

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

Year-Ahead Special Commentary - Bullet Edition No. 19-A

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

January 28, 2020

**2020: A Year of Deepening Economic, Fiscal and Financial-Market Turmoil,
Despite a Headline Booming Economy and Stock Market**

**The Fed Continues to Prop the Banks and the Financial Markets,
But Not the Consumer, Who Ultimately Drives Sustainable Economic Activity**

**Expected January FOMC: Continued Boosts to Banking-System Liquidity, but
No Rate Cut for Liquidity-Strapped Consumers, Who Were
Hit by the Overly Aggressive Fed Rate Hikes in 2017-2018**

**Fourth-Quarter 2019 Numbers Showed Quarterly Contractions in
Real Earnings and Real Retail Sales, Including Full-Year Declines in
Real New Orders for Durable Goods, Manufacturing and Freight Activity**

**There Is a Fair Shot at Weaker Than Expected Fourth-Quarter GDP,
Despite FOMC Claims of Sustainable Moderate Economic Growth in Place**

**The U.S. Economy, Federal Government and the Federal Reserve System
Still Have Not Recovered from the 2007-2008 Banking Collapse and Bailout**

**Harsh Reality Remains That the Fed Stunted U.S. Economic and Fiscal Potential,
With Its Handling of the Banking System Collapse and Bailout of 2007-2008**

**Extremes of Fiscal and FOMC Imbalances Threaten Massive Systemic Instabilities,
Ranging from the Economic and Financial-Market Plunges, to Surging Domestic Inflation**

**Modern Monetary Theory (MMT) Does Not Work: Headline Inflation Can Be Masked,
But the Price of Gold Remains the Canary in the Coal Mine**

ShadowStats Commentaries

Special Bullet Edition No 19 has been divided into two parts. Today's first part (A) precedes, and this weekend's second part (B), which follows the January FOMC and the January 30th first-estimate of Fourth-Quarter 2019 GDP. Standard publications:

- The ***Daily Update*** posts as needed, on the *ShadowStats* home page: www.ShadowStats.com, right-hand column, covering 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*** usually publishes weekly (over the weekend), providing *ShadowStats* primary coverage of the past week's unfolding activity, reviewing economic releases, financial-market, systemic and political developments (see ***Special Commentaries***).
- 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's ***Bullet Edition***. ***Flash Update No. 19*** will follow tomorrow's January 29th FOMC Press Conference.
- ***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 [Special Commentary No. 985](#) and also as ***Special Bullet Editions***, as seen here.
- ***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 Continues to Evolve, But Is Little Changed. ShadowStats' Recession Forecast remains in place, with U.S. Economic activity in a deepening downturn, as detailed in [Special Commentary No. 983-B](#), [Special Commentary No. 985](#) and discussed here. 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 — John Williams (707) 763-5786, johnwilliams@shadowstats.com

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Overview

[Today's *Special Bullet Edition No. 19-A* previews the January FOMC meeting and updates the latest economic data leading into 2020 economic activity. *Special Bullet Edition No. 19-B*, planned for the February 2nd weekend, will review the unfolding outlook for FOMC policy and monetary conditions in the year ahead, along with the deepening U.S. government fiscal and long-range solvency crises, hyperinflation risks and related impediments to positive, long-range real U.S. economic growth.]

FOMC Has Lost Control of the System

“Booming” Economy Is Faltering; New FOMC Rate Cuts Are Needed but Not Likely

The Fed Appears Likely to Continue Propping the Banks and the Financial Markets, but Still Not Helping the Consumer, Who Ultimately Drives U.S. Economic Activity. On the Eve of the January FOMC Press Conference, the Fed is expected to maintain existing policies, continuing to provide new and expanded liquidity to prop a still-unstable Banking System, Stock Market and other Financial Markets, while continuing not to help the struggling U.S. Consumer with a needed interest-rate cut. It was the Fed's overly aggressive interest rate hikes in 2018 that helped to strangle Consumer Liquidity and broad, domestic economic growth. Where Consumer activity drives and dominates the U.S. economy, the Fed's rate hikes triggered a still unfolding economic downturn. Later this year, that circumstance should gain recognition, as a recession that began in Fourth-Quarter 2018.

Befuddled FOMC: Deepening Risk of Major Financial Crisis, With the Fed Continuing to Hold Back on an Honest Assessment of Out-of-Control Systemic Liquidity and Economic Woes. The FOMC effectively has lost control of the system. Its Spiel of “Sustainable Moderate Economic Growth” in place is nonsense, as seen in the most recent economic reporting, including today's release of December 2019 and Full-Year 2019 Real New Orders for Durable Goods. That series along with total U.S. Manufacturing and domestic Freight Activity not only contracted year-to-year in Fourth-Quarter 2019 activity, but total activity for those series for the full year 2019, declined versus their activity in 2018, hardly “Sustainable Moderate Economic Growth.” “Sustainable Moderate Economic Contraction,” would be more realistic. With Real Earnings and Real Retail Sales contracting on a quarterly basis in Fourth-Quarter 2019, an interest rate cut is needed to help boost the Consumer's liquidity and related activity that support the broad economy. The more the rate cut continues to be delayed, the less effective it will be, and the greater the needed stimulus will be, when it finally is put into place.

Unbridled Federal Government Spending and FOMC Money Creation Are Not Sustainable.

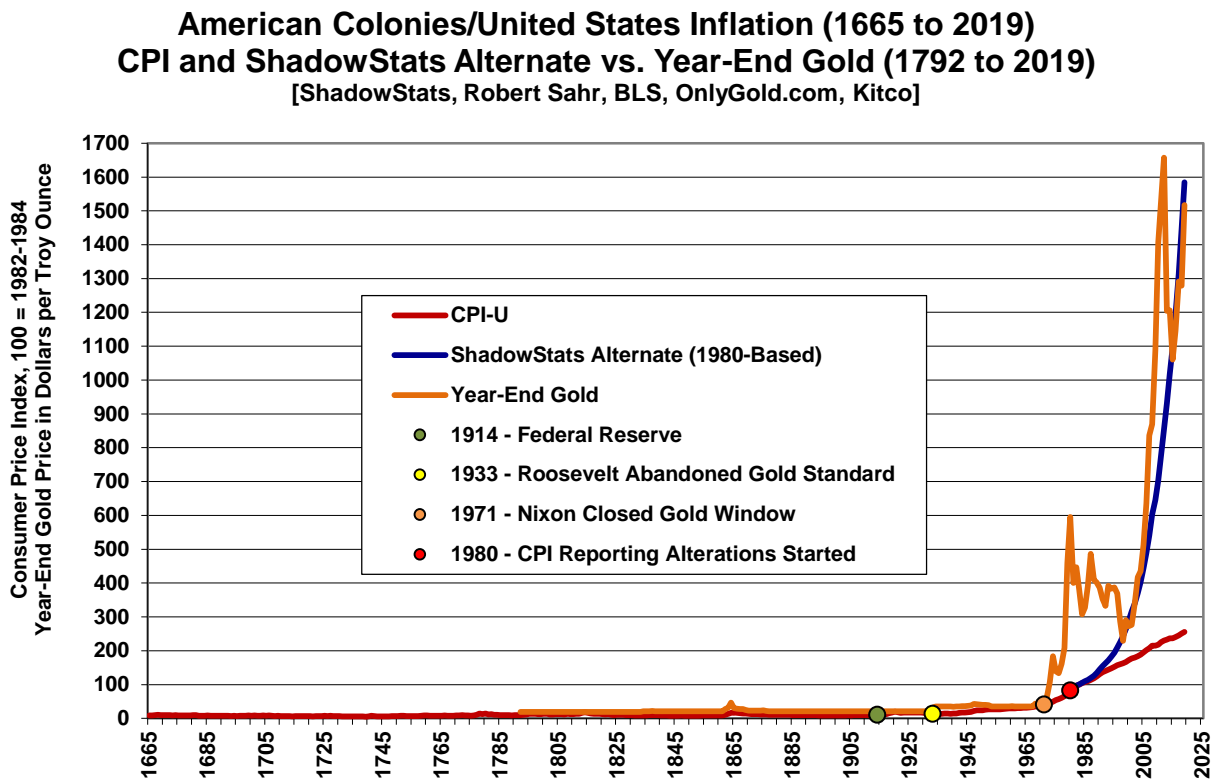
Separately, the Fed's continued “Non Quantitative Easing” Balance Sheet expansion is beginning to look a lot like a tacit acceptance of “Modern Monetary Theory” (MMT), just printing money as needed

“without consequence.” The theory is much enamored of the Socialist Democrats in the U.S. Congress, but it has been dismissed out of hand by Federal Reserve Chairman Jerome Powell. Yet, current FOMC actions and unbridled deficit spending by the Federal Government are hard to differentiate in practice from the MMT concept, at the moment.

Reviewed and expanded upon in pending *Special Bullet Edition No. 19-B* (planned for over the February 2nd weekend), the Federal Reserve and the U.S. Federal Government rapidly are running out of viable options to prevent a financial system and economic collapse. MMT cannot and does not work without an eventual hyperinflation. There is and already has been consequence—an accelerating loss of actual U.S. dollar purchasing power and accelerated movement towards that domestic hyperinflation. As will be expanded upon and demonstrated in pending *Bullet No. 19-B*; consider accompanying *Graph 1* (updated for actual 2019 numbers). The open-market price of gold consistently tracks the underlying loss of actual U.S. dollar purchasing power.

The U.S. government can and does mask its reporting of actual annual inflation, having done so specifically since the early 1980s, with a variety of reporting gimmicks. ShadowStats regularly has tracked and estimated what headline inflation would be today, net of those reporting gimmicks (see [ShadowStats Alternate Inflation Charts](#) and the [ShadowStats Commentary on Inflation Measurement](#)). In particular, consider the ShadowStats alternate inflation, as plotted along with the headline CPI inflation and gold prices over time, as seen in *Graph 1*.

Graph 1: Consumer Inflation 1665 to 2019 versus Gold



Despite ups and downs around wars, the California Gold Rush, through World War I, the graph shows what appears to be a fairly stable level of prices up to the founding of the Federal Reserve in 1913 (began

activity in 1914) and to Franklin Roosevelt's abandoning of the domestic gold standard in 1933. Following President Nixon's Closing of the Gold Window, inflation took off in a manner not seen in the prior 250 years, and at an exponential rate, when viewed using the ShadowStats-Alternate Measure of Consumer Prices in the last several decades.

The ShadowStats measure approximates headline Bureau of Labor Statistics' Consumer Price Index (CPI-U) inflation as it currently would be, net of changes made to reporting methodologies since 1980 and the post-Gold Window Closing inflation, when the federal government pushed inflation-reducing changes to reporting methodologies, so as to help cut federal spending in such areas as Social Security cost of living adjustments. The alternate inflation measure exploded in response to the banking system bailout of 2007/2008. Of significance, gold generally has continued to cover fully the "common experience" inflation, not just the artificially suppressed headline CPI-U, as seen in the graph.

The Fed Has Lost Control. Complicating stabilization of Federal Reserve policy, U.S. Government fiscal solvency and sustainable U.S. economic growth and recovery, the harsh reality remains that the Federal Reserve stunted U.S. economic growth potential, with its handling of the 2007/2008 banking system collapse and related bailout. Such has been exacerbated by troubled trade, economic and, again, particularly fiscal policies of the Clinton, Bush and Obama Administrations and related Congresses. Expanded detail and implications for FOMC and Federal Government pending crises, policies, and for the long-term systemic solvency and U.S. dollar stability, again, follow in ***Bullet No. 19-B***.

Major Headline Economic Numbers Continue to Deteriorate Markedly

Significant Downside Benchmark Revisions Loom in the Next Seven Months

Benchmarking of Payrolls on February 7th, Industrial Production "This Summer"

Economic Consensus Should Be Shifting Towards a Recession-in-Hand by Mid-Year

As Headline Economic Reporting Increasingly Shows Slowing Economic Growth in Key Data, Looming Benchmark Revisions Promise Downside Revisions to Recent Economic History.

Discussed in [Special Commentary No. 985](#), headline economic reporting of the last year was skewed heavily, likely to the upside, as a result of incomplete and distorted reporting that resulted from the government shutdown. In terms of Industrial Production and Manufacturing, for example (from **No. 985**):

"Missing 2019 Benchmark Revisions. Discussed in [Bullet Edition No. 3](#) of March 15th, and per the [Federal Reserve](#) statistical release of that date (page 3, with emphasis added):

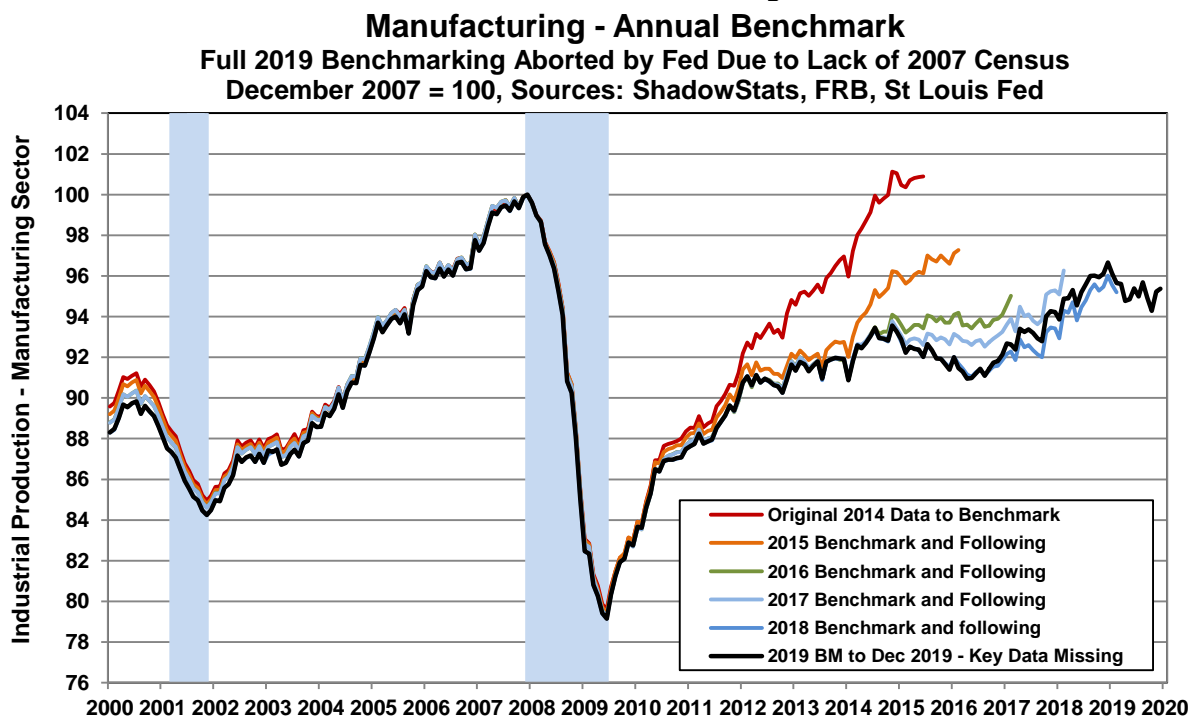
The Federal Reserve Board plans to issue its annual revision to the index of industrial production (IP) and the related measures of capacity utilization on March 27, 2019, at noon EDT. The [government mandated] *Economic Census for 2017 will not be available from the U.S. Census Bureau by early 2019, so no new annual benchmark data will be included for manufacturing.*

"Preliminary Results of the Budget-Delayed 2017 Economic Census Suggested Major, Pending Downside Benchmark Revisions to Series Such as Industrial Production and Manufacturing. Much

delayed by federal budget issues, the first reading and preliminary findings of the 2017 Economic Census were released on September 19, 2019. Early indications were that delayed, major downside benchmark revisions loom for series such as Manufacturing in Industrial Production and New Orders for Durable Goods, which did not have their normal, full 2019 benchmarkings. Had the full information been available, the data would have been in place for the July 26, 2019 GDP benchmarking. Correspondingly, without those revisions, significant elements of the benchmarked GDP growth were overstated, at least partially driving current bloated assessments of U.S. economic activity, including FOMC and Wall Street hyperbole of a “sustainable, moderate economic growth” at hand, nearly perfect economic conditions. Those missing benchmark revisions should be in place for the July 30, 2020 GDP Benchmarking.

“No Meaningful Benchmark Revision Was Being Allowed for Manufacturing in 2019. Seen in [updated] **Graph 2** annual benchmark revisions to the Manufacturing Sector invariably have been to the downside for recent prior history, but not in the 2019 benchmarking, which lacked usual underlying detail needed for benchmarking. Bearing some repetition, the reason for consistently negative benchmarkings, as seen in **Graph 2**, is that almost all government reporting has to incorporate underlying assumptions. The tendency by reporting agencies usually is to make overly positive assumptions, allowing for later downside corrections in the benchmarking (... see [Special Commentary No. 885](#)).”

Graph 2: Annual Benchmark Revisions to the Dominant Manufacturing Sector of Industrial Production



Industrial Production (Manufacturing) Benchmarking Scheduled for Summer 2000. Seen in **Graph 2**, the usual downside annual benchmarking of the Manufacturing Sector of the U.S. economy did not take place in time for the July 26, 2019 GDP benchmarking, but it will now presumably publish in time for the July 30, 2020 GDP benchmarking. As announced by the Federal Reserve January 17, 2020:

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 summer of 2020. 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 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.

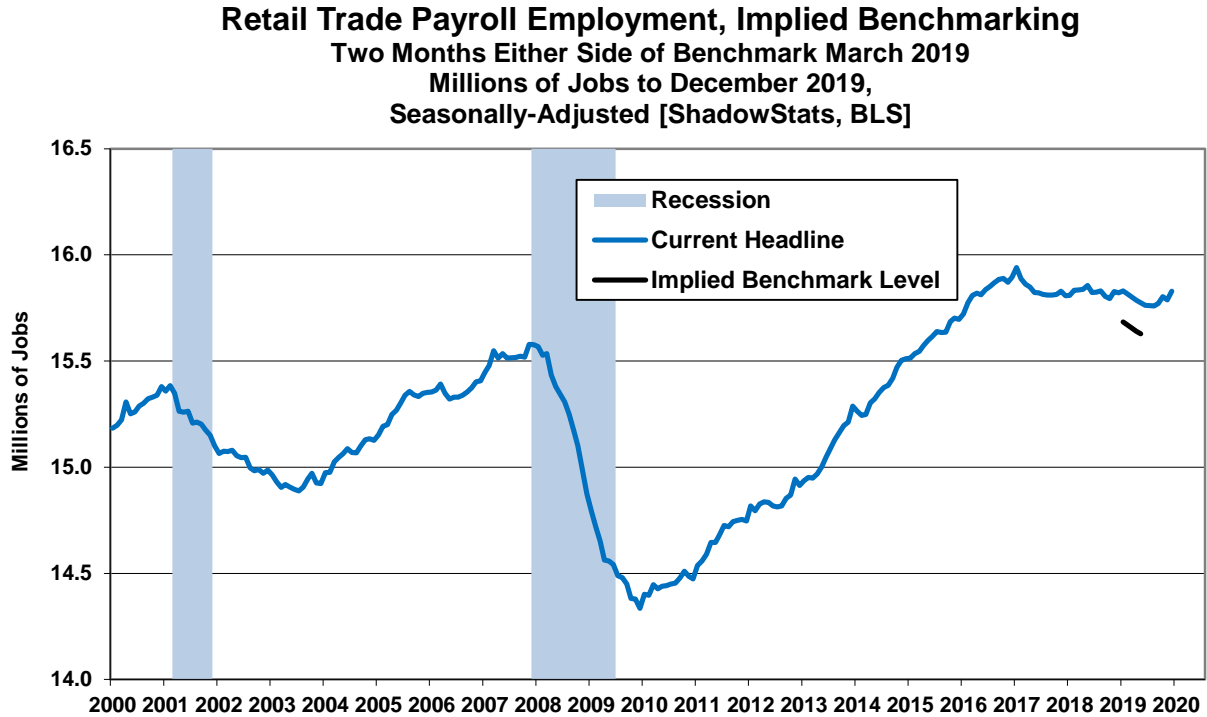
Capacity and capacity utilization will be revised to incorporate data for manufacturing through the fourth quarter of 2019 from the Census Bureau's Quarterly Survey of Plant Capacity, along with new data on capacity from the U.S. Geological Survey, the U.S. Department of Energy, and other organizations.

Annual Payroll Benchmark Revisions Hit on February 7th. Discussed and graphed in [*Flash Update No. 18*](#): “Major Pending Downside 2019 Benchmark Revisions to Payroll Reporting Will Hit the Headline Monthly Data on February 7th. [*Flash Update No. 5*](#) of August 21st detailed the preliminary 2019 payroll downside benchmarking of 501,000 (-501,000) jobs, primarily in the Retail Sales and related Leisure and Hospitality sectors, which had the effect of eliminating 20% of the headline growth in payrolls of the prior year. None of these revisions has been incorporated into headline data, so far.”

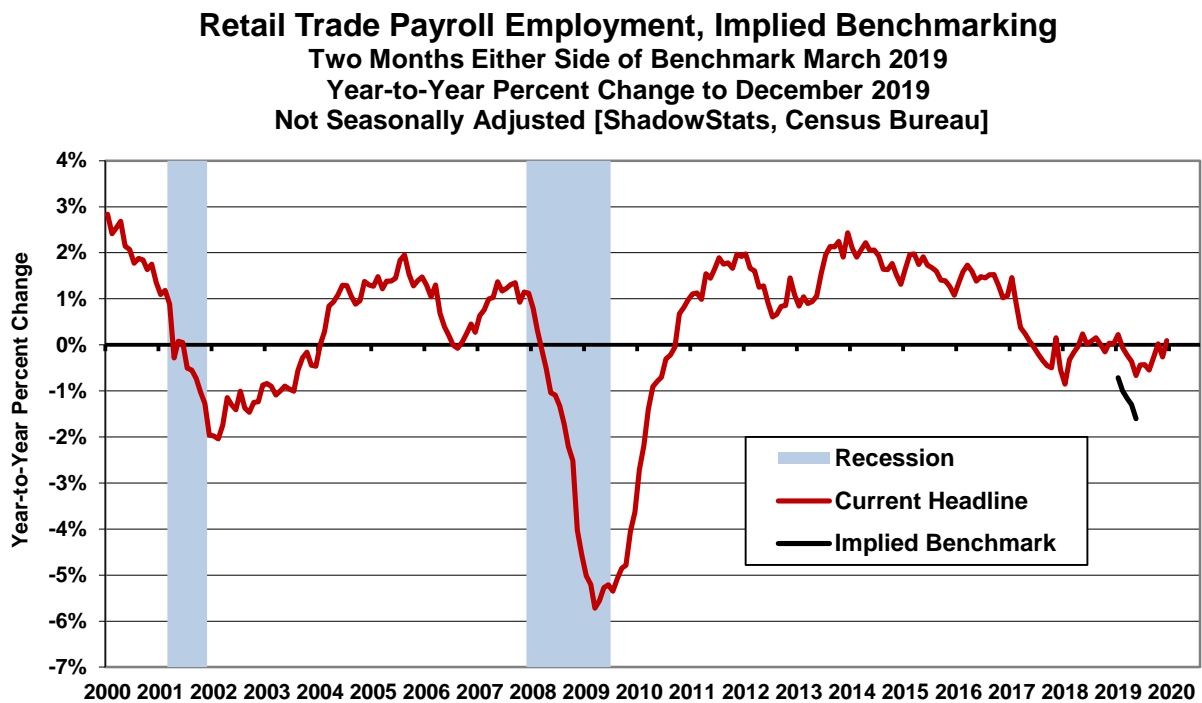
Also as previously published in [*Flash Update No. 18*](#), **Graphs 3** and **4** reflect the implied impact on Retail Trade Payroll Employment for the two months surrounding the benchmarking month of March 2019. However the final benchmarking goes, it likely will reflect some implied benchmarked activity pending for the affected economic sectors.

[Graphs 3 and 4 follow on the next page.]

Graph 3: Retail Sales Payroll Employment, January 2000 to December 2019



Graph 4: Retail Sales Payroll Employment Year-to-Year Change, January 2000 to December 2019



Current and Prospective Economic Conditions

“Economic Boom” Largely Is Wall Street and FOMC Hype

Economy and Financial Markets Are in Non-Sustainable Stasis - Headed for Crashes

Key Monthly Data Increasingly Show Patterns of Recession

Underlying Hard Economic Data Are Far from Booming. Despite headline December 2019 U.3 unemployment hitting a 50-year low of 3.50% at the second decimal point, annual payroll growth slowed to a two-year low at the same time, in advance of what should be negative annual benchmark revisions to payroll employment on February 7th [see [Flash Update No. 18](#)]. In terms of harder economic numbers, consider that Fourth-Quarter 2019 Real Retail Sales and Real Earnings, Industrial Production, Real New Orders for Durable Goods and the smoothed CASSTM Freight Index all contracted quarter-to-quarter, with total full-year annual activity in Manufacturing, Real Orders and Freight actually declining from the levels of full-year annual activity in 2018. December 2019 domestic freight activity actually plunged year-to-year in a manner and by an amount not seen since the onset of the Great Recession.

While the FOMC has moved to boost systemic liquidity for the financial system, the financially stressed consumer who continues to drive the fundamental economy and broad economic activity continues to suffer, with contracting quarterly Real Earnings and with Real Consumer Credit growth relatively stagnant, still nearly 12% (-12%) below the level of pre-Great Recession peak activity.

The only hard economic numbers currently on the plus-side are some developing, smoothed uptrends in the unstable Census Bureau reporting of unit counts in its usually, nonsensically volatile Housing Starts, Building Permits and New-Home Sales series, even though Fourth-Quarter 2019 Real Construction Spending remains on track for its seventh consecutive quarter of negative year-to-year growth. That said, production, construction and freight activity all have remained shy of ever having recovered pre-Great Recession levels of peak activity.

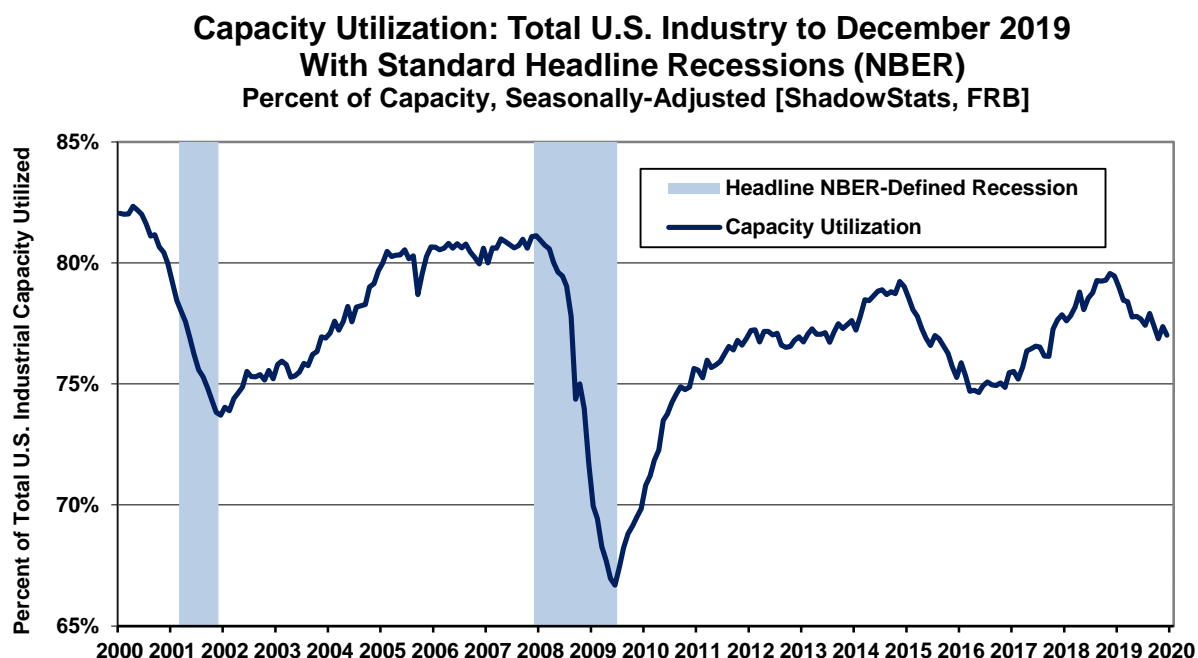
Fourth Quarter 2019 GDP Is a Fair Bet To Come in Below Consensus Expectations of 2.0% to 2.1%. Expectations for the initial estimate of Fourth-Quarter 2019 GDP are around 2.0% to 2.1%, versus 2.1% in Third-Quarter 2019, with the Atlanta Fed and New York Fed Models respectively showing 1.9% and 1.2% in advance of Thursday's (January 30th) release. Whatever is reported, it likely will revise lower, along with underlying headline economic reporting and what increasingly should become softening expectations. ShadowStats estimate for the headline estimate is around 1.0%, but political considerations likely will keep it up in the 2.0% range. In any event, Fourth-Quarter and Annual 2019 GDP reporting will be reviewed in ***Special Bullet Edition No. 19-B***, planned for over the February 2nd weekend.

ShadowStats Consistent Business-Cycle Timing Shows Post-Great Recession Downturns

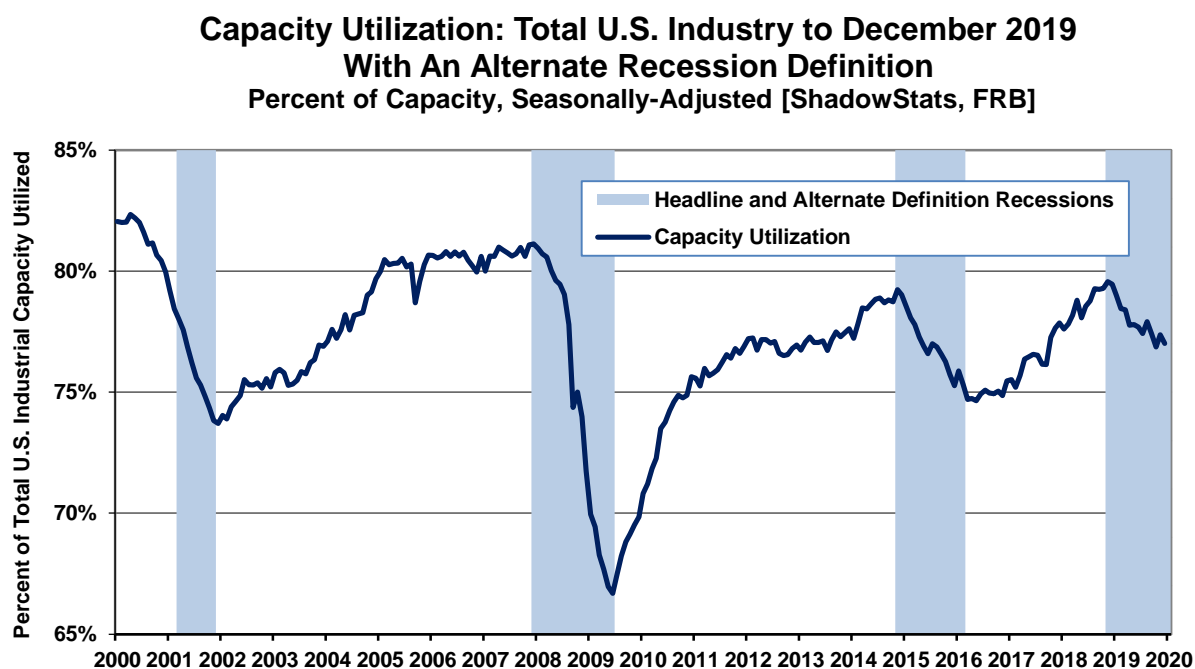
A New, Albeit Unofficial, Recession Appears to Be Underway. Discussed beginning on page 14 of [*Special Commentary No. 985*](#), ShadowStats contends that a formal recession call was missed for the 2014 to 2016 mini-recession, due to the poor-quality benchmarking of the Manufacturing sector as discussed earlier. Further, a similar call was missed for the onset of a recession in Fourth-Quarter (November) 2018, although that likely will be caught up in this year's benchmark revisions. For informational purposes, *Graphs 5 to 8*, show how ShadowStats would reflect the recent business cycles (using *Graph 6*, instead of *5*, with *Graphs 7 and 8* showing the ShadowStats definitions used with the highly significant CASSTM Freight Index series, also shown later in *Graphs 25 and 26* with the current standard cycle definition. All other graphs used in this *Commentary* reflect the conventional, current headline reporting. Industrial Production Utilization often has been used as a key consideration for formal recession timing by the defining authority, the National Bureau of Economic Research ([NBER](#)).

[Graphs 5 to 8 begin on the next page.]

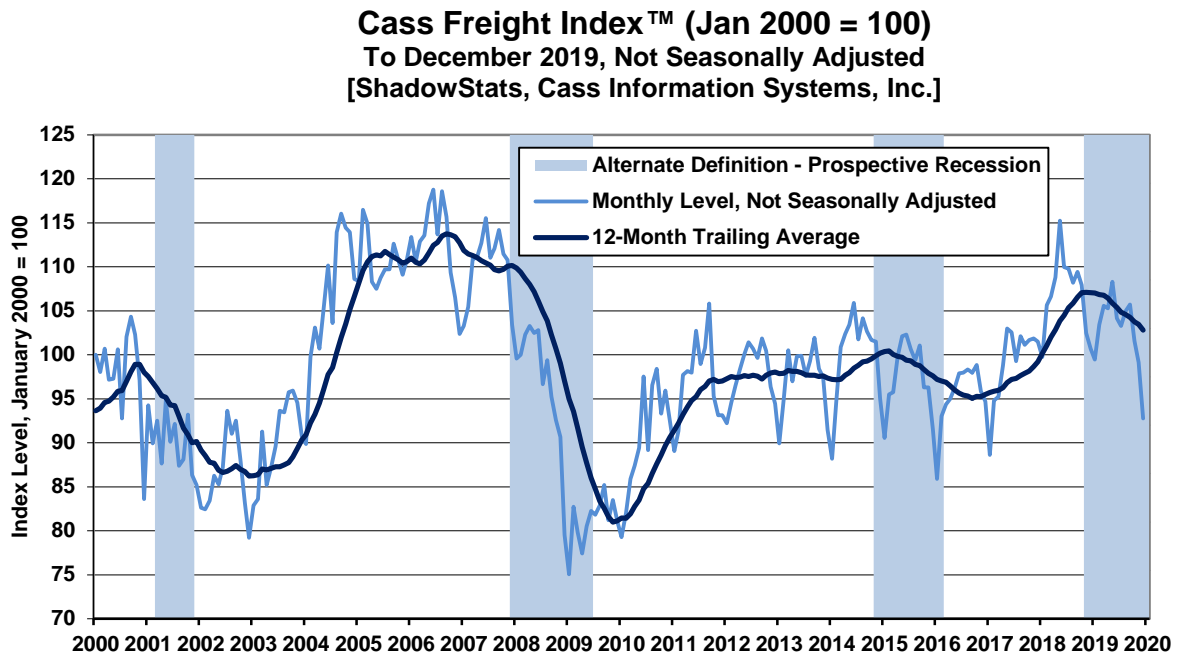
Graph 5: Utilization of Total U.S. Industrial Production and Manufacturing Capacity (Traditional Recessions)



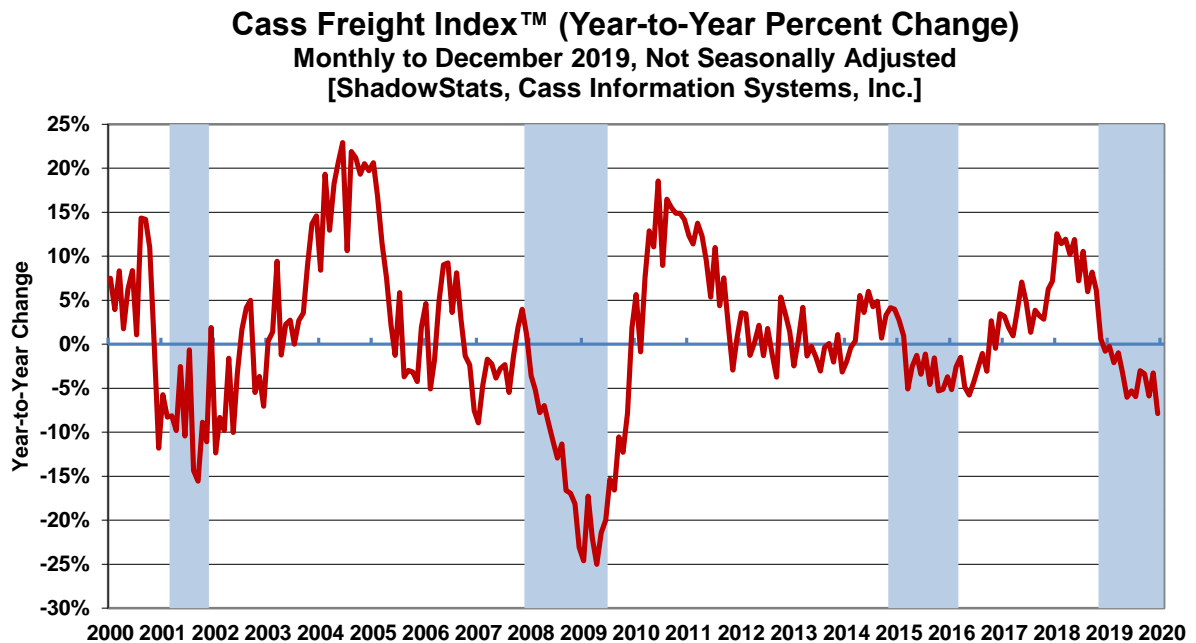
Graph 6: Utilization of Total U.S. Industrial Production and Mfr. Capacity (ShadowStats Alternate Recessions)



Graph 7: CASS Freight Index™, 2000 to December 2019, Using Alternate/Prospective Recession Measures



Graph 8: CASS Freight Index™, Yr-to-Yr, 2000 to Dec 2019, Using Alternate/Prospective Recession Measures



Underlying U.S. Economic Detail Is Collapsing Quickly

Full-Year 2019 Real New Orders, Manufacturing and Freight Declined Versus 2018

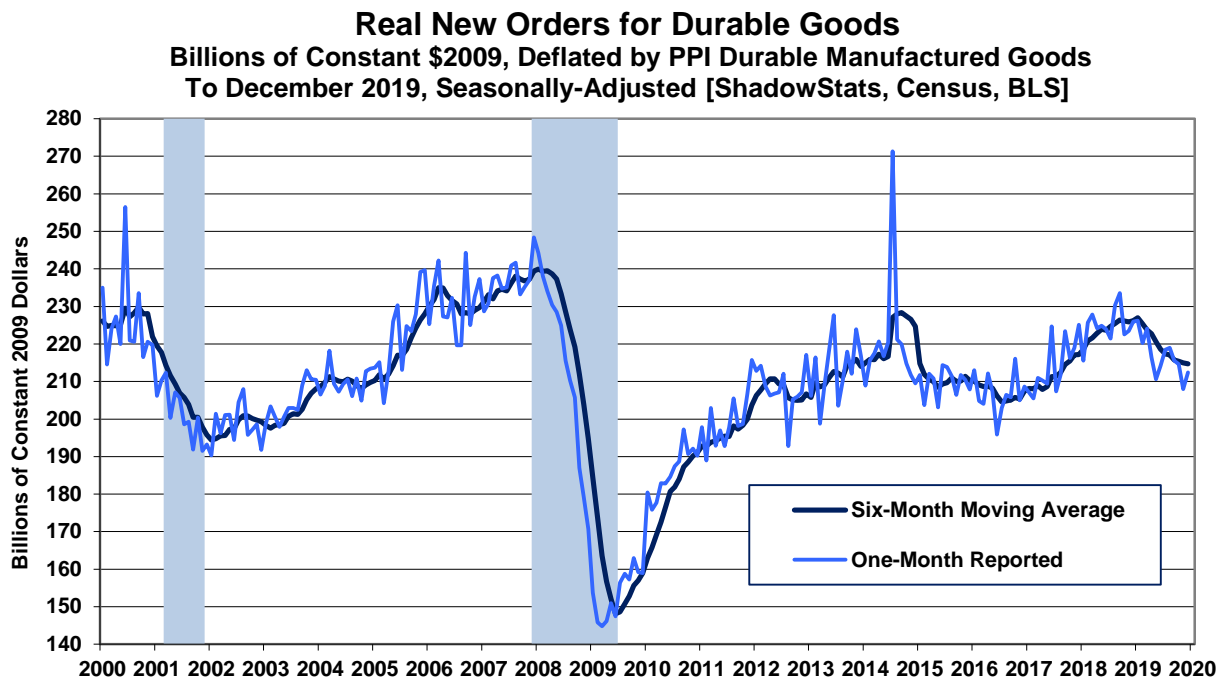
This Cannot Be the FOMC's Vision of "Sustainable Moderate Economic Growth"

NEW ORDERS FOR DURABLE GOODS

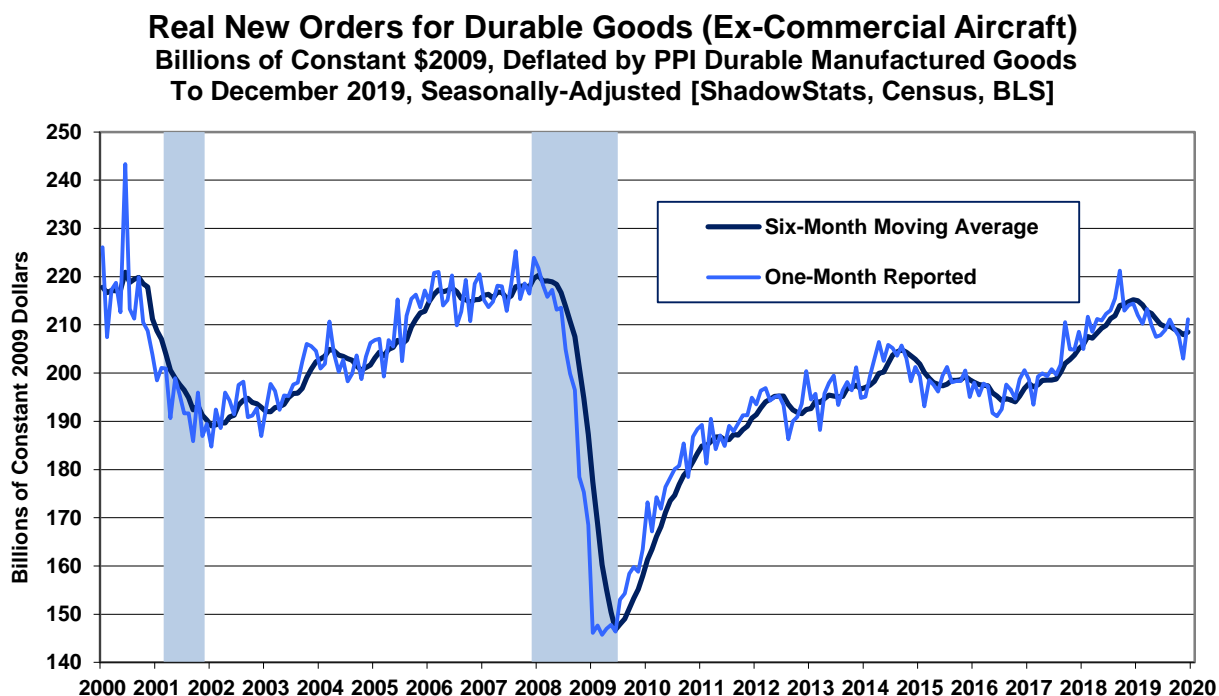
New Orders for Durable Goods Collapsed for the Year and the Quarter. Before inflation adjustment, the headline monthly gain of 2.4% in nominal, aggregate December New Orders was 4.3%, net of a 74.7% (-74.7%) monthly plunge in Commercial Aircraft orders, as reported January 28th by the Census Bureau. That said, total nominal 2019 New Orders for Durable Goods declined by 1.5% (-1.5%) versus 2018, but gained 0.9% for the year, net of collapsing Commercial Aircraft Orders tied to Boeing's recent product issues.

In real terms, net of inflation adjustment, total annual New Orders declined by 3.9% (-3.9%) for the full year, down by 1.6% (-1.6%) ex-Commercial Aircraft. Real total Fourth-Quarter 2019 New Orders contracted year-to-year and quarter-to-quarter by 5.5% (-5.5%) and 10.6% (-10.6%), and by 4.6% (-4.6%) and 3.1% (-3.1%) ex-Commercial Aircraft. Real Orders have contracted quarterly and/or annually in each of the last six quarters, paralleling annual declines in Freight and Manufacturing activity.

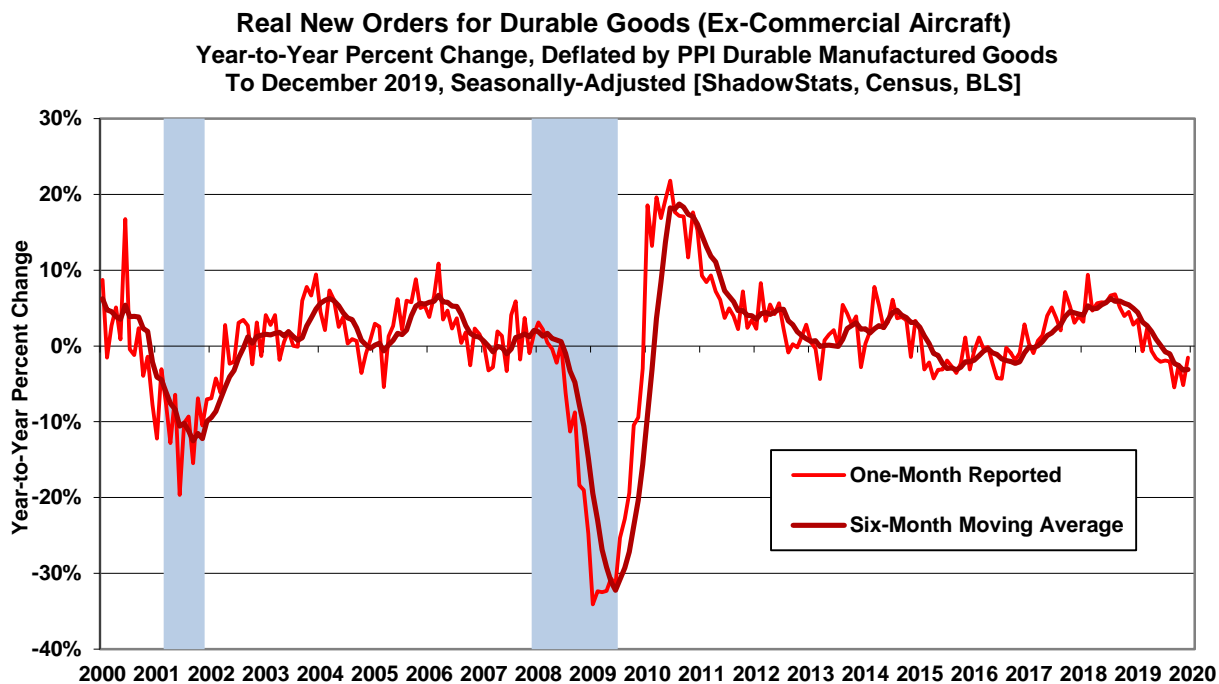
Graph 9: Total Real New Orders for Durable Goods



Graph 10: Real New Orders for Durable Goods, Ex-Commercial Aircraft



Graph 11: Real New Orders for Durable Goods, Ex-Commercial Aircraft, Year-to-Year Change



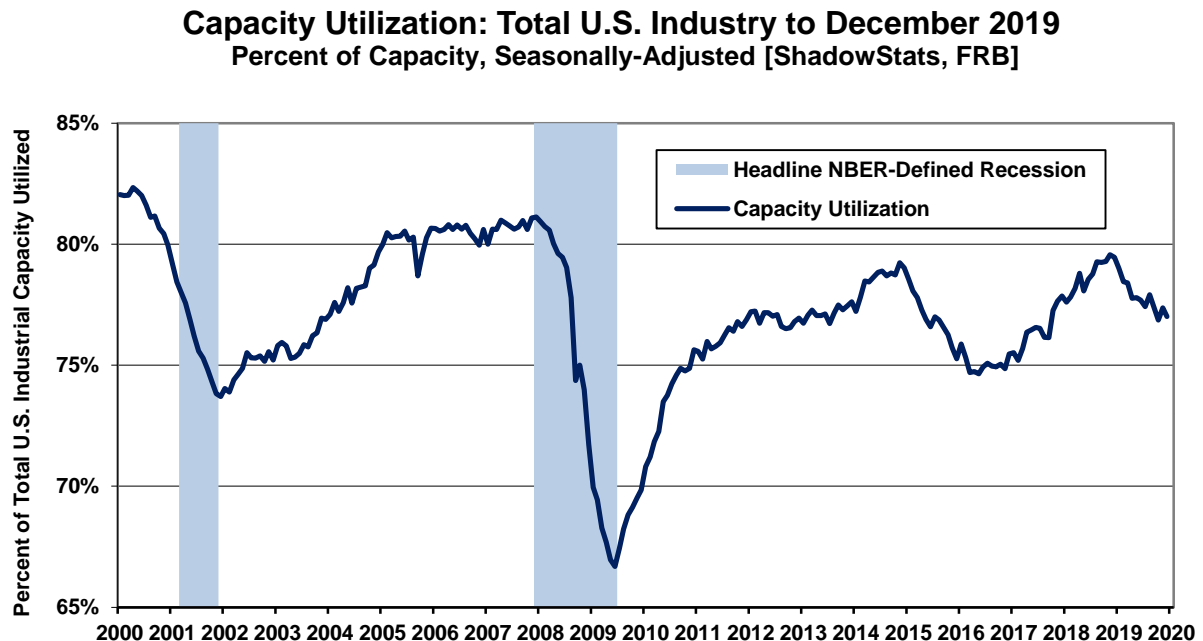
INDUSTRIAL PRODUCTION

Fourth-Quarter 2019 Production and Manufacturing Contracted Quarterly and Year-to-Year, With Annual 2019 Growth Patterns Common Only to Formal Recessions or the 2014-2016 Mini-Recession. In the context of some downside revisions to Manufacturing, an upside revision to Mining and a weather-driven random plunge in December Utilities, December Production declined by 0.3% (-0.3%) in the month [down by 0.2% (-0.2%) net of revisions], as reported by the Federal Reserve Board on January 17th. Downwardly revised Manufacturing gained 0.2%, with Mining up by 1.3% and Utilities down by 5.6% (-5.6%).

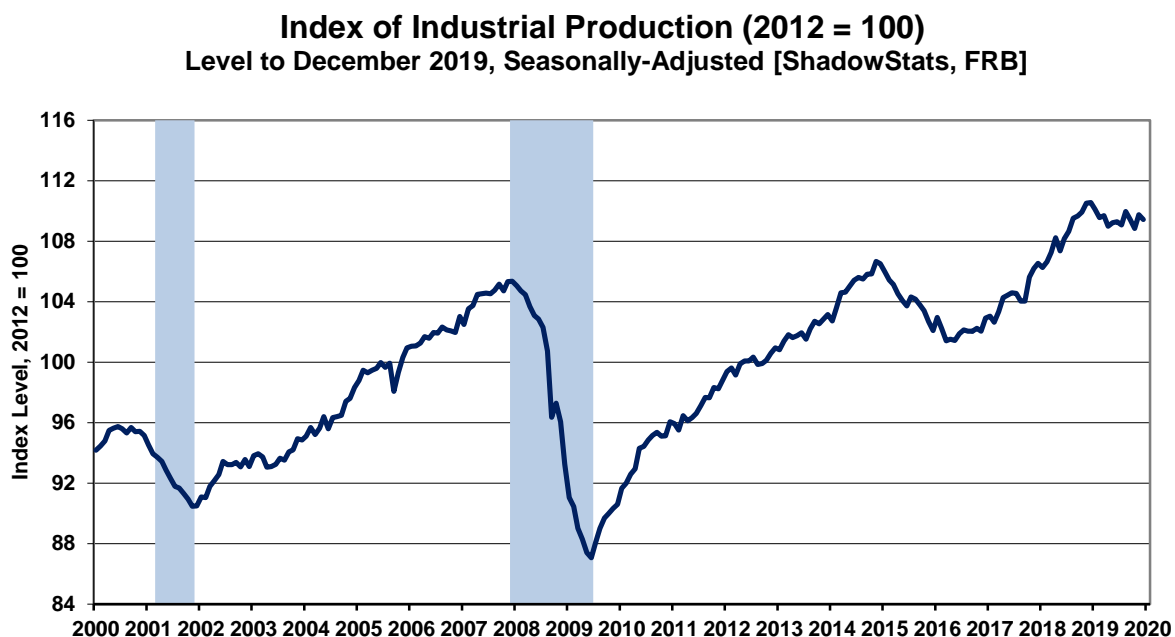
Quarterly patterns broadly were negative, quarter-to-quarter and year-to-year for Production and Manufacturing in 2019, with a collapse in annual Mining growth from 11.9% in First-Quarter 2019 to 2.3% in Fourth-Quarter 2019. On a full-year basis, 2019 Production gained 0.8% against 2018, its weakest showing in twenty years, outside of formal Recessions or the 2014-16 Mini-Recession, with Manufacturing down 0.2% (-0.2%) in 2019 over 2018 (both before and after the GM Strike), again not seen outside of formal Recessions or 2014-16.

Separately, December 2019 Manufacturing held 4.8% (-4.8%) shy of ever recovering its December 2007 pre-recession peak. In the 101-year history of the series, that is a record twelve-plus years, 145 consecutive months and counting, of economic non-expansions (never having recovered its pre-recession peak activity).

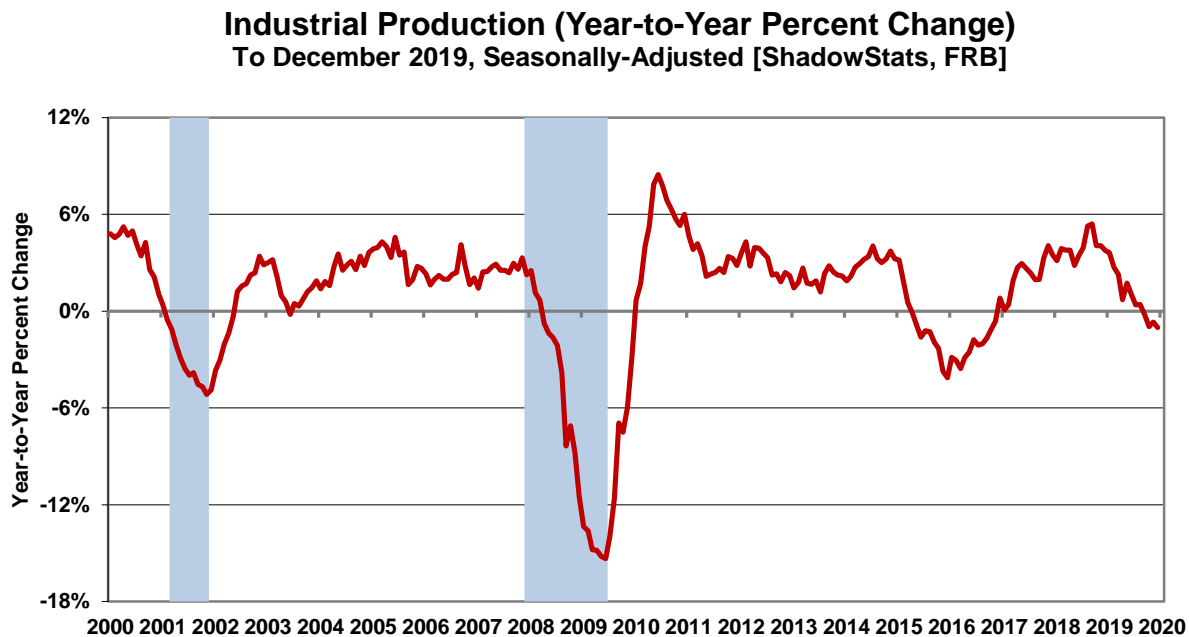
Graph 12: Capacity Utilization



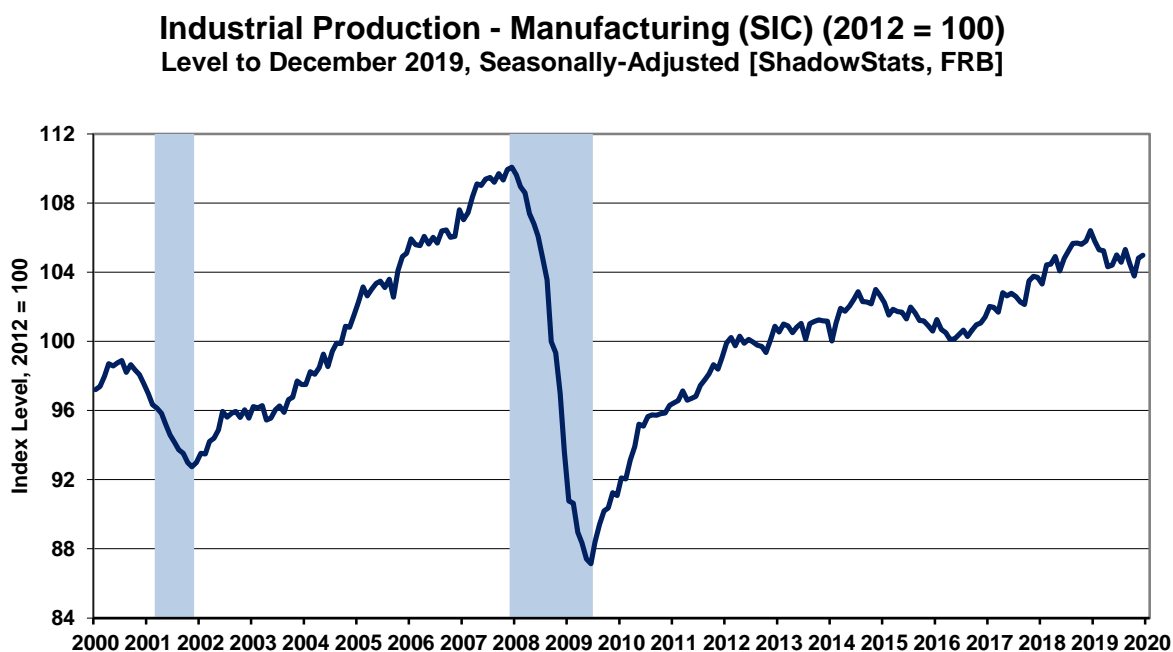
Graph 13: Industrial Production



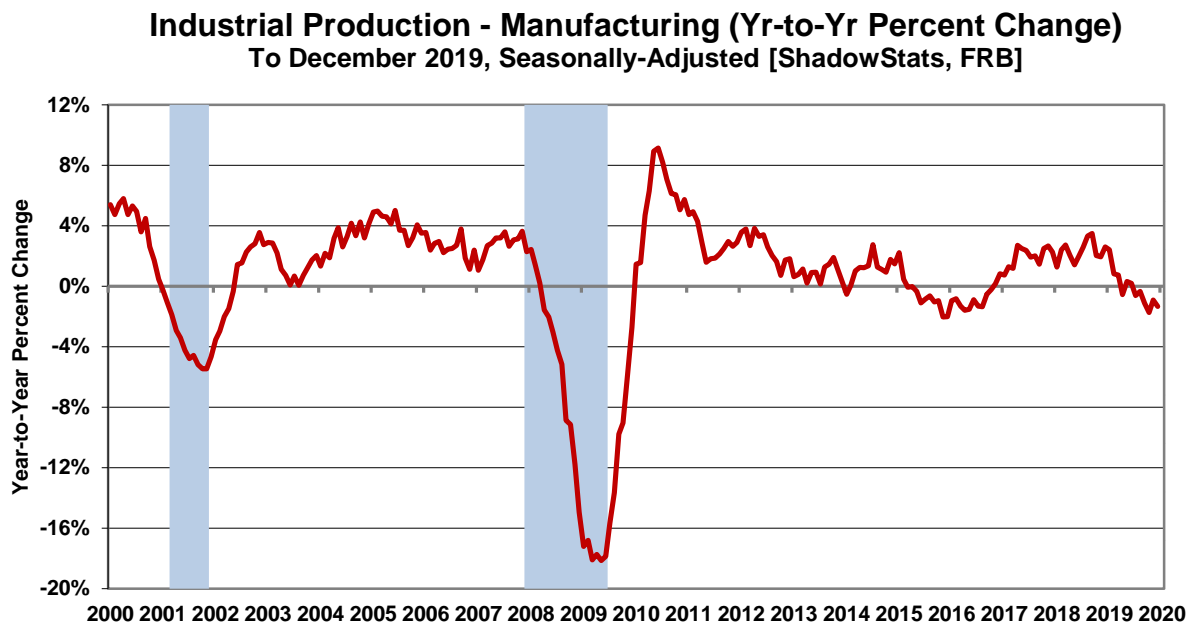
Graph 14: Industrial Production, Year-to-Year Change



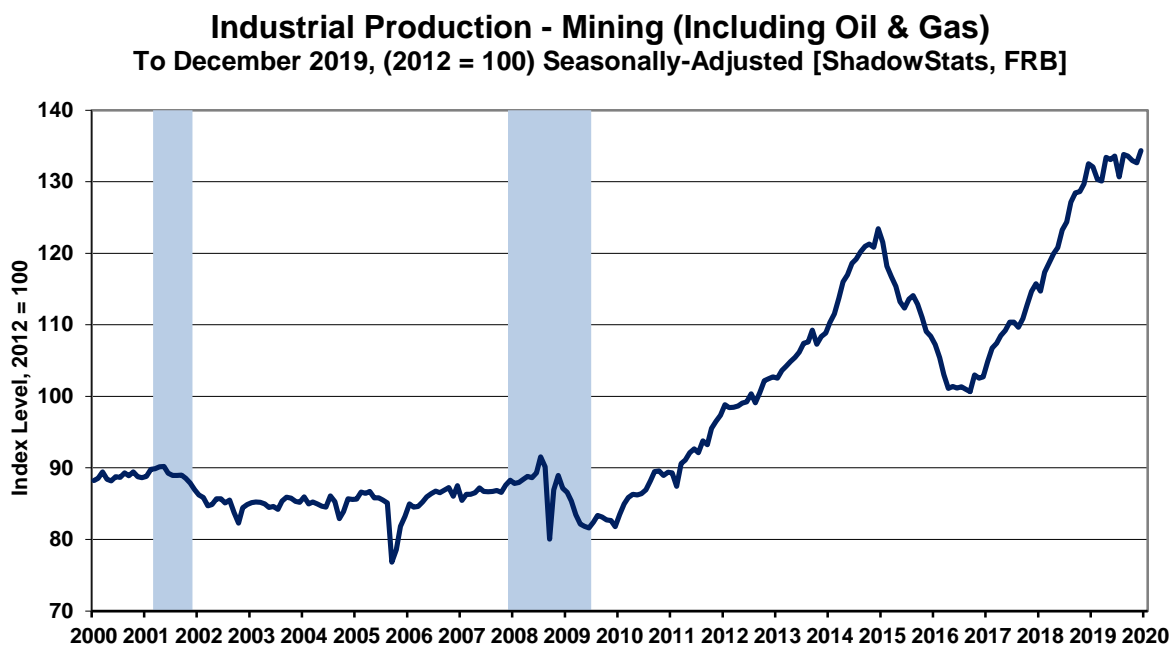
Graph 15: Manufacturing



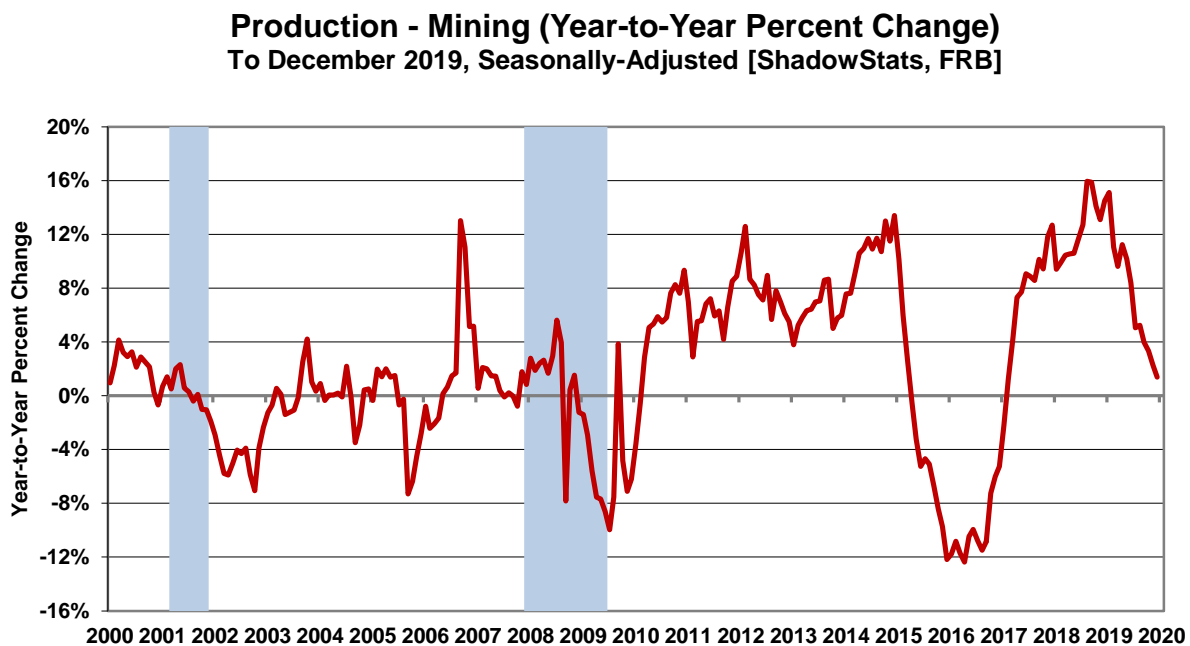
Graph 16: Manufacturing, Year-to-Year Change



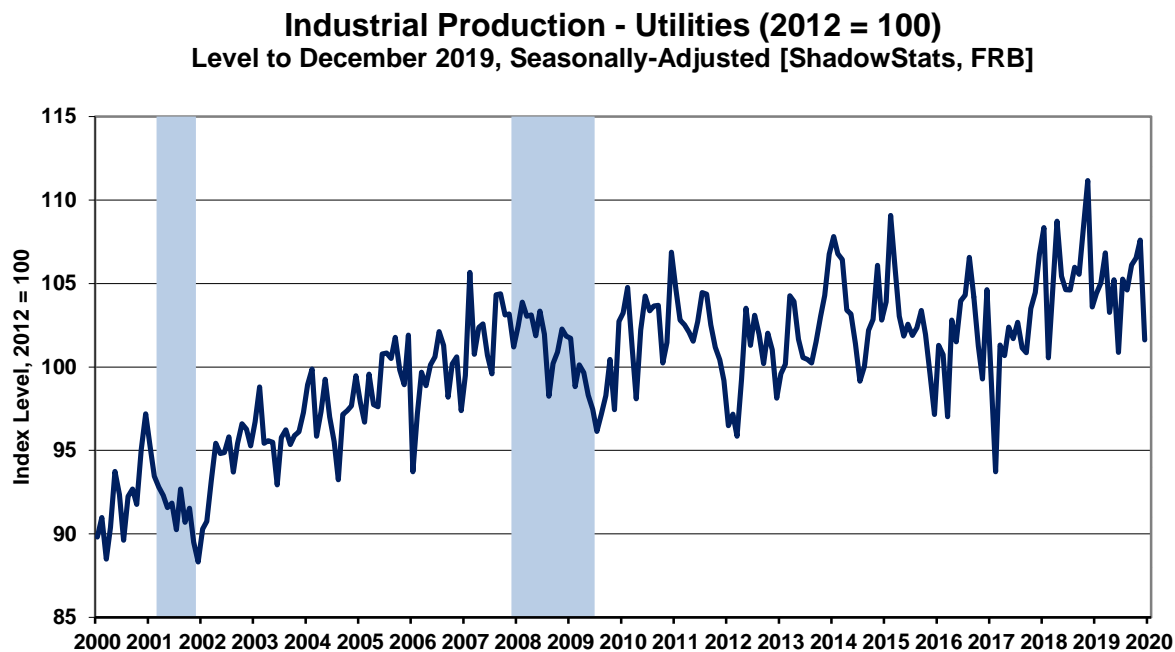
Graph 17: Mining



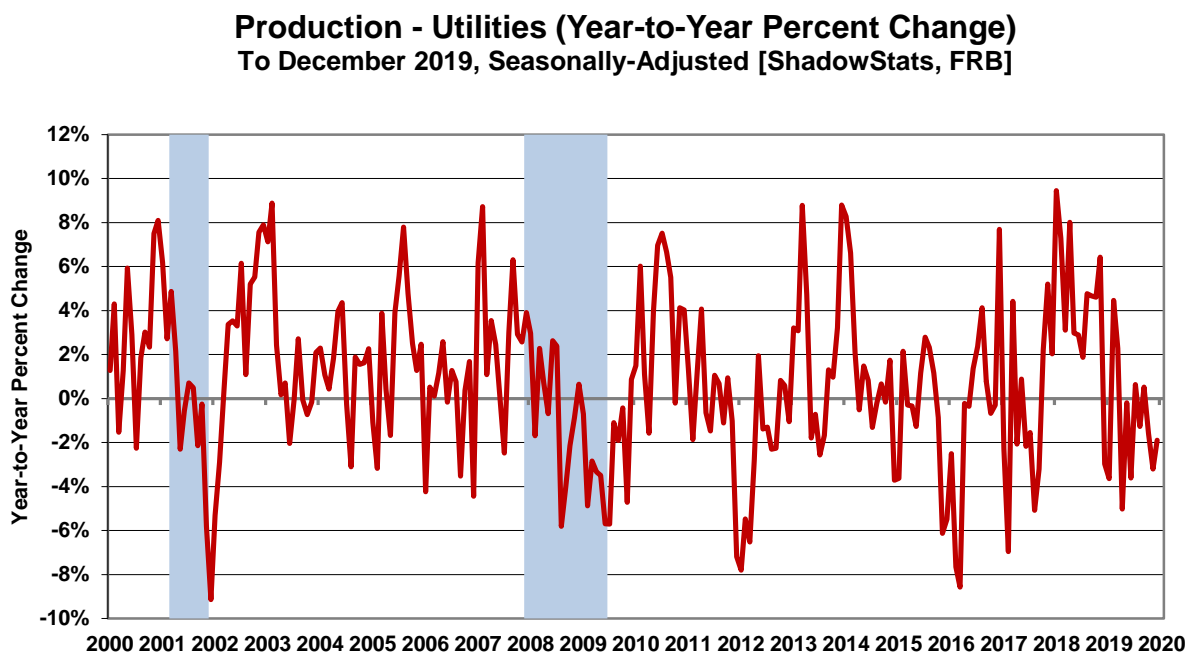
Graph 18: Mining, Year-to-Year Change



Graph 19: Utilities



Graph 20: Utilities Year-to-Year Change



RETAIL SALES

Consistent With Recession, the Fourth-Quarter 2019 Decline in Real Retail Sales Indicated Serious Financial Stress for the U.S. Consumer. Although headline nominal December 2019 Retail Sales gained the consensus 0.3% in the month, such was in the context of downside revisions to the levels of November and October activity, per the Census Bureau on January 16th. Where that reflected sharp upside revisions to auto and gasoline sales, the net downside revisions largely were in the Holiday Shopping areas. Nonetheless, adjusted for headline CPI-U inflation, as standardly calculated by the Saint Louis Fed, total Fourth-Quarter 2019 Real Retail Sales contracted at an annualized pace of 0.40% (-0.40%), the first quarterly contraction since Fourth-Quarter 2015, during the 2014-2016 mini-recession.

There should have been no surprise here for the FOMC, yet this hardly is “Sustainable Moderate Economic Growth.” Against the negative revisions to November and October sales levels, headline December 2019 Nominal Retail Sales showed a monthly gain of 0.33%, about as expected, although following revised monthly gains of 0.27% in November, 0.34% in October and a contraction of 0.42% (-0.42%) in September. Net of inflation, real Retail Sales showed a monthly gain of 0.12% in December, following revised monthly changes of 0.01% in November, a contraction of 0.02% (-0.02%) in October and a contraction of 0.44% (-0.44%) in September. Last month, Fourth-Quarter 2019 was on early track (two-months of reporting) for a quarterly decline of 0.3% (-0.3%), again, today’s headline decline was 0.4% (-0.4%). Again, there should be no surprise here for the FOMC.

Consumer weakness here likely reflected mounting liquidity stresses from contracting Real Earnings and lack of growth in Consumer Credit.

CPI REAL EARNINGS

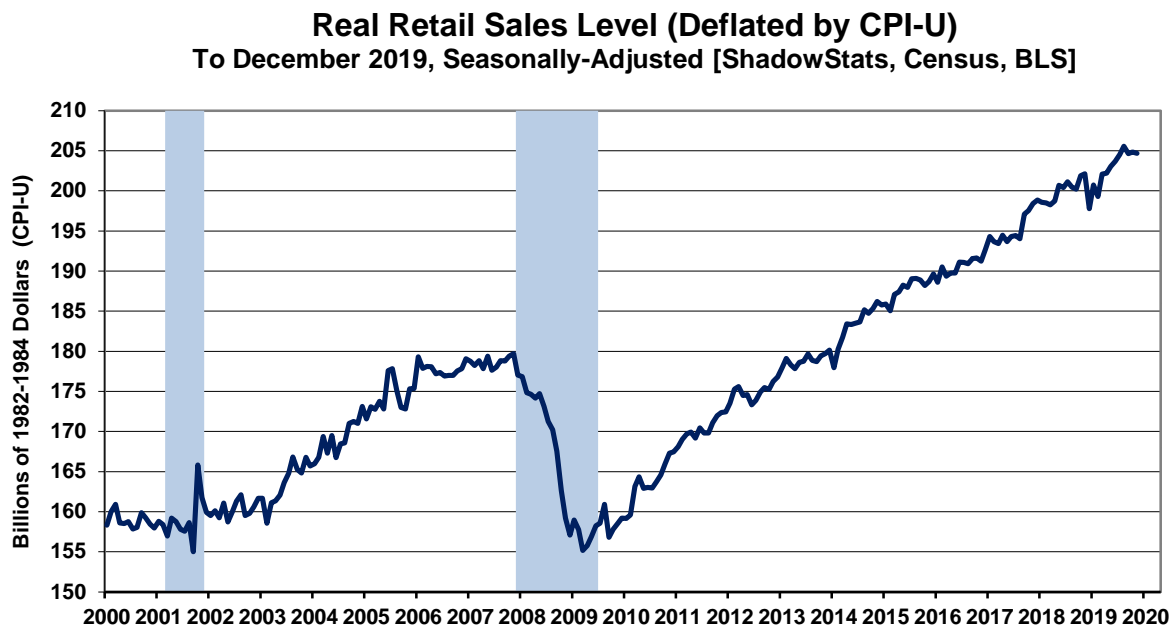
Amidst Rising CPI Inflation, Contracting Fourth-Quarter Real Income Was Meaningfully Negative for Consumer Liquidity and Fourth-Quarter Economic Activity. As reported by the Bureau of Labor Statistics on January 14th). Although the monthly December 2019 Consumer Price Index (CPI-U) slowed minimally to 0.22%, from 0.26% in November, annual inflation jumped to a fourteen-month high of 2.29%, dominated, as usual, by monthly and annual gasoline price gyrations. Nonetheless, 2019 annual average CPI-U inflation dropped to a three-year low of 1.81%, down from 2.44% in 2018, again, with volatile gasoline prices the primary inflation mover.

Both Average Hourly and Weekly Real Earnings Tanked for All Payroll Employees in Fourth Quarter 2019, and That Was on Top of Slowing Payroll Growth. Fourth-quarter annualized real average weekly earnings dropped by 0.52% (-0.52%) for all employees, and by 0.55% (-0.55%) for production and nonsupervisory employees. The issue was inflation rising at a faster pace than minimally positive nominal earnings growth. Such also reflected slowing annual payroll growth (see [Flash Update No. 18](#)).

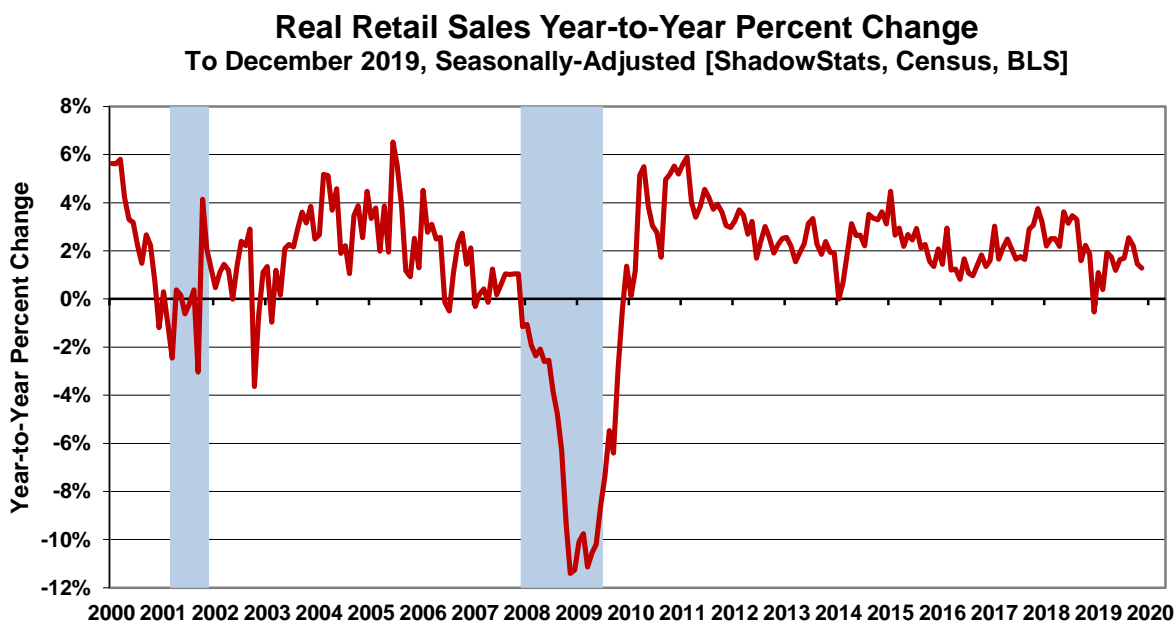
CONSUMER CREDIT OUTSTANDING

Separately, Real Consumer Credit Outstanding in November 2019 Remained Stagnant, Holding 11.9% (-11.9%) Shy of Ever Recovering Its Pre-Recession Peak. The series used excludes Federally Held Student Loans.

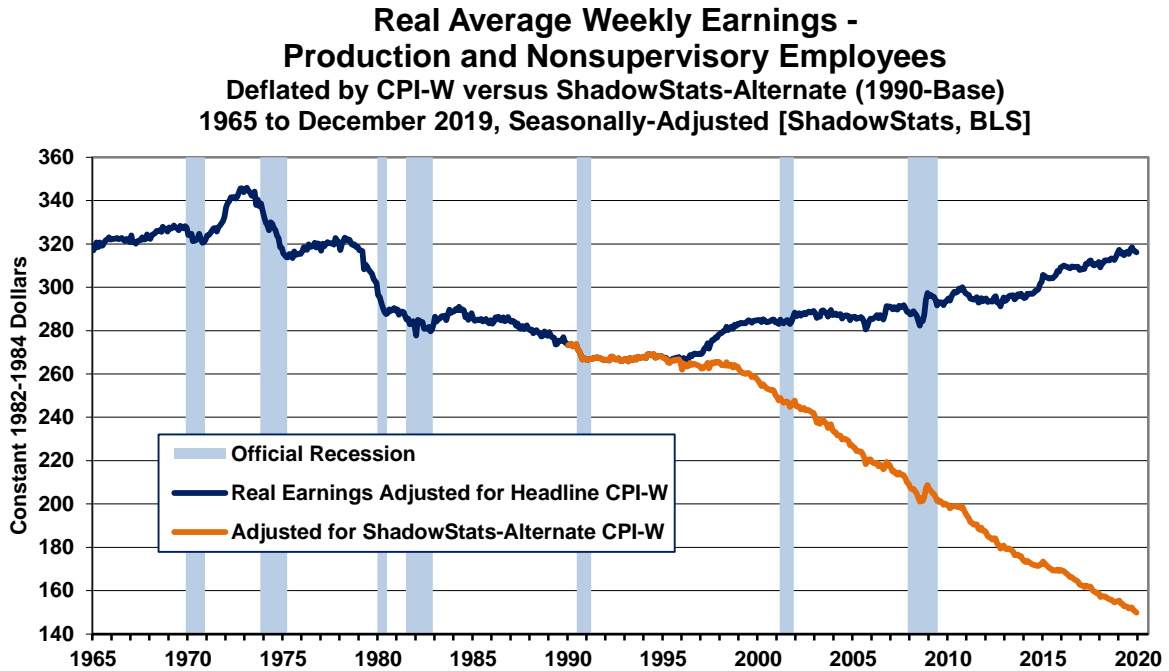
Graph 21: Real Retail Sales



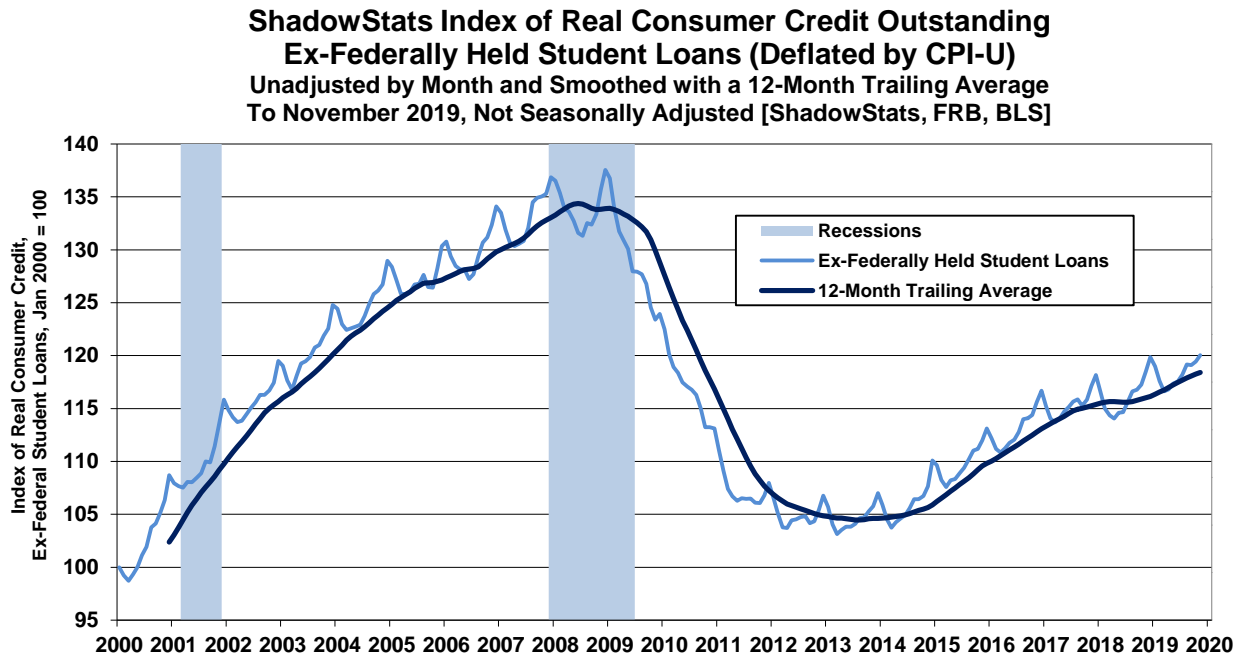
Graph 22: Real Retail Sales, Year-to-Year Percent Change



Graph 23: Real Average Weekly Earnings



Graph 24: ShadowStats Index of Real Consumer Credit Outstanding (2000 to November 2019)



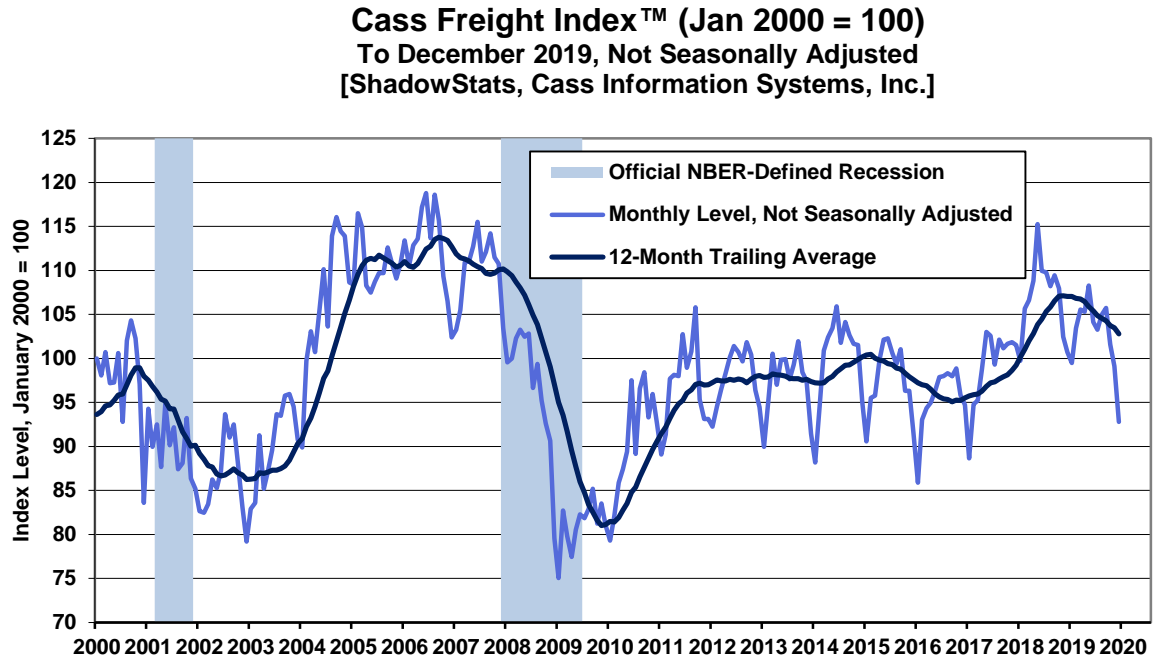
CASS™ FREIGHT INDEX

December 2019 CASS Freight Index Annual Growth Plunged by 7.9% (-7.9%), as Last Seen at Onset of the Great Recession. As reported January 16th, the December 2019 CASS Freight Index annual growth collapsed by 7.9% (-7.9%), a pattern of activity last seen in February 2008, at the onset of the Great Recession. The latest reporting is found at <https://www.cassinfo.com/freight-audit-payment/cass-transportation-indexes/december-2019>.

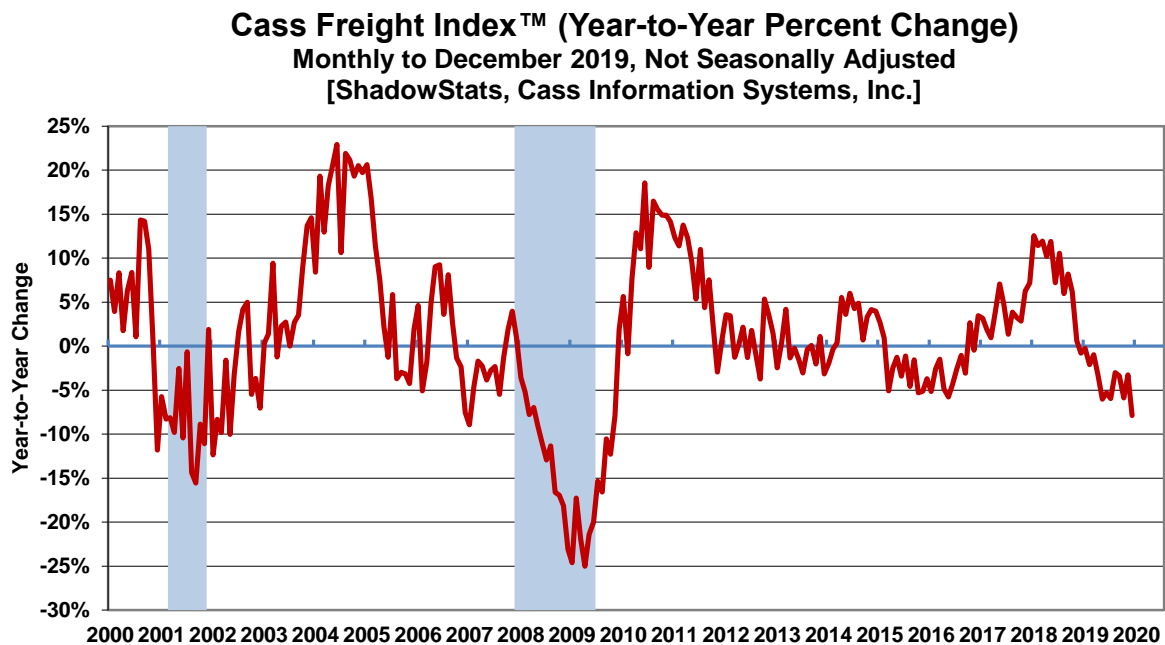
The collapse in activity here was consistent with the quarterly declines in Fourth-Quarter 2019 Real Retail Sales, Industrial Production and Manufacturing. Separately, the Index's consecutive monthly year-to-year declines and monthly declines in the 12-month moving average held in place for the thirteenth 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.

[The CASS Freight Index Graphs follow on the next page.]

Graph 25: CASS Freight Index



Graph 26: CASS Freight Index, Year-to-Year Percent Change



CONSTRUCTION SPENDING

In Inflation-Adjusted Real Terms, November 2019 Private Residential Construction Spending Held on Track for Its Sixth Consecutive Quarter of Annual Decline. On top of regularly volatile upside revisions to October and September 2019 activity, nominal total November Construction Spending gained 0.6% in the month and 4.1% year-to-year, with the gain in annual growth against rapidly collapsing activity at the onset of informal recession the year before, as reported January 3rd by the Census Bureau.

Nominal November Private Construction Spending gained 0.4% month-to-month and 1.6% year-to-year, with Public Construction up by 0.9% month-to-month, and 12.4%, year-to-year, dominated by the Nonresidential Sector. The aggregate and private residential categories remained on track for respective fifth and sixth real quarterly annual contractions, a pattern last seen beginning in First-Quarter 2008, at the onset of the Great Recession. November 2019 total real Construction Spending held shy by 23.1% (-23.1%) of ever having recovered its pre-recession peak.

HOUSING STARTS, BUILDING PERMITS

Nonsensically Volatile December 2019 Housing Starts Boomed 16.9% in the Month on Top of Upside Revisions, While the Leading, More-Stable Building Permits Series Dropped 3.9% (-3.9%) on Top of Downside Revisions. Reported January 17th by the Census Bureau and HUD, headline “New Residential Investment” series remains largely worthless in its initial monthly reporting of Housing Starts, despite some meaningful patterns of stability seen more frequently with the dominant, Single Unit category of Building Permits. Given the nature of the Starts series, the headline 16.9% jump in December activity on top of upside revisions to October and November likely will revise much lower with January’s reporting. Nonetheless, when the monthly volatility is smoothed using a six-month moving average, activity is trending higher for both Permits (since Fourth-Quarter 2018) and Starts (since First-Quarter 2019), series that remain shy respectively by 37.5% (-37.5%) and 40.1% (-40.1%) of ever having recovered their pre-recession highs.

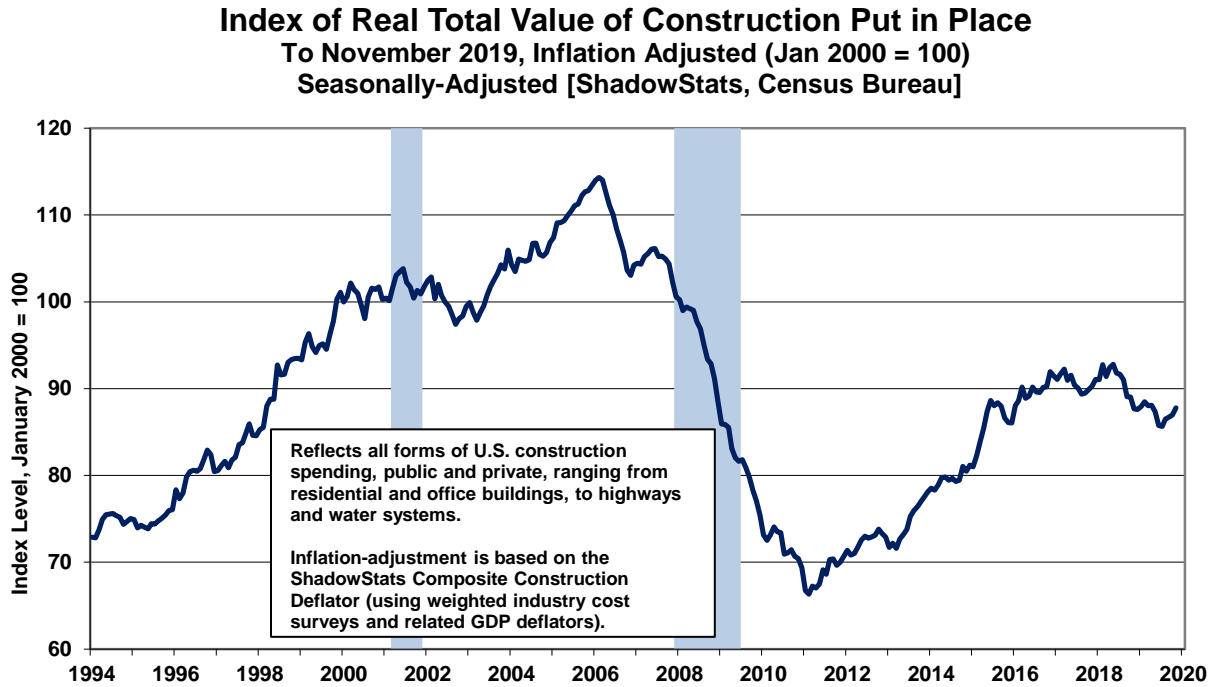
NEW-HOME SALES

Amidst Regular Nonsense Volatility, December 2019 New-Home Sales Declined 0.4% (-0.4%) in the Month, on Top of Downside Revisions to the Prior Three Months. Reported January 27 by the Census Bureau and HUD, in the context of the usual, meaningless monthly volatility, December New-Homes Sales dropped by 0.4% (-0.4%) [down by 1.8% (-1.8%) net of revisions], and rose by 23.0% year-to-year. Yet, not one measure of monthly or annual change was meaningfully different from zero at the 95% confidence level. Where the six-month moving average revised lower, with a notch down in December, the six-month smoothed average still was in a general uptrend. That said, December 2019 activity held shy by 49.8% (-49.8%) of ever recovering its pre-recession peak activity.

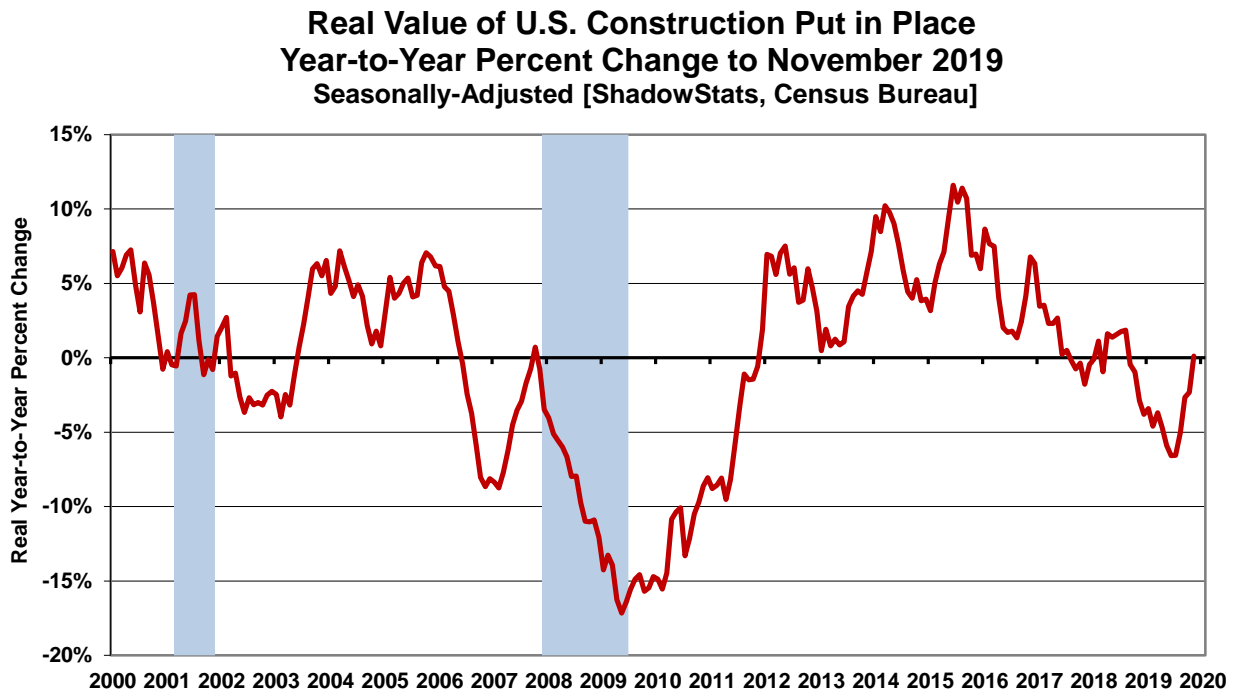
EXISTING-HOME SALES

December 2019 Existing-Home Sales Jumped Month-to-Month and Year-to-Year, While Total Unit Sales Were Unchanged in 2019 versus 2018. (see the National Association of Realtors® [NAR] at www.nar.realtor, see detailed Press Release.) As reported by the NAR, January 22nd, December Existing-Home Sales gained 3.6% in the month, against an unrevised monthly decline of 1.7% (-1.7%) in November, with December year-to-year growth of 10.8%, up from 2.7% in November. For the full-year 2019, sales were unchanged from 2018, which were down by 3.1% (-3.1%) from 2017. This series reflects greater stability than any of the Census Bureau’s New-Home Sales or Residential Construction series.

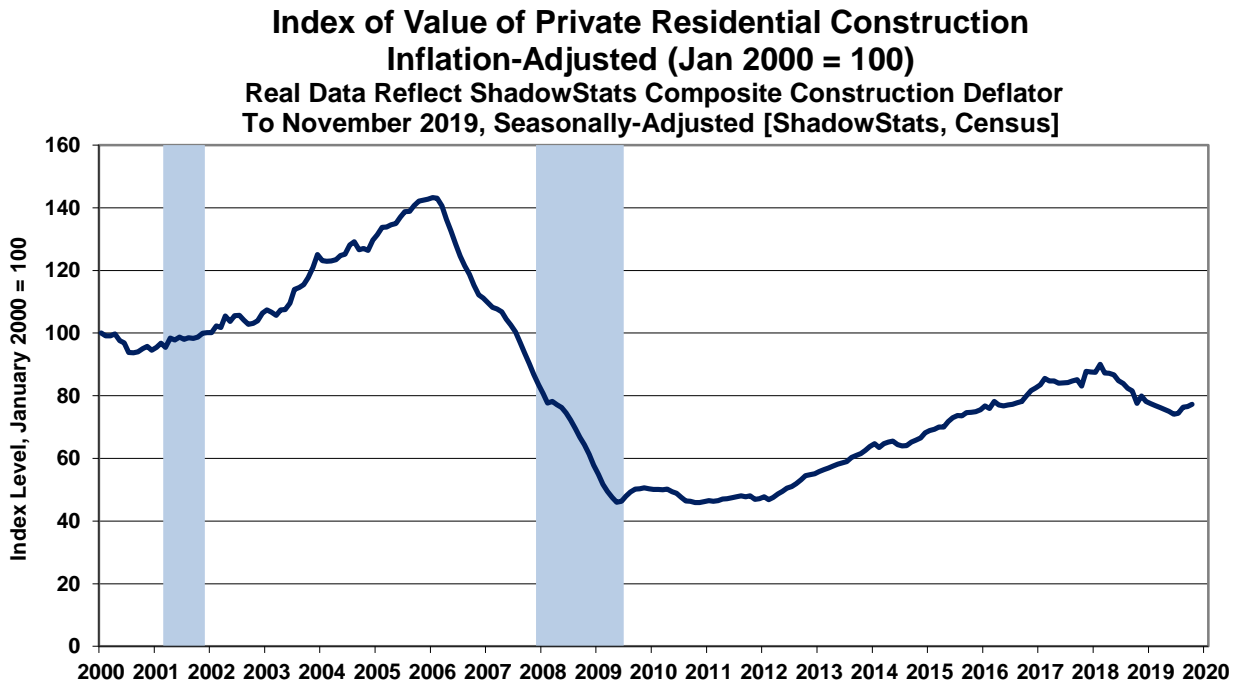
Graph 27: Index of Real Total Value of U.S. Construction Put in Place



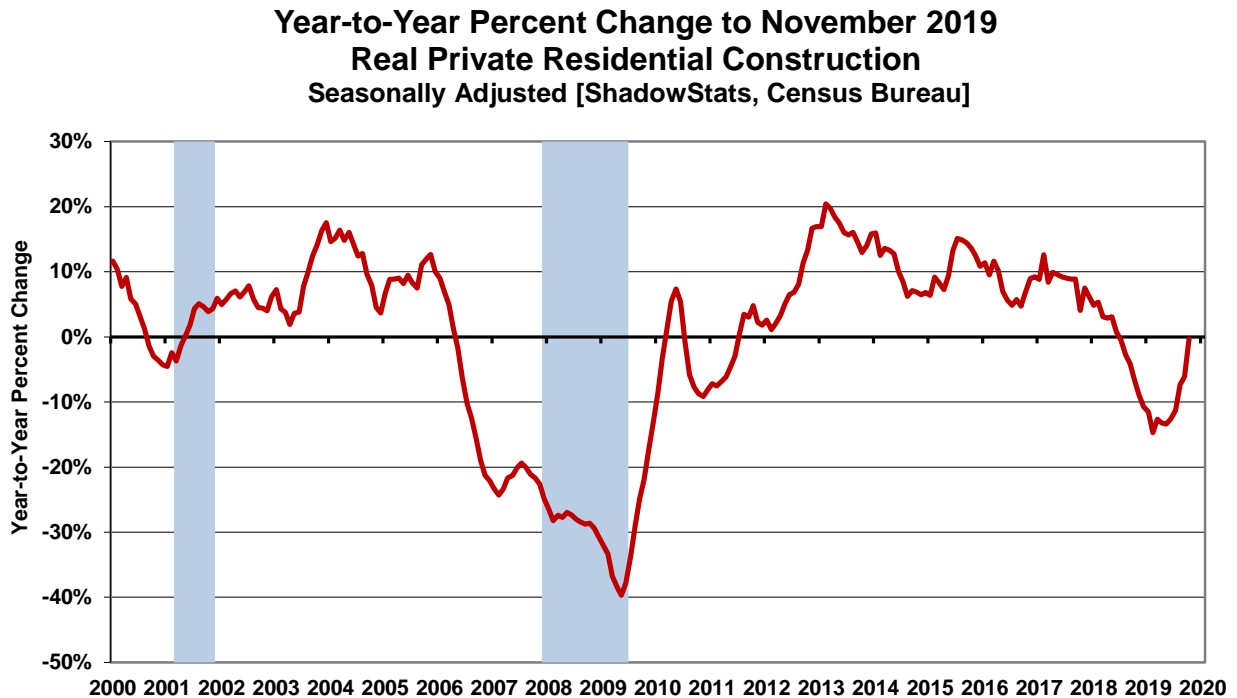
Graph 28: Year-to-Year Change in Real Value of U.S. Construction Put in Place



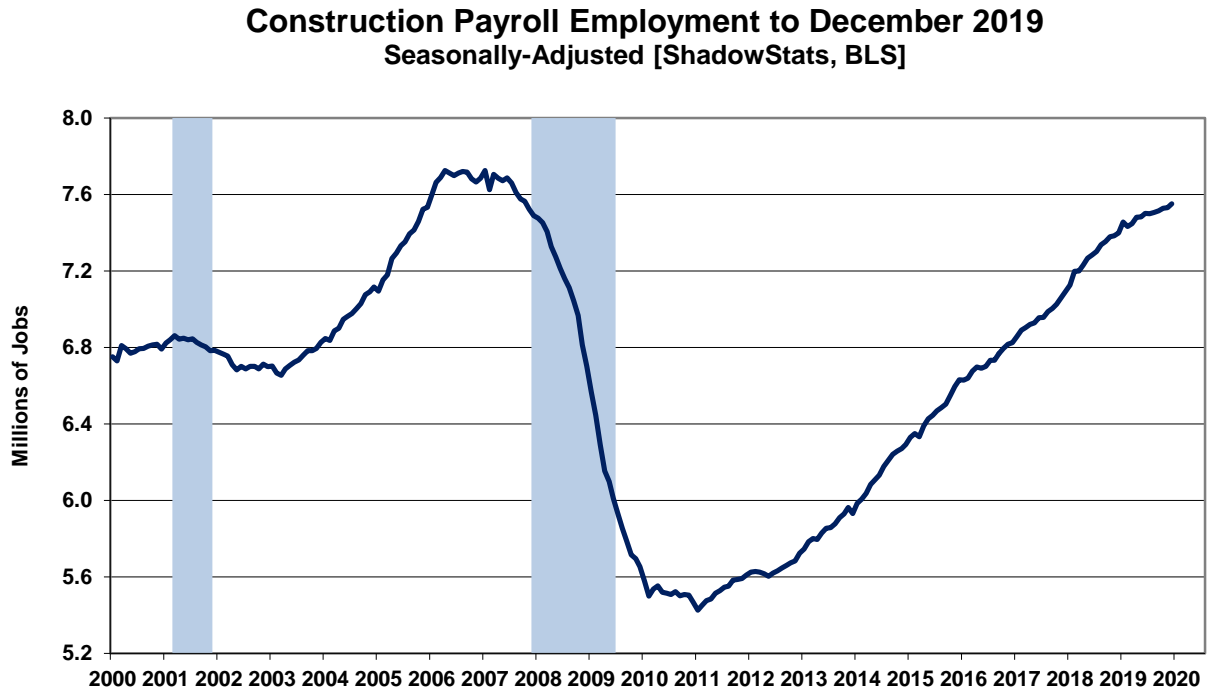
Graph 29: Index of Real Total Value of Private Residential Construction



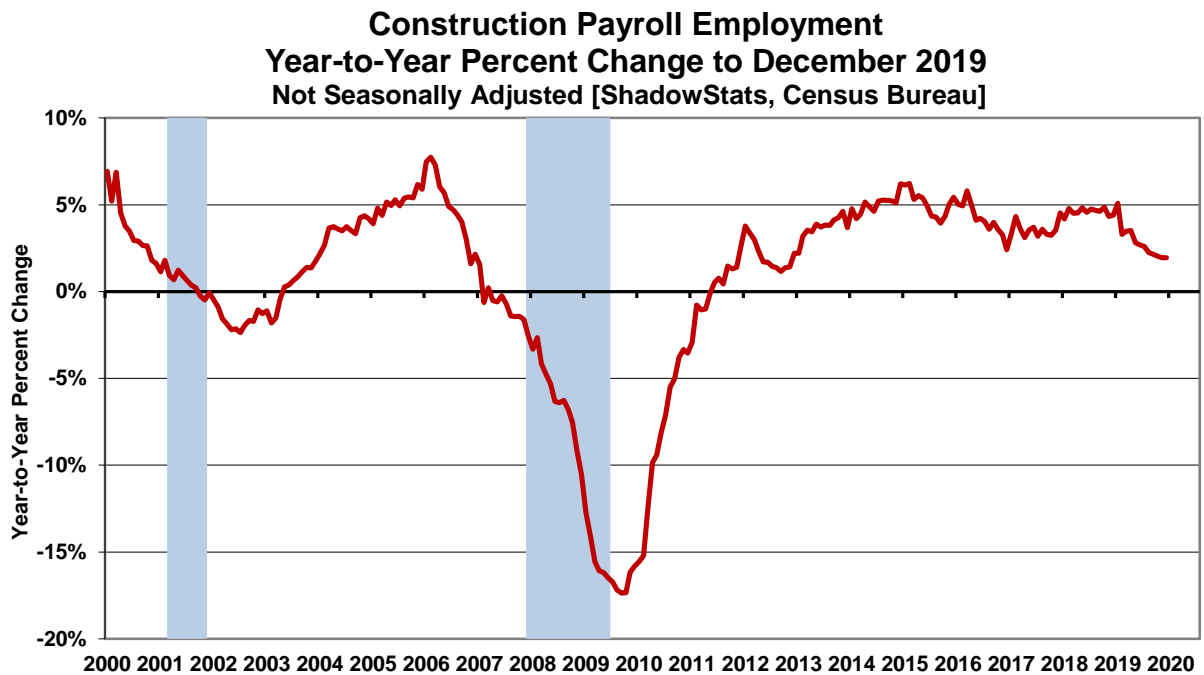
Graph 30: Year-to-Year Change in Real Total Value of Private Residential Construction



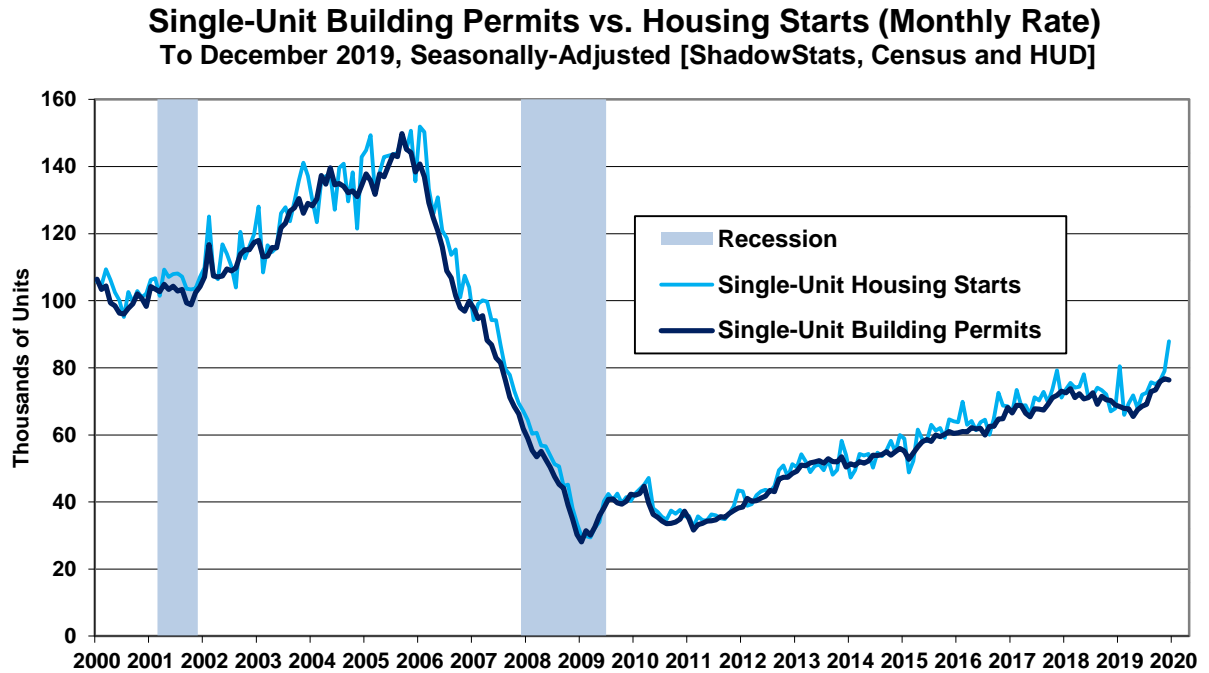
Graph 31: Construction Employment



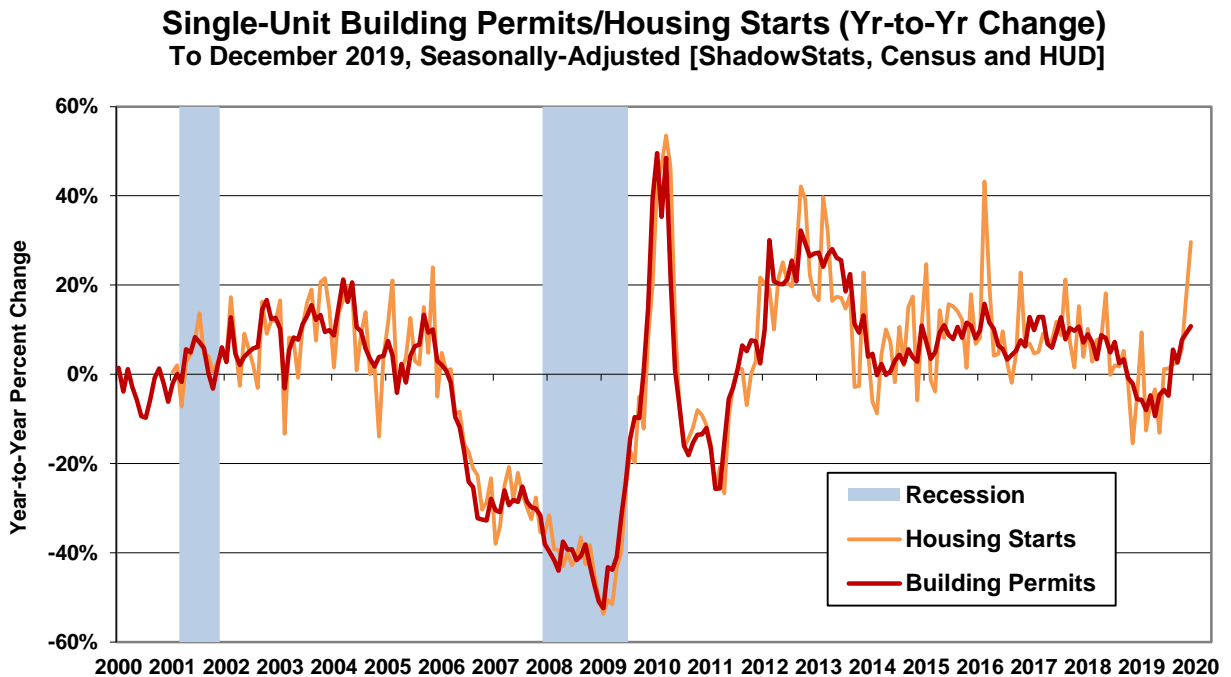
Graph 32: Construction Employment, Year-to-Year Change



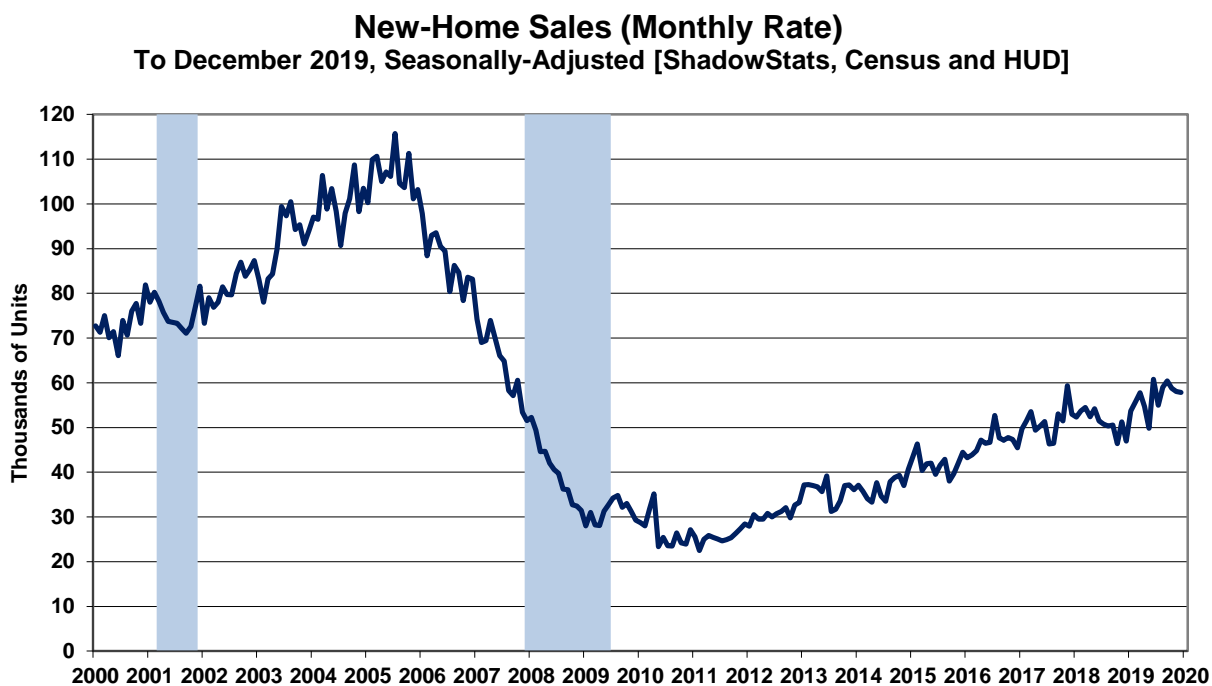
Graph 33: Single-Unit Building Permits vs. Housing Starts



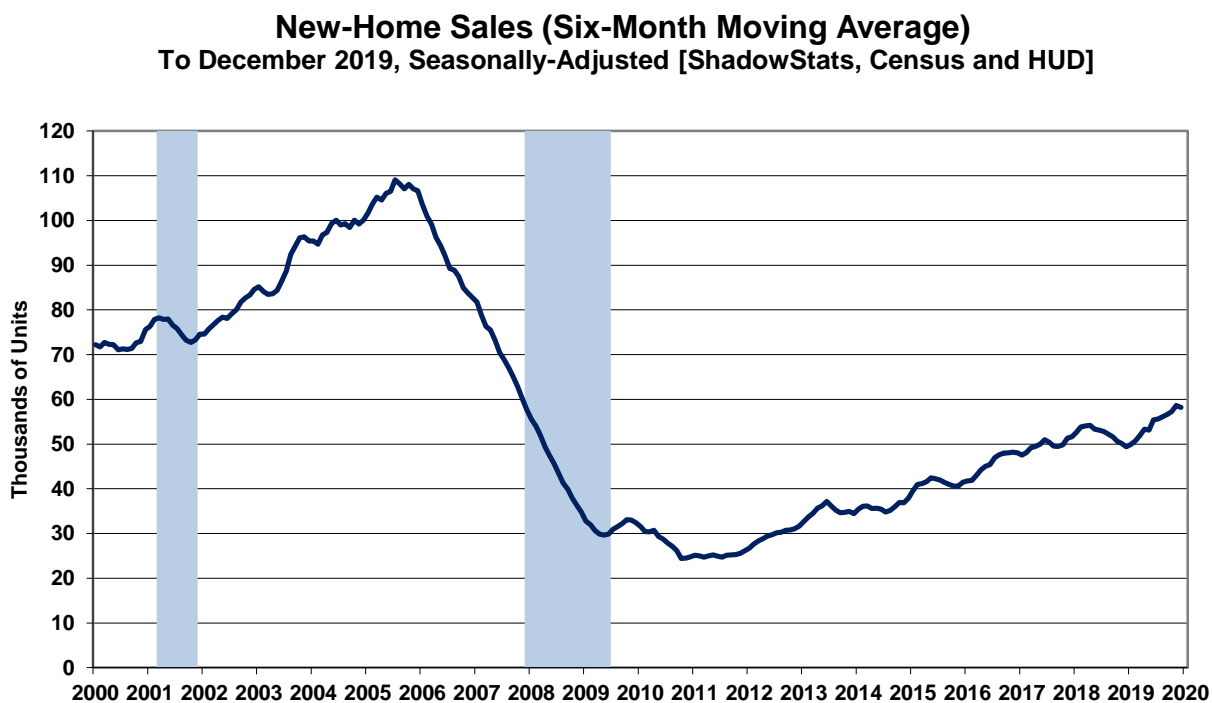
Graph 34: Single-Unit Building Permits vs. Housing Starts, Year-to-Year Percent Change



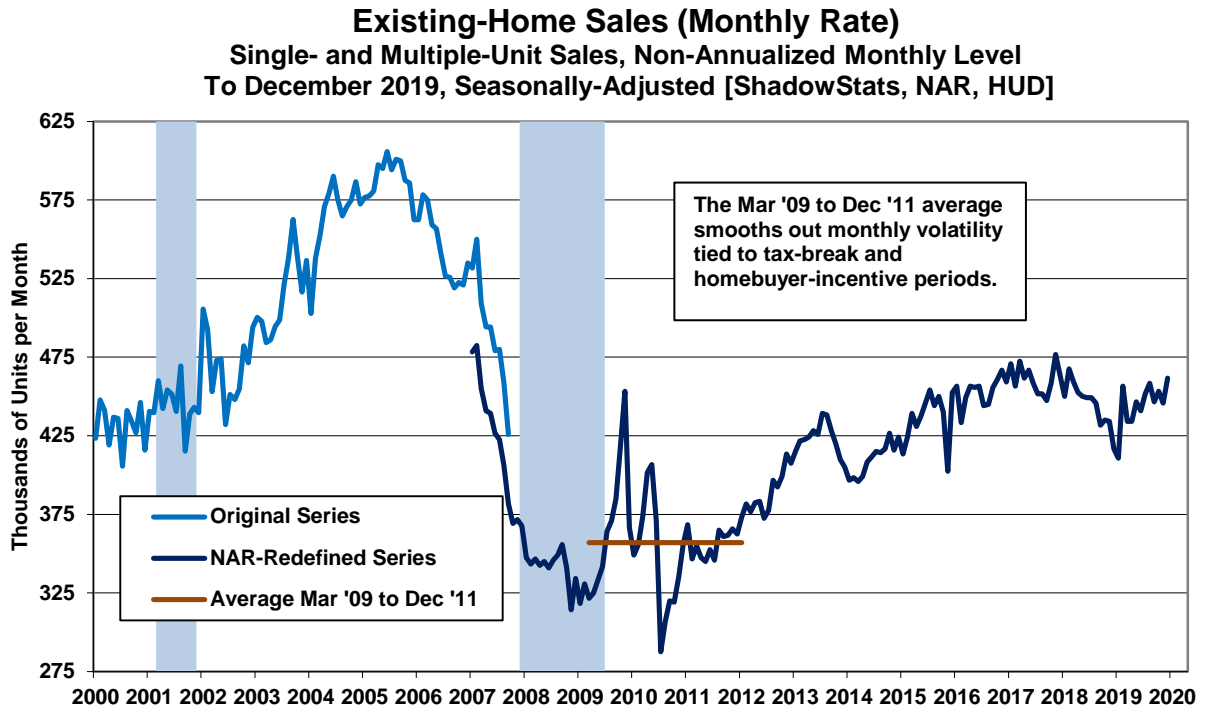
Graph 35: New-Home Sales



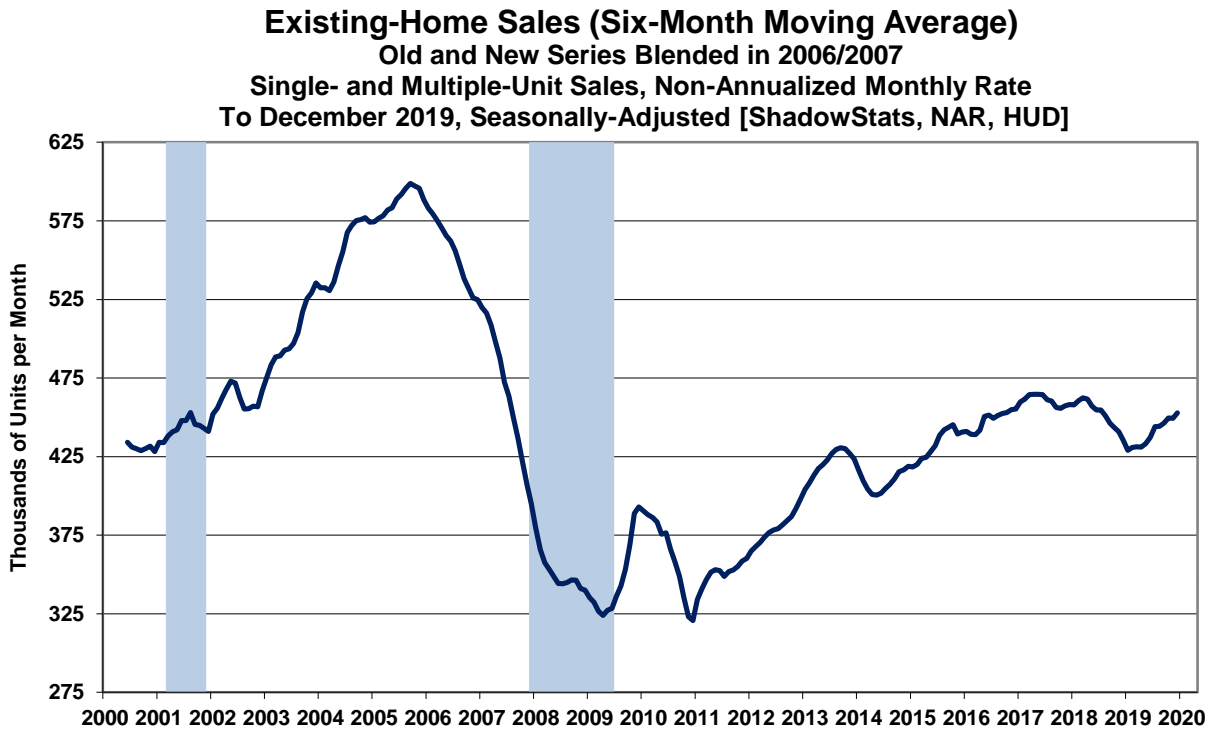
Graph 36: New-Home Sales, Six-Month Moving Average



Graph 37: Existing-Home Sales



Graph 38: Existing-Home Sales, Six-Month Moving Average



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