

ShadowStats Flash Commentary, Issue No. 1434

First-Quarter 2020 GDP, New Claims for Unemployment, FOMC and Money Supply

May 3, 2020

**U.S. Economy Already Was in Trouble Before the Pandemic, Because of
Intensifying Federal Reserve Policy Malfeasance and
Federal Government Fiscal Malpractice**

**The COVID-19 Pandemic Shutdown Has Overwritten that Developing Recession
With an Economic Collapse and Surging Headline Unemployment
That Will Rival the Great Depression in the Week Ahead and
Anything Seen in Modern U.S. Economic History in the Months Ahead**

**Initial First-Quarter 2020 GDP Quarterly Contraction of 4.78% (-4.78%)
Was the Worst Since the Depths of the Great Recession;
It Likely Will Deepen to About 7% (-7%) in Its Monthly Revisions**

**Second-Quarter 2020 GDP Remains on Track to Rival or Surpass the
Deepest Contraction in the Great Depression**

**Latest New Claims for Unemployment Insurance Indicate:
April 2020 U.3 Unemployment Around 21% - Worst Since Great Depression Depths
May 2020 U.3 Likely to Top 30% - Worst in Modern Economic History**

**Federal Reserve Will Hold Its Current Expansive Policies in Place, Including
Fed Funds at 0.00% to 0.25% and Unlimited Creation of Money and Liquidity,
For the Duration of the Pandemic Downturn**

**Money Supply Annual Growth Pushes to Record Highs
With Each New Weekly Report**

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Overview – Difficult Times Remain Ahead

Economic Tumble Intensifies as the Fed Moves to Create Money

Economy Was Weakening into the Pandemic, but the Pandemic Constraints Now Are Driving an Economic Collapse; Those Constraints Have to Be Removed Before “Recovery” Can Begin. No amount of Government Spending or Federal Reserve Accommodation and Money Creation will turn this economic collapse around, although the authorities well could trigger some form of Hyperinflationary Great Depression in the process, discussed in pending *ShadowStats Special Commentary, Issue No. 1435 - Risk of Hyperinflationary Collapse* (planned for May 6th). Nonetheless, restoration of stable social, economic and employment circumstances depends on the control and containment of the massive issues arising from the handling of the Coronavirus Pandemic shutdown of society, and the economy, particularly disruptions to small businesses that drive and enable so many key elements of society.

Allowing for the hopeful talk of effective extensive testing, effective treatments and even potential vaccines in the next several months, my assessment of realistic chances for the economy to begin turning around, to move meaningfully off bottom, remain limited before early 2021. Such assumes that the economic plunge in current Second-Quarter 2020 activity will lead the economy into some type of bottoming during Third- and Fourth-Quarter 2020. I invite and will publish comments from readers who are willing to their share insights as to how the system is progressing towards bottoming or recovering, or are willing to offer constructive suggestions to addressing the current systemic issues.

For the Benefit of Subscribers, Updated Circumstances Are Highlighted in the *Daily Update*. With rapidly shifting headlines, reporting details, intervening events, unusual developments and schedule changes -- all are covered regularly in the *Daily Update* section on the [ShadowStats Home Page](#).

For recent and evolving economic, market and systemic assessments of the last two months, see [Special Commentary, Issue No. 1429](#), [Special Commentary, Issue No. 1430](#), [Flash Commentary, Issue No. 1431](#), [Flash Commentary, Issue No. 1432](#) and the [Flash Commentary, Issue No. 1433](#), which reviewed the annual benchmark revisions to Retail Sales, along with indications of pre-Pandemic slowing activity. Today's *Flash Commentary, Issue No. 1434* updates and previews key areas going into the *Hyperinflation Issue*, including the initial cut on First-Quarter 2020 Gross Domestic Product, unfolding Unemployment circumstances, and developing signals on Systemic Solvency, updated FOMC circumstances, continued explosive annual growth in the Money Supply and an updated plot of key financial measures.

Please call me any time, with questions on current 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.**

GDP

Gross Domestic Product “Advance” Estimate, First-Quarter 2020

Pandemic-Hit “Advance” First-Quarter 2020 Real Gross Domestic Product Declined at an Annualized Quarterly Pace of 4.78% (-4.78%); Downside Revisions Loom. The Bureau of Economic Analysis (BEA) reported April 29th that the “advance” estimate of First-Quarter 2020 Gross Domestic Product plunged in a Coronavirus Pandemic-induced annualized real quarterly contraction of 4.78% (-4.78%)—worst since the Great Recession (see *Graph 5*)—down from a 2.13% gain in Fourth-Quarter 2019, with respective year-to-year growth slowing to 0.62%, from 2.33%. The BEA acknowledged its headline first-quarter GDP data were incomplete, and discussed in [*Flash Commentary, Issue No. 1433*](#), the initial first-quarter contraction estimate should revise to a deeper decline of about 7% (-7%). First-quarter activity reflected primarily only one month of Pandemic disruption in March, but second-quarter activity faces a full three months, with a likely Second-Quarter 2020 GDP annualized quarterly plunge of about 38% (-38%) or worse. Extended quarterly detail of 2019 and First-Quarter 2020 GDP is found in *Table I*.

Following *Table I*, *Graph 1* plots the Net Export Account, *Graphs 2 to 15* visually detail the latest headline- and ShadowStats Alternate- GDP reporting. *Graphs 2 to 9* plot the GDP on inflation-adjusted real annual and quarterly bases. The annual plots (*Graphs 2 and 3*) show level and year-to-year change from the stock crash in 1929 to 2019. The quarterly graphs detail the period post-World War II to date (*Graphs 4, 5 and 6*) as to level, annualized quarter-to-quarter and year-year change. The annual and quarterly change plot will become increasingly useful in the current and next quarter for historical comparisons. *Graphs 7 and 8* plot the level and annual change detail in the period 2000 to 2020, while *Graph 9* plots the GDP inflation measure, the Implicit Price Deflator versus the headline CPI-U inflation.

Graphs 10 to 15 plot various versions of the *ShadowStats Alternate GDP Measure*, which has been corrected for the understatement of the Implicit Price Deflator (IPD) inflation measure used to deflate the GDP. The IPD inflation has been meaningfully understated over time, with the effect of overstating the inflation-adjusted real GDP. Unlike the headline GDP, the *ShadowStats* measure never has recovered its pre-Great Recession peak activity.

[Table I follows on the next page.]

Table I: Real GDP Growth Contribution by Sector, Quarterly and Annual 2019, First-Quarter 2020

2019 and "Advance" 2020 Real Gross Domestic Product Annual and Annualized Quarterly Real Growth Contribution by Economic and Product Sector						
GDP COMPONENT GROWTH CONTRIBUTION BY SECTOR QUARTERLY AND ANNUAL	First- Quarter 2019	Second- Quarter 2019	Third- Quarter 2019	Fourth Quarter 2019	Annual 2019	First- Quarter 2020
ECONOMIC SECTOR						
Personal Consumption						
- Goods	0.32%	1.74%	1.09%	0.12%	0.78%	-0.27%
-- Motor Vehicles	-0.27%	0.37%	0.06%	0.13%	0.05%	-0.95%
- Services	0.46%	1.29%	1.02%	1.12%	0.98%	-4.99%
Gross Private Domestic Investment						
- Fixed Investment	0.56%	-0.25%	-0.14%	-0.09%	0.22%	-0.43%
-- Residential	-0.04%	-0.11%	0.17%	0.24%	-0.06%	0.74%
- Change in Private Inventories	0.53%	-0.91%	-0.03%	-0.98%	0.09%	-0.53%
Net Exports of Goods and Services	0.73%	-0.68%	-0.14%	1.51%	-0.15%	1.30%
Government Consumption	0.50%	0.82%	0.30%	0.44%	0.41%	0.13%
REAL GDP GROWTH	3.10%	2.01%	2.10%	2.13%	2.33%	-4.78%
Final Sales, GDP Less Inventories	2.57%	2.92%	2.13%	3.11%	2.24%	-4.25%
PRODUCT SECTOR						
Goods	2.12%	0.62%	1.20%	0.51%	1.36%	-0.51%
Services	0.66%	1.66%	1.11%	1.51%	1.10%	-4.85%
Structures	0.32%	-0.26%	-0.21%	0.10%	-0.13%	0.58%
REAL GDP GROWTH	3.10%	2.01%	2.10%	2.13%	2.33%	-4.78%
SUPPLEMENTAL						
Annualized Quarter-to-Quarter Real GDP Change and Headline Implicit Price Deflator Inflation						
Gross Domestic Product (GDP)	3.10%	2.01%	2.10%	2.13%	n.a	-4.78%
Gross Domestic Income (GDI)	3.24%	0.87%	2.13%	2.59%	n.a	n.a.
Gross National Product (GNP)	3.09%	2.78%	2.20%	2.17%	n.a	n.a.
ShadowStats Corrected GDP*	1.01%	-0.05%	0.04%	0.06%	n.a	n.a.
Implicit Price Deflator (IPD) Inflation	0.78%	2.59%	1.71%	1.36%	n.a	1.37%
Year-to-Year Real GDP Change and Headline Implicit Price Deflator Inflation						
Gross Domestic Product (GDP)	2.65%	2.28%	2.07%	2.33%	2.33%	0.32%
Gross Domestic Income (GDI)	2.00%	2.04%	1.75%	1.61%	1.88%	n.a.
Gross National Product (GNP)	2.47%	2.38%	2.19%	2.56%	2.40%	n.a.
ShadowStats Corrected GDP*	0.58%	0.21%	0.01%	0.26%	0.26%	n.a.
Implicit Price Deflator (IPD) Inflation	1.94%	1.73%	1.71%	1.61%	1.75%	1.76%
Sources: Bureau of Economic Analysis, ShadowStats.com.						
(*) Real GDP corrected for understated headline inflation, see Special Commentaries No. 968 / 983-B for background.						

GDP Negative Growth Contribution by Sector - Exceptions for Residential Investment and Net Exports

First-Quarter GDP Growth Contributions by Sector Largely Were Negative, Tied to the Coronavirus Pandemic Impact, Except for Trade and Residential Construction. Reflected in *Table I* Major exceptions to negative First-Quarter 2020 quarterly growth contributions from the major GDP sectors were the positive contributions from Residential Investment (Structures) and Net Exports (the Trade Deficit). There is a story with each factor and the Coronavirus Pandemic.

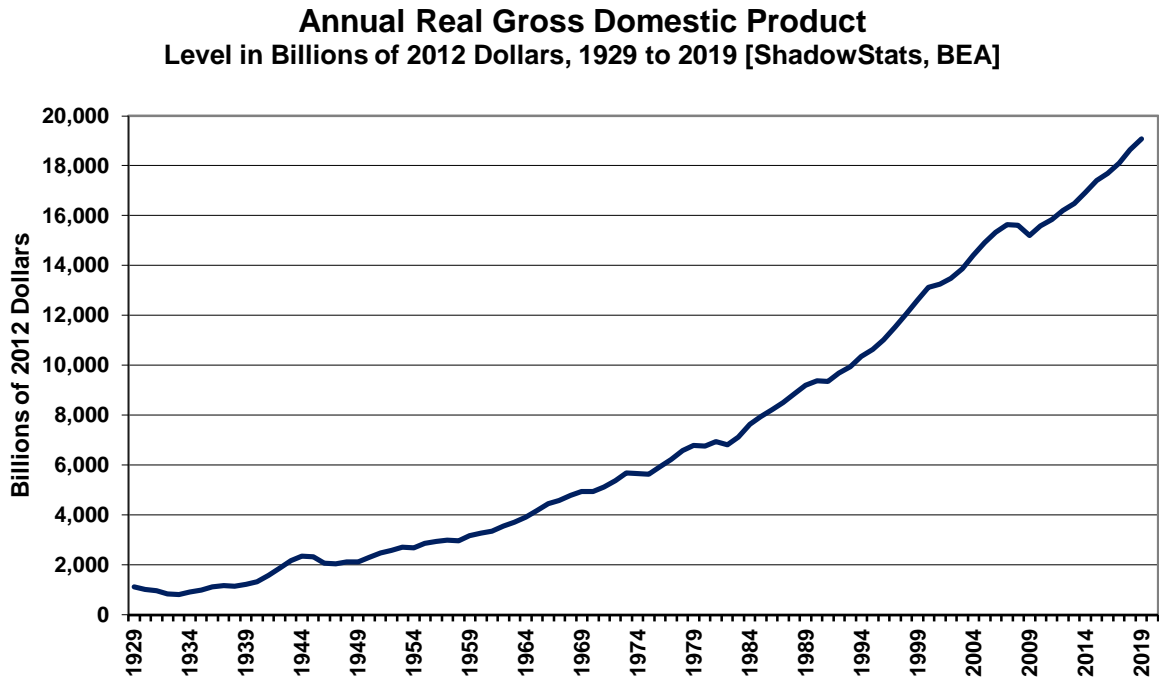
Construction Spending Lags Economic Shifts in Sales. Real March 2020 Construction Spending Gained in the month, the quarter and year-to-year, dominated by Residential Construction. Yet the activity there was lagging precursor hits to activity in Building Permits, Housing Starts and Residential Sales. Each of those series, starting with the Home Sales has taken a bigger hit than the preceding series, all of which are headed for Second-Quarter 2020 contractions, with Residential Construction Spending not far behind.

U.S. Trade Deficit Was Narrowed by the Coronavirus in China, Reducing Exports from China. As to the Trade Deficit, the Deficit narrowed sharply in February (a positive for the United States), dragging down the quarter, because China's exports to the U.S. simply were reduced in China by the effects of the Coronavirus there.

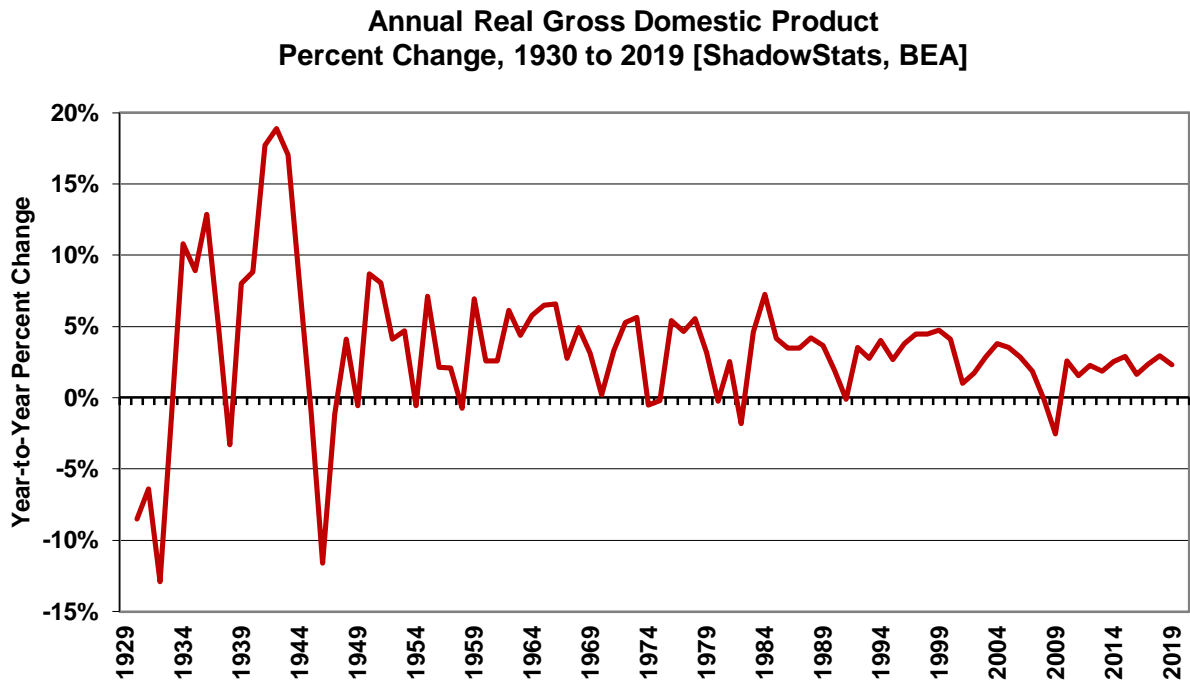
Graph 1: Real U.S. Net Exports of Goods and Services (GDP Accounting)



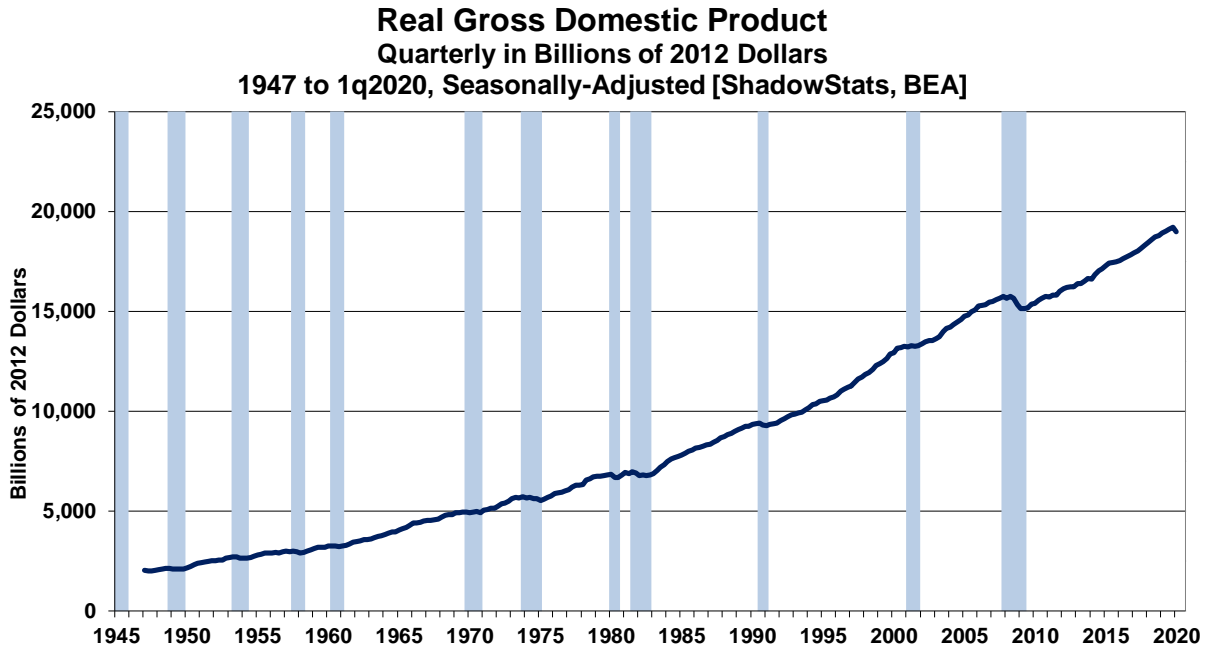
Graph 2: Headline Real GDP Level 1929 to 2019



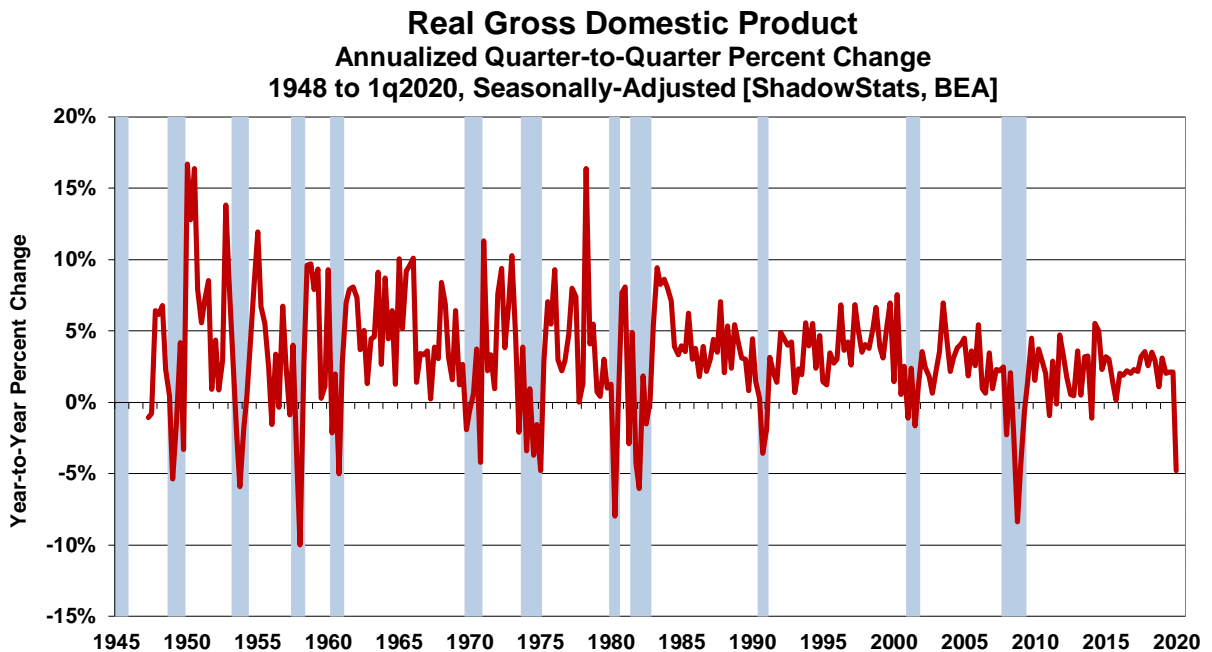
Graph 3: Headline Real GDP Annual Percent Change 1930 to 2019



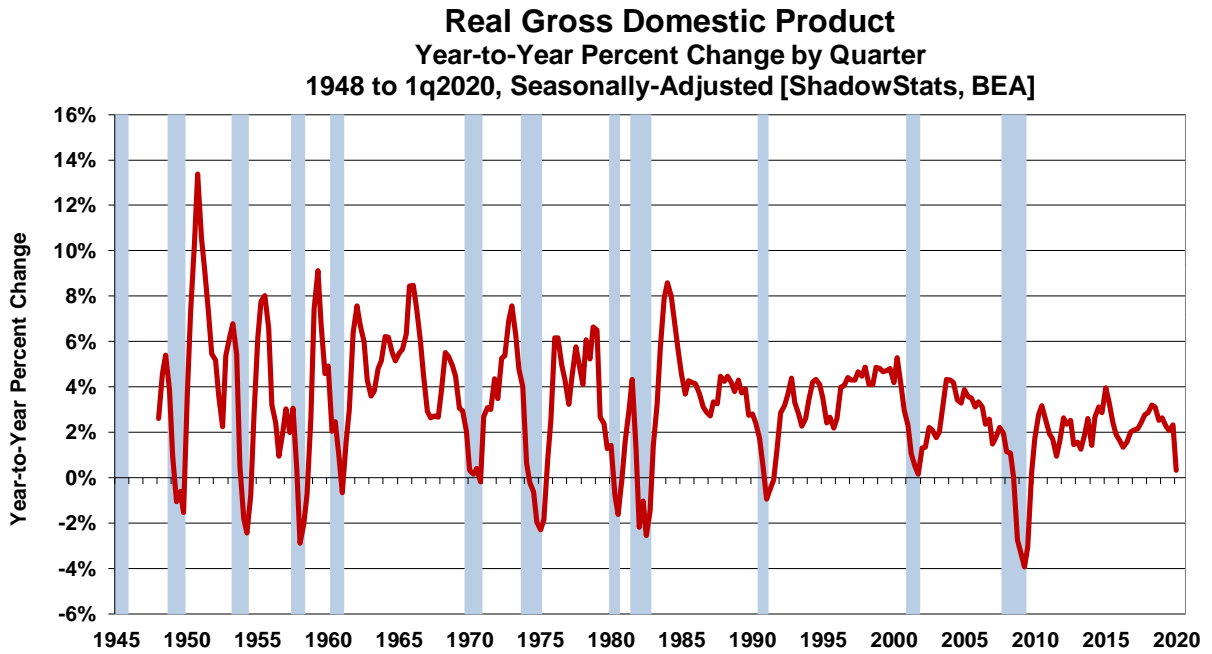
Graph 4: Headline Real Quarterly GDP 1947 to 1q2020



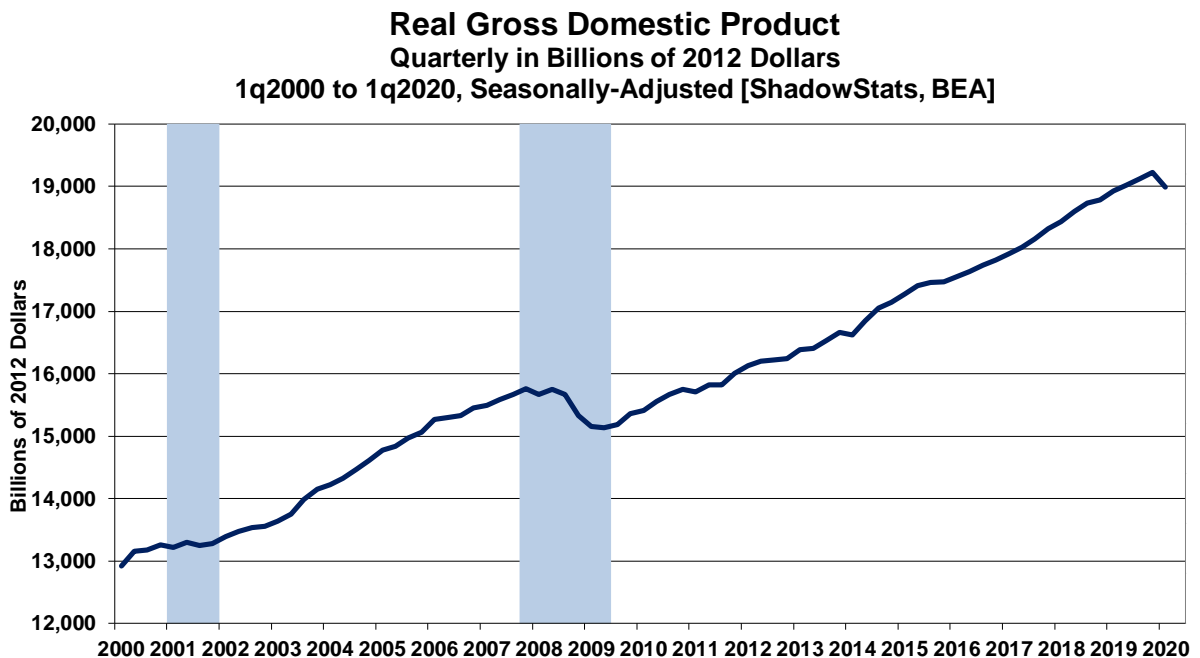
Graph 5: Headline Real GDP 1948 to 1q2020, Annualized Quarter-to-Quarter Growth



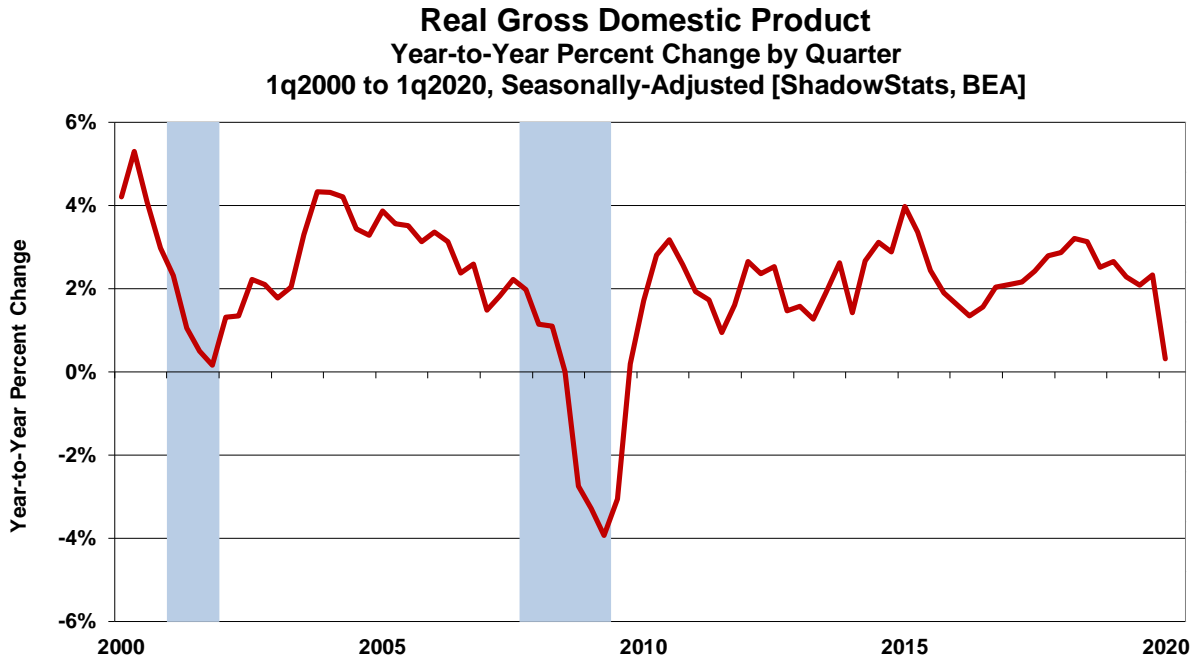
Graph 6: Headline Real GDP 1948 to 1q2020, Year-to-Year Percent Change



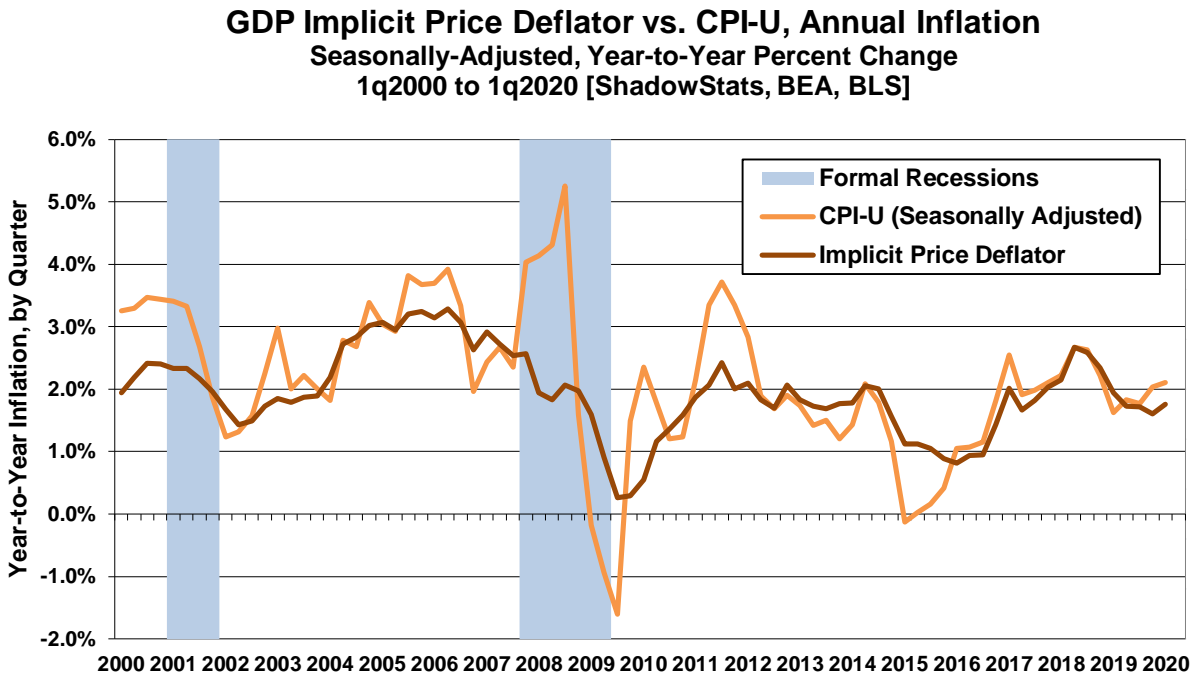
Graph 7: Real GDP, 2000 to First-Quarter 2020



Graph 8: Real GDP, 2000 to First-Quarter 2020, Year-to-Year Change



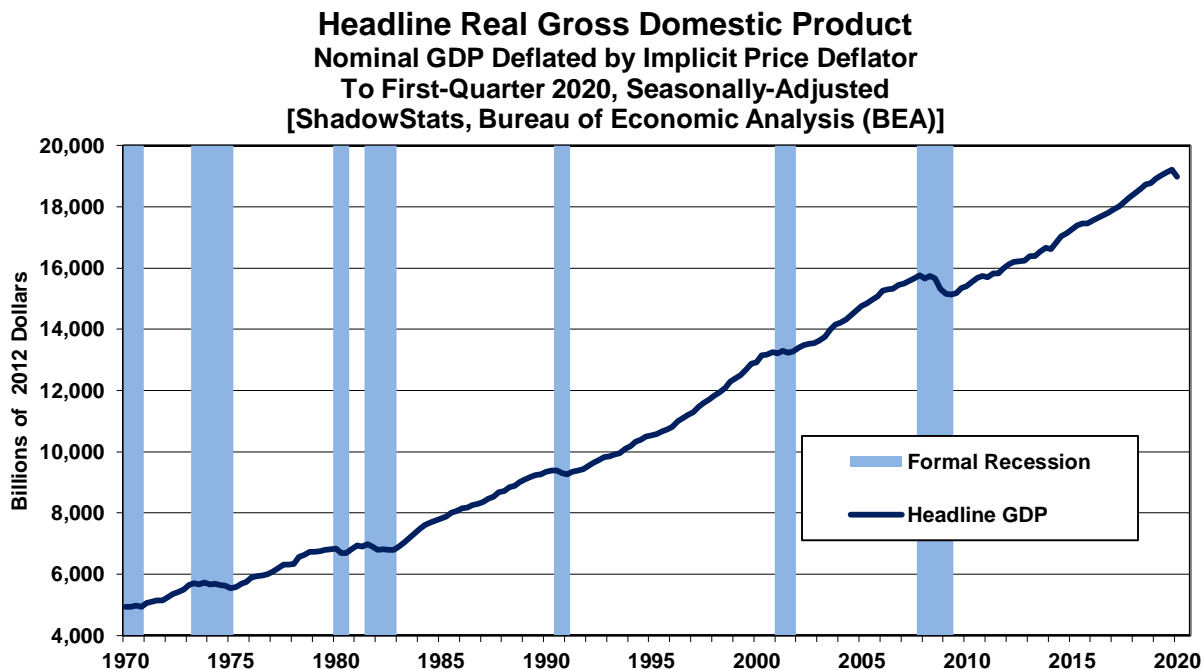
Graph 9: Year-to-Year Quarterly Inflation - GDP Implicit Price Deflator vs. CPI-U, 2000 to First-Quarter 2020



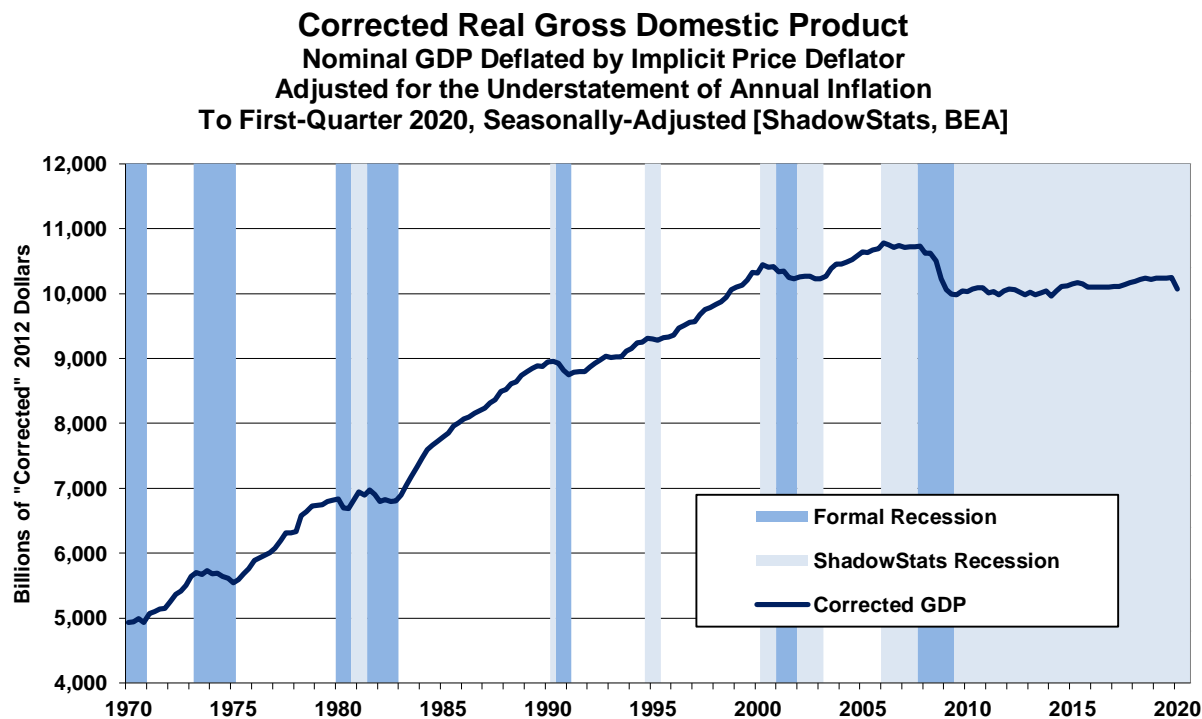
Alternate Real Gross Domestic Product, Using Corrected Inflation

Graphs 10 to 15 plot GDP as deflated by the headline Implicit Price Deflator and by the IPD corrected for understated annual inflation. For background, see [Special Commentary No. 983-B](#) and [Special Commentary No. 968-Extended](#).

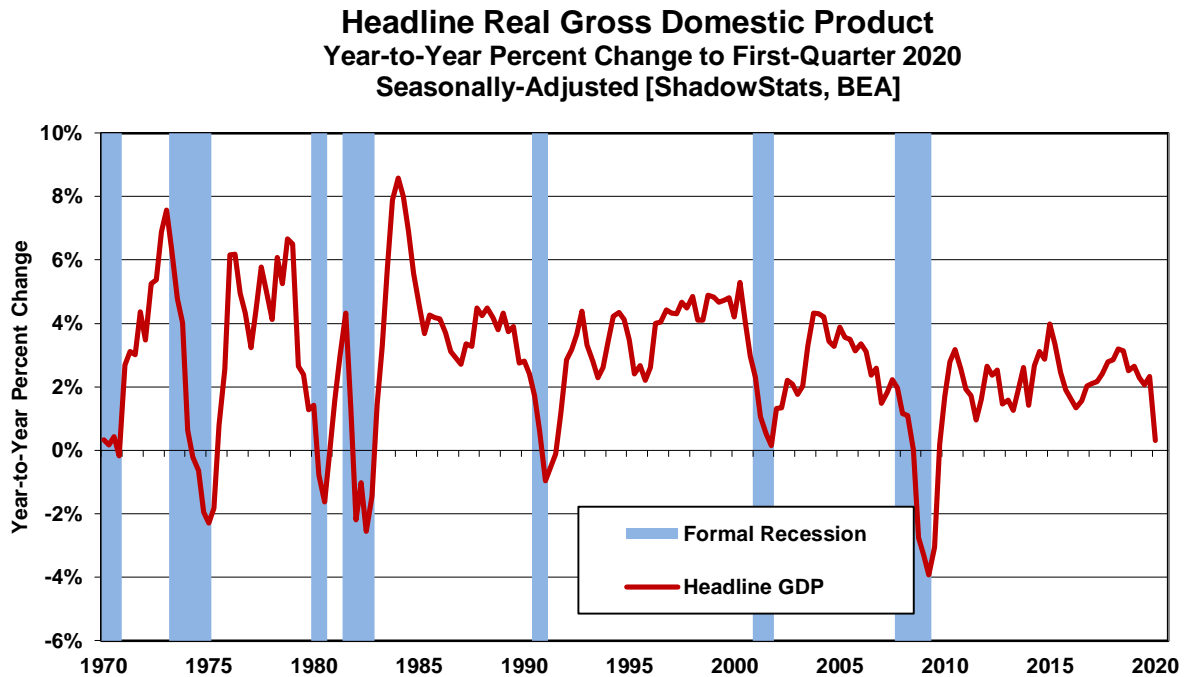
Graph 10: Real GDP 1970 to First-Quarter 2020



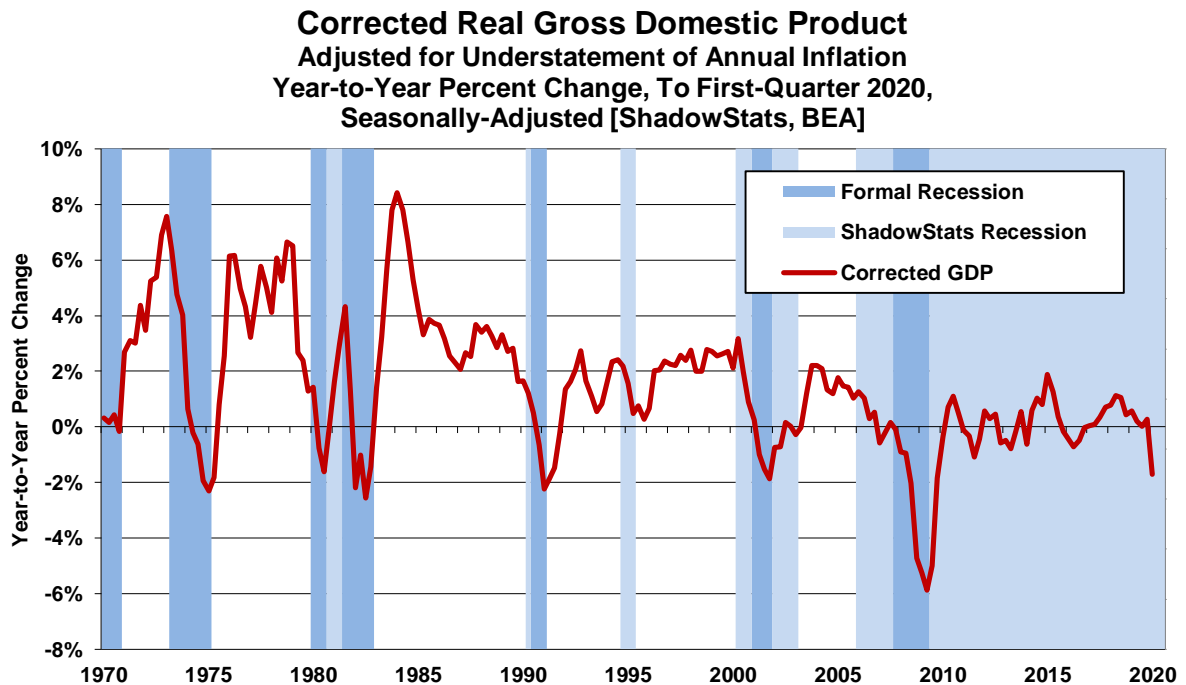
Graph 11: ShadowStats Alternate Real GDP, Year-to-Year Change, 1970 to First-Quarter 2020



Graph 12: Real GDP 1970 to First-Quarter 2020, Year-to-Year Percent Change



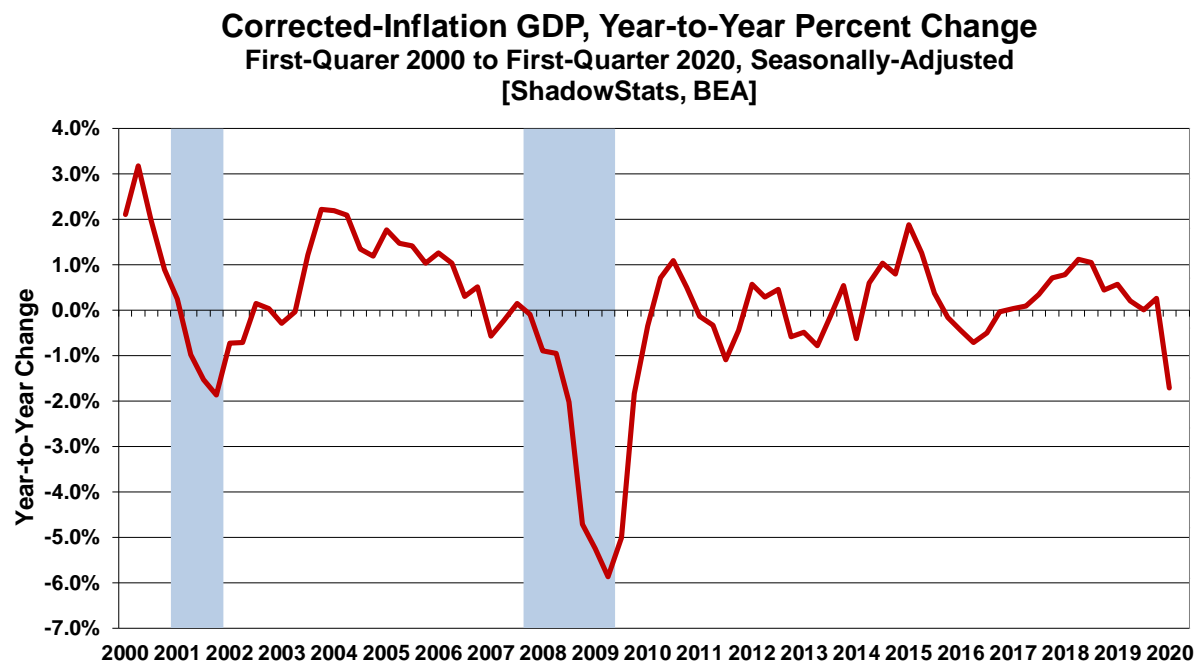
Graph 13: ShadowStats Alternate Real GDP 1970 to First-Quarter 2020, Year-to-Year Percent Change



Graph 14: ShadowStats-Corrected Real GDP, 2000 to First-Quarter 2020



Graph 15: ShadowStats Corrected Real GDP, Year-to-Year Change, 2000 to First-Quarter 2020



Unemployment

New Claims for Unemployment Insurance, Week-Ended April 25th

Implied Headline April 2020 U.3 Unemployment at 21%, May 2020 at 30%

Latest New Claims for Unemployment Insurance Remained Consistent with April 2020 U.3 Unemployment of About 21%, Worst Since the Great Depression; May U.3 Could Top 30%. The latest weekly reporting (April 30th) of New Claims for Unemployment Insurance slowed to a 3.9 million jump in the week-ended April 25th, with an aggregate surge of 30.3 million new claims since the mid-March 2020 Pandemic-driven reporting explosion. The latest weekly detail fell outside the headline timing for the April Unemployment Survey, providing a first indication of what will become the headline May 2020 U.3 unemployment rate.

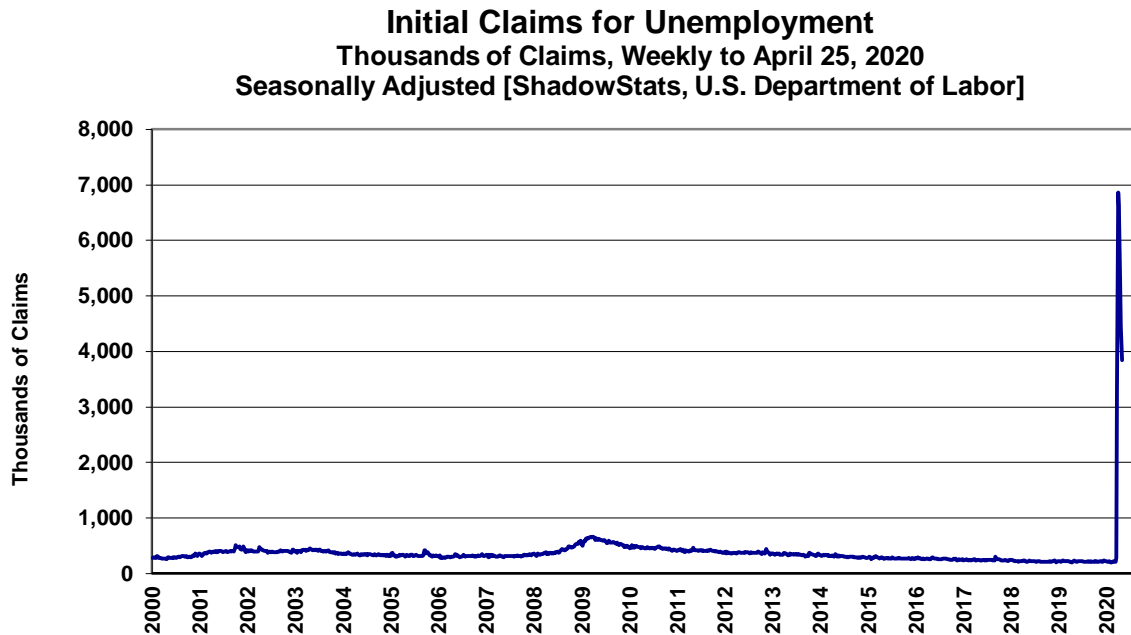
The latest detail remained consistent with an April U.3 of about 21%, versus the headline March U.3 of 4.4%. A more realistic measure for March would have been 10.4%, had the unprecedented 10-million claims surge in the last two weeks of March been accounted for, but that was subsequent to the end of the formal survey timing for the March Unemployment Survey (week-ended March 13th). The distortion comes where the new claims count timing for many months coming to the week-ended March 13th averaged 200,000 to 250,000 per week, where the two weeks ended March 27th totaled 10 million. Separately, based only on the traditional headline reporting, the ShadowStats-Alternate Unemployment Rate likely will rise from its headline 22.9% in March to around 41% in April 2020.

The Department of Labor reported April 30th, that the week-ended April 25th New Claims for Unemployment Insurance surge continued at a slowing pace, up by 3.869 million in the week, versus an upwardly revised gain of 4.442 [previously 4.427] million the week before, up by 1569% against 230,000 in the year-ago week. Yet, unemployment changes in that week were after the close of the April Unemployment Survey, providing an early glimpse of the May 2020 unemployment detail, which could top 30% in the month.

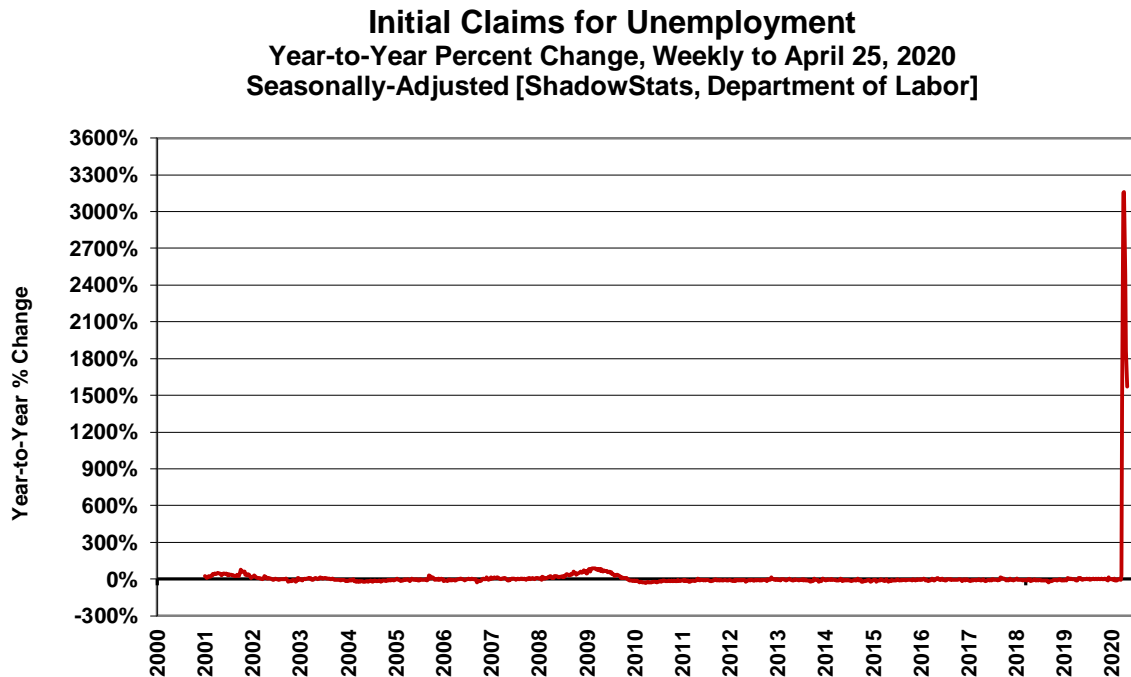
Although the pace of surge in New Claims is slowing, temporarily, a new round of secondary furloughs is on the rise. Insured Unemployment continues to increase weekly, with the April 25th week count the “highest in history,” topping the Great Recession Peak.

Headline April 2020 U.3 Unemployment Will Set a New Post-World War II High, Highest Since the Great Depression. Due for release on Friday, May 8th, April U.3 of 21% would set a new post-World War II record. The previous post-War high was 10.8% during the 1981-1982 Recession, nearly would have been matched by the alternate March 2020 U.3 reading of 10.4% that would have reflected the late-month initial Pandemic surge. The pending monthly unemployment for April 2020 of 21% is of a magnitude last seen in annual unemployment estimates for 1933 and 1934. A May 2020 U.3 in excess of 30% would top the peak annual Great Depression unemployment rate estimated at 25% in 1933 (to be detailed in the pending *Special Commentary, Issue No. 1435*, and next weekend’s *Flash Update, Issue No. 1436*, which will follow the Friday’s headline reporting of April Unemployment and Employment and the April Payroll Survey).

Graph 16: Initial Claims for Unemployment Insurance Through Week-Ended April 25, 2020



Graph 17: Year-to-Year Change in Initial Claims Through Week-Ended April 25, 2020



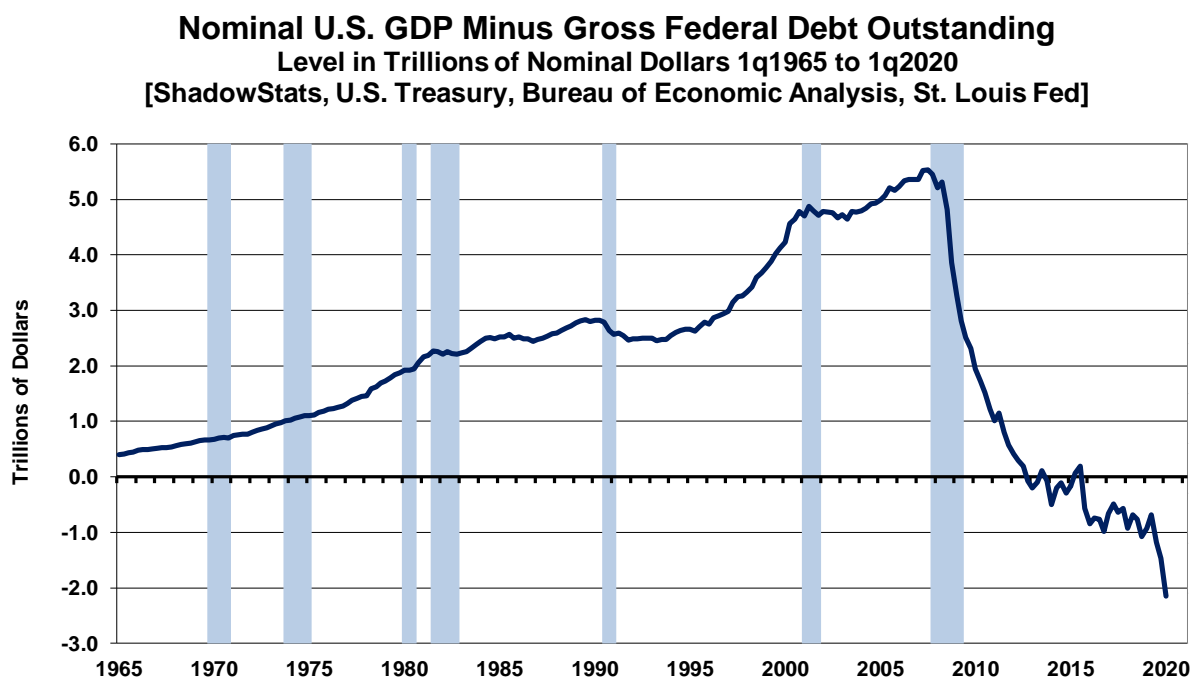
Updated Government Solvency and Hyperinflation Issues

Mounting Risk of U.S. Government “Insolvency”

Ever-Surging Money Supply Growth Promises Inflation

U.S. Federal Debt Swells and the GDP Shrinks, As Prospects Decline for Long-Range Solvency of the U.S. Government. In advance of expanded detail in pending *ShadowStats Special Hyperinflation Commentary, Issue No. 1435*, following **Graph 18** shows a just-updated plot of the initial reporting of Nominal First-Quarter 2020 U.S. Gross Domestic Product, minus the quarter-ended Nominal Gross U.S. Federal Debt. The more the GDP exceeds the National Debt, the better are the U.S. Government solvency prospects; the more Debt exceeds the GDP—the current, rapidly deteriorating circumstance—the worse are those long-range solvency prospects.

Graph 18: Nominal GDP Minus Nominal Gross Federal Debt Outstanding, 1q1965 to 1q2020

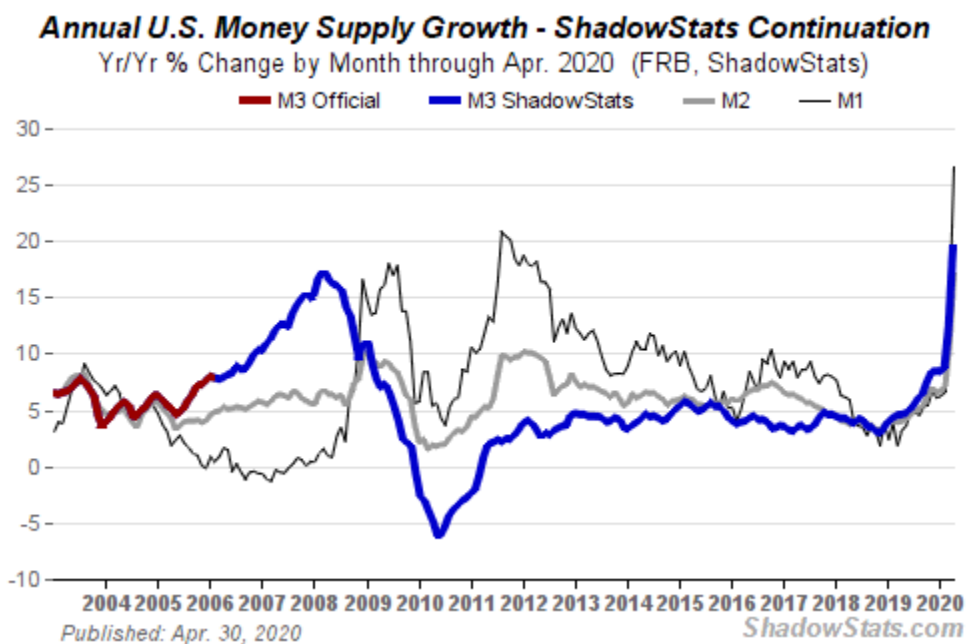


FOMC and the Updated Money Supply

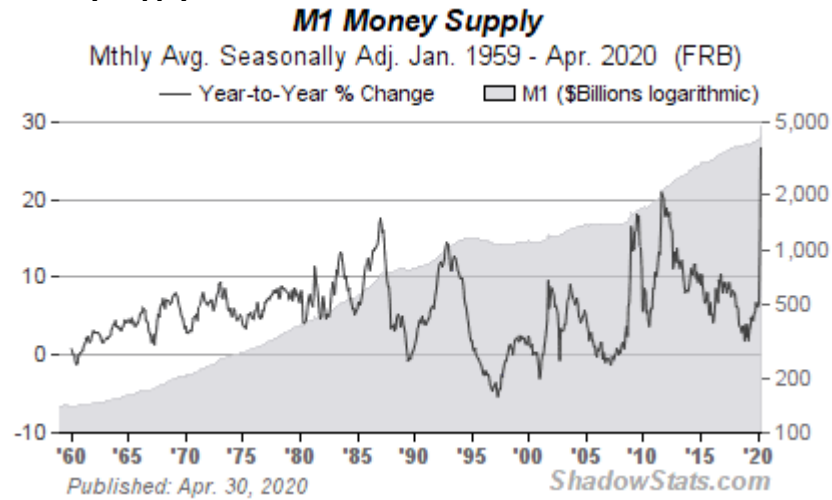
Economic and Systemic Crashes Should Intensify, Moving Towards a Hyperinflationary Great Depression – FOMC’s Expansive, Accommodative Money Policies and the Targeted 0.00% to 0.25% Fed Funds Rate Will Continue for the Duration. Economic, FOMC, financial-market, political and social circumstances continue to evolve, but the broad outlook has not changed. Systemic turmoil is just beginning as the Fed and U.S. Government drive uncontrolled U.S. dollar creation. The April 29th FOMC Statement confirmed, as did Federal Reserve Chairman Jerome Powell at his April 29th FOMC Press Conference, that current policies will continue, “... until we’re confident the economy is solidly on the road to recovery.” Such is in the context of current exploding annual growth in the Money Supply, unlimited liquidity creation and a Fed Funds range of 0.00% to 0.25% in hand.

Noted recently and regularly in the *Daily Update Section* on the www.ShadowStats.com home page, successive weekly Federal Reserve Money Supply and related series are showing continual, soaring annual growth rates, at successive historic highs. Following *Graphs 19* to *22*, plot the various annual growth measures through the third week of April 2020 for Money Supply M1, M2 and the ShadowStats M3 Alternate. The plots seen here are kept current on the [ShadowStats Alternate Data Tab](#), and update those published in prior [Flash Commentary, Issue No. 1433](#), in advance of the expanded Monetary Policy discussion pending in *ShadowStats Special Hyperinflation Commentary, Issue No. 1435*.

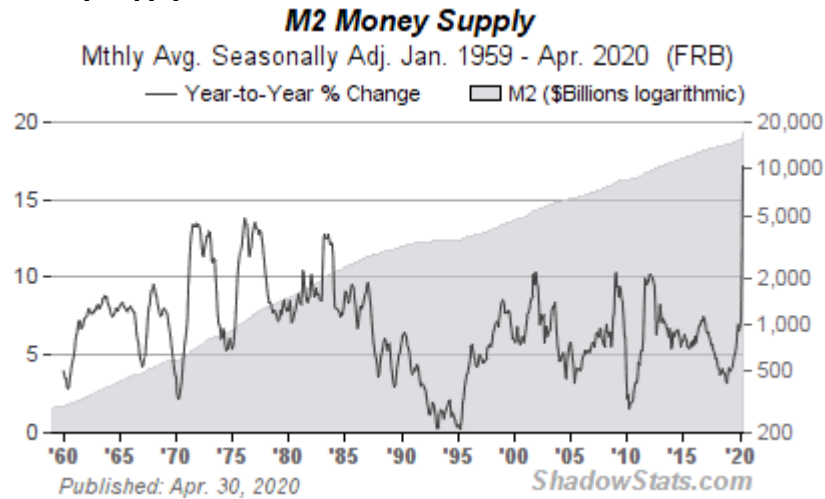
Graph 19: Money Supply, Monthly Year-to-Year Growth to March 2020; April 2020 (Three Weeks)



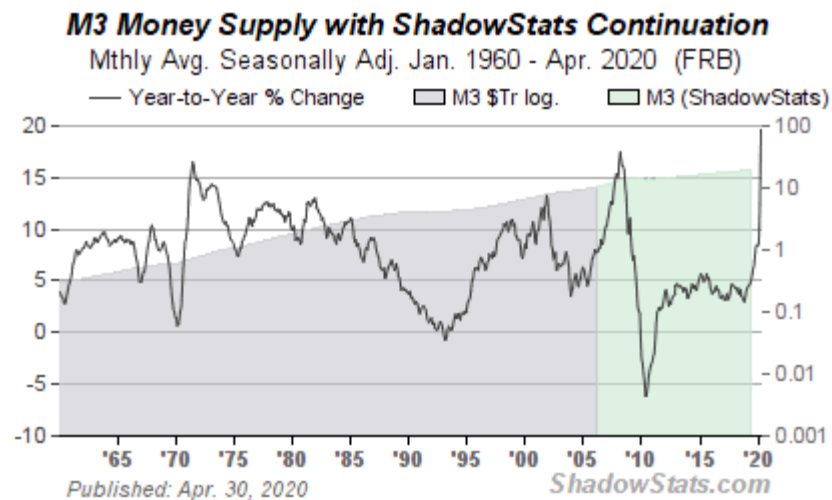
Graph 20: Historical M1 Money Supply



Graph 21: Historical M2 Money Supply



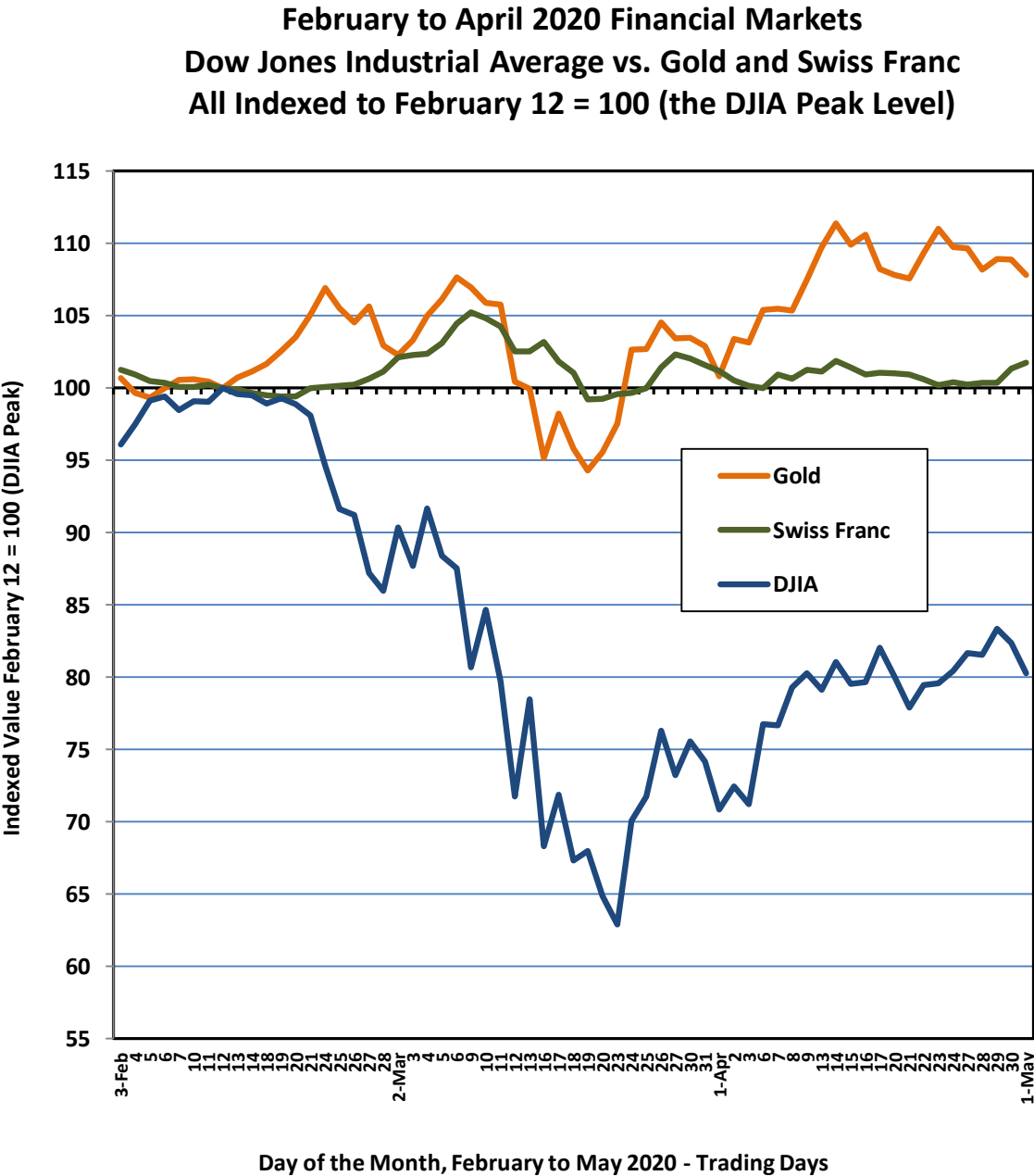
Graph 22: Historical M3 Money Supply



Updated Financial Markets to May 1, 2020

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

Graph 23: February to May 2020 Financial Markets -- Scale: Feb. 12 = 100, Day of DJIA All-Time High Close



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