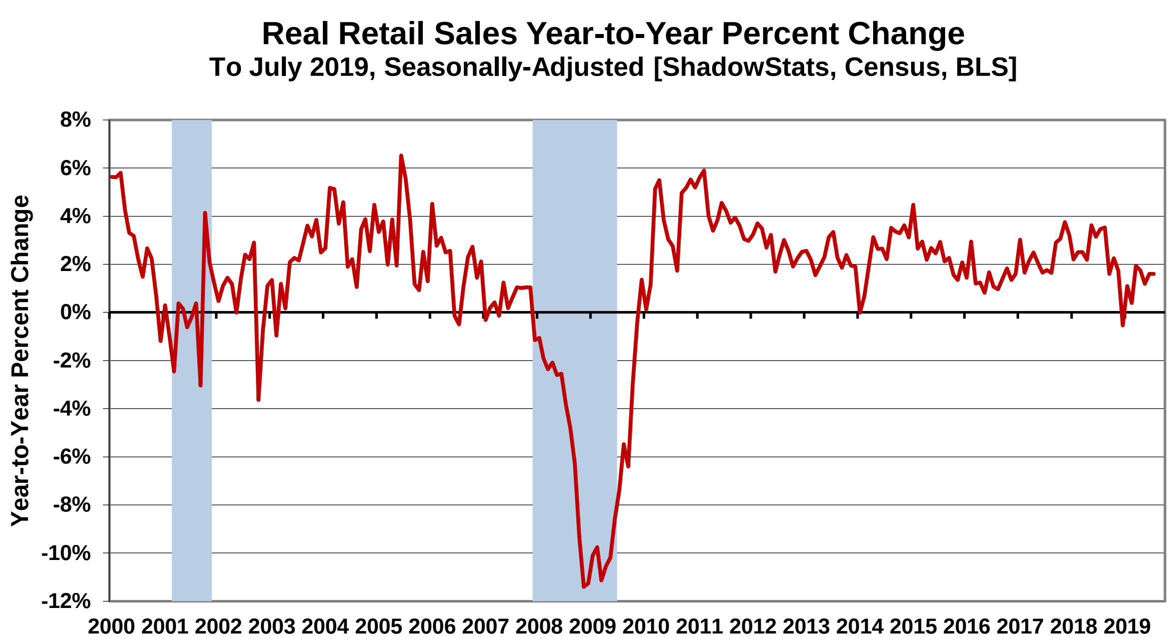


[Graphs 5 and 6 follow on the next page.]

Graph 5: Retail Trade, Payroll Employment, Year-to-Year Change (2000 to Date)



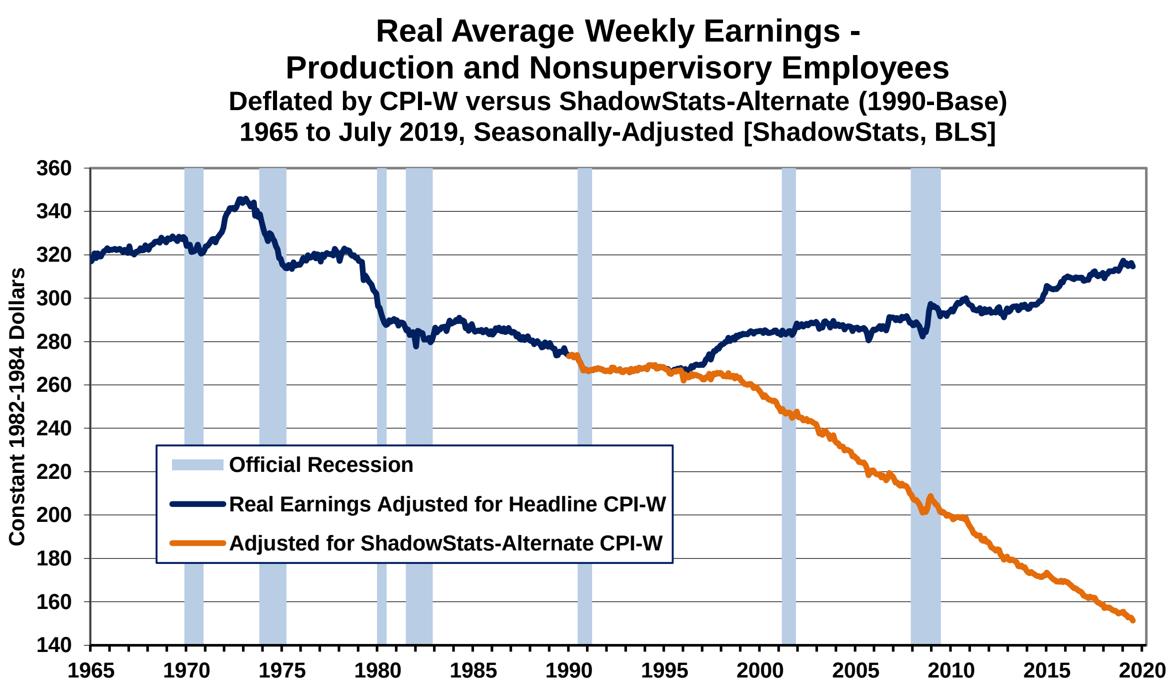
Graph 6: Real Retail Sales, Year-to-Year Change (2000 to Date)



Real Earnings in Quarterly Contraction. While the July 2019 CPI-U Gained 0.34% month-to-month and 1.81% year-to-rear; Real Earnings continued to decline on top of downside Second-Quarter 2019 Revisions, as reported by the Bureau of Labor Statistics on August 13th. The Consumer Price Index (CPI-U) showed its strongest monthly and annual gains, respectively, since March and April, boosted by an upturn in gasoline prices. July 2019 unadjusted annual CPI-U inflation rose to 1.81%, from 1.65% (rounds to 1.6%) in June and 1.79% in May, with adjusted monthly inflation of 0.34% July, versus 0.06% in June and 0.08% in May.

Third-Quarter 2019 Real Average Weekly Earnings on Early Track for a Second Consecutive Quarterly Decline. Consistent with deepening recession, Real Average Weekly Earnings (All Employees on Nonfarm Payrolls) declined month-to-month in July by 0.34% (-0.34%), versus a revised gain of 0.23% [previously 0.16%] in June. Parallel numbers for the subsidiary Production and Nonsupervisory Employees category were a monthly decline of 0.50% (-0.50%) versus a revised 0.16% [previously 0.15%] gain in June. Both series were on early track for a second consecutive quarterly contraction in Third-Quarter 2019. Deepening Second-Quarter 2019 annualized declines in real quarterly earnings revised to 1.05% (-1.05%) [previously 0.95% (-0.95%)] for "All" and to 0.95% (-0.95%) [previously 0.84% (-0.84%)] for "Production" employees. The latter circumstance is reflected in *Graph 7*.

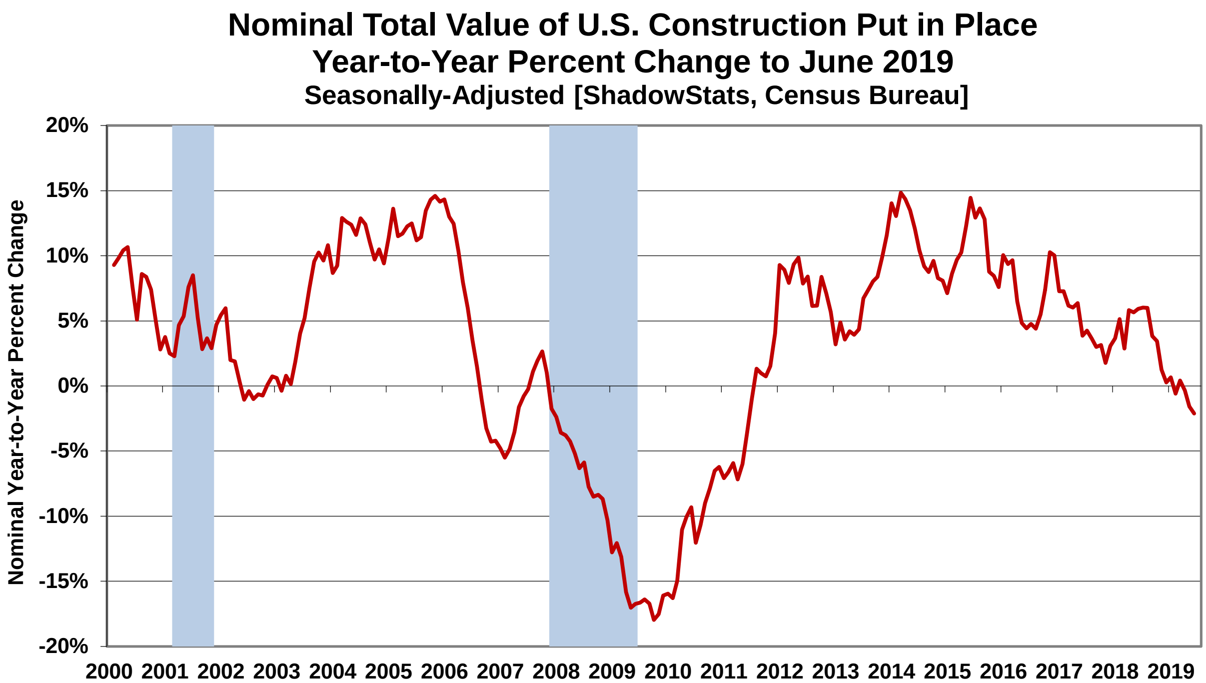
Graph 7: Real Average Weekly Earnings (1965 to Date)



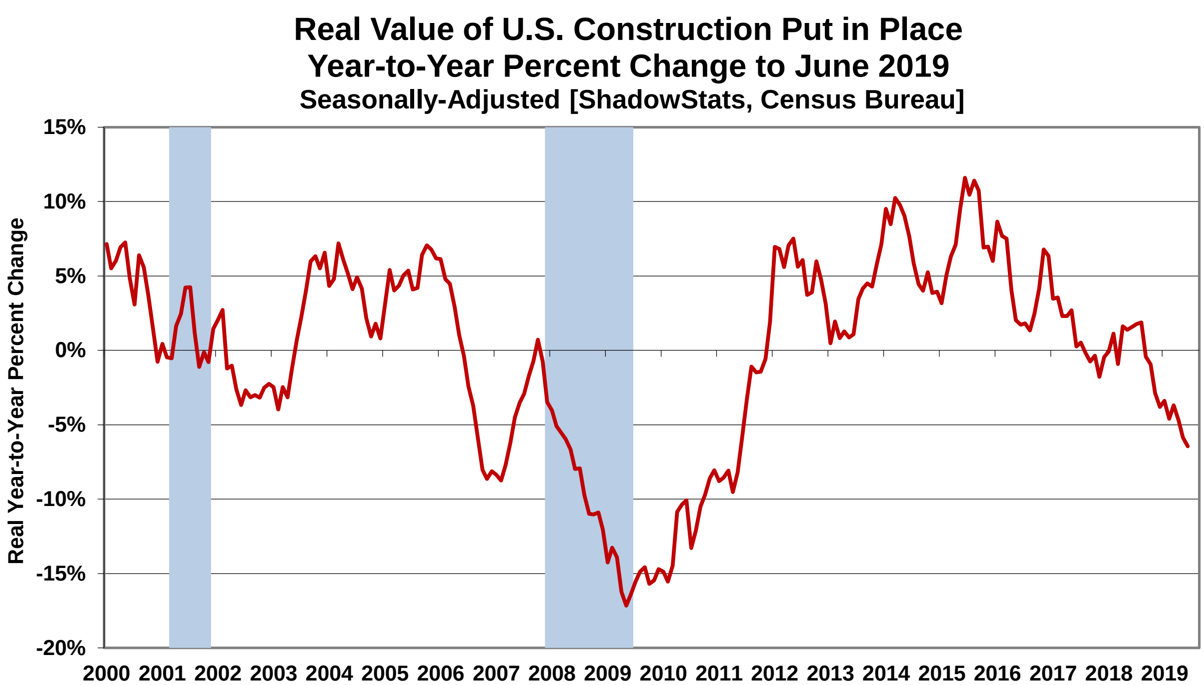
June 2019 and Second-Quarter 2019 Nominal Construction Spending Declined Month-to-Month and Year-to-Year in a Manner Last Seen When the Economy Collapsed into the Great Recession. Despite the regularly volatile revisions to April and May activity, to the upside in Residential Construction, and to the downside in Nonresidential Construction, Second-Quarter 2019 Nominal Construction Spending dropped year-to-year by 1.3% (-1.3%), versus an annual gain of 0.2% in First-

Quarter 2019. Reported by Census on August 1st, that was the first time nominal annual growth in Construction Spending had turned negative since the First-Quarter 2008 onset of the Great Recession.

Graph 8: Nominal Value of U.S. Construction, Year-to-Year Change (2000 to Date)



Graph 9: Real Value of U.S. Construction, Year-to-Year Change (2000 to Date)



First- and Second-Quarter 2019 real Construction Spending remained in deepening annual contractions, down respectively by 4.6% (-4.6%) and by 5.7% (-5.7%), with annualized quarterly change revising upward to a minimally positive 0.1% in First-Quarter 2019, followed by a contraction of 4.6% (-4.6%) in Second-Quarter 2019.

Nominal aggregate June 2019 Construction Spending declined month-to-month by 1.26% (-1.26%), reflecting declines in all major categories: residential, nonresidential, private and public, following a narrowed monthly decline of 0.51% (-0.51%) in May. The nominal annual decline in June 2019 spending was 2.11% (-2.11%), versus a revised a narrowed drop of 1.58% (-1.58%) in May. With the exception of an unrevised 0.59% (-0.59%) annual decline in February 2019, the nominal monthly series last fell into annual contraction in December 2007, going into the Great Recession.

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