

ShadowStats Flash Commentary, Issue No. 1433

Hyperinflation Risks, Retail Sales Benchmarking, Pandemic Economic Hit

April 28, 2020

**Retail Sales Benchmarking Showed the GDP Slowing
More Than Headlined, Coming Into the Pandemic Shutdown**

**ShadowStats Forecasts First-Quarter 2020 Annualized Real GDP Activity
Ultimately Will Show a Drop of About 7.1% (-7.1%), With
Second-Quarter GDP Plunging by Roughly 38% (-38%)**

**Optimistic Expectations for an Initial First-Quarter Decline of 3.5% (-3.5%)
Incorporate Overly Positive Reporting Assumptions That Filled Gaps in
Initial, Limited-Quality Reporting of Activity in Underlying Series**

**Assuming Some Pandemic Relief, GDP Could Be Off Bottom Before Year-End;
Full Recovery Will Be Difficult and Complicated**

**Mounting Risks of a Hyperinflationary Great Depression, as the
Federal Reserve and Federal Government Launch Unlimited
Money Creation, Deficit Spending and Financial Bailouts**

**Annual Growth in Money Supply M1, M2 and the ShadowStats M3
Jumped to Historic Highs in First Two Weeks of April 2020**

Watch for Early Inflation Warning Signal in Surging Price of Gold

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Crisis Overview – Unfolding Economic Reality, Hyperinflation Risks

Downside Annual Retail Sales Benchmarking Hit 2018 Activity Particularly Hard

Pre-Pandemic GDP Growth Was Weaker Than Headlined

First- and Second-Quarter GDP Face Intensifying Real Quarterly Contractions

Immune to Monetary Stimulus, Recovery Requires an End to Pandemic Restrictions

Federal Reserve Is Creating Unlimited Money in Hopes of Preventing Systemic Collapse

Unlimited Money Creation and Unfettered Deficit Spending Risk Hyperinflation

The “Advance” Headline Decline in First-Quarter 2020 GDP Likely Will Be Overly Optimistic, and Subject to Deeper Headline Contractions in May and June, and in the July Benchmark Revisions.

Consensus forecasts for tomorrow’s (April 29th) “Advance” First-Quarter 2020 GDP are centered around an annualized real quarterly contraction of 3.5% (-3.5%). Those estimates are overly optimistic, based on poor-quality headline reporting of underlying economic activity in the quarter, where pandemic-disrupted data most assuredly were guesstimated to the upside of reality. Such is common practice in government reporting when the hard numbers are in question, as was evident in the disrupted Retail Sales reporting of December 2018, as discussed later in the *2020 Retail Sales Benchmarking*. Detail will follow the headline reporting by noon EDT in the April 29th *Daily Update* section on the www.ShadowStats.com home page, with expanded coverage in pending *Flash Commentary No. 1434* on April 30th

Table I - ShadowStats Projection of Pandemic Economic Impact (Updated from Nos. 1430 and 1432)

Measure	Actual 4q2019	Forecast 1q2020	Forecast 2q2020
Real GDP Q/Q	2.1%	-7.1% ^r	-38% ^r
Real GDP Y/Y	2.3%	-0.3% ^r	-12% ^r
	Actual Feb 2020	Actual Mar 2020	Forecast Apr 2020
U.3 Unemployment	3.5%	4.4%	21% ^r
ShadowStats Alternate	21.1%	22.9%	41% ^r

The GDP forecasts here have been updated from [Special Commentary, Issue No. 1430](#) and the Unemployment forecasts from [Flash Commentary No. 1432](#). The April unemployment forecasts reflect the latest, relevant, weekly New Claims for Unemployment. Headline U.3 unemployment of 3.5% in February 2020, increased to 4.4% in March, versus a *ShadowStats* forecast of “up to 5%.” Please note that the headline March 2010 U.3 Unemployment Rate would have been about 10.4%, had the recognized

10-million missed unemployment claims in March been reflected in the headline unemployment surveying. The ShadowStats April forecast for U.3 is 21% [previously 25%], where the headline April detail will be released on May 8th. The ShadowStats Alternate Unemployment measure was 21.1% in February and increased to 22.9% in March, against a forecast of 23.0%. The current April forecast is a revised 41% [previously 43%], depending on unstable and inconsistent sampling/surveying patterns and increasing counts of persons working part-time for economic reasons or otherwise marginally-attached to the labor force.

Retail Sales Annual Benchmarking Confirmed Historical Overstatement of Headline GDP Reporting Since 2017. Coverage of the 2020 annual benchmark revisions to the Retail Sales series begins on *Page 5*. As predicted in [Flash Update No. 21](#) of February 11, 2020, the Retail Sales series benchmarked to the downside, foreshadowing likely downside revisions to other series, particularly the July 30th annual GDP benchmarking.

Hyperinflation – Pandemic-Driven Economic Collapse and Resulting Federal Reserve Money Creation and Government Deficit Spending Trigger Risks of Hyperinflationary Economic Collapse. Some highlights and summary details from the pending *ShadowStats Special Hyperinflation Commentary, Issue No. 1435* follow, beginning on *Page 9*.

ShadowStats Evolving Coverage of the Pandemic-Induced Economic and Financial Turmoil. Disrupted economic and financial-system circumstances remain highly fluid and volatile. Accordingly, *ShadowStats* assessments will be updated with frequent *Flash Commentaries* in the weeks ahead, interspersed with *Special Commentaries*, as needed. Initial scheduling plans already have shifted, as follows:

ShadowStats Flash Commentary No. 1434 will post April 30th, reviewing the April 29th headline reporting of the initial estimate of First-Quarter 2020 Gross Domestic Product (GDP) and any new Federal Reserve actions out of the April 28th to 29th Federal Open Market Committee (FOMC Press Conference on the 29th).

ShadowStats Special Commentary, Issue No. 1435 - Risk of Hyperinflationary Collapse follows on May 4th, having been rescheduled several times, because of shifting and unfolding economic, financial-market and political developments. Key points from this *Hyperinflation Report* are highlighted in the *Hyperinflation Risks* section. Specific schedules, headline reporting, intervening events and unusual developments all are covered regularly in the *Daily Update* section of the [ShadowStats Home Page](#).

For earlier and evolving assessments of the last month, see [Special Commentary, Issue No. 1429](#), [Special Commentary, Issue No. 1430](#), [Flash Commentary, Issue No. 1431](#) and [Flash Commentary No. 1432](#)

Please call me any time, with a question on the evolving circumstances, or if you just would like to talk, at (707) 763-5786. Leave a message if your call goes to Voicemail. I shall be back to you.

**Your questions and comments always are welcomed. Again, please contact:
John Williams (707) 763-5786, johnwilliams@shadowstats.com.**

Retail Sales 2020 Benchmark Revisions

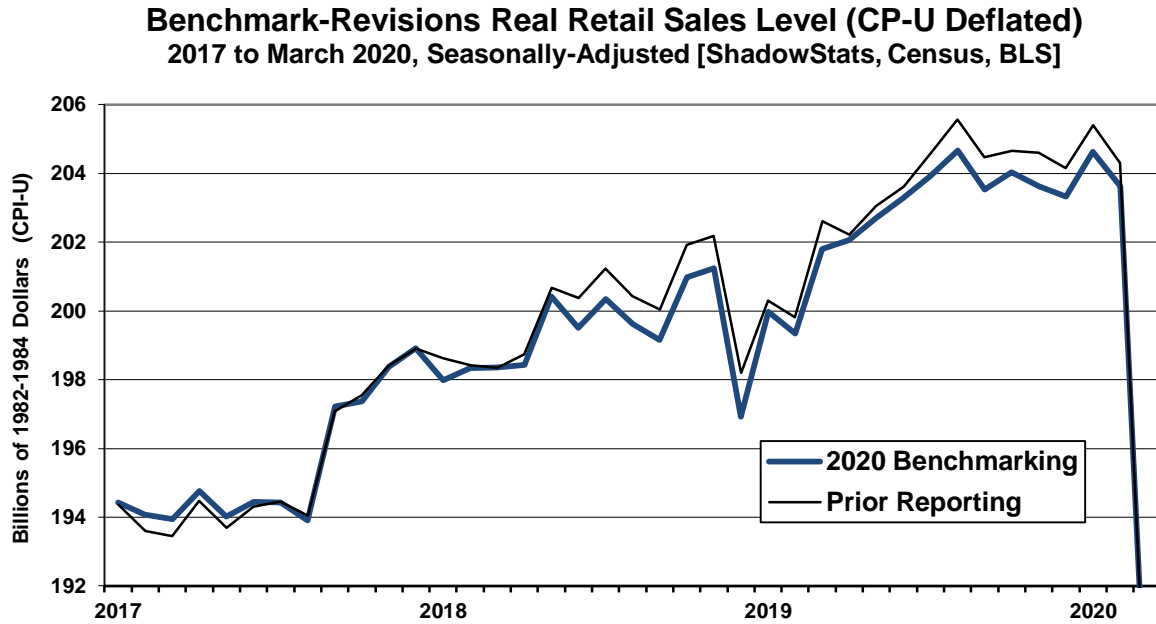
Downside Annual Retail Sales Benchmark Revisions Primarily Hit 2018, Reducing Real Average Annual Growth There from 2.34% to 1.94%. As headlined in [Flash Update No. 21](#) of February 11, 2020, covering the annual benchmark revisions to Payroll Employment: *First Major Economic Benchmark Revision for 2019 Signaled Large Downside Revisions Pending for the GDP and Retail Sales*. Indeed the pattern of revisions in the 2020 Retail Sales Benchmarking (January 2013 through February 2020) showed meaningful downside revisions in terms of both level and year-to-year change for 2018, particularly consistent with a sharp downside revision to Fourth-Quarter 2018, which *ShadowStats* contends will come out of the pending July 30th GDP Benchmark Revisions as marking the onset of a currently unrecognized recession. Reflecting issues with data quality during the year-end 2018 U.S. Government shutdown, December 2018 Real Retail Sales, for example, have now declined year-to-year by a revised 1.00% (-1.00%), previously down by 0.36% (-0.36%).

Retail Sales level of activity (not growth) also revised lower in 2019 and 2020, riding on top of the downside adjustments to 2018. Against the regular April 15th monthly Retail Sales headline reporting (see [Flash Commentary No. 1432](#)), the level of the inflation-adjusted “Advance” March 2020 activity was unrevised. Monthly growth in March still collapsed, however, down by a revised, record 8.0% (-8.0%) [previously 8.3% (-8.3%)] in the month, with First-Quarter 2020 activity plunging at an annualized 9.8% (-9.8%) pace, the worst since the Great Recession.

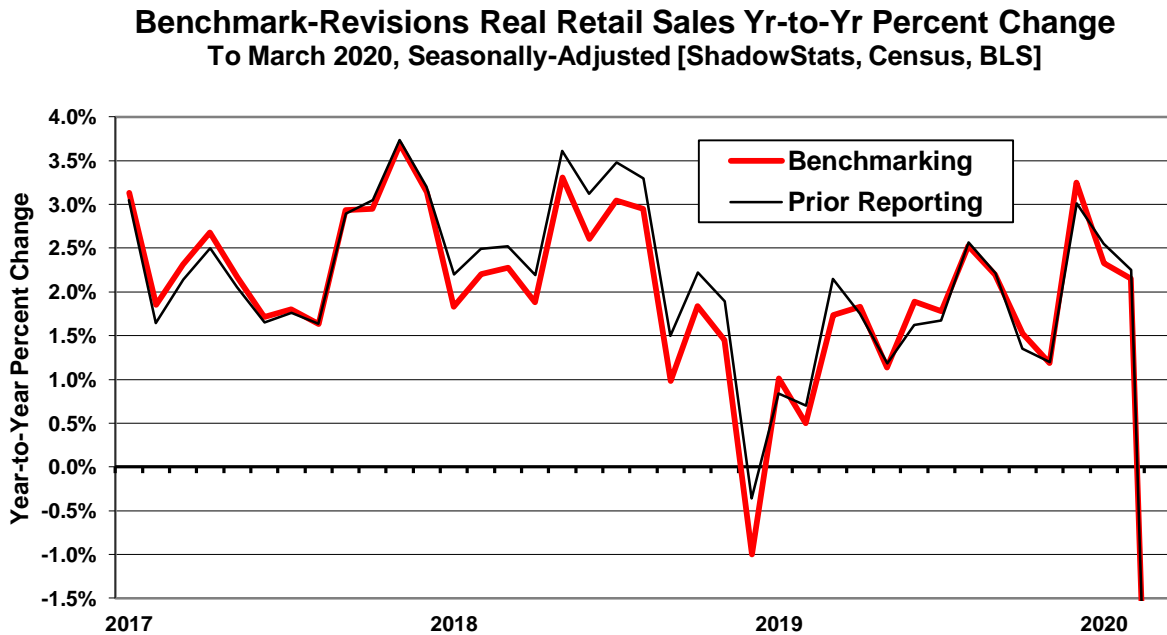
Graphs 1 and *2* highlight the major revisions, all post-2017. Again, the downside revisions in annual growth were concentrated in 2018, with the downside revisions to level in 2019 just shifting lower on top of 2018. *Graphs 3* and *4* and *Graphs 5* and *6* show the standard 2000-to-date and full historical series plots, updated for the benchmark revised data.

[Graphs 1 to 6 begin on the next page]

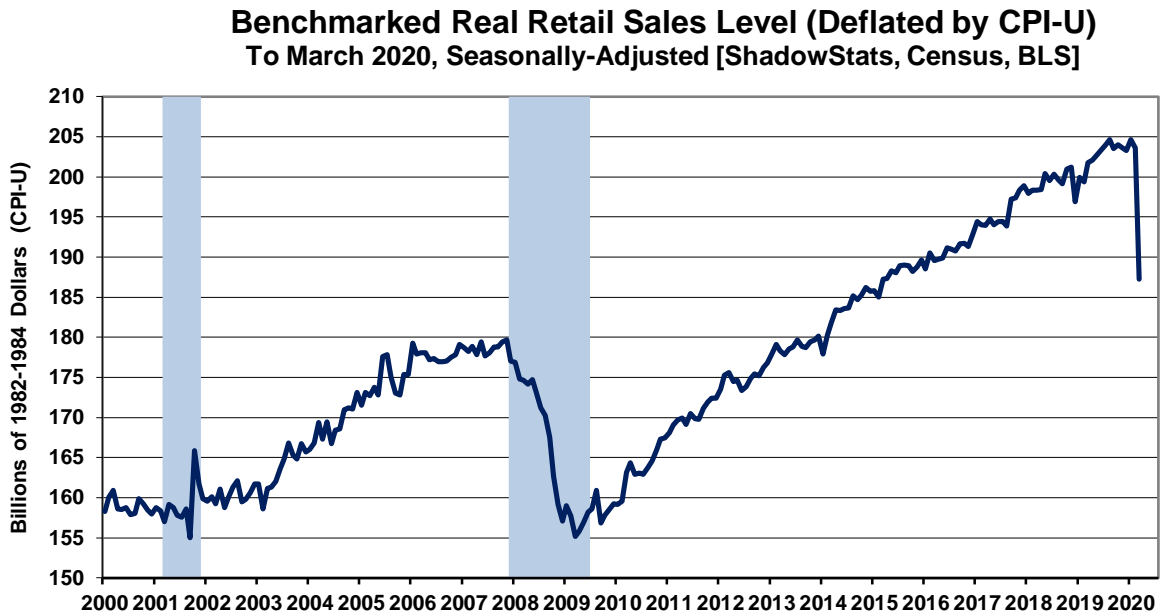
Graph 1: Real Retail Sales Benchmark Revisions 2017 to 2020 (Level)



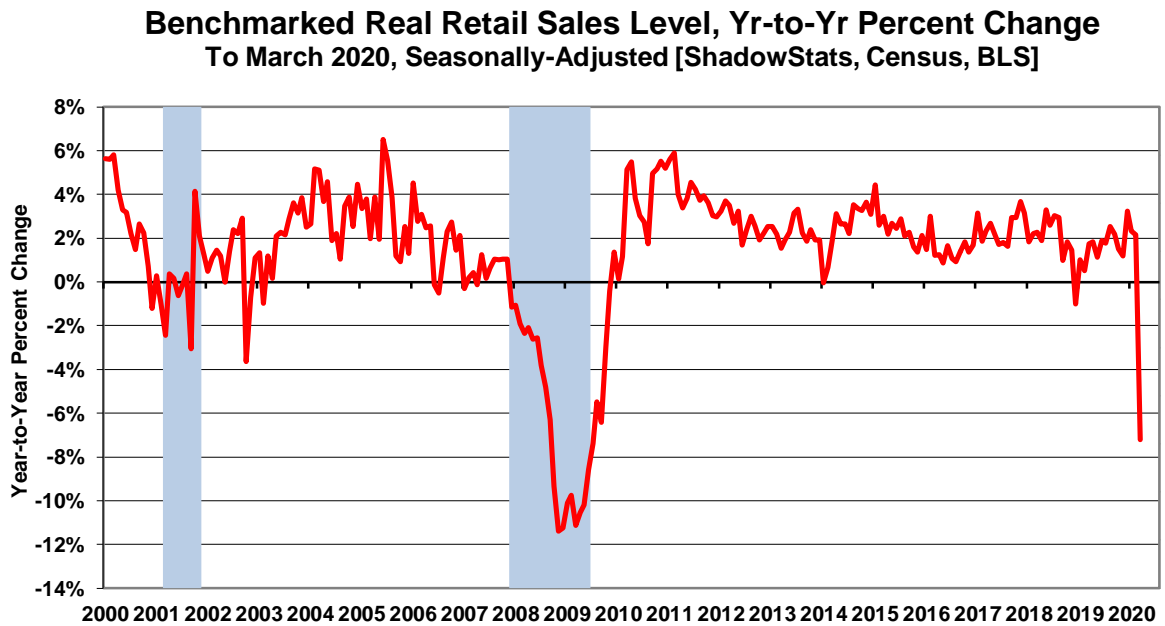
Graph 2: Real Retail Sales Benchmark Revisions 2017 to 2020 (Year-to-year Change)



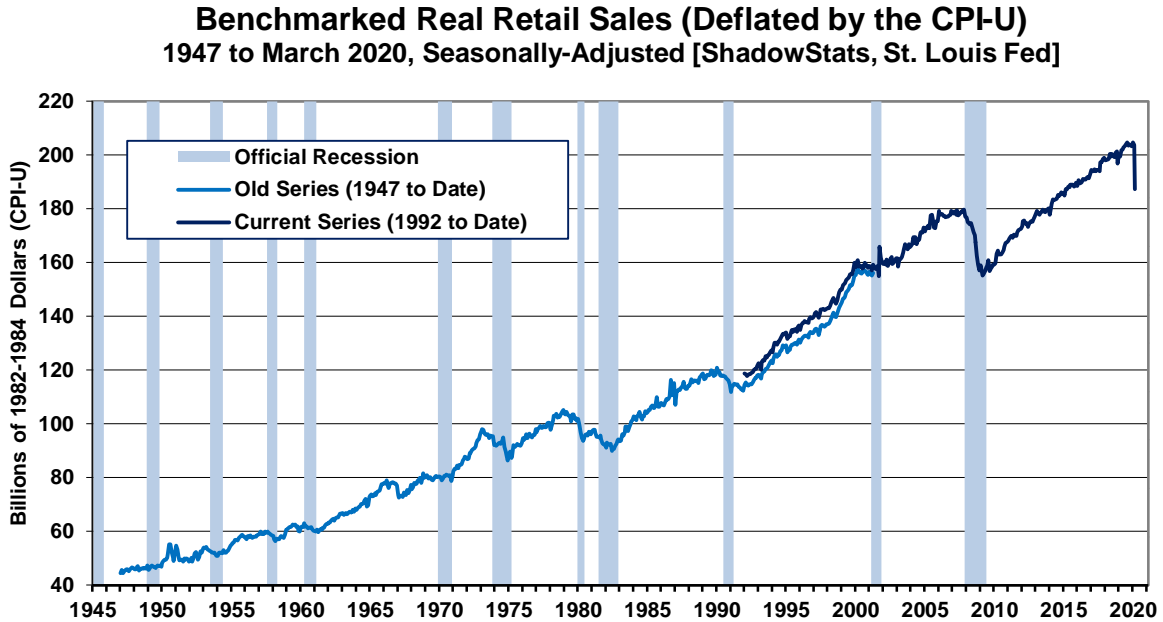
Graph 3: Benchmark Revised Real Retail Sales 2000 to 2020 (Level)



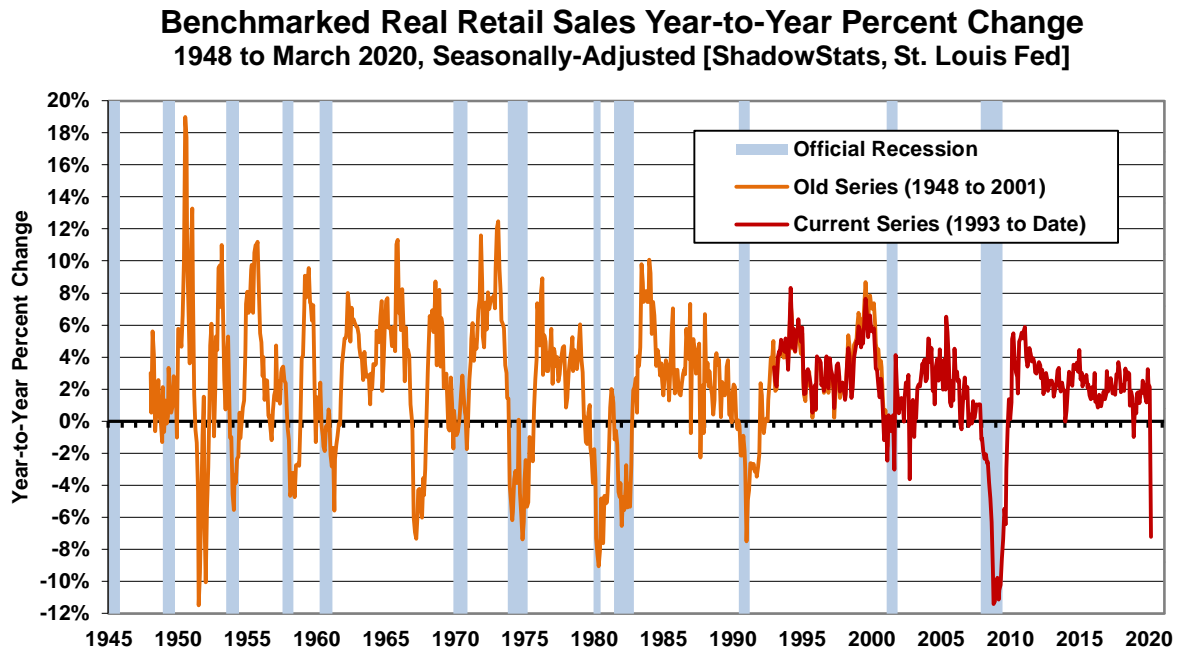
Graph 4: Benchmark Revised Real Retail Sales 2000 to 2020 (Year-to-Year)



Graph 5: Benchmark Revised Real Retail Sales, Full Historical Series (Level)



Graph 6: Benchmark Revised Real Retail Sales, Full Historical Series (Year-to-Year Change)



Hyperinflation Risks

Watch for a Surging Gold Price as a Hyperinflation Signal

The Federal Reserve and Federal Government Have Launched Unlimited Money Creation, Deficit Spending and Financial Bailouts

Throwing Infinite Money at Limited Availability of Goods and Services Threatens a Hyperinflationary Great Depression

Annual Growth in Money Supply M1, M2 and the ShadowStats M3 Jumped to Historic Highs in First Two Weeks of April 2020

Net Headline Inflation in Colonial America and the United States, 1665 to the Opening of the Federal Reserve in 1914 = 8.7%

Headline Inflation in the United States from the Opening of the Federal Reserve in 1914 to March 2020 = 2,457.6%

Rising Price of Gold Should Foreshadow the Early Stages of a Hyperinflation, With Current Actual (Not Headline) Annual U.S. Inflation Near 10%

Updated Hyperinflation Outlook in *Special Commentary, Issue No. 1445*, Will Address Hyperinflation Risks in the Pandemic Shutdown of the U.S. Economy. The U.S. Federal Reserve has opted to create unlimited money in an effort to stabilize the Coronavirus Pandemic collapsed U.S. economy. That circumstance, in the context of, and in conjunction with the U.S. Government embarking on unlimited deficit spending, is a good bet to drive the United States into a hyperinflationary Great Depression. The full report on this will be published next week, in *Issue No. 1445*. Background to the fully updated Hyperinflation outlook includes [*Hyperinflation 2014—The End Game Begins \(Revised\), No. 614*](#) of April 2, 2014 and [*Hyperinflation 2014—Second Installment*](#) of April 8, 2014

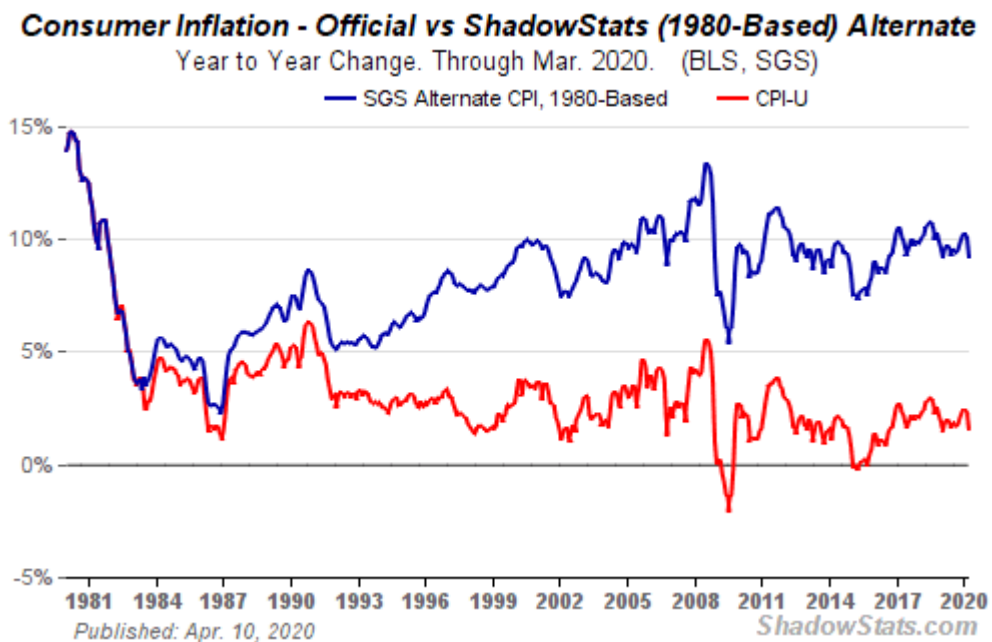
I have been assessing and writing about an eventual hyperinflation crisis and long-range U.S. government insolvency since at least 2005, when the 2004 Financial Statement of the United States Government was published, showing a doubling of U.S. unfunded liabilities tied to Medicare. At the time, I was predicting that the long-term insolvency risks of the United States Treasury would lead to a U.S. hyperinflation likely around 2018 or 2019. With the banking collapse in 2007-2008, I brought in that time horizon to 2014, which obviously did not pan out.

The fundamentals for the crisis, however, remain in place and are coalescing once more into an extraordinary peak. The Fed still is playing out its unresolved and unsuccessful 2008 banking system bailout, which now clearly has failed. Fed Funds are back at zero, with unlimited, expanded Quantitative Easing now backing all sorts of new financial instruments, and with the banking system again in serious trouble. Add in a Federal Government looking to pump multiple trillions of extra dollars into the system, with the Federal Deficit already running out of control, and this long-festering crisis could come to a head with little warning. Inflation tends to be monetary, and hyperinflation often occurs with an economic collapse. Watch the price of gold as a coincident to leading indicator of the unfolding crisis. As seen in **Graph 8**, it is actual inflation (such as the [ShadowStats Alternate Inflation Measure](#) (**Graph 7**)) not the heavily gimmicked CPI, with which the price of gold moves and actually tends to anticipate.

The point I have been making with the Gold/Inflation chart (**Graph 8**) in recent Commentaries indeed is that gold is the real money, over time, millennia/centuries. Its purchasing power per ounce remains constant over the long haul, where the paper dollars/currencies—not backed by hard assets—inflate, always lose their purchasing power. Gold also tends to lead the rising inflation, as seen in the graph.

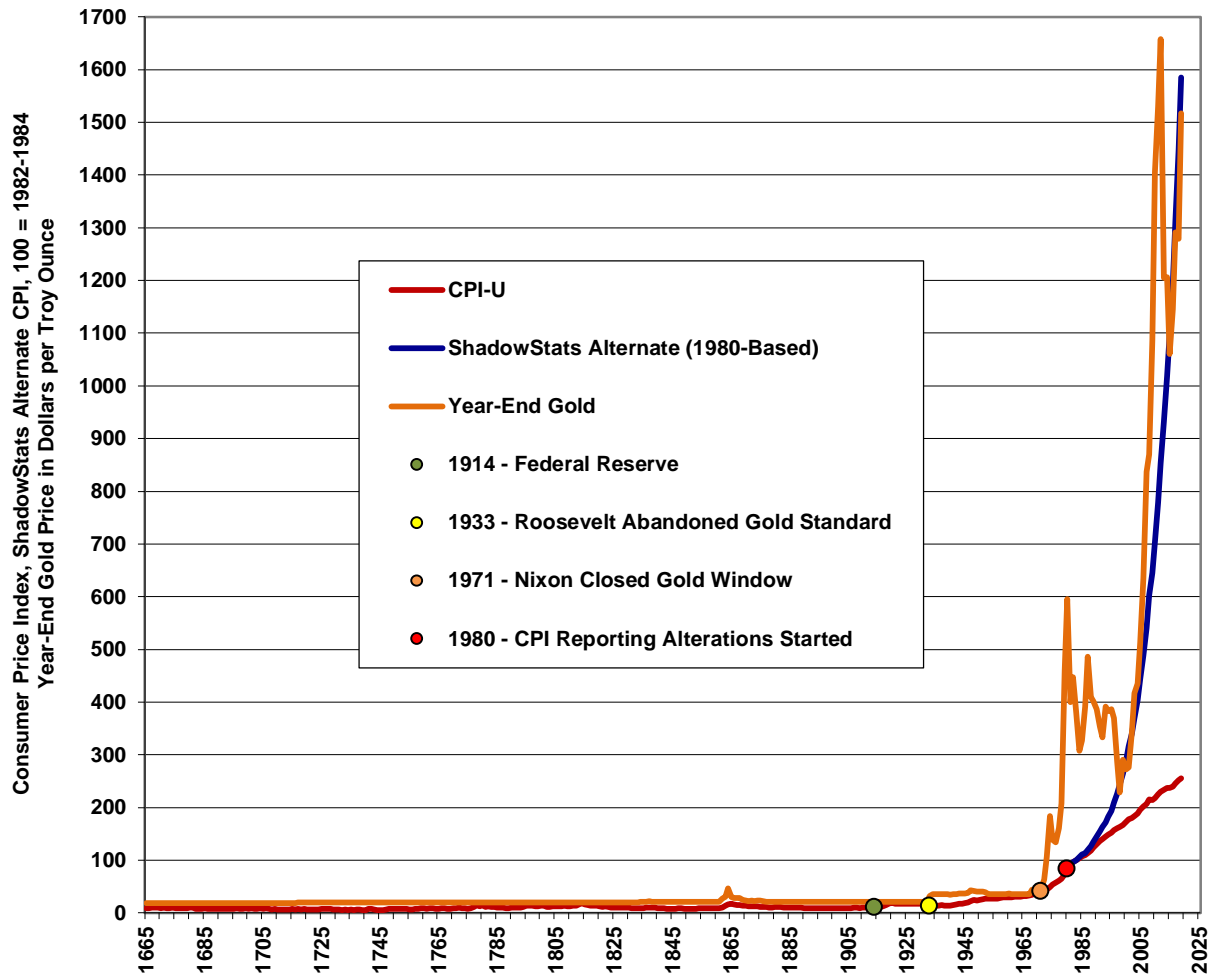
Accordingly, when I talk of a looming hyper-inflationary depression, my hyper-inflation is in the paper money, viewed as money by the general public, not in gold (albeit the real money).

Graph 7: ShadowStats Alternate (1980-Base) Annual Inflation versus Headline CPI-U



Graph 8: Gold versus Actual Inflation

**American Colonies/United States Inflation (1665 to 2019)
CPI and ShadowStats Alternate vs. Year-End Gold (1665 to 2019)**
[ShadowStats, Robert Sahr, BLS, Kitco, OnlyGold.com, thebalance.com]



Beware the Federal Reserve!

U.S. Central Bank Has Moved to Unprecedented Extremes To Create Inflation

Depository Institutions No Longer Face Reserve Requirements, While Money Supply Measures Soar to Record Highs. *Graph 9* plots the Federal Reserve’s Reserve Requirements for Depository Institutions. Those Reserve requirements were eliminated at the end of March! *Graph 10* plots year-to-year change in Money Supply M1, M2 and the Shadows Ongoing M3 Measure. In the first two weeks of April money growth was at the highest level in history, also reflected in *Graphs 11 to 13*, where surging money supply growth tends to lead the pace of inflation. *Graphs 14 to 18* show surging indicators for the money supply measures.

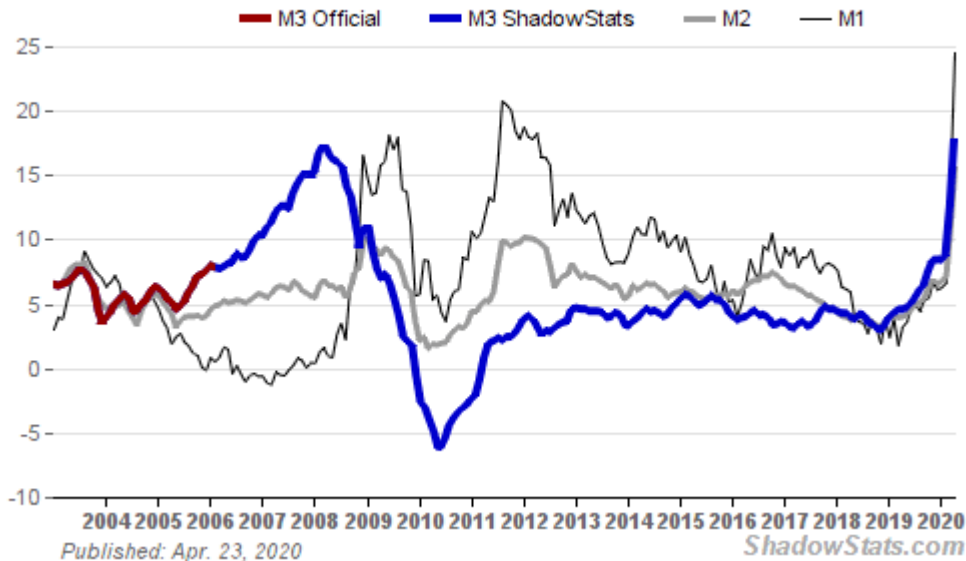
Graph 9: Federal Reserve, Required Reserves of Depository Institutions

Federal Reserve, Required Reserves of Depository Institutions
 Level in Billions of Dollars, Monthly to April 2020
 Not Seasonally Adjusted [ShadowStats, St. Louis Fed]

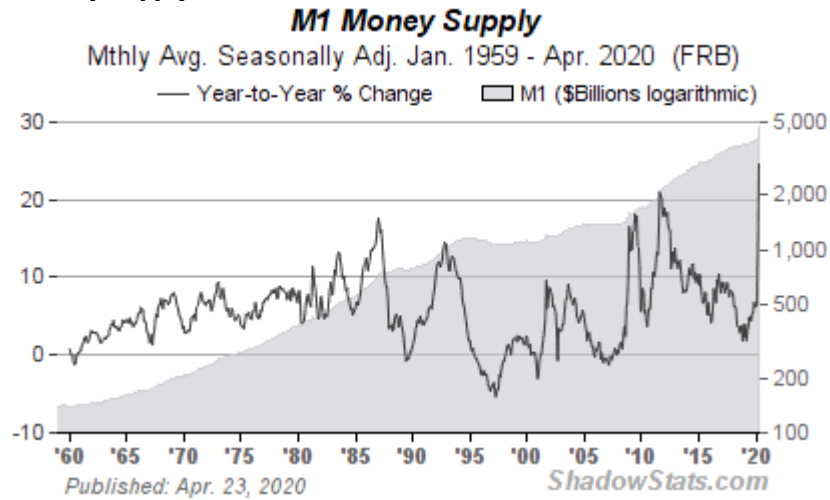


Graph 10: Money Supply, Monthly Year-to-Year Growth to March 2020; April 2020 (First Two Weeks)

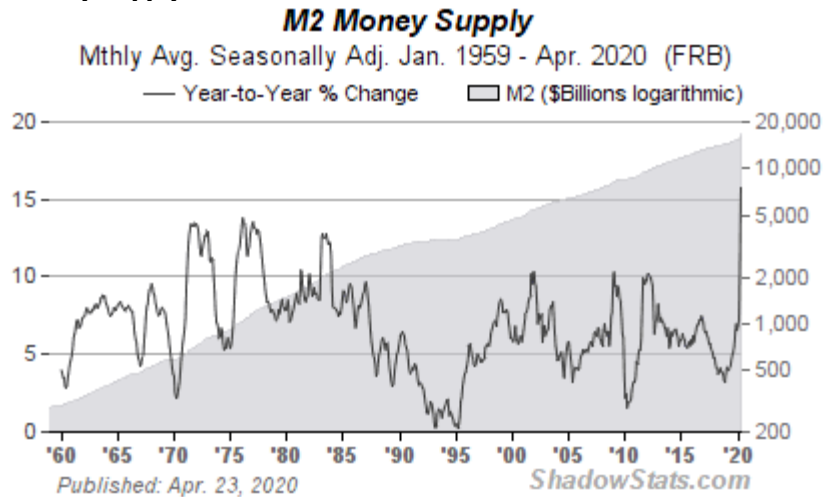
Annual U.S. Money Supply Growth - ShadowStats Continuation
 Yr/Yr % Change by Month through Apr. 2020 (FRB, ShadowStats)



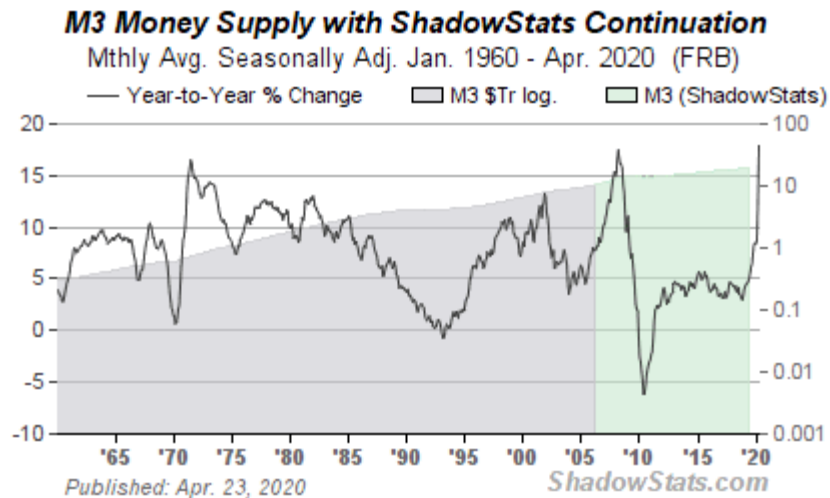
Graph 11: Historical M1 Money Supply



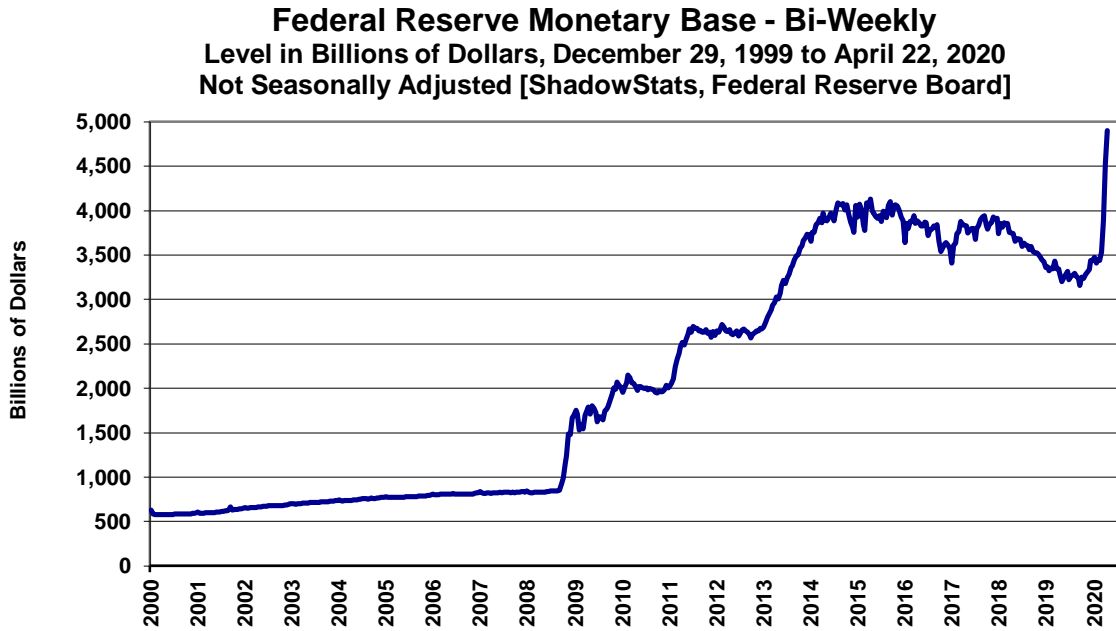
Graph 12: Historical M2 Money Supply



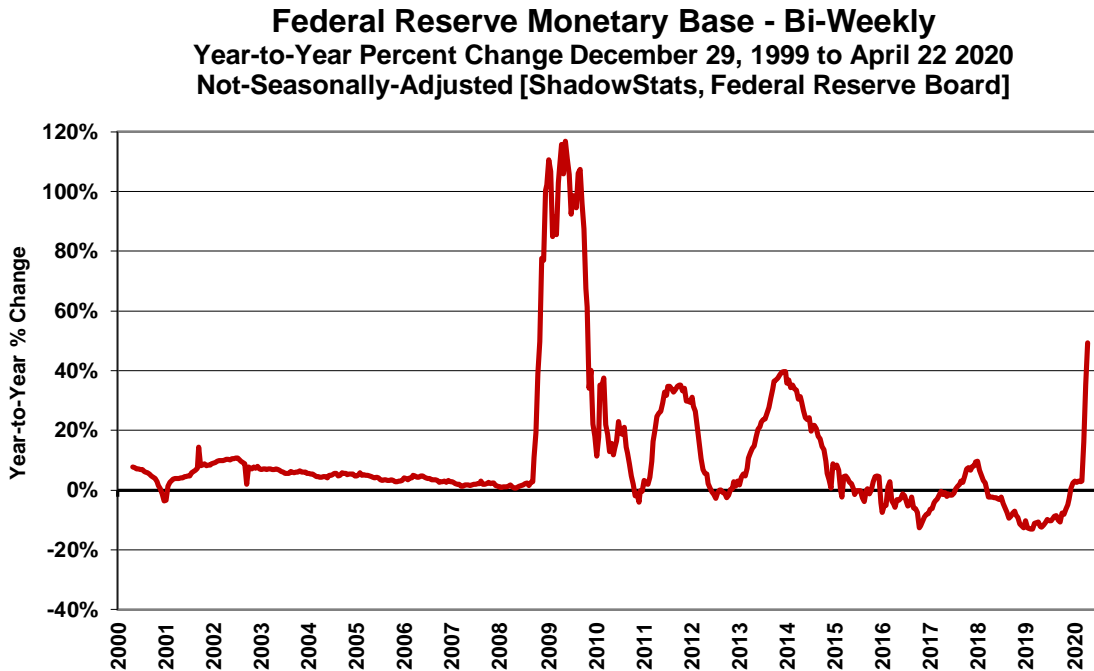
Graph 13: Historical M3 Money Supply



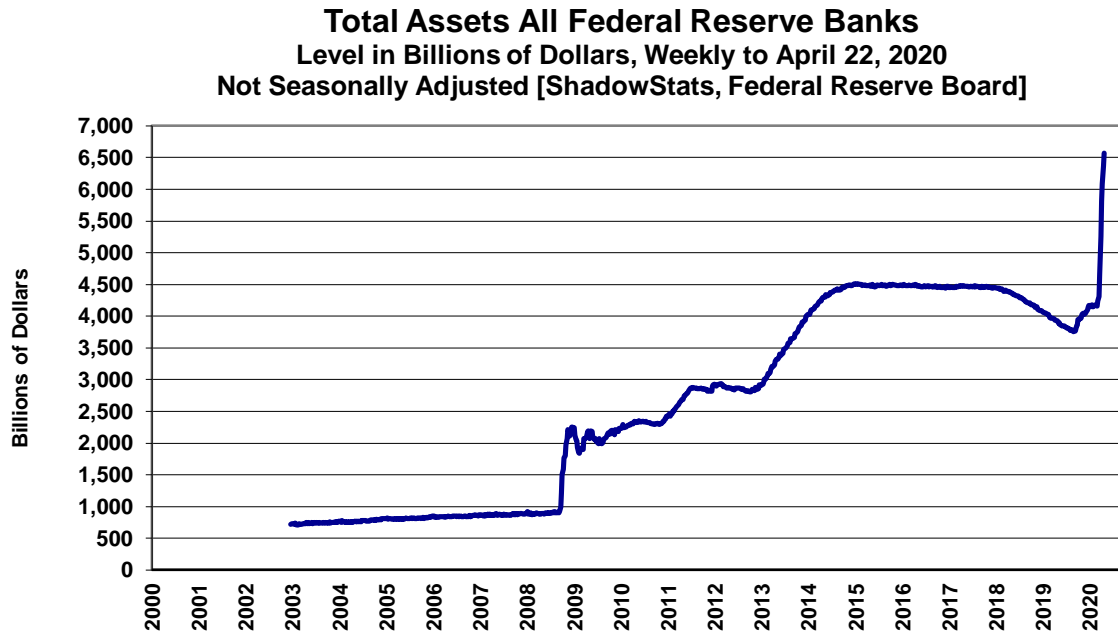
Graph 14: Federal Reserve Monetary Base



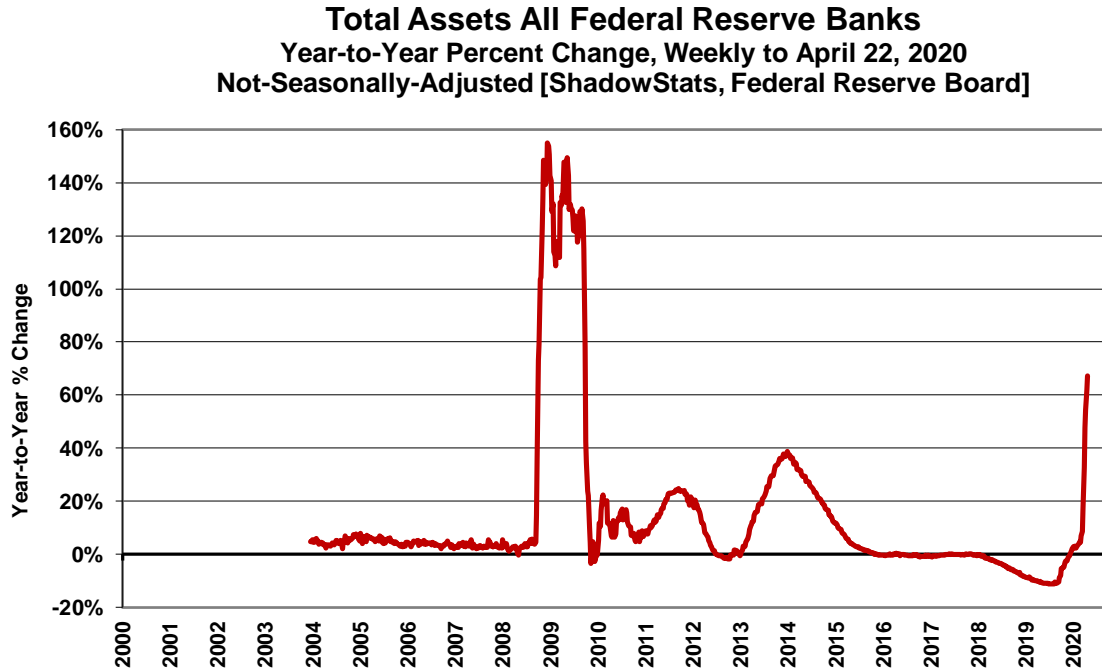
Graph 15: Federal Reserve Monetary Base (2000-to-Date), Year-to-Year Change



Graph 16: Total Assets All Federal Reserve Banks (2000-to-Date)



Graph 17: Total Assets All Federal Reserve Banks (2000-to-Date), Year-to-Year Change

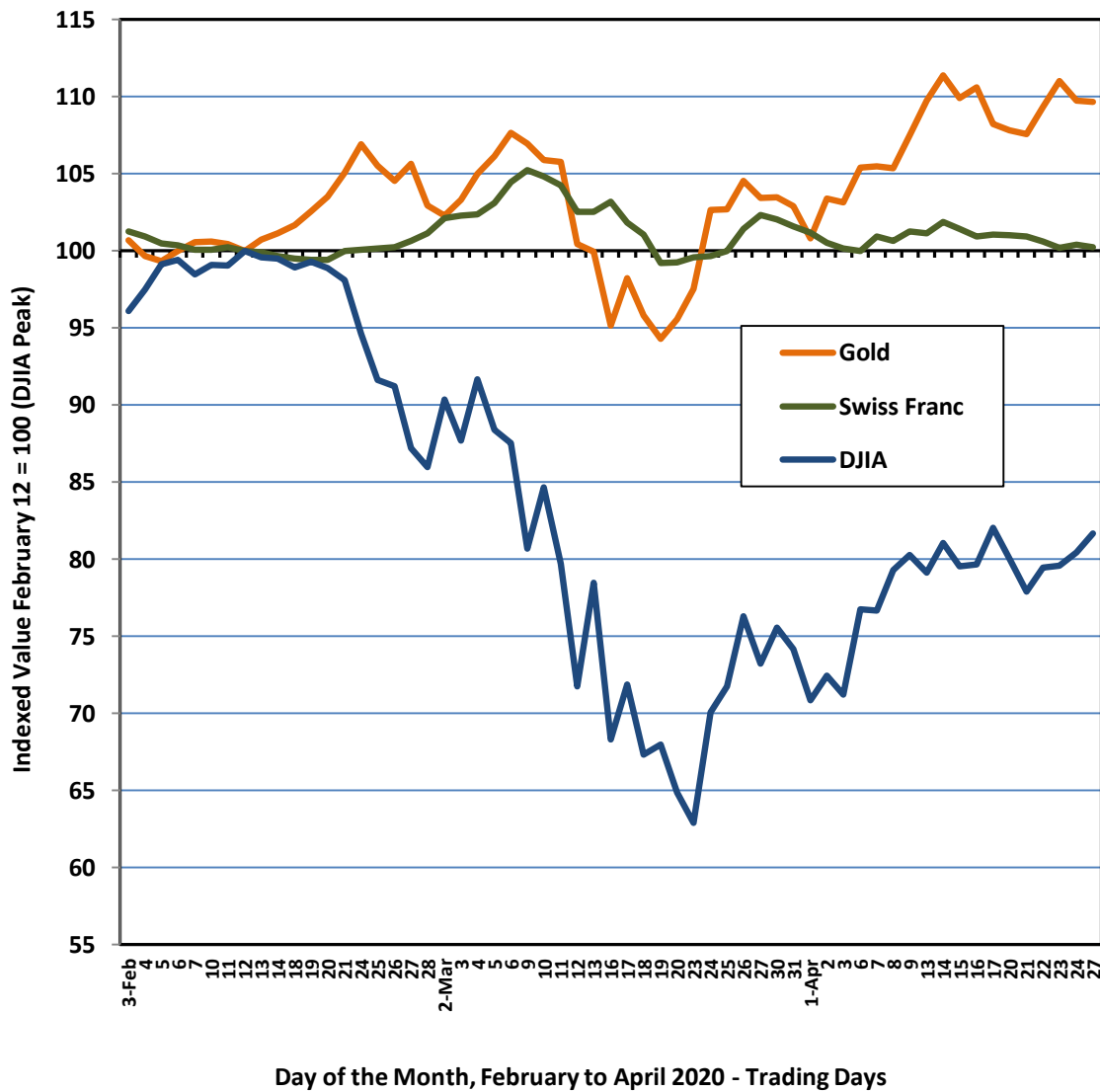


Updated Financial Markets

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

Graph 18: February to April 2020 Financial Markets-to-Date, February 12 DJIA Peak = 100

February to April 2020 Financial Markets
Dow Jones Industrial Average vs. Gold and Swiss Franc
All Indexed to February 12 = 100 (the DJIA Peak Level)



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