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

ShadowStats Economic Commentary, Issue No. 1441

Economic Review - May 2020 Cass Freight Index®, Production, Construction, Retail Sales

June 24, 2020

U.S. Economic Activity Was Faltering Before the Pandemic-Driven Collapse

Pre-Pandemic Economic Troubles Were Driven Primarily by Intensifying Federal Reserve Policy Malfeasance

March 2020 Economic Numbers Took the Initial Hit of the Pandemic Shutdown, Pulling First-Quarter 2020 GDP into an Annualized 5.0% (-5.0%) Contraction

April 2020 Saw the Worst-Ever Monthly Collapses in Industrial Production, Nonresidential Construction, Payrolls and Retail Sales

May 2020 Saw Dead-Cat Bounces in Monthly Production and Construction, Some Bottom-Bouncing in Payrolls and Rebounding Retail Sales; the Latter Two Series of Questionable Reporting Quality

In Its 18th Straight Month of Annual Decline, the May 2020 Cass Freight Index® Notched Lower, Closing in on Its Record Trough of the Great Recession

Second Year of Federal Reserve Reporting Delays Look to Exclude Long Overdue, Pre-Pandemic Downside Revisions to Industrial Production from the July 30th Second-Quarter 2020 GDP Estimate and Annual Benchmark Revisions

All Considered, Initial Second-Quarter 2020 Real GDP Holds on Track for the Deepest-Ever Annualized Quarterly Contraction, Down by Roughly 50% (-50%)

Protracted Recovery Likely Will Be L-Shaped, Not V-Shaped

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Overview – Second-Quarter 2020 Economic Difficulties Intensify

Worst U.S. Economic Activity Ever Reported Lies Ahead

Despite the NBER's Formal Call, This Is Not a "Recession," It Is an "Economic Collapse" Triggered by an Extraneous, Non-Economic Event

Pre-Pandemic Economy Was in Deepening, FOMC-Induced Economic Trouble

Second Year With No Meaningful Industrial-Production Benchmarking?

The Pandemic Collapsed Economy Could Be Nearing Bottom

Protracted Recovery, Long-Term Period of Reduced Activity Ahead

Unfolding Pandemic-Driven Collapse Should Hit Bottom in the Next Couple of Months, But a Return to "Normal" Activity Likely Will More Protracted Than Commonly Expected. This extended ***Overview Section*** assesses the current state of the COVID-19 Pandemic-induced collapse of the U.S. economy and potential recovery from same, with coverage of the latest economic numbers (Cass Freight Index®, Industrial Production, New Residential Construction and Retail Sales) following in the main body of today's ***ShadowStats Economic Commentary No. 1441***.

Declared a "Recession" by the Defining NBER, Nonetheless the Economic Collapse Was Triggered by a Pandemic-Driven Government Mandated Shutdown, Not by the Business Cycle. The recession-defining National Bureau of Economic Research (NBER) timed the current Pandemic-driven "Recession" from the recent monthly peak economic activity (February 2020) and quarterly peak activity (Fourth-Quarter 2019), see ***Flash Commentary No. 1439***. The "Recession" call was made due to the depth of the downturn, ignoring its unprecedented nature. Previously, a downturn reflecting an extraneous factor such as a Truckers Strike, would not have been considered a recession. I argue that where this downturn was not driven by the regular business cycle, it should have been classified as something along the lines of a "Natural Disaster Driven Collapse." Its cause was Pandemic-driven, not economic, and its "recovery" likewise will be driven by Pandemic relief.

Yet, Was the Economy Really Just "Perfect" Before the Pandemic? In the context of a presumed, eventual resumption of "normal" functioning of the U.S. economy—a return to pre-Pandemic conditions—ShadowStats first looks at the background of some economic reporting (or lack of same) leading into the FOMC's self-proclaimed "Sustainable Moderate Economic Growth" and Wall Street's "Economic Boom." Those so heavily hyped ideal conditions, purportedly were attained just prior to being crushed by the Coronavirus-Pandemic Shutdown in March 2020. The Pandemic woes recently have been exacerbated by a wave of heavily orchestrated and coordinated, systemic-disrupting riots and social disorders.

In the absence of the current Pandemic distractions and other disruptions, among the relatively arcane economic issues that might otherwise be getting financial-market attention, is the ongoing "unusual" non-benchmarking of [what otherwise should have been sharply negative downside revisions in 2019 and 2020 to] the Federal Reserve's key Industrial Production series. Before the creation of the Gross Domestic Product (GDP) series during the Great Depression, the Industrial Production series was the broadest indicator of, and remains one of the most reliable indicators of underlying U.S. economic activity. It remains relatively free of what has become the heavily gimmick-laden GDP series of recent decades (see discussions in ***Special Commentary No. 968-B*** of September 6, 2018 and ***Special Commentary No. 985*** of December 4, 2019).

Prior to the Pandemic-Shutdown of March 2020 Economic Activity, Signals of a Faltering Economy and Meaningful Issues of Reporting Quality Had Been in Play Since Late-2018. As the Federal Reserve Board's Federal Open Market Committee (FOMC) tightened domestic liquidity and raised the targeted Federal Funds Rate into December 2018, it triggered the onset of a new and still unrecognized U.S. economic recession. Recognition of that unfolding downturn was masked partially by disruptions to economic surveying and reporting during the Federal Government Shutdown of December 2018/January 2019. Particularly hard hit was economic reporting out of the closed Department of Commerce, which reported on economic indicators ranging from Retail Sales, Housing Statistics, Trade Data and the Gross Domestic Product (GDP) to regular Economic Censuses, key to the benchmarking of a variety of economic series. Operations of the independent Federal Reserve Board (FRB) were not affected directly by the Government Shutdown, although some of its key economic series, particularly Industrial Production and its dominant Manufacturing sector, were not benchmarked normally, and still are not being benchmarked in a regular fashion.

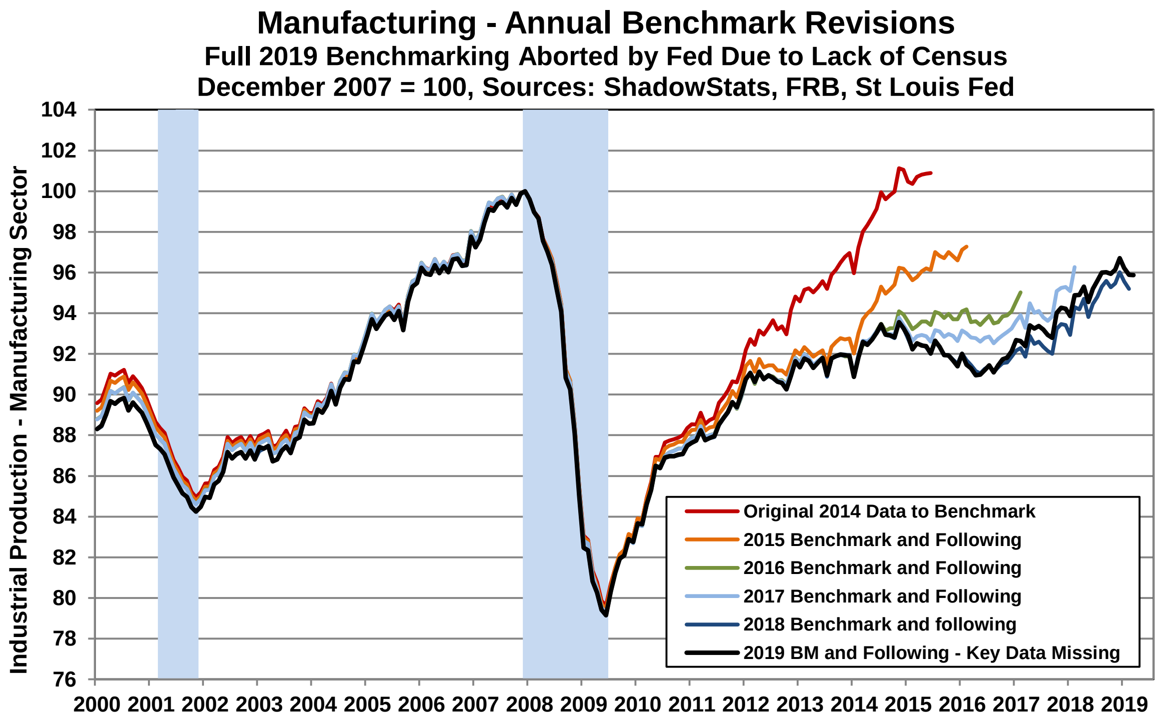
Major Negative 2019 Benchmark Revisions to Manufacturing Never Were Published and Were Not Incorporated into the 2019 GDP Benchmarking, Disrupted by the Late-2018 Government Shutdown. With the noted re-numbering of the accompanying graph to ***Graph 1***, excerpted from ***Special Commentary No. 983-B*** of April 22, 2019, beginning there on page 39:

> **No Meaningful Benchmark Revision Was Allowed for Manufacturing in 2019.** Separately, seen in accompanying ***Graph 1*** [*Graph 29* in the original text], annual benchmark revisions to the Manufacturing Sector invariably have been to the downside for recent prior history. The reason for this is that almost all government reporting has to incorporate underlying assumptions, and the tendency usually is to make overly positive assumptions, allowing for later downside corrections in the benchmarking. As explained to me by someone involved in such government economic surveying, understating economic activity is a "political embarrassment," while overstating activity has no such political stigma attached to it (see ***Special Commentary No. 885,*** entitled ***Numbers Games that Statistical Bureaus, Central Banks and Politicians Play***). Per the Fed, the government-mandated Economic Census for 2017 was not available from the U.S.

> Census Bureau by early 2019, so no new annual benchmark data was included for manufacturing. Nonetheless, there [were] other minimal revisions, updated in ***Graph 1***, but, again, without the regular annual downside [revisions] included.

The Economic Census for 2017 was published later in 2019, with indications of downside revisions to Manufacturing activity, but such would not be forthcoming in annul revisions until the pending 2020 benchmark revisions to the Industrial Production series.

Graph 1: Annual Benchmark Revisions to the Dominant Manufacturing Sector of Industrial Production



Catch-Up 2019 and Still Further Major Negative 2020 Benchmark Revisions to Industrial Production/ Manufacturing Now Appear Likely to Miss the 2020 Annual GDP Revisions on July 30th. Back in February, the FRB indicated the 2020 Industrial Production benchmarking would be "the summer of 2020." As announced with June 16th release of the headline May 2020 Industrial Production numbers, that evolved to:

> **The Federal Reserve Board plans to issue its annual revision to the indexes of industrial production (IP) and the related measures of capacity utilization in the second half of 2020** [emphasis added]. New annual benchmark data for manufacturing for 2017 and 2018 will be incorporated, as well as other annual data, including information on the mining of metallic and nonmetallic minerals (except fuels). The weights for market-group splits of the industry-level indexes will be updated with information from the 2012 benchmark input-output accounts from the U.S. Bureau of Economic Analysis. The updated IP indexes will include revisions to the monthly indicator (either product data or input data) and to seasonal factors for each industry. In

> addition, the estimation methods for some series may be changed. Any modifications to the methods for estimating the output of an industry will affect the index from 1972 to the present. Capacity and capacity utilization will be revised to incorporate data for manufacturing through the fourth quarter of 2019 from the U.S. Census Bureau's Quarterly Survey of Plant Capacity Utilization, along with new data on capacity from the U.S. Geological Survey, the U.S. Department of Energy, and other organizations.

With the 2020 GDP annual benchmarking scheduled for July 30th, if the FRB were planning an Industrial Production benchmarking in July, a specific date usually would have been provided. While this does not indicate that the pending 2019 and 2020 Manufacturing revisions will not be incorporated into the 2020 GDP benchmarking, the prospects for same are not good.

Cass Freight Index® Mirrors Underlying Economic Reality; Related Manufacturing and Mining Sectors of Industrial Production Continue Signaling an Unfolding Recession. The ***May Cass Freight Index®*** section, beginning on ***Page 11***, and the related, subsequent ***Alternate Recession Measurement, Freight Activity Mirrors Manufacturing, Mining and New Orders*** section beginning on ***Page 13***, signal that the key, dominant ***Manufacturing*** sector (***Graph 6***) and related ***Capacity Utilization*** (***Graph 5***) already are signaling recession before their eventual negative benchmark revisions. The ***Mining*** sector (***Graph 8***) also signals a recession, while the remaining ***Utilities*** sector activity simply is randomly volatile.

Despite Some Bouncing May 2020 Economic Numbers, Following April's Worst-Ever Monthly Declines, Second-Quarter GDP Held on Track for a Record Annualized 50% (-50%) Plunge. That would follow what currently is a first-revision 5.0% (-5.0%) annualized real quarterly contraction in First-Quarter 2020 GDP, on top of what likely are pending downside benchmark revisions to Pre-Pandemic GDP estimates. Tomorrow's (June 25th) third-estimate, second revision to the First-Quarter GDP, likely will be minimal. That said, First-Quarter 2020 activity and all GDP reporting back to 2015 will be revised anew on July 30th, in the context of annual GDP Benchmark Revisions, coincident with the initial estimate of what should be an extraordinary quarterly contraction in Second-Quarter 2020 GDP.

ShadowStats Forecast Remains for an Annualized Real Quarterly Decline of 50% (-50%) in Second-Quarter 2020 GDP. With two out of three months reported for many indicators of Second-Quarter 2020 economic activity, consider the Household Employment number. The headline count of those actively employed in the current economy is as a broad measure of economic activity as is published on a monthly basis. Using the monthly numbers that the Bureau of Labor Statistics indicates as most accurate, adjusting headline March, April and May totals respectively for the 1.5 million, 7.5 million and 4.9 million "Employed" who really were "Unemployed" (see ***Flash Commentary No. 1439***), Second-Quarter 2020 "Employed" was on early track for an annualized quarterly contraction of 54.5% (-54.5%), with "Payrolls" on track for a 46.1% (-46.1%) contraction. Early-trend Second-Quarter contractions for a variety of other indicators include: Industrial Production 46.8% (-46.8%), Manufacturing 52.5% (-52.5%), Mining 37.2% (-37.2%), Housing Starts 82.9% (-82.9%), Building Permits 60.7% (-60.7%), Existing-Home Sales 68.1% (-68.1%), New-Home Sales 35.5% (-35.5%), Real Retail Sales 39.0% (-39.0%). June activity likely will deteriorate minimally versus May, as conditions have fluttered some with mixed elements of a reopening economy.

Noted in ***Special Hyperinflation Commentary, Issue No. 1438***, a Second-Quarter 2020 GDP contraction in excess of 50% (-50%) effectively would wipe out all of the headline real GDP growth that has taken place since the end of the Great Recession in Fourth-Quarter 2010.

New York and Atlanta Fed Model Estimates Range from Real Annualized Quarterly Drops of 19.9% (-19.9%) to 45.5% (-45.5%). The forecasts of the annualized real quarterly contraction in Second-Quarter 2020 GDP, modeled on the latest underlying headline reporting range from the June 19th New York Fed's Model estimate of 19.0% (-19.0%) to the June 17th Atlanta Fed's estimate of 45.5% (-45.5%). The links here connect to the latest posted modeling results: ***New York Fed***, ***Atlanta Fed***.

Consensus expectations appear to center around an annualized real Second-Quarter 2020 decline of about 36% (-36%). If any of the preceding contraction estimates were reported, such would be the deepest-ever real, annualized quarterly GDP contraction.

Some Low-Level Bottom Bouncing, Movement Off Bottom in Third- and Fourth-Quarter Depends on the Extent of Successful Reopening of the Economy. Assuming some meaningful shift towards reopening the economy in the next several months, economic "recovery" likely still will not be as rapid as some would hope, due to extraordinary permanent damage already done by, and disruptions from, the massive, panicked shutdown. Initially, renewed "growth" might look like bottom bouncing, in an early, protracted L-shaped or flattened U-shaped recovery, off the potential Second-Quarter 2020 trough.

Noted Previously, the Economy Was Weakening into the Pandemic, but the Pandemic Constraints Now Are Driving the Economic Collapse. **N**o amount of Government Spending or Federal Reserve accommodation and money creation will turn this economy around, although the authorities may be well along the way of hyper-inflating the economic collapse (see ***Special Hyperinflation Commentary, Issue No. 1438***). Nonetheless, restoration of stable social, economic and employment circumstances depends on the control and containment of the massive issues arising from the handling of the Coronavirus-Pandemic shutdown of society and the economy. The virus has not been broadly contained, yet. There is no vaccine, yet. High risks to older individuals continue. There have been elements of permanent destruction of or massive disruptions to the small businesses that drive and enable so many key elements of society. A full economic recovery—regaining pre-Pandemic levels of economic activity—likely remains some years off, in an eventually up-sloping L-shaped curve.

Efforts at reopening major elements of the economy in a V-shaped recovery are underway, but a successful reopening and approach towards rapid restoration of prior economic conditions depends on the rapid containment, treatment and prevention of COVID-19.

For the Benefit of Subscribers: New Circumstances, Breaking News and Schedule Changes Are Highlighted in the *Daily Update*. Rapidly shifting headlines, reporting details, intervening events, unusual developments in the markets, with the FOMC or the economy, and schedule changes—all are covered in the ***Daily Update*** section of the ***ShadowStats Home Page***. For example, details and any twists to tomorrow's (June 25th) reporting of the "final" estimate of First-Quarter 2020 GDP and the May 2020

New Orders for Durable Goods will be highlighted along with an initial assessment in the ***Daily Update***, usually within a couple hours or so of news or the economic release.

For recent economic and the latest market and systemic assessments, see ***Special Commentary, Issue No. 1429*** (FOMC Panic), ***Special Commentary, Issue No. 1430*** (Systemic Solvency), ***Flash Commentary, Issue No. 1433*** (Retail Sales Benchmarking), ***Flash Commentary No. 1434*** (1q2000 GDP), ***Special Economic Commentary, Issue No. 1437*** (Economic Update), ***Special Hyperinflation Commentary, Issue No. 1438*** (Risks of a Hyperinflationary Economic Collapse), ***Flash Commentary No. 1439*** (Distorted May Labor Conditions, NBER Recession Call, FOMC Outlook) and ***Flash Commentary, Issue No. 1440*** (FOMC and Inflation).

Your questions and comments always are welcomed. Please call or e-mail me any time. Leave a message if your call goes to Voicemail. I shall be back to you.

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[Coverage of the May 2020 Cass Freight Index® begins on the next page.]

May 2020 Cass Freight Index®

Annual Decline in May Freight Activity Deepened Further, Closing in on the Great Recession's Record Decline

Freight Volume Patterns Confirm the Pandemic-Driven Business Collapse Exacerbated What Already Had Been the Early Stages of a Recession

May 2020 Cass Freight Index® Plunged 23.6% (-23.6%) Year-to-Year, Down from April's Drop of 22.7% (-22.7%), Just Shy of the Record 25.0% (-25.0%) Great Depression Trough of April 2008. As posted June 15th on CassInfo.com (https://www.cassinfo.com/freight-audit-payment/cass-transportation-indexes/may-2020), the Pandemic-driven economic collapse continued to hit the May 2020 Cass Freight Index®, with annual declines in freight activity deepening at Great Recession depths. The not-seasonally-adjusted monthly level of May activity, however, did jump by 1.6%, having dropped by 15.1% (-15.1%) in April. Noted in the Cass reporting: "We were surprised not to see more of an up-tick ..." The full report is available at the preceding link.

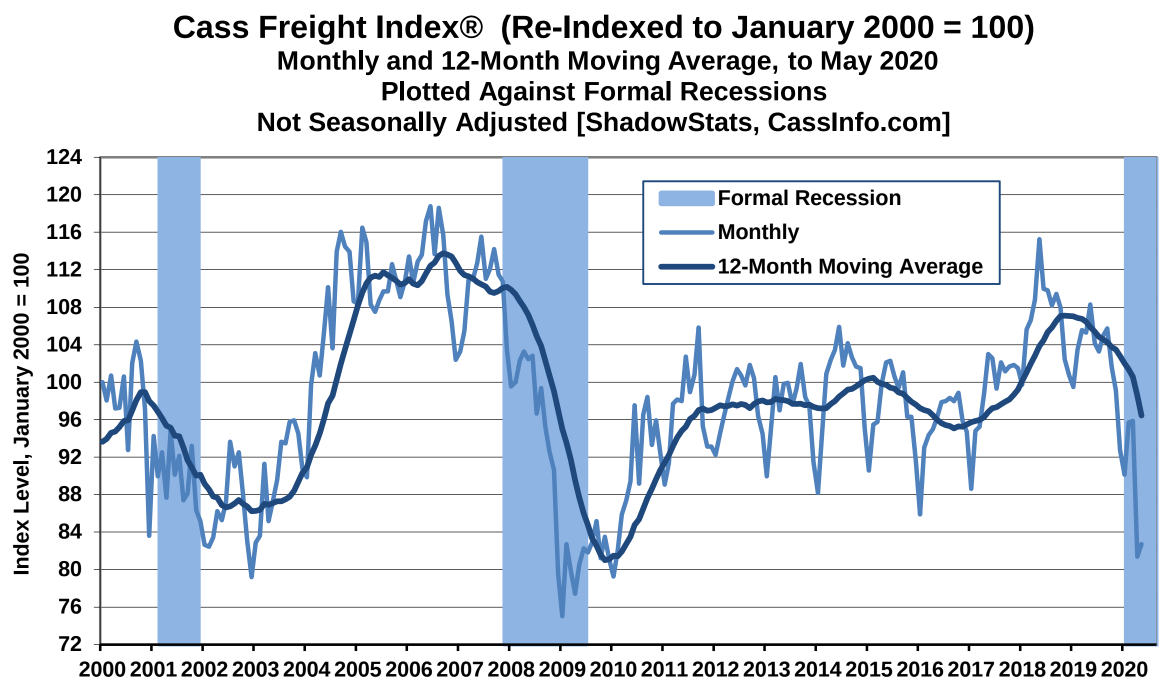
The Cass Index's consecutive monthly year-to-year declines and deepening month-to-month declines in the 12-month trailing average held in place for the 18th straight month. The monthly year-to-year change and the 12-month-moving-average metrics, plotted in **Graphs *2*** and ***3***, neutralize seasonality in this unadjusted series.

Discussed regularly here, as viewed by ***ShadowStats***, the continuing, deteriorating annual collapse in freight activity has been much more consistent with an unfolding Pre-Pandemic "Recession," than with what had been Wall Street's "Booming Economy" and the Fed's attainment of "Sustainable Moderate Economic Growth," used to alibi no more rate cuts as late as the January 29th FOMC Meeting. Given subsequent, unfolding Coronavirus Pandemic impact, the FOMC cut rates to 0.0% by mid-March.

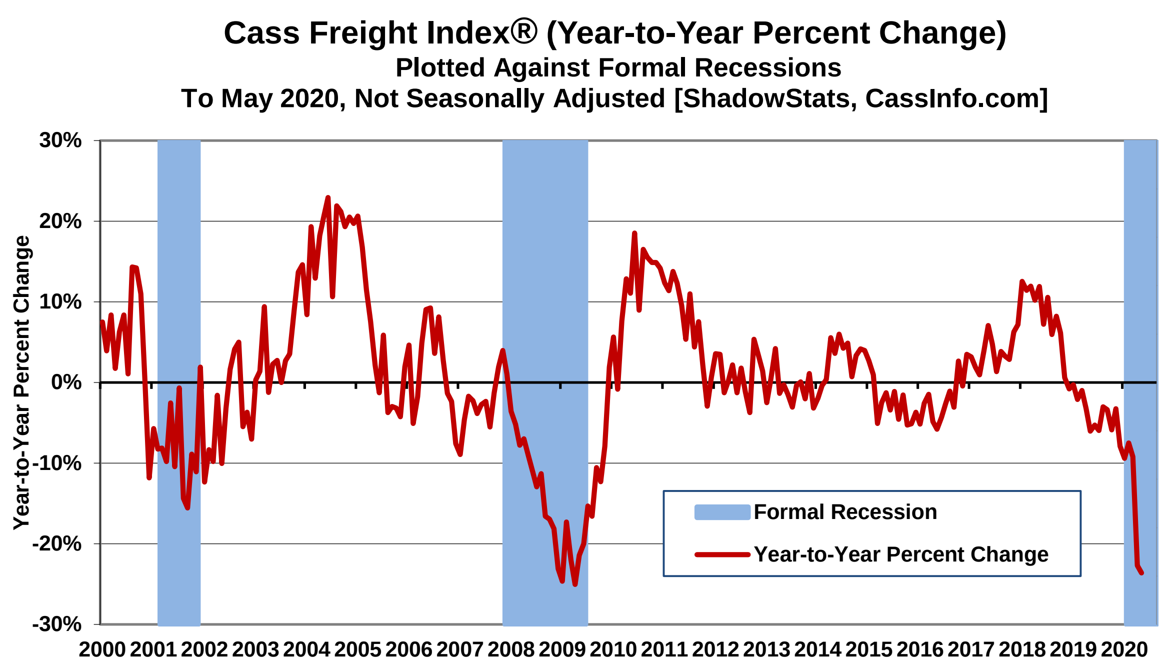
ShadowStats regularly follows and assesses the Cass Freight Index® as a highest-quality coincident/ leading indicator of underlying economic reality. We thank Cass for their permission to graph and to use their numbers in our Commentaries.

[Graphs 2 and 3 of the May Cass Freight Index® follow next page.]

Graph 2: Cass Freight Index®, Monthly Level of Unadjusted Activity vs. 12-Month Trailing Average



Graph 3: Cass Freight Index®, Year-to-Year Percent Change



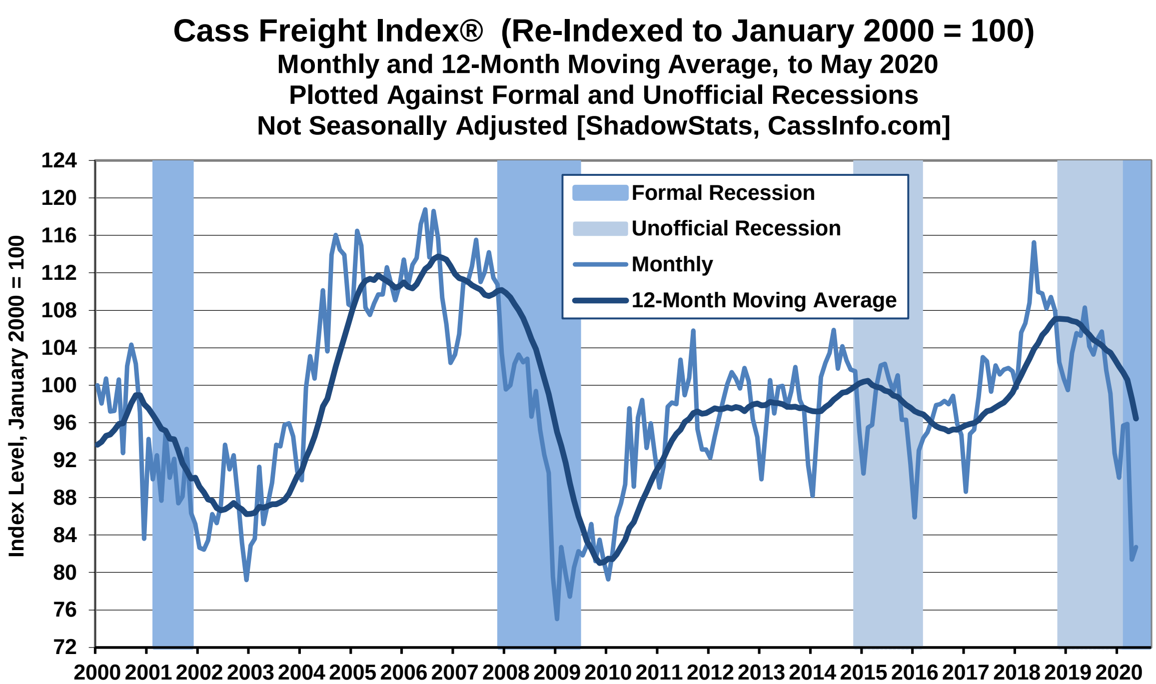
Alternate Recession Measurement

Freight Activity Mirrors Manufacturing, Mining and New Orders

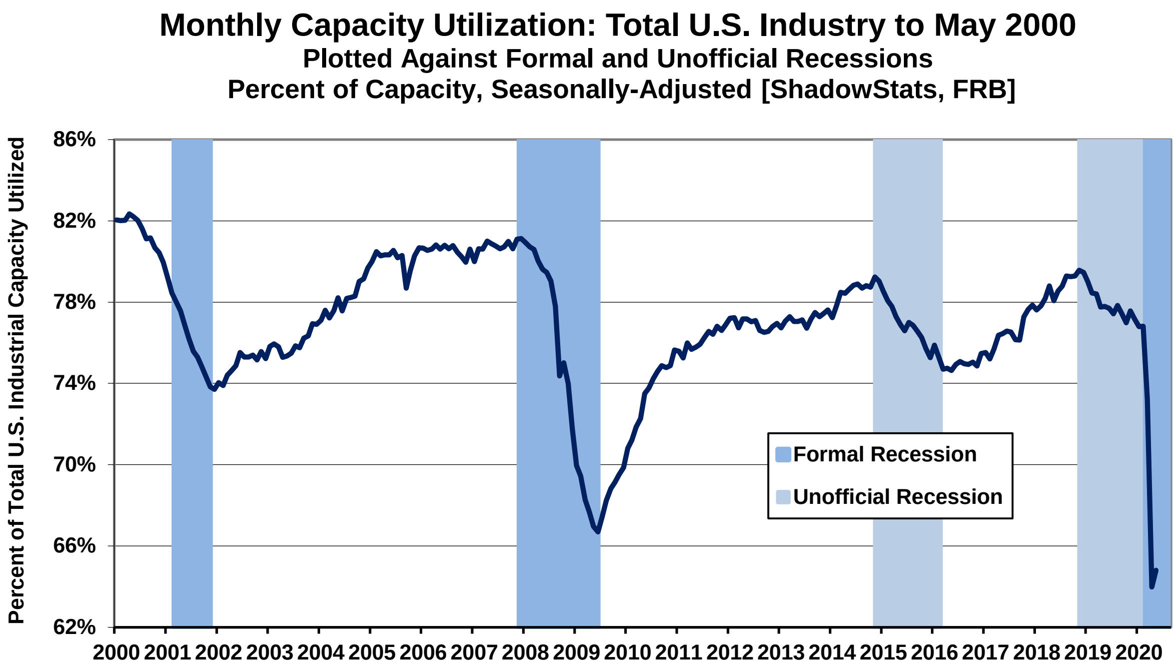
Pending-Recession Patterns in Key Economic Series Mirror Patterns in the Cass Freight Index®, Merging Underlying Economic Reality With the Unfolding New Headline Recession. Following ***Graphs 4*** through ***8*** plot the level of the Cass Freight Index®, along with its 12-month trailing or moving average, against the formal recessions beginning in 2000, 2007 and now 2020 (darker blue bands), as well as against prospective or "missed" recessions beginning in 2014 and 2019 (lighter blue bands), with the December 2019 downturn now transitioning into the February 2020 collapse (see the pre-pandemic discussion in ***Flash Update No. 22***). Contrast the twelve-month, smoothed moving average seen in the May 2020 ***Graph 4*** of the Cass Freight Index® with ***Graph 5*** of May 2020 Industrial Production Capacity Utilization, traditionally used to time the formal onset and completion of a recession.

Consider as well the parallels seen between ***Graphs 4*** and ***5*** against prospective or "missed" recessions as plotted in ***Graph 6*** of May Manufacturing, ***Graph 7*** of Real Durable Goods Orders and ***Graph 8*** of Oil and Gas Exploration.

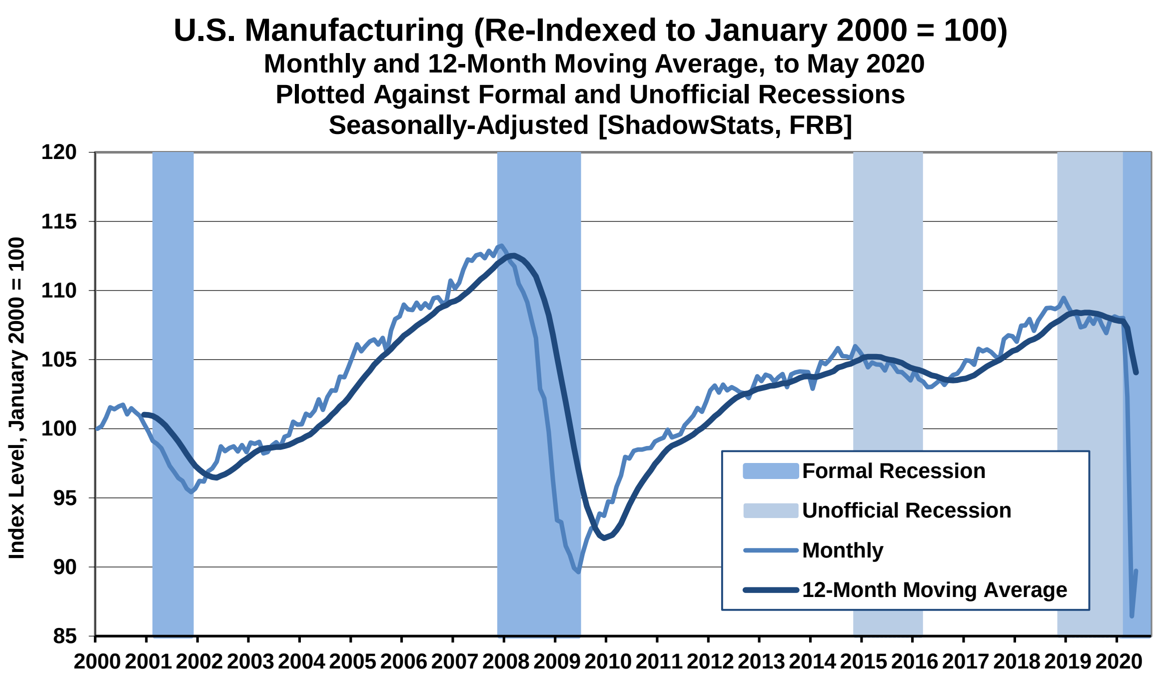
Graph 4: Cass Freight Index®, Monthly Level of Unadjusted Activity vs. 12-Month Trailing Average



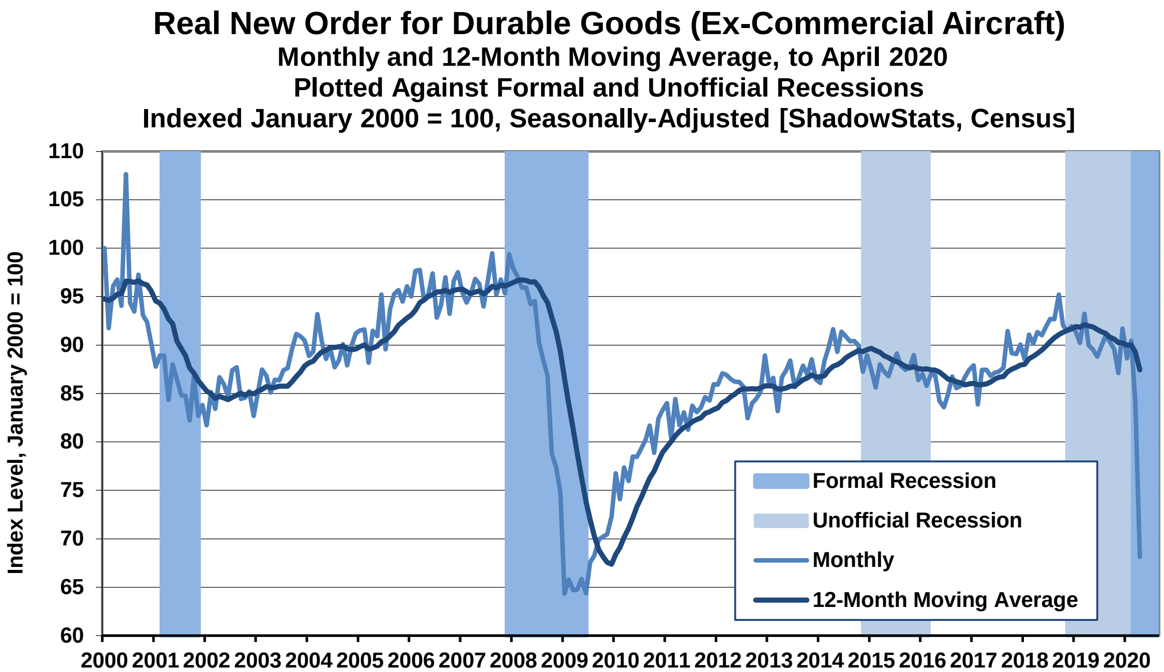
Graph 5: U.S. Total Industrial Capacity Utilization, Versus Recessions (2000-to-Date)



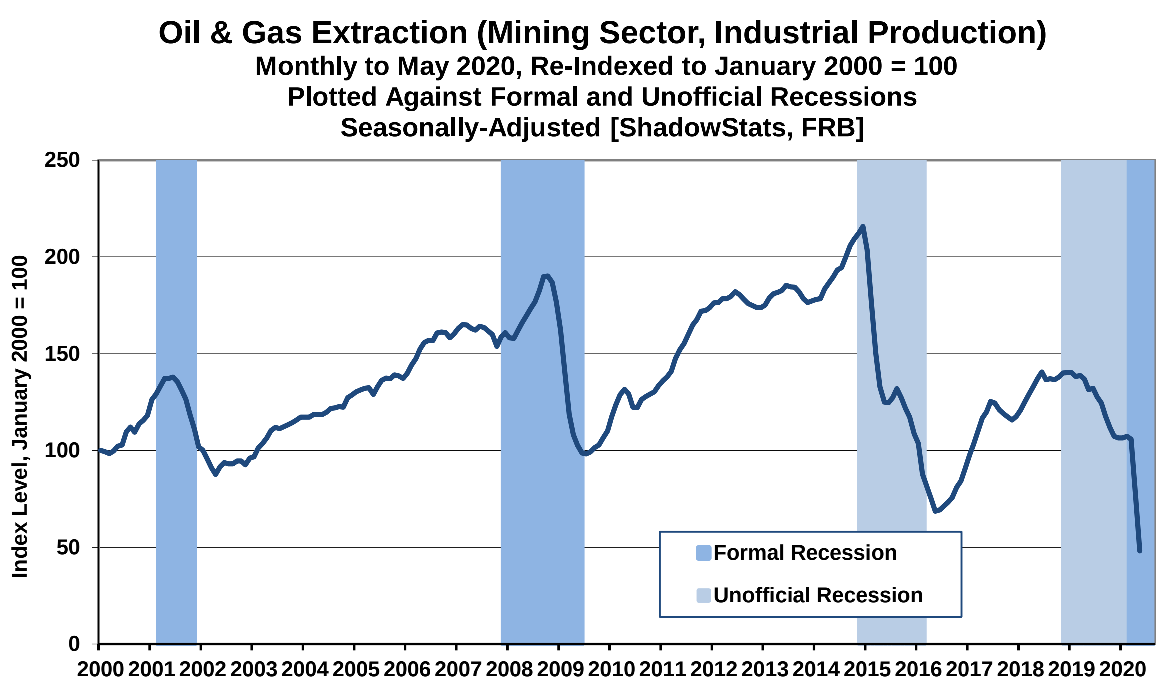
Graph 6: U.S. Manufacturing, Monthly Level of Adjusted Activity vs. 12-Month Trailing Average



Graph 7: U.S. Real New Orders for Durable Goods, Ex-Commercial Aircraft, Monthly vs. 12-Mo. Trailing Average



Graph 8: Mining, Oil & Gas Extraction, Adjusted Activity vs. 12-Month Trailing Average



[Coverage of the Standard Business Cycle and Industrial Production begins on the next page]

May 2020 Industrial Production and Its Major Components

Net Monthly Deterioration in Activity Despite Some Minimal Headline Gains

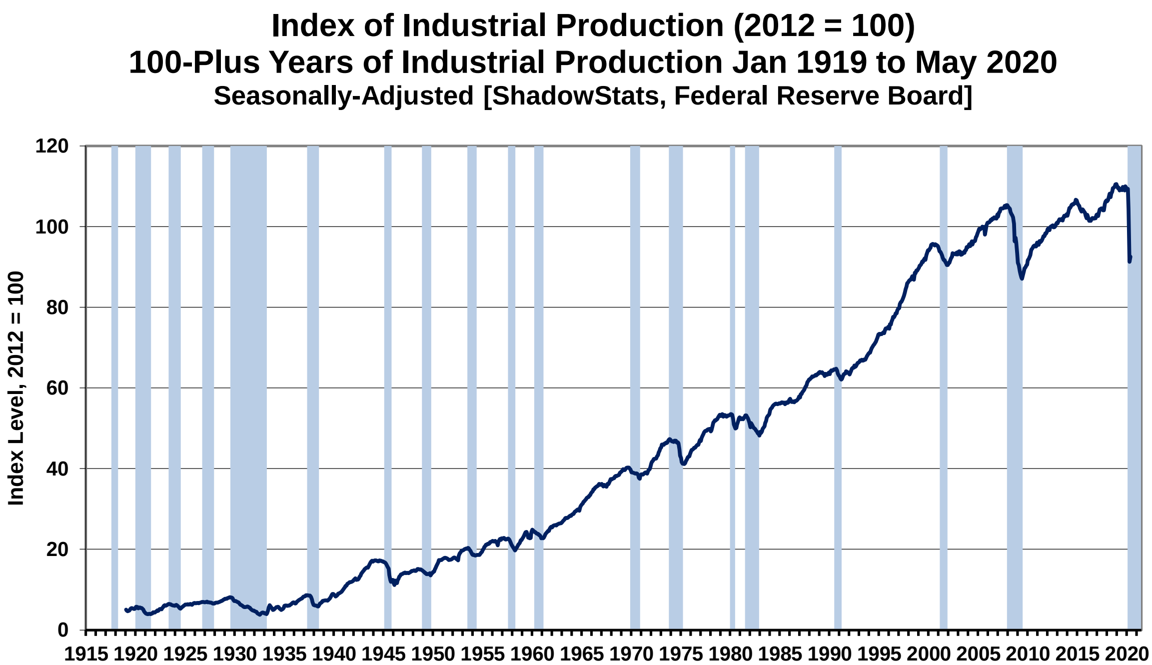
Capacity Utilization Gyrating Around Historic Lows

May 2020 Industrial Production Held its April Pandemic Hit, Gaining 1.4% in the Month on Top of an Offsetting Downside Revision; Down 15.3% (-15.3%) Year-to-Year. Following April's biggest one-month decline in the 101-year history of the Industrial Production series, and with Capacity Utilization plunging to a new historic (67-Year) low, those April 2020 details revised even lower with headline May activity. May 2020 Production and Utilization notched higher in the month, on top of downwardly revised April detail, but neither the new May Production nor Capacity Utilization readings topped the pre-revision April readings. Year-to-year May 2020 Production declined by 15.27% (-15.27%) versus a revised plunge of 16.25% (-16.25%) [previously 15.04% (-15.04%)] in April. May 2020 Manufacturing declined year-to-year by 16.48% (-16.48%) versus 19.47% (-19.47%) [previously 18.01% (-18.01%)] in April. May 2020 Mining declined year-to-year by 14.15% (-14.15%) versus 8.07% (-8.07%) [previously 7.50% (-7.05%)] in April.

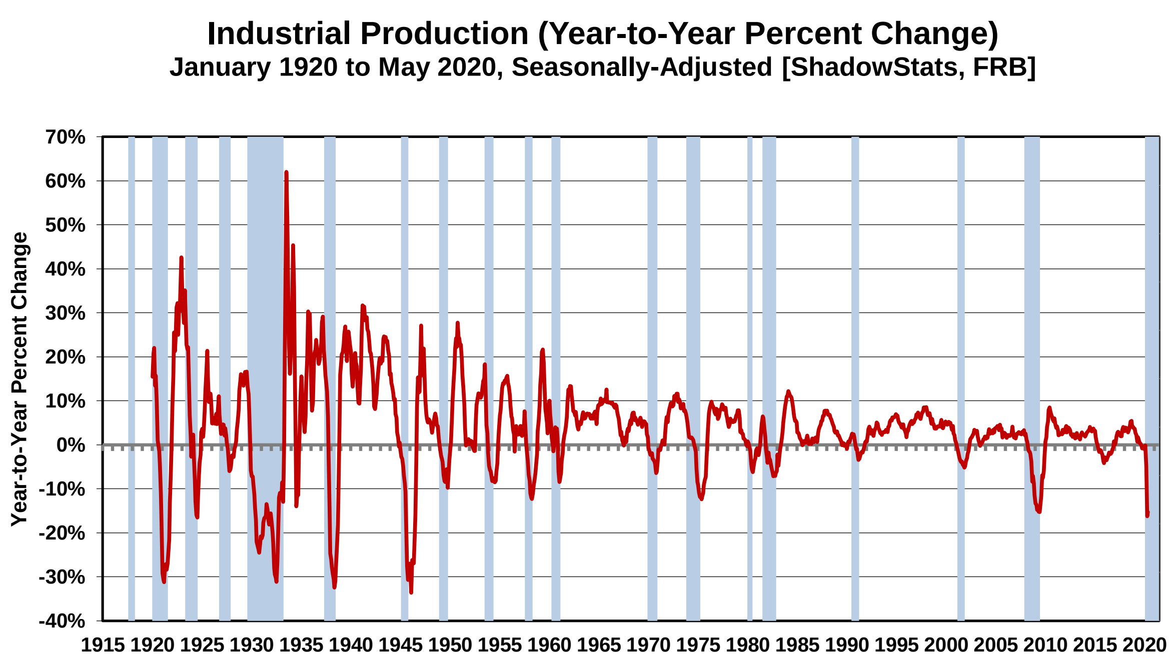
Deepening Recession and Depression. With an early two-month trend (April and May), Second-Quarter 2020 Manufacturing was on track for its third consecutive quarterly decline, consistent with the evolving Coronavirus-Pandemic Depression overwriting what already had been an unfolding recession. Annualized Fourth-Quarter 2019 real growth contracted at an annualized quarterly pace of 0.5% (-0.5%), followed by a revised annualized contraction of 5.6% (-5.6%) in First-Quarter 2020, with Second-Quarter 2020 on early track for an annualized real quarterly contraction of 52.5% (-52.5%).

[Graphs 9 to 20 on Industrial Production begin on the next page]

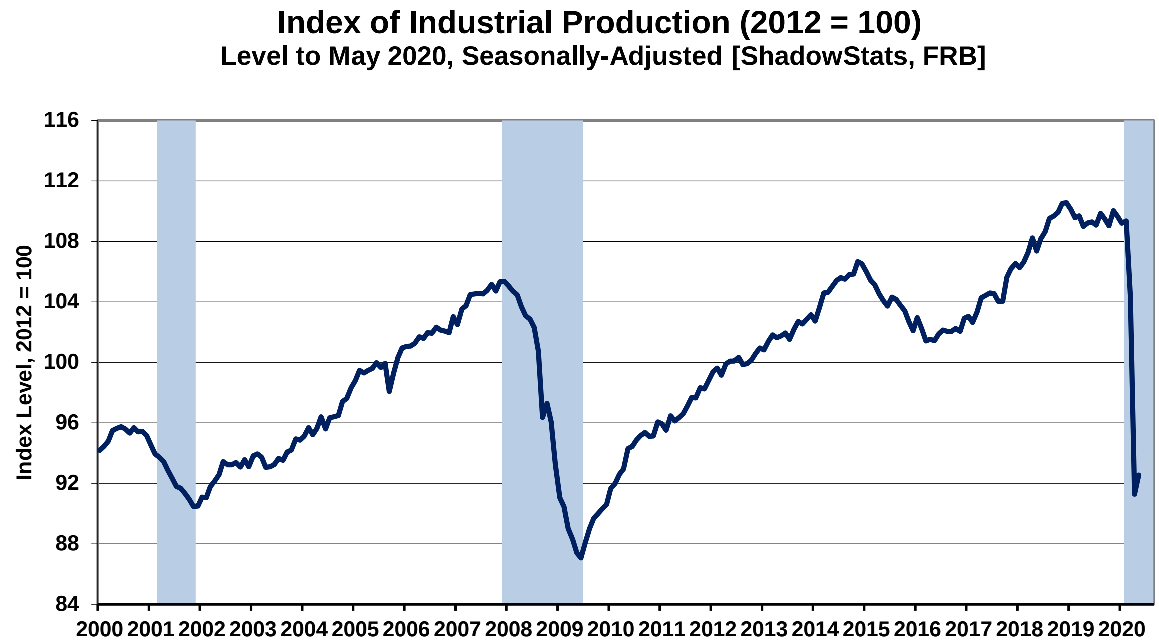
Graph 9: Index of Industrial Production, Complete History



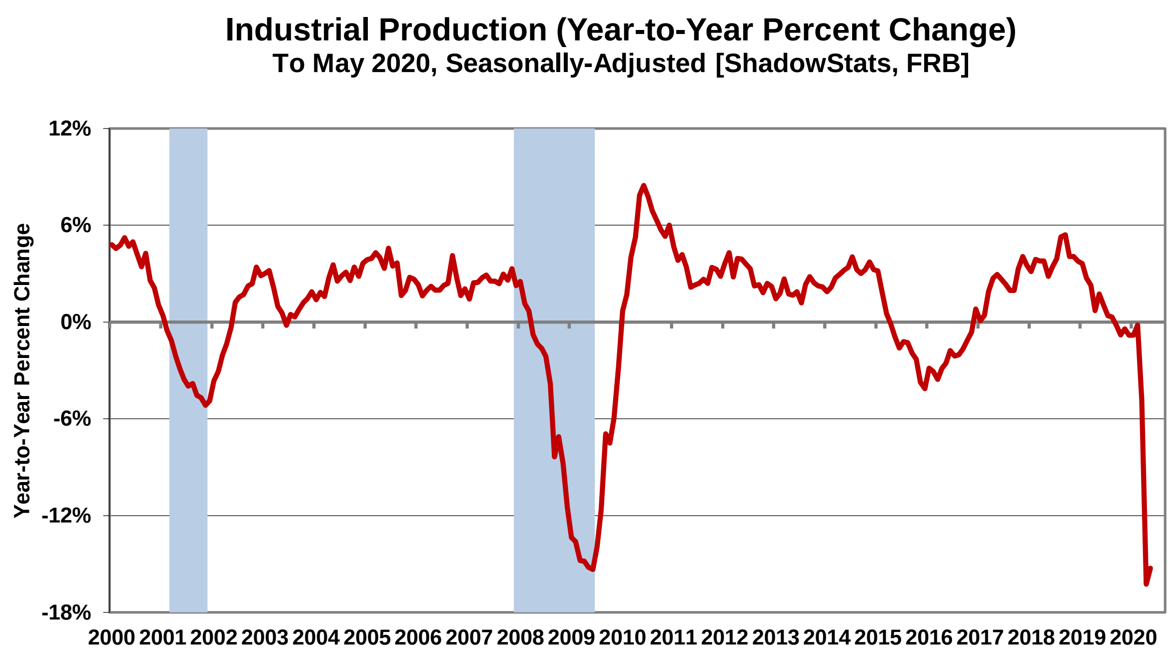
Graph 10: Index of Industrial Production, Year-to-Year Change, Complete History



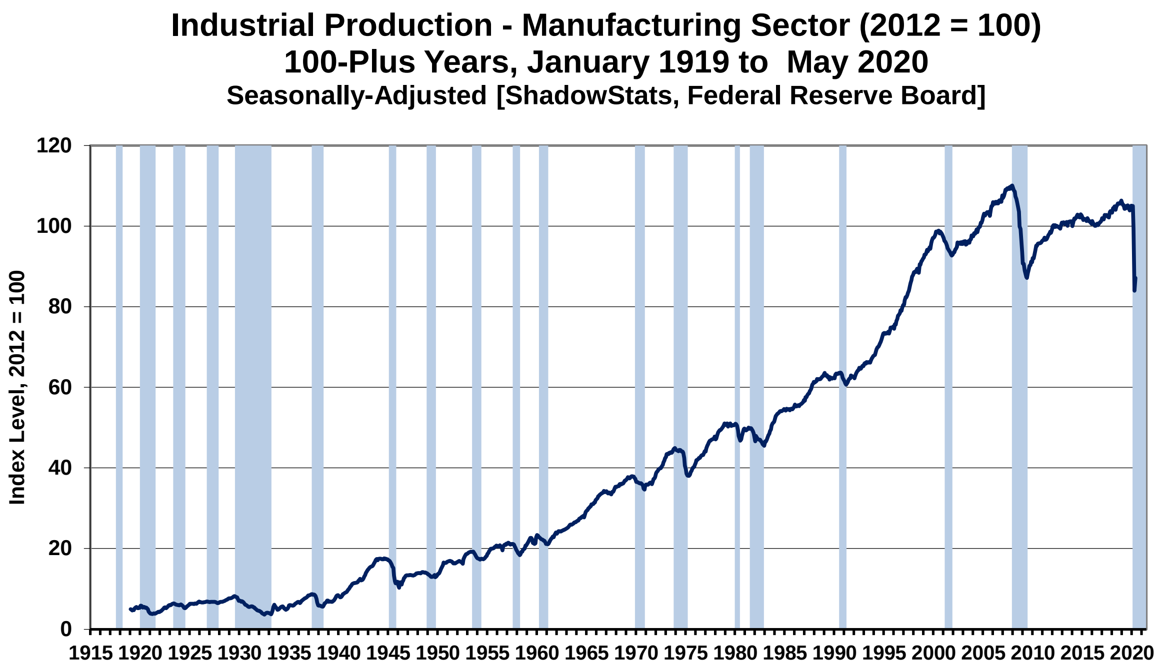
Graph 11: Industrial Production, 2000 to May 2020



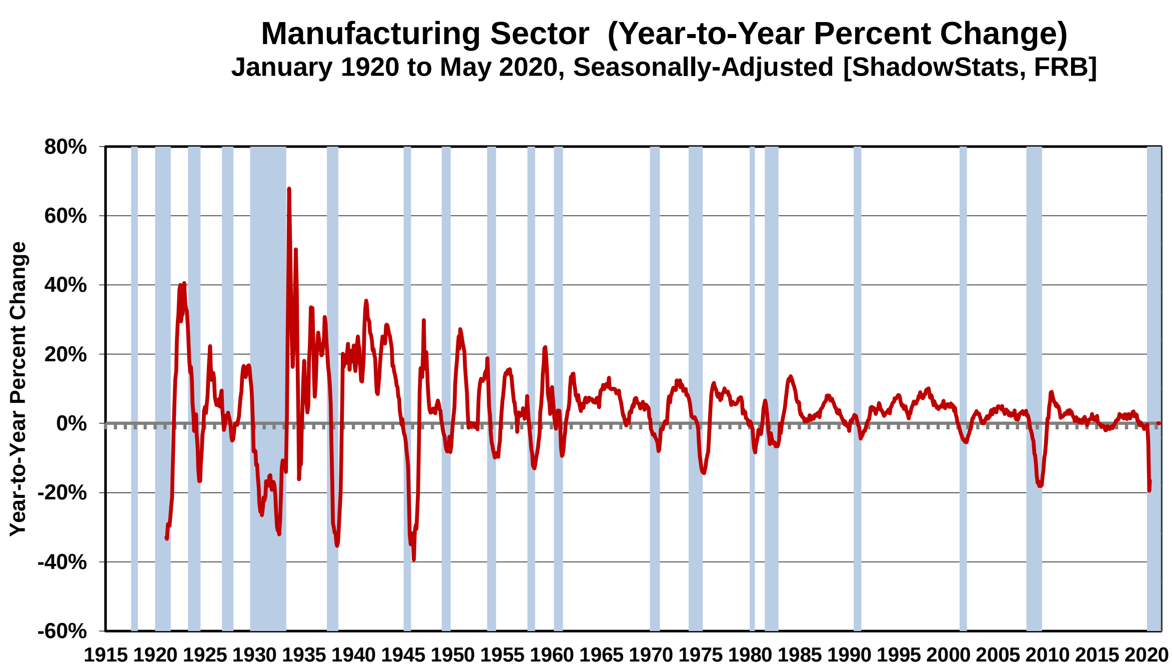
Graph 12: Industrial Production, Year-to-Year Percent Change, 2000 to May 2020



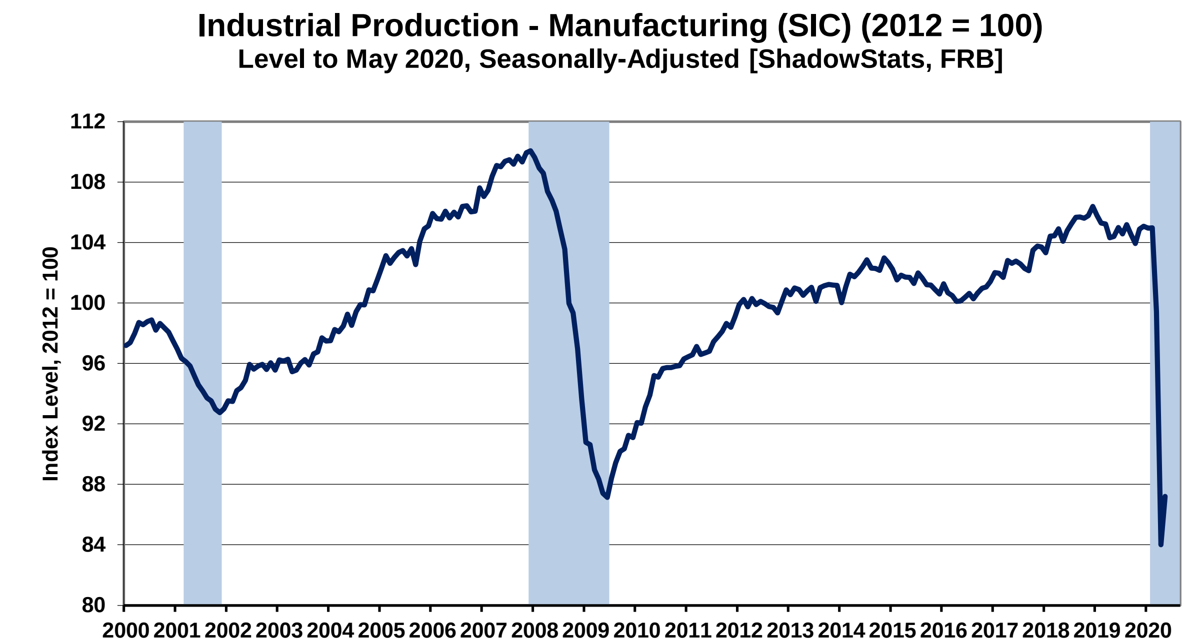
Graph 13: Manufacturing, Complete History



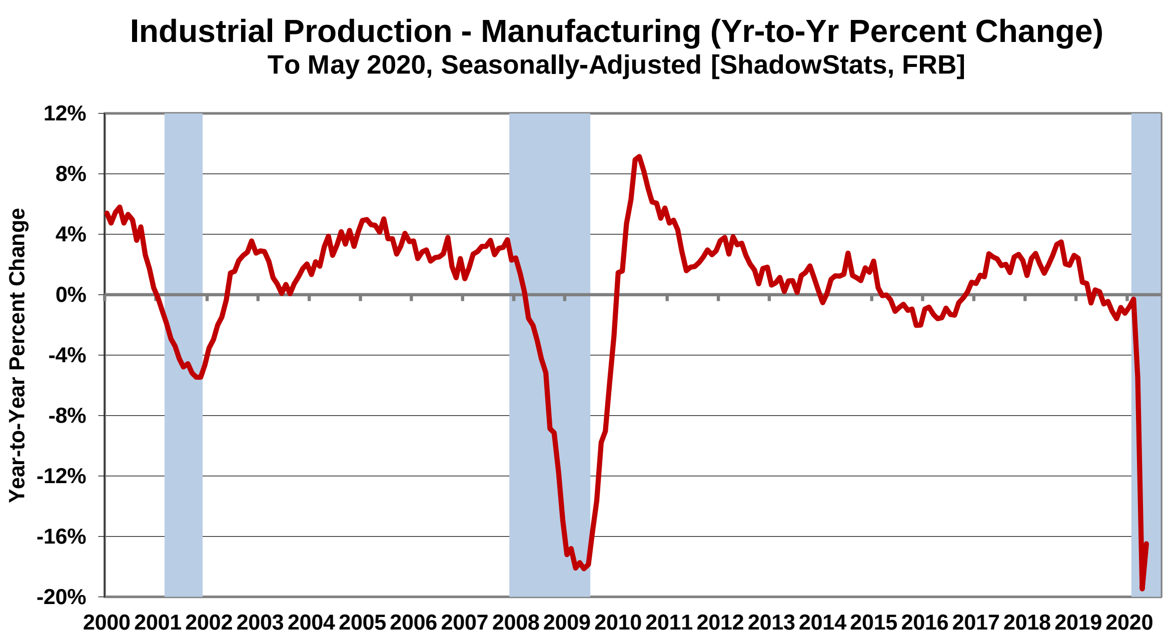
Graph 14: Manufacturing, Year-to-Year Change, Complete History



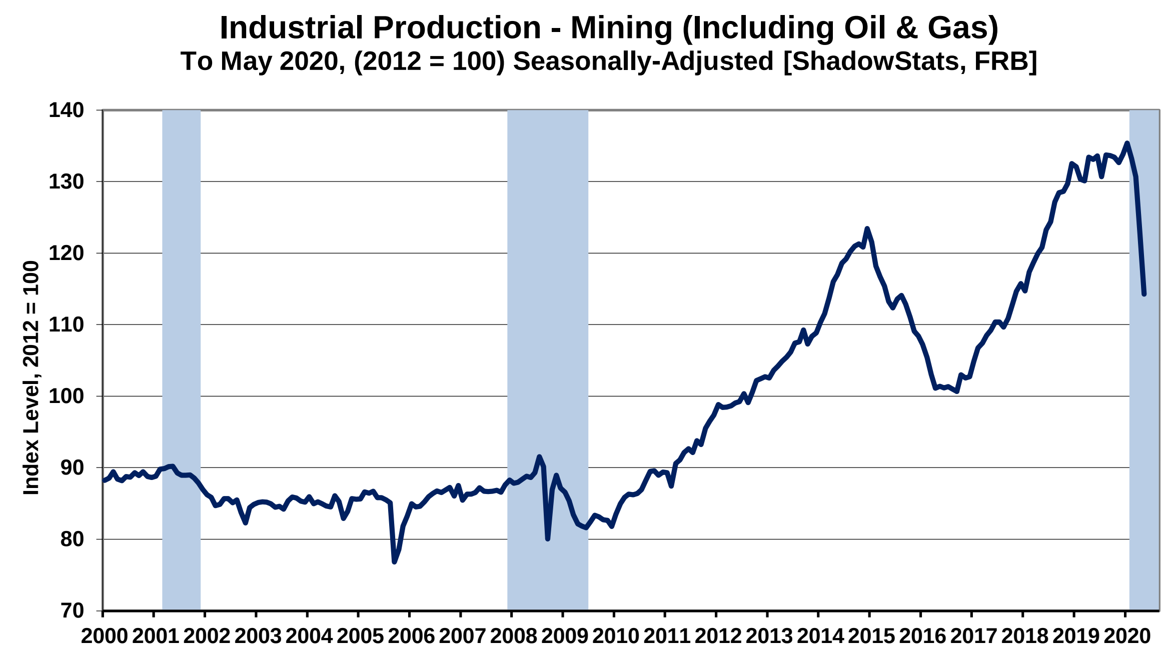
Graph 15: Manufacturing, 2000 to May 2020



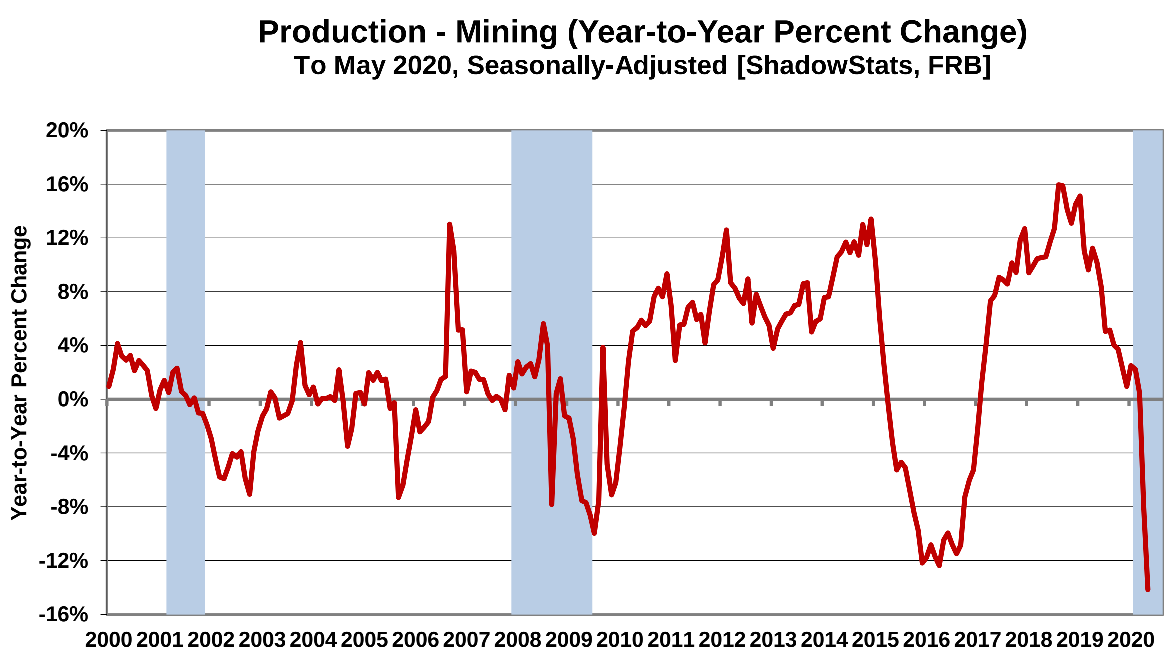
Graph 16: Manufacturing, Year-to-Year Change, 2000 to May 2020



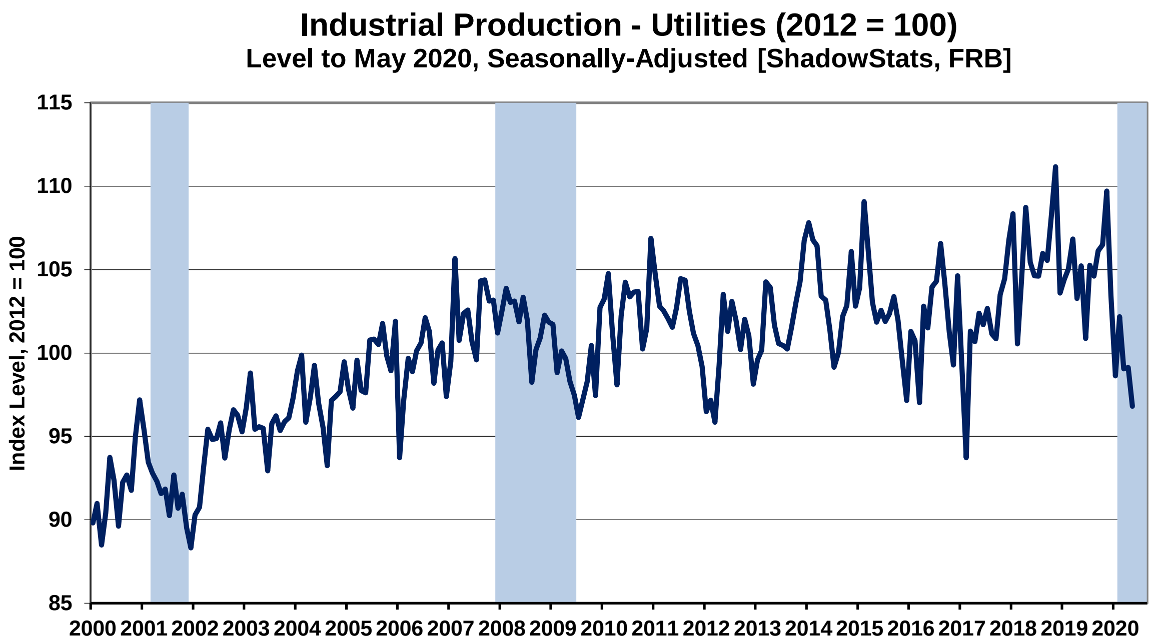
Graph 17: Mining, 2000 to May 2020



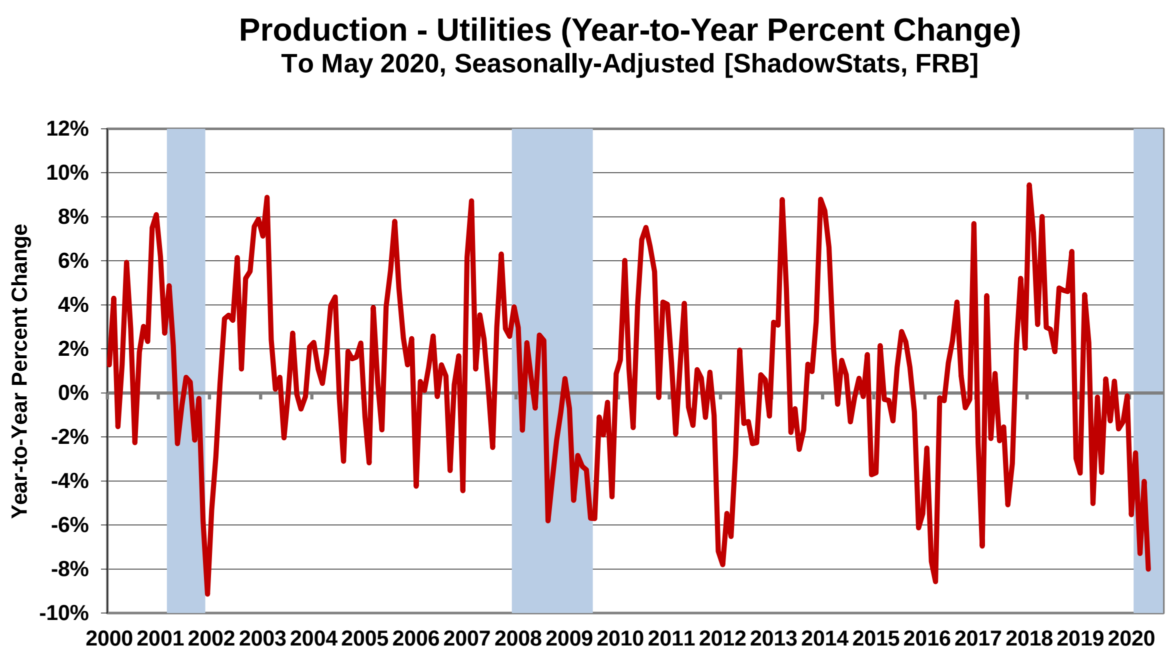
Graph 18: Mining, Year-to-Year Change, 2000 to May 2020



Graph 19: Utilities, 2000 to May 2020



Graph 20: Utilities, Year-to-Year Change, 2000 to May 2020



May 2020 New Residential Construction and Home Sales

Monthly Gains in May 2020 New Residential Construction Activity Were Little More Than Dead-Cat Bounces; Second-Quarter Activity Continued in Pandemic-Savaged Collapse. On top of downside revisions, the Census Bureau reported June 17th that May 2020 Building Permits gained a statistically meaningful 14.4% in the month (90% confidence interval), while Housing Starts gained a not meaningful 4.3% on top of upside revisions.

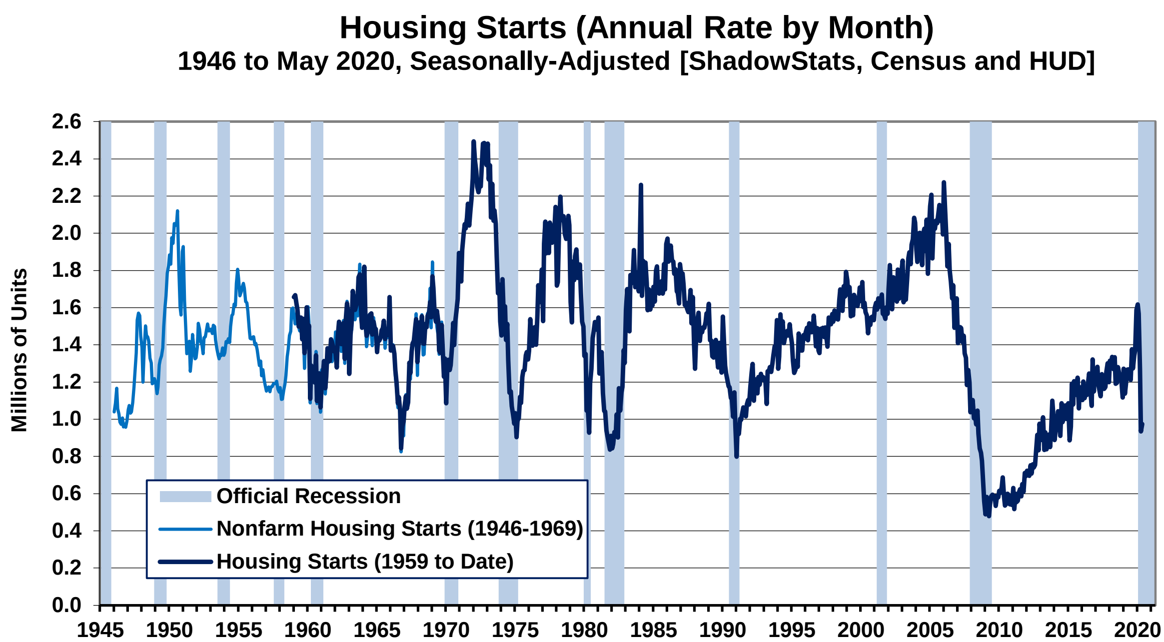
Year-to-year declines of 8.8% (-8.8%) for Permits and 23.2% (-23.2%) for Starts both were significant. In terms of Second-Quarter 2020 activity, Permits were on early track for an annualized quarterly contraction of 60.7% (-60.7%), and a year-to-year drop of 13.0% (-13.0%); Starts were on track for quarterly and annual contractions respectively of 82.9% (-82.9%) and 24.2% (-24.2%). No major broad measure of real construction activity has ever recovered its pre-Great Recession Peak, with Building Permits and Housing Starts currently shy of the feat, respectively, by 46.1% (-46.1%) and 57.1% (-51.7%).

Nonsensically Volatile May 2020 New-Home Sales Reporting (Census) Gained in the Month, While the More Stable Existing-Home Sales Reporting (NAR) Showed a Decline. The Census Bureau reported June 23rd that May New-Home Sales gained 16.6% in the month, with an annual gain of 12.7%, on top of a 6.9% (-6.9%) downside revision to the level of April activity. As usual, neither gain was statistically meaningful at the 95% confidence interval. Second-Quarter 2020 New Sales activity was on early track for an annualized quarterly contraction of 35.5% (-35.5%) and a year-to-year drop of 5.3% (-5.3%).

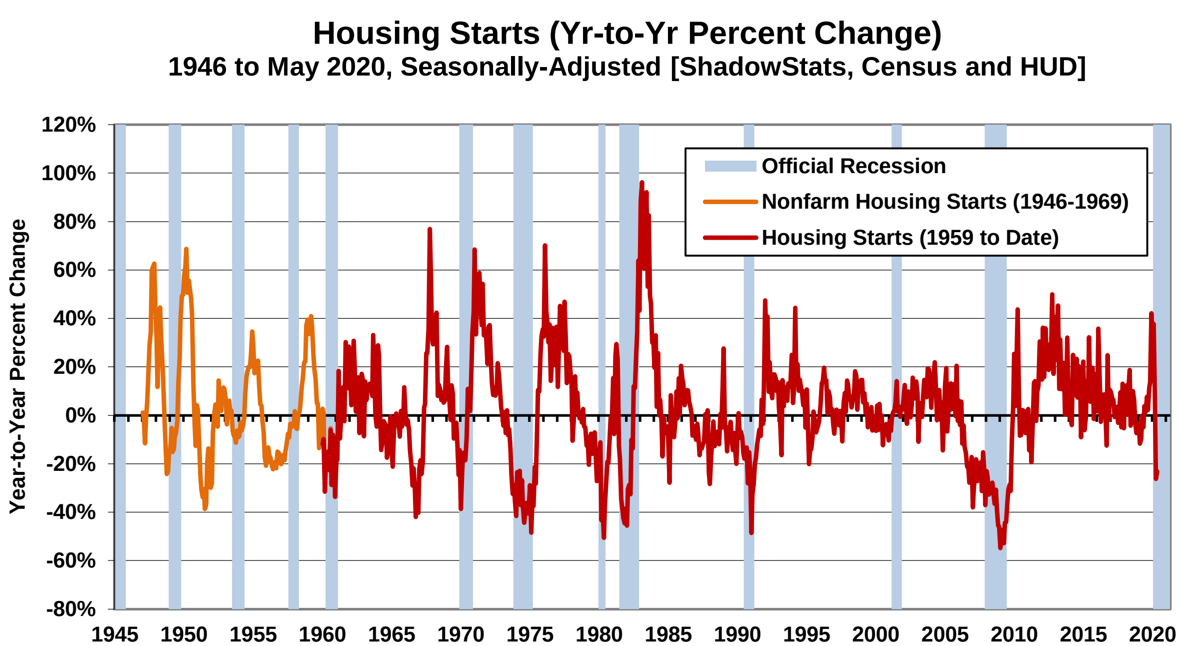
May 2020 Existing-Home Sales Declined by 9.7% (-9.7%) in the Month. Reported June 22nd by the National Association of Realtors® [NAR] (at www.nar.realtor – see NAR Press Release there), Existing-Home Sales declined for the third month, down by 32.1% (-32.1%) from its February peak, and by 26.6% (-26.6%) year-to-year. The NAR series reflects greater reporting stability than does the Census Bureau's New-Home Sales.

[Graphs 21 to 32 of Housing Starts, Building Permits and Home Sales begin on the next page]

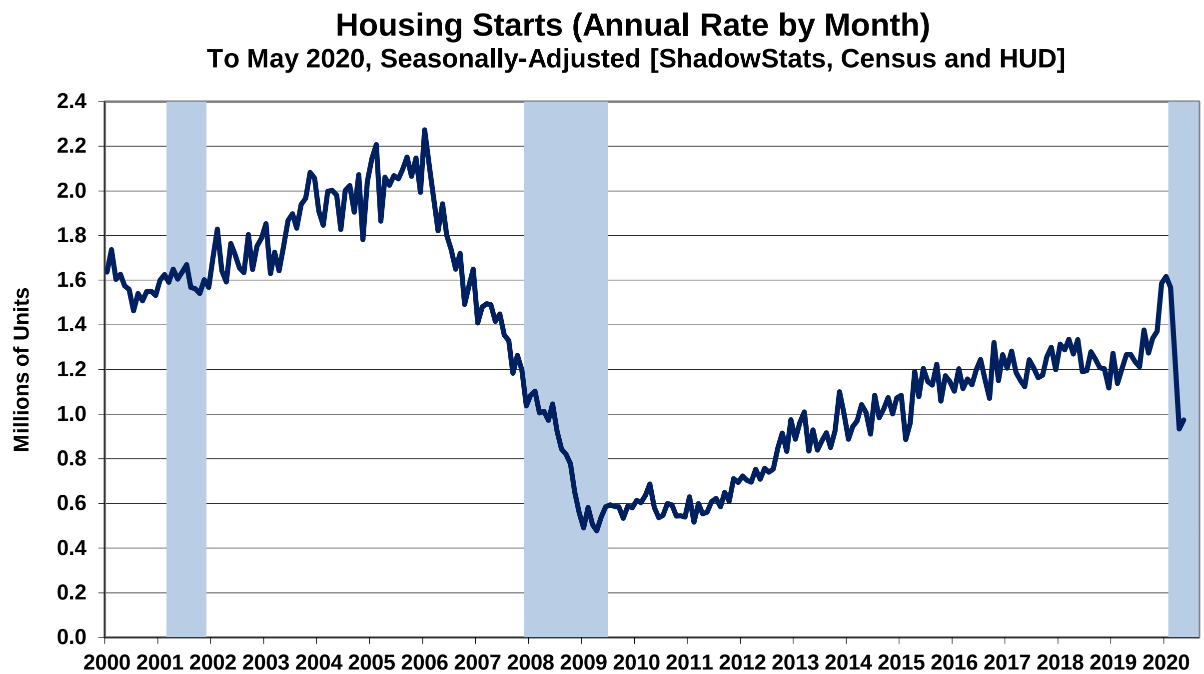
Graph 21: U.S. Housing Starts, 1946 to Date



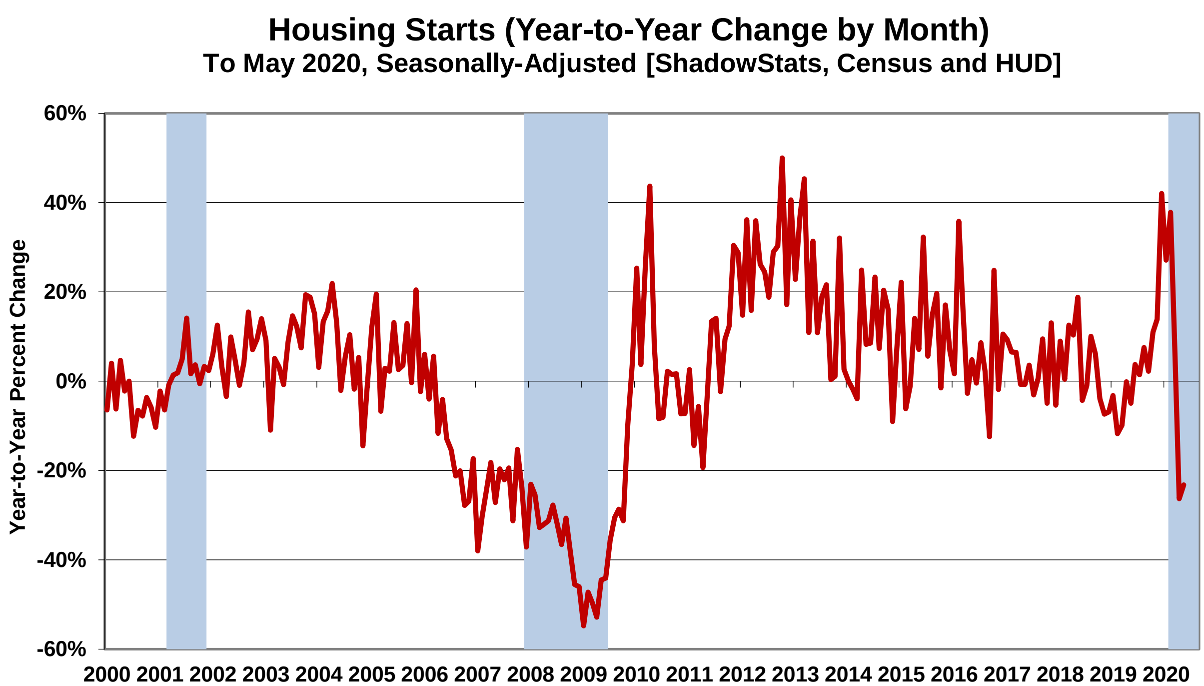
Graph 22: U.S. Housing Starts, Year-to-Year Percent Change, 1946 to Date



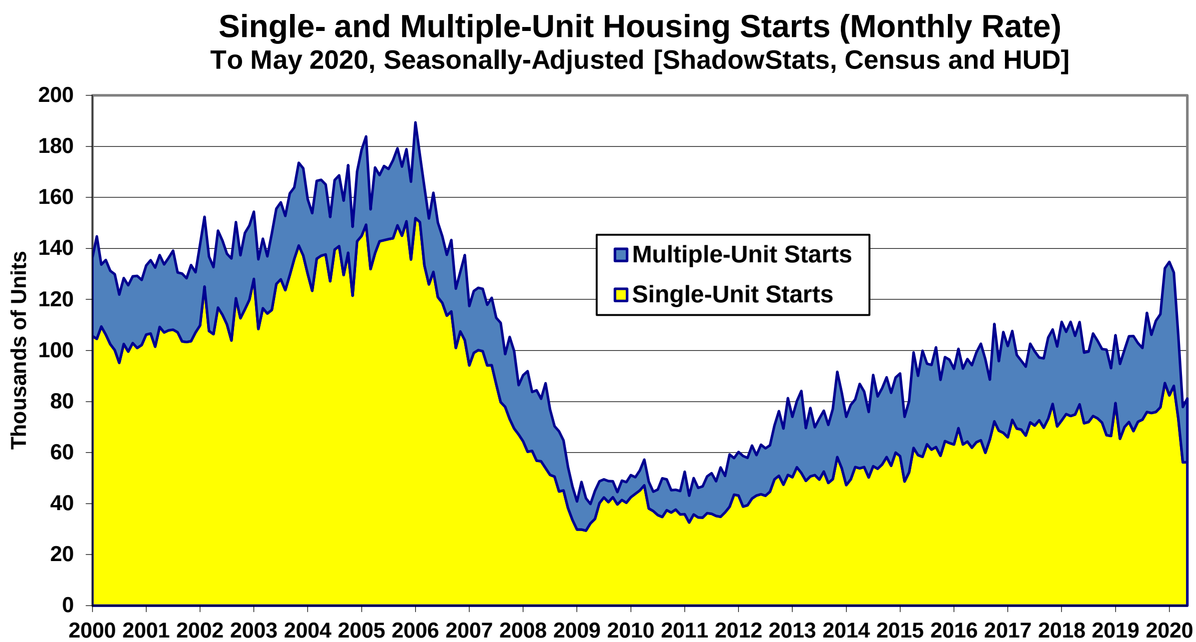
Graph 23: U.S. Housing Starts, 2000 to May 2020



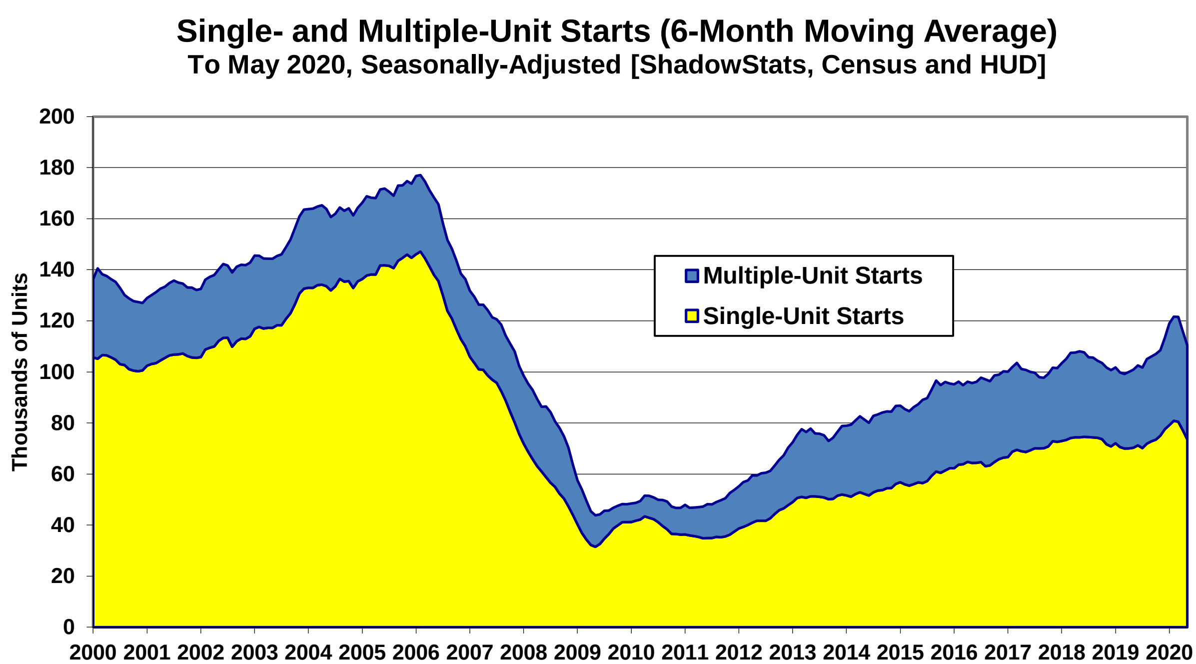
Graph 24: U.S. Housing Starts, Year-to-Year Percent Change, 2000 to Date



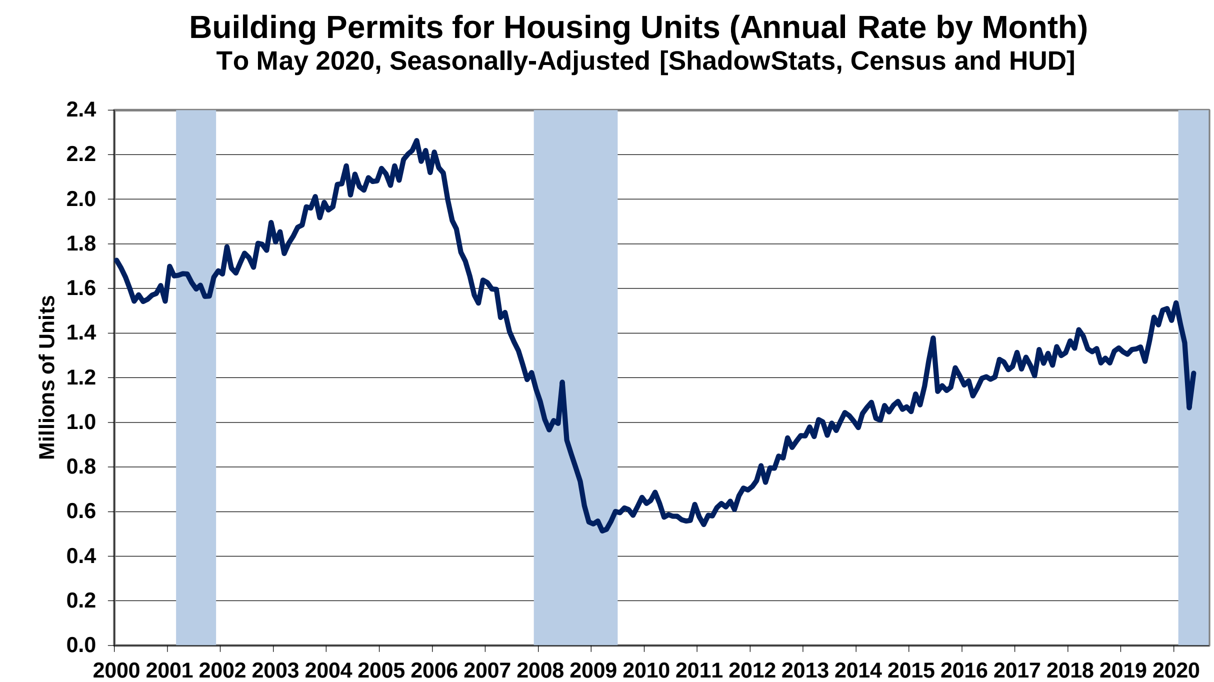
Graph 25: Single- and Multiple-Unit Housing Starts (Monthly Rate), 2000 to May 2020



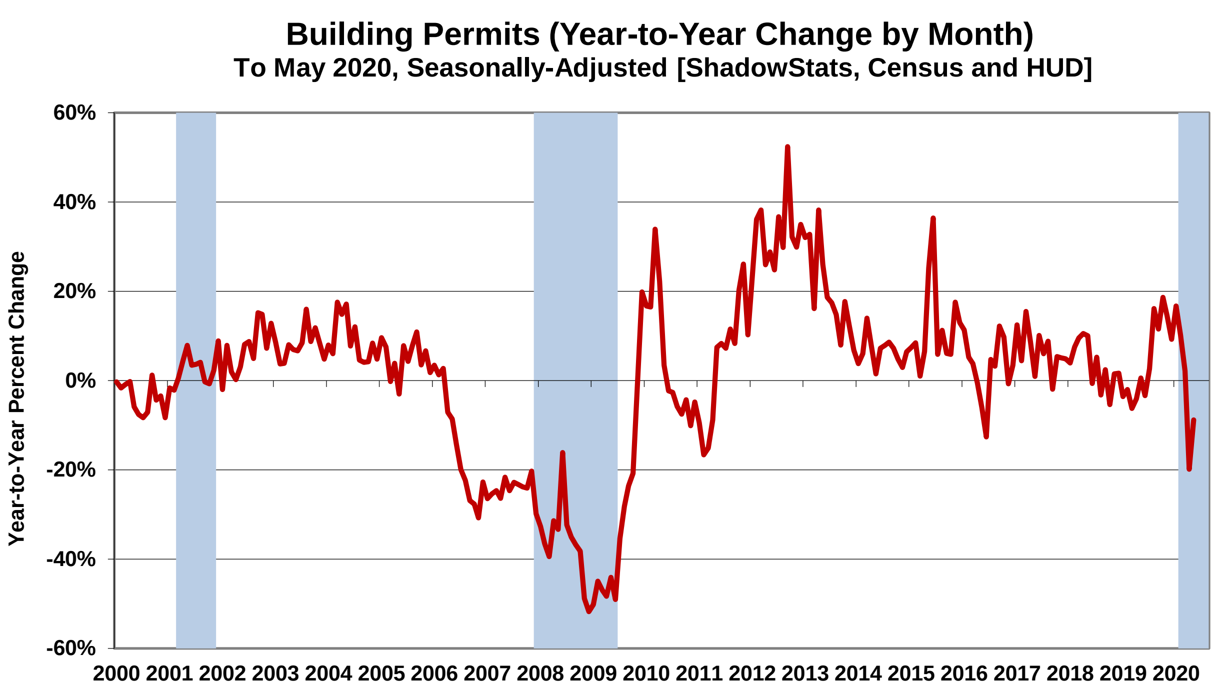
Graph 26: Six-Month Smoothed, Single- and Multiple-Unit Housing Starts, 2000 to May 2020



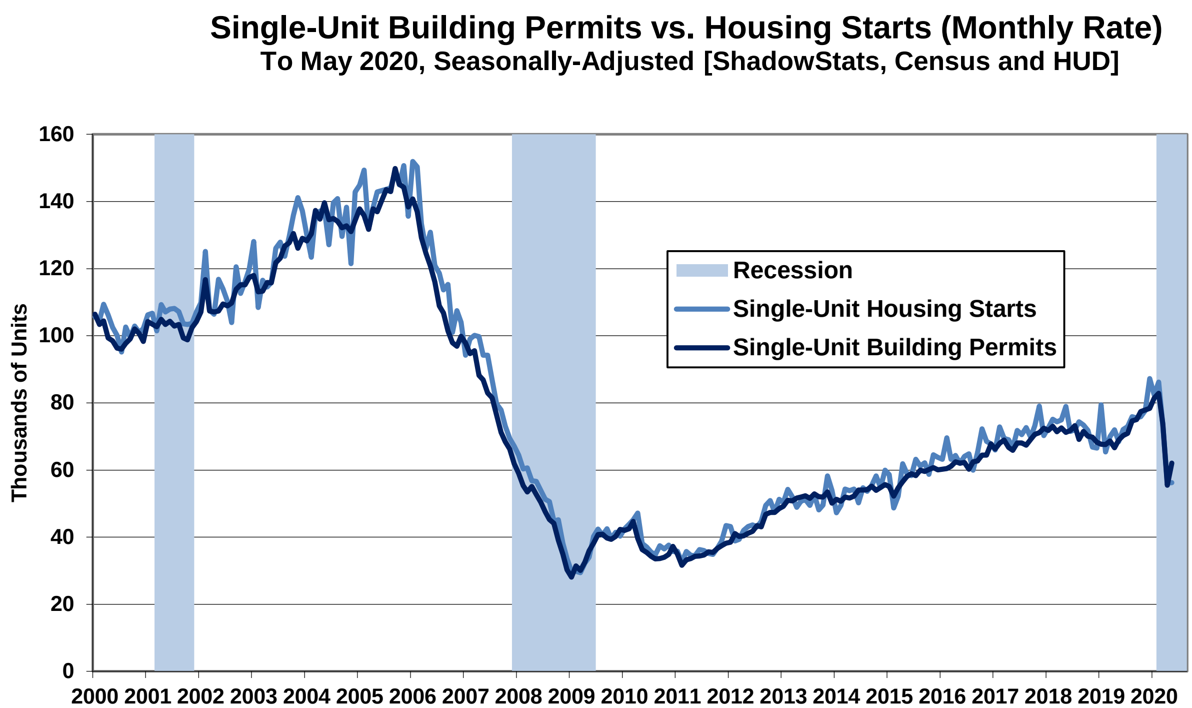
Graph 27: U.S. Building Permits, 2000 to Date



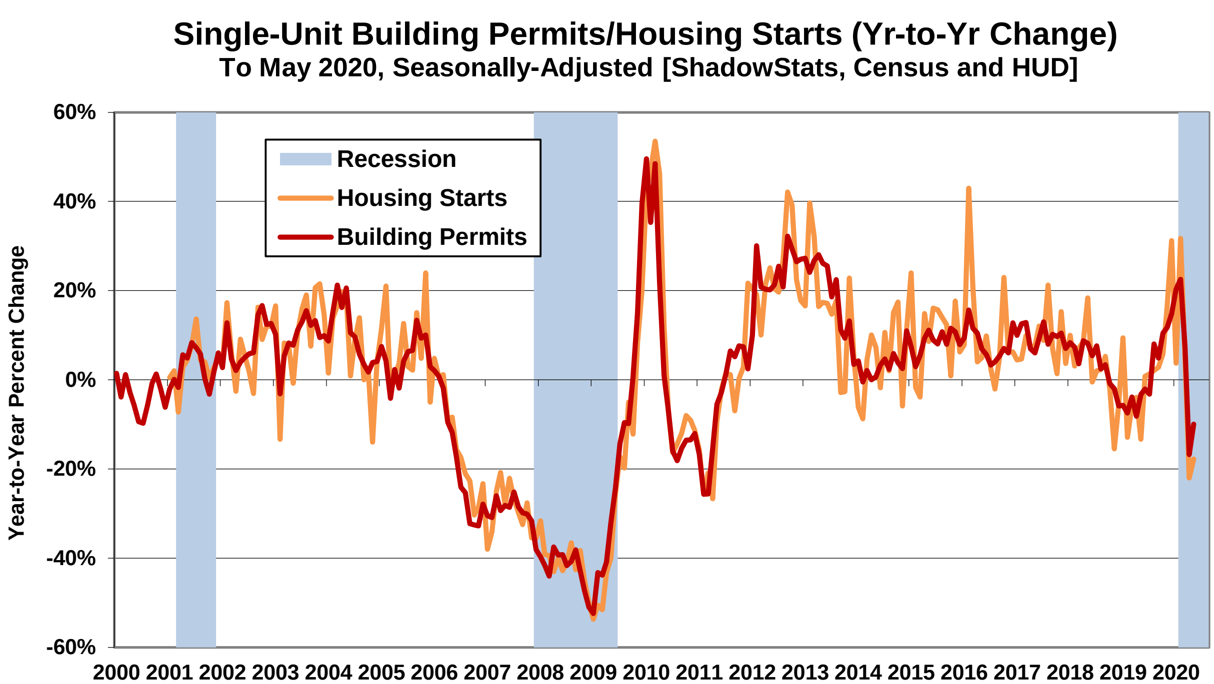
Graph 28: U.S. Building Permits, Year-to-Year Change, 2000 to Date



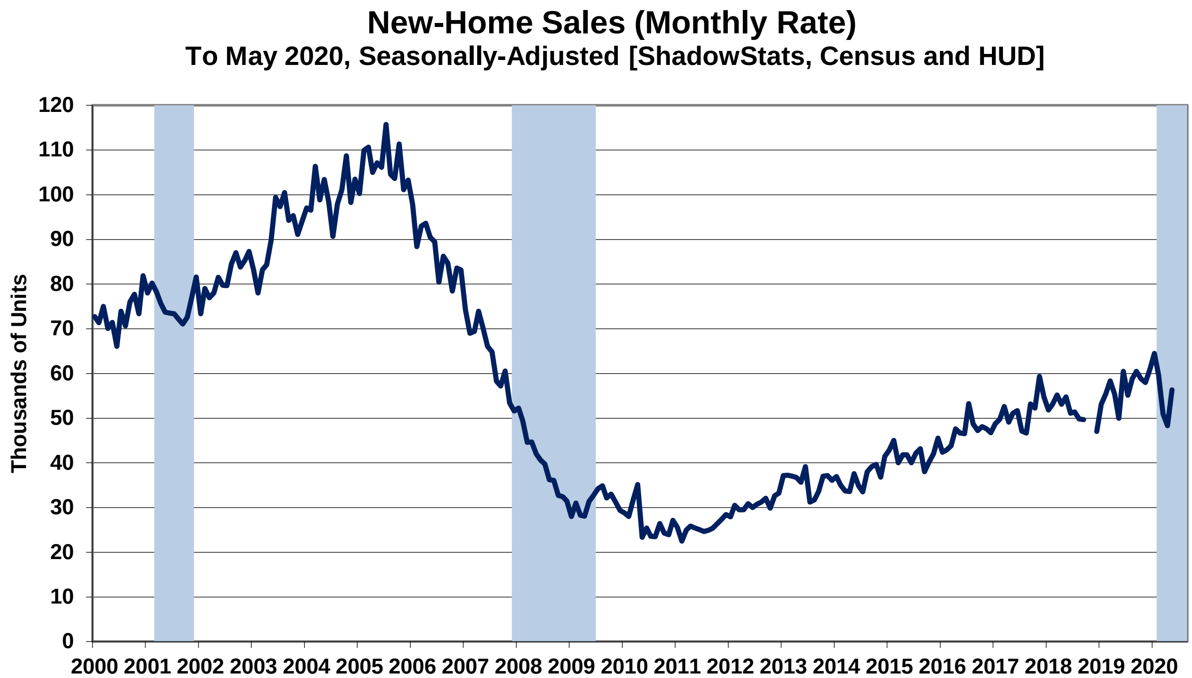
Graph 29: Single-Unit Building Permit vs. Housing Starts



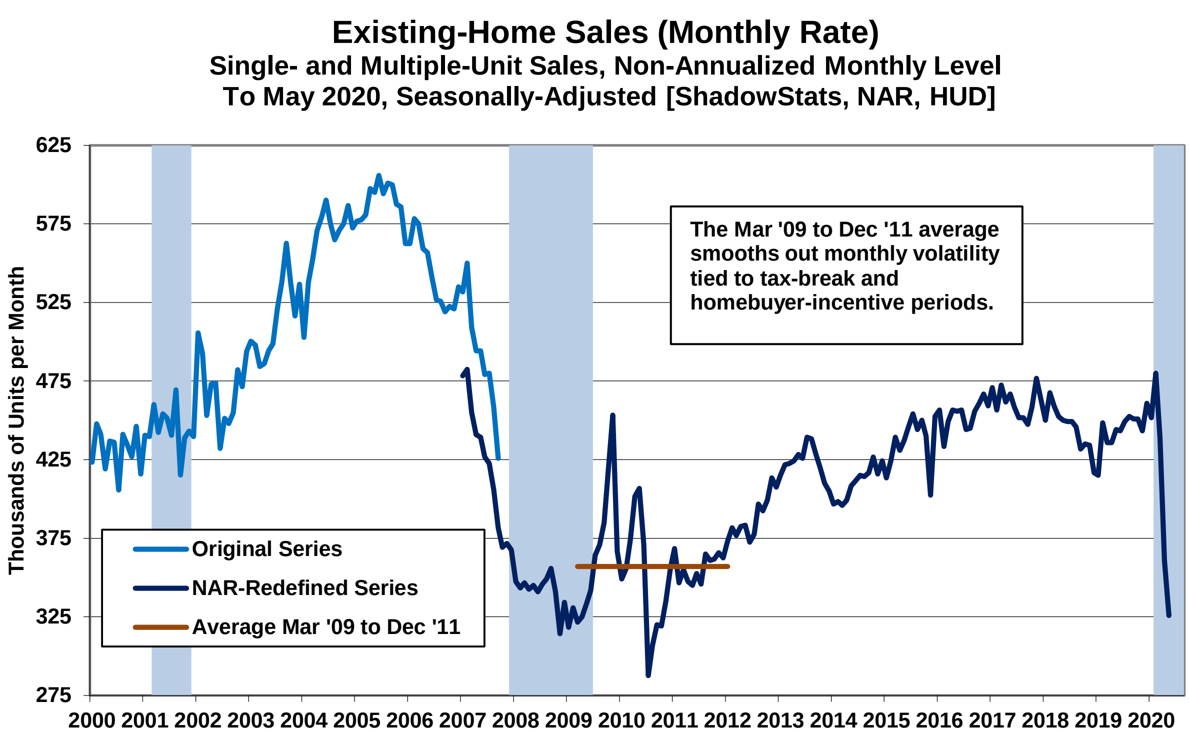
Graph 30: Single-Unit Building Permit vs. Housing Starts, Year-to-Year Change



Graph 31: New-Home Sales (2000 to May 2020)



Graph 32: Existing-Home Sales (2000 to May 2020)



May 2020 Retail Sales

Rebound from Worst Plunge in History

Following April's 73-Year Record Monthly Plunge in Retail Sales, May Reporting Showed Some Monthly Bounce-Back on Top of Upside Revisions. Other than for some bottom-bouncing in the May 2020 Employment data, which incorporated a variety of systemic distortions ranging from redefined methodologies and revised seasonal adjustments, to outright misclassification errors (see ***Flash Commentary No. 1439***), the only meaningful headline May economic series to show something of monthly rebound from April's collapse was Retail Sales.

May 2020 Real Retail Sales Soared 17.7% in the Month, Up by 20.3% Net of Revisions, Down Year-to-Year by 6.3% (-6.3%). As reported by the Census Bureau on June 16th, the April 2020 record monthly plunge of 15.8% (-15.8%), was followed by a record rebound in May Real Retail Sales activity, up by a headline 17.7%, a 20.3% gain net of revisions. In the context of still-earlier months' declines, May 2020 real activity was down by 6.3% (-6.3%) year-to-year. Some aspects of underlying activity, such as a 29.1% nominal gain in restaurants and bars was not particularly credible, while the 44.1% jump in May auto sales likely will not be repeated in the June reporting.

The real series headlined and plotted here is the nominal Retail Series surveyed by the Census Bureau and deflated by the CPI-U, as published by Saint Louis Federal Reserve.

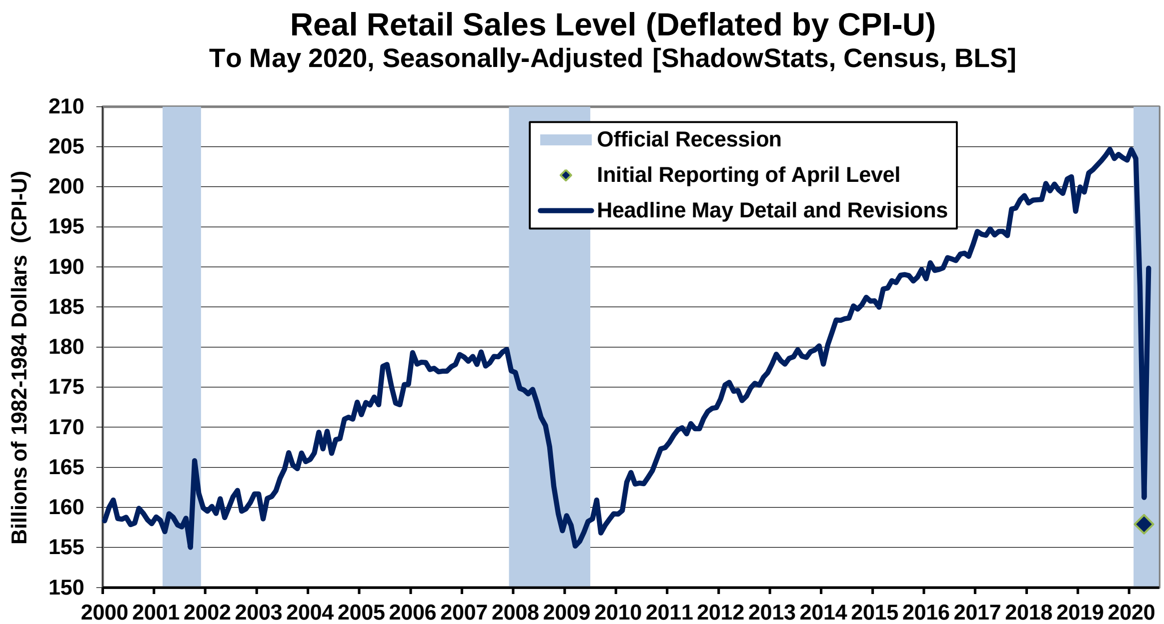
Graphs 33 and ***34*** are marked with diamonds, where the levels of real sales and annual growth were reported for headline April 2020 activity. The linear graph shows the revised levels and data as published with the May 2020 estimate.

Seen in ***Graphs 35*** and ***36***, neither of the two historical Retail Sales series, dating back to 1947, has seen monthly or year-to-year contractions close to the magnitude of the headline April 2020 declines. In like manner, neither of the series has seen monthly recovery gains close to the magnitude seen with the jump in headline May 2020 activity.

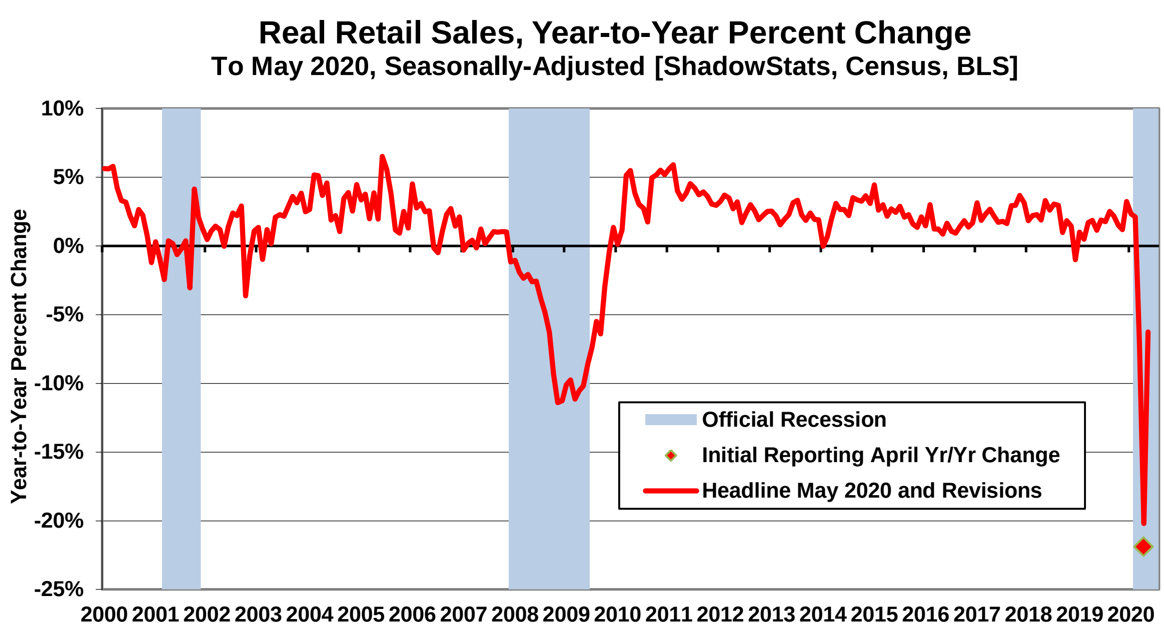
Details of the 2020 negative annual benchmark revisions to the Retail Sales series were published in ***Flash Commentary, Issue No. 1433***. In tandem with the later detailing of the recently-published benchmarking of New Orders for Durable Goods, evidence continues to mount of pending downside revisions to the GDP in its July 30th annual benchmarking.

Deepening Recession and Depression. With an early two-month trend (April and May), Second-Quarter 2020 Real Retail Sales is on track for its third consecutive quarterly decline, consistent with the evolving Coronavirus-Pandemic Collapse overwriting what already had been an unfolding recession. Annualized Fourth-Quarter 2019 (Holiday Shopping Season) real growth contracted at an annualized quarterly pace of 0.7% (-0.7%), followed by a revised annualized contraction of 9.7% (-9.7%) in First-Quarter 2020, with Second-Quarter 2020 now on early track for an annualized real quarterly contraction of 39.0% (-39.0%).

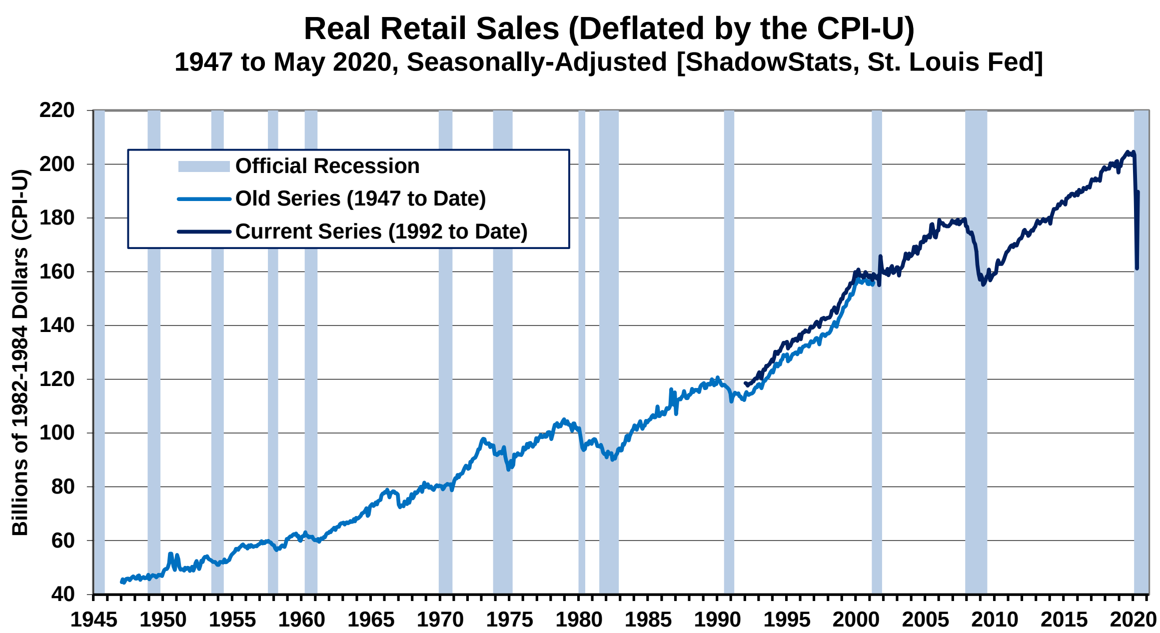
Graph 33: Real Retail Sales (2000 to May 2020)



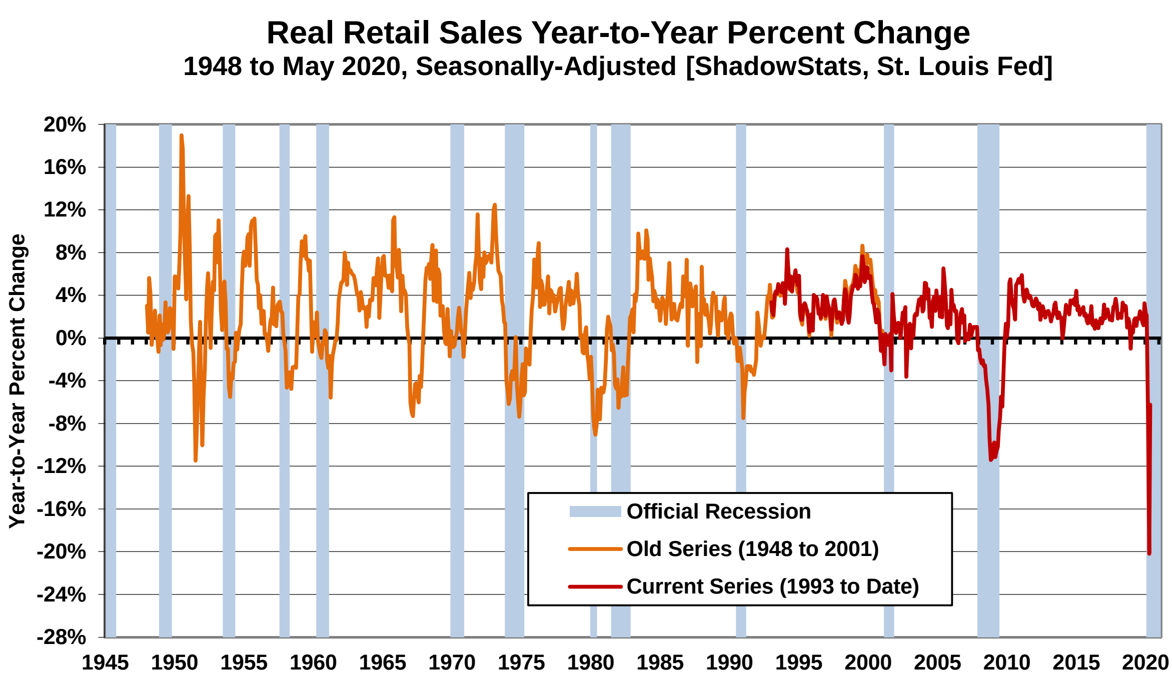
Graph 34: Real Retail Sales, Year-to-Year Percent Change (2000 to May 2020)



Graph 35: Combined Full History - Real Retail Sales (1947 to May 2020)



Graph 36: Combined Full History - Real Retail Sales, Year-to-Year Percent Change (1948 to May 2020)



Updated Monetary Conditions

Monetary Base and Assets Notched Lower With Reduced Dollar Swaps

M1, M2 and ShadowStats Ongoing M3 Annual Growth at Record Highs

Inflation Risks as Gold and Silver Prices Jump

Booming Retail Sales vs. Collapsing Production - Mounting Shortages?

Money Supply Annual Growth and Headline Levels at Record Highs. Updating ***Special Hyperinflation Commentary, Issue No. 1438*** and ***Flash Commentary, Issue No. 1440***, hyperinflationary caution signs remain in place. ***Graphs 37*** and ***38*** show reporting of full-month May 2020 Money Supply M1, M2 and the ShadowStats Ongoing M3 estimates at record high levels of reporting of monthly activity as well as year-to-year growth, all of which are heading exponential. June activity levels and annual growth have continued to expand, and ShadowStats will post early-June growth estimates by late next week.

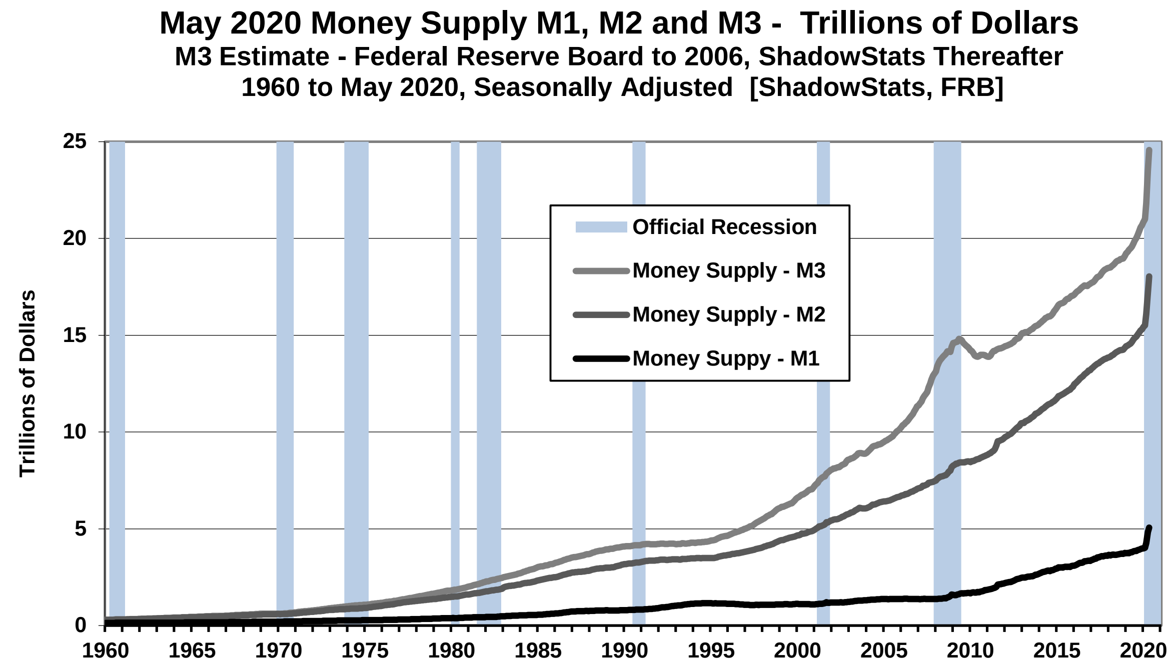
Graphs 39 to ***42*** show some topping in the Monetary Base and Federal Reserve Bank Assets, related to declining Currency Swaps, where the unstable currency markets appear to have stabilized a bit in the affected period.

As to the potential of mounting inflation pressures in the context of rapidly expanding money against "too few goods," such as the meat-shortage spiked PPI food inflation discussed in ***Flash Commentary, Issue No. 1440***, consider the upwardly revised Real Retail Sales series and the effective unrevised collapsed Production series. Assuming relevance to the headline moves, greater consumption versus declining production, would be consistent with evolving product shortages. More will follow here as better-quality information becomes available.

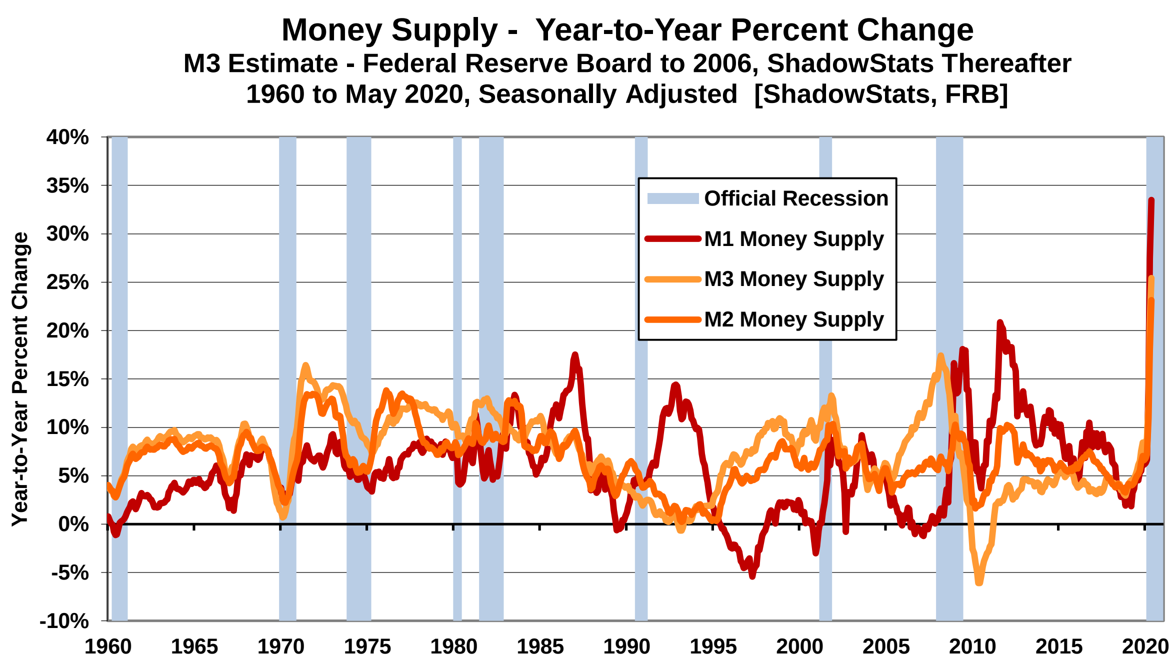
One note of caution both: Gold and Silver prices have been moving higher in recent days. Such movement can be a leading indicator of a developing inflation problem, again, as discussed in ***Flash Commentary, Issue No. 1440***.

[Graphs 37 to **42 begin on the next page.]**

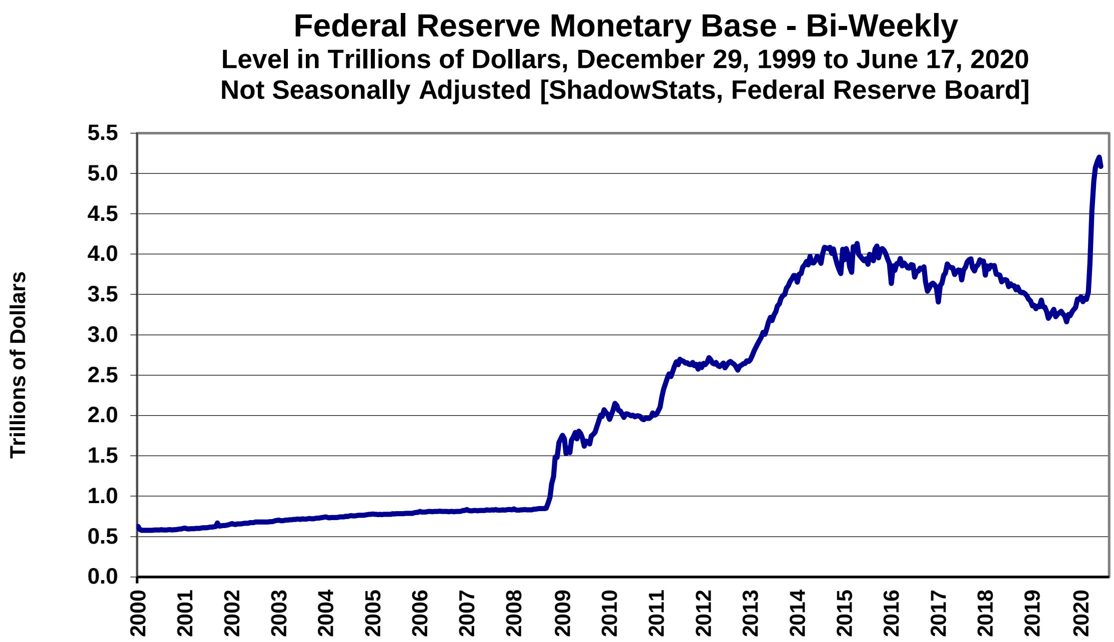
Graph 37: Money Supply M1, M2 and M3/ShadowStats Ongoing M3 (1960 to May 2020), Trillions of Dollars



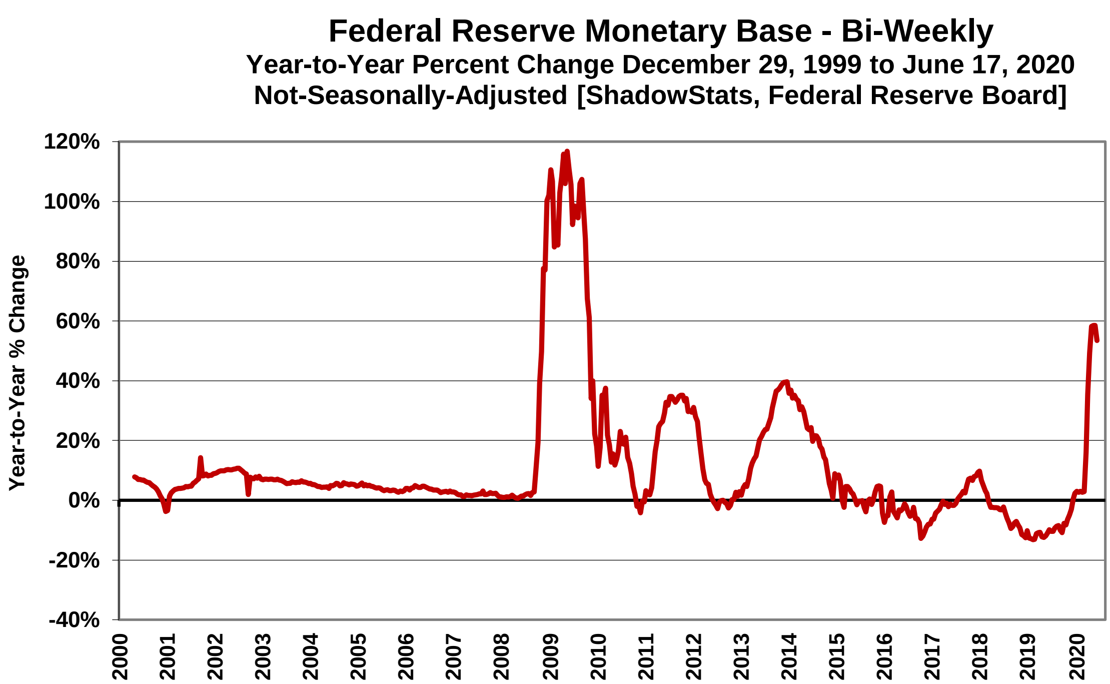
Graph 38: Money Supply M1, M2 and M3 (1960 to May 2020), Year-to-Year Percent Change



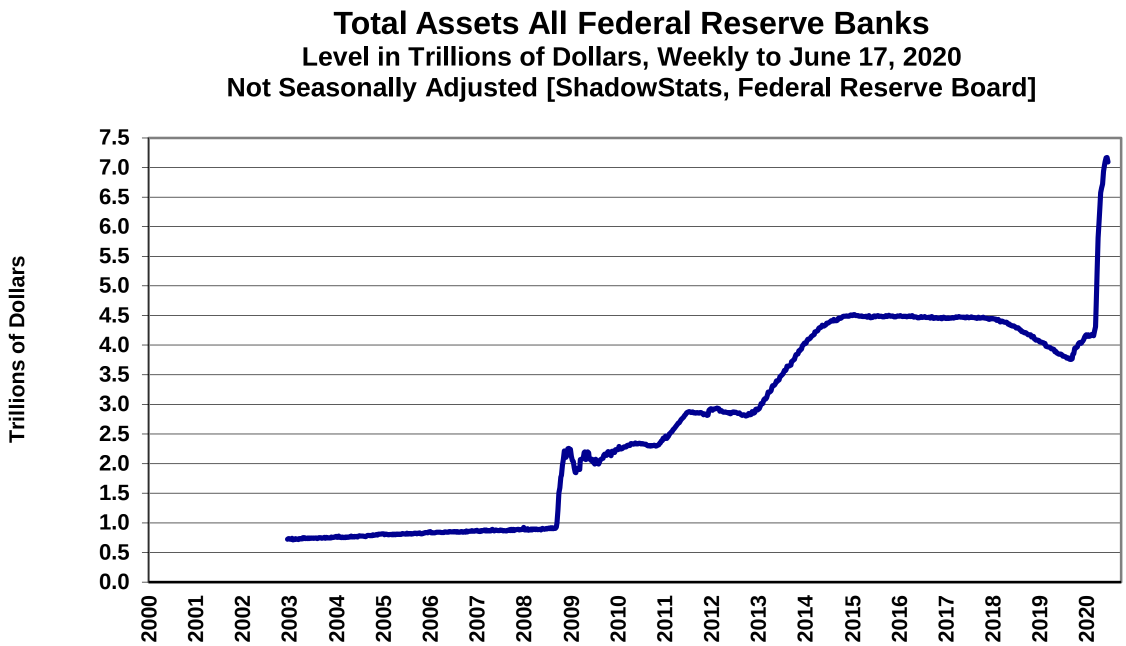
Graph 39: Federal Reserve Monetary Base (2000 to Date)



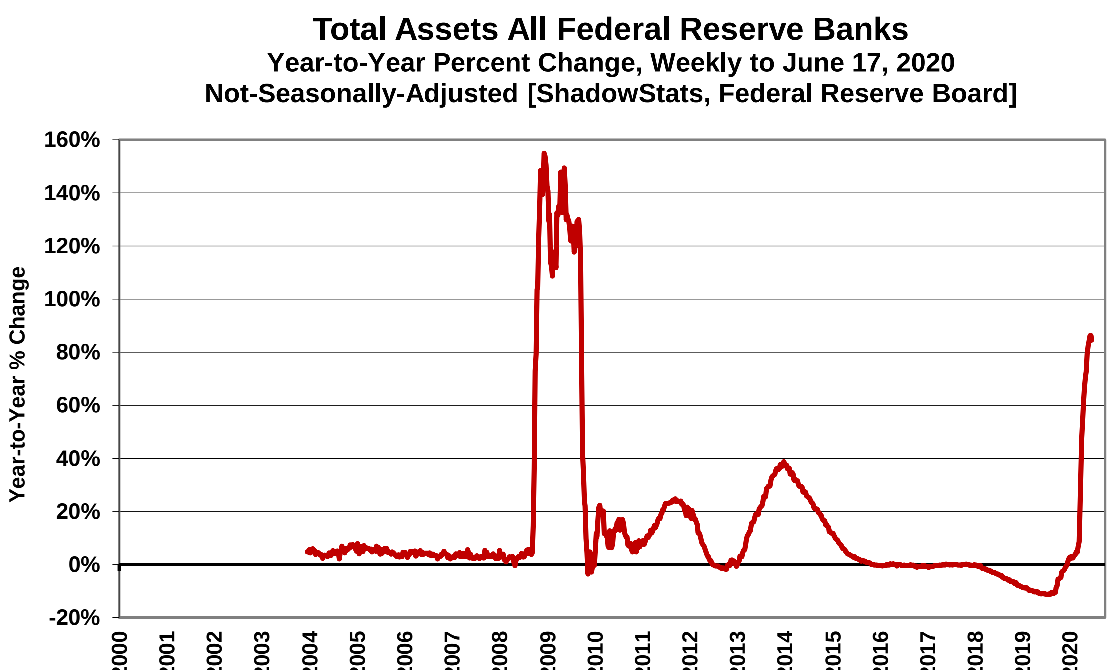
Graph 40: Federal Reserve Monetary Base (2000 to Date), Year-to-Year Change



Graph 41: Total Assets All Federal Reserve Banks, to Date



Graph 42: Total Assets All Federal Reserve Banks, to Date, Year-to-Year Change

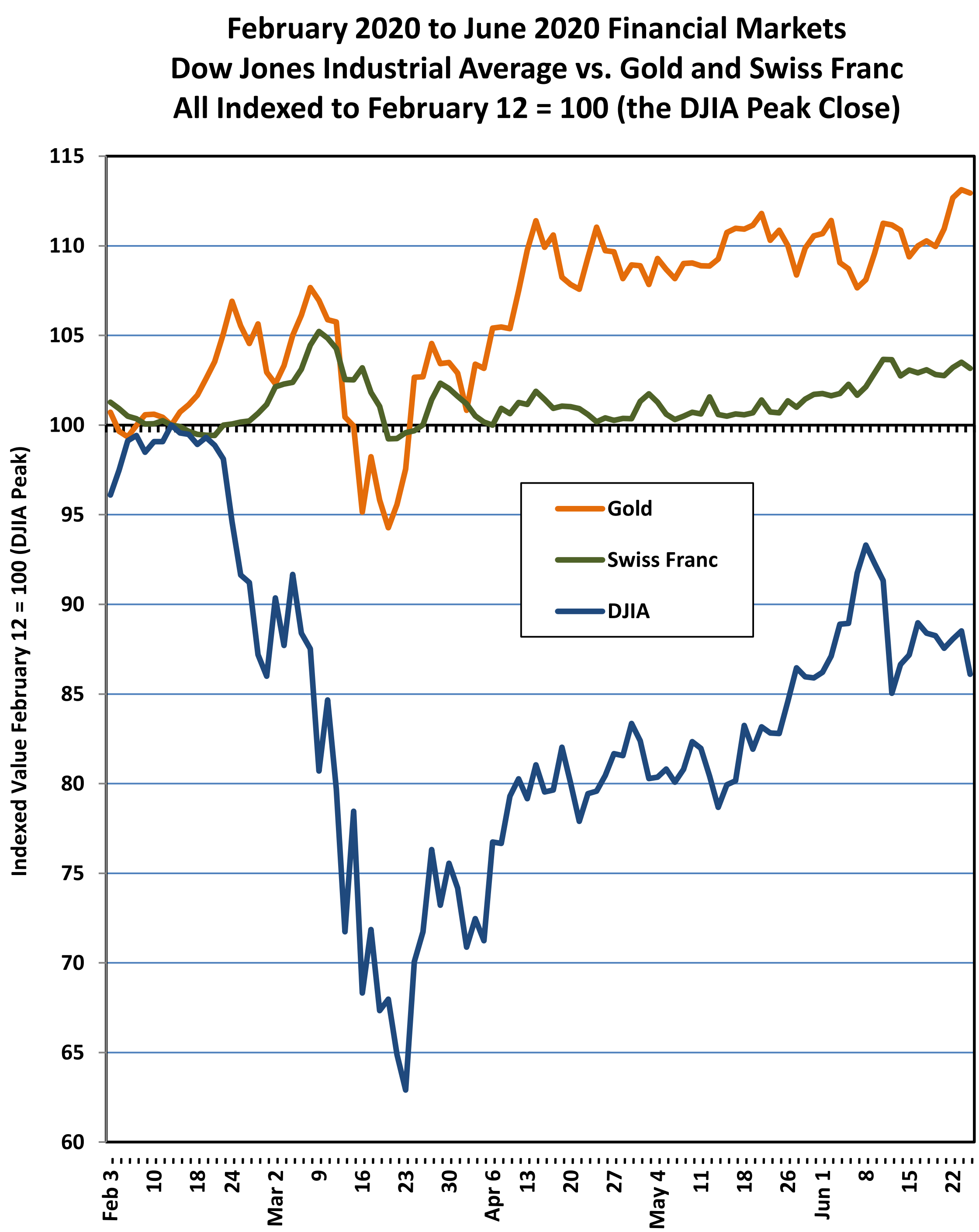


[Updated Financial Market Graphs 43 to 48 begin on the next page]

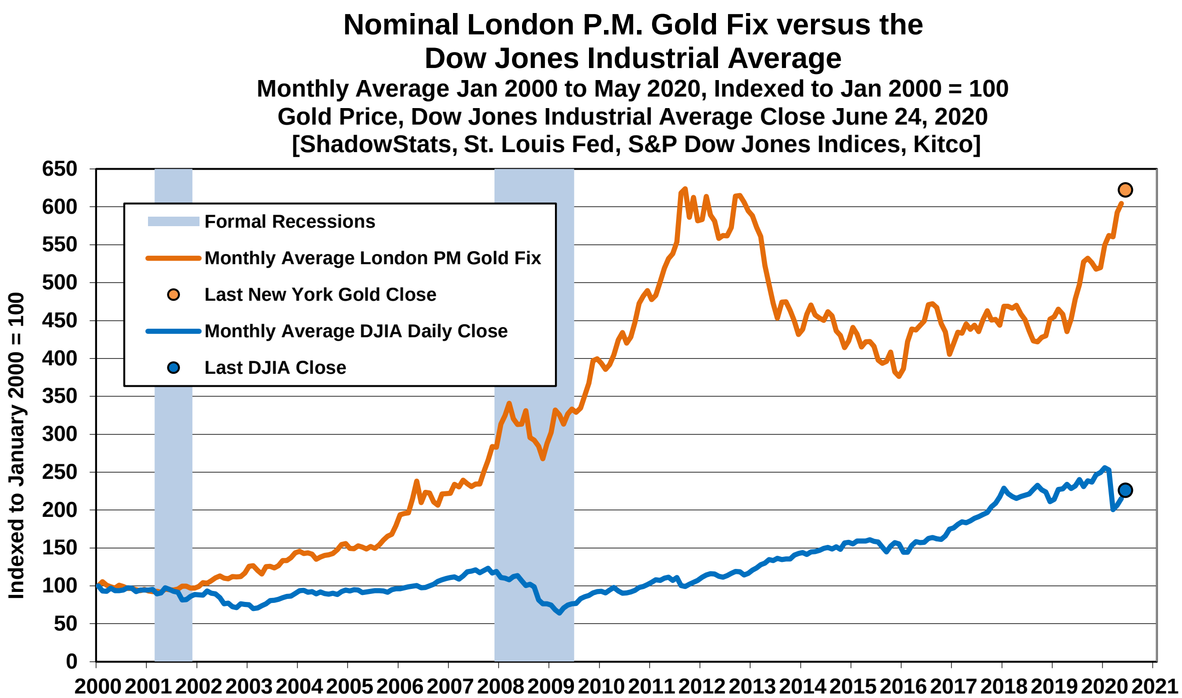
Updated Financial Market Graphs to June 24, 2020

Physical Gold and Swiss Franc Increasingly Protect U.S. Dollar Purchasing Power

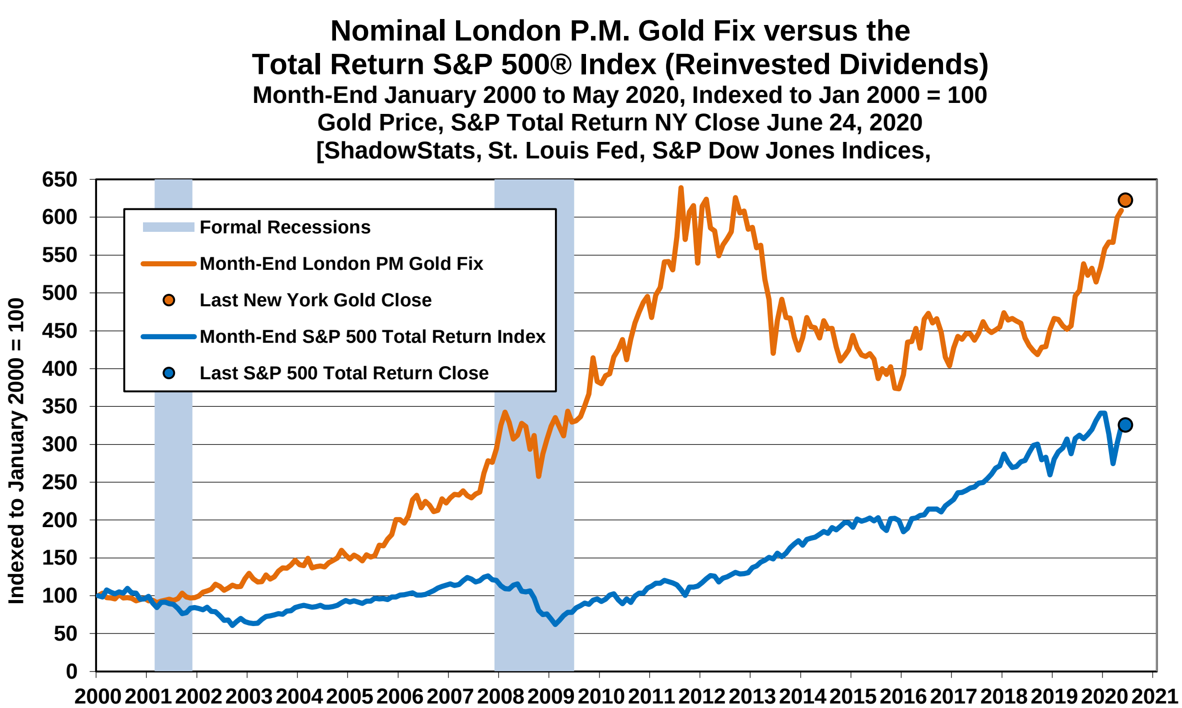
Graph 43: February to June 2020 Financial Markets — Scale: Feb. 12 = 100, Day of DJIA All-Time High Close



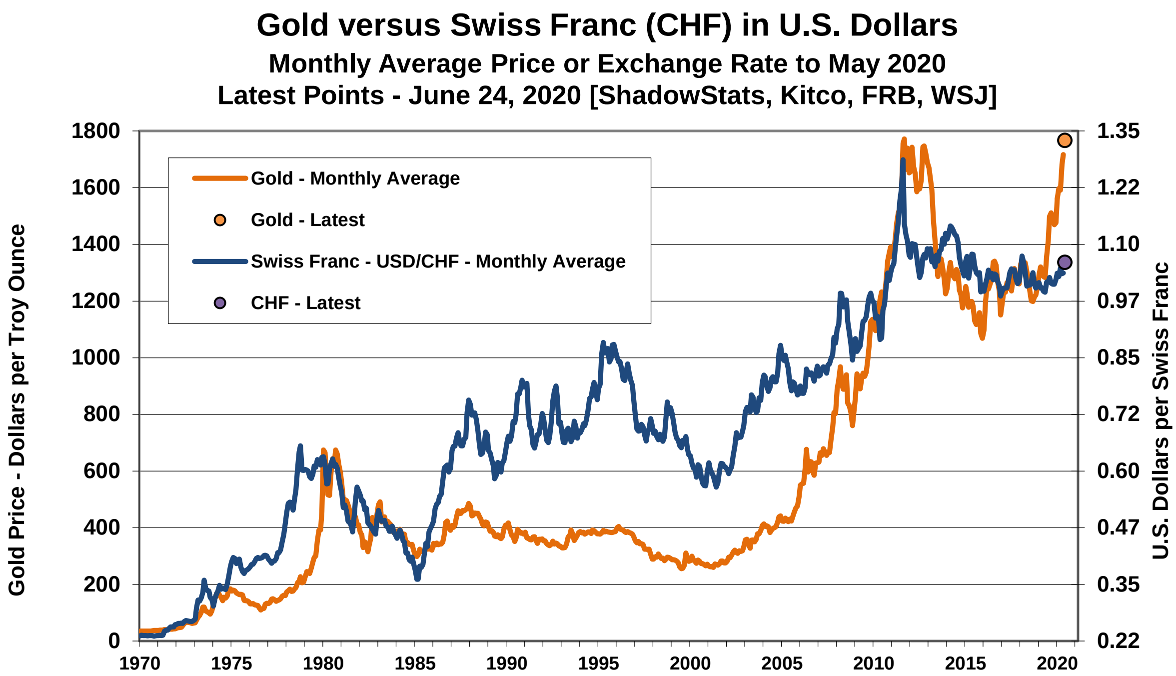
Graph 44: Dow Jones Industrial Average versus Gold (Monthly Average)



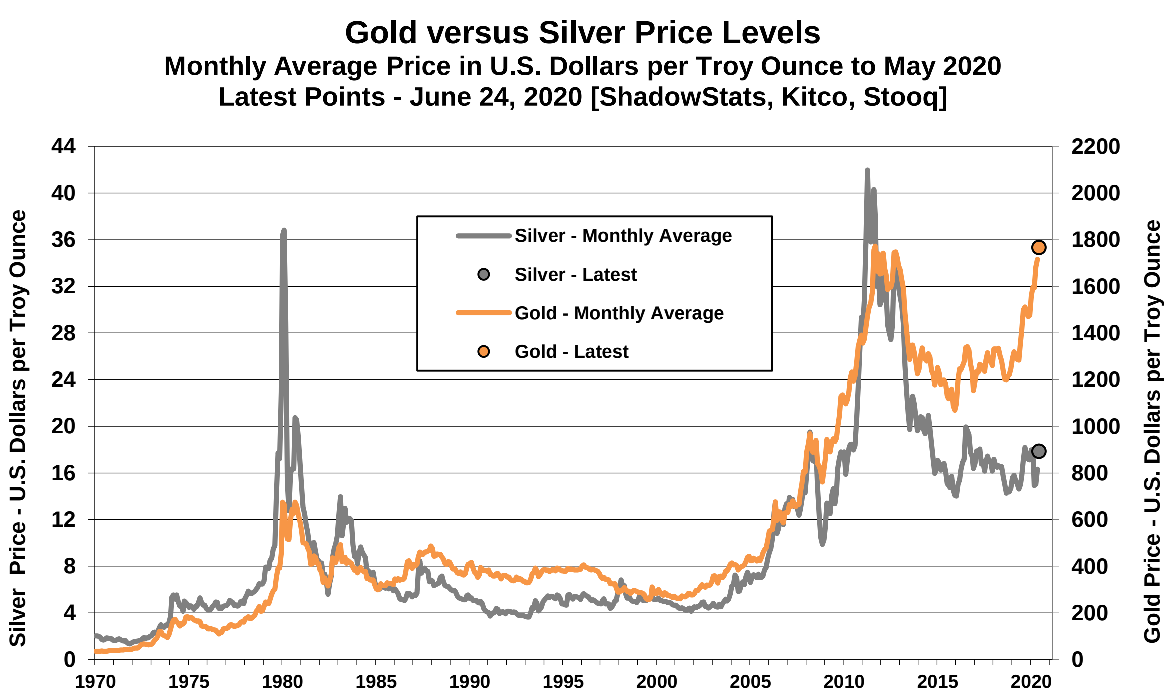
Graph 45: Total Return S&P 500® versus Gold (Month End)



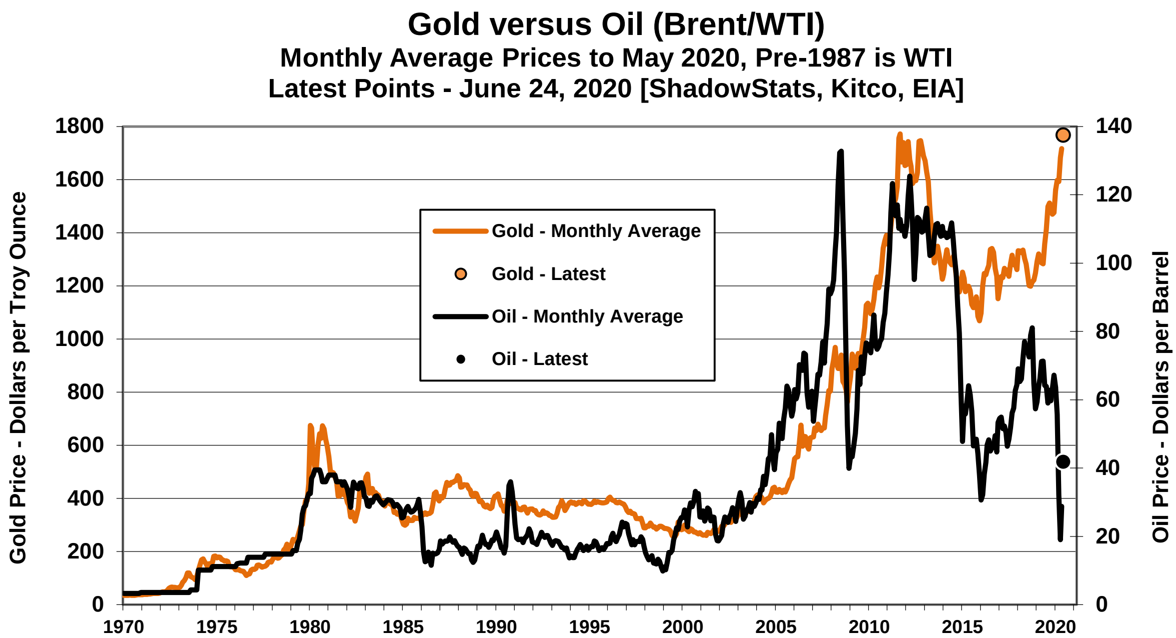
Graph 46: Gold versus Swiss Franc



Graph 47: Gold versus Silver



Graph 48: Gold versus Oil



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