

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

ShadowStats Special Economic Commentary, Issue No. 1446
Review of Current and Unfolding Economic and Inflation Conditions

September 2, 2020

Amidst Mounting Inflation Dangers, the Weakening L-Shaped Recovery from the Pandemic-Shutdown Began to Look Even Softer in July and Early-August Reporting

**Revised Second-Quarter GDP and Initial GDI and GNP Reporting
Confirmed the Record Collapse, Wiping Out Five Years of Economic Growth,
Resetting the Inflation-Adjusted Real U.S. GDP to Its Lowest Levels since 2014**

**With the Below-Consensus, Limited Recovery Unfolding in Second-Half 2020,
Real Value of the Full-Year 2020 U.S. GDP Will Be Lucky to Top That Seen in 2016**

**Statistical Chicanery Surfaces Along With the L-Shaped Recovery;
Department of Labor Rejiggers New Unemployment Claims for Happier,
Pending Headlines, Without Providing Consistent, Restated Historical Data**

**Non-Recovering, L-Shaped U.S. Labor Force (Employment Plus Unemployment)
Suggests Protracted Economic Collapse; 4.8 Million Unemployed Are Missing**

**Industrial Production and Employment Numbers Show Deepening Trouble,
While Booming Retail and Home Sales Are Running Counter to
Sinking Consumer Optimism and Finances**

**In March, the FOMC Exploded Money Supply and Inflationary Pressures to
Fight the Pandemic-Driven Economic Collapse and Related Systemic Instabilities**

Record Year-to-Year M1 Money Supply Growth in Early-August Topped 40%

**With August Inflation Pressures Mounting, the FOMC Conveniently Has
Retargeted Its Long-Standing Goal of 2% Core Inflation to the Upside**

**Mounting Hyperinflation Risks, Heavy Dollar Selling and Systemic Instabilities
Promise New Highs Ahead for Gold and Silver Prices**

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Background Information for Subscribers

New Circumstances, Breaking News and ShadowStats Schedule Changes Are Highlighted As They Happen in the [Daily Update](#) Section of the [ShadowStats Home Page](#). Rapidly shifting headlines, reporting details, intervening events, unusual developments in the markets, with the FOMC or the economy, and ShadowStats scheduling—all are covered in the *Daily Update*. For example, an initial assessment of headline details and any unusual twists in regular, major economic reporting always is reviewed in the *Daily Update*, usually within a couple hours of the reporting authority's scheduled posting of its economic release.

For recent key 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), [Flash Commentary, Issue No. 1440](#) (FOMC and Inflation) and [Economic Commentary, Issue No. 1441](#) (Economic Update), [Flash Commentary, Issue No. 1442](#) (Gold, Money Supply GDP) and [Flash Commentary, Issue No. 1443](#) (GDP and Gold). [Special Economic Commentary, Issue No. 1444](#) updated the economic outlook, incorporating the latest monthly economic reporting and examined the latest systemic, economic and financial-system disruptions, particularly as reflected in the price of gold. [Flash Commentary, Issue No. 1445](#) reviewed the GDP annual benchmarking and outlook for gold and silver in context of the August 11th sell-off. Today's *Special Economic Commentary, Issue No. 1446* assesses current economic and inflation conditions and prospects for the balance of the year.

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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Opening Comments – Unfolding Economic and Inflation Circumstances

Economic Recovery Continues to Falter Amidst Mounting Inflation Pressures

Negative Economic and Mounting Inflation Pressure Have Continued to Intensify Along With the Evolving Pandemic-Driven Economic Collapse. Today's *Special Economic Commentary, Issue No. 1446* reviews the broad economic and inflation prospects for the balance of the year, and into 2021. A repeating story in *THE ECONOMY* section (beginning on page 12) is the developing pattern of “L”-shaped recoveries unfolding in a number of economic series and indicators. A particularly unusual circumstance tied to *New Claims for Unemployment Insurance* is highlighted shortly here in these *Opening Comments*.

The broad economic review begins with *Section 1* (page 12) and *Section 2* (page 18), covering respectively the first revision to Second-Quarter 2020 Gross Domestic Product (GDP) and initial reporting of second-quarter Gross Domestic Income (GDI) and Gross National Product (GNP), and the *ShadowStats* forecasts for the GDP outlook in the second half of the year. Coverage of the monthly economic data begins with *Section 3* (page 24) with updated employment and unemployment issues, followed by *Section 4* (page 27) covering July Industrial Production, *Section 5* (page 37) covering July New Orders for Durable Goods and *Section 6* (page 39) covering the July Cass Freight Index®, all in deepening trouble, with more-positive developments in *Section 7* (page 43) covering July Retail Sales and *Section 8* (page 48) covering Residential Construction.

A repeating story in the *INFLATION AND MONEY SUPPLY* section (beginning on page 60) is the combination of developing upside inflation signals in the headline numbers and continuing record annual growth in the Money Supply. A brief discussion of the Federal Reserve's shift to boosting its headline inflation targeting also follows in these *Opening Comments*.

The broad review of monetary and inflation conditions begin with *Section 9* (page 60) covering the July CPI and PPI, followed by *Section 10* (page 65) reviewing Federal Reserve and Monetary Conditions, supplemented by *Section 11* (page 73) with the regular Financial Market Graphs.

Statistical Chicanery Surfaces Along With an Unwelcomed L-Shaped Economic Recovery

Unstable Initial Claims for Unemployment Insurance Remain Stalled in an Unfolding “L”-Shaped Economic Recovery, With an Imminent Change to Reporting Methodology at Hand. Reported August 27th by the Department of Labor (DOL), *New Claims for Unemployment Insurance* eased minimally, in the week ended August 22nd, in line with expectations, Claims stalled at a seasonally adjusted level of 1.006 million, consistent with the developing “L”-shaped recovery to the Pandemic-driven economic collapse (see *Graphs 1* and *2*, where the “L”-shaped recovery should be considered with the numerical scales on these graphs inverted, the lower the number of claims the stronger the economy.

Department of Labor Is Rejiggering New Unemployment Claims for Happier, Pending Headlines, Without Providing Coincident, Consistent and Comparative Restated Historical Data. With the U.S. stock market recently susceptible to large daily swings tied to “surprising” headline strength or weakness in the weekly releases of *New Claims for Unemployment Insurance*, the issuing Department of Labor has announced an imminent methodological change to the seasonal-adjustment process (pending with tomorrow’s September 3rd release for the Week Ended August 29th). The effect of the revised methodology should be to reduce meaningfully the headline level of August 20th week adjusted New Claims, from what it would have been otherwise, using last week’s methodology.

Taken out of context, such a “decline” would be viewed as an economic positive, which appears to be the likely pending circumstance. Indeed, the pending reporting will be out of context, published in an historical void, lacking any consistently defined, recent history for comparison. **Standardly, revised methodologies are announced months in advance, not one week in advance, accompanied by comparative historical data, which purportedly will not be available here until 2021.**

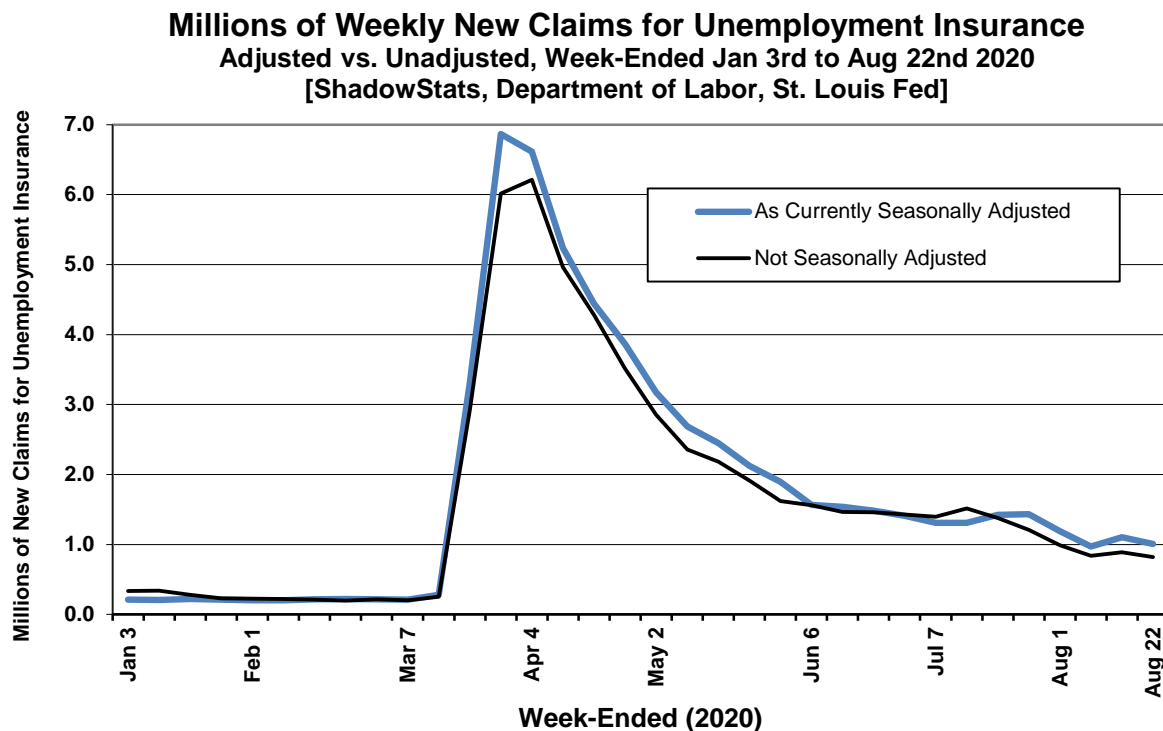
Per the [DOL New Claims Release of August 27th](#):

“REVISION TO SEASONAL ADJUSTMENT FACTORS Beginning with the Unemployment Insurance (UI) Weekly Claims News Release issued Thursday, September 3, 2020, the methodology used to seasonally adjust the national initial claims and continued claims will reflect additive factors as opposed to multiplicative factors. Seasonal adjustment factors can be either multiplicative or additive. A multiplicative seasonal effect is assumed to be proportional to the level of the series. A sudden large increase in the level of the series will be accompanied by a proportionally large seasonal effect. In contrast, an additive seasonal effect is assumed to be unaffected by the level of the series. In times of relative economic stability, the multiplicative option is generally preferred over the additive option. However, in the presence of a large level shift in a time series, multiplicative seasonal adjustment factors can result in systematic over- or under-adjustment of the series; in such cases, additive seasonal adjustment factors are preferred since they tend to more accurately track seasonal fluctuations in the series and have smaller revisions. Prior to September 2020, the seasonally adjusted unemployment insurance claims series used multiplicative seasonal adjustment factors. Starting in September Bureau of Labor Statistics staff, who provide the seasonal adjustment factors, specified these series as additive. In accordance with the usual practice, the seasonal adjustment models and factors will be reviewed at the beginning of each calendar year, when prior years of seasonally adjusted estimates will be subject to revision.”

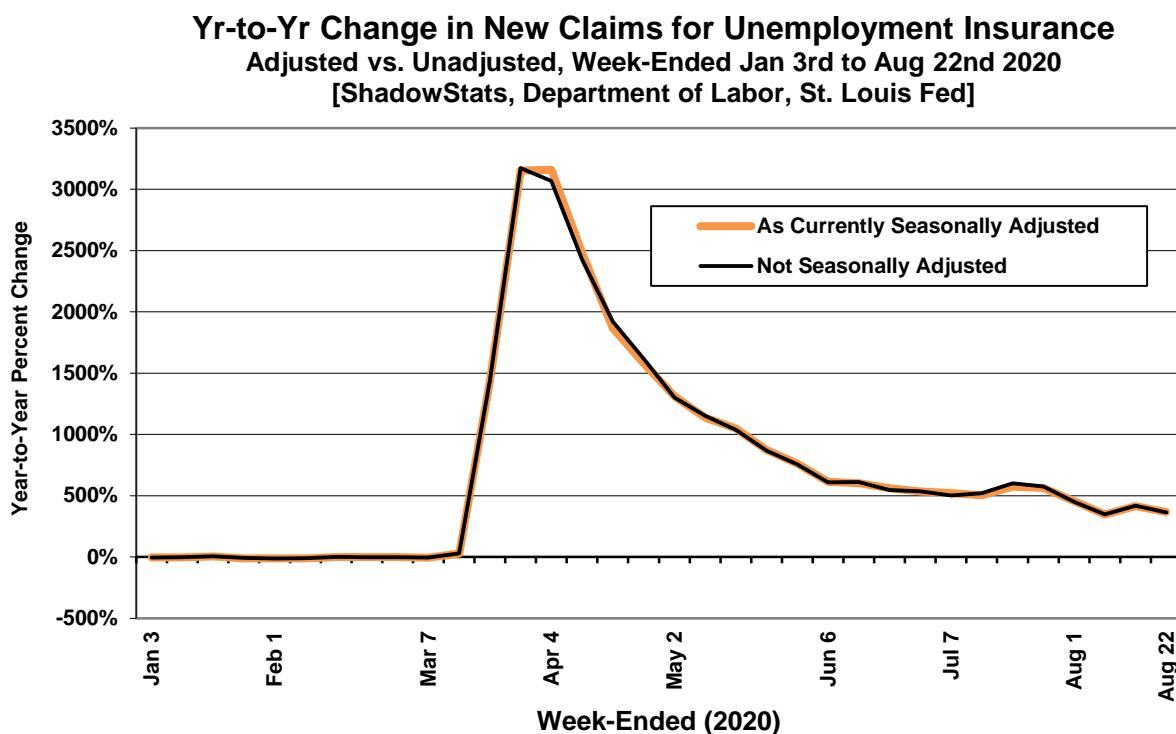
The revisions likely will generate more-accurate numbers, over time, but they are worthless out of consistent historical context. Consistent historical context for the existing methodology is reflected in accompanying *Graphs 1* and *2*. At the current stage of the labor-market cycle, changing the seasonal adjustments as described would reduce the level of claims sharply in the next reporting, by an order of magnitude of 140,000 (-140,000) from what likely would otherwise be reported with a consistent methodology. Assuming the DOL, as indicated, does not provide a consistent history for the new series before 2021, ShadowStats will use the year-to-year change plot in *Graph 2* for the unadjusted series as a guide. Year-to-year change on an unadjusted basis is a standard approach to getting around inconsistent levels of seasonally adjusted data, while the year-to-year changes in the adjusted data broadly should mirror the adjusted number, again, as seen in *Graph 2*. Using an inverted scale, the developing “L”-shaped recovery remains in play.

[*Graphs 1* and *2* follow on the next page.]

Graph 1: Weekly New Claims for Unemployment Insurance



Graph 2: Weekly New Claims for Unemployment Insurance, Year-to-Year Percent Change



Federal Reserve Board Ups Its Inflation Target

In the Wake of Pandemic-Triggered Emergency Money Supply Creation, and Resulting, Nascent Inflation Pressures, the FOMC Conveniently Has Now Boosted Targeted Inflation. On August 27th, Federal Reserve Chairman Jerome Powell confirmed the Federal Reserve's Federal Open Market Committee (FOMC) will attempt to generate higher inflation for a while, somewhat after the fact (see later *Section 9 – Intensifying Inflation Signals With CPI and PPI* beginning on page 60).

Specifically, the FOMC announced a shift in policy whereby, “following periods when [“core”] inflation has been running persistently below 2 percent [the current circumstance], appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time.” Fortuitously, such inflation-boosting policies already are in effect, having been put in place at the onset of the Pandemic-induced economic/financial collapse.

The action here provides some latter-day justification for the explosive, “unlimited” money supply growth policies already helping to mitigate the unfolding financial-market, systemic and economic collapse triggered by the Coronavirus Pandemic. Those actions already have begun to move “Core” inflation off bottom, which likely will move above 2.5% in the next couple of months.

ShadowStats Broad Outlook for the Economy, Inflation and the Markets

With minimal evolution, the ShadowStats broad outlook in the weeks and months ahead remains for:

- A continuing and potentially hyperinflationary U.S. economic collapse, with significant bottom bouncing and an unfolding, troubled and protracted “L”-shaped recovery, reflected in
- Continued flight to safety in precious metals, with accelerating upside pressures on gold and silver prices, likely headed for new record high levels, irrespective of any temporary market interventions or machinations to the contrary,
- Mounting selling pressure on the U.S. dollar, against the Swiss Franc and as more broadly measured by the ShadowStats Financial-Weighted Dollar (FWD) and the Federal Reserve's Trade-Weighted (AFE) Dollar.
- Despite recent extreme Stock Market volatility, continuing high risk of major instabilities and massive liquidation of U.S. equities,
- Complicated by ongoing direct, supportive market interventions arranged by the U.S. Treasury Secretary, as head of the President's Working Group on Financial Markets (a.k.a. the “Plunge Protection Team”), or as otherwise gamed by the FOMC.

[*ECONOMY: Section 1 – Latest Headline GDP, GDI and GNP* begins on the next page.]

THE ECONOMY

Section 1 – Latest Headline Gross Domestic Product

Second-Quarter GDP, GDI and GNP All in Record Quarterly and Annual Decline

Revised and Expanded Reporting Confirm Loss of Last Five Years of Economic Growth

Record Collapse in Second-Quarter 2020 GDP Eased Minimally in Revision, With Initial GDI and GNP Reporting Even Weaker. As reported August 27th, by the Bureau of Economic Analysis (BEA), annualized Second-Quarter 2020 Real Gross Domestic Product (GDP)—broadest measure of the U.S. economy—showed a somewhat narrowed, revised annualized quarterly collapse of 31.70% (-31.70%) [previously 32.90% (-32.90%)] and annual drop of 9.14% (-9.14%) [previously 9.54% (-9.54%)], versus an unrevised quarterly decline of 4.96% (-4.96%) and annual gain of 0.32% in First-Quarter 2020 activity. A smaller drop in quarterly Inventories and a somewhat improved showing in the Net Exports account dominated the revised narrowing in the second-quarter contraction. Details are found in **Table I** for the GDP as well as for the aggregate GDI, GNP and the ShadowStats Corrected GDP measures.

Second-Quarter 2020 Real Gross Domestic Income (GDI), which is the theoretical income-side equivalent to the product-side GDP, showed quarterly and annual declines of 33.09% (-33.09%) and 9.21% (-9.21%), versus a revised quarterly decline of 2.53% (-2.53%), previously 2.46% (-2.46%), with a revised annual gain of 0.68% [previously 0.69%] in first-quarter reporting.

The broadest Second-Quarter 2020 measure of the Gross National Product (GNP), which is the GDP net of the trade balance in factor income (interest and dividends), showed initial, respective quarterly and annual declines of 34.48% (-34.48%) and 9.19% (-9.19%), versus an unrevised 5.57% (-5.57%) annualized drop in and 0.28% annual gain in first-quarter activity.

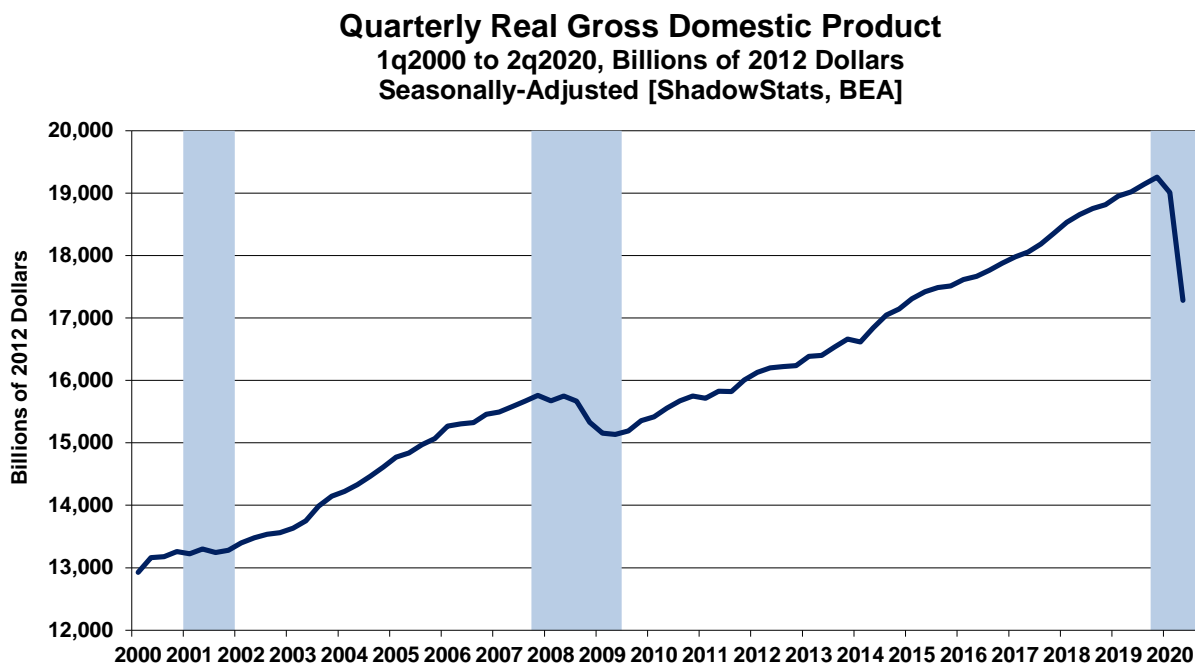
The ShadowStats Corrected GDP (adjusted for the underreporting of inflation used in the GDP deflators) showed a revised annualized real quarterly contraction of 33.09% (-33.09%) [previously 34.26% (-34.26%)] down by 10.98% (-10.98%) [previously 11.37% (-11.37%)] year-to-year.

Indicated previously with initial reporting of the Second-Quarter 2020 GDP on July 30th (see [*Flash Commentary, Issue No. 1445*](#)), the record Pandemic-triggered quarterly economic collapse drove the level of inflation-adjusted real GDP and related GDI, GNP series back to levels last seen in 2014, wiping out the last five-plus years of economic growth. It also wiped 20-plus years of economic growth as measured by the ShadowStats-Corrected GDP. **Table I** and Graphs **3** to **10** of the headline detail follow here. GDP Projections for the balance of 2020 are reviewed in **Section 2** (see page 18).

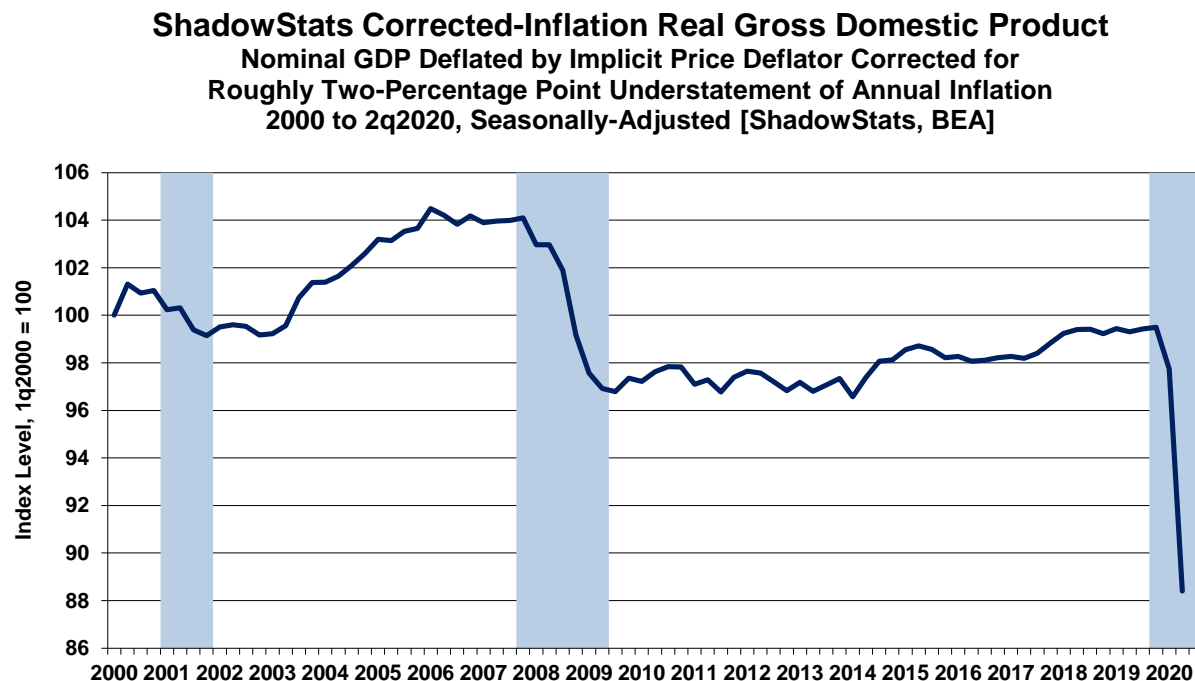
Table I: Gross Domestic Product - Growth Contribution by Sector, Second-Quarter 2020 GDP

| Second-Quarter 2020 Real Gross Domestic Product, Second Estimate Annualized Quarterly Real Growth Contribution by Economic and Product Sector | | | | | | | |
|--|---------------------------|----------------------------|---------------------------|----------------------------|---------------------------|----------------------------|----------------------------|
| GDP COMPONENT GROWTH CONTRIBUTION BY SECTOR | First- Quarter 2019 | Second- Quarter 2019 | Third- Quarter 2019 | Fourth- Quarter 2019 | First- Quarter 2020 | Second- Quarter 2020 | Second- Quarter 2020 |
| | Latest | Latest | Latest | Latest | Latest | Initial | 2nd Est. |
| ECONOMIC SECTOR | | | | | | | |
| Personal Consumption | | | | | | | |
| - Goods | 0.52% | 1.57% | 0.87% | 0.12% | 0.03% | -2.12% | -2.00% |
| -- <i>Motor Vehicles</i> | -0.31% | 0.26% | 0.01% | 0.08% | -0.78% | 0.15% | 0.08% |
| - Services | 0.73% | 0.90% | 0.96% | 0.96% | -4.78% | -22.93% | -22.77% |
| Gross Private Domestic Investment | | | | | | | |
| - Fixed Investment | 0.50% | -0.07% | 0.42% | 0.17% | -0.23% | -5.38% | -5.20% |
| -- <i>Residential</i> | -0.06% | -0.08% | 0.17% | 0.22% | 0.68% | -1.76% | -1.72% |
| - Change in Private Inventories | 0.21% | -0.97% | -0.09% | -0.82% | -1.34% | -3.98% | -3.46% |
| Net Exports of Goods and Services | 0.55% | -0.79% | 0.04% | 1.52% | 1.13% | 0.68% | 0.90% |
| Government Consumption | 0.43% | 0.86% | 0.37% | 0.42% | 0.22% | 0.82% | 0.82% |
| REAL GDP GROWTH (Qtr/Qtr) | 2.93% | 1.49% | 2.57% | 2.37% | -4.96% | -32.90% | -31.70% |
| Final Sales, GDP Less Inventories | 2.72% | 2.46% | 2.66% | 3.19% | -3.62% | -28.92% | -28.24% |
| PRODUCT SECTOR | | | | | | | |
| Goods | 1.72% | -0.13% | 1.23% | 0.94% | -0.98% | -7.91% | -6.93% |
| Services | 0.77% | 1.45% | 1.12% | 1.29% | -4.82% | -22.09% | -21.97% |
| Structures | 0.44% | 0.18% | 0.22% | 0.13% | 0.85% | -2.90% | -2.80% |
| REAL GDP GROWTH | 2.93% | 1.49% | 2.57% | 2.37% | -4.96% | -32.90% | -31.70% |
| SUPPLEMENTAL | | | | | | | |
| Annualized Quarter-to-Quarter Real GDP Change and Headline Implicit Price Deflator Inflation | | | | | | | |
| Gross Domestic Product (GDP) | 2.93% | 1.49% | 2.57% | 2.37% | -4.96% | -32.90% | -31.70% |
| Gross Domestic Income (GDI) | 2.21% | 1.20% | 0.82% | 3.30% | -2.53% | -- | -33.09% |
| Gross National Product (GNP) | 2.38% | 1.91% | 2.68% | 2.34% | -5.57% | -- | -34.48% |
| ShadowStats Corrected GDP* | 0.85% | 0.56% | 0.50% | 0.29% | -6.88% | -34.26% | -33.09% |
| Implicit Price Deflator (IPD) Inflation | 1.03% | 2.60% | 1.40% | 1.50% | 1.66% | -2.13% | -2.31% |
| Year-to-Year Real GDP Change and Headline Implicit Price Deflator Inflation | | | | | | | |
| Gross Domestic Product (GDP) | 2.27% | 1.96% | 2.08% | 2.34% | 0.32% | -9.54% | -9.14% |
| Gross Domestic Income (GDI) | 2.03% | 2.14% | 1.21% | 1.88% | 0.68% | -- | -9.21% |
| Gross National Product (GNP) | 1.88% | 1.82% | 2.13% | 2.33% | 0.28% | -- | -9.19% |
| ShadowStats Corrected GDP* | 0.20% | -0.10% | 0.01% | 0.27% | -1.71% | -11.37% | -10.98% |
| Implicit Price Deflator (IPD) Inflation | 2.00% | 1.78% | 1.73% | 1.63% | 1.79% | 0.59% | 0.55% |
| Sources: Bureau of Economic Analysis, ShadowStats.com. r Prior 1q2019 qq = -2.46%, yy = 0.69%. | | | | | | | |
| (*) Real GDP corrected for understated headline inflation, see Special Commentaries No. 968 / 983-B for background. | | | | | | | |

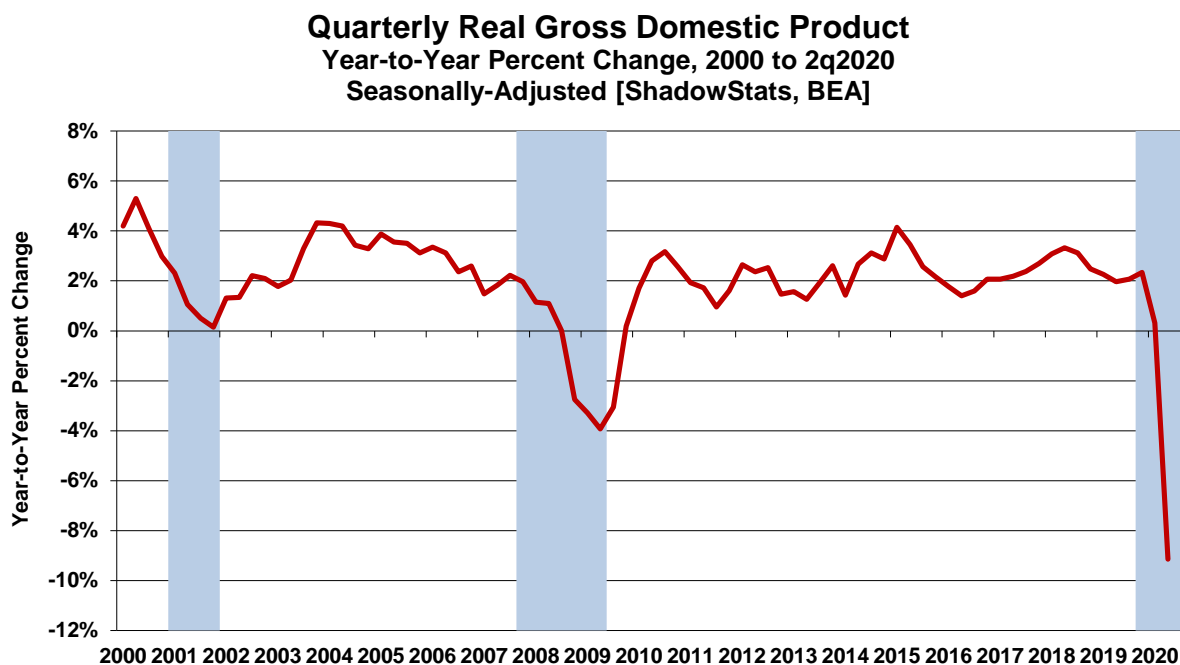
Graph 3: Quarterly Real GDP 1q2000 to 2q2020 (Second Estimate)



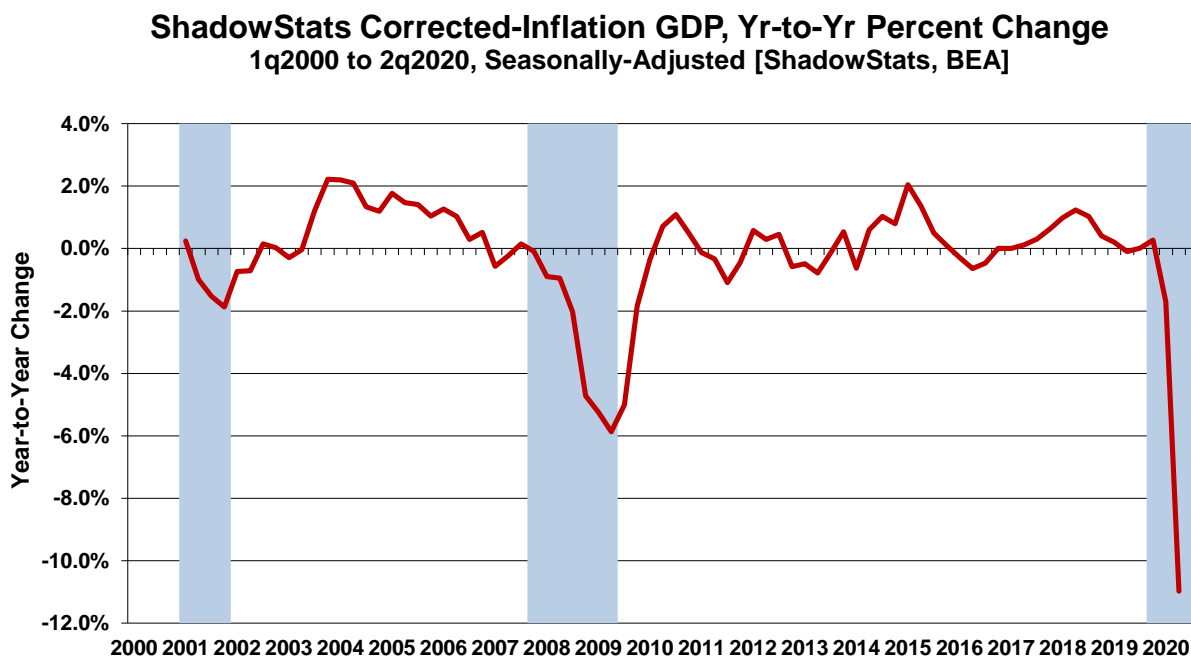
Graph 4: Quarterly ShadowStats-Alternate Real GDP 1q2000 to 2q2020 (Second Estimate)



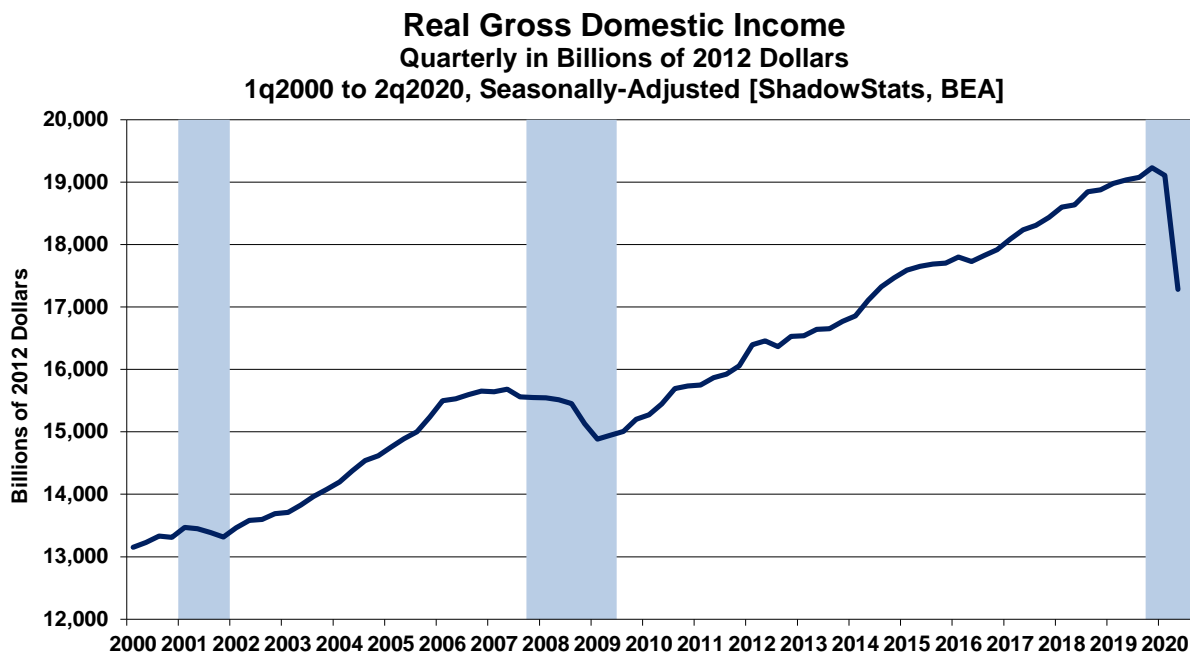
Graph 5: Quarterly Real GDP, Year-to-Year Change, 1q2000 to 2q2020 (Second Estimate)



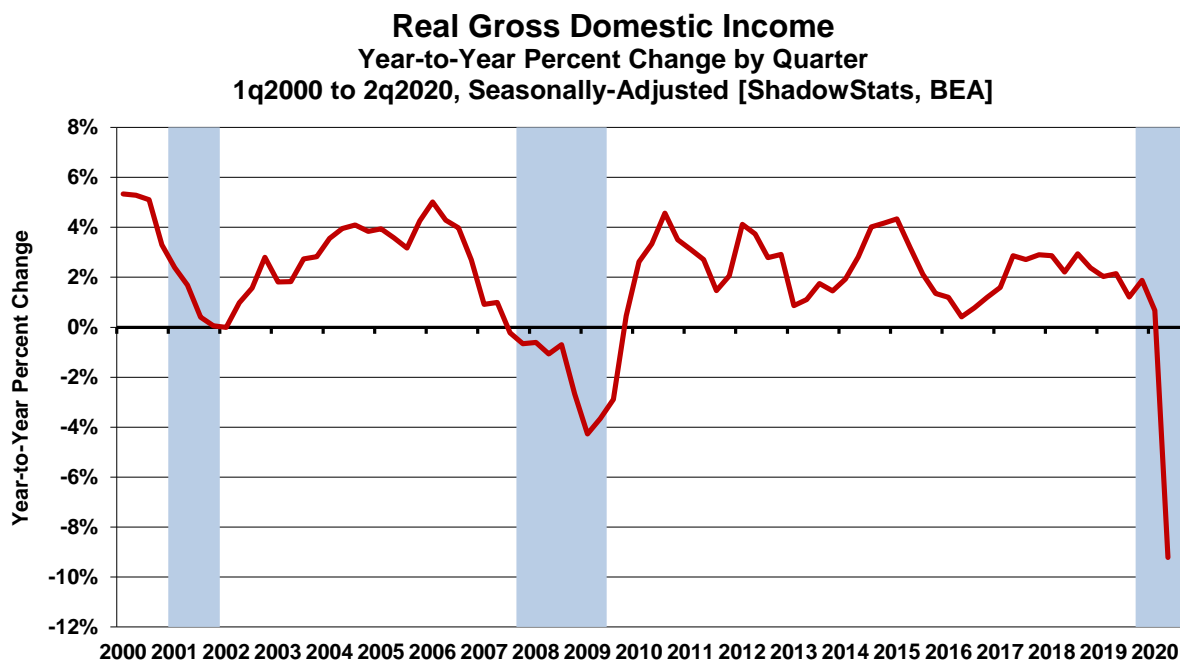
Graph 6: ShadowStats Alternate Real GDP, Yr-to-Yr Change (Second Estimate)



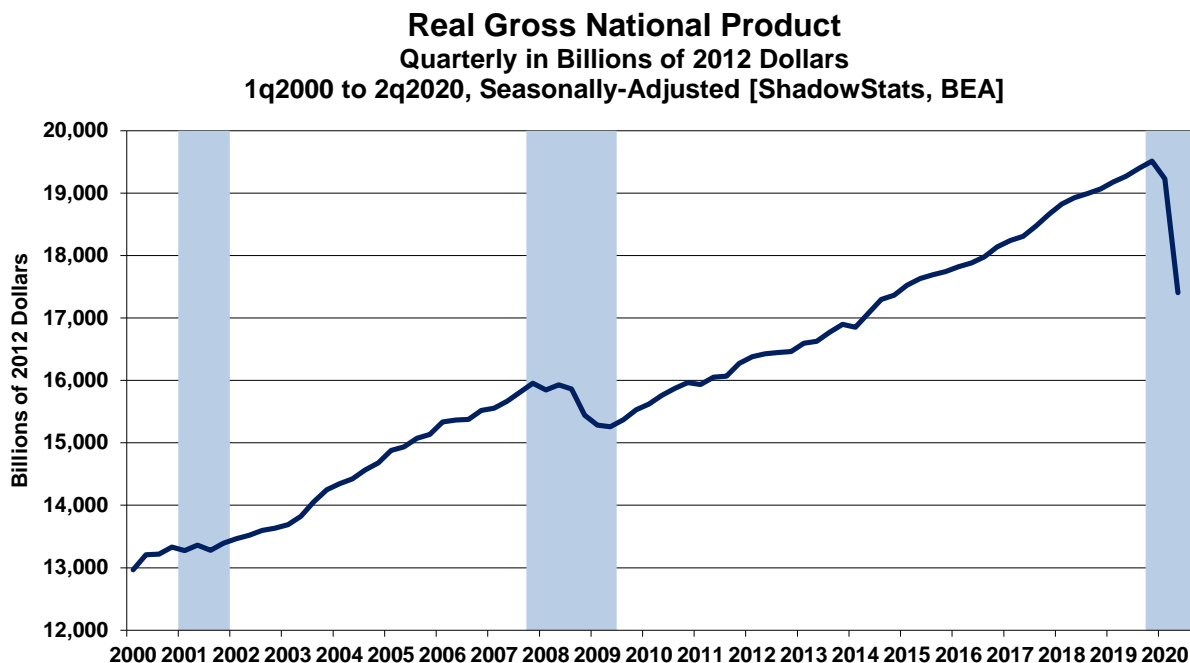
Graph 7: Quarterly Real Gross Domestic Income (GDI) 1q2000 to 2q2020 (Initial Estimate)



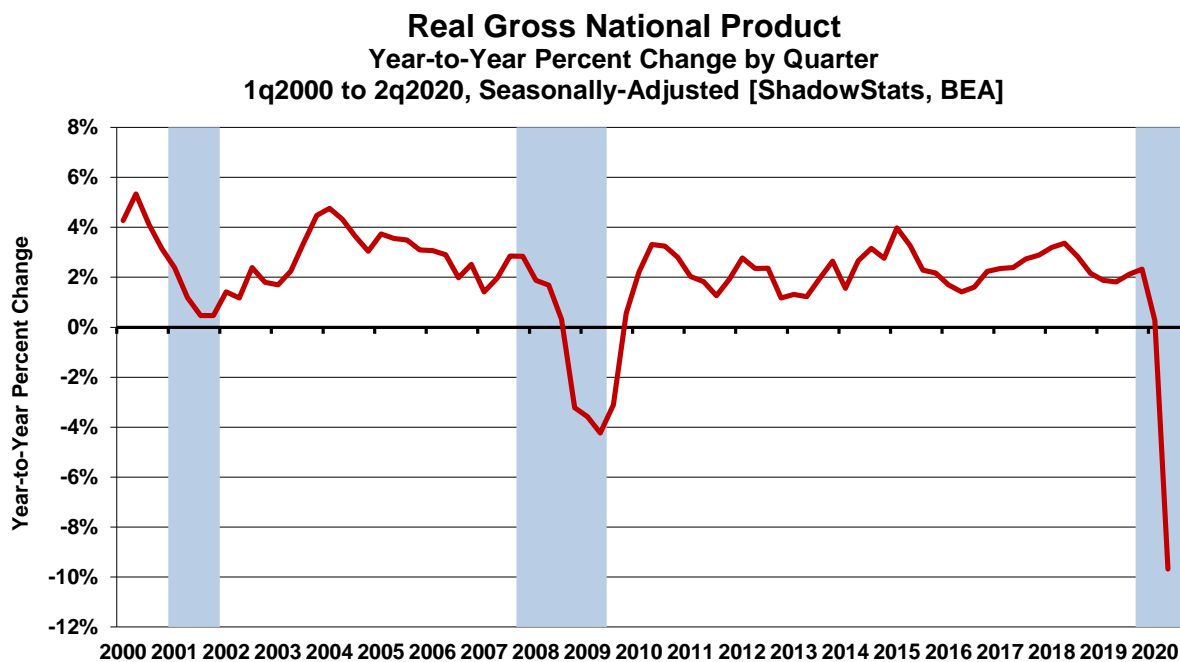
Graph 8: Quarterly Real GDI, Year-to-Year Change, 1q2000 to 2q2020 (Initial Estimate)



Graph 9: Quarterly Real Gross National Product (GNP) 1q2000 to 2q2020 (Initial Estimate)



Graph 10: Quarterly Real GNP, Year-to-Year Change, 1q2000 to 2q2020 (Initial Estimate)



Section 2 – Forecasts for Full-Year 2020 GDP and Beyond

Upfront Severe Economic Damage from the Pandemic Shutdown and Intensifying Reopening Complications Promise a Very Difficult, Problematic Rebound

“Bounce Back” from Second-Quarter Collapse Tapering into an “L”-Shaped Recovery

Following a 2nd-Quarter Annual Plunge of 9.1% (-9.1%), 3rd- and 4th-Quarters Face Bottom-Bouncing Annual Declines of About 8% (-8%)

2020 GDP Real Decline of 6.2 (-6.2%) Would Be Worst Since the 1946 Shutdown of the World War II Economy

Real Level of Full-Year 2020 GDP Likely Will Be Weakest Since 2016, Yet 2021 Could be Flat or Show a Small Gain Against 2020

Headline “Recovery” of Pre-Pandemic, Fourth-Quarter 2019 GDP Peak Could Take Years

U.S. Economy and People’s Lives Have Been Altered Permanently

Worst Ever U.S. Quarterly Economic Collapse Faces an Extraordinarily Protracted Recovery, With Third- and Fourth-Quarter 2020 Annual Contractions Holding around 8% (-8%).

ShadowStats analysis of the most-recent monthly U.S. economic numbers, discussed and graphed in *Sections 3 to 8*, suggests the U.S. economy continues to falter, with a flattening “L”-shaped recovery. Circumstances were and are exacerbated by the upfront and initial systemic turmoil and the continuing economic and societal disruption and destruction from the nature of the Coronavirus Pandemic driven shutdown. Circumstances are complicated by the likelihood that significant relief from those pressures is not likely before the second half of 2021. The *ShadowStats* forecasts through Fourth-Quarter 2020 are detailed in *Table II* and plotted in *Graphs 11 to 18*. Discussion on various elements of the economy, again begin in *Section 3*.

Third and Fourth-Quarter 2020 GDP Increasingly Face Lingering Non-Recovery. Contrary to early, hopeful financial market expectations of a rapid reopening of the U.S. economy, with a “V”-shaped recovery, the economy remains well shy of a full reopening, with mounting difficulties tied to the handling of the Pandemic constraints. The “L”-shaped recovery seen unfolding the earlier *Graph 2* of annual growth in New Claims for Unemployment has parallels a number of graphs of a number of major series ahead, including the July 2020 Payroll, Unemployment and Industrial Production numbers.

This outlook foreshadows ever-greater monetary policy accommodation by the Federal Reserve and ever-greater fiscal stimulus from the Congress and the U.S. Treasury, irrespective of the results of the November 3rd national elections. This should play out in the economy with an increasingly rapid surge in

inflation, discussed in *Sections 9* and *10*, and an intensifying flight of U.S. dollars into the purchasing-power protection of holding physical gold and silver. The projected real annual decline in full-year 2020 GDP of 6.2% (-6.2%) would be the worst annual decline since the 1946 GDP drop of 11.6% (-11.6%), following World War II. It also would be just shy of the 6.4% decline seen in 1931, the second year of the Great Depression.

Following the headline 31.7% (-31.7%) annualized decline in Second-Quarter 2020 GDP, and lingering disruptions from the collapse, I have projected annualized real quarterly gains in Third- and Fourth-Quarter 2020 GDP respectively of 7.5% and 5.0%, usually robust growth levels coming out of severe recessions. With intensifying Pandemic and Re-Opening Issues, circumstances are not lined up at present for a full quarterly economic rebound in the next couple of quarters. Yet such traditionally strong quarterly recovery leaves the pace of year-to-change in Third- and Fourth-Quarter 2020 respectively with annual contractions of 8.1% (-8.1%) and 7.9% (-7.9%), following the second-quarter annual decline of 9.1% (-9.1%), which indeed would be “L”-shaped in terms of “recovery.”

ShadowStats Forecasts for Second-Half and Full-Year 2020 GDP

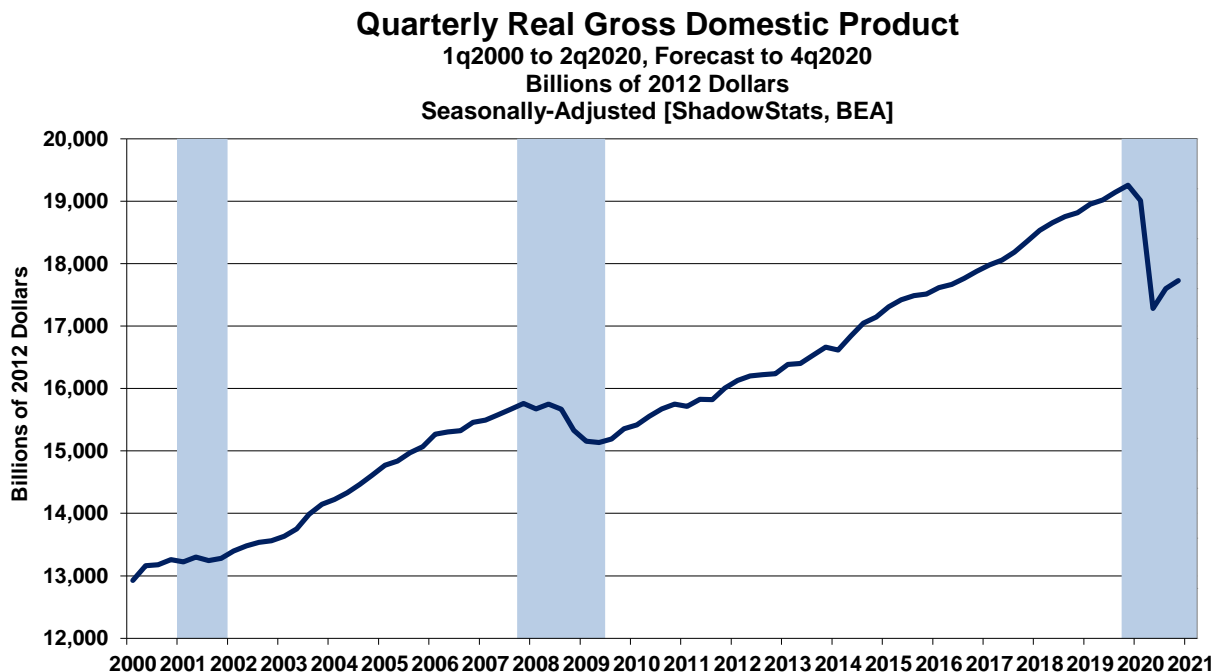
[Details are plotted in accompanying *Graphs 11* to *18*]

Table II: ShadowStats GDP Forecasts Through Year-End 2020

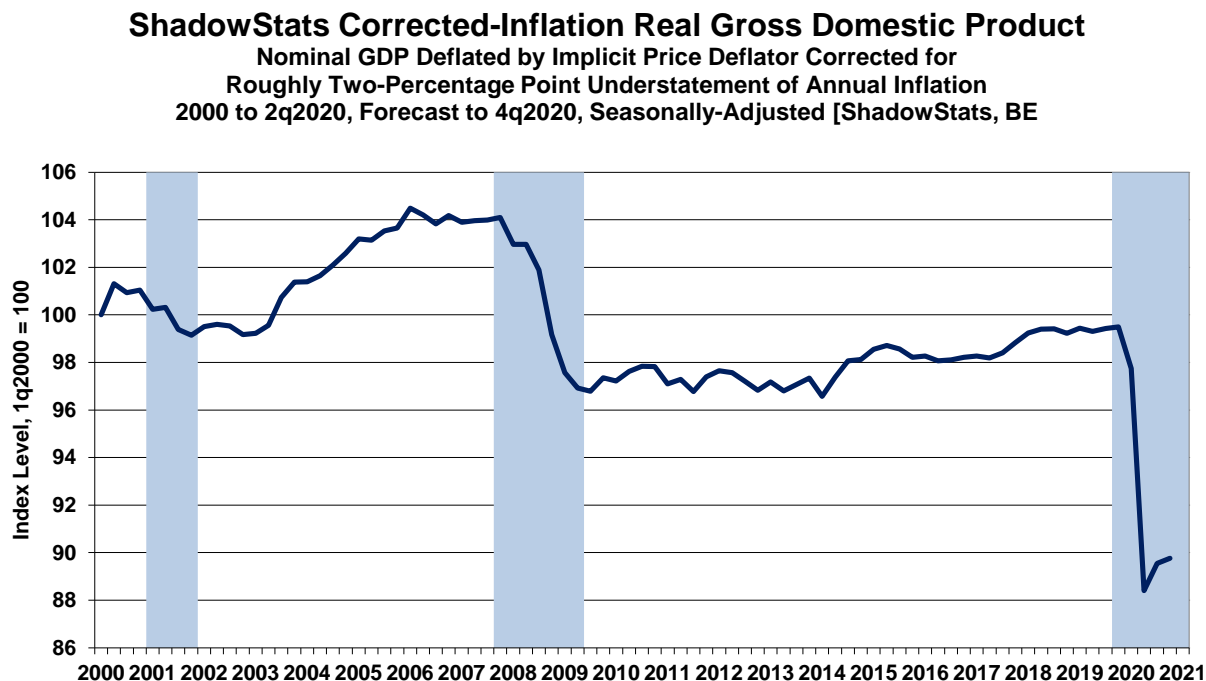
| Real Growth in Gross Domestic Product Year-to-Year vs. Quarter-to-Quarter Headline Activity 2019q1 to 2020q2 ShadowStats Forecast* 2020q3, 2020q4 | | |
|--|-------------|------------------------------|
| Period | Yr/Y GDP | Annualized Qtr/Qtr GDP |
| 2019q1 | 2.3% | 2.9% |
| 2019q2 | 2.0% | 1.5% |
| 2019q3 | 2.1% | 2.6% |
| 2019q4 | 2.3% | 2.4% |
| Full-Year 2019 | 2.2% | -- |
| 2020q1 | 0.3% | -5.0% |
| 2020q2 | -9.1% | -31.7% |
| 2020q3* | -8.1% | 7.5% |
| 2020q4* | -7.9% | 3.0% |
| Full-Year 2020* | -6.2% | -- |
| *ShadowStats Forecast | | |

**Please Note: The Last Plotted Headline GDP Reading Is Second-Quarter 2020 Real GDP,
The Post-Pandemic Trough Point in Each of the Quarterly Graphs**

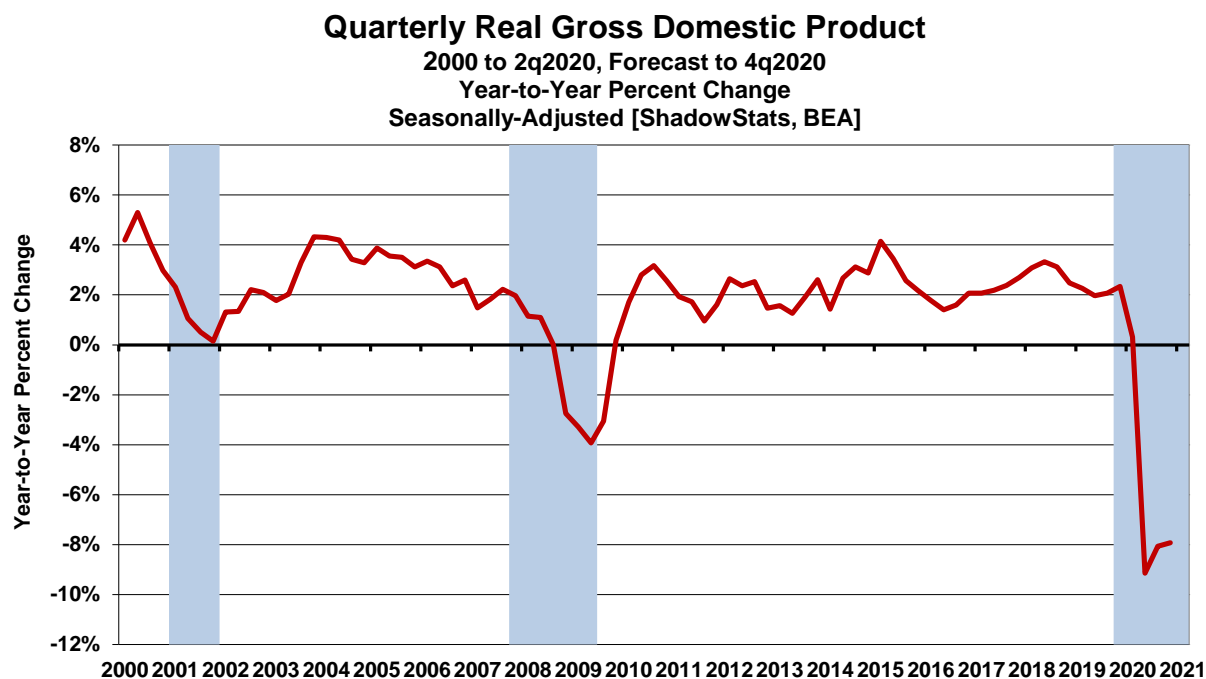
Graph 11: Quarterly Real GDP 1q2000 to 2q2020 and ShadowStats Forecasts to 4q2020



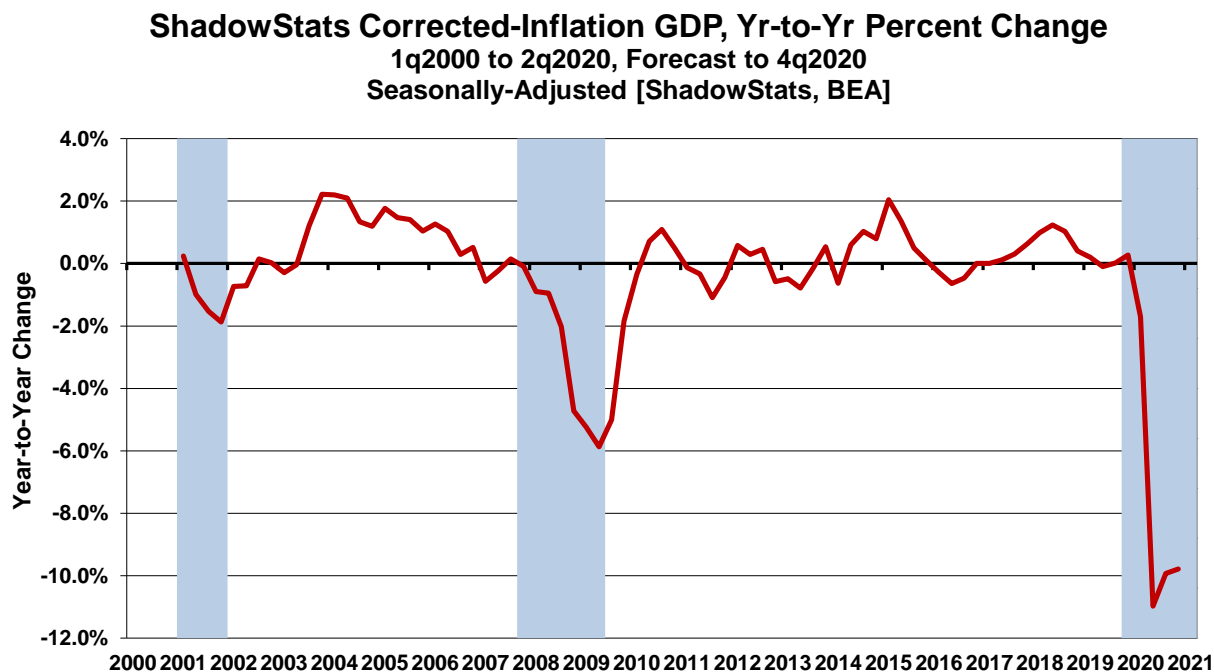
Graph 12: Quarterly ShadowStats-Alternate Real GDP 1q2000 to 2q2020 and ShadowStats Forecasts to 4q2020



Graph 13: Quarterly Real GDP, Year-to-Year Change, 1q2000 to 2q2020 and ShadowStats Forecasts to 4q2020

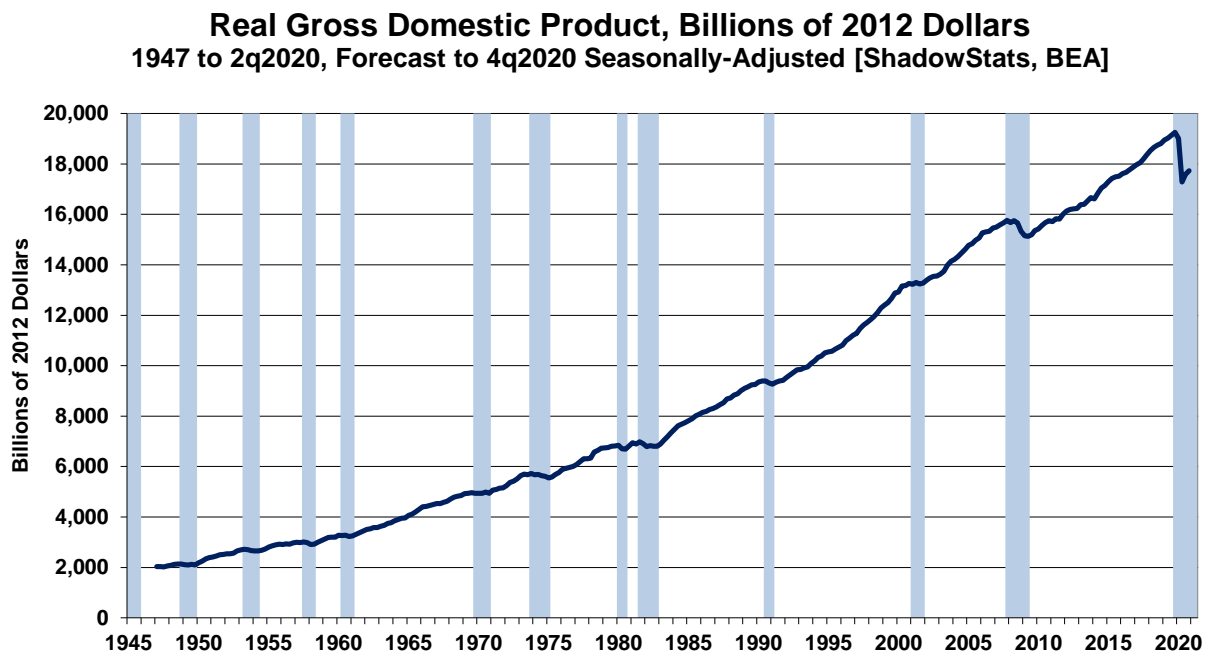


Graph 14: ShadowStats Alternate Real GDP, Yr-to-Yr Change, 1q2000 to 2q2020 and Forecasts to 4q2020

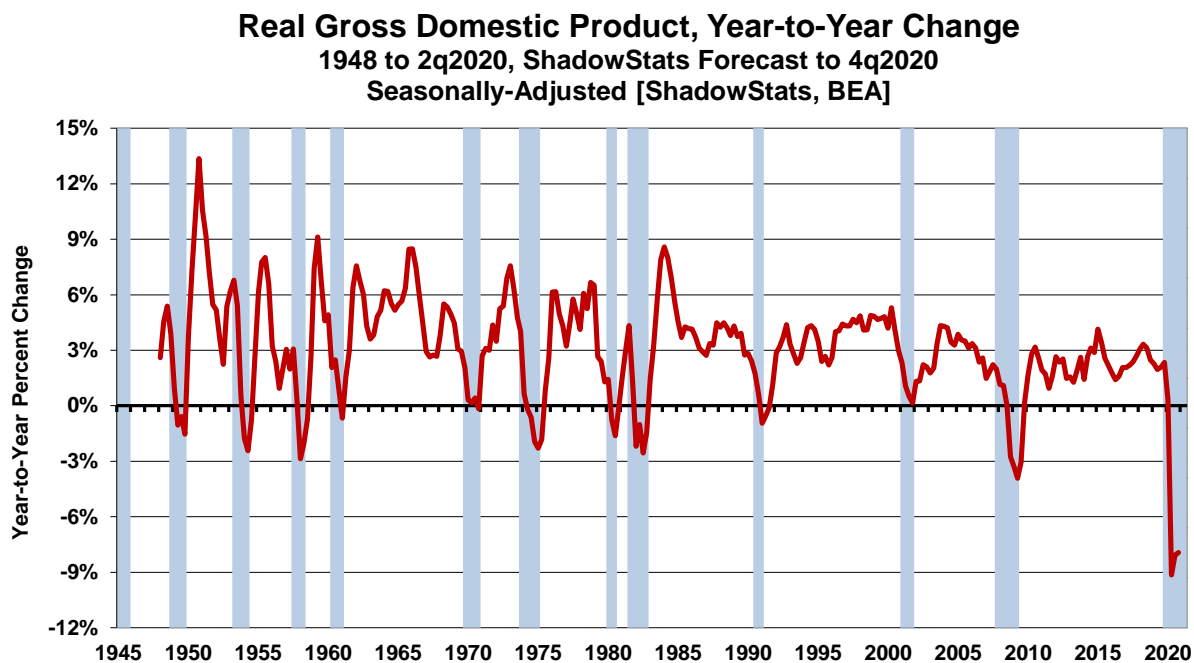


Quarterly Real GDP (First-Quarter 1947 to Projected Fourth-Quarter 2020)

Graph 15: Full Historical Series, Quarterly Real GDP, 1q1947 to 2q2020 and ShadowStats Forecasts to 4q2020

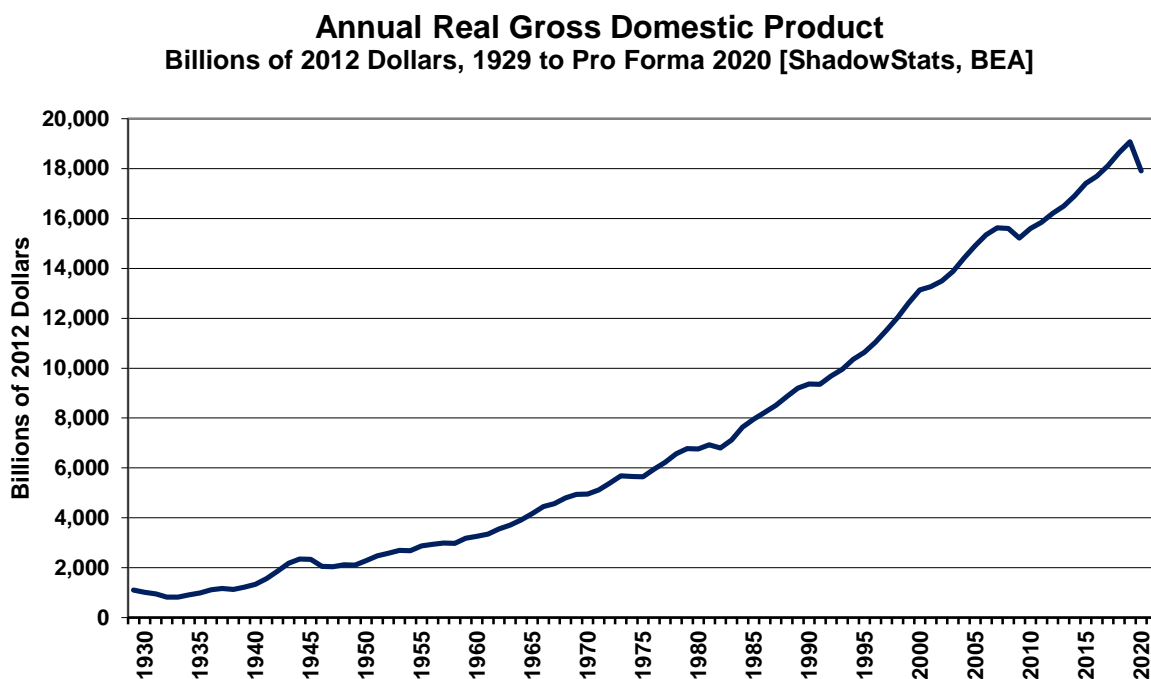


Graph 16: Yr-to-Yr Percent Change, Real GDP Growth 1q1948 to 2q2020 and ShadowStats Forecasts to 4q2020

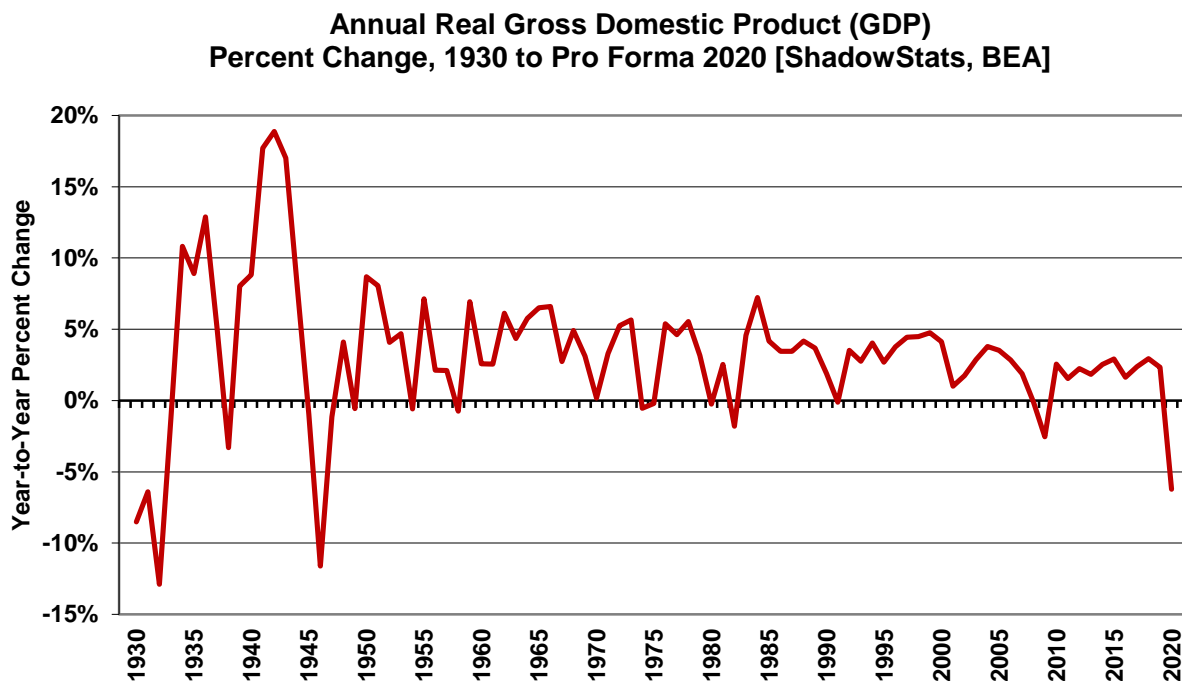


Annual Gross Domestic Product, 1929 to 2019 and ShadowStats Forecast for 2020

Graph 17: Full Series, Real GDP, 1929 to 2020 (ShadowStats 2020 Forecast Turns Down, First-Half 2020 Actual)



Graph 18: Annual Real GDP Percent Change, 1930 to 2020 (ShadowStats 2020 Forecast, First-Half 2020 Actual)



Section 3 – Updated Employment and Unemployment Issues

Structural Impairment of U.S. Labor Force

24% of Annual Jobs Growth to March Evaporated in Preliminary Payroll Benchmarking

Real Average Hourly Earnings Keep Gyrating With Low-Wage-Earner Employment

Subsequent to the August 8th Reporting of July Unemployment and Payrolls (See [*Flash Commentary, Issue No. 1445*](#)) There Have Been Some Meaningful Updates to Labor Conditions. Unfolding issues with the New Claims for Unemployment Insurance series were reviewed in the *Opening Comments* (beginning page 8).

Separately covered here are (1) unusual issues with the Pandemic-collapsed Labor Force, (2) the Initial Annual Payroll Benchmark Revisions, published for March 2020, complicated by the coincident March 2020 Pandemic economic implosion and (3) the regular reporting of Real Weekly Earnings, which has continued in month-to-month distortion, affected by the relatively high layoffs and some rehiring of low-wage earners, particularly in the Leisure and Hospitality Industry.

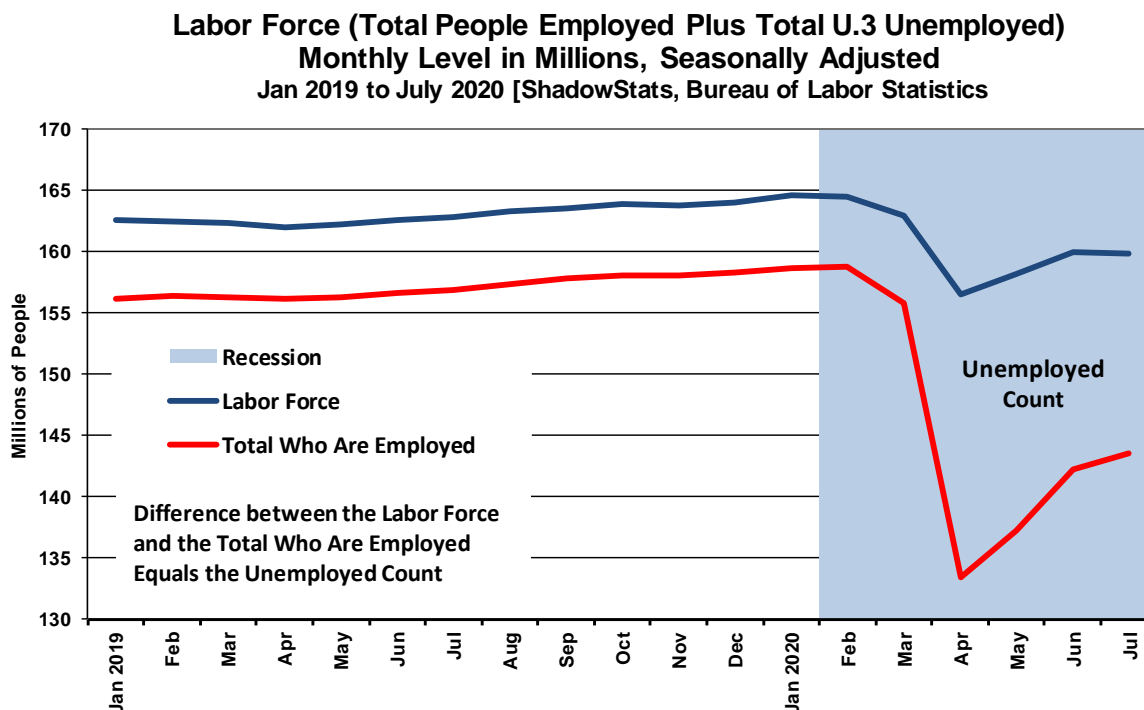
Payroll Employment Is a Fair Indicator of Related Underlying Economic Activity. Discussed later, related headline payroll data for Manufacturing tend to confirm the lack of full economic recovery in that sector (see **Section 4**, beginning on page 27), while related payroll activity in Retail Sales and Construction suggest that some of the headline recovery reported in those sectors is suspect (see **Sections 7 and 8**, respectively beginning on pages 43 and 48).

Where Have All the Unemployed Gone? The headline U.S. “Labor Force” tends to be relatively stable, over time and business cycles, where it is defined as the total count of headline “Employed” and “Unemployed” persons. The headline U3 Unemployment Rate is the “Unemployed” as a percent of the “Labor Force.” If an individual loses his or her job, but wishes to work, and actively is looking for work, that person is counted as “Unemployed,” moving from “Employed” status, with effect that the aggregate level of the “Labor Force” is unchanged. As plotted in **Graph 19**, however, reflecting reporting by the Bureau of Labor Statistics (BLS) through July 2020, the current headline Labor Force has declined sharply in the Pandemic shutdown [the 2019 versus 2020 data have been adjusted to remove year-end reporting inconsistencies tied to BLS year-end population controls]. Where the number of headline Employed reflects those who have at least one job, the balancing number of headline Unemployed is shy by an unusually large 4.8 million people, for the Labor Force to be in balance.

Where the headline count of near-term “discouraged workers”—those who have given up looking for work in the last year because there are “no jobs to be had”—has increased from 342,000 in pre-Pandemic

July 2019, to 665,000 in July 2020, that still leaves 4.5 million Unemployed missing. Either there has been a fundamental, negative underlying shift in the U.S. Labor Market, or the BLS is undercounting headline unemployment meaningfully.

Graph 19: U.S. Labor Force – Total Employed Plus Headline Unemployed



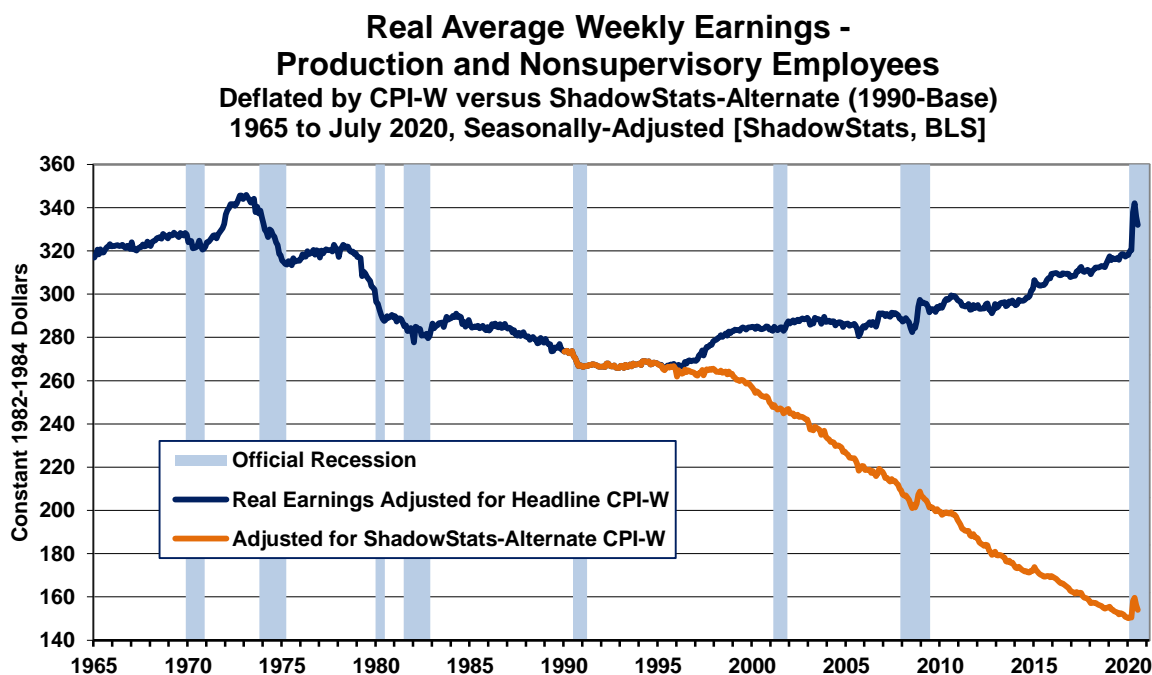
Preliminary Payroll Employment Benchmarking Reduced Previously Reported Annual Jobs Growth Through March 2020 by 24% (-24%). Reported August 19th by the Bureau of Labor Statistics (BLS), the preliminary annual benchmark revision to the unadjusted level of March 2020 payroll employment eliminated 173,000 (-173,000) jobs, reducing the level of annual jobs growth by 24.2% (-24.2%), from 714,000 to 541,000. The benchmarking month of March 2020, however, was the first month to take a heavy hit from the Pandemic-driven economic shutdown.

Impact from the Pandemic-induced economic shutdown in massively collapsing headline March 2020 payrolls was of such a scope that efforts to graph meaningful visual impact of the benchmark revisions were unsuccessful. The BLS is developing special “Imputations” to estimate what was not reported, and further revisions here are likely. The largest downside revisions were to employment in Professional/Business and Education/Health Services and in Retail and Wholesale Trade; upside revisions were seen in Transportation/Warehousing, Government, Financial Activities and in Leisure and Hospitality.

Shifting Real Average Weekly Earnings Remain Dominated by Lay-Offs and Rehiring, More So Than by Shifting Monthly Income. July 2020 Real Average Weekly Earnings for Production and Nonsupervisory Employees declined by 2.2% (-2.2%) in the month, having surged by 5.5% in April,

softened to 1.2% in May and having declined in June by 1.8% (-1.8%). Those changes reflect a shifting average (not wage level), as the largest portion of related layoffs and re-hires in those months we among low-wage earners; particularly in the Leisure and Hospitality Sector (see *Graphs 52* and *54*, beginning on page 46).

Graph 20: Real Average Weekly Earnings, 1965 to July 2020, Alternative Year-to-Year Changes



[*ECONOMY: Section 4 – Industrial Production* coverage begins on the next page.]

Section 4 – Industrial Production

July 2020 Industrial Production Reflected Pandemic Disrupted Data, Collapsing Oil Production and an Unfolding “L”-Shaped Recovery in the Dominant Manufacturing Sector (Consistent with Underlying Payrolls). The Federal Reserve Board reported August 13th, that the headline July 2020 monthly aggregate Industrial Production gain of 3.03% was 2.78%, net of revisions, which very specifically were tied to the Mining sector. Mining showed a headline 0.83% gain in the month, but was down by 2.28% (-2.28%), net of a 3.43% (-3.43%) downside revision to June activity and earlier (likely catching up with Pandemic-disrupted surveying).

Noted by the issuing FRB, “... a downward revision to crude oil extraction in May left the utilization rates for mining in May, June and July lower than any previous rates in the history of the series (since 1967).”

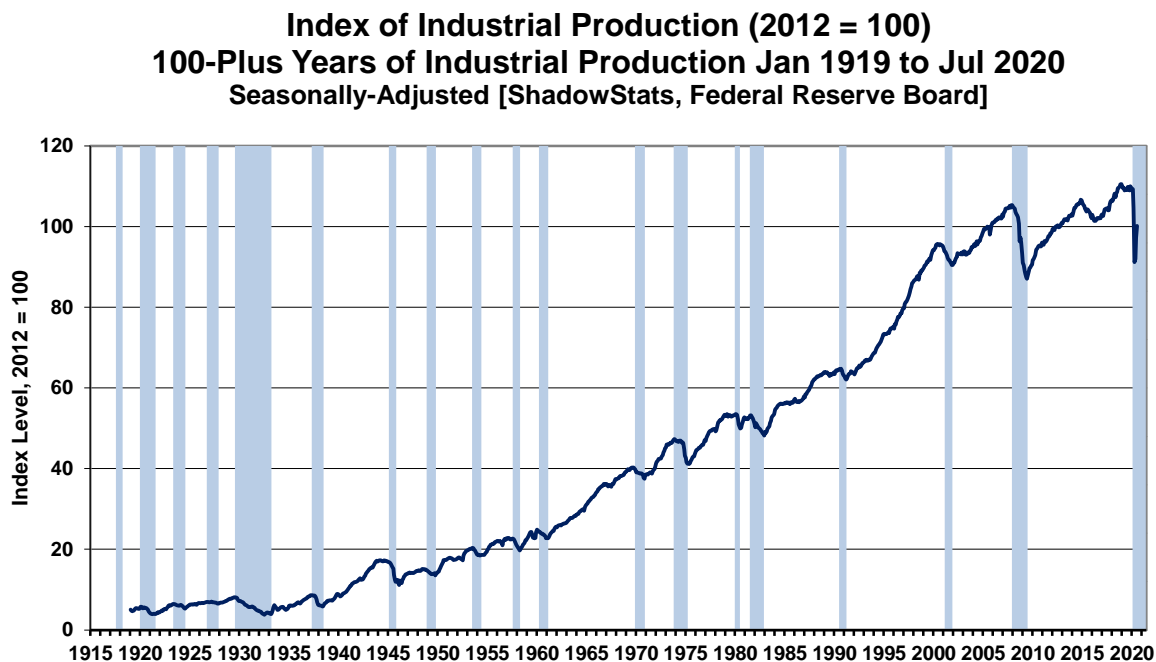
In the context of a minimal 0.08% upside revision to the dominant Manufacturing sector, which gained a headline 3.37% in the month, and a 0.98% upside revision to the randomly volatile Utilities (up by 3.28% for the month), Industrial Production fell year-to-year by 8.18% (-8.18%), with Manufacturing down by 7.72% (-7.72%), Mining down by 16.97% (-16.97%) and with the random Utilities number gaining 0.56%. Those numbers broadly were in line with ongoing annual contractions in related underlying employment numbers.

Following **Graphs 21 to 24** plot the historic, aggregate Industrial Production Series as to level and annual change for the full 100-plus year history, as well as for near-term detail since 2000. **Graphs 25 to 30** plot parallel graphs for the dominant Manufacturing Sector, and for related Manufacturing employment. Manufacturing never has recovered its pre-Great Recession level of activity, with current numbers reflecting an unfolding “L”-shaped recovery, as also unfolding for the aggregate Industrial Production series.

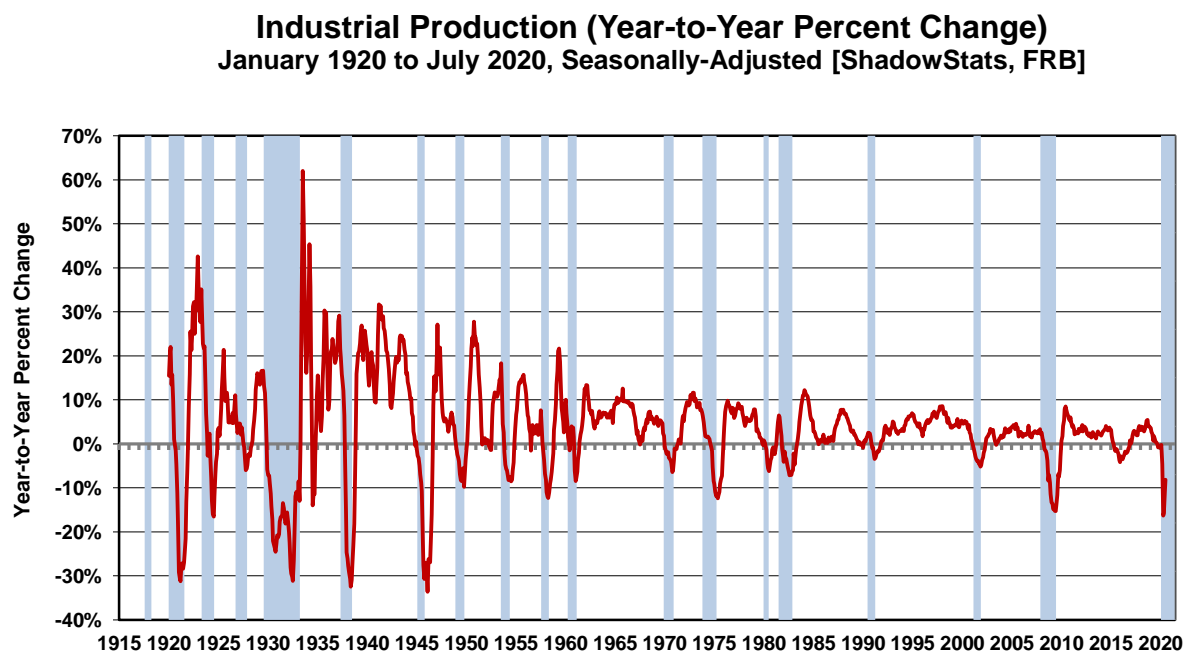
Graphs 31 to 36 reflect a collapsing Mining Sector, dominated by collapsing Oil and Gas drilling and extraction. **Graphs 37 and 38** show the random volatility of the Utilities Sector, which gets buffeted regularly by randomly variable, unseasonable weather conditions.

[*Graphs 21 to 38*, tied to Industrial Production, begin on the next page.]

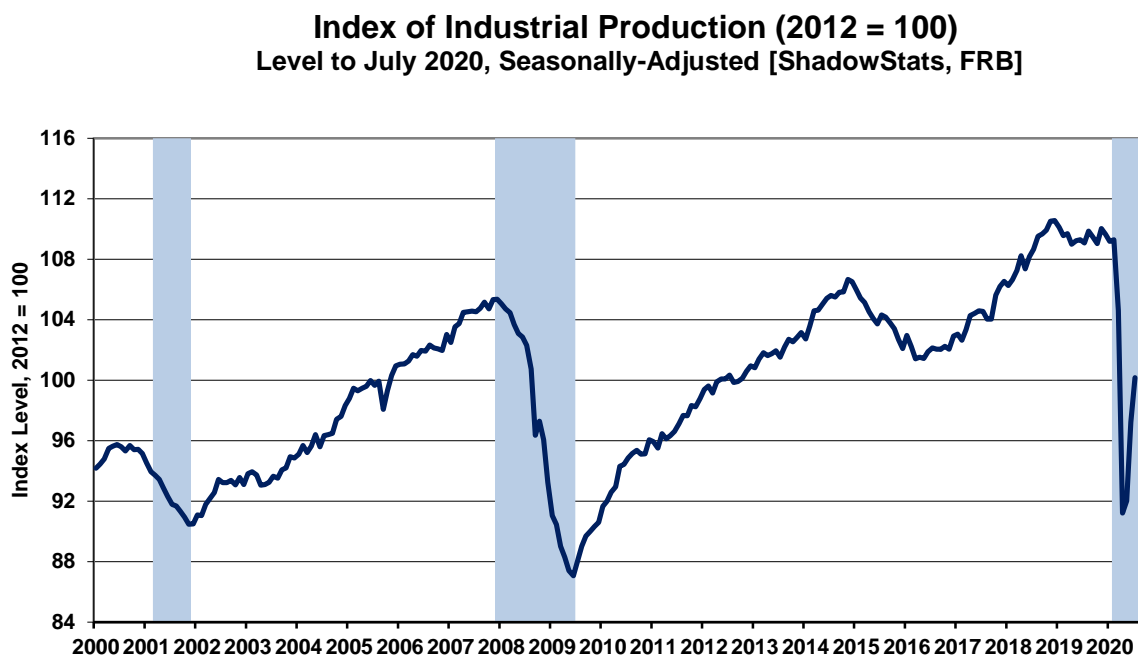
Graph 21: Industrial Production, Full History 1919 to July 2020



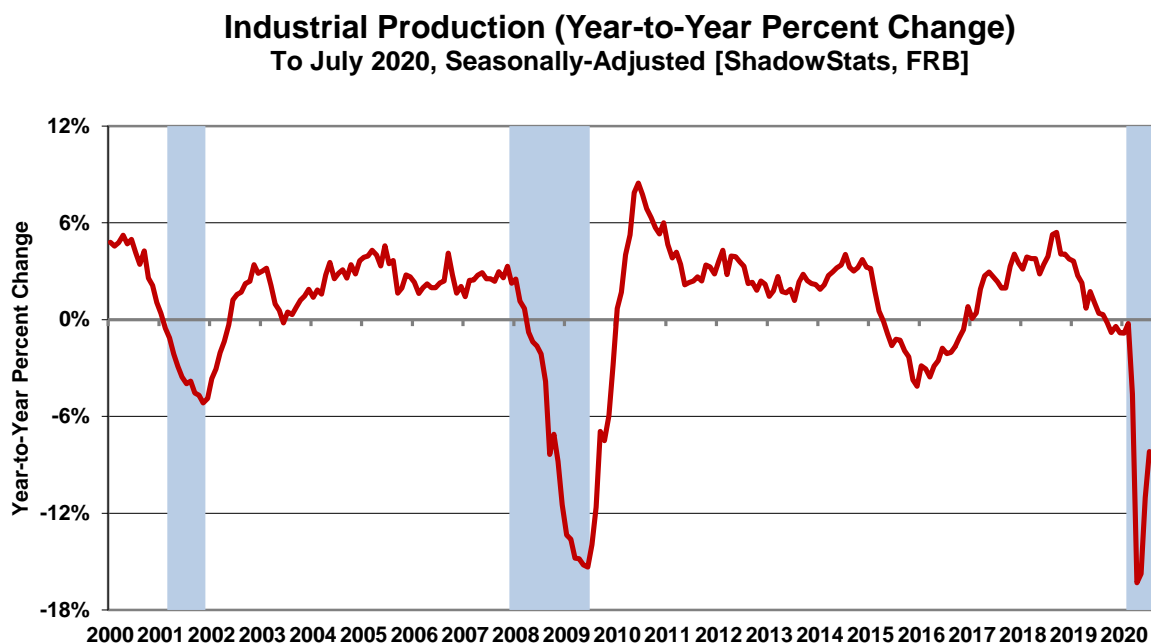
Graph 22: Industrial Production, Full History 1920 to July 2020, Year-to-Year Change



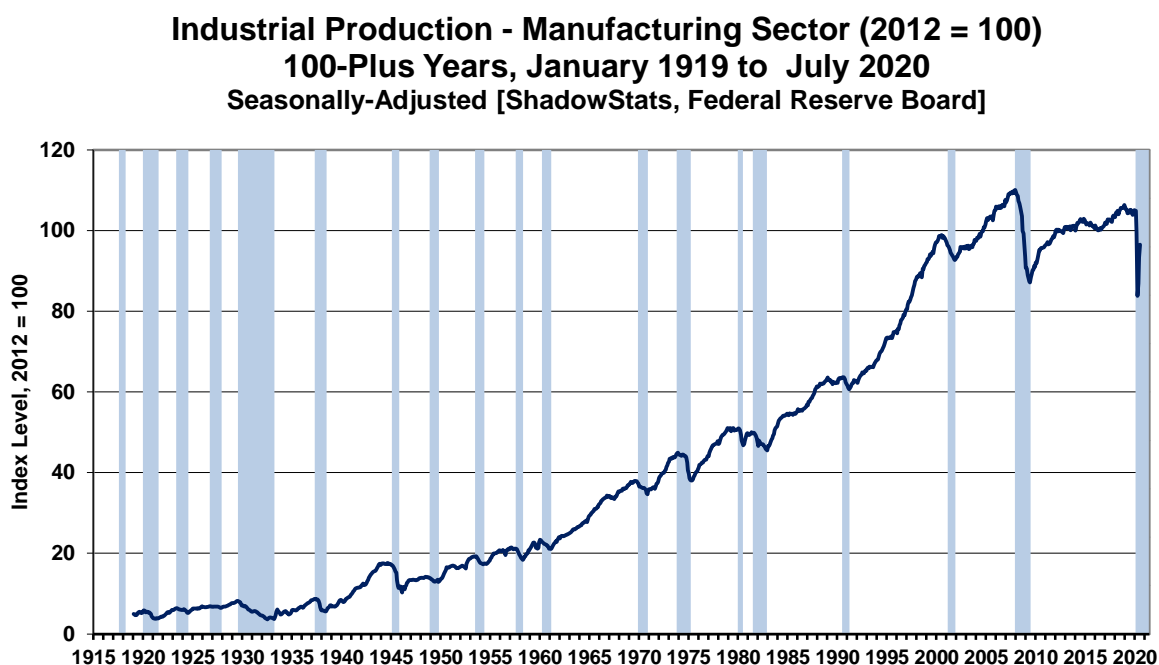
Graph 23: Industrial Production, 2000 to July 2020



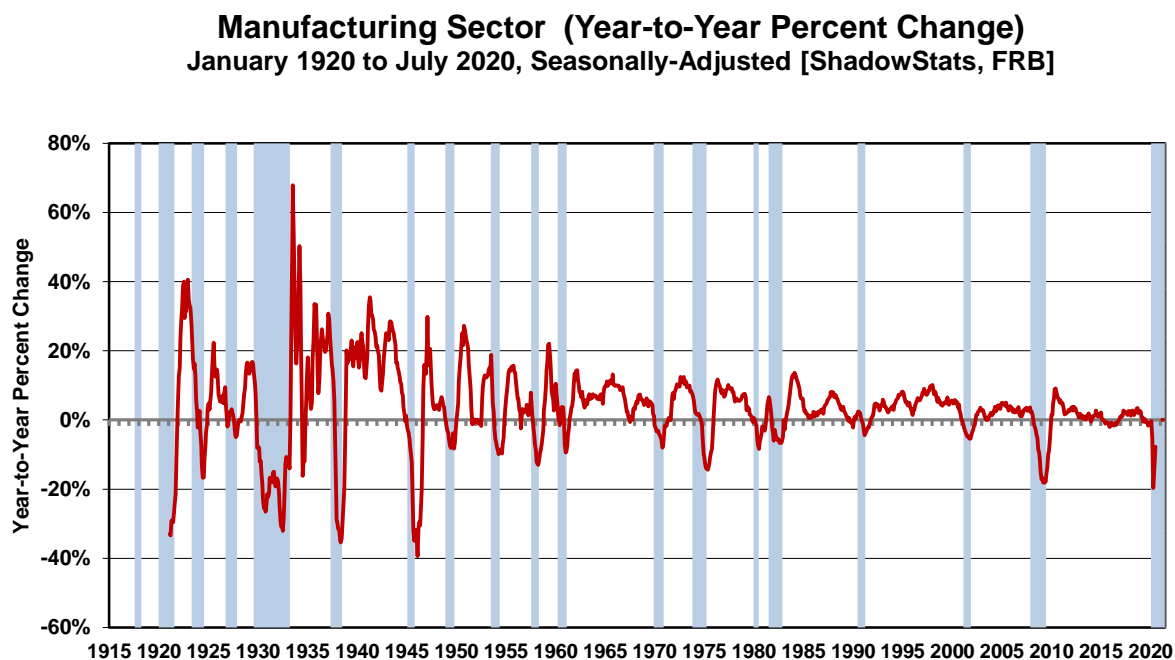
Graph 24: Industrial Production, 2000 to July 2020, Year-to-Year Change



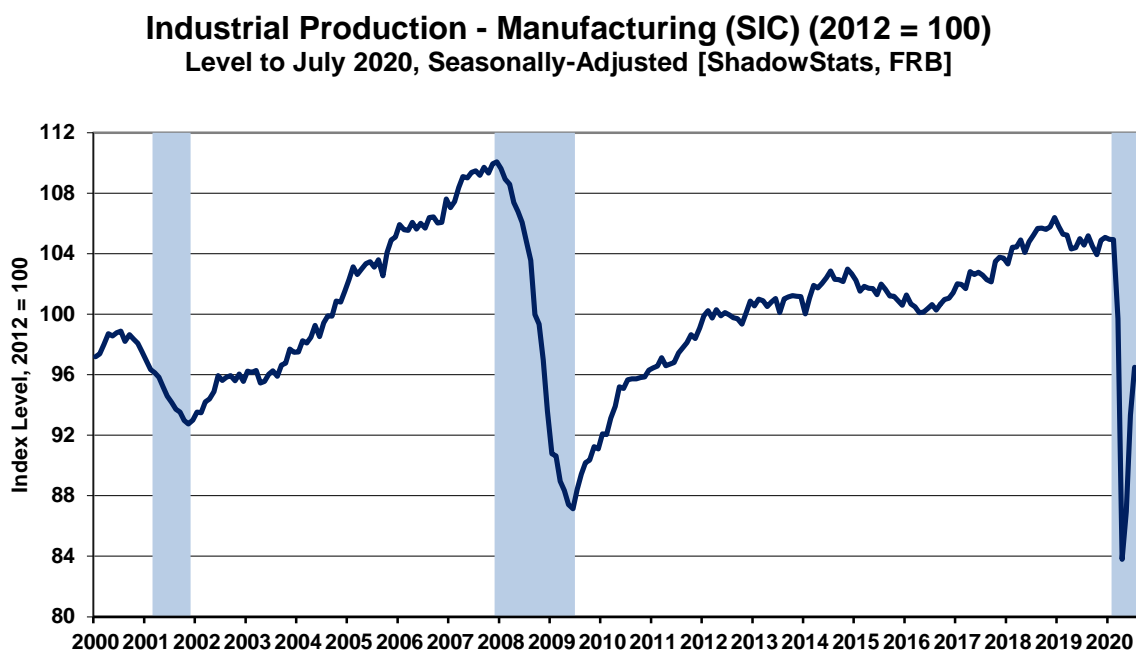
Graph 25: Manufacturing, Full History 1919 to July 2020



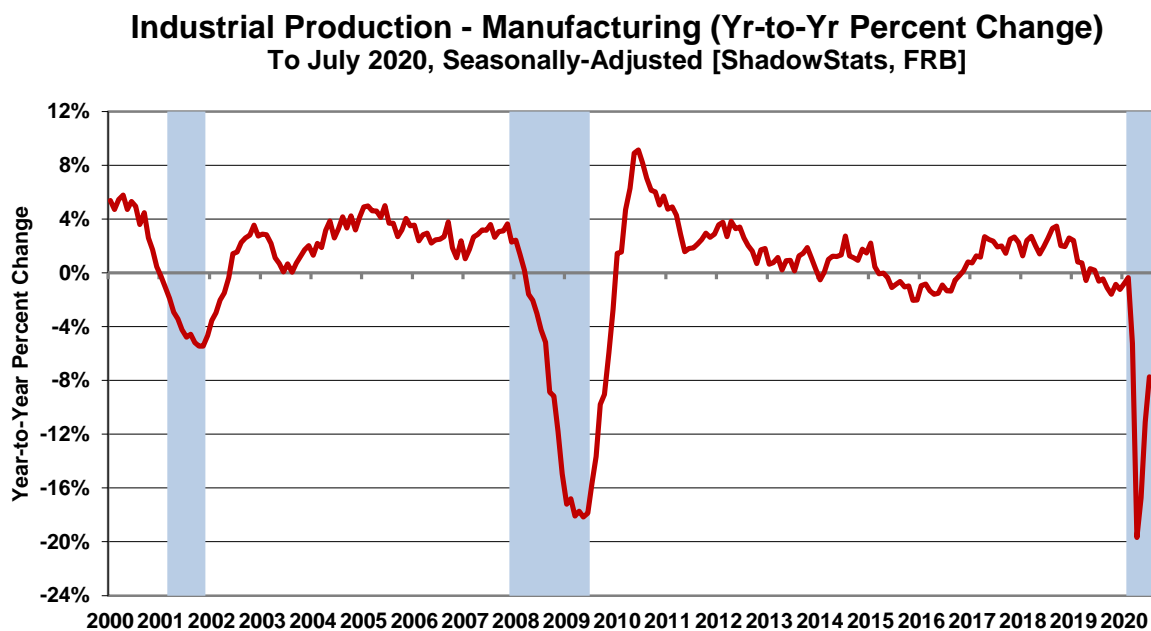
Graph 26: Manufacturing, Full History 1920 to July 2020, Year-to-Year Change



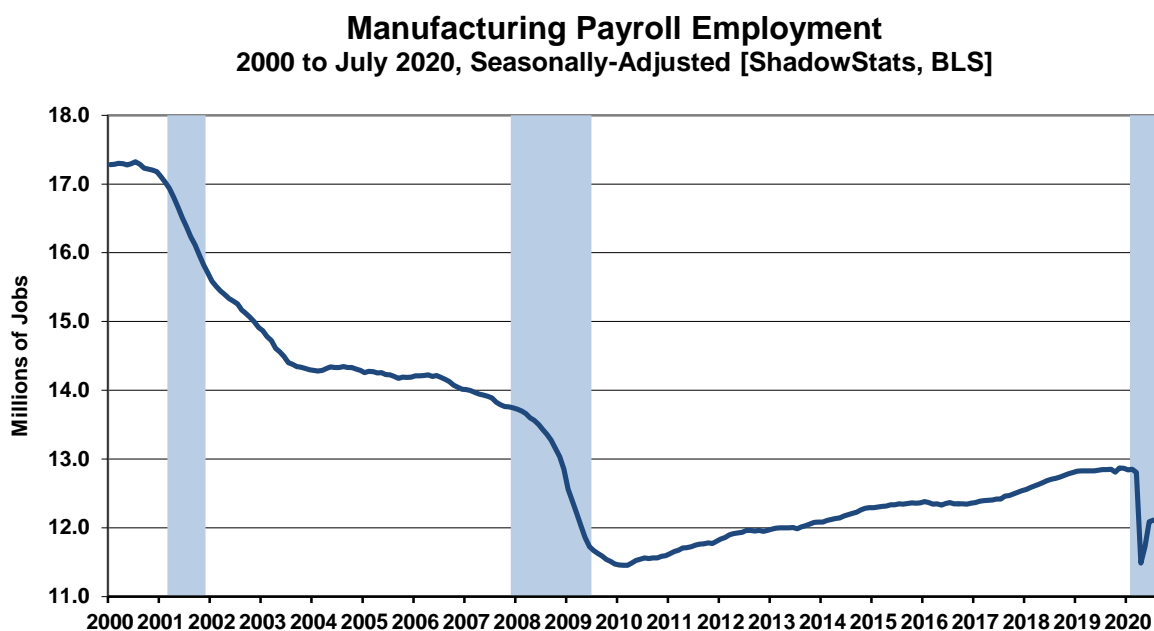
Graph 27: Manufacturing, 2000 to July 2020



Graph 28: Manufacturing, 2000 to July 2020, Year-to-Year Change



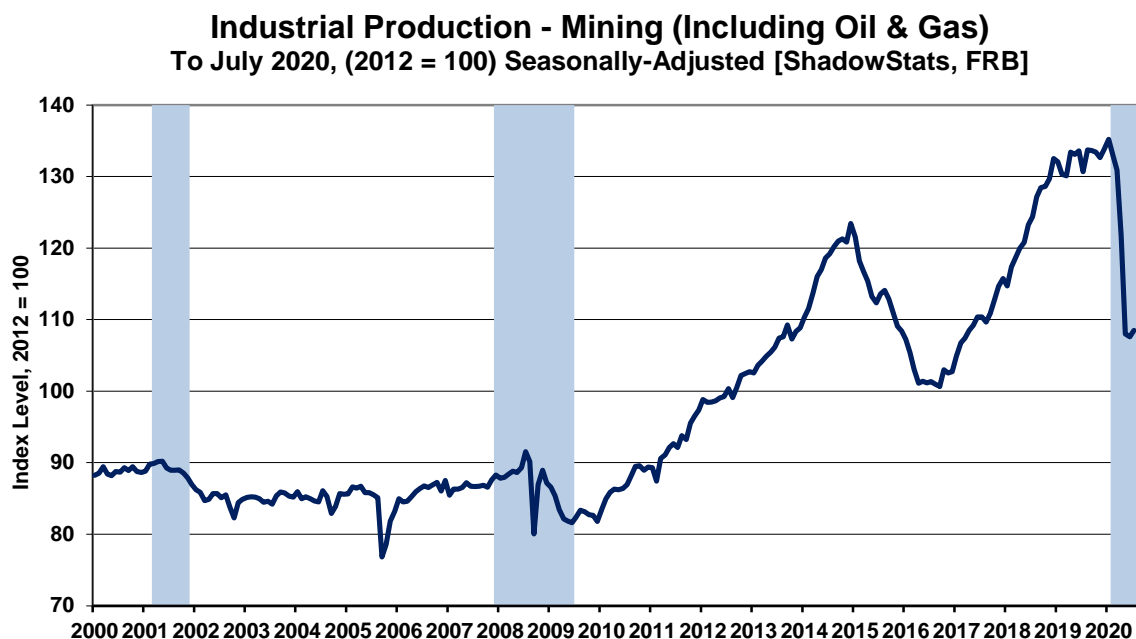
Graph 29: Manufacturing, Payroll Employment 2000 to July 2020



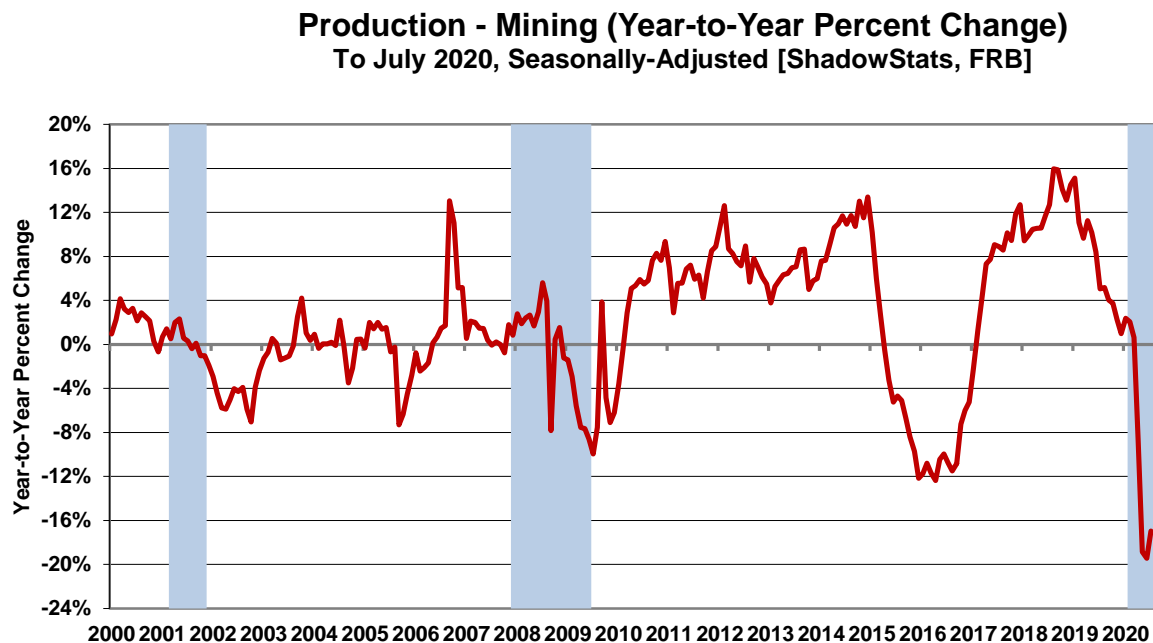
Graph 30: Manufacturing, Payroll Employment 2000 to July 2020, Year-to-Year Change



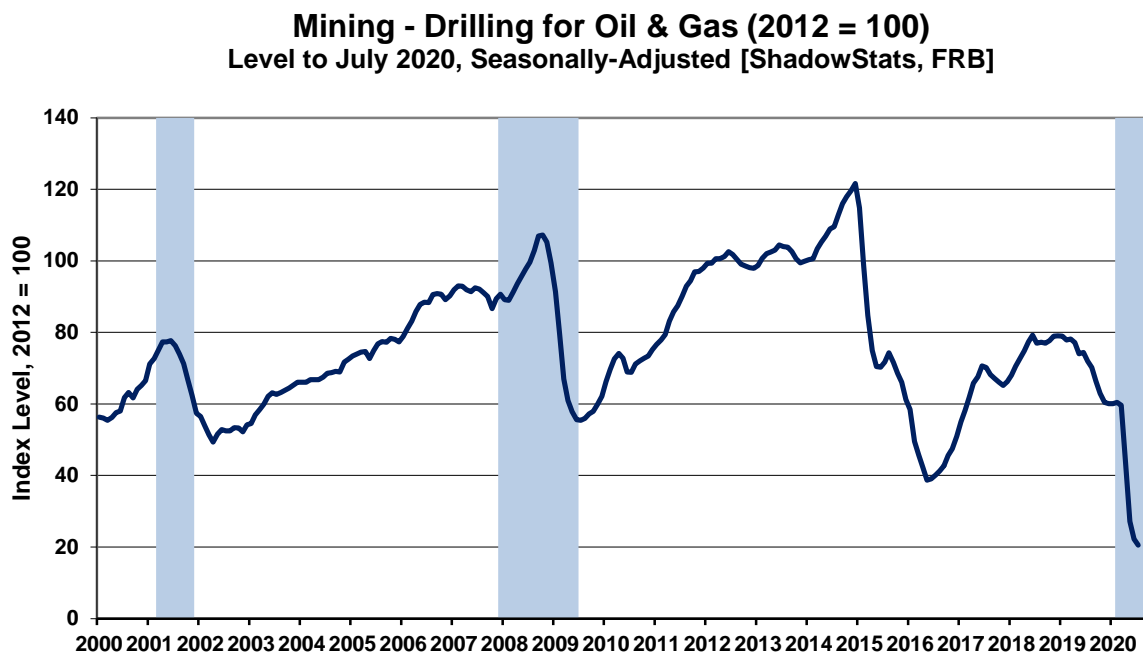
Graph 31: Mining, 2000 to July 2020



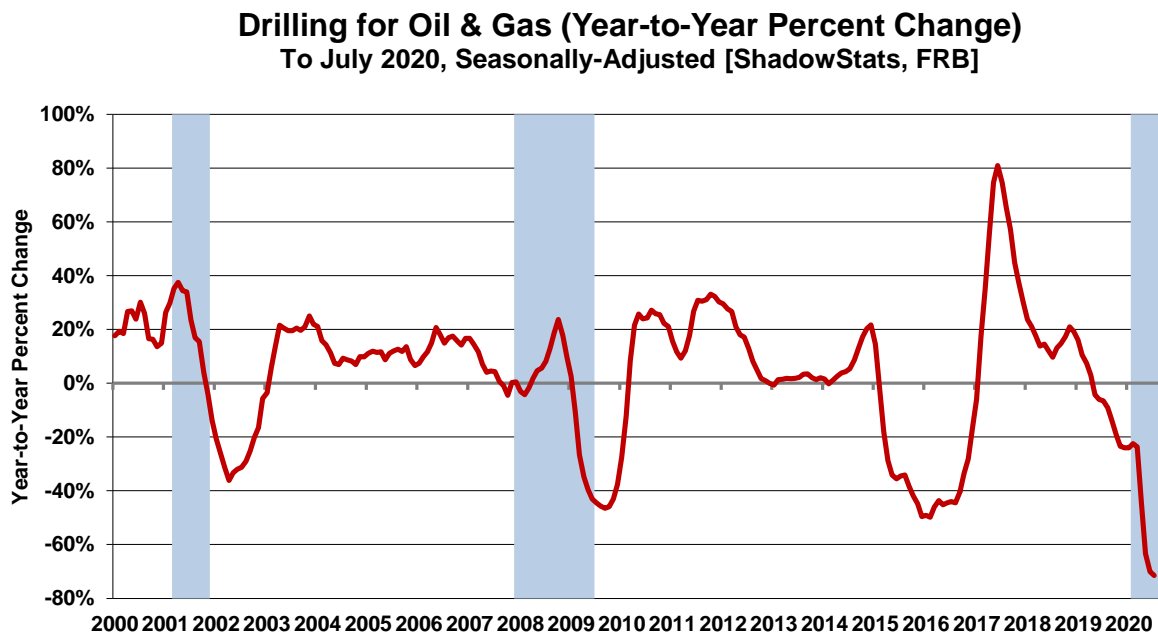
Graph 32: Mining, 2000 to July 2020, Year-to-Year Change



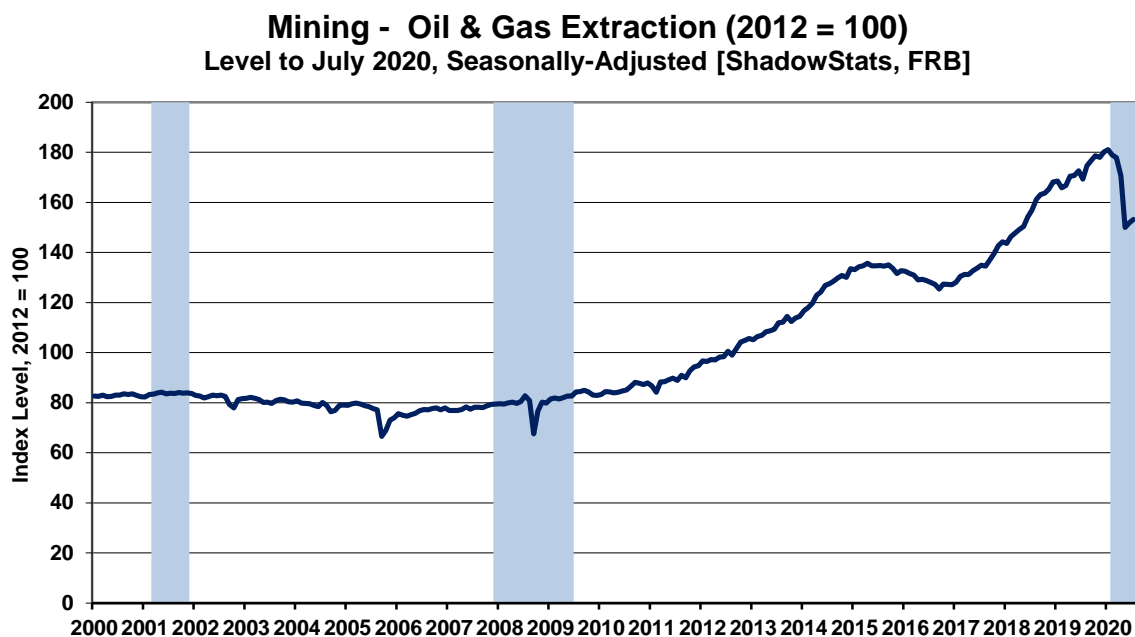
Graph 33: Drilling for Oil & Gas, 2000 to July 2020



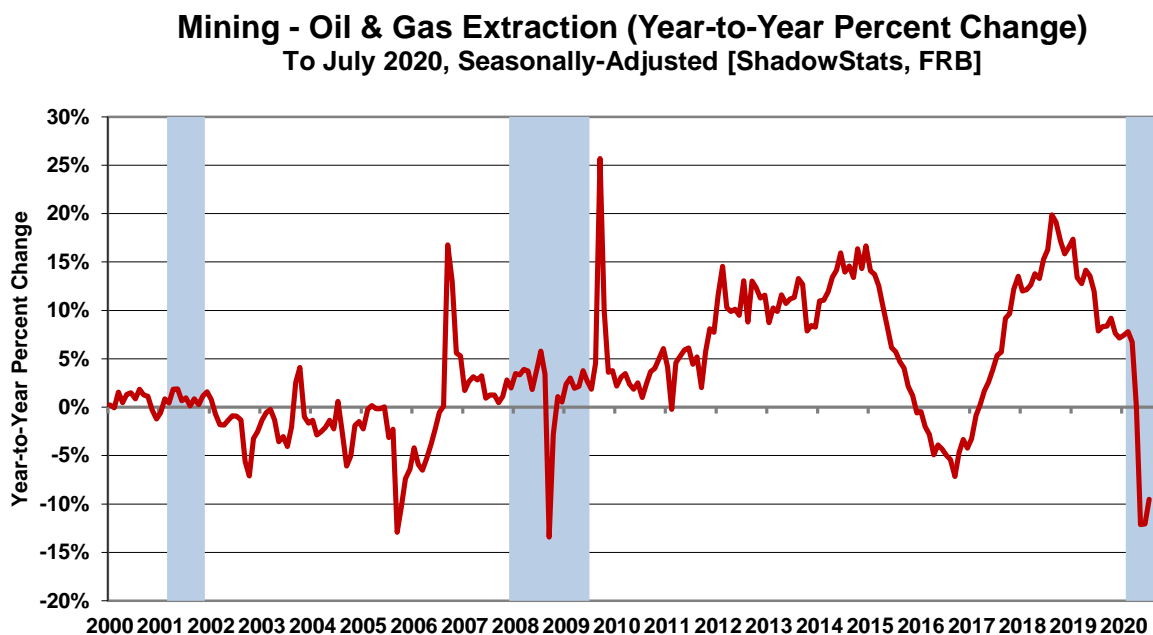
Graph 34: Drilling for Oil & Gas, 2000 to July 2020, Year-to-Year Change



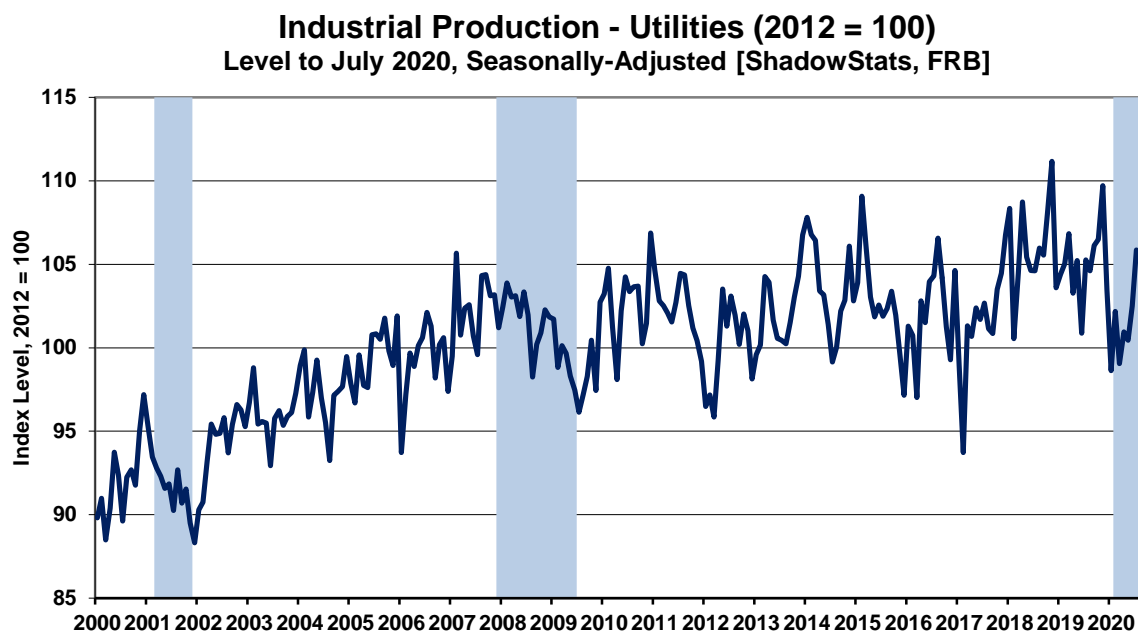
Graph 35: Oil & Gas Extraction, 2000 to July 2020



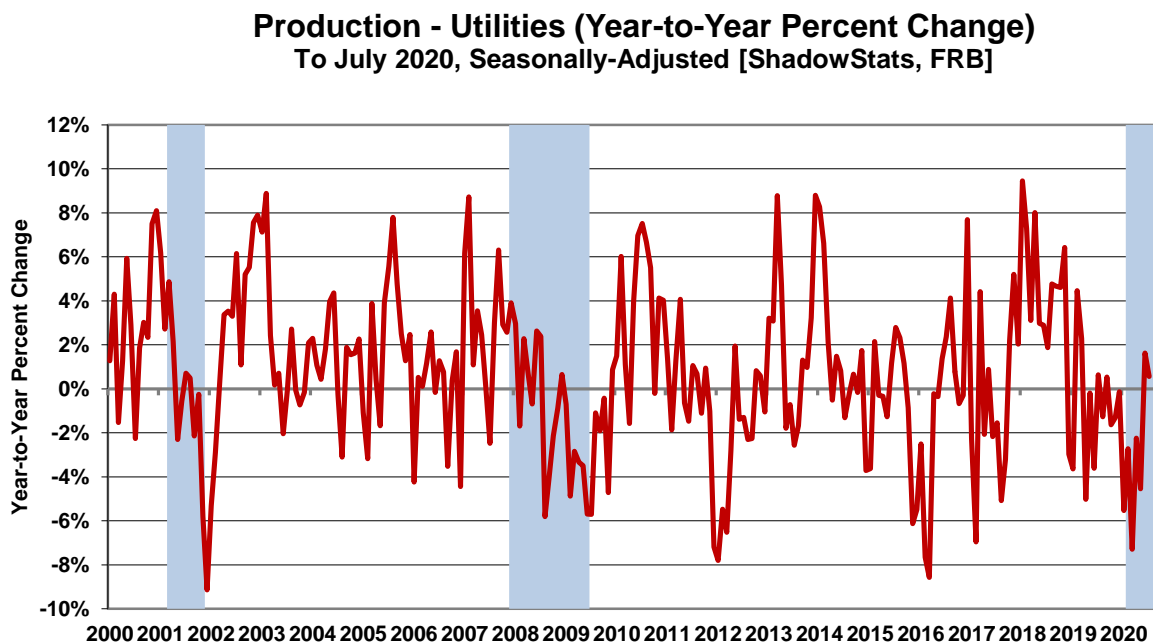
Graph 36: Oil & Gas Extraction, 2000 to July 2020, Year-to-Year Change



Graph 37: Utilities, 2000 to July 2020



Graph 38: Utilities, 2000 to July 2020, Year-to-Year Change



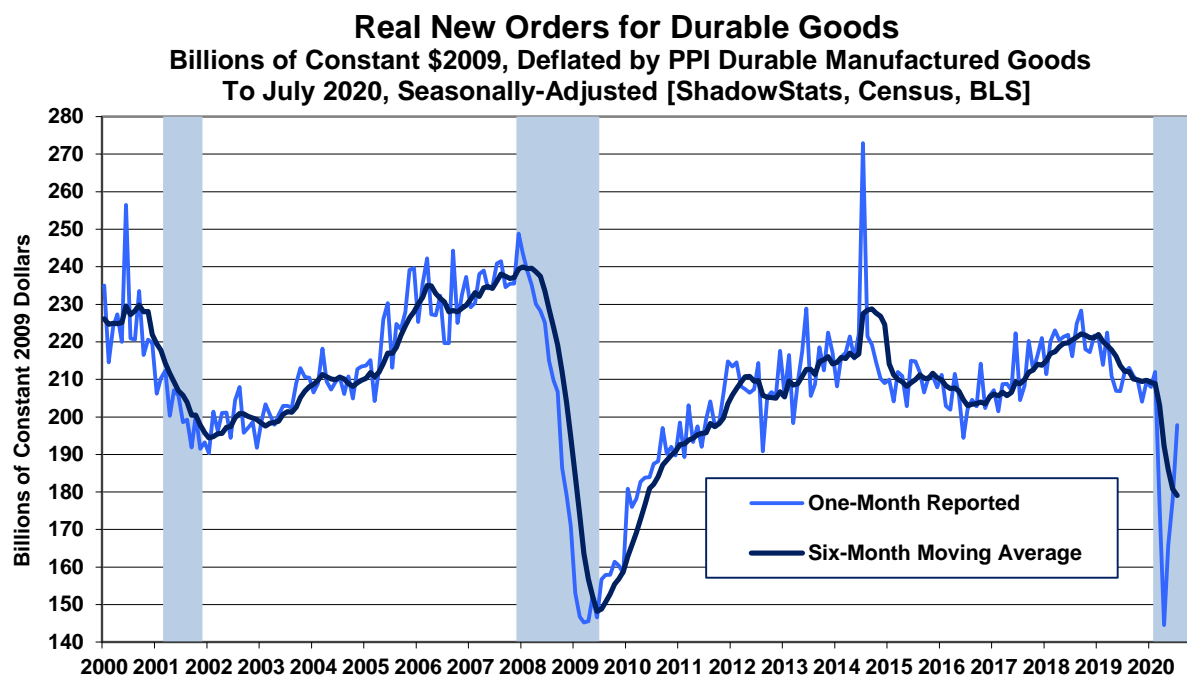
Section 5 – New Orders for Durable Goods

Pandemic-Driven Net New Order Cancellations of \$38.1 Trillion for Commercial Aircraft Since March Continue to Savage New Orders for Durable Goods. Allowing for minor downside revisions to June and May activity, the nominal monthly gain of 11.2% in July New Orders was dominated again by surging (up 23.8%) orders for Motor Vehicles, which have recovered pre-Pandemic levels, as reported August 26th by the Census Bureau.

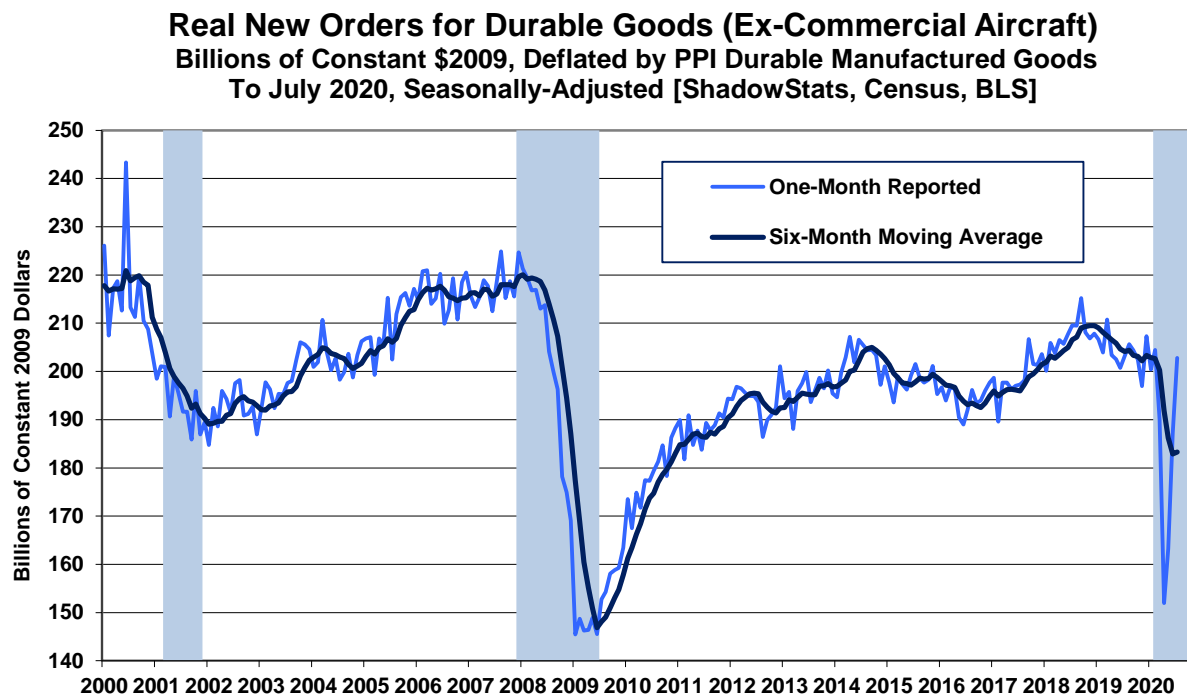
Yet, another—albeit narrowed—monthly \$5.8 billion in cancelled July Commercial Aircraft Orders (June cancellations were \$10.5 billion) took the aggregate Pandemic-driven losses in that industry to \$38.1 (-\$38.1) billion since March 2020. Net of inflation, aggregate Real New Orders gained 11.0% in July, but were down 6.7% (-6.7) year-to-year; Ex-Commercial Aircraft, July Real New Orders gained 8.4% in the month, down 0.2% (-0.2%) year-to-year.

[*Graphs 39 to 42*, tied to New Orders for Durable Goods, begin on the next page.]

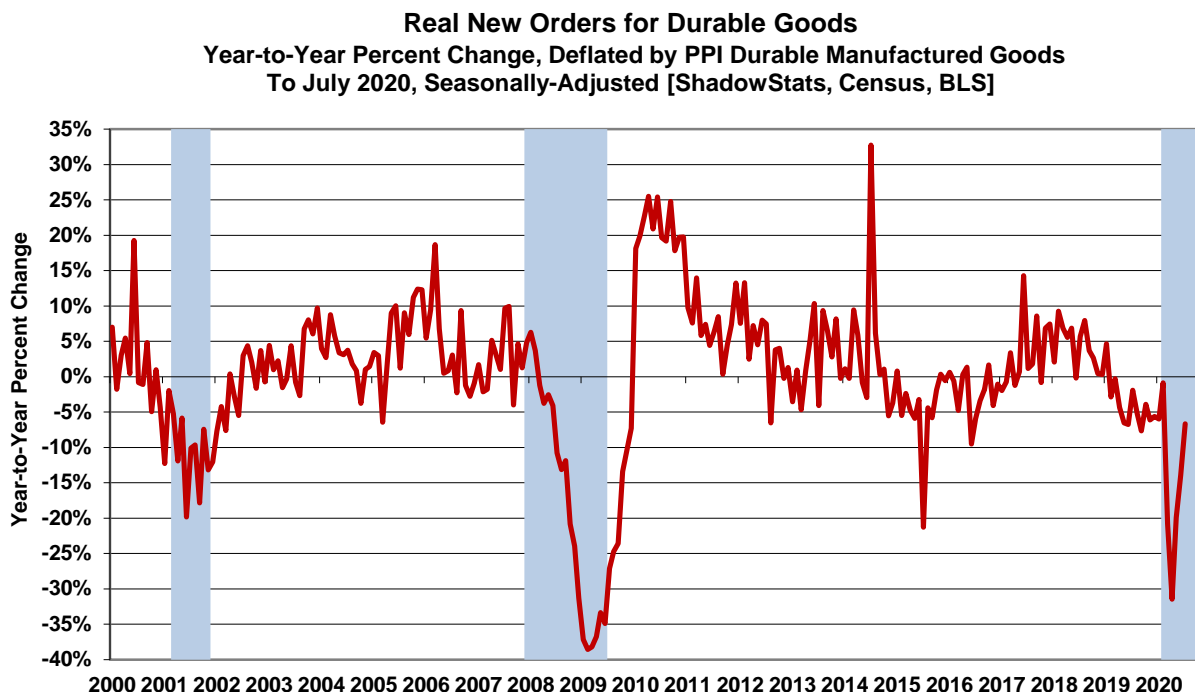
Graph 39: Real New Orders for Durable Goods, 2000 to July 2020



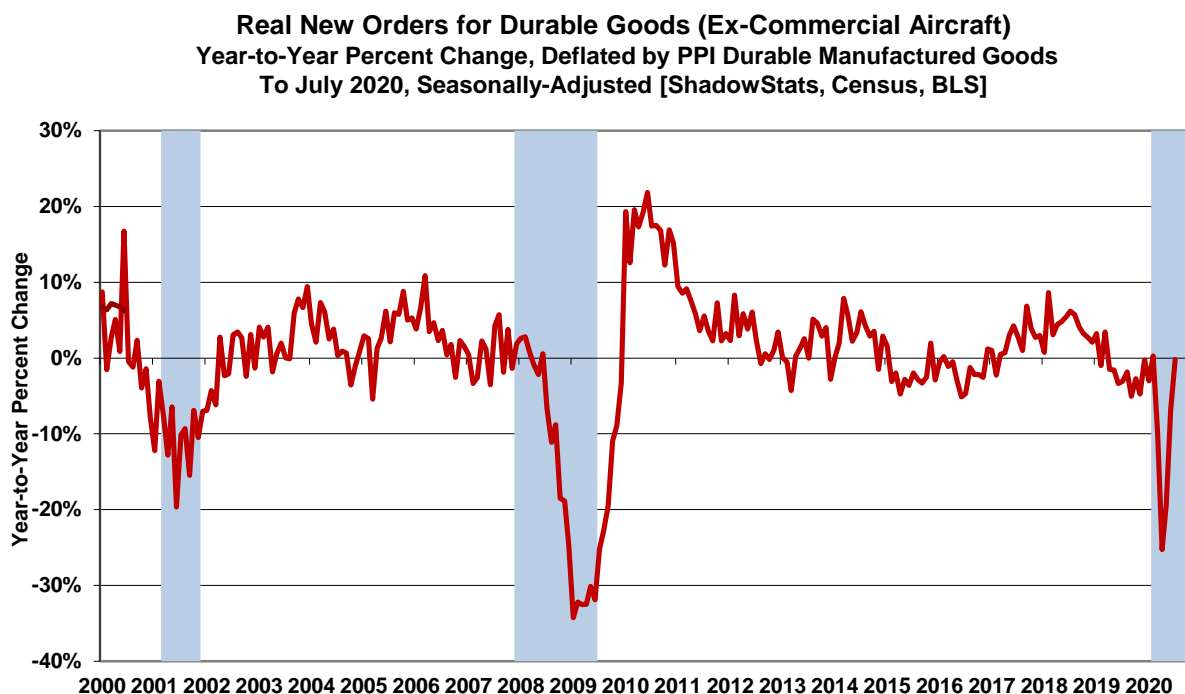
Graph 40: Real New Orders for Durable Goods, Ex-Commercial Aircraft, 2000 to July 2020



Graph 41: Real New Orders for Durable Goods, 2000 to July 2020, Year-to-Year Change



Graph 42: Real New Orders for Durable Goods, Ex-Commercial Aircraft, 2000 to July 2020



Section 6 – Cass Freight Index®

July 2020 Cass Freight Index® Held in Deep Annual Contraction, Consistent With Bottom–Bouncing Manufacturing, but Running Increasingly Counter to “Booming” Retail Sales. As released August 19th, by CassInfo.com (see detail at <https://www.cassinfo.com/freight-audit-payment/cass-transportation-indexes/july-2020>), the year-to-year annual decline of 13.1% (-13.1%) in the July 2020 Cass Freight Index® remained deep in Pandemic-driven recession territory, having moved off its 17.8% (-17.8%) drop in June, and its near-record 23.6% (-23.6%) contraction in May, which held shy of the April 2009 Great Recession trough record plunge of 25.0% (-25.0%).

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 20th 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 and leading indicator of underlying economic reality. We thank Cass for their permission to graph and to use their numbers in our Commentaries.

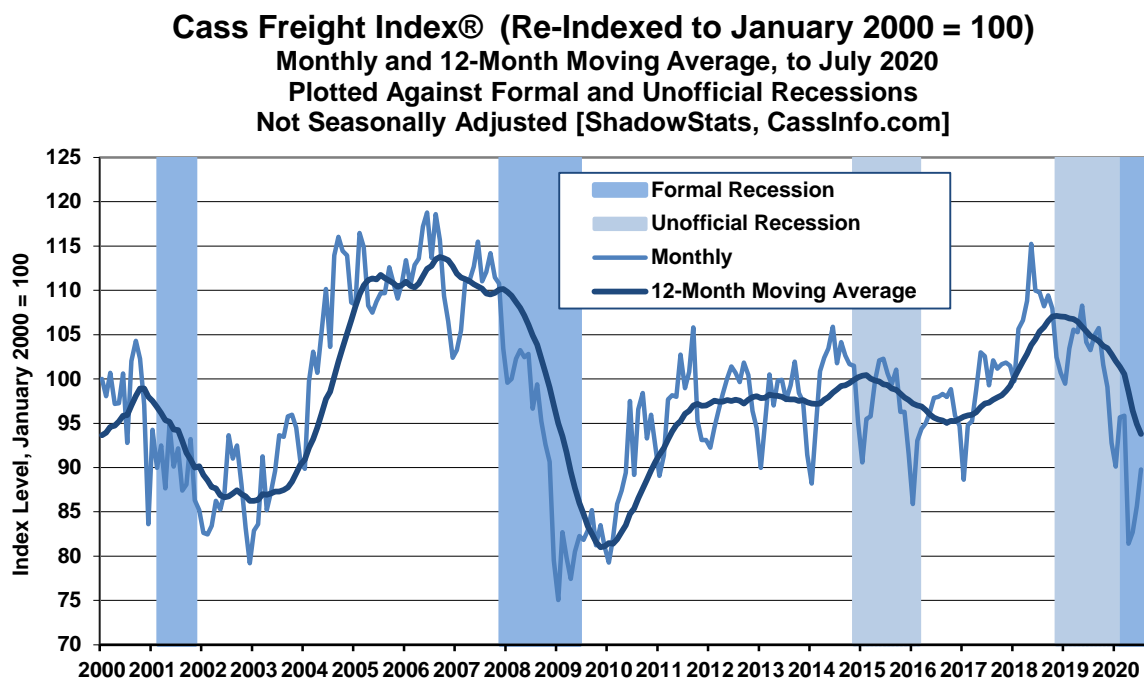
Cass provides an establishment-based comparative economic measure, which provides a reality check for a number of headline government series, ranging from Manufacturing and New Orders for Durable Goods, to Retail Sales.

Graph 43 plots the not-seasonally-adjusted Cass Freight Index ®, where both its 12-month average and year-to-year change signal recessions, some as formally recognized by the recession-defining authority, the National Bureau of Economic Research (NBER), and other “unofficial” recessions, commonly recognized by the public and “common” experience. The unofficial recessions are marked in the lighter-blue bars.

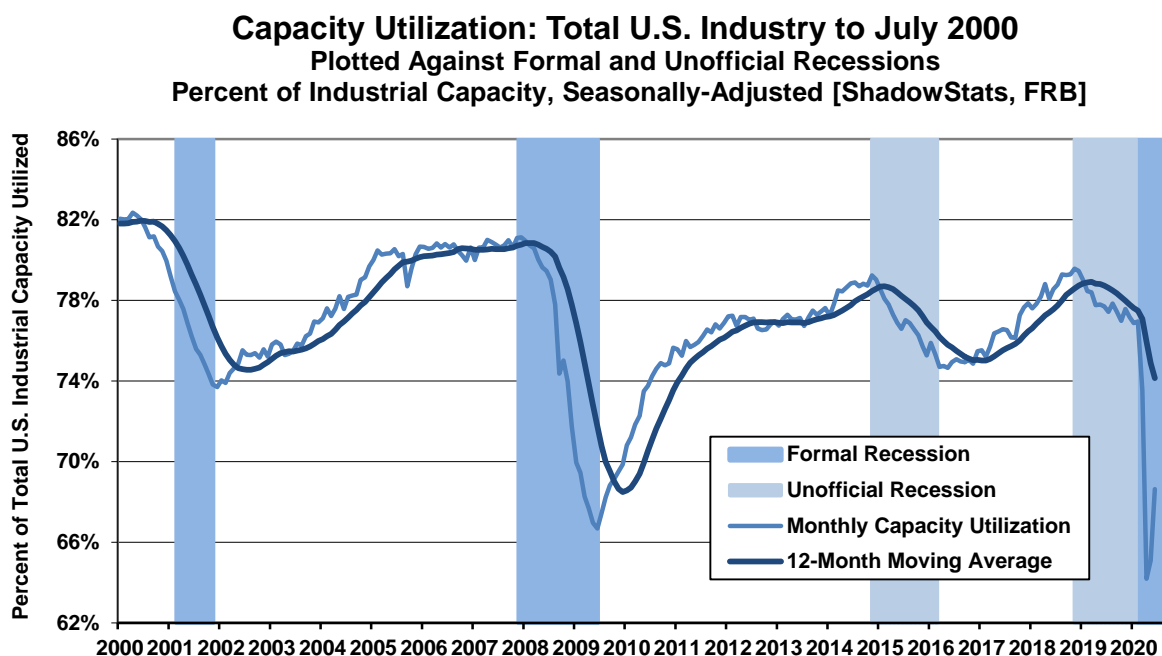
Graphs 44 to 46 show comparative plots with *Capacity Utilization*, *Real New Orders for Durable Goods (Ex-Commercial Aircraft)* and *Oil & Gas Extraction* from the *Mining Sector*, *Industrial Production*.

[Graphs 43 to 46, of Cass Freight Index® and comparative measures begin on the next page.]

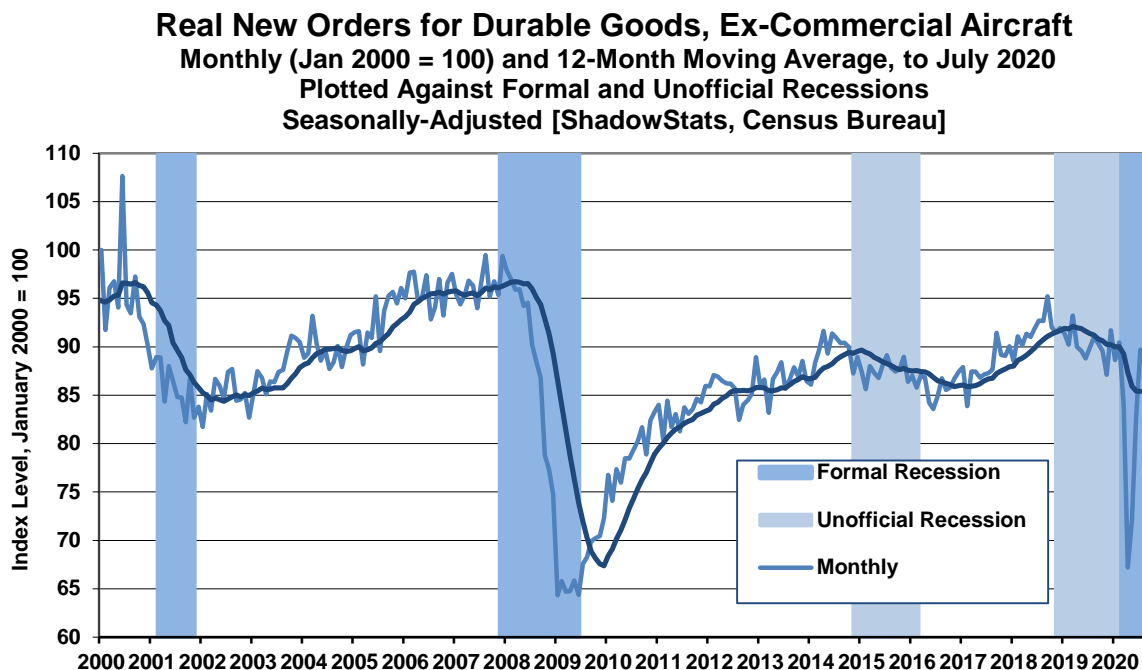
Graph 43: Cass Freight Index®, 2000 to July 2020



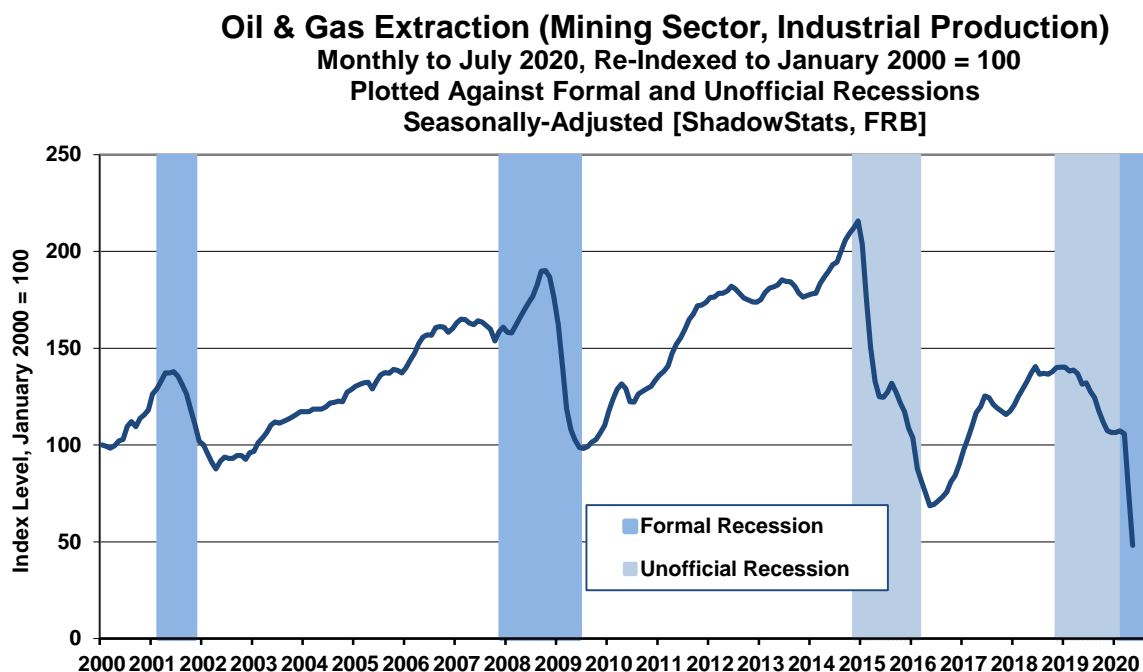
Graph 44: Industrial Production - Capacity Utilization, 2000 to July 2020



Graph 45: Real New Orders for Durable Goods, Ex-Commercial Aircraft, 2000 to July 2020



Graph 46: Oil & Gas Extraction, 2000 to July 2020



Section 7 – Retail Sales

Industry Employment Is Not Suggestive of Rebounding Activity

Consumer Outlook/Optimism Is Not Suggestive of Rebounding Activity

Running Counter to a Continuing Collapse in Related Payrolls, Fully Recovered July 2020 Retail Sales Were Increasingly Not-Credible; Unexpected Headline Monthly “Weakness” Was Due Only to Upside Revisions to the June Numbers. Nonsense monthly reporting continued for headline Retail Sales, out of the Census Bureau on August 13th, where both the nominal and the inflation-adjusted real Series hit record highs in July 2020, fully recovered from the Pandemic-driven economic collapse.

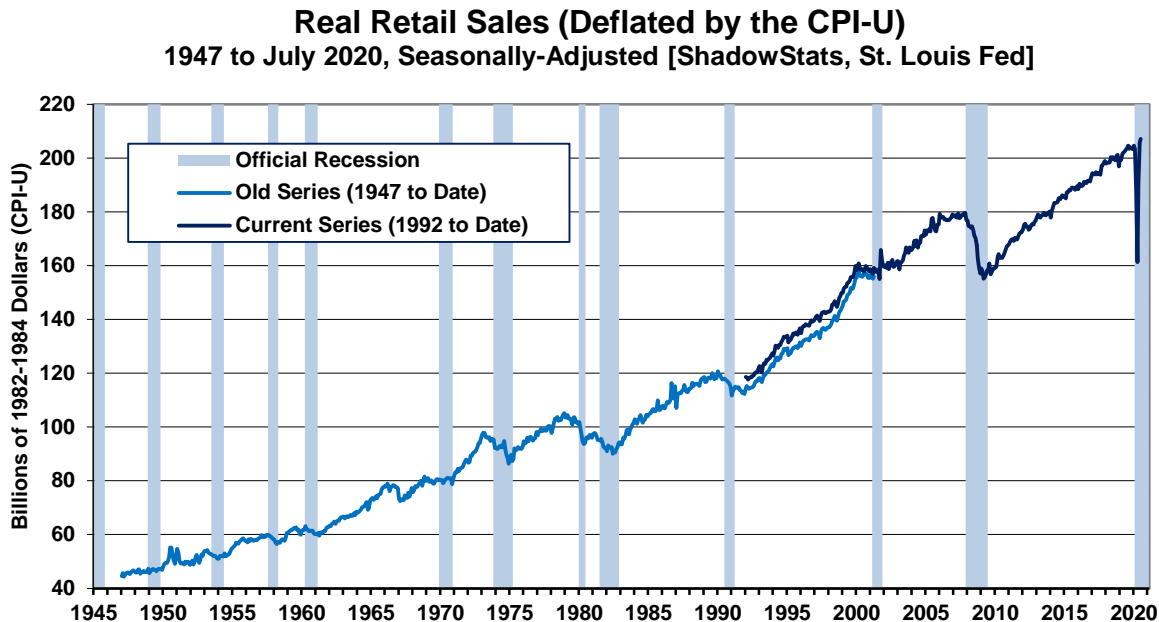
Headline July 2020 sales gained a nominal 1.24% (2.22% net of revisions) in the month, 2.74% year-year, gaining in real terms 0.65% (1.63% net of revisions) in the month and 1.69% year-to-year. The problem here is that these numbers run counter to related annual contractions in underlying payrolls, even when adjusted for a Pandemic-driven shift in activity to “online retailers.” Year-to-year change in the underlying Retail Trade and Leisure and Hospitality sector payrolls dropped by 15.3% (-15.3%) in July 2020, slightly narrowed from 17.9% (-17.9%) in June. Problems with the Retail Sales reporting range from contra-indicative activity such as Consumer Optimism (collapsed to multi-year lows) and Retail Industry employment measures to the Cass Freight Index® (see prior section), which accurately reflected the Fourth-Quarter 2019 contraction in Holiday Season Retail Sales.

Soaring Retail Sales Have Not Been Confirmed by Related Industry Employment or the Consumer Outlook. After collapsing in March and April to respective six- and eight-year lows, both the University of Michigan’s Consumer Sentiment Index and the Conference Board’s Consumer Confidence Survey® have fluttered around those lows, not rebounding, showing an “L”-shaped non-recovery.

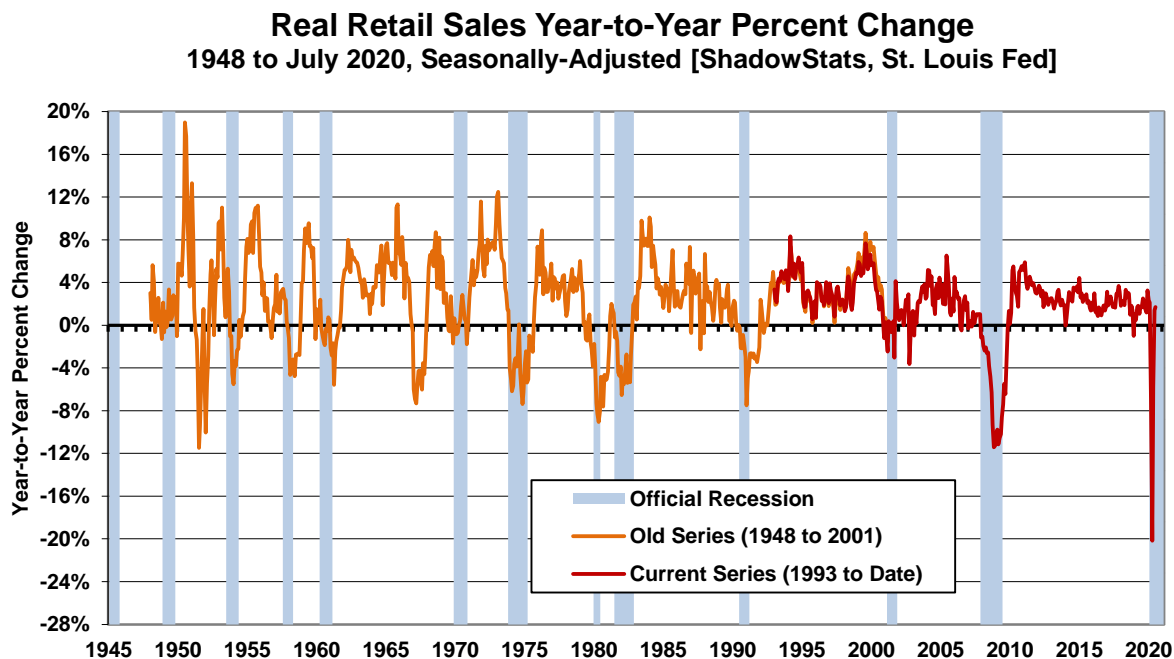
Underlying Employment Has Yet to Recover. Headline real Retail Sales (as deflated the St. Louis Fed using the CPI-U), is plotted in its full history, and from a shorter perspective, both as to level and year-to-year change in ***Graphs 47 to 50***. For comparison, headline payroll employment levels and year-to-year change are plotted for the related underlying payroll series for the Retail Trade and the Leisure and Hospitality sectors.

[*Graphs 47 to 54, related to Retail Sales, begin on the next page.*]

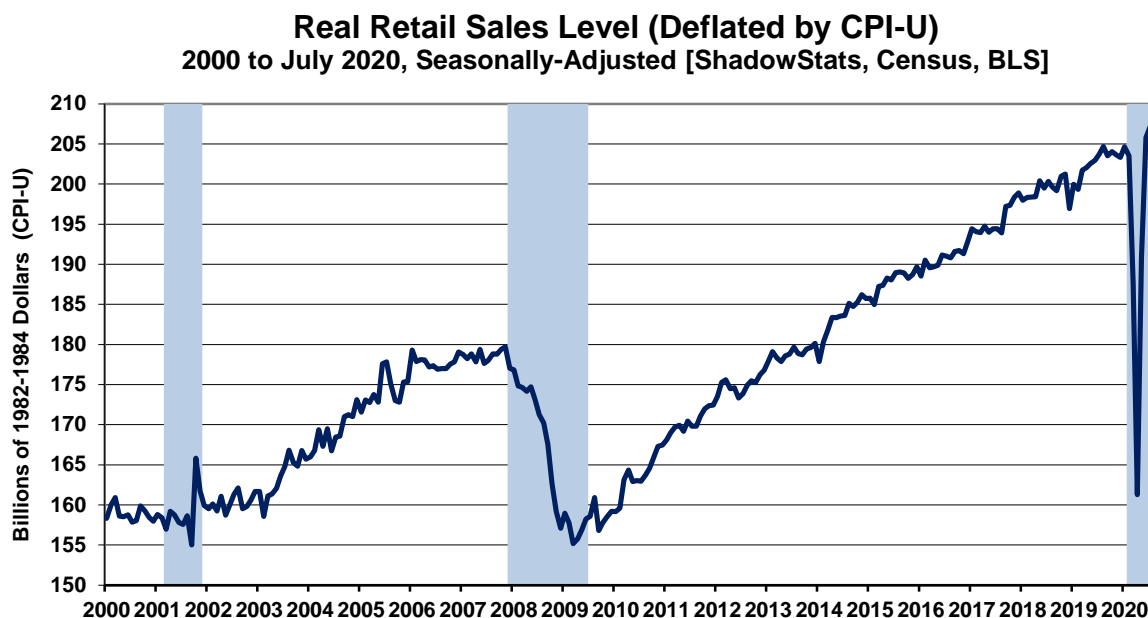
Graph 47: Real Retail Sales, Full History, Both Series, 1947 to July 2020



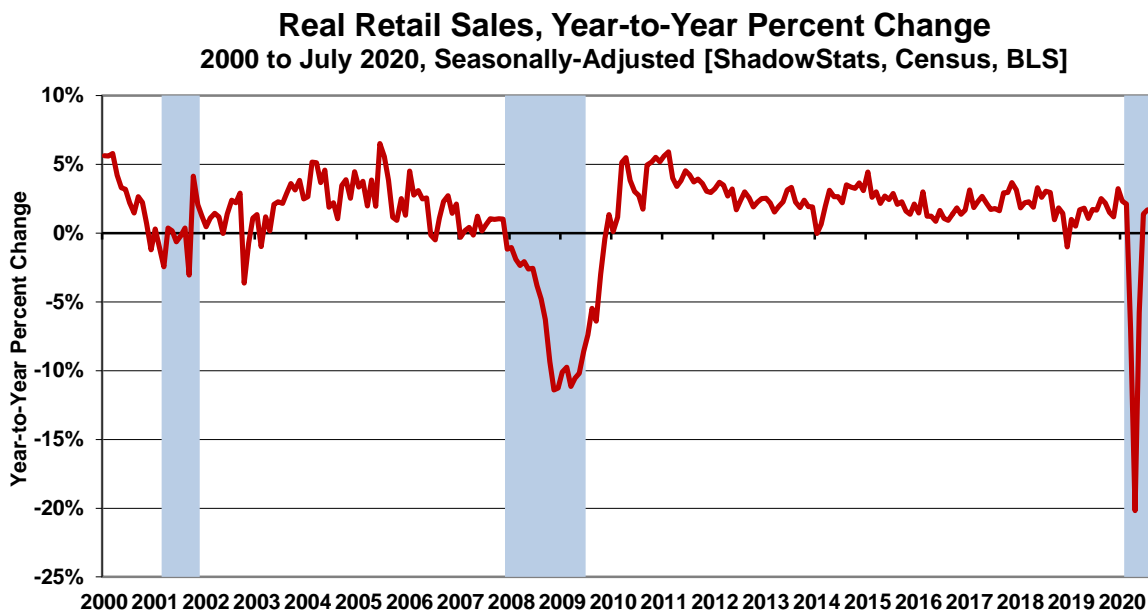
Graph 48: Real Retail Sales, Full History, Both Series, 1947 to July 2020, Year-to-Year Percent Change



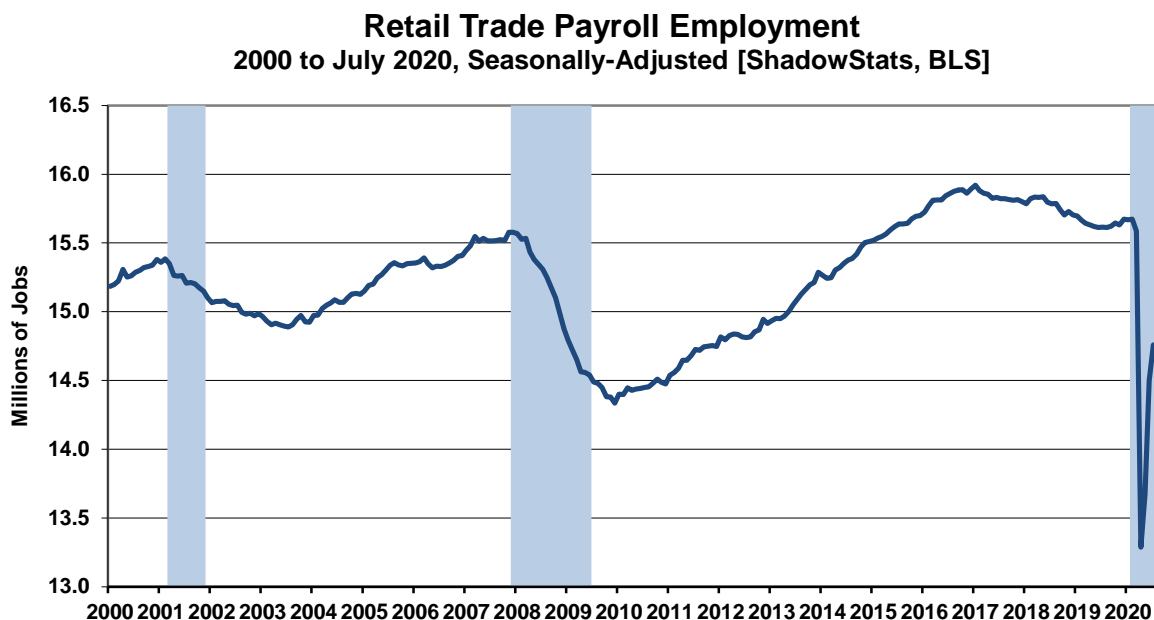
Graph 49: Real Retail Sales, 2000 to July 2020



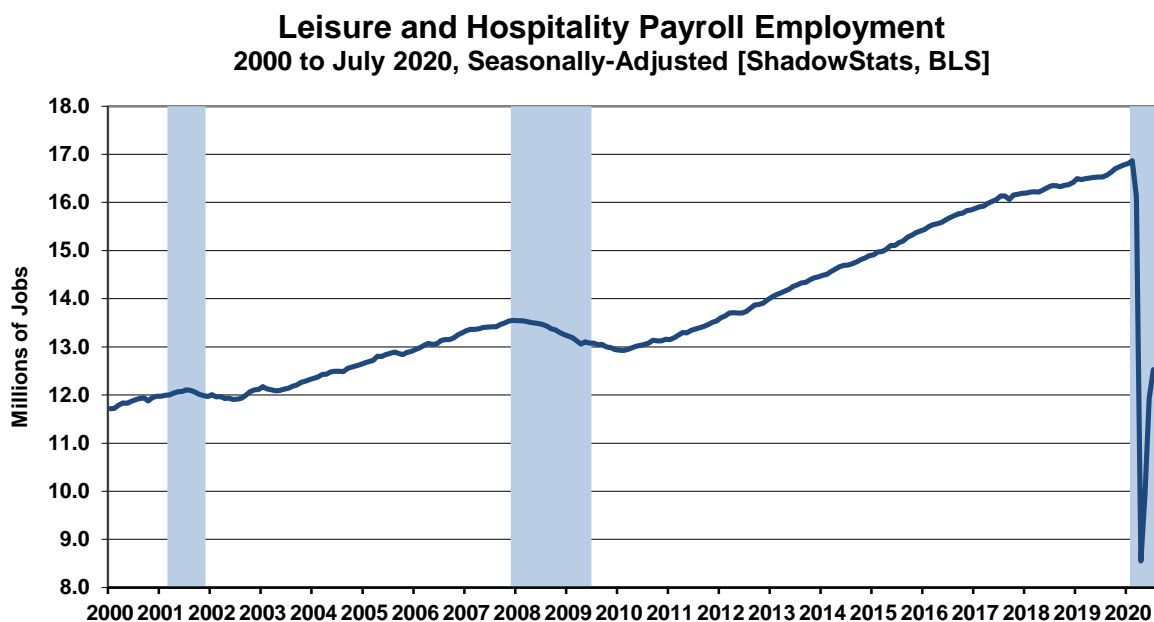
Graph 50: Real Retail Sales, 2000 to July 2020, Year-to-Year Change



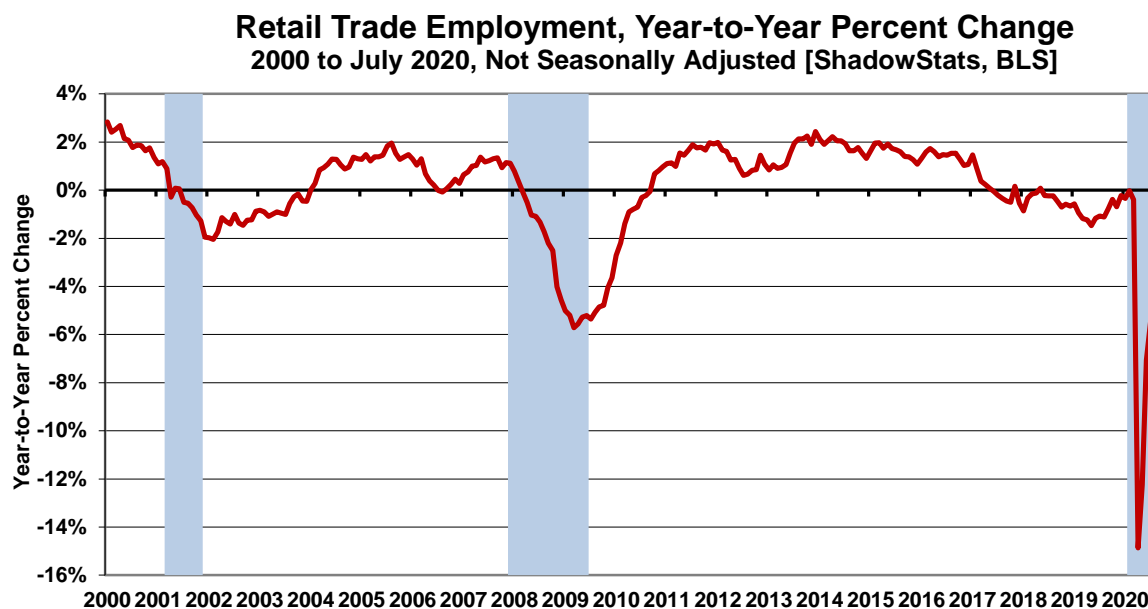
Graph 51: Retail Sales Employment – Retail Trade, 2000 to July 2020



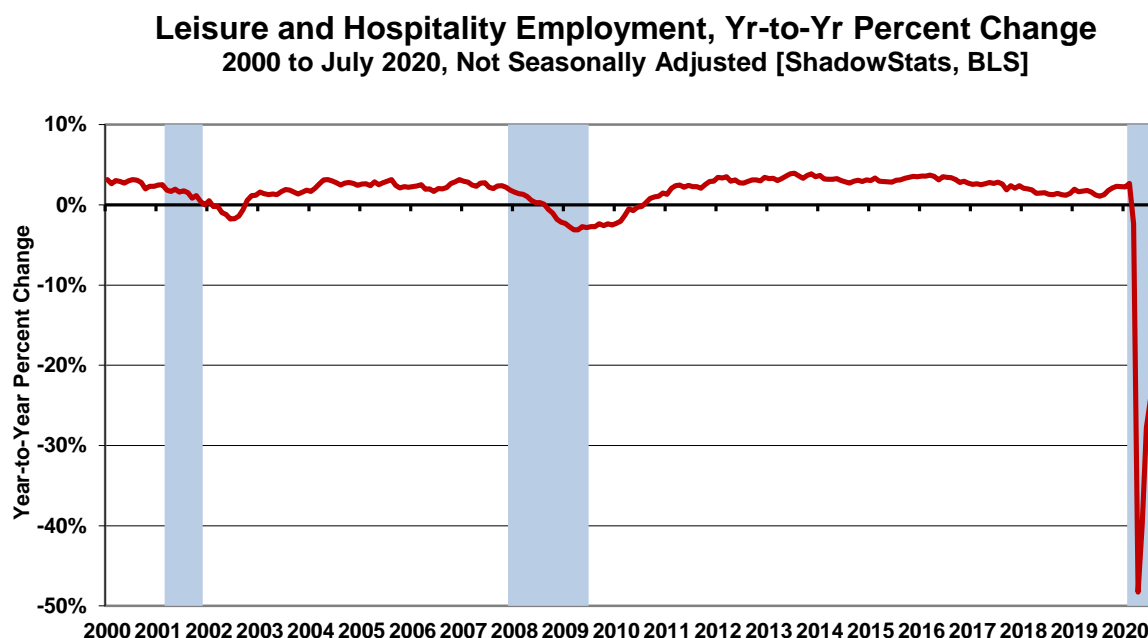
Graph 52: Retail Sales Employment – Leisure and Hospitality, 2000 to July 2020



Graph 53: Retail Sales Employment – Retail Trade, 2000 to July 2020, Year-to-Year Change



Graph 54: Retail Sales Employment – Leisure and Hospitality, 2000 to July 2020, Year-to-Year Change



Section 8 – New Residential Construction

New- and Existing-Home Sales Boomed to Pre-Pandemic Levels, Amidst Conflicting Signals and Construction Activity. Booming Home Sales likely have seen some boosts from mounting consumer financial stress and liquidity issues, while activity in Construction Employment (see *Graphs 58* and *60*) remains consistent with an “L”-shaped recovery, more consistent the production side, as opposed to the sales side of Construction.

On Top of Upside Revisions to May and June Activity, Nominal July 2020 Construction Spending Gained 0.1% in the Month [Up 0.7% Net of Revisions] and Was Down by 0.1% (-0.1%) Year-to-Year. In real terms, net of related inflation (ShadowStats Composite Construction Inflation), total July 2020 Construction Spending declined by 0.5% (-0.5%) in the month, down by 2.2% (-2.2%) year-to-year, as reported September 1st by the Census Bureau (see *Graphs 73* and *74*).

Such was broadly consistent with the annual decline of 4.3% (-4.3%) in July 2020 Construction Payroll Employment, and consistent with something less than an “L”-shaped post-Pandemic shutdown recovery. The dominant positive component in July activity was Residential Construction, up by a nominal 2.1% in the month (up 2.4% net of revisions).

Across the Construction Industry, activity never has recovered pre-Great Recession levels, with Building Permits down by 33.9% (-33.9%), Housing Stats down by 34.2% (-34.2%), Real Construction Spending down by 23.0% (-23.0%) and New-Home Sales down by 35.1% (-35.1%) from their respective peaks. Not only has the current Housing Starts series not recovered its pre-Great Recession peak, it never has recovered the level of the pre-recession peak of any recession in the last 70 years (see *Graph 55*).

That Said, Wildly Volatile July 2020 New Residential Construction Growth Exploded on Top of Major Upside Revisions. As reported August 18th, by the Census Bureau, in context of regular extreme and nonsense monthly volatility, July Building Permits and Housing Starts respectively showed statistically meaningful monthly gains of 18.8% and 22.6%, against upwardly revised monthly June gains of 3.5% (previously 2.1%) and 17.5% (previously 17.3%). The June Housing Starts gain was on top of an upwardly revised 11.1% (previously 9.2%). Where the monthly gains were heaviest in the Multiple-Unit categories (i.e. 56.7% growth in five units or more Building Permits), those gains were not meaningful at the 95% confidence interval (see *Graphs 55* to *70*).

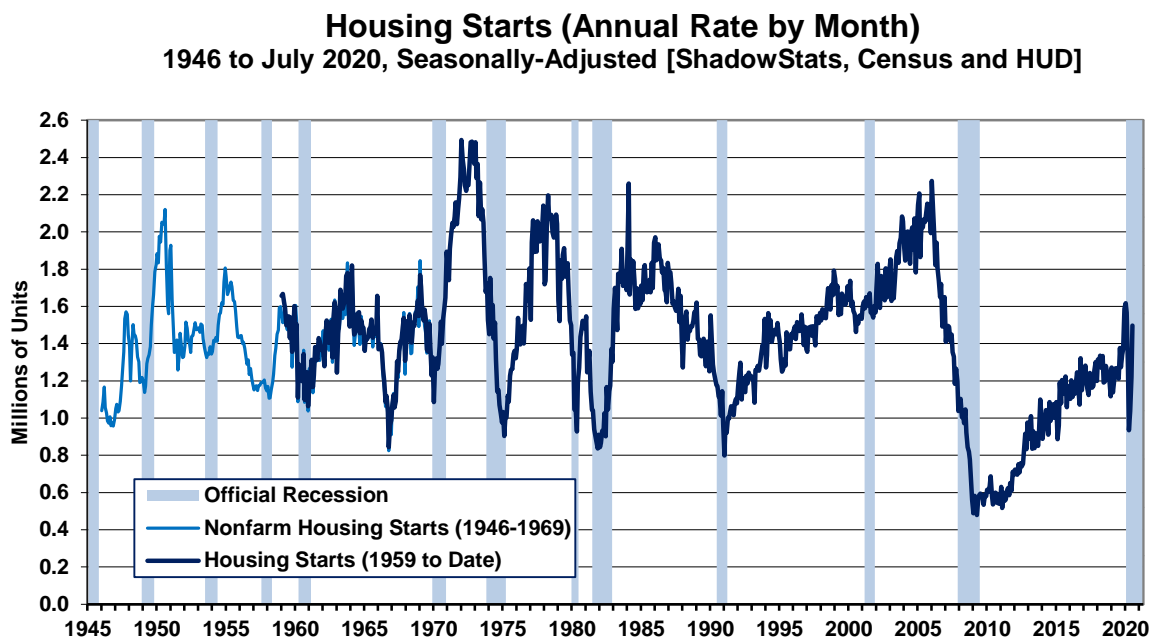
On Top of Upside Revisions, a Statistically Worthless 13.9% Jump in July 2020 New-Home Sales (NHS) Extended Its Recovery into a Second Month. As reported August 25th, by the Census Bureau, in context of unusually extreme monthly gyrations and massive revisions, July 2020 New-Home Sales

recovered its pre-Pandemic level, although the monthly gain of 13.9% (on top an upwardly revised 38.8% gain off its April trough) was not statistically meaningful at the 90% confidence interval. Its randomly volatile 36.3% annual gain was enough, however, to indicate that year-to-year change likely was positive. See *Graphs 71* and *72*.

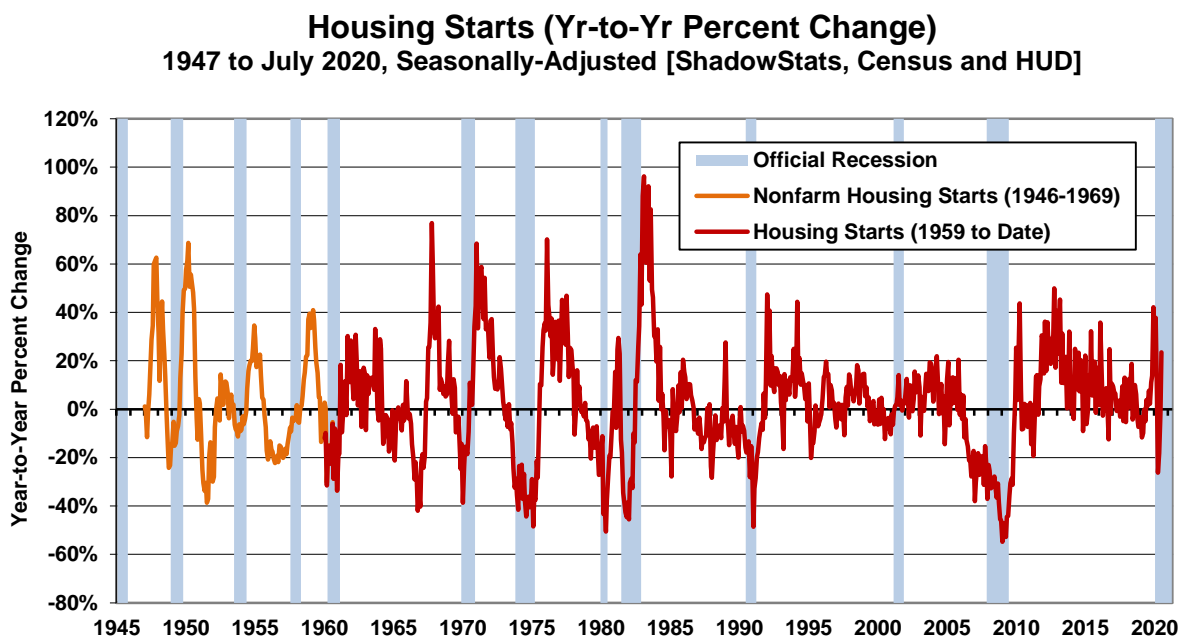
Existing-Home Sales (EHS) Surged 24.7% in the Month, Achieving Initial Recovery of Its Pre-Pandemic Levels. As reported August 21st, by the National Association of Realtors® [NAR] at www.nar.realtor (see the NAR Press Release), July 2020 Existing-Home Sales jumped 24.7% in the month, on top of a 20.7% June gain off its May trough, turning positive year-to-year in July by 8.7%.

[*Graphs 55* to *74* related to Residential Real Estate and Construction begin on the next page]

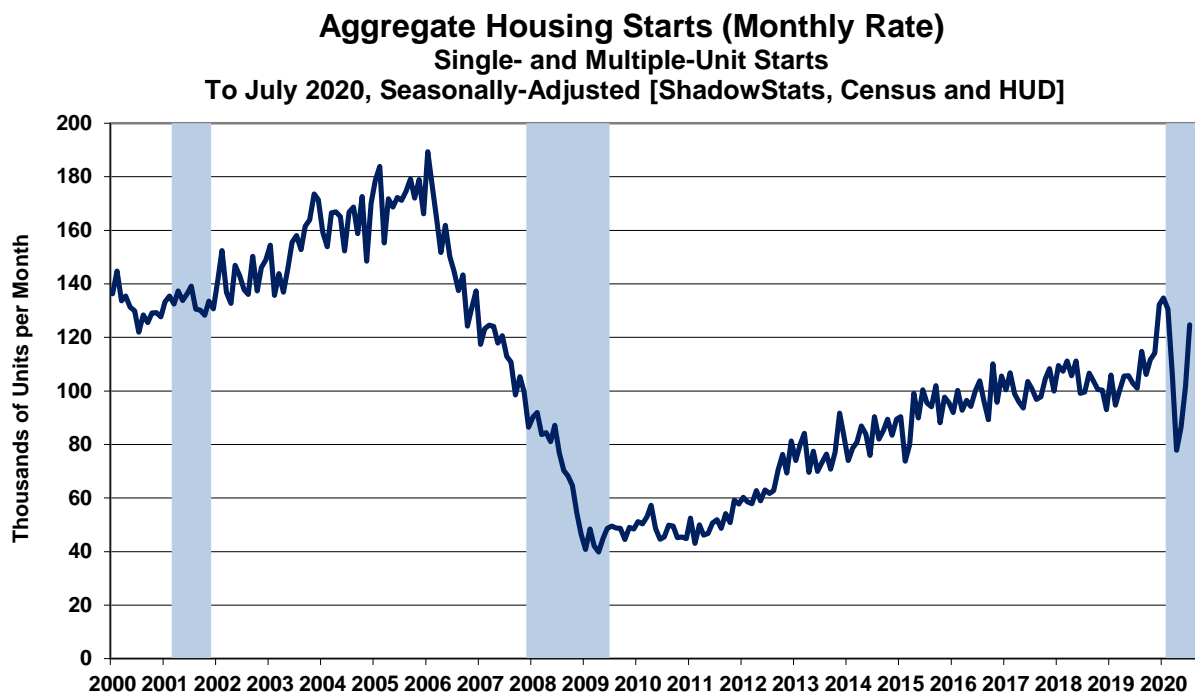
Graph 55: Housing Starts, Full History, 1946 to July 2020



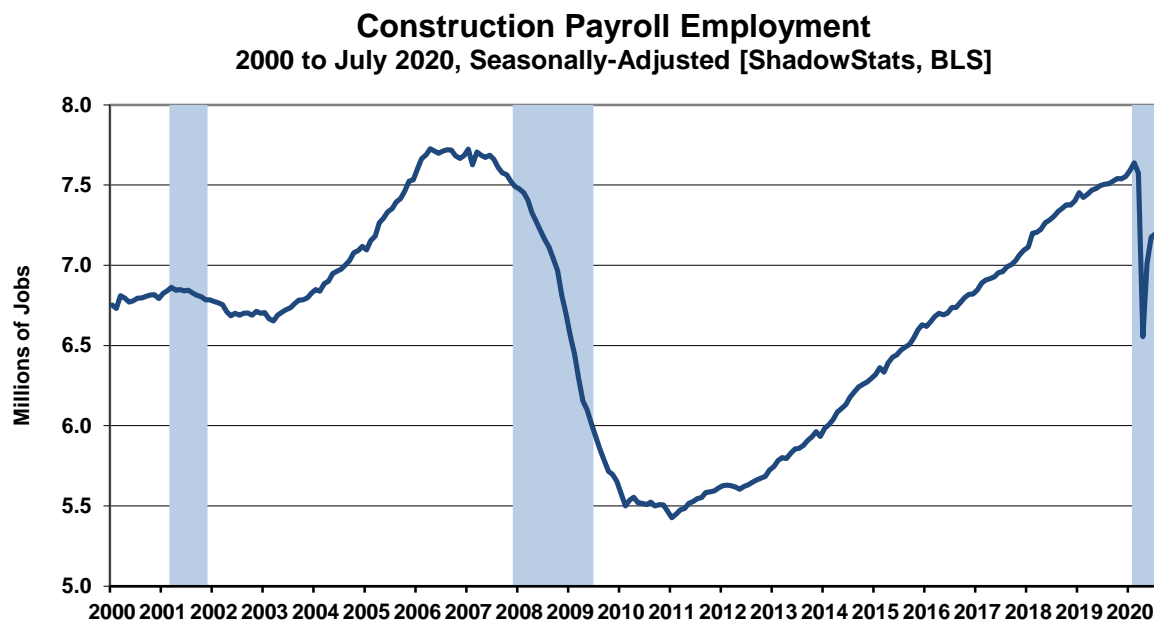
Graph 56: Housing Starts. Full History, 1947 to July 2020, Year-to-Year Change



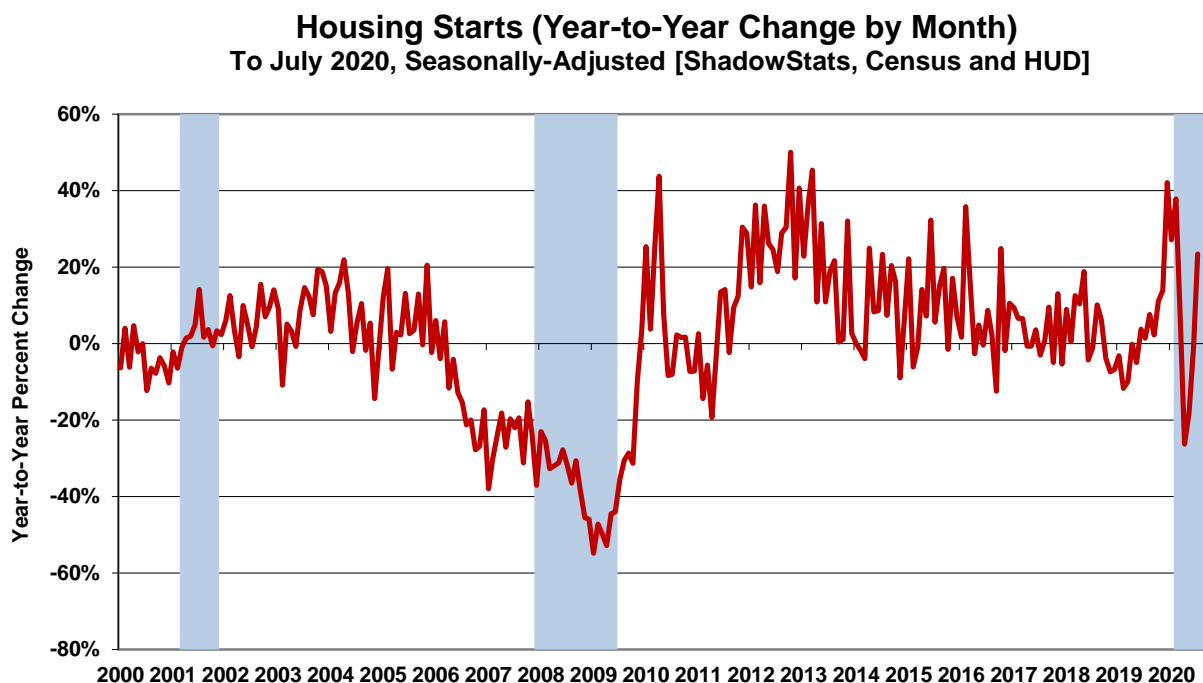
Graph 57: Housing Starts, 2000 to July 2020



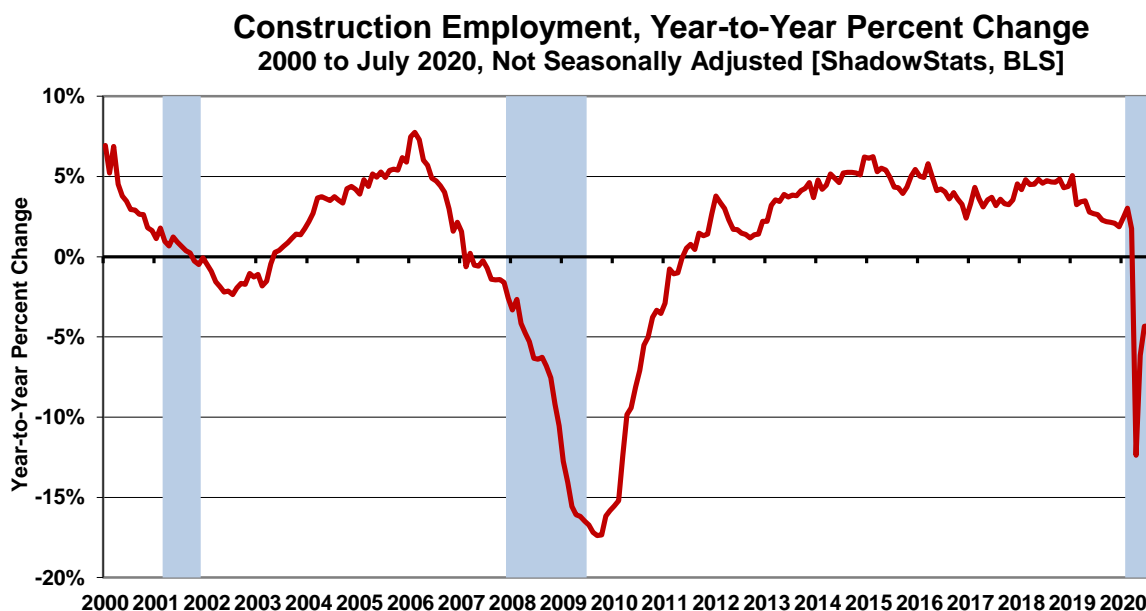
Graph 58: Construction Employment, 2000 to July 2020



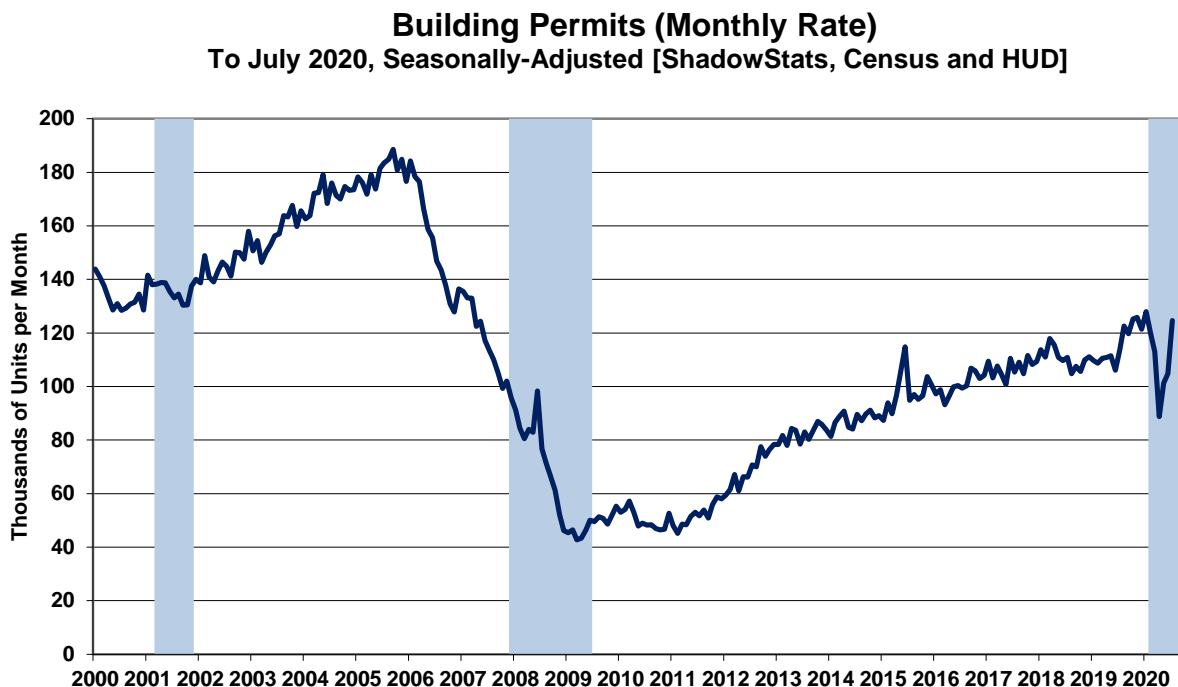
Graph 59: Housing Starts, 2000 to July 2020, Year-to-Year Change



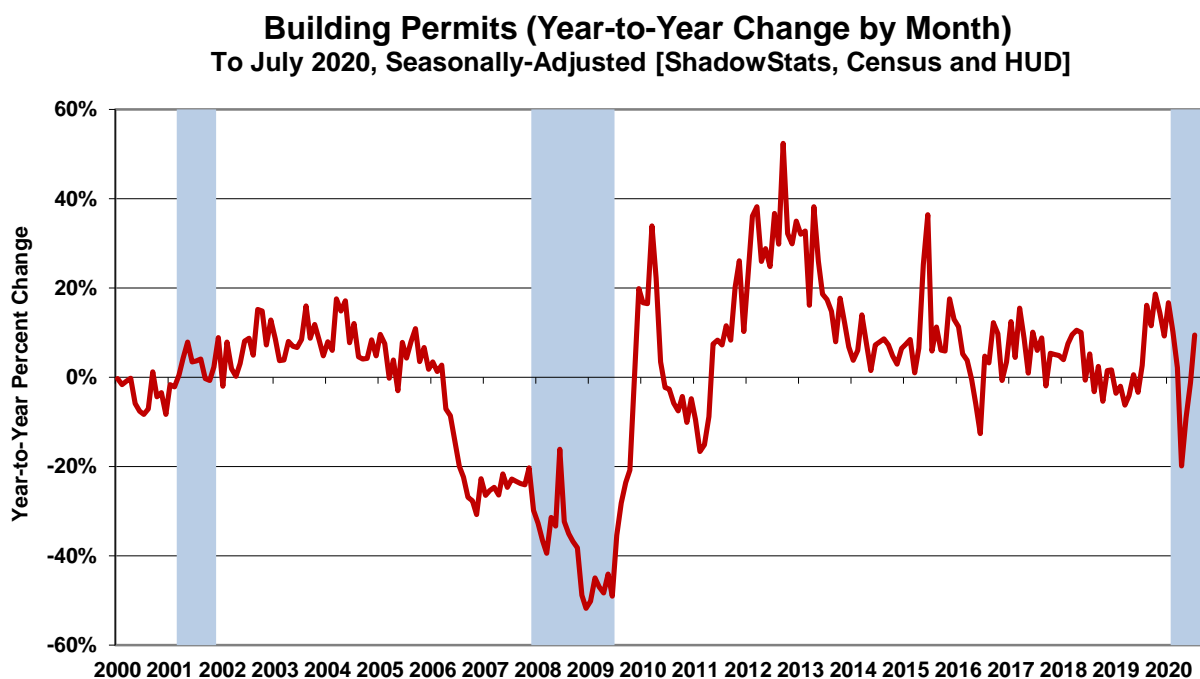
Graph 60: Construction Employment, 2000 to July 2020, Year-to-Year Change



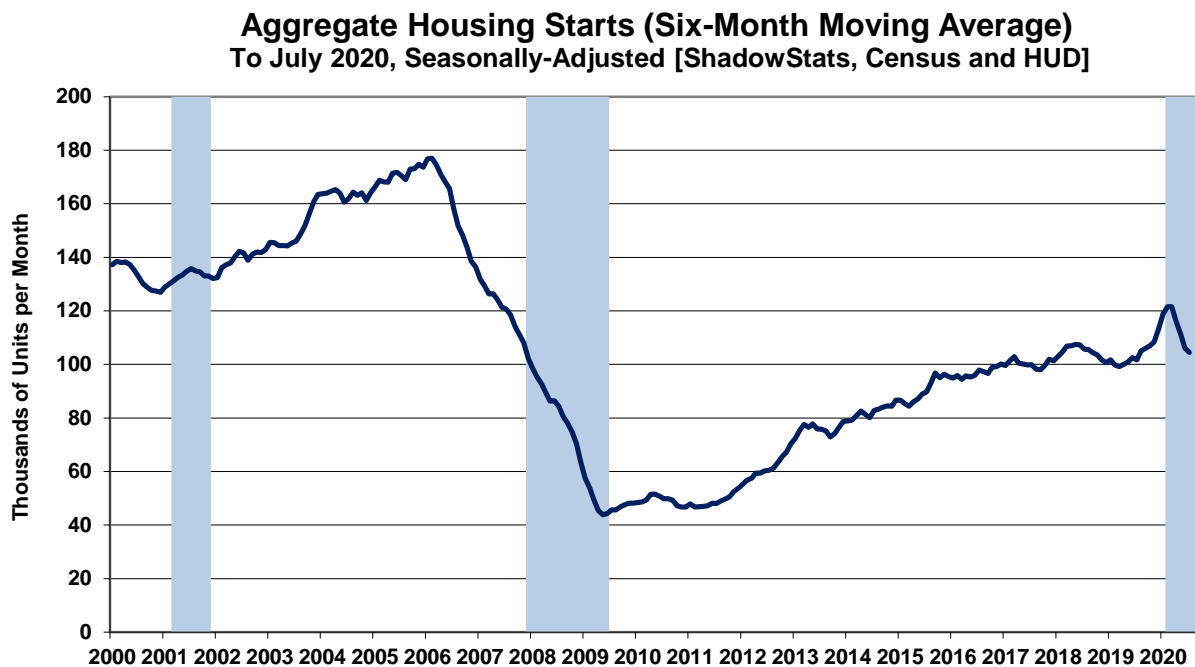
Graph 61: Building Permits, 2000 to July 2020



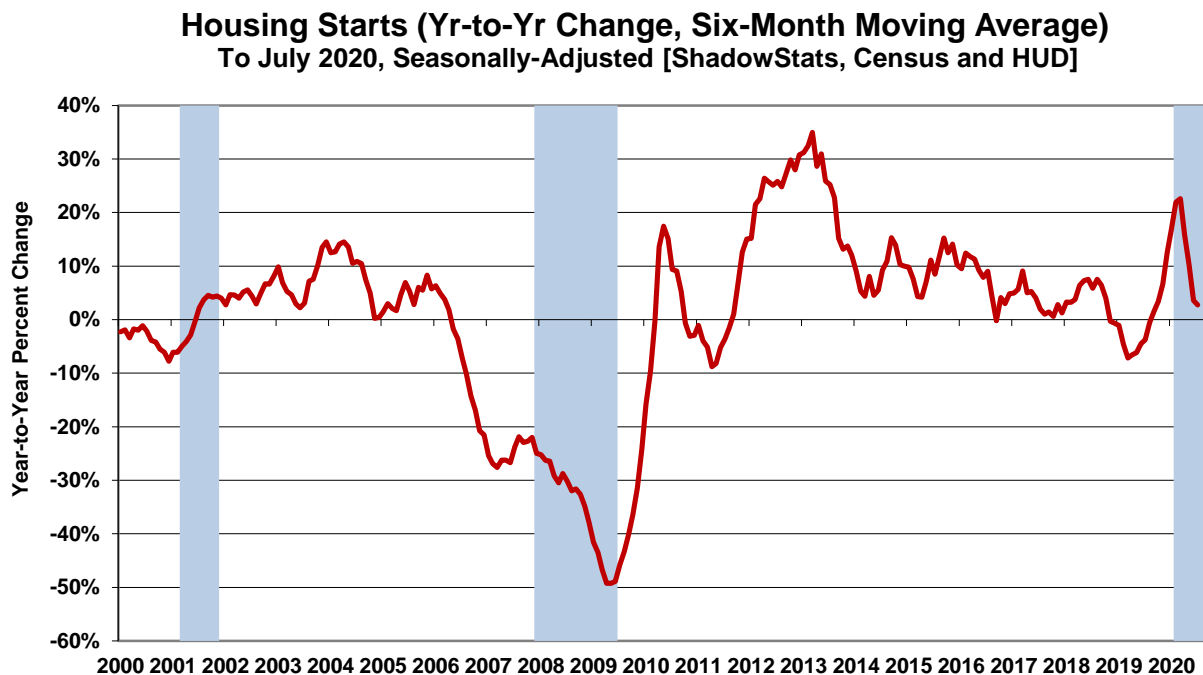
Graph 62: Building Permits, 2000 to July 2020, Year-to-Year Change



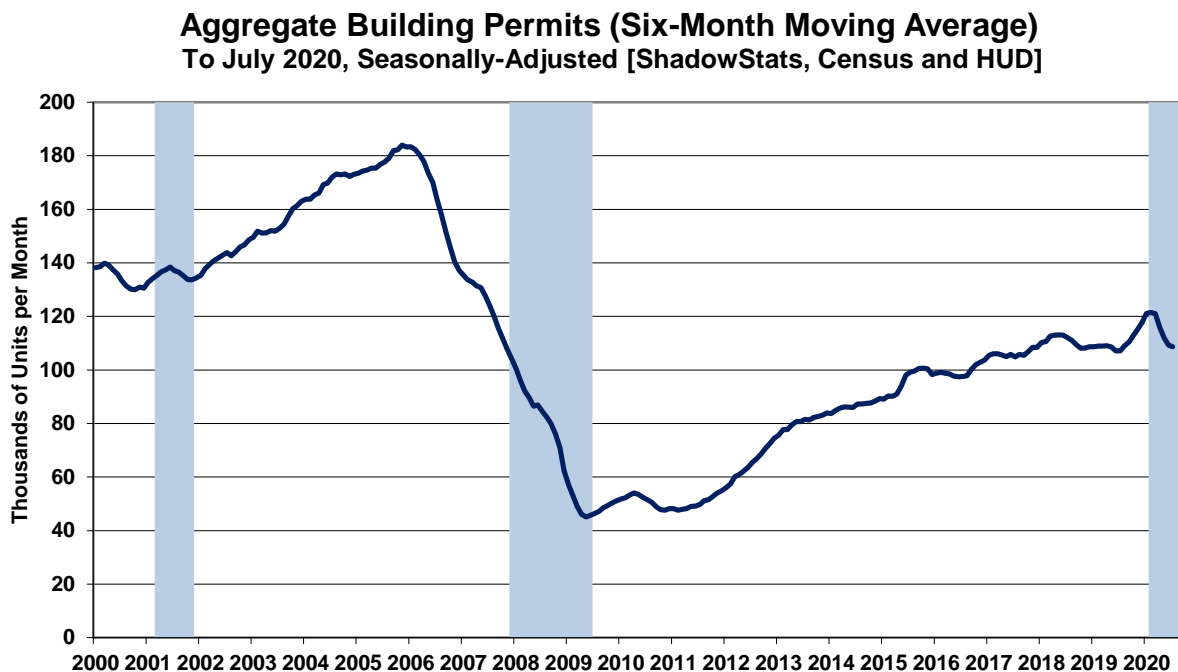
Graph 63: Housing Starts, 2000 to July 2020, Six-Month Moving Average



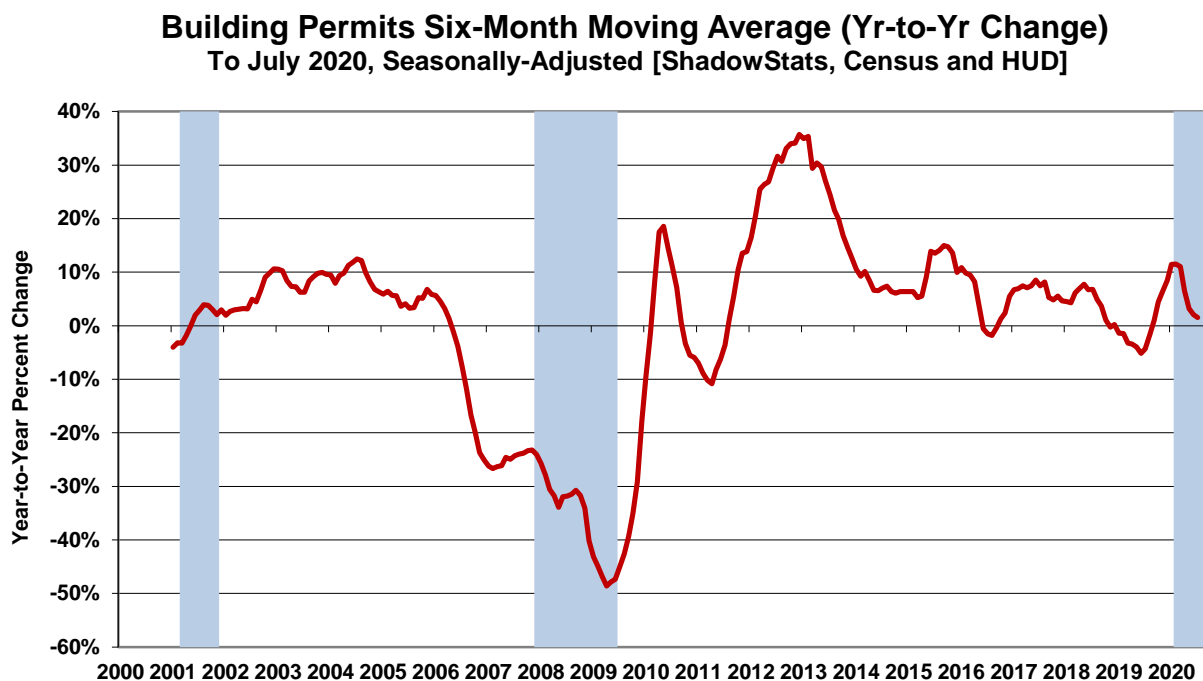
Graph 64: Housing Starts, Year-to-Year Change, 2000 to July 2020, Six-Month Moving Average



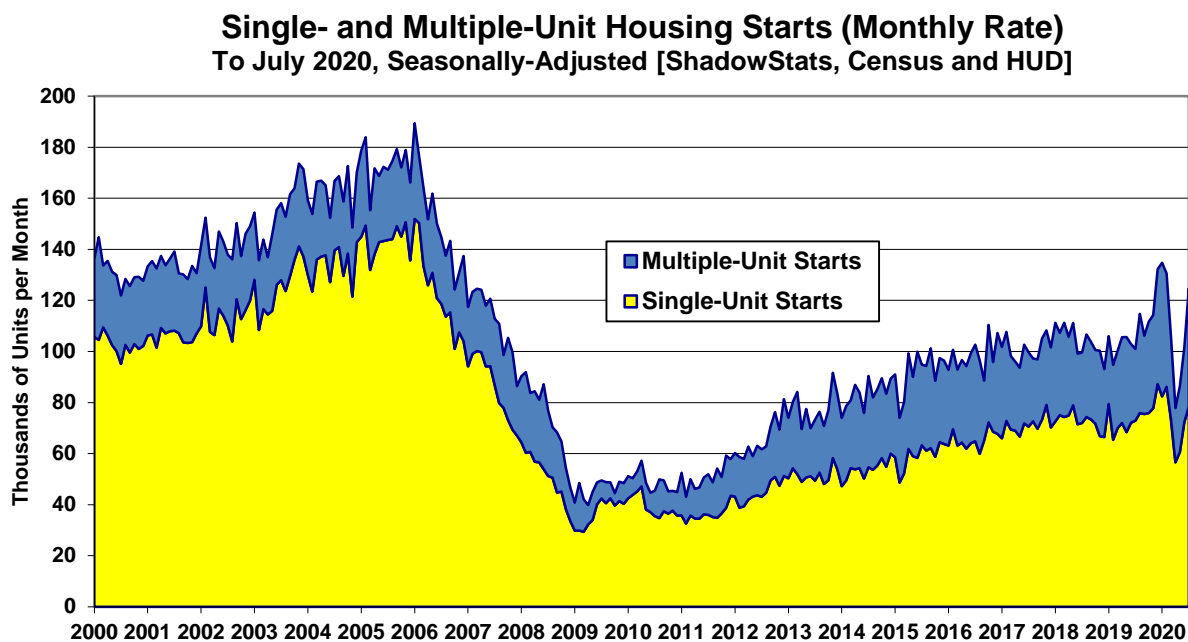
Graph 65: Building Permits, 2000 to July 2020, Six-Month Moving Average



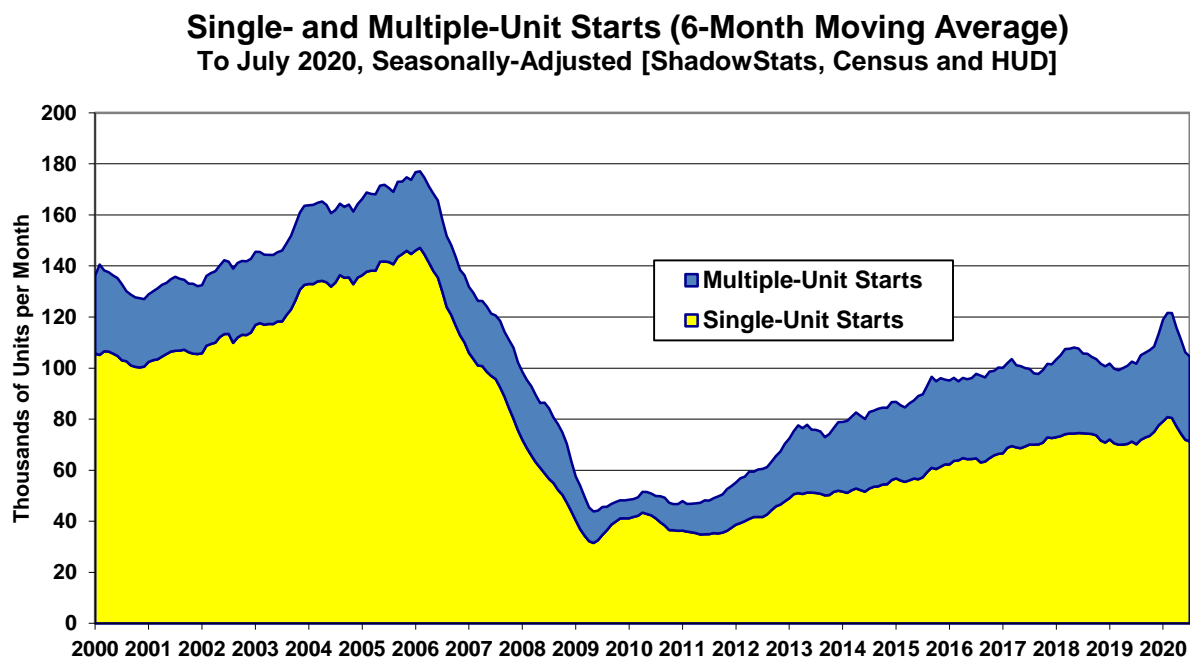
Graph 66: Building Permits, 2000 to July 2020, Six-Month Moving Average, Year-to-Year Change



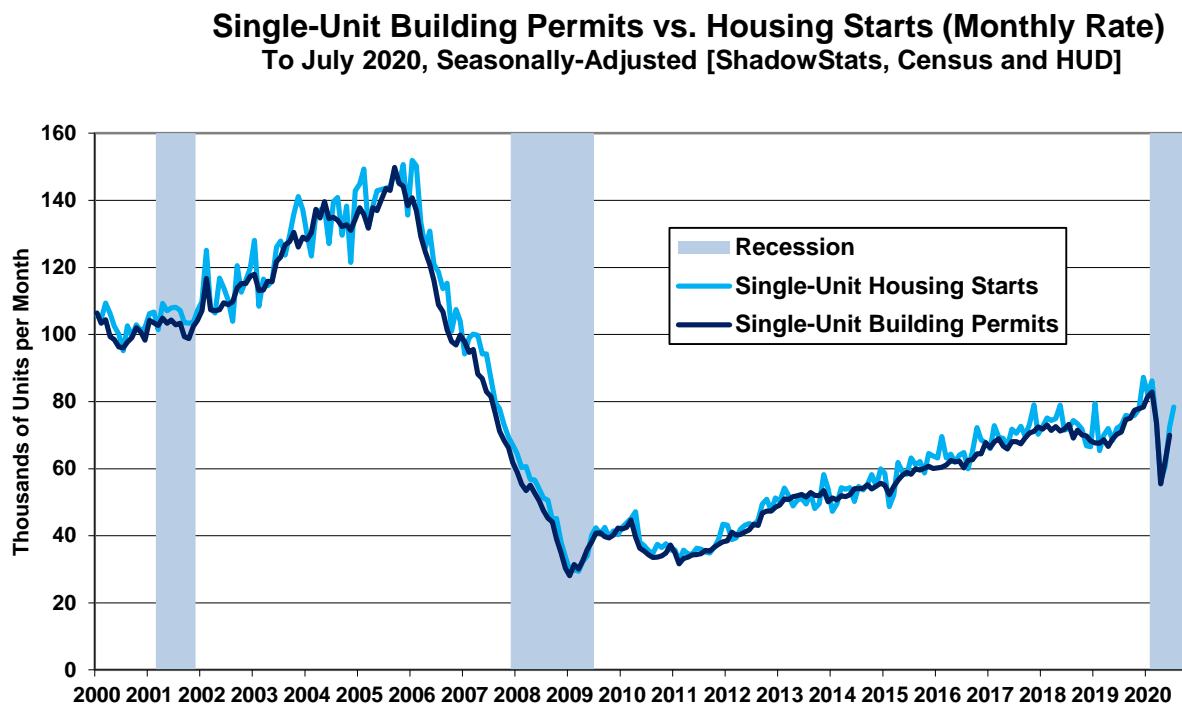
Graph 67: Single- and Multiple Unit Housing Starts, 2000 to July 2020



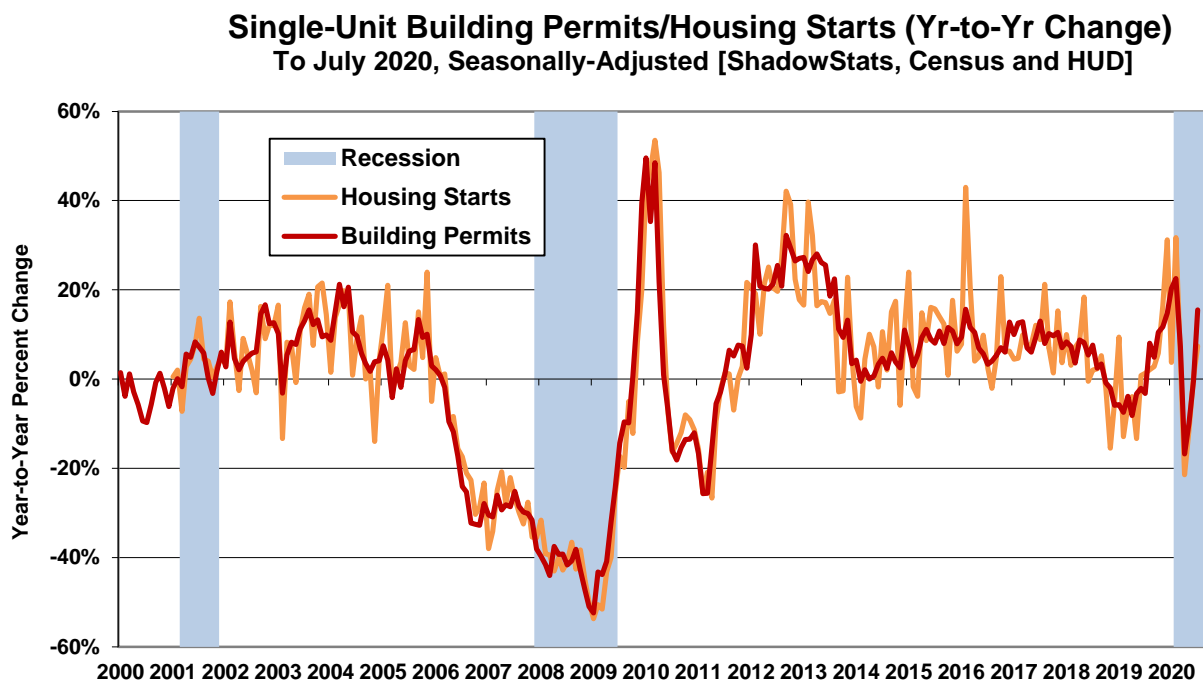
Graph 68: Single- and Multiple Unit Housing Starts, 2000 to July 2020, Six-Month Moving Average



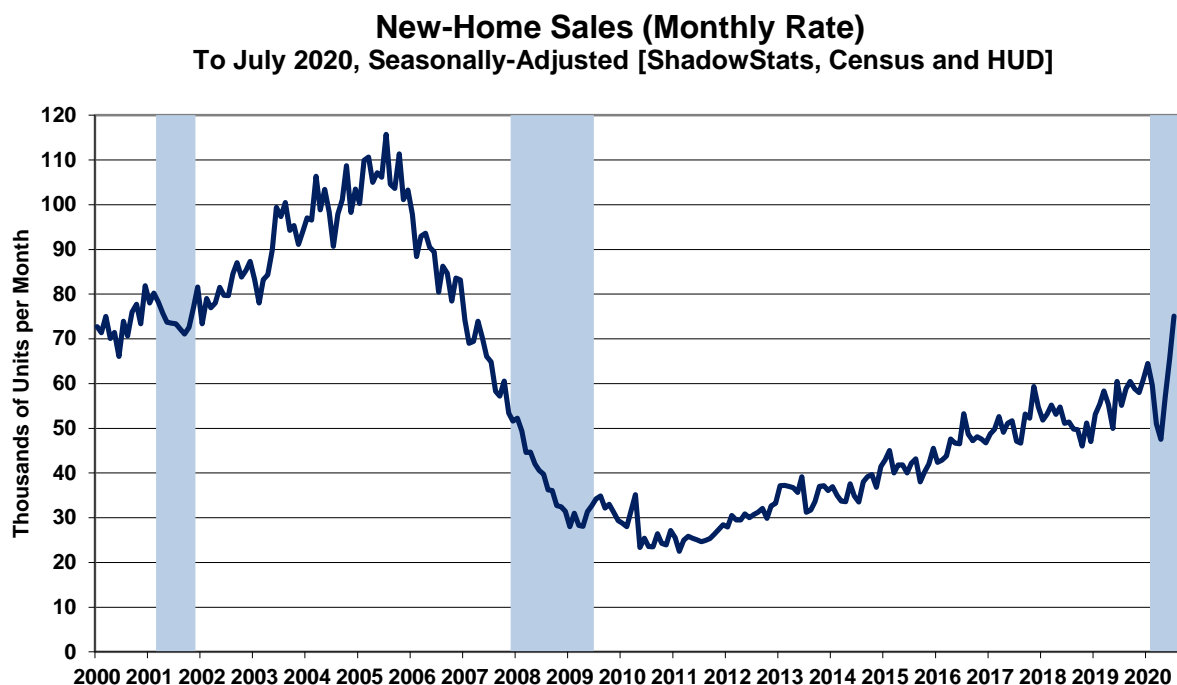
Graph 69: Relative Stability of Monthly Single-Unit Permits versus Starts, 2000 to July 2020



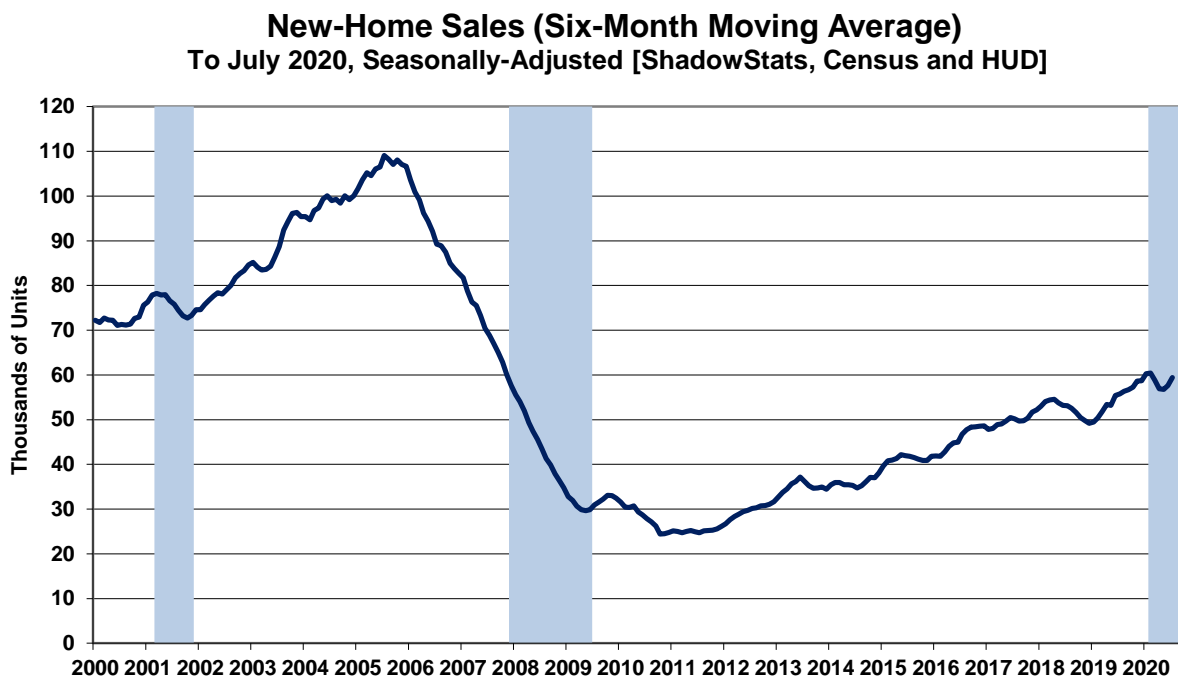
Graph 70: Relative Stability of Year-to-Year Single-Unit Permits versus Starts, 2000 to 2020



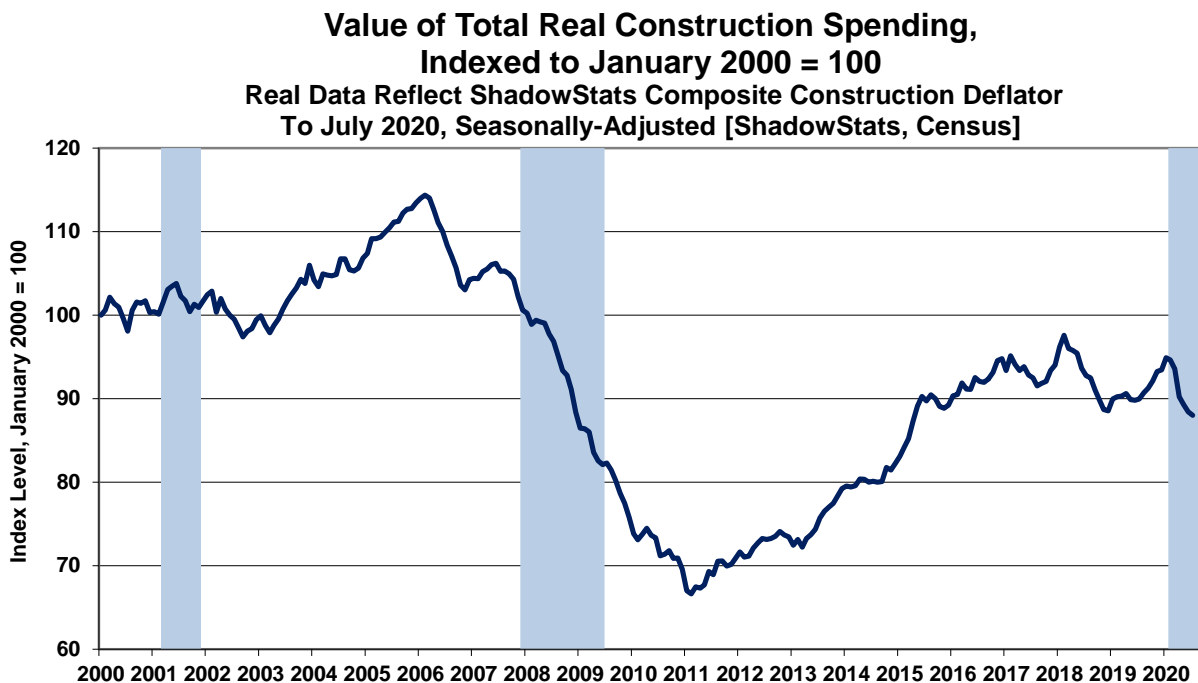
Graph 71: New-Home Sales, 2000 to July 2020



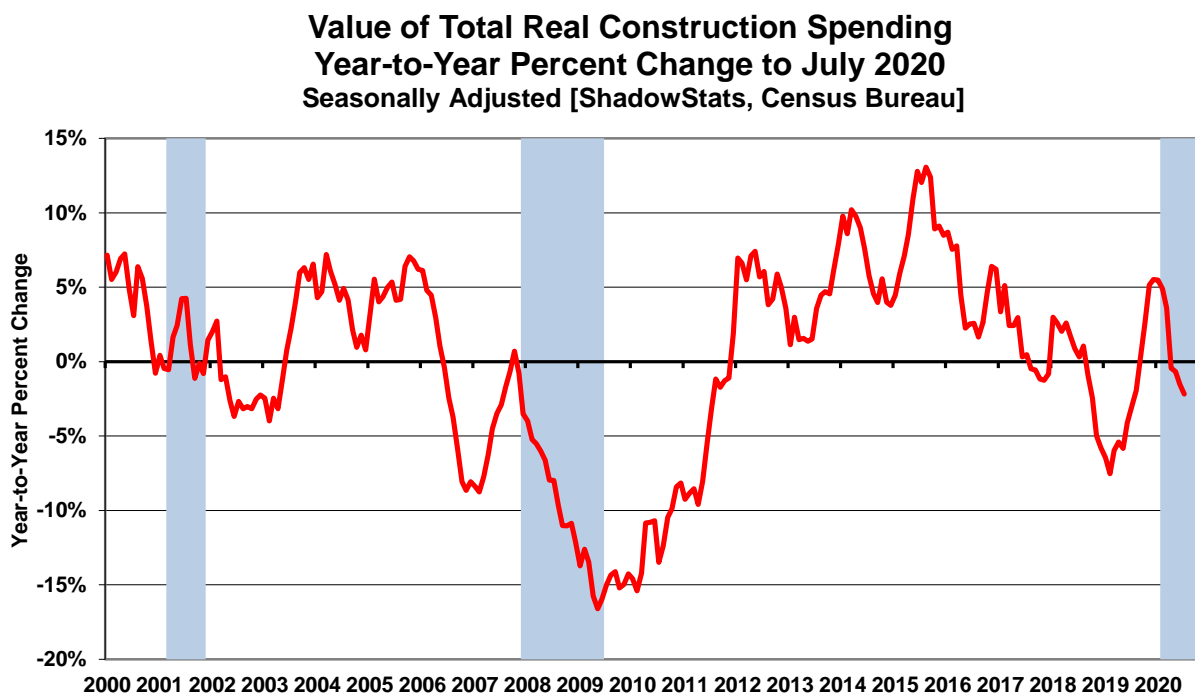
Graph 72: New-Home Sales, Six-Month Moving Average, 2000 to July 2020



Graph 73: Total Real Construction Spending, 2000 to July 2020



Graph 74: Total Real Construction Spending, Year-to-Year Change, 2000 to July 2020



[Coverage of *Inflation* and the *Money Supply* begin on the next page.]

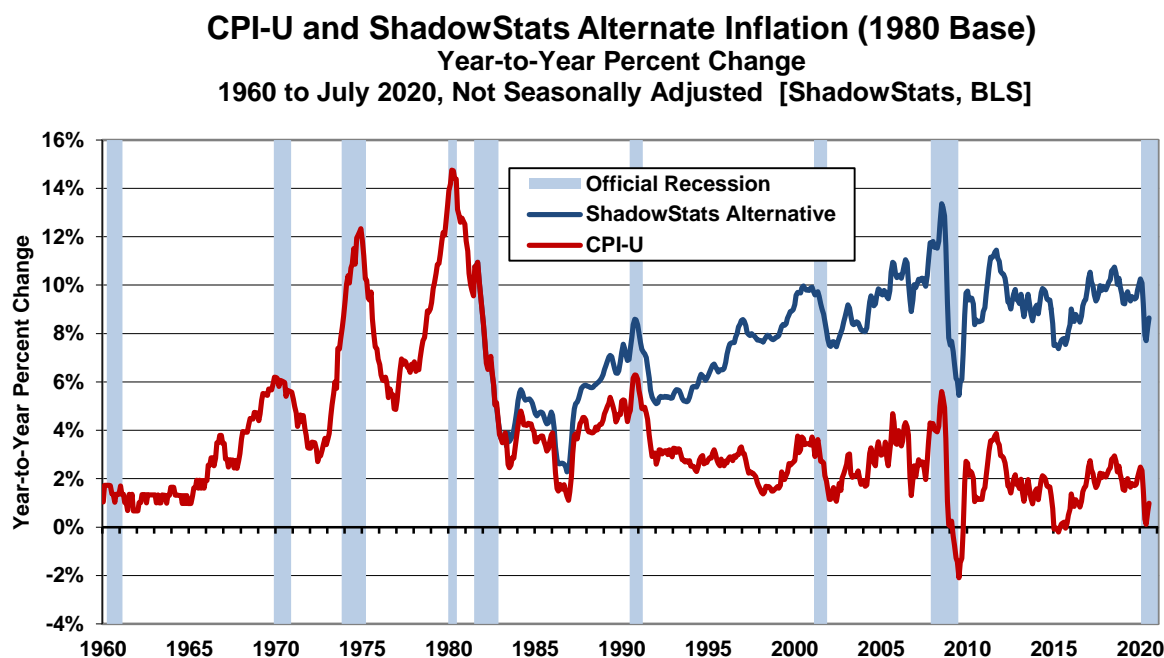
INFLATION AND THE MONEY SUPPLY

Section 9 – Intensifying Inflation Signals With CPI and PPI

Inflationary Pressures Mount, With the July 2020 Consumer Price Index Increasing 0.6% Month-to-Month, Double Market Expectations; Core CPI Hit a 29-Year Month-to-Month High of 0.6%.

As reported August 12th, by the Bureau of Labor Statistics (BLS), the headline CPI-U jumped month-to-month by 0.6% for the second straight month (by 0.59% in July, by 0.57% in June, up at an annualized pace of 7.1%). “Core” inflation also gained 0.62% in the month, the highest since January 1991, counter to what the FOMC would hope for in stable, normal times, and before Fed Chairman Powell’s move to raise the targeted pace for “Core” inflation. Headline annual CPI-U growth still is subpar at 1.03%, but the dominating annual decline from energy prices, post oil-price war continues to shrink, although still meaningful, now down just 11.16% (-11.16%) year-to-year.

Graph 75: CPI-U versus ShadowStats Alternate Inflation Measure (1980 Base), Unadjusted, Year-to-Year

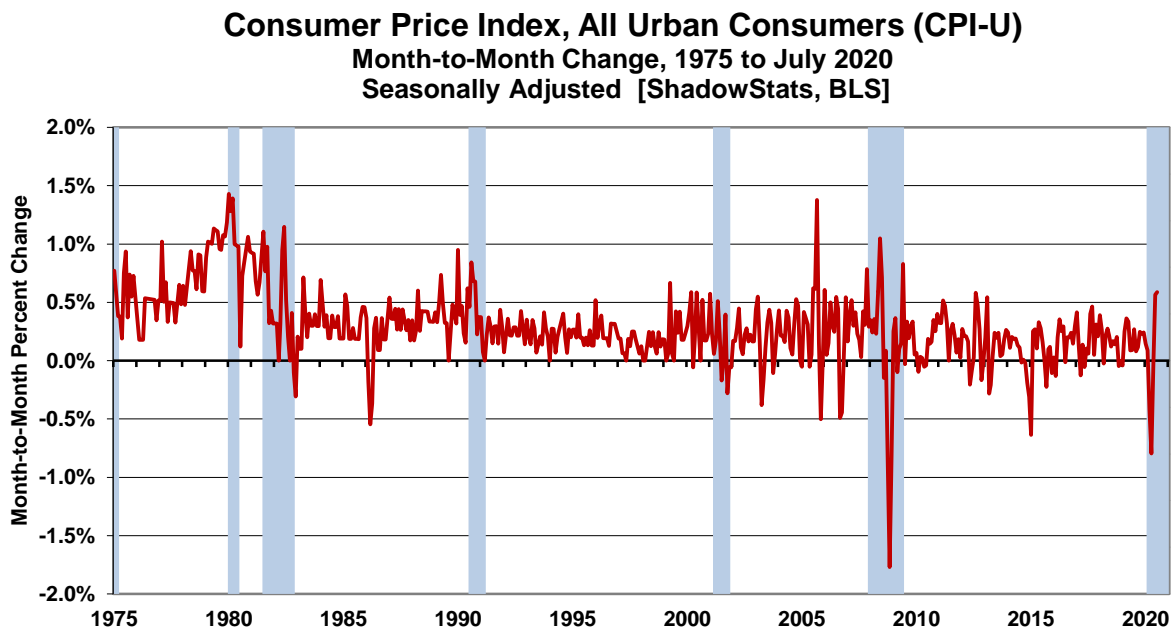


July 2020 ShadowStats Alternate CPI (1980 Base) Rose to 8.6% Year-to-Year, from 8.3% in June and 7.7% in May. The ShadowStats estimate restates current headline inflation so as to reverse the government’s inflation-reducing gimmicks of recent decades. Related graphs, methodology, data downloads and a related inflation calculator are available on the ALTERNATE DATA tab of the www.ShadowStats.com home page.

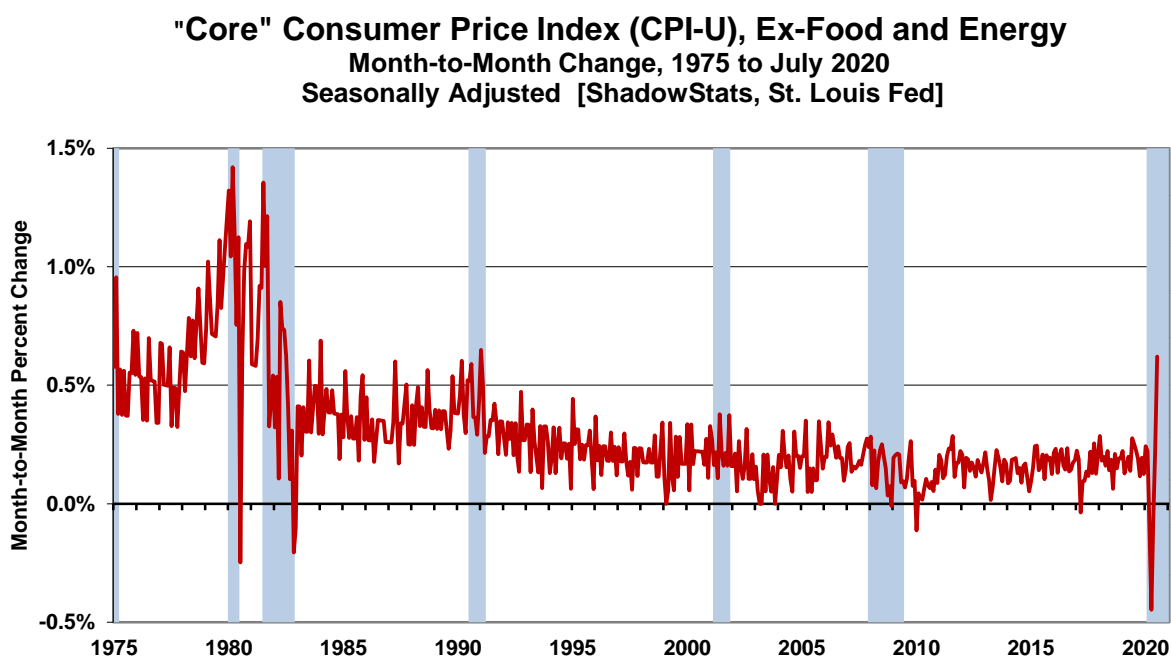
“Core” Inflation. Since the July 2009 formal end of the Great Recession, unadjusted “Core” CPI has averaged 1.83% monthly year-to-year inflation. Off the near-term Pandemic-driven year-to-year trough

of 1.19% in June, it jumped to 1.57% in July likely to be hitting around 2.5%—what would otherwise begin to be troubling territory for the FOMC by September 2020. The 0.62% adjusted monthly gain in the “Core” CPI was the highest in more than 19 years, since January 1991.

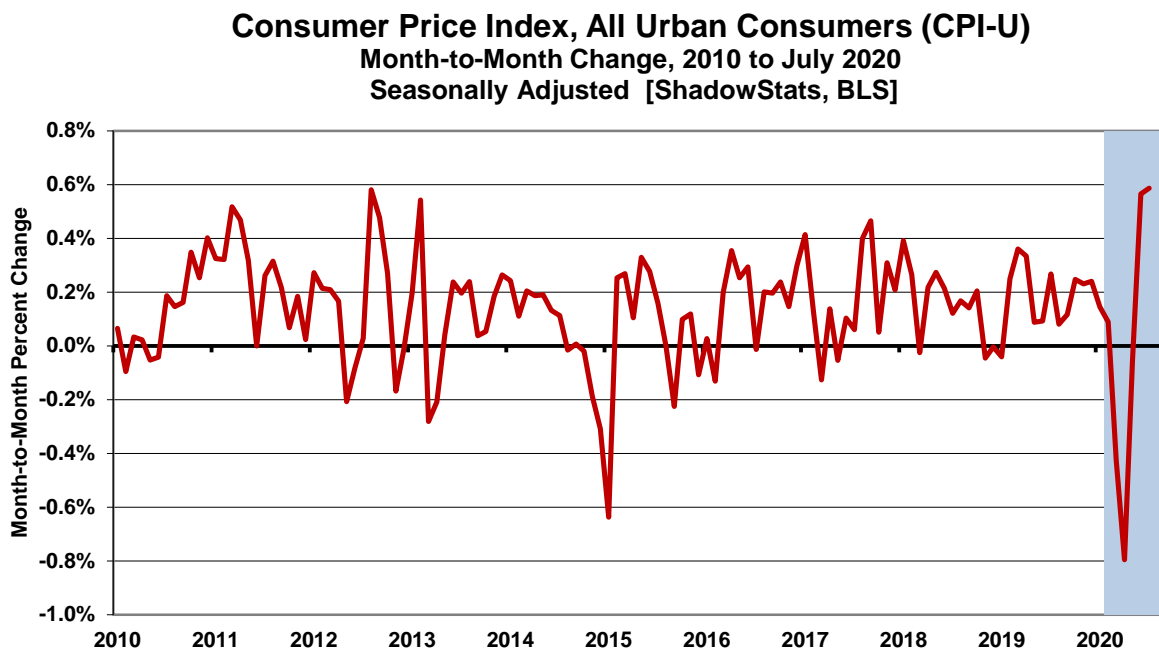
Graph 76: CPI-U, Month-to-Month Change, 1975 to July 2020



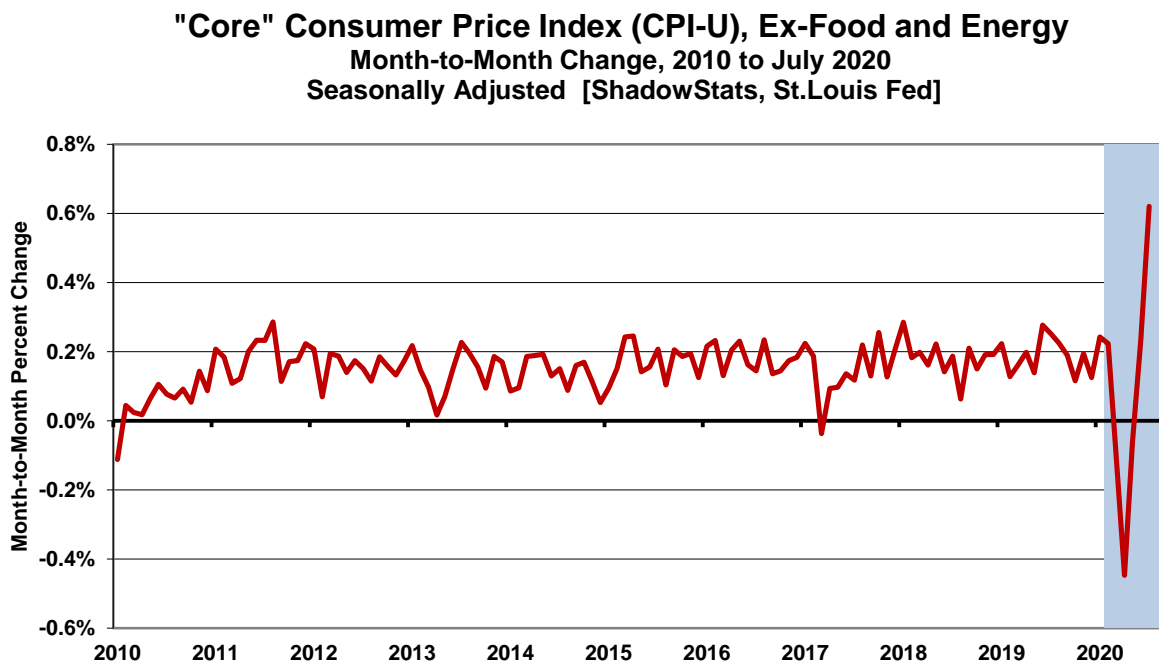
Graph 77: "Core" CPI-U, Month-to-Month Change, 1975 to July 2020



Graph 78: CPI-U, Month-to-Month Change, 2010 to July 2020



Graph 79: Core CPI-U, Month-to-Month Change, 2010 to July 2020

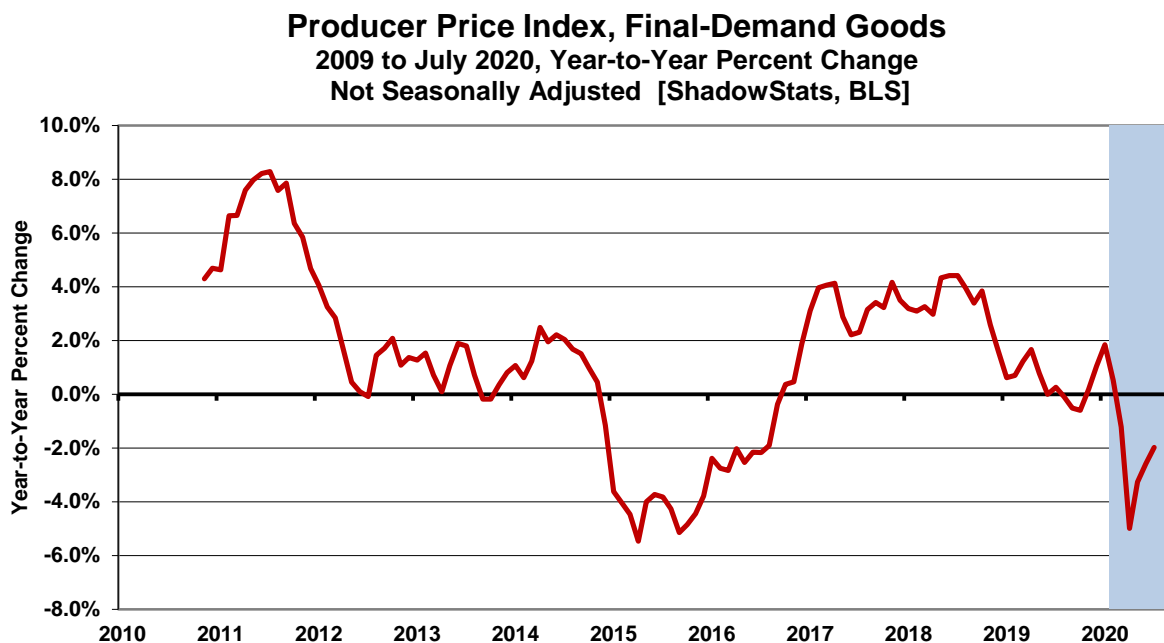


The July 2020 Producer Price Index (PPI) Jumped 0.6%, Double Expectations, With Goods Up by 0.8% and Services Up by 0.5%. As reported by the Bureau of Labor Statistics (BLS) on August 11th, July Producer Price Index-Final Demand (PPI-FD) inflation jumped to 22-month high of 0.60%, reflecting a third straight month of solid gains in Goods, up by 0.80%, with the dominant Services sector gaining a 16-month high 0.50%—its first gain four months—despite soaring gasoline prices, which boost the Goods but also depress Service-sector inflation.

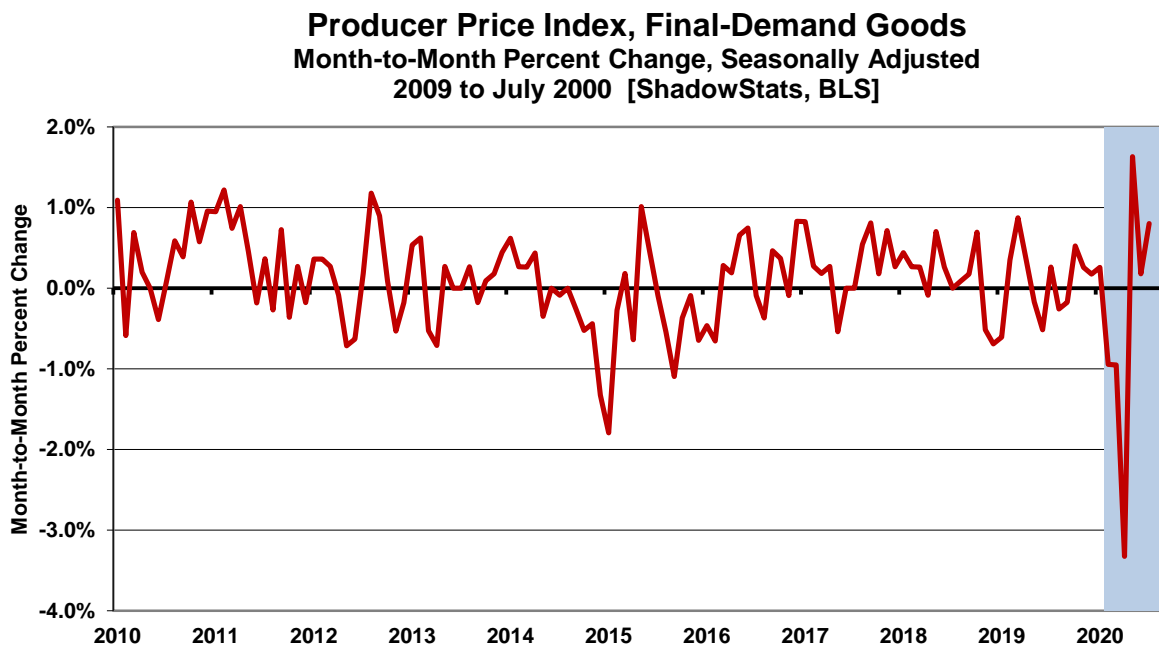
Services were boosted by a 7.8% jump in portfolio management fees, with some offset from a 7.0% (-7.0%) decline in airfares, per the BLS. In the usually more-meaningful Goods sector, given recovering oil and gasoline prices, Energy gained 5.28% in the month, with the annual decline there narrowing to 13.51% (-13.51%) from 16.97% (-16.97%) in June, post oil-price war. While Food inflation declined by 1.00% (-1.00%) in the month, unchanged year-to-year. “Core” inflation (ex-Food and Energy) rose to a 28-month high of 0.34%, within 0.02% of hitting a seven-year peak. Annual Construction inflation eased to a three-year low of 2.11%, from 2.80% in June.

[*Graphs 80 and 81* follow on the next page.]

Graph 80: PPI, Final-Demand Goods, 2010 to 2020, Year-to-Year Inflation



Graph 81: PPI, Final-Demand Goods, 2010 to 2020, Month-to-Month Inflation



Section 10 – Federal Reserve and Monetary Conditions

FOMC Re-Targets “Core” Inflation to the Upside, as Inflation Signals Mount

**Record-High Annual Money Supply Level/Growth Continued in July 2020,
With M1 at 38.1% and M2 at 23.3%**

**July ShadowStats Ongoing M3 Gained Month-to-Month,
But Annual Growth Eased to 25.7% from the June 2020 Record High of 26.1%**

M1 Soared Year-to-Year by 40.5% in the Three Weeks Ended August 17th

Annual Growth in M2 and M3 Flattened or Slowed in Early August

The Monetary Base and Fed’s Balance Sheet Have Resumed Expansion

In the Wake of Pandemic-Triggered Emergency Money Supply Creation, and Resulting, Nascent Inflation Pressures, the FOMC Conveniently Now Has Boosted Targeted Inflation. On August 27th, Federal Reserve Chairman Jerome Powell confirmed the Federal Reserve’s Federal Open Market Committee (FOMC) would attempt to generate higher inflation for a while, somewhat after the fact (see the discussion on page 11 in the *Opening Comments*, and circumstances reviewed in previous *Section 9 – Intensifying Inflation Signals With CPI and PPI*, beginning on page 60).

With the Fed Promising Further Dollar Debasement, Holding Physical Gold and Silver Remains the Primary Protection for Preserving the Purchasing Power of One’s Dollar-Denominate Assets. Implications here are for higher headline inflation in the near future, Fed-sanctioned or otherwise. Gold and silver prices spiked higher and the U.S. Dollar sold off with Thursday’s announcement, then quickly reversed, but the precious metals rallied and the U.S. Dollar sold off sharply into the weekend. Irrespective of those early gold, silver and U.S. Dollar price machinations aimed particularly at discouraging private holdings of precious metals, physical holdings of Gold and Silver remain the primary hedge against the continuing debasement of U.S. Dollar and its respective loss of purchasing power.

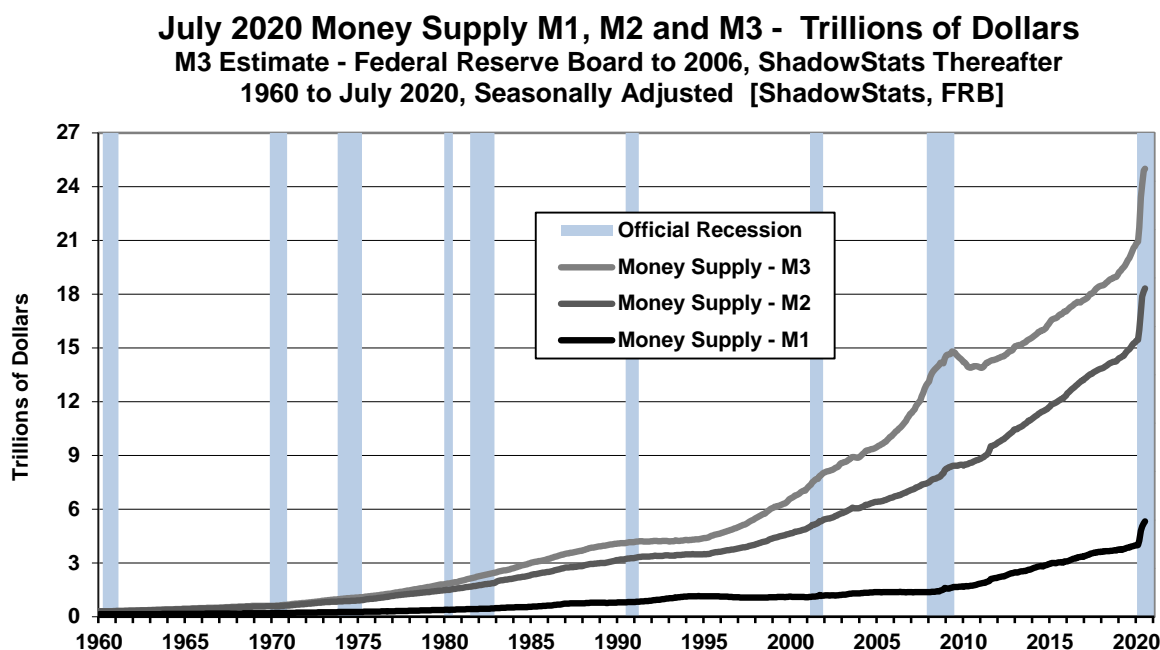
Annual Growth in Nominal Money Supply M1 Hit a Record High of 38.1% in July 2020 and Was Up by 40.5% for the Three Weeks Ended August 17th. M1 and M2 hit respective record high annual growth rates of 38.1% and 23.3% in July, continuing into August, albeit with M2 annual growth flattening out. Annual M3 growth in July slowed to 25.7% from its record of high 26.2% in June. See the [Alternate Data Tab](#) on the [ShadowStats](#) home page for a downloadable version of the full historical series back to 1959. Preliminary estimates for August should be published September 10th.

These record high growth rates are suggestive of surging money creation consistent with an inflation pick up. The concern and effects here should mount along with developing product shortages, such as meat and lumber, where the Second-Quarter GDP and related economic series suggest rising demand and consumption against weaker production, with inventories shrinking as a result.

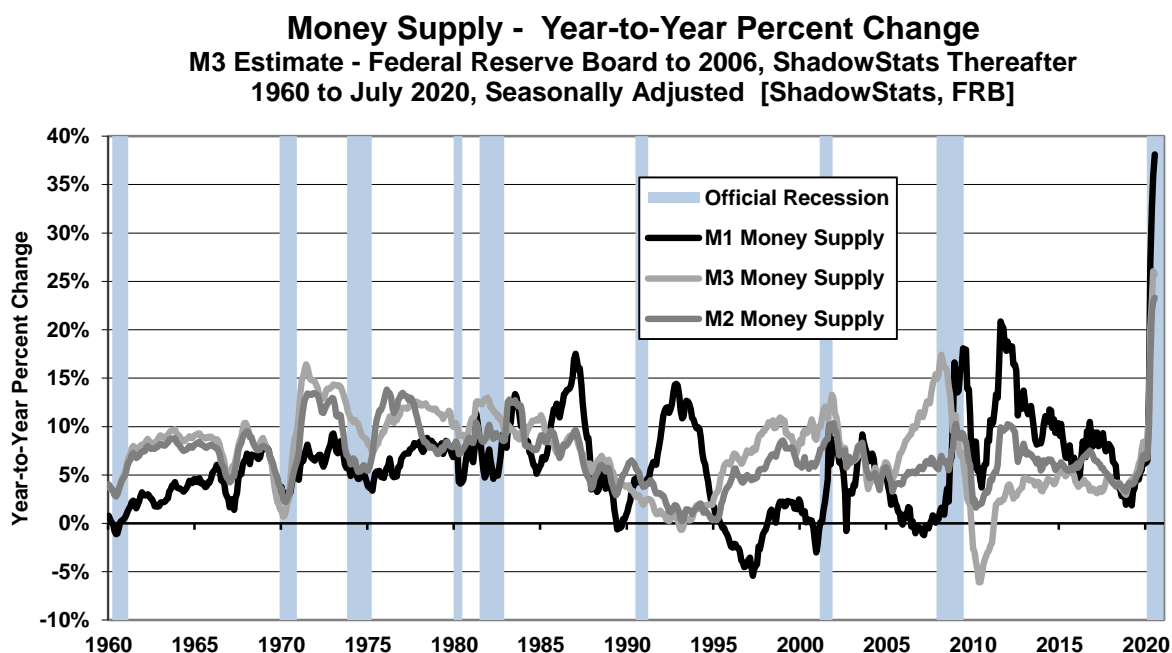
Graphs 82 to 89 plot various versions of the monthly level of and annual growth in Money Supply M1, M2 and the ShadowStats M3 Continuation, through July 2020. **Graphs 90 to 93** plot the levels of and annual changes in the Monetary Base and Federal Reserve's Balance Sheet, both of which have begun to rise anew.

[Graphs 82 to 93 begin on the next page.]

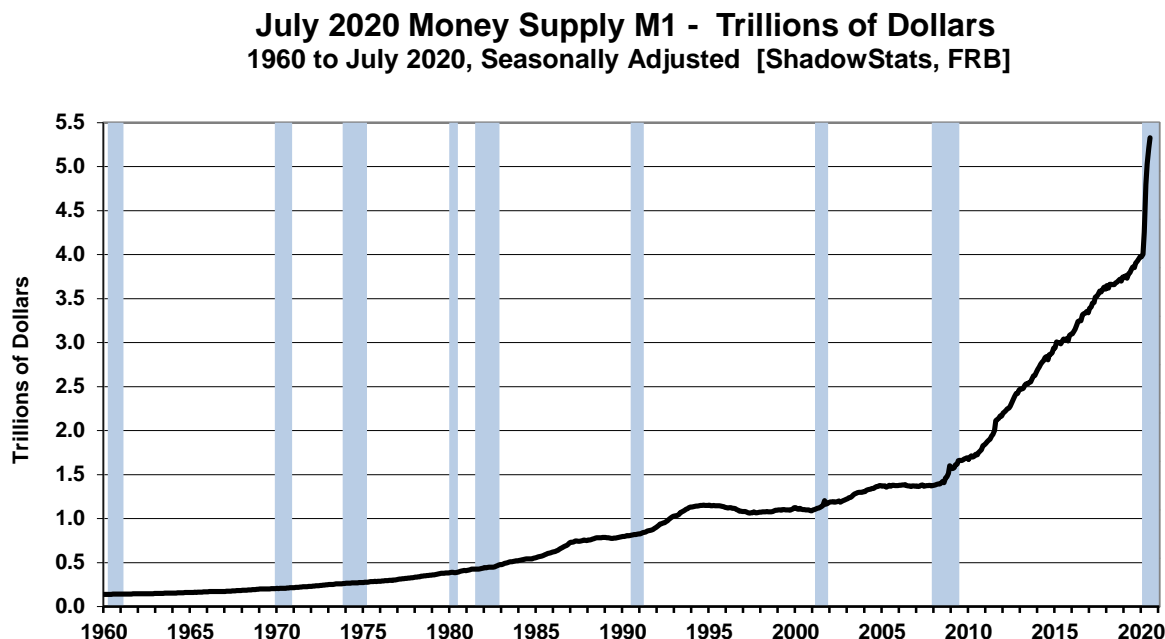
Graph 82: Money Supply M1, M2 and M3 and ShadowStats Continuing M3, Trillions of Dollars, to July 2020



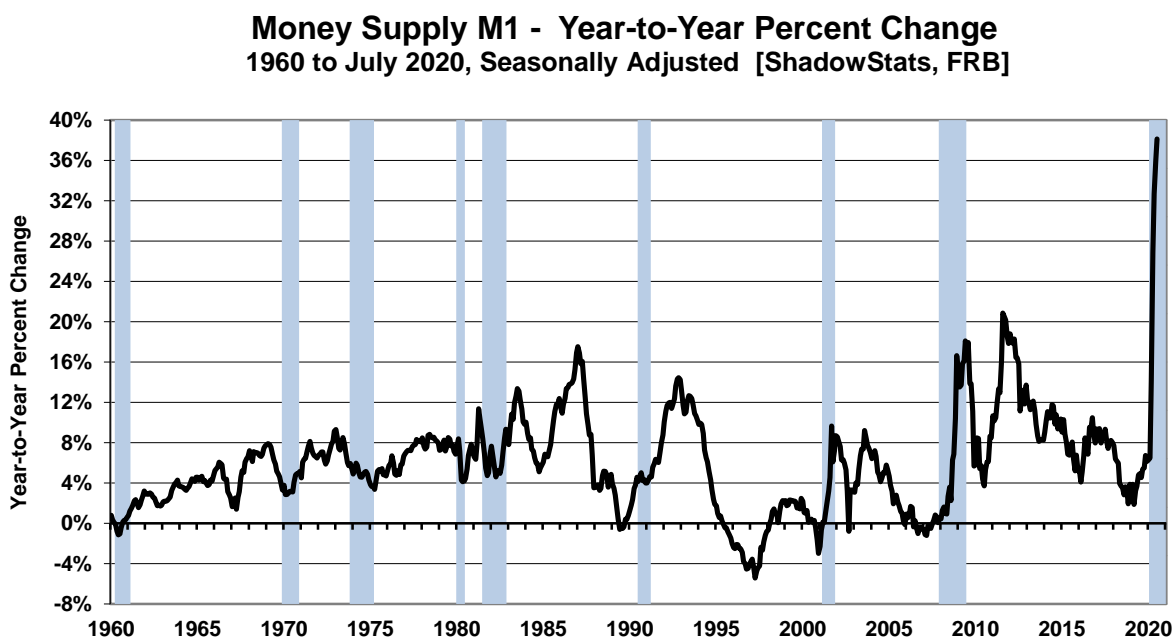
Graph 83: Money Supply M1, M2 and M3 and ShadowStats Continuing M3, Monthly Yr-to-Yr Growth to July 2020



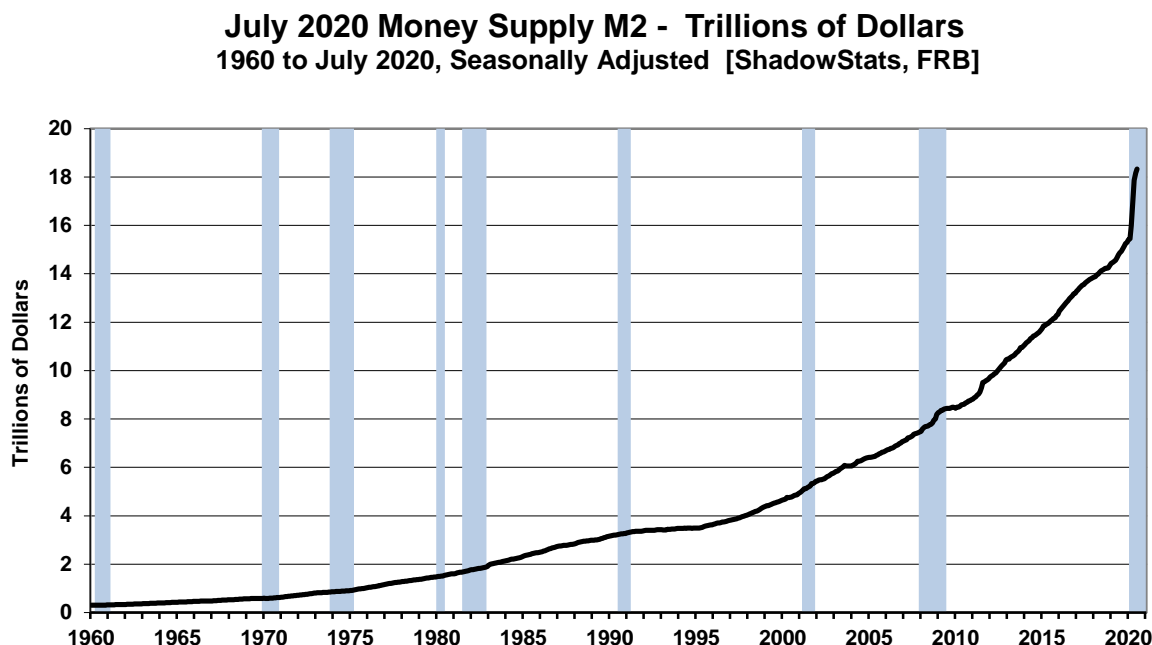
Graph 84: Money Supply M1, 1960 to July 2020



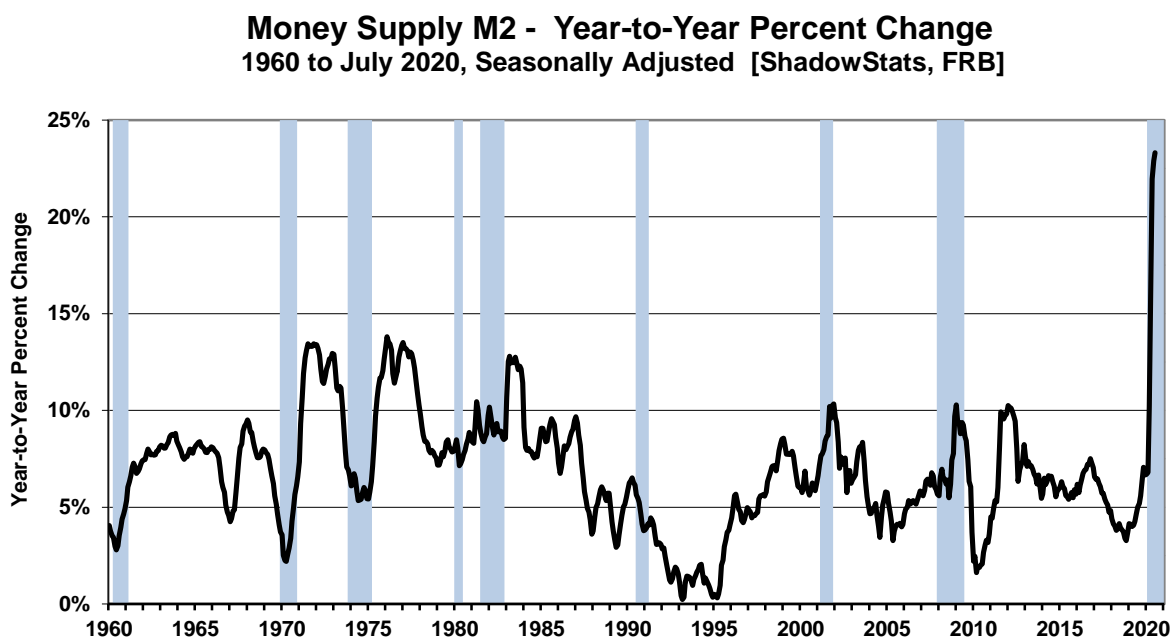
Graph 85: Money Supply M1, 1960 to July 2020, Year-to-Year Change



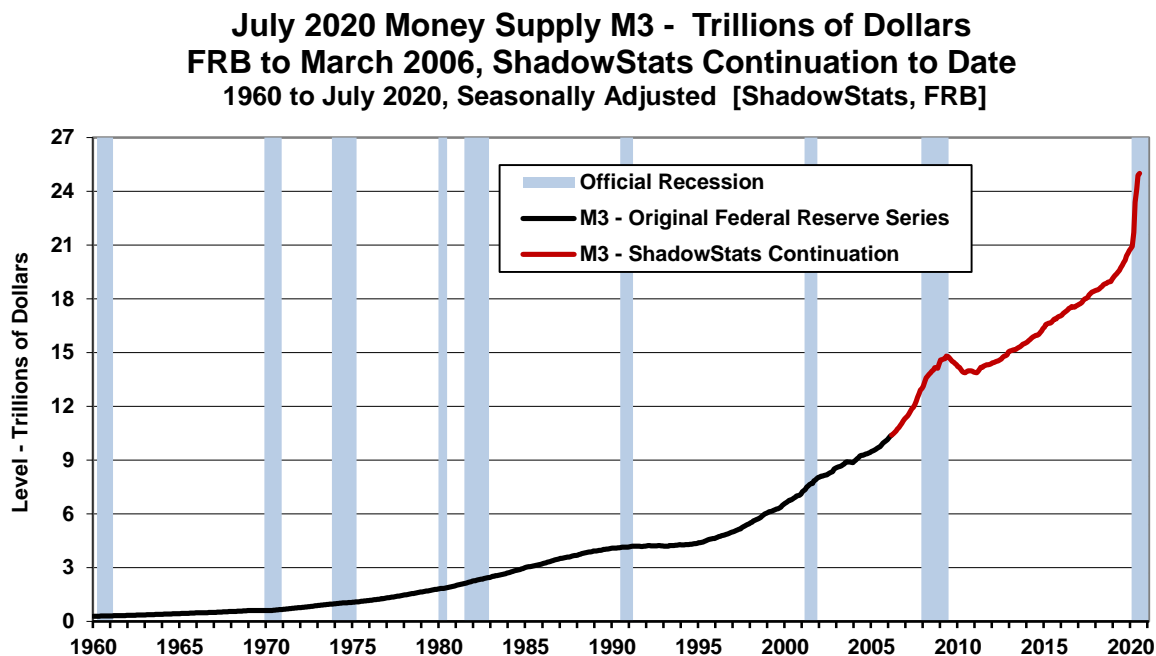
Graph 86: Money Supply M2, 1960 to July 2020



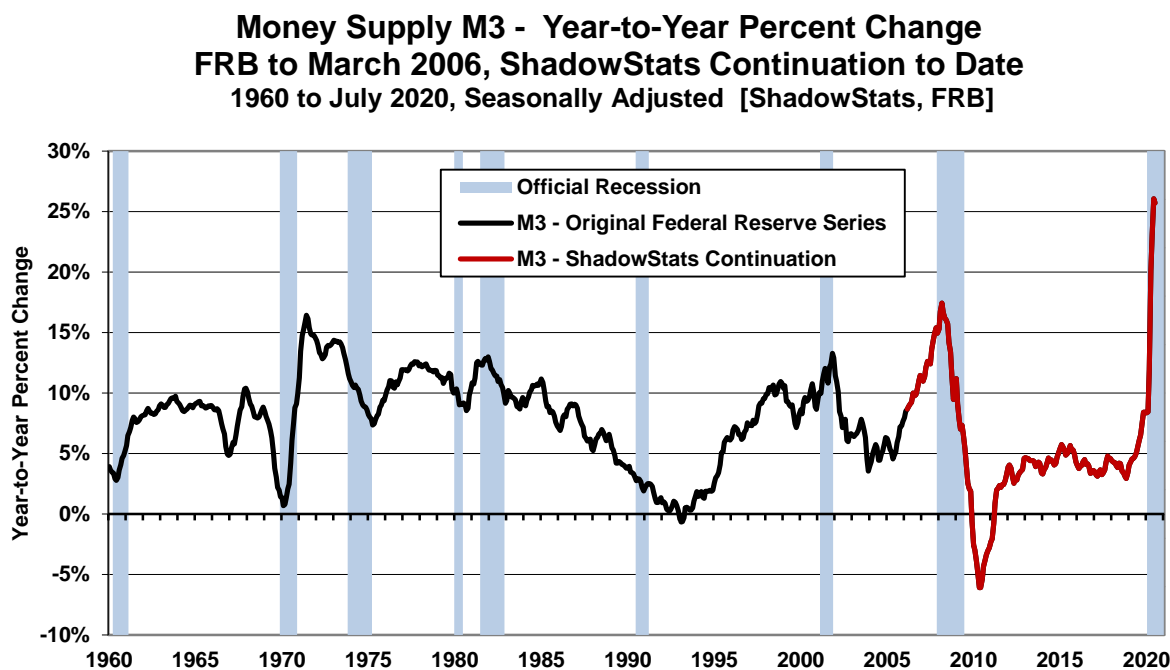
Graph 87: Money Supply M2, 1960 to July 2020, Year-to-Year Change



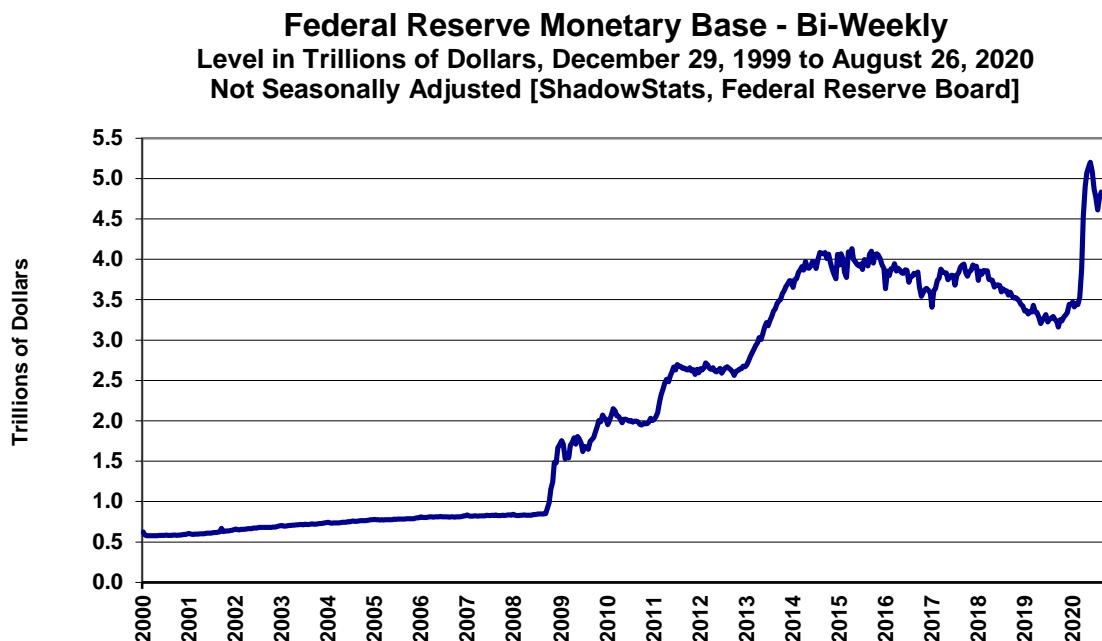
Graph 88: Money Supply M3, 1960 to 2006, With ShadowStats Continuation to July 2020



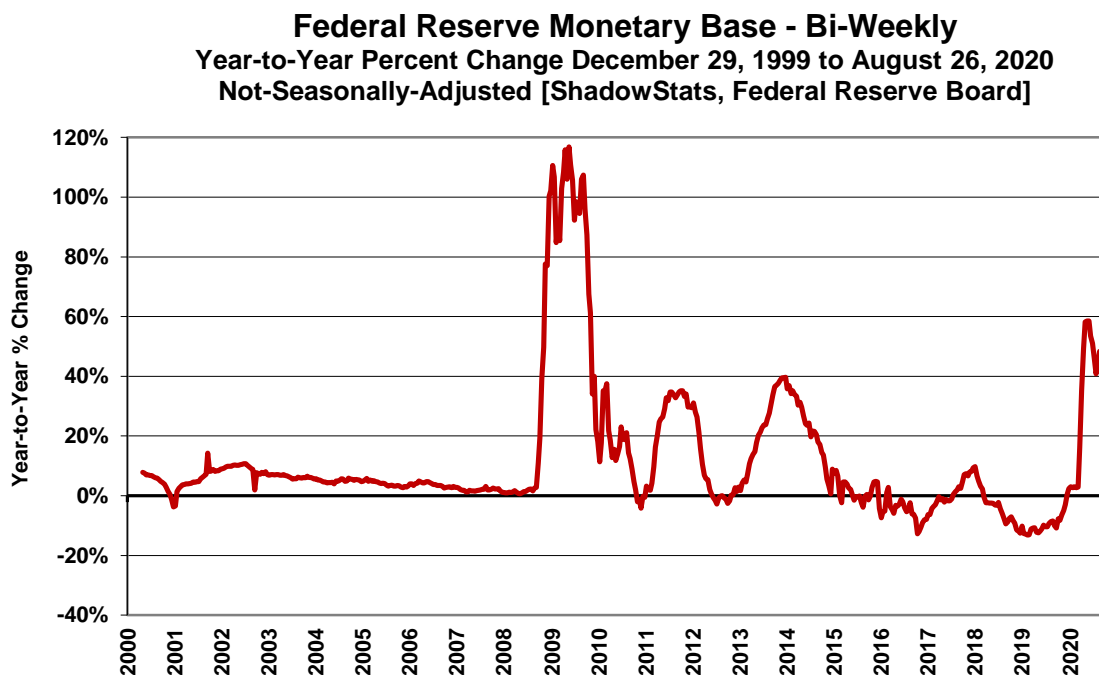
Graph 89: Money Supply M3, 1960 to 2006, With ShadowStats Continuation to July 2020, Year-to-Year Change



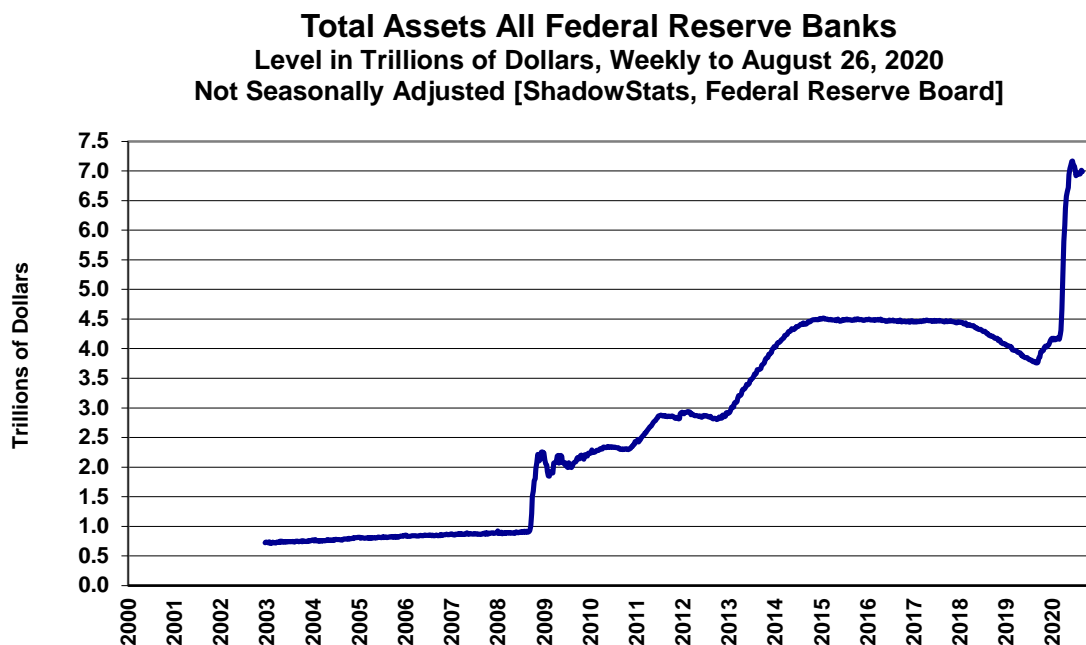
Graph 90: Federal Reserve Monetary Base, 2000 to August 26, 2020



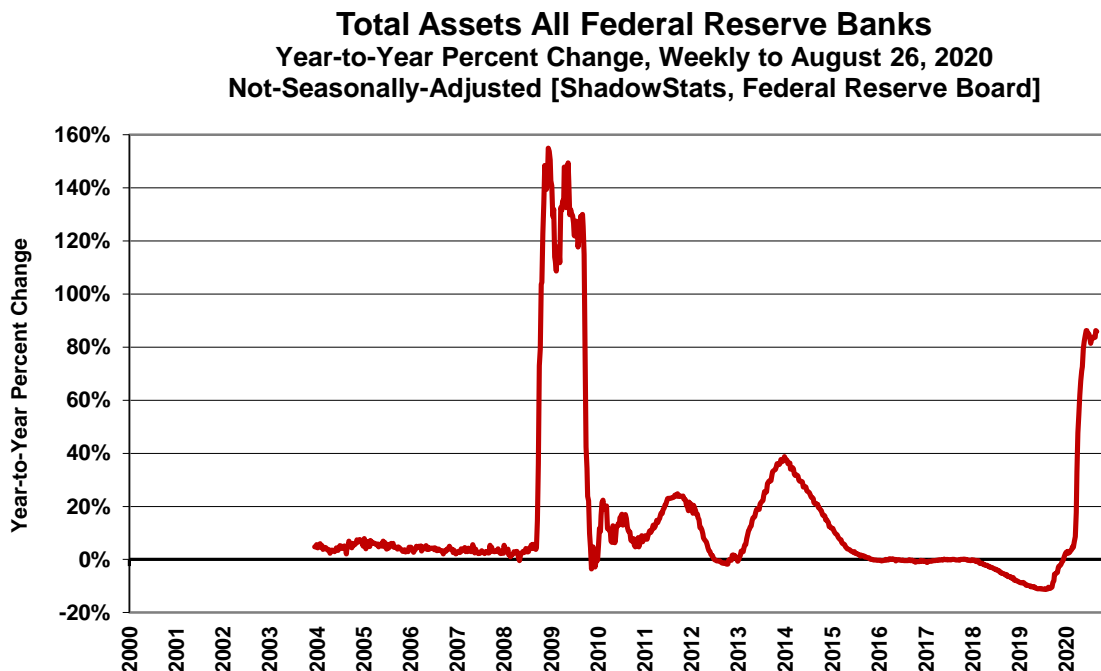
Graph 91: Federal Reserve Monetary Base, 2000 to August 26, 2020, Year-to-Year Change



Graph 92: Total Assets All Federal Reserve Banks, 2000 to August 26, 2020



Graph 93: Total Assets All Federal Reserve Banks, 2000 to August 26, 2020, Year-to-Year Change



[Section 10 – Financial Markets and Related Graphs begins on the next page.]

THE MARKETS

Section 11 – Financial Markets and Graphs

Bullish for Gold and Silver, Bearish for the U.S. Dollar:

**Fed Formally Moves to Spike Inflation in the Context of
Ongoing, Massively Expansive Money Supply Policies**

**Federal Deficit Woes Continue to Explode in Context of the Ongoing,
Pandemic-Driven Economic Collapse and a Still Likely Pre-Election Stimulus Package**

**U.S. Dollar Debasing Actions by the FOMC and U.S. Government Likely Will Intensify
In Response to a Faltering Recovery from Pandemic-Driven Economic Collapse**

Surging Gold and Silver Prices, and the Tumbling U.S. Dollar Have Reflected Mounting Fears of Inflation and Systemic Instability. Discussed previously in [*Special Hyperinflation Commentary, Issue No. 1438*](#) (Risks of a Hyperinflationary Economic Collapse), and in various subsequent writings, a rising gold price tends to lead a pick-up in inflation. In the context of continuing, soaring gold and silver prices and a weakening U.S. dollar, those mounting inflation concerns have been generated by explosive, uncontrolled Money Supply creation by the Federal Reserve, and by soaring, uncontrolled Deficit Spending by the Federal Government. Those official acts of U.S. Dollar debasement continue, having been designed to prevent or to mitigate systemic, economic and financial-market collapse, in the wake of the Coronavirus-Pandemic shutdown of the economy and regular social functioning in the United States. As the full reopening of the U.S. economy and hoped for economic recovery have not developed as well as had been expected by the markets, further stimulus action by the Fed and the Federal Government likely will surface, as needed, albeit with exacerbating impact on developing inflation problems and a weakening U.S. Dollar.

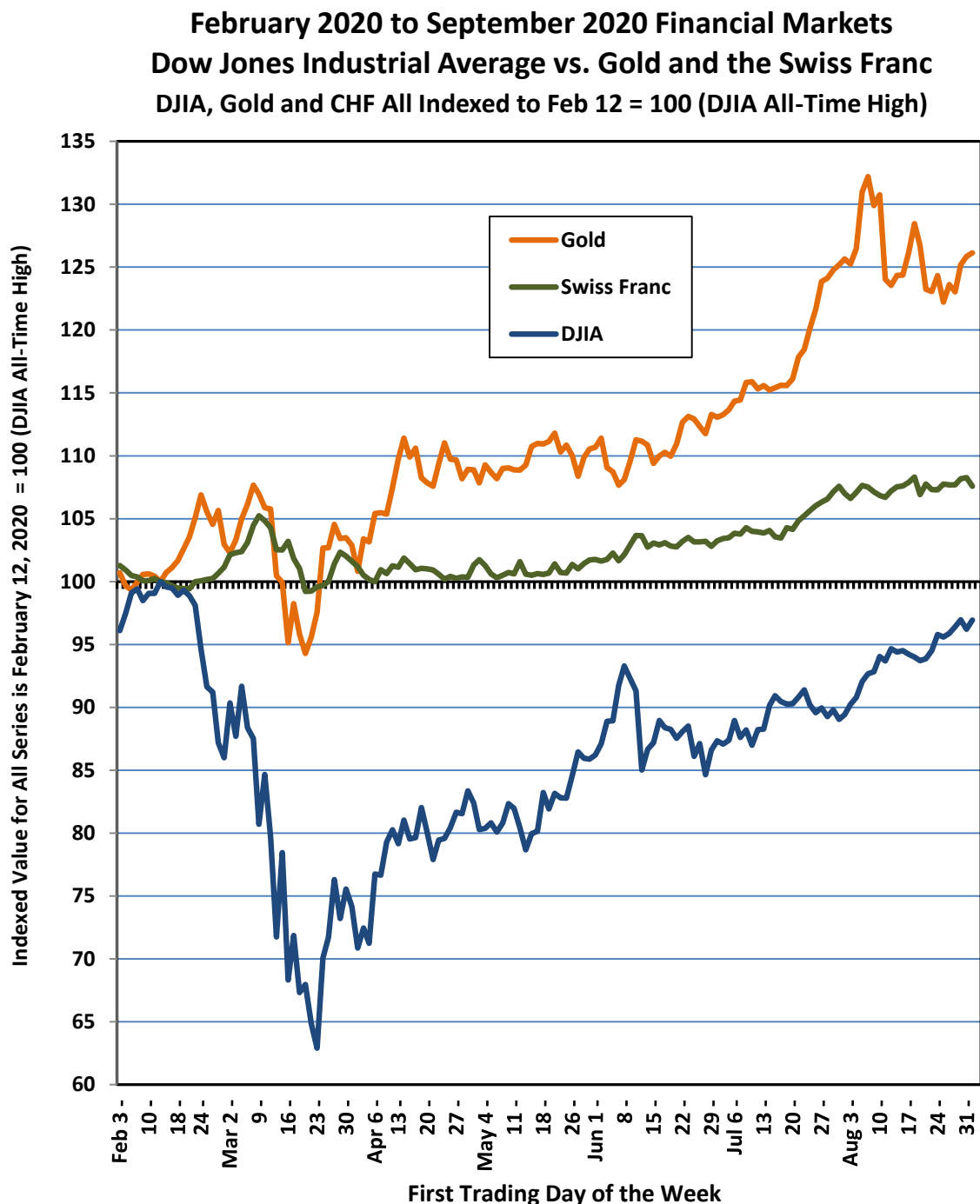
Please note that today' Special Commentary was put to bed before the close of the U.S. markets on September 2, 2020. Accordingly the following numbers and graphs reflect the financial market data from the close of business on September 1, 2020.

[*Financial Market Graphs 94 to 102* begin on the next page.]

Financial Market Graphs Updated to September 1, 2020

Physical Gold and Swiss Franc Continue to Protect U.S. Dollar Purchasing Power
Inflation Risks Mount as Gold and Silver Prices Jump, U.S. Dollar Sinks

Graph 94: February 3 to September 1, 2020 Financial Markets (Dow Jones Industrial Average)



S&P 500 Moves to a Post-Pandemic Crash High

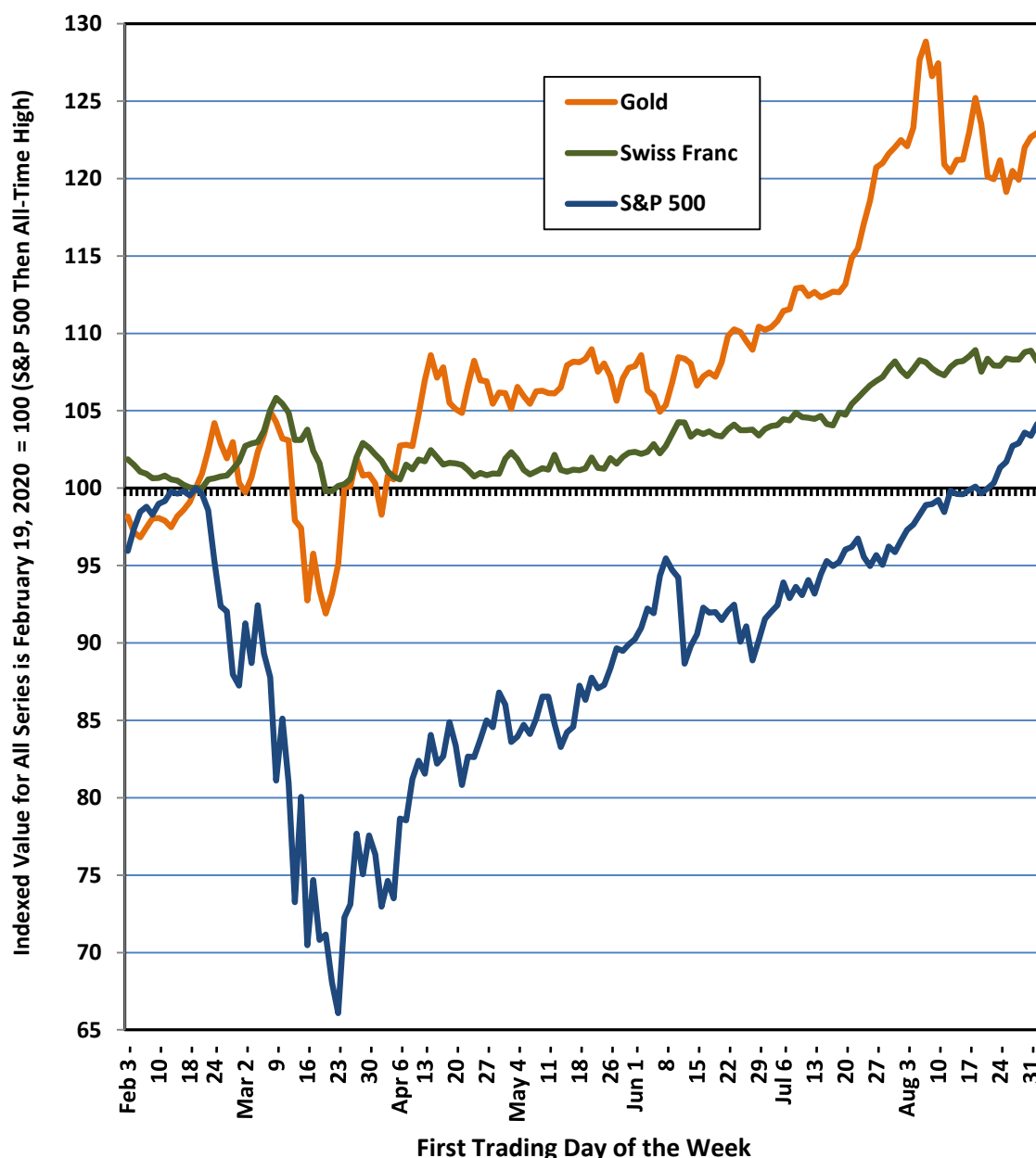
With the Dow Jones Industrial Average (DJIA) still shy by about 3% (-3%) of recovering its pre-Pandemic crash activity (see preceding **Graph 94**), the S&P 500 last week broke above pre-Pandemic levels to record highs, currently up just shy of 5% as reflected in the following, new **Graph 95: S&P 500 vs. Gold and the Swiss Franc**. Where the DJIA and S&P 500 pre-Pandemic peaks were a week apart, the indexing of the pre-Pandemic peak close, and same-day Gold and Swiss Franc all to 100, varies slightly between **Graphs 94** and **95**.

Graph 95: February 3 to September 1, 2020 Financial Markets (S&P 500)

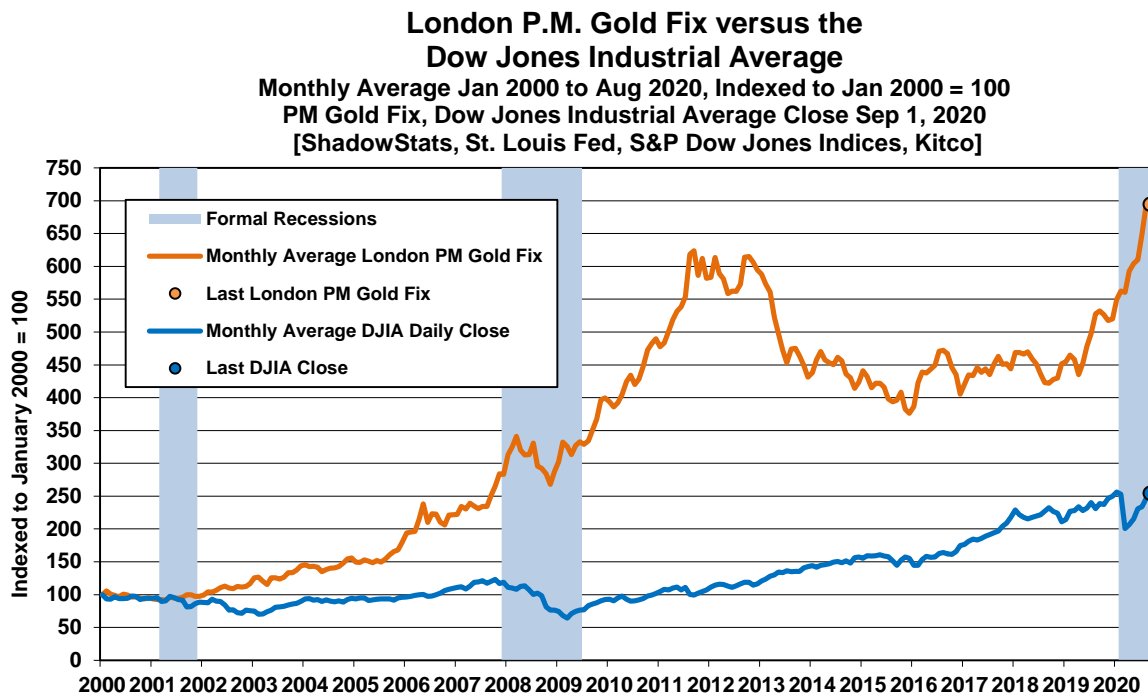
February 2020 to September 2020 Financial Markets

S&P 500 vs. Gold and the Swiss Franc

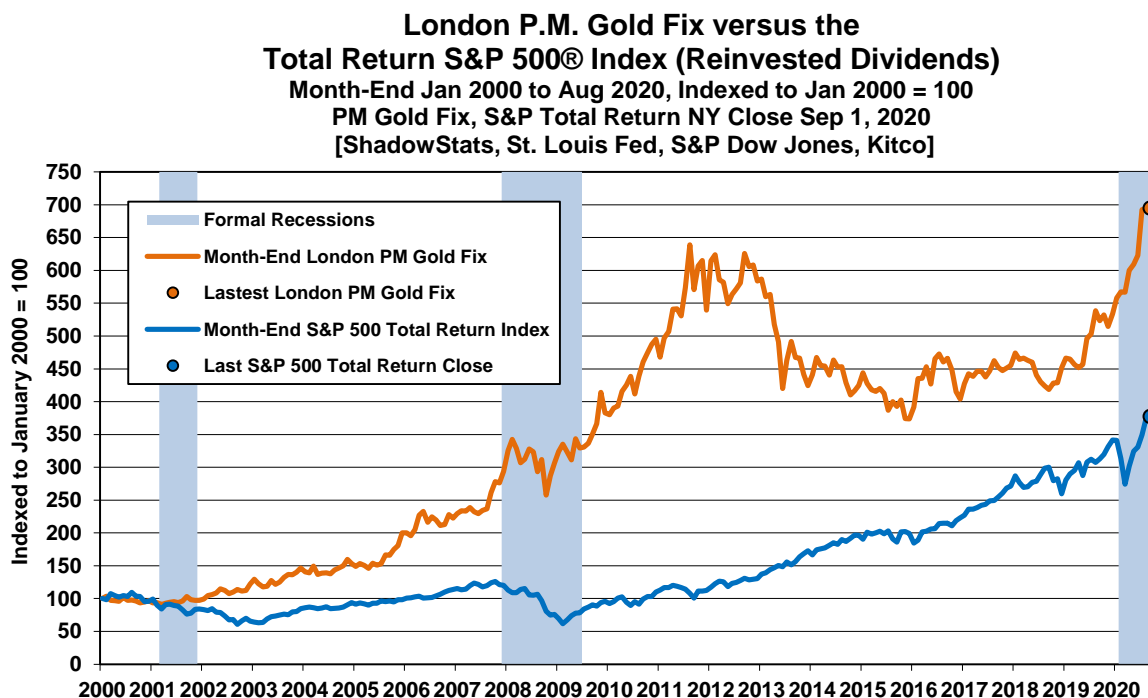
S&P 500, Gold, CHF Indexed to Feb 19 = 100 (S&P 500 Then All-Time High)



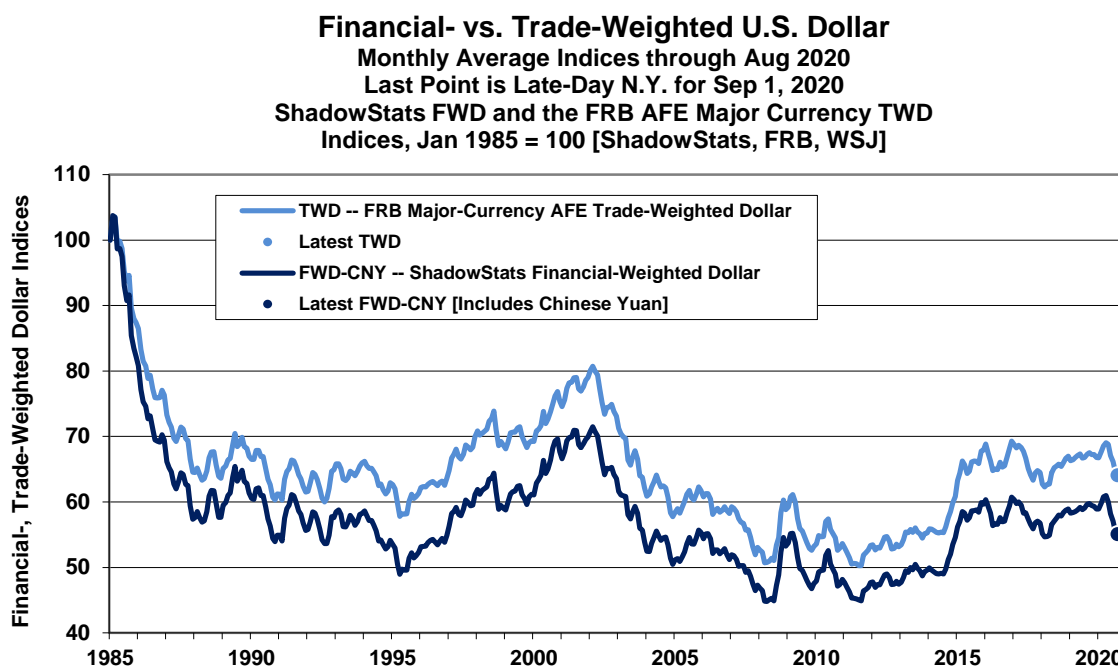
Graph 96: Dow Jones Industrial Average versus Gold (Monthly Average and Latest)



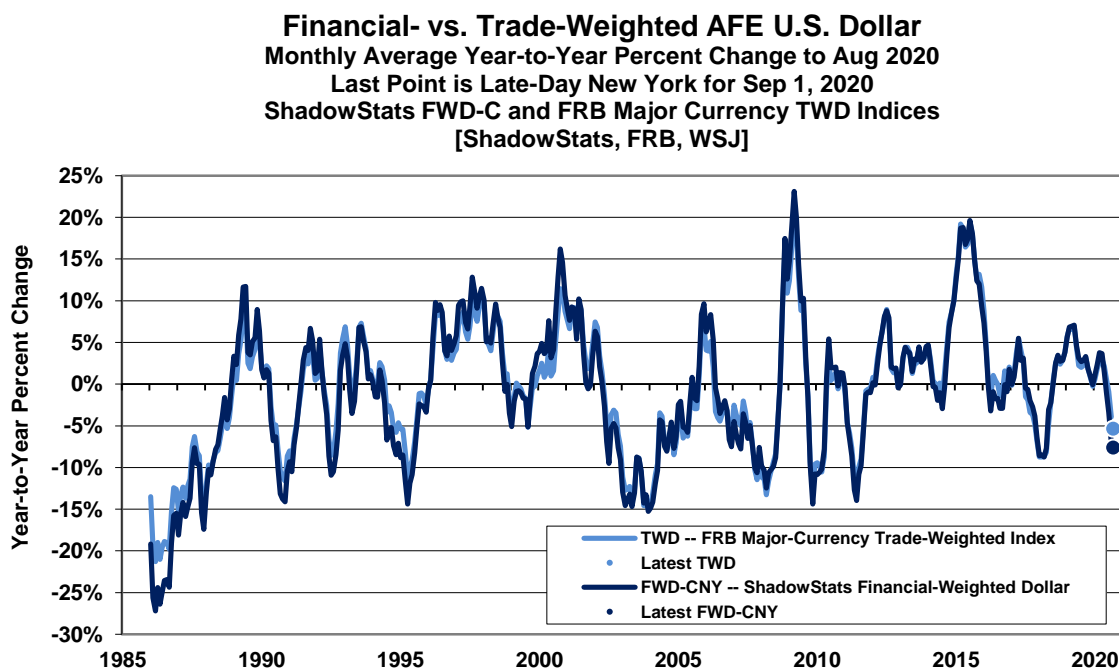
Graph 97: Total Return S&P 500® versus Gold (Month-End)



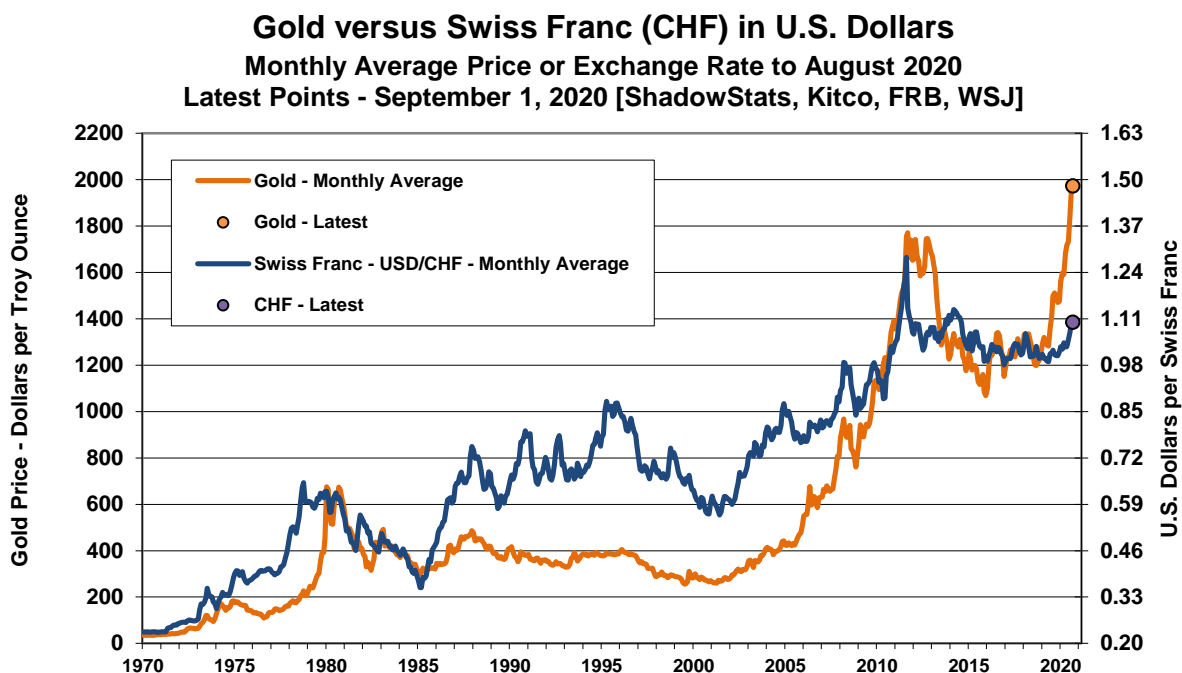
Graph 98: U.S. Financial- vs. Trade-Weighted U.S. Dollar



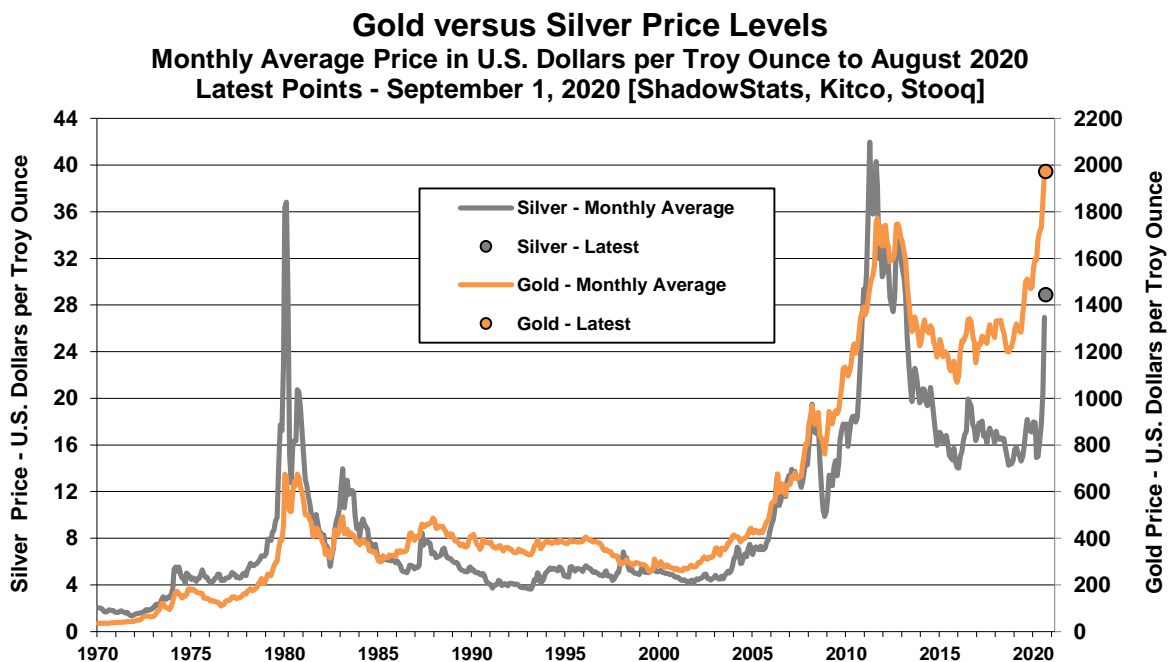
Graph 99: U.S. Financial- vs. Trade-Weighted U.S. Dollar, Year-to-Year Change



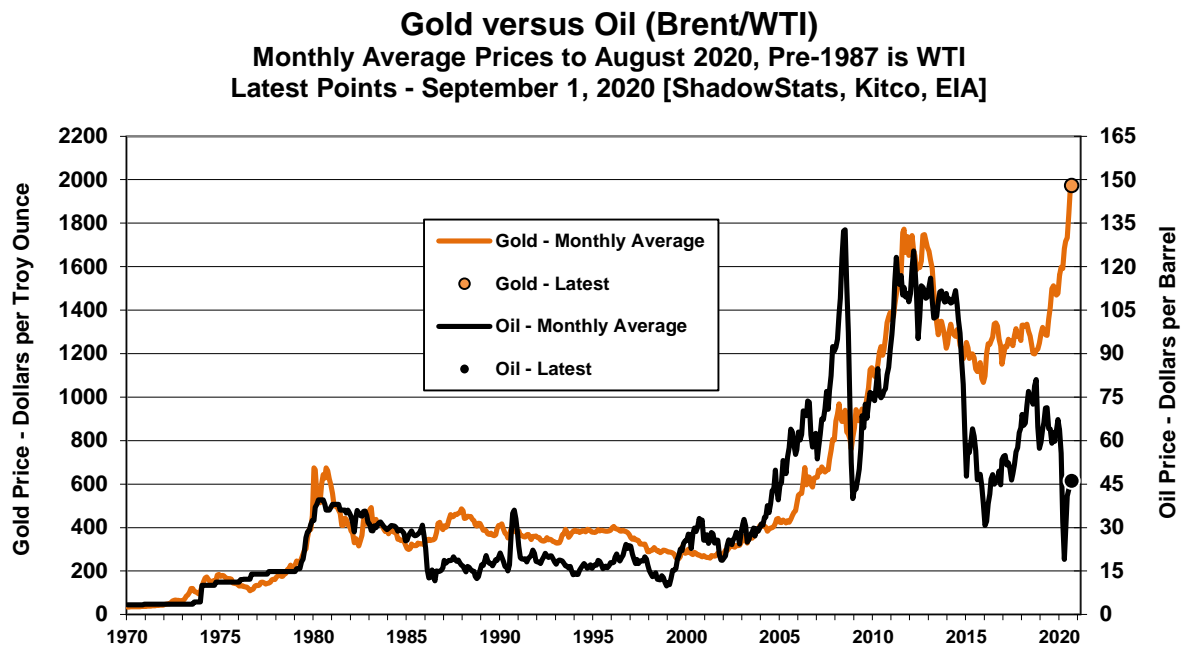
Graph 100: Gold versus Swiss Franc



Graph 101: Gold versus Silver



Graph 102: Gold versus Oil



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