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

Issue Number 43

June 9, 2008

Inflationary Recession and Banking Crises Continue to Intensify

Market Fantasies of Contained Crises Begin to Fade

Severe Inflation Surge in Offing

Evidence Mounts for Manipulation of Key Headline Economic Numbers

OVERVIEW -- OPENING COMMENTS

Seasonal Factor Abuse and Misuse

There is no question of the economy being in an intensifying inflationary recession. Market fantasies of a bottomed downturn and a banking system on the mend got a jolt of reality last week, and regardless of any further jolts of alternating market pressures, the longer range outlook remains bleak for U.S. equities, bonds and the dollar but remains brilliant for gold.

A near-manic jump in oil prices and a reported surge in the May unemployment rate understandably rattled the markets. More disturbing, though, was that while Mr. Bernanke was pushing new liquidity into troubled banks -- exacerbating inflation and dollar problems -- he crossed his fingers behind his back and began jawboning in support of the dollar and raising concerns about inflation. All is not well in the banking system solvency crisis, and the Fed's waffling suggests some bad news may be in the offing. The crisis continues, and it is severe.

Some questionable economic reporting of recent months can be attributed, at least partially, to the abuse and misuse of seasonal factors.

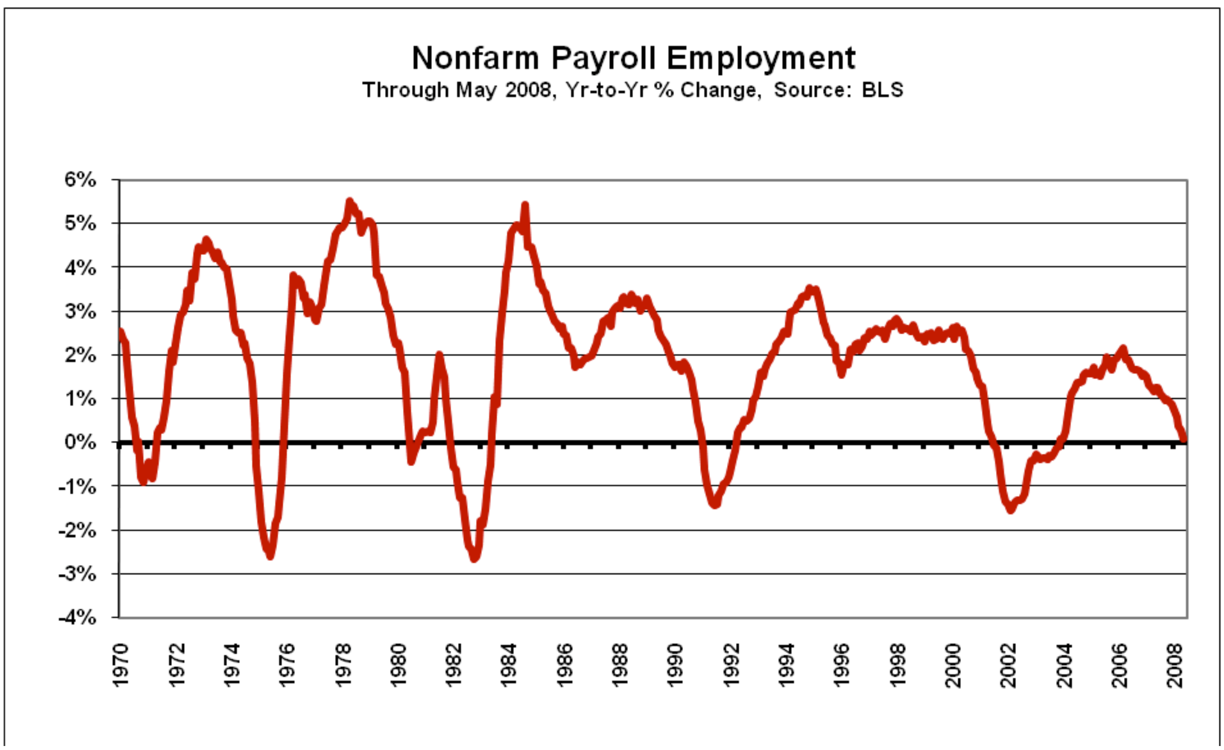
Data that have been properly seasonally adjusted enable meaningful period-to-period (such as month-to-month) comparisons. Seasonal adjustments are used to smooth out regularly repetitive patterns of economic activity tied to seasons, holidays and the school year, for example, or where monthly business activity may vary by the number of working days in a month.

Good quality seasonal adjustments, however, often are difficult to develop, and otherwise can be misleading by their general nature. My good friend Al Sindlinger (1907-2000), pioneer surveyor of consumer attitudes in the late-1920s and advisor to many presidents, beginning with Herbert Hoover, always had a twinkle in his eye when he described seasonal adjustments.

"You can sit with one foot in a bucket of ice water and the other foot in a bucket of boiling water," he would chuckle. "Seasonally adjusted, you're very comfortable."

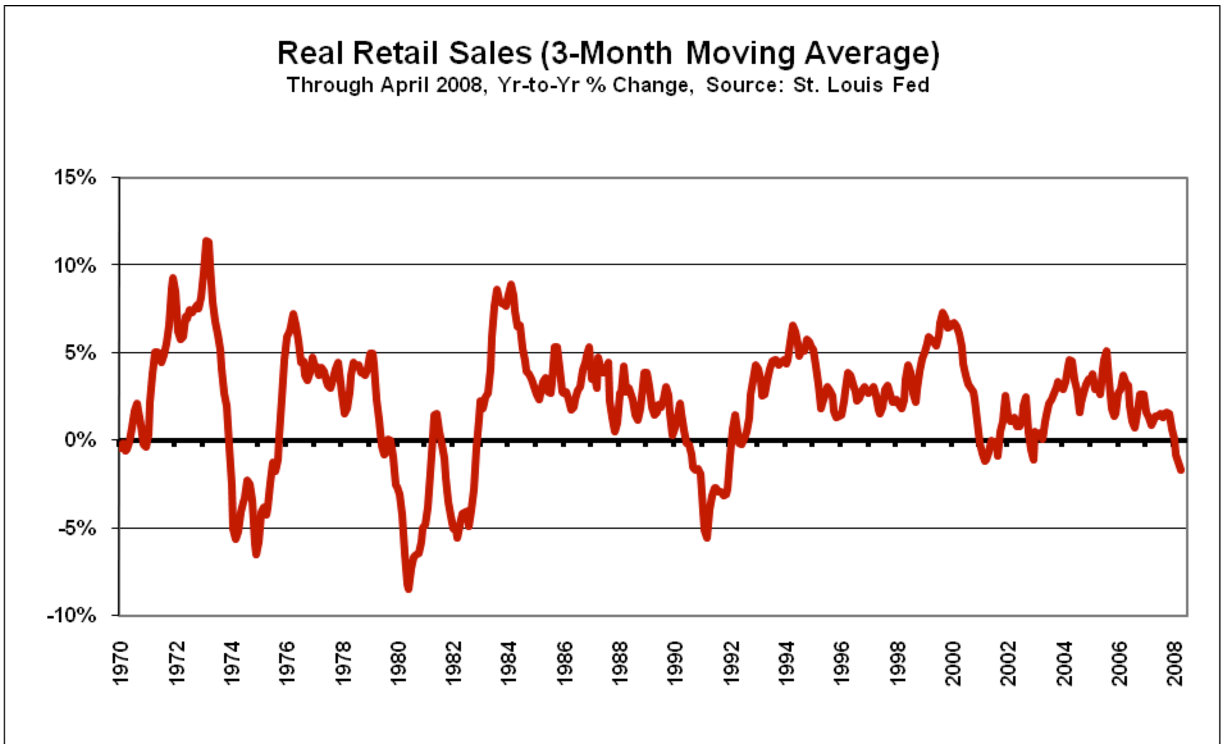
Indeed there is little comfort in the common experience of individuals, when government reporting suggests that they really are not paying $4.00 per gallon for gasoline, or that they really are not unemployed, when viewed on a seasonally-adjusted basis.

Seasonal adjustment of data can be misleading (often times inadvertently) as well as illuminating. This issue's Reporting/Market Focus explores seasonal-adjustment abuse that appears to have enabled near-term manipulations of headline monthly payroll gains and CPI inflation. In other areas, misuse of the techniques or over-reliance upon inadequate factors may innocently generate inaccurate or conflicting information. Problems in seasonal adjustments, for example, likely accounted for at least part of the surge in May's unemployment rate, as well as the "improved" jobless claims around the Memorial Day weekend, where both series were reported last week.



Recession Solidifies in Key Data. Official economic reporting in the last month or so has generated a rapidly solidifying picture of a recession in place. As shown in the preceding graph, year-to-year change in payroll employment was near zero in May. What the graph shows is that every time annual payroll growth has slowed to zero (in fact, every time it has slowed to below 1.0%), the economy has been in an official recession, or what shortly would be recognized as such. With the latest official payroll reporting, not only did payrolls show a first-quarter quarterly contraction, but also a second-quarter contraction appears highly likely.

The 0.5% surge in the May unemployment rate could be taken as a sign of recession, and indeed the unemployment rate should be rising. As discussed in the Employment/Unemployment section in the Reporting Perspective, though, part of that reported unemployment rate jump may be due to problems the Bureau of Labor Statistics (BLS) has in properly seasonally adjusting for school year variations.



Nonetheless, the weakening employment circumstance is a strain on consumers, who account for more than 70% of GDP, when housing and personal consumption are included. In a related area, year-to-year inflation-adjusted growth in retail sales (smoothed with a three-month moving average), also has locked in a recession pattern. As shown in the preceding graph, the current level of annual contraction has not been seen historically outside of formal recessions, and the current contraction is the deepest since the 1990/1991 recession. When payrolls and retail sales show these patterns, a recession is in place.

Historic or near-historic annual contractions also were reported in May consumer confidence measures, April housing measures and help-wanted advertising. Recession patterns have been reflected in the latest industrial production, purchasing managers manufacturing survey, new orders for durable goods, new claims for unemployment insurance and real average weekly earnings series.

Continuing positive growth reported for the GDP is discussed in the Reporting/Market Focus on manipulation of headline economic data. Nonetheless, the GDI (Gross Domestic Income) -- theoretical equivalent to the GDP -- was virtually flat in first-quarter 2008, after a fourth-quarter 2007 contraction.

Other data related to consumer conditions are worthy of comment, in that they received some recent press, with the release of the Federal Reserve's Flow of Funds reporting for first-quarter 2008. Keep in mind that the published data are of poor quality, particularly on a quarterly basis.

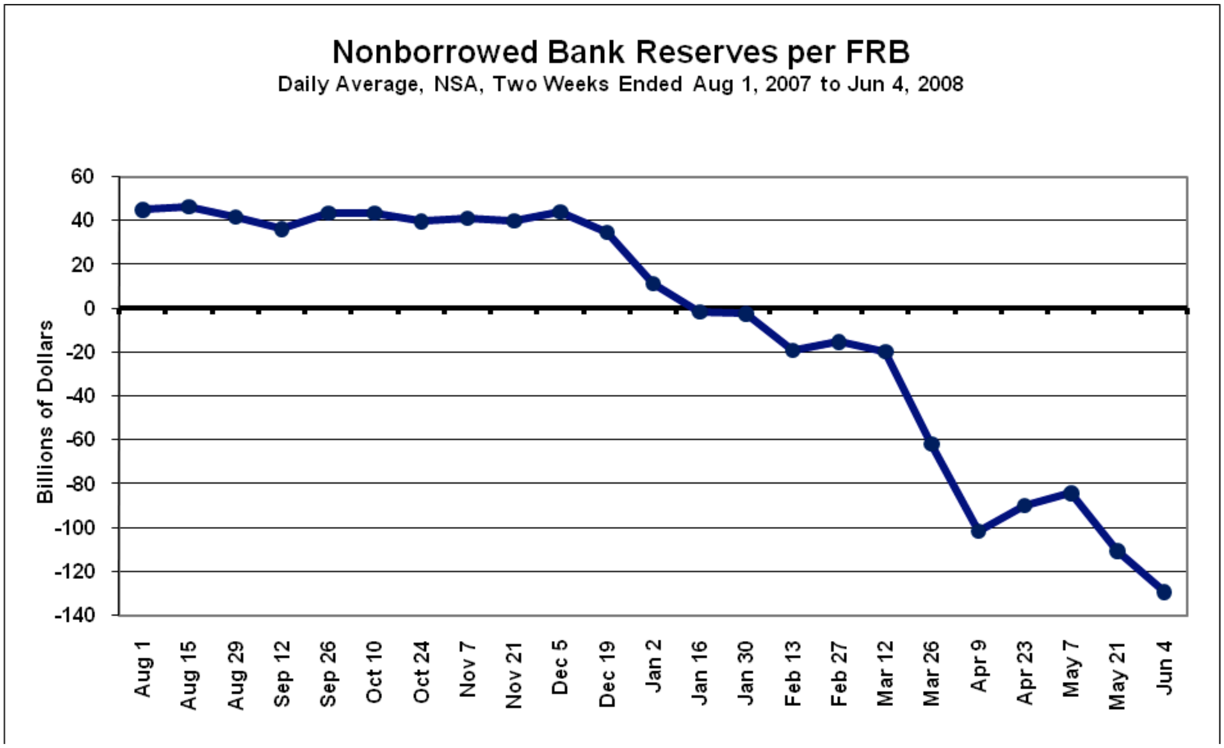
The story was that household net worth had declined for the second consecutive quarter, thanks to falling home prices. While indeed the household/nonprofit organizations first-quarter net worth figure of $56.0 trillion was down by $1.7 trillion from the fourth quarter, which in turn was down by $0.5 trillion from the third quarter, home prices had relatively little to do with it. Where household real estate values fell by 1.6% in the first quarter -- following a 0.5% decline in the fourth quarter -- over 80% of the decline in net worth was due to a decline in the stock market. Again, the numbers should not be relied on, but the suggestion is that the consumer indeed is indeed feeling something of a fundamental financial squeeze.

The economy remains in a major structural downturn that likely will evolve into a depression and eventual hyperinflationary great depression (see the *Hyperinflation Special Report*). Neither the federal government nor the Federal Reserve has viable options for turning the economy to the upside. Short-lived measures, such as tax rebate checks, will have little impact other than brief upside blips in activity.

Inflation Surge Likely in Second Half of 2008. As noted in the Reporting/Market Focus, seasonal factors that have been suppressing reported CPI annual inflation should reverse in the second half of the year. With current oil prices holding at levels more than double last year's levels, inflation should start to show a sharp pick-up not only from energy and food, but also from recent dollar weakness and continued excessive money supply growth, as reflected in M3. By year-end 2008, official CPI annual inflation -- now at 3.9% -- could be pushing double digits.

The preliminary SGS-Ongoing M3 Estimate for May, based on 26 out of 31 days of data, shows annual growth slowing to 16.0%, from 16.4% in April and from a record 17.4% in March. The somewhat slower growth appeared to reflect intensification of the banking system solvency crisis, which the Fed addressed with expanded Term Auction Facility (TAF) lending. While growth in the weekly M3 components resumed thereafter, the turnaround was not soon enough to generate an overall higher rate of annual growth in May. Nonetheless, the May level of M3 annual growth remains significantly above levels that promise higher inflation in the months ahead.

Banking System Stability Remains Elusive. Other than the hypesters on Wall Street, talk from central bankers and others knowledgeable within the system tend to confirm the continuing nature of the problems within the banking system. Direct evidence of ongoing trouble is seen in the increasing net lending of the Federal Reserve to troubled banks. The level of total nonborrowed reserves (a number that should be viewed on a not-seasonally-adjusted basis as to what is happening in the banking system) has continued to sink into record negative territory, a negative $129.3 ($130.3 adjusted) billion daily average for the two-week period ending June 4th, as shown in the following graph.



U.S. Currency as Sound as the CDOs Backing It? Updating the numbers as of June 4, 2008, the Fed reported physical U.S. currency (Federal Reserve Notes) in circulation at about $787 billion, the better portion of which circulates outside the geographic confines of the United States. While the U.S. currency has been a fiat currency (not backed by gold) for decades, the Federal Reserve Notes presently in circulation are collateralized by securities held by the Fed. Those securities primarily had been U.S. Treasury securities up until late-2007.

Since the onset of the banking solvency crisis and the establishment of various new lending facilities by the U.S. central bank, however, an increasing portion of the U.S. Treasury securities held as collateral has been lent to troubled financial institutions in exchange for largely illiquid collateralized debt obligations -- including mortgage backed securities -- those non-Treasuries now total in excess of 22% of the collateral backing the Federal Reserve Notes and appear to be increasing regularly.

Bernanke the Inflation Fighter? Despite developing claims to the contrary, the Fed's primary concern remains preventing a systemic financial collapse; everything else is secondary or tertiary, including the dollar, inflation and the economy. The Fed has very limited ability at present either to stimulate the economy or to contain inflation, despite severe problems in both areas. From a practical standpoint, its ability to rally the dollar also is limited: (1) to jawboning, which is underway and (2) to intervention, which likely already has been seen on occasion on a covert basis. Raising rates, though an option, could play out very negatively in the domestic markets and economy, and hence the banking system.

Mr. Bernanke made the decision to sacrifice the U.S. dollar and inflation, months ago, as a cost of salvaging the financial system. The purported move now to cease cutting the rates likely is due to the targeted Fed funds rate being near a practical lower limit of 2.00%, and perhaps due to a forced rethinking of the to-hell-with-the-dollar policy of recent years. If sovereign threats of dollar abandonment/dumping appear serious enough to add a dangerous new twist to the domestic solvency crisis, then the Fed may be forced to spike interest rates sharply, despite negative effects on the domestic markets and economy.

Market Turmoil Is Not Over. Given the inflationary recession and the ongoing banking solvency crisis, there is no likely long-term happy result on the horizon for the U.S. equity and credit markets, or for the U.S. dollar. Gold and silver, however, should continue seeing significant long-term gains from the same factors that will pummel the other markets.

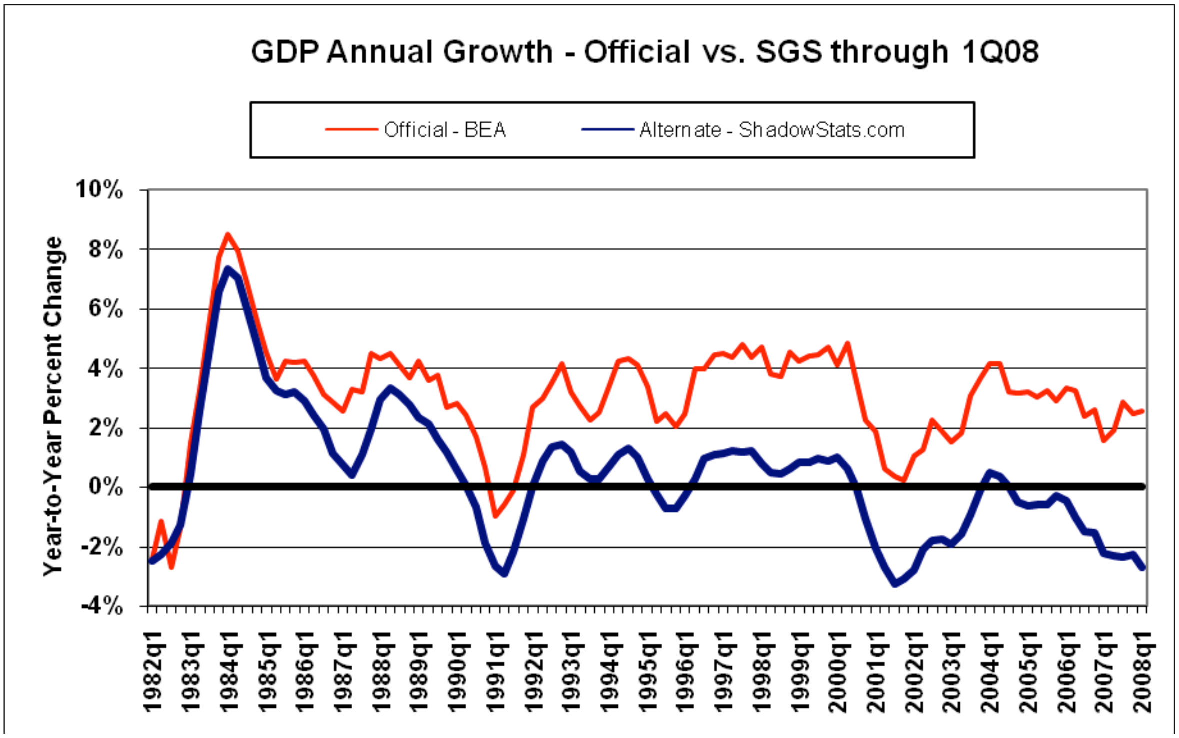
Wall Street will unwind at some point, as increasingly nightmarish scenarios begin to capture market thinking. The long-term underlying fundamentals remain miserable for equities and bonds. A severe and protracted bear market in equities already likely is underway. Foreign buying of U.S. debt and sporadic flight-to-quality have depressed Treasury yields, but inflation and developing U.S. dollar woes eventually will push long-term Treasury yields much higher, a process that already may have started. Recent strength/stability in the U.S. dollar and weakness in gold will prove as fleeting as the related central bank jawboning and likely intervention, covert or otherwise. Heavy dollar selling and strong gold buying remain good bets over the longer term.

PLEASE NOTE: A "General background note" provides a broad background paragraph on certain series or concepts. Where the language used in past and subsequent newsletters usually has been or will be identical, month-after-month, any text changes in these sections will be highlighted in bold italics upon first usage. This is designed so that regular readers may avoid re-reading material they have seen before, but where they will have the material available for reference, if so desired.

Alternate Realities. This section updates the Shadow Government Statistics (SGS) alternate measures of official GDP, unemployment rate and CPI reporting. When a government economic measure does not match common public experience, it has little use outside of academia or the spin-doctoring rooms of the Federal Reserve, White House and Wall Street. In these alternate measures, the effects of gimmicked methodological changes have been removed from the official series so as to reflect more accurately the common public experience, as embodied by the pre-Reagan-Era CPI and GDP and the pre-Clinton Era unemployment rate. Methodologies for the GDP and CPI series are discussed in the August 2006 SGS. Issues as to current manipulation of the headline numbers of these series are discussed in the Reporting/Market Focus.

GDP. The alternate first-quarter 2008 GDP growth reflects the "preliminary" estimate revision, with many of the methodological gimmicks of recent decades removed. The alternate first-quarter inflation-adjusted annual growth rate (year-to-year, as opposed to the popularly-touted annualized quarter-to-quarter rate) for GDP was a decline of roughly 2.7% versus the official year-to-year gain of 2.5%. The official annualized real growth rate for the quarter was 0.9%. While the quarterly growth number is popularly followed, its significant inaccuracies are expanded to the fourth-power in reporting. The alternate measure safely would have shown a quarterly contraction.

General background note: Historical data on both the official and SGS-Alternate GDP series are available for download on the Alternate Data page of www.shadowstats.com. The Alternate GDP numbers tend to show deeper and more protracted recessions than have been reported formally or reflected in related official reporting. Nonetheless, the patterns shown in the alternate data are broadly consistent with the payroll employment and industrial production series (as revised), which are major indicators used by the National Bureau of Economic Research in determining the official timing of U.S. business cycles.

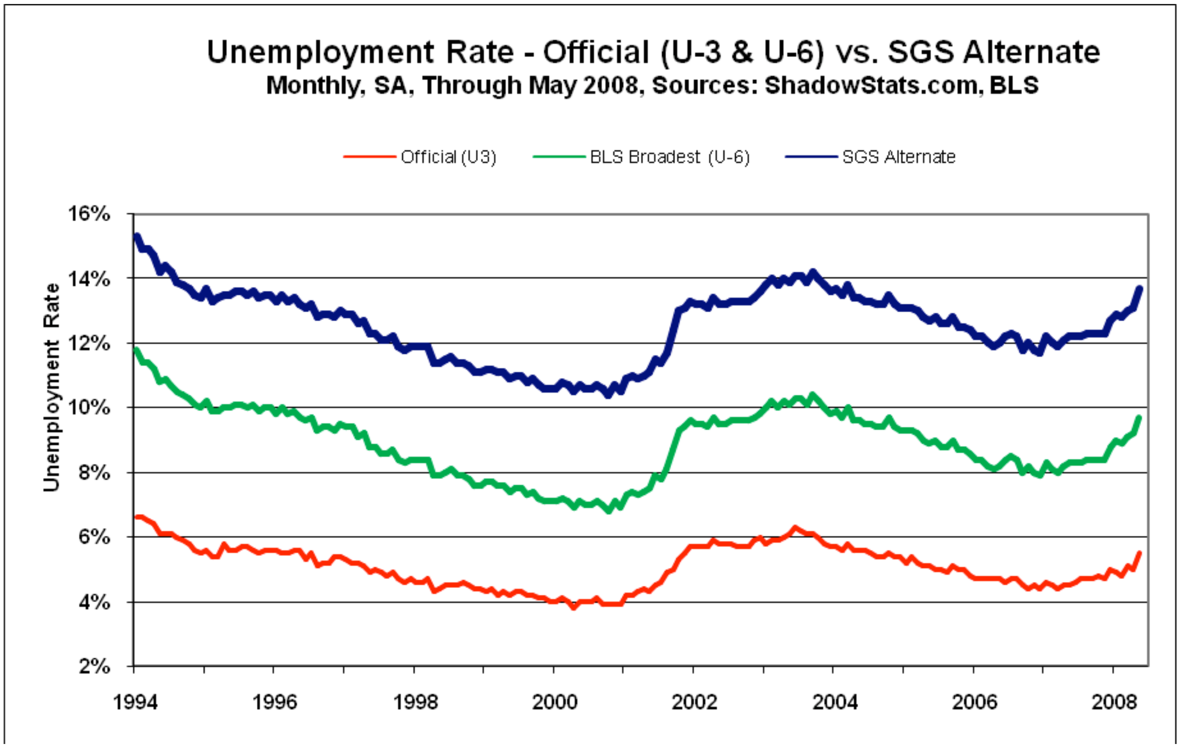


Unemployment Rate. Shown are two official seasonally-adjusted unemployment measures, U.3 and U.6, and the SGS-Alternate Unemployment Measure. All three measures moved sharply higher in May in response, at least partially, to rapidly deteriorating labor conditions, standing respectively at 5.5%, 9.7% and 13.7%, up from 5.0%, 9.2% and 13.1% in April.

U.3 is the popularly followed unemployment rate published by the Bureau of Labor Statistics (BLS), while U.6 is the broadest unemployment measure published by the BLS. U.6 is defined as total unemployed, plus all marginally attached workers, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all marginally attached workers. back in time.

Marginally attached workers include the discouraged workers who survived redefinition during the Clinton Administration. The SGS-Alternate Unemployment Measure simply is U.6 adjusted for an estimate of the millions of discouraged workers defined away during the Clinton Administration -- those who had been "discouraged" for more than one year.

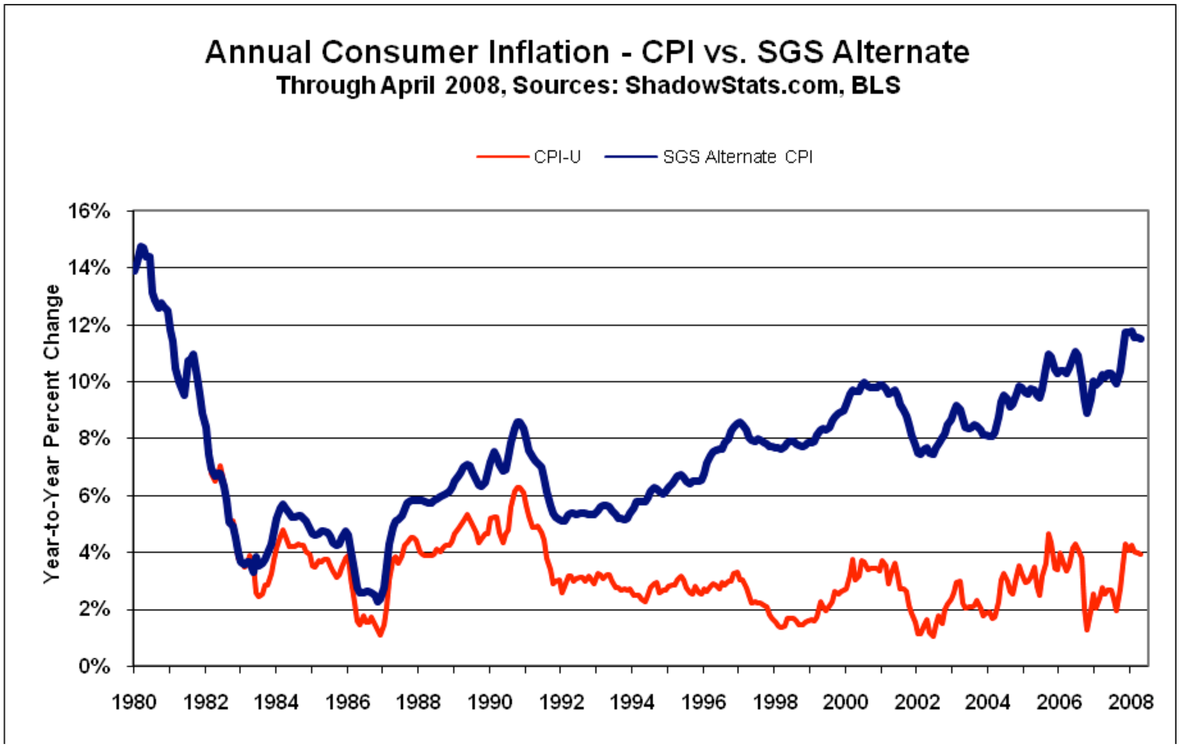
General background note: Historical data on both the official and SGS-Alternate unemployment series are available for download on the Alternate Data page of www.shadowstats.com. The Alternate numbers are reported from the 1994 series redefinitions forward. It is planned to take the alternate series further



CPI. April's annual non-core and core inflation rates tended to hold at prior-month levels or one notch lower. Nonetheless, annual inflation rates should continue rising well into 2009, with mounting inflationary pressures reflecting the increasing impact of energy-cost damages to the general economy, combined with pressures from a weak dollar and extremely high monetary growth.

Outright data manipulation appears to be an ongoing issue. Recent food and oil-related price pressures still have been reflected only minimally in current reporting, and that increasingly has caused some in the financial media to question the accuracy of official inflation reporting.

General background note: Historical data on both the official and SGS-Alternate CPI series are available for download on the Alternate Data page of www.shadowstats.com. The Alternate CPI numbers tend to show significantly higher inflation over time, generally reflecting the reversal of hedonic adjustments, geometric weighting and the use of a more traditional approach to measuring housing costs, measures all consistent with the reporting methodology in place as of 1980. Available as a separate tab at the SGS homepage www.shadowstats.com is the SGS Inflation Calculator that calculates the impact of inflation between any two months, 1913 to date, based on both the official CPI-U and the SGS-Alternate CPI series.



Eight Levels of Consumer Inflation
Annual Inflation for January to April 2008

		2008			
Measure		**Jan**	**Feb**	**Mar**	**Apr**
I.1	Core PCE Deflator (r)	2.0%	1.9%	2.1%	2.1%
I.2	Core Chained-CPI-U	2.2%	2.0%	2.1%	2.0%
I.3	Core CPI-U	2.5%	2.3%	2.4%	2.3%
I.4	PCE Deflator (r)	3.5%	3.4%	3.2%	3.2%
I.5	Chained-CPI-U	3.9%	3.7%	3.6%	3.5%
I.6	CPI-U	4.3%	4.0%	4.0%	3.9%
I.7	Pre-Clinton CPI-U	7.6%	7.3%	7.3%	7.3%
I.8	SGS Alternate Consumer Inflation	11.8%	11.6%	11.6%	11.5%

(r) Revised.
Notes: I.1 to I.3 reflect the core inflation rates, respectively, of the substitution-based personal consumption expenditure (PCE) deflator, the Chained-CPI-U and the geometrically-weighted CPI-U. I.4 to I.6 are the same measures with energy and food inflation included. The CPI-U (I.6) is the measure popularly followed by the financial press, when the media are not hyping core inflation. I.7 is the CPI-U with the effects of geometric weighting (Pre-Clinton Era as estimated by SGS) reversed. This is the top series in the CPI graph on the SGS home page www.shadowstats.com. I.8 reflects the SGS Alternate Consumer Inflation measure, which reverses the methodological gimmicks of the last 25 years or so, plus an adjustment for the portion of Clinton-Era geometric weighting that is not otherwise accounted for in BLS historic bookkeeping.

MARKETS PERSPECTIVE

Wall Street's pitches that the economy had dodged the recession bullet and that the worst of the banking solvency crisis had passed, had helped support the equity markets and the U.S. dollar in recent months.

Closing Financial-Market Indicators End of Year 2007, First-Quarter 2008 and June 6, 2008

Indicator	*Second-Quarter 2008 to Date June 6, 2008*			*First-Quarter 2008*			*Fourth-Quarter 2007*		
	Level	*QTD/Qtr*	*Yr/Yr*	*Level*	*Qtr/Qtr*	*Yr/Yr*	*Level*	*Qtr/Qtr*	*Yr/Yr*
Equity Market									
DJIA	12,209.81	-0.43%	-9.33%	12,262.89	-7.55%	-0.74%	13,264.82	-4.54%	6.43%
S&P 500	1,360.68	2.87%	-10.33%	1,322.70	-9.92%	-6.91%	1,468.36	-3.82%	3.53%
DJ Wilshire 5000	13,924.63	4.45%	-9.25%	13,332.00	-10.44%	-7.48%	14,819.60	-3.53%	3.94%
NASDAQ Comp	2,474.56	8.58%	-4.35%	2,279.10	-14.07%	-5.89%	2,652.28	-1.82%	9.81%
Credit Market (1)									
Fed Funds Target	2.00%	-25bp	-325bp	2.25%	-200bp	-300bp	4.25%	-50bp	-100bp
3-Mo T-Bill	1.85%	51bp	-295bp	1.38%	-118bp	-366bp	3.36%	-46bp	-166bp
2-Yr T-Note	2.40%	78bp	-257bp	1.62%	-143bp	-296bp	3.05%	-92bp	-177bp
5-Yr T-Note	3.20%	74bp	-174bp	2.46%	-99bp	-208bp	3.45%	-78bp	-125bp
10-Yr T-Note	3.94%	49bp	-103bp	3.45%	-59bp	-120bp	4.04%	-55bp	-67bp
30-Yr T-Bond	4.65%	35bp	-43bp	4.30%	-15bp	-54bp	4.45%	-38bp	-36bp
Oil (2) *US$ per Barrel*									
West Texas Int.	138.55	36.38%	110.02%	101.59	5.81%	54.20%	96.01	17.56%	57.24%
Currencies/Dollar Indices (3) *US$/Unit*									
Pound Sterling	1.9695	-0.81%	-1.10%	1.9855	0.06%	0.72%	1.9843	-2.68%	1.31%
Euro	1.5731	-0.47%	16.60%	1.5805	8.23%	18.18%	1.4603	2.70%	10.65%
Swiss Franc	0.9768	-3.09%	18.94%	1.0080	14.20%	22.23%	0.8827	3.02%	7.64%
Yen	0.0095	-5.20%	14.95%	0.0100	11.88%	17.74%	0.0090	2.92%	6.54%
Canadian Dollar	0.9816	0.86%	3.92%	0.9732	-3.83%	13.34%	1.0120	0.79%	17.92%
Australian Dollar	0.9603	5.16%	14.21%	0.9132	4.06%	12.71%	0.8776	-0.89%	11.31%
Weighted Currency Units/US$ (Jan. 1985 = 100)									
Financial (FWD)	44.95	0.54%	-6.94%	44.71	-5.40%	-10.62%	47.26	-0.92%	-7.64%
Change US$/FX	--	-0.53%	7.45%	--	5.70%	11.88%	--	0.93%	8.27%
Trade (TWD)	51.05	0.91%	-9.52%	50.59	-4.04%	-12.70%	52.72	-1.51%	-10.00%
Change US$/FX	--	-0.90%	10.52%	--	4.21%	14.55%	--	1.54%	10.01%
Precious Metals (4) *US$ per Troy Ounce*									
Gold	890.50	-4.61%	27.27%	933.50	11.96%	38.97%	833.75	12.21%	31.92%
Silver	17.19	-4.45%	25.57%	17.99	21.88%	34.76%	14.76	8.13%	14.41%

bp: Basis point or 0.01%. (1) Treasuries are constant maturity yield, US Treasury. (2) Department of Energy. (3) Shadow Government Statistics, FRB (see Dollar Index Section for definitions). (4) London afternoon fix, Kitco.com.

That fairy tale began to show cracks last week, and the more-negative underlying reality that has started to surface likely will continue to gain broader market acceptance in the weeks ahead. Indeed, the underlying fundamentals of an intensifying inflationary recession and a still unfolding banking-solvency crisis continue. Accordingly the longer range outlook for the markets has not varied.

The equity market already is in the throes of what should prove to be a severe and protracted bear market. Long-term interest rates will rise in response to inflation fears and in particular to heavy selling of the U.S. dollar. As dollar selling mounts to near-panicked levels, and flight from the dollar becomes flight to safety, U.S. financial markets will face significant liquidity problems. Moving counter to the dollar, with buying pressure intensifying from mounting U.S. inflation concerns and domestic and global political instabilities, gold and silver should rally strongly.

Such is the outlook for the longer term. Extreme volatility in the equity, currency and precious metals markets has been seen recently and likely will continue. Key to the unfolding of the market difficulties ahead remains the behavior of the U.S. dollar, and that circumstance may explain the sudden and increasingly vociferous jawboning by the Fed Chairman and Treasury Secretary in support of the dollar. Jawboning and any related intervention, however, do not have lasting impact on the currency markets, unless the artificial pressures are applied in the same direction as suggested by the underlying fundamentals, or unless the counter-direction of underlying fundamentals can be reversed.

Unfortunately for the U.S. dollar, the underlying fundamentals could not be much worse, and the chances of meaningful shifts in those fundamentals over the near term are virtually nil.

As a general strategy under the current circumstances, looking to preserve wealth and assets needs to be a primary concern, along with the liquidity and safety of investments. The approaching financial maelstrom already has come over the horizon and appears to be making landfall, albeit slowly. When it hits with full force, those investors who have taken shelter in cash or near-cash outside the U.S. dollar and in gold will be the ones with the wealth and assets available to take advantage of the extraordinary investment opportunities that should follow.

U.S. Equities -- A severe and protracted inflationary recession is not good for equities, despite any inflation play. Slowing business activity and higher costs (particularly where a company is slow to raise its prices) should hit earnings. Heavy dollar selling eventually should drain liquidity from the equity and credit markets, hitting both stock and bond prices.

General background note: I contend that stocks already have turned down into what will prove to be a particularly protracted and savage bear market (see the *Hyperinflation Special Report*). As equities catch-up with the underlying economic, financial and systemic fundamentals, the downside adjustments to stock prices should be quite large over some years, eventually rivaling the 90% decline in equities seen in the 1929 crash and ensuing four years. The decline might have to be measured in real terms, as a hyperinflation eventually will kick in, with the Fed moving to liquefy the system and monetize federal debt. Stocks do tend to follow inflation, since revenues and earnings get denominated in inflated dollars. Hence with a hyperinflation, a DJIA of 100,000 or 100,000,000 could be expected, but such still would be well below today's levels, adjusted for inflation.

U.S. Credit Market -- The Fed has been signaling nervously that the string of panicked rate cuts has run its course. Such remains to be seen, as Wall Street increasingly buys the concept of a severe recession and the banking solvency issues likely surface anew. Nonetheless, the perceived shift in Fed policy, combined with mounting inflation fears and a pick-up in selling of the greenback has started to push Treasury yields a little higher.

Even so, the 30-year Treasury bond remains the only regular Treasury security that has a positive real (inflation-adjusted) yield at 4.65%, versus the government's reported CPI inflation rate of 3.94%. With even official CPI inflation likely to spike in the months ahead, however, that circumstance will disappear shortly, shy of a sharp rise in Treasury yields.

Given the Federal Reserve's latest numbers (Flow of Funds June 2008) suggesting that seasonally-adjusted foreign buying of U.S. Treasuries more than absorbed the rising net issuance during the first quarter, the vulnerability of domestic interest rates to a major sell-off in the U.S. dollar could not be much greater. In fairness, though, the Fed numbers are not of particularly good quality.

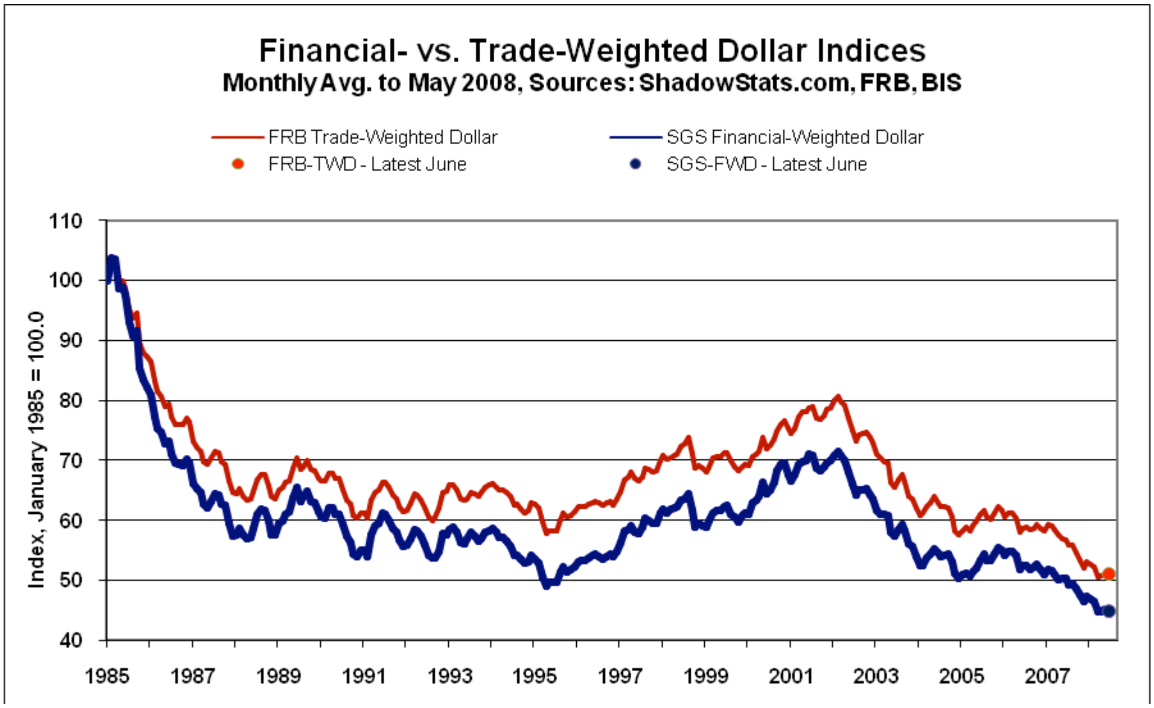
With rapidly mounting inflationary pressures, rapid money growth, explosive federal deficit growth (and borrowing needs), and a soon-to-be-seen flight from the dollar that evolves into a flight-to-safety outside the dollar, the longer range outlook continues for long-term Treasury yields to back up by several hundred basis points, approaching a more-normal spread in long-term Treasuries over inflation. With a normal spread, the current 4.65% yield on the 30-year Treasury bond should be over 7.50%.

U.S. Dollar -- Jawboning by Fed Chairman Bernanke and Treasury Secretary Paulson has given the U.S. dollar short-lived boosts, as has likely covert central intervention. Otherwise, the underlying fundamentals -- those factors that determine the long range outlook for the U.S. currency -- remain abysmal and are deteriorating. The long-term outlook for the dollar remains for a massive sell-off, with flight from the dollar eventually evolving into a flight to safety outside the dollar.

In terms of underlying fundamentals that drive relative currency values, the dollar's portfolio could not be worse. Relative to major trading partners, the U.S. economy is much weaker; interest rates are lower and anticipated possibly to go lower still on a relative basis (i.e., foreign rates rising); inflation is higher; rising fiscal and trade-balance conditions are horrendous, with the fiscal deficit exploding; and relative political/systemic concerns are rising sharply with President's and Congress's approval ratings bottom-bouncing at all-time lows. Neither presumptive presidential candidate (pocketbook issues favor a win for the Democrats) has any prospects of turning the economy.

General background note: Beyond renewed capitulation by the Federal Reserve to the solvency/funding crisis, the proximal trigger for a full dollar panic could come from a bad economic statistic, political missteps by the Administration, negative trade or market developments outside the United States, or a terrorist attack or expansion of U.S. military activity in the Middle-East or South America. When the trigger is pulled, what likely will be broad selling pressure will turn to an outright panicked dumping of the greenback, which should overwhelm any short-lived central bank intervention and roil the domestic financial markets. Generally, the greater the magnitude of the dollar selling, the greater will be the ultimate inflation pressure and liquidity squeeze in the U.S. capital markets, on top of an otherwise deteriorating systemic crisis.

As shown in the following graph, the U.S. dollar inched higher in May from historic lows, but it resumed something of a tumble late last week. The latest data points shown for the financial- and trade-weighted indices are as of Friday, June 6th.



General background note: Historical data on both dollar series are available for download on the Alternate Data page of www.shadowstats.com. See the July 2005 SGS Newsletter for methodology.

U.S. Dollar Indices. The Shadow Government Statistics' Financial-Weighted U.S. Dollar Index (FWD) is based on dollar exchange rates weighted for respective global currency trading volumes. For May 2008 the monthly FWD rose by 0.63%, after easing by 0.04% in April. The May 2008 average index level of 45.13 (base month of January 1985 = 100.00) was down by 10.14% from May 2007, while April was down 10.47% from the year before. As of June 6th, the FWD stood at 44.95.

Also rising in May was the Federal Reserve's Major Currency Trade-Weighted U.S. Dollar Index (TWD). The May 2008 average gained 0.40% from April, which, in turn, was up by 0.21% from March. The May 2008 index level of 50.91 (base month of January 1985 = 100.00) was down 10.67% year-to-year, versus an 11.77% annual decline in April. As of June 6th, the TWD closed at 51.05.

Gold -- In the midst of significant ongoing volatility, the price of gold was down about 12%, as of Friday (June 6th), from its record-high London p.m. fix of $1,011.25 per troy ounce on March 17, 2008. In terms of annual perspective, gold is up by about 27% from a year ago, while the S&P 500 is down about 10% over the same period. The long-term outlook for gold remains extremely bullish, with recovery to $1,000-plus levels and higher likely sooner, rather than later, given the continuing, extraordinary strength of the underlying fundamentals.

The underlying fundamentals generally have improved during the last month or so, with explosive oil prices, high monetary growth, some resumption of dollar-selling pressure and mounting global political tensions. Gold buying pressure should intensify significantly, along with heavy dollar selling that remains likely in the long run. Downside pressures ranging from jawboning to possibly covert market intervention remain in the short-term camp, with no lasting impact.

For May (based on Kitco.com), the monthly average London gold afternoon fix was $886.66

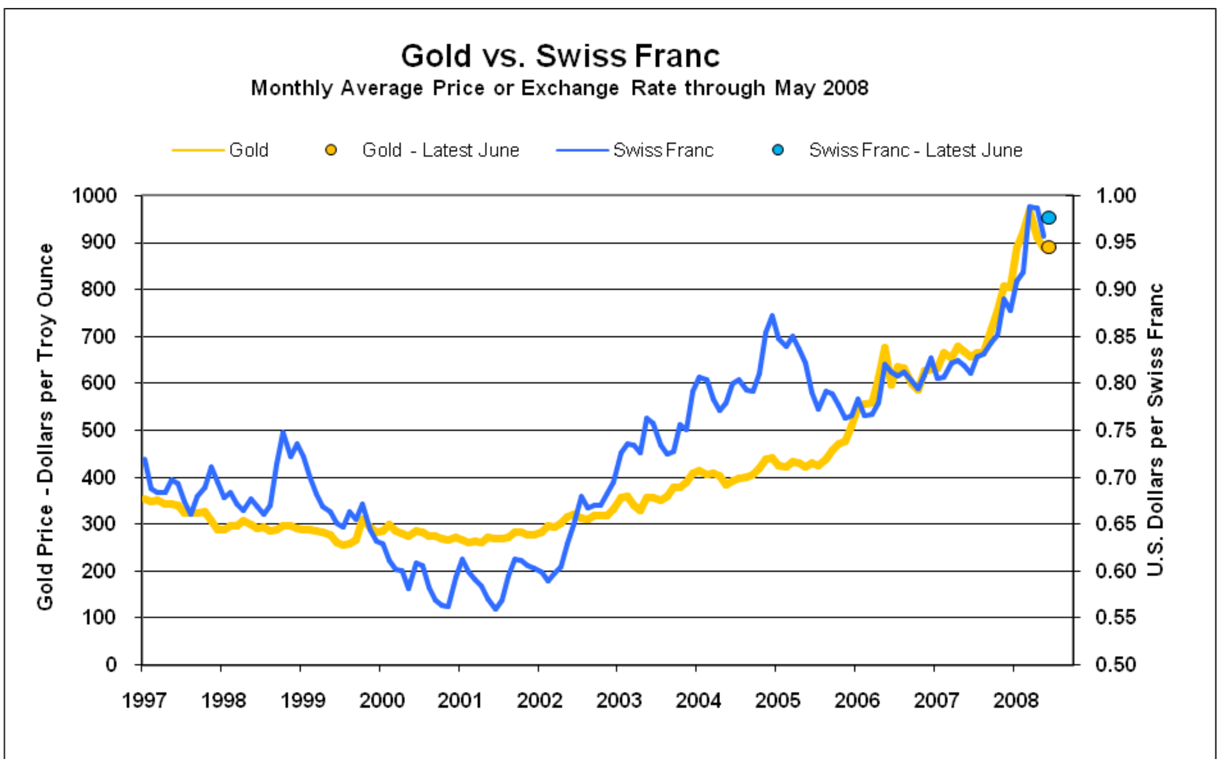
per troy ounce, versus $909.70 in April. Silver averaged $17.05 per troy ounce in May, down from $17.50 in April. Respective closing prices on June 6th were $890.50 and $17.19 per troy ounce.

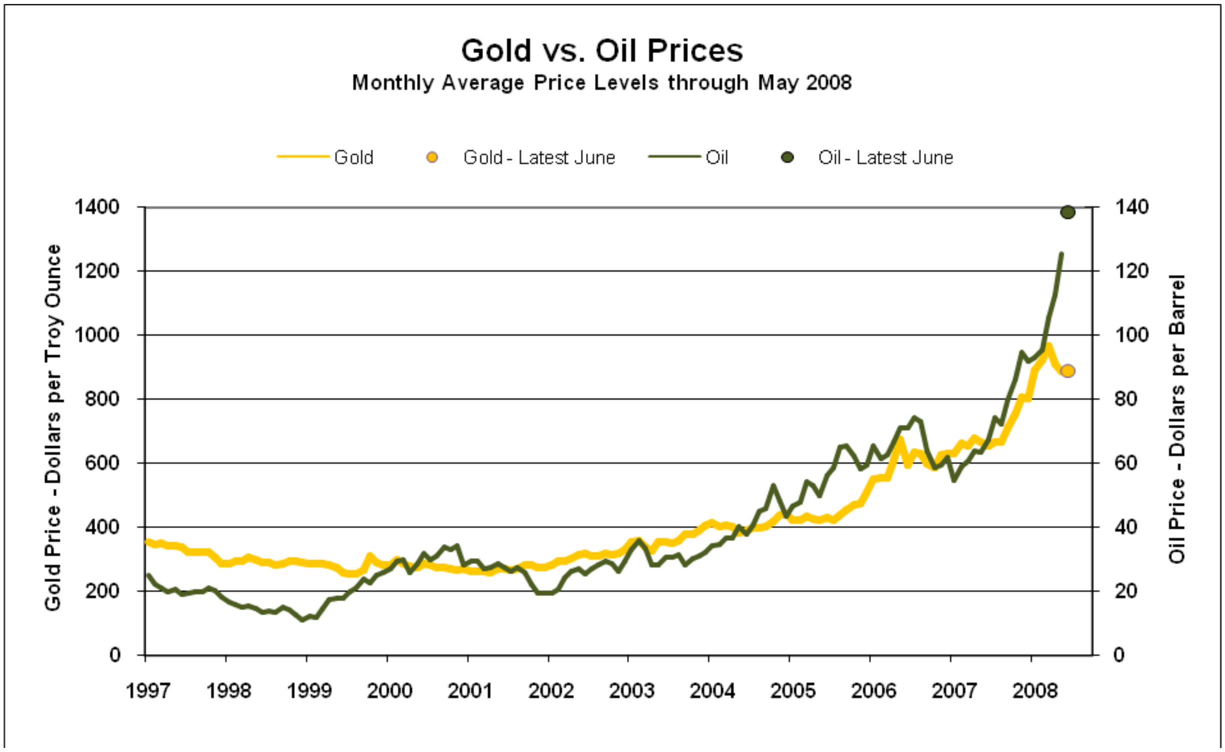
Inflation-Adjusted Historic Gold High. Outside of the current period's March 17th high of $1,011.25, the earlier all-time high of $850.00 (London afternoon fix) of January 21, 1980 still has not been hit in terms of inflation-adjusted dollars. Based on inflation through April 2008, the 1980 gold price peak would be $2,347 per troy ounce, based on not-seasonally-adjusted CPI-adjusted dollars, and would be $6,484 per troy ounce in terms of SGS-Alternate CPI adjusted dollars.

General background note: Near-term gold price volatility likely will continue and could be significant. Upside price pressures from mounting inflation, a weakening dollar and increasing global political, financial and systemic instabilities, face offsets with bouts of profit taking and with intensified overt and covert central bank interventions in the gold and currency markets, aimed at propping the greenback. Despite any central-bank machinations or intervention, the upside potential for the precious metals remains explosive.

General background note: As discussed in the *Hyperinflation Special Report (April 2008)*, the eventual collapse of the U.S. dollar -- the world's reserve currency -- will force the creation of a new international currency system. Gold likely will be structured into any replacement system, in an effort by those organizing the new currency structure to gain public acceptance.

The updated gold versus oil and Swiss franc graphs show the May averages, as well as added points for closing prices on June 6th, with gold at $890.50, oil at $138.55 and the Fed's published noon buying rate for the Swiss franc at $0.9768. Again, all three measures should trade significantly higher in the months ahead.




Gold vs. Oil Prices
Monthly Average Price Levels through May 2008
Gold
Gold - Latest June
Oil
Oil - Latest June
Gold Price - Dollars per Troy Ounce
Oil Price - Dollars per Barrel
0
200
400
600
800
1000
1200
1400
0
20
40
60
80
100
120
140
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008

REPORTING PERSPECTIVE

The Big Three Market Movers

While most underlying economic fundamentals have deteriorated in recent reporting, certain key headline statistics -- specifically employment, GDP and CPI -- increasingly have tended toward showing market-pacifying results, suggestive of some political/financial-market oriented manipulation. The case for manipulation is explored in the Reporting/Market Focus section.

While the surprise jump in the May unemployment rate may have rattled market complacency, happy-numbers remain likely for the big three market-moving reports in the near-term. Mr. Bernanke still needs a stable U.S. currency, particularly under the circumstances of his fragile bailout of the domestic financial system, while the Administration's political needs remain great. With financial circumstances threatening national security, almost anything is possible in the arena of data and market manipulations. Data manipulation remains an extremely inexpensive and effective policy tool.

Absent manipulations, and against market expectations that remain well removed from reality, most near-term economic reporting should tend to surprise the markets on the downside, while most inflation reporting should surprise expectations on the upside.

Employment/Unemployment -- As discussed in this month's Reporting/Market Focus on manipulation and the June 2nd and 6th *Flash Updates,* the pattern of impossible biases being built into the headline payroll employment changes continued with the May report. Instead of the headline jobs loss of 49,000, which was at or better than consensus, consistent application of seasonal-adjustment factors would have generated results showing a monthly jobs loss of about 134,000. The implication here is of intensifying political manipulation of the data, where the cumulative 12-month-rolling upside headline bias increased from 517,000 in April to 595,000 in May.

The reported fifth consecutive decline in monthly payrolls, as of May, indicated a recession in place, with annual payroll growth on the brink of turning negative (see Opening Comments and related graph). The sharp upturn in unemployment also was consistent with a contracting economy. Still, as has become the standard pattern -- with fairly predictable gimmicks -- the weakness in the jobs report was understated, even beyond the apparent manipulation of seasonal factors.

The reported surge in the unemployment rate from 5.0% in April to 5.5% in May was suspect. While it could reflect some catch-up, and it likely does represent a deteriorating circumstance, it also encompasses the month that schools start to let out for the summer. The BLS does not have a strong track record in seasonally-adjusting for the school year. For example, in the payroll survey, May seasonally-adjusted employment jobs rose by 12,000 in the month, a number that should be flat if appropriately adjusted. If the reported unemployment rate surge in the household survey is a seasonal-factor artifact, such should become obvious in something of an offsetting decline in the unemployment rate in the June report.

Payroll Survey. The Bureau of Labor Statistics (BLS) reported a statistically-insignificant, seasonally-adjusted jobs loss of 49,000 (64,000 net of revisions) +/- 129,000 for May 2008, following a revised 28,000 (previously 20,000) jobs loss in April. Annual growth in total nonfarm payrolls slowed further to a recessionary 0.08% in May, from 0.29% April.

Birth-Death/Bias Factor Adjustment. One element continuing to add upside pressure to the numbers was the monthly bias factor (birth-death model), which never was designed to handle the downside pressures from a recession. The May 2008 bias was a net addition of 217,000 jobs (up from the prior May's 174,000 upside bias), following a net addition of 257,000 jobs in April 2008. The May add-factor mindlessly continued to spike construction jobs (up by 42,000) and financial activities jobs (up by 9,000), irrespective of ongoing anecdotal evidence of trouble in those areas.

Seasonal-Factor Gimmicks. As mentioned above (see the Reporting/Market Focus section on manipulation for detailed background), year-to-year growth should be virtually identical in both the seasonally-adjusted and unadjusted series, and applying the unadjusted annual change to the seasonally-adjusted year-ago numbers for April and May suggests that the seasonally-adjusted month-to-month change should have been a contraction of 134,000, instead of 49,000. This reporting gimmick is made possible by the "recalculation" each month of the monthly seasonal factors ("concurrent" seasonal adjustment). If the process were honest, the suggested differences would go in both directions. Instead, the differences almost always (11 out of the last 12 months) suggest that the seasonal factors are being used to overstate the current month's headline payroll change, and the upside bias is increasing.

Household Survey. The usually statistically-sounder household survey, which counts the number of people with jobs, as opposed to the payroll survey that counts the number of jobs (including those of multiple job holders), showed household employment fell by 285,000 in May, after a 362,000 increase in April.

The May 2008 seasonally-adjusted U.3 unemployment rate showed a statistically-significant increase to 5.49% +/- 0.23% from 4.95% in April. Unadjusted, U.3 increased to 5.2% in May versus 4.8% in April. The broader U.6 unemployment rate rose to an adjusted 9.7% (9.4% unadjusted) in May, versus 9.2% (8.9% unadjusted) in April. Adjusted for the bulk of the "discouraged workers" defined away during the Clinton Administration, actual unemployment, as estimated by the SGS-Alternate Unemployment measure, rose to 13.7% in May from 13.1% in April (see the Alternate Reality section).

Employment Environment. The employment deterioration in May ran in the right direction, but still shy of reality, per trends indicated by some of the better-quality employment-environment indicators: April help-wanted advertising remained at an historic low, new claims for unemployment insurance have surged sharply in terms of annual growth, and a recession-level employment reading was seen once again for the May manufacturing purchasing managers surveys, while the May nonmanufacturing survey employment measure dropped once more into recession territory.

Next Release (July 3): Based on ongoing deterioration in underlying economic activity, the June payroll survey should show continued month-to-month contraction, with annual growth turning negative, while the household survey should show a continued rise in the unemployment rate (barring an offset to a poor-quality May number). The numbers, however, simply can be brought in at whatever level is desired by the Administration or the Federal Reserve, and ongoing risk of political distortion remains high.

Gross Domestic Product (GDP) -- As suggested last month, and as discussed in the Reporting/Market Focus, both the "advance" and "preliminary" estimates of first-quarter 2008 GDP appeared to be heavily politicized, showing growth rather than contraction and running contrary to the indications of better-quality underlying indicators.

Reflecting the unbelievably sharp decline in March oil imports, as discussed in the May 12th *Flash Update*, the Bureau of Economic Analysis (BEA) reported the "preliminary" estimate revision of annualized real (inflation-adjusted) growth rate for first-quarter GDP at 0.90% (previously 0.60%) +/- 3%, which remained statistically indistinguishable from a meaningful contraction. The new growth rate compared with the 0.58% growth estimate for fourth-quarter 2007, and the 4.91% economic boom reported in the third quarter. Annual growth for the first quarter was revised to 2.53% (previously 2.46%), versus 2.46% in the fourth quarter and 2.84% in the third quarter.

The GDP's first-quarter implicit price deflator (inflation measure) rose at an annualized rate of 2.57%, previously 2.58%, against 2.41% in the fourth quarter and a 1.03% rate in the third quarter.

The "preliminary" estimate report included first estimates of official GDP-like measures for first-quarter 2008, including Gross National Product (GNP), where GDP is GNP net of trade in factor income (interest and dividend payments), and Gross Domestic Income (GDI), which is the theoretical income-side equivalent to the GDP's consumption-side measure.

Annualized real quarter-to-quarter GNP in the first quarter was reported up by 1.08%, versus 1.87% in the fourth quarter and a 5.81% increase in the third quarter. Year-to-year first-quarter growth was 3.17% versus 3.07% in the fourth quarter.

Close to showing an outright recession, however, annualized real quarter-to-quarter GDI in the first quarter gained just 0.33%, following a revised annualized contraction of 0.19% (previously 0.98%) in the fourth quarter, and a 1.2% increase in the third quarter. Year-to-year growth slowed to 1.08% in the first quarter, versus 1.29% (previously 1.09%) in the fourth quarter. With the statistical discrepancy widening to $132.9 billion in the first quarter from $112.1 billion in the fourth quarter, the distortions here are consistent with the massaged data apparent in the more widely followed GDP number, as discussed in Reporting/Market Focus.

Adjusting for methodological distortions built into GDP reporting over time, the SGS-Alternate GDP measure suggests that economic reality is much weaker than officially reported. A first-quarter year-to-year contraction of roughly 2.7% would have been more in line with underlying fundamentals, past methodologies and the ongoing recession (see the graph in the Alternate Realities section of the Opening Comments). Such reflects some bottom-bouncing with the annual contraction a little deeper than the SGS-Alternate GDP third- and fourth- quarter estimates.

General background note: Although the GDP report is the government's broadest estimate of U.S. economic activity, it is also the least meaningful and most heavily massaged of all major government economic series. Published by the BEA, it primarily has become a tool for economic propaganda.

Next Release (June 26): The "final" estimate revision of first-quarter GDP should be little more than statistical noise. The upcoming "flexible" quasi-benchmark/annual revision to historical data on July 27th, however, could be of considerable significance, as will be discussed in the next newsletter.

Consumer Price Index (CPI) -- As discussed in the May 14th *Flash Update,* energy costs in the CPI again were unchanged, despite soaring oil and gasoline prices. The excuse was in the seasonal adjustments. Where seasonal factors have been suppressing the reporting of gasoline price increases, there should be a period of catch-up, since the raw CPI numbers do not get revised, and the monthly seasonal factors are not recalculated every month, as they are with the payroll numbers. As discussed in the Reporting/Market Focus, the month of turnaround in gasoline seasonal factors will be in June, per the reporting of my friend John Crudele of *The New York Post*.

Nonetheless, the continued increases in oil and gasoline prices have been far beyond any normal seasonal patterns. Becoming ever more distant from common experience, the Bureau of Labor

Statistics (BLS) reported that the seasonally-adjusted April CPI-U (I.6) gained just 0.21% (0.61% unadjusted) +/- 0.12% for the month, versus the 0.34% (0.87% unadjusted) gain reported in March. April's annual CPI inflation softened minimally to 3.94% from March's 3.98%.

Year-to-year annual inflation would resume its upturn in May 2008 reporting, dependent on the seasonally-adjusted monthly gain exceeding the 0.46% monthly increase seen in May 2007. The difference would directly add to or subtract from April's annual inflation rate of 3.94%.

Annual inflation for the Chain Weighted CPI-U (C-CPI-U) (I.5) -- the fully substitution-based series that increasingly gets touted by CPI opponents and inflation apologists as the replacement for the CPI-U -- was 3.45% in April, down from 3.55% in March.

Adjusted to pre-Clinton (1990) methodology (I.7), annual CPI growth held at 7.3% in April, while the SGS-Alternate Consumer Inflation Measure (I.8), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at roughly 11.5%, versus 11.6% in March. The alternate numbers are not adjusted for near-term manipulations of the data. The eight levels of annual inflation, I.1 to I.8, are detailed in the table in the Alternate Realities section, along with the graph of SGS-Alternate Consumer Inflation.

Next Release (June 13): Monthly May CPI inflation should rise sharply based on surging energy costs -- well beyond any normal seasonal variation -- but the Fed's feeble tertiary (after meeting banking solvency and Wall Street needs) "fight" against inflation may necessitate continued masking of rapidly deteriorating price conditions. If seasonally-adjusted monthly CPI inflation for May exceeds 0.46%, which it should, then annual CPI inflation will increase by the difference. Where underlying fundamentals favor an upside surprise to market expectations, targeted manipulation, as has been seen recently, remains of very high risk.

Other Troubled Key Series

Federal Deficit -- The rolling 12-month deficit through April 2008 stood at $234.2 billion versus $144.9 billion in April 2007, compared with the rolling 12-month deficit through March 2008 of $215.8 billion versus $203.7 billion in March 2007.

Viewing the change in gross federal debt bypasses several of the regular reporting manipulations and is a better indicator of actual net cash outlays by the federal government than is the official, gimmicked deficit reporting. Gross federal debt stood at $9.389 trillion at the end of May 2008, up $11 billion for the month and up $560 billion from May 2007, which in turn was up $472 billion from May 2006. As of the end of April 2008, gross federal debt stood at $9.378 trillion, down $60 billion for the month, but up $537 billion from April 2007, which in turn was up $485 billion from April 2006. Gross federal debt stood at $9.438 trillion at the end of March 2008, up $80 billion for the month and up $588 billion from March 2007, which in turn was up $479 billion from March 2006.

There is substantial evidence developing of weaker than anticipated tax collections at both the federal and state levels, due to the deepening recession. The Federal Reserve (Flow of Funds June 2008) estimates that total federal, state and local government receipts fell at seasonally-adjusted annualized rate of 0.22% in first-quarter 2008 from fourth-quarter 2007. While the Fed's numbers are of questionable quality, there are negative implications here both for the federal deficit and for U.S. Treasury funding needs.

General background note: The federal government's fiscal 2007 (year-ended September 30th) official accounting-gimmicked deficit narrowed to $162.8 billion from $248.2 billion in 2006. For fiscal year-end 2007, the gross federal debt stood at $9.007 trillion, up by $500 billion from 2006, which was up $574 billion from 2005. As discussed in the December 2007 SGS Newsletter's Reporting/Market Focus, the GAAP-based deficit for fiscal-year 2007 topped $4 trillion, which remains my best estimate at this time.

General background note: The Bush Administration projects a gimmicked deficit of $410 billion for fiscal 2008, up from $163 billion in 2007. With no allowance for recession in the assumptions underlying the deficit the projections (the Administration forecasts real 2008 GDP growth at 2.7%), the final 2008 numbers should be much worse than the current Administration estimates. While GDP growth estimates can be gimmicked, incoming tax receipts (based on consistently applied tax policies) remain an independent estimate of underlying economic reality and have started to reflect the economy's mounting problems.

Initial Claims for Unemployment Insurance -- The trend in annual growth has continued to deteriorate at an accelerating pace. On a smoothed basis for the 17 weeks ended May 31st, annual growth rose to 14.9%, up from 9.9% in the 17 weeks ended April 17th. A rising growth trend in new claims is an economic negative.

General background note: More often than not, week-to-week volatility of the seasonally-adjusted weekly claims numbers is due to the Labor Department's efforts to seasonally adjust these numbers around holiday periods ***(such as Memorial Day)***. The Labor Department has demonstrated an inability to do such adjusting successfully. When the new claims series is viewed in terms of the year-to-year change in the 17-week (four-month) moving average, however, such generally is a fair indicator of current economic activity.

Real Average Weekly Earnings -- April's seasonally-adjusted monthly real earnings fell by 0.5%, following a revised 0.3% (was 0.2%) increase in March. Annual change in April deepened to a 1.0% contraction, from March's revised 0.9% (previously 1.0%) contraction.

General background note: Gyrations in the poor quality of reported CPI growth account for most month-to-month volatility in this series. Adjusting for the major upside biases built into the CPI-W inflation measure used in deflating the average weekly earnings, annual change in this series shows the average worker to be under severe financial stress in an ongoing structural recession (see the *Hyperinflation Special Report* of April 8, 2008).

Retail Sales -- As discussed and graphed in the Opening Comments, and as detailed in the May 14th *Flash Update,* real (inflation-adjusted) retail sales again showed a deepening recession, with the year-to-year real change in the three-month moving average version showing an intensifying contraction. With real monthly change in ongoing decline, reporting patterns here are consistent with a second quarter contraction for the series.

The Census Bureau reported seasonally-adjusted April retail sales declined by 0.19% (down 0.86% net of benchmark revisions) +/- 0.6% (95% confidence interval), following a 0.20% increase in the re-benchmarked monthly March data. On a year-to-year basis, April retail sales rose 2.03% versus a revised 2.03% (previously 1.97%) in March. The real (inflation-adjusted) monthly change continued negative (down 0.4%), as did the real annual change (down 1.8%).

Core Retail Sales. Consistent with the Federal Reserve's predilection for ignoring food and energy prices, "core" retail sales -- retail sales net of grocery store and gasoline station revenues -- were down by 0.3% in April, versus a 0.1% decline in March, against the official aggregate loss of 0.2% in April and gain of 0.2% in March. "Core" retail sales remained negative year-to-year, down 0.3% for April, following a 0.6% loss in March.

The benchmark revisions and core analysis, however, also show that revamped data reflected higher food and energy inflation than previously reported. Where the aggregate April number showed a 0.2% contraction, which was a 0.9% decline net of revisions, the core decline of 0.3% was a decline of 4.2% net of revisions.

Next Release (June 12): Underlying fundamentals suggest ongoing weakness and a likely much weaker than expected showing for May retail sales. While expectations are for a strong gain of roughly 0.6%, any strength seen there should be due to inflation, not to rising consumer demand. The monthly and annual changes again should remain underwater, after inflation adjustment, consistent with an ongoing recession.

Industrial Production -- Seasonally-adjusted industrial production plunged by 0.7% in April, as reported by the Federal Reserve, following a revised 0.2% (previously 0.3%) increase in March. April's year-to-year growth ground to a halt, at just 0.2%, down sharply from March's 1.4%. The series should turn negative year-to-year in the next reporting or two, providing the first monthly annual contraction of this recession.

The seasonally-adjusted first-quarter 2008 production reading contracted at an annualized 0.2% versus the fourth quarter. With production just holding even in May and June, the annualized quarter-to-quarter contraction for the second quarter would be about 3.2%. Legitimate GDP reporting would tend to follow the growth patterns of the quarterly production data.

Next Release (June 17): The May production numbers should continue a pattern of ongoing monthly contractions, with the erratic but generally slowing annual growth a fair bet to turn negative. Such would be consistent with the manufacturing contractions still signaled by the purchasing managers survey, and with a second-quarter quarterly production contraction, suggestive of a second-quarter GDP contraction.

New Orders for Durable Goods -- As discussed in the May 29th *Flash Update,* the highly volatile new orders for durable goods put in another recessionary performance in April. New orders fell by a seasonally-adjusted 0.5% decline (a gain of 1.0% net of revisions), following an unrevised monthly March decline of 0.3%. On a year-to-year basis, April's new orders fell by 1.7% versus a revised annual decline of 3.2% (previously a 4.2% drop) in March. Smoothed using a six-month moving average, annual growth (net of inflation) remained negative and generating an ongoing recession signal.

The closely followed nondefense capital goods new orders fell by 1.4% in April, reversing the 1.4% (previously 1.5%) gain seen in March. April's year-to-year change was a decline of 4.7%, following a revised 4.8% (previously 3.3%) drop in March.

General background note: Durable goods orders lost its status as a solid leading economic indicator when the semi-conductor industry stopped reporting new orders in 2002.

Trade Balance -- As discussed in the May 12th *Flash Update*, the March trade deficit improved enough, due to reported declining oil imports, to account for the bulk of the upside revision in the preliminary estimate of second-quarter GDP.

The seasonally-adjusted monthly trade deficit for March was reported to have narrowed to $58.2 billion, from a revised $61.7 billion (previously $62.3 billion). These data remained far from reliable and may have undergone some massaging in support of the likely rigged GDP numbers.

At least two factors appeared unusual in the data. First were the prior month's revisions, which were unusually large from a carryover standpoint. Carryover reflects irregularities in paperwork flows out of the ports to the Commerce

Department. Carryover games were used in an outright manipulation of the trade numbers back in 1987 and 1988, in a successful effort to affect U.S. dollar trading (see the Primer Series on www.shadowstats.com). Second were oil imports. Although the average price of imported oil rose from a reported $84.76 per barrel in February to $89.85 in March, the average number of barrels per day imported in March 2008 was 8.986 million, down from 10.460 million in March 2007, where January and February 2008 daily volumes were up from 2007. Such suggests that there may be significant carryover problems in the works.

The upcoming report holds the potential for significant revisions to prior data, where benchmark revisions should recast any known carryover problems.

Next Release (June 10 with annual revisions): This newsletter was written before the trade data release, but it will be posted after same. Details will follow in the next *Flash Update*. Underlying reality (including sharply rising oil prices) favors a sharp deterioration in the monthly April trade deficit, along with significant, negative revisions to recent trade deficit history, but the government can play games with this series as long as it wants to play them. Given the potential impact of the series on otherwise shaky currency markets and on GDP reporting, realistic numbers still may not be seen for some time come.

Consumer Confidence -- Consistent with slowing consumer activity evident in housing and retail sales, May's major consumer confidence numbers plummeted both month-to-month and year-to-year.

The Conference Board's May Consumer Confidence plunged by 8.9% month-to-month, and by 47.3% year-to-year, showing the lowest level and deepest annual contraction seen since the 1990/1991 recession. Such followed a 4.7% monthly decline and 40.9% annual decline in April reporting.

The Reuters/University of Michigan Sentiment measure fell by 4.5% month-to-month in May to its lowest level since 1980, and it collapsed to an annual contraction of 32.3%, the steepest annual downturn in the history of the series. These numbers compared with a 9.9% monthly plunge in April, and an annual decline of 28.1% in April.

These lagging, not leading, indicators tend to reflect the tone of the popular financial media and are fully consistent with an ongoing and severe inflationary recession.

General background note: The Conference Board measure is seasonally adjusted, which can provide occasional, but significant distortion. The adjustment does not make much sense and is of suspect purpose, given that the Conference Board does not release the unadjusted number. The Reuters/Michigan survey is unadjusted. How does one seasonally-adjust peoples' attitudes? Also, beware the mid-month Consumer Sentiment release from Reuters/University of Michigan. The sampling base is so small as to be virtually valueless in terms of statistical significance.

Short-Term Credit Measures -- Annual growth in commercial borrowing continued to show mixed pressures from the banking system's solvency crisis. The intensifying decline in annual growth for commercial paper outstanding has been offset partially by growth in commercial and industrial bank loans. Consumer credit numbers continue to show fairly consistent, soft annual-growth levels.

For seasonally-adjusted consumer credit, which includes credit cards and auto loans, but not mortgages, annual growth was reported at 6.0% in April, against 5.8% in March and against 5.9% (previously 5.8%) in February.

As reported by the Fed (Flow of Funds June 2008), home equity loan growth slowed from a year-to-year 6.1% growth rate in the fourth quarter to 4.9% in the first-quarter. The data, which are of questionable quality, show the seasonally adjusted annualized rate of growth in home equity loans slowed from $92.4 billion in third-quarter 2007, to $42.8 billion in the fourth quarter, to an outright contraction of $7.3 billion in first-quarter 2008.

In the current environment, where inflation-adjusted growth in income is not adequate to support meaningful growth in the personal consumption component of GDP, GDP growth only can come from temporary debt expansion or savings liquidation. Accordingly, stagnating growth or eventual contraction in consumer debt remains an ongoing constraint on economic activity.

Annual growth in commercial borrowing varied sharply, once again. Annual change in May commercial paper outstanding showed a 17.2% contraction, versus a 13.9% contraction in April and a 10.5% contraction in March. In contrast, annual growth in April commercial and industrial loans rose by 21.0%, versus 21.0% in March and 20.3% in February. The relative instability in commercial paper is ongoing, with resultant credit difficulties continuing to inhibit broad business activity and continuing to disrupt banking system stability.

Producer Price Index (PPI) -- As discussed in the May 22nd *Flash Update*, consistent with increasing irregularities in the reporting of the government's most popular economic series (CPI, GDP and employment), the seasonally-adjusted producer price index (PPI) increased by 0.2% (0.7% unadjusted) for the month of April, 6.5% year-to-year, per the Bureau of Labor Statistics (BLS). Such followed 1.1% (1.9% unadjusted) monthly and 6.9% annual increases in the March reading. Incredibly, April food prices reportedly were unchanged and energy prices declined by 0.2%.

Minimally, the unbelievable numbers were distorted by poor-quality seasonal adjustments, which eventually should reverse (if not revise away). As with the CPI data, however, the actual increases in food and energy prices are far more than can be accounted for by regular seasonal variations, suggesting that other factors -- tied perhaps to political or financial-market needs of the Administration and/or Federal Reserve -- could be at work.

Next Release (June 17): Given what appears to have been continued deliberate understatements of the monthly CPI and PPI inflation rates (see the Reporting/Market Focus), the PPI may be subject to further understatement, or it could face a catch-up rebound in May. Underlying reality of higher inflation eventually should prevail. Allowing for the ongoing regularly random volatility of the monthly price variations, PPI inflation reporting over the next six-to-nine months generally should favor upside surprises in official results, thanks to the broad-based impact of higher oil prices.

Better-Quality Numbers

General background note: The following numbers are generally good-quality leading indicators of economic activity and inflation that offer an alternative to the politically-hyped numbers when the economy really is not so perfect. In some instances, using a three-month moving average improves the quality of the economic signal and is so noted in the text.

Economic Indicators

Purchasing Managers Survey: Manufacturing New Orders -- The May 2008 manufacturing index remained in recession territory for the fourth month, notching higher to 49.6 from 48.6 in April. While the Institute for Supply Management (ISM) uses an index reading of 41.1 (in its recently reformulated index) as the break point between recession in the broad economy and expansion, a reading below 50.0 means a contracting manufacturing sector. The 50.0 mark works out still as a solid broad recession signal in my analyses that are unfettered by reliance on GDP data for a recession signal.

The various components of the ISM composite indices are diffusion indices, which are calculated as the percent of positive responses from the ISM survey plus one-half of the neutral or unchanged responses. Hence, a reading below 50.0 indicates a contracting series.

The May new orders index showed continuing contraction (meaning it stayed below 50.0), rising to 49.7 from 46.5 in April. The new orders index has been in actual contraction now since December 2007. Distortions from the seasonal factors calculated by the Department of Commerce can be minimized by viewing the series using year-to-year change on a three-month moving average basis. On that basis, the May new orders index fell by 15.2%, following a 13.9% decline in April.

The new orders component of the purchasing managers survey is a particularly valuable indicator of economic activity. The measure gradually has notched lower from its peak annual growth of 35.5% in April of 2004. As an SGS early warning indicator of a major economic shift, new orders breached its fail-safe point in mid-2005, signaling pending recession.

Also of significance, the manufacturing employment component remained in recession territory at 45.5 in May, versus 45.4 in April.

Service Sector Composite Index. This series does not have much meaning related to overall business activity, since new order activity at law firms, dentists, hospitals or fast-food restaurants has little obvious relationship to broad economic activity. With that as background, the May services composite index remained above 50.0, at 51.7, versus 52.0 in April.

Both the services employment and prices paid components, however, have some meaning. Covering the real estate and banking industries, among others, the May employment component fell into contraction territory at 48.7, again, down from 50.8 in April. The soaring prices paid component for both indices is covered in the Inflation Indicators.

Help-Wanted Advertising Index (HWA) (Newspapers and On-Line) -- The Conference Board's seasonally-adjusted April help-wanted advertising index held at its record low of 19, as seen in March, the lowest reading since the index was first calculated at the end of President Harry Truman's term in office.

The unchanged monthly April reading was down by 34.5% year-to-year, also the same as in March. The annual change in the three-month moving average as of May was a 33.7% contraction, versus a 31.9% contraction in March. Despite some of the historic weakness in the series being due to the loss of newspaper business to the Internet, the HWA remains a solid leading indicator to the broad economy and to the monthly employment report. It continues to signal severe deepening in an ongoing recession.

Where the HWA series does not include a measure of on-line advertising, recent indices developed to measure Internet activity have serious definitional problems and still are too young to be meaningful indicators. That said, the Conference Board has reported that annual growth in its nascent on-line measure of help-wanted advertising has continued to contract on a year-to-year basis in April and May, following the first year-to-year decline of the series in March (the series was started in May 2006). On a year-to-year basis, total on-line help-wanted advertising decline by 13.2% in May, after dropping by 16.4% in April, per the Conference Board.

Housing Starts -- The regularly-volatile, seasonally-adjusted housing starts measure rose by a statistically insignificant 8.2% +/- 17% (95% confidence interval) for the month of April, but fell by 30.6% year-to-year, according to the Census Bureau. Such followed the annual benchmark revisions to the series, with the March numbers now showing 13.8% (previously 11.9%) monthly, and 36.1% (previously 36.5%) annual declines. The annualized first-quarter 2008 decline was 32.8%, while -- assuming May and June reporting held at April levels -- the annualized second-quarter decline would narrow to 3.8%, still consistent with a second-quarter GDP contraction.

Despite short-lived market excitement over a small monthly gain in April new home sales, the broad picture could not be much worse. Rebased with annual benchmark revisions, seasonally-adjusted April new home sales rose by 3.3% (unchanged net of revisions) +/- 14% (95% confidence interval), which was not statistically distinguishable from a contraction. The April gain followed a revised 11.0% (previously 8.5%) plunge in March. On a year-to-year basis, however, April new home sales fell at an accelerating annual pace of 42.0%, following a revised 38.2% (previously 36.6%) annual plunge in March.

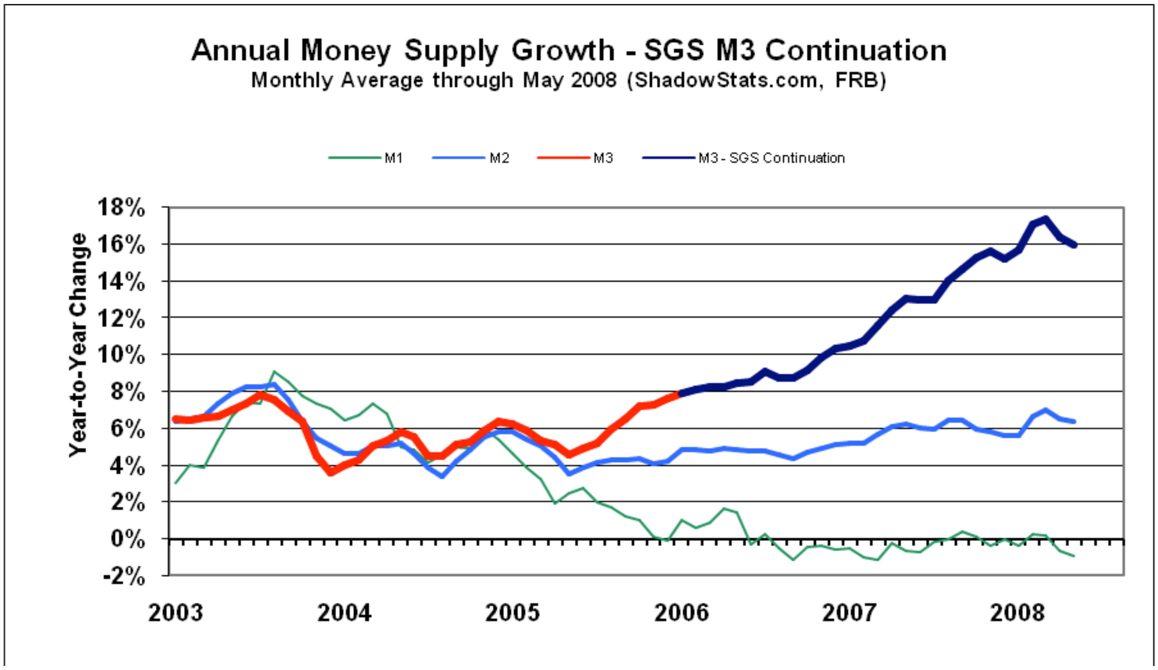
Increasingly reflecting the impact of foreclosures, existing home sales in April eased by 1.0% (0.8% net of revisions), after a revised 1.8% (previously 2.0%) drop in March. Year-to-year sales fell by 17.5% in April, versus a 19.1% (previously 19.3%) decline in March.

Inflation Indicators

Money Supply -- Annual growth in the seasonally-adjusted SGS-Ongoing M3 is estimated at 16.0% (based on 26 of 31 days of data) in May, down from 16.4% in April and a record-high 17.4% in March. The sharp slowing in growth during April appears to have been tied to intensifying problems in the banking system that were relieved, at least partially, by the Fed's expansion of its Term Auction Facility (TAF) lending. As the auction results began to have their impact, the weekly surge in reported M3 components resumed, but not early enough to generate higher annual growth for the monthly average.

Outside of the last several months, the prior historic high of 16.4% was seen in June of 1971, two months before President Nixon closed the gold window and imposed wage and price controls. The May growth is just shy of the 1971 high, and still promises significant upside inflation pressure in second-half 2008.

For May 2008, annual change for monthly M1 was estimated at an annual contraction of 0.9%, versus a 0.7% contraction in April and gain of 0.2% in March. May M2 annual growth appeared to be near 6.4% in May, versus 6.5% in April and 7.0% in March.



Shadow Government Statistics Ongoing M3 (r)
(Estimated seasonally-adjusted monthly average, $ Trillions)

Feb 06	10.315	Sep	10.850	Apr	11.717	Nov	12.823
Mar	10.367	Oct	10.976	May	11.868	Dec	12.932
Apr	10.425	Nov	11.093	Jun	11.947	Jan 08	13.089
May	10.501	Dec	11.226	Jul	12.053	Feb	13.389
Jun	10.573	Jan 07	11.317	Aug	12.258	Mar	13.575
Jul	10.669	Feb	11.437	Sep	12.440	Apr	13.635
Aug	10.752	Mar	11.565	Oct	12.649	May (p)	13.762

(r) Revised. (p) Preliminary.

NOTE OF CAUTION: The estimates of monthly levels best are used for comparisons with other dollar amounts, such as nominal GDP. While the estimates are based on seasonally-adjusted Federal Reserve data, great significance cannot be read into the month-to-month changes, as was the case even when the Fed published the series. The most meaningful way to view the data is in terms of year-to-year change.

General background note: Historical annual growth data for the money supply series, including the SGS-Ongoing M3 estimates, are available for download on the Alternate Data page of www.shadowstats.com. See the August 2006 SGS Newsletter for methodology. The indicated M3 levels are our best estimate and are provided at specific subscriber request. Keep in mind that regular revisions in the related Fed series affect historical M3. Usually, annual growth rates hold, although levels may shift a little. We have not attempted, nor do we plan to recreate a revised historical series for an M3 monthly-average level going back in time. The purpose of the SGS series was and is to provide monthly estimates of ongoing annual M3 growth.

We are comfortable with those numbers and that our estimated monthly growth rates are reasonably close to what the Fed would be reporting, if it still reported M3.

Purchasing Managers Surveys: Prices Paid Indices -- The May 2008 prices paid indices surged for both the purchasing managers composite surveys. The indices continued to reflect strong upside inflation pressures from a variety of factors, including high oil prices and a weaker U.S. dollar, and they continued to signal broad inflation problems ahead.

On the manufacturing side, the May price index jumped to 87.0 from 84.5 in April. On a three-month moving average basis, May's year-to-year gain was 21.7% versus 23.3% in April. The manufacturing price indicator is not seasonally adjusted and, therefore, is generally the better indicator of pricing activity.

On the non-manufacturing side, the seasonally-adjusted May prices diffusion index rose to 77.0 from 72.1 in April. On a three-month moving-average basis, May’s annual gain was 15.5% versus 17.1% in April.

General background note: Published by the Institute for Supply Management (ISM), the prices paid components of the purchasing managers surveys are reliable leading indicators of inflationary pressure. The measures are diffusion indices, where a reading above 50.0 indicates rising prices.

Oil Prices – With oil currently more than double its price of a year ago, inflation pressures will continue accelerating for the balance of 2008. Irrespective of any near-term extreme price swings, profit-taking or central bank, government and/or cartel intervention, etc., following Friday's (June 6th) record closing spot price on West Texas Intermediate (WTI) of $138.55 per barrel (up 110% year-to-year), the inflation damage has been done. The inflation implications already were severe when oil prices broke above the $90 per barrel level.

Oil prices well may continue to rise in the near term and most likely will rise over the longer term, particularly as dollar weakness surfaces anew and rumors build of looming military action against Iran. If so, the financial consequences from such activity would become increasingly dire. Nonetheless, the implications for inflation and real GDP growth remain extremely ominous for the balance of 2008 and into 2009.

May's monthly average spot price for WTI (St. Louis Fed) was $125.39 per barrel (up 76.8% year-to-year and 11.4% month-to-month), topping the record-high just set in April. For April 2008, the monthly-average WTI spot price of $112.57 per barrel was up by 61.5% year-to-year, 6.6% month-to-month.

Despite a deepening U.S. recession and possible global recession, regardless of any near-term price swings and possibly extreme short-term price volatility, meaningful upside risks to oil prices remain in place over the longer term. In particular, pressures remain in place from the still-unfolding dollar catastrophe, ongoing OPEC involvement, increasingly volatile Middle Eastern tensions, heightened political tensions in South America, and other supply and demand risks/issues.

Though their impact on inflation recently has been masked by questionable seasonal adjustments, the persistent and increasingly higher oil prices should resume spiking basic annual CPI inflation in the U.S. in the months ahead. Even the gimmicked "core" inflation measures -- net of changes in food and energy prices -- should begin to rise. High oil prices continue working their way through all levels of U.S. economic activity, ranging from transportation and energy costs, to material costs in the plastics, pharmaceutical, fertilizer, chemical industries, etc. These broad inflationary pressures will remain intact despite any near-term oil price gyrations, and "core" inflation eventually should catch-up with full inflation reporting.

Reporting/Market Focus

Evidence of Manipulation of Key Current Headline Data

As discussed previously, including in the June 3rd *Flash Update*, there are two types of manipulation that distort economic reporting. Manipulation of the first kind includes long-term methodological changes to the definition, gathering, analysis or reporting of key data, with the impact of building in a reporting bias that generates overly positive results. As a result of such changes, government reporting increasingly has strayed from common experience. Examples of this type of manipulation include the creation of the monthly bias-factor/birth-death model adjustment added into payroll employment, or the elimination of accounting for millions of "discouraged workers" due to redefinition.

Manipulation of the second kind involves direct adjustment of targeted, current economic reporting for perceived near-term political or financial market needs. An example would be Lyndon Johnson's reviewing the GNP reports before they were published, and his sending them back to the Commerce Department for "correction," if he did not like the result.

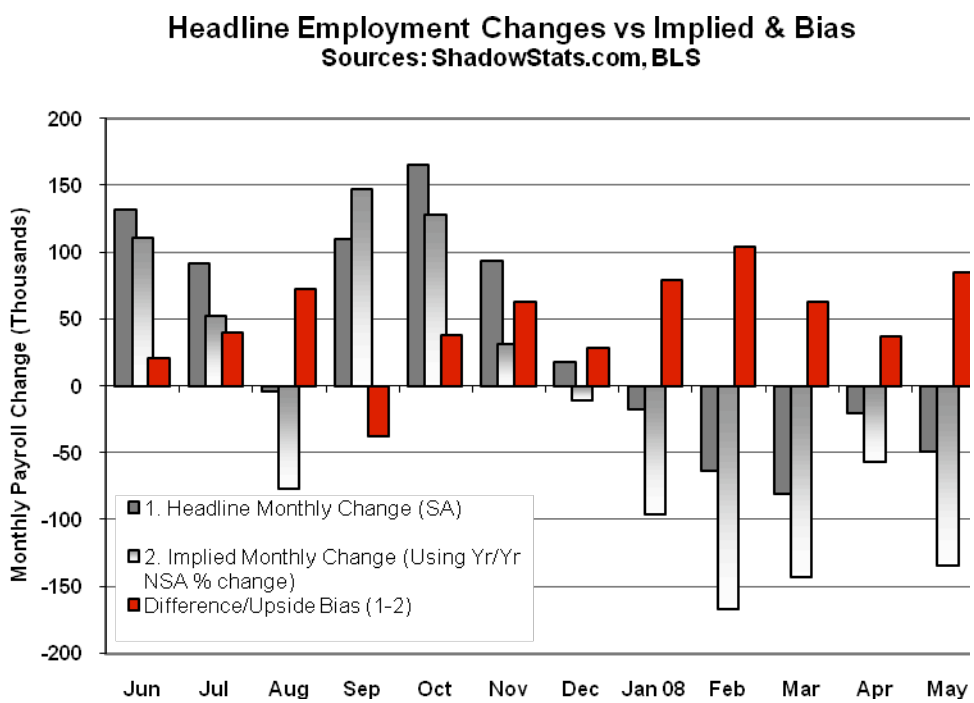
The matter at hand involves manipulation of the second kind, specifically manipulation of the headline numbers tied to first reporting of current monthly payroll employment change, GDP and the CPI. If indeed such manipulation is taking place, it offers some political buffer to the Bush Administration from the inflationary recession that otherwise would help political opposition in November. It also would be an inexpensive alternative to other policy tools that might be considered by the Federal Reserve and the Administration in their efforts to support troubled financial markets and related institutions.

There have been several instances of the second kind of manipulation in earlier administrations that I have been able to document (see the Primer Series available at www.shadowstats.com). At present, though, there are no whistleblowers or other direct proof of what appears to be happening in current headline reporting, only significant circumstantial evidence in unusual features of reported results, in the presence of motivation and opportunity, as well as indications of contrary results from better-quality series.

Payroll Employment Biased in Concurrent Seasonal Adjustments. In the case of the headline Payroll Employment change -- the first estimate -- published monthly by the Bureau of Labor Statistics (BLS) (Department of Labor), the data that go into the monthly calculations and seasonal adjustments are massive and complex. Out of necessity, very few individuals would be involved or have direct knowledge of political massaging of the data. Indeed, in some earlier documented cases, the manipulations were orchestrated by the Fed or a given administration from outside the statistical agency that did the actual reporting.

When irregular changes are made within a complex reporting system, however, such sometimes leaves unintended evidence of the manipulation that can be found in careful examination of the available data. During the Clinton Administration, for example, an examination of monthly revisions to payroll employment reporting showed that seasonally-adjusted monthly jobs growth was being targeted for an extended period of time at exactly 250,000 jobs per month or exactly 500,000 jobs per two months (a target of 3.000,000 jobs per year). After the BLS was questioned on the matter, those patterns disappeared from further reporting.

Impossible Seasonal Adjustments. A generally unrecognized issue with current payroll reporting is highlighted in the following graph, a circumstance that has been enabled by the BLS's "concurrent" seasonal adjustment practices, which calculate current-month and recalculate recent-month seasonal adjustments each month. Over the period of a year, seasonally-adjusted and unadjusted series should be equal to each other. Instead, unusual seasonal-adjustment patterns appear to have "created" 595,000 jobs in the headline employment numbers in the last 12 months, with nearly 370,000 of those being generated in January through May 2008.



The purpose of seasonally-adjusting payrolls is to redistribute reported employment activity throughout the year, so as to smooth out monthly activity for regular variations tied to calendar events, holiday-season employment, school year, etc. At the end of a year, both the seasonally-adjusted and unadjusted series should equal each other. Using seasonal adjustments should not end up creating the reporting of new jobs, only redistributing the numbers over the period of a year.

One way of avoiding having to use seasonal adjustments to assess current monthly trends is to look at the year-to-year change in the monthly series, as such neutralizes the bulk of seasonal variation. The exception would be where calendar variations, such as an early or late Thanksgiving, might result in some irregular (when viewed year-to-year) month-to-month shifting of jobs.

That said, under most circumstances, the year-to-year percent change in monthly payrolls should be virtually identical for both the seasonally-adjusted and unadjusted series. One of the regular cross-checks I run on the monthly employment data is to look at the adjusted and unadjusted year-to-year change in the employment levels that generate the headline jobs creation number.

Therein lies a situation that cannot be happening with honest reporting.

For each headline employment number in the last year (subsequent revisions are not relevant here, as the headline number is what would be targeted and what is followed by the markets and media), the year-to-year unadjusted change was calculated and used to work out an implied seasonally-adjusted set of numbers. For example, for the May 2008 jobs report, the unadjusted employment levels for April and May 2008 were divided by the same numbers for 2007. If the year-to-year percent changes in the numbers on an unadjusted basis were the same as the adjusted, then applying the unadjusted annual rates of growth from the unadjusted series to the adjusted April and May 2007 numbers would yield the same April to May 2008 change as officially published headline number.

That, however, did not work out. As reported, May payrolls of 137,754,000 fell by 49,000 from April's 137,803,000, while estimating the adjusted series using the unadjusted growth patterns showed May at 137,626,000, down by 134,000 jobs from April's 137,760,000.

The problem is that this pattern has been repeated in 11 of the last 12 months, suggestive of some intelligent intervention in what otherwise should be something of a random process. While the math may be somewhat convoluted (a worksheet on the data is available on request), and comparative adjusted and unadjusted annual growth rates will vary some month-to-month, the variations should lead to irregular patterns of higher and lower implied change versus reported headline jobs change (adjusted and unadjusted series should equal each other over time).

Instead, with the exception of September 2007 (which may have involved unusual Administration versus Fed pressures on the approach to the banking crisis), every month in the last year has shown an implied upside bias in the headline reporting. The total upside bias over the last 12 months was 595,000 (just headline, not net of revisions), with monthly biases in January through May 2008 running respectively 79,000, 104,000, 63,000, 37,000 and 85,000.

As with the Clinton Administration's apparent 250,000 per month jobs targeting, this circumstance likely will disappear as it gets increased exposure.

The circumstantial case for massaged jobs data considers the preceding, in conjunction with potential political/financial-market motivation and with other employment-related data, such as help-wanted advertising, jobless claims and purchasing managers surveys, all of which suggest recent monthly employment declines should have been six-digit.

One comment I have received is that the 0.5% surge in May's unemployment rate surely was not manipulated. As discussed in the Opening Comments, the report may well have been the result of poor-quality seasonal adjustments. Next month's report may show an unusual swing in the other direction. While an unusually large change in unemployment will take headlines, it is the payroll change that usually is considered the headline number from the monthly employment report and would be targeted for manipulation.

Guesstimating GDP. No special gimmicks are needed to adjust GDP reporting, since everything needed already is in place. The "advance" estimate of GDP, which usually is the primary headline number for the quarter, has a 95% reporting confidence interval around it of +/- 3%. The number is generated based largely on underlying assumptions -- guesstimates -- not on hard data. The Bureau of Economic Analysis (Department of Commerce) generates three estimates: high, low and best, and tries to target the economic consensus estimate, which tends to be overly optimistic going into recessions.

The government can report -- and justify with its underlying assumptions -- whatever growth rate it desires. Few will question it, if it comes close to the consensus outlook. Does the Administration have a political interest in the results? Of course it does. Might overly optimistic assumptions be used to generate desired results?

Key economic series, such as retail sales and industrial production, suggested quarterly contractions in both fourth-quarter 2007 and first-quarter 2008 inflation-adjusted GDP growth, but reported growth was positive for both quarters. Yet, as discussed in the GDP section, GDI (Gross Domestic Income), which is the theoretical equivalent of the GDP, contracted in the fourth quarter and was virtually flat in the first quarter.

Unusual Seasonal Adjustments Mask Oil Price Impact in CPI. Seasonal factors have been suppressing the reporting of gasoline and energy price increases in recent, seasonally-adjusted monthly CPI inflation reported by the BLS. The argument goes that where prices have been rising this year, they also were rising at the same time in 2007 and 2006, hence the need for seasonal adjustments.

Accordingly, there should be a period of catch-up, since the raw CPI numbers do not get revised, and the monthly seasonal factors are not recalculated every month as they are with the payroll data.

John Crudele of *The New York Post* was able to get comments from a BLS spokesman in this area, indicating that the seasonal-adjustment reduction in gasoline prices would continue in May, but begin to reverse with the June CPI. As described in Crudele's May 20th column:

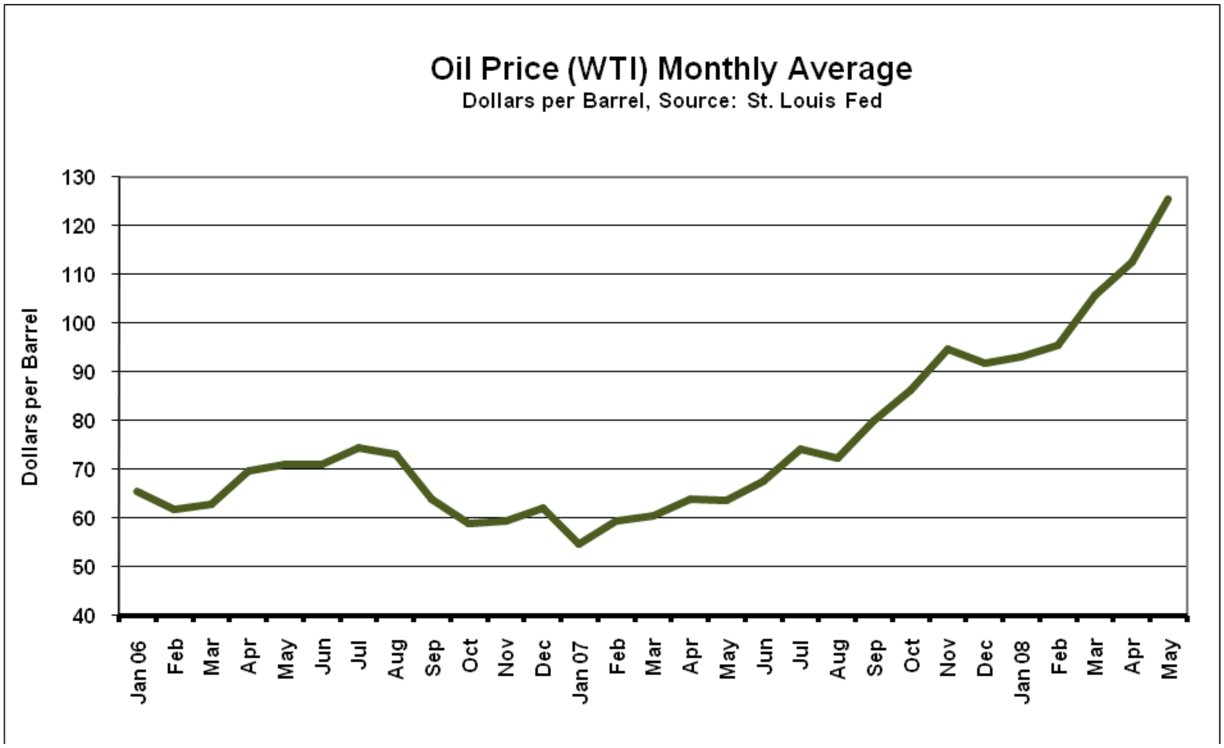
"A top government official who helps calculate the nation's inflation rate says gasoline costs in the consumer price index will surge in a couple of months - even if prices at the pump don't.

" 'We are going to show huge increases,' predicted Pat Jackman in a telephone interview with me last week. 'If gas prices are stable from May forward, we are going to end up showing roughly a 16.3 percent increase [for the period] between May and December.' "

That well may be, but the recent surge in oil prices goes far beyond regular seasonal variation. The following two graphs show monthly average oil price levels, and year-to-year percent change in same, for the period January 2006 to date. I can find no meaningful seasonal patterns in either series.

Instead of adjusting away these large changes, the BLS has an option known as "intervention analysis" to remove the effects of unusually large changes in prices -- that are not seasonal in nature -- before calculating its seasonal factors. Such was done for gasoline prices impacted by Hurricane Katrina. Had such been applied to the current energy price circumstance, recent seasonally-adjusted inflation reporting would have been much higher.

While reporting catch-up should follow in the months ahead, recent low inflation reporting certainly has been helpful to the Fed during the current financial crisis. Other issues as to why core inflation does not reflect the carry-through impact of higher energy prices will be addressed at a later date.


Oil Price (WTI) Monthly Average
Dollars per Barrel, Source: St. Louis Fed
Dollars per Barrel
130
120
110
100
90
80
70
60
50
40
Jan 06
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan 07
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
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Jan 08
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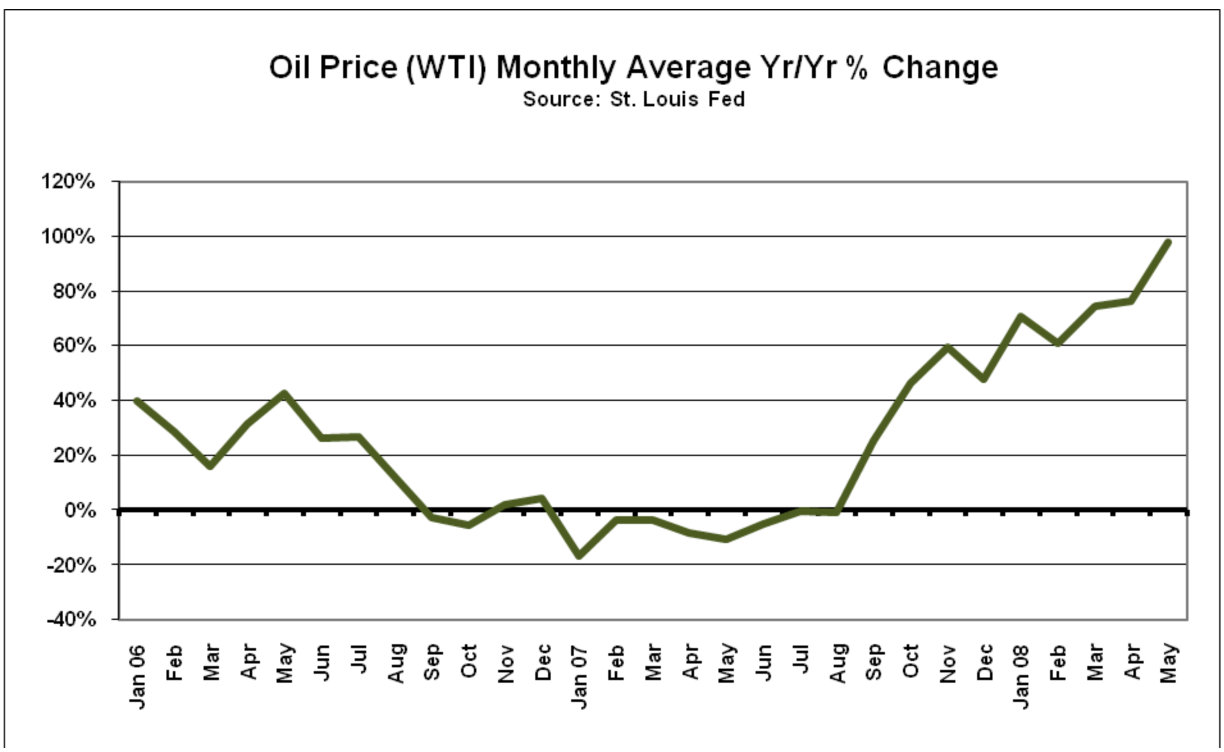
Oil Price (WTI) Monthly Average Yr/Yr % Change
Source: St. Louis Fed
120%
100%
80%
60%
40%
20%
0%
-20%
-40%
Jan 06
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan 07
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
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Jan 08
Feb
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May

Next Reporting/Market Focus

Money Supply in Theory versus Available Hard Data

Given some ongoing debate as to what is the proper measure of money supply, what is happening to the velocity of money and what constitutes inflation, etc., the next Reporting/Market Focus will explore some basic monetary theory and what can and cannot be observed in related existing economic reporting, as well as how money supply measures can be used to predict CPI.

PLEASE NOTE: The next SGS Newsletter is targeted for around the end of June. Intervening Flash Updates and Alerts will be posted in response to key economic or financial-market developments.

Earlier editions of the SGS Newsletter, referenced in the text, can be found on the Archives tab at www.shadowstats.com.

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