

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

Year-End Special Commentary - Bullet Edition Number 18

**The Fed's "Moderate Sustainable" Economy and the
Happy Financial Markets Face Rapidly Deepening Turmoil in 2020**

December 31, 2019

**Before European Markets Shut Down for the Holiday,
New Year's Eve Flight from the U.S. Dollar and Stocks into Gold
Foreshadowed U.S. Market Trends Likely to Unfold in the Year Ahead**

**Heavily Touted Perfect Economy and Financial Markets
Face Deepening Turmoil in 2020, Thanks Largely to Federal Reserve Gross Negligence**

**Signals of Deteriorating Economic Conditions Have Intensified, With
Standardly Happy Headline Numbers, Such as Consumer Income, Faltering Anew**

**As the Budget Deficit Explodes Amidst Uncontained Federal Spending, the
U.S. Government Faces Long-Range Insolvency and/or Hyperinflation**

**The Congress, the Executive Branch and the Federal Reserve All Are Culpable,
Twiddling Their Thumbs in Complacent Silence**

ShadowStats Commentaries

- The **Daily Update** posts as needed, on the *ShadowStats* home page: www.ShadowStats.com, right-hand column, providing initial coverage of all major U.S. economic reporting, within two-to-three hours of headline publication, as well as coverage of unusual financial-market or political developments.
- The **Bullet Edition** publishes weekly (usually over the weekend), providing *ShadowStats* primary coverage of the past week's unfolding activity, reviewing economic releases, financial-market, systemic and political developments. [Next planned release: **Special Bullet Edition No. 19** (likely January 6th) will concentrate on reviewing 2019 and looking ahead to 2020 and beyond. Federal Reserve Policies, U.S. Government fiscal operations and related economic and financial market conditions will be reviewed, as sampled in [Bullet Edition No. 17](#), along with coverage of the next major economic release, Construction Spending of January 3rd.]
- The **Flash Update**, interspersed with **Bullet Editions**, is limited in scope, highlighting near-term events or developments—usually same- or next-day—with the economy, financial markets, politics, the Federal Reserve or with other news of significance that should be reviewed in advance of the Weekend **Bullet Edition**. [Next: **Flash Update No. 17** (to be determined).]
- **Special Commentaries** should publish every quarter or so, providing a more-comprehensive overview of general, broad economic and financial conditions and trends, such as seen in the recently published [Special Commentary No. 985](#), also as **Special Bullet Editions**.
- **Hyperinflation** and **Consumer Liquidity Watches** will supplement irregularly the weekly **Bullet Edition**, covering evolving market and consumer circumstances, otherwise with occasional specific data covered directly in the weekly **Bullet Editions**.
- **Economic Surveys of the General Public** are conducted irregularly and are open to both subscribers and nonsubscribers.
- **Telephone Consulting** is included as part of our regular service. If you have a question or otherwise would like to talk, please call John Williams at (707) 763-5786.

All **Current** and **Earlier ShadowStats Commentaries** (back to 2004) are available in the [Archives](#) (click on *All Commentaries*, then *List Commentaries*) in the left-hand column of the [ShadowStats Home Page](#).

ShadowStats Broad General Outlook Has Not Changed. ShadowStats' Recession Forecast remains in place, with U.S. Economic activity in a deepening downturn, as detailed in the recently published [Special Commentary No. 985](#). Complicated and intensified by deteriorating domestic political and liquidity circumstances, the ShadowStats broad outlook in the weeks and months ahead remains for:

- A rapidly intensifying U.S. economic downturn, reflected in
- Mounting selling pressure on the U.S. dollar, against currencies such as the Swiss Franc,
- Continued flight to safety in precious metals, upside pressures on gold and silver prices, and
- Increasingly high risk of extraordinarily heavy stock-market selling.

Your comments and suggestions are invited. Always happy to discuss what is happening.

Best Wishes to All for a Happy, Healthy and Most Prosperous New Year!

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[The *Overview* section begins on the next page.]

Overview

Year-End Market Movements Have Begun to Reflect Weakening Investor Confidence

Consumer Conditions Soften as Broad Economic Activity Turns Lower

U.S. Fiscal Operations and Federal Reserve Policy Games Are Misguided

Risks Continue to Mount for Extreme Financial-Market and Economic Dislocations

Happy New Year! As we go to press on New Year's Eve, the year 2020 already will be underway or close to getting underway for many of our readers. Accordingly, today's *Special Bullet Edition No. 18* is brief, covering the year-end closing of the 2019 U.S. financial markets. Of interest, until European trading was finished, today, the broad trend was for flight from the U.S. Dollar and Stocks into the safety of precious metal, and that should become increasingly common in the months ahead. In addition, late-year detail on consumer conditions, updated in the last couple of days, suggests developing, renewed weakness in consumer liquidity, which should have major negative impact in the months ahead.

The headlined, pending and unfolding fiscal, economic and monetary crises faced by the U.S. government and the U.S. Federal Reserve will be detailed in next week's more-extensive *Special Bullet Edition No. 19*, addressing:

- **U.S. Government Has to Put Its Fiscal House in Order**
- **Broad Economic Outlook Continues to Turn Down, in Deepening Recession**
- **More-Aggressive Fed Stimulus Is Needed, Although the Fed Appears to Be losing Control of Its System**
- **Financial-Market Instabilities Should Escalate**
- **This Remains a Good Time to Hold Some Physical Gold As a Safe-Haven Asset**

Stock-Market Versus Gold and Silver

One Year Ago, the Stock Market Crashed. Where the various major U.S. Stock Indices had rallied into Third-Quarter 2018 hitting historic highs, the FOMC raised interest rates in December 2018, with an indication of further rate hikes in 2019. That crashed the stock market into December 24, 2018, later

rescued early in 2019 by the “Plunge Protection Team” and by the FOMC backing off further rate hikes. The year-end 2018, 2019 and intervening circumstance have been updated through today’s (December 31, 2019) activity in **Table I**. Where the year-end December 31, 2018 stock indices still were severely depressed, such has helped to boost the relative happy record annual stock gains seen at year-end 2019.

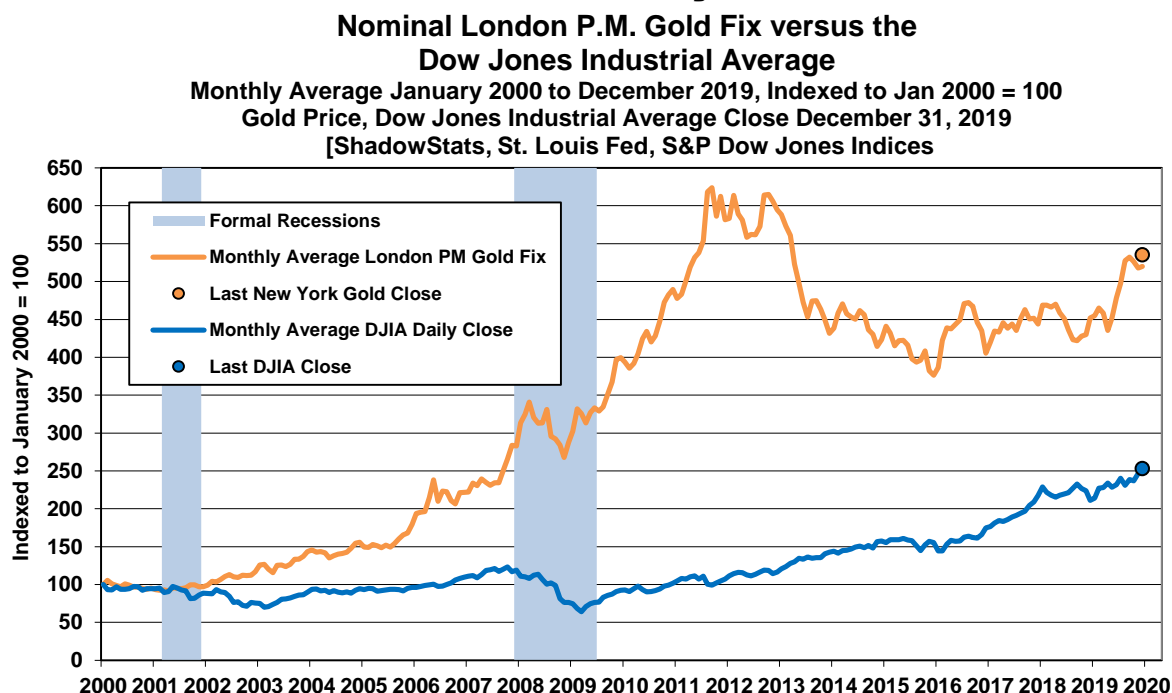
Detail in the **Table** reflects the various prices or measures of investment vehicles against that turmoil. What it shows is that investments in physical gold and silver at the time of the 2018 stock-market highs has outperformed the subsequent stock-market gains through today’s December 31st levels, minimally off recent (December 27th) all-time high stock-market levels.

Table I: Year-End Stock Market Close versus Highs of the Last Year and Various Financial Indicators

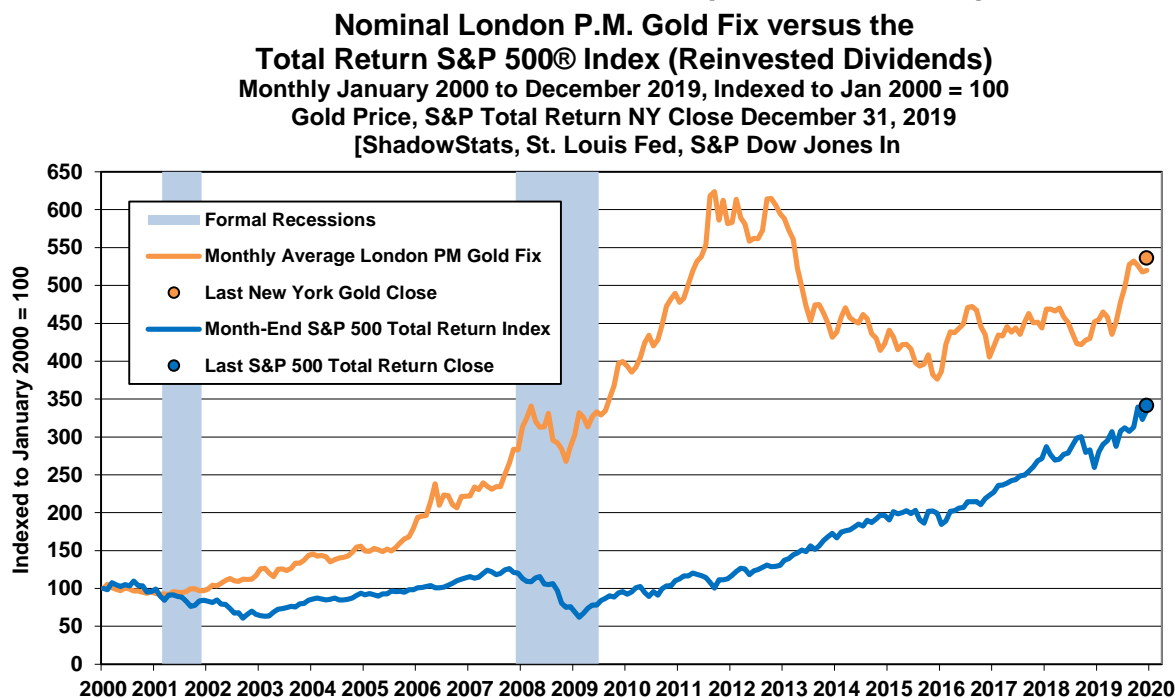
Year-End December 2019 Stock-Market Close, Versus December 2018, Third-Quarter 2018 Highs, The Interim Trough of December 24, 2018, and Against Various Financial Indicators								
	I	II	III	IV	V	VI	VII	VIII
	(A)	(B)	(B) vs. (A)	(C)	(D)	(D) vs. (C)	(D) vs. (B)	(D) vs. (A)
	Stock Indices	Stock Indices	Stock Indices	Stock Indices	Stock Indices	Stock Indices	Stock Indices	Stock Indices
	All-Time	Low Close	Low Close	Y/E Close	Y/E Close	Dec 31 2019	Dec 31 2019	Dec 31 2019
	High Close*	Dec 24 2018	Dec 24 2018	Dec 31 2018	Dec 31 2019	vs.	vs. Low Close	vs. High Close
Stock Market Index	Aug-Oct 2018	Trough**	vs. High*			Dec 31 2018	Dec 24 2018	Aug-Oct 2018
Dow Jones Industrial Average	26828.39	21792.20	-18.77%	23327.46	28538.44	22.34%	30.96%	6.37%
S&P 500	2930.75	2351.10	-19.78%	2506.85	3230.78	28.88%	37.42%	10.24%
S&P 500 - Total Return	5794.72	4672.66	-19.36%	4984.22	6553.57	31.49%	40.25%	13.10%
NASDAQ Composite	8109.69	6192.92	-23.64%	6635.28	8972.60	35.23%	44.88%	10.64%
	Sep 2018	Dec 24 2018	Dec 24 2018	Dec 31 2018	Dec 31 2019	Dec 31 2019	Dec 31 2019	Dec 31 2019
Financial Indicator	Average	Close**	Change vs. Sep 2018	Close**	Close**	Change vs. Dec 31 2018	Change vs. Dec 24 2018	Change vs. Sep 2018
Gold London PM Fix \$/Oz	1198.47	1275.85	6.46%	1279.00	1520.50	18.88%	19.18%	26.87%
Silver London PM Fix \$/Oz	14.26	15.00	5.17%	15.47	17.92	15.87%	19.47%	25.64%
Brent Crude Oil \$/Bbl	78.89	51.93	-34.17%	57.10	69.26	21.30%	33.37%	-12.21%
Trade-Weighted Dollar (1)	90.00	92.12	2.35%	91.79	90.53	-1.38%	-1.72%	0.59%
Financial-Weighted Dollar (2)	57.86	58.90	1.79%	58.92	58.28	-1.09%	-1.05%	0.72%
Effective Fed Funds Rate (3)	1.95%	2.41%	0.46%	2.40%	1.55%	-0.85%	-0.86%	-0.40%
Three-Month T-Bill Rate (3,4)	2.17%	2.43%	0.26%	2.45%	1.57%	-0.88%	-0.86%	-0.60%
10-Year Bond Yield (3,4)	3.15%	2.51%	-0.64%	2.69%	1.92%	-0.77%	-0.59%	-1.23%
<p>* All-time high closes (3q2018): DJIA - Oct 3 2018, S&P 500 (and S&P 500 TR, dividends reinvested) - Sep 20 2018, NASDAQ - Aug 29, 2018; 2019 all-time high closes: DJIA - Dec 27 2019 at 28701.66; S&P 500 (and S&P TR) - Dec 27 2019 at 3247.93 (6586.85); NASDAQ - Dec 27 2019 at 9052.00.</p> <p>** Or most recent close.</p> <p>(1) The TWD (Federal Reserve) weights the U.S. Dollar against major currencies based on trade volume in goods.</p> <p>(2) FWD (ShadowStats) weights USD against currency trading volume (includes Chinese Yuan, excluded in TWD).</p> <p>(3) Change is indicated as the percentage point difference in yield.</p> <p>(4) Constant maturity yield.</p> <p>Sources: St. Louis Fed, Wall Street Journal, Dow Jones Indexes, Finance.Yahoo.com/lookup, Kitco, DOE, ShadowStats.com, U.S. spot prices are used if U.K. are not available.</p>								

Following *Graphs 1* and *2* plot average monthly levels of the Dow Jones Industrial Average and the S&P 500 Total Return Index (dividends re-invested), versus the monthly average nominal price of Gold, with all the series recast and set to January 2000 = 100.0, for purposes of comparison.

Graph 1: Nominal Gold versus the Dow Jones Industrial Average



Graph 2: Nominal Gold versus the Total Return S&P 500 Index (Reinvested Dividends)



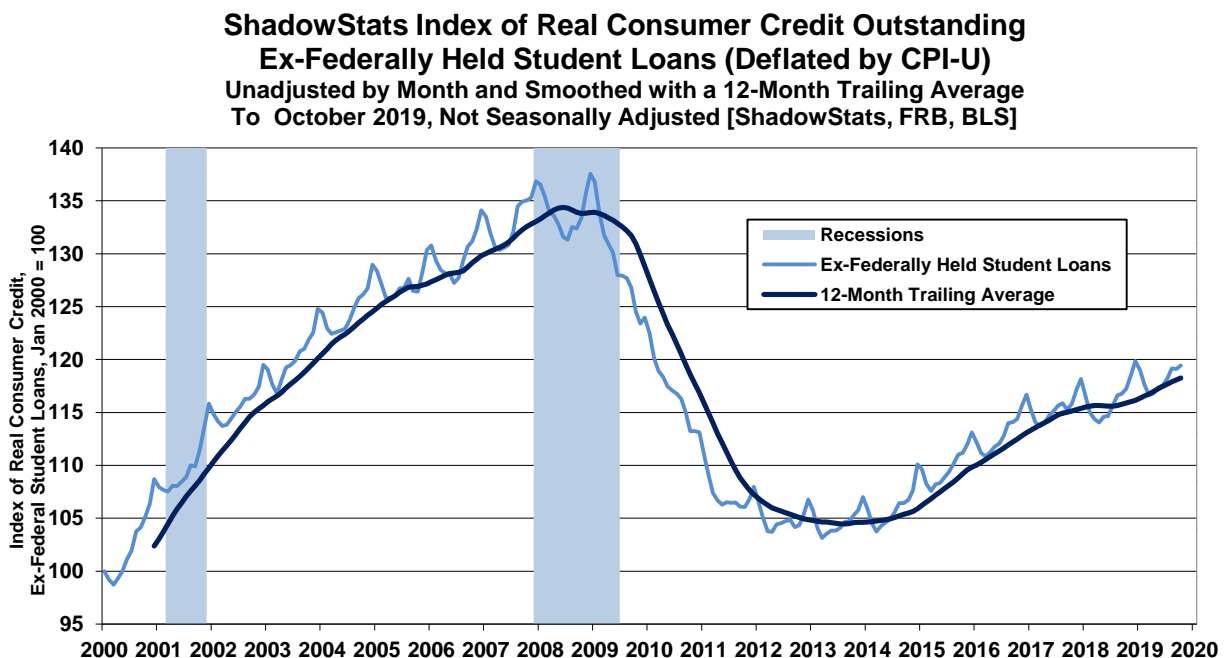
The Latest Economic Numbers

Intensifying Consumer Liquidity Squeeze Favors Further FOMC Rate Cuts

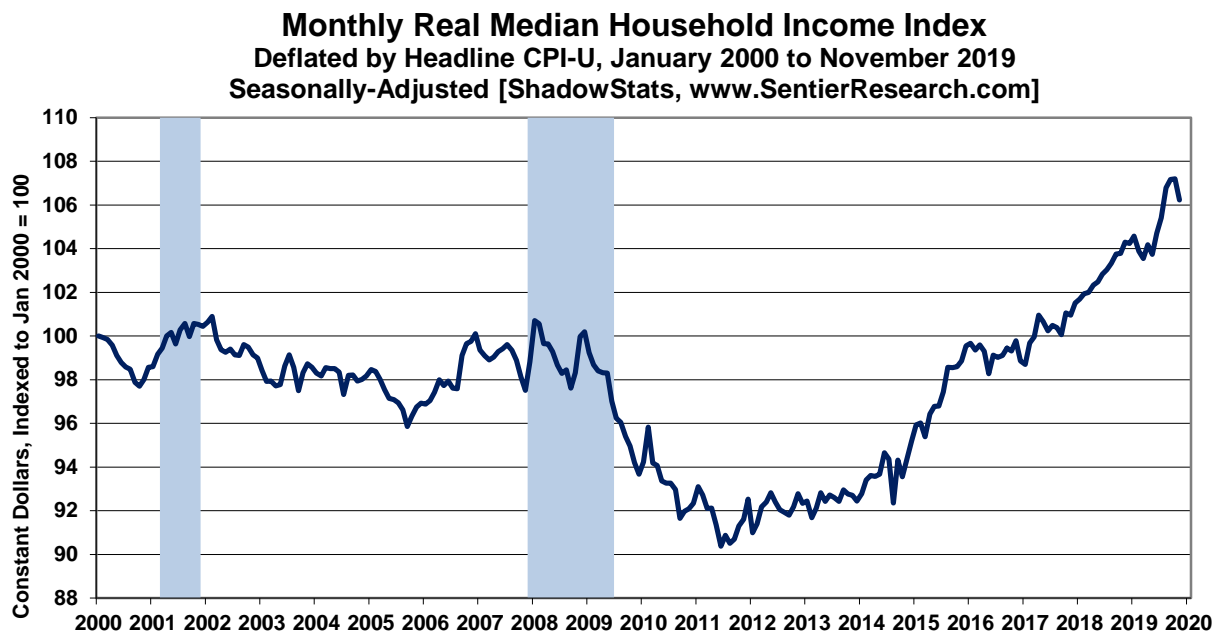
November Monthly Real Median Income Took Its Deepest Hit Since the 2014 to 2016 Mini-Recession. In the year-end period bereft of some usual releases that otherwise have been shifted around for holiday convenience (see the coverage of those earlier series in [Bullet Edition No. 17](#)), [Sentier Research](#) released its estimate of the November 2019 Real Median Household Income Index. The Index took its steepest one-month plunge, down by 0.9% (-0.9%), since the 2014-2016 mini-recession (see [Graphs 4](#) and [5](#)). These numbers can be disrupted by poor-quality and understated headline reporting of consumer inflation (overstated real income activity).

Consider, too, as detailed in [Bullet Edition No. 16](#), that November 2019 Real Earnings were unchanged month-to-month for the third consecutive month, per the Bureau of Labor Statistics (BLS). Combined with ShadowStats measure of Consumer Credit Outstanding ([Graph 3](#)), which remains shy by 12.0% (-12.0%) of ever recovering its pre-recession peak level, a case can be made that the U.S. consumer continues to lack the liquidity needed to support growing domestic economic activity, where the consumer remains the direct driving force behind 75% of headline GDP growth.

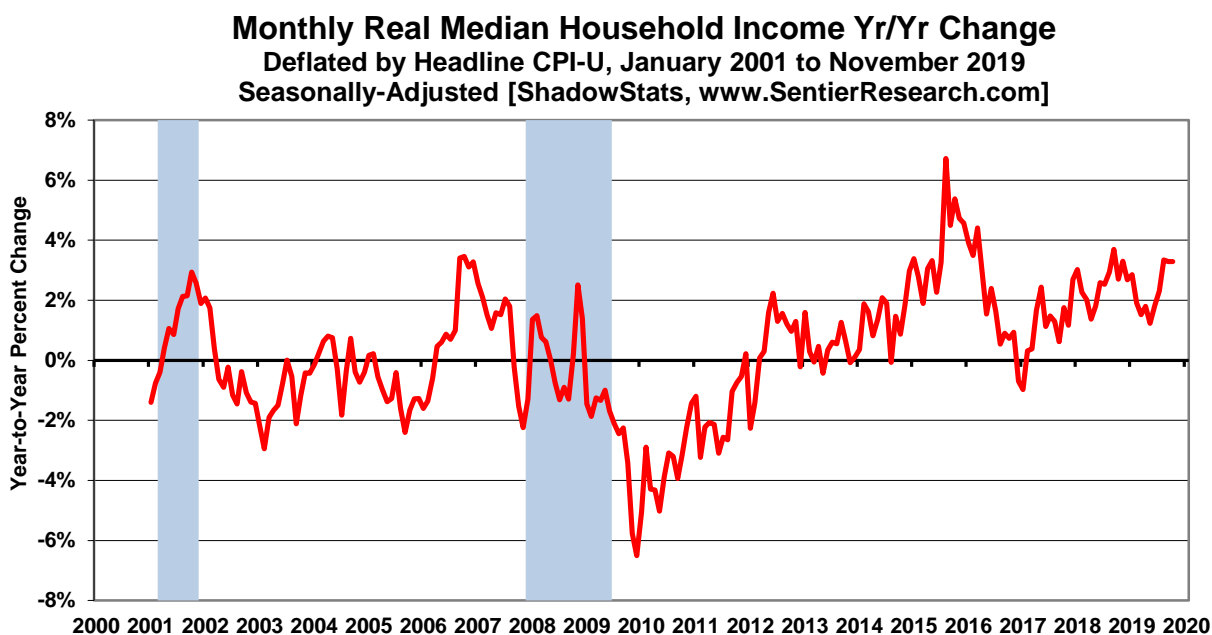
Graph 3: ShadowStats Index of Real Consumer Credit Outstanding



Graph 4: Sentier Research's Real Median Monthly Household Index



Graph 5: Sentier Research's Year-to-Year Change in Real Median Monthly Household



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